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## POSTEDTORONTO

# Roaring economy means city landlords regaining upper hand on commercial renters

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Brent Foster/National Post Files

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**Tristin Hopper** Jul 18, 2011 – 6:24 PM ET

As Toronto's economic engine soars to post-recession highs, the city's landlords are finally regaining the upper hand.

Toronto's commercial vacancy rates have fallen to 5.9%, the city's lowest since the onset of the Great Recession in late 2008, according to a report released Monday by commercial real estate firm Avison Young. Also Monday, Toronto took first place in CIBC's annual ranking of economically active cities. The city boasted one of the country's lowest rates of personal bankruptcy and population growth of 2%, the fourth-highest in Canada.

"The downtown market is definitely in the landlord's favour," said Bill Argeropoulos, Avison Young's director of research.

For commercial renters, the vacancy rate means the "negotiating leverage that tenants have enjoyed of late is steadily disappearing," the report said.

Just three years ago, Toronto's landlords oversaw one of the emptiest downtowns in North America. The city was dealing not only with the throes of an economic downturn, but a glut of new space. In 2009, as Canadians braced for bankruptcies and layoffs, more than 5 million square feet of new office space arrived in the GTA, the parting shot of the mid-2000s construction boom. It was akin to putting up two Empire State Buildings. Vacancies tripled within a few months.

By early 2010, however, just as the economic rebound took hold, businesses swarmed into downtown to negotiate rock-bottom deals on empty buildings that would previously have been beyond their means. In the last three months alone, Target, Google, High Fidelity HD TV, SNC-Lavalin and EXP Services have collectively snapped up 10 acres' worth of office space.

Now the surplus of real estate has finally started to run dry. "The Toronto market has bounced back nicely ... but the scarcity of space is a concern," said Mr. Argeropoulos, who noted that high-end bank towers remain some of the only downtown buildings left. With premiums of more than \$6 a square foot, businesses are needing either to balloon their rental space budgets or move out of downtown. Many businesses that normally would have been able to set up shop on Bloor Street are now being forced to journey north to Eglinton or St. Clair.

The situation differs somewhat in the wider GTA, where vacancy rates remain as high as 14%. Nevertheless, with a slate of "large transactions" on the horizon, suburban businesses are poised to be as crunched for space as their downtown colleagues.

With few cranes on the Toronto skyline, the space crunch is unlikely to be resolved anytime soon. On the eve of recession, construction crews were busy preparing 7 million square feet of new office space. In mid-2011, only 1.5 million square feet of new office space are coming down the real estate pipeline.

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