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Toronto office space shortage spurs new round of development new

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The office vacancy rate in downtown Toronto has fallen to levels not seen since before the start of the recession in 2008 as the country's largest real estate market looks immune (at least so far) to economic turmoil in much of the rest of the developed world.

The vacancy rate for Toronto's downtown market fell to 5.8% in the third quarter of 2011, down 10 basis points from the earlier quarter, according to Avison Young's recent study of the Greater Toronto Area. The availability rate for space that could soon be occupied also fell 40 basis points to 8.1% at the end of the quarter.

The shortage of prime downtown office is remarkable given the new office space that has been built in the past five years, said Bill Argeropoulos, Avison Young's Vice-President and Director of Research. "Here we are again, we are in the process of starting construction again after such a short period of time after we delivered over 4.5 million square feet of new office space since 2006."

The building boom-let of past five years started with the announcement of the Telus Tower, RBC Centre and Bay Adelaide Centre. The recent completion of the 30-storey 18 York Street tower in what is called downtown south (south of the CN tracks) which is fully leased and boasts PWC as lead tenant was the last of that group.

Now the tight Toronto market has builders lining up with proposals, said Argeropoulos. “There are a number of developments that are poised to launch.” First out of the blocks was Oxford Properties, which recently announced the development of RBC WaterPark Place, a 30-storey, class AAA LEED Gold office tower.

Located in the growing downtown south area (south of the Gardiner Expressway), the 930,000 sq. ft. tower is slated for completion in 2014 and has Royal Bank of Canada as its lead tenant. The country`s biggest bank will make the new building the headquarters of its Canadian banking business and will occupy 550,000 sq. ft. of space.

“Oxford was obviously successful in kicking off a building with the Royal Bank and I think others are waiting for that lead tenant” before going ahead with development, he said. Argeropoulos didn't know if any developer would proceed with an office tower on spec.

Argeropoulos's list of potential new office building developments includes the 30-storey Bremner Tower located in the Southcore Financial Centre at the intersection of Bremner Boulevard and York Street. It is located adjacent to the PWC Tower at 18 York Street completed in April of this year. There is also a Cadillac Fairview owned development property located in the same part of the city.

Along the Bay Street corridor in downtown Toronto there is the eastern expansion of the Bay-Adelaide Centre and Oxford Property's proposed expansion to its Richmond Adelaide Centre.

The Avison Young researcher said Toronto downtown could see some more smaller, unique office development such as First Gulf`s announcement of a three-storey, 100,000 sq. ft. addition to the Toronto Sun building. It will serve as the head office of Coca-Cola Canada when finished a year from now. Coca-Cola is relocating from three suburban locations resulting in net positive growth for the downtown office market.

“Looking back at our forecast, if we were to say where the market was going to be at the end of 2011, we are ahead of our forecast,” said Argeropoulos. “This particular downturn that we just went through, a lot of us who track this market were calling for vacancy to balloon to 15 to 20% and that never really transpired. I think the highest we ever got in downtown Toronto was just shy of 8.5%.”

Avison Young sees a similarly tight market for downtown commercial space in Vancouver, Edmonton, Calgary and Ottawa.

The Avison Young third quarter report found that overall office vacancy rate fell to 7.9% (near the most recent low of 7.5%) in the first quarter of 2009 while the overall availability rate in the GTA fell to 9.7%. Suburban market vacancy rates fell to 9.9% (availability down to 12%) while Toronto North remains the tightest market with a vacancy-availability rate of under 6%.

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