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## Uneventful start to 2010 pushes Greater Toronto Area office vacancy rate into double-digit territory

Both vacancy and availability rates across the Greater Toronto Area (GTA) office market continued to climb during the first quarter of 2010. The increase can be attributed to a combination of delayed corporate decision-making over the past 12 to 18 months due to the recession, and decade-high construction levels, which have resulted in higher direct and sublet availability and downward pressure on rental rates across the GTA.

These are some of the key trends noted in Avison Young's First Quarter 2010 Greater Toronto Area Office Market Report.

*"The GTA office vacancy rate increased to 10.6% in the first quarter of 2010, up 250 basis points (bps) from the first quarter of 2009, while the availability rate rose to 11.7%, up 150 bps over the same period. However, since year-end 2009, the pace of increase has decelerated with vacancy and availability rising by only 20 and 30 bps, respectively,"* comments Bill Argeropoulos, Vice-President and Director of Research (Canada) for Avison Young. *"Even though the recession is now behind us, soft market conditions will likely prevail in the near-to-medium term before the market reverts to historical norms."*

While there are vacancy challenges in several pockets across the GTA, such as the Airport Corporate Centre (23.1% availability) in the suburban GTA West district, the greatest challenge lies in Downtown Toronto.

*"Despite positive absorption in the first quarter, there is more than 7 million square feet available for lease with almost 50% of this space housed in class A buildings in the financial core,"* notes Mark Fieder, President and Managing Director of Avison Young's Ontario region. *"This poses a significant leasing challenge for the top five landlords, who control roughly two-thirds of the core's inventory and just over 80% of the available space on the market today."*

*"There are definitely some interesting dynamics underway. Leasing velocity and transaction activity appear to be accelerating, though this is not translating into any meaningful absorption, yet,"* adds Craig Tresham, a 27-year leasing veteran and Principal at Avison Young. *"Leasing options are plentiful across all asset classes; however, for larger tenants, the options are changing. I would equate it to going to the Macy's sale. Those who get there on the first day find the ideal colour and size. The best deals are being done right now."*

According to Tresham, the rental market remains depressed, but well-leased triple A towers with minimal vacancy and rollover still command above-market rents. *"This is the exception rather than the norm. For the near-to-medium term, a tenant's market is expected to prevail while the overriding focus for the landlord community will be tenant retention,"* he says.

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