TORONTO

EXECUTIVE SUMMARY

- A positive economic outlook for 2020 is the result of declining unemployment and growth in housing starts.
- Office vacancy and rental-rate spreads persist between landlord-friendly downtown / midtown and tenant-friendly suburbs.
- In the retail market, unusual circumstances mean vacancy and rental rates are both rising.
- Record-high rental rates and record-low vacancy have led to robust industrial development.
- Investors still seek to deploy copious amounts of capital into the GTA, given low interest rates and strong fundamentals.

The economic forecast remains favourable for the Greater Toronto Area (GTA) in 2020 as population growth drives expansion in the property, construction and logistics sectors. The commercial real estate market continues to benefit from strong fundamentals in almost all asset types and regions. Demand from occupiers and investors still exceeds supply, especially for industrial, multi-family and office space.

The economic outlook for the GTA in 2020 is positive, according to the Conference Board of Canada. Unemployment is likely to continue declining while housing starts return to growth after a lull, boosting construction and the FIRE sector. E-commerce has driven expansion in transportation and warehousing, while manufacturing has been hindered by trade-agreement uncertainty. The GTA is a growing technology hub and hosted its biggest-ever tech conference, Collision in 2019 – and will do so again in 2020 – while the market awaits key dates in the approval process for Google's Sidewalk Toronto smart-city project during 2020.

Office space demand is diverse but continues to be driven largely by technology and co-working companies. The market is characterized by the rental-rate spread between landlord-friendly downtown and midtown and tenant-friendly suburban markets. With 2.2% vacancy downtown, tenants have few options, while the 10 million square feet (msf) under construction is more than 70% preleased. Rental rates remain under upward pressure – especially downtown. The impact of large banks' backfill space may temper rental growth. The suburbs stand to benefit from tight conditions downtown, while development and investment target transit connectivity.

AVISON YOUNG

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑↑	↑↑↑	↑↑
Vacant Space	↓↓	↑	→
Construction Levels	↑↑↑	→	↑↑↑
Leasing Volume	↑	↓↓	→
Investment Volume	↑↑	↑	↑↑↑

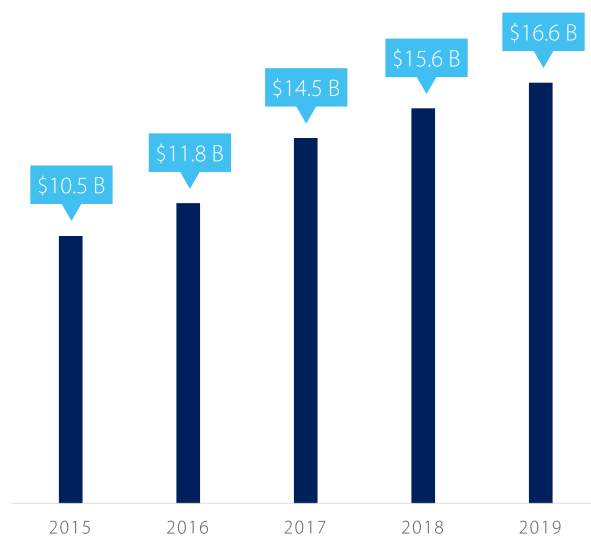
Retail leasing velocity is also expected to decline moderately through 2020 as cautious stakeholders eye rising rental rates and construction costs. Rapidly rising property-tax assessments are pricing out some smaller or independent street-front retailers. The unusual combination of rising vacancy and rental rates fuels competition among tenants for desirable locations. Urban intensification and mixed-use developments continue trending, while retailers and owners implement new technologies to capitalize on data and connect bricks-and-mortar with e-commerce.

The GTA industrial market (Canada's largest) is registering record highs and lows: average rental rates have increased more than 50% in the past five years, while vacancy has fallen to 0.7% – a North American low. Nearly 20 msf is under construction – more than double year-over-year – but this is insufficient to meet e-commerce and food warehousing / distribution demand. Rental-rate growth is driven by strong demand and increased construction costs – attributed to factors including steel tariffs and more expensive land, materials and labour – while low interest rates encourage purchases by users. In 2019, the City of Toronto approved the first comprehensive automated vehicles plan for a North American city, anticipating autonomous vehicles' growing role in moving goods and people.

Investors still seek to deploy copious amounts of capital into all asset types and regions in the GTA, given low interest rates and strong fundamentals. Demand continues to outstrip supply, pushing cap rates lower. Partial-interest sales, joint-ventures and redevelopment/intensification opportunities are increasingly prevalent. Demand is expected to remain strong in 2020, especially for industrial and multi-family assets as growth in e-commerce and housing demand (bolstered by population growth and increasing urbanization) continue apace.

HISTORICAL INVESTMENT VOLUME

Toronto Total Annual Volume ($Billion)



The commercial real estate market continues to benefit from strong fundamentals in almost all asset types and regions. Demand from occupiers and investors still exceeds supply, especially for industrial, multi-family and office space.