

Greater Toronto Area



Quick Stats

5.2%

Overall downtown office vacancy rate vs. 10.2% in the suburbs

5.8 msf

GTA total available sublease space – 47% is located downtown

9.1 msf

GTA-wide office area under construction – 66% to be completed by year-end 2022

54%

Year-over-year decline in GTA office leasing volume

147

GTA buildings with more than 50,000 sf available vs. 94 buildings one year ago

COVID-19 took its toll on the Greater Toronto Area (GTA) office leasing market in 2020, abruptly ending strong demand that had lasted most of a decade in one of North America's healthiest commercial real estate markets. Government intervention to curb the pandemic during the first, and now second, waves caused a rapid disruption in business operations, direct or temporary loss of employment and a shift to working from home. Over time, flexible work proved feasible, practical and increasingly desirable. Still, for many businesses the office is fundamentally important, and with new vaccines in circulation, the path for a safe return is becoming clearer. The pace of vaccinations will be a bellwether for a welcomed rebound likely to take hold in the latter part of 2021.

After the opening quarter of 2020, demand was largely absent and waning leasing volumes reflect the market's mood as tenants stand on the sidelines, although more space is available – in most cases, at favourable terms. GTA-wide, only 1.2 million square feet (msf) was leased in the fourth quarter for a full-year 2020 sum of 5.4 msf amid a trend toward more flexible

terms. This total is down 54% from nearly 12 msf transacted in 2019 and below the 6 msf inked during the Financial Crisis in 2009. While absorption, availability and vacancy have underperformed, rental rates have generally held firm for well-leased assets, although incentives (cash and free rent) are trending higher.

Unsurprisingly, GTA-wide availability jumped 170 basis points (bps) quarter-over-quarter and 370 bps year-over-year to end 2020 at 12.4%. Vacancy increased 100 bps during the quarter to 7.6% – a four-year high and up 200 bps on the year. In the worst showing since 2003, the market posted negative annual absorption (-1.1 msf) for the first time since 2013 – with heavy losses in class B and C buildings. Available sublet space has grown unabated (mostly downtown), more than doubling year-over-year to 5.8 msf to close 2020 – outpacing the growth in direct available space. Sublet supply's share of total availability stands at 24% – up from 14% one year ago.

Fourth-quarter new supply totalled 1.6 msf, raising the 12-month result to 3.5 msf



36%

Downtown sublet space as a proportion of total available space – up from 20% at year-end 2019



\$31.10

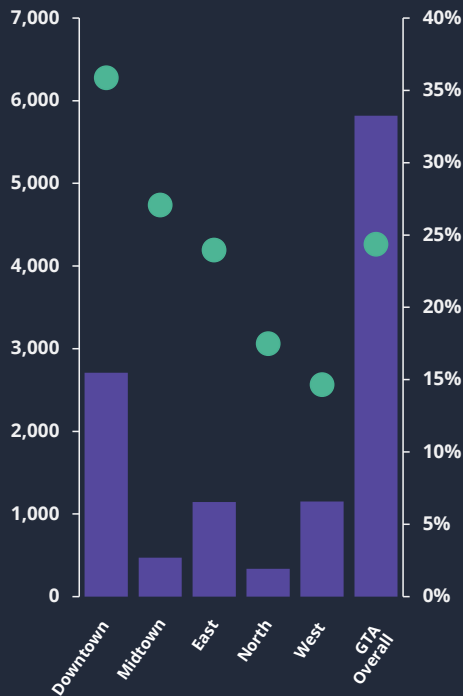
Average asking gross rent per square foot for suburban space vs. \$49.96 for Downtown



8.1 msf

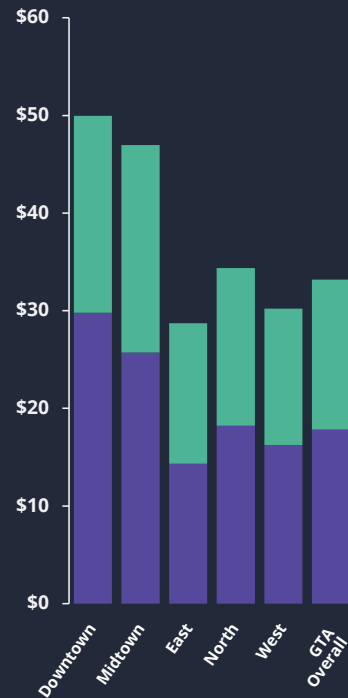
Downtown office area under construction – equating to 10% of existing downtown stock

GTA Sublet Availability – All Classes



■ Sublet Available (000's of sf) ■ Sublet as % of Total Available

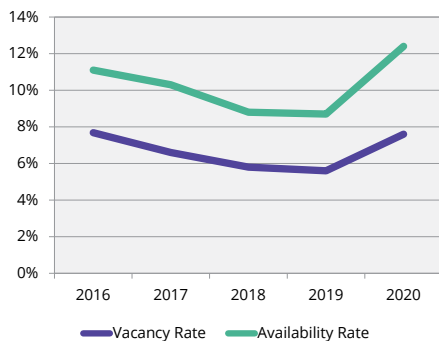
GTA Occupancy Costs – All Classes



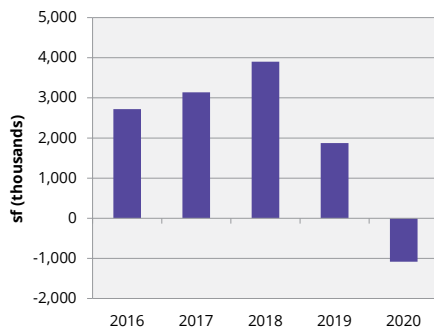
■ Net Asking Rent (Avg. \$psf) ■ Additional Costs (Avg. \$psf)

Occupancy levels declined in virtually every node and building class as the downtown market contracted for the first time since 2013.

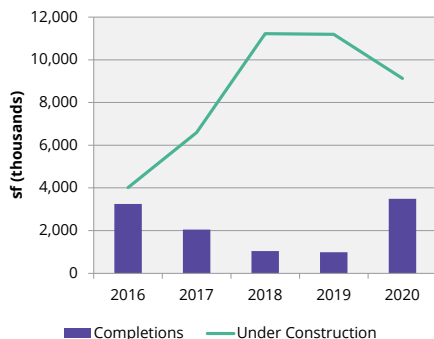
GTA Overall Availability & Vacancy Trends



GTA Overall Absorption Trends



GTA Overall New Supply Trends



– the most since 2009. Area under construction stands at 9.1 msf (65% preleased), primarily downtown.

The GTA’s recent success has been driven by the burgeoning downtown market with its growing development pipeline and tech scene – complementing an established financial and professional services sector. The pandemic, however, has all but curbed the insatiable demand for space, reversing historically low availability and vacancy rates. Occupancy levels declined in virtually every node and building class as the downtown market contracted for the first time since 2013, with negative annual absorption of 844,000 sf. Year-over-year, downtown’s overall availability (+530 bps to 9.4%) and vacancy (+310 bps to 5.2%) more than doubled. Class A availability and vacancy finished at 7.2% and 3.9%, respectively. Sublet available space more than quadrupled to 2.7 msf (36% of downtown’s available space). By and large, downtown has shifted in occupiers’ favour.

Downtown leasing activity dropped 30% year-over-year to 3.5 msf in 2020 and is down 60% from the 8.7 msf leased in 2018. Large deals (100,000 sf+) were scarce, with just eight inked in 2020 – one better than 2019, but down from 2018’s high of 20. Notable fourth-quarter transactions included a new 89,000-sf lease by Richardson Wealth at Menkes’ 100 Queens Quay E. development; a 102,000-sf renewal by Northbridge Financial at Brookfield’s 105 Adelaide St. W.; and Amazon taking another 133,000 sf at QuadReal’s Southcore Financial Centre complex.

Ivanhoé Cambridge and Hines completed their 1.5-msf CIBC Square phase 1 development with a tenant roster featuring CIBC, Microsoft, Boston Consulting Group and AGF. Downtown welcomed a total of

2.8 msf (95% leased) of new office space in 2020 – significantly higher than the 410,000 sf delivered in 2019 and the most since 2009 (3.5 msf). Another 8.1 msf (10% of inventory / 67% preleased) was underway at year-end 2020 – 5.2 msf (83% preleased) scheduled for completion in 2021 and 2022.

The Midtown market unwound its gains of the past couple of years, with the Eglinton node and class B buildings experiencing the greatest losses. Midtown availability doubled year-over-year to cap off 2020 in double digits (10.6%) for the first time in 15 years. Meanwhile, vacancy jumped 250 bps to close at 4.9% – its highest point since 2014. Despite the setback, Midtown (Eglinton in particular) is experiencing an office development renaissance spurred by the Eglinton Crosstown light rail transit line (completion 2021). Though not yet on a grand scale (as with Oxford and CT REIT’s proposed redevelopment of Canada Square), office space as a component of mixed-use high-rise residential development is popular, including projects underway at 2161 Yonge St. (89,000 sf) and 2364 Yonge St. (47,000 sf).

Finally, suburban assets fared no better. Availability (+220 bps to 15.4%) and vacancy (+100 bps to 10.2%) closed the year higher. Led by Toronto West, new supply deliveries (727,000 sf) were marginally higher than in 2019. However, 39% less office space is under construction (842,000 sf / 57% preleased) compared with one year ago, roughly split between Toronto North and West – the majority coming online by year-end 2022.

Notwithstanding the pandemic headwinds and poor results, stakeholders remain positive on long-term property fundamentals across the GTA market.

Greater Toronto Area Market Summary

Availability Trend			Vacancy Trend			Change in Occupied Area (000's of sf)		New Supply (000's of sf)		
12 Months Ago	3 Months Ago	Current Quarter	12 Months Ago	3 Months Ago	Current Quarter	Current Quarter	YTD	YTD Completions	Under Construction	Preleased
8.7%	10.7%	12.4%	5.6%	6.6%	7.6%	-1,035	-1,086	3,487	9,127	65%

Comparison of Leasing Options for Tenants

Office Space in Select Districts	No. of Bldgs.	Available Space			Availability Rate		
		Bldgs. with more than 50,000 sf	Bldgs. with largest contiguous available area greater than 50,000 sf	Number of spaces between 4,000 sf and 8,000 sf	Direct %	Sublet %	Total %
Downtown All Classes	432	56	22	295	6.1	3.3	9.4
Downtown Class A	137	44	18	97	5.0	2.2	7.2
Midtown All Classes	142	9	3	54	7.8	2.9	10.6
Midtown Class A	39	7	3	22	8.7	4.9	13.6
Toronto East All Classes	333	25	13	120	11.3	3.5	14.8
Toronto East Class A	135	14	6	68	10.9	3.9	14.8
Toronto North All Classes	131	11	6	46	10.3	2.2	12.5
Toronto North Class A	59	10	5	29	10.3	2.8	13.1
Toronto West All Classes	531	46	20	187	14.3	2.5	16.8
Toronto West Class A	260	37	14	108	14.5	2.6	17.1

Greater Toronto Area Significant Transactions

Address	District	Tenant	Size
105 Adelaide St. W.	Downtown	Northbridge Financial	102,000 sf
2 Bloor St. E.	Midtown	RBC Financial	33,100 sf
675 Cochrane Dr.	East	HUB International	14,200 sf
7777 Weston Rd.	North	Sporting Life	35,400 sf
185 The West Mall	West	Scotia Capital	65,000 sf

Get more market information

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