



3RD QUARTER 2013

Greater Toronto Area Office Market Report

Partnership. Performance.

Market Overview

The Greater Toronto Area (GTA) office market continues to deliver disappointing results. However, despite falling occupancy levels and rising availability and vacancy rates to date, the rental market, though fragmented, remains intact. A burgeoning sublet market is also raising concerns, having jumped 30% in the past year to 3.7 million square feet (msf), presently. All of these conditions are transpiring as the market braces itself for a new wave of office development, starting later this year and continuing through 2017. The overall vacancy rate (physically unoccupied space) continues to climb incrementally, closing the third quarter of 2013 at 8.8% – up 20 basis points (bps) from the previous quarter and 70 bps from the same quarter one year prior. More importantly, overall availability (space marketed for lease) is significantly higher at 11.4%, having jumped 90 bps between quarters and up 220 bps from the same quarter one year ago. Both metrics are sitting at three-year highs.

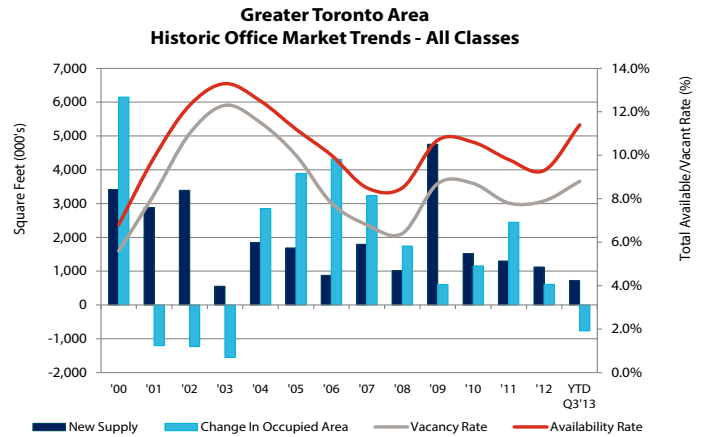
The market's softness is clearly evident in Downtown Toronto. Despite a tight and landlord-favourable vacancy rate of 5.6% (+20 bps), the availability rate was substantially higher at 8.9%. By comparison, availability sat 130 and 230 bps lower in the second quarter of 2013 and third quarter of 2012, respectively. This increase is largely attributable to future known tenant relocations to the new towers underway as well as a noticeable uptick in sublet space. Specifically, downtown available sublet space has risen 525,000 square feet (sf) in the past year, with the vast majority (422,000 sf) in class A buildings in the financial core. In all, sublet space as a proportion of total available space is now 20%, up from 16% one year earlier.

Newspaper publisher The Globe and Mail (G&M) captured the headlines in downtown Toronto. After cancelling plans to build a new corporate headquarters in Downtown West earlier this year, the G&M quickly secured a new location, this time in Downtown East. Branded as The Globe and Mail Centre, the new office tower will be LEED Gold and comprise 500,000 sf over 17 storeys when it is completed in mid-2016. The publisher signed a 15-year lease for the top five floors (130,000 sf) of the building. Developer First Gulf will also be moving its head office to the tower, raising the pre-lease level to 40%.

Insulated from any new supply shocks, the Midtown market has seen modest fluctuations in availability and vacancy. However, the third quarter saw the most notable upswing in availability (+80 bps to 7.3%) and vacancy (+90 bps to 6.8%) since 2008. Sublet space, which has been relatively in check, now represents 24% of the total available area – a five-year high. The 10-year average is roughly 15% with a low of 6% in 2006. With a vacancy rate of 4.8%, Bloor is the tightest midtown office node and amongst the tightest markets in the entire GTA. Opportunities are more readily available further north along the subway line in the St. Clair (7.3%) and Eglinton (9%) markets.

The suburban market regressed further in the third quarter and although vacancy (11.9%) held steady, availability increased 40 bps to 14.1%. While Toronto North (7.2%) and East (13.7%) saw marginal changes in availability, Toronto West continued to lose ground with availability jumping 100 bps to 16.7%, a 10-year high. Though new development is entirely in Toronto West (74%) and North (26%), The Remington Group will soon announce a 350,000-sf build-to-suit tower at the intersection of Enterprise Boulevard and Birchmount Road in the Hwy. 404 & 407 node in Toronto East – the first large-scale office development in nearly a decade.

MARKET FACTS	
<p>5.6%</p> <p>Downtown overall vacancy rate vs 8.9% availability rate</p>	<p>66</p> <p># of class A sublet spaces in Financial Core, totalling 642,000 sf (half of total sublet area downtown)</p>
<p>14.1%</p> <p>Overall suburban availability rate vs 11.5% one year ago</p>	<p>5.8</p> <p>msf under construction in Downtown (49% pre-leased) to be completed by 2017</p>



GREATER TORONTO AREA MARKET SUMMARY

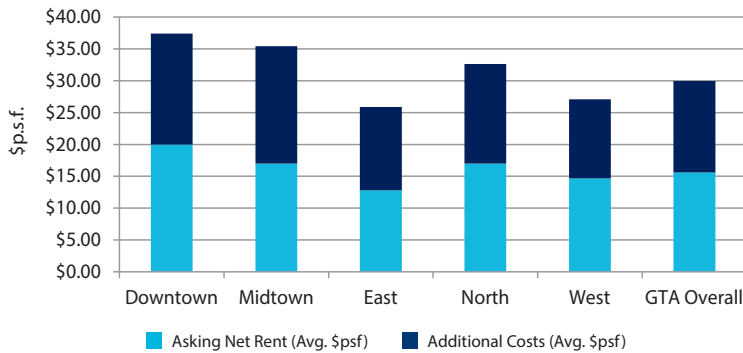
Availability Trend			Vacancy Trend			Change in Occupied Area (000's of sf)		New Supply (000's of sf)		
12 months ago	3 months ago	Current Quarter	12 months ago	3 months ago	Current Quarter	Current Quarter	Year-to-Date	Year-to-Date Completions	Under Construction	% Pre-Leased
9.2%	10.5%	11.4%	8.1%	8.6%	8.8%	-179	-763	722	7,777	48%



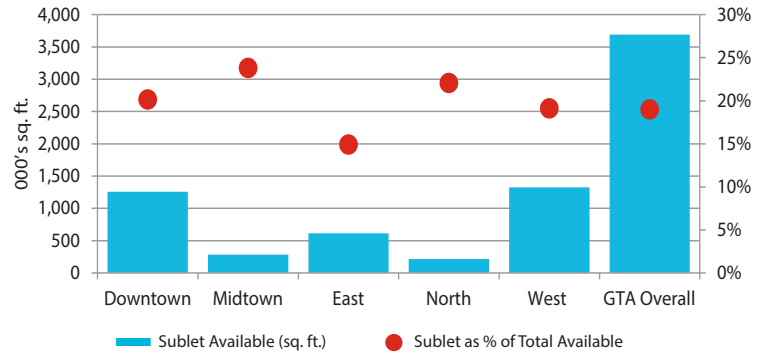
COMPARISON OF LEASING OPTIONS FOR TENANTS - GTA

Office Space at Selected Districts	No. of Bldgs.	Available Space			Availability Rate		
		Buildings with more than 50,000 sq. ft.	Buildings with largest contiguous available area greater than 50,000 sq. ft.	Number of spaces between 4,000 sq. ft. and 8,000 sq. ft.	Direct %	Sublet %	Total %
Downtown All Classes	394	41	25	175	7.1	1.8	8.9
Downtown Class A	112	35	22	76	7.0	2.4	9.4
Midtown All Classes	136	6	3	35	5.6	1.7	7.3
Midtown Class A	35	3	1	13	5.4	1.3	6.7
Toronto East All Classes	303	19	10	112	11.6	2.1	13.7
Toronto East Class A	126	12	8	62	12.3	2.9	15.2
Toronto North All Classes	105	5	4	35	5.6	1.6	7.2
Toronto North Class A	48	5	4	21	5.5	2.1	7.6
Toronto West All Classes	471	40	29	180	13.5	3.2	16.7
Toronto West Class A	221	26	20	92	12.2	3.7	15.9

GTA - Occupancy Costs - All Classes



GTA - Sublet Availability - All Classes



GREATER TORONTO AREA SIGNIFICANT TRANSACTIONS

Address	District	Tenant	Size
Royal Bank Plaza	Downtown	RBC Financial Group	229,000 sf
Commerce Court West	Downtown	Stikeman Elliott LLP	150,000 sf
130 Bloor Street West	Midtown	Estée Lauder	19,200 sf
Sun Life Financial Centre	West	Moneris Solutions	138,000 sf
300 Consilium Place	East	Scotiabank	62,000 sf



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