

	YoY Chg	12-Mo. Forecast
15.5% Vacancy Rate	▲	▼
-1.4M Net Absorption, SF	▲	▲
\$40.11 Gross Asking Rent, PSF	▲	▬
0.2% Rent Growth Q-Q	▬	▬
18.3M Under Construction, SF	▼	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
19.3M Total Nonfarm Employment	▲	▲
5.0M Office-using Employment	▲	▲
4.9% Canada Unemployment Rate	▼	▬

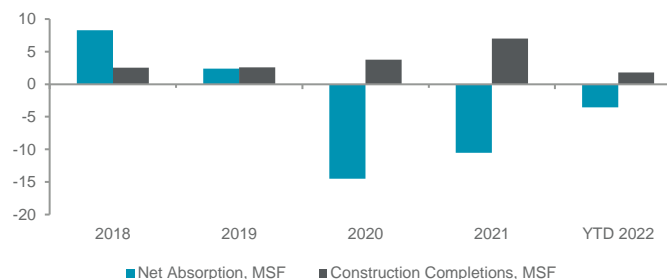
Source: Statistics Canada

The Overall Office Market Continued Its Somewhat Rocky Path to Recovery

The June 2022 labour force survey released by Statistics Canada reported the Canadian unemployment rate declined to a new record low of 4.9%, down from 5.1% last month. Driving this decrease was not an increase in employment, which fell by 43,000 in June, but rather that there were fewer people searching for work. Employment in the services-producing sector declined by 76,000, spread across multiple industries, while employment rose by 33,000 in the goods-producing sector with gains in construction and manufacturing. Of particular interest to the office market is the situation surrounding work-from-home. In June the proportion of workers who usually work all of their hours at home fell 130 basis points (bps) from last month to 17.9%. Compared to May, the prevalence of hybrid work which involves working some hours at home and some at another location increased by 40 bps to 6.7%.

The road to a return to pre-pandemic market conditions remained uncertain in most markets across the country and was reflected in some of the key performance metrics in the second quarter of 2022. Office tenants continued to evaluate both their space requirements and how their return to the office, if that happens to be the plan, is going to unfold through the remainder of 2022. As this continues to play out, this environment is having an impact on office market conditions. Both Montreal and Toronto had significant negative absorption this quarter and combined were the driving force behind the overall Canadian absorption total of negative 1.4 million square feet (msf). While there were, and continue to be, slight variations of this story depending if you are looking at CBD vs. Non-CBD markets, the arrival of sublet space to the market was clearly the story in the early days of the pandemic. However, that tide of sublet space seems to have slowed. While most of the major markets had relatively small overall increases to their sublet availability this quarter, with Calgary and Ottawa being the exception as sublet availability declined quarter-over-quarter, it was the substantial quarter-over-quarter uptick in the amount of direct space arriving on the market that had an impact on absorption and particularly the overall vacancy – which bumped up to 15.5% this quarter. This direct availability was largely split between the CBD and Non-CBD markets, and for both divided fairly evenly between all classes of space.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & GROSS DIRECT ASKING RENT



Despite vacancy continuing to climb and absorption remaining mired in negative territory, leasing activity once again continued to be the shining star. This quarter leasing activity reached 7.75 msf, the highest quarterly total since the second quarter of 2017. This hopefully is an indication of improving market sentiment and will be reflected in the performance indicators in the second half of the year. Most of the major Canadian markets had strong leasing activity totals this quarter, with Toronto leading the way, particularly in the CBD Class A segment.

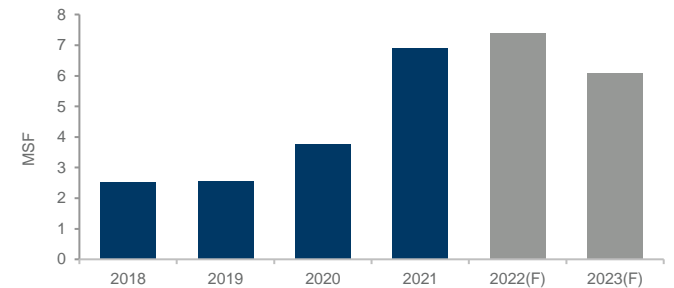
New supply arrivals increased slightly compared to last quarter to reach just shy of 1.1 msf, closely split between the CBD and Non-CBD markets. Of this new supply approximately 416k square feet was vacant upon delivery which given the small amount relative to the entire country had no impact on vacancy rates. However, this may not be the case as we move through the remainder of the year as the lion's share of new supply for 2022 is anticipated to arrive in the second half of 2022 at approximately 5.6 msf.

Despite the challenges the market is seeing with rising vacancy and demand yet to strengthen enough to counteract the new vacant space coming on the market, the overall direct asking net rent for Canada has not been heavily impacted. In the second quarter of 2022 the overall average asking net rent was at \$22.05 per square foot (psf) with a gross rent of \$40.11 psf. There are of course exceptions with some landlords, but generally speaking the posted rates have barely moved throughout the pandemic. That being said it is likely a different story if we were to look at the net effective rents which are impacted by tenant inducements. What could also be influencing overall asking rents is lower priced inventory being leased up and the vacancy that is arriving in new construction is generally commanding higher rents than the pricing in older stock.

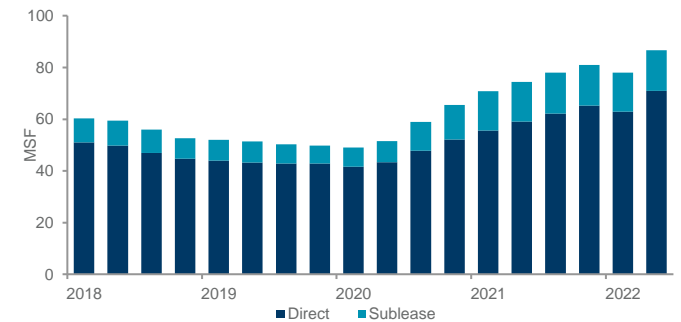
OUTLOOK

- How rising inflation will impact office occupiers will certainly be a story to watch through the remainder of 2022.
- Major occupiers are likely to continue to experiment with different models, i.e.. work-from-home, remote, or hybrid in order to determine what will prove the most successful for both the company as well as satisfaction from their workers. The latter being key given the high demand for labour the market is currently experiencing.

NEW SUPPLY



DIRECT VS. SUBLEASE SPACE VACANCY COMPARISON



CLASS A VS. OVERALL VACANCY COMPARISON



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	CONSTRUCTION COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Vancouver	64,996,641	1,271,463	4,396,464	8.7%	-67,969	79,452	432,137	8,626,143	\$51.15	\$56.28
Edmonton	29,283,397	643,468	5,171,974	19.9%	0	0	0	0	\$33.31	\$37.55
Calgary	70,001,409	3,669,864	15,650,737	27.6%	-67,194	-330,899	0	0	\$31.64	\$35.23
Winnipeg	17,769,876	81,795	2,120,994	12.4%	19,648	55,091	0	300,000	\$30.50	\$36.05
Toronto	184,992,064	5,857,514	19,041,736	13.5%	-772,460	-1,397,788	131,465	6,412,829	\$48.94	\$53.28
London	8,211,883	130,391	1,300,659	17.4%	18,030	-82,228	0	0	\$26.03	\$31.04
Kitchener	5,277,167	115,398	1,270,981	26.3%	-19,380	-49,295	120,000	292,000	\$29.02	\$31.70
Waterloo	7,362,263	391,689	901,325	17.6%	-35,175	-120,885	0	0	\$26.49	\$28.56
Ottawa	43,019,509	554,677	3,581,438	9.6%	-3,269	-319,779	170,000	0	\$34.01	\$38.09
Montreal	102,602,002	2,913,512	13,814,413	16.3%	-628,365	-1,524,428	230,000	2,496,618	\$34.55	\$42.35
Fredericton	2,194,424	0	292,722	13.3%	9,902	635	0	0	\$26.40	\$29.90
Saint John	2,385,051	0	640,133	26.8%	-7,305	397	0	0	\$22.28	\$28.81
Moncton	2,956,218	0	363,200	12.3%	-4,606	-14,834	0	38,764	\$25.66	\$30.47
Halifax	12,705,869	28,795	1,693,036	13.6%	102,903	126,928	0	179,125	\$29.07	\$31.87
St. John's	3,947,395	0	753,219	19.1%	19,872	43,159	0	0	\$34.37	\$39.58
NATIONAL TOTALS	557,705,168	15,658,566	70,993,031	15.5%	-1,435,368	-3,534,474	1,083,602	18,345,479	\$40.11	\$45.45

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