

Downtown Toronto

Sublease availability continued to rise in Downtown Toronto as major tenants reconsidered office plans

- Downtown Toronto had an influx of availabilities both in direct and sublease space over Q1 2023, including space in A class towers
- Absorption remained negative at -999,257 s.f. in Q1 2023 following the trend of Q4 2022
- Average asking gross rents held steady quarter-over-quarter due to a slight decline in average net asking rents outweighed by a modest increase in additional rents

The Downtown Toronto office market experienced another notable uptick in sublease availability reaching 4,364,454 s.f. in Q1 2023, increasing by 13.5% quarter-over-quarter. While sublease availability had still increased, it slowed down from Q4 2022, where the sublease availability increased by 20.8%. However, this was the third consecutive quarterly increase in sublease availability setting a new all-time high. Downtown Toronto's increase in sublease availability was a primary driving force behind the rise in the total availability. A large proportion of new sublease availabilities came from The Well, which had almost 350,000 s.f. of sublease space listed this quarter.

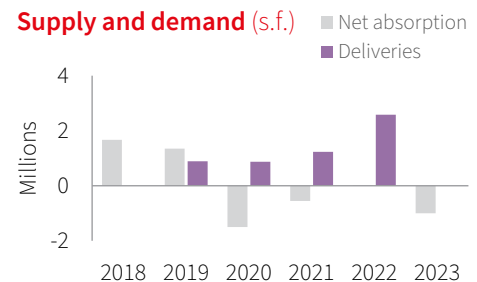
During Q1 2023, the overall vacancy rate in Downtown Toronto climbed by 120 basis points, resulting in a vacancy rate of 13.8%. The Financial Core experienced a larger increase, with a rise of 190 basis points, primarily driven by Scotiabank surrendering 304,704 s.f. at Scotia Plaza. The surrender was the result of a partial consolidation and relocation to 40 Temperance St, the latest development in the Bay-Adelaide Center. As of 2023, the bank occupies 420,000 s.f. within the complex.

As firms continued to right-size, higher quality sublease space continued to out-perform their Class B and C counterparts. For instance, IIROC took the base building Deloitte sublease at 40 Temperance St., which was a newly completed AAA building. This was a great example of firms taking advantage of opportunities which were previously inaccessible, as premier spaces became more readily available downtown.

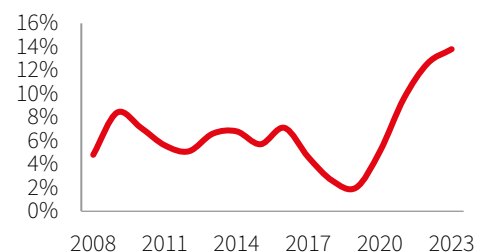
Outlook

Despite volatile economic conditions entering 2023, leasing activity is expected to remain consistent, led by firms implementing back-to-work strategies. With no completions this quarter and several completions set for this year, it is likely that Downtown Toronto will see increases in vacancy as buildings are delivered, although, construction completions are expected to slow into 2024. As the current economic turbulence calms rising vacancy is expected to stabilize in 2024.

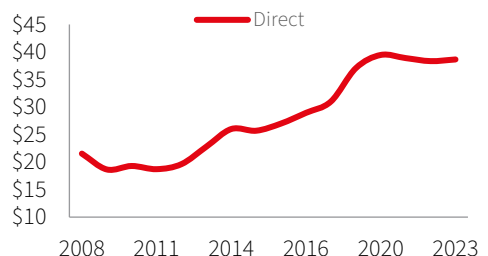
Fundamentals	Forecast
YTD net absorption	-999,257 s.f. ▼
Under construction	4,857,432 s.f. ▼
Total vacancy	13.8% ▲
Sublease vacancy	2,706,243 s.f. ▲
Direct asking gross rent	\$65.05 p.s.f. ▼
Sublease asking gross rent	\$60.17 p.s.f. ▼
Concessions	Stable ▶



Total vacancy (%)



Average asking rent (\$ p.s.f.)



GTA West

Total vacancy hits a new high as large block spaces have returned to the market unoccupied

- The total vacancy rate grew by 50 basis points quarter-over-quarter, reaching a new market high at 19.3%.
- Quarterly net absorption totaled -196,170 s.f. with the Class B segment registering its first negative absorption since Q1 2022
- Construction volume remained relatively low as developers are not in a rush to deliver new supply due to high construction costs and muted pre-leasing activity

The GTA West office market saw a continued increase in sublease availability in Q1 2023, totalling 2,067,111 s.f. Tech-oriented tenants such as biotech, fintech, and telecom firms still account for the majority of new sublease availability added to the market. For instance, Biogen joined Flipp, collectively bringing approximately 78,738 s.f. of sublease space to the Bloor & Islington submarket. Moreover, Ericsson Canada and DB Schenker brought an additional 23,095 s.f. and 26,344 s.f. to the GTA West sublease market, respectively.

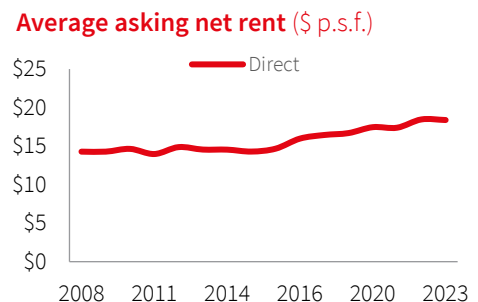
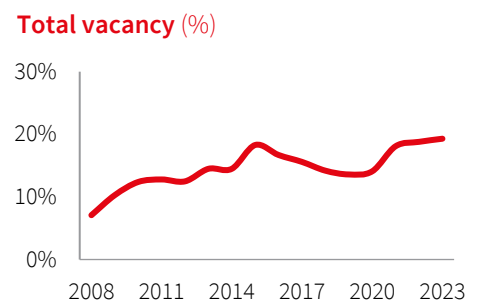
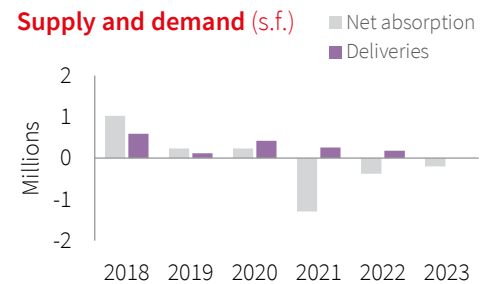
While average direct net rents grew modestly by 4.9% year-over-year, average additional rents increased drastically by 7.9%, pushing the average gross occupancy cost to a new historical high of \$34.57 in GTA West. This is primarily due to inflation in labour, maintenance and utility costs, as well as rising property taxes and insurance costs. Notably, southern nodes like Sheridan, Oakville, and Burlington saw the most significant cyclical increase in additional rents compared to other areas of GTA West.

GTA West has yet to regain leasing momentum compared to the pre-COVID era, but some notable lease transactions above 15,000 s.f. have occurred. Westinghouse Electric expanded its premises at Norjohn Court by an additional 13,172 s.f. on top of its existing 10,041 s.f.; Hisense entered the market by taking 19,912 s.f. of office space in Meadowvale; Lycopodium Minerals leased over 17,000 s.f. at 5090 Explorer Dr.; and Element relocated within the market, leasing up to 21,093 s.f. at 2599 Speakman Dr. Moreover, Aviya Aerospace relocated from 2495 Meadowpine Blvd. to 5800 Hurontario St., taking 17,126 s.f. of Class A sublease space.

Outlook

With economic headwinds substantially impacting tenants' headcounts and occupancy costs, the hybrid work model is no longer the sole reason for tenants to right-size and re-strategize their real estate portfolio. Evidenced by ever-increasing sublease availability and prolonged decision-making processes, major occupiers are taking the wait-and-see approach. Occupier caution is also reflected in the increasing demand for smaller-pocket space (between 2,000 to 5,000 s.f.) and lease extensions that are less than 3 years.

Fundamentals	Forecast
YTD net absorption	- 196,170 s.f. ▼
Under construction	331,515 s.f. ▼
Total vacancy	19.3% ▲
Sublease vacancy	1,838,574 s.f. ▲
Direct asking gross rent	\$34.36 p.s.f. ▲
Sublease asking gross rent	\$29.71 p.s.f. ▼
Concessions	Increasing ▲



GTA North & East

Significant influx of sublease opportunities continues, lead by Class A segment

- GTA Northeast registered quarterly absorption of -49,353 s.f., with negative absorption occurring throughout the majority of the submarkets except for the Hwy 404 & Steeles and Yorkdale
- Average asking net rent decreased slightly by 0.3% quarter-over-quarter, the second consecutive decrease after peaking in Q2 2022, sitting at \$17.55 p.s.f. in Q1 2023
- Construction pipeline remained stagnant, amounting to 1,193,131 s.f. of office space with a 17.3% pre-leased rate

Despite a year-over-year uptick in total vacancy in the GTA Northeast market, the quarter-over-quarter vacancy rate remained relatively steady in Q1 2023. Notably, the vacancy rate of Class A assets in GTA North and East rose by 40 basis-points and 50 basis-points, respectively. This is the result of certain large-block occupiers either relocating downtown or vacating their space for sublease as the new calendar year began.

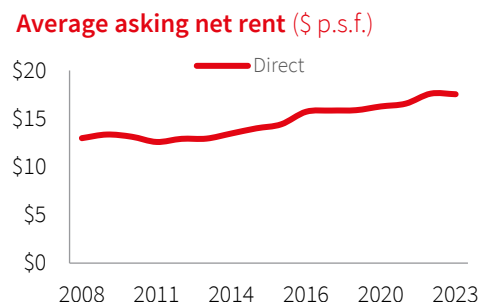
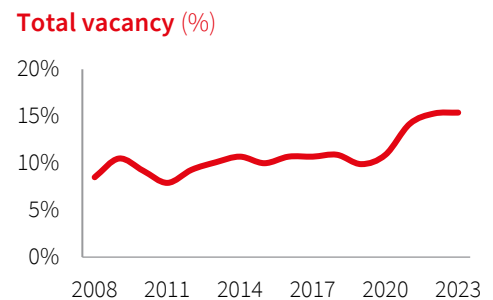
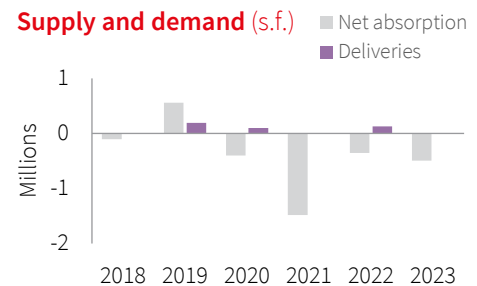
Sublease availability in GTA East saw a substantial 23.8% quarter-over-quarter increase, with a total of over 1 million s.f. available as of Q1 2023. Meanwhile, sublease availability in GTA North rose by 1.1% quarter-over-quarter to 532,798 s.f., maintaining its steady growth since Q1 2021. Allstate Insurance brought approximately 79,000 s.f. of Class A space to the Hwy 404 & Hwy 407 submarket. In addition to Telus' sublease, Scotiabank just put up 123,428 s.f. of sublease space at 300 Consilium Pl, Scarborough, bringing the building's total sublease availability to 313,719 s.f.

A few notable expansion and renewal deals were recorded in Q1 2023. Metrolinx renewed its current premises and further expanded within the building, leasing up to 48,000 s.f. at 100 Consilium Pl.; AbbVie Pharma leased up to 29,040 s.f. at 1380 Rodick Rd for relocation within the market; and Multiview renewed its premises at 50 Minthorn Blvd. for 21,672 s.f.

Outlook

Overall, recently stabilized vacancy rate could be a sign of the path to recovery for the GTA Northeast leasing market. This can also be evidenced by the increasing number of relocations and renewals within the submarket, most notably in properties that offer quick access to rapid transit and 400-series highways. While flight-to-quality and rising occupancy costs may still pose challenges for the suburban leasing market, the increasing availability of Class A space will provide tenants with a great opportunity to relocate within the market if they are seeking a space upgrade to lure employees back to the office.

Fundamentals	Forecast
YTD net absorption	-49,353 s.f. ▼
Under construction	1,193,131 s.f. ▼
Total vacancy	15.4% ▲
Sublease vacancy	938,893 s.f. ▲
Direct asking gross rent	\$34.66 p.s.f. ▲
Sublease asking gross rent	\$31.59 p.s.f. ▲
Concessions	Increasing ▲



Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking net rent (\$ p.s.f.)	Average additional rent (\$ p.s.f.)	Total completions (s.f.)	YTD total completions (s.f.)	Under construction (s.f.)
Downtown East	Totals	5,416,572	-41,093	-41,093	-0.8%	7.8%	14.0%	\$30.36	\$24.11	0	0	515,267
Downtown North	Totals	13,241,473	-85,238	-85,238	-0.6%	9.3%	11.7%	\$32.63	\$23.51	0	0	170,359
Downtown South	Totals	10,766,597	7,973	7,973	0.1%	6.4%	7.6%	\$38.29	\$25.22	0	0	253,935
Downtown West	Totals	17,033,475	-283,030	-283,030	-1.7%	12.1%	17.0%	\$35.77	\$21.45	0	0	1,193,766
Financial Core	Totals	35,250,815	-597,869	-597,869	-1.7%	11.9%	14.9%	\$41.78	\$29.16	0	0	2,724,105
Downtown	Totals	81,708,932	-999,257	-999,257	-1.2%	10.5%	13.8%	\$38.64	\$26.41	0	0	4,857,432
Bloor	Totals	8,552,813	-109,093	-109,093	-1.3%	11.8%	13.7%	\$31.41	\$24.75	0	0	0
Eglinton	Totals	4,586,103	-294,230	-294,230	-6.4%	18.1%	19.6%	\$19.97	\$21.91	0	0	89,397
St.Clair	Totals	2,227,352	-34,205	-34,205	-1.5%	8.1%	11.7%	\$28.82	\$23.56	0	0	0
Midtown	Totals	15,366,268	-437,528	-437,528	-2.8%	13.1%	15.1%	\$28.11	\$23.86	0	0	89,397
East	Totals	30,582,800	-21,142	-21,142	-0.1%	13.9%	15.9%	\$16.03	\$16.00	0	0	382,750
North	Totals	15,216,073	-28,211	-28,211	-0.2%	12.2%	14.5%	\$21.21	\$19.77	0	0	810,381
West	Totals	43,180,370	-196,170	-196,170	-0.5%	15.0%	19.3%	\$18.39	\$15.97	0	0	331,515
Suburbs	Totals	88,979,243	-245,523	-245,523	-0.3%	14.2%	17.3%	\$17.98	\$16.52	0	0	1,524,646
Greater Toronto Area	Totals	186,054,443	-1,682,308	-1,682,308	-0.9%	12.5%	15.6%	\$25.50	\$20.26	0	0	6,471,475
Downtown East	A	1,772,979	-25,807	-25,807	-1.5%	6.9%	19.7%	\$38.00	\$27.70	0	0	515,267
Downtown North	A	6,867,723	-16,441	-16,441	-0.2%	7.4%	10.1%	\$33.49	\$24.06	0	0	170,359
Downtown South	A	8,953,506	12,876	12,876	0.1%	4.2%	5.5%	\$45.44	\$26.45	0	0	253,935
Downtown West	A	7,654,703	-200,150	-200,150	-2.6%	10.4%	17.7%	\$38.23	\$23.91	0	0	1,193,766
Financial Core	A	27,369,042	-387,248	-387,248	-1.4%	11.0%	13.4%	\$44.10	\$29.97	0	0	2,724,105
Downtown	A	52,617,953	-616,770	-616,770	-1.2%	9.1%	12.5%	\$42.10	\$28.22	0	0	4,857,432
Bloor	A	3,520,048	-38,450	-38,450	-1.1%	15.2%	18.5%	\$34.56	\$25.56	0	0	0
Eglinton	A	1,698,690	-14,123	-14,123	-0.8%	12.1%	13.9%	\$22.33	\$23.10	0	0	89,397
St.Clair	A	795,756	1,335	1,335	0.2%	3.1%	9.3%	\$32.12	\$26.71	0	0	0
Midtown	A	6,014,494	-51,238	-51,238	-0.9%	12.7%	16.0%	\$32.13	\$25.20	0	0	89,397
East	A	17,283,954	-92,287	-92,287	-0.5%	15.1%	17.9%	\$17.15	\$16.18	0	0	382,750
North	A	9,425,116	-38,333	-38,333	-0.4%	13.4%	16.2%	\$22.15	\$20.44	0	0	810,381
West	A	27,341,134	-99,067	-99,067	-0.4%	16.9%	22.3%	\$19.49	\$16.45	0	0	331,515
Suburbs	A	54,050,204	-229,687	-229,687	-0.4%	15.7%	19.8%	\$19.19	\$16.98	0	0	1,524,646
Greater Toronto Area	A	112,682,651	-897,695	-897,695	-0.8%	12.5%	16.2%	\$27.63	\$21.22	0	0	6,471,475
Downtown East	B	1,611,276	-15,430	-15,430	-1.0%	5.7%	8.4%	\$34.36	\$25.23	0	0	0
Downtown North	B	4,965,014	-34,771	-34,771	-0.7%	11.6%	14.1%	\$31.81	\$23.11	0	0	0
Downtown South	B	1,763,091	-4,903	-4,903	-0.3%	17.0%	18.0%	\$31.67	\$24.51	0	0	0
Downtown West	B	2,750,523	40,072	40,072	1.5%	12.5%	17.0%	\$35.27	\$22.06	0	0	0
Financial Core	B	7,036,474	-204,847	-204,847	-2.9%	13.8%	19.1%	\$36.66	\$27.13	0	0	0
Downtown	B	18,126,378	-219,879	-219,879	-1.2%	12.6%	16.4%	\$34.68	\$25.30	0	0	0
Bloor	B	4,740,004	-66,670	-66,670	-1.4%	9.6%	10.6%	\$27.05	\$23.62	0	0	0
Eglinton	B	2,379,264	-283,614	-283,614	-11.9%	22.6%	24.3%	\$18.75	\$21.56	0	0	0
St.Clair	B	1,314,596	-28,158	-28,158	-2.1%	11.3%	13.6%	\$27.31	\$22.61	0	0	0
Midtown	B	8,433,864	-378,442	-378,442	-4.5%	13.5%	14.9%	\$24.35	\$22.75	0	0	0
East	B	10,562,792	60,740	60,740	0.6%	14.4%	15.3%	\$14.17	\$15.87	0	0	0
North	B	4,797,962	8,896	8,896	0.2%	11.7%	13.2%	\$18.66	\$18.09	0	0	0
West	B	12,087,643	-75,978	-75,978	-0.6%	11.8%	14.7%	\$15.53	\$14.96	0	0	0
Suburbs	B	27,448,397	-6,342	-6,342	0.0%	12.8%	14.7%	\$15.25	\$15.76	0	0	0
Greater Toronto Area	B	54,008,639	-604,663	-604,663	-1.1%	12.8%	15.3%	\$22.30	\$19.37	0	0	0
Downtown East	C	2,032,317	144	144	0.0%	10.3%	13.5%	\$24.31	\$21.81	0	0	0
Downtown North	C	1,408,736	-34,026	-34,026	-2.4%	10.3%	10.8%	\$31.55	\$22.29	0	0	0
Downtown South	C	50,000	0	0	0.0%	18.9%	18.9%	-	-	0	0	0
Downtown West	C	6,628,249	-122,952	-122,952	-1.9%	13.9%	16.2%	\$33.46	\$18.83	0	0	0
Financial Core	C	845,299	-5,774	-5,774	-0.7%	25.9%	28.6%	\$31.56	\$26.58	0	0	0
Downtown	C	10,964,601	-162,608	-162,608	-1.5%	13.7%	16.0%	\$31.46	\$21.10	0	0	0
Bloor	C	292,761	-3,973	-3,973	-1.4%	5.2%	5.2%	\$20.00	\$22.37	0	0	0
Eglinton	C	508,149	3,507	3,507	0.7%	16.6%	16.6%	\$18.07	\$14.04	0	0	0
St.Clair	C	117,000	-7,382	-7,382	-6.3%	6.3%	6.3%	-	-	0	0	0
Midtown	C	917,910	-7,848	-7,848	-0.9%	11.7%	11.7%	\$22.22	\$18.11	0	0	0
East	C	2,736,054	10,405	10,405	0.4%	5.2%	5.2%	\$13.03	\$12.65	0	0	0
North	C	992,995	1,226	1,226	0.1%	2.9%	4.1%	\$12.91	\$12.66	0	0	0
West	C	3,751,593	-21,125	-21,125	-0.6%	11.9%	12.1%	\$12.96	\$12.71	0	0	0
Suburbs	C	7,480,642	-9,494	-9,494	-0.1%	8.2%	8.5%	\$12.97	\$12.70	0	0	0
Greater Toronto Area	C	19,363,153	-179,950	-179,950	-0.9%	11.5%	12.9%	\$19.71	\$15.83	0	0	0