Toronto Office

2022 Market Insight Report

Q1 2022

cresa

Market Overview

Q1 2022 Market Trends

The Toronto and Greater Toronto Area (GTA) office markets continued to experience increasing vacancy, growing to 9.6%, up from 9.3% in Q4 2021. The largest increase in vacancy over the quarter was seen in the Toronto North Submarket, in which vacancy increased by 0.9%. The Downtown Core saw an increase of 0.4% quarter-over-quarter while the Midtown market saw an increase of 0.5%. Over Q2 and Q3 of 2021, there were improvements pointing toward an office recovery with two straight quarters of positive absorption in the Downtown Core. With that being said, Q4 2021 and Q1 2022 saw negative absorption across the GTA and the Downtown Core. In Q1 2022, there were approximately 1,000,000 square feet of negative absorption across the entire GTA, and 371,000 square feet within the Downtown Core. This is believed to be driven by the fifth and sixth waves of COVID-19, which in turn has amplified the hybrid work model and slowed companies' return to office strategy. Furthermore, as leases expire, many people expect that tenants will require less space due to this new hybrid work model. Nonetheless, there are some positive signs for the Downtown Office market, as sublet space as a percentage of total available space has decreased from 21.7% to 19.8% in the Core. This is down nearly 10% from the market high of 29.3% seen in Q1 2021.

Rising vacancy can also be attributed to the nearly 1.4 million square feet of new supply that came on to market in Q1 2022, approximately 850,000 square feet of which was in the Downtown Core. Although some of these properties were delivered fully pre-leased, there remain some large availabilities within these buildings that have a significant impact on overall vacancy rates. In addition to the 1.5 million square feet delivered in Q1, the Downtown office market is expecting another 150,000 square feet to be delivered in 2022. With the decrease in demand due to COVID-19 and flexible work strategies, plus an influx of new supply in Q4 2021 and Q1 2022, it is expected that vacancy rates will continue to increase for the foreseeable future.

GTA average net asking rents remained relatively stable over the quarter. Nevertheless, we saw a slight increase in rental rates across Downtown Class A office buildings to approximately $35.00 per square foot. Overall, rental rates have remained stable over the past year as net rents are still landlord and building specific. Large institutional landlords are continuing to hold rental rates at pre-pandemic levels, while offering larger incentive packages such as improvement allowances and free rent. Some large institutional landlords are even becoming stricter when viewing tenant covenants. With uncertainty, landlords want to ensure their tenants will not default on rent payments if lockdowns, due to COVID-19, continue for an extended period. In terms of smaller portfolio landlords, who hold older assets, rental rates are beginning to drop as we are seeing a flight to high-quality space with existing build outs and high-quality finishes. Older buildings are not able to compete and are having to offer lower rents to remain competitive with newer space. To lure tenants and employees back to the office, landlords are focusing on health & safety measures. However, as the pandemic begins to slowly show signs of stabilizing, landlords will have to be creative in implementing Environmental, Social and Governance (ESG) amenities.

With concerns over the Omicron variant, companies have been forced to delay or interrupt their return to office strategy to early to mid-2022. Consequently, there have been limited large office lease deals over the past quarter. SNC-Lavalin Inc. signed a 30,000 square foot lease in Etobicoke, while DAC Group Inc. signed a 20,000 square foot lease in North Toronto. On the investment side, the purchase of the Royal Bank Plaza by Zara Owner, Amancio Ortega, from Oxford Properties has officially closed for $1.163 billion. Additionally, Allied Properties has purchased six office buildings from Choice Properties REIT for $794 million. This deal is expected to close in Q2 2022. Furthermore, Crown Realty Partners is finalizing a deal to purchase 1.2 million square feet of Orlando's Mississauga office portfolio for just over $250 million dollars. These recent purchases suggest that large institutional landlords are betting on the Toronto office market to recover in the near future.

Most businesses are beginning to acknowledge that work-from-home and hybrid strategies are here to stay. However, Tenants also see that the purpose and advantages of having core office space holds due to company culture and employee engagement. The only question remaining is how a tenant wants to optimize its real estate: what level of hybrid to adopt and whether it continues to maintain a traditional headquarters strategy, versus a shift to the hub-and-spoke strategy. These decisions should ultimately drive the slow recovery of the downtown office markets.

Significant Lease Transactions

Tenant	Address	Size (SF)
Tonal	200 Bay Street, Toronto	52,650
Cologix	105 Clegg Road, Markham	41,000
SNC-Lavalin Inc.	185 The West Mail, Etobicoke	30,000
Good Shepherd	346 Spadina Avenue, Toronto	27,840
BCG	181 Bay Street, Toronto	25,000

GTA Overview

Q1 2022

Supply	Vacancy	Average Net Rent	Net Absorption
263,978,552 SF	9.6%	$23.25/SF	-1,001,189 SF

Arrows Indicate One Quarter Change

Vacancy Rate	Q3	Q4	Q1	
Downtown	7.0%	7.3%	7.7%	▲
Midtown	5.9%	7.3%	7.8%	▲
Toronto North	8.7%	8.3%	8.2%	▼
Toronto East	9.3%	10.3%	11.2%	▲
Toronto West	11.5%	12.3%	12.4%	▲
Durham	4.5%	4.1%	5.0%	▲
Overall GTA	8.7%	9.3%	9.6%	▲

Vacancy Rates & Availability Rates

Vacancy Rates

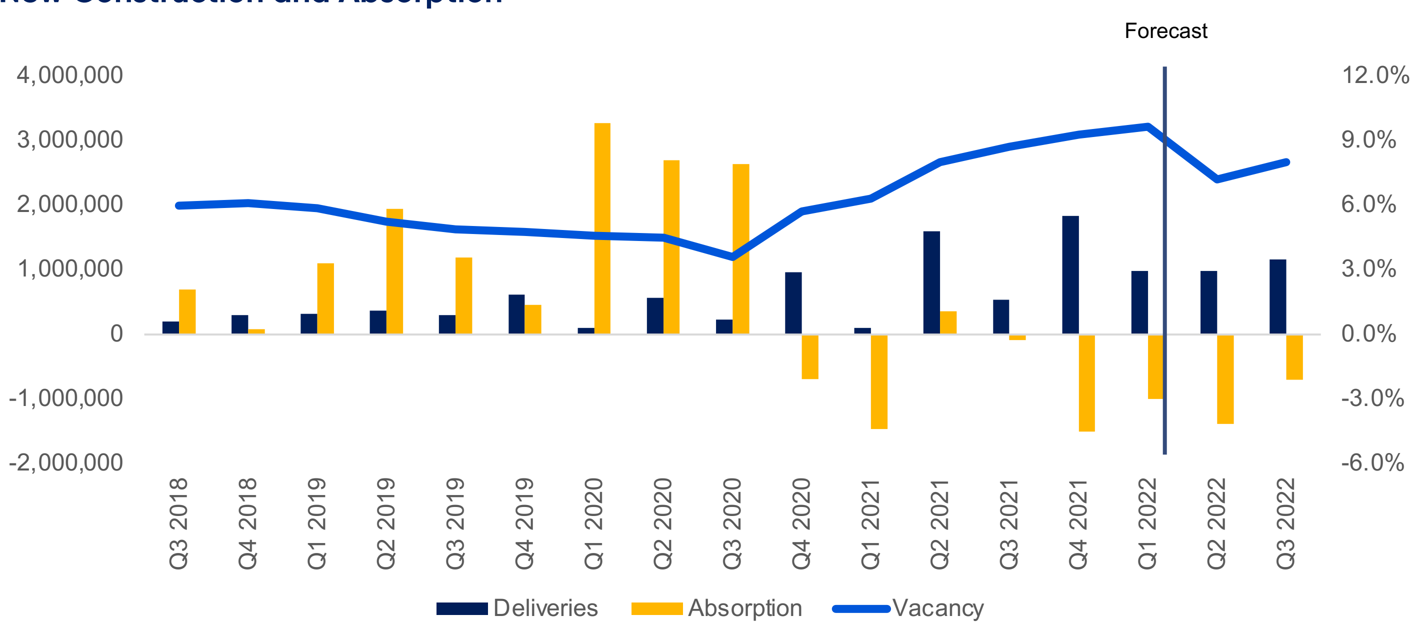
The vacancy rate is the percentage of all units in a rental property that are vacant or unoccupied at a particular time.

Availability Rates

The availability rate is the percentage of total rentable space available including new developments under construction.

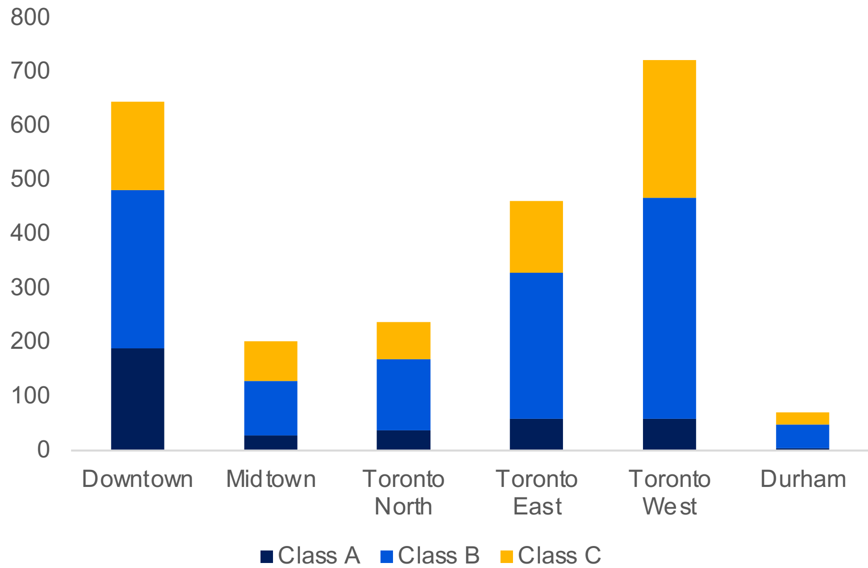
"Omnicron delayed the return to office for most organizations in the start of 2022; but as cases dropped, office utilization increased. U.S. based tech firms drove up downtown leasing activity and more foot traffic continues in Toronto's PATH. Many other tenants are committing to new return-to-office dates over the upcoming months to deliver hybrid environments for their employees."

New Construction and Absorption



GTA Overview

Availability By Market



Significant Availabilities

Market	Address	Size (SF)
Downtown	40 King Street West	493,406 SF
Midtown	175 Bloor Street East	177,959 SF
Toronto North	5000 Yonge Street	161,452 SF
Toronto East	160 McNabb Street	200,000 SF
Toronto West	5025 Creekbank Road	312,500 SF
Durham	920 Champlain Court	72,419 SF

GTA Pandemic Space Comparison

Q1 2020

- Direct Space Vacancy: 9,183,702 SF
- Sublease Space Available: 1,482,192 SF

Q1 2022

- Direct Space Vacancy: 18,589,252 SF
- Sublease Space Available: 4,031,723 SF

Office Market Insights

1.
The Toronto and Greater Toronto Area (GTA) office markets continued to experience increasing vacancy, which grew to 9.6%, up from 9.3% in Q4 2021. The largest increase in vacancy over the quarter was seen in the Toronto North Submarket, where vacancy increased by 0.9%. The Downtown Core saw an increase by 0.4% quarter-over-quarter.

2.
There are some improvements for the Downtown Office market, as sublet space as a percentage of total available space has decreased from 21.7% to 19.8% in the Downtown Core. This is down nearly 10% from the market high of 29.3% seen in Q1 2021.

3.
Rental rates have remained stable over the past year as net rents are still landlord and building specific. Large institutional landlords are continuing to hold rental rates at pre-pandemic levels, while offering larger incentive packages such as improvement allowances and free rent. Some large institutional landlords are even becoming stricter when viewing tenant covenants. With uncertainty, landlords want to ensure their tenants will not default on rent payments if lockdowns, due to Covid-19, continue for an extended period.

4.
In order to lure tenants and employees back to the office, landlords are focused on health & safety measures. However, as the pandemic begins to slowly show signs of stabilizing, Landlords will have to be creative in implementing Environmental, Social and Governance (ESG) amenities.

5.
It has been reported that Allied Properties has purchased six office buildings from Choice Properties REIT for $794 million. This deal is expected to close in Q2 2022. Furthermore, Crown Realty Partners are finalizing a deal to purchase 1.2 million square feet of Orlando's Mississauga office portfolio for just over $250 million dollars.

Downtown Toronto

Q1 2022

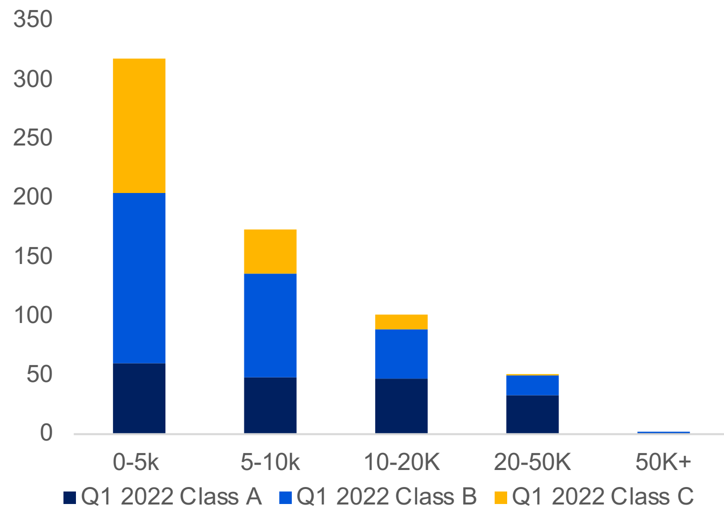
Supply	Vacancy	Average Net Rent	Net Absorption
102,707,423 SF	7.7%	$32.39/SF	-371,882 SF

Arrows Indicate One Quarter Change

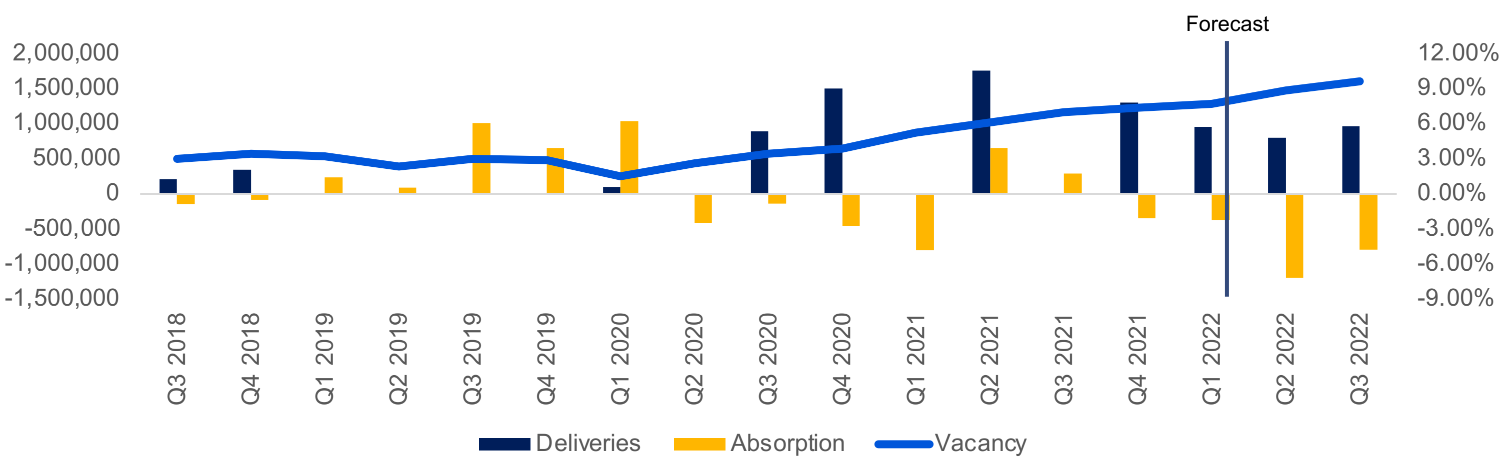
Vacancy Rate

	Q3	Q4	Q1	
Financial Core	7.6%	7.7%	8.7%	▲
Outer Financial Core	6.3%	8.2%	8.1%	▼
Downtown North	5.7%	6.5%	7.2%	▲
Downtown South	8.8%	6.5%	7.1%	▲
Downtown East	6.2%	6.6%	5.2%	▼
Downtown West	7.9%	8.4%	8.2%	▼
King/Dufferin	5.7%	5.7%	8.7%	▲
Overall	7.0%	7.3%	7.7%	▲

Availability Trends



New Construction and Absorption



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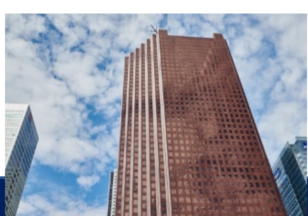
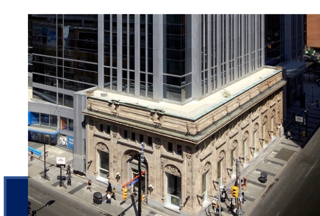


40 King Street West
493,406 SF

1 Adelaide Street East
378,269 SF

483 Bay Street
297,753 SF



2 Queen Street East
294,248 SF

Midtown Toronto

Q1 2022

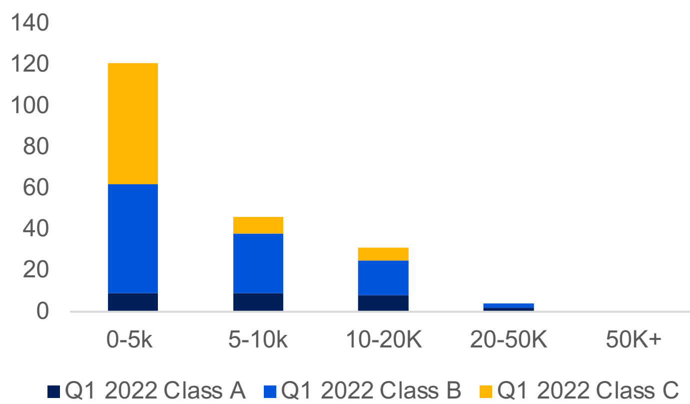
Supply	Vacancy	Average Net Rent	Net Absorption
22,150,628 SF	7.8%	$26.54/SF	-110,753 SF

Arrows Indicate One Quarter Change

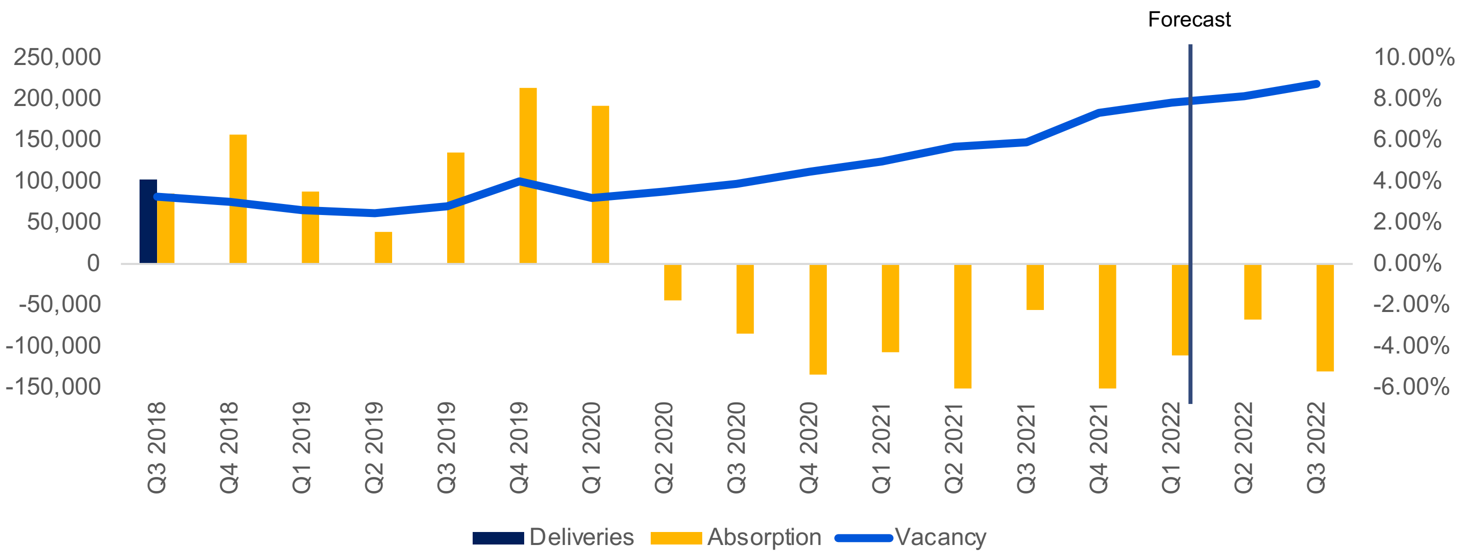
Vacancy Rate

	Q3	Q4	Q1	
Bloor	5.8%	6.1%	7.2%	▲
St. Clair	4.8%	7.8%	7.7%	▼
Eglinton	6.1%	9.1%	8.9%	▼
Overall	5.9%	7.3%	7.8%	▲

Availability Trends



New Construction and Absorption



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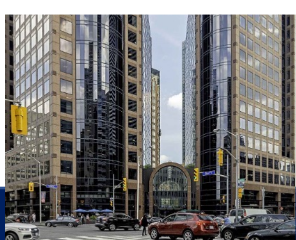
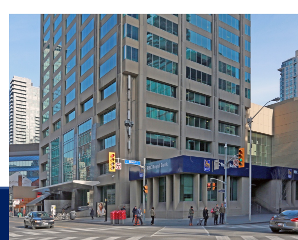


175 Bloor Street East
177,959 SF



2 Bloor Street East
163,596 SF

120 Bloor Street East
155,825 SF

160 Bloor Street East
142,146 SF

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Toronto North

Q1 2022

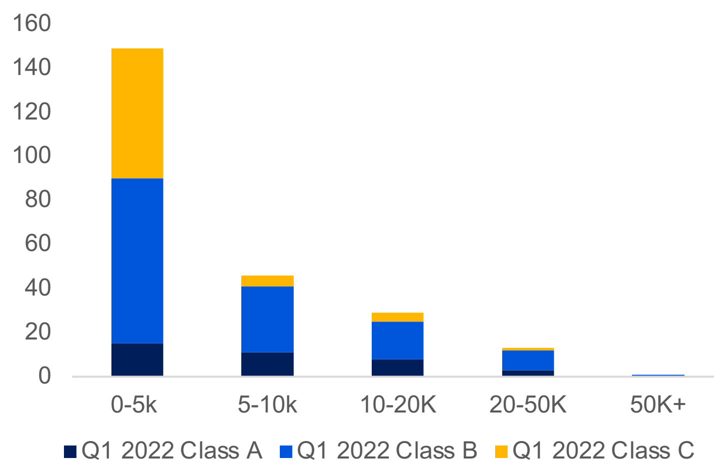
Supply	Vacancy	Average Net Rent	Net Absorption
24,228,844 SF	8.2%	$18.07/SF	24,229 SF

Arrows Indicate One Quarter Change

Vacancy Rate

Vacancy Rate	Q3	Q4	Q1	
North Toronto Region	9.4%	7.9%	8.0%	▲
North Yonge Corridor	10.6%	11.3%	11.5%	▲
Vaughan	7.3%	6.5%	5.6%	▼
North York West	6.8%	5.4%	6.1%	▲
Overall	8.7%	8.3%	8.2%	▼

Availability Trends



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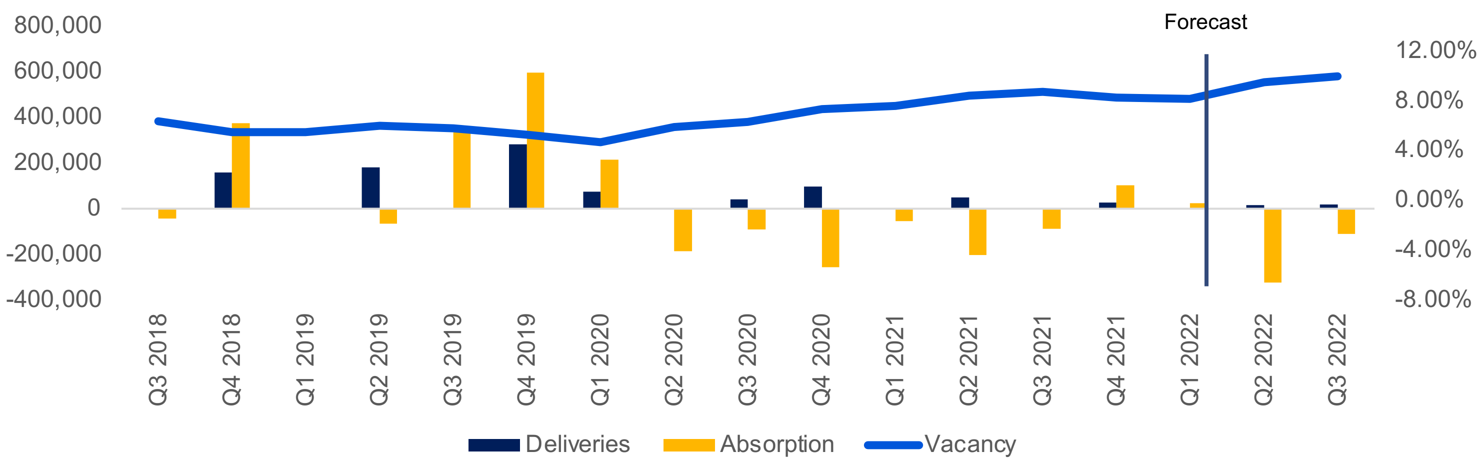
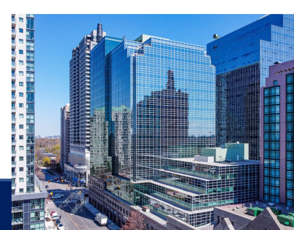


Significant Availabilities

5000 Yonge Street
161,452 SF

4950 Yonge Street
154,786 SF



5150 Yonge Street
142,968 SF

10 York Mills Road
139,176 SF

Toronto Office

Toronto East

Q1 2022

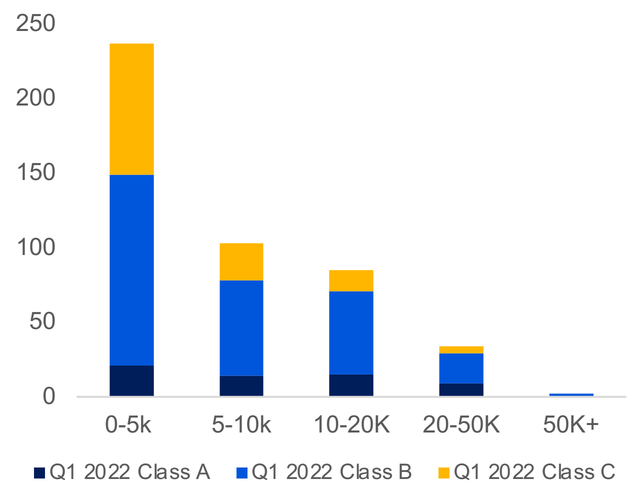
Supply	Vacancy	Average Net Rent	Net Absorption
46,398,519 SF	11.2%	$14.64/SF	-417,587 SF

Arrows Indicate One Quarter Change

Vacancy Rate

Vacancy Rate	Q3	Q4	Q1	
Consumers Road	15.1%	16.2%	17.2%	▲
DVP North/Duncan Mill	8.0%	8.3%	7.9%	▼
DVP South/Don Mills/ Eglinton	6.4%	8.7%	8.3%	▼
East Toronto Region	2.8%	2.7%	3.9%	▲
Gordon Baker/Victoria Park	7.8%	7.9%	9.9%	▲
Markham/Richmond Hill	6.1%	7.3%	7.4%	▲
Scarborough	10.4%	10.4%	11.5%	▲
South East Toronto Region	3.6%	7.7%	9.9%	▲
Steeles/Woodbine	6.9%	5.1%	5.9%	▲
Overall	9.3%	10.3%	11.2%	▲

Availability Trends



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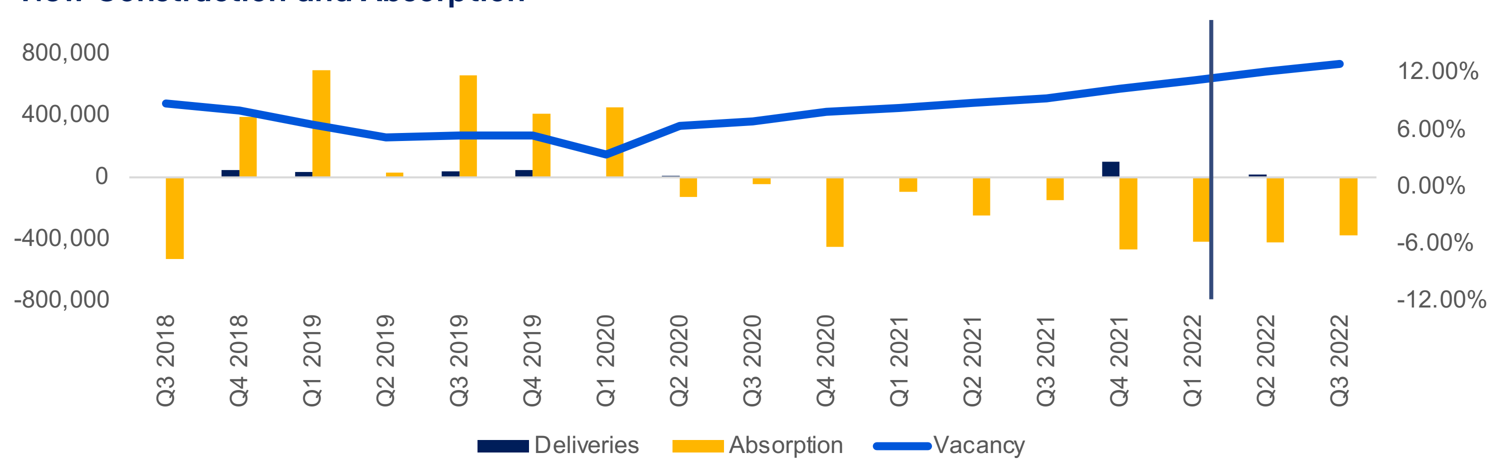


Significant Availabilities

160 McNabb Street
200,000 SF

300 Consilium Place
190,291 SF

3600 Steeles Ave E
172,889 SF

95 Moatfield Drive
156,426 SF

Toronto West

Q1 2022

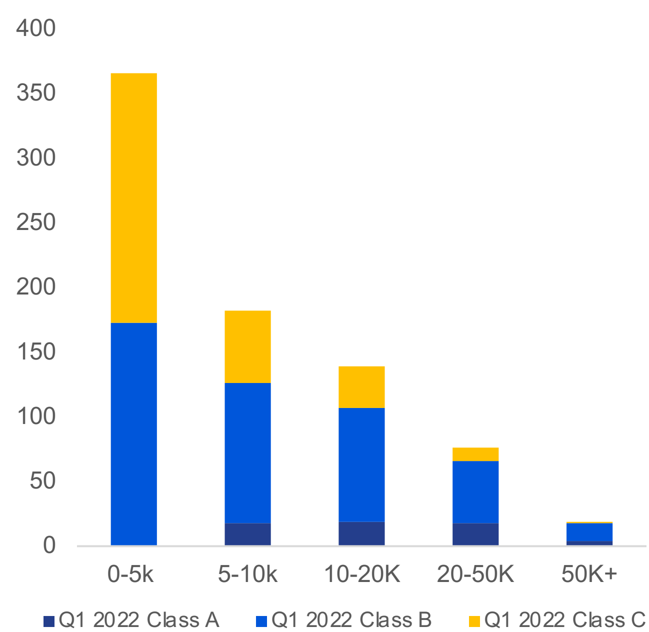
Supply	Vacancy	Average Net Rent	Net Absorption
61,405,346 SF	12.4%	$16.46/SF	-61,405 SF

Arrows Indicate One Quarter Change

Vacancy Rate

Vacancy Rate	Q3	Q4	Q1	
427 Corridor/Bloor/Islington	13.3%	16.8%	17.7%	▲
Airport Corporate Centre/Airport	14.5%	13.0%	12.5%	▼
Brampton	1.4%	3.2%	3.5%	▲
Burlington	9.1%	9.5%	9.4%	▼
Central West	3.3%	3.3%	4.3%	▲
City Centre	9.5%	13.7%	13.1%	▼
Hwy 10/Hwy 401	9.4%	11.0%	12.3%	▲
Meadowvale	8.0%	10.2%	10.3%	▲
Mississauga South	8.1%	6.9%	7.3%	▲
North West DT	2.7%	2.4%	2.1%	▼
Oakville	10.8%	11.1%	10.6%	▼
West Toronto Region	5.5%	7.4%	8.3%	▲
Overall	11.5%	12.3%	12.4%	▲

Availability Trends



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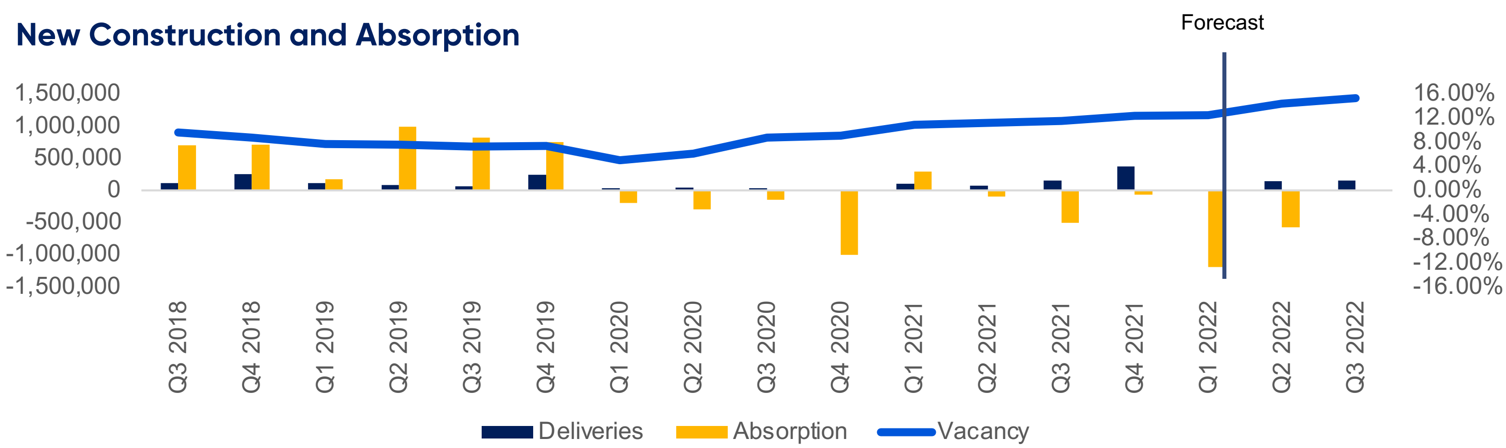
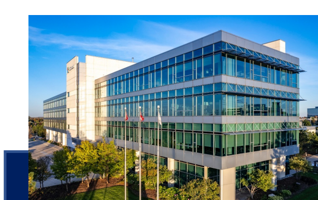


Significant Availabilities

5025 Creekbank Road
312,500 SF

5115 Creekbank Road
247,500 SF

195 The West Mall
160,709 SF



1950 Meadowvale Blvd
160,560 SF

Durham

Q1 2022

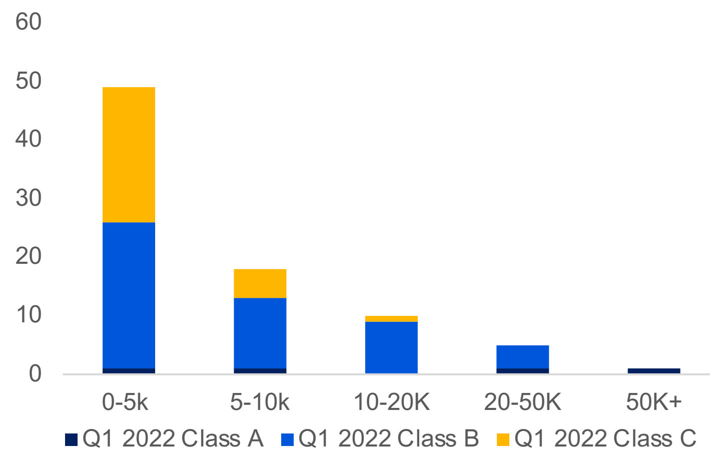
Supply	Vacancy	Average Net Rent	Net Absorption
7,087,792 SF	5.0%	$14.60/SF	-63,790 SF

Arrows Indicate One Quarter Change

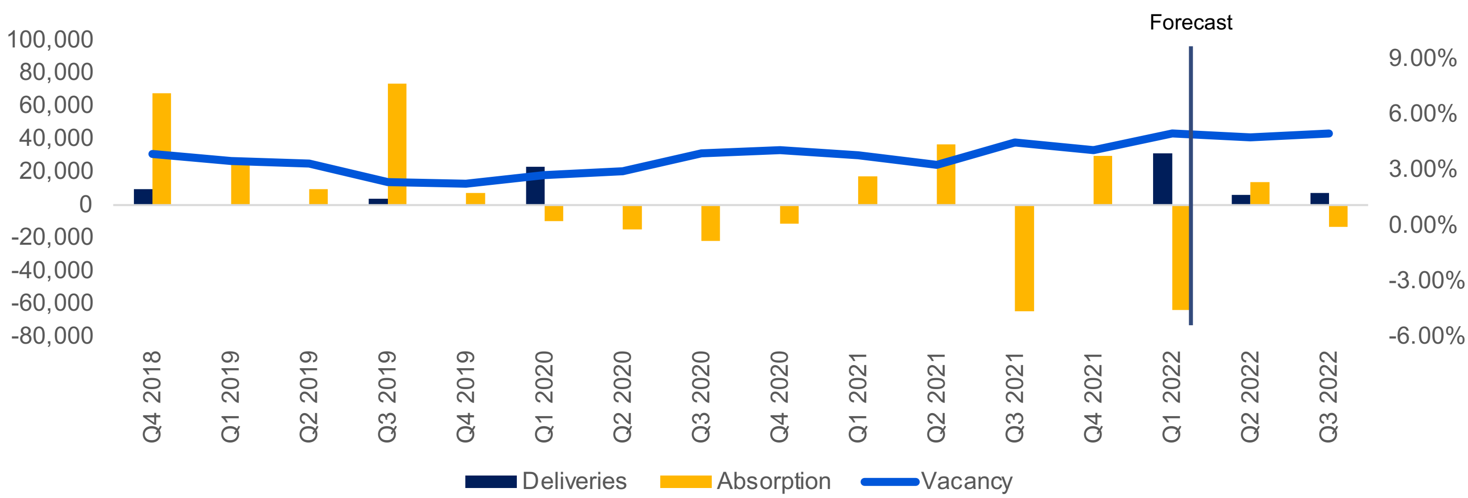
Vacancy Rate

	Q3	Q4	Q1	
Ajax	6.3%	5.6%	5.6%	▬
Oshawa	3.4%	3.2%	3.1%	▼
Outlying Durham	1.3%	1.3%	1.4%	▲
Pickering	6.4%	6.3%	6.4%	▲
Whitby	1.8%	0.6%	3.0%	▲
Overall	4.5%	4.1%	5.0%	▲

Availability Trends



New Construction and Absorption



Significant Availabilities

920 Champlain Court
72,419 SF

78 Richmond Street West
57,246 SF

601 Westney Road South
42,438 SF

1340 Pickering Parkway
36,220 SF

Toronto Office

Development Pipeline

	Development	Owner	Size (SF)	Completion Date
1	261 Queens Quay East	Hines	251,000	Q1 2023
2	25 Ontario Street	First Gulf & HOOPP	460,000	Q3 2023
3	141 Bay Street	Ivanhoe Cambridge & Hines	1,400,000	Q4 2023
4	77 Wade Avenue	Next Properties	150,000	Q2 2023
5	160 Front Street West	Cadillac Fairview	1,200,000	Q2 2023
6	191 Bay Street	QuadReal	TBD	TBD
7	19 Duncan Street	Allied Properties	150,000	Q3 2022
8	375 Queens Street West	Allied Properties	93,100	Q4 2023
9	8 Spadina Avenue	Allied Properties	1,175,000	Q1 2023
10	530 Front Street West	Carttera	560,000	Q4 2023
11	150 Sterling Road	Hines	425,000 (3 buildings)	Q2 2023
12	1 Yonge Street – West Tower	Pinnacle International	TBD	TBD
13	1 Yonge Street – East Tower	Pinnacle International	650,000	TBD
14	11 Bay Street	QuadReal	1,130,200	TBD
15	30 Bay Street	Oxford Properties	1,400,000	Q2 2025

Toronto Office

About Cresa Toronto

Cresa is the world's largest commercial real estate firm that exclusively represents occupiers of space. By not taking listings on behalf of landlords or developers, we are able to provide our clients with objective, conflict-free advice.

For the last 30+ years, Cresa's Toronto office has worked alongside our clients to align their business plans and their real estate needs, increase their productivity, and consistently save them money.

Our integrated team of real estate advisors, project managers, designers, and analysts, listen to occupiers' needs, meticulously research market conditions, firmly negotiate terms, and manage the design and construction of projects to customize the best possible occupancy solutions. And it's this relentless focus on our clients that has earned us numerous industry awards along the way.

Contact

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