

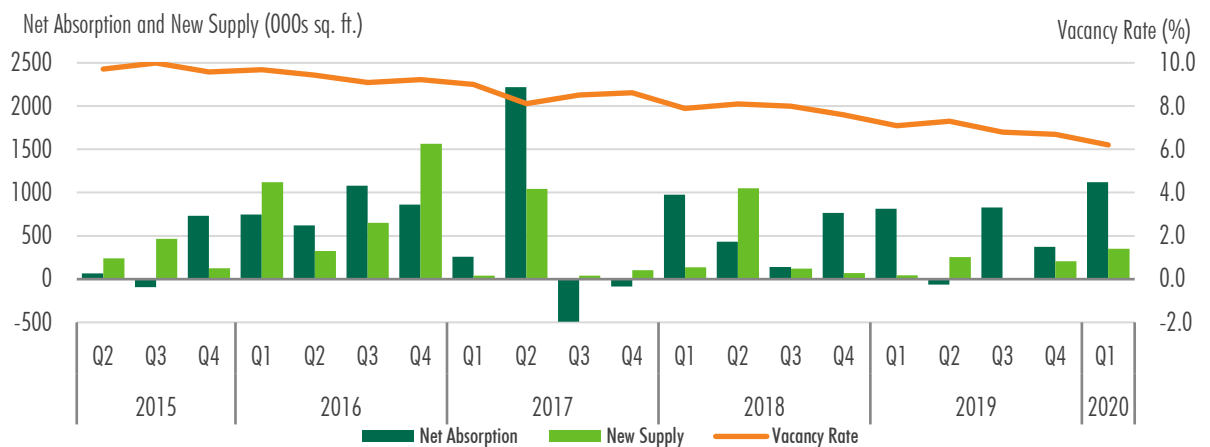
Greater Toronto Area Office, Q1 2020

A lockdown amidst a peaking market



Figure 1: GTA Office Supply and Demand

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2020.

- Amidst the global shutdown, Toronto's unemployment rate rose 190 basis points (bps) from 6.0% in March of 2020 to 7.9% in April of 2020.
- In the first quarter of 2020, scarcity of space in the Downtown core remained prevalent, leading to a record-low overall vacancy rate of 2.0%.
- Pre-leasing activity showed no signs of slowing down as Google signed on for 400,000 sq. ft. at 65 King Street East. The Carttera development, slated for a 2021 completion, is now 100% pre-leased.
- Occupiers continued to fuel the robust demand in the Financial Core as overall rental rates increased 9.3% quarter-over-quarter to \$40.88 per sq. ft., posting a record-high for this submarket.
- The Suburban market saw two notable completions this quarter. The PwC Tower at 200 Apple Mill Road brought 220,000 sq. ft. of Class A space to the Vaughan submarket, and Spectrum Square Phase II at 5050 Satellite Drive brought 130,880 sq. ft. of Class A space in the Airport Corporate Centre submarket.

GREATER TORONTO AREA

Vacancy in the Greater Toronto Area (GTA) decreased 50 bps quarter-over-quarter to 6.2%. Toronto Central, Toronto East, and Toronto North decreased by 20 bps, 90 bps, and 70 bps respectively, while Toronto West decreased by 80 bps.

In a peaking market, GTA experienced 1.1 million sq. ft. of positive net absorption – more than triple than that of the previous quarter and the highest since Q2 2017. Toronto West led all markets with 419,823 sq. ft. of positive net absorption as overall vacancy decreased 80 bps to 12.9%. FIRE and technology tenants continued to buoy demand in the Downtown market while healthcare, pharmaceuticals, FIRE and technology occupiers drove leasing activity in the Suburban markets.

Overall net rents remained stable in the GTA market coming in at \$18.87 per sq. ft. per annum, a modest growth of 0.4% quarter-over-quarter. The Financial Core submarket posted the highest overall net rents at \$40.88 per sq. ft., while the Scarborough submarket posted the most affordable overall net rents at \$12.20 per sq. ft.

TORONTO CENTRAL MARKET

DOWNTOWN

Prior to the unprecedented pandemic posed by COVID-19, Downtown Toronto welcomed 2020 in an exuberant manner. Marked by peaking rental rates and record-low vacancy rates amidst seemingly unappeasable demand, Downtown Toronto displayed rock-solid fundamentals. Overall vacancy remained at an all-time low of 2.0% quarter-over-quarter while sublease space totaled just 316,969 sq. ft. across the Downtown market. Rental rates continued to climb as the Financial Core submarket experienced overall net rents at \$40.88 per sq. ft., breaching the forty-dollar threshold for the first time.

The technology sector continued to bolster leasing activity, cementing Toronto's standing amongst the numerous emerging tech hubs as Google signed on for 400,000 sq. ft. at 65 King Street East. This transaction deemed the Carttera project, situated in the Greater Core submarket, 100% pre-leased. Moving eastwards, Equitable Bank pre-leased 180,000 sq. ft. at 25 Ontario Street. The First Gulf development is now 80.0% pre-leased and has been aptly renamed to the "EQ Bank Tower." As occupiers continue to claim coveted space in new developments, Blue Ant Media pre-leased the remaining 36,000 sq. ft. at 99 Atlantic Avenue. Joining the likes of CIBC Square I, 160 Front Street West and most recently 65 King Street East, the Kevric development is also 100% pre-leased.

MIDTOWN

On the heels of 120,892 sq. ft. of positive net absorption, the Midtown market experienced a 90 bps decline in overall vacancy from 2.9% to a record-low of 2.0% quarter-over-quarter. Large blocks of space amounting to 48,142 sq. ft.

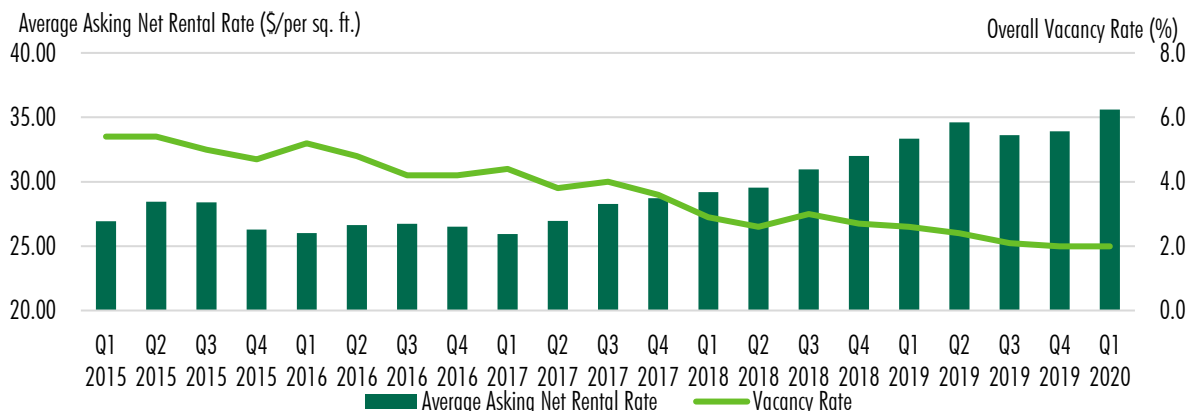
came off the market in at 2 Bloor Street East in the Bloor Yonge submarket, lending to 79,075 sq. ft. of positive net absorption. Similarly, 65,789 sq. ft. of space came off the market at 1929 Bayview Avenue resulting in 47,000 sq. ft. of positive net absorption in the Eglinton Yonge submarket.

FROM MARKET PEAK TO MARKET LOCKDOWN

As Ontario stands in a state of emergency, businesses across Downtown Toronto remain forced into closure amid a public health crisis comparable to SARS back in 2003. Though largely insulated from the recessionary effects of the pandemic, leasing activity in the office sector is expected to be slow in the second quarter as tenants are adopting the "wait and see" approach in order to gauge the market. Initial surveys indicate that the majority of office tenants paid rent for the month of April. Swift measures from the government including wage subsidies and forgivable loans have helped businesses stay afloat. Office occupiers in the technology, healthcare and creative services sector are expected to fare well, although tenants on a whole are avoiding expansions and are making more conservative leasing decisions. As thousands telecommute, office development is facing delays as only essential construction is allowed to continue.

Tenants are carefully looking ahead to reopening offices. The shift will no doubt be gradual as factors such as social distancing, symptom monitoring, availability of hygienic supplies, and adherence to regulatory requirements must be considered. Thus far, Downtown Toronto has displayed strong fundamentals in a peaking market. Although the future remains uncertain, the resilience with which the office market has weathered previous downturns provides a dose of cautious optimism.

Figure 2: Downtown Toronto Net Rent and Vacancy (Q1 2015 – Q1 2020)



Source: CBRE Research, Q1 2020.

TORONTO SUBURBAN MARKET

TORONTO NORTH

The Toronto North market experienced four consecutive quarters of increasing net rental rates, which currently sit at \$19.69 per sq. ft. This is the highest net rental rate figure seen in this market since Q4 2016. Over the last three years new supply has increased approximately 500,000 sq. ft. and with no buildings over 100,000 sq. ft. currently under construction, the North market will have moderate increase to supply over the next 24 months. The North market has seen a 43.6% decrease in sublet space year-over-year. Sublease space is currently 36,351 sq. ft. or about 4.0% of total vacant space currently available. We expect a trend of increasing sublet vacancy to continue throughout 2020. The North Yonge Corridor submarket saw Celestica sign a 74,000 sq. ft. extension at 5140 Yonge Street driving demand in the Toronto North market.

TORONTO EAST

The East market saw a year-over-year decrease in vacancy rates by 1.0%, currently at 10.2%, as a result of approximately 268,000 sq. ft. of positive net absorption. The momentum continues as Toronto East has consecutively experienced positive net absorption since Q3 2019. Class A space saw vacancy rates decrease 1.3% quarter-over-quarter from 13.0% to 11.7%. This can be attributed to the nearly 150,000 sq. ft. of positive net absorption, which produced the lowest Class A vacancy rate since Q3 2011 in this market.

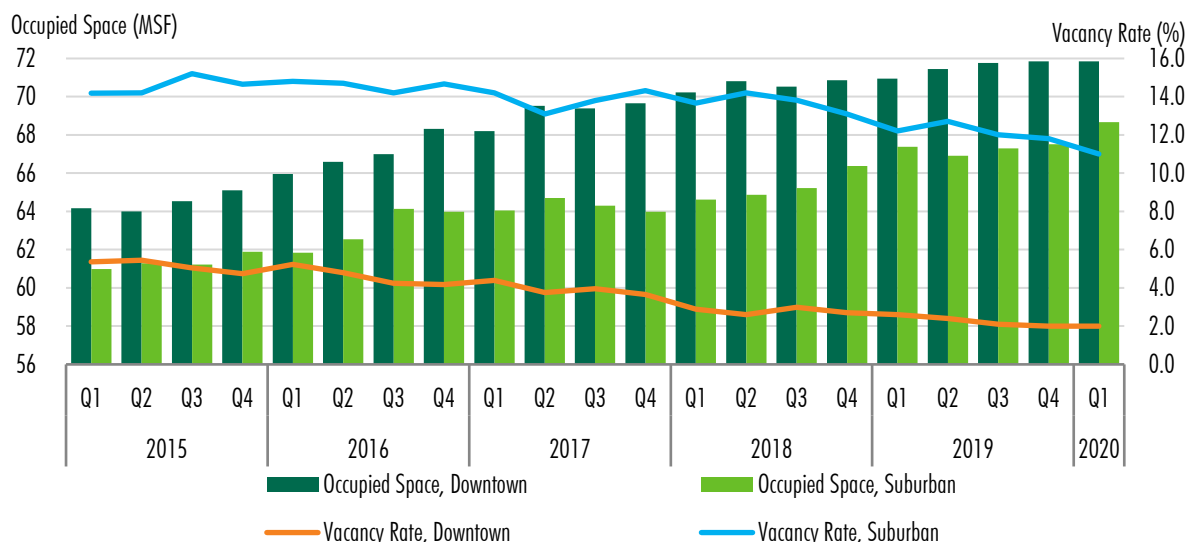
TORONTO WEST

The overall vacancy rate in Toronto West decreased quarter-over-quarter by 80 bps to its current rate of 12.9%. This is the lowest recorded vacancy rate in the last decade within the GTA West. Despite the decrease in overall vacancy, the average net rental rate for all classes decreased nominally by \$0.16 per sq. ft. quarter-over-quarter. Overall, the net rental rate has been relatively stable for the last two years without any significant deviation.

Surprisingly, Brampton has overtaken Oakville as the most expensive submarket within the Toronto West after a \$0.43 per sq. ft. quarter-over-quarter increase to its current rate of \$19.63 per sq. ft. Attributing to Brampton's surge in net rental rate is a small sample size of buildings available. With a vacancy rate of only 2.2%, Brampton by far has the lowest vacancy rate of all Toronto West submarkets.

There was 130,880 sq. ft added to the Toronto West inventory this quarter with the completion of 5050 Satellite Drive. Other additional office buildings expected to be completed by year-end include: 3455 North Service Road Building B (46,314 sq. ft), 360 Oakville Place Drive (139,132 sq. ft), 2095 Matheson Boulevard East (60,580 sq. ft), 1908 Ironoak Way (47,000 sq. ft) and 1900 Ironoak Way (55,000 sq. ft).

Figure 3: Downtown & Suburban, Occupied Space and Vacancy Rate



Source: CBRE Research, Q1 2020.

Figure 4: Market Statistics Summary

Submarket	Inventory (SF)	Vacancy Rate (%)	Sublet Space (% of Vacant Space)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Asking Net Rent (\$/SF)
CENTRAL	87,701,047	2.0	19.7	139,957	139,957	0	8,807,072	33.85
Downtown	73,323,320	2.0	21.4	19,065	19,065	0	8,807,072	35.61
Financial Core	26,652,388	2.6	15.0	55,392	55,392	0	820,000	40.88
Greater Core	19,424,114	1.9	32.3	-91,993	-91,993	0	2,091,149	30.26
Downtown South	6,611,748	0.9	35.5	52,178	52,178	0	3,415,000	32.18
Downtown North	7,592,893	0.5	25.9	31,401	31,401	0	120,000	27.90
Downtown East	3,137,032	1.6	18.3	19,315	19,315	0	460,000	29.47
Downtown West	7,663,755	3.4	19.1	-54,822	-54,822	0	1,467,923	27.81
Liberty Village	2,241,390	0.3	27.3	7,594	7,594	0	433,000	27.14
Midtown	14,377,727	2.0	11.3	120,892	120,892	0	0	22.54
Bloor / Yonge	7,382,226	1.1	7.2	79,075	79,075	0	0	30.01
St. Clair / Yonge	2,194,054	1.5	0.0	-5,183	-5,183	0	0	24.20
Eglinton / Yonge	4,801,447	3.8	15.1	47,000	47,000	0	0	18.85
SUBURBAN	77,139,356	11.0	11.8	981,517	981,517	350,880	514,526	16.07
East	26,899,966	10.2	15.9	268,757	268,757	0	0	14.56
Scarborough	3,704,513	16.3	31.8	2,988	2,988	0	0	12.20
Markham N. / R. Hill	7,975,084	5.8	13.6	210,612	210,612	0	0	16.65
Markham South	4,017,526	11.5	3.9	-52,649	-52,649	0	0	15.05
E. York / D. Mills S.	2,663,480	10.9	14.8	-487	-487	0	0	12.52
Don Mills North	2,998,544	13.9	21.0	-26,422	-26,422	0	0	16.10
Consumers Road	3,876,535	10.0	5.2	137,644	137,644	0	0	14.97
G. Baker / Vic. Park	1,664,284	6.7	10.4	-2,929	-2,929	0	0	16.06
North	12,786,821	7.1	4.0	292,937	292,937	220,000	166,500	19.69
North Yonge	7,641,580	7.4	4.9	49,049	49,049	0	70,000	21.56
North York West	2,191,279	9.3	0.0	7,837	7,837	0	0	13.72
Vaughan	2,953,962	4.7	6.1	236,051	236,051	220,000	96,500	20.15
West	37,452,569	12.9	10.9	419,823	419,823	130,880	348,026	16.23
Bloor / Islington	1,741,872	13.3	0.0	31,808	31,808	0	0	13.56
427 Corridor	2,279,911	15.9	24.6	17,210	17,210	0	0	13.71
Airport Strip	3,412,020	20.9	4.0	4,806	4,806	0	0	13.56
Airport Corp. Centre	6,244,282	11.1	4.8	123,053	123,053	130,880	60,580	17.41
Mississauga South	1,866,212	12.6	0.9	-14,881	-14,881	0	0	16.35
City Centre	3,808,582	11.0	23.0	-7,894	-7,894	0	0	16.67
Hwy 10 / Hwy 401	4,641,076	9.5	29.2	37,257	37,257	0	0	14.29
Meadowdale	4,630,637	10.9	9.3	283,346	283,346	0	0	17.89
Brampton	1,094,158	2.2	0.0	2,160	2,160	0	0	19.63
Oakville	4,150,026	16.7	10.3	-7,042	-7,042	0	241,132	18.88
Burlington	3,583,793	14.3	5.8	-50,000	-50,000	0	46,314	15.85
GTA	164,840,403	6.2	13.1	1,121,474	1,121,474	350,880	9,321,598	18.87

Source: CBRE Research, Q1 2020.

Figure 5: Notable Lease Transactions

Tenant	Address	Submarket	Size (SF)	Type
Google	65 King Street East	Greater Core	400,000	Direct
McKesson Canada	2300 Meadowvale Boulevard	Meadowvale	237,546	Direct
Equitable Bank	25 Ontario Street	Downtown East	180,000	Direct
Celestica	5140 Yonge Street	North Yonge Corridor	73,823	Extension
Baxter Healthcare	7125 Mississauga Road	Meadowvale	64,200	Renewal
Paymentus Corporation	1595 16 th Avenue	Markham North & Richmond Hill	55,839	Direct
BMO	6605 Hurontario Street	Highway 10 & 401	54,200	Renewal
Crawford Insurance	100 Milverton Drive	Highway 10 & 401	50,000	Direct
Public Works Canada	2599 Speakman Drive	Mississauga South	40,146	Direct
Blue Ant Media	99 Atlantic Avenue	Liberty Village	36,000	Direct

Source: CBRE Research, Q1 2020.


GLOSSARY

Net Absorption: A measure of the net change in occupied space over a given period of time.

Net Rental Rate: The asking rental rate not including taxes and operating costs.

Class RC Space: Renovated and retrofitted, brick-and-beam, industrial/warehouse-style space converted to office use.

Vacancy Rate: The percentage of total office space in a given area that is currently vacant and available for occupancy.

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