BEHIND THE VACANCY

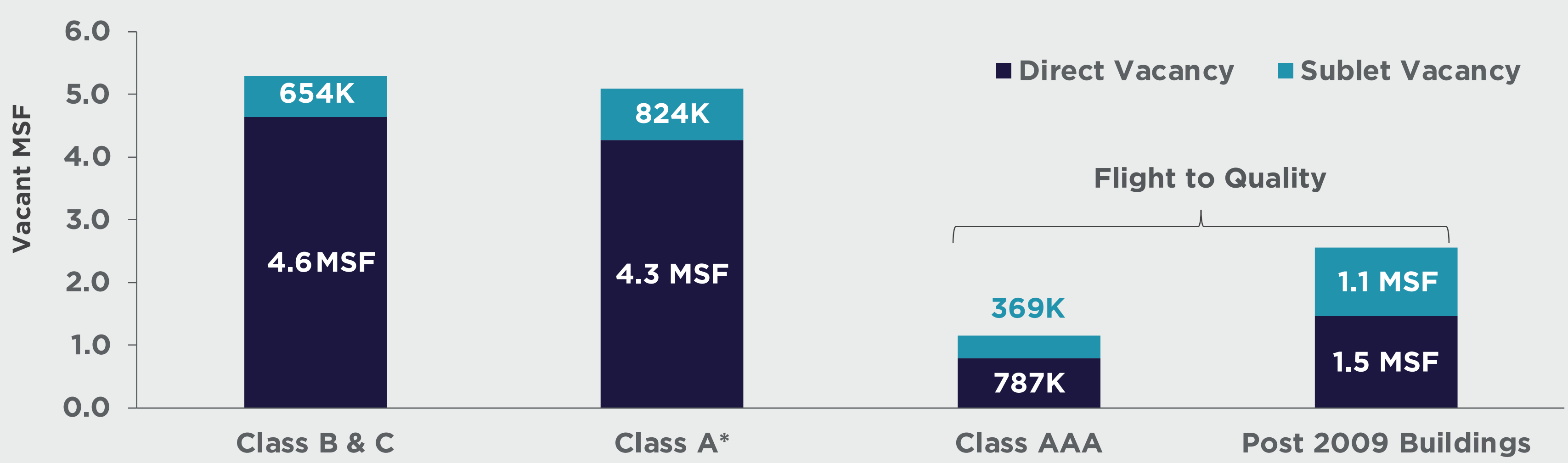
Decoding the Downtown Toronto Office Market

CUSHMAN & WAKEFIELD

Over the past four years, Toronto's Downtown office market has been characterized by soaring vacancy rates, climbing from record lows to near-record highs. In 2024, however, the tide has begun to turn. Vacancy rates have remained around the 17%-range for three consecutive quarters, reaching 17.2% in the third quarter—one of the highest levels in three decades. On the positive side, the rapid increase in vacancy began to stabilize, with quarterly gains averaging only 40 basis points (bps)—compared to the steep 70 to 100-bp increases recorded in 2023 and 2022.

While the current state of the market suggests a highly competitive landscape favoring occupiers, a surface-level view does not tell the full story. The office market is far from uniform. A deeper dive reveals a complex and varied landscape, offering a more accurate picture of its true dynamics.

HIGHER QUALITY TAKES CENTRE STAGE



	Class B & C	Class A*	Class AAA	Post 2009 Buildings
Inventory (MSF)	18.6	28.4	10.9	19.2
Direct Vacancy Rate	18.8%	15.0%	7.2%	7.6%
Sublet Vacancy Rate	2.8%	2.9%	3.4%	5.6%

* Class A results exclude AAA and Post 2009 Buildings

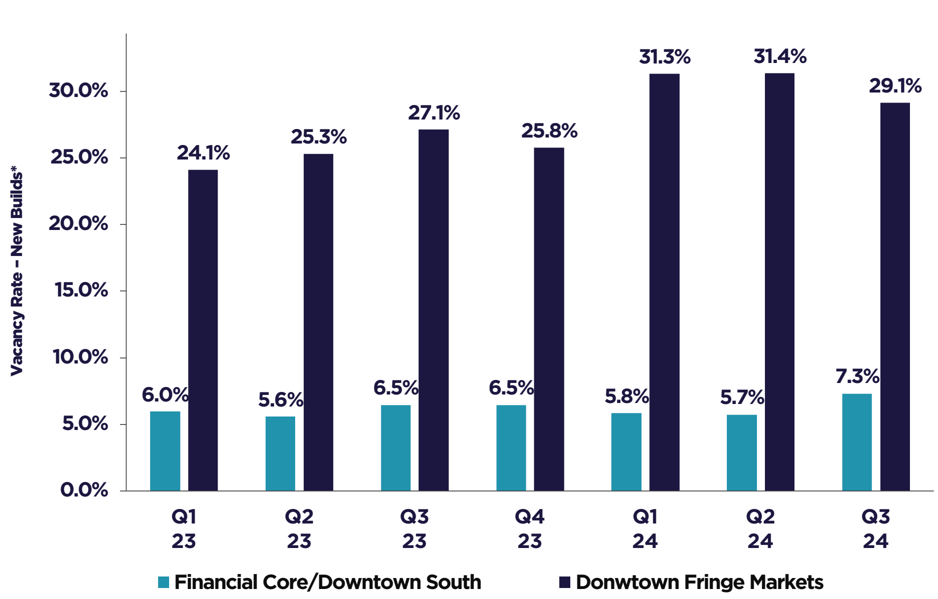
The flight-to-quality trend has been a consistent feature of Toronto's Downtown office market across multiple cycles, with the strength of higher-quality assets coming into sharper focus during this downturn.

Although Class A holds the largest share of vacancy, a review of the performance puts a spotlight on three distinct subcategories: commodity Class A buildings, with a vacancy rate of 18.0%; new builds (delivered since 2009), at 13.2%; and Class AAA, which have the lowest rate at 10.6%. Over the past five years, Class AAA assets have consistently performed well with a quarterly average vacancy rate of just 6.7%.

New build vacancy, however, has surged to its highest point in nearly five years, fueled primarily by the delivery of two vacant buildings, 530 Front Street West and 251 Queens Quay East, in non-core submarkets.

CLASS A BUILDINGS DOMINATE DOWNTOWN'S INVENTORY AT 71.4%, YET THE MOST SUCCESSFUL ASSETS—CLASS AAA & NEW BUILDS—MAKE UP JUST OVER ONE-THIRD OF THE STOCK

LOCATION RULES!



* Buildings delivered since 2009

The flight-to-quality trend has shifted from focusing solely on building quality to also prioritizing location. A focus on new buildings—those completed since 2009—shows a distinct preference for prime locations among occupiers.

New buildings in core areas, such as the Financial Core and Downtown South, have consistently outperformed those in Downtown fringe markets, including Downtown East, West, North, and King West. Despite a modest increase to 7.3% in Q3 2024, vacancy in core submarkets averaged 6.0% over the past seven quarters. In contrast, new buildings in fringe locations have registered significantly higher vacancy rates, ranging from 24.1% to 31.4%, with the current vacancy standing at 29.1%.

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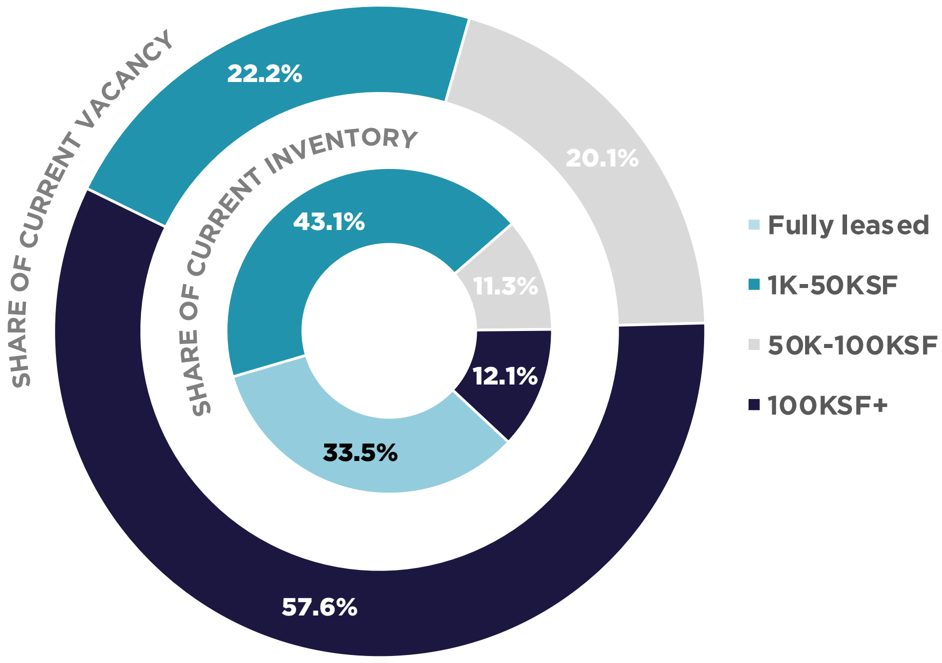
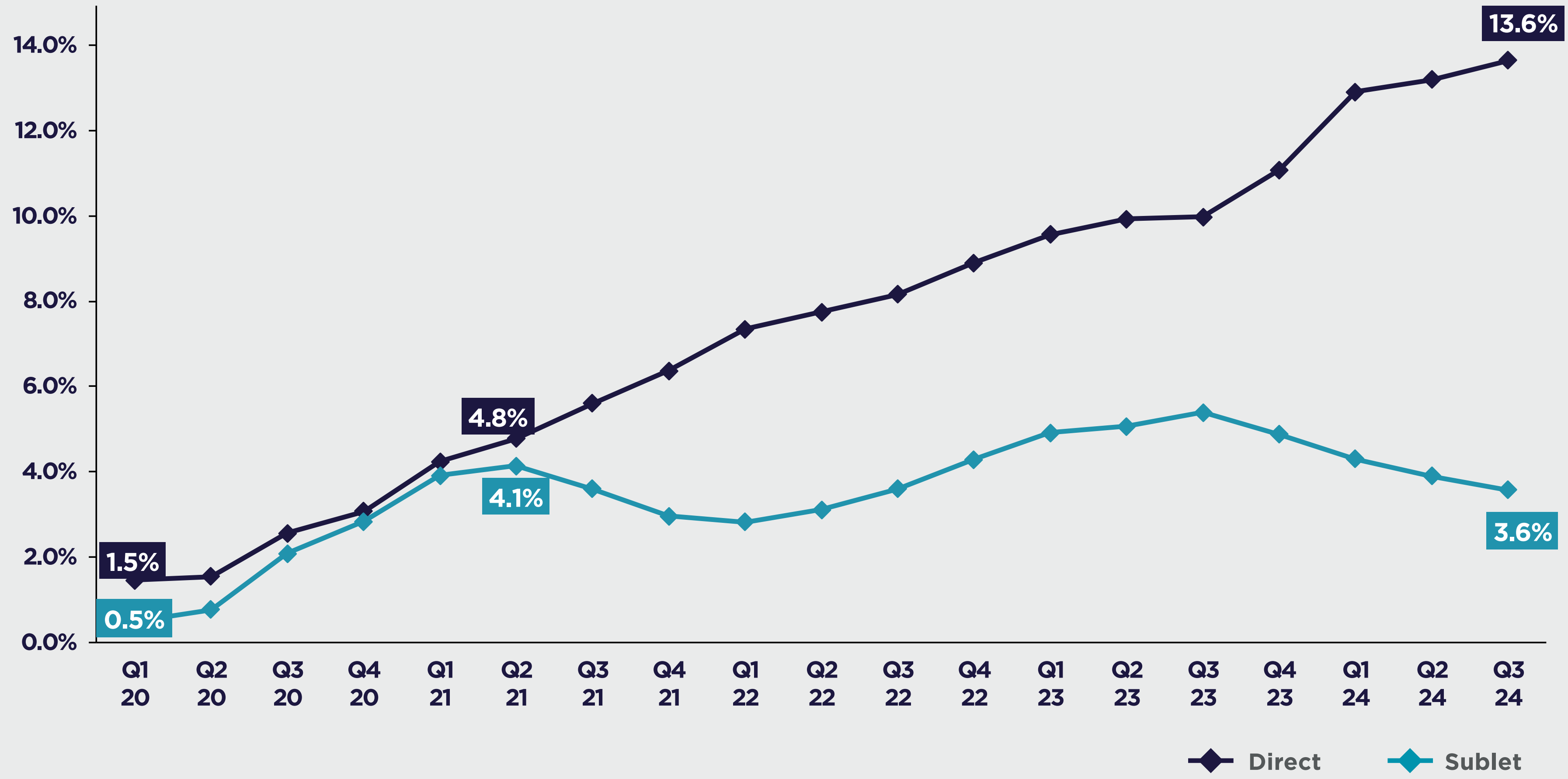
THE ROOT OF THE ISSUE

More than half of Downtown's vacancy is within a mere 12.1% of the inventory

Downtown's vacancy is predominantly concentrated in buildings offering 100,000-plus square feet (sf), which accounts for 57.6% or 8.4 million square feet (msf) of the total vacancy. This substantial share of vacant space is limited to just 12.1% of the total inventory, Buildings with options in the 50,000–100,000-sf range represent 20.1% (2.9 msf) of market vacancy, spread across only 41 buildings. Combined, available blocks of space 50,000 sf and greater make up 77.7% of the overall vacant space, concentrated within just 23.4% of the total inventory. Meanwhile, one-third of Downtown's buildings remain fully occupied.



THE IMPACT OF SUBLETS EASING ON DOWNTOWN



SUBLET VACANCY HAS BEEN IN RETREAT SINCE THE END OF 2023, DROPPING BY 30.5% OVER THE PAST YEAR

Like many other office markets, the sublet story across the GTA was a defining trend at the onset of this cycle. Many businesses turned to subletting as a strategy to manage their space needs ahead of lease expirations, driving a significant rise in vacancy rates, with the sublet inventory peaking at 4.3 msf in Q3 2023.

As the uncertainty of 2020-2023 gradually subsided, the influence of sublets began to wane, particularly in the Downtown market. Year-over-year, Downtown sublet vacancy plunged by 1.3 msf, reaching a two-year low of 2.9 msf as of Q3 2024. In the quarter, sublets accounted for approximately 20.8% of total Downtown vacancy, a significant drop from 48.1% in Q1 2021.

This shift can be attributed to several factors: businesses reoccupying sublet spaces, improving leasing fundamentals, a marked slowdown in the introduction of new sublet inventory and expired sublets transitioning into direct opportunities.

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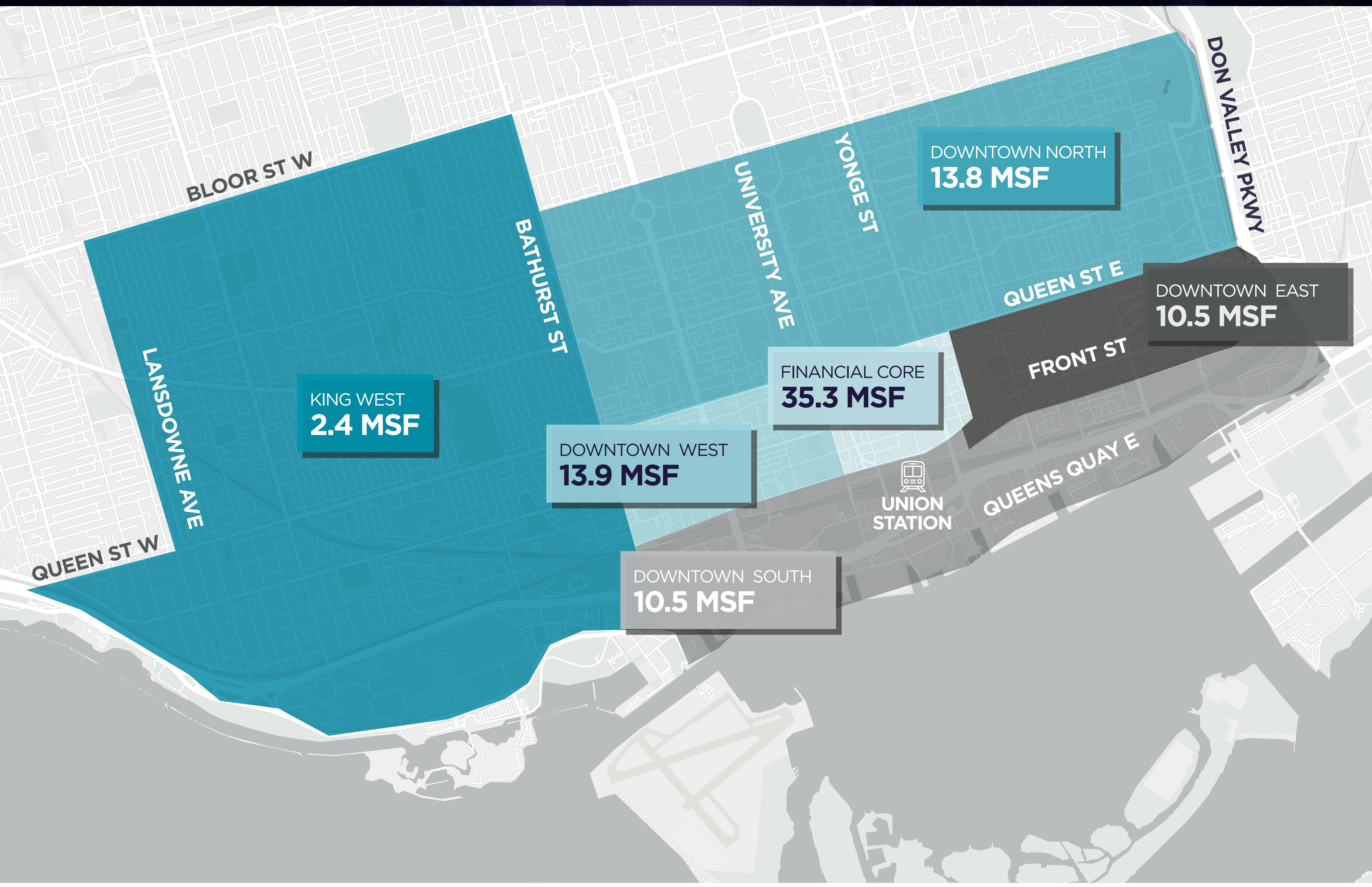

	Pre-pandemic	One Year Ago	Current
FINANCIAL CORE	**Q4 2019**	**Q3 2023**	**Q3 2024**
Overall Vacancy	2.4%	15.6%	17.2%
Direct Vacancy	2.0%	11.6%	14.0%
Sublet Vacancy	0.4%	5.0%	3.2%

	Pre-pandemic	One Year Ago	Current
KING WEST	**Q4 2019**	**Q3 2023**	**Q3 2024**
Overall Vacancy	3.4%	28.9%	28.8%
Direct Vacancy	3.4%	19.7%	24.6%
Sublet Vacancy	0.0%	9.2%	4.3%

DOWNTOWN EAST	Q4 2019	Q3 2023	Q3 2024
Overall Vacancy	1.8%	15.7%	17.1%
Direct Vacancy	1.2%	6.0%	10.2%
Sublet Vacancy	0.6%	9.7%	6.9%

DOWNTOWN NORTH	Q4 2019	Q3 2023	Q3 2024
Overall Vacancy	1.2%	14.6%	18.5%
Direct Vacancy	0.9%	10.6%	16.2%
Sublet Vacancy	0.2%	4.0%	2.2%

DOWNTOWN SOUTH	Q4 2019	Q3 2023	Q3 2024
Overall Vacancy	1.4%	9.3%	9.2%
Direct Vacancy	0.8%	5.1%	6.6%
Sublet Vacancy	0.6%	4.2%	2.7%

DOWNTOWN WEST	Q4 2019	Q3 2023	Q3 2024
Overall Vacancy	1.2%	17.3%	20.1%
Direct Vacancy	0.5%	10.5%	14.6%
Sublet Vacancy	0.7%	6.8%	5.5%

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