MARKETBEAT

CANADA NATIONAL

Office Q4 2022

	YoY Chg	12-Mo. Forecast
15.9% Overall Vacancy Rate	▲	▲
-3.1M EOY Overall Net Absorption, SF	▲	▲
$40.51 Gross Asking Rent, PSF	▲	—
1.8% Rent Growth YoY	▲	—
16.1M Under Construction, SF	▼	▼

(All Property Classes)

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
19.5M Total Nonfarm Employment	▲	—
5.1M Office-using Employment	▲	—
5.0% Canada Unemployment Rate	▼	▲

Source: Statistics Canada

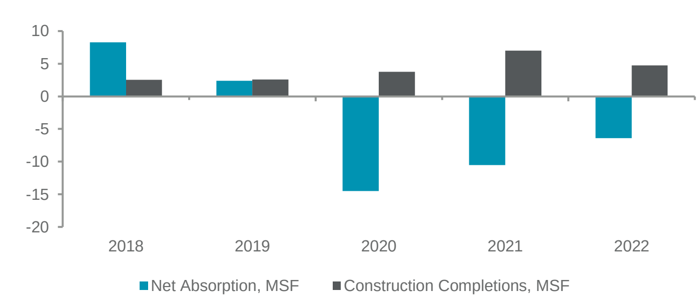
A Bumpy Landing for the Office Market to End 2022

The Canadian labour market ended 2022 on a positive note. In the latest labour force survey released by Statistics Canada, employment rose by 104,000 in December compared to last month, and the unemployment rate now sits at 5.0%. Canada's labour market has been affected by a variety of factors throughout 2022, at the forefront of course being the pandemic and its far-reaching impacts. Through the first quarter of the year there were lockdown measures and capacity limits in provinces such as Ontario, and just when companies were working to recover when these measures ended, the country is facing widespread labour shortages, rising interest rates and inflation. The work-from-home, return-to-office, or hybrid work model continued to be a focus for many companies, particularly office-occupiers. Over the course of the year the proportion of workers who work exclusively from home has declined from 24.3% in January 2022 to 15.8% in December 2022, while those working in a hybrid work model has climbed from 3.6% to 9.4% during the same time period. Work arrangements for the employees of office-occupiers will certainly continue to be a story in 2023.

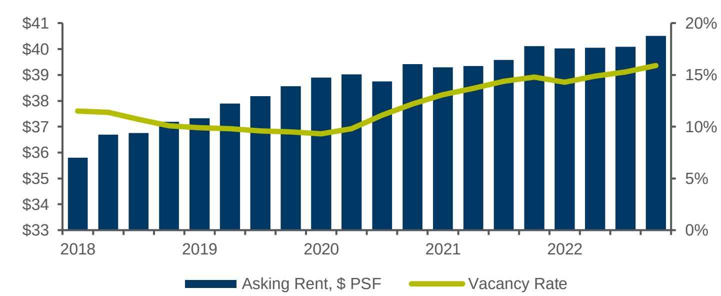
This will be a year that the majority of the office markets in Canada will be happy to put in the rear-view mirror; particularly disappointing as there were signs in early 2022 of improvement. After two years of relentless increases, overall Canadian office vacancy declined in the first quarter of 2022 compared to the prior quarter, and while absorption remained negative the amount of sublet and in particular direct space on the market was declining. Unfortunately, on almost all fronts, this improvement was short-lived. In the second quarter of 2022 vacancy resumed its upward march, and while there were indications that the sublet space tap was slowly closing in the latter part of 2021 and into early 2022, it began flowing once again as sublet space arriving to the market has steadily climbed through the remainder of the year.

Looking at fourth quarter results, the Canadian office market did not end 2022 on a particularly high note. Overall vacancy rose to 15.9% as vacancy in both the Central and Suburban markets climbed to 16.5% and 15.0% respectively. Overall vacant space climbed by over four million square feet (msf) from last quarter, and with a slowdown in overall leasing activity, this resulted in negative absorption of 3.1 msf, the highest quarterly total of negative absorption posted this year. If there was a positive takeaway as it relates to absorption, the overall 2022 total was negative 6.4 msf, a notable improvement from the annual 2021 total of negative 10.5 msf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & GROSS ASKING RENT



Leasing activity has continued to slow over the last half of 2022 – reaching 4.9 msf in the fourth quarter. This brought the year-end 2022 total to 25.2 msf, an improvement of close to 24% over the 2021 total. In what has been a common theme in each quarter of the year, approximately 60% of overall leasing activity has been focused in the Central markets, and to drill it down a bit further Central Class A space accounted for on average 38% of all leasing activity each quarter. Despite levels of demand being somewhat sporadic though the year, it does help illustrate that tenants have continued to gravitate towards quality space in Central locations.

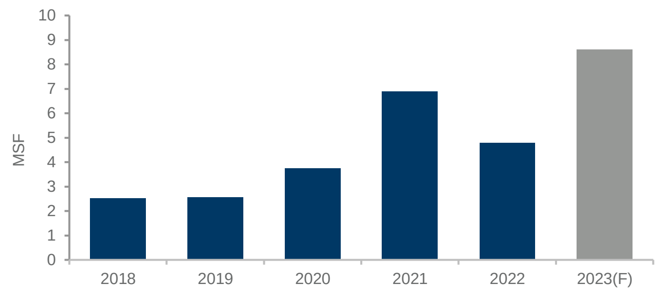
New supply arrivals reached close to 1.25 msf in the fourth quarter of 2022 and brought the annual total to just under 4.8 msf. This is lower than 2021 but still higher than the five-year average of 4.1 msf. New supply primarily arrived in the Central markets throughout the year and remained concentrated in Vancouver, Toronto and Montreal. The arrival of the new supply itself did not have a significant impact on vacancy, and as of mid-December 2022 approximately 72% of the total square footage that arrived in new developments has been leased. What the market is seeing however is vacant pockets of space, some quite notable in size, coming to the market as a result of tenants vacating to move into these new builds. Looking to 2023 the market is expecting a notable uptick in new supply arrivals, totaling approximately 8.6 msf. While other markets will see new construction, it will continue to be focused within Vancouver, Toronto and Montreal. As it stands currently, the preleasing rate for under construction buildings in these three markets sits at 68%. However, if this space will indeed be occupied or put on the sublet market remains to be seen, and what the impact of tenants leaving space behind to move into this new supply will be on both vacancy and absorption levels.

Asking net rental rates have held remarkably steady through 2022, and really since the beginning of the pandemic. Landlords and/or developers seem content with offering inducements/free rents to entice tenants to their buildings rather than make adjustments to posted face rates. In the fourth quarter rents sat at $22.31 per square foot. This is an increase from last quarter but that was primarily a result of more expensive space coming on the market rather than rents seeing an overall increase.

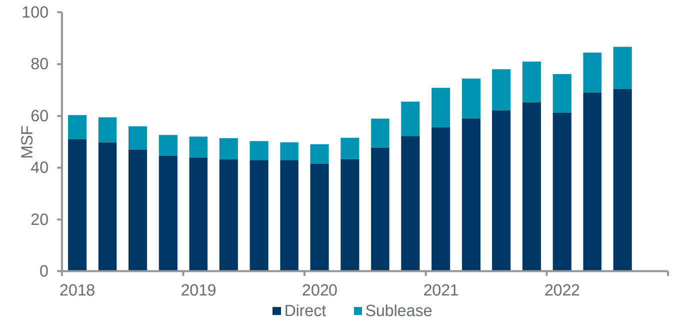
OUTLOOK

- There continues to be some uncertainty for the office market moving into 2023, with numerous storylines that will be closely watched. This will include the ever-evolving conversation surrounding work-from-home, return to office, and hybrid work models. The impact of the new supply arriving to the market may have a notable influence on both absorption levels and vacancy, both of which will be highly dependent on the occupancy of these buildings and the tenants that will be moving into them. Lastly of course is the state of the economy, and how inflation, anticipated rising unemployment, and a possible recession will impact the Canadian office market.

NEW SUPPLY



DIRECT VS. SUBLEASE SPACE VACANCY COMPARISON



CLASS A VS. OVERALL VACANCY COMPARISON

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Office Q4 2022

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	EOY OVERALL ABSORPTION (SF)	EOY CONSTRUCTION COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Vancouver	66,135,022	1,447,503	4,695,368	9.3%	-177,259	481,628	1,455,449	8,433,119	$52.46	$57.63
Edmonton	29,279,115	455,722	5,276,067	19.6%	-169,667	54,039	0	0	$33.33	$38.08
Calgary	70,154,025	3,307,338	15,841,794	27.3%	164,157	-256,923	63,195	0	$31.35	$35.79
Winnipeg	21,746,919	88,324	2,800,662	13.3%	-596,250	-597,242	14,234	311,868	$27.76	$35.37
Toronto	185,772,057	6,990,590	20,510,417	14.8%	-1,430,277	-3,293,578	1,513,786	5,486,854	$49.21	$53.53
London	8,224,398	141,029	1,479,622	19.7%	-115,347	-291,756	0	29,000	$25.43	$29.60
Kitchener	5,277,167	60,375	1,300,174	25.8%	113,813	-38,514	120,000	292,000	$29.30	$32.10
Waterloo	7,335,861	328,838	562,967	12.2%	82,085	-3,420	0	0	$26.68	$27.80
Ottawa	43,075,781	600,095	4,123,501	11.0%	-187,000	-912,044	353,540	61,888	$35.04	$40.15
Montreal	103,339,353	2,680,926	13,042,528	15.2%	-871,633	-1,813,325	1,083,868	1,371,062	$35.92	$44.99
Fredericton	2,210,424	0	376,540	17.0%	12,875	-14,886	0	0	$26.70	$30.49
Saint John	2,385,051	32,081	632,793	27.9%	3,985	-4,344	0	0	$22.46	$29.10
Moncton	2,997,048	16,252	384,575	13.4%	-32,803	-52,461	0	38,764	$25.75	$30.55
Halifax	12,805,869	21,662	816,581	13.3%	33,796	273,265	100,000	100,000	$29.56	$31.87
St. John's	3,992,395	15,000	748,785	19.1%	21,091	77,593	45,000	0	$34.56	$40.05
NATIONAL TOTALS	**564,730,485**	**16,210,162**	**73,435,793**	**15.9%**	**-3,148,434**	**-6,391,968**	**4,749,072**	**16,124,555**	**$40.51**	**$46.38**

*Rental rates reflect full service asking

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