

MarketWatch Report

GTA Research

CLIMBING THE OFFICE REAL ESTATE LADDER

When you can work anywhere, why work here? Across sectors, companies are looking through the lens of their employees to rethink their office space and what it offers to attract, motivate - and delight - their people. With newly constructed towers in downtown Toronto reaching full occupancy and achieving record lease rates, it's clear that the message has been heard.

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As the high end of the market tightens, occupiers are starting to feel pressured to make decisions.

coincided with growing shortages of skilled workers. Such factors are giving new meaning to the purpose of real estate - and its key role in attracting and retaining talent.

The flight to quality is one of the most significant trends taking place in office markets in Canada and around the world. This trend is playing out in Toronto, where a transformative shift is taking place as occupiers move from older buildings into newer towers that offer the features needed to create hybrid, "experiential" workplaces that attract talent and sharpen their competitive edge.

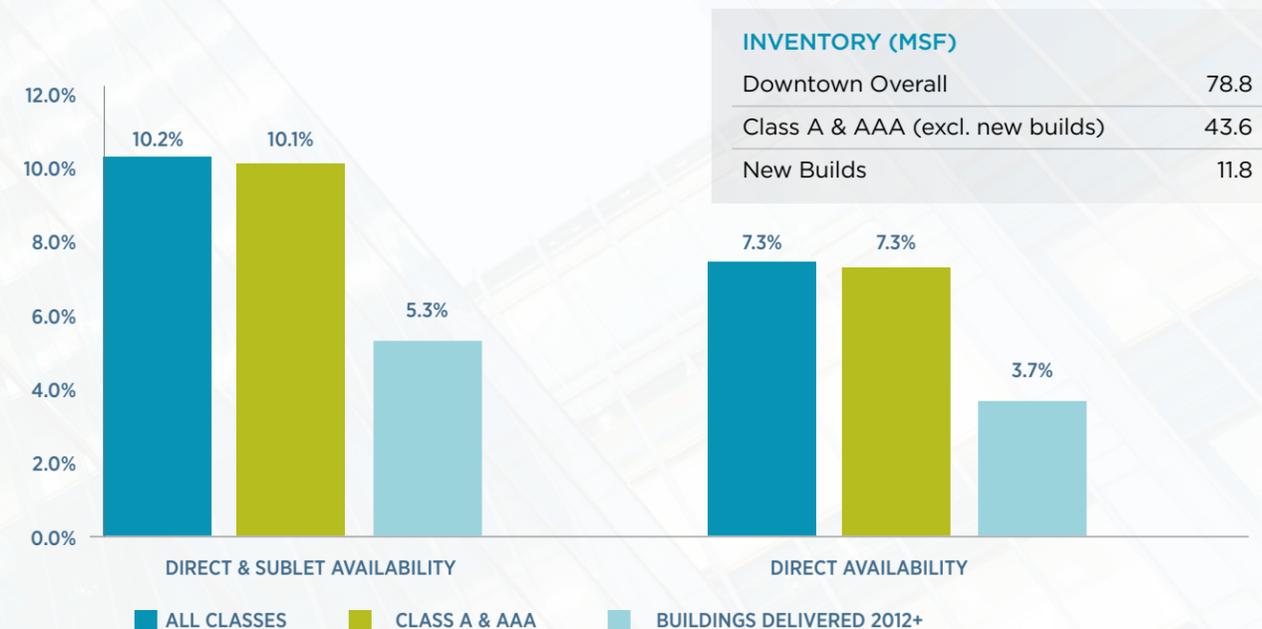
A company's real estate is now seen as a unifying space that brings people together in cool and unique ways. It's about brand and culture, and health and well-being. To gain a differentiating edge, occupiers in Toronto are prepared to pay a premium for high-quality space in the best location for their employees. Not surprisingly, this is coming at the expense of older buildings (built pre-2012), which are sitting on the market longer than historical norms.

Every cycle brings transformation - what makes the pandemic cycle unique is that it's not only accelerated flexible work trends, but it's also

The charts below illustrate the strong attraction to higher quality towers in downtown Toronto.

DOWNTOWN TORONTO: HIGHER QUALITY ASSETS WIN THE DAY!

Office class availabilities reveal the growing attraction to higher quality buildings (Q1 2022)



TORONTO'S REMARKABLE RESILIENCE

Toronto's office boom, which began back in 2009, is far from over. In 13 years, this explosive development cycle has seen 16.4 million square feet (msf) of new office space rise downtown, and there's at least 5.4 msf space slated for completion in the next two years. Through this long-run cycle, Toronto became distinguished as the fastest growing city on the continent and saw many new office markets and communities rise and flourish around the core.

Still, a slowing trend in the development cycle is entering the picture, which will likely see "quality" availabilities tighten within the next two or three years. Given the current attraction to new properties, this could bring more change to downtown office dynamics. How hot is the demand for new space?

Consider these two facts:

- **Every new office tower delivered in the past five years is 96% leased**
- **Buildings scheduled for delivery in 2022 are 98% pre-leased**

DOWNTOWN TORONTO: THE POWERFUL ATTRACTION OF NEW OFFICE TOWERS

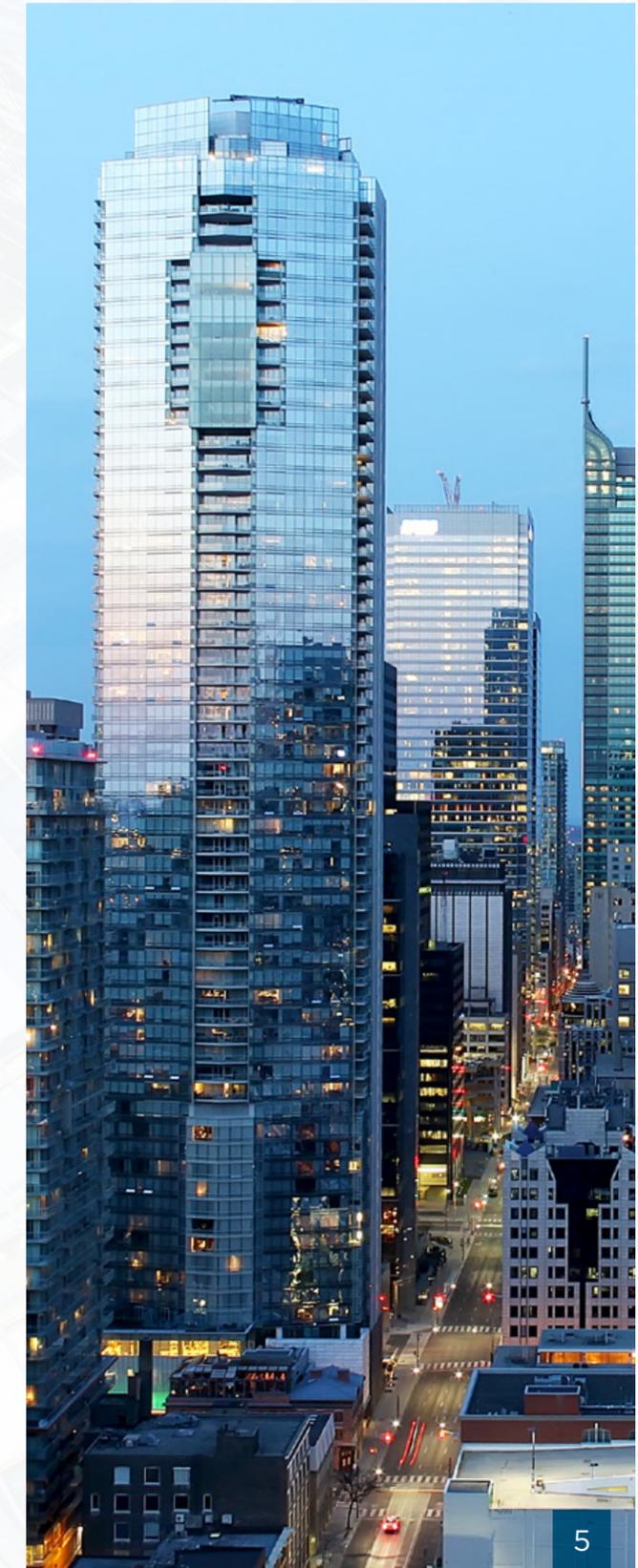
New buildings support worker preferences and energize 24-7 communities



BIG NAMES CLIMBING THE REAL ESTATE LADDER

Tech firms and traditional demand sectors are attracted to new downtown buildings and the access they offer to talent. Here's a look at major occupiers that have secured premium space in downtown Toronto.

CIBC	CIBC Square
Microsoft Canada	CIBC Square
Equitable Bank	EQ Bank Tower
Google	65 King St East
First National LP	16 York Street
Torstar Corporation	The Well
TD Bank	160 Front Street West
theScore	Waterfront Innovation Centre - The Exchange
Cassels Brock & Blackwell LLP	Bay Adelaide Centre - North
Blue Ant Media Solutions Inc.	99 Atlantic Avenue
LinkedIn	16 York Street
Amazon	18 York Street/ 120 Bremner Avenue



TECH BLAZING NEW TRAILS, BUT FOR HOW LONG?

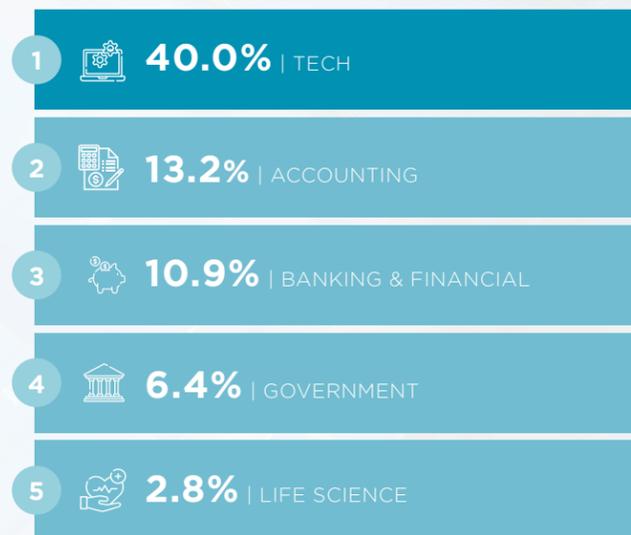
Tech replaced the bank and financial services sectors as the leading demand driver in Toronto prior to the pandemic and continues to blaze new trails in the office market, underscoring the city's significance on the world stage as a growing global tech hub. The question on the minds of industry professionals is whether the growth of tech and other sectors such as life sciences will be strong enough to offset footprint reductions that may occur once large users of space, such as banks, take advantage of lease expiries to implement hybrid workplace strategies that require less space.



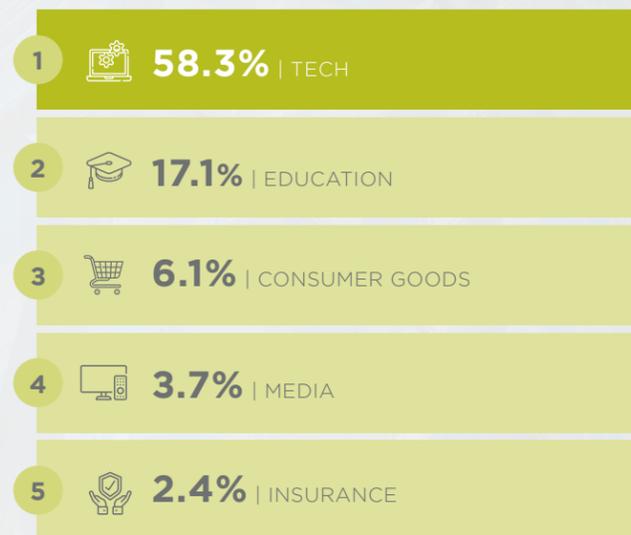
DOWNTOWN TORONTO: TECH RULES

Top five growth sectors base on footprint expansion:

SECTORS EXPANDING PRE-PANDEMIC (Q4-18 to Q1-20)



SECTORS EXPANDING PANDEMIC ERA (Q2-20 to Q4-21)

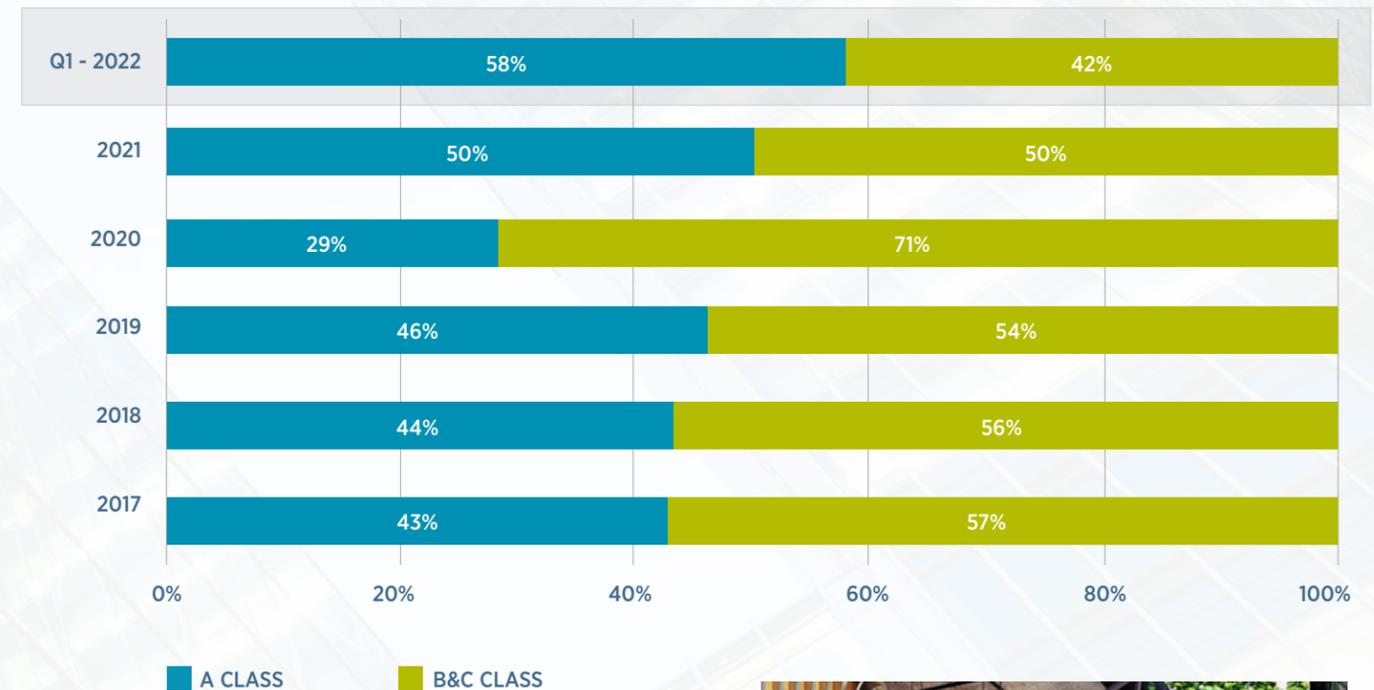


WHAT ABOUT SUBURBAN OFFICE MARKETS?

While the flight to quality is a defining trend in downtown Toronto, it is also taking place in suburban office markets. In the GTA East, for example, the shift to new builds emerged in 2021 and gained traction as occupiers solidified their occupancy strategies.

GTA EAST: DEMAND FOR HIGHER QUALITY ASSETS ON THE RISE

New leasing activity in class a properties accelerated during the pandemic



Meanwhile in GTA West, there was an increase in demand for flex buildings as occupiers sought physical space that was easily accessed and gives employees a greater sense of well-being. Flex buildings also give occupiers control over managing the quality of their own space and tailoring it to the needs of their target employees. In the last two years, developers have responded to this growing occupier preference. In 2021, 61% of all new buildings in the GTA West were flex.



QUALITY IS ABOUT THE BUILDING & LOCATION

Predictions of an exodus of Torontonians and companies relocating to the suburbs or communities outside of the city to escape the hustle, bustle and cost of downtown living have failed to materialize as the allure of the downtown remains the most powerful force.

In the second half of 2021 alone, downtown office leasing skyrocketed to a three-year high (smashing pre-pandemic averages) to 1.3 msf by Q1 2022. This was the third consecutive quarter that new leasing exceeded 1.0 msf. In contrast, suburban leasing broke the 1.0 msf watermark for the first time in the first quarter of 2022.



DOWNTOWN TORONTO: CENTRE ICE

Downtown sees three quarters of 1.0 msf+ new leasing, while suburbs slowly return to pre-pandemic norms (all classes)



THE UPSIDE OF CHANGE

Toronto's Potential, Changing Office Metrics and New Possibilities for B&C Class Properties

By **Samantha Sannella**
National Director, Total Workplace

Many questions are being raised as companies reconsider their strategies and how their physical space can best serve their brand, culture and, most importantly, their people. As we look to the future, what's needed are unique spaces that foster social interaction, collaboration and learning, with dedicated areas for people who prefer to do individual work throughout the day.

This transformational shift is impacting the sizes of workplaces, locations of buildings, investment in real estate and the economy overall. If workplaces become 'social club-like environments' they could be much smaller and contain some very different space types. They could also be far more suitable to current ways of working.

It was clear that change was in the air before the pandemic struck. Pre-COVID, the average amount of space per person across sectors in Canada was 150 RSF - and 40% to 50% of individual spaces were vacant at any given time. Space allocation was already ripe for a transformation.

As we consider workplaces where the RSF per person could be halved or more, then hot desking and mobility could become standard. But what would happen to all of the empty space left behind if companies jump on the bandwagon to reduce their footprints while embracing higher quality space in new properties?

Overall, the good news is that Toronto's downtown office outlook remains strong and positive. Why?

For the simple reason that mixed-use communities that offer a rich and diversified live-work-play experience are first-choice locations for millennials - the prime target labour market.

Toronto is an established and leading global city with an exploding tech sector, diversified economy, and a continually replenished labour pool. In fact, the city's star as a safe, stable place to live has never shone brighter on the world stage.

The challenge rests with B&C class properties that are unable to deliver the experience required to attract talent. Here, conversions to mixed-use assets, though costly, may rise as a trend in both downtown and suburban markets. If creativity is used in reimagining assets, these buildings could offer a lower cost option to incubating and emerging companies. There is historical precedent in this cycle, with the most notable being the warehouse conversions of the 1980s. With the types of technology and advances in construction we have now, there are more possibilities than ever to recycle assets into viable alternatives.

The bottom line is that if employers want their people back in the office for however many days per week, they must answer this basic question from their employees perspective: "When you can work anywhere, why work here?"

When assessed through this lens, companies can begin to curate an experience that truly makes a positive difference in the lives of each employee - and drives improved performance results. With newly constructed towers demanding record lease rates, clearly the message has been heard.

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For more information about
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Please contact:



Juana Ross
Director, Research, GTA
Toronto, Canada

416 359 2621
juana.ross@cushwake.com

Cushman & Wakefield ULC, Brokerage.
161 Bay Street, Suite 1500
P.O. Box 602
Toronto, ON M5J 2S1 | Canada

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