

Office Q3 2022

14.0%

Availability Rate

YoY Chg



12-Mo. Forecast



-534,748

Net Absorption, SF



\$49.06

Asking Gross Rent, PSF



ECONOMIC INDICATORS Q3 2022

3.5M

GTA Employment

YoY Chg



12-Mo. Forecast



6.0%

GTA Unemployment Rate



5.2%

Canada Unemployment Rate



ECONOMY: Clouds on Horizon

Ontario's job engine shifted into reverse in recent months, with the province losing about 70k jobs from June through August. From the February peak through August, average home prices tumbled 13% - more than any other province - with sales off by about 40%. This is especially problematic for Ontario given the heightened linkages between its real estate sector and the broader economy. Rising interest rates and inflation signaled continued downside risks for housing markets and economic growth over the coming quarters. (Source: TD Provincial Economic Forecast, Sept 21, 2022)

SUPPLY/DEMAND: Economic Headwinds Push Back Gains

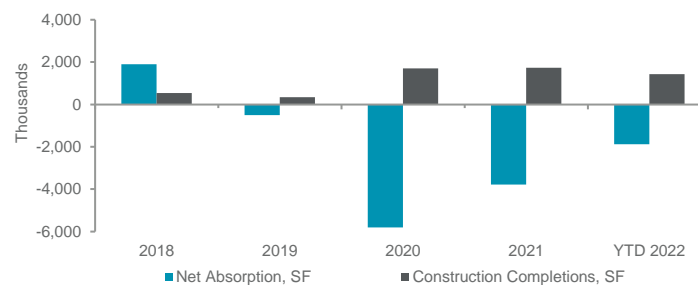
"Slow and choppy" described the GTA's office market performance in the third quarter of 2022 and will likely be the theme well into 2023. Gains recorded since the second half of 2021 were pushed back in the third quarter as strong economic headwinds added further insult to the pandemic injury, further delaying occupier decisions. New leasing activity told the tale. While overall activity last quarter reached almost 2.9 million square feet (msf), beating pre-pandemic levels by over 10%, the third quarter saw new leasing nosedive to 1.6 msf – a 44% decline quarter-over-quarter (Q-O-Q).

The greatest shock took place in the downtown market, with new leasing plunging to 651,000 square feet (sf) from 1.3 msf – a 50% contraction over the quarter, which followed on the heels of four successive quarters where leasing topped 1.0 msf. The average deal size also took a hit, falling back by 40% to about 5,400 sf. Meanwhile, all eyes were on the downtown office vacancy, which hit a 19-year high of 11.8%, and was especially acute in Class B&C office assets. This marked the tenth quarter in a row of rising vacancy, a trend that now trails the infamous dot.com downturn by one quarter for the longest stretch of consecutive increases. Sublets played a major role in driving up the vacancy, surging by a six-quarter high of 417,000 sf, and accounted for 51% of the vacancy hike. In contrast, the suburbs fared much better in the third quarter. Though vacancy still crept up to a 27-year high of 16.2%, the uptick of 20 basis points (bps) was the second lowest Q-O-Q increase posted since the first quarter of 2020. Also unlike the downtown, suburban sublets saw a modest decline this quarter, bringing the inventory to 2.9 msf - the lowest level since the first quarter of 2021. Still, new leasing activity reversed course for the first time in six quarters, contracting by over 40% Q-O-Q to reach a three-quarter low of 823,000 sf.

PRICING: Rent Trends Stay the Course

GTA's rent story has changed little in the past year – downward trends tend to be more asset dependent with asking rents remaining elevated in premium-class amenity-rich assets, while lease rates have begun to soften in buildings with higher vacancy. A further slowdown in demand is likely as economic headwinds create more uncertainty, which could lead to a more widespread softening of rent offerings.

SPACE DEMAND / DELIVERIES



OVERALL AVAILABILITY & NET ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL Availability RATE	CURRENT QTR OVERALL NET ABSORPTION(SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Financial Core	36,248,441	1,332,552	3,399,395	13.1%	389,693	- 40,766	1,986,480	1,243,000	\$69.75	\$72.02
Downtown Fringe	43,401,845	1,535,265	3,098,820	10.7%	- 499,151	- 628,633	1,349,153	3,222,312	\$57.80	\$62.04
DOWNTOWN TOTALS	79,650,286	2,867,817	6,498,215	11.8%	- 109,458	- 669,399	3,335,633	4,465,312	\$65.11	\$68.91
Midtown	16,934,773	445,629	1,761,911	13.0%	- 150,770	- 406,339	531,767	364,397	\$49.35	\$52.06
CBD TOTALS	96,585,059	3,313,446	8,260,126	12.0%	- 260,228	- 1,075,738	3,867,400	4,829,709	\$62.34	\$66.87
GTA East	31,297,532	1,068,377	3,845,921	15.7%	- 145,130	- 118,764	1,206,785	368,061	\$32.98	\$34.97
GTA North	15,051,329	426,391	1,757,313	14.5%	- 8,079	- 329,555	503,716	199,606	\$40.02	\$40.47
GTA West	42,753,888	1,473,544	5,903,687	17.3%	- 121,311	- 364,667	1,630,506	82,662	\$34.00	\$35.52
SUBURBAN AREA TOTALS	89,102,749	2,968,312	11,506,921	16.2%	- 274,520	- 812,986	3,341,007	650,329	\$34.66	\$36.42
GTA TOTALS	185,687,808	6,281,758	19,767,047	14.0%	- 534,748	- 1,888,724	7,208,407	5,480,038	\$49.06	\$53.41

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
333 Bay Street	Financial Core	KPMG	300,000	Renewal
2085 Hurontario Street	Cooksville	Trillium Health Partners	54,566	Renewal/Expansion
675 Cochrane Drive – West Tower	Hwy 404 / 407	Stantec	36,000	Renewal
25 York Street	Downtown South	Dye & Durham	27,470	Sublease
160 Bloor Street East	Bloor & Yonge	Sephora Canada	24,396	Headlease
495-517 Wellington Street West	Downtown West	Rocket Lab	17,500	Headlease
2 Sheppard Avenue East	North Yonge	Greenstone Financial	16,480	Headlease

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
100 Wynford Drive	Don Mills & Eglinton	H&R REIT / Oak Street Real Estate Capital	459,031	\$121 M / \$263
95 - 105 Moatfield Drive	Duncan Mill	Slate Office Management / Visionary Education Technology Holdings	405,407	\$97 M / \$239
2727 Meadowpine Boulevard	Meadowvale	Carttera / 2727 Meadowpine Ltd.	150,112	\$44 M / \$293
6345 - 6375 Dixie Road	Airport	Cristall Group Investments / 1000215208 Ontario Inc.	129,655	\$24 M / \$185
7240 & 7270 Woodbine Avenue	Hwy 404 / Steeles	Sandringham Holdings Ltd. / 7240 Woodbine Group Inc.	76,000	\$21.5 M / \$283
8333 Weston Road	Vaughan	Mohawk Medical Properties REIT / 230Centurion Apartment REIT & Appelt Properties	57,815	\$20.1 M / \$348

JUANA ROSS

Research Director

+1 416 359 2621 / juana.ross@cushwake.comcushmanwakefield.com

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