

Office Q4 2022

14.8%
Availability Rate



-1.4M
Net Absorption, SF



\$49.21
Asking Gross Rent, PSF



ECONOMIC INDICATORS Q4 2022

3.5M
GTA Employment



6.0%
GTA Unemployment Rate



5.0%
Canada Unemployment Rate



ECONOMY: Clouds on Horizon

Employment in Ontario rose by 42,000 in December bringing the total number of jobs gained in 2022 to 157,000, representing growth of 1.4% year-over-year. In the Greater Toronto Area (GTA), the unemployment rate fell to 6.0%. Growing headwinds are expected to push back on consumer and business spending in the coming months, resulting in a modest contraction in economic growth.

(Sources: RBC Economics & Statistics Canada)

SUPPLY/DEMAND: Shifting Fundamentals

GTA office markets struggled to find a “new normal” through 2022 as the pandemic fallout, workplace evolution, rising interest rates, and geopolitical events weighed heavily on occupier decisions. Market activity gained traction in the third quarter of 2021 but started to sputter through the last half of 2022. Following a downward spiral last quarter, overall new leasing activity crept up by a minuscule 108,000 square feet (sf), closing out the fourth quarter at 1.7 million square feet (msf). While this result brought the annual total to 8.8 msf – the highest since 2018 - demand continued to tank this quarter with overall absorption plunging to negative 1.4 msf. This dismal performance contributed to the GTA 2022 total of negative 3.3 msf – the second lowest annual result in over 30 years. Downtown absorption hit a near-record low of negative 1.1 msf this quarter to finish up the year.

New supply aftershocks continued to reverberate across the downtown office market. Five of the nine new vacancies in the quarter of over 50,000 sf were due to displaced space from tenants relocating to new developments. This, along with the impact of hybrid work on demand, propelled the overall downtown vacancy rate to a 27-year high of 13.2%. Sublease inventory soared by 1.2 msf in the past year to reach yet another record high of 3.4 msf. Though many of the larger sublets were expected, in this climate of slow demand high sublet levels will have a profound impact on market fundamentals.

In contrast to downtown, the slowing pace of new supply across suburban markets in the last three years has cushioned the blow on vacancy. While the downtown fourth quarter vacancy jumped by the highest level in almost two years (140 basis points (bps)), the overall suburban vacancy rose by a mere 30 bps to 16.5%. In fact, GTA West posted a modest 40 bps decline to 16.9% – the first decrease since the first quarter of 2020. A marked spike of 140 bps pushed GTA North’s vacancy to a 28-year high of 16.0%, while GTA East posted a marginal uptick of 40 bps quarter-over-quarter (QoQ) to end the year at 16.1%.

For Class A buildings downtown, there has been a slowdown in quoted net rent growth – a quarterly average of 0.6% since the second quarter of 2020 compared with a quarterly average of 3.1% in the three years prior to the onset of the pandemic. A similar trend has emerged in the suburban markets. In GTA West, for example, there has been an average quarterly increase of 0.5% since the second quarter of 2020 for Class A assets compared with 4.3% in the three years prior. With premium buildings attracting greater interest, it is no surprise that the quoted rates are for the most part holding firm. Still, in many assets, landlords are showing more flexibility in negotiating terms and offering enhanced incentive packages as they compete to secure tenancies.

SPACE DEMAND / DELIVERIES



OVERALL AVAILABILITY & NET ASKING RENT



Office Q4 2022

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	1,605,122	3,674,190	14.6%	- 558,540	- 597,940	1,986,480	1,243,000	\$69.87	\$72.14
Downtown Fringe	43,401,845	1,810,779	3,409,849	12.0%	- 586,543	- 1,215,176	1,621,587	3,222,312	\$57.40	\$61.63
DOWNTOWN TOTALS	79,650,286	3,415,901	7,084,039	13.2%	- 1,145,083	- 1,813,116	3,908,158	4,465,312	\$65.08	\$68.93
Midtown	16,934,773	398,151	1,914,274	13.7%	- 106,503	- 512,842	685,989	364,397	\$50.21	\$52.76
CBD TOTALS	96,585,059	3,814,052	8,998,313	13.3%	- 1,251,586	- 2,325,958	4,594,147	4,829,709	\$62.34	\$66.87
GTA East	31,297,532	1,122,590	3,931,774	16.1%	- 145,248	- 263,143	1,433,954	368,061	\$33.06	\$34.95
GTA North	15,135,578	485,888	1,928,635	16.0%	- 147,631	- 476,125	601,034	115,357	\$40.22	\$40.55
GTA West	42,753,888	1,568,060	5,651,695	16.9%	114,188	- 228,352	2,183,246	82,662	\$34.26	\$35.79
SUBURBAN AREA TOTALS	89,186,998	3,176,538	11,512,104	16.5%	- 178,691	- 967,620	4,218,234	566,080	\$34.85	\$36.59
GTA TOTALS	185,772,057	6,990,590	20,510,417	14.8%	- 1,430,277	- 3,293,578	8,812,381	5,395,789	\$49.22	\$53.53

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
5140 Yonge Street	North Yonge	Celestica International	49,000	Renewal
181 Bay Street	Financial Core	Capital International Asset Management	26,000	Renewal
6925 Century Avenue	Meadowvale	Gilead Sciences Canada	26,000	Headlease
1940 Eglinton Avenue East	Scarborough	Scarborough Health Network	25,000	Headlease
675W Cochrane Drive	Hwy 404 / 407	Quanta Technology Canada	24,000	Sublease
17 Bramalea Road	Brampton	Health Care Vocational Centres	22,000	Headlease
85 Richmond Street West	Financial Core	Toronto Film School	17,000	Headlease

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
25 Milverton Drive	Hurontario Corridor	Crown Realty Partners / Kaneff Group	252,000	\$50 M / \$199
10 King Street East	Financial Core	KingSett Capital / Ergo Properties	57,400	\$97 M / \$239
2085 Hurontario Street	Cooksville	Starlight Investments / Trillium Health Partners	105,000	\$44 M / \$293
649 North Service Road	Cooksville	H&R REIT / The Cultivated B. Real Estate Holdings	124,000	\$24 M / \$185
8001 Weston Road	Vaughan	Downing Street Property Management / Kierland Weston	76,700	\$21.5 M / \$283
7150 Derrycrest Drive	Hurontario Corridor	La Capitale Financial Security Insurance / La Capitale Assureur De L'administration Publique	60,000	\$20.1 M / \$348

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