

**16.9%**  
Availability Rate



**-3.6M**  
YTD Net Absorption, SF



**\$49.79**  
Asking Gross Rent, PSF



## ECONOMIC INDICATORS Q4 2023

**3.7M**  
GTA Employment



**6.7%**  
GTA Unemployment Rate



**5.8%**  
Canada Unemployment Rate



## ECONOMY: Labour Market Showing Signs of Softening

After experiencing minimal changes over five months, the employment rate in Ontario dropped from its recent peak of 62.3% in April to 60.8% by December. This contributed to the unemployment rate in Ontario reaching 6.3% in December, marking a 20 basis points (bps) uptick from November and a 140-bps increase from April. Despite expectations that Ontario's growth will align closely with the Canadian average this year, a substantial slowdown is anticipated, due in part to the impact of high interest rates on consumer spending. As a result, GDP growth is projected to dip to 0.2% in 2024, down from 1.1% in 2023. (Sources: RBC Economics & Statistics Canada)

## SUPPLY/DEMAND: A Bumpy Ride for GTA's Office Market in 2023!

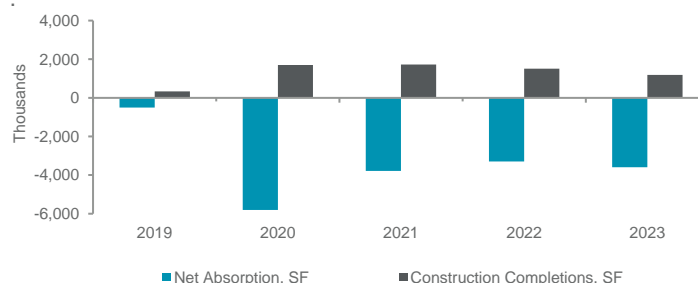
GTA's office market experienced a turbulent journey in 2023. The year was underscored by fluctuating demand trends and a persistent increase in vacancy rates across most markets. On the bright side, the conclusion of the year brought a ray of optimism with a surge in new leasing activity in Q4 2023. Market-wide leasing escalated to 2.1 million square feet (msf) from 1.7 msf in Q3 2023, reflecting a significant 24.1% quarter-over-quarter (QOQ) increase. While this marked a step in the right direction and market activity in the quarter outpaced the four-year quarterly average of 1.8 msf, the 2023 total of 7.8 msf represented an 11.0% contraction compared to the 2022 total of 8.8 msf. The distribution of activity this quarter was well-balanced between downtown and the suburban total, each contributing approximately 47% to the quarter's result, with midtown following at around 5.3%.

As the year ended, the Downtown market grappled with almost four straight years of escalating vacancy. In the fourth quarter of 2023, the overall vacancy rate moved up by 60 bps, to reach a 29-year peak of 15.9%. This uptick was mainly fueled by a steep climb in direct vacancy. During the quarter, the direct inventory soared by 896,000 square feet (sf), pushing the vacancy rate to 11.1% from 10.0% in Q3 2023. The tail end of one of the most active development cycles saw the introduction of 261 Queens Quay East into the inventory, contributing over 196,000 sf to direct vacancy. Meanwhile, there was a break in the subplot market for the first time in two years, with subplot vacancy falling back by 390,000 sf, settling at 3.9 msf from a 35-year peak of 4.3 msf in Q3 2023. This decline can be primarily attributed to the expiration of shorter-term sublets transitioning into direct vacancies rather than indicating a surge in demand for sublets.

Partly due to diverging supply-side dynamics, suburban market trends over the past year have taken a different trajectory. Unlike downtown, the suburbs did not experience the same intense pressure from escalating subplot vacancy, which has remained within the 3.0 msf range since Q1 2022. While the new supply pipeline has shrunk in the suburbs, Downtown continues to navigate through one of its most active development cycles. This has led to more moderate fluctuations in suburban vacancy. In Q4, vacancy inched up to 17.1% from 17.0% in Q3 2023, with two of the three suburban markets posting vacancy declines. A much-needed boost in market activity propelled the annual new leasing activity in GTA North to a four-year high of 652,000 sf. This helped to ease the upward pressure on vacancy in three of the four quarters in the past year, with the year closing with a QOQ 40 bps drop to 17.3%. Driven more by users acquiring office assets than a surge in leasing, the GTA West market exhibited similar vacancy trends with vacancy receding to 16.6% from 16.7% in Q3 2023.

There is an unusual lag in the correlation between the rise in vacancy rates and the subsequent decline in quoted net rents in the current cycle. The marginal softening of the quoted net rent by 30 bps year-over-year in Downtown was not indicative of a widespread trend. Premium assets commanded higher rents, while properties with elevated vacancy rates continued to take a proactive approach. Instead of aggressively lowering rents, these properties are opting for measures such as offering extended rent-free periods and increased cash incentives to entice tenants.

## SPACE DEMAND / DELIVERIES



## OVERALL AVAILABILITY & NET ASKING RENT



## Office Q4 2023

## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY 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	36,332,001	1,541,885	4,232,256	15.9%	-99,304	-593,010	1,816,906	1,243,000	\$70.93	\$73.39
Downtown Fringe	43,087,118	2,329,562	4,561,216	16.0%	-233,398	-1,173,311	1,558,194	2,850,708	\$58.41	\$61.86
<b>DOWNTOWN TOTALS</b>	<b>79,419,119</b>	<b>3,871,447</b>	<b>8,793,472</b>	<b>15.9%</b>	<b>-332,702</b>	<b>-1,766,321</b>	<b>3,375,100</b>	<b>4,093,708</b>	<b>\$65.69</b>	<b>\$69.33</b>
Midtown	17,210,061	857,851	2,644,915	20.4%	-209,420	-992,868	751,086	0	\$50.42	\$53.53
<b>CBD TOTALS</b>	<b>96,629,180</b>	<b>4,729,298</b>	<b>11,438,387</b>	<b>16.7%</b>	<b>-542,122</b>	<b>-2,759,189</b>	<b>4,126,186</b>	<b>4,093,708</b>	<b>\$62.97</b>	<b>\$67.35</b>
GTA East	31,345,332	1,073,682	4,425,916	17.5%	-35,181	-516,753	1,152,415	124,000	\$33.91	\$35.52
GTA North	15,135,578	464,460	2,158,440	17.3%	60,099	-287,640	651,960	175,000	\$40.52	\$40.69
GTA West	42,932,684	1,546,047	5,584,923	16.6%	11,310	-32,254	1,909,263	27,662	\$35.00	\$36.31
<b>SUBURBAN AREA TOTALS</b>	<b>89,413,594</b>	<b>3,084,189</b>	<b>12,169,279</b>	<b>17.1%</b>	<b>36,228</b>	<b>-836,647</b>	<b>3,713,638</b>	<b>326,662</b>	<b>\$35.52</b>	<b>\$37.03</b>
<b>GTA TOTALS</b>	<b>186,042,774</b>	<b>7,813,487</b>	<b>23,607,666</b>	<b>16.9%</b>	<b>-505,894</b>	<b>-3,595,836</b>	<b>7,839,824</b>	<b>4,420,370</b>	<b>\$49.79</b>	<b>\$53.92</b>

\*Rental rates reflect gross asking \$psf/year

\*\* Leasing activity excludes renewals

## KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
354 Davis Road	Oakville	Travelers Insurance Co.	60,000	Headlease
5160 Yonge Street	North Yonge	Proctor & Gamble	52,600	Headlease
2 Queen Street East	Financial Core	Metrolinx	50,600	Headlease
333 Bay Street	Financial Core	Definity Insurance	24,100	Headlease
88 Queens Quay West	Downtown South	Freedom Mobile	22,000	Headlease
40 Temperance Street	Financial Core	Jefferies Securities Inc.	21,100	Headlease
600 Alden Road	Hwy 404 & Steeles	Miipe Quality Solutions	18,400	Headlease

## KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1295 North Service Road	Burlington	Ontario Superior Court of Justice/ Crossroads Christian Communications Inc.	138,085	\$26.15 M / \$189
6605 Hurontario Street	Hurontario	Rock Developments Inc./ RSG Holdings Ltd.	60,053	\$22.90 M / \$381
160 Traders Boulevard East	Hurontario	Hallmark Housekeeping Service Inc./ 15490448 Canada Ltd.	92,467	\$22.79 M / \$246
6835 Century Avenue	Meadowvale	Morguard/ United Association, Local 787	63,956	\$19.75 M / \$309
5705 Cancross Court	Hurontario	Kingsett Capital/ Prep Doctors	43,162	\$13.50 M / \$313
7150 Derrycrest Drive	Hurontario	Beneva/ Arnour Insurance Brokers Ltd.	57,547	\$12.50 M / \$217

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