MARKETBEAT

CANADA NATIONAL

Office Q1 2024

	YoY Chg	12-Mo. Forecast
17.1% Overall Vacancy Rate	▲	▲
-830K Net Absorption, SF	▲	▲
$41.17 Gross Asking Rent, PSF	▲	▬
1.0% Rent Growth YOY	▼	▬
7.9M Under Construction, SF	▼	▼

(All Property Classes)

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
20.2M Total Nonfarm Employment	▲	▲
5.2M Office-using Employment	▲	▬
6.1% Canada Unemployment Rate	▲	▲

Source: Statistics Canada

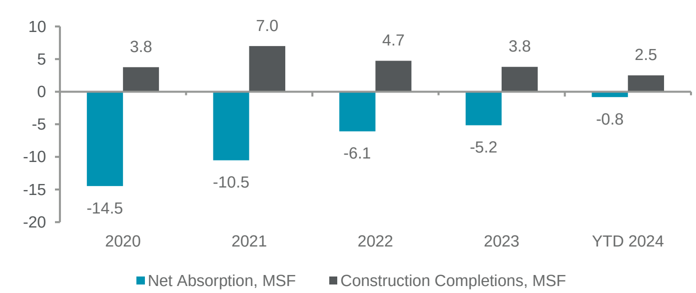
Office Market Conditions Remained Challenging to Start off 2024

In its latest Labour Force Survey, Statistics Canada is reporting virtually no change in employment in March 2024 compared to last month, while the unemployment rate ticked up by 30 basis points (bps) to 6.1%. Continued high interest rates have resulted in lower demand, and as a result companies have reduced hiring which translates into weaker demand for labour. Over the course of the last 12 months the employment rate - which is the component of the population aged 15 and older who are employed – has decreased by 90 bps as employment growth throughout the country (approximately 1.6%) has been outpaced by growth in the population aged 15 and older in the labour force survey (3.2%). The next Bank of Canada interest rate announcement is set for April 10th, and while this latest employment report gives some indication of a cooling labour market, given other indicators such as continued strong wage growth, decreased inflation, and stronger than expected GDP growth to begin the year, will likely mean another rate hold – at least for now.

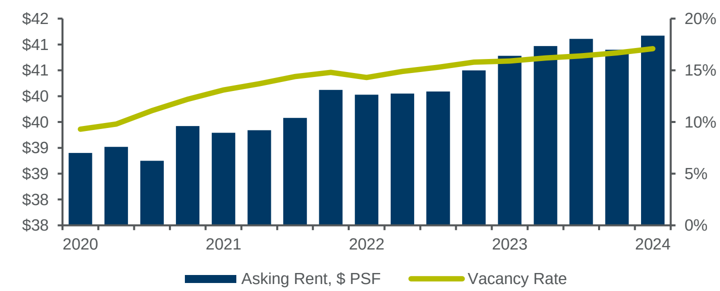
Overall office vacancy reached 17.1% in the first quarter of 2024, an increase of 40 bps from the vacancy rate posted in the final quarter of 2023. Upticks in vacancy occurred in both the overall Central and Suburban areas, and across almost all classes of space. The exception was the Suburban Class A market which witnessed vacancy decline, albeit minimally, by 10 bps from last quarter to 16.4%. Despite the increase in the vacancy rate in Central Class A from 17.1% to 17.5% quarter-over-quarter (QOQ), the overall Class A vacancy rate ticked up just slightly to 17.0%. This is only a 10-bps increase from last quarter and the lowest QOQ increase in vacancy since the pandemic began. The major markets in Western Canada posted either declines in vacancy, or in Calgary's case, identical vacancy to last quarter, while in Eastern Canada the declines were not as widespread. While Ottawa posted a slight decline in vacancy of 10 bps QOQ to 12.1%, vacancy rose both in Toronto and Montreal to 17.3% and 16.9%, respectively.

Overall office vacant space reached just over 99 million square feet (msf) in the first quarter of the year, representing an increase of 2.1% QOQ and 7.5% year-over-year. These increases are driven by direct vacancy coming on the market, as sublet vacancy declined for the third straight quarter. This decline in sublet vacancy is particularly evident within the overall Central Class A market where sublet vacancy as a percentage of overall vacancy has declined to 24.4% from 27.0% one-year-ago and the pandemic high set back in the first quarter of 2021 where sublet vacancy made up close to one-third of all vacant space.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & GROSS ASKING RENT



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While overall negative absorption continued in the first quarter of 2024, reaching close to negative 830k square feet (sf), it was an improvement from last quarter's total of negative 1.3 msf. There was strong absorption in the Central Class A market this quarter of just over 900k sf, primarily driven by the close to 2.1 msf of new supply that was delivered in Toronto's downtown area. Of this total one building alone totaled 1.2 msf and was almost 100% preleased upon completion. Despite this, overall Central absorption remained negative at close to 351k sf as the Class B segment had notable negative absorption of over 900k sf, a significant component of which was located within Toronto. Suburban Class A was the other market that had positive absorption this quarter reaching 86k sf and marks the second straight quarter of positive absorption. Like the Central Class A market, absorption benefitted from the completion of 200k sf of new product this quarter, a significant component of which was preleased prior to completion.

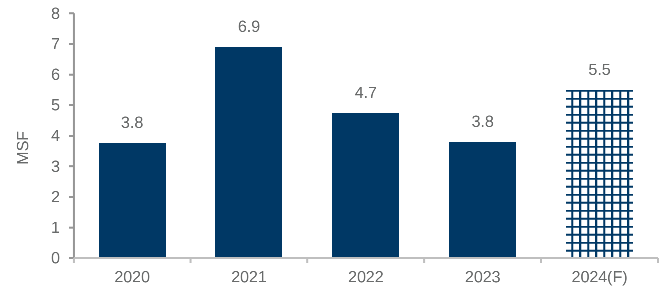
Toronto was at the epicentre of new supply completions this quarter from a square footage perspective with four projects delivered totaling close to 2.2 msf – three located in the Central area and one in the suburban market. Vancouver posted identical numbers in terms of the number of projects delivered and where they were located in their respective cities. The difference in square footage however was substantial with new supply in Vancouver totaling 276k sf. Vancouver will continue to be in the spotlight as an additional 2.3 msf is set to be delivered in 2024, while in Toronto the total is approximately 500k sf, with one building accounting for 460k sf of that overall total. As the office market continues to find its footing in 2024 and signs of sustained growth remain elusive, it is the new supply deliveries that will have the most impact on the performance metrics of the office market.

The overall average asking net rent was virtually unchanged this quarter, rising by only 0.05 cents from last quarter to $22.32 per square foot (psf). The overall average gross rent bumped up a bit more to $41.17 psf as the additional rent costs (taxes and operating costs) rose with the beginning of a new year. What will be likely unfold over the remainder of the year are asking rent rents remaining fairly flat, as any rate cutting done by the landlords will be counteracted to a certain extent by vacancy arriving in new supply which is generally priced at a higher price point.

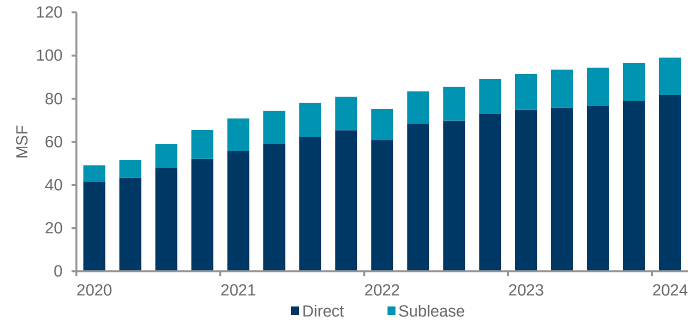
OUTLOOK

- Overall vacancy is anticipated to continue to climb through 2024, likely peaking in the last quarter of the year or beginning of 2025; the extent of which will be dependent on the delivery of new supply and the vacancy remaining in those buildings.
- The conversion of vacant, obsolete office stock into different uses – primarily multi-residential – is anticipated to continue in 2024 in many markets across the country.
- Direct asking rental rates will likely see some "push and pull" as any rate lowering in existing office product may be counteracted somewhat by higher-than-average asking rents attached to vacancy located in recently completed new supply.

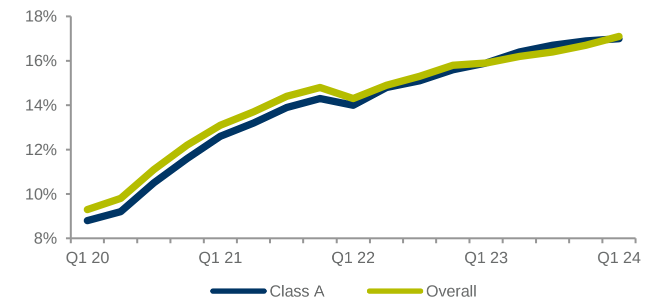
NEW SUPPLY



DIRECT VS. SUBLEASE SPACE VACANCY COMPARISON



CLASS A VS. OVERALL VACANCY COMPARISON



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Vancouver	67,977,970	1,659,779	5,177,308	10.1%	262,642	262,642	276,503	4,960,460	$55.15	$60.86
Edmonton	29,431,065	463,165	4,941,627	18.4%	118,644	118,644	0	0	$32.92	$37.67
Calgary	69,461,469	2,712,477	15,735,719	26.6%	-22,432	-22,432	0	0	$32.91	$37.65
Saskatoon	6,833,997	34,236	1,035,806	15.7%	28,049	28,049	0	0	$33.49	$39.72
Winnipeg	21,958,524	192,133	2,606,187	12.7%	14,163	14,163	25,763	336,868	$28.72	$35.05
Toronto	188,099,254	7,419,120	25,172,927	17.3%	628,735	628,735	2,180,731	2,239,639	$49.88	$54.46
London	8,087,330	179,642	1,531,780	21.2%	-67,022	-67,022	0	0	$25.84	$30.01
Kitchener	5,473,311	258,020	1,182,446	26.3%	-52,400	-52,400	0	0	$31.20	$33.25
Waterloo	7,225,788	382,546	818,386	16.6%	-82,567	-82,567	0	0	$28.50	$31.37
Ottawa	43,336,370	699,185	4,553,030	12.1%	-209,041	-209,041	29,000	72,000	$35.62	$40.24
Montreal	106,602,075	2,962,816	15,065,989	16.9%	-1,178,069	-1,178,069	0	232,892	$35.24	$41.71
Fredericton	2,278,872	54,366	366,086	18.5%	-17,950	-17,950	0	0	$26.84	$30.16
Saint John	2,433,139	42,972	825,979	35.7%	-171,557	-171,557	0	0	$23.35	$30.45
Moncton	3,009,704	24,129	480,731	16.8%	-48,109	-48,109	0	38,764	$26.42	$31.16
Halifax	12,903,045	181,207	1,415,185	12.4%	-1,103	-1,103	0	0	$30.55	$32.77
Charlottetown	1,234,503	0	59,171	4.8%	24,604	24,604	0	0	$24.50	$25.28
St. John's	3,877,169	25,755	792,686	21.1%	-56,221	-56,221	0	0	$34.35	$39.80
NATIONAL TOTALS	**580,223,585**	**17,291,548**	**81,761,043**	**17.1%**	**-829,634**	**-829,634**	**2,511,997**	**7,880,623**	**$41.17**	**$47.02**

**Rental rates reflect full service asking*

Kristina Bowman
Senior Manager of Research
Tel: +1 416 359 2419
kristina.bowman@cushwake.com

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