MARKETBEAT

GREATER TORONTO AREA

Office Q2 2024

	YoY Chg	12-Mo. Forecast
17.2% Availability Rate	▲	▲
818,700 YTD Net Absorption, SF	▲	▼
$50.56 Asking Gross Rent, PSF	▲	▼

ECONOMIC INDICATORS Q2 2024

	YoY Chg	12-Mo. Forecast
3.7M GTA Employment	▲	▼
7.8% GTA Unemployment Rate	▲	▲
6.4% Canada Unemployment Rate	▲	▲

ECONOMY: Ontario's Economy Faces Slower Growth and Rising Unemployment

The delayed effects of high interest rates are now impacting businesses and consumers, with Ontario's growth rate expected to fall to 0.5% in 2024 due to reduced spending and investment. Softer economic conditions have slowed hiring, causing Ontario's unemployment rate as of May to rise by 1.3 percentage points over the past year, the largest increase among provinces. Limited capacity to absorb a large influx of newcomers will likely maintain upward pressure on the unemployment rate. Although employment remained relatively stable in June, the unemployment rate increased to 7.0%, up 1.9 percentage points from its low of 5.1% on April 2023.(*Source: RBC Economics and Statistics Canada)*

SUPPLY/DEMAND: GTA's Office Vacancy Upward Trajectory Pauses for a Welcome Break

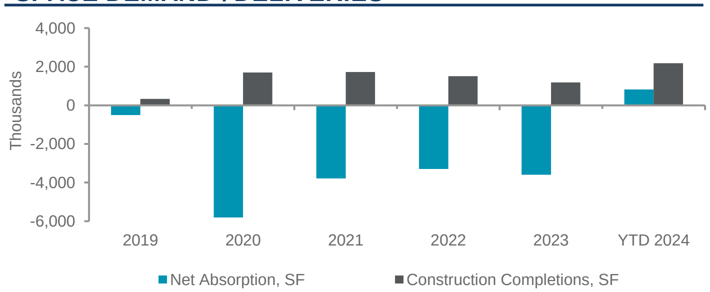
Amid a backdrop of structurally reduced demand for office space, GTA's office market has yet to enter recovery mode and the eventual rebound is expected to be uneven. However, promising signs in the first half of the year suggest that the worst may be behind us as notably evidenced by a sharp decline in the glut of sublets, a leading indicator of market stabilization. Since the end of 2023, GTA's sublet inventory has steadily decreased, plunging by 1.1 million square feet (msf) in the past year to 6.9 msf—the lowest level since the end of 2022. Expiring sublets transitioning to direct space, increased leasing activity, and firms re-occupying spaces are the primary drivers behind this shift. The influx of new sublets has also slowed, indicating that occupiers have largely addressed pre-expiry downsizing. The most significant drop in sublet vacancy occurred in the downtown market, where the sublet inventory decreased by 822,000 square feet (sf) year-over-year (YOY) to a two-year low of 3.2 msf. This accounts for 23.0% of vacancy, down from 33.9% a year ago. In the suburbs, sublet vacancy also eased back, but less sharply, with a YOY drop of 273,000 sf to 2.9 msf. For the first time in four years, the overall vacancy rate changed course, dipping by 10 basis points (bps) to 17.2% at the end of the quarter.

Like the overall GTA, the downtown office market experienced a long-awaited break in the upward vacancy trend this quarter, with a 10-bps dip to 17.1%—another first in the last four years. While vacancy in Class B and C assets continued to climb, Class A & AAA vacancy decreased by 40 bps to 13.8%, marking the biggest quarter-over-quarter (QOQ) decline since the end of 2019. Location and quality remained a focal point for occupiers and crucial factors driving Class A performance. New builds delivered since 2009 in core submarkets, such as the financial core and downtown south, have outperformed similar buildings in the downtown fringe markets surrounding these core areas. Overall vacancy in new builds in these desirable submarkets has averaged 6.0% since Q1 2023, while the average in fringe market new builds has been 27.5% during the same period.

Although the quarter's shift in the downtown market is an encouraging sign, the recovery is expected to be slower compared to previous downturns . With another 2.1 msf tracked to enter the vacancy pool by Q1 2025, this dip may prove fleeting, and downtown vacancy will likely fluctuate in the year ahead.

Since late 2022, vacancy trends in the suburbs have shifted, albeit uneven with several fluctuations. While there have been more increases than decreases during this period, the quarter concluded with a QOQ dip of 20 bps to 16.7%, marking the second consecutive decline and keeping levels below downtown. Although encouraging, suburban vacancy remains twice as high as it was at the beginning of this cycle when it stood at 8.6%. The root of the problem is concentrated in a small segment of the inventory, where 7.5 msf, or half of the suburban vacancy, is concentrated in just 7.9% of the inventory spread across the suburban markets. The largest vacancies were in the GTA East and GTA North markets, with GTA North being the only suburban market to register rising vacancy this quarter, experiencing a 150 bps QOQ jump to a 35-year high of 19.1%. Meanwhile, driven primarily by the GTA West market, suburban market activity remained strong in Q2 2024, making up 53.0% of GTA activity. New leasing activity climbed to 1.1 msf, outpacing the four-year average by 19.7%.

SPACE DEMAND / DELIVERIES



OVERALL AVAILABILITY & NET ASKING RENT

MARKETBEAT

GREATER TORONTO AREA

Office Q2 2024

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	37,604,205	1,243,111	5,082,302	16.8%	67,316	617,738	873,020	0	$71.69	$73.99
Downtown Fringe	43,900,535	1,955,326	5,647,420	17.3%	27,377	101,763	732,144	2,036,977	$59.11	$62.80
DOWNTOWN TOTALS	**81,504,740**	**3,198,437**	**10,729,722**	**17.1%**	**94,693**	**719,501**	**1,605,164**	**2,036,977**	**$66.45**	**$70.05**
Midtown	17,204,470	791,915	2,657,017	20.0%	17,890	13,086	429,591	0	$51.30	$54.75
CBD TOTALS	**98,709,210**	**3,990,352**	**13,386,739**	**17.6%**	**112,583**	**732,587**	**2,034,755**	**2,036,977**	**$63.80**	**$68.18**
GTA East	31,352,519	957,910	4,315,502	16.8%	35,581	189,769	570,054	0	$34.39	$35.98
GTA North	15,135,578	450,879	2,445,973	19.1%	-230,905	-291,956	287,456	175,000	$40.88	$41.07
GTA West	42,896,057	1,463,100	5,253,531	15.7%	270,769	188,391	1,172,743	27,662	$35.33	$36.89
SUBURBAN AREA TOTALS	**89,384,154**	**2,871,889**	**12,015,006**	**16.7%**	**75,445**	**86,204**	**2,030,253**	**202,662**	**$35.94**	**$37.55**
GTA TOTALS	**188,093,364**	**6,862,241**	**25,401,745**	**17.2%**	**188,028**	**818,791**	**4,065,008**	**2,239,639**	**$50.56**	**$54.82**

**Rental rates reflect gross asking $psf/year*
*** Leasing activity excludes renewals*

KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
100 Adelaide Street West	Financial Core	Ernst & Young	300,000	Renewal
195 The West Mall	Hwy 427 Corridor	Moneris	116,434	New Lease
2680 Matheson Boulevard East	Airport Corp Centre	Mercedes Benz Financial Services	52,922	Renewal
586 Argus Road	Oakville	Rockstar Games	46,995	Renewal
145 King Street West	Financial Core	CPA Ontario	24,802	New Lease
2599 Speakman Drive	Sheridan	Hatch Limited	17,997	Renewal
121 Bloor Street East	Bloor & Yonge	Mastercard Canada	16,319	Sublease
33 Yonge Street	Financial Core	Ellis Don Corporation	15,809	New Lease

KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $PSF
25 Dockside Drive	Toronto	H & R REIT/ George Brown College & Halmont Properties Corporation	484,477	$232.5 M/ $480
110 Sheppard Avenue East	North York	Beneva Inc./ Minett Capital	162,267	$29 M/ $179
5100 Spectrum Way	Mississauga	Switch Health/ Voyzant Inc.	73,568	$17.3 M/ $235
6865 Century Avenue	Mississauga	True North Commercial REIT/ Ace Acumen Academy	63,824	$15.3 M/ $240
445 King Street East	Toronto	Unifor Canada Inc./ 445 King Street Holdings Inc.	13,046	$8.5 M/ $652

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