

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
17.2% Vacancy Rate	▲	▼
787K YTD Net Absorption, SF	▲	▲
\$50.52 Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▲	—

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
3.8M GTA Employment	▲	▼
8.0% GTA Unemployment Rate	▲	▲
6.5% Canada Unemployment Rate <i>Source: Statistics Canada</i>	▲	—

ECONOMY: JOB GAINS IN ONTARIO, ECONOMIC STRAINS REMAIN

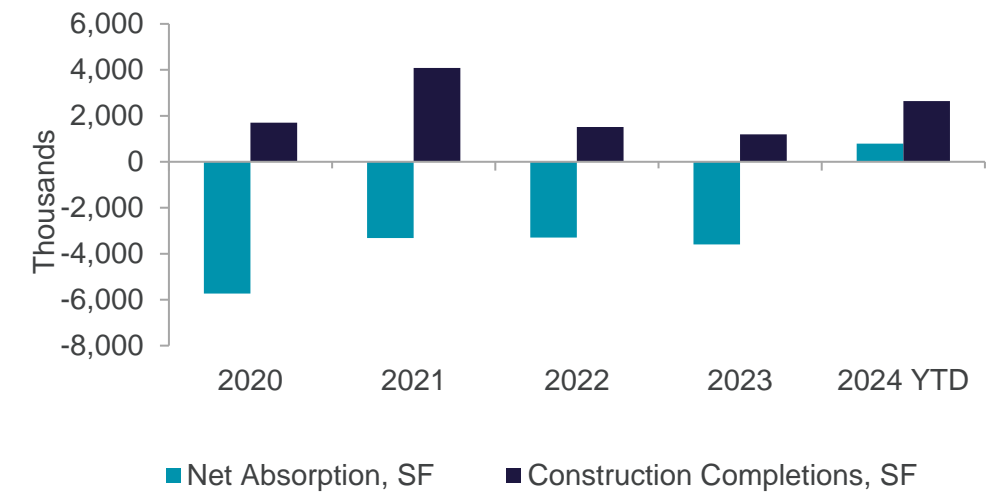
Employment in Ontario rose by 0.5% in September, led by gains in full-time positions. This continues an upward trend that started at the end of 2023, with cumulative job growth reaching 198,000 (+2.5%). The unemployment rate fell by 0.2% to 6.9% in September, though it's still up 0.9% compared to the same time last year. However, hiring demand has dropped sharply, raising the likelihood that the unemployment rate will remain on an upward trajectory. Ontario's economic growth is expected to slow more than any other province this year, influenced by weaker U.S. growth and sluggish domestic consumption and investment. GDP is projected to grow by 0.7%, marginally above the June estimate of 0.5%.
Source(s): (Stats Canada, RBC Economics)

SUPPLY: MARKET VOLATILITY FADING FROM VIEW

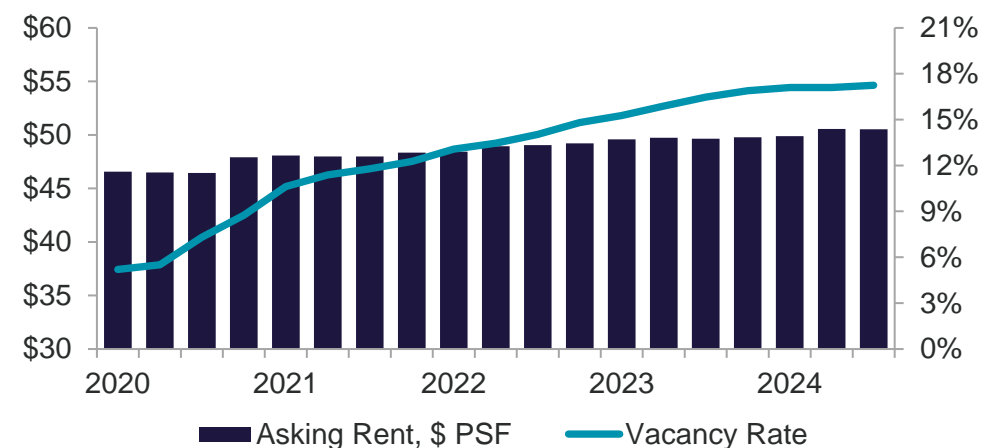
The Greater Toronto Area (GTA) office market is transitioning into a new phase in this cycle, and 2024 is poised to be a distinctly different year. Although downtown vacancy rates remained near record highs, quarterly trends indicate a more stable market as the extreme volatility of the past four years gradually eases. This past quarter, vacancy inched up marginally by 10 basis points (bps) to 17.2%, maintaining the 17% range for a third consecutive quarter. The average quarterly uptick this year was 40 bps, significantly lower than the larger jumps of 70 bps in 2023 and 100 bps in 2022. Key additions to the vacancy pool included 124,000 square feet (sf) at 401 Bay Street, and 66,000 sf at 30 Wellington Street West.

The suburbs have charted a different course, achieving stability and reduced turbulence earlier, beginning in 2023. This quarter, suburban vacancy held steady at 16.7%, while downtown continued to post increases. Suburban vacancy has averaged a decrease of 10 bps this year, marking the third consecutive quarter it has been lower than downtown's—a streak not seen in over two decades. The GTA West market has significantly influenced suburban performance, with vacancy steadily declining since the end of 2022, reaching a four-year low of 15.6%. In contrast, the east and north markets have experienced more fluctuations. By Q3 2024, vacancy in the east rose to 17.1% from a five-quarter low in Q2 2024, while GTA North decreased to 18.9%, though it remained 110 bps higher than a year ago.

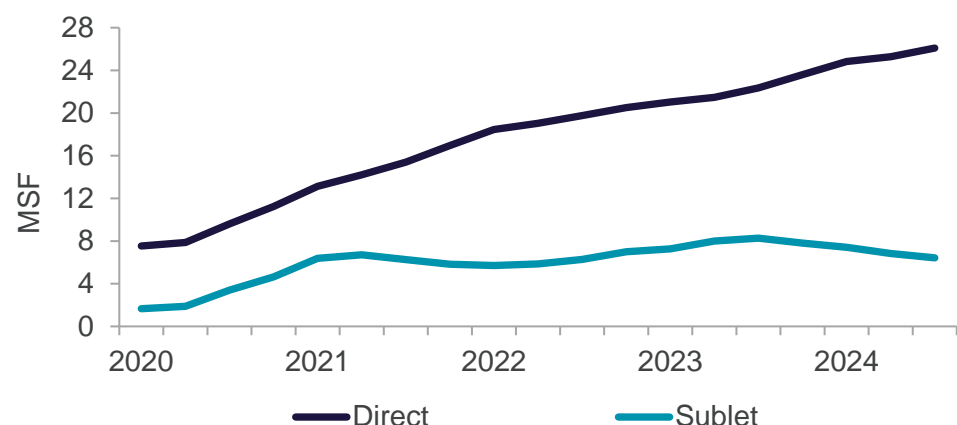
SPACE DEMAND / DELIVERIES



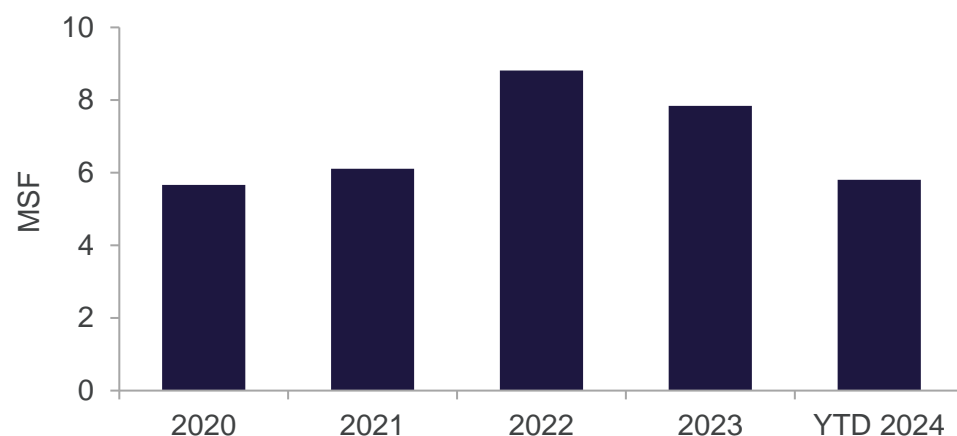
OVERALL VACANCY & ASKING RENT



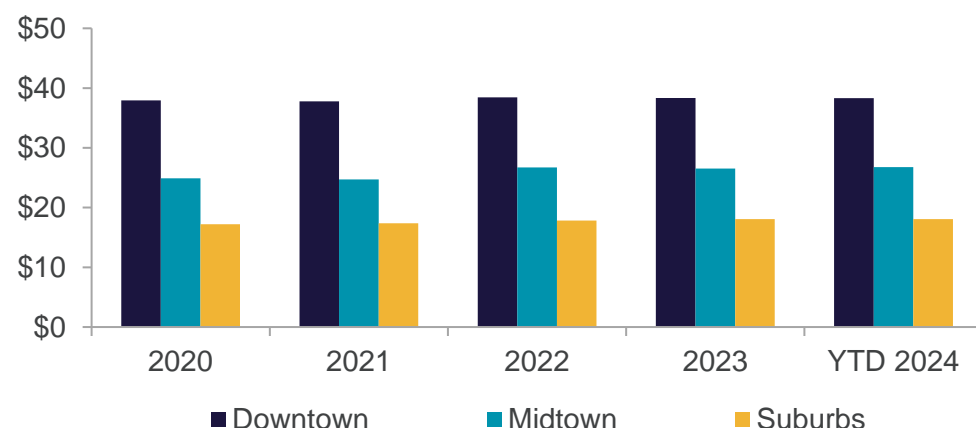
DIRECT VS. SUBLET VACANCY COMPARISON (GTA)



NEW LEASING ACTIVITY BY MARKET (GTA)



RENT BY MARKET (\$ PSF AVERAGE NET)



SOFTENING SUBLET MARKET EASES VACANCY PRESSURES

Once a major driver catapulting overall vacancy to heights not seen in at least three decades, sublets are quickly becoming less impactful. Over the past year, sublet inventory dropped by 1.8 million square feet (msf), reducing total GTA vacancy to 6.4 msf, the lowest since Q3 2022. The bulk of this decline (72.3%) occurred downtown, where sublet vacancy fell by 1.3 msf to a two-year low of 2.9 msf. This rapid downturn was fueled by a continued shift toward direct leasing opportunities, stronger leasing fundamentals, and fewer sublets entering the market. While downtown has seen significant relief, the suburbs have experienced a slower decline in sublet space, with a reduction of 398,000 sf during the same period.

DEMAND: TEMPERED NEW LEASING ACTIVITY WITH SUSTAINED POSITIVE ABSORPTION

New leasing activity across the GTA grew by 31,000 sf year-over-year (YOY), bringing the 2024 total to 5.8 msf, though many markets remained sluggish. Suburban leasing dropped to 959,000 sf, while downtown recorded its fourth straight quarterly decline, hitting a seven-quarter low of 658,000 square feet. Notable deals included CorPay’s 23,000-square-foot lease at 121 King Street West and Teleperformance’s 31,000-square-foot sublease at The Well. Internal transactions indicated that renewals were gaining momentum, accounting for 35.7% of downtown deals and 45.5% of midtown transactions. Downtown posted three consecutive quarters of positive absorption, driven by pre-leasing associated with the delivery of new supply and fewer new vacancies, though vacated space from tenants relocating to the new builds may limit gains.

PRICING: FLAT RENTS OFFSET BY COMPETITIVE INCENTIVES

Rent strategies this cycle have stayed largely unchanged, with asking rents holding at pre-pandemic levels while enhancing incentive packages. Over the past year, downtown asking rents were mostly flat, rising only 20 bps, with similar trends in the suburbs (30 bps) and midtown (20 bps). Net effective rents (NERs) for commodity Class A buildings in the financial core rose modestly, from \$33.67 per square foot (psf) in 2022 to \$35.72 psf, though the variance in asking rents remains wide at \$6.29 psf compared to a narrower \$2.25 psf between 2017 and 2020. Notably, top-tier buildings with minimal vacancy haven’t needed these strategies, following a different rent trajectory.

OUTLOOK

- While the recent changes in vacancy trends have brought some relief for downtown this year, they fall short of triggering a significant turnaround. With an additional 1.7 msf poised to enter the vacancy pool over the next two quarters, vacancy rates are expected to remain at near-record levels in the short term.
- The suburbs are expected to continue along a different trajectory, likely maintaining lower vacancy than downtown for an extended period. Furthermore, the vacancy expected to enter the market in the next two quarters is considerably less, totaling only 665,000 sf.

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	1,215,762	5,254,325	17.2%	-176,746	440,992	1,182,095	0	\$71.58	\$73.80
Downtown Fringe	44,384,652	1,716,125	5,934,433	17.2%	343,247	419,946	1,035,282	1,575,512	\$59.53	\$63.23
DOWNTOWN TOTALS	81,988,857	2,931,887	11,188,758	17.2%	166,501	860,938	2,217,377	1,575,512	\$66.32	\$69.82
Midtown	17,202,306	748,422	2,764,355	20.4%	-41,812	-56,350	594,276	0	\$51.27	\$54.60
CBD TOTALS	99,191,163	3,680,309	13,953,113	17.8%	124,689	804,588	2,811,653	1,575,512	\$63.71	\$67.98
GTA East	31,352,519	923,496	4,438,305	17.1%	-56,051	101,380	900,059	0	\$34.48	\$36.07
GTA North	15,135,578	376,472	2,477,773	18.9%	41,207	-250,749	385,816	175,000	\$40.53	\$40.50
GTA West	42,896,112	1,453,192	5,224,226	15.6%	-56,377	132,014	1,704,933	27,662	\$35.26	\$36.81
SUBURBAN AREA TOTALS	89,384,209	2,753,160	12,140,304	16.7%	-71,221	-17,355	2,990,808	202,662	\$35.88	\$37.40
GTA TOTALS	188,575,372	6,433,469	26,093,417	17.2%	53,468	787,233	5,802,461	1,778,174	\$50.52	\$54.69

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
333 King Street East	Downtown East	Bank of Nova Scotia	71,690	Renewal*
625 Church Street	Bloor & Yonge	Actra	32,533	Renewal*
460 Front Street West	Downtown West	Teleperformance	31,003	Sublease
200 Wellington Street West	Downtown West	Doordash	25,711	Sublease
121 King Street West	Financial Core	Corpay	23,119	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
3600 Steeles Avenue East	Markham	IBM Canada Limited / Triple Properties Inc	855,269	\$115M / \$134
1900 Ironoak Way	Oakville	Carttera / Binscarth Holdings LP	101,697	\$35M / \$347
10 Lower Spadina Avenue	Toronto	Dream Impact Trust / Arkfield	59,801	\$24M / \$396
5420 North Service Road	Burlington	5420 NSR Nominee Inc. / Bellridge Capital	134,757	\$15M / \$113
1100 Burloak Drive	Burlington	1100 Burloak Nominee Inc. / Bellridge Capital	124,116	\$14M / \$110

KEY CONSTRUCTION COMPLETIONS YTD 2024

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
160 Front Street West	Financial Core	TD Bank Financial Group	1,255,000	Cadillac Fairview
530 Front Street West	Downtown West	N/A	563,731	Carttera Private Equities Inc.

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