

GREATER TORONTO AREA OFFICE

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
GTA Employment	3.2 mil	3.4 mil	▲
GTA Unemployment	7.1%	5.8%	▼
Canada Unemployment	6.7%	5.8%	▼

Source: Statistics Canada

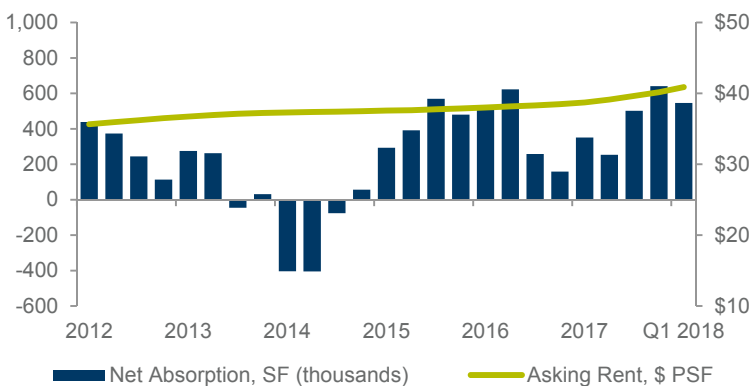
Market Indicators (Overall, All Classes)

	Q1 17	Q1 18	12-Month Forecast
Availability Rate	7.5%	6.7%	▼
Net Absorption (sf)	792,635	414,026	▲
Under Construction (sf)	2,405,011	4,305,489	▲
Average Asking Rent*	\$39.35	\$42.26	▲

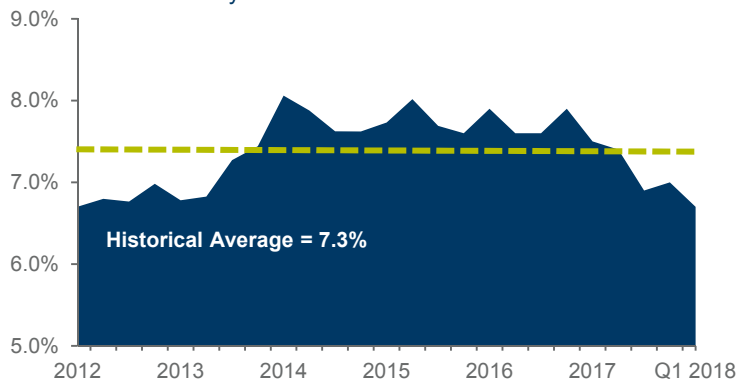
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Availability



Economy

Ontario's GDP growth is forecasted to dip this year to 2.0% from 2.8% in 2017 due in part to the impact of new home mortgage rules introduced last year. However, sustained economic growth is expected to bolster the labour market through 2018, pushing the unemployment rate lower. (Source: RBC Economics).

Market Overview

Fueled by unrelenting demand, Downtown Toronto's office market posted yet another gold-medal performance in the first quarter of 2018. Availability plummeted to a new record-low of 2.4% as over 190,000 square feet (sf) was absorbed by new and expanding tenants. Downtown West was equally impressive at 1.3%, with availability remaining below the 2.5% watermark for a fourth consecutive quarter. Rising rental rates along with multiple-offer scenarios have become the new norm for occupiers seeking space in this extremely tight market.

With almost every downtown office node being in demand, it's no surprise that the Financial Core also posted strong results. In the first quarter of 2018, over 120,000 sf was absorbed, which represents 60% of the downtown's overall growth, driving the market's availability down to a 17-year low of 3.2%.

The GTA West market appeared to turn a corner this quarter with absorption at 115,000 sf; reaching the highest level in almost two years. This uptick in momentum, combined with no new supply for a second consecutive quarter, pushed availability below 14% for the first time since the fourth quarter of 2015 – reaching 13.2%. Availability in GTA East rose above 10% for the first time in five quarters to 10.3%, while in GTA North it remained almost flat at 7.4%, up marginally from 7.3% last quarter.

Outlook

How long will Toronto's explosive downtown office growth cycle last? We see little relief in the tight conditions, including rising rental rates, until significant available new supply arrives in 2020. Meanwhile, tech sector growth and the wide-scale transformation of traditional workplaces will continue to drive demand. In the near term, suburban markets will likely benefit from improved leasing traction as downtown options run out. Limited space will put the brakes on tenants wanting to migrate from the suburbs to downtown; likewise, downtown tenants with expansion needs may start to seek options in other GTA markets.

Availability

The overall availability rate decreased over the first quarter of 2018 to a 17-year low of 3.2%, a decline from 3.6% last quarter. This was driven by Class A availability, which fell by over 100,000 sf to 610,000 sf.

An additional 588,000 sf of availability is expected to return to market over the next two quarters. This includes over 60,000 sf at 1 Richmond Street West and 76,000 sf at 130 King Street West, which were previously occupied by Scotiabank and the TMX Group, respectively.

Leasing Activity

Leasing activity fell in the first quarter of 2018 to 685,000 sf from 754,000 sf last quarter. This was driven by Class AAA leasing, which fell to 92,000 sf from 209,000 sf. In the absence of new supply this year, leasing is expected to be more moderate compared to 2017.

Notable transactions completed in the quarter included WeWork's 76,000-square foot (sf) lease at 1 University Avenue and the leasing of two 58,000-sf blocks at 222 Bay Street – one by SAP Canada Inc. and the other by BDO Canada LLP.

Sublease Availability

Sublet availability increased in the first quarter of 2018 to 224,000 sf from 162,000 sf last quarter. The rise in sublet availability can be attributed to Class A space, which increased by 60,000 sf to 139,000 sf over the quarter.

Over the second quarter of 2018, new sublet availability is expected to increase by 53,000 sf. Nonetheless, overall sublet availability is still likely to remain below the 5-year quarterly average of 367,000 sf.

Absorption

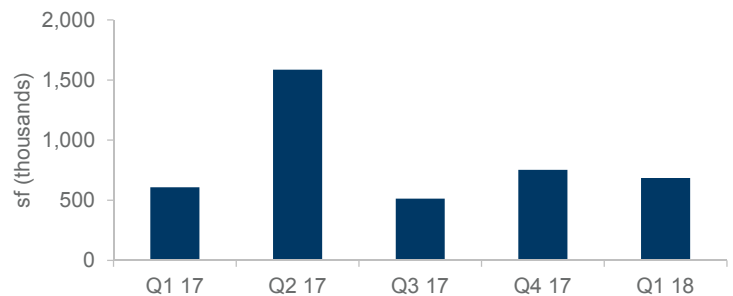
The Financial Core's absorption rose in the first quarter of 2018 to 121,000 sf from 96,000 sf last quarter, driven by Class A absorption of 117,000 sf.

No new developments are slated for completion in 2018 in the Financial Core. This is in contrast to 2017 where there was a spike in absorption from tenants occupying upon completion. Therefore, this year's absorption is most likely to be driven by moderate expansionary growth.

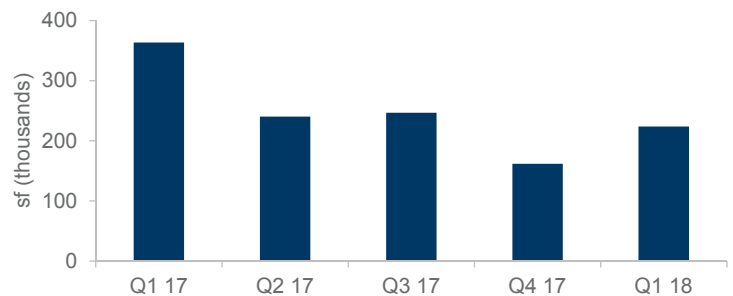
Availability All Classes



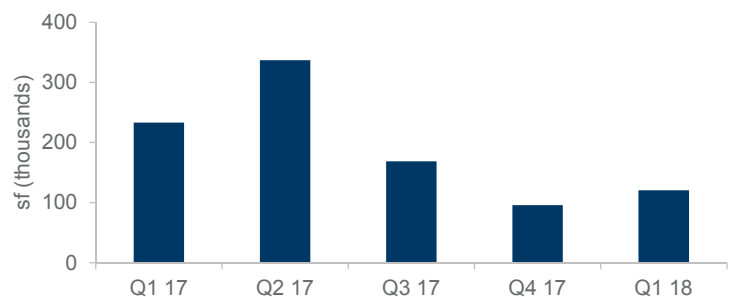
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The overall availability rate declined marginally over the quarter to 1.7%, its lowest level in over 25 years. The decrease was driven by all classes of space. Direct available space has fallen over the past five quarters to 486,000 sf, a decrease of 50%.

An additional 252,000 sf of availability is expected to come to market over the next two quarters. This will include 30,000 sf of new supply availability at 410 Bathurst Street, which is scheduled for completion in the third quarter of 2018.

Leasing Activity

Leasing activity decreased in the first quarter of 2018 to 401,000 sf from 578,000 sf in the previous quarter. This was due to Class A leasing, which fell by over 50% to 178,000 sf.

Bank of Montreal (BMO) leased 346,000 sf at 290 Yonge Street to build its new 4-storey, high-tech urban campus. Another transaction completed was Economical Insurance Group's 28,000-sf lease at 351 King Street East.

Sublease Availability

Overall sublet availability dropped over the first quarter of 2018 to 161,000 sf from 222,000 sf last quarter. The decline can be largely attributed to Class A sublet space, which fell to 101,000 sf from 148,000 sf.

Over the next quarter, sublet availability is expected to increase by about 79,000 sf. The largest availability arriving will be the University Health Network's 56,000-sf premises at 700 University Avenue. In contrast, each of the other upcoming availabilities is under 10,000 sf.

Absorption

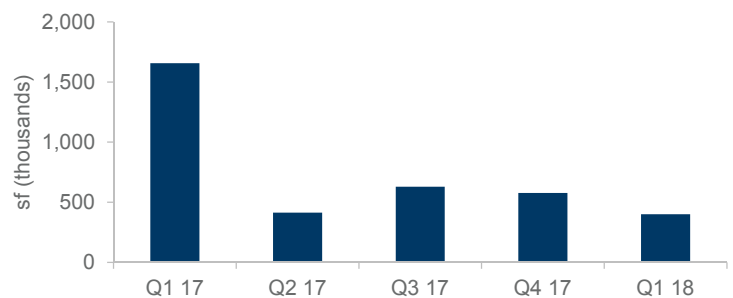
The Downtown Fringe's absorption over the quarter was low at 71,000 sf. The Class C segment led the way with absorption of 31,000 sf. The return to more moderate absorption levels in 2018 was expected following last year's 7-year high annual total.

The fringe market's absorption has fallen in part due to some tenants having difficulty finding space in this hot market. In addition, absorption is only expected to be pushed up modestly this year from tenants occupying recently completed buildings and the developments scheduled to arrive in the second half of this year.

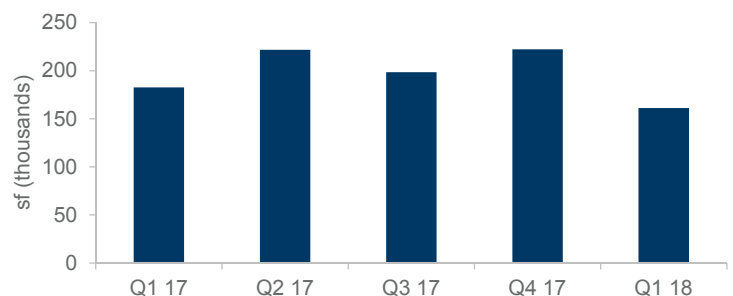
Availability All Classes



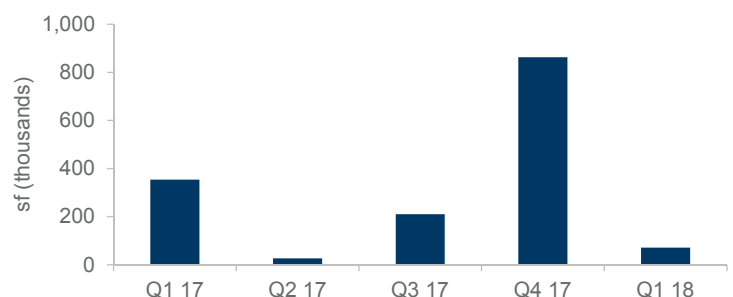
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Midtown's availability rate fell to 2.7% in the first quarter of 2018 from 3.6% last quarter, setting a 27-year low. This was driven by large decreases in Class B space in the Bloor and Eglinton submarkets. All three nodes set new 20-year lows, with vacancy in both the Bloor and St. Clair submarkets sinking to 2.2%.

Approximately 280,000 sf of space is expected to return to market in the next 2 quarters of 2018. The majority of these availabilities is well below 20,000 sf, excluding the Shaw Media space of 129,000 sf at 121 Bloor Street East.

Leasing Activity

Midtown's leasing activity in the first quarter of 2018 of 209,000 sf was little changed from the last two quarters, in line with average quarterly levels experienced over the last 10 years. An increase of 45,000 sf in the Eglinton submarket was offset by a decline of 49,000 sf in the Bloor submarket.

A notable transaction during the quarter was the Parkinson Canada sublease transaction of 28,000 sf at 245 Eglinton Avenue East. A notable renewal was the TTC's 29,000-sf deal at 1910 Yonge Street.

Sublease Availability

Sublet availability decreased to 51,000 sf from 101,000 sf over the first quarter of 2018; in stark contrast to the 5-year quarterly average of 181,000 sf. The bulk of the decline has occurred over the last 2 years, sending the average down to 97,000 sf.

Over the next two quarters only 28,000 sf of sublet space is being tracked to become available. As such, sublet space is expected to remain at low levels over the next several quarters.

Absorption

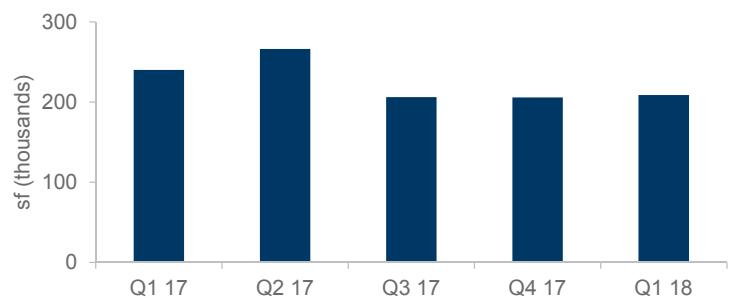
Midtown's overall absorption increased in the first quarter of 2018 to 117,000 sf from negative 81,000 sf last quarter. Absorption was positive across all submarkets this quarter, with the Eglinton node representing about 50% of the quarter's total.

This quarter's absorption was the highest quarterly amount achieved in 11 years. This exceeds the 10-year average quarterly value of zero and shows the market's susceptibility to swings in absorption. Given current tight market conditions, absorption is unlikely to approach this quarter's level in the next few quarters.

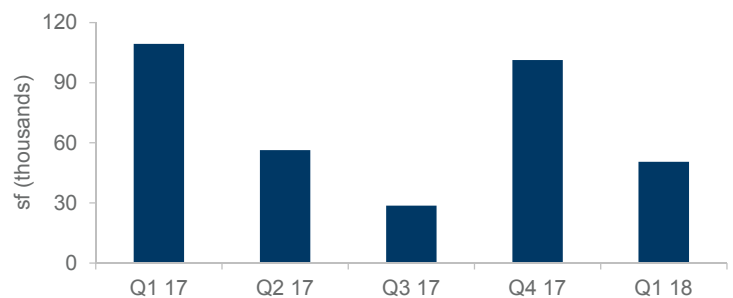
Availability All Classes



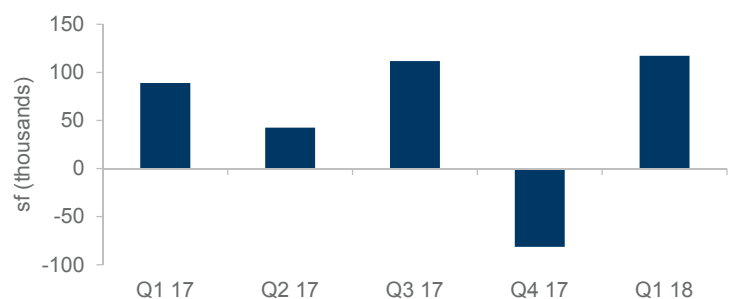
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA East overall availability rate increased in the first quarter of 2018 to 10.3% from 9.6% last quarter. This was mainly due to the Scarborough submarket, which saw availability rise by 204,000 sf to reach 777,000 sf.

Approximately 233,000 sf of space is expected to return over the next quarter. The largest availability will be the 145,000-sf block at 115 Gordon Baker Road to be vacated by Sony Canada Inc. Also, FM Global Insurance will move out of 40,000 sf at 165 Commerce Valley Drive West.

Leasing Activity

Leasing activity decreased this quarter to 289,000 sf from 373,000 sf last quarter. This was primarily due to the Consumers Road submarket's leasing activity declining by over 50,000 sf in the quarter.

Significant transactions completed in the first quarter of 2018 included ZTE Canada Inc.'s 11,000-sf lease at 2550 Victoria Park Avenue and Symantec Technology Inc.'s 43,000-sf renewal deal at 3381 Steeles Avenue East.

Sublease Availability

Sublet availability increased this quarter to reach 495,000 sf from 366,000 sf last quarter. This was driven by the Scarborough submarket's Class A sublet space increase of 190,000 sf in the quarter.

Low amounts of sublet space are being tracked to return to market over the next few quarters. Consequently, the recent rise in sublet availability may slow and begin to decrease in the coming quarters.

Absorption

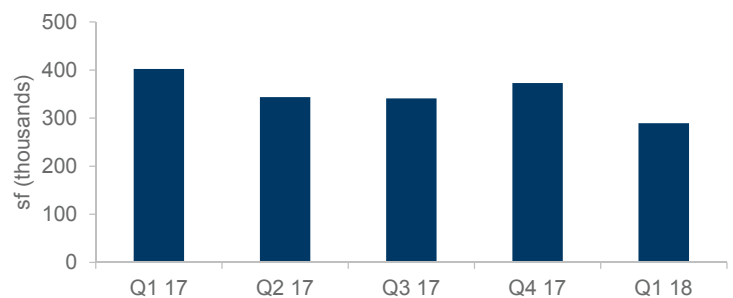
GTA East's overall absorption continued to be negative this quarter, although improving to negative 26,000 sf in the first quarter of 2018 from negative 183,000 sf. This can be attributed to an increase in the Scarborough submarket's Class A absorption by about 140,000 sf.

The amount of available space being tracked to return to market in the second quarter is considerably lower than in recent quarters. As a result, absorption should improve gradually with modest gains expected in the coming quarters.

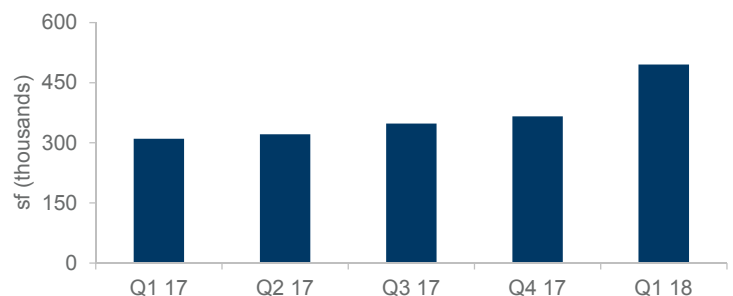
Availability All Classes



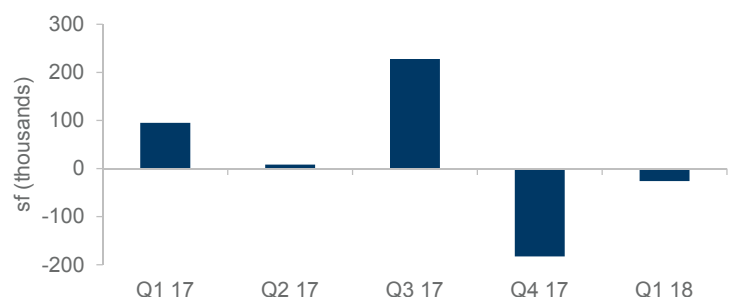
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA North overall availability rate increased slightly in the first quarter of 2018 to 7.4% from 7.3% last quarter. This was driven by the Vaughan submarket's Class A availability increase of 29,000 sf.

A total of 111,000 sf of space is expected to become available in the GTA North market over the next quarter. The largest block will be 41,000 sf at 90 Sheppard Avenue East, which is space that will be vacated by the Minto Group Inc.

Leasing Activity

Leasing activity was relatively flat over the first quarter of 2018, up marginally to 148,000 sf. The market's overall leasing was tempered by a decrease of 38,000 sf in the Vaughan submarket, the only node that saw a decline in leasing.

A significant transaction completed in the first quarter was The Segal Group's 17,000-sf lease at 4101 Yonge Street. The average size of the remaining deals was under 10,000 sf.

Sublease Availability

Overall sublet availability increased to 173,000 sf from 127,000 sf quarter-over-quarter. The increase was driven by the addition of the 46,000-sf, Class A sublet at 7300 Keele Street in the Vaughan submarket this quarter. The current sublet availability is near the 5-year quarterly average of 168,000 sf.

A very low amount of sublet space is being tracked to become available over the next few quarters, with all space being below 5,000 sf.

Absorption

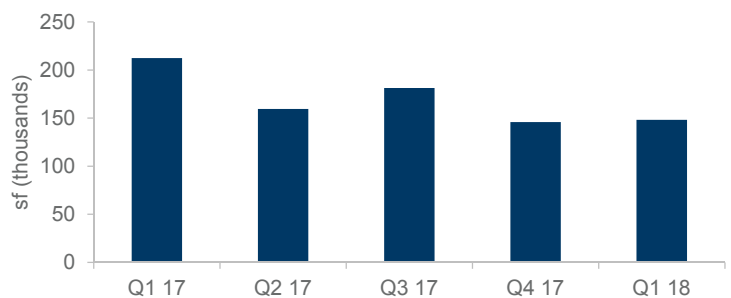
GTA North absorption increased in the first quarter of 2018 to 16,000 sf from negative 95,000 sf last quarter. This was primarily due to a 105,000-sf increase in absorption in the North Yonge Corridor submarket.

Vaughan is one of the key submarkets driving absorption growth in the GTA North market. It will see the occupancy of about 35,000 sf at 6240 Highway 7 over the next quarter, providing a boost to absorption.

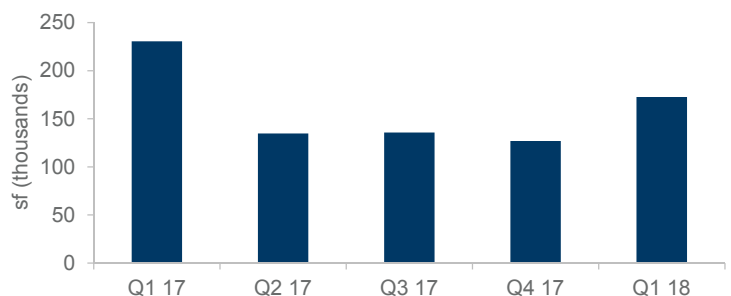
Availability All Classes



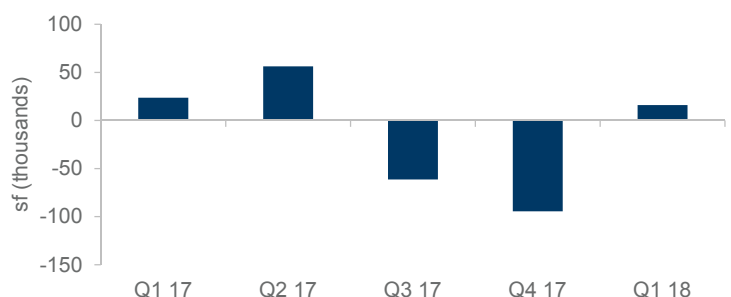
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Overall availability in the GTA West declined in the first quarter of 2018 to 13.2% from 14.1% last quarter. This is the first time that the overall availability has dipped below 14% in two years. The decrease can be attributed to the Airport submarket, which fell by nearly 180,000 sf in available space.

Next quarter 208,000 sf is expected to come to market. Some notable spaces include availabilities of 26,000 sf at 55 City Centre Drive and 62,000 sf at 8 Prologis Boulevard (new development).

Leasing Activity

Leasing activity increased in the first quarter of 2018 to 663,000 sf from 368,000 sf last quarter. Class A leasing activity within the Oakville node saw the largest increase, with leasing activity rising by 140,000 sf. The Airport submarket also experienced a notable increase in Class A leasing, rising by 54,000 sf.

Significant deals included Geotab's 88,000-sf lease at 2440 Winston Park Drive and Scotiabank's 64,000-sf lease at 2660 Matheson Boulevard East.

Sublease Availability

Overall sublease availability declined to 10.1% this quarter from 15.1% last quarter. This marks the lowest sublease availability rate within the last 20 years. This was mainly the result of declines of 135,000 sf in the Airport node and 126,000 sf in the Meadowvale submarket.

A low amount of sublet space is expected to come to market over the next few quarters, including about 23,000 sf at 8 Prologis Boulevard.

Absorption

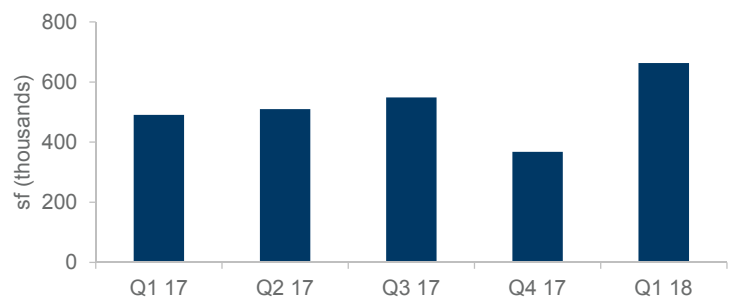
GTA West absorption increased to 115,000 sf from negative 77,000 sf quarter-over-quarter. This was primarily due to a 228,000 sf increase in Class A absorption. The Oakville submarket experienced the largest absorption activity this quarter, rising by 197,000 sf.

Four new developments are scheduled to be completed this year. As tenants take occupancy in the new buildings, there will be moderate upward pressure on absorption.

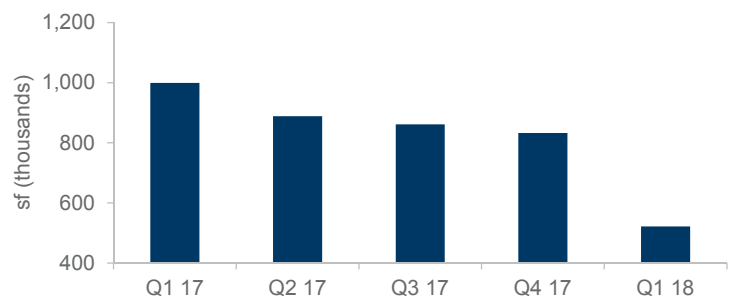
Availability All Classes



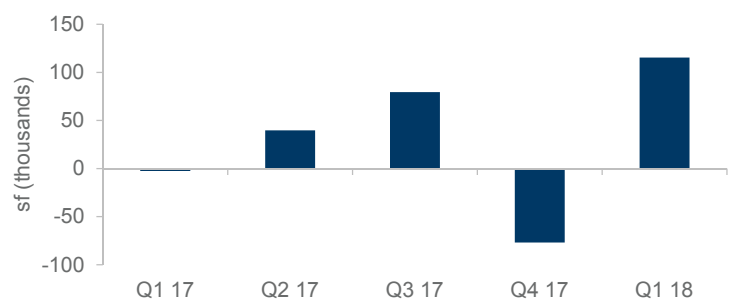
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



MARKETBEAT

Greater Toronto Area, ON

Office Q1 2018



SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Financial Core	36,113,403	223,943	934,718	3.2%	120,575	120,575	685,027	0	\$60.11	\$63.34
Downtown Fringe	38,300,933	161,119	485,888	1.7%	70,978	70,978	400,889	3,791,501	\$48.24	\$53.09
Downtown	74,414,336	385,062	1,420,606	2.4%	191,553	191,553	1,085,916	3,791,501	\$54.00	\$58.87
Midtown	16,366,836	50,516	384,753	2.7%	117,165	117,165	208,776	0	\$45.24	\$50.35
CENTRAL AREA	90,781,172	435,578	1,805,359	2.5%	308,718	308,718	1,294,692	3,791,501	\$52.45	\$57.75
GTA East	32,476,923	495,276	2,847,706	10.3%	-26,103	-26,103	289,436	0	\$29.94	\$33.86
GTA North	15,137,016	172,683	944,244	7.4%	15,988	15,988	148,286	0	\$36.70	\$37.84
GTA West	39,201,247	521,920	4,641,691	13.2%	115,423	115,423	663,318	513,988	\$30.64	\$32.50
SUBURBAN AREA	86,815,186	1,189,879	8,433,641	11.1%	105,308	105,308	1,101,040	513,988	\$31.38	\$33.97
GTA TOTALS	177,596,358	1,625,457	10,239,000	6.7%	414,026	414,026	2,395,732	4,305,489	\$42.26	\$47.09

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

Key Lease Transactions Q1 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
290 Yonge Street	346,000	BMO – Bank of Montreal	Lease	Downtown North
2440 Winston Park Drive	88,000	Geotab Inc.	Lease	Oakville
1 University Avenue	76,000	WeWork	Lease	Financial Core
2660 Matheson Boulevard East	64,000	Scotiabank	Sublease	Airport Corporate Centre
222 Bay Street	58,000	SAP Canada Inc.	Lease	Financial Core
222 Bay Street	58,000	BDO Canada LLP	Lease	Financial Core
3381 Steeles Avenue East	43,000	Symantec Technology Inc.	Renewal	Hwy 404 / Steeles
245 Eglinton Avenue East	28,000	Parkinsons Society of Canada	Sublease	Eglinton & Yonge

Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1500 Don Mills Road	228,604	Crown Realty Partners / Rothmans, Benson & Hedges Inc.	\$68,250,000 / \$299	Duncan Mill
1380 Rodick Road	181,402	Northbridge Investment Management / Great Bridge Canada Inc.	\$44,000,000 / \$243	Hwy 404 / 407
1980 Matheson Boulevard East	140,254	Investors Group / Summit Industrial Income REIT	\$33,000,000 / \$235	Airport Corporate Centre
5985 Explorer Drive	135,744	GWL Realty Advisors Inc. / Morguard Corporation	\$50,600,000 / \$373	Airport Corporate Centre
3070 & 3115 Harvester Road	78,800	Sun Life Assurance Company of Canada / True North Commercial REIT	\$22,750,000 / \$289	Burlington

Source: RealNet Canada Inc.

MARKETBEAT

Greater Toronto Area, ON

Office Q1 2018



Key Construction Completions 2018

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
N/A				

Key Projects Under Construction

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
81 Bay Street, Toronto	Downtown South	CIBC	Q2 2020	1,510,592 (75%)
16 York Street, Toronto	Downtown South	Speculative	Q3 2020	879,000 (0%)
100 Queens Quay East, Toronto	Downtown South	LCBO	Q2 2021	700,000 (33%)
620 King Street West, Toronto	Downtown West	Shopify	Q1 2019	266,900 (100%)
8 Prologis Boulevard, Mississauga	Hurontario	Royal & Sun Alliance Insurance Company of Canada	Q1 2018	210,500 (82%)
500 Lake Shore Boulevard West, Toronto	King West	Speculative	Q2 2019	160,989 (0%)
99 Atlantic Avenue, Toronto	King West	Speculative	Q4 2019	150,000 (0%)
19 Duncan Street, Toronto	Downtown West	Thomson Reuters	Q1 2021	146,515 (100%)
410 Bathurst Street, Toronto	King West	n/a	Q3 2018	140,000 (57%)
360 Oakville Place Drive, Oakville	Oakville	Speculative	Q4 2018	139,132 (0%)

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