

# MARKETBEAT

## Greater Toronto Area, ON

Office Q2 2018



### GREATER TORONTO AREA OFFICE

#### Economic Indicators

|                     | Q2 17   | Q2 18   | 12-Month Forecast |
|---------------------|---------|---------|-------------------|
| GTA Employment      | 3.3 mil | 3.3 mil | ▲                 |
| GTA Unemployment    | 6.9%    | 6.2%    | ▼                 |
| Canada Unemployment | 6.6%    | 5.8%    | ■                 |

Source: Statistics Canada

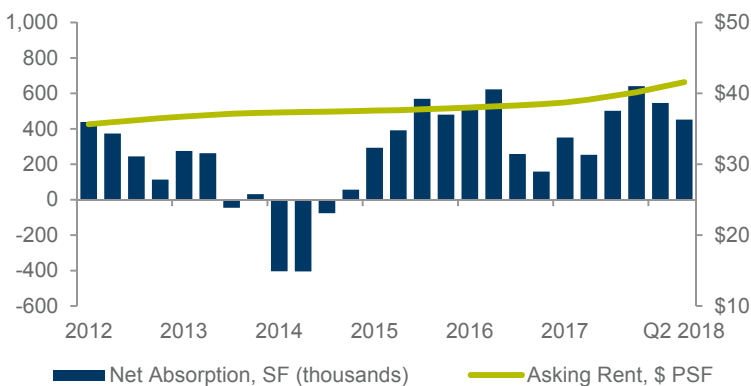
#### Market Indicators (Overall, All Classes)

|                         | Q2 17     | Q2 18     | 12-Month Forecast |
|-------------------------|-----------|-----------|-------------------|
| Availability Rate       | 7.4%      | 6.8%      | ▼                 |
| Net Absorption (sf)     | 510,477   | 136,504   | ▲                 |
| Under Construction (sf) | 3,429,137 | 4,090,778 | ▲                 |
| Average Asking Rent*    | \$40.00   | \$42.75   | ▲                 |

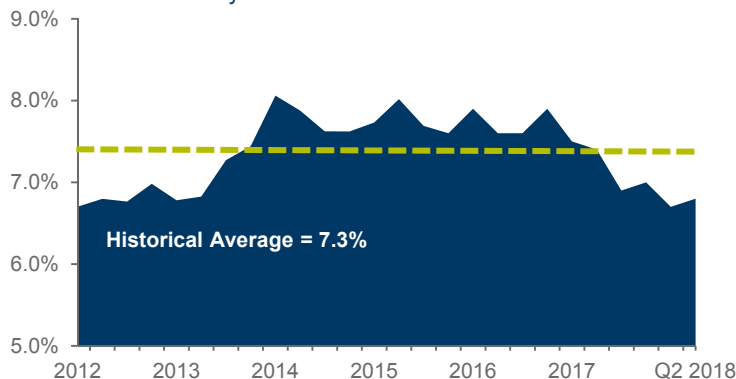
\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



#### Overall Availability



### Economy

Ontario's strong economic growth, which has fueled incredible job growth over the last four years, has eased somewhat. Far from a sign of weakness; however, Ontario's unemployment rate hike is 1.5 percentage points below its long-run average. After reaching an estimated 2.7% in 2017, the economy is expected to grow near the national average of 2.0% and 1.7% in 2018 and 2019, respectively. Uncertainty surrounding trade policies remain a concern and may have a dampening effect. (Source: RBC Economics)

### Market Overview

Boom times continue in downtown Toronto. With the growth cycle well into its ninth year, sustained demand strength remained the story during the second quarter. Overall availability held firm at a historic-low of 2.4% for a second consecutive quarter and 139,000 square feet (sf) was absorbed. Companies seeking space in this crowded market no longer have the luxury of targeting specific locations, as options are limited in most submarkets. Three of downtown's six submarkets posted record-low availability rates. In Downtown South, availability plunged to a staggering low of 0.5%. In this landlords' market, it is no surprise that occupiers are also experiencing sticker shock as rental rates climb amid such tight market conditions.

GTA West led the way in the suburbs by posting the strongest results in the second quarter of 2018. Revitalized leasing dynamics and a major tenant occupancy in a new development pushed absorption to a ten-year high of 402,000 sf, while availability fell to a 3-year low of 12.8%. In contrast, availability in GTA East rose to a 14-year high of 11.0% and absorption plummeted to negative 263,000 sf. Similarly, softening market conditions in GTA North pushed availability to a 13-year high of 8.2%.

### Outlook

Barring unforeseen economic shocks, the downtown market is on track to remain on a strong growth trajectory. Although not expected to arrive at market until 2022, Cadillac Fairview's announcement that it will build a 1.2 million square feet (MSF), 46-storey office tower at 160 Front Street West, offers greater certainty that the market may regain a healthy balance in the years to come.

GTA East will likely continue to experience tepid demand, while modest expansionary growth is anticipated for GTA West. Companies involved with the planned Finch LRT project, commencing in the fall of 2018, will likely boost growth in the North Yonge Corridor as they begin to seek space.

### Availability

The overall availability rate decreased over the second quarter of 2018 to a record low of 3.0%. This was driven by Class A availability, which fell for the fourth straight quarter. It has fallen by 400,000 sf over the past year to 530,000 sf, a drop of 43%.

An additional 426,000 sf of availability is expected to return to market over the second half of the year. The largest availability will be 136,000 sf at 130 King Street West that will be vacated by the Department of Justice.

### Leasing Activity

Leasing activity fell in the second quarter of 2018 to 617,000 sf from 685,000 sf last quarter, driven primarily by a decrease in Class A leasing. Despite this drop, the quarter's overall leasing exceeds the 10-year quarterly average of 592,000 sf.

Tim Hortons leased 65,000 square feet (sf) at 130 King Street West and Google leased 47,000 sf at 100 Adelaide Street West. A notable renewal was TD Bank Financial Group's 88,000-sf deal at 100 Wellington Street West.

### Sublease Availability

Sublet availability decreased in the second quarter of 2018 to 176,000 sf from 224,000 sf last quarter. The fall in sublet availability can be attributed to Class A space, which decreased by 44,000 sf to 95,000 sf over the quarter.

Over the third quarter of 2018, new sublet availability is expected to increase by 92,000 sf. The largest availability arriving will be Read Jones Christoffersen Ltd.'s 32,000-sf premises at 144-146 Front Street West.

### Absorption

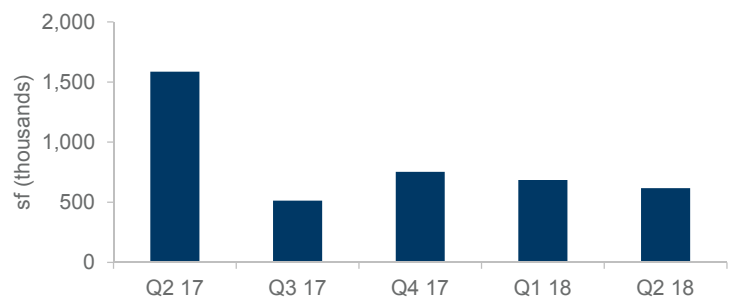
Financial Core absorption rose in the second quarter of 2018 to 154,000 sf from 121,000 sf last quarter. This was driven by Class C absorption, which set a 3-year quarterly high of 34,000 sf.

There are no 50,000-sf or greater blocks of space currently available. Further compounding this shortage is the lack of new supply. As a result, larger tenants may have to consider options outside of the core if they do not renew their existing premises. Given current market fundamentals, annual absorption for 2018 is expected to be modest compared to last year's total of 835,000 sf.

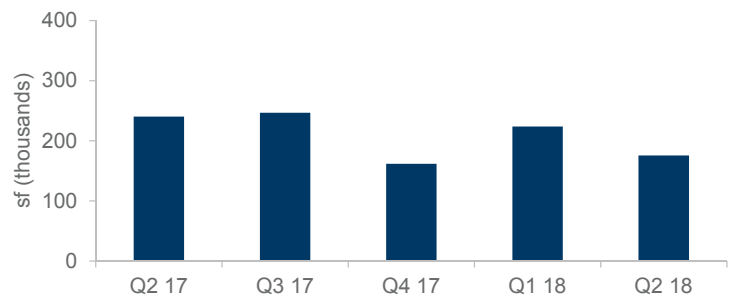
Availability All Classes



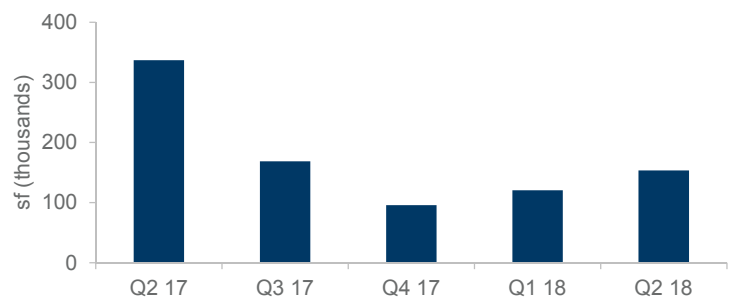
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



## Availability

Overall availability increased slightly in the second quarter to 1.8% from 1.7% last quarter. Although Class A availabilities fell in the quarter, this was more than offset by increases in Class B and C space in the Downtown Fringe's north and west submarkets.

An additional 237,000 sf of availability is expected to come to market over the next two quarters, with the largest block being 28,500 sf at 410 Bathurst Street, a new development nearing completion. The average size of all availabilities arriving is just 6,000 sf and there are only seven availabilities over 10,000 sf.

## Leasing Activity

Leasing activity fell in the second quarter of 2018 to 371,000 sf from 401,000 sf in the previous quarter. The bulk of the decrease can be traced to Class A and C leasing, which dropped by a combined total of 27,000 sf.

Significant transactions completed in the second quarter of 2018 included Kira Systems' 16,000-sf lease at 370 King Street West and Security Compass Inc.'s 14,000-sf lease at 350-390 Queens Quay West.

## Sublease Availability

Overall sublet availability declined over the second quarter of 2018 to 147,000 sf from 161,000 sf last quarter. The decline can be attributed to Class A sublet availability, which plunged to a record low of 26,000 sf.

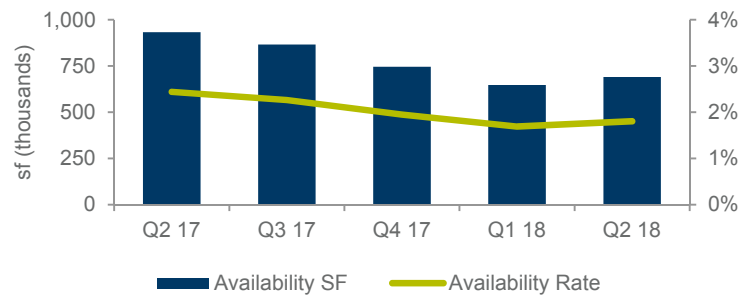
Over the next two quarters, sublet availability is expected to increase by about 65,000 sf. The largest availability arriving will be NorthWest Healthcare Properties' 11,000-sf premises at 180 Dundas Street West.

## Absorption

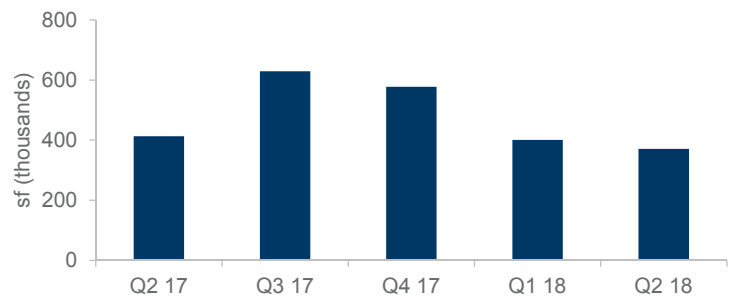
Absorption in the Downtown Fringe shifted into negative territory for the first time in over a year, falling marginally to negative 14,000 sf. This decline can be attributed mainly to Class B and C buildings where space returning to market exceeded growth.

Despite a slowdown, the Downtown Fringe continues to be a landlord's market. Demand is still robust and new availabilities are being leased quicker and often well in advance of coming to market, thereby masking growth. Consequently, absorption is expected to be more moderate this year.

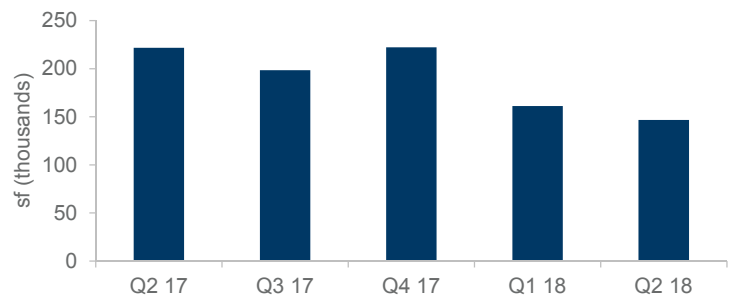
Availability All Classes



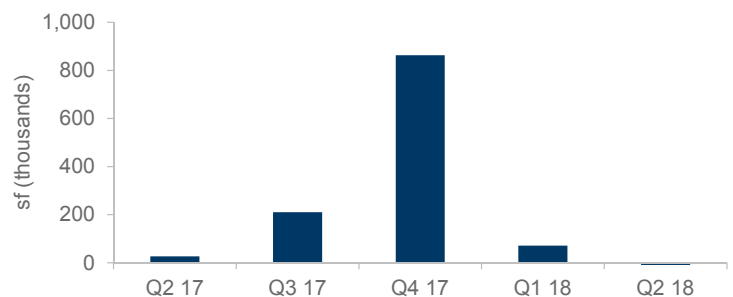
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



### Availability

Midtown's availability rate increased slightly to 2.8% from 2.7% quarter-over-quarter. This was driven by increases in Class B space in the Bloor and Eglinton submarkets. While both the Bloor and St. Clair submarkets continued to be extremely tight (below 2.5%), the Eglinton submarket was relatively unchanged at 4.0%.

Approximately 250,000 sf of space is expected to return to market over the next two quarters. The majority of the availabilities are well below 20,000 sf, with the largest being 98,000 sf at 121 Bloor Street East

### Leasing Activity

Leasing activity in the second quarter dropped to 164,000 sf from 209,000 sf last quarter, driven by the Eglinton submarket, where leasing dropped by 51,000 sf compared to last quarter. Close to 70% of all leasing activity occurred in Class A buildings in the second quarter, whereas in the first quarter it was only 30%.

A notable transaction in the second quarter was the CBT Associates deal of 12,000 sf at 175 Bloor Street East (North Tower). The majority of the remaining transactions tended to be well below 10,000 sf.

### Sublease Availability

Sublet availability increased to 62,000 sf from 51,000 sf over the second quarter of 2018. This is approximately 50% of the 3-year quarterly average of 130,000 sf. The majority of sublet space continues to be in the Bloor submarket, with almost 60% of all sublets.

Over the next two quarters only 24,000 sf of sublet space is being tracked to become available. As a result, the level of sublet space is likely to remain low over the second half of the year.

### Absorption

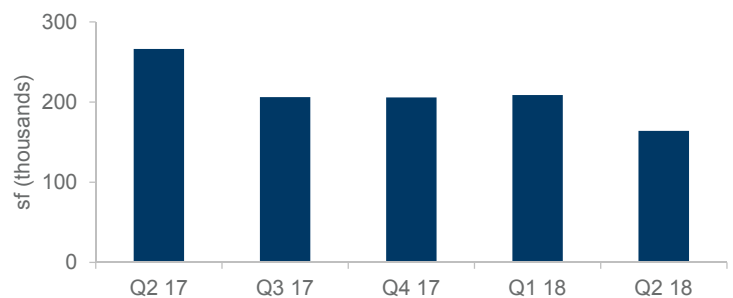
Midtown's overall absorption decreased significantly in the second quarter of 2018 to negative 29,000 sf from 117,000 sf last quarter. Although the St. Clair submarket was essentially neutral, both the Bloor and Eglinton submarkets posted negative results.

Midtown continues to exhibit a trend of absorption fluctuations as demonstrated by this quarter's result. Over the last ten years, these swings tend to balance out, with the quarterly average being approximately zero.

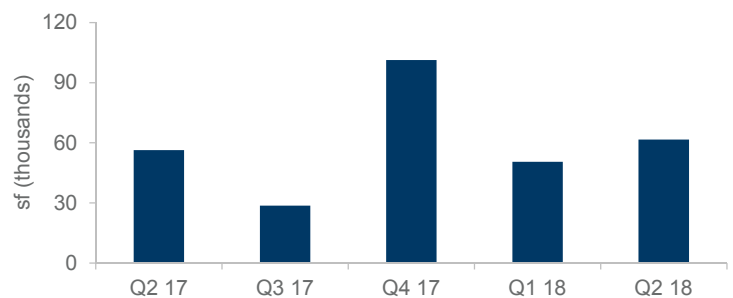
Availability All Classes



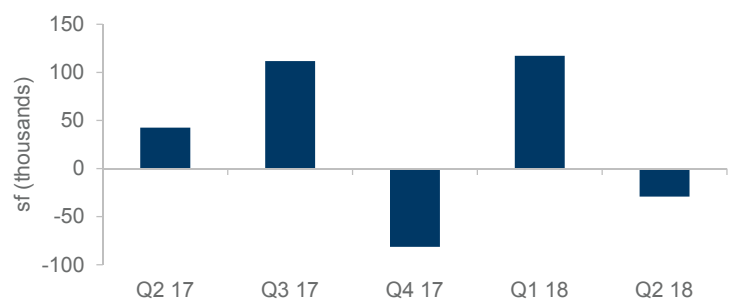
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



### Availability

The GTA East overall availability rate continued to increase, reaching a 14-year high of 11.0% in the second quarter of 2018. This was mainly due to softening in the Steeles & Hwy 404 submarket, where availability rose by 287,000 sf to 660,000 sf.

Approximately 240,000 sf of space is expected to return over the remainder of 2018. The largest availability will be the 48,000-sf block at 100 Consilium Place, which is expected to be vacated by SAP Canada Inc.

### Leasing Activity

Leasing activity increased in the second quarter of 2018 to 585,000 sf from 289,000 sf last quarter. This was primarily due to the Scarborough submarket's leasing activity increasing by 152,000 sf in the second quarter.

Significant transactions completed in the second quarter of 2018 included the Catholic Children's Aid Society's 92,000-sf lease at 2206 Eglinton Avenue East and iQor's 45,000-sf lease at 255 Consumers Road.

### Sublease Availability

Sublet availability decreased this quarter to 469,000 sf from 495,000 sf last quarter. This was driven by the Don Mills & Eglinton submarket's sublet space decrease of 21,000 sf in the quarter. This quarter's overall sublet availability is on par with the 10-year quarterly average of 452,000 sf.

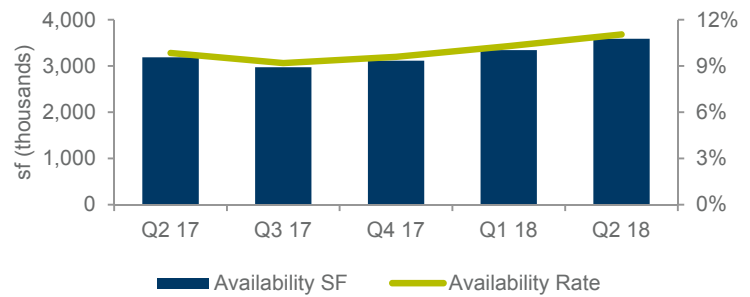
A low amount of sublet space is being tracked to become available next quarter, with the largest block being Cirba Inc.'s 22,000-sf sublet at 45 Vogell Road.

### Absorption

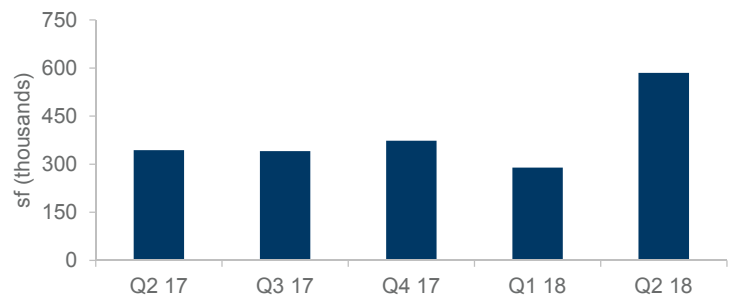
GTA East's overall absorption declined this quarter to negative 263,000 sf from negative 26,000 sf in the first quarter of 2018. This was largely due to a decrease in the Steeles & Hwy 404 submarket's absorption by 311,000 sf in the quarter.

The market continues to experience absorption volatility. The recent negative absorption results are typical of the market, given the 10-year quarterly average of negative 22,000 sf. The use of densification strategies by companies has been a contributing factor in the increase in availabilities coming to market.

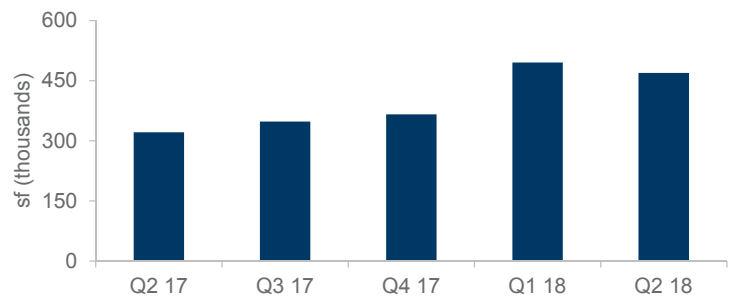
Availability All Classes



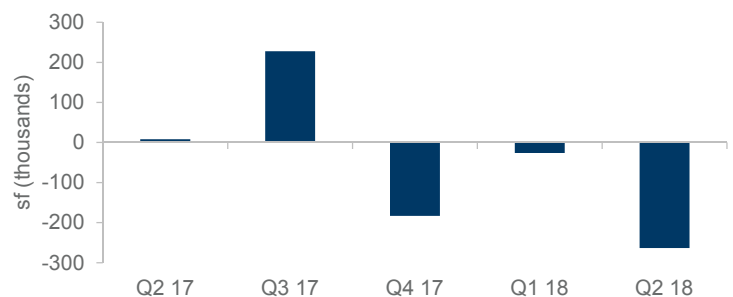
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



### Availability

The GTA North overall availability rate increased in the second quarter of 2018 to 8.2% from 7.4% last quarter. This was driven by the North Yonge Corridor submarket's overall availability increase of 61,000 sf.

About 300,000 sf of space is expected to become available in the GTA North market over the second half of the year. The largest block will be 98,000 sf at 5140 Yonge Street, which is space that will be vacated by the Capital One.

### Leasing Activity

GTA North saw an increase in leasing activity this quarter, rising to 199,000 sf from 148,000 sf last quarter. This was mainly due to the North Yonge Corridor's Class A leasing increasing by 50,000 sf quarter-over-quarter.

Significant transactions completed in the second quarter included: Eckler Ltd.'s 49,000-sf lease at 5140 Yonge Street and Clearview Vision Institute's 13,000-sf lease at 4100 Yonge Street. A notable renewal was ivari's 100,000-sf deal at 5000 Yonge Street.

### Sublease Availability

Overall sublet availability increased over the second quarter of 2018 to 185,000 sf from 173,000 sf last quarter. This was driven by a 29,000-sf increase in the North Yonge Corridor's Class B sublet space.

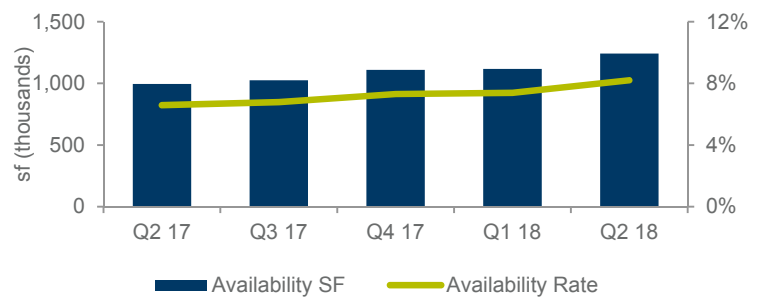
Low amounts of sublet space are being tracked to return to market over the balance of the year, with an absence of large availabilities. Therefore, overall sublet availability is expected to decrease in the short term.

### Absorption

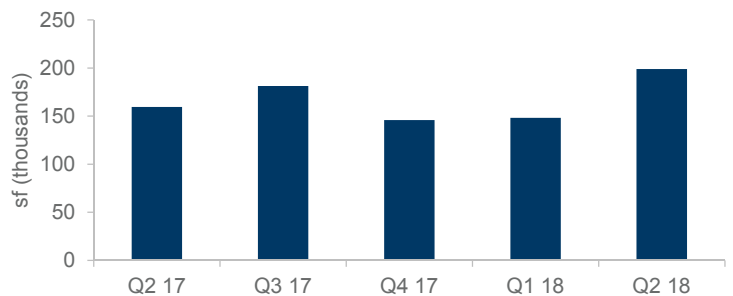
GTA North absorption fell in the second quarter of 2018 to negative 112,000 sf from 16,000 sf last quarter. This was primarily due to a drop of Class A absorption in the Vaughan submarket by 49,000 sf.

Absorption has been weak for the past four quarters. However, despite regular fluctuations, the 5-year quarterly average has been near zero. Absorption is expected to remain low until 2019 when the amount of available space being tracked to return to market declines. Thereafter, a gradual improvement in absorption seems likely.

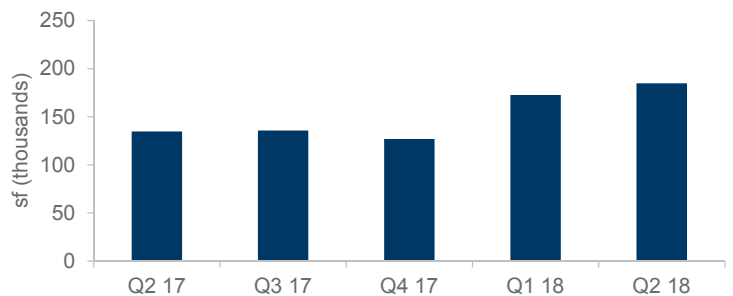
Availability All Classes



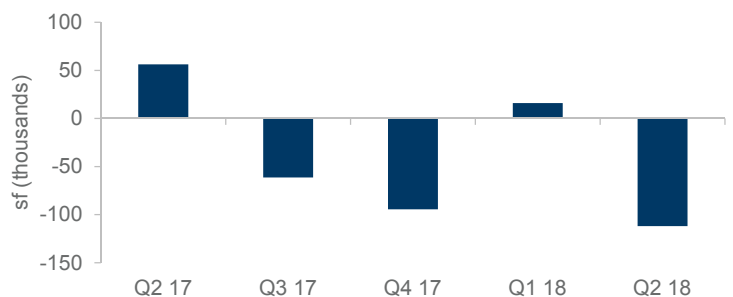
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



### Availability

Overall availability continued to decline, falling to a 3-year low of 12.8% from 13.2% quarter-over-quarter, driven by a 40,000-sf decline in Class A space. The largest decrease was in the Hurontario submarket where Class A availability fell by 57,000 sf.

Over the next quarter 252,000 sf is expected to come to market. A notable availability will be 24,000 sf at 5450 Explorer Drive, which is expected to be vacated by Accenture. In addition, there will be a 24,000-sf block at 60-80 Courtneypark Drive West.

### Leasing Activity

GTA West leasing activity experienced an increase in the second quarter of 2018, rising to 743,000 sf from 663,000 sf last quarter. This increase can be attributed to a 271,000-sf increase in leasing activity within the Hurontario submarket and a 66,000-sf increase in the Mississauga City Centre submarket.

SOTI and Auto Fix each leased 24,000 sf at 55 Standish Court. Another notable deal included Weight Watchers Canada Ltd's 22,000-sf lease at 1415 Joshuas Creek Drive East.

### Sublease Availability

Overall GTA West sublet availability declined to 484,000 sf, its lowest level in over two decades. This decrease was driven by an overall decline of 38,000 sf over the quarter. The submarket that experienced the largest decline this quarter was Hurontario, which fell by a total of 52,000 sf across all classes.

Over the next quarter, a low amount of sublet space is being tracked to become available. This includes 12,000 sf of sublet space at 50 Ronson Drive. Sublet availability is expected to remain low for the remainder of the year.

### Absorption

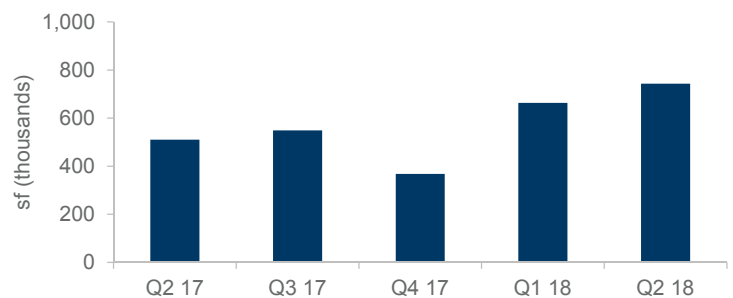
Overall absorption in the GTA West reached its highest level in the last 10 years. Over the quarter, absorption rose to 402,000 sf from 115,000 sf last quarter, largely due to a 270,000-sf rise in absorption in the Hurontario submarket. Over half of this total was attributed to Royal & Sun Alliance's occupancy at 8 Prologis Boulevard, one of three buildings completed this quarter in GTA West.

Since preleasing in developments currently under construction is low, an absorption boost like the one experienced this quarter is not anticipated over the coming quarters, resulting in more modest levels of absorption.

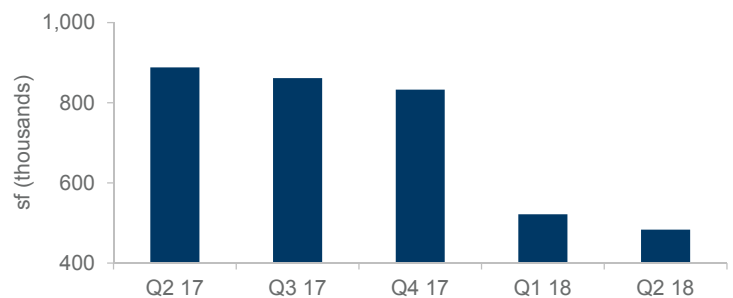
Availability All Classes



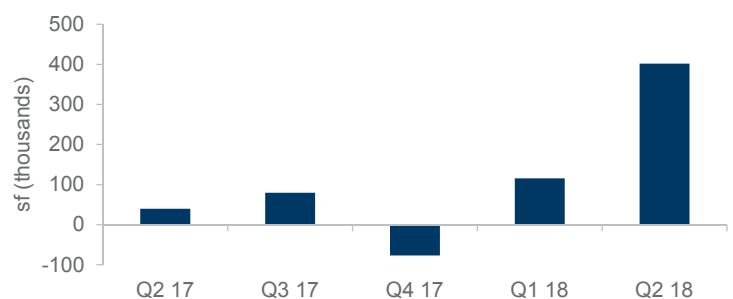
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



# MARKETBEAT

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Office Q2 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         | 175,688               | 893,295               | 3.0%                      | 153,524                     | 274,099                         | 1,301,963                   | 0                | \$60.56                                    | \$63.71                                |
| Downtown Fringe      | 38,300,933         | 146,655               | 543,951               | 1.8%                      | -14,407                     | 56,571                          | 772,112                     | 3,791,318        | \$50.06                                    | \$54.98                                |
| <b>Downtown</b>      | <b>74,414,336</b>  | <b>322,343</b>        | <b>1,437,246</b>      | <b>2.4%</b>               | <b>139,117</b>              | <b>330,670</b>                  | <b>2,074,075</b>            | <b>3,791,318</b> | <b>\$55.16</b>                             | <b>\$59.90</b>                         |
| Midtown              | 16,366,836         | 61,598                | 395,205               | 2.8%                      | -29,162                     | 88,003                          | 372,918                     | 0                | \$45.42                                    | \$50.52                                |
| <b>CENTRAL AREA</b>  | <b>90,781,172</b>  | <b>383,941</b>        | <b>1,832,451</b>      | <b>2.4%</b>               | <b>109,955</b>              | <b>418,673</b>                  | <b>2,446,993</b>            | <b>3,791,318</b> | <b>\$53.43</b>                             | <b>\$58.67</b>                         |
| GTA East             | 32,496,567         | 469,480               | 3,119,218             | 11.0%                     | -263,390                    | -289,493                        | 874,490                     | 0                | \$30.04                                    | \$33.89                                |
| GTA North            | 15,137,016         | 184,733               | 1,057,169             | 8.2%                      | -111,974                    | -95,986                         | 347,155                     | 0                | \$36.75                                    | \$37.93                                |
| GTA West             | 39,575,362         | 483,548               | 4,581,937             | 12.8%                     | 401,913                     | 517,336                         | 1,406,266                   | 299,460          | \$30.62                                    | \$32.53                                |
| <b>SUBURBAN AREA</b> | <b>87,208,945</b>  | <b>1,137,761</b>      | <b>8,758,324</b>      | <b>11.3%</b>              | <b>26,549</b>               | <b>131,857</b>                  | <b>2,627,911</b>            | <b>299,460</b>   | <b>\$31.42</b>                             | <b>\$34.00</b>                         |
| <b>GTA TOTALS</b>    | <b>177,990,117</b> | <b>1,521,702</b>      | <b>10,590,775</b>     | <b>6.8%</b>               | <b>136,504</b>              | <b>550,530</b>                  | <b>5,074,904</b>            | <b>4,090,778</b> | <b>\$42.75</b>                             | <b>\$47.57</b>                         |

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

\*\* Leasing activity excludes renewals

### Key Lease Transactions Q2 2018

| PROPERTY                   | SF      | TENANT                          | TRANSACTION TYPE | SUBMARKET               |
|----------------------------|---------|---------------------------------|------------------|-------------------------|
| 5000 Yonge Street          | 100,000 | ivari                           | Renewal          | Yonge & Hwy 401         |
| 2206 Eglinton Avenue East  | 92,000  | Catholic Children's Aid Society | Lease            | Scarborough City Centre |
| 100 Wellington Street West | 88,000  | TD Bank Financial Group         | Renewal          | Financial Core          |
| 130 King Street West       | 65,000  | Tim Hortons                     | Lease            | Financial Core          |
| 5140 Yonge Street          | 49,000  | Eckler Ltd.                     | Lease            | Yonge & Hwy 401         |
| 100 Adelaide Street West   | 47,000  | Google                          | Lease            | Financial Core          |
| 255 Consumers Road         | 45,000  | iQor                            | Lease            | Consumers Road          |
| 67 Richmond Street West    | 39,000  | OMD Canada                      | Renewal          | Financial Core          |

### Key Sales Transactions Q2 2018

| PROPERTY                           | SF        | SELLER/BUYER   | PRICE / \$PSF                    | SUBMARKET      |
|------------------------------------|-----------|--|----------------------------------|----------------|
| Bay Adelaide Centre (50% interest) | 2,216,360 | Brookfield Properties / Dadco Investments  | \$850,000,000 / \$767 (adjusted) | Financial Core |
| Parkway Place                      | 864,545   | Agellan Commercial REIT / Tigra Vista Inc.   | \$256,250,000 / \$296            | Consumers Road |
| Dundas Edward Centre               | 416,603   | NorthWest Healthcare Properties REIT / Crown Realty Partners & Crestpoint Real Estate Investments Ltd. | \$167,000,000 / \$401            | Downtown North |
| 95 - 105 Moatfield Drive           | 405,407   | Cominar REIT / Slate Asset Management  | \$86,900,000 / \$214             | Duncan Mill    |
| 55 University Avenue               | 263,035   | Cominar REIT / Investors Group   | \$195,100,000 / \$742            | Financial Core |

Source: RealNet Canada Inc.



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### Key Construction Completions 2018

| PROPERTY                                | SUBMARKET           | MAJOR TENANT                                     | COMPLETION DATE | BUILDING SF (% LEASED) |
|---|---------------------|--|-----------------|------------------------|
| 8 Prologis Boulevard, Mississauga       | Hurontario Corridor | Royal & Sun Alliance Insurance Company of Canada | Q2 2018         | 210,500 (82%)          |
| 1415 Joshuas Creek Drive East, Oakville | Oakville            | Weight Watchers Canada Ltd.                      | Q2 2018         | 89,600 (24%)           |
| 2 International Boulevard, Etobicoke    | Airport Fringe      | Speculative                                      | Q2 2018         | 74,756 (0%)            |

### 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         | 268,217 (100%)         |
| 500 Lake Shore Boulevard West, Toronto | King West                | Speculative               | Q2 2019         | 160,989 (0%)           |
| 99 Atlantic Avenue, Toronto            | King West                | Speculative               | Q1 2020         | 150,000 (0%)           |
| 19 Duncan Street, Toronto              | Downtown West            | Thomson Reuters           | Q1 2021         | 146,515 (100%)         |
| 360 Oakville Place Drive, Oakville     | Oakville                 | Speculative               | Q4 2018         | 139,132 (0%)           |
| 410 Bathurst Street, Toronto           | King West                | University Health Network | Q3 2018         | 138,500 (58%)          |
| 5050 Satellite Drive, Mississauga      | Airport Corporate Centre | ERCO Worldwide Ltd.       | Q2 2019         | 129,728 (28%)          |

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