

GREATER TORONTO AREA OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
GTA Employment	3.4 mil	3.4 mil	▲
GTA Unemployment	5.8%	6.6%	▼
Canada Unemployment	5.8%	5.8%	■

Source: Statistics Canada

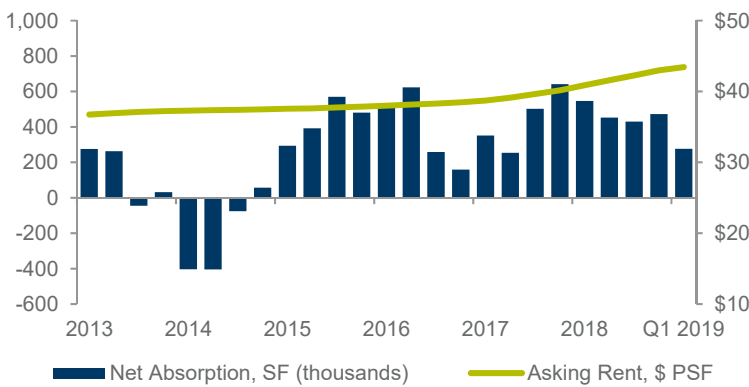
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Availability Rate	6.7%	6.0%	▼
Net Absorption (sf)	414,026	-369,804	■
Under Construction (sf)	4,305,489	7,261,965	▲
Average Asking Rent*	\$42.26	\$44.08	▲

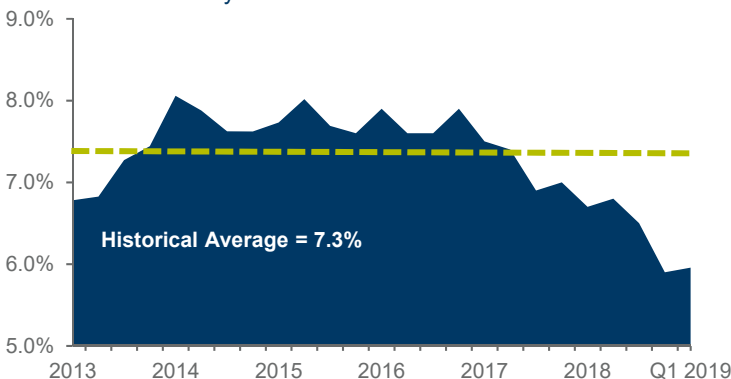
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Availability



Economy

Following four years of solid growth, Ontario's economy is expected to slow somewhat through 2019. GDP growth is forecasted to ease to 1.7% from 2.2% in 2018. Meanwhile, with unemployment sitting below the national average, businesses will be challenged to fill positions in this environment.

(Source: RBC Economics)

Market Overview

The boom cycle is alive and well in downtown Toronto as we move deeper into 2019. Although overall availability nudged up for the first time in two years, it remained low at 2.1%. Most of the increase was due to a large block of space that came to market in the Financial Core.

The "almost-no-vacancy" sign continued to swing over the downtown fringe market with three of the five nodes posting record-lows. Both Downtown South and West, for example, sunk below the 1.0% watermark.

Given these dynamics, it remains hugely challenging for users to meet their real estate needs. The combination of tight conditions and unrelenting demand have tipped the scales firmly in favour of landlords. With supply at historic lows, rents continue to rise - a scenario that is expected to continue for the foreseeable future.

Suburban markets kicked off 2019 at a slow pace. Consolidation and densification strategies adopted by many businesses continue to impact the performance of some markets. Availability in GTA West remained stable at a five-year low of 11.5% for a second successive quarter while GTA East posted a marginal decline to 9.4% from 9.6% last quarter. Meanwhile, availability in GTA North fell further, matching the two-year low of 6.6%.

Outlook

Given low availability, robust demand, and little relief from new supply, the office story in Downtown Toronto is expected to remain one of historically tight conditions and rising rental rates. On the suburban front, availability is expected to trend upward in GTA West as over 800,000 square feet (sf) hits the market in the second half of 2019. GTA East will continue to see a moderate performance with less than 200,000 sf of space tracked to become available this year.

Availability

The Financial Core's overall availability rate increased in the first quarter of 2019, rising to 2.9% from 2.4% last quarter. This was largely driven by Class AAA availability, which rose by 194,000 sf to 428,000 sf.

An additional 541,000 sf of availability is expected to return to market over the next two quarters. This includes a 55,000-sf block to be vacated by Ogilvy & Mather at 33 Yonge Street and a total of 75,000 sf at 20 Queen Street West.

Leasing Activity

Leasing activity fell in the first quarter of 2019 to 376,000 sf from 535,000 sf last quarter. This was primarily driven by a combined total decrease in Class AAA and A leasing of 135,000 sf.

Deloitte Management Services LP leased 107,000 sf at 40 Temperance Street. This increases their total size within the Bay Adelaide Centre complex to over 550,000 sf. There were two transactions completed at 85 Richmond Street West: Touch Bistro's 98,000-sf deal and Slalom's 50,000-sf deal.

Sublease Availability

Overall sublet availability increased in the first quarter of 2019 to 271,000 sf from 207,000 sf last quarter. This rise in availability was driven by Class A space, which almost doubled to 107,000 sf this quarter.

Over the next two quarters, new sublet availability is expected to increase by about 53,000 sf. The largest block arriving will be State Street Trust Company Canada's 26,000-sf, full floor sublet at 30 Adelaide Street East.

Absorption

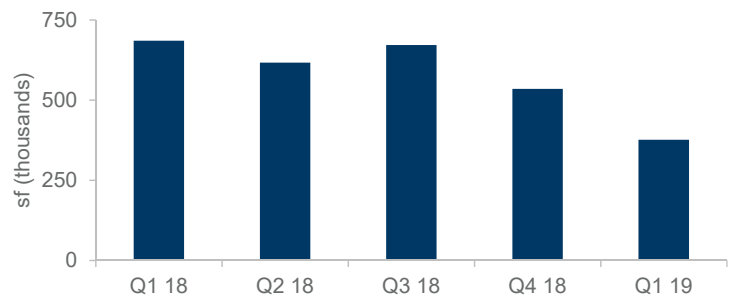
Overall absorption fell in the first quarter to negative 175,000 sf, the first negative result in almost four years. This decrease was due in part to a block of over 100,000 sf that returned to market at 200 Bay Street as a result of Oxford Properties Group Inc.'s relocation to EY Tower. Absorption related to recent office building completions has now been fully recognized.

Absorption is expected to improve and be moderately positive in the coming quarters. Although availability rose in the first quarter, the market remains tight. The absence of new supply this year means that absorption will come entirely from existing buildings.

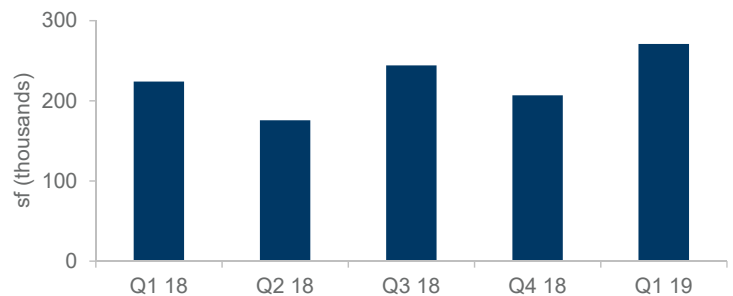
Availability All Classes



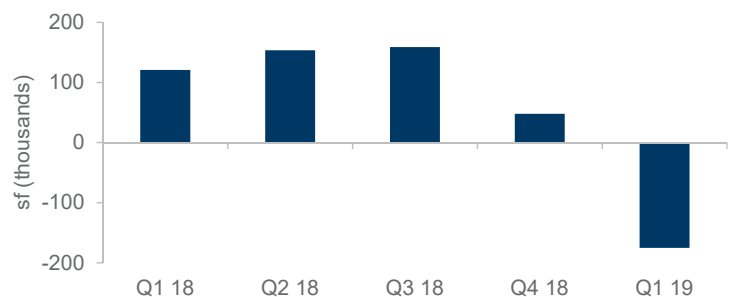
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Overall availability fell slightly in the first quarter of 2019 to 1.3%, which is a new record low. This was driven by a 45,000-sf decrease in Class B space in the Downtown North submarket.

An additional 149,000 sf of availability is expected to come to market over the next two quarters, with most spaces under 5,000 sf. This includes 25,000 sf at 200 Front Street West to be vacated by the Bank of America and 23,000 sf at 200 Wellington Street West to be vacated by the City of Toronto.

Leasing Activity

Leasing activity fell by 118,000 sf in the first quarter of 2019 to 357,000 sf. The decrease was experienced across all asset classes, with Class C accounting for about half of the decline.

Notable deals this quarter included the University of Toronto's 56,000-sf deal at 700 University Avenue and Instacart's 33,000-sf deal at 190 Liberty Street. In development news, Red Bull Canada leased 19,000 sf at 99 Atlantic Avenue, which is scheduled for completion in the first quarter of 2020.

Sublease Availability

Overall sublet availability fell in the first quarter of 2019 to 116,000 sf from 163,000 sf last quarter. This can be attributed to Class B sublet availability, which decreased by 59,000 sf over the quarter.

Over the next quarter, sublet availability will likely remain tight, with only an additional 45,000 sf of space expected to come to market. The largest block arriving will be Oracle Corporation Canada Inc.'s 20,000-sf sublet at 277 Front Street West.

Absorption

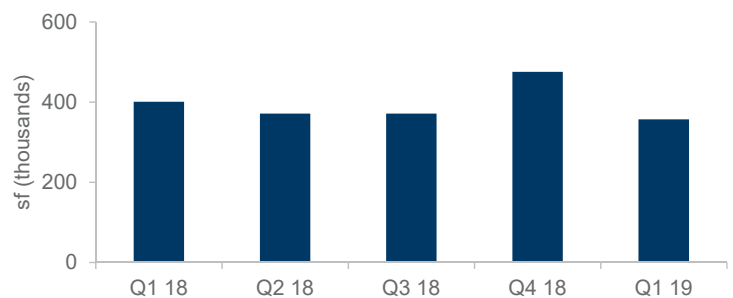
The Downtown Fringe's overall absorption decreased marginally in the first quarter of 2019 to 56,000 sf from 67,000 sf last quarter. Demand in this market is red hot as many availabilities are leased either before they come to market or are occupiable.

Absorption is expected to rise as the year progresses. As new office buildings are completed and occupied, they will provide a lift to absorption. The fully leased building at 80 Atlantic Avenue was completed this quarter, with occupancy commencing in the second half of the year.

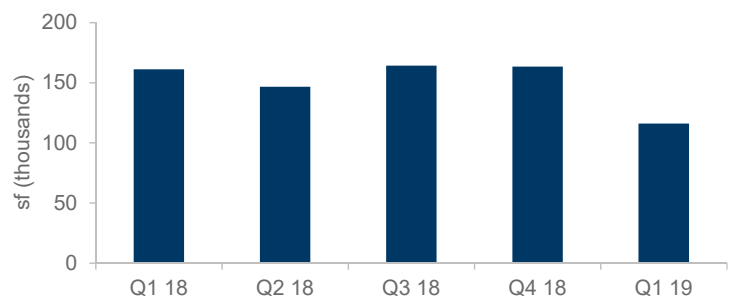
Availability All Classes



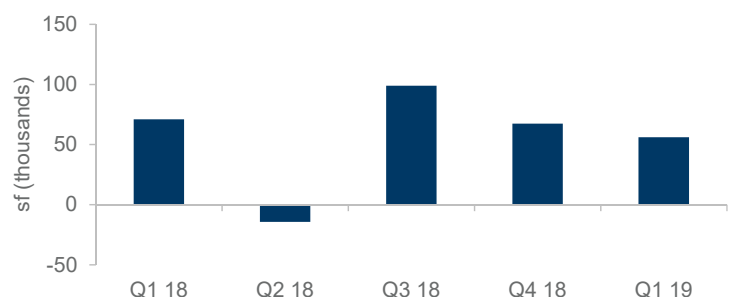
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Midtown's availability rate was essentially flat, rising to 2.4% this quarter from 2.3% in the fourth quarter of 2018. This was driven by a 22,000-sf increase in the Bloor submarket. This rate still ranks as one of the lowest vacancy levels achieved in the last 10 years.

Over 130,000 sf of available space is expected to return to market over the next two quarters. Most of the availabilities are well below 10,000 sf. One of the larger spaces is UNICEF's 15,000-sf block at 2200 Yonge Street.

Leasing Activity

Leasing activity this quarter fell to 163,000 sf from 307,000 sf last quarter, driven by an decrease in Class A leasing in the Bloor submarket of 145,000 sf. This level is about 20% below the 5-year quarterly average of 200,000 sf. The Bloor submarket continues to dominate with over 50% of all leasing in Midtown.

A notable transaction in the first quarter of 2019 was the TTC's 30,000-sf renewal at 1835 Yonge Street. Class B represented over 75% of this quarter's leasing.

Sublease Availability

Sublet availability increased this quarter by 13,000 sf to 63,000 sf. Sublet levels continue to remain low over the first quarter of 2019 at about 75% of the 3-year quarterly average of 83,000 sf. Most of sublet space is in the Bloor submarket, which accounts for over 50% of all of Midtown's sublet space.

A low amount of sublet space is expected to become available over the next two quarters. Therefore, sublet availability is likely to remain modest over the next several quarters.

Absorption

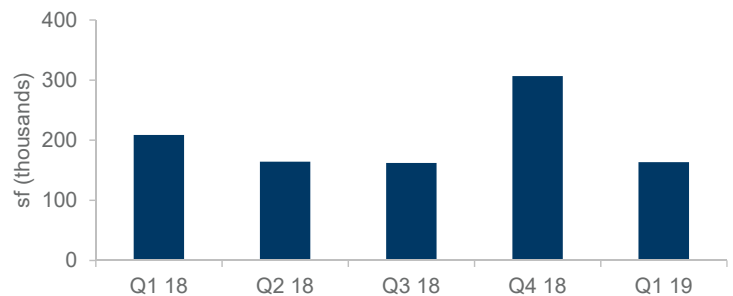
Midtown's overall absorption dropped in the first quarter of 2019 to negative 8,000 sf from 147,000 sf last quarter. This was driven by a large decline of over 190,000 sf in Class A absorption, mostly in the Bloor submarket. As such, Bloor was the only submarket, posting negative absorption results this quarter.

Midtown's quarterly absorption continues to experience wide variations as demonstrated by its recent performance over the past 5 quarters. As a result of this volatility, average quarterly absorption over the last five years has been rather modest at just under 20,000 sf.

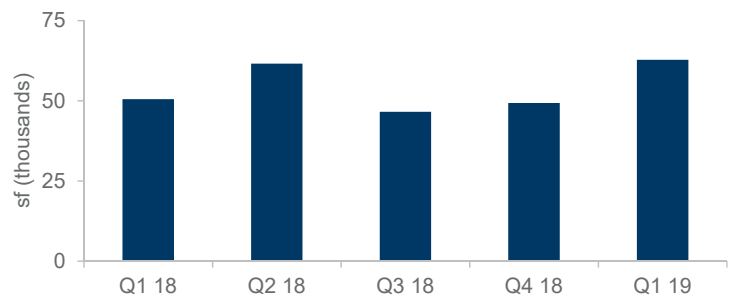
Availability All Classes



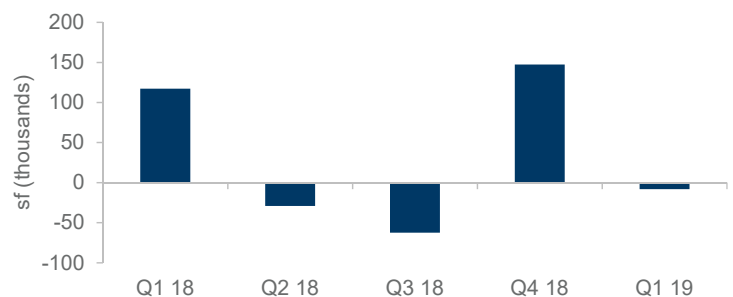
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA East overall availability rate decreased in the first quarter of 2019 to 9.4% from 9.6% last quarter. This was mainly due to the Hwy 404 & Steeles submarket, which saw a decrease in availability of 174,000 sf this quarter.

Approximately 135,000 sf of space is expected to return over the next quarter. This includes the 23,000-sf block at 45 Vogell Road, which is expected to be vacated by Cirba Inc.

Leasing Activity

Leasing activity decreased this quarter to 215,000 sf from 592,000 sf last quarter. This was primarily due to the Hwy 404 & Steeles submarket's leasing activity declining by 202,000 sf in the quarter.

Significant transactions completed in the first quarter of 2019 include Sick Ltd.'s 24,000-sf lease at 2 East Beaver Creek Road and Metro Direction Financial Inc.'s 11,000-sf deal at 675 Cochrane Drive.

Sublease Availability

Sublet availability increased this quarter to 535,000 sf from 492,000 sf last quarter. This was driven by the Hwy 404 & Hwy 7 submarket's sublet space increase of 74,000 sf during the quarter.

A low amount of sublet space is being tracked to become available over the next quarter, with the largest block being CGI Group Canada Inc.'s 25,000-sf sublet at 150 Commerce Valley Drive West.

Absorption

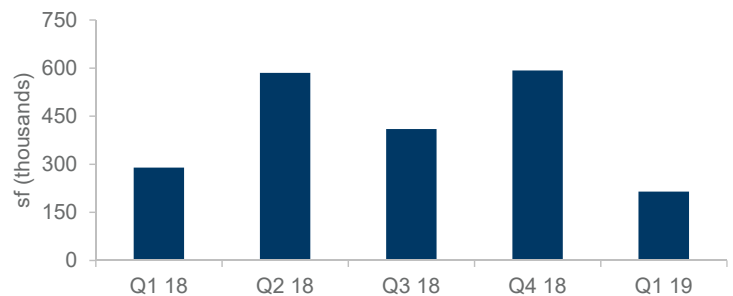
GTA East's overall absorption declined this quarter to negative 128,000 sf from 273,000 sf last quarter. This can be attributed to a decrease in the Hwy 404 & Hwy 7 submarket's Class A absorption of 175,000 sf in the quarter.

A low amount of available space is being tracked to return to market in the following quarter. Currently, there are no new developments in the pipeline. Therefore, absorption is likely to remain at a modest level over the next few quarters.

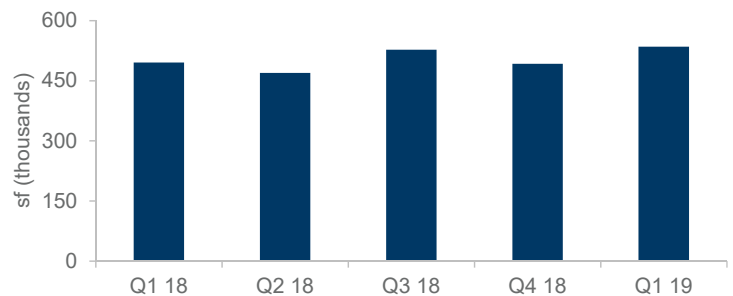
Availability All Classes



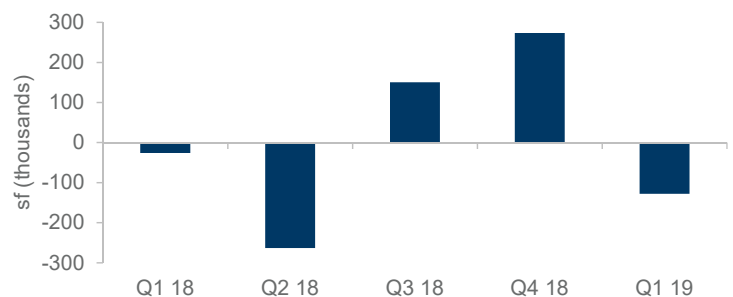
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA North overall availability rate decreased in the first quarter of 2019 to 6.6% from 6.9% last quarter. This was driven by the North Yonge Corridor submarket's overall availability decrease of 31,000 sf.

Approximately 192,000 sf of space is expected to return over the next quarter. This includes 86,000 sf at 5000 Yonge Street which is expected to be vacated by ivari.

Leasing Activity

Leasing activity decreased in the first quarter of 2019 to 154,000 sf from 179,000 sf last quarter. This was mainly due to the North Yonge Corridor submarket's Class A leasing falling by about 100,000 sf quarter-over-quarter.

Significant transactions completed in the first quarter of 2019 included Centurion Property Associates' expansion into 19,000 sf at 25 Sheppard Avenue West and Questrade Inc's 102,000-sf blend/extend deal at 5700 Yonge Street.

Sublease Availability

Overall sublet availability decreased slightly to 80,000 sf from 88,000 sf from last quarter, driven by a 14,000-sf decrease in the North Yonge Corridor submarket's Class A sublet space.

Very little sublet space is being tracked to become available over the next several quarters. The largest block will be Crosslinx Transit Solutions' 24,000-sf sublet at 4711 Yonge Street. As a result, overall sublet availability will likely continue to remain low throughout 2019.

Absorption

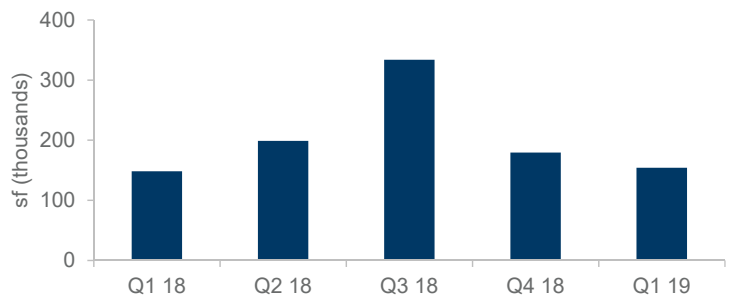
GTA North absorption increased in the first quarter of 2019 to 2,000 sf from negative 22,000 last quarter. This was mainly due to an increase in overall absorption in the Dufferin & Finch submarket of 33,000 sf.

Vaughan has been one of the key submarkets driving absorption in the GTA North market over the past 5 years. The 86,000-sf development at 6220 Highway 7 West may have an impact on absorption following its completion at year-end 2019.

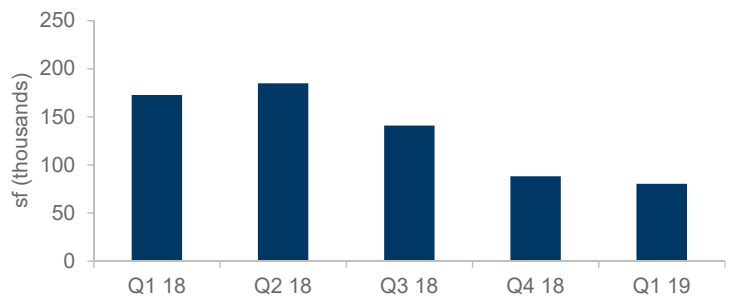
Availability All Classes



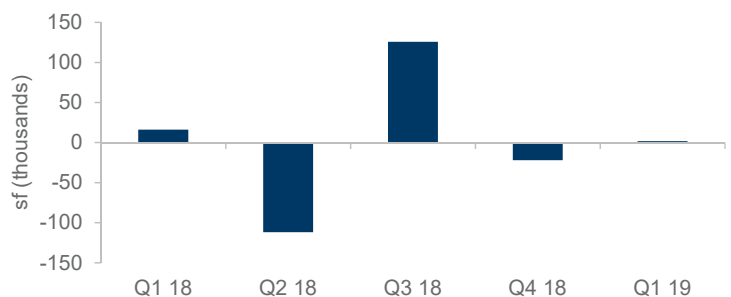
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Overall availability was unchanged in the first quarter of 2019 at 11.5%, a 5-year low. Availability rose in most of the submarkets this quarter, but was offset by the Hwy 427 Corridor's Class B decrease of 145,000 sf. The 43,000-sf development at 3455 North Service Road, Burlington was vacant upon completion.

Approximately 224,000 sf of space is expected to come back to market next quarter. This includes 40,000 sf of space at 5800 Explorer Drive to be vacated by Trapeze Software Inc. and 26,000 sf at 2280 Argentia Road to be vacated by Smith & Nephew Inc.

Leasing Activity

Overall leasing activity fell by 369,000 sf to 192,000 sf, the lowest quarterly result in almost 16 years. The fall in leasing can be attributed to the Airport submarket, which experienced an overall decline of 110,000 sf.

Significant deals this quarter included: ADP Canada's 97,000-sf deal at 3250 Bloor Street West, MNP LLP's 20,000-sf deal at 1122 International Boulevard and BioSynt Inc.'s 10,000-sf deal at 2476 Argentia Road.

Sublease Availability

Sublease activity increased to 540,000 sf from 466,000 sf quarter-over-quarter, driven by a 47,000-sf increase in Class A space in the Hurontario submarket. GTA West's overall sublet availability is 25% below the 3-year quarterly average of 718,000 sf.

A low amount of sublet space is scheduled to come to market over the next quarter. This includes 16,000 sf of sublet space at 5750 Explorer Drive. It is likely that sublet availability will continue to remain at a modest level over the next few quarters.

Absorption

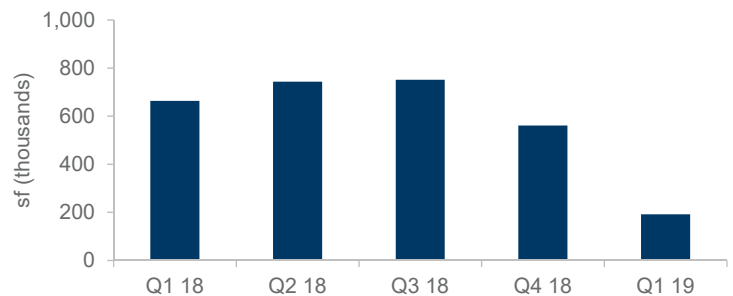
Overall absorption fell to negative 116,000 sf from 179,000 sf. A large portion of this drop can be attributed to Class A space, which experienced a decline of 169,000 sf. The Airport submarket took the biggest hit in absorption this quarter, falling by 87,000 sf to negative 13,000 sf.

With an increasing amount of large blocks coming to market and a small amount of preleasing in new developments under construction, it is likely that absorption will continue to remain modest in the coming quarters.

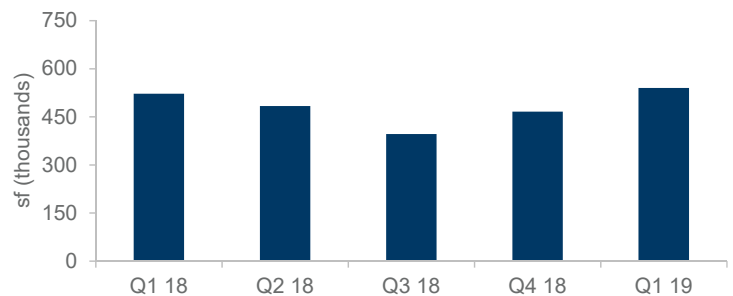
Availability All Classes



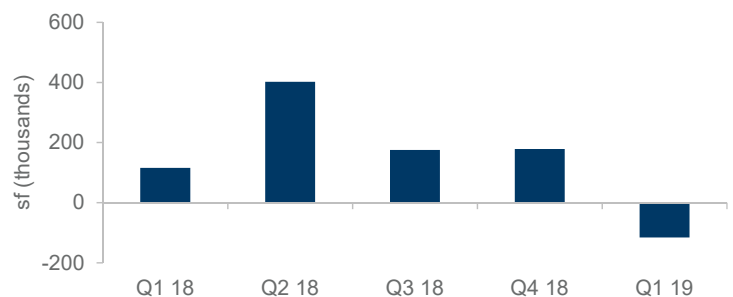
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



MARKETBEAT

Greater Toronto Area, ON

Office Q1 2019



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	35,230,151	270,785	760,151	2.9%	-175,285	-175,285	376,213	820,000	\$63.57	\$66.68
Downtown Fringe	38,085,050	116,068	372,287	1.3%	56,105	56,105	356,888	6,086,725	\$51.98	\$56.28
Downtown	73,315,201	386,853	1,132,438	2.1%	-119,180	-119,180	733,101	6,906,725	\$57.55	\$62.10
Midtown	16,197,605	62,796	320,706	2.4%	-8,277	-8,277	163,343	0	\$47.22	\$52.85
CENTRAL AREA	89,512,806	449,649	1,453,144	2.1%	-127,457	-127,457	896,444	6,906,725	\$55.70	\$60.87
GTA East	32,382,567	534,790	2,520,738	9.4%	-128,132	-128,132	214,622	0	\$30.44	\$33.95
GTA North	15,137,016	80,356	917,944	6.6%	1,665	1,665	153,999	86,380	\$37.32	\$38.75
GTA West	39,497,872	539,736	4,018,137	11.5%	-115,880	-115,880	191,899	268,860	\$31.06	\$33.10
SUBURBAN AREA	87,017,455	1,154,882	7,456,819	9.9%	-242,347	-242,347	560,520	355,240	\$31.87	\$34.50
GTA TOTALS	176,530,261	1,604,531	8,909,963	6.0%	-369,804	-369,804	1,456,964	7,261,965	\$44.08	\$48.98

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
40 Temperance Street	107,000	Deloitte Management Services LP	Lease	Financial Core
85 Richmond Street West	98,000	Touch Bistro	Lease	Financial Core
700 University Avenue	56,000	University of Toronto	Sublease	Downtown North
85 Richmond Street West	50,000	Slalom	Lease	Financial Core
190 Liberty Street	33,000	Instacart	Lease	King West
2 East Beaver Creek Road	24,000	Sick Ltd.	Lease	Hwy 404 / 407
1122 International Boulevard	20,000	MNP LLP	Lease	Burlington
25 Sheppard Avenue West	19,000	Centurion Property Associates	Lease	Yonge & Hwy 401
99 Atlantic Avenue	19,000	Red Bull Canada	Lease	King West

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Dynamic Funds Tower	650,000	Oxford Properties & CPPIB / GWLRA, Investors Group & OpTrust	\$473,000,000 / \$728	Financial Core
Centennial Centre	234,000	Slate Asset Management / Crown Realty Partners	\$35,025,000 / \$149	Airport Corporate Centre
56 Wellesley Street West	215,677	Greystone & Slate / GWLRA, Canada Life & London Life	\$98,000,000 / \$454	Downtown North
Warden City Centre	127,602	Insurance Corp. of British Columbia / Davpart Inc.	\$26,520,000 / \$208	Hwy 404 / Steeles
1565 & 1577 North Service Road East	110,108	Sun Life Assurance Company of Canada / Manulife Financial	\$42,500,000 / \$386	Oakville

Source: RealNet Canada Inc.

Key Construction Completions 2019

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
80 Atlantic Avenue, Toronto	King West	Universal Music	Q1 2019	79,758 (100%)
3455 North Service Road – Building A, Burlington	Burlington	Speculative	Q1 2019	43,189 (0%)

Key Projects Under Construction

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
81 Bay Street, Toronto	Downtown South	CIBC	Q4 2020	1,510,592 (100%)
The Well: 8 Spadina Avenue, 460 Front Street West & TBD, Toronto	Downtown West	Shopify	Q2 2022	1,067,000 (TBD)
16 York Street, Toronto	Downtown South	First National Financial LP	Q2 2020	886,159 (44%)
Bay Adelaide Centre North: 40 Temperance Street, Toronto	Financial Core	Scotiabank	Q3 2022	820,000 (77%)
100 Queens Quay East, Toronto	Downtown South	LCBO	Q1 2021	700,000 (33%)
25 Ontario Street, Toronto	Downtown East	Think Research	Q2 2021	451,779 (19%)
65 King Street East, Toronto	Downtown East	Speculative	Q2 2021	413,071 (0%)
125-155 Queens Quay East, Toronto	Downtown South	WPP Plc	Q3 2021	409,600 (69%)
620 King Street West, Toronto	Downtown West	Shopify	Q2 2019	268,217 (100%)
500 Lake Shore Boulevard, Toronto	King West	Loblaws Companies Limited	Q4 2019	160,989 (100%)
19 Duncan Street, Toronto	Downtown West	Thomson Reuters	Q1 2021	146,515 (100%)
99 Atlantic Avenue, Toronto	King West	Speculative	Q1 2020	139,553 (15%)
360 Oakville Place Drive, Oakville	Oakville	Speculative	Q3 2020	139,132 (61%)
5050 Satellite Drive, Mississauga	Airport Corporate Centre	ERCO Worldwide Ltd.	Q2 2019	129,728 (28%)
171 East Liberty Street, Toronto	King West	WeWork	Q3 2021	125,500 (60%)
6220 Highway 7 West, Vaughan	Vaughan	Speculative	Q4 2019	86,380 (0%)

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