

GREATER TORONTO AREA OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
GTA Employment	3.3 mil	3.5 mil	▲
GTA Unemployment	6.2%	6.3%	▼
Canada Unemployment	5.9%	5.4%	■

Source: Statistics Canada

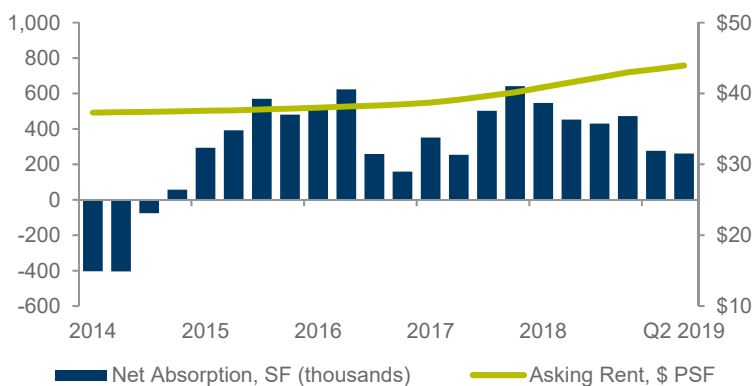
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Availability Rate	6.8%	5.9%	▼
Net Absorption (sf)	136,504	75,358	■
Under Construction (sf)	4,090,778	8,351,783	▲
Average Asking Rent*	\$42.75	\$44.77	▲

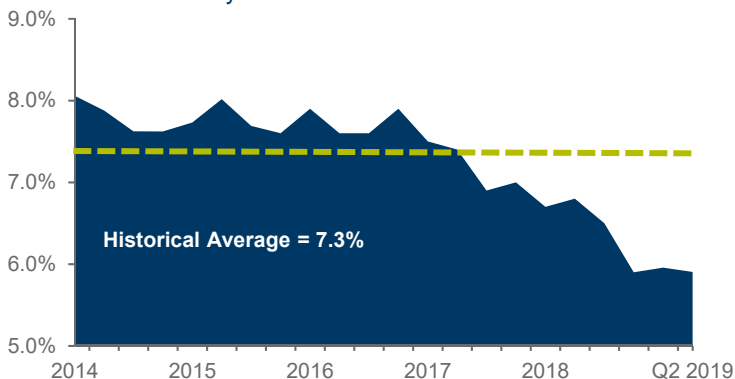
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Availability



Economy

A softening GTA residential market resulted in a slowdown in economic growth in the first half of 2019, although “green shoots” have recently emerged, underpinned by rapid population growth and very healthy labour markets. Modest growth acceleration is likely in the cards for the rest of the year, despite continued global trade risks.

Market Overview

Following four years of plummeting availability, downtown Toronto posted incremental increases in the first half of 2019. Availability ticked up to 2.2% in the second quarter of 2019 from 2.1% in the first quarter. Such marginal increases will have little impact on market dynamics during the remainder of 2019. Unrelenting demand, led primarily by a red-hot tech sector and coworking providers, will keep availability at near rock bottom, sustaining a landlord-favourable market that’s been the story for the past three years.

The downtown average net asking rent has been on a steep upward trajectory, appreciating by close to 40% during this 3-year period. Despite the arrival of the 255,000-square foot (sf) new development at 620 King Street West, availability in the fringe markets surrounding the core saw no relief, sitting at an anemic 1.4%.

On the GTA suburban front, overall availability trended downward for a fourth consecutive quarter to a five-year low of 9.8%. The most notable decline occurred in the GTA East market, where availability fell to a six-year low of 8.9%. Meanwhile, with oversupply being less of an offsetting influence and modest levels of demand entering the picture in GTA West, availability continued the downward trend happening since the fourth quarter of 2016, falling marginally to 11.4%.

Outlook

The outlook for downtown Toronto is expected to remain unchanged through to the end of 2019 and should remain stable until early 2021, supported by strong market fundamentals – low unemployment and interest rate environments, together with steady demand. As the next wave of new developments start to arrive in 2020, displaced space left behind from tenants relocating into the new towers is expected to offset growth and ease current tight market conditions.

Availability

The Financial Core's overall availability rate increased in the second quarter of 2019 to 3.0% from 2.9% last quarter. This was primarily driven by Class B availability, which rose by 130,000 sf to 544,000 sf.

An additional 381,000 sf of availability is expected to return to market over the second half of 2019. This includes a 121,000-sf block to be vacated by Norton Rose Fulbright Canada LLP at 200 Bay Street, South Tower.

Leasing Activity

Leasing activity rose in the second quarter of 2019 to 461,000 sf from 376,000 sf last quarter. This was largely driven by an increase in Class AAA leasing of 66,000 sf.

TD Bank Financial Group leased 903,000 sf at 160 Front Street West, a Cadillac Fairview development that is now fully leased (completion scheduled for 2022). A 47,000-sf block was leased by Spaces at 200 Bay Street, North Tower. Grant Thornton LLP leased 31,000 sf at 200 King Street West.

Sublease Availability

Overall sublet availability decreased in the second quarter of 2019 to 184,000 sf from 271,000 sf last quarter, driven by a 49,000-sf drop in Class A availability. Furthermore, all classes of space experienced a decline in sublet availability in the quarter.

Over the next two quarters, new sublet availability is expected to increase by about 62,000 sf, with the largest block being State Street Trust Company Canada's 24,000-sf sublet at 30 Adelaide Street East. The remaining new sublets are under 9,000 sf in size.

Absorption

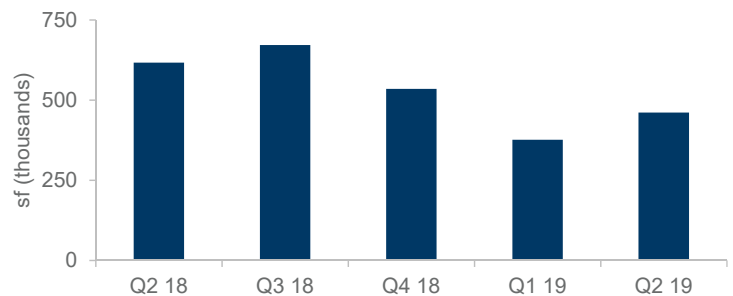
Overall absorption improved in the second quarter of 2019 to negative 45,000 sf, driven by the return of Class AAA absorption to positive territory. However, Class A absorption weakened, keeping the Financial Core's overall absorption negative for a second consecutive quarter.

Downtown demand remains healthy, with absorption expected to rise in the coming quarters. A shortage of large blocks of available space and falling sublet availability are some factors constraining demand, which are likely to result in some pent-up demand.

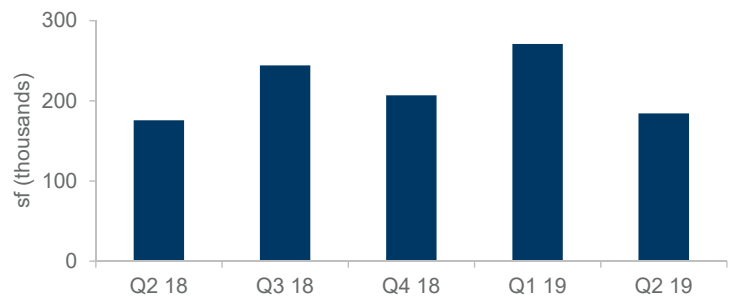
Availability All Classes



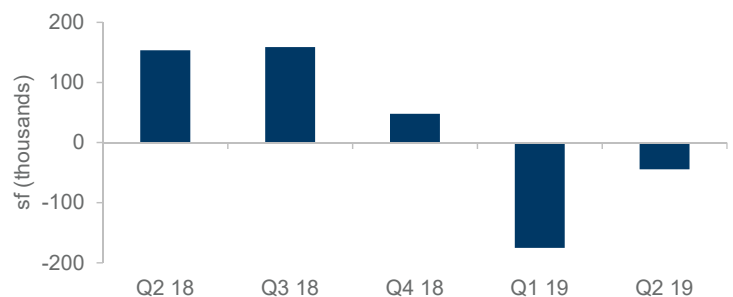
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Overall availability rose slightly in the second quarter of 2019 to 1.4% from 1.3% last quarter. This was driven by a 63,000-sf increase in Class A space in the Downtown West submarket.

An additional 236,000 sf of availability is expected to come to market over the next two quarters. The largest block will be 37,000 sf at 10 Dundas Street East. Also, Chartered Professional Accountants of Ontario is expected to vacate a 27,000-sf block at 25 York Street.

Leasing Activity

Leasing activity rose by 152,000 sf in the second quarter of 2019 to 509,000 sf. This was driven primarily by Class A, which accounted for 80% of the increase.

There were a few large deals completed in new developments that are currently under construction. Freedom Mobile leased 113,000 sf at 16 York Street (mid-2020 completion) and the Toronto Region Board of Trade leased 90,000 sf at 100 Queens Quay East (early-2021 completion).

Sublease Availability

Overall sublet availability rose in the second quarter of 2019 to 163,000 sf from 116,000 sf last quarter. This can be attributed to a 39,000-sf increase in Class A sublet availability, 84% of which was driven by a rise in Downtown West sublet availability over the quarter.

Over the next quarter, an additional 31,000 sf of space is expected to come to market. Most of these future availabilities are relatively small in size, with the majority being under 5,000 sf.

Absorption

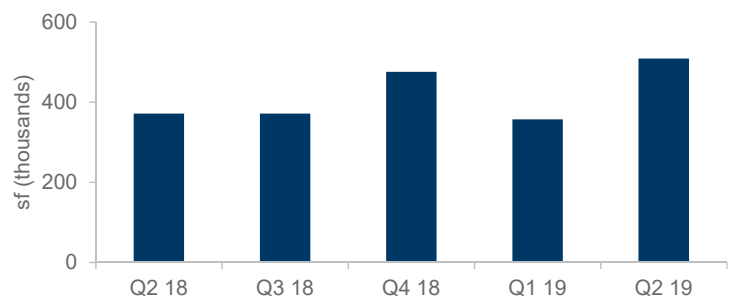
The Downtown Fringe's overall absorption increased in the second quarter of 2019 to 222,000 sf from 56,000 sf last quarter. The spike in absorption was due to new supply occupancy.

The completion and occupancy of 620 King Street West by its tenants, Shopify and Indigo Books & Music Inc., provided a boost to absorption. The success of this fully leased development is a reflection of the sizzling hot Downtown Fringe market. There are numerous new developments currently under construction, which will continue to drive the market for several more years.

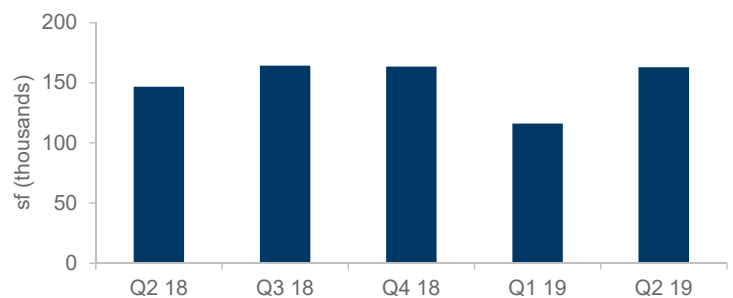
Availability All Classes



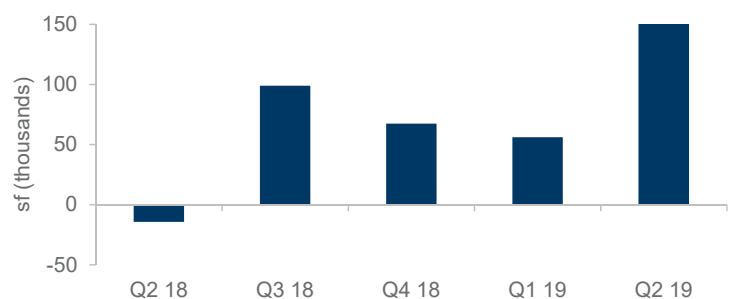
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Midtown's availability rate decreased to 2.1% this quarter from 2.4% in the first quarter of 2019. This rate ranks as the lowest in approximately 30 years and the third consecutive quarter below 2.5%. This was driven by a 63,000-sf decrease in the Bloor submarket, which is at a record-low rate of 1.7%.

Over 130,000 sf of available space is expected to return to market over the next two quarters. One of the larger spaces is Dialog's 32,000-sf block at 2 Bloor Street East, which is expected to return to market in the third quarter of 2019.

Leasing Activity

Leasing activity in the second quarter of 2019 fell to 129,000 sf from 163,000 sf last quarter, driven by an decrease in Class B leasing in the Bloor submarket of 68,000 sf. This level is the lowest in almost 3 years and 35% below the five-year average of 200,000 sf. About 60% of the leasing activity was in Class A buildings.

Notable transactions this quarter included Ipsos Canada's 49,000-sf transaction at 160 Bloor Street East and Tier1CRM Inc's 28,000-sf deal at 2300 Yonge Street.

Sublease Availability

Sublet availability increased in the second quarter of 2019 by 9,000 sf to 71,000 sf. This marks the highest level achieved in 6 quarters and close to the 3-year quarterly average of 79,000 sf. This is still a long way from the 5-year quarterly average level of 140,000 sf.

A low amount of sublet space is expected to become available over the next two quarters, all of which are in blocks under 10,000 sf. Therefore, sublet availability is poised to remain at modest levels over the next several quarters.

Absorption

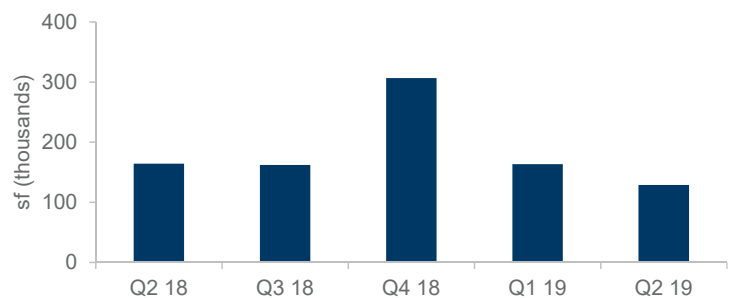
Midtown's overall absorption dropped in the second quarter of 2019 to negative 77,000 sf from negative 8,000 sf last quarter. Despite this negative result, both Class A and Class C product were in positive territory this quarter.

Midtown's quarterly absorption continues to experience wide swings as demonstrated by its recent performance. As a result of this volatility, average quarterly absorption over the last five years has been rather low at about 11,000 sf.

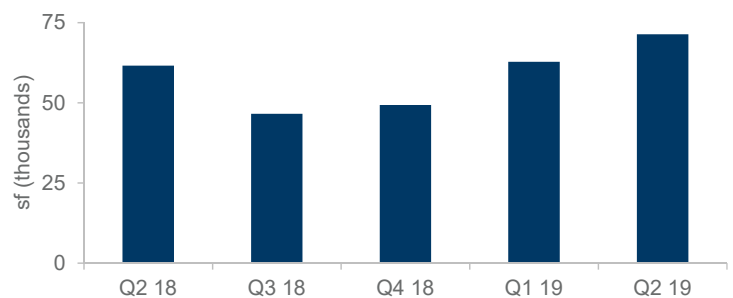
Availability All Classes



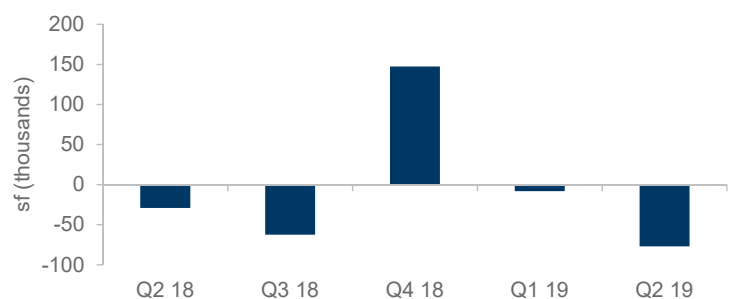
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA East overall availability rate decreased in the second quarter of 2019 to 8.9%, its lowest level in six years. This was mainly due to the Duncan Mill submarket, which saw a decrease in availability of 139,000 sf this quarter.

Approximately 84,000 sf of space is expected to return over the next quarter. This includes the 16,000-sf block at 2225 Sheppard Avenue East, which is expected to be vacated by Viva Financial Corporation & Kids II Canada Co.

Leasing Activity

Leasing activity increased this quarter to 314,000 sf from 215,000 sf last quarter. This was primarily due to the Consumers Road submarket's leasing activity increasing by 37,000 sf in the quarter. Leasing over the last two quarters has been below the 5-year quarterly average of about 400,000 sf.

Significant transactions completed in the second quarter of 2019 include Combined Insurance's 31,000-sf deal at 150 Commerce Valley Drive West and Huawei Technologies' 30,000-sf lease at 10 Aviva Way.

Sublease Availability

Sublet availability increased in the second quarter of 2019 to 575,000 sf from 535,000 sf last quarter. This was driven by the Hwy 404 & Hwy 7 submarket's sublet space increase of 36,000 sf during the quarter.

A very low amount of sublet space is being tracked to become available over the next quarter, with the largest block being a 5,000-sf sublet at 3760 14th Avenue. In recent quarters, overall sublet availability has remained above the 5-year quarterly average of about 400,000 sf.

Absorption

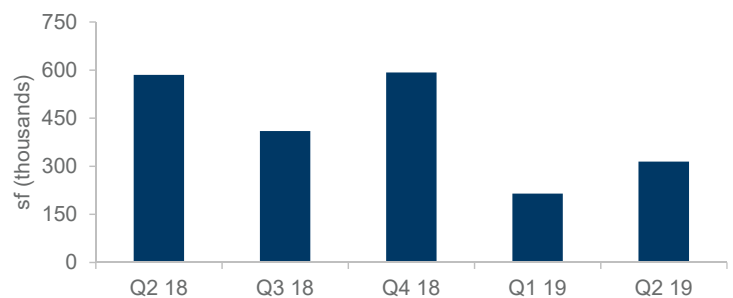
GTA East's overall absorption increased in the second quarter of 2019 to 72,000 sf from negative 128,000 last quarter. This can be attributed to an increase in the Hwy 404 & Hwy 7 submarket's Class A absorption of 155,000 sf in the quarter.

Overall, quarterly absorption continues to swing from positive to negative territory. As a result, the 5 year quarterly average is only about 15,000 SF. There has been no development activity over the last several quarters. Furthermore, no new developments are currently under construction. Consequently, absorption is likely to remain modest over the remainder of the year.

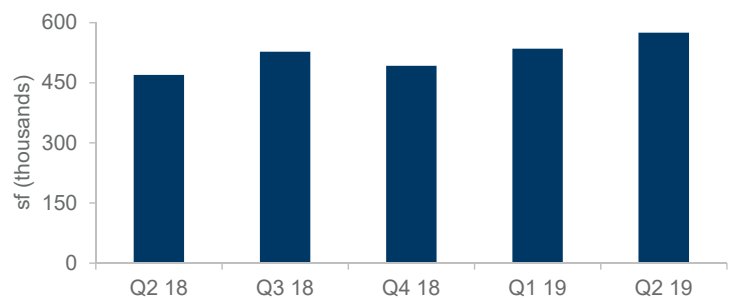
Availability All Classes



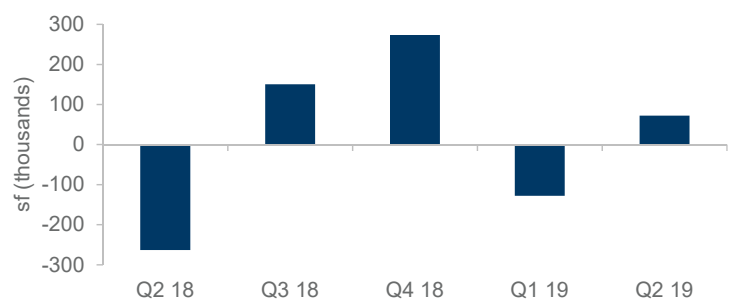
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA North overall availability rate increased in the second quarter of 2019 to 7.5% from 6.6% last quarter. This was driven by the North Yonge Corridor submarket's overall availability increase of 98,000 sf.

Approximately 135,000 sf of space is expected to return over the next quarter. This includes a total of 48,000 sf at 25 Sheppard Avenue West, which is expected to be vacated by Centurion Property Associates, Quebecor Media & Transcontinental Communications.

Leasing Activity

Leasing activity decreased in the second quarter of 2019 to 135,000 sf from 154,000 sf last quarter, driven by the North Yonge Corridor submarket's Class B leasing, which declined by 24,000 sf quarter-over-quarter. Recent leasing levels have been below the 3-year quarterly average of about 180,000 sf.

A significant transaction completed in the second quarter of 2019 was the Ontario Cannabis Retail Corporation's 37,000-sf deal at 4100 Yonge Street.

Sublease Availability

Overall sublet availability increased in the second quarter to 145,000 sf from 80,000 sf last quarter, driven by a 32,000-sf increase in each of the North Yonge Corridor and Vaughan submarkets' sublet space. This level is closer to the 3-year quarterly average of about 135,000 sf.

A low amount of sublease space is being tracked to become available over the next several quarters. The largest block will be Daisy Intelligence's 7,000-sf sublet at 2300 Steeles Avenue West.

Absorption

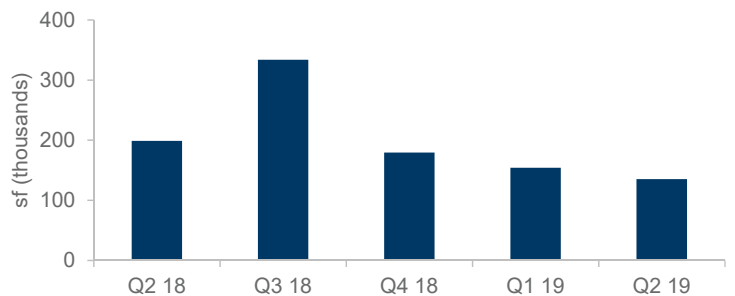
GTA North absorption decreased in the second quarter of 2019 to negative 121,000 sf from 2,000 sf last quarter. This was due to a decrease in overall absorption of 66,000 sf in the North Yonge Corridor submarket and a decrease of 60,000 sf in the Vaughan submarket.

New development activity has slowed over the past year in the GTA North market. Therefore, there will be less upward pressure on absorption from tenants occupying new buildings.

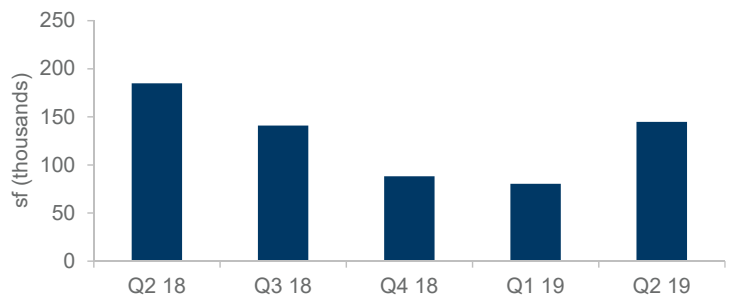
Availability All Classes



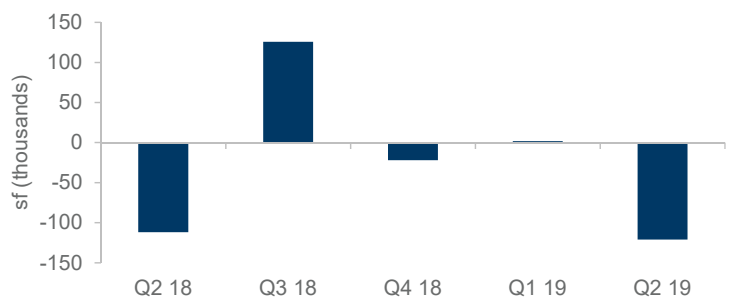
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The overall availability rate experienced a marginal decline in the second quarter of 2019, falling to a 5-year low of 11.4% from 11.5% last quarter. This fall was driven by a decrease of almost 60,000 sf in each of the Meadowvale, Oakville and Hurontario Corridor submarkets.

Approximately 679,000 sf of space is expected to come back to market next quarter. This includes the entire 276,000-sf building at 2300 Meadowvale Boulevard, which is expected to be vacated by GE Canada Inc.

Leasing Activity

Leasing has recovered from the first quarter of 2019's weak result, increasing to 586,000 sf from 192,000 sf last quarter. The Meadowvale submarket experienced the largest increase over the quarter, rising by almost 100,000 sf.

Significant deals this quarter included SOTI Inc.'s 45,000-sf deal at 6975 Creditview Road, Medline Canada Corp.'s 44,000-sf deal at 5150 Spectrum Way and Tandia's 22,000-sf deal at 3455 North Service Road.

Sublease Availability

Sublease availability continued its upward trend, rising for the third consecutive quarter. In the second quarter of 2019 it experienced a 15% increase, rising to 620,000 sf from 540,000 sf last quarter. This increase was largely driven by a 129,000-sf rise in sublet space in the Airport submarket.

Over the next two quarters, a low amount of sublet space is expected to return to the market, with the largest upcoming block being Ryan LLC's 16,000-sf sublet at 6775 Financial Drive.

Absorption

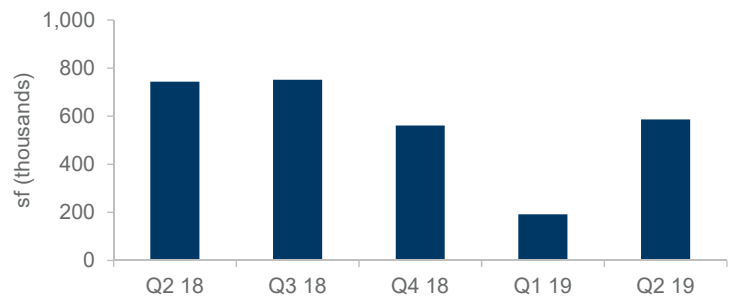
Overall absorption in the second quarter of 2019 rebounded to 24,000 sf from negative 116,000 sf in the previous quarter. This can be attributed to increases in the Oakville and Meadowvale submarkets, as each experienced an absorption increase of approximately 110,000 sf.

GTA West absorption is expected to remain low through the remainder of the year. The development slated for completion in the fourth quarter is expected to have only a slight impact on absorption. However, absorption should improve in 2020 with the completion and subsequent occupancy of several developments.

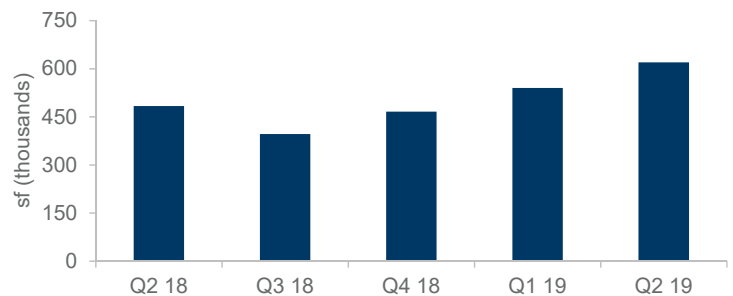
Availability All Classes



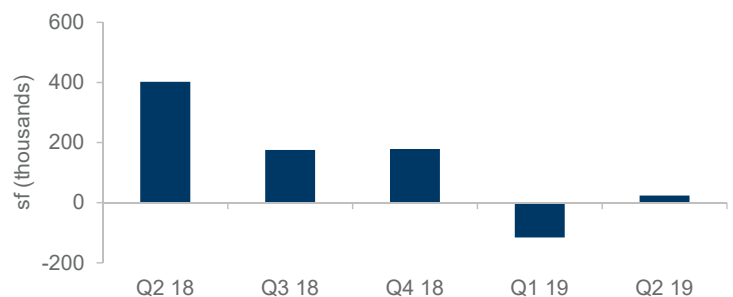
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



MARKETBEAT

Greater Toronto Area, ON

Office Q2 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	35,262,958	184,255	858,552	3.0%	-44,519	-219,804	837,218	2,063,000	\$65.70	\$68.91
Downtown Fringe	38,294,943	162,846	378,746	1.4%	222,107	278,212	865,646	5,831,543	\$52.54	\$56.57
Downtown	73,557,901	347,101	1,237,298	2.2%	177,588	58,408	1,702,864	7,894,543	\$58.85	\$63.44
Midtown	16,197,605	71,367	273,730	2.1%	-77,008	-85,285	292,207	0	\$48.07	\$54.10
CENTRAL AREA	89,755,506	418,468	1,511,028	2.1%	100,580	-26,877	1,995,071	7,894,543	\$56.92	\$62.20
GTA East	32,382,567	574,722	2,291,884	8.9%	72,219	-55,913	528,748	0	\$30.58	\$33.99
GTA North	15,137,016	144,762	988,034	7.5%	-121,012	-119,347	289,252	86,380	\$37.25	\$38.60
GTA West	39,501,032	620,029	3,889,672	11.4%	23,571	-92,309	778,084	370,860	\$31.26	\$33.30
SUBURBAN AREA	87,020,615	1,339,513	7,169,590	9.8%	-25,222	-267,569	1,596,084	457,240	\$32.00	\$34.58
GTA TOTALS	176,776,121	1,757,981	8,680,618	5.9%	75,358	-294,446	3,591,155	8,351,783	\$44.77	\$49.77

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
160 Front Street West	903,000	TD Bank Financial Group	Lease	Financial Core
16 York Street	113,000	Freedom Mobile	Lease	Downtown South
100 Queens Quay East	90,000	Toronto Region Board of Trade	Lease	Downtown South
200 Bay Street, North Tower	47,000	Spaces	Lease	Financial Core
6975 Creditview Road	45,000	SOTI Inc.	Sublease	Meadowdale
5150 Spectrum Way	44,000	Medline Canada Corporation	Lease	Airport Corporate Centre
4100 Yonge Street	37,000	Ontario Cannabis Retail Corporation	Lease	Yonge & Hwy 401
150 Commerce Valley Drive West	31,000	Combined Insurance	Lease	Hwy 404 / 407
200 King Street West	31,000	Grant Thornton LLP	Lease	Financial Core

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Aerocentre	623,250	Hospitals of Ontario Pension Plan / Fiera Properties	\$163,351,509 / \$262	Airport Corporate Centre
West Metro Corporate Centre (25% interest)	618,467	Slate Asset Management / Wafra Inc.	\$42,290,000 / \$274 (adjusted)	Hwy 427 Corridor
Commerce West (25% interest)	412,363	Slate Asset Management / Wafra Inc.	\$29,887,500 / \$290 (adjusted)	Hwy 427 Corridor
Woodbine Steeles Corporate Centre (25% interest)	359,541	Slate Asset Management / Wafra Inc.	\$21,160,000 / \$235 (adjusted)	Hwy 404 / Steeles
2440 Winston Park Drive	95,372	Cooper Construction Limited / 2685164 Ontario Inc.	\$25,500,000 / \$267	Oakville

Source: RealNet Canada Inc.

MARKETBEAT

Greater Toronto Area, ON

Office Q2 2019



Key Construction Completions 2019

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
620 King Street West, Toronto	Downtown West	Shopify	Q2 2019	268,217 (100%)
80 Atlantic Avenue, Toronto	King West	Universal Music	Q1 2019	79,758 (100%)
3455 North Service Road – Building A, Burlington	Burlington	Tandia	Q1 2019	43,189 (50%)

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%)
160 Front Street West, Toronto	Financial Core	TD Bank Financial Group	Q3 2022	1,255,000 (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 (57%)
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 (48%)
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%)
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.	Q4 2019	129,728 (28%)
171 East Liberty Street, Toronto	King West	WeWork	Q3 2021	125,500 (56%)
6220 Highway 7 West, Vaughan	Vaughan	Speculative	Q4 2019	86,380 (0%)

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