



Greater Toronto office market report

Q1 2024

**AVISON
YOUNG**

Greater Toronto market fundamentals

19.5%

total availability rate
up from 19.3% in Q4 2023

7.6M

square feet (sf) available sublet space
down 12% year-over-year

3.5M

sf office area under construction
equal to 2% of existing inventory

226

GTA buildings with more than
50,000 sf available
up from 225 in Q4 2023

23%

Downtown sublet space as a proportion
of total available space
vs. 17% in the suburbs

2

new office building completions
across the GTA in Q1 2024

Greater Toronto office market trends

01

Availability and vacancy rates continue upward trend

The overall availability rate across the GTA rose 20 basis points (bps) to 19.5% during the first quarter – up 100 bps year-over-year. Overall vacancy, meanwhile, was up 40 bps quarter-over-quarter and 150 bps year-over-year to 13.7%. Net absorption was positive in Q1 as occupied area increased by nearly 459,000 sf across the GTA – but it remains to be seen whether these gains will be counterbalanced by spaces to be vacated later by tenants who have relocated to newly delivered buildings.

The quarter-over-quarter increase in availability GTA-wide was not reflected in all districts: while availability rose in Downtown and Midtown, it remained flat in Toronto East and notched downward slightly in both the Toronto North and Toronto West markets. Vacancy was up in Downtown, Midtown and Toronto East, but down slightly in Toronto North and West.

02

Tenants gaining a better understanding of their needs

With about four years of remote and hybrid working under tenants' belts, the dust is beginning to settle in the leasing market – at least to some extent – as many tenants have a clearer idea of their space needs beyond the short-term horizon they have been considering since the pandemic began. Companies are still aiming to right-size their spaces as leases approach expiry or renewal.

With elevated availability rates, most tenants have a range of options to consider. As construction costs for building out space remain high, many organizations are seeking the value offered by built-out space options, including subleases, model suites or other turnkey opportunities. Many landlords are increasingly becoming aware that sublease availabilities are competing for tenants directly with their own headlease offerings.

03

Landlords focus on maintaining occupancy and retaining tenants

Since emerging from the pandemic, many landlords have remained eager to maintain net rental rates at pre-pandemic levels – but offered tenants other inducements and incentives such as free rent and tenant improvement allowances to remain competitive among the ever-increasing number of options in the market. However, as availability continues to rise, there are signs that some landlords have begun to consider being more flexible with rental rates in order to secure deals.

The amount of space available for sublease, relative to the total amount of available space, has been declining for the past year as lease terms for those spaces expire. Thus, the continuing increase in available space is of growing significance to landlords as they focus on finding new tenants, and retaining existing ones, to shore up occupancy rates in their buildings.

Downtown and Midtown Toronto office markets

Availability and vacancy up while construction pipeline tapers off

Availability in Downtown Toronto rose 40 bps quarter-over-quarter to 19.1% – an increase of 170 bps year-over-year. Vacancy also rose further, increasing 90 bps during the quarter (and 280 bps year-over-year) to 14.3%. Net absorption remained positive during the first quarter, as occupied area increased by 326,000 sf – but this may be offset in the coming quarters as tenants of new buildings vacate their former premises.

One new building was delivered during the quarter: 160 Front St. W. (1.3 million sf). Once again, no new projects were announced as the supply pipeline continues to taper off, leaving seven projects (totaling 2.7 million sf) under construction. The last of these to be completed will be 141 Bay St. (CIBC Square Phase II), in Q2 2025.

Sublease availability declines once again

While overall availability rose, the amount of space available for sublease across the Downtown market fell nearly 311,000 sf during the quarter to 3.8 million sf – representing a decrease of 841,000 sf year-over-year.

As tenants continue to adapt their space requirements to new ways of working, and leases signed before the pandemic expire, subleases that had been offered are reverting to landlords and remain available as direct space. Thus, overall availability continues to creep upward despite the decline in space available for sublease.

Midtown posts GTA's highest vacancy and availability rates

Availability in the Midtown market increased 60 bps quarter-over-quarter to end Q1 at 22.6% (up 350 bps year-over-year). Meanwhile, vacancy rose 100 bps quarter-over-quarter to 15.8% (up 50 bps year-over-year). One project remains under construction, at 2161 Yonge St., with 89,400 sf of office space slated for completion in 2025.

Suburban GTA office markets

Availability and vacancy decline slightly in the suburbs

Together, the GTA's suburban markets once again posted declining availability (down 10 bps to 19.3%) and vacancy (down 20 bps to 12.8%) during the first quarter. Year-over-year, availability was also down 10 bps, while vacancy had risen 40 bps – both more favourable results than were posted in the Downtown market. Quarter-over-quarter, availability fell 20 bps to 18.6% in Toronto West and 10 bps to 20.8% in Toronto North, while remaining flat in Toronto East at 19.6%.

Net absorption during the first quarter was positive in Toronto West (304,800 sf), nearly flat in Toronto North (5,500 sf) and negative in Toronto East (-31,000 sf).

New buildings still to be delivered in all GTA markets

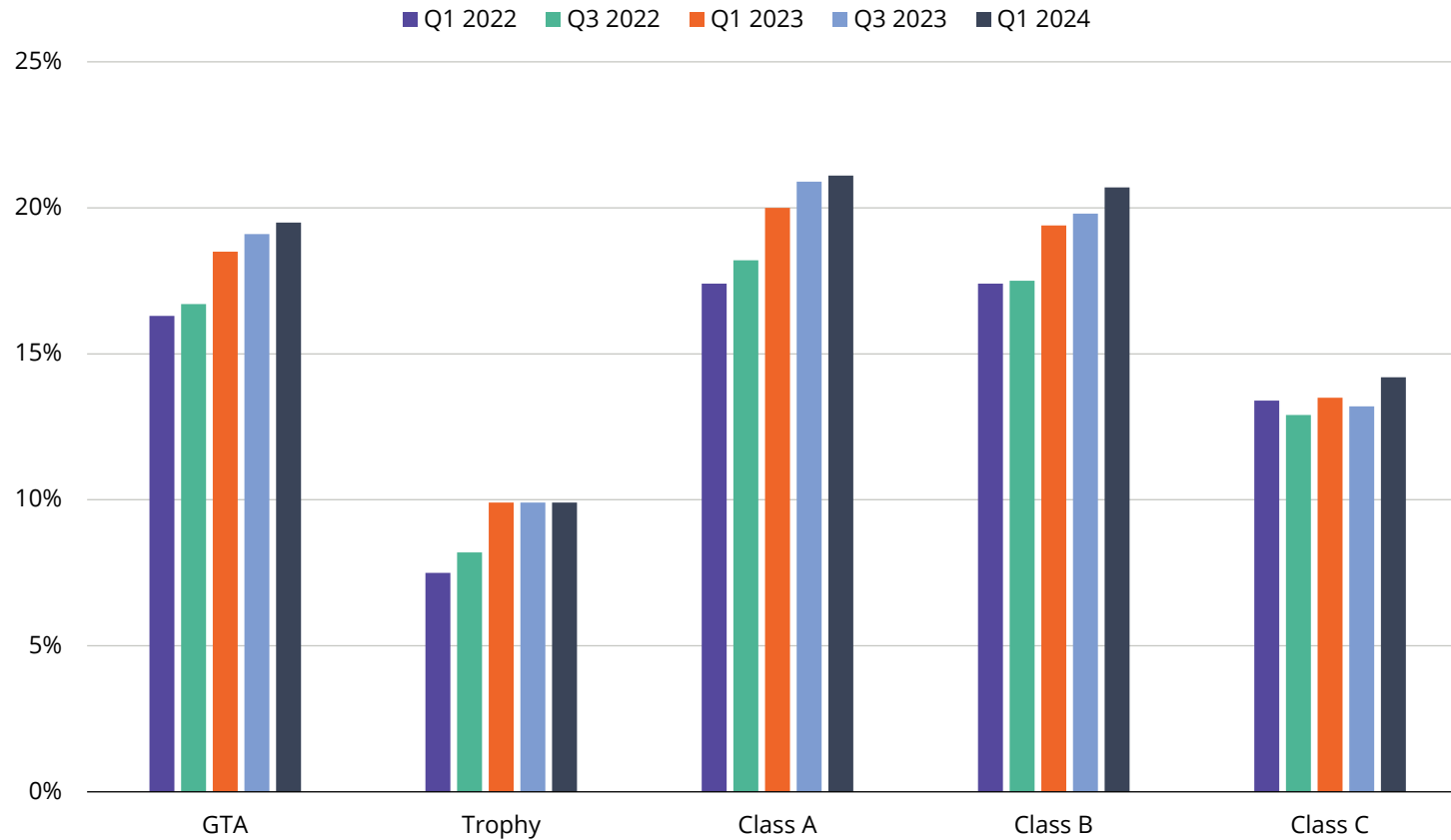
The lack of new project announcements in recent years has resulted in the supply pipeline tapering off as projects are completed. Of the 13 office buildings under construction across the GTA at the end of the first quarter, five were located in the suburbs (two in Toronto East, two in Toronto North and one in Toronto West). Together, these projects account for 20% of the total square footage under construction in the GTA – compared with just 6% in Q1 2020, when the Downtown market's booming construction pipeline represented a much larger share. At the end of Q1 2024, 2.7 million sf of buildings were underway downtown (53% preleased), compared with 708,000 sf (29% preleased) in the suburbs.

MDA Space's new HQ in Brampton completed

The only new office building completion to take place in the GTA's suburban markets during the first quarter was that of MDA Space's new global headquarters and Space Robotics Centre of Excellence at 7500 Financial Drive in Brampton. The new facility comprises 120,000 sf of office space and 80,000 sf of lab space, and will support the firm's ongoing work in robotics, satellite systems, and space exploration and infrastructure.

Greater Toronto office market indicators

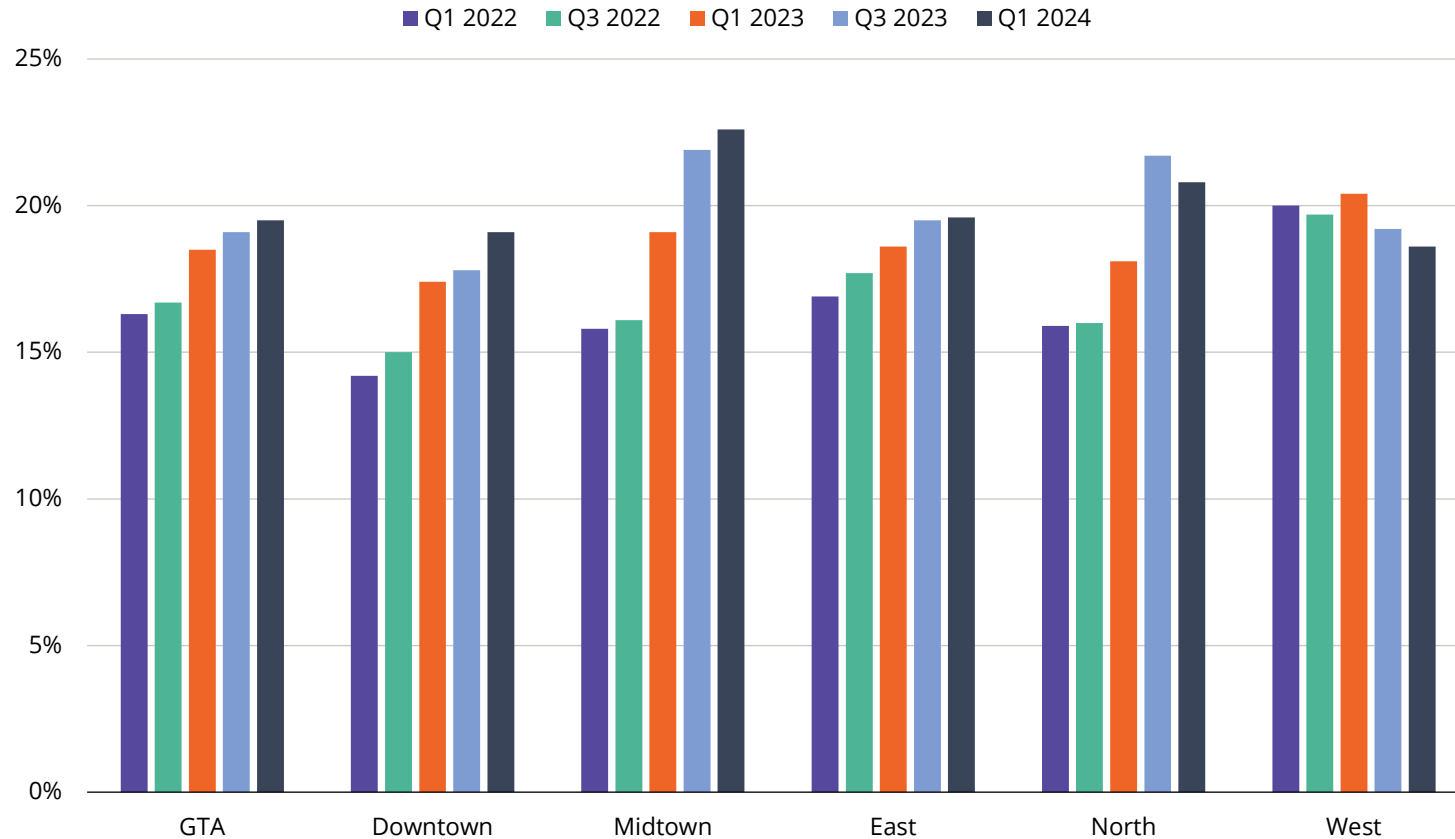
Availability rate by class



Across the GTA, availability rates for all classes except Trophy buildings have continued to rise over the past two years.

Greater Toronto office market indicators

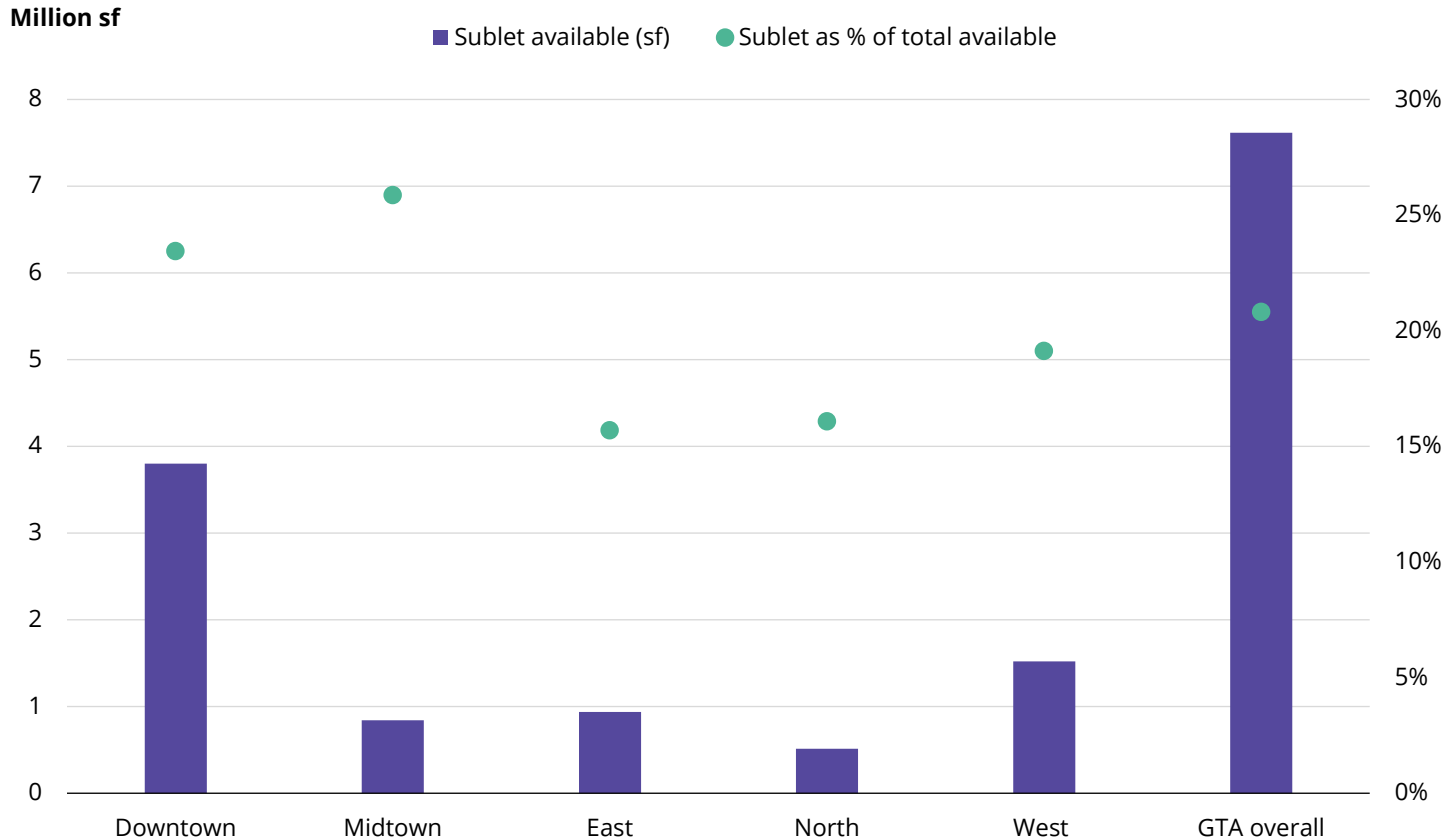
Availability rate by district



The Toronto North and Toronto West office markets bucked the trend of rising availability rates posted by other GTA markets.

Greater Toronto office market indicators

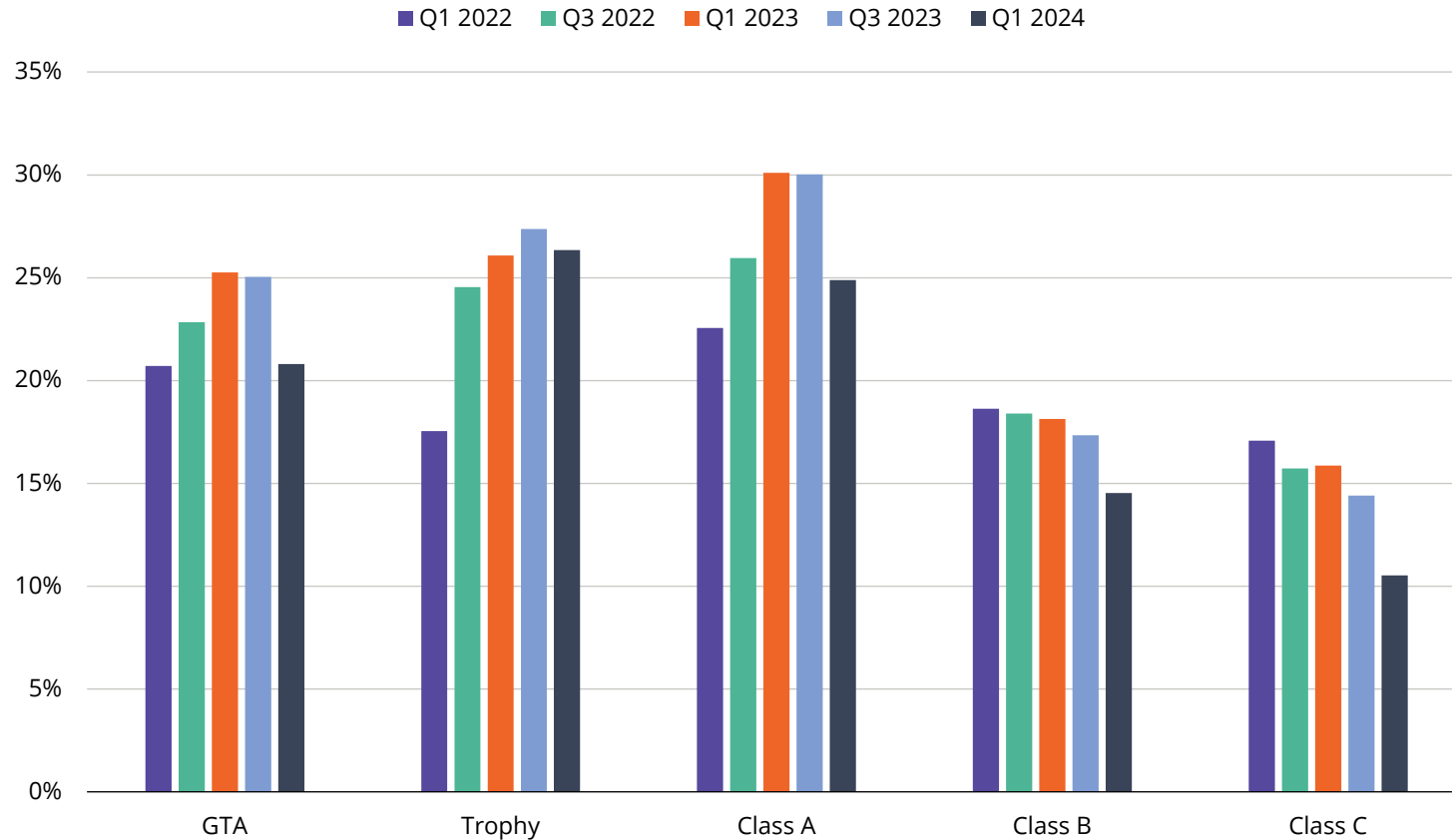
Sublet availability – all classes



Sublet availability has declined from its peak as leases expire and available spaces return to landlords.

Greater Toronto office market indicators

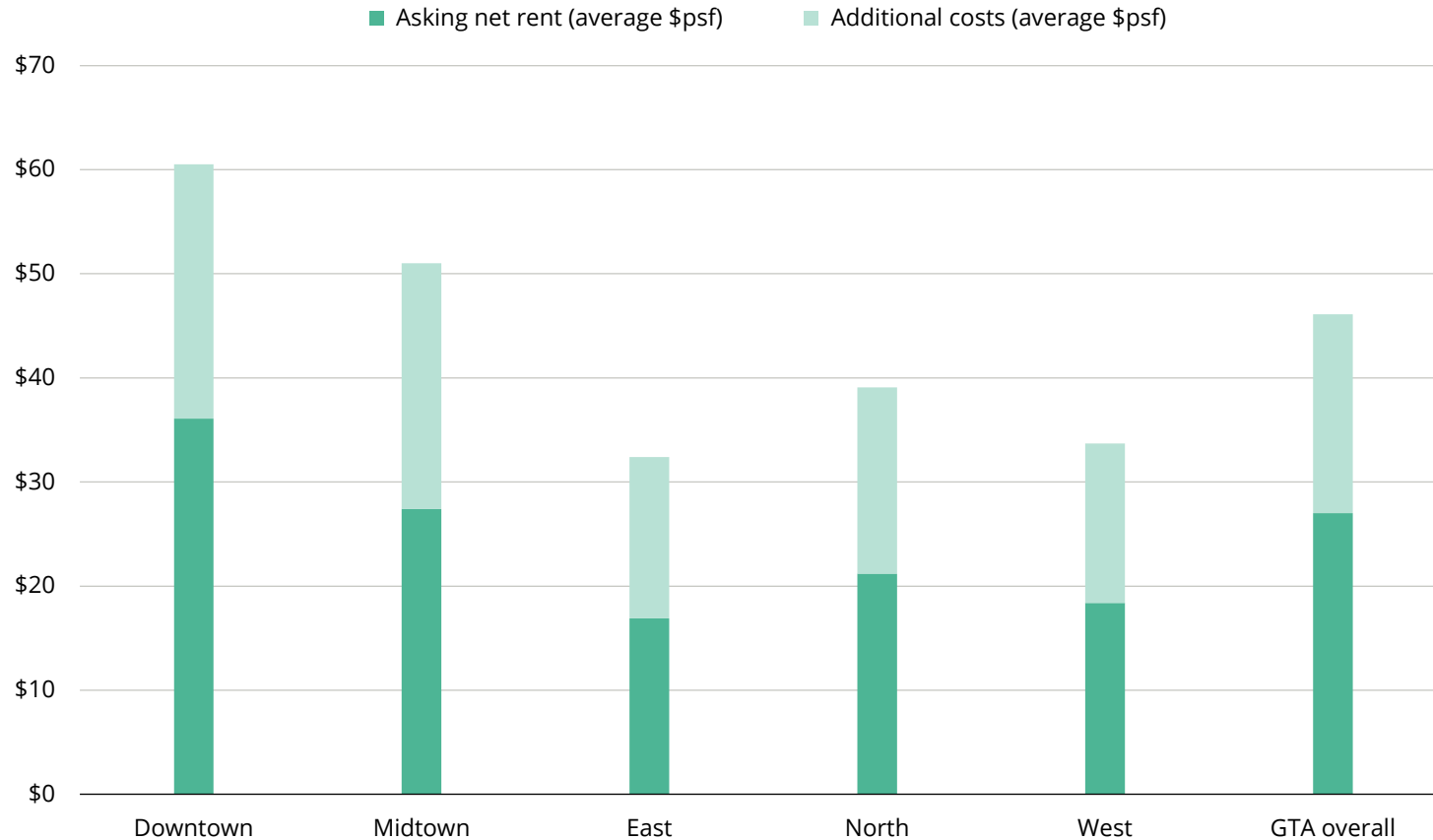
Sublease as a percentage of total availability by class



Sublet availability's share of total available space continues to decline across all classes as spaces are leased or revert to landlords.

Greater Toronto office market indicators

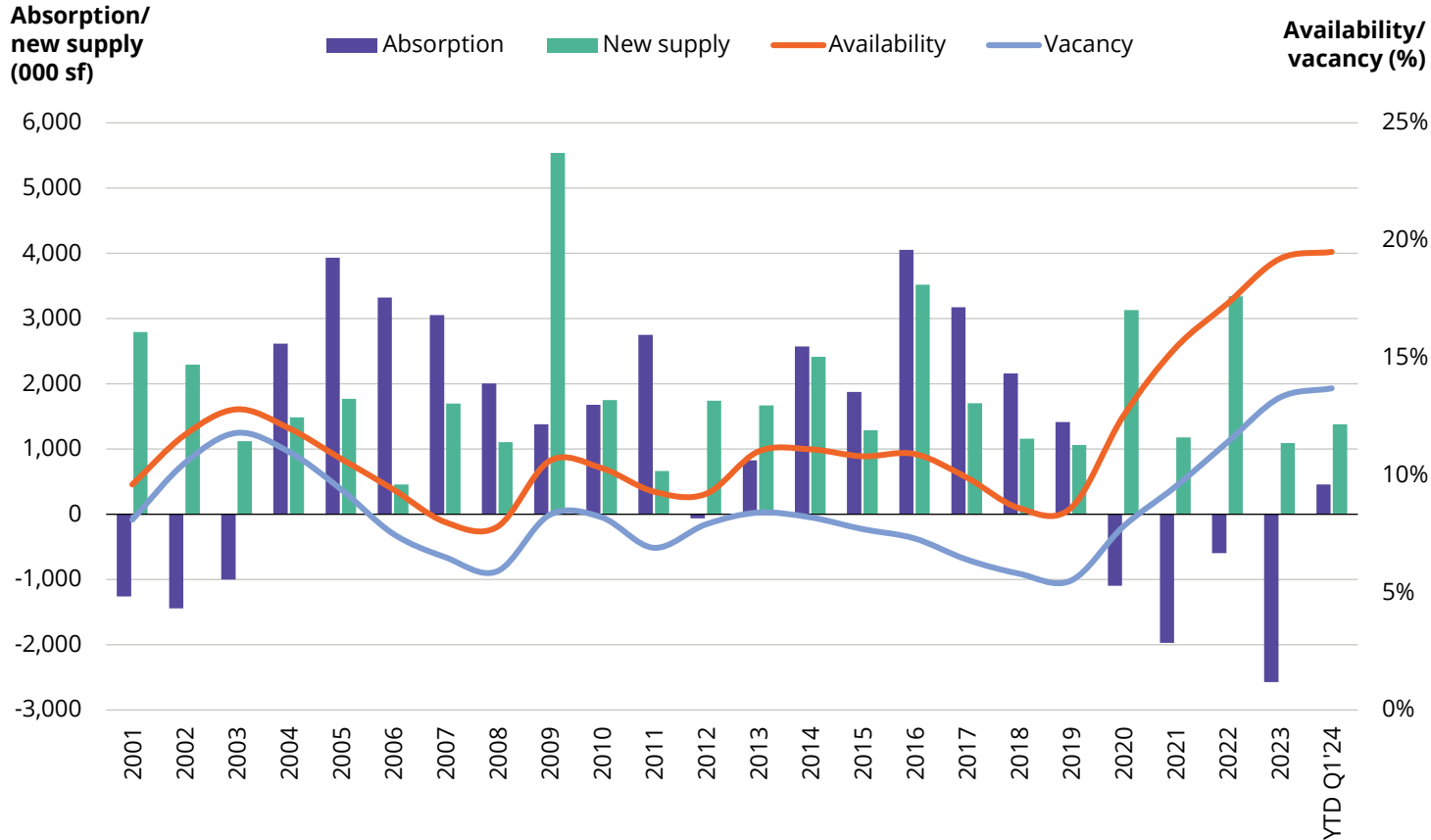
Occupancy costs



The Downtown and Midtown markets still command the highest asking rental rates, while the suburban markets all offer rates below the GTA average.

Greater Toronto office market indicators

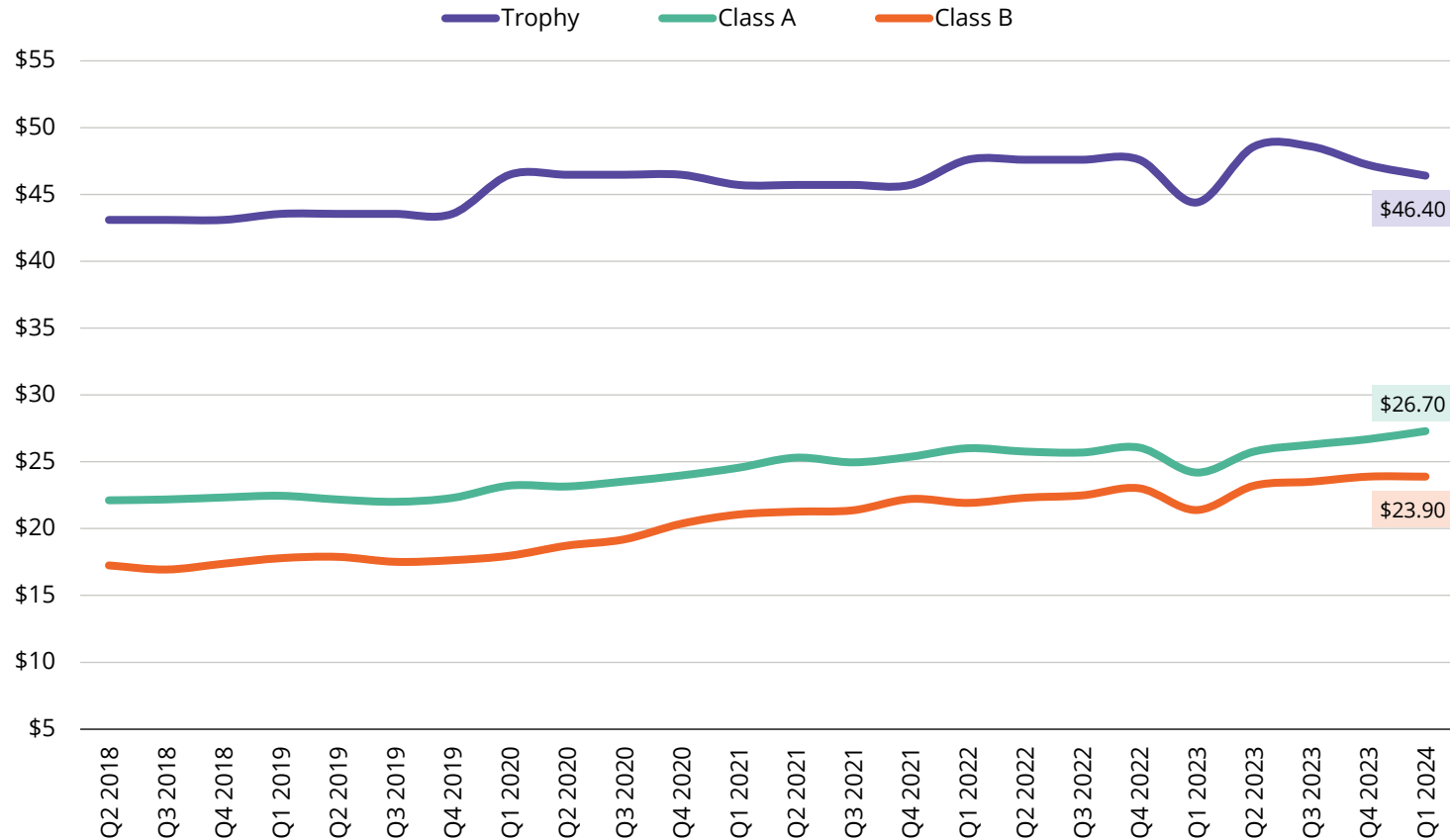
Historic office market trends



New construction deliveries pushed YTD absorption into positive territory, but time will tell if the trend persists throughout 2024.

Greater Toronto office market indicators

Net asking rents



Average asking rental rates have so far held relatively steady despite the market changes of the past few years.

Greater Toronto office market activity

Significant lease transactions

Address	District	Tenant name	Size (sf)	Lease type
141 Bay St., Toronto	Downtown	Canada Pension Plan Investment Board	330,000	New
120 Bloor St. E., Toronto	Midtown	Invesco	66,800	Renewal
150 Commerce Valley Dr. W., Markham	East	WSP Global	44,500	New
8800 Dufferin St., Vaughan	North	Nubuild Contracting	7,900	New
3421 Superior Ct., Oakville	West	ABB Inc.	31,000	New

Significant sale transactions

Address	District	Sale price / \$psf	Buyer	Seller
70 York St., Toronto (leasehold and freehold interest)	Downtown	\$65,000,000 / \$335	KingSett Capital	Anbang Insurance Group
180 Duncan Mill Rd., Toronto	East	\$28,100,000 / \$194	Kingo (Duncan Mill) Development Corp.	180 Duncan Mill Corp.
2655 N. Sheridan Way, Mississauga	West	\$25,600,000 / \$162	Crown Realty Partners	Slate Asset Management / Wafra Inc.
Flatiron Building, Toronto	Downtown	\$15,400,000 / \$790	Lee Chow Group	The Commercial Realty Group
11 Indell Ln., Brampton	West	\$11,925,000 / \$365	Sunbelt Rentals	Indell Corp.

Greater Toronto office market statistics

District	Existing inventory (sf)	YTD deliveries (sf)	Under construction (sf)	Direct availability (%)	Sublet availability (%)	Total availability (%)	Q1 2024 net absorption (sf)	2024 net absorption (sf)
Downtown	84,771,500	1,259,400	2,690,100	14.7%	4.4%	19.1%	326,100	326,100
Midtown	14,416,200	0	89,400	16.8%	5.8%	22.6%	-146,900	-146,900
East	30,504,300	0	382,800	16.5%	3.1%	19.6%	-31,000	-31,000
North	15,327,800	0	294,000	17.5%	3.3%	20.8%	5,500	5,500
West	42,688,700	120,000	31,400	15.1%	3.5%	18.6%	304,800	304,800
GTA overall	187,708,500	1,379,400	3,487,600	15.4%	4.1%	19.5%	458,600	458,600

Class	Existing inventory (sf)	YTD deliveries (sf)	Under construction (sf)	Direct availability (%)	Sublet availability (%)	Total availability (%)	Q1 2024 net absorption (sf)	2024 net absorption (sf)
Trophy	15,028,700	0	1,435,500	7.3%	2.6%	9.9%	-252,400	-252,400
Class A	101,285,200	1,379,400	2,052,100	15.8%	5.3%	21.1%	1,054,200	1,054,200
Class B	55,915,800	0	0	17.7%	3.0%	20.7%	-186,000	-186,000
Class C	15,478,800	0	0	12.7%	1.5%	14.2%	-157,300	-157,300
GTA overall	187,708,500	1,379,400	3,487,600	15.4%	4.1%	19.5%	458,600	458,600

For more market insights and
information visit **avisonyoung.ca**

Steven Preston

Research Manager,
Downtown Toronto
+ 1 416 673 4010
steven.preston@avisonyoung.com

Charles Torzsok

Senior Research Analyst,
GTA Suburban Markets
+ 1 905 968 8023
charles.torzsok@avisonyoung.com

Warren D'Souza

Research Manager, GTA Suburban
National Industrial Lead
+ 1 905 283 2331
warren.dsouza@avisonyoung.com

Charlotte Ishoj

Research & Administration Coordinator,
Team Lead
+ 1 647 252 4099
charlotte.ishoj@avisonyoung.com

Thomas Forr

Director, Market Intelligence
+ 1 416 571 2090
thomas.forr@avisonyoung.com

Jamie Nelles

Senior Analyst, Market Intelligence
+ 1 416 899 5355
jamie.nelles@avisonyoung.com