Q2

Toronto Office

Market Insight Report

2023

GTA Overview

Q2 2023

SUPPLY
278,695,769 SF

VACANCY RATE
11.5%

AVERAGE NET RENT
$23.50/SF

NET ABSORPTION
-1,289,315 SF

Market Overview

The second quarter of 2023 saw an overall steady increase in vacancy rates across the Greater Toronto Area, driven largely by the Midtown market, and 437,000 square feet of sublet space coming on to the market at 55 Bloor Street West. Year over year, the net rents remain the same, with Landlords opting to provide incentives rather than decreasing their face rates.

The sublease market continues to climb with nearly 6 million square feet of space available on the market. It should be noted however, that subleases that continue to remain on the market are lacking updates and/or amenities that tenants find attractive. Quality subleases in buildings that offer sought-after amenities are moving quickly as employers seek a flight to quality.

The increase in interest rates from the Bank of Canada will have an adverse effect on build-out costs, making upgrades less financially feasible for both Landlords and tenants. This will likely force tenants to re-consider subleases previously deemed unsuitable. By the end of 2023, 3.1M square feet of new development is expected to come to the Downtown market, driven largely by 1.3 M square feet at 160 Front St West, which is expected to be complete by Q3 2023.

Submarket Movement

Vacancy Rate	QOQ Change	Direct Asking Rent ($/SF)	Submarket
5.4%	0.0% ●	$13.90	Durham
11.3%	0.6% ▲	$14.75	Toronto East
13.3%	-0.2% ▼	$17.26	Toronto West
11.0%	0.1% ▲	$18.74	Toronto North
11.0%	1.8% ▲	$27.15	Midtown
10.6%	0.7% ▲	$33.19	Downtown

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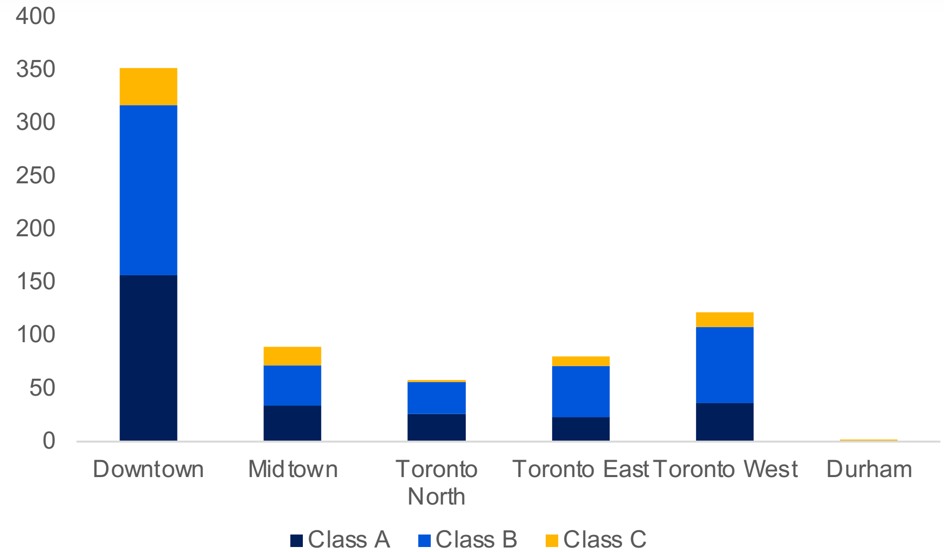
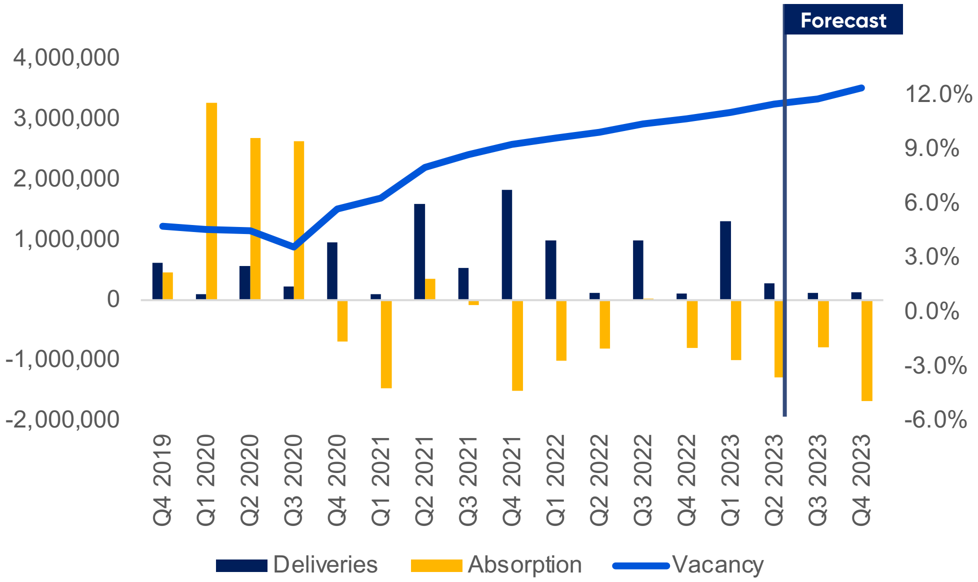
Subleases Available By Market



New Construction and Absorption



Cresa Notable Transactions

40 King Street West
45,518 SF
Downtown

8133 Warden Avenue
20,260 SF
Toronto East

20 Carlson Court
19,887 SF
Toronto West

The Occupier's Perspective

1. **The office is not dead, but the worst may be yet to come.**
Contrary to media headlines, the office market is not dead yet. Tenants continue to downsize in a "flight to quality" – better quality buildings with tenant focused amenities are being leased. It's everything else that is pulling down the market. Although there is a lot of space on the market, much of it needs improvement, and with the increased cost to build, both tenants and landlords are hesitant to make the investment.

2. **Financial constraints are inhibiting capital improvements.**
While Landlords understand the need for capital improvements to their available space, the rising costs of construction, higher interest rates and stakeholder interests are making such improvements slow, if not impossible. For tenants looking for Tenant Improvement Allowances to customize the space, Landlords are challenged in providing enough allowance to allow for the proper renovations needed. Instead, many Landlords are offering some free rent, or even free furniture, to help get the space leased.

3. **Building amenities is still king for companies, but employees seek more.**
The return to the office has been largely sector based, with the finance sector leading the pack. Regardless of the sector however, companies continue to seek buildings with great amenities to help incentivize employees to return. For employees, there are many other factors that are also important. Employee surveys indicate that things like an employee's relationship with their manager, pay, reward and recognition programs are equally as important as the amenities offered in the office. While amenities are important, they won't bring employees back on their own. This underscores the importance of creating a workplace study and strategy to better understand employee and organizational drivers and how real estate can play a role in achieving organizational goals. A good change management and employee experience program is also necessary to better align employee behaviours and organizational goals and activities.

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Downtown Toronto

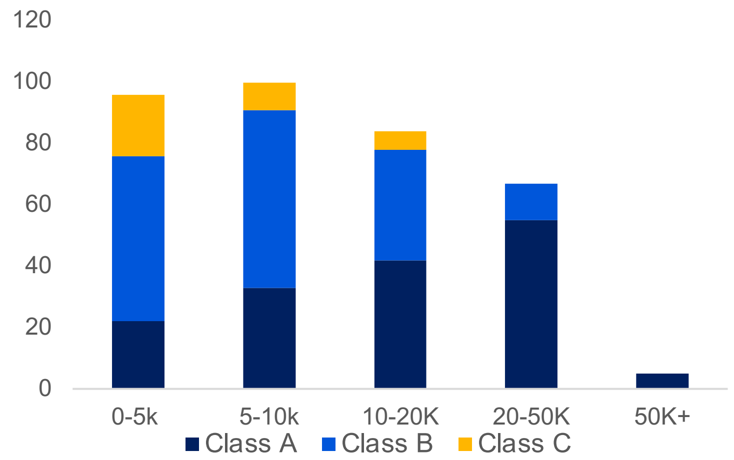
Q2 2023

SUPPLY	VACANCY RATE	AVERAGE NET RENT	NET ABSORPTION
104,888,515 SF	10.6%	$33.19/SF	-734,220 SF

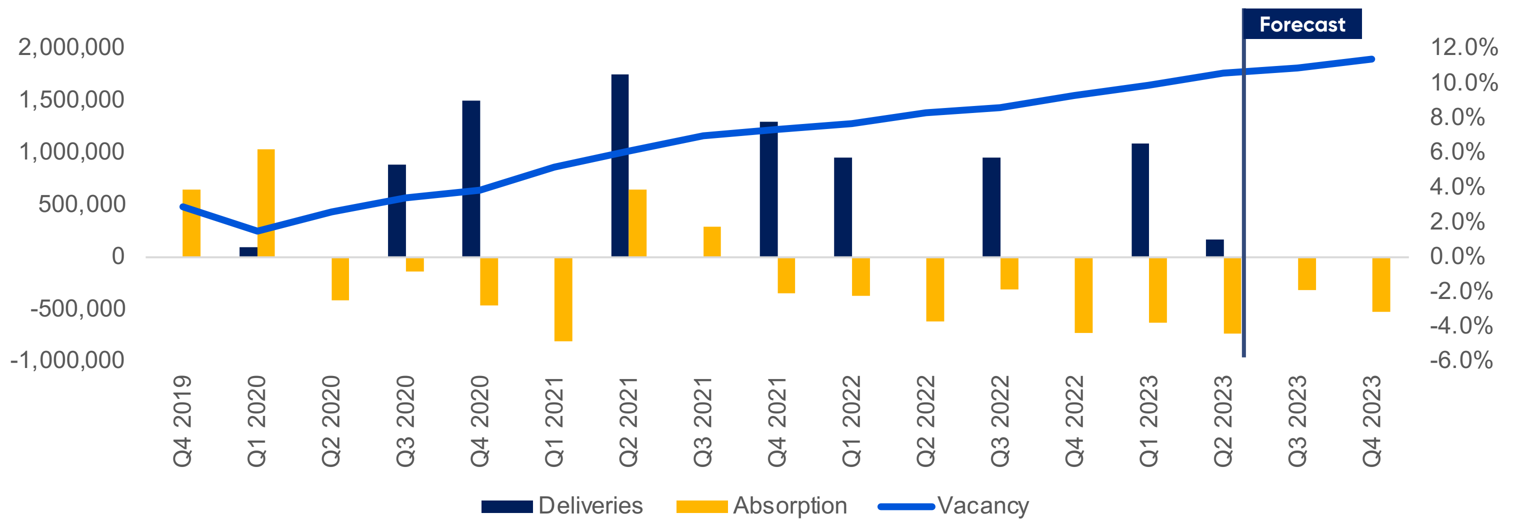
Arrows Indicate One Quarter Change

Vacancy Rate	Q4	Q1	Q2	
Financial Core	10.3%	11.0%	11.8%	↑
Outer Financial Core	12.3%	13.6%	14.4%	↑
Downtown North	8.6%	9.7%	9.6%	↓
Downtown South	7.6%	7.6%	7.6%	→
Downtown East	8.0%	7.5%	7.8%	↑
West	9.0%	9.4%	10.0%	↑
King/Dufferin	8.5%	7.9%	9.2%	↑
Overall	9.3%	9.9%	10.6%	↑

Subleases in Market



New Construction and Absorption



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Midtown Toronto

Q2 2023

SUPPLY
22,150,628 SF

VACANCY RATE
11.0%

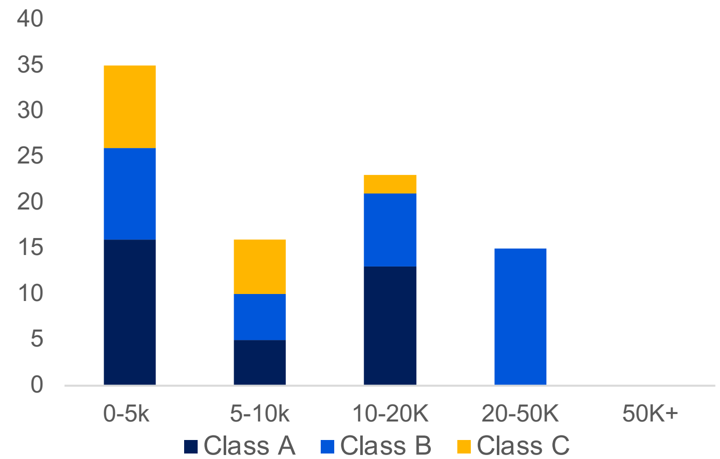
AVERAGE NET RENT
$27.15/SF

NET ABSORPTION
-398,711 SF

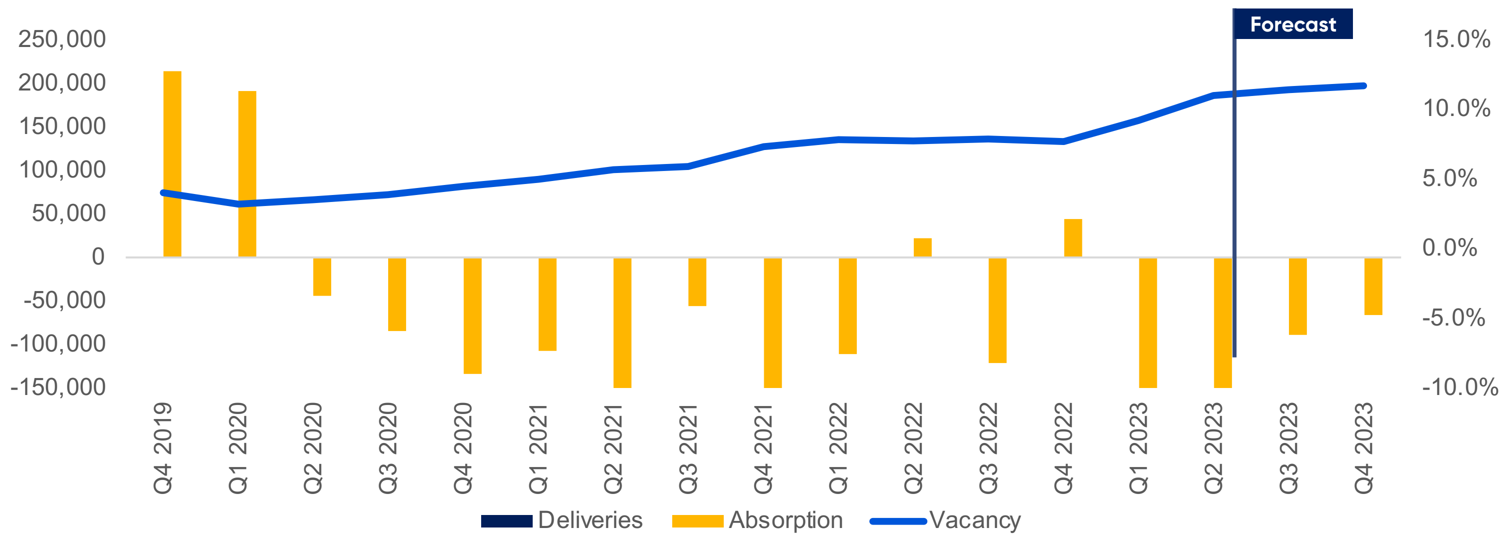
Arrows Indicate One Quarter Change

Vacancy Rate	Q4	Q1	Q2
Bloor	8.1%	9.1%	12.9%
St. Clair	7.9%	9.5%	10.4%
Eglinton	6.9%	8.7%	9.9%
Overall	7.7%	9.2%	11.0%

Subleases in Market



New Construction and Absorption



Toronto North

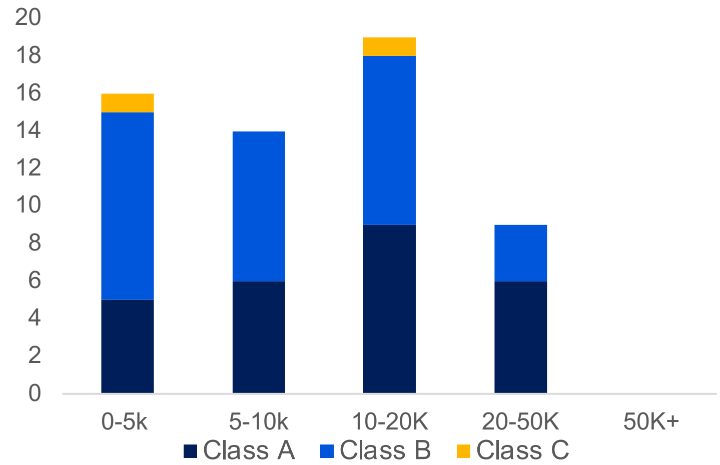
Q2 2023

SUPPLY	24,294,391 SF
VACANCY RATE	11.0%
AVERAGE NET RENT	$18.74/SF
NET ABSORPTION	-24,294 SF

Arrows Indicate One Quarter Change

Vacancy Rate	Q4	Q1	Q2
North Toronto Region	9.3%	9.2%	9.2%
North Yonge Corridor	15.3%	16.7%	17.2%
Vaughan	6.2%	6.3%	6.4%
North York West	8.1%	9.1%	9.0%
Overall	10.3%	10.9%	11.0%

Subleases in Market



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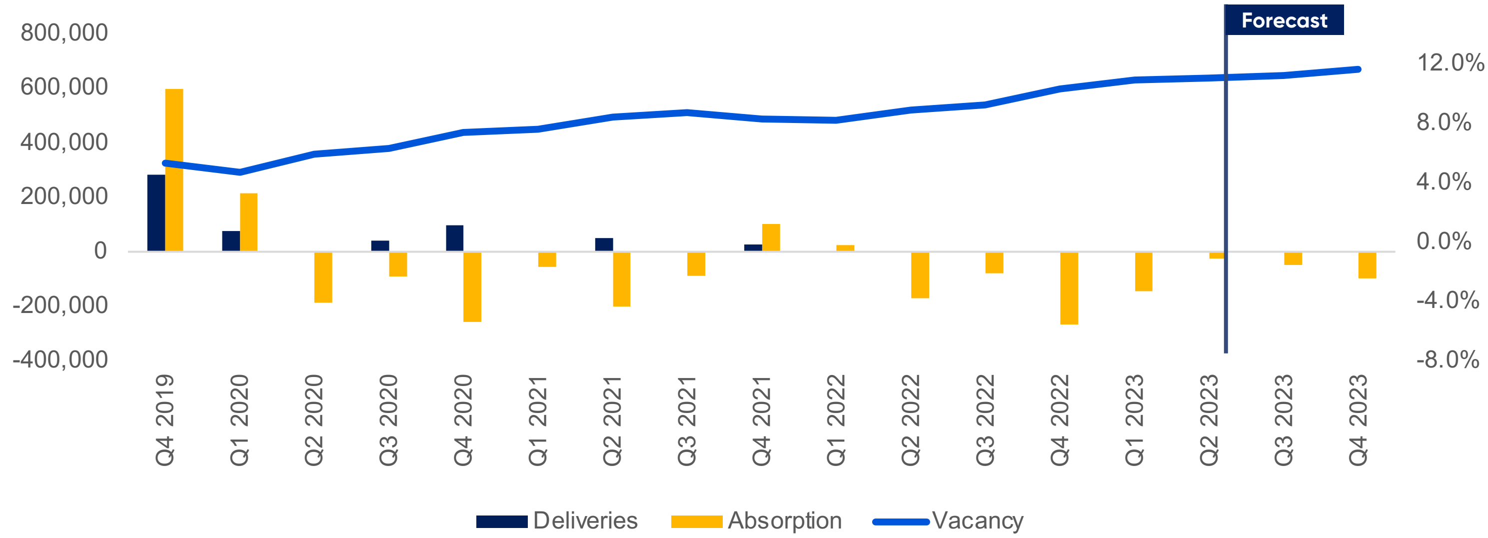


Toronto East

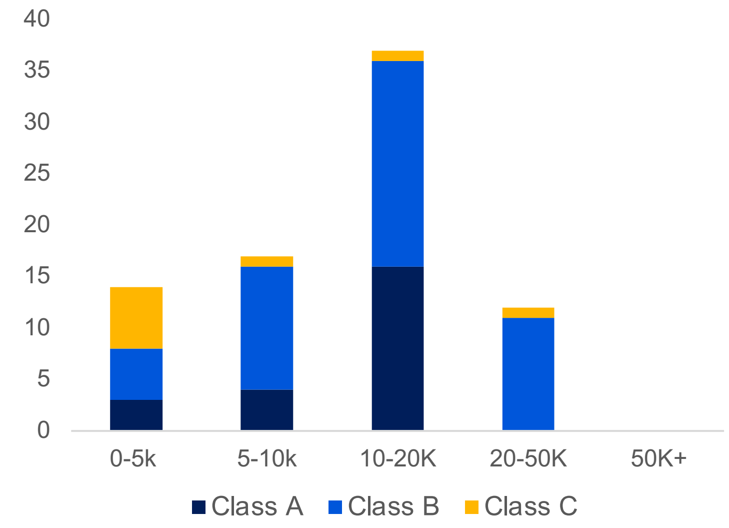
Q2 2023

SUPPLY	VACANCY RATE	AVERAGE NET RENT	NET ABSORPTION
46,579,861 SF	11.3%	$14.75/SF	-279,479 SF

Arrows Indicate One Quarter Change

Vacancy Rate	Q4	Q1	Q2	
Consumers Road	16.3%	16.3%	17.4%	↑
DVP North/Duncan Mill	6.7%	5.8%	6.3%	↑
DVP South/Don Mills/ Eglinton	8.6%	8.2%	8.6%	↑
East Toronto Region	7.6%	7.3%	7.4%	↑
Gordon Baker/Victoria Park	9.4%	8.3%	8.3%	→
Markham/Richmond Hill	7.7%	8.6%	10.1%	↑
Scarborough	13.9%	14.5%	14.0%	↓
Southeast Toronto Region	9.0%	8.6%	8.6%	→
Steeles/Woodbine	7.8%	6.7%	6.2%	↓
Overall	10.8%	10.7%	11.3%	↑

Subleases in Market



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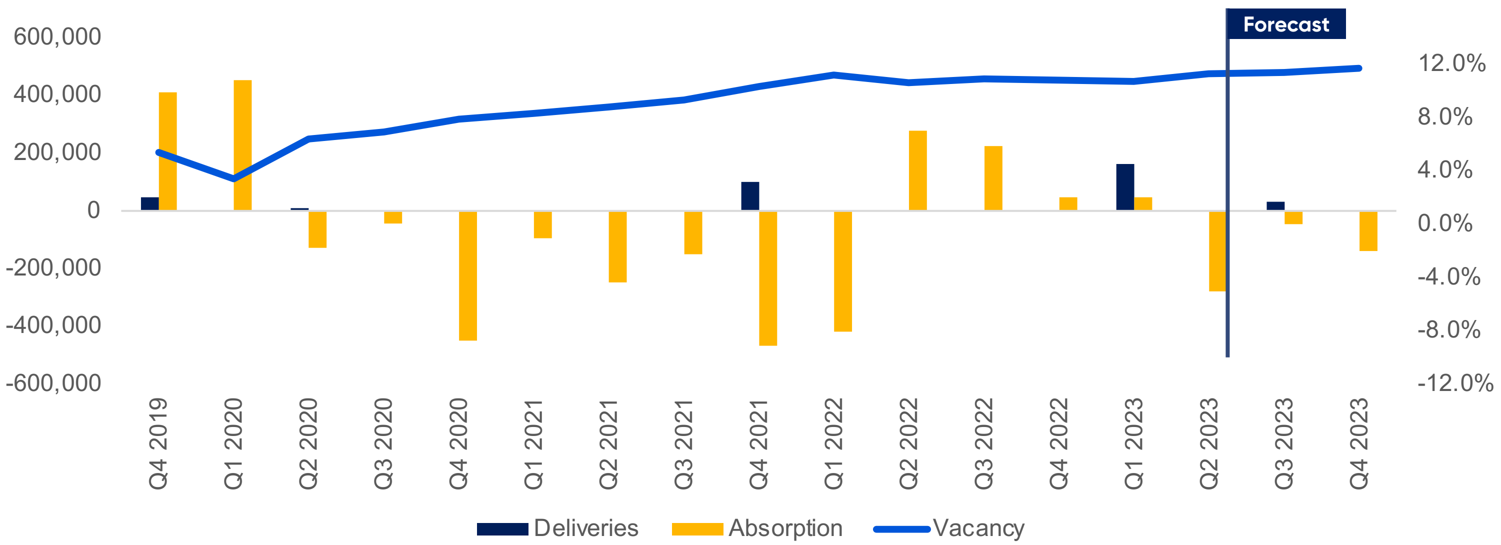


Toronto West

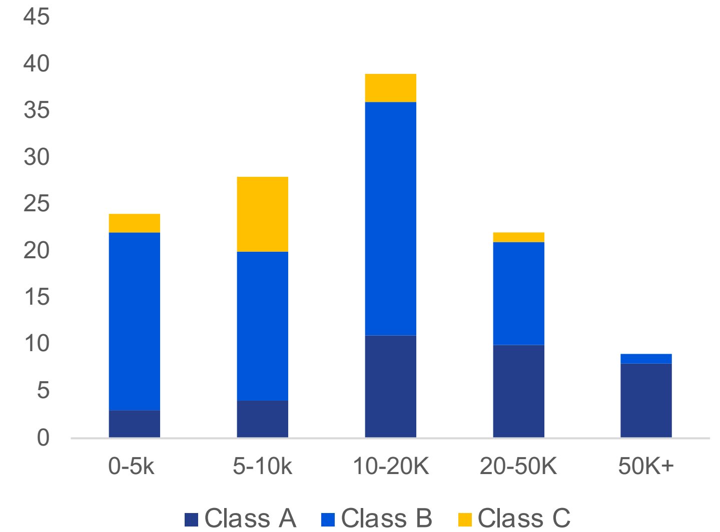
Q2 2023

SUPPLY	VACANCY RATE	AVERAGE NET RENT	NET ABSORPTION
73,694,582 SF	13.3%	$17.26/SF	147,389 SF

Arrows Indicate One Quarter Change

Vacancy Rate	Q4	Q1	Q2
427 Corridor/Bloor/Islington	24.4%	24.6%	23.9%
Airport Corporate Centre/Airport	13.6%	13.7%	12.8%
Brampton	3.5%	0.3%	1.1%
City Centre	15.2%	16.0%	16.4%
Hwy 10/Hwy 401	12.2%	11.7%	12.1%
Meadowvale	10.6%	9.0%	10.3%
Mississauga South	6.9%	6.9%	6.9%
Other Mississauga	3.2%	3.0%	2.4%
Oakville Burlington	10.4%	10.4%	9.9%
West Toronto Region	4.9%	4.9%	3.7%
Overall	13.5%	13.5%	13.3%

Subleases in Market



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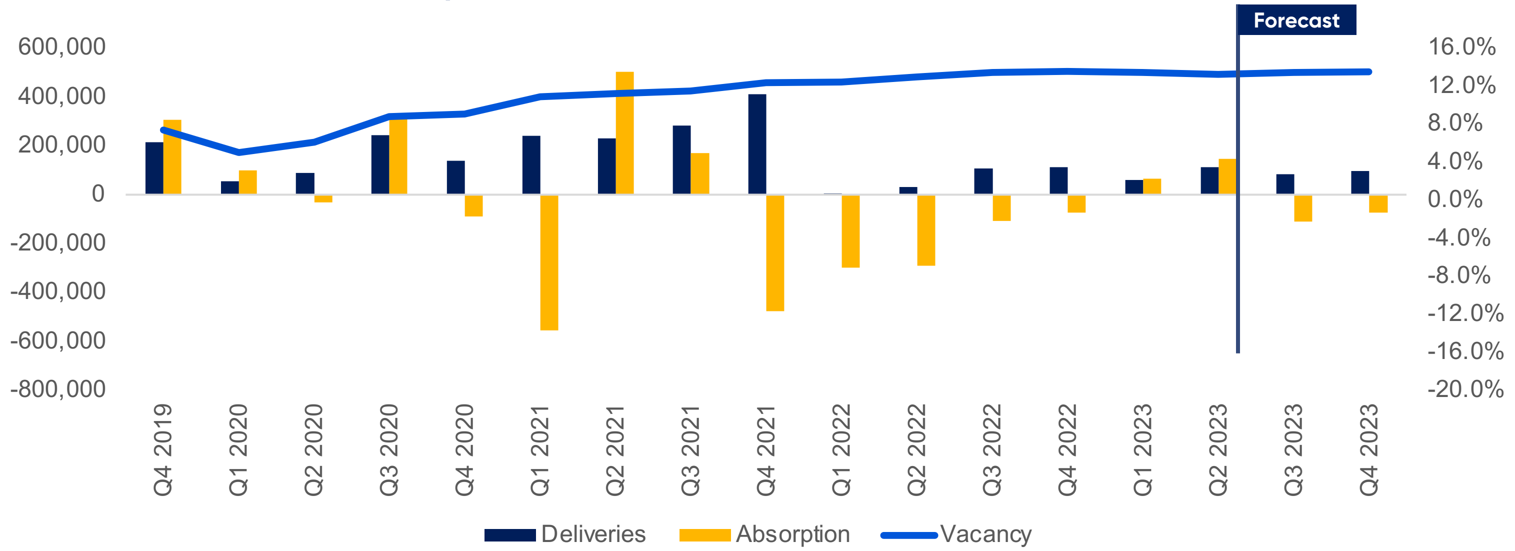


Durham

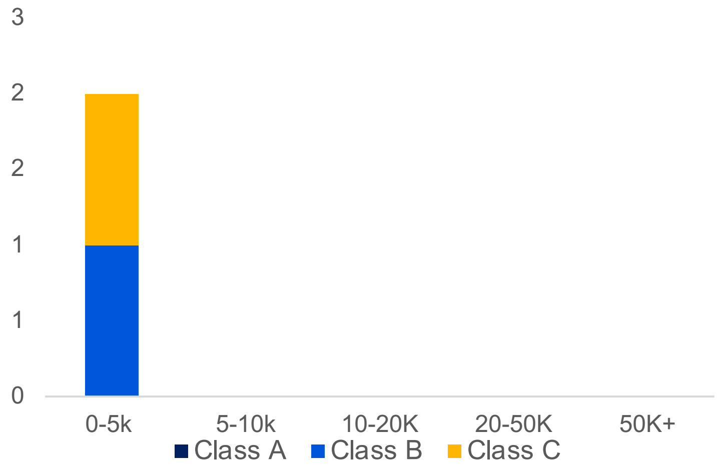
Q2 2023

SUPPLY	VACANCY RATE	AVERAGE NET RENT	NET ABSORPTION
7,087,792 SF	5.4%	$13.90/SF	5,670 SF

Arrows Indicate One Quarter Change

Vacancy Rate	Q4	Q1	Q2
Ajax	11.1%	11.4%	11.6%
Oshawa	4.5%	4.7%	4.6%
Outlying Durham	1.4%	1.2%	2.5%
Pickering	5.1%	4.8%	5.1%
Whitby	2.6%	2.7%	2.4%
Overall	5.4%	5.4%	5.4%

Subleases in Market



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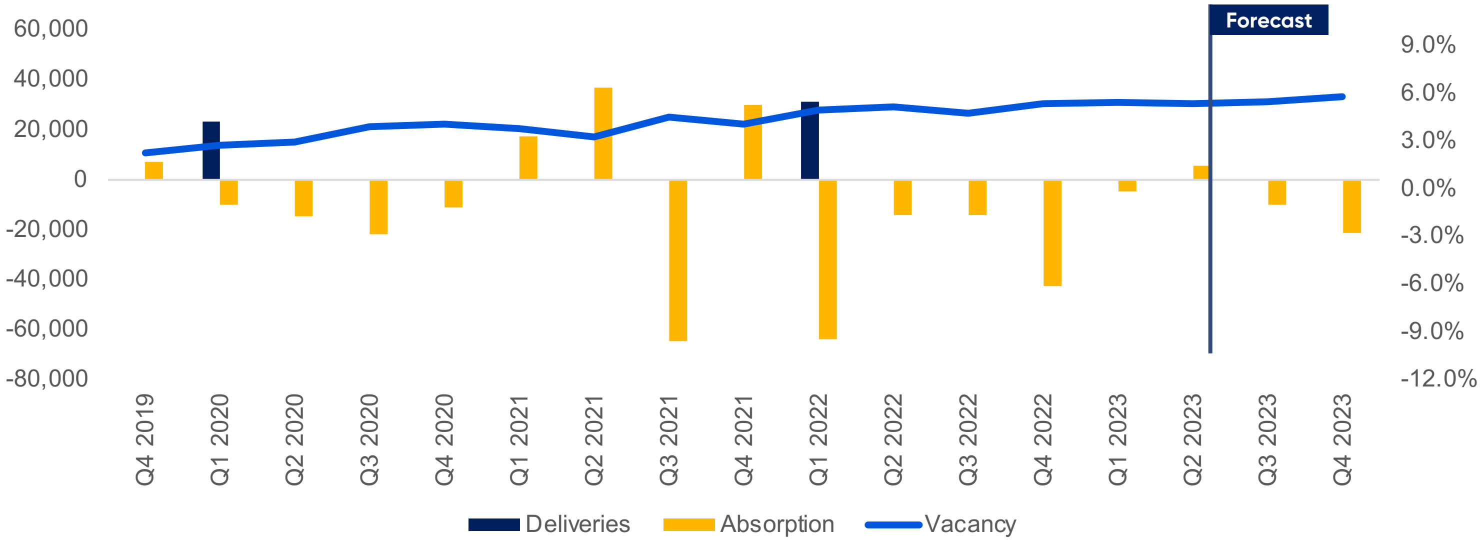

Toronto Office

About Cresa Toronto

Cresa is the world's largest commercial real estate firm that exclusively represents occupiers of space. By not taking listings on behalf of landlords or developers, we are able to provide our clients with objective, conflict-free advice.

For the last 30+ years, Cresa's Toronto office has worked alongside our clients to align their business plans and their real estate needs, increase their productivity, and consistently save them money. Our integrated team of real estate advisors, project managers, designers, and analysts, listen to occupiers' needs, meticulously research market conditions, firmly negotiate terms, and manage the design and construction of projects to customize the best possible occupancy solutions. And it's this relentless focus on our clients that has earned us numerous industry awards along the way.

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