1Q24

Downtown Toronto Office Market Overview

NEWMARK

Downtown Toronto Office Market Observations

Despite Downtown Toronto office vacancy hitting a 24-year historic high of 13.8% at first-quarter 2024, sublease vacancy has been tightening since mid-2023.

While delivery of new supply Downtown since 2020 contributed to a rise in vacancy and availability, it has also obscured the superior performance of class A assets.

Apart from Downtown West, class A office vacancy had either stabilized or declined at the end of the first quarter of 2024 in all other Downtown Toronto submarkets.

Positive absorption in the Financial Core and Downtown South in first-quarter 2024 offset the moderating negative absorption recorded in the other Downtown submarkets.

Office leasing activity has started picking up, particularly in the Financial Core, among smaller professional services groups who have emerged post-COVID and are now slowly returning to the office.

Tenants are increasingly interested in built-out spaces that are ready for occupancy without the expense and time typically needed for tenant improvements(TIs), which is leading to competitive leasing situations.

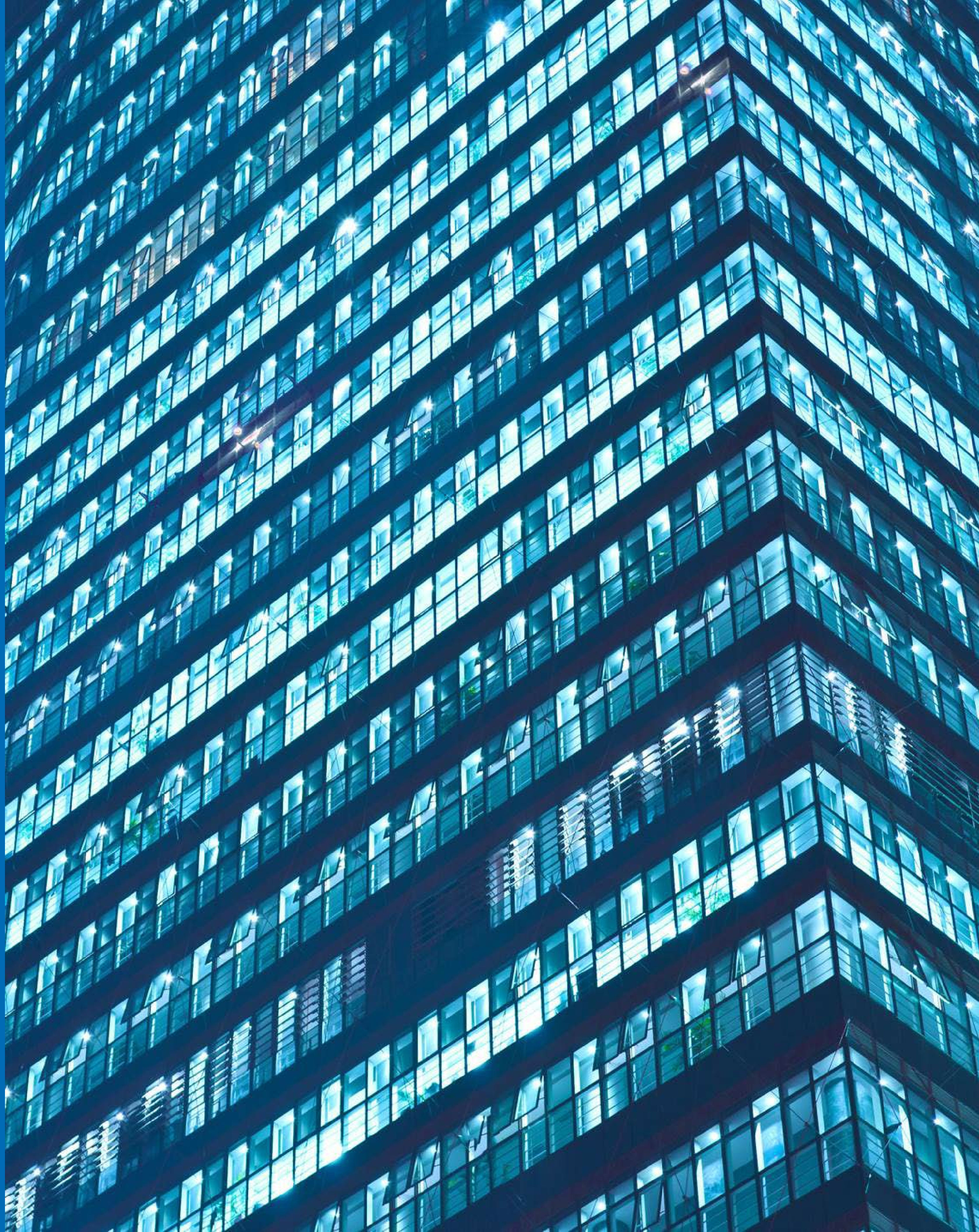
Landlord flexibility has been key to Downtown Toronto remaining a tenants' market at first-quarter 2024, particularly in class B/C premises, although rental rates have largely remained stable in class A properties thanks to generous TIs.

Natural lease expirations are increasingly contributing to a resumption in leasing activity as organizations are forced into making a decision and considering what a return to office looks like and how much space is required.

Downtown Toronto continues to face challenges related to traffic congestion and safety concerns on public transit that has led many office workers to cite their commute as an impediment to returning to the office more regularly.

1Q24

Office Market Fundamentals



Downtown Toronto Office Submarket Statistics | 1Q24

Submarket Statistics – All Classes

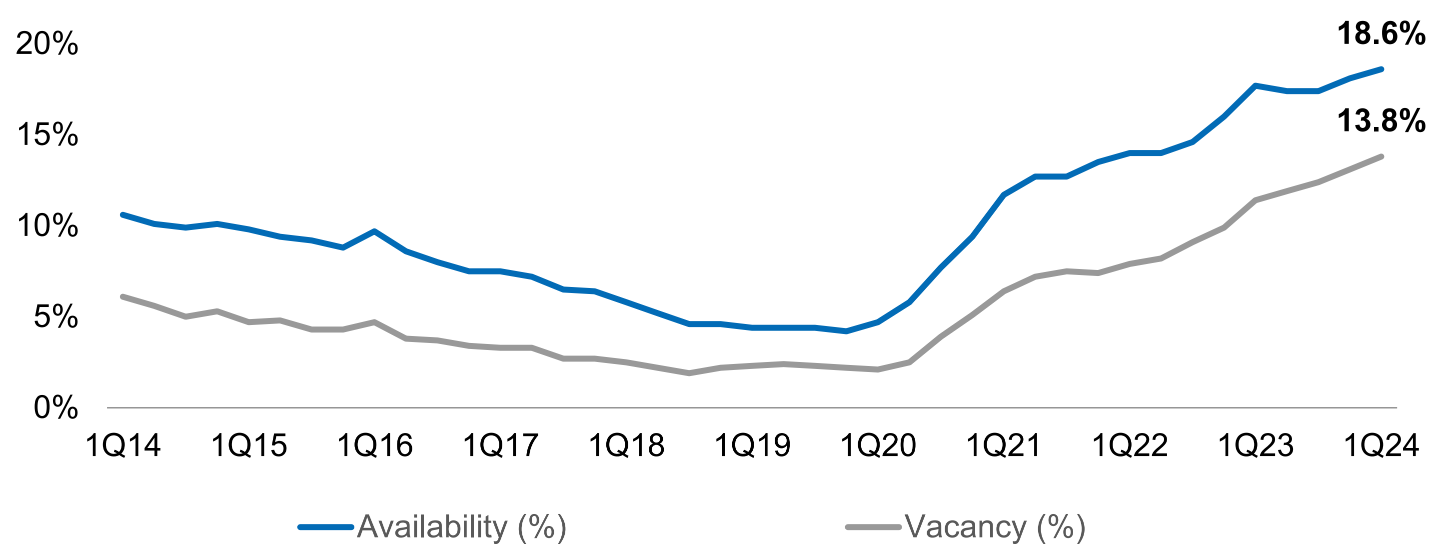
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Direct Available Rate	Sublet Available Rate	All classes Est. Direct Gross Rent ($/SF)
Downtown Toronto	**84,888,426**	**2,675,036**	**13.8%**	**550,404**	**550,404**	**14.2%**	**4.4%**	**C$46.44**
Financial Core	37,146,430	1,467,023	13.5%	748,027	748,027	15.2%	3.5%	C$55.16
Downtown North	13,813,706	53,338	11.7%	-9,682	-9,682	13.5%	3.1%	C$40.93
Downtown West	13,645,060	639,408	18.2%	-66,782	-66,782	14.2%	8.1%	C$37.69
Downtown South	11,108,486	0	8.3%	48,703	48,703	8.7%	2.5%	C$56.20*
Downtown East	5,149,552	515,267	12.7%	-105,121	-105,121	12.6%	9.1%	C$39.56
King & Dufferin**	3,995,192	0	24.6%	-64,741	-64,741	24.5%	3.7%	C$54.46

Source: Newmark Research, Altus Data Studio
*Data not updated at source since Q4 2022.
** This submarket is not covered in this report.

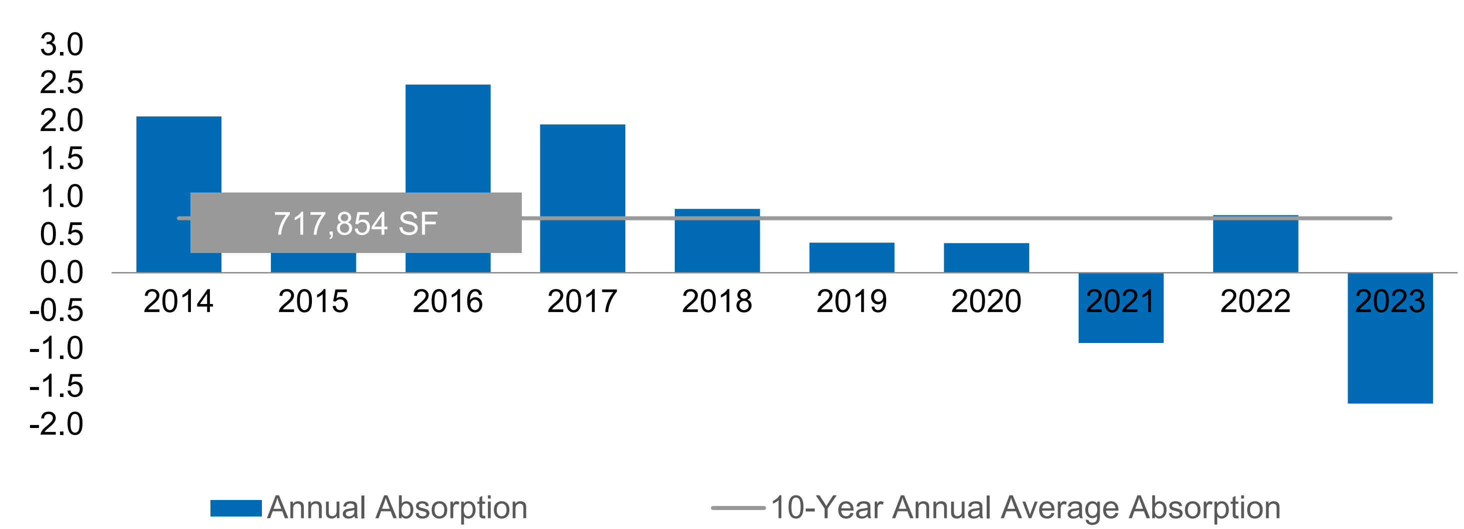
Downtown Toronto

Downtown Toronto is at the core of Canada's biggest office market in the country's largest city, comprising 85 msf and consisting of five submarkets, including the Financial Core, Downtown North, Downtown West, Downtown South and Downtown East. Throughout the late 2010s, Downtown Toronto was one of the tightest office markets in North America, but vacancy has been rising since mid-2020 and hit a 24-year high of 13.8% at first-quarter 2024. While class A vacancy has stabilized at ~12%, class B/C vacancy continues to rise.

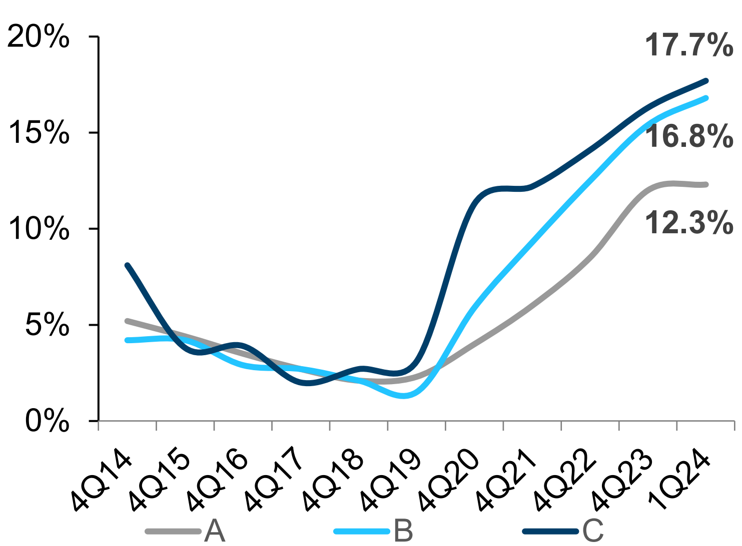
Overall Availability And Vacancy Rates – All Classes



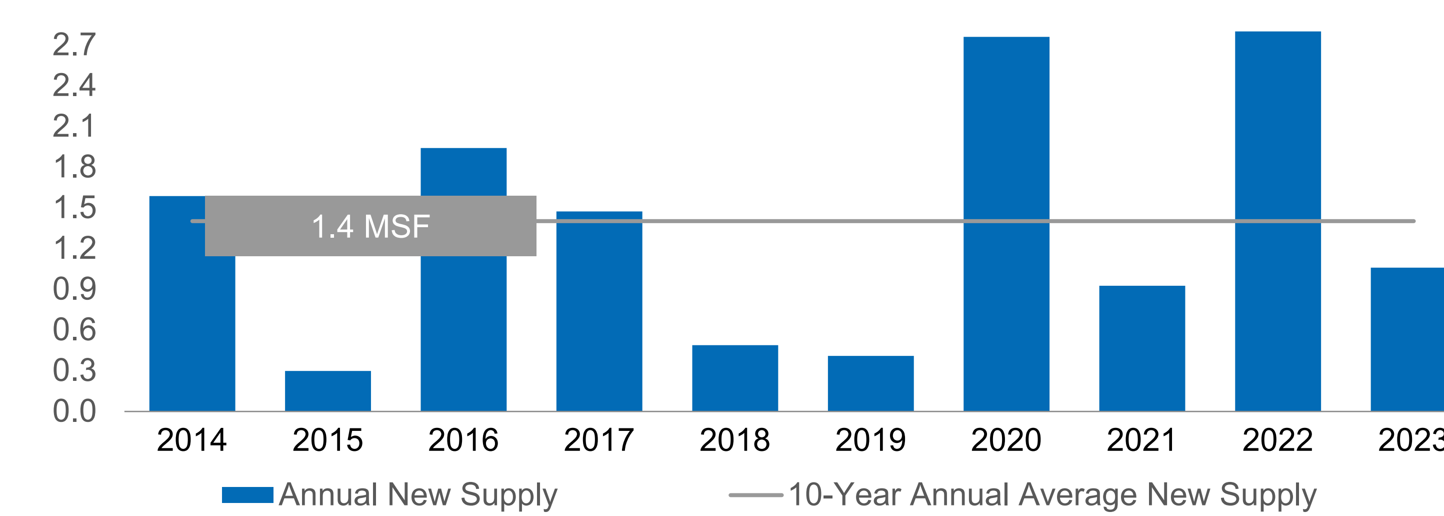
Annual Absorption – All Classes (MSF)



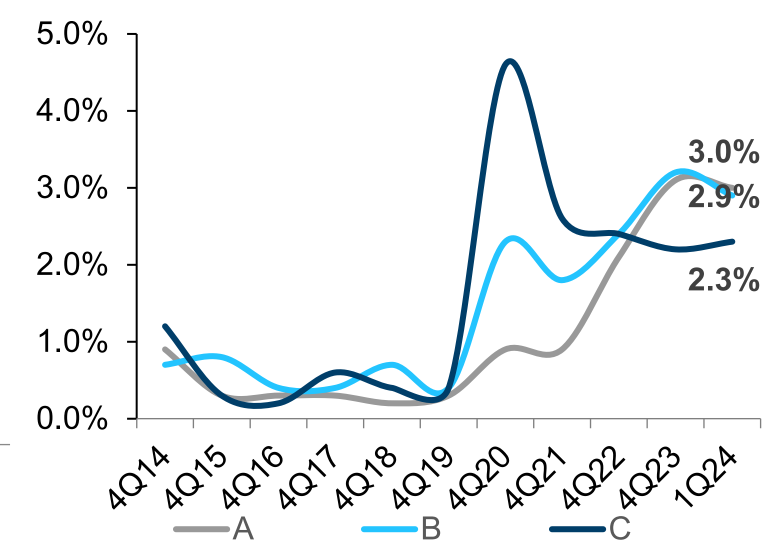
Vacancy by Class – 2014 to 2023



New Construction Deliveries (MSF)



Sublease Vacancy by Class – 2014 to 2023

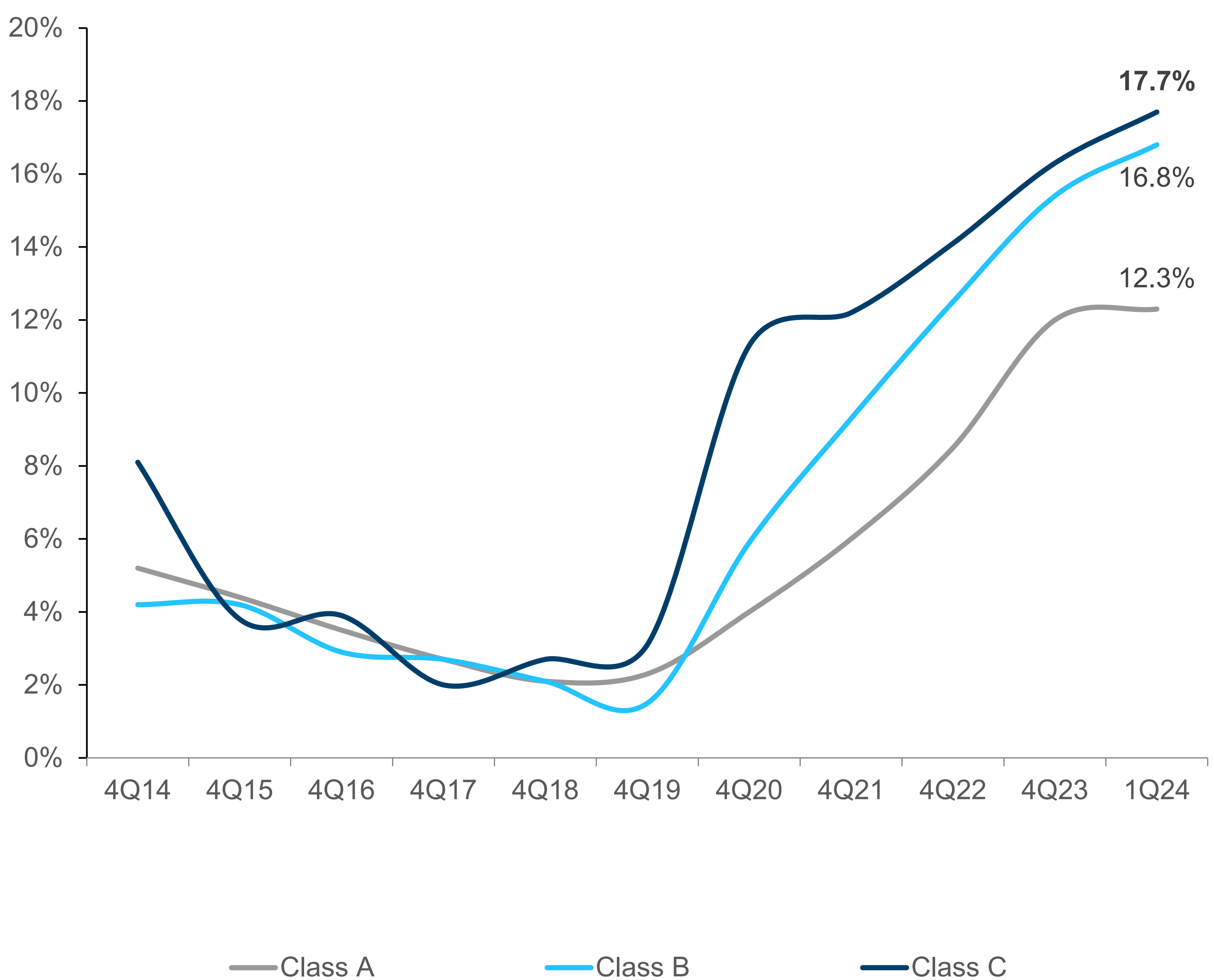


Source: Newmark Research, Altus Data Studio

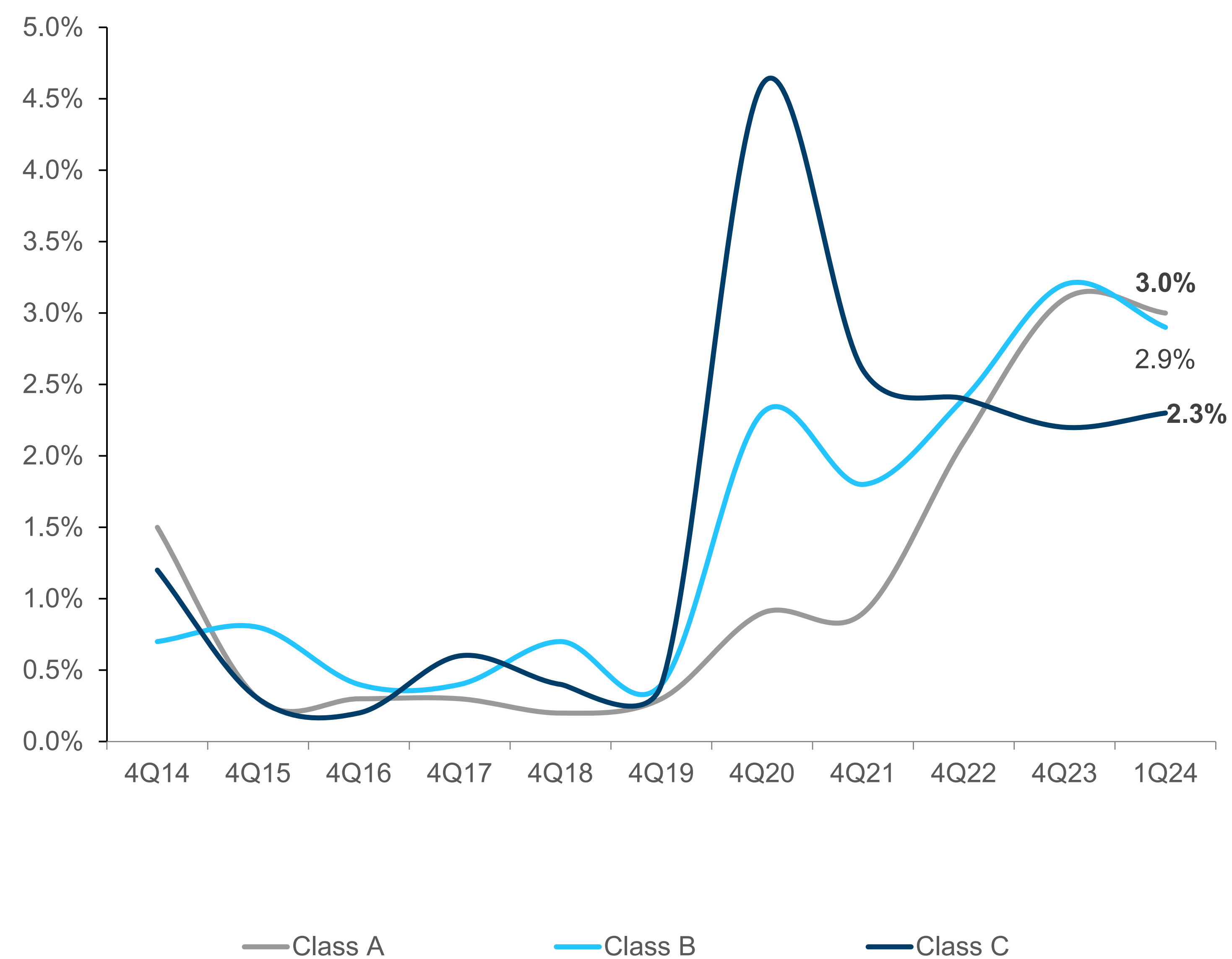
Stabilizing Class A Vacancy Highlights Flight to Quality Throughout Downtown Toronto

Class A office headlease vacancy in Downtown Toronto started stabilizing at year-end 2023 and into 2024, while class A sublease vacancy also started to tighten by first-quarter 2024. While overall downtown vacancy continued to climb thanks to rising class B/C head lease vacancy, sublease vacancy in all property classes had begun to stabilize or even decline in the first quarter of 2024. A market bifurcation in demand for new class A space and declining interest in leasing older class B/C properties has started taking root downtown.

Downtown Office Headlease Vacancy by Class – 2014 to 2023



Downtown Office Sublease Vacancy by Class – 2014 to 2023

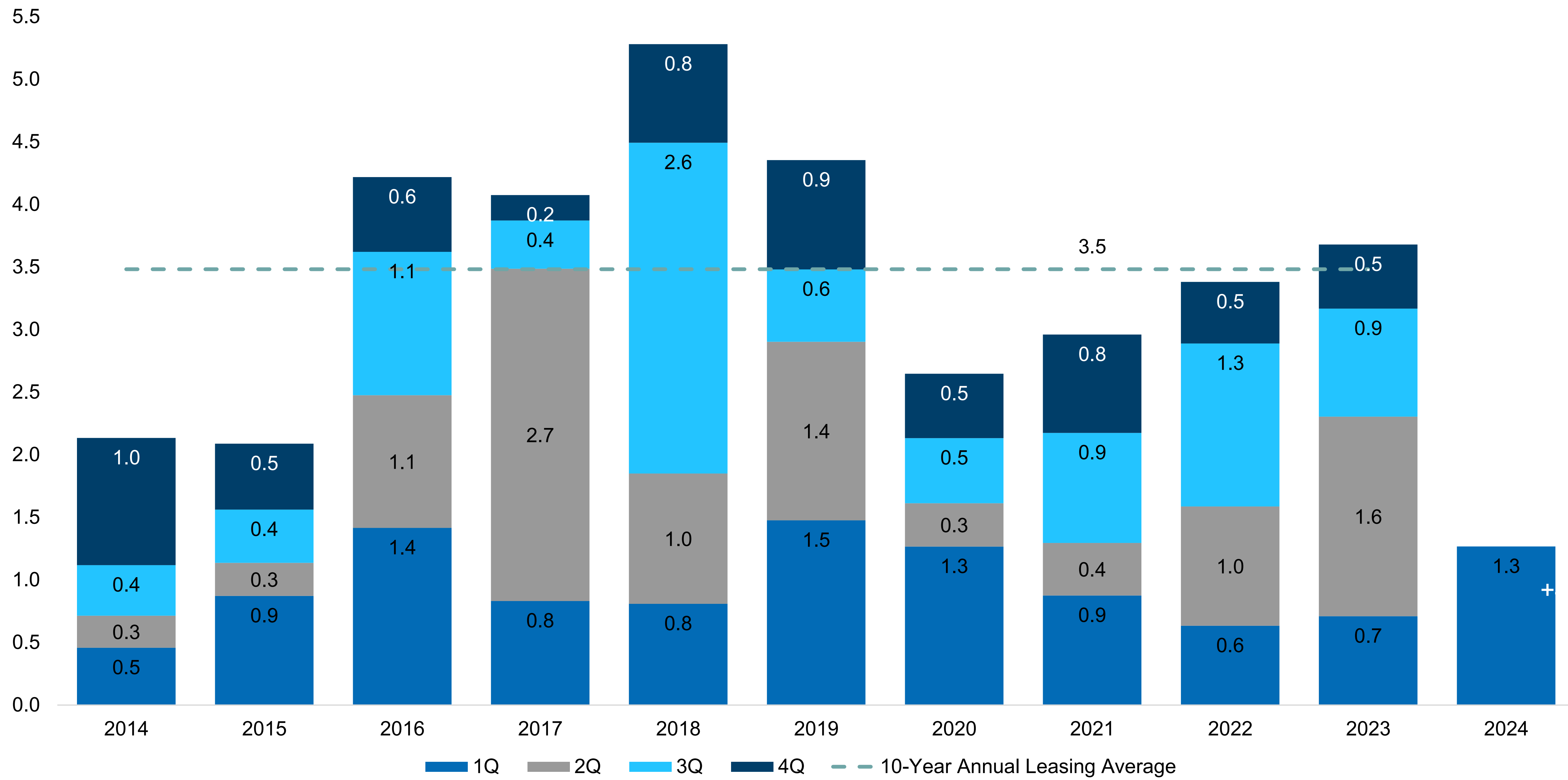


Source: Newmark Research, Altus Data Studio

Downtown Toronto Overall Leasing Activity Trending Back to 10-Year Annual Average

Overall leasing activity in Downtown Toronto has been trending towards recovery with total volumes rising annually since 2021. Leasing activity in 2023 surpassed the 10-year annual leasing average of 3.5 msf thanks to robust leasing activity in the second quarter of 2023, the strongest second quarter in terms of leasing velocity registered since 2017. The first quarter of 2024 also recorded strong leasing activity of 1.3 msf, matching that of first-quarter 2020 and surpassed only by leasing totals in first-quarter 2019 and first-quarter 2016.

Total Leasing Activity in All Classes (MSF)

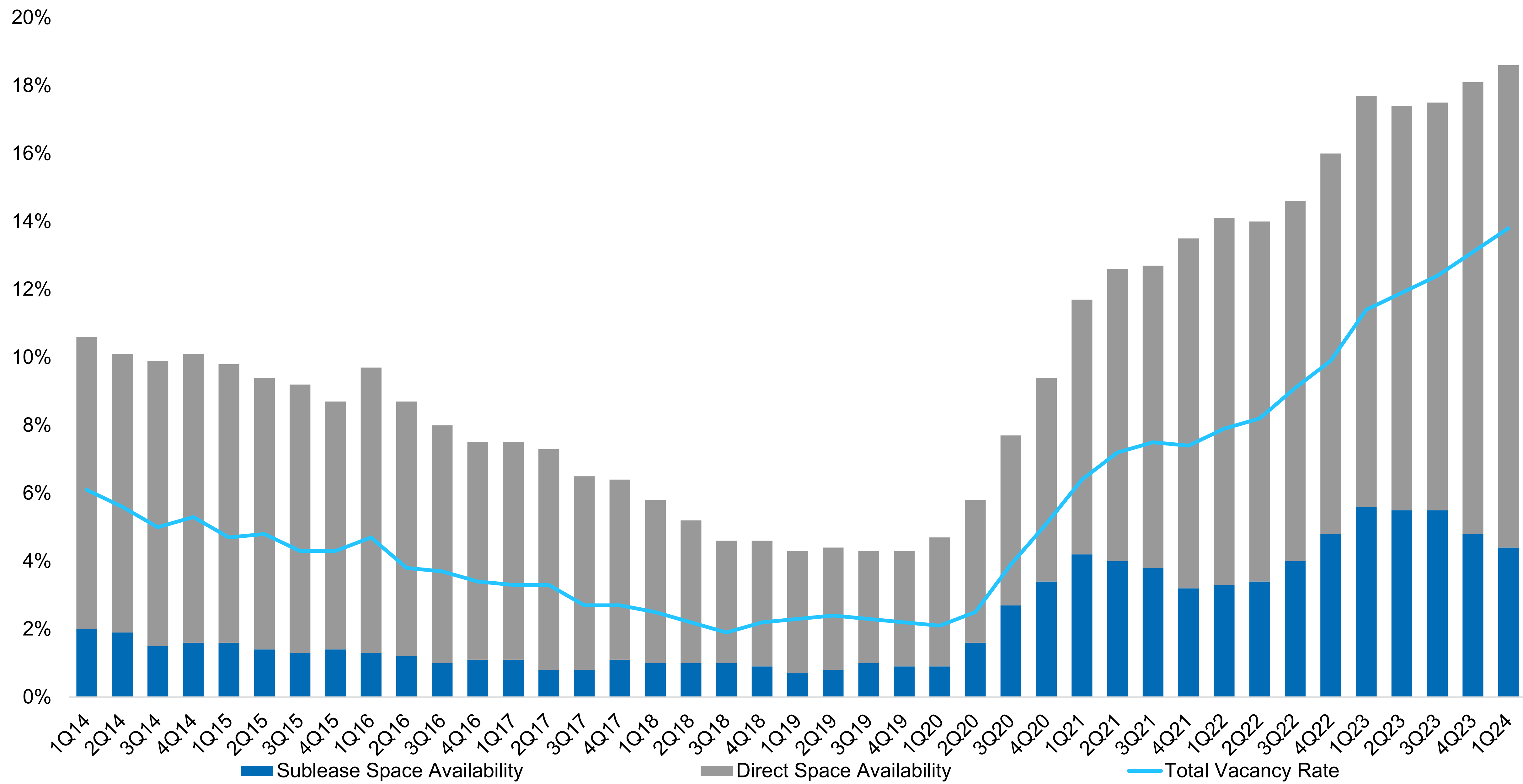


Source: Newmark Research, Altus Data Studio

Direct Space Availability in Downtown Still Elevated as Sublease Availability Tapers

Despite overall leasing velocity trending upward since 2021, direct availability and vacancy continued to rise in Downtown Toronto's office market through the first quarter of 2024. A combination of new supply and rising vacancy in class B/C properties has resulted in a surplus of less desirable office space available on a head lease basis. Interestingly, sublease availability has been declining slowly since the first half of 2023, which has translated into sublease vacancy in class A (and B) premises tightening since the fourth quarter of 2023.

Available Space and Tenant Demand as Per cent of Overall Market

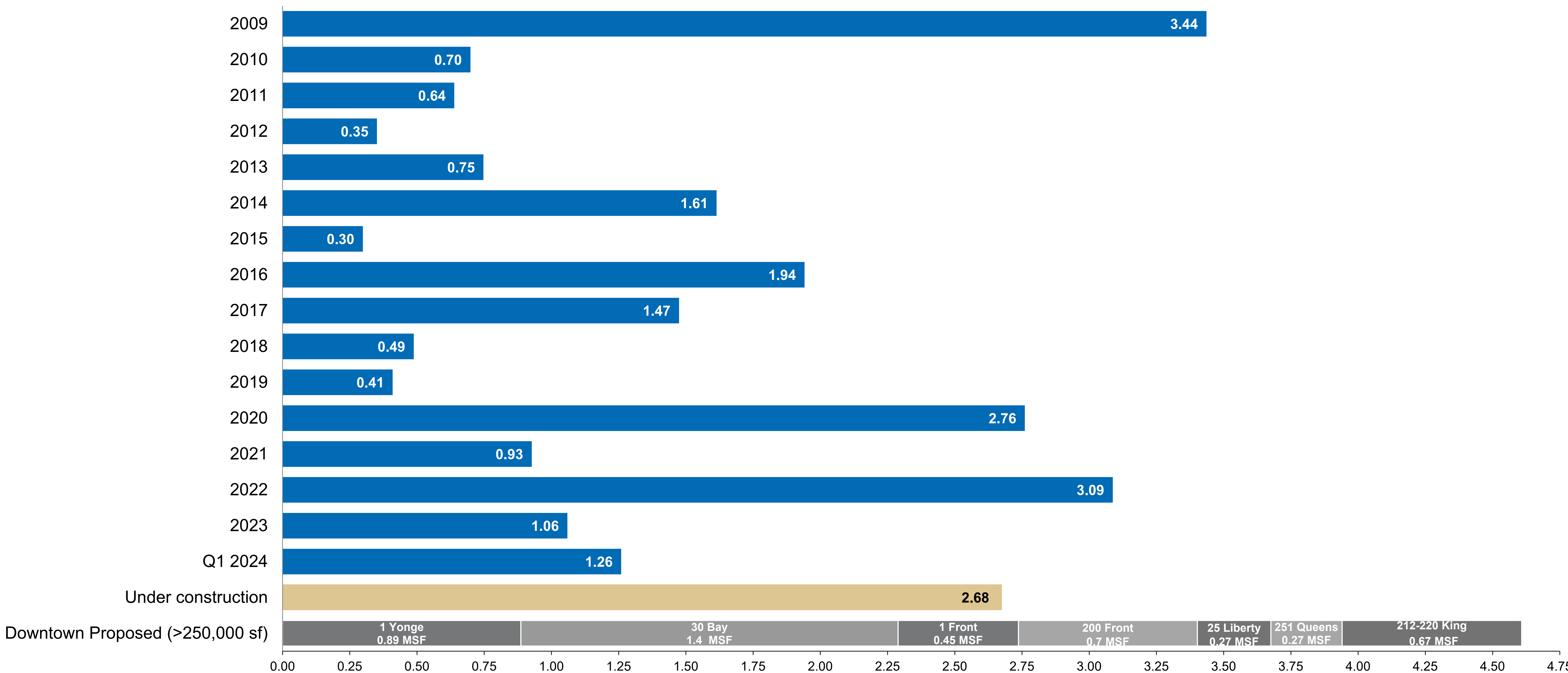


Source: Newmark Research, Altus Data Studio

Downtown Toronto Construction Velocity

New office construction in Downtown Toronto has developed space on a consistent albeit expanding basis during the past 15 years with cycles delivering exponentially more square footage each time. About 4.8 msf was delivered from 2009-11 followed by more than 6 msf in 2013-2017. The current development cycle that started arriving in 2020 and runs through 2025 is set to deliver more than 9 msf with almost 2.7 msf still under construction. Despite current market conditions, more than 4.5 msf remains proposed in buildings >250,000 sf.

Downtown Toronto Deliveries (MSF)

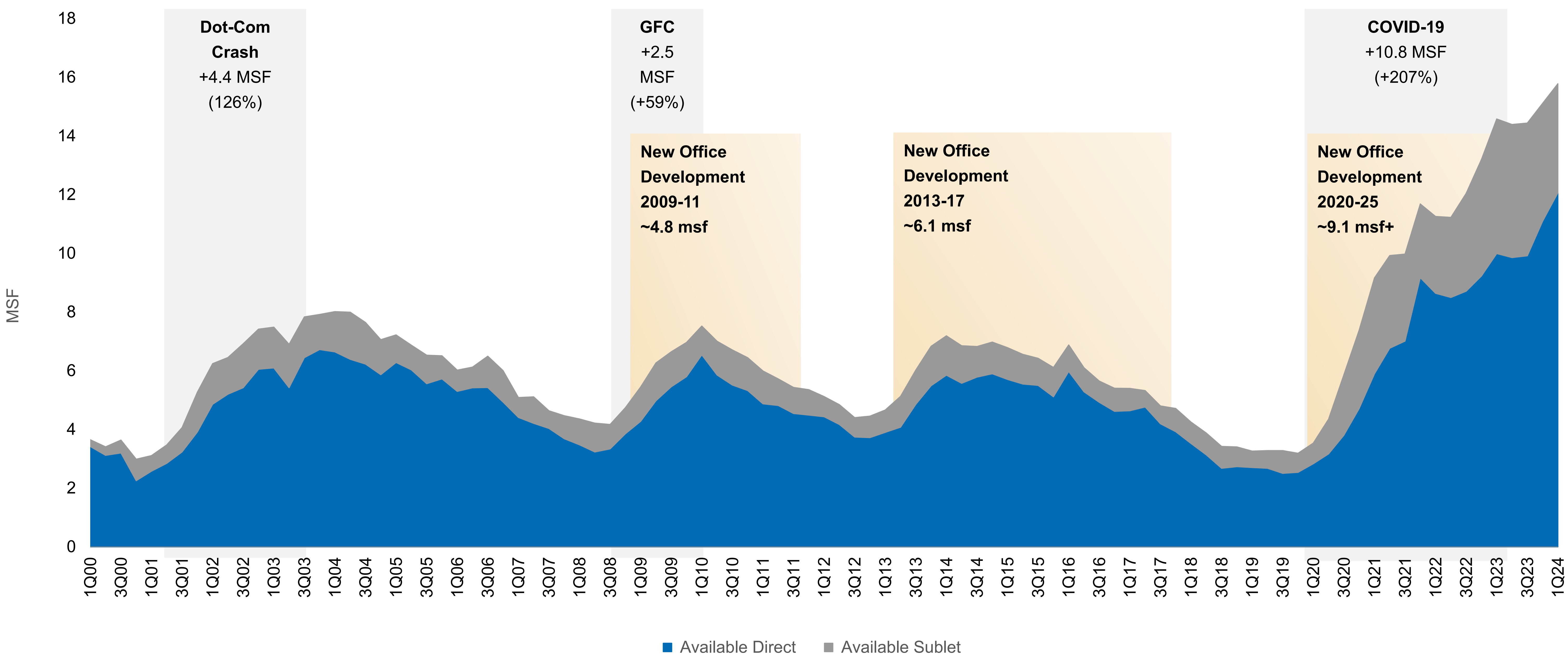


Source: Newmark Research, Altus Data Studio

Downtown Toronto Office Development Cycle Timing Battered by Arrival of COVID-19

Downtown Toronto's office market weathered downturns relatively well from 2000 to 2020 with direct and sublease availabilities eventually absorbed by the market resulting in the tight markets recorded in 2007-08, 2012-13 and 2017-20. Unfortunately, the years of record low vacancy in Downtown Toronto through the late 2010s led to an extended development cycle that started delivering in 2020 as COVID-19 arrived and has so far supplied ~9.1 msf into 2024 with more space on the way through 2025 pushing availability to new market highs.

Direct & Sublet Available Space – Downtown Toronto Office – All Classes

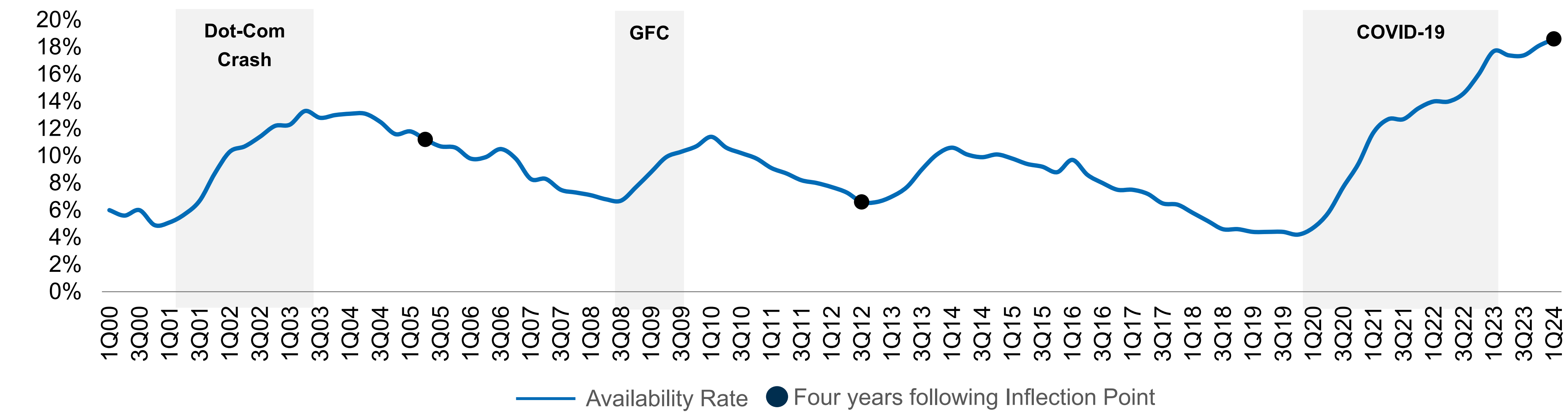


Source: Newmark Research, Altus Data Studio

As COVID-19 Spiked Availability in Downtown Toronto, Asking Rents Barely Slipped

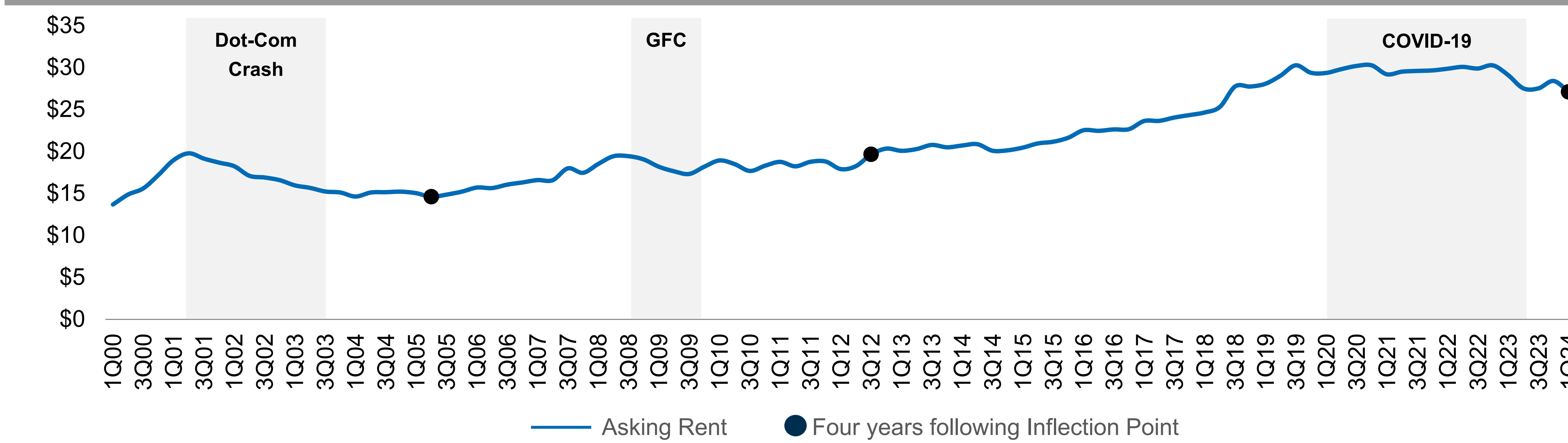
When it comes to the impact of downturns on Downtown Toronto's office market since 2000, none have pushed up availability four years on as much as COVID-19 and its after-effects. While a number of other factors such as new supply contributed to that increase, the typical correlation between rising availability and a decline in asking rents seen during the Dot-Com Crash have not materialized. Asking rents four years after the onset of the Dot-Com Crash were 26% lower. Four years after the arrival of COVID-19, asking rent fell just 7.7%.

Historical Availability Rate – All Classes



Inflection Point/ Cycle	Inflection Start	After 4 Years	Change
COVID-19	4.7%	18.6%	**+1390 bps**
Global Financial Crisis (GFC)	6.7%	6.6%	**-10 bps**
Dot-Com Crash	5.7%	11.2%	**+550 bps**

Historical Estimated Asking Rent (C$ psf) – All Classes

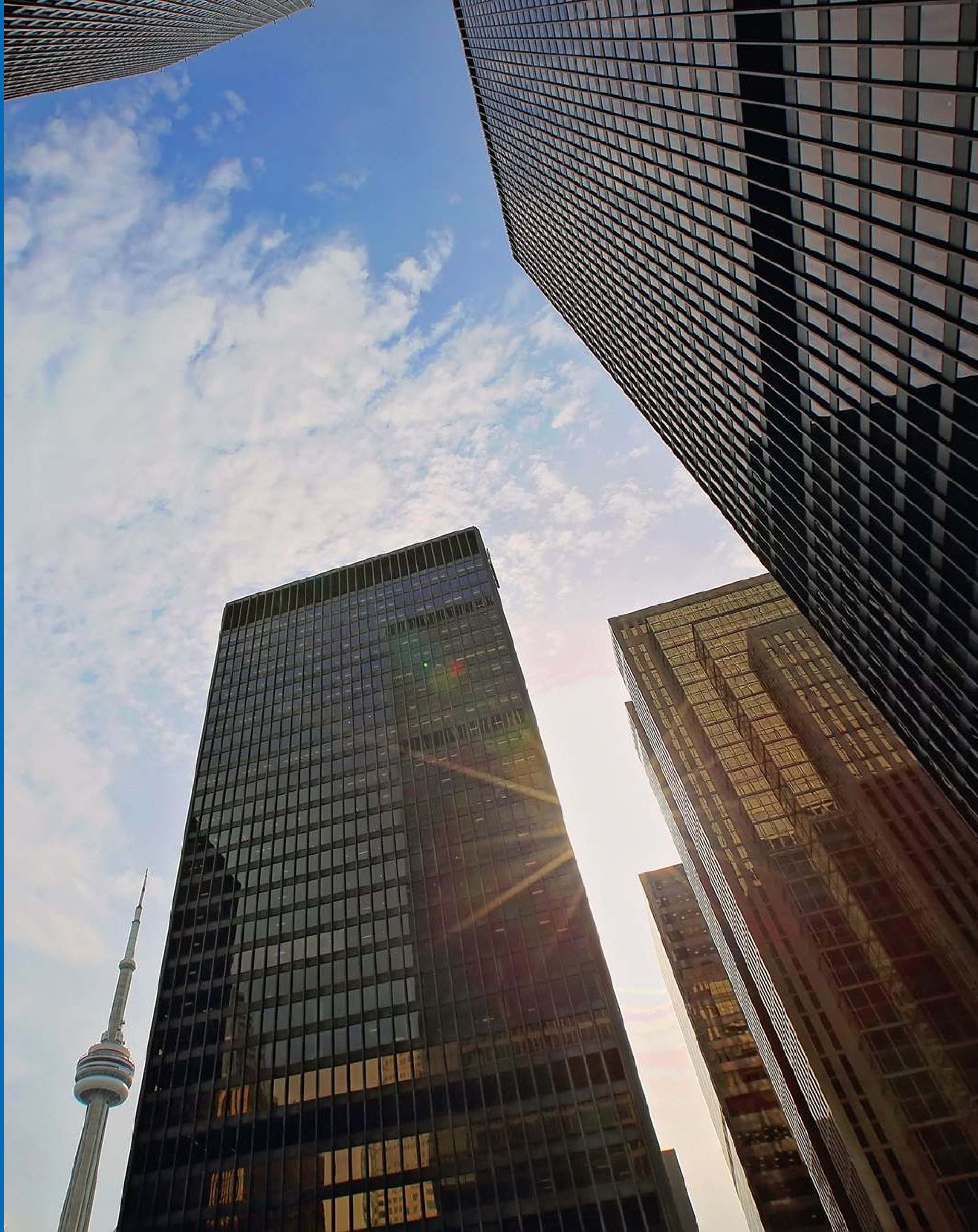


Inflection Point/ Cycle	Inflection Start	After 4 Years	Change
COVID-19	C$29.37	C$27.11	**-7.69%**
Global Financial Crisis (GFC)	C$19.45	C$19.66	**+1.07%**
Dot-Com Crash	C$19.79	C$14.61	**-26.17%**

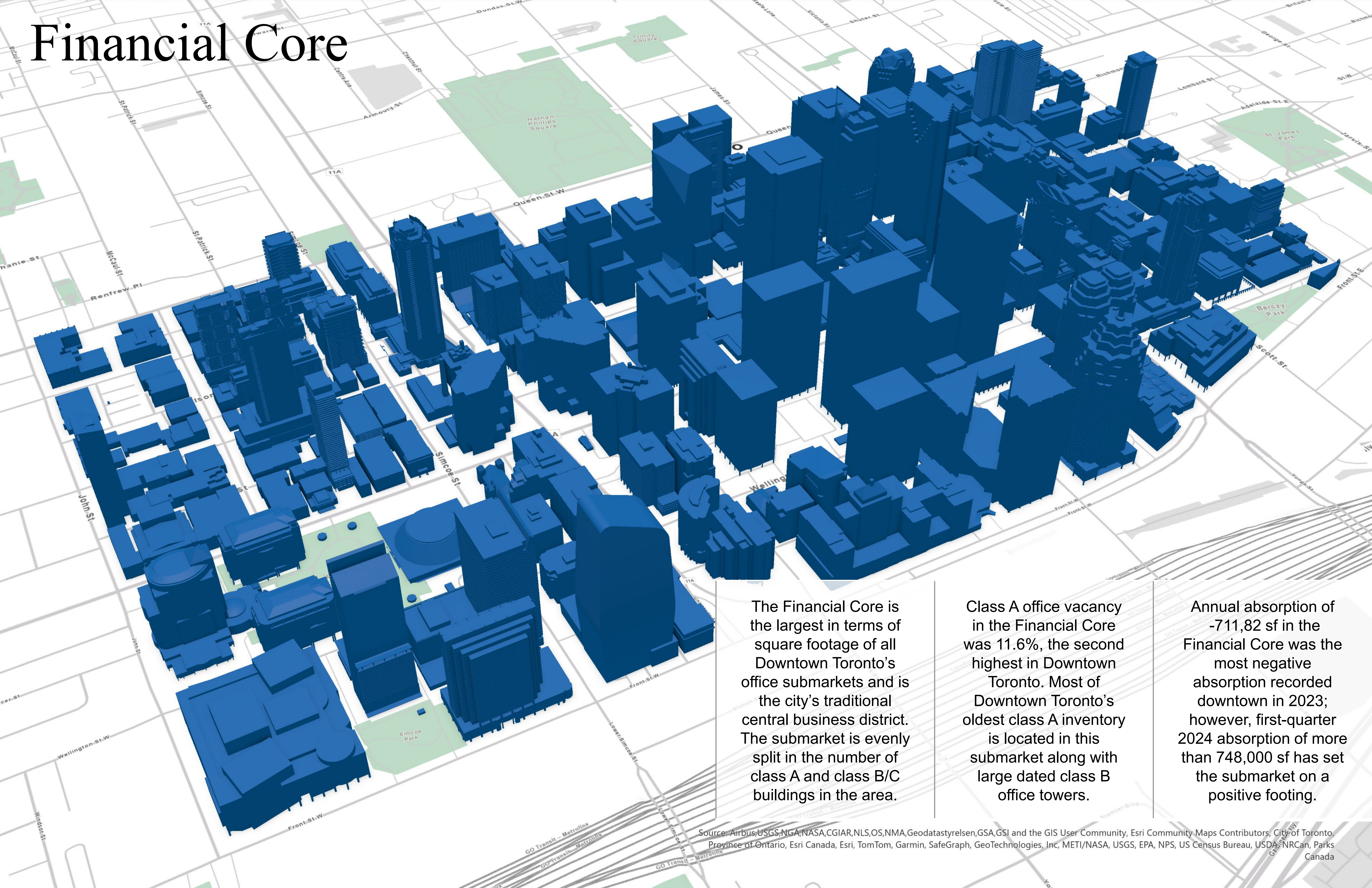
Source: Newmark Research, Altus Data Studio

1Q24

Financial Core



Financial Core



The Financial Core is the largest in terms of square footage of all Downtown Toronto's office submarkets and is the city's traditional central business district. The submarket is evenly split in the number of class A and class B/C buildings in the area.

Class A office vacancy in the Financial Core was 11.6%, the second highest in Downtown Toronto. Most of Downtown Toronto's oldest class A inventory is located in this submarket along with large dated class B office towers.

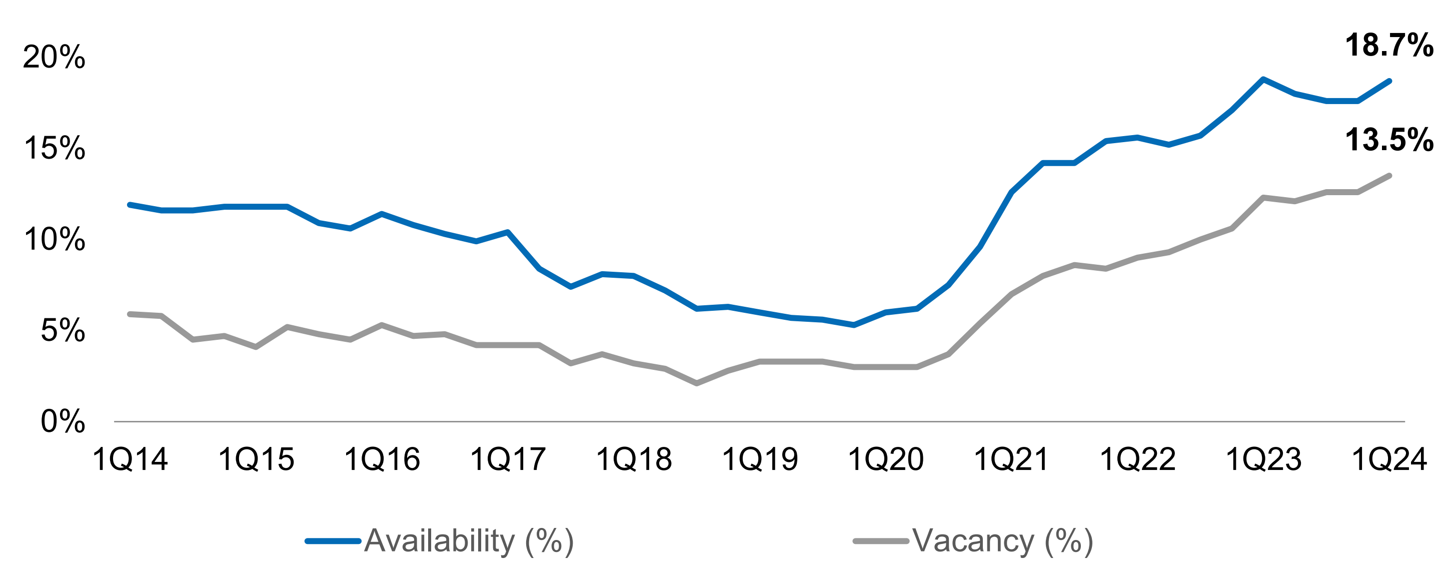
Annual absorption of -711,82 sf in the Financial Core was the most negative absorption recorded downtown in 2023; however, first-quarter 2024 absorption of more than 748,000 sf has set the submarket on a positive footing.

Source: Airbus,USGS,NGA,NASA,CGIAR,NLS,OS,NMA,Geodatastyrelsen,GSA,GSI and the GIS User Community, Esri Community Maps Contributors, City of Toronto, Province of Ontario, Esri Canada, Esri, TomTom, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, US Census Bureau, USDA, NRCan, Parks Canada

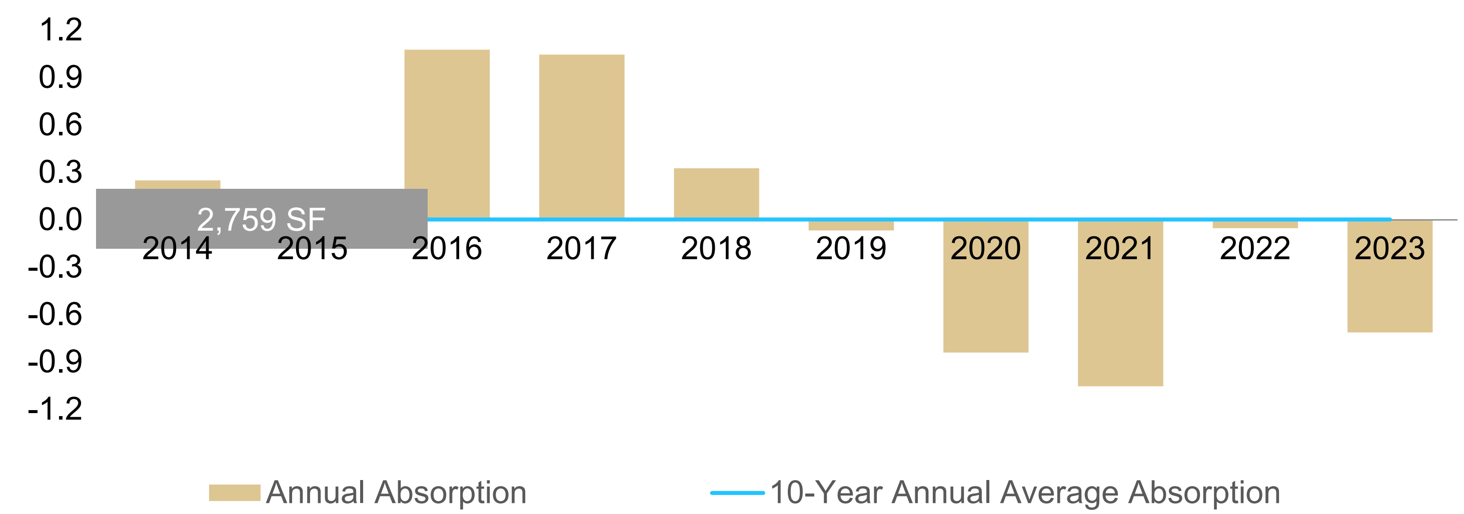
Financial Core

Leasing activity started to pick up in the Financial Core in early 2024 after five years of negative annual absorption from 2019 to 2023 pushed overall vacancy in Downtown Toronto's largest submarket to new heights. However, smaller professional services groups have begun to return to the office more consistently. Upward pressure on vacancy is being largely powered by tenants vacating class B/C space as class A vacancy has stabilized at ~11%. A flight to quality has accelerated with class A sublease vacancy in decline since mid-2023.

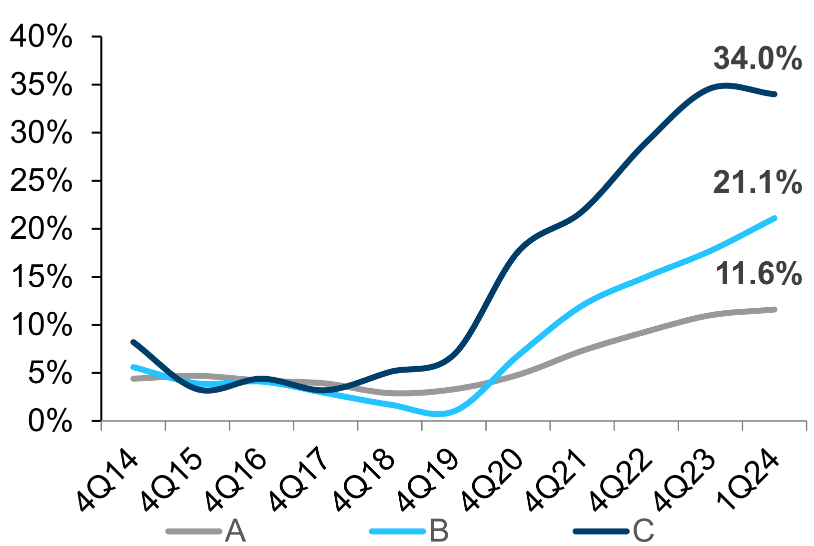
Overall Availability & Vacancy Rates – All classes



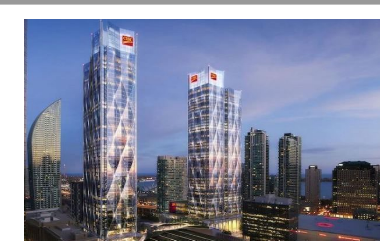
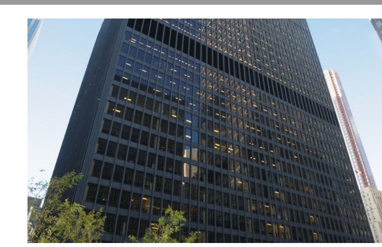
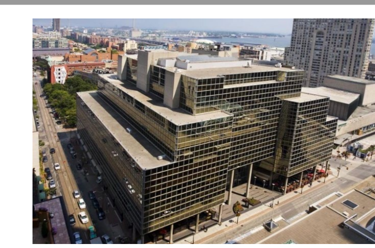
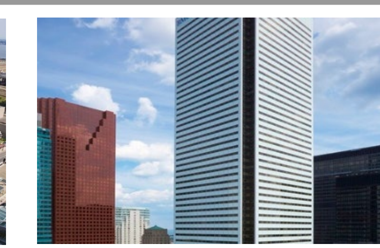
Annual Absorption – All classes (MSF)



Vacancy by Class – 2014 to 2023



First Quarter Deals

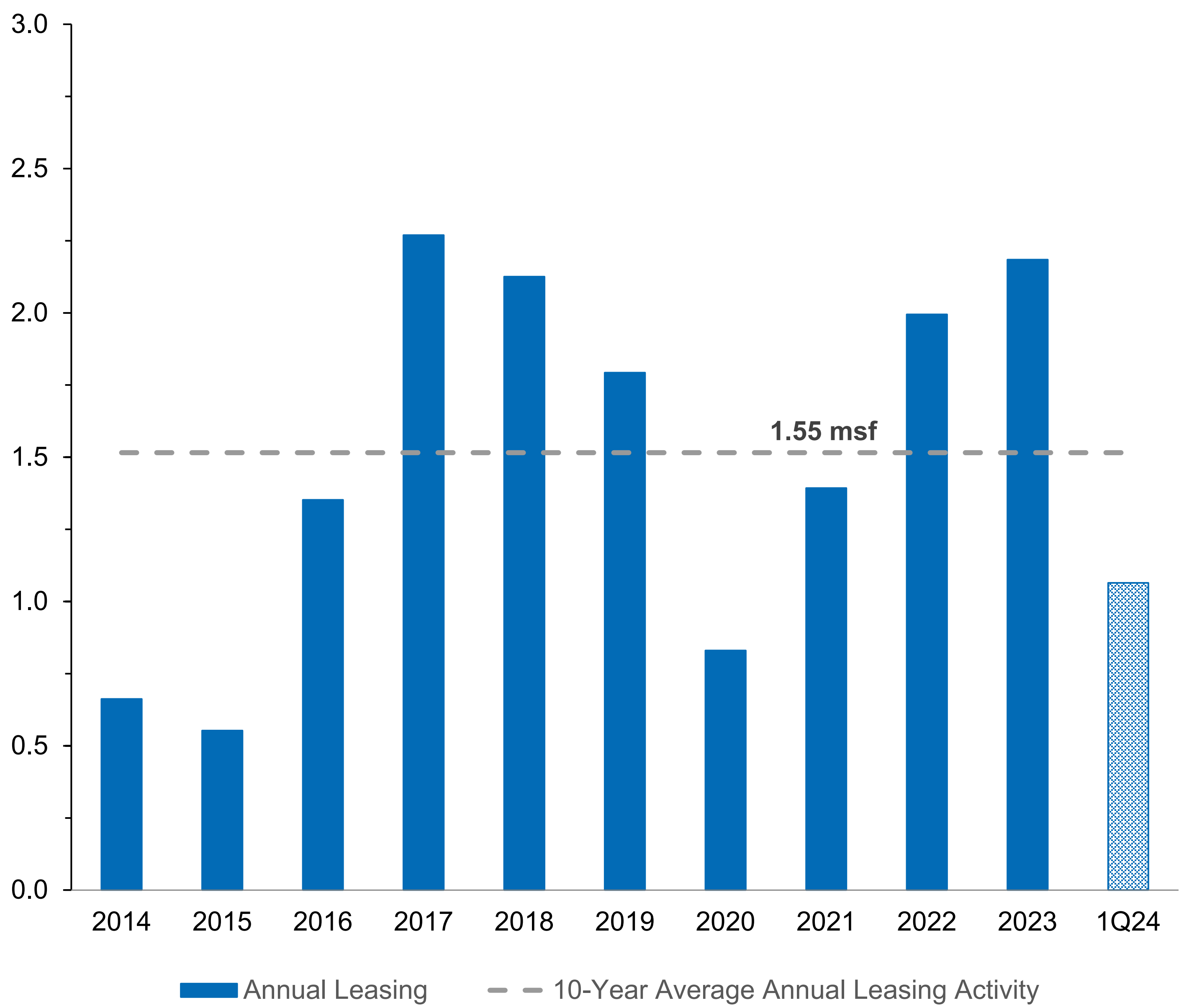
				
CIBC Square (phase 2) 141 Bay Street	**CIBC Square (phase 2) 141 Bay Street**	**TD North Tower 77 King Street West**	**33 Yonge Street**	**First Canadian Place 77 Adelaide Street West**
Canada Pension Plan Investment Board	Undisclosed	Dentons Canada	Peninsula Employment Services	Ivey School of Business
327,000 SF	295,400 SF	108,450 SF	37,540 SF	36,360 SF
Preleased	Preleased	Renewal	Direct New	Direct New

Source: Newmark Research, Altus Data Studio

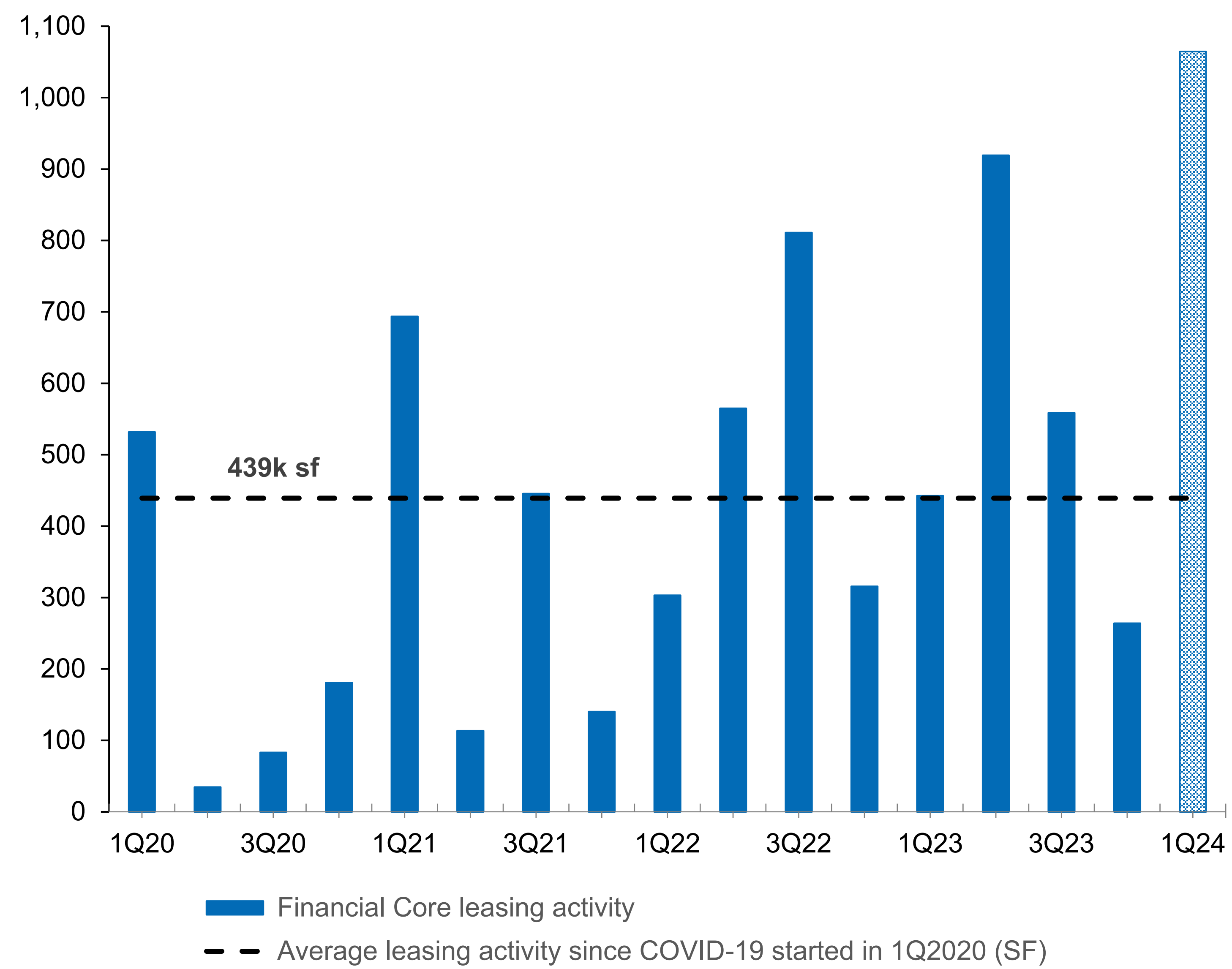
Financial Core Office Leasing Activity

Office leasing activity in 2023 rose to its highest annual total since 2017 and followed a year, 2022, that featured almost 2.0 msf in leasing, third only to 2017 and 2023 in terms of total square footage leased. Leasing activity in the Financial Core in the first quarter of 2024 surpassed 1.0 msf and marked the most leasing activity recorded in a quarter since the onset of COVID-19 thanks to substantial preleasing in phase two of CIBC Square. Leasing activity in the Financial Core has been trending upwards on an annual basis since 2021.

Annual Financial Core Leasing Activity (MSF) – All classes



Financial Core Quarterly Leasing Activity (Thousands of SF) – All classes

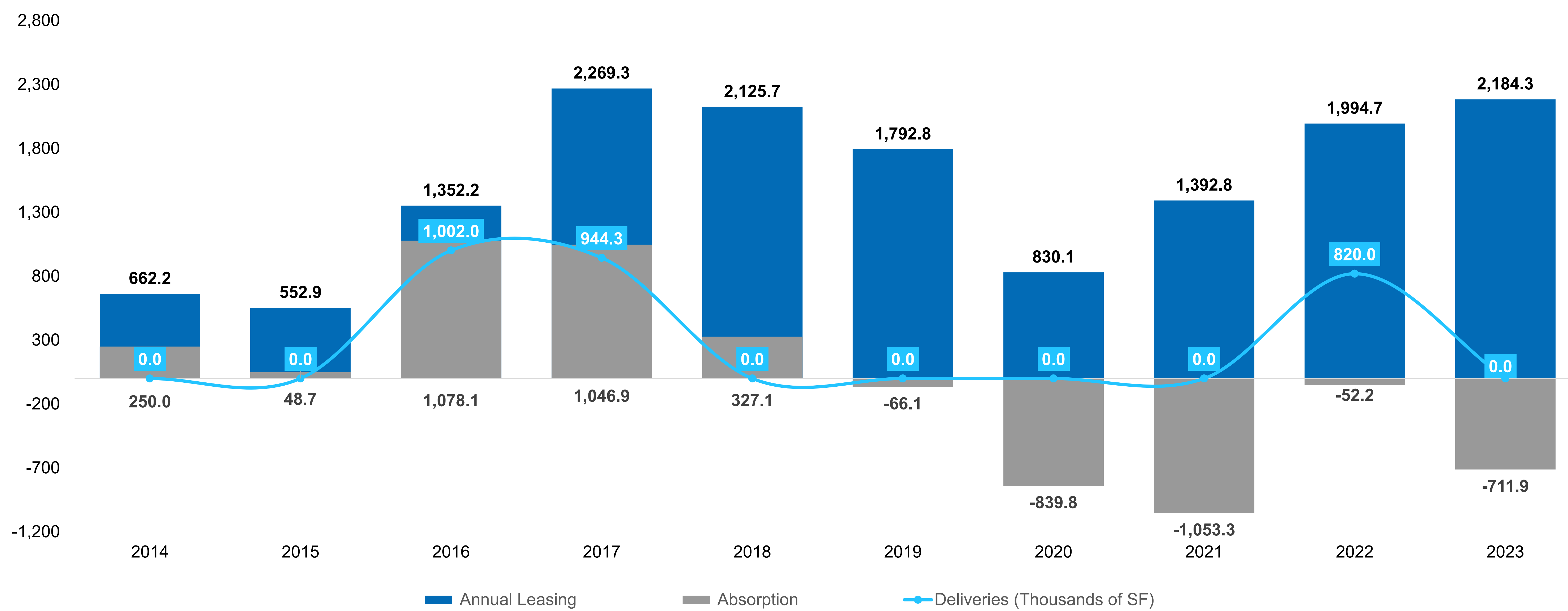


Source: Newmark Research, Altus Data Studio

Financial Core Leasing, Absorption and New Supply Analysis

Despite five years of negative annual absorption recorded since 2019, leasing activity in the Financial Core has remained on an upward trajectory since 2020. The absence of substantial new supply on submarket dynamics since the arrival of COVID-19 coincided with more than 2.7 msf of negative absorption recorded from 2019 to 2023 as tenants shed space, particularly in 2020 and 2021 and in class B/C premises. However, almost 8.2 msf of leasing activity was generated in the same period, much of which was in class A space.

Financial Core Historical Leasing and Absorption – All classes (Thousands of SF)

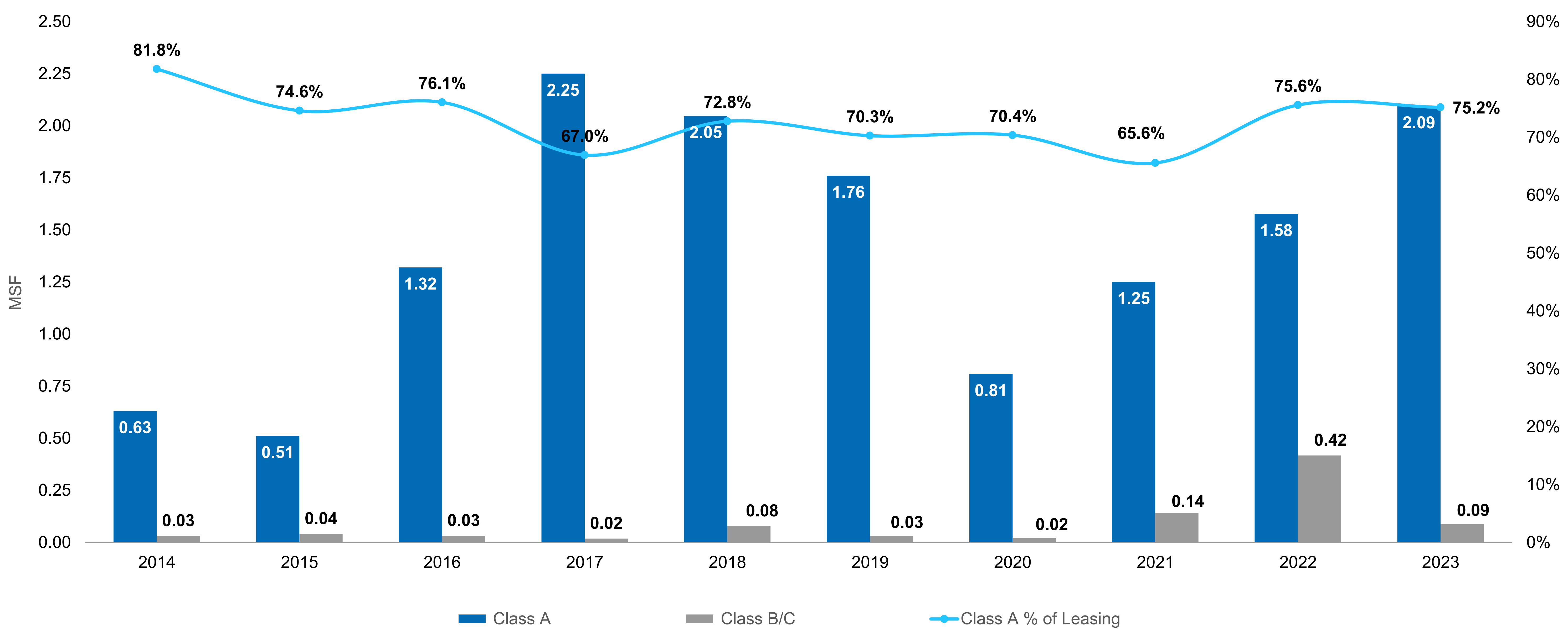


Source: Newmark Research, Altus Data Studio

Demand Remains for Class A Properties | Financial Core Leasing Activity

More than 75% of the square footage leased in the Financial Core since 2022 occurred in class A assets. The concentration of class A leasing in 2023 was down slightly from 2022 but was still higher than 2017 to 2021.The amount of class A office space leased increased rapidly between 2020 and 2023, rising 159% in terms of overall square footage leased on an annual basis. While leasing activity involving class B/C office space has traditionally been limited and flat, Scotiabank's renewal at 4 King St. W. pushed up class B/C volume in 2022.

Leased Vacant Area by Class

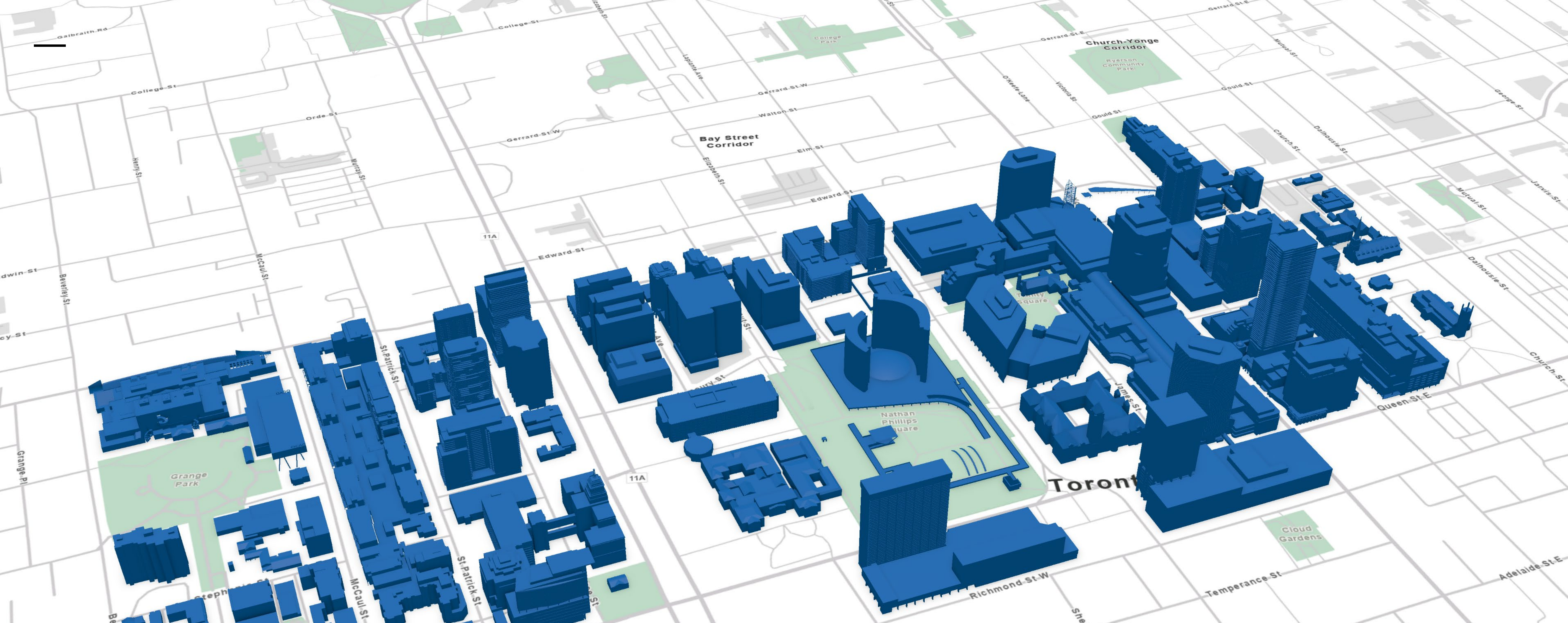


Source: Newmark Research, Altus Data Studio

1Q24

Downtown Toronto Office Submarkets

Downtown North



While Downtown North had the second lowest percentage of class A buildings (23%) in Downtown Toronto's submarkets, it also had the most class B buildings (46%) and an overall 11.7% vacancy rate at first-quarter 2024.

Class A/B office vacancy had stabilized at the end of the first quarter of 2024 at 11.2%, slightly off its peak at fourth-quarter 2023. Class A/B vacancy had remained less than 10% until the second quarter of 2023.

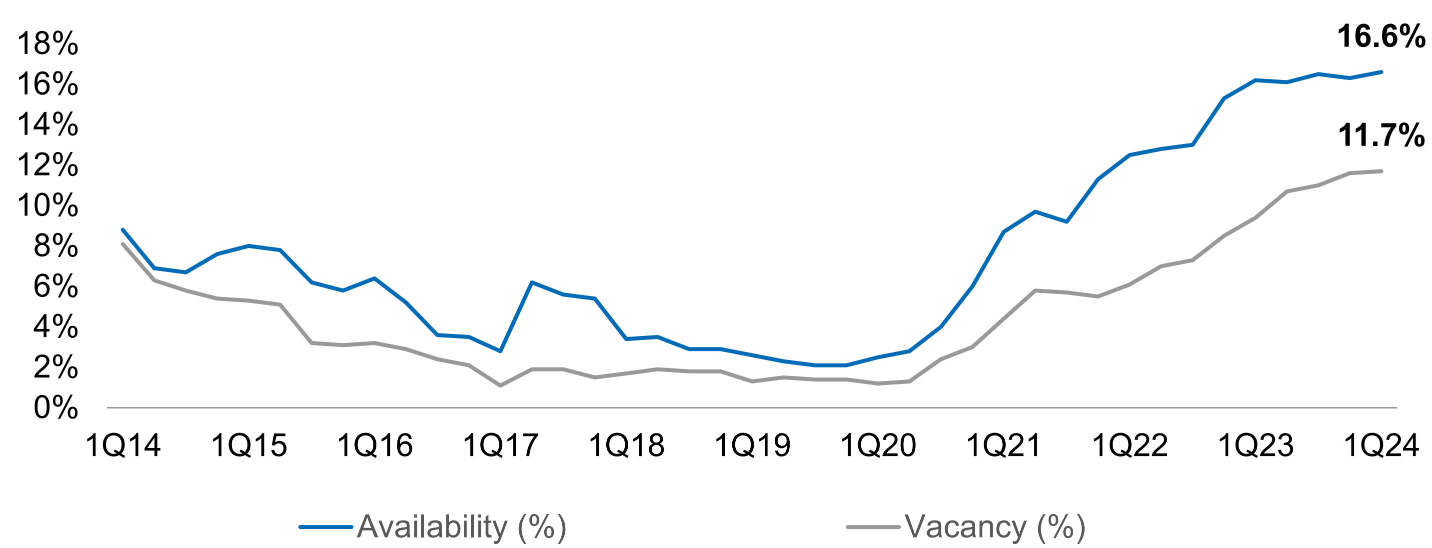
Annual absorption was negative since 2020; however, the amount of negative absorption in 2023 was 44% less than in 2022 and the final quarter of 2023 recorded the most positive absorption in a quarter since third-quarter 2015.

Source: Airbus,USGS,NGA,NASA,CGIAR,NLS,OS,NMA,Geodatastyrelsen,GSA,GSI and the GIS User Community, Esri Community Maps Contributors, City of Toronto, Province of Ontario, Esri Canada, Esri, TomTom, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, US Census Bureau, USDA, NRCan, Parks Canada

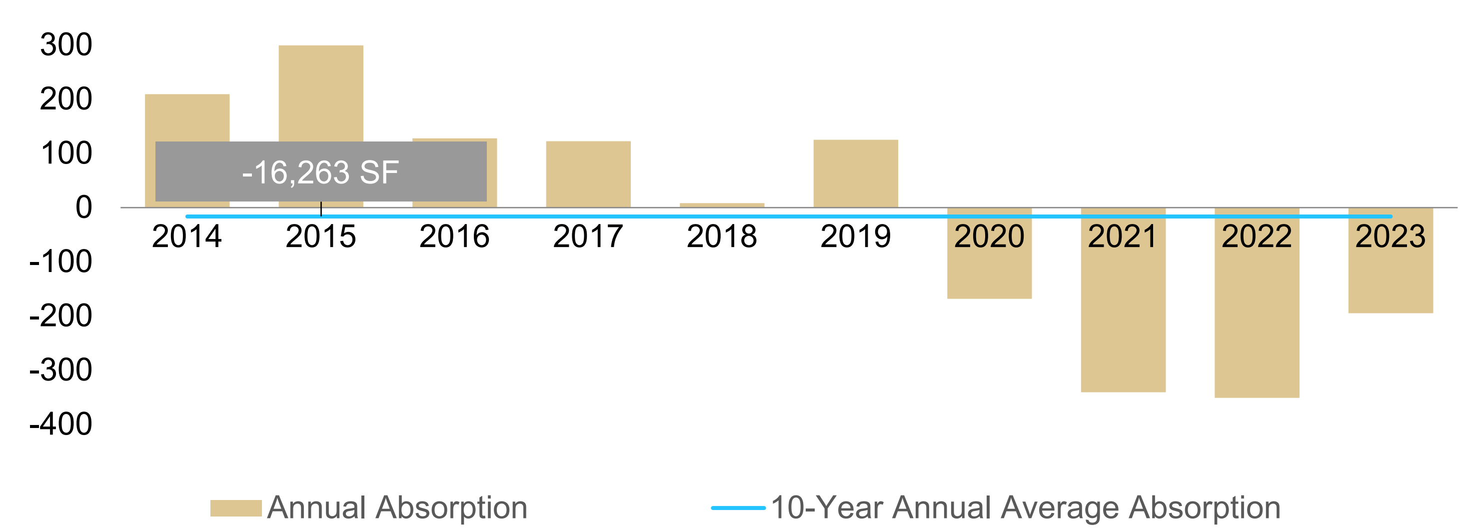
Downtown North

Despite four years of negative annual absorption, the historic character of the Downtown North submarket has kept it in relatively good shape compared with other Downtown submarkets. Class B properties comprised 46% of the buildings in Downtown North – the most in Downtown Toronto – and is the only downtown market where class B vacancy was lower than class A at first-quarter 2024. Thanks to declining or stabilizing vacancy in both class A and B, overall vacancy was 11.7%, the second lowest in all Downtown Toronto.

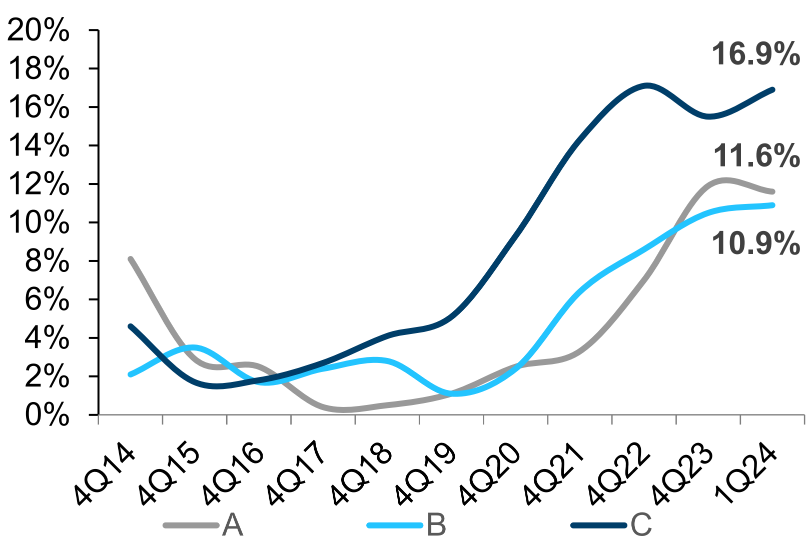
Availability And Vacancy Rates – All Classes



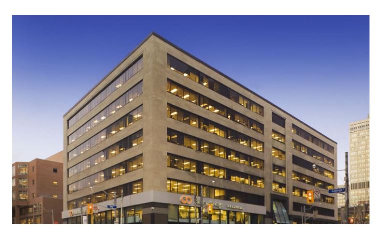
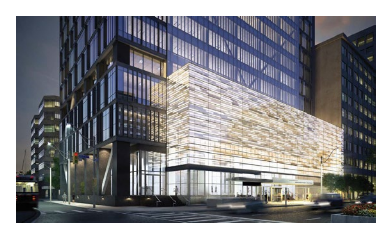
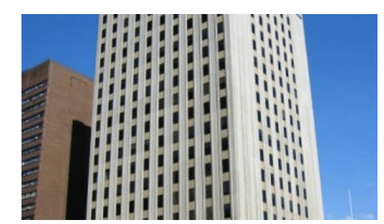
Annual Absorption – All Classes (Thousands of SF)

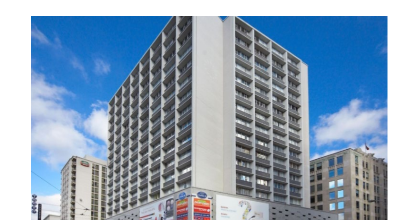


Vacancy by Class – 2014 to 2023



First Quarter Deals

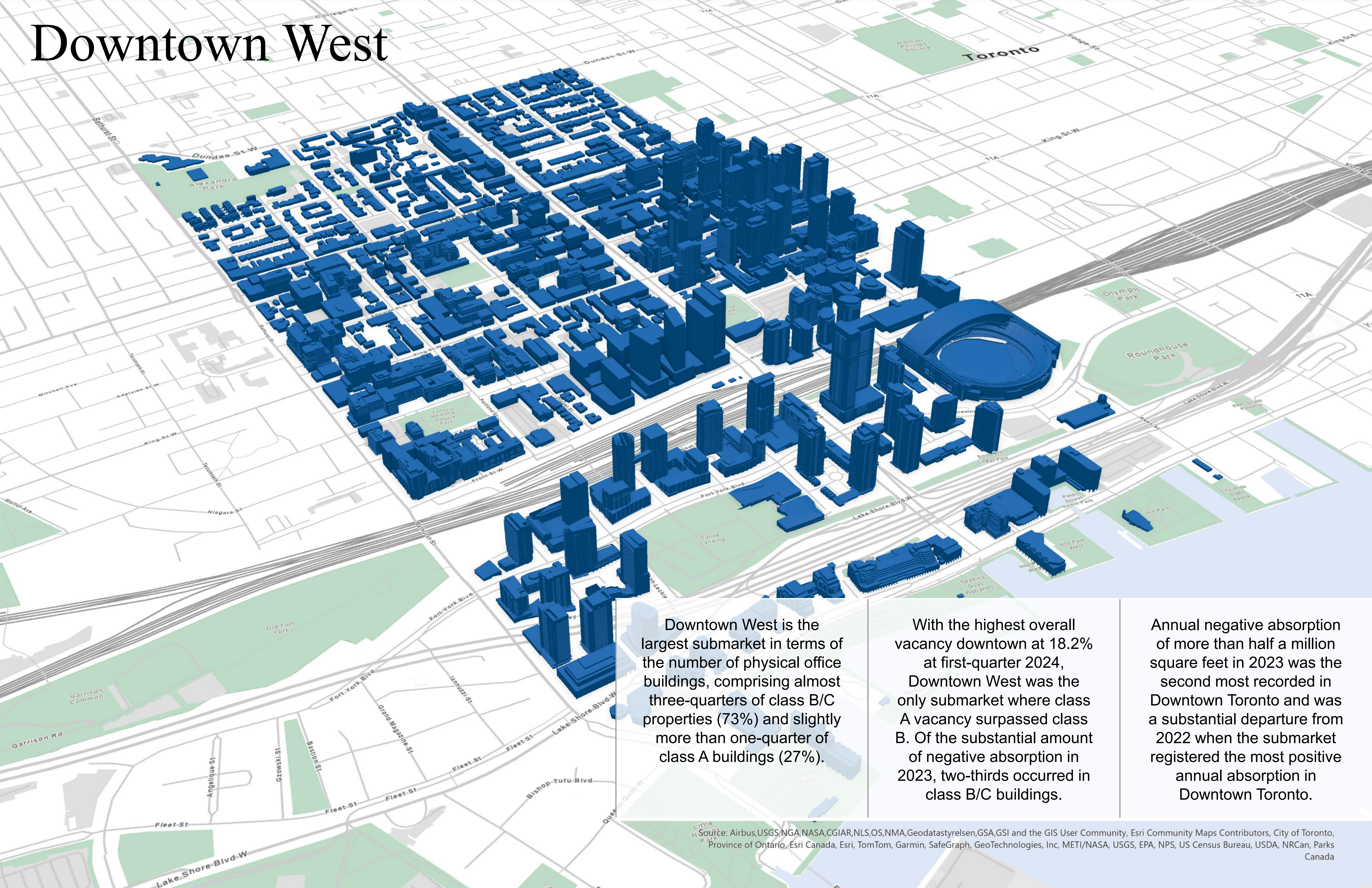






800 Bay Street	480 University Avenue	415 Yonge Street	Schwartz Reisman Innovation Campus - West Tower 108 College Street	2 Carlton Street
University of Toronto	AlayaCare	VF Services Canada	Undisclosed	Dr. Norma W. Chou, Orthodontist
45,840 SF	17,050 SF	6,300 SF	6,180 SF	3,000 SF
Direct new	Sublease	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

Downtown West



Downtown West is the largest submarket in terms of the number of physical office buildings, comprising almost three-quarters of class B/C properties (73%) and slightly more than one-quarter of class A buildings (27%).

With the highest overall vacancy downtown at 18.2% at first-quarter 2024, Downtown West was the only submarket where class A vacancy surpassed class B. Of the substantial amount of negative absorption in 2023, two-thirds occurred in class B/C buildings.

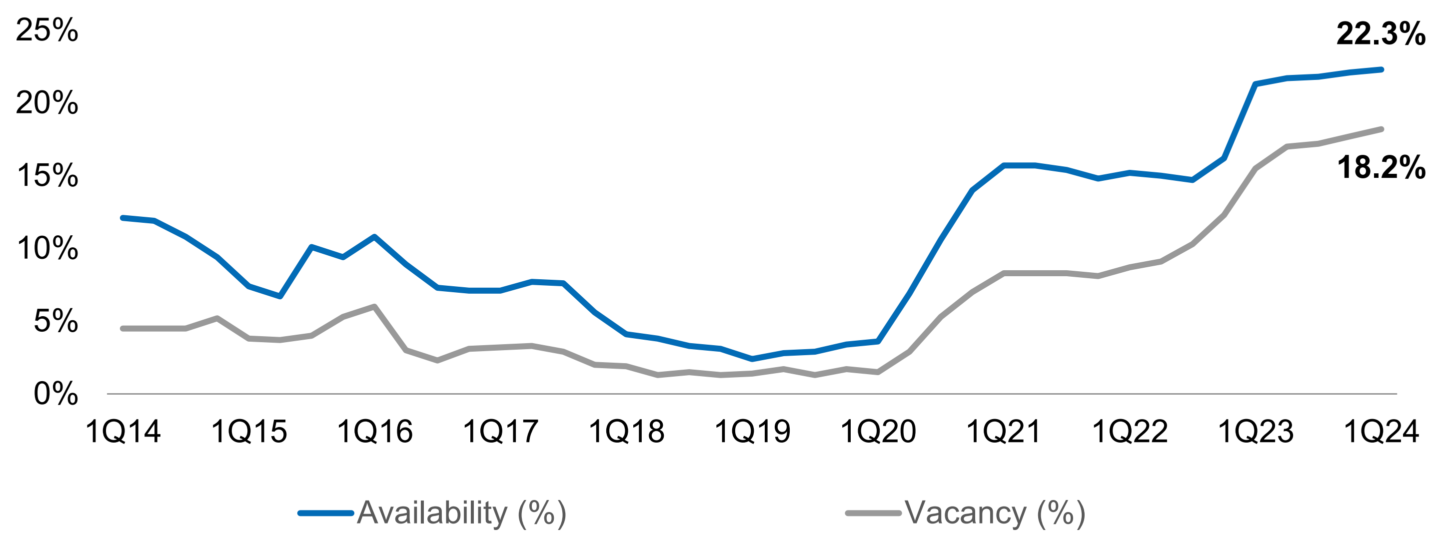
Annual negative absorption of more than half a million square feet in 2023 was the second most recorded in Downtown Toronto and was a substantial departure from 2022 when the submarket registered the most positive annual absorption in Downtown Toronto.

Source: Airbus,USGS,NGA,NASA,CGIAR,NLS,OS,NMA,Geodatastyrelsen,GSA,GSI and the GIS User Community, Esri Community Maps Contributors, City of Toronto, Province of Ontario, Esri Canada, Esri, TomTom, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, US Census Bureau, USDA, NRCan, Parks Canada

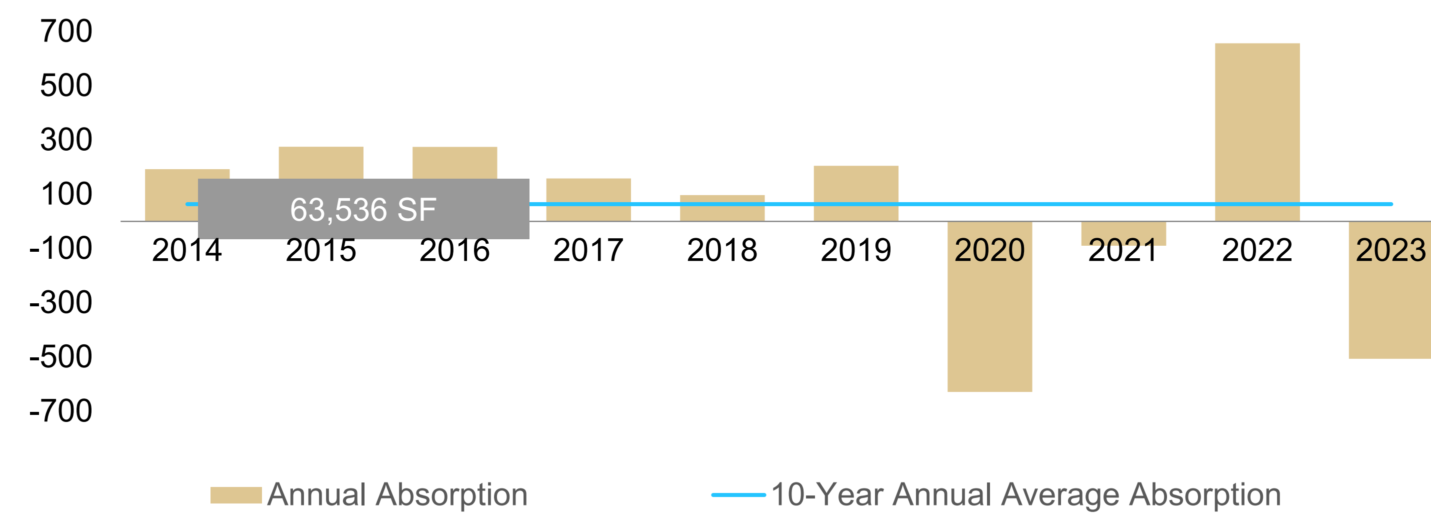
Downtown West

Downtown West remained the most challenged of Downtown Toronto's submarkets at first-quarter 2024 with the highest vacancy downtown at 18.2% but it appeared the submarket may soon turn a corner. Vacancy in all classes remained elevated but had started to stabilize (or even decline as in the case of class B and C properties) at first-quarter 2024. With the second-most class C buildings in Downtown Toronto, it is interesting to note that class C vacancy in Downtown West was less than class A, the only submarket where that occurred.

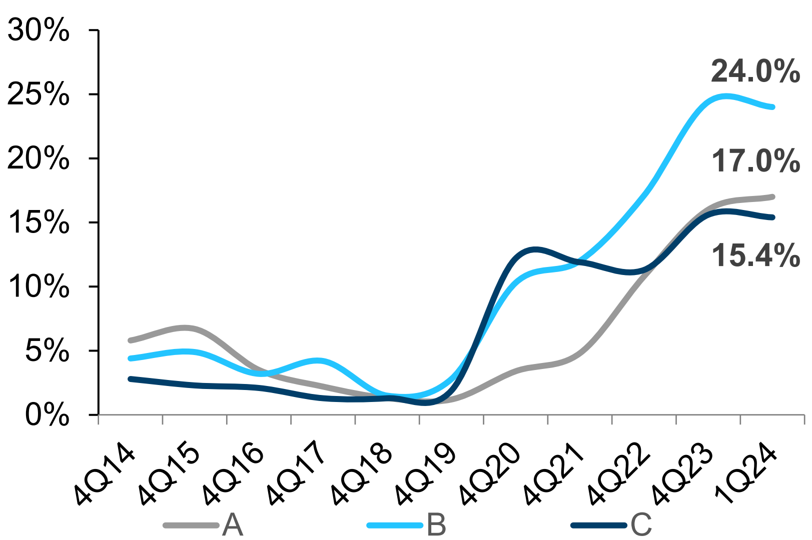
Availability And Vacancy Rates – All Classes



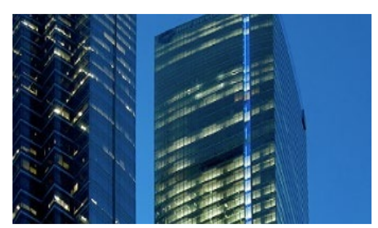
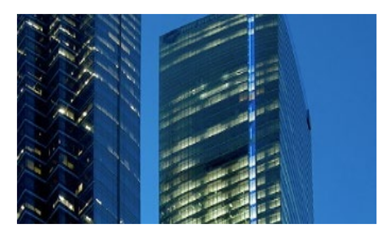
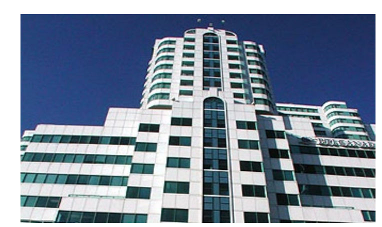
Annual Absorption – All Classes (Thousands of SF)

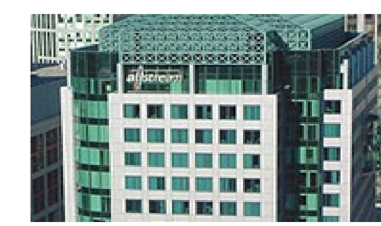


Vacancy by Class – 2014 to 2023



First Quarter Deals

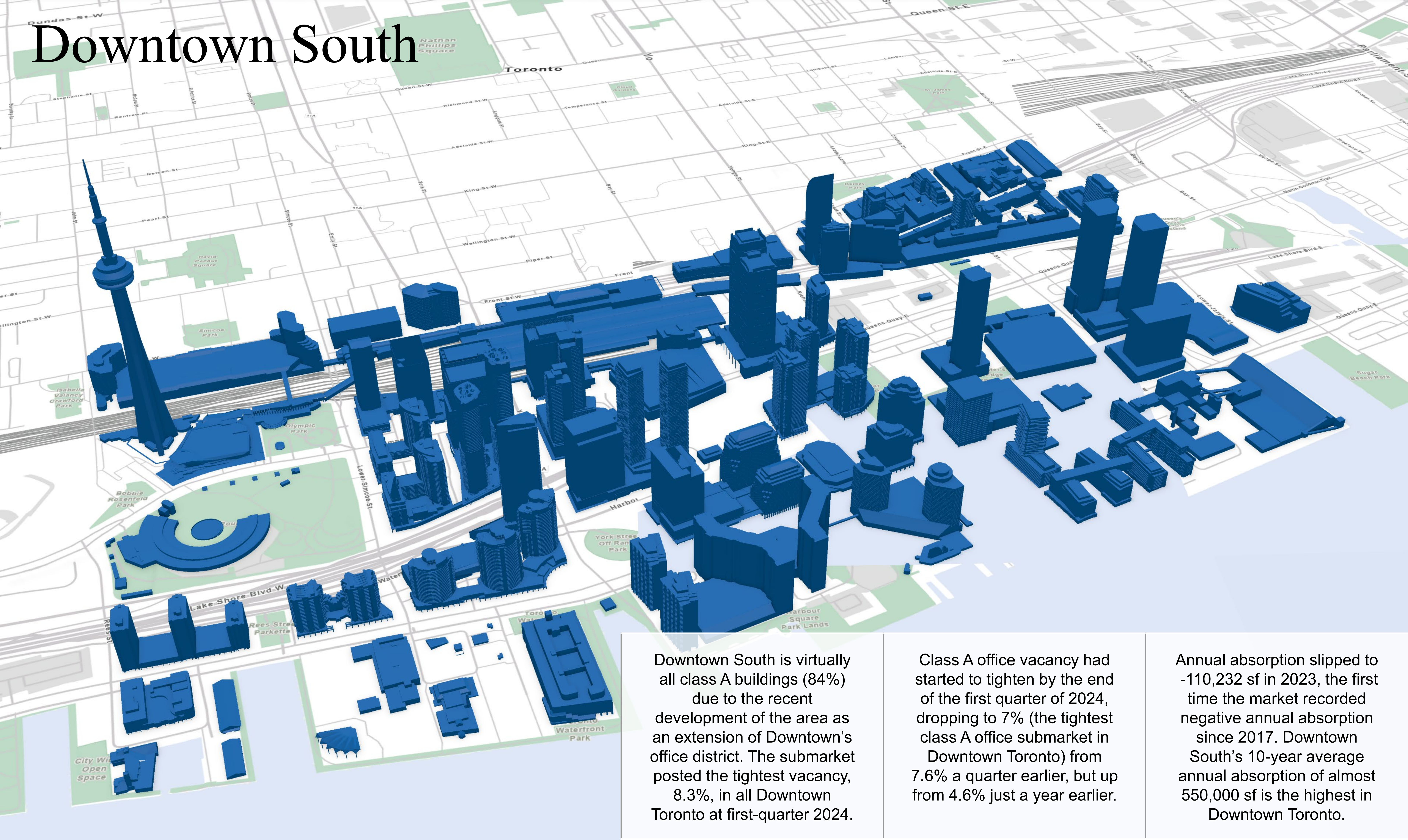






RBC Centre 155 Wellington Street W.	RBC Centre 155 Wellington Street W.	370 King West Offices 370 King Street W.	40-46 Spadina Avenue	MetroCentre (Wellington Tower) 200 Wellington Street W.
Palo Alto	Undisclosed	Undisclosed	Undisclosed	Undisclosed
25,150 SF	15,000 SF	13,240 SF	12,360 SF	12,360 SF
Direct New	Direct New	Sublease	Direct New	Direct New

Source: Newmark Research, Altus Data Studio

Downtown South



Downtown South is virtually all class A buildings (84%) due to the recent development of the area as an extension of Downtown's office district. The submarket posted the tightest vacancy, 8.3%, in all Downtown Toronto at first-quarter 2024.

Class A office vacancy had started to tighten by the end of the first quarter of 2024, dropping to 7% (the tightest class A office submarket in Downtown Toronto) from 7.6% a quarter earlier, but up from 4.6% just a year earlier.

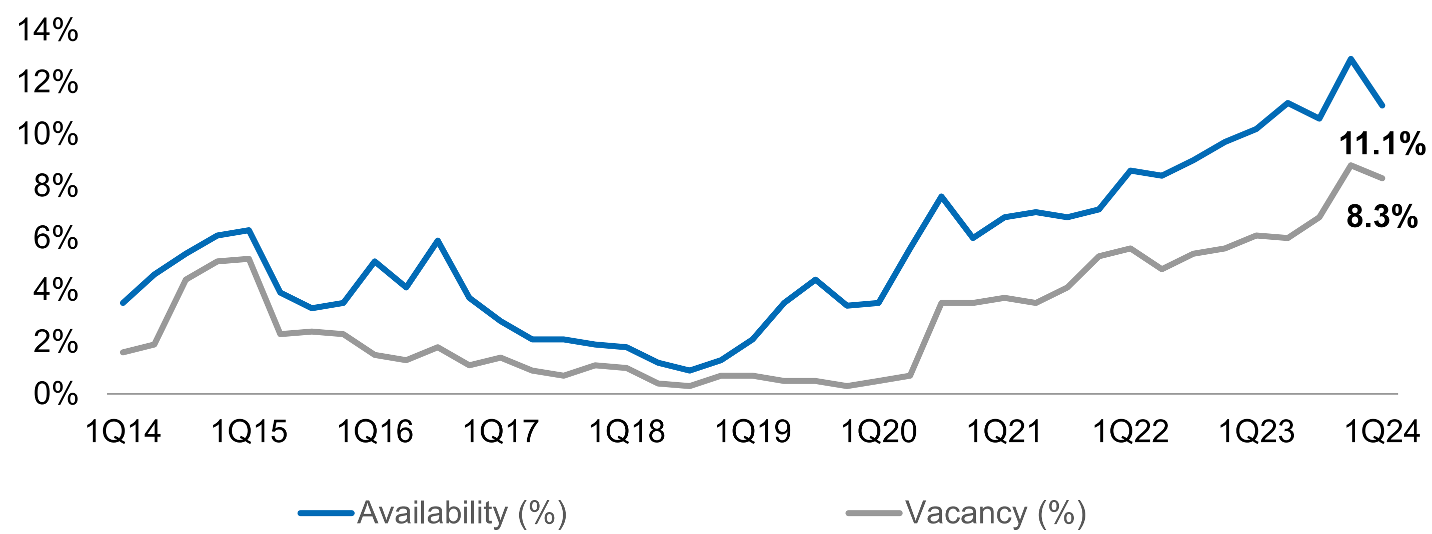
Annual absorption slipped to -110,232 sf in 2023, the first time the market recorded negative annual absorption since 2017. Downtown South's 10-year average annual absorption of almost 550,000 sf is the highest in Downtown Toronto.

Source: Airbus,USGS,NGA,NASA,CGIAR,NLS,OS,NMA,Geodatastyrelsen,GSA,GSI and the GIS User Community, Esri Community Maps Contributors, City of Toronto, Province of Ontario, Esri Canada, Esri, TomTom, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, US Census Bureau, USDA, NRCan, Parks Canada

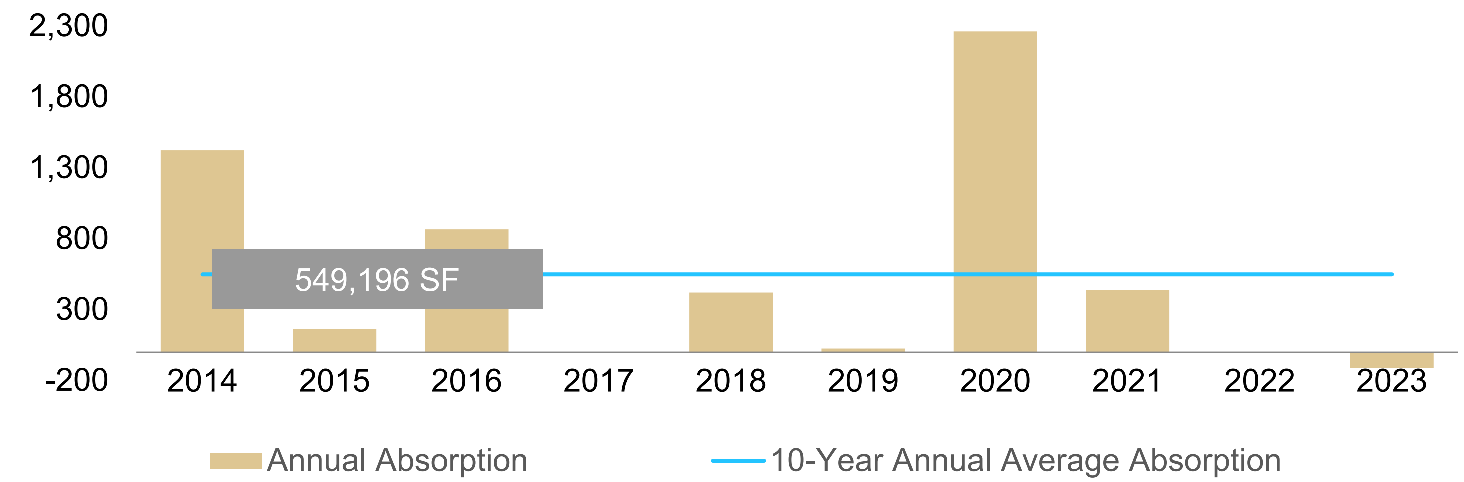
Downtown South

Downtown South was the healthiest office submarket with vacancy at 8.3% at first-quarter 2024. Most of Toronto's office demand has emerged from Downtown South during the past 10 years with annual absorption averaging an astonishing 550k sf, by far and away the most in Downtown Toronto. This should be unsurprising as 84% of the buildings are class A having been constructed in recent years as the traditional business district expanded south towards the lakefront. Class A vacancy tightened to 7% at first-quarter 2024, the lowest downtown.

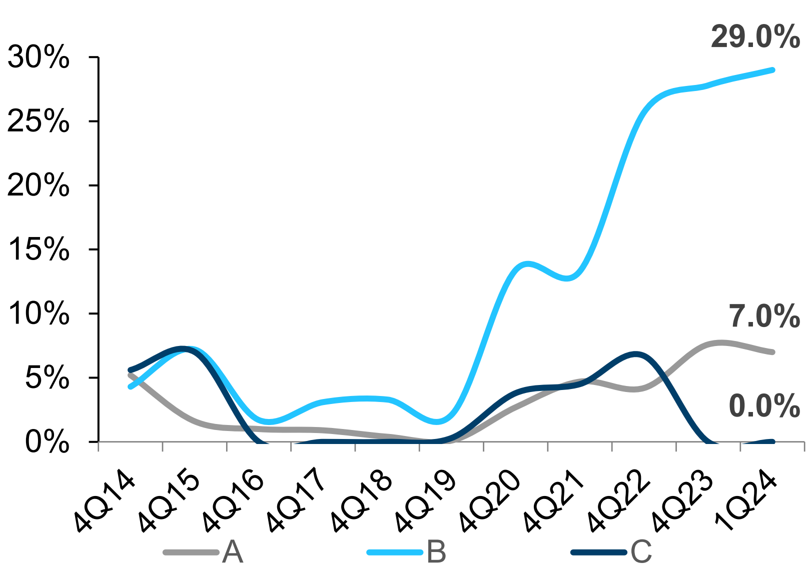
Overall Availability And Vacancy Rates – All Classes



Annual Absorption – All Classes (Thousands of SF)

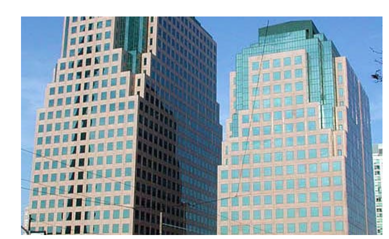
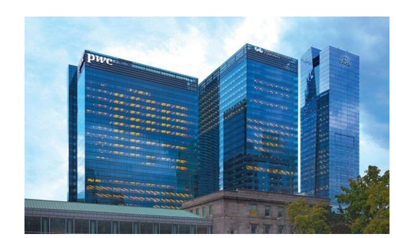
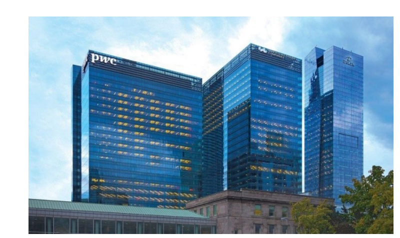


Vacancy by Class – 2014 to 2023



First Quarter Deals

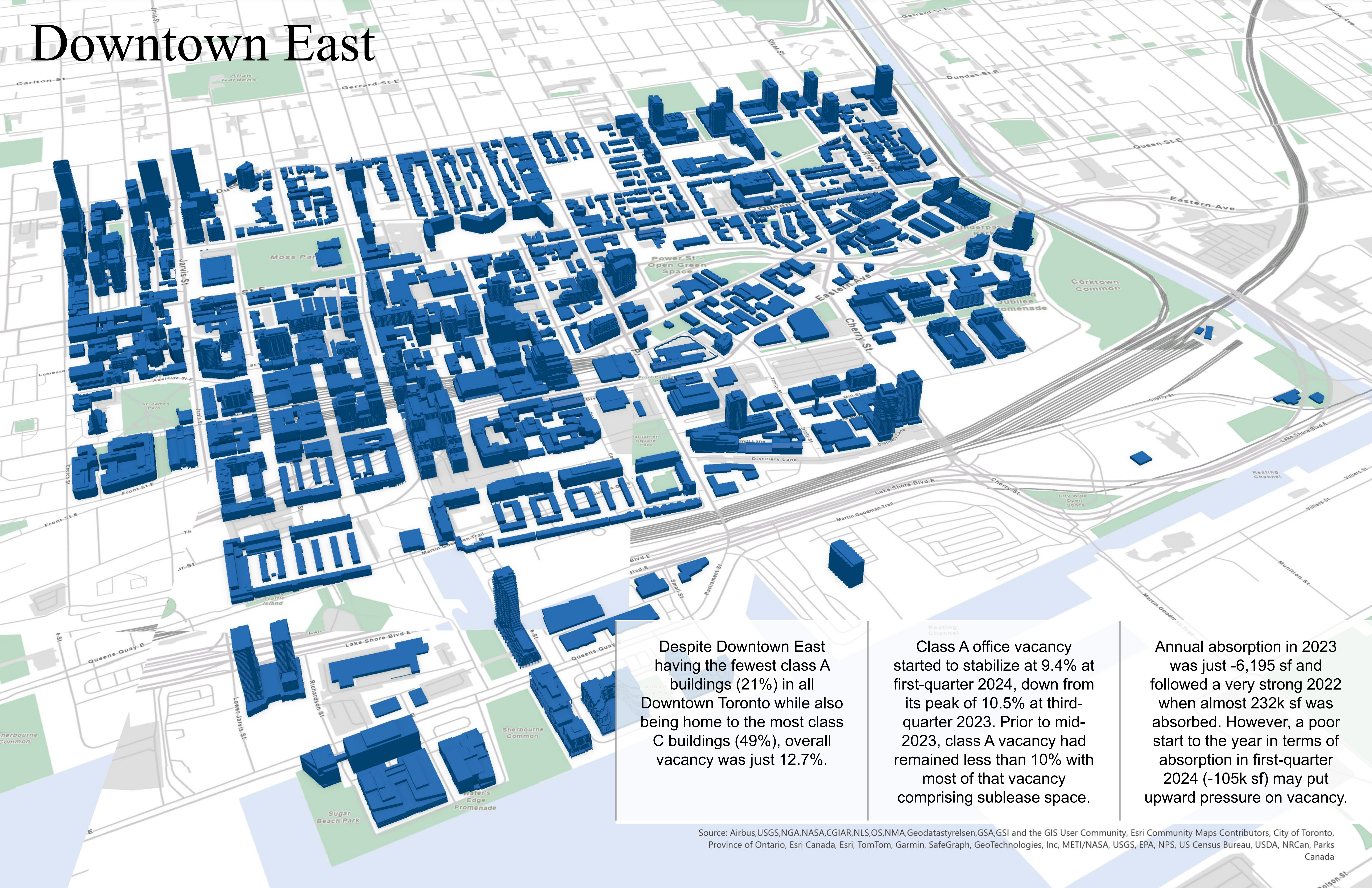


York Centre 16 York Street	York Centre 16 York Street	WaterPark Place 20 Bay Street	Southcore Financial Centre (SFC) 120 Bremner Boulevard	Southcore Financial Centre (SFC) 120 Bremner Boulevard
VGW Canada Inc.	Invesco	Metrolinx	Entuitive	SPEC Labs
56,250 SF	28,160 SF	24,000 SF	23,610 SF	20,650 SF
Sublease	Sublease	Direct New	Sublease	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

Downtown East



Despite Downtown East having the fewest class A buildings (21%) in all Downtown Toronto while also being home to the most class C buildings (49%), overall vacancy was just 12.7%.

Class A office vacancy started to stabilize at 9.4% at first-quarter 2024, down from its peak of 10.5% at third-quarter 2023. Prior to mid-2023, class A vacancy had remained less than 10% with most of that vacancy comprising sublease space.

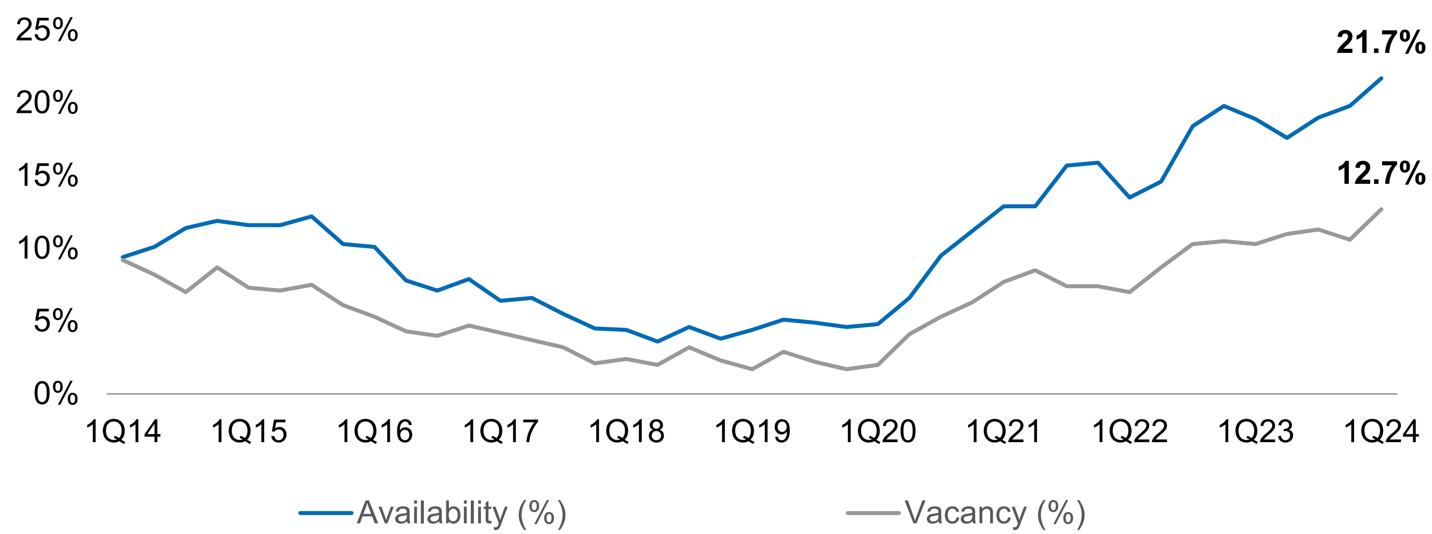
Annual absorption in 2023 was just -6,195 sf and followed a very strong 2022 when almost 232k sf was absorbed. However, a poor start to the year in terms of absorption in first-quarter 2024 (-105k sf) may put upward pressure on vacancy.

Source: Airbus,USGS,NGA,NASA,CGIAR,NLS,OS,NMA,Geodatastyrelsen,GSA,GSI and the GIS User Community, Esri Community Maps Contributors, City of Toronto, Province of Ontario, Esri Canada, Esri, TomTom, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, US Census Bureau, USDA, NRCan, Parks Canada

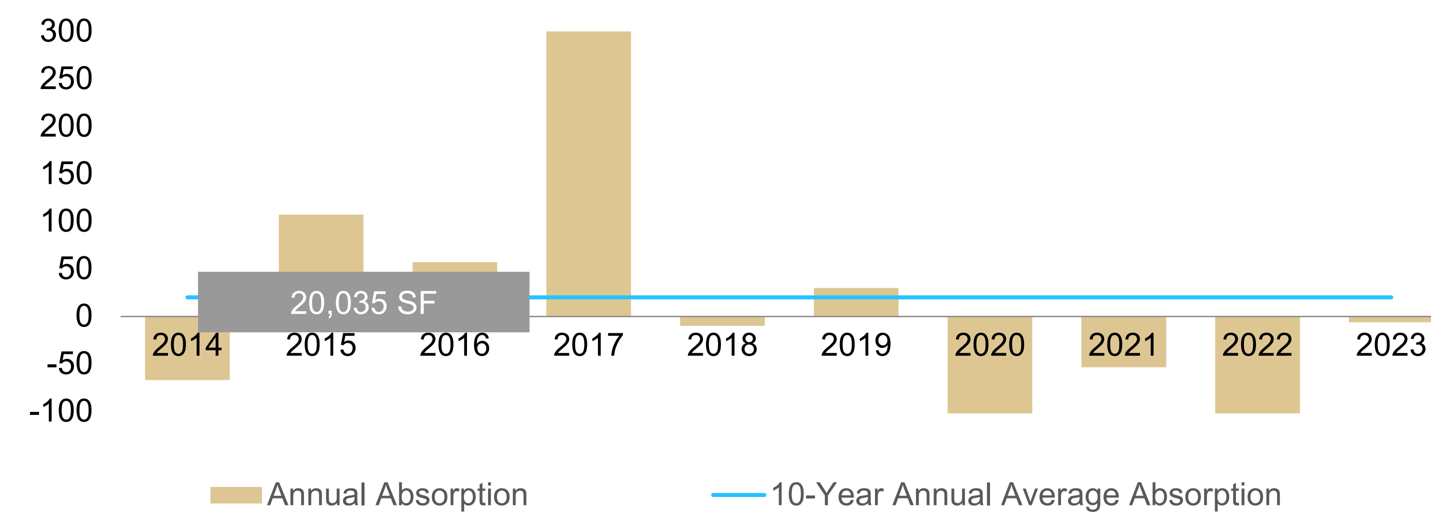
Downtown East

Despite having the fewest class A buildings and the most class C properties in Downtown Toronto, Downtown East remained very popular with tenants in class A/B premises, leading to some of the lowest class A and B vacancies in all downtown at first-quarter 2024. Four years of negative annual absorption has largely occurred in class C buildings, which make up 49% of the submarket. Notably, the delta between the vacancy and availability rates is greatest in Downtown East (900 bps) when compared with all Downtown Toronto (480 bps).

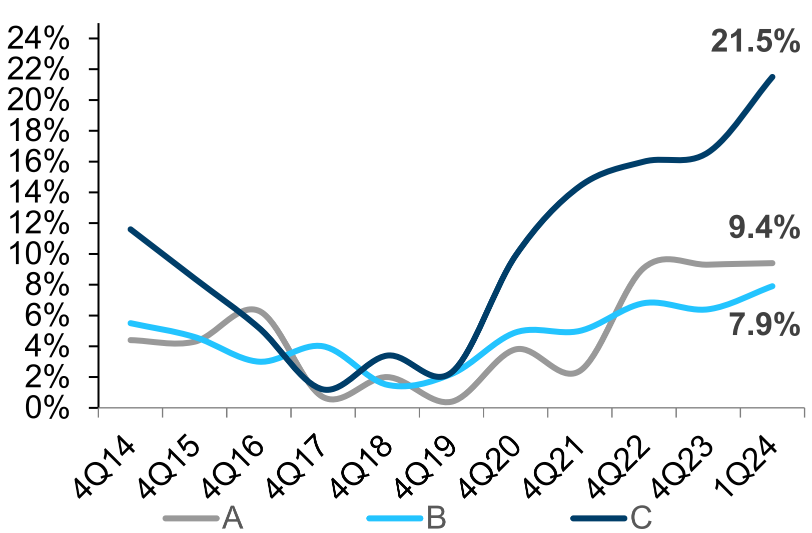
Availability And Vacancy Rates – All Classes



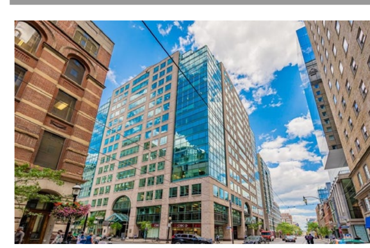
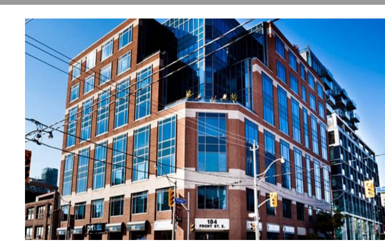
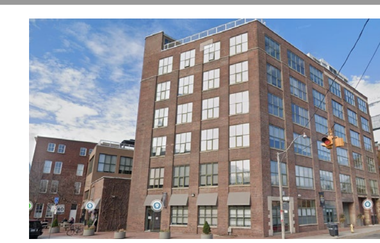
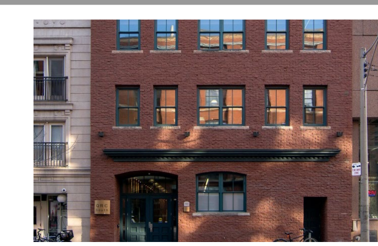
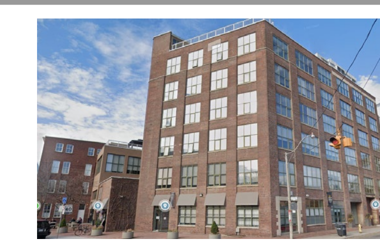
Annual Absorption – All Classes (Thousands of SF)



Vacancy by Class – 2014 to 2023



First Quarter Deals

1 Toronto Street	**184 Front Street E.**	**248-264 The Esplanade**	**QRC South 100 Lombard Street**	**248-264 The Esplanade**
Keel Cottrelle LLP	Undisclosed	Undisclosed	Undisclosed	Undisclosed
9,330 SF	7,500 SF	3,440 SF	3,245 SF	2,680 SF
Direct New	Sublease	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

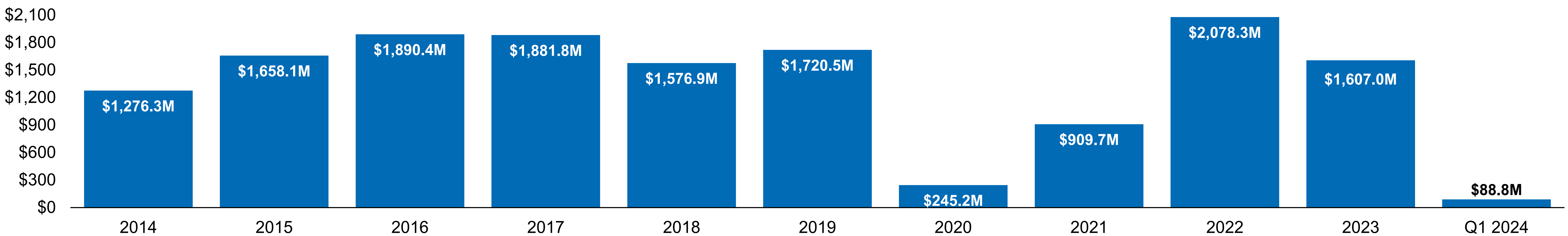
1Q24

Office Sales Activity

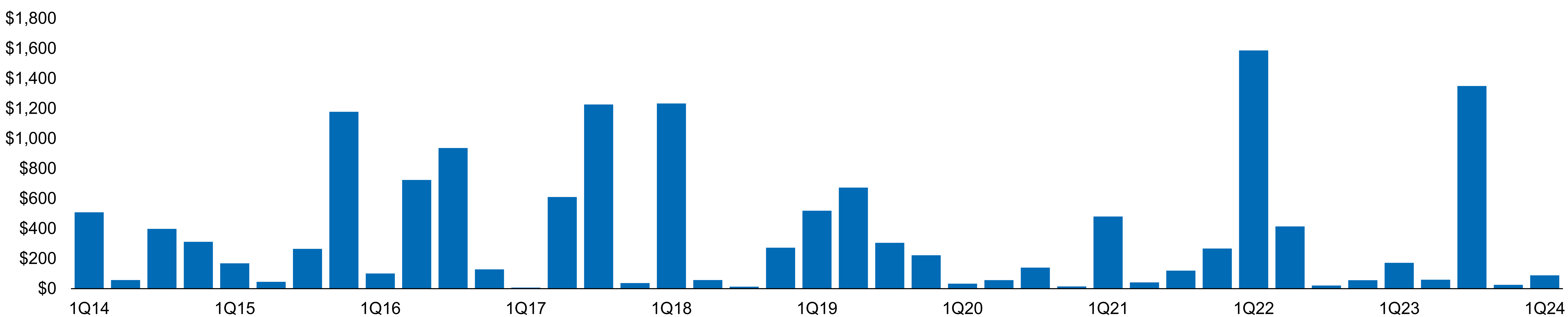
Downtown Toronto Core and Periphery Office Sales Volume Analysis

Downtown core and periphery office sales* (including strata) totalled $1.6B in 2023, a 23% decline from the $2.078B recorded in 2022. Office sales in the first quarter of 2024 totalled just $88.8M. The $1.163-billion sale of Royal Bank Plaza in 2022 along with the notable sales of 525 University Avenue and 175 Bloor Street East pushed office sale proceeds to highest total since 2014. Four sales in 2023 – 151 Front Street West, 250 Front Street West 905 King Street West and 720 Bay Street – kept annual dollar volume near historic norms.

Downtown Toronto Core and Periphery Annual Sales Volume ($ in Millions)



Downtown Toronto Core and Periphery Quarterly Sales Volume ($ in Millions)

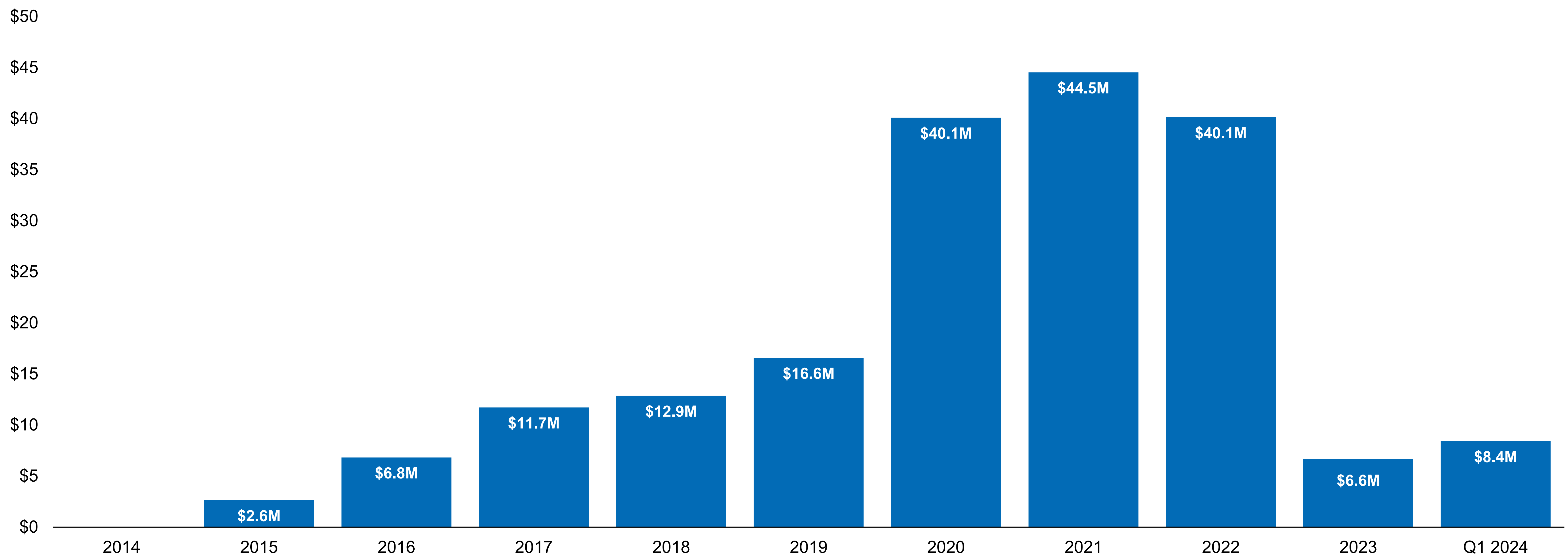


Source: Newmark Research, Altus Data Studio
* Excluding non-arms transactions

Downtown Toronto Core and Periphery Office Condo Sales Volume Analysis

A relatively novel form of office ownership in Ontario, condo (or strata) office sales* since 2014 peaked between 2020 and 2022 in terms of total dollar volume as construction completed and transactions closed. The presales of these units likely occurred during the period of record low office vacancy recorded in Downtown Toronto between 2017 and early 2020. A lack of space for lease combined with a low cost of capital helped sales of office condos as investments or as a hedge against rising office rental rates typical of that period.

Downtown Toronto Core and Periphery Condo Office Annual Sales Volume ($ in Millions)



Source: Newmark Research, Altus Data Studio
* Excluding non-arms transactions

For more information:

Andrew Petrozzi
Director & Head of Canada Research
andrew.petrozzi@nmrk.com

Newmark Canada Headquarters
#4310 - 77 King Street West
Toronto, ON M5K 1G8
t 416-599-3700

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

NEWMARK