

2Q24

Downtown Toronto Office Market Overview



NEWMARK

Downtown Toronto Office Market Observations

Despite Downtown Toronto office vacancy hitting a 24-year historic high of 14.6% at mid-2024, sublease vacancy in class A/B has been tightening since late 2023.

Downtown South and portions of the Financial Core appear to be benefitting from proximity to Union Station as tenants seem keen to 'anchor' close to the city's key public transit hub.

A sizeable sudden increase in negative absorption in second-quarter 2024 concentrated in Downtown North and the Financial Core may be related to the area's ongoing traffic congestion.

Second-quarter 2024 was the weakest quarter in the past decade in terms of total square footage leased downtown, which does not bode well for absorption in the back half of 2024.



Office leasing activity during the first half of 2024 was historically strong in the Financial Core, but after a pause this past spring, tenants' return to office plans and ongoing flight to quality appear to be picking up steam for fall 2024.

Most built-out spaces and full-floor opportunities, particularly in well-located class A premises in Downtown South and the Financial Core, have been leased up, which has tenants considering space in warm shell or bare shell conditions.

Landlord incentives for class B space remain in play as the delta between class A and B rents continues to widen due to rental rate erosion in less desirable class B buildings and upward pressure on class A rents due to tenant demand.

Ongoing heightened vacancy in Downtown Toronto is the result of three influences: i) new supply timing, ii) the office real estate cycle and iii) structural changes in how tenants use office space due to technology. COVID-19 magnified all these factors.

Toronto appeared to be trailing other Canadian cities regarding the percentage of downtown employers that mandated a return to office of at least 3 days+ per week, which was notably lower than the percentage of employers in both B.C. and Alberta.

2Q24

Office Market Fundamentals



Downtown Toronto Office Submarket Statistics | 2Q24

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	84,995,956	2,567,856	14.6%	-603,540	-53,136	14.7%	4.5%	C\$47.41
Financial Core	37,178,132	1,435,520	14.3%	-254,526	493,501	15.3%	3.6%	C\$55.24
Downtown North	13,813,706	53,338	14.2%	-346,695	-356,377	16.3%	3.3%	C\$44.05
Downtown West	13,720,737	563,731	18.4%	32,657	-34,125	14.4%	7.9%	C\$37.31
Downtown South	11,108,486	0	8.6%	-31,865	16,838	9.0%	2.8%	C\$56.20*
Downtown East	5,149,552	515,267	13.4%	-39,259	-144,380	12.7%	9.0%	C\$42.82
King & Dufferin**	3,995,343	0	23.7%	36,148	-28,593	23.0%	3.7%	C\$55.46

Source: Newmark Research, Altus Data Studio

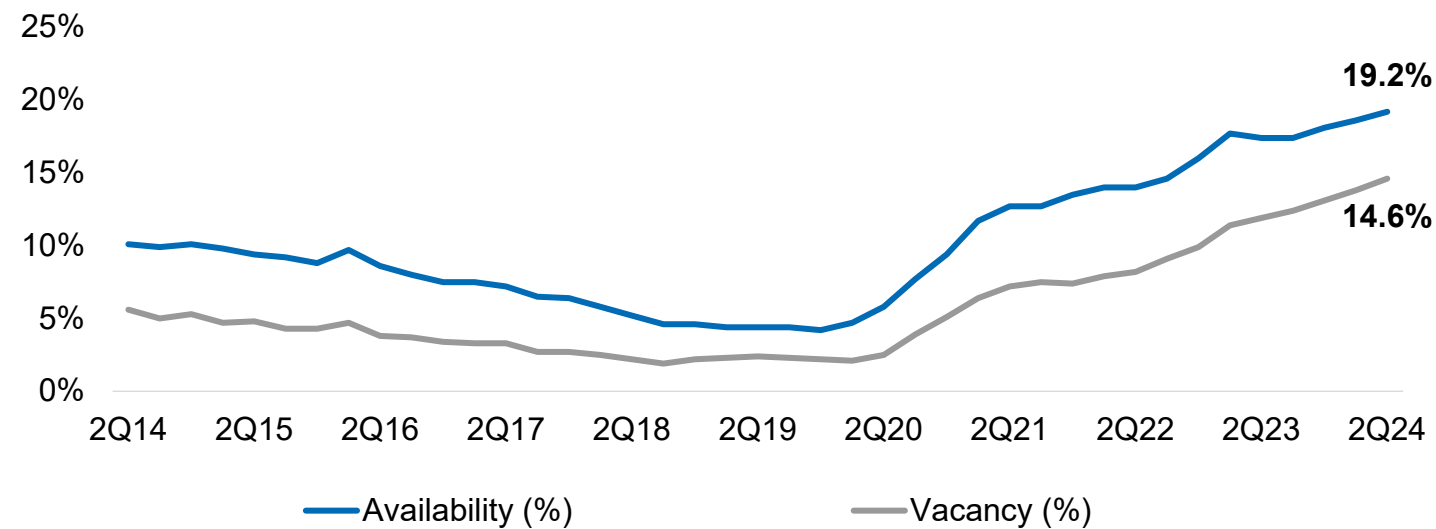
*Data not updated at source since Q4 2022.

** This submarket is not covered in this report.

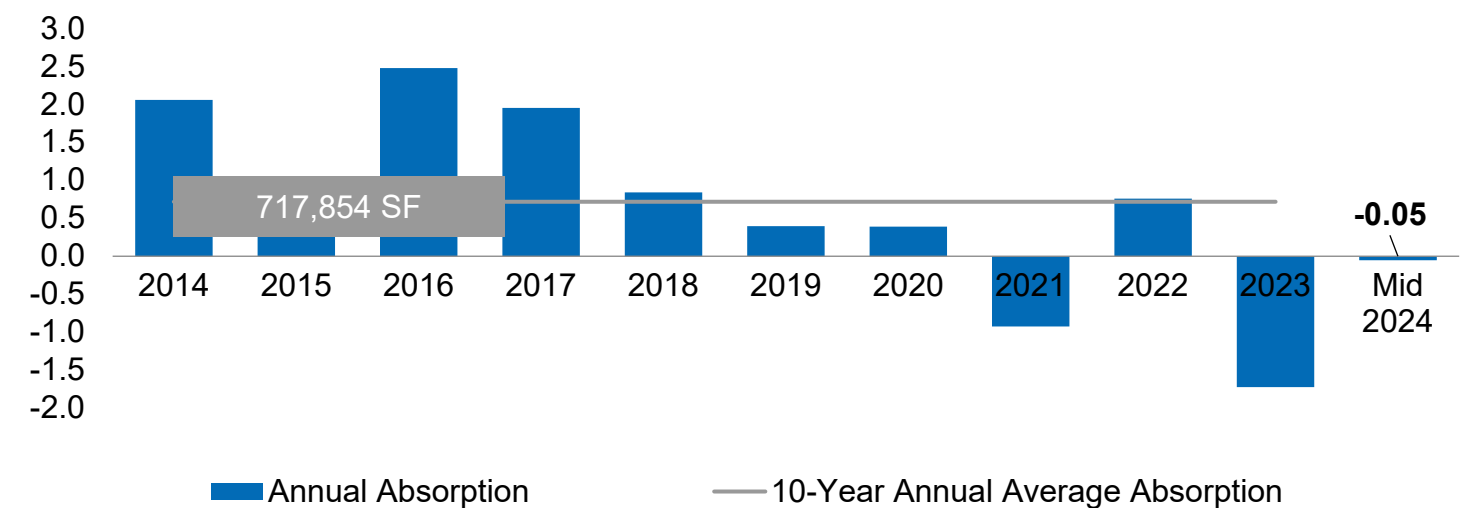
Downtown Toronto

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. Absorption had stabilized by mid-2024 at just -53,135 sf, a notable difference from the -1.73 msf of absorption in 2023. The ongoing flight to quality saw class A rents rise even as vacancy hit a 24-year high of 14.6% at second-quarter 2024. Class A vacancy had stabilized at ~13%.

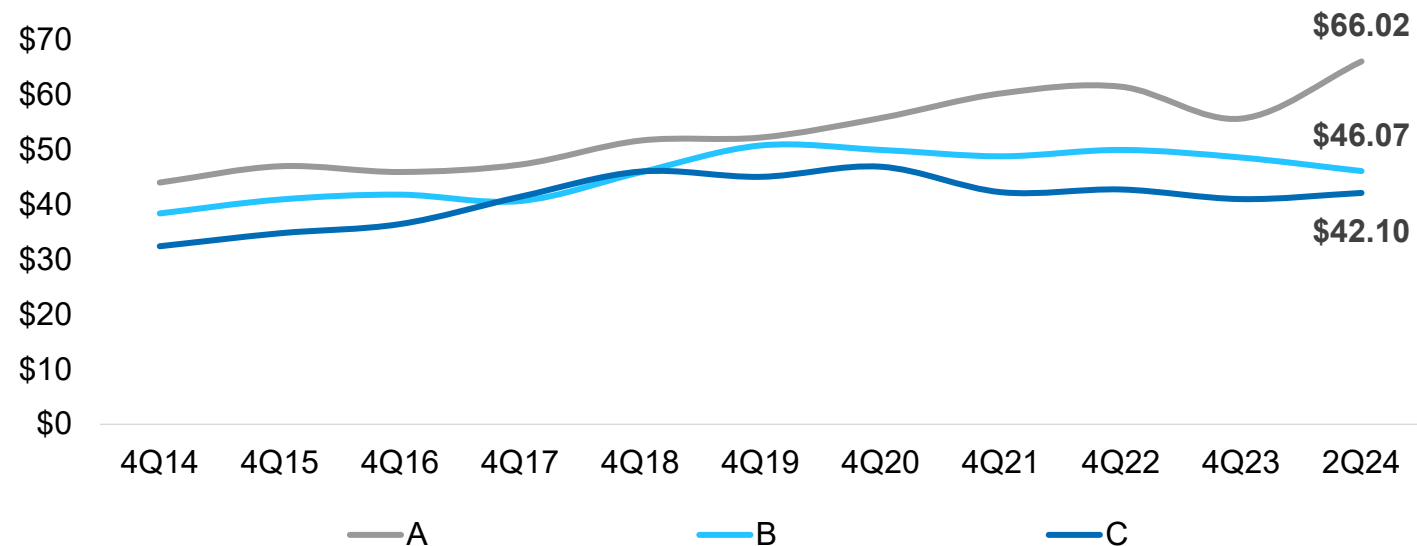
Overall Availability And Vacancy Rates – All Classes



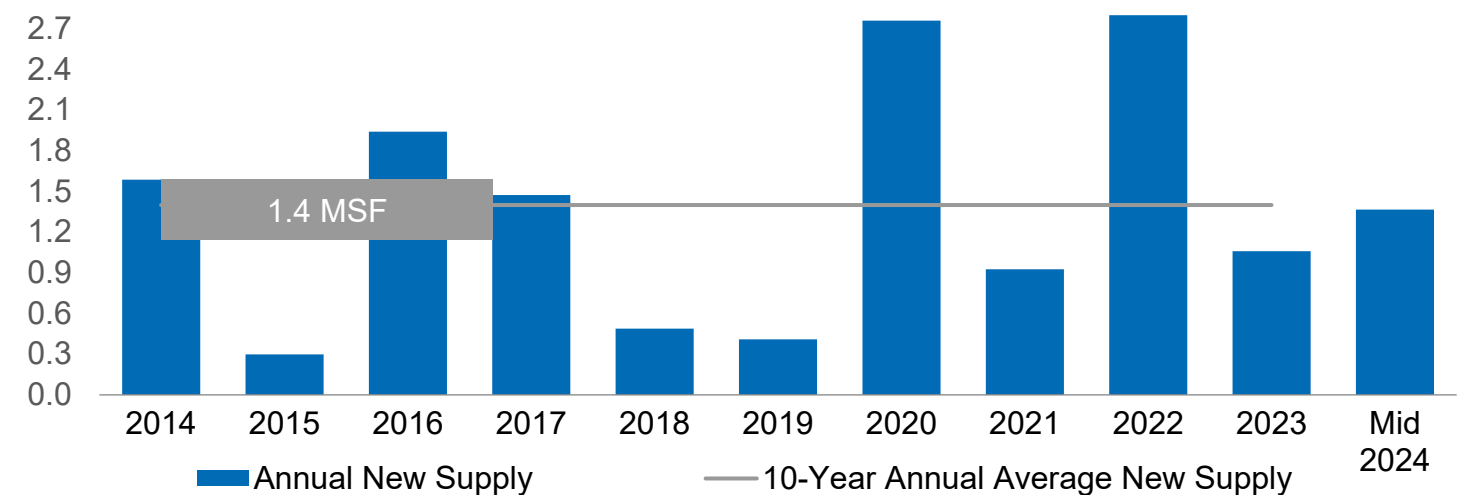
Annual Absorption – All Classes (MSF)



Total Estimated Direct Gross Rent by Class (C\$/sf)



New Construction Deliveries (MSF)

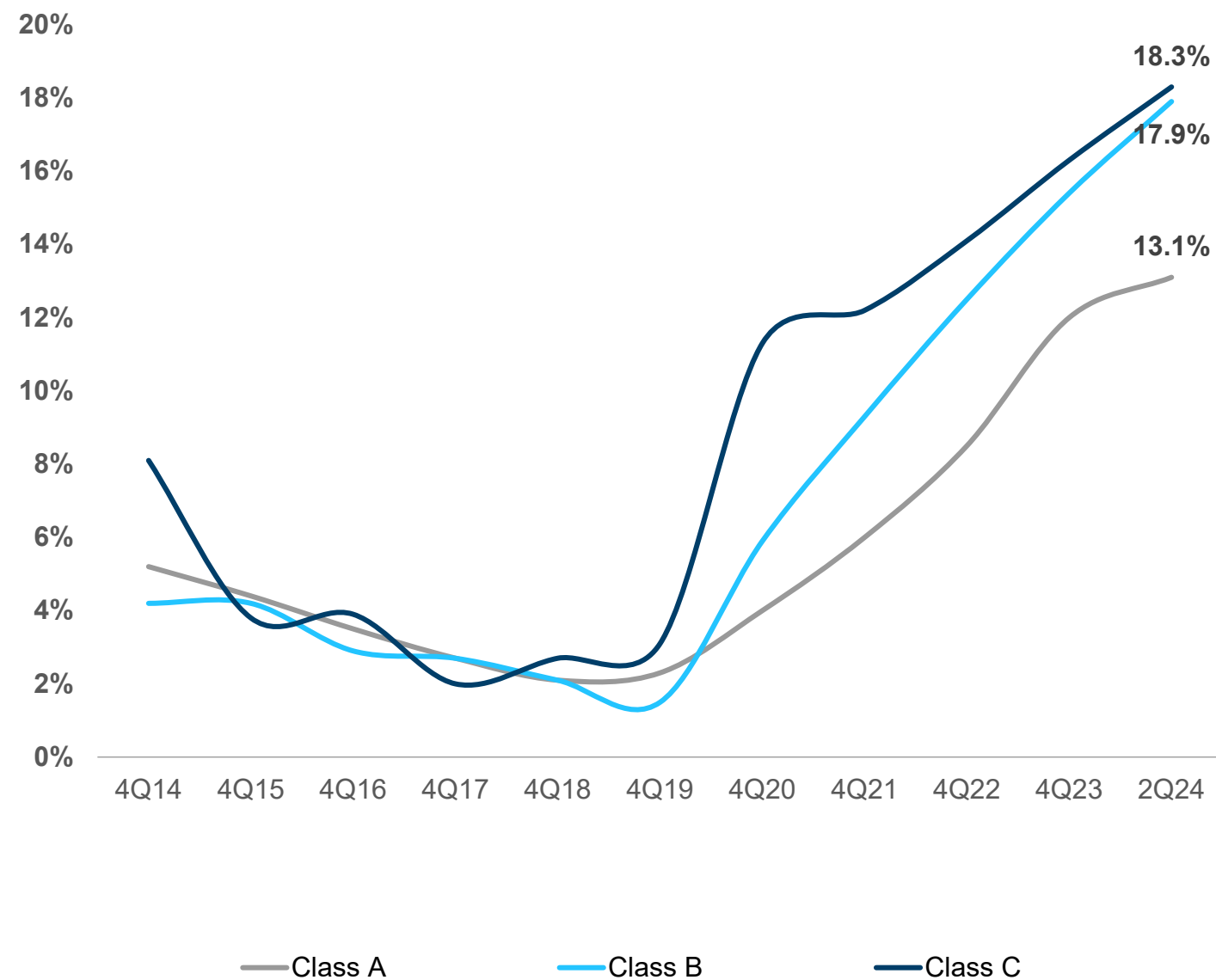


Source: Newmark Research, Altus Data Studio

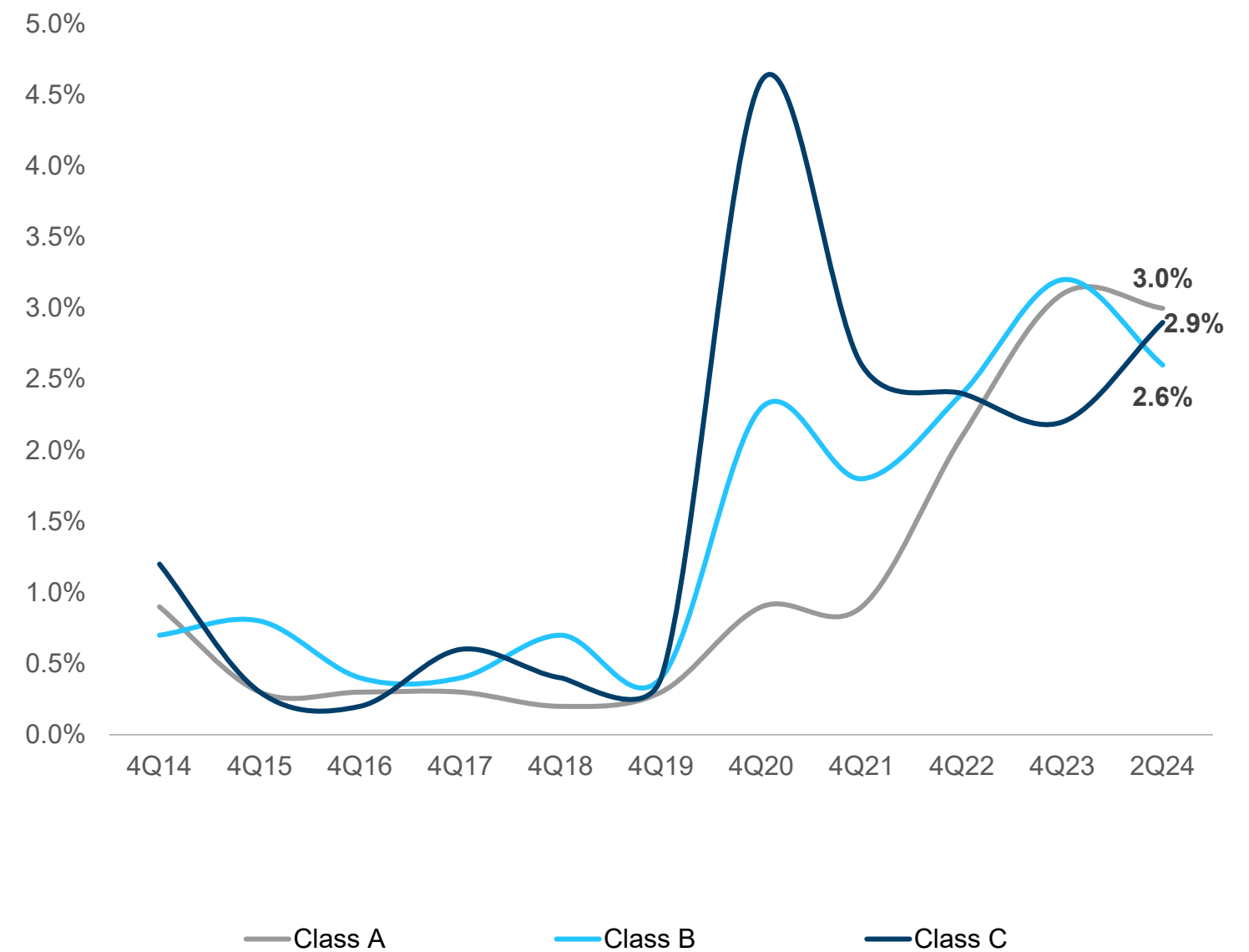
Class A Vacancy Slowly Stabilizing As Class B/C Continues Upward Trajectory

Headlease space in class A properties in Downtown Toronto continued to hold more of an attraction for tenants through the first half of 2024 despite the lower costs and more varied headlease options available in class B/C buildings in virtually all submarkets except Downtown South. Class B vacancy, which had closely tracked class A for much of the 2010s, has continued to accelerate upwards since 2021 and by mid-2024 had almost matched class C vacancy. On the other hand, class A/B sublease vacancy continued to decline at mid-2024.

Downtown Office Headlease Vacancy by Class – 2014 to 2024



Downtown Office Sublease Vacancy by Class – 2014 to 2024

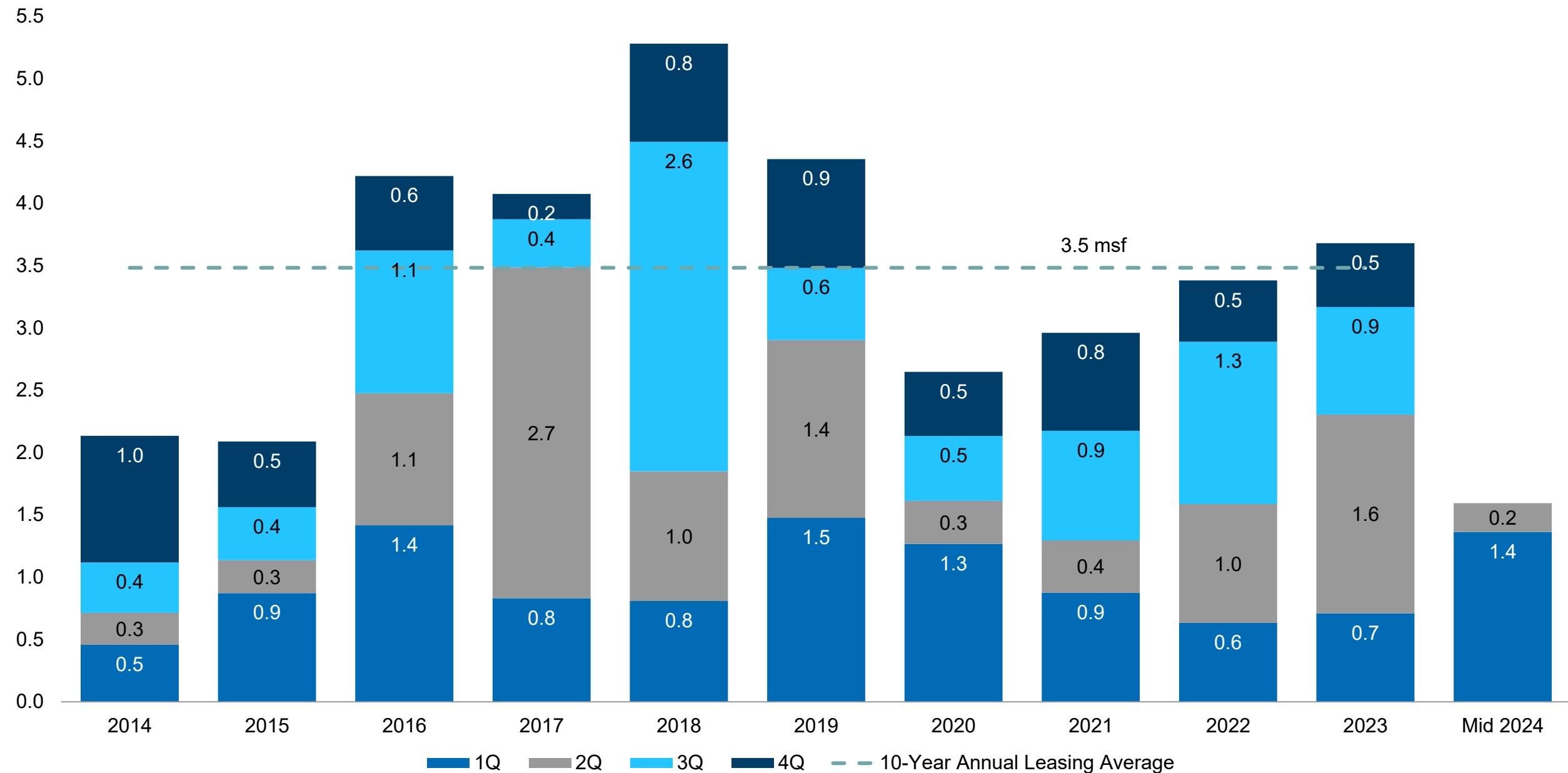


Source: Newmark Research, Altus Data Studio

Downtown Toronto Overall Leasing Activity Stumbles After Strong Start to 2024

Downtown Toronto office leasing activity started 2024 strong with the most square footage leased in a first quarter since 2019 and was tied with 2016 for the second most first-quarter leasing activity in the past decade. However, that momentum would fade quickly with second-quarter 2024 ending up as the weakest quarter of the past decade in terms of downtown leasing activity, including during COVID-19. The leasing activity in first-half 2024 primarily occurred in the Financial Core and, to a lesser extent, the Downtown South submarket.

Total Leasing Activity in All Classes (MSF)

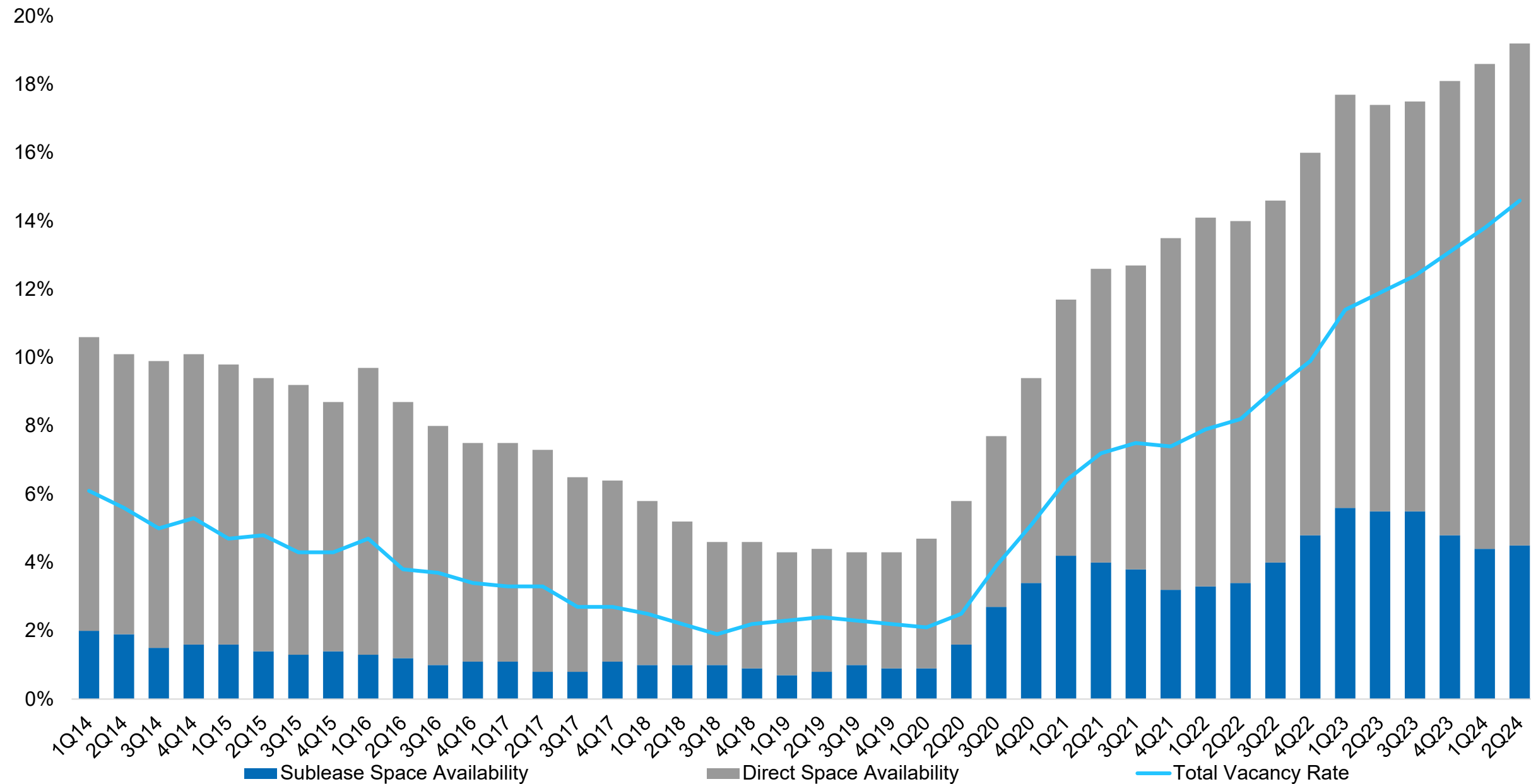


Source: Newmark Research, Altus Data Studio

Direct Space Availability In Downtown Climbing As Sublease Availability Flattens

Direct availability and vacancy continued to rise in Downtown Toronto's office market through to mid-2024. Rising vacancy, primarily in class B/C buildings, has resulted in a surplus of less desirable office space in older buildings available on a head lease basis. New supply has also added more limited amounts of class A headlease space. Sublease availability had declined from 5.6% in the first quarter of 2023 before stabilizing in the first half of 2024 at around 4.5%. However, overall availability has climbed steadily since second-quarter 2020.

Available Space and Tenant Demand as Per cent of Overall Market

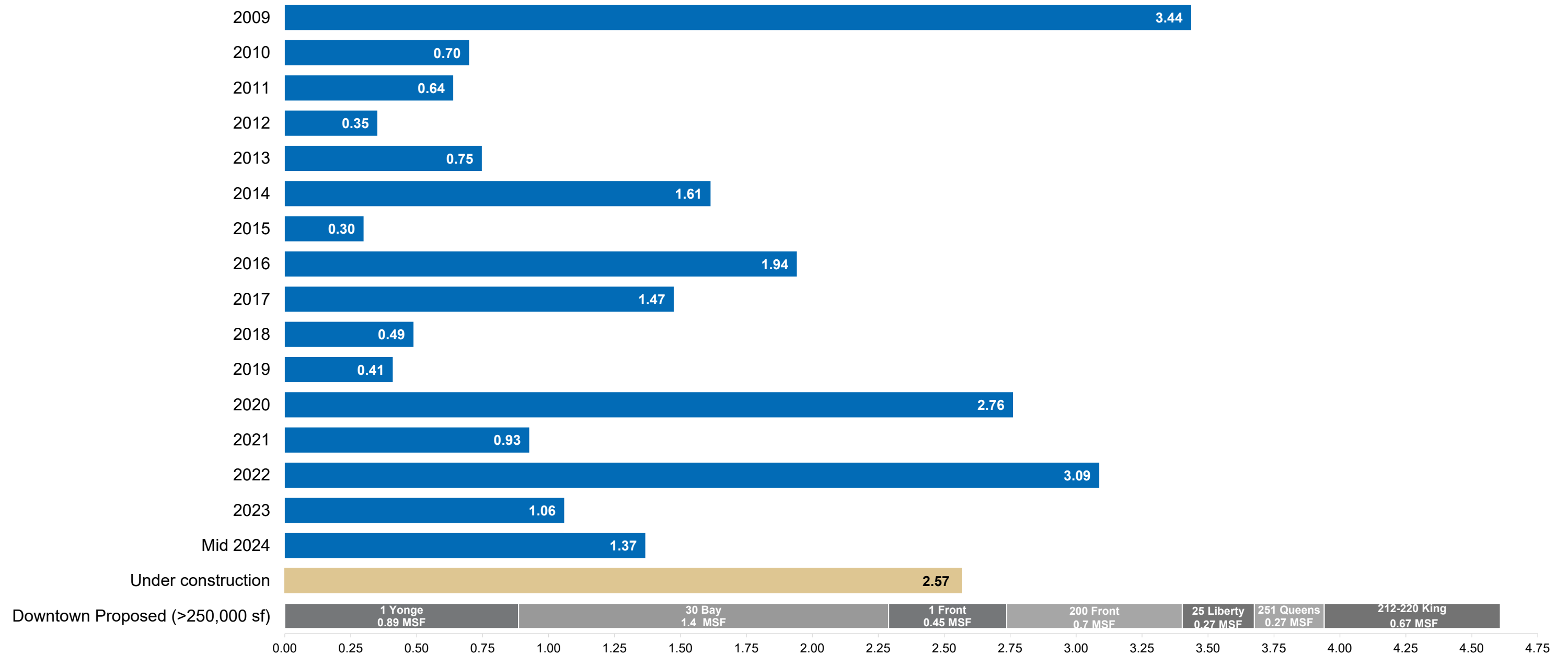


Source: Newmark Research, Altus Data Studio

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 2.6 msf still under construction. Despite current market conditions, more than 4.5 msf remains proposed in buildings >250,000 sf.

Downtown Toronto Deliveries (MSF)



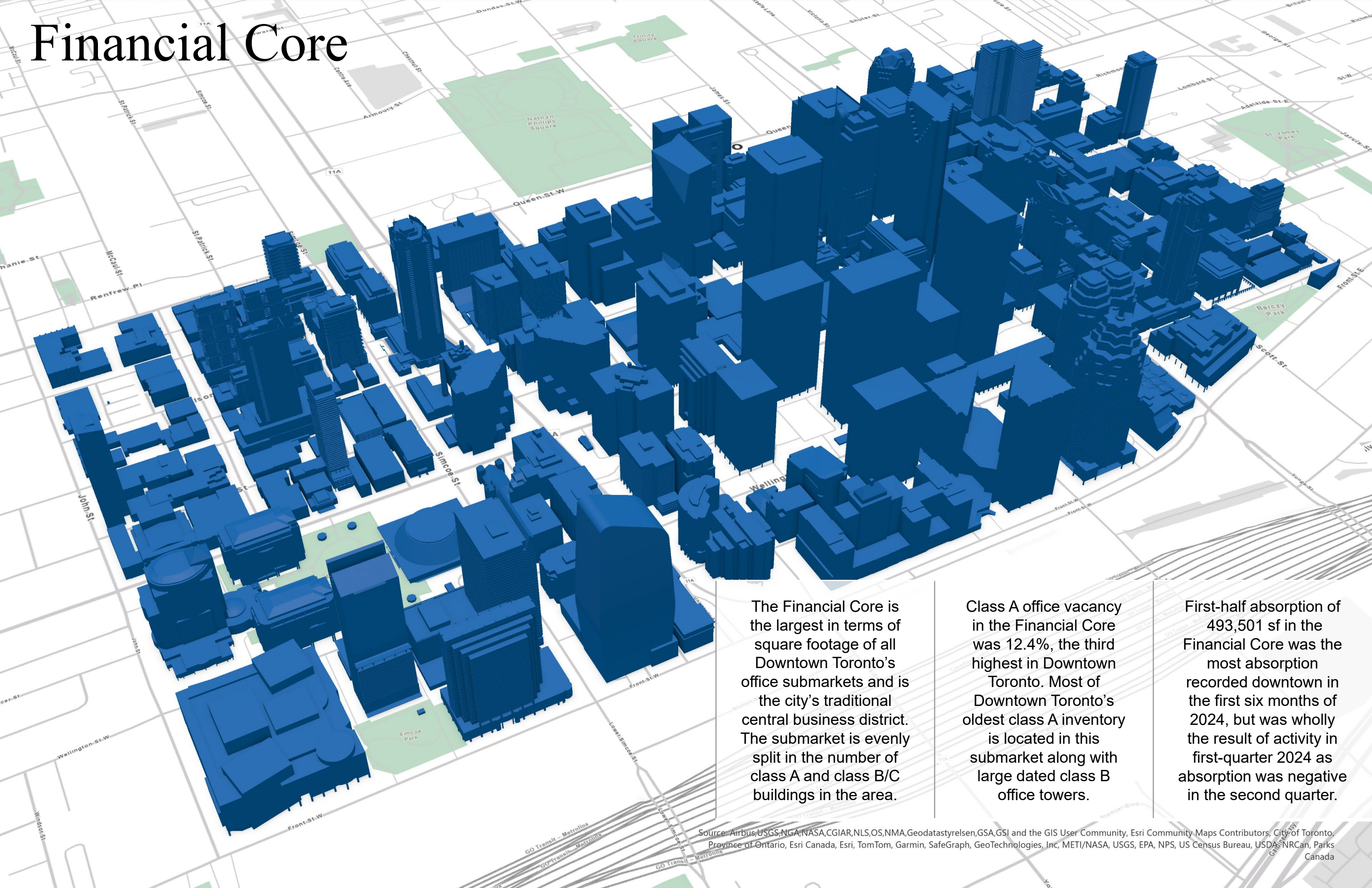
Source: Newmark Research, Altus Data Studio

2Q24

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.

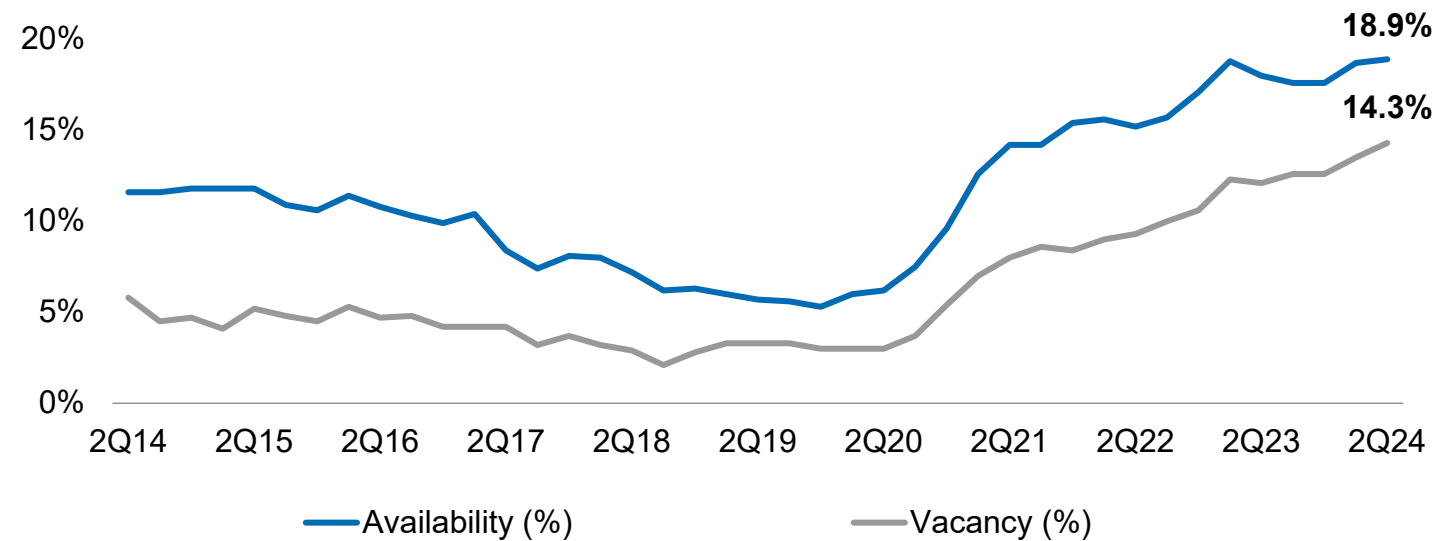
Class A office vacancy in the Financial Core was 12.4%, the third highest in Downtown Toronto. Most of Downtown Toronto's oldest class A inventory is located in this submarket along with large dated class B office towers.

First-half absorption of 493,501 sf in the Financial Core was the most absorption recorded downtown in the first six months of 2024, but was wholly the result of activity in first-quarter 2024 as absorption was negative in the second quarter.

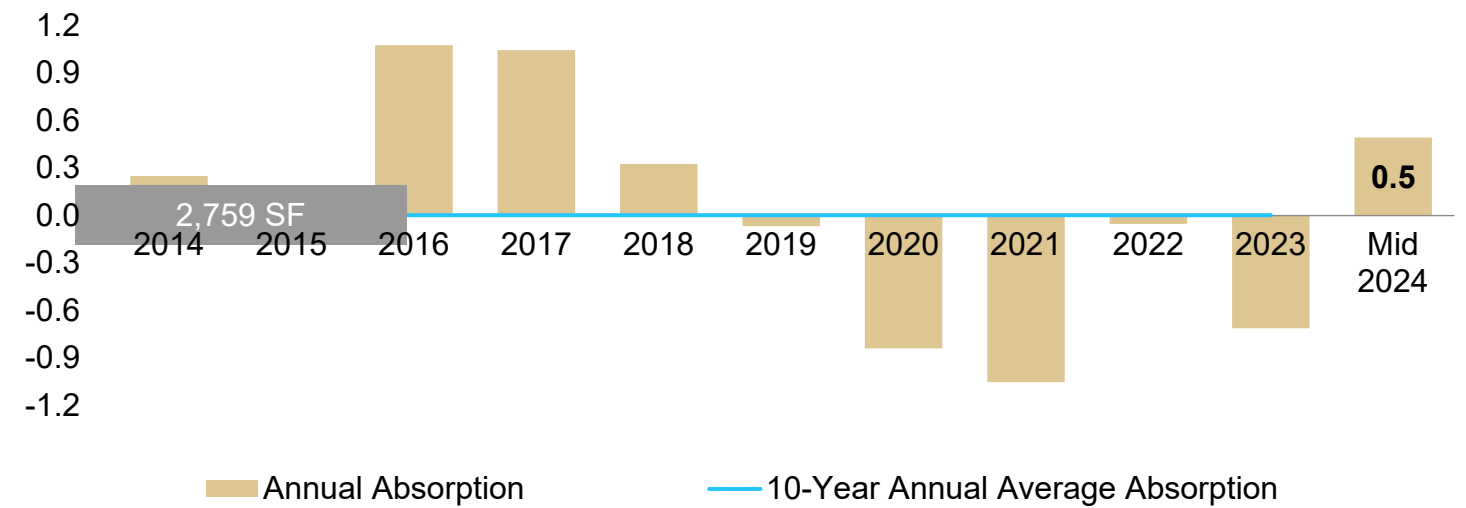
Financial Core

The Financial Core led all Downtown Toronto submarkets with nearly 500,000 sf in first-half absorption in 2024, one of only two submarkets to record positive absorption in the first six months of the year. The addition of more than 1.2 msf of new supply in the first half also contributed to vacancy rising to 14.3%, and with more than 1.4 msf of new development still under construction, upward pressure on vacancy is likely to remain. Proximity to a key public transit node, Union Station, is likely supporting tenant interest due to congestion issues.

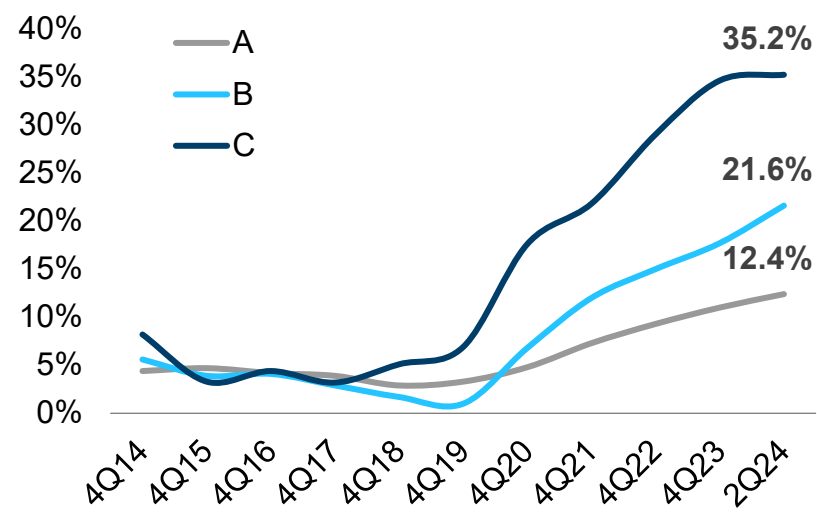
Overall Availability & Vacancy Rates – All classes





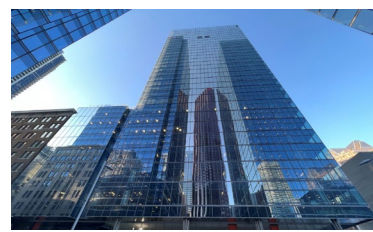
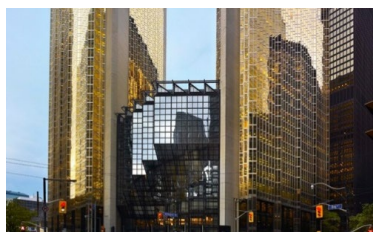
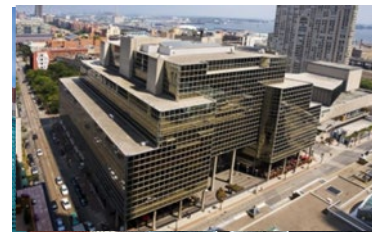
Annual Absorption – All classes (MSF)



Vacancy by Class – 2014 to 2024



Second Quarter Deals

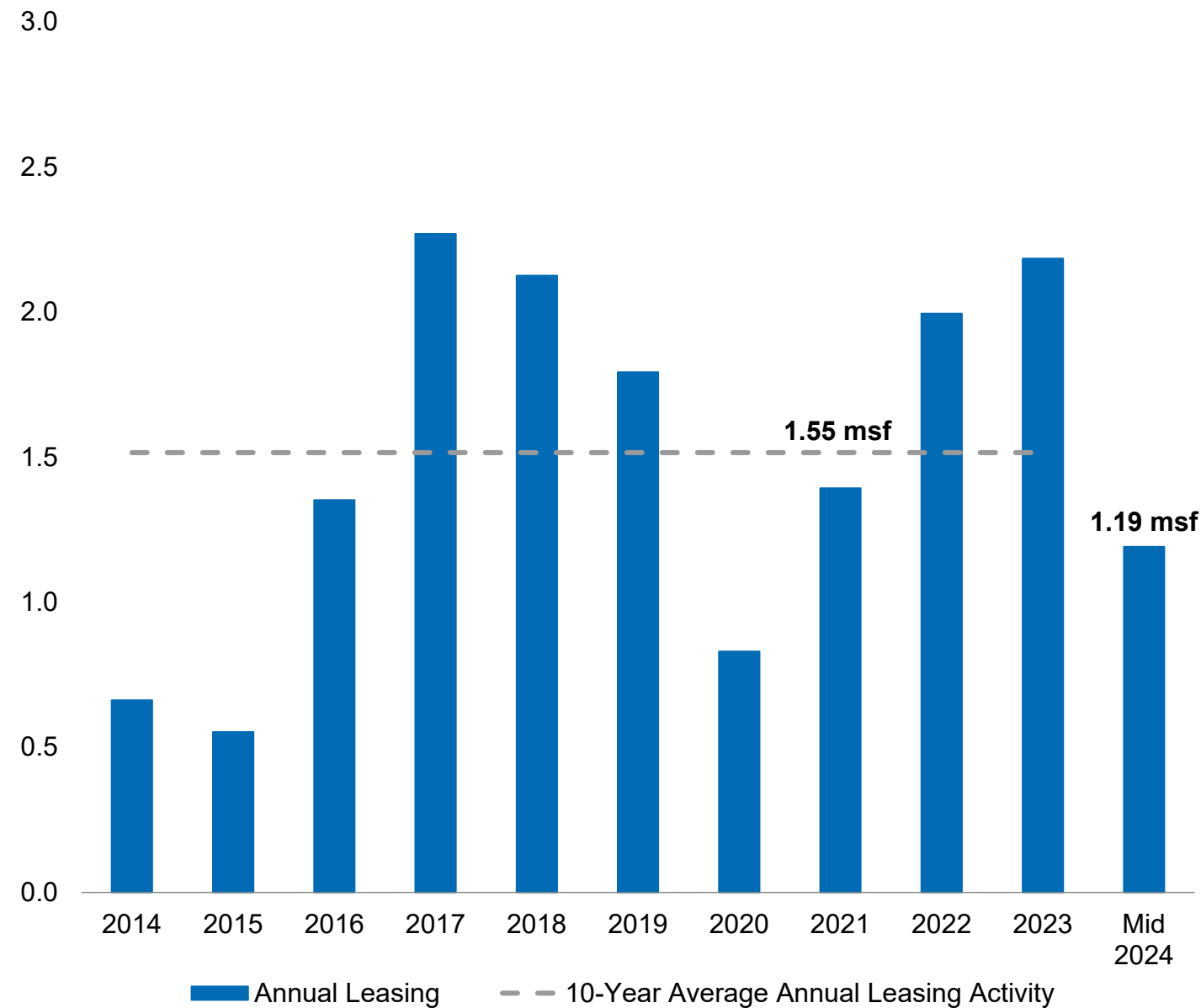
				
145 King Street West	First Canadian Place 100 King Street West	Bay Adelaide Centre - North Tower	Royal Bank Plaza – North Tower	33 Yonge Street
Undisclosed	The Capital Markets Co. Ltd.	Undisclosed	Undisclosed	EllisDon
49,520 SF	24,870 SF	20,750 SF	18,320 SF	15,810 SF
Direct New	Extension	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio

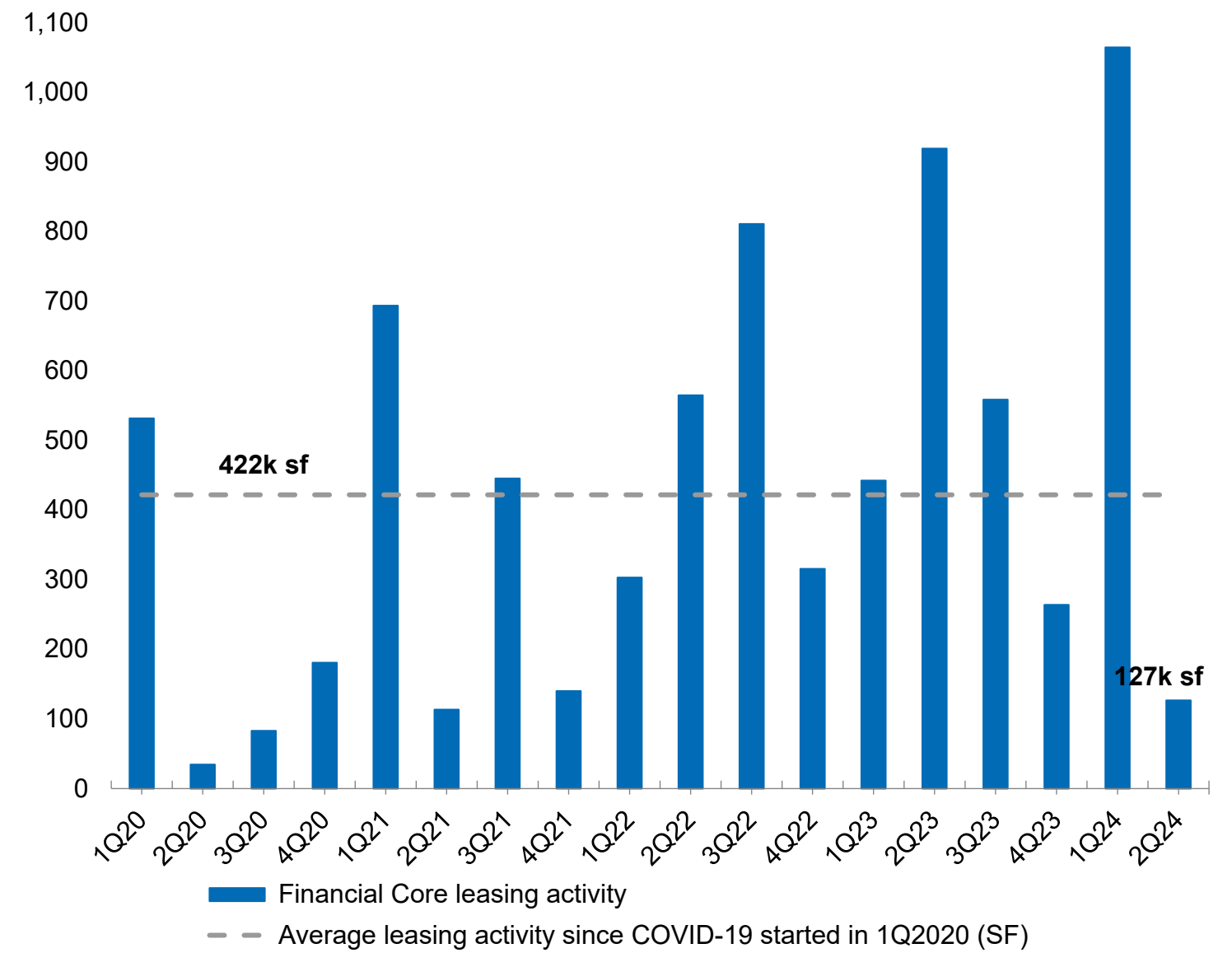
Financial Core Office Leasing Activity

After an atypically strong start to the year thanks to more than 622,000 sf of preleasing in phase two of CIBC Square in the first quarter of 2024, leasing activity in the Financial Core in second-quarter 2024 then fell to its lowest quarterly total in more than two years. Overall leasing activity in the Financial Core has been recovering year-over-year since 2020 and remains positioned to do so in 2024, but leasing activity will need to rebound to more historic levels in the back half of the year with absorption continuing to remain positive.

Annual Financial Core Leasing Activity (MSF) – All classes



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

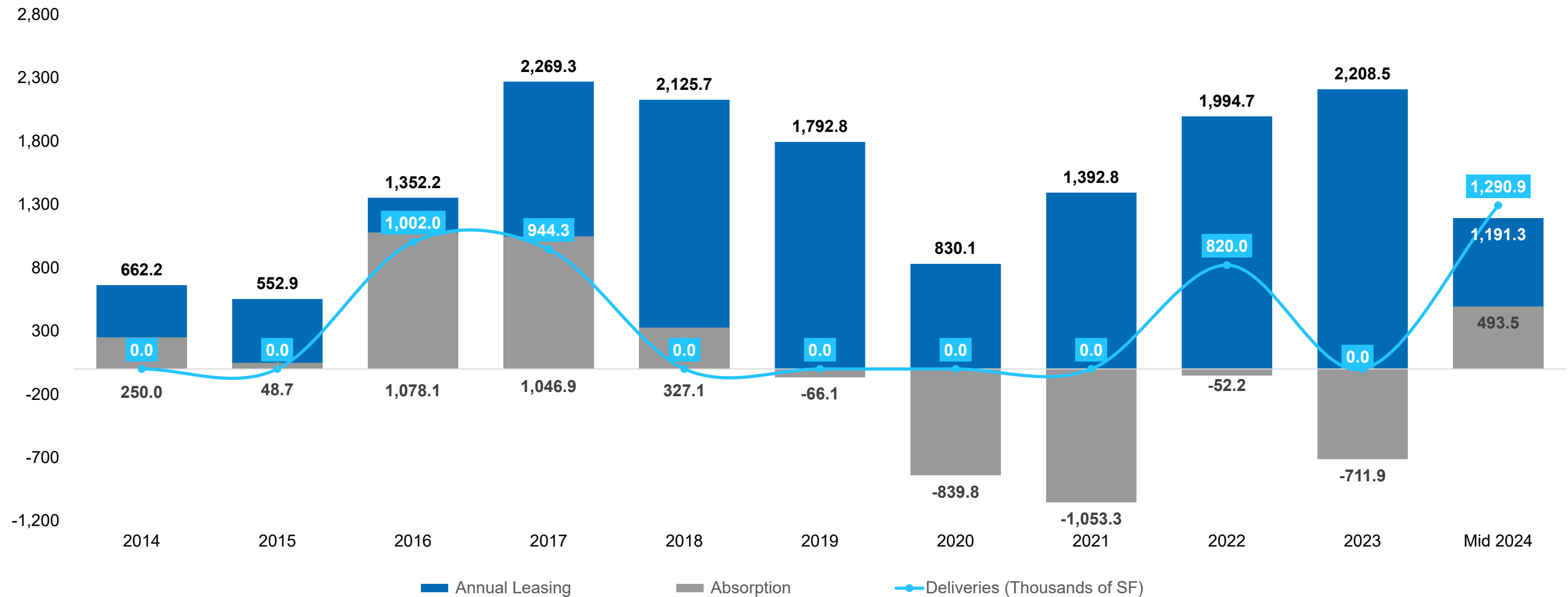


Source: Newmark Research, Altus Data Studio

Financial Core Leasing, Absorption and New Supply Analysis

Market indicators in the first half of 2024 have remained remarkably positive for the Financial Core considering conditions in other Downtown Toronto submarkets. Absorption remained positive in the first half while leasing activity was consistent with previous years. The impact of adding almost 1.2 msf of new space in the first half of 2024 contributed to vacancy swelling to 14.3% at mid-2024 from 12.6% just six months earlier despite more than 493,000 sf of positive absorption in that same period. Tenants remained keen on the Financial Core.

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

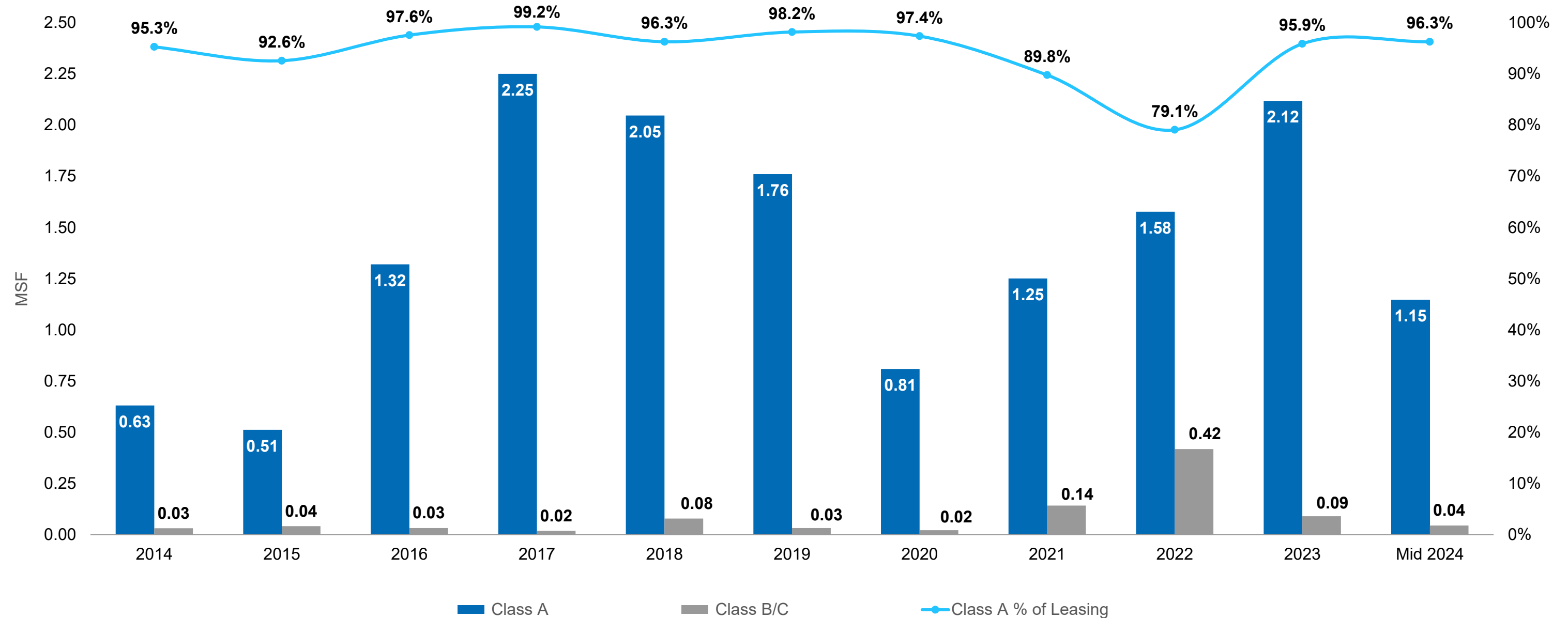


Source: Newmark Research, Altus Data Studio

Class A Buildings Capture Vast Majority of Leasing | Financial Core Leasing Activity

Class A properties overwhelmingly remained the primary choice for tenants when it comes to office leasing in the Financial Core during the past decade. Even though class A buildings represented 51% of the submarket's building inventory (class B buildings comprise 40%), more than 96% of the square footage leased in the first half of 2024 was in class A space. Class A buildings have captured 90%+ of the square footage leased since 2014 except in 2021 and 2022. Almost 1.2 msf had been leased by mid-2024, a historically strong start.

Leased Vacant Area by Class



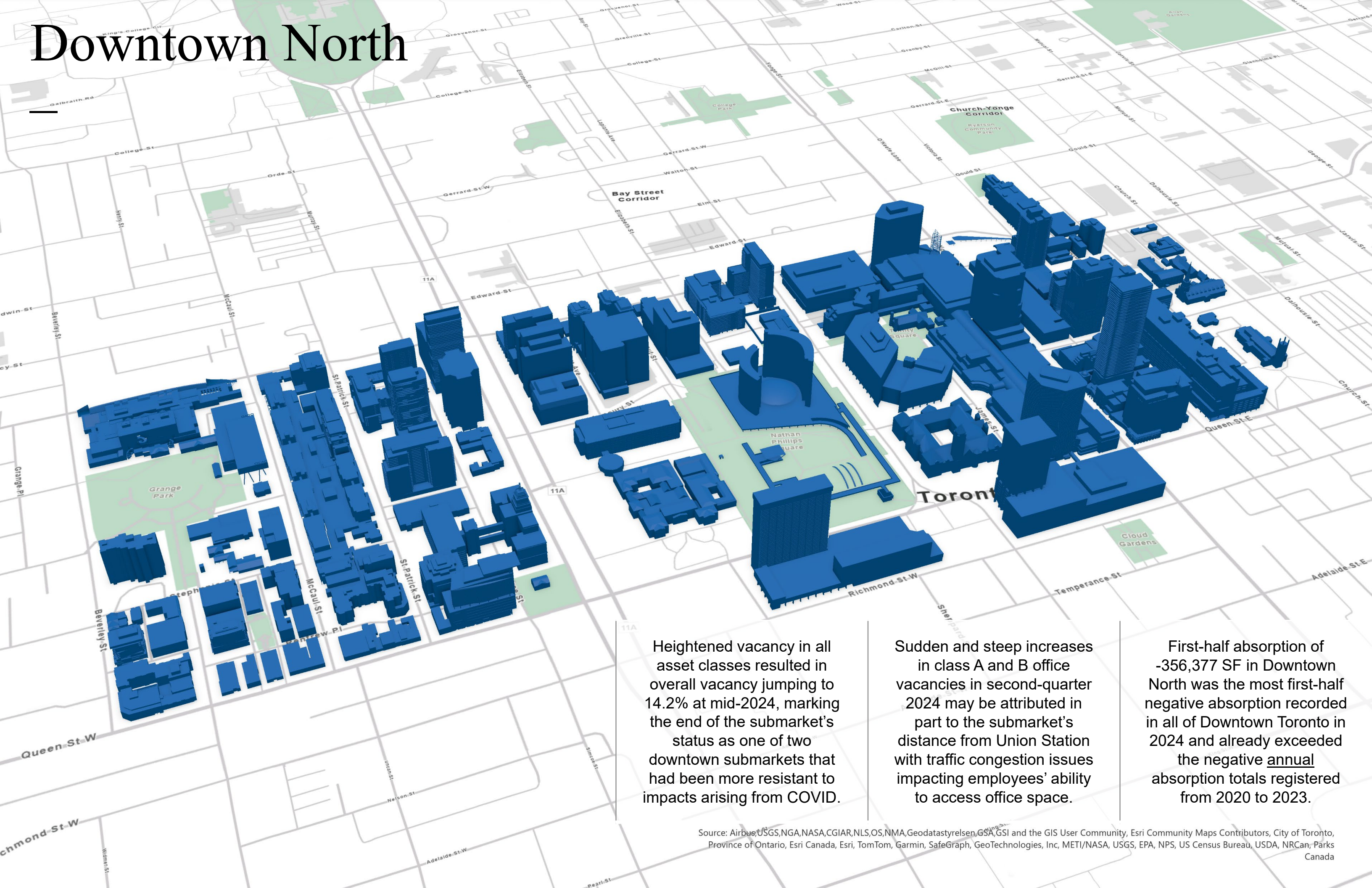
Source: Newmark Research, Altus Data Studio

2Q24

Downtown Toronto Office Submarkets



Downtown North



Heightened vacancy in all asset classes resulted in overall vacancy jumping to 14.2% at mid-2024, marking the end of the submarket's status as one of two downtown submarkets that had been more resistant to impacts arising from COVID.

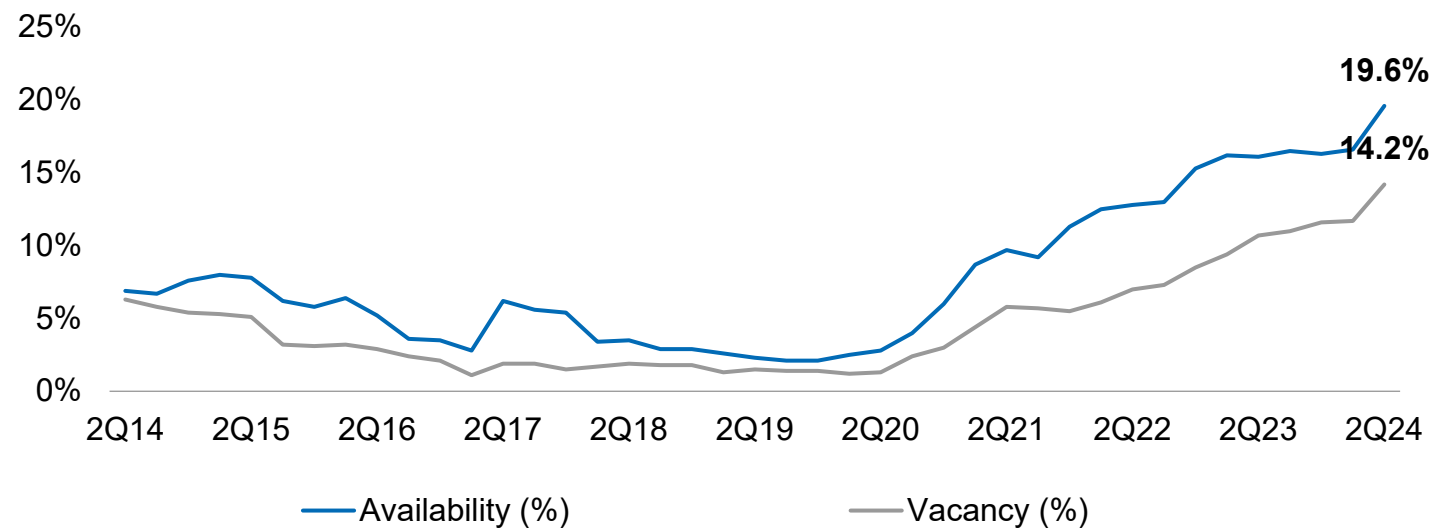
Sudden and steep increases in class A and B office vacancies in second-quarter 2024 may be attributed in part to the submarket's distance from Union Station with traffic congestion issues impacting employees' ability to access office space.

First-half absorption of -356,377 SF in Downtown North was the most first-half negative absorption recorded in all of Downtown Toronto in 2024 and already exceeded the negative annual absorption totals registered from 2020 to 2023.

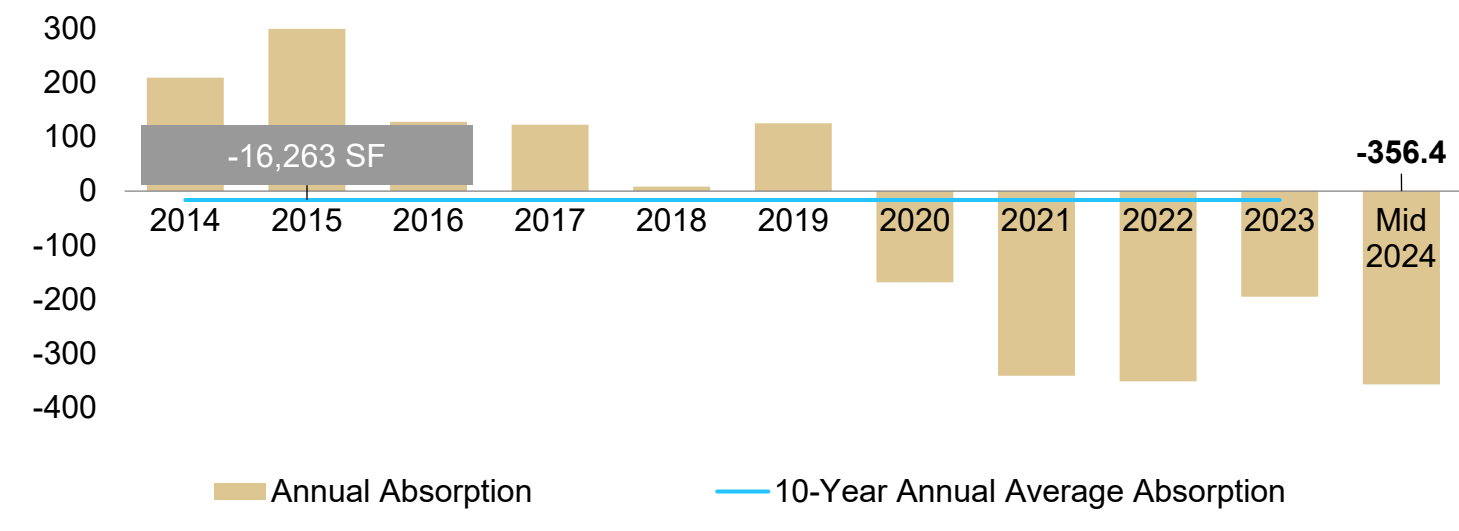
Downtown North

Substantial first-half negative absorption in Downtown North led vacancy to spike to 14.2% at mid-2024, a notable increase from 11% a year earlier. Class B properties comprised 46% of the buildings in Downtown North (the most in Downtown Toronto) and is the only downtown submarket where class B vacancy was lower than class A at mid-2024. This increase in vacancy resulted from an accelerating shift in tenant sentiment, which undercut the submarket's previous resilience in the face of significant negative annual absorption since 2020.

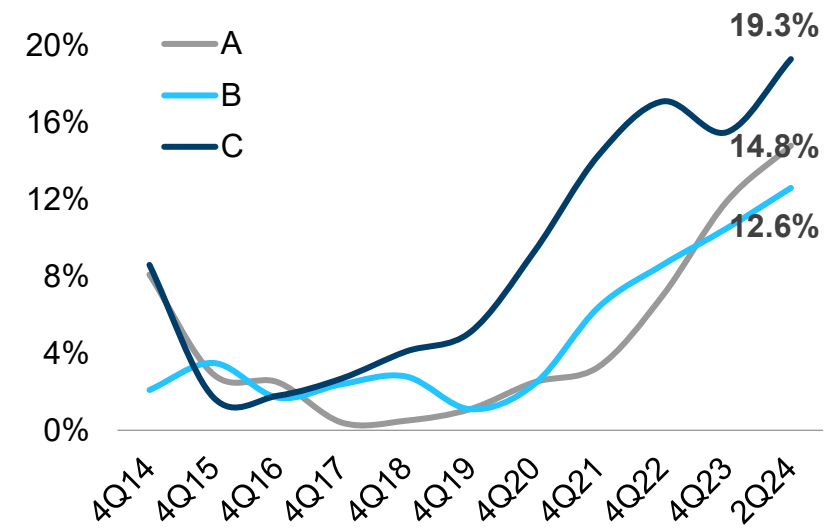
Availability And Vacancy Rates – All Classes





Annual Absorption – All Classes (Thousands of SF)



Vacancy by Class – 2014 to 2024



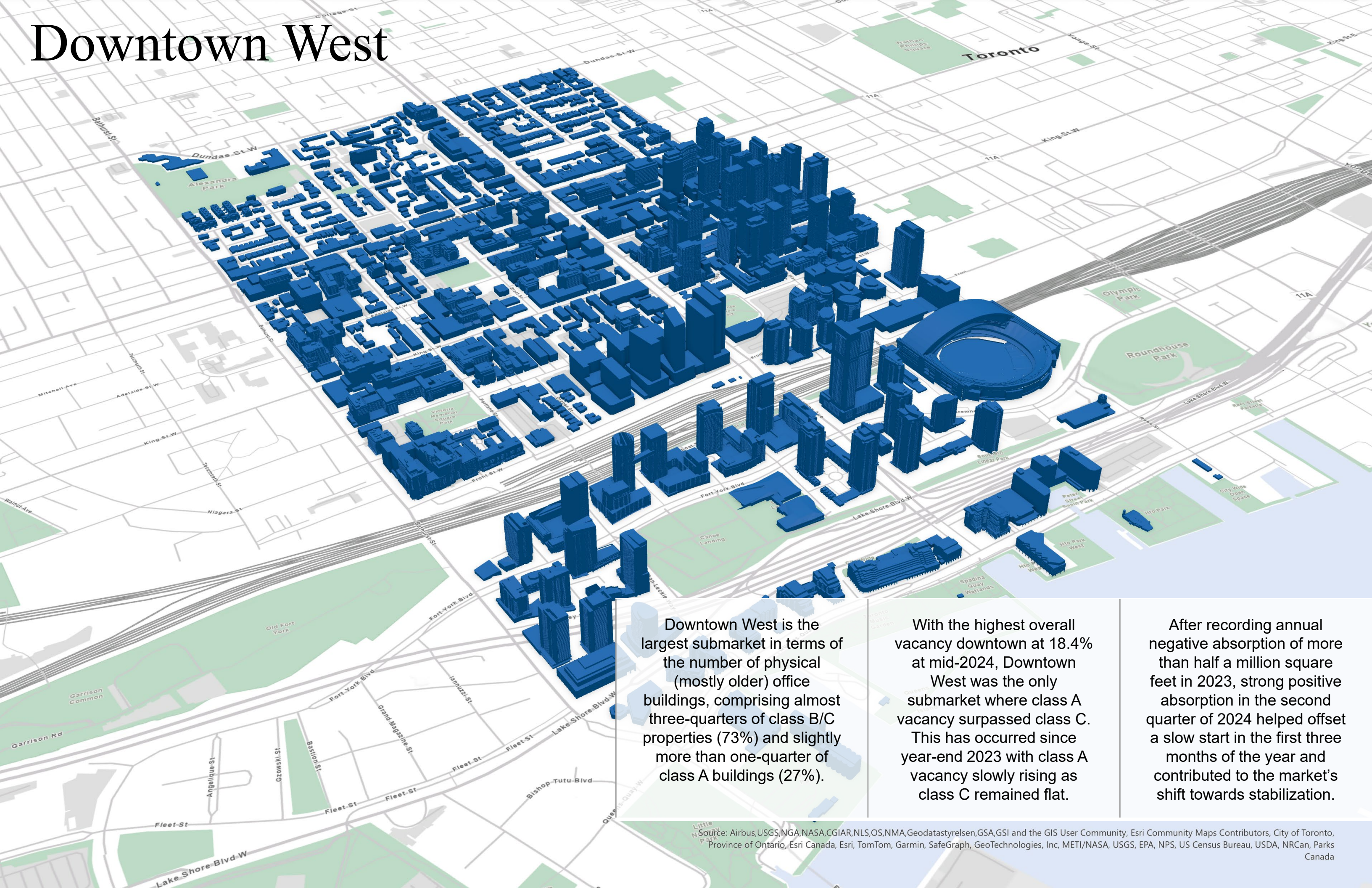
Second Quarter Deals

	
Eaton Centre, 250 Yonge Street	250 Dundas Street West
Porter Airlines	Canadian Mental Health Association
22,710 SF	5,500 SF
Sublease	Direct New



Source: Newmark Research, Altus Data Studio, CoStar

Downtown West



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

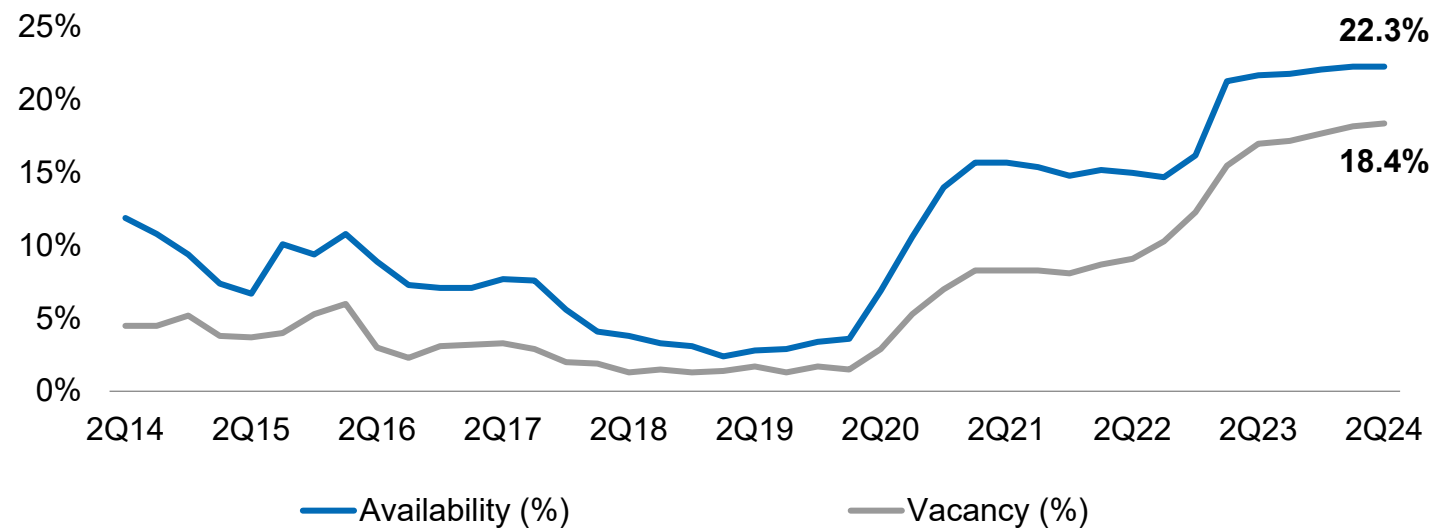
With the highest overall vacancy downtown at 18.4% at mid-2024, Downtown West was the only submarket where class A vacancy surpassed class C. This has occurred since year-end 2023 with class A vacancy slowly rising as class C remained flat.

After recording annual negative absorption of more than half a million square feet in 2023, strong positive absorption in the second quarter of 2024 helped offset a slow start in the first three months of the year and contributed to the market's shift towards stabilization.

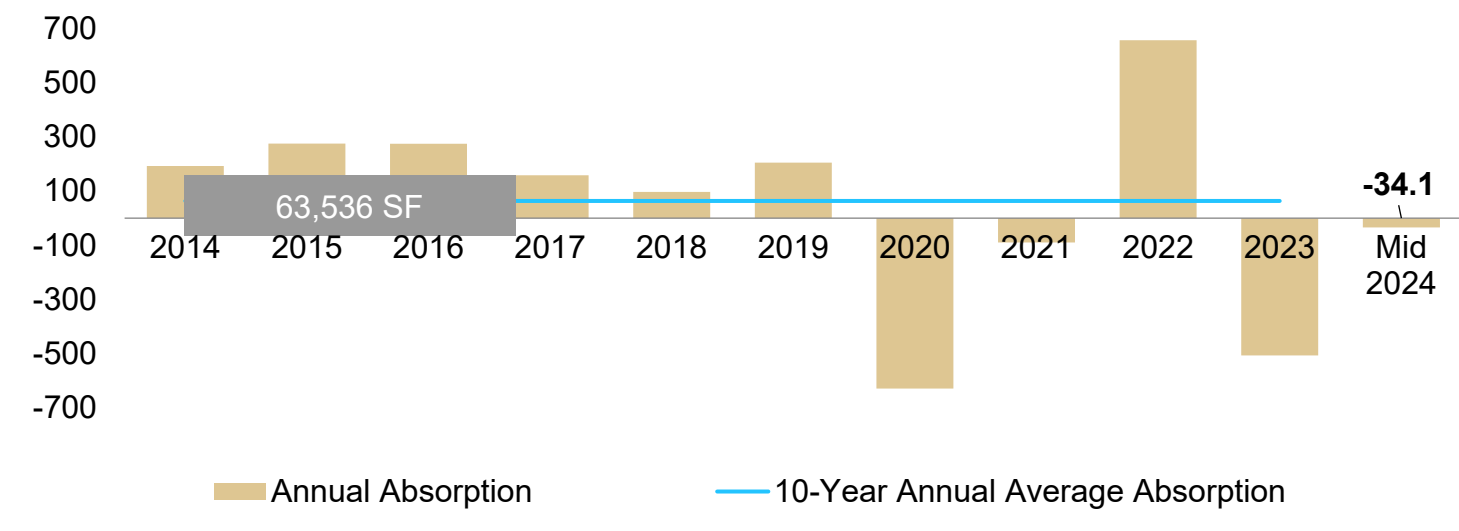
Downtown West

Downtown West continued to be one of the more challenged of the downtown submarkets at mid-2024 with the highest vacancy downtown at 18.4% but it appears the submarket's fortunes may be starting to turn. Vacancy in all classes remained elevated at mid-2024 but stabilized as the volume of first-half negative absorption decreased notably compared with the previous year. Class C vacancy in Downtown West, which has the second-most class C buildings in the downtown, was less than class A, the only submarket where that occurred.

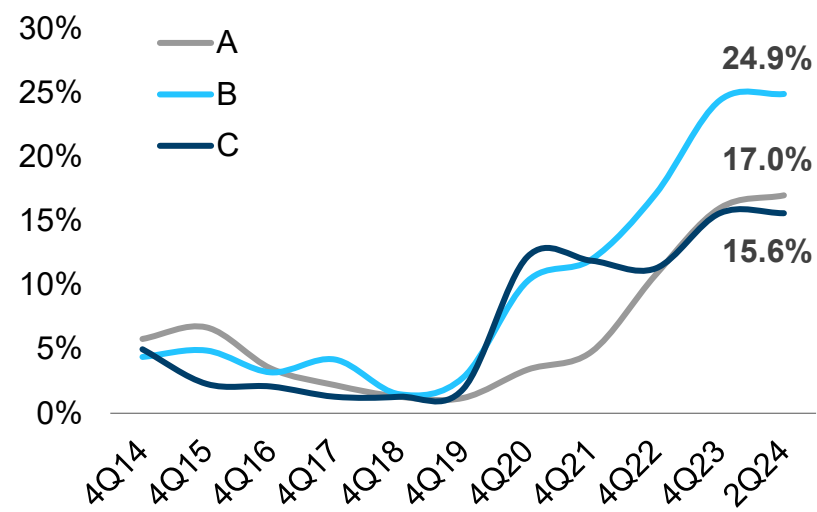
Availability And Vacancy Rates – All Classes








Annual Absorption – All Classes (Thousands of SF)



Vacancy by Class – 2014 to 2024

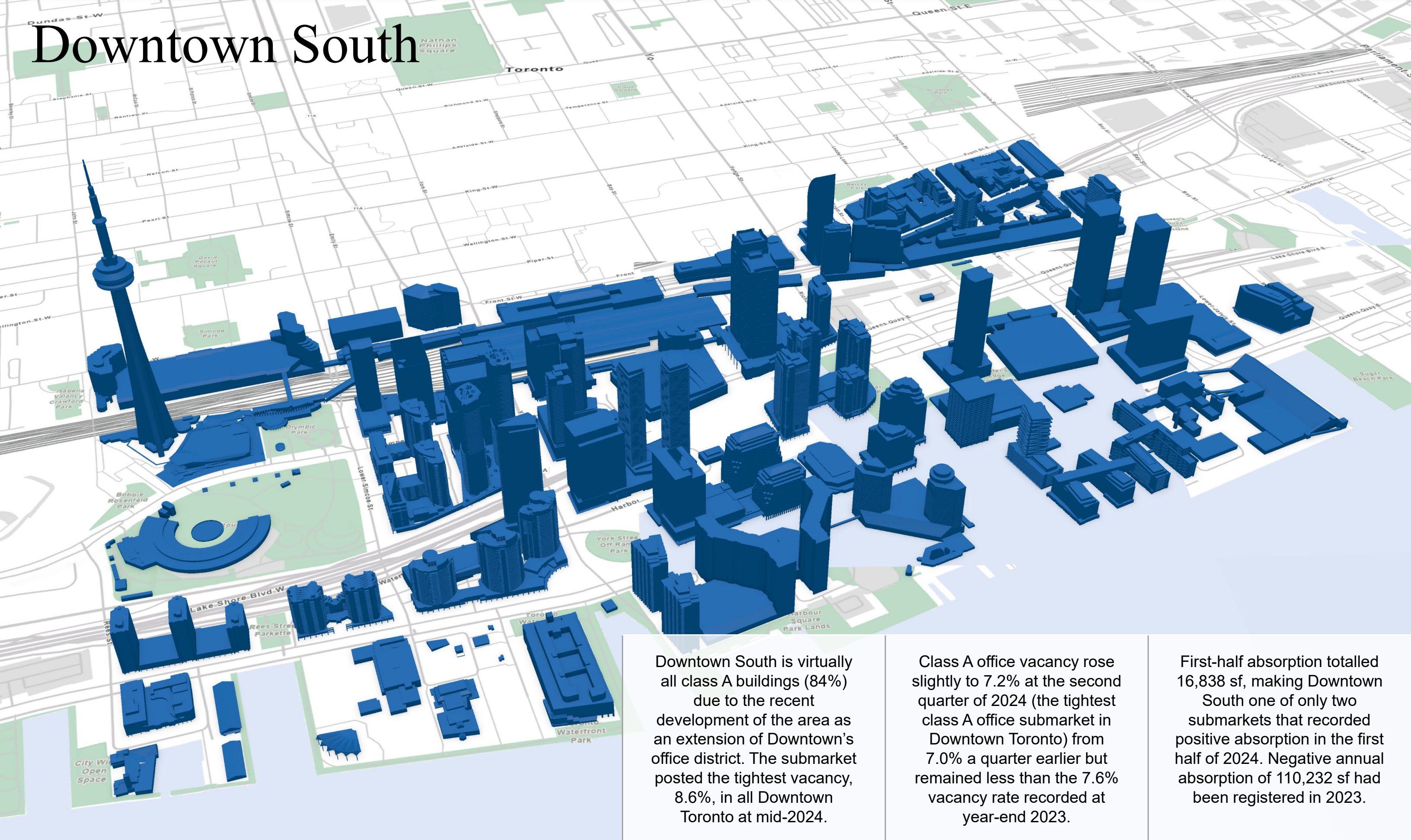


Second Quarter Deals

				
500-522 King Street West	40-46 Spadina Avenue	477 Richmond Street West	119 Spadina Avenue	370 King Street West
Undisclosed	Hospitality Training Action Centre 75	UTour	Float Inc.	Undisclosed
14,450 SF	12,300 SF	9,600 SF	9,280 SF	7,600 SF
Direct New	Direct New	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

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, 8.6%, in all Downtown Toronto at mid-2024.

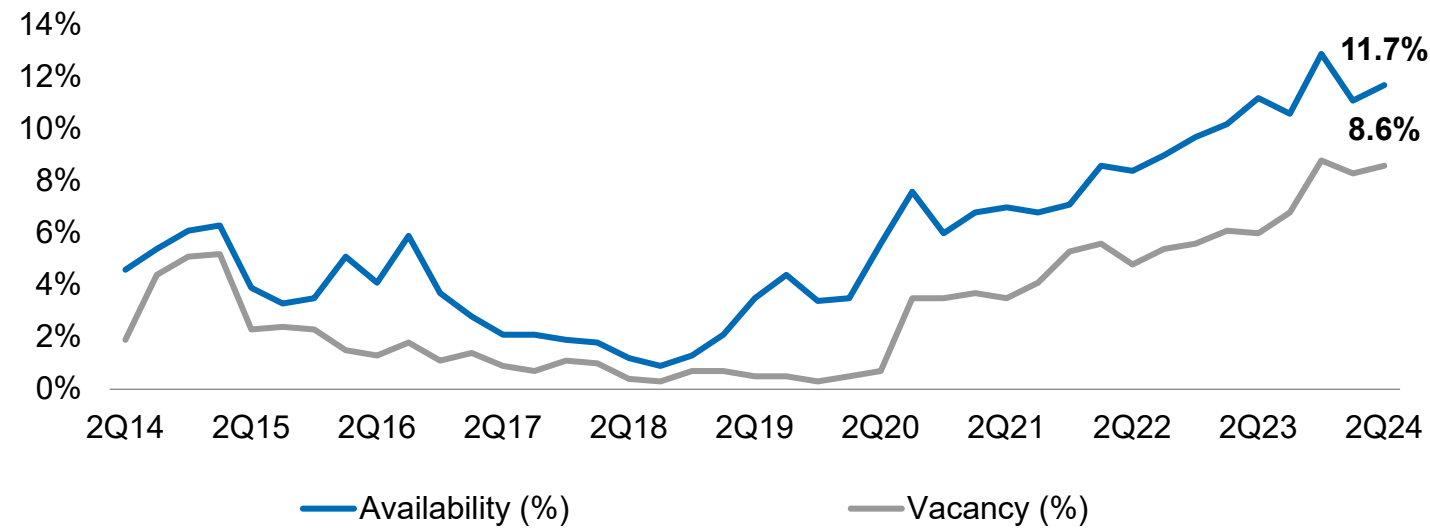
Class A office vacancy rose slightly to 7.2% at the second quarter of 2024 (the tightest class A office submarket in Downtown Toronto) from 7.0% a quarter earlier but remained less than the 7.6% vacancy rate recorded at year-end 2023.

First-half absorption totalled 16,838 sf, making Downtown South one of only two submarkets that recorded positive absorption in the first half of 2024. Negative annual absorption of 110,232 sf had been registered in 2023.

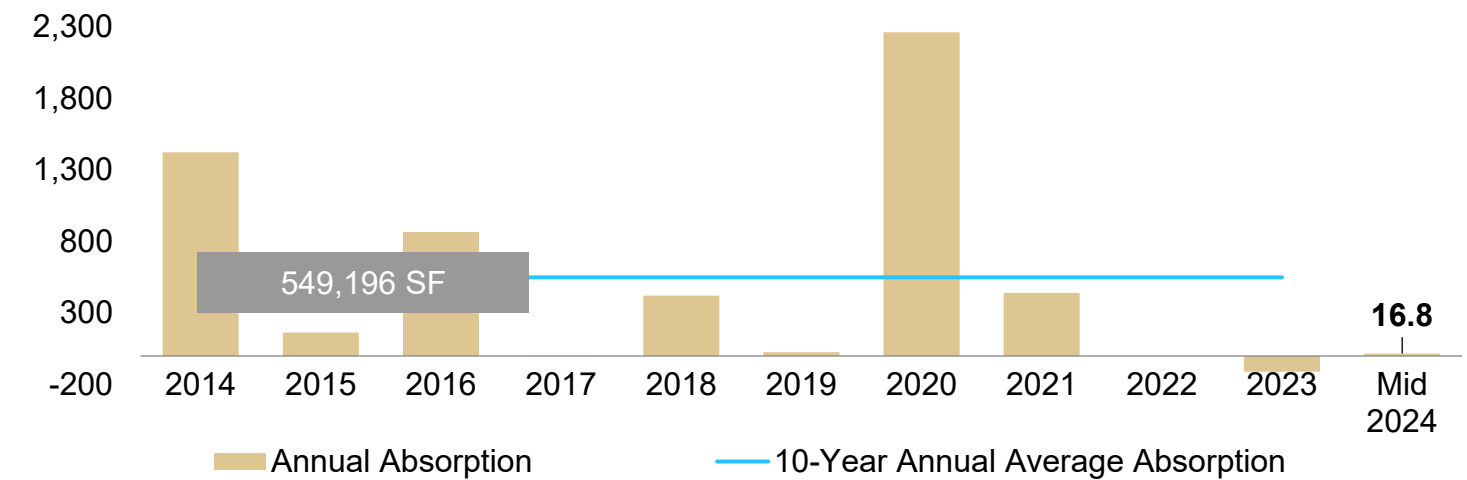
Downtown South

Downtown South was the most resilient downtown office submarket with vacancy at 8.6% at mid-2024, up slightly from 8.3% three months earlier. Much of Downtown Toronto's office demand landed in Downtown South during the past 10 years and it was one of just two submarkets to record positive first-half absorption in 2024. The submarket benefited from the ongoing flight to quality, proximity to a key public transit hub at Union Station, and superior views and amenities, which resulted in class A vacancy of 7.2% (the lowest downtown).

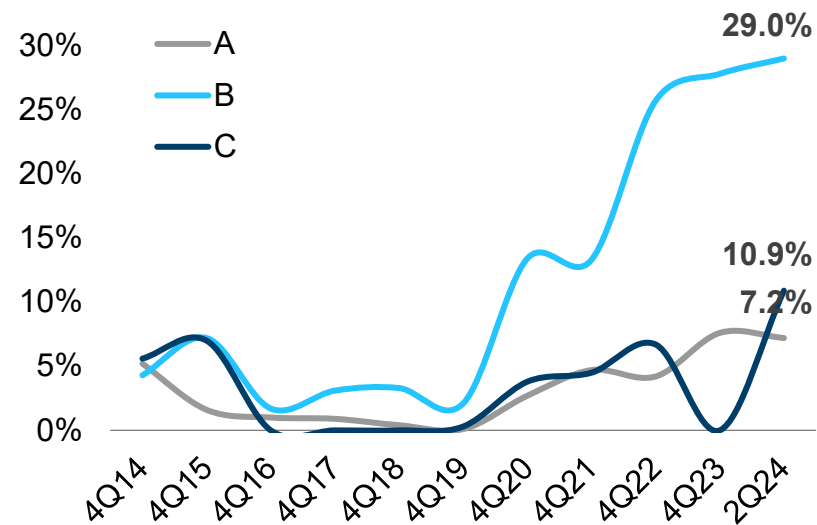
Overall Availability And Vacancy Rates – All Classes



Annual Absorption – All Classes (Thousands of SF)



Vacancy by Class – 2014 to 2024

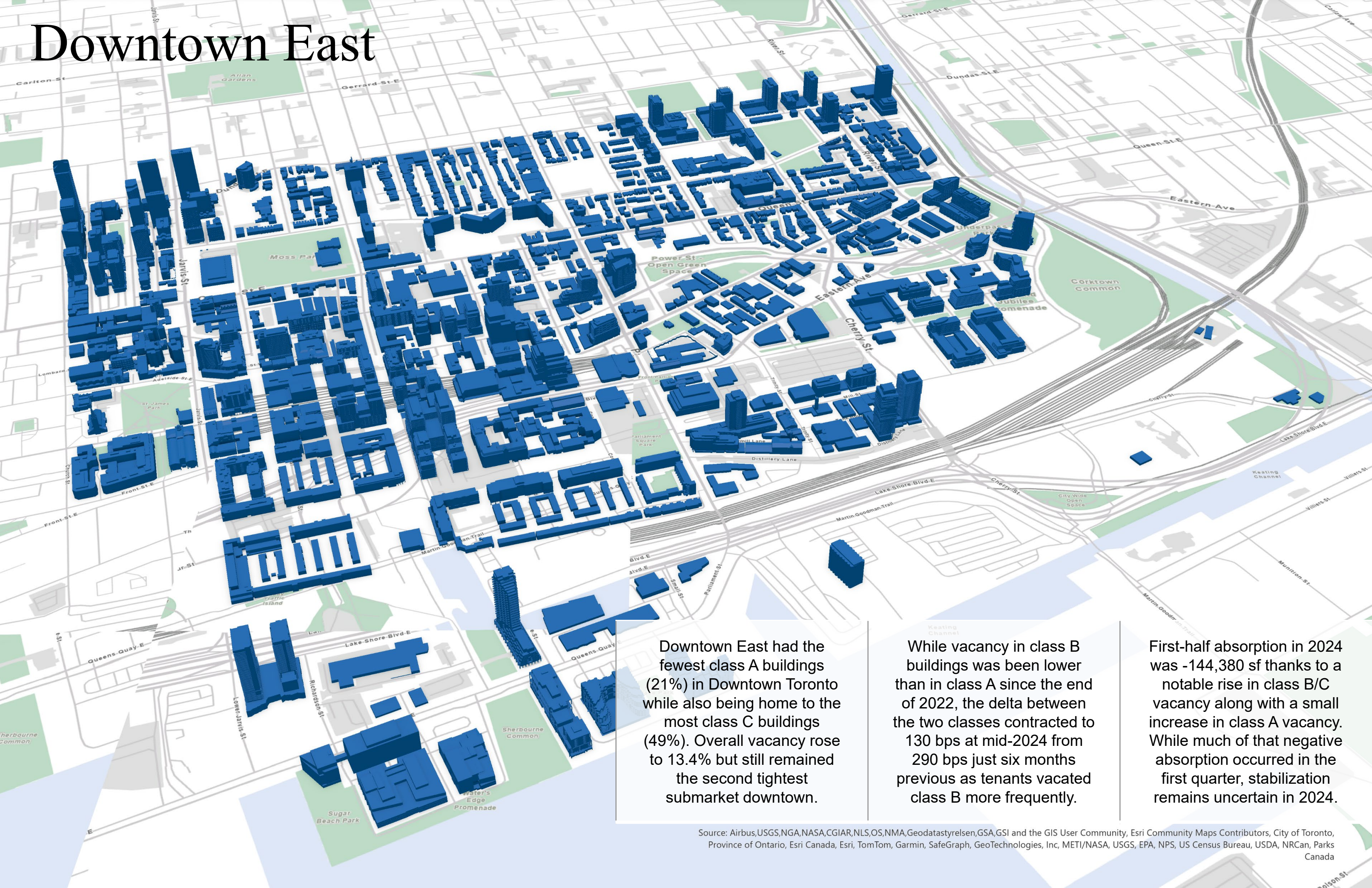


Second Quarter Deals

207 Queens Quay West	123 Front Street West	10 Bay Street	25 York Street	123 Front Street West
Undisclosed	Black Creek Investment	Undisclosed	FM Global	Amanah Tech
13,060 SF	2,000 SF	3,350 SF	1,960 SF	1,780 SF
Direct New	Direct New	Direct New	Sublease	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

Downtown East



Downtown East had the fewest class A buildings (21%) in Downtown Toronto while also being home to the most class C buildings (49%). Overall vacancy rose to 13.4% but still remained the second tightest submarket downtown.

While vacancy in class B buildings was lower than in class A since the end of 2022, the delta between the two classes contracted to 130 bps at mid-2024 from 290 bps just six months previous as tenants vacated class B more frequently.

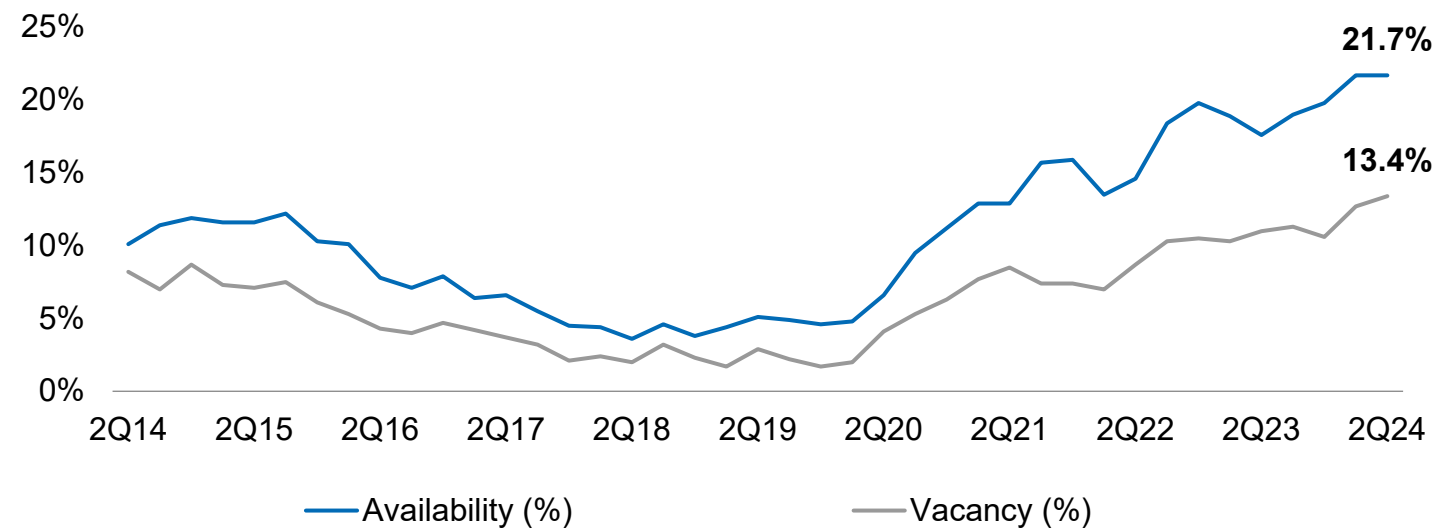
First-half absorption in 2024 was -144,380 sf thanks to a notable rise in class B/C vacancy along with a small increase in class A vacancy. While much of that negative absorption occurred in the first quarter, stabilization remains uncertain in 2024.

Source: Airbus, USGS, NGA, NASA, CGIAR, NLS, OS, NMA, Geodastylelsen, 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

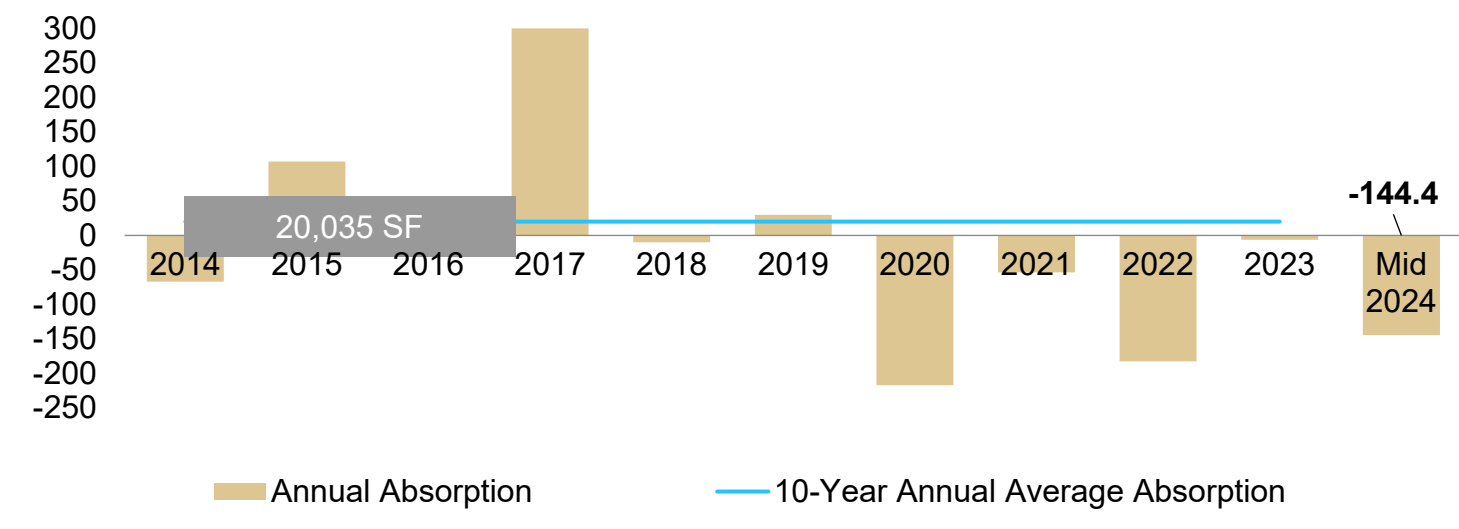
Downtown East

Overall vacancy in Downtown East rose again at mid-2024 after a period of relative stability due in part to less desirable class C properties comprising 49% of building inventory as well as the fewest class A office buildings of any submarket. While vacancy in class A/B premises had levelled out during much of 2022 and 2023, a sharp increase in class C vacancy along with increases in class A/B vacancy during the first six months of 2024 were the direct result of the second most first-half negative absorption recorded in Downtown Toronto.

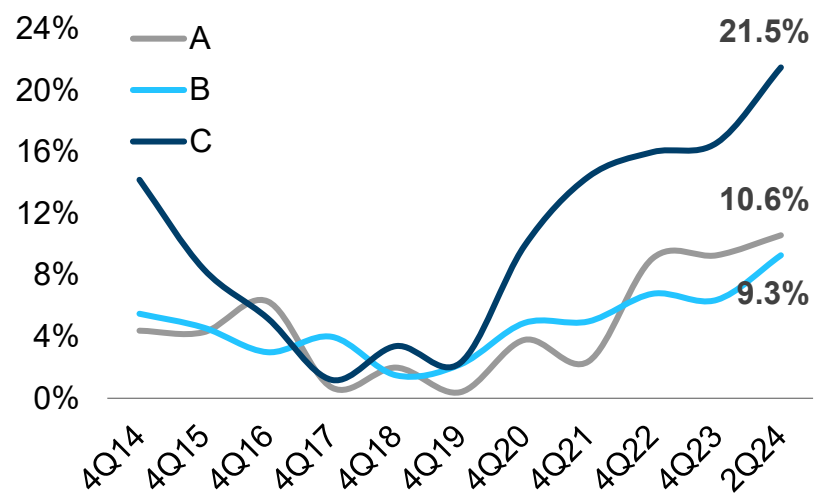
Availability And Vacancy Rates – All Classes






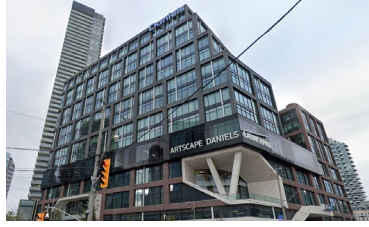

Annual Absorption – All Classes (Thousands of SF)



Vacancy by Class – 2014 to 2024



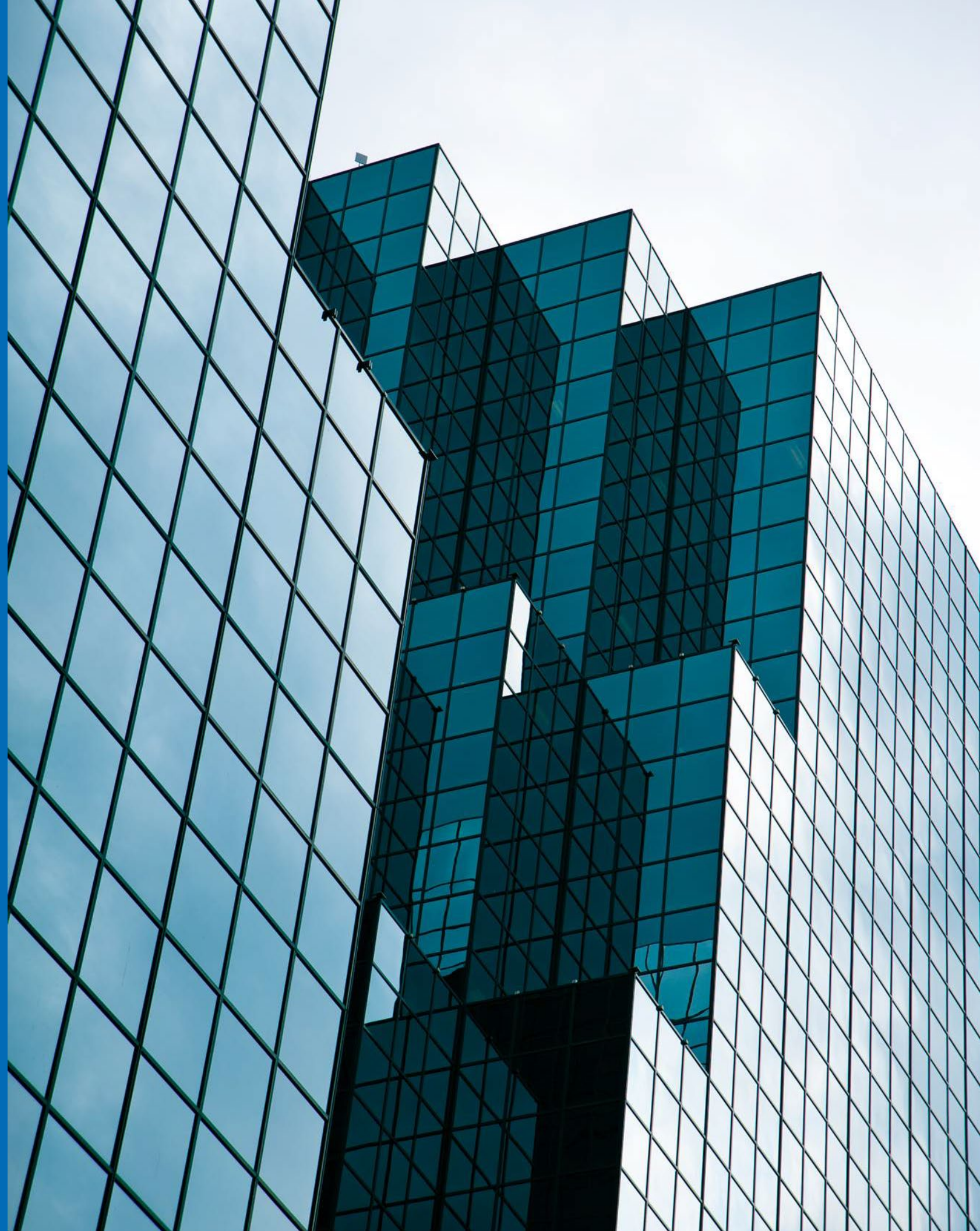
Second Quarter Deals

Address	Deal Type	Size (SF)	Transaction Type
 100 Broadview Avenue	Waddington's Auction House	14,580 SF	Direct New
 550-554 Queen Street East	Undisclosed	6,910 SF	Direct New
 550-554 Queen Street East	Undisclosed	5,780 SF	Direct New
 128-134 Queens Quay East	Undisclosed	2,680 SF	Direct New
 248-264 The Esplanade	Undisclosed	2,010 SF	Sublease

Source: Newmark Research, Altus Data Studio, CoStar

2Q24

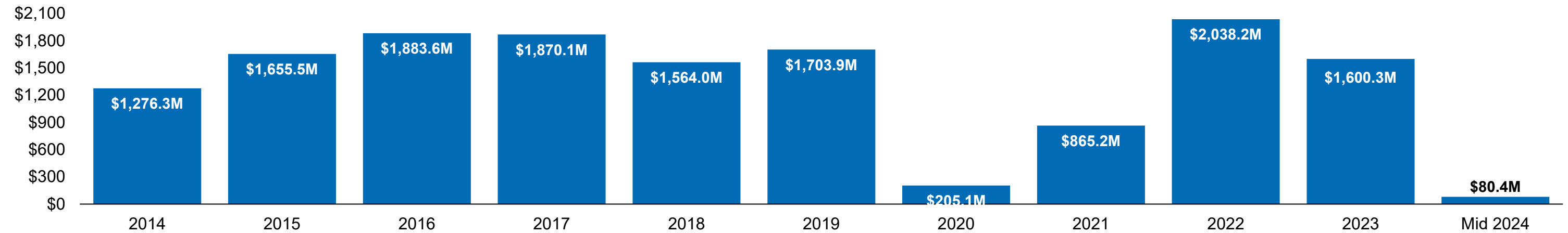
Office Sales Activity



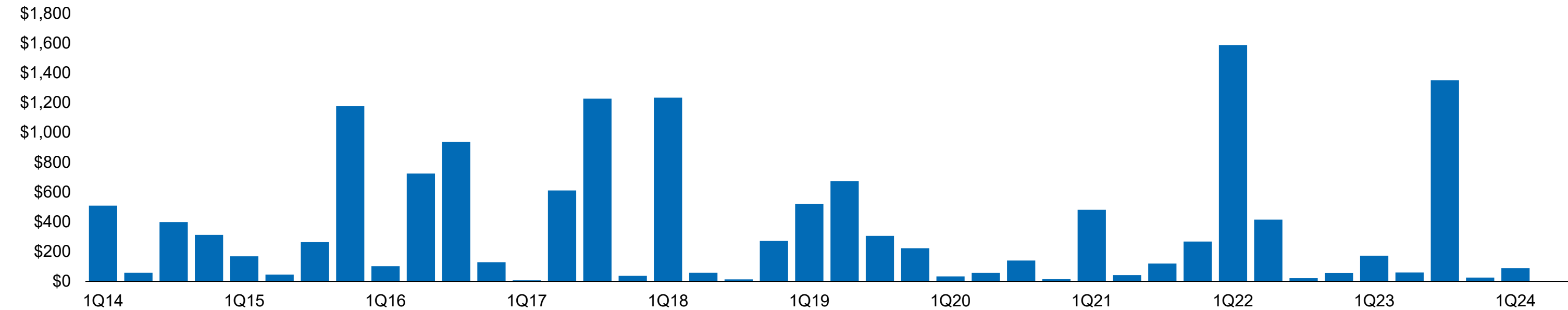
Downtown Toronto Core and Periphery Office Sales Volume Key Takeaways

Downtown core and periphery office sales* (excluding strata) came to a virtual standstill in the first half of 2024, totalling \$80.4M with just a single condo office sale registered in the entirety of the second quarter of the year. Office sales had totalled \$1.6B in 2023, which represented a 21.5% decline from the \$2.038B in proceeds in 2022. The \$65M sale of 70 York Street in March represented 81% of overall dollar volume recorded in the first six months of 2024 and was followed by the disposition of Toronto's iconic Flatiron Building for \$15.4M.

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



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

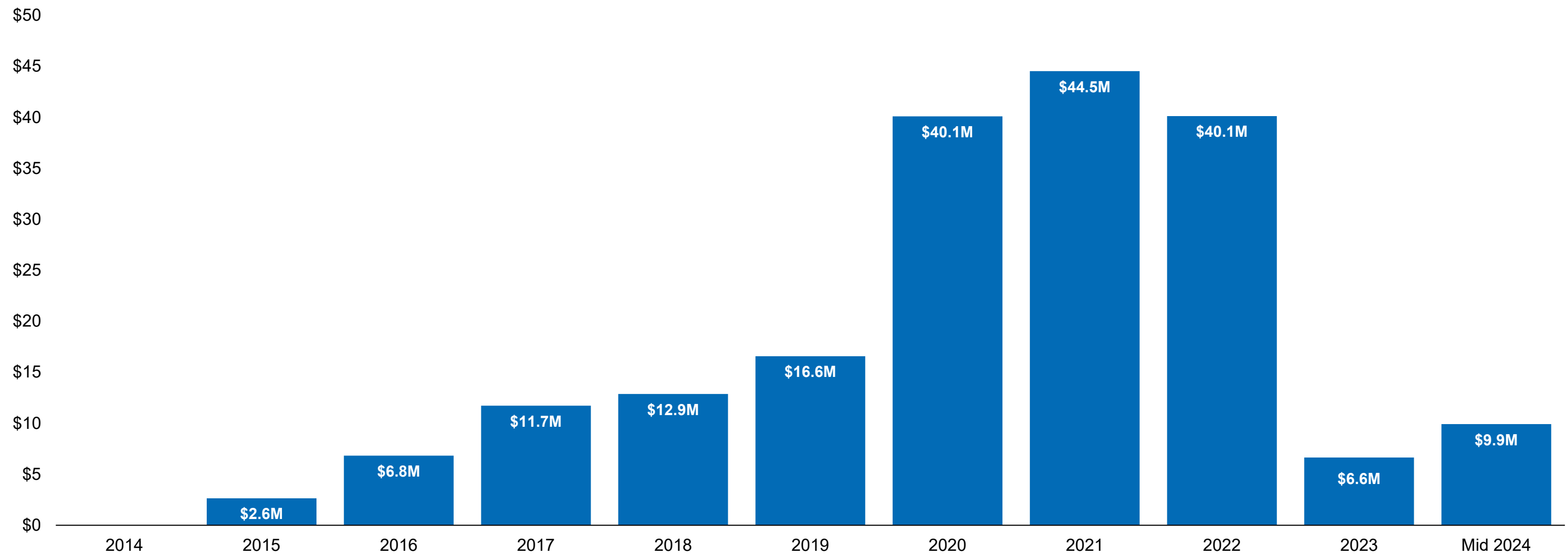


Source: Newmark Research, Altus Data Studio
 * Excluding non-arms transactions

Downtown Toronto Core and Periphery Office Condo Sales Volume Key Takeaways

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.

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