3Q24

Downtown Toronto Office Market Overview

NEWMARK

Downtown Toronto Office Market Observations

Despite Downtown Toronto office vacancy hitting a 24-year historic high of 15.3% after the first nine months of 2024, sublease vacancy in class A/B buildings appears to have stabilized.

Downtown South and the Financial Core are benefiting from proximity to Union Station as tenants locate close to the city's key public transit hub amid the downtown's ongoing congestion issues.

As absorption improved quarter-over-quarter in Downtown North and South and in the Financial Core, further deterioration in Downtown West and East points to a challenging 2025.

Third-quarter 2024 recorded a rebound in leasing activity after a weak second quarter in terms of total square footage leased downtown, setting a solid base for the market to build upon in 2025.

Office leasing activity during the first nine months of 2024 showed some recovery in the Financial Core and Downtown North, but average deal sizes remained smaller than average with large requirements limited in any submarket.

Model suites of all sizes, particularly in well-located and recently constructed class A premises in Downtown South and the Financial Core, are leased up quickly by tenants seeking flexibility and to avoid delays and fit-out costs.

Smaller deals are increasingly comprising more of the deal flow in Downtown Toronto as large floorplate users such as tech firms remain silent in terms of committing to any new significant lease obligations in new or existing buildings.

While Downtown Toronto's construction pipeline continues to churn out new supply, including the delivery of Portland Commons in the third quarter of 2024, the amount of new space under construction has dwindled to ~2 msf, the lowest in years.

While class A rents are rising throughout downtown, tenant inducements tend to be greater outside the Financial Core and Downtown South, particularly for warm shell space. Rents for class B/C space remain flat with even better inducements on offer.

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Office Market Metrics

Downtown Toronto Office Submarket Statistics | 3Q24

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	**85,580,652**	**2,006,641**	**15.3%**	**-188,636**	**-218,880**	**16.3%**	**4.6%**	**C$49.52**
Financial Core	37,204,132	1,435,520	14.1%	65,886	566,393	17.1%	3.6%	C$54.94
Downtown West	14,284,468	563,731	22.3%	-95,348	-129,473	18.5%	7.9%	C$43.07
Downtown North	13,813,706	53,338	14.3%	-22,847	-379,224	17.0%	3.2%	C$47.62
Downtown South	11,108,486	0	8.6%	3,220	20,058	8.9%	2.8%	C$56.98
Downtown East	5,149,552	517,783	14.6%	-61,295	-205,675	12.9%	8.8%	C$40.58
King & Dufferin**	3,990,308	0	25.3%	-78,252	-90,959	23.3%	5.1%	C$51.21

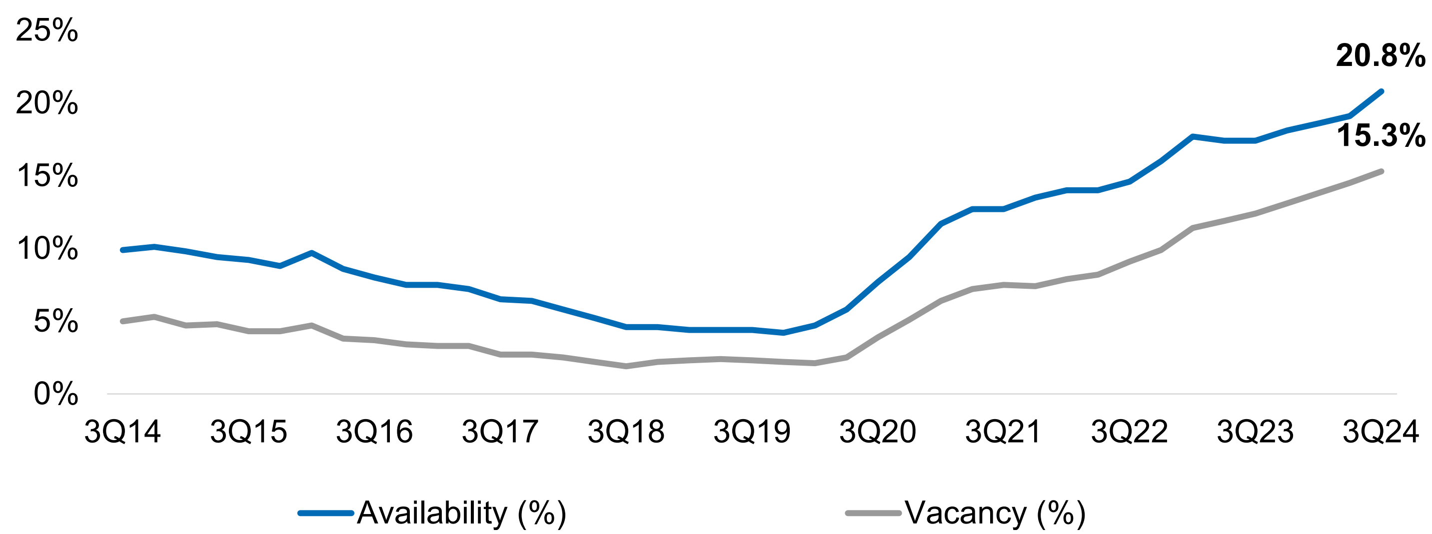
Source: Newmark Research, Altus Data Studio

** This submarket is not covered in this report.

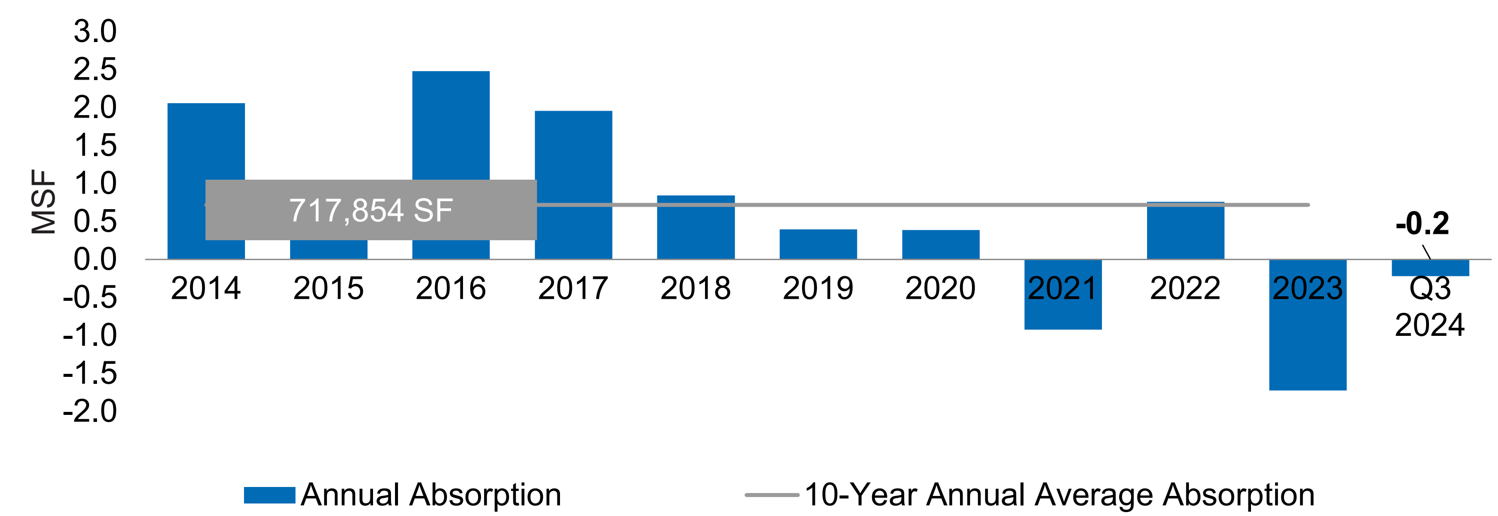
Downtown Toronto

Downtown Toronto is at the core of Canada's biggest office market in the country's largest city, comprising 85.6 msf and consisting of five submarkets, including the Financial Core, Downtown North, Downtown West, Downtown South and Downtown East. While absorption through the first nine months of 2024 remained negative at ~219k sf, that total is a notable improvement from the -1.73 msf of absorption in 2023. A lack of large leases and more than 1.9 msf of new supply in 2023 exerted upward pressure on vacancy and availability rates.

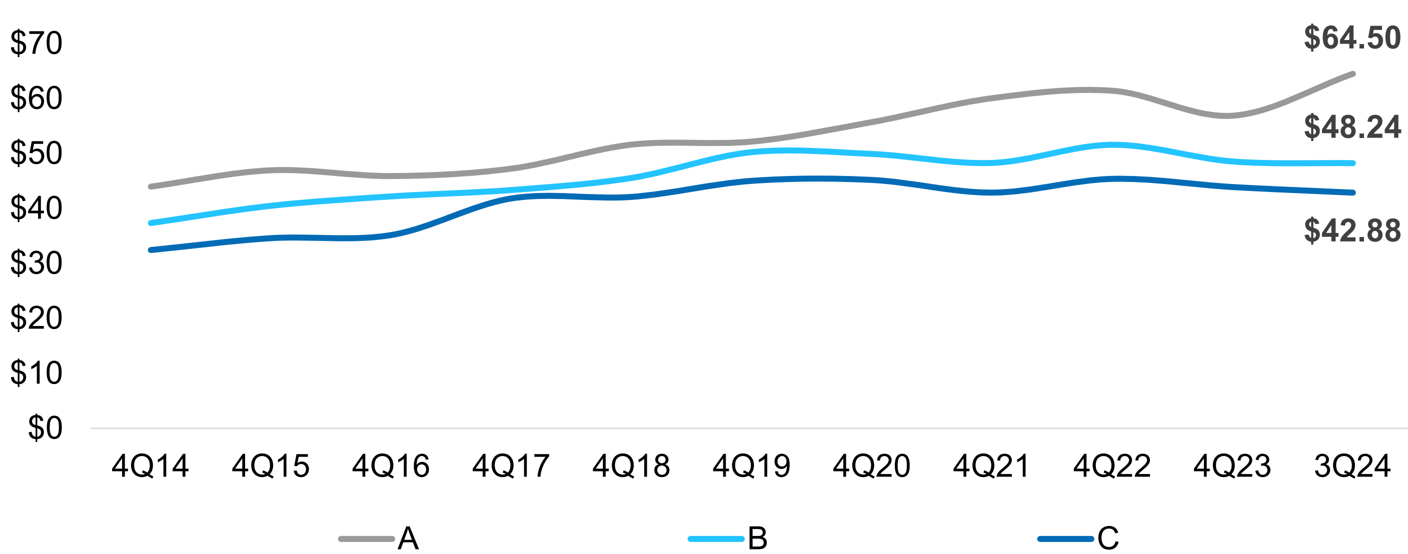
Overall Availability And Vacancy Rates – All Classes



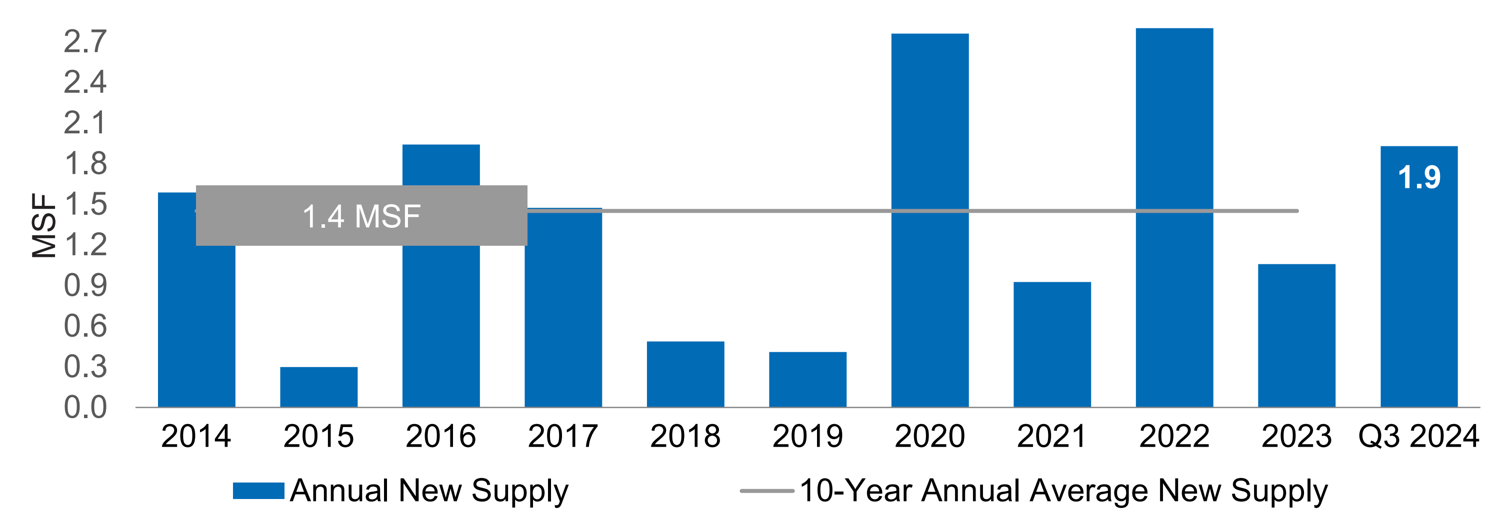
Annual Absorption – All Classes



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



New Construction Deliveries

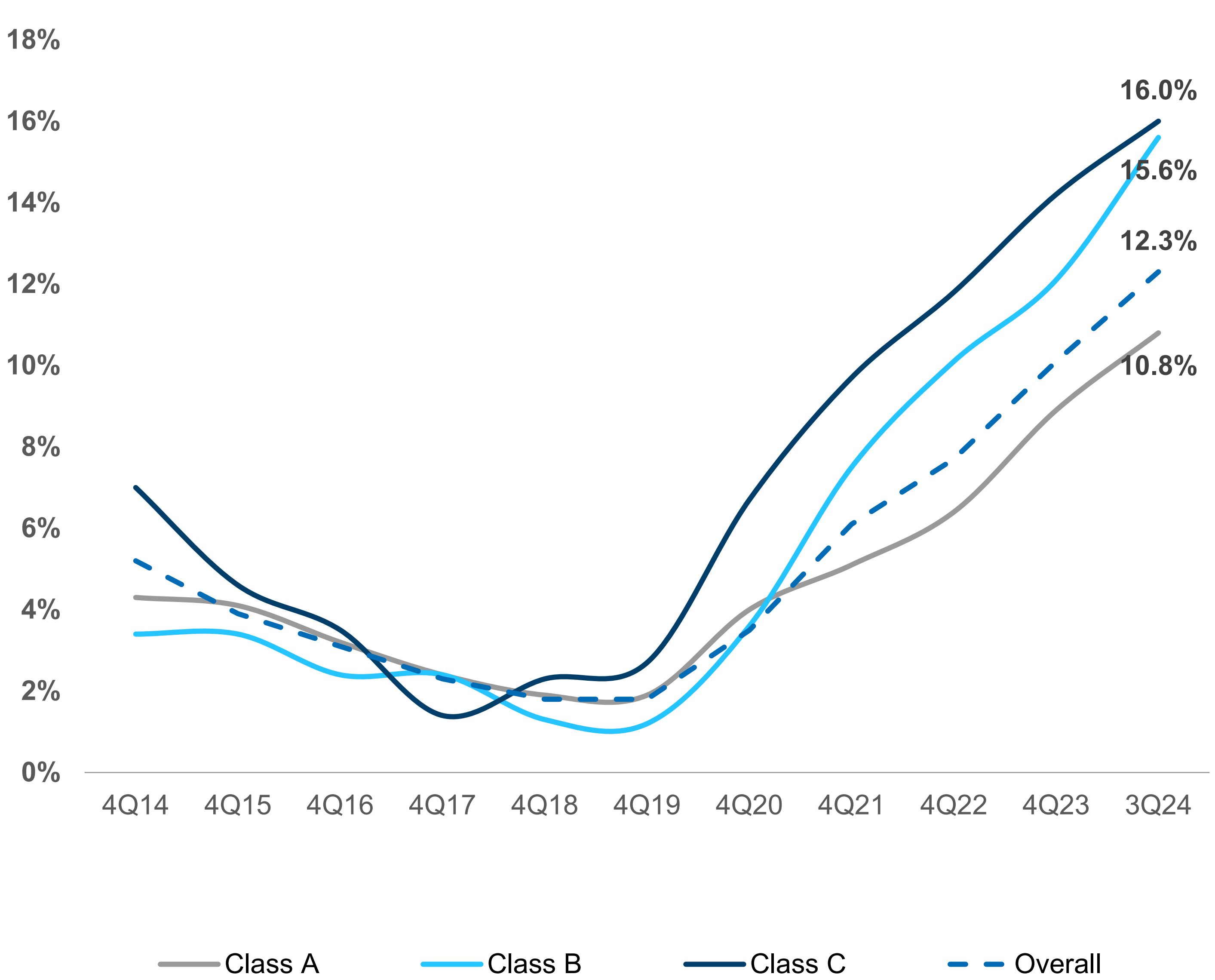


Source: Newmark Research, Altus Data Studio

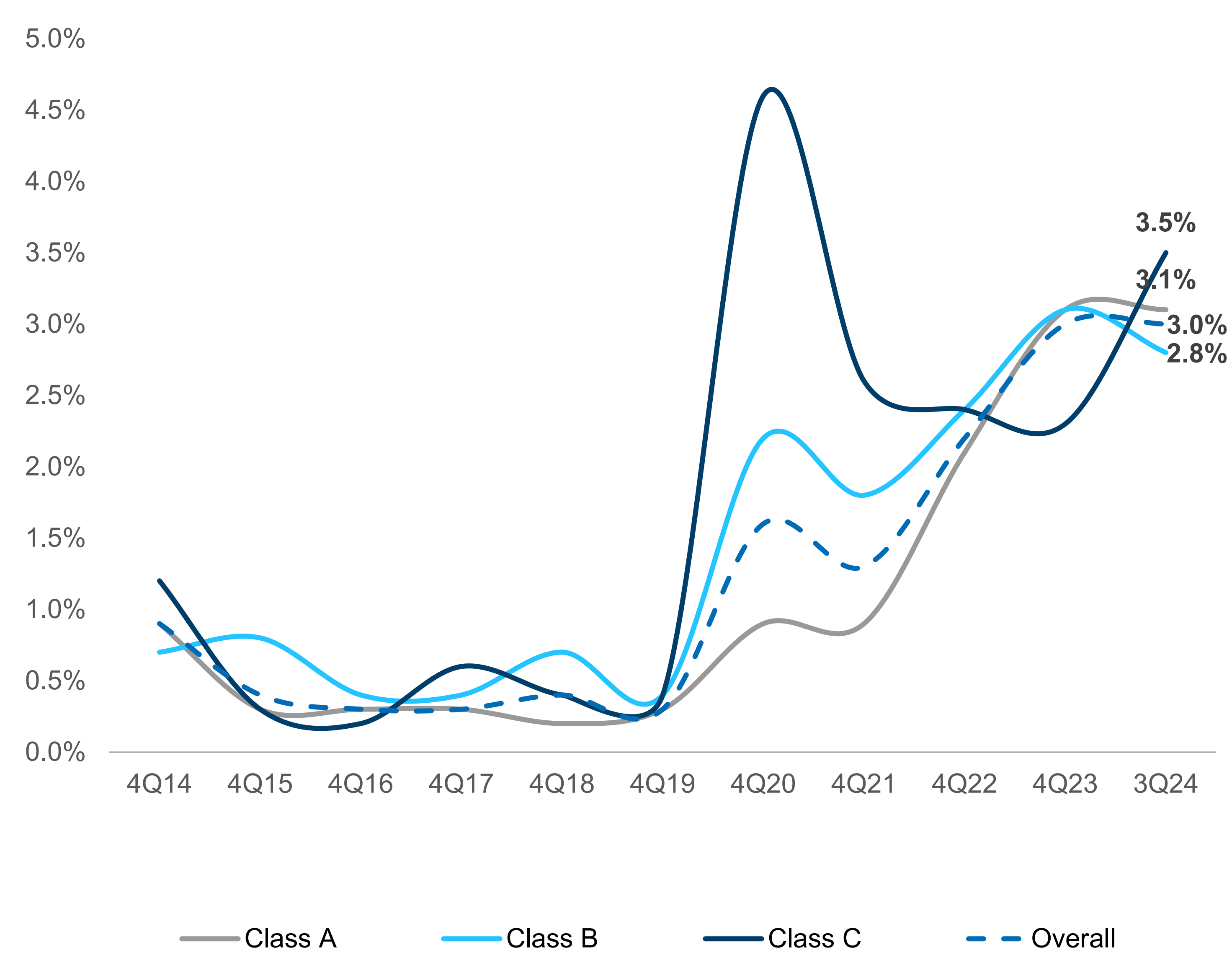
Rise in Class A Vacancy Slowing As Class B Surges To Match Class C Vacancy Levels

Head lease space in class A properties in Downtown Toronto continued to hold notably more of an attraction for tenants through the first nine months of 2024 despite the lower costs and more varied head lease options available in class B/C buildings. Class B vacancy, which had closely tracked class A for much of the 2010s, has surged since the end of 2023 to nearly match class C vacancy, which continued rising on both a head lease and sublease basis However, class A/B sublease vacancy downtown appears to have started to stabilize.

Downtown Office Headlease Vacancy by Class – 2014 to 2024



Downtown Office Sublease Vacancy by Class – 2014 to 2024

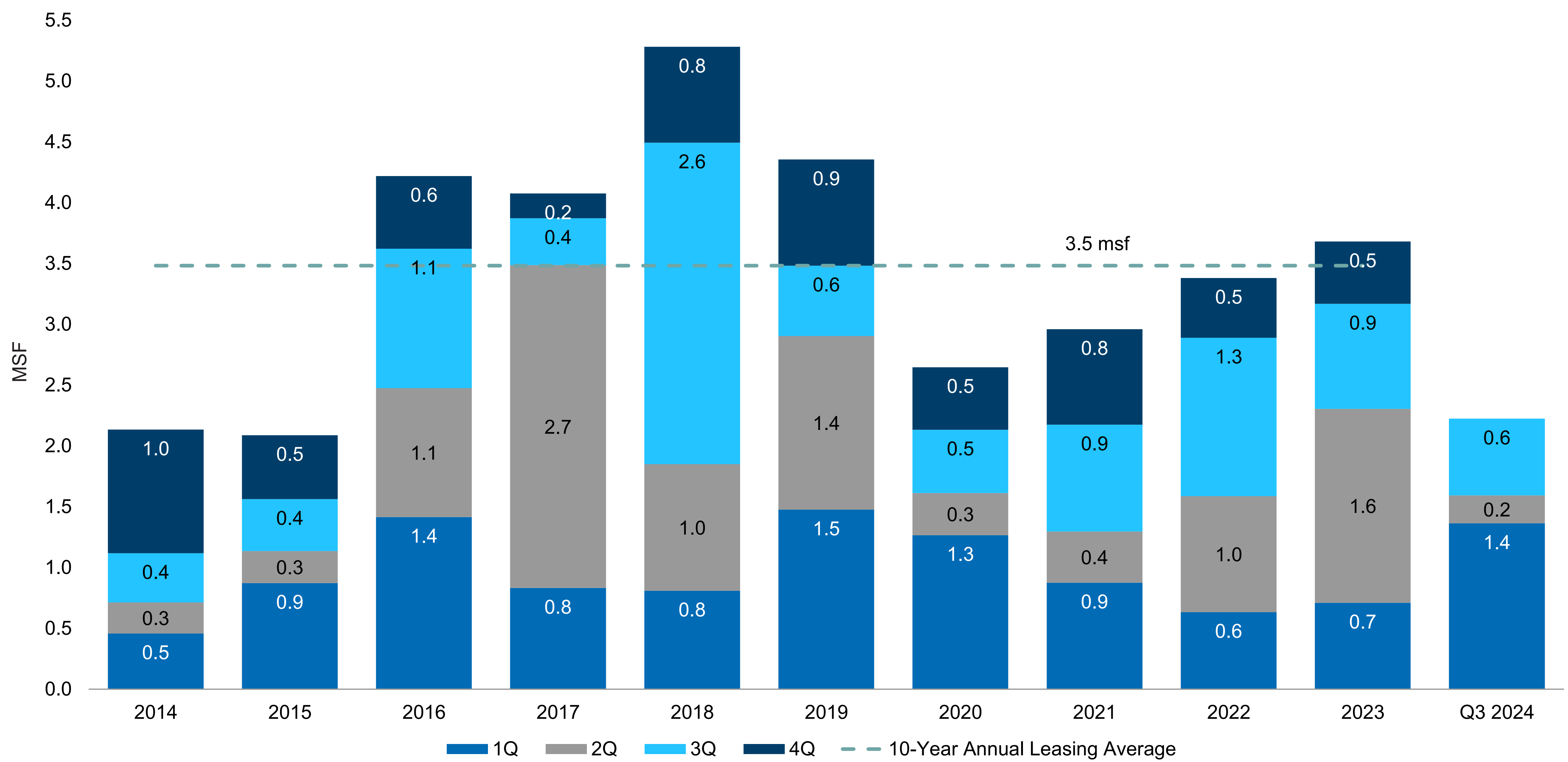


Source: Newmark Research, Altus Data Studio

Downtown Toronto Overall Leasing Activity Improving As Smaller Deals Add Up

Downtown Toronto office leasing started 2024 strong with the most square footage leased in a first quarter since 2019. That momentum would fade quickly with second-quarter 2024 winding up as the weakest quarter of the past decade in terms of downtown leasing activity. Leasing activity rebounded somewhat in the third quarter, which led to the first nine months of 2024 matching activity levels in 2020 and 2021. Matching the 10-year annual leasing average of 3.5 msf will be unlikely in 2024. Deals are being done but are smaller on average.

Total Leasing Activity in All Classes

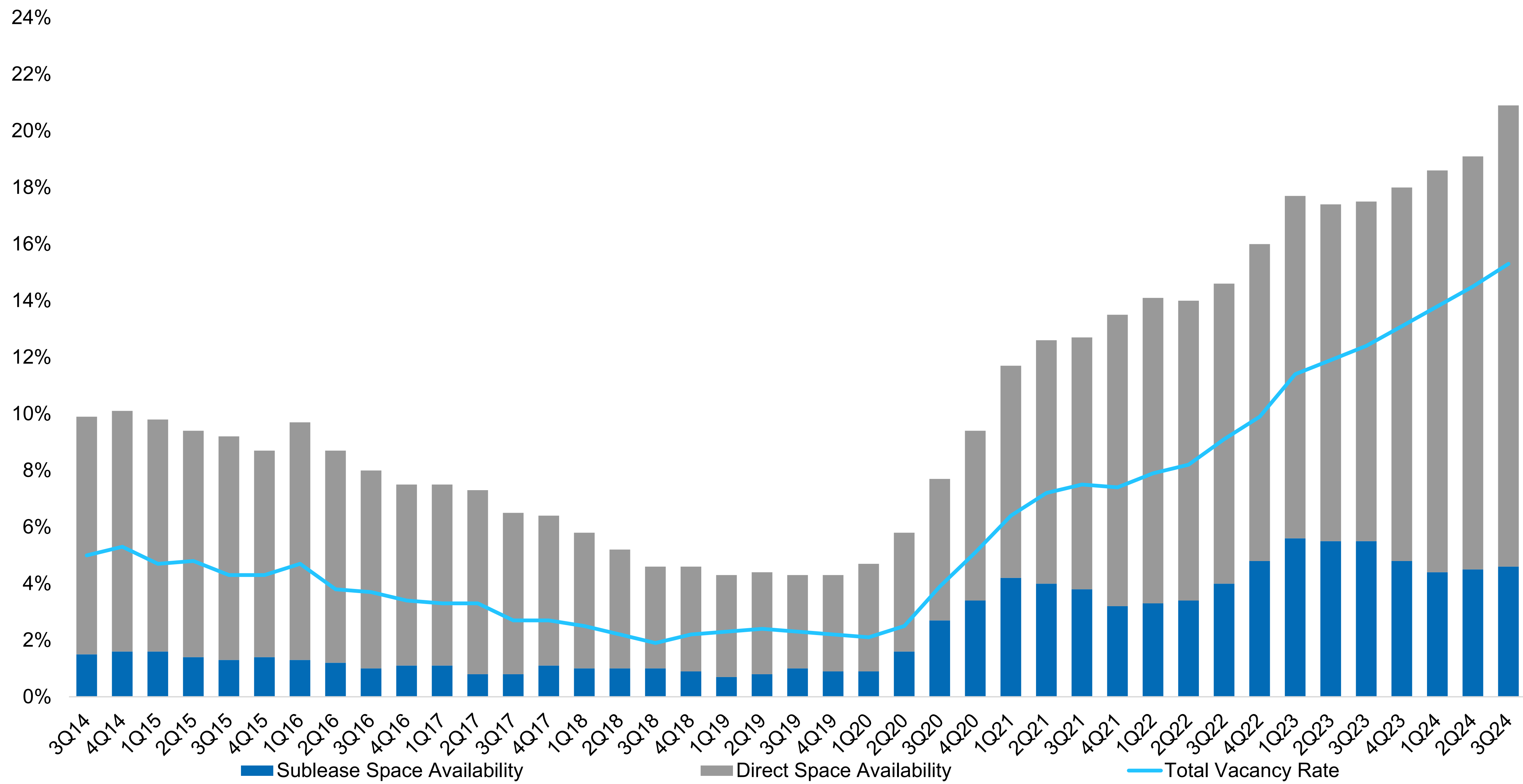


Source: Newmark Research, Altus Data Studio

Downtown Sublease Availability Stabilizing As Direct Availability Hits New High

Sublease availability in Downtown Toronto has stabilized at ~4.5% while direct availability continues achieving new heights. Rising vacancy, primarily in class B/C buildings but also in new supply (delivered largely vacant) and older class A assets, drove up head lease availability throughout the core (except in Downtown South). Barring an atypical surge in leasing, conversion or redevelopment of obsolete space in the Downtown North, East and West submarkets will likely be needed to bring availability back to the more historical ~8% range.

Available Space and Tenant Demand as Per cent of Overall Market

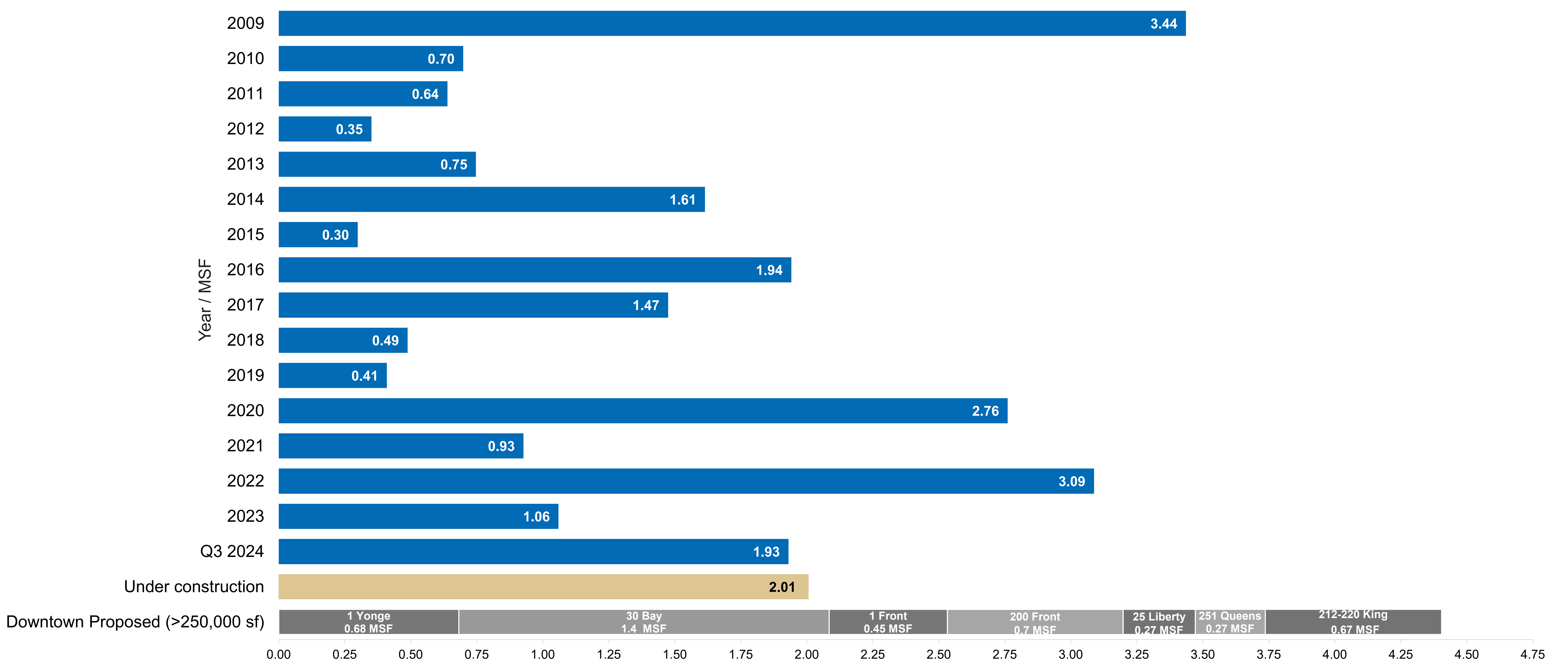


Source: Newmark Research, Altus Data Studio

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 commenced in 2020 and runs through 2025 is set to deliver more than 9 msf with ~2 msf still under construction. Despite current market conditions, more than 4.25 msf remains proposed in buildings >250,000 sf.

Downtown Toronto Deliveries



Source: Newmark Research, Altus Data Studio

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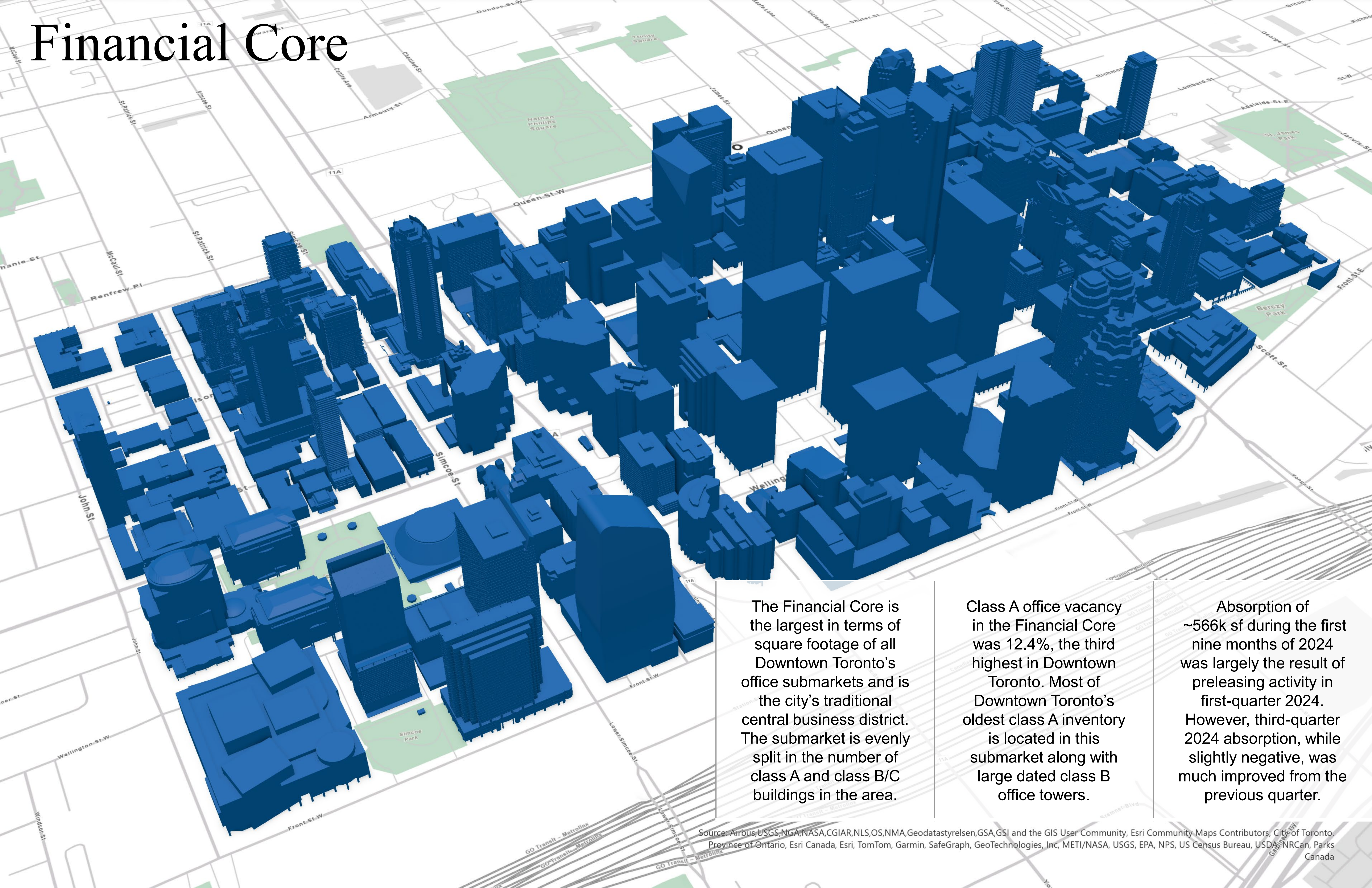
Financial Core

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.

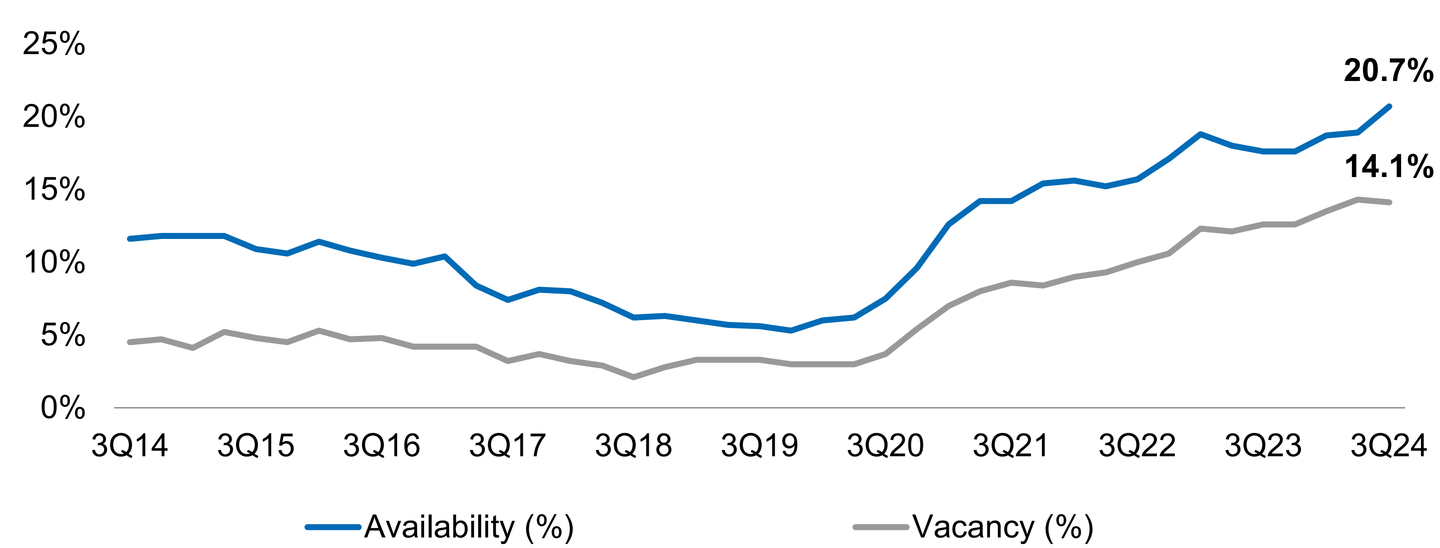
Absorption of ~566k sf during the first nine months of 2024 was largely the result of preleasing activity in first-quarter 2024. However, third-quarter 2024 absorption, while slightly negative, was much improved from the previous quarter.

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

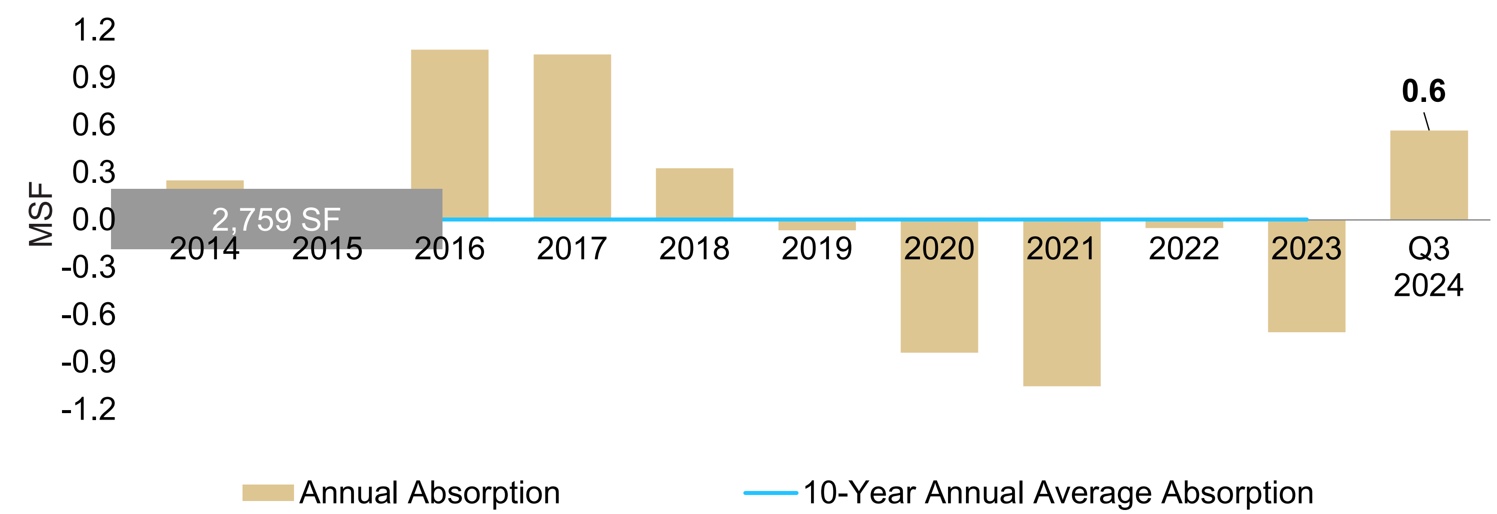
Financial Core

The Financial Core led all Downtown Toronto submarkets with more than 566,000 sf of absorption in the first nine months of 2024. While this total may have been reliant on preleasing in the first quarter of 2024, one result has been that vacancy may have stabilized at ~14%. Market activity is occurring in the form of renewals as well as a handful of smaller deals that when combined highlight what is shaping up to be a comparatively decent year in terms of leasing velocity as tenants are increasingly making decisions on their space requirements.

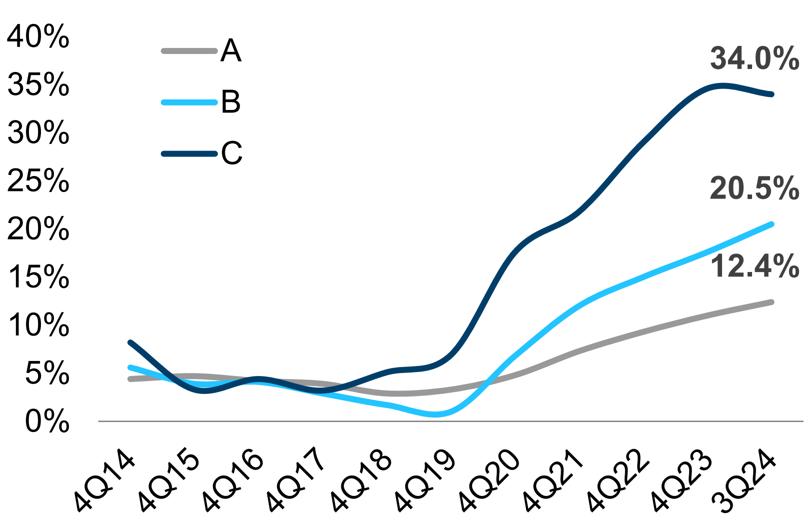
Overall Availability & Vacancy Rates – All classes



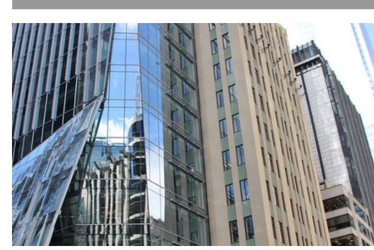
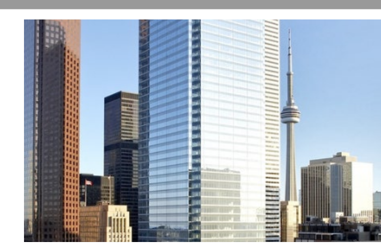
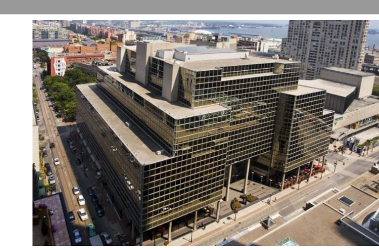
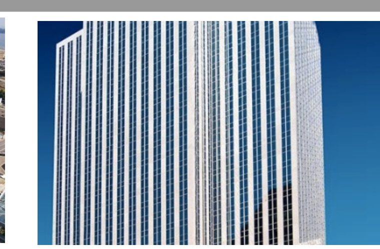
Annual Absorption – All classes



Vacancy by Class – 2014 to 2024



Third Quarter Deals

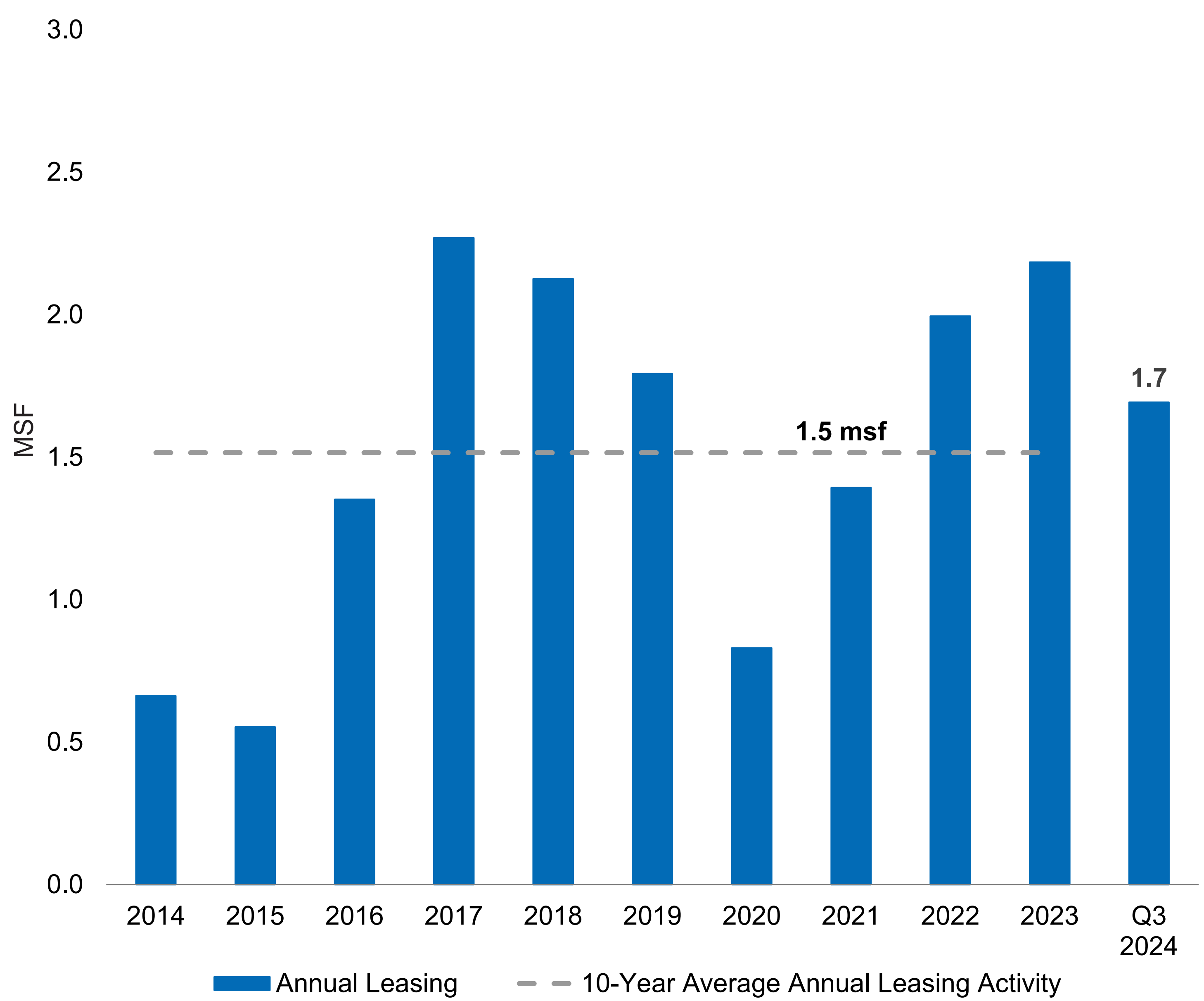
EY Tower, 100 Adelaide Street West	**Bay Adelaide Centre (West), 333 Bay Street**	**Canadian Broadcast Centre, 250 Front Street West**	**33 Yonge Street**	**The Exchange Tower, 130 King Street West**
Ernst & Young	Goodman's LLP	CBC	Optimus SBR	Western University
302,550 SF	170,240 SF	39,160 SF	31,700 SF	26,000 SF
Renewal & Expansion	Renewal	Renewal	Renewal	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

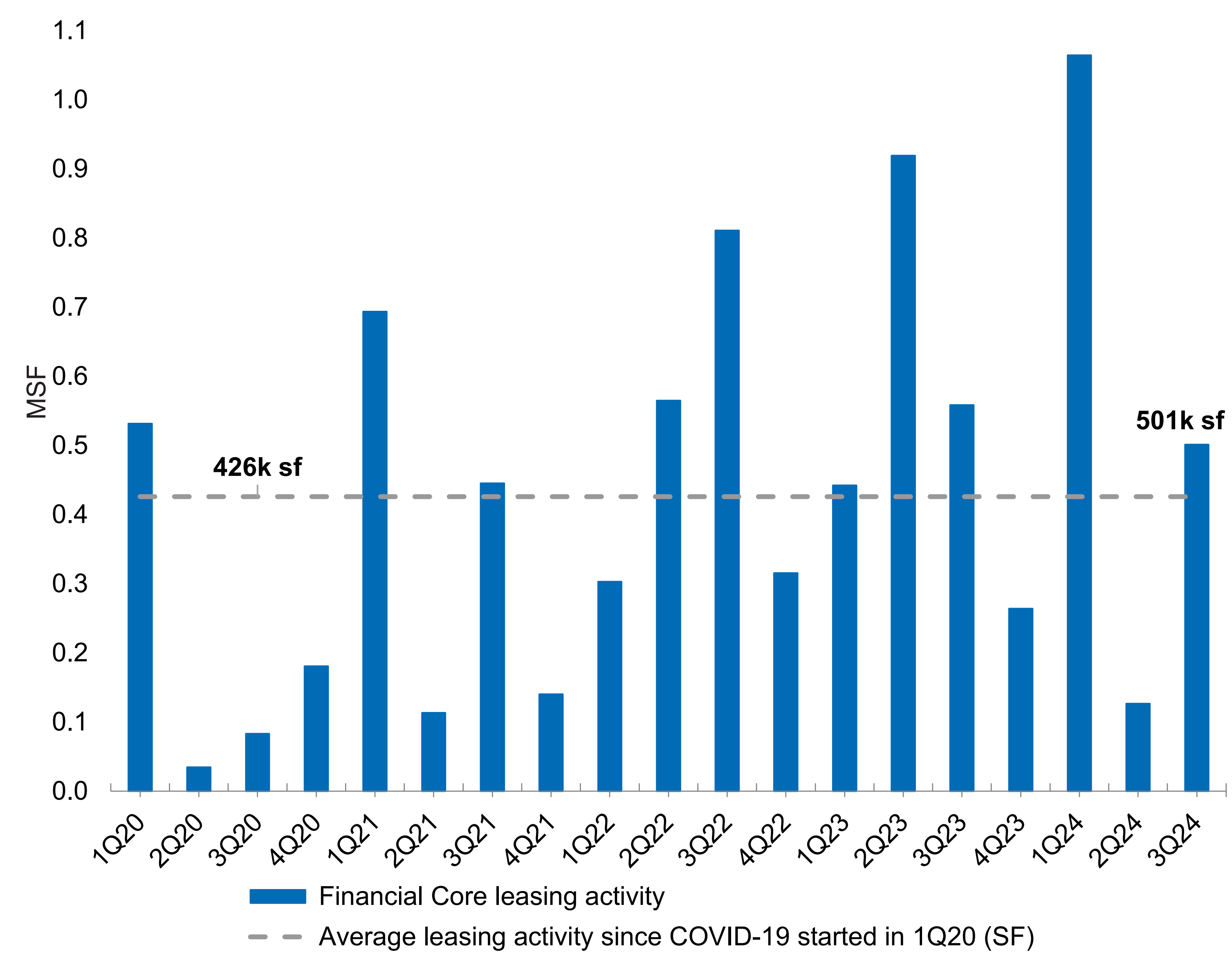
Financial Core Office Leasing Activity

After an atypically strong start to the year due 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. However, leasing activity in the third quarter of 2024 rebounded to more than 500,000 sf, ~75,000 sf greater than the quarterly leasing average since the onset of COVID-19. Leasing activity to the third quarter of 2024 already surpassed the 10-year annual leasing average of 1.5 msf.

Annual Financial Core Leasing Activity – All classes



Financial Core Quarterly Leasing Activity – All classes

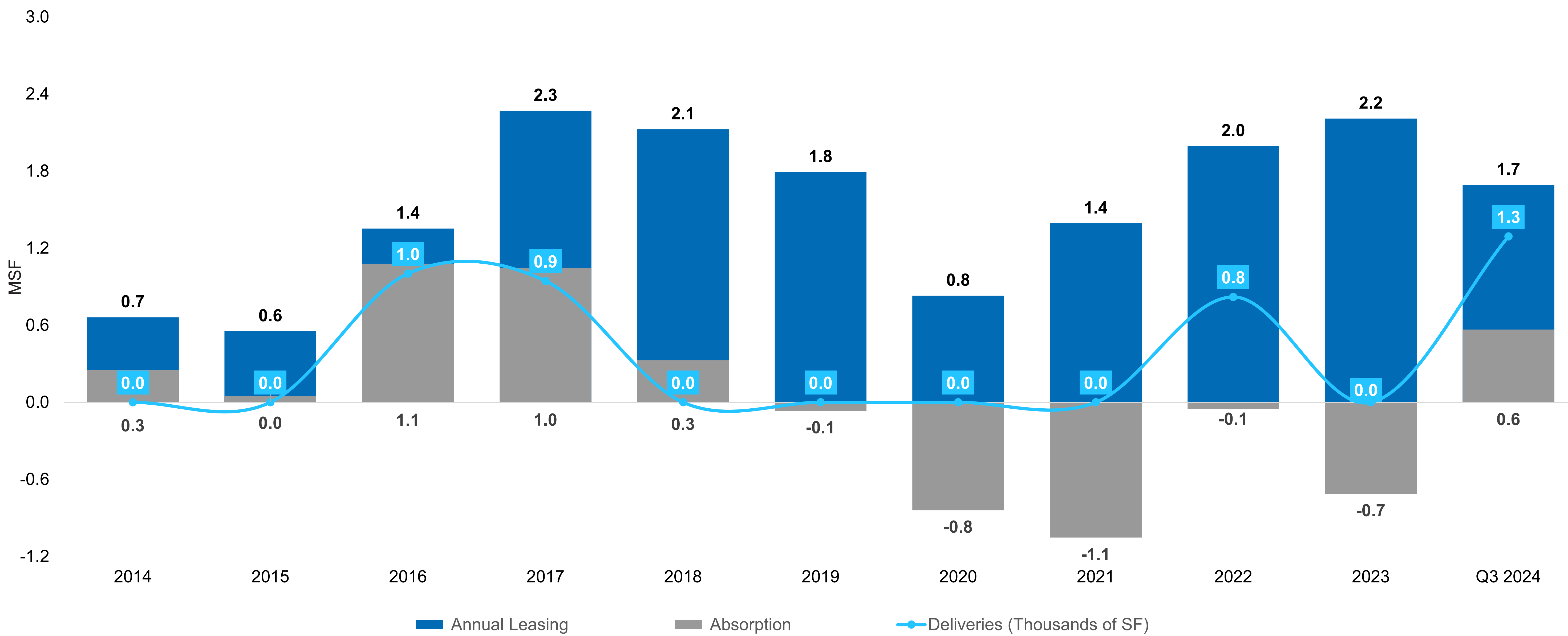


Source: Newmark Research, Altus Data Studio

Financial Core Leasing, Absorption and New Supply Analysis

Market indicators in the first nine months of 2024 are trending strongly positive for the Financial Core considering deteriorating conditions in other Downtown Toronto submarkets. Absorption remained positive after the first nine months of 2024 and may finish the year at its highest level since 2017. Leasing activity had already surpassed 2020 and 2021 annual leasing totals and may surpass 2019 as well but will likely fall short of 2022 and 2023 levels. Even with almost 1.3 msf of new supply delivered, vacancy remained stable at ~14%.

Financial Core Historical Leasing and Absorption – All classes

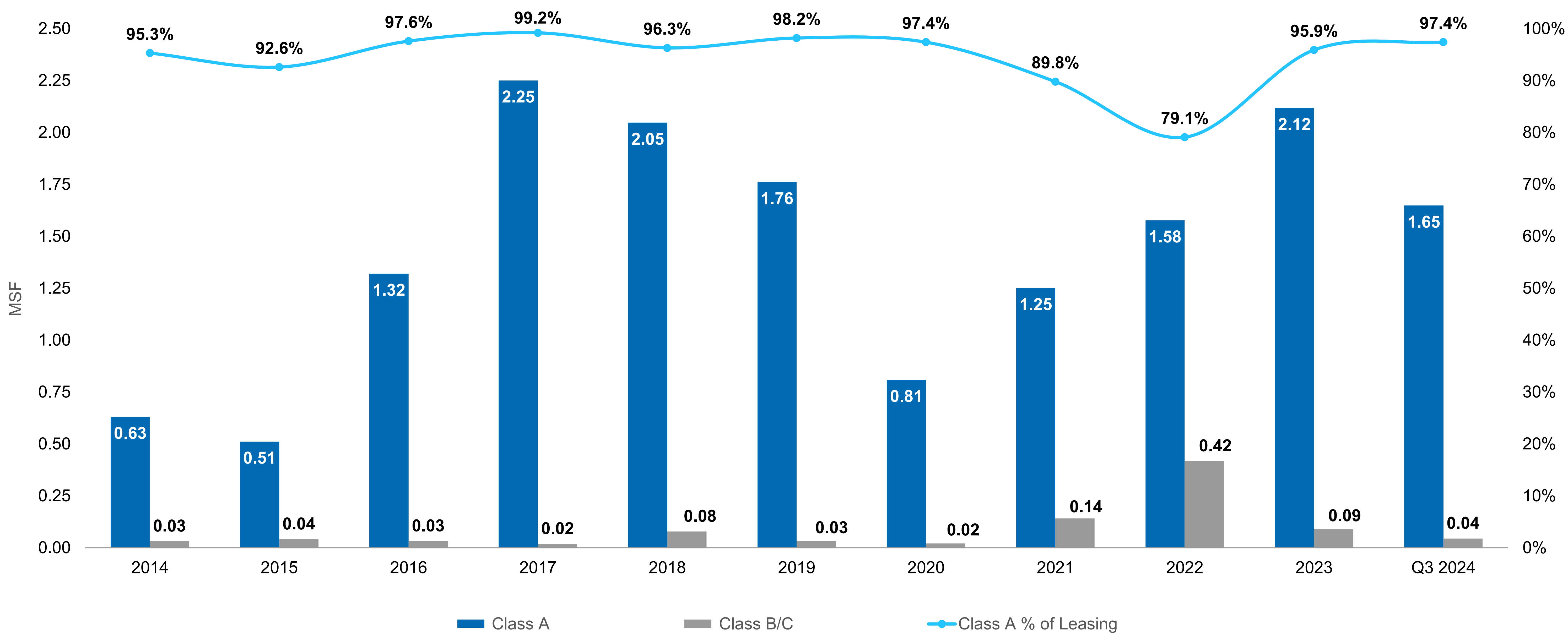


Source: Newmark Research, Altus Data Studio

Class A Buildings Remain Top Choice For Tenants | Financial Core Leasing Activity

Class A properties captured the majority of office leasing activity in the Financial Core during the past decade even in times of market distress. Even though class A buildings represented half of the submarket's building inventory (class B buildings comprise 39%), more than 97% of the square footage leased in the first nine months of 2024 was in class A space. More than 1.6 msf had been leased by the third quarter of 2024, surpassing class A leasing activity in 2020, 2021 and 2022 and will likely exceeding 2019 by year's end.

Leased Vacant Area by Class



Source: Newmark Research, Altus Data Studio

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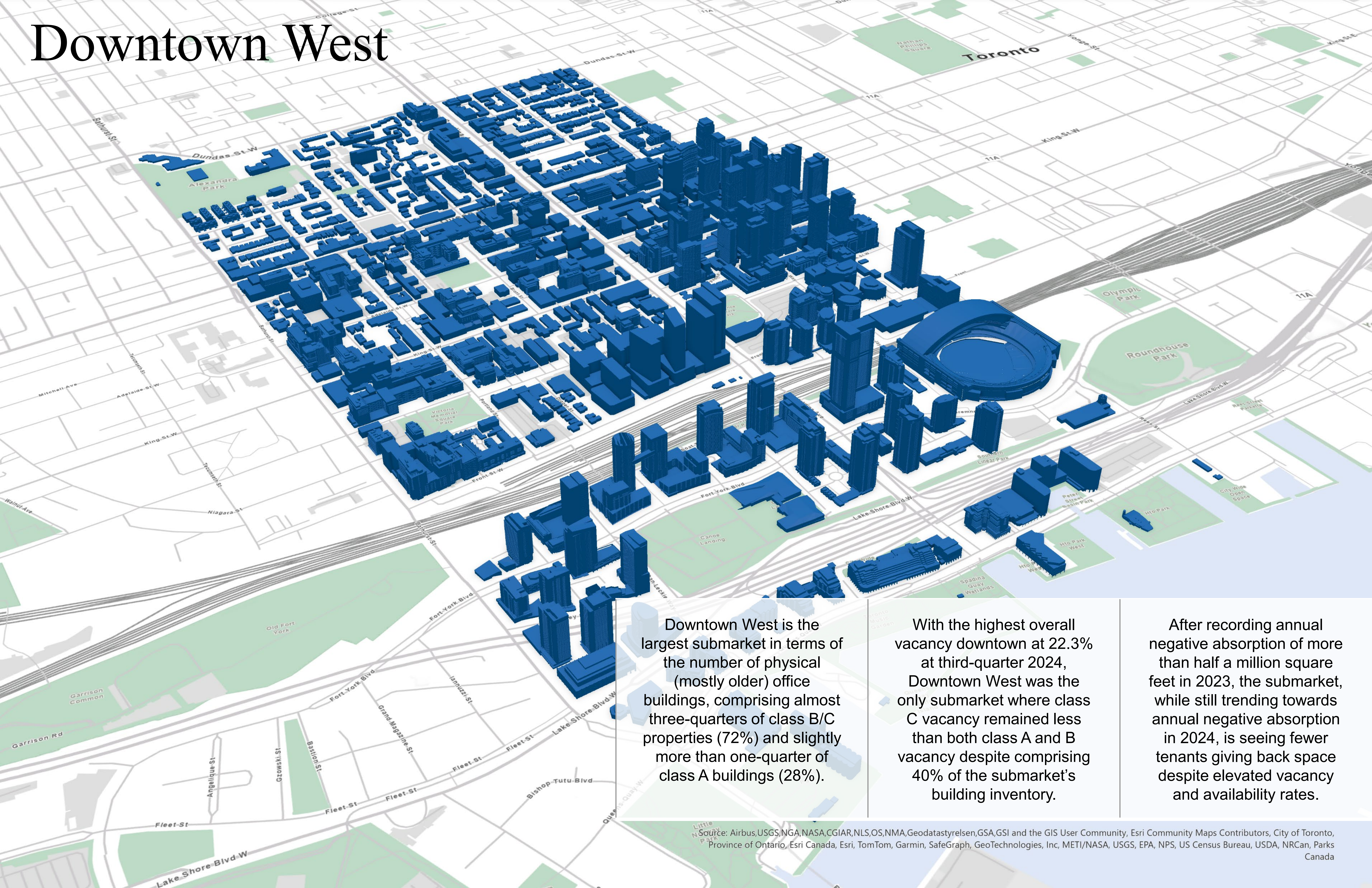
Downtown Toronto Office Submarkets

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 (72%) and slightly more than one-quarter of class A buildings (28%).

With the highest overall vacancy downtown at 22.3% at third-quarter 2024, Downtown West was the only submarket where class C vacancy remained less than both class A and B vacancy despite comprising 40% of the submarket's building inventory.

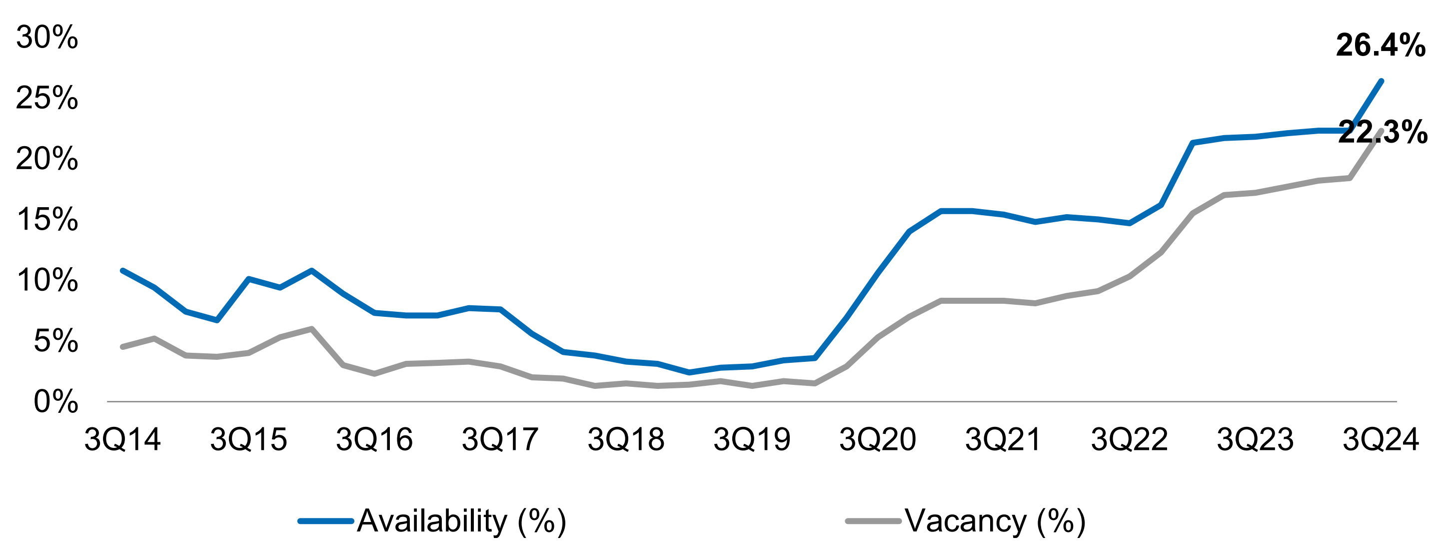
After recording annual negative absorption of more than half a million square feet in 2023, the submarket, while still trending towards annual negative absorption in 2024, is seeing fewer tenants giving back space despite elevated vacancy and availability rates.

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

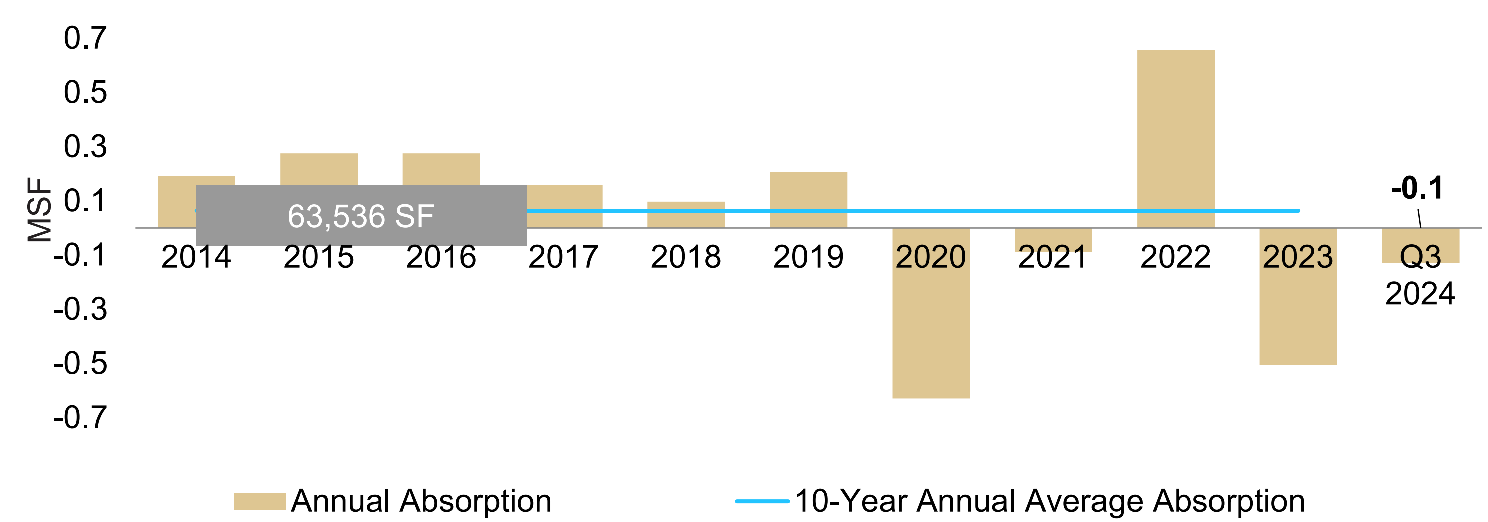
Downtown West

Downtown West remained the most challenged of the downtown submarkets at the third quarter of 2024 with the highest vacancy downtown at 22.3% as class A and B vacancy soared to record heights. The vacant delivery of the new Portland Commons office block in the third quarter of 2024 spiked class A vacancy and availability as the submarket continued to contend with negative absorption and rising class B/C vacancy. The addition of Portland Commons also made Downtown West the second largest submarket in the city core.

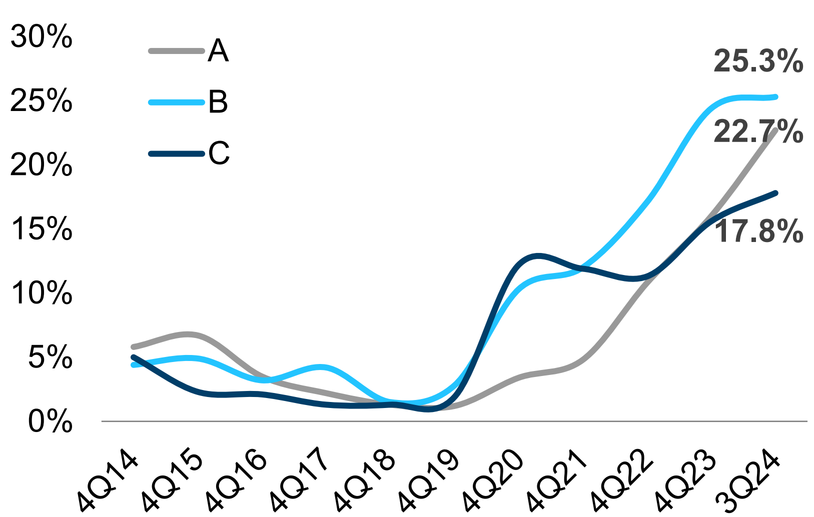
Availability And Vacancy Rates – All Classes



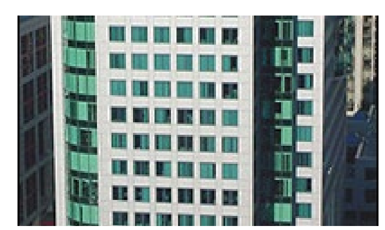
Annual Absorption – All Classes

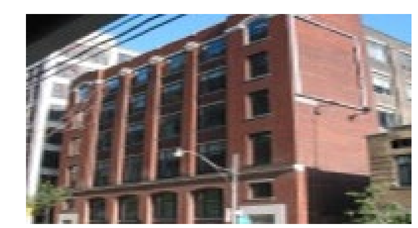
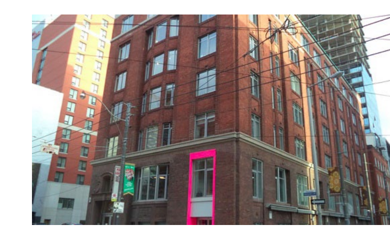


Vacancy by Class – 2014 to 2024



Third Quarter Deals

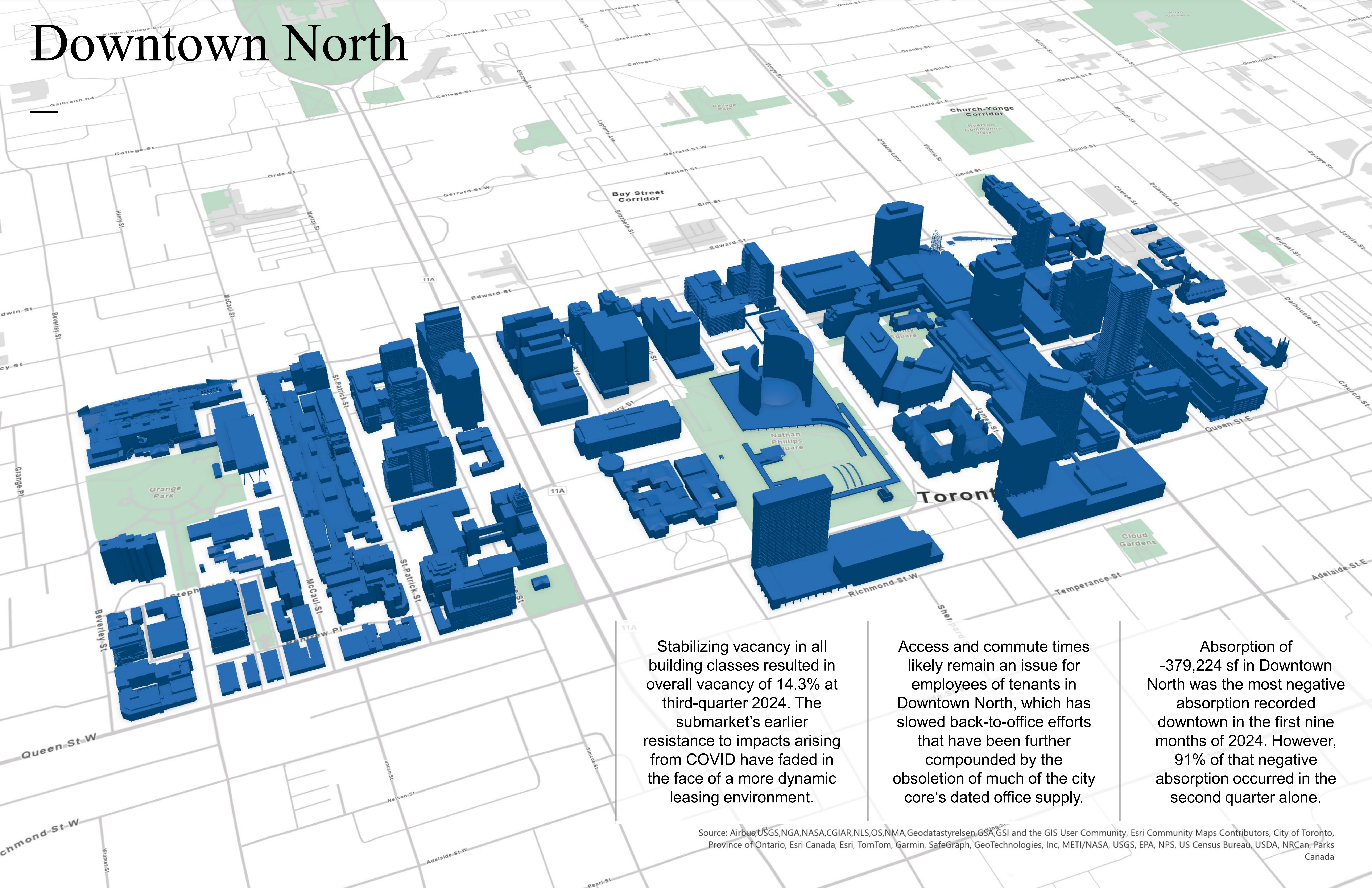



The Well (Building E), 460 Front Street West	MetroCentre 200 Wellington Street West	317 Adelaide Street West	379 Adelaide Street West	345 Adelaide Street West
Teleperformance	DoorDash	Undisclosed	Sales Talent Agency	Lemay
31,000 SF	25,700 SF	12,000 SF	7,450 SF	6,000 SF
Sublease	Sublease	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

Downtown North



Stabilizing vacancy in all building classes resulted in overall vacancy of 14.3% at third-quarter 2024. The submarket's earlier resistance to impacts arising from COVID have faded in the face of a more dynamic leasing environment.

Access and commute times likely remain an issue for employees of tenants in Downtown North, which has slowed back-to-office efforts that have been further compounded by the obsoletion of much of the city core's dated office supply.

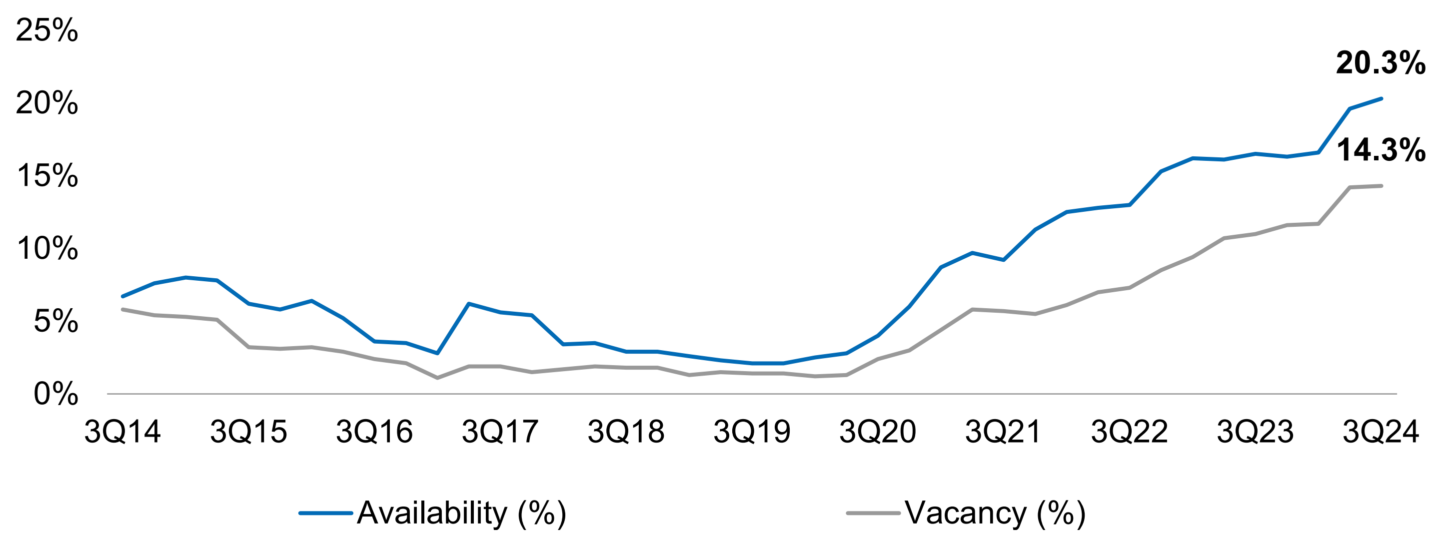
Absorption of -379,224 sf in Downtown North was the most negative absorption recorded downtown in the first nine months of 2024. However, 91% of that negative absorption occurred in the second quarter alone.

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

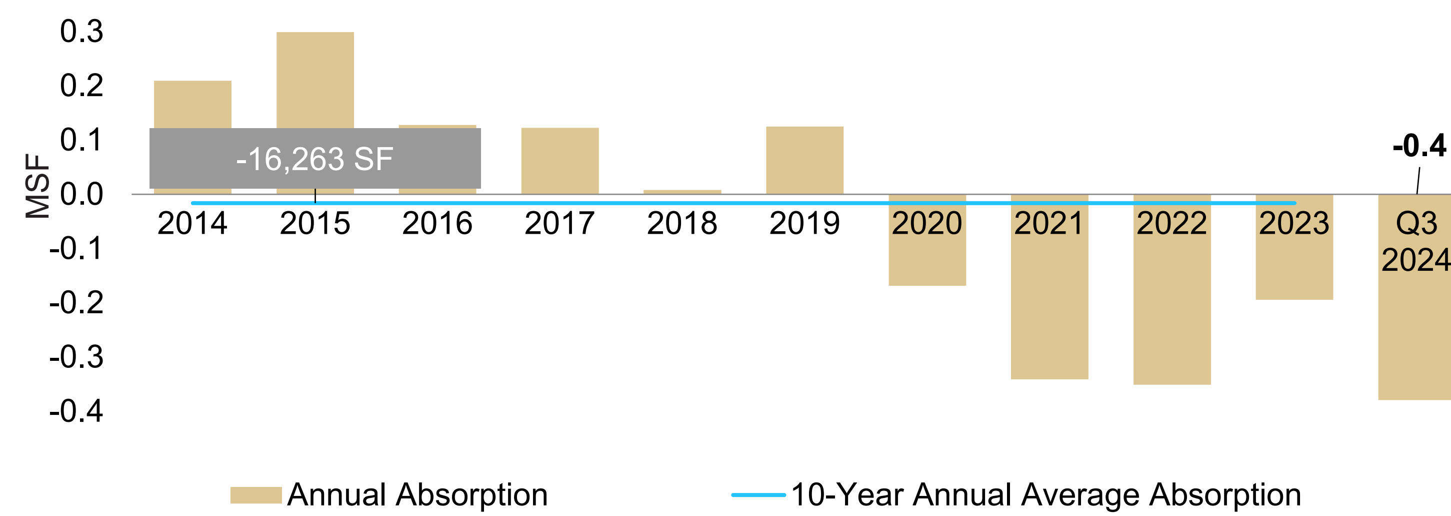
Downtown North

Despite capturing the most negative absorption downtown after the first nine months of 2024, Downtown North's vacancy rate was virtually unchanged from mid-year, a needed respite from the notable quarterly increases of the past two years. Vacancy in class B buildings, which make up the largest percentage of inventory, had been lower than class A but that has since shifted. Leasing activity was muted and limited to smaller deals with conversion or redevelopment likely a growing consideration for obsolete office buildings in Downtown North.

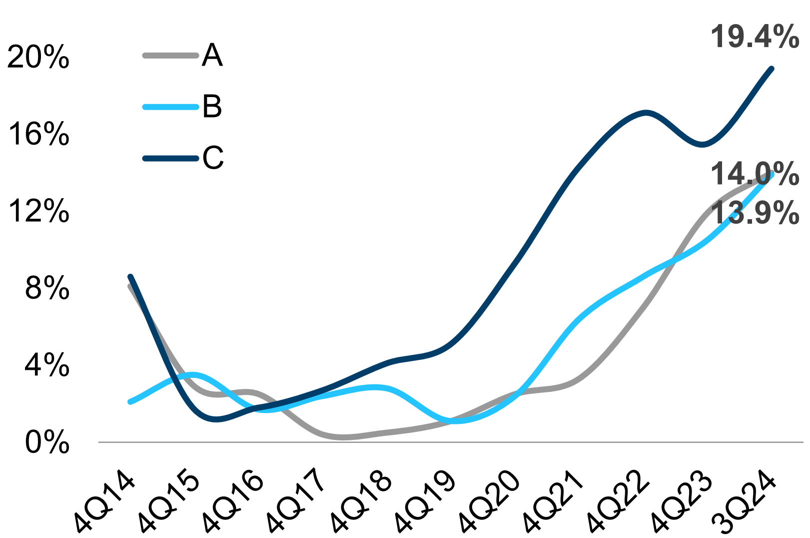
Availability And Vacancy Rates – All Classes



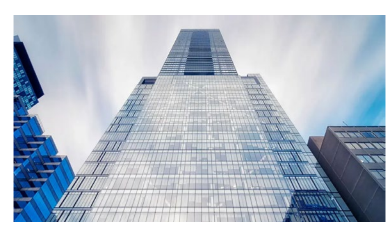
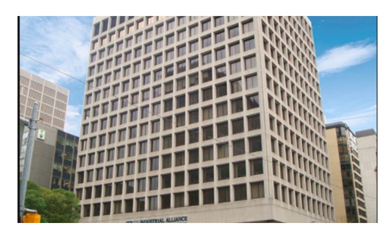
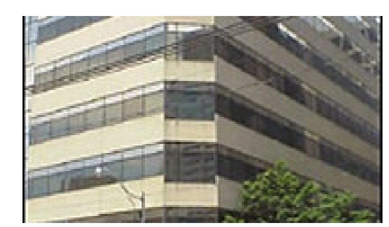
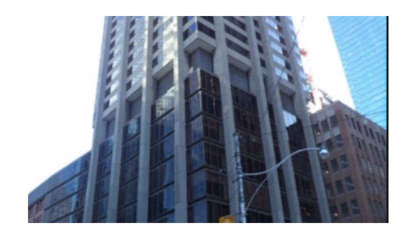
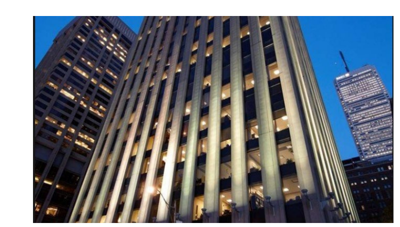
Annual Absorption – All Classes



Vacancy by Class – 2014 to 2024



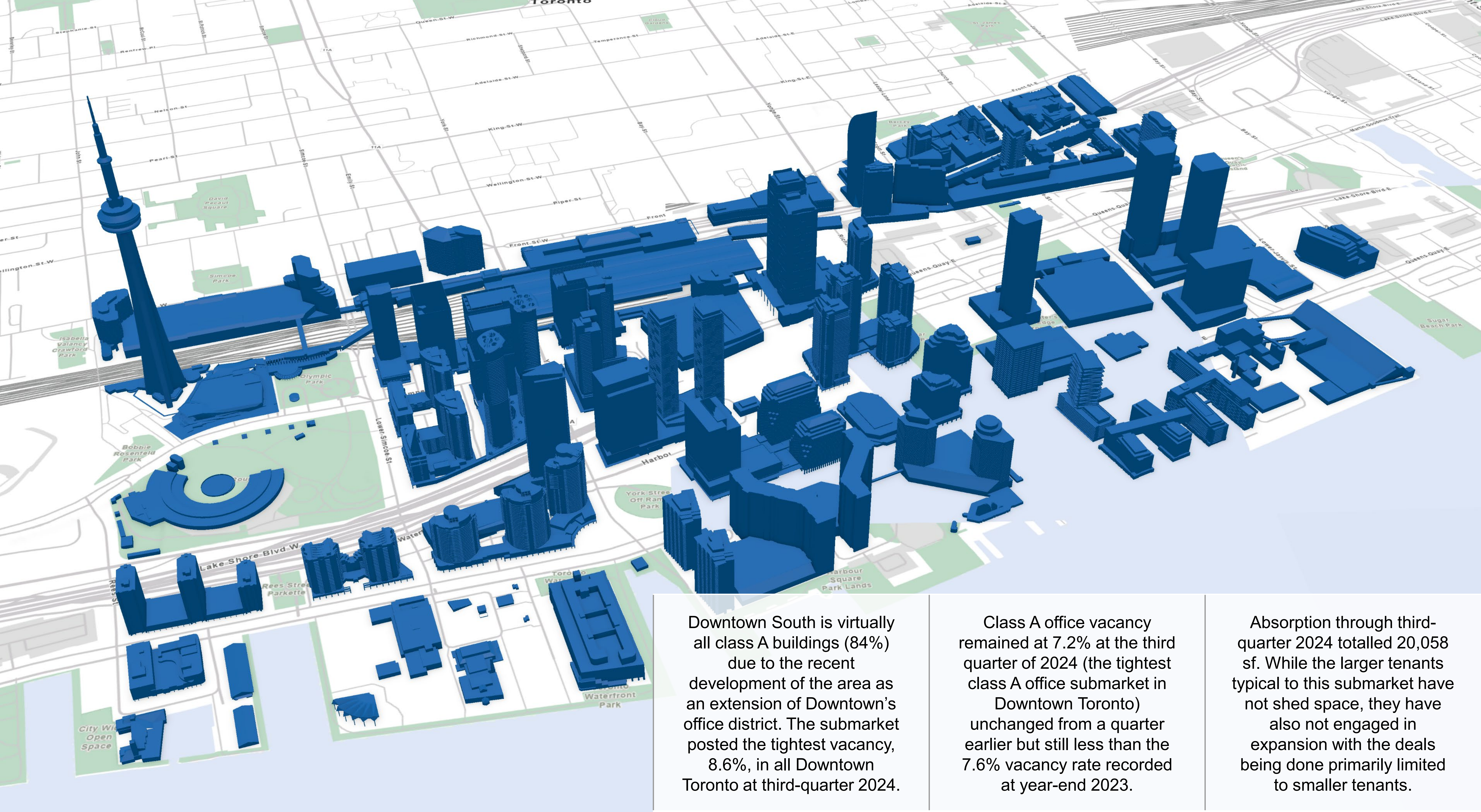
Third Quarter Deals

480 University Avenue	522 University Avenue	250 Dundas Street West	Simpson Tower, 401 Bay Street	Thomson Building, 65 Queen Street West
Undisclosed	PwC	Canadian Mental Health Association	BeThink Labs	Undisclosed
17,000 SF	15,760	5,500 SF	2,500 SF	1,370 SF
Direct New	Direct New	Direct New	Direct New	Sublease

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 third-quarter 2024.

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

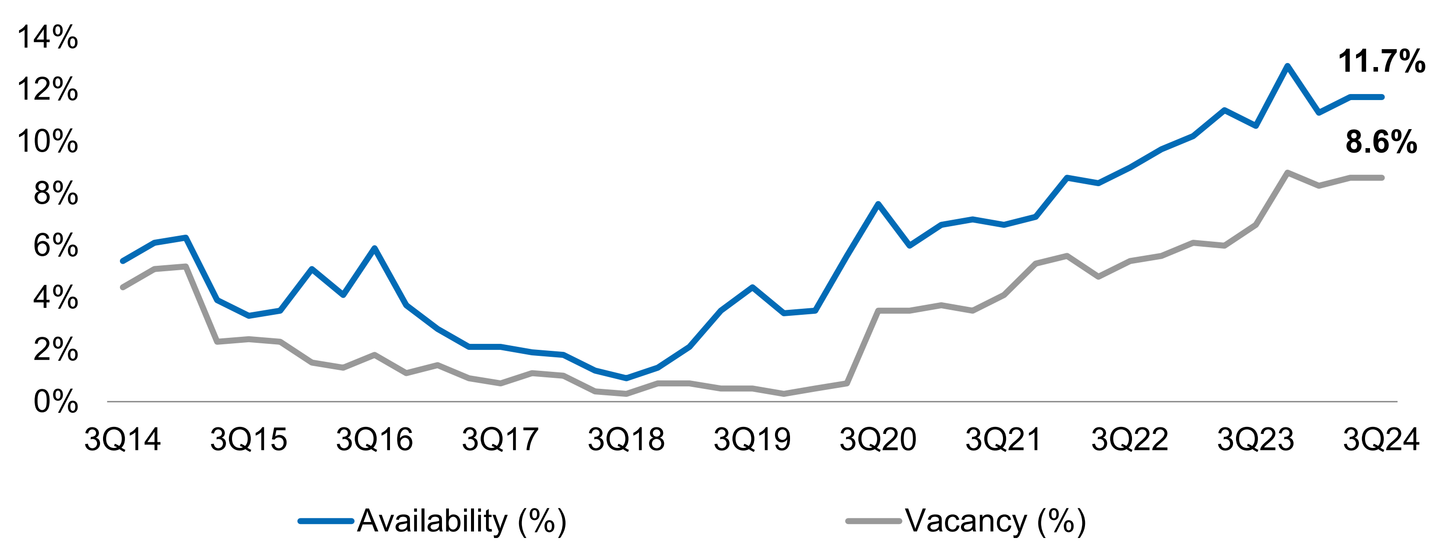
Absorption through third-quarter 2024 totalled 20,058 sf. While the larger tenants typical to this submarket have not shed space, they have also not engaged in expansion with the deals being done primarily limited to smaller tenants.

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

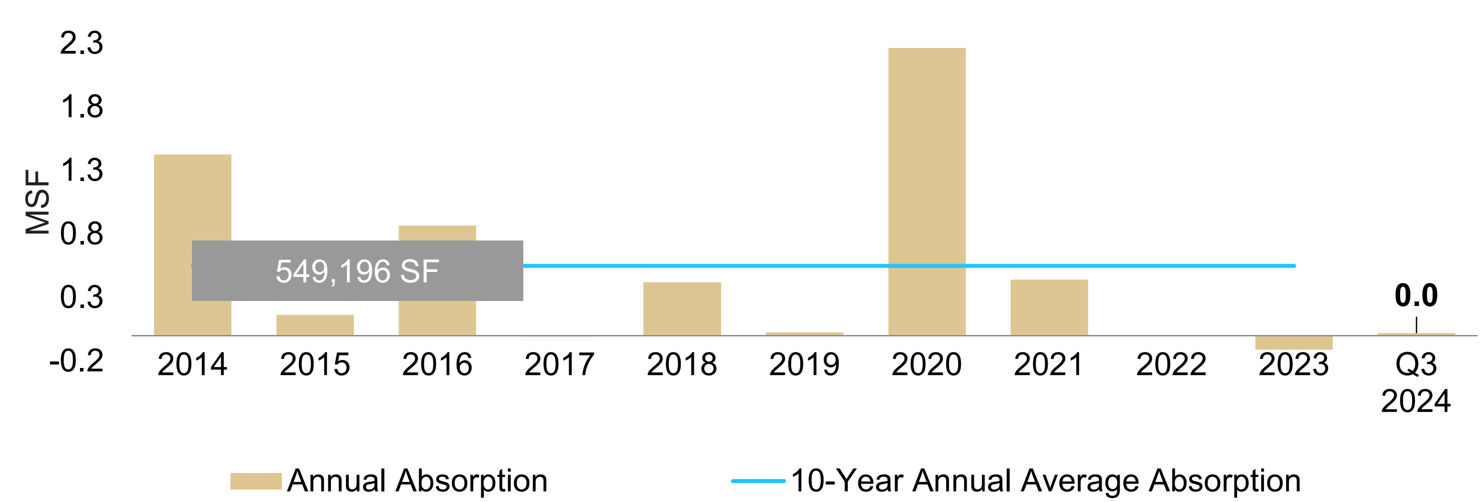
Downtown South

Downtown South was the most resilient downtown office submarket with vacancy at 8.6% after the first nine months of 2024, unchanged from three months earlier and 20 bps lower than a year ago. Downtown South is one of just two submarkets to register positive absorption through the third quarter of 2024. Tenants' ongoing flight to quality, proximity to a key public transit hub at Union Station and superior views and amenities produced class A vacancy of 7.2% (the lowest downtown). With no new supply, the submarket is well positioned for 2025.

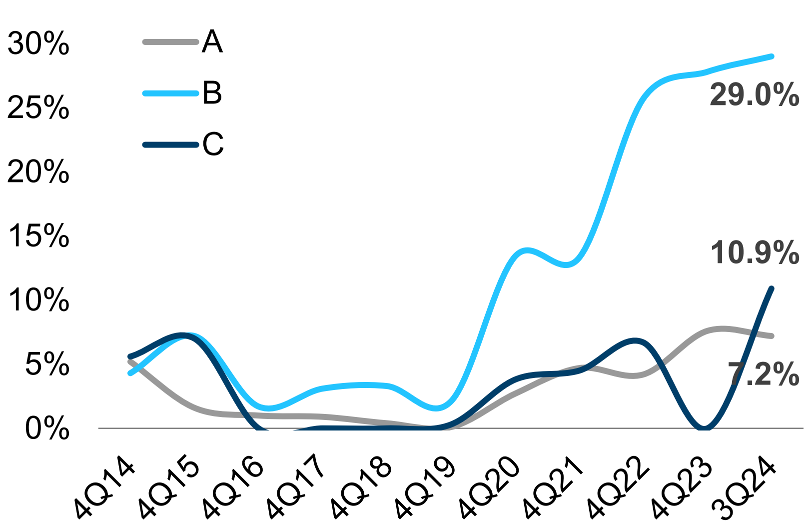
Overall Availability And Vacancy Rates – All Classes



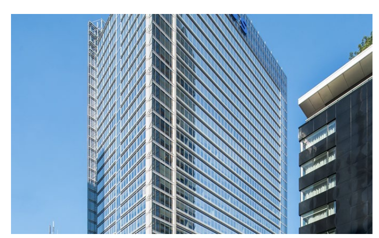
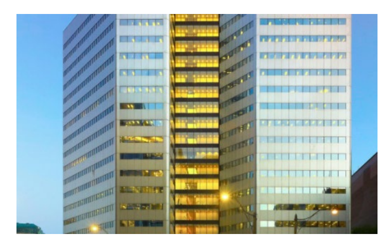
Annual Absorption – All Classes



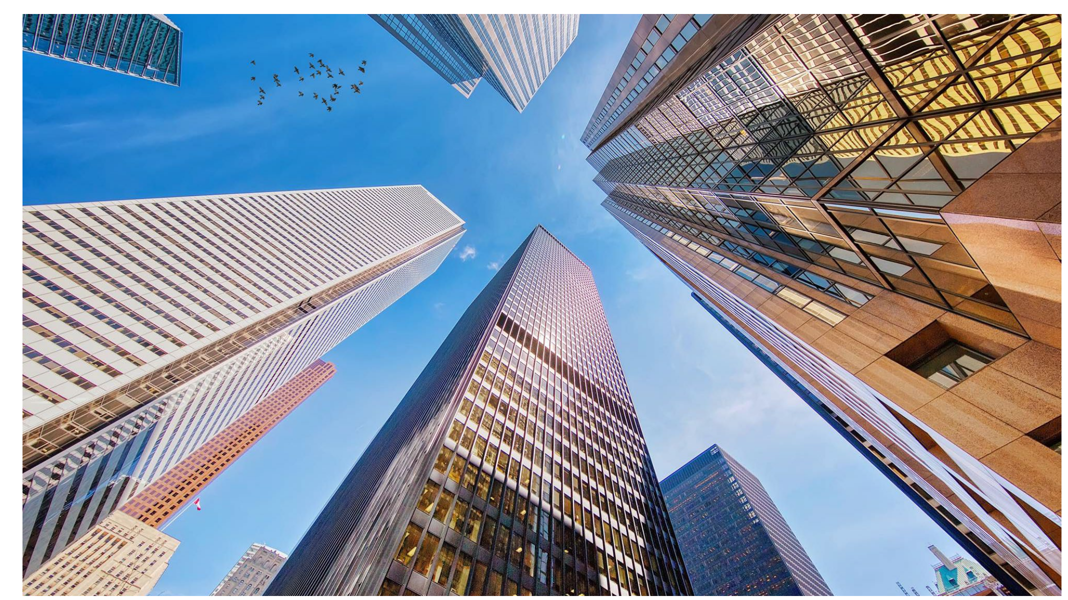
Vacancy by Class – 2014 to 2024



Third Quarter Deals

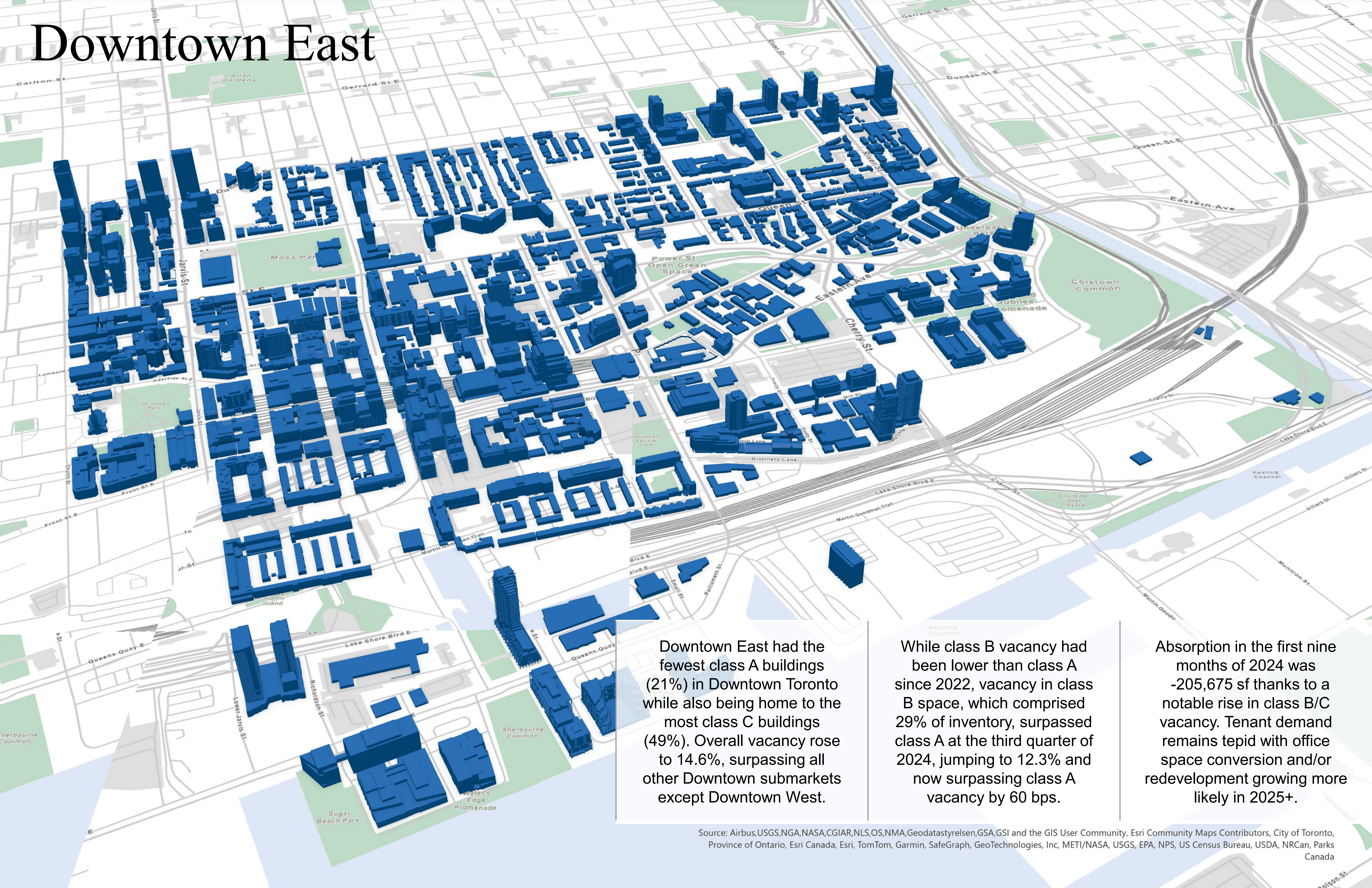



25 York Street	123 Front Street West
Undisclosed	Amanah Tech Inc.
11,500 SF	1,760 SF
Direct New	Direct New



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 14.6%, surpassing all other Downtown submarkets except Downtown West.

While class B vacancy had been lower than class A since 2022, vacancy in class B space, which comprised 29% of inventory, surpassed class A at the third quarter of 2024, jumping to 12.3% and now surpassing class A vacancy by 60 bps.

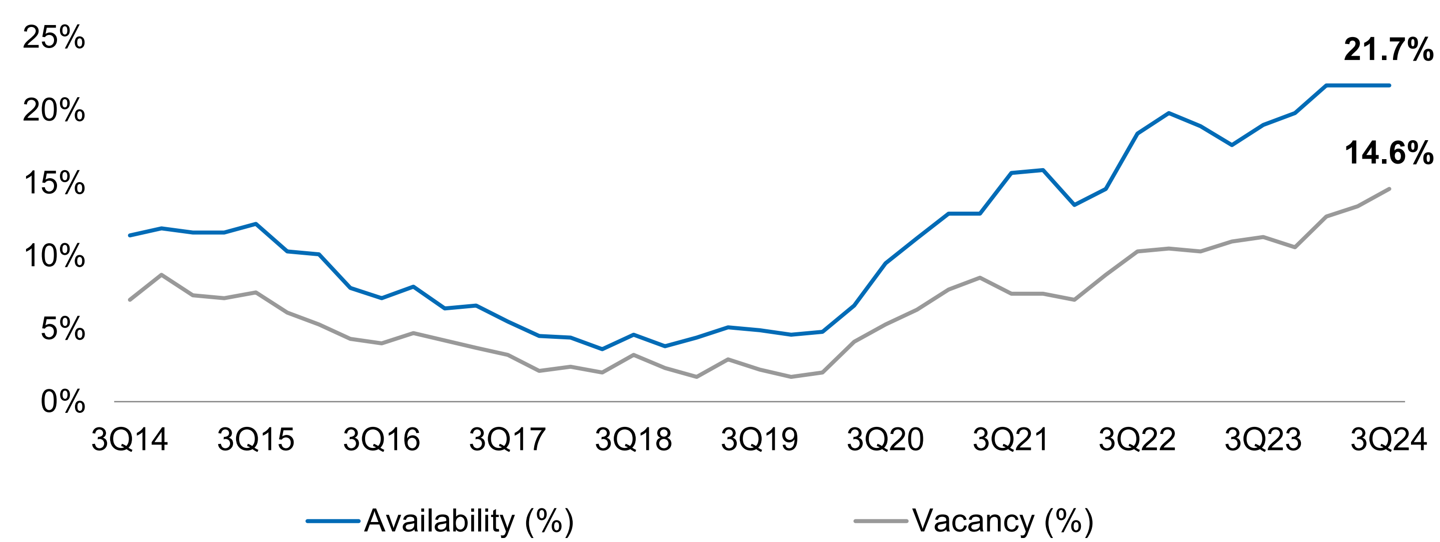
Absorption in the first nine months of 2024 was -205,675 sf thanks to a notable rise in class B/C vacancy. Tenant demand remains tepid with office space conversion and/or redevelopment growing more likely in 2025+.

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

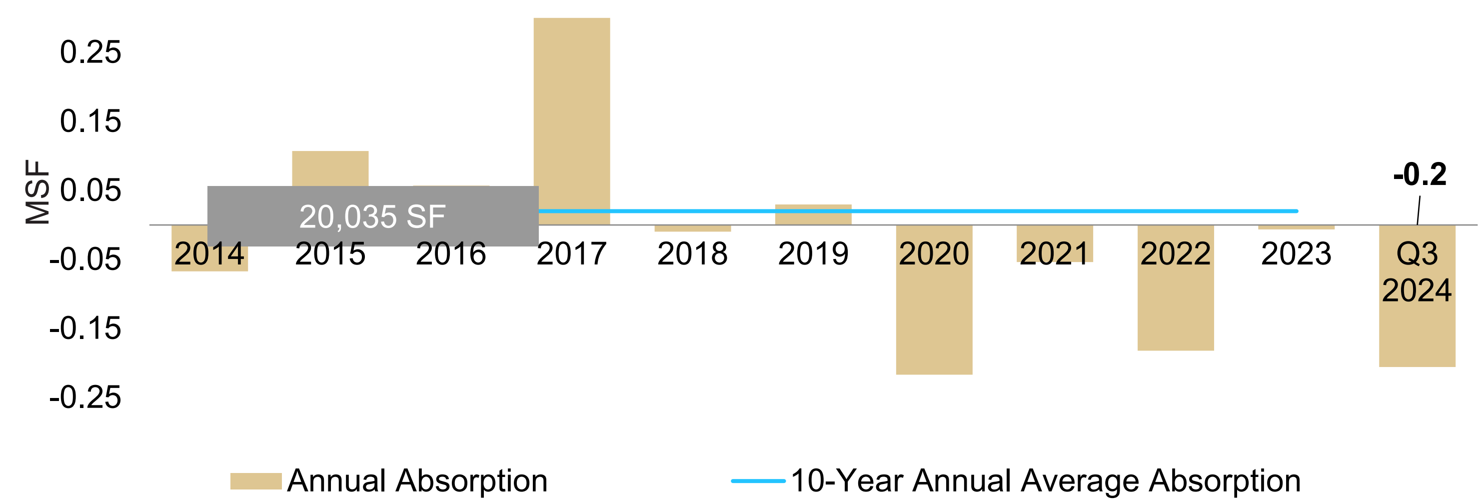
Downtown East

Downtown East vacancy rose to 14.6% in the third quarter of 2024, up from 10.6% a year earlier. A surge in vacancy in class B properties, which had demonstrated some resiliency and been lower than class A since 2022, contributed notably to the rise. Further increases in class A and C vacancy also contributed to negative absorption of almost 206k sf, the second most in the downtown core. Owners of dated office space may consider conversion /redevelopment as leasing trends do not indicate a recovery in the short to mid term.

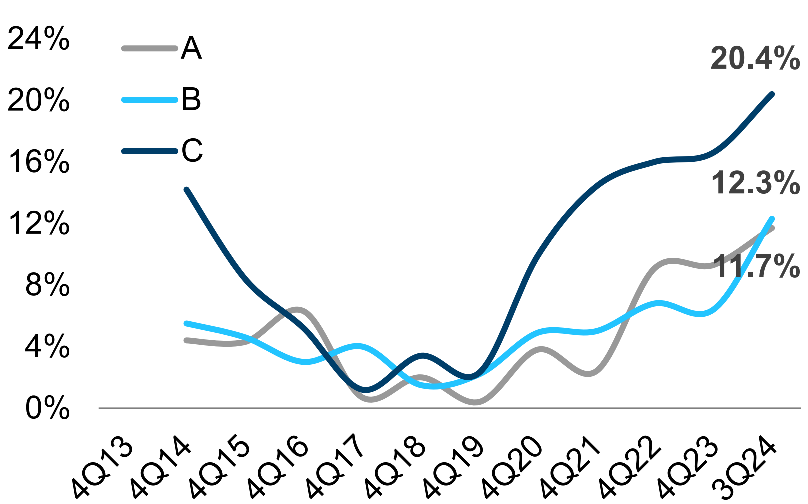
Availability And Vacancy Rates – All Classes



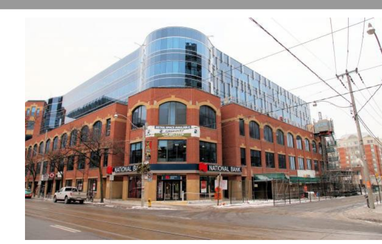
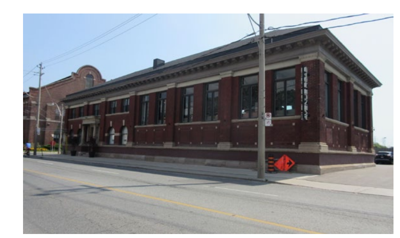
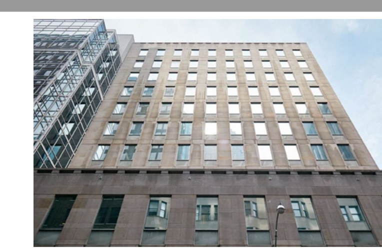
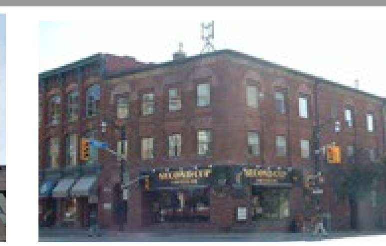
Annual Absorption – All Classes



Vacancy by Class – 2014 to 2024



Third Quarter Deals

351 King Street East	333 King Street East	415 Eastern Avenue	20 Toronto Street	65 Front Street East
Equitable Bank	Bank of Nova Scotia	Metrolinx	Undisclosed	Six Limited
87,330	71,690	16,610	12,290	5,500 SF
Sublease	Renewal	Direct New	Sublease	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

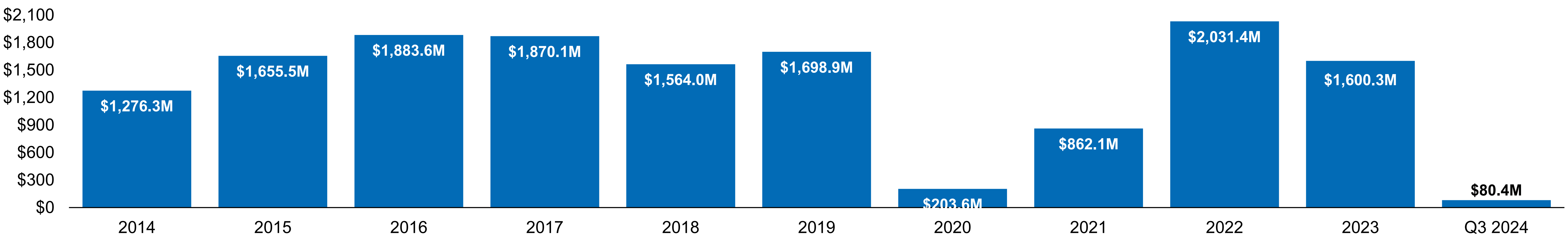
3Q24

Office Sales Activity

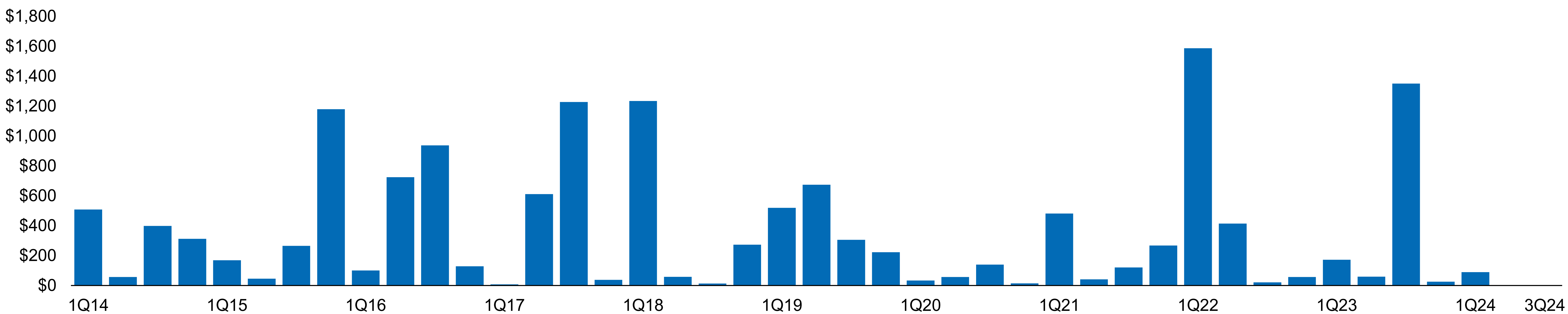
Downtown Toronto Core and Periphery Office Sales Volume Key Takeaways

Downtown core and periphery office sales* (excluding strata) remained extremely constrained through the third quarter of 2024 with just $80.4M in sale proceeds, an astonishing decline in dollar volume as building owners have avoided transacting in the current environment. The $65M sale of 70 York Street in March 2024 and the disposition of Toronto's iconic Flatiron Building for $15.4M in February 2024 are the only non-condo office transactions in the first nine months of 2024, representing a near total pause on office dispositions.

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



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

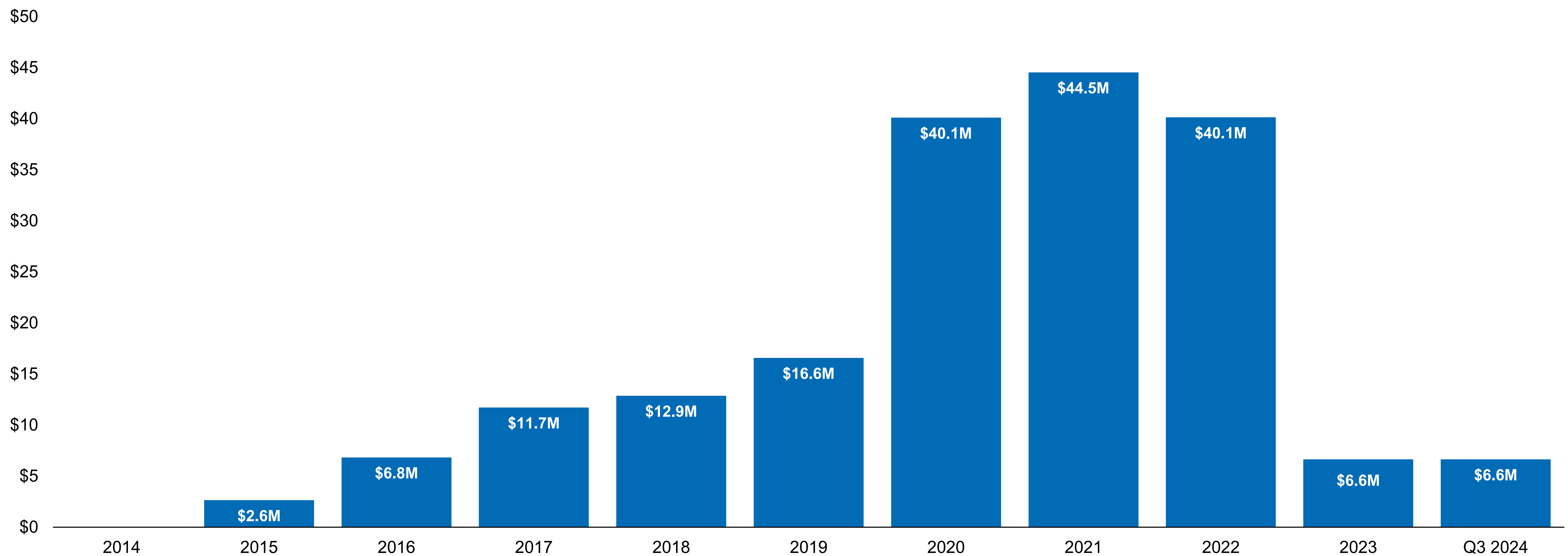


Source: Newmark Research, Altus Data Studio
* Excluding non-arms transactions

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. Unit presales mostly occurred during the period of record low office vacancy recorded in Downtown Toronto between 2017 and early 2020. With vacancy now rising and rents stable or declining, the motivations that typically drive the condo market are largely absent. However, lower capital costs could trigger interest in 2025.

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
#710 – 320 Bay Street
Toronto, ON M5H 4A6
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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