

COVID-19 takes centre stage and disrupts market dynamics; rising rental rates and decreasing availability likely to reverse

The rapid emergence of COVID-19 in March has introduced substantial uncertainty into the office market across the Greater Toronto Area (GTA). As of publication, schools will be closed through at least early May, while non-essential businesses have been ordered to remain closed until at least mid-April, at the earliest, leaving landlords and tenants to make difficult decisions. Although the magnitude is unknown at this point, it is expected that a downward repricing will occur. As the present focus is on managing the economic impacts of COVID-19, it is expected that tenants and landlords will begin to establish a new market equilibrium once attention has shifted.

Rental rates increase across the GTA, downward shift expected in the coming months

Prior to recent events, Central Business District (CBD) gross asking rents continued their upward trend during the first quarter, to \$66.04 per square foot (psf) – increasing 11.7% year over year. Availability in the CBD remained low, at 3.8%, up slightly from 3.2% one year prior. Outside of the CBD, submarkets have experienced more moderate rental rate changes year over year, with average gross rental rates increasing to \$33.40 psf during the quarter – a 1.1% increase year over year. Suburban availability decreased to 9.9%, from 10.2% one year prior, including Midtown, which continues to exhibit the tightest rental conditions outside of the Downtown Core, with availability of 3.6% compared to 4.1% in Q1 2019.

Significant pre-leasing activity continues as EQ Bank set to anchor and acquire naming rights at 25 Ontario Street

Notable pre-leasing continued in the first quarter, with Canaccord Genuity leasing 77,000 square feet (sf) at Brookfield's Bay Adelaide North, where delivery is expected in mid-2022. In Downtown East, EQ Bank has leased a substantial 175,000 sf at First Gulf's development at 25 Ontario Street, expected to deliver in Q2 2022. As a result, the tower will be renamed to EQ Bank Tower. Leasing activity for the quarter totaled 1.9 million square feet (msf), increasing from 1.3 msf in Q1 2019. However, transactions are expected to significantly decline in Q2 as businesses await greater clarity of the impacts of COVID-19 on operations.

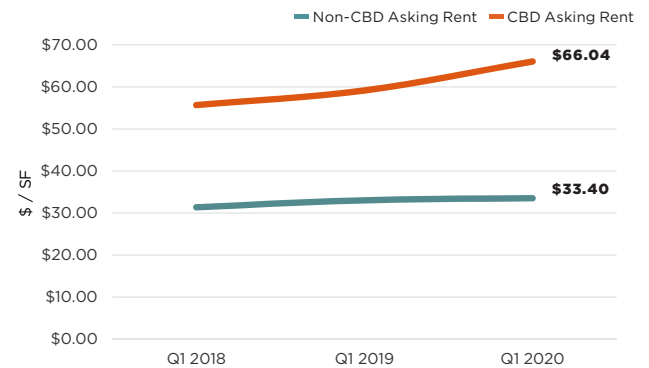
Outlook

- Rental rate growth is likely to slow, as tenants and landlords alike seek clarity into the economic impacts of COVID-19
- Competition for available office space is expected to remain in the long-term, while tenants searching for near-term occupancy may benefit from market uncertainty
- As landlords look to secure tenants ahead of the coming wave of new product, opportunities exist for occupiers to renegotiate and increase efficiency within current premises

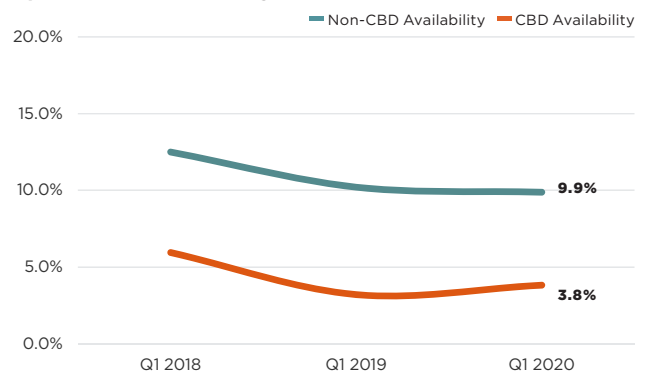
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	184.7 MSF	189.6 MSF	▲
Central Business District Availability Rate	3.2%	3.8%	▲
Central Business District Asking Rental Rate	\$59.13	\$66.04	▲
Non-Central Business District Asking Rental Rate	\$33.04	\$33.40	▲
Quarterly Leasing Activity	1.3 MSF	1.9 MSF	▲

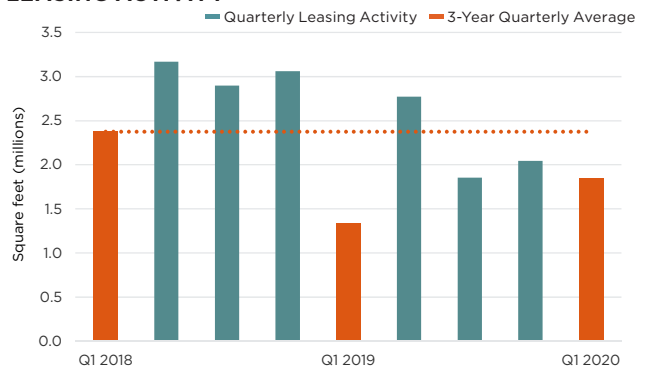
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

65.9%

of major transactions were **relocations**

28.6%

of large transactions occurred in the **Downtown East** submarket

46.6%

Financial Services represented 46.6% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Equitable Bank	175,000	25 Ontario Street	Relocation	Downtown East	Financial Services
Konrad Group	92,000	486 Front Street W	Relocation	Downtown West	TAMI
Ceridian Dayforce	86,612	4110 Yonge Street	Expansion	Toronto North	TAMI
Canaccord Genuity	77,000	40 Temperance Street	Relocation	Financial Core	Financial Services
Spaces	57,000	320 Bay Street	New Location	Financial Core	Coworking
Johnson Inc.	33,000	95 Mural Street	New Location	Markham/Richmond Hill	Financial Services
iQ Offices	32,092	2 Bloor Street E	New Location	Midtown	Coworking
BenchSci	27,470	25 York Street	Relocation	Downtown South	TAMI
Rethink Communications	19,908	720 King Street W	Relocation	King/Dufferin	TAMI
Eyes on Sheppard	11,715	90 Sheppard Avenue E	Relocation	Toronto North	Healthcare

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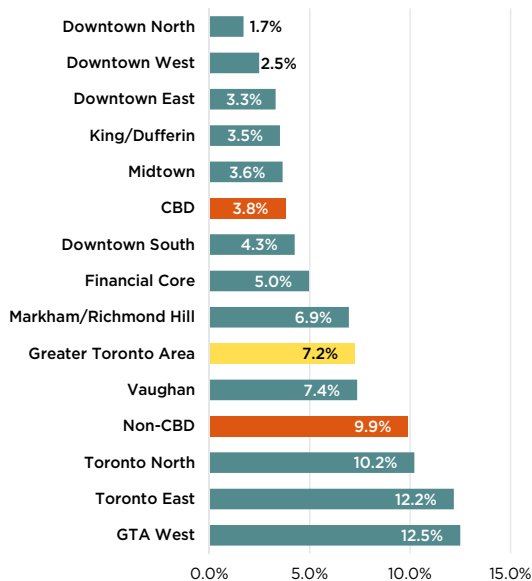
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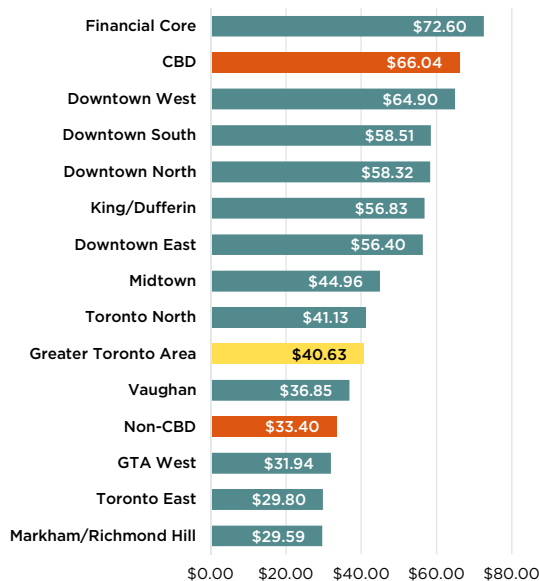
AVAILABILITY RATE COMPARISON

Toronto Submarkets



RENTAL RATE COMPARISON (\$/SF)

Toronto Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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