

COVID-19 disruption continues, market still grappling with uncertainty

With the completion of Q2 2020, the office market has now felt a full quarter of the economic impacts from COVID-19, following the declaration of a State of Emergency in Ontario in mid-March. Significant uncertainty remains as tenants and landlords digest the evolving situation. However, optimism exists within the real estate industry. As reported by numerous landlords, a high percentage of office tenants continued to pay rent, and many of the tenants who were unable to pay were ultimately satisfied by short-term rent deferrals, as opposed to rent forgiveness (a true loss of revenue), creating relative stability for the asset class.

Influx of sublease space contributes to Central Business District's slowing rental rate growth, increasing availability

During the second quarter, Central Business District (CBD) gross asking rents reversed recent trends, settling at \$64.59 per square foot (psf) – a 2.2% decrease quarter over quarter, however increasing 4.2% year over year. In step, availability in the CBD increased to 4.4%, an increase of 60 bps compared to Q1 2020. A total of more than 1.3 msf of space available for sublease - a 70% increase over Q1 2020 levels - has contributed heavily to these figures. Outside of the CBD, where the impact of sublets has not yet reached CBD levels, average gross asking rates were \$33.70 psf at quarter's end – a 2.9% increase year over year. Availability decreased marginally, to 9.8%, broadly unchanged from one year prior.

Leasing activity declines substantially year over year, sublease market in focus as COVID-19 continues

Transaction activity this quarter experienced a 54% decline compared to Q2 2019 as 1.3 msf were leased in total. The decline in activity was an expected result of the insecurity and lack of clarity associated with ongoing COVID-19 disruption. Although an uptick in leasing activity is expected to follow, the timing and magnitude of this boost remains unknown. As the office market continues to find an equilibrium, the sublease market will be a key point of focus. It is expected that new sublets will continue to hit the market, allowing opportunistic tenants to take advantage of temporarily softer market conditions against the backdrop of new supply to be delivered in the next 18-36 months.

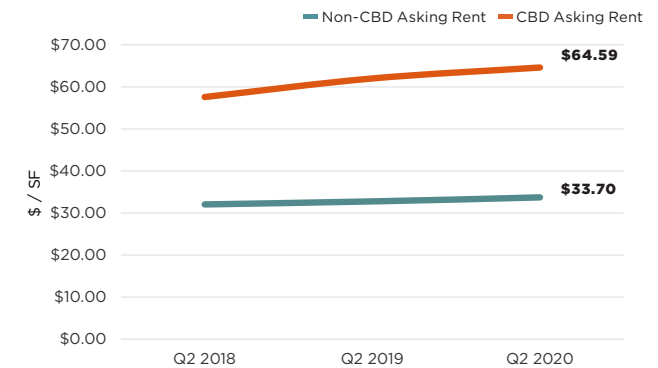
Outlook

- Downward pressure on rental rates is expected to continue in the short-term as new subleases flood the market with a notable chasm beginning between sublandlords and head landlords who are remaining hesitant to lower rental rates
- Competition for available office space is expected to remain intense in the long-term, while tenants searching for near-term occupancy may benefit from market uncertainty
- Opportunities remain to renegotiate and increase efficiency within current premises, while head landlords look to compete with sublandlords and secure tenants ahead of the wave of new product set deliver

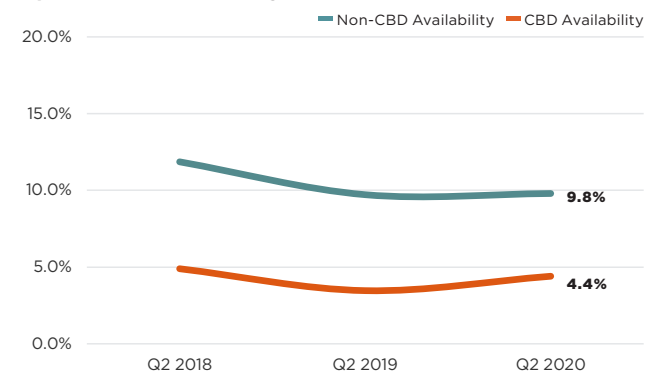
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	187.4 MSF	189.6 MSF	▲
Central Business District Availability Rate	3.5%	4.4%	▲
Central Business District Asking Rental Rate	\$61.98	\$64.59	▲
Non-Central Business District Asking Rental Rate	\$32.75	\$33.70	▲
Quarterly Leasing Activity	2.8 MSF	1.3 MSF	▼

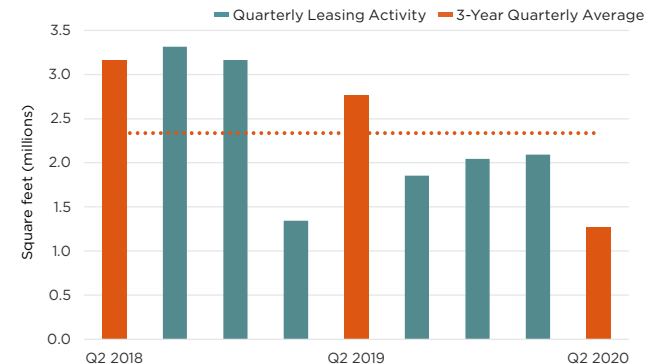
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

40.8%

of major transactions were new locations

41.7%

of large transactions occurred in the GTA West submarket

39.4%

of major transactions were TAMI companies

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Guidewire Software	51,000	5050 Satellite Drive	New Location	GTA West	TAMI
Willis Towers Watson	50,000	130 King Street W	Relocation	Financial Core	Professional Services
Infosys	36,000	5800 Explorer Drive	Relocation	GTA West	TAMI
Registered Nurses Association of Ontario	35,000	4211 Yonge Street	New Location	Toronto North	Associations and Nonprofits
Questrade	29,700	5700 Yonge Street	Expansion	Toronto North	Financial Services
Qualcomm	21,000	55 Commerce Valley Drive W	Expansion	Markham/Richmond Hill	TAMI
triOS College	15,300	2360 Meadowpine Boulevard	New Location	GTA West	Education
First National Financial	13,500	16 York Street	Expansion	Downtown South	Financial Services
Allegis Global Solutions	12,000	1290 Central Parkway	Renewal	GTA West	Professional Services
Fred Victor	10,486	800 Bay Street	New Location	Downtown North	Non-profit

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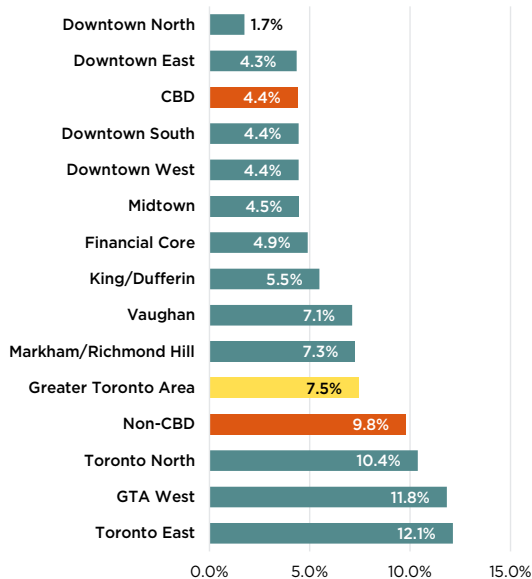
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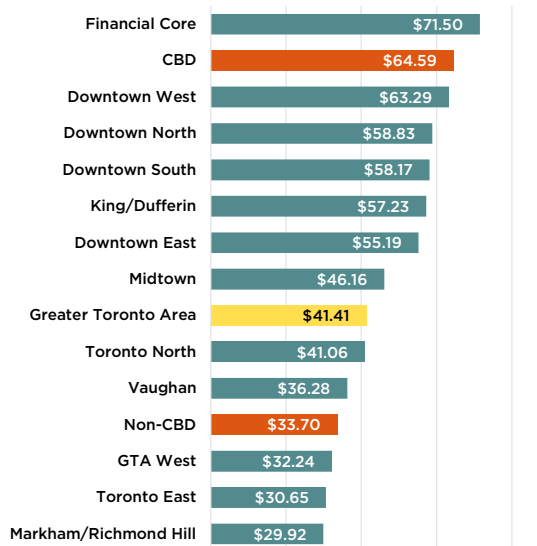
AVAILABILITY RATE COMPARISON

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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills research.

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