

With potential second wave of COVID-19 looming, the Toronto office market sits in "wait-and-see" mode

The Greater Toronto Area (GTA) office market continued to grapple with pandemic impact throughout the third quarter. With more than six months passed since the declaration of a State of Emergency in Ontario in mid-March, tenants and landlords alike still face significant levels of uncertainty looking forward. A partial claw back of the summer's loosened lockdown measures has been put into effect in concert with Government expectations for increasing COVID-19 case numbers in the fall and winter months. Tenant approaches to the pandemic have varied, as many tenants have begun to re-enter the workplace, while others have taken a slower work-from-home focused approach that will last into 2021.

Rental rates decrease, and availability increases in the CBD, driven by growing sublease inventory

During the third quarter, Central Business District (CBD) gross asking rents continued trends established in Q2 2020, settling at \$62.80 per square foot (psf) – a 2.3% decrease year over year. Availability in the CBD increased to 6.3%, an increase of 190 basis points compared to Q2 2020. In large part, increased availability in the CBD is due to the 2.0 million square feet (msf) of space available for sublease, a 160% increase over Q1 2020 levels. Outside of the CBD, average gross asking rental rates were \$34.29 psf at quarter's end – a 4.9% increase year over year. Non-CBD availability increased to 10.5%, up 100 bps from one year prior.

Leasing activity remains at a standstill, sublease offerings yet to persuade prospective tenants

Depressed levels of leasing activity persisted in the third quarter, declining to less than 0.5 msf, while new sublease availabilities continued to flood the market. As of the end of Q3 2020, over 4.4 msf of office space was available for sublease in the GTA, including 20 blocks greater than 30,000 square feet (sf). Of this, approximately 55% of sublease space on the market was located outside the CBD, compared to 70% at the end of Q1 2020. It is expected that leasing activity will increase from these levels in the short-to-medium term, with cost-efficient sublease listings being the first to be leased, as opportunistic tenants take advantage of market uncertainty.

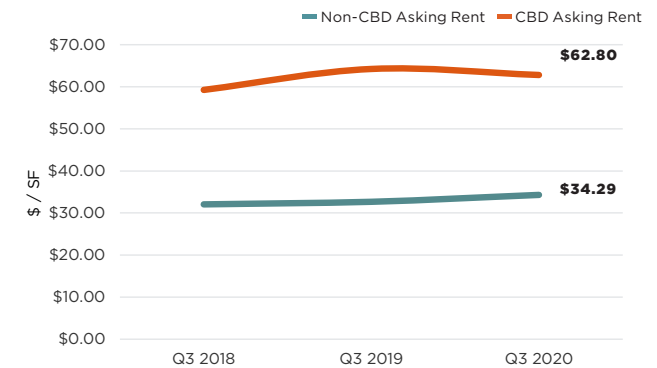
Outlook

- Downward pressure on rental rates is expected to continue in the short term as new, less expensive subleases continue to hit the market
- The notable chasm between sublandlords and head landlords who are remaining hesitant to lower rental rates is expected to continue until prospective tenants in the market prove a preference for the sublease offerings available
- Opportunities remain to renegotiate and increase efficiency within current premises, while head landlords look to secure tenants in the current state of uncertainty and ahead of the wave of new product

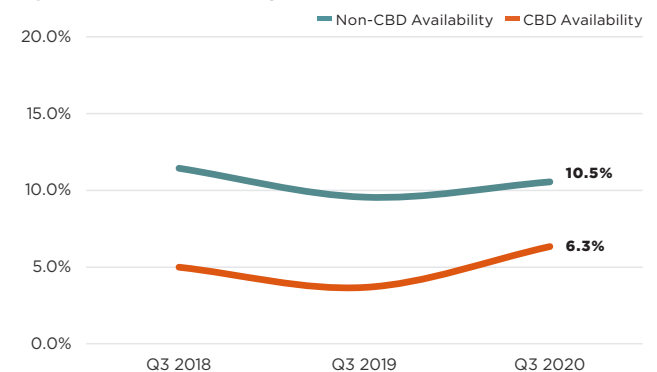
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	187.7 MSF	189.6 MSF	▲
Central Business District Availability Rate	3.7%	6.3%	▲
Central Business District Asking Rental Rate	\$64.25	\$62.80	▼
Non-Central Business District Asking Rental Rate	\$32.68	\$34.29	▲
Quarterly Leasing Activity	1.9 MSF	0.5 MSF	▼

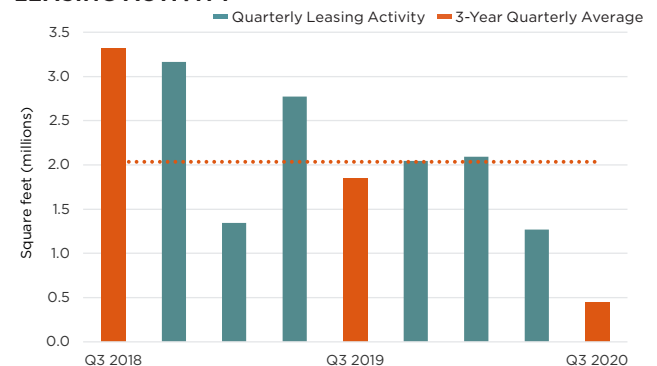
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

51.1%

of major transactions were **renewals** by square footage

30.3%

of large transactions occurred in the **Markham/Richmond Hill** submarket by square footage

51.3%

of major transactions were **Financial Services** companies by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Royal Bank of Canada	62,000	260 E Beaver Creek Road	Renewal	Markham/Richmond Hill	Financial Services
Investors Group	23,000	199 Bay Street	New Location	Financial Core	Financial Services
CIBC	20,000	4110 Yonge Street	Renewal	Toronto North	Financial Services
Sysco	16,800	21 Four Seasons Place	Restructure	GTA West	Retail
Waste Connections of Canada	16,500	6220 Highway 7 W	Relocation	Vaughan	Energy & Utilities
Vision Critical	16,000	365 Bloor Street E	Relocation	Midtown	TAMI
Intrado	15,000	25 York Street	New Location	Downtown South	TAMI
Nuvo Pharmaceuticals	13,000	6733 Mississauga Road	Renewal	GTA West	Pharmaceuticals
John Wiley and Sons	12,600	90 Eglinton Avenue E	Extension	Midtown	TAMI
Victory Verbatim	9,600	222 Bay Street	Renewal	Financial Core	Professional Services

Source Savills Research

For more information, please contact us:

Savills

181 Bay Street
Suite 2810
Toronto, Ontario M5J2T3
+1 416 480 0745

Stan Krawitz

Vice Chairman,
Founder &
Head of Canada
skrawitz@savills.ca

Ken Norris

Senior Vice President,
Branch Manager
knorris@savills.ca

Anders Klein

Regional Research
Director,
Midwest and Central
aklein@savills.us

Jamie Nelles

Research Analyst
jnelles@savills.ca

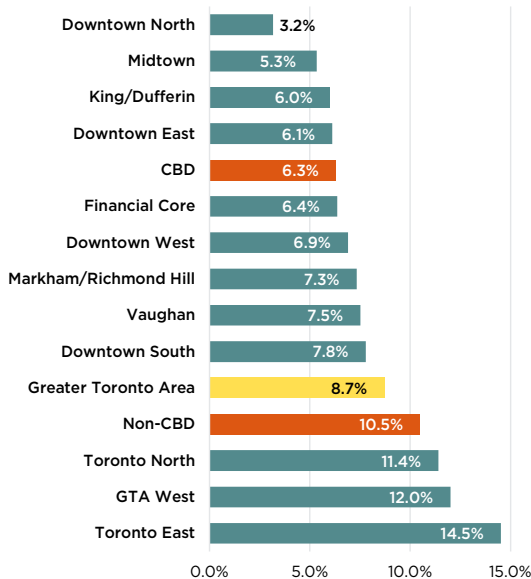
About Savills Inc.

Savills helps organizations find the right solutions that ensure employee success. Sharply skilled and fiercely dedicated, the firm's integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, workforce and incentives strategy, workplace strategy and occupant experience, project management, and capital markets, Savills has elevated the potential of workplaces around the corner, and around the world, for 160 years and counting.

For more information, please visit Savills.us and follow us on LinkedIn, Twitter, Instagram and Facebook.

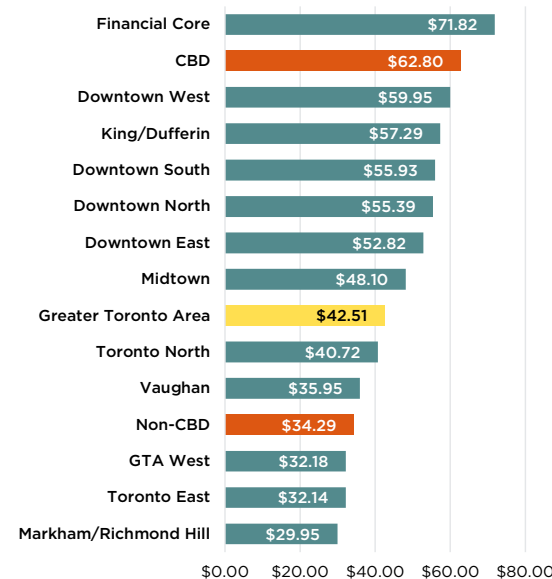
AVAILABILITY RATE COMPARISON

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.

Copyright © 2020 Savills

