

GTA 905/416 Charts: Office Real Estate (2006-2015)

City of Toronto is the mecca of new office space and where many tenants want to be

The office real estate market remains robust in the Greater Toronto Area (GTA). However, taking a closer look at the two primary areas (city of Toronto and 905 area) that make up the GTA tells a different story. While traditionally, the city of Toronto has boasted a lower vacancy rate than the 905 area, more recently the gap between the two area's vacancy rates has grown considerably from 1 percentage point in 2006-2008 to 8 percentage points by 2015.

The office real estate market is soft within the 905 area. Vacancy rates are the highest in Halton and Peel regions, rising to 21.5%, and 17.9% in 2015, respectively, while York region recorded 14.1%.¹ In comparison, Toronto's vacancy rate dipped to 7.3% in 2015. A vacancy rate in the 8%-10% range is indicative of a balanced office market.

Demand in the 905 area has slowed down considerably in the latter half of the decade. In the past five years, the 905 area accounted for 883,424 sq. ft. of absorption, while the city of Toronto recorded 3.4 million sq. ft., showing a shift in tenant demand to the city of Toronto from the 905 area.

At the end of 2015, the city of Toronto was characterized by a low vacancy rate, a considerable amount of new office space under construction (3.8 million sq. ft.), and a higher average asking rental rate (\$19.32/sq. ft.). In contrast, the 905 area was characterized by high vacancy rates (rising since 2008 to 16.0% in 2015), fewer new office construction projects (1.6 million sq. ft.), and a relatively flat average asking net rent (\$16.06/ sq. ft.). The juxtaposition between these two areas shows that the city of Toronto is driving the GTA's office real estate market.

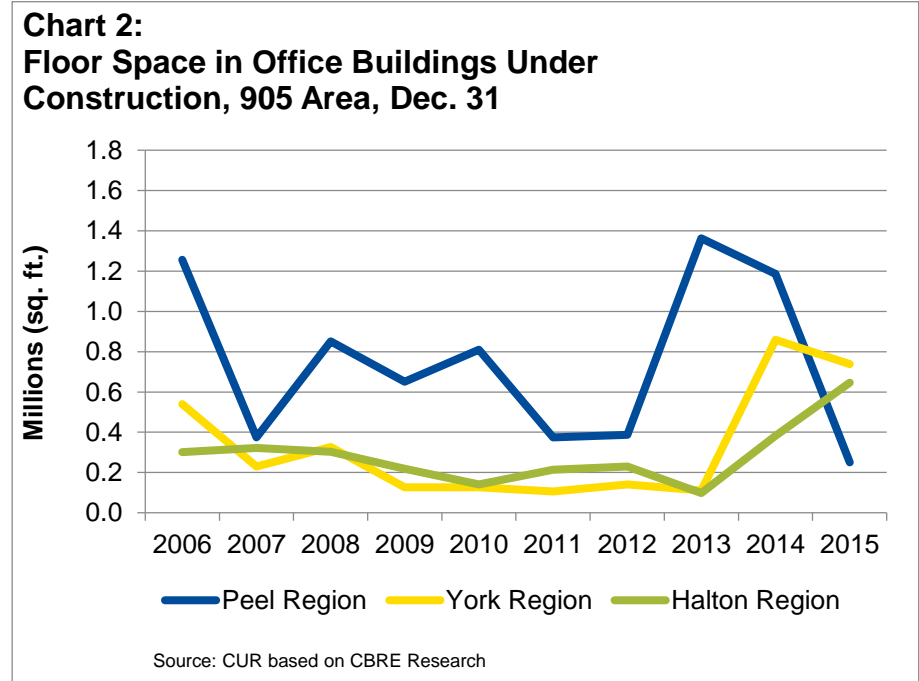
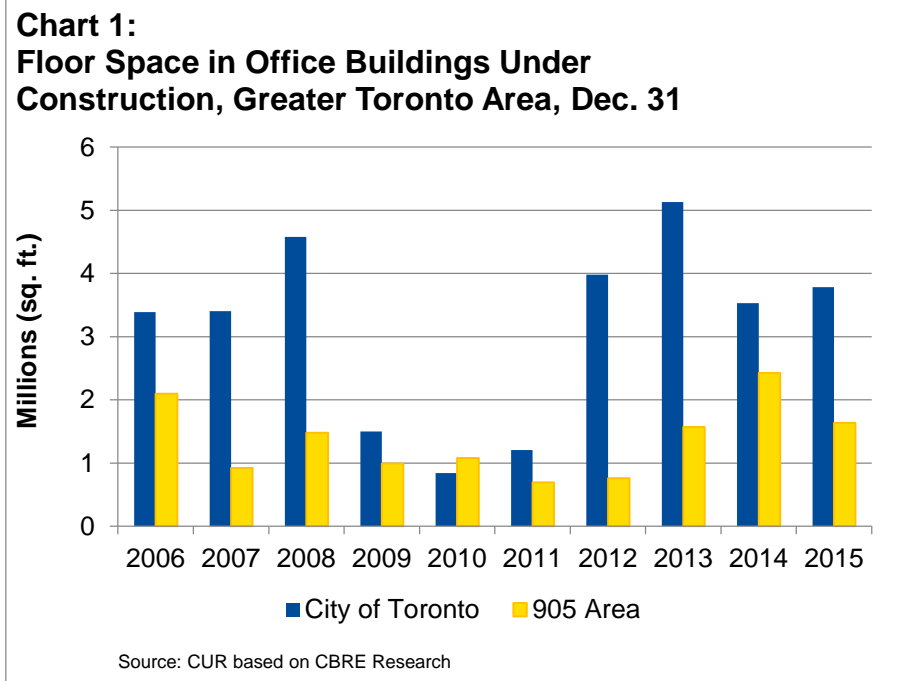
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¹ Office market data in this report has been provided by CBRE. CBRE does not survey Durham region as the office market in Durham region is very small.

City of Toronto leads the way for new office space under development in the GTA

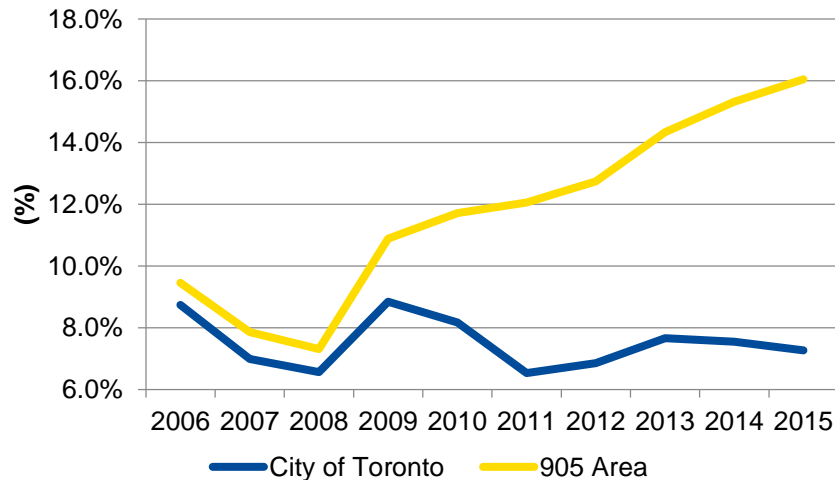
- The city of Toronto has outpaced the 905 area for new office space development every single year during the past decade with the exception of 2010, a time when the total GTA office space construction was very low.
- At the end of 2015, Toronto’s 3.4 million sq. ft. of office space under construction was largely in the downtown area, which made up 70% of the GTA total. Notable projects under construction included: Bay Adelaide Centre East, One York, and the Globe & Mail Centre.
- Peel region, with the largest office market in the 905 area, saw a sharp drop in office space under construction dropping from 1.2 million sq. ft. at year end 2014 to 250,000 sq. ft. at the end of 2015 with the completion of new buildings.
- New office space in both Halton and York regions reached decade highs in 2014 and 2015. The York region activity was centred in the Vaughan Corporate Centre.



Divergence in office market conditions: Vacancy rate in the 905 area reaching a 10-year high vs. Toronto's continued low vacancy rate

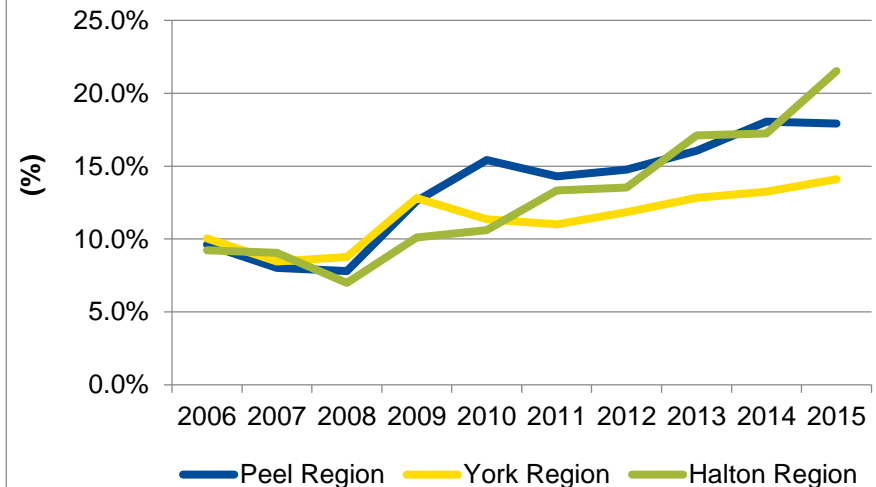
- The gap between vacancy rates in the city of Toronto and the 905 area had widened significantly from a 1 percentage point gap in 2006-2008 to more than 8 percentage points by the end of 2015.
- The office vacancy rate in the 905 area is currently at a decade high of 16.0%. Toronto at 7.3% at the end of 2015 has stayed below 8% during most of the past decade. A vacancy rate of 8%-10% is generally regarded as a balance market.
- Halton and Peel regions experienced the highest vacancy rates since 2011 with Halton recording the fastest rise in vacancy since 2008 to 21.5% by 2015.
- York region posted the lowest vacancy rate of the three regions in the 905 area since 2011, though its vacancy rate of 14.1% still indicates the region has a tenants' market.

**Chart 3:
Vacancy in Office Buildings, Greater Toronto Area, Dec. 31**



Source: CUR based on CBRE Research

**Chart 4:
Vacancy in Office Buildings, 905 Area, Dec. 31**

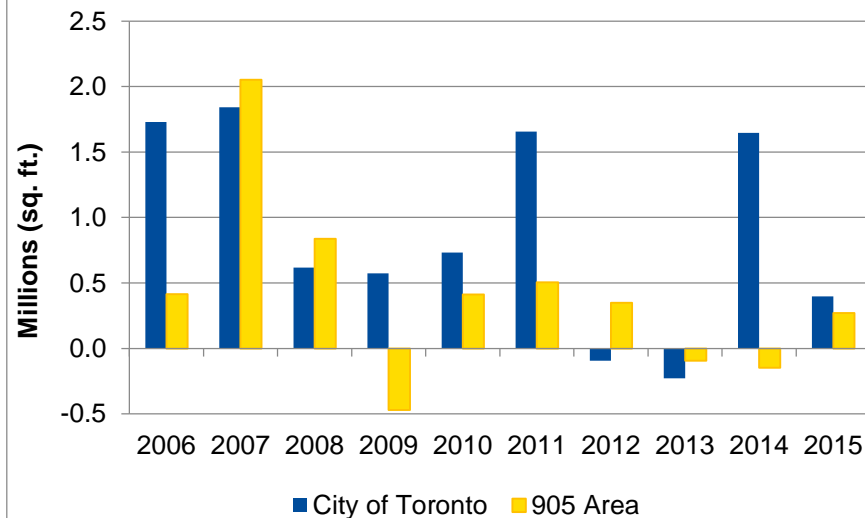


Source: CUR based on CBRE Research

Office tenants shifting to Toronto's downtown and away from the suburbs

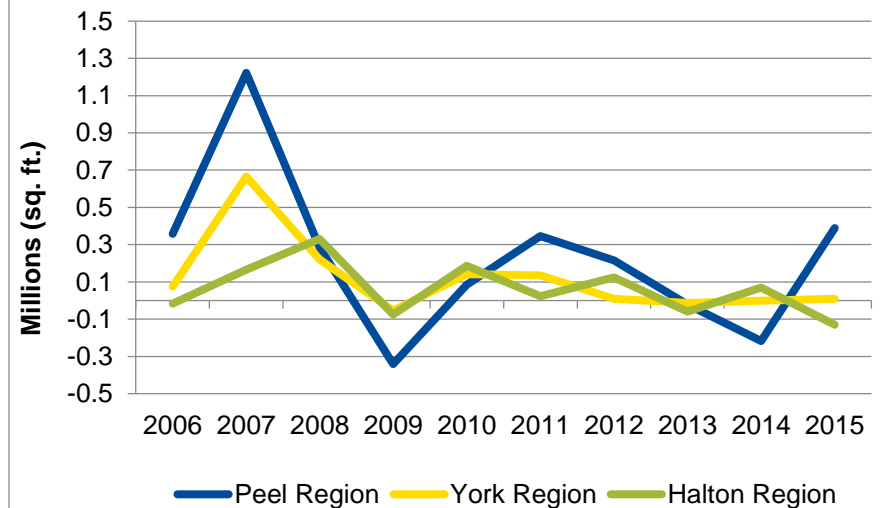
- Over the past decade annual absorption (demand) for office space in the GTA has been volatile, which is mainly attributed to the completed new office buildings in Toronto that are quickly being occupied.
- In the last five years, Toronto has absorbed 3.4 million sq. ft. in total, while the 905 area absorbed 883,424 sq. ft., illustrating much stronger demand for office space in Toronto as opposed to the rest of the 905 area.
- Within the 905 area, Peel region's office market accounts for 52.5% of the total office stock. Absorption in Peel has been trending downwards over the past decade though it picked up in 2015.
- The absorption of office space in York and Halton regions continued to be weak in 2015.

Chart 5:
Annual Absorption of Office Floor Space,
Greater Toronto Area



Source: CUR based on CBRE Research

Chart 6:
Annual Absorption of Office Floor Space,
905 Area

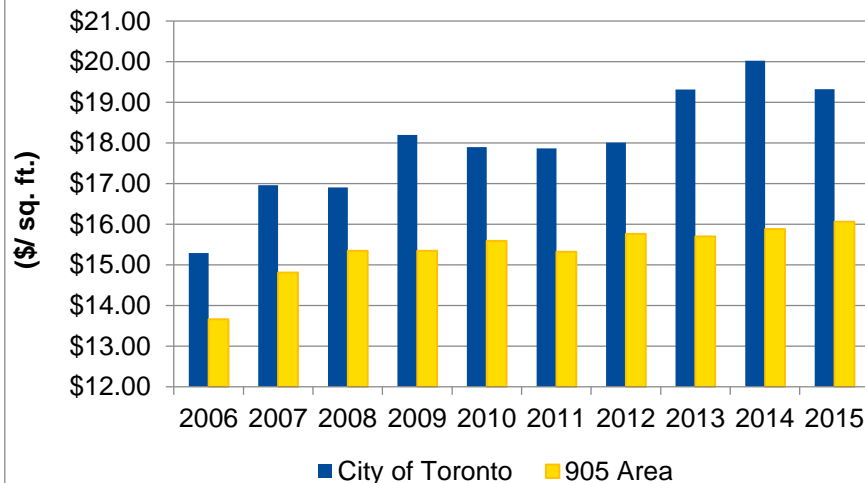


Source: CUR based on CBRE Research

City of Toronto's office market is robust in spite of higher rents than 905 area

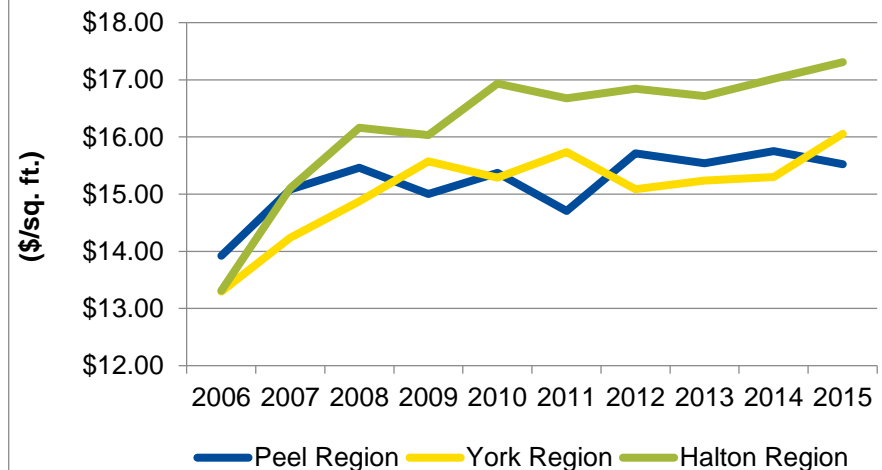
- Average asking net rents for available office space are not only higher in the city of Toronto, but have been rising faster than the 905 area, in response to strong demand.
- In 2015 Toronto saw a slight decline in its average asking net rents dropping to \$19.32/sq. ft. due to an aberration resulting from an existing Class B building becoming entirely vacant.
- Average asking net rents in the 905 area has been fairly flat in recent years – in 2015, the average asking rent in the 905 area was \$16.06/sq. ft., \$3.26 less than the city's \$19.32/sq. ft.
- Within the 905 area, asking rents have been recently rising in York and Halton regions, climbing to \$16.05/sq. ft., and \$17.31/sq. ft., respectively, in 2015. While Peel region showing a decline in net rents (\$15.53/sq. ft.).

Chart 7:
Average Asking Net Rents for Office Space,
Greater Toronto Area, Fourth Quarter



Source: CUR based on CBRE Research

Chart 8:
Average Net Rents of Office Space,
905 Area, Fourth Quarter



Source: CUR based on CBRE Research

Data Source and Technical Notes

All data in this document is provided by CBRE Limited (CBRE). CBRE publishes quarterly statistics on the office market (buildings greater or equal to 1,000 sq. ft.) for the following areas: city of Toronto, Peel region (Mississauga and Brampton), Halton region (Oakville and Burlington), and York region (Markham, Richmond Hill, and Vaughan).

It should be noted that in the city of Toronto the following areas denoted by CBRE were included: Downtown, Midtown, 427 and Bloor Islington, Airport Strip, Scarborough, DVP South, DVP North, North Yonge, and North York West

CBRE does not produce office market statistics for Durham region. The office market in Durham is small compared to the other three regions making up the 905 area. For example, according to CBRE at the end of 2015 Peel region had a total stock of 21.4 million sq. ft. office building floor space, York had 12.9 million sq. ft. and Halton had 6.5 million sq. ft. Published Colliers data puts the Durham region stock of office building space at 1.9 million sq. ft. at the end of the fourth quarter of 2015.

Annual Absorption: The sum of net absorption, which is the change in occupied square feet from one quarter to the next.

Average Asking Lease Rates: Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Year-End Under Construction refers to buildings which have begun construction as evidenced by site excavation or foundation work by the end of fourth quarter of the respective year.

Vacancy Rate is calculated by determining the total existing building area which is physically vacant or immediately available, which is then divided by the Net Rentable Area (The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas).