INVESTMENT FORECAST

Office

Toronto

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Strong Pre-Leasing During Period of Uncertainty Highlights Shift to Quality

Downtown and Midtown to lead the recovery. Canada's largest office market is beginning to turn the corner, with the proportion of available sublease space dipping in late 2021. Some of that sublease space has been absorbed by new firms, while other companies recalled the space they had previously made available. Nevertheless, concerns related to new variants of COVID-19 are delaying the continuation of some of these trends, but well-positioned firms are still showing interest in assets currently under construction. Pre-leasing of higher quality builds is driving absorption, limiting the pace of vacancy increases in suburban GTA, Midtown and Downtown. Some of these areas are starting to record positive net absorption on a quarterly basis, permitting asking rents to hold firm, or even elevate, at amenity-rich assets in the city centre. Despite this, some owners of lower-tier CBD assets and suburban buildings are increasing concessions in an effort to attract additional tenants to available floorplans, which is pulling down on the metrowide average.

Toronto Office Investment Trends

- Investors slowed trading activity in 2020 and early 2021, but the fourth quarter of last year showed renewed confidence, as sales volume was higher than in the final quarter of 2019.
- Uncertainty surrounding COVID-19 variants and the potential for longer-term adoptions of remote work contributed to the average sale price dropping slightly in 2021, down to $453 per square foot.

2022 Office Trends

5.6 MILLION SQUARE FEET
will be completed

CONSTRUCTION:

Deliveries ramp up in 2022 as several sizable projects finalize. The largest is The Well — a 1 million-square-foot building in Toronto's fashion district, mostly pre-leased.

70 BASIS POINT
increase in vacancy

VACANCY:

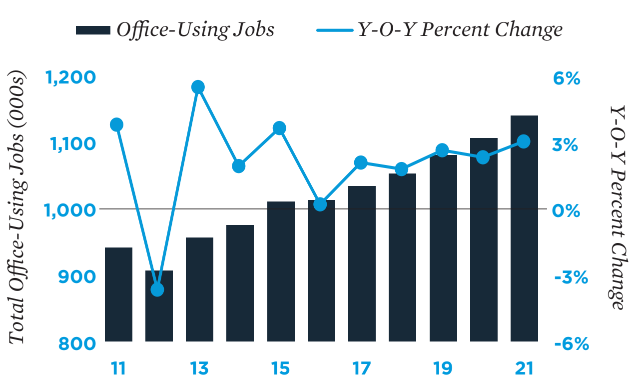
Net absorption will be positive, following 2021's losses. A large batch of completions, however, leads vacancy to climb, but at a slower pace than last year.

1.0% INCREASE
in asking rent

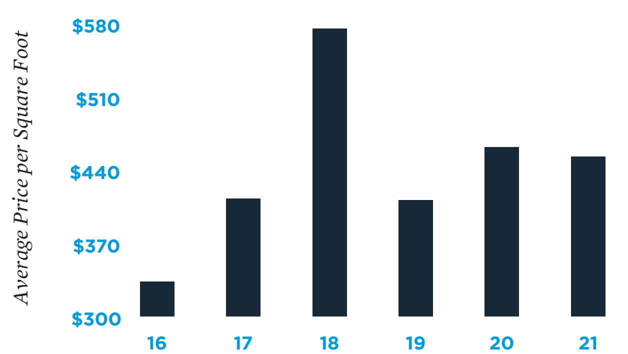
RENT:

An array of new Class A space should boost the average marketed rent, but concession usage elsewhere will stunt growth. The GTA average ticks up to $36.05 per square foot.

Office-Using Jobs Trends



Sales Trends



Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Toronto office:

Mark Paterson *Regional Manager*

200 King Street W, Suite 1210
Toronto, Ontario M5H 3T4
Tel: (416) 585-4646 | mpaterson@marcusmillichap.com