INVESTMENT FORECAST

Office
Toronto

IPA INSTITUTIONAL PROPERTY ADVISORS

2025

Falling Interest Rates Set to Spark Optimism Amid Ongoing Return to Office

Vacancy rate to stabilize as demand improves. Five years of subdued demand due to the hybrid work model has caused Toronto's office vacancy rate to climb by over 800 basis points since the end of 2019. Combined with a wave of newly completed projects, this led to roughly 27 million square feet of unoccupied space on market by the end of 2024. This year, however, metro fundamentals are expected to take a turn for the better. According to Strategic Regional Research Alliance, in late 2024, Toronto's office utilization reached its highest level since the onset of the pandemic. This positive trend is set to continue into 2025 as more employees return to the workplace. Moreover, declining interest rates will support business expansion – especially in the metro's tech and financial sectors – stimulating office demand. Adding to these positive developments, Ontario's government recently announced plans to purchase downtown office buildings for its own use. This will assist with reducing vacant space and bolstering investor confidence over the coming years. These demand tailwinds are set to rouse more optimism in Toronto's office sector, with vacancy projected to stabilize by year-end for the first time since 2019 and rents expected to inch higher as a result.

Investment Trends

- Given elevated vacancy rates, buyers are now more cautious when acquiring office assets. A key indicator under scrutiny is whether tenants within the building have finalized right-sizing efforts.
- Following a notable downturn in larger transactions in 2024, investor sentiment is likely to grow over the year ahead due to rising space demand, higher cap rates and lower borrowing costs.

2025 Office Trends

2 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:

Toronto's historic construction cycle is winding down, as elevated vacancy amid hybrid work has curbed development. The largest project set for completion is CIBC Square II in Toronto's financial core.

50
BASIS POINT
increase in vacancy

VACANCY:

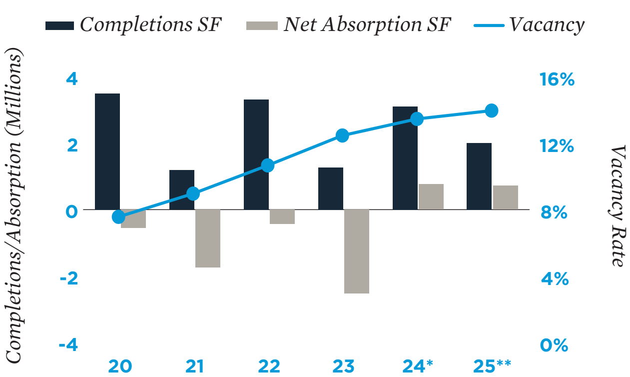
While dwindling construction will help stabilize the vacancy rate around 14 per cent by year-end, the market is still expected to see strong supply growth. With these deliveries not fully pre-leased, vacancy could inch higher.

1.8%
INCREASE
in asking rent

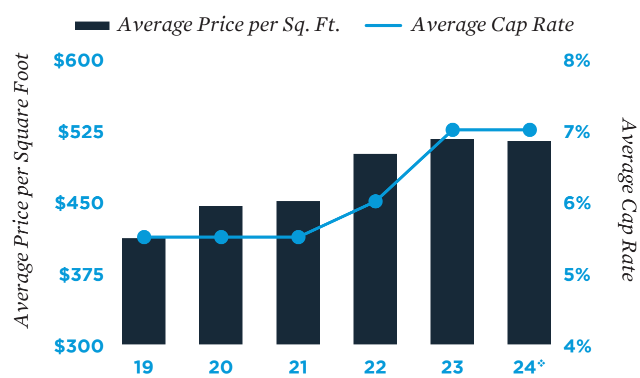
RENT:

As the office vacancy rate stabilizes by year-end, rents are forecast to increase marginally after last year's mild dip. The average asking rate is expected to near $20 per square foot by the end of 2025.

Supply and Demand



Price and Cap Rate Trends



** Estimate ** Forecast; ⁺ Trailing 12 months through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

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 2025. 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 guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

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