INVESTMENT FORECAST

IPA | INSTITUTIONAL PROPERTY ADVISORS

Office

Toronto

2026

Dwindling Supply Pressures and Renewed Demand Set Stage For Office Recovery

Office market is turning the corner. Vacancy climbed to 14 per cent last year after approaching all-time lows just prior to the pandemic, with downtown at only 2.0 per cent. This drastic rise reflected a historic development cycle that began in 2019 amid tight market conditions, just as hybrid work sharply reduced space needs. Now, with this wave of product largely delivered, the city's once-robust build pipeline is tapering off, with virtually no large-scale projects expected outside of the fully pre-leased CIBC Square. At the same time, demand is improving. Major banks, telecommunications firms and local levels of government have expanded return-to-office mandates, helping lift occupancy and leasing activity in the core. Class AAA vacancy is extremely tight as tenants consolidate into higher-quality space, while limited new supply will likely prompt spillover demand into high-quality suburban assets as well as Class A and select Class B buildings downtown. With Toronto's role as Canada's financial and business hub anchoring long-term demand, vacancy is expected to stabilize and then modestly improve over the course of 2026 as supply constraints take hold and corporate space requirements gradually recover.

INVESTMENT TRENDS

- Over the past year ended September, investment was muted. Dollar volume hit $1.2 billion and total sales were under 200. This was below the 10-year average of $3 billion and 213 deals.
- While sales are down due to soft fundamentals and tighter capital markets, opportunistic investors are slowly reentering the market to position themselves for the next demand cycle.

2026 Office Trends

2.0 MILLION SQUARE FEET
will be completed

CONSTRUCTION:

While deliveries will rise this year, it is solely due to the first quarter completion of CIBC Square Phase II. This project is fully pre-leased and marks the end of Toronto's historic build cycle.

50 BASIS POINT
decrease in vacancy

VACANCY:

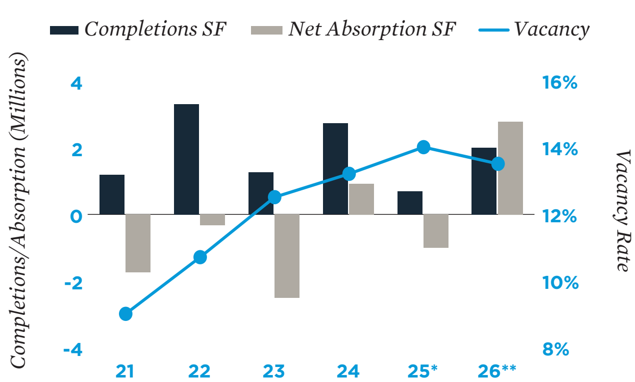
While flight to quality dominates, the vacating of older space and lingering trade risks will cap downward momentum on vacancy. Even so, dwindling new supply may pull the rate down to around 13.5 per cent.

0.8% INCREASE
in asking rent

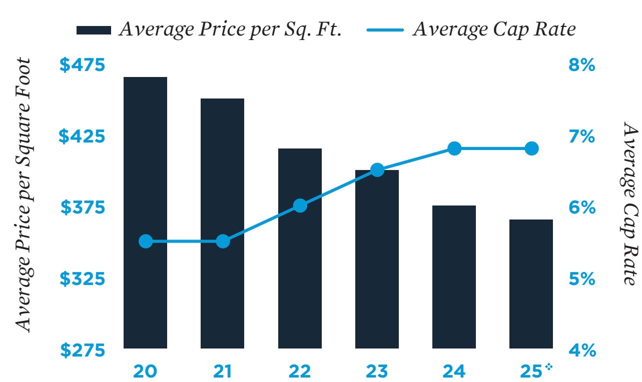
RENT:

The average asking rent has largely held stable since 2019, with that trend expected to continue this year. Net effective rents, especially in higher-quality spaces, are starting to improve as space demand picks up.

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 2026. 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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