

MARKET REPORT

Office
Southwestern Ontario Metro Area

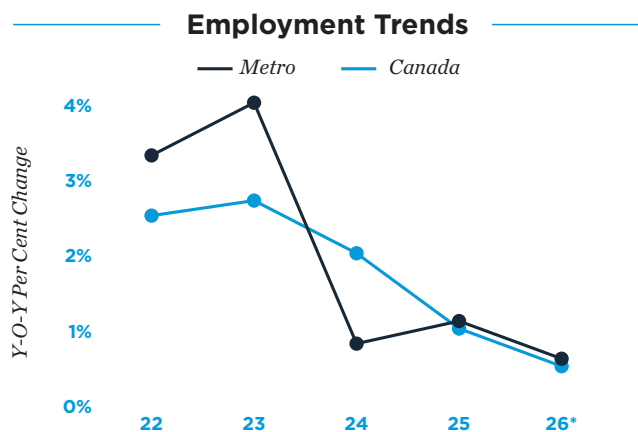
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2Q/26

Vacancy Falls on Demand Recovery and Adaptive Reuse Projects

Improving office needs support near-term outlook. Smaller, lower-quality inventory dominates Southwestern Ontario's office sector, with Class B and C properties accounting for roughly 60 per cent of total space. As a result, the tenant base primarily comprises small- to medium-sized enterprises, while tech firms also occupy a notable share of space in the Waterloo submarket. Leasing activity in Southwestern Ontario is driven more by affordability, accessibility, and parking availability, unlike in larger metros, where demand is shifting toward higher-quality assets. Strong leasing momentum observed last year, which drove a 440-basis-point decline in the vacancy rate, is expected to continue in 2026, supported by the return-to-office trend and improving clarity around cross-border trade in the second half.

Office conversions help lower vacancy. The metro has seen limited completions since 2023, consistent with national trends. Elevated downtown vacancy has created opportunities for office-to-residential conversions, driving a shift toward adaptive reuse. Notable projects include Sifton Properties' 94-unit development at 195 Dufferin Avenue and Bluevale Capital's 23-unit project at 376 Richmond Street in London. Aided by the city's Community Improvement Plan, which offers forgivable loans of up to \$35,000 per unit, these conversions — alongside improving demand — are expected to support a gradual normalization of vacancy over the longer term.



* Forecast
Sources: Altus Data Solutions; CoStar Group, Inc.; Oxford Economics; Statistics Canada

Office 2026 Outlook



**10,000
JOBS**
will be created

EMPLOYMENT

Slower labour force growth and ongoing trade-related pressures on the manufacturing sector are expected to temper job growth in Southwestern Ontario, with the unemployment rate projected to remain above 8.0 per cent through 2026.



**16,800
SQ. FT.**
will be completed

CONSTRUCTION

A 16,800-square-foot Class A building in Guelph is the only completion expected this year. Development is increasingly shifting toward conversion projects — especially in London — supported by favourable public policy.



**40
BASIS POINT**
decrease in vacancy

VACANCY

The vacancy rate has declined since peaking at 14.4 per cent in the third quarter of 2024. While it rose back above 10 per cent in the first quarter of this year, improving demand is expected to push vacancy lower again by year-end.

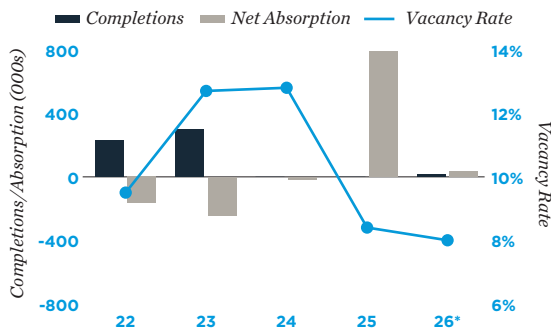


**0.5%
DECREASE**
in asking rent

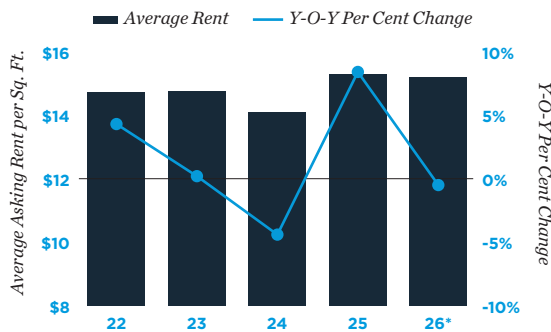
RENT

Despite expectations of improving leasing momentum, office rents are projected to remain largely flat, as the abundance of lower-quality space continues to limit upward pressure on rates. As a result, owners of older assets are likely to maintain competitive pricing to attract and retain tenants.

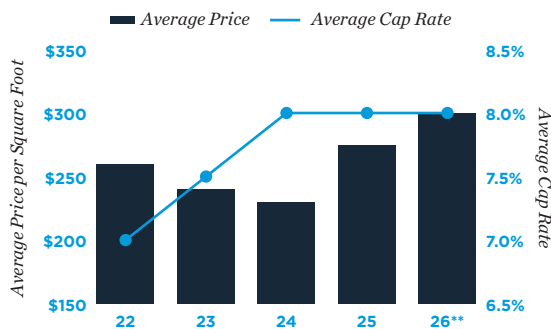
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

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

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1Q 2026: Trailing 12-Month Period



CONSTRUCTION

0 sq. ft. completed

- Phase 3 of Breithaupt Block — a 300,000-square-foot project — was the last major addition, completed in the second quarter of 2023 in Kitchener.
- Kitchener was the first submarket where office conversions gained traction, with London, Hamilton, and Windsor subsequently following suit. There are currently three major office-to-residential projects under redevelopment.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- Consecutive quarters of positive net absorption drove vacancy down to 8.4 per cent to end 2025. However, softer demand in the first quarter of this year pushed the rate back up to 10.2 per cent.
- Guelph and Waterloo were the only submarkets to record year-over-year declines in vacancy by March 2026, more than offsetting increases elsewhere.



RENT

2.6% decrease in the average asking rent Y-O-Y

- The average asking rent rebounded by 8.4 per cent last year alongside nearly 800,000 square feet of net absorption. However, this momentum reversed in the first quarter, as more than 300,000 square feet of space was vacated.
- Despite the overall annual decline, office rents continued to rise in Guelph, London, and Waterloo, some of the region's largest submarkets.

Investment Highlights

- Investor activity strengthened in the first quarter of 2026, with the trailing 12-month transaction volume rising 22 per cent to its highest level since the second quarter of 2023. Growth was driven primarily by a 167 per cent year-over-year increase in small deals valued at under \$10 million. This pickup in sales signals early signs of renewed confidence in the metro's office sector, following robust space absorption throughout 2025.
- Hamilton, Kitchener, Guelph, St. Catharines, and Waterloo collectively accounted for 70 per cent of total transactions over the trailing 12-month period ending in March, with most of these submarkets recording a notable year-over-year uptick in investor activity. However, the largest transaction by dollar volume was Toronto West Professional Centre Inc.'s \$30.5 million acquisition of a Class B office building in Niagara Falls.
- The average sale price climbed 9.1 per cent in the first quarter compared to the 2025 average, far outpacing a 1.6 per cent gain at the national level. However, cap rates remained elevated at around 8.0 per cent, reflecting continued risk premiums and still-cautious investor sentiment.