

MARKETBEAT



GREATER TORONTO AREA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

2Q11

ECONOMY

Canada's GDP growth remained strong at 3.9% during the first quarter of 2011, up from 3.1% over the previous three months. However, the European debt crisis and a struggling US economy began to take a toll in the second quarter, with nation-wide growth slowing to 1.8%. Ontario remains in an expansionary phase, with GDP growth expected to hover around 2.9% through 2011, despite the dampening effect of the strong Canadian dollar on US exports. The Bank of Canada has also signaled that it will begin to increase borrowing costs to curb inflationary pressures.

OVERVIEW

Downtown Toronto continues to experience strong demand strength, though vacancy only fell to 5.1% from 5.3% last quarter. The fact that vacancy fell during a quarter in which 500,000 square feet (sf) of space returned to market speaks to the confidence of Canadian business and the growing allure of Downtown Toronto. Tenants continue to approach their space needs with a sense of cautious optimism, particularly given recent economic news from south of the border and the continued financial crisis in Europe. While we see the market shifting into a more moderate expansionary cycle, demand will continue to be characterized by growth.

The downtown market is tight and rental rate pressure is being experienced across all asset classes subject to individual asset managers and their careful consideration of the amount of space returning to market. Cushman & Wakefield is tracking in excess of two million square feet of downtown space that has yet to return to market. This will help to create balance in a market that is tipping in the favour of landlords. Well-located, low gross rate space is becoming hard to come by in downtown Toronto, which is one good reason why the downtown skyline is likely to be altered by new construction once again.

Suburban markets remain relatively flat from a vacancy perspective, but their underlying dynamics are also more action-packed. Demand is strengthening, though it is being partially offset by consolidations that displace space into the market. While overall vacancy in the GTA West rose marginally, the vacancy rates along the Hwy 427 corridor and the airport market fell to 7.2% and 12.2% from 8.7% and 14.7% respectively, marking a significant turning point in demand patterns.

OUTLOOK

Downtown Toronto continues to outperform expectations and a number of deals in the works are chipping away at the remaining vacancy. Still, the transition to a landlords' market will be moderated by a significant amount of space expected to return to market over the next two years. Rental rate pressure is a key story of the second quarter and there is talk of one or two development announcements by summer's end.

Suburban markets passed their vacancy peak this cycle, though acquisitions, consolidations and aggressive workplace strategies will continue to displace space and reduce occupancy footprints. While it will take a few more quarters to gain full expansionary traction, demand growth is expected to take hold by year's end.

BEAT ON THE STREET

"The pace of growth has moderated over the past quarter, though demand is likely to remain expansionary in nature"

- Paul Morse,
Senior Managing Director, Office Leasing

ECONOMIC INDICATORS

	2009	2010	2011F
GDP Growth	-3.6%	3.4%	2.9%
CPI Growth	0.4%	2.9%	3.2%
Unemployment	9.0%	8.6%	8.2%
Employment Growth	-2.4%	1.6%	1.8%

Source: TD Bank Financial – TD Economics Provincial Economic Forecast (June 2011)

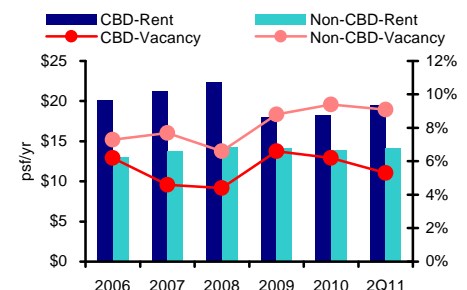
MARKET FORECAST

VACANCY may rise over the short term in Downtown Toronto as over 2 msf is set to return to market, but demand will show moderate strength. ↑

ABSORPTION will remain positive, but will become more moderate by the fourth quarter. ↑

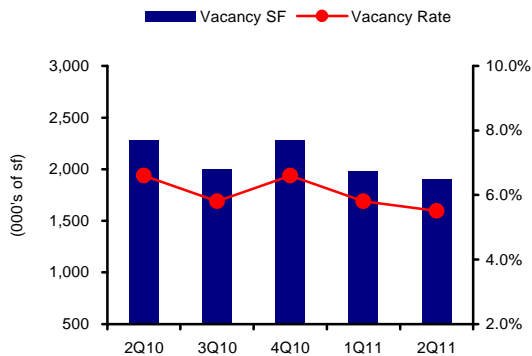
SUBLET SPACE should decline, driven by tenants looking for the best options within suburban markets. ↓

OVERALL RENT VS. VACANCY



FINANCIAL CORE

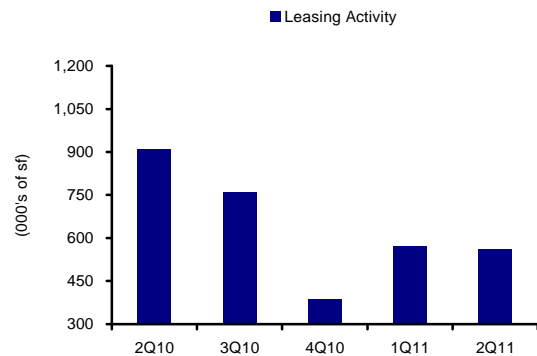
Vacancy All Classes



- The Financial Core tightened marginally over the second quarter, with the vacancy rate declining from 5.8% to 5.5%. Strong demand for class B and C space pushed vacancy downward. Class B and C vacancy fell to 4.1% and 6.6%, down from 5.1% and 7.5%, respectively.
- Approximately 1.5 million square feet (msf) of larger blocks of space is due to return to the market in the next two years, with 210,000 sf returning in the third quarter. This will slow the rather rapid shift to a landlords' market.

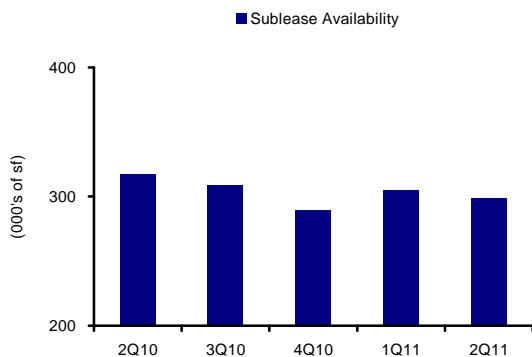
FINANCIAL CORE

Leasing Activity All Classes



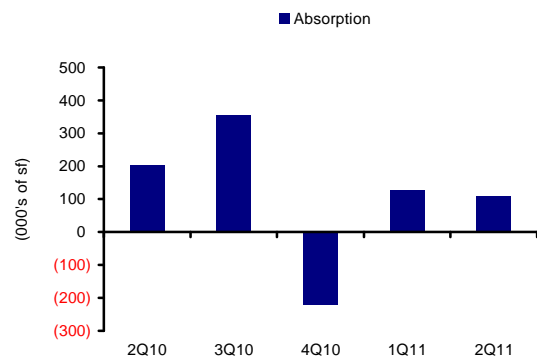
- Leasing activity remained strong in the second quarter, approaching 560,000 sf.
- TD Canada Trust completed an expansion into an additional 40,000 sf at 66 Wellington Street West. St. Andrew's Club & Conference Centre renewed approximately 31,000 sf at 150 King Street West. Accenture Incorporated leased 26,000 sf at 145 King Street West in a renewal & expansion transaction.

Sublease Availability All Classes



- The sublet market remained tight over the second quarter of 2011. Decreases in sublet availability for class A and B space were essentially balanced by increases in triple A and C space.
- Sublet space can rise unexpectedly in a strong market like the one we are currently experiencing.

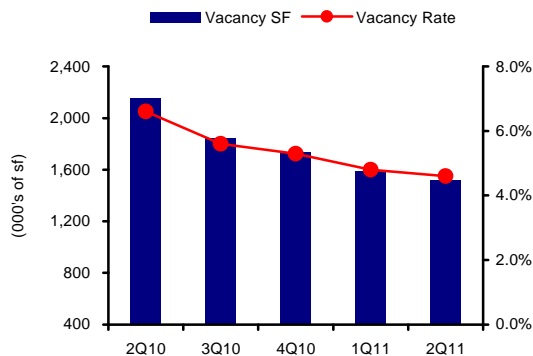
Absorption All Classes



- Absorption was moderate and positive in the second quarter. Triple A, B and C space all saw positive absorption over the quarter, while class A space saw negative absorption of 39,000 sf.
- Ongoing demand for space in the Financial Core has put upward pressure on rental rates, supporting the likelihood of new developments in the downtown market.

DOWNTOWN FRINGE

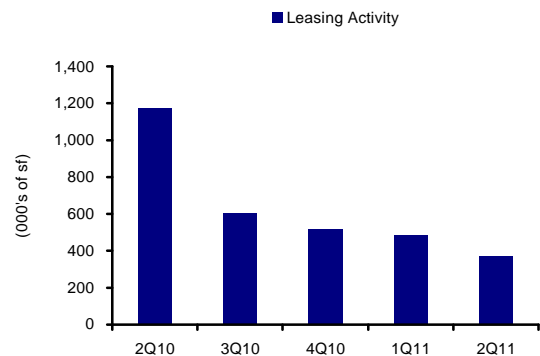
Vacancy All Classes



- The fringe market tightened further over the second quarter, driven primarily by a decline in available class B and C space. Class B and C vacancy fell to 4.4% and 6.3% from 4.7% and 7.4%, respectively.
- Fringe markets have enjoyed a surge in demand since late 2008, driven in part by a greater willingness by businesses to locate beyond traditional core boundary lines. Gross rental rates are also more economical, particularly because of lower taxes and operating costs.

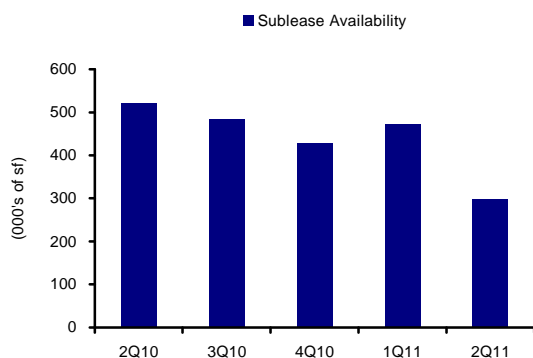
DOWNTOWN FRINGE

Leasing Activity All Classes



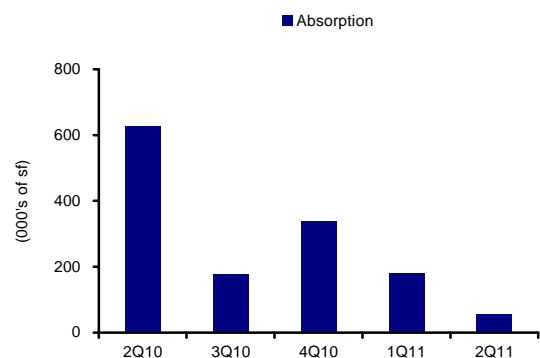
- Leasing activity is moderating as we head into a longer run expansionary cycle. Demand for space in the second quarter was strongest in the Downtown West and King West submarkets.
- SNC-Lavalin leased approximately 79,000 sf and PricewaterhouseCoopers leased a further 26,000 sf at 18 York Street. Paliare Roland Rosenberg Rothstein LLP leased about 26,000 sf at 155 Wellington Street West, relocating from the Downtown North submarket in the fourth quarter of 2011.

Sublease Availability All Classes



- Sublet availability declined in the second quarter, falling to 298,000 sf – the lowest level in over two years.
- Sublet availability in the Downtown Fringe market will see upward pressure in the third quarter with the return of a 138,000-sf sublet at 325 Front Street West.

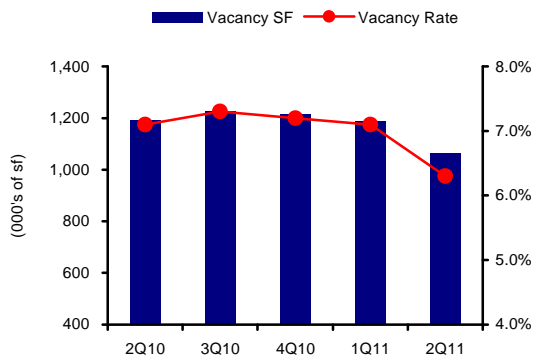
Absorption All Classes



- The Downtown Fringe markets are tight, which is reducing the opportunity to lease space and is moderating absorption numbers.
- Absorption will remain moderate in the near term, with quality well-priced space attracting significant attention.

MIDTOWN

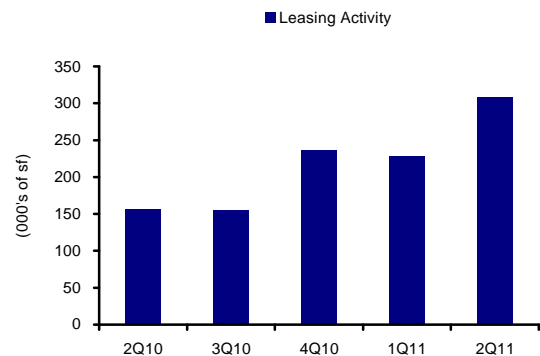
Vacancy All Classes



- Consistent with the downtown market, the overall fall in Midtown availability was driven by a reduction in class B and C space.
- Class B vacancy fell to 8.2% from 9.0% while class C vacancy fell to 5.4% from 7.4% last quarter. Class A vacancy fell marginally.

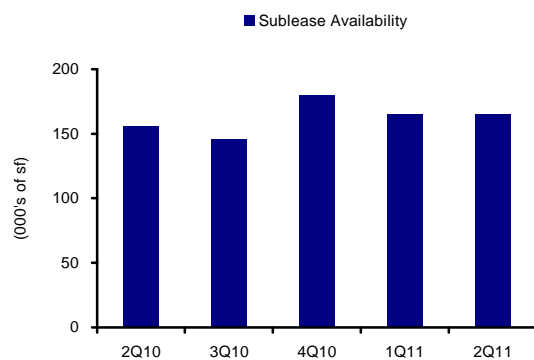
MIDTOWN

Leasing Activity All Classes



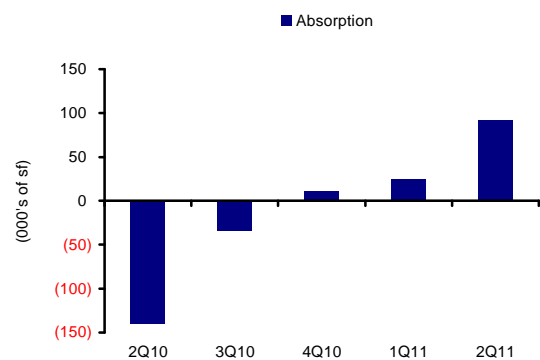
- Leasing activity was fairly robust at 308,000 sf, up from 229,000 sf in the first quarter 2011.
- Citco (Canada) Inc. renewed approximately 83,000 sf at 2 Bloor Street East and expanded by an additional 33,000 sf. TD Waterhouse Private Investment Advice renewed approximately 80,000 sf at 2161 Yonge Street.

Sublease Availability All Classes



- The total amount of sublet space has been relatively flat with most availability found within the Bloor and Eglinton submarkets.
- The amount of sublet space will be difficult to predict over the long term given the strengthening demand for quality space and expansion-minded companies. Companies that are outgrowing their existing premises may look to sublet should they decide to relocate early.

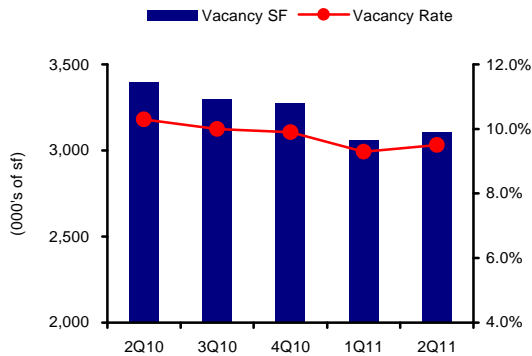
Absorption All Classes



- Demand is gaining momentum across midtown and suburban markets as we progress through 2011. The midtown market experienced positive absorption across all classes over the second quarter.
- Migration will continue to be a factor in smaller markets, such as the midtown submarkets, in the foreseeable future. Tenants relocating into or out of midtown will impact the net change in occupied space.

GTA EAST

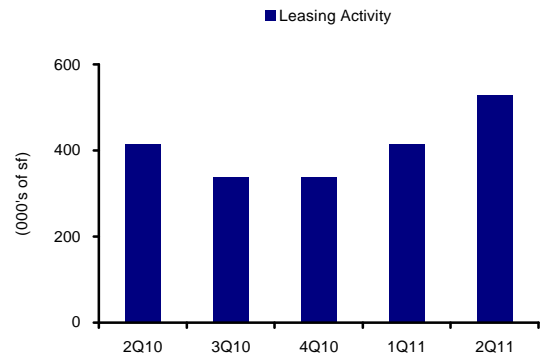
Vacancy All Classes



- The vacancy rate rose marginally this quarter to 9.5% from 9.3% in the first quarter.
- Acquisition activity and multiple-premise consolidations continue to result in displaced space as companies relocate and rethink their workplace strategies to create efficiencies and reduce costs.

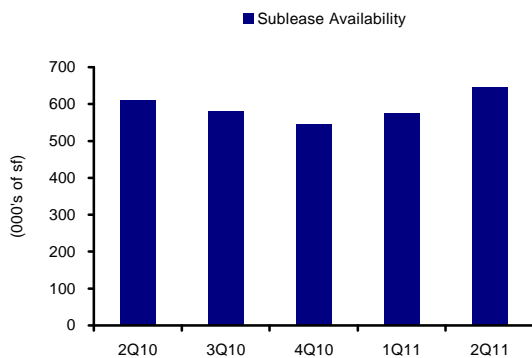
GTA EAST

Leasing Activity All Classes



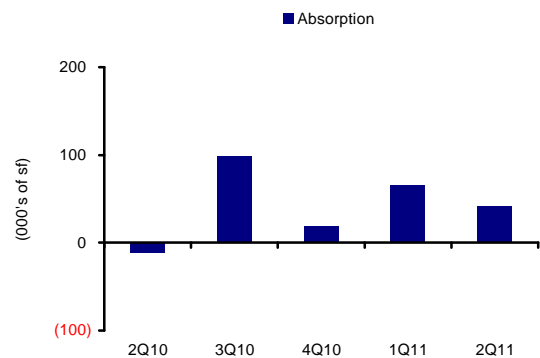
- Leasing activity continues to gain momentum, rising to 528,000 sf from 415,000 sf last quarter.
- JP Morgan Chase Bank leased approximately 91,000 sf at 100 Consilium Place. Enercare leased the entire building of about 55,000 sf at 4000 Victoria Park Avenue as part of their consolidation and expansion.

Sublease Availability All Classes



- Sublet space remained high over the second quarter, increasing to 645,000 sf from 576,000 sf last quarter. Approximately 89% of space is heavily concentrated in class A buildings.
- Good quality sublet opportunities will be attracting the attention of tenants looking to lock in on reduced occupancy costs over the long haul in the quarters to come.

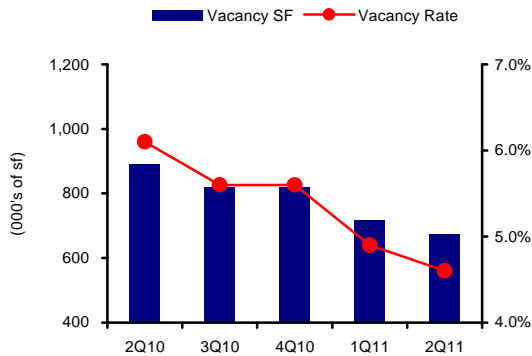
Absorption All Classes



- Absorption was relatively weak over the second quarter in GTA East. Strong class A absorption of 120,000 sf in the Scarborough submarket was balanced by negative absorption of 94,000 sf in the Steeles and Highway 404 submarket.
- Absorption is likely to remain positive, but relatively weak. While some companies are clearly expanding, others are consolidating and displacing space.

GTA NORTH

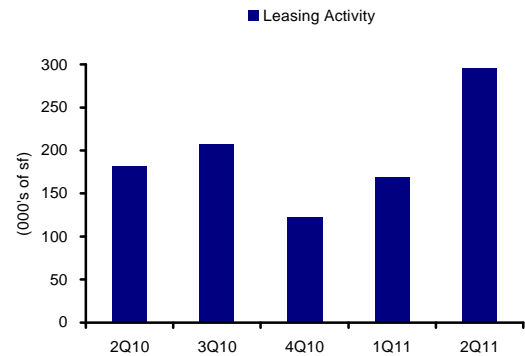
Vacancy All Classes



- The vacancy rate in the GTA North declined further over the second quarter, falling to 4.6% from 4.9% last quarter.
- Approximately 300,000 sf of space is expected to return to market over the next year; 40% of this space will return over the third quarter.

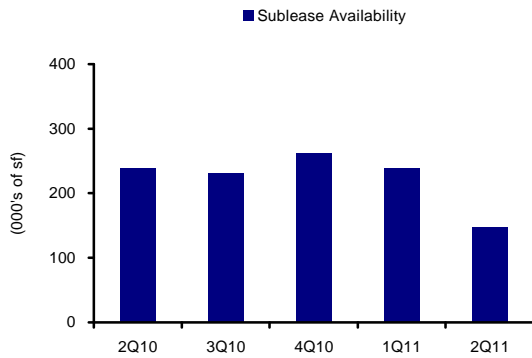
GTA NORTH

Leasing Activity All Classes



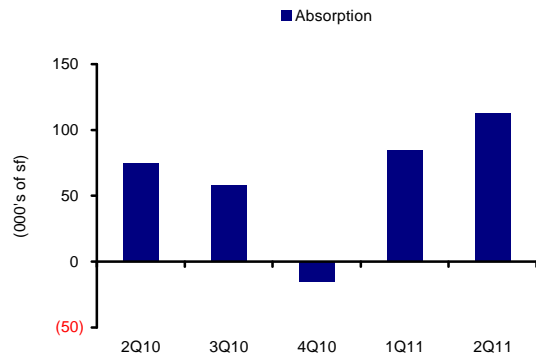
- Leasing activity was strong over the second quarter, increasing by 75% to 295,000 sf from 169,000 sf last quarter.
- Martinrea subleased approximately 31,000 sf from Adidas at 3210 Langstaff Road, and Action Direct Holdings completed a short-term sublease of approximately 24,000 sf at 36 York Mills Road.

Sublease Availability All Classes



- Sublet space declined sharply over the second quarter, falling to 147,000 sf from 239,000 sf last quarter, largely due to a reduction of available sublet space within the North Yonge Corridor.
- Leasing activity should continue to chip away at quality sublet space as we progress through 2011.

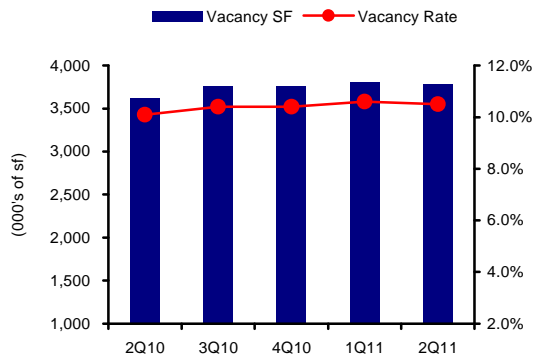
Absorption All Classes



- Absorption was fairly strong over the second quarter, rising to 113,000 sf from 85,000 sf last quarter.
- Absorption should remain positive, though growth in occupied space may be offset by companies that are consolidating and contracting or implementing workplace strategies that reduce their occupancy footprint.

GTA WEST

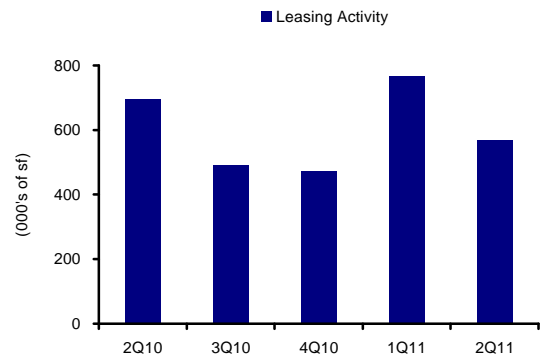
Vacancy All Classes



- The vacancy rate remains flat, though tenant activity on the street increased over the second quarter and there were numerous transactions that resulted in positive absorption.
- Acquisitions and consolidations continue to displace space in the GTA West market. Additionally, tenants who are reducing their occupancy footprint through the implementation of workplace strategies, are partially offsetting the positive growth in occupied space.

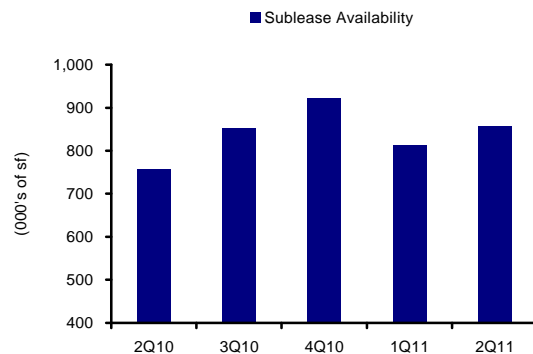
GTA WEST

Leasing Activity All Classes



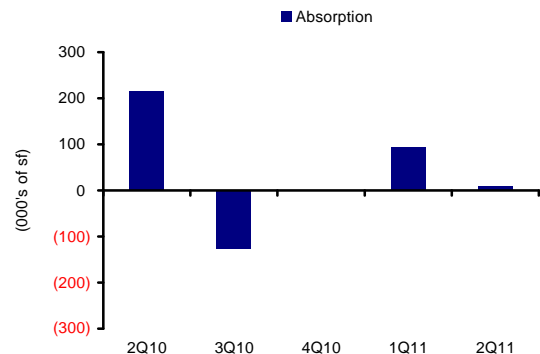
- Leasing activity showed reasonable strength over the second quarter in spite of the decrease from 767,000 sf last quarter to 567,000 sf.
- Target Corporation leased a combined total of 194,000 sf at 5550 and 5600 Explorer Drive. Dupont Canada Inc. will be relocating and contracting into 80,000 sf at 1919 Minnesota Court, a new development to be completed in the third quarter of 2012.

Sublease Availability All Classes



- Sublet space remains high at 856,000 sf, up from 813,000 sf in the first quarter. The sublet availability was adversely impacted by the addition of 80,000 sf – the entire building – at 7150 Mississauga Road.
- Sublet space is anticipated to decline over the coming quarters as leasing activity and overall demand rises.

Absorption All Classes



- Absorption has been anemic in the GTA West since the recession began, although a return to positive absorption is forecast towards 2012.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Class A Net Rental Rate*
CENTRAL AREA	83,950,592	492	5.3%	4.4%	2,521,820	657,106	0	589,898	\$22.42
Downtown	67,127,149	357	5.1%	4.2%	1,984,114	657,106	0	472,451	\$23.64
Financial Core	34,359,930	116	5.5%	4.6%	1,131,693	0	0	235,138	\$26.51
Downtown Fringe	32,767,219	241	4.6%	3.7%	852,421	657,106	0	237,313	\$19.04
Midtown	16,823,443	135	6.3%	5.4%	537,706	0	0	117,447	\$15.58
SUBURBAN AREA	83,422,027	847	9.1%	7.1%	2,741,682	908,486	140,468	409,512	\$15.56
GTA East	32,848,156	316	9.5%	7.5%	943,546	115,546	0	107,658	\$14.47
GTA North	14,588,070	130	4.6%	3.6%	463,672	57,330	0	197,748	\$14.70
GTA West	35,985,801	401	10.5%	8.1%	1,334,464	735,610	140,468	104,106	\$16.86
GTA Total	167,372,619	1,339	7.2%	5.8%	5,263,502	1,565,592	140,468	999,410	\$18.97

* Rental rates reflect \$ per sq. ft./ year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q11 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
5550 Explorer Drive	GTA West – Mississauga	Target Corporation	183,000	A
2 Bloor Street East	Midtown – Bloor & Yonge	Citco (Canada) Inc.	116,000	A
100 Consilium Place	GTA East – Scarborough	JP Morgan Chase Bank	91,000	A
2161 Yonge Street	Midtown – Eglinton & Yonge	TD Waterhouse Private Investment Advice	80,000	B
1919 Minnesota Court	GTA West – Mississauga	Dupont Canada Inc.	80,000	A
18 York Street	Downtown – Fringe	SNC-Lavalin	79,000	A

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
Atrium on Bay	Downtown – Fringe	H & R REIT	1,079,870	\$344,800,000
481 University Avenue	Downtown – Fringe	Davpart Inc.	244,156	\$52,650,000
155 Gordon Baker Road	GTA East – Markham & Hwy 401	Crown Realty Partners	244,925	\$25,250,000
2150 Islington Avenue	GTA West – Etobicoke	Hallmark Housekeeping Services Inc.	123,294	\$17,500,000

SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
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No current quarter completions.

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANTS	SQ FT	COMPLETION DATE
18 York Street	Downtown – Fringe	PricewaterhouseCoopers	657,106	Q3 2011
6925 Century Avenue	GTA West – Meadowvale	Golder Associates Ltd.	250,000	Q3 2012
7125 Mississauga Road	GTA West – Meadowvale	Baxter Corporation	126,000	Q3 2011
1919 Minnesota Court	GTA West - Mississauga	Dupont Canada Inc.	125,000	Q3 2012
1340 Pickering Parkway	GTA East – Pickering	Municipal Property Assessment Corporation	115,546	Q3 2011
3477 Superior Court	GTA West – Oakville		95,666	Q2 2012
7300 Keele Street	GTA North – Vaughan		57,330	Q1 2012
1 Gateway Boulevard	GTA West – Brampton		50,632	Q3 2011



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