

GREATER TORONTO AREA OFFICE

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
GTA Employment	3.2 mil	3.2 mil	▲
GTA Unemployment	7.2%	7.1%	▼
Canada Unemployment	7.3%	6.7%	▼

Source: Statistics Canada

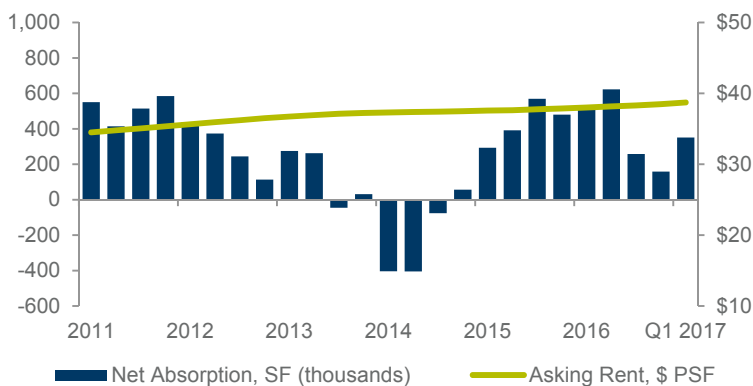
Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Availability Rate	7.9%	7.5%	▲
Net Absorption (sf)	20,783	792,635	▼
Under Construction (sf)	3,524,005	2,405,011	▲
Average Asking Rent*	\$38.32	\$39.35	■

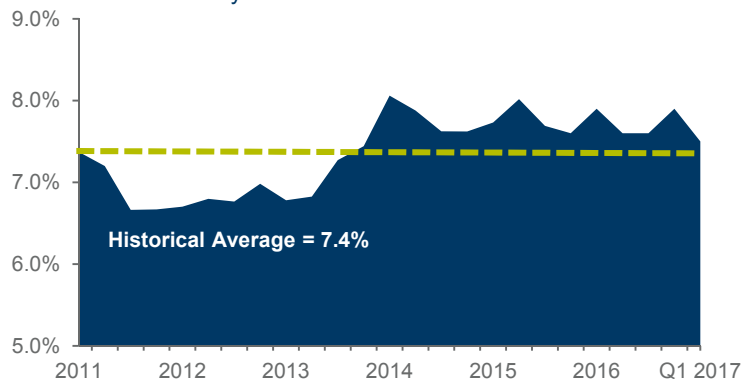
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Availability



Economy

Ontario's economy is on track to lead Canada's GDP growth in 2017 for the first time since 2000. The red-hot housing sector and sustained job creation, which saw the jobless rate dip to an eight-year low of 6.2% in recent months, continue to propel growth (RBC Economics).

Market Overview

With expansionary momentum showing no signs of slowing in the first quarter of 2017, the overall availability rate in Toronto's downtown office market plunged to a 16-year low of 3.3%. Even the arrival of 1 York Street and 351 King Street East, adding 1.3 million square feet (MSF) to the Downtown Fringe market, barely made a dent in the tight conditions. Instead, availability plunged beyond the 25-year low seen just two quarters ago to a new record low of 2.3%. Meanwhile, demand for space in the Financial Core also surged and availability fell to a three-year low of 4.4% from 5.1% quarter-over-quarter. This quarter's strong performance underscores the continuing powerful attraction of the downtown as one of North America's most desirable live-work locations.

Suburban markets saw a modest gain in the first quarter of 2017 as demand pushed the overall absorption to 116,000 square feet (SF) following two quarters of weak growth. GTA East led the way, bolstered by an uptick in activity in several submarkets. Absorption rose to 95,000 SF, up from negative 100,000 SF last quarter. Slow demand in GTA West resulted in a four-quarter low in leasing activity, with absorption slipping back to negative 2,000 SF. While absorption in GTA North remained positive, rising vacancy from tenants embracing densification strategies or relocating out of the North Yonge Corridor, pushed the overall availability rate to 7.6% - a high not seen since Q3 2005.

Outlook

Although expansionary momentum in downtown Toronto, particularly from the technology sector, continues to be robust, vacancy is likely to rise over the near term. With close to 1.7 MSF of larger blocks of displaced space scheduled to arrive over the next few quarters, this very hot market will be provided with some relief. As the flood of new supply in GTA West tapers off, availability rates are expected to trend downward. With less than 300,000 SF tracked to return to market over the next two quarters, growth in GTA East is expected to return to moderate levels.

Availability

The overall availability rate declined in Q1 to 4.4% from 5.1% last quarter, which is the lowest level in almost four years. Each class of space recorded a decrease in availability. Triple A availability led the way, falling by 96,000 SF in the quarter.

Availability is expected to increase by almost 1.3 MSF over the next two quarters. The largest upcoming availability will be 272,000 SF at 222 Bay Street when EY Canada relocates to 100 Adelaide Street West.

Leasing Activity

Leasing activity decreased in the first quarter to 608,000 SF from 693,000 SF last quarter. Over the quarter, class A leasing dropped by 116,000 SF and class B leasing fell by 49,000 SF, overshadowing a 75,000-SF increase in triple A leasing.

Leasing success continues at Bay Adelaide Centre East (BACE), with Shire Pharma Canada ULC taking 30,000 SF. Leased space in this tower has rocketed to 83% from 67% in its first year since opening. Canadian Partnership Against Cancer leased 25,000 SF at 145 King Street West.

Sublease Availability

Sublet availability decreased to 364,000 SF from 419,000 SF quarter-over-quarter. This was driven by a 53,000-SF decrease in class A sublet availability.

Over the next two quarters, sublet availability is expected to increase by 103,000 SF. The Q9 Networks Inc. sublet space at 100 Wellington Street West totalling 21,000 SF will be coming to market. Fewer new sublets are anticipated over the course of the year.

Absorption

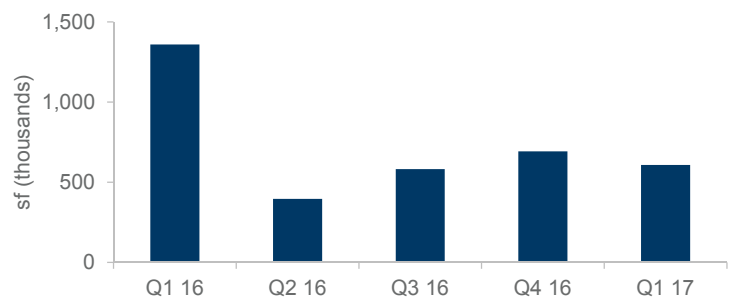
Overall absorption increased in the quarter to 233,000 SF from 147,000 SF last quarter. Short-term transactions by Scotiabank at 2 Queen Street East and 36 Toronto Street provided a boost to absorption in the quarter.

As new supply arrives, the absorption impact is likely to be spread over a period of up to two years due to timing differences in a tenant's occupancy and the return of their displaced space to market. Absorption related to recent completions (BACE) and upcoming new builds (EY Tower and 20 Wellington Street East) will be felt in 2017 and beyond.

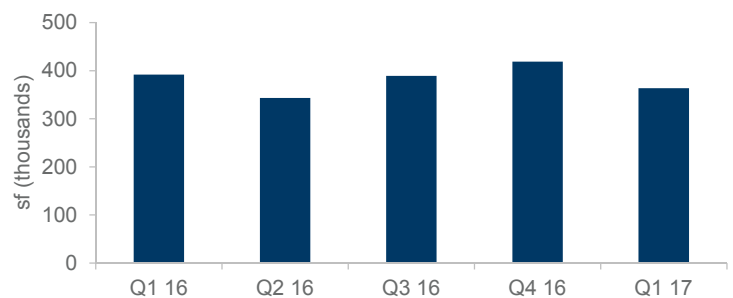
Availability All Classes



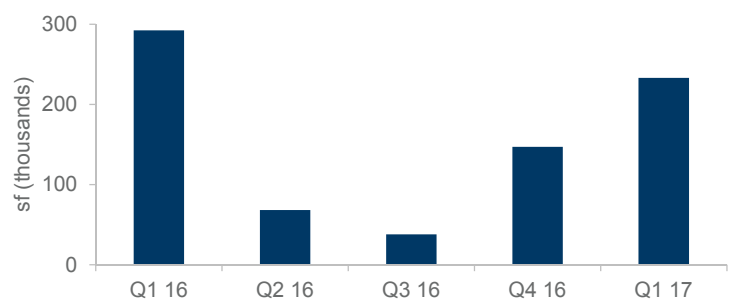
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The overall availability rate tightened further in Q1, declining to 2.3%, the lowest level on record. Despite the addition of about 1.3 MSF of new supply to inventory in the quarter, 1 York Street (100% leased) and 351 King Street East (93% leased) added just 35,000 SF to availability.

Availability is expected to increase by almost 400,000 SF over the next two quarters. This includes 32,000 SF at 483 Bay Street. The fringe's overall availability rate has trended downwards over the last three years, falling to its current level from 5.6% in Q1 2014.

Leasing Activity

Leasing activity increased sharply in the first quarter to 1.7 MSF from 347,000 SF in the previous quarter. The completion of the two new office buildings accounted for 1.2 MSF or 75% of the leasing total.

The demand for space in new developments remains strong, with Indigo Books & Music Inc. leasing 79,000 SF at 620 King Street West. Another significant deal was Cancer Care Ontario leasing 74,000 SF at 525 University Avenue.

Sublease Availability

Overall sublet availability increased over the quarter to 183,000 SF from 104,000 SF last quarter. Class A sublet space doubled to 135,000 SF in the first quarter. A larger sublet that became available was the 21,000-SF block at 204-214 King Street East.

Sublet availability is expected to increase by over 90,000 SF over the next two quarters. This includes Royal & Sun Alliance Insurance Company of Canada's 53,000-SF sublet at 18 York Street.

Absorption

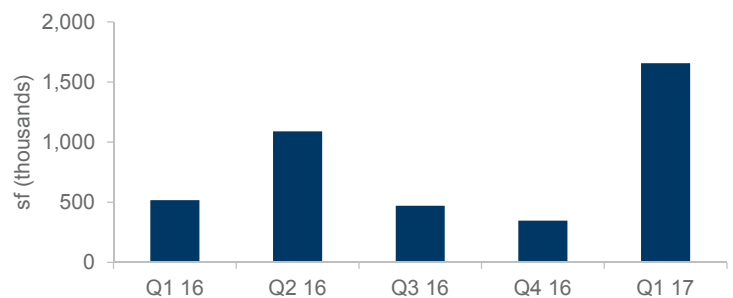
The Downtown Fringe's absorption rebounded in the quarter to 354,000 SF from negative 46,000 SF. This was driven by large tenants, such as The Globe and Mail and HOOPP, occupying their premises in the new office buildings.

The fringe's projected new supply of 2.2 MSF for 2017 will add positive absorption to the market as tenants continue to occupy the new buildings over the coming quarters. Cadillac Fairview and the Ontario Pension Board announced the commencement of construction on its 869,000-SF office development at 16 York Street. CF's confidence in the market to build on spec bodes well for future absorption.

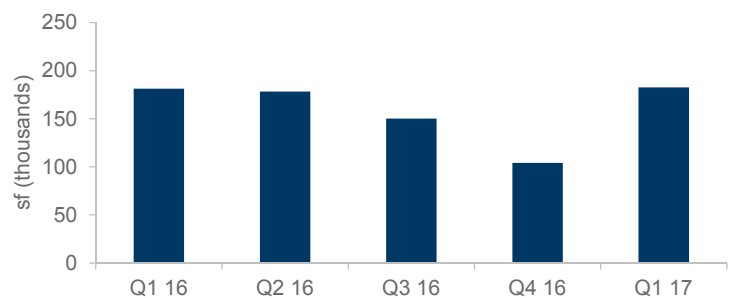
Availability All Classes



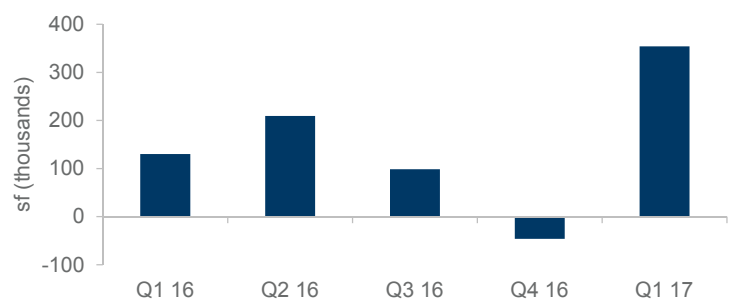
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Midtown's availability decreased in the first quarter to 4.3% from 4.9% last quarter, driven by class B availability, which fell to 4.9% from 6.1%. The overall availability rate of 4.3% is the lowest in almost nine years.

A total of approximately 160,000 SF of space is expected to return to market over the next two quarters. This includes new availabilities of 20,000 SF at 2 Bloor Street West and 19,000 SF at 77 Bloor Street West.

Leasing Activity

Midtown's leasing activity in Q1 increased to 240,000 SF from 175,000 SF last quarter, with each class of space outperforming its leasing total from last quarter. The increase was driven by class B leasing in the Bloor submarket, which rose by 45,000 SF.

The Nature Conservancy of Canada leased 16,000 SF at 245 Eglinton Avenue East. A notable renewal was the Cardinia Real Estate Canada Inc. transaction for 103,000 SF at 33 Bloor Street East.

Sublease Availability

Sublet availability decreased to 109,000 SF from 170,000 SF quarter-over-quarter. The decrease was driven by class A sublet availability in the Bloor and Eglinton submarkets, which fell by 29,000 SF and 20,000 SF respectively. The sublet portion of Midtown's class A availability has fallen to 17.8%, which is the lowest level in about five years.

A low amount of sublet space is being tracked to become available over the next quarter. Therefore, sublet availability is likely to tighten further in the coming quarters.

Absorption

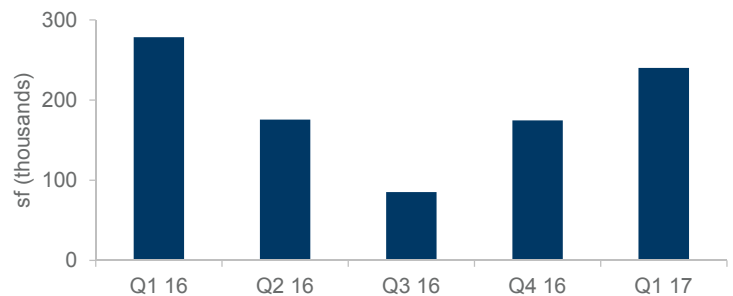
Midtown's overall absorption rose in the first quarter to 89,000 SF from negative 133,000 SF last quarter. The Bloor submarket's absorption, which had been negative over the second half of 2016, rebounded to 84,000 SF in the quarter.

Midtown's absorption is likely to be moderate in the coming quarters. The positive outlook is based on the absorption turnaround in Q1 in Bloor, Midtown's largest submarket. Also, the decline in Midtown's overall availability rate resulted in a rise in absorption.

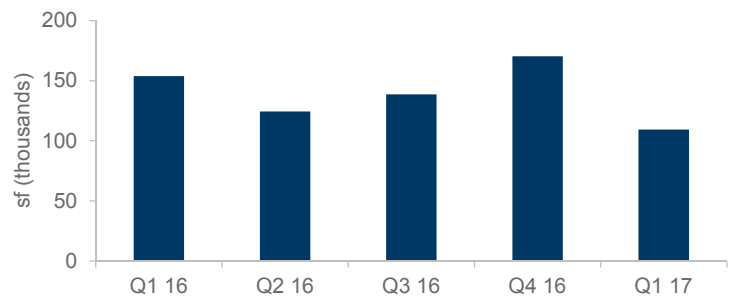
Availability All Classes



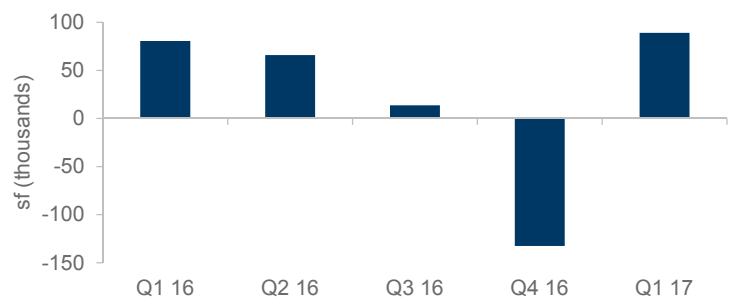
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The overall availability rate in the GTA East market decreased this quarter to 9.7% from 10.1% last quarter, the lowest level in more than a year. This was due primarily to the Hwy 404 & Steeles submarket which saw availability drop by about 88,000 SF this quarter.

Approximately 235,000 SF of space is expected to return to the GTA East market over the next quarter. This includes about 48,000 SF at 2255 Sheppard Avenue East to be vacated by Enbridge.

Leasing Activity

Leasing activity in the GTA East market rose to 402,000 SF from 352,000 SF quarter-over-quarter. This surpasses the 5-year average of 387,000 SF per quarter. The Hwy 404 & Steeles submarket accounted for 40% of the total leasing activity at 162,000 SF.

Significant transactions included the General Motors of Canada Company deal of 110,000 SF at 101 McNabb Street and the Soil Engineers deal of 26,000 SF at 90 West Beaver Creek Road.

Sublease Availability

Sublet availability decreased over the quarter to 310,000 SF from 330,000 SF, continuing the downward trend started in Q1 16. Sublet availability is currently lower by about 127,000 SF year-over-year.

A low amount of sublet space is being tracked to become available over the next quarter, with the largest block being Nightingale Informatix Corporation's 15,000-SF sublet at 55 Renfrew Drive.

Absorption

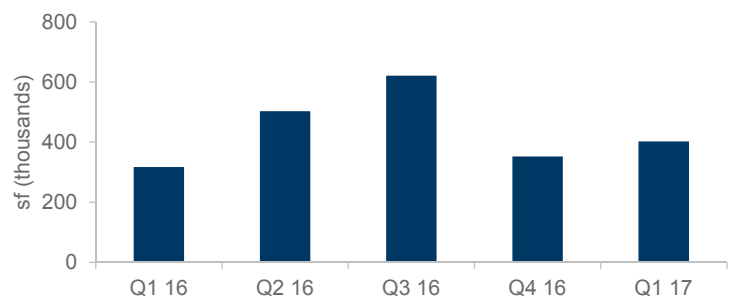
GTA East overall absorption increased over the quarter to 95,000 SF from negative 100,000 SF last quarter. Absorption was higher in several submarkets. Overall absorption increased by 77,000 SF in the Duncan Mill submarket and by 65,000 SF in the Hwy 404 & Steeles submarket in the first quarter.

Overall quarterly absorption continues to swing from positive to negative territory, leading to a 5-year average of negative 22,000 SF per quarter. Absorption is likely to be modest over the remainder of the year.

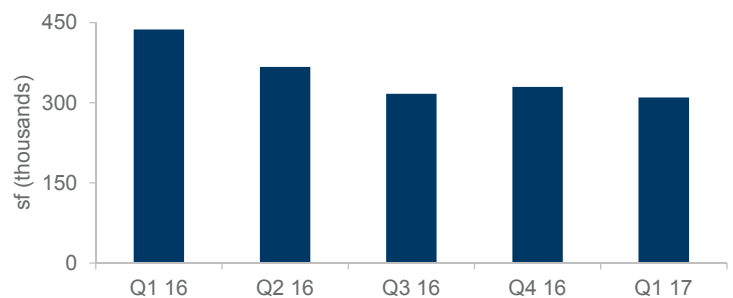
Availability All Classes



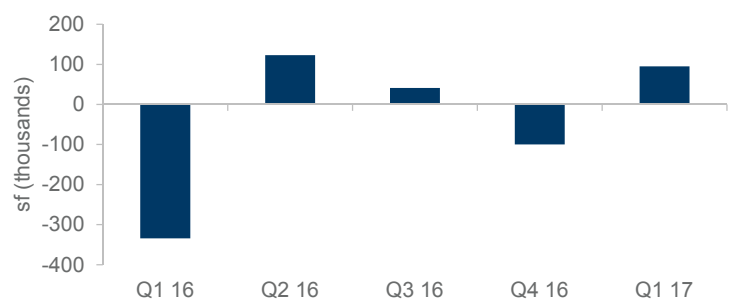
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA North's overall availability rate in Q1 increased to 7.6% from 7.2% last quarter. This was driven by a 39,000-SF increase in class B availability in the North Yonge Corridor submarket. Vaughan's class A availability decreased, despite the addition of 23,000 SF of new supply availability at 9135 Keele Street.

A total of 293,000 SF of space is expected to become available over the next two quarters. This will include 60,000 SF of availability at 6260 Highway 7, a new development that is near completion.

Leasing Activity

Leasing activity decreased in the first quarter to 212,000 SF from 238,000 SF in Q4. This is still well above the 5-year leasing average of 147,000 SF per quarter. Transactions in recently completed new buildings, boosted Vaughan's class A leasing total to the top spot among GTA North's submarkets.

Over the quarter, deals completed at 100 New Park Place included GFL Environmental Inc. leasing 66,000 SF and Miller Thomson LLP leasing 22,000 SF.

Sublease Availability

Overall sublet availability increased to 231,000 SF from 118,000 SF quarter-over-quarter. This was driven by the North Yonge Corridor, which saw an increase in sublet space of 103,000 SF in the quarter.

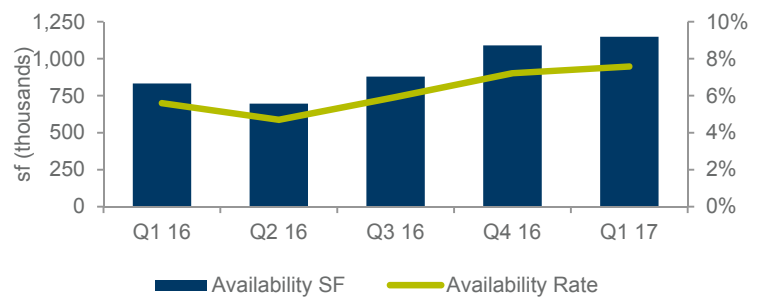
A low amount of sublet space is being tracked to come to market over the next quarter. Therefore, sublet availability is likely to decline over the coming quarters.

Absorption

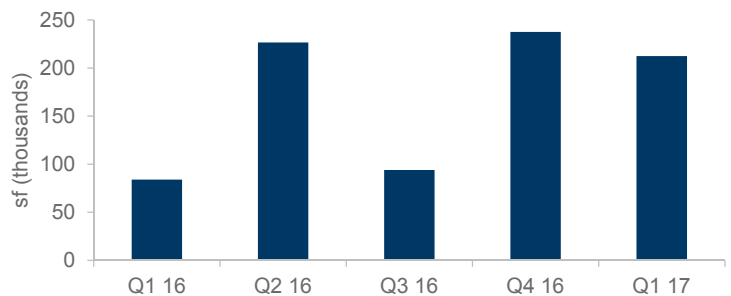
GTA North absorption declined to 24,000 SF from 80,000 SF last quarter. The majority of the decline came from class B absorption, which fell by 44,000 SF in the quarter. Absorption from new supply at 9135 Keele Street in Vaughan was 16,000 SF in Q1.

Vaughan's 60,000-SF development at 6260 Highway 7, GTA North's next new building of 2017, is not expected to drive up absorption since the entire building is currently available for lease. Absorption is expected to remain low in the coming quarters.

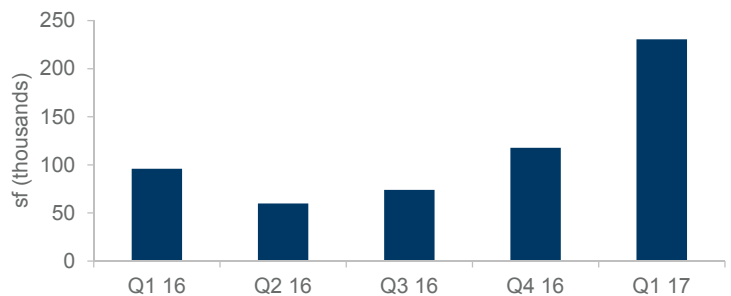
Availability All Classes



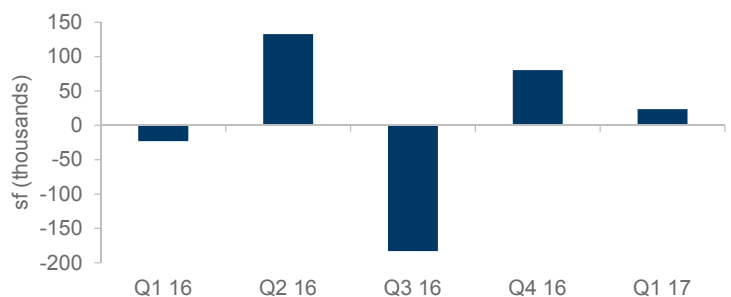
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA West market saw a marginal decrease in availability in the quarter, with the rate falling to 14.7% from 14.8% in Q4 16. This occurred despite the fact that 610 Chartwell Road East was completed this quarter adding 103,000 SF of new supply to the Oakville submarket.

Over the next six months, almost 400,000 SF is expected to come to market, including 47,000 SF at 5520 Explorer Drive. As such, availability is expected to remain near current levels in the short term.

Leasing Activity

Leasing activity decreased by 20,000 SF to 491,000 SF quarter-over-quarter, about 20% less than the average of 600,000 SF per quarter over the last five years. Oakville's leasing of 120,000 SF in Q1 was the highest of all GTA West submarkets, accounting for almost 25% of leasing activity.

Significant transactions included the Amec Foster Wheeler deal of 37,000 SF at 3450 Harvester Road and the Manion Wilkins & Associates Ltd. expansion/renewal deal for 22,000 SF at 21 Four Seasons Place.

Sublease Availability

Sublet availability increased to 999,000 SF from 935,000 SF quarter-over-quarter. This was mainly due to the arrival of a new sublet of over 40,000 SF in Meadowvale. The Airport Corporate Centre submarket had the largest amount of sublet space at 320,000 SF, accounting for about a third of the total.

Only a small amount of new sublease space is expected to return to market over the next few quarters. Sublet space as a percentage of available space is likely to fall in the short term.

Absorption

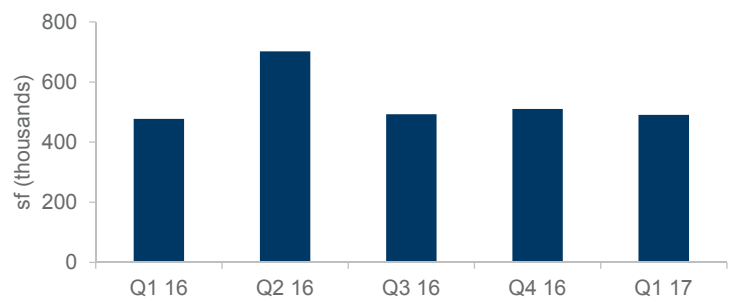
Absorption flatlined in Q1, decreasing to negative 2,000 SF from 20,000 SF last quarter. Although Oakville's absorption increased by 108,000 SF in the quarter, this was more than offset by decrease of 132,000 SF in the Meadowvale submarket.

The average quarterly absorption has changed dramatically over the last ten years. During the first five-year period, the average quarterly absorption was 60,000 SF higher than the latter five-year period.

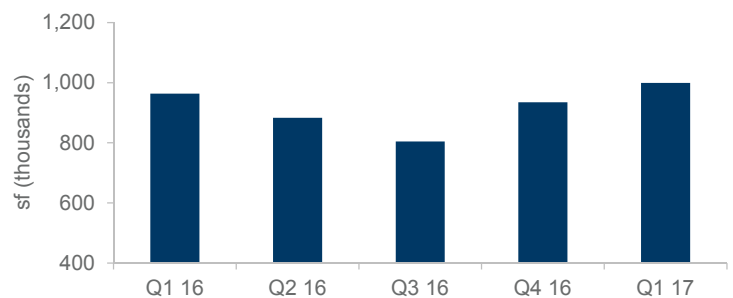
Availability All Classes



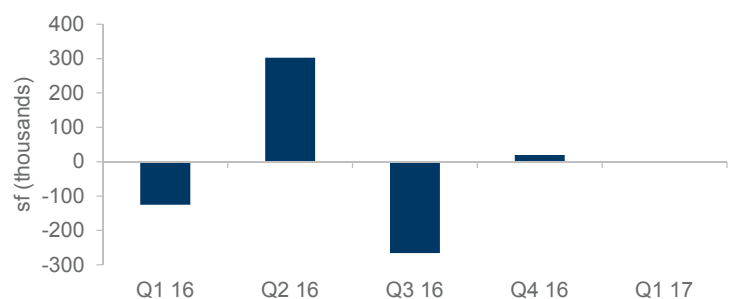
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



MARKETBEAT

Greater Toronto Area, ON

Office Q1 2017



CELEBRATING
100
YEARS

SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Financial Core	35,319,185	363,570	1,203,035	4.4%	233,223	233,223	607,936	949,131	\$54.20	\$57.19
Downtown Fringe	38,216,383	182,646	711,992	2.3%	354,181	354,181	1,656,961	1,192,947	\$43.84	\$48.76
Downtown	73,535,568	546,216	1,915,027	3.3%	587,404	587,404	2,264,897	2,142,078	\$48.82	\$53.44
Midtown	16,486,181	109,415	607,290	4.3%	88,969	88,969	240,139	0	\$41.72	\$46.71
CENTRAL AREA	90,021,749	655,631	2,522,317	3.5%	676,373	676,373	2,505,036	2,142,078	\$47.54	\$52.55
GTA East	33,304,739	310,023	2,922,177	9.7%	95,070	95,070	402,293	23,101	\$29.30	\$31.87
GTA North	15,154,046	230,537	917,629	7.6%	23,642	23,642	212,423	60,000	\$35.18	\$36.23
GTA West	39,015,945	999,175	4,733,580	14.7%	(2,450)	(2,450)	490,516	179,832	\$30.11	\$32.06
SUBURBAN AREA	87,474,730	1,539,735	8,573,386	11.6%	116,262	116,262	1,105,232	262,933	\$30.64	\$32.81
GTA TOTALS	177,496,479	2,195,366	11,095,703	7.5%	792,635	792,635	3,610,268	2,405,011	\$39.35	\$43.17

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
101 McNabb Street	114,000	General Motors of Canada Company	Lease	Hwy 404 / Steeles
620 King Street West	79,000	Indigo Books & Music Inc.	Lease	Downtown West
525 University Avenue	74,000	Cancer Care Ontario	Lease	Downtown North
100 New Park Place	66,000	GFL Environmental Inc.	Lease	Vaughan
3450 Harvester Road	37,000	Amec Foster Wheeler	Lease	Burlington
22 Adelaide Street West	30,000	Shire Pharma Canada ULC	Lease	Financial Core
90 West Beaver Creek Road	26,000	Soil Engineers Ltd.	Lease	Hwy 404 / Hwy 7
145 King Street West	25,000	Canadian Partnership Against Cancer	Lease	Financial Core

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
141 Adelaide Street West	187,945	Healthcare of Ontario Pension Plan / Hydro-Quebec	\$125,125,000 / \$666	Financial Core
4281 Harvester Road	68,000	Fengate Capital Management Ltd. / Semtech Canada Corporation	\$16,175,000 / \$238	Burlington
21 Randolph Avenue	61,050	The Canadian Red Cross / 21 Randolph Inc.	\$13,465,000 / \$221	St. Clair West
199 Avenue Road	15,650	Maltman Holdings Ltd. / 199 Avenue Road Holdings Inc.	\$12,000,000 / \$767	Bloor & Yonge
111 Bathurst Street, Second Floor	14,917	Harhay Developments / Medecins Sans Frontieres/Doctors Without Borders	\$7,073,280 / \$474	Downtown West

Source: RealNet Canada Inc.

MARKETBEAT

Greater Toronto Area, ON

Office Q1 2017



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Key Construction Completions Q1 2017

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
One York Street, Toronto	Downtown South	Sun Life Assurance Company of Canada	Q1 2017	944,359 (100%)
351 King Street East, Toronto	Downtown East	The Globe and Mail	Q1 2017	500,000 (93%)
610 Chartwell Road East, Oakville	Oakville	MMM Group	Q1 2017	102,660 (70%)
9135 Keele Street, Vaughan	Vaughan	n/a	Q1 2017	38,672 (41%)

Key Projects Under Construction

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
100 Adelaide Street West, Toronto	Financial Core	EY Canada	Q2 2017	905,720 (89%)
16 York Street, Toronto	Downtown South	Speculative	Q3 2020	879,000 (0%)
620 King Street West, Toronto	Downtown West	Shopify	Q1 2019	266,900 (75%)
410 Bathurst Street, Toronto	King West	n/a	Q3 2018	140,000 (57%)
360 Oakville Place Drive, Oakville	Oakville	Speculative	Q1 2018	139,132 (0%)
6260 Highway 7, Vaughan	Vaughan	Speculative	Q2 2017	60,000 (0%)

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