

GREATER TORONTO AREA OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
GTA Employment	3.2 mil	3.4 mil	▼
GTA Unemployment	6.8%	6.0%	▲
Canada Unemployment	6.9%	5.7%	■

Source: Statistics Canada

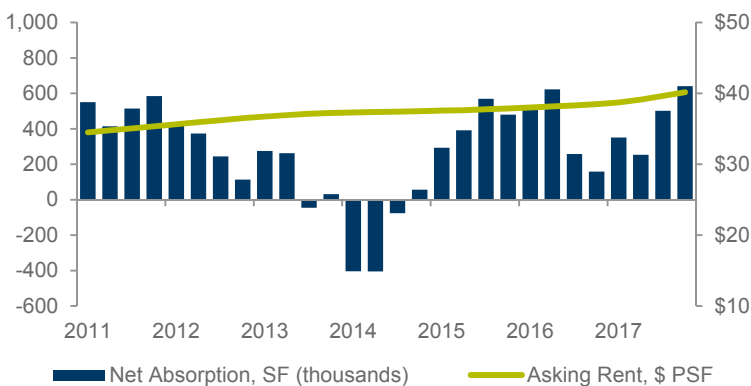
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Availability Rate	7.9%	7.0%	▼
Net Absorption (sf)	-31,273	522,856	▲
Under Construction (sf)	3,241,672	3,352,968	▼
Average Asking Rent*	\$38.63	\$40.76	▲

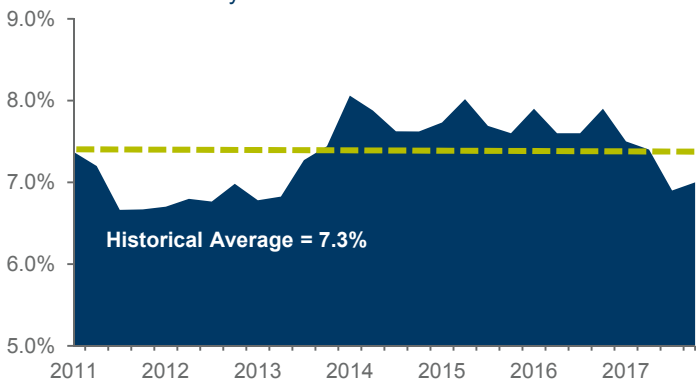
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Availability



Economy

Fueled by gains in full-time jobs, Ontario's unemployment rate fell steadily through 2017, closing the year at 5.5%. As widely reported, 2018 is likely to see unemployment rise due to the impact of the hefty 21% minimum wage increase. Although the province remains on track to be a growth leader in 2018, headwinds such as rising interest rates, new home mortgage rules, and NAFTA uncertainty are likely to temper momentum. GDP growth is projected to reach 2.1%, down from a 17-year high of 2.9% seen in 2017 (Source: RBC Economics/Statistics Canada).

Market Overview

2017 was a phenomenal year for the downtown office market; marked by relentless demand and low supply. The arrival of 4 new developments adding 2.2 million square feet (msf) did little to relieve the heated market. Availability remained below the 4% mark through the year for the first time since 2008. As voracious demand wolfed down supply, availability in the fourth quarter hit a new low of 2.7%, while absorption reached 950,000 square feet (sf), the highest level on record since the third quarter of 1995.

The Downtown West submarket has effectively hung its "No Vacancy" sign, with insatiable demand reducing the hot submarket's availability to a record-smashing 1.0%. The Financial Core also experienced strong demand that pushed its premium class availability to a 16-year low of 3.5%.

Overall availability in the GTA suburban markets held steady through the year, closing the fourth quarter at 11.2%, down from 11.7% one year ago. Moderate demand and an easing of new supply led to GTA West availability remaining at 14.1% for a second consecutive quarter. Following three quarters of positive growth in GTA East, absorption fell to negative 182,000 sf in the fourth quarter, largely due to displaced space returning to market from Aviva's relocation to Markham.

Outlook

Historic low availability and continued demand will intensify market dynamics in downtown Toronto in 2018. A modest rise in availability will spell some relief in the first half of the year as space totaling almost 900,000 sf is expected to come back to market. Still, availability is projected to reach new lows during the year. In GTA West, over 700,000 sf is tracked to flood the market in the first quarter of 2018, suppressing growth and keeping availability above the 14% mark in the near term. Uncertainty surrounding economic growth is expected to influence the GTA East and North markets, and the unstable growth pattern of the past nine years will continue.

Availability

The overall availability rate tightened further in the fourth quarter, decreasing to a 17-year low of 3.6% from 3.9% last quarter. This was driven by Class AAA & A availability, which fell by a combined 139,000 sf.

An additional 650,000 sf of availability is expected to return over the next two quarters. The largest upcoming availability of 60,000 sf at 1 University Avenue includes 31,000 sf arriving from OMERS' relocation to 100 Adelaide Street West.

Leasing Activity

Leasing activity rose in the fourth quarter to 754,000 sf from 514,000 sf last quarter. The annual leasing total of 3.5 msf for 2017 was a 17-year high. This strong result was driven by 100 Adelaide Street West, which was about 90% leased upon completion in the second quarter.

The financial sector accounted for several notable transactions in the fourth quarter, including Scotiabank's 53,000-sf lease at 150 King Street West and RBC Royal Bank of Canada's 49,000-sf lease at 181 Bay Street.

Sublease Availability

Sublet availability fell in the fourth quarter to 162,000 sf from 247,000 sf last quarter. Sublet availability dropped by 61% year-over-year, driven by Class AAA space, which plunged by 79%.

Over the first quarter of 2018, new sublet availability is expected to increase by 83,000 sf. However, the total for the remainder of the year is anticipated to be less. The largest availability arriving will be Read Jones Christoffersen Ltd.'s 32,000-sf premises at 144-146 Front Street West.

Absorption

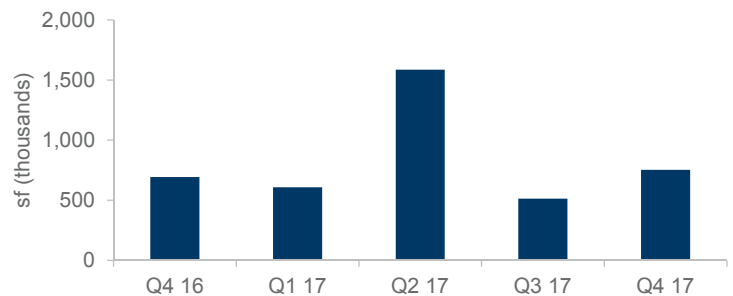
The Financial Core's 2017 annual absorption reached a 17-year high of 835,000 sf. The market's absorption success over the past year has been driven mainly by Class A absorption.

A high level of occupancy within the newly completed buildings helped to boost absorption for the year. Since no new supply is scheduled to arrive in the Financial Core next year, moderate expansionary growth is expected to drive absorption in 2018.

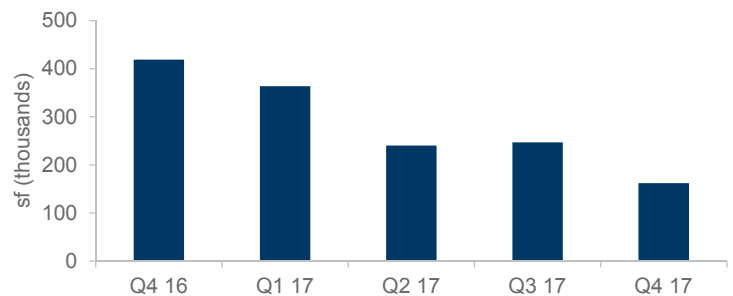
Availability All Classes



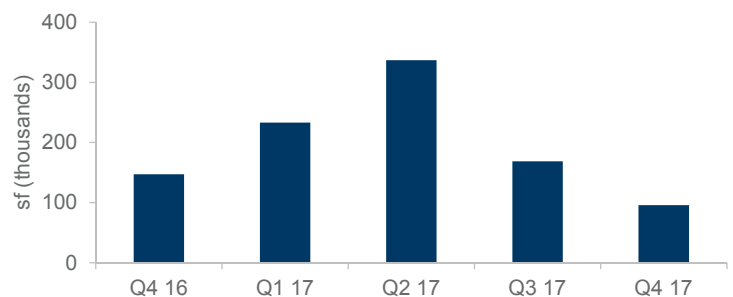
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The overall availability rate fell to 1.9% from 2.3% over the fourth quarter, driven by Class A, which tightened to 1.2% from 1.7%. Downtown West's availability decreased for the fourth straight quarter, falling to 1.0%, the lowest of all the Fringe submarkets.

An additional 246,000 sf of availability is expected to return over the next two quarters. This includes 25,000 sf at 370 King Street West, of which 16,000 sf is to be vacated by OPENLANE Inc. Significantly less sublet space is currently being tracked to become available over the second half of 2018.

Leasing Activity

Leasing activity decreased in the fourth quarter to 578,000 sf from 629,000 sf in the previous quarter. The annual leasing total of 3.3 msf for 2017 was a 17-year high. The strong performance was driven by the spike in the first quarter from leasing at 1 York Street and 351 King Street East, two new office buildings.

Thomson Reuters leased 147,000 sf at 19 Duncan Street for one of its global technology hubs. Spin Master Ltd. leased 23,000 sf at 225 King Street West.

Sublease Availability

Overall sublet availability increased over the quarter to 222,000 sf from 198,000 sf last quarter. The rise in sublet availability can be attributed to Class A sublet space, which has more than doubled to 148,000 sf from one year ago.

Over the next two quarters, sublet availability is expected to increase by 46,000 sf. With the exception of a 12,000-sf sublet at 370 King Street West, most of the new sublet availabilities arriving will be under 7,000 sf.

Absorption

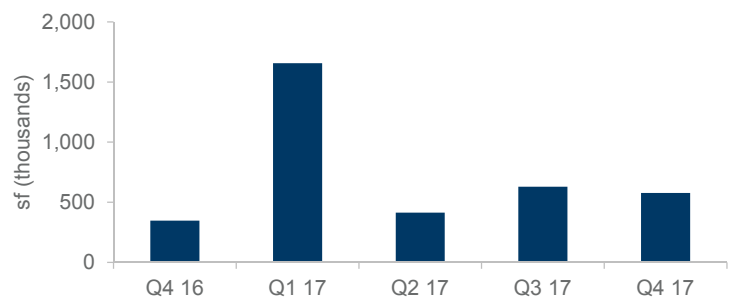
The Downtown Fringe's 2017 annual absorption total reached a 7-year high of 1.5 msf, driven by strong absorption of 863,000 sf in the fourth quarter. The absorption spike was due in part to several major tenants that moved into the recently completed buildings as scheduled.

The absorption outlook for the coming year is expected to be moderate. Currently, 2018's anticipated new supply of 150,000 sf, which is two-thirds leased, should account for about 100,000 sf of absorption in the second half of the year. The positive absorption trend that began in the second half of 2017 is likely to continue, spurred by expansionary demand.

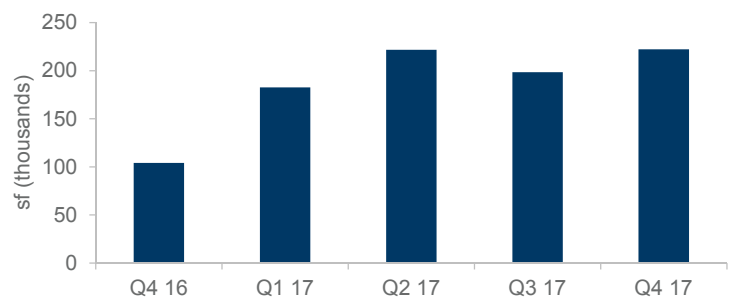
Availability All Classes



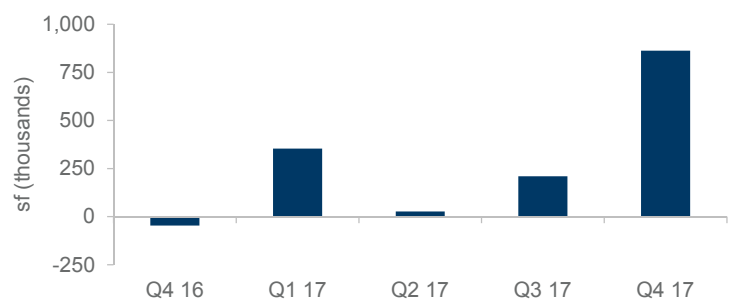
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Midtown's availability increased to 3.6% from the 28-year low of 3.1% set in the third quarter 2017. This was driven by large increases in both Class A availability in the Eglinton submarket and Class B availability in the Bloor submarket.

Approximately 60,000 sf of space is expected to return to market in the first half of 2018. In the third quarter of 2018, over 180,000 sf of space is expected to return to market. The largest new availability will be 129,000 sf at 121 Bloor Street East as Shaw Media is set to relinquish their remaining space.

Leasing Activity

Midtown's leasing activity in the fourth quarter of 2017 of 206,000 sf was unchanged from last quarter. Annual leasing activity for 2017 was significant, reaching 919,000 sf, the highest level achieved since 2008.

Notable deals in the quarter included ARUP's 3-floor, 49,000-sf lease at 121 Bloor Street East, and Top Hat Monocle Corporation's lease expansion of 14,000 sf at 151 Bloor Street West. A prominent renewal in the quarter was Deloitte LLP's 16,000-sf deal at 20 Eglinton Avenue West.

Sublease Availability

Sublet availability increased to 101,000 sf from 29,000 sf over the quarter, which is very close to the 2-year quarterly average of 110,000 sf. The increase was driven by Class A sublet availability in the Eglinton submarket, which increased by 35,000 sf.

A low amount of sublet space is being tracked to become available over the next few quarters. As such, sublet availability, which comprises one-sixth of Midtown's total available space, is expected to tighten in the coming year.

Absorption

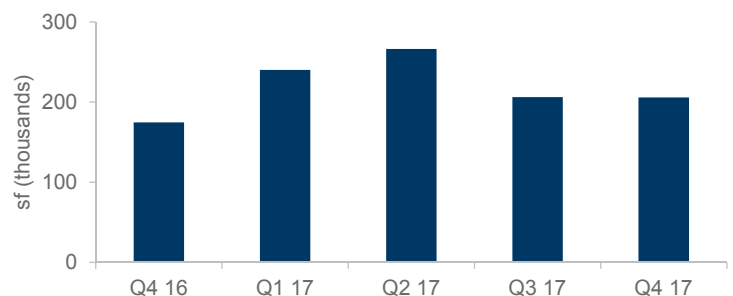
Midtown's overall absorption fell in the fourth quarter of 2017 to negative 81,000 sf from 112,000 sf last quarter. Absorption levels fell into negative territory across all submarkets this quarter. The biggest decrease was in the Bloor submarket where absorption decreased by approximately 77,000 sf.

Although absorption softened in the fourth quarter, annual absorption in 2017 was 162,000 sf, the highest level since 2011 when absorption reached 194,000 sf. Also, Midtown's 5-year average quarterly absorption of negative 3,000 sf demonstrates its ability to withstand absorption fluctuations.

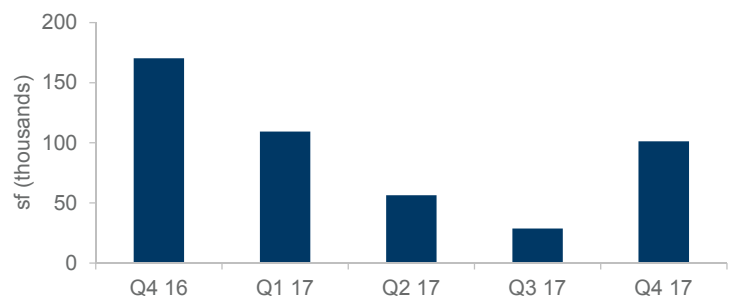
Availability All Classes



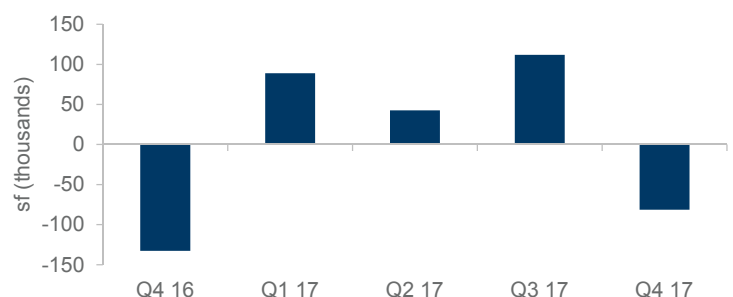
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

GTA East's overall availability rate increased in the fourth quarter to 9.6% from 9.2% last quarter. This was mainly due to the Scarborough submarket, which experienced an increase in availability of 248,000 sf this quarter.

Approximately 483,000 sf of space is expected to return over the next quarter. This includes several sublets totaling 190,000 sf at 300 Consilium Place. Also, Sony Canada Inc. is to vacate the entire building of about 145,000 sf at 115 Gordon Baker Road.

Leasing Activity

Leasing activity increased this quarter to 373,000 sf from 341,000 sf last quarter. Class A leasing increased by 119,000 sf, while Class B and C combined decreased by 87,000 sf in the quarter. The annual leasing total for 2017 of 1.5 msf was lower than the 4-year average by about 146,000 sf.

Significant deals included Sony Canada Inc.'s 40,000-sf lease at 2235 Sheppard Avenue East and Cirba Inc.'s 32,000-sf lease at 179 Enterprise Boulevard.

Sublease Availability

Sublet availability increased slightly this quarter to 366,000 sf from 348,000 sf. The Duncan Mill and Hwy 404 & Hwy 7 submarkets contributed equally to this increase. Although sublet availability has risen over 2017, its current level is about 20% lower than the 8-year quarterly average of 457,000 sf.

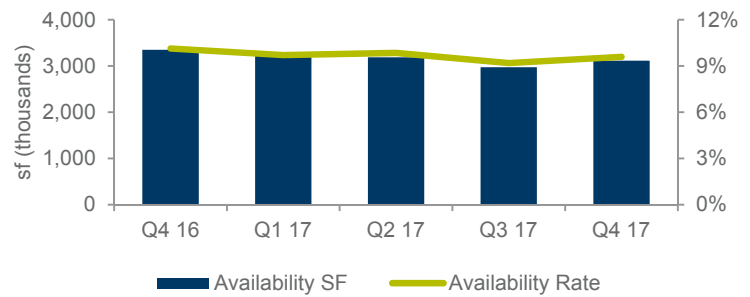
The GTA East market is estimated to see additional sublet availability returning to market over the next quarter. This is due to 190,000 sf of sublet space at 300 Consilium Place, of which over half is Telus Mobility Inc. space.

Absorption

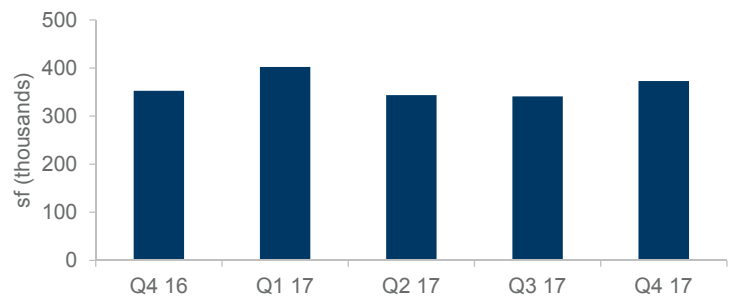
GTA East overall absorption fell over the quarter to negative 183,000 sf from 228,000 sf last quarter. This can be attributed to declines in the Scarborough and Hwy 404 & Hwy 7 submarkets' Class A absorption in the fourth quarter.

The overall annual absorption total for 2017 increased to 148,000 sf from negative 270,000 sf last year. This is a significant improvement over the 5-year annual average absorption of negative 77,000 sf.

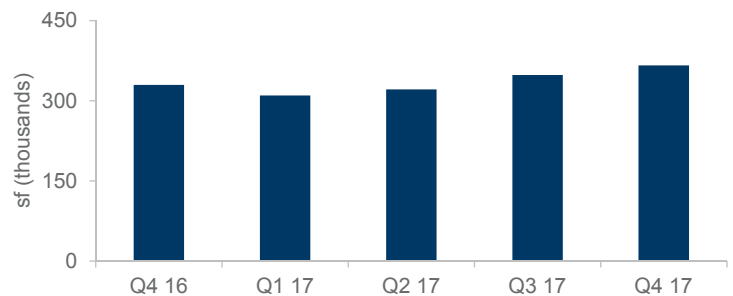
Availability All Classes



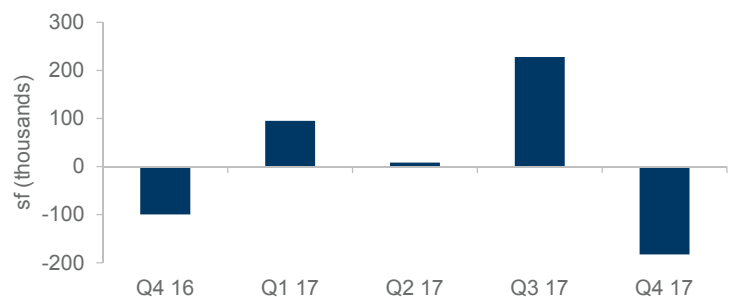
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA North's overall availability rate increased in the fourth quarter to 7.3% from 6.8% last quarter. This was driven by the North Yonge Corridor's Class A availability increase of 71,000 sf. In addition, 63,000 sf of new supply was completed at 6240 Highway 7 in Vaughan, adding 25,000 sf of availability this quarter.

A total of 168,000 sf of space is expected to become available in the GTA North market over the next two quarters. The largest block will be 41,000 sf at 90 Sheppard Avenue East, which is space that will be vacated by the Minto Group Inc.

Leasing Activity

Leasing activity decreased in the fourth quarter to 146,000 sf from 181,000 sf last quarter. This was mainly due to the North Yonge Corridor's 68,000 sf decrease in leasing activity. The unstable leasing pattern of the last few quarters has continued.

Significant transactions completed in the fourth quarter included: Franklin Templeton Investments Corp.'s 99,000-sf renewal deal at 5000 Yonge Street and Deloitte LLP's 36,000-sf renewal deal at 400 Applewood Crescent.

Sublease Availability

Overall sublet availability decreased slightly to 127,000 sf from 136,000 sf quarter-over-quarter. This was driven by the North Yonge Corridor's Class A sublet space decrease of 9,000 sf in the quarter.

A very low amount of sublet space is being tracked to become available over the next two quarters, with the largest block being a 3,000-sf sublet at 4950 Yonge Street.

Absorption

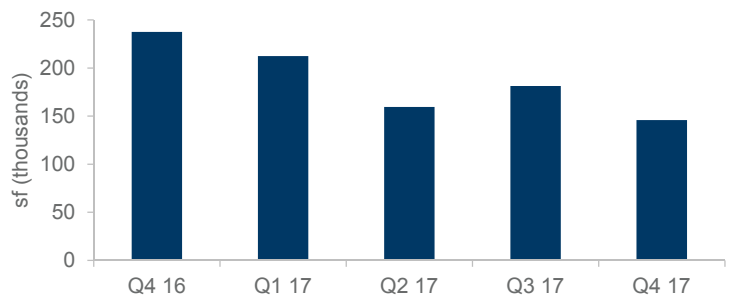
GTA North absorption continued to decrease, falling to negative 95,000 sf from negative 61,000 sf last quarter. This was due to a 30,000-sf decrease in absorption in the North Yonge Corridor.

The completion of new supply in Vaughan this quarter and its subsequent occupancy in 2018 will provide a boost to absorption. In addition, the completion of the TTC subway extension is expected to spur development. As a result, moderate levels of absorption are to be expected in the coming quarters and beyond.

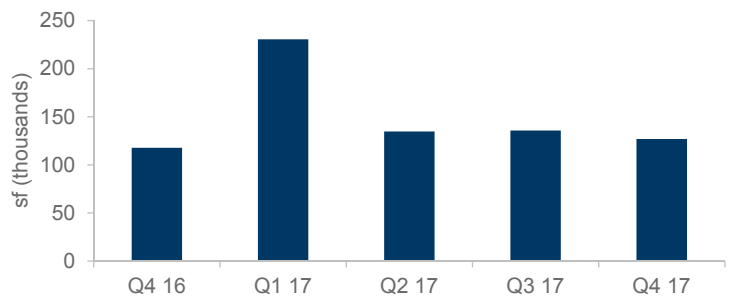
Availability All Classes



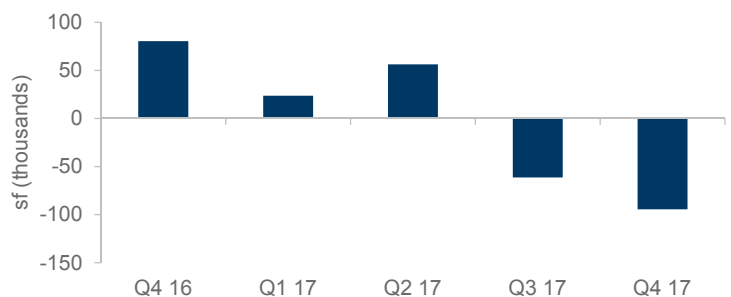
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The availability rate in the fourth quarter remained steady at 14.1%. Class A experienced an increase in availability of about 60,000 sf, while both Class B and C saw a slight decline.

Approximately 700,000 sf is expected to come to market over the next quarter. This will include availabilities of 139,000 sf at 360 Oakville Place Drive and 90,000 sf at 1415 Joshua's Creek Drive, two new developments that are scheduled to be completed in the first quarter of 2018.

Leasing Activity

Over the last two years, the annual leasing activity totals in the GTA West has experienced gradual declines. Annual leasing for 2017 fell by 266,000 sf to 1.9 msf. This decrease can be attributed to overall declines in the Meadowvale and Mississauga City Centre submarkets. Leasing activity for the fourth quarter decreased to 368,000 sf from 549,000 sf last quarter.

Significant deals included Nokia Siemens Network's 15,000-sf lease at 5580 Explorer Drive and BioScript Pharmacy Solutions' 15,000-sf lease at 1393 North Service Road East.

Sublease Availability

GTA West sublease availability decreased in the fourth quarter to 833,000 sf from 862,000 sf last quarter. This was primarily attributed to the Hurontario submarket, where Class A sublet space decreased to 98,000 sf from 140,000 sf quarter-over-quarter.

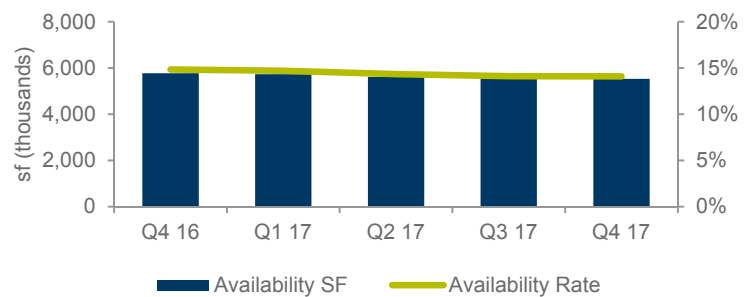
Over the first half of 2018, approximately 45,000 sf is expected to return back to market. The largest will be a block of 35,000 sf at 5900 Hurontario Street.

Absorption

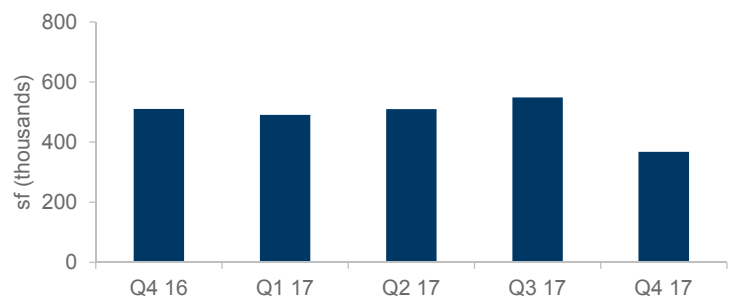
GTA West absorption declined to negative 77,000 sf from 80,000 sf. The largest decreases were in the Mississauga City Centre, Oakville, and Airport submarkets. Annual absorption for 2017 increased to 40,000 sf from negative 69,000 sf.

The completion of 8 Prologis Boulevard and other office developments is scheduled for the first quarter of 2018. The subsequent occupancy in these buildings by tenants is expected to drive up next year's absorption.

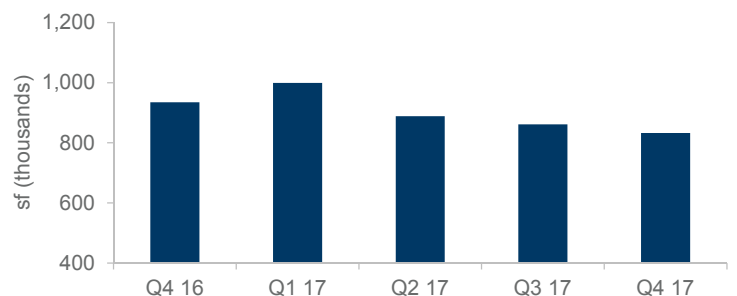
Availability All Classes



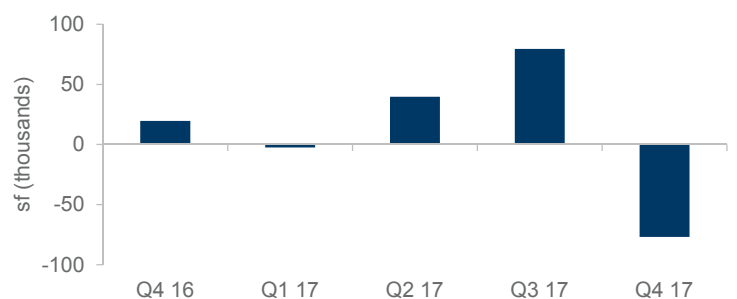
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



MARKETBEAT

Greater Toronto Area, ON

Office Q4 2017



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	36,268,316	161,862	1,128,291	3.6%	95,805	834,713	3,461,302	0	\$57.41	\$60.69
Downtown Fringe	38,300,933	222,265	523,796	1.9%	862,695	1,453,760	3,277,061	2,913,736	\$46.03	\$50.43
Downtown	74,569,249	384,127	1,652,087	2.7%	958,500	2,288,473	6,738,363	2,913,736	\$51.57	\$56.22
Midtown	16,486,181	101,322	497,530	3.6%	-81,407	161,923	918,575	0	\$43.14	\$48.94
CENTRAL AREA	91,055,430	485,449	2,149,617	2.9%	877,093	2,450,396	7,656,938	2,913,736	\$50.07	\$55.26
GTA East	32,476,923	366,049	2,748,638	9.6%	-182,893	148,242	1,459,968	0	\$29.36	\$32.92
GTA North	15,177,016	126,987	982,032	7.3%	-94,522	-75,998	699,082	0	\$35.41	\$36.42
GTA West	39,250,793	832,614	4,696,255	14.1%	-76,822	39,921	1,917,005	439,232	\$30.36	\$32.23
SUBURBAN AREA	86,904,732	1,325,650	8,426,925	11.2%	-354,237	112,165	4,076,055	439,232	\$30.82	\$33.29
GTA TOTALS	177,960,162	1,811,099	10,576,542	7.0%	522,856	2,562,561	11,732,993	3,352,968	\$40.76	\$45.42

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
19 Duncan Street	147,000	Thomson Reuters	Lease	Downtown West
150 King Street West	53,000	Scotiabank	Lease	Financial Core
121 Bloor Street East	49,000	ARUP	Lease	Bloor & Yonge
181 Bay Street	49,000	RBC Royal Bank of Canada	Lease	Financial Core
2235 Sheppard Avenue East	40,000	Sony Canada Inc.	Lease	Consumers Road
181 Bay Street	35,000	Brookfield Properties Ltd.	Lease	Financial Core
179 Enterprise Boulevard	32,000	CiRBA Inc.	Lease	Hwy 7 & Hwy 404
2550 Victoria Park Drive	24,000	The Dynacare Health Group Inc.	Lease	Consumers Road

Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
6655, 6695, 6715 & 6725 Airport Road	329,347	Dream Office REIT / Kingsett Capital	\$38,860,002 / \$118	Airport Fringe
Valhalla Executive Centre	327,000	Dream Office REIT / Kingsett Capital	\$36,727,483 / \$112	Hwy 427 Corridor
18 King Street East	231,505	Dream Office REIT / Kingsett Capital	\$43,148,285 / \$186	Financial Core
Corporate Plaza	210,607	Dream Office REIT / Kingsett Capital	\$38,674,000 / \$184	Scarborough City Centre
8 King Street East	151,000	Dream Office REIT / Kingsett Capital	\$55,801,059 / \$370	Financial Core

Source: RealNet Canada Inc.

MARKETBEAT

Greater Toronto Area, ON

Office Q4 2017



Key Construction Completions 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%)
100 Adelaide Street West, Toronto	Financial Core	EY Canada	Q2 2017	905,720 (94%)
351 King Street East, Toronto	Downtown East	The Globe and Mail	Q1 2017	500,000 (100%)
610 Chartwell Road East, Oakville	Oakville	MMM Group	Q1 2017	102,660 (71%)
6240 Highway 7, Vaughan	Vaughan	TaylorMade Golf	Q4 2017	62,970 (60%)
20 Wellington Street East, Toronto	Financial Core	BDO Canada LLP	Q2 2017	43,411 (100%)
567 Michigan Drive, Oakville	Oakville	n/a	Q3 2017	40,700 (19%)
9135 Keele Street, Vaughan	Vaughan	n/a	Q1 2017	38,672 (85%)

Key Projects Under Construction

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
81 Bay Street, Toronto	Downtown South	CIBC	Q2 2020	1,510,592 (75%)
16 York Street, Toronto	Downtown South	Speculative	Q3 2020	879,000 (0%)
620 King Street West, Toronto	Downtown West	Shopify	Q1 2019	266,900 (100%)
8 Prologis Boulevard, Mississauga	Hurontario	Royal & Sun Alliance Insurance Company of Canada	Q1 2018	210,500 (82%)
500 Lake Shore Boulevard West, Toronto	King West	Speculative	Q2 2019	160,989 (0%)
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%)
1415 Joshuas Creek Drive, Oakville	Oakville	Speculative	Q1 2018	89,600 (0%)

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