

GREATER TORONTO AREA OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
GTA Employment	3.3 mil	3.3 mil	▲
GTA Unemployment	6.1%	6.1%	▼
Canada Unemployment	6.2%	5.9%	■

Source: Statistics Canada

Economy

Ontario is among three provinces in Canada boasting near record-low unemployment rates; creating labour shortages and rising wages for some industries. In an effort to keep a lid on inflation, the Bank of Canada raised interest rates in October 2018 to 1.75%. Canada's economy is expected to grow at a fairly solid rate, from 2.1% in 2018 to 2.2% in 2019. (Source: RBC Economics)

Market Overview

The unprecedented boom cycle, which kicked off in 2009, has posted impressive results quarter after quarter. The third quarter of 2018 was another record breaker, and highlighted downtown Toronto as being the largest and fastest growing office market in Canada. Downtown availability plummeted for a fifth consecutive quarter to yet another historic low of 2.3%. Vancouver was close behind at 2.4%, while other major Central markets posted rates above 7.0%.

Technology is one of the main forces behind this transformational cycle. The tech sector itself accounted for more than 30% of the office growth in the past year and continues to reinvent the way we live, work and play. In this evolving office environment, occupiers are increasingly seeking agile, flexible workplaces, which has fueled the rise of the coworking sector. A dire shortage of space in the fringe markets surrounding the core is the number one challenge facing tenants on the street today. Overall availability in these markets is now scraping the bottom at 1.5%, which has sent the downtown average net rent soaring by 16.7% year-over-year.

The second half of 2018 started with a solid performance by the GTA Suburban market. Overall quarterly absorption reached a two-year high of 451,000 square feet (sf) with all three markets posting positive growth and falling availability rates for the first time this year. However, the Suburban market remains a tale of two cities with much of the growth concentrated in amenity-rich nodes with an urban vibe such as Mississauga City Centre, Hwy. 404 & Hwy. 7, and Vaughan. These nodes continue to attract companies with "urbanized developments" and are experiencing stronger market dynamics.

Outlook

With no sign of softening demand, Toronto's downtown market is becoming a victim of its own success. Limited office availability will restrain growth and exert continued upward pressure on rental rates in the short term. Growth in the GTA East market will likely remain steady while improved demand in GTA West is expected to fuel positive results through to the end of 2018.

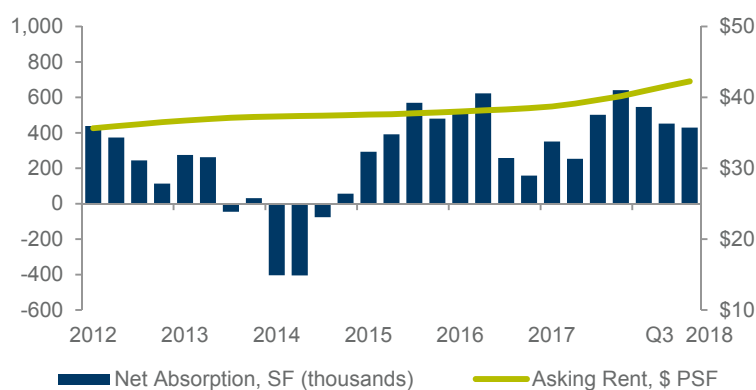
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Availability Rate	6.9%	6.5%	▼
Net Absorption (sf)	736,593	646,594	■
Under Construction (sf)	3,393,437	6,521,150	▲
Average Asking Rent*	\$40.56	\$43.31	▲

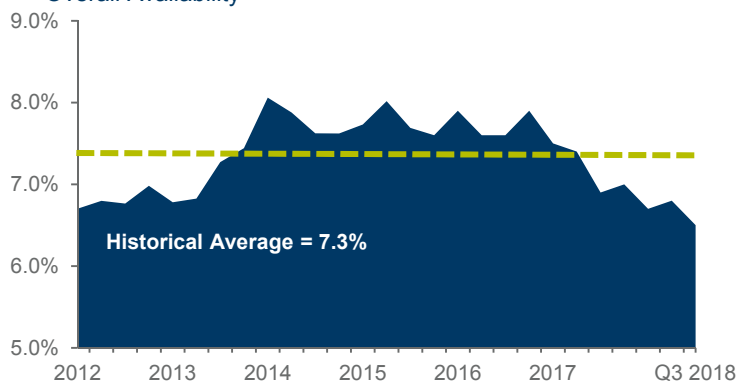
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Availability



Availability

After declining for four consecutive quarters, the overall availability rate increased slightly in the third quarter of 2018 to 3.1% from 3.0% last quarter. This was driven by an increase of 62,000 sf in Class A availability to 592,000 sf.

An additional 611,000 sf of availability is expected to return to market over the next two quarters. This includes a block of over 100,000 sf at 200 Bay Street (North Tower) that will be vacated by Oxford Properties Group Inc.

Leasing Activity

Leasing activity rose in the third quarter of 2018 to 672,000 sf from 617,000 sf last quarter. The rise was driven by Class B leasing and slight increases in Class AAA and A leasing.

The footprint of coworking companies continues to grow, with WeWork leasing 52,000 sf at 100 University Avenue. Two new office towers are scheduled to open in 2022: Bay Adelaide Centre North (Scotiabank leased approximately 420,000 sf) and 160 Front Street West (OTPP leased 257,000 sf).

Sublease Availability

Sublet availability increased in the third quarter of 2018 to 244,000 sf from 176,000 sf last quarter. This rise in availability can be attributed to Class B space, which increased by 49,000 sf to 84,000 sf over the quarter.

Over the next two quarters, new sublet availability is expected to increase by about 88,000 sf. The largest availability arriving will be Open Text Corporation's 21,000-sf premises at 105 Adelaide Street West.

Absorption

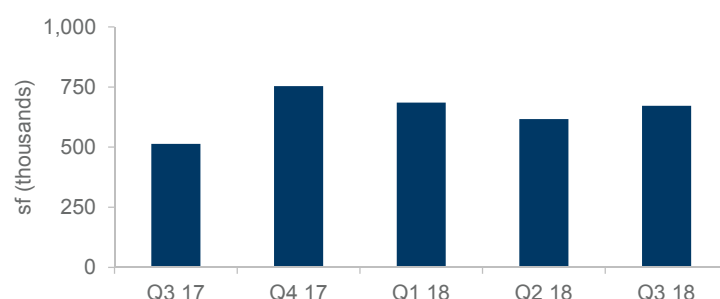
The Financial Core's absorption in the third quarter of 2018 of 159,000 sf was basically flat, with Class A absorption comprising 87% of the total. Nonetheless, overall absorption has been positive for the last thirteen quarters, with a cumulative absorption of almost 2 million sf over this growth period.

Absorption over the first three quarters of 2018 has been moderate, coming off a 17-year high driven by the occupancy of newly completed buildings. This moderate trend should continue, given the shortage of large blocks, the absence of new supply this year and the near record-low availability.

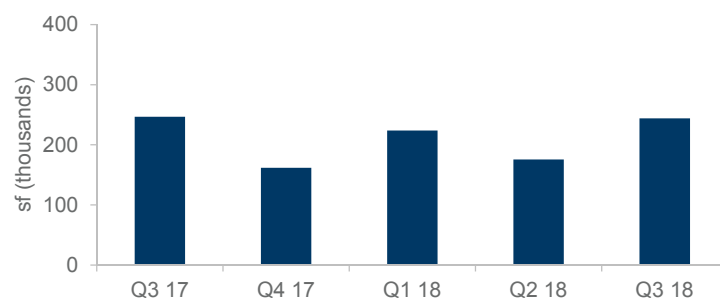
Availability All Classes



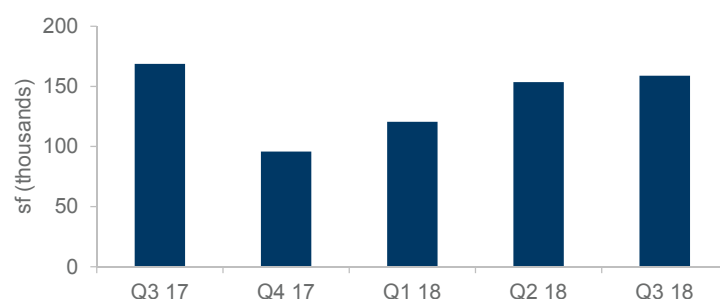
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Overall availability fell in the third quarter of 2018 to 1.5% from 1.8% last quarter. This was driven mainly by a 50,000-sf decrease in Class B availability in both the Downtown North and Downtown West submarkets.

An additional 223,000 sf of availability is expected to come to market over the next two quarters, with the largest block being 47,000 sf at 468 King Street West; to be vacated by Indigo Books & Music. There is little relief coming for tenants seeking larger premises as only five of these availabilities are over 10,000 sf.

Leasing Activity

Although leasing activity remained flat at 371,000 sf over the third quarter of 2018, development activity was on fire. Significant lease deals were announced at The Well and the Waterfront Innovation Centre. In addition 65 King Street East, a speculative development, had its ground-breaking.

One Eleven completed a 49,000-sf expansion deal at 325 Front Street West. Two lease deals were transacted at the 81 Bay Street development: about 131,000 sf by Microsoft Canada Inc. and approximately 97,000 sf by AGF Management Ltd.

Sublease Availability

Overall sublet availability increased over the third quarter of 2018 to 164,000 sf from 147,000 sf last quarter. The increase can be attributed to Class A sublet availability, which more than doubled to reach 54,000 sf.

New sublets becoming available have been on the decline in recent quarters. About 40,000 sf of space is expected to arrive over the next two quarters. In general, most of the sublets are below 5,000 sf, except for Workplace One's large sublet block of 10,000 sf at 111 Peter Street.

Absorption

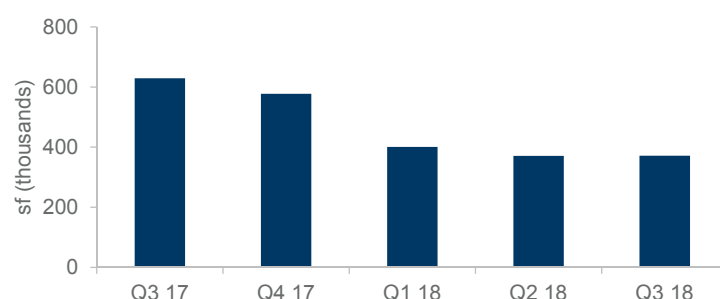
Absorption in the Downtown Fringe shifted back into positive territory over the third quarter of 2018, rising marginally to 99,000 sf. This rise can be attributed to Class B absorption, which posted its best quarter in over four years. This offset the slightly negative absorption results for Class A and C.

Looking ahead, absorption is likely to remain low through to the end of 2018 largely due to the absence of new supply absorption and near record-low availability. Absorption is expected to rise in 2019 as several substantially leased developments are completed and tenants take occupancy.

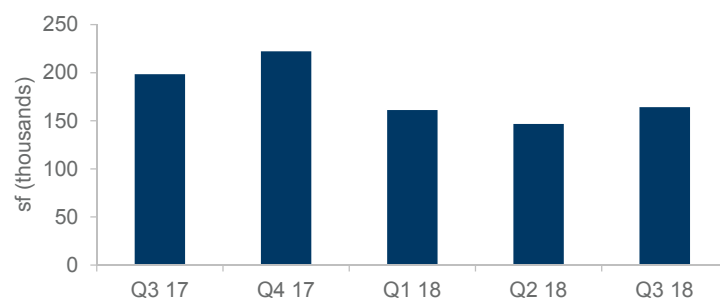
Availability All Classes



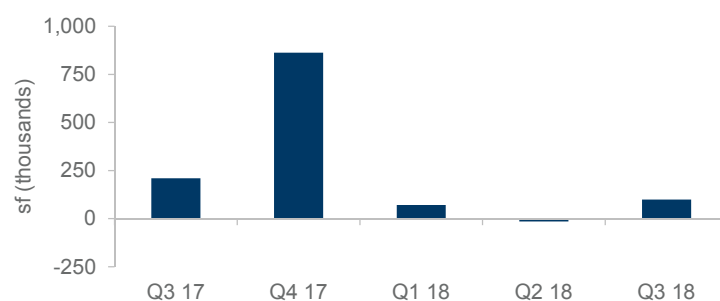
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Midtown's availability rate increased to 3.2% from 2.8% quarter-over-quarter, driven by a 67,000-sf increase in Class A space in the Bloor submarket. The bulk of availabilities in the Eglinton and St. Clair submarkets are in Class B buildings, while the Bloor submarket's availabilities are predominately in Class A buildings.

Almost 160,000 sf of space is expected to return to market over the next two quarters. Most of the availabilities are below 10,000 sf, with the largest being West Face Capital Inc.'s 17,000-sf sublet at 2 Bloor Street East.

Leasing Activity

Leasing activity in the third quarter of 2018 was relatively unchanged from last quarter dipping to 162,000 sf from 164,000 sf. This quarter, the majority of leasing was almost equally split between Class A and Class B buildings. Leasing levels in the last 2 quarters have been the lowest in almost 2 years.

A notable transaction in the third quarter of 2018 was the SoundHound Inc. deal of 13,000 sf at 2 Bloor Street East. A notable renewal was Leo Burnett Worldwide's 79,000-sf deal at 175 Bloor Street East (North Tower).

Sublease Availability

Sublet availability declined to 47,000 sf from 62,000 sf over the third quarter of 2018. This is approximately 40% of the 3-year quarterly average of 111,000 sf. The majority of sublet space is in the Bloor and Eglinton submarkets, which combined comprise 80% of all sublets.

Over the next two quarters about 42,000 sf of sublet space is being tracked to become available. As a result, sublet availability is expected to remain low over the next few quarters.

Absorption

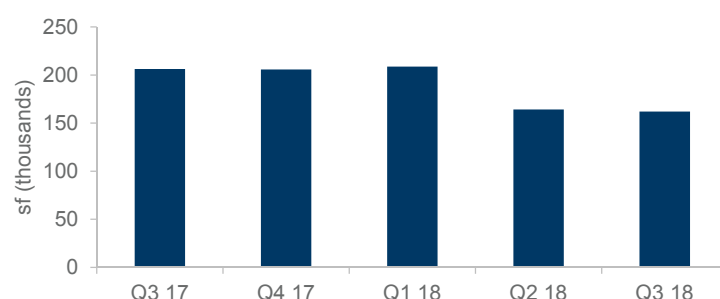
Midtown's overall absorption declined in the third quarter of 2018 to negative 62,000 sf from negative 29,000 sf last quarter. All three submarkets posted negative results this quarter. This marks the second consecutive quarter that overall absorption has been negative.

Midtown continues to experience wide variations in quarterly absorption as demonstrated by this quarter's result. Over the last five years, quarterly absorption has ranged from negative 133,000 sf to 117,000 sf, with the cumulative total tending to balance out to around zero.

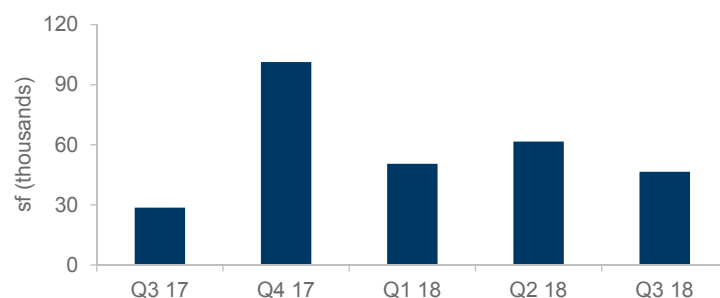
Availability All Classes



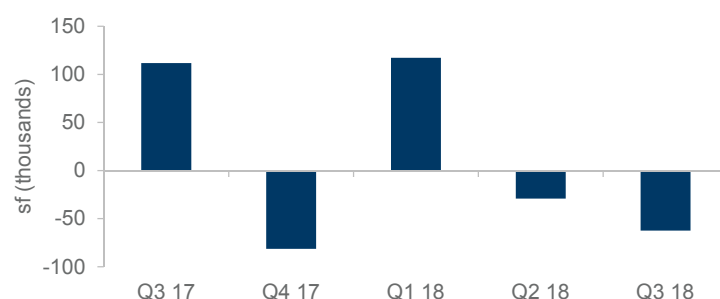
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA East overall availability rate decreased in the third quarter of 2018 to 10.6% from 11.0% last quarter. This decline was driven by the Consumers Road submarket, which fell by 58,000 sf. This quarter marks the first decrease in the GTA East's overall availability after 3 consecutive quarterly increases.

Approximately 100,000 sf of space is expected to return over the next quarter. This includes the 23,000-sf block at 27 Allstate Parkway, which is expected to be vacated by Oracle Corporation Canada Inc.

Leasing Activity

Leasing activity decreased in the third quarter of 2018 to 410,000 sf from 585,000 sf last quarter. This decrease was primarily due to Class B leasing activity, which fell by 153,000 sf in the quarter.

A significant transaction completed in the third quarter of 2018 included ThyssenKrupp Elevator Canada's 17,000-sf lease at 2075 Kennedy Road. Two notable renewals were Aecom's 70,000-sf deal at 105 Commerce Valley Drive West and their 26,000-sf deal at 30 Leek Crescent.

Sublease Availability

Sublet availability rose this quarter to 527,000 sf from 469,000 sf last quarter. This was driven by the Hwy 404 & Hwy 7 submarket's sublet space increase of 30,000 sf during the quarter. Sublet availability over the last 3 quarters is about 25% higher than the 3-year quarterly average of 390,000 sf.

A low amount of sublet space is being tracked to become available over the next few quarters. It is likely that sublet availability, which has risen by 217,000 sf over the past 7 quarters, will begin to tighten.

Absorption

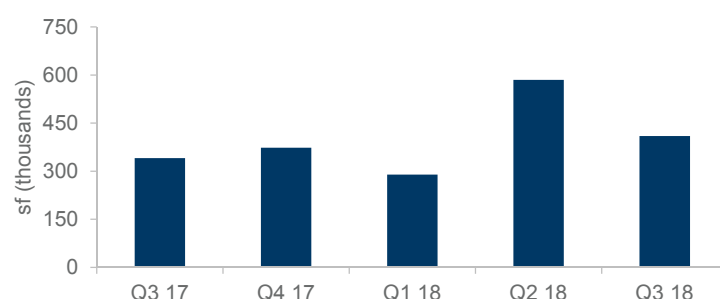
GTA East's overall absorption returned to positive territory, increasing in the third quarter of 2018 to 150,000 sf. This was largely due to the improvement in absorption in the Steeles & Hwy 404 submarket. Also, the completion of 5 Via Renzo Drive added 45,000 sf of positive absorption.

Given that decreasing amounts of space are currently being tracked to return to market over the next several quarters, it is likely that absorption will remain in positive territory.

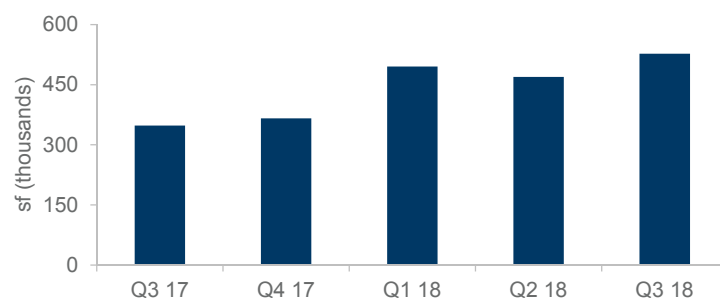
Availability All Classes



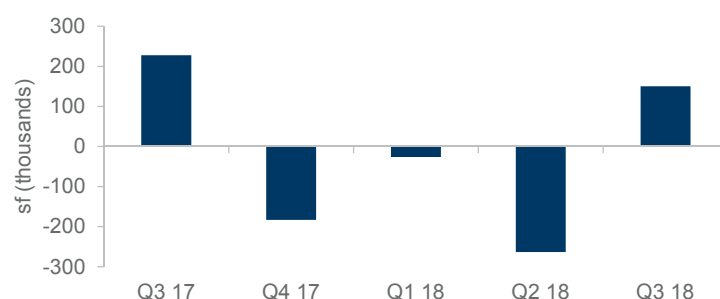
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

The GTA North overall availability rate decreased in the third quarter of 2018 to 7.0% from 8.2% last quarter. This was driven by the North Yonge Corridor submarket's overall availability decrease of 118,000 sf.

Over 140,000 sf of space is expected to become available in the GTA North market over the remainder of 2018. The largest availability will be 60,000 sf at 4100 Yonge Street, which is largely space that will be vacated by KPMG International.

Leasing Activity

Leasing activity increased in the third quarter of 2018 to 334,000 sf from 199,000 sf last quarter. This was mainly due to quarter-over-quarter Class A leasing increases in 2 submarkets: 40,000 sf in Vaughan and 31,000 sf in the North Yonge Corridor.

A significant transaction completed in the third quarter of 2018 was Smith and Anderson Consulting Engineers' 56,000-sf lease at 100 Sheppard Avenue East. This helped GTA North achieve its third consecutive quarterly increase in Class A leasing activity.

Sublease Availability

Overall sublet availability decreased to 141,000 sf from 185,000 sf quarter-over-quarter. This was mainly driven by a 46,000-sf decrease in Vaughan's Class A sublet space. Class A sublet availability is currently less than half of the Q1 2017 total of 209,000 sf.

A low amount of sublet space is being tracked to become available next quarter. As a result, overall sublet availability will likely continue to tighten throughout the remainder of the year.

Absorption

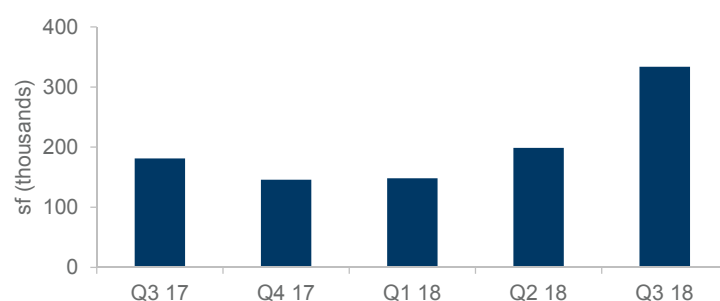
GTA North absorption increased in the third quarter of 2018 to 126,000 sf from negative 112,000 sf last quarter. This was mainly due to an increase in absorption in the North Yonge Corridor submarket of 97,000 sf.

Absorption will likely remain moderate for the remainder of 2018. Currently, there is no absorption from tenants occupying new developments in the coming quarters. GTA North's next new building, the 90,000-sf building at 6220 Highway 7 in Vaughan, is fully available for lease.

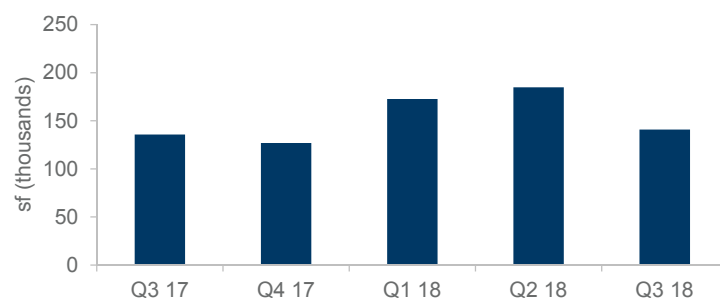
Availability All Classes



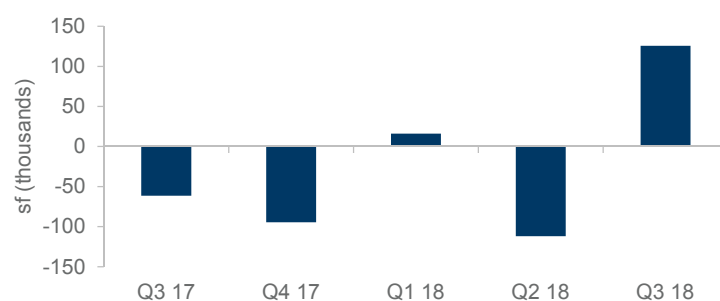
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



Availability

Overall availability in the GTA West market has declined for seven consecutive quarters, falling to 12.1% from 14.8% during this period. This quarter's decline of 268,000 sf was largely attributed to the Meadowvale submarket, which experienced a decrease of 161,000 sf in Class A space.

Over the next quarter 212,000 sf of space is expected to come to market. This includes 43,000 sf at 3455 North Service Road as well as 36,000 sf at 2000 Argentia Road (Building 5), which is expected to be vacated by Primerica.

Leasing Activity

Leasing activity experienced a marginal increase this quarter, rising to 751,000 sf from 743,000 sf. Leasing activity in the Meadowvale and Airport submarkets experienced the largest increases with both submarkets rising by more than 100,000 sf.

Notable deals this quarter included Purolator Inc.'s 90,000-sf deal at 2727 Meadowpine Boulevard, General Electric Canada Property Inc.'s 71,000-sf deal at 1919 Minnesota Court and ERCO Worldwide Ltd.'s 36,000-sf deal at 5050 Satellite Drive.

Sublease Availability

Sublease availability declined by 87,000 sf in the third quarter of 2018, driven by a 71,000-sf drop in Class A space in the Airport Corporate Centre submarket. Availability in the GTA West market has declined to 396,000 sf from about one million sf over the past 6 quarters, a drop of 60%.

The amount of sublet space coming to the GTA West market is expected to remain relatively low over the next several quarters. One of the larger sublets coming to market next quarter is Citibank's 35,000-sf premises at 5900 Hurontario Street.

Absorption

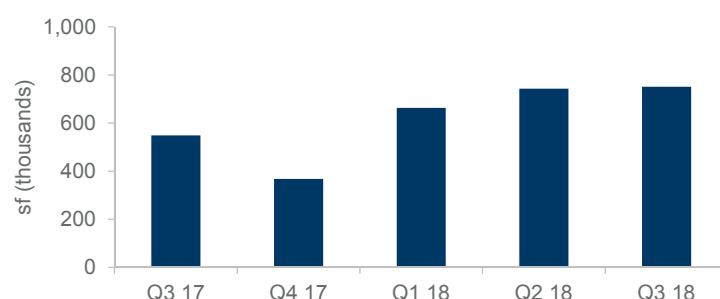
Overall absorption remained in positive territory this quarter, despite a decline of 227,000 sf to 175,000 sf. This decrease can be attributed to the Hurontario submarket, which experienced a decline in Class A space of 279,000 sf.

With a fair amount of space expected to return to market over the next quarter, it is likely that absorption will remain low over the remainder of the year. Currently, annual absorption for 2018 is on track to reach a 10-year high, surpassing 2015's absorption total of 580,000 sf.

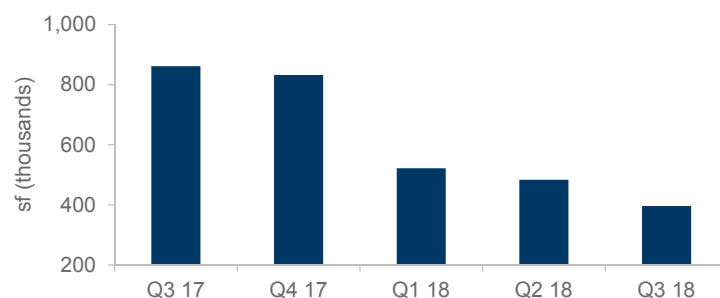
Availability All Classes



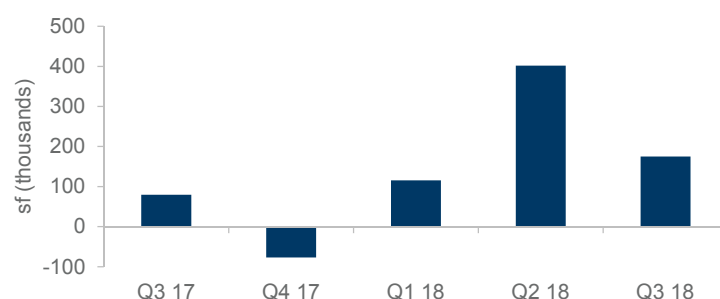
Leasing Activity All Classes



Sublease Availability All Classes



Absorption All Classes



MARKETBEAT

Greater Toronto Area, ON

Office Q3 2018



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	36,113,403	244,037	870,425	3.1%	158,827	432,926	1,973,786	820,000	\$61.93	\$65.23
Downtown Fringe	38,046,792	164,179	408,031	1.5%	98,853	155,424	1,143,537	5,268,501	\$50.94	\$55.62
Downtown	74,160,195	408,216	1,278,456	2.3%	257,680	588,350	3,117,323	6,088,501	\$56.29	\$61.04
Midtown	16,197,605	46,573	467,212	3.2%	-62,424	25,579	534,967	0	\$46.08	\$51.46
CENTRAL AREA	90,357,800	454,789	1,745,668	2.4%	195,256	613,929	3,652,290	6,088,501	\$54.48	\$59.76
GTA East	32,382,567	527,205	2,894,158	10.6%	150,488	-139,005	1,284,073	0	\$30.12	\$33.78
GTA North	15,137,016	140,809	922,530	7.0%	125,622	29,636	680,917	90,000	\$36.80	\$37.89
GTA West	39,602,841	396,398	4,400,924	12.1%	175,228	692,564	2,157,171	342,649	\$30.67	\$32.61
SUBURBAN AREA	87,122,424	1,064,412	8,217,612	10.7%	451,338	583,195	4,122,161	432,649	\$31.48	\$34.01
GTA TOTALS	177,480,224	1,519,201	9,963,280	6.5%	646,594	1,197,124	7,774,451	6,521,150	\$43.31	\$48.18

*Rental rates reflect gross asking \$psf/year

** Leasing activity excludes renewals

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
81 Bay Street	131,000	Microsoft Canada Inc.	Lease	Downtown South
81 Bay Street	97,000	AGF Management Ltd.	Lease	Downtown South
2727 Meadowpine Boulevard	90,000	Purolator Inc.	Lease	Meadowvale
1919 Minnesota Court	71,000	General Electric Canada Property Inc.	Lease	Meadowvale
100 Sheppard Avenue East	56,000	Smith and Anderson Consulting Engineers	Lease	Yonge & Hwy 401
2845 Matheson Boulevard East	54,000	Campbell Soup Company	Lease	Airport Corporate Centre
100 University Avenue	52,000	WeWork	Lease	Financial Core
325 Front Street West	49,000	One Eleven	Expansion	Downtown West

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Lansing Square	439,612	Manulife Financial / Elad Canada	\$162,300,000 / \$369	Consumers Road
6655, 6695, 6715 & 6725 Airport Road	332,208	KingSett Capital / Greater Toronto Airports Authority	\$69,500,000 / \$209	Airport (Surrounding ACC)
Pearson Corporate Centre	305,446	Bentall Kennedy / Crown Realty Partners	\$63,500,000 / \$208	Airport (Surrounding ACC)
5775 Yonge Street	274,085	Sun Life Assurance Company of Canada / True North Commercial REIT	\$85,150,000 / \$311	Yonge & Hwy 401
1004 Middlegate Road	262,028	Crown Realty Partners / Rogers	\$64,965,000 / \$248	Cooksville

Source: RealNet Canada Inc.

MARKETBEAT

Greater Toronto Area, ON

Office Q3 2018



Key Construction Completions 2018

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
8 Prologis Boulevard, Mississauga	Hurontario Corridor	Royal & Sun Alliance Insurance Company of Canada	Q2 2018	210,500 (81%)
1415 Joshuas Creek Drive East, Oakville	Oakville	Weight Watchers Canada Ltd.	Q2 2018	89,600 (24%)
2 International Boulevard, Etobicoke	Airport Fringe	Speculative	Q2 2018	74,756 (25%)
5 Via Renzo Drive, Richmond Hill	Hwy 404 & Hwy 7	n/a	Q3 2018	60,000 (75%)

Key Projects Under Construction

PROPERTY	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SF (% LEASED)
81 Bay Street, Toronto	Downtown South	CIBC	Q4 2020	1,510,592 (98%)
The Well: 8 Spadina Avenue, 460 Front Street West & TBD, Toronto	Downtown West	Shopify	Q2 2022	1,067,000 (TBD)
16 York Street, Toronto	Downtown South	First National Financial LP	Q3 2020	886,159 (32%)
Bay Adelaide Centre North: 40 Temperance Street, Toronto	Financial Core	Scotiabank	Q3 2022	820,000 (51%)
100 Queens Quay East, Toronto	Downtown South	LCBO	Q2 2021	700,000 (33%)
65 King Street East, Toronto	Downtown East	Speculative	Q2 2021	413,071 (0%)
620 King Street West, Toronto	Downtown West	Shopify	Q1 2019	268,217 (100%)
500 Lake Shore Boulevard West, Toronto	King West	Speculative	Q4 2019	160,989 (TBD)
99 Atlantic Avenue, Toronto	King West	Speculative	Q1 2020	150,000 (0%)
19 Duncan Street, Toronto	Downtown West	Thomson Reuters	Q1 2021	146,515 (100%)
360 Oakville Place Drive, Oakville	Oakville	Speculative	Q4 2018	139,132 (0%)
410 Bathurst Street, Toronto	King West	University Health Network	Q4 2018	138,500 (100%)
5050 Satellite Drive, Mississauga	Airport Corporate Centre	ERCO Worldwide Ltd.	Q2 2019	129,728 (28%)
6220 Highway 7 West, Vaughan	Vaughan	Speculative	Q2 2019	90,000 (0%)

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