

1Q25

Downtown Toronto Office Market Overview



Downtown Toronto Office Market Observations

Downtown Toronto office vacancy slid to 13.7% at the first quarter of 2025, marking the second consecutive decline in downtown vacancy since peaking at 14.8% in the third quarter of 2024.

Absorption was positive to start the year with ~784k sf recorded in the first quarter of 2025, the most absorption in a first quarter in Toronto's downtown office market since 2000.

While leasing activity in the Financial Core led all downtown submarkets, vacancy remained elevated even as it declined quarter-over-quarter for the first time since the first half of 2023.

Return to office has proceeded at a slower pace in Downtown Toronto than in most other Canadian metros and remains a consideration for occupiers as the trend continues to linger.



Tenants are still seeking out model suites of all sizes, particularly in well-located and recently constructed class A premises in Downtown South and the Financial Core with landlords increasingly accepting the fit-out costs to lease the space.

With no large net new tenants making (pre) lease announcements in the Downtown core in 2025, vacancy, while stabilizing, will remain elevated due to two factors: i) lack of new supply and ii) obsolete backfill space not being occupied.

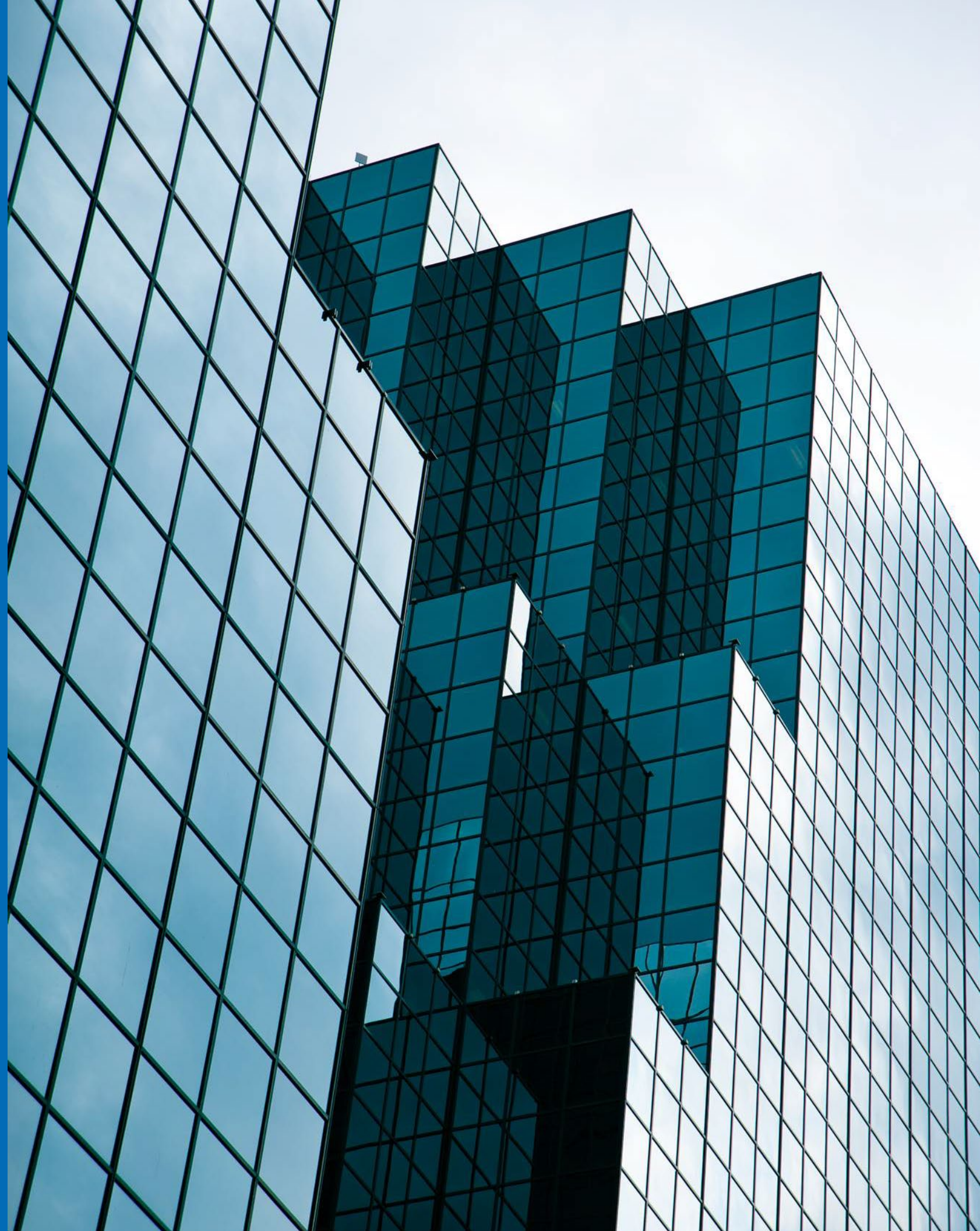
Renewals and deals in new or near-new class A space remain key leasing drivers in Downtown Toronto, particularly in the Financial Core and Downtown South submarkets, as tenants seek proximity to the public transit hub at Union Station.

After more than two years of rising vacancy related to anemic leasing in 2024 and a tenant exodus in 2023, Downtown West is showing signs of recovery in the first quarter of 2025 with vacancy declining due to the second most absorption in the core.

With class A rents continuing to diverge from class B/C rents downtown, inducements such as TIs, delayed term and free rent, particularly outside the Financial Core and Downtown South, are often necessary to get deals done.

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Office Market Metrics



Downtown Toronto Office Submarket Statistics | 1Q25

Submarket Statistics – All Classes								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	Annual Net Absorption (SF)	Direct Available Rate	Sublet Available Rate	All classes Est. Direct Gross Rent (\$/SF)
Downtown Toronto	81,648,560	1,956,146	13.7%	784,557	784,557	15.6%	3.3%	C\$45.6
Financial Core	37,256,952	1,435,520	13.2%	420,657	420,657	15.2%	2.7%	C\$47.8
Downtown West	14,284,468	563,731	19.0%	338,434	338,434	22.2%	4.9%	C\$42.7
Downtown North	13,844,908	53,338	13.8%	114,011	114,011	17.6%	2.4%	C\$47.6
Downtown South	11,108,486	0	7.8%	35,675	35,675	6.0%	2.5%	C\$57.0*
Downtown East	5,149,552	520,626	15.7%	-120,927	-120,927	16.3%	6.9%	C\$38.0

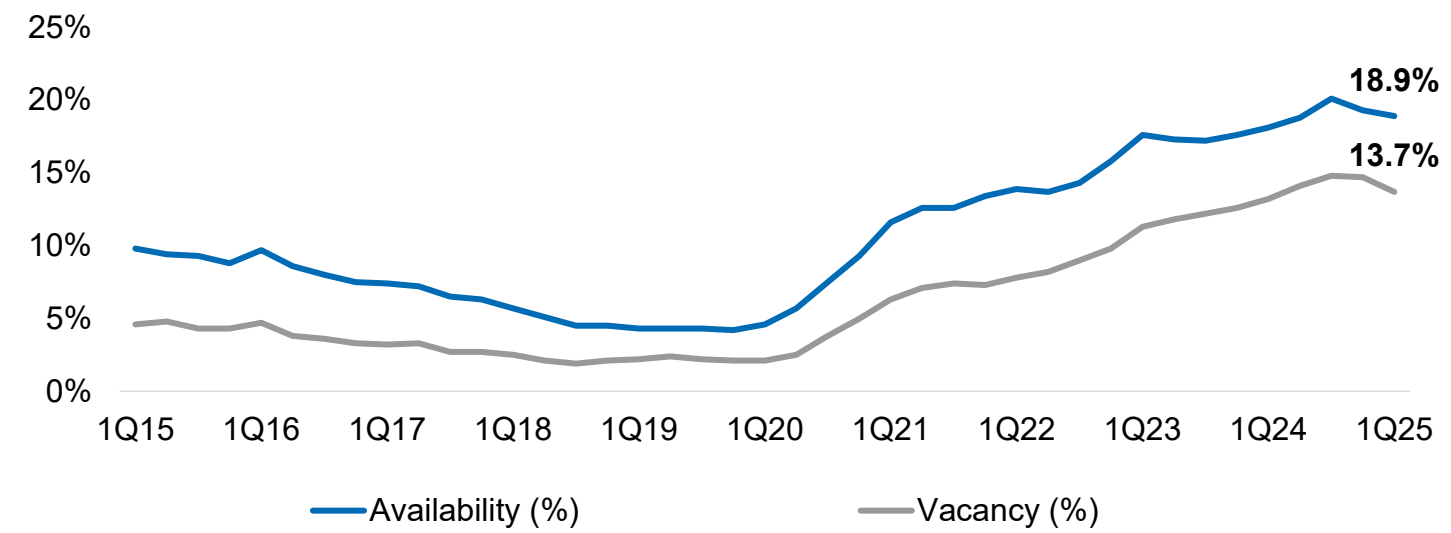
Source: Newmark Research, Altus Data Studio

* 3Q24 rent average

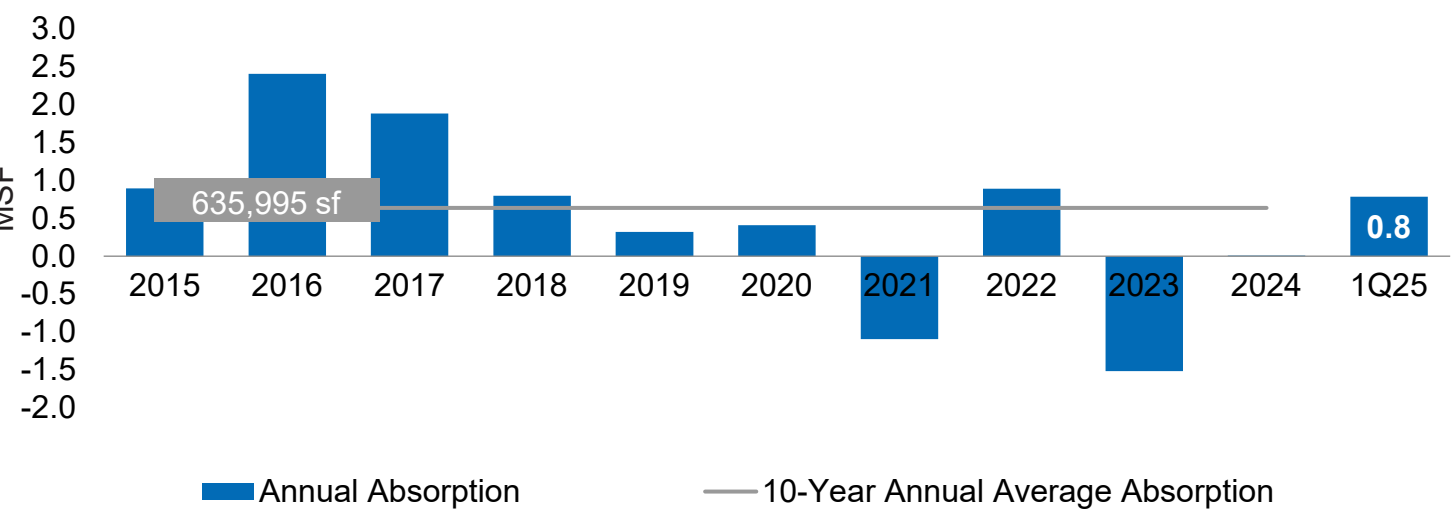
Downtown Toronto

Downtown Toronto* is at the core of Canada’s biggest office market in the country’s largest city, comprising 81.6 msf and consisting of five submarkets, including the Financial Core, Downtown North, Downtown West, Downtown South and Downtown East. First-quarter absorption of ~784k sf was the most absorption recorded downtown in a first quarter since 2000. One result of this was vacancy tightening to 13.7%, dropping 100 bps from the end of 2024, but remaining higher than the 13.2% vacancy recorded in the first quarter of 2024.

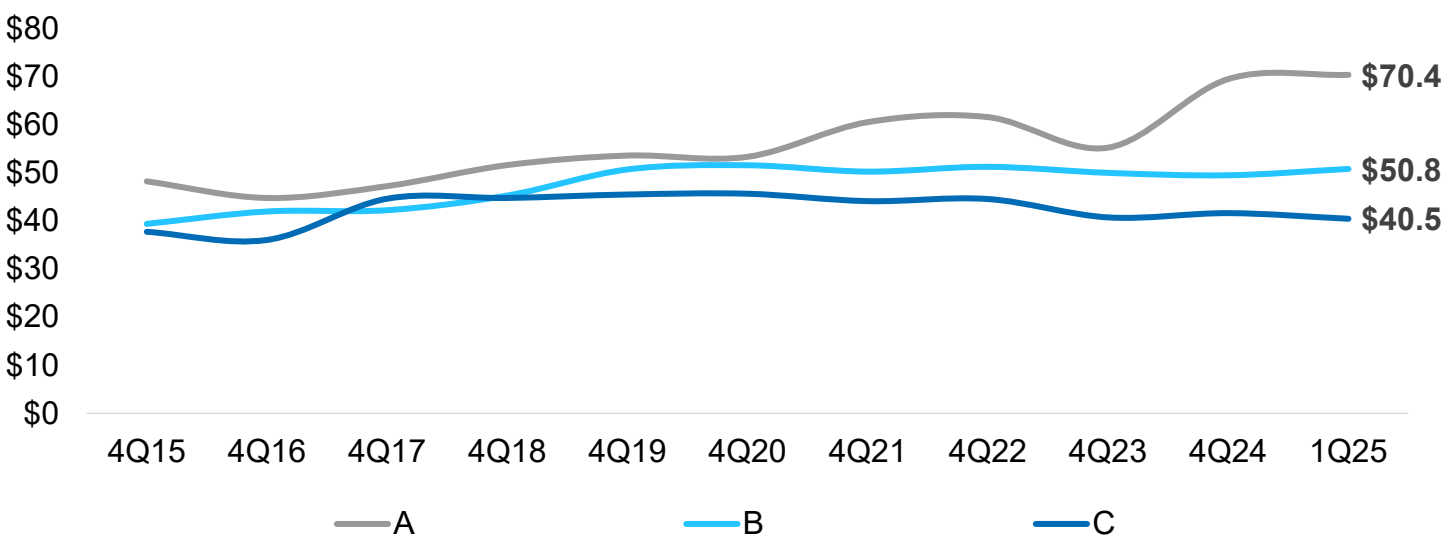
Overall Availability And Vacancy Rates – All Classes*



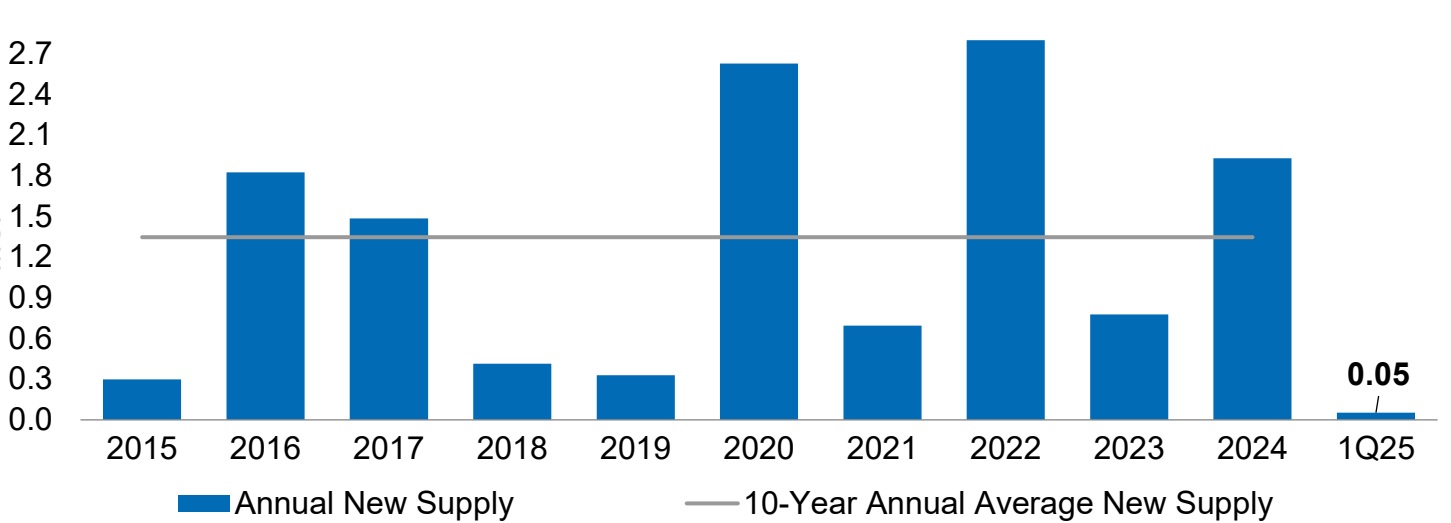
Annual Absorption – All Classes*



Total Direct Gross Rent by Class (C\$/sf)*



New Construction Deliveries*

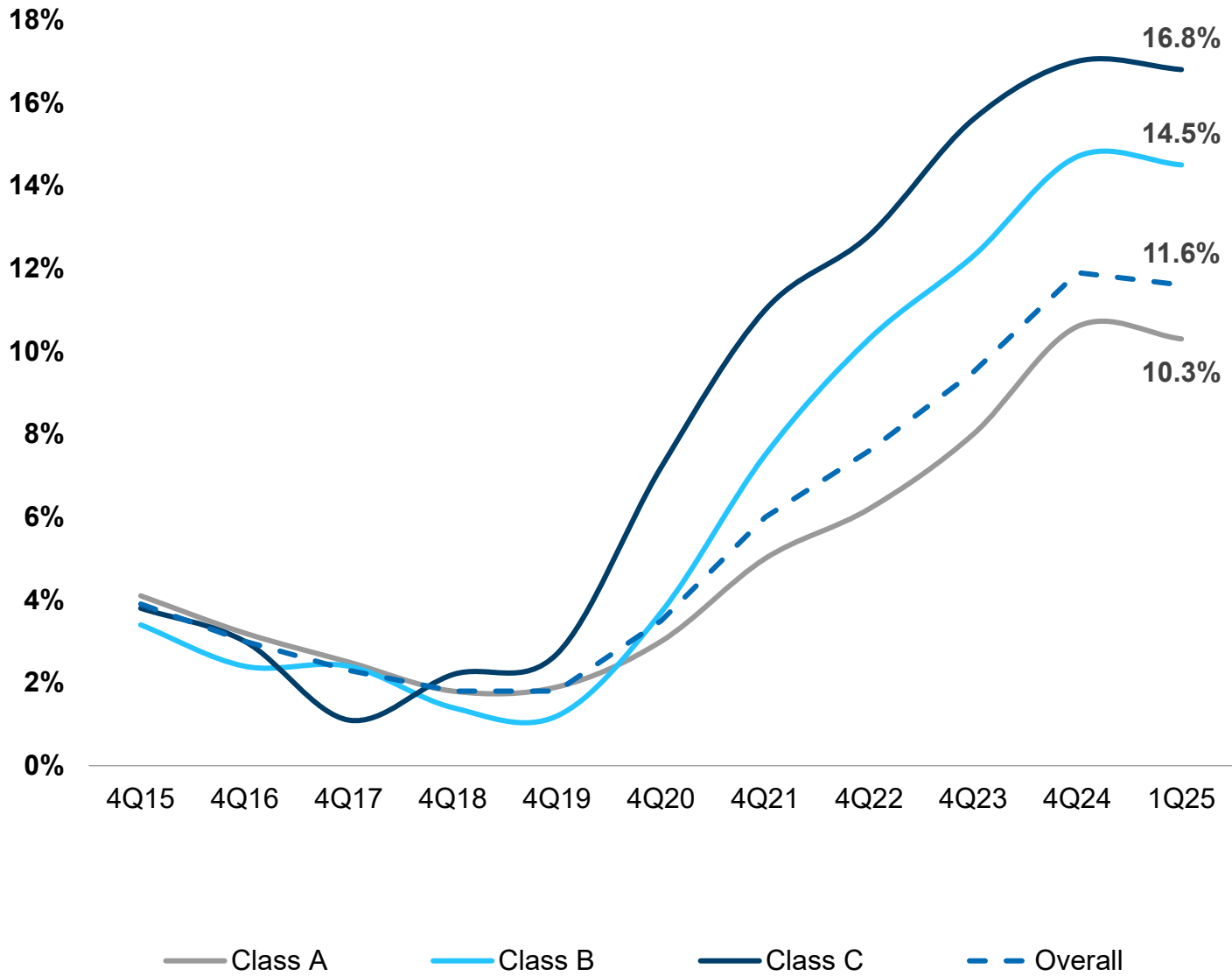


Source: Newmark Research, Altus Data Studio
* Not including King & Dufferin submarket

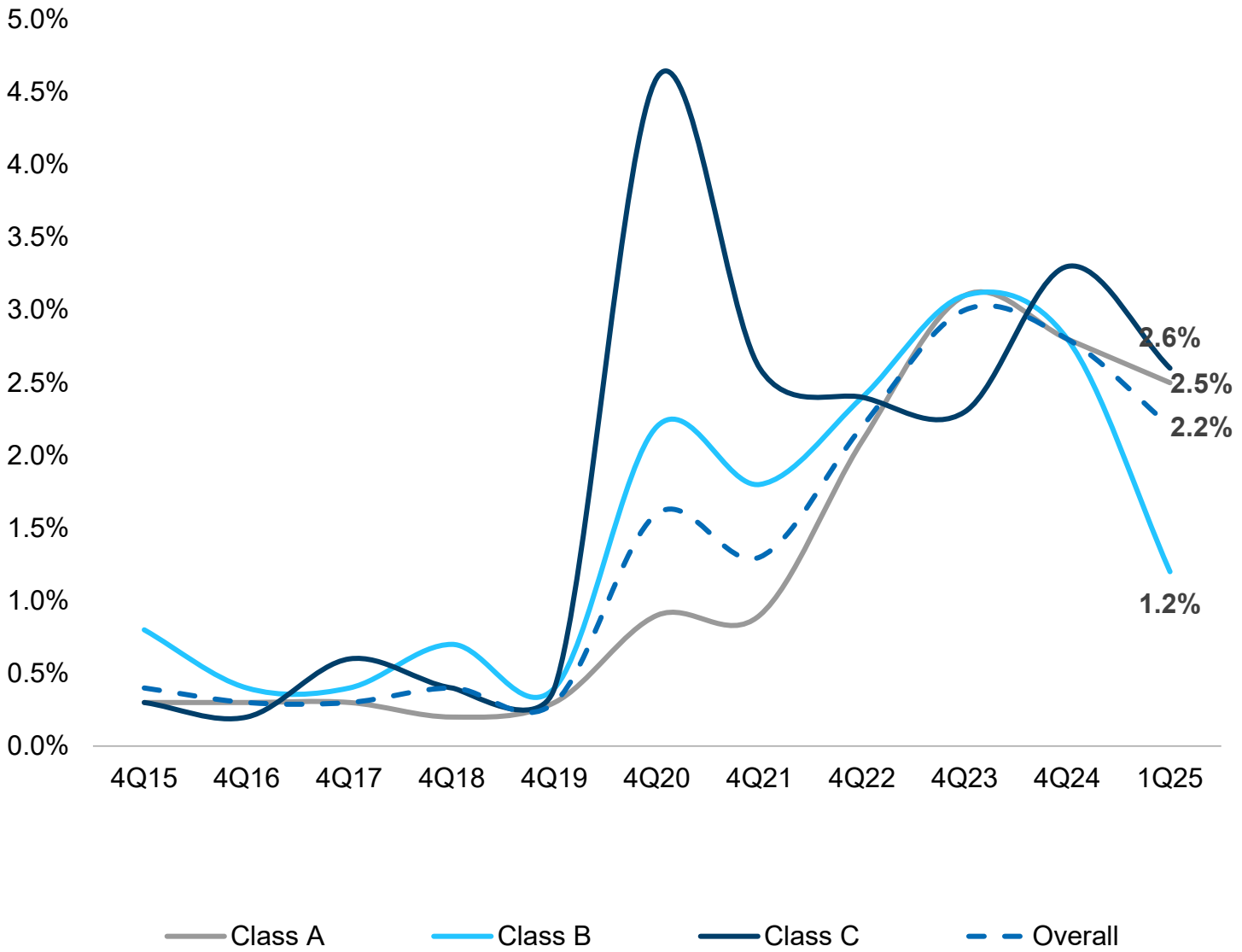
Head Lease Vacancy Stabilizing In All Classes As Post-Covid Office Market Emerges

The ongoing absorption of sublease space and the stabilization of head lease vacancy across all property classes indicates that the downtown office market is likely in recovery, and that the subsequent stabilization highlights the new normal for downtown market metrics in a post-Covid recovery environment. The 10-year period before 2020 was not typical in terms of market overperformance. Current metrics more resemble the post Dot.com crash era of 2003 when overall direct vacancy peaked at 9.8%. It would fall to 2.8% by mid-2008.

Downtown Office Headlease Vacancy by Class – 2015 to 2025



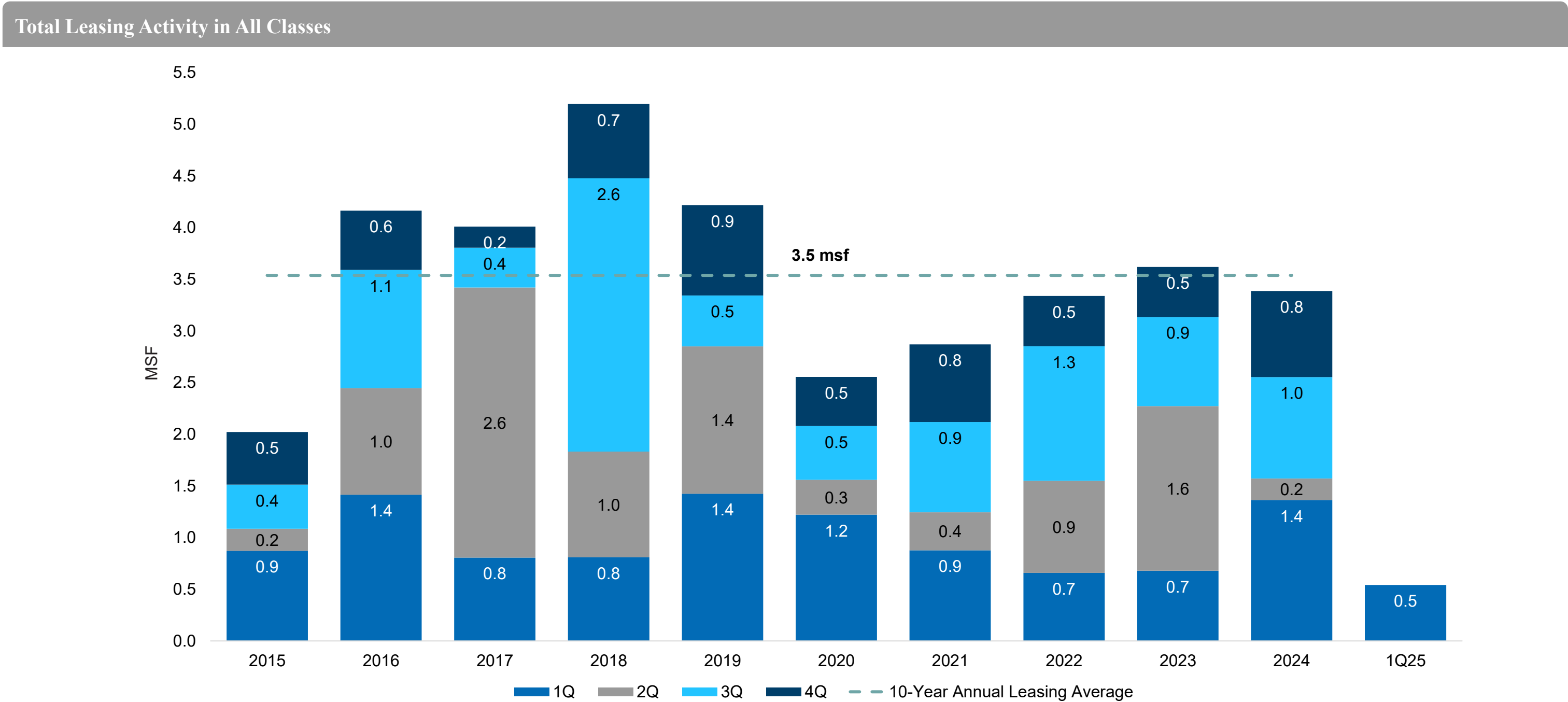
Downtown Office Sublease Vacancy by Class – 2015 to 2025



Source: Newmark Research, Altus Data Studio

Downtown Leasing Activity Powered By Financial Core And Downtown West Tenants

Leasing activity started the year strongly in the Financial Core and Downtown West submarkets during the first quarter of 2025 and helped offset an accelerating decline in demand in Downtown East while leasing in Downtown North remained muted but positive. The tightest submarket, Downtown South, remained limited in terms of availability but also recorded a positive start. While office leasing had recovered from 2021 to 2023, overall activity slipped in 2024 with the chance of a further decline in 2025 likely without notable preleasing.

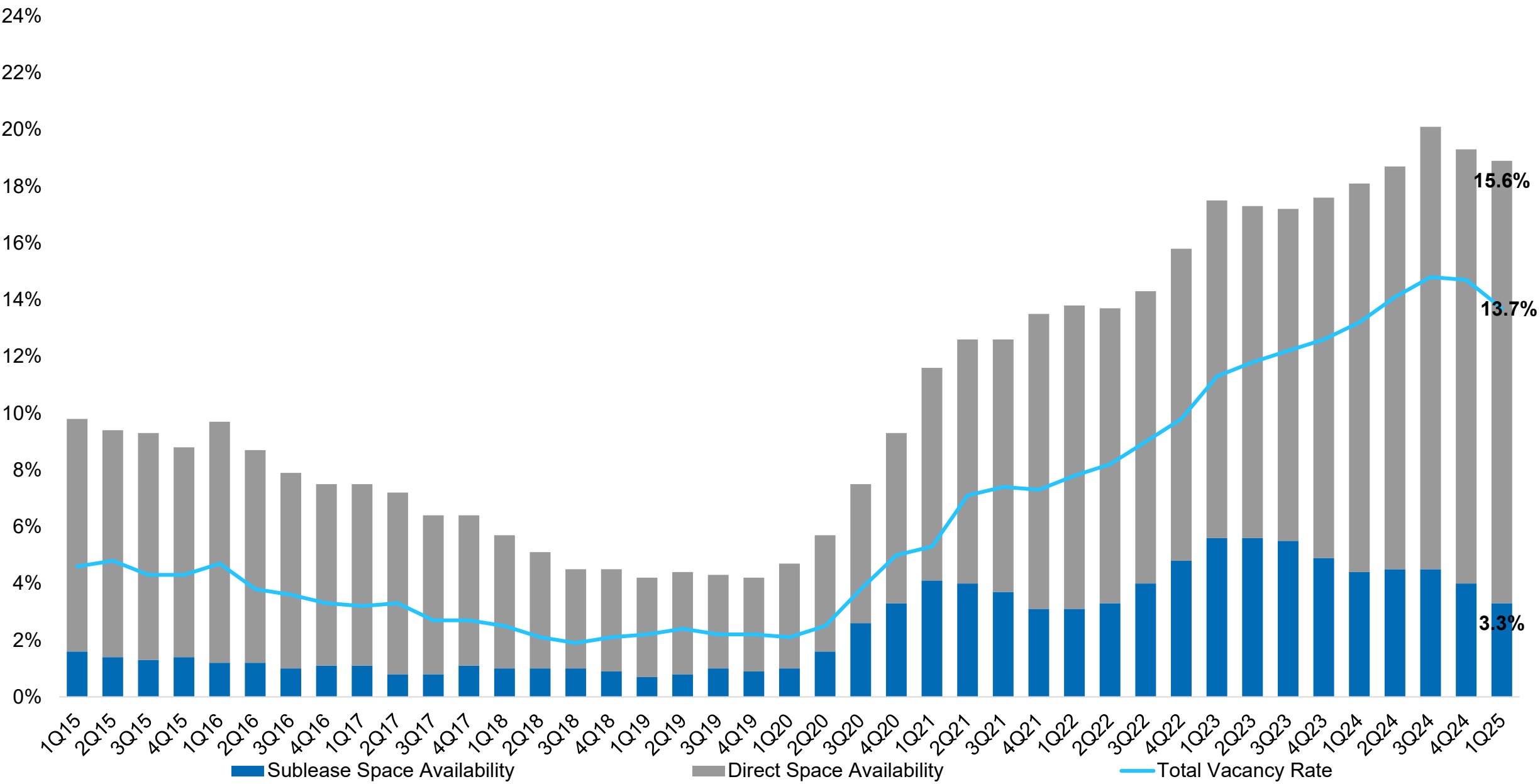


Source: Newmark Research, Altus Data Studio

Vacancy And Sublease Space Availability All In Decline As Stabilization Looms

Vacancy and sublease availability in downtown Toronto appears to have peaked in the second half of 2023 after rising consistently since the first quarter of 2020. The first quarter of 2025 marked a continuing quarter-over-quarter decline in vacancy and sublease availability. Direct availability had briefly declined but rose to 16%, surpassing the previous high of 15.9% set just six months earlier. Market sentiment had been improving but conversion/redevelopment of dated stock is needed to return availability to its more historical ~8% range.

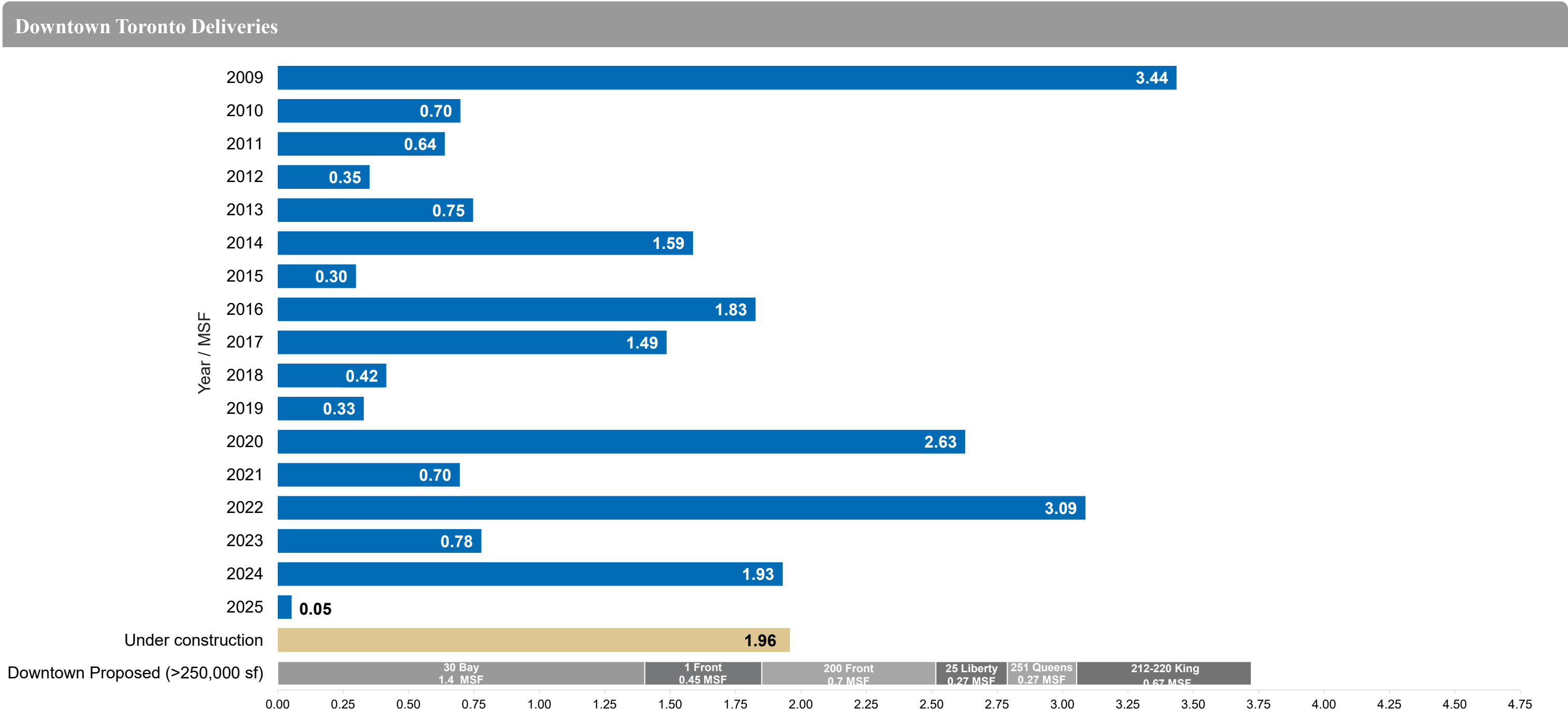
Available Space and Tenant Demand as Per cent of Overall Market



Source: Newmark Research, Altus Data Studio

Downtown Toronto Construction Velocity

New office construction in Downtown Toronto has developed space on a consistent albeit expanding basis during the past 15 years with cycles delivering exponentially more square footage each time. About 4.8 msf was delivered from 2009-11 followed by ~6.0 msf in 2013-2017. The current development cycle that commenced in 2020 and runs through 2025 is set to deliver more than 9.1 msf with ~1.96 msf still under construction. There have been indications that Oxford Properties may be readying to launch The HUB at 30 Bay Street.



Source: Newmark Research, Altus Data Studio

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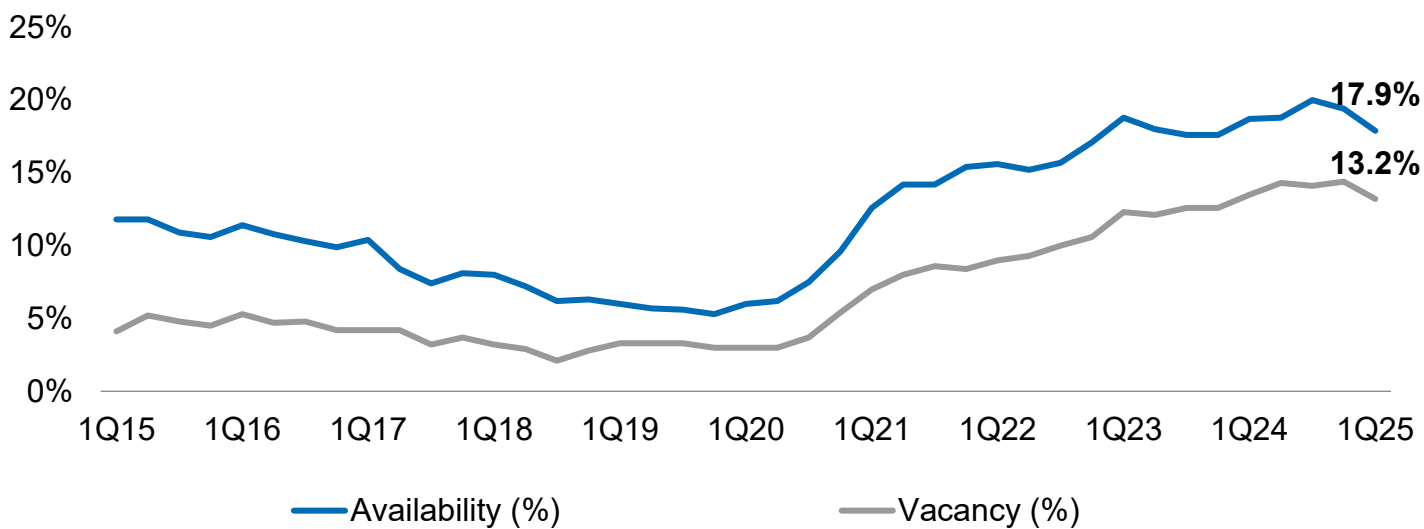
Financial Core



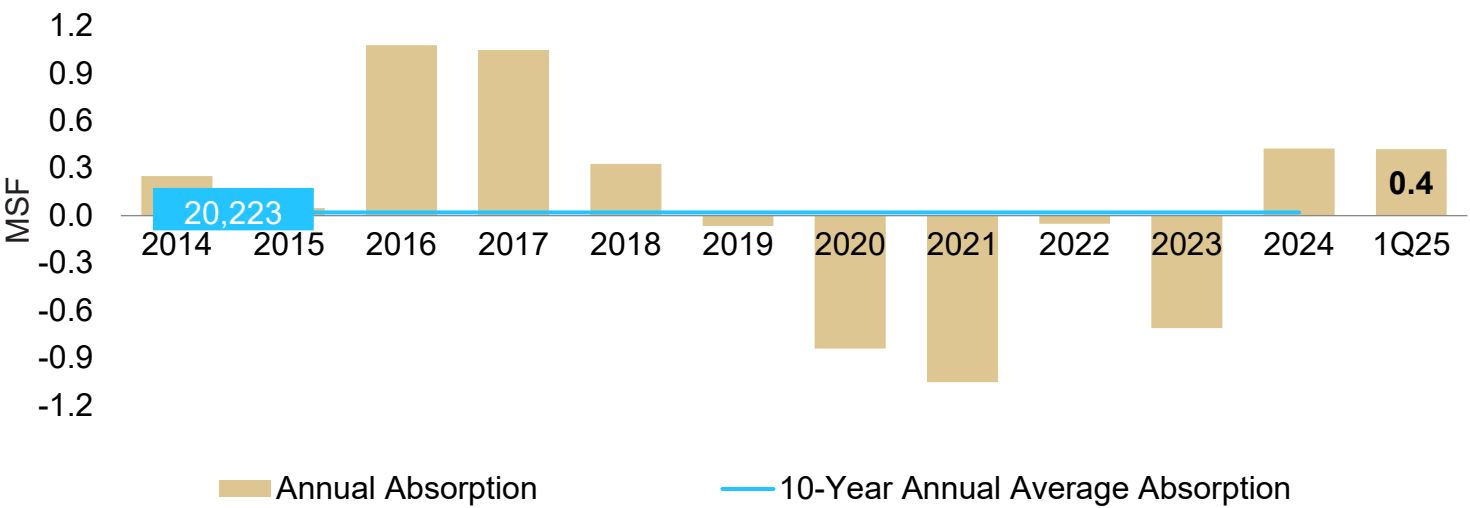
Financial Core

The 37.2-msf Financial Core led all Downtown Toronto submarkets with more than 420,000 sf of absorption in the first quarter of 2025, which led to overall vacancy declining to 13.2%. Class A and increasingly class B vacancy are also in decline as tenants continue to trickle back. Congestion woes continue to elevate proximity to downtown’s key public transit hub as a top consideration for tenants who want to be located within a 10- to 15-minute walk of Union Station. Elevated class C vacancy may signal conversion/redevelopment opportunities.

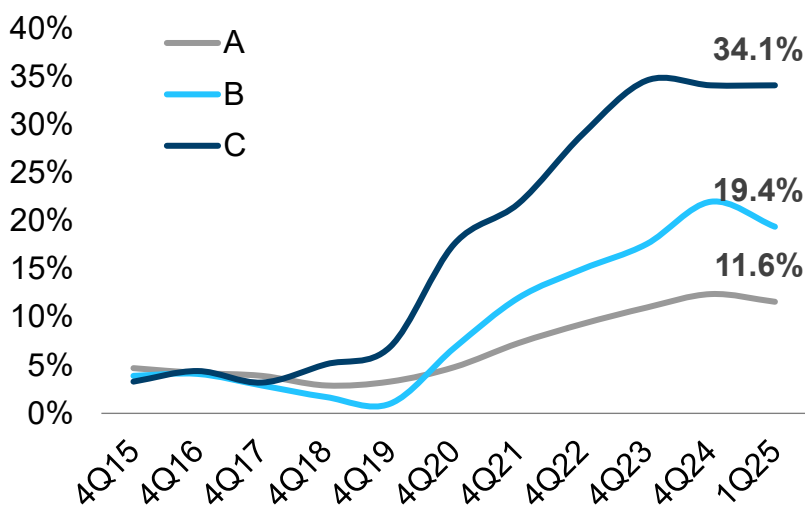
Overall Availability & Vacancy Rates – All classes



Annual Absorption – All classes



Vacancy by Class – 2015 to 2025



First Quarter Deals

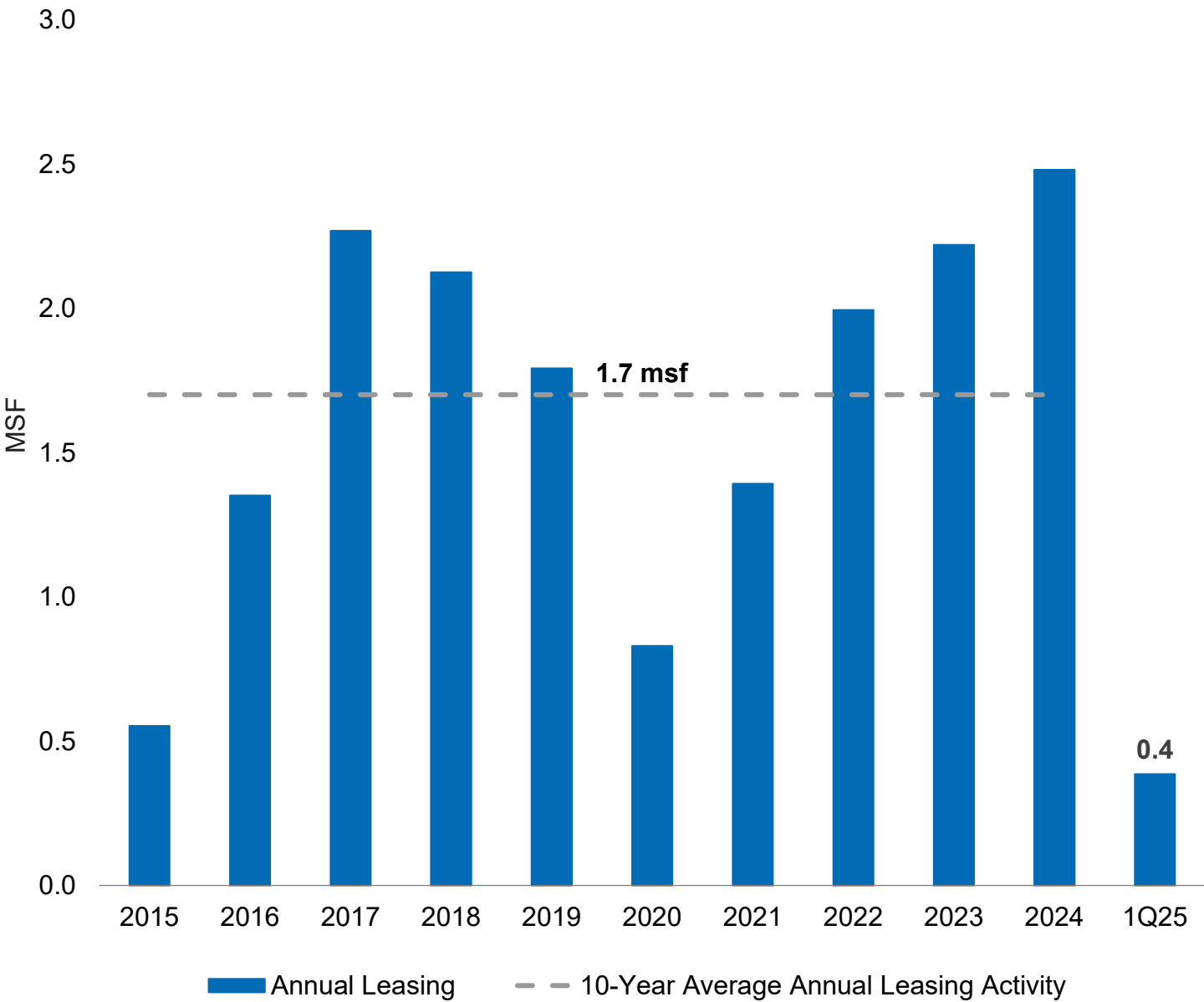
Bay-Adelaide Centre (East tower) 22 Adelaide Street West	70 York Street	State Street Financial Centre 30 Adelaide Street East	The Exchange Tower 130 King Street West	Northbridge Place 105 Adelaide Street West
Gardiner Roberts LLP	Questtrade Inc.	Streamland Media Canada	Tim Hortons	Square Technologies
55,000 SF	38,760 SF	38,560 SF	23,690 SF	11,510 SF
Renewal	Direct New	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

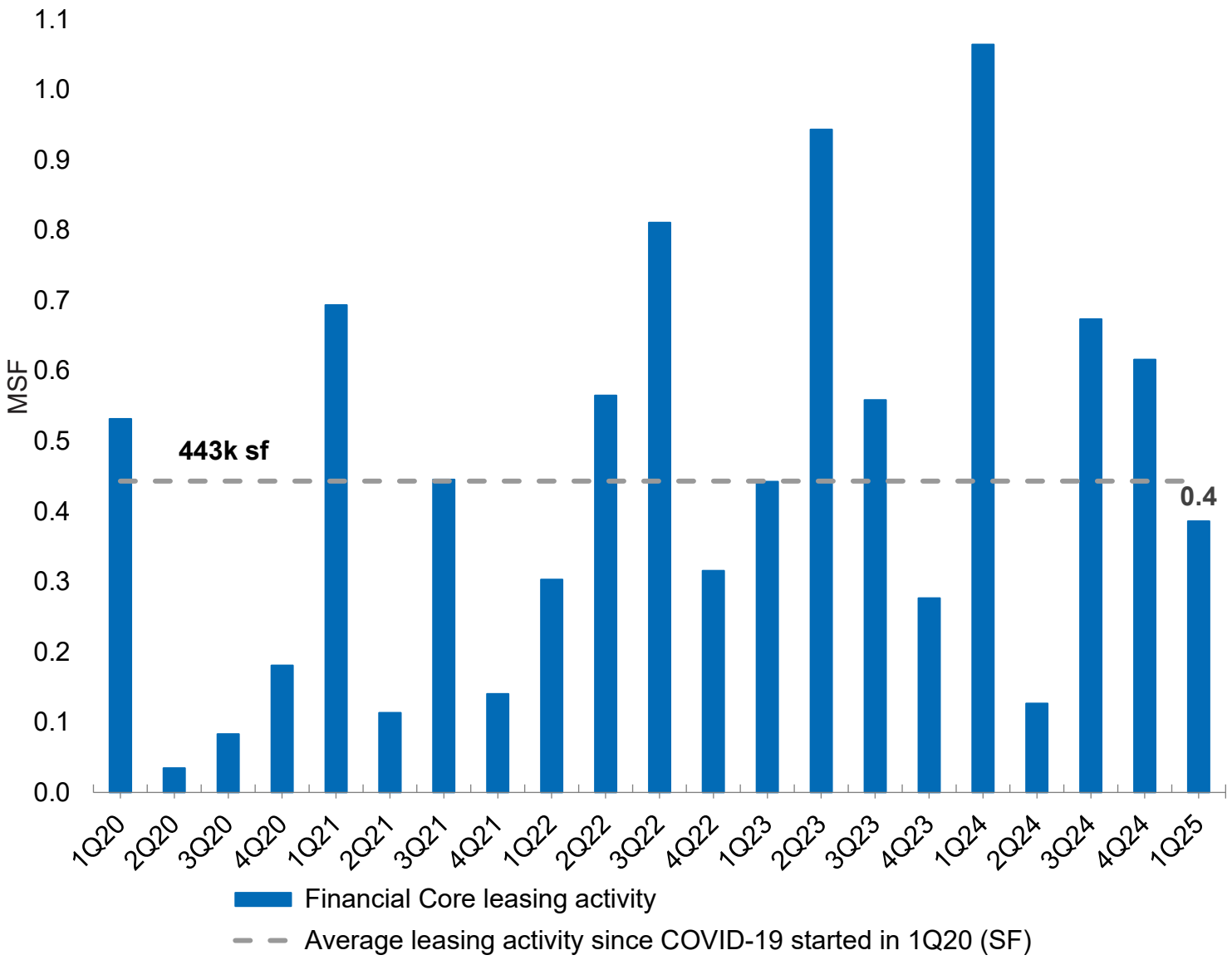
Strong Start To Leasing Activity In Financial Core After Decade High Attained In 2024

While substantial preleasing in phase two of CIBC Square pushed 2024 to the highest level of annual leasing activity in the past decade, the first quarter of 2025 has highlighted that tenants continue to commit to decisions when it comes to office leasing in the Financial Core. After leasing activity cratered in 2020, volume has steadily increased each year since. While preleasing played a large role in the past, the absence of new construction has resulted in the organic churn of the submarket starting to re-establish itself at the 10-year average.

Annual Financial Core Leasing Activity – All classes



Financial Core Quarterly Leasing Activity – All classes

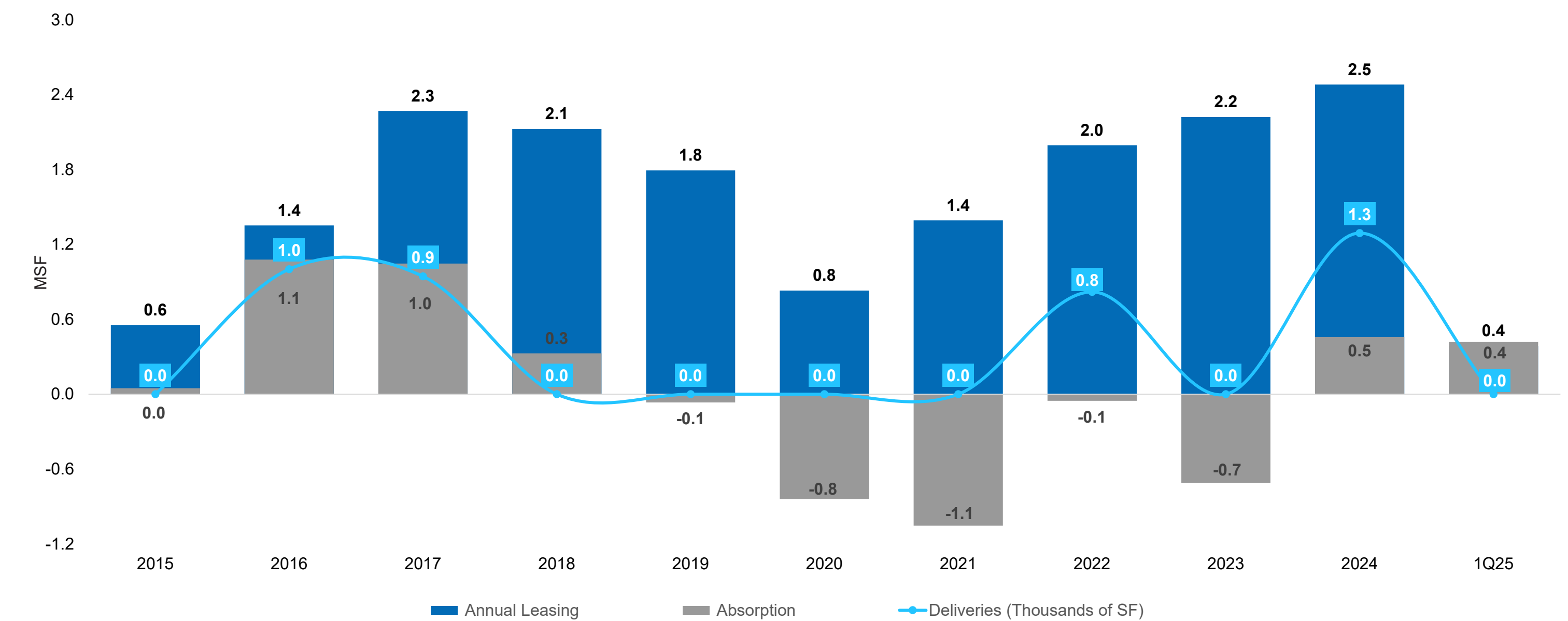


Source: Newmark Research, Altus Data Studio

Financial Core Leasing, Absorption and New Supply Analysis

Leasing activity remained strong in the first quarter of 2025 and matched absorption, which also had a positive start amid an environment of no new supply. While leasing activity typically translates into absorption within six months, the square footage does not directly translate as downsizing or relocating out of the Financial Core would net less absorption. An ongoing lack of new supply in the submarket combined with improvements in the volume of leasing activity and subsequently higher absorption bodes well to further reducing vacancy in 2025.

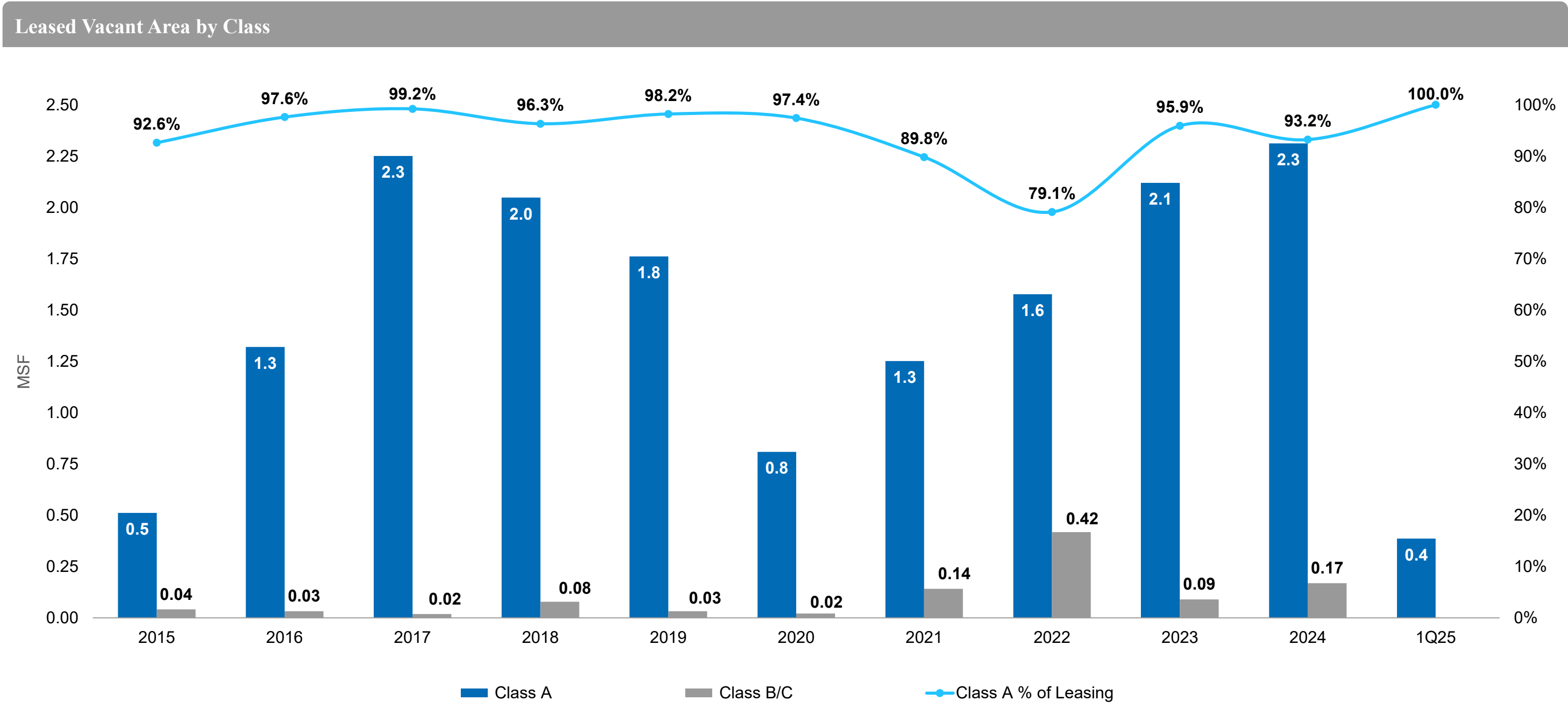
Financial Core Historical Leasing and Absorption – All classes



Source: Newmark Research, Altus Data Studio

Class A Space Is All That Is On Tenants’ Minds | Financial Core Leasing Activity

The volume of class A space being leased annually has risen rapidly since 2020 and hit a decade high of ~2.3 msf in 2024. Class A buildings represent just half of the submarket’s building inventory (class B buildings comprise 39%) but 100% of the square footage leased in the first quarter of 2025 occurred in class A space. With the vast majority of leasing activity focused in just 50% of inventory, the Financial Core will likely require new supply to meet demand in combination with the demolition or repurposing of older class B/C space.



Source: Newmark Research, Altus Data Studio

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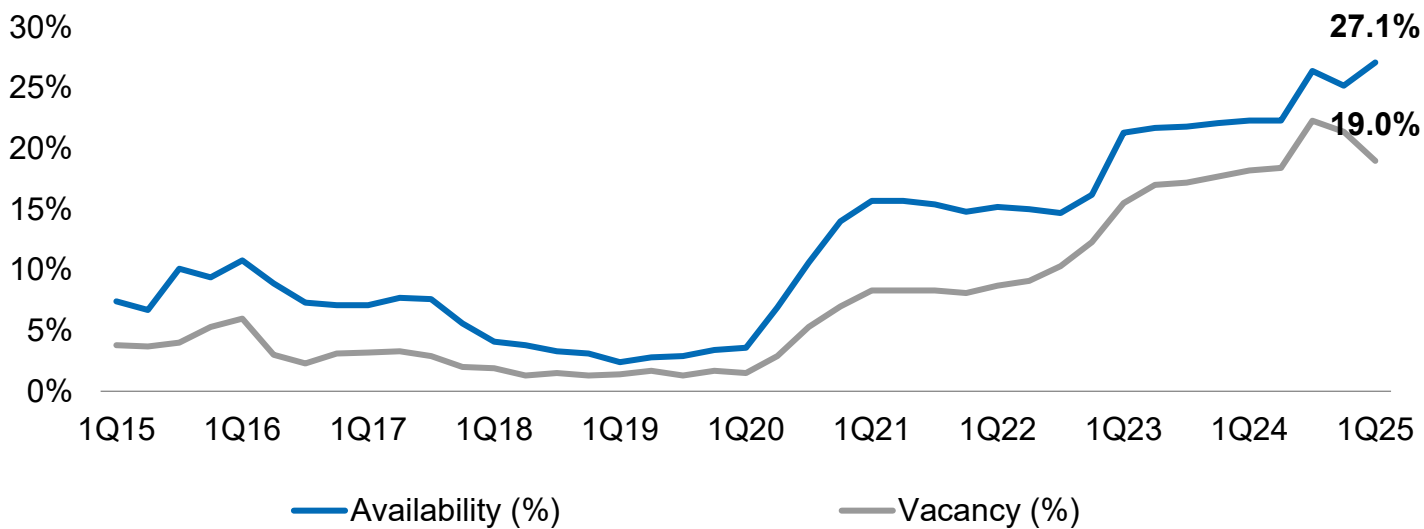
Downtown Toronto Office Submarkets



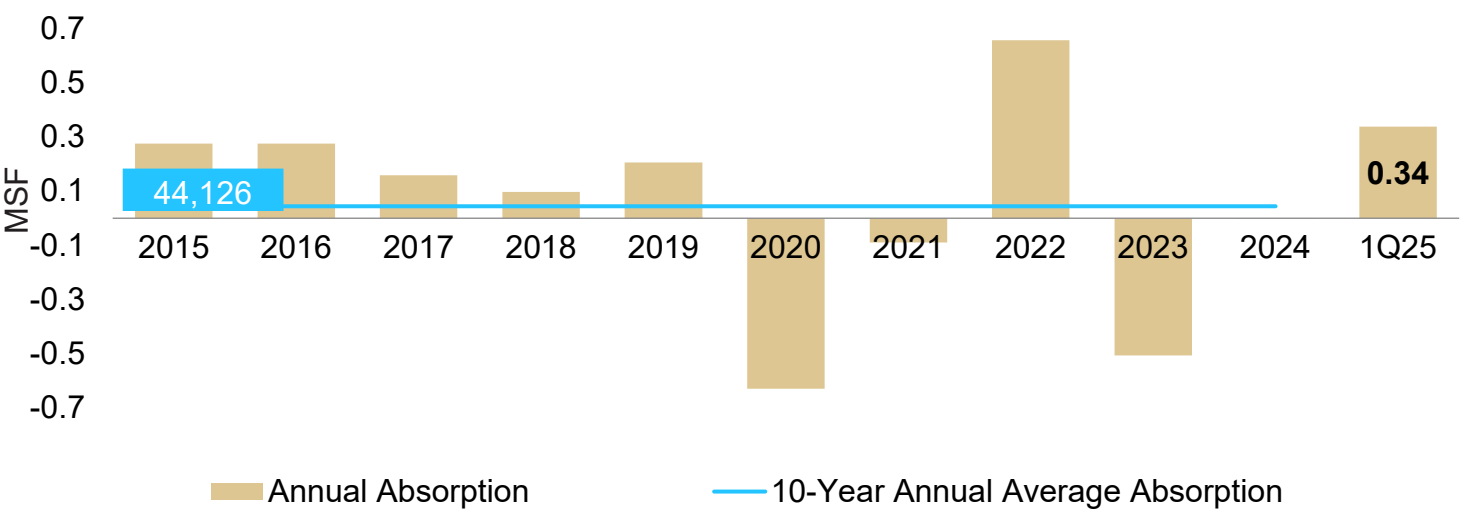
Downtown West

Downtown West, the second largest core submarket at 14.2 msf, has struggled with inconsistent leasing velocity and tenant demand since 2020 but may be starting to manifest signs of stabilization. Despite maintaining the highest overall vacancy downtown at 19%, vacancy did decline in the first quarter of 2025 for the first time since 2020 due to quarterly absorption of ~338k sf, the most since the third quarter of 2022. Tenants returning to Downtown West would mark a turning point in a partial recovery of the downtown office market.

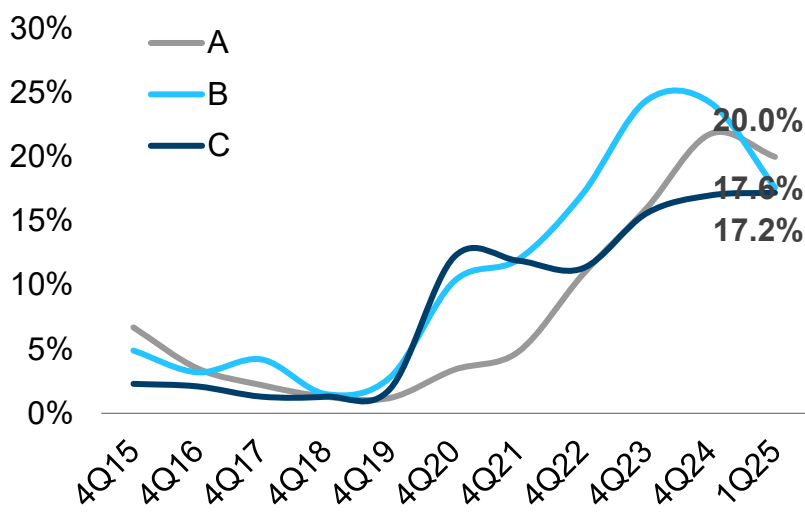
Availability And Vacancy Rates – All Classes



Annual Absorption – All Classes



Vacancy by Class – 2015 to 2025



First Quarter Deals



The Well
8 Spadina Avenue

Undisclosed
31,000
Sublease



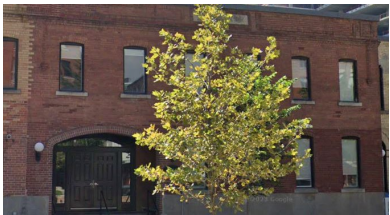
The Well
8 Spadina Avenue

Undisclosed
30,680 SF
Direct New



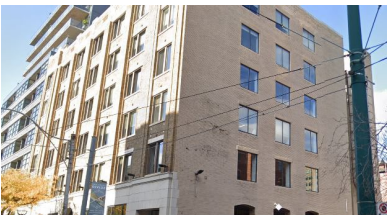
King Portland Centre
602-604 King Street West

Undisclosed
22,600 SF
Sublease



479 Wellington Street West

Undisclosed
11,000 SF
Direct New



468 King Street West

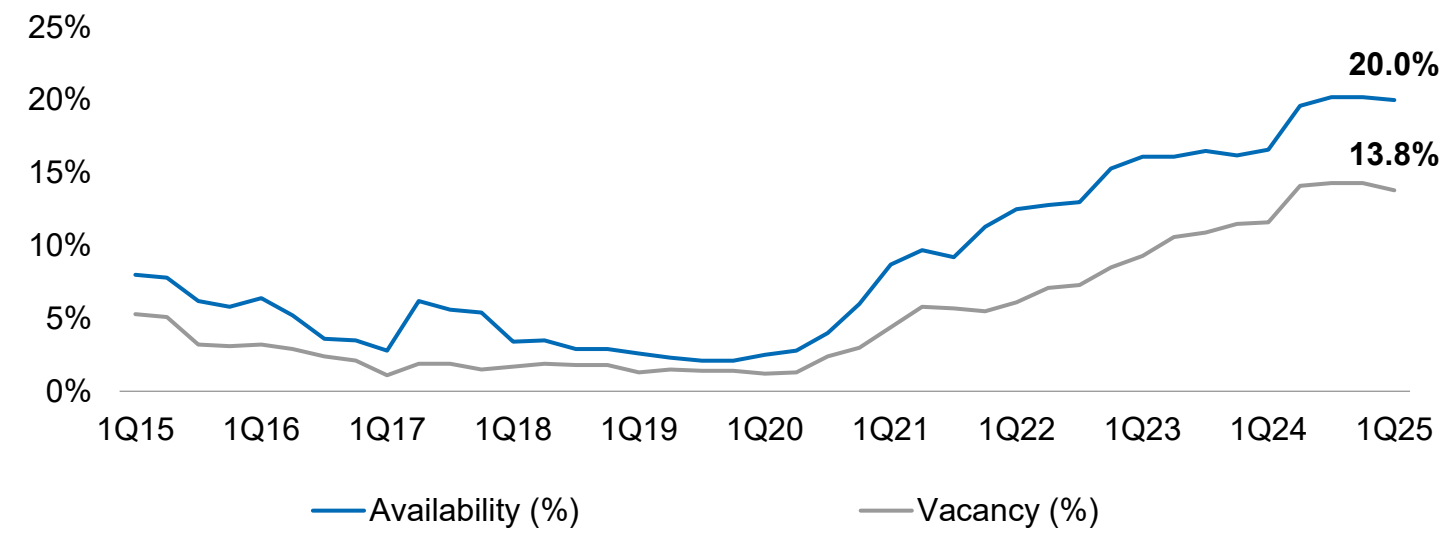
Exact Technology
8,380 SF
Direct New

Source: Newmark Research, Altus Data Studio, CoStar

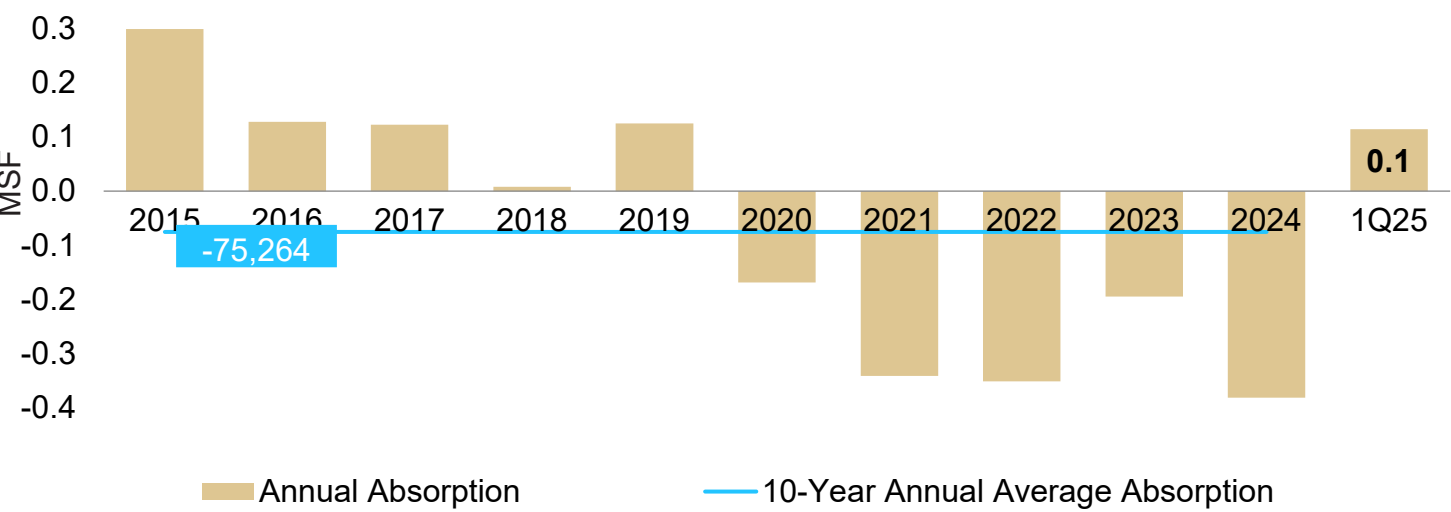
Downtown North

After five years of notable negative annual absorption in Downtown North, the 13.8-msf submarket may finally be starting to stabilize with an improvement in tenant activity. Vacancy in all classes started to tighten in the first quarter of 2025 as overall vacancy stabilized at ~14% and with availability at ~20% since the second quarter of 2024. While leasing activity remained muted, it has been positive to start the year. Office conversion/redevelopment likely remains a consideration for much of the obsolete office space in Downtown North.

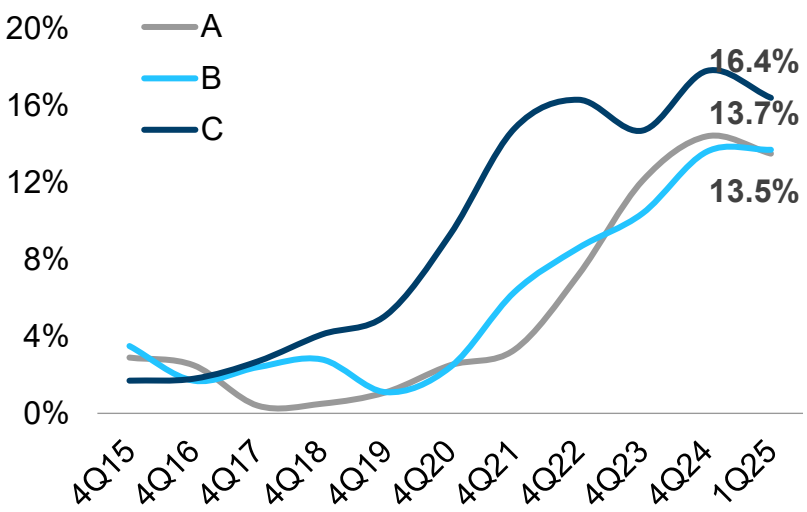
Availability And Vacancy Rates – All Classes






Annual Absorption – All Classes



Vacancy by Class – 2015 to 2025



First Quarter Deals

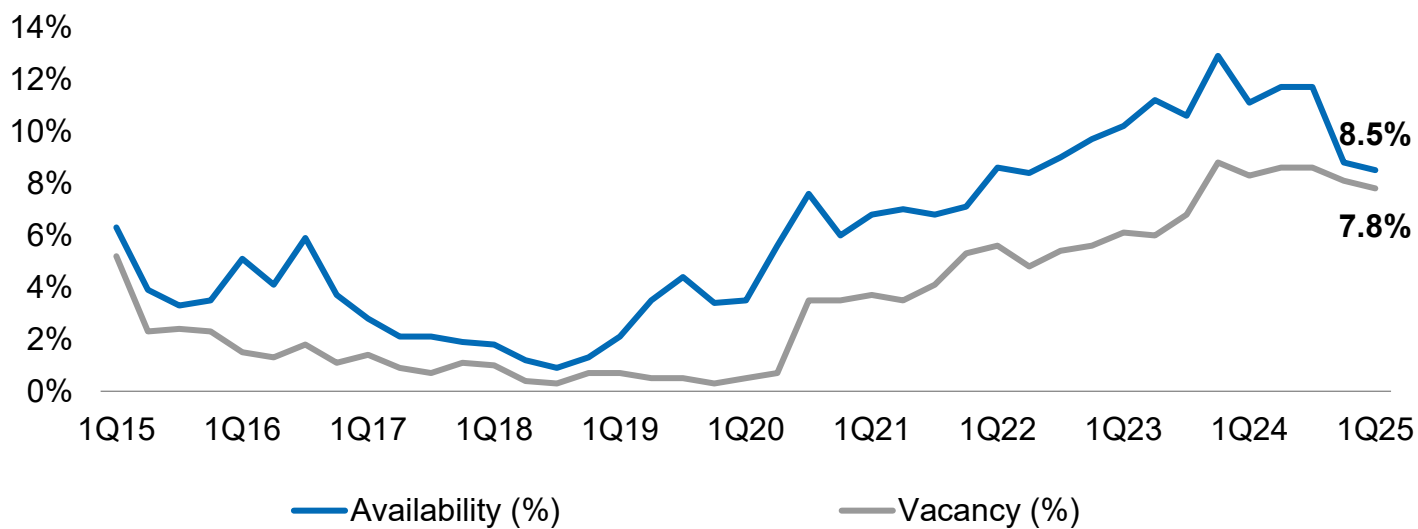
		
Carlton Tower 2 Carlton Street	777 Bay Street	91 Oxford Street
Undisclosed	Undisclosed	Public Address
14,400 SF	4,020 SF	2,720 SF
Sublease	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

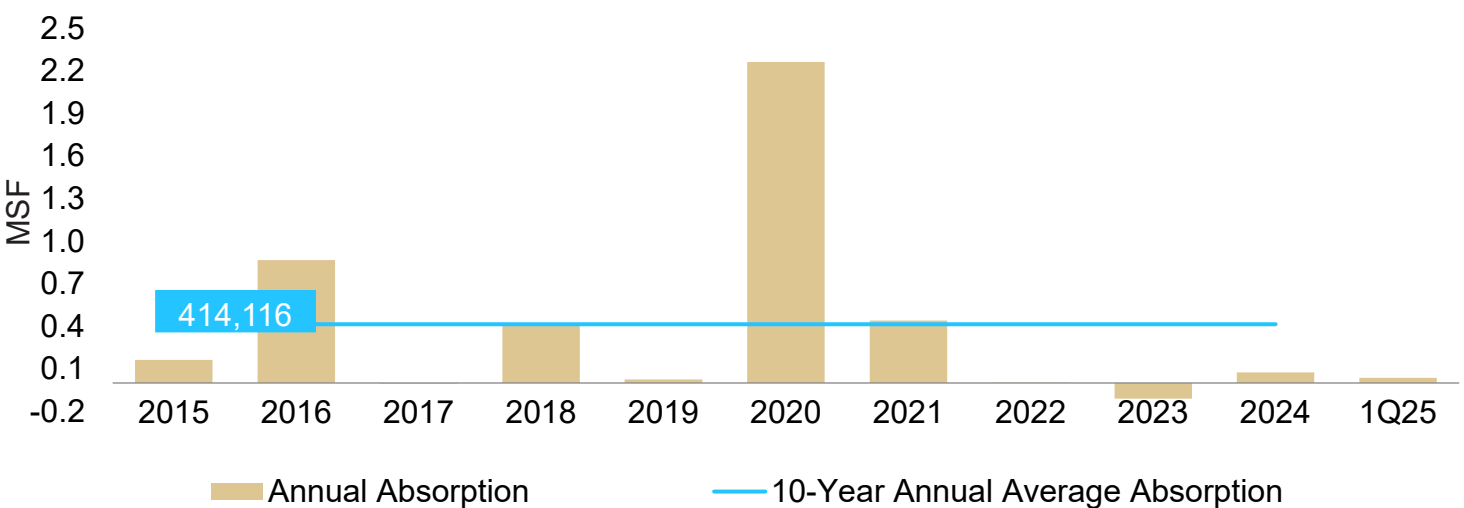
Downtown South

The 11.1-msf Downtown South submarket was the tightest in the core with vacancy at 7.8% after the first quarter of 2025. Availability was at its lowest point since mid-2022. With class B/C vacancy at 0% (the only submarket where vacancy in any class hit zero), the submarket benefits from an ongoing flight to quality, proximity to a key public transit hub at Union Station and superior views and building amenities. Class A vacancy of 8.4% (while comprising 92% of the submarket inventory) was the lowest in the core with limited tenant movement.

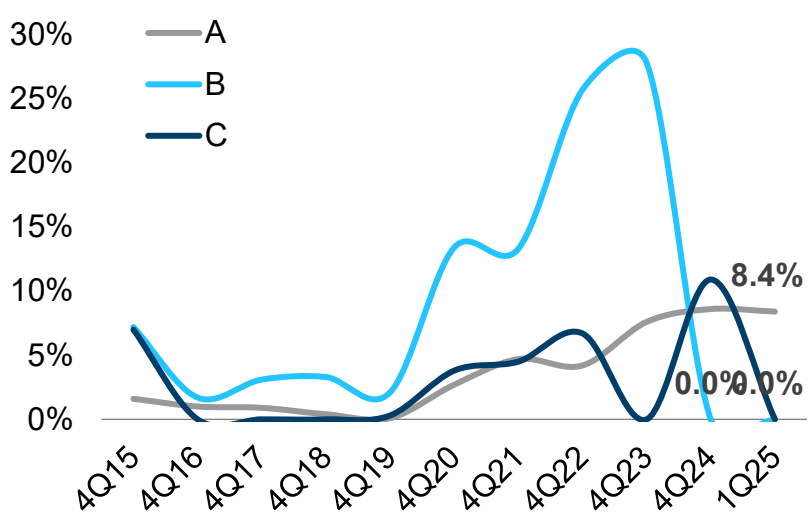
Overall Availability And Vacancy Rates – All Classes



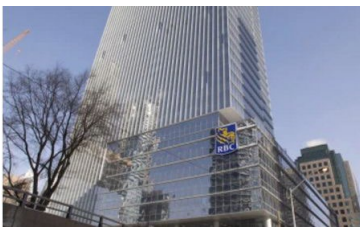
Annual Absorption – All Classes



Vacancy by Class – 2015 to 2025



First Quarter Deals

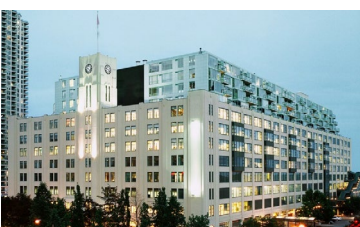


RBC WaterPark Place
88 Queens Quay West

Wayfair Canada

27,520 SF

Direct New



Queens Quay Terminal
207 Queens Quay West

Toronto Port Authority

17,030 SF

Direct New

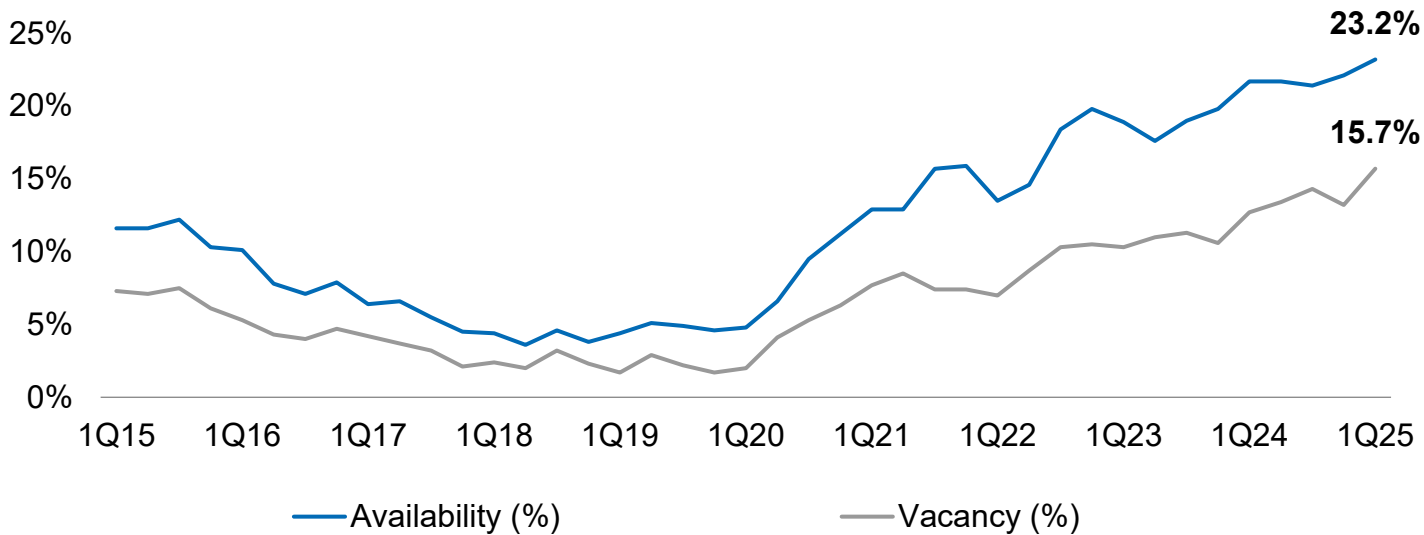


Source: Newmark Research, Altus Data Studio, CoStar

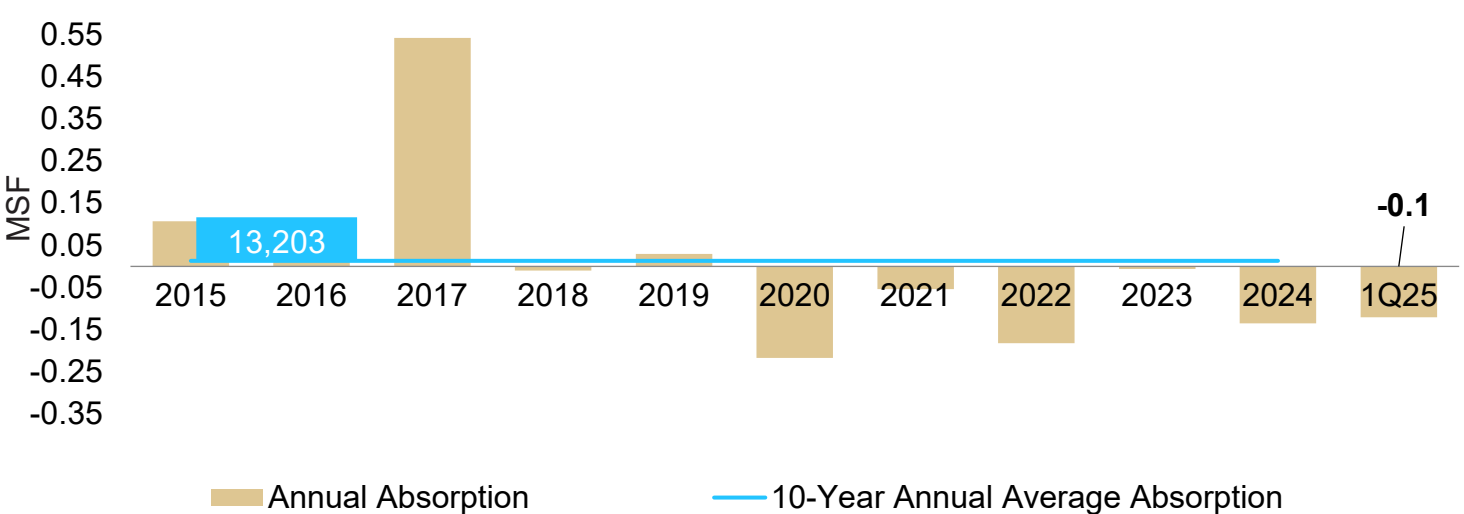
Downtown East

Vacancy in the 5.1-msf Downtown East reached 15.7% in the first quarter of 2025 up notably from 12.5% in the first quarter of 2024 and more than double the 6.9% recorded just three years earlier. Class A vacancy, which is typically the lowest, spiked to 18.4%, almost double what it was in the first quarter of 2024 (9.4%) and surpassed vacancy in class B/C premises. Rapid increases in class A/B vacancy since 2023 and five consecutive years of negative annual absorption suggests significant redevelopment of office space is necessary.

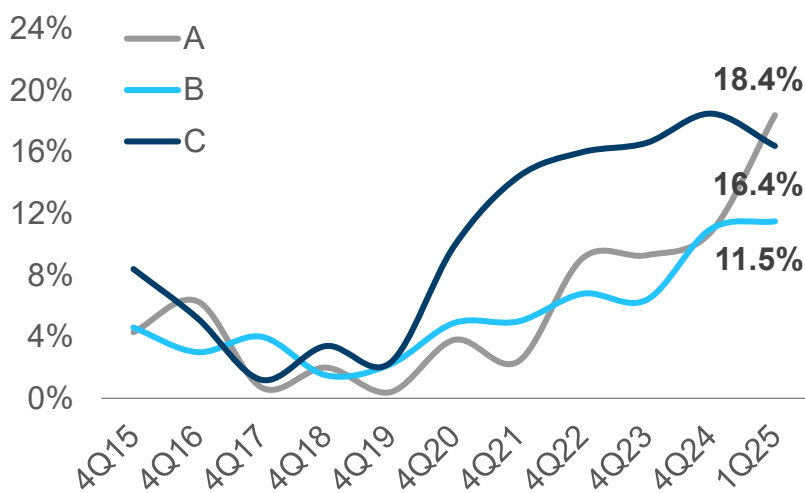
Availability And Vacancy Rates – All Classes



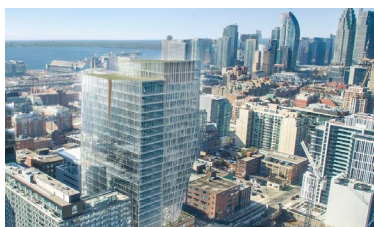
Annual Absorption – All Classes



Vacancy by Class – 2015 to 2025

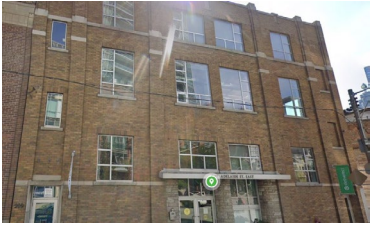


First Quarter Deals



EQ Bank Tower
25 Ontario Street

EQ Bank
22,250 SF
Expansion



King George Square
207 Adelaide Street East

Undisclosed
9,710 SF
Sublease



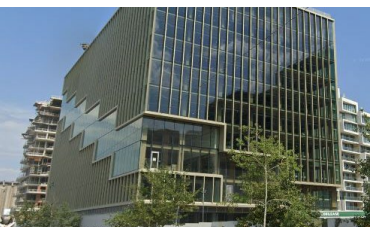
51 Mill Street

Mass Minority
6,430 SF
Direct New



115 Berkeley Street

Undisclosed
3,735 SF
Direct New



T3 Bayside
251 Queens Quay East

Undisclosed
2,830 SF
Direct New

Source: Newmark Research, Altus Data Studio, CoStar

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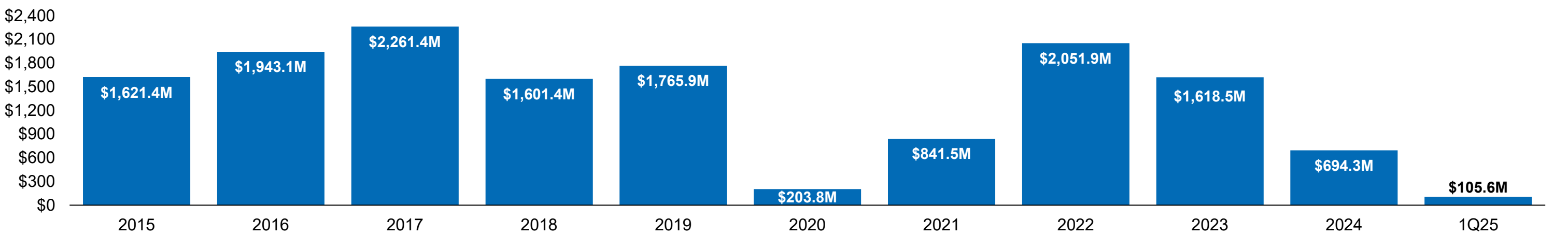
Office Sales Activity



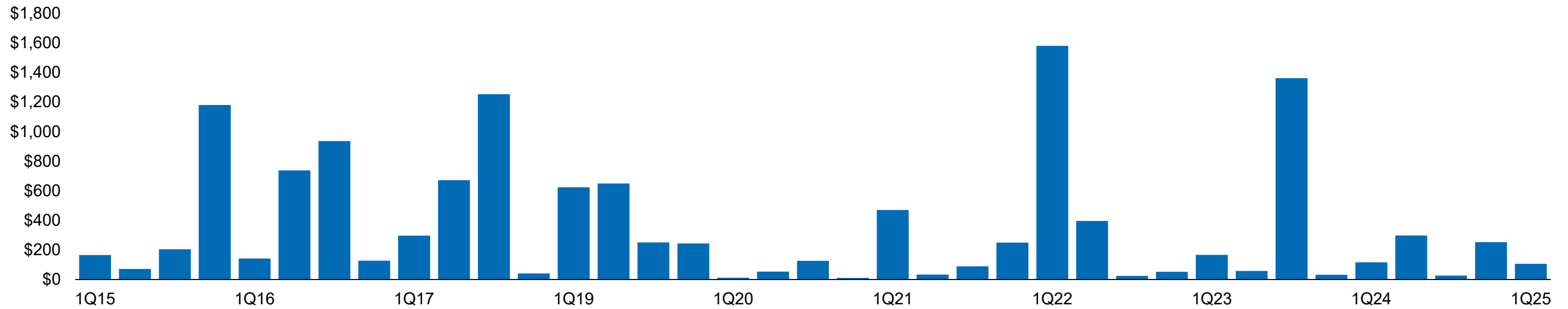
Downtown Toronto Core and Periphery Office Sales Volume Key Takeaways

Downtown office sales* (excluding strata) had a very slow start in 2025 with just the single sale of 438 University Avenue to Infrastructure Ontario by Dream Office REIT recorded in the first quarter of the year. Investment in downtown office has recorded year-over-year declines since 2022 when dollar volumes had recovered to a near-decade high of C\$2.05B after the collapse of the downtown office sales market in 2020. Class A assets interest investors; however, demand for older stock – unless positioned for redevelopment – remained limited.

Downtown Toronto Core and Periphery Annual Sales Volume (\$ in Millions)



Downtown Toronto Core and Periphery Quarterly Sales Volume (\$ in Millions)

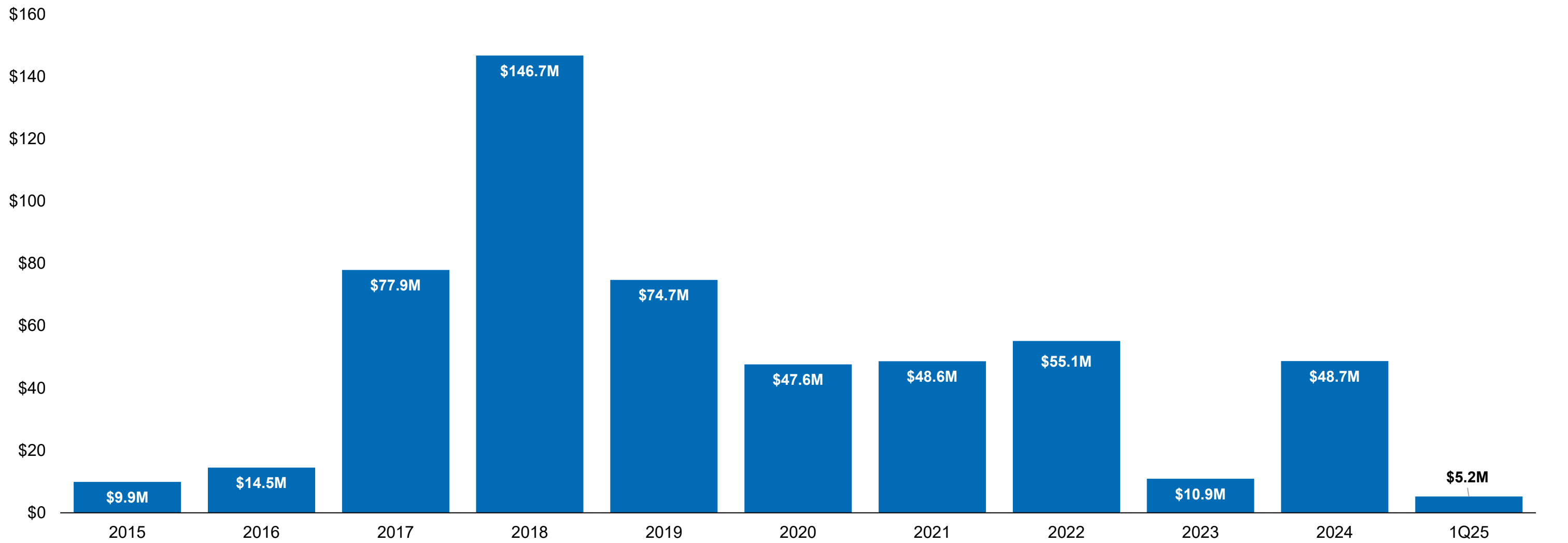


Source: Newmark Research, Altus Data Studio, CoStar
* Excluding non-arms transactions; annual sale totals recalculated at year-end 2024 due to database omissions

Downtown Toronto Core and Periphery Office Condo Sales Volume Key Takeaways

Condo (or strata) office sales* peaked in 2018 in terms of total dollar volume as owner-occupiers and investors purchased presales during the period of record-low office vacancy recorded downtown between 2016 and early 2020. Condo office sales remained stable – albeit notably reduced from the peak – through the early 2020s but dropped drastically in 2023 due to high interest rates. Lower capital costs saw demand resurge in 2024, but sales have been subdued in the first quarter of 2025 with just three units transacting year to date.

Downtown Toronto Core and Periphery Condo Office Annual Sales Volume (\$ in Millions)



Source: Newmark Research, Altus Data Studio
* Excluding non-arms transactions; annual sale totals recalculated at year-end 2024 due to database omissions.

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