



NEWMARK

*Downtown Toronto*  
Office Market Overview

1Q26

NMRK.COM

# Toronto Economic Forecast 2026: Uncertainty Holds Back Employment



## Uncertainty From U.S. Tariffs To Slow City Growth

- Renegotiations of the USMCA cannot come quickly enough for metros like Toronto, where uncertainty around tariffs is harming the investment and employment prospects of its key manufacturing and transport hubs.
- The uptick in inflation brought on by the Iran conflict will also add pressure to real incomes and spending, even as house prices continue to fall.
- The good news is that Oxford Economics forecast growth to recover relatively quickly in 2027, and the metro should perform well over the medium term.



## Pressure On Manufacturing To Impact City Employment

- Toronto's manufacturing sector is likely to struggle in the short term due to the ongoing political and economic tug-of-war in the industry.
- With U.S. tariffs on steel and some parts of the autos sector still in place, manufacturers – such as Honda, Toyota, Ford, and Stellantis – are feeling the pinch.
- Oxford Economics expects autos manufacturing in the metro to contract through Q3 2026. The upcoming renegotiations of the USMCA in mid-2026 would be expected to relieve some of the pressure on the industry in H2 and 2027, although U.S.-Canada trade developments remain unpredictable.



## City Population To Decline As Temporary Residents Reduced

- Toronto remains an attractive destination to work and live, but the metro's population will decline slightly this year as the national reduction in temporary residents takes hold.
- This trend will combine with business uncertainty to reduce employment numbers in Toronto in the short term – with most sectors recording losses as the year progresses – before rates begin to marginally recover from 2027 onwards.
- High-paying jobs in the finance and real estate sector help attract a relatively young workforce.
- Cost-of-living pressures have squeezed retail spending, but things should start improving in 2026/27.



## Financial Sector Holds Best Hopes For City Growth

- Conditions in Toronto are less severe than in other, more-specialised metros. There are several positive signs for sustained growth in both the medium and long terms, such as a robust financial sector and broad appeal to young workers.
- Moreover, continued investment in the metro's transit infrastructure will drive gains in construction in coming years.
- Due to growth in a broad range of sectors, the city's attractiveness to skilled workers, and cosmopolitan amenities, Toronto ranks first in Oxford Economics' Canadian metro index.

# Downtown Toronto Office Market Observations

Downtown Toronto office vacancy fell to 11.2% in the first quarter of 2026, down from 12.6% the quarter previous and from 13.7% a year ago after peaking at 14.5% in the third quarter of 2024.

First-quarter 2026 absorption of ~1.3 msf was the most quarterly absorption recorded Downtown since 1999, the majority of which occurred in trophy/class A space in the Financial Core and Downtown West.

Leasing activity in the Financial Core led all downtown submarkets in the first quarter of 2026 as the impact of return-to-office (RTO) mandates from last summer continues to ripple through trophy/class A inventory.

The delta between availability and vacancy in the Financial Core tightened to 260 basis points at first-quarter 2026, the smallest gap between the two since mid-2019, a signal new construction may soon be required.



Overall sublease vacancy continued to decline downtown due in large part to sublease vacancy in class A properties slipping to 1.3%, the lowest since mid-2022. However, class B/C sublease vacancy has been rising slowly since mid-2025.

Overall vacancy, while declining, will remain elevated until the significant amounts of obsolete office space in fringe downtown submarkets, particularly Downtown North and East, are redeveloped, demolished or leased.

While tenants have largely remained drawn to the well-connected, central submarkets of Downtown South and the Financial Core, an increasing number are choosing Downtown West and, to a lesser extent, Downtown East.

Downtown Class B/C office faces elevated vacancy and must be repurposed for 2026+ tenant demand or redeveloped/converted. Barriers include land zoning, high conversion costs, heritage protections, and limited city incentive uptake.

The announcement of new downtown office development may occur later in 2026 as developers wait to see whether the wave of tenant demand generated by RTO mandates in 2025 leads to an ongoing elevation in activity in 2026+.

# 01

## Office Market Metrics



# Downtown Toronto Office Submarket Statistics By Class | 1Q26

Submarket Statistics – By Classes								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Direct Available Rate	Sublet Available Rate	Est. Gross Rent (\$/SF) incl. TMI
<b>Downtown Toronto</b>	<b>82,845,548</b>	<b>1,489,556</b>	<b>11.2%</b>	<b>1,344,562</b>	<b>1,344,562</b>	<b>11.8%</b>	<b>1.8%</b>	
Class A	59,028,870	1,489,556	8.4%	1,194,918	1,194,918	8.9%	1.5%	C\$50-\$90
Class B/C	23,816,678	0	18.0%	149,644	149,644	18.9%	2.5%	C\$47
<b>Financial Core</b>	<b>37,580,401</b>	<b>1,435,520</b>	<b>8.6%</b>	<b>804,245</b>	<b>804,245</b>	<b>9.9%</b>	<b>1.1%</b>	Class AAA rent: C\$90-C\$105
Class A	30,826,862	1,435,520	5.9%	692,018	692,018	7.1%	0.9%	C\$75-\$90
Class B/C	6,753,539	0	20.6%	112,227	112,227	23.0%	2.1%	C\$59
<b>Downtown North</b>	<b>14,149,077</b>	<b>0</b>	<b>14.3%</b>	<b>-9,587</b>	<b>-9,587</b>	<b>16.0%</b>	<b>2.1%</b>	
Class A	6,765,410	0	11.8%	35,208	35,208	14.6%	1.2%	C\$62-\$75
Class B/C	7,383,667	0	16.5%	-44,795	-44,795	17.3%	2.9%	C\$45
<b>Downtown West</b>	<b>13,998,192</b>	<b>0</b>	<b>16.1%</b>	<b>613,540</b>	<b>613,540</b>	<b>15.6%</b>	<b>2.2%</b>	
Class A	8,486,226	0	13.2%	571,073	571,073	11.9%	2.9%	C\$55-\$75
Class B/C	5,511,966	0	20.7%	42,467	42,467	21.3%	1.0%	C\$44

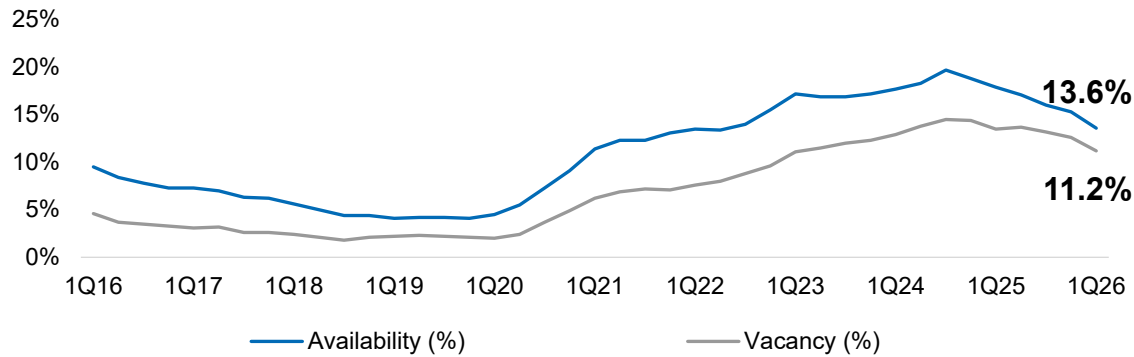
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<b>Downtown South</b>	<b>11,358,198</b>	<b>0</b>	<b>8.7%</b>	<b>-256,336</b>	<b>-256,336</b>	<b>7.2%</b>	<b>2.1%</b>	
Class A	10,517,710	0	9.4%	-256,336	-256,336	7.8%	2.3%	C\$70-\$90
Class B/C	840,488	0	0%	0	0	0%	0%	C\$44
<b>Downtown East</b>	<b>5,759,680</b>	<b>54,036</b>	<b>13.5%</b>	<b>192,700</b>	<b>192,700</b>	<b>12.8%</b>	<b>3.6%</b>	
Class A	2,432,662	54,036	9.6%	152,955	152,955	9.7%	1.6%	C\$50-\$60
Class B/C	3,327,018	0	16.5%	39,745	39,745	15.0%	5.0%	C\$39

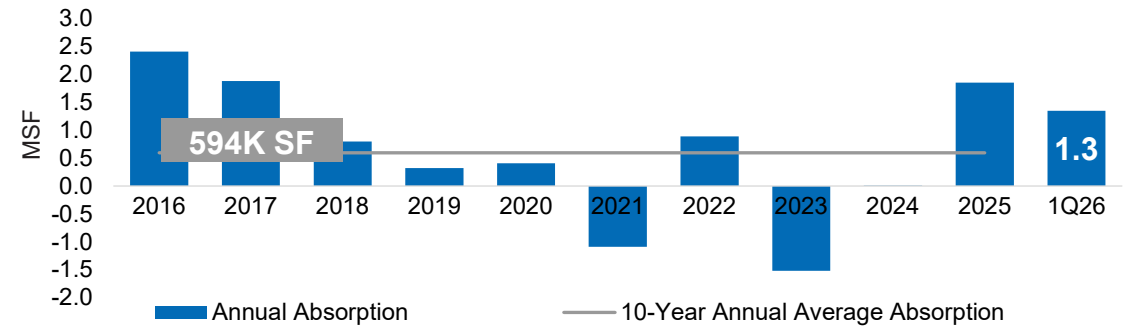
# Downtown Toronto

Downtown Toronto\* is at the core of Canada's biggest office market in the country's largest city, comprising 82.8 msf and consisting of five submarkets, including the Financial Core, Downtown North, Downtown West, Downtown South and Downtown East. First quarter absorption of ~1.3 msf was the most quarterly absorption recorded Downtown since 1999. Office availability has declined steadily since peaking in the third quarter of 2024 before falling 620 basis points (bps) to its lowest point since early 2021 by the first quarter of 2026.

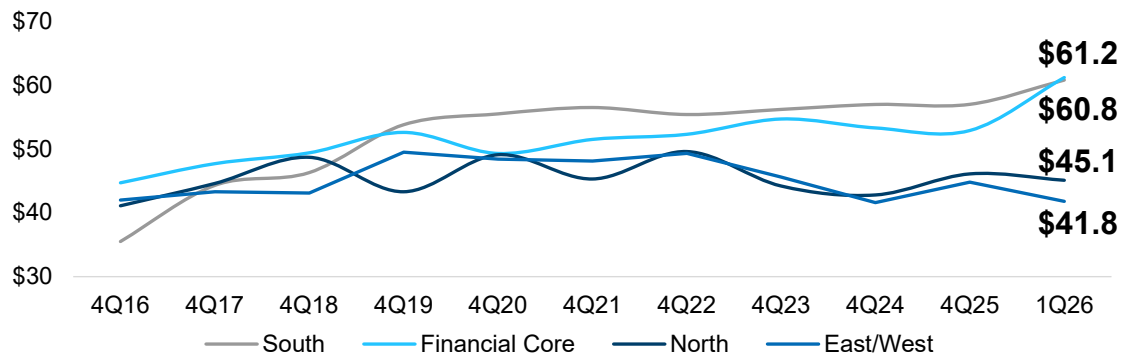
Overall Availability And Vacancy Rates – All Classes\*



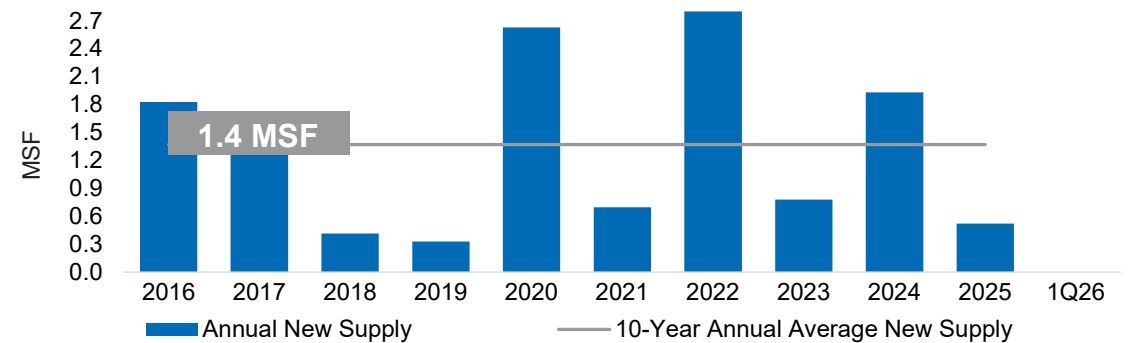
Annual Absorption – All Classes\*



Total Direct Gross Rent Average by Downtown Submarket (C\$/sf)\*

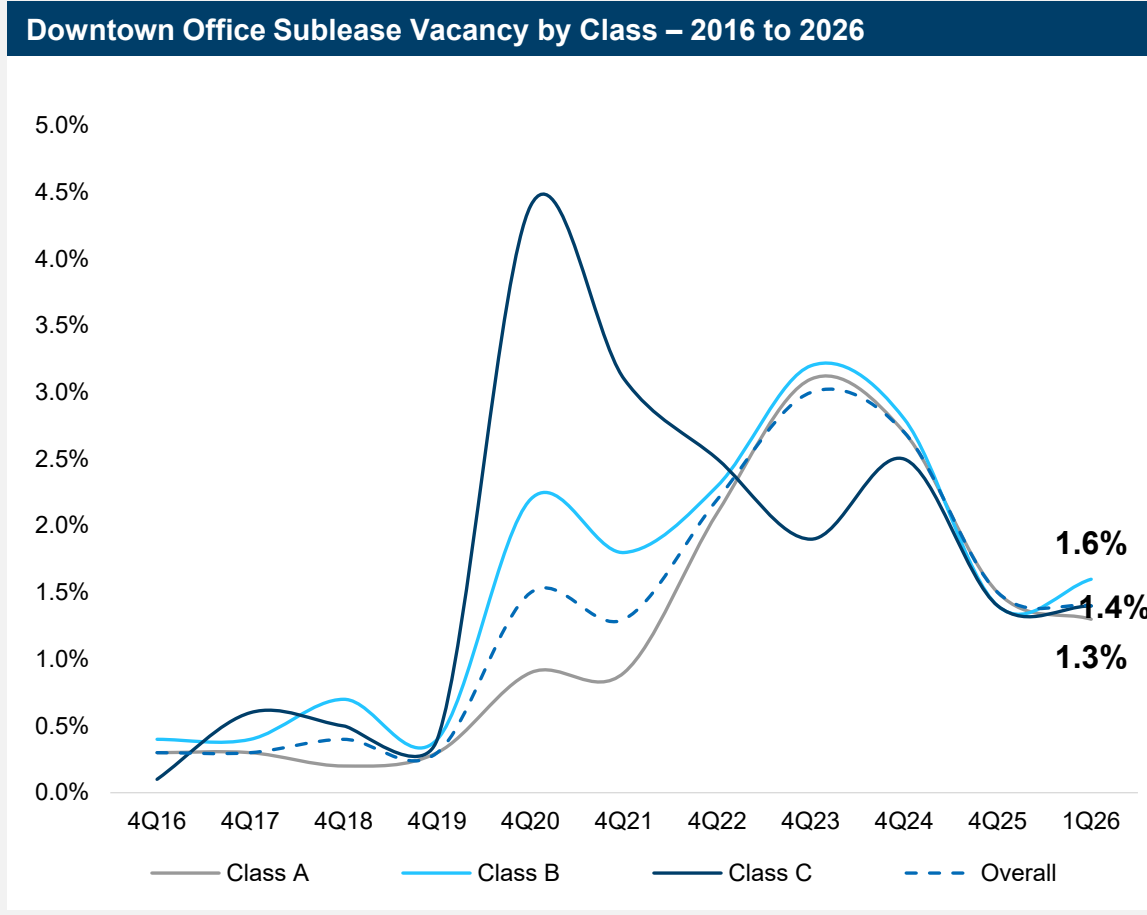
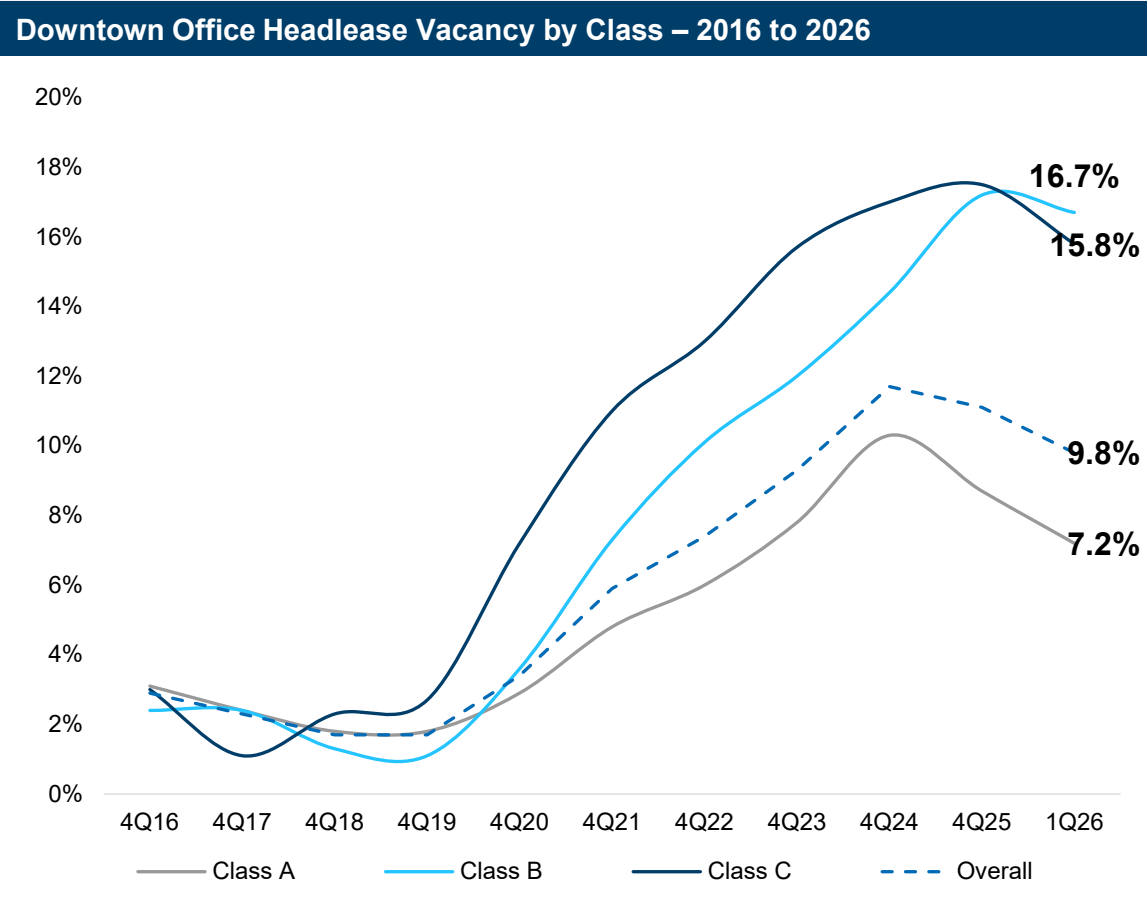


New Construction Deliveries\*



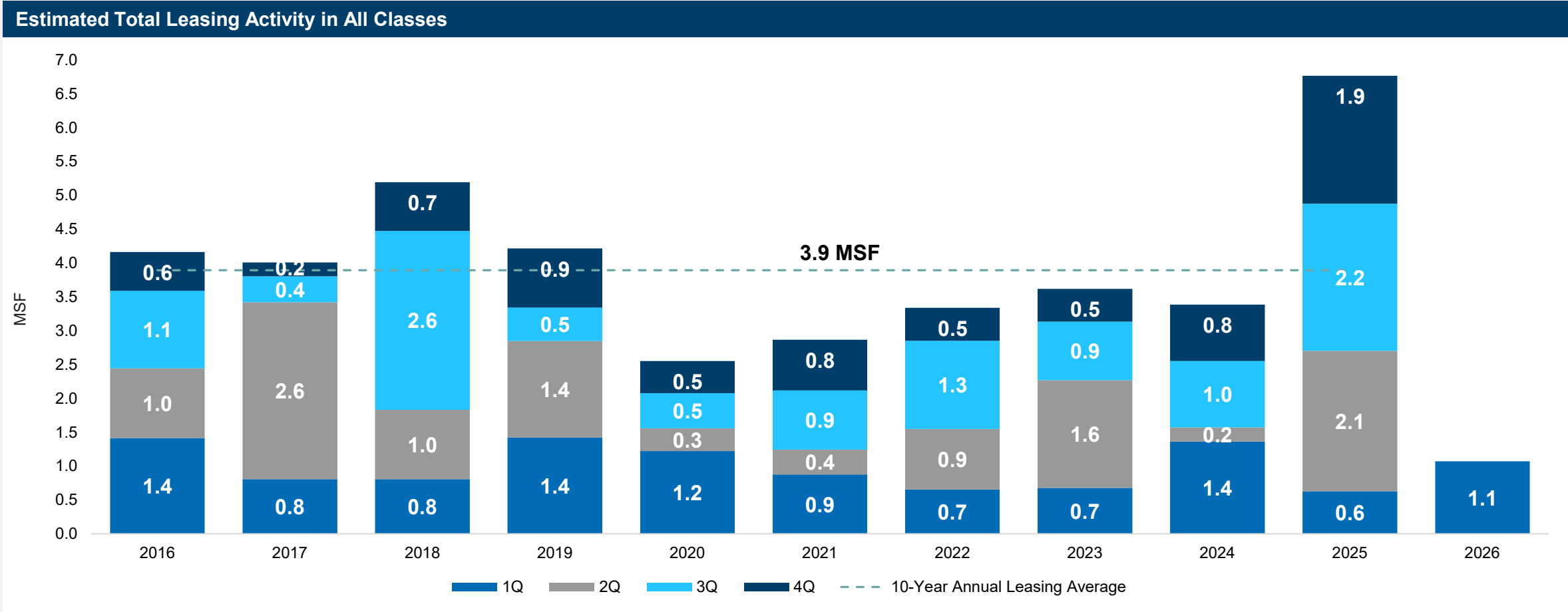
# Class B/C Vacancy Remains Unresolved Element Hindering Full Downtown Recovery

A rapid decline in class A headlease vacancy (7.2%) versus class B/C has meaningfully lowered the downtown core’s overall headlease vacancy to 9.8% in Q1 2026. Class B/C vacancy likely peaked in late 2025 and began easing in early 2026 but still sits at more than twice the class A rate. About 72% of downtown inventory is class A space, which has benefited from a sharp rebound in tenant demand. The distressed state of over a quarter of inventory entering 2026 will require policy responses – enhanced conversion incentives, employment lands zoning reform and property tax relief for vacant space – paired with redevelopment, reuse or removal.



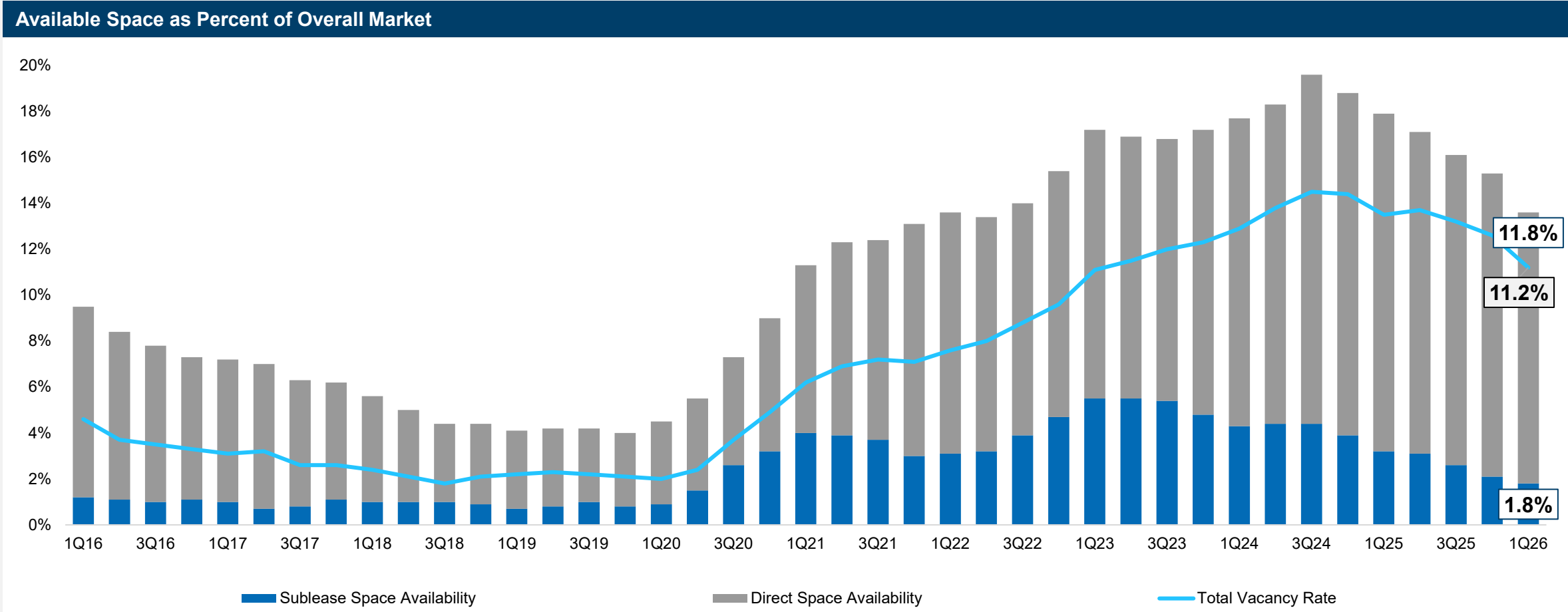
# RTO-Driven Leasing Surge Crests as Post-Mandate Demand Normalizes Into 2026

Annual downtown leasing activity blew past the 10-year average and set a decade record with ~6.8 msf in 2025. Financial Core tenants accounted for ~3.9 msf, or 57%, of that total. While ~1.1 msf completed in the first quarter of 2026 (annualizing to ~4.4 msf, above the 10-year average) was concentrated in the Financial Core, Downtown West also saw spillover demand in late 2025/early 2026 as vacancy and availability declined rapidly. Downtown East also recorded declines in vacancy and availability, though less sharply than Downtown West. Downtown North was most challenged as tenants vacated more class B/C space than they occupied in class A buildings.



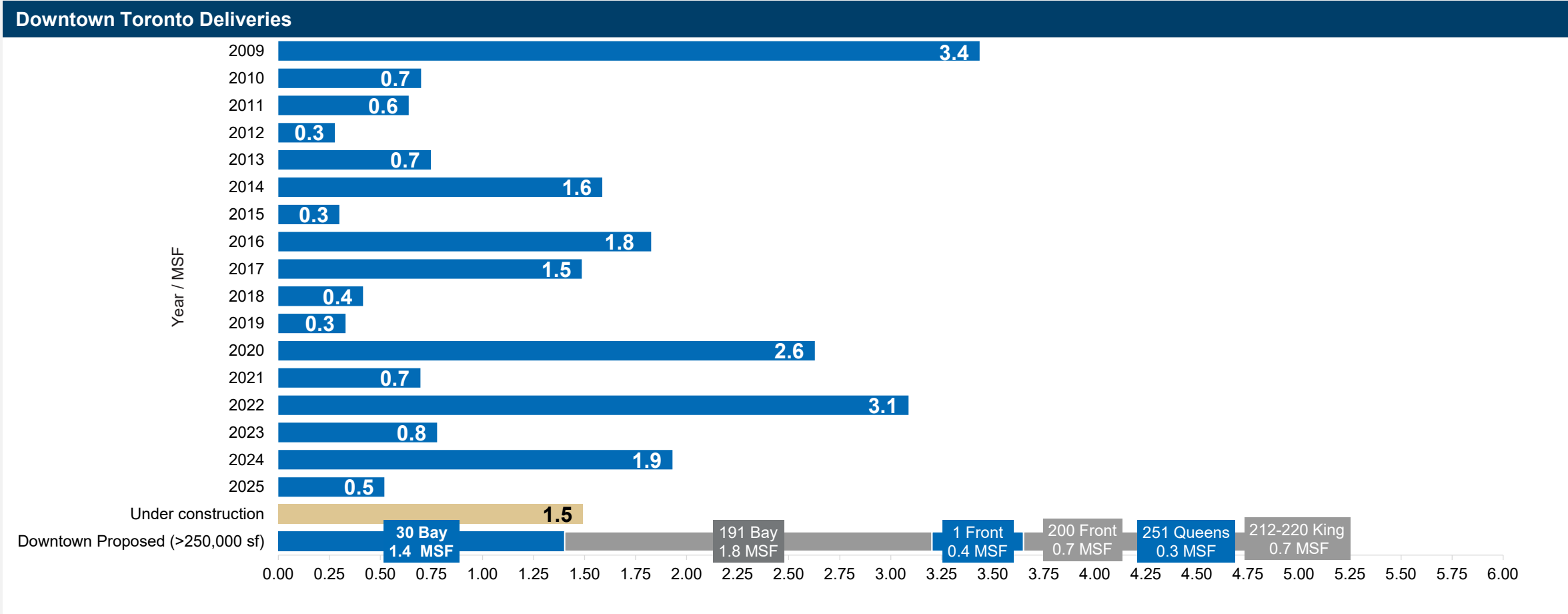
# Class A/Trophy Fundamentals Approaching Recovery As Class B/C Remains Distressed

Downtown Toronto sublease availability fell to a near six-year low in Q1 2026 as vacancy continued to decline from its peak 18 months ago. Vacancy is still falling but more slowly than the surge in leasing and absorption might suggest. Recovery is uneven, with most class B/C stock, ~28% of the core, still in serious distress from elevated vacancy. Gains are concentrated in trophy and class A assets, with tenants showing little appetite for other space. The gap between strong gross leasing and slower net vacancy decline likely reflects concurrent lease expirations partially offsetting new absorption. Whether demand through 2026 can be sustained post-RTO mandates remains to be seen.



# Downtown Toronto Market Awaiting New Office Development To Be Triggered In 2026

New office construction in Downtown Toronto has delivered space on a consistent basis during the past 16 years, with cycles delivering substantially more square footage each time. The current development cycle that commenced in 2020 and will end in 2026 is set to deliver more than 9.7 msf with ~1.5 msf still under construction (but all preleased). Demand for trophy space and other market indicators show that The HUB at 30 Bay Street could kick off with a major bank prelease in 2026. The absence of new supply under construction means any development starting in 2026 would likely not be delivered until 2030/31, a delivery gap that has not occurred since at least 2009.



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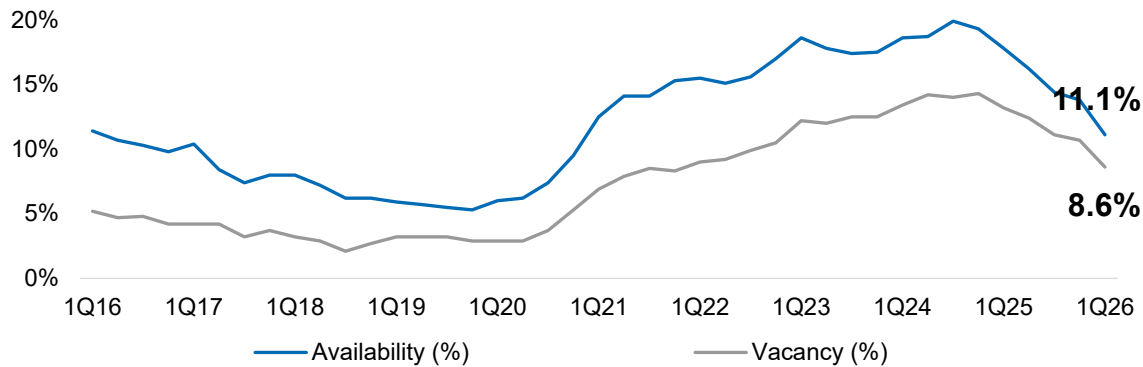
## Financial Core



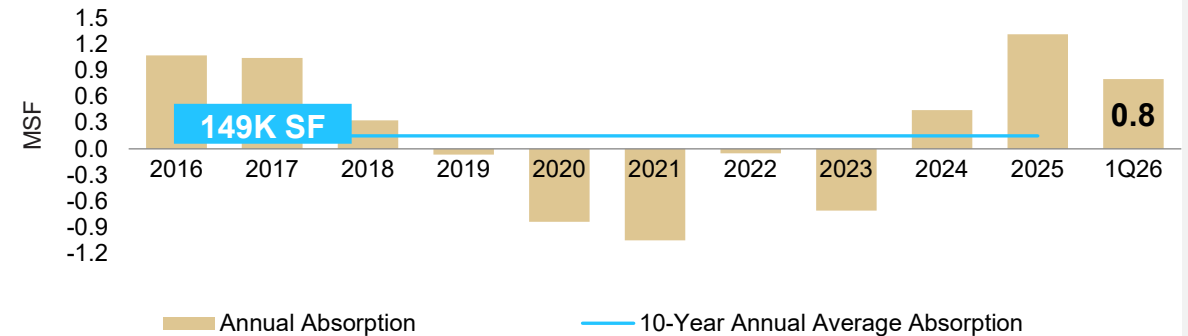
# Financial Core

The 37.6-msf Financial Core led all Downtown Toronto submarkets with almost 800k sf of first-quarter absorption in 2026 as tenant demand pushed vacancy to its lowest point since the end of 2021. Class A (and increasingly class B) vacancy tightened as tenants, particularly Canada’s ‘Big Five’ banks, lease and/or sublease most any large space in top-tier properties. The delta between availability and vacancy tightened to 260 basis points, the smallest since mid-2019, an indication that new supply is increasingly necessary to maintain a balanced market. The ongoing absence of new construction in the development pipeline has resulted in a trophy/class A supply crunch that may not be resolved until 2030/31 even if new development broke ground in 2026, a prospect that would be likely in the next six to 12 months provided tenant demand remains resilient as the post-RTO leasing swell subsides.

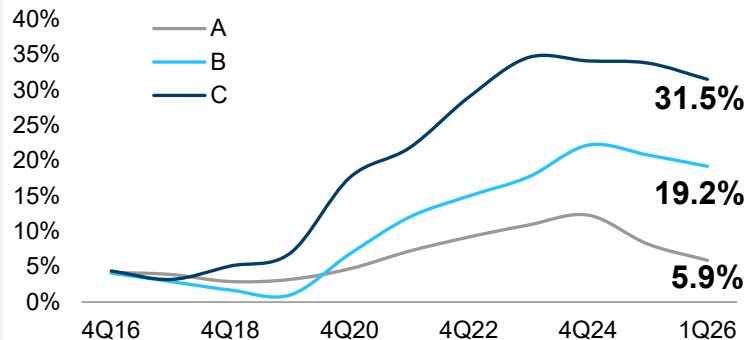
## Overall Availability And Vacancy Rates – All Classes



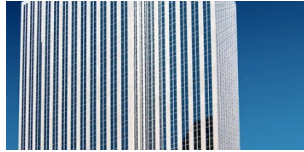
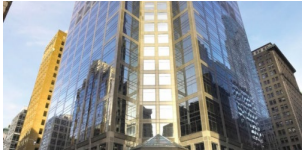


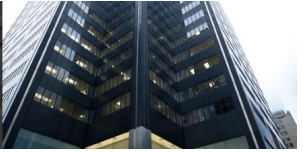
## Annual Absorption – All Classes



## Vacancy by Class – 2016 to 2026

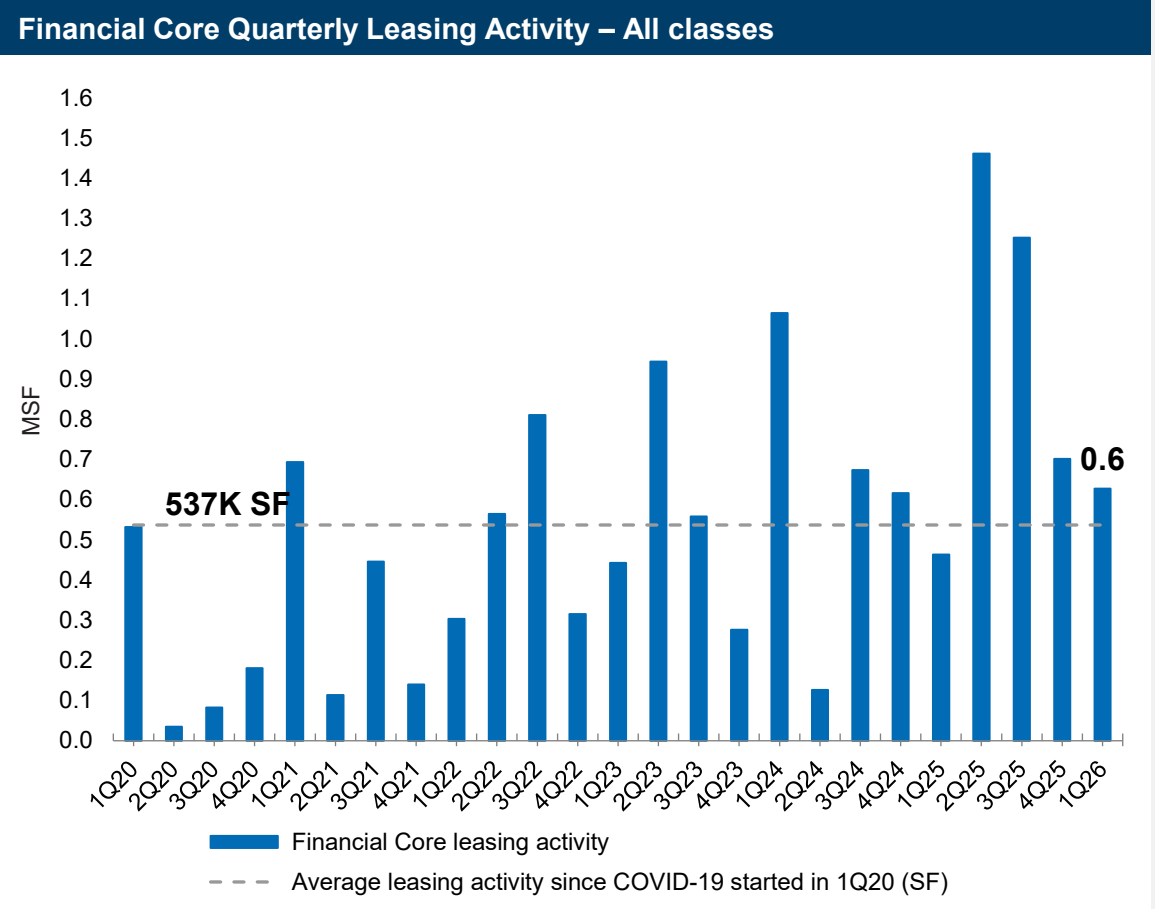
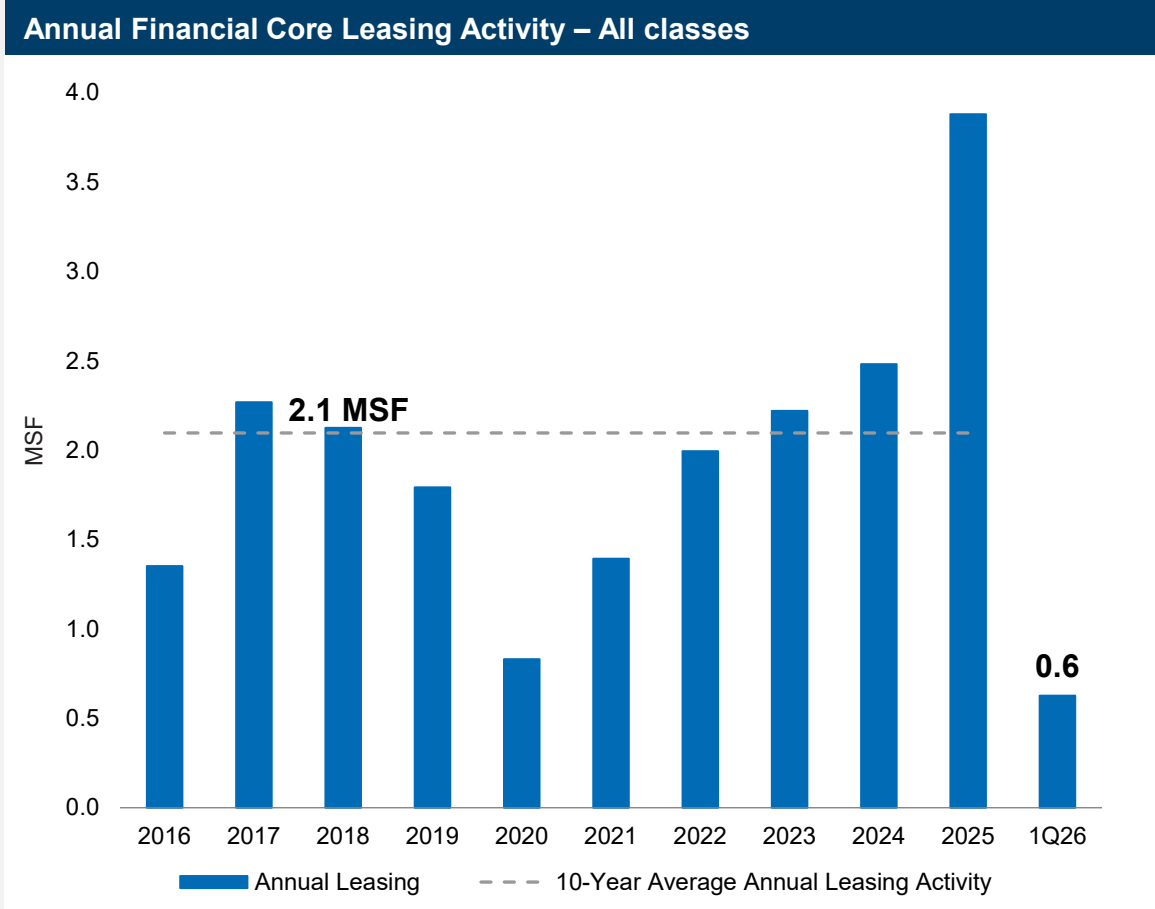


## First Quarter Deals

Property	Lease Type	Size (SF)	Client	Deal Type
 <b>The Exchange Tower</b> 130 King Street West	Renewal	203,110 SF	National Bank of Canada	Direct New
 <b>1 Adelaide Street East</b>	Direct New	159,080 SF	Scotiabank	Direct New
 <b>Berczy Square</b> 33 Yonge Street	Direct New	128,280 SF	Scotiabank	Direct New
 <b>Royal Bank Plaza</b> 200 Bay Street	Sublease	35,100 SF	RBC	Sublease
 <b>Oxford Tower</b> 130 Adelaide Street West	Direct New	19,040 SF	1Password	Direct New

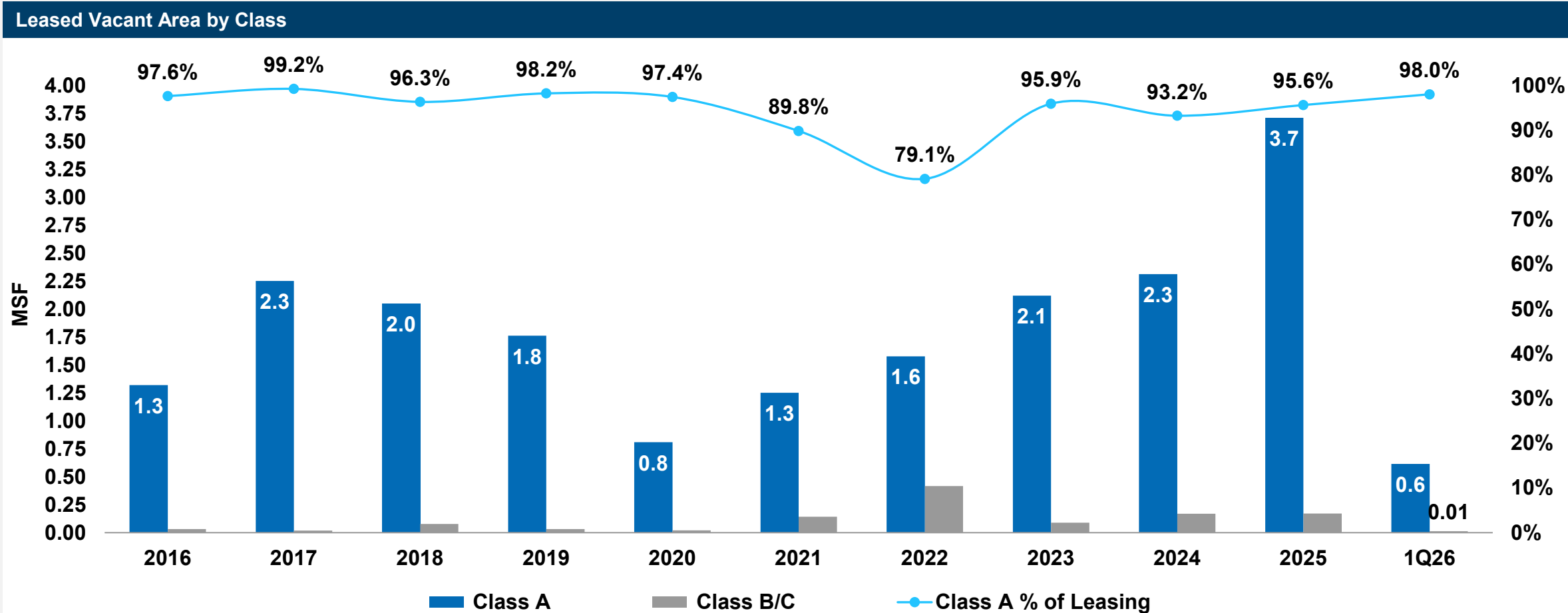
# Financial Core Leasing Activity Still Brisk But Highwater Mark May Have Been Reached

More office space was leased in the Financial Core in 2025 than occurred in any other year in the past decade with ~3.9 msf under contract. Return-to-office mandates publicly announced at Canada’s largest five banks last summer combined with a lack of new supply led tenants to increasingly take office leasing decisions throughout the spring and summer of 2025. This sharp and sudden uptake was largely focused on class A/trophy premises, which comprises 82% of the Financial Core building inventory. Leasing volume – while elevated – has been in decline since mid-2025 and with the lack of new supply and a dearth of existing available class A/trophy space leasing will naturally become more constrained.



# If It Is Not Class A/Trophy Space, Tenants Uninterested | Financial Core Leasing Activity

The percentage of class A space leased annually in the Financial Core hit a decade high in 2025 with ~3.7 msf under contract, surpassing ~2.3 msf in 2024. Class A buildings contain 82% of the submarket's office space (class B/C comprises 18%) but 98% of square footage leased in Q1 2026 occurred in class A space, effectively making the Financial Core a single-tier market for active leasing. With virtually all leasing concentrated in four-fifths of the inventory, the case for new supply and the need to demolish or repurpose class B/C space strengthens. Demand outside of class A/trophy has not materialized, but tenants in older spaces are increasingly staying put, resulting in slight declines in class B/C vacancy.



# 03

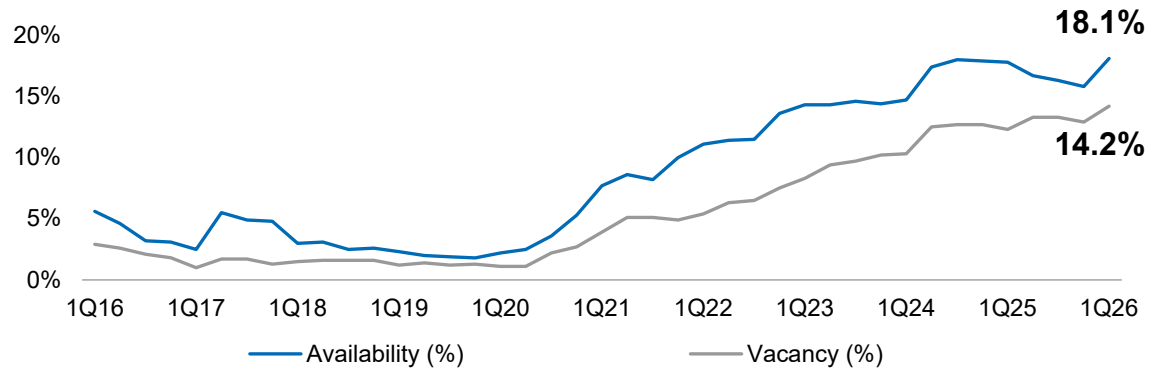
## Downtown Toronto Office Submarkets



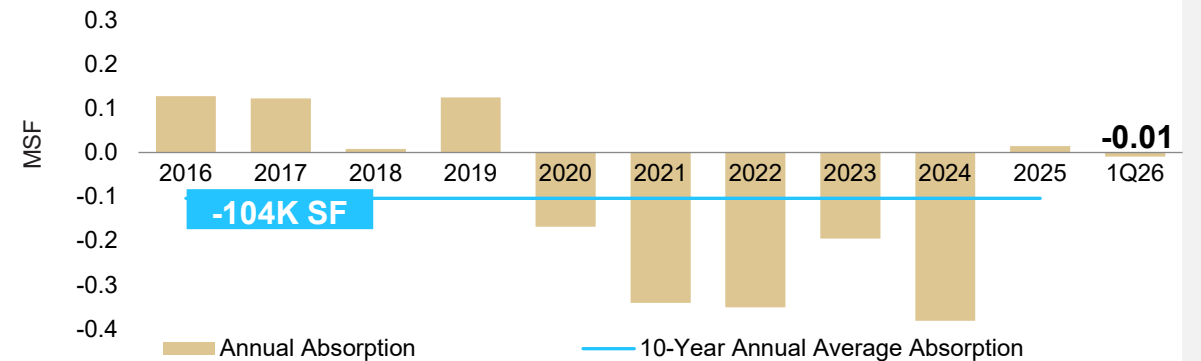
# Downtown North

Downtown North, the 14.1-msf submarket with one of downtown’s highest concentrations of class B/C buildings, recorded very slight negative absorption in the first quarter of 2026. While five years of substantial negative annual absorption from 2020 to 2024 had hollowed out much of the previous tenant base, positive annual absorption in class A premises in 2025 helped offset tenants who continued vacating class B/C space. This slow-motion tug of war – a result of a spillover in leasing activity as tenants unable to secure class A premises in the Financial Core or Downtown South look north – saw tenants vacating slightly more class B/C space than class A space being occupied by tenants in the first quarter of 2026.

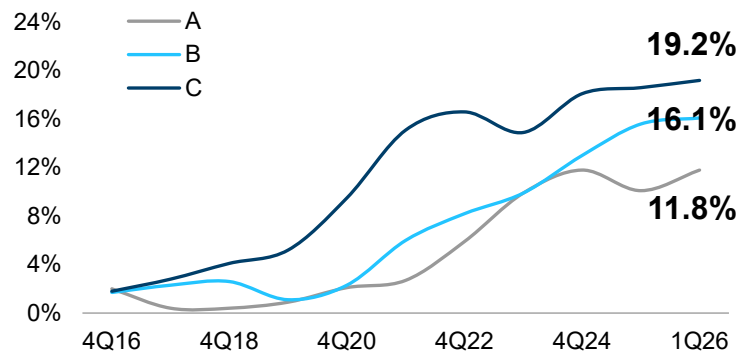
## Overall Availability And Vacancy Rates – All Classes



## Annual Absorption – All Classes



## Vacancy by Class – 2016 to 2026



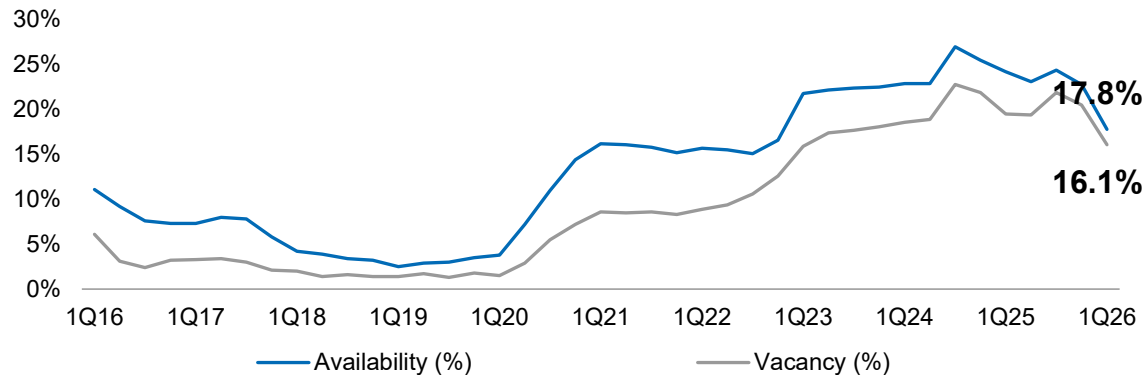
## First Quarter Deals

Address	Developer	Size (SF)	Deal Type
400 University Avenue	Mistplay	11,910 SF	Direct New
150 Dundas Street West	Ellis Don	4,500 SF	Direct New
Carlton Tower 2 Carlton Street	Boson AI	2,900 SF	Direct New

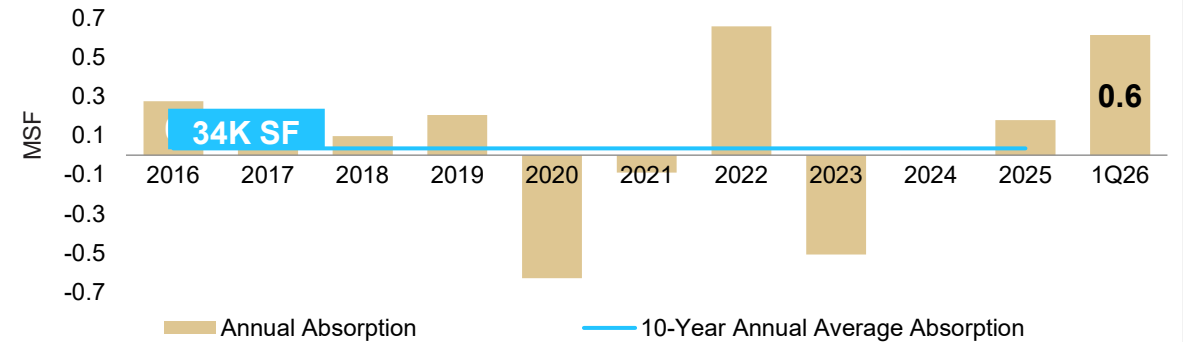
# Downtown West

Downtown West, the third largest core submarket at 14 msf, has benefited from spillover tenant demand from the increasingly tight submarkets of the Financial Core and Downtown South as leasing activity has largely exhausted the availability of most trophy and class A space in those submarkets with no new supply in the pipeline. Class A vacancy has fallen an astonishing 760 basis points to 13.2% since the first quarter of 2025, which led overall vacancy to drop to 16.1% in the first quarter of 2026, down from a near historic high of 21.9% just six months earlier. First-quarter 2026 absorption of ~610,000 sf was the most quarterly absorption recorded in Downtown West since the record of ~930,000 sf was set in 3Q22.

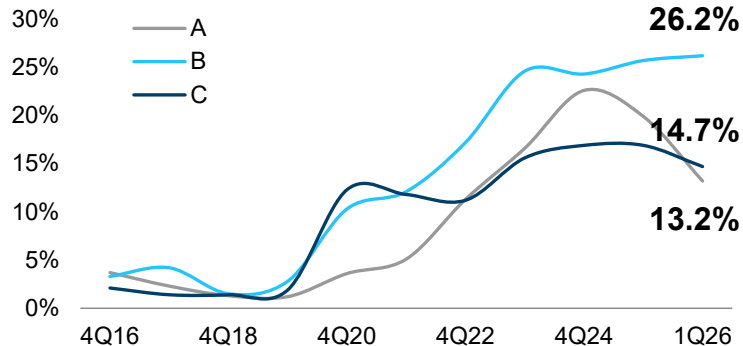
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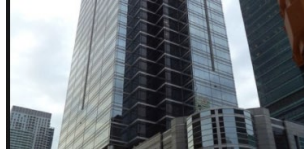

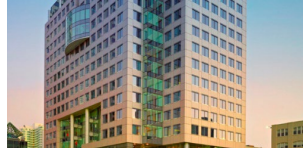


## Annual Absorption – All Classes



## Vacancy by Class – 2016 to 2026



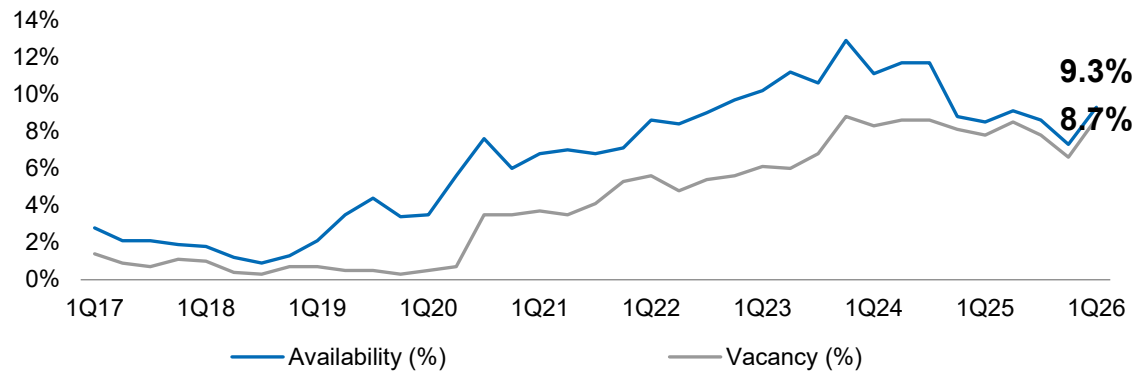
## First Quarter Deals

				
<b>Simcoe Place</b> 200 Front Street West	<b>Portland Commons</b> 530 Front Street West	<b>MetroCentre - King Street Tower</b> – 225 King Street W.	<b>Queen Richmond Centre West</b> 134 Peter Street	<b>317 Adelaide Street West</b>
RBC	Stripe	Spin Master	Booking.com	Recharge
326,350 SF	223,230 SF	125,000 SF	34,760 SF	11,570 SF
Direct New	Direct New	Renewal	Direct New	Direct New

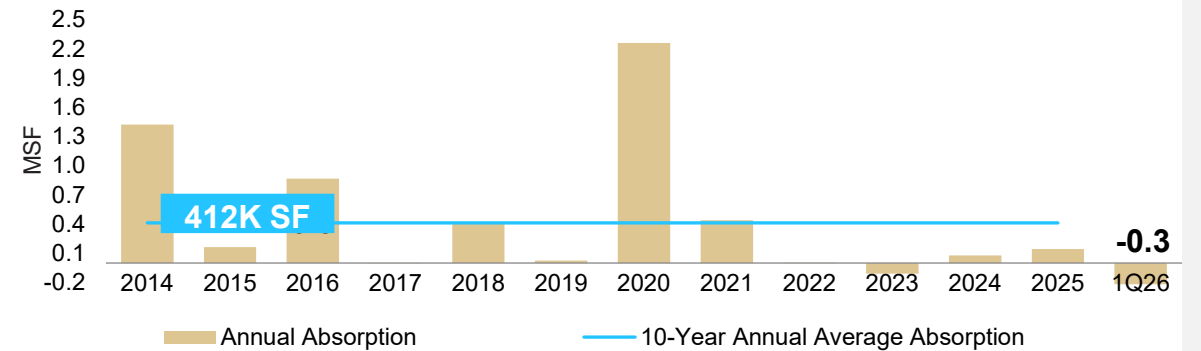
# Downtown South

The 11.4-msf Downtown South submarket is no longer the tightest in the core as vacancy rose to 8.7% in the first quarter of 2026, slightly more than the 8.6% recorded in the swiftly tightening Financial Core. With class B/C vacancy at 0% as there are virtually no class B/C buildings in inventory, the submarket benefits from an ongoing 'fight-for-quality' among tenants seeking proximity to Union Station and superior views and building amenities. Class A vacancy of 9.4% (comprising 92% of the submarket inventory) was the second lowest in the core. Negative absorption of more than 250,000 sf in Q1 2026 is atypical and, given current market tightness and active tenant enquiries, is expected to be absorbed in the near term.

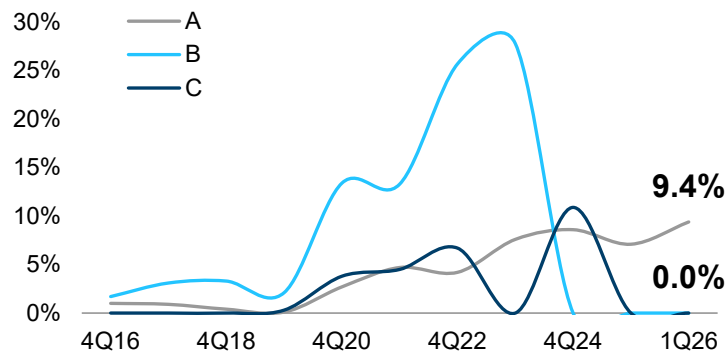
## Overall Availability And Vacancy Rates – All Classes



## Annual Absorption – All Classes



## Vacancy by Class – 2016 to 2026



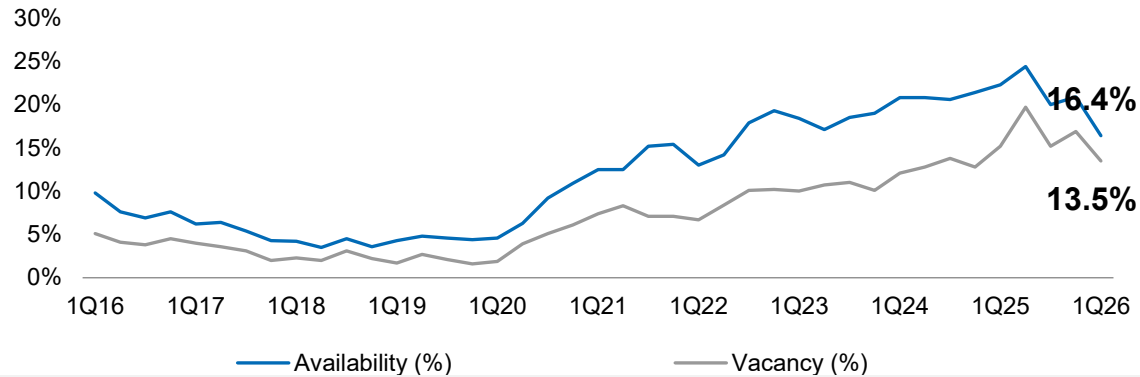
## First Quarter Deals

Property	Deal Type	Size (SF)	Deal Type
Citigroup Place 123 Front Street West	Teranet	57,850 SF	Renewal
York Centre 145 King Street West	Purpose Unlimited	37,400 SF	Direct New
Citigroup Place 123 Front Street West	Undisclosed	6,910 SF	Sublease

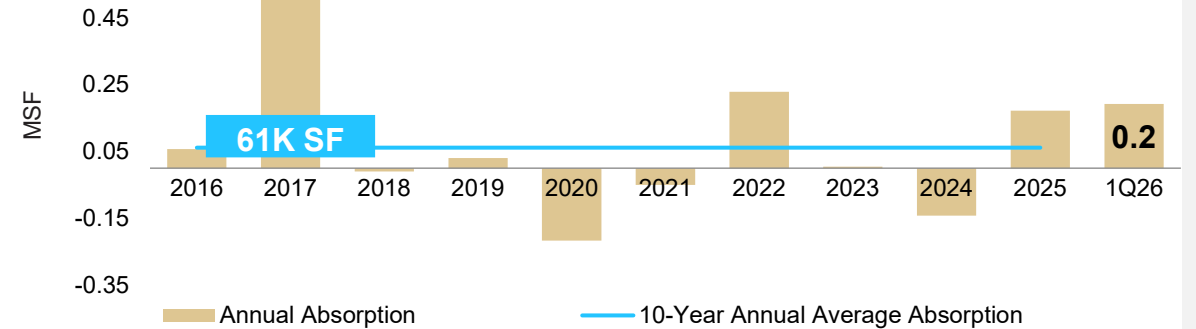
# Downtown East

Vacancy in the 5.8-msf Downtown East fell to 13.5% at the first quarter of 2026, its lowest point since the end of 2024 and 170 basis points lower than the first quarter of 2025. Class A vacancy dropped sharply to 9.6% due to demand for quality space, including The Shift, a new 24-storey office tower, which initially contributed to a rise in vacancy when delivered partially vacant in mid-2025 but has since seen tenants occupying space and availability declining. Absorption was positive in first-quarter 2026 and was the most quarterly absorption recorded to start a year since 2022 thanks to occupation of class A space. However, with almost 60% of office space located in class B/C buildings, overall submarket challenges remain.

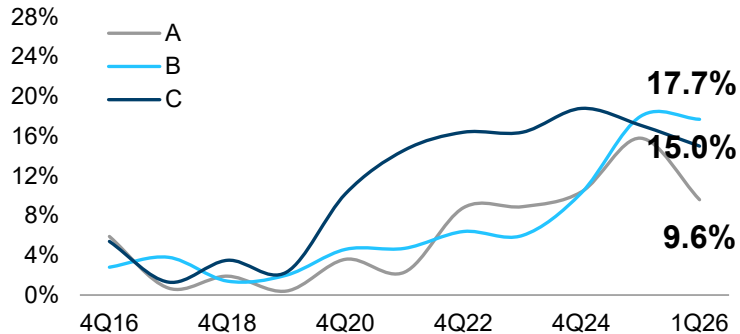
## Overall Availability And Vacancy Rates – All Classes



## Annual Absorption – All Classes



## Vacancy by Class – 2016 to 2026



The 24-storey building, The Shift, was finished in 2025.

## First Quarter Deals

Property	Leaseholder	Lease Type	Size (SF)	Deal Type
The Shift 25 Ontario Street	Omnicon Media	Direct New	113,445 SF	Direct New
1 Toronto Street	Mastercard	Direct New	68,330 SF	Direct New
204-214 King Street East	Undisclosed	Direct New	15,960 SF	Direct New

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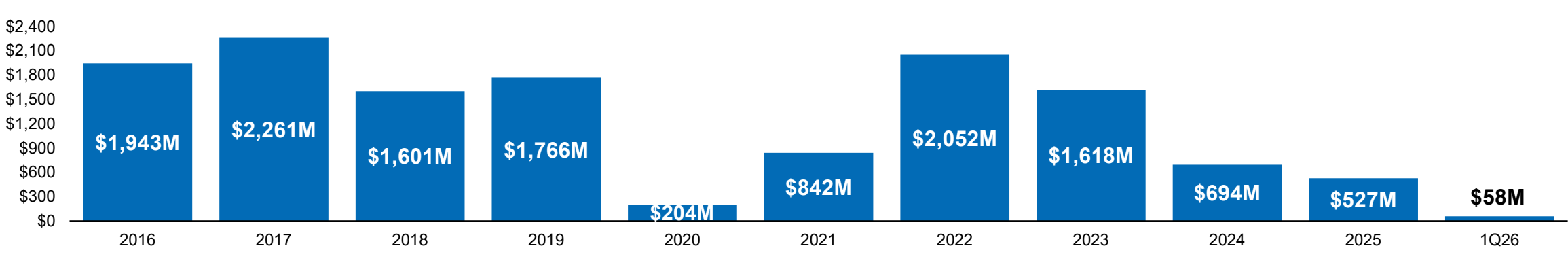
## Office Sales Activity



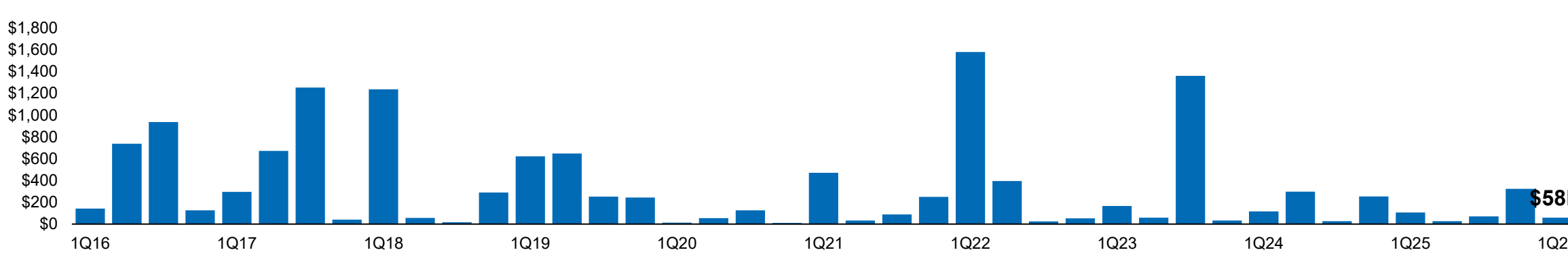
# Downtown Toronto Core and Periphery Office Sales Volume Key Takeaways

Downtown office sales\* (excluding strata) remained highly constrained in Q1 2026, with the \$50.8M sale of 145 Wellington Street West to Crestpoint Real Estate Investments representing one of just three transactions. Dollar volume has been in freefall since 2022; however, Q4 2025 sales of \$293M were the highest since Q2 2024, reflecting renewed investor interest. Notable Q4 2025 closings included 141 Adelaide St. W. (\$95M), 339 Queen St. E. (\$26M) and 252-264 Adelaide St. E. (\$12M). Transaction-level cap rate and PSF pricing for select deals may be available upon request. Buyers included a mix of domestic institutional and private capital.

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



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



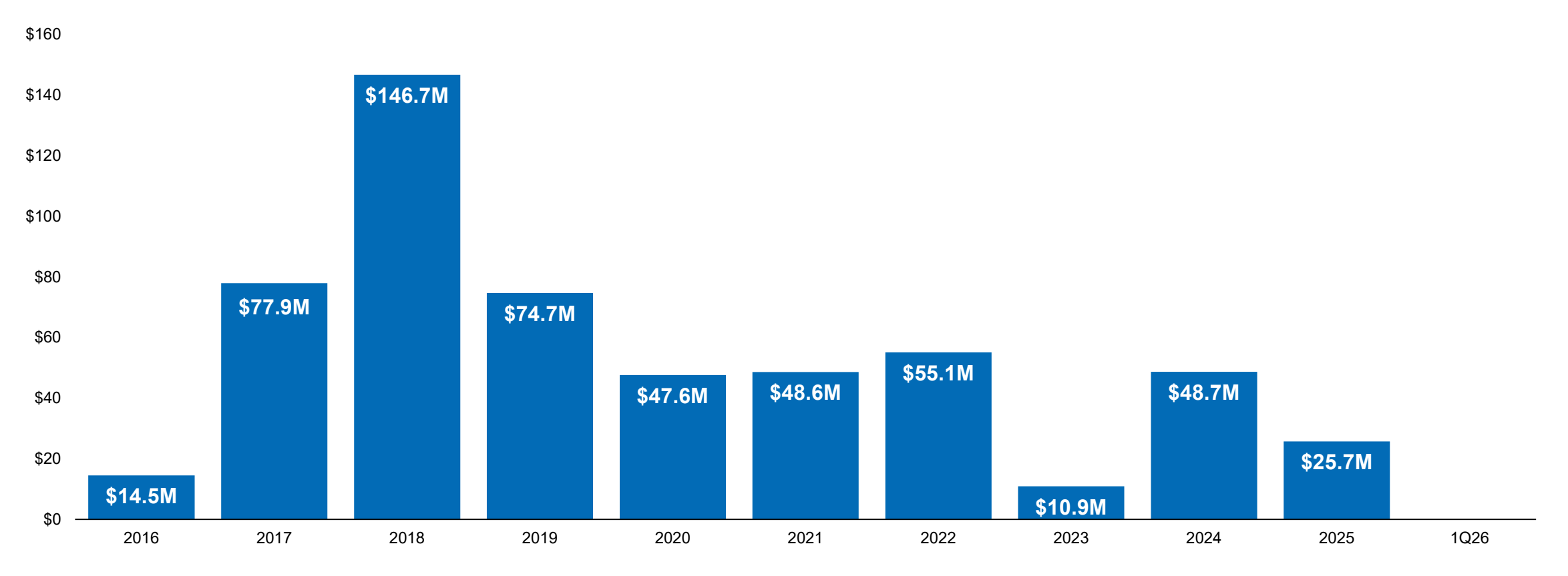
Source: Newmark Research, Altus Data Studio, CoStar (transaction data)

\* 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 as owner-occupiers and investors purchased presales during record-low downtown vacancy between 2016 and early 2020. Sales were stable in the early 2020s but dropped sharply in 2023 due to elevated interest rates. Demand resurged in 2024 as capital costs fell, but sales remained muted through 2025 with just 12 units transacting. There were no strata office sales in Q1 2026 despite tightening vacancy limiting quality lease options in key submarkets. A lack of new strata construction constrains ownership alternatives. With options increasingly limited, Toronto businesses face a structurally less flexible real estate environment than at any point in over a decade.

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



Source: Newmark Research, Altus Data Studio  
\* Excluding non-arms transactions

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