

4Q24

Downtown Toronto Office Market Overview



Downtown Toronto Office Market Observations

As Downtown Toronto office vacancy hit 14.9% at year-end 2024 - the second highest vacancy recorded since 2000 - it also marked the first quarter-over-quarter decline in vacancy since 2019.

Annual absorption swung positive in 2024 as overall vacancy and availability declined at year's end, a sign that Downtown Toronto's office market may be stabilizing heading into 2025.

While leasing activity in the Financial Core has returned to pre-COVID peaks, vacancy remained elevated. This suggests that stabilization occurred as tenant right-sizing completed in 2024.

Slower job growth is limiting improvements in office utilization by downtown tenants, which is translating into weaker organic leasing growth even in popular downtown submarkets.



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.

Elevated vacancy that remained downtown in 2024 despite the return of leasing velocity was increasingly the result of rising amounts of backfill space that is not being occupied due to much of it being in obsolete office space in unpopular areas.

Renewals and deals in new or near-new space remain key leasing drivers in Downtown Toronto, particularly in the Financial District and Downtown South submarkets, as tenants flock to recently constructed, highly amenitized buildings.

While the vacant delivery of Portland Commons in late 2024 pushed up vacancy in Downtown West, the amount of new space under construction downtown has dwindled to ~2.2 msf, leading to at least one new large project being considered.

With class A rents diverging more from class B/C rents downtown, more tenant inducements tend to be needed, particularly outside the Financial Core and Downtown South. Rents for class B/C space are flat but showing signs of softening.

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Office Market Metrics



Downtown Toronto Office Submarket Statistics | 4Q24

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	85,557,885	2,008,565	14.9%	331,034	131,030	15.9%	4.1%	C\$44.82
Financial Core	37,204,132	1,435,520	14.4%	-141,750	424,643	16.9%	3.2%	C\$48.52
Downtown West	14,284,468	563,731	21.4%	128,033	-1,440	18.4%	6.7%	C\$43.83
Downtown North	13,791,570	53,338	14.3%	-1,624	-380,848	17.0%	3.2%	C\$43.11
Downtown South	11,108,486	0	8.1%	53,666	73,724	6.0%	2.8%	C\$56.98*
Downtown East	5,149,552	519,707	13.2%	54,290	-135,281	15.2%	7.0%	C\$39.82
King & Dufferin**	3,989,677	0	19.2%	238,419	150,232	23.3%	5.4%	C\$49.21

Source: Newmark Research, Altus Data Studio

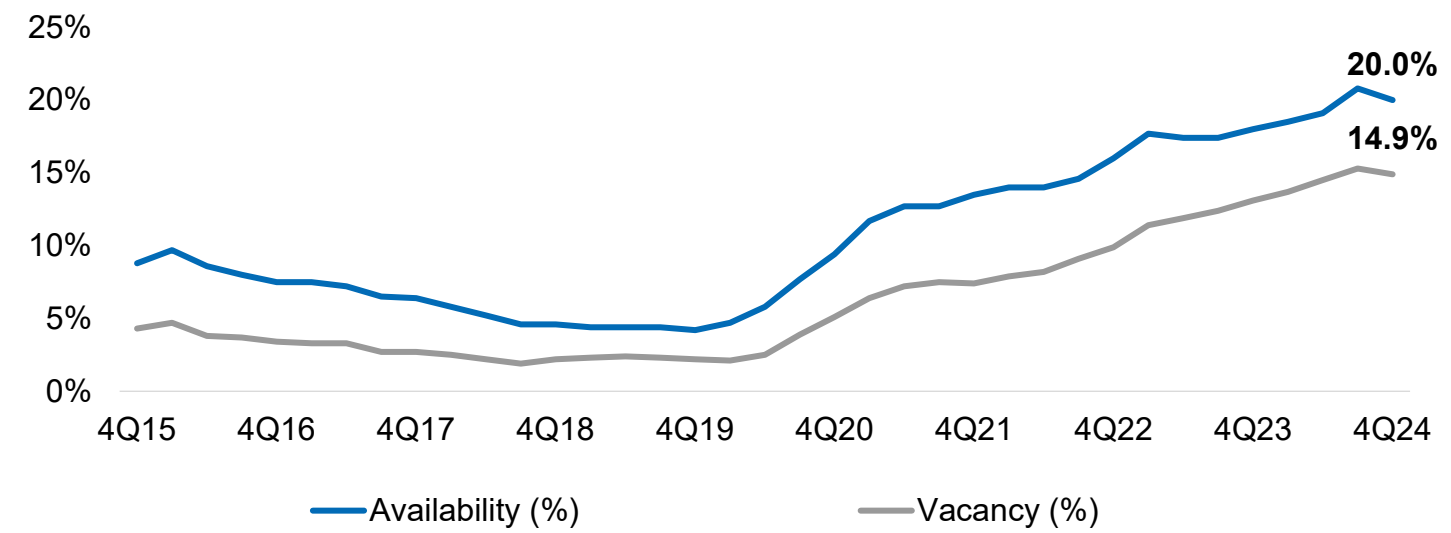
* 3Q24 rent average

** This submarket is not covered in this report.

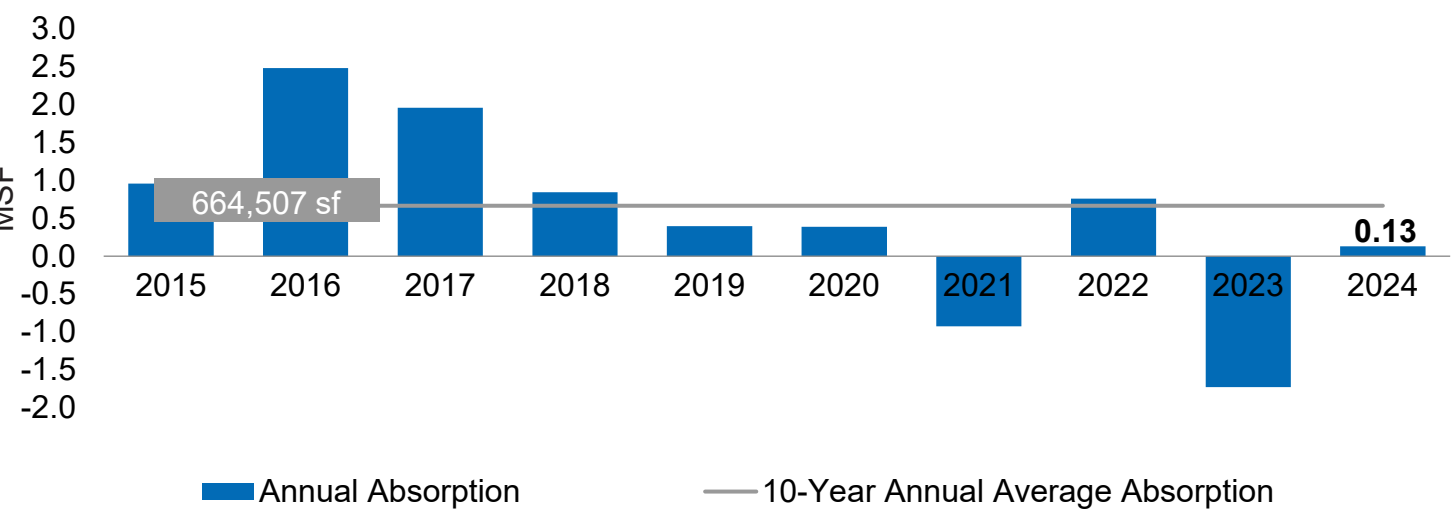
Downtown Toronto

Downtown Toronto is at the core of Canada's biggest office market in the country's largest city, comprising 85.6 msf and consisting of five submarkets, including the Financial Core, Downtown North, Downtown West, Downtown South and Downtown East. Annual absorption swung positive in 2024, a notable improvement from the 1.73 msf of negative absorption recorded in 2023. Vacancy was 14.9% at the end of 2024 – up from 13.1% at year-end 2023 – but down from 15.3% a quarter earlier, the first quarterly decline since the start of 2020.

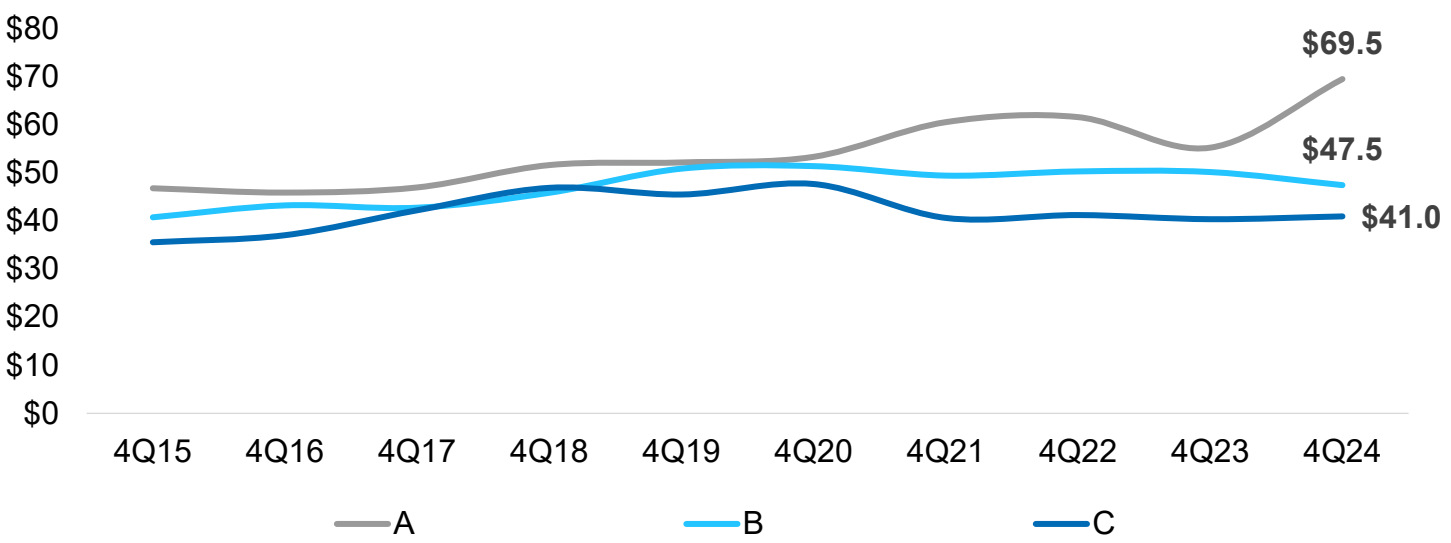
Overall Availability And Vacancy Rates – All Classes



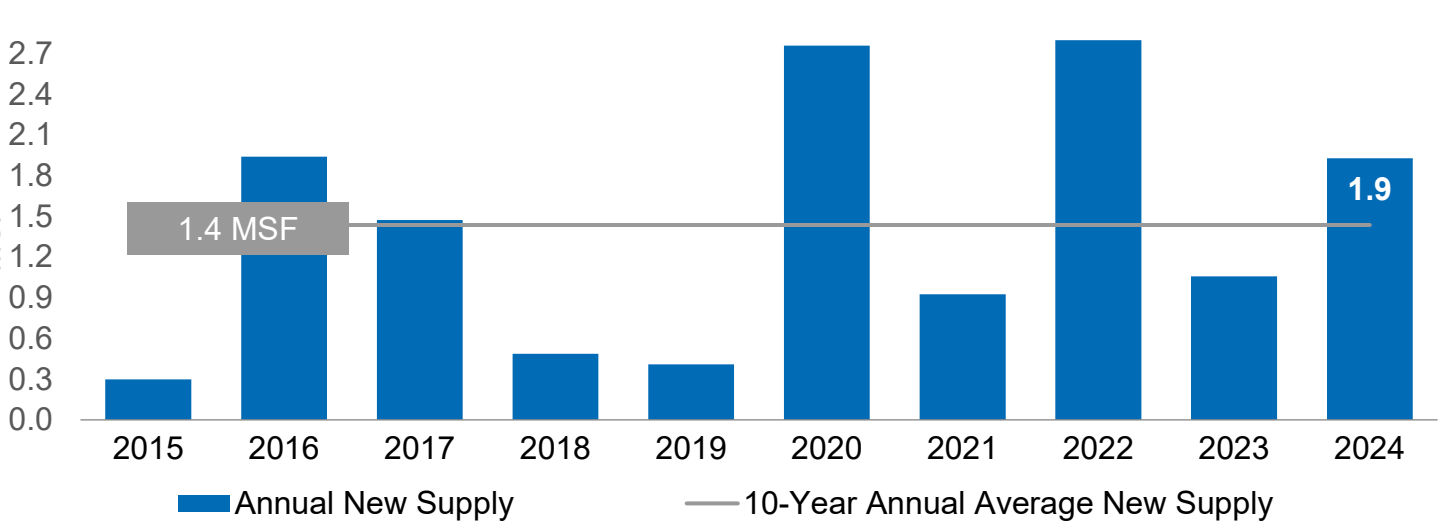
Annual Absorption – All Classes



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



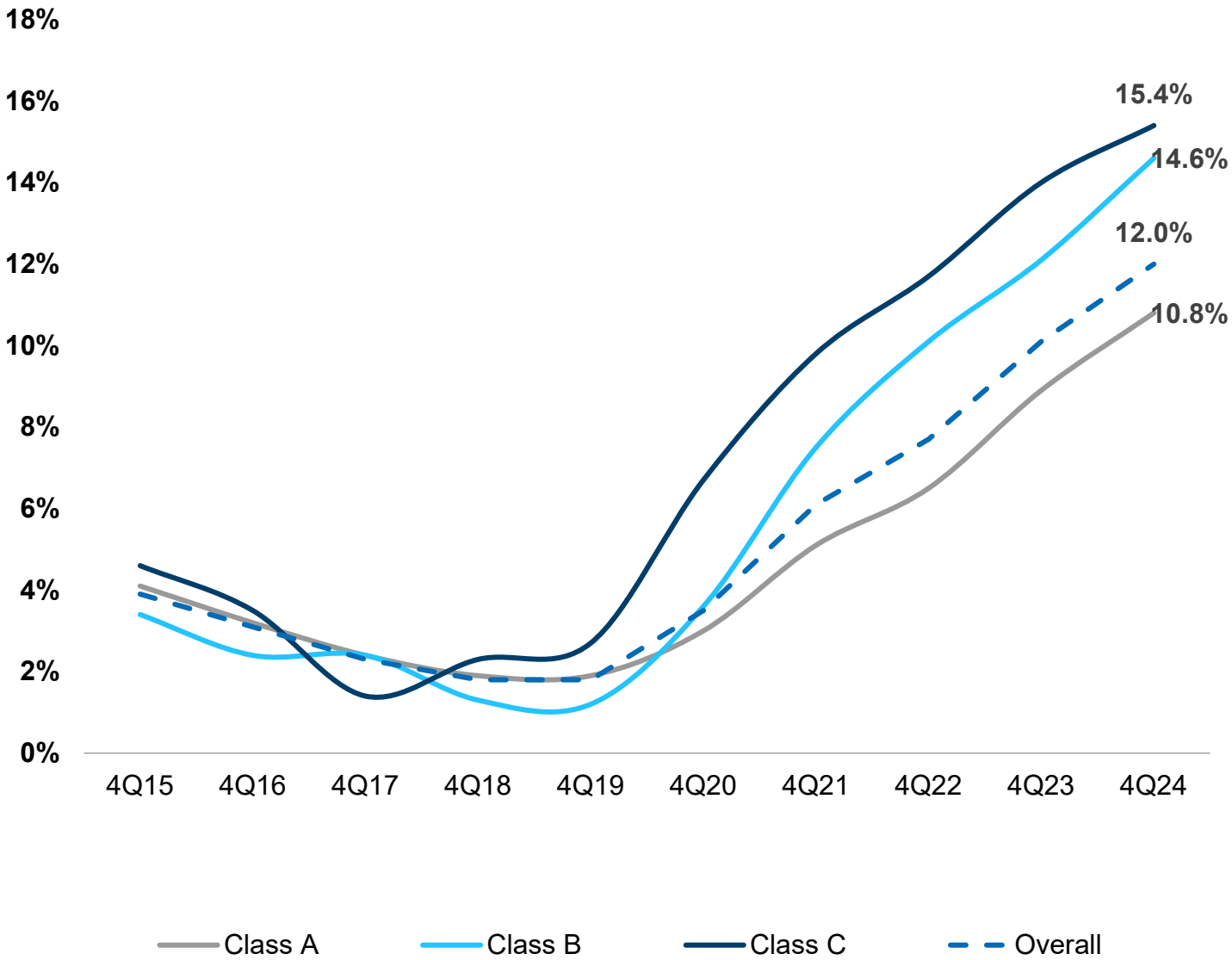
New Construction Deliveries



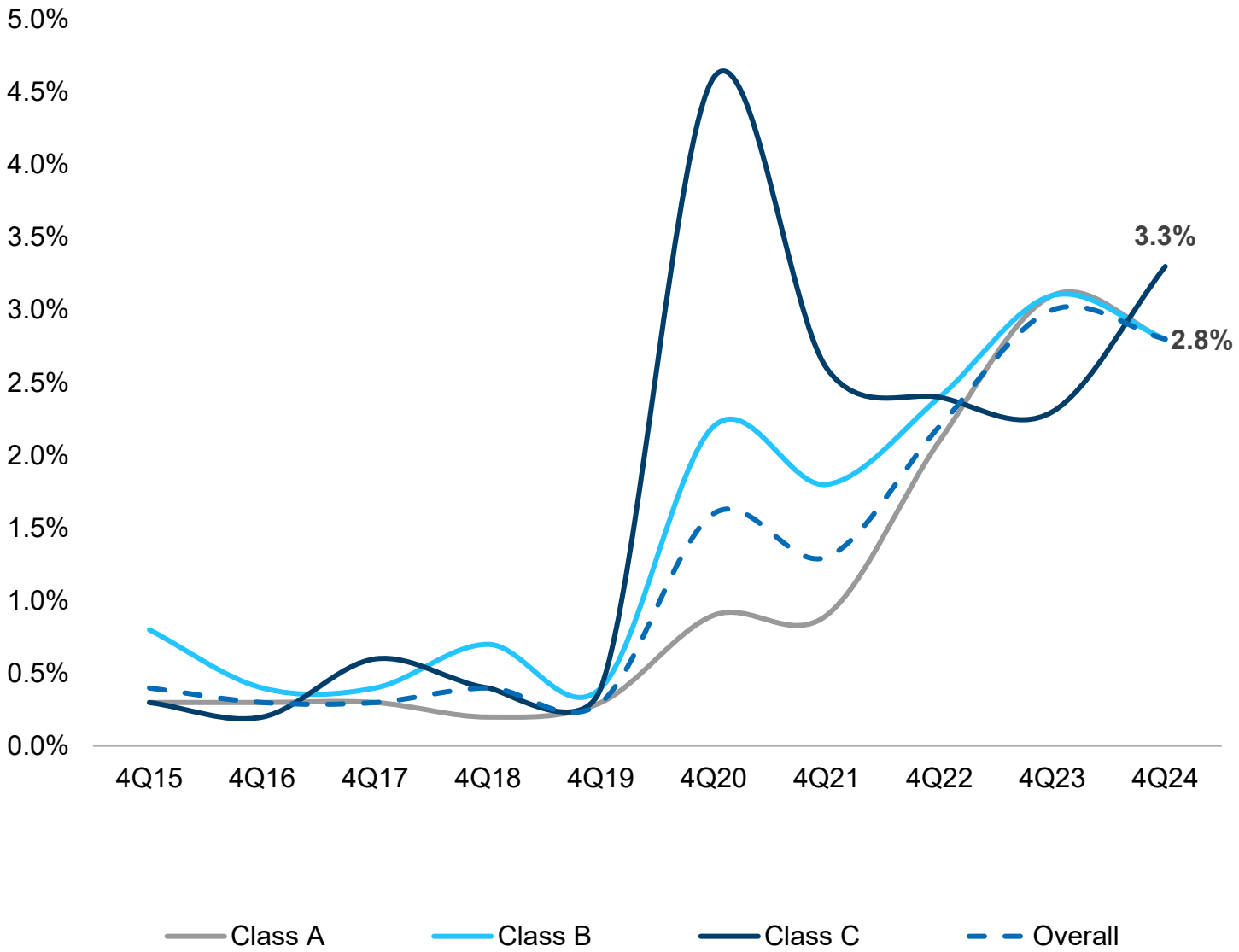
Class A Vacancy Stabilizing As Class B Surges To Close Gap With Class C Properties

Tenants continued gravitating towards class A head lease space in Downtown Toronto throughout 2024 despite the lower costs and more varied head lease options available in class B/C buildings. Increases in class A vacancy have started slowing and those class A spaces that remain vacant tend to be in submarkets where older class A buildings are becoming dated and lack the amenities that many newer class A buildings offer. Sublease vacancy, particularly in class A/B, have stabilized at ~2.8% after diverging widely at the start of 2020.

Downtown Office Headlease Vacancy by Class – 2015 to 2024



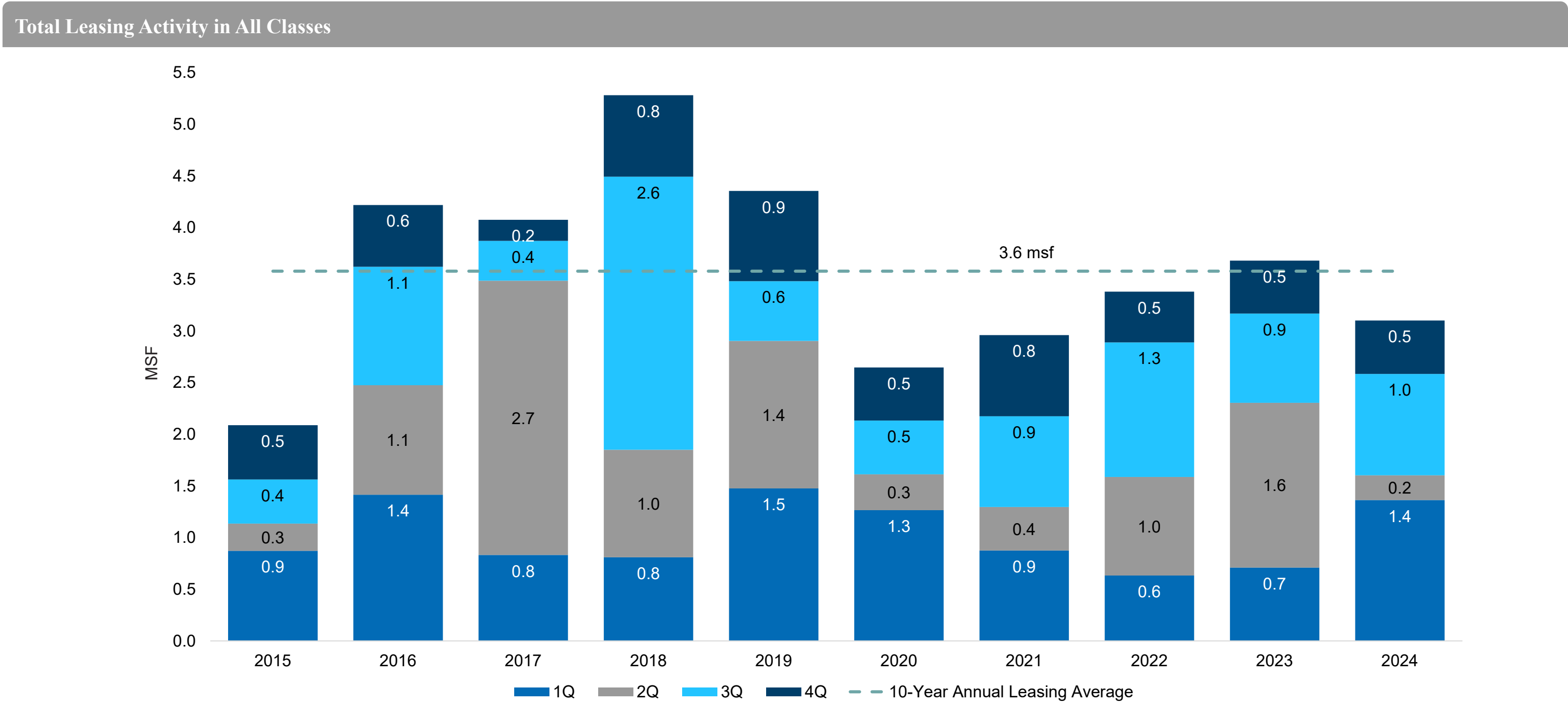
Downtown Office Sublease Vacancy by Class – 2015 to 2024



Source: Newmark Research, Altus Data Studio

Overall Annual Leasing Activity Downtown Hindered By Poor Second Quarter Results

Downtown Toronto office leasing started strong in 2024 with the most square footage leased in a first quarter since 2019. That momentum faded fast in second-quarter 2024, which was the weakest quarter of the past decade in terms of leasing activity. Downtown leasing rebounded in the third quarter thanks to some notable renewals and was followed by a substantial number of smaller deals in the last quarter of 2024. A lack of notable preleasing as well as larger deals (35K+) kept overall activity below the 10-year average of 3.6 msf.

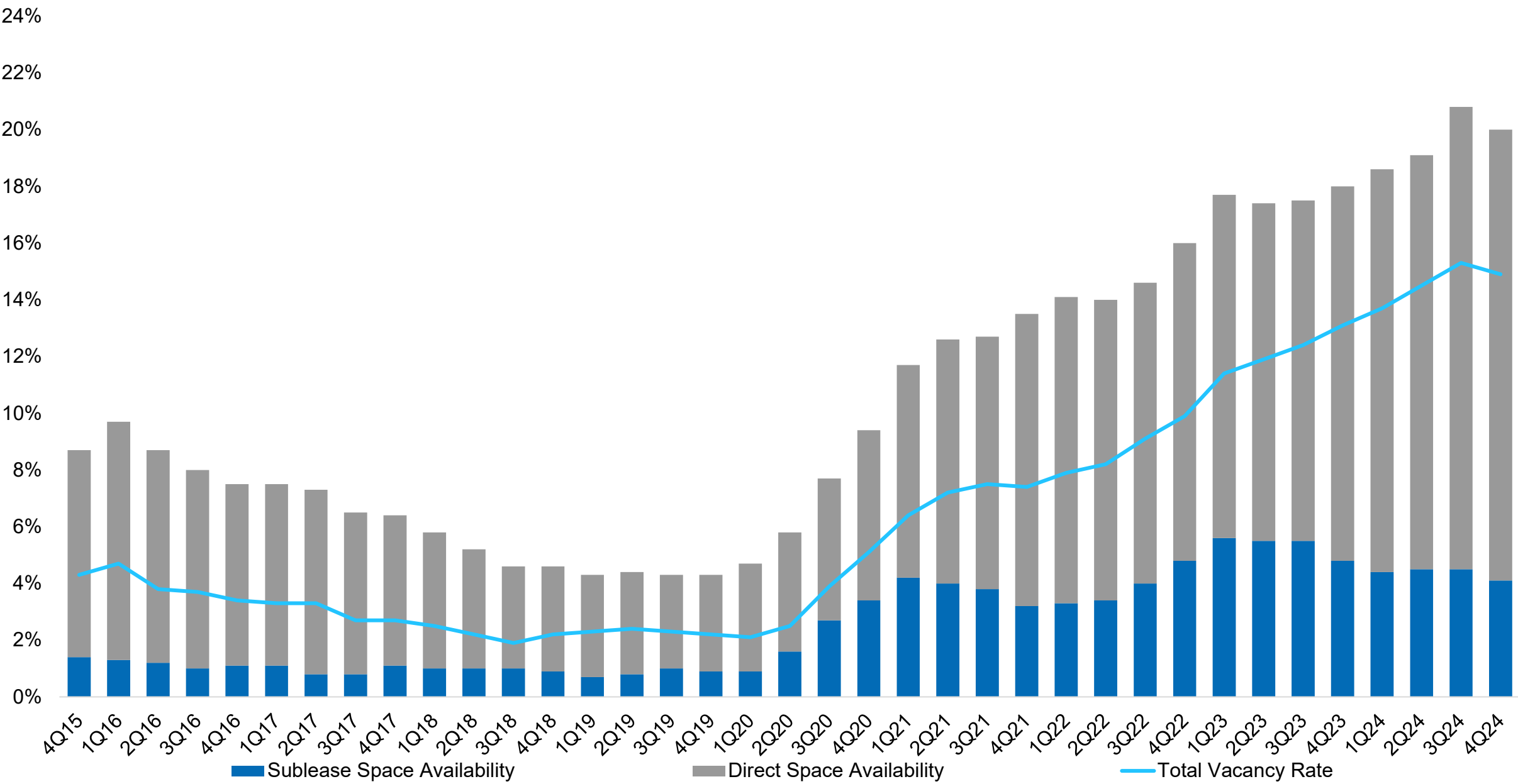


Source: Newmark Research, Altus Data Studio

Potential Peak Achieved As Both Direct And Sublease Space Availability In Decline

Direct availability in downtown Toronto may have peaked after rising consistently since the first quarter of 2020. Year-end 2024 marked the first notable decline quarter-over-quarter in direct availability since the onset of COVID. Sublease availability has been declining since early 2023. These declines also corresponded with a drop in total vacancy, which is an early indicator that perhaps market sentiment has finally shifted but highlights that conversion/redevelopment of dated stock is needed to return availability to its more historical ~8% range.

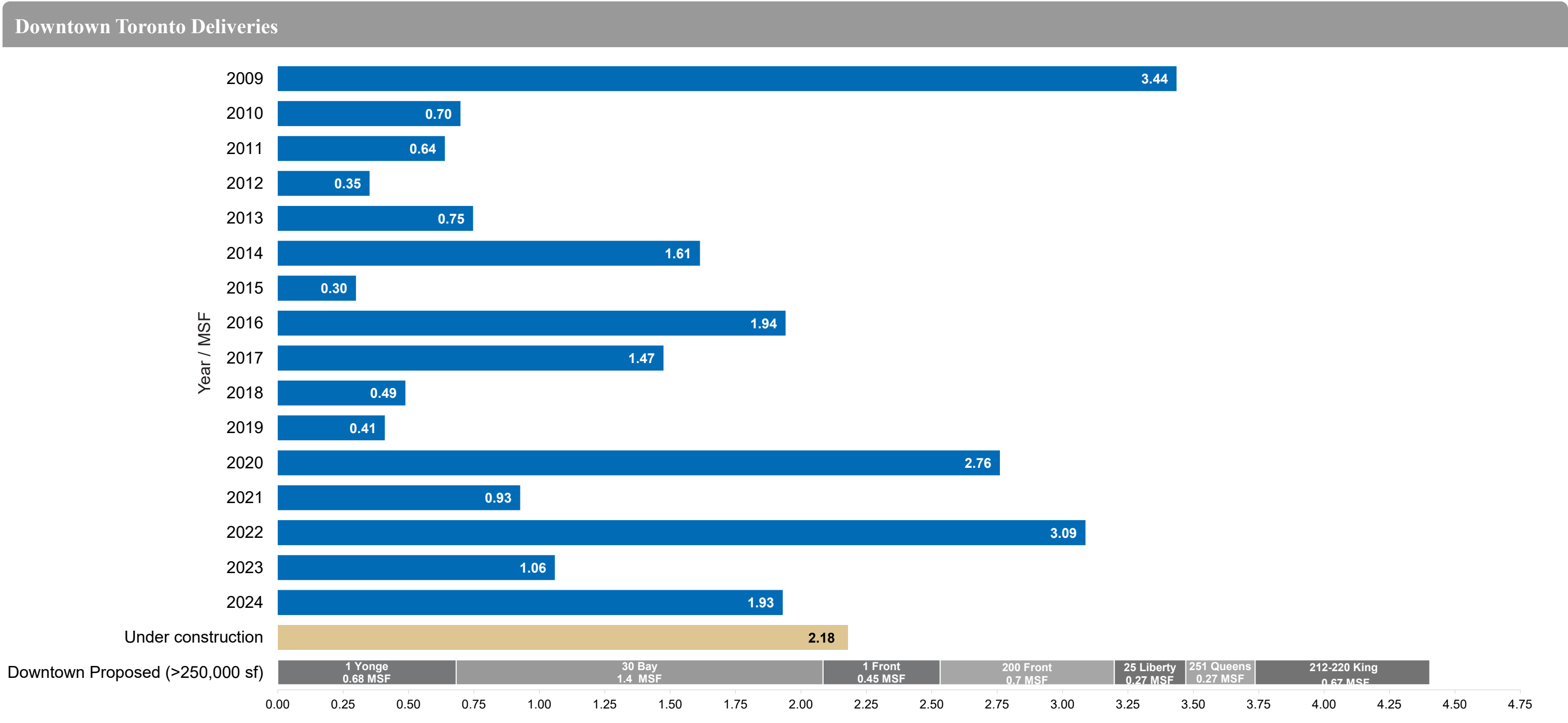
Available Space and Tenant Demand as Per cent of Overall Market



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 more than 6 msf in 2013-2017. The current development cycle that commenced in 2020 and runs through 2025 is set to deliver more than 9 msf with ~2.2 msf still under construction. There have been indications that Oxford Properties may be readying to launch The HUB at 30 Bay Street.



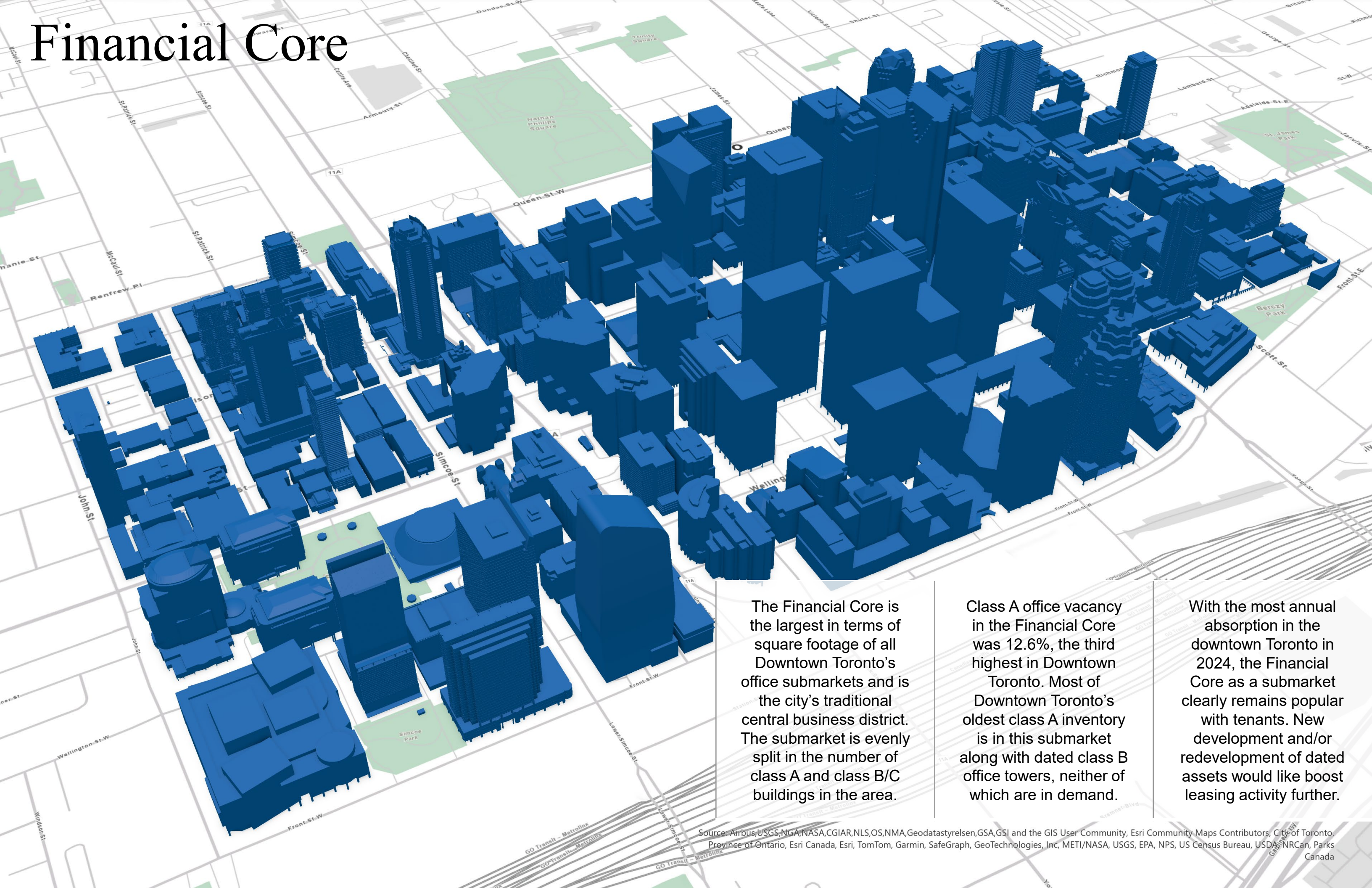
Source: Newmark Research, Altus Data Studio

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Financial Core



Financial Core



The Financial Core is the largest in terms of square footage of all Downtown Toronto's office submarkets and is the city's traditional central business district. The submarket is evenly split in the number of class A and class B/C buildings in the area.

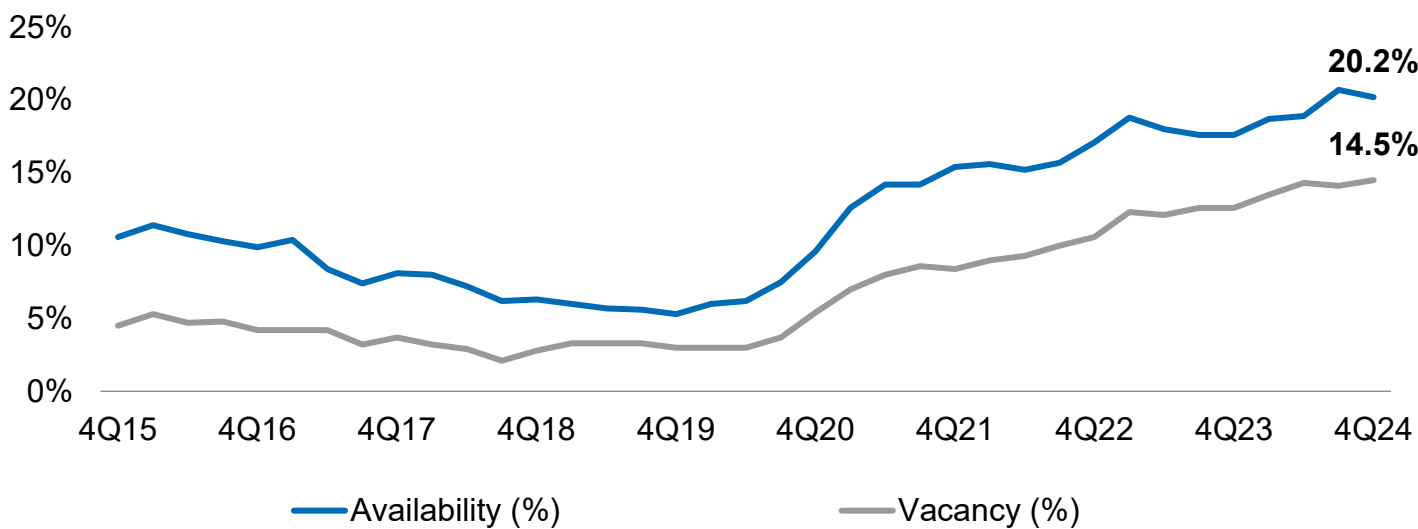
Class A office vacancy in the Financial Core was 12.6%, the third highest in Downtown Toronto. Most of Downtown Toronto's oldest class A inventory is in this submarket along with dated class B office towers, neither of which are in demand.

With the most annual absorption in the downtown Toronto in 2024, the Financial Core as a submarket clearly remains popular with tenants. New development and/or redevelopment of dated assets would like boost leasing activity further.

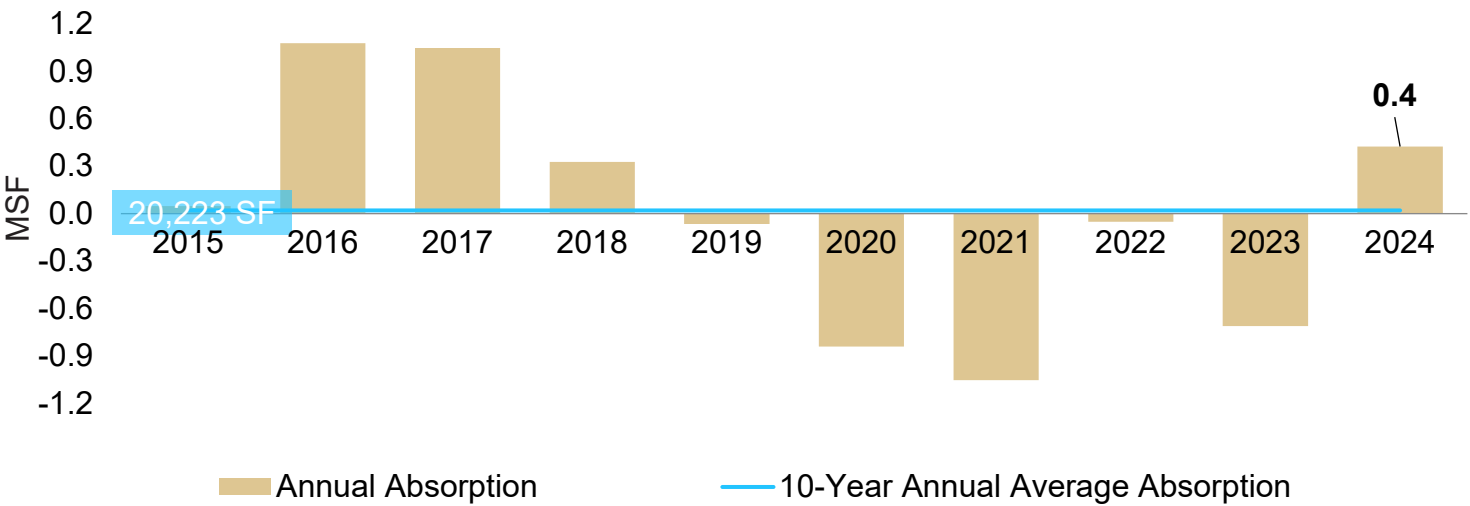
Financial Core

The Financial Core led all Downtown Toronto submarkets with more than 420,000 of absorption in 2024, ending a five-year trend of negative annual absorption that started pre-COVID in 2019. As annual absorption was reliant on significant preleasing in the first quarter of 2024, vacancy continued rise to 14.5% at the end of 2024, up from 12.6% at year-end 2023. A handful of substantial renewals supported by numerous smaller deals resulted in the best year in terms of annual absorption since 2017 and signals market stabilization likely in 2025.

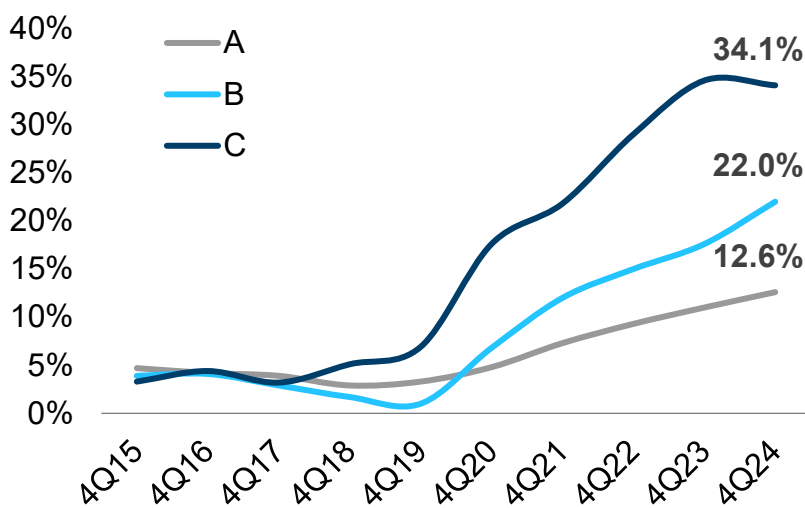
Overall Availability & Vacancy Rates – All classes



Annual Absorption – All classes



Vacancy by Class – 2015 to 2024



Fourth Quarter Deals

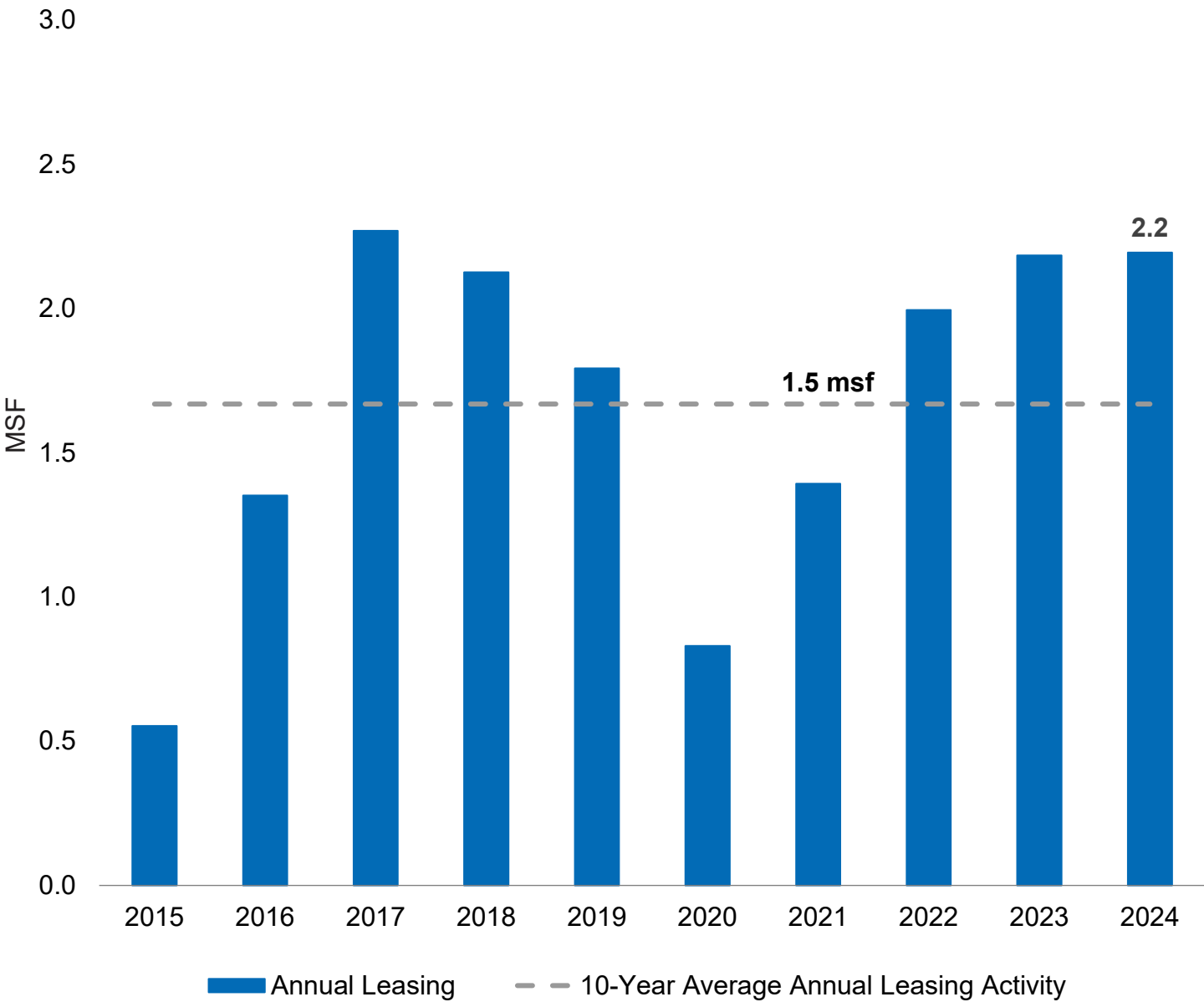
				
TD South Tower 79 Wellington Street West	First Canadian Place 100 King Street West	74 Victoria Street	Commerce Court South 30 Wellington Street West	State Street Financial Centre 30 Adelaide Street East
TD Bank	Interac	Federal Government of Canada	Undisclosed	Dream Unlimited
166,590 SF	90,000 SF	79,870 SF	66,000 SF	52,900 SF
Renewal	Direct New	Renewal	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

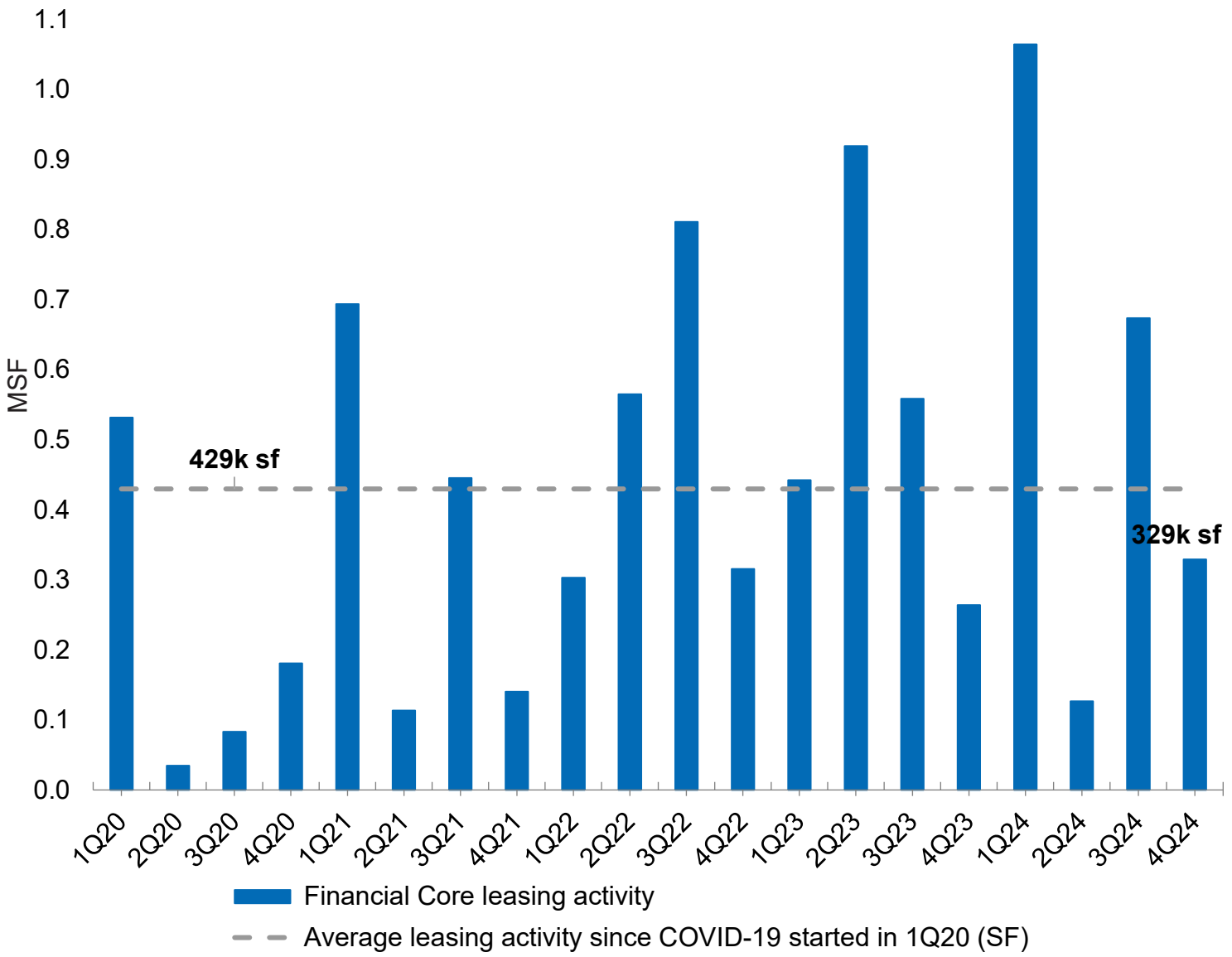
Historically High Level Of Financial Core Leasing Activity Through Most Of 2024

Substantial preleasing in phase two of CIBC Square in the first quarter of 2024 more than made up for an unusually lacklustre second quarter, when leasing activity fell to its lowest quarterly total in three years. A stronger than average third quarter in 2024 helped offset a slightly lower-than-average fourth quarter that led to an annual total of ~2.2 msf of leasing activity. This level of activity matched 2023 and was the most office space leased in the Financial Core since 2017. This stable performance bodes well for likely activity in 2025.

Annual Financial Core Leasing Activity – All classes



Financial Core Quarterly Leasing Activity – All classes

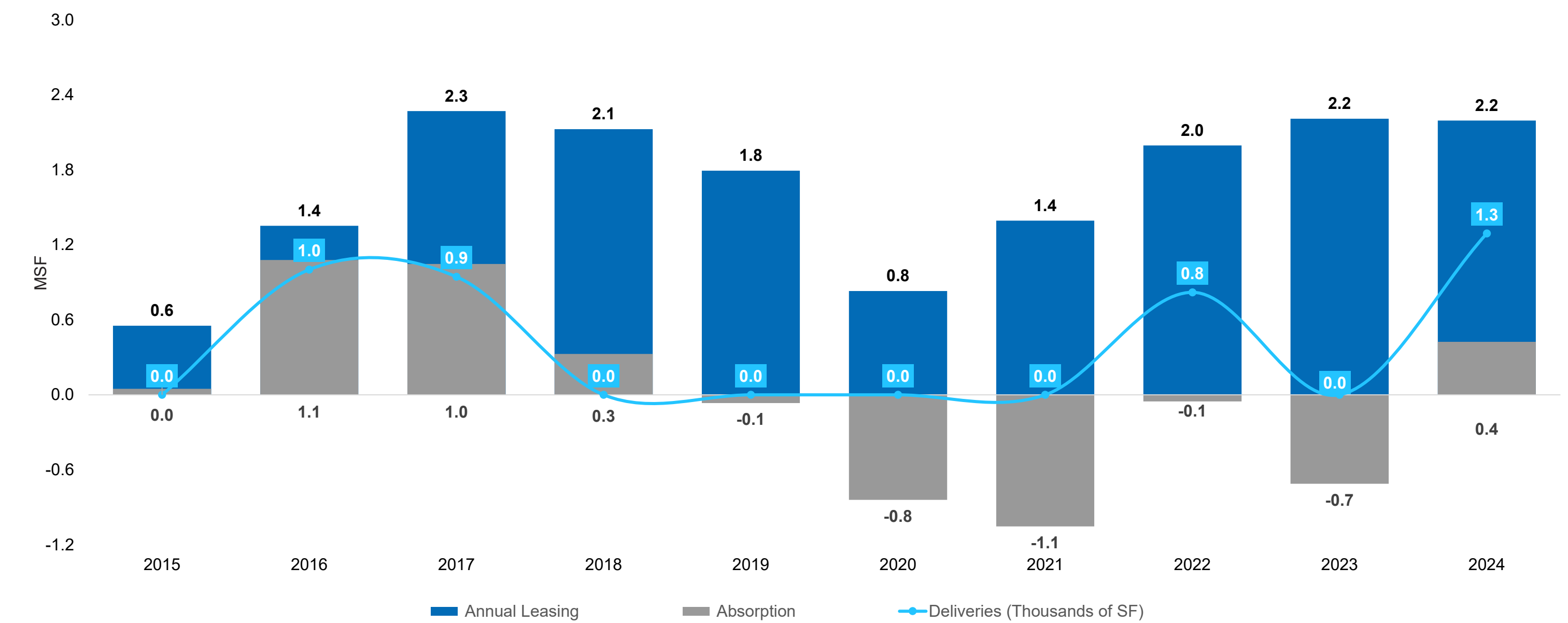


Source: Newmark Research, Altus Data Studio

Financial Core Leasing, Absorption and New Supply Analysis

After back-to-back years of ~2.2 msf of leasing activity – the highest in a decade since peaking in 2017 – and the first time that positive annual absorption was recorded since 2018, the fortunes of the Financial Core took a turn to the positive in 2024. The steadying delivery of ~1.3 msf of new supply – the most in the past decade – further demonstrated the submarket’s stabilizing nature and attraction to tenants and signalled a potential acceleration in positive absorption in 2025 if leasing activity remains consistent with the previous two years.

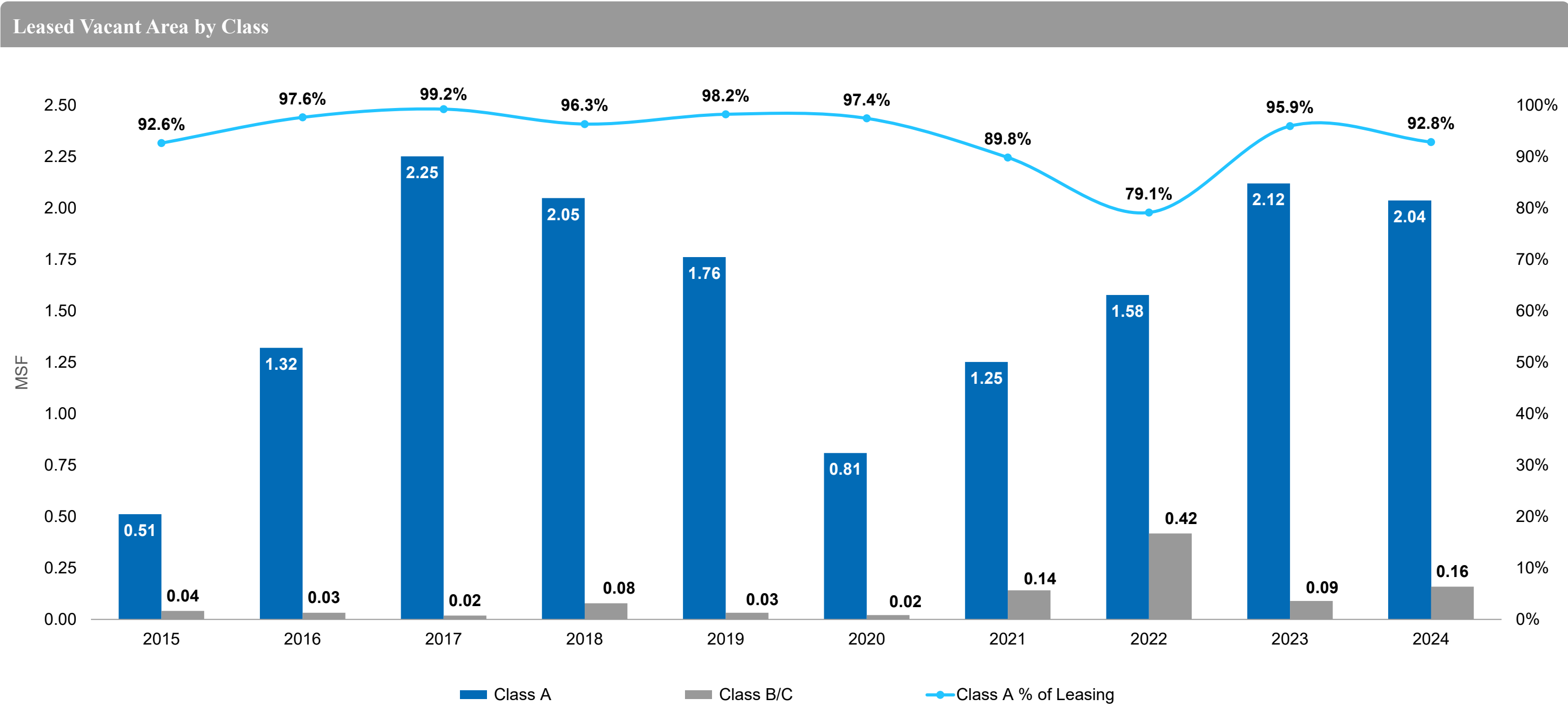
Financial Core Historical Leasing and Absorption – All classes



Source: Newmark Research, Altus Data Studio

Tenants Laser Focused On Leasing Class A Space | Financial Core Leasing Activity

The vast majority of office leasing activity in the Financial Core during the past decade occurs in class A space even in times of market distress. Class A buildings may only represent half of the submarket’s building inventory (class B buildings comprise 39%) but almost 93% of the square footage leased in 2024 occurred in class A space. More than 2.0 msf was leased in 2024, the second-most class A space leased in the Financial Core since 2018 and is surely suggestive of increased momentum, particularly in class A, heading into 2025.



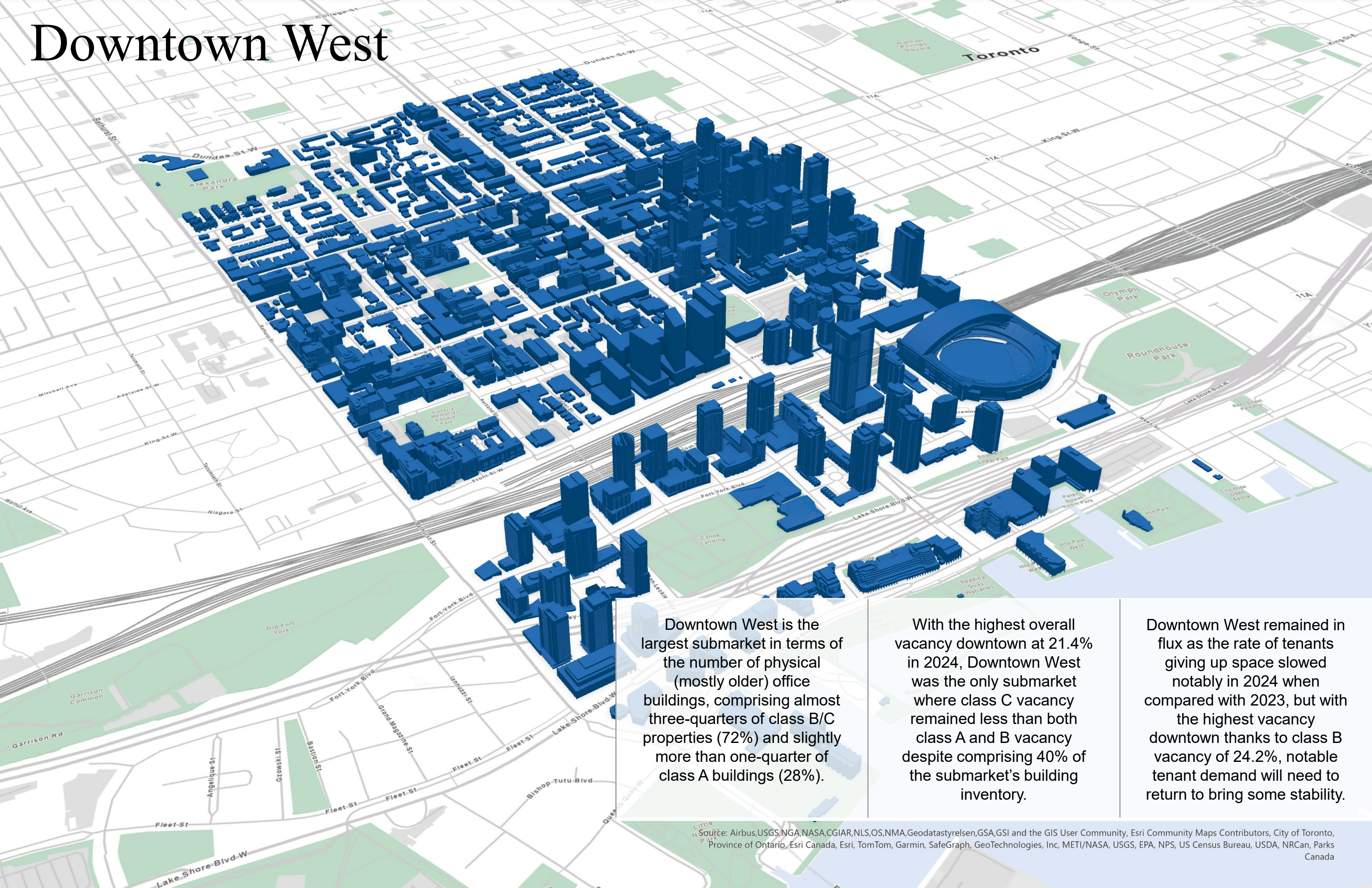
Source: Newmark Research, Altus Data Studio

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Downtown Toronto Office Submarkets



Downtown West



Downtown West is the largest submarket in terms of the number of physical (mostly older) office buildings, comprising almost three-quarters of class B/C properties (72%) and slightly more than one-quarter of class A buildings (28%).

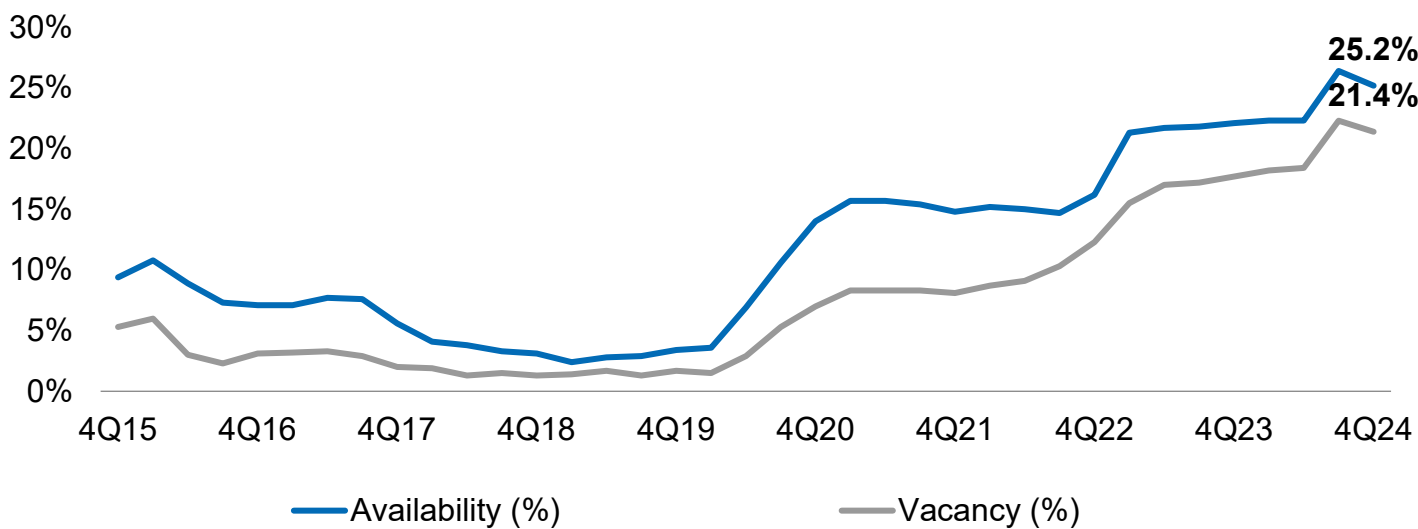
With the highest overall vacancy downtown at 21.4% in 2024, Downtown West was the only submarket where class C vacancy remained less than both class A and B vacancy despite comprising 40% of the submarket's building inventory.

Downtown West remained in flux as the rate of tenants giving up space slowed notably in 2024 when compared with 2023, but with the highest vacancy downtown thanks to class B vacancy of 24.2%, notable tenant demand will need to return to bring some stability.

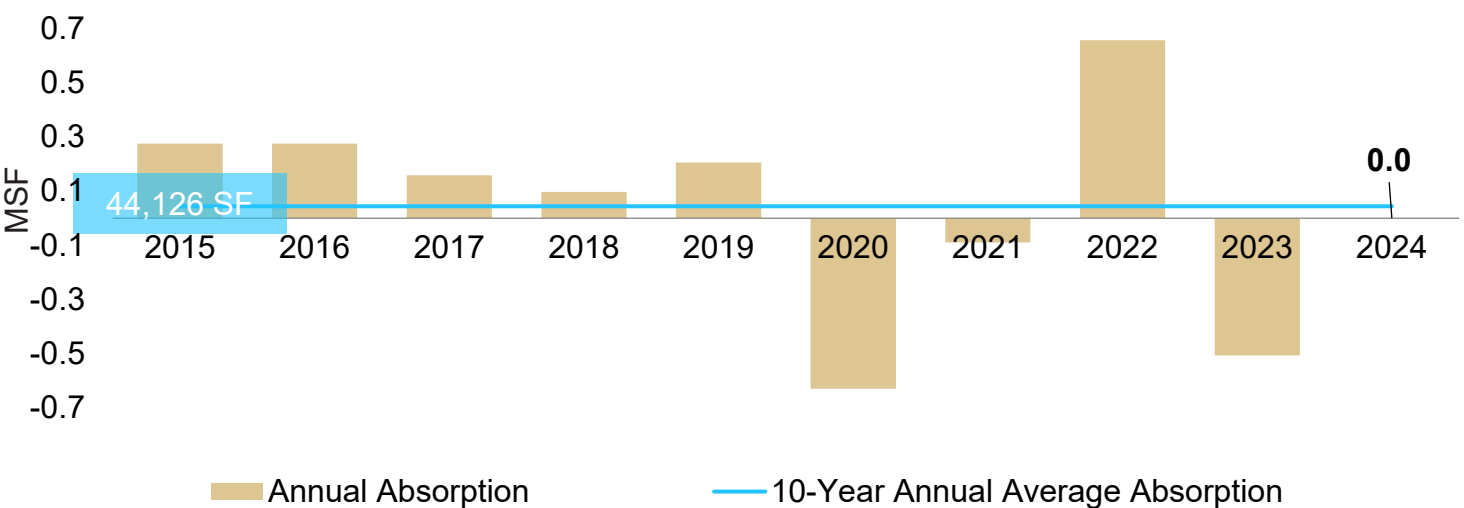
Downtown West

With the highest overall vacancy downtown at 21.4% thanks to a spike in class A vacancy from the vacant delivery of Portland Commons in the third quarter of 2024, Downtown West remained highly challenged heading into 2025. While negative annual absorption in 2024 fell to just 1,440 sf, a marked improvement on the more than 500k sf of negative annual absorption recorded in 2023, an escalation in leasing activity in 2025 will need to match the submarket’s best year of 2022 to have a meaningful impact on vacancy and availability.

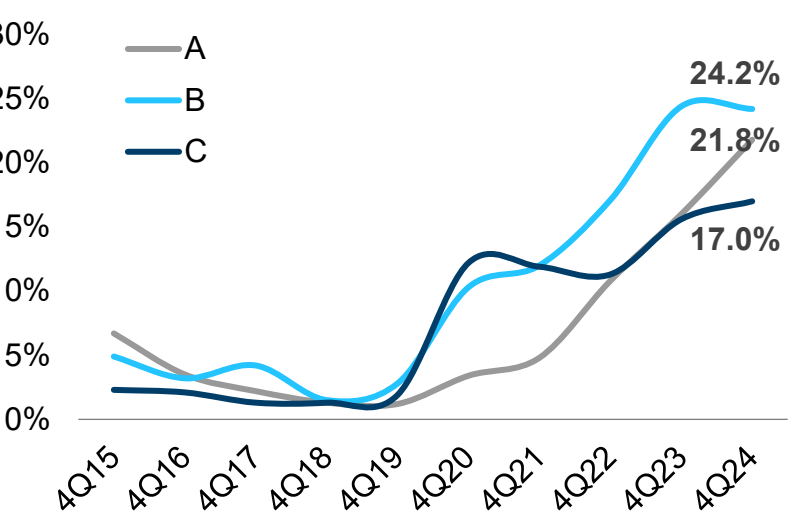
Availability And Vacancy Rates – All Classes



Annual Absorption – All Classes



Vacancy by Class – 2015 to 2024

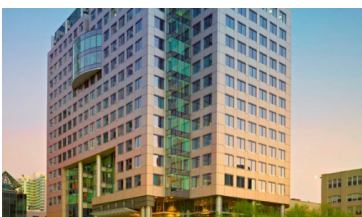


Fourth Quarter Deals



420 Wellington Street West

Faire
30,000 SF
New Direct



MetroCentre
225 King Street West

Undisclosed
25,830 SF
Sublease



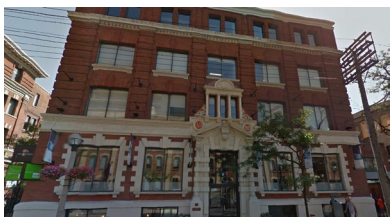
The Well
8 Spadina Avenue

Undisclosed
24,580 SF
Sublease



500-522 King Street West

Undisclosed
15,090 SF
Direct New

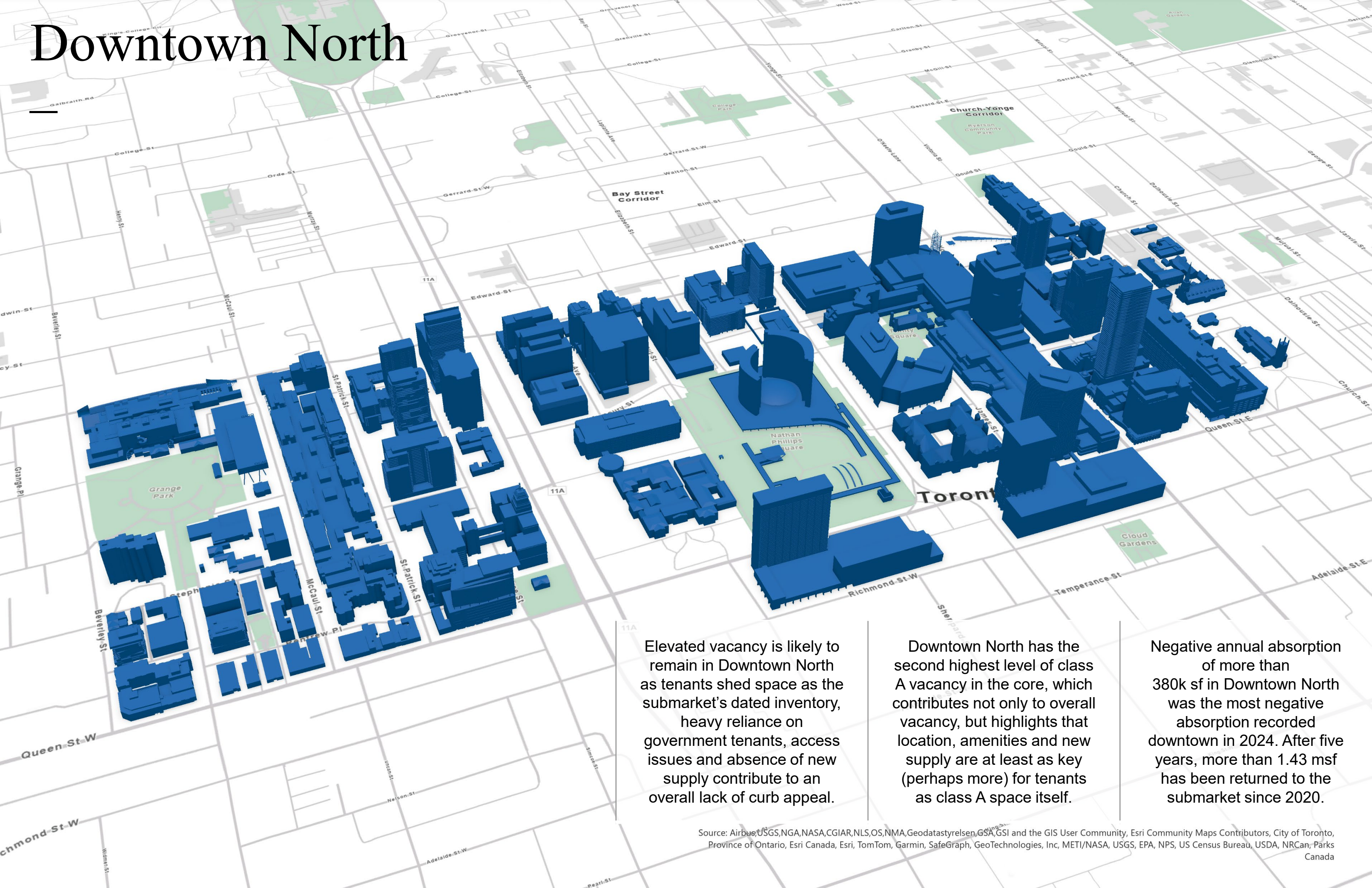


469 King Street West

Undisclosed
14,390 SF
Direct New

Source: Newmark Research, Altus Data Studio, CoStar

Downtown North



Elevated vacancy is likely to remain in Downtown North as tenants shed space as the submarket's dated inventory, heavy reliance on government tenants, access issues and absence of new supply contribute to an overall lack of curb appeal.

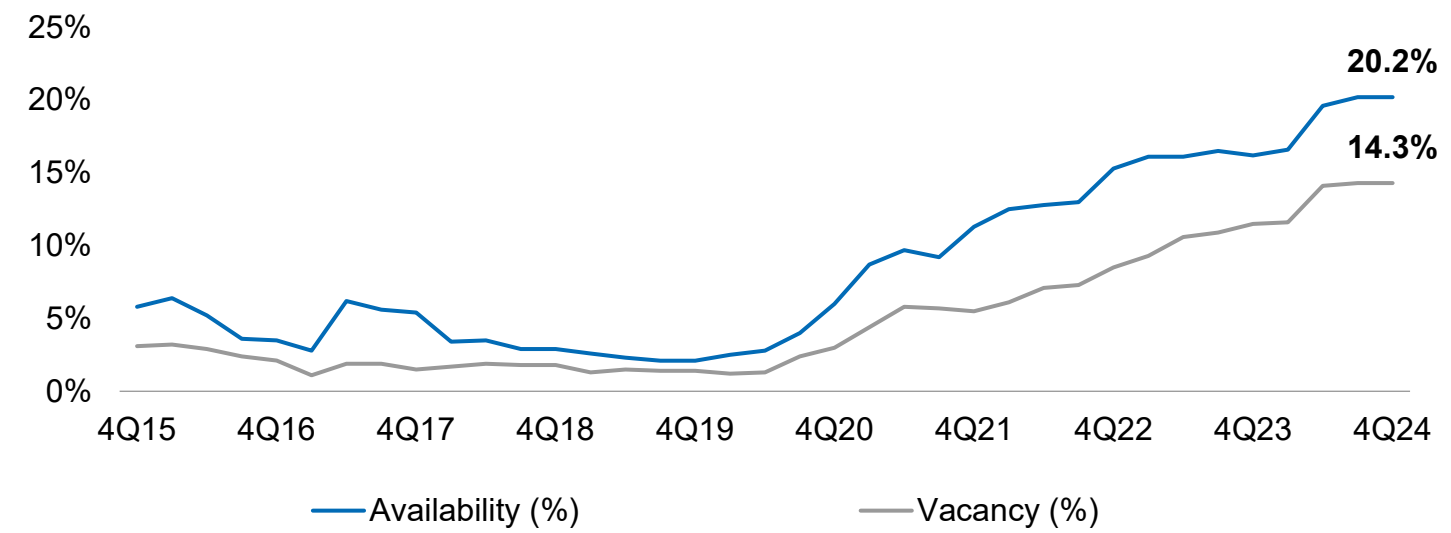
Downtown North has the second highest level of class A vacancy in the core, which contributes not only to overall vacancy, but highlights that location, amenities and new supply are at least as key (perhaps more) for tenants as class A space itself.

Negative annual absorption of more than 380k sf in Downtown North was the most negative absorption recorded downtown in 2024. After five years, more than 1.43 msf has been returned to the submarket since 2020.

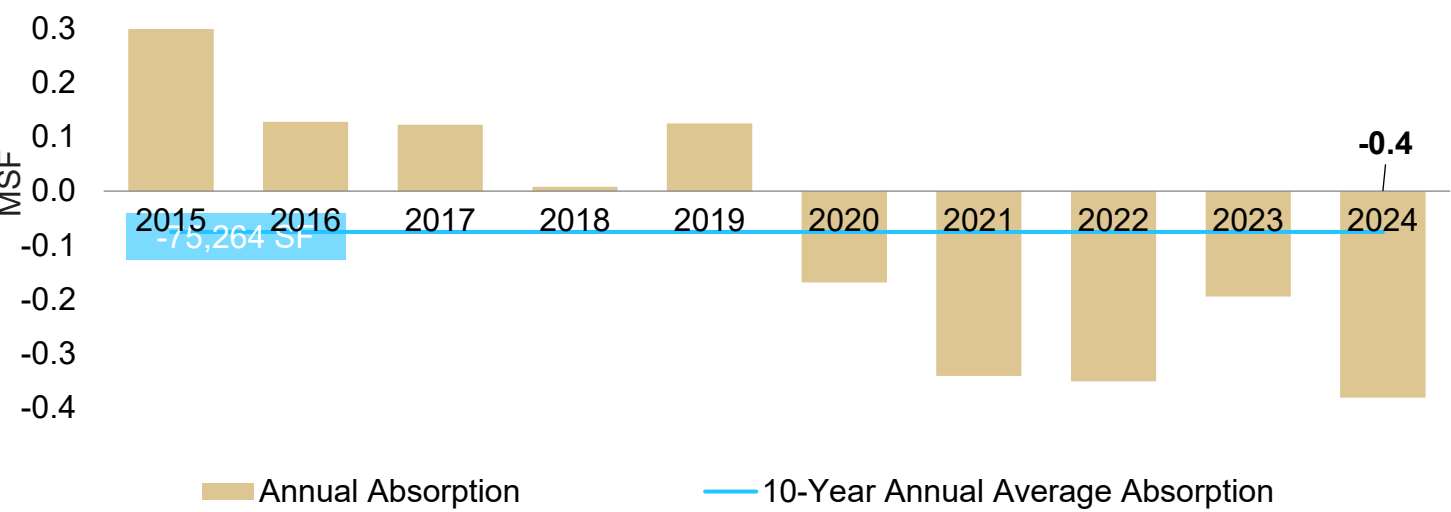
Downtown North

Five years of negative annual absorption in Downtown North has fundamentally shifted the leasing dynamic in the once popular submarket. Vacancy in all classes has been on the rise since 2020 with class A vacancy surpassing class B at the end of 2023. Overall vacancy stabilized at ~14% in 2024, a needed respite from the notable annual increases of the past two years. Leasing activity was muted and limited to smaller deals with conversion/redevelopment likely a growing consideration for much of the obsolete office space in Downtown North.

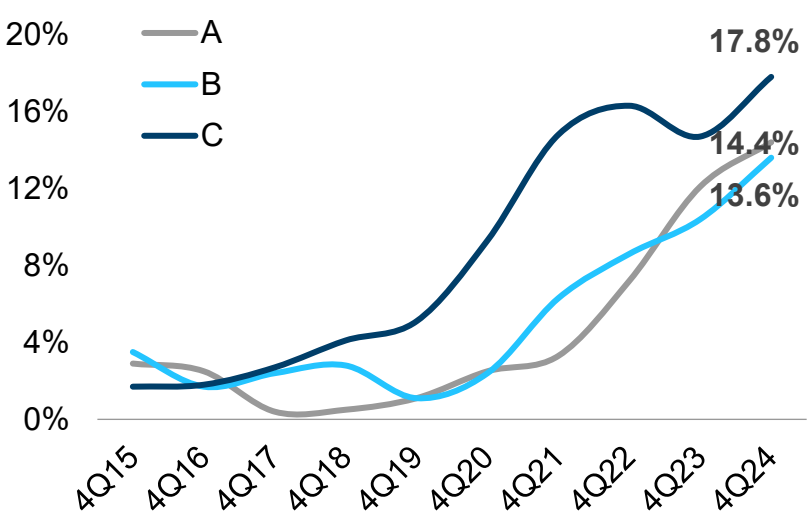
Availability And Vacancy Rates – All Classes




Annual Absorption – All Classes



Vacancy by Class – 2015 to 2024

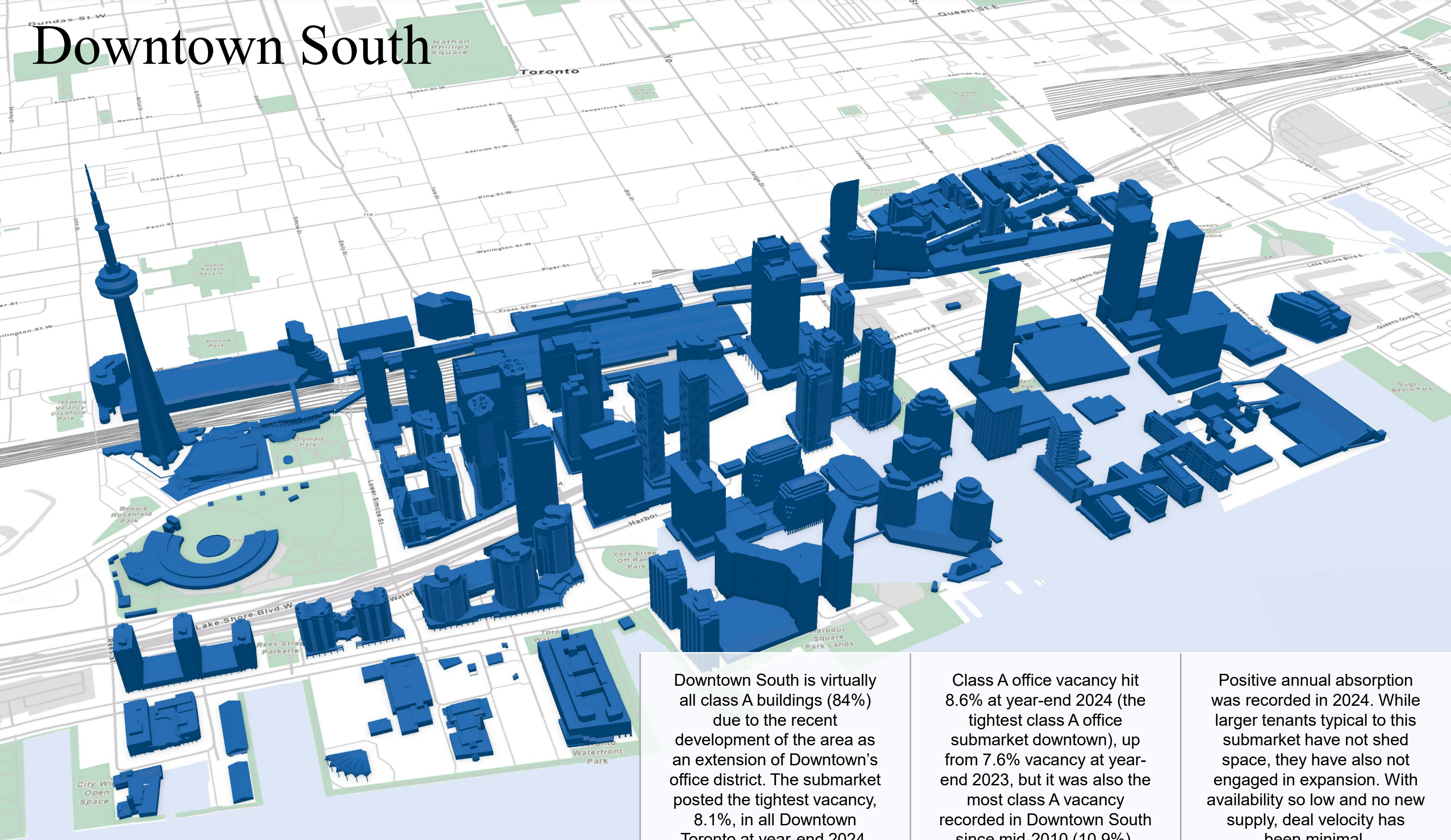


Fourth Quarter Deals

				
777 Bay Street	Dundas-Edward Centre 180 Dundas Street West	2 Carlton Street	2 Carlton Street	Dundas-Edward Centre 123 Edward Street
Province of Ontario	Undisclosed	Undisclosed	Undisclosed	Undisclosed
3,590 SF	3,130 SF	2,985 SF	1,230 SF	1,050 SF
Direct New	Direct New	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

Downtown South



Downtown South is virtually all class A buildings (84%) due to the recent development of the area as an extension of Downtown's office district. The submarket posted the tightest vacancy, 8.1%, in all Downtown Toronto at year-end 2024.

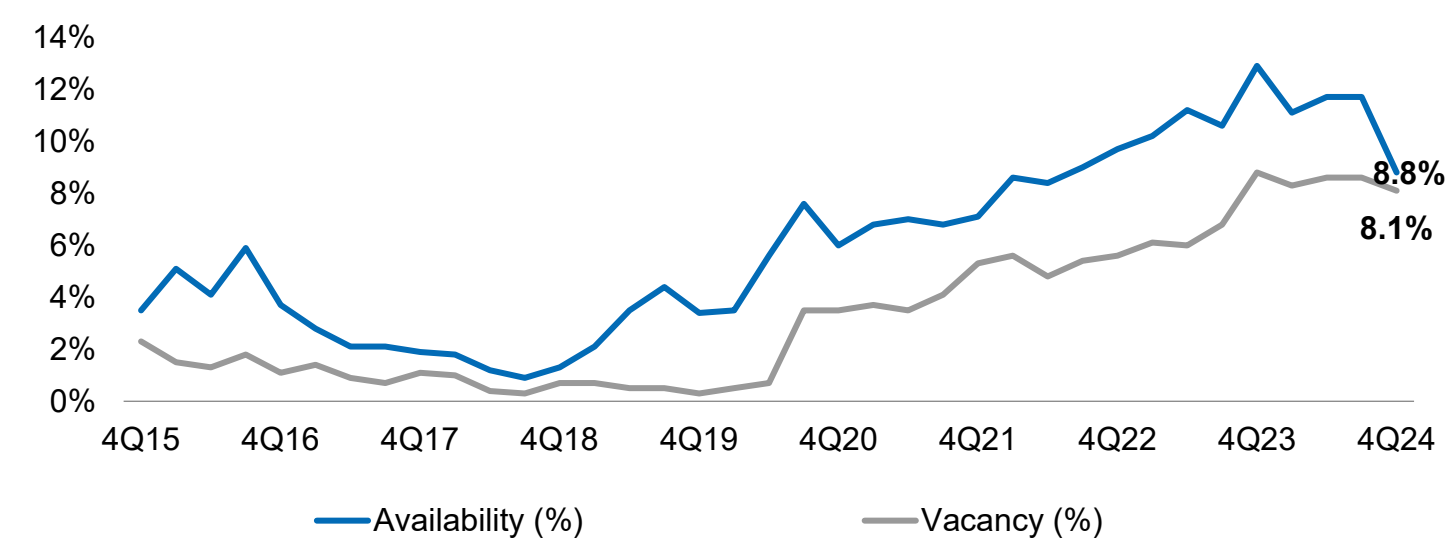
Class A office vacancy hit 8.6% at year-end 2024 (the tightest class A office submarket downtown), up from 7.6% vacancy at year-end 2023, but it was also the most class A vacancy recorded in Downtown South since mid-2010 (10.9%).

Positive annual absorption was recorded in 2024. While larger tenants typical to this submarket have not shed space, they have also not engaged in expansion. With availability so low and no new supply, deal velocity has been minimal.

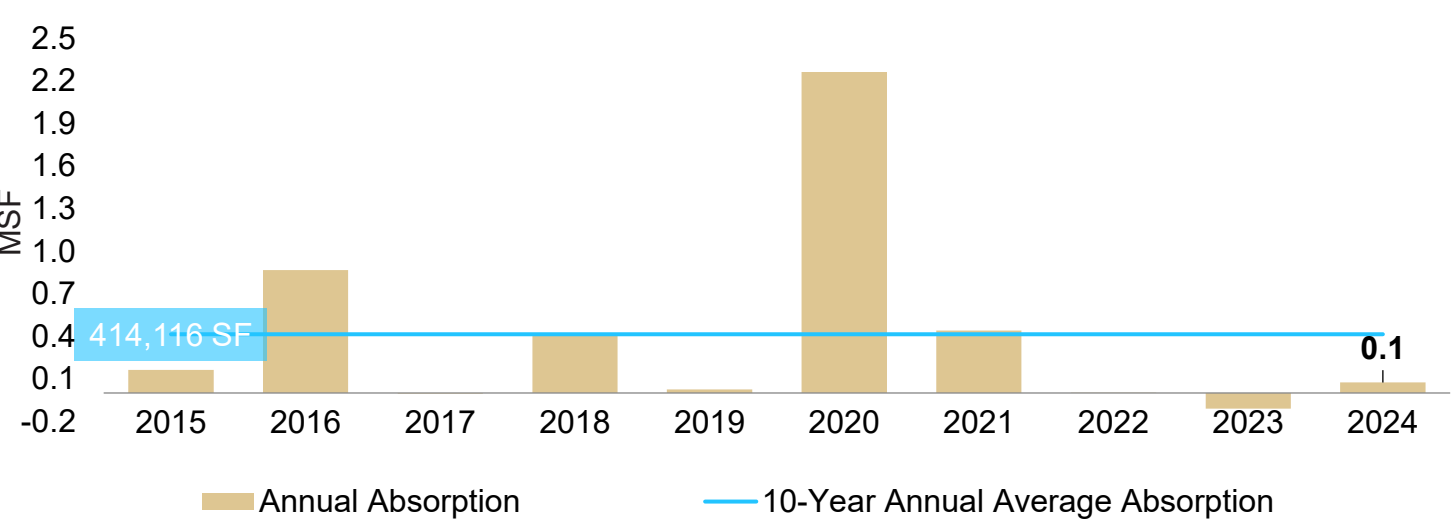
Downtown South

Downtown South remained the tightest submarket downtown with vacancy at 8.1% at year-end 2024 – down from 8.8% at the end of 2023 – and availability at its lowest point since mid-2022. The submarket benefits from tenants’ ongoing flight to quality, proximity to a key public transit hub at Union Station and superior views and amenities. With class B vacancy at 0% (the only submarket where vacancy in any class hit zero), and class A vacancy at 8.6% (while comprising 92% of the submarket inventory), Downtown South will remain tight in 2025.

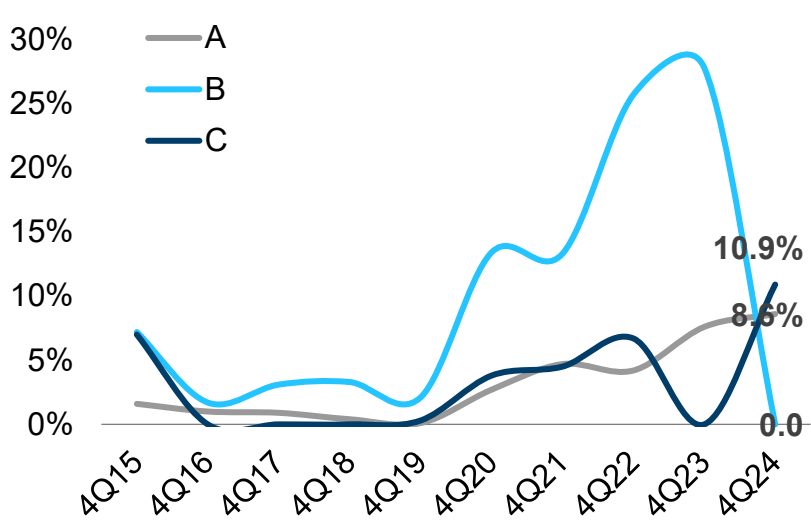
Overall Availability And Vacancy Rates – All Classes



Annual Absorption – All Classes



Vacancy by Class – 2015 to 2024



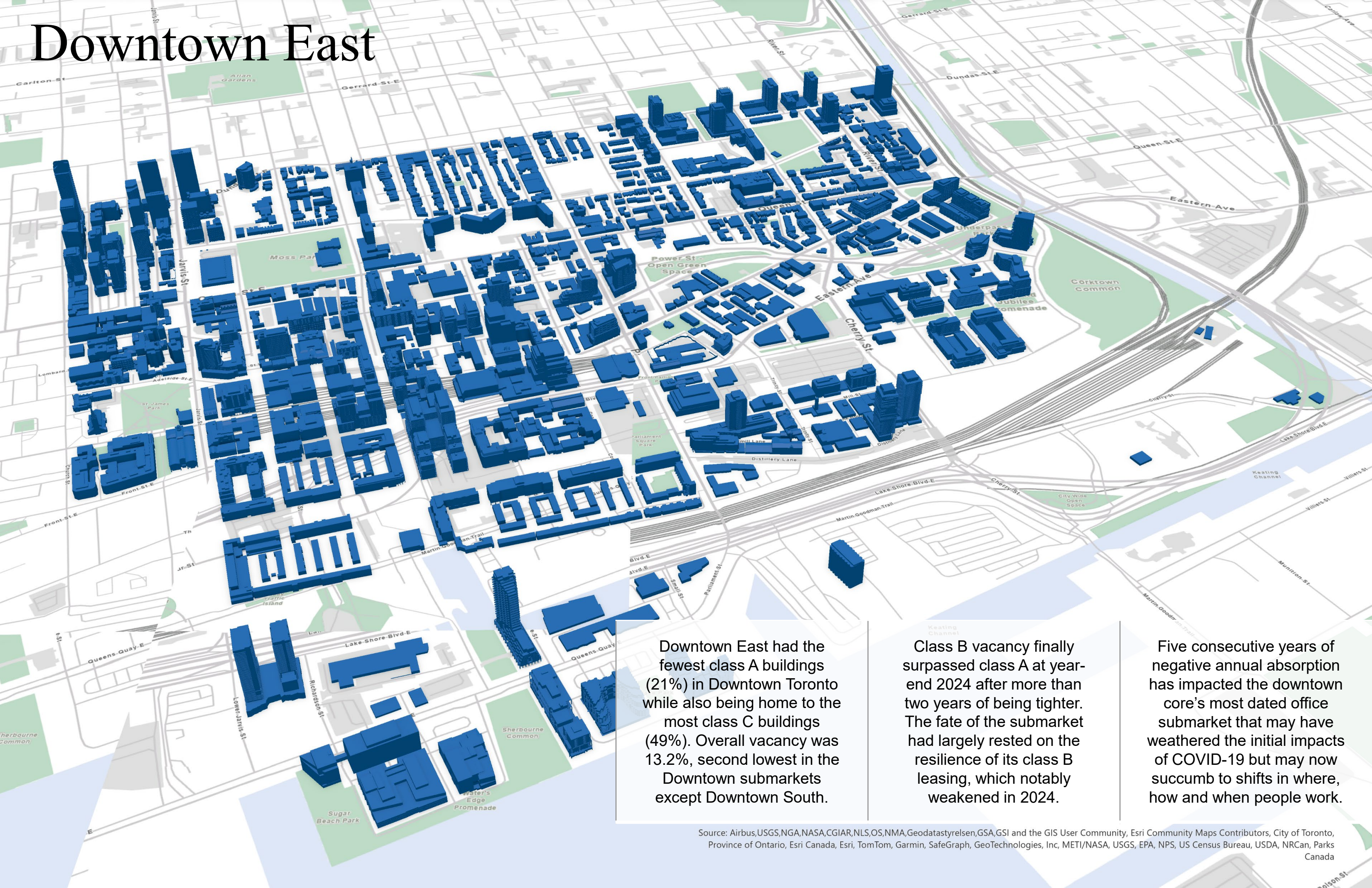
Fourth Quarter Deals

	
CIBC Square (phase 1) 81 Bay Street	56-58 The Esplanade
Undisclosed	Undisclosed
7,780 SF	1,980 SF
Sublease	Direct New



Source: Newmark Research, Altus Data Studio, CoStar

Downtown East



Downtown East had the fewest class A buildings (21%) in Downtown Toronto while also being home to the most class C buildings (49%). Overall vacancy was 13.2%, second lowest in the Downtown submarkets except Downtown South.

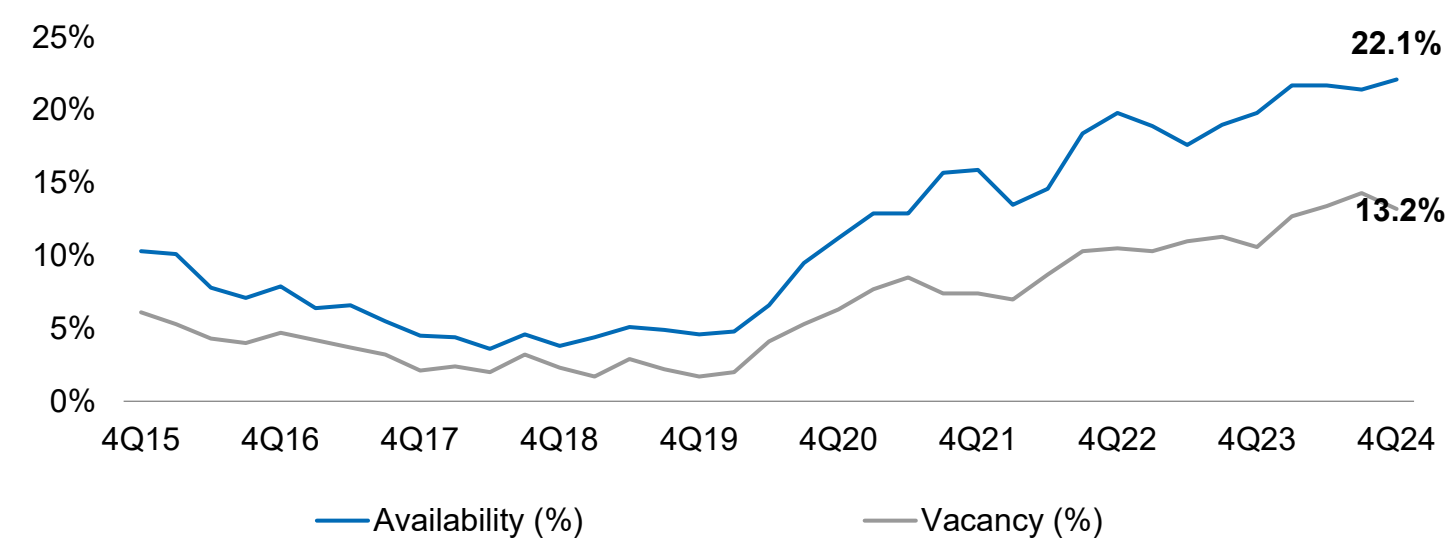
Class B vacancy finally surpassed class A at year-end 2024 after more than two years of being tighter. The fate of the submarket had largely rested on the resilience of its class B leasing, which notably weakened in 2024.

Five consecutive years of negative annual absorption has impacted the downtown core's most dated office submarket that may have weathered the initial impacts of COVID-19 but may now succumb to shifts in where, how and when people work.

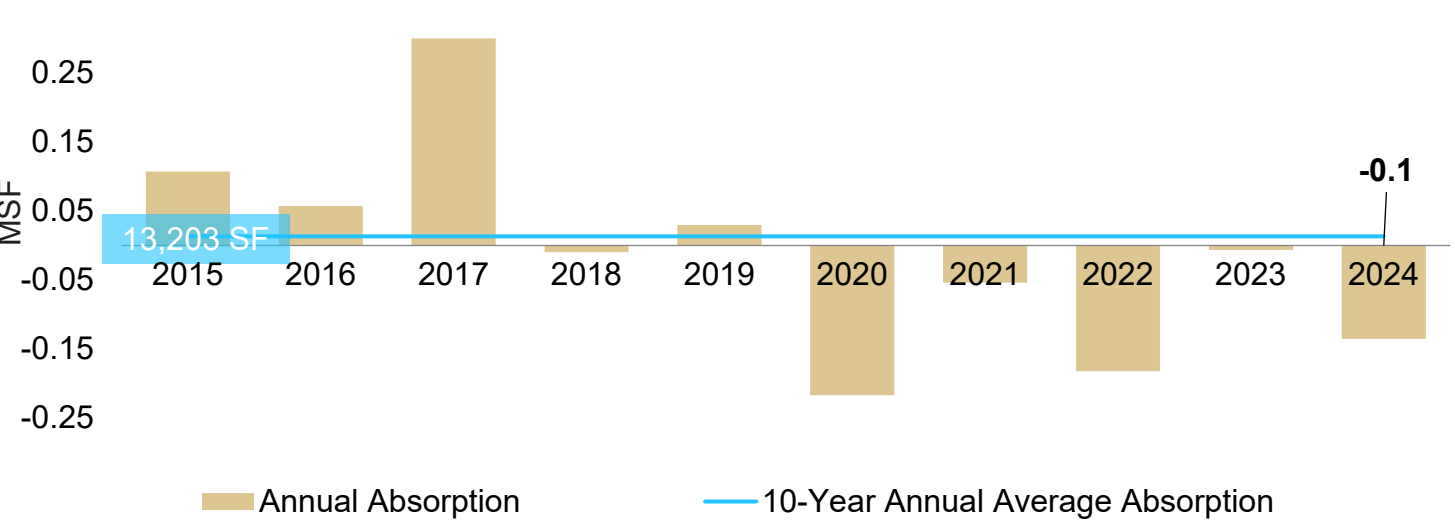
Downtown East

Vacancy in Downtown East finished 2024 at 13.2%, up from 10.6% at year-end 2023 (but second lowest downtown). Vacancy in class B properties almost doubled year-over-year to 11%, slightly surpassing class A vacancy of 10.8% at year-end 2024. Five consecutive years of negative annual absorption – particularly in 2022 and 2024 – highlighted that previous demand for the submarket’s mostly class B/C office inventory (79%) is unlikely to return. Conversion/redevelopment of dated stock in 2025+ is necessary to support new development.

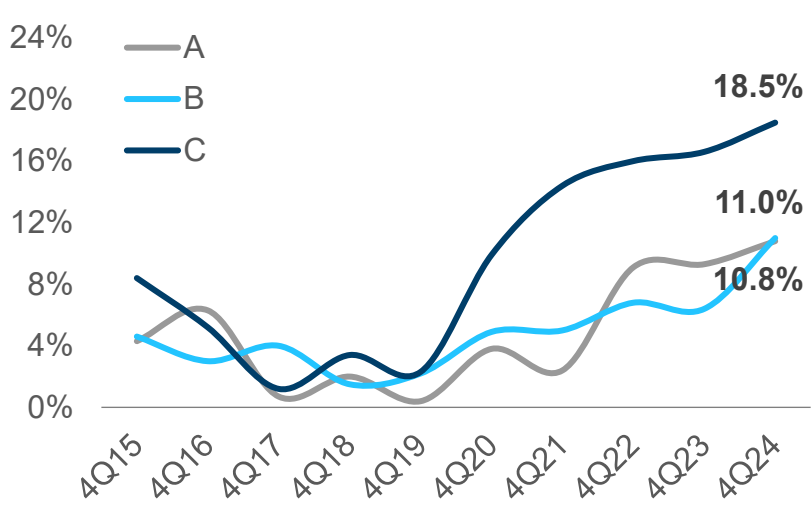
Availability And Vacancy Rates – All Classes



Annual Absorption – All Classes



Vacancy by Class – 2015 to 2024



Fourth Quarter Deals

				
100 Broadview Avenue	109-117 George Street	252-264 Adelaide Street East	T3 Bayside 251 Queens Quay East	109-117 George Street
Undisclosed	Undisclosed	Undisclosed	Cityzen Group	Undisclosed
23,110 SF	7,400 SF	6,320 SF	4,950 SF	2,740 SF
Direct New	Sublease	Direct New	Direct New	Direct New

Source: Newmark Research, Altus Data Studio, CoStar

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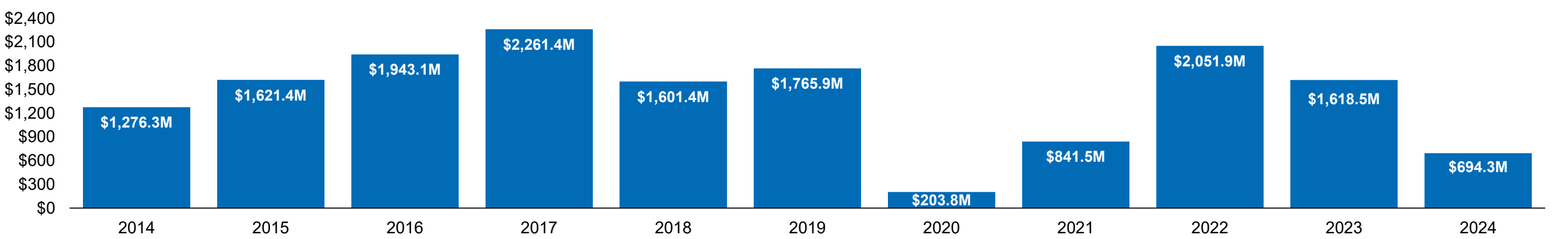
Office Sales Activity



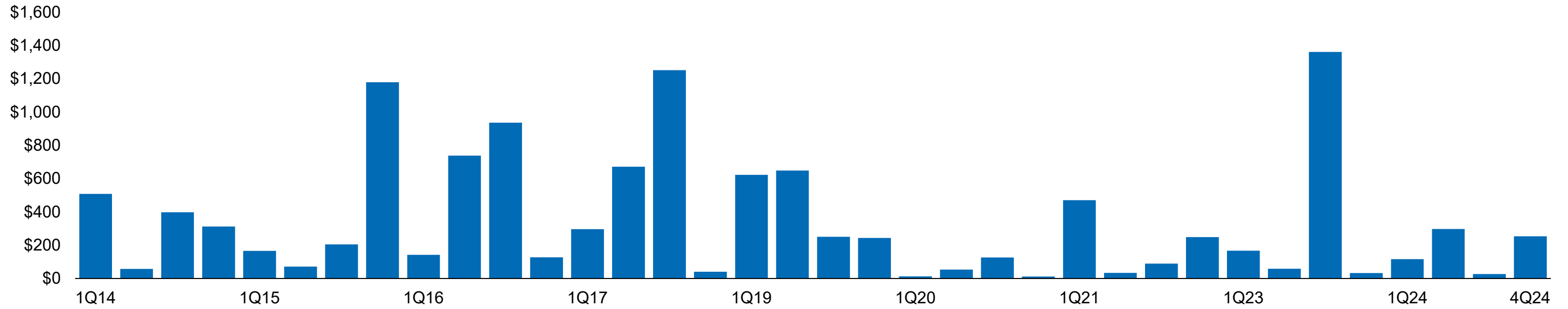
Downtown Toronto Core and Periphery Office Sales Volume Key Takeaways

Downtown office sales* (excluding strata) regained momentum in 2024 with select larger assets transacting amid a handful of smaller deals. While the \$232M sale of 25 Dockside in second-quarter 2024 set the bar for the year, the first-half dispositions of 70 York (\$65M), 51 Yonge (\$21M), 624 King West (\$18M), the iconic Flatiron Building (\$15M) and 119 Church (\$12M) demonstrated investors were ready to transact, but it was the December sales of 2 Queen East (\$161M) and 522 University (\$79M) that capped off the year with confidence.

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



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

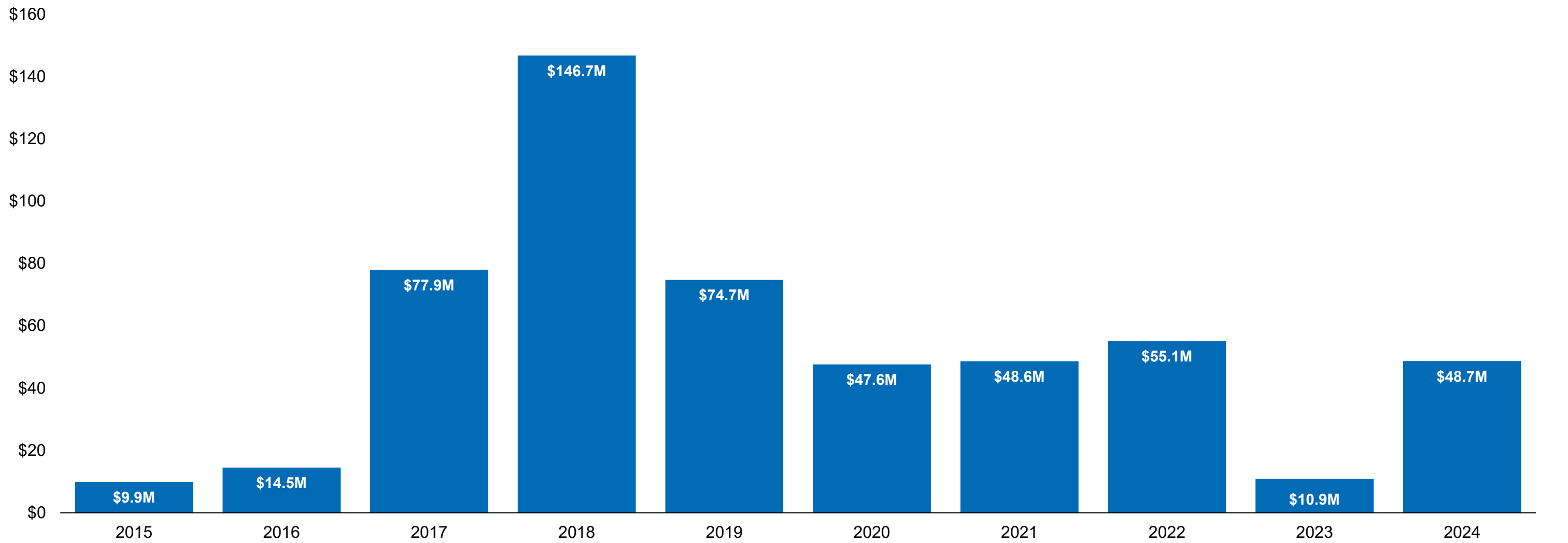


Source: Newmark Research, Altus Data Studio, CoStar
* Excluding non-arms transactions; annual sale totals recalculated at year-end 2024 due to database omissions

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 and is expected to remain strong in 2025 due to a lack of class AAA and A space in key submarkets.

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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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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