

Population*	Office vacancy*	Industrial inventory*
5.3 million	7.60%	680.5 million sq ft
Office inventory*	CBD Class A vacancy*	Industrial vacancy*
123.8 million sq ft	4.50%	5.80%



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Office market

Office vacancy continued to decline in central Toronto throughout 2007, a trend that is expected to continue in 2008. Vacancy decreased 2% year over year in both the downtown and midtown markets, and 0.2% year over year in the north Yonge corridor. At the end of Q3 2007 vacancy was 5.3% downtown, 6.6% in midtown and 6% in north Yonge. Financial core Class A vacancy sits at 4.5%, representing just over 1 million square feet of opportunity, the lowest it has been since 2001. Although there are three major developments under construction, including the Bay Adelaide Centre, it is still doubtful whether they will have a significant impact on vacancy rates in 2009 and 2010. This new construction is providing movement options, particularly for large tenants looking to expand or consolidate operations into one location, or tenants looking to upgrade their premises without a significant impact to their bottom line.

The leasing activity and absorption rates have been positive in central Toronto for 2007. Combined, these markets have absorbed 1.5 million square feet of space over the past 12 months. Most tenant demand is coming from the finance, insurance and real estate sector. Most notably, we have seen CIBC moving to Bell Trinity Square, BMO moving to 250 Yonge Street, TD moving to Yonge Corporate Centre, and National Bank moving to Exchange Tower.

As supply continues to tighten, particularly in the downtown core, expect rental rates to experience upward pressure through 2008. The question remains – what will happen to rental rates in 2009/10 when the new supply comes on stream? Many tenants are weighing the decision of whether to act now or to hold out for 2009 and see what happens. Similarly, many landlords are balancing whether to keep rates in check, anticipating the

influence of additional vacancy down the road, or increase rates in keeping with tighter market conditions today. This new supply is not expected to have a significant impact on the downtown market as market demand is strong and pre-leasing activity steady to date. Rental rates will stabilize. However, should demand for office space slow beyond 2008, due to economic conditions, rates may soften slightly.

Investment market

Investor demand remains strong, limited only by available supply. The investment market in central Toronto is driven primarily by office product and residential development sites. Rising residential condominium values have resulted in a significant rise in land values and a limiting of land that could be used for office development. The condo market is booming and it is not uncommon to see investors camp out ahead of product launch at prime sites. One such example is 1 Bloor Street East, where investors lined up a week ahead of release only to have prices double on opening day.

The downtown Toronto market is where most investors want to make their mark on the Canadian scene or expand their portfolio. Finding assets to purchase is a key challenge. Hines REIT made its foray into the Canadian market with the purchase of Atrium on Bay. Riocan REIT expanded its portfolio with the purchase of the Yonge Eglinton Centre. In addition, Ontario Realty Corporation purchased the landmark Sears Canada head office on Jarvis Street. Sears will be moving its employees to the underutilized top four floors of its Eaton Centre store.

Retail market

A barometer on our economy in general, is the health of Yonge Street retail. To this end, vacancy is very low from Eglinton Avenue south to Front Street. Toronto Eaton Centre's average sales are now well in excess of \$1,000 per square foot and demand for this landmark property has never been higher. Bloor Street rents have hit \$300 per square foot for the smaller spaces and larger units are very difficult to secure with retailers sometimes waiting years to find a location on Canada's best stretch of retail real estate. The high end residential growth in the Bloor Yorkville area has been an extra benefit to Bloor Street retailers.

Large format stores like Winners, HomeSense, Canadian Tire, Best Buy Future Shop have enjoyed good success in the core of the city and a number of other larger format stores continue to seek urban real estate. The residential population within 1 km of King and Bay Streets has grown substantially in the last five years, improving the market considerably.

