

TORONTO OFFICE MARKET OVERVIEW

SUMMER 2016



Over the past year we have observed a number of trends in the office real estate market. These include a push for healthier office environments, the shift towards green operations and maintenance, and the continued growth of the downtown south office node.

WELL Certification

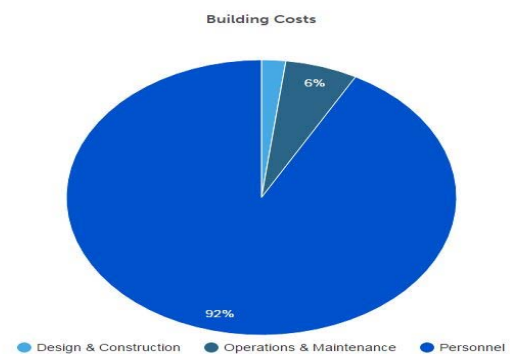
One of the best examples of the push toward *healthier office environments, green operations and maintenance* is the TD Centre. It placed itself ahead of the curve this year when the 23rd floor of 66 Wellington Street West (TD Bank Tower) became the world's first project certified under the WELL Building Standard v1. The WELL building standard is a system designed to measure and monitor features in a building that impact the health and well-being of its occupants. It focuses on seven categories of building performance: Air, Water, Nourishment, Light, Fitness, Comfort, and Mind. In addition to improving the health and well-being of a building's occupants, it is also designed to add value to the building itself. WELL has been referred to as "LEED for People". The International Well Building Institute (IWBI) estimates that there is between a 15 to 25 percent overlap between WELL and LEED, making it easier for a building with LEED certification to become WELL certified.



Source: "WELL Ahead of the Curve." WELL Ahead of the Curve. N.p., n.d. Web. 29 Jul. 2016.

The path towards this portion of the TD Centre becoming WELL Certified was described by David Hoffman the General Manager of the TD Centre as the result of a perfect storm. TD Bank's commitment to their workplace and staff combined with Cadillac Fairview's core goal of supporting their tenants businesses was key to the project's success. More than 100

WELL features have been included in the design of the 25,000 SF project on the 23rd floor. Of these 100 plus features, 38 were landlord dependent and another 28 were landlord supported. The landlord dependent features included improving air quality, smoking bans and the use of green cleaning supplies. Some of the more interesting features of the project included a tranquility lounge, delivery of fresh fruits and vegetables, weekly yoga sessions for staff in the courtyard, and ergonomic consultations. As more and more organizations realize that the most important aspect of a building is its staff, we should continue to see the WELL Certification grow.



Source: Osso, Annette. Sustainable Building Technical Manual. [Online] 1994. Public Technology, Inc. 16.

If a building is WELL certified it doesn't just benefit the tenants and their employees. For a nominal cost landlords can help their tenant achieve the WELL certification and in return they will improve the appeal of their building and tenant retention.

Downtown South

As we have seen in previous years Toronto's Downtown South office node continues to grow rapidly. Currently there are 10 buildings under construction in downtown Toronto, five of which are located in the downtown south node. These buildings account for 52% of the new construction by area across the GTA. The most ambitious project is Ivanhoe Cambridge's Bay Park Centre, a proposed multi-phase office and retail development. This project is currently seeking a lead tenant. Phase 1 will be located at 81 Bay Street and is projected to be 48 stories tall with approximately 1.2 mil SF of office space.

"Physical workplace is one of the top three factors affecting performance and job satisfaction. Personnel costs significantly outweigh the costs for design and construction and maintenance and operations, addressing occupant health channels resources towards reducing the largest line item in the 30-year costs of a building—personnel—offers a meaningful return on investment."

-Paul Scialla, founder and CEO of Delos and founder of IWBI

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INVESTMENT MARKET

Over the past year a number of office transactions in the GTA illustrate the continuation of low yields for Trophy Class “A” product and confirm that the demand for well leased assets remains strong. The activity over the first two quarters of 2016 was no different, with the acquisition of Allstate Corporate Centre by Crown Realty Partners and Crestpoint Real Estate Investments Ltd., for \$148,550,000. Also notable was KingSett and AIMco’s 50% acquisition in Scotia Plaza from Dream and H&R REIT for \$654,500,00 in June. This property was previously acquired in 2012 for \$1.276 Billion. At that time it was one of the largest commercial real estate transactions in Canadian history.

Based on Altus InSite Investment Trends (ITS) data, on a quarter-to-quarter basis, the overall capitalization rate (OCR) and internal rate of return (IRR) for Downtown Class “AA” office buildings in Toronto have not changed over the last quarter remaining at 4.6% and 5.8% respectively. In Q2 2016, the average eight city OCR decreased slightly from 5.75% to 5.53% from the previous quarter and the average IRR decreased slightly from 6.61% to 6.55% during the same time period.



*Scotia Plaza
Financial Core
1,976,690 SF*

*Allstate Corporate Centre
Markham
575,969 SF*



SPOTLIGHT: BREXIT

Canadian Pension funds are major investors in the UK Commercial Real Estate Market. They own or have stakes in premier assets including London City Airport, the High Speed One rail link connecting London to the Channel Tunnel, Scotland’s biggest gas network and the ports of Southampton and Grimsby. With the recent BREXIT vote they hope to maintain their position. Some funds even see the vote as an opportunity to invest in UK real estate and infrastructure at discounted prices. On the other hand BREXIT may make the Canadian market more attractive to European and British investors. However, it is unlikely to change the perception of foreign investors that the Canadian market is difficult to penetrate.

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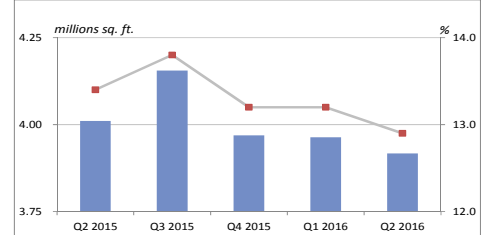
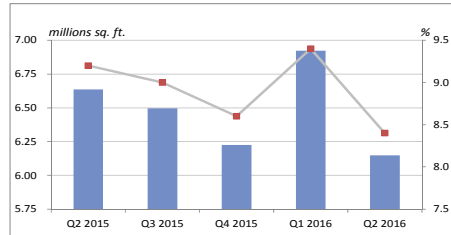
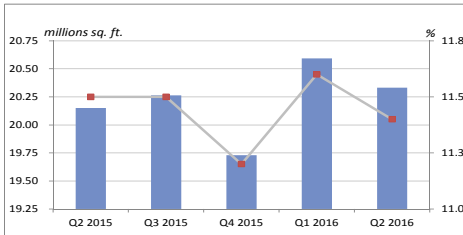
GREATER TORONTO

TORONTO DOWNTOWN

TORONTO EAST

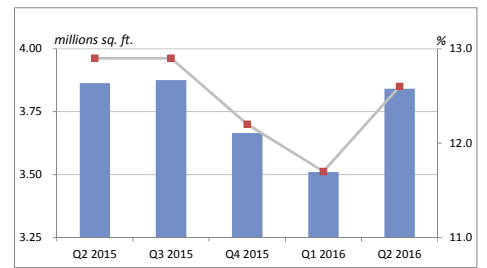
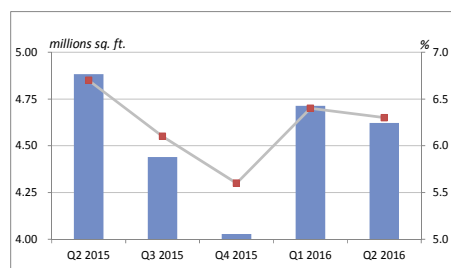
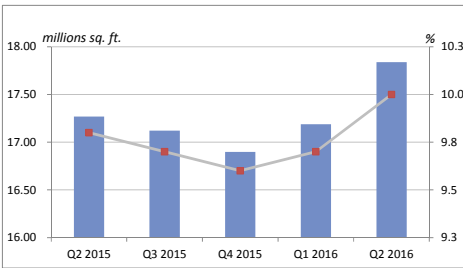
Availability

■ Total Available Area ■ Total Available Rate



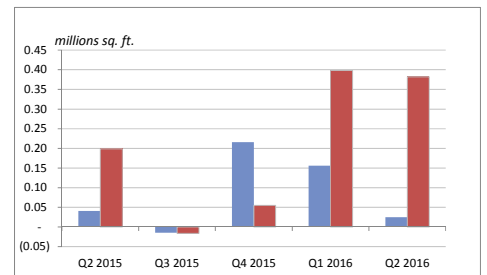
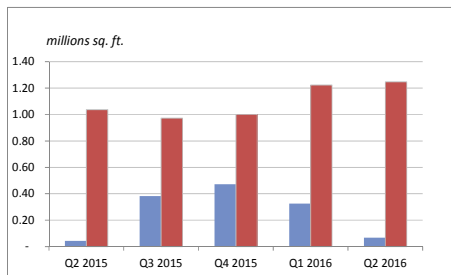
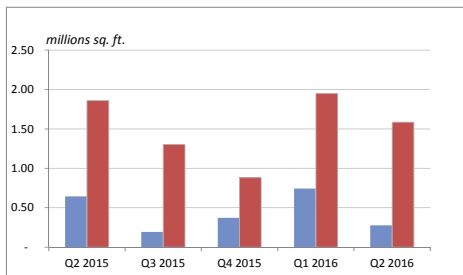
Vacancy

■ Total Vacant Area ■ Total Vacant Rate



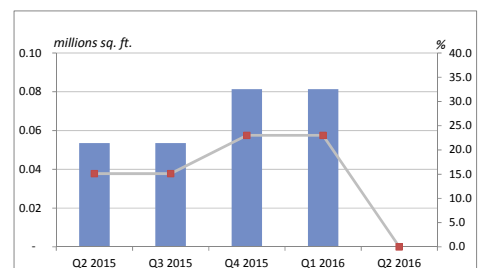
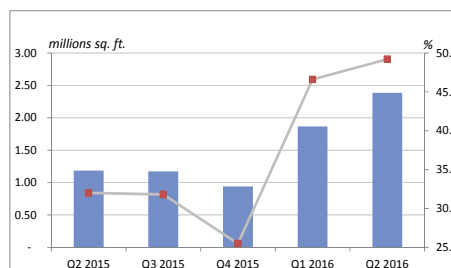
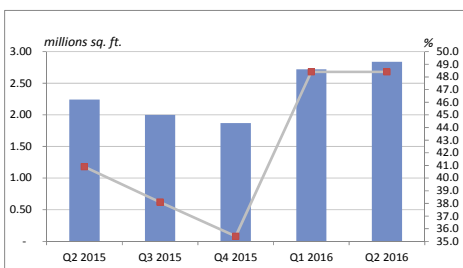
Absorption

■ Change in Occupied Area from Previous Year ■ Change in Occupied Area from Previous Quarter



Supply Under Construction

■ Total Available Area ■ Total Available Rate



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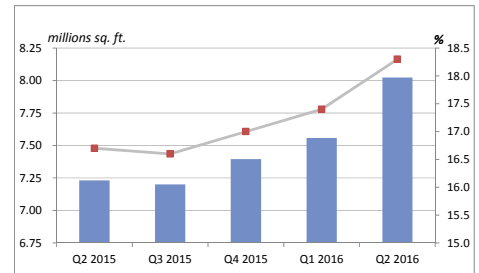
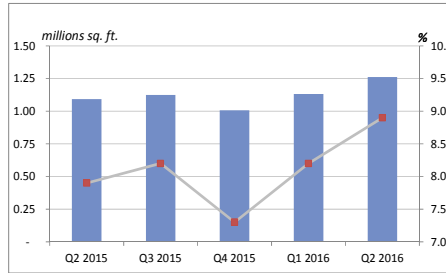
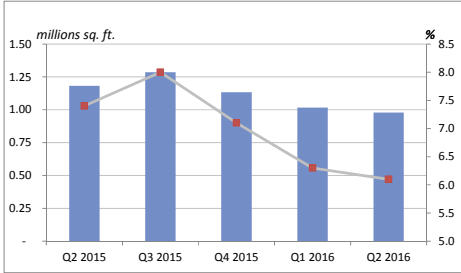
MIDTOWN TORONTO

TORONTO NORTH

TORONTO WEST

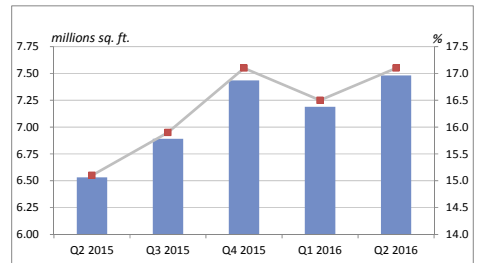
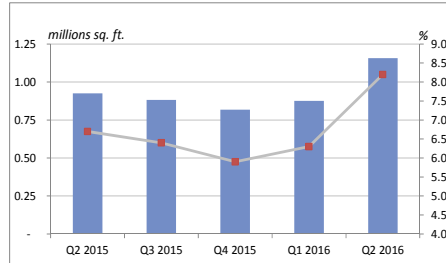
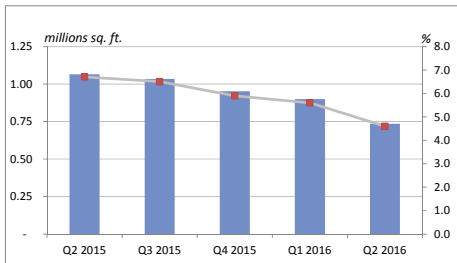
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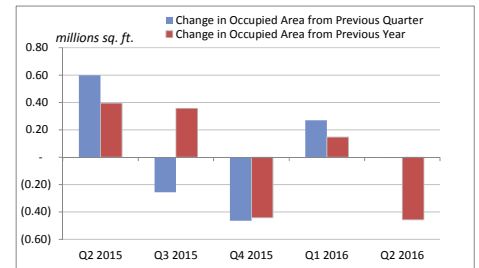
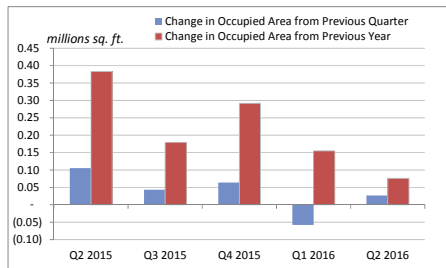
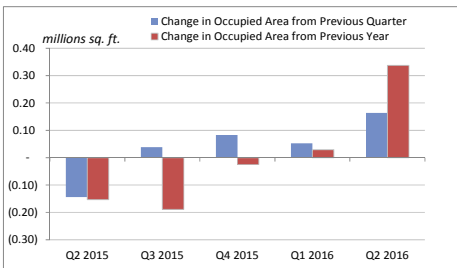
Vacancy

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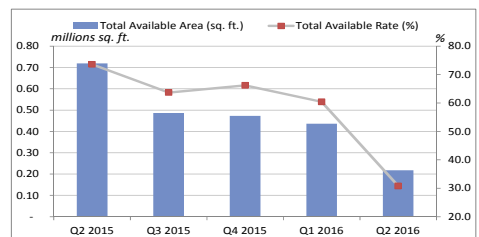
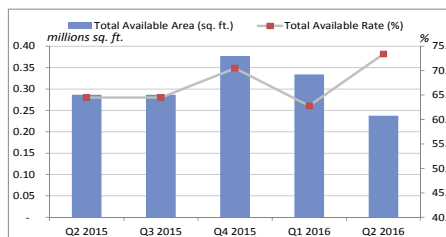
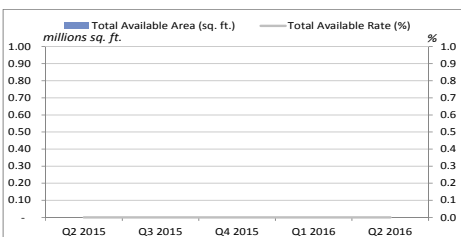
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Q1 & Q2 2016 HIGHLIGHTS

Sale Transactions

Building Address	Node	Sale Price	Price Per SF
Scotia Plaza	Financial Core	\$654,500,000	\$662
Allstate Corporate Centre	Highway 404 and Highway 407	\$148,550,000	\$258

Lease Transactions (100,000 SF +)

Building Address	Node	Deal Type	Tenant
525 University Avenue	Downtown West	Renewal	Hospital for Sick Children
1 York Street	Downtown South	New	Sun Life Assurance

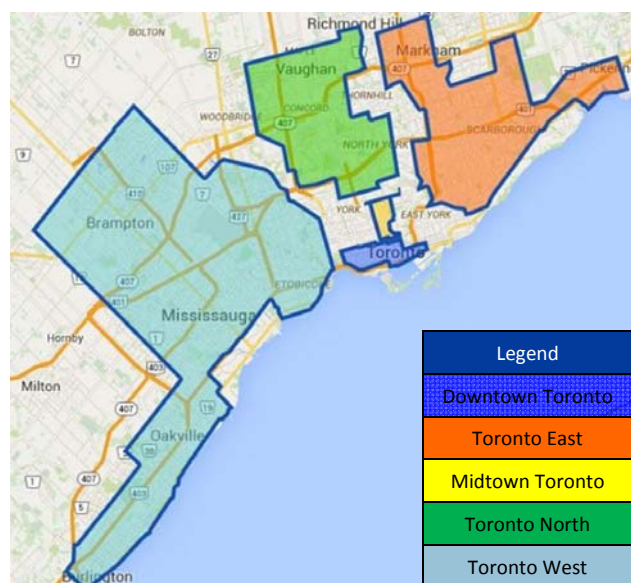
Completions

Building Address	Node	Size (SF)	Lead Tenant
22 Adelaide Street West	Financial Core	1,001,967	Deloitte
7980 Birchmount Road	Highway 404 and Highway 407	353,476	Aviva Canada
100 New Park Place	Vaughan	307,827	KPMG

Under Construction

Building Address	Node	Size (SF)	Completion Date
81 Bay Street	Downtown South	1,284,483	2019
100 Adelaide Street West	Financial Core	899,064	2017
1 York Street	Downtown South	800,091	2017

For more information, please contact [Michael Chung](#) of the Altus GTA Office group.



Altus Group Limited is a leading provider of independent advisory services, software and data solutions to the global commercial real estate industry. Our businesses, Altus Analytics and Expert Services, reflect decades of experience, a range of expertise, and technology-enabled capabilities. Our solutions empower clients to analyze, gain market insight and recognize value on their real estate investments. Headquartered in Canada, we have approximately 2,300 employees around the world, with operations in North America, Europe and Asia Pacific. Our clients include some of the world's largest real estate industry participants across a variety of sectors.

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