

Q2 2011

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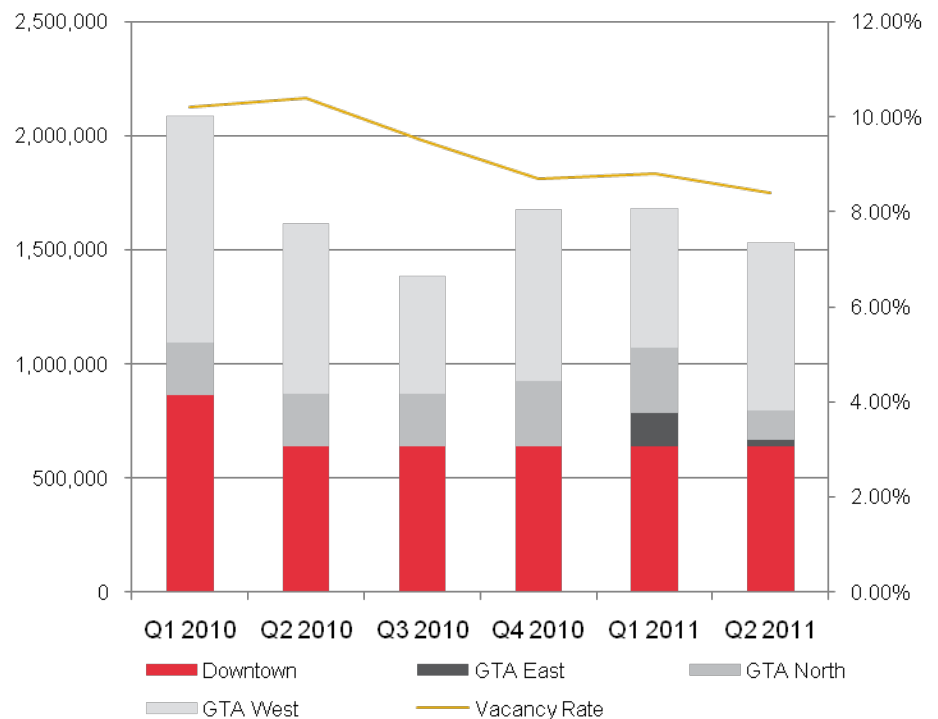
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Executive Summary

- Demand for office space continued to increase at a steady pace, driving the Greater Toronto Area (GTA) vacancy rate down to 8.4% in Q2 2011 from 8.8% in Q1 2011.
- 12 office buildings, representing 1.53 million square feet of new inventory, were under construction, including 501,000 square feet of space in Meadowvale, 129,330 square feet in Vaughan, and 638,626 square feet in Downtown South.
- The split between direct and sublet space for lease across the GTA remained unchanged from last quarter. 82.1% of available office space was directly available for lease whereas 17.9% was available for sublease. Downtown Toronto possessed the greatest amount of available space for lease while the GTA North had the least amount of available options in the city.
- In Q2 2011, GTA average gross asking rents increased by 0.31% to \$28.69 per square foot. On a year over year (y-o-y) basis, Q2 2011's gross rent figure represents a decrease of 0.5% from the previous year. On average, GTA North rents increased most significantly this quarter whereas GTA West rents decreased by 0.7%.

Figure 1: GTA Under Construction Comparison



Slower pace of growth predicted for Canadian economy for Q2 2011

Last quarter, the Canadian economy continued to show signs of expansion, registering annualized economic growth of 3.9% (following 3.1% in Q4 2010.) However, Q2 economic growth numbers are not expected to be as optimistic as previous quarters. This is due to the impact of global factors such as high gas prices reducing consumer spending, slow job growth, European sovereign debt problems, US fiscal debt challenges, as well as, the global manufacturing sector which was set back due to earthquakes in Japan in March. The culmination of these factors influence consumer confidence which negatively effects demand. Fortunately, Canada's strong commodity market to assists in upholding the country's growth.

Domestically speaking, accommodating macroeconomic conditions, and demand for consumer goods and commodities continue to support the Canadian economy. However, RBC predicts a shift in domestic demand from the consumer to business driven growth and investments.

The Institute for Supply Management's (ISM) report on Business PMI index, which tracks manufacturing activities, registered June's PMI at 55.3%. This is the 23rd consecutive month that there has been an expansion in the manufacturing industry. In the last 12 months, the PMI index high was 61.4% whereas its low was 53.5%. Note that a reading above 50 percent indicates that the U.S. manufacturing economy is generally expanding; below 50 percent indicates the U.S. manufacturing economy is contracting.

The unemployment rate continued its downward trend reaching 7.4% in May 2011. The 12 months since May 2011, 273,000 jobs were added, increasing employment by 1.6% in the country. However, the outlook for job prospects is mediocre as fewer jobs were created in June than in May 2011. Slower job growth will most likely increase the unemployment rate to 7.5% next quarter.

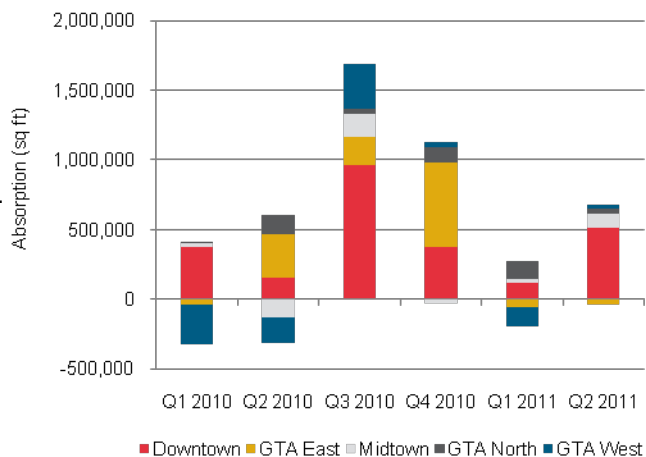
The seasonally adjusted annual rate of housing starts was 183,600 units in May according to the Canadian Mortgage and Housing Corporation (CMHC). This represents a month over month increase of 2.7%. Since the fall of 2010, housing starts have held a steady pace, ranging between 180,000-190,000 new units per month. British Columbia's housing market continued its elevated levels of activity, with housing starts up 33.3% in May, while Ontario saw the largest decrease by 22.9%.

Vacancy rate decreases 0.4% in Q2 2011 as absorption remains strong

Demand for office space was vibrant in the Greater Toronto Area as the vacancy rate decreased to 8.4% in Q2 2011 from 8.8% in Q1 2011. Net absorption remained positive, absorbing 635,891 square feet of space this quarter in comparison to absorbing 69,668 square feet in Q1 2011. (Figure 2)

Four out of five nodes experienced positive net absorption in Q2 2011 which helped to drive down the GTA vacancy rate to 8.4%.

Figure 2: Quarterly GTA Absorption by Market

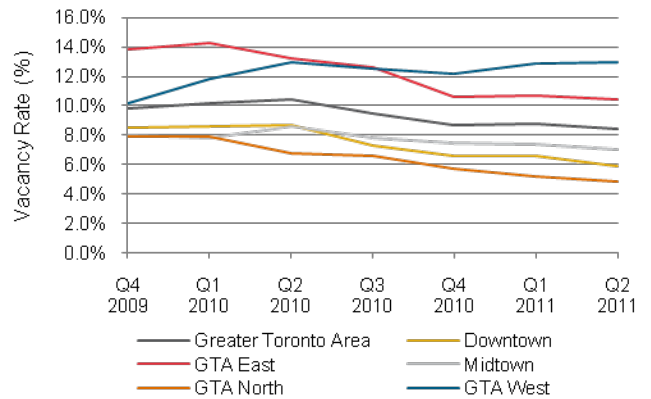


Downtown Toronto had the most activity this quarter absorbing 515,805 square feet. This drove the vacancy rate down in the downtown node to 5.9%. GTA East saw a net negative absorption of -39,185 square feet this quarter, a second quarter in a row for this node.

The GTA North had the lowest vacancy rate in the market at 4.8% whereas the GTA West market had the highest vacancy rate at 13%.

Midtown and GTA North had the least amount of space available for lease

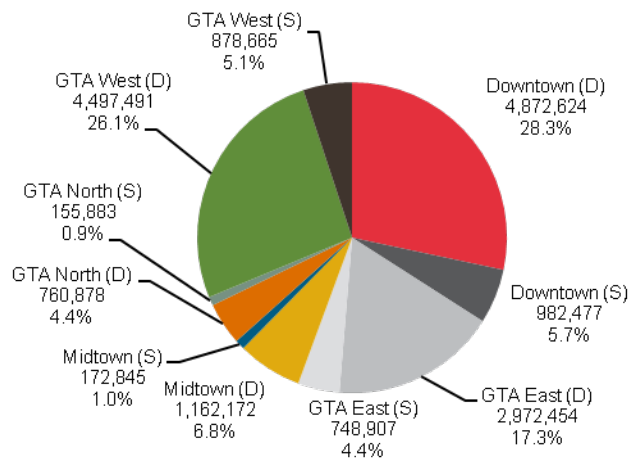
Figure 3: GTA Market Vacancy Rate Comparison



1.5 million square feet of office space, spread across 12 buildings, was under construction in Q2 2011, down from 1.7 million square feet of space last quarter. The bulk of the construction is in the GTA West market, specifically in Oakville and Meadowvale. One building was completed in Pickering this past quarter adding 115,546 square feet to the market.

Looking at percentages of available space in Toronto, the Downtown node had the greatest amount of available space with 5.8 million square feet or 34% of total available space in the city. GTA North had the least amount of available space for lease totalling 916,761 square feet of space or 5% of the total market for available space. (Figure 4).

Figure 4: GTA Direct (D) vs. Sublet (S) Available Space

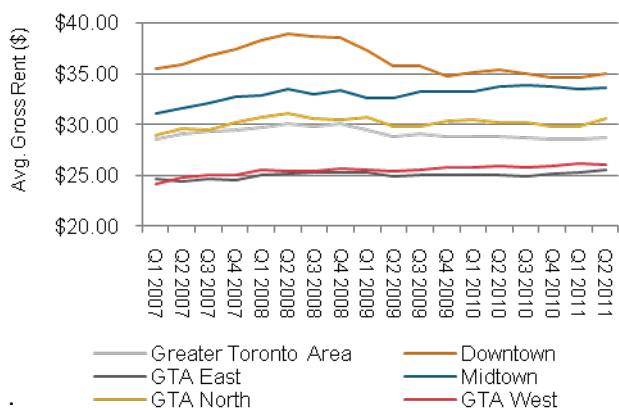


GTA average asking gross rents increased 0.3% this quarter

Quarter over quarter (q-o-q), average asking gross rents increased by 0.3% to \$28.69 per square foot from \$28.60 per square foot in Q1 2011. Since experiencing a slight lift in early 2008, average asking gross rents in the GTA have consistently hovered around the \$27-\$29 range since turning a corner following the 2008-2009 financial crisis. (Figure 5).

Between 2007 and 2011, the GTA West, GTA East, and Midtown rents continued to escalate while GTA North and Downtown rents stabilized. Looking forward, we predict GTA rents will continue to increase until 2014, before dipping and levelling off.

Figure 5: GTA Rent Trends All Classes

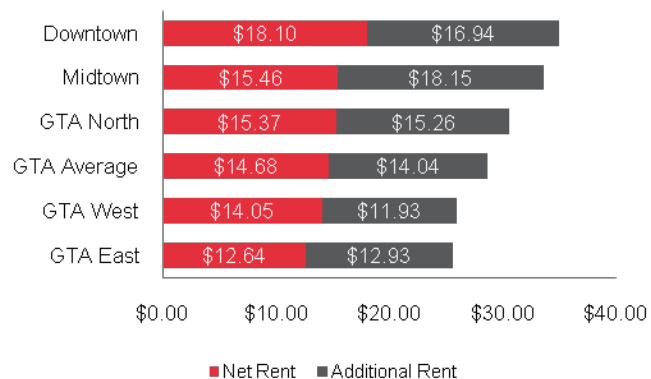


For all classes of office rental rates in the GTA, the Downtown node commanded the highest average asking net rent at \$18.10 per square foot in Q2 2011 down slightly from \$18.32 per square foot whereas the GTA East averaged \$12.64 per square foot up from \$12.52 per square foot. (Figure 6).

GTA East and West experienced the greatest rent growth this quarter

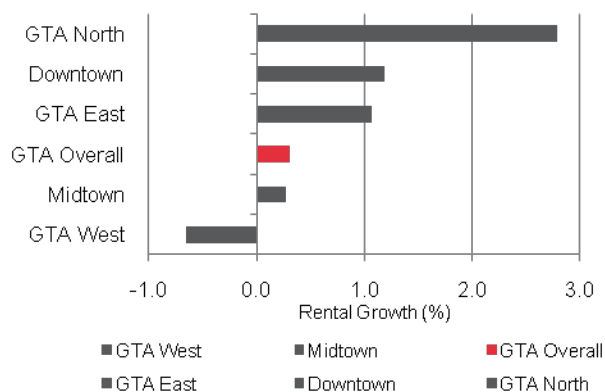
This past quarter, it was not uncommon for both landlords and tenants to blend and extend leases in favour of locking in now before rents increase.

Figure 6: GTA Average Asking Rate Comparison



The node with the greatest q-o-q rental growth this quarter was the GTA North node, increasing by nearly 3%. Downtown and GTA East continued to surpass the GTA average rental growth rate while GTA West's rents decelerated. (Figure 7).

Figure 7: QoQ GTA Market Rental Growth



GTA Node	Q2 2011 Vacancy Rate	Net Absorption (sq ft)
Downtown	5.9%	515,805
GTA East	10.4%	-39,185
Midtown	7.0%	95,346
GTA North	4.8%	34,709
GTA West	13.0%	29,216

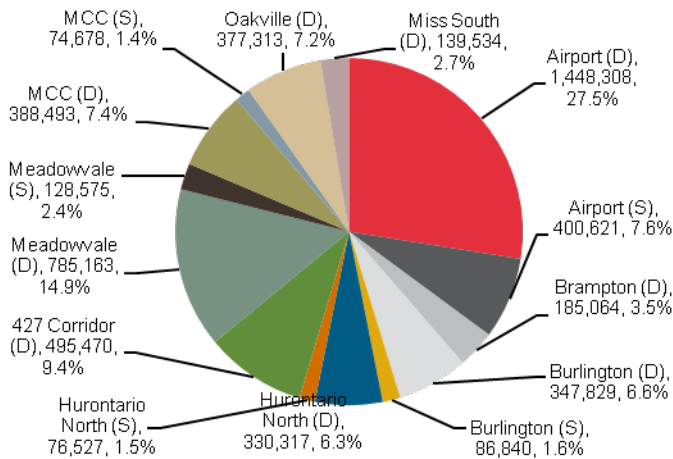
Data Source: Altus Insite

GTA WEST: Vacancy rate increases despite positive net absorption

Turning a corner, net absorption was positive in the GTA West region this quarter, absorbing approximately 29,000 square feet of space. This area benefited from heightened demand in the Airport node, specifically in Airport East and Airport Corporate Centre where 135,000 square feet and 106,000 square feet respectively, were absorbed.

Positive absorption in the GTA West was not sufficient to decrease the vacancy rate this quarter. It rose 10 basis points to 13% in Q2 2011 from 12.9% in Q1 2011. (Figure 8).

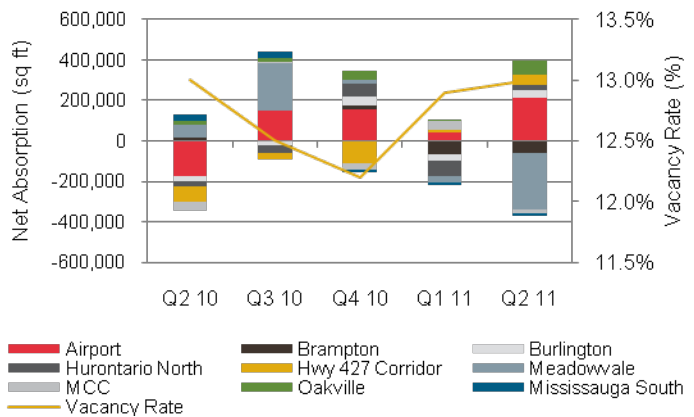
Figure 8: GTA West Direct and Sublet Availability



The Airport node had roughly 1.9 million square feet, or 34% of available space for lease in the GTA West market.

GTA WEST: Airport node sees the most activity

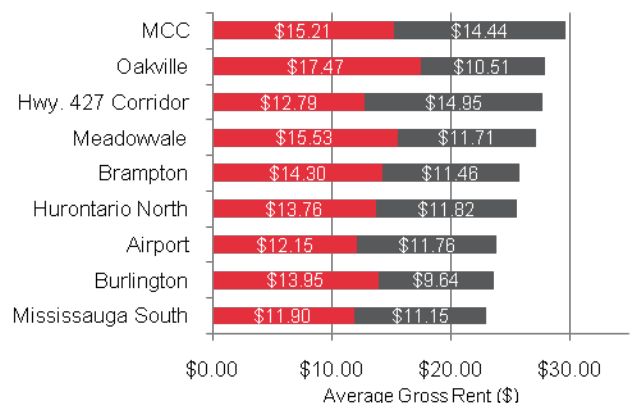
Figure 9: GTA West Absorption by Node



Rates of absorption varied in the GTA West market as a large pocket of space came back to market in Meadowvale (-279,448 sq ft), whereas the Airport node absorbed just over 200,000 square feet. Target and Shoppers Drug Mart leased space in the Airport node this past quarter. (Figure 9).

GTA West average gross asking rents decreased by 0.9% to \$25.98 per square foot in Q2 2011 from \$26.21 per square foot the previous quarter. The most expensive node in the GTA West was Mississauga City Centre with an average gross rent of \$29.65 per square foot, slightly down from \$30.53 per square foot last quarter. Mississauga South was the most affordable area in the west market with an average rent of \$23.05 per square foot. (Figure 10).

Figure 10: GTA West Average Asking Rent Comparison



GTA West Node	Q2 2011 Vacancy Rate	Q2 2011 Net Absorption (sq ft)
Mississauga South	9.4%	-8,780
Oakville	13.1%	74,367
MCC	9.8%	-22,901
Hwy. 427 Corridor	11.8%	50,505
Hurontario North	10.5%	24,686
Burlington	11.8%	36,673
Brampton	7.7%	-58,866
Airport	15.7%	212,980

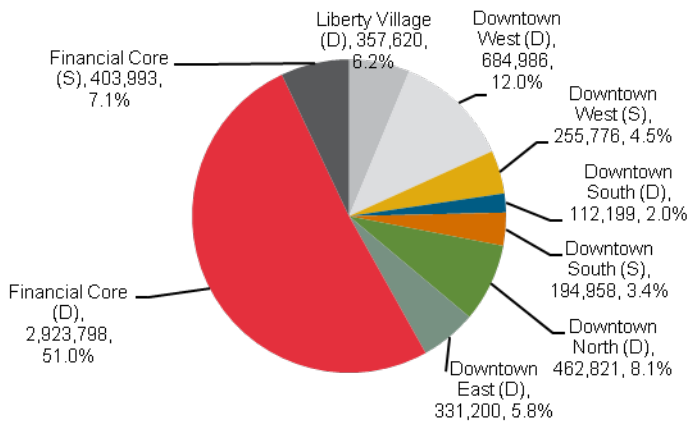
Data Source: Altus Insite

DOWNTOWN: Levels of activity remain strong

Activity in the downtown market was down since reaching its peak of absorption in Q3 2010 but still absorbed 515,805 square feet of space. This seventh consecutive quarter of positive net absorption sent the vacancy rate down from 6.6% in Q1 2010 to 5.9% in Q2 2011.

Five out of the six Downtown market nodes had vacancy rates in the single digits with Downtown North's achieving the lowest vacancy rate of 2.7%. Conversely, Liberty village has the highest vacancy rate at 14.8%.

Figure 11: Downtown Direct and Sublet Availability

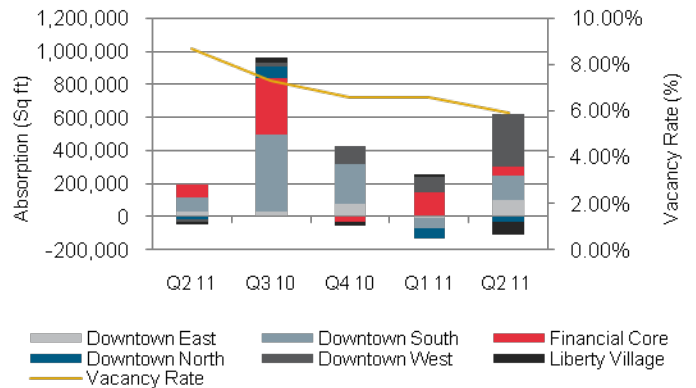


57% of available space in the Downtown market, was available for lease in the Financial Core. This represents 3.3 million square feet of available space. Conversely Downtown South, has only 5% of available space or 307,157 square feet. (Figure 11).

Downtown Node	Q2 2011 Vacancy Rate	Net Absorption (sq ft)
Liberty Village	14.8%	-74,411
Financial Core	5.7%	320,603
Downtown West	6.5%	-33,091
Downtown South	7.6%	51,855
Downtown North	2.7%	151,567
Downtown East	9.0%	99,282

DOWNTOWN: Best opportunity for space: Financial Core

Figure 12: Downtown Absorption by Node

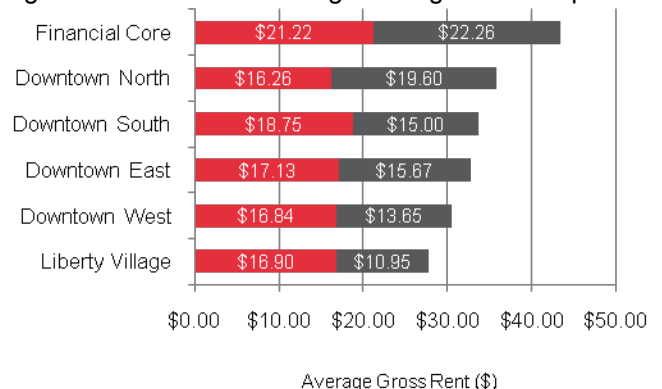


The Financial Core and Downtown North absorbed the most space this quarter while, Downtown West had negative net absorption of -33,091 square feet. The Financial Core remained the object of demand in the downtown market absorbing 320,000 square feet of space, nearly doubling what was absorbed last quarter in this node. (Figure 12)

Downtown rents grew by 1.04% this quarter, a second quarter of growth in 2011. Two nodes had rent growth surpass the two percent mark, namely Downtown East (2.3%) and the Financial Core (2.7%).

Conversely, Downtown West rents decreased on average by 2.3%. The Financial Core remains the most expensive node in the city fetching an average asking gross rent of \$43.47 per square foot, whereas Liberty Village's average asking gross rent was most reasonably priced at \$27.85 per square foot. (Figure 13)

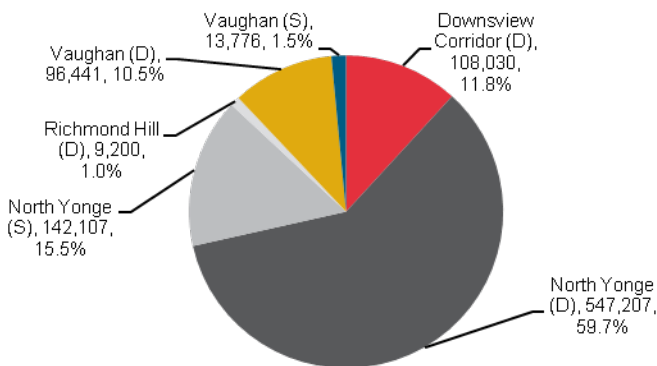
Figure 13: Downtown Average Asking Rent Comparison



GTA NORTH: Vacancy rate continues to trend downward

The GTA North market's vacancy rate has been down trending for the past seven quarters falling to 4.8% this quarter. Total absorption for this quarter was 34,709 square feet, led by demand in the North Yonge node which absorbed 29,222 square feet.

Figure 14: GTA North Direct and Sublet Availability



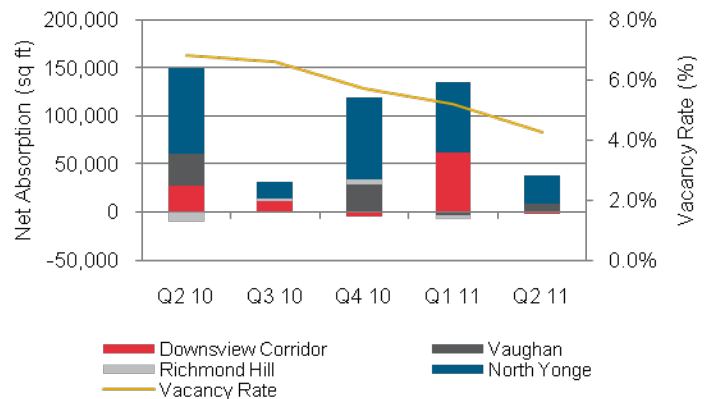
80.7% of available space in the GTA North market was directly available for lease whereas 19.3% of space was available for sublet.

The North Yonge market had the greatest amount of available space in the GTA North node with 711,821 square feet, or 74.0% of available space. Richmond Hill, on the other hand, had the least amount of available space. (Figure 14).

GTA North Node	Q2 2011 Vacancy Rate	Net Absorption (sq ft)
Downsview Corridor	6.2%	-16,351
Vaughan	5.3%	8,115
Richmond Hill	6.1%	n/a
North Yonge	4.8%	29,222

GTA NORTH: Rents increased by 2.8% this quarter

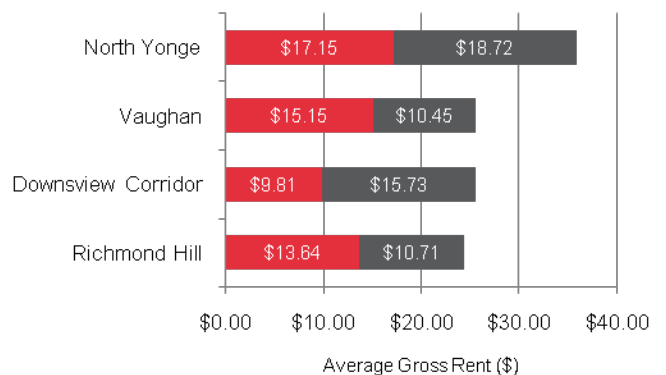
Figure 15: GTA North Absorption by Node



North Yonge absorbed 29,222 square feet in Q2 2011, the fifth consecutive quarter of positive net absorption for the node. The Downsview Corridor on the other hand, made up of Downsview, Dufferin and Finch, and Yorkdale, negatively absorbed 16,351 square feet of space. (Figure 15)

- The GTA North rents increased 2.8% this quarter rising to an average of \$30.63 per square foot. This is up from an average asking rent of \$33.53 per square foot in Q1 2011. Vaughan asking rents grew by 3.7% this quarter to \$25.77 per square foot, the largest increase in the GTA North. Rents in North Yonge decreased by 0.14% to \$35.89 per square foot. (Figure 16).

Figure 16: GTA North Average Asking Rent Comparison

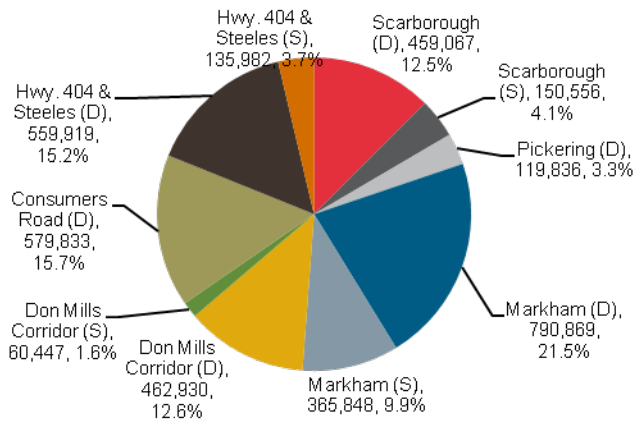


GTA EAST: Negative absorption drives vacancy rate

The GTA East vacancy rate decreased this quarter to 10.4% in Q2 2011 from 10.7% in Q1 2011. On a year over year basis, the vacancy rate in the GTA East node continues to trend downward as demand increases.

For the second quarter in a row, net absorption was negative, registering 39,185 square feet. Demand for space centred around Markham and Consumers Road. Don Mills and Eglinton, and Scarborough had negative net absorption.

Figure 17: GTA East Direct and Sublet Availability

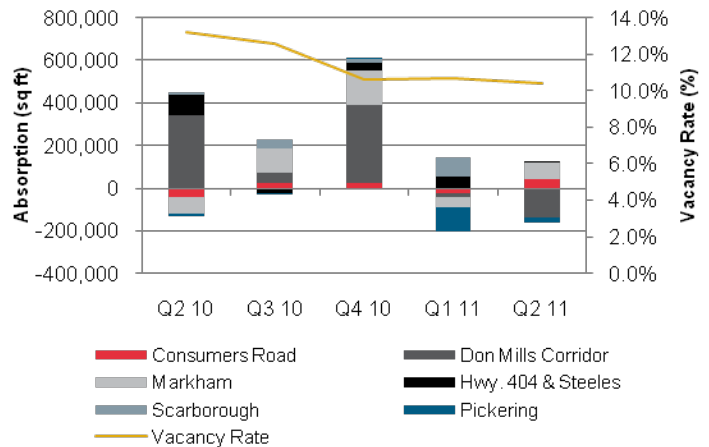


In the GTA East, Markham had the greatest number of options of space for lease totalling 1.2 million square feet. Pickering, on the other hand only had 127,890 square feet of available space. (Figure 17)

GTA East Node	Q2 2011 Vacancy Rate	Net Absorption (sq ft)
Consumers Road	10.7%	44,107
Don Mills and Eglinton	6.7%	-152,305
Duncan Mill	7.5%	15,624
Markham	11.1%	74,605
Hwy. 404 and Steeles	9.2%	2,663
Pickering	17.3%	-451
Scarborough	10.4%	-23,422

GTA EAST: Rents grew by 1.1% in Q2 2011

Figure 18: GTA East: Absorption by Node



The Don Mills and Eglinton node saw negative net absorption of 152,305 square feet this quarter, the second quarter of negative absorption this year. Markham saw 74,605 square feet of space absorbed helping to drive down its vacancy rate by almost a percentage point and assist the GTA East vacancy rate fall to 10.4%. (Figure 18).

GTA East average asking rents grew by 1.1% this quarter to \$25.57 per square foot from \$25.30 per square foot the previous quarter. The Hwy 404 & Steeles node saw the greatest rent increase in the area, increasing by 4.8% to \$23.81 per square foot. Pickering continued to remain the most affordable option for office space with an average asking gross rent of \$22.79 per square foot. (Figure 19).

Figure 19: GTA East Average Asking Rate Comparison

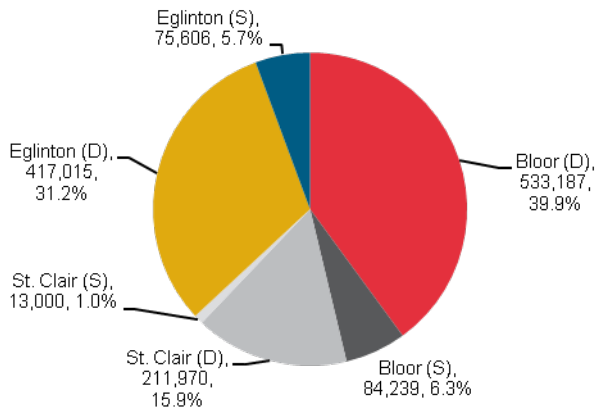


GTA MIDTOWN: Negative absorption drives vacancy rate

This quarter, Midtown Toronto experienced positive absorption of 19,968 square feet. The Eglinton area accounted for the largest segment of this absorption, absorbing 17,159 square feet.

Midtown's vacancy rate decreased for the fourth quarter in a row, settling at 7.4%, down from 7.5% in Q1 2011. In recent years, this market's vacancy rate has consistently stayed between 6.0% and 8.0%

Figure 20: Midtown Direct and Sublet Availability



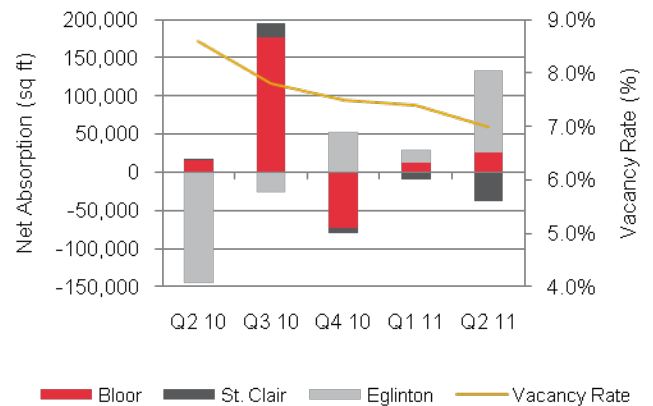
Midtown's available space was comprised of 83.4% space directly available for lease and 16.6% of space that was available to lease as a sublet. (Figure 20).

Bloor and Eglinton represented nearly 90% of available space in the Midtown market while St. Clair had the least amount of space. In the St. Clair node, 91.4% of the space available was direct, while only 8.6% of available space was sublet.

Midtown Node	Q2 2011 Vacancy Rate	Net Absorption (sq ft)
Bloor	5.8%	25,810
St. Clair	7.9%	-37,989
Eglinton	8.8%	107,525

GTA MIDTOWN rents decreased by 0.5% two quarters in a row

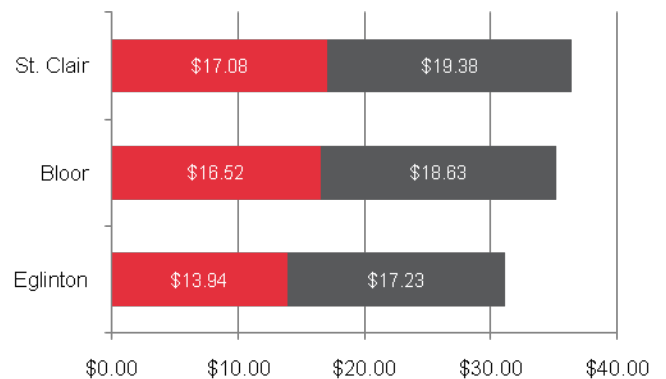
Figure 21: Midtown Absorption by Node



Midtown rents increased by 0.3% this quarter, after decreasing 0.5% both in Q1 2011 and Q4 2010. On a year over year basis, Midtown average asking rents have decreased by 0.5%. This quarter, average asking rates reached \$33.62 per square foot. (Figure 21).

This quarter Bloor rents increased by 1%, the greatest percentage increase in comparison to other nodes in the Midtown market. St. Clair office rents continue to be the most expensive in the Midtown area, while Yonge and Eglinton was the most affordable. (Figure 22).

Figure 22: Midtown Average Asking Rent Comparison



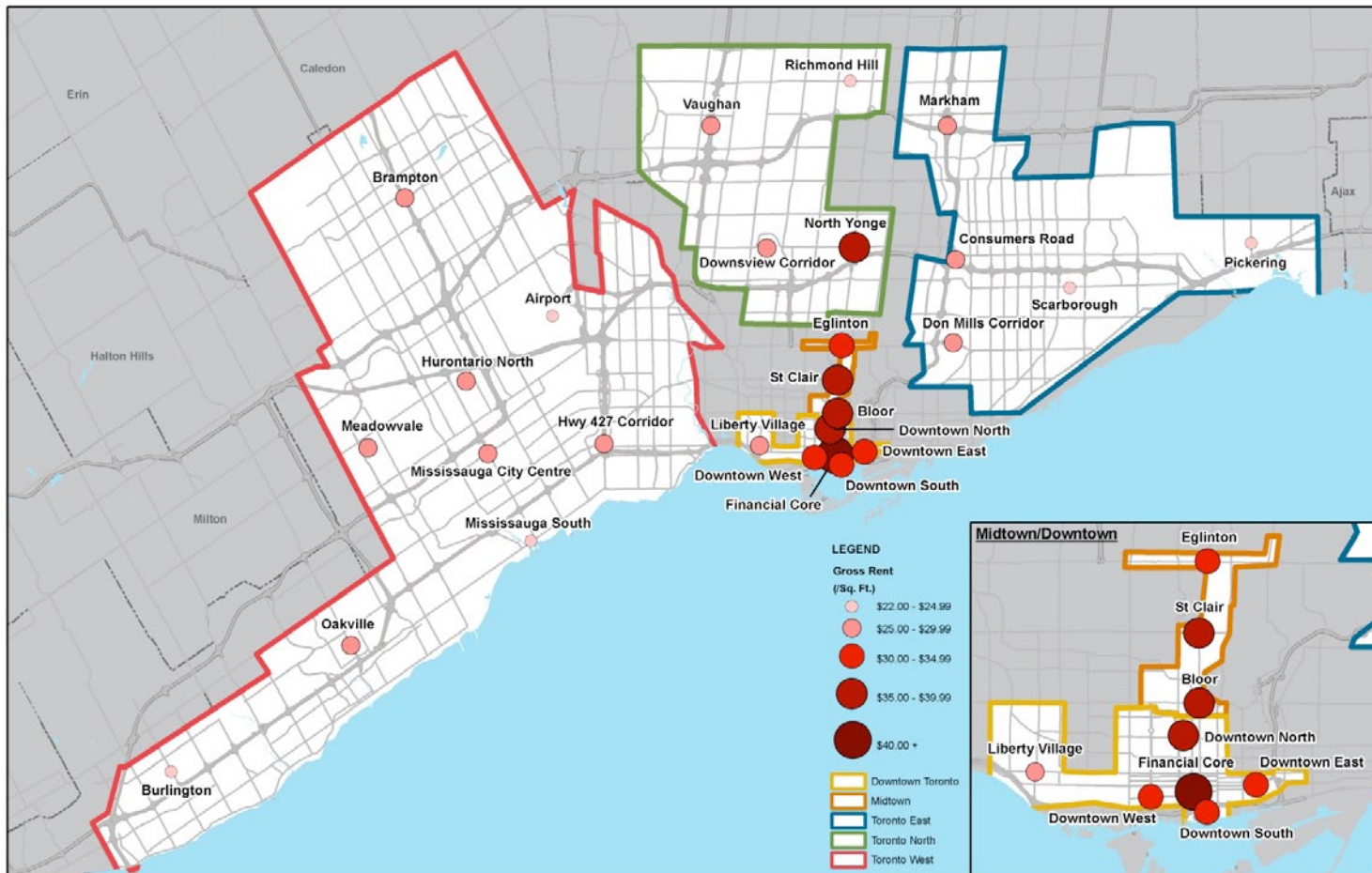
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Q2 2011	Total Inventory (sq ft)	Under Construction (sq ft)	Net Absorption (sq ft)	Vacancy Rate (%)	Average Gross Rent (\$)
Downtown Toronto					
Downtown East	3,750,470	0	99,282	9.0%	\$32.81
Downtown North	12,453,147	0	151,567	2.7%	\$35.87
Downtown South	3,660,002	638,626	51,855	7.6%	\$33.75
Downtown West	13,269,843	0	-33,091	6.5%	\$30.49
Financial Core	33,121,432	0	320,603	5.7%	\$43.47
Liberty Village	2,404,766	0	-74,411	14.8%	\$27.85
Downtown Toronto Total	68,659,660	638,626	515,805	5.9%	\$35.03
GTA East					
Consumers Road	3,999,735	0	44,101	10.7%	\$26.49
Don Mills and Eglinton	3,748,070	0	-152,305	6.7%	\$25.10
Duncan Mill	2,349,611	0	15,624	7.5%	\$27.55
Markham	9,476,296	30,000	74,605	11.1%	\$26.89
Hwy 404 & Hwy Steeles	5,845,227	0	2,663	9.2%	\$23.81
Pickering	944,064	0	-451	17.3%	\$22.79
Scarborough	4,129,754	0	-23,422	13.6%	\$22.91
GTA East Total	30,492,757	30,000	-39,185	10.4%	\$25.57
Midtown					
Bloor	9,263,538	0	25,810	5.8%	\$35.15
St. Clair	2,303,507	0	-37,989	7.9%	\$36.46
Eglinton	4,836,156	0	107,525	8.8%	\$31.17
Midtown Total	16,403,201	0	95,346	7.0%	\$33.62
GTA North					
Downsview	586,750	0	-16,351	6.2%	\$29.13
Dufferin and Finch	618,503	0	11,096	3.2%	\$24.43
North Yonge	8,494,845	0	29,222	4.8%	\$35.89
Richmond Hill	149,887	0	0	6.1%	\$24.35
Vaughan	2,061,006	129,330	8,115	5.3%	\$25.77
Yorkdale	1,296,820	0	2,627	3.4%	\$23.06
GTA North Total	13,207,811	129,330	34,709	4.8%	\$30.63

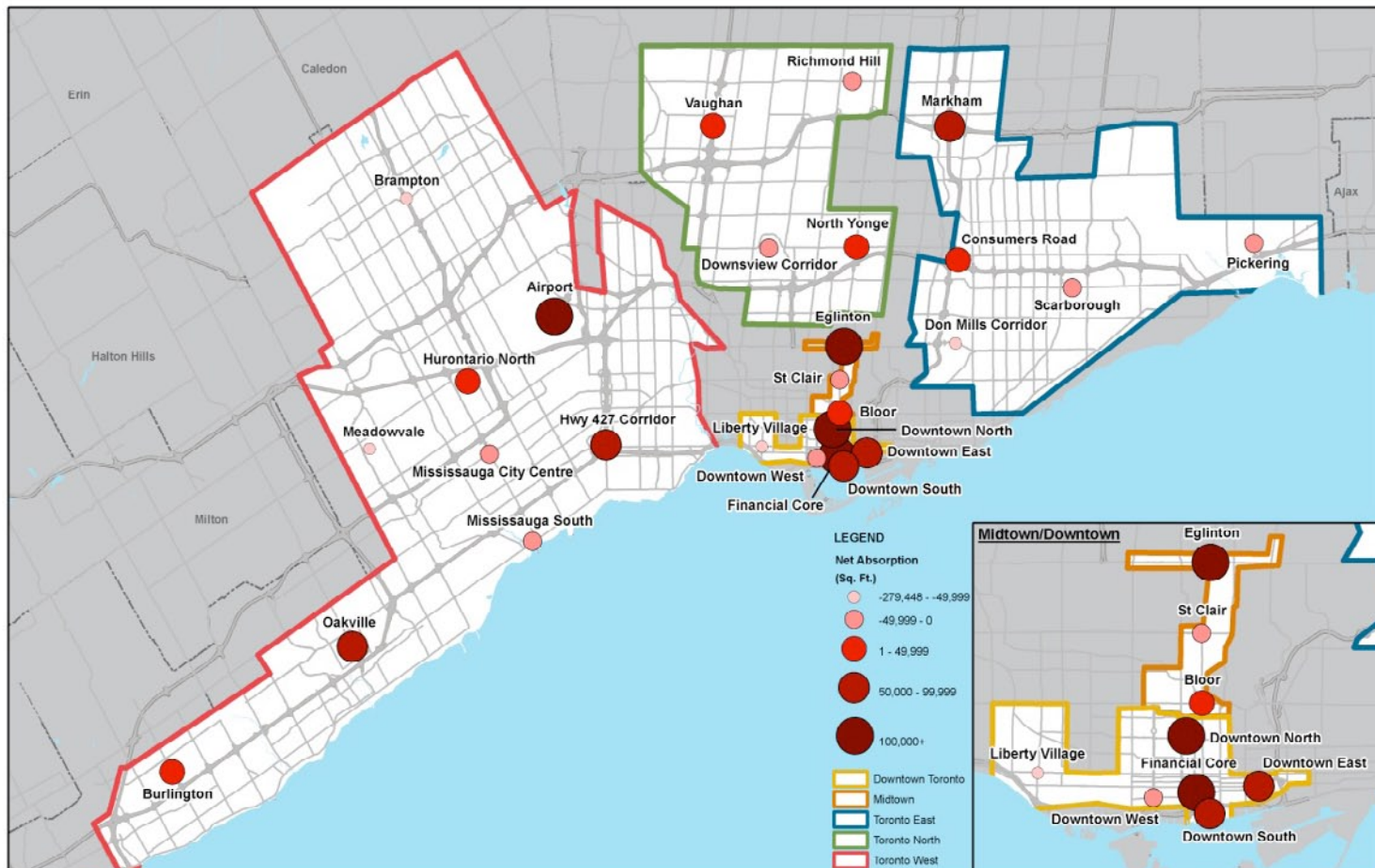
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Q2 2011	Total Inventory (sq ft)	Under Construction (sq ft)	Net Absorption (sq ft)	Vacancy Rate (%)	Average Gross Rent (\$)
Quarterly Office Data, continued					
GTA West					
Airport Corporate Centre	4,881,770	0	106,488	19.6%	\$27.29
Airport East	2,178,476	0	135,009	19.2%	\$26.03
Airport North	961,001	0	-40,802	14.5%	\$20.73
Airport West	637,874	0	-24,343	18.3%	\$22.89
Bloor and Islington	1,041,370	0	-3,789	21.5%	\$30.12
Brampton	2,315,563	113,226	-58,866	7.7%	\$25.76
Burlington	3,403,935	0	36,673	11.8%	\$23.59
Cooksville	679,811	0	-8,890	12.6%	\$22.09
Dixie and Eglinton	2,704,531	0	38,162	2.3%	\$21.12
Etobicoke North	974,260	0	-1,534	20.2%	\$26.01
Heartland	3,701,771	0	24,686	10.5%	\$25.34
Hwy. 427 Corridor	3,738,397	0	50,505	11.8%	\$25.38
Meadowvale	5,794,274	501,000	-279,448	14.8%	\$27.24
Mississauga City Centre	3,655,513	0	-22,901	9.8%	\$29.65
Oakville	2,686,146	120,351	74,367	13.1%	\$27.97
Sheridan	1,054,284	0	110	6.2%	\$24.00
Toronto West					
Total	39,367,606	734,577	29,216	13.0%	\$25.98
GTA Total	168,131,035	1,532,533	635,891	8.4%	\$28.69

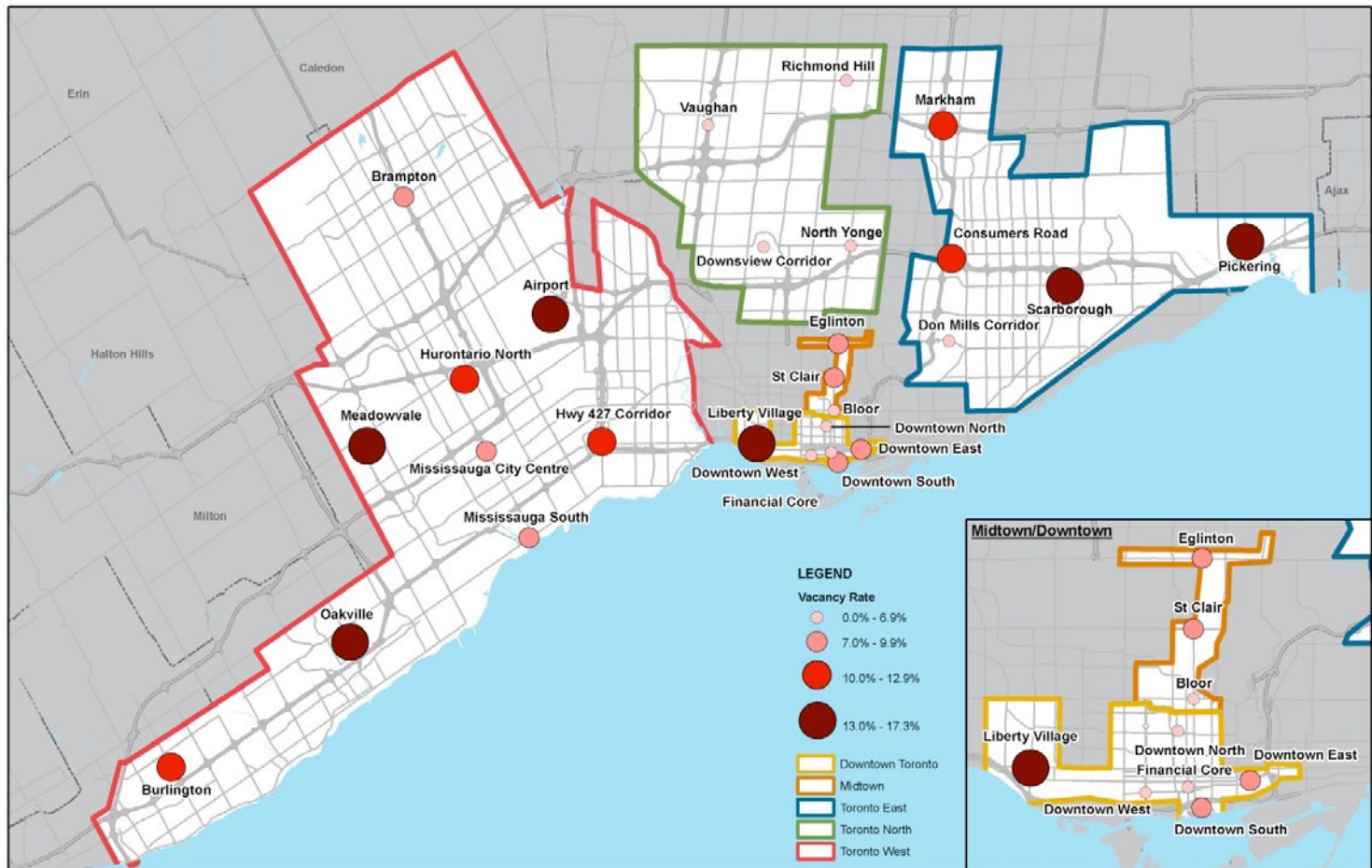
Map 1: GTA Gross Rent



Map 2: GTA Absorption



Map 3: GTA Office Vacancy



Report Definitions

Availability:	Marketed space that may or may not be vacant.
Availability ratio:	Office space currently available as a percentage of inventory.
Floor space:	Floor area in sq ft adopted throughout is gross internal area.
Inventory:	Total floor space per building measured in square feet.
Building Class:	Class A: newly developed or comprehensively refurbished to new standard, including sublet space in new/refurbished buildings not previously occupied Class B: buildings of good specification, floor plate efficiency and image usually but not exclusively ten years old or less Class C: remaining poorer quality properties
Speculative development:	A newly developed or comprehensively refurbished building undertaken without the benefit of a secured tenant.
Development start:	A development in which work has started on the main contract. This usually excludes demolition and site clearance contracts.
Development completion:	A development in which the main contract has been completed, whether this be to shell and core or developer's finish.
Active demand:	Named entities with appointed agents and a declared requirement for industrial accommodation which it wishes to satisfy within the foreseeable future
Under offer:	Units which a potential tenant has agreed in principle to acquire, subject to negotiation.
Absorption:	Tenant transactions, including the following: (i) office buildings leased/sold to an eventual tenant that had not been previously recorded as under offer to that tenant (ii) developments pre-leased/sold to a tenant (iii) owner occupier purchase of a freehold or long leasehold
Net rent:	The rent reported being paid, which may not take account of additional rent or concessions such as rent-free periods, or leasehold improvements.

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