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## OFFICE MARKET HIGHLIGHTS

Activity in the Central Toronto office market continued to improve gradually throughout 2005. A shortage of new space, combined with the continued health of the economy, has resulted in increased leasing activity and a gradual reduction in vacant space. A significant proportion of the leasing activity in 2005, particularly for larger sized tenants, was in the form of “blend and extend” with little or no expansion; a trend that has continued over the past couple of years. Notable renewals in 2005 included AIG Insurance, CIBC Mellon, and Altimira Investments. Expect leasing activity to remain steady and increase slightly in 2006.

Rental rates have stabilized for the most part and will remain firm, or be pressured upwards, as the market begins to swing back in favour of the landlord. Average net rental rates for Class A space in the downtown core are in the \$25.00 range and even higher for the prestige towers. Coupled with this are the additional costs, including realty taxes, which typically represent a \$10.00 differential over suburban office product. Although there has been much discussion regarding the tax disparity faced in Toronto, little has been done to level the playing field.

Vacancy in Downtown Toronto ended the year at 9.7%, down from 10.8% at the end of 2004, marking nine consecutive quarters of growth. Financial Core vacancy was 8.5%, down from 9.6% in 2004. The midtown market also had a positive year with relatively stable leasing activity, however tenant activity has been stronger in the Bloor and St. Clair nodes. Loblaw Companies Limited’s move to a new design build facility in Brampton has created opportunity and increased interest in the St. Clair node, with 22 St. Clair Avenue E. offering one of the largest opportunities this market has seen in several years. Vacancy in midtown ended the year at 10.2%. The North Yonge Corridor continues to face challenges, however, vacancy did decline throughout 2005 to end the year at 11.5%.

As leasing conditions in the Toronto market continue to improve, and large block users become more difficult to accommodate, the talk continues as to who will be the first out of the ground with Toronto’s newest downtown prestige office tower – Brookfield with the long awaited Bay Adelaide Centre; Cadillac Fairview with Simcoe Place II located adjacent to the planned Ritz Carlton Hotel and Residences; or Menkes Development’s 25 York Street, south of Union Station adjacent to the Air Canada Centre and the recently announced Maple Leaf Square development. All three are in the market actively looking for tenants to kick-start their projects. With several large tenants in the market weighing their options, and those existing options shrinking, expect to see the confirmation of at least one office project in 2006.

## INVESTMENT MARKET HIGHLIGHTS

2005 was another strong year for investment sales in Toronto due to a strong Canadian economy, low interest rates, and decreasing cap rates. Demand for investment product is limited only by available supply. Downtown office remains a popular choice. Expect to see continued investment interest in the quality product Toronto has to offer.

Significant transactions in 2005 included the purchase of Bell Trinity Square by Northam Realty Advisors (on behalf of DIFA Deutsche Immobilien Fonds AG) for \$263 million; the Downing Street Portfolio by The Blackstone Group for \$93 million; 160 Bloor Street East by Credit Suisse for \$74.2 million; 130 Bloor St West by KingStreet Capital Partners for \$57 million; Westin Harbour Castle by SCG Toronto Property Corporation for \$133.5 million; Holiday Inn on King by Westmount Hospitality Group for \$107 million; and the King Edward Hotel by Lehman Brothers for \$62.5 million.

### GREATER TORONTO MARKET AT A GLANCE

POPULATION  
**5.4 million**

OFFICE INVENTORY  
**121.9 million sf**

OFFICE VACANCY  
**10.7%**

CBD CLASS A VACANCY  
**7.9%**

INDUSTRIAL INVENTORY  
**687 million sf**

INDUSTRIAL VACANCY  
**5.2%**

## RETAIL MARKET HIGHLIGHTS

Construction continues on the Eaton Centre expansion at the corner of Yonge and Bay Streets. This new 600,000 square foot building will house two levels of retail, the Ryerson Business School and three levels of parking. As the Canadian dollar strengthens, the number of new American retailers entering the market is likely to diminish. European retailers, however, have been looking at Canada, and Toronto in particular, as an optimal location for expansion. Companies such as H&M and Zara have been successful in Canada and others are likely to follow suit.

