MARKETBEAT

CANADA NATIONAL

Office Q4 2021

	YoY Chg	12-Mo. Forecast
14.8% Vacancy Rate	▲	▼
318K SF Net Absorption, SF	▲	▲
$40.12 Gross Asking Rent, PSF	▲	▬
1.0% Rent Growth Q-Q	▲	▬
19.2M Under Construction, SF	▼	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
19.1M Total Nonfarm Employment	▲	▲
2.8M Office-using Employment	▲	▲
5.9% Canada Unemployment Rate	▼	▼

Source: Statistics Canada

Stabilizing Vacancy and Positive Absorption in Q4 2021

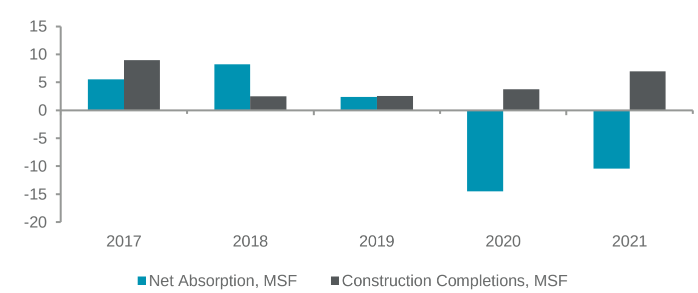
After a difficult two years, national office vacancy began leveling off at 14.8% - only 40 basis points higher than last quarter. This rate represented a record high in vacancy, up significantly from 9.3% in the first quarter of 2020 before COVID lockdowns started to impact office occupancy. However Canadian major markets remain some of the strongest in North America, even as Toronto, Vancouver and Montreal experienced significant increases in downtown and suburban vacancy during 2021.

Absorption turned positive for the first quarter since COVID-19 began, powered by pre-leasing of new supply that arrived this quarter. While the overall national absorption was +300,000 square feet (sf), this total was a stark split across markets. Downtown Toronto Class A office was a robust +1.8 million square feet (msf), while Montreal recorded its worst quarter ever at negative 1.4 msf and Calgary continued to grapple with negative absorption as well. The divide between central and suburbs continued, with suburbs ending 2021 with negative 4.6 msf of absorption, though only negative 800,000 sf in the fourth quarter of 2021.

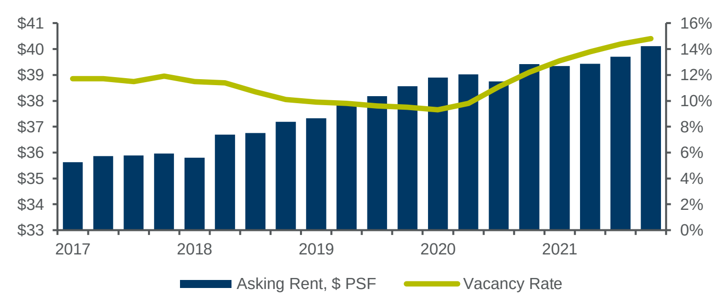
Asking rents remained high for office, with increasing vacancies so far not impacting landlord behavior. Rents were at an all-time high in the fourth quarter, despite rising vacancy rates in all major markets. Two factors explain this confusing situation: first, new product on the market is generally higher quality and tends to increase the average rents, especially in large markets. Secondly, landlords have kept face rates high and preferred to offer inducements rather than dropping asking rents. Nonetheless, it's noteworthy that Canadian markets have not reported the steep drops evidenced in some U.S. markets.

The labour market outlook remained favourable; in contrast to the U.S., Canada reported a rapid recovery in employment, with current levels of employment well above pre-pandemic levels. While the gains were unevenly distributed, the concentration of gains among educated professional work suggests a future tailwind for office leasing. The looming question of remote work cannot fully be understood until provinces complete a full re-opening; this process has been delayed further with a new wave of COVID cases in late 2021. Year-end employment data showed positive job growth in most markets compared to one year prior, with Winnipeg, Edmonton, Vancouver, Toronto and Kitchener/Waterloo all posting greater than 5% annual increase in employment.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & GROSS DIRECT ASKING RENT



MARKETBEAT

CANADA NATIONAL

Office Q4 2021

CUSHMAN & WAKEFIELD

New supply totaled over 3 msf in the fourth quarter, and the final quarter accounted for most of the new supply delivered over the course of 2021. Nearly 90% of supply delivered was in the central area, continuing a trend where most new supply is concentrated in a few downtowns. Toronto Class A office developments accounted for over 50% of all new supply for both the quarter and the year, while Toronto reported zero new supply in the suburban markets.

Looking ahead, Vancouver is poised to deliver five major downtown buildings, continuing the office boom in this fast-growing west coast city. While a much smaller downtown and office market overall, Vancouver will deliver 2.7 msf of new office inventory in 2022, not far behind Toronto's 3.1 msf. Toronto downtown was scheduled to deliver several new signature buildings, mostly notably a 1.2-msf development at 160 Front St. Notably absent from the development pipeline is Alberta office, with no significant projects scheduled for either the Edmonton or Calgary markets in 2022.

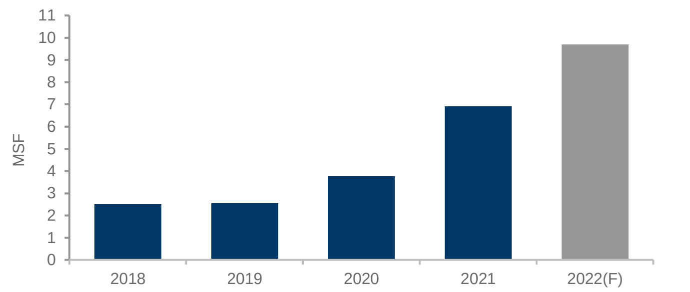
Despite the headwinds, downtown vacancies were still well below suburban levels, except for the Calgary market. Employers continued to show a preference for downtown office space, for a variety of reasons: a larger employee pool, walkability, the perceived prestige of downtown, and the looser market for downtown space. Pre-leasing was strong for downtown developments, with most major projects delivered at least 90% pre-leased, contributing to the positive absorption trend and rising rents downtown during an otherwise challenging market.

Class A office continued to outperform, although the gap is narrowing. Class A vacancy was on par with Class B vacancy in Toronto and Vancouver, but Class A still has lower vacancy rates in Montreal as well as smaller markets such as Ottawa and Kitchener. Class A is clearly leading the absorption recovery, with strong positive quarters in Ottawa, Vancouver, Toronto and St. John's.

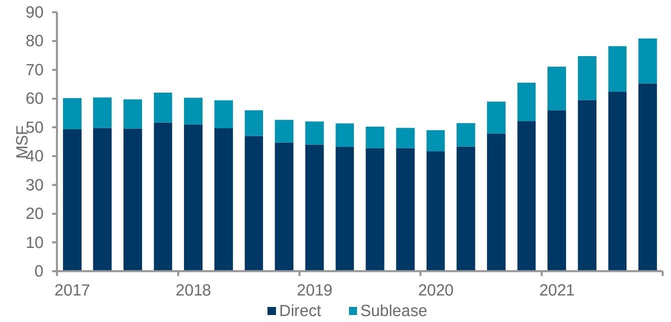
OUTLOOK

- Vaccine mandates are already in place in some workplaces, but the prospect of provincially mandated vaccinations, or mandatory boosters, may impact the return-to-office momentum in some industries.
- The great unknown is the impact of remote work, and the role of large occupiers in return to office. So far, we have yet to see definitive statements from major industries such as telecommunications, banking, insurance and public administration.
- Continued lockdowns in the Canada's most populous provinces will likely push back return to office again.

NEW SUPPLY



DIRECT VS. SUBLEASE SPACE VACANCY COMPARISON



CLASS A VS. OVERALL VACANCY COMPARISON

MARKETBEAT

CANADA NATIONAL

Office Q4 2021

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	CONSTRUCTION COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Vancouver	64,343,491	1,222,308	4,226,601	8.5%	410,265	55,868	837,252	8,460,510	$48.99	$54.87
Edmonton	29,258,065	771,232	4,911,507	19.4%	63,022	-335,938	0	0	$34.03	$38.86
Calgary	69,994,786	3,883,721	14,907,761	26.8%	-302,213	-1,944,854	0	63,195	$31.82	$35.43
Winnipeg	16,006,745	129,284	1,870,466	12.5%	-7,013	-413,317	53,750	0	$29.97	$35.22
Toronto	185,756,068	5,688,695	16,964,333	12.2%	1,180,133	-3,189,847	2,204,992	7,011,023	$48.34	$52.75
Kitchener	5,157,167	112,815	1,104,269	23.6%	123,965	-120,957	0	422,000	$28.35	$30.17
Waterloo	7,432,289	391,689	786,159	15.8%	-19,404	-315,358	0	0	$26.59	$28.80
Ottawa	41,815,419	672,260	3,449,278	9.9%	116,194	-591,888	0	333,540	$36.02	$39.83
Montreal	102,320,675	2,578,723	13,357,349	15.6%	-1,403,433	-3,573,844	0	2,711,071	$34.63	$43.13
Fredericton	2,171,554	0	293,357	13.5%	77,348	16,923	135,000	0	$26.16	$30.22
Saint John	2,341,148	20,000	620,530	27.4%	-24,716	-97,791	0	0	$22.59	$29.07
Moncton	2,961,532	16,525	331,841	11.8%	-19,977	-63,550	0	0	$25.12	$30.23
Halifax	12,788,109	124,956	1,713,563	14.4%	27,522	117,107	0	179,125	$28.92	$32.00
St. John’s	3,926,183	21,453	774,925	20.3%	96,674	37,307	75,000	0	$34.49	$40.57
NATIONAL TOTALS	**546,273,231**	**15,633,661**	**65,311,939**	**14.8%**	**318,367**	**-10,420,139**	**3,305,994**	**19,180,464**	**$40.12**	**$45.53**

**Rental rates reflect direct full service asking*

Adam Jacobs
Head of Canada Research
Tel: +1 416 359 2390
adam.jacobs@cushwake.com

Kristina Bowman
Senior Manager of Research
Tel: +1 416 359 2419
kristina.bowman@cushwake.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and 60 countries. In 2020, the firm had revenue of $7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

cushmanwakefield.com