MARKETBEAT

# TORONTO

## OFFICE Q2 2025

CUSHMAN & WAKEFIELD

### MARKET FUNDAMENTALS

| | YOY Chg | Outlook |
|---|---|---|
| **16.9%** Vacancy Rate | ▼ | — |
| **245K** YTD Net Absorption, SF | ▼ | ▼ |
| **$51.40** Asking Rent, PSF | ▲ | — |

*(Overall, All Property Classes)*

### ECONOMIC INDICATORS

| | YOY Chg | Outlook |
|---|---|---|
| **3.7M** GTA Employment | ▲ | ▼ |
| **8.8%** GTA Unemployment Rate | ▲ | ▲ |
| **7.0%** Canada Unemployment Rate | ▲ | ▲ |

*Source: Statistics Canada*

### RISING UNEMPLOYMENT AND HOUSEHOLD STRESS WEIGH ON ONTARIO

Ontario is faced with strong economic headwinds as new steel and aluminum tariffs disrupt trade and contribute to job losses. Manufacturing employment dropped sharply in April 2025, marking the largest monthly decline since the pandemic. Unemployment is expected to continue rising, driven by ongoing weaknesses in manufacturing and construction. At the same time, falling home sales and property values, coupled with rising mortgage delinquencies, signal growing financial stress among households.

*Source(s):(Statistics Canada, RBC Economics)*

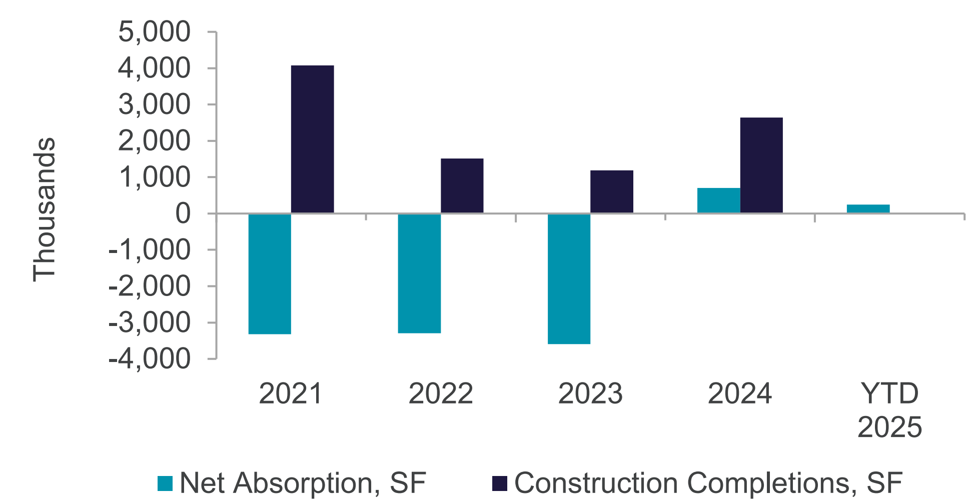
### DOWNTOWN PUSHES FORWARD WHILE SUBURBAN MOMENTUM WANES

Downtown Toronto's office market showed its strongest signs of progress in five years during the second quarter of 2025, suggesting that the weight of recent challenges may finally be starting to lift. Overall vacancy held in the 17.0% range for a fifth straight quarter, but a 60-basis-point (bps) quarter-over-quarter (QOQ) decline brought the rate back down to 17.0%—the largest quarterly drop in nearly eight years and a return to year-ago levels. While the stabilization in vacancy since early 2024 has been largely driven by a pullback in sublet space, this quarter direct vacancy fell by 60 bps QOQ to 13.9%, ending a five-year stretch of steady increases.

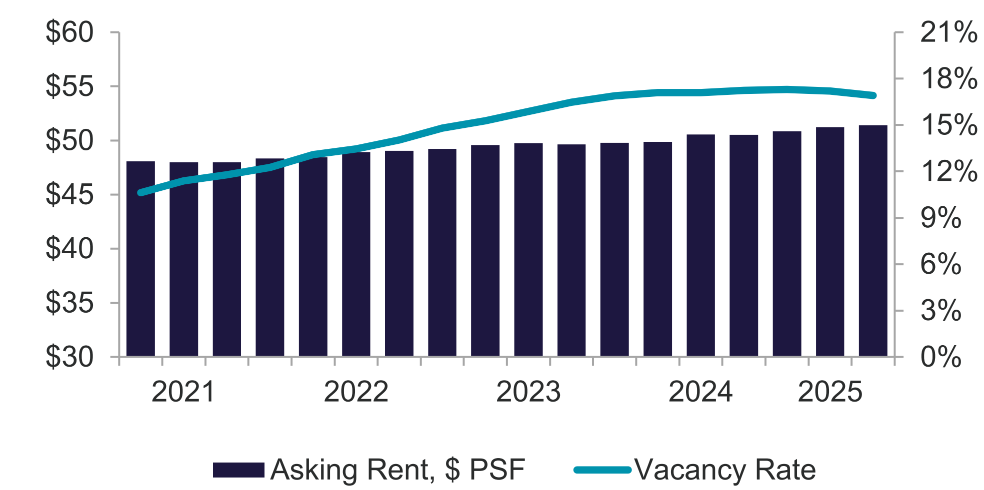
This quarter's gains were concentrated in the core downtown submarkets, where demand for centrally located space remained strong. Downtown South led the way with a 310-bps QOQ drop to 8.7%—its lowest level in two years and the sharpest quarterly decline in a decade. The Financial Core followed with a 130-bps decrease, bringing vacancy to 15.9%—a level last recorded at the end of 2023 and marking the largest quarterly dip in 28 years. In contrast, the fringe submarkets surrounding the core nodes continued to experience rising vacancy, with Downtown West being the exception, posting a modest decline.

While overall suburban vacancy trended below Downtown levels for a record sixth consecutive quarter, the five-quarter stretch of steady declines came to a pause in Q2 2025 with vacancy inching up 20-bps QOQ to 16.4% with GTA West playing a major role in this change in direction. Several newly vacant large-block options—including the 136,000- square foot (sf) full building opportunity at 5985 Explorer Drive, exerted upward pressure on vacancy pushing it up by 60-bps QOQ to 15.4%. This marked the largest quarterly increase in three years and brought the rate back in line with year-ago levels, breaking a trend of mostly uninterrupted declines since late 2022. Spurred by one of the region's five largest transactions in the past decade —a 114,000-sf lease in the Scarborough submarket, vacancy in GTA East eased back for a third straight quarter, dipping to a near two-year low of 16.1%. Meanwhile, vacancy in GTA North edged up slightly to a record-high 19.6%, continuing its upward trend.

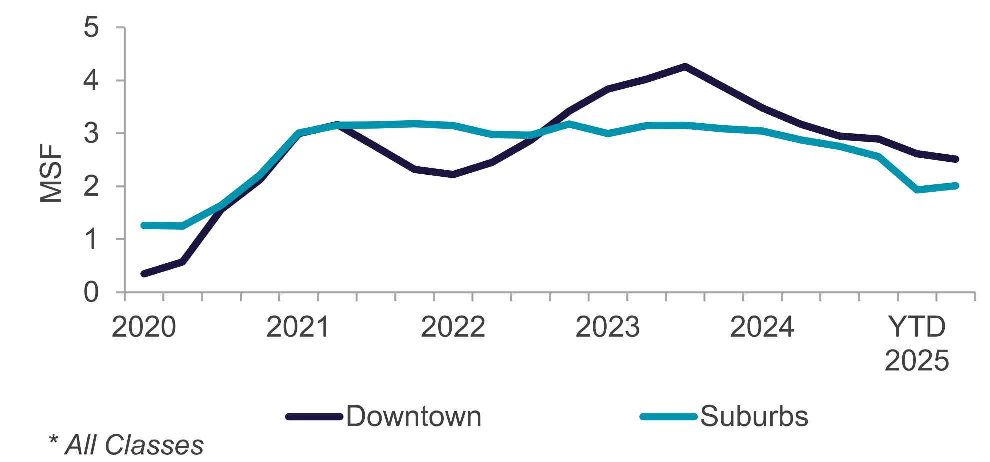
### SPACE DEMAND / DELIVERIES



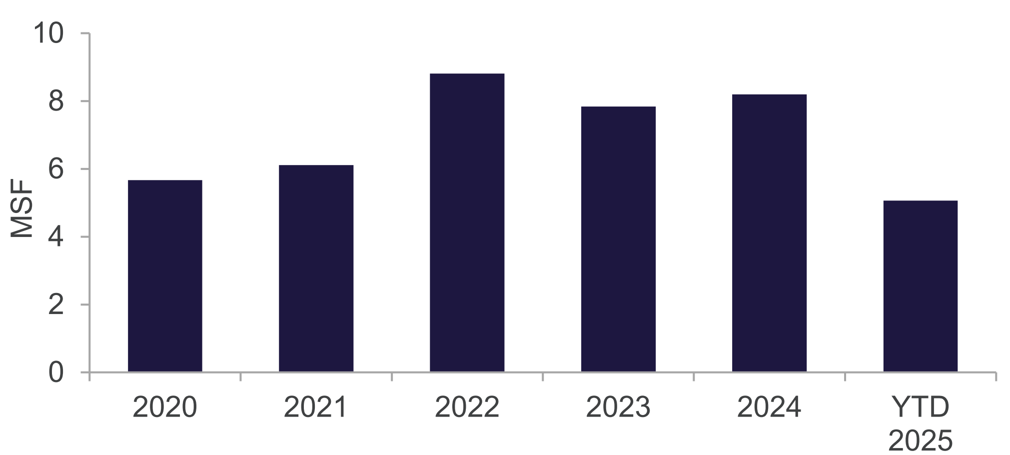

### OVERALL VACANCY & ASKING RENT



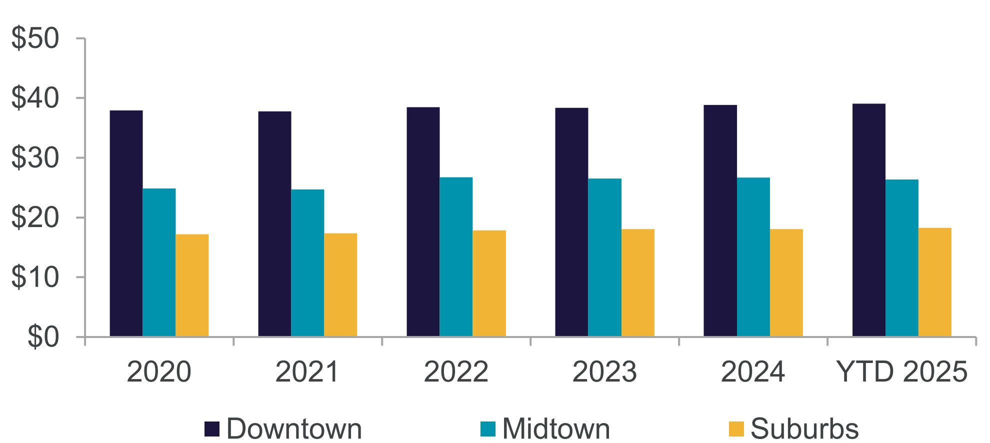
## SUBLET VACANCY: DOWNTOWN VS. SUBURBS




## NEW LEASING ACTIVITY TRENDS (GTA ALL CLASSES)




## RENT BY MARKET ($ PSF AVERAGE NET ALL CLASSES)




## SUBLET CONTRACTION ADVANCES, BUT PACE VARIES

The sublet drag on the GTA office market continued to ease in Q2 2025. Since peaking at 4.4% (8.3 msf) in Q3 2023, sublet vacancy has steadily declined, falling to 2.8% by mid-2025—a reduction of 3.0 msf. Close to 60% of that progress stemmed from the Downtown market, though the change this quarter was minimal, with the rate dipping just 10-bps. The downward trend was partly offset by a 180-bps jump in Class C sublet space, with the addition of two new sublets totaling 92,250 sf in fringe locations. Meanwhile, Class AAA and A properties registered a 30-bps improvement, bringing sublet vacancy to a three-year low of 3.3%.

Suburban sublet reductions have been more gradual by comparison. Since reaching a peak of 3.2 msf in Q4 2022, inventory has declined by 1.2 msf, but over a more extended period. GTA East posted the most consistent progress, with sublet vacancy trending downward for six straight quarters, ending Q2 2025 at a six-year low of 1.7%. In contrast, GTA West remained unchanged at 2.4% this quarter, following a sharp drop at the start of the year—one of the largest quarterly declines in the past seven years.

## DOWNTOWN AND MIDTOWN LIFT NEW LEASING TO HIGHEST LEVEL IN YEARS

Market activity took centre stage in Q2 2025, with new leasing across the GTA climbing to just over a six-year high of 3.1 msf. Downtown led the momentum, accounting for 1.6 msf, or 51.5% of total leasing. This marked the strongest quarter downtown since Q3 2018 and propelled leasing well above the pre-2020 three-year quarterly average of 1.3 msf. The quarter's performance brought year-to-date leasing to 2.4 msf, just 26.3% below the total for 2024. Midtown also had a standout quarter, anchored by the largest transaction of the period, at 2180/2200 Yonge Street which brought leasing activity to a 25-year high of 584,000 sf.

In a reversal of the trend that dominated most of the past three years—when suburban new leasing generally outpaced downtown, overall suburban activity fell sharply to a near three-year low of 897,000 sf. This widened the gap with downtown to 678,000 sf, the largest margin in at least five years. While GTA East and GTA North recorded modest gains, leasing in GTA West dropped to a near two-year low of 433,000 sf.

## CLASS B & C RENTS START TO SLIP AFTER A STEADY RUN

After five years of relative stability, rent trends are starting to falter downtown, primarily in Class B and C buildings. While the average quoted net rent has remained mostly steady, supported by incentives such as turnkey model suites and enhanced inducement packages, persistently high vacancy in these segments has started to apply downward pressure since mid-2024. Class C has recorded the most pronounced adjustment, with quoted net rent falling 5.8% since Q2 2024, while Class B has posted a more modest 3.1% year-over-year (YOY) dip. Class A buildings remain more resilient, with quoted rents rising 2.9% YOY.

Overall, suburban rent trends remained steady, continuing a five-year pattern of modest fluctuations without significant declines. Class C buildings recorded the most notable dips this year, with the average quoted net rent falling 170-bps YOY, following a 300-bps annual decline in Q1 2025.

## OUTLOOK

- Midway through 2025, momentum is building downtown. New leasing activity is nearing 2024 levels, and the move toward more in-office days by several firms is expected to spur further demand in the second half of the year. Still, with roughly 1.7 msf of space anticipated to enter the vacancy pool by year-end 2025, this incoming supply may offset gains, keeping the overall rate stable or only modestly lower.

- Suburban momentum slowed in Q2 2025, as vacancy edged higher and new leasing activity pulled back—largely reflecting market shifts in GTA West, where several large-block vacancies hit the market. The space tracked to enter the market in the second half of the year increased by 277,000 sf since Q1 2025, bringing the total close to 1.0 msf. With more supply on the horizon, the tightening pattern of the past year appears to be reversing, and vacancy is likely to remain elevated through year-end 2025.

# TORONTO
## OFFICE Q2 2025

### MARKET STATISTICS

| SUBMARKET | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CONSTRUCTION (SF) | OVERALL AVG ASKING RENT (ALL CLASSES)* | OVERALL AVG ASKING RENT (CLASS A)* |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial Core | 37,447,144 | 814,269 | 5,124,487 | 15.9% | 502,733 | 506,035 | 1,768,329 | 0 | $73.54 | $76.35 |
| Downtown Fringe | 43,480,230 | 1,696,216 | 6,117,716 | 18.0% | -6,713 | -127,979 | 640,294 | 1,575,512 | $60.24 | $64.53 |
| DOWNTOWN TOTALS | 80,927,374 | 2,510,485 | 11,242,203 | 17.0% | 496,020 | 378,056 | 2,408,623 | 1,575,512 | $67.83 | $71.90 |
| Midtown | 17,214,769 | 776,028 | 2,614,684 | 19.7% | 195,137 | 44,954 | 726,556 | 0 | $51.63 | $53.89 |
| CBD TOTALS | 98,142,143 | 3,286,513 | 13,856,887 | 17.5% | 691,157 | 423,010 | 3,135,179 | 1,575,512 | $64.99 | $69.72 |
| GTA East | 31,380,320 | 529,079 | 4,530,247 | 16.1% | 111,515 | 128,561 | 548,123 | 0 | $34.70 | $36.21 |
| GTA North | 15,154,004 | 441,408 | 2,524,652 | 19.6% | -80,502 | -208,495 | 251,637 | 175,000 | $41.01 | $41.02 |
| GTA West | 42,948,214 | 1,042,894 | 5,585,981 | 15.4% | -244,412 | -98,069 | 1,128,336 | 27,061 | $36.21 | $37.61 |
| SUBURBAN AREA TOTALS | 89,482,538 | 2,013,381 | 12,640,880 | 16.4% | -213,399 | -178,003 | 1,928,096 | 202,061 | $36.49 | $37.99 |
| **GTA TOTALS** | **187,624,681** | **5,299,894** | **26,497,767** | **16.9%** | **477,758** | **245,007** | **5,063,275** | **1,777,573** | **$51.40** | **$55.91** |

*Rental rates reflect full service asking*

### KEY LEASE TRANSACTIONS Q2 2025

| PROPERTY | SUBMARKET | TENANT | SF | TYPE* |
|---|---|---|---|---|
| 2180/2200 Yonge Street | Eglinton & Yonge | Canadian Tire | 554,000 | New Lease/Extension |
| 25 York Street | Downtown South | Nasdaq Canada Inc. | 42,400 | Renewal/Expansion |
| 60 Bloor Street West | Bloor & Yonge | Holt Renfrew | 56,000 | Renewal |
| 1176 Eglinton Avenue East | Don Mills & Eglinton | CentreCorp North American Development Group | 32,400 | Sublease |

*Renewals not included in leasing statistics*

### KEY SALES TRANSACTIONS Q2 2025

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE / $ PSF |
|---|---|---|---|---|
| 1375 North Service Road East | Oakville | Enticor Properties Inc. / Carttera | 109,106 | $31.13M / $285 |
| 1122 International Boulevard | Burlington | Crown Realty partners / Fengate Real Estate | 134,461 | $27.5M / $205 |
| 1111 International Boulevard | Burlington | Crown Realty partners / Fengate Real Estate | 134,101 | $23.5M / $175 |
| 1189 Colonel Sam Drive | Oshawa | OPG / HREIT Holdings 31 Corporation | 103,179 | $16.45M / $159 |
| 399 Church Street | Toronto | Guru Studio / Esbin Property Management | 27,700 | $12.55M / $453 |

### KEY CONSTRUCTION COMPLETIONS YTD 2025

| PROPERTY | SUBMARKET | MAJOR TENANT | SF | OWNER/DEVELOPER |
|---|---|---|---|---|
| No New Completions | | | | |

**JUANA ROSS**
*Research Director*
Tel: +1 416 359 2621
juana.ross@cushwake.com

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