Southwestern Ontario Office Insight

Q1 2024

Positive absorption recorded across all nodes, pushing vacancy down from previous quarter.

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- Positive absorption experienced across all markets, totaling 185,844 sf for Southwestern Ontario this quarter.
- Slight increase in sublease availability this quarter to 459,623 sf, of which 350,934 sf is in Waterloo.
- Leasing activity greatest in 10,000 s.f. and under segment with move-in ready conditions.

2024 has kicked off with positive momentum in the Southwestern Ontario office market. Elevated leasing volumes and strong tour activity reflect tenants' growing confidence in making real estate decisions. Average direct asking rents across Southwestern Ontario decreased by $0.20 to $16.54 psf, while additional rents were up $0.22 to $16.88 psf. Availability increased by 40 basis points to 15.4%, while vacancy decreased by 80 basis points to 13.6% as leases negotiated in 2023 come to fruition.

All submarkets saw positive absorption in Q1, totaling 185,844 s.f. across the region. Guelph and Kitchener were the largest contributors, recording 66,649 s.f. and 66,007 s.f. of positive absorption, respectively. Core nodes in Kitchener, Waterloo and Cambridge add up to 98,785 s.f. of positive absorption in the first quarter.

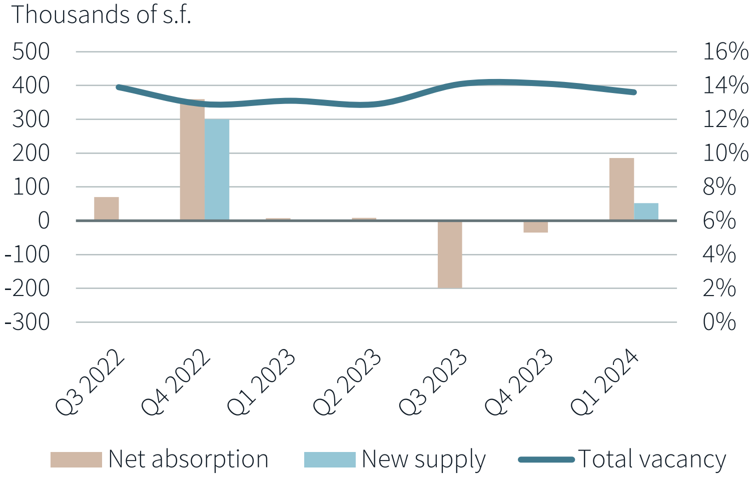
Leasing activity continues to be strongest in fully turnkey spaces and suites under 10,000 s.f. There was good activity across all submarkets, suggesting a bifurcation in tenants' priorities between cost control, employee experience, parking, and access to amenities. Sublease availability increased slightly this quarter to 459,623 s.f., representing 16.2% of all availabilities. Notably, while Kitchener leads all submarkets in total vacancy at 18.3%, a significant portion of sublease availability in the region - 350,934 s.f. - is concentrated in the Waterloo submarket.

Outlook

The outlook for 2024 is positive given the likelihood of improved economic performance and interest rate cuts, however, impacts on the market will be subtle. Asking rents for quality space will be stable, however landlords may need to offer greater incentives to compete with increasing turnkey sublease availability, particularly in larger format spaces.

Fundamentals		Forecast
YTD net absorption (s.f.)	185,844	▶
Quarterly net absorption (s.f.)	185,844	▼
Total availability rate (%)	15.4%	▲
Total vacancy rate (%)	13.6%	▲
Class A direct asking rent (p.s.f.)	$21.45	▶
Overall direct asking rent (p.s.f.)	$16.54	▼
Sublease availability (s.f.)	459,623	▲
Under construction (s.f.)	291,892	▼

Historical supply and demand



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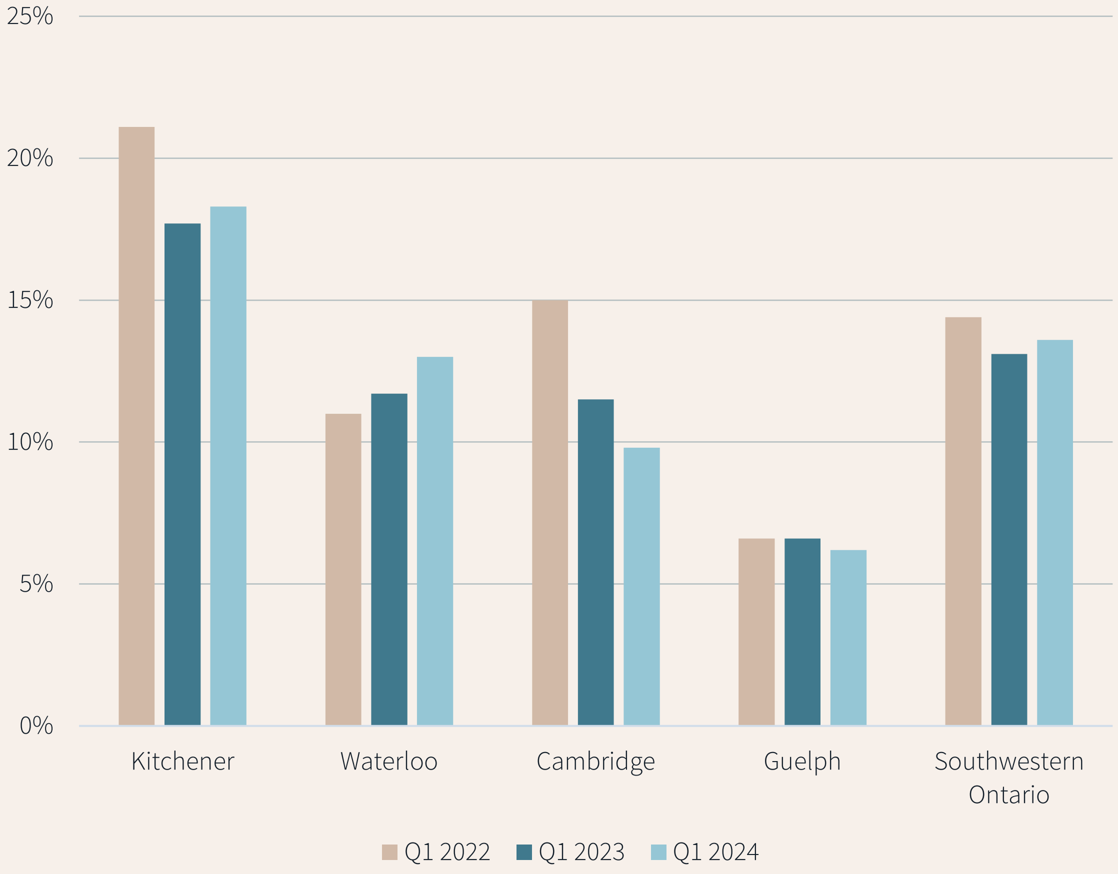
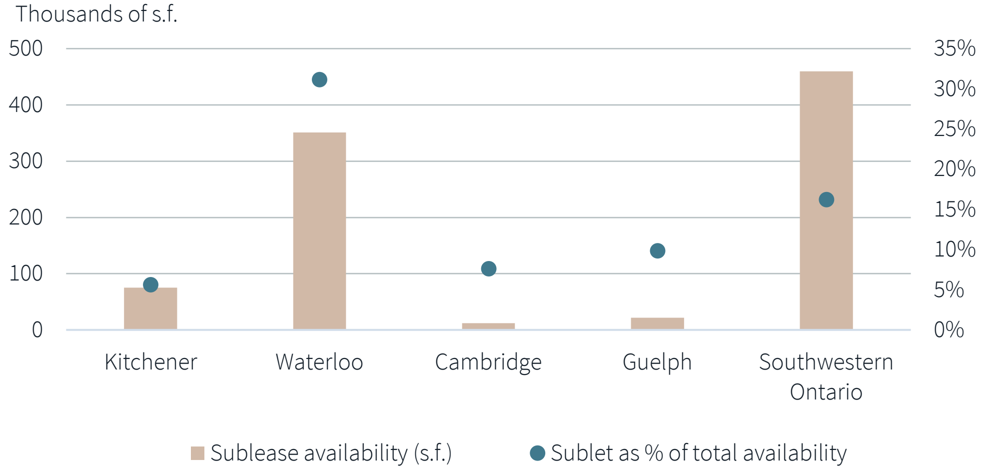
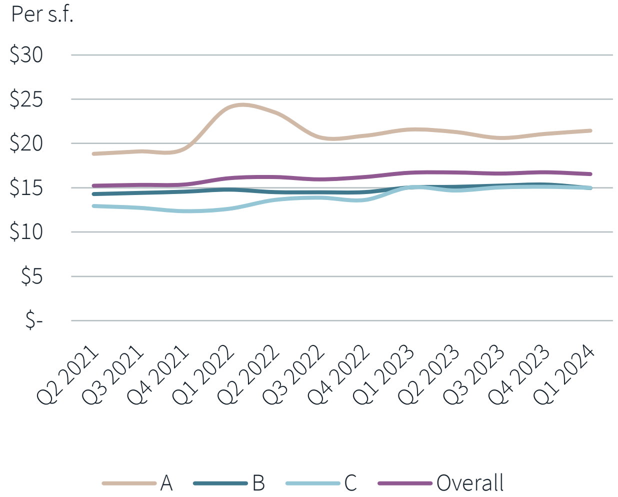
Total vacancy rate by submarket cluster



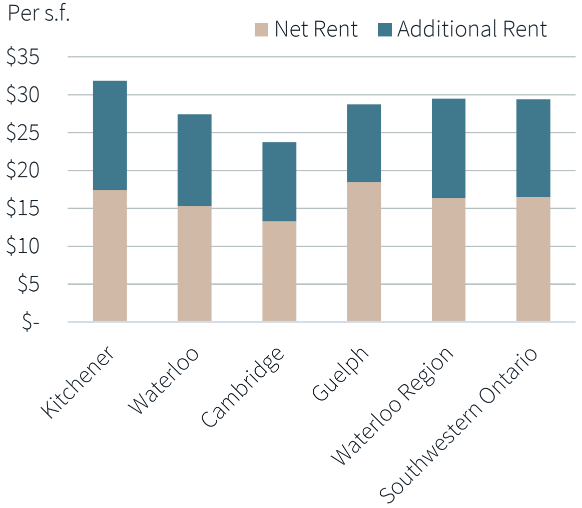
Sublease availability by district



Average net asking rents



Occupancy costs by submarket cluster



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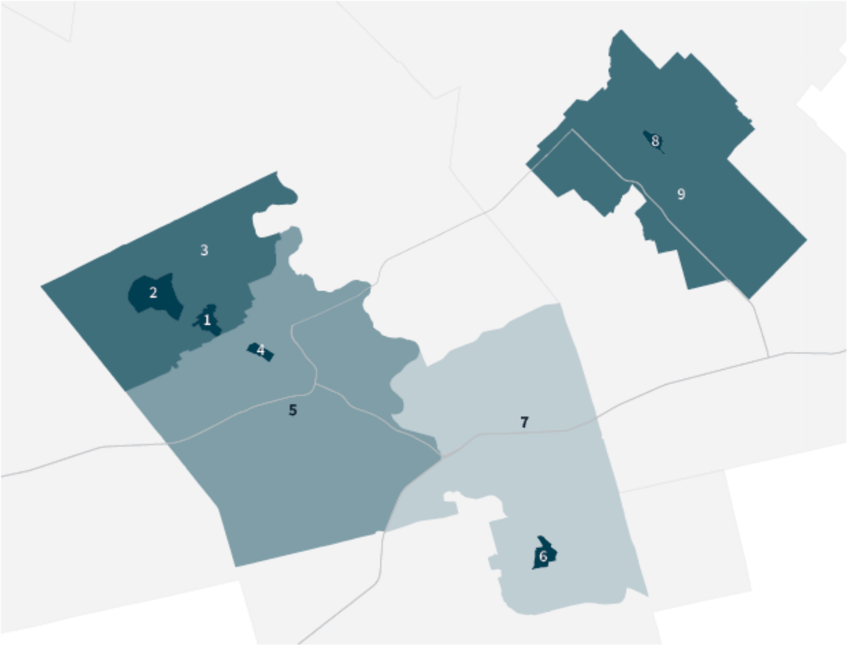
Notable lease transactions

Address	Submarket	Class	Size (s.f.)	Type
546 Governors Rd.	Suburban Guelph	B	20,164	New Lease
58 Grand Avenue S.	Downtown Cambridge	A	6,677	New Lease
255 King Street N.	Suburban Waterloo	B	6,000	New Lease
848 Gordon St.	Suburban Guelph	B	5,970	New Lease
540 Bingemans Centre Dr.	Suburban Kitchener	B	5,422	New Lease
4273 King Street E.	Suburban Kitchener	B	4,932	New Lease
73 Water Street N.	Downtown Cambridge	B	4,296	New Lease
165 King Street N.	Downtown Kitchener	B	4,108	New Lease
420 Wes Graham Way	University	B	3,900	New Lease

Notable sale transactions

Building	Price ($M)	RBA (s.f.)	Price (p.s.f.)	Buyer(s)	Seller(s)
485 Pinebush Rd., Cambridge	$14.0	49,692	$282	Mai Properties I Inc.	Bonnie T Developments Inc.
475 Park St., Kitchener	$1.8	5,074	$358	Dew Ontario Ltd.	Private
124 Sydney Street S., Kitchener	$1.4	9,500	$145	N & A Postma Holdings Inc.	BACU Local 12 Building Corp.

Market map



Waterloo	
1	Uptown
2	University
3	Suburban Waterloo
Kitchener	
4	Downtown Kitchener
5	Suburban Kitchener
Cambridge	
6	Downtown Cambridge
7	Suburban Cambridge
Guelph	
8	Downtown Guelph
9	Suburban Guelph

Key metrics

	Vacancy rate	Quarterly net absorption (s.f.)	Under construction (s.f.)	Avg. net asking rent (p.s.f. per annum)
Kitchener	18.3%	66.0K	35K	$17.44
Waterloo	13.0%	20.5K	0	$15.30
Cambridge	9.8%	32.7K	30.9K	$13.28
Guelph	6.2%	66.6K	226.0K	$18.48
Overall	13.6%	185.8K	291.9K	$16.54

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Market statistics

	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Sublease availability (s.f.)	Direct vacancy (%)	Total vacancy (%)	Total availability (%)	Average direct asking net rent ($ p.s.f.)	Average additional rent ($ p.s.f.)	Average direct asking gross rent ($ p.s.f.)	YTD Completions (s.f.)	Under development (s.f.)
Downtown Cambridge	365,952	28,294	28,294	7.7%	0	4.6%	4.6%	12.4%	$10.92	$11.32	$22.24	0	0
Suburban Cambridge	1,220,439	4,409	4,409	0.4%	11,926	10.4%	11.4%	9.1%	$13.80	$10.33	$24.13	0	30,892
Cambridge	1,586,391	32,703	32,703	2.1%	11,926	9.1%	9.8%	9.9%	$13.28	$10.49	$23.77	0	30,892
Downtown Guelph	551,608	-5,181	-5,181	-0.9%	2,550	10.8%	10.8%	12.7%	$18.58	$10.73	$29.31	0	0
Suburban Guelph	2,276,587	71,830	71,830	3.2%	19,202	4.9%	5.0%	6.6%	$18.42	$10.02	$28.44	52,000	226,000
Guelph	2,828,195	66,649	66,649	2.4%	21,752	6.0%	6.2%	7.8%	$18.48	$10.27	$28.75	52,000	226,000
Downtown Kitchener	4,378,116	38,735	38,735	0.9%	64,036	23.6%	24.4%	24.2%	$17.66	$15.01	$32.67	0	0
Suburban Kitchener	2,188,398	27,272	27,272	1.2%	10,975	6.1%	6.3%	12.5%	$16.23	$11.04	$27.28	0	35,000
Kitchener	6,566,514	66,007	66,007	1.0%	75,011	17.8%	18.3%	20.3%	$17.44	$14.41	$31.85	0	35,000
University	2,129,845	-7,183	-7,183	-0.3%	50,468	18.2%	19.0%	22.5%	$15.28	$11.40	$26.67	0	0
Uptown	1,821,167	31,756	31,756	1.7%	227,407	7.2%	19.7%	14.6%	$19.11	$14.49	$33.60	0	0
Suburban Waterloo	3,449,116	-4,088	-4,088	-0.1%	73,059	5.1%	5.8%	11.0%	$14.68	$11.11	$25.79	0	0
Waterloo	7,400,128	20,485	20,485	0.3%	350,934	9.4%	13.0%	15.2%	$15.30	$12.12	$27.43	0	0
Southwestern Ontario	18,381,228	185,844	185,844	1.0%	459,623	11.9%	13.6%	15.4%	$16.54	$12.88	$29.42	52,000	291,892

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