Resident

Office Market Demand Analysis

705 Kingston Road
Pickering, Ontario

October 2024

nblc
N. Barry Lyon Consultants Ltd.

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Executive Summary

N. Barry Lyon Consultants Limited (NBLC) has been retained by Resident to assess the market demand for office use as part of a mixed-use redevelopment of the property municipally known as 705 Kingston Road, Pickering, Ontario (the "subject site"). The subject site is located near the intersection of Whites Road and Kingston Road, approximately 200 metres from the Whites Road Highway 401 on- and off-ramps.

The proposed redevelopment would significantly intensify use of the subject site by replacing two freestanding retail properties and surface parking with a multi-phased, mixed-use residential project. The proposed project includes five residential towers, ranging from 28- to 35-storeys, designed to accommodate 1,748 condominium apartment units, private amenity space, and 42,199 square feet (sf) of retail and service commercial floor area. No other non-residential commercial uses, such as office, are contemplated.

Our report concludes that there is no market justification for including office at the subject site as part of the proposed development. The following summarizes our key findings and conclusions:

- **Decline in Office Demand:** Demand for office space in the GTA has declined dramatically since 2020, coinciding with the onset of the COVID-19 pandemic (the "Pandemic"). These weaker office market conditions have persisted well beyond the Pandemic and the lifting of work-from-home mandates, indicating a structural shift as companies reduce their office footprints in favor of permanent work-from-home and hybrid models. This reduced demand for office space per worker generally slows the absorption of existing office space, resulting in an oversupply issue, a tenant-driven market, and downward pressure on rents that are likely to persist for at least the next decade and potentially beyond.
- **Elevated Vacancy Rates:** The above office demand conditions are evidenced by elevated vacancy and sublet availability levels across the GTA (~17% vacancy, 20% sublet availability), with similar levels observed within the GTA East submarket, as of Q3 2024, where the subject site is located (~17% vacancy, 17% sublet availability).
- **Inferior Office Location Attributes**: Even prior to the Pandemic, GTA office demand was concentrated in Downtown Toronto due to agglomeration economics, walkable access to retail and lifestyle amenities, and proximity to multiple high-order transit options and highways. These location attributes summarize the fundamental preferences of most prospective tenants (employers/employees) and, therefore, office developers, which typically align and have remained consistent despite shifting real estate, financial and economic markets. Office locations that meet a broader range of these tenant preferences are likely to remain in relatively high demand, achieve higher rents, and support the viability of high-density office or mixed-

use projects with significant office components over other locations that do not. These favorable office location attributes are not present in the Kingston Road and Whites Road area.

The subject site is at a significant disadvantage within the wider GTA office market and even the local office market. New commercial space in the area would need to offer low rents and affordable parking to compete against an increasing supply of existing and new space in more centralized GTA locations. Even with the future improvements to the Bus Rapid Transit (BRT), along Kingston Road, the site is unlikely to attract office tenants given a lack of local amenities and relatively low transit service levels. In Durham, for example, transit supportive (GO rail) locations, such as Pickering City Centre, are more likely to attract office demand, relative to the subject site – this, however, even assumes the local office market returns to balanced supply / demand conditions first.

- **Competitive Rents and Viability**: New commercial space in the local area would need to offer low rents and affordable (above grade and free) parking solutions to compete against an increasing supply of office space in more centralized and attractive office locations.
- **Stagnant Rental Rates:** As a result of a tenant driven market, rental rates have remained low and growth has been flat since the onset of the Pandemic. This is despite rising construction costs and inflation, and before accounting for incentives. Local market rents around the subject site are particularly low, averaging around $16.47 per square foot (psf) net per year, compared to the GTA average of $27.04 psf— both below the levels typically required to support the viable construction of new office space.
- **Oversupply Persisting**: It is unlikely that supply and demand conditions will balance for many years. This is because there is a significant supply of new office space still coming to the GTA market through projects already under construction or planned prior to the Pandemic. This includes some supply in the GTA East submarket and the more localized Durham Region office corridor.

  The Durham Region office corridor will see the introduction of new office supply within mixed-use projects nearing completion or still in planning stages. Some of these projects were proposed during a period when GTA office market conditions were favorable. As of October 2024, however, three out of four projects with proposed office space have revised applications that seek to reduce the amount of space dedicated to office use, suggesting concerns about potential oversaturation in the local market. Furthermore, these future mixed-use projects have not yet begun marketing or pre-leasing. As such, the inclusion of office space does not necessarily indicate market demand but may instead reflect policy direction within local official plans.

Overall, we note that an oversupply of office space, coupled with downward pressure on rents, does not support economics of development. It may also undermine the municipality's planned urban structure that directs new office to transit-supportive locations, like Pickering City Centre.

Given the above observations, it is anticipated that demand for non-residential uses at the subject site will and should be limited to the amount required to support population growth within the immediate area. This generally corresponds to the amount of non-residential space being proposed as part of the redevelopment.

The proposed development could still accommodate service commercial uses, such as population-related medical and real estate offices, which often gravitate to planned retail locations. These types of commercial service uses typically need ground-floor visibility and good access in order to be marketable, making them suitable within mixed use residential projects like proposed at the subject site.

1.0 Introduction

N. Barry Lyon Consultants Limited (NBLC) has been retained by Resident to provide an office demand analysis regarding the redevelopment of a property municipally known as 705 Kingston Road in Pickering, Ontario and located at the southeast corner of Kingston Road and Whites Road (the "subject site").

As shown in **Figure 1,** the subject site is currently improved with two freestanding commercial retail buildings, both completed in 1988. These buildings are collectively referred to as Whites Road Shopping Centre. Whites Road Shopping Centre is comprised of a total rentable building area (RBA) of 66,700 square feet (sf). The remainder of the subject site is utilized for surface parking in association with these retail uses.

Figure 1: The Subject Site Location

Source: N. Barry Lyon Consultants Limited; Google Earth.

Figure 2: 705 Kingston Road Retail Properties (Whites Road Shopping Centre)

Source: Google Earth; Costar; N. Barry Lyon Consultants Limited.

1.1 Proposed Development

The proposed redevelopment would significantly intensify use of the subject site by replacing the existing retail buildings with a multi-phased mixed-use residential project (see **Figure 3**, on the following page). The proposed redevelopment includes five residential towers, ranging from 28- to 35-storey residential towers, across two phases of development. Collectively, the proposed project is planned to accommodate 1,748 condominium apartment units and about 1.25 million sf of residential GFA. An additional 42,199 sf of retail and service commercial floor area is also planned. The retail use is to be integrated within the ground and upper floors of the podium within the first phase of development. No other non-residential commercial uses are contemplated.

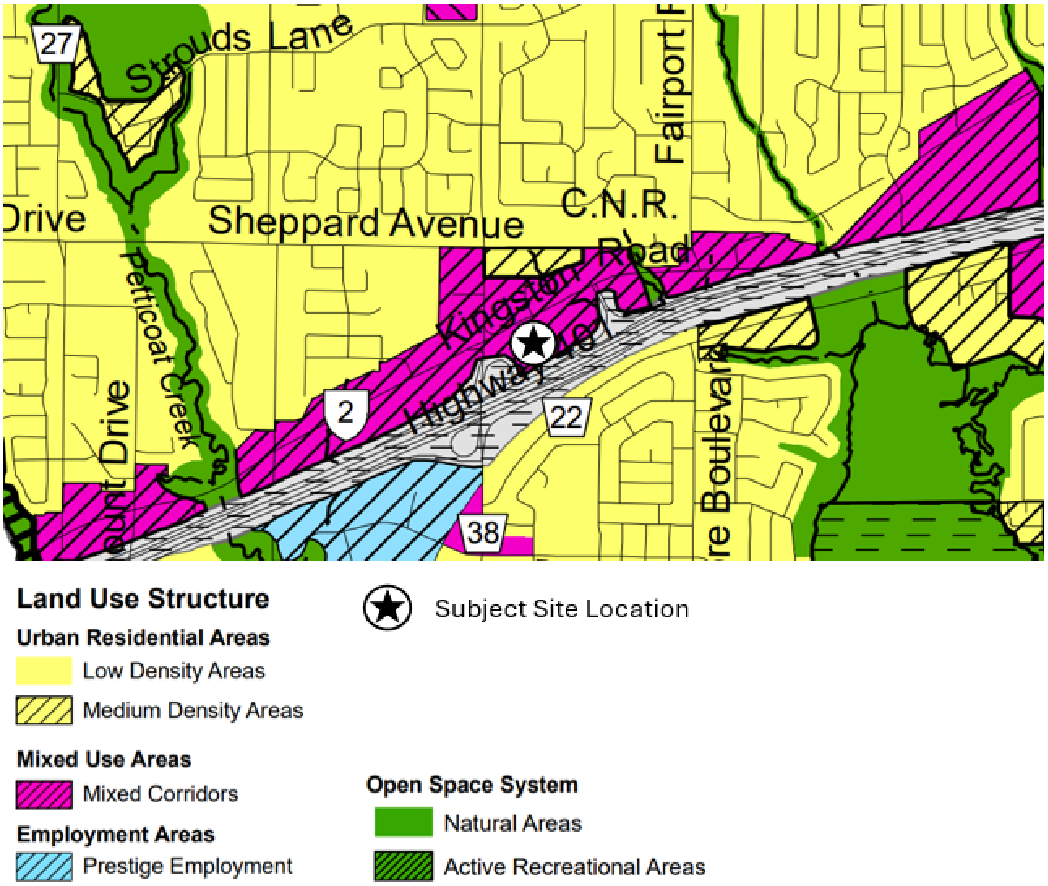
1.2 Background Context

Development of the subject site is currently subject to the policies of the 1993 Pickering Official Plan, as amended (the "Official Plan"), which was last updated by Durham Region (the "Region") in March 2022 through Official Plan Amendment 40 (OPA 40). The subject site is designated "*Mixed Use Areas*" and more specifically, "*Mixed Corridors*" on Schedule I of the Official Plan (see **Figure 4**, on Page 4) as well as being within the "*Kingston Mixed Corridor Intensification Area*" on Map 16: Neighbourhood 6: Woodlands (see **Figure 5**, to follow).

Figure 3: Proposed Redevelopment Site Plan

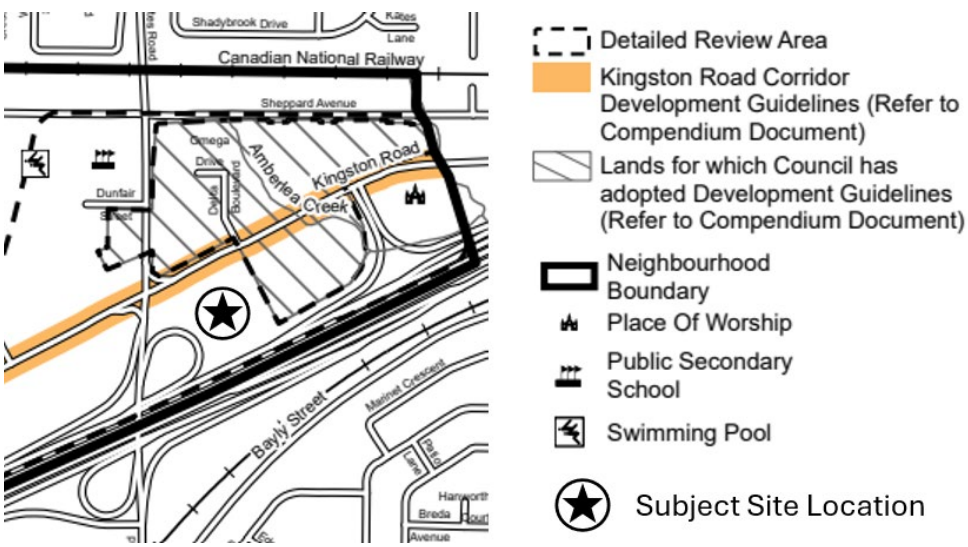
Source: BDP Quadrangle Architects Limited, October 2024.

Figure 4: Excerpt of Schedule I - Land Use Structure



Source: City of Pickering. City of Pickering Official Plan, Approved March 2022.

Figure 5: Excerpt of Map 16 – Neighbourhoods: Woodlands



Source: City of Pickering. City of Pickering Official Plan, Approved March 2022.

As of a statutory public meeting held in of May 2024, a comprehensive review of the Official Plan is underway. However, the City is early in the engagement process as part of this review and draft policies are not to be formulated and released for comment until early to mid-2025.

Policy 3.6, of the in-force and -effect Official Plan, stipulates that "*Mixed Use Areas*" are areas and corridors that are to have the highest concentration of activity in the City, permitting the widest variety of uses for residents, business-people and visitors, including residential, retail, commercial, business, office, service, recreational, community, and cultural uses.

1.2.1 Official Plan Amendment No. 38

Official Plan policies applicable to the "*Kingston Mixed Corridor Intensification Area*" were amended by Official Plan Amendment No. 38 (OPA 38) which was adopted by the Region on November 4th, 2022. However, OPA 38 is under appeal at the Ontario Land Tribunal (OLT). While not yet in force and effect, OPA 38 is used by City staff to review and comment on development applications. As illustrated in **Figure 6**, below, the subject site is identified on Schedule B (Sheet 2 of 4 for the Whites Precinct) of OPA 38 as "Mixed Use Type A".

Figure 6: Excerpt of Schedule B of OPA No. 38 - Schedule XIV: Kingston Mixed corridor and Brock Mixed Node Intensification Areas

Source: City of Pickering. Office Consolidation of the 1993 City of Pickering Official Plan, Approved November 2022.

Relevant policy direction includes:

- Policy 11A.4(b) which requires that development within the Whites Precinct is to be … "*promoted as a vibrant employment and retail hub; accordingly, the development of Major Office uses is encouraged, particularly in proximity to the intersection of Kingston Road and Whites Road*."
- Major Office means freestanding office buildings of approximate 4,000 square metres (or 43,056 sf) of floor space or greater, or with approximately 200 jobs or more.
- The intersection identified as the preferred location for Major Office is generally indicated by a "Gateway" overlay on Schedule B. This would include the subject site, as well as the other three properties at this intersection.

OPA 38 further directs that in "*Mixed Use Areas A"*:

- the *"protection for future office space may be met through demonstrating phasing and/or including building types that can be easily converted to office uses over time"* (Policy 11A.9.2(b)(iii))*;* and,
- *"in addition to the complete applications requirements in Section 16 of [the Official Plan], council may require the submission of an office demand study, where Major Office uses are not being proposed at major gateway locations"* (Policy 11A.9.2(b) (iv).

1.3 Purpose of the Report

Major Office is not included within the proposed redevelopment of the subject site. This report is being prepared as part of a complete application requirement on the basis of Policy 11A.4(b) of OPA 38, which encourages but does not require Major Office at locations like the subject site. More specifically, this office demand analysis is being carried out to explore the merits of including office uses in the proposed development considering existing and anticipated market conditions, including significant challenges and structural shifts in the office markets since the Pandemic to further satisfy Policy 11A(b)(iv) of OPA 38.

2.0 Subject Site and Surrounding Context

To understand the potential demand for office uses, the subject site's location and surrounding context is evaluated.

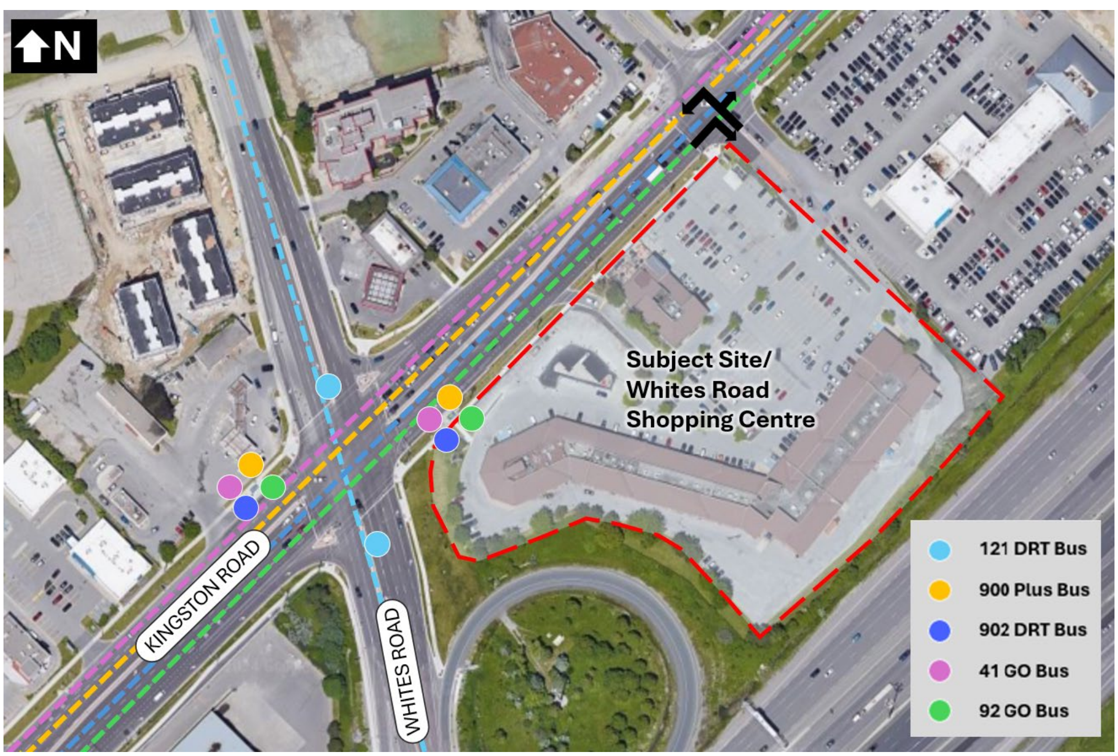
2.1 The Subject Site Context

The subject site is a large, irregularly shaped lot with a total area of approximately 6.8 acres.

Future vehicular access to the subject site would be provided from a signalized intersection at Delta Boulevard and Kingston Road – or rather, the northeast corner of the subject site. From here, future occupants of the subject site would benefit from being a two-minute drive from the existing Highway 401 interchange at Whites Road. This highway proximity is offset by congestion during rush hour, which often reduces accessibility to and from the area.

While the subject site does not benefit from rapid transit (e.g., light-rail, rail or subway service), local workers could benefit from three local and two regional bus routes, operated by Durham Region Transit ('DRT') and Metrolinx, respectively. Bus routes that travel along Kingston Road will have a dedicated right-of-way in the future, providing riders with more reliable and frequent BRT service across Durham Region.

Figure 7: Subject Site Access and Nearby Bus Stops and Routes



Source: N. Barry Lyon Consultants Limited.

- The 121 DRT bus route travels north/south along Whites Road. During peak morning and evening hours this route has a frequency of 30 minutes, looping to/from Pickering GO Station. This route is intended to provide a 'last mile' connection for commuters accessing this station. By transit, the site is approximately a 20-minute journey from Pickering GO station. From Pickering GO Station, transit riders are just over 40 minutes to Union Station plus jobs and amenities in Downtown Toronto.
- The 900 Pulse DRT runs east/west on Kingston Road and has a bus stop at the northwest corner of the subject site. This route offers travel between Centennial College – Morningside Campus, in Scarborough, to Downtown Oshawa. During peak weekday hours the bus has a headway time of 10 minutes.
- The 902 DRT route similarly runs east/west along Kingston Road and has a 15-minute headway time connecting Scarborough Town Centre to Harmony GO Bus Terminal in North Oshawa.
- The 41 GO regional bus runs less frequently but travels across the GTA from Hamilton GO Centre to Pickering GO Station. This route operates every 25 to 45 minutes.
- The 92 GO regional bus runs along Highway 401 and Kingston Road, from the Yorkdale Bus Terminal to Durham College and the Downtown Oshawa GO station. This cross-GTA route operates even less frequently with headway times of 60 to 90 minutes.

2.2 The Surrounding Context

The local area is predominantly characterized by grade-related retail uses accessed by car. For example, as of October 2024, 68% of the commercial properties within a 500-metre radius of the subject site were occupied by retail uses, excluding auto dealerships. Demand indicators during this same period suggest the local retail market is healthy given low (1.7%) availability.

There is only one office property within this radius, located at 720 Sheppard Avenue, which includes about 10,000 sf of RBA. This office property is a multi-tenant medical office building. Demand for this and other medical office properties is driven by population growth, as compared to demand for other multi- or single-tenant office buildings that attract a variety of professional services for different reasons. In this case, the medical office would be attractive for tenants given proximity to the Woodlands and Amberlea Neighbourhoods and low net rent of $15 psf, per year.

While the area is also characterized by some low to medium density residential uses, there are some signs of medium-density residential investment in the area, including two new stacked townhouse projects – one recently complete, called *Market District Towns*, and one under-construction, called *Central District Towns*. This is in addition to development applications proposing high-density residential uses within the local area, including at the subject site.

Figure 8: 734 Kingston Road - Nearby Strip Centre Retail (Left), Market District Towns – New Residential (Right) and 702 Sheppard Avenue Medical Office (Bottom)

Source: Costar.

The following is a more detailed description of the uses and emerging context that surrounds the subject site.

- **North**: To the north of the subject site and on the north side of Kingston Road, there are multiple retail plazas occupied by a mix of restaurants, gas bars, personal services, and convenience stores, etc.

  Just north of these shopping plazas is Sarah McDonald's Place, a housing cooperative apartment building added to the area in 1995.

  Northeast of the subject site is the new townhouse development – *Central District Towns* which is comprised of 88 stacked townhouse units and scheduled for completion in late 2024.

  Northwest of the subject site is another retail plaza, known as Steeple Hill Shopping Centre.
- **East**: To the immediate east of the subject site there is a Chevrolet car dealership, connected to an auto repair shop. Further east is a Hyundai car dealership and Amberlea Creek.
- **South**: To the immediate south of the subject site is Highway 401, including the northbound on ramp cloverleaf from Whites Road.
- **West**: To the immediate west of the subject site is Whites Road, followed by more strip and pad retail properties spanning to Rosebank Road. This retail area is comprised of commercial properties municipally known as at 603-699 Kingston Road.

Figure 9: Building Use Type, 500 metres from Subject Site

Source: Marketing materials; Urban Toronto; Costar; Altus Data Studio; N.Barry Lyon Consultants Limited.

A mixed-use OPA and Zoning Amendment application at 603-699 Kingston Road, west of the subject site, was initially submitted early-on in the Pandemic in June 2020 and included 47,900 sf of office space. However, as of October 2023, the proposal had been revised to reduce the proposed office space to 37,000 sf and increase the retail component from 24,000 sf to 27,000 sf. These commercial uses are proposed to be spread over 12 blocks of development that include a predominance of, mostly apartments, but also some townhouse blocks. The retail space is to be integrated within the base of proposed apartment buildings fronting onto Kingston Road, with the office to be located at the Whites Road and Kingston Road intersection. This application has not advanced since the resubmission in 2023 and staff have not made any recommendations to the application.

At the time of writing, we are not aware of any marketing plans for the office use. As such, its inclusion is not an indication of office demand in the local area. Furthermore, it is unclear whether the development of residential uses is tied to the construction of office uses.

2.3 Regional Commercial Real Estate Market Context

The following is a summary of economic conditions and commercial real estate investment activity in the region to help understand potential drivers of employment and the nature of commercial real estate investment, including office.

2.3.1 Economic Conditions

As of 2023, there were about 210,000 jobs in Durham Region and about 12,700 active businesses. This is up 16,400 jobs, or 8.5%, over the last decade.

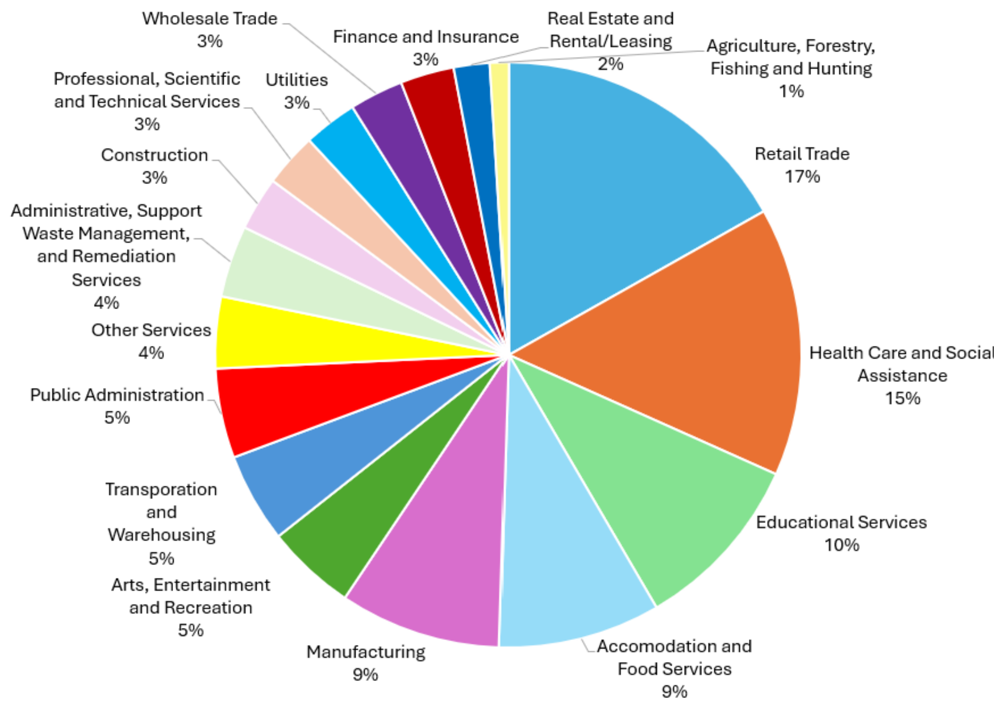
Healthy economic conditions are primarily driven by a strong manufacturing sector. Like many other municipalities, the largest employment sectors by job count includes retail trade (17%), health care and social assistance (15%), educational services (10%), accommodation and food services (9%), and manufacturing (9%) (see **Figure 10**, on the following page). Sectors that typically generate a need for office space (e.g., Public Administration, Professional, Scientific and Technical Services, and Finance and Insurance), collectively, make up about 11% of jobs. By comparison, office-based sectors in more northerly GTA municipalities, like Markham or Vaughan, typically make up over 30% of the total jobs. As discussed later in this report, these other GTA municipalities tend to have more demand and need for office space.

2.3.2 Commercial Real Estate Investment

The strength of region's industrial market, relative to office, is apparent when looking at recent commercial real estate investment activity.

- In 2022, for example, Kubota Canada unveiled the company's new corporate headquarters in Pickering. The property is comprised of 500,000 sf of industrial warehouse space and an additional 65,000 sf of office space. The company invested $80 million into this facility and added 200 jobs to the local market. The company hopes to kick start and attract new industrial and commercial investment to this area – referred to as the Innovation Corridor (**Figure 12**).

Figure 10: Employment Percentage by Sector



Source: Durham Region, Planning and Economic Development Department; 2023 Business Count Highlights

Figure 11: Kubota Canada Headquarters, Pickering, ON

Source: Google Images.

- The Innovation Corridor is located along the Highway 7 and Highway 407 within central Pickering as part of the government-led master planned Seaton Community. The Seaton employment lands were owned by the Ministry of Infrastructure (‘MOI’), encompassing over 800 acres of prestige employment lands.

  In recent years, the MOI released these lands to the market with a view to attract as many as 35,000 jobs by full build-out. This area offers immediate access to Highway 407 and the largest supply of remaining greenfield lands in the GTA which presents a unique opportunity for business to invest and expand in the area, as part of a master planned research and innovation centre.

Figure 12: Pickering Innovation Corridor, November 2021

Source: City of Pickering; N. Barry Lyon Consultants Limited.

Figure 13: Future Wonderbrands Innovation Business Park, Pickering, ON

Source: Google Images.

- In Spring of 2023, well-known food manufacturer, FGF Brands, announced the future opening of Wonderbrands Innovation Business Park ('WIBP') within the Innovation Corridor. The WIBP will be home to a food manufacturing campus (see **Figure 13**, above), which once complete in approximately ten years, will be 1.2 million sf in size. The first phase of the project will create 1,000 jobs with the full build-out creating a total of 4,000 jobs.
- Aside from significant manufacturing, warehousing and distribution-type development, the City of Pickering is expected to experience rapid growth in high-density residential market in the next ten years as Centre Court and other developers in the area begin development around Pickering City Centre. The Centre Court master plan, alone, is to include 6,000 new residential units across ten new high-rise towers and 18,000 sf of retail at street-level within Phase 1. The master plan is also to include a total of 130,000 sf of office space. Pickering City Centre and the CentreCourt project is about 14 kilometres, or a 10-minute drive from the subject site. By comparison to the subject site, this location benefits from a direct connection to high-order transit at Pickering GO Station.

Figure 14: Pickering Centre Redevelopment Rendering

Source: Google Images, Centre Court.

2.4 Key Observations

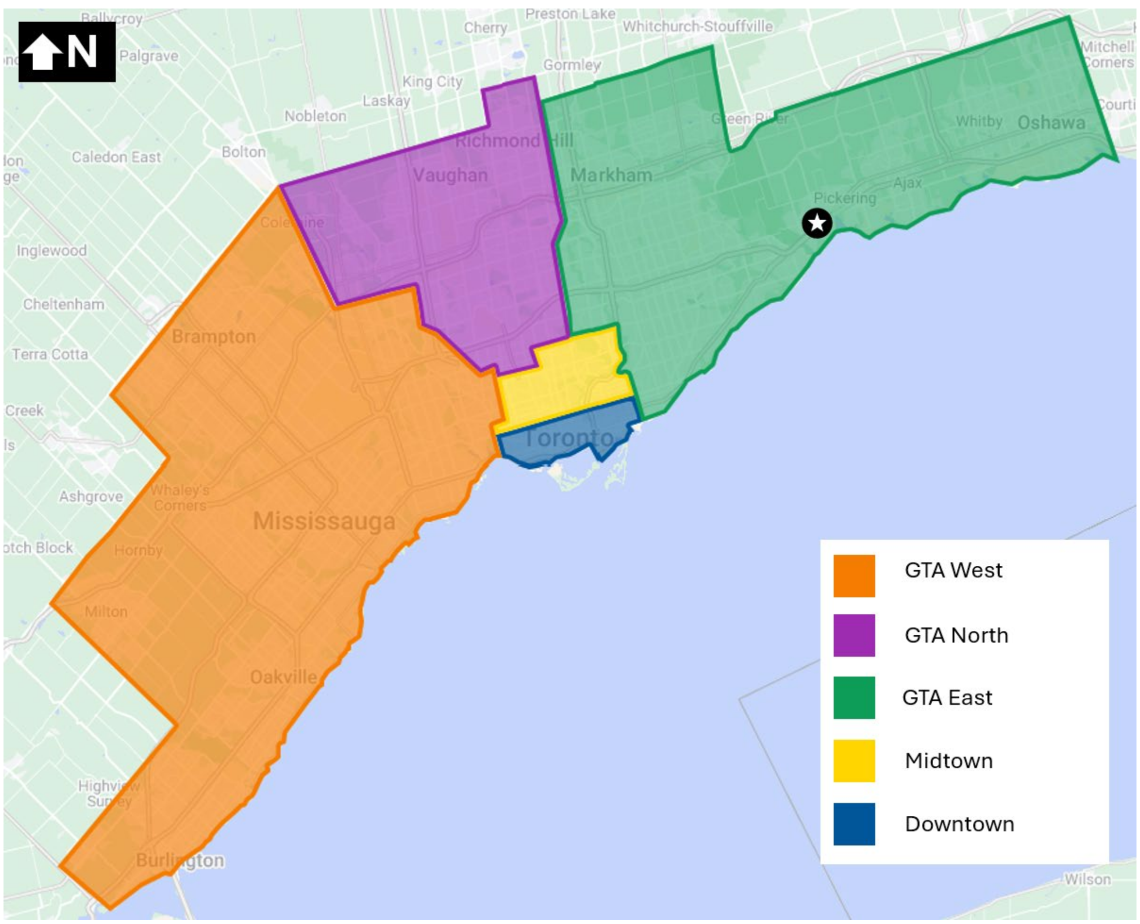
Recent employment growth and the demand for new commercial space in Durham Region appear to be primarily driven by strong industrial needs. New office spaces tend to be secondary, often situated on the periphery or within the region's prestige business parks. In contrast, the local area has a mixed-use character, with grade-related retail properties and some medium-density residential developments. Only one purpose-built office building exists near the subject site—a multi-tenant medical office building, where demand is largely fueled by population growth and low rents. As discussed in the following section, the local area generally lacks the key attributes that would drive significant demand for office space, limiting commercial office investment to projects closely tied to residential components.

3.0 GTA Office Market Trends

The following section provides a general overview of the factors driving office investment, as well as market trends observed across the GTA over the past decade and leading up to and beyond the Pandemic.

It is important to appreciate that demand profiles for office will vary significantly between submarkets in the GTA. This assessment includes a discussion of key demand indicators such as vacancy, leasing activity, and net absorption levels, as well as average net rents with a view to help contextualize the subject site's location within the GTA and Suburban office market. As illustrated by **Figure 15**, below, the subject site exists within a Suburban office market context and, more specifically, is within the GTA East submarket. The Suburban and GTA East submarkets will be benchmarked against other submarkets, as appropriate.

Figure 15: GTA Submarket Boundaries



Source: Broker Reports, N. Barry Lyon Consultants Limited.

3.1 Factors Underpinning Office Investment

Understanding the various factors influencing office investment location is crucial to understand the depth and characteristics of office demand in any location, including the subject site. While the site selection priorities of businesses requiring office space may differ, the fundamental preferences of prospective tenants (employers/employees) and, therefore, office developers typically align and remain consistent despite shifting real estate, financial and economic markets.

3.1.1 Attracting the Best Talent

Retail, commercial services and entertainment venues are playing an increasingly significant role in attracting office workers. The presence of such amenities can enhance the workplace experience and contribute to a vibrant, engaging atmosphere that encourages workers to come into the office.[1] Landlords and employers understand that talent has an increasing spectrum of workplace choices and locating in urbanized areas that offer opportunities for shopping, cultural activities, or socialization offers a significant competitive advantage.

3.1.2 Agglomeration Economics

Many office tenants benefit from locating near each other too, resulting in efficiencies such as economies of scale, knowledge spillover, and networking effects. Leasing activity across the GTA is dominated by Technology, Advertising, Media, and Information, as well as FIRE (Finance, Insurance, Real Estate) tenants, who find advantages of being near one another. These tenants often rely on each other to tap into talent pools, leading them to cluster primarily in Downtown Toronto, but also in some secondary urban and suburban office nodes like North York Centre, Markham Centre, Meadowvale, etc. driving demand, rents, and investment activity upwards in these areas more than others. As the office market matures in Durham, this may include a node at Pickering City Centre too.

3.1.3 Transit Access

Office spaces that are within walking distance of high-order transit are highly favored by tenants and office developers. Multi-modal high-order transit and transportation access expands the potential labor pool from which an employer can attract talent. In such locations, employers are willing to pay higher rents. For instance, Union Station, in Downtown Toronto, is connected to highways, the TTC Subway and is the largest station within the GO commuter rail system. Union Station is a central transportation hub and supports the city's economy. Consequently, office tenants and investment activity concentrates in this area – specifically within the South Core, Financial District, spilling out into some fringe downtown submarkets that are a walkable distance from Union, like the Downtown East and Downtown West areas.

[1] CBRE Office Workplace Strategy: Taking a lesson from retail, January 2024

As indicated in the previous section of this report, the subject site does not have the benefits of high-order transit access. The subject site is accessible by bus. By comparison, bus service is less frequent and often within mixed traffic. This increases an individual's commuting time to and from the site and reduces reliability. Bus service, even if in a dedicated right-of-way, is unlikely to drive demand for office space. Although Kingston Road will eventually have a BRT route, the preference of a future occupant of the subject site will likely remain use of a car. Most traditional office tenants are still likely to gravitate to sites that offer access to high-order transit, such as those near GO train service, making Pickering City Centre the preferred office location for investment in Pickering.

3.1.4 Access to Highways

Highways are still the most popular and expansive regional transportation option in the GTA. This is particularly true for the '905' suburban office market – inclusive of Halton, Peel, York, and Durham Regions. Being proximate to highways allows employers to draw employees from the widest possible labour shed. Many businesses may also rely on regional travel (e.g. visiting clients or customers) and require highway access.

Given the expansive highway network across the GTA, however, the search area for an office tenant that is considering the '905' suburban office market can be very wide. As a result, all possible locations within the '905' suburban office markets will compete against each other for a share of office growth, especially where investors place a higher value on access to highways over the above discussed influences on demand – namely, centrality, mixed use amenity-rich environments, agglomeration economics, and access to higher-order transit. Future office locations at the nexus of multiple 400-series highways, like Mississauga and Toronto's Airport corporate centres or Downsview, will be highest in demand, relative to other suburban office locations like the subject site location.

3.1.5 Surface Parking and Large Vacant Lots

Combined with access to highway, many prospective tenants still value access to affordable parking. Access to surface parking or other affordable parking solutions (e.g. standalone structured or integrated podium parking) can be important for businesses that rely on customer convenience, have employees who regularly travel off-site for work, and/or entertain client meetings. It is also particularly important where high-order transit (subway, LRT, GO rail transit) is not within walking distance for some if not all employees (generally 500 to 800 meters or 10 minutes), like the subject site. These economical parking solutions are more typically found within or at the edge of employment areas and business parks where excess land allows for ample free parking on-site, as opposed to more costly parking solutions within a mixed-use urban infill context, like the proposed development.

3.1.6 Regionally Competitive Pricing

To compensate for off 'centre ice' locations that do not offer the same access to amenities, rapid transit, and potential for agglomeration economics, relatively competitive pricing is typically used as a strategy to drive demand. This could include tenant inducements (e.g., free months rent, tenant improvements) or free parking, resulting in, lower effective rents. However, net effective rents can only be reduced so far, as they would need to support operational requirements to maintain a building in a state of good repair, and in the case of a new build, support a financially viable project.

3.1.7 Operating Costs

The cost of doing business in one location over another is also important to consider. In this case, it is noted that Durham Region municipalities have some of the highest commercial property tax rates within the GTA of between 2.4% and 2.7%. For demonstration purposes, assuming a 43,000-sf new office property, an investor in Pickering may anticipate that such a building could have a $2.6 to $11.1 million loss in taxes over a 40-year lifespan, holding tax rates constant, compared to locating in a neighbouring municipality, like Toronto, Markham, Richmond Hill, or Vaughan. Although the municipalities in Durham will offer lower asking rents as a competitive advantage, an investor may be more likely to invest in other suburban office locations neighbouring municipalities if gross rents are less or similar and other location attributes are preferable.

Table 1

Property Tax Impact of a Hypothetical 43,000 sf New Office Building			
	2024 Tax Rate[1]	40 Year Tax Rate (2.5% Inflation)	40 Year Property Tax (with 2.5% Inflation) Saving/Loss Relative to Pickering
Pickering	2.432810%	$30,827,790	-
Ajax	2.487785%	$31,524,416	$696,626
Whitby	2.489294%	$31,543,537	$715,747
Oshawa	2.734177%	$34,646,616	$3,818,826
Toronto	2.228677%	$28,241,082	-$2,586,708
Markham	1.558263%	$19,745,814	-$11,081,976
Richmond Hill	1.628957%	$20,641,622	-$10,186,168
Vaughan	1.627048%	$20,617,432	-$10,210,358

Notes:
1) Includes municipal general, hospital, education and Region property tax rates (as applicable). Commercial/New Office Construction with
No Excess / Vacant Land rate as applicable.
2) Assumes 43,000 sf new commercial office building, average net asking rent of $25.00 psf per year, and a cap rate of 8.0% or hypothetical assessment value of $13.4 million.
Sources: N. Barry Lyon Consultants Limited; Municipal websites.

3.2 Historically, Office Demand has Gravitated to Downtown Toronto

With an understanding of the key drivers of office demand and investment, the following is an overview of office investment trends in the GTA over the past few decades.

- Prior to the 1980s, the majority of office development occurred in Downtown Toronto as well as a select few locations along the subway system. This largely included major office development in Toronto's Financial District, with the establishment of Commerce Court and the TD Centre, as well as long the North Yonge Corridor. This growth exemplified the importance of tenant location decisions in terms of agglomeration economics.

- Between the 1980s and the early 2000s, office development continued to occur within the City of Toronto, but significant office development started to pick-up in the Suburban office markets. This trend was due to the relative ease of commuting by automobile, expansion of the GO commuter rail network, less expensive land and favourable commercial tax rates – particularly in GTA West and North municipalities, the ability to acquire large properties with ample surface parking, and workers preference for suburban business parks.

  Notably, job opportunities in the suburban office market were located near rapidly growing and relatively affordable residential areas, offering grade-related housing options to family households at a time when congestion was less of a concern.

- From the late-2000s onwards, GTA office demand development almost entirely shifted to Downtown Toronto. This shift coincides with increasing traffic congestion across the GTA, and a renaissance of high-density living in and around the downtown. This shift generally highlights the combined importance of walkable amenities, access to labour, agglomeration economics, and access to transit in office location decision making.

  In the five years leading up to the Pandemic, the City of Toronto accounted for 70% of new office space added in the GTA, and of this inventory, about 85% was in Downtown Toronto. The Downtown Toronto market saw vacancy tightening, indicating a landlord-driven market, which caused rents to trend upwards, all while the Suburban office markets experienced limited demand with negative absorption. Due to these conditions, Suburban office rents remained relatively flat in the years leading up to the Pandemic despite increasing construction costs and inflation.

- Just prior to the Pandemic, office vacancy in the GTA was trending downward, on average, dropping to 5.9% in 2018 and 5.6% in 2019. These conditions were driven by demand for the most well-located projects in areas, such as the Financial District and the South Core, which had record low vacancy levels of 2.4% in 2018 and 1.9% in 2019. By contrast, demand in the Suburban office markets was softening. By the close of 2019, Suburban markets saw vacancy rates at 9.4%, indicating the beginning of a tenant driven market.

3.3 The Office Market is Now Experiencing Significant Market Challenges

Coming out of the Pandemic, the GTA office market experienced a strong decline in demand in both in the Central[2] and Suburban submarkets, including the GTA East submarket. The onset of this shift started to become evident as early as March 2020.

Table 2

GTA Office Market Stats - All Classes, Q3 2024						
Year	Total Inventory (SF)[1]	Vacancy Rate	Sub Lease Availability Rate	YTD Annual Net Absorption[2] (SF)	Avg Net Asking Rent ($psf)	Annual New Supply (SF)
2018						
Downtown	73,620,000	1.9%	26.5%	704,000	$32.01	534,000
Midtown	16,198,000	2.3%	13.2%	173,000	$25.50	0
Central Submarkets	***89,818,000***	***2.0%***	***23.7%***	***877,000***	***$30.82***	***534,000***
GTA East	32,383,000	9.6%	15.8%	135,000	$13.03	0
GTA North	15,137,000	6.9%	8.4%	8,000	$18.96	0
GTA West	39,633,000	11.5%	10.2%	871,000	$16.20	86,000
Suburban Subarkets	***87,153,000***	***10.0%***	***12.0%***	***1,014,000***	***$16.04***	***86,000***
GTA Overall	**176,971,000**	**5.9%**	**14.0%**	**1,891,000**	**$23.47**	**620,000**
Q3 2024						
Downtown	81,989,000	17.2%	20.8%	861,000	$34.26	1,753,000
Midtown	17,202,000	20.4%	21.3%	-56,300	$26.23	0
Central Submarkets	***99,191,000***	***17.8%***	***21.1%***	***804,700***	***$32.86***	***1,753,000***
GTA East	31,353,000	17.1%	17.2%	101,000	$16.47	0
GTA North	15,136,000	18.9%	13.2%	-251,000	$21.43	294,000
GTA West	42,896,000	15.6%	21.7%	132,000	$17.28	0
Suburban Subarkets	***89,385,000***	***16.7%***	***18.4%***	***-18,000***	***$17.75***	***294,000***
GTA Overall	**188,576,000**	**17.2%**	**19.8%**	**786,700**	**$27.04**	**2,047,000**

Notes: 1) Includes existing supply previously tracked, existing supply added to the tracked inventory, and new (recently completed) inventory.
2) YTD Annual Net Absorption includes each quatrters absorption from the represented years; Q3 2024 includes Q1 to Q3 2024 quarterly absorption.

Source: Cushman & Wakefield Marketbeat, 2018-Q3 2024; CBRE Office Market Reports, 2018-Q3 2024; N. Barry Lyon Consultants, 2024.

3.3.1 GTA Vacancies Still on the Rise

In March 2020, the world went into lockdown and tenants were forced out of their offices, transitioning to a mandated work-from-home model. By the end of 2020, the GTA office vacancy levels increased by 3.6% from the previous year, reaching 8.8% – the largest annual increase the GTA had experienced in almost two decades. Trends of high vacancy levels across the GTA have persisted throughout the past three years. At 17.2% by the end of Q3 2024, the GTA office market vacancy rate hit a 30-year high.

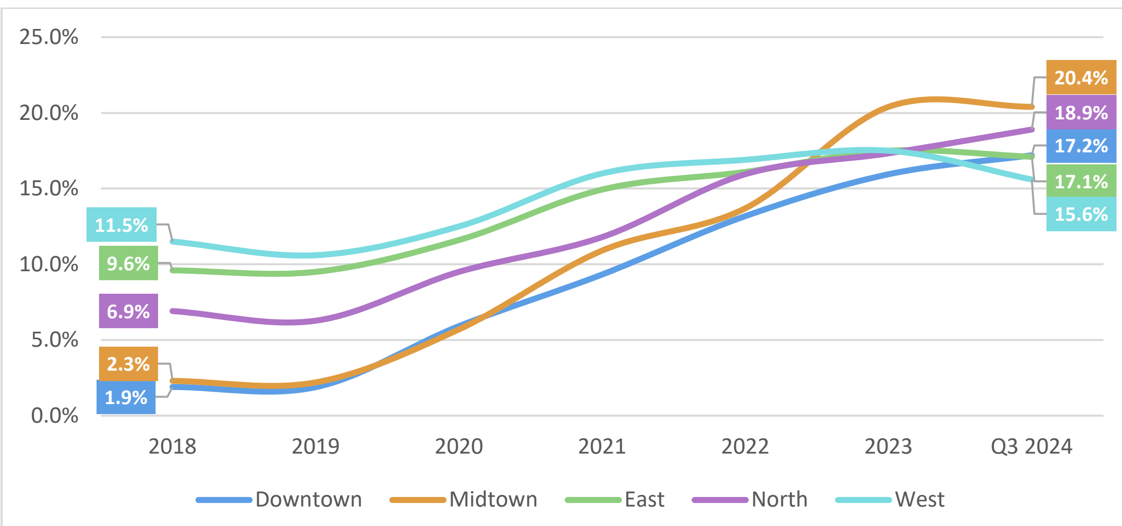
[2] The Central office market is defined as inclusive of the Downtown and Midtown (see Figure 15 on Page 13). All other submarkets illustrated in Figure 15 are collectively referred to as the Suburban office market.

The Central submarkets (Downtown and Midtown Toronto) experienced the highest increase in vacancy rates since the onset of the Pandemic, increasing by 15.8%, between 2018 and Q3 2024, compared to the Suburban submarkets which increased by 6.7%.

Historically, the Downtown and Midtown submarkets that make up the Central submarkets experienced significantly lower vacancy rates than the Suburban submarkets. Since the onset of the Pandemic, all the GTA submarkets are seeing vacancy rates hovering around the same range (**Figure 16**). In particular, the Midtown submarket saw the largest increase in vacancy rate in the GTA, increasing from 2.3% in 2018 to 20.4% in Q3 2024. In comparison, the GTA East submarket increased by 7.5% from 9.6% in 2018 to 17.1% in Q3 2024.

High vacancy in more centralized submarkets is important to consider, as it suggests there is ample choice in preferable locations compared to the subject site. This puts the proposed development at a significant competitive disadvantage so long as supply / demand conditions are not balanced. Generally speaking, vacancy rates of 5% to 8% are considered balanced allowing for choice in the marketplace and improvement to properties between tenants. Vacancy levels that are greater tend to suggest a tenant driven market putting downward pressure on rents.

Figure 16: Vacancy Rates by Submarket

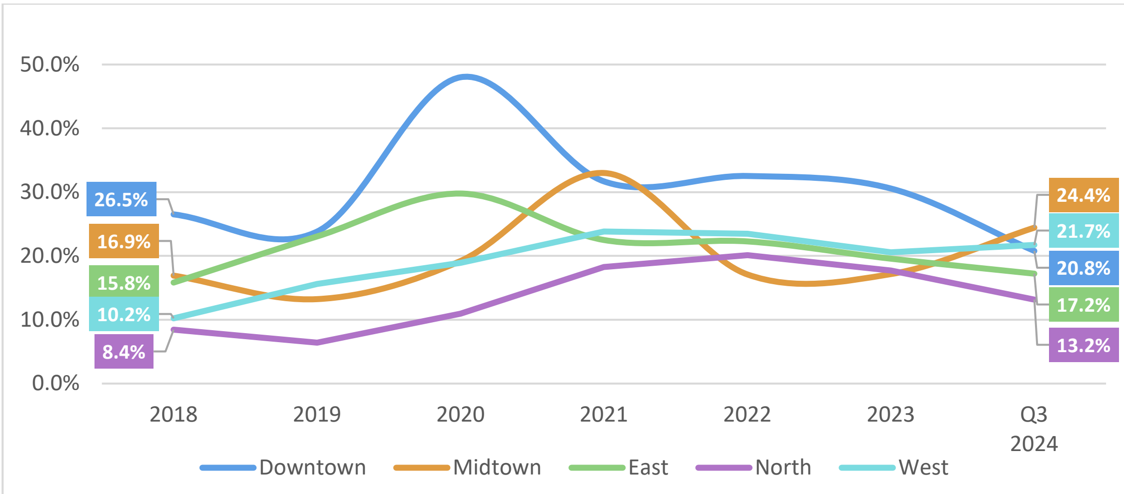


Sources: Cushman & Wakefield Marketbeat 2018-Q4 2024; N. Barry Lyon Consultants, 2024.

3.3.2 Sublet Availability Soars to New Levels

The Pandemic caused sublease availability to rise to new levels. This occurred as companies adapted a more permanent work-from-home or hybrid work situation, with many putting their existing office space on the market for sublet. Sublet availability had a sharp increase by the end of 2020, with 4.7 million sf of sublet space made available to the market. This is compared to 1.5 million sf of sublet space added to the market in 2019. The Downtown submarket was the largest contributor to the increase in sublet space with a 543.9% increase from 2019 to 2020 – again, in a preferable location to the subject site. Sublet availability rates in the Downtown have remained relatively flat since 2021 at 20.8% by the end of Q3 2024. The GTA East sublet availability stood at 17.2% as of the end of Q3 2024. While not vacant, this trend to higher availability is nonetheless concerning as it represents tenants seeking to rid their existing lease obligations. It also signals that this space is likely to become vacant in the near future, as head leases expire, and suggests that vacancy rates are likely to continue to rise.

Figure 17: Sublet Availability by Submarket

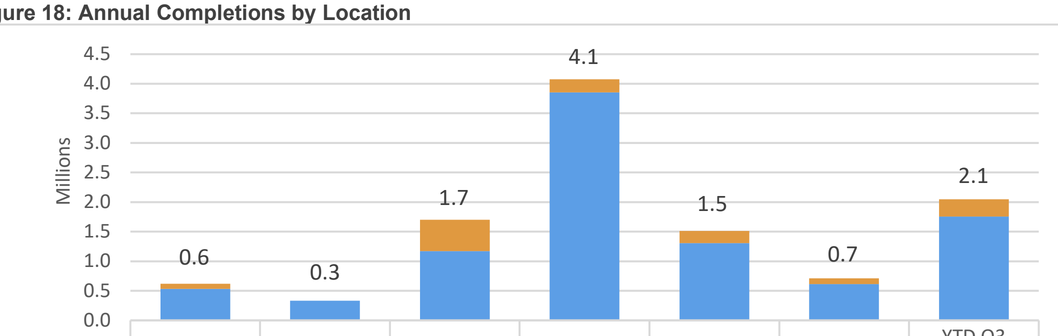


Sources: Cushman & Wakefield Marketbeat 2018-Q4 2024; N. Barry Lyon Consultants, 2024.

3.3.3 New Supply Completions Slowing Down

New office space delivered to the market peaked in 2021. While new construction is typically a sign of a healthy market, a majority of this space was preleased (for up to 15-year terms) prior to the onset of the Pandemic when vacancy rates were low and tenants lacked available options.

Figure 18: Annual Completions by Location



	2018	2019	2020	2021	2022	2023	YTD Q3 2024
Suburban	86,000	0	532,000	223,000	209,000	95,000	294,000
Central	534,000	335,000	1,169,000	3,855,000	1,305,000	616,000	1,753,000

Central Suburban

Sources: Cushman & Wakefield Marketbeat 2018-Q3 2024; N. Barry Lyon Consultants, 2024.

Most of the new completions are in the Downtown Toronto, where vacancy was extremely low prior to the Pandemic. For example, a total of 1.8 million sf of new office space has been completed thus far in 2024.

- Of this, nearly 70% of the new supply delivered in 2024 is located within a 1.2 million sf premium office building, municipally known as 160 Front Street West. This project was developed by Cadillac Fairview, with about a third of the space occupied by the wholly owned subsidiary of Cadilac Fairview – Ontario Teacher's Pension Plan (OTPP), and most of the remaining space occupied by TD Bank.

This is in contrast to the GTA East market where there have been no new office buildings delivered to the market in close to a decade, aside from medical office buildings.

With high vacancy rates and availability rates, new buildings that come to market are cannibalizing the existing office demand, leaving more vacancies on the market than ever before. This is evident in new buildings such at CIBC Square, at 18 Bay Street, in Toronto's Financial Core, where CIBC has consolidated roughly 15,000 employees, leaving behind large vacancies in the buildings previously occupied by the company. The recently completed 160 Front Street West also perpetuates this trend. OTPP relocated to a 341,000-sf office space within the160 Front Street West project, vacating 299,000-sf office space at 5650 Yonge Street, in the GTA North submarket.

3.3.4 Net Absorption Levels Continue to Worsen

Net absorption levels measure the change in the amount of office space available on the market at the beginning of one period compared to the next, inclusive of existing space occupied, vacated or removed from the market, plus any new office space added to the market. Typically, a market's supply and demand dynamics are determined based on the net absorption rates that are measured as either positive or negative. For example, if the market has a positive absorption rate it means more space is being leased or occupied than vacated. This means there is a decrease of supply which typically results in a landlord driven market and upward pressure on rents. If the market has a negative absorption rate it means there is more space vacated than occupied, indicating an increase in supply which typically results in a tenant driven market and downward pressure on rents (or increase in incentives) to attract tenants.

Prior to the Pandemic, in 2018, the GTA experienced 1.9 million sf of positive absorption. With new completions being added to the market, conditions in the GTA office market started to soften. This is exemplified by 507,000 sf of negative absorption in 2019 (see **Table 3**, below).

Table 3

Annual Net Absorption by Submarket, Q3 2024							
Submarket	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Q3 2024[1]**
Downtown	704,000	152,000	-2,801,000	786,000	-1,813,000	-1,766,000	861,000
Midtown	173,000	-145,000	-582,000	-913,000	-512,000	-993,000	-56,300
GTA East	135,000	-362,000	-965,000	-1,202,000	-263,000	-517,000	101,000
GTA North	8,000	4,000	-336,000	-353,000	-476,000	-288,000	-251,000
GTA West	871,000	-156,000	-1,125,000	-1,508,000	-228,000	-32,000	132,000
GTA Total	**1,891,000**	**-507,000**	**-5,809,000**	**-3,190,000**	**-3,292,000**	**-3,596,000**	**786,700**

Notes: 1) Refers to the year to date absorption, inclusive of Q1, Q2, and Q3 2024.

Source: Cushman & Wakefield Marketbeat, 2018-Q3 2024; Colliers Quarter End Reports, 2018-Q3 2024; N. Barry Lyon Consultants, 2024.

Annual absorption experienced a significant drop at the beginning of the Pandemic, ending 2020 with over 5.8 million sf of negative absorption. This trend has persisted, as the GTA has experienced five consecutive years of negative annual absorption.

The Downtown submarket is the only submarket in the GTA to experience one year of positive annual absorption since the onset of the Pandemic. In the fourth quarter of 2021, there were several larger leases completed in the Downtown Toronto submarket, accounting for over 40% of the annual leasing activity. These leases mostly occurred in the Class AAA and A buildings resulting in positive absorption to surpass the negative absorption experienced by the Class B and C buildings[3].

During the same period, the Suburban office submarkets experienced lower levels of leasing activity while more space was put on market. The GTA North and GTA West submarkets saw a lot of the Class A space put on the market. Class A space accounted for 87.3% of the negative absorption in the GTA North and 97.2% in GTA West.

With 1.8 million sf of office space under construction in the GTA this year, the submarkets continued to experience an over supply problem with not enough demand for new space. As a result, vacancy and availability continue to rise and negative absorption conditions persist.

3.4 Rent Growth has Flatlined, Despite Increasing Costs of Doing Business

Prior to the Pandemic, the GTA office market leaned into a landlord-driven market with strong demand. This was evident by year-over-year rent growth. As illustrated in **Figure 19**, on the following page, rents decreased from the pre-Pandemic highs and have flatlines over the past few years. While modest growth is observed in some submarkets, this is likely reflective of inflation rather than true price growth, as well as the offering of incentives (see discussion to follow in

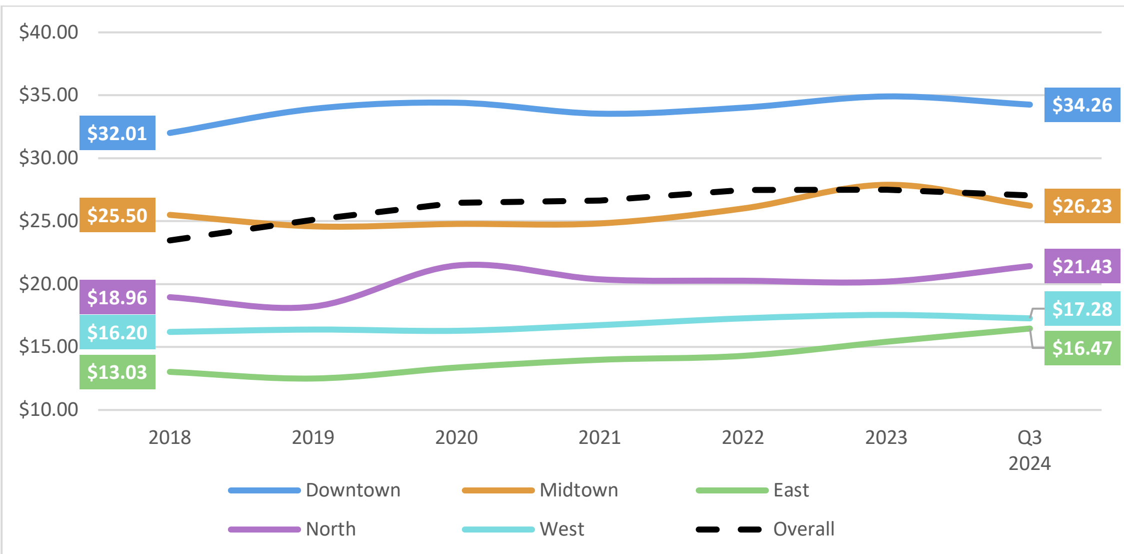
[3] Class A building can be subdivided into categories such as AAA and A. These are most sought-after and attract tenants who expect top-tier construction, amenities, and prime locations. These spaces command premium rents. Class B buildings offer utilitarian space. They are attractive to a wide range of tenants. Class C buildings are older, no-frills properties, with low rents necessary to drive demand.

Subsection 3.4.1). Notably, the GTA East has continuously experienced the lowest rents in the GTA. Currently, the average asking net rent in the GTA East sits at $16.47 psf, almost $5.00 below the GTA North and $10.57 below the GTA overall of $24.04 psf.

3.4.1 Trends in Rents – Net Asking Rate Growth Slowing

It is noteworthy that the above rent observations are based on net asking rents and therefore are not necessarily reflective of achievable net rents. Due to the decrease in leasing activity, a strategy adopted by many landlords and office brokers was to keep asking rents higher, but to compensate for weak market conditions by offering incentives.

Figure 19: Average Net Asking Rent by Submarket



Sources: Cushman & Wakefield Marketbeat 2018-Q3 2024; N. Barry Lyon Consultants, 2024.

Although difficult to capture due to private negotiations between landlord and tenant, tenants and commercial real estate brokers agree that the overall rent collected by the developer has decreased because of these incentives. Landlords are offering free months of rent, more capital to renovate, and some are building out fully furnished suites so tenants can move in right way. Some have privately reduced rents, careful not to disclose a reduction in rates to existing tenants. One financial services tenant stated the lease they negotiated in 2021 was estimated to be 30% less than what they would have negotiated and paid for in 2019. Another Boston-based law firm, Mintz, negotiated a deal in 2023 near the Union GO Station and indicated that they were happy with the rent and terms of agreement compared to what they would have achieved in 2019. The company noted that back in 2019 they would otherwise not have been able to afford this lease and would have been in a building outside of a central location.[4]

[4] "With office vacancies still high in Toronto, tenants privately negotiating best deals in years" – Global and Mail https://www.theglobeandmail.com/business/article-office-rental-costs-downtown-toronto/.

3.5 Pandemic Accelerated a Shift to Hybrid, Flexible, Activity-Based Work

It is important to appreciate that the current office market conditions have remained long after work-from-home mandates were lifted. This suggests a structural shift in the office market as companies reduce their office footprint in favor of adopting permanent work-from-home and hybrid work strategies, while reconfiguring existing spaces for activity-based work.

Activity-based work prioritizes flexibility, collaboration, and employee empowerment. Its adoption was accelerated during the Pandemic due to remote work mandates and advancements in telecommunication technology. Employers now recognize that most employees can effectively work at home, when activities require greater concentration, and therefore, benefit from the flexible work arrangements. This type of work environment is expected by top talent, influencing recruitment efforts across office-based sectors.

To improve overall productivity, when not at home, it is further recognized that 'in-office' workspaces should facilitate collaboration. Many employers and landlords are retrofitting spaces to foster teamwork.

3.6 Reduced Office Space Need Per Worker

Given adoption of hybrid, flexible, and activity-based work practices, demand for office space on a per worker basis is declining.[5] While the specifics of remote work policies vary among employers, ranging from no in-office requirement to fixed days, the overall implication is a reduced need for office space per worker. For instance, the typical floor space per office worker prior to the Pandemic would have been around 250 sf but may be closer to 215 sf today and moving forward.[6]

These office space per worker trends ultimately affect the pace at which existing and future office space is absorbed to satisfy current needs and future employment growth. In the short term, this has led to an oversupply of office space, which is expected to persist as longer-term leases expire, major tenants reassess their real estate needs, and as new supply continues to be added to the market.

These trends and conditions put the subject site at a significant disadvantage in competing for a share of demand more than ever before, including investor interest and capital funding for new construction. A recent study by Altus has forecasted that Toronto's office oversupply could persist for 20 years or longer depending on how demand and work from home trends shift moving

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[5] Conversely, this means more jobs are fully or partly carried out at home, increasing job density in residential and mixed-use neighbourhoods. It is expected this would be the case as the subject site, as such design consideration is applied to the new project through the design of den layouts and private amenity space that offer workspaces in the home and building.

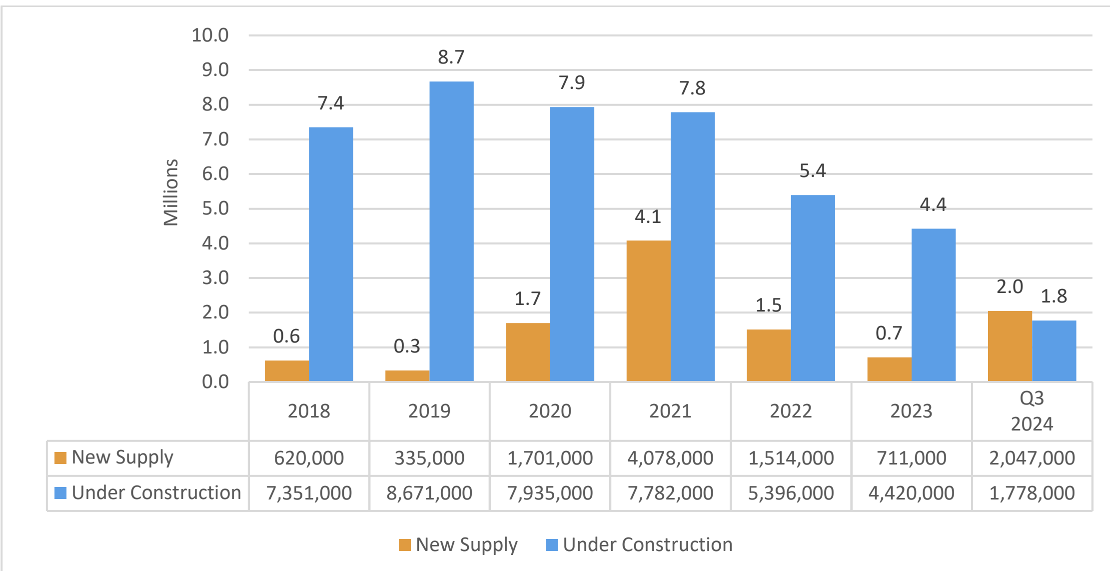
[6] NAIOP-Greater-Toronto-Office-Needs-and-Policy-Directions-in-the-GTA-Altus-Group.pdf

forward.[7] The City of Toronto's own Office Space Needs Study, estimates that there may be no demand for new office space for at least 12 years. These forecasted demand conditions are projected within more centralized higher demand market locations relative to the subject site.

3.7 Future Supply

In 2020, despite the beginning of the office market slow down, the construction pipeline continued to advance – largely off the back of a highly constrained market and large amount the under-construction space was being pre-leased prior to construction (i.e. 65 King St E, pre-leased to Google). In 2021, 4.1 million sf (of the 8.7 million sf) of new office supply that was under construction in 2018 was complete, the most annual new supply the GTA market experienced in almost two decades.

Figure 20: GTA New Office Supply and Under Construction by Year



	2018	2019	2020	2021	2022	2023	Q3 2024
New Supply	620,000	335,000	1,701,000	4,078,000	1,514,000	711,000	2,047,000
Under Construction	7,351,000	8,671,000	7,935,000	7,782,000	5,396,000	4,420,000	1,778,000

Sources: Cushman & Wakefield Marketbeat 2018-Q3 2024; N. Barry Lyon Consultants, 2024.

In response to the emerging conditions, the existing pipeline of new projects has begun to shrink with only 1.8 million sf remaining under construction in Q3 2024. In terms of proposed supply, in some instances, development applications for new office buildings have been withdrawn as developers realize these projects are no longer feasible. An example of this is 11 Bay Street by Quadreal, which would have added 1.1 million sf of Class A office space to the Downtown Toronto submarket.

[7]NAIOP-Greater-Toronto-Office-Needs-and-Policy-Directions-in-the-GTA-Altus-Group.pdf

4.0 GTA East and the Durham Office Market

The following section provides a more focused analysis of market trends observed in the GTA East submarket and local Durham office market.

4.1 GTA East Market

As previously indicated, the subject site is within the GTA East submarket (see **Figure 15**, on page 15). With 31.4 million sf of office space, the GTA East submarket is the third smallest submarket in the GTA, behind the Midtown and GTA North submarkets, making up just 16.6% of the total GTA office inventory.

Similar to the GTA market at large, the GTA East submarket has seen little evidence of recovery coming out of the Pandemic. As illustrated in **Table 4**, below, the vacancy rate has increased dramatically since 2018. As of Q3 2024, the vacancy rate is only 0.1% below the GTA and the Downtown average at 17.1%. Of note, in 2019, the vacancy rate was also the second highest in the GTA market at 9.5%. This suggests local demand conditions were weak prior to and now worsening since this time.

Additionally, the submarket has experienced negative absorption of over 1.9 million sf since the onset of the Pandemic, which explains the rising vacancy rate. This means that over 1.9 million sf of office space was made available over this period than was absorbed. This is despite the fact that no new supply was added over this period. As indicated in **Table 4**, there has been significant negative annual net absorption since 2019, with the exception of the 101,000 sf of positive absorption the submarket has experienced this year. However, with four consecutive years of negative absorption, this small amount of positive absorption does not outweigh the negative impact the Pandemic had on the GTA East office market

Table 4

GTA East Market Stats - Q3 2024						
Year	Total Inventory (SF)[1]	Vacancy Rate	Sub Lease Availability Rate	YTD Annual Net Absorption (SF)[2]	Avg Net Asking Rent ($psf)	Annual New Supply (SF)
2018	32,383,000	9.6%	15.8%	135,000	$13.03	0
2019	32,226,000	9.5%	23.1%	-362,000	$12.50	0
2020	32,106,000	11.6%	29.8%	-965,000	$13.37	0
2021	32,102,000	14.9%	22.5%	-1,202,000	$13.99	0
2022	31,298,000	16.1%	22.3%	-263,000	$14.30	0
2023	31,345,000	17.5%	19.6%	-517,000	$15.42	0
Q3 2024	31,353,000	17.1%	17.2%	101,000	$16.47	0

Notes: 1) Includes existing supply previously tracked, existing supply added to the tracked inventory, and new (recently completed) inventory. 2) Refers to the year to date absorption, inclusive of Q1, Q2, and Q3 2024.
Source: Cushman & Wakefield Marketbeat, 2018-Q3 2024; Colliers Quarter End Reports, 2018-Q3 2024; N. Barry Lyon Consultants, 2024.

Unlike the wider GTA market area, the average net asking rent in the submarket was decreasing heading into the Pandemic but has increased annually since 2020. Net rents have increased $2.48 psf since 2021, compared to the GTA which has only increased by $0.39 psf over the same time period. However, this rent growth is likely attributed to inflation as there has been no significant increase in net asking rents in the submarket. It is also crucial to understand that these figures are based off a limited number of listings that have an average of 207 days of market, which may suggest these lower rates still do not attract tenants.

The lack of demand in the GTA East submarket is further apparent in the volume of annual leasing activity. Overall, the GTA East submarket experienced a dip in leasing activity over the last four years. For comparison, in the three-years leading up to the Pandemic, average annual leasing activity was around 1.5 million sfm while in the period between 2020 and 2023, the average annual activity was 1.0 million sf, with a low of 641,000 sf in 2020. As of Q3 2024, the year-to-date leasing activity is 900,000 sf.

4.2 Durham Office Market

It is important to appreciate the GTA East submarket extends beyond Durham Region. That GTA East submarket includes Toronto East (with the former municipal borough of East York and Scarborough), as well as parts of North York and Markham. Within the context of the GTA East submarket, the Toronto East node is the largest node accounting for 73.0% of the office inventory.

Within the GTA East, the subject site is located within the Durham Region office corridor. Although classified as the Durham Region, the office market data summarized in this section is focused on Pickering, Ajax, Whitby, and Oshawa (see **Figure 21**, on the following page). The rest of the Durham Region is classified as "Outlying Durham" and not included in this analysis. The Durham Region office corridor accounts for only 16.2% of the office inventory in the GTA East submarket.

The following is a description of office market conditions specific to the Durham Region office corridor, which is also summarized in **Table 5**, on the following page.

4.2.1 Availability/Vacancy

Unlike most office nodes in the GTA, the vacancy rate in the Durham Region office corridor saw vacancy tighten up at the onset of the Pandemic. Aligned with the wider GTA, there was a 0.8% decrease in vacancy over just one year, between 2018 and 2019. However, the trends in vacancy differ from the wider GTA where the vacancy continues to tighten at the beginning of the Pandemic, dropping to 2.9% in 2020, the lowest vacancy in Durham Region in over ten years.

Vacancy rates were on the rise early in the Pandemic, peaking at 4.8% in 2022 but have dropped to 3.9% as of Q3 2024. This is in comparison to other nodes in the East submarket such as Scarborough (30.9%) and Markham (18.4%) in Q3 2024.

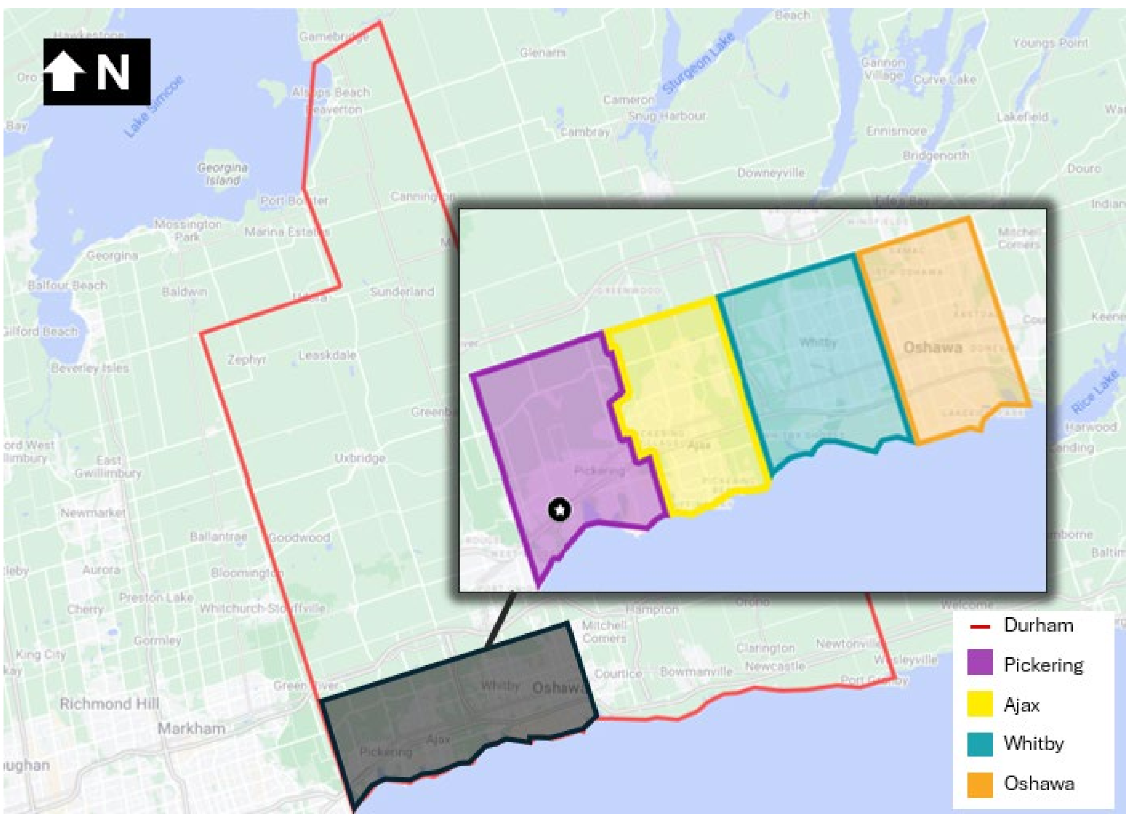
Table 5

Durham Office Market - All Classes, Q3 2024						
Year	Total Inventory (SF)[1]	Vacancy Rate	Sub Lease Availability Rate	YTD Annual Net Absorption (SF)[2]	Avg Net Asking Rent ($psf)	Annual New Supply (SF)
2018	6,863,000	3.9%	0.9%	-112,000	$13.33	0
2019	6,863,000	3.1%	2.7%	90,000	$12.58	0
2020	6,863,000	2.9%	5.6%	10,000	$13.89	0
2021	6,904,000	3.4%	4.0%	18,000	$14.65	0
2022	6,877,000	4.8%	0.0%	-101,000	$14.82	0
2023	6,877,000	4.6%	0.0%	-33,000	$16.34	0
Q3 2024	5,083,000	3.9%	0.0%	4,671	$17.40	0

Notes: 1) Includes existing supply previously tracked, existing supply added to the tracked inventory, and new (recently completed) inventory. The inventory between 2021 and 2022 shrinks with the demolition of two office buildings in Oshawa. 2) Refers to the year to date absorption, inclusive of Q1, Q2, and Q3 2024.

Source: CoStar; Colliers Quarter End Reports, 2018- Q3 2024; N. Barry Lyon Consultants, 2024.

Figure 21: Durham Region Office Corridor



The wider GTA has seen vacancy rates trending upwards for the past five years, with an average annual increase of 5.4%. In comparison, the vacancy rate in Durham has fluctuated for the past five years, increasing an average annual percent of 0.2%. It is expected that vacancy rates have not been as volatile, as tenants are subject to lower net rents and therefore able to delay making major decisions until the fallout of the Pandemic is fully known, as are work-from-home policies and implications for space need.

4.2.2 Leasing Activity

Leasing activity in the Durham Region office corridor dropped for three consecutive years leading up to the Pandemic. Annual leasing activity in these three years was only 79,000 sf per year. In 2020, leasing activity hit a ten-year low with just under 65,000 sf leased in the year (representing just 10.1% of the annual leasing activity within the GTA East). Annual leasing activity has increased over the last four years, however, averaging 119,000 sf per year (between 2021 and Q4 2024).

Annual leasing activity reached a ten year high in 2023, as it reached 173,000 sf. About 60 % of this activity is associated with only two leases, however. Durham Region Non-Profit Housing leased 58,000 sf of new office space at 28 Albert Street in Oshawa in 2023 and publishing company, McGraw Hill Canada, leased 40,000 sf of new office space at 300 Water Street in Whitby. Outside of these two leases, the average lease size was about 2,000 sf in 2023. No major leases were signed in Pickering.

Figure 22: 28 Albert Street (Left) and 300 Water Street (Right)

Source: Google Images.

4.2.3 New Project Completions

While the new construction pipeline in the GTA was reaching peak activity prior to the Pandemic, there was only 7,000 sf of construction activity in the Durham Region office corridor. This building was a medical office building, with demand driven by population growth, not a professional office building. The last Major Office completion in the local area was the Durham Region Courthouse and the MPAC building built in 2010 and 2011 – a result of public sector investment.

There have some medical offices built within the Durham Region over the last several years too. These buildings include the Jerry Coughlan Health & Wellness Centre, at 1690 Dersan Street, in Pickering, and the 168 Des Newman Boulevard building in Whitby, both reaching completion in 2024. These buildings are not included in the analysis of new projects as this section focus on professional office buildings such as the two mentioned above. Again, this type of investment is typically driven by population growth.

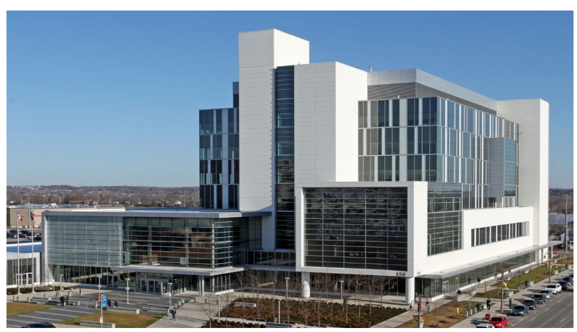
Durham Region Courthouse

The Durham Region Courthouse, located at 150 Bond Street East in Oshawa, was built in 2010. Most of this 407,000-sf office building is occupied by the Superior Court of Justice, servicing the Durham Region. Other tenants in this building include legal-related services that can benefit from the proximity to the courthouse. The property currently has no availability as of October 2024.

MPAC Building

The MPAC building, located at 1340 Pickering Parkway in Pickering, was built in 2011. The 117,000-sf office property was built to serve as the new headquarters for MPAC. MPAC occupied over half of the building. Other tenants include Centre for Canadian Nuclear Sustainability and BMO. The property is currently not available for lease. Unlike most buildings in the Durham Region office corridor, this building benefits from proximity to high-order transit as it is directly connected to the Pickering GO station. As of July 2024, there was no availability within the building. Most recently, there was a lease for 35,000 sf completed in August 2023. The asking net rent was $20.00 psf.

Figure 23: Durham Region Courthouse Building (Left) and MPAC Building (Right)



Source: CoStar.

4.2.4 Net Absorption Activity

Demand for office space in the Durham Region office corridor fluctuated leading up to and after the Pandemic. Unlike the rest of the GTA, which saw strong demand, translating to positive absorption in 2017 and 2018, the Durham Region office corridor saw the lowest absorption in 2018, with 112,000 sf of negative absorption. This was the lowest annual absorption, including the years between 2018 and 2023. Albeit small, in 2020 and 2021, the Durham Region office corridor had positive annual absorption of 10,000 and 18,000 sf. In 2022 and 2023, the annual absorption in the Durham Region office corridor shifted back to negative absorption levels. The year-to-date annual absorption has shifted slightly positive in Q3 2024 but with only 5,000 sf of positive absorption.

4.2.5 Rental Rates

Office rental rates in the Durham Region office corridor are low but increasing. In 2019, prior to the onset of the Pandemic, the averaging net asking rental rates dipped 5.6% from the previous year, dropping from $13.33 psf to $12.58 psf. However, the node was able to recover, increasing by an average of 7.9% per year over the next two years, compared to the GTA's rental growth rate of 3.0%. Over the following three years, the net rental rates grew an additional 6.0% per year, bringing the average net asking rent to $17.40 psf by the Q3 2024.

Although Durham Region is seeing rent growth at a faster pace than other areas of the GTA, the market still possesses one of the lowest average net asking rental rates in the GTA. Average net asking rent in the Central markets (Downtown and Midtown Toronto) sits at $32.86 psf as of Q3 2024. In the Suburban markets, the rental rate sits at $17.75 psf. While the growth of the rental rates in the Durham Region office corridor may outpace the overall growth in the Central markets, there is a still a $15.46 psf rental rate gap between the two.

4.3 Future Office Supply in Durham

New supply and future supply in the GTA East submarket have been extremely limited over the past few decades. There are a limited number of proposed properties that have office space included in the development within the Durham Region office corridor, as all are a part of mixed-use developments. However, it is unclear if or when these projects will be added to the market as proposed. The application for the under-construction project at 474 Aviator Lane and 481 Taunton Road West in Oshawa (in **Table 6)** was submitted in 2019, when the demand in the GTA East was still below 10.0%. Planning for the Pickering City Centre was submitted in 2017 and was put on hold due to the pandemic and the worsening market conditions and plans were only reignited in 2022. The three remaining proposed development were all submitted following the Pandemic, between 2020 and 2022. All three of the proposed developments have been approved only for the developer to resubmit plans to reduce the amount of dedicated non-residential space.

Notably, the future supply within mixed use projects is seldom pre-leased and therefore not necessarily an indicator of office demand. This space may be included to derisk project approval considering office related policies in local official plans. Additionally, it is also worth nothing that many of the applications near Pickering City Centre are largely residential with non-residential components that is sized to typically accommodate retail and service commercial uses that would satisfy the needs of residents. This future supply with office-related components is summarized in **Table 6**, below, with the location of each projected shown in **Figure 25**, to follow.

Table 6

Future Supply in the GTA East, Durham As of October 2024					
MAP ID	Project/Developer	Building Type	Total GFA (SF)	Total Office GFA (SF)	% GFA Office
		Under Construction			
1	474 Aviator Ln & 481 Taunton Rd W, Oshawa *Crestview Group of Companies*	Mixed-Use	72,000	22,000	30.6%
			Sub-Total - Under Construction (1 Projects):	**72,000**	**22,000**	**30.6%**
		Proposed/Pre-Construction			
1	603-699 Kingston Rd, Pickering *Sorbara Group*	Mixed-Use	2,719,000	37,000	1.4%
2	Pickering City Centre, Pickering *CentreCourt*	Mixed-Use	3,600,000	130,000	3.6%
3	1755 Pickering Pky, Pickering *Bayfield Realty Advisors*	Mixed-Use	3,113,000	236,000	7.6%
4	190 Westney Rd S, Ajax *Ledim Developments Ltd*	Mixed-Use	903,000	55,000	6.1%
		Sub-Total - Proposed (4 Projects):	**10,335,000**	**458,000**	**4.4%**
		Total (5 Projects):	**10,407,000**	**480,000**	**4.6%**

Notes: All Under Construction and Proposed Buildings with office space or more.

Sources: CoStar;City of Pickering, Town of Ajax, City of Oshawa Planning & Development Departments; N. Barry Lyon Consultants, 2024.

Figure 24: Under Construction and Project Projects in the Durham Region Office Corridor

Source: N. Barry Lyons Consultants Limited.

Under Construction Projects

- 474 Aviator Lane and 481 Taunton Road West in Oshawa is a mixed-use development with a commercial and hotel component. The office building is located at 481 Taunton Road East and includes 21,500 sf of office GFA. The development is slated for completion in Q4 2024. The office space is currently available for lease at $25.75 psf net with about 13,000 sf of space still available.

Proposed Projects

- The closest project to the subject site is the previously referenced mixed-use development located at 603-699 Kingston Road, just west of the subject site. This development includes a total GFA of 2.7 million sf and will be a mix of residential, commercial, and public space. The office component of the building only accounts for 1.4% of the development and would be located in a gateway location satisfying the policies of OPA 38. As mentioned earlier in the report, the total office space proposed in this project has been reduced since the first submission, likely a reflection of current demand conditions.
- Located at 1355 Kingston Road in Pickering, future supply also includes the Pickering City Centre project with a total GFA of 3.6 million sf. Again, this development includes residential, commercial, institutional, and public space. There is 130,000 sf of office space proposed in this development. The zoning by-law and draft plan of subdivision have been approved for this development. Professional office tenants will naturally gravitate to this location, making it more viable for major office development. This is due to a tenant's locational preferences to high-ordered transit (Pickering GO station), local amenities, and access to highways, all resulting in higher rents to create stronger investment patterns.
- Further east of the Pickering City Centre, located at Brock Road and Highway 401 is a proposed mixed-use development at 1755 Pickering Parkway. This mixed-use development includes a total of seven buildings consisting of 12 towers. The proposed development would replace the existing retail plaza known as The Shops at Pickering Ridge. The OPA and Zoning By-law were approved in 2022. The developer requested the municipality put this on hold in 2023, likely a response to the worsening market conditions. In April 2024, revised plans were submitted to reduce the office space from 287,000 sf to the now submitted 236,000 sf.
- 190 Westney Road South in Ajax is another proposed mixed-use development in the Durham Region office corridor consisting of two 51-storey apartment towers connected by a nine-storey podium. The proposed podium consists of 55,000 sf of commercial space, hotel suites, and structured parking. Notably, this proposal has not defined the type of commercial included in this development and will likely be a mix of retail and population serving office uses. This proposed development will replace the existing auto dealership located on this site.

5.0 Conclusions

Although many new businesses have opened in the Durham Region recently, economic growth is predominantly driven by its strong industrial sectors. This growth is supported by the existing agglomeration of uses, the availability of greenfield land designated for employment, and government efforts to enhance access and prepare land for development. These economic conditions and real estate investment patterns are anticipated to persist in Durham given the region has the largest remaining supply of greenfield employment land in the GTA and the continued strength of industrial markets. Over the near term, it is likely that new office growth would be ancillary to industrial investment and located within the region's most sought-after business parks, or alternatively be population-related, such as the development of medical office. For context, over the last decade, approximately 8.2 million sf of new industrial space has been added to Durham, compared to just 134,000 sf of office space—entirely medical offices—amounting to about 13,400 sf per year.

Historically, when office demand conditions are positive, office-type employment growth and investment in the GTA tends to gravitate to Downtown Toronto. This is because Downtown Toronto offers tenants (and their employees) an amenity rich environment that is accessible to high-order transit. Employers often prefer these locations too because they contain an existing agglomeration of business establishments. Suburban office submarkets, by comparison, are typically attractive for lower rents, ample surface parking, and vehicular accessibility, which compensates for the lack of amenities and high-order transit.

Given the extensive highway network, office tenants in suburban areas face a broad search area, resulting in competition among various sites. Preferred office nodes, even within a suburban market, tend to be those near multiple 400-series highways or GO rail transit service and often form suburban office nodes too. The subject site is not a favorable location within this suburban office market context. The area surrounding the subject site lacks the key attributes needed to attract significant office development. The area is characterized by grade-related retail properties and medium-density residential uses. While BRT service will be introduced near the subject site, this feature is not as attractive as other emerging mixed use nodes in Durham, such as Pickering City Centre.

The existing office market conditions are expected to persist or worsen, over time, putting locations like the subject site at a competitive disadvantage. Post-pandemic market dynamics, characterized by stagnant net asking rents and likely declines in effective net rents, have been exacerbated by an oversupply of office space, leading to increased vacancy rates.

With headlease coming to an end, vacancy levels are expected to continue to increase as sublease space is added to the market. This includes well-located office properties within more central locations of the GTA. Developers have responded to these oversupply conditions by shelving or repurposing projects to align with evolving market demands—a trend evident even in the most prestigious office submarkets in the GTA.

These weaker office market conditions have persisted well beyond the lifting of work-from-home mandates, suggesting a structural shift as companies reduce their office footprints in favor of permanent work-from-home and hybrid models. This reduced demand for office space per worker impacts the absorption rate of existing and future office spaces.

It is anticipated that there could be an office oversupply issue for upwards of one to two decades or longer, depending on how demand and work from home trends shift moving forward. Office locations meeting a broader range of tenant needs are likely to rebound sooner, achieve higher rents, and support the viability of high-density office development or mixed-use projects with a significant office component. The subject site is at a significant disadvantage within the context of the wider GTA office market and the more localized Durham Region office corridor submarket. New commercial space in the local area would need to offer low rents and affordable parking solutions, with net rents likely around $20 psf per year, or less, including free parking too. Such revenue levels are unlikely to support the viable construction of office developments.

Given the above observations, it is anticipated that demand for non-residential uses at the subject site will and should be limited to the amount required to support population growth within the immediate area. This generally corresponds to the amount of non-residential space being proposed as part of the redevelopment.

The proposed development could still accommodate service commercial uses, such as population-related medical and real estate offices, which often gravitate to planned retail locations. These types of commercial service uses typically need ground-floor visibility and good access in order to be marketable, making them suitable within mixed use residential projects like proposed at the subject site.

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