

MARKET REPORT TENANT'S GUIDE

T O R O N T O M A R K E T | F I R S T Q U A R T E R 2 0 1 0

EXPERIENCE

Brave New Office Space

Dean Newman

There are a number of reasons for optimism in the Canadian economy. A year ago it seemed like the sky was falling. Today, thanks to a number of factors including low interest rates, financial markets have rebounded, profits are returning, the housing sector is buoyant and employment is stabilizing. So why are office vacancies in the GTA so high?

Commercial Real Estate has always been a lagging indicator of economic health. We predict that the trends of increased vacancy and declining rental rates will continue for the foreseeable future, despite protests of many landlords to the contrary. But the demand for office space and how we use it has been irreversibly changed. As with other forms of spending, there is a new frugality and practical focus as companies keep pushing the space per person and real estate expense per revenue dollar down. There is also a flight to quality which no longer means the most prestigious building. Quality now equates to better air handling systems, improved windows and natural light, energy efficient LEED® compliant buildings and more effective open planning grids. This demand supports employee productivity, flexibility, agility, maximizes cost effectiveness and

contributes to a desired culture. The newest buildings typically support these features best, and there will ultimately be a growing base of older obsolete buildings that struggle to meet the needs of tenants, especially at their current price points.

From the tenant's perspective, one should not be pressured to complete a new transaction just to save money in hopes of timing the market. There will continue to be many aggressive rental rate opportunities throughout 2010 as landlords compete for fewer tenants in a still cautious environment. The real corporate pressure should be focused on strategy, resisting the urge to retain the status quo because a deal may be 'cheaper' than it was during the last leasing cycle. Today, there is a tremendous opportunity to enhance corporate goals by planning for where the world is going with respect to office space usage. CresaPartners is your one stop expert resource. As exclusive Tenant Advisors, we have no agenda other than doing the right thing for your business. Allow our team of professionals in strategy, leasing, design and project management to identify a results-oriented customized solution for your business.

DISCIPLINE

Meyers Norris Penny LLP

OVERVIEW

Meyers Norris Penny LLP is a chartered accountancy and business advisory firm with more than 70 offices across Canada. In order to service a growing and dispersed clientele, MNP determined that a second Toronto location was required and a search for space was initiated.

CHALLENGE

In order to promote brand awareness in the Toronto market, a key objective was to secure a reasonably priced suburban location with prominent building signage. Keeping in mind the needs of clients and employees, a building accessible both by car and public transit was of primary importance.

APPROACH

After an unsuccessful attempt to secure space in a small



SERVICES PROVIDED

- Strategic planning
- Space planning
- Financial Analysis
- Market Analysis
- Lease Transaction

standalone building, MNP shortlisted two alternative locations that would provide the quality of work environment and high visibility that were important to them. Several months of negotiation ensued, with both landlords competing aggressively to win MNP's tenancy.

RESULT

Using MNP's strong financial covenant as a strategic advantage, CresaPartners was able to create additional negotiating leverage. The result was a 10-year lease for a full floor at 3100 Steeles Avenue East, Markham with aggressive rental rates and inducements together with flexibility to reduce the lease term in the event that the landlord cannot meet the tenant's long-term growth needs. MNP also secured the right to install prominent roof-top signage with Highway 404 exposure.

DISCOVER

SECTOR INSIGHT

CresaPartners teamed up with Altus InSite to defend a back to back title and compete in the 25th Annual Oxford Cup hockey tournament. The day started off great with two wins until a defeat in the championship game where a single goal made a difference. We look forward to the challenge in 2010 and winning back the trophy!



CresaPartners

TRANSACTIONS

TENANT & ADDRESS	SIZE SQ.-FT.	TYPE
Meyers Norris Penny LLP 3100 Steeles Avenue East	13,827	Direct Lease
Version 5.1 Inc. & Firmex Inc. 110 Spadina Avenue	8,100	Relocation
Service Employees International Union 125 Mural Street	39,455	Purchase
Ubisoft Toronto 224 Wallace Avenue	134,845	Direct Lease
Securitas Canada Limited 265 Yorkland Boulevard	15,736	Renewal
Stream International Canada Inc. 540 Dundas Street West	89,237	Renewal
Toronto Central Community Care Access Centre 500-522 King Street West	32,796	Sublease
Manifest Communications Inc. 197 Spadina Avenue	10,000	Sublease
The Empire Life Insurance Company 600 de Maisonneuve Boulevard West, Montreal, Qc	14,000	Renewal
Adastra Corporation 8500 Leslie Street	11,539	Renewal

MARKET REPORT TENANT'S GUIDE

T O R O N T O M A R K E T | F I R S T Q U A R T E R 2 0 1 0

Overview

The final quarter of 2009 saw a continuing increase in availability rates and decrease in average occupancy costs per square foot across the Greater Toronto Area ("GTA"). Overall availability rates for the GTA rose to 11.4% from 11.2% in the previous quarter. All areas of the city followed the same trend with regards to availability with the North District seeing the largest percentage increase from 8.5% in Q3 to 9.0% in Q4. Conversely, the West District remained almost flat with less than a 0.1% increase in availability.

Availability in the CBD rose from 12.4% to 12.7% over the last quarter, though Class A availability actually dropped from 13.6% to 13.1%. This decrease was offset partly by Class B space, but primarily by Class C space, where the availability rate leapt from 7.0% in Q3 to 24.6% in Q4 due to the remarketing of an entire 190,000 square foot building. While the Class C market in the CBD is relatively small in absolute terms, the increase in available square footage in this class still more than offset the decrease in Class A properties.

As illustrated in the Q3 market report, average gross rental rates are becoming increasingly misleading since



landlords are offering increased inducements in order to keep face rates high. While this practice continues, it can't fully mask the fact that average rates are dropping. Average rates across the GTA fell by \$0.26 psf in the last quarter to \$34.40 psf. The drop was even larger in the CBD, with rates declining from \$53.69 psf in Q3 to \$52.96 psf by the end of the year.

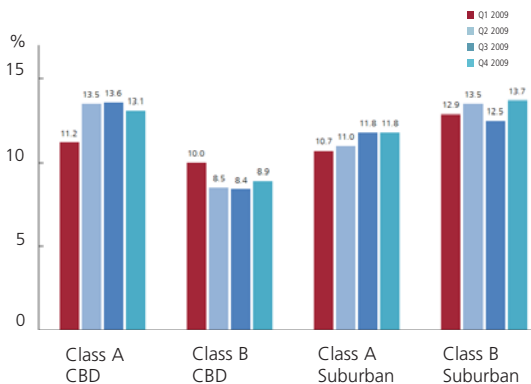
MARKET TRENDS

- While the overall availability rate has increased, the availability rate for Class A properties declined in Q4 2009, indicating a flight to quality.
- After rapidly rising throughout late 2008 and most of 2009, the amount of sublease space available decreased by nearly 100,000 square feet in Q4.

Tenant's Perspective

The commercial real estate outlook for 2010 remains murky as the new year begins. Most analysts are predicting that availability rates will continue to rise for at least the next two quarters, while rental rates should continue to fall. However, given that certain building classes in certain areas are outperforming others, it is important that tenants be armed with as much information as possible before considering their next move.

AVAILABILITY RATE



MAJOR MARKET TRANSACTIONS

Q4 2009

TENANT/BUYER	SIZE SQ.FT.	TYPE	LEASE/SALE
Ubisoft Toronto Inc.	134,845	Office	Lease
Stream International Canada Inc.	89,237	Office	Lease
Mosaic Sales Solutions Canada	40,859	Office	Lease
Service Employees International Union	39,455	Office	Sale
FinancialInx Corporation	37,454	Office	Lease
Toronto Central Community Care Access Centre	32,796	Office	Sublease
Securitas Canada Limited	15,736	Office	Lease
Build Toronto	14,125	Office	Lease
Meyers Norris Penny LLP	13,827	Office	Lease

AVERAGE RENTAL RATES

Q4 2009 (IN CDN\$)

CBD	Class A	\$56.52
	Class B	\$45.35
SUBURBAN	Class A	\$30.11
	Class B	\$25.62

CONTACT US

CresaPartners

CORPORATE REAL ESTATE SERVICE ADVISORS

170 University Avenue

Suite 1100

Toronto, Ontario

M5H 3B3

tel 416.862.2666

fax 416.862.2360

lrobinson@cresapartners.com

www.cresapartners.com

LNR Corporation, Brokerage

CresaPartners
CORPORATE REAL ESTATE SERVICE ADVISORS