

Is Sublet Really the Elephant in the Room?

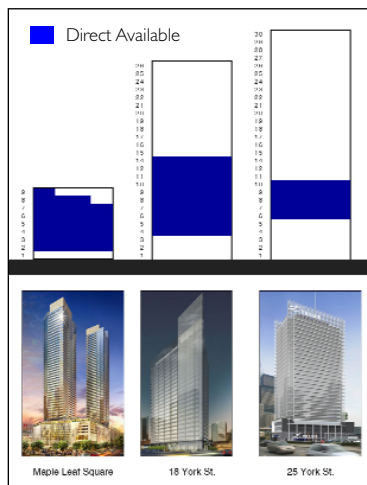
Future demand as tenants move into new buildings will be the key to the answer

The recent completion of Bay Adelaide West and RBC Centre has added 2.3 million sf to the Downtown Toronto office inventory, and there is currently over 650,000 sf of space available for lease in these two buildings. In addition to that, there are another three buildings under construction Downtown, totalling 1.6 million sf with 625,000 sf of that currently available for lease. While this space is not large relative to an inventory of around 67 million sf, recent completions and current under construction have pushed the amount of available space in Downtown Toronto to 7.8 million sf. Using the average of increases in leased area of 500,000 sf per year for the past five years, it will take more than 15 years to fully absorb that space.

The good news? The amount of space available for sublet downtown has increased by only 20,000 sf since the beginning of the year, and by less than 500,000 sf since the beginning of 2008. This will likely result in less downward pressure on rents overall, at least downtown.

This is not the case in Calgary where the sublet available rate has risen from virtually 0 in late 2006 and now stands at 4.4%, or 2.3 million sf. In contrast to the new buildings in Downtown Toronto there is currently more than 500,000 sf of space available for sublet in the new supply in Downtown Calgary, in addition to the 1.7 million sf of sublet in the existing inventory. This will undoubtedly have a negative impact on the attractiveness of the more than 3.3 million sf of space available for lease direct from the landlords as the rates on the sublet space may be more attractive to potential tenants.

SUBLET AVAILABLE BAROMETER			
	March 31, 2009	June 31, 2009	September 30, 2009
Greater Toronto	2.0%	2.2%	2.2%
Downtown	1.9%	2.0%	1.8%
Midtown	1.5%	1.5%	1.5%
East	2.4%	3.1%	3.1%
North	1.6%	2.3%	2.2%
West	2.4%	2.2%	2.6%



Sublet is not a major concern in Downtown Toronto but new supply is having an impact on overall availability.

Sublet available rates in Vancouver, Edmonton, Ottawa and Montreal are also on the rise, but to a much lesser degree, but all signs point to a decrease in demand in those markets, at least in the short term.

What does it all mean? While demand, at least in Downtown Toronto, seems to be stable, it is quite difficult to interpret where the impact will be felt the most until the tenants who have leased space in the new buildings have fully moved in. Much of the space being vacated by these tenants will likely need to be divided in order to accommodate much smaller users, as most of the larger tenants are now locked into their existing space. In addition, it is highly likely that much of this space will be overhauled or upgraded in order to compete with the green factor of the newer buildings, which will impact the timing of when this space will be ready for occupancy.

In the end, the real elephant in the room will be whether there will be enough demand to absorb both the new and old vacant space and the effect of demand on increases or decreases in future rental rates.

Smith Company is a full service commercial real estate brokerage firm specializing in tenant and landlord representation in the Greater Toronto Area. For further information, contact us at:

Smith Company Real Estate Services Inc. | Brokerage

401 Bay Street, P.O. Box 59, Suite 2704, Toronto, Ontario M5H 2Y4 | T. 416.366.7000 | F. 416.366.9800



ONCOR INTERNATIONAL

www.smithcompany.ca | info@smithcompany.ca

Smith Company is a member of ONCOR International which has a global network of more than 50 brokerages worldwide.

Certified ISO 9001