

Toronto

Reduced supply and increasing demand lead to a tightened retail space market

Local Market

After mass vaccinations prompted a turning point last year, the Toronto leasing retail market should continue to see rental strengthen and vacancies decline in 2022. Developers continue to be pickier about the products they put on the market as some now emphasize essential-oriented retail properties. In 2020, supply quickly adjusted to subdued demand, as many retailers put expansion on hold and construction costs began to rise.

In an environment where retailers have until recently felt the heavy hand of federal and provincial governments, retail leasing activity in Toronto remains reduced from pre-pandemic levels. The recent Omicron wave hasn't helped improve the environment either. The expectations now are that leasing activity will gradually improve as provinces drop most of the mandates and less interference takes place.

Asking rents continue to strengthen quarter after quarter despite a pause in Q1. The market is increasingly tight with fewer retail completions, which remain at a fraction of 2019. Due to the reduced supply, availability rates continue to decrease.

The trend to move in remains stronger than the trend to move out. Following strong consumer demand growth last year, many businesses continue to expect increases, sometimes significant, in their sales in 2022. Future sales indicators have improved, and businesses have felt supported both by greater domestic and foreign demand. Net absorption remains relatively stable at a positive, reduced level.

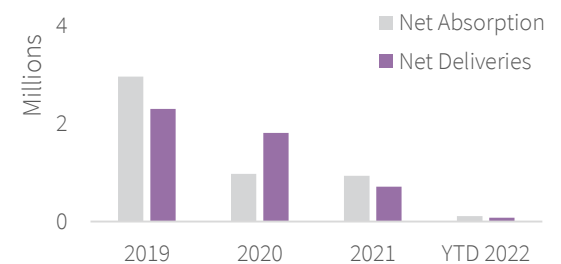
Most retail properties continue to be popular, especially those with direct outdoor access close to the shoppers' homes. Over the past year power centres, neighbourhood centres, and general retail were the places where retailers most moved in.

Meanwhile, malls have stabilized after losing ground to other retail properties during the past year. Vacancy seems to have bottomed out, and there is increased leasing activity in malls. Retailers are taking advantage of the available space left after the pandemic.

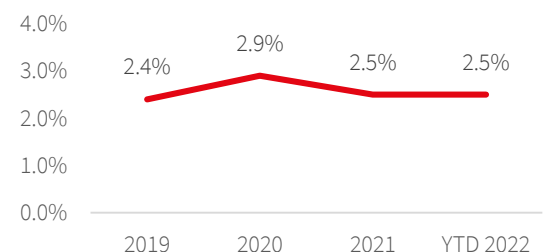
Fundamentals

	Trend
Total inventory	299.1 m.s.f. ▲
YTD 2022 net absorption	0.1 m.s.f. ▲
Under construction	2.3 m.s.f. ►
Total availability	2.5 % ▼
Avg asking net direct rent	\$26.97 p.s.f. ▲

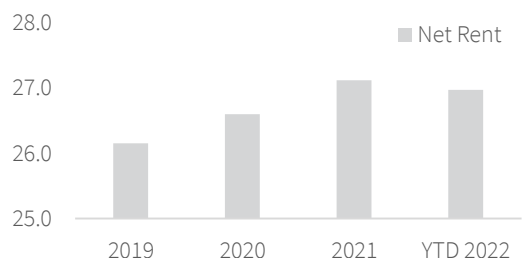
Supply and demand (s.f.)



Total available



Average asking rents (\$/s.f.)



Source: CoStar

Toronto

Local Market (Cont'd)

Construction slowed during the pandemic as costs limited supply. In 2021, Toronto was one of the metro areas most affected by rising construction costs, and the Toronto construction price index for non-residential building rose by 15 percent. Contractors attributed the higher costs primarily to rising labour costs resulting from skilled-labour shortages and to rises in the price of steel products, impacted by supply constraints.

In addition, the accelerated increase in construction prices has affected retailers' decisions to move into a new space, as they must now consider the additional costs associated with space buildout.

Despite lag, Toronto retail sales recover

After dropping in 2020, Toronto retail sales vigorously rebounded and closed 2021 four percent higher than 2019. Despite Omicron, retail sales stepped into 2022 at a higher level supported by post-holiday season shopping and a less hesitant shopper. Nevertheless, Toronto continues to lag other major Canadian markets and is the worst performer in 2021.

If local retailers were concerned about lockdowns in the beginning of 2021, this time they are concerned about labour shortages and supply chain issues. Per a recent Bank of Canada survey, about one-third of Canadian firms indicated that capacity constraints are holding back their sales expectations. Rising inflation and the Russia-Ukraine conflict, which affect fuel prices and consequently transportation costs, have been top of mind as well.

Food services in Ontario continue to rebound as it recovered in 2021 almost half of what it had lost in sales in 2020. Food services sales in 2021 remained 16 percent down from pre-pandemic levels, mostly due to the ban of indoor dining. Although Omicron depressed food services sales in early 2022, they are expected to gradually rise and peak in August like in previous years.

Foot traffic continues to gradually rise after plummeting right after Christmas. Major cities in central provinces like Toronto continue to lag Atlantic and western cities in terms of visitation to retail and recreation places.

Many are returning to downtown for the first time since the fall and office occupancy has increased since March. However, there is concern that a hybrid return to the office might overload scaled-back transit on Tuesdays, Wednesdays, and Thursdays, which have been popular picks for in-person meeting and networking.

Downtown hotels are seeing rising occupancy as the number of sporting events, parades, and festivals scheduled for 2022 increases. This past March, occupancy was above 50 percent – more than 30 percentage points higher than in March 2021.

As we continue to see increased activity on Bloor Street, rents continue to climb back towards 2019, although rates remain below \$300/square foot. Landlords hope to attain pre-covid rates withing the next two years.

Notable Openings

Retailer	Address	Property Type	Concept	Details	Size (sf)	Opening date
Balenciaga	92 Yorkville	Streetfront	Fashion	Pop-up turned into permanent	7,000	Spring/Summer 2022
Lucid Motors	Yorkdale	Shopping Centre	EV	Studio	2,850	Mar-22
Lululemon	2 Bloor St West	Streetfront	Athletic	Flagship	12,100	2024
JD Sports	CF Fairview Mall	Shopping Centre	Athletic	First-to-market	-	Nov-21
Adidas	Eaton Centre	Shopping Centre	Athletic	Halo concept	12,000	Summer 2022
Vinfast	Yorkdale/Square One	Shopping Centre	EV	First-to-market	-	-
Alo Yoga	60 Bloor St West	Streetfront	Athletic	First-to-market	17,000	TBD
Huawei	Centerpoint Mall	Shopping Centre	Electronics	Store in store concept inside Canada Computers	-	Mar-22

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Despite lag, Toronto retail sales recover (cont'd)

In turn, available space in the Bloor-Yorkville node has trended down, becoming more visible throughout this year and the next, when deals are finalised and new stores open. Incoming retailers include first-to-market The Webster, Paris Baguette, and Lafayette 148. In 2024, Lululemon will open a new flagship at Bloor and Yonge, spanning 12,100 square feet over three floors.

After experiencing little leasing activity during the thick of the pandemic, Queen Street West is seeing steady recovery and rent rates hold up well. Several retail properties have been sold between 318 and 364 Queen Street West.

For the construction of the Ontario Line subway station, the city is expropriating the southwest and northeast corners of Queen and Spadina. The southwest corner was owned by TD Canada Trust, which just signed a lease to move to 365 Queen Street West.

Notable Developments

Project Name	Submarket	Developer	Anticipated completion	Retail s.f.	Office s.f.	Residential units
The Well	West End	Allied REIT, RioCan	Late 2022	420,000	1,000,000	1,700
Sugar Wharf	Eastern Waterfront	Menkes Developments	2022	200,000	675,000	4,600
Windfields' Farm	Oshawa	RioCan	Winter 2022	839,000	-	1,854
Waterfront Innovation Centre	Eastern Waterfront	Menkes Developments	2022	25,000	450,000	-
T3 Bayside	Eastern Waterfront	Hines	Early 2023	21,000	251,000	-
Cloverdale Mall	Etobicoke	QuadReal Property Group	TBD	380,000	-	4,050
Mirvish Village	West End	Westbank Corp. and Peterson Group	2022	-	-	916
Galleria On The Park	West End	ELAD Canada	2023	300,000	20,000	2,800