

Commercial Sublease Canada: 2025 Market Analysis & Trends

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Executive Summary

- **Surge in Sublease Availability:** The COVID-19 pandemic triggered an unprecedented glut of [sublease space](#) in Canada's commercial real estate markets, especially offices. By mid-2023, **available sublet office space nationwide hit a record ~16.8 million square feet**, the highest on record and about 2.5 million sq. ft. more than a year earlier (Source: [www.cbre.ca](#)). Major cities like Toronto and Vancouver saw sublease inventories reach historic peaks as companies downsized or delayed office plans amid widespread remote work adoption (Source: [ca.finance.yahoo.com](#)) (Source: [www.theglobeandmail.com](#)). Industrial real estate, which had been extremely tight pre-2023, also experienced a surge – by late 2024, sublet industrial space in major markets swelled to around 9 million sq. ft., a ~60% jump in under a year (Source: [www.avisonyoung.ca](#)), and continued to a national record of 15.0 million sq. ft. by Q3 2025 (Source: [www.cbre.com](#)).
- **Historic Vacancy Highs:** [Office vacancies](#) climbed to levels not seen since the mid-1990s. In Q2 2023, Canada's **national office vacancy rate reached ~18.1%**, surpassing previous peaks from the early-2000s dot-com bust and 2008 financial crisis (Source: [www.cbre.ca](#)) (Source: [building.ca](#)). Downtown Toronto's vacancy rose from just 2% pre-pandemic to around 10-16% by 2022 (Source: [ca.finance.yahoo.com](#)), while Calgary's downtown vacancy hovered around 30%+ after years of energy-sector turmoil (Source: [www.cbre.ca](#)) (Source: [ca.finance.yahoo.com](#)). **Sublease listings accounted for a significant share of this vacancy** – at certain points one-third or more of available office space in key markets was sublet supply (Source: [ottawa.citynews.ca](#)). For industrial properties, the national availability rate (including direct and sublet space) climbed off record lows as new supply outpaced demand, with subleases comprising roughly 14% of all vacant industrial space in late 2024 (Source: [www.avisonyoung.ca](#)).
- **Peak and Turning Point:** Around late 2022 into 2023, sublease inventories peaked as major employers shed space. For example, **Greater Toronto Area (GTA) sublet office inventory hit 7.7 million sq. ft. by Q4 2022**, up 26% year-over-year and exceeding the previous pandemic high (Source: [ca.finance.yahoo.com](#)). High-profile cases like Shopify's decision to not occupy its newly built Toronto office (348,000 sq. ft.) and instead put it on the [sublease market](#) illustrated this trend (Source: [ca.finance.yahoo.com](#)).

ca.finance.yahoo.com) (Source: ca.finance.yahoo.com). However, by mid-2023 the flood of new subleases began to ebb. **Sublease space started to decline sequentially** as some excess space was leased or withdrawn, and by Q3 2024 the national sublet inventory had fallen for five consecutive quarters, shedding ~2.2 million sq. ft. from its peak (Source: www.cbre.ca). This positive trajectory continued into 2025 – by Q3 2025, total office sublease space was down about **27.8% from its mid-2023 peak** (Source: www.cbre.ca), roughly **12 million sq. ft. versus 16.8 million** at peak. Most cities are now reporting **vacancy rates below their pandemic-era highs** as the market gradually absorbs surplus space (Source: www.cbre.ca).

- Flight-to-Quality and Selective Recovery:** The ongoing recovery is highly uneven across asset classes and locations. **“Flight-to-quality” is a defining theme** – tenants are gravitating to modern, amenity-rich buildings (often at **discounted rents** via subleases or landlord incentives), leaving older Class B/C offices struggling (Source: www.cbre.ca) (Source: www.cbre.ca). In Q3 2025, downtown Class A (“Trophy”) office vacancy fell by 90 basis points in one quarter, the steepest drop since 2008, as large users refilled prime space (Source: www.cbre.ca). In contrast, lower-grade buildings continue to see rising vacancy (Source: www.cbre.ca). Toronto exemplifies the rebound: in Q3 2025 the GTA logged **1.6 million sq. ft. of positive net absorption** (space leased minus vacated), leading all markets (Source: www.cbre.ca) – a result of major leasing deals and companies reclaiming subleased space as return-to-office plans ramp up. **Nearly all markets have vacancy below peak levels** now, with Toronto leading the recovery, although **Calgary remains an outlier** where sublease availability is still rising year-over-year due to ongoing energy sector consolidations (Source: www.cbre.ca) (Source: www.cbre.ca).
- Industrial Sublease Dynamics:** The industrial sublease market, while a smaller piece of the overall puzzle, saw a dramatic swing post-pandemic. In 2021–2022, industrial vacancies hit all-time lows (<1% in key hubs) and subleasing was almost a non-factor. But by 2024, an influx of newly built warehouses combined with some softening in e-commerce demand led to **record industrial sublease volumes**. Sublease availability in Canada’s top industrial markets jumped over 60% in the first three quarters of 2024 (Source: www.avisonyoung.ca). By Q3 2025, **industrial sublease space reached 15.0 million sq. ft. nationally**, an all-time high (Source: www.cbre.com), driven largely by a **2.1 million sq. ft. surge in Montreal** after a major tenant exit (Source: www.cbre.com). (Notably, [Amazon’s decision to shut down its Quebec fulfillment centers](https://www.apnews.com) in 2025 contributed significantly – seven warehouses closing in that province freed up substantial space (Source: [apnews.com](https://www.apnews.com)).) Excluding that one-off, industrial sublet space was actually starting to decline by 2025 as many earlier subleases found new tenants (Source: www.cbre.com). Indeed, **nearly 80% of large industrial spaces that hit the sublease market in 2022–2023 were leased or withdrawn by late 2024** (Source: www.savills.ca), often taken up by 3PL logistics firms capitalizing on slightly softer rents. Industrial rents, while still relatively high, have seen asking rates inch down (~3% year-over-year by Q3 2025) as more space becomes available (Source: www.cbre.com) (Source: www.cbre.com), and sublease listings tend to be offered at **double-digit discounts (often ~15–20% lower) compared to direct rents** (Source: www.savills.ca). This indicates a market normalization from the extreme tightness of the pandemic-era logistics boom.
- Implications for Stakeholders:** The sublease wave has **multi-faceted implications**. **Tenants (Sub-landlords):** Companies with surplus space have used subleasing as a pressure valve to cut costs, though often at a loss – sublease rents commonly do not fully cover original lease rates, leaving tenants to absorb the difference in many cases (Source: ca.finance.yahoo.com). Some tenants withdrew planned subleases when anticipating a return-to-office (e.g. Toronto firms like TMX in mid-2021) (Source: ottawa.citynews.ca), highlighting the strategic uncertainty around future space needs. **Subtenants:** Businesses seeking space have benefited from **unprecedented opportunities to lease fully-built, furnished offices at below-market rents** on flexible terms (Source: www.collierscanada.com) (Source: www.collierscanada.com). This has particularly aided smaller and mid-size firms looking to avoid expensive build-outs – a subtenant can often step into a “plug-and-play” space with rent fixed for the short remaining term, yielding substantial savings and agility (Source: www.collierscanada.com) (Source: www.collierscanada.com). **Landlords:** Property owners have faced increased competition and downward pressure on rents due to the volume of sublet space on offer. Direct vacancies are harder to fill when subleases in the same building or market are undercutting on price. Landlords typically still hold original tenants liable for lease obligations, but they must consent to sublease deals and often impose conditions such as sharing any sublease profit 50/50 (Source: ca.finance.yahoo.com). In many cases, landlords have responded by **boosting incentives and amenities** – e.g. providing higher tenant improvement allowances, or repurposing underused space (wellness facilities, conference centers, etc.) – to entice tenants to rent directly rather than via sublease. Some landlords, especially of older buildings, are even **exploring conversions or redevelopments** as a long-term solution to high vacancy (for example, Calgary’s city-supported program to convert offices to residential has removed over 1 million sq. ft. of downtown office space so far (Source: www.cbre.ca) (Source: www.cbre.ca)).

- **Market Outlook:** As of October 2025, the **sublease market in Canada shows tentative signs of equilibrium, but significant headwinds remain**. On the positive side, strong leasing activity in late 2024 and 2025 (particularly in top-tier office properties and in key industrial nodes) indicates that demand is gradually rebounding. A wave of return-to-office mandates by large employers – for instance, major Canadian banks (RBC, BMO, TD) now requiring employees back ~4 days a week in office starting fall 2025 (Source: www.bnnbloomberg.ca) – is expected to improve office utilization and could further reduce sublease volumes as firms decide to keep space. **Sublet availability in offices has fallen ~28% from its peak** and is likely to continue trending down toward more normal levels (the pre-COVID average was ~8.2 million sq. ft. nationwide (Source: www.cbre.ca) over the next 1–2 years, assuming economic conditions stay stable. Many leases signed at the height of the 2010s expansion are reaching maturity by 2025–2026; some tenants will formally downsize at expiry (converting sublet space into direct vacant space), while others may reoccupy or unload space via assignment, which will gradually clear the sublease overhang. New office construction has virtually ground to a halt – under 3 million sq. ft. is under development nationally, the lowest in decades (Source: www.cbre.ca) – which will help supply/demand balance. In the industrial sector, despite record sublease levels now, absorption of space by growth sectors (e.g. third-party logistics, manufacturing reshoring) is expected to catch up, given that many markets still have sub-3% overall vacancy. **However, challenges persist:** hybrid work is here to stay in some form, and many companies remain cautious about long-term space commitments. Older office stock will likely struggle to regain occupancy and could feed a **“two-tier market”** where newer buildings prosper while aging ones languish. Additionally, higher interest rates and financial stress on office landlords could lead to further disruptions (e.g. distressed property sales) before the market fully resets. In sum, the Canadian sublease market in late 2025 is at a **turning point** – the rampant growth of sublet space has halted and reversed, but the road to recovery will be gradual. This report provides an in-depth examination of how we arrived at this state, the current conditions across regions and sectors, and the future implications for stakeholders in the commercial real estate landscape.

Introduction

The purpose of this report is to provide a **comprehensive analysis of the sub-lease market for commercial real estate in Canada as of October 2025**, highlighting how the landscape has evolved through the pandemic era and where it stands now. We define **“sub-lease market”** as the market for space that is being offered for lease by an existing tenant (the sub-landlord) who originally leased the property from a landlord. In a sublease scenario, the original tenant retains their lease with the landlord but **subcontracts all or part of the premises to a new occupant (sub-tenant)**, typically to mitigate costs when the space is underutilized or no longer needed. This dynamic became especially prevalent after 2020, when sudden shifts in workplace and economic trends left many companies with excess office and industrial space.

This report is organized into several major sections. First, we provide **background on subleasing in commercial real estate**, including how subleases work, common contractual considerations, and historical context prior to the COVID-19 pandemic. Next, we examine the **pandemic’s impact (2020–2022)** on the sublease market, as businesses rapidly rethought their space needs, and track the **surge in sublease availability to record levels**. We then detail the **peak period and turning point (2023)**, when sublease supply hit all-time highs and subsequently began to recede, and analyze the underlying causes (“perfect storm” of remote work, economic shifts, new construction, etc.). A section on **current conditions (2024–2025)** explores how the market has adjusted, highlighting key data from 2024 and the state of play in late 2025 – including differences among **office, industrial, and retail sublease markets**, and variation across Canada’s major cities. We incorporate multiple case studies and real-world examples to illustrate these trends: for instance, **Shopify’s Toronto sublease** as a high-profile office case, and **Amazon’s Quebec warehouse closures** as a significant industrial example. Throughout, we incorporate perspectives of different stakeholders – tenants, subtenants, landlords, investors – to understand the motivations and consequences of subleasing from each viewpoint. This includes expert commentary and findings from industry research, as well as legal/contractual factors (e.g. lease clauses affecting subleases).

Finally, we discuss the **implications of the current sublease market and future outlook**. What does the rise and fall of sublease availability mean for rent levels, property values, and urban centers? How are companies approaching their real estate strategy going forward, and what does that portend for subleasing activity? We look at emerging signs, such as increased return-to-office mandates and the adaptation strategies of landlords (including repurposing space), and weigh optimistic vs. pessimistic scenarios for the coming years. The report concludes with a summary of findings and reflections on the likely trajectory of Canada’s commercial sublease market beyond 2025.

Methodology and Sources: This analysis draws on a wide range of **data and reports from commercial real estate brokerages (CBRE, Colliers, Avison Young, Savills, etc.)**, market research publications, financial news outlets, and official statements. We have gathered the latest available statistics on vacancy rates, sublease square footage, rental rates, and transactions as of Q3 2025, and compared them to historical benchmarks. All factual claims are supported by **inline citations** referencing the source [URL] immediately following the statement. Where relevant, we include charts and tables summarizing key data points. Industry experts' opinions – from brokerage research heads to real estate lawyers – are incorporated to provide context and interpretation of the trends. By combining quantitative evidence with qualitative insights, this report aims to present an authoritative, 360-degree view of Canada's sublease market and its broader significance in the commercial real estate sector.

Background: Understanding Subleases in Commercial Real Estate

What is a Sublease? Key Concepts and Legal Framework

A **sublease** in commercial real estate is a secondary lease agreement in which an existing tenant (the **sub-landlord**) rents out some or all of its leased premises to another party (the **sub-tenant**), while still holding a primary lease with the property owner (the landlord). In effect, the sub-tenant pays rent to the sub-landlord (often at a different rate), and the original tenant remains responsible to the landlord for all obligations under the main lease. Subleasing is distinct from a **lease assignment**, where the tenant transfers its entire lease interest to a new tenant who assumes direct responsibility to the landlord. In a sublease, the original lease stays in force and the original tenant is effectively **sandwiched between the sub-tenant and landlord**, carrying ultimate liability if the sub-tenant fails to perform (Source: ca.finance.yahoo.com) (Source: www.collierscanada.com).

Lease provisions: Most commercial leases contain clauses governing if and how the tenant may sublease or assign the premises. **Landlord consent** is typically required before subletting. For example, under standard terms (and under the Civil Code in Quebec), a tenant must notify the landlord of any intended sublease or assignment and obtain the landlord's approval (Source: www.collierscanada.com). Landlords cannot usually unreasonably withhold consent, but they may impose conditions. Often, leases include profit-sharing clauses stipulating that if the tenant subleases at a higher rent than their own, some or all of the **"profit" rent must be split with the landlord** (Source: ca.finance.yahoo.com). Conversely, if the sublease rent is lower (which is common in a weak market), the tenant simply eats the loss. Figure 1 below summarizes the typical rights and obligations of each party in a sublease arrangement:

Table 1. Roles and Considerations in a Commercial Sublease

STAKEHOLDER	PERSPECTIVE AND INCENTIVES	RISKS AND CHALLENGES
Original Tenant (Sub-Landlord)	- Has surplus space (due to downsizing, relocation, etc.) and seeks to cut costs by subleasing it. - Retains the head lease and remains liable for rent and all terms with the landlord (Source: ca.finance.yahoo.com). - Aims to recoup as much rent as possible from a sub-tenant, though typically at a discount to their own rate.	- May not fully recover the rent – sublease deals often cover only part of the original rent, so the tenant pays the shortfall (Source: ca.finance.yahoo.com). - Must find a suitable sub-tenant and obtain landlord consent, which can be time-consuming. - Remains liable if the sub-tenant defaults or causes damage; the landlord will hold the original tenant responsible under the head lease (Source: www.collierscanada.com). - Many leases require sharing any excess rent profit with landlord, limiting upside (Source: ca.finance.yahoo.com).
Sub-Tenant (Occupier of Subleased Space)	- Often a smaller or growing company seeking move-in-ready space at lower cost. Subleases frequently come furnished and built-out, saving on upfront fit-out expenses (Source: www.collierscanada.com). - Can negotiate a shorter term (sublease ends by the head lease expiry) – provides flexibility if unsure of long-term needs. - Typically pays below-market rent; subleases in 2023–25 have been priced ~15% or more under direct lease rates on average (Source: www.savills.ca).	- Has less control: the sub-tenant is bound by terms of the original lease (can only use space as permitted there, etc.) but has no direct relationship with landlord in most cases (Source: www.collierscanada.com). - Faces uncertainty – if the original tenant defaults or terminates its lease, the sublease may be cut short (sub-tenant could be forced out) (Source: www.collierscanada.com). - Usually no right to extend beyond head lease term; could be a short occupancy if the main lease has little time left. - Must accept that any improvements are per the existing fit-out; customization is limited compared to a fresh direct lease build-out.
Landlord	- May consent because a sublease keeps the space occupied and the original tenant paying rent. Better than an outright vacancy with no rent. - Gains potential new future tenant: if sub-tenant outgrows the sublease, they might sign a direct lease later. - Retains rights: the original tenant remains on hook for obligations, so landlord can enforce lease terms via them.	- Competitive pressure: subleases in their building or nearby can undercut landlord's own space for lease, forcing asking rents down. - Limited relationship with sub-tenant – if issues arise (e.g. improper use of space), landlord typically must work through the original tenant. - The presence of many subleases can signal weak demand, hurting property valuation and leverage in negotiations. - Administrative burden of approvals and monitoring subleasing activity (ensuring compliance with lease terms, insurance, etc.).

Sources: Summarized by the author from industry guidelines and Colliers Canada insights (Source: www.collierscanada.com) (Source: www.collierscanada.com) (Source: ca.finance.yahoo.com).

In Canada, legal frameworks for subleasing vary slightly by province but generally follow similar principles. In Quebec, for instance, the **Civil Code of Québec (CCQ)** explicitly allows a lessee to sublease or assign with notice to the landlord and the landlord's consent (Source: www.collierscanada.com). Most modern commercial leases across Canada incorporate standard clauses detailing the process: the tenant must request consent and often must provide information about the proposed sub-tenant's business, financials, and the sublease terms. Landlords might retain the right to reject an unsuitable sub-tenant (for example, a direct

competitor to another tenant in a retail center, or a use that might violate exclusive use clauses). Some leases give the landlord a **recapture option**, meaning when the tenant asks to sublease, the landlord can instead terminate the lease for that portion and take back the space – though this is used sparingly, often only if the landlord has another direct tenant lined up.

It's also worth noting that **sublease vs. assignment** decisions can be strategic. An assignment releases the original tenant from future liability (the new tenant takes over the lease entirely), but landlords often prefer to keep the original tenant liable as a backstop. Therefore, landlords may be more amenable to a sublease than a full assignment if the original tenant's covenant (financial strength) is stronger than the prospective assignee's. On the other hand, if a sub-tenant is ready to commit long-term and the landlord trusts them, an assignment (new direct lease) can simplify things by eliminating the middle layer. In the **current market**, there have been cases where sub-tenants negotiated direct extensions or new leases with landlords when the original lease neared expiry – effectively converting a sublease into a standard lease to everyone's benefit. We will see examples of these dynamics in later sections.

Why Do Subleases Happen? Common Drivers

Subleasing is not a new phenomenon – it has long been a flexibility mechanism in commercial real estate. However, the **scale and prevalence** of sublease space on the market fluctuates with economic cycles and business trends. Here are common reasons companies turn to subleasing:

- **Downsizing or Rightsizing:** If a tenant no longer needs all the space it has (due to layoffs, reorganization, efficiency improvements, or shift to remote work), subleasing allows shedding that extra space and offsetting costs. For example, during economic downturns or industry-specific contractions, companies often reduce headcount, leaving parts of their offices unused. Subleasing those portions can recoup some rent. The **COVID-19 remote work shift** is a prime example, where many firms realized they could operate with significantly less office footprint (Source: ca.finance.yahoo.com) (Source: www.theglobeandmail.com).
- **Relocation:** A tenant might relocate to a different building or city before its old lease expires – rather than paying rent on an empty space, it will sublet the old premises for the remaining term. This often happens when companies upgrade to newer offices (leaving older ones behind) or consolidate multiple locations into one.
- **Expansion Space that Didn't Pan Out:** In boom times, tenants sometimes lease more space than needed ("grow into it") or sign up for new developments years in advance. If growth slows or plans change, that extra space becomes a candidate for sublease. During the tech industry expansion of the late 2010s, many firms pre-leased large future offices; post-2020, some ended up trying to sublet portions of those commitments as their headcount growth stalled. A notable case: **Shopify in Toronto** had signed a 15-year lease to be the anchor tenant of a major new project (The Well), anticipating growth, but after the pandemic pivoted to remote-friendly operations and no longer needed that new HQ space – thus it put all 348,000 sq. ft. on the sublease market before even occupying it (Source: ca.finance.yahoo.com).
- **Cost Savings and Arbitrage:** If market rents rise substantially above a tenant's lease rate, the tenant might attempt to sublease at a higher rent and profit from the difference. This is more common in industrial or booming markets – e.g., a company paying \$8 per sq. ft. could sublease to someone else at \$18, theoretically (Source: ca.finance.yahoo.com). However, profit-taking via sublease is often curtailed by lease clauses (profit share with landlord) (Source: ca.finance.yahoo.com), and in weaker markets the scenario is reversed (sublease at a loss). Still, there have been instances in high-demand sectors where subleasing part of a facility temporarily made financial sense for the tenant.
- **Temporary Disuse:** Sometimes a space is temporarily not needed – e.g., during a merger/acquisition (two companies overlap space) or a short-term project ends. The tenant might sublease for the remaining short term rather than terminate the lease. A merger example could be seen in Calgary's energy sector in 2023: after M&A activity, firms like Suncor ended up with more office space than needed and listed several floors for sublease (Source: www.cbre.ca) (Source: www.cbre.ca).
- **Avoiding Breakage Costs:** Commercial leases often lack easy termination options. Breaking a lease early usually requires negotiation and hefty penalties (or it's outright not allowed without default). Subleasing is often the **only viable exit** mid-lease. As one Toronto brokerage head noted, "breaking a lease is rarely an option... you can't just walk away like a residential

lease. So if the space is not worth keeping, the only option is to put it on the sublet market” (Source: ca.finance.yahoo.com) (Source: ca.finance.yahoo.com). This was precisely the scenario for many tenants in 2020–2021 who suddenly didn’t need their offices but were locked into multi-year leases.

- **Portfolio Optimization:** Large corporations with multiple locations might constantly adjust their real estate portfolio. They might sublease one site while expanding elsewhere, to optimize where operations are based. For instance, a bank might sublease excess downtown offices while opening new hubs in cheaper suburban areas or vice versa, following talent or cost advantages.

In summary, subleasing is fundamentally a **pressure-release valve** in the commercial real estate system. In good times it allows flexibility and in bad times it becomes a lifeline for tenants to reduce costs. Landlords generally tolerate subleasing because it keeps tenants on the hook and buildings occupied, but when sublease availability becomes excessive, it can significantly swing market dynamics – as we will explore, this became the case in Canada after 2020.

Historical Context: Sublease Market Before the Pandemic

Prior to 2020, Canada’s sublease market was relatively stable and modest in scale, aside from occasional spikes during recessions. Commercial real estate cycles in the 2000s and 2010s saw **vacancy ebbs and flows, but nothing like the post-2020 surge in subleasing**. Typically, sublease space might comprise a small fraction of total inventory. **On average in the decade before COVID, about 8.2 million sq. ft. of office space was available for sublease nationally at any given time (Source: www.cbre.ca)**, which was considered normal frictional space (companies moving, etc.). To put that in context, Canada’s overall office inventory is on the order of ~500 million sq. ft., so sublease availability hovered around ~1.5% of stock in typical times.

There were, however, historical instances of sublease upticks:

- **Early 1990s and mid-2000s downturns:** The early ‘90s recession and a development boom left Canadian downtowns with high vacancy (national office vacancy hit ~18% in 1994) (Source: www.cbre.ca). Subleasing was a factor in that era, though detailed data is sparse. The dot-com crash around 2001–2002 caused tech tenants in cities like Toronto and Vancouver to give up space; sublet signs popped up as startups folded. Still, according to CBRE, the **office vacancy peaks during the early 2000s and the 2008–09 financial crisis were lower** than what was seen post-COVID (Source: building.ca). For example, Toronto’s downtown vacancy peaked around 10–11% after the dot-com bust and again around that level in 2009 – sublease space did increase in those times, but the market absorbed it relatively quickly as the economy recovered.
- **Alberta energy downturn (2015–2017):** A more region-specific precedent was Calgary and Edmonton’s crisis when oil prices collapsed in 2014/15. Energy companies downsized drastically, leading to huge blocks of office space being listed for sublease in Calgary’s downtown. By 2016–2017, Calgary’s downtown vacancy spiked above 25%, with millions of sq. ft. vacant – a significant portion was from companies trying to sublease unused floors. In fact, Calgary pre-2020 holds a record for Canadian sublease availability in one market: at one point in 2017, there were over 4 million sq. ft. of office sublease space on the market in downtown Calgary alone (Source: ca.finance.yahoo.com) (this gradually improved by 2018–2019 as some space was absorbed or leases expired). This episode was a **harbinger** of how a sudden industry shift can flood the sublease market, albeit confined to one region pre-COVID. It primed Calgary’s office market to be somewhat accustomed to high sublease levels, as we’ll discuss later.
- **2010s steady growth:** Through the late 2010s, Canada’s office markets were generally tight. Vacancy in downtown Toronto and Vancouver hit record lows (~2–4%) by 2019. There was relatively little sublease space because companies were actually scrambling for more space, not giving it up. If anything, tenants who had locked in large offices were holding onto them tightly (some even subleased *in* space from other firms for swing space because supply was short). National office vacancy around end of 2019 was ~11%, and sublease space was a footnote. Industrial real estate was similar – vacancies under 3% nationally, and any warehouse put up for sublease would be snapped up quickly due to scarce supply.

In summary, **before 2020 the sublease market in Canada was generally benign**. Periodic economic shocks created bumps – e.g., the dot-com bust saw sublease offerings increase, and Calgary’s oil slump mid-2010s dumped space on the market – but these were either localized or short-lived in impact. Never before had we seen a synchronized, nationwide surge of sublease space across all major markets, because never before had virtually all industries simultaneously rethought their real estate usage as they did when the pandemic struck. Thus, while subleasing was a known concept, its scale and significance were about to amplify dramatically in the 2020s.

To quantify historical context with one example: **In Q3 2019 (pre-pandemic)**, Toronto's downtown vacancy was around 2.0% – effectively full occupancy – and sublet space was minuscule. Fast forward two years, **Q3 2021**: the national vacancy hit 15.7%, highest since 1994, but an optimistic CBRE noted that **sublet space had actually started declining by late 2021** as some businesses cautiously began recalling workers (Source: [building.ca](https://www.building.ca)) (Source: [building.ca](https://www.building.ca)). In fact, in Q3 2021 Toronto's downtown sublease availability **decreased by 17.6%** as companies like TMX and others pulled space off the market, anticipating return-to-office (Source: [building.ca](https://www.building.ca)). That was a short-lived reprieve, as we'll see, but it underscores that prior to the pandemic (and even in its early phase), the sublease market was seen as something that would ebb and flow with business confidence. No one expected the tsunami that came next would last as long as it did. In the following section, we document the **pandemic shock and its aftermath (2020-2022)**, when sublease space ballooned to record levels across Canada.

The Pandemic Shock (2020-2022): Sublease Tsunami

Initial Wave: 2020 – Offices Emptied and Space Gluts Begin

In March 2020, COVID-19 lockdowns emptied offices practically overnight. Companies large and small shifted to work-from-home en masse, and many realized they could operate with far fewer people on-site. Almost immediately, forward-looking firms started **putting surplus office space on the sublease market** as a stopgap until leases could be re-evaluated. By mid-2020, brokers in major cities were reporting a sharp rise in sublease availabilities, led by large corporate tenants in downtown markets.

A **Globe and Mail** report from **September 2020** captured this early trend: in downtown Toronto, **sublease space nearly tripled from the end of 2019 to August 2020, reaching about 1.7 million sq. ft.** available (Source: www.theglobeandmail.com). That surge pushed Toronto's downtown office vacancy to 3.2% (up from a tight 2.1% pre-pandemic) (Source: www.theglobeandmail.com). A similar tripling was noted in downtown Vancouver over that period (Source: www.theglobeandmail.com). In other words, in just 8 months, more sublet space hit the Toronto and Vancouver markets than the total that had accumulated over years previously. Real estate observers pointed out this was already **higher than the sublease surge seen after the 2008 financial crisis** (Source: www.theglobeandmail.com).

Notable companies made headlines with sublease offerings in 2020: **PricewaterhouseCoopers (PwC)** put two floors (50,000+ sq. ft.) of its Toronto tower on the market (Source: www.theglobeandmail.com); **Cisco Canada** listed about 27,000 sq. ft. by the waterfront (Source: www.theglobeandmail.com); other major names like **Oracle, Air Canada, and various tech startups** all moved to shed space (Source: www.theglobeandmail.com) (Source: www.theglobeandmail.com). These were **blue-chip firms and high-growth tech companies – exactly the kind of tenants who, pre-pandemic, were expanding**. Their reversal signaled that even stable industries were uncertain about long-term office needs. Bill Argeropoulos, Avison Young's research head, commented at the time: "Those are stable, blue-chip companies looking to right-size... will others in professional services or financial institutions follow suit?" (Source: www.theglobeandmail.com). This hinted at the fear of a domino effect – and indeed, over the next year many more would follow.

On the **industrial side in 2020**, the effect was initially less severe. In fact, the logistics and warehousing sector was booming mid-pandemic due to e-commerce. Rather than adding sublease space, many industrial tenants were trying to **acquire** more space to meet demand. So, 2020's sublease wave was overwhelmingly an **office market story** to start, concentrated in downtown office towers suddenly sitting half-empty.

One particular sector hit early was **technology startups and scale-ups**, especially in Toronto's and Vancouver's downtowns which had become tech hubs. Many of these firms had leased flashy offices in 2018-2019. Come mid-2020, with staff at home and venture capital more cautious, they raced to cut burn-rate by offloading offices. Avison Young noted a "wave of tech companies tried to get rid of space earlier in the pandemic," listing firms like Ritual, CrowdRiff, Tulip, Rangle.io in Toronto that all put their new offices up for sublease (Source: www.theglobeandmail.com). This mirrored what happened in Silicon Valley and other tech centers – a quick contraction in office footprint to preserve cash. In Vancouver, a similar narrative played out with startups in Gastown/Yaletown offering short-term subleases.

By late 2020, every major Canadian city saw a jump in sublease listings. According to brokerage reports of the time, **Montreal's sublet space roughly doubled in 2020**, and Calgary, which already had lots of sublease from the oil downturn, saw additional space from companies that shrank during COVID (though Calgary's overall vacancy was already so high that sublease was a

smaller incremental factor). Ottawa (with lots of government offices) initially saw less sublease activity, as the federal government didn't immediately give up space. Still, some private Ottawa tenants did list subleases, especially in tech-driven submarkets like Kanata.

In **summary for 2020**: Within months of the pandemic's start, sublease supply skyrocketed from historic lows to levels not seen in decades. Tenants listed space because they anticipated a long stretch of remote work or financial pain from the pandemic. However, at that time many assumed this might be temporary – few expected work-from-home to remain so prevalent years later. Thus, some companies hedged, offering subleases short term (perhaps 1-2 years) expecting they might reclaim the space if needed. There was also hope that 2021 might bring a recovery.

2021: False Dawn - A Short-Lived Pullback in Subleases

In 2021, optimism percolated at times that the pandemic was waning. Vaccines rolled out, and many businesses planned phased returns to the office. This led to a **brief pullback in sublease growth mid-2021**. A Canadian Press article in July 2021 noted that some Toronto companies that had been trying to sublet space **reversed course and withdrew those listings** as a return-to-office seemed imminent (Source: ottawacitynews.ca). It specifically mentioned that **available sublet space in downtown Toronto fell in Q2 2021 for the first time in six quarters**, dropping to about 288,000 m² (3.1 million sq. ft.) – roughly 32% of all available space downtown, down slightly in absolute terms (Source: ottawacitynews.ca). Companies like **TMX Group (which runs the stock exchange) and software firm Intelex** took back sublease offerings, anticipating they'd bring employees back (Source: ottawacitynews.ca). This was echoed by news that some firms were making long-term commitments again – e.g., **Netflix chose Toronto for a major office in 2021**, signaling confidence in the office market's future (Source: ottawacitynews.ca).

Data from Q3 2021 indeed showed a **momentary improvement**. CBRE reported that in Q3 2021, **sublet space was declining in Canada's major office markets**, and leasing activity was picking up, especially driven by tech firms in Toronto and Vancouver taking "built-out" space (often subleases) (Source: building.ca). Toronto's downtown vacancy actually ticked down slightly from 10.0% to 9.9% that quarter, and **70% of sublease listings in Toronto were under 10,000 sq. ft. in size**, meaning larger users didn't have many big blocks of sublease options (Source: building.ca). Vancouver's sublet space in Q3 2021 dropped ~7% as well (Source: building.ca). This suggested the **first wave of sublease space was being at least partially digested** by the market – likely by smaller tenants seizing ready-to-go offices.

However, this "recovery" was **fragile and uneven**. Montreal in Q3 2021 saw vacancy jump further to a record 13.2% (from 11.1% in Q2) (Source: building.ca), as that market lagged in reabsorbing space. And come late 2021, the **Delta and Omicron COVID waves** dashed many return-to-office plans. So early 2022 saw another reversal: companies that had hoped to fully reoccupy offices delayed those plans (some indefinitely).

By the **end of 2021 and into early 2022**, sublease availability started creeping up again. Essentially, 2021 had a **false dawn** – a period where some sublease space was withdrawn and leased, but with continued pandemic disruptions and newly emerging hybrid work policies, the space reduction was not sustained.

In addition, **late 2021 and 2022 introduced new pressures**. Many tech companies that expanded during the pandemic (thanks to booming digital demand) were **now facing a correction by mid-2022**. Globally and in Canada, tech firms like Shopify, Meta (Facebook), Microsoft, etc., announced hiring freezes or layoffs in 2022. These firms had taken large offices or were in the midst of building new ones. As reality set in that work patterns had changed and headcount was being trimmed, a second wave of subleases began, this time led by **big tech and corporate tenants adjusting to hybrid work as a permanent feature**.

2022: Second Wave - Record Sublease Highs and Notable Exits

2022 was the year the sublease flood truly crest in many markets, particularly by the end of the year. Several factors coincided:

- **Hybrid work becomes permanent:** By 2022, it was clear that many employees were not returning to office full-time. Surveys and occupancy sensors showed offices in major cities were often only 30-50% occupied on a given day. Companies responded by **formalizing hybrid policies** (e.g. 2-3 days in office), which effectively meant they could downsize space. For example, if a

company moved to a policy of only 50% of staff in at once, in theory they might cut roughly half their space (through “hoteling” desks, etc.). While not everyone downsized that drastically, the intent to trim footprints became widespread, feeding more sublease supply.

- **Tech sector pullback:** After massive growth in 2020-21, tech firms hit turbulence in 2022. Canada’s own tech darling, **Shopify, announced in mid-December 2022 it would not occupy its new Toronto office** (one of the biggest new leases in years) as it embraced remote-first operations (Source: ca.finance.yahoo.com) (Source: ca.finance.yahoo.com). Shopify instead put **all 348,000 sq. ft. on the sublease market in January 2023** (Source: ca.finance.yahoo.com) (so not counted in 2022 stats yet, but indicative of the trend). Other tech multinationals with Canadian offices also looked to sublease – for instance, some industry chatter in 2022 noted that companies like **Amazon and Meta, which had significantly expanded in Vancouver and Toronto**, quietly sought to sublease portions of their space as hiring slowed (though specific figures were not always public). The *Financial Post* reported a wave of **late-2022 tech sector layoffs and economic jitters adding to sublease supply**, particularly in Toronto (Source: ca.finance.yahoo.com).
- **Economic and interest rate pressures:** 2022 saw interest rates rise sharply to combat inflation. The prospect of an economic slowdown (“threat of recession”) made many companies cautious, delaying expansion or new leases (Source: www.cbre.ca). If a company wasn’t sure about growth, it might sublease current space rather than hold onto excess. At the same time, new office buildings that started pre-pandemic were completing in 2022, adding fresh space to the market and raising competition. All these factors created a “perfect storm” by mid-2023 (a term CBRE used) (Source: www.cbre.ca), but the buildup was in 2022.

By **Q4 2022**, multiple sources confirmed **record levels of sublease space** in key markets:

- The **Greater Toronto Area (GTA)** hit an all-time high of **7.7 million sq. ft.** of office sublease availability in Q4 2022 (Source: ca.finance.yahoo.com), surpassing even the peak seen in early 2021. This was up from 6.1 million a year prior (Q4 2021), a ~26% jump (Source: ca.finance.yahoo.com). To contextualize, 7.7 million sq. ft. is enormous – roughly equivalent to all the office space in a large skyscraper complex (CIBC Square in Toronto’s Financial District is ~3 million sq. ft., so 7.7 msf is over two such towers) (Source: ca.finance.yahoo.com). Avison Young’s report noted this “surpassed the previous peak level of 7.4 msf recorded in April 2021” (Source: ca.finance.yahoo.com). What made up this space? It ranged from small suites to huge blocks like Scotiabank shedding multiple floors, and entire anchor spaces like Shopify’s (though Shopify’s officially hit in early 2023). Uncertainty among tenants was “still a great deal...with many deferring decisions and opting for shorter lease renewals” rather than long commitments (Source: ca.finance.yahoo.com). Subleasing provided that flexibility to wait and see.
- **Vancouver** also saw a significant rise. By end of 2022, **Metro Vancouver had ~581,000 sq. ft. of office sublease space vacant**, up from ~476,000 sq. ft. at end of 2021 (Source: ca.finance.yahoo.com). That 22% annual increase was the largest jump Vancouver had seen in sublease in recent memory (Source: ca.finance.yahoo.com). While Vancouver’s absolute sublease number is smaller (the city’s office market is about one-third the size of Toronto’s and historically had little sublease), the increase signaled that even Vancouver – which prior to the pandemic had near-zero vacancy – was deeply affected. Tech layoffs (e.g. Hootsuite, local startups) and some **new building deliveries in Vancouver** (which sometimes resulted in tenants trying to sublet older space after moving to new premises) contributed. Still, Vancouver’s downtown vacancy (~11-12% in late 2022 (Source: www.cbre.ca) remained lower than Toronto’s, partly thanks to its smaller new supply pipeline.
- **Calgary** continued to have a huge sublease inventory but interestingly saw a *decrease* in sublease from the prior year. Downtown Calgary’s available sublet office space was **~2.56 million sq. ft. at end of 2022, down from ~3.14 million at end of 2021** (Source: ca.finance.yahoo.com). That nearly 600k sq. ft. reduction (around -18%) suggests that some sublease space either got leased or was taken off market. Indeed, Calgary in 2022 enjoyed a bit of an energy sector rebound with oil prices rising, and some tenants like energy startups or alternative sectors may have absorbed sublease space. Additionally, some older subleases may have expired (leases ended, space returned to landlord), thus no longer counted as “sublease” (though possibly then counted as direct vacant). Calgary’s downtown vacancy was still extremely high (~29% at end of 2022), but the slight sublease drop gave a glimmer of hope that the worst was past there (Source: ca.finance.yahoo.com). We’ll see later that Calgary’s sublease trajectory diverged from the national trend somewhat, with a unique set of factors.
- **Montreal** did not have a widely quoted sublease figure for Q4 2022 in the sources we gathered, but we know Montreal’s overall downtown vacancy ended around the mid-teens (14-15%). Sublease was definitely present – for instance, some large Montreal tenants in 2022 offering subleases included banks reducing excess space and tech firms. Anecdotally, brokers

commented that Montreal had plenty of *small* subleases (companies giving up a few thousand feet) but fewer huge blocks compared to Toronto. Montreal's issues were also compounded by a slow return of office workers – similar to Toronto, peak occupancy was low (one survey in Jan 2023 found downtown Montreal office attendance only ~20-30% of pre-COVID). We'll cover Montreal more later in the regional section.

- **Ottawa** in 2022 saw rising sublease availability especially from tech firms in Kanata and some downsizing professional firms downtown. The federal government, which is Ottawa's largest occupier, announced a hybrid work model (by late 2022 the government mandated most public servants to return 2-3 days a week by March 2023 (Source: www.cbc.ca). However, the government didn't immediately relinquish space en masse – that may come later as they consolidate. So Ottawa's sublease space was relatively modest as a percentage (as of mid-2022, one report said only ~1% of Ottawa's inventory was sublet space) (Source: www.cbre.ca), but it did tick up in early 2023.

By the end of 2022, one could summarize the situation as: **Canadian office markets faced an unprecedented glut of sublease space, far exceeding previous economic downturns**. Companies were occupying far less space than they leased (office utilization rates in late 2022 were often <50%), and the surplus was dumped onto secondary market. This put **immense downward pressure on rents** and gave tenants negotiating power (we'll discuss rents shortly). Landlords referred to it as "shadow vacancy" – space that is technically leased (so not counted in direct vacancy stats) but sitting empty and available through sublease. If one combined direct vacant + sublease vacant space, the totals were staggering. For instance, downtown Toronto's direct vacancy was ~10% end of 2022 (Source: ca.finance.yahoo.com), but add sublease (which was another ~6% of inventory) and effectively 16% of space was available – a level not seen in Toronto's modern history (Source: ca.finance.yahoo.com) (pre-pandemic it was 2-5%).

Rents and market impact in 2022: With so much sublease supply, tenants hunting for space had many cheaper options. Sublease spaces are often offered at a **significant discount to prevailing market (direct) rents**, since sub-landlords are motivated to fill them quickly and cut losses. According to Savills, large industrial subleases in 2022/23 were marketed ~17% below direct rents on average (Source: www.savills.ca). In offices, similar or greater discounts were common – e.g., anecdotal reports from Toronto suggested sublease office rents were 20-30% lower than equivalent direct space, especially for older fixtures. Moreover, many subleases come **fully furnished with equipment**, essentially a turnkey deal, which appealed to cost-conscious firms. This put pressure on landlords of vacant space to either drop asking rents or increase incentives (free rent, improvements) to avoid losing prospective tenants to sublets. It's a tenant's market in such conditions.

One metric of market stress: CBRE's data by mid-2023 showed Canada's **national office vacancy hit 18.1%, the highest since 1994**, and **16.8 million sq. ft. of sublease space** was available – "an all-time high" (Source: www.cbre.ca) (Source: www.cbre.ca). We basically went from ~8 million pre-COVID to ~16+ million peak, a doubling of sublease inventory nationwide. Figure 2 below illustrates the surge in sublease space in key markets from 2021 to 2022, exemplifying this trend:

Table 2. Sublease Office Space in Major Markets - Q4 2021 vs Q4 2022

MARKET	SUBLEASE SPACE Q4 2021	SUBLEASE SPACE Q4 2022	% CHANGE (2021→2022)	SOURCE
Toronto (GTA)	~6.1 million sq. ft.	~7.7 million sq. ft.	+26% (Record high)	Avison Young / Yahoo Finance (Source: ca.finance.yahoo.com)
Vancouver (Metro)	~476,000 sq. ft.	~581,000 sq. ft.	+22% (Record high)	Avison Young / Yahoo Finance (Source: ca.finance.yahoo.com)
Calgary (Downtown)	~3,136,000 sq. ft.	~2,560,000 sq. ft.	-18% (Decline)	Avison Young / Yahoo Finance (Source: ca.finance.yahoo.com)
Montreal (Downtown)	~[data not public]	~[data not public]	Peaked ~2021, slight decline by 2022	(Downtown vacancy ~15% Q4 2022) (Source: www.cbre.ca)
Ottawa	~[data not public] (low)	~[data not public] (low)	N/A (sublease < 2% inv.)	(Ottawa sublease ~1.2% of inv mid-2022) (Source: www.cbre.ca)

Source: Avison Young market reports, Q4 2022 (as cited in Yahoo Finance and CBRE press). Calgary's sublease decrease is unique due to prior oil slump recovery.

As shown, Toronto and Vancouver reached record sublease levels by end of 2022. Calgary's sublease volume, while still huge, actually improved year-over-year – a nuance explained by its unique local conditions. Montreal's data is omitted in this table only because exact figures weren't published, but Montreal also experienced high sublease activity especially earlier in the pandemic.

By early 2023, sentiment in the industry was that **the office market was grappling with a "perfect storm"**: economic uncertainty, high interest rates, tech sector weakness, new supply being delivered, tenants rightsizing, and remote work – all at once (Source: www.cbre.ca). Sublease listings were a visible manifestation of this storm.

Before moving to the 2023 turning point in detail, let's quickly mention **retail** real estate in 2020-22. The retail sector suffered massive disruption (lockdowns, shift to online shopping) and many store closures. However, retail leases and subleasing function a bit differently. When major retailers like **Nordstrom Canada (which closed all stores in 2023)** or **Bed Bath & Beyond (which exited Canada)** decided to leave, they typically went through lease termination or bankruptcy proceedings rather than subleasing – meaning their spaces became direct vacancies for landlords to fill, not subleases. That said, some retail tenants did sublease portions of space: for instance, large-format retailers sometimes bring in subtenants like pharmacies, coffee shops, or departments run by another brand to use excess space (this is more prevalent in the US, but in Canada, examples include grocery stores leasing out pharmacy counters, or Hudson's Bay Company subleasing store sections to other operators). During COVID, gyms, restaurants, etc., might have tried to exit via sublease if they had multiple years left on a lease and couldn't sustain. The retail sublease market wasn't tracked in headlines as much, overshadowed by outright closures. We'll touch more on retail later, but the big sublease story of 2020-22 was clearly offices (and to lesser degree industrial, which initially was resilient).

To conclude this section, by the end of 2022 **Canada's commercial real estate was awash in sublease space**, especially in offices. The pandemic had fundamentally changed how space was viewed – no longer as a given necessity, but as an optional overhead that could be trimmed. Many downtowns were left with half-empty towers and an abundance of "Sublease Available" listings on brokerage websites. As we entered 2023, the pressing questions were: Had sublease supply peaked? How long would it take to work through this glut? And what would be the longer-term impact on the market's health? The next section explores how 2023 unfolded, which – unexpectedly to some – brought the first signs of stabilization and recovery in the sublease situation.

2023: Peak "Perfect Storm" and the Turn Towards Recovery

Q1-Q2 2023: Hitting the Ceiling - Record Vacancies and Sublease Highs

In early 2023, the Canadian office market was, in many respects, **at its bleakest point** of this cycle. Key indicators hit record levels: **vacancy rates soared and sublease availability reached all-time highs nationwide**. CBRE's Q2 2023 statistics underscored this: the **national office vacancy rose to 18.1% – the worst since 1994** – and **16.8 million sq. ft. of office space was sitting available for sublease**, an unprecedented volume (Source: www.cbre.ca) (Source: www.cbre.ca). For context, that sublease footprint (16.8 million) is roughly equivalent to all the office space in downtown Calgary or two-thirds of downtown Vancouver – it's a huge amount to be openly on the market.

Major downtown markets recorded multi-decade highs in vacancy:

- **Downtown Toronto:** Vacancy ~15.8% in Q2 2023 (Source: www.cbre.ca). Compare this to ~3% at the start of 2020 – an astonishing swing. Toronto's sublet availability was a big contributor; although Q2 saw a slight slowing of new sublease additions, approximately **7-8 million sq. ft. was available for sublet in Toronto** (GTA) around that time (similar to late 2022 levels) (Source: ca.finance.yahoo.com).
- **Downtown Vancouver:** Vacancy ~11.5% in Q2 2023 (Source: www.cbre.ca), up from ~2% pre-pandemic. Vancouver's sublease space, while smaller in absolute terms, was significant relative to its market size.
- **Montreal:** Vacancy around 17.0% in Q2 2023 (Source: www.cbre.ca), an all-time high for that city as well. A lot of this was direct vacant from tenants leaving at expiries, but sublease also played a role (companies like banks and tech in Montreal had listed subleases during 2021-22 which contributed).
- **Ottawa:** Downtown vacancy jumped to 15.1% in Q2 (a big 1.5% increase from Q1) (Source: www.cbre.ca), due partly to federal government space rationalization and some private sector downsizing. Subleases in Ottawa, while not huge in absolute terms

(~500k sq. ft.), started to tick up as certain firms, including tech companies in Kanata, offered more space for sublet (Source: www.cbre.ca). The Q2 2023 spike in Ottawa vacancy suggests new subleases or direct surrenders hit that quarter.

- **Calgary:** Contrasting the trend, Calgary's downtown vacancy actually **improved** to ~31.5% (down 2% from a year ago, but still extremely high) (Source: www.cbre.ca). As noted, Calgary had been through its nightmare earlier and by 2023 saw energy firms cautiously expanding again (some subleases got taken back or leased out). Calgary's sublease volume in early 2023 was significantly lower than its mid-2010s peak – a sign of local recovery – though still large in absolute terms.

The **Avison Young** office report for Q2 2023 described tenants “grappling with a perfect storm” of factors keeping spaces empty (Source: www.cbre.ca). Companies continued to “right-size” (downsizing footprints) and **new supply** was adding to options. Notably, **eight of ten major markets had sublease levels below 3% of inventory** by Q2 2023 according to CBRE (Source: www.cbre.ca) – meaning two markets (likely Vancouver and perhaps Waterloo or Calgary) had higher sublease ratios. Nationally, sublet space was about 3.4% of all office inventory in Q2 2023 (Source: www.cbre.ca). That might sound small, but remember that's spread across all markets including small ones; in practice, sublease % in downtown Toronto was higher (around 5-6% of Toronto's inventory) while some smaller cities were lower.

From a **market sentiment** perspective, the first half of 2023 was sobering. Companies that hoped hybrid work would fade had to confront that many employees were resistant to full-time return. Tech layoffs continued into Q1 2023 (though started easing by Q2). Interest rates kept rising (the Bank of Canada raised rates several times in early 2023), increasing companies' cost of capital and making them cost-conscious – real estate being a big cost target. Also, media attention to the “office real estate crisis” was growing, with talk of downtown cores struggling, etc., which perhaps further disincentivized some firms from making big office commitments.

However, underneath the gloomy headlines of early 2023, there were **some glimmers of stabilization** starting to appear:

- The **rate of new sublease additions slowed**. CBRE noted that in downtown Toronto, Q2 2023 saw a slower pace of space being returned to market compared to prior quarters (Source: www.cbre.ca). There were also some major lease **renewals** (like large law firms and a telecom company renewing in Toronto) which “injected confidence” because those tenants did *not* give up space (Source: www.cbre.ca). Essentially, some big occupiers recommitted to their offices, hinting that we might be near the peak of give-backs.
- **Office attendance** was gradually rising. Toronto's average office attendance climbed steadily from only ~10-20% in early 2022 to ~50% by mid-2023 (thanks to more consistent hybrid schedules) (Source: www.cbre.ca). Strategic Regional Research Alliance found Toronto's core at ~51% of pre-COVID occupancy by June 2023 (Source: www.cbre.ca). More people in office doesn't directly reduce subleases immediately (since companies already listed the space), but it foretells fewer new subleases if companies feel they need to keep space for returning staff.
- **Positive absorption in some markets:** While Q2 2023 was still net negative absorption nationally, a few cities had positive absorption (e.g. Calgary and Waterloo) (Source: www.cbre.ca). That means more space was leased than vacated in those places, which helps eat into oversupply. By mid-year 2023, **six of ten Canadian office markets had year-to-date positive absorption** (Source: www.cbre.ca) (thanks to earlier quarters), suggesting some localized improvements.
- **Industrial market shift:** On the industrial side, by mid-2023 companies realized they had overshot in terms of space acquired during the e-commerce boom. Sublease industrial space, while rising, was actually being **rapidly taken up by other users** in many cases. For example, a Savills study tracking large industrial subleases put on market in 2022 found that by late 2023 only 20% of that space remained available – the rest had been leased or withdrawn (Source: www.savills.ca) (Source: www.savills.ca). This indicated strong underlying industrial demand, even if overall availability was up. It pointed to a market that could likely reabsorb sublease space given time.

Thus, **mid-2023 likely marked the “peak sublease” moment**. A key data point: **16.8 million sq. ft. sublease figure (Q2 2023) is often referenced as the peak** (Source: www.cbre.ca), and after that it started to decline. The mood among brokers by summer 2023 was cautiously shifting from panic to “**when will things improve?**”.

Q3-Q4 2023: Early Signs of Improvement - Sublease Declines Begin

Late 2023 brought quantitative evidence that the worst was over in many markets. **Sublease availability started to contract** overall, marking a turning point.

By Q3 2024 (a year later), CBRE reported that sublease space had fallen five quarters in a row (Source: www.cbre.ca), meaning the decline likely started in Q3 2023. Let's pinpoint Q3 2023: While we don't have the exact Q3 2023 sublease total in our sources, we know Q2 was 16.8M and Q3 2024 was 14.8M (Source: www.cbre.ca). If it was a steady quarterly drop, Q3 2023 might have been around ~16 million (just estimating). Indeed, CBRE noted by Q3 2024 that **2.2 million sq. ft. of sublease had been shaved off since Q2 2023's peak** (Source: www.cbre.ca). That implies Q3 and Q4 2023 combined saw perhaps ~1-1.5 million sq. ft. reduction, with the rest dropping in first half 2024.

One brokerage headline even in mid-late 2023 suggested optimism: *"Momentum Builds in Canadian Office Market as Sublet Space and Downtown Class A Vacancy Decline for Consecutive Quarters"* (Source: www.cbre.ca) (a CBRE press release, July 2024, reflecting on late 2023/early 2024 data). The language indicates that by late 2023, we had at least two quarters of declining sublease and improving Class A occupancy. So Q4 2023 was likely better than Q3 in terms of less sublease.

Contributing factors in late 2023:

- **Corporate decisions to reoccupy or consolidate:** Some companies that had sublet space out in 2020-2022 actually began to **take it back** as their return-to-office policies strengthened. Colliers in mid-2025 observed that a number of subleases were ending as their terms expired and the original tenants sometimes reoccupied rather than renewing the sublease (Source: www.cbre.ca) (Source: www.cbre.ca). This process likely started in late 2023 with early pandemic 3-year subleases reaching expiry.
- **Fewer new sublease offerings:** The pipeline of new subleases slowed dramatically. By late 2023, most companies that needed to shed space had already listed it. Additionally, the wave of tech sector downsizing was mostly done; tech firms weren't adding much more space to the pile after Q2-Q3 2023. Some stability in headcounts returned.
- **Landlord interventions:** In some cases, landlords and tenants cut deals to stave off subleases. For instance, rather than a tenant subleasing, a landlord might have agreed to a blend-and-extend (reducing rent in exchange for longer term) or early termination for a fee, thereby converting what would've been a lingering sublease into a direct vacant space that can be repurposed. This wouldn't reduce vacancy, but it might remove the sublease listing from the market (with the space perhaps taken off-market for conversion or kept empty to re-lease later).
- **Economic resilience:** Canada narrowly avoided a recession in 2023; the economy, while slow, didn't crash. Hiring resumed in some sectors. This meant some companies cautiously started planning expansions again, and a quick way to get space is often to take over a sublease (faster move-in). The absorption data in 2024 reflects some of that.
- **Flight-to-quality accelerating:** As we'll elaborate soon, many tenants were busy relocating to better buildings in 2023. When they did, they often left older space behind – which could add to sublease if they had remaining lease term. However, landlords of older buildings sometimes negotiated to take space back or redevelop it. So, while flight-to-quality can initially boost sublease on old space, in 2023-24 we also saw **some older stock removed from inventory** (via conversion to residential/hotel or demolition plans). Calgary's well-known conversion program removed a chunk of sublease-prone office space, for example, in 2023.

By **year-end 2023**, anecdotal evidence and partial data indicate:

- Total sublease space was on a slight downward trend from mid-year highs.
- Some markets (like **Toronto**) experienced notable large sublease deals, which took big blocks off the market. For instance, in Toronto, sublease transactions over 50,000 sq. ft. were finally happening again by late 2023 (Source: www.cbre.ca). This included perhaps some backfills like a major tech or finance company quietly taking a sublet in a AAA tower for a bargain, etc.
- **Vancouver** hit a bump in late 2023 / early 2024 as a few new buildings completed and delivered "speculative" space that wasn't fully leased; that indirectly bumped sublease a bit (one Q3 2024 note said Vancouver saw a quarterly increase in sublease due to large blocks in new builds coming online (Source: www.cbre.ca). But that may be more a classification issue (if a tenant pre-leased a new building but then decided to sublet part of it). Vancouver overall still had lower sublease volume than other cities, but its slight increase in late 2023 stood out against the broader downtrend.
- **Calgary** unfortunately had a *negative* turn: after reducing sublease through 2022-early 2023, Calgary saw a **uptick in sublease in late 2023 and into 2024**. In Q3 2024, sublease vacancy in Calgary rose because **Suncor Energy put 187,000 sq. ft. on the market** (post-merger rationalization) (Source: www.cbre.ca) (Source: www.cbre.ca). And CBRE Q3 2025 notes

Calgary is the only market with a year-over-year sublease increase by 2025 (Source: www.cbre.ca) (Source: www.cbre.ca). So Calgary's reprieve was short-lived; industry consolidation and still-high vacancy meant subleasing there remains a challenge.

In summary, by the end of 2023 the **tide was turning** modestly. The worst (peak sublease) was likely behind, except in a few pockets like Calgary or specific buildings. The data moving into 2024 supported this: Canada was on track in 2024 to have the first year of net positive office absorption since 2019 (Source: www.cbre.ca), indicating that at a macro level, more space might be leased than vacated in 2024 if trends held.

Next, we'll delve into **2024 and the current state in October 2025**, where these early improvements gained momentum and shaped the sublease market of today. We'll also break down the differences across **office vs industrial vs retail sublease markets**, and look regionally at how places like Toronto, Vancouver, Montreal, Calgary, etc., differ in their recovery trajectories.

2024-October 2025: Current State of the Sublease Market and Ongoing Trends

Office Sublease Market in 2024-25: Gradual Absorption and Diverging Fortunes

Entering 2024, the Canadian office market's healing process was underway but far from complete. Sublease availability continued to trend downward quarter after quarter, and by Q3 2025 (October 2025 data) the improvement was clear: **national sublease inventory was ~27.8% below its Q2 2023 peak** (Source: www.cbre.ca). In concrete terms, what had been 16.8 million sq. ft. of sublet space shrank to around **12.1 million sq. ft. by late 2025** (i.e., 72% of the peak volume) (Source: www.cbre.ca) (Source: www.cbre.ca). This indicates roughly 4.7 million sq. ft. of sublease space was absorbed or removed in about two years – a significant positive swing, though still leaving a large overhang compared to pre-pandemic norms (12+ million vs 8 million typical).

The **decline in sublease space** came from several factors:

- **Successful Sublease Transactions:** Many subleases found takers. Especially for quality spaces in good locations, new tenants stepped in. For example, as return-to-office momentum built in 2024, some mid-size firms that had been priced out of prime offices earlier took advantage of sublease deals to move into downtown towers. CBRE noted that Toronto in Q3 2025 had “numerous transactions over 50,000 sq. ft.” driving its occupancy gains (Source: www.cbre.ca) – some of these were likely sublease deals (or subtenants converting to direct leases).
- **Space Reclaimed by Original Tenants:** Some subleased space was **pulled off the market by the sub-landlords themselves**. If their business outlook improved or they needed space for employees returning more frequently, they would end sublease arrangements or simply not renew them. CBRE observed that in 2025, movement in sublet space was partly due to “space being reclaimed by the sublessor” (Source: www.cbre.ca) – meaning the original tenants took back what they had sublet, perhaps deciding to use it again. This is a strong sign that those companies now foresee needing the space (a reverse of the 2020 situation).
- **Lease Expirations:** A chunk of sublease space vanished because the underlying leases **expired**. Many subleases were short-term, set to end when the prime lease ended. As we hit 2024-25, a lot of leases signed in the mid-2010s were coming due (since 5, 7, 10-year terms from that era expire around now). If a lease ended, any subtenant either left or signed a new direct lease, but that sublease listing would be counted as gone. CBRE specifically highlighted that **lease expirations coming due are increasingly a factor in sublease declines** (Source: www.cbre.ca) (Source: www.cbre.ca). Essentially, time is working through the surplus by letting leases naturally terminate. The downside: if not re-leased, that space shifts to direct vacancy, but at least it clears the sublease ledger and allows market rents to reset.
- **Conversions and Removals:** Certain offices were permanently removed from inventory for conversion projects, which also reduces sublease opportunities in those buildings. For example, in Calgary, about *0.7 million sq. ft.* was taken out in Q3 2024 alone due to office-to-residential conversions (city program) (Source: www.cbre.ca), and another ~1.0 million sq. ft. in Q3 2025 from various markets (Calgary, Ottawa, Edmonton) being converted (Source: www.cbre.ca). If some of those floors were previously offered for sublease, they're now gone. This helps tighten the market.
- **Fewer New Subleases (New Equilibrium):** Importantly, by 2024 most companies had already made their big real estate cuts. The pace of **new** sublease listings slowed dramatically. In fact, Colliers in mid-2025 noted “the number of new subleases

on the market seem to have hit a plateau” (Source: www.collierscanada.com). Many firms had right-sized to their hybrid needs, so there wasn't a constant influx of fresh space being dumped. Instead, some companies even were thinking of future growth again.

Quality divergence became even more pronounced in 2024-25. **Class A/Trophy buildings** – often newer, well-located towers – saw strong demand resurgence. Downtown Class A vacancy decreased nationally (e.g., a 90 bps drop in Q3 2025 in one quarter) (Source: www.cbre.ca). In these top buildings, any sublease space was relatively easier to sublet or even withdraw if the tenant decided to keep it. Meanwhile, older **Class B/C buildings** continued losing tenants (either to better buildings or to shrinkage). Many of the remaining sublease listings by late 2025 are in these less desirable buildings, which are harder to fill. Landlords of such buildings often face a dilemma: with so much vacancy, some have opted to keep space vacant and not bother trying to sublease – they wait to sign a new direct tenant (hence some subleases may have been pulled simply because there was no subtenant and the original tenant left, turning it into landlord space). The **flight-to-quality** means that even though total sublease volume dropped, the *market bifurcation* widened. In Q3 2025, CBRE reported **downtown Class A trophy assets have had three consecutive quarters of declining vacancy**, whereas “lower quality Class B/C assets continue to experience rising vacancy” (Source: www.cbre.ca) (Source: www.cbre.ca). So effectively, sublease contraction happened mainly in the high-quality segment (where space got taken or reused), but in the low-quality segment, tenants just left outright (or will leave at expiry), and if any are still trying to sublease there, they struggle.

By October 2025, almost all major markets were in better shape compared to the depths of 2021-22 in terms of sublease. CBRE highlighted that **nearly all cities have total vacancy below their pandemic peaks** by Q3 2025 (Source: www.cbre.ca) (Source: www.cbre.ca). The two exceptions were **Vancouver and Waterloo Region** (KW area), which still had vacancy at or slightly above peak (Source: www.cbre.ca). For Vancouver, this is partly due to a wave of new supply from 2022-2023 that the market is still absorbing, and some tech downsizing lagging (e.g., some sublease blocks hit Vancouver in 2024, like Slack offering space, etc.). Waterloo (a tech-heavy Ontario market) similarly had big new builds and tech subleases (e.g., Shopify had a large office in Waterloo it closed). Those markets may take a bit longer.

In terms of **vacancy rates** in late 2025:

- Toronto's downtown vacancy is still elevated but has been trending down. Q3 2025 Toronto downtown vacancy dropped a huge 1.5 percentage points (150 bps) in one quarter due to major leases (Source: www.cbre.ca), now possibly in the low-mid teens%. GTA overall vacancy (downtown+suburban) might be around similar high-teens. Importantly, sublet vacancy in Toronto fell 80 bps year-over-year by Q3 2024 (Source: www.cbre.ca), one of the best improvements among cities.
- Vancouver downtown vacancy likely peaked around 13% and remains around that (since it's noted Vancouver hasn't improved below peak yet). Vancouver had a couple large subleases (e.g., in 2024 a 100k+ sq. ft. sublease from a tech firm in a new building) which slowed its progress.
- Montreal's downtown vacancy started 2024 high but improved as well – it was ~17% in Q2 2023, and by Q3 2025 Montreal saw downtown sublet vacancy down 11.2% quarter-over-quarter (Source: www.cbre.ca), and overall vacancy likely edged down a bit to perhaps ~15-16%. Montreal is still working through older stock issues but did not have as many new builds, which helps. Some big blocks, like former bank offices, are candidates for repurposing.
- Calgary's downtown vacancy hovered ~30-32%. It went down then up; by Q3 2025 perhaps ~29-30%. Sublease there actually **rose year-over-year** by 40 bps in availability (Source: www.cbre.com), thanks to continued consolidations. However, Calgary also removed a lot of office space permanently (conversions), which artificially helps vacancy stats by shrinking the denominator.

So overall, offices in Canada are still in a *tenuous recovery*. The **current sublease market for offices (Oct 2025)** can be characterized as:

- **Sublease volume:** ~12 million sq. ft. nationally, trending downward slowly. Still ~50% above the long-term average (8 million), indicating excess supply remains (Source: www.cbre.ca) (Source: www.cbre.ca).
- **Market sentiment:** Cautiously optimistic. Landlords and brokers have seen that the sky didn't fall completely – there is leasing activity and tenants are coming back for quality space. But everyone acknowledges the office sector has fundamentally higher vacancy and lower demand than pre-2020, especially for commodity older buildings.
- **Rents:** Effective rents (taking into account free rent periods and such) are down from pre-COVID in most markets, especially in older stock. Face rents in prime buildings have held up better, but even those often come with more concessions now. The gap

between sublease rents and direct rents persists; as noted earlier, sublease deals often are at a notable discount. As long as sublease options are abundant, landlords have to compete on flexibility and cost. However, with the reduction in sublease listings, landlords might start regaining a bit of pricing power in the best buildings. There are anecdotal reports that for top-tier offices in Toronto, competition is heating up (because everyone wants flight-to-quality), potentially stabilizing rents there. Conversely, in weaker buildings, rents may continue to slip or remain depressed.

One interesting angle: **Return-to-Office (RTO) mandates in 2025** boosted confidence that companies will retain their spaces. Canadian banks, as mentioned earlier, took a hard stance: RBC, BMO, TD all instituted 4-days-in-office policies by fall 2025 (Source: www.bnnbloomberg.ca) (Source: www.reuters.com). These banks collectively occupy millions of sq. ft. in Toronto, Montreal, Vancouver, etc. Their strong RTO stance likely means they will *not* be dumping more space – in fact RBC’s CEO was vocal that they want employees back to better utilize their real estate and collaboration (indirectly signaling RBC sees continued value in their office footprint). Government and other employers are also nudging more office presence. For example, some federal departments moved from 2 days to 3 days a week guidelines in 2024 (though facing pushback) (Source: www.cbc.ca) (Source: angusreid.org), and an Angus Reid survey in Sept 2025 indicated mixed views on ending hybrid work but momentum by some employers to push further in-office time (Source: angusreid.org). **This RTO momentum has spurred leasing** in that companies anticipate needing to accommodate more in-person staff again, and new hires as economy grows. **London and Paris saw similar trends** with RTO mandates in 2023–24 fueling demand for premium offices (Source: www.reuters.com) – Canada’s markets, while not as extreme, are aligned with this pattern.

To sum up the **office sublease state in Oct 2025**: It’s **markedly improved from the peak, yet still well above normal**. Tenants continue to enjoy a tenant-favorable market in many ways – abundant choices and negotiating leverage – but the glut is slowly receding. The expectation is that sublease space will continue to diminish into 2026 as more leases end or are absorbed, gradually approaching the historical average. Some industry watchers expect that by ~2026-27, office sublease levels might normalize, but office vacancy might settle at a new higher baseline (e.g., maybe stabilizing around low-mid teens nationally rather than going back below 10%) barring a major economic expansion.

Industrial Sublease Market in 2024-25: Balancing Out from Extreme Tightness

The industrial real estate sector in Canada, which includes warehouses, logistics facilities, and manufacturing space, experienced a very different pandemic trajectory from offices. Through 2020-2021, industrial space was in such high demand (driven by e-commerce, supply chain retooling, etc.) that **vacancy hit historic lows (often <1%) and rents skyrocketed**. Construction surged to try to meet demand. By 2022-2023, the combination of slightly cooled demand growth and a large pipeline of new warehouses completing led to a **rise in industrial availability** – including a spike in sublease space as some companies found themselves with more warehouse capacity than needed.

Sublease availability in industrial went from an afterthought to a notable factor by 2024:

- As noted earlier, a late 2024 report identified **9.0 million sq. ft. of vacant industrial sublet space in Canada’s 7 major markets** (Source: www.avisonyoung.ca), which was about 14% of total vacant industrial space. This was up 3.4 million sq. ft. (over 60%) since the end of 2023 (Source: www.avisonyoung.ca). That suggests end of 2023 had ~5.6 million sublet, jumping to 9.0 by fall 2024. This jump was spread across markets, with **Vancouver’s industrial sublease sixfold higher year-over-year, and Toronto & Montreal’s quadrupling** (Source: www.avisonyoung.ca). Why such big jumps? Because in 2023 a lot of new buildings finished and some tenants who pre-leased space realized they didn’t need all of it, so they put portions for sublease. Also, some firms (especially in logistics) overcommitted during the pandemic and scaled back (for example, anecdotally some 3PLs or retailers that took huge distribution centers in 2021 found by 2023 they had excess capacity).

One major contributing event was **Amazon’s retrenchment in Quebec**: in early 2025 Amazon closed all 7 of its Quebec warehouses (Source: apnews.com), some of which likely went onto the sublease or assignment market. Montreal’s 2.1 million sq. ft. sublease surge in Q3 2025 (Source: www.cbre.com) can be largely attributed to Amazon’s facilities suddenly being offered. That pushed **national industrial sublease to a new record of 15.0 million sq. ft. by Q3 2025** (Source: www.cbre.com). So between Q4 2024’s 9.0M and Q3 2025’s 15.0M, an additional ~6M was added, two-thirds of which was Montreal. If one *excludes* Montreal’s anomaly, CBRE says national sublease would have *declined* by 1.6M sq. ft. in Q3 2025 (Source: www.cbre.com), implying that outside Quebec, industrial sublease availability had started contracting as early as mid-2025.

Indeed, **outside of Amazon’s impact, the industrial sublease picture in 2025 is one of stabilization**:

- **Toronto and Vancouver industrial:** These markets had a surge of sublease in 2023-24 (Toronto quadrupled YOY into 2024 (Source: www.avisonyoung.ca). But by 2025, a lot of that space was being reabsorbed. For instance, big sublease offerings in GTA (like large older distribution centers) were taken by growing firms or new entrants who snapped them up since they were often cheaper than new construction rents. The fact CBRE noted overall sublease would have dropped in Q3 2025 excluding Montreal (Source: www.cbre.com) means places like Toronto probably saw net sublease declines by then.
- **Montreal industrial:** Did not have much sublease until the Amazon event. Montreal's overall industrial vacancy was rising quickly though (it saw the largest jump in available space Q3 2025, +2.8M sq. ft. (Source: www.cbre.com). That was "largely sublease space" (Source: www.cbre.com) from Amazon. With Amazon gone, those warehouses may either be taken over by 3PLs (maybe Amazon's third-party partners, etc.) or new users, or remain empty for a while. Montreal's sublease availability rate rose by 40 bps year-over-year to Q3 2025 (Source: www.cbre.com) (the largest YOY increase among markets, understandably), and likely will subside as the Amazon issue resolves (though how quickly is uncertain – 7 warehouses is a lot to fill).
- **Other markets:** Ottawa and Waterloo also had year-over-year sublease increases (40 bps each) by Q3 2025 (Source: www.cbre.com) – these are smaller industrial markets; possibly some local companies vacated space. But all other markets (Calgary, Edmonton, etc.) saw flat or declining sublet availability rates in 2025 (Source: www.cbre.com).

From a **broader perspective**, the industrial sublease "crisis" is not as worrying as the office one was. This is because:

- **Industrial demand** remains fundamentally strong. Even if it softened from the 2021 frenzy, Canada's industrial vacancy (including sublet) as of Q3 2025 is still only around 3.9% (with sublease) or 3.5% (excluding sublease surge) nationally (Source: www.cbre.com) (Source: www.cbre.com). That's far healthier than 18% office vacancy. In many regions, if you want a warehouse, you still have limited choices.
- **Absorption is still happening:** Yes, national net absorption turned slightly negative in 2024-25 as new supply outpaced move-ins (Source: www.cbre.com). But large blocks of sublease are being picked up: Savills found that by Nov 2024, ~80% of big subleases from early 2023 were gone (leased or withdrawn) (Source: www.savills.ca). And by Nov 2023, only 50% of the square footage from early 2023 subleases remained (Source: www.savills.ca) – showing a pretty quick turnover.
- **Rents adjusting, not collapsing:** Industrial rents, which had soared ~10-20% a year in 2020-22, have cooled. By Q3 2025 the national average asking net rent was down 3.1% YoY to \$15.11/sq.ft. (Source: www.cbre.com). This slight decline reflects increased availability and sublease competition. But a 3.1% drop after a ~34% rise over three years (2019-2022, per one report (Source: building.ca) is minor – essentially plateauing near record highs. Sublease variants of space often come at a discount, which has in turn forced some landlords to be flexible on new leases. But overall rent levels remain historically high, indicating the industrial market is correcting, not crashing.
- **Construction pipeline adapting:** Developers responded to the softening by slowing speculative projects in late 2023. However, interestingly, by Q3 2025 the pipeline started rising again (25.9M sq.ft under construction, half pre-leased) (Source: www.cbre.com) (Source: www.cbre.com). This suggests confidence that current slack (including sublease space) will be absorbed in the next couple of years. The majority of new builds now are design-build (custom for users) not speculative (Source: www.cbre.com), meaning less risk of oversupply.

So the **state of the industrial sublease market in Oct 2025:**

- It reached a **peak around mid-2025 due to one-time events** (like Amazon's pullback). At 15.0M sq.ft., sublease availability is at a high-water mark, but is expected to recede going forward.
- Occupier demand – especially from third-party logistics (3PL) and major retailers – continues to fill sublet spaces. The fact that logistics firms accounted for 37.5% of sublease lease-up activity in the Savills study (Source: www.savills.ca) shows how one company's surplus becomes another's opportunity. For instance, a 200,000 sq.ft. sublet from an apparel importer might be perfect for a growing e-commerce distributor needing space without waiting a year for a new build.
- Industrial subleases also **provide cost advantages:** with rents off peak and many subleases undercutting direct rates, operational companies are keen to seize those deals to save on supply chain costs. Given high interest rates, firms prefer cheaper leased space than building new or paying peak rents. So subleases are helping "market-clearing" by making space more affordable for the next user.
- Regionally, **Western Canada (Vancouver, Calgary)** had a massive shortage earlier – now they have some breathing room with subleases. Vancouver's tight market saw vacancy rise into the 2-3% range by 2025, which is still very low but enough that

businesses can find space now, including sublet options. Calgary's industrial market ironically remained tighter than its office; logistics in Calgary did see more availability but Calgary's sublease focus has been more on office.

- One note: A lot of industrial sublease and vacancy growth in 2024-25 came from **new supply hitting**. As new warehouses delivered, original tenants might shift operations there and sublease older ones, or if a building was built on spec and not fully pre-leased, landlords might list it (though that isn't exactly sublease). The construction slowdown in 2024 (it had peaked around 20M under construction and dipped) helps prevent drastic overshoot.
- It's also possible that some industrial sublease space is actually **short-term in nature**. Sometimes companies will sublease a warehouse for only a year or two just to ride out a slow period but then plan to reoccupy it. If the economic cycle improves or they win new contracts, they might reclaim the space. Such strategic subleasing (short-term deals) could mean some subleases naturally come off market after fulfilling interim purposes.

In conclusion, the **industrial sublease market as of late 2025 is elevated but not alarming**. It reflects a normalization from ultra-tight conditions. Landlords and developers are watchful (they've eased new initiatives accordingly). Tenants in need of space are finally getting options and slight rent relief. If anything, the industrial market's health metrics – even with 15M sublease – would be the envy of the office market. We expect industrial sublease availability to gradually diminish as supply and demand rebalance, with the caveat that any major economic downturn could change warehouse demand quickly (reducing absorption). But current signs (like robust retail sales logistics and companies reshoring manufacturing to Canada) point to steady demand.

Retail and Other Commercial Subleases: A Smaller Piece of the Puzzle

While office and industrial have dominated sublease discussions, **retail real estate** has its own story in the pandemic era. Retail faced tremendous challenges (forced closures, online competition), leading to many tenant bankruptcies. However, subleasing played a more limited role in retail adjustments:

- **Major closures vs subleasing:** Big chains that exited (e.g., Nordstrom, Bed Bath & Beyond, Sears earlier, etc.) didn't sublease – they shuttered and terminated leases through legal processes. Those large spaces reverted to landlords. For instance, when Nordstrom closed all 6 of its Canadian department stores in mid-2023, those multi-hundred-thousand-sq.ft. units in prime malls instantly became landlord vacancies rather than subleases (Nordstrom was essentially breaking the leases as part of leaving Canada). Landlords like Cadillac Fairview and Oxford had to find new anchors or redevelop those spaces directly. Sublease was not applicable because the retailers ceased operations entirely (and/or went through insolvency).
- **Small and mid-sized retailers:** Some smaller retailers did try to transfer their leases. In retail leasing, an assignment of the lease to another retailer is more common than subletting part of a store. But subleases can occur: for example, a restaurant tenant who wants to exit might find another restaurateur to take over under a sublease for the remaining term, if the landlord allows (or typically they prefer a direct lease with the new operator).
- **Pop-up and partial space use:** Malls and shopping streets saw many **pop-up stores** fill vacant spots in 2021-2022. Technically, those pop-ups were mostly direct short-term leases with landlords, but in some cases, a primary tenant might sublease to a pop-up to mitigate their own rent. One scenario is when a retailer downsizes its store footprint and subleases some unused square footage at the back or on another floor to a complementary user (like a cafe or service). These arrangements often fly under the radar but contribute to sublease activity in retail.
- **Concessions in retail leases:** Instead of sublease, many retailers got rent abatements or percentage-of-sales rent deals during COVID to survive. Landlords were often more willing to renegotiate than see vacancies. So, a lot of "excess space" issues in retail were handled by rent relief rather than subleasing, which is a different approach than office.

That said, we can highlight a few examples of creative reuse that border on subleasing:

- **Department Store "store-within-store":** Hudson's Bay (HBC) over the years has experimented by subleasing parts of its large department stores to other uses – effectively converting space. For instance, HBC sublet upper floors of its downtown Vancouver store to WeWork office space in 2019 (though WeWork then closed in 2021 amid their issues) – this is an example of a retail landlord (HBC in that case as tenant from the building owner) subleasing to an office use. There were also discussions of HBC turning parts of Toronto and Winnipeg flagship stores into offices or residential – a form of partial sublease or redevelopment. These indicate that when retail space is too large, subleasing to non-retail uses was an avenue considered.
- **Malls turning empty retail into offices/gyms:** Many malls took vacated stores and leased them to gyms, clinics, or even government offices, which is effectively taking what could have been a sublease scenario (if the original tenant still held the

lease) but usually it happens after they give space back. One could imagine if a retailer had a couple years left on a lease but wanted out, they could sublease to a fitness center for the interim, with landlord's blessing, to keep paying rent.

- **Statistical perspective:** There's no aggregated data published on retail sublease space akin to office/industrial stats. This implies it's not been a market-moving factor; vacancies and direct lease turnover are the main metrics.
- **Current retail leasing climate (2024-25):** Actually, retail real estate in Canada has seen a rebound in 2022-2023 once lockdowns ended. Many shopping centers report higher foot traffic and even rent growth in prime areas. Retail vacancies in top malls are low; on high streets some persist, but largely the narrative is that brick-and-mortar sales recovered somewhat. So subleasing in retail now is likely minimal – any space that became empty either got re-leased or is in the process.

In other commercial segments:

- **Multifamily rental or hospitality** typically don't have sublease markets in the same way (subletting an apartment is a thing but not tracked at a market level).
- **Life-sciences labs or specialized real estate:** one interesting note is some new office-like buildings (like labs) that opened, and if a biotech downsized, they might sublease lab space. But those are niche cases.
- **Co-working / Flex space:** This is a segment worth mentioning regarding subleasing – companies like WeWork lease large blocks then effectively “sublease” desks to individuals/companies (that's their business model). In 2023, WeWork's financial troubles raised the prospect of them defaulting on leases, which could flood some markets with space. In Canada, WeWork has spaces in Toronto, etc. If WeWork were to close locations, there's no sublease in the traditional sense (they'd just break lease, or landlord re-leases space). However, some co-working operators have begun to partner with landlords to manage space rather than sublease models now. So co-working could help absorb some excess (e.g., landlords turning vacant floors into flex space offerings). This dynamic sits adjacent to the sublease discussion: it's an alternative disposal method for space (landlord repurposing as flex rather than waiting for one tenant or allowing sublease). In 2024-25, some landlords indeed launched their own “flex space” floors to cater to small users – indirectly eating away at what might have been sublease demand for small suites.

Overall, **retail and other commercial sublease markets in 2025 are not major headline factors.** The sublease market discussion in this report thus remains focused on office and industrial, where it had economy-wide implications.

Nonetheless, one can glean a positive sign: **consumer-facing businesses (retail, restaurants) either survived or closed, but relatively few are still sitting on dark stores paying rent** – they either negotiated exits or resumed activity. So the lingering sublease hangover is far less for retail. In fact, the challenge in retail is more about *who will backfill permanently vacated stores*, which is a leasing challenge, not a sublease one, since those leases were terminated.

Regional Spotlights: How Different Cities Fared and Are Recovering

It's instructive to break down the sublease situation by major urban markets, as each has unique demand drivers and industry mixes. Below, we provide snapshots of key regions: **Toronto (GTA), Vancouver, Montreal, Calgary (and Edmonton)**, and some notes on **smaller markets** like Ottawa and others.

Greater Toronto Area (GTA):

Status: Canada's largest office market (and a major industrial hub) was ground zero for sublease surge and is now at the forefront of recovery. The GTA had the highest absolute amount of sublease space and also saw the strongest absorption lately. By Oct 2025, Toronto is “leading the recovery” with notable reductions in sublease and vacancy (Source: www.cbre.ca).

In Q4 2022, GTA's office sublet stock hit ~7.7M sq.ft. (record) (Source: ca.finance.yahoo.com), including high-profile blocks like **Shopify's 348k sf** (Source: ca.finance.yahoo.com). Downtown Toronto availability (direct+sublet) peaked around ~16% end of 2022 (Source: ca.finance.yahoo.com). Today, downtown vacancy is still high (~13-15%), but trending down after massive Q3 2025 leasing (1.6M sf net absorption) (Source: www.cbre.ca).

Drivers: Toronto has a diverse economy: finance, tech, legal, telecom, etc. The **financial sector** (Bay Street banks, insurers) largely held onto their towers during the pandemic even with low attendance. Now, banks are enforcing RTO (RBC, etc.), meaning those towers will see usage again and no new sublease from them. The **tech sector** in Toronto was hit hard (Shopify, etc.), which drove subleases up, but it appears the tech downsizing wave has abated. Some tech firms have even begun cautiously rehiring by

late 2024, potentially reabsorbing space. Also, **law firms and other professional services** in Toronto have shown commitment by renewing leases (often opting for top buildings). For example, large Bay Street law firms renewed in 2023 instead of downsizing, demonstrating confidence in long-term office presence (Source: www.cbre.ca).

Case Study - The Well (Shopify's space): That 348k sq.ft. brand new space remained unoccupied by Shopify. As of late 2025, parts of it have reportedly been subleased or are in advanced talks (though details are private) – likely smaller firms or other techs taking portions. RioCan/Allied (the landlords) might even convert some to multi-tenant floors. This illustrates that while one sublease can be huge, the market can gradually absorb it in pieces.

Industrial in GTA: GTA industrial vacancy was ~1% pre-pandemic, rose to ~2% by 2024. Sublease contributed – numerous 100k+ sf warehouses hit the sublease market in 2023. Now in 2025, GTA industrial vacancy ~3% and sublease avail likely leveling off. Toronto being the distribution hub for Canada means demand is constant, so subleases like a 200k sf distribution center in Mississauga have been finding new tenants relatively quickly.

Outlook: Toronto stands to benefit from **flight-to-quality** as it has the most new office towers delivered or under construction (e.g., CIBC Square, 160 Front West, etc.). Many tenants relocated to these new builds (often pre-leased pre-COVID) leaving older buildings needing backfills. This churn initially spiked subleases but now those older buildings are candidates for conversion or repositioning (e.g., 175 Bloor St – an older office – started converting to residential as it emptied). Toronto's downtown also has proposals to convert some 1960s towers to residential/hotel, which if executed, will further cut office inventory (helping reduce structural vacancy).

Toronto's challenge is still large: a **hybrid workforce** that may only come in 2-3 days means effective space utilization is lower. Companies might not fully reoccupy their pre-COVID footprint even with mandates. But given Toronto's economic pull, new firms are always starting or coming – for example, international companies continue to set up Canadian offices in Toronto (some took subleases as a quick entry). The city's **population and job growth** (highest in Canada) should gradually backfill space, though perhaps not the same way as before.

Vancouver:

Status: Vancouver had extremely tight office and industrial markets pre-COVID, so it entered the pandemic with little slack. Sublease activity rose significantly in both sectors, but Vancouver still remains among the “healthier” markets in relative terms, albeit with some pain points.

For offices, downtown Vancouver vac. was ~2% in 2019, spiked to ~10-11% by 2022 (Source: www.cbre.ca). Sublet space grew to ~0.58M sf end of 2022 (Source: ca.finance.yahoo.com). Vancouver's economy heavy with tech and media – companies like Amazon, Microsoft, Salesforce expanded there pre-COVID. Some of those expansions paused or contracted (e.g., Hootsuite gave up a new HQ, Slack subleased space, etc.). Additionally, Vancouver had a wave of new supply complete in 2022-23 (Bentall 6, The Post, etc.). For example, **The Post** – a massive downtown project – is primarily occupied by Amazon, but Amazon delayed occupying a portion, which led to rumors of some of that space being available (though Amazon hasn't publicly listed big subleases there as of 2025, any slowdown from them would impact vacancy).

Vancouver's sublease uptick in Q3 2024 (biggest quarterly increase nationally then) was attributed to “large block vacancies in new builds” (Source: www.cbre.ca). That suggests some new building tenants decided to sublet floors they didn't need immediately. So Vancouver's sublease is partly new supply-driven rather than pure downsizing.

By Q3 2025, Vancouver's total vacancy was still near its peak (hence flagged as one of two not below peak) (Source: www.cbre.ca). So Vancouver hasn't improved as much as Toronto, possibly sitting around 11-12%. Sublease specifically might be a bit above early 2023 levels due to those new building sublets. But Vancouver's advantage is that it's a highly desirable market with limited office stock – tech companies that still want talent presence in Vancouver will likely take up slack.

Industrial in Vancouver soared from essentially 0% vacancy to around 2-3%. A *sixfold* rise in sublease year-over-year (2024) (Source: www.avisonyoung.ca) implies it went from negligible to a few hundred thousand sq.ft. Still minor given Vancouver's ~200M sf industrial market. For instance, **one** large fulfillment center sublease could account for that. Vancouver's issue is also new supply in suburbs which eased the shortage.

Outlook: Vancouver's sublease space should gradually find takers, but one risk is that if tech firms (like Amazon, etc.) continue to cut back, more could hit. On flip side, Vancouver's diversified economy (also film, etc.) and less overall volume of space means it might reach equilibrium faster once new supply is absorbed (some experts think 2025-26 will see leasing pick up as companies

adjust).

Montreal:

Status: Montreal's office market was somewhat weaker pre-pandemic than Toronto/Vancouver (vacancy ~10-11%). It rose to record highs (~16-17%). Montreal had fewer dramatic sublease headlines, but steady erosion. By Q3 2025 downtown vacancy ~16%. Sublease in Montreal did not reach millions like Toronto, likely on the order of hundreds of thousands of sq.ft. at a time. Montreal tends to lag Toronto by a couple quarters in trend (noted in CBRE 2021 piece) (Source: [building.ca](https://www.building.ca)).

One specific cause in Montreal: large corporate tenants (e.g., banks, utilities) rationalized space. Some moved to new builds (National Bank built a new HQ tower in 2022 – vacating older offices, possibly subleased or returned). Tech presence in Montreal (like gaming, AI startups) also adjusted but Montreal has seen growth in those sectors, partially offsetting.

By late 2025, Montreal's sublet vacancy was dropping – e.g., 11.2% drop in sublet space in one quarter Q3 2025 (Source: www.cbre.ca) – that suggests significant absorption of sublease. Possibly some big sublease blocks got leased (maybe government took space, or growing local firms, etc.).

Industrial Montreal, as discussed, was stable until Amazon's exit, which caused a big shock. 2.1M sq.ft. subleases in one quarter is huge – likely those warehouses are in areas outside Montreal (e.g., Laval or South Shore). Montreal industrial vacancy jumped to around 4-5%. The province/government will push to fill those quickly (maybe through incentives). Over 2025-26 that space will be re-leased, perhaps to multiple smaller operators or as 3PL sites.

Outlook: Montreal's economy is growing more slowly than Toronto/Vancouver, so office demand recovery might be slower. But Montreal also doesn't have a massive new supply pipeline; one or two new towers came recently (National Bank, and a few refurbishments). So if companies stop shrinking, the market can stabilize. The Quebec government's partial RTO (they encourage 2-3 days) isn't as aggressive as RBC's, but eventually public sector might cut some space. That could add subleases from government agencies, though none big noticed yet.

Calgary (and Edmonton):

Status: Calgary's office woes predated COVID (oil crash mid-2010s). Downtown vacancy soared to ~25% by 2018, improved slightly, then COVID pushed it above 30%. Many energy firms had already subleased or left space prior, so initially COVID's effect was somewhat muted – indeed Calgary's sublease volume fell in 2022 as earlier vacancies were resolved (Source: ca.finance.yahoo.com). But the underlying high vacancy meant any new sublease listing was just extra pain.

Calgary's unique factor: the city proactively launched an **Office Conversion Incentive** that started in 2021 and expanded in 2022-25, paying building owners to convert outdated offices to residential. By 2025, ~1.4M sq.ft. was converted or in process (with more funding allocated) (Source: www.cbre.ca) (Source: www.cbre.ca). This permanently removes some sublease-prone space. For example, a nearly empty office tower might skip being subleased at all and go straight to apartments, which is a kind of relief valve beyond sublease.

However, Calgary's **energy sector consolidation in 2023** (like Suncor's changes) added new large subleases, temporarily reversing the decline (Source: www.cbre.ca). Also, mergers like Canadian Pacific with Kansas City Southern (railways) might have left some Calgary offices redundant (though CP is in an owned campus).

By late 2025, Calgary downtown vacancy ~29-30%. Sublease specifically ticked up YOY (the only major market to do so) (Source: www.cbre.ca). So Calgary still has ~2.5M+ sq.ft. sublet available (the number from 2022 likely climbed back to ~3M). Most of that is floors in older towers that multiple oil companies vacated, and even the companies themselves don't exist or shrank, making sublease harder.

Edmonton, a smaller market, had high vacancy too (~20%). It saw some similar energy-related downsizing. But Edmonton has more government tenancy (provincial government), which tends to keep space. Sublease in Edmonton actually declined ~17% in Q3 2025 (Source: www.cbre.ca), which is good news. Likely some subleases got leased or scrapped (Edmonton also considered some conversions).

Outlook: Calgary's strategy is to reduce supply (via conversions) and diversify demand (tech, film, etc.). Some signs of tech or other companies taking advantage of cheap Calgary space are emerging – for instance, IBM expanded in Calgary in 2022 with a tech hub (perhaps taking sublease space). Also some film studios took over old industrial sites, etc. So over a long horizon, Calgary

might stabilize but likely will have an elevated vacancy for years. Subleases will gradually expire; many oil companies had long leases that will roll off by late 2020s, at which point the issue becomes direct vacancy instead. But at least new sublease additions should be minimal if oil prices and consolidation hold steady.

On the industrial side, Calgary's industrial is fairly healthy (vacancy ~3-4%, lots of logistics activity). If anything, some companies may move into Calgary attracted by lower costs, which could ironically fill offices eventually too (e.g., some tech companies relocated teams from Toronto to Calgary where space is abundant and cheap).

Ottawa and Secondary Cities:

Ottawa's office market is driven by the federal government (which had many workers remote) and tech in Kanata (which had some downsizing like Mitel subleasing 30k sf in 2025 (Source: www.cbre.ca). Federal government has begun consolidating space (they announced intent to reduce footprint by 30% over time). That likely means more subleases or handing back leased space in Ottawa in coming years. Already, Ottawa's sublease vacancy as of Q2 2025 was only 1.2% of inventory (just 505k sf) (Source: www.cbre.ca) (Source: www.cbre.ca) – notably low. It suggests the feds hadn't dumped space yet; they typically just return or not renew rather than sublease. But private Kanata tech did a bit of subleasing.

Ottawa's vacancy rose to ~15% downtown, but interestingly sublease is a small portion of that (most of that is direct empty from tenants leaving at expiry like some departments consolidating). The **sublease market in Ottawa** is relatively small and actually outperformed – CBRE noted Ottawa “outperforms national average” with low sublease % (Source: www.cbre.ca). This is probably because the main occupier (government) just holds space whether used or not, and other tenants are smaller in number.

Secondary markets like **Waterloo Region (Kitchener)** have a tech presence (e.g., BlackBerry downsized space, etc.). Waterloo's vacancy jumped a lot, partly due to new supply and subleases from startups. CBRE flagged Waterloo as still at peak vacancy (Source: www.cbre.ca). That area might struggle until the tech sector fully rebounds.

Halifax actually had some improvement – sublease down 57% in one quarter (Source: www.cbre.ca) – but Halifax is a small market; that stat likely means sublease went from something like 50k sf to 20k sf (just guessing).

In sum, **regional differences** shape the sublease recovery: Toronto is bounding ahead, Vancouver and Montreal making moderate progress, Calgary/Edmonton still grappling, and smaller markets mixed. This multi-speed recovery reflects local economic conditions.

Implications and Future Directions

The transformation of the sublease market since 2020 carries numerous implications for stakeholders and offers lessons about the future of work and real estate. In this final section, we discuss what the current state (Oct 2025) means for **tenants, landlords, investors, urban centers, and policymakers**, and outline likely future directions of the sublease market.

Tenant Strategies and Workplace Evolution

One clear outcome of the massive sublease wave is that **tenants gained significant leverage and flexibility** in managing their real estate. Companies now recognize that they have options beyond simply holding space or terminating leases – subleasing is firmly part of strategic occupancy planning. Some implications:

- **Emphasis on Flexibility:** The pandemic taught companies to avoid over-committing to space. Many tenants are now favoring **shorter lease terms** or explicit termination options. When they do sign long leases, they negotiate for clauses that allow them to give back a floor or sublease with fewer restrictions. This is a shift in mentality – from assuming growth and space needs will only increase, to building in agility in case they need to contract. We've seen an uptick in tenants wanting rights like “blend and extend” or “give-back options” in leases (these allow them to reduce premises at set times). While not exactly subleasing, these provisions reduce the need for sublease by proactively handling potential excess.
- **Sublease as Standard Practice:** Prior to 2020, subleasing might have had a slight stigma (“why is that company giving up space; are they in trouble?”). Now, a sublease listing is almost mundane and doesn't raise an eyebrow. **Subleasing has become a standard portfolio tool.** Corporations with multiple locations routinely scan their portfolio and identify spaces that can be sublet to save cost – almost like a regular exercise in efficiency. For example, big tech firms slimmed down globally and

subleasing was part of that; they might do it again if needed. The comfort with subleasing might ensure that any future excess space is quickly put to market, keeping overall supply more fluid.

- **Hybrid Work to Stay, But RTO Rising:** The tug-of-war between remote and office work plays directly into sublease planning. Even in late 2025, many companies have settled into **hybrid** arrangements – e.g., 2-3 days in office. This inherently means they need less space per employee than when everyone came daily (through desk-sharing etc.). As a result, we may never see companies need 100% of pre-2020 space for the same headcount. This suggests **structurally higher vacancy rates and sublease volumes will be a persistent feature** of office markets. However, the recent RTO mandates (RBC and others enforcing 4 days) (Source: www.bnnbloomberg.ca) could mitigate that a bit. If more employers demand near full-week attendance, some might even reverse downsizing decisions or at least halt further cuts. But broad surveys (e.g., Angus Reid, etc.) show many workers and companies prefer hybrid as a long-term model (Source: angusreid.org), so complete reversion is unlikely.
- **Quality and Workplace Design:** Tenants are using real estate as a carrot to entice staff back. There's now focus on **quality over quantity** of space. Many have opted to relocate into better offices (often via sublease deals in nicer buildings) as a way to offer employees a reason to come in – e.g., a more collaborative, amenity-rich environment. So subleasing indirectly drove a “flight-to-quality” which might continue: companies may sublease their older spaces and move to higher-grade, albeit perhaps smaller, spaces. This means landlords of top buildings might see stable or even rising demand, whereas older stock owners face continual departures. For example, in Toronto, several companies moved from Class B to Class A towers in 2024, subleasing their old space or simply leaving it for landlord to handle. This polarization likely persists.
- **Cost Considerations:** By subleasing during 2020-2023, tenants saved money (even if not full rent, something is better than nothing). These savings were sometimes redeployed into incentives to bring staff back (perks, as Colliers noted like free coffee, etc.) (Source: www.collierscanada.com) (Source: www.collierscanada.com). Going forward, companies might **budget lower for real estate** relative to other expenses, expecting to maintain leaner footprints and rely on flexible arrangements (like coworking memberships for overflow). The sublease market – with its typically lower rents – essentially put downward pressure on costs, which CFOs welcome. Some firms may adopt a practice of only leasing, say, 80% of peak needs and if they temporarily need more, they'll go to the flex or sublease market to top up. This demand smoothing means the sublease market could become an ongoing secondary supply reservoir – like a buffer that expands or contracts as companies flex up or down.

Landlord and Investor Impact

For building owners and investors, the sublease flood has been largely painful, but it has forced adaptation and innovation:

- **Income and Valuations Hit:** High vacancies (direct or via sublease) have translated to **lower rental income** for landlords (either through lost tenants or through having to match sublease rates on renewals). Property valuations have fallen in many cases – for instance, some office REITs in Canada wrote down asset values by 10-20% from 2019 levels. Transaction activity for office buildings slowed, as buyers and sellers can't agree on pricing in a disrupted market. Lenders also grew cautious – the office sublease situation was one factor behind tighter lending to office real estate, to the extent that by 2023 some landlords faced refinancing challenges. In extreme situations in the US, we saw office loan defaults; Canada has had fewer, but one notable example: **Allied Properties REIT** had to sell some Toronto buildings in 2023 at hefty discounts (though partly due to high debt costs). The lingering high sublease space signals to investors that **office leasing risks remain elevated**.
- **Flight-to-Quality benefits top landlords:** Owners of modern Class A towers (often pension funds or well-capitalized REITs) have fared relatively better. As tenants flock to quality, these buildings regained occupancy faster. For example, landlords of new Toronto towers have managed to lease most space (though some deals may have involved lowering rents). In London and New York, we've seen a bifurcation where “trophy” offices are near full and older ones are half empty – Canada is exhibiting a similar trend (Source: www.cbre.ca) (Source: www.cbre.ca). This means **investment capital also is focusing on prime assets** (for long-term) and avoiding or deeply discounting older assets, anticipating expensive repositioning.
- **Landlord Concessions and Leasing Approach:** During the sublease peak, landlords had to get creative to compete. Many offered **generous improvement allowances, rent-free periods, and flexibility**. We likely will see some of those concessions stick around. Landlords also began marketing **spec suites** (small suites pre-built and ready to occupy) to attract tenants who might otherwise choose a sublease (which is already built out). They essentially mimicked subleases by offering plug-and-play space directly. Landlords with numerous small vacancies did turnkey buildouts so that a tenant could sign and move in quickly – an attempt to remove one advantage of sublease (no buildout time).

- **Profit-sharing enforcement:** As sublease transaction volume grew, some landlords enforced the profit-sharing clauses or tightened consent conditions – not to hinder subleasing outright, but to ensure they didn’t lose out if market rent exceeded contract rent. However, since most subleases in this period were below original rents, profit share rarely kicked in (there were few “profitable subleases”). If the market strengthens later, landlords will want to capture upside by converting subtenants to direct tenants at higher rents when possible.
- **Portfolio Rebalancing:** Investors are reconsidering their portfolio allocations. Some institutional investors are **reducing exposure to office** in favor of industrial, residential, or other property types that proved more resilient. The sublease saga hammered home that office demand can be highly volatile. We might see more office owners repurpose buildings (if feasible) or simply hold with minimal investment, hoping for a market rebound or government help (like conversion incentives).
- **Policy Advocacy:** Landlords and city leaders are in discussions on how to revitalize downtowns suffering from high vacancy. For example, in Toronto and Calgary, property owners have lobbied for tax incentives or zoning changes to enable conversions or other uses. Calgary’s proactive grant program is a model; others might follow if vacancies remain structurally high. Landlords also push for initiatives to encourage return of workers (some CEOs have even been cheerleaders of RTO because it benefits their occupancy rates).
- **Future Leasing Strategies:** Many landlords are launching their own **flex space or co-working offerings** within their buildings to capture demand for short-term or project space that might have otherwise gone to a third-party or remained sublease. By doing so, they can offer tenants expansion space in-building which might deter them from leasing excess (they can just use flex when needed). This could reduce future sublease needs if executed well. For instance, global landlords like Brookfield have started flex brands; in Canada some larger landlords are partnering with co-working operators to fill vacant floors. This effectively converts what would be empty space (or potential subleases by tenants) into a service the landlord provides – keeping more control.

Urban Centers and Economic Implications

The surge in sublease space and high office vacancy is not just a real estate issue; it has broader urban-economic implications:

- **Downtown Vitality:** Fewer workers in offices (either because space is empty or people working remote) means downtown shops, restaurants, transit systems, etc., lost patronage. Cities like Toronto and Vancouver saw downtown weekday foot traffic drop significantly in 2020-22, slowly rising in 2023-25 but still below pre-COVID levels. This affects sales tax revenues, transit fare revenues, and the general vibrancy of business districts. High sublease and vacancy rates can lead to a negative spiral: less vibrancy makes downtown less attractive, which makes companies less eager to bring people back, and so on. Toronto’s downtown occupancy at ~50% in mid-2023 (Source: ca.finance.yahoo.com), while improved, still means a lot of empty streets relative to 2019. However, as companies now push RTO, we might witness a rebound in activity (e.g., by late 2025 some Toronto towers report much busier Tuesdays-Thursdays).
- **City Finances:** In Canada, commercial properties constitute a big portion of city tax bases. If building values decline (due to high vacancy/sublease), property tax assessments eventually adjust down, potentially reducing city revenues. Some downtown landlords in U.S. have even sought assessment appeals given high vacancy. Canadian cities may face that pressure too. So there is a municipal interest in repurposing or reoccupying empty offices to sustain the tax base. We might see cities consider incentives such as tax breaks for conversions or subsidies to encourage tenants to return. The success of Calgary’s incentive program (hundreds of units being created from offices) might spur others.
- **Housing Conversions:** A positive spin-off of office surplus is the push to convert some into much-needed residential units. Housing shortages are acute in cities like Toronto and Vancouver. Converting offices to apartments can help downtown vitality (more 24/7 population) and soak up excess office space. But conversions are expensive and technically tricky (not all buildings are suitable). With weaker office economics, though, more owners are exploring it. We discussed Calgary; Toronto has seen proposals to convert some older towers on King Street to mixed-use (though none major completed yet). Governments have started funding feasibility studies and removing zoning hurdles. So one long-term implication of the sublease glut could be a partial **reimagining of downtowns** with more mixed-use and residential, making them less reliant solely on 9-5 office crowd.
- **Market Equilibrium Shift:** It’s possible that even once the sublease overhang clears, Canadian cities will have a *new normal* for vacancy considered acceptable. Planners and transit agencies might plan for slightly fewer peak commuters, etc. The notion that remote/hybrid can effectively “spread out” economic activity (with more work happening in suburbs or at home) could mean downtowns will need to reinvent and diversify beyond offices to remain vibrant. Some cities are already marketing

downtown for different uses – e.g., life sciences labs, post-secondary campuses in office blocks, etc., which diversifies occupancy.

- **Environmental Impacts:** Interestingly, emptier offices raise questions environmentally. On one hand, if buildings are underutilized but still maintained (lights on, etc.), that's inefficient. Conversions to residential have environmental benefits by upcycling structures. Also, remote work reduced commuter emissions, but if we push RTO again then transit and car usage go up. City policymakers must balance climate goals with economic goals in that regard. A moderate path (hybrid) might be best: some remote to cut emission, some in-office to support city economy.
- **Long-Term Demand:** The experience of 2020-2025 may dampen long-term demand growth for office space. Companies realized they can expand revenues without proportionally expanding office footprint (through remote/hybrid). This “decoupling” of economic growth from office space growth could have far-reaching consequences: even as GDP and employment rise, office absorption might not keep pace as it used to in the past. For downtowns that historically banked on endless growth and building more towers, this means a slower pipeline and perhaps more emphasis on upgrading existing stock. It's noteworthy that new office construction in Canada plummeted to two-decade lows by 2025 (Source: www.cbre.ca). That indicates developers expect softer demand for years. Fewer new buildings also cap future supply. So ironically, the sublease surplus might gradually ease simply because almost no new supply is coming while the economy still grows, thereby eventually swinging to undersupply if one looks far out (some analysts predict a shortage of prime office again by late 2020s if construction stays dormant and if job growth continues).
- **Social Impacts:** Subleasing and downsizing has had workforce implications too – e.g., many support staff in offices (cafeteria workers, cleaning crews) lost jobs when space went unused. Some of those jobs return as offices refill, but possibly not all if fewer people occupy. Also, the distribution of where work happens might influence real estate development in suburbs and small towns (as remote workers spend more locally). This is more sociological, but the data from 2020-2025 will be studied by urban economists for its impacts on city centers vs peripheries.

The Future of the Sublease Market

Looking ahead, what can we expect for the sublease market in Canada beyond 2025? Based on current trends:

- **Continued Decrease in Office Sublease Availability:** If the recovery momentum holds, we should see sublease figures step down closer to historical norms by, say, 2026-27. Perhaps national sublease might go from ~12M sq.ft now to ~8-10M in a couple of years, assuming steady absorption and minimal new shock. A big unknown is the broader economy – if a recession hits in 2024 or 2025 with major layoffs, that could spawn a new sublease uptick. But if the economy has a soft landing or mild growth, companies likely won't dramatically shed more space; they may even start hiring again (using up some empty desks).
- **Potential New Sublease Wave if Trends Reverse:** One scenario: if remote work sentiment strengthens again (imagine a future with improved virtual reality collaboration or such making remote even easier), companies could decide to cut more space and we'd see another wave of subleases. Alternatively, if interest rates remain high and profit margins squeezed, some firms could further trim real estate for cost savings. However, given how much has already been cut and how far vacancy rose, it's hard to imagine a *worse* scenario than we had, absent an external shock. Many companies are at a point where they can't cut much more without affecting operations (some already cut too deep, arguably, hurting collaboration).
- **Sublease vs. Co-working vs. Flex Landlord Space:** The ecosystem of flexible space options will evolve. Subleases traditionally fill a role for mid-term (1-5 year) needs. Co-working covers very short-term and small users. Landlord flex offerings cover something in between. We might see these models merging. Landlords might preemptively offer tenants “give back some space to our flex program” instead of subleasing to a third party. That way, the landlord effectively subleases it for them – similar outcome but the landlord controls it and shares profit or offsets rent. This kind of arrangement could become common, effectively internalizing the sublease market within landlord services.
- **Transparency and Data:** With sublease now a large portion of inventory, market analysts and brokerages will likely track it more closely and transparently. We can expect more real-time data on sublease availability, sublease rent indices, etc., to inform both landlords and tenants. This could make the market more efficient. Already, big brokerages produce sublease reports for cities (e.g., CBRE Ottawa Sublease Figures, etc.) – a practice that might extend to all major markets.
- **Lease Structures:** Perhaps leases in the future will have built-in **scalable clauses** – e.g., a “portion of space can be given back or rent adjusted if headcount falls below X”. This would formalize what subleasing does informally. There's precedent in retail where percentage rent leases flex with sales. Maybe office leases might flex with utilization in future (though that would be a radical shift).

- **Industrial's New Equilibrium:** For industrial, the huge development of 2017-2023 likely overshot short-term, but medium-term fundamentals are strong (e-commerce, supply chain onshoring). So industrial sublease might stay at elevated levels (compared to near-zero pre-2020) just as a buffer, but likely not grow further. It may hover around, say, 5-10M sq.ft nationally available as sublease normally – up from ~1-2M pre-pandemic – essentially a new normal where some companies routinely sublease relatively often. But if demand picks up, that will be absorbed quickly. Industrial investors have slowed building for now, but by 2025 some are ramping up again seeing that any oversupply might be short-lived. For instance, the pipeline rising again (Source: www.cbre.com) suggests faith that sublease glut is manageable.
- **Retail Outlook:** Retail remains more about direct lease churn than sublease. But an interesting possibility: as retail has been repurposed (e.g., putting medical clinics or offices in malls), there could be cross-over – an office tenant subleasing street retail space for a period, or vice versa. Already some empty big-box retail got used as temporary call centers or offices during the pandemic. So the boundaries between previously siloed sectors might blur with so much space available – in downturns, whoever can fill space (be it office or retail user) might take it even if the space type is unconventional for them.

Finally, a **resilience lesson:** The sublease flood of early 2020s was a stress-test for the industry. It forced modernization (digital marketing of subleases, etc.), cooperation (landlords consenting more to subleases to keep buildings occupied), and it underscored the importance of adaptability in leases. The players who adapted best – landlords who converted space or aggressively leased sublets, tenants who seized cheap sublease deals to upgrade premises – came out ahead. Those lessons will carry forward. Future downturns might see faster responses: companies now know to cut space quickly if needed (rather than hesitating), and landlords know to proactively address a potential sublease situation (maybe offer to take space back and release, etc.). The period of 2020-2025 will likely be studied in MBA and planning courses as an example of extreme shock to commercial real estate and how the sublease mechanism acted as a relief valve.

Conclusion

As of October 2025, the **sub-lease market for commercial leases in Canada** stands at a pivotal juncture – having weathered an extraordinary storm and now slowly receding from peak turbulence, yet still fundamentally changed in its dimensions. This comprehensive examination has chronicled the sublease market's journey from the early pandemic office exodus and industrial boom, through record highs of space on offer, to the tentative recovery underway today. Several key conclusions emerge:

- **The pandemic catalyzed a historic spike in sublease availability** across Canada's offices (peaking at ~16.8 million sq. ft. in mid-2023 (Source: www.cbre.ca) and, later, in industrial properties (hitting ~15 million sq. ft. in late 2025 (Source: www.cbre.com)). This flood was unprecedented in scale and geographic breadth, dwarfing sublease surges from previous recessions. Virtually every major city experienced a surge, though local severity varied. The causes were clear: sudden shifts to remote/hybrid work and economic jolts (especially in tech) left tenants holding far more space than needed, and subleasing became the release valve of choice since breaking leases was often not feasible.
- **Sublease space has since turned a corner and is gradually being reabsorbed**, particularly in the office sector. Over the past five to six quarters, national office sublease inventories have consistently declined (Source: www.cbre.ca) as companies either reoccupied space, found subtenants, or simply exited leases (removing those subleases from the market). By Q3 2025, office sublease availability was down ~28% from its peak (Source: www.cbre.ca), and many markets (Toronto, Montreal, etc.) have seen sublease listings drop significantly. This indicates that the worst imbalances are behind us, although absolute levels of empty space remain elevated compared to pre-2020 norms.
- **Multiple structural changes in occupier behavior and market dynamics will likely persist.** Remote and hybrid work arrangements mean companies will, on average, need less office space per employee going forward, keeping vacancy and sublease potential higher than in the past. The period affirmed that subleasing is an essential flexibility tool – tenants are now far more proactive in using it to manage costs. We also observe a lasting “flight-to-quality” trend: as companies regroup, they are gravitating to higher-quality premises and shedding inferior ones (often via sublease). This is reshaping downtown markets, polarizing performance between modern and older buildings (Source: www.cbre.ca). Landlords of commodity office properties face tough choices – invest to upgrade, repurpose, or continue to struggle with high vacancy. Meanwhile, top-tier assets withstood the storm better and are leading the occupancy recovery, a trend likely to continue.
- **The commercial real estate industry's response has involved innovation and adaptation.** We've seen landlords become more flexible – granting shorter leases, offering turnkey suites, accommodating subleases (even if not thrilled about them) – to retain and attract tenants in a sublease-heavy environment. There's been movement on conversion of surplus office

space into residential or other uses, notably in Calgary, as a strategic way to reduce vacancy and revitalize downtowns. Stakeholders, including municipal governments, are now actively discussing policies to ease such conversions and to encourage the re-use of vacated space, marking a new era of cooperation between real estate and urban planning objectives. The long-term health of city centers may depend on successfully transforming excess office inventory into something productive, whether that's housing, educational institutions, or novel workspace formats.

- **For investors and owners, the sublease glut was a wake-up call that has recalibrated risk assessments.** Office investments are now viewed with more caution and differentiated by asset quality and leasing profile. Valuations have corrected downward for many properties to reflect higher vacancy and the potential need for capital expenditures or rent concessions to stay competitive with sublets. Industrial real estate, while experiencing a correction from its hyper-tight phase, still enjoys strong fundamentals and investor confidence — the sublease additions in industrial are seen more as a frictional adjustment rather than a long-term oversupply. Retail real estate's challenges were more about lost tenants than subleases, but it too is evolving, with some retail spaces finding new life as part of mixed-use concepts, partially in response to shifting demand dynamics similar to offices.
- **From a macro-economic standpoint, the sublease wave and its aftermath underline the resilience but also the adaptability of the commercial property sector.** Even faced with the largest remote-work experiment in history, Canadian cities did not hollow out entirely; many companies still value physical workspace for collaboration, culture, and client interactions, especially in collaborative and creative industries. The ongoing return-to-office mandates by major employers (like the banks requiring 4 days in-office (Source: www.bnnbloomberg.ca) suggest that physical offices will remain a cornerstone of corporate operations, though perhaps with more emphasis on quality and purpose. However, the balance of power in the office market has undoubtedly shifted more in favor of tenants – a condition that could persist until economic growth or other factors tighten supply-demand conditions again.
- **Future outlook:** We anticipate that the sublease market will continue to gradually contract through 2026 provided there's no major economic downturn. The available sublease office space may drift closer to historical ranges (perhaps settling somewhat above the 8.2 million sq. ft. pre-2020 average (Source: www.cbre.ca), given some permanent changes in work patterns). Some sublease space will convert to direct leases as subtenants decide to stick around and negotiate new terms with landlords at lease expiry, effectively absorbed back into the primary market. Industrial sublease availability should likewise stabilize, and could even flip back to shortage in certain high-demand logistics hubs if development doesn't keep up. That said, any forecast must acknowledge uncertainties: a significant recession, another global event changing work norms, or technological shifts (e.g., widespread adoption of virtual collaboration tools that further reduce need for physical space) could rapidly alter the trajectory.

In closing, the sublease phenomenon of the early-to-mid 2020s has been a defining feature of Canada's commercial real estate landscape, with effects rippling through economic, operational, and urban realms. It demonstrated both the vulnerability of the sector to external shocks and its capacity for adjustment. Companies trimmed sails and discovered new ways of working; buildings emptied but are slowly refilling in new configurations; and cities are reimagining their future form and function in light of these shifts. For tenants and landlords alike, the experience reinforced fundamental principles: **flexibility, innovation, and agility** are paramount in navigating an uncertain environment. The Canadian sublease market's story is ultimately one of adaptation – an ongoing evolution toward a new equilibrium that balances the efficiencies of remote work with the enduring value of physical workplaces, all unfolding in real time across the nation's urban centers. As we move beyond 2025, stakeholders will carry forward the insights and hard-earned lessons of this period, making the commercial real estate sector more resilient and responsive in the years to come.

References (Inline Citations): The information in this report was drawn from a wide range of sources, including brokerage research reports, news articles, and industry analyses. Key sources have been cited inline in [URL] format to substantiate data and statements, for example: CBRE Canada reports on office and industrial market figures (Source: www.cbre.ca) (Source: www.cbre.com), Avison Young research on sublease trends (Source: ca.finance.yahoo.com) (Source: www.avisonyoung.ca), Colliers commentaries on post-COVID leasing dynamics (Source: www.collierscanada.com) (Source: www.collierscanada.com), news coverage from Reuters and others on corporate return-to-office policies (Source: www.bnnbloomberg.ca) and major tenant moves (Source: www.theglobeandmail.com), and more. These references ensure the accuracy and credibility of our analysis, and provide avenues for further reading on specific points of interest.



Tags: commercial sublease, commercial real estate canada, office vacancy rate, industrial sublease space, sublet market trends 2025, flight to quality, canadian property market

About 2727 Coworking

2727 Coworking is a vibrant and thoughtfully designed workspace ideally situated along the picturesque Lachine Canal in Montreal's trendy Griffintown neighborhood. Just steps away from the renowned Atwater Market, members can enjoy scenic canal views and relaxing green-space walks during their breaks.

Accessibility is excellent, boasting an impressive 88 Walk Score, 83 Transit Score, and a perfect 96 Bike Score, making it a "Biker's Paradise". The location is further enhanced by being just 100 meters from the Charlevoix metro station, ensuring a quick, convenient, and weather-proof commute for members and their clients.

The workspace is designed with flexibility and productivity in mind, offering 24/7 secure access—perfect for global teams and night owls. Connectivity is top-tier, with gigabit fibre internet providing fast, low-latency connections ideal for developers, streamers, and virtual meetings. Members can choose from a versatile workspace menu tailored to various budgets, ranging from hot-desks at \$300 to dedicated desks at \$450 and private offices accommodating 1-10 people priced from \$600 to \$3,000+. Day passes are competitively priced at \$40.

2727 Coworking goes beyond standard offerings by including access to a fully-equipped, 9-seat conference room at no additional charge. Privacy needs are met with dedicated phone booths, while ergonomically designed offices featuring floor-to-ceiling windows, natural wood accents, and abundant greenery foster wellness and productivity.

Amenities abound, including a fully-stocked kitchen with unlimited specialty coffee, tea, and filtered water. Cyclists, runners, and fitness enthusiasts benefit from on-site showers and bike racks, encouraging an eco-conscious commute and active lifestyle. The pet-friendly policy warmly welcomes furry companions, adding to the inclusive and vibrant community atmosphere.

Members enjoy additional perks like outdoor terraces and easy access to canal parks, ideal for mindfulness breaks or casual meetings. Dedicated lockers, mailbox services, comprehensive printing and scanning facilities, and a variety of office supplies and AV gear ensure convenience and efficiency. Safety and security are prioritized through barrier-free access, CCTV surveillance, alarm systems, regular disinfection protocols, and after-hours security.

The workspace boasts exceptional customer satisfaction, reflected in its stellar ratings—5.0/5 on Coworker, 4.9/5 on Google, and 4.7/5 on LiquidSpace—alongside glowing testimonials praising its calm environment, immaculate cleanliness, ergonomic furniture, and attentive staff. The bilingual environment further complements Montreal's cosmopolitan business landscape.

Networking is organically encouraged through an open-concept design, regular community events, and informal networking opportunities in shared spaces and a sun-drenched lounge area facing the canal. Additionally, the building hosts a retail café and provides convenient proximity to gourmet eats at Atwater Market and recreational activities such as kayaking along the stunning canal boardwalk.

Flexible month-to-month terms and transparent online booking streamline scalability for growing startups, with suites available for up to 12 desks to accommodate future expansion effortlessly. Recognized as one of Montreal's top coworking spaces, 2727 Coworking enjoys broad visibility across major platforms including Coworker, LiquidSpace, CoworkingCafe, and Office Hub, underscoring its credibility and popularity in the market.

Overall, 2727 Coworking combines convenience, luxury, productivity, community, and flexibility, creating an ideal workspace tailored to modern professionals and innovative teams.

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