Leasing activity drives occupancy gains

▼ 16.8%
Vacancy Rate

▼ $16.38
PSF Avg. Asking Lease Rate

▶ 0K
SF Under Construction

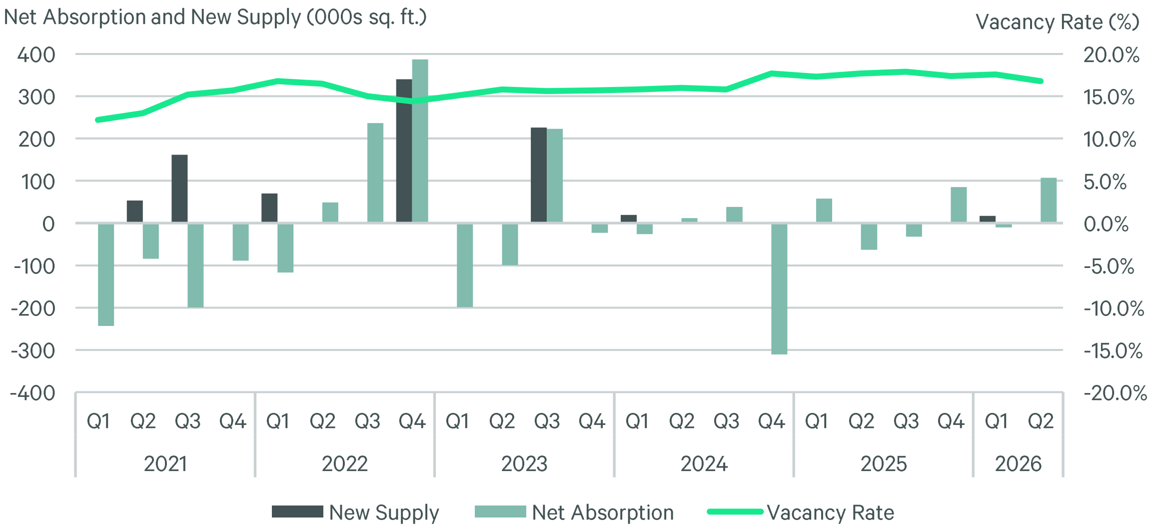
▲ 107K
SF Net Absorption

Note: Arrows indicate change from previous quarter.

Overview

- Vacancy rates continued to improve across the Waterloo Region office market, declining to 16.8% in Q2 2026 from 17.6% in the previous quarter. Strong leasing activity and positive absorption supported occupancy gains, particularly within Class A and Class B assets, while older office inventory continued to face leasing challenges.
- Sublease availability contracted during the quarter, with sublease vacancy falling from 10.7% to 4.3%. The reduction reflects a substantial decrease in excess office space returning to the market, signaling improving tenant confidence and stronger overall market fundamentals.
- The market recorded 107,000 sq. ft. of positive net absorption in Q2 2026, driven by leasing activity across Kitchener, Waterloo, Cambridge, and Guelph. Demand remained focused on modern, well-located office properties, contributing to a more balanced market environment and greater stability in occupancy levels.

FIGURE 1: Waterloo Region Fundamentals – Historical Analysis



Source: CBRE Research, Q2 2026.

Vacancy and sublease availability continue to improve

The overall vacancy rate fell to 16.8% in Q2 2026, driven largely by strengthening demand for higher-quality office space. Class A vacancy decreased to 16.4%, while Class B vacancy fell to 20.6%, reflecting improved leasing momentum across much of the market. Conversely, vacancy among Class RC properties increased to 20.5%, suggesting occupiers continue to favour more competitive and modern inventory over older office stock. Class C assets remained near full occupancy, with vacancy holding at just 2.9%. More broadly, the market posted 107,000 sq. ft. of positive net absorption in Q2 2026, reflecting renewed occupier demand and contributed to a more balanced market. Demand remains concentrated in well-located, high-quality office buildings, while aging assets continue to face challenges attracting and retaining tenants.

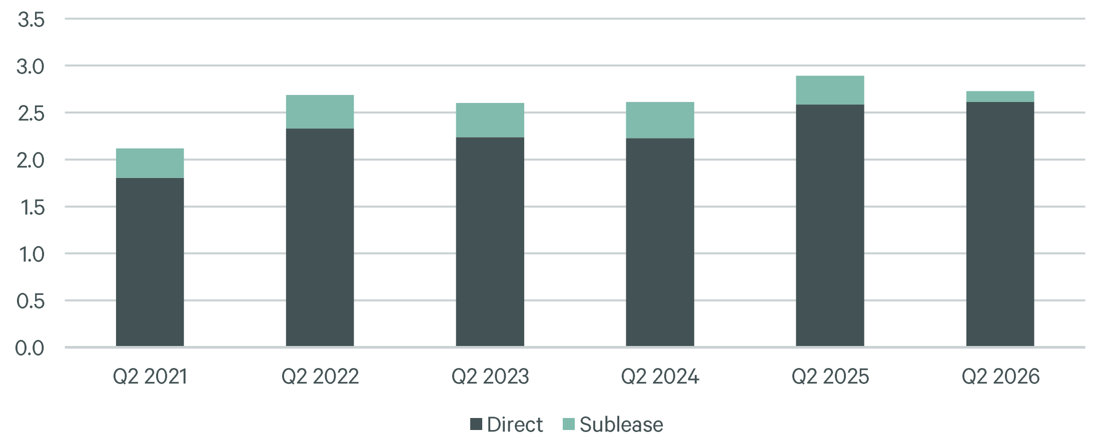
Sublease availability tightened considerably in Q2 2026, with sublease vacancy decreasing to 4.3%. Class C properties recorded the highest concentration of sublease space, while Class A, Class B, and Class RC assets experienced comparatively low levels of sublease availability.

Quality assets lead market performance

Waterloo Region's office market recorded 107,000 sq. ft. of positive net absorption in Q2 2026, reflecting steady leasing activity across the region. This continued positive trend remains concentrated in higher-quality buildings across the market.

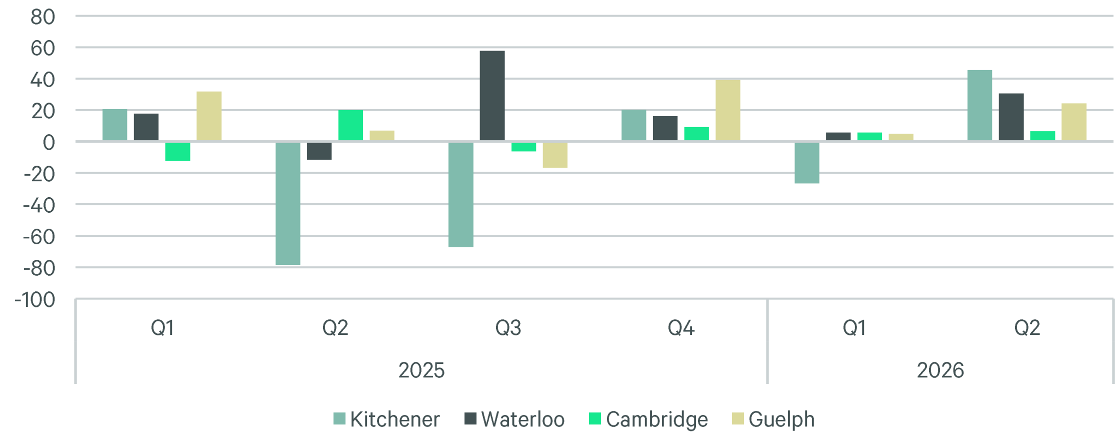
Despite improving market conditions, net asking rents remain at $16.38 per sq. ft. The Class A segment outperformed the broader market, with net asking rents increasing by 3.8% quarter-over-quarter, from $18.39 per sq. ft. to $19.09 per sq. ft.

FIGURE 2: Direct Versus Sublet Historical Vacancy (MSF)



Source: CBRE Research, Q2 2026.

FIGURE 3: 2026 Quarter-Over-Quarter Net Absorption by Submarket (000s sq. ft.)



Source: CBRE Research, Q2 2026.

Market rent trends

Rental rates remained relatively stable through Q2 2026 across all asset classes, reflecting a balanced market with limited volatility in asking rents over the past three years. Class A properties continued to command the highest average net asking rents at $19.09 per sq. ft., while Class C rates remained the lowest at $13.24 per sq. ft. The $5.85 per sq. ft. spread between Class A and Class C assets highlights the continued premium associated with higher-quality office space, while Class RC properties also maintained strong pricing relative to other asset classes. Despite modest quarter-over-quarter fluctuations, rental rates across all classes have remained within a relatively narrow range since 2023, indicating consistent tenant demand and stable market fundamentals.

FIGURE 4: Historical Net Rental Rates (PSF)

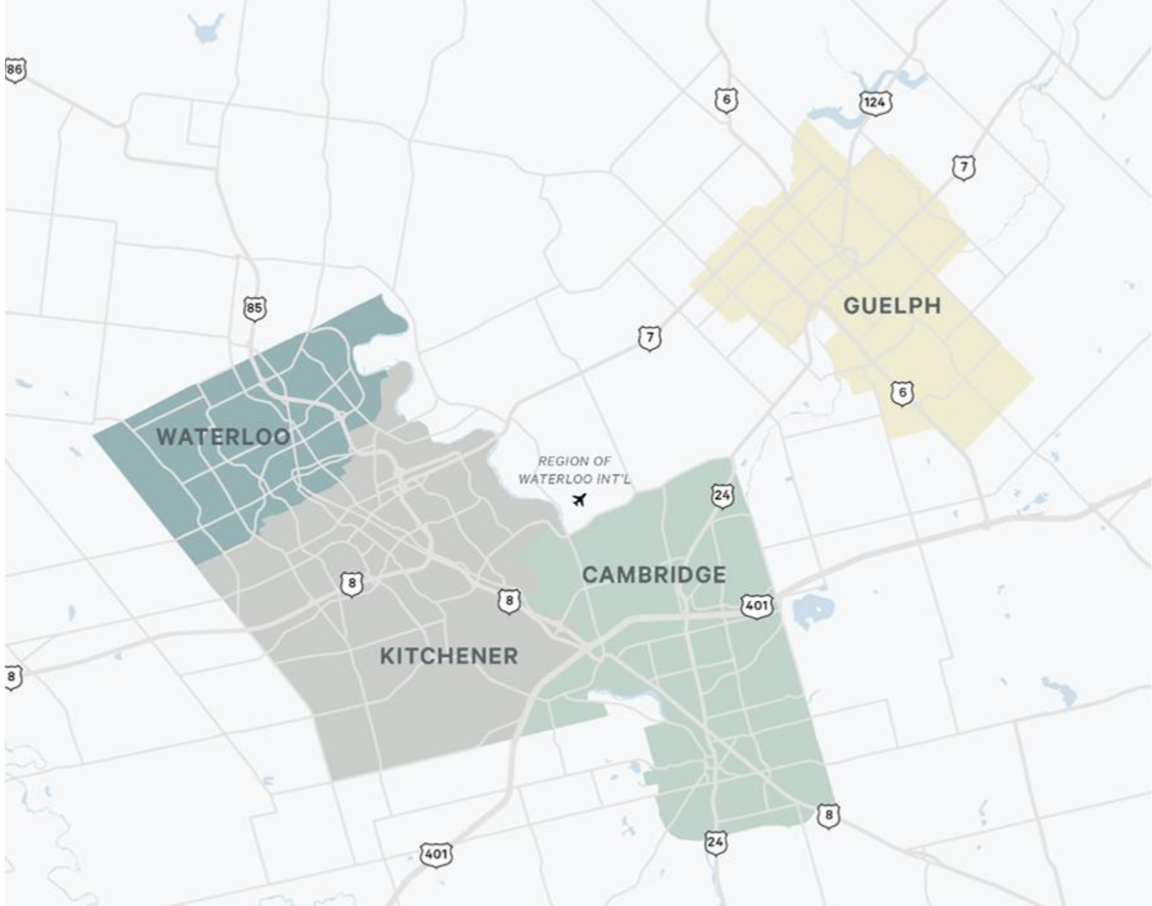
Source: CBRE Research, Q2 2026.

FIGURE 5: Office Market Statistics

Submarket	Inventory (SF)	Vacancy Rate (%)	Under Construction (SF)	Quarterly Net Absorption (SF)	Net Absorption YTD (SF)	Avg. Net Asking Lease Rate ($PSF)
Core	3,156,384	42.1%	0	21,211	50,707	$16.98
Suburban	2,799,660	5.2%	0	24,357	-31,731	$15.72
Kitchener Total	**5,956,044**	**24.7%**	**0**	**45,568**	**18,976**	**$16.86**
Core	671,903	6.0%	0	4,351	4,318	$15.95
Suburban	5,588,230	18.8%	0	26,252	32,095	$15.94
Waterloo Total	**6,260,133**	**17.4%**	**0**	**30,603**	**36,413**	**$15.94**
Core	350,557	7.3%	0	-3,604	-3,604	$10.00
Suburban	1,411,489	3.4%	0	10,181	15,882	$13.53
Cambridge Total	**1,762,046**	**4.1%**	**0**	**6,577**	**12,278**	**$12.19**
Core	538,520	4.2%	0	-1,234	-1,234	$16.88
Suburban	1,764,833	4.0%	0	25,596	30,562	$16.82
Guelph Total	**2,303,353**	**4.1%**	**0**	**24,362**	**29,328**	**$16.84**
Overall Total	**16,281,576**	**16.8%**	**0**	**107,110**	**96,995**	**$16.38**

Source: CBRE Research, Q2 2026.

Market Area Overview



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