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The Toronto commercial build-out *guide.*

Shell condition, tenant improvement economics, and what to know before signing a commercial lease in 2026.

By the MACON Build editorial team

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A NOTE ON THIS DOCUMENT

This document is one of a small collection of resources MACON Build publishes for Toronto property owners and commercial tenants considering significant work. It is offered freely, without registration, in the belief that informed clients make better decisions and build better buildings — whether or not they ever engage us.

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A Toronto commercial build-out is shaped by three things: the shell you start with, the use you intend, and the lease you signed. The cost number you hear quoted usually ignores two of them. This document explains all three.

i. Shell delivery: where you actually start

The single largest variable in any commercial build-out cost is the condition of the space before construction begins. Landlords deliver shells at one of four standard levels, and the further down the spectrum the shell sits, the more falls on you.

— **Cold dark shell.** Bare structure. No mechanical, electrical, or plumbing. No demising walls, no ceiling, no flooring. The landlord has handed you a concrete box. Cheapest rent, most expensive build-out.

— **Gray shell.** Rough-in MEP brought to the space, finished slab. Demising walls and ceilings still your responsibility.

— **White box.** Demising walls finished, basic lighting installed, ceiling grid in place, HVAC ready for tie-in.

— **Vanilla shell.** Painted walls, finished ceiling, full HVAC distribution, a working restroom. You are doing finishes and the work specific to your use.

Most Toronto commercial leases specify shell condition in the work letter — the appendix to the lease that defines who builds what. Reading that document carefully, before signing, is the single most consequential thing a tenant can do for their build-out budget. We have

walked spaces where the difference between what the lease promised and what was actually delivered ran into the hundreds of thousands of dollars.

ii. The cost ranges by use type, 2026

The following ranges reflect Toronto-area construction costs for tenant improvement work in 2026, based on what we and other commercial builders are quoting. They assume a reasonable shell starting condition — typically white box. Lower shells push costs up; higher shells pull them down.

- **Office tenant improvement:** $100–$200/sq ft for standard fit-outs, $200–$400+/sq ft for high-spec corporate or technology-forward spaces. Toronto sits at the high end of Canadian markets — recent industry benchmarks place average corporate office fit-outs near $275/sq ft.
- **Retail:** $150–$300/sq ft for mid-tier retail, $300–$500/sq ft for premium retail with custom millwork, feature lighting, and brand-specific finishes.
- **Restaurant and food service:** $250–$450/sq ft for full-service restaurants, with quick-service formats running similarly. Kitchen equipment, Type I hoods, grease interceptors, and makeup-air units are the dominant cost drivers and account for a significant share of every restaurant budget.
- **Medical and dental:** $200–$400/sq ft, driven by specialized plumbing (multiple wet locations), advanced HVAC, lead-lined walls where imaging is involved, and strict compliance with health regulations.

Add 8–15% for soft costs (design, engineering, permits, project management) and a 5–10% contingency for the wildcards described below. Furniture, IT, and audiovisual systems are typically separate line items, not part of the construction budget.

iii. The tenant improvement allowance

Most commercial leases include a Tenant Improvement allowance — a contribution from the landlord toward the cost of fitting out the space. The amount varies by market, asking rent, and lease term, but ranges of $30–$100 per square foot are common in the Toronto market.

The gap between your actual build-out cost and the TI allowance is the negotiating space. Tenants who walk into a lease negotiation with a real construction estimate in hand consistently secure better terms than tenants who rely on rules of thumb. We have helped commercial clients increase their TI allowance by tens of thousands of dollars simply by being able to demonstrate, with documented numbers, what the build-out actually costs.

A tightening trend worth noting: landlord TI allowances in core Toronto retail and office tightened through 2025 and 2026, particularly on second-generation space. Tenants are paying more out of pocket than they were two years ago. Build that reality into your negotiating posture.

iv. Permits and the Toronto timeline

Toronto commercial permits average 8 to 14 weeks from complete application to approval. Suburban GTA municipalities are often faster — Mississauga, Vaughan, and Markham typically run 4 to 8 weeks for comparable work.

Several scope triggers can extend the timeline:

- **Change of occupancy** from one commercial use class to another (e.g., retail to restaurant) triggers a full review and often code upgrades
- **AODA accessibility upgrades** are required whenever scope exceeds approximately 20% of the building, regardless of what the prior tenant was operating under
- **Heritage review** applies if the property is designated or listed under the Ontario Heritage Act — see our companion document on heritage properties
- **Public consultation** can be triggered for licensed premises in residential-adjacent zones

Pre-application consultation with the local building department is free and accelerates almost every project. Submitting a complete, accurate package on the first application matters more than any other single factor in permit timing.

v. The wildcards that destroy budgets

A 10–15% contingency exists for a reason. The single largest source of commercial build-out cost overruns is what underwriters call "second-generation MEP rework" — discovering that the mechanical, electrical, or plumbing infrastructure inherited from the previous tenant is undersized for your intended use.

In our experience this happens 40 to 60% of the time, particularly when the new use adds electrical load (commercial kitchen equipment, EV charging, medical imaging) or changes plumbing demands. The cost to upgrade can run from $20,000 for modest panel upgrades to $200,000+ for full electrical service upgrades from the street.

A walk-through with a builder before lease signing, with the building's existing as-built drawings in hand, is the single most effective way to surface these issues before they become your problem.

vi. Negotiate the build before you sign the lease

The lease determines the build-out economics, not the other way around. By the time you have signed, the shell condition, the TI allowance, the use class permitted, and the term to amortize the build over are all fixed. Your remaining leverage is on the construction itself.

Have a builder walk the space with you before you commit. Get a real budget number based on the actual shell condition. Read the work letter carefully and push back on language that pushes scope onto the tenant. The hour spent in due diligence before signing is worth weeks of fighting after.

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BY PRIVATE INQUIRY

We work with restaurateurs, retailers, professional firms, and operators across Toronto on commercial build-outs of every scale. If you are negotiating a lease or planning a fit-out and want a candid conversation before you sign, we are glad to have one.

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