



# *REAL STRATEGY*

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Commercial Real Estate Strategy  
& Implementation Solutions

**Real Strategy Market Outlook:  
Q3 2019**

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### Real Strategy Market Outlook: Q3 2019



The office market in the National Capital Region continued to show strong demand, especially from the Federal Government and the local technology sector. Office users, both public and private, are demonstrating a strong preference for new or renovated space. This trend has led to falling availability across the city as new space is gobbled up and the abandoned older office product is subsequently renovated. Overall office availability stood at 8.3% at the end of the third quarter, compared to 8.5% at the end of the second quarter.

As we await the impact of a minority Liberal government on our local economy, Real Strategy is predicting another two quarters of strong demand until such time that a new Federal budget is released.

### DOWNTOWN SUBMARKET ANALYSIS

Office availability downtown appears to have hit a plateau, with only a slight variation from the previous quarter across all classes. While demand for newly finished space remained strong, the lack of quality product contributed to fewer transactions.

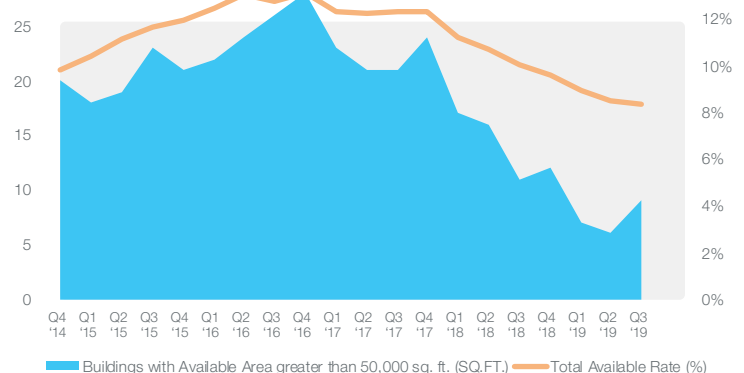
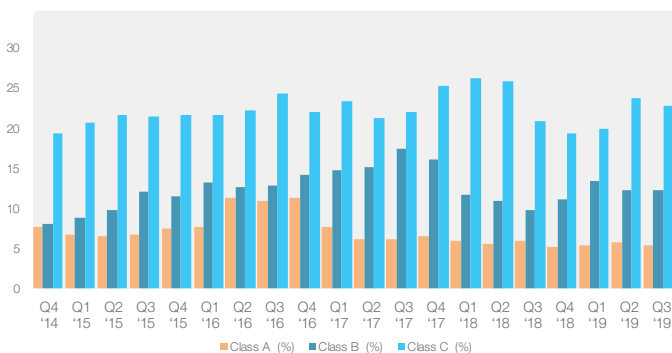
While the market eagerly awaits the completion of Phase One from Zibi at the Chaudière Falls development site, rumours abound of impending deals with the Federal Government and Regus for all the available space.

Real Strategy expects that more new office product will be created by retrofitting older buildings and spaces to meet demand. This will result in Class C availability, currently sitting at 22.7%, to fall over the next 12-24 months.

### Downtown Available Rate by Class



### Greater Ottawa Availability





PSPC OFFICE GATINEAU

## Hotelling and activity-based workplaces: Has the pendulum swung too far?

### Keys to optimizing a modern office

As cubicle farms and enclosed offices dissolved into unassigned seating areas and shared workstations over the past decade, employers looked to usher in a new era of workplace collaboration – and unlock real estate cost savings.

But in many cases, companies encountered less-than-optimal results. Initially, technology – namely Wi-Fi networks as well as mobile and portable devices – were insufficiently widespread to support this new approach to commercial real estate. Elsewhere, particularly in government, workstations failed to reflect the varied nature of the tasks performed by employees each day.

**“Space optimization took (the commercial real estate industry) down a path of easy planning,” said Real Strategy CEO Darren Fleming, mentioning it frequently involved too much standardization and was all too often viewed as a cost-reduction strategy.**

**“The pendulum swung too far,” he added.**

Within the federal government, many employees struggled with the changes. Nearly four out of five respondents to a 2018 survey by the Professional Institute of the Public Service of Canada said they were having greater difficulty concentrating in the more open layout. Additionally, 62 per cent reported lower productivity rates.

“There are workers who are ready to work in an open environment,” said PIPSC vice-president Sean O’Reilly. “But everyone’s different, and they need different ways to work.”

That message is increasingly resonating with real estate officials both within the federal government and the private sector and is reflected in new and more flexible approaches.

Agile working, activity-based workplaces and – in the federal government – GC Workplaces all aim to put employees first by providing them with control over where they spend their time.

Staff have the chance to collaborate on comfy couches, work solo at an unassigned desk or concentrate in a quiet space. Digital storage, wireless networks as well as mobile telephony and computing enable employees to seamlessly move between spaces during the day.

Consulting firm Deloitte said in a 2017 report that these real estate and technology strategies should be accompanied by an HR rethink that includes culture and change management.

Bob Perkins, an Ottawa-based vice-president in Deloitte’s real estate advisory practice, said trust is a major part of the equation. He noted that on many days, he doesn’t know if his colleagues are working from home, on vacation or out meeting clients when they’re not in the office.

“If you’re accountable for your work, no matter where you are, it works,” he said.



#### Consulting

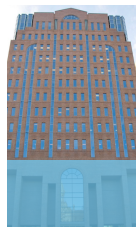
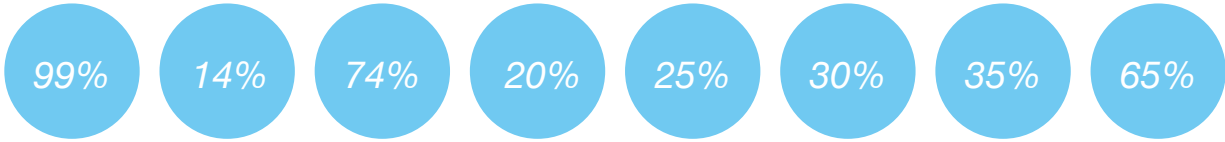
Are you tired of spending thousands of dollars to recruit and train top people only to watch them leave because your space isn’t up to par with the competition?

1.833.216.0130 [info@realstrategy.com](mailto:info@realstrategy.com)

## Largest Downtown Vacancies



Total Available Rate:



Building Name	Export Building	66 Slater Street	119 Queen Street	222-230 Queen Street	Place De Ville (B)	Barrister House	350 Sparks Street Office	Allstream Building
Total Office Area (sq. ft.)	184,795	250,000	43,755	164,320	307,000	94,102	174,148	31,739
Office Class	Class B	Class B	Class B	Class B	Class B	Class A	Class B	Class B
Total Available Area (sq. ft.)	183,300	35,004	32,363	32,300	75,900	28,493	60,985	20,696
Total Available Rate (%)	99	14	74	20	25	30	35	65

## EAST END SUBMARKET ANALYSIS



Ottawa's East End remained relatively unchanged with an overall availability that moved from 7.1% up slightly to 7.2%. With the last 166K SF of BONA Building Management's office space at 1625 Vanier Pkwy. leased to the Federal Government, there remains very few large pockets of space left in the East End.

Real Strategy is watching 1601 Telesat Court (Managed by Morguard), where over 100K SF was recently vacated by both Telesat and the Federal Government, for renovation announcements.

## Available for Lease Ottawa East



## Available for Lease Kanata

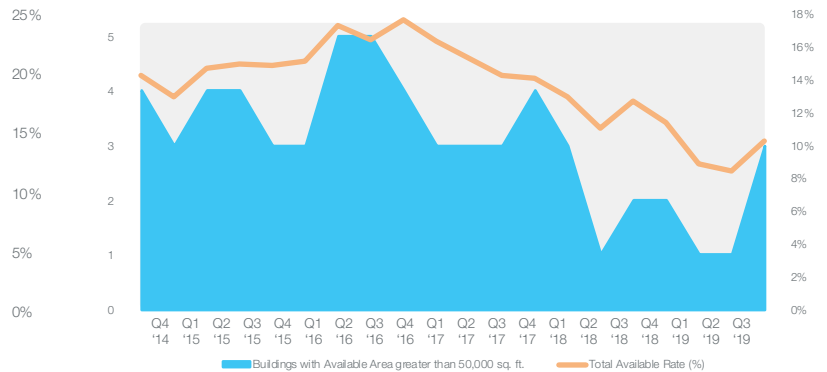
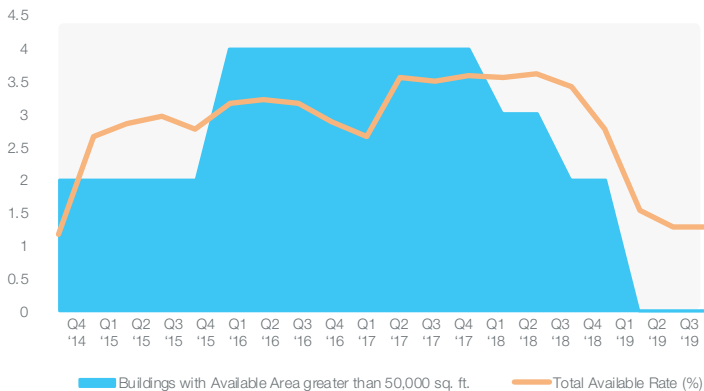




PHOTO COURTESY OF HAWORTH INC.

## The landlord's role

While this new office environment requires significant buy-in from tenants, employers and workspace consultants, landlords and property managers also have an important role to play as enablers.

**“Tenants are no longer willing to tweak an old space and live with it,” Fleming says. “They are willing to pay a premium for really cool space that doesn’t require a lot of upfront costs but still looks like a photo from a magazine.”**

He suggests rethinking “base building” finishes to include meeting facilities and kitchens that can be repositioned as tenants turn over. He acknowledges that landlords only have so much money to put into leasehold improvements on a standard five- or 10-year term while keeping rents reasonable, but believes creative financing options with furnishing manufacturers can be part of the solution.

**“You need to trust that the tenants are out there, that they desire the premium space and are willing to pay the higher rent,” he says. “The alternative is vacancies.”**

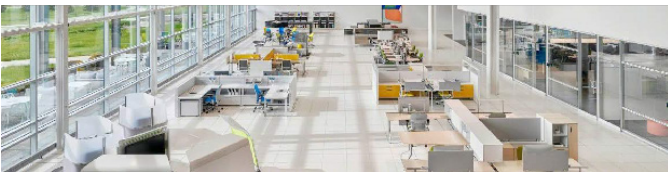


PHOTO COURTESY OF STEELCASE INC.

<i>Agile</i>	<i>Rigid</i>
Shared use, anywhere, anytime	9-to-5 hours, assigned workspaces
Trust and collaboration	Command and control hierarchy
Paper independent, electronic storage	Paper dependent
Constant collaboration on multiple dimensions	Linear processes
Wireless, networked	Hard wired

BY: Lisa Thibodeau

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LINK: <https://obj.ca/article/hotelling-and-activity-based-workplaces-has-pendulum-swung-too-far>

### ABOUT DARREN FLEMING:

**Darren has been an industry leader in the commercial real estate sector for over 17 years providing expertise in the areas of workplace strategy and commercial real estate brokerage. Darren has worked with some of Ottawa’s most active commercial design builders and major commercial real estate brokerages. With exceptional consulting and business strategy skills, he is an experienced leader and provides C-Suite level advice to his clients.**



### Brokerage

Are you considering a commercial real estate lease or purchase?

1.833.216.0130 [info@realstrategy.com](mailto:info@realstrategy.com)

## Notable Lease Transactions



Quarter / Year	Tenant	Area (sq. ft.)	Deal Type	Building Address
2019 Q3	Federal Government of Canada	111,000	New Tenant	1625 Vanier Parkway
2019 Q3	Spaces	75,000	New Tenant	66 Slater Street
2019 Q3	Hexo Corporation	40,000	New Tenant	3000 Solandt Road
2019 Q3	Federal Government of Canada	40,000	New Tenant	4200 Labelle Street
2019 Q3	Maximus Canada Services Inc.	22,149	New Tenant	250 Tremblay Road
2019 Q3	Apple Canada	22,000	Expansion	411 Legget Drive
2019 Q3	Not disclosed	21,440	New Tenant	55 Metcalfe Street
2019 Q3	Not disclosed	17,747	New Tenant	343 Preston Street
2019 Q3	Not disclosed	17,294	New Tenant	495 March Road
2019 Q3	Not disclosed	13,666	New Tenant	1730 St. Laurent Boulevard
2019 Q3	IQ Office Suites	13,600	New Tenant	222-230 Queen Street
2019 Q3	Not disclosed	7,023	New Tenant	2936 Baseline Road

## Average Basic Rental Rates

Market	Avg Rent PSF Q3	Avg Rent PSF Q2	Margin \$
<b>Greater Ottawa - Overall</b>	<b>\$ 15.12</b>	<b>\$ 14.36</b>	<b>\$ 0.76</b>
Greater Ottawa - Class A	\$ 18.27	\$ 16.47	\$ 1.80
Greater Ottawa - Class B	\$ 14.19	\$ 13.91	\$ 0.28
<b>Downtown Core - Overall</b>	<b>\$ 18.36</b>	<b>\$ 17.06</b>	<b>\$ 1.30</b>
Downtown Core - Class A	\$ 22.63	\$ 22.33	\$ 0.30
Downtown Core - Class B	\$ 17.18	\$ 16.89	\$ 0.29
<b>Gatineau - Overall</b>	<b>\$ 11.00</b>	<b>\$ 12.33</b>	<b>\$ (1.33)</b>
Gatineau - Class A	nd *	nd *	
Gatineau - Class B	\$ 11.00	\$ 11.00	\$ -
<b>Suburban East - Overall</b>	<b>\$ 14.21</b>	<b>\$ 13.42</b>	<b>\$ 0.79</b>
Suburban East - Class A	\$ 16.22	\$ 15.29	\$ 0.93
Suburban East - Class B	\$ 13.29	\$ 12.87	\$ 0.42
<b>Suburban West - Overall</b>	<b>\$ 13.93</b>	<b>\$ 13.66</b>	<b>\$ 0.27</b>
Suburban West - Class A	\$ 16.00	\$ 14.75	\$ 1.25
Suburban West - Class B	\$ 13.43	\$ 13.39	\$ 0.04

\* Insufficient number of buildings to provide adequate statistics.

Overall vacancy in Kanata moved from 8.5% at the close of the second quarter to 10.3%. This increase stemmed primarily from the addition of 90K SF at 350 Legget Dr. soon to be vacated by Mitel when they move to their new building at 4000 Innovation Dr. and 50K SF at 2500 Solandt Rd. currently occupied by HP Canada. Though a welcome addition to an increasingly tight market, this is unlikely to halt the trend of falling availability for very long.

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