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Real Strategy Market Outlook:
Q2 2018

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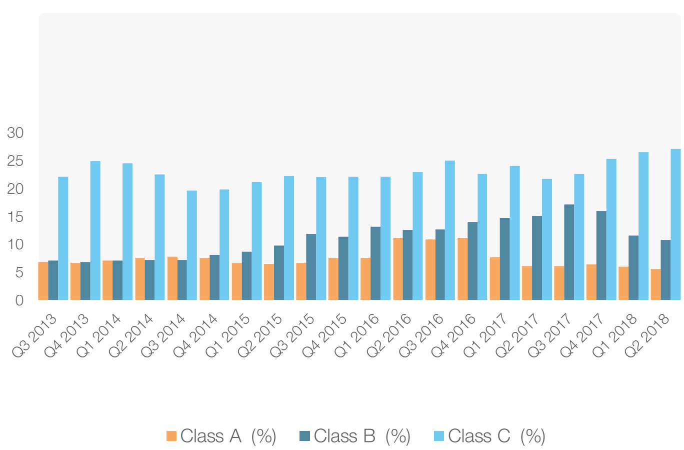
The second quarter of 2018 saw relativey few notable transactions take place in the National Capital Region yet the steady decline in available space continued as total office availability fell from 11.1% to 10.6%. Steady economic growth and an unemployment rate below five percent demonstrate that Ottawa's tenant base is growing and taking more space.

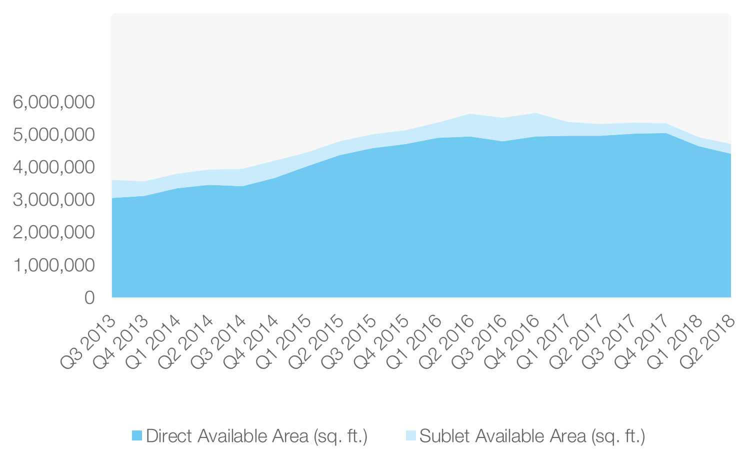
Downtown Class C availability rose to 27.1% as the federal government continues the Department of National Defence's migration to Bells Corners' Carling Campus and other local tenants gravitate to more modern and efficient Class A and B premises.

Real Strategy is expecting this trend of flight to quality to continue through 2018 but the market bears close watching as new developments around Lebreton Flats Bayview LRT station and Dream REIT's Zibi project gather steam.

Downtown Available Rate by Class



Greater Ottawa Availability



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Largest Downtown Vacancies

Total Available Rate: 23% 41% 44% 41% 41% 57% 12% 15%

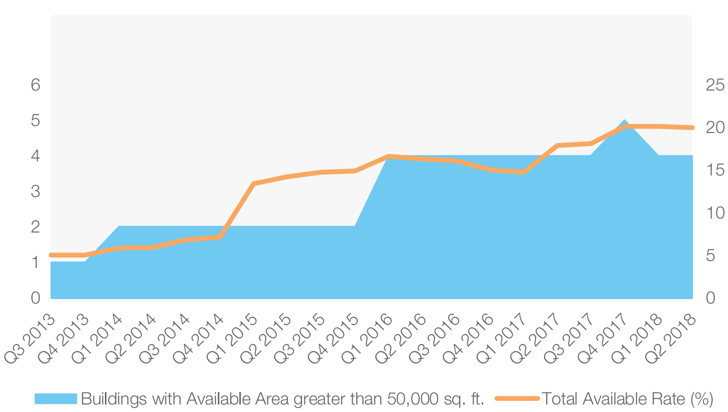
Address	Manulife Place	400 Cooper	Vanguard Building	Killeany Place	473 Albert Street	85 Albert Street	45 O'Connor Street	Constitution Square (III)
Total Office Area (sq. ft.)	327,024	162,556	147,265	151,129	132,000	89,339	414,516	330,000
Office Class	Class A	Class B	Class B	Class B	Class B	Class C	Class A	Class A
Total Available Area (sq. ft.)	74,771	67,249	65,424	62,609	53,776	51,195	50,185	49,467
Total Available Rate (%)	23	41	44	41	41	57	12	15

SUBMARKET ANALYSIS

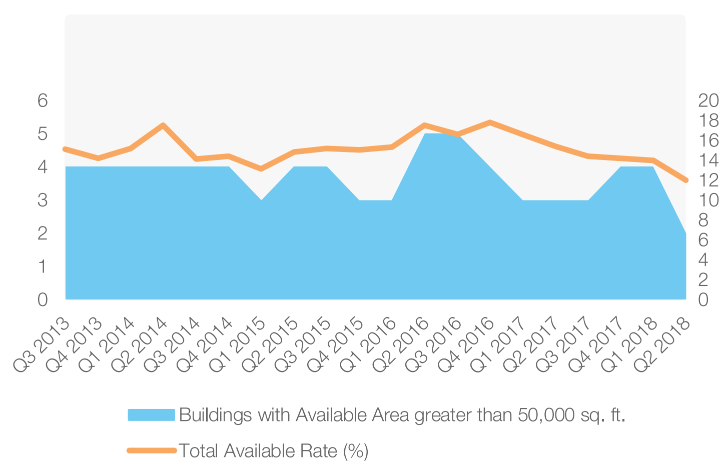
Ottawa's Suburban East saw Morguard bring Telesat's space at 1601 Telesat Court to the market as the tenant prepares for its relocation downtown. This brings the total of available space at that buiding to 117,348.

Real Strategy expects that the building will be positioned as an opportunity for the Federal Government who have substantial space nearby in the newly buildt CSE headquarters. The building requires substantial renovation and modernization and Telesat's departure would be an ideal time to complete an upgrade.

Available for Lease Ottawa East



Available for Lease Kanata



Notable Lease Transactions

Quarter / Year	Tenant	Area (sq. ft.)	Deal Type	Building Address
2018 Q2	Survey Monkey	47,629	New Tenant	200 Laurier Avenue West
2018 Q2	Morrison Hershfield	30,757	New Tenant	2932 Baseline Road
2018 Q2	PWGSC	9,211	New Tenant	410 Laurier Avenue West
2018 Q2	Manulife Real estate	6,731	New Tenant	55 Metcalfe Street

Average Basic Rental Rates

Market	Avg Rent PSF	Avg Rent PSF	Margin %
Greater Ottawa - Overall	**$ 15.18**	**$ 15.47**	$ (0.29)
Greater Ottawa - Class A	$ 18.78	$ 18.89	$ (0.11)
Greater Ottawa - Class B	$ 13.67	$ 14.24	$ (0.57)
Downtown Ottawa - Overall	**$ 18.39**	**$ 18.33**	$ 0.06
Downtown Core - Class A	$ 23.17	$ 23.17	$ -
Downtown Core - Class B	$ 16.55	$ 16.69	$ (0.14)
Gatineau - Overall	**$ 16.88**	**$ 16.88**	$ -
Gatineau - Class A	$ 25.00	$ 25.00	$ -
Gatineau - Class B	$ 13.75	$ 13.75	$ -
Suburban East - Overall	**$ 14.20**	**$ 14.21**	$ (0.01)
Suburban East - Class A	$ 16.48	$ 16.34	$ 0.14
Suburban East - Class B	$ 12.83	$ 12.79	$ 0.04
Suburban West - Overall	**$ 13.39**	**$ 14.14**	$ (0.75)
Suburban West - Class A	$ 15.20	$ 16.00	$ (0.80)
Suburban West - Class B	$ 12.98	$ 13.83	$ (0.85)

A steady demand for top talent has kept Kanata's sector growing and gobbling up space. As we approach the 20th anniversary of the tech bubble that brought this sub-market into the limelight, it is interesting to note how the roster of companies that represent Ottawa's tech sector have changed.

Gone are the large, venture backed startups that propelled this area into existence. Instead, we have seen a replacement, often by acquisition, of a strong lineup of proven tenants like Ericcson, Ciena, Nokia, and Blackberry who now anchor Kanata North. These are global companies here for the deep talent base found in the area.

Kanata's availability rate fell sharply by a full two percentage points, and now stands at 12%; the lowest in a decade. Real Strategy projects this trend of high tenant demand to continue into 2019. Of note is the fact that there are now only two large pockets of space in excess of 50,000 now available, a sure sign that new development cannot be far behind.

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