



REAL STRATEGY

Commercial Real Estate Strategy
& Implementation Solutions

**Real Strategy Market Outlook:
Q1 2019**

RealStrategy.com

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Unprecedented leasing activity concentrated in downtown Ottawa and Kanata started greater Ottawa's 2019 office market off with a bang! Greater Ottawa's availability rate fell to 8.9% at the end of Q1 2019 compared to 11.3% from a similar time last year. This change was driven by the explosive growth of the cannabis sector following legalization as well as an exceptionally strong technology sector lead by companies such as Ford and Mitel. Additionally, the federal public service continued to increase its footprint in new modern space.

Real Strategy is predicting that demand for office space may slow as we move closer to the Federal Election, for it is unclear whether public policies supporting growth in the NCR will continue should there be significant change in political direction.

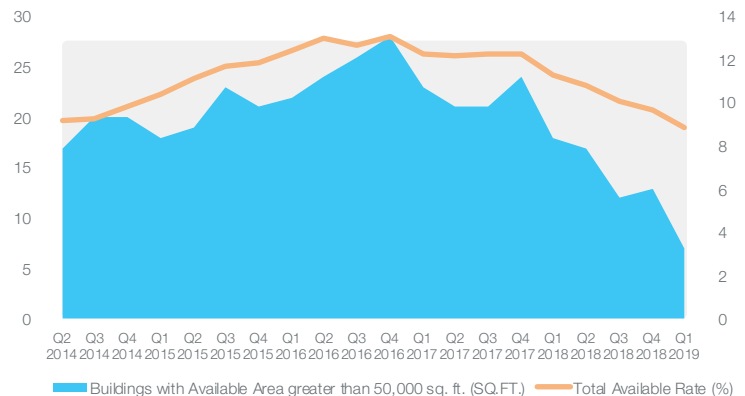
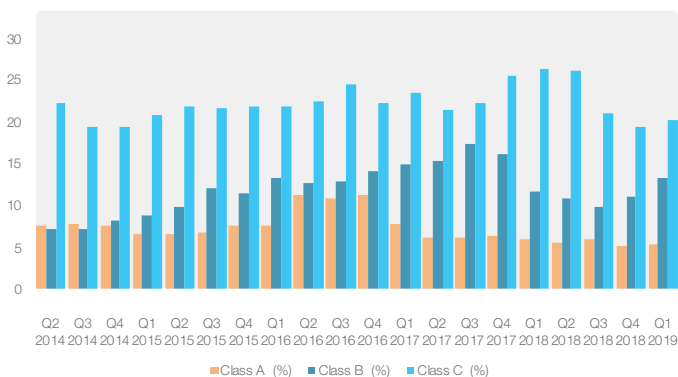
DOWNTOWN SUBMARKET ANALYSIS

Older buildings in the downtown core continued to be hollowed out by the exodus of National Defence employees to their new Carling Campus in the West end. Class A vacancy appears to have stabilized over the last 12 months and currently sits at 5.3% which is inline with historical norms. Class B vacancy, from its low of 9.8%, has sharply risen back to 13.3% vacancy as so much former DND space comes back to the market. A notable new entrant to the Class B market is the Export Building at 110 O'Connor street. This 184,795 sqft building, built in 1970, was vacated by National Defence and is now undergoing a complete renovation.

Downtown Available Rate by Class



Greater Ottawa Availability



Largest Downtown Vacancies



Total Available Rate:

99%

74%

32%

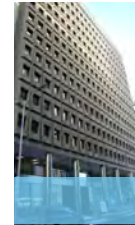
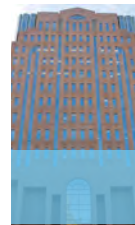
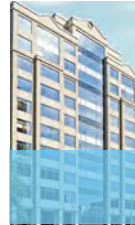
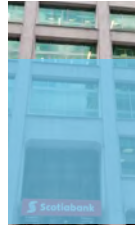
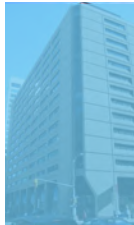
33%

33%

29%

21%

100%



Building Name	Export Building	119 Queen Street	350 Sparks Street	Gillin Building	Barrister House	222-230 Queen Street	270 Albert Street	12-18 York Street
Total Office Area (sq. ft.)	184,795	43,755	174,148	105,000	94,102	164,320	137,744	24,481
Office Class	Class B	Class B	Class B	Class B	Class A	Class B	Class B	Class C
Total Available Area (sq. ft.)	183,300	32,363	56,508	34,637	30,960	48,184	29,311	24,480
Total Available Rate (%)	99	74	32	33	33	29	21	100

EAST END SUBMARKET ANALYSIS



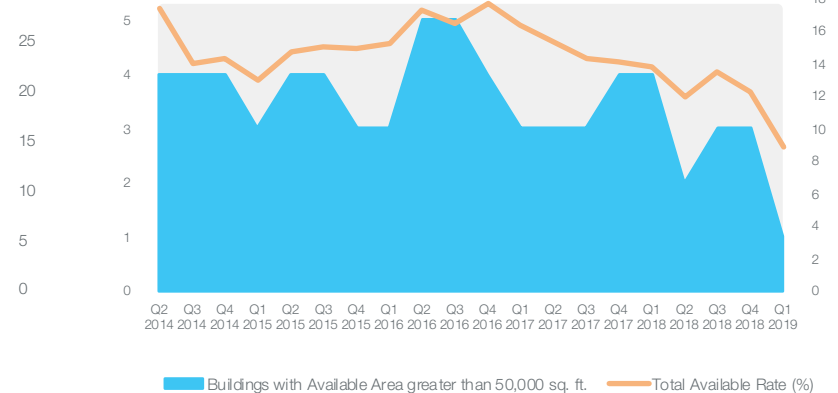
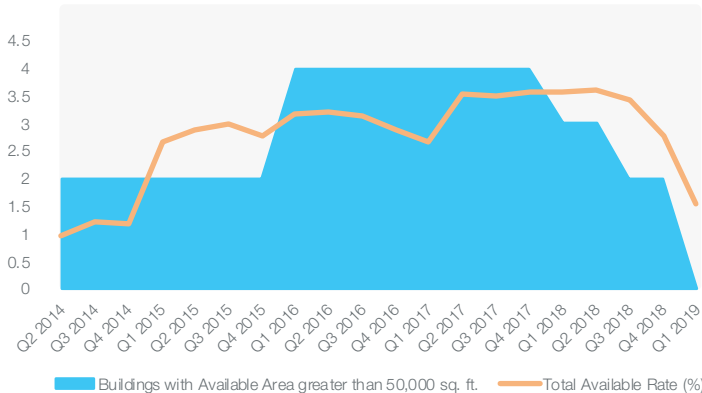
Ottawa's East end office market continues on the road to recovery. Notably there are no longer any large pockets of space over 50,000 sqft to be had following the completion of two large government leases at 405 Terminal Avenue and 1625 Vanier Parkway.

Overall availability in this submarket fell from 15.4% to 8.5% in one quarter; a net reduction of 313,641 sqft of positive absorption. As the East end returns to a balanced state over the remainder of 2019, Real Strategy predicts landlords in this sub-market will behave less aggressively when it comes to offering leasing incentives.

Available for Lease Ottawa East



Available for Lease Kanata



Notable Lease Transactions



Average Basic Rental Rates

Quarter / Year	Tenant	Area (sq. ft.)	Deal Type	Building Address
2019 Q1	Amdocs	40,000	Renewal	303 Terry Fox Drive
2019 Q1	Field Effect Software	13,237	New Tenant	979 Bank Street
2019 Q1	Cardel	7,000	Renewal	301 Moodie Drive
2018 Q4	Public Services and Procurement Canada	159,237	New Tenant	770 Palladium Drive
2018 Q4	Mitel	151,578	New Tenant	4000 Innovation Drive
2018 Q4	CADTH	40,000	Expansion	865 Carling Avenue
2018 Q4	Government of Canada - PSPC	40,000	New Tenant	141 Colonnade Road
2018 Q4	Ford Motor Company	40,000	New Tenant	800 Palladium Drive
2018 Q4	Not Disclosed	29,608	New Tenant	1410 Blair Place
2018 Q4	PSCP	27,554	New Tenant	1430 Blair Place
2018 Q4	Not Disclosed	17,848	New Tenant	340 Albert Street
2018 Q4	Not Disclosed	14,907	New Tenant	1430 Blair Place
2018 Q4	Not Disclosed	13,618	New Tenant	343 Albert Street
2018 Q4	CGI	12,190	New Tenant	55 Metcalfe Street
2018 Q4	Not Disclosed	11,044	New Tenant	555 Legget Drive
2018 Q4	Not Disclosed	9,258	New Tenant	979 Bank Street
2018 Q4	ICF International	9,000	New Tenant	200 Laurier Avenue West
2018 Q4	Undisclosed	7,580	New Tenant	1400 St. Laurent Boulevard
2018 Q4	Not Disclosed	6,358	Expansion	150 Metcalfe Street
2018 Q4	Not Disclosed	6,173	New Tenant	535 Legget Drive
2018 Q4	Not Disclosed	6,000	New Tenant	299 Bank Street
2018 Q4	Public Works	6,000	New Tenant	30 Victoria Street
2018 Q4	Public Works	160,000	New Tenant	405 Terminal Road

Market	Avg Rent PSF Q1	Avg Rent PSF Q4	Margin \$
Greater Ottawa - Overall	\$ 14.62	\$ 15.24	\$ (0.62)
Greater Ottawa - Class A	\$ 17.67	\$ 18.39	\$ (0.72)
Greater Ottawa - Class B	\$ 13.95	\$ 13.95	\$ -
Downtown Core - Overall	\$ 17.80	\$ 18.47	\$ (0.67)
Downtown Core - Class A	\$ 22.43	\$ 22.71	\$ (0.28)
Downtown Core - Class B	\$ 16.50	\$ 16.40	\$ 0.10
Gatineau - Overall	\$ 12.00	\$ 16.63	\$ (4.63)
Gatineau - Class A	nd *	\$ 25.00	
Gatineau - Class B	\$ 9.00	\$ 13.25	\$ (4.25)
Suburban East - Overall	\$ 13.43	\$ 13.99	\$ (0.56)
Suburban East - Class A	\$ 15.29	\$ 16.42	\$ (1.13)
Suburban East - Class B	\$ 12.91	\$ 12.67	\$ 0.24
Suburban West - Overall	\$ 13.77	\$ 14.26	\$ (0.49)
Suburban West - Class A	\$ 15.00	\$ 16.09	\$ (1.09)
Suburban West - Class B	\$ 13.57	\$ 13.84	\$ (0.27)

* Insufficient number of buildings to provide adequate statistics.

The Kanata market is experiencing demand unseen since the run-up to the tech bubble of 2000, only this time the market has matured. Demand was driven by telcos pursuing 5G infrastructure contracts, companies like Ford and Apple increasing their head count around driverless car research, and the explosion of cannabis suppliers, ramping to meet legalization demand. Kanata is now home to a diversified tenant base which Real Strategy predicts will only grow stronger as DND completes occupancy of National Defence Headquarters at its Carling campus.

Kanata's office availability rates fell from 13.8% in Q1 2018 to 8.9% in Q1 2019 with almost 200,000 sqft of positive absorption last quarter. Real Strategy does not expect demand to slacken over the next 12 months, as the economy continues to heat up which will undoubtedly drive up rental rates.

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