REAL STRATEGY

Commercial Real Estate Strategy & Implementation Solutions

Q2 2020

OTTAWA MARKET REPORT

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?

Improve attraction and retention of top talent with Real Strategy. We help you create modern and professional work environments to increase employee productivity, satisfaction, and engagement at a price you can afford. We’d be happy to add you to our long list of satisfied customers.

RealStrategy.com

ECONOMY

Note to reader: The forecast presented in this report is based on data and predictions that market conditions will return to balance later in 2021. If the federal government decides to keep employees home longer than 2021 (as we're beginning to hear), there will most certainly be a deeper impact on overall tenant demand, office vacancy and rental rates than presented in this report.

The global economic outlook has been severely impacted by the spread of COVID-19 and amplified by the sharp decline in oil prices that will inevitably magnify the pain of virus-related economic shocks around the world. Central banks and governments have responded by lowering interest rates and offering stimulus measures, but it will be some time before we understand the true extent of economic damage done by COVID-19.

In addition to the one-two punch of COVID-19 and plummeting oil prices, Ontario's economy also saw a weak end to 2019 as auto strikes in the US impacted motor vehicle manufacturing and shipments. While Ontario was expected to benefit from higher capital spending, led by public construction projects this year, uncertainty will weigh on housing with buyers less inclined to house hunt at the current time. Even with lower interest rates providing some cushion for highly indebted households, the impact of the virus will keep consumers cautious and on-guard.

The Ottawa-Gatineau economy, until recently, was performing below Canada as a whole averaging 1.5% growth on average over the last 5 years. In 2019 however, GDP growth came in at 2.1% and 2020 is expected to see growth of around 2%. Employment has also picked up in Ottawa's public service, high tech, construction, and retail/distribution sectors with a 2019 growth of approximately 1.3% (dropping unemployment 60 basis points year-over-year to 4.9% to close out that year).

Although Ottawa did not experience soaring residential prices like Toronto and Vancouver, homebuyers are still subject to the stricter mortgage qualification rules and higher interest rates. Despite this, home prices continue to rise finishing up by 6.5% year-over-year in 2019. This is the result of continued strong employment and population growth. The light rail transit system is also driving economic activity in the region. As the LRT system continues to be developed, more urban and mixed-use redevelopment projects along the transit lines.

Artificial intelligence is also becoming more of a driving force in Ottawa, specifically with relation to autonomous vehicles. Ottawa's already operating as a high-tech hub with a conducive talent pool and has a 17km closed road course on the former Agriculture Canada property with a 5G pre-consumer mobile network setup by Nokia. For these reasons, alongside the city's special challenge for existing autonomous vehicle technology, Ottawa is an ideal location for this development.

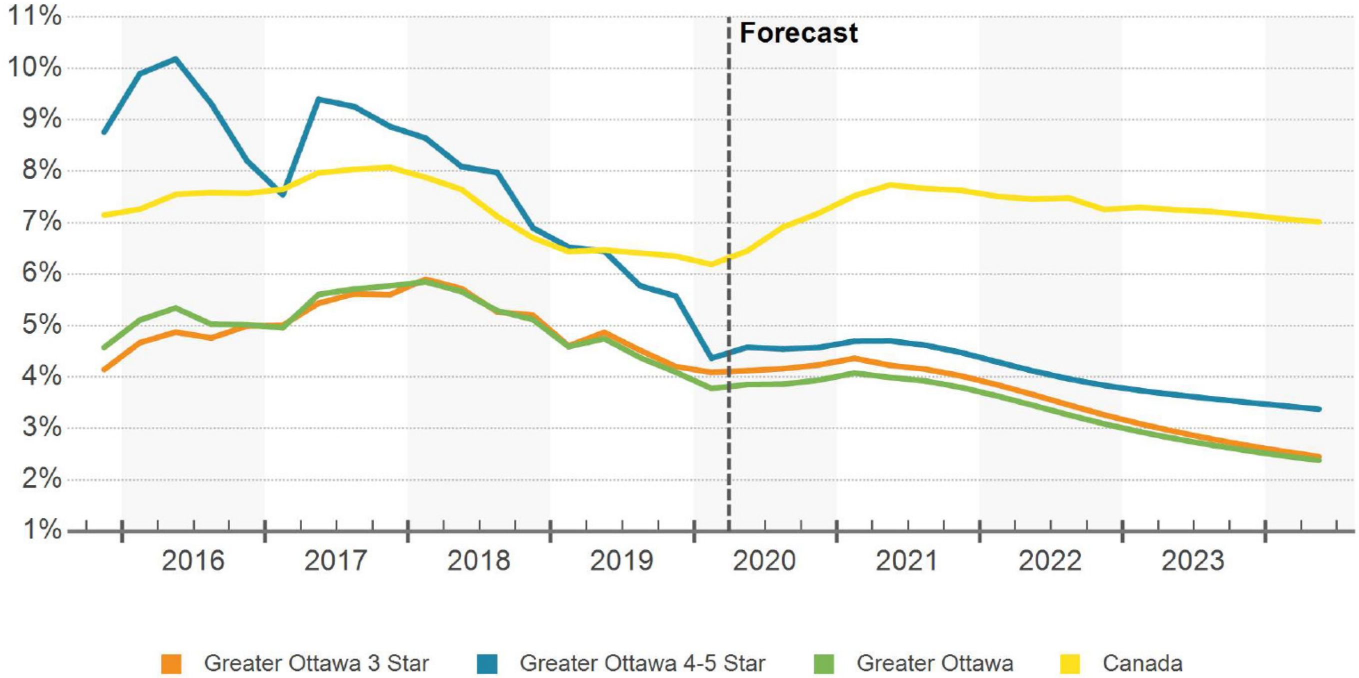
LEASING

Leasing activity is expected to slow down in Q2 and Q3 of 2020 given the short-term inactivity of the market. Businesses are putting decisions on hold with respect to office space. Tenants are expected to gravitate towards shorter extensions as opposed to longer-term renewals. In cases where leases aren't expiring, some may choose to sub-lease or vacate to reduce their costs. All of this points to increasing office vacancy throughout the remainder of the year although Ottawa's reliance on the federal government could mean the city copes better than other markets.

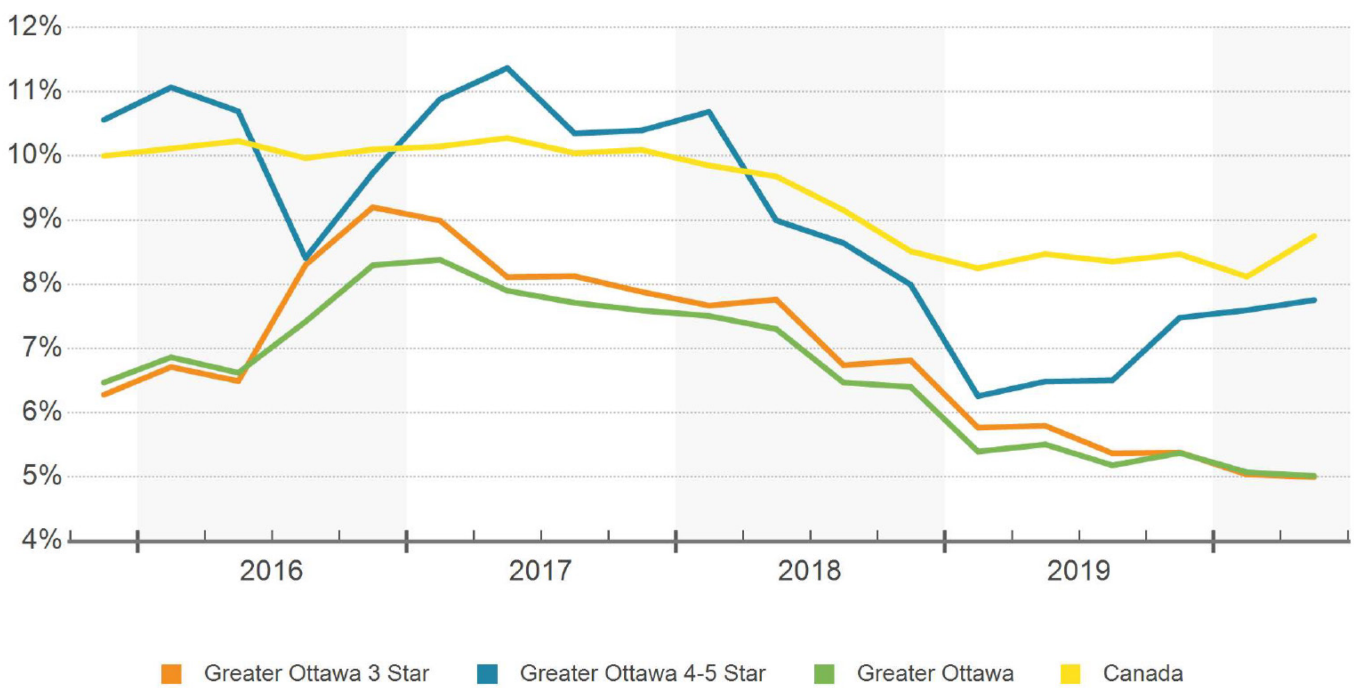
As the federal government has taken on more space in the suburban markets over the last few years, higher vacancy has resulted downtown. This transition created opportunities for tech tenants in the downtown core, with companies like Shopify and Telesat occupying and leasing around 320,000 SF in 234 Laurier Ave. W. and 76,800 SF at 160 Elgin St. respectively. These high-tech tenants are seeking more urban locations with amenities and public transit access to attract talent. With downtown either slightly above or on par with suburban vacancy over the last few years, the dynamics of the office market is shifting under this new demand.

LEASING

VACANCY RATE



AVAILABILITY RATE



* Images provided by CoStar

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NOTABLE LEASES

TOP OFFICE LEASES PAST 12 MONTHS

Building Name/Address	Submarket	Leased SF	Tenant Name
The Urbandale Building *	CBD	53,710	CRA
189 Laurier Ave	Lowertown	11,936	N/A
480-500 Greber Blvd	Gatineau	11,852	N/A
100 Murray St	Lowertown	11,303	Public Works
Kanata Research Park	Kanata	10,333	N/A

Workplace Strategy

Is the layout of your office optimized for staff productivity, happiness, performance, and retention?

Developing a plan will have a considerable impact on your business and ensure you're getting the most out of your workspace. Our commercial real estate advisors can engage with your team and conduct on-site research to help foster productive, happy and long term employees — all within your budget.

RENT

Rent growth in Q1 of 2020 saw the largest year-over-year increase since 2014 with rental rates the highest they've been in 20 years. Net asking rents rose 4.3% year-over-year to reach $31.70/SF with 4 and 5 Star asset classes experiencing the strongest rent growth in early 2020 at approximately 7% (3 Star rent growth came in around 3%).

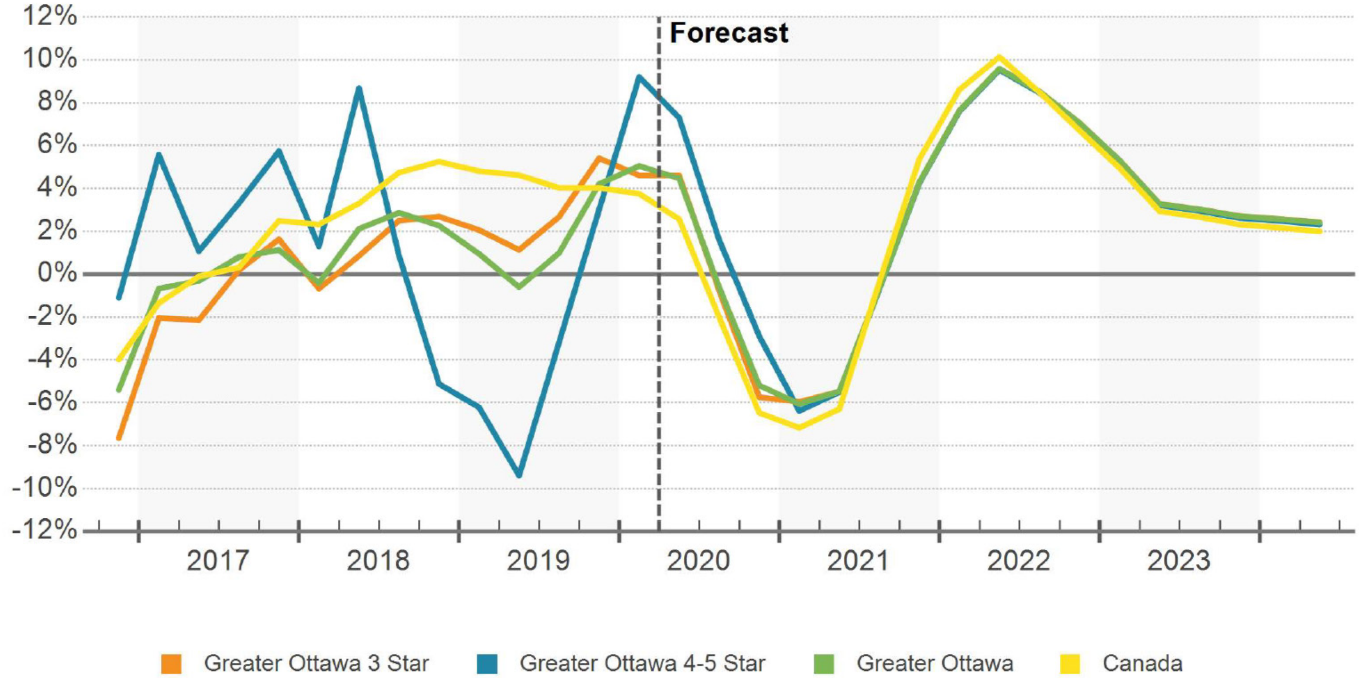
Real Strategy Advisors notes that rental increases immediately plateaued as a result of COVID-19, and we are predicting a sharp decrease over the next 12-18 months as short-term tenant demand is either postponed or permanently reduced.

It's possible there has been a paradigm shift in how office tenants allocate space to their employees. Real Strategy Advisors believes that an increased capacity and ability to leverage a remote workforce may trigger significantly reduced demand in the urban core of the city and to a lesser extent, the suburbs.

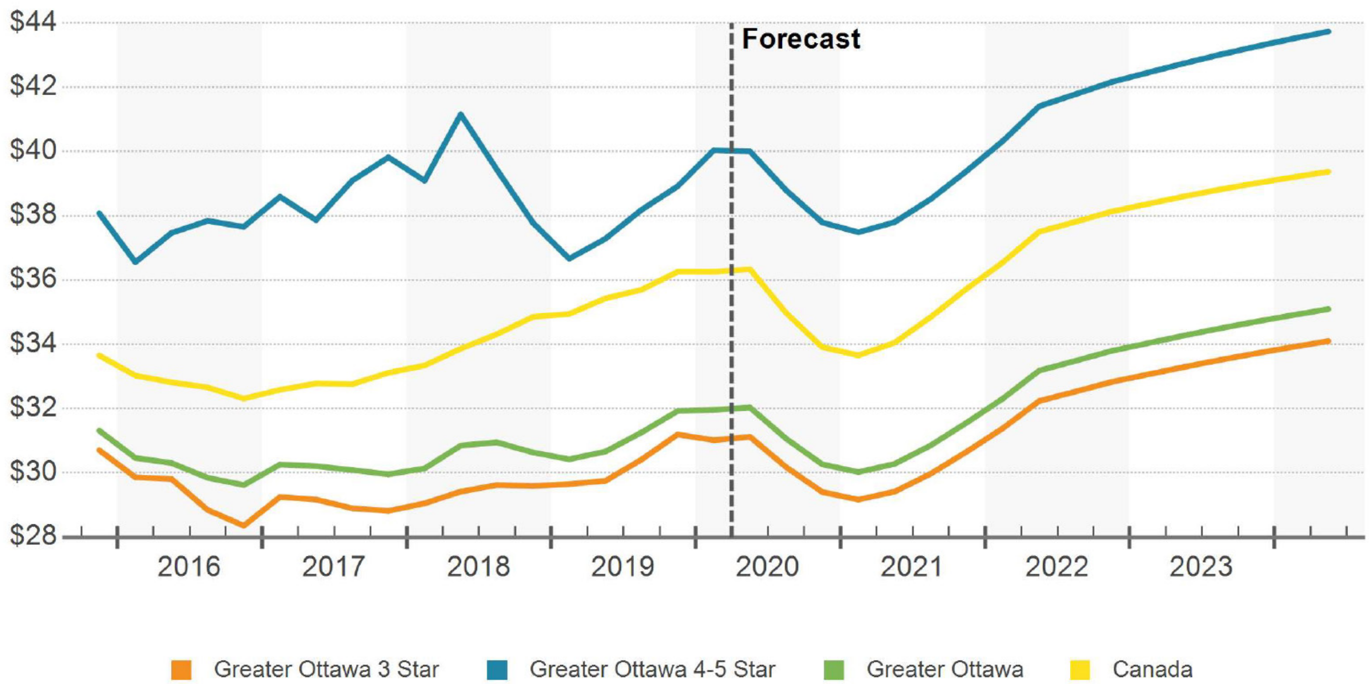
Time will tell if an organization (including the Federal Government), with its employee base working increasingly from home, will still feel the need to be located in downtown highrise buildings which require longer commmutes and paid parking.

RENT

MARKET RENT GROWTH (YOY)



MARKET RENT PER SQUARE FEET



* Images provided by CoStar

Brokerage

Are you considering a commercial real estate lease or purchase?

Negotiating a commercial real estate transaction is a long, complex process and there are many ways you can find yourself at a disadvantage.

Whether renewing or relocating, a lease, or purchasing a property, our commercial real estate advisors are available to help you maximize your results and save money.

SALES

Cap rates for Ottawa office assets have typically ranged from 5.5-7.5% and have averaged around 6.5% over the past year. What's interesting is that when downtown assets are isolated, cap rates range between 4-6% generally whereas suburban assets have traded between 6-8%.

Some notable recent transactions include:

- Controlex Corporation divesting 395 Terminal Avenue — a 240,000 SF building in the Belfast/ Sheffield submarket — to BentallGreenOak for $97.5 million

- Dream Office REIT selling 150 Metcalfe St. — a 147,000 SF office tower in the Centretown submarket — to Northam Realty Advisors for $40.5 million

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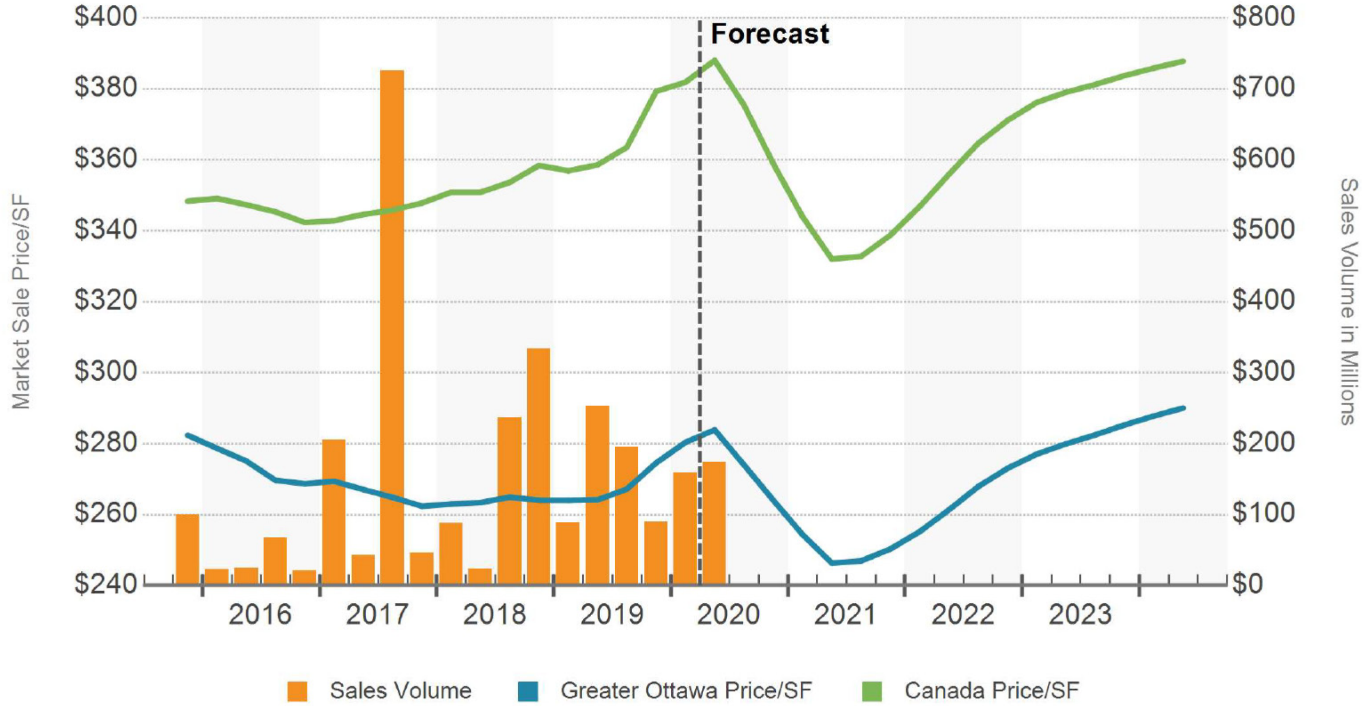
SALES

SALES VOLUME & MARKET SALE PRICE PER SF



98
SALE COMPARABLES

6.1%
AVG. CAP RATE

$297
AVG. PRICE/SF

14.1%
AVG. VACANCY AT SALE

* Images provided by CoStar

Project Management

Does the idea of being responsible for a significant commercial real estate project fill you with dread?

Our commercial real estate advisors provide executive level consulting designed to take the burden off you and your team while you focus on your business.

We help you assemble a team of best-in-class commercial real estate consultants, vendors, and project managers while also providing executive level oversight and accountability for the entire process.

SUBMARKETS

SUBMARKET RENT

SUBMARKET RENT

No.	Submarket	Market Rent Per SF	Market Rent Rank	12 Month Market Rent Growth	12 Month Market Rent Rank	QTD Annualized Market Rent Growth	QTD Annualized Market Rent Rank
1	Alta Vista	$30.62	13	4.3%	12	0.1%	13
2	Barrhaven	$32.59	6	9.9%	1	0.5%	9
3	Belfast/Sheffield	$30.57	14	5.4%	3	0.1%	14
4	Bells Corners/Crystal Beac	$29.06	20	4.4%	11	-0.9%	23
5	Blair/Ogilvie	$30.36	16	3.1%	20	0.3%	11
6	CBD	$37.83	1	5.2%	5	0.8%	7
7	Centrepoint/Qualicum	$31.88	8	4.2%	13	-0.2%	16
8	Centretown	$34.45	3	4.5%	10	4.8%	1
9	Colonnade/Rideau Heights	$27.69	23	3.9%	15	1.2%	4
10	East Outer Ottawa	$29.05	21	3.7%	18	-0.3%	18
11	Gatineau	$26.94	24	2.8%	22	0.2%	12
12	Glebe	$33.14	4	2.7%	23	1.4%	3
13	Goulbourn/West Carleton	$30.54	15	3.5%	19	-7.8%	24
14	Heron/Riverside	$32.64	5	6.9%	2	0%	15
15	Hunt Club/Walkley	$28.41	22	4.0%	14	0.8%	5
16	Kanata	$30.03	17	4.8%	6	1.6%	2
17	Lowertown	$34.46	2	3.8%	17	0.7%	8
18	Merivale	$30.85	12	4.5%	9	-0.4%	20
19	Montreal Road	$31.07	11	3.9%	16	0.8%	6
20	NW Outer Ottawa	$29.51	18	1.5%	24	0.5%	10
21	Orleans	$31.70	9	5.4%	4	-0.5%	22
22	Queensview/Morrison	$29.43	19	3.0%	21	-0.3%	19
23	Tunney's Pasture	$31.19	10	4.8%	7	-0.5%	21
24	Woodward/Carling	$31.96	7	4.6%	8	-0.3%	17

* Statistics provided by CoStar

SUBMARKETS

SUBMARKET VACANCY & NET ABSORPTION

SUBMARKET VACANCY & NET ABSORPTION

		Vacancy			12 Month Absorption			
No.	Submarket	SF	Percent	Rank	SF	% of Inv	Rank	Construc. Ratio
1	Alta Vista	68,005	5.9%	20	(30,523)	-2.6%	23	-
2	Barrhaven	2,751	0.2%	1	6,803	0.5%	14	-
3	Belfast/Sheffield	107,114	5.1%	18	270,410	12.9%	2	-
4	Bells Corners/Crystal Beac	39,864	2.8%	10	31,834	2.3%	9	-
5	Blair/Ogilvie	124,959	5.0%	17	42,605	1.7%	5	-
6	CBD	1,008,342	5.9%	19	(27,836)	-0.2%	22	-
7	Centrepoint/Qualicum	31,468	2.3%	6	39,684	2.9%	7	-
8	Centretown	281,278	3.8%	13	62,160	0.8%	3	-
9	Colonnade/Rideau Heights	124,083	4.4%	15	(12,230)	-0.4%	20	-
10	East Outer Ottawa	2,553	1.7%	5	4,347	2.9%	16	-
11	Gatineau	200,904	1.5%	2	35,293	0.3%	8	0.4
12	Glebe	49,782	7.3%	22	7,336	1.1%	13	-
13	Goulbourn/West Carleton	15,841	3.4%	11	(201)	0%	19	-
14	Heron/Riverside	49,723	2.4%	8	11,232	0.5%	12	-
15	Hunt Club/Walkley	269,014	9.5%	23	56,167	2.0%	4	1.5
16	Kanata	344,781	4.8%	16	346,647	4.8%	1	-
17	Lowertown	151,489	2.7%	9	(20,955)	-0.4%	21	-
18	Merivale	8,848	7.1%	21	2,495	2.0%	17	-
19	Montreal Road	72,030	2.3%	7	6,731	0.2%	15	-
20	NW Outer Ottawa	-	-	-	0	0%	-	-
21	Orleans	16,974	3.4%	12	19,831	4.0%	11	-
22	Queensview/Morrison	20,517	1.6%	4	20,008	1.6%	10	-
23	Tunney's Pasture	111,782	1.5%	3	(35,496)	-0.5%	24	-
24	Woodward/Carling	142,355	4.2%	14	41,310	1.2%	6	0.1

* Statistics provided by CoStar