REAL STRATEGY

Commercial Real Estate Strategy
& Implementation Solutions

Q3
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.

ECONOMY

At the beginning of the year, Ottawa was experiencing stable growth with secure economic and office market foundations. The historically low unemployment and vacancy, diverse tenant mix, and launch of the LRT Confederation Line helped to provide a buffer heading into the uncertainty brought on by COVID-19. The pandemic still caused the temporary shut-down of select services alongside a unilateral shift towards remote work in the second quarter of 2020 with a swift and significant economic impact.

Throughout 20Q3, Ottawa rebounded strongly as the weather got nicer, case numbers improved, and net growth in job creation was observed. Despite the better case numbers and easing of restrictions during the summer months, the “return to work” was much slower than anticipated. As the transition from summer to fall occurred, the onset of the second wave resulted in an increased number of tenants choosing to temporarily vacate or sublease their space to reduce costs. Since then, the government has re-instituted certain indoor restrictions in an effort to deal with the rising COVID-19 cases in Ottawa (now a provincial hot-spot).

Public stimulus plans have also been revamped to provide relief to Canadians. Most notably, the Canada Emergency Rent Subsidy was announced to be replacing the extended CECRA program that ended at the end of October. The new program will provide relief directly to businesses who meet the criteria instead of it going through landlords. When it comes to office space, tenants continue to embrace more hybrid work models where employees work remotely half (if not most) of the time. Many smaller organizations are simply going virtual in the interim while they wait out COVID-19. All of this has resulted in an increase in short-term deals and renewals taking front and centre stage with several companies listing all or a portion of their space as well.

To date, Real Strategy Advisors is seeing significant tenant-friendly cash inducements on the rise and, if overall tenant demand remains low while vacancy continues to rise, it won’t be long before rental rates start to decrease.

LEASING

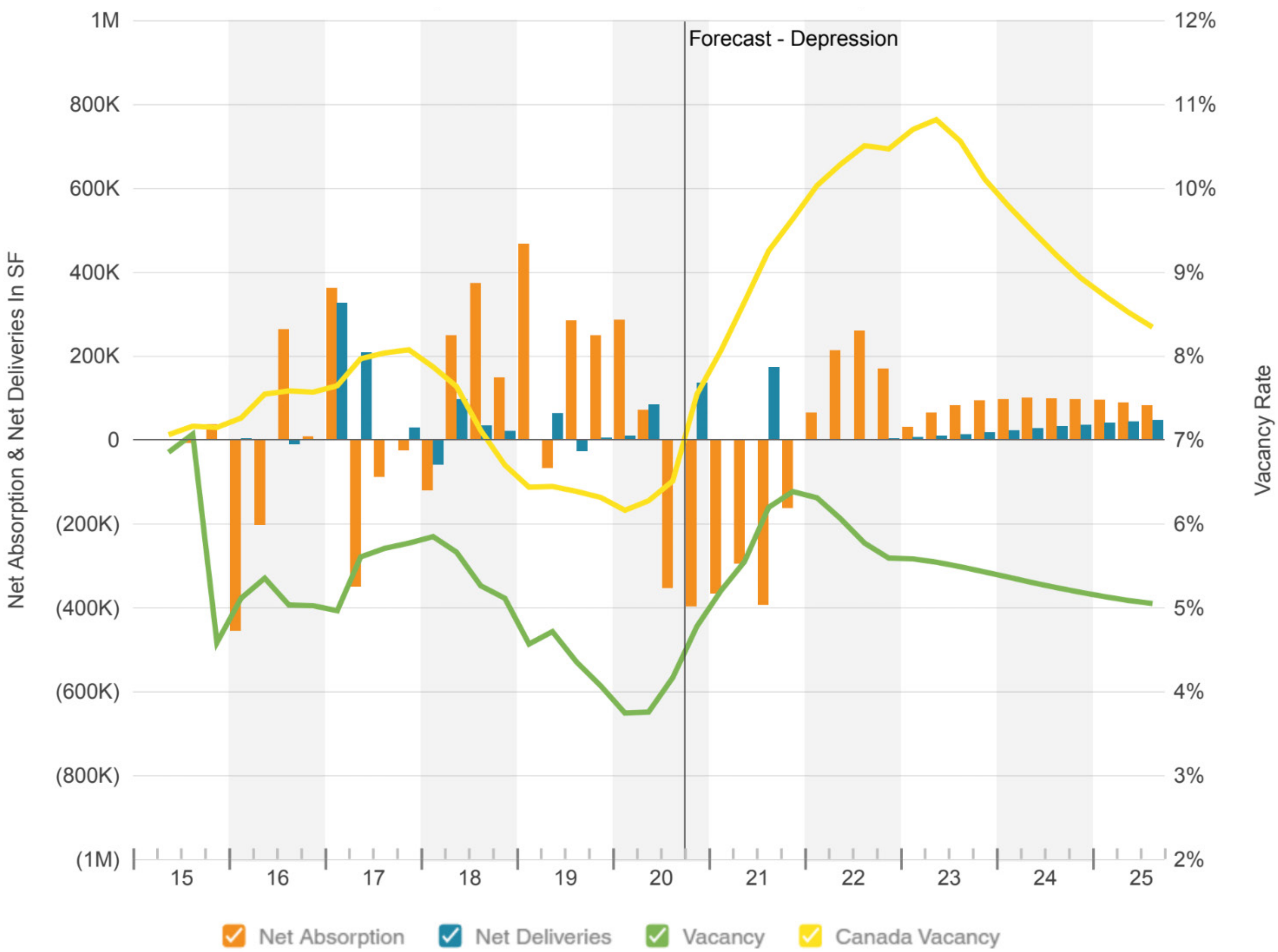
Leasing activity ground to a halt across the National Capital Region in 20Q3 as deal volume plummeted. The only submarkets that experienced positive absorption during the quarter were Kanata, Centretown, and Lowertown — even so, it was quite modest. Increased availability downtown during the pandemic was not of immediate impact on landlords since tenants continued to pay the rent. However, the inevitability of more and more quality space coming to market as organizations continue to downsize, local tenants will invariably have more options at reduced prices.

At the beginning of the summer, there was talk about a potential surge in the office sublease market. Come the beginning of fall, this was no longer speculative with Shopify leading the way by putting their headquarters up for sublease. OpenText also went the same route with their offices at 1 Rideau St. and returned 20,000 SF. Total sublet availability rose from just over 340,000 SF in 20Q2 to almost 560,000 SF in 20Q3 (an increase of more than 60%). In the past 12 months alone, this square footage total has more than tripled.

Given what's been happening, for the next four quarters we'll be moving to a "depression forecast" with specific metrics to better reflect what Real Strategy is expecting. Projections for the city's overall vacancy rate using this forecasting shows a stark increase throughout the next year.

LEASING

NET ABSORPTION, NET DELIVERIES & VACANCY



* Images provided by CoStar

Since last quarter, both regional and national vacancy percentages have risen significantly and will continue to do so throughout the rest of 2020 and 2021. This vacancy increase is also reflected by the negative net absorption experienced in 20Q3 which is also expected to continue throughout next year.

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NOTABLE LEASES

TOP OFFICE LEASES PAST QUARTER

Building Name/Address	Submarket	Leased SF	Tenant Name
Minto Place - Enterprise Building	CBD	17,300	Public Works
250 Tremblay Rd	Belfast/Sheffield	14,430	Government of Canada
1680-1690 Woodward Dr	Woodward/Carling	11,528	BluMetric
303 Moodie Dr	Bells Corners/Crystal Beach	9,730	N/A

* Statistics provided by CoStar

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

As the increase in sublease space and vacancy continues, this will inevitably put downward pressure on rental rates. Landlords are beginning to see where things may be headed in the longterm and are more open to short-term leases and increased tenant inducements — effectively decreasing net rents. Growth in the National Capital Region's rental market continued to shrink over the course of 20Q3, a trend that started at the beginning of the pandemic with the COVID-19 restrictions and has been accelerating ever since.

The federal government recently indicated that there's no intention to expand its office portfolio in Ottawa, saying they'd needing twice as much office space to accommodate COVID-19 health and safety guidelines, which simply isn't feasible. Instead a "hybrid working model" incorporating both working from home and in-office with practices like desk sharing is more likely — which will result in a significantly reduced office space footprint. This will have dramatic implications on the overall tenant demand which will increase pressure on landlords to lower rents and increase financial incentives to attract private sector tenants. Since the government accounts for about half of the Ottawa office market and the COVID-19 situation continues to soften the market, local tenants should be making strategic choices that maximize their short-term flexibility while accommodating productivity and culture.

In terms of average rent prices in the city, there's once again a wide range of speculation as to where these might go depending on the larger economic reality and how quickly office workers return to spaces vacated due to the pandemic. Real Strategy Advisors acknowledges that we might see stable average rent but only as a result of more high quality Class A space coming back onto the market. The higher quality space (and abundance of it) skews the average upwards but is still indicative of the trend that there's lower demand creating higher vacancy. Using the depression forecast though, Real Strategy predicts that we could see a drop of $10 per SF between now and mid-year 2022 before seeing the average rent start to increase again.

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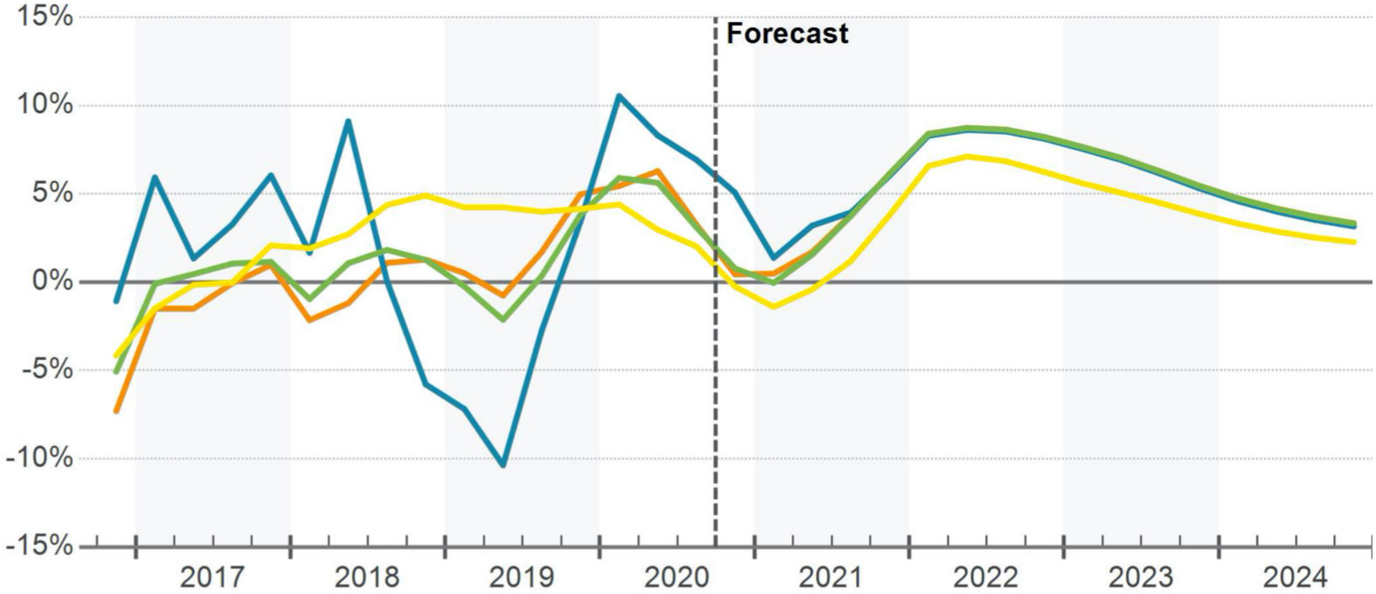
RENT

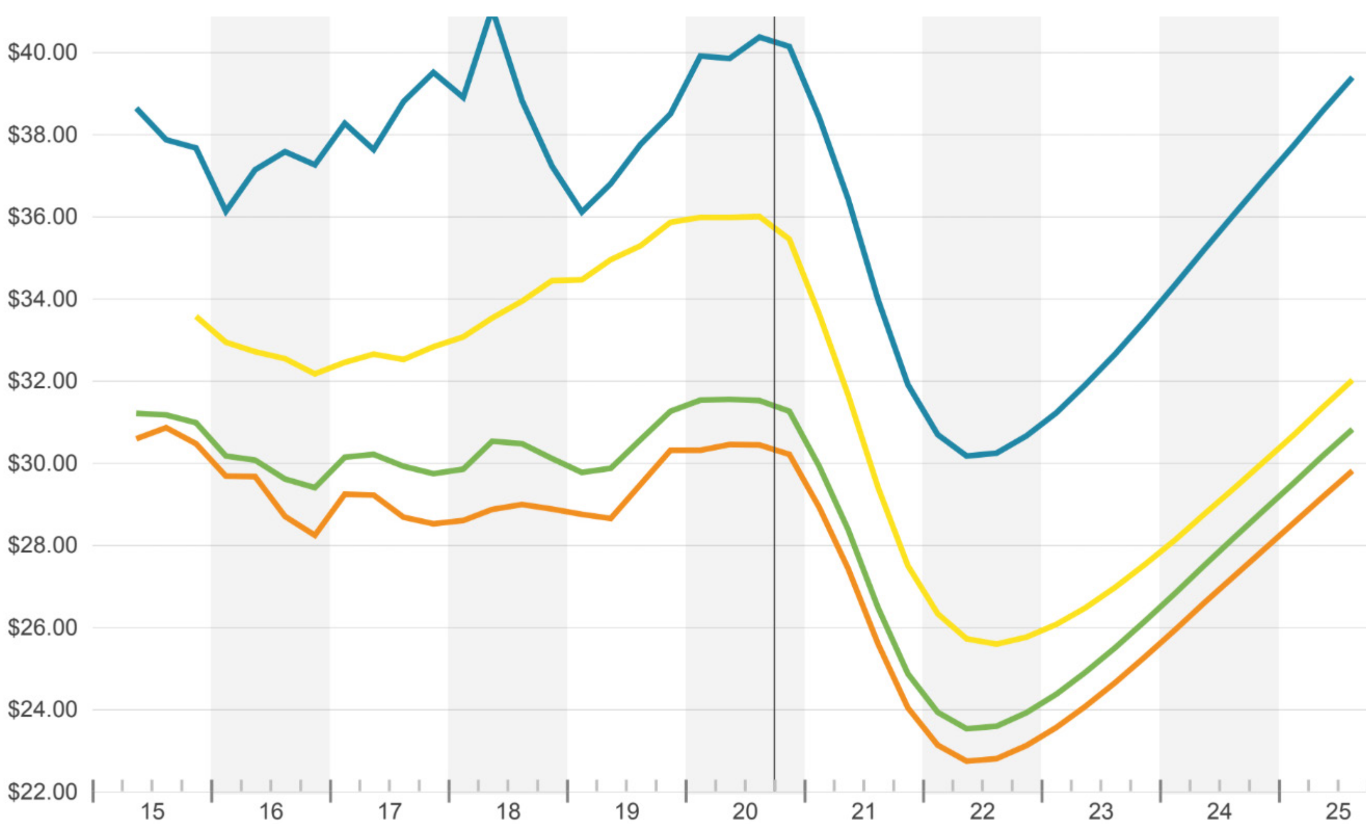
MARKET RENT GROWTH (YOY)



* Images provided by CoStar

Ottawa-Gatineau 3 Star | Ottawa-Gatineau 4-5 Star | Ottawa-Gatineau | Canada

MARKET RENT PER SQUARE FEET



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

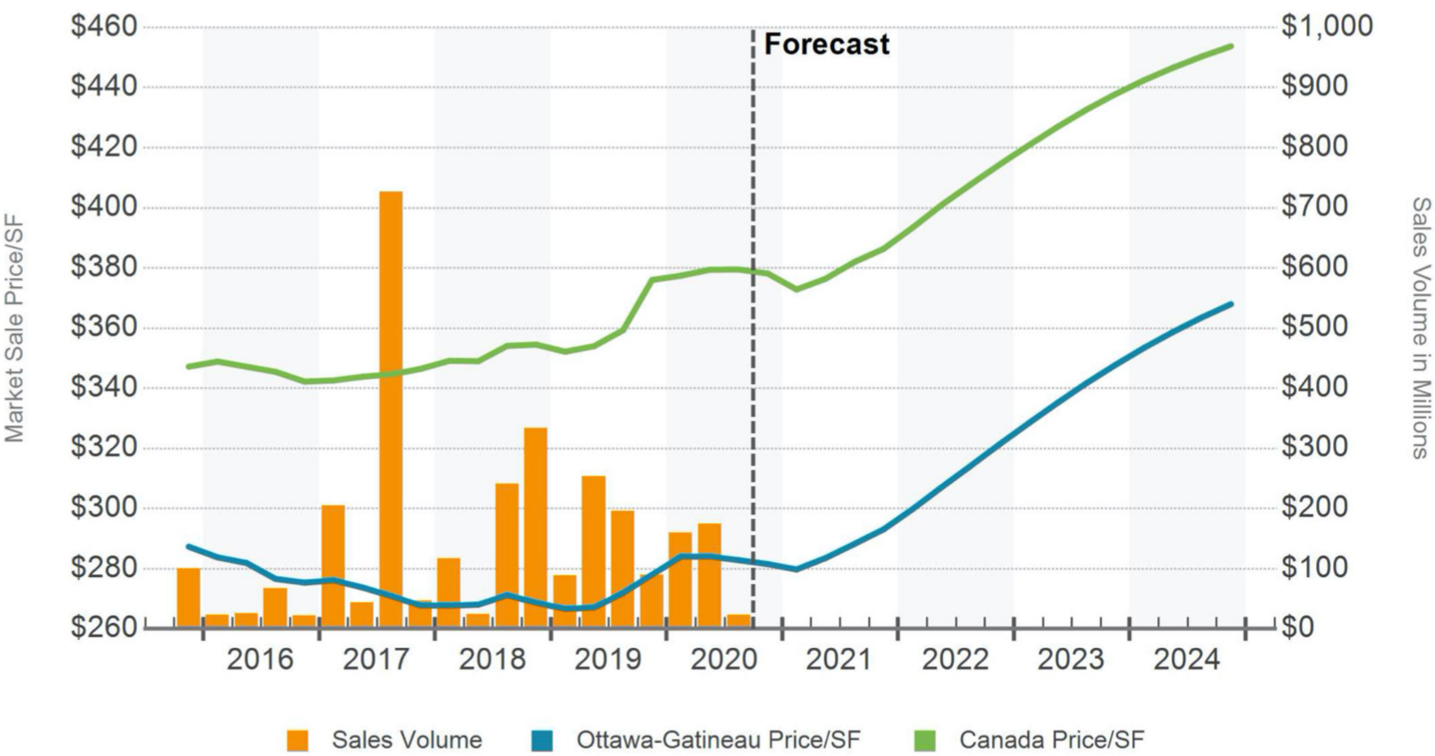
Sales volume dropped off a cliff after 20Q2 and is only about an eighth of what it was at the same point last year. This stagnation is a direct result of COVID-19, remote work, and everyone calling into question how much (if any) physical office space they really need going forward. Volume is expected to return to normal at the same rate that tenants reoccupy vacated space. The cap rate for downtown Class A office assets was 5% in 19Q3 but has since gone up to 5.4% in 20Q3. This increase reflects worry from investors about a potential increase in the threat of tenant default.

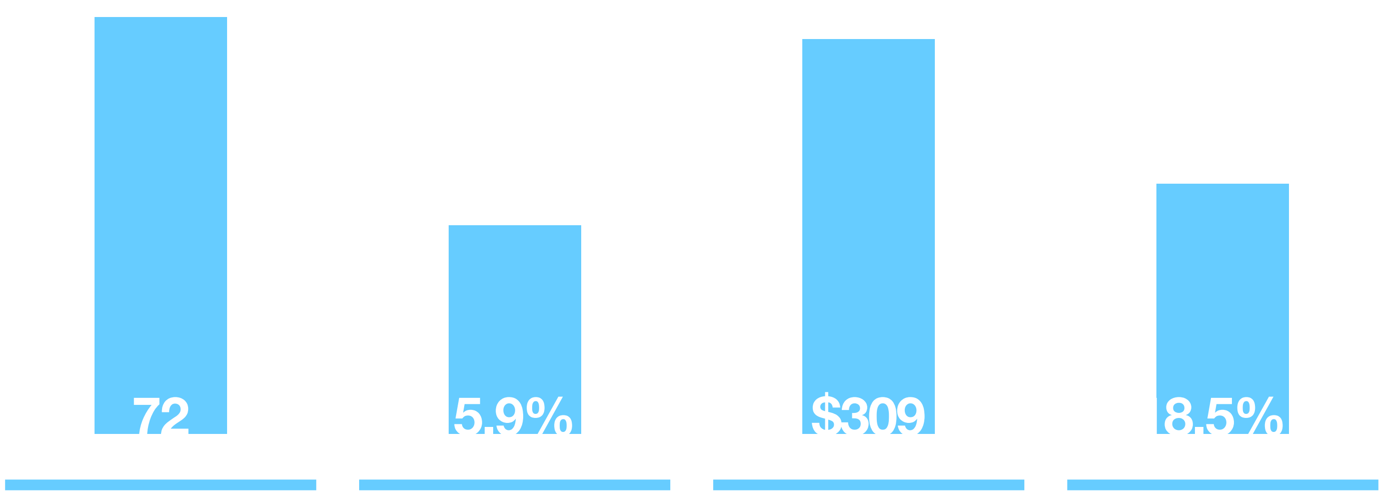
Since last issue, Crown Realty Partners made a 23 building purchase that includes 415,000 SF of office space in the city across seven locations. In terms of other sales transactions, the following has taken place over the past months from late 20Q2 and through 20Q3:

- **126 York St.** (The Major Building) — 59,590 SF in the Lowertown submarket — sold to RIMAP Hospitality in June for $33 million
- **190 Colonnade Rd.** (Colonnade Business Centre) and 203 Colonnade Rd. — 56,388 SF and 26,108 SF in the Colonnade/Rideau Heights submarket — sold to Fiera Real Estate Investments in July for $9.2 million and $4.6 million respectively
- **903 Carling Ave.** — a 5,370 SF building in the Tunney's Pasture submarket — sold to Claridge Homes in September for $2.6 million

SALES

SALES VOLUME & MARKET SALE PRICE PER SF





SALE COMPARABLES | AVG. CAP RATE | AVG. PRICE/SF | 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.

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SUBMARKETS

SUBMARKET RENT

		Vacancy			12 Month Absorption			
No.	Submarket	SF	Percent	Rank	SF	% of Inv	Rank	Construc. Ratio
1	Alta Vista	76,208	6.3%	17	(32,627)	-2.7%	21	-
2	Barrhaven	2,751	0.2%	1	4,585	0.4%	8	-
3	Belfast/Sheffield	116,730	5.6%	14	128,886	6.1%	2	-
4	Bells Corners/Crystal Beac	44,062	3.2%	9	11,682	0.9%	7	-
5	Blair/Ogilvie	120,232	4.8%	12	14,174	0.6%	6	-
6	CBD	988,591	5.7%	15	(73,469)	-0.4%	23	-
7	Centrepoint/Qualicum	33,784	2.5%	4	36,207	2.6%	3	-
8	Centretown	470,968	6.4%	18	(115,981)	-1.6%	24	-
9	Colonnade/Rideau Heights	172,255	6.1%	16	(19,935)	-0.7%	20	-
10	East Outer Ottawa	-	-	-	4,043	2.7%	9	-
11	Gatineau	234,192	1.7%	3	(14,188)	-0.1%	19	-
12	Glebe	58,339	8.5%	20	3,863	0.6%	10	-
13	Goulbourn/West Carleton	14,582	3.1%	8	(2,620)	-0.6%	15	-
14	Heron/Riverside	56,467	2.7%	7	1,714	0.1%	12	-
15	Hunt Club/Walkley	291,769	10.3%	22	15,719	0.6%	5	5.2
16	Kanata	369,847	5.1%	13	180,690	2.5%	1	-
17	Lowertown	186,827	3.4%	10	(56,839)	-1.0%	22	-
18	Merivale	8,848	7.1%	19	517	0.4%	13	-
19	Montreal Road	76,670	2.5%	5	(13,015)	-0.4%	18	-
20	NW Outer Ottawa	-	-	-	0	0%	-	-
21	Orleans	46,801	9.1%	21	(8,696)	-1.7%	16	-
22	Queensview/Morrison	33,136	2.7%	6	3,757	0.3%	11	-
23	Tunney's Pasture	105,049	1.4%	2	(11,519)	-0.2%	17	-
24	Woodward/Carling	158,418	4.6%	11	17,339	0.5%	4	-

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SUBMARKETS

SUBMARKET VACANCY & NET ABSORPTION

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