REAL STRATEGY

Commercial Real Estate Strategy
& Implementation Solutions

Q4
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

At the end of 2020, residents of Ottawa (and Ontario at large) found themselves in the midst of a second wave of COVID-19 cases. The increased number of infections led to an imposed lockdown and stay at home measures that ultimately had a negative impact on 20Q4's economic growth. The speculation all year long has since been confirmed, that 2020 has been one of the worst economic years in Canada since the Great Depression in the 1930s.

In terms of the commercial real estate sector, there has never been such a drastic switch in tenant behaviour and its impact on the market will be significant and long lasting. Office tenants that were once steady sources of cash for their landlords are reassessing their space needs to help reduce costs while also curbing transmission amongst employees. As a result, the answer to questions like how and where we work will no longer be as dependent on physical office space. This shift in organizational behaviour and tenant demand has led to reduced net rental income for building owners and operators, all while free rent and cash incentives for prospective tenants increase.

Throughout 20Q4, Ottawa saw increased office sublet availability — especially in the downtown core. Now more than ever, downtown tenants have lots of options at their disposal. This abundance of quality product, along with a soft market, may result in increased leasing activity in the coming quarters if office re-entry becomes more of a reality. Although Ottawa has traditionally benefitted from being a government town, it is certainly not economically immune to the pandemic's effect on consumer-driven and service-based businesses. The public sector and stability it provides may insulate the Nation Capital Region's economy at large, which is being forecasted to rebound in the coming years with average growth, but the federal government is also making big changes to their real estate portfolio and office requirements going forward.

Potentially delaying the return to work, the campaign for mass vaccination in Canada is underway but not at the intended pace. Increased immunity from COVID-19 is a prime factor in both bringing regularity and growth back to the economy. The complications surrounding supply and distribution of available vaccines have put a dent in government timelines for when Canadians might receive their jab. Economic rebound will continue to be delayed so long as these complications continue making lockdown restrictions are necessary.

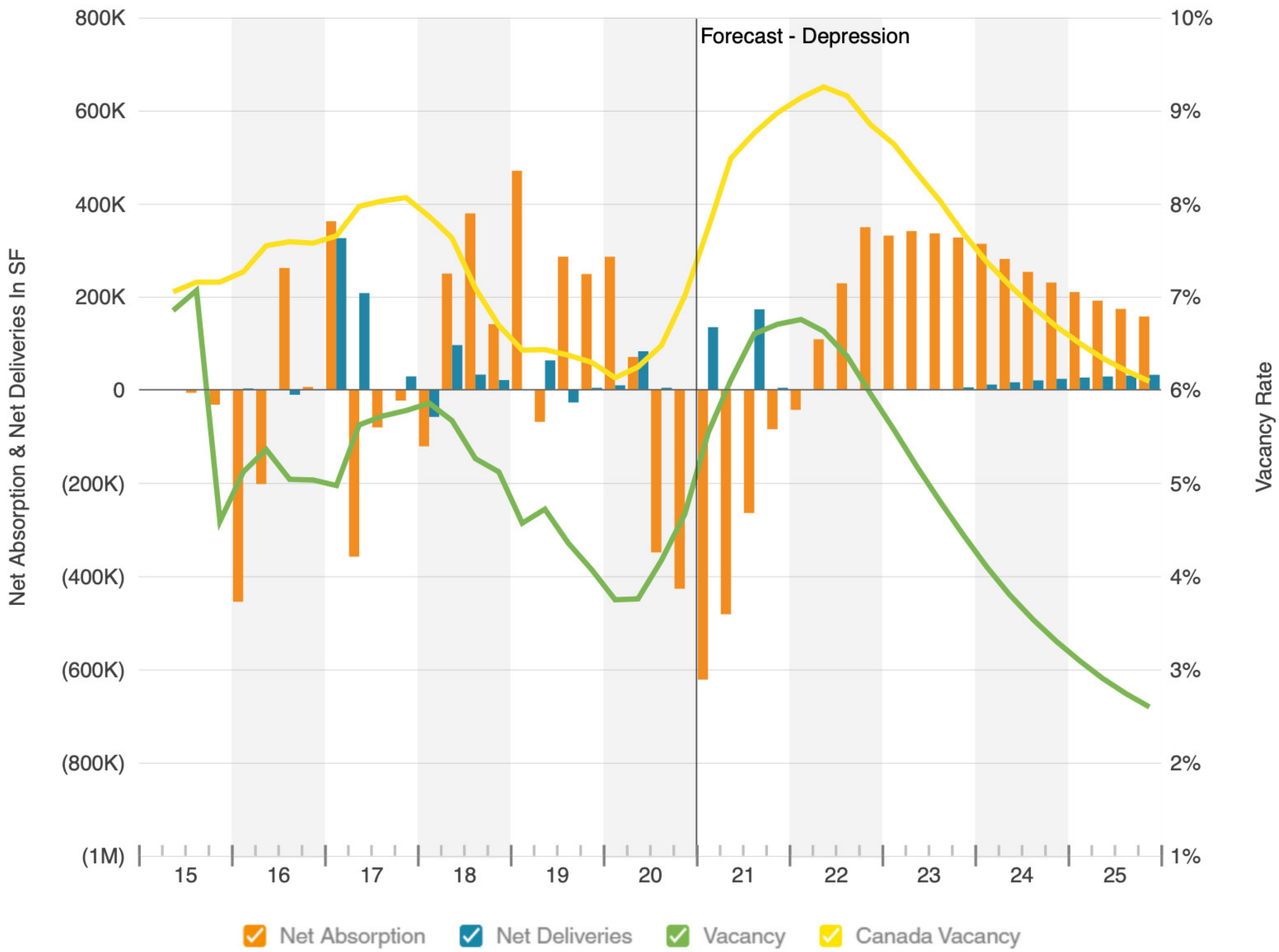
LEASING

Over 160,000 SF of new sublease space was added to the market in 20Q4. Class A buildings' availability in particular continued to rise throughout 2020 quarter to quarter — a complete trend reversal from the years prior. Space that is available for sublease now accounts for almost 15% of the city's overall vacancy (and 23% of Class A vacancy). The commercial real estate market also finished 2020 with an unprecedented negative net absorption with close to 905,000 SF of space coming back to the market in total. This result is attributable to the large amounts of space given back in the Central submarket as well as more suburban locations like 1000 Innovation Drive, the former home of Entrust Datacard.

Increased vacancy and absorption trends are set to continue in Q121 and, unless more space comes back from big users like the federal government, should begin levelling out towards the end of the year and beginning of 2022. Nevertheless, there is still quite a bit of uncertainty in mid and longterm tenant demand.

LEASING

NET ABSORPTION, NET DELIVERIES & VACANCY



* Images provided by CoStar

Office availability in Ottawa still remains below the national average of just over 12%. The increased availability did not immediately shake landlords but, as the COVID-19 timeline extends, more and more cash and free rent inducements are appearing for tenants. The pressure of increased supply and reduced demand will inevitably put downward pressure on rental rates — a trend set to continue throughout 2021 and into early 2022.

NOTABLE LEASES

TOP OFFICE LEASES PAST QUARTER

Building Name/Address	Submarket	Leased SF	Tenant Name
Kanata Research Park	Deep West	27,397	Rianta Solutions Inc.
Blackwood Business Centre	Kanata	10,679	N/A
835 Carling Ave.	Tunney's Pasture	8,700	N/A
1165 Kenaston St.	East	7,350	N/A
20 Cope Dr.	Kanata	7,023	Canada Clean Room

* 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

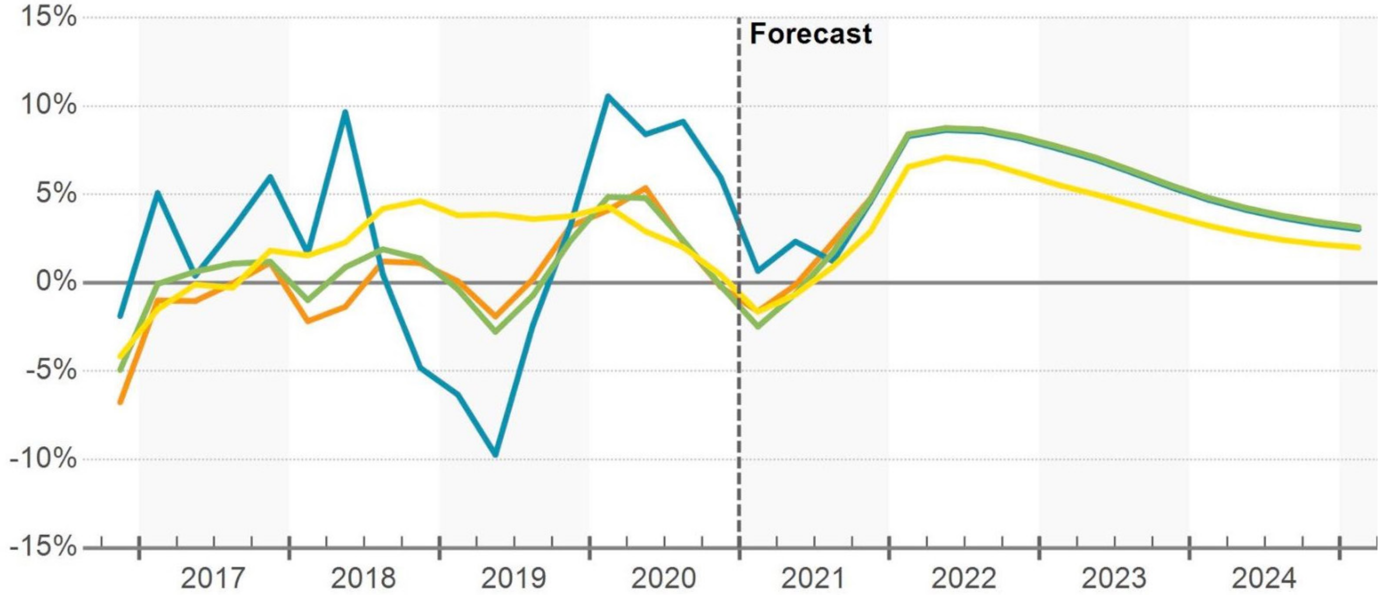
Rent growth in the National Capital Region's office market continued to shrink over the course of 20Q4. Despite all of the vacant space that arrived on the market in 2020, the impact to advertised rental rates has thus far been minimal. This is due to much of the available space being marketed for sublease — as opposed to direct — and the original tenant continues to pay the rent.

In addition, most landlords instead of lowering the per-month base rent, would prefer to offer inducements such as free rent, and construction financing before dropping the rental rate. Since so much of the vacant space is concentrated in Class A buildings, many tenants in Class B or Class C properties are likely to take the opportunity to upgrade their lease premises leaving big holes in those lower quality assets.

Real Strategy's forecast for early 2021 calls for rents to fall across the region as both private and public sector organizations try to balance safety and productivity against reduced needs for office space.

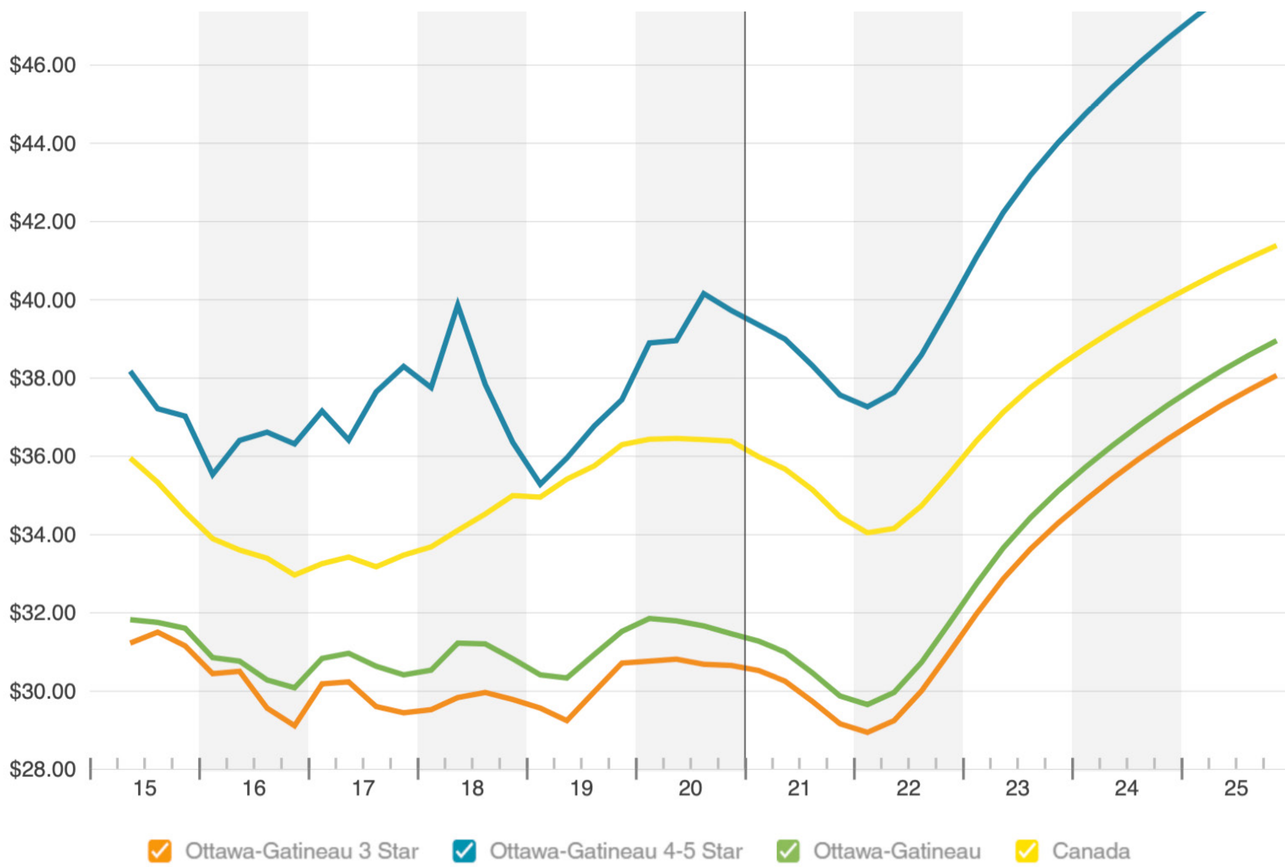
RENT

MARKET RENT GROWTH (YOY)



* Images provided by CoStar

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

Sale volume of commercial properties dropped off a cliff after 20Q2 and remained low the last half of the year with sales comparables of 72 in 20Q3 and 70 in 20Q4. This stagnation is a direct result of COVID-19, remote work, followed by new lockdown measures. Sales volume is expected to be inline with the rate at which tenants can start to reoccupy vacated space.

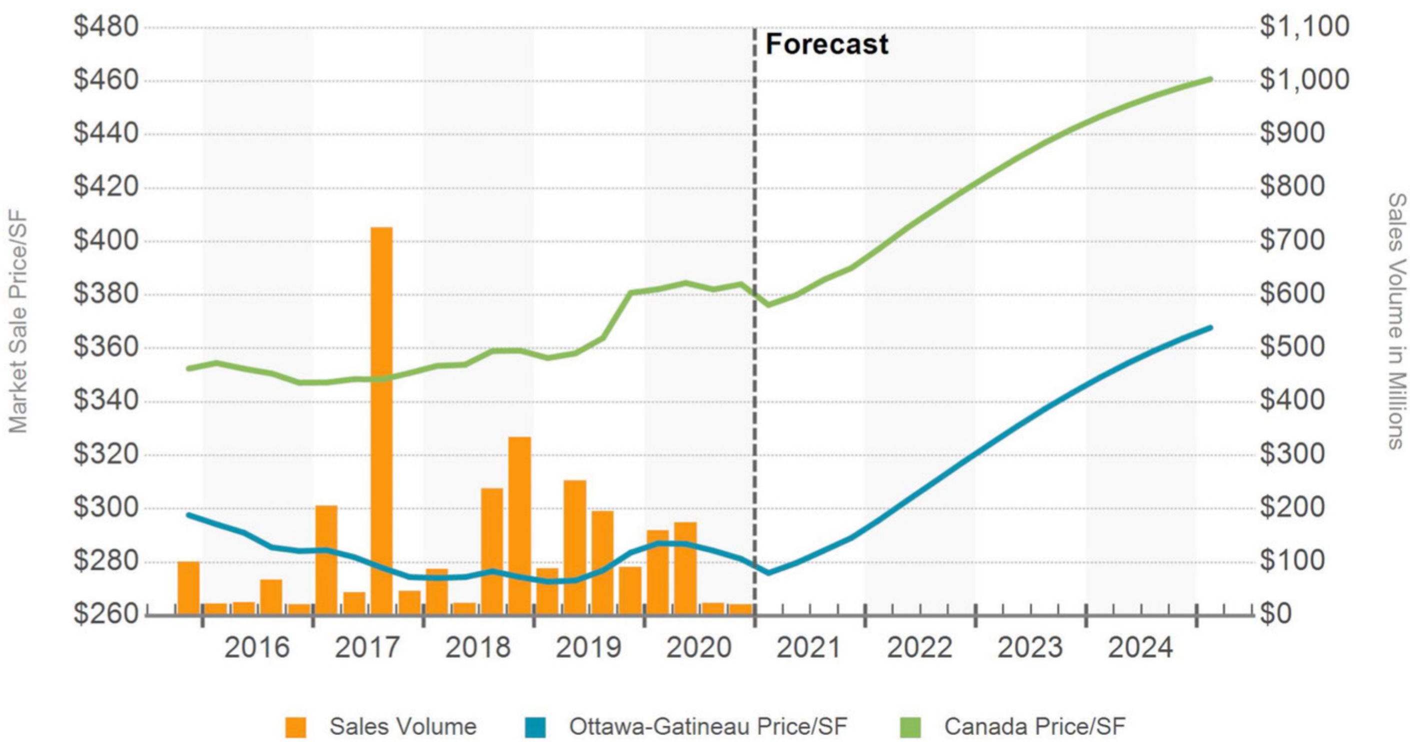
Since Q320, the four property portfolio sale of Colonnade Business Centre to Fiera Properties for $9.2 million ($163/SF) was closed. The only other transaction to close out the year was the sale of 81 Metcalfe St. (61,275 SF in the Centretown submarket), which was sold for $12,450,000 ($203/SF).

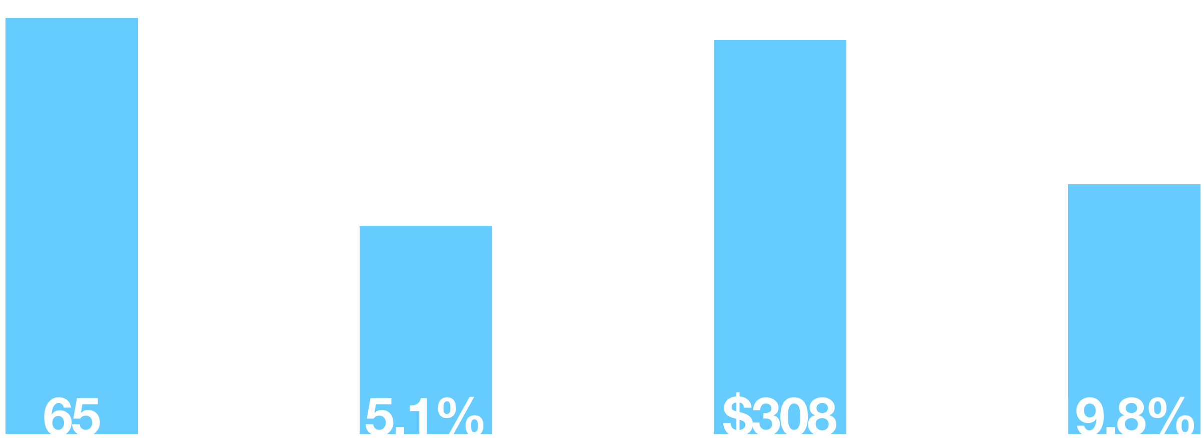
REAL STRATEGY

Commercial Real Estate Strategy & Implementation Solutions

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.

REAL STRATEGY | Commercial Real Estate Strategy & Implementation Solutions

SUBMARKETS

SUBMARKET RENT

		Market Rent		12 Month Market Rent		QTD Annualized Market Rent	
No.	**Submarket**	**Per SF**	**Rank**	**Growth**	**Rank**	**Growth**	**Rank**
1	Alta Vista	$29.15	19	-1.2%	14	-0.6%	6
2	Barrhaven	$32.66	5	5.6%	1	-2.4%	21
3	Belfast/Sheffield	$30.25	11	1.6%	3	-1.4%	13
4	Bells Corners/Crystal Beac	$29.79	14	0.6%	6	0.4%	4
5	Blair/Ogilvie	$28.53	20	-4.0%	23	-2.7%	22
6	CBD	$37.09	1	0.9%	5	-1.0%	9
7	Centrepoint/Qualicum	$31.13	8	-1.4%	16	-1.3%	12
8	Centretown	$34.24	3	0.5%	7	-0.3%	5
9	Colonnade/Rideau Heights	$27.62	23	-1.4%	15	0.9%	3
10	East Outer Ottawa	$29.16	18	-2.8%	19	-0.7%	7
11	Gatineau	$26.53	24	-3.8%	21	-1.1%	10
12	Glebe	$31.76	7	-3.8%	22	-3.2%	24
13	Goulbourn/West Carleton	$34.61	2	-0.8%	11	13.6%	1
14	Heron/Riverside	$32.15	6	2.3%	2	-1.8%	18
15	Hunt Club/Walkley	$27.86	22	-2.3%	17	-1.7%	15
16	Kanata	$29.71	16	1.3%	4	1.4%	2
17	Lowertown	$32.84	4	-2.7%	18	-0.8%	8
18	Merivale	$29.86	12	-1.0%	12	-1.3%	11
19	Montreal Road	$29.80	13	-0.8%	10	-1.8%	17
20	NW Outer Ottawa	$28.12	21	-7.7%	24	-3.1%	23
21	Orleans	$29.29	17	-2.9%	20	-1.9%	19
22	Queensview/Morrison	$29.74	15	-0.5%	8	-1.4%	14
23	Tunney's Pasture	$30.64	10	-1.0%	13	-1.7%	16
24	Woodward/Carling	$30.95	9	-0.8%	9	-2.0%	20

* Statistics provided by CoStar

SUBMARKETS

SUBMARKET VACANCY & NET ABSORPTION

		Vacancy			12 Month Absorption			
No.	Submarket	SF	Percent	Rank	SF	% of Inv	Rank	Construc. Ratio
1	Alta Vista	79,324	6.5%	17	(15,880)	-1.3%	15	-
2	Barrhaven	4,687	0.4%	1	(1,936)	-0.2%	7	-
3	Belfast/Sheffield	122,925	5.9%	12	56,299	2.7%	1	-
4	Bells Corners/Crystal Beac	50,731	3.7%	9	(10,167)	-0.7%	13	-
5	Blair/Ogilvie	142,517	5.7%	11	(28,292)	-1.1%	18	-
6	CBD	1,046,836	6.1%	14	(162,965)	-0.9%	23	-
7	Centrepoint/Qualicum	34,620	2.5%	5	28,037	2.0%	3	-
8	Centretown	465,054	6.3%	15	(177,045)	-2.4%	24	-
9	Colonnade/Rideau Heights	166,891	5.9%	13	(15,735)	-0.6%	14	-
10	East Outer Ottawa	-	-	-	1,280	0.9%	4	-
11	Gatineau	278,699	2.1%	3	(78,406)	-0.6%	22	-
12	Glebe	67,148	9.8%	21	(4,919)	-0.7%	10	-
13	Goulbourn/West Carleton	16,605	3.4%	8	(941)	-0.2%	6	-
14	Heron/Riverside	55,790	2.6%	7	(834)	0%	5	-
15	Hunt Club/Walkley	277,109	9.7%	20	31,641	1.1%	2	2.6
16	Kanata	551,534	7.6%	19	(9,012)	-0.1%	11	-
17	Lowertown	214,953	3.8%	10	(75,939)	-1.4%	21	-
18	Merivale	17,119	13.7%	23	(9,241)	-7.4%	12	-
19	Montreal Road	79,236	2.5%	6	(20,062)	-0.6%	16	-
20	NW Outer Ottawa	2,400	7.2%	18	(2,400)	-7.2%	8	-
21	Orleans	55,638	10.5%	22	(22,976)	-4.3%	17	-
22	Queensview/Morrison	30,954	2.5%	4	(3,908)	-0.3%	9	-
23	Tunney's Pasture	119,535	1.6%	2	(33,930)	-0.5%	19	-
24	Woodward/Carling	217,533	6.4%	16	(64,090)	-1.9%	20	-

* Statistics provided by CoStar