Q2 2021

OTTAWA MARKET REPORT

By Darren Fleming, CEO & Broker of Record & Josh Barr, Communications Manager Real Strategy Advisors

Data provided by CoStar

ECONOMY

Now halfway through 2021, the two main themes that are top-of-mind are vaccination rates and the reopening of the economy. In the first quarter of 2021, the Canadian economy grew by 5.6% and although there was a dip at the beginning of the second quarter in April, there were still many encouraging signs moving forward.

Part of this optimistic outlook is attributed to the fact that Canadians weren't allowed to engage in activities where they'd typically be spending money as well as the financial relief provided by various levels of government. Q1 economic growth was better than the expected contraction that many economists had previously predicted. However, the 5.6% increase in GDP was still a decline from the 9.6% growth that had been observed at the end of 2020.

It was in April, where crippling restrictions were once again set in place, that halted economic gains, a state which continued throughout most of the country to the end of the quarter. With increased momentum behind Canada's vaccination rollout and lockdown restrictions slowly being peeled back, Real Strategy is predicting that the economy will experience a rebound throughout the rest of the year and we expect office workers will begin to return to the workplace later this fall.

In the National Capital Region specifically, while the local economy prepares to reopen, new space continues to hit the market. Increased direct and sublease availability combined with overall tepid leasing activity has contributed to rising office vacancy in Ottawa. The majority of the new inventory is typically coming from higher quality Class A buildings, providing tenants with more buying power than ever to upgrade their office space. Over time as Class B & C tenants relocate to these new Class A vacancies, and potentially adopt smaller footprints (as a result of their employees adopting a hybrid style of work), the space left behind should eventually fall to the older Class B & C inventory.

Although the current vacancy rate in Ottawa of 5.2% is still below the 10-year average, increasing vacancy is expected to continue as organizations grapple with how much office space they require in a hybrid work model or because they're locked into a long-term lease and won't be able to shed any excess space for at least another year or two.

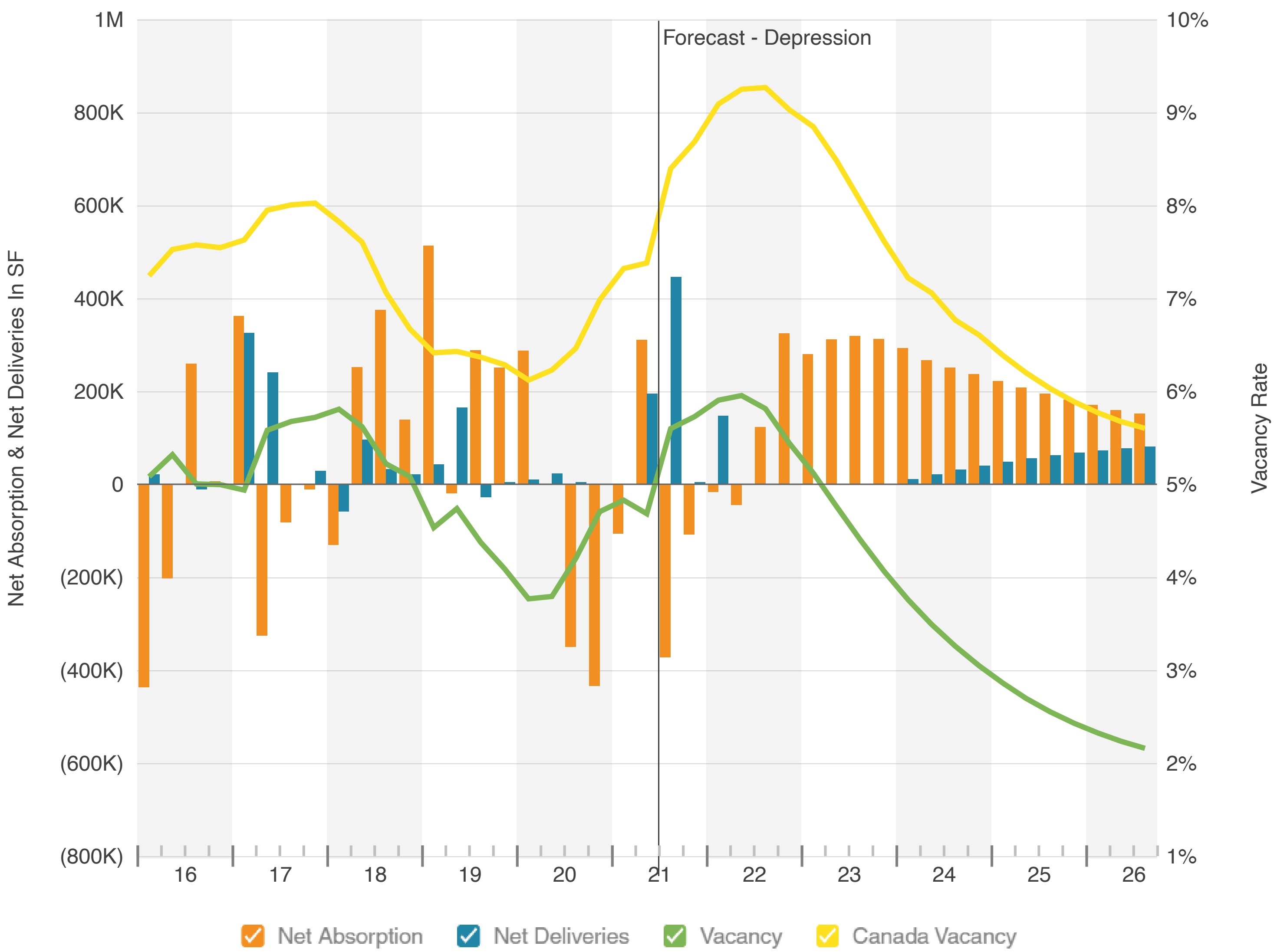
LEASING

Overall office vacancy continues to rise in Ottawa, up from 4.75% in Q1, but this past quarter marked the smallest uptick in office vacancy since the beginning of the pandemic. Interestingly, Ottawa's Central Business District had a slower rate of negative absorption which suggests the pace of new space hitting the market could be slowing. By contrast, in Kanata, growing technology companies snapped up 136K SF of space which is a great sign for Ottawa's suburban economic momentum.

Class A office buildings saw some improvement this past quarter, with vacancy falling from 7.4% at the end of Q1 to 6.9%. This trend speaks to what Real Strategy has been predicting as tenants look to upgrade to better space in a historically tenant-friendly market.

LEASING

NET ABSORPTION, NET DELIVERIES & VACANCY



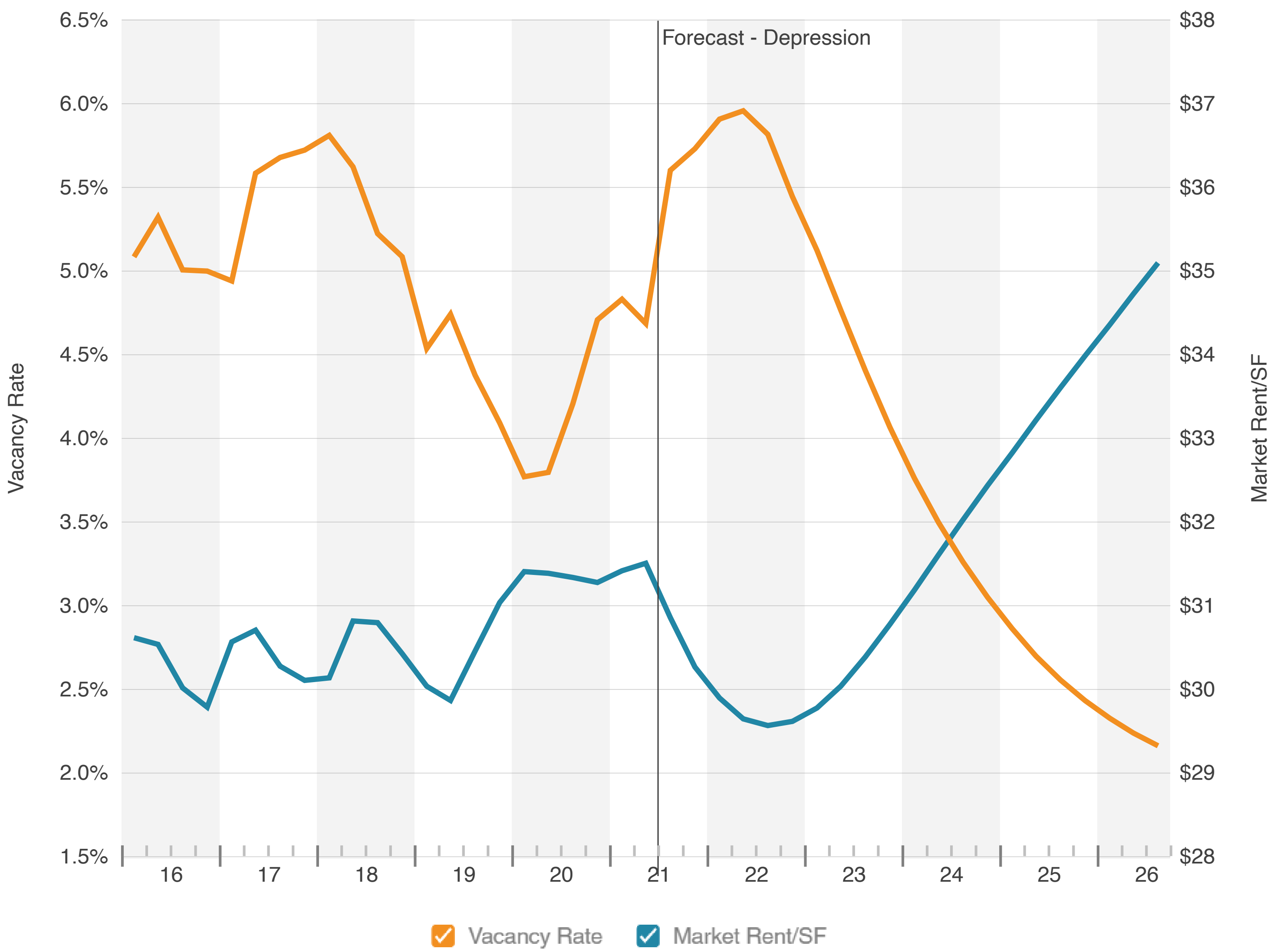
* Images provided by CoStar

TCC Canada announced that they'd be opening a co-working space at Performance Court (150 Elgin St.) in Centretown. Since initially subleasing the 10th floor of the building from Shopify, TCC has additionally sublet two more floors from Ottawa's biggest technology company. Sublease inventory is falling with space available for sublease accounting for only 14% of total market vacancy — which is the lowest observed in a year.

In an attempt to fill current and immenent vacancies caused by tenants right sizing their space or moving to hybrid or predominantly remote first environments, landlords are investing in common-area upgrades and providing aggressive tenant incentives to retain existing tenants and secure new ones.

LEASING

VACANCY & MARKET RENT PER SF



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NOTABLE LEASES

TOP OFFICE LEASES PAST QUARTER

Building Name/Address	Submarket	Leased SF	Tenant Name
450 March Rd.	Kanata	48,866	N-Able
Performance Court	Centretown	23,203	TCC Canada
Constitution Square Tower III	CBD	17,848	N/A
Performance Court	Centretown	16,417	TCC Canada
Performance Court	Centretown	11,242	TCC Canada
Manulife Tower	Centretown	8,690	National Police Federation
CDTI de Hull	Gâtineau	8,116	N/A
350 Sparks St.	CBD	7,883	N/A
Gateway Business Park	Kanata	7,180	N/A
Kent Professional Building	Centretown	5,524	N/A

* Statistics provided by CoStar

RENT

Even with all the office space that came back on to the market over the past year, posted rental rates have remained relatively stable in Ottawa. In lieu of signing leases at depression level rental rates, landlords are typically more inclined to provide tenants with shorter term lease, extended periods of free rent, or cash inducements in order to protect the valuation of their real property assets. Real Strategy Advisors is predicting that for at least the next 12-18 months, until federal public servants return to physical office space in a meaningful way, that tenants negotiating leases can still expect historical levels of flexibility.

Starved for in-person interaction, and with vaccination rates continuing to increase, we can expect to see the beginning of wokers re-entering office buildings in late Q3/Q4. That said, the level to which office occupiers trend towards implementing different hybrid work models and individual space allocation is most certainly going to contribute to a long-term decrease in the overall tenant base for the foreseeable future.

RENT

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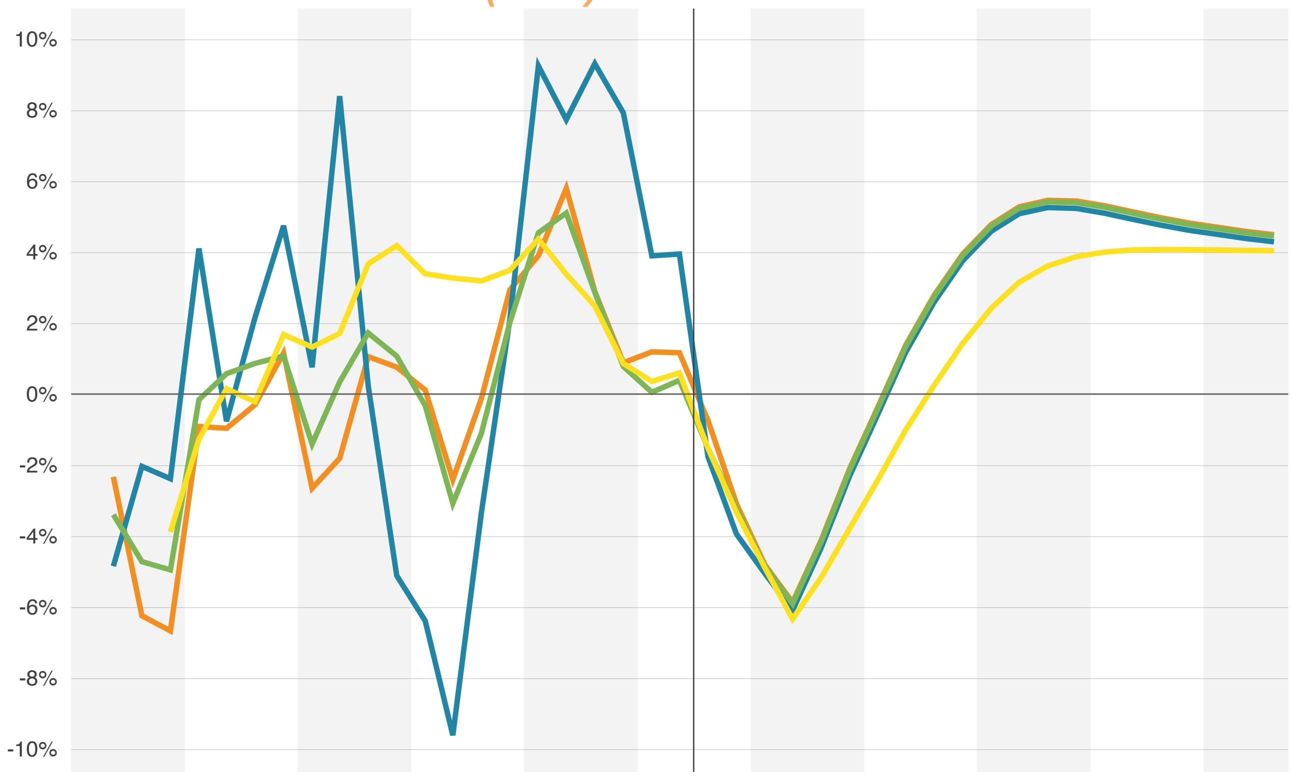
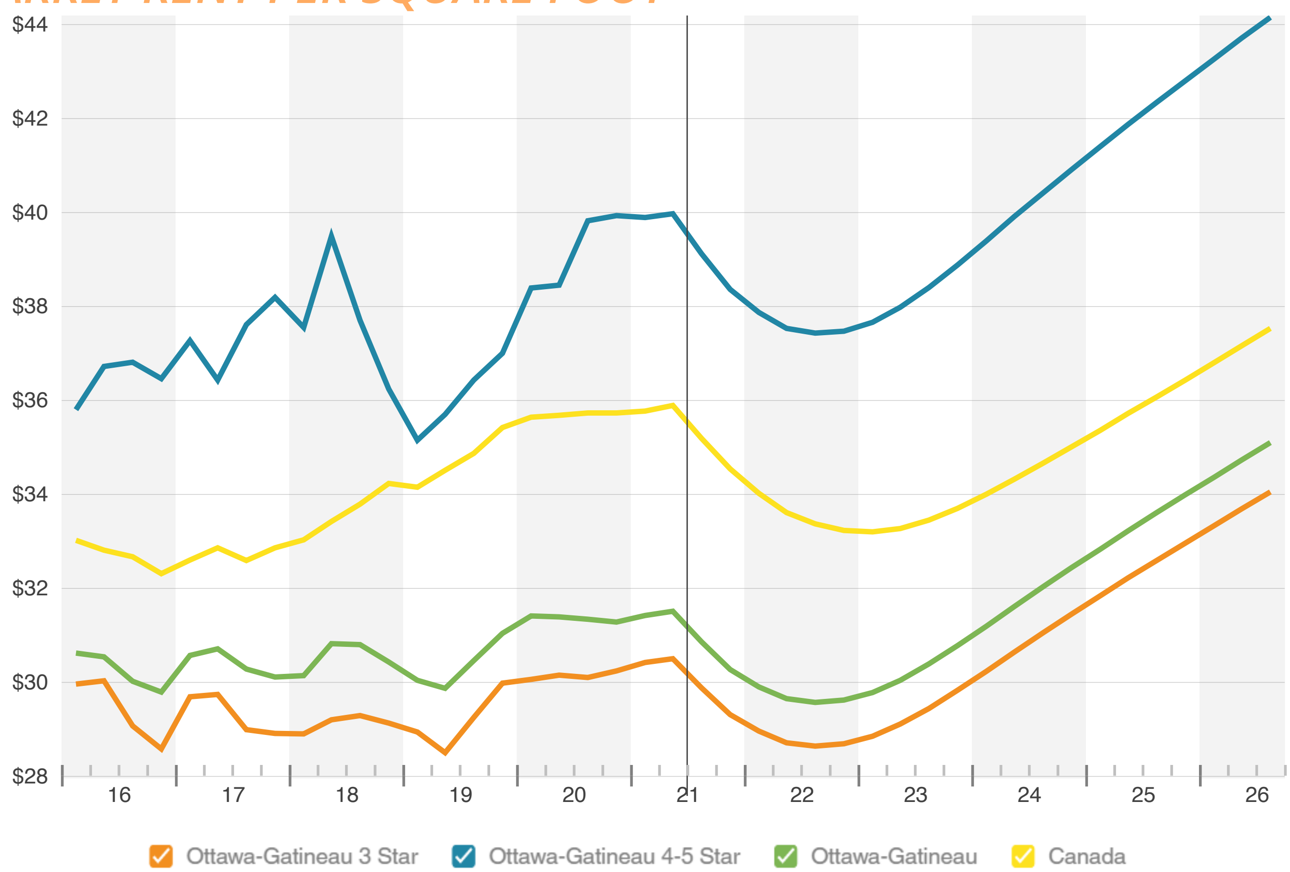
MARKET RENT GROWTH (YOY)



MARKET RENT PER SQUARE FOOT



SALES

There was a significant drop in sales and investment activity throughout last year since the income streams associated with the assets had been potentially disrupted due to lockdown measures where many tenants were forced to close. The uncertainty in whether retail merchants and office tenants who are currently receving government subsidies, would survive when financial aid programs end, created the potential for significant investor risk. This foggy future of what the long-term impact of the pandemic might do to tenant demand in the commercial estate sector left investors taking a more cautious approach as we made our way through 2020.

Heading into the latter half of 2021 though, investors are more optimistic with the talks surrounding a more robust economic recovery than what was previously expected with restrictions lifting and the anticipation of tenants returning to work. Low interest rates have kept the cost of leverage affordable and contributed to continued sales activity, albeit smaller transactions, and more due-dilligence required from lenders, resulted in a slower pace.

Recent Significant Sales:

- Smyth Medical Centre (1929 Russell Rd.) with 43,241 SF sold for $7,050,000 ($163/SF) in early April

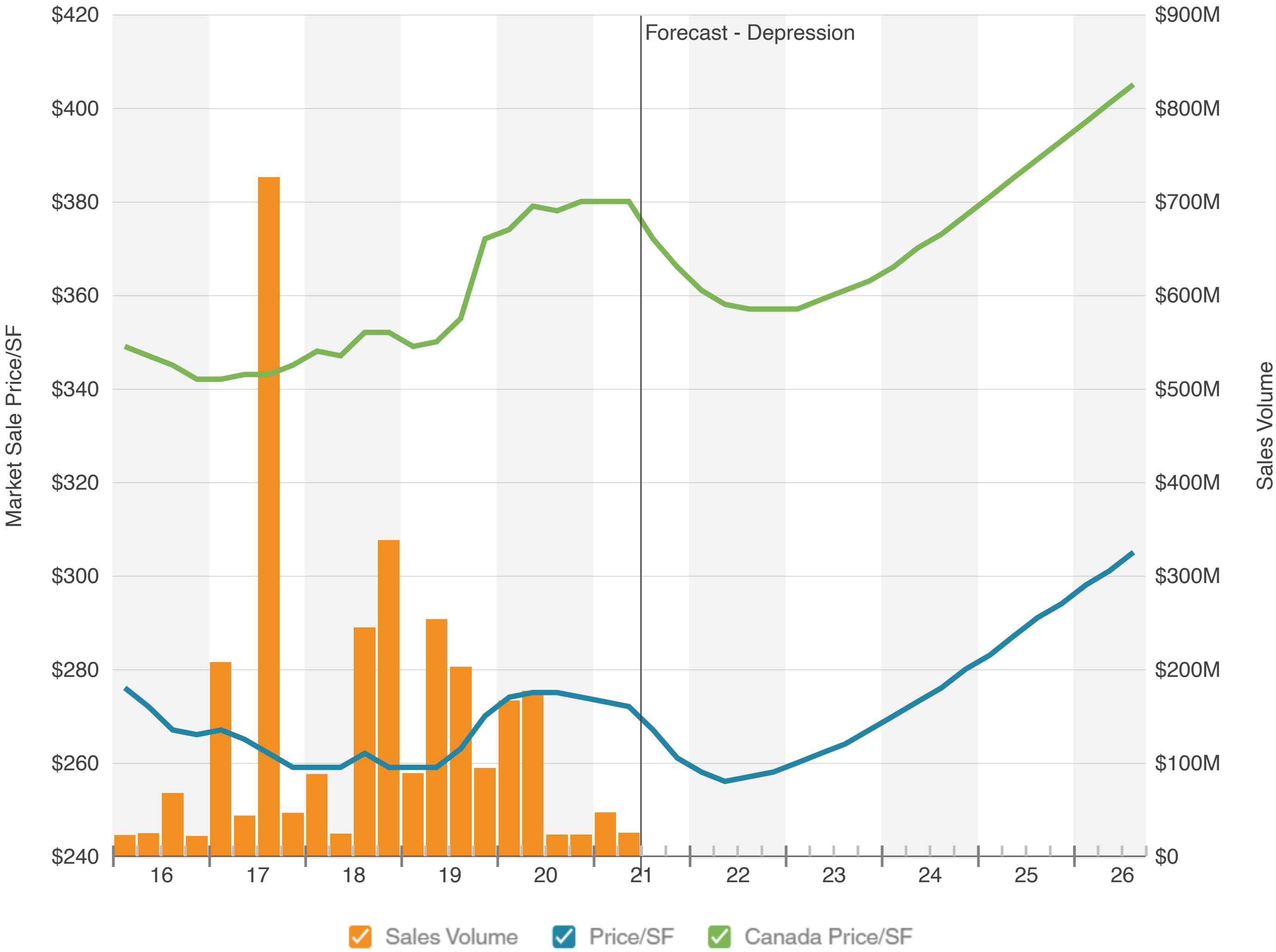
- 664 De La Gappe with 9,429 SF sold for $3,125,000 ($331/SF) in late April

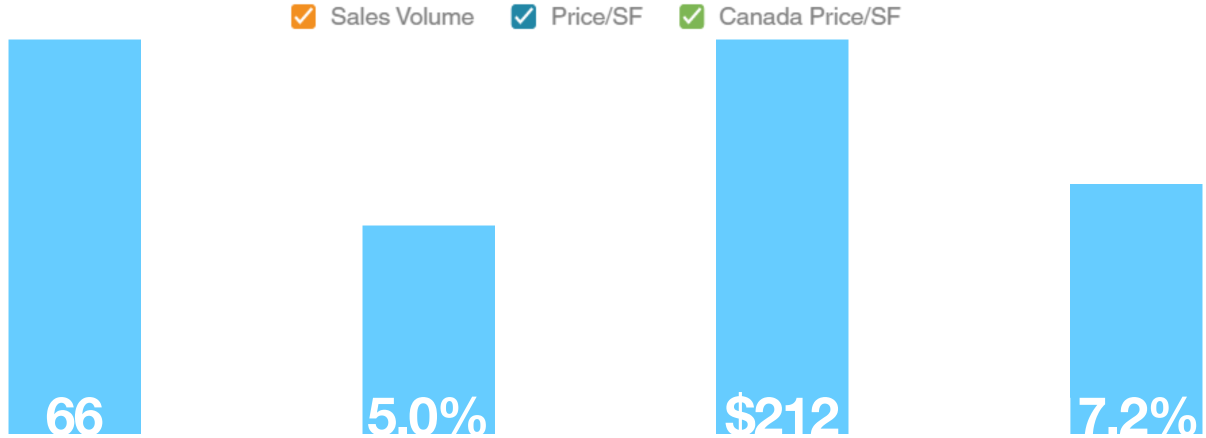
- 34 Colonnade Rd. with 8,147 SF sold for $2,065,000 ($253/SF) in late May
- 711 St-Joseph Blvd. with 7,075 SF s old for $1,550,000 ($219/SF) in early June

- 1105 Carling Ave. with 25,000 SF sold for $5,124,000 ($205/SF) in early June

SALES

SALES VOLUME & MARKET SALE PRICE PER SF





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

* Images provided by CoStar

SUBMARKETS

SUBMARKET RENT

SUBMARKET RENT

		Market Rent		12 Month Market Rent		QTD Annualized Market Rent	
No.	Submarket	Per SF	Rank	Growth	Rank	Growth	Rank
1	Alta Vista	$29.14	18	0.1%	12	1.5%	14
2	Barrhaven	$33.45	3	5.1%	1	1.6%	11
3	Belfast/Sheffield	$30.61	11	3.3%	2	1.0%	21
4	Bells Corners/Crystal Beac	$29.90	14	0.9%	7	-4.1%	24
5	Blair/Ogilvie	$28.78	20	-2.0%	22	1.3%	17
6	CBD	$37.07	1	1.4%	5	1.6%	10
7	Centrepoint/Qualicum	$31.26	9	-0.1%	15	2.1%	3
8	Centretown	$34.58	2	0.7%	8	1.1%	20
9	Colonnade/Rideau Heights	$27.74	23	0.1%	14	2.2%	2
10	East Outer Ottawa	$28.96	19	-1.4%	19	1.9%	6
11	Gatineau	$26.75	24	-1.8%	21	1.3%	16
12	Glebe	$32.14	6	-3.4%	23	1.2%	18
13	Goulbourn/West Carleton	$31.30	8	1.2%	6	2.0%	4
14	Heron/Riverside	$32.26	5	2.7%	3	1.7%	7
15	Hunt Club/Walkley	$28.01	22	-0.5%	16	1.3%	15
16	Kanata	$29.87	15	1.5%	4	-3.5%	23
17	Lowertown	$33.09	4	-1.2%	18	1.5%	13
18	Merivale	$30.79	10	-1.6%	20	1.6%	12
19	Montreal Road	$29.81	17	0.3%	11	1.6%	9
20	NW Outer Ottawa	$28.19	21	-6.3%	24	1.7%	8
21	Orleans	$30.00	13	-0.8%	17	-0.2%	22
22	Queensview/Morrison	$29.82	16	0.1%	13	1.2%	19
23	Tunney's Pasture	$30.59	12	0.4%	10	2.0%	5
24	Woodward/Carling	$31.41	7	0.5%	9	2.5%	1

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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	34,710	2.4%	7	35,395	2.5%	2	-
2	Barrhaven	2,751	0.2%	1	0	0%	-	-
3	Belfast/Sheffield	152,561	7.3%	17	(45,502)	-2.2%	17	-
4	Bells Corners/Crystal Beac	46,616	3.4%	10	(9,038)	-0.7%	11	-
5	Blair/Ogilvie	172,634	6.9%	15	(47,817)	-1.9%	18	-
6	CBD	1,145,436	6.7%	14	(150,336)	-0.9%	24	-
7	Centrepoint/Qualicum	31,924	2.3%	6	(264)	0%	9	-
8	Centretown	392,451	5.3%	13	(111,053)	-1.5%	22	-
9	Colonnade/Rideau Heights	131,232	4.7%	12	(13,921)	-0.5%	13	-
10	East Outer Ottawa	-	-	-	2,512	1.8%	5	-
11	Gatineau	291,671	2.1%	4	(62,330)	-0.4%	19	-
12	Glebe	67,687	10.0%	21	(17,193)	-2.5%	14	-
13	Goulbourn/West Carleton	10,182	2.1%	3	9,719	2.0%	4	0.4
14	Heron/Riverside	62,214	2.9%	8	(12,437)	-0.6%	12	-
15	Hunt Club/Walkley	250,505	8.4%	19	136,002	4.6%	1	0.4
16	Kanata	575,730	7.9%	18	(128,991)	-1.8%	23	-
17	Lowertown	222,937	4.0%	11	(74,587)	-1.3%	20	-
18	Merivale	17,420	13.9%	22	(8,572)	-6.8%	10	-
19	Montreal Road	70,070	2.2%	5	1,793	0.1%	6	-
20	NW Outer Ottawa	-	-	-	0	0%	-	-
21	Orleans	51,015	9.6%	20	(32,923)	-6.2%	16	-
22	Queensview/Morrison	40,216	3.2%	9	(19,713)	-1.6%	15	-
23	Tunney's Pasture	83,913	1.1%	2	29,343	0.4%	3	-
24	Woodward/Carling	234,375	6.9%	16	(92,232)	-2.7%	21	-

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