Q3 2021

OTTAWA MARKET REPORT

By Darren Fleming, CEO &
Broker of Record,
Real Strategy Advisors

Data provided by CoStar

OVERVIEW

As the record hot summer was underway, many health restrictions were eased in Ontario (and most of Canada) and there existed lots of optimism towards a large scale return to work in the fall. As the third quarter came to a close however, more positive COVID-19 cases were being observed as a result of the Delta Variant and onset of a potential fourth wave.

With projected numbers and modelling showing the potential for this variant to spread faster and easier than previous ones, many companies pushed back their return to office plans to Q4 or even early 2022. People are moving back into the office, it is just happening at a slower pace than what was expected coming out of the second quarter of 2021.

Despite the ongoing spectre of the pandemic, Ottawa's office market saw some leasing over the course of Q3 and quite a few sales. This increased activity resulted in positive absorption as organizations transitioned from a purely work-from-home to a more hybrid model if they did return to the office during this time.

Some tenants are renewing their lease but on a much shorter term or taking back their space that had been on the subleasing market. A sizeable portion of tenants, however, are choosing to lease new and more optimized spaces. Even with the continued growth being seen in the tech sector, Real Strategy is predicting a lot of space to come back on to the market in 2022-23 as tenants right-size for a more hybrid layout.

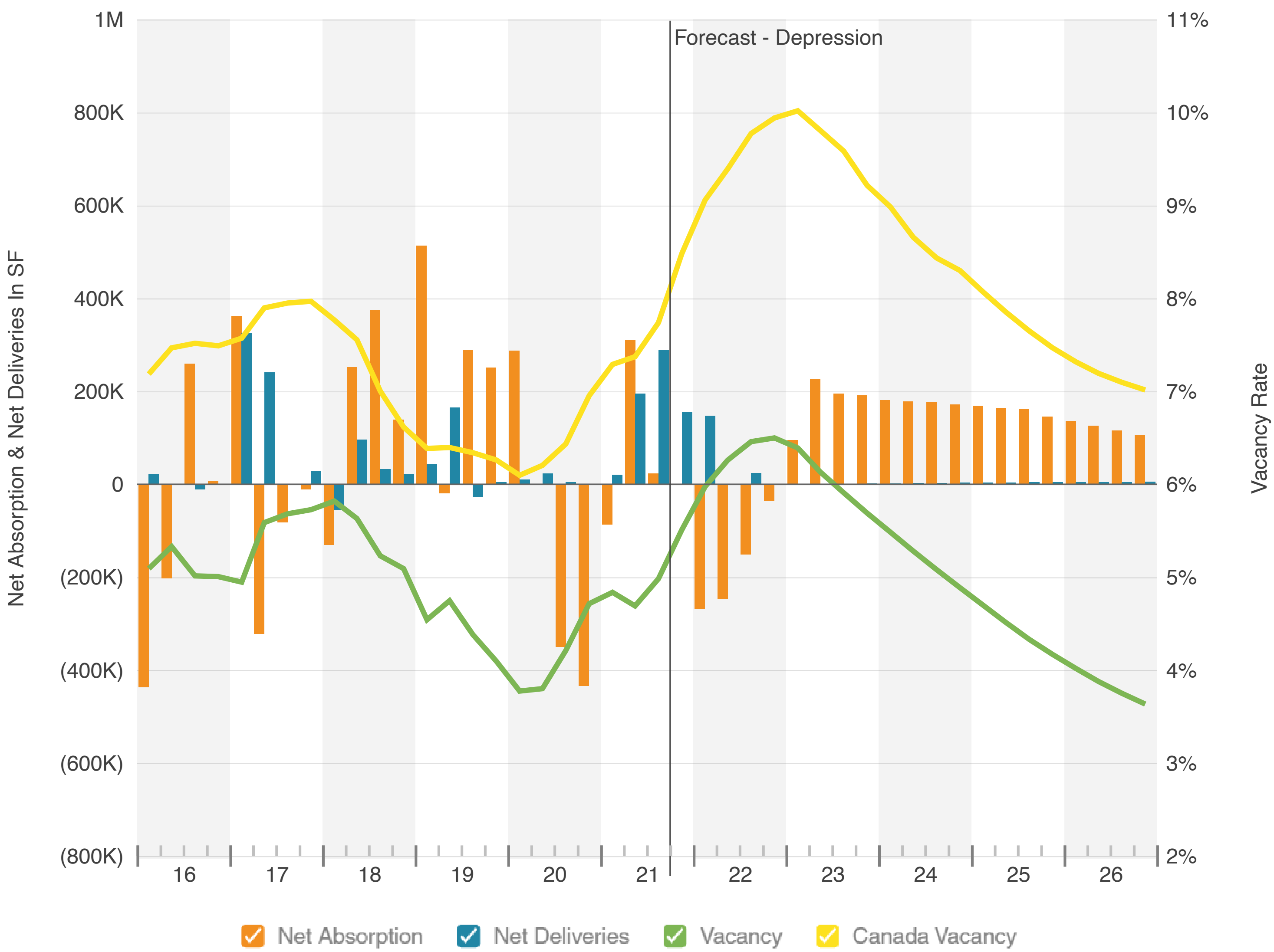
LEASING

After a busy second quarter of leasing that saw Ottawa's vacancy fall for the first time in a year, finishing at 4.7%, vacancy is once again on the rise. Going into the second quarter, vacancy had fallen but Ottawa's office market experienced a cooling off period in the summer — despite the sweltering heat. With the vacancy rate just over 5% to finish Q3, we expect to see this increase over the next 12-18 months as companies who are returning to work begin to shed excess space.

While there was a lot of leasing activity, it was mostly tenants snapping up nicer new space and, in many cases, well in advance of their existing lease expiry. Overall, things slowed down since the return to work was curtailed and put on hold for many companies due to a fear of a fourth wave. For example, the government delayed its back to work plans until 2022. Of the companies who did do deals, many are leaving space behind. Even with the continued growth in the tech sector, we do predict a lot of space will come back to the market in 2022-23 as tenants right-size their space for a hybrid layout.

LEASING

NET ABSORPTION, NET DELIVERIES & VACANCY



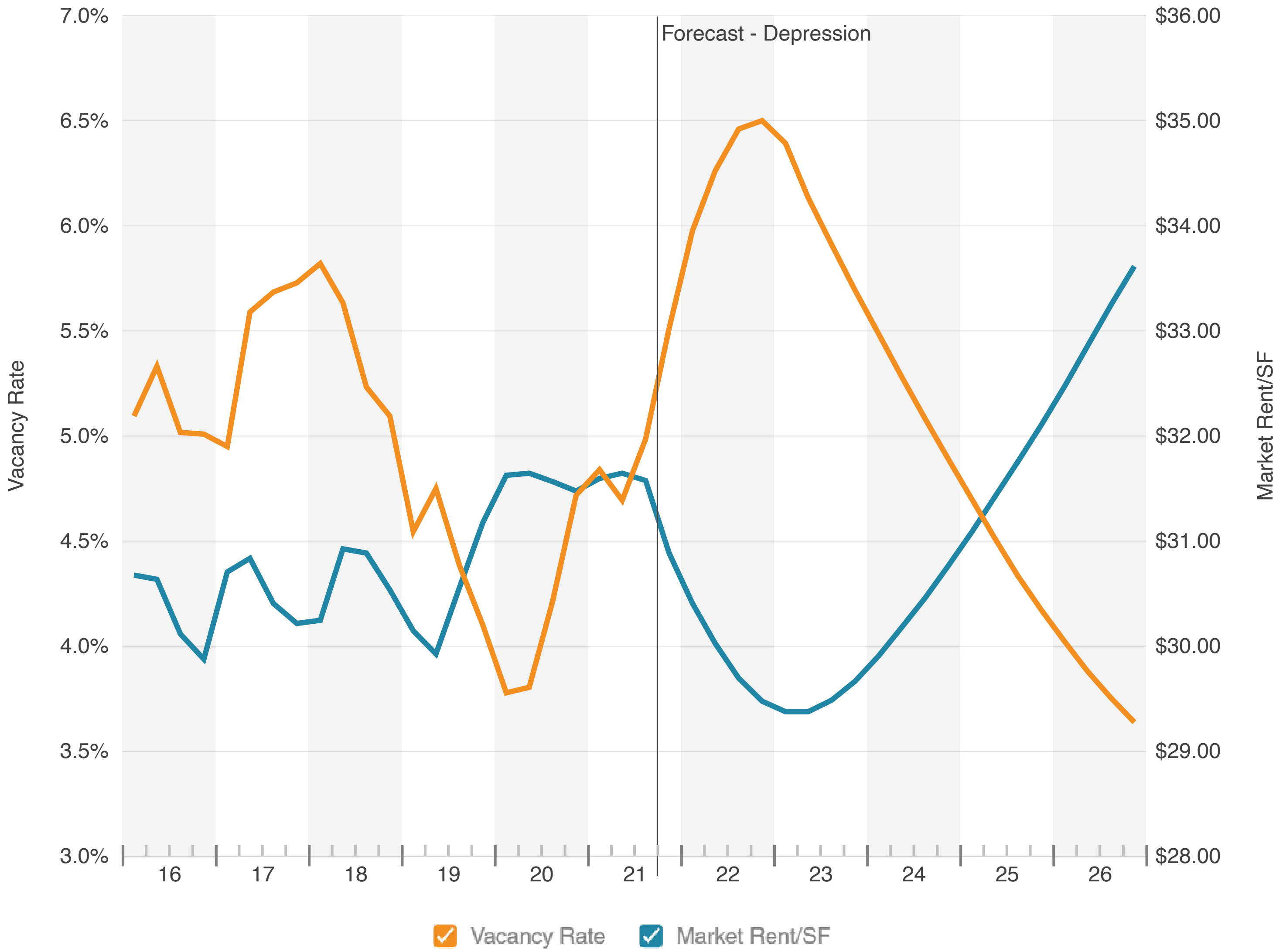
* Images provided by CoStar

Since there was little change in federal government seat count and make-up after the accelerated snap election, plans to fast track employees to a hybrid platform will continue in the same direction. Leaving an ominous shadow on the market place as we wait for a long-term announcement, the office space that will be needed by the government is one of the biggest variables contributing to office market uncertainty.

Notable leases from this quarter include a 22,385 SF deal with the Arlington group at Sun Life Financial Centre and 30,912 SF new lease at 9 Auriga Dr. While leasing activity continues to be stable, companies will be changing from older space to newer and renovated locations. The space that has been shed will be moved to Class C, though it may take time for this trend to materialize. Often in these types of situations, landlords will refurbish and make updates before putting the space back on the market.

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
9 Auriga Dr.	Colonnade/Rideau Heights	30,912	N/A
Palladium Campus	Kanata	29,913	N/A
Sun Life Financial Centre	CBD	22,385	Arlington Group
Westboro Connection	Woodward/Carling	21,769	N/A
Ottawa Business Park	Hunt Club/Walkley	10,077	Minwaashin Lodge
City Centre Complex Office Tower	Tunney's Pasture	9,697	N/A
Qualicum Centre	Centrepoint/Qualicum	8,137	N/A
2733 Lancaster Rd.	Belfast/Sheffield	7,618	MG Law

* Statistics provided by CoStar

RENT

While many landlords have still not changed their posted rental rates, confidence appears to be weakening on the long-term health of the office market which is why incentives and cash inducement continue to be seen.

Market rents which have been relatively stable over the past two years are expected to begin to decline by as much $1-2 per SF as supply increases. This softening is expected to be felt more keenly in the downtown core and Central Business District which is Ottawa's most densely populated area.

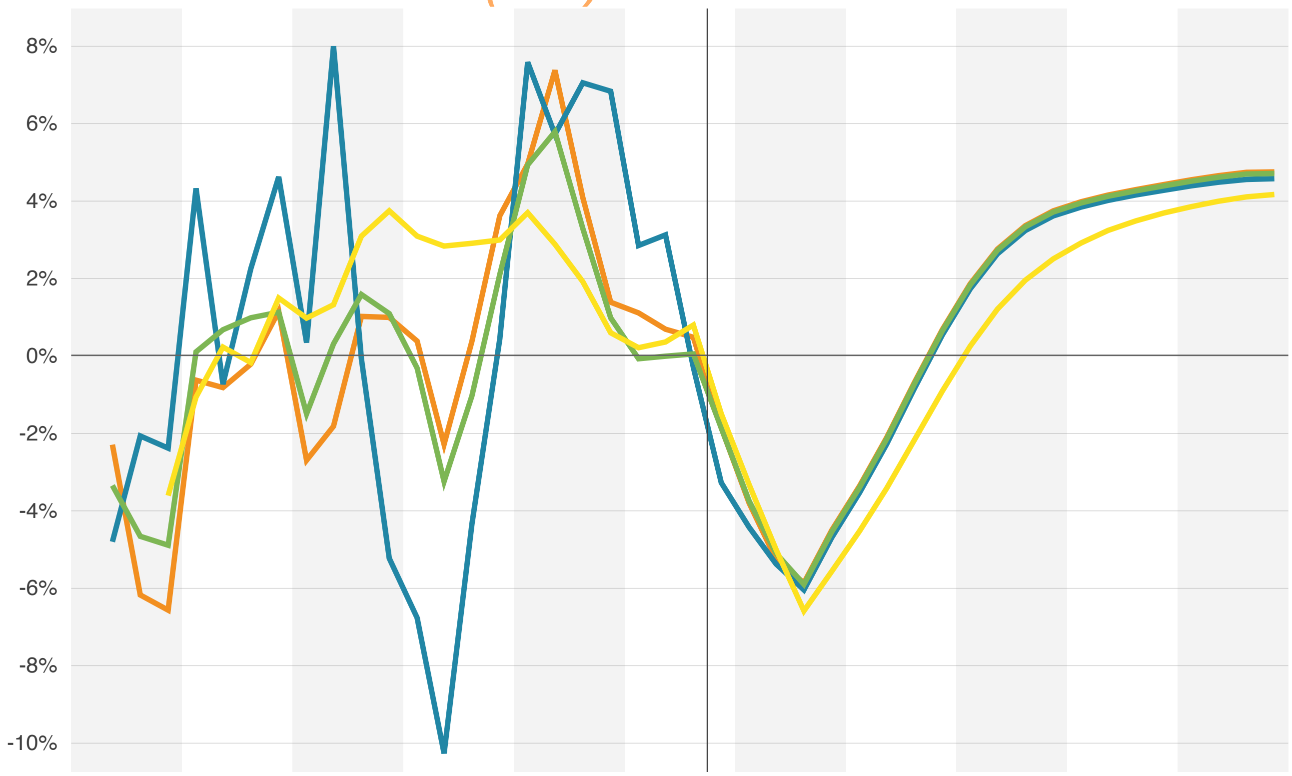
As Real Strategy noted at the end of Q2, there are many employees who are eager to see and work with each other in person again and the higher vaccination rates seen in Ottawa only encourage this desire.

That said, with most organizations taking on some sort of hybrid and remote-friendly work model, there isn't the same need for space even for tenants who have already reoccupied their offices. This trend will most certainly contribute to a decrease in the overall tenant base for the foreseeable future.

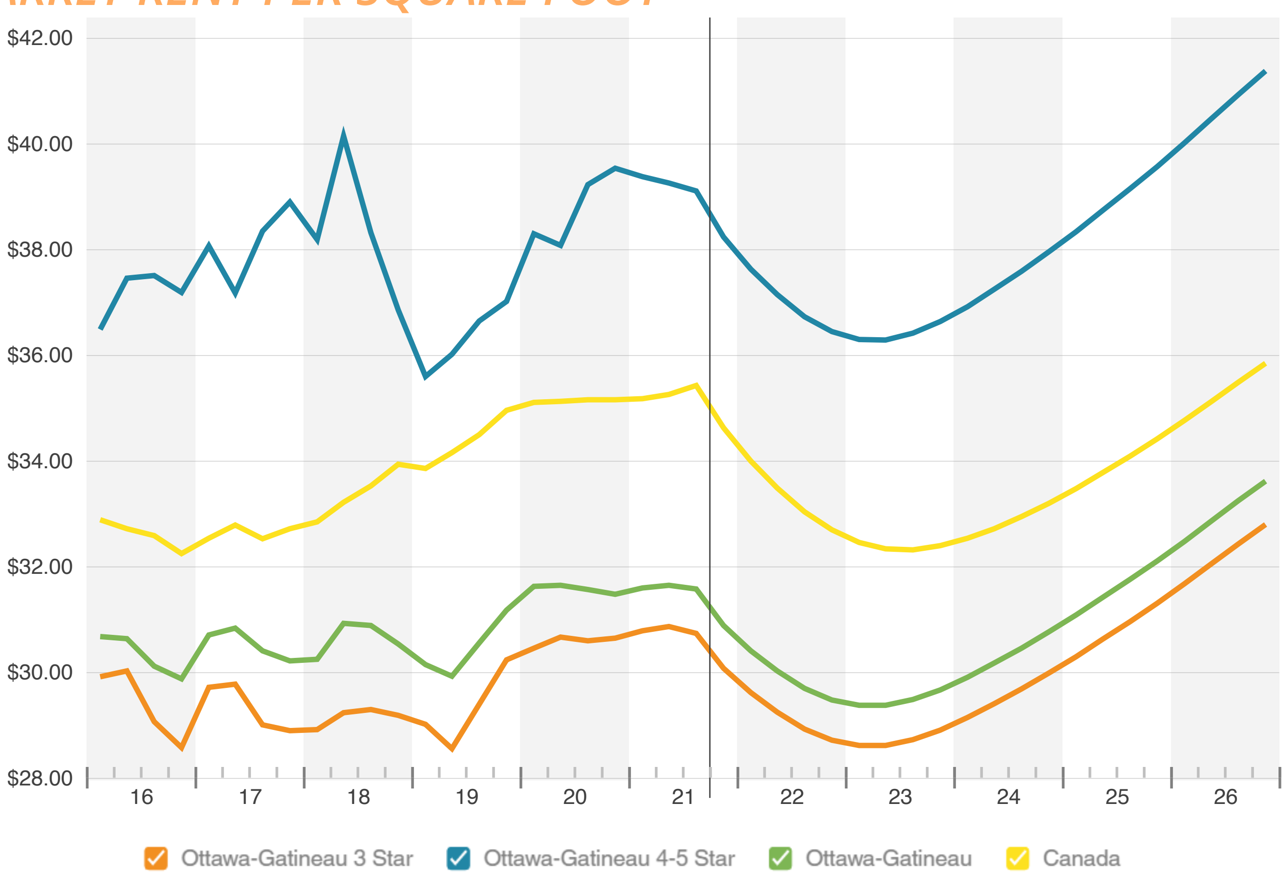
RENT

* Images provided by CoStar

MARKET RENT GROWTH (YOY)



MARKET RENT PER SQUARE FOOT



SALES

Sales volume seemed to return to pre-pandemic levels with an overall increase of more that $100M and almost exclusively in individual building sales as opposed to portfolios. Many investors are feeling this is an interesting time to enter the marketplace as a number of properties have recently hit the market.

With a desire for new development, companies are paying top dollar for urban sites.Real Strategy understands, anecdotally at least, that it has been more challenging to finance properties due to the potential instability of clients taking on debt to stay afloat. That said, there is strong demand for multi-residential apartments alongside a red hot industrial market.

Recent Significant Sales:

- 500 Lacolle Way with 12,017 SF sold for $3,900,000 ($325/SF) in mid July

- Constitution Building (305-307) with 237,864 SF sold for $116,300,000 ($489/SF) in late July

- 1870 Alta Vista Dr. with 112,000 SF sold for $31,600,000 ($282/SF) in early September

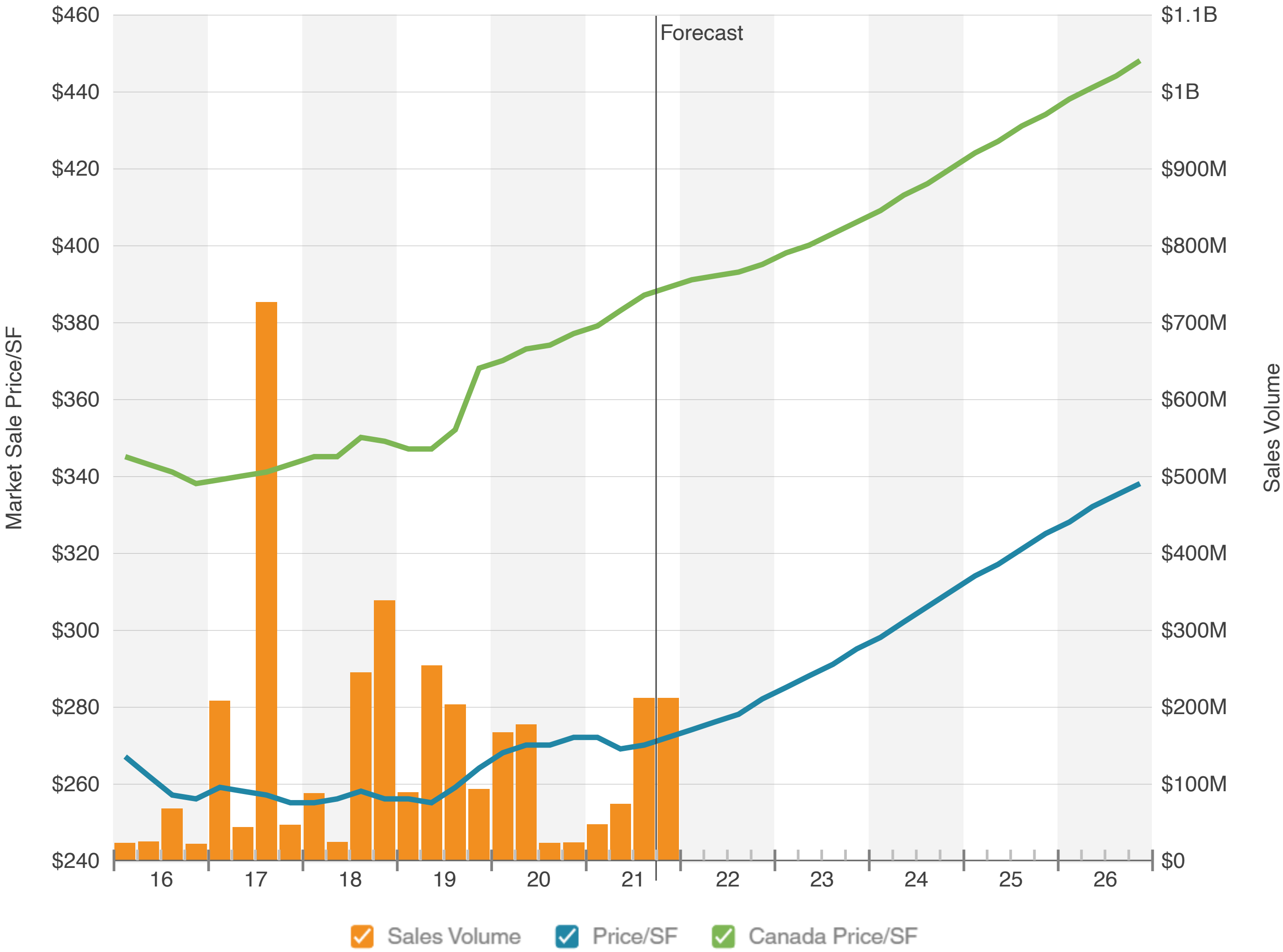
- 255 Smyth Rd. with 39,656 SF sold for $6,925,000 ($175/SF) in early September

- 96-100 Sparks St. 58,150 SF sold for $19,900,000 ($342/SF) in mid September

- 1272 Wellington St. W. with 5,000 SF sold for $2,600,000 ($520/SF) in mid September

SALES

SALES VOLUME & MARKET SALE PRICE PER SF



72	5.0%	$297	5.5%
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	$29.33	20	0.6%	6	-0.9%	13
2	Barrhaven	$32.84	4	0.6%	8	-1.6%	22
3	Belfast/Sheffield	$30.46	14	0.8%	2	-0.6%	8
4	Bells Corners/Crystal Beac	$30.61	12	0.6%	4	-1.5%	21
5	Blair/Ogilvie	$29.12	21	-0.4%	20	0%	3
6	CBD	$37.01	1	-0.2%	19	-1.1%	16
7	Centrepoint/Qualicum	$31.78	8	0.4%	12	-1.4%	19
8	Centretown	$33.94	2	0.3%	13	-0.9%	12
9	Colonnade/Rideau Heights	$28.07	24	0.5%	10	-0.7%	9
10	East Outer Ottawa	$29.53	19	0.2%	14	-0.4%	6
11	Gatineau	$26.80	25	-0.1%	17	0%	4
12	Gatineau Downtown	-	-	-	-	-	-
13	Glebe	$32.31	6	-0.7%	21	1.2%	2
14	Goulbourn/West Carleton	$31.49	9	1.8%	1	-1.1%	18
15	Heron/Riverside	$32.48	5	0.7%	3	-1.8%	25
16	Hull Downtown	$29.61	18	-1.8%	25	-1.7%	24
17	Hunt Club/Walkley	$28.22	23	0%	16	-0.5%	7
18	Kanata	$29.76	16	-1.0%	22	-0.7%	10
19	Lowertown	$33.11	3	-0.1%	18	-0.4%	5
20	Merivale	$30.77	11	0.6%	5	-1.1%	17
21	Montreal Road	$30.02	15	0.2%	15	-0.8%	11
22	NW Outer Ottawa	$28.76	22	-1.0%	23	2.3%	1
23	Orleans	$30.51	13	-1.1%	24	-1.6%	23
24	Queensview/Morrison	$29.74	17	0.4%	11	-1.1%	15
25	Tunney's Pasture	$31.10	10	0.6%	7	-1.4%	20
26	Woodward/Carling	$32.26	7	0.5%	9	-1.0%	14

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SUBMARKETS

SUBMARKET VACANCY & NET ABSORPTION

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