Q4 2021

OTTAWA MARKET REPORT

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Data provided by CoStar

OVERVIEW

The past year was a roller coaster to say the least. We began 2021 in the throws of another wave of the COVID-19 pandemic which then subsided as the summer approached and the vaccine rollout got underway. Restrictions were eased throughout this time and many organizations started to plan their return-to-work promgrams leaning heavily on a hybrid model.

The fall saw an increase in positive COVID-19 cases driven by the Delta variant and by the end of the year, many restrictions were being revisited as the new (and much more transmissable) Omicron variant began to spread at record pace. As a result, many office employees went into the holiday break knowing they wouldn't be coming back into the office any time soon.

Predictions that the economy would experience a quick V-shaped recovery from the sharp decline experienced in 2020 were slightly optimistic. Supply-chain bottlenecks, record high housing prices, and slower GDP growth all continue to threaten Canada's economic recovery from the pandemic. The federal budget tabled in April 2021 projected 5.8% growth to Canada's GDP but the actual amount will end up being closer to 4.6% when all is said and done.[1]

Despite the delay, the government predicts GDP growth returning to pre-pandemic levels by the end of the first quarter in 2022 which is also one of the quicker recoveries being seen among the G7 countries. The Bank of Canada has maintained an inflation target of 2% but this didn't stop inflation rising to 4.7% in the final quarter of 2021 hitting an 18-year high[2]… and people's wallets.

Ottawa's office market, in Q4 specifically, saw increased sales volume but the pandemic-long trend of record sublet space and vacancy continued to be the main story.

Real Strategy is predicting that vacancy will continue to increase in 2022-23 as tenants choose to right-size their space for a more hybrid-optimized layout when their current leases expire.

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1 https://www.budget.gc.ca/efu-meb/2021/report-rapport/anx1-en.html
2 https://www.bnnbloomberg.ca/inflation-teeters-at-highest-since-bank-of-canada-adopted-target-1.1696121

LEASING

Ottawa's office market continues to adapt to both hybrid work models as the Omicron variant of COVID-19 delayed our return to office plans. As a result, office vacancy in the nation's capital rose to 5% and is projected to increase well into the new year (and possibly into 2023).

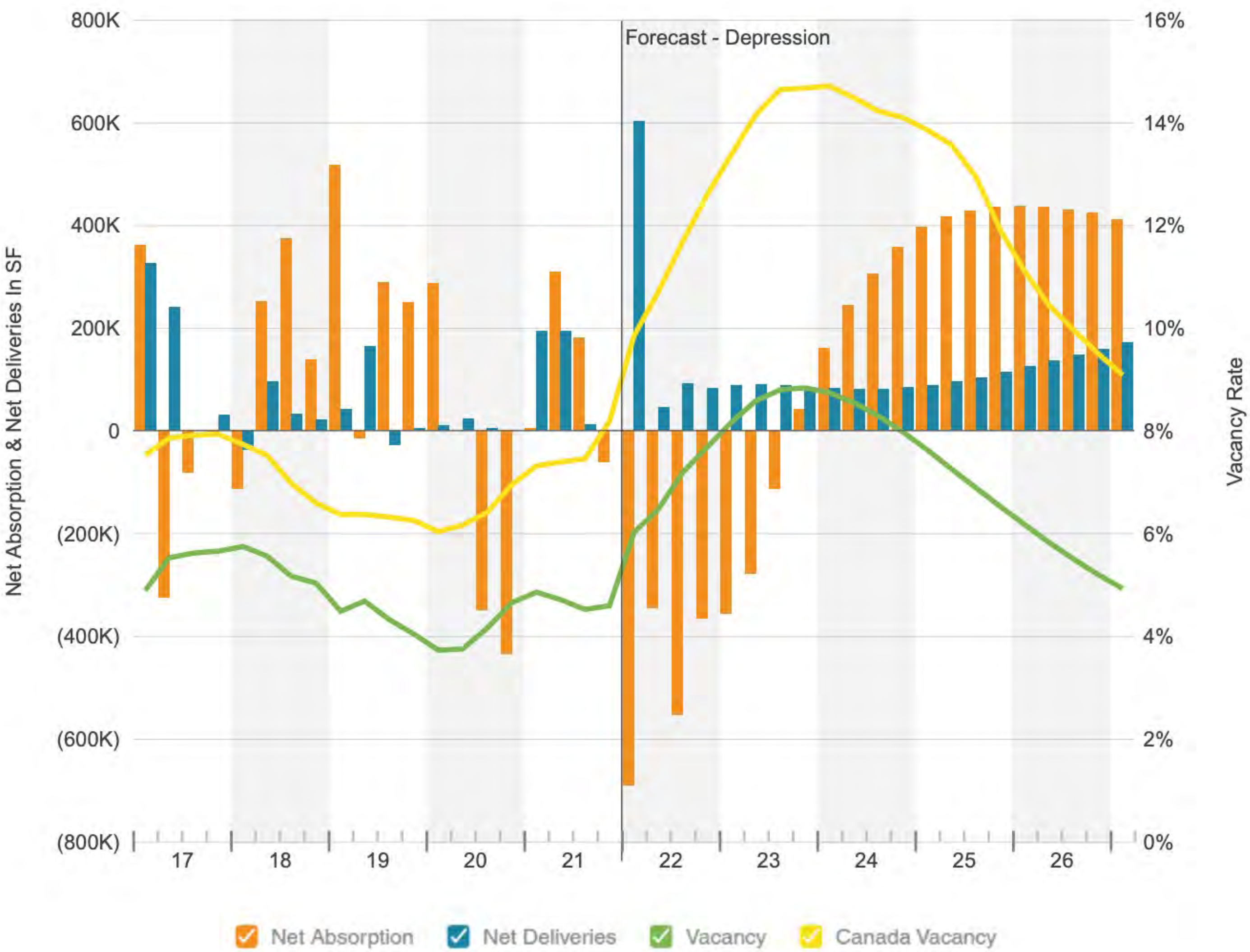
Though Q2 and Q3 showed the beginnings of increased tenant demand as fear of COVID-19 appeared to be waning, rising case counts and the rapid spread of Omicron ground everything to a halt in Q4.

Tenants that have traditionally occupied Class B and C buildings are also taking advantage of opportunities to upgrade to Class A buildings since the rental rates have remained stable and landlords are offering more incentives and leniency than in the past. Over time this will shift the bulk of the vacancy to these older buildings.

One of the biggest variables still contributing to Ottawa's office market uncertainty is the long-term plans of the federal government, the largest office tenant by far.

LEASING

NET ABSORPTION, NET DELIVERIES & VACANCY



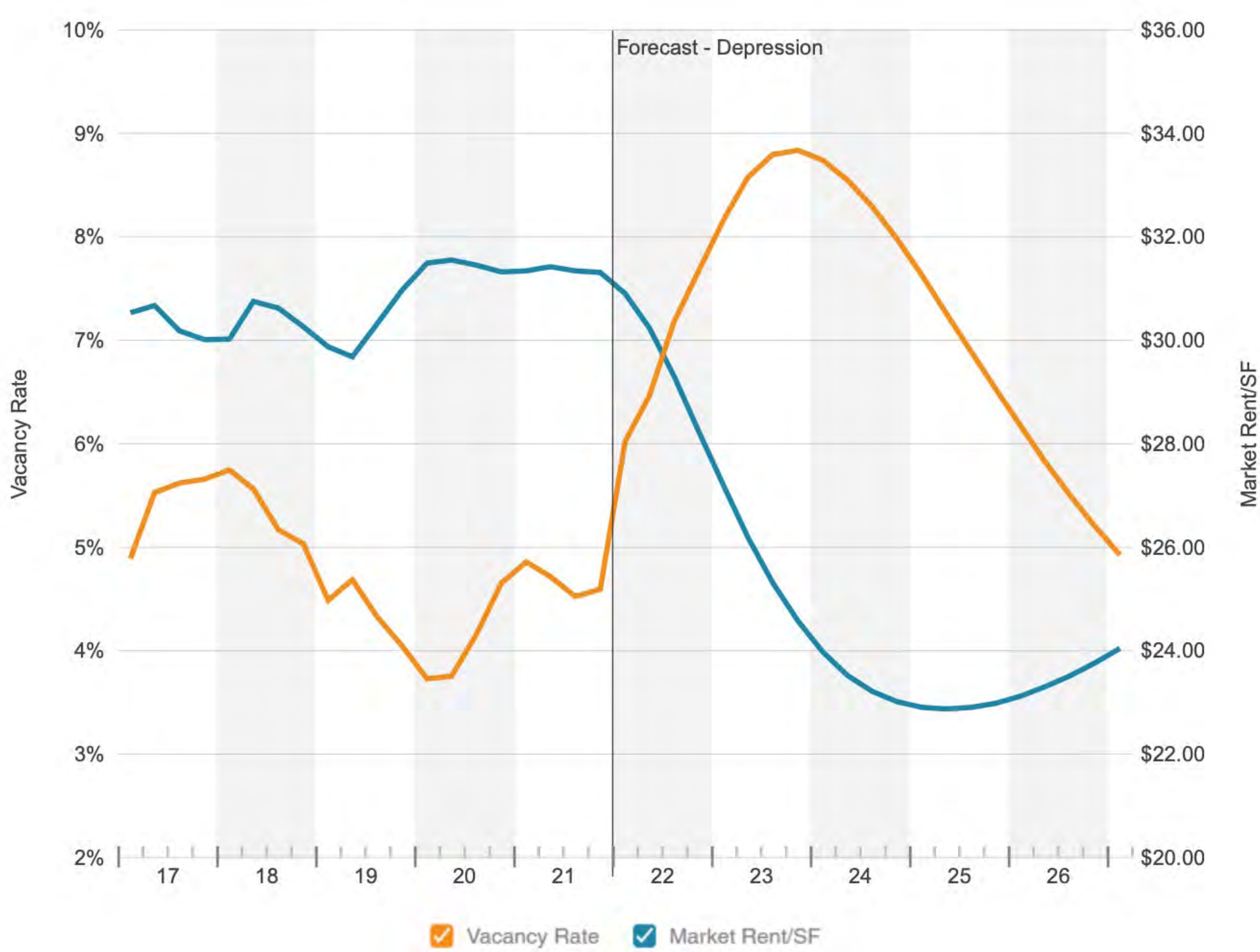
* Images provided by CoStar

Federal Public Unions are demanding, on behalf of their members, the permanent ability to work from home wherever their tasks permit. This coincides with the excellerated plans of the federal government to offer a hybrid work option consisting of smaller satelite offices (in addition to the larger departmental ones). The federal government has already given notice to some of their landlords that they won't be renewing their leases once expired.

Some notable lease transactions from this past quarter include a 24,876 SF deal with Raymond Chabot at 2505 St. Laurent Blvd. as well as a 20,157 SF lease with Noibu at TD Place in the Glebe.

LEASING

VACANCY & MARKET RENT PER SF



* Images provided by CoStar

NOTABLE LEASES

TOP OFFICE LEASES PAST QUARTER

Building Name/Address	Submarket	Leased SF	Tenant Name
2505 St. Laurent Blvd.	Hunt Club/Walkley	24,876	Raymond Chabot
World Exchange Plaza	CBD	23,241	N/A
TD Place	Glebe	20,157	Noibu
1209 Michael St.	Belfast/Sheffield	16,644	N/A
Performance Court	Centretown	16,417	N/A
1000 Innovation Dr	Kanata	15,610	N/A
245 Menten Place	Bells Corners/Crystal Beach	15,382	N/A
St. Laurent Business Centre	Belfast/Sheffield	14,990	N/A
Build to Suit	Belfast/Sheffield	11,212	Schneider Electric
17 Auriga Dr.	Colonnade/Rideau Heights	9,716	AG Management & Logistics
Sun Life Financial Centre	CBD	8,552	Colliers
CDTI de Hull	Gatineau	8,116	N/A

* Statistics provided by CoStar

RENT

Rental rates have remained static over the past year as landlords have opted for increased incentives and cash inducements to attract tenants.

Rental rates dropped roughly 2% in the downtown submarket but increased about 3% in Kanata with the other submarkets seeing small growth of 0.1% to 1%. With more and more organizations taking on some sort of hybrid and remote-friendly work model, the demand for suburban offices is rising, due to simpler commuting and free parking.

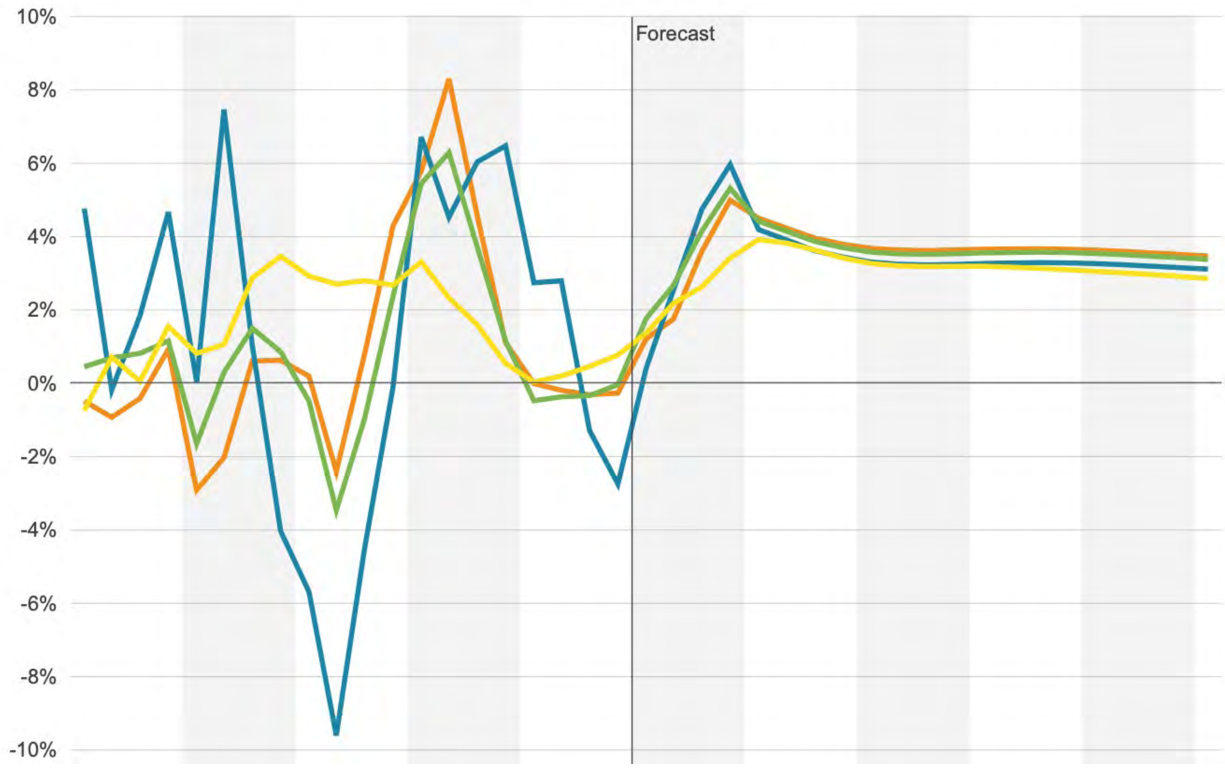
Employees want offices that are closer to their homes, have shorter commutes, and don't rely on public transit as much.

Moreover, Class A landlords, desperate for tenants, have become more competitive by offering shorter lease terms, early termination clauses, and more extended fixturing periods. Companies are taking advantage of this situation which is leaving lots of Class B and C buildings with large amounts of vacancy.

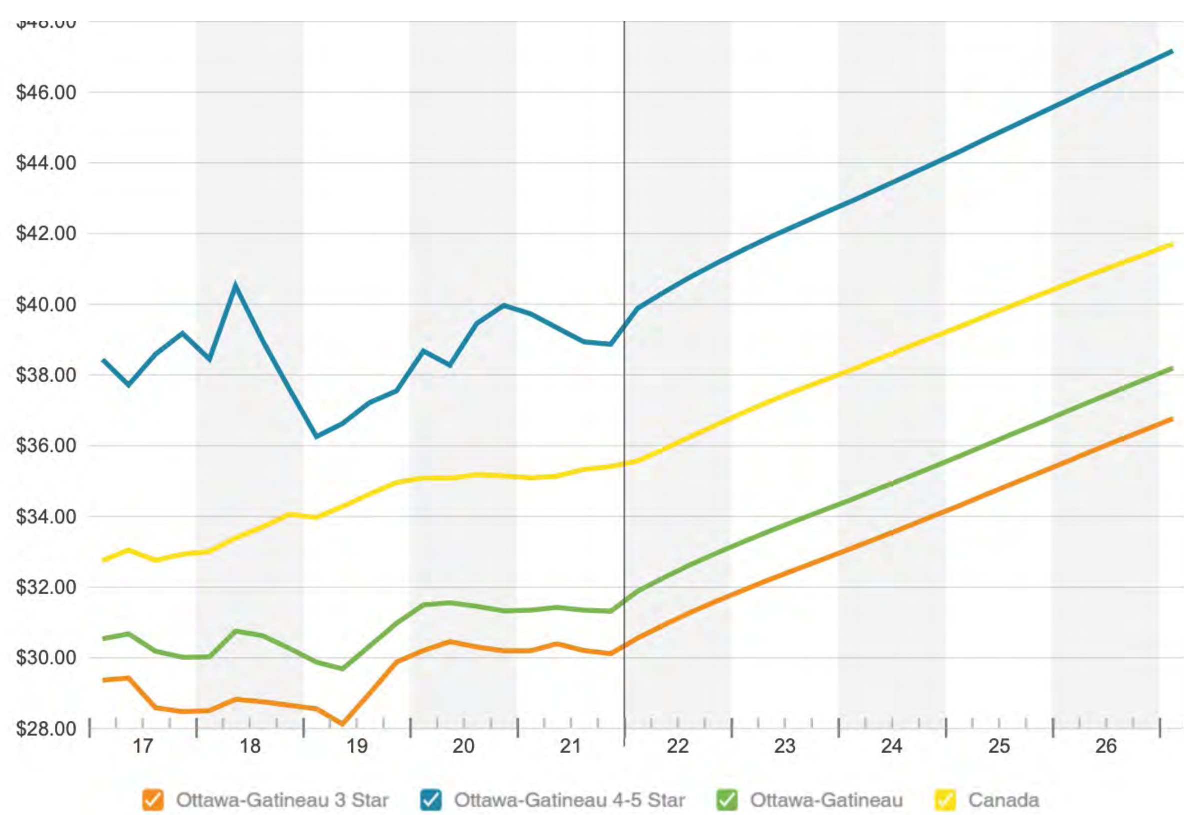
RENT

* Images provided by CoStar

MARKET RENT GROWTH (YOY)



MARKET RENT PER SQUARE FOOT



SALES

The final quarter of 2021 saw the largest sales volume of any quarter from the past year. Worth noting is that from Q3 to Q4, the average price per SF dropped from $297 to $243. In that same time, the average vacancy at sale went from 5.5% in Q3 up to 9.8% in Q4. Although the long-term impacts of the pandemic have not been fully realized, interest rates have remained low and capital is still plentiful which has clearly enticed many private investors.

Despite Q4 having the largest sales volume in four years, the spread of the Omicron variant has once again injected lots of uncertainty into the market. Depending on the impact of this latest wave, we could very well see the price per SF continue to dip in 2022.

Recent Significant Sales:

- 1600 James Naismith Dr. with 208,073 SF sold for $23,955,650 ($115/SF) in early October

- 1595 Telesat Ct. with 122,914 SF sold for $16,594,350 ($135/SF) in early October

- 2430 Don Reid Dr. with 25,596 SF sold for $5,600,000 ($219/SF) in early November

- Place de Ville (Towers A,B & C) at 320 Queen St., 112 Kent St., and 330 Sparks St. (respectively), with a combined 1,093,000 SF sold for $303,397,061 ($277.58/SF) in late November

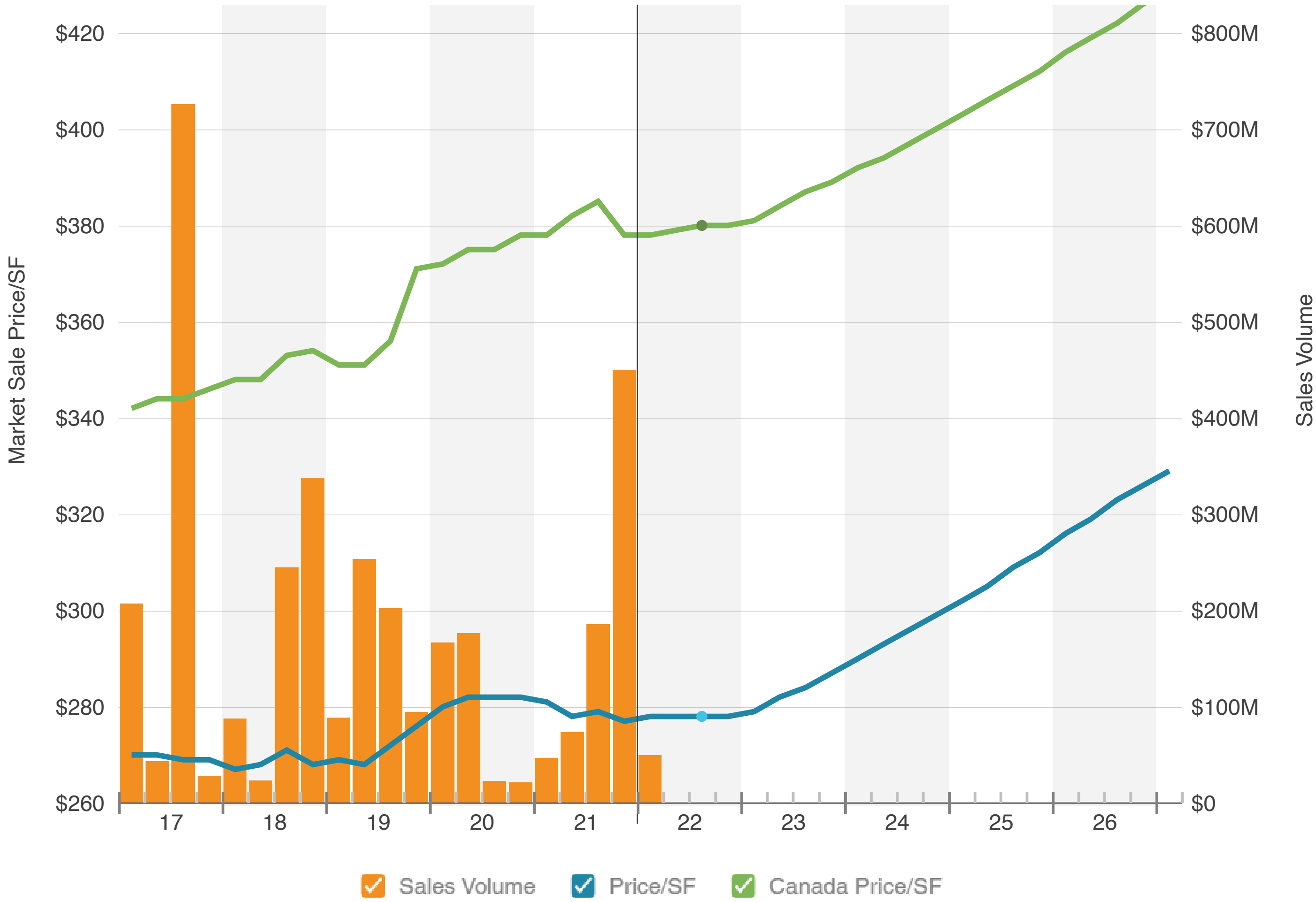
- 1600 Laperriere Ave. with 20,351 SF sold for $4,550,000 ($224/SF) in early December

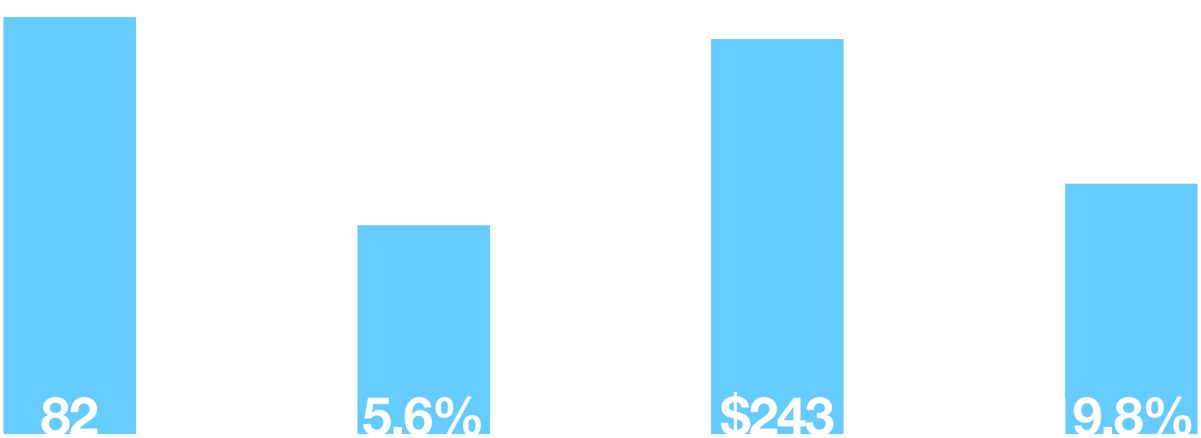
- 3755 Riverside Dr. with 327,131 SF sold for $38,608,540 ($118/SF) in mid December

- Export Building at 110 O'Connor St. with 225,089 SF sold for $40,050,000 ($178/SF) in mid December

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

		Market Rent		12 Month Market Rent		QTD Annualized Market Rent	
No.	Submarket	Per SF	Rank	Growth	Rank	Growth	Rank
1	Alta Vista	$28.88	19	0.7%	11	30.1%	12
2	Barrhaven	$32.33	6	-1.6%	25	50.1%	1
3	Belfast/Sheffield	$29.40	18	-0.1%	21	43.3%	3
4	Bells Corners/Crystal Beac	$29.72	14	0.2%	19	11.0%	25
5	Blair/Ogilvie	$28.47	21	1.8%	4	38.3%	5
6	CBD	$36.76	1	-0.4%	23	33.8%	8
7	Centrepoint/Qualicum	$31.40	8	0.3%	18	24.3%	18
8	Centretown	$33.79	2	0.7%	12	30.4%	11
9	Colonnade/Rideau Heights	$27.27	25	1.4%	9	27.1%	16
10	East Outer Ottawa	$28.85	20	1.5%	5	28.6%	14
11	Gatineau	$27.35	24	1.5%	7	34.2%	7
12	Gatineau Downtown	-	-	-	-	-	-
13	Glebe	$32.46	4	3.1%	2	14.7%	21
14	Goulbourn/West Carleton	$30.98	10	1.4%	8	38.5%	4
15	Heron/Riverside	$32.46	5	-1.0%	24	29.4%	13
16	Hull Downtown	$29.77	13	2.0%	3	48.9%	2
17	Hunt Club/Walkley	$27.82	23	0.4%	17	14.3%	22
18	Kanata	$29.45	17	0.4%	16	18.1%	20
19	Lowertown	$33.33	3	1.1%	10	26.1%	17
20	Merivale	$30.79	11	1.5%	6	12.2%	24
21	Montreal Road	$29.49	15	0.6%	14	33.6%	9
22	NW Outer Ottawa	$28.06	22	5.2%	1	34.9%	6
23	Orleans	$29.48	16	-0.4%	22	19.4%	19
24	Queensview/Morrison	$29.91	12	0.7%	13	12.7%	23
25	Tunney's Pasture	$31.21	9	0.2%	20	28.1%	15
26	Woodward/Carling	$32.02	7	0.4%	15	31.8%	10

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SUBMARKETS

SUBMARKET VACANCY & NET ABSORPTION

		Vacancy			12 Month Absorption			
No.	Submarket	SF	Percent	Rank	SF	% of Inv	Rank	Construc. Ratio
1	Alta Vista	42,856	3.2%	10	30,237	2.3%	9	-
2	Barrhaven	4,875	0.4%	1	(188)	0%	18	-
3	Belfast/Sheffield	142,720	6.6%	17	(8,819)	-0.4%	21	-
4	Bells Corners/Crystal Beac	44,565	3.2%	9	8,532	0.6%	13	-
5	Blair/Ogilvie	179,036	7.2%	18	(44,803)	-1.8%	25	-
6	CBD	1,489,595	8.3%	21	(464,342)	-2.6%	26	-
7	Centrepoint/Qualicum	15,717	1.2%	4	18,796	1.4%	10	-
8	Centretown	379,754	5.1%	16	84,303	1.1%	2	-
9	Colonnade/Rideau Heights	96,467	3.4%	13	79,564	2.8%	3	-
10	East Outer Ottawa	1,000	0.7%	3	(1,000)	-0.7%	19	-
11	Gatineau	244,401	1.7%	5	42,120	0.3%	6	0.8
12	Gatineau Downtown	-	-	-	0	-	-	-
13	Glebe	49,611	7.4%	19	18,404	2.7%	11	-
14	Goulbourn/West Carleton	11,974	2.3%	7	17,365	3.4%	12	0.9
15	Heron/Riverside	69,671	3.3%	12	(14,027)	-0.7%	23	-
16	Hull Downtown	17,394	15.8%	24	(7,530)	-6.8%	20	-
17	Hunt Club/Walkley	236,612	7.5%	20	338,276	10.7%	1	0.2
18	Kanata	674,083	9.0%	22	(21,675)	-0.3%	24	-
19	Lowertown	171,986	3.2%	8	42,077	0.8%	7	-
20	Merivale	15,915	12.7%	23	1,352	1.1%	16	-
21	Montreal Road	68,243	2.2%	6	5,143	0.2%	14	-
22	NW Outer Ottawa	-	-	-	2,240	6.7%	15	-
23	Orleans	24,843	4.6%	15	30,512	5.7%	8	-
24	Queensview/Morrison	41,367	3.3%	11	(9,464)	-0.8%	22	-
25	Tunney's Pasture	39,633	0.5%	2	79,309	1.1%	4	-
26	Woodward/Carling	134,187	4.0%	14	43,509	1.3%	5	-

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