

The background of the entire page is a photograph of the Ottawa skyline. The Parliament Hill buildings, including the Peace Tower with its green copper roof and the Canadian flag, are visible in the upper half. Below the buildings is a dense line of green trees, and at the bottom, a body of water reflects the scene.

Q2 2023

OTTAWA MARKET REPORT

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

Data provided by CoStar

OVERVIEW

In the second quarter of 2023 for the Ottawa-Gatineau region, we continued to experience increasing negative net absorption across the Ottawa-Gatineau market. 469,034 square feet returned to the vacancy pool in Q2 2023 (Costar 2023). This, combined with the amount returned in Q1 2023 totals 903,615 square feet in increased vacancy for 2023 year-to-date (Costar 2023). This trend is likely to continue through 2023 and beyond as the Government of Canada continues to shed excess office space.

Vacancy rates rose to 5.8% in Q2 from 5.5% in Q1 across the entire Ottawa-Gatineau market (Costar 2023). This comes as no surprise considering the continued shedding of office space across the downtown core, furthermore, the increasing rise in vacancy mimics the Canadian trend increasing vacancy to 9.5% in Q2 from 9.0% in Q1 (Costar 2023). Ottawa is in a unique situation in regards to office space due to the massive presence of the Government of Canada and their stated intention to reduce their overall office footprint over the foreseeable future by 50%.

While investor sales volume have increased tremendously over the entire quarter -- likely due to interest rates stabilizing -- construction delays and labour shortages continue to plague construction projects across the board. It is estimated that overall efficiency of the construction industry has been reduced by 30% due to these shortages -- and it is only expected to get worse (Butler 2023).

Butler, C. Ontario's construction industry faces a severe labour crunch and it seems it's about to get worse. CBC, 2023. Retrieved from <https://www.cbc.ca/news/canada/london/construction-labour-shortage-housing-affordability-ontario-1.6891288>.

Costar. 2023. Retrieved from <https://product.costar.com/Market/#/search/detail/market/CAN/type/3/property/5/geography/337/slice/all>

Evans, P. Canada's inflation rate slows to 3.4%, lowest level in almost 2 years. CBC, 2023. Retrieved from <https://www.cbc.ca/news/business/inflation-rate-may-1.6889725>.

Out of all of Ottawa's submarkets, the downtown core (CBD) leads the pack with not only the highest vacancy rate of 11.5% but also commands the highest average gross rent per square foot of \$36.06 (Costar 2023). Landlords under pressure from record-high vacancies are offering increased tenant incentives in order to attract businesses into their vacant buildings. These tenant incentives are not free, being to a large extent, amortized over the term of the lease. While this will drive up the cost of rent, the payoff is a space that is truly noteworthy in an area that some tenants would have been priced out of years earlier. Additionally, the majority of the space returning to the market is Class-A downtown office space, the most expensive rent in the city. Since so much of this expensive office space is returning to the market, it is putting upward pressure on the average market rent of Ottawa as a whole.

Finally there is the matter of inflation. According to Evans (2023), Canada's inflation rate slowed to 3.4% -- down from 4.4% in April of this year. While there is no way of knowing if inflation will continue to slow, it could bode well for interest rates stabilizing, reducing the sense of risk across Ottawa's commercial real estate markets.



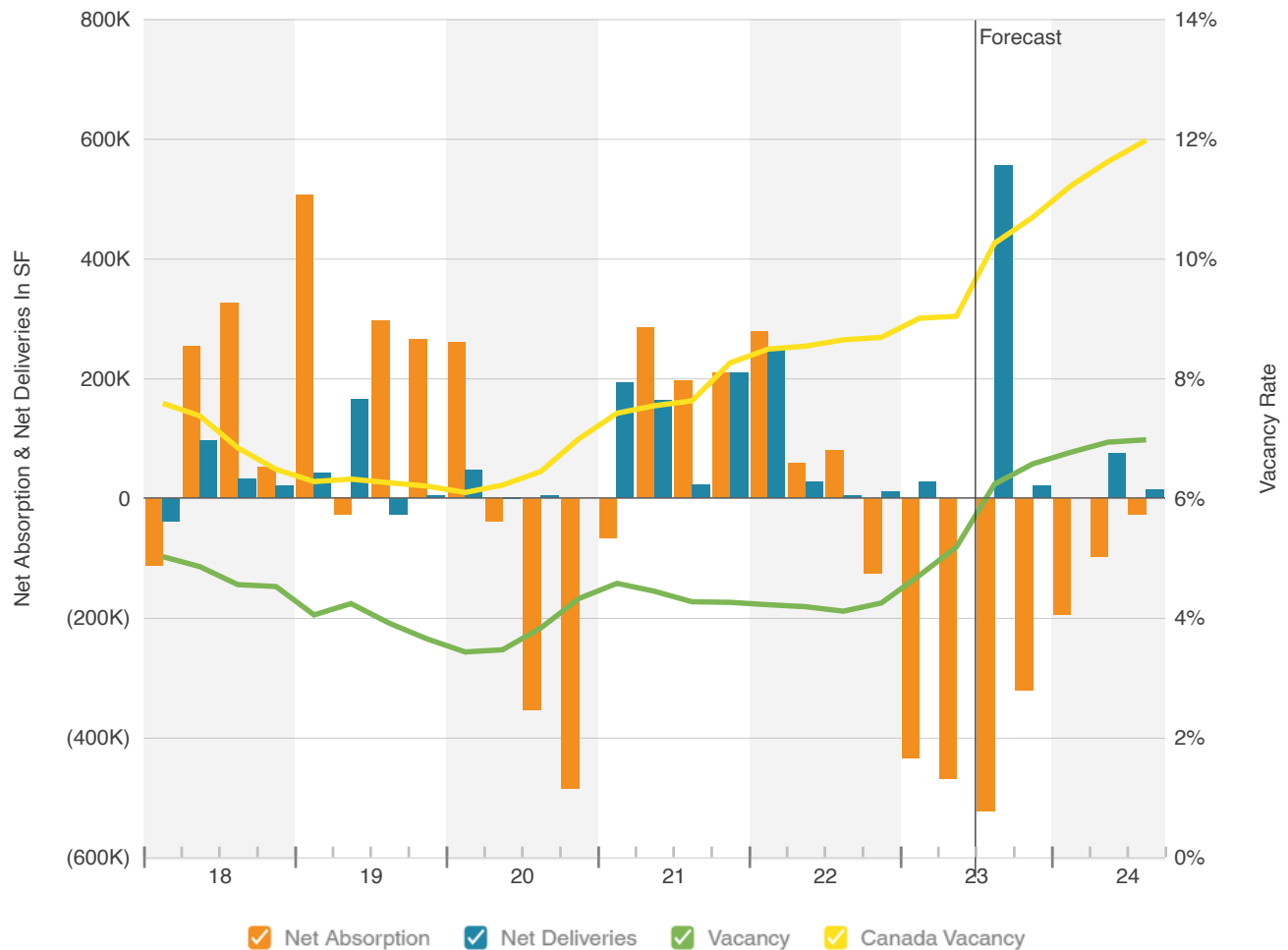
LEASING

469,034 square feet returned to the office vacancy pool across the Ottawa-Gatineau region in Q2 2023 (Costar 2023). This is in contrast to only 26,485 square feet in new constructions, barely making a dent in the amount of square feet returning to the Ottawa market (Costar 2023). Despite the increasing vacancy, market rents continue to increase to an average of \$31.79 per square foot in Q2 -- up from \$31.66 in Q1 across the entire region (Costar 2023). One

might expect rents to fall as vacancy rate increases, however, Landlords continue to offer increased tenant incentives which are amortized over a rental term. Furthermore, class-A downtown office space makes up the majority of space returning to the office. This office space is the most expensive in the city, therefore, the average market rent per square foot increases, giving a top-heavy impression of the overall market.

LEASING*9*

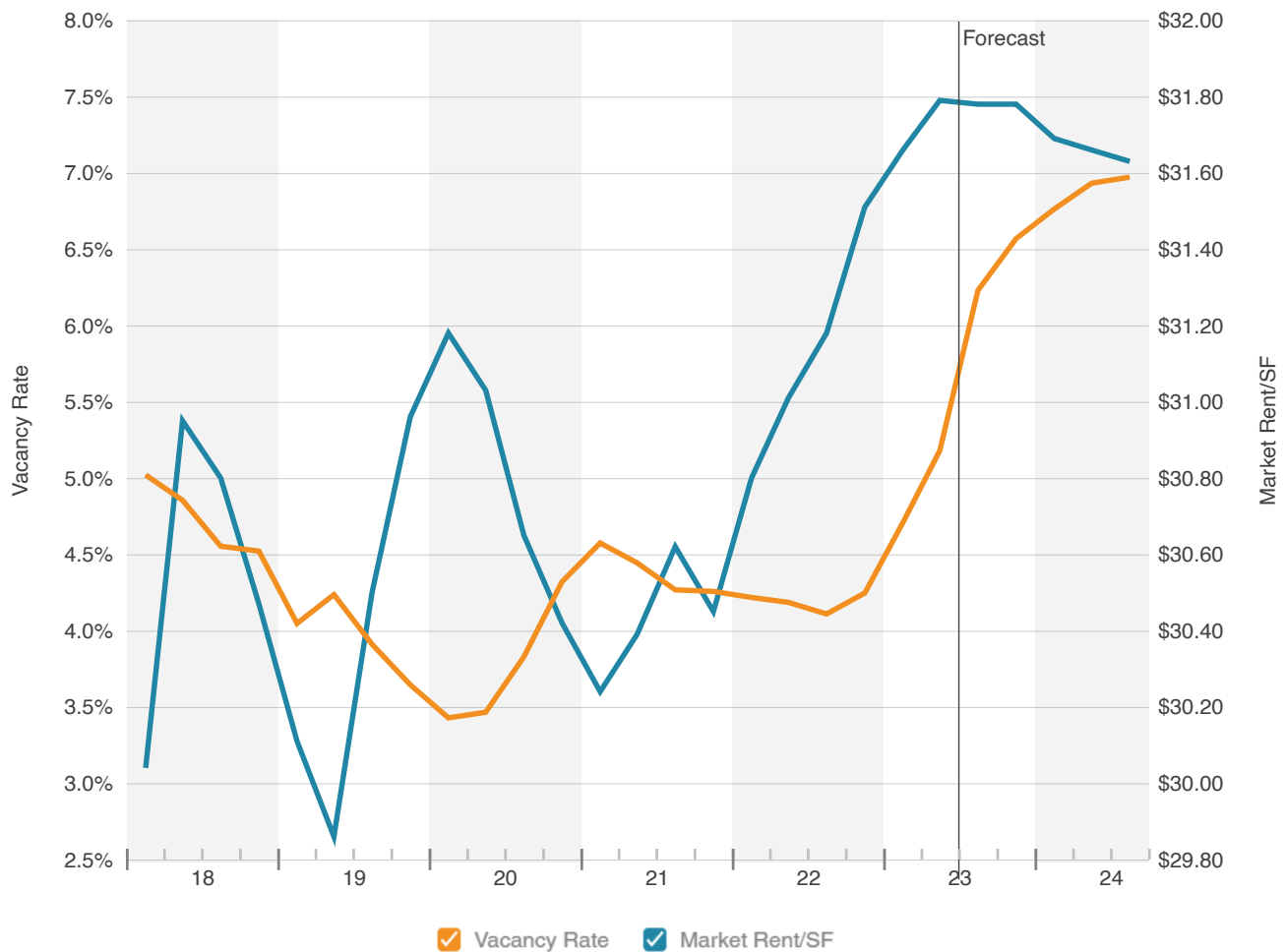
NET ABSORPTION, NET DELIVERIES & VACANCY



* Graph provided by CoStar

LEASING*9*

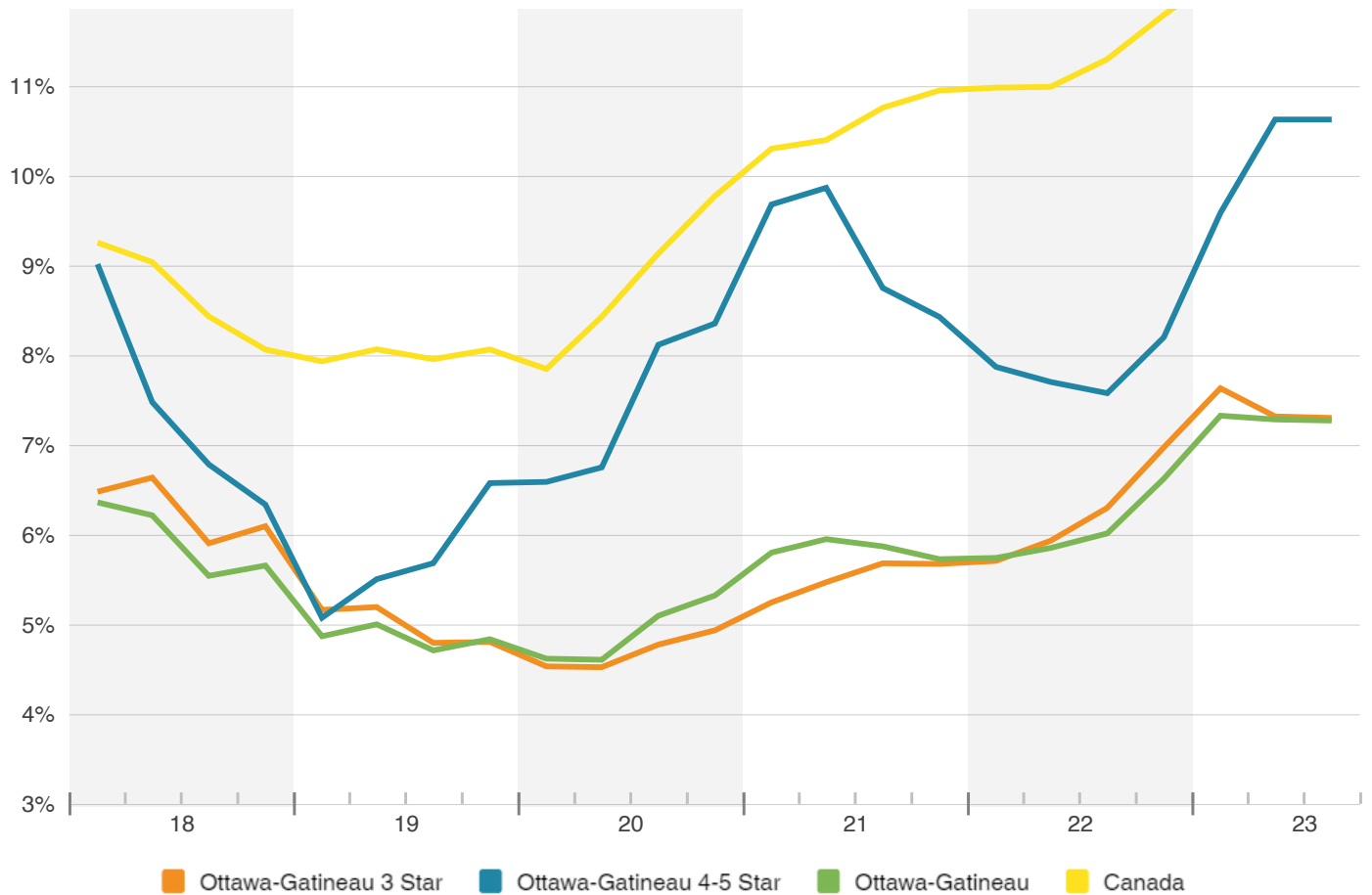
VACANCY & MARKET RENT PER SF



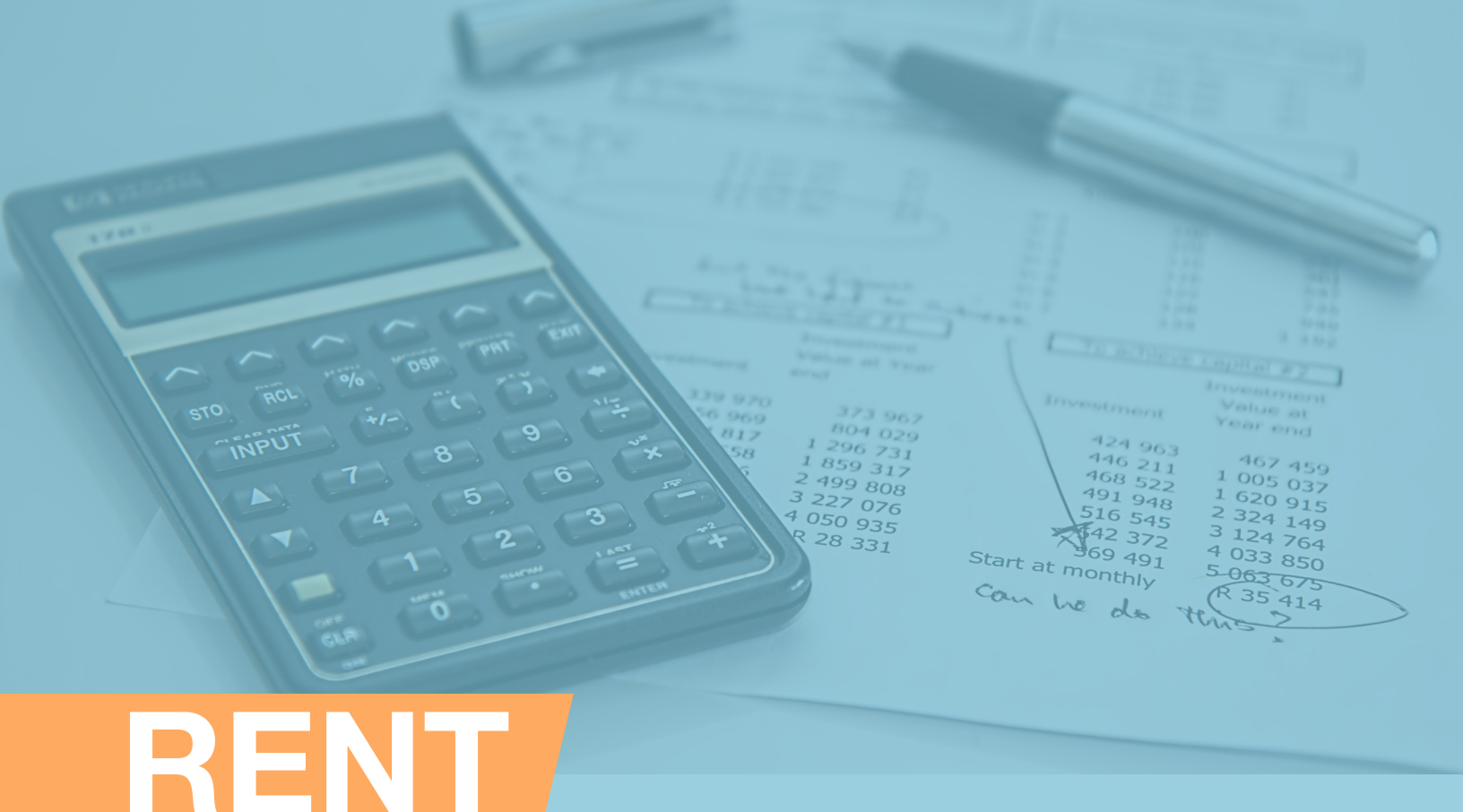
* Graph provided by CoStar

LEASING*i*

AVAILABILITY RATE



* Graph & statistics provided by CoStar



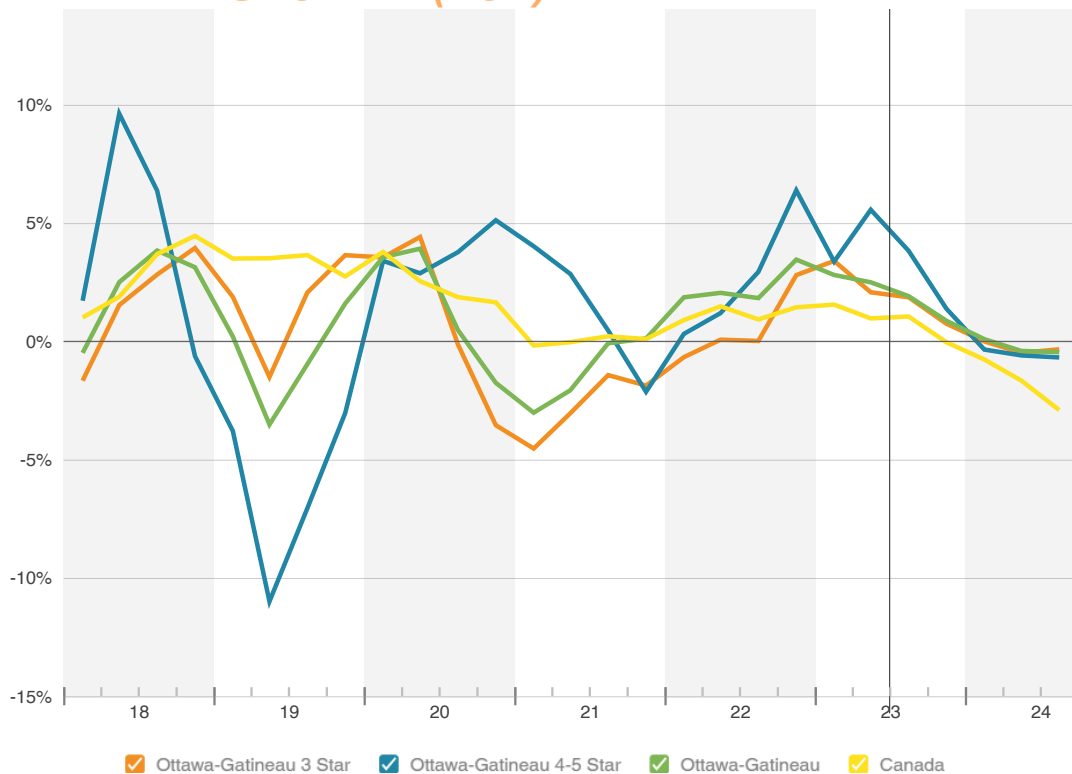
RENT

Landlords continue to battle with record high vacancy rates across the Ottawa-Gatineau region. While we do not see this battle reducing average market rents, we see it being played out in increased tenant incentives and shorter leases (Costar 2023). This applies an upward pressure on

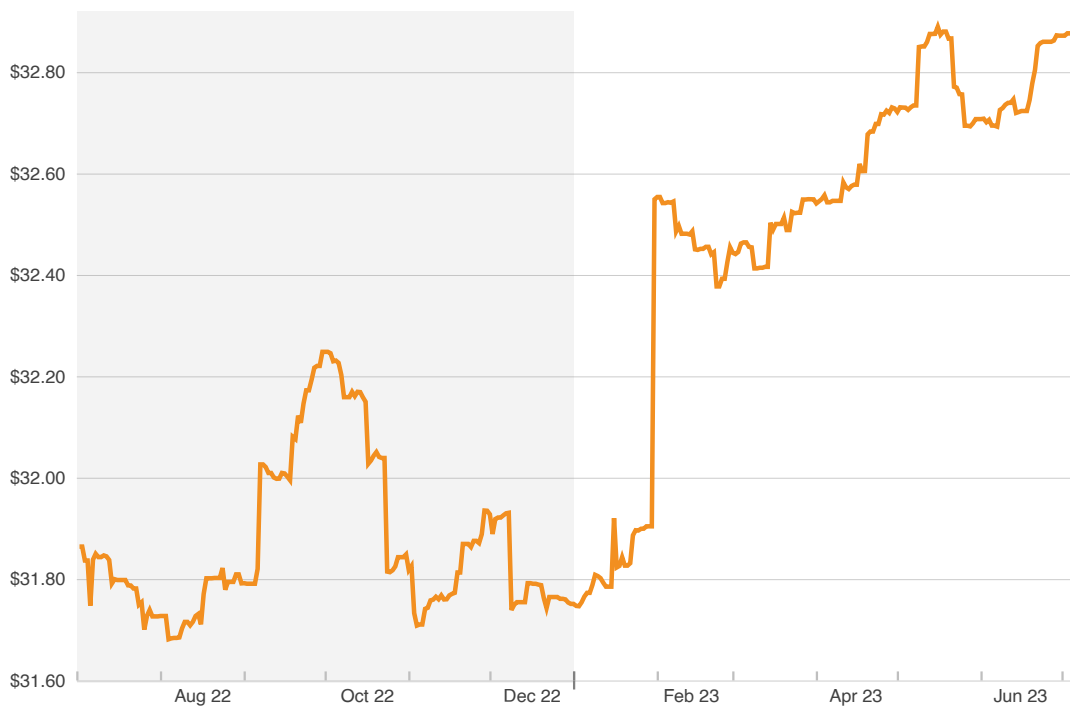
average market rents. We can see this reflected in the market rent growth year over year. According to Costar (2023) A and B class buildings across Ottawa-Gatineau grew their rental prices by 2.2% since Q1 2023.

RENT*i*

MARKET RENT GROWTH (YOY)



DAILY ASKING RENT PER SF



* Graphs provided by CoStar



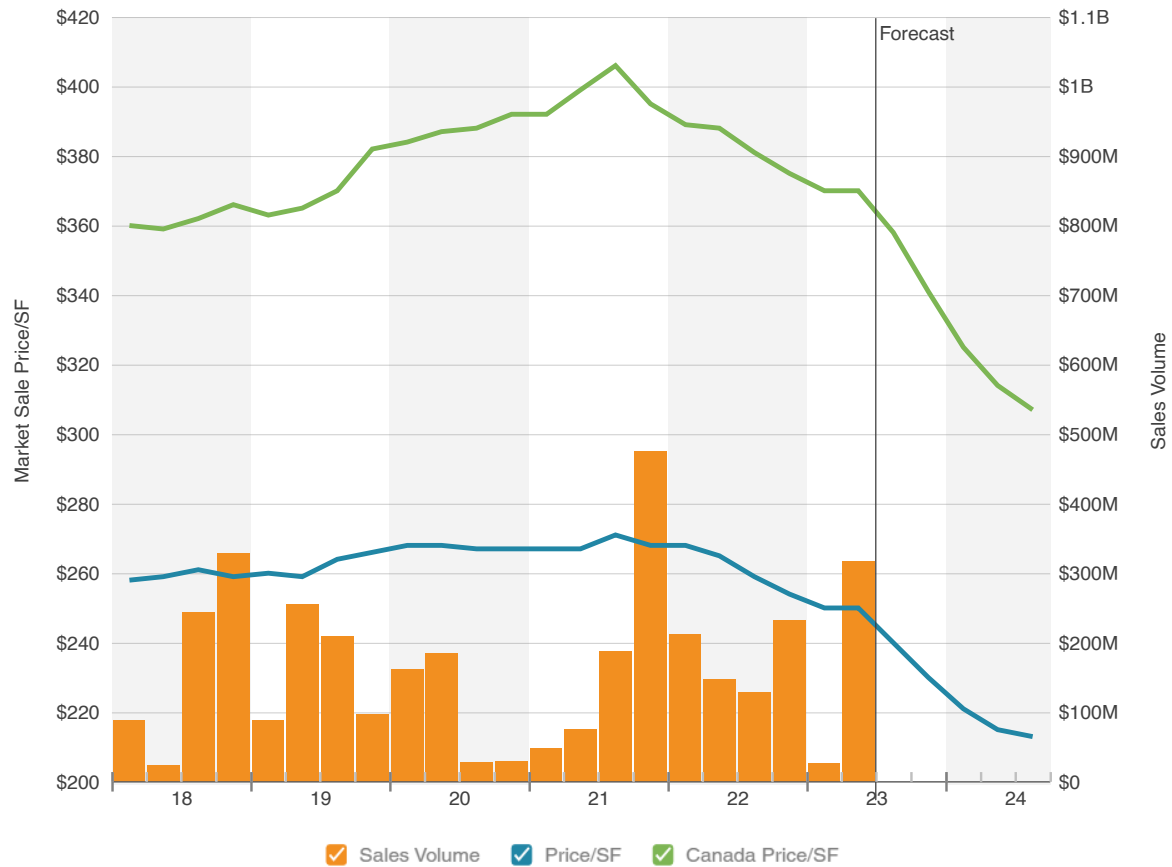
SALES

Ottawa-Gatineau sales market seems to have found some sort of equilibrium this quarter. The average sale price per square foot was constant between quarters at \$243 (Costar 2023). Sales volume sky rocketed to a staggering \$316,501,004 in total sales in Q2, almost 12 times the amount in Q1 2023 (Costar 2023). This could have been caused by a relaxing of investory worry in regards to interest rates which generally stabilized over the course of Q2.

Interestingly, despite the increase in sales volume, the average cap rate increased from 6.2% to 6.9% across the entire region's sales, reflecting a lingering sense of general uncertainty or flux in the market place (Costar 2023). This is in contrast to the slowing inflation rate and other factors that could indicate a stabilizing force for commercial real estate markets in the Ottawa-Gatineau region.

SALES*i*

SALES VOLUME & MARKET SALE PRICE PER SF



SALES PAST 12 MONTHS

6.9%

AVG. CAP RATE

\$243

AVG. PRICE/SF

4.2%

AVG. VACANCY AT SALE

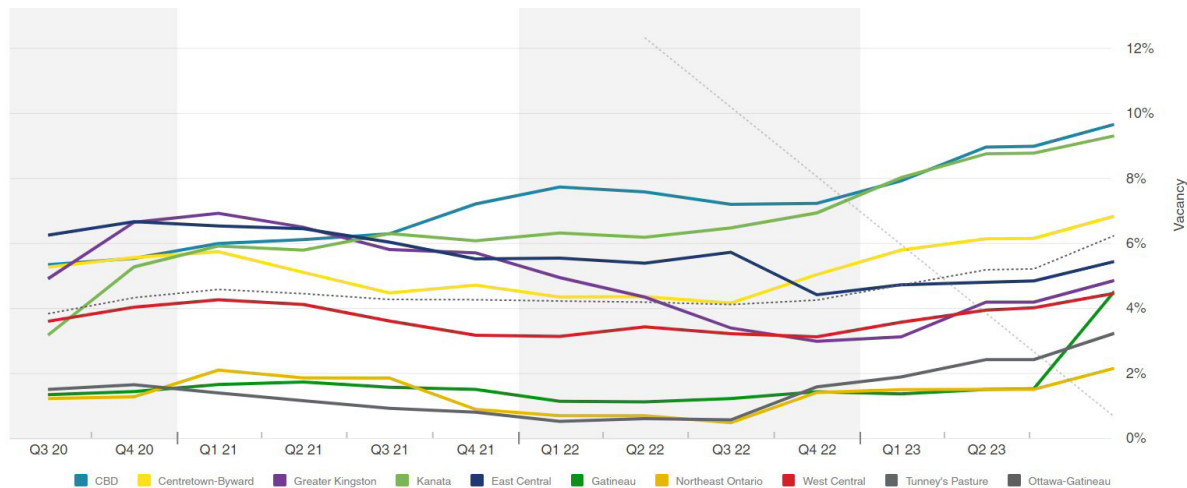
* Graph & statistics provided by CoStar

SUBMARKETS

SUBMARKET RENT

Submarket	Asset Value	Vacancy Rate	Availability Rate	Market Rent/SF ↓	Annual Rent Growth
CBD	\$5.7B	9.0%	11.5%	\$36.06	2.6%
Gatineau	\$3.6B	1.5%	2.6%	\$34.82	2.4%
Centretown-Byward	\$3.7B	6.1%	8.0%	\$32.35	1.5%
West Central	\$3B	4.0%	5.8%	\$30.02	3.1%
Tunney's Pasture	\$1.8B	2.4%	2.5%	\$29.76	2.4%
Papineau-Pontiac	\$11.1M	0%	8.7%	\$29.48	8.2%
Kanata	\$2.6B	8.8%	11.4%	\$29.46	1.6%
East Central	\$3.1B	4.8%	9.1%	\$28.72	2.3%
Greater Kingston	\$594M	4.2%	7.6%	\$25.95	-0.4%
Northeast Ontario	\$999M	1.5%	2.1%	\$24.15	1.7%

SUBMARKET VACANCY



* Statistics provided by CoStar