

OTTAWA OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Ottawa Employment	579k	562k	■
Ottawa Unemployment	5.7%	4.8%	■
Canada Unemployment	6.6%	5.8%	■

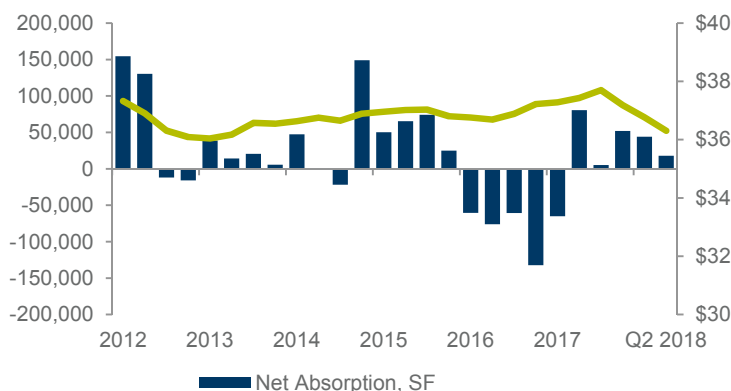
Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	10.7%	10.7%	■
Net Absorption (sf)	354,846	249,896	▲
Under Construction (sf)	161,460	0	▲
Average Asking Rent*	\$37.29	\$35.43	■

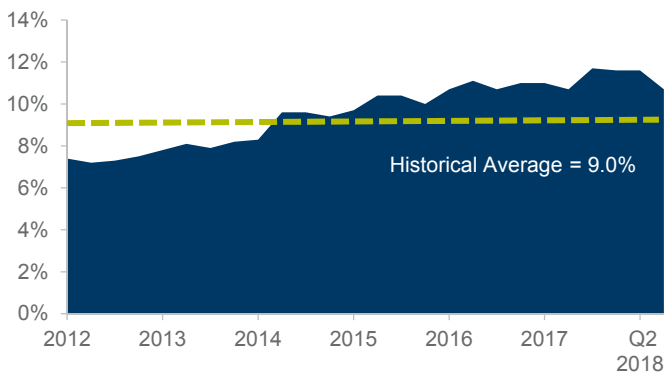
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

The unemployment rate in the National Capital Region hit a 3-decade historical low of 4.4% and saw a record 11 million visitors in 2017. There is optimism that this momentum will continue to promote domestic and international tourism despite the projection by Statistics Canada that economic growth is forecasted to slow from last year's 3.0%. Ottawa's key economic sectors, the federal government and high-tech, continue to steadily expand along with construction and transportation.

There is no shortage of mixed-use developments in the pipeline for the region. One such development is Zibi which is breaking ground on multiple commercial blocks on both the Ottawa and Gatineau side that are set for completion in mid-to-late 2019. This "One Planet Living" endorsed development will add approximately 130,000 square feet (sf) of new office space in it's first phase to the region's supply. Additional projects that just received preliminary approval from the city are the mixed-use Trinity Centre development and Lebreton Flats East development which is looking to build 5 multi-use towers with approximately 230,000 sf of commercial space.

According to the Ottawa Business Journal Growth Survey, local companies are expanding and expecting future growth. One third of the respondents, made up of 755 local CEOs and business owners, plan to expand into larger commercial space. Morale is positive and investment demand continues even with the Bank of Canada's recent hike in overnight lending rates to 1.5%.

Market Overview

The overall office vacancy declined by 90 basis points to 10.7% in the second quarter of 2018 with positive absorption of 249,896 sf. The overall average asking gross rent for all classes climbed to \$35.43 per square foot (psf).

Vacancy in the Downtown core declined to 7.9% in the second quarter of 2018 and saw multiple notable transactions. NAV Canada leased 133,862 sf at 151 Slater Street and the federal government took 19,984 sf at 160 Elgin Street. Also at 160 Elgin Street, Gowlings Canada recently expanded into an additional 18,735 sf, and now occupy over 140,000 sf in Place Bell. Through the remainder of 2018 it is expected the ongoing battle for prime office space in the Downtown Core to continue between the federal government and private sector. The federal government currently has 3 Expression of Interest for office space in the region, all to commence in 2020, totalling 184,000 sf.

In the Suburban market it is anticipated that over 100,000 sf of space will become available in Kanata during the next 6 months. Time will tell if a flurry of leasing activity will maintain the single digit 10-year low vacancy rate of 9.8%, or if tech tenants will follow the trend and opt for offices in the Downtown Core. Kanata did welcome Ottawa Automotive, an autonomous car company, which leased 48,994 sf at 1135 Innovation Drive. The overall Suburban East submarket continues to struggle with high vacancy rates, sitting at 19.5% this quarter. However, rumours have begun to swirl that a large federal government deal may be in the works.

Outlook

With a relatively low cost of living in Ottawa, long term steady population growth is expected as well as increased densification of urban areas. Once the Light Rail Train is operational, commuting will be more accessible which will hopefully act as a catalyst to tighten up the high vacancy in the Suburban East markets. Flexible and interactive coworking office space is on the rise from Vanier across the core to Westboro, occupying nearly 200,000 sf. This progressive design trend is incorporated in the federal government's "Workplace Solutions" program which is slowly but surely giving a facelift to the conventional cubicle style.

MARKETBEAT

Ottawa, ON

Office Q2 2018



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Downtown Core	16,054,745	44,360	1,222,891	7.9%	64,485	55,351	451,712	0	\$40.58	\$46.40
Centretown	1,739,326	0	254,660	14.6%	16,993	-19,001	46,289	0	\$29.13	N/A
Byward Market	842,861	10,894	80,064	10.8%	-8,005	-41,418	3,755	0	\$38.68	\$44.37
Central Area	18,636,932	55,254	1,557,615	8.7%	73,473	-5,068	501,756	0	\$39.65	\$46.30
Kanata	6,473,931	107,017	529,900	9.8%	122,961	170,157	175,418	0	\$26.07	\$26.33
Ottawa West	3,977,609	18,695	322,236	8.6%	86,387	76,051	137,316	0	\$31.01	\$34.58
Nepean	5,597,222	1,333	545,071	9.8%	-63,949	108	48,617	0	\$25.73	N/A
Ottawa East	4,961,482	143,612	897,135	21.0%	11,251	14,851	22,206	0	\$29.75	\$32.31
Gloucester	1,422,201	5,780	199,232	14.4%	13,773	-13,942	4,090	0	\$35.70	\$35.70
Total Suburban Area	22,432,445	276,437	2,493,574	12.3%	176,423	247,225	387,647	0	\$30.26	\$32.64
OTTAWA TOTALS	41,069,377	331,691	4,051,189	10.7%	249,896	242,157	889,403	0	\$35.43	\$40.41

*Rental rates reflect gross asking \$psf/year

SUMMARY BY CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL AVERAGE ASKING RENT *
Class A	26,270,136	292,469	2,099,145	9.1%	204,864	247,471	396,826	0	0	\$40.41
Class B	11,802,653	14,972	1,577,729	13.5%	76,185	96,366	324,302	0	0	\$30.42
Class C	2,996,588	24,250	374,315	13.3%	-31,153	-101,680	168,275	0	0	\$27.37

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
151 Slater Street	133,862	NAV Canada	New Direct	Downtown Core
1135 Innovation Drive	48,994	Ottawa Automotive	New Direct	Kanata
160 Elgin Street	19,984	PWGSC	New Direct	Downtown Core
160 Elgin Street	18,735	Gowlings Canada Inc.	Expansion	Downtown Core
99 Bank Street	16,837	Telfer Executive MBA at the University of Ottawa	Renewal	Downtown Core
255 Albert Street	13,727	PWGSC	New Direct	Downtown Core
340 Terry Fox Drive	10,679	Syntronic Research & Development	Expansion	Kanata

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
180 Metcalfe	24,000	Toth Equity Ltd/ Jadco Construction	\$15,000,000 / \$625	CBD
85-95 Denzil Doyle	28,784	Modern/Niagara Group Inc/ 8595DDC Canada Inc	\$5,650,000 / \$196	Kanata

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