

OTTAWA OFFICE

Economic Indicators

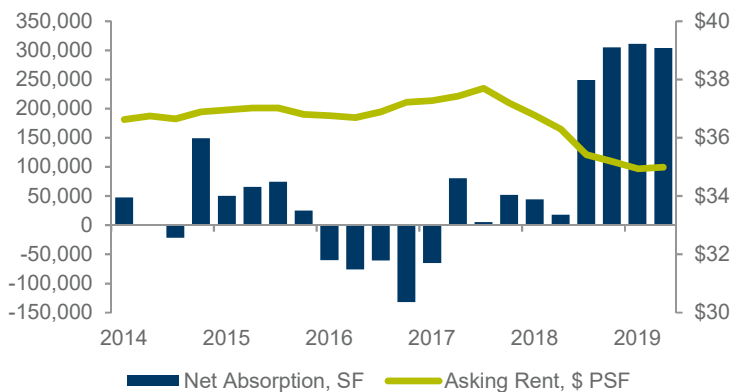
	Q2 18	Q2 19	12-Month Forecast
Ottawa Employment	562k	565k	▲
Ottawa Unemployment	4.1%	5.5%	▲
Canada Unemployment	5.9%	5.4%	▲

Market Indicators (Overall, All Classes)

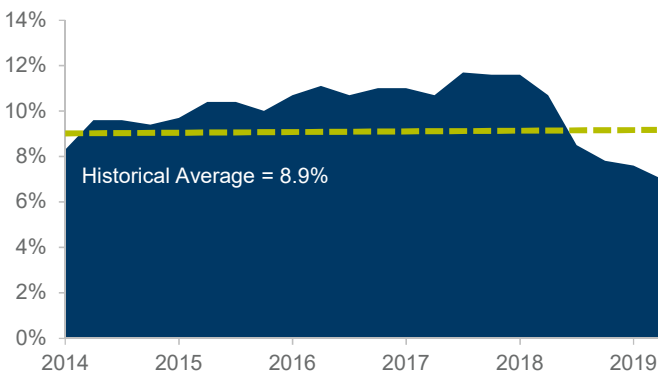
	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	10.7%	7.0%	▲
Net Absorption (sf)	249,896	219,417	▼
Under Construction (sf)	0	100,000	▲
Average Asking Rent*	\$35.43	\$35.66	▲

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE



Overall Vacancy



Economy

GDP growth within the Ottawa-Gatineau region has weakened since 2018's decade-high growth rate of 2.7%. It is expected that the federal Liberal government will soon begin to curb its spending, which in turn will hamper economic growth within the National Capital Region. While the "Canada 150 hangover" has not impacted the region as much as was originally anticipated, the Conference Board of Canada has stated that tourism has slowed. While government spending cools, it is expected that the high-tech sector will help to soften the blow of limited growth in the public administration sector. In fact, Ottawa is expected to see a shift in the downtown real estate market with technology firms expanding into office space previously leased by the federal government. Despite this softening outlook, results from the Ottawa Business Growth Survey showed members of Ottawa's business community having intentions to expand in 2019, both in employees and their footprint.

Market Overview

The vacancy rate declined to 7.0% in the second quarter of 2019, the lowest rate in 10 years. While Central area vacancy increased by 30 basis points (bps) from last quarter to reach 7.0%, Suburban market vacancy decreased by 130 bps to also now sit at 7.0%. This decline is largely the result of strong leasing activity within the Kanata and Ottawa East submarkets.

Kanata continued to see strong demand in the second quarter of 2019. Overall vacancy decreased from 7.5% to 6.0% quarter-over-quarter, with Class A vacancy sitting at a tight 3.7%, as interest in this submarket remains high from both new tenants to the market as well as existing companies seeking to expand. The Gatineau-based cannabis brand, HEXO, expanded to the Kanata market this quarter, leasing 40,000 square feet (sf) of space at 3000 Solandt.

With legalization, Ontario is set to get 50 more cannabis stores beginning in October 2019, with as many as seven possibly coming to the Ottawa region. The Ottawa East market also saw a dip in vacancy in the second quarter of 2019 to reach 6.7%, as the Bona building at 1625 Vanier is now 100% leased. For years the 290,000-sf Class A office building sat empty as it failed to attract interest from tenants looking for significant amounts of space. However, that has recently changed, and within the last nine months the federal government has leased the entire building.

Outlook

In early summer, the ZIBI development was awarded a tender from the federal government who were looking for approximately 157,000 sf of space. A new office building will be built and is anticipated to be completed by 2021. A new tower was expected as large pockets of space within the office market are becoming increasingly scarce; even more so as Spaces, a company that focuses on co-working space, has leased 75,000 sf in the downtown core. It is yet to be seen if the diversification of private and public sectors within Ottawa's downtown core office buildings will be carried out successfully, as tech-sector tenants are not as eager to lease space in buildings heavy with government branding.

Glitches with the new Light Rail Transit (LRT) has caused further delay for the opening of the new transportation system. Many buildings within the downtown core market their proximity to the transit line and are expected to increase their asking net rents upon completion. A functioning LRT could lead to a further decline in vacancy in the east end due to easier accessibility.

MARKETBEAT

Ottawa, ON

Office Q2 2019



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	62,069	967,968	6.4	-27,539	21,451	258,336	0	\$42.06	\$57.63
Centretown	1,739,326	0	167,430	9.6%	-1,318	2,359	25,856	0	\$28.75	N/A
Byward Market	842,861	15,219	99,102	13.6%	-30,895	-44,852	13,377	0	\$39.01	\$44.98
Central Area	18,636,932	77,288	1,234,500	7.0%	-59,752	-21,042	297,569	0	\$40.88	\$50.21
Kanata	6,473,931	28,876	359,917	6.0%	99,810	150,462	172,907	100,000	\$25.74	\$26.65
Ottawa West	3,972,145	6,715	233,964	6.1%	15,943	23,989	76,286	0	\$31.16	\$34.39
Nepean	5,564,522	0	367,976	6.6%	-10,891	-11,995	73,144	0	\$28.77	\$32.10
Ottawa East	4,961,482	10,216	321,581	6.7%	174,055	183,925	165,877	0	\$29.81	\$32.17
Gloucester	1,422,201	5,780	235,827	16.6%	252	-89,096	26,955	0	\$35.70	\$36.17
Total Suburban Area	22,394,281	51,587	1,519,265	7.0%	279,169	257,285	515,169	100,000	\$30.03	\$32.73
OTTAWA TOTALS	41,031,213	128,875	2,753,765	7.0%	219,417	236,243	812,738	100,000	\$35.66	\$40.90

*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	26,237,436	100,430	1,133,883	4.7%	183,121	159,491	389,339	100,000	0	\$40.90
Class B	12,092,667	10,873	1,322,111	11.0%	67,182	95,206	376,433	0	0	\$31.09
Class C	2,701,110	17,572	297,771	11.7%	-30,886	-18,454	46,966	0	0	\$25.83

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1625 Vanier Parkway	111,000	Federal Government	New Direct	Ottawa East
3000 Solandt Drive	40,036	HEXO Canada	New Direct	Kanata
4200 Labelle Street	40,000	N/A	New Direct	Ottawa East
1-10 Brewer Hunt Way	28,905	N/A	New Direct	Kanata
250 Tremblay Road	22,149	Maximus Canada Services Inc.	New Direct	Ottawa East
40 Elgin Street	56,533	PWGSC	Renewal	Downtown Core

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
299-305 Dalhousie, 136 Clarence	17,200	2687434 Ontario Inc. / Triangle Business Group	\$5,400,000 / \$314	Byward Market
250-254 Besserer	5,250	250 Besserer Facility Inc. / Immeubles Famille Claude Lauzon Ltee	\$2,500,000 / \$476	Ottawa Central
144 Richmond	1,346	Neoteric Developments 2.0 Inc. / Named Individuals	\$1,000,000 / \$743	Ottawa West

*portfolio sale

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