

MARKET REPORT

OFFICE

Ottawa Metro Area

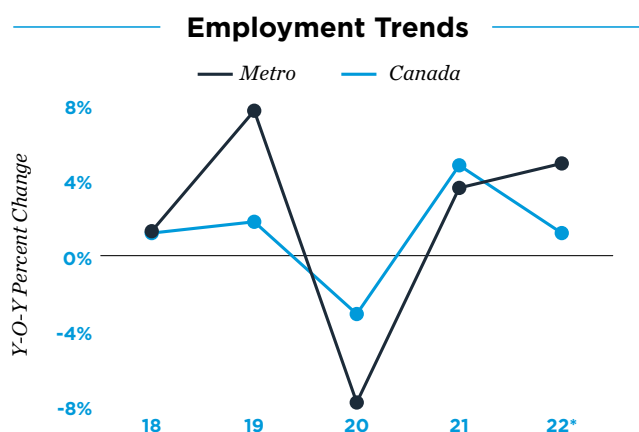
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MARCUS & MILlichAP, BROKERAGE

3Q/22

Limited New Supply Helps Market Fundamentals Remain Stable in Times of Uncertainty

Office fundamentals are comparatively stable. Ottawa's office market has shown promising signs toward a recovery throughout 2022. Net absorption has been positive, resulting in vacancy decreasing and the average rental rate continuing to grow, though only slightly. Kanata, a suburban market within Ottawa, has remained one of the most robust areas since early 2021, due to the large local technology presence. Prior to the dot-com bubble, Kanata was becoming one of the major tech hubs in Canada, and with this sector growing during the health crisis, these companies have begun returning to the suburbs. Additionally, there is a large concentration of Class A assets in Kanata, making it a prime area for the national flight-to-quality trend. Nonetheless, with economic uncertainty prevailing, demand is expected to remain positive, but may begin to cool throughout the remainder of the year and slow momentum.

Lack of new construction bodes well in times of mild demand. One reason why Ottawa's office fundamentals have remained relatively stable throughout the health crisis is because there has been limited new supply entering the market over the previous years. This has resulted in the supply and demand imbalance being much less severe compared to other markets, like Toronto. Additionally, a large share of space in Ottawa is leased by the Federal Government, which tends to have longer lease terms in place, creating further stability. The Federal Government is also considering bringing employees back to the office on a part-time basis, resulting in a higher likelihood of future leases/renewals, plus an increase in demand for ancillary businesses.



* Forecast

Sources: Statistics Canada; CoStar Group, Inc.; Altus Data Solutions

Office 2022 Outlook



36,800

JOBS
will be created

EMPLOYMENT:

As of August, Ottawa has the lowest unemployment rate of all major metros in Canada, with this trend expected to continue. Tech, plus the stability of government work, is creating job growth and a diverse labour force in the Ottawa area.



127,000

SQ. FT.
will be completed

CONSTRUCTION:

Limited development is set for completion in 2022. In times of weaker office demand, this is beneficial for existing owners, as the lack of new supply will keep office fundamentals stable relative to other metros and attract investment activity.



30

BPS
decrease in vacancy

VACANCY:

Ottawa currently has the second-lowest vacancy rate when compared to all other major metros, and will end the year at 7.3 per cent. With the Federal Government considering a return-to-office strategy, vacancy should continue on a downward trajectory.



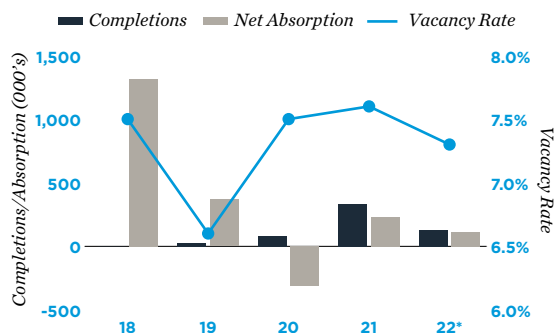
3.2%

INCREASE
in asking rent

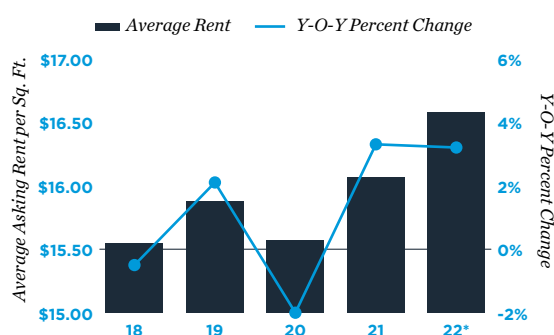
RENT:

The average asking rent is expected to increase to \$16.58 per square foot by year-end. However, rental rate growth is expected to slow as more Class B and C listings are coming to market. Additionally, owners are beginning to negotiate lower rents, instead of offering appealing incentive packages.

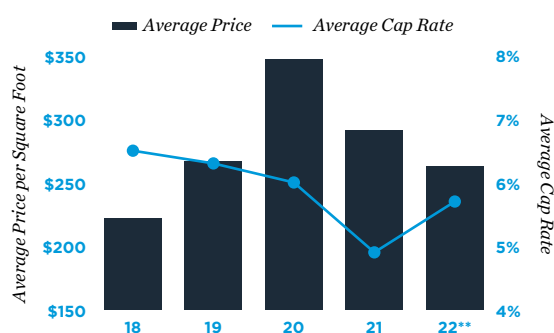
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Altus Data Solutions

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Statistics Canada; Altus Data Solutions; CoStar Group Inc.

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2Q 2022 - 12-Month Period



CONSTRUCTION

332,300 sq. ft. completed

- Construction levels remained low relative to other major metros in Canada, which is consistent with the market's history, as Ottawa tends to receive less new office supply.
- The largest development over the trailing-12-month period was Morguard's office property in Kanata, a hotbed for technology companies.



VACANCY

100 basis point decrease in vacancy Y-O-Y

- Ottawa had the second-lowest vacancy among major metros, due to its diverse economy and the presence of both the government and tech sectors.
- Limited new supply has helped maintain a sound vacancy rate within the metro. Vacancy is almost 50 basis points lower in Ottawa's suburban markets compared to downtown.



RENT

3.7% increase in the average asking rent Y-O-Y

- Leasing activity was robust over the past year, especially in Ottawa's suburban markets, with positive net absorption of roughly 595,000 square feet. This resulted in average asking rents increasing by nearly 8 per cent.
- The trailing-12-month period experienced the strongest rent growth since early 2020, right before the start of the global health crisis.

Investment Highlights

- Transactions increased by nearly 40 per cent in the first half of 2022, when compared to 2021 and 160 per cent from 2019. Private Canadian investors accounted for 75 per cent of the total dollar volume transacted so far in 2022. This has been a common trend, as institutional investors are diversifying and globalizing their portfolios to mitigate risk. Some private investors have an eye on re-positioning these assets in the future.
- The largest pure-play office transaction in early 2022 was Crown Realty Partners purchasing a three-tower office complex, known as the Park of Commerce, from bcIMC for \$60 million. Additionally, in June, Morguard REIT purchased a fully-leased office building located in Kanata — plus the neighbouring plot of land, which is the new headquarters of tech firm Kinaxis — from the original developer, Taggart Group, for \$64.5 million.
- Ottawa's average price per square foot has fallen over the previous two years. However, since 2018, prices have increased by 18 per cent through June 2022. Outside of Vancouver and Montreal, Ottawa has experienced the strongest price growth over the previous five years, due to robust investment activity during the health crisis, as Ottawa's office fundamentals were the most stable out of all major metros. Cap rates have also compressed over the five-year period to 5.7 per cent.