

MARKET REPORT

Office
Ottawa Metro Area

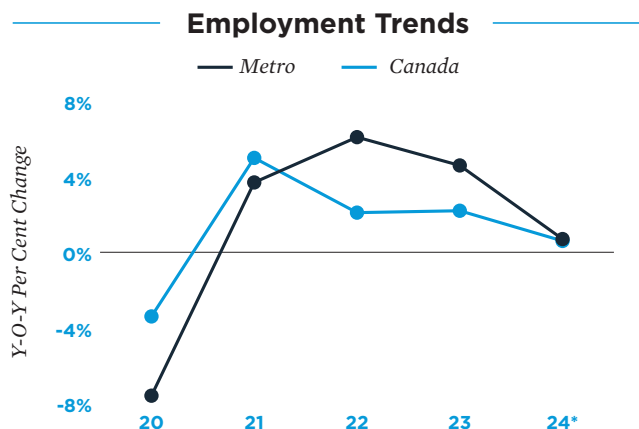
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2Q/24

Federal Government Offers Mixed Signals Regarding Future Office Utilization

Public sector influencing office outlook. In April, the federal government released its 2024 budget, which committed \$1.1 billion to trim its office lease obligations. As the nation's capital, Ottawa will be disproportionately affected by these right-sizing measures. The region could see a further deterioration in office fundamentals over the short term as a result. However, when applicable, the fed plans on converting these obsolete properties into affordable housing and student rentals. These efforts will remove underutilized stock from the city's existing inventory. In addition, Ottawa recently announced a new mandate requiring federal workers to return to the office at least three days a week. While this measure is likely to receive pushback, the combination of falling inventory and a clearer outlook on public sector space utilization could cause Ottawa's office market to show early signs of stabilization over the coming months and into 2025.

Kanata continues to show strength. Office vacancy rates within Ottawa's suburban markets have been trending down. This is especially true for Kanata, which has seen its vacancy rate fall by 170 basis points since the end of the third quarter of last year. The region is a hub for technology and innovation, it holds a blend of suburban and urban amenities, and it is planning to increase its connectivity to downtown through the extension of the O-Train light rail system. These factors are not only causing population growth to far outpace the metro's average, but the submarket also holds a highly educated and wealthy labour pool. Combined, these forces will drive overall economic growth, helping support the area's long-term office outlook.



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

Office 2024 Outlook



**6,000
JOBS**

will be created

EMPLOYMENT:

Public sector hiring will continue to be the main driver in job creation throughout 2024. By the end of the year, however, the region's growing technology sector could support some employment gains as interest rates are expected to continue to fall.



**75,000
SQ. FT.**

will be completed

CONSTRUCTION:

New supply is forecast to increase slightly compared to last year, with development being concentrated in Kanata. Ottawa's more disciplined construction pipeline, along with ongoing conversion projects, are set to aid office fundamentals over the long term.



**40
BASIS POINT**

increase in vacancy

VACANCY:

Cyclical headwinds impacting Ottawa's tech sector, along with the federal government accelerating its office right-sizing strategy, will cause vacancy to rise and end the year just above 10 per cent. However, this will be the slowest pace of increase since 2021.



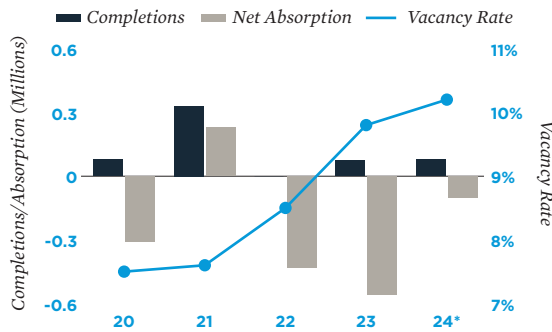
**0.5%
DECREASE**

in asking rent

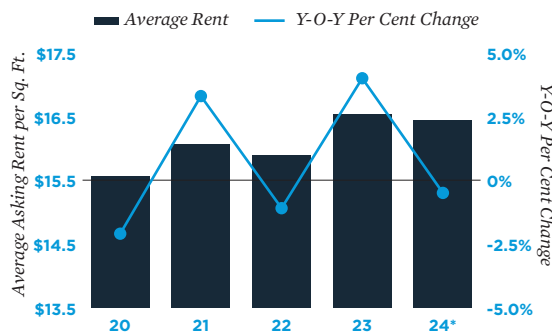
RENT:

With the federal government continuing to optimize its office footprint by aiming to occupy modern, ESG-complaint space, more older office stock is likely to become available, putting downward pressure on the metro's average asking rent.

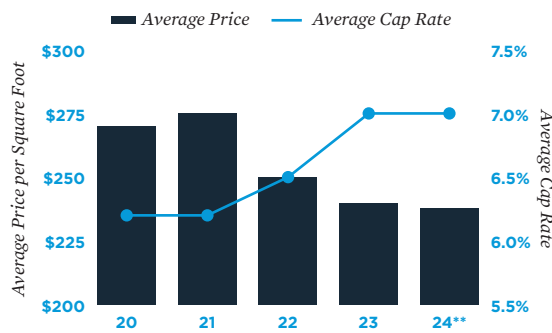
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 1Q

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

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1Q 2024: Trailing-12-Month Period



CONSTRUCTION

67,600 sq. ft. completed

- Ottawa welcomed one new building to its office inventory over the trailing 12 months, representing the first time the metro witnessed new supply enter the market since the end of 2021.
- As of the end of the first quarter, there was only one office building under construction in Kanata, which is a tech hub within Ottawa's suburbs.



VACANCY

60 basis point increase in vacancy Y-O-Y

- Vacancy rose over the past yearlong period; however, early signs of stabilization emerged as the final two quarters saw a decline in vacancy amid positive net absorption and the removal of obsolete stock.
- Similar to other Ontario markets, this uptick in vacancy was mainly fueled by the downtown area, which saw an 80-basis-point increase.



RENT

4.3% increase in the average asking rent Y-O-Y

- Asking rents continued to inch up on a year-over-year basis as they returned to their 2022 level. This increase, however, was mainly due to a base year effect as rents contracted in the first quarter of last year.
- Net absorption turned positive in the past two quarters, supporting rent growth. However, leasing remains soft as most terms are less than five years.

Investment Highlights

- Total dollar volume sold in 2023 sat at roughly \$530 million, down 34 per cent when compared to the prior year. Despite falling on a yearly basis, dollar volume was aligned with the metro's long-term annual average of \$550 million. With Ottawa being a government town, consumption and economic activity tends to be more resilient in times of headwinds. As a result, real estate provides investors with less price volatility and remains relatively attractive, despite ongoing economic uncertainty.
- The large public sector presence in Ottawa has historically acted as a buffer to slowing space demand. However, with the government set to minimize its office holdings, it is beginning to impact values. The average sale price fell roughly 5.0 per cent in 2023, which was down approximately 15 per cent from the peak reading in 2021. Cap rates have been inching up ever since and hovered around 7.0 per cent as of the end of the first quarter.
- With the federal government shedding office space, combined with the expansion of Ottawa's light rail transit system, many office purchases in recent years have been by local developers with an eye toward repositioning the asset to residential use. One recent purchase highlighting this trend was Morguard's sale in April of 1601 Telesat Court, to local residential developer Devcore. The Telesat site has access to 10 acres of land and is located by the Blair West O-Train stop, as well as highways 174 and 417.