

OTTAWA OFFICE

Economic Indicators

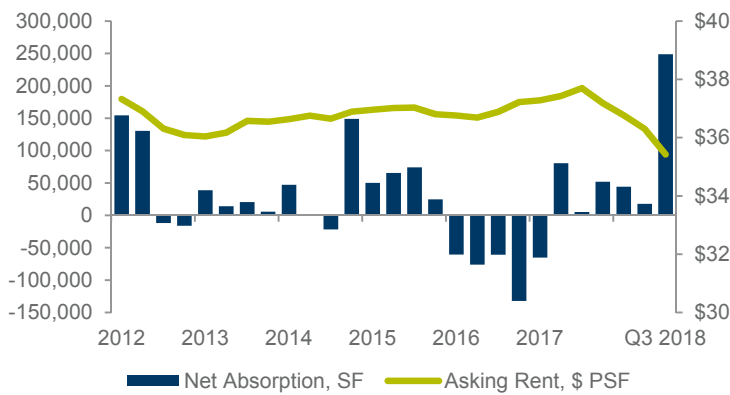
	Q3 17	Q3 18	12-Month Forecast
Ottawa Employment	541k	559k	▲
Ottawa Unemployment	5.9%	4.6%	▲
Canada Unemployment	6.2%	6.0%	▲

Market Indicators (Overall, All Classes)

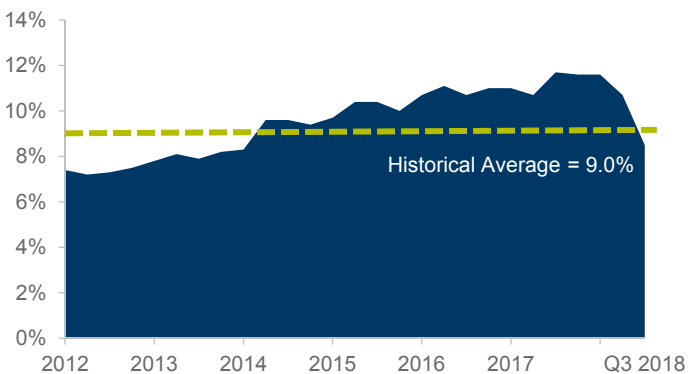
	Q3 17	Q3 18	12-Month Forecast
Overall Vacancy	11.7%	8.5%	▲
Net Absorption (sf)	-233,255	690,688	▲
Under Construction (sf)	0	34,000	▲
Average Asking Rent*	\$38.75	\$35.24	▲

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent
4Q TRAILING AVERAGE



Overall Vacancy



Economy

The Canadian job market softened slightly this quarter with the unemployment rate rising to 6.0%, a climb from 5.8% in the second quarter of 2018. Ottawa's unemployment rate remained stable at 4.6%, supported by Ontario's strong full-time job growth, with the province adding 15,000 new jobs since May 2018. As the country finalizes the details of the new USMCA trade deal, the end of uncertainty is good news for Ontario's highly trade-sensitive economy. Science, tech, engineering, and math (STEM) jobs, both in the private and public sectors, are growing rapidly, already accounting for 11% of jobs in the National Capital Region. Ottawa is among one of the fastest growing tech markets in North America due to the abundance of local talent and the relatively low cost for international business investment. Despite the rising cost of doing business as an obstacle for the construction sector, there is a significant pipeline of infrastructure and development projects in Ottawa. The long awaited \$2 billion LRT line that has seen repeated setbacks is supposed to be ready for ridership in early 2019.

Market Overview

A major headline in the third quarter of 2018 was the Suburban East success story, fuelled by strong demand from the federal government. They awarded 3 tenders totalling 278,300 square feet (sf), with 224,300 sf of that total located in the east end of the city, bringing vacancy down to 13.4% from 21.0% in the second quarter of 2018. This submarket, which has struggled with high vacancy in recent years, is likely to see further tightening as we approach the end of the year, as additional federal government transactions are anticipated. Leasing activity was strong across all submarkets in Ottawa with overall vacancy declining to 8.5% from 10.7% in the second quarter of 2018, notable as vacancy has not dipped below the 9.0% historical average since 2014. Vacancy in the Downtown Core tightened to 7.1% with Class A vacancy sitting at 4.6%; declines in large part due to federal government leasing activity. Tenants continue to have opportunities to expand or relocate but the number of options that have been available for the past few years is shrinking. For now, gross rental rates remain relatively unchanged at an average of \$35.34 per square foot (psf) for the entire city.

There was an abundance of activity at Qualicum Centre in Nepean this quarter with Morrison Hershfield leasing 38,000 sf and Mercury Filmworks leasing 30,000 sf, decreasing the office complex vacancy by 45%. The largest investment transaction in the third quarter of 2018 was a \$135 million investment made by LaSalle in Minto Place. The 3-building complex is now equally owned by LaSalle, Minto and Investors Group. After an extended period of little to no new construction in the city, the first 34,000-sf commercial building at the Zibi development broke ground this quarter.

Outlook

Looking ahead, the further tightening of the Downtown Core market may make transit-oriented Suburban markets more attractive for certain tenants. Rental rates will likely catch up if this record-low vacancy is sustained, as a mere 4 buildings can accommodate tenants seeking at least 20,000 sf of Class A space in the Downtown Core. We may see an anchor tenant deal at Trinity Centre at Bayview sooner than later if large pockets of space remain scarce. New mixed-use supply in Ottawa is increasingly taking form in the "vertical community" model that encompasses the convenience of housing, services and commercial facilities all under one roof. This growing trend among developers is seen in the plans for Trinity Centre, Zibi, and Canada Lands Company's revitalisation of the former federal government complex at Booth Street.

MARKETBEAT

Ottawa, ON

Office Q3 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	50,108	1,085,254	7.1%	90,004	145,355	690,281	0	\$40.51	\$46.91
Centretown	1,739,326	0	161,646	9.3%	78,019	59,018	116,709	0	\$28.96	N/A
Byward Market	842,861	6,678	58,951	7.8%	36,897	-4,521	26,152	0	\$39.02	\$45.03
Central Area	18,636,932	56,786	1,305,851	7.3%	204,920	199,852	833,142	0	\$39.54	\$46.82
Kanata	6,473,931	57,584	472,314	8.2%	72,382	242,539	359,546	0	\$26.49	\$26.37
Ottawa West	3,972,145	12,235	271,981	7.2%	55,425	131,476	202,362	34,000	\$31.54	\$34.86
Nepean	5,597,222	1,907	451,026	8.1%	78,971	79,079	153,744	0	\$26.02	\$27.87
Ottawa East	4,961,482	7,282	655,927	13.4%	287,538	302,389	314,013	0	\$31.13	\$33.30
Gloucester	1,422,201	5,780	207,800	15.0%	-8,568	-22,510	20,076	0	\$35.70	\$35.70
Total Suburban Area	22,426,981	84,788	2,059,048	9.6%	485,748	732,973	1,049,741	34,000	\$30.52	\$32.66
OTTAWA TOTALS	41,063,913	141,574	3,364,899	8.5%	690,668	932,825	1,882,883	34,000	\$35.24	\$40.22

*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	107,003	1,627,210	6.6%	520,030	767,501	1,136,958	34,000	0	\$40.22
Class B	12,092,667	10,321	1,442,671	12.0%	152,526	248,892	541,859	0	0	\$31.03
Class C	2,701,110	24,250	295,018	11.8%	18,112	-83,568	204,066	0	0	\$25.75

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1625 Vanier Parkway	180,000	PSPC	New Direct	Ottawa East
400 Cooper Street	54,000	PSPC	New Direct	Centretown
250 Tremblay Road	44,300	PSPC	New Direct	Ottawa East
411 Legget Drive	44,000	Confidential	Expansion	Kanata
2932 Baseline Road	38,000	Morrison Hershfield	New Direct	Nepean
2936 Baseline Road	30,000	Mercury Filmworks	New Direct	Nepean
1-10 Brewer Hunt Road	30,000	TUV SUD	Expansion	Kanata

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Minto Place*	945,000	Minto Properties / LaSalle Canada	\$135,000,000 / \$428	Downtown Core
41 Rue Victoria	135,000	Multivesco Group / Morguard Investments	\$58,800,000 / \$436	Gatineau CBD
250 Albert Street	188,427	Pensionfund Realty / Greystone Investments	\$56,000,000 / \$297	Downtown Core

*33% interest

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