

OTTAWA OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Ottawa Employment	543k	556k	▲
Ottawa Unemployment	5.4%	4.6%	▲
Canada Unemployment	5.7%	5.6%	▲

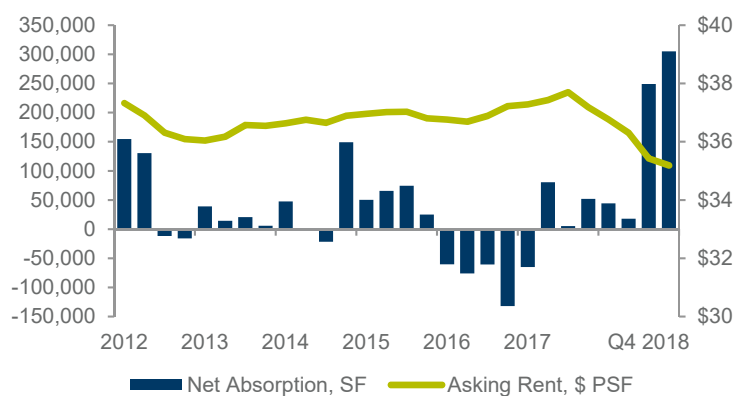
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Overall Vacancy	11.6%	7.8%	▲
Net Absorption (sf)	62,674	287,421	▲
Under Construction (sf)	0	134,000	▲
Average Asking Rent*	\$35.65	\$34.70	▲

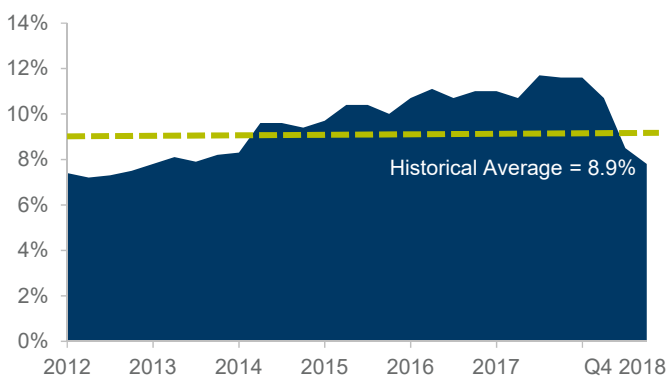
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

The Canadian economy had a strong finish to 2018 with the unemployment rate declining to 5.6% from 6.0% in the third quarter of 2018. As Canadians continue to adjust to this year's interest rates hikes, growth in consumer spending and the housing sector in 2019 may soften to a more moderate level compared to previous years. According to the Conference Board of Canada, Ottawa-Gatineau's GDP growth is forecasted to marginally decrease to 1.8% in 2019 from 2.1% in 2018. The future of the redevelopment project at LeBreton Flats is uncertain as the partnership between Trinity and Capital Sports Management broke into a dispute and has resulted in lawsuits. The National Capital Commission (NCC) will officially terminate the agreement with the development group if the parties cannot reconcile; however, the NCC have stated that they are committed to working with other partners to keep the 21-acre redevelopment project alive.

Market Overview

Leasing activity was strong across all submarkets in Ottawa with the overall availability rate declining to 7.8% from 8.5% in the third quarter of 2018. This was partially due to the eastern suburban markets experiencing another strong quarter. Office properties located in Ottawa East were awarded 3 government bid tenders which resulted in 405 Terminal Avenue, which had been sitting vacant since its completion in 2017, is now fully leased. This activity brought overall availability in Ottawa East down to 10.1%, a dramatic decline from the 21% availability seen only six months ago.

The overall Class B and C segments have tightened significantly in 2018 with 187,000 square feet (sf) of positive absorption; this despite the Department of Defense gradually vacating numerous centrally located offices for its new headquarters in the western submarket of Nepean. Kanata had a strong finish to 2018 as Mitel backfilled 140,000-sf space at 4000 Innovation Drive, which Blackberry will vacate mid-2019. The technology sector continues to be the driving force for declining availability in Kanata, with availability now at 8.9% in the fourth quarter of 2018. Kanata will also be seeing new inventory as Cominar announced construction at 800 Palladium Drive, bringing much needed new supply to Kanata. Approximately 60% of the 100,000-sf building is pre-leased to Ford, with completion slated for mid-2020.

Overall availability in the Downtown Core tightened to 6.5%, with Class A availability declining to 4.1%, in large part due to The Canadian Bar Association and CGI Group Inc. making the move downtown from suburban markets. The demand for quality space is evident as the overall Class A vacancy declined to 5.5% from 10.1% at the end of 2017. The largest investment transaction of the year occurred in the fourth quarter; the \$186 million-dollar acquisition of the Jean Edmonds Tower by Morguard and Industrial Alliance. This is the one of largest transactions the downtown core has ever witnessed, second only to the \$480 million-dollar purchase of Constitution Square in 2017.

Outlook

It is expected the technology sector will continue to drive healthy demand and growth thorough 2019. It is likely more developers will follow Cominar's lead in breaking ground on new construction. Pre-leasing commitments are still viewed as essential to mitigate the risks in new construction as tenants realize the rising costs of fit-ups. It is anticipated that when the Light Rail Transit opens for ridership in the first half of 2019, it will influence the future of city-wide development.

MARKETBEAT

Ottawa, ON

Office Q4 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	50,354	1,001,134	6.5%	83,874	229,229	831,461	0	\$40.21	\$48.15
Centretown	1,739,326	0	169,789	9.8%	-8,143	50,875	120,428	0	\$29.08	N/A
Byward Market	842,861	6,678	62,791	8.2%	-3,840	-8,361	30,375	0	\$39.22	\$45.42
Central Area	18,636,932	57,032	1,233,714	6.9%	71,891	271,743	982,264	0	\$39.26	\$47.98
Kanata	6,473,931	59,349	519,942	8.9%	-49,393	193,146	584,385	100,000	\$25.97	\$27.06
Ottawa West	3,972,145	2,876	256,708	6.7%	19,548	151,024	272,680	34,000	\$31.53	\$34.87
Nepean	5,564,522	1,907	379,738	6.9%	40,006	119,085	193,396	0	\$27.69	\$31.80
Ottawa East	4,961,482	24,047	478,301	10.1%	160,861	463,250	507,222	0	\$29.87	\$32.32
Gloucester	1,422,201	5,780	163,292	11.9%	44,508	21,998	57,825	0	\$35.06	\$35.59
Total Suburban Area	22,394,281	99,043	1,797,981	8.5%	215,530	948,503	1,615,508	134,000	\$29.74	\$32.66
OTTAWA TOTALS	41,031,213	156,075	3,031,695	7.8%	287,421	1,220,246	2,597,772	134,000	\$34.70	\$39.67

*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	107,439	1,342,962	5.5%	252,530	1,020,031	1,703,731	134,000	0	\$39.67
Class B	12,092,667	11,621	1,403,195	11.7%	38,176	287,068	652,728	0	0	\$31.12
Class C	2,701,110	37,015	285,538	11.9%	-3,285	-86,853	241,313	0	0	\$25.45

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
4000 Innovation Drive	151,000	Mitel	New Direct	Kanata
405 Terminal Drive	92,344	PSPC	New Direct	Ottawa East
405 Terminal Drive	66,893	PSPC	New Direct	Ottawa East
865 Carling Avenue	45,479	CADTH	Renewal/Expansion	Ottawa West
340 Legget Drive	27,398	InGenius	New Direct	Kanata
1430 Blair Place	27,554	PSCP	New Direct	Gloucester
55 Metcalfe Street	14,178	CGI Group Inc.	New Direct	Downtown Core

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Jean Edmonds Towers	552,000	Brookfield Properties / Morguard Investments & Industrial Alliance	\$186,000,000 / \$337	Downtown Core
2 Gurdwara, 1335 Carling, 159 Cleopatra*	226,759	Investors Group Trust / Pro REIT	\$42,100,000 / \$185	Nepean / Ottawa West
118 Sparks Street, 119 Queen Street	69,117	The Bank of Nova Scotia / Canderel	\$17,300,000 / \$250	Downtown Core

*portfolio sale

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