

WATERLOO REGION OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Waterloo Region Employment	282k	305k	▲
Waterloo Region Unemployment	5.7%	4.9%	■
City of Guelph Employment	88k	96k	■
City of Guelph Unemployment	4.3%	4.8%	■
Canada Unemployment	5.9%	5.4%	■

Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	15.0%	12.1%	■
Net Absorption (sf)	345,885	48,993	▼
Under Construction (sf)	221,000	461,000	▼
Average Asking Rent*	\$26.56	\$23.67	▲

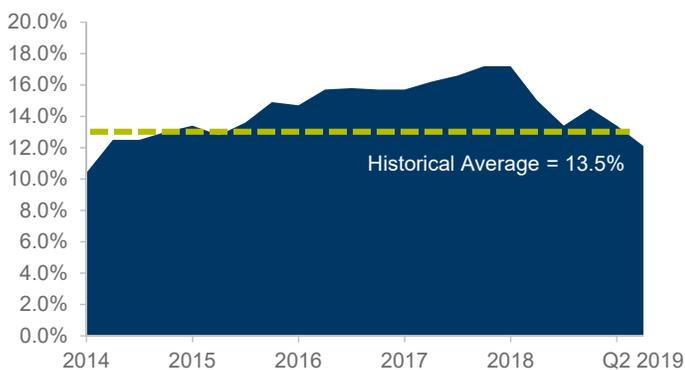
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

As mid-2019 approaches, the threat of global trade restrictions remains at the forefront of international discourse. Recent caution voiced by the WTO states that the effect of such protectionary policies will place global markets in a state of volatility and ultimately, restrict international economic growth. With the Canadian economy being so reliant on foreign markets, there are numerous factors that attribute to the nation's economic stability. While a rebound in the price of oil has led to an increase in the Canadian dollar, Canada's reliance on oil production, in addition to the commodity's instability, is perhaps the most apparent example of how the country's currency, and economy in general, is highly susceptible to external forces. Despite domestic concerns over the Canadian housing market and debt, academics and specialists place greater emphasis on international occurrences, such as an oil glut, a slowing Chinese economy, and trade restrictions, as real worries for Canadians.

Market Overview

Overall vacancy rates across Waterloo Region have continued to experience downward pressure, despite the introduction of new supply. With overall vacancy resting at 12.1%, the absorption of office space has been most concentrated in Waterloo and Kitchener's urban cores. Google recently announced plans to commence the expansion of its office facility on Breithaupt Street in Kitchener. With its existing premises consisting of 185,000 square feet (sf) of Class A office space, Google's Phase III will include a new 11-storey building directly across the street, with bridge access to their existing space. These plans would add 300,000 sf of Class A office space to Kitchener's urban core, a generous expansion to a campus that currently employs over 600 employees. While Waterloo, Cambridge and Guelph's suburban submarkets have also experienced positive net absorption, Kitchener's suburban office market has experienced the opposite, where more space is coming available than leased. In general, the Region continues to see an increased demand for Class A office space in conjunction with a decreased demand for Class C options. This dynamic provides an explanation for the apparent decrease in asking rents despite decreasing vacancy, as space of lesser quality continues to fail in attracting occupants. With over 450,000 sf of new office inventory under construction, it is likely that these trends will continue as firms relocate into newer state-of-the-art facilities.

Outlook

As Ontario continues to attract tech-startups and other companies looking for highly skilled labour, Waterloo Region will continue to be an attractive alternative for those who look to retain young talent but want to avoid rents found in Toronto. While demand for office space has been predominately focused on core assets, the availability of Class A core assets remains at an all-time high. However, with the introduction of the Region's new LRT system, business specialists predict this could have a substantial impact on how and where office occupants look to locate.

MARKETBEAT

Waterloo Region & Guelph

Office Q2 2019



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	AVERAGE ASKING RENT (ALL CLASSES)*	AVERAGE ASKING RENT (CLASS A)*
Waterloo Core	20	1,686,273	0	63,380	3.8%	-10,746	53,153	0	\$29.20	\$33.25
Waterloo Suburb	96	5,694,795	42,382	688,844	12.1%	81,834	268,470	100,000	\$23.18	\$23.60
Waterloo Total	116	7,381,068	42,382	752,224	10.2%	71,088	321,623	100,000	\$23.53	\$23.78
Kitchener Core	34	2,625,465	2,399	442,236	16.8%	-18,946	99,590	250,000	\$26.47	\$29.53
Kitchener Suburb	55	2,198,047	0	301,742	13.7%	-18,466	-55,901	-	\$22.37	\$22.92
Kitchener Total	89	4,823,512	2,399	743,978	15.4%	-37,412	43,689	250,000	\$24.88	\$24.18
Cambridge Core	8	342,150	0	74,070	21.6%	-7,153	-36,195	-	\$18.52	N/A
Cambridge Suburb	26	1,031,197	39,047	120,413	11.7%	12,606	6,139	111,000	\$20.79	\$22.96
Cambridge Total	34	1,373,347	39,047	194,483	14.2%	5,453	-30,056	111,000	\$20.03	\$22.96
Guelph Core	14	551,094	0	18,994	3.4%	0	-1,061	0	\$25.24	\$26.97
Guelph Suburb	38	1,180,805	0	54,528	4.6%	9,864	25,074	0	\$25.42	\$27.40
Guelph Total	52	1,731,899	0	73,522	4.2%	9,864	24,013	0	\$25.37	\$27.27
Waterloo Region Totals	291	15,309,826	83,828	1,764,207	12.1%	48,993	359,269	461,000	\$23.67	\$24.04

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL AVERAGE ASKING RENT*
Class A	97	7,754,304	75,845	616,183	8.9%	126,576	423,031	400,526	461,000	300,785	\$24.04
Class B	119	5,340,131	1,300	777,190	14.6%	-36,264	-14,732	99,337	0	0	\$24.11
Class C	75	2,215,391	6,683	370,834	17.0%	-41,319	-49,030	8,803	0	0	\$22.11

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT(S)	TRANSACTION TYPE	SUBMARKET
2220 University Ave E	144,695	TBC	Lease	Waterloo Suburb
176 Columbia St W	42,520	TBC	Lease	Waterloo Suburb
5 Goddard Cres	10,063	Westport Power Inc.	Lease	Kitchener Core

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