



OTTAWA

EXECUTIVE SUMMARY

- Ottawa's commercial real estate market offers stable and predictable growth.
- Technology sector continues to expand.
- Growth in purpose-built rental apartment construction.
- Investment market performed strongly again in 2019.

Ottawa's mid-term economic outlook may be tempered somewhat by recent federal election results, but the long-term prognosis for the National Capital Region remains positive as the city's underlying fundamentals allow for the continuation of historically stable and predictable growth.

Ottawa's office market recorded occupancy growth in 2019 with positive net absorption expected to continue in 2020. The recent shift to a minority parliament may impact the pace of absorption by the federal government, but that will likely be offset by growth in various private-sector employment areas. Of particular note is the performance of the technology sector, which is centred on the Kanata submarket. Office vacancy rates are expected to decline through 2020.

The industrial market boasts some of the highest asking net rental rates in the country. A shortage of new industrial product continues to put upward pressure on asking net rental rates. With a 1.3% vacancy rate expected to persist and limited space returning to the market in 2020, rental rates will remain high and are likely to increase for the foreseeable future.

Ottawa's retail market continues to evolve with the planned re-purposing of several neighbourhood shopping centres into mixed-use redevelopment projects. As e-commerce gains a stronger following, neighbourhood mall owners are planning and executing on redevelopment projects with a mixed-use design focus in order to create a live-work-play environment.

Like all major markets in the country, Ottawa's multi-family market continues to suffer from a lack of product

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019

| | OFFICE | RETAIL | INDUSTRIAL |
|---------------------|--------|--------|------------|
| Rental Growth | ↑↑ | → | ↑ |
| Vacant Space | → | → | → |
| Construction Levels | ↑↑↑ | ↑ | ↓↓↓ |
| Leasing Volume | ↓ | ↓ | ↓ |
| Investment Volume | ↑ | → | ↓ |

available for rent. With rental rates rising to justify new construction costs, several additional purpose-built apartment developments are underway. Once these projects are completed, increased trading activity in this asset class is expected.

Appropriately zoned development land in Ottawa is still considered to be reasonably priced compared with other markets across Canada. Competition for development sites with density has resulted in a steady increase in the price per buildable square foot, but prices are still well short of what is occurring in other urban centres.

Ottawa is attracting more than its share of investor interest for all classes of investment-grade assets. Well-located office buildings with government leases

in place are receiving multiple bids with average cap rates of less than 5.5% when brought to market. Industrial assets are also in high demand – when they are brought to market. Investment sales volume totalled nearly \$2.3 billion in 2019. Those owners who exited the market did so with very healthy returns.

Despite the uncertainty brought about by the recent federal election, these trends are expected to continue in 2020. Ottawa's stable, highly educated workforce and still-reasonable housing prices mean that investors will continue to see excellent returns on their investment in the local economy in 2020 and beyond.

The city of Ottawa is by all metrics among the most predictable commercial real estate markets in Canada.

HISTORICAL INVESTMENT VOLUME

Ottawa Total Annual Volume (\$Billion)

