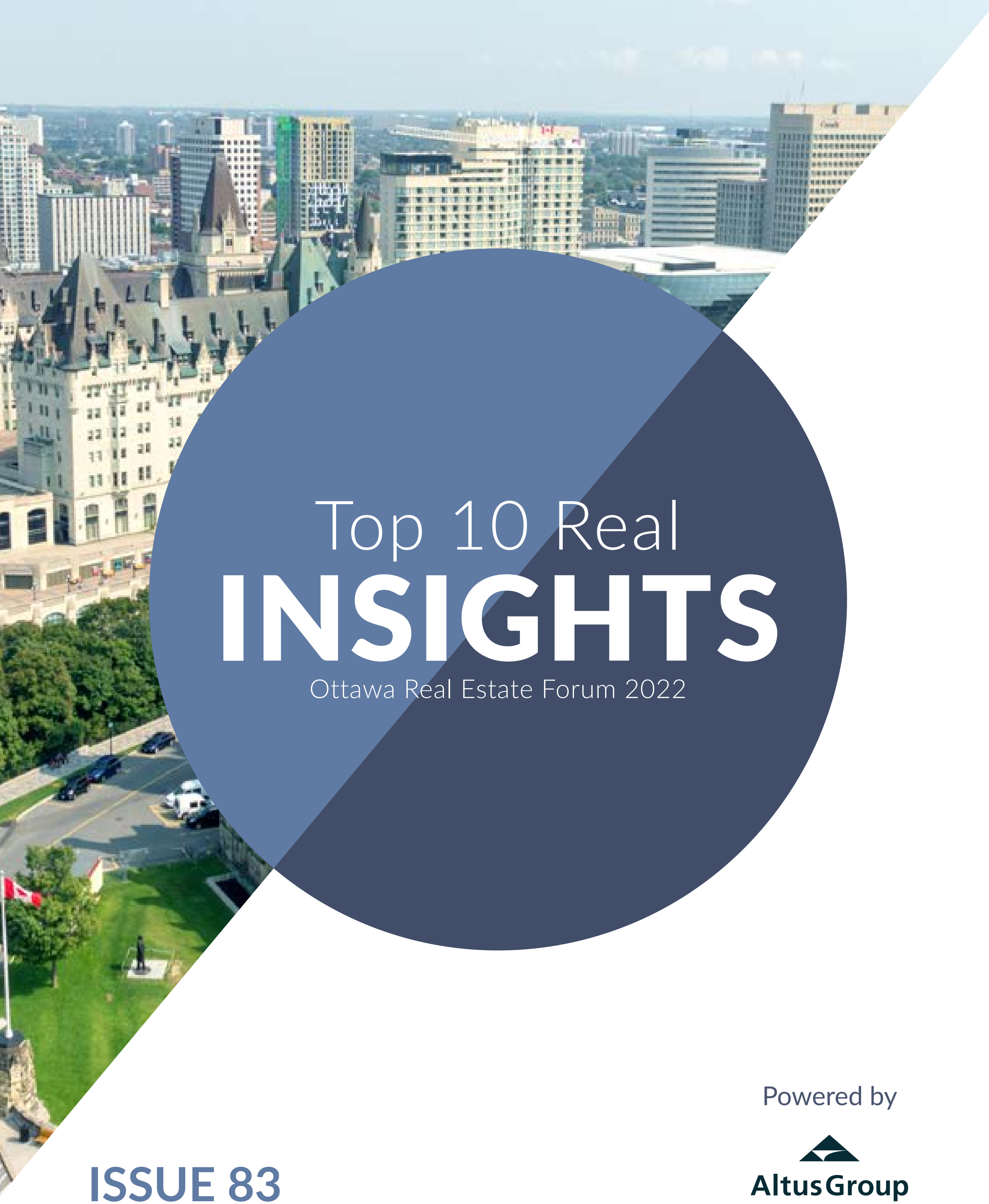

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1. A CHALLENGING ECONOMIC OUTLOOK: WHERE ARE INFLATION, INTEREST RATES AND OTHER FUNDAMENTALS HEADING AS 2023 APPROACHES?

BoC aims for inflation to drop to 2% and housing markets cool across the country.

The Bank of Canada's September 7 announcement that it was raising interest rates by another 75 basis points (bps) to 3.25 percent came as no surprise to economists, who anticipated the next rate hike would be between 50 and 100 bps. The Globe and Mail said this 'pushes Canadian monetary policy into "restrictive territory," where borrowing costs weigh on economic growth, for the first time in about 20 years. It's another major step in the fastest rate hike cycle in decades, which has seen the bank shift from near-zero interest rates to restrictive monetary policy in a little more than six months.'

In its announcement, the Bank noted that while inflation dropped half a percentage point in July due to the drop in gas prices, "inflation excluding gasoline increased and data indicate a further broadening of price pressures, particularly in services. The Bank's core measures of inflation continued to move up, ranging from 5% to 5.5% in July. Surveys suggest that short-term inflation expectations remain high. The longer this continues, the greater the risk that elevated inflation becomes entrenched." While GDP increased 3.3 percent in Q2 2022, consumption grew 9.5 percent and business investment rose to almost 12 percent. It described the housing market pullback as inevitable "following unsustainable growth during the pandemic" and said it expected the economy would moderate during the second half of 2022 due to weakening of global demand and its tighter monetary policy, designed to align demand and supply.

With its next announcement scheduled for October 26, the BoC warned that its "Governing Council still judges that the policy interest rate will need to rise further. Quantitative tightening is complementing increases in the policy rate. As the effects of tighter monetary policy work through the economy, we will be assessing how much higher interest rates need to go to return inflation to target. The Governing Council remains resolute in its commitment to price stability and will continue to take action as required to achieve the 2% inflation target." (Bank of Canada, "Bank of Canada increases policy interest rate by 75 basis points, continues quantitative tightening") TD Bank's Director & Senior Economist James Orlando anticipates the Bank will raise its policy rate to "4.0% by year-end. This implies even more growth sacrifice as the BoC attempts to achieve its goal of price stability."

TD identifies the slowdown in global demand as "easing pressure on supply chains and commodity prices" and notes that "[t]hese externally driven sources of inflation will continue to shrink in importance and pull down headline inflation." However, "High inflation has raised the cost of living and wages are responding. Since wages comprise a large component of service costs, it will take time for service inflation to cool."

The BoC seems committed to getting the inflation rate down to 2 percent even if it causes a recession, since the "deceleration in the core metrics of inflation will lag. ... If they need to see the whites of the eyes that inflation is nearing 2% before communicating a pause, the lagging nature of the data suggests the odds of a recession would tilt above fifty per cent." (TD Economics, "Canadian Inflation: The Long and Winding Road")

In its June 22 "Provincial Economic Forecast: Alberta and Saskatchewan to Top Growth Leaderboard This Year," TD economists stated, "Ontario is the poster child for Canada's ongoing housing market correction. In Toronto, sales are down 33% from their February peak through May, while average prices are 9% lower .... We think that there is even more downside looming for key Ontario markets during the remainder of this year into next .... This cooling in home sales and prices will impact other parts of the economy, including Ontario's large finance, insurance and real estate and professional, scientific, and technical services industries. In addition, the pace of housing construction will likely slow ...." while lower U.S. and global growth will also negatively impact the manufacturing sector, with manufacturers "also having to deal with sharply rising input costs while in the automotive sector, production is likely to grind only slowly higher as chip shortages continue to weigh. However, 2023 should see a rebound in automotive output, even if production levels lag their pre-pandemic totals."

Mitigating these effects are an increase in immigration and a decrease in ex-migration from major cities as the trend to remote working declines. Significant savings and wage increases will also ease the impact of inflation.

2. RETURN TO THE OFFICE: WHAT IS THE RANGE OF STRATEGIES THAT THE FEDERAL GOVERNMENT AND COMPANIES HAVE IMPLEMENTED?

Government offices are trying a few different flexible techniques, while tech tries to attract its employees back into offices.

Downtown Ottawa businesses hard-hit by repeated COVID lockdowns and the three-week siege of the city's core by the "Freedom Convoy" and its semis hope hybrid work models will allow them to stay in business, even if workers only return to leased downtown offices two days a week.

Despite a Privy Council Office memo sent to all government departments in June 2022 requesting that return-to-work plans be prepared by the fall, there is considerable opposition on both the union and personal level to returning to on-site work full time and not a great deal of support for proposed two- or three-day WFH/work on site models. "According to the Professional Institute of the Public Service of Canada (PIPSC), which represents more than 55,000 federal public servants, 60 per cent of their membership is opposed to returning to the office, 25 per cent would support a hybrid return, and just 10 per cent are in favour of a return to the office." The Public Service Alliance of Canada (PSAC) is working to establish remote work as a collective bargaining right.

In May 2022 Statistics Canada estimated 46 percent of the Ottawa and nearly 40 percent of the Gatineau workforce was still working from home, although the country average was less than 28 percent.

Meanwhile, tech sector workers have been returning to their offices (mostly in Kanata) since May, although not full time. “[A]n estimated 20 to 25 per cent of the parking spaces are occupied on any given day. Though the ratio is rising, tech giants are anxious for faster progress. Ciena — the optical networking specialist that employs more than 1,700 locally — recently hosted a charity barbecue at its Kanata campus, attended by 80 per cent of its workforce. More than half the company’s employees are now commuting to work on a regular basis, on full-time or hybrid schedules.” Tech companies are trying to entice workers back by offering spacious, flexible work areas, gym facilities, and healthy meals available from corporate kitchens and cafeterias. The tech sector, however, significant though it is, represents only 8 percent of Ottawa employees and a mere 2 percent of Gatineau employees. The federal government, and the service industries that depend on its employees’ patronage, represent the overwhelming majority of workers, and their office buildings are primarily in the downtown core.

The Ottawa Citizen’s James Bagnall says, “The timing of the great return for everyone else — if it happens — has acquired special resonance in the capital region. No other urban area in the country has embraced remote work with as much enthusiasm, leading many to assume it’s become a permanent feature of our economy.” (Ottawa Citizen, “Office divergence: Tech workers starting to return while government studies options”)

As of the beginning of August, federal departments were, it seems, still studying their options. A “return to the workplace” media release from Public Services and Procurement Canada (PSPC) regarding employees in the National Capital Region (NCR) began, “While we continue to promote and support remote work for most employees, as restrictions are easing, we are preparing for an eventual and gradual re-opening of workspaces. For now, however, the directive remains to continue prioritizing remote work for employees, whenever possible.”

As of August 2, 2022, only 200 PSPC employees of the approximately 145,000 federal government employees in the National Capital Region took part in a return-to-work program called Pathfinder, a voluntary program in which employees register and reserve work stations “designed according to activity-based workplace guidelines, including non-assigned spaces and collaborative spaces. Employees will be able to choose to work at one of these locations or work from home, depending on what is more convenient for them.” Workplaces included sites in downtown Ottawa, the east and west ends of the city, and Place du Portage III and other sites in Gatineau. (Ottawa Citizen, “Some federal public service ‘pathfinders’ start returning to Ottawa-area workplaces Tuesday”)

However, as summer wound down, both privately owned and city downtown parking garages were operating at 25-30 percent capacity, with some closing locations due to lack of demand. One Capital Parking lot on Gloucester Street in the heart of the downtown core told CBC News it had only one car parked in a lot that pre-pandemic saw 80 to 100 customers. (CBC News, “Parking lots, garages in ‘survival’ mode while waiting for workers to return”)

3. THE IMPACT OF THE PANDEMIC ON DOWNTOWN OTTAWA AND GATINEAU: WHAT INITIATIVES CAN BRING VIBRANCY BACK TO THE HEART OF THESE CITIES?

After lockdowns and the disruption of the “Freedom Convoy” occupation, Ottawa’s tourism markets look towards a much-needed comeback.

The combined effects of the pandemic lockdowns and the “Freedom Convoy” occupation of the downtown core of Ottawa have hit the Outaouais region’s travel and tourism industry hard. But the Conference Board of Canada’s May 12 outlook was positive. “Canadian travel markets look set to make their much-anticipated comeback this year, providing a much-needed jolt to Ottawa–Gatineau’s tourism sector, particularly in the summer as Canada Day events and local festivals such as Bluesfest gear up for maximum capacity.” It also noted that Ontario’s staycation tax credit, which provides up to 20 percent of accommodation costs for travel within Ontario in 2022, should also boost the tourism sector. (Conference Board of Canada, “Major City Insights: Ottawa–Gatineau—May 2022”)

One city councillor, Mathieu Fleury, announced a rescheduling of Valentine’s Day from February 14 to March 14 as a result of the occupation’s restricting both pedestrian and vehicular movement in the downtown core and in his ward (Rideau-Vanier), which adjoins the downtown core and includes the Byward Market and the Rideau Centre. Canada Day celebrations were moved to LeBreton Flats in 2022 amid security concerns for the parliamentary precinct area, which was hardest hit by the February occupation.

Bluesfest attendance was on par with previous years (~250,000) after a two-year hiatus. Most acts drew crowds of 20,000, with some acts pulling in as many as 30,000 people, despite the fact Ottawa was experiencing Wave 7 of COVID-19 during the festival (July 7 to 17).

Canada Day events were actually split between Parliament Hill, with severely increased security measures, and LeBreton Flats (about a 20-minute walk from Parliament Hill). This was the first year entertainment events took place outside Parliament Hill, and the relocation was poorly publicized. The area’s infrastructure cannot compare in hospitality amenities to the area surrounding Parliament Hill. Whether it was the relocation or the fact that Canada Day celebrations have been virtual for the two years of the pandemic, “Crowds overall appear to have been smaller than in pre-pandemic years, where Canada Day events routinely drew crowds in the tens of thousands, with roughly 56,000 people at the 150th anniversary.

An event official on the ground at LeBreton Flats told Global News' Rachel Gilmore there were roughly 5,000 people at the festival grounds for the main concert and events as of noon on Friday." (Global News, "Thousands gather in Ottawa for Canada Day celebrations, protests amid tight security")

Tourism Ottawa created a "third night free" promotion in partnership with many downtown and Byward Market hotels. Tourists who booked a stay at a participating hotel between June 1 and October 10, 2022 of two nights were offered the third night free. Often considered "the city of museums," Tourism Ottawa has also created an innovative "unofficial museums" information campaign on its web site, featuring everything from hedge mazes to graffiti and "good bad smells" to beach volleyball.

In Gatineau, Cirque du Soleil returned to the Outaouais in late August for the first time since 2020, when its performance was held at the Canadian Tire Centre in Ottawa. The 2022 show, Kooza, ran for a month under the Big Top at Place des festivals Zibi, and the Gatineau Hot Air Balloon Festival (Festival des montgolfières de Gatineau) was held in the large Parc de la Baie at the end of August, while Ottawa festivals such as Ribfest and the Palestinian Festival were held at City Hall and Latin Sparks Festival at LeBreton Flats.

4. HOUSING AFFORDABILITY IN THE OTTAWA MARKET: WHERE ARE HOMEOWNERSHIP AND RENTAL COSTS HEADING?

The residential market has experienced a profound slowdown, while rental prices soar.

July 2022 residential home sales were down 35 percent year over year (residential -36 percent; condo sales -34 percent), and Ottawa Real Estate Board President Penny Torontow told CREA, "We are witnessing a profound slowdown in Ottawa's resale market. ... Aggressive interest rate increases are surely impacting the decision to buy ...." However, she thinks that as more properties continue to be added to inventory, "we are on the cusp of returning to a balanced market, and that is good news."

Average condo sale price was $425,694 in July, an increase of 1 percent from July 2021, while average sale price for a residential-class property was $716,354, an increase of 5 percent from 2021. Year-to-date average sale prices were $805,238 (residential) and $461,557 (condo), which represent 11 and 9 percent increases respectively over 2021.

According to Zumper, by August 2022, average studio apartment rent was $1,350, a 4 percent increase, while average one-bedroom rent was $1,694 (+3 percent) and for two bedrooms $1995 (+6 percent). Year over year the increase amounts to a whopping 13 percent, far above the Ontario government's standard rental increase limit of 1.2 percent. Median one-bedroom apartment rents by neighbourhood ranged from a low of $1,149 in Heron Gate to a high of $1900 in downtown Ottawa.

National Bank of Canada, in its Housing Affordability Monitor (August 16, 2022) described Q2 2022 as having the "worst quarterly and annual deteriorations in 41 years. The mortgage on a representative home in Canada now takes 63.9% of income to service, the most since 1982." This is a result not only of rising house prices, but also rising interest rates, which was a bigger factor in the deterioration of affordability. Home prices in Ottawa/Gatineau increased 6.8 percent during Q2 2022, but median income only increased 0.8 percent. National Bank calculated the residential mortgage payment for residential homes is 50.9 percent, up 9 percent quarter over quarter, while for condominium-class, mortgage payments increased 4.8 percent over the same period and represent 28.6 percent of income. It would now take 65 months to save for a residential home downpayment and 28 months to accumulate the downpayment on a condo. The bank noted "a considerable slowdown on the resale market, with home sales now 12.8% below their 10-year average. This downswing should translate into lower home prices in the months ahead with our current forecast calling for a 10% decline ... [and] improve affordability before the year end."

While both the provincial Liberals and NDP made housing an issue in the June 2022 election, a week after Doug Ford's provincial Conservatives were re-elected, the Ontario government announced rent increases of 2.5 percent for 2023. In doubling the rental increase percentage the government tried to moderate the effect of inflation, which was 5.3 percent at the time,

"to help protect tenants from significant rent increases." Rental units occupied for the first time and untenanted units are excluded from the guidelines.

Housing will also be an issue in the October 24 municipal election, with one strong "downtown councillor" and two suburban candidates who are considered much more "pro-developer" looking to become mayor. 'Ottawa was the first city in Canada to declare a housing and homelessness emergency in early 2020, right before COVID-19 superheated an already hot market. While interest-rate hikes from the Bank of Canada have recently brought prices and sales down somewhat, affordable housing is still scarce, and the city is exploring ways to make more. One idea is an "inclusionary zoning" model in which developers of condos (but not rentals, at least not initially) would have to set aside a percentage of new units at a lower price. City staff are preparing an official plan for the new council to consider next year.' The mayoral race is particularly important this election as Ontario's Premier is introducing legislation to create "strong mayors" in Toronto and Ottawa. They will function much more like municipal CEOs than under the current structure, where the mayor, like the ward councillors, has only one vote. The proposed strong mayor plan would allow the mayor to veto by-laws and amendments unless they are supported by a majority of two thirds of all councillors. (Globe and Mail, "Who's running for mayor in Ottawa? How will Ontario's 'strong mayor' law affect the winner?")

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5. INVESTMENT IN THE OTTAWA MARKET: WHAT ASSETS HAVE SOLD IN THE PAST NINE MONTHS?

Despite rising interest rates, there have been some significant transactions in the first nine months of 2022, with investors from other parts of the country eager to enter or expand their share of the Ottawa market.

Vancouver's Lanyard Group of Companies bought a two-storey office building on 2.7 acres at 2625 Queensview Dr. for $9.35 million with a cap rate of 6.34 per cent. Located a block north of the Queensway near Pinecrest, the 46,156 sf building is close to the future Queensview LRT station. Tenants include SCM Insurance Services, the Queensway-Carleton Hospital, and PIP Animation Services, although after the City of Ottawa chose not to renew its lease, the building has a 30 percent vacancy rate.

A 13,005 sf, three-storey office building at 376 Churchill Ave. N. in Westboro was also sold was off-market to a local accounting firm. Koble Commercial Real Estate and Brokerage brokered the deal. Koble principal Graeme Webster told Ottawa Business Journal, "The reality is, well-located office (space) with strong amenities should be in demand for (a long) time to come."

Taggart Group of Companies recently sold its five-storey, 163,000 sf office complex at 3199 Palladium Dr. in Kanata. The building, which Taggart designed and built, is fully leased to Kinaxis, the supply-chain management software firm. Morguard, based in Mississauga, paid $64.5 million shortly after Kinaxis had its office christening party in early June.

Derek Howe, vice-president of development at Taggart Realty Management, called it a "showpiece building." The Class A space in the Kanata West Business Park close to the Queensway and the Tanger Outlets mall "includes enough space for another large-scale office should Morguard opt to develop it." (Ottawa Business JournalJ, "Taggart sells new Kinaxis HQ to Morguard in $64.5M deal")

Toronto-based True North Commercial REIT is purchasing KingSett Capital's 11-storey office building at 400 Cumberland St. for $40.5 million, while Montreal's Groupe Mach has bought BentallGreenOak's 12-storey building at 77 Metcalfe St.at Albert for $19.1 million. The 174,000 sf building at 400 Cumberland St. at the corner of Rideau is almost fully leased (98 percent) to Department of National Defence, which renewed its lease for another six years this spring. Considered a Class B Building, its other tenant is a 1,500 sf Happy Goat Coffee. Although built in the early 1970s, the building is LEED Gold-certified, and KingSett decided to sell once the DND lease was renewed to maximize value.

BentallGreenOak is revamping 77 Metcalfe St. The Class A office tower, constructed in 1954 but renovated and expanded in 1994, will be reconfigured by architecture firm Perkins+Will 'to include "creative co-sharing spaces, elegant collective amenities and comfortable private rooms."

Renovations should be complete by the end of 2023, with the building's only tenant, Nav Canada, planning to vacate the premises at the end of October 2022. (Ottawa Business Journal, "Ottawa remains 'beacon' for office investors, industry execs say in wake of major sales")

Other transactions in Q2 2022:

- Parkit Enterprise Inc.'s purchase of 62,211 sf at 1155 Lola Street
- BTB REIT's acquisition of 46,000 sf 1100 Algoma Road;
- Rohit Group of Companies bought 19,000 sf at 466 Tremblay Road:
- Jennings Real Estate Corporation acquired 47 Antares Drive (53,000 sf).

6. RETAIL: HOW HAVE LANDLORDS & RETAILERS PERFORMED – BETTER THAN EXPECTED?

DThe retail sector in Ottawa has been a mixed bag so far for the first half of 2022.

Marcus & Millichap's 2022 Ottawa retail investment forecast paints a rosy picture of a city with a median household income of $96,700, more than 15 percent above the national average and the highest of all major Canadian metro areas, and notes that net absorption measured three times deliveries in 2021. According to the Conference Board of Canada, nearly one-third of Ottawa–Gatineau's real GDP is generated by the public sector, as opposed to 7 percent nation-wide, and it calls for "Ottawa-Gatineau's economy ... to expand 3.2 per cent in 2022 and 2.6 per cent next year." Marcus & Millichap projects that, "Even as builders finalize the most space since 2019 this year, net absorption will again outpace completions, tapering availability to the lowest register in five-plus years. Tighter vacancy should keep asking rents on a upward trajectory after 2021's impressive 5.8 per cent lift."

Average retail sales prices hit $337 psf in 2021, "indicating both investor confidence and a shift in buyer preferences to favor lower risk properties." Ottawa's mean retail price psf is 45 percent less than Toronto's. Multi-tenant cap rates "typically fall in the high-5 per cent band, with single-tenant returns much lower at 4.0 per cent on average." Vacancy rates fell to 2.2 percent in 2022, a total of 30 bps down from pandemic-era vacancy rates of 3.1 percent. There is still 545,000 sf of retail inventory to be completed this year, the third time in four years builders have added half a million sf or more. New inventory is primarily centred in Deep West Ottawa (Kanata and west). So far in 2022, asking rent has increased 3.8 percent, with average asking rates rising to $22.70 psf. (Marcus & Millichap, "Investment Forecast Retail Ottawa 2022")

Cushman & Wakefield acknowledges consistent retail revenue growth in H2 2022 (an 11 percent increase year-over-year), with clothing and accessories gaining 1.8 percent in that period and general merchandise revenues increasing 1.1 percent.

Electronics and appliance sales were, however, down 2.4 percent and food and beverage was down 1.1 percent. “Although retail sales so far in 2022 are showing great promise, when controlling nominal prices for inflation, total retail sales have not increased as much as publicised. ... This could be an early sign of easing consumer demand, a consequence of eroding consumer purchasing power.”

Retail vacancy rates in the downtown core kept climbing in H2 2022 as government workers continued to work from home, which of course affects retail and service workers as well. Net absorption in the downtown core was down 28,506 sf. Net absorption increased only in Nepean (Merivale Road area), Bell’s Corners, and Gloucester (+22,372, +18-71, and +3,841 sf respectively). Community malls saw net absorption shrink by 44,238 sf, while regional malls and larger power centres saw a net absorption increase of 29,153 sf.

Cushman & Wakefield’s conclusion: “Although ... price drops are not alarmingly steep, they do represent a clear shift in market momentum. As interest rates continue to creep up, borrowing costs will increase and many buyers’ propensity to consume will likely fall – which could further constrain demand.” (Cushman & Wakefield, “Marketbeat Ottawa Retail Q2 2022”)

Of course, downtown retail also took a major hit in February of 2022, with many stores (including the Rideau Centre, which now includes grocery anchor Farm Boy), forced to close for some or part of three weeks during the “Freedom Convoy” siege that routed both transit and vehicular traffic out of the city’s central core from Albert Street in Centretown West to east of Dalhousie Street in the Byward Market.

Meanwhile, RioCan REIT’s multi-phased redevelopment of Nepean’s Lincoln Fields mall is delayed, with community groups impatient to find out what the plan is and Ottawa City Council delaying its secondary development plan for this area until after the civic election in October 2022. The RioCan REIT plan includes “replacing the aging shopping centre with a mix of new retail buildings and up to five mixed-use and residential towers,” according to Renx.ca. The plan for the 47-year-old mall was to demolish the existing structure, build a new Metro supermarket and a two-storey commercial building with retail tenants to include Rexall and Moore’s clothing store. However, with the Lincoln Fields LRT station not likely to completed in 2025 if similar delays to the first phase of LRT construction occur and the ward’s councillor continues to oppose the project, favouring one with a greater pedestrian focus, it will be some time before the area is reinvigorated.

Windmill Development Group announced in July 2022 it wants to build two highrises with 510 residential units at 2475 Regina Street and a new group home for adults with physical disabilities in the immediate vicinity of the Lincoln Fields mall site. Its plans include tearing down the existing 12-unit Parkway House residence and replacing it with a new seven-storey building. The ground floor will become the new Parkway House and the other six floors will be residential units. Two additional highrises (19 and 25 storeys) are also proposed; these will contain studio, one-, two-, and three-bedroom apartments and market-value condominium units.

It hopes to access CMHC and Trillium Housing financing programs so it can provide affordable rental housing and condo units. Windmill hopes to get another One Planet Living designation for the Lincoln Fields development (its Zibi project on the Ottawa River already has One Planet status).

The Parkway House structure would include 3,400 sf of outdoor communal space, while the other two buildings would have 6,200 sf of outdoor terrace space. Zoning amendments will be required as the proposed development exceeds current zoning height limits. (Ottawa Business Journal, “Windmill plans new group home, residential towers near former site of Lincoln Fields Shopping Centre”)

While Morguard began “mulling” a major makeover of St. Laurent Mall in the east end in 2019, the project seems to be stalled and, despite its Hudson’s Bay and Toys ‘R Us anchors, the effects of the loss of its other major anchor, Sears, are still being felt. (Ottawa Business Journal, “Morguard mulls major makeover at St. Laurent mall”)

7. NEW SUPPLY NEEDED TO EASE STRONG GROWTH IN INDUSTRIAL REAL ESTATE DEMAND: IS THERE ANY DEVELOPMENT ON THE HORIZON TO THE RESCUE?.

Despite 362,727 sf of industrial construction underway in the Ottawa market, its inventory will only increase by 1.6 percent when this supply is added in late 2022 or the following year.

New supply rental rates range from $14.50-$16.40 psf, compared with Ottawa average asking net rental rates of $12.62 psf according to Altus Group. While that figure is both a record high and a 3.2 percent increase year-over-year based on Altus Group data, higher rental rates for new supply “reflect the consistent increased demand and slow supply of new spaces entering the industrial inventory.” (CBRE, “Ottawa Industrial Figures Q2 2022)

The new supply includes Buildings A2 and B at the National Business Park in the Hunt Club/Walkley Road area and 1300-1360 Upper Canada Drive in Kanata. “[L]ack of construction can be underscored by overarching socioeconomic factors, whether that is the increased costs of construction, delays in site plan approvals or supply chain disruptions.” While the average industrial availability rate is 1.8 percent, in the Central area of Ottawa both the availability and vacancy rates are 0.0 percent. Only in the Deep West (Kanata) is the vacancy rate higher, at 1.3 percent.

However, at the end of Q3 2022, there are a total of seven industrial buildings under construction, with an availability rate of 80.4%, adding nearly 385,000 to the industrial market in Ottawa, according to Altus Group.

With vacant industrial land becoming increasingly rare and trading at more than $1 million per acre, “[c]ompetitive offers for the purchase of industrial buildings persists despite rising interest rates.”

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Notable Q2 2022 transactions include Parkit Enterprise Inc.'s purchase of 62,211 sf at 1155 Lola Street (East) for $17.6 million and BTB REIT's acquisition of 46,000 sf 1100 Algoma Road (East) for $12.5 million. Rohit Group of Companies bought 19,000 sf at 466 Tremblay Road (East) for $11 million, and Jennings Real Estate Corporation acquired 47 Antares Drive (South) (53,000 sf) for $9.2 million.

Colliers describes demand for Ottawa industrial as strong, "while supply levels remain dangerously low." This threatens to "pull interest away from the Greater Ottawa Area," although "access to labour might help keep companies from relocating from Ottawa to the St. Lawrence Seaway." During Q2 2022, leasing activity "was most significant in the Ottawa East submarket, where 77, 970 square feet was absorbed." In this submarket, average net asking rent increased $0.04 from Q1 2022 and $0.71 year-over-year to $13.04 psf, per Altus Group.

Colliers' flyer for its 29.2 acres of industrial land for sale at 5455 Boundary Road, next to one of the new Amazon Ottawa warehouses (Kanata), warns that new supply won't ease "tenants' current supply constraints when looking to relocate or expand their presence in Ottawa ... as more than 68% of the space is already committed to tenants. There are another 3.8 million square feet in the development pipeline." They also point out that between Q4 2021 and Q1 2022, net asking rents in the South Ottawa submarket "jumped 12.0% from the previous quarter and 21.3% YoY to $15.57 per square foot."

8. GROWTH AND OPPORTUNITIES IN THE GATINEAU MARKET – IS IT THE BEST KEPT SECRET?

New supply in multi-res and industrial fuel opportunities for investors in the expanding market.

Despite its higher provincial income taxes and lack of doctors, by the end of March 2022 Gatineau had become home to more Ottawans than at any point in the last 30 years. Fuelled by both lower housing prices in Gatineau and the need for more space as federal government workers continued to work from home, one Gatineau residential real estate agent said half her home-buying clients were from Ottawa. The housing affordability gap is significant: the 2021 Ottawa average house price was close to $650,000 but $400,000 in Gatineau, and equivalent apartments in Gatineau rented for about $500 per month less than in Ottawa. (CTV News, "Gatineau seeing an influx of Ottawa residents moving across the river")

There has, however, been a dramatic decline in development of new multi-residential projects in Gatineau that led to an overall year-over-year decline in new housing starts in the National Capital Region of 22 percent in April 2022. According to CMHC, "Homebuilders started work on 1,213 new projects in Ottawa-Gatineau in April ... down from 1,558 starts in the same month in 2021 ... Multi-unit starts in Gatineau fell from 547 in April 2021 to just 163 last month [April 2022], a drop of 70 per cent. Overall housing starts in the city were down 58 per cent year-over-year to 246, reversing months of major gains as buyers rushed to cash in on the Quebec municipality's lower average housing prices." (Ottawa Business Journal, "Gatineau building boom tails off as region's housing starts fall 22% in April")

New supply is still being added to the Gatineau market, however, such as Le Viu2, the 24-storey Groupe Heafey luxury condo/mixed use development at 99 Laurier Avenue which was completed in February 2022. Offering both sale and rental condos, the LEED-certified 32-unit development provides amenities including a 2,000-square-foot gym, sauna, spa, counter-current pool, outdoor jacuzzi and roof terrace with barbecue area. In March 2022, La Bottega Nicastro announced it was leasing space on the ground floor, its first Quebec expansion. One bedrooms were renting in mid-September for $1,750. The development is in a prime location close to Jacques Cartier Park and both the MacDonald-Cartier and Alexandra bridges, giving ready access to the Byward Market.

There are still opportunities for new industrial supply, with Gatineau attracting new data centre developments such as the one planned by AVAIO Digital Partners and ADAM Real Estate, who are developing a 50MW Gatineau Data Hub sustainable facility. "The partners see Gatineau as a prime location for the project for several reasons, including access to Quebec's low-carbon hydroelectric power, its location just across the Ottawa River from the City of Ottawa and its large network of federal government facilities, and its central location between Toronto and Montreal, two of Canada's largest data centre markets." Quebec's hydroelectric power is not only abundant, but also inexpensive, and its development environment is viewed as supportive. (RENX, "AVAIO, ADAM plan to build 50MW data centre in Gatineau") This follows the opening of the IBM Canada Cloud Modernization Centre in the 34-acre mixed-use Zibi development in Gatineau. While IBM anticipates hiring only 50 tech employees, the Zibi development is eventually expected to house 5,000 residents and employ 6,000 people over more than a million sf of space.

9. UPDATE ON THE OTTAWA MULTI-RESIDENTIAL MARKET: DEMAND, DEVELOPMENT, INVESTMENT AND AFFORDABILITY

Demand remains high despite rising interest rates. Short supply continues to fuel high rental costs and low vacancy rates.

Figures compiled by ReMax agent Patrick Walchuk indicate there were 109 multi-residential income property sales from January through August 2022. Of these, 89 sales were for smaller income properties (doubles, duplexes, triplexes, and fourplexes), a decrease of 20.5 percent year over year.

The average price for these smaller income properties has dropped 1.2 percent since last August, to $1,055,403. Average time on market for these smaller multi-family residential units is 46 days in 2022 versus 42 in 2021. Sellers received 99 percent of list price on average.

The remaining 20 sales were buildings with five or more units, a year-over-year increase of 17.7 percent. Larger multi-unit building average prices have dropped much more dramatically however, averaging $2,372,475, a drop of 25 percent from 2021. These large multi-residential properties now take an average of 81 days to sell, an increase of eight days over 2021, with sellers receiving 96 percent of list price.

Transit oriented development continues to be the biggest trend in the multi-residential market sector, with Fengate Asset Management making two purchases in Q1 2022. It recently bought a 2.5 acre site at 1047 and 1079 Richmond Rd. for $24.2 million. Currently a car dealership across the street from the future New Orchard LRT station (2025 opening), Fengate has submitted a rezoning application to allow it to build three residential rental towers of 36, 38, and 40 storeys. The project will supply 1,343 units. In January 2022 Fengate also acquired 1209 St. Laurent Blvd. and 1211 Lemieux St. for $15.1 million.

While Ottawa industrial, office, and retail sectors all did well in the first quarter of 2021, "The multi-family asset class surprisingly did not perform as well as the other improved asset classes with only $162 million in total investments registered in the quarter. This was not due to a lack of confidence in the asset, but more so attributed to the lack of inventory as the asset has proven itself to be stable despite all the market uncertainties," according to Altus Group. "The outlook for the Ottawa market continues to be positive as seen by the demand not only by local, but also by national and foreign buyers. Investors took advantage of low borrowing costs over the past two years and with continued Bank of Canada interest rate hikes, significant impacts on the investment activity in the Ottawa market will not become apparent until the second half of the year. Despite all the market uncertainties, it is unmistakable that investors remain confident in the growth of the Ottawa market and the strong fundamentals that it provides." (Altus Group, "Q1 2022: Led by the industrial sector, the Ottawa market closes the first quarter of 2022 with $1.4 billion in investments")

While Marcus & Millichap project construction of multi-family residential in the Ottawa area will decline 28 percent in 2022, "This lack of new supply will keep vacancy low and rents rising." With the median average single-family home 88 percent less in Ottawa than in Toronto and average apartment rents 10 percent lower, "These aspects encourage in-migration from young Canadians who tend to favour apartment rentals.... Not only does this metro have a strong labour force, but also has a resilient economy, which keeps multifamily fundamentals strong even in times of economic uncertainty."

With Ford, BlackBerry, and Shopify all establishing Ottawa innovation centres, young talent "who value rental lifestyles ... [is] increasing demand for high-tier rental apartments in centralized locations." (Marcus & Millichap, "Market Report Multifamily Ottawa Metro Area 3Q/22")

10. CASE STUDIES OF DEVELOPMENT PROJECTS IN THE OTTAWA MARKET – HOW MUCH SUSTAINABILITY HAVE DEVELOPERS BEEN ABLE TO APPLY?

The sustainability poster child for the National Capital Region is the Zibi waterfront community, described as "a borderless neighbourhood, connecting the cities of Gatineau and Ottawa."

The 13.7 hectare site, designed by Dream Unlimited and Dream Impact Trust, will, when completed, be home to more than 5,000 people and a workplace for 6,000. Three hectares have been set aside for riverside parks and public squares. It will also include more than 1 million sf of commercial space. Designed to be one of the world's most sustainable communities, it is the first Global Leader in Canada to have been endorsed by One Planet Living, a framework developed by Bioregional and the World Wildlife Fund.

Its district energy system, the Zibi Community Utility, came online in December 2021. A partnership between Zibi, Theia Partners, and Hydro Ottawa, it uses low-grade post-industrial waste to heat its buildings and is one of the very few district energy systems that meets all its community heating needs without using fossil fuels. It recovers effluent heat from nearby Kruger Products' Gatineau tissue plant, injects it into a new central energy plant, upgrades it and transfers it through a network of pipes to the development's buildings. Chillers also redirect heat to the Ottawa River to produce chilled water for building cooling in summer.

So far it services six buildings, three residential and three office, with a total footprint of 615,000 sf. When the development is complete, a hydronic loop will deliver both heating and cooling to 4 million sf of planned residential and commercial buildings at Zibi and will save 4,420 tonnes of greenhouse gas emissions per year.

Outaouais developer Brigil is a sustainability leader in other ways. Its development focus is on reducing the ecological impact of its developments, particularly wetlands and species at risk. Its Symmes project was designed to create a 20-acre protected zone (one third of the development's footprint) to preserve a marsh, two watercourses, and an island. It also entered riverbank buffer strips in the land register and transferred ownership of these buffer strips to the city of Gatineau.

In its Plateau du Parc project, the developer provided buffer strips to preserve an uninterrupted connection with Gatineau Park to ensure deer and other animals could continue to circulate along watercourses. And at its Domaine Lorrain project, Brigil landscaped a marsh to extend the habitat of the striped chorus frog, a protected species.

Not only does Brigil have a "minimal land clearance" policy, it routinely exceeds municipal tree planting requirements to enhance its residents' quality of life while protecting the environment.