Greater Ottawa investment review

H1 2024

AVISON YOUNG

What is happening in Ottawa?

In 2023, Ottawa's commercial real estate investment sales fell behind most recent years in terms of volume. This is largely due to the discrepancy in bidding and asking values between buyers and sellers, a phenomenon exacerbated by higher interest rates. Coming off consecutive rate hikes, investor confidence in future returns was further shaken by the instability of the bond market.

Investment volumes were still significantly down at the beginning of 2024, as many institutional buyers continued to wait for transactions to close and data points to become available – confirming value ranges – before re-entering the market. Debt has also been challenging to obtain for private buyers in virtually every asset class. In the absence of better deal terms or significant discounts, buyers have become increasingly selective, unwilling to commit to challenging acquisition processes.

Halfway through 2024, interest rate reductions have had a boosting impact on buyer confidence. We expect future rate drops to continue fueling transaction activity, as buyer groups who have been waiting on the sidelines re-enter the market.

The flight to quality phenomenon observed in many Canadian markets was also seen in Ottawa, as any real estate that still harnesses strong fundamentals in the post-Covid world remains attractive to buyers, provided the price is right. Two requirements are particularly important to buyers: the price must be below replacement cost, and it must allow for cash flow with conventional debt. For assets that meet such criteria, we are seeing new benchmarks, which could be indicative of where the market is moving permanently. For instance:

Office – suburban office < $200psf

Retail – grocery anchored > 6.0% cap

Industrial – stabilized > 6.0% cap

Multifamily – stabilized > 4.75% cap

As such, any asset lacking strong fundamentals will likely garner low interest from potential buyers.

In addition, we are seeing a bifurcation of pricing between larger and smaller transactions. Anything within reach of private capital buying power is subject to the two requirements mentioned previously, and most opportunities that exceed that affordability are either subject to deeper discounts, or they simply won't trade.

Overall, Ottawa’s commercial real estate investment market is slowly getting back to a new norm where we anticipate an increase in values as institutional buyers re-enter the market and interest rates continue to decline.

Graeme Webster
Broker, Principal,
Head of Capital Markets Group
Ottawa, ON

Investment market trends

01

Rate cuts positively impact consumer confidence

After ten consecutive hikes over 18 months, the Bank of Canada dropped its rate by a total of 75 points between June and September of 2024. Further decreases are expected in the remainder of this year and into 2025.

New buyers and institutional players are slowly re-entering the market, but it may take a few more rate cuts to solidify investor sentiment that the market has recovered. However, there is a sense of optimism heading into H2 2024.

02

Private investors remain most active

Over the last 18 months, most private investors adjusted their investment and asset allocation strategies to consider the increased transactional risk, as many pension funds and institutional investors were temporarily sidelined. This created opportunity for private investors to add new assets to their portfolios.

Prevailing market dynamics have prompted lenders to adjust their strategies, emphasizing safeguarding capital rather than making it available. Despite this, capital remained available for well-qualified assets and creditworthy borrowers, with a particular preference for industrial and multi-residential asset classes. Lenders continue to be wary of office assets, but are willing to release capital if they have an existing relationship with the buyer, and know they have a proven track record.

03

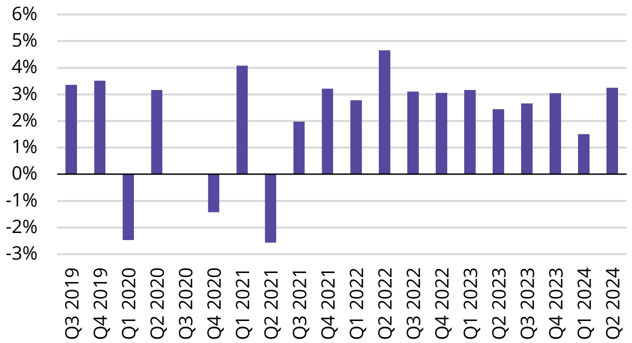
Multifamily continues to be the preferred asset class for investors

Multifamily remains the preferred asset class for investors in Ottawa, closely followed by retail assets, especially those that are anchored by medical tenants or grocery stores. There is still a positive sentiment for industrial assets, but fewer transactions have been recorded due in part to the lack of supply. Office assets remain least desirable, but some private buyers still see value in suburban locations with strong tenant covenants.

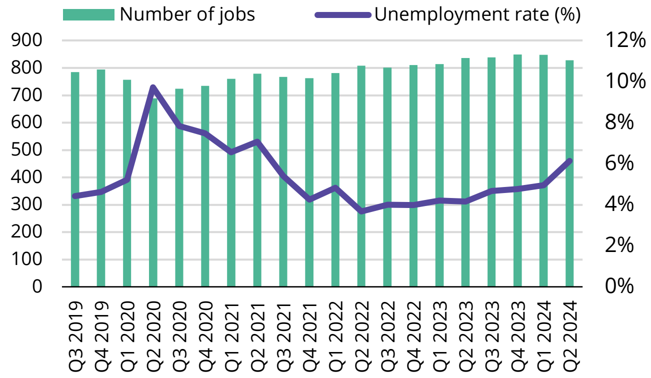
Most investors remain well-capitalized with ample ammunition ready to deploy. As the debt market continues to improve, and rate cuts intensify, it is expected that transaction volumes will increase.

Greater Ottawa economic snapshot

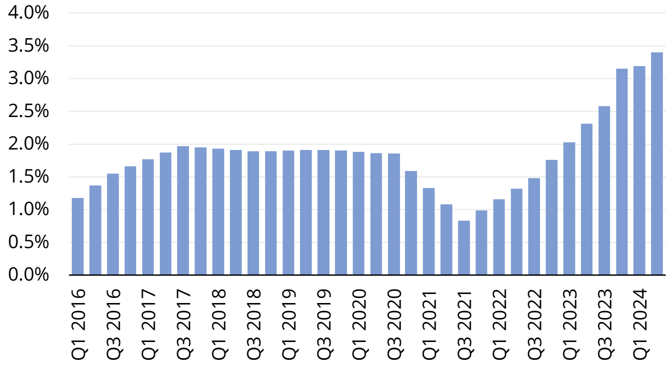
GDP growth (%)



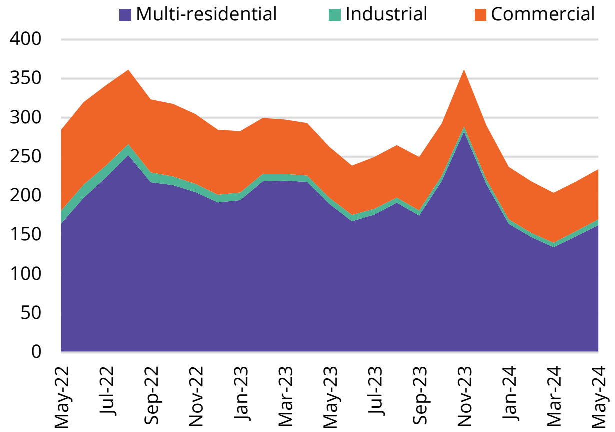
Employment growth (000 and %)



Population growth (%)



Investment in construction (millions $)



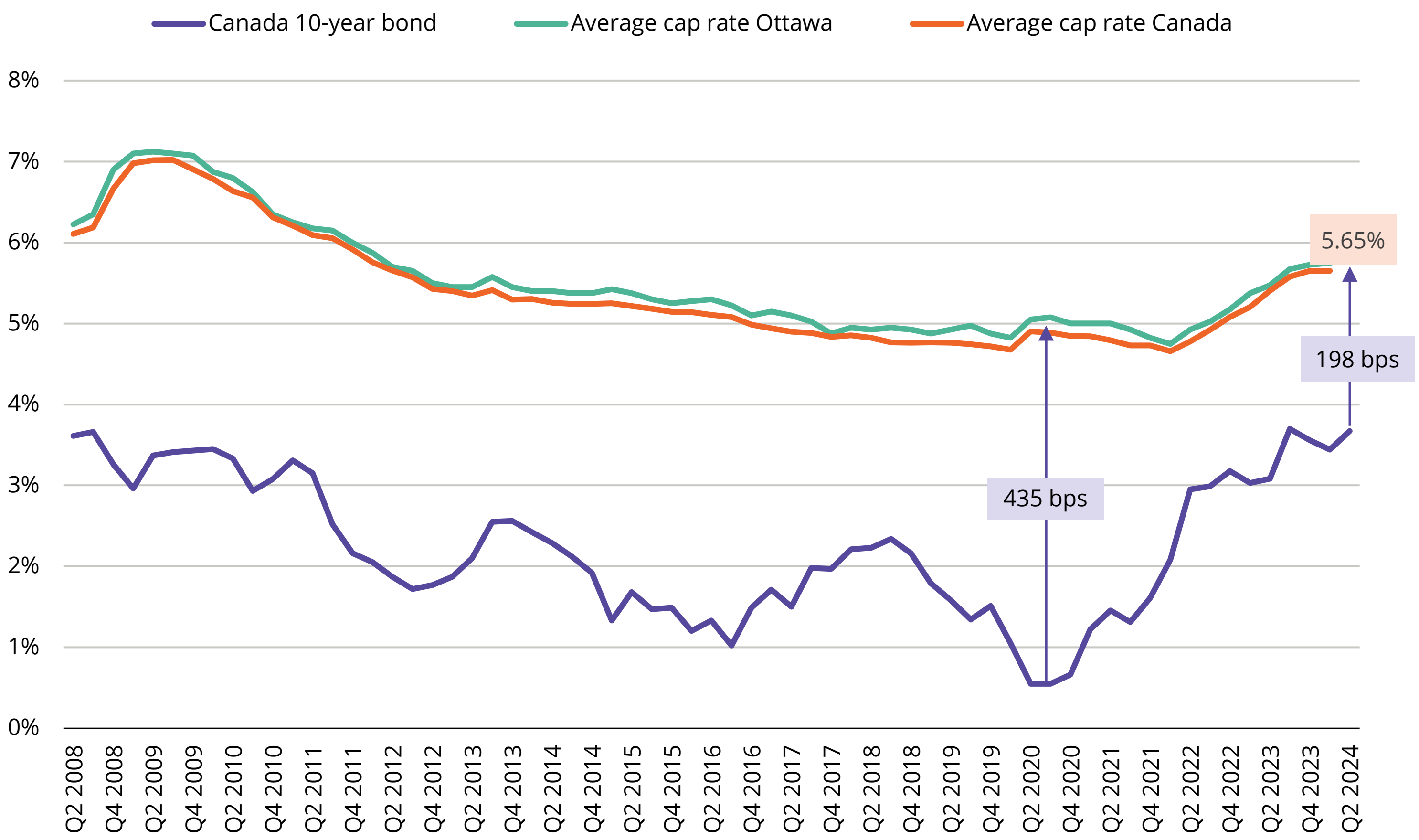
Though Ottawa's GDP growth slowed during Q1 2024 it returned to the 3.0% range by the end of Q2. The mild downturn in GDP contrasted with an increase in population growth quarter-over-quarter, reaching a new high of 3.4% by the midpoint of 2024.

H2 2024 is marked with an optimistic economic outlook in Ottawa, with GDP, employment, and population growth all trending upwards.

Source: Oxford Economics and Statistics Canada

Ottawa investment market indicators

National cap rate trends



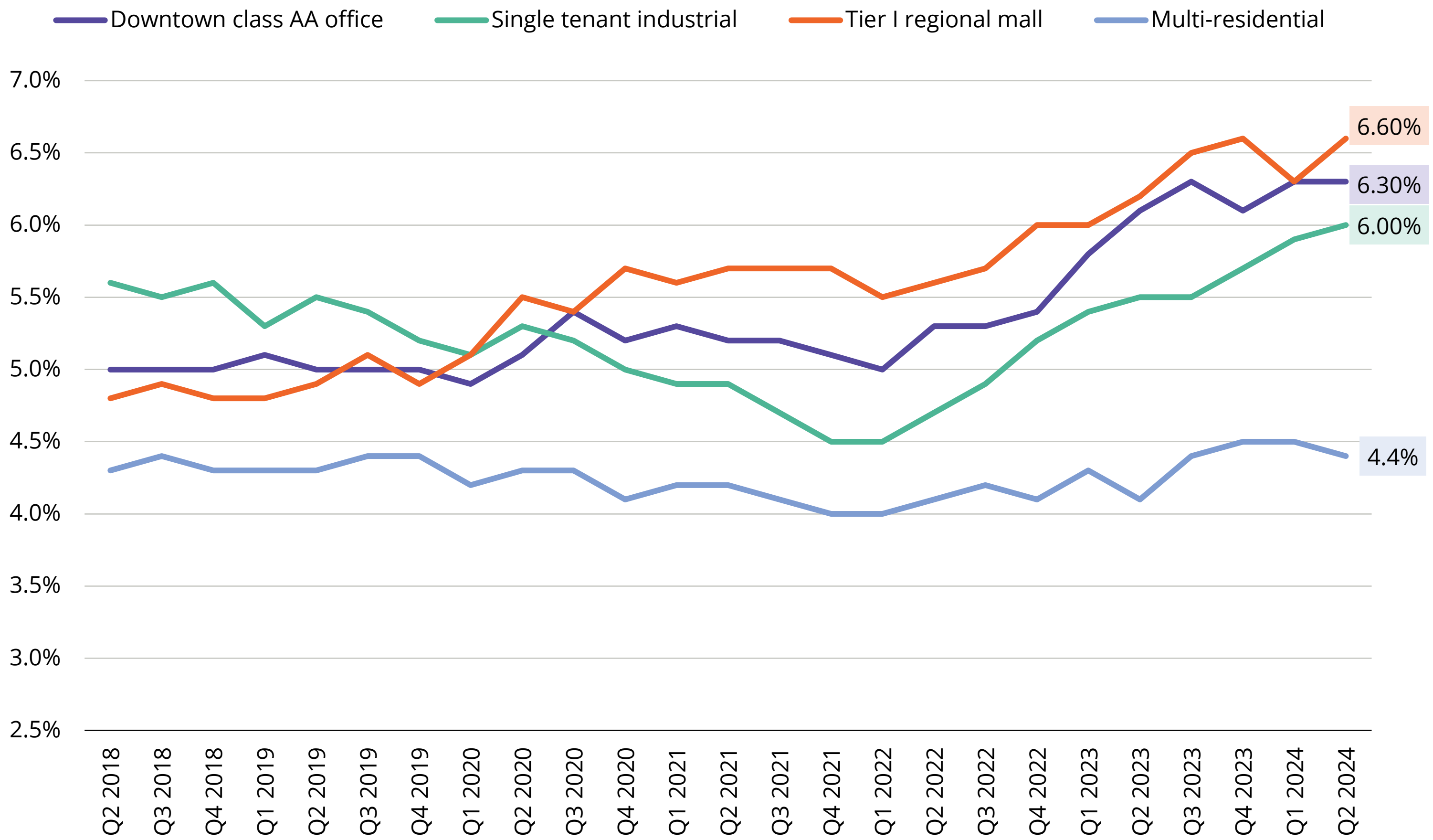
Source: Altus ITS and Bank of Canada

National and local average capitalization rates have been trending upward since 2022. Historically, cap rates in Ottawa have been slightly above the Canada-wide average, and this trend has continued into 2024.

It is anticipated that further capital returning to the market could bring downward pressure on cap rates as interest rates continue to decline.

Ottawa investment market indicators

Ottawa capitalization rate trends – benchmark asset classes



Source: Altus investment trend survey Q2 2024

So far in 2024, cap rates in Ottawa are the same or slightly higher than they were a year ago. The only exception applies to multi-residential cap rates, which experienced a modest decrease of 10 basis points since the beginning of the year.

With strong fundamentals, a stabilizing capital markets environment, and continued rate cuts on the horizon, we expect transactional activity to pick up and cap rates to contract.

Ottawa investment activity

6.7%

Year-over-year increase in Ottawa investment volumes

Investment volumes across Ottawa increased by almost 7.0% year-over-year (YoY), as consumer and business confidence improved with consecutive, long-awaited rate cuts this summer. The retail sector saw the biggest change, with a 344% increase in sales volume, driven by the resiliency of stabilized, essential service retail. Despite a more challenging lending environment, multi-residential transactions still accounted for 21% of all Ottawa sales and the highest transaction volume of any asset class. Private buyers accounted for most transactions, as institutional capital remains selective given tighter lending conditions.

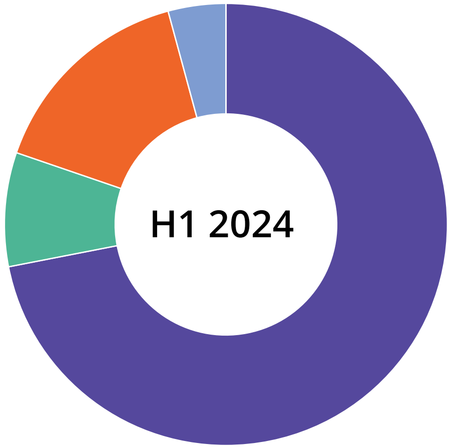
Transaction by investor profile – Ottawa

Canadian private investors
71.93%

Canadian public investors
8.34%

Government investors
15.53%

Other (developers, users, builders)
4.21%



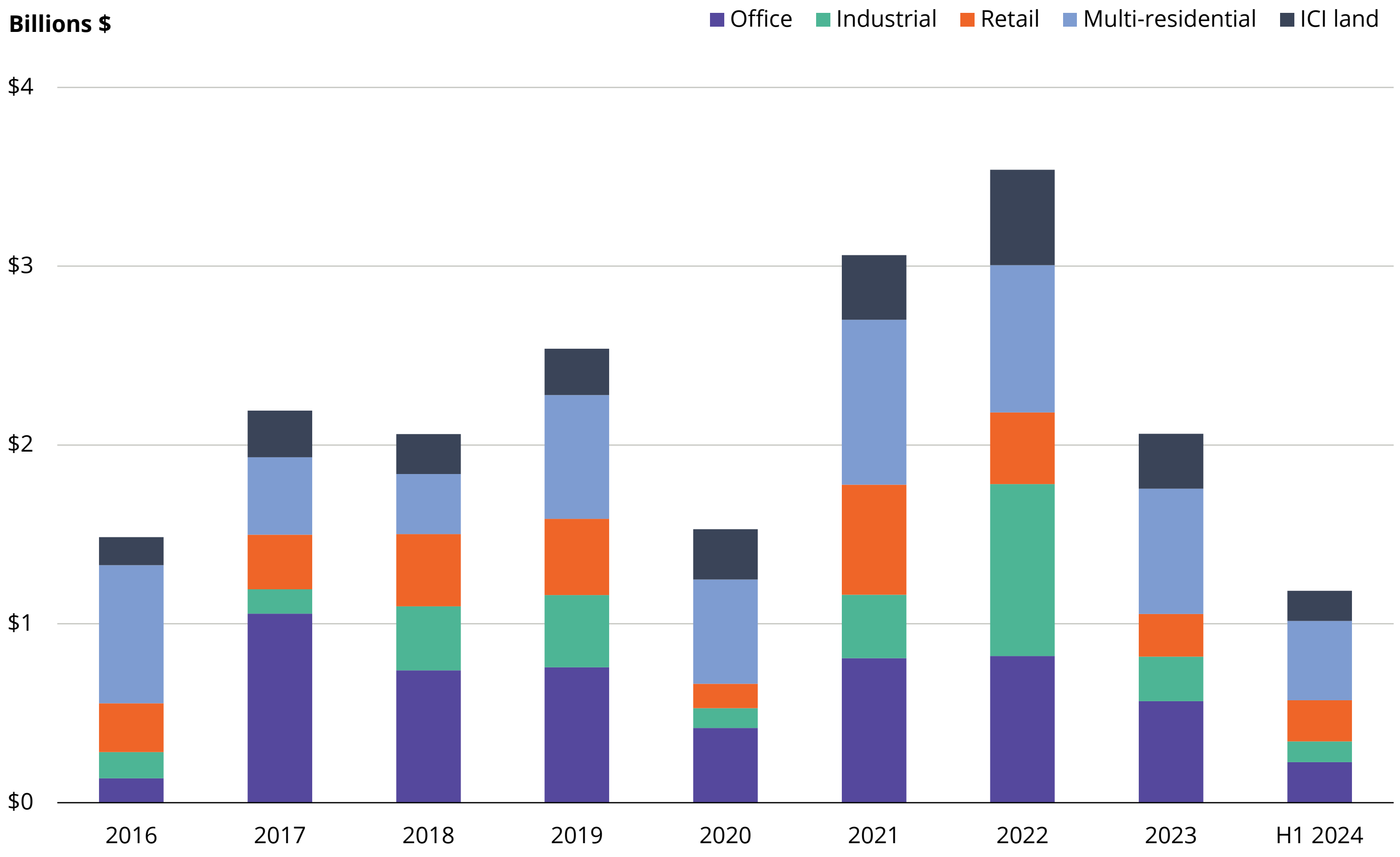
Annual sales volumes

Sales volume ($)	H1 2024	H1 2023	Change YoY
Industrial	$81,093,432	$62,045,000	**30.70%**
ICI land	$109,842,056	$167,384,141	**-34.35%**
Multi-residential	$260,536,290	$147,910,520	**76.10%**
Retail	$157,069,654	$35,386,800	**344.09%**
Office	$195,092,000	$340,607,004	**-42.74%**
Total	$803,633,432	$753,333,465	**6.68%**

Source: Altus Data Studio

Greater Ottawa investment activity

Transactions by asset class



Overall sales activity has been higher in H1 2024 compared to the year prior.

The retail and multi-residential sectors emerged as the preferred asset classes among real estate investors.

Source: Altus Data Studio

Office

A rebalancing market with fewer trades

H1 2024 saw Ottawa's office sales volume decline compared to the same periods in the previous two years. The office real estate market has continued to rebalance in response to the rise of hybrid work, possibly reaching a new equilibrium. According to Avison Young's proprietary cap rate survey, in H1 2024, class A assets traded at approximately 7.0%, with class B trading at 7.25%. We expect these cap rates will remain stable in the coming months.

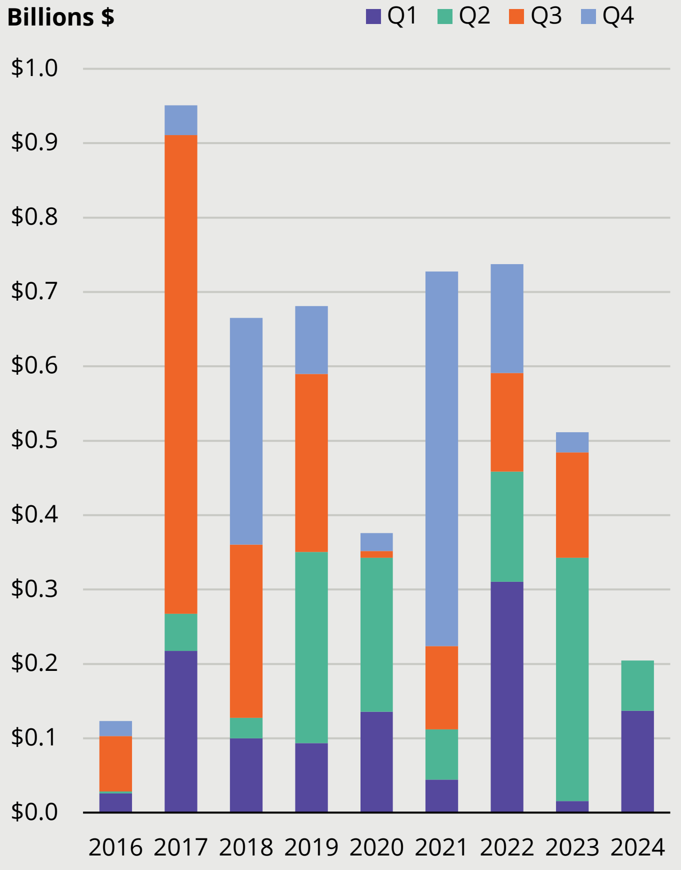
As seen in all asset classes in Ottawa, private investors have dominated the market. Four of the top five transactions in H1 of 2024 were purchased by private entities, including local firm Regional Group's acquisition of Churchill Office Park, one of Ottawa's most recognizable office properties.

The largest sale was completed by the Federal Government with the purchase of 181 Queen Street from Morguard. The 270,543-sf, multi-tenant building located in Ottawa's central business district was acquired as part of an option to purchase at market value upon the expiry of a lease agreement. The building was fully occupied by predominantly government agencies at the time of the sale.

Significant sale transactions

Address	Submarket	Sale price / $ psf	Buyer	Seller
181 Queen Street	Downtown Core	$125,307,000 / $463	Government of Canada	Morguard
1600 Carling Avenue	Ottawa West	$27,000,000 / $147	Regional Group	Manulife
1601 Telasat Court	Gloucester	$16,100,000 / $72	Devcore Group	Morguard
106 Colonnade Road	Nepean	$5,700,000 / $153	Private Investor	Crown Realty Partners
2465 St Laurent Boulevard	Ottawa East	$4,700,000 / $107	Private Investor	Cominar REIT

Office investment volume



Source: Altus Data Studio

Industrial

Market cools off from peak

Ottawa's industrial investment volumes reached $103 million in H1 2024, up from $96 million at the same time last year. This is still significantly lower than the peak of $773 million observed in H1 2022. This decrease in investment activity has mirrored the uptick in industrial vacancy rates as more supply has been added to the market. Multiple new developments have been completed in the last 18 months, including the most recent phase of the National Capital Business Park.

Cap rates for industrial assets in Ottawa increased by 50 basis points in H1 2024 compared to the previous year and now hover between 6.50% to 6.75%.

The most significant industrial transaction was the sale of 5123 Hawthorne Road, a 150,000-sf single-tenant asset which was purchased by the tenant.

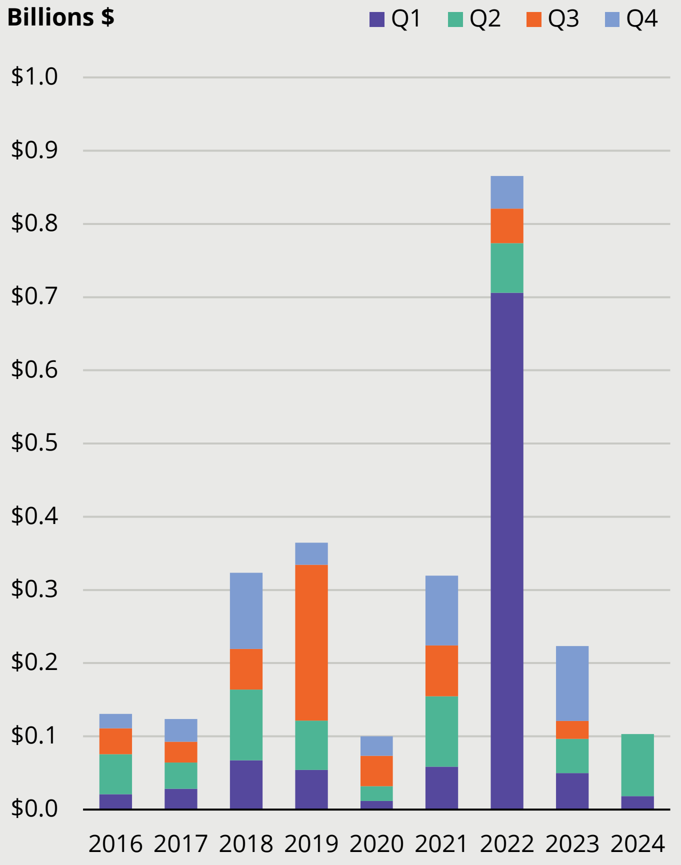
Many of the other notable trades have been completed by groups that plan to occupy a portion of the property while benefiting from the income generated by the existing tenants.

Brokers in Avison Young's Ottawa office helped to facilitate two key transactions, representing the Vendor in the sales of 170 Colonnade Road as well as 1580 Michael Street.

Significant sale transactions

Address	Submarket	Sale price / $ psf	Buyer	Seller
5123 Hawthorne Road	Gloucester	$15,175,000 / $100	Convertus Ottawa	Tomlinson Group of Companies
170 Colonnade Road	Nepean	$7,400,000 / $323	City of Ottawa	Tomlinson Group of Companies
145 Walgreen Drive	West Carleton	$7,400,000 / $510	White Owl MW Realty Ltd	Gerald K. Tallman Holdings Ltd
1580 Michael Street	Ottawa East	$7,000,000 / $275	Private Investor	Private Investor
2920 Sheffield Road	Ottawa East	$5,850,000 / $424	Private Investor	Private Investor

Industrial investment volume



Source: Altus Data Studio

Retail

The resurgence of retail

Retail investment volumes recorded in Q2 2024 were the second highest in the past eight years, after Q2 2021. Private investors fueled retail investment activity, while stabilized neighbourhood plazas and street front retail units garnered the highest interest.

Avison Young's proprietary cap rate survey noted that the primary motivations for retail purchasers were long-term income production and lease rate growth. The most desirable investments were those benefitting from strong consumer demographics and quality tenants. Retail cap rates for larger assets hovered between 6.0% and 6.75% in H1 2024, with smaller retail assets between 5.5%-6.25%.

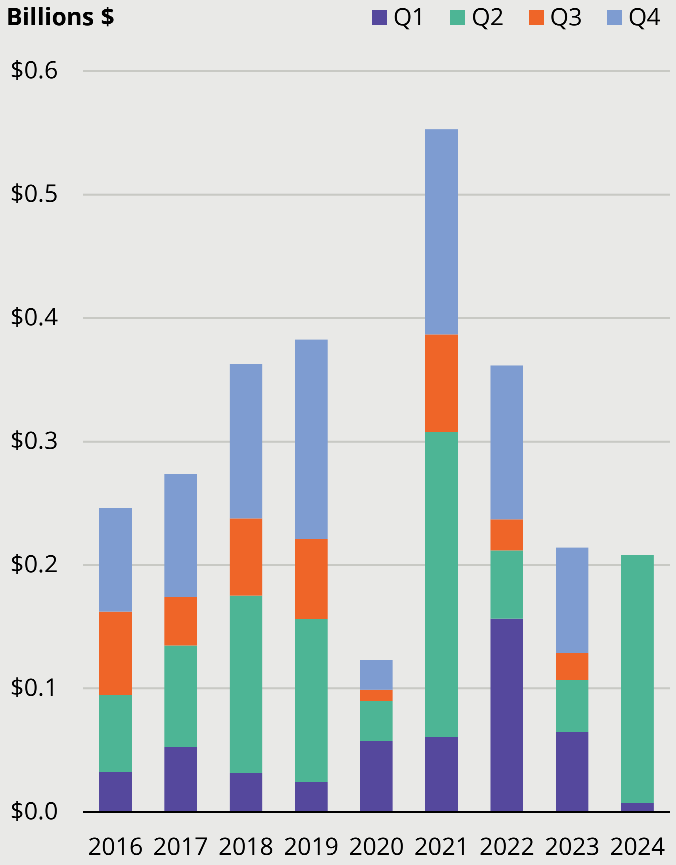
The sale of Carlingwood Shopping Centre was the largest trade in Ottawa across all asset classes, excluding multi-residential. Future residential development potential was reportedly a key factor for the purchaser.

Avison Young's Capital Markets Group in Ottawa was involved in two of the top five retail deals in H1 2024. The team worked to assist private investors in the acquisition of 292 Elgin Street, as well as representing the Vendor in achieving their list price at 379-381 Richmond Road.

Significant sale transactions

Address	Submarket	Sale price / $ psf	Buyer	Seller
2083 Carling Avenue (Carlingwood Shopping Centre)	Ottawa West	$73,500,000 / $116	Anthem Properties and Streamliner Properties	Ontario Pension Board
1618-1620 Merivale Road	Nepean	$7,500,000 / $202	Private Investor	Embassy West Senior Living
17-29 Beechwood Avenue	Ottawa East	$6,500,000 / $409	Private Investor	Minto Apartment REIT
292 Elgin Street	Centretown	$5,200,000 / $465	Private Investor	Huntington Properties
379-381 Richmond Road	Ottawa West	$4,950,000 / $550	Private Investor	Private Investor

Retail investment volume



Source: Altus Data Studio

ICI land

Transaction volume declines

While ICI land sales declined by roughly 35% in H1 2024 compared to H1 2023, they still accounted for 28% of all Ottawa transactions, totaling $121 million. However, commercial land sales volume hit its lowest level since 2018, mainly due to economic headwinds for development.

The largest transaction was the sale of land in the Citigate Business Park from local developer Regional Group, purchased by Myers Automotive for future development.

Another notable transaction was the acquisition of 2079 Artistic Place by a Toronto-based real estate group, which will be home to 150,000-sf of industrial condominiums in Ottawa's South end.

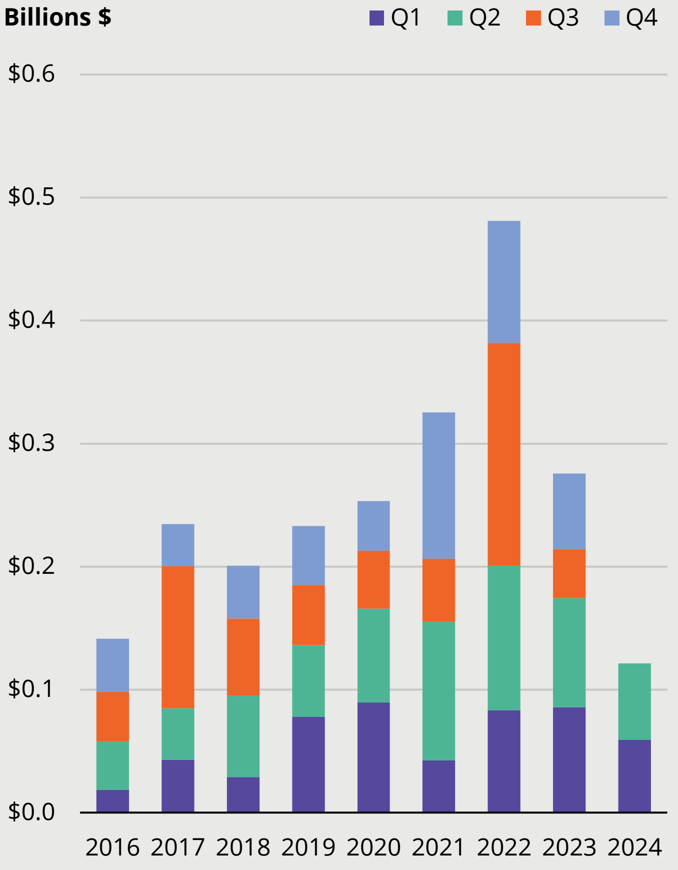
Claridge Homes bought a parcel of land in the Byward Market, part of a larger consolidation of properties owned by Claridge.

The sale of approximately 200 acres of land on Fernbank Road, facilitated by brokers in Avison Young's Ottawa office, included a fully operational sand and gravel pit.

Significant sale transactions

Address	Submarket	Sale price / $ psf	Buyer	Seller
4175 Strandherd Drive	Nepean	$17,000,000/ $1,307,000	Myers Automotive	Regional Group
4740 High Road	Gloucester	$14,270,675 / $85,000	Falcon Ridge Village	Private Investor
2079 Artistic Place	Ottawa East	$9,000,000 / $750,000	Matti-Quaestus	Private Investor
116 York Street	Byward Market	$6,500,000 / $26,000,000	Claridge Homes	Bayview Hospitality Group
7731 Fernbank Road	Goulbourn	$5,250,000 / $29,175	Private Investor	Private Investor

ICI land investment volume



Source: Altus Data Studio

Multi-residential

Investment outpaces historical averages

The multi-residential sector remains one of the most attractive, representing the highest total investment volume of any sector with almost $270 million invested so far this year. Cap rates were even more aggressive in Q2 2024 ranging from 4.5% to 5.0%, compared to 4.9% to 5.5% in Q1. We have seen higher-than-average investment in affordable housing and student housing with three of the top five significant sales being in these subcategories.

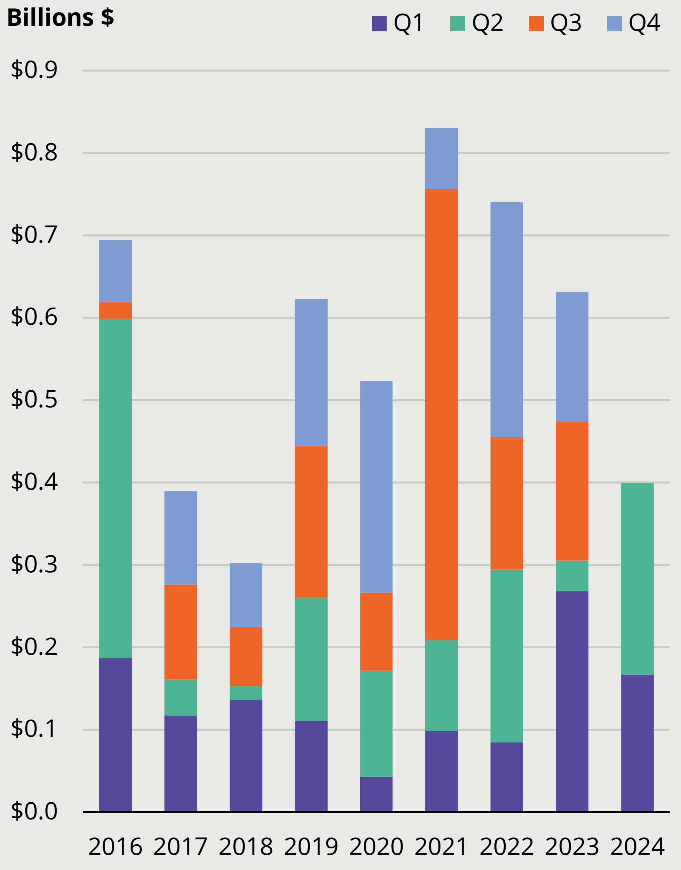
Ottawa Community Housing closed on two significant transactions, purchasing a 311-unit portfolio of townhomes from Minto Group in Ottawa's West end, along with 19 condominium units from Windmill and Dream, the co-developers of Common at Zibi.

Avison Young's Capital Markets team in Toronto helped facilitate two key trades in H1 2024. CLV group invested nearly $50 million in the acquisition of 330 units between two buildings in Ottawa's downtown core. Additionally, a private investor from Toronto purchased 2935 Richmond Road, which included 125 units.

Significant sale transactions

Address	Submarket	Sale price / $ psf	Buyer	Seller
1 Woodfield Drive	Nepean	$86,000,000 / $276,000	Ottawa Community Housing	Minto Group
330 Metcalfe St / 173 Cooper St	Centretown	$48,000,000 / $200,000	CLV Group	Private Investor
417 Nelson Street	Ottawa East	$24,000,000 / $452,000	Alignvest Student Housing REIT	Polo Property Management
2935 Richmond Road	Ottawa West	$22,500,000 / $180,000	Private Investor	H. E. Reinert Holdings
300 Miwate Private (Zibi)	Downtown Core	$7,166,000 / $378,000	Ottawa Community Housing	Windmill Developments, Dream

Multi-residential investment volume



Source: Altus Data Studio

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