

# MARKETBEAT OFFICE SNAPSHOT

## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q4 2013



### ECONOMIC OVERVIEW

Despite another year-over-year decrease in employment in the public administration sector, the unemployment rate in the National Capital Region decreased in November, reaching 5.9%. The public administration sector, which includes federal government employees, saw its employment numbers drop to 143,600. That is a decrease from 164,400 in November 2012. However, the sector that includes high-tech workers has added numbers to its ranks with 55,200 people now working in information and communication technology in November, which is up from 41,500 a year ago. Gains were also reported in several other sectors in November. Despite these positives the Conference Board of Canada is still forecasting GDP growth for the region at just 0.8% this year, ranking Ottawa-Gatineau 12<sup>th</sup> out of 13 census metropolitan areas. This will largely be the result of the shrinking public administration sector which accounts for approximately 30% of overall economic activity.

### VACANCY RESUMES ITS CLIMB UPWARDS

After a slight pause in Q3, the overall vacancy rate resumed its upward march to reach 8.2%, an increase of 0.3 percentage points from last quarter, and marks the highest vacancy rate posted since 2005. Vacancy climbed within the Central and Suburban West markets – to 7.2% and 11.1% respectively - while vacancy continued to decline within the Suburban East market, reaching 4.1% this quarter.

### OVERALL DEMAND LACKLUSTRE THROUGH 2013

Absorption totals softened in the Central and Suburban West markets this quarter and combined with fairly minimal positive absorption in the Suburban East market led to an overall absorption total this quarter of negative 128,000 square feet (sf). This brings the end-of-year total to just over 22,000 sf. The Ottawa office market struggled this year; largely the result of minimal activity from the federal government, which either directly or indirectly has significant influence over the office market. Uncertainty surrounding the federal government will likely continue through 2014 as the federal government works to consolidate and fill the holes that have been left vacated by laid off employees.

### OUTLOOK

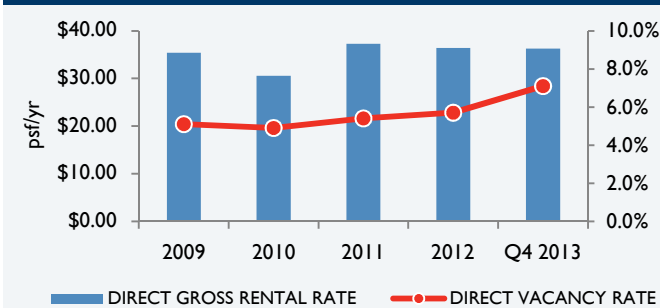
Although the office market is not expected to accelerate in a dramatic fashion in 2014, the market will benefit from four new construction completions. Three of these are being completed on “spec” and the other is a build-to-suit for the federal government. One of the most interesting announcements related to this new construction involves Shopify – an Ottawa based e-commerce provider. It was recently

announced that they will be moving their offices to 150 Elgin Street; due to be completed in Q1 2014. It has been confirmed that they are set to lease approximately 100,000 sf of space; one of the largest private sector deals completed in Ottawa in recent memory. Another project that has involved discussion amongst the market is Bona’s new 273,000-sf building in the east end, also due to be completed in Q1 2014. However, there has been no mention of tenants nor has there been any marketing of any available space.

### STATS ON THE GO

	Q4 2012	Q4 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.5%	8.2%	0.7pp	▲
Direct Asking Rents (psf/yr)	\$19.18	\$18.66	-2.7%	◀▶
YTD Leasing Activity (sf)	1,251,632	1,492,191	19.2%	◀▶

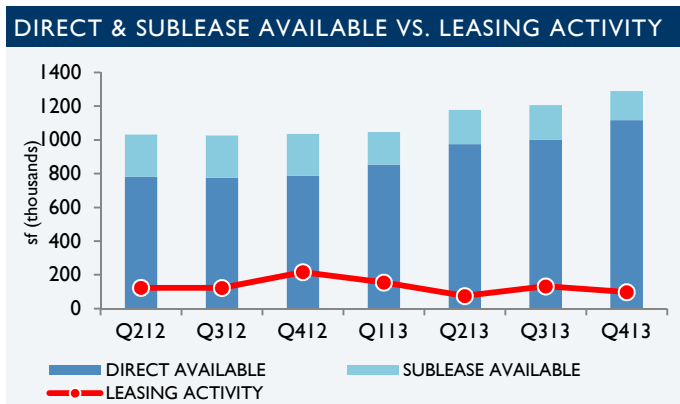
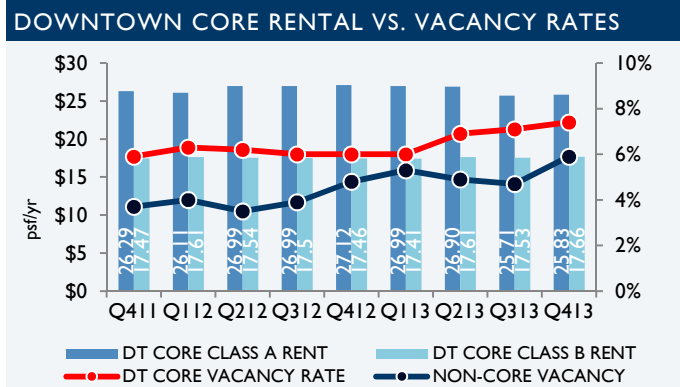
### DIRECT RENTAL VS. VACANCY RATES



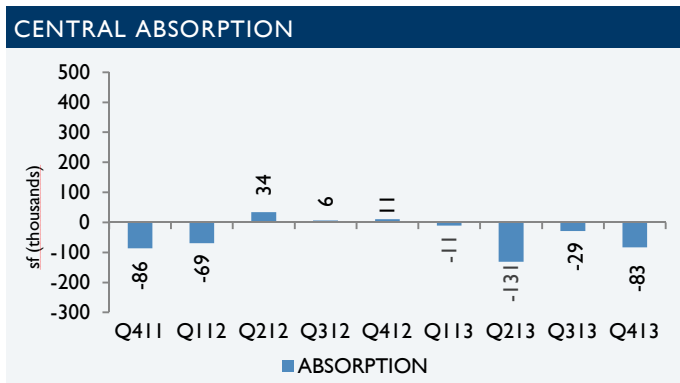
### LEASING ACTIVITY



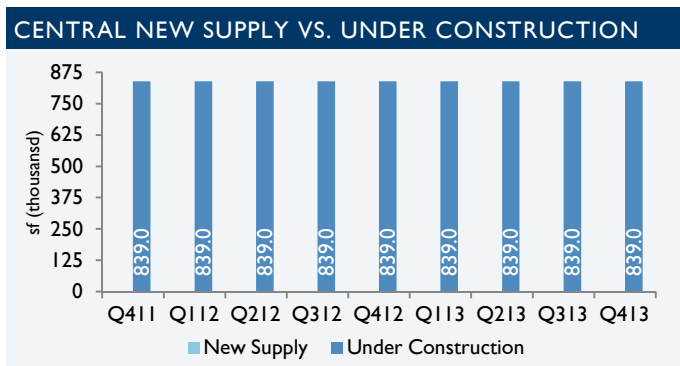
- Overall vacancy within the downtown core rose for the third straight quarter; climbing 0.3 percentage points to 7.4%. The class A vacancy rate posted the largest increase of all market segments, rising 0.5 percentage points to 4.7%. Despite this climbing vacancy asking rental rates in both the class A and B segments have remained fairly consistent throughout 2013; the slight variations that have been seen quarter-over-quarter were largely the result of cheaper or more expensive than average pockets of space coming onto or off the market.
- The non-Core vacancy climbed sharply to reach 5.9%, over a full percentage point increase from Q3. Some softening was seen throughout both the Centretown and Byward Market submarkets, particularly within the class B Centretown market.
- The overall amount of space available within the Central Area continues to climb, with almost all of the new vacancy comprised of direct space located in the Downtown Core. Sublet availability declined to its lowest level in over a years to 174,000 sf and is now entirely located within the Downtown Core.
- Leasing activity slowed in Q4 to 98,000 sf, the second lowest total in the past seven quarters and brings the end-of-year total to 461,000 sf. Only two buildings in the Downtown Core class A segment reported leasing activity, with that number increasing to five buildings in the class B segment.



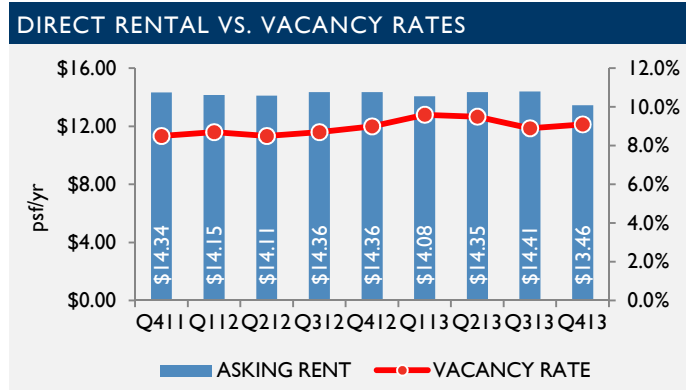
- Overall absorption totals were in the negative throughout 2013 with an overall total of negative 254,000 sf. All three submarkets within the Central area posted end-of-year negative absorption totals.
- It is likely that vacancy will continue to rise in the Central area through the first half of 2014 as 221,000 sf of additional space will come on the market. Despite this rise in vacancy absorption figures may creep into the positive with the completion of 150 Elgin Street. The majority of tenants moving to this building are leaving behind premises fairly close in size, if not slightly smaller to what they will be occupying, so the net effect on absorption will be positive. However, the relocation of Shopify will provide the most significant boost to absorption figures as they vacate approximately 17,000 sf in the Byward Market to move into 100,000 sf at 150 Elgin Street.



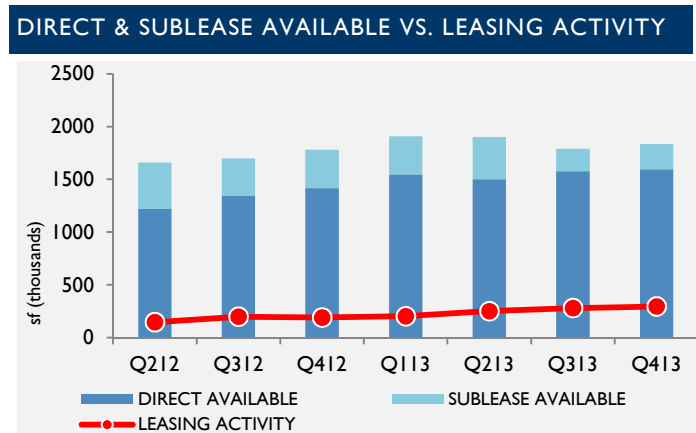
- There was no change in Central Area new supply or buildings currently under construction in the fourth quarter of 2013. Construction continues at both 90 Elgin Street, the 646,000-sf tower being built for the federal government, and 150 Elgin Street, the 350,000-sf tower that was constructed largely on speculation. Canada Council for the Arts, KPMG, CIBC, Ottawa Tourism and now in a recent announcement Shopify will be tenants in this building which is now 82% leased.



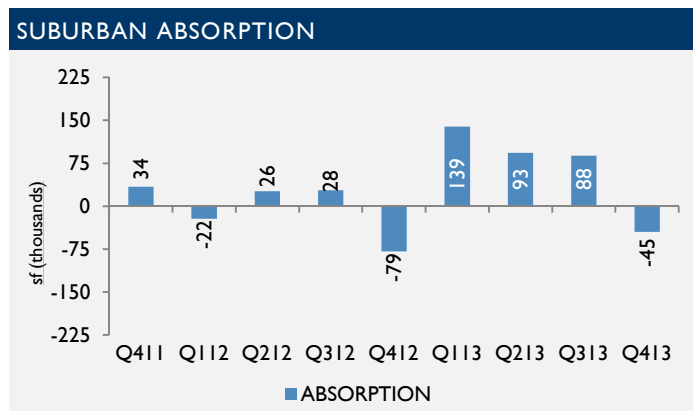
- Overall suburban vacancy has remained remarkably stable over the past two years with only a small change this quarter, climbing 0.2 percentage points to 9.1%. Vacancy in both suburban markets has risen and fallen throughout 2013. The western markets Q4 vacancy is on the upswing climbing 0.5 percentage points from last quarter to reach 11.1%, while vacancy in the eastern markets declined by 0.4 percentage points to 4.1%.
- Overall asking rental rates declined to \$13.46 psf; the lowest average in two years. Rates declined in the Suburban West market to average \$13.09 psf, while in the Suburban East markets rates remained relatively stable at \$15.03 psf.



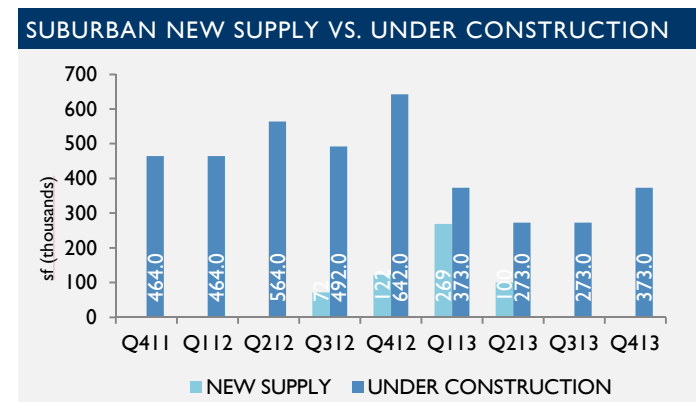
- The amount of direct space available in the Suburban market climbed slightly from last quarter to reach close to 1.6 million square feet (msf). The amount of space available for sublease also rose to 242,000 sf. The majority of the new sublet space was made available in Kanata as Research in Motion placed close to 57,000 sf on the sublet market.
- Small gains in leasing activity were seen throughout 2013, totaling 296,000 sf this quarter; which brings the end-of-year total to just over 1.0 msf. The Kanata and Ottawa West markets had the highest totals in the suburbs due to large transactions involving Mosaid Technologies in Kanata which leased 43,000 sf and Ceridian Canada located in Ottawa West which leased 19,500 sf.



- After three quarters of steady absorption in the overall Suburban market, new vacancy in the Suburban West market outpaced overall demand in Q4 resulting in negative 45,000 sf. This brings the end-of-year total to 276,000 sf.
- As anticipated Research in Motion put over 100,000 sf on the market this quarter, all of which is located in Kanata. Vacancy may continue to creep upwards in the overall Suburban market as approximately 130,000 sf of additional space may be coming on the market over the next six months. One potential bright spot on the horizon, and which is purely speculative, is that 501 Palladium, the former Smart Technologies 260,000-sf building that has been on the market for over two years, may in fact be close to being leased.



- Construction is ongoing at BONA's new build in Vanier. The building is approximately 273,000 sf, with an anticipated completion date of Q1 2014. There is much speculation surrounding this project as the developer had not formally announced any leasing activity but at the same time is not actively marketing any space as available.
- Construction has also commenced on Minto's 100,000-sf building located at the redeveloped Landsdowne Park with a projected completion date of Q3 2014.



## OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	OVERALL ABSORPTION CURRENT QUARTER	YTD OVERALL ABSORPTION	WTD. AVG ALL CLASSES GROSS RENTAL RATE*	WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Core	15,211,498	7.4%	6.3%	364,177	839,000	0	(50,631)	(223,781)	\$44.67	\$49.70
Centretown	1,769,448	7.4%	7.4%	78,606	0	0	(27,844)	(27,134)	\$30.01	N/A
Byward Market	914,861	3.1%	3.1%	18,312	0	0	(4,535)	(2,789)	\$35.85	\$39.21
Non-Core Total	2,684,309	5.9%	5.9%	96,918	0	0	(32,379)	(29,923)	\$32.93	\$39.21
<b>Overall Central</b>	<b>17,895,807</b>	<b>7.2%</b>	<b>6.2%</b>	<b>461,095</b>	<b>839,000</b>	<b>0</b>	<b>(83,010)</b>	<b>(253,704)</b>	<b>\$43.33</b>	<b>\$49.32</b>
Kanata	5,302,169	16.0%	13.9%	414,752	0	0	(61,017)	1,747	\$23.90	\$24.18
Ottawa West	3,669,207	9.9%	9.1%	226,084	0	0	9,455	(52,668)	\$29.93	\$33.29
Nepean	5,542,338	7.2%	5.8%	177,947	0	100,000	(18,190)	42,694	\$28.45	\$32.41
Suburban West Total	14,513,714	11.1%	9.6%	818,777	0	100,000	(69,752)	(8,227)	\$26.57	\$27.03
Ottawa East	4,164,596	3.6%	3.6%	178,937	373,400	269,100	19,292	314,803	\$29.04	\$31.37
Gloucester	1,397,799	5.4%	4.1%	33,376	0	0	5,606	(30,442)	\$34.28	\$34.79
Suburban East Total	5,562,395	4.1%	3.7%	212,313	373,400	269,100	24,898	284,361	\$31.17	\$33.22
<b>Overall Suburban</b>	<b>20,076,109</b>	<b>9.1%</b>	<b>7.9%</b>	<b>1,031,096</b>	<b>373,400</b>	<b>369,100</b>	<b>(44,854)</b>	<b>276,134</b>	<b>\$27.37</b>	<b>\$28.32</b>
<b>OVERALL CITY</b>	<b>37,971,916</b>	<b>8.2%</b>	<b>7.1%</b>	<b>1,492,191</b>	<b>1,212,400</b>	<b>369,100</b>	<b>(127,864)</b>	<b>22,430</b>	<b>\$36.30</b>	<b>\$39.77</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

Significant Q4 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
350 Legget Drive	Kanata	N/A	A	44,403
390 March Road	Kanata	Mosaid Technologies	B	43,186
343 Preston Street	Ottawa West	Ceridian Canada Ltd.	A	19,541
Significant Q4 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
234 Laurier Ave. West	Downtown Core	1258881 Ontario Inc.	\$75,750,000 / \$172	440,000
5430 Canotek Road	Gloucester	2370153 Ontario Ltd.	\$2,375,000 / \$156	15,250
Significant Q4 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000
150 Elgin Street	Downtown Core	Canada Council for the Arts, Shopify	Q1 2014	350,000
140 Jeanne Mance	Ottawa East	N/A	Q1 2014	273,400
979 Bank Street	Ottawa East	N/A	Q3 2014	100,000

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS