

MARKETBEAT OFFICE SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q1 2014



ECONOMIC OVERVIEW

The public administration sector continued to shed jobs in February with the unemployment rate in the National Capital Region reaching 6.5%, a climb of 0.6 percentage points from last quarter. The public administration sector, which includes federal government employees, saw its employment numbers drop to 140,400. That is a decrease from 154,800 in February 2013. However, the sector that includes high-tech workers has continued to improve with 61,700 people now working in information and communication technology in February, which is up from 42,400 a year ago. In its latest metropolitan release the Conference Board of Canada reports that the region's economy certainly suffered in 2013 with GDP growth of only 0.3%. Although more job cuts are expected to the public administration sector, the rate of decline will be much slower, and coupled with strong non-residential construction activity, GDP growth is expected to accelerate to 1.4% in 2014.

VACANCY RELATIVELY STABLE

The overall amount of vacant space available in Ottawa climbed by approximately 50,000 square feet (sf) from last quarter resulting in the vacancy rate edging up by 0.1 percentage points to 8.3%. This was entirely the result of softening in the Central area market where vacancy climbed to 7.8% this quarter from 7.2% in Q4 2013. This rise in vacancy was largely the result of two key factors. The first being the space that came on the market as Canada Council of the Arts began their relocation to 150 Elgin Street. Secondly the completion of 150 Elgin Street itself impacted overall vacancy, as approximately 48,000 sf remains to be leased in that building.

OVERALL DEMAND REMAINS STAGNANT

Although overall absorption climbed substantially from last quarter to reach 295,000 sf, this was largely the result of the completion of 150 Elgin Street. If you were to remove this new supply from the equation then absorption would likely have remained positive, however the total would be fairly minimal. Overall activity remains fairly soft throughout the majority of the other submarkets in the city, although the Kanata class A market performed well in Q1 2014 with close to 78,000 sf of positive absorption and close to 107,000 sf in leasing activity.

OUTLOOK

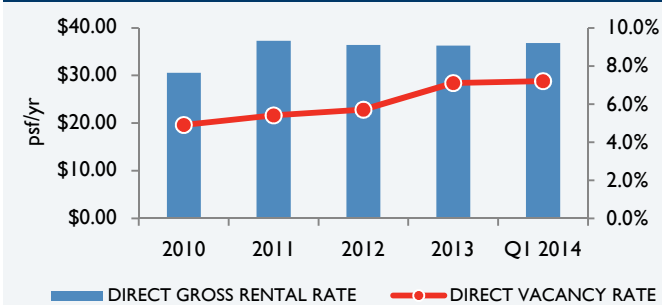
It is anticipated that the Ottawa office market can expect more of the same market conditions that prevailed throughout 2013 – particularly as it relates to overall demand being able to outpace new supply. The federal government continues to maintain its commitment to balance the

books by 2015-2016, and as a result spending on goods and services is expected to remain flat or perhaps even fall further in 2014. This has both a direct and indirect impact on the economy of the region and demand for office space. Although the completion of 150 Elgin Street benefitted overall absorption totals this quarter, the completion of BONA's new 290,000-sf building in the Ottawa East market next quarter will likely have little impact on absorption figures but certainly impact vacancy as the building is currently being marketed as fully vacant.

STATS ON THE GO

	Q1 2013	Q1 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.8%	8.3%	0.5pp	▲
Direct Asking Rents (psf/yr)	\$19.11	\$18.62	-2.6%	◀▶
YTD Leasing Activity (sf)	358,559	405,769	13.2%	◀▶

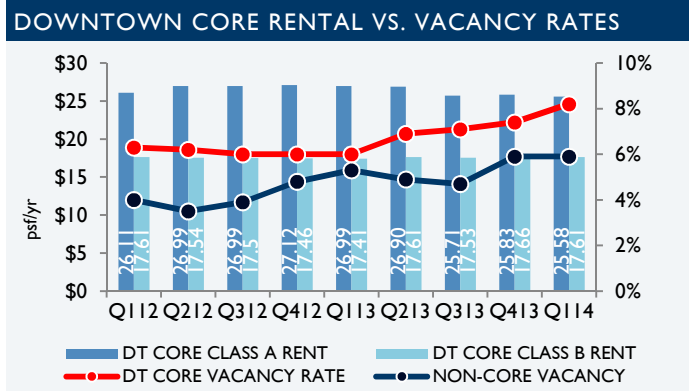
DIRECT RENTAL VS. VACANCY RATES



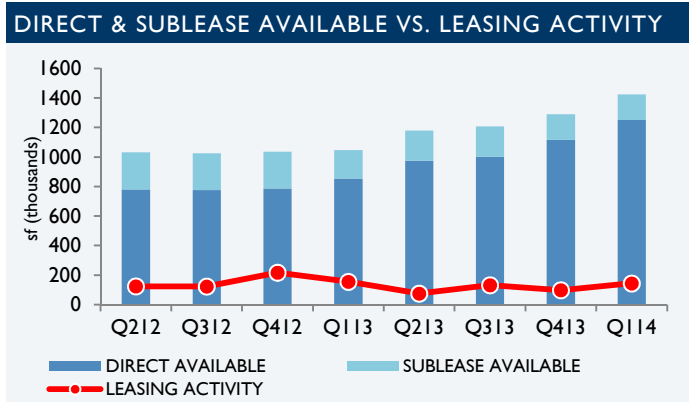
LEASING ACTIVITY



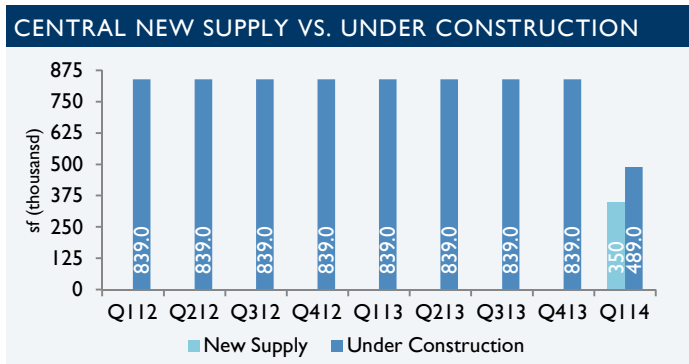
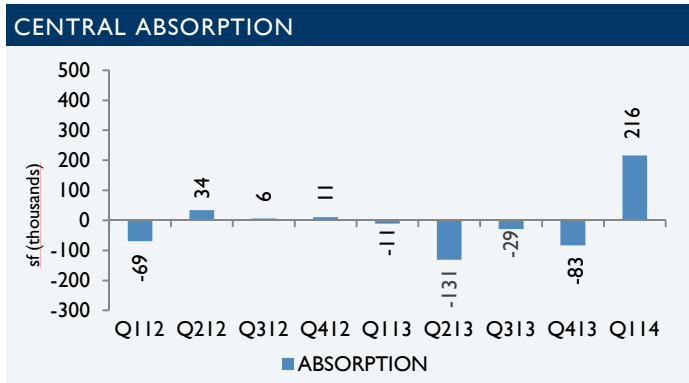
- Overall vacancy within the downtown core has risen over the course of the past year and ended the first quarter of 2014 at 8.2%. The class A vacancy rate once again had a fairly substantial change rising a full percentage point from last quarter to 5.7%. Both the class A & B asking rental rates held relatively steady from last quarter although both had slight declines compared to Q4 2013.
- The non-Core vacancy rate remained at 5.9% this quarter as vacancy in both the Centretown and Byward Market submarkets remained very close to last quarter's numbers.



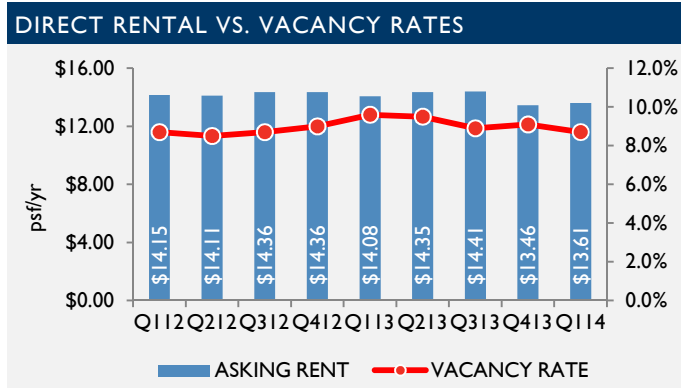
- The amount of direct space available within the Central Area climbed to 1.25 million square feet (msf), with the amount of sublet space available almost identical to last quarter. With little change in the Centretown and Byward Markets, this new availability was located within the Downtown Core, particularly in class A. The majority of this new space was the result of the completion of 150 Elgin Street as space that was formerly occupied by Canada Council for the Arts came on the market. In addition, there is approximately 48,000 sf that has yet to be leased in the new office tower.
- Leasing activity rebounded in Q1 2014 to reach 144,000 sf. Although the number of buildings reporting leasing activity within the downtown core remains fairly low, the transactions were larger in size compared to Q4 2013 resulting in a higher overall total.
- Overall absorption totals spiked upwards to reach 216,000 sf, the highest total seen in the Central market since the third quarter of 2011. This was entirely the result of the completion of 150 Elgin Street.
- It is highly probable that this quarter's absorption will be the highest positive absorption that will be seen in the Central Area for the remainder of 2014. Approximately 171,000 sf is set to come on the market over the next six months and with overall demand remaining low, absorption totals will likely decline and perhaps move back into negative territory.



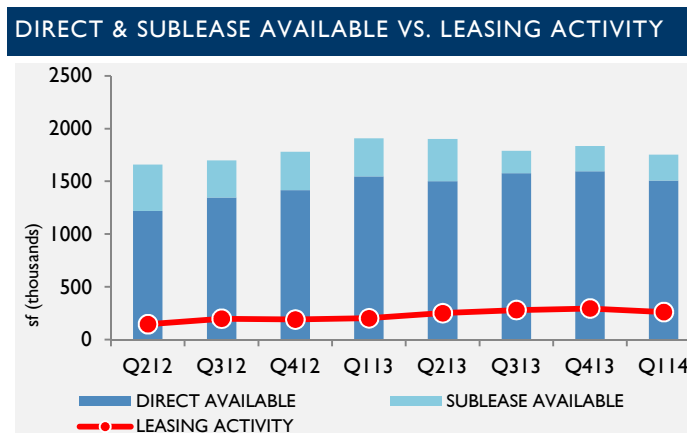
- Construction was completed at 150 Elgin Street and was over 85% preleased upon completion; this is commendable considering the current market conditions. Work continues at 90 Elgin Street, the 646,000-sf tower being built for the federal government, with a completion date slated for Q4 2014.



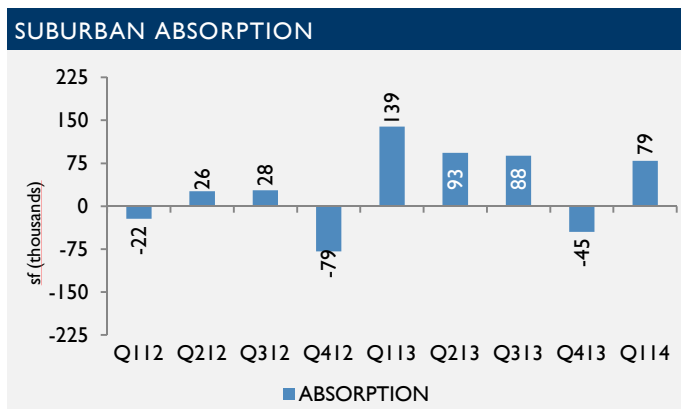
- In a marked contrast from the Central market, overall suburban vacancy has remained remarkably stable over the past two years, with vacancy declining slightly this quarter to reach 8.7%. Vacancy in both suburban markets continues to fluctuate up and down. This quarter, vacancy declined in the Suburban west market to reach 10.3%, while in the Suburban east market vacancy rose to 4.5%, the direct opposite of what occurred last quarter.
- Overall asking rental rates rebounded from last quarter to reach \$13.61 per square foot (psf). Rates climbed in both the Suburban West and East markets, averaging \$13.18 psf and \$15.27 psf respectively.



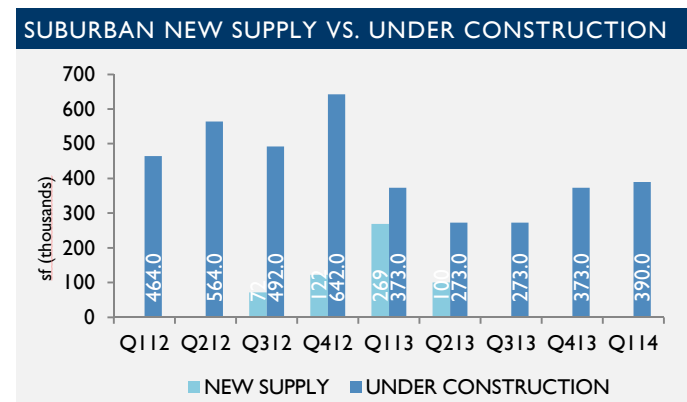
- The amount of direct space available in the Suburban market declined from last quarter to reach just over 1.5 msf. The amount of space available for sublease was almost identical to last quarter, with little change expected in the near term.
- Leasing activity remains consistent in the Suburban market, with Q1 2014 totals of 262,000 sf. The Kanata market was particularly active with totals of 115,000 sf. There were four new transactions of over 10,000 sf, with the largest being close to 46,000 sf at 501 Palladium Drive. In a recent news release Summit REIT stated that 501 Palladium Drive had been leased by MobilShred and Lockheed Martin. The 46,000 sf represents the office portion of the space that was being marketed.



- Absorption in the overall Suburban market rebounded this quarter to reach close to 79,000 sf. As was the case with leasing activity, Kanata lead the way in terms of demand outpacing supply.
- Looking towards the remainder of 2014 absorption figures may be impacted by what occurs at Research in Motion (RIM). In early March RIM announced they would be laying off approximately 90 local employees, although it is unclear the impact that would have on their local real estate requirements. A few weeks later a further announcement was made in that RIM would be selling a majority of their real estate holdings and then leasing a portion back. It has not been confirmed by RIM what holdings would involve Kanata but it possibly could involve approximately 327,000 sf of space.



- Construction is ongoing at BONA's new build in Vanier. The building is approximately 290,000 sf, with an anticipated completion date of Q2 2014. As it stands now, this building is fully vacant and therefore will not generate any positive absorption but will certainly impact vacancy rates.
- Construction continues 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	15,561,498	8.2%	7.0%	129,445	489,000	350,000	213,091	213,091	\$44.76	\$49.55
Centretown	1,769,448	7.3%	7.3%	9,187	0	0	226	226	\$32.15	N/A
Byward Market	842,861	3.0%	3.0%	4,946	0	0	2,903	2,903	\$35.25	\$38.15
Non-Core Total	2,612,309	5.9%	5.9%	15,133	0	0	3,129	3,129	\$33.70	\$38.15
Overall Central	18,173,807	7.8%	6.9%	143,578	489,000	350,000	216,220	216,220	\$43.77	\$49.14
Kanata	5,337,369	14.7%	12.6%	115,388	0	0	69,095	69,095	\$24.32	\$24.91
Ottawa West	3,669,207	9.5%	9.3%	62,886	0	0	17,373	17,373	\$30.07	\$32.35
Nepean	5,507,138	6.7%	5.7%	57,120	0	0	17,528	17,528	\$27.55	\$29.69
Suburban West Total	14,513,714	10.3%	9.1%	235,394	0	0	103,996	103,996	\$26.81	\$27.42
Ottawa East	4,164,596	4.3%	3.1%	13,160	390,000	0	(27,272)	(27,272)	\$29.91	\$32.57
Gloucester	1,397,799	5.3%	3.9%	13,637	0	0	2,197	2,197	\$34.87	\$35.29
Suburban East Total	5,562,395	4.5%	3.3%	26,797	390,000	0	(25,075)	(25,075)	\$31.76	\$34.01
Overall Suburban	20,076,109	8.7%	7.5%	262,191	390,000	350,000	78,921	78,921	\$27.70	\$28.85
OVERALL CITY	38,249,916	8.3%	7.2%	405,769	879,000	350,000	295,141	295,141	\$36.84	\$40.56

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q1 2014 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
303 Terry Fox Drive**	Kanata	Huawei Technologies Canada	A	59,101
501 Palladium Drive	Kanata	Lockheed Martin/MobilShred	A	45,875
350 Albert Street	Downtown Core	Canadian Payments Association	A	29,825
Significant Q1 2014 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
175 Terence Matthews Drive	Kanata	RNR Ottawa Inc.	\$2,800,000 / \$49	57,000
2081 Merivale Road	Nepean	1101600 Ontario Inc.	\$2,825,000 / \$111	25,438
Significant Q1 2014 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
150 Elgin Street	Downtown Core	Canada Council for the Arts, Shopify	Q1 2014	350,000 / 85%
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000 / 100%
1525 Vanier Parkway	Ottawa East	N/A	Q2 2014	290,000 / 0%
979 Bank Street	Ottawa East	N/A	Q3 2014	100,000 / 0%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

**RENEWAL & EXPANSION