

MARKETBEAT OFFICE SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q3 2014



ECONOMIC OVERVIEW

The unemployment rate for Canada was unchanged in August 2014, remaining at 7.0%. However this was not the case for the cities of Ottawa and Gatineau. Ottawa's unemployment rate jumped to 6.7% from 6.4% in July, while in Gatineau the unemployment rate climbed to 6.9% from 6.5%. This may be an early indication of further increases to come as it was recently announced that federal government departments are poised to eliminate an additional 8,900 jobs over the next three years; this is over and above the 26,000 positions that have already been eliminated over the past three years. It is thought these additional cuts will be the result of the operating freezes departments are continuing to work under, leaving no room for new hires and likely more layoffs. Although it is currently unknown what the consequences of these additional cuts will be on the city, it is fairly certain that there will be some impact due to the heavy presence of the federal government in the Ottawa-Gatineau region.

MARKET OVERVIEW

Vacancy was unchanged in the third quarter, remaining at 9.6%, the result of only minimal changes to the vacancy rates within both the overall Central and Suburban markets. Vacancy did edge up slightly in the downtown core submarket to reach 8.5%, a climb of 0.2 percentage points from last quarter. Contributing to this rise in vacancy was approximately 38,000 square feet (sf) being placed on the market at 160 Elgin Street, the result of KPMG's move to the recently completed 150 Elgin Street.

The current economic climate coupled with little to no growth from the federal government continues to result in sluggish overall demand for the region. Although absorption figures improved from last quarter, new availability continues to outpace demand and resulted in close to 29,000 sf of negative absorption this quarter, bringing the year-to-date total to a minimally positive 40,500 sf. Absorption figures will certainly receive a boost next quarter with the completion of 90 Elgin Street, as it is completely preleased to the federal government. Leasing activity figures improved from last quarter with a total of 307,000 sf. There were a handful of significant transactions this quarter, with the largest totaling 42,000 sf at 123 Slater Street involving Welsh LLP.

OUTLOOK

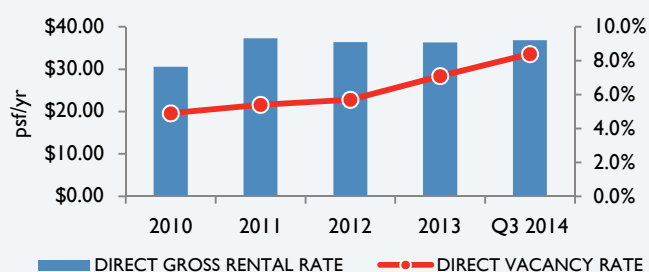
Looking ahead to the end of 2014 and into the first half of 2015 it is anticipated that soft market conditions will persist. There is the potential for overall vacancy to rise into the double digits for the first time in ten years, as close to 280,000 sf could become available over the next six months, split between the Central and Suburban West markets.

However there will be a few developments to watch, particularly involving the high-tech sector. Sanmina is currently having a new facility built with an anticipated completion date of Q2 2015. They will be vacating 500 Palladium Drive in Kanata; however, it is believed that this move will not result in any additional vacancy coming to the market as the landlord has reportedly secured a tenant for the space. In addition, Ciena has yet to relocate out of the former Nortel campus and there is speculation that they may be moving into the new building that was built for, but barely occupied by, BlackBerry. In addition they may build a second adjoining building on land acquired by Spear Street Capital in the portfolio transaction involving BlackBerry.

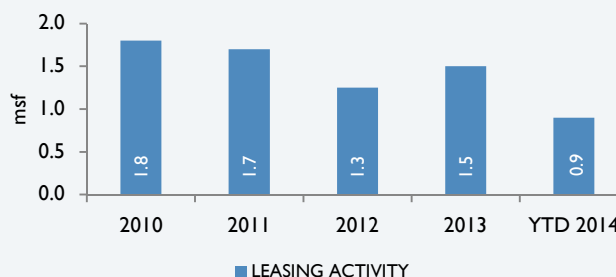
STATS ON THE GO

	Q3 2013	Q3 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.9%	9.6%	1.7 pp	▲
Direct Asking Rents (psf/yr)	\$19.66	\$18.68	-4.9%	◀▶
YTD Leasing Activity (sf)	1,097,552	952,447	-13.2%	◀▶

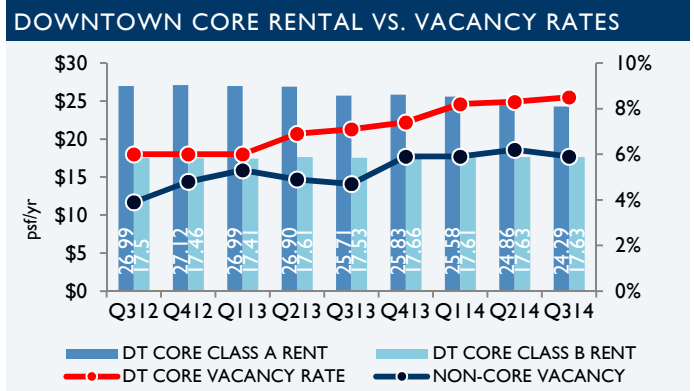
DIRECT RENTAL VS. VACANCY RATES



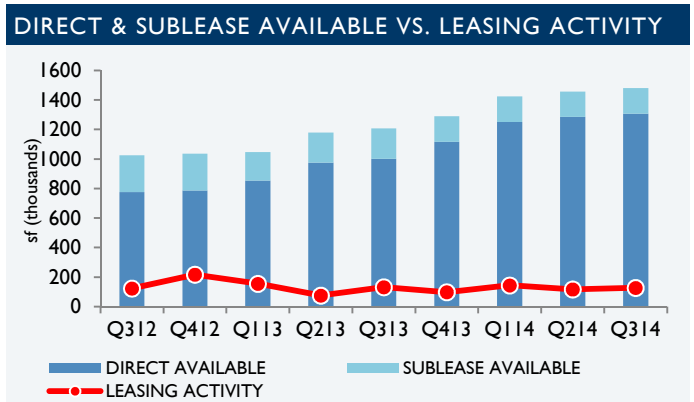
LEASING ACTIVITY



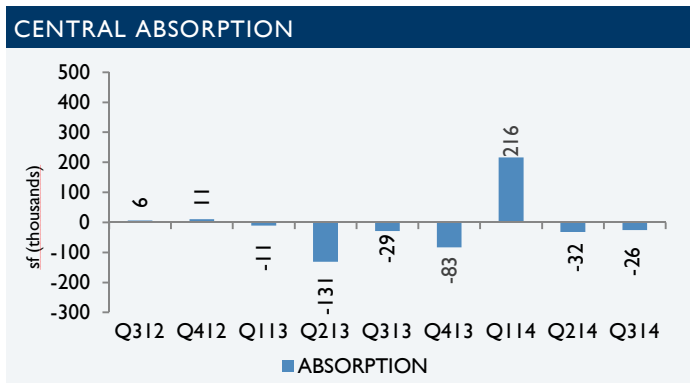
- Overall vacancy within the downtown core continued to creep upwards, with vacancy this quarter reaching 8.5%. As was the case last quarter, the class A vacancy rate increased more substantially to reach 6.6%, a 0.6-percentage point increase from the second quarter. In a likely response to continually increasing vacancy, class A rental rates in the downtown core continue to soften and are currently averaging \$24.29 per square foot (psf). In contrast to this, class B rents have remained remarkably stable and were unchanged from last quarter, averaging \$17.63 psf.
- The non-Core vacancy rate declined slightly to 5.9% this quarter; largely due to decreasing vacancy within the Centretown class B segment.



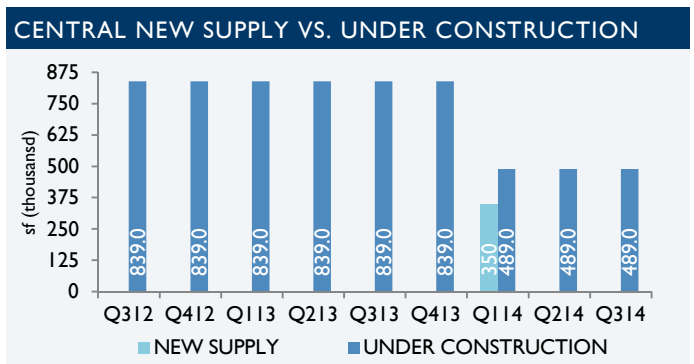
- The amount of direct space available within the Central Area climbed slightly to reach just over 1.3 million square feet (msf), while the amount of sublet space remains virtually unchanged. The increase of direct space that became available was located within the downtown core, particularly in the class A segment where nearly 38,000 sf came on the market with KPMG's relocation.
- Although leasing activity remains muted, totals have remained fairly consistent over the past year. This quarter, activity totaled 127,000 sf, slightly higher than last quarter. With both the Centretown and Byward Market areas remaining quiet this quarter, activity was primarily located within the downtown core with fairly even totals throughout all class segments.



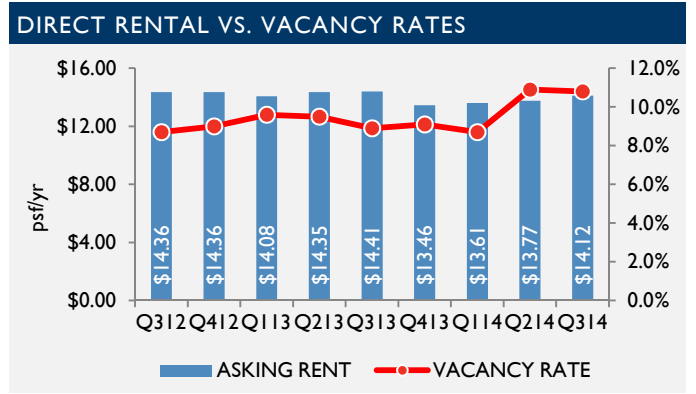
- Although absorption remained in negative territory in the third quarter, totals improved slightly to reach 26,000 sf. Although the transaction involving Welsh LLP resulted in 42,000 sf of positive absorption, it was negated by large pockets of space becoming available in the downtown core class A market.
- Although it is not anticipated that there will be a significant improvement in demand next quarter that would result in positive absorption levels, absorption will be positive nonetheless with the completion of 90 Elgin Street.



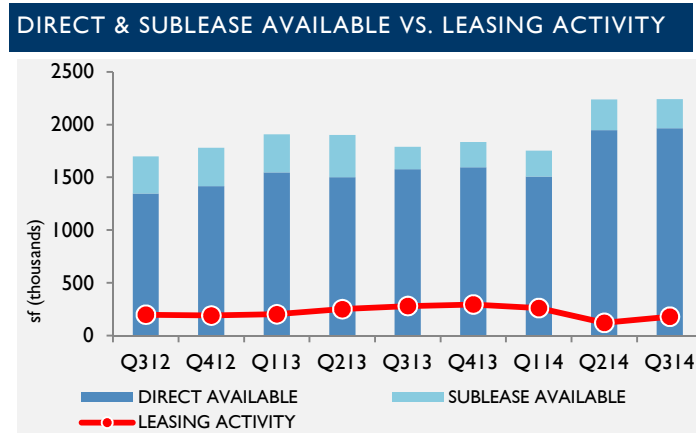
- Work is almost complete at 90 Elgin Street, the 646,000-sf tower being built for the federal government, with a completion date slated for Q4 2014.
- Preleasing continues at the Windmill Developments project at Cathedral Hill.



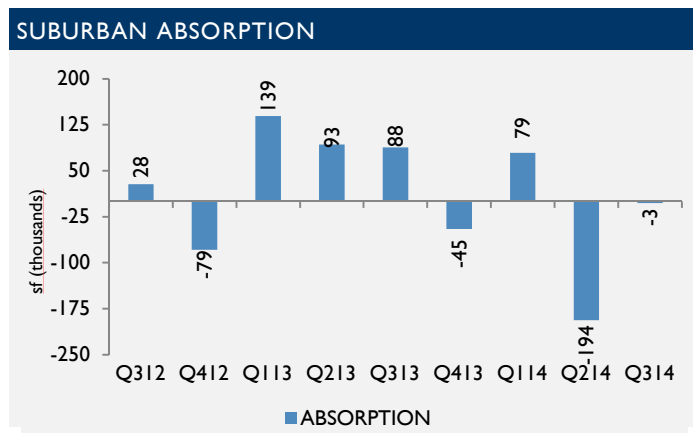
- After a fairly significant jump last quarter, the vacancy rate stabilized and is sitting at 10.8%, just 0.1 percentage points lower than last quarter. While the Suburban West market saw vacancy decline to 10.7%, the result of some improvement seen in Kanata, vacancy within the Suburban East market climbed to 11.1%, the result of climbing vacancy within the Gloucester submarket.
- Average asking rents have steadily risen through 2014, and averaged \$14.12 psf this quarter. For this quarter since the vast majority of asking rents remain unchanged from last quarter, the removal of available space that was being marketed with rental rates lower than average resulted in the overall average rental rate bumping up.



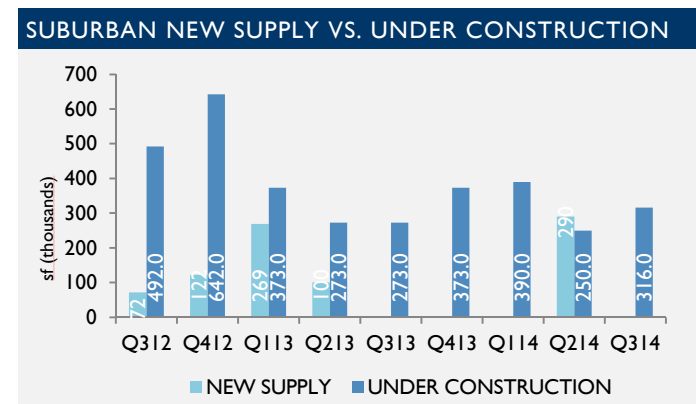
- The amount of direct space available in the Suburban market climbed slightly from last quarter to 1.96 msf. The amount of space available for sublease was also close to last quarter's totals, but in this case, slightly declined to 275,000 sf. In Ottawa West a few new pockets of space available for sublease came on the market. This was balanced out by activity in Kanata where a few subleases came off of the market.
- After declining to the lowest level, leasing activity has been in two years, figures rebounded slightly this quarter to reach close to 180,000 sf. The majority of the activity was located in the Kanata and Ottawa West submarkets as eleven pockets of space over 5,000 sf came off of the market in these two submarkets.



- Although remaining in negative territory absorption dramatically improved from last quarter to reach approximately 3,000 sf. There was slight positive absorption in the Suburban West market of 13,000 sf, while in the Suburban East market the total was 16,000 sf in the negative.
- Looking towards the last quarter of 2014 and into 2015, absorption will largely be impacted by the new construction completions, particularly the two being built on "spec". One is the completion of Minto's new 100,000-sf building at Lansdowne Park, and the other a 34,000-sf building in Orleans. No preleasing activity has been announced for either of these buildings. However the completion of 1891 Robertson Road will help boost absorption totals as this is a build-to-suit for Golder Associates and as such has been completely preleased.



- Work has commenced on the 65,000-sf design build for Golder Associates and is slated for completion in Q1 2015.
- Construction continues on Minto's 100,000-sf building located at the redeveloped Lansdowne Park, with a projected completion date of Q4 2014. Construction is also ongoing on two additional buildings. The first is named Westboro Connection and is located in the Ottawa West submarket. The 116,000-sf office component has largely been preleased by Alterna Bank and The Pythian Group and is scheduled for completion in Q4 2015. The second is a 34,000-sf building located in Orleans. This building is being built on "spec" and is due for completion in Q1 2015.



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	8.5%	7.5%	343,098	489,000	350,000	(33,000)	155,573	\$43.21	\$47.96
Centretown	1,769,448	8.1%	7.7%	28,994	0	0	11,941	(13,019)	\$29.53	n/a
Byward Market	842,861	1.4%	1.0%	16,103	0	0	(4,629)	15,758	\$40.68	\$43.98
Non-Core Total	2,612,309	5.9%	5.5%	45,097	0	0	7,312	2,739	\$35.10	\$43.98
Overall Central	18,173,807	8.2%	7.2%	388,195	489,000	350,000	(25,688)	158,312	\$42.43	\$47.81
Kanata	5,731,071	14.1%	12.2%	264,928	0	0	40,542	46,097	\$24.00	\$24.52
Ottawa West	3,669,207	9.9%	9.1%	136,829	116,000	0	(25,531)	(327)	\$32.27	\$35.42
Nepean	5,507,138	7.6%	6.7%	92,485	65,850	0	(1,907)	(32,025)	\$27.45	\$32.16
Suburban West Total	14,907,416	10.7%	9.4%	494,242	181,850	0	13,104	13,745	\$28.13	\$30.28
Ottawa East	4,456,044	11.9%	10.6%	56,373	100,000	290,000	(4,410)	(86,937)	\$28.20	\$29.53
Gloucester/Orleans	1,397,799	8.6%	6.7%	13,637	34,213	0	(11,853)	(44,611)	\$34.64	\$35.05
Suburban East Total	5,853,843	11.1%	9.7%	70,010	134,213	290,000	(16,263)	(131,548)	\$30.31	\$32.35
Overall Suburban	20,761,259	10.8%	9.5%	564,252	316,063	290,000	(3,159)	(117,803)	\$28.63	\$30.82
OVERALL CITY	38,935,066	9.6%	8.4%	952,447	805,063	640,000	(28,847)	40,509	\$36.86	\$41.01

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q3 2014 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
123 Slater Street	Downtown Core	Welsh LLP	C	42,184
161 Greenbank Road*	Nepean	Aviva Canada Inc.	B	12,748
8-10 Hearst Way*	Kanata	UTC Fire & Security Canada	B	12,307
Significant Q3 2014 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
4000 Innovation Dr., 505 Innovation Dr., 110 Hines Rd., 119 Hines Rd.**	Kanata	Spear Street Capital	\$37,539,000	327,413
2020 Walkley Road/3030 Conroy Road	Ottawa East	Standard Life Investments	\$19,705,000 / \$183	107,507
Significant Q3 2014 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000 / 100%
979 Bank Street	Ottawa East	N/A	Q4 2014	100,000 / 0%
Westboro Connection – 319 McRae	Ottawa West	Alterna	Q4 2015	116,000 / 84%
1891 Robertson Road	Nepean	Golder Associates	Q1 2015	65,850 / 100%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

** SALE PRICE INCLUDES 2 PARCELS OF LAND ON HINES ROAD