

MARKETBEAT OFFICE SNAPSHOT

OTTAWA, ON

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Q1 2015



ECONOMIC OVERVIEW

The unemployment rate in Ottawa jumped to 7.0% in February 2015, slightly higher than the national unemployment rate of 6.8%, which also climbed as Alberta's labour market began to show signs of weakness. Although the Ottawa-Gatineau economy has seen little growth in recent years, in part due to the significant cuts in the public administration sector, there is room for some optimism moving forward into 2015. It is believed that the bulk of the public administration cuts are complete, and with strong non-residential construction activity and continued gains in the high-tech services sector, the Conference Board of Canada anticipates overall economic growth to expand by 1.5%, with further improvement to 2.1% in 2016.

MARKET OVERVIEW

The first quarter of 2015 saw weakening in multiple submarkets and building classes across the city, resulting in the vacancy rate climbing by 0.3 percentage points from last quarter to reach 9.7%. The Central area in particular saw new availability outpacing demand in almost all submarkets and classes, with the only exception being the Downtown Core class A segment. The lack of expansionary demand pushed Central area vacancy to 8.4% this quarter, up from 8.1% in Q4 2014. The Suburban market also struggled this quarter with significant pockets of new availability becoming available, particularly within Kanata. The Kanata market is the main contributing factor to the increase in the overall Suburban vacancy rate, climbing to 10.9% or 0.4 percentage points higher than last quarter.

Overall absorption levels dipped back into negative territory in the first quarter, as negative absorption in both the Central and Suburban markets combined to total just over 100,000 square feet (sf). The factors behind why the overall market struggled to absorb the new availability are two-fold. One is the continued lack of demand momentum and the second is the size of new space, typically comprised of blocks over 10,000 sf - a size requirement not generally in high demand, particularly given the current subdued market conditions. Despite negative absorption and rising vacancy there are transactions occurring in the market, particularly in the Downtown Core class A segment which saw the lion's share of leasing activity this quarter.

OUTLOOK

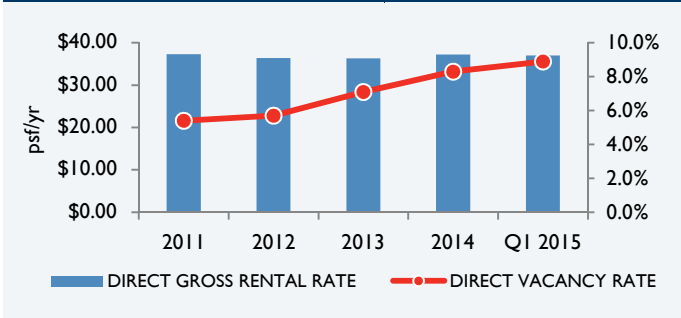
The second quarter of 2015, and likely the third quarter as well, will not experience any dramatic strengthening as approximately 468,000 sf of space is currently being marketed and will become available over the next

two quarters. This amount of space will unlikely be absorbed by the market in its entirety. In addition, the federal election is set to be held in the fall of this year and this will likely influence the decisions of many companies, particularly those involved with the federal government. However there is one key development concerning the federal government that may have an impact on vacancy rates and absorption levels in the downtown core. Next quarter the government will announce the result of its 130,000-sf tender which will either tighten the class A market or negate some negative absorption that would have likely occurred in the class B market in 2016 as federal government departments continue to consolidate into various areas of the city.

STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	8.3%	9.7%	1.4pp	▲
Direct Asking Rents (psf/yr)	\$18.62	\$18.49	0.7%	◀▶
YTD Leasing Activity (sf)	405,769	386,248	-4.8%	◀▶

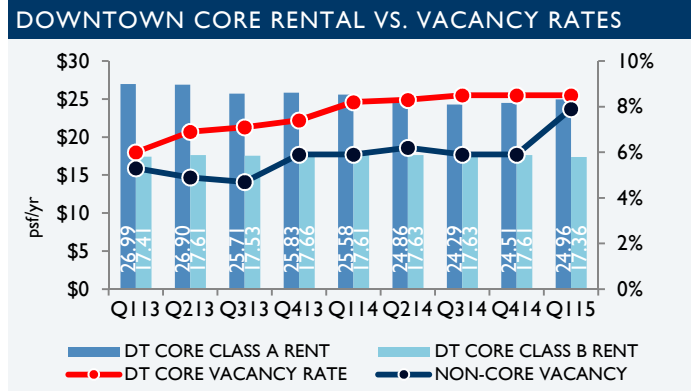
DIRECT RENTAL VS. VACANCY RATES



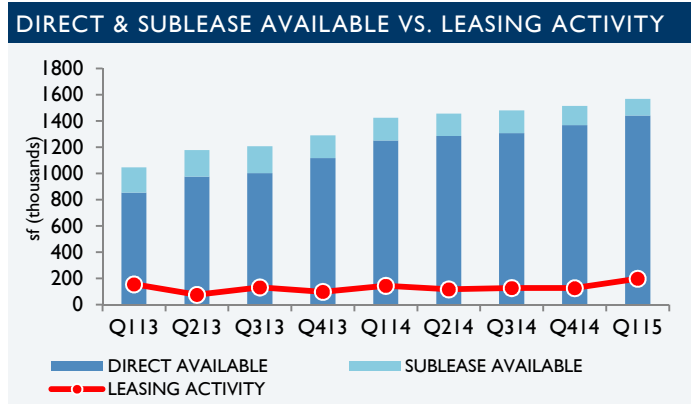
LEASING ACTIVITY



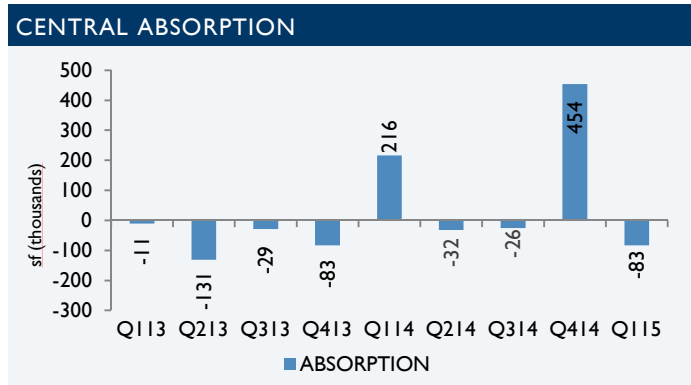
- Although overall vacancy within the downtown core remained at 8.5% for the third straight quarter, movement was seen in all three classes. For the second consecutive quarter there was a decline in the class A vacancy rate which now sits at 5.6%. Vacancy climbed in both the class B and C segments to reach 12.6% and 20.7% respectively. The class A rental rates in the downtown core continued to increase slightly this quarter and currently average \$24.96 per square foot (psf). Although the decline was slight from last quarter class B rents are now averaging \$17.36 psf, the lowest point in two years.
- The non-Core vacancy rate increased by two full percentage points from last quarter to reach 7.9%. This rather substantial climb in vacancy was almost entirely the result of 54,000 sf of space becoming available in a Centretown class B building.



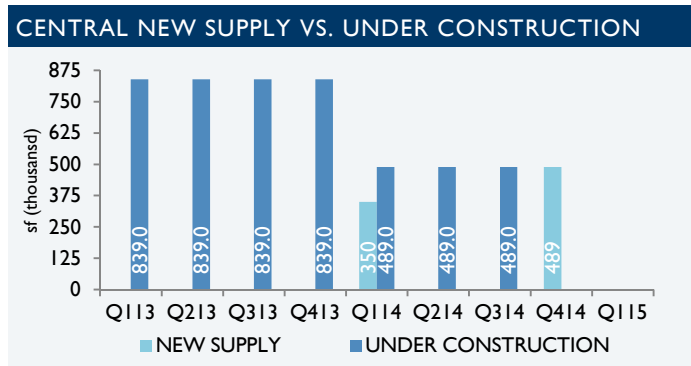
- The amount of direct space available within the Central Area has climbed every quarter over the past two years and now totals just over 1.44 million square feet (msf). In contrast, the amount of sublet availability has declined over the past two quarters and now totals 127,000 sf. The vast majority of this sublet space continues to be located in the class A downtown core market.
- Leasing activity in the Central Area totaled close to 198,000 sf this quarter. The Downtown Core class A segment had a strong quarter with two confirmed transactions of over 30,000 sf and one transaction that was close to 20,000 sf. The overall total for the downtown core reached close to 177,000 sf.



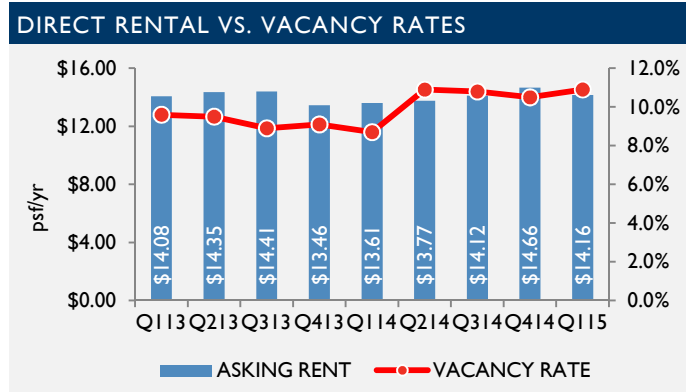
- Other than the two quarters which saw new construction completions, Central Area absorption has been in negative territory during the past two years. Despite the leasing activity that took place in the Downtown Core class A segment, this quarter's absorption did not buck the trend with approximately 83,000 sf of negative absorption.
- Absorption will likely remain in negative territory next quarter and may persist into the third quarter. Given the continued low market velocity, which will likely continue until at least the second half of 2015, it is anticipated that the Central Area will be unable to completely absorb the over 100,000 sf that is being marketed to become available over the next six months.



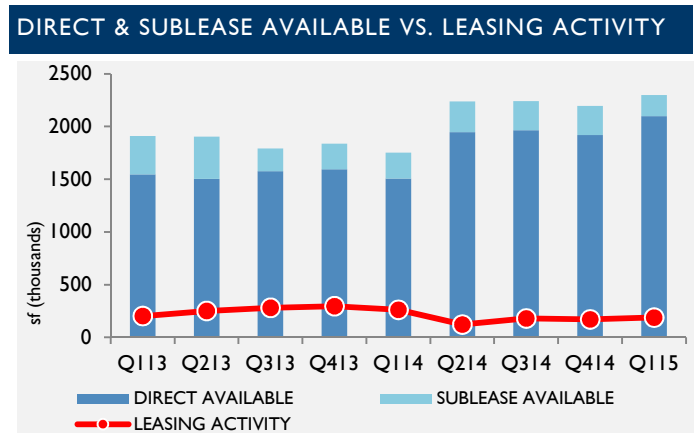
- There were no building completions or new construction projects that got underway this quarter.
- Preleasing/selling continues at the Windmill Developments condominium project at Cathedral Hill.



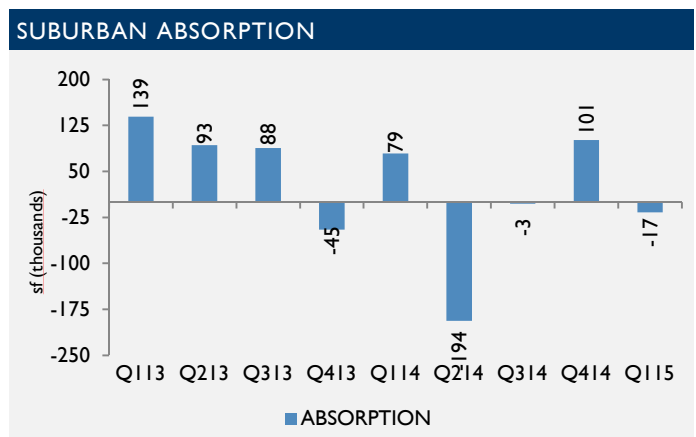
- The Suburban market continues to remain fairly stable, with vacancy climbing slightly to 10.9%, 0.4 percentage points higher than last quarter. With Suburban West vacancy remaining at 9.9%, the slight increase was the result of vacancy within the Suburban East market rising to 13.3% this quarter, just over a percentage point higher than last quarter. Both the Ottawa East and Gloucester submarkets saw vacancy rise by just over a percentage point from Q4 2014.
- Average asking rents for the Suburban market dipped slightly this quarter, averaging \$14.16 psf.



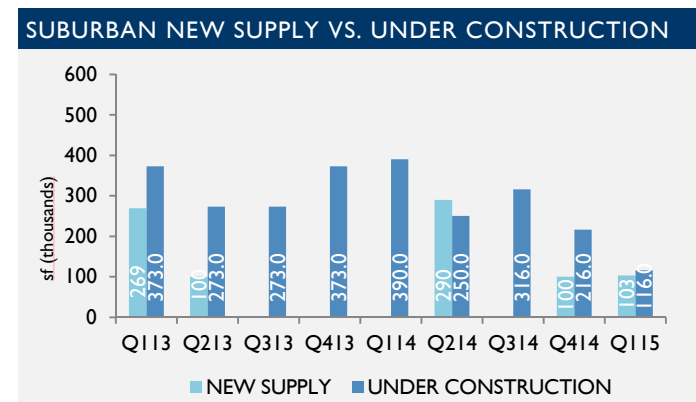
- The amount of direct space available in the Suburban market increased slightly from last quarter to 2.1 msf. This figure will likely climb again next quarter as an additional 100,000 sf comes on the market courtesy of one of Canada Post's buildings on Brookfield Road. The amount of space available for sublease declined from last quarter's totals, with just under 200,000 sf. This decline was largely a result of a change in vacancy type, from sublet to direct at a property located in Kanata.
- Although leasing activity has yet to rebound to levels seen in 2013, it remained consistent with Q1 2015 totals of 188,000 sf. The Suburban West market continues to be the main driver of activity.



- Despite the completion of 1931 Robertson Road, the fully leased 66,000-sf build-to-suit for Golder & Associates, absorption figures for the quarter were close to negative at 17,000 sf. Kanata in particular had multiple blocks of space over 10,000 sf come on the market this quarter with the largest being 3001 Solandt, a 64,000-sf building vacated by Lockheed Martin with their move to 501 Palladium.
- Looking towards the remainder of 2015, absorption numbers will be positively impacted by the completion of Westboro Connection in the fourth quarter, as the majority of the space has been preleased. However, overall absorption totals in the near term will likely remain in negative territory as 265,000 sf is set to become available over the next six months. The majority of this future space is located in Kanata.



- Construction was completed on the 66,000-sf build-to-suit for Golder Associates as well as additional new office space at Lansdowne Park which totals 37,000 sf.
- Construction is ongoing on Westboro Connection, of which the 116,000-sf office component has largely been preleased by Alterna Bank and The Pythian Group.



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	16,050,498	8.5%	7.7%	176,866	0	0	(29,537)	(29,537)	\$43.67	\$49.83
Centretown	1,769,448	10.4%	9.8%	3,205	0	0	(50,549)	(50,549)	\$30.38	n/a
Byward Market	842,861	2.7%	2.7%	17,791	0	0	(3,260)	(3,260)	\$37.15	\$41.30
NON-CORE TOTAL	2,612,309	7.9%	7.5%	20,996	0	0	(53,809)	(53,809)	\$33.77	\$41.30
OVERALL CENTRAL	18,662,807	8.4%	7.7%	197,862	0	0	(83,346)	(83,346)	\$42.63	\$49.58
Kanata	5,869,098	12.3%	11.3%	39,804	0	0	(74,919)	(74,919)	\$24.48	\$25.27
Ottawa West	3,704,207	10.3%	9.6%	56,411	116,000	0	19,821	19,821	\$31.04	\$33.96
Nepean	5,572,988	7.1%	6.4%	63,365	0	65,850	70,539	70,539	\$28.44	\$32.70
SUBURBAN WEST TOTAL	15,146,293	9.9%	9.1%	159,580	116,000	65,850	15,441	15,441	\$27.78	\$29.51
Ottawa East	4,624,138	14.3%	13.2%	15,057	0	37,061	(18,634)	(18,634)	\$31.40	\$33.36
Gloucester/Orleans	1,397,799	9.8%	7.7%	13,749	0	0	(13,681)	(13,681)	\$36.09	\$36.29
SUBURBAN EAST TOTAL	6,021,937	13.3%	11.9%	28,806	0	37,061	(32,315)	(32,315)	\$32.48	\$34.49
OVERALL SUBURBAN	21,168,230	10.9%	9.9%	188,386	116,000	102,911	(16,874)	(16,874)	\$29.13	\$31.26
OVERALL CITY	39,831,037	9.7%	8.9%	386,248	116,000	102,911	(100,220)	(100,220)	\$37.01	\$41.52

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q1 2015 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
1430 Blair Place*	Ottawa East	Rogers Communications	A	53,677
350 Albert Street	Downtown Core	Canadian Commercial Corporation	A	33,779
150 Elgin Street	Downtown Core	Shopify	A	32,834
SIGNIFICANT Q1 2015 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
2-8 Brewer Hunt Way	Kanata	Embrylin Estates Ltd	\$2,275,000 / \$88	25,877
1960 Scott Street	Ottawa West	Bridgeport Realty Management	\$5,950,000 / \$314	18,933
SIGNIFICANT Q1 2015 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
1931 Robertson Road	Nepean	Golder Associates	Q1 2015	65,850 / 100%
1015 Bank Street (Lansdowne Park)	Ottawa East	N/A	Q1 2015	37,061 / 23%
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Westboro Connection – 319 McRae	Ottawa West	Alterna	Q4 2015	116,000 / 84%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS