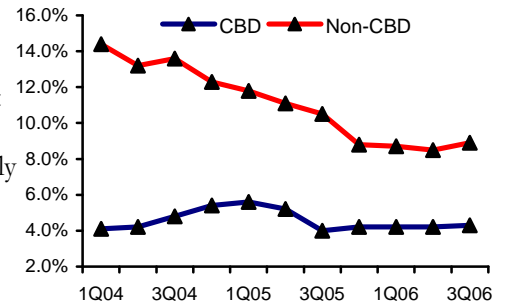




Ottawa's office market continues to chart a steady course in Q3

Although Ottawa's vacancy rate rose slightly to 7.1%, up from 6.8% last quarter, this should not be taken as a sign of any significant weakening in the office market. This quarter saw three large blocks of space become available with Nortel releasing 180,000 square feet for lease, Abbott Point of Care releasing close to 78,000 sf for sublease, and finally the completion of the retrofit at 250 Tremblay placed over 95,000 sf on to the market. If you were to remove these properties from the data, vacancy would be close to a full percentage point lower. Leasing demand continues to remain strong, and is on track to match and most likely surpass last year's record totals. Absorption also had a strong showing this quarter with totals close to five times the amount of positive absorption seen in the second quarter. Whether these market indicators hold strong into the end of the year remains to be seen as Sakto's 220,000 square foot office tower is due to be completed next quarter. Vacancy is not expected to be generated from the completion of the building itself as it is almost fully leased, but from the buildings where the tenants are vacating – particularly at Adobe's former premises which will be placing 140,000 sf on the market with the company's relocation.

Overall Vacancy Rates
CBD vs. Non-CBD



After a very robust second quarter the investment side of the market came to a abrupt halt this quarter with only two office sales above \$500,000 being reported. However this slowdown is not due to lack of interest, which still remains high, but lack of product. It is expected that next quarter the office investment market will once again pick up steam with speculation that at least two significant office transactions will close by the end of the year

The central office market continues to tighten slowly, with vacancy declining from 5.3% to 5.0%. Demand continued to strengthen in the third quarter, generating close to 48,000 sf of positive absorption with the Centretown submarket playing the most significant role. This area will continue to improve into next quarter with vacancy expected to plummet. There is word that PWGSC has leased 222 Nepean, removing 135,000 sf from the Centretown market. The central business district remained fairly static this quarter with vacancy climbing slightly to 4.3%. Overall demand in the CBD continued to soften slightly, largely due to weakening in the class B and C segment. The class A market continues to remain very competitive, with vacancy of 3.0%.

Demand in class A buildings strengthened this quarter generating positive absorption of 21,000 sf.

...the (CBD) class A market continues to remain very competitive, with vacancy of 3.0%.

Suburban market vacancy rose slightly to reach 9.0%, up slightly from 8.2% last quarter. This rise in vacancy can largely be attributed to weakening of both suburban markets. The eastern suburbs saw vacancy rise to 7.0% from 5.1% in the second quarter. However this increase was almost entirely generated from the previously mentioned 250 Tremblay coming back to the market almost completely vacant. Absorption weakened as totals headed into negative territory. Vacancy and absorption is expected to rebound significantly next quarter in the eastern suburbs due to the fact that as this

report came to publication it was announced that the federal government would be leasing the remaining space at 250 Tremblay. The western suburbs continued to soften slightly with vacancy edging up again this quarter to reach 9.8%. The main culprits behind this increase in vacancy was the space put on the market by Nortel and Abbott Point of Care. Absorption however rebounded strongly from last quarter with positive absorption of approximately 110,000 sf.

CUSHMAN & WAKEFIELD LEPAGE MARKET HIGHLIGHTS**Significant 3Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
** 3000 Merivale Road	Nepean	RCMP	900,000	A
333 Preston Street	Ottawa West	Ontario Realty Corp.	102,000	A
350 Legget Drive	Kanata	General Dynamics	42,000	A
360 Albert Street	CBD	Rogers Wireless	12,949	A

Significant 3Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
7 Capella Court	Nepean	Whiterock Management Investment Trust	31,400	\$5,015,000

Significant 3Q06 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
250 Tremblay Road	Ottawa East	PIPS	147,000	September 2006

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
340 Albert Street	Central Business District	IDRC	330,000	Q3 2007
131 Queen Street	Central Business District	PWGSC	300,000	Q4 2006
199 Slater Street	Central Business District	Telus	110,000	Q2 2007
333 Preston Street I	Ottawa West	Adobe	220,000	Q4 2006
333 Preston Street II	Ottawa West	Ontario Realty Corporation	130,000	Q1 2007

CUSHMAN & WAKEFIELD LEPAGE MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Buildings	Overall Vacancy Rate	1 Year Ago	Direct Vacancy Rate	Q3 Leasing Activity	YTD Leasing Activity	Q3 Absorption	YTD Absorption	Direct Wtd. Avg. Rental Rate*
CBD	13,245,298	73	4.3%	4.0%	3.4%	135,909	440,296	(3,068)	(12,869)	\$18.26
Centretown	1,587,477	30	11.2%	16.2%	11.2%	40,189	95,923	48,231	82,442	\$12.51
Byward Market	861,841	12	4.5%	8.8%	4.4%	2,927	35,761	2,616	35,508	\$16.21
Kanata	4,776,138	57	8.0%	14.3%	6.3%	104,442	342,336	34,626	194,873	\$11.54
Ottawa West	3,400,456	53	11.7%	11.8%	10.5%	71,089	240,697	18,362	33,461	\$15.45
Nepean	3,423,855	70	10.5%	10.9%	7.6%	82,756	113,132	58,450	(106,652)	\$12.38
Ottawa East	3,696,402	52	7.8%	3.5%	7.1%	20,153	77,861	(12,936)	(44,599)	\$13.92
Gloucester	1,312,799	12	4.7%	4.2%	1.6%	1,282	41,715	3,282	766	\$14.69
Total	32,304,266	359	7.1%	7.8%	5.8%	458,747	1,387,721	149,563	182,930	\$14.06

* Rental rates reflect \$psf/year

** Please note that figures do not include Mercury Centre, the former JDS Uniphase Campus, at 3000 Merivale Road