



Ottawa's office market stabilizes in Q1

After dramatic improvement in the last quarter of 2006, the office market in the first quarter steadied with a vacancy rate of 5.5%, an increase of three-tenths of a percentage point from last quarter. There continues to be brisk leasing activity with close to 350,000 square feet (sf), and although overall demand weakened from last quarter with just over 100,000 sf of negative absorption, 90,000 sf of that was located in just three buildings. Of that negative absorption close to a third can be attributed to the closing of Arvato Systems, a call centre that was in operation for only sixteen months. This quarter in particular demonstrated how dramatic the swings in fortune can be in the growing Ottawa call centre market; the negative being the Arvato closure, and the positive being the announcement in January that Chase Card Services would be hiring an additional 100 people. These shifts in momentum are expected to continue throughout the year as Sitel closes one of its operations in June, placing over 46,000 sf on the market, and later this year the completion of the new building for Dell will result in around 150,000 sf of positive absorption.

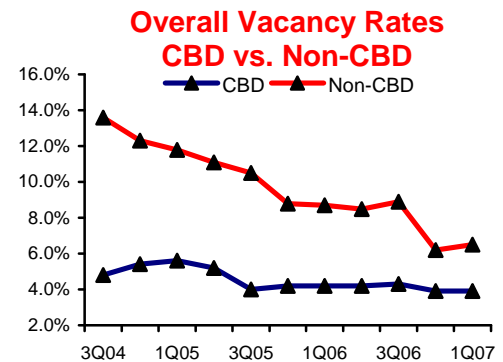
The office investment market was buzzing after it was announced in early March that the federal government would be placing nine federally-owned office complexes up for sale, two of which are located in Ottawa. Essentially the government is looking for buyers who would take on the cost of renovations and in return would lease the building back for 25 years. These potential transactions as well as other significant transactions that occurred this quarter bode well for a busy office investment year.

Vacancy in the central market stayed the course this quarter with vacancy remaining at 4.0%. Overall leasing activity was just over 80,000 sf, almost entirely located in the downtown core, with the majority of the deals in the 2,000-5,000 sf range. Overall absorption was fairly insignificant, with just over 10,000 sf of negative absorption. There was also no change in vacancy in the downtown core from last quarter, remaining at 3.9%, and only one tenth of a percentage decline in vacancy in the class A market to reach 2.6%. This lull in activity is not expected to continue as two projects are expected to be completed in the next two quarters which will add a combined 440,000 sf of supply to the Ottawa office market. These completions, and the potential for re-locations opening additional space, are expected to shake up the downtown core. This may have an impact on downtown vacancy rates.

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Suburban market vacancy also experienced little movement this quarter, edging up four-tenths of a percentage point to reach 6.8%. While leasing activity remained robust with over 250,000 sf, overall absorption headed into negative territory with close to 95,000 sf coming onto the market. The majority of this supply was located in the suburban west class A market. Remarkably this is the first quarter in three years that Kanata registered negative absorption – quite an impressive feat considering the woeful status of this sub-market at the end of the high-tech collapse. The suburban west market was negatively impacted by three main events this quarter – Entrust releasing 28,000 sf for sublease in Kanata, the merger between Open Text &

Hummingbird that resulted in close to 30,000 sf being placed on the market, and finally the closing of Arvato Systems. In the coming year the suburban-west market will see a significant boost to both new supply and absorption as approximately 380,000 sf will be completed in the coming months – all of it fully leased. The suburban-east market continues to remain consistent with vacancy rising slightly this quarter by three tenths of a percentage point to reach 4.6%, and a minimal negative absorption of close to 16,000 sf. Unlike the suburban west market, negative absorption was the result of multiple small pockets of space coming on the market, largely located in the Ottawa East sub-market. This stability is expected to continue throughout 2007.



CUSHMAN & WAKEFIELD LEPAGE MARKET HIGHLIGHTS**Significant 1Q07 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
340 Albert Street	Central Business District	Osler Harkin & Harcourt	35,692	A
40 Hines Road	Kanata	Sun Media	27,037	A
8 Colonnade Road	Nepean	PWGSC	25,480	C

Significant 1Q07 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
2200 & 2204 Walkley Road	Ottawa East	ED-AD Capital Fund Inc.	156,651	\$24,743,000
1600 Carling Avenue	Ottawa West	Manulife Financial	183,272	\$33,875,000

Significant 1Q07 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
340 Albert Street	Central Business District	IDRC	330,000	Q3 2007
Palladium Drive	Kanata	Smart Technologies	260,000	Q2 2007
Bill Leathern Drive	Nepean	JDS	150,000	Q1 2008
1101 Farrar Road	Kanata	Dell Canada	145,000	Q4 2007
353 Preston Street	Ottawa West	Government of Ontario	130,000	Q2 2007
215 Slater Street	Central Business District	Telus	110,000	Q2 2007
400 Maple Grove Drive	Kanata	EMS	105,000	Q3 2007

CUSHMAN & WAKEFIELD LEPAGE MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Buildings	Overall Vacancy Rate	1 Year Ago	Direct Vacancy Rate	Q1 Leasing Activity	YTD Leasing Activity	Q1 Absorption	YTD Absorption	Direct Wtd. Avg. Rental Rate*
CBD	13,530,298	77	3.9%	4.2%	3.3%	76,852	76,852	(6,958)	(6,958)	\$18.44
Centretown	1,619,877	30	3.1%	15.2%	3.1%	7,196	7,196	1,592	1,592	\$12.79
Byward Market	914,861	13	7.3%	7.5%	7.1%	0	0	(4,806)	(4,806)	\$14.15
Kanata	4,322,768	55	8.2%	9.8%	6.4%	53,222	53,222	(14,658)	(14,658)	\$11.76
Ottawa West	3,485,529	54	7.1%	10.5%	5.5%	50,438	50,438	(29,057)	(29,057)	\$13.94
Nepean	4,467,369	73	7.7%	6.9%	5.2%	81,687	81,687	(34,892)	(34,892)	\$13.01
Ottawa East	3,699,402	52	5.0%	5.8%	4.1%	58,785	58,785	(16,567)	(16,567)	\$11.72
Gloucester	1,312,799	12	3.4%	5.7%	1.1%	16,493	16,493	758	758	\$13.41
Total	33,352,903	366	5.5%	6.9%	4.3%	344,673	344,673	(104,588)	(104,588)	\$14.68

* Rental rates reflect \$psf/year