

MARKETBEAT

OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

2Q08

ECONOMY

It is anticipated that both domestic and external demand will continue to cool throughout the remainder of 2008. However the strength of the public administration sector will help keep the local economy on a path of steady growth as output in this sector is expected to expand by 2.8% in 2008. The situation should continue to improve into 2009 as the U.S. economy rebounds and local construction activity accelerates with several non-residential projects. It is forecasted that real gross domestic product growth in the Ottawa-Gatineau metropolitan area should reach 2.6% in 2008 and improve to 2.9% in 2009.

Unemployment in the Ottawa-Gatineau region rose slightly in May, edging up to 5.0%. Unlike 2007 employment growth has been relatively flat so far this year, with employment numbers down by about 2,300. However on a year-over-year basis employment has risen by roughly 21,600 jobs over the last 12 months. Most of this growth occurred in the service industries, in particular the public administration sector which added around 6,700 jobs over the course of the last year, with employed individuals currently numbering 147,300. During this same time frame high-tech growth was fairly stagnant, adding approximately 1,100 jobs. As of May the technology sector employed around 61,300.

OVERVIEW

It appears this decreasing external demand in the local economy is beginning to impact the Ottawa commercial real estate market. Vacancy has steadily crept upwards since the last quarter of 2007, reaching 6.3% this quarter. As was the case last quarter with Nortel, it was a struggling high-tech giant releasing a glut of space on the market that drove vacancy upwards. Dell Canada placed one of their call centre facilities on the sublet market this quarter, adding 145,000 square feet (sf) of vacant space to the market. Currently there is close to 2.3 million square feet (msf) on the market, with the sublet market accounting for almost a third of that total.

Demand rebounded from last quarter with just over 78,000 sf of positive absorption. The availability of the Dell building had no impact on absorption as the building came on the market having never been occupied. Demand in the office market was focused within the class A downtown core this quarter, largely due to activity from private sector tenants. Kanata continues to soften with over 67,000 sf of negative absorption this quarter as multiple companies placed space on the sublet market.

Leasing activity continues to be very strong with over 521,000 sf of activity, roughly split between the Central and Suburban markets. Although there were a few exceptions, the majority of the transactions were under 5,000 sf.

OUTLOOK

The closing of Dell's existing call centre will impact vacancy and absorption in the coming months. Other factors that could also come into play are that sizeable pockets of space located in Kanata and the downtown core are also expected to become available over both the short and long term. The negative impact should be short-lived for the downtown core as the space will most likely be leased fairly quickly by an active federal government. The same could not be said for Kanata as the pool of potential tenants to fill these large blocks of space continues to shrink.

BEAT ON THE STREET

"The Ottawa office market can be distinguished by a contrast in availability. The downtown core remains tight, with larger users now clearly focused on pre-leasing of new development space mid-2009 and beyond. At the other extreme, softening in the technology sector has re-introduced a glut of sublet space in west suburban campuses, providing a wide variety of quality competitive options."

—Paul Miller, Sales Representative

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth	3.5%	2.7%	2.6%
CPI Growth	1.7%	1.9%	0.9%
Unemployment	5.2%	5.2%	5.5%
Employment Growth	4.0%	1.3%	1.1%

MARKET FORECAST

LEASING ACTIVITY should continue to be robust through the end of the year largely due to activity from the federal government



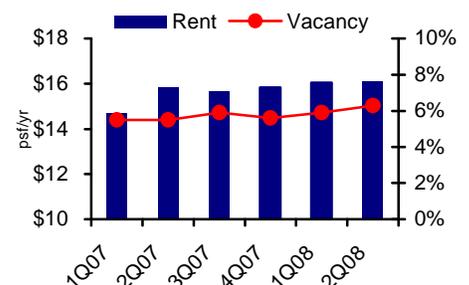
DIRECT ABSORPTION will decrease through the end of the year as large blocks of space are expected to come onto the market



CONSTRUCTION activity has declined from 2007 levels and is not expected to accelerate until 2009.

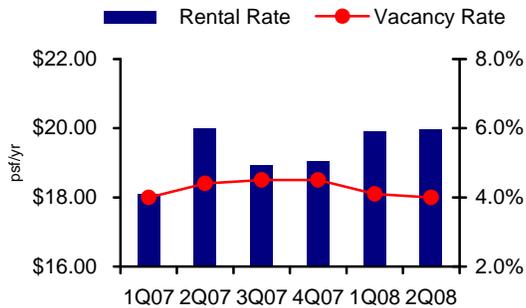


OVERALL RENT VS. VACANCY

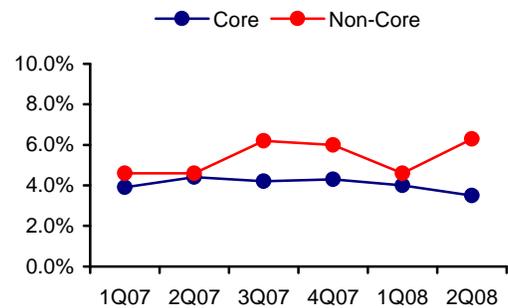


Central Area

Overall Rental vs. Vacancy Rate



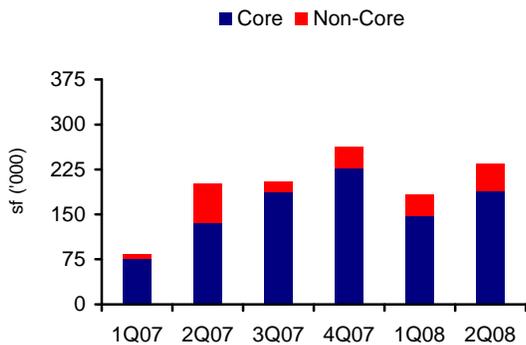
Overall Vacancy Rate Core vs. Non-Core



- Rental rates remained relatively flat this quarter with an average asking rental rate of \$19.96 per square foot (psf). The most expensive place to rent in Ottawa continues to be the class A downtown core market with an average asking rate of \$26.13 psf.
- There was also little change in the Central vacancy rate with vacancy decreasing by just one tenth of a percentage point to 4.0%. The Central Ottawa market remains one of the most consistent in the country with vacancy only deviating by, at most, half of a percentage point over the course of the last six quarters.

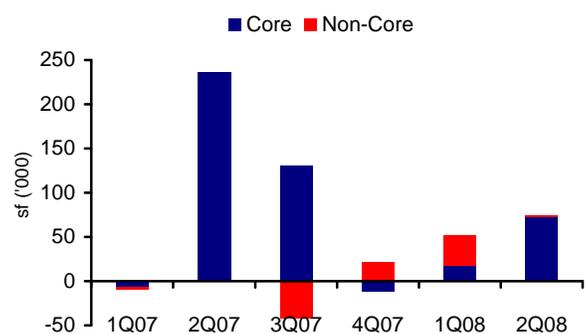
- Vacancy in the non-core spiked this quarter to 6.3% due to the availability of a 46,000-sf building in the Byward Market. This property completed renovations and has come back on the market fully vacant.
- Vacancy in the downtown core declined by half of a percentage point to reach 3.5% - its lowest level since the first quarter of 2007. With virtually no change in vacancy in the class B and C markets, it was the strength of the class A market that led to this decline. Vacancy in the class A market now sits at 2.3%, its lowest level since 2003.

Leasing Activity Core vs. Non-Core



- Leasing activity accelerated from last quarter with close to 235,000 sf leased. The majority of the activity was located in the downtown core with close to 190,000 sf.
- The class A downtown core market was very active this quarter, with over 105,000 sf of leasing activity. There were four transactions over 10,000 sf, with two of these over 20,000 sf. That all four of these transactions involved the private sector was an aberration from recent quarters as the federal government has dominated leasing activity in the downtown core.

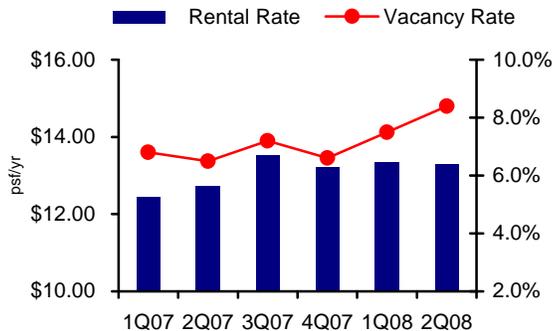
Absorption Core vs. Non-Core



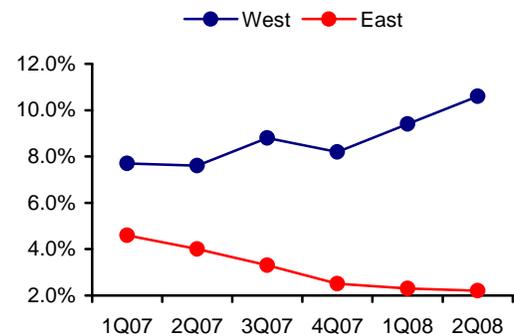
- Demand strengthened in the Central area with over 74,000 sf of positive absorption this quarter.
- With flat demand in both the Centretown and Byward Market sub-markets, it was activity within the downtown core that boosted absorption upwards. Absorption was just shy of 72,000 sf in the downtown core, with 94% of that total located in the class A segment.

Suburban Area

Overall Rental vs. Vacancy Rate



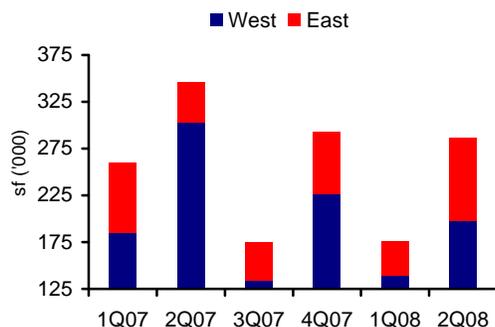
Overall Vacancy Rate West vs. East



- Vacancy in the suburban market continued its march upwards with vacancy increasing to 8.4% this quarter. Currently there is over 1.6 msf available in the suburban market with almost 1.5 msf of that located in the suburban west market.
- Despite these increases in vacancy, the overall asking rental rate is holding steady. Currently the average asking rate in the overall suburban market is \$13.29 psf. In the suburban west market the average rent is \$13.30 psf and in the suburban east market the average is \$13.16 psf.

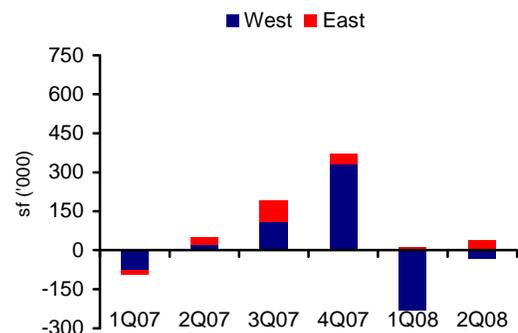
- Since the beginning of 2008, the suburban west market has struggled due to the misfortunes of both Nortel and Dell. In the past two quarters these two companies have placed 325,000 sf on the market, with additional space from Dell becoming available in the near future. Vacancy has risen from 8.2% in Q4 2007 to 10.6% this quarter.
- Vacancy in the suburban east market declined once again this quarter to reach 2.2%, the sixth straight quarter vacancy decline. The submarket of Gloucester has the distinction of being the tightest sub-market in the city with vacancy almost at zero – 0.2%.

Leasing Activity West vs. East



- After a slow start to the year, leasing activity in the suburban market picked up this quarter to 287,000 sf, with the suburban west market accounting for almost 70% of the total.
- The suburban west market will continue to dominate leasing activity in the overall suburban market through 2008 due to the large amount of space available. Decreasing options of available space will lead to decreasing activity and more lease renewals in the suburban east market.

Absorption West vs. East



- Absorption for the overall suburban market was almost nil this quarter at close to 4,000 sf. The western suburban market was once again in negative territory at approximately 34,000 sf. In the eastern suburbs there was positive absorption of over 38,000 sf.
- Although absorption in the western suburbs was not impacted by Dell's new facility coming onto the market, this will not be the case as Dell closes their existing facility in the coming months. Absorption in Kanata will be impacted by this, along with an additional 53,000 sf expected to come on the market in September.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Class A Gross Rental Rate*
Downtown Core	14,306,998	80	3.5%	2.8%	337,284	370,000	0	89,584	\$47.91
Centretown	1,746,105	33	5.8%	5.4%	54,537	0	0	27,645	N/A
Byward Market	914,861	13	7.3%	7.3%	25,107	0	0	8,556	\$40.41
Kanata	4,750,774	59	13.7%	4.7%	129,186	0	0	(112,093)	\$24.40
Ottawa West	3,777,207	58	14.0%	13.1%	108,695	0	0	(170,757)	\$36.15
Nepean	5,438,636	82	5.6%	3.0%	99,384	0	0	16,490	\$28.67
Ottawa East	3,764,270	54	2.9%	2.4%	83,224	0	25,000	13,002	\$25.42
Gloucester	1,337,799	12	0.2%	0.2%	43,028	0	0	34,347	\$32.38
Total	36,036,650	391	6.3%	4.3%	880,445	370,000	25,000	(93,226)	\$36.75

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
50 O'Connor Street	Downtown Core	Nelligan O'Brien Payne Canadian Institute for Health Information	28,193	A
45 O'Connor Street	Downtown Core	Information	21,035	A
1630-1690 Woodward Drive	Ottawa West	PWGSC	17,078	B

SIGNIFICANT 2Q08 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
171 Slater Street	Downtown Core	GE Canada	148,693	\$35,350,000
473 Albert Street	Downtown Core	2164613 Ontario Inc.	139,964	\$19,500,000

SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1209 Michael Street	Ottawa East		25,000	04/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
180 Kent Street	Downtown Core	N/A	370,000	04/09



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