MARKETBEAT

CUSHMAN & WAKEFIELD LEPAGE™
Global Real Estate Solutions

OTTAWA OFFICE REPORT

3Q08

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

ECONOMY

In its latest metropolitan report, the Conference Board of Canada stated that the slowdown in Central Canada and the United States is expected to act as a drag on growth in Ottawa. This will be due to lower demand for the goods and services produced in the area. With weakness in both the high-tech and manufacturing sectors, as well as slowing activity in the construction industry, total gross domestic product (GDP) in the region is expected to reach only 1.8% in 2008, its weakest performance in 12 years. This comes despite recent job growth, healthy consumer spending, and a strong housing market. The picture improves, however, going into 2009, as economic growth is forecast to increase to 2.5%, and average 2.7% per year from 2010 to 2012.

Unemployment in Ottawa edged up slightly from July to reach 5.2% in August, despite the creation of approximately 3,900 new jobs. The unemployment rate rose due to more people searching for work. This low growth may be an indication that the boom in job creation is beginning to cool after adding more than 8,000 jobs in the previous two months, and gaining 19,800 jobs during the last year.

OVERVIEW

As anticipated, vacancy increased this quarter to 6.8%, for an increase of half of a percentage point from last quarter. The most significant contributing factor to this rise in vacancy is the continued weakening in Kanata. Sitel, who announced earlier this year that their Ottawa call centre was closing its doors, placed over 50,000 square feet (sf) on the market this quarter. Dell Canada has also decided to completely shut down its Ottawa operations by placing their original call centre facility of over 100,000 sf on the sublet market.

As a result of these large blocks of space coming on the market, it is no surprise that overall demand weakened substantially, with negative absorption of close to 190,000 sf. The Central area was only able to marginally offset this with approximately 16,000 sf of positive absorption. Demand has eased in the Central area as many users were either waiting out the federal election or evaluating if there will be any repercussions for their businesses due to the troubles south of the border. New development space coming on the market in the second quarter of 2009 is also playing a role in leasing decisions.

Although leasing activity has slowed from last quarter, it still remains the highlight of the office market, with close to 316,000 sf. As was the case last quarter, activity was split between the Central market and the Suburban market. The vast majority of transactions continue to be for tenants with smaller requirements–in the 5,000-sf range.

OUTLOOK

Vacancy is forecasted to continue to rise through to the end of 2008 as additional space located in Kanata is expected to come onto the market. Other than this, overall activity through to the end of the year should be quiet while the office market evaluates how current economic events are going to impact their space requirements. Looking into 2009, the market, in particular the downtown core, will be affected by numerous developments. One is the completion of 180 Kent. The other is the consolidation of Bell Canada. A development that also bears watching through to the end of the year and into 2009 is the federal government leasing space before it officially comes to the market.

BEAT ON THE STREET

"Ottawa is bracing itself for the introduction of a new four year assessment cycle in 2009. Early indications are that the office sector could see increases as much as 35%."

–Pierre Azzi, Vice President Property Tax Services

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth	3.3%	2.5%	1.8%
CPI Growth	1.7%	1.9%	1.8%
Unemployment	5.2%	5.2%	5.3%
Employment Growth	4.0%	1.3%	2.3%

Source: Conference Board of Canada

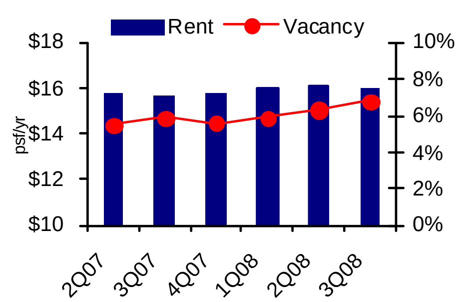
MARKET FORECAST

LEASING ACTIVITY should stabilize in the last quarter of 2008 as the market waits and sees what will happen with the newly elected federal government.

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

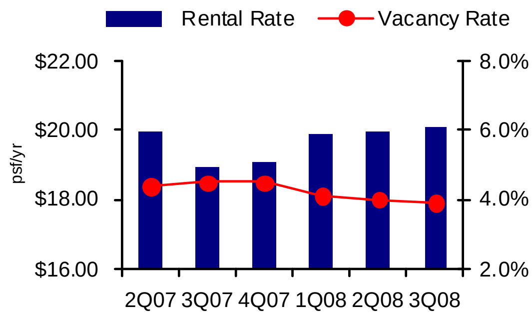
CONSTRUCTION activity has stalled in 2008, but will pick up through 2009-2011

OVERALL RENT VS. VACANCY

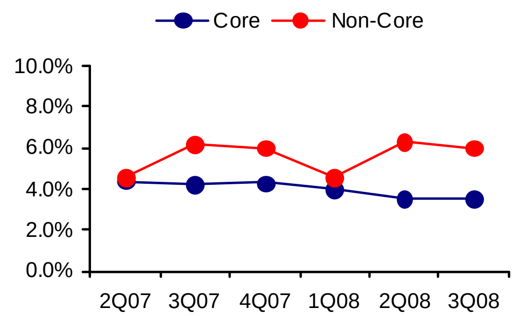


Central Area

Overall Rental vs. Vacancy Rate

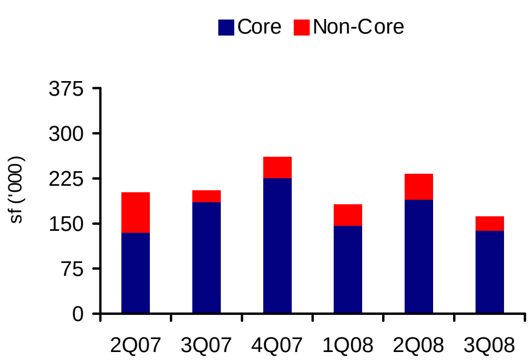


Overall Vacancy Rate Core vs. Non-Core

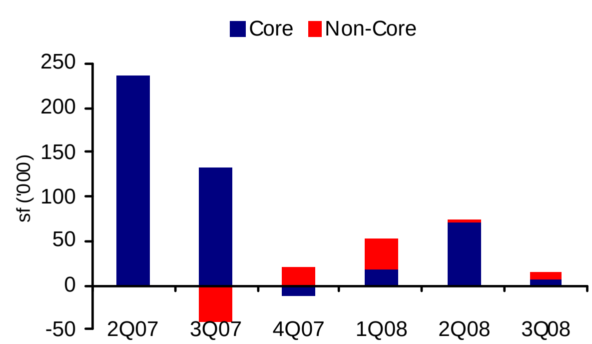


- Rental rates rose slightly in the third quarter to average $20.10. While the class B rates remained flat, there were rate increases in both the class A and C markets. The class A downtown core continues to be Ottawa's most expensive area to lease space, with asking rental rates averaging $26.55.
- As rental rates edged upwards, vacancy slid downwards this quarter, with Central vacancy now at 3.9%. Vacancy in the overall downtown core remained static, with vacancy declines in the Centretown and Byward Market sub-markets.
- Vacancy in the non-core declined slightly this quarter to 6.0% from 6.3% due to modest vacancy declines in both the Centretown and Byward Market sub-markets.
- There was no change in the downtown core, with vacancy remaining at 3.5%. With increases in vacancy in both the class B and C markets, it was the strength of the class A market that kept overall vacancy from increasing. Vacancy in the downtown core class A market now sits at 2.0%, its lowest level since 2001.

Leasing Activity Core vs. Non-Core



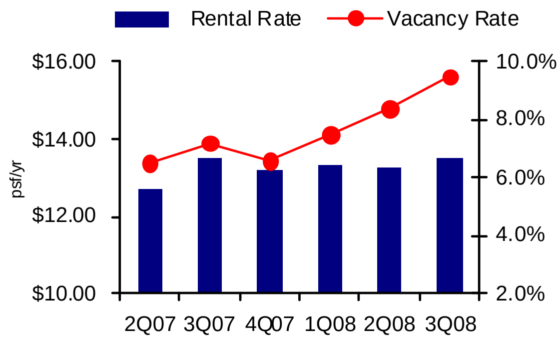
Absorption Core vs. Non-Core



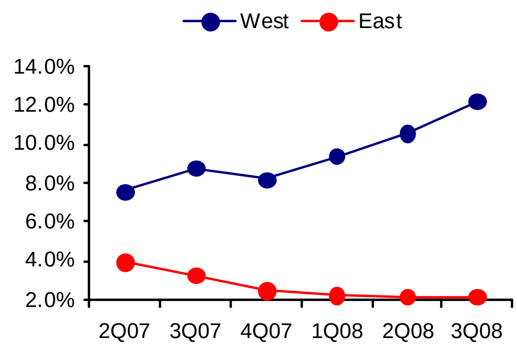
- Leasing activity paused in the Central market this quarter. Combined, the Centretown and Byward Market sub-markets posted close to 22,000 sf.
- Although leasing activity has slowed in the downtown core this quarter, it still remains healthy with close to 141,000 sf. In a departure from previous quarters, it was the class B downtown core segment that saw the most activity, with close to 70,000 sf. In comparison, activity in the class A market totaled close to 59,000 sf. This shift in activity is expected to continue into the fourth quarter as it was announced as this report was coming to publication that the federal government leased approximately 60,000 sf.
- Similar to leasing activity, demand has eased in the Central market. Absorption in the non-core was close to 8,000 sf this quarter.
- Low absorption was also seen in the downtown core market this quarter, totaling just over 8,000 sf. Although leasing activity was brisk in the class A and B markets, multiple buildings placed additional space on the market, resulting in overall low absorption. Absorption will receive a boost next quarter due to the recent 60,000 sf leasing transaction. Despite this development demand will be tempered in the downtown core as many tenants await developments from the newly elected federal government.

Suburban Area

Overall Rental vs. Vacancy Rate

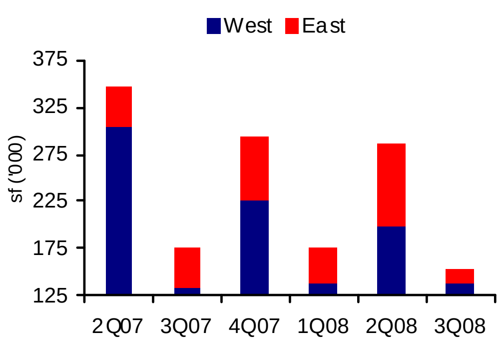


Overall Vacancy Rate West vs. East

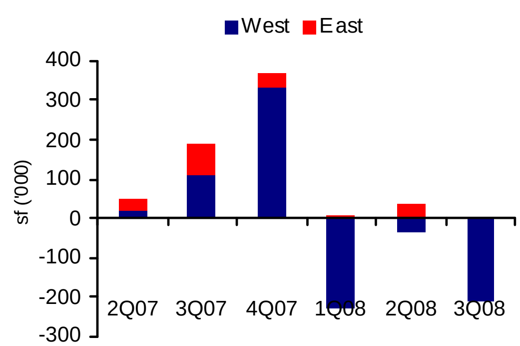


- Due to continued weakening in the western suburbs, vacancy in the overall suburban market rose to 9.5%, an increase of over a percentage point from last quarter.
- Rental rates continue to hold steady, with overall asking rental rates averaging $13.49, a very slight increase from last quarter. Perhaps reflecting current market conditions, average asking rental rates decreased slightly in the western suburbs to $13.46, while rates rose in the eastern suburbs to $13.69.
- The struggling high-tech call centre market continues to have a significant impact on vacancy in the western suburbs. With the closures of Sitel and Dell, both located in Kanata, vacancy in the west has now risen to 12.2%.
- Vacancy in the suburban east market remains very tight at 2.2%, unchanged from last quarter. Vacant space in the Gloucester sub-market is virtually non-existent, with a vacancy rate of only 0.3%. This area continues to have the lowest vacancy in the city.

Leasing Activity West vs. East



Absorption West vs. East



- Leasing activity in the suburban market dipped this quarter to just over 150,000 sf, with the western suburbs accounting for over 138,000 sf. With only a few exceptions, the majority of the transactions that occurred were under 10,000 sf.
- In the foreseeable future, the majority of activity will be located in the western suburbs due to the plentiful options available to tenants. With conditions being as tight as they are in the eastern suburbs, there are limited choices for new tenants to move into the area or for existing tenants to expand their premises.
- With the increase of space available in Kanata, demand was significantly impacted this quarter. Overall, the suburban market posted over 200,000 sf of negative absorption with the western suburbs accounting for the entire amount.
- Unfortunately, the absorption picture in the western suburbs does not become any brighter through to the end of 2008. Additional space is forecasted to come onto the market in the western suburbs, largely located in Kanata. It is anticipated that leasing activity will not be strong enough to counteract this.

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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%	478,034	370,000	0	98,018	$48.25
Centretown	1,746,105	33	5.5%	5.0%	67,675	0	0	33,001	N/A
Byward Market	914,861	13	7.1%	7.1%	33,950	0	0	10,888	$26.59
Kanata	4,716,374	59	18.0%	6.7%	156,379	0	0	(310,886)	$25.62
Ottawa West	3,777,207	58	14.0%	12.6%	178,457	0	0	(172,011)	$34.57
Nepean	5,438,636	82	5.8%	3.1%	140,644	0	0	7,336	$26.33
Ottawa East	3,764,270	54	2.8%	2.6%	98,197	0	25,000	17,865	$26.59
Gloucester	1,337,799	12	0.3%	0.3%	43,028	0	0	32,890	$32.18
Total	36,002,250	391	6.8%	4.5%	1,196,364	370,000	25,000	(282,899)	$34.89

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2680 Queensview Drive	Ottawa West	PWGSC	17,103	B
45 O'Connor Street	Downtown Core	N/A	10,111	A

SIGNIFICANT 3Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1001 Farrar Road	Kanata	HOOPP Realty Inc.	145,000	$35,250,000
244 Rideau Street	Byward Market	Claridge Homes	21,000	$3,000,000

SIGNIFICANT 3Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

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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