MARKETBEAT

CUSHMAN & WAKEFIELD® OTTAWA

OTTAWA OFFICE REPORT

2Q09

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

ECONOMY

The unemployment rate for the Ottawa-Gatineau region rose four tenths of a percentage point in May to reach 5.9%. Although the local economy lost approximately 3,800 jobs, this employment decrease was the smallest number seen year-to-date, and unemployment is well below the national unemployment rate of 8.4%. There were encouraging signs in the high-tech sector, which added approximately 1,500 jobs to employ 54,600 people in May, although overall employment is down by around 7,000 year-over-year. The business, building and other support services segment, which includes employment agencies and call centres, has experienced some troubles as well and has seen its workforce decrease by 10,000 jobs to currently employ around 18,600 workers. The public administration sector continues to be the shining light for the region and has added around 5,000 jobs year to date.

OVERVIEW

After numerous quarters of strong activity from the federal government, the public sector was fairly quiet during the second quarter. Due to both this and a continued soft demand from the private sector, vacancy edged up to 6.5%, an increase of three tenths of a percentage point from last quarter. This softening demand was particularly felt in the suburban west markets. Vacancy edged up in all three sub-markets, with the highest increase seen in Kanata. Although the Ottawa office market to date has not been as strongly affected by the economic downturn compared to other Canadian cities, the region is certainly not immune. Due to the prevalence of high-tech located in Kanata, this sub-market is particularly affected as this sector is usually among the first to feel the effects of upswings or downswings in the economy. There was, however some positive news in Kanata this quarter: Research in Motion (RIM) is expanding its local workforce and is reportedly looking at building a new five-storey, 122,450-square foot (sf) office building adjacent to their current facility in Kanata.

Absorption figures dropped off substantially from last quarter with an overall negative absorption this quarter of close to 112,000 sf. In a marked departure from last quarter, where over a quarter of a million square feet was removed from the western suburban market courtesy of leasing activity from the federal government, an additional 113,000 sf became available this quarter in the western suburban market that was not absorbed. The majority of this new space was distributed among numerous buildings in the western suburban market, with five blocks in the range of 10,000-20,000 sf located in Kanata.

It appears that leasing activity is falling more in line with current economic conditions. Leasing activity slowed dramatically this quarter, declining to around 225,000 sf. This is a drop of well over 400,000 sf from last quarter; however, this decline was to be expected. The strong leasing activity seen in recent quarters has come largely from transactions from the federal government that have been months in the making.

OUTLOOK

Looking ahead to the final six months of 2009, it is expected that the market may continue to soften slightly. Vacancy is currently projected to rise as an additional 275,000 sf of space is forecasted to come on the market. As a result, absorption may remain in negative territory as demand is not expected to be strong enough to counteract this additional space. However absorption will benefit with the completion of 180 Kent next quarter.

BEAT ON THE STREET

"Although the availability of space within the downtown core remains scarce, landlords must compete for new business due to the limited number of tenants that are active within the market. The story is similar in Kanata, but is amplified due to a vacancy rate of 18.7%."

–Ransome Drcar, Associate Vice President Office Leasing

ECONOMIC INDICATORS

	2007	2008	2009F
GDP Growth	2.6%	1.2%	0.2%
CPI Growth	1.9%	2.2%	0.5%
Unemployment	5.2%	4.8%	5.8%
Employment Growth	1.3%	2.8%	-0.4%

Source: Conference Board of Canada

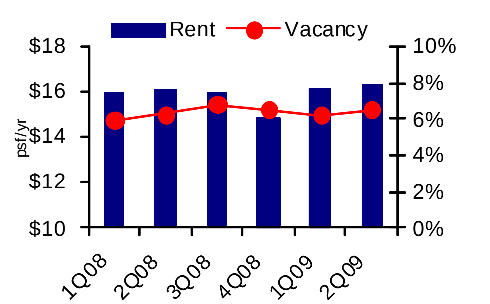
MARKET FORECAST

LEASING ACTIVITY has begun to trend downward as activity has slowed due to the current economic climate.

DIRECT ABSORPTION has headed into negative territory and may remain there over the seond half of 2009 due to the amount of space forecasted to come on the market.

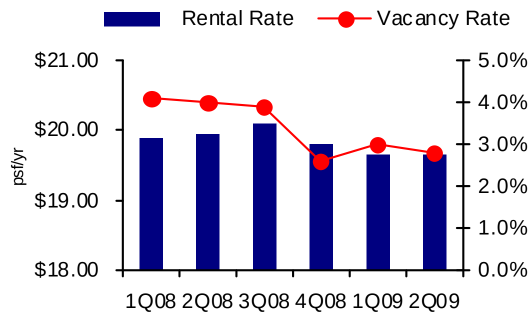
CONSTRUCTION activity has accelerated with the commencement of a new downtown core office tower to be completed in 2011.

OVERALL RENT VS. VACANCY

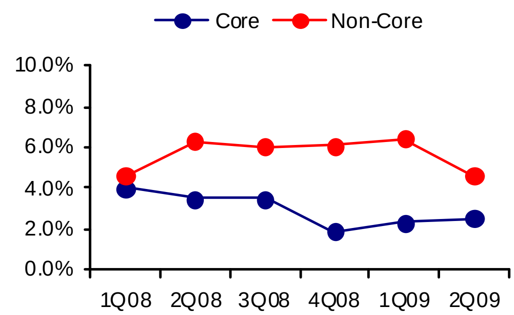


Central Area

Overall Rental vs. Vacancy Rate

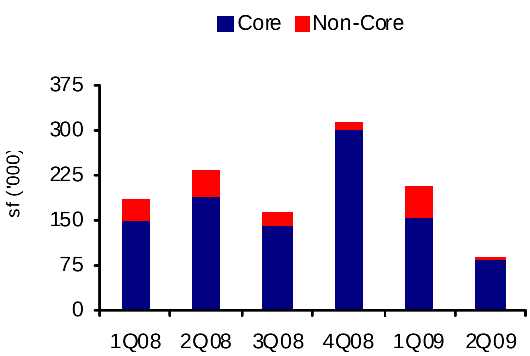


Overall Vacancy Rate Core vs. Non-Core

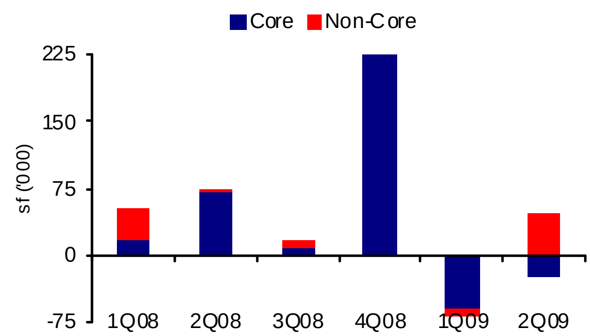


- Rental rates remained virtually unchanged from last quarter, sitting at $19.66 per square foot (psf). The rates for class B and C space ticked slightly upwards this quarter, while class A saw a minimal decrease. The asking rental rates in the downtown core remain high, with the current average class A rental rate at $26.10 psf. This is a slight decrease from last quarter and is due to lower asking rental rates in one property.
- Vacancy slipped back down this quarter in the Central area to reach 2.8%. With the class A and B vacancy rates virtually unchanged from last quarter, it was a decrease in the class C vacancy rate that propelled the overall vacancy rate downwards.
- After numerous quarters of stable vacancy in the non-core, vacancy declined this quarter to reach 4.6%. This decline was entirely the result of lower vacancy in the Centretown sub-market as one completely vacant property in the class C segment was removed from the market in order to undergo a renovation.
- Vacancy in the downtown core edged up slightly, increasing by two tenths of a percentage point to reach 2.5%, with the class A vacancy rate increasing by one tenth of a percentage point to 1.6%. Vacancy may rise in the downtown core over the second half of the year as an additional 117,000 sf is forecasted to come on the market, with the majority located in the class A segment.

Leasing Activity Core vs. Non-Core



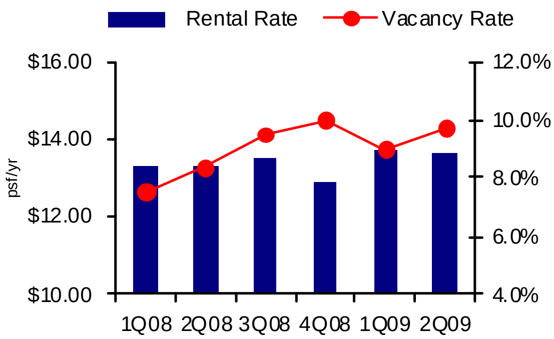
Absorption Core vs. Non-Core



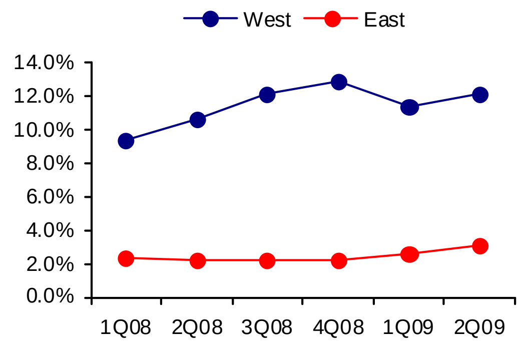
- Leasing activity in the non-core was negligible this quarter, reaching only 6,000 sf, its lowest level in the past six quarters.
- Leasing activity in the downtown core declined for the third straight quarter to currently sit at approximately 83,000 sf; with two thirds of that activity located in the class A segment. The majority of leasing activity that has been registered in the downtown core over the past six months has originated from the federal government, and these deals were negotiated before the economic downturn. Leasing activity is now beginning to reflect current market conditions as both the private and public sectors are adopting a cautious approach to their space requirements.
- Absorption in the non-core moved back into positive territory this quarter with approximately 47,000 sf. Almost all of this absorption was located in the Centretown sub-market and was due to the removal of the property that will be undergoing renovations.
- The downtown core posted negative absorption for the second straight quarter with just over 24,000 sf, although this is an improvement over last quarter. Additional space came on the market in all three class segments and was distributed among more than a dozen properties. Absorption should climb back into positive territory next quarter with the completion of 180 Kent Street.

Suburban Area

Overall Rental vs. Vacancy Rate

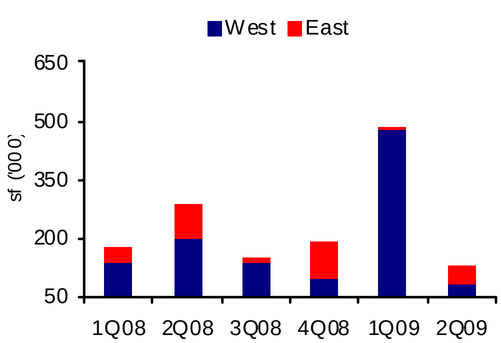


Overall Vacancy Rate West vs. East

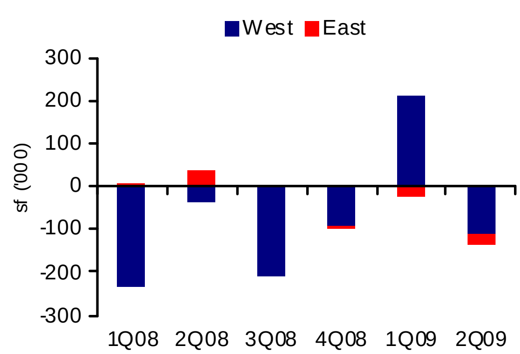


- After pausing last quarter, vacancy in the overall suburban area resumed its march upwards, climbing to 9.7%. This increase was the result of higher vacancy in both the eastern and western suburbs.
- Overall rental rates were virtually unchanged last quarter at $13.64 psf, just six cents lower than last quarter. The average suburban west rental rate declined by two cents to reach $13.72 psf, while the average rental rate in the suburban east market saw a slightly more substantial decline to reach $13.16 psf. The reason behind this is that some of the more expensive than average space came off the market this quarter in the class A segment.
- Vacancy in the western suburbs increased this quarter to reach 12.2% as the amount of currently available space rose to over 1.7 million square feet (msf). While vacancy increased across all the western submarkets, it was Kanata that underwent the steepest increase, with vacancy rising by 1.2 percentage points to reach 18.7%.
- After numerous quarters of vacancy in the low two percent range, it now appears that the suburban east market is beginning to open up, although slightly. Vacancy rose for the second straight quarter and is now at 3.1%. Although this vacancy is still very tight compared to other areas of the city, an increase of vacancy in numerous buildings will provide some additional space options for tenants.

Leasing Activity West vs. East



Absorption West vs. East



- Leasing activity slowed substantially in the second quarter in the western submarkets, declining by almost 400,000 sf to close to 84,000 sf. Similar to the downtown core, this quarter-over-quarter decrease seems drastic due to how active the federal government was last quarter. This quarter's leasing activity is more realistic considering the economic downturn.
- In contrast, leasing activity in the eastern suburbs accelerated from last quarter, reaching over 50,000 sf. The majority of this activity was the result of six transactions in the Ottawa East class B segment that totalled close to 38,000 sf.
- Absorption levels in the overall suburban market were once again in the negative at close to 135,000 sf.
- Negative absorption was registered across all three submarkets in the western suburbs, with Kanata being the softest market with negative absorption of close to 77,000 sf. Absorption in the overall suburban east market was negative once again this quarter—at levels almost identical to last quarter, around 22,000 sf. This quarter the negative absorption was the result of an additional 21,000 sf that came on the market in the class A Gloucester sub-market.

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	2.5%	1.9%	234,599	845,000	0	(84,389)	$48.58
Centretown	1,769,448	34	3.0%	3.0%	42,580	0	0	45,736	N/A
Byward Market	914,861	13	7.6%	6.9%	16.278	0	0	(6,878)	$41.10
Kanata	4,844,590	60	18.7%	8.9%	309,126	0	0	38,279	$24.61
Ottawa West	3,777,207	58	11.9%	10.6%	195,468	0	0	113,612	$35.04
Nepean	5,455,838	83	6.2%	4.1%	58,242	0	0	(52,608)	$24.14
Ottawa East	3,764,270	54	3.0%	2.6%	46,497	0	0	(13,958)	$24.26
Gloucester	1,337,799	12	3.1%	0.1%	9,992	60,000	0	(30,022)	$32.24
Total	36,171,011	394	6.5%	4.3%	912,782	905,000	0	9,772	$36.38

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
65 Auriga Drive	Nepean	IBM	48,764	A
160 Elgin Street	Downtown Core	Kelly, Howard, Santini	14,426	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1716 Woodward Drive	Ottawa West	Nova Networks	7,000	$1,100,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
150 Slater Street	Downtown Core	EDC	475,000	09/11
180 Kent Street	Downtown Core	PWGSC	370,000	07/09
1150 Cyrville Road	Gloucester	Accreditation Canada	60,000	06/10

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