

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q10

ECONOMY

The National Capital Region lost 4,700 jobs in August which resulted in the unemployment rate rising to 6.8%; its highest level since July 2005. As of August there were 677,400 people employed in Ottawa-Gatineau region, which is down slightly from July, but still up 1.9% from one year ago. Two of the key sectors for the region – public administration and high-tech – both posted job gains in August. The number of people employed in public administration increased to 159,100 and the technology sector added 500 positions to reach 47,800 jobs. However these totals are both lower compared to one year ago. According to the Conference Board of Canada's latest metropolitan release this slower growth in the public administration sector will have an impact on the overall economy. They forecast GDP growth to slow to 2.5% in 2011 and then average 2.4% per year from 2012-2014.

OVERVIEW

The overall office market continued to soften this quarter with vacancy rising to reach 7.0%, four-tenths of a percentage point increase from the second quarter. Although vacancy did increase slightly in the Central area in the third quarter, increasing by two-tenths of a percentage point to 4.5%, it was the increase in vacancy in the Suburban West market that pushed the overall vacancy upwards. After three quarters of declining or stable vacancy in the Suburban West market, vacancy rose by close to a percentage point to reach 11.6%. However this percentage is lower compared to vacancy from one year ago. Currently there is close to 2.6 million square feet (msf) available in the City of Ottawa with approximately 1.65 msf, or close to two-thirds, of that space located in the Suburban West market.

Absorption levels showed a significant decrease once again this quarter with totals now in the negative at 172,000 square feet (sf). Both the Central area and the overall Suburban areas experienced negative absorption this quarter but it was the Suburban West market which had the lion's share at approximately 135,000 sf. The largest contributors were both located in Kanata. One is the availability of Hewlett Packard's former premises of approximately 106,000 sf, and the other is close to 61,000 sf becoming available at 500 Palladium; Breconridge's former manufacturing facility which is now owned by Sanmina.

After an active second quarter, leasing activity slowed to around 335,000 sf in the third quarter. As was the case last quarter, activity continues to be focused within the Suburban West market with close to 177,000 sf coming off of the market. About 50% of that total was located in Kanata with two single transactions over 15,000 sf, multiple transactions in another property that totaled close to 19,000 sf, and additional smaller transactions.

OUTLOOK

As anticipated, vacancy did increase this quarter and absorption levels did head into negative territory. These conditions are not expected to change through to at least the middle of 2011, as approximately 154,000 sf of space will be coming on the market in the fourth quarter of 2010 and an additional 363,000 sf is forecasted to become available in the first quarter of 2011. The result will be a rise in the overall vacancy to 8.4% and a significant increase in vacancy in the downtown core class A market to 7.2%; its highest level since 1996. These projections will largely hinge on the federal government and their plans on housing public servants while existing premises are undergoing renovation.

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BEAT ON THE STREET

"We are witnessing a market shift as vacancy rises and tenant demand for sustainable workplaces increases. Building owners are seeing the need to "green" their portfolios to seek a competitive advantage and to ensure a greater market share."

—James McNeil, Associate Vice President
Commercial Sales and Leasing

ECONOMIC INDICATORS

	2008	2009	2010F
GDP Growth	1.2%	-0.7%	3.7%
CPI Growth	2.2%	0.6%	3.1%
Unemployment	4.8%	5.7%	6.0%
Employment Growth	2.9%	-1.5%	2.8%

Source: Conference Board of Canada

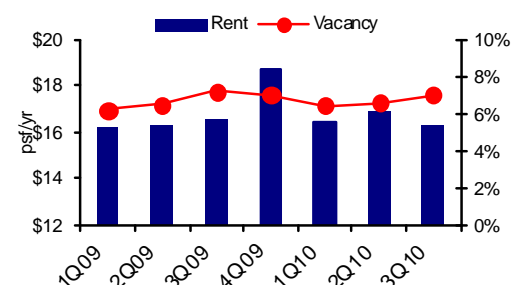
MARKET FORECAST

LEASING ACTIVITY slowed this quarter after a very active second quarter. It is anticipated the pace of activity will continue to slow through the remainder of 2010. ↓

DIRECT ABSORPTION continued its downward trend from last quarter and was in negative territory for the first time in 2010. Absorption figures are expected to worsen over the next six months as over 500,000 square feet is returned to the market. ↓

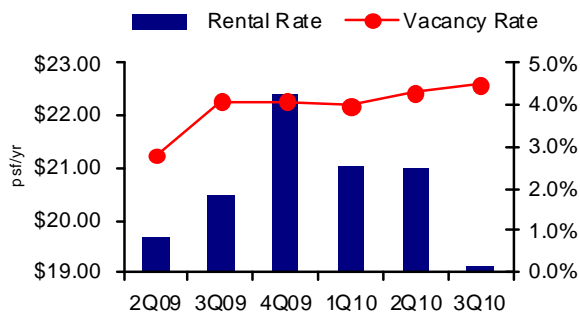
CONSTRUCTION continues on the new downtown core office tower for EDC with no new projects set to get underway on the immediate horizon. ↔

OVERALL RENT VS. VACANCY

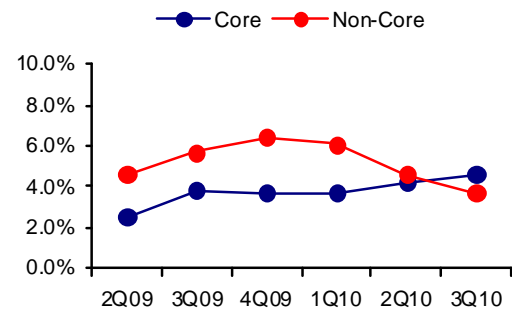


Central Area

Overall Rental vs. Vacancy Rate



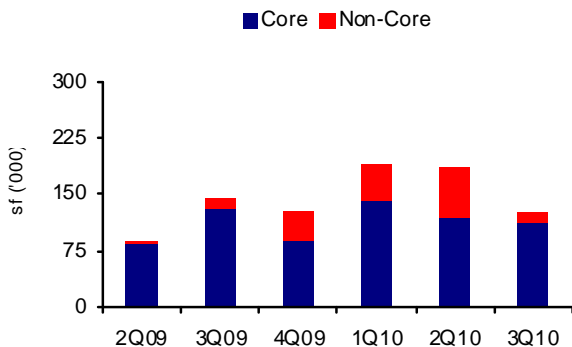
Overall Vacancy Rate Non-Core vs. Core



- Although the above chart illustrates what seems to be a dramatic decrease in the Central area asking rents, the reality is not that drastic. Current asking rents average \$19.13 per square foot (psf) with class A rents averaging \$24.45 psf. The main factors contributing to the overall decline were that some of the most expensive spaces in both the downtown core and Byward Market class A segment were no longer available this quarter.
- Overall vacancy in the Central area ticked upwards to reach 4.5%, two-tenths of a percentage point higher than the second quarter. With decreasing vacancy in the Centretown and Byward Market areas it was the rise in vacancy in the downtown core that led to the overall increase.

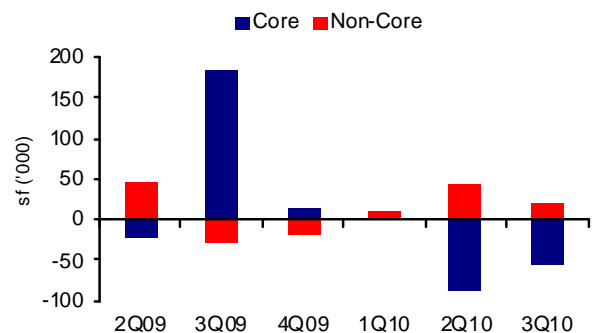
- Vacancy in the non-core continues to decline and has now reached 3.7%. Both the Centretown and the Byward Market areas underwent decreases in vacancy during the third quarter, particularly the Byward Market where vacancy declined by 1.7 percentage points to reach 4.1%.
- Vacancy continues to increase in the downtown core with vacancy now sitting at 4.6%; its highest level since 2005. While vacancy remained flat in the class A segment at 3.8%, the class B and C segments posted increases in vacancy. This period of relative stability in downtown core vacancy will soon be coming to an end. By the end of the first quarter 2011 overall vacancy in the downtown is projected to rise to 6.9%.

Leasing Activity Non-Core vs. Core



- After a fairly active first half of the year, leasing activity slowed substantially in the non-core to approximately 17,000 sf. This is no surprise due to the small market size and the decreasing availability of space, particularly the most desirable pockets.
- Leasing activity levels in the downtown core closely matched second quarter figures, with only a slight decrease to about 111,000 sf. This brings the year-to-date total to approximately 367,000 sf. The class A market continues to be the focal point of activity and notable transactions include 12,500 sf at 160 Elgin Street leased to the City of Ottawa and approximately 22,000 sf at 360 Albert Street. Of this, approximately 15,000 sf was due to an existing tenant relocation within the building.

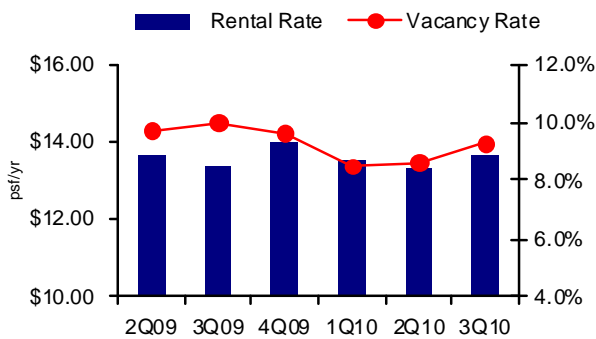
Absorption Non-Core vs. Core



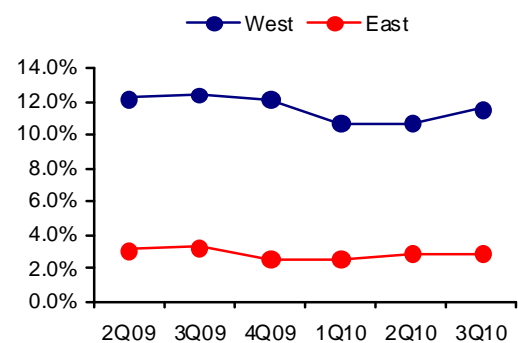
- Although absorption levels have decreased in the non-core this quarter, totals remain in positive territory at approximately 19,000 sf. Both the Centretown and Byward Market areas had positive absorption this quarter, with the majority located within the Byward Market.
- Absorption did improve within the downtown core this quarter, although it did remain in negative territory at approximately 56,000 sf. Negative absorption levels are expected to continue into at least the second half of 2011 as approximately 334,000 sf is set to become available in the downtown core over the course of the next six months.

Suburban Area

Overall Rental vs. Vacancy Rate



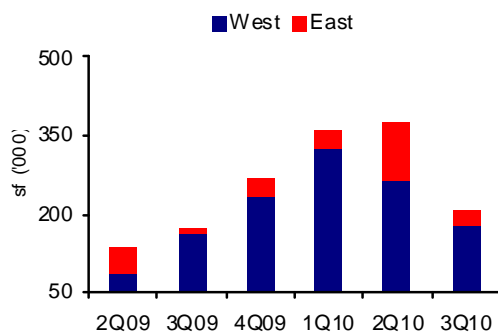
Overall Vacancy Rate West vs. East



- After a fairly stable second quarter, vacancy in the overall Suburban market climbed to reach 9.3%, up from 8.6% posted during the last quarter.
- Despite the rise in vacancy the overall asking average rental rate for the Suburban market rose slightly to average \$13.64 psf this quarter. There were increases in both the Suburban East and Suburban West markets to average \$13.42 psf and \$14.70 psf, respectively. The more notable increases were in the Suburban West class B segment and both the class A and class B Suburban East markets.

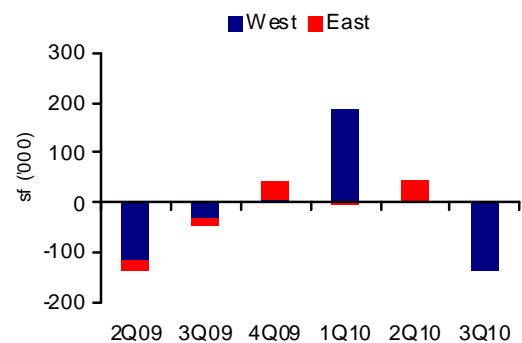
- After numerous quarters of either stable or declining vacancy in the Suburban West market, vacancy rose this quarter to 11.6%, close to a percentage point increase from the second quarter. With vacancy remaining almost unchanged in Nepean and the Ottawa West submarkets, it was rising vacancy in Kanata from 12.9% to 15.1% that led to the increase in the overall vacancy.
- Vacancy remained unchanged in the Suburban East market this quarter at 2.9%. The Ottawa East submarket saw vacancy decrease by one-tenth of a percentage point while vacancy in Gloucester increased by two-tenths of a percentage point.

Leasing Activity West vs. East



- Leasing activity in the western submarkets continue to slow this quarter to reach 177,000 sf. Kanata remains the most active with approximately 86,000 sf. Some of this activity includes two transactions over 15,000 sf and multiple transactions in a third property that totaled close to 19,000 sf.
- After a very active second quarter, leasing activity slowed in the Suburban East market to more historical levels reaching close to 31,000 sf. Leasing activity was focused in the Ottawa East market with multiple transactions located in numerous properties.

Absorption West vs. East



- Absorption in the Suburban West market dipped into negative territory this quarter at just over 135,000 sf, the first time absorption has been negative in a year. All three submarkets in the west posted negative absorption with the highest amounts located in Kanata at approximately 121,000 sf. This was largely due to availability in the former facilities of Hewlett Packard and Breconridge.
- Absorption in the eastern submarkets was virtually nil this quarter at a positive 572 sf. A positive absorption amount of close to 13,000 sf in the Ottawa East submarket counteracted the negative absorption seen in every other class segment in Ottawa East and the entire Gloucester 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	14,715,998	82	4.6%	3.2%	367,373	475,000	0	(141,860)	\$47.81
Centretown	1,769,448	34	3.5%	3.5%	41,631	0	0	9,878	N/A
Byward Market	914,861	13	4.1%	3.7%	91,713	0	0	61,612	\$34.57
Kanata	5,050,943	63	15.1%	11.2%	479,592	0	0	117,608	\$22.77
Ottawa West	3,777,207	58	12.8%	11.2%	172,850	0	0	(17,056)	\$34.70
Nepean	5,455,838	83	7.4%	4.8%	114,023	0	0	(43,588)	\$25.13
Ottawa East	3,790,796	53	3.3%	3.0%	142,263	0	0	(26,859)	\$33.10
Gloucester	1,397,799	14	2.0%	1.4%	34,191	0	60,000	65,833	\$33.72
Total	36,872,890	400	7.0%	5.3%	1,443,636	475,000	60,000	25,568	\$34.61

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1430 Blair Place	Gloucester	Rogers Communications	53,677	A - Renewal
2625 Queensview Drive	Ottawa West	OCRI	16,732	B - Renewal
160 Elgin Street	Downtown Core	City of Ottawa	12,584	A

SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
219 Laurier Ave. W.	Downtown Core	Whiterock REIT	188,750	\$43,500,000
150 Metcalfe Street	Downtown Core	Dundee Properties (GP) Inc.	108,508	\$33,650,000

SIGNIFICANT 3Q10 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



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