

# MARKETBEAT



## OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

1Q11

### ECONOMY

Despite a slight gain in employment of 400 jobs in the region, Ottawa-Gatineau's unemployment rate increased one-tenth of a percentage point in February to 6.6%, the result of approximately 1,000 people entering the local workforce. The public administration sector added approximately 4,000 jobs, with total employment in the region rising to 177,000. The high-tech sector experienced slight growth during the month, adding about 400 jobs. This brings total employment in the sector to 46,400. The Conference Board of Canada recently released their latest Metropolitan Outlook and has predicted GDP growth for the region to slow to 2.4% in 2011. This will largely be due to restricted growth in the public administration sector as the effects of a departmental spending freeze and limited program spending growth will become more apparent.

### OVERVIEW

Vacancy increased by nearly one and a half percentage points in the overall office market in the first quarter of 2011, rising to 7.9%. This had been anticipated, as over 465,000 square feet (sf) of additional space became available this quarter and was overwhelmingly contained within the class A market. This additional space came as a result of consolidations and relocations, largely impacting the downtown core as well as Kanata. Currently, there are close to 2.9 million square feet (msf) available within the City of Ottawa, a level not seen since the latter half of 2004.

As a result of the significant amount of vacant space coming on the market, absorption levels plunged into the negative to almost 466,000 sf. Within the downtown core this negative absorption was the result of both EDS and Sun Life moving the majority of their remaining Ottawa operations to the suburban market due, respectively, to merging and "rightsizing." As well, more of Bell Canada's space that has been left vacant by their ongoing consolidation efforts officially became available this quarter. In Kanata it was the merger between Sanmina and Breconridge, which resulted in a consolidation of space, and the move by Mitel to shed excess space that led to the high levels of negative absorption in this submarket.

Despite all of this, leasing activity remained fairly consistent with amounts seen in the final quarter of 2010 at approximately 379,000 sf, largely located in the downtown core and Kanata. This is to be expected as these submarkets have the highest amount of vacant space in the city and provide tenants numerous options to reevaluate their space requirements and perhaps make the move to higher quality premises.

### OUTLOOK

The market was certainly impacted by the multiple consolidations and relocations that occurred this quarter. Looking ahead to the remainder of the year and into 2012, focus will be on the tenants currently occupying the former Nortel campus and what their space requirements will be once they are required to vacate once the Department of National Defense takes occupancy. Kanata would be the logical choice for the tenants to relocate to and currently there are limited options of contiguous space large enough to house these companies. These options may shrink even further as it has been rumored that one of these tenants is close to finalizing a deal. If this option does come off of the table it is even more likely we will see some new development activity happening soon.

### BEAT ON THE STREET

"Is there good news for tenants in the downtown core? Here are the facts: Federal demand is down. Private sector demand is shrinking. Vacancy rates are rising. Federal stimulus plan has ended. What does this all mean? If you are a tenant it means you can relax, relief is on the way."

—Ransome Drcar, VP Office Leasing

### ECONOMIC INDICATORS

	2010	2011F	2012F
GDP Growth	2.8%	2.4%	2.3%
CPI Growth	2.5%	2.3%	2.1%
Unemployment	5.4%	6.1%	5.8%
Employment Growth	2.5%	0.4%	1.2%

Source: Conference Board of Canada

### MARKET FORECAST

LEASING ACTIVITY remains at levels consistent with those seen in the second half of 2010. The pace of activity may increase as the market has become more favourable to tenants – particularly in the downtown core.



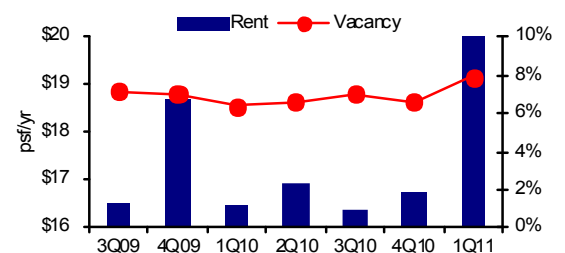
DIRECT ABSORPTION plunged into negative territory this quarter as an additional 466,000 sf of space became available, with 248,000 sf located in the class A downtown core alone.



CONSTRUCTION has commenced on a build-to-suit project for Research in Motion to be located in Kanata. A spec project in the east end is also on the horizon.

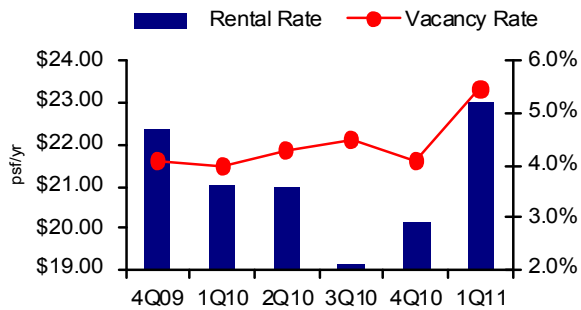


### OVERALL RENT VS. VACANCY



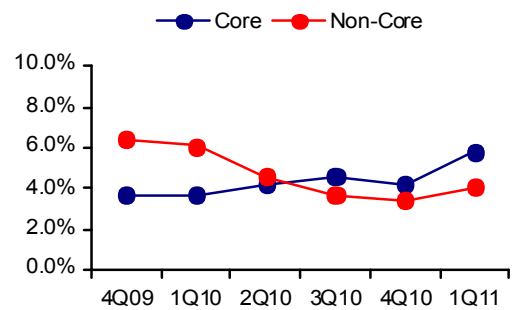
### Central Area

#### Overall Rental vs. Vacancy Rate



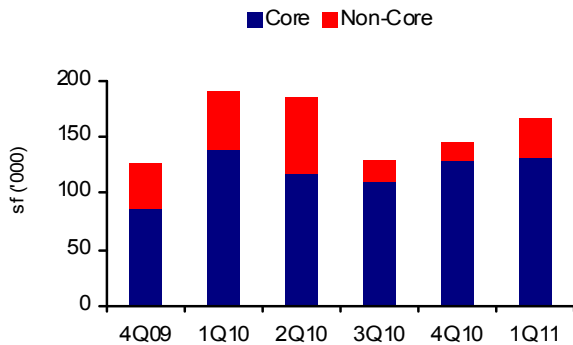
- Asking rental rates appeared to climb substantially in the first quarter of 2011, with the average now at \$23.02 per square foot (psf). However, this average was the result of a combination of an increase in vacant space in some of the more expensive class A downtown core buildings, along with less expensive than average space no longer available in this same submarket and class.
- Vacancy in the Central area spiked this quarter to 5.5%, its highest level since the last quarter of 2005. This increase was largely attributable to events that took place within the downtown core market this quarter.

#### Overall Vacancy Rate Non-Core vs. Core



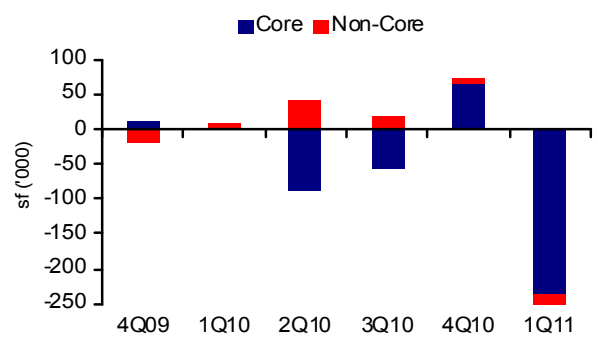
- After four quarters of declining vacancy in the non-core, vacancy climbed to 4.0% this quarter. While vacancy declined in the Centretown market to 2.9%, it rose in the Byward Market to 6.6%. This increase in vacancy was the result of two buildings both having increases in vacant space of over 10,000 sf.
- After numerous quarters of fairly stable vacancy in the downtown core, vacancy rose over one and a half percentage points to 5.8%, with a sharper increase in the class A market to 6.4%. It was the class A market that was hardest hit by the relocations and ongoing consolidations occurring within the downtown core market.

#### Leasing Activity Non-Core vs. Core



- After two quarters of identical leasing activity of approximately 17,000 sf, leasing activity in the non-core more than doubled to reach 35,000 sf this quarter. The majority of the leasing activity was located within the Centretown market with numerous transactions in both class B and C properties.
- Leasing activity in the core remained fairly stable, staying close to the levels seen throughout 2010 at nearly 133,000 sf this quarter. Leasing activity was primarily focused within the class A and B markets, with the federal government leasing approximately 51,000 sf in the class A segment.

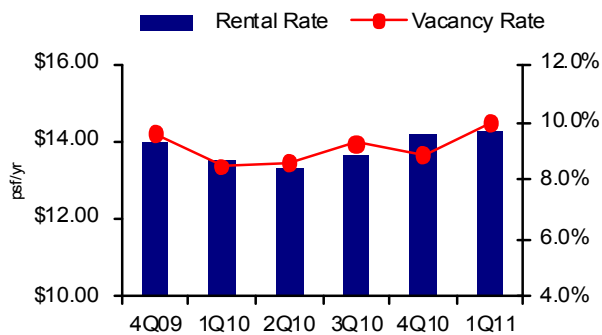
#### Absorption Non-Core vs. Core



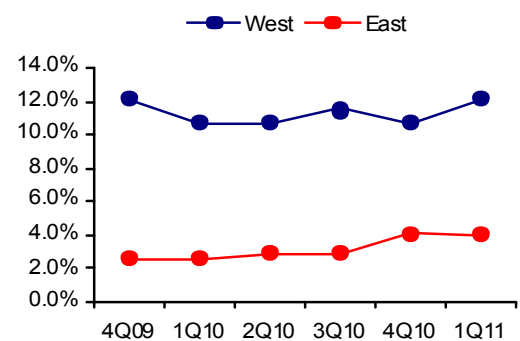
- Absorption levels in the non-core headed into negative territory for the first time in over a year, at approximately 18,000 sf. While the Centretown market had positive absorption of close to 15,000 sf, the Byward Market offset this with negative absorption of close to 33,000 sf.
- The negative absorption in the non-core pales in comparison to the negative absorption seen in the downtown core this quarter. Overall negative absorption for the downtown core was approximately 235,000 sf and was even higher in the class A segment at negative 248,000 sf. As discussed earlier, the downtown core was hit hard by the Sun Life and EDS moves, along with the ongoing Bell consolidation. These three events alone placed over 217,000 sf of class A space onto the market.

### Suburban Area

**Overall Rental vs. Vacancy Rate**



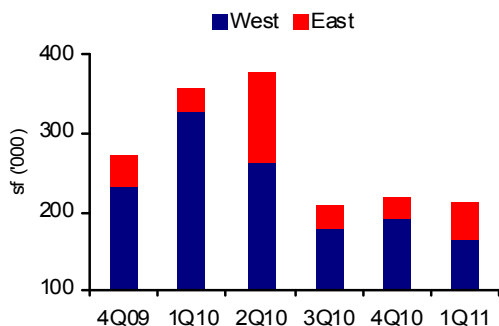
**Overall Vacancy Rate West vs. East**



- The overall asking rental rate for the Suburban market was almost identical to last quarter, with the average now sitting at \$14.27 psf with only minimal changes seen through each class segment. The Suburban East market had a slight increase in asking rents to an average of \$15.43 psf, while the Suburban West market had a slight decrease in rents to an average of \$13.68 psf.
- After a pause last quarter, vacancy resumed its march upwards to reach 10.0%, about a percentage point higher than last quarter. With vacancy in the Suburban East market remaining flat; it was an increase in vacancy in the Suburban West market that led to the overall increase.

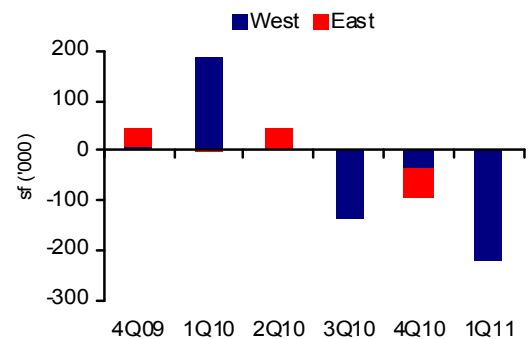
- In a pattern very similar to the overall Suburban market, vacancy within the Suburban West market climbed to 12.1% this quarter. With only a minimal change in vacancy in both the Ottawa West and Nepean submarkets, it was the increase in vacancy in Kanata of nearly four percentage points that led to the overall increase.
- Vacancy within the Suburban East market remained almost unchanged from last quarter, declining by just one-tenth of a percentage point to 4.0%. While vacancy declined in the Ottawa East submarket to 3.5%, it rose in Gloucester to 5.4%.

**Leasing Activity West vs. East**



- Although leasing activity in Suburban West slowed in the first quarter of 2011 to approximately 163,000 sf, this level remains fairly consistent with activity seen over the last half of 2010. Nearly 79,000 sf of the total amount was located in Kanata, with the remainder fairly evenly split between the Nepean and Ottawa West submarkets.
- Leasing activity in Suburban East increased by approximately 20,000 sf compared to last quarter, to reach close to 48,000 sf. The majority of activity was located in the Ottawa East sub-market, particularly the class A segment, with two transactions over 10,000 sf.

**Absorption West vs. East**



- Absorption in Suburban West experienced further declines this quarter to reach negative 216,000 sf. The majority of this negative absorption was located in Kanata, which had an additional 202,000 sf come on the market this quarter. Similar to the downtown core, this negative absorption was the result of a consolidation of two companies and another company shedding space.
- Absorption in the eastern submarkets rebounded significantly from last quarter and moved into minimal positive territory at 4,200 sf. Positive absorption in the Ottawa East market of nearly 23,000 sf was enough to counteract the negative absorption in the Gloucester submarket of 19,000 sf. In Gloucester, close to 31,000 sf became available in one class A property, but was partially offset by 14,000 sf coming off of the market in another class A property.

### 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	5.8%	4.4%	132,666	475,000		(235,188)	\$49.12
Centretown	1,769,448	34	2.9%	2.5%	30,619			14,760	N/A
Byward Market	914,861	13	6.6%	6.3%	4,548			(32,903)	\$38.26
Kanata	5,162,588	64	19.5%	13.9%	78,918	122,450		(202,019)	\$23.66
Ottawa West	3,597,207	57	8.5%	6.4%	37,476			10,710	\$33.97
Nepean	5,455,838	83	7.6%	4.5%	46,663			(25,210)	\$27.28
Ottawa East	3,790,796	53	3.5%	3.0%	32,758			22,960	\$29.52
Gloucester	1,397,799	14	5.4%	4.8%	15,000			(18,754)	\$36.40
<b>Total</b>	<b>36,804,535</b>	<b>400</b>	<b>7.9%</b>	<b>5.8%</b>	<b>378,648</b>	<b>597,450</b>		<b>(465,644)</b>	<b>\$41.77</b>

\* Rental rates reflect psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 1Q11 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
99 Metcalfe Street	Downtown Core	PWGSC	29,716	A
99 Bank Street	Downtown Core	PWGSC	21,722	A

#### SIGNIFICANT 1Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
400 Cumberland Street	Byward Market	Dundee Realty Mgmt Corp. Morguard Investments Ltd.(50% interest in property)	175,000	\$38,300,000
1601 Telesat Court	Ottawa East	Canada Mortgage & Housing Corporation	199,084	\$18,500,000
81 Metcalfe Street	Downtown Core		57,086	\$14,500,000

#### SIGNIFICANT 1Q11 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
5000 Innovation Drive	Kanata	Research in Motion	122,450	2011



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