

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

2Q11

ECONOMY

Job gains in professional services, retailing, and construction resulted in the unemployment rate for Ottawa-Gatineau falling to 6.1% in May, compared to 6.4% in April. The region gained 3,300 jobs in May for an employment total of 695,400. A notable development that has emerged over the past few months has been the decline in the number of public administration jobs. The region lost 5,300 of these jobs in May to bring total employment to 164,800. The adoption of the budget tabled by the Conservative majority government will result in spending growth in federal departments being limited to an average of 1.6% from 2011-2015, compared to the 5.3% average growth in the previous ten years. As a result, the latest Conference Board of Canada Metropolitan Outlook suggests that real GDP growth will be restricted for the region – only reaching 2.2% in 2011.

OVERVIEW

After a fairly substantial rise in vacancy last quarter, the market improved in the second quarter as vacancy decreased by half of a percentage point to 7.4%. Both the Central and Suburban markets posted overall declines in vacancy, particularly in the class A segment, as approximately 185,000 square feet (sf) of availability was removed. There is currently 2.7 million square feet (msf) available within the city of Ottawa, a decline from the seven-year high of available square footage last quarter.

After the overall market posted the largest negative absorption since the fourth quarter of 2003, absorption levels rebounded strongly this quarter to reach positive 157,000 sf. The majority of this absorption was located in the submarkets of Kanata and the downtown core and came largely as a result of activity from both the federal government and the private sector.

This improvement in the overall market helped contribute to brisk leasing activity this quarter with close to 465,000 sf, bringing the year-to-date total to approximately 844,000 sf. Strong leasing activity was seen in both the downtown core – particularly within the class A segment – and Kanata. The overall upswing in activity was in large part due to the numerous space options that became available in the class A segment last quarter, particularly within the historically tight downtown core market.

OUTLOOK

Although approximately 138,000 sf of additional space is forecasted to become available next quarter, vacancy is expected to remain relatively flat as the market should be strong enough to absorb this space. This stability may change come the fourth quarter of the year as the new building for EDC will be completed. This will potentially result in 375,000 sf coming on the market from the buildings that EDC currently occupies, combined with 80,000 sf available for sublease within the new building. This combination of factors could result in overall vacancy increasing to around 9.0%. There are, however, potential events that could help to counteract this increase. In March, the federal government released a Request for Information for the availability of office space for six requirements, totaling approximately 267,000 sf. One of these requirements of 60,000 sf was filled this quarter located at 160 Elgin. There is also the ongoing question of the companies who need to move out of the former Nortel campus – where they will relocate their operations to, and what impact that will have on the office market.

BEAT ON THE STREET

Deal velocity remains low in the downtown core

“Although the vacancy rate in this submarket has dropped from Q1 2011 to Q2 2011, the supply of new tenants to fill vacant pockets of space remains scarce. The reduction of the vacancy rate quarter over quarter is largely due to lingering federal demand for office space”.

–Ransome Drcar, VP Office Leasing

ECONOMIC INDICATORS

	2010	2011F	2012F
GDP Growth	2.7%	2.2%	2.3%
CPI Growth	2.5%	2.4%	2.1%
Unemployment	6.6%	6.3%	6.0%
Employment Growth	2.4%	0.4%	1.8%

Source: Conference Board of Canada

MARKET FORECAST

LEASING ACTIVITY accelerated in the second quarter with close to 465,000 sf, and was primarily located with the downtown core and Kanata



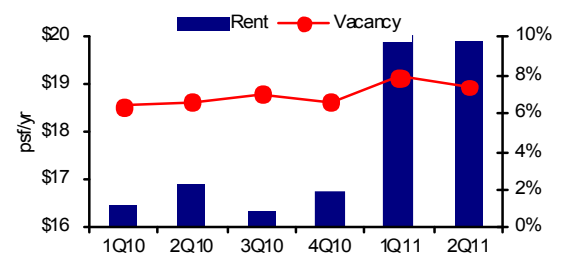
DIRECT ABSORPTION rebounded strongly in the second quarter with approximately 157,000 sf of positive absorption and, similar to leasing activity, was almost entirely located within Kanata and the downtown core.



CONSTRUCTION has commenced on an 80,000-sf building located in the Ottawa West submarket, along with a 269,000-sf build-to-suit for the federal government at The Ottawa Train Yards in the Ottawa East submarket.

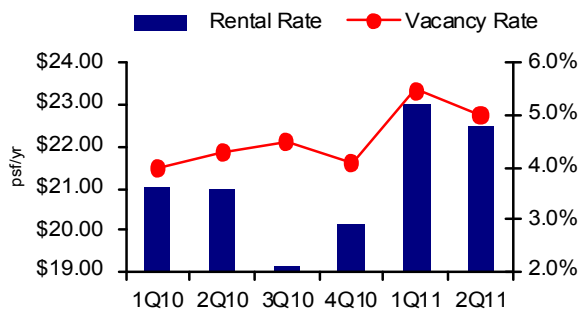


OVERALL RENT VS. VACANCY

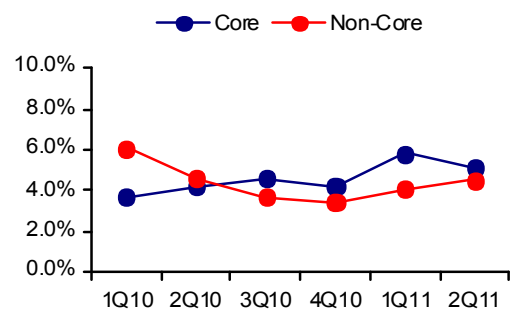


Central Area

Overall Rental vs. Vacancy Rate



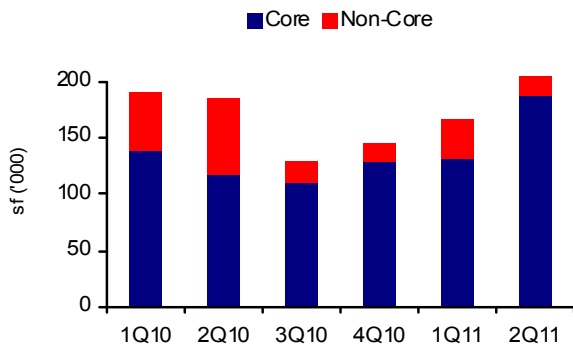
Overall Vacancy Rate Non-Core vs. Core



- Asking rental rates eased this quarter to average \$22.51 per square foot (psf). Class A rates remained virtually unchanged from last quarter while class B rates experienced a decrease and class C rates increased. Although class A downtown core vacancy remains at levels higher than what it has been in recent years, there was little change in the rates with the average currently sitting at \$26.54 psf.
- After the sharp increase in vacancy last quarter, the Central area vacancy rate recovered somewhat in the second quarter, decreasing to 5.0%. This was largely the result of class A vacancy declining by almost one and a half percentage points from last quarter.

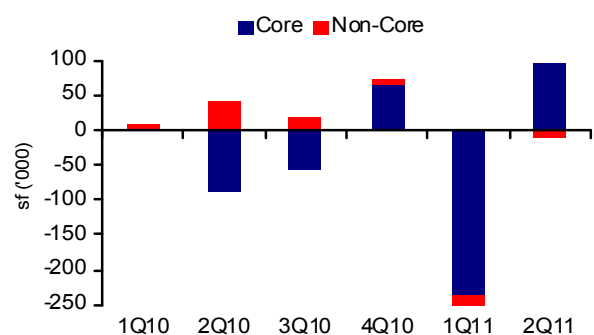
- Vacancy in the non-core continued to climb this quarter, although at four-tenths of a percentage point the increase was minimal. While Centretown experienced an increase in vacancy to 4.1% as an additional 23,000 sf became available this quarter, the Byward Market saw a decline in vacancy to 5.3% due to a decrease in overall vacant space of about 12,000 sf.
- After the influx of newly available space that came on the downtown core market last quarter resulted in vacancy rates spiking upwards, the submarket stabilized and vacancy eased back down to 5.1%. The decline was even more substantial in the class A market, where vacancy now sits close to one and a half percentage points lower than last quarter at 5.0%.

Leasing Activity Non-Core vs. Core



- Leasing activity slowed slightly this quarter in the non-core to around 26,000 sf. With almost no activity in Centretown, the Byward Market was almost entirely responsible for the leasing activity in the non-core this quarter. The class C segment was particularly active in the Byward Market with numerous transactions reported in one property totaling 18,000 sf.
- Leasing activity in the core was particularly strong this quarter with approximately 187,000 sf, the highest level since the last quarter of 2008. Of that total, approximately 119,000 sf was located in the class A segment. As anticipated, tenants have begun to take advantage of the numerous space options that have become available in this market since the beginning of 2011.

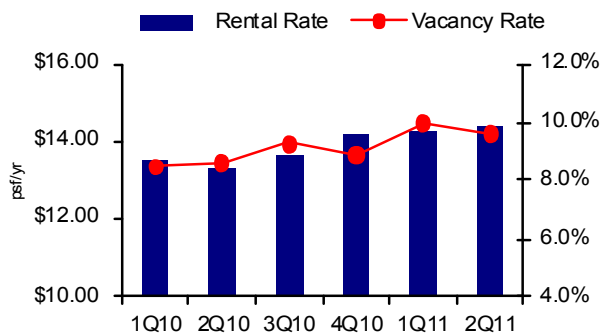
Absorption Non-Core vs. Core



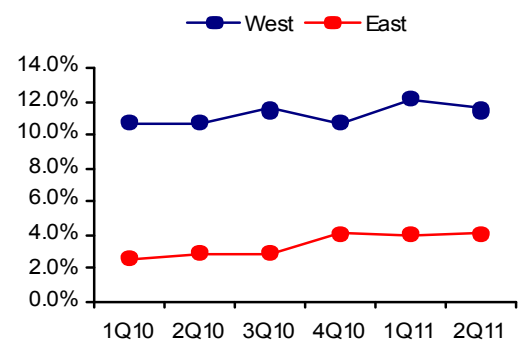
- Although absorption improved in the non-core this quarter, absorption levels remained in negative territory at 11,000 sf. Even with positive absorption in the Byward Market this quarter of about 12,000 sf, it was not enough to counteract the negative absorption of nearly 23,000 sf in Centretown.
- Absorption levels in the downtown core improved dramatically this quarter, reaching 97,000 sf of positive absorption. With the class B segment seeing negative absorption this quarter combined with virtually nil absorption in class C, the class A market contributed all of the positive absorption this quarter.

Suburban Area

Overall Rental vs. Vacancy Rate



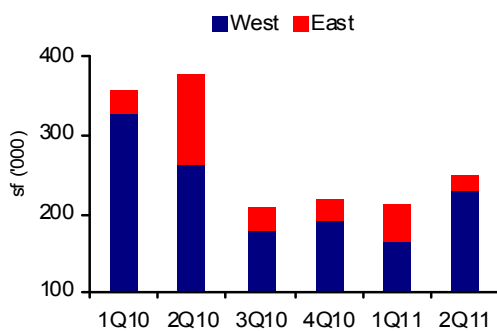
Overall Vacancy Rate West vs. East



- The overall asking rental rate for the Suburban market continues to be consistent and for this quarter the average increased slightly to \$14.44 psf. Both the Suburban West and Suburban East markets experienced increases to their average rental rates and are currently at \$13.83 psf and \$15.62 psf respectively.
- Vacancy in the Suburban market continues to fluctuate with second quarter vacancy at 9.6%, a decline of four-tenths of a percentage point from last quarter. The Suburban East market had almost no change in vacancy this quarter, while the Suburban West market experienced a decrease.

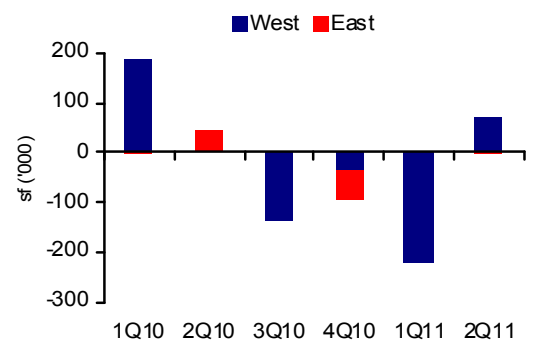
- As is the case with the overall Suburban market, vacancy continues to be unstable in the Suburban West market. After a notable increase last quarter, vacancy trended downwards this quarter to reach 11.6%. While the Nepean and Ottawa West submarkets saw increases in vacancy, vacancy declined in Kanata by over two percentage points. This was significant enough to push the overall Suburban vacancy rate down.
- Vacancy within the Suburban East market continues to remain stable and currently rests at 4.1%, one-tenth of a percentage point increase from last quarter.

Leasing Activity West vs. East



- Leasing activity in Suburban West accelerated in the second quarter reaching 230,000 sf, the largest amount of activity seen in a year. Kanata far outpaced the other two Suburban West submarkets, contributing 173,000 sf. The private sector was very active in Kanata this quarter with four separate transactions of over 20,000 sf. One of the most notable was Ericsson, who leased approximately 205,000 sf at 349 Terry Fox Drive, of which about 49,000 sf is considered office space.
- Leasing activity in Suburban East slowed this quarter to 21,000 sf. Since Gloucester reported no leasing activity this quarter, all activity was located in Ottawa East. There were numerous transactions reported with almost all under 5,000 sf.

Absorption West vs. East



- Absorption in Suburban West improved substantially this quarter and posted 72,000 sf of positive absorption, the strongest absorption has been in over a year. Kanata was the only western submarket to have positive absorption this quarter as four significant blocks of space came off of the market.
- In a continuation from last quarter there was virtually no absorption in Suburban East; just a slight negative absorption of 1,600 sf. Additional space that has been coming on the market this year has been counteracted by leasing activity which has lead to virtually no change in vacancy or absorption.

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	5.1%	4.3%	319,754	475,000	0	(138,086)	\$48.88
Centretown	1,769,448	34	4.1%	3.6%	31,092	0	0	(7,812)	N/A
Byward Market	914,861	13	5.3%	4.6%	30,467	0	0	(21,141)	\$37.99
Kanata	5,162,588	64	17.2%	13.3%	251,953	122,450	0	(83,967)	\$23.56
Ottawa West	3,597,207	57	9.1%	7.0%	64,736	80,000	0	(10,726)	\$34.78
Nepean	5,455,838	83	8.0%	5.7%	76,590	0	0	(49,766)	\$27.96
Ottawa East	3,790,796	53	3.6%	3.1%	54,044	269,100	0	21,811	\$31.76
Gloucester	1,397,799	14	5.5%	4.9%	15,000	0	0	(19,223)	\$34.27
Total	36,804,535	400	7.4%	5.9%	843,636	946,550	0	(308,910)	\$42.07

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q11 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
349 Terry Fox Drive	Kanata	Ericsson	48,939 (Office Component)	B
2500 Solandt Drive	Kanata	Irdeto	36,863	A
1-9 Brewer Hunt Way	Kanata	Optelian	32,000	B

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
100 Murray Street	Byward Market	SunLife	53,020	\$18,000,000
381 Kent Street	Centretown	ProMed 381 Kent Street Ltd.	42,000	\$10,500,000
2948 Baseline Road	Nepean	6967230 Canada Inc.	40,000	\$6,000,000

SIGNIFICANT 2Q11 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	10/11
5000 Innovation Drive	Kanata	Research in Motion	122,450	2011
395 Terminal Avenue	Ottawa East	PWGSC	269,100	01/13
2611 Queensview Drive	Ottawa West	Genivar	80,000	04/12



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