

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q11

ECONOMY

The unemployment rate in the National Capital region fell for the fifth straight month to 5.2% in August, a decrease of three-tenths of a percentage point from July. This compares favourably to the rest of Canada where the jobless rate rose to 7.3%. Although the number of jobs in Ottawa-Gatineau remained approximately the same as July – about 696,300 – the decline was a result of fewer people looking for work. The sectors posting the biggest gains compared to last month were business services, along with healthcare and social assistance. Sectors experiencing job losses included retail trade and professional services. For the sixth straight month, the public administration sector experienced a drop in employment and now sits at around 158,500. However, this figure is not far off from the employment total of 160,300 in August 2010.

OVERVIEW

The market continued to improve in the third quarter as vacancy decreased once again and now sits at 7.0%, four-tenths lower than last quarter. While vacancy remained fairly static in both the Central and Suburban East markets, improving conditions within the Suburban West market pushed the overall vacancy rate downwards. There is currently 2.6 million square feet (msf) available within the City of Ottawa, with space available for sublease accounting for 21% of that total.

Absorption levels received a significant boost this quarter with the completion of the new building for Export Development Canada, reaching close to 604,000 square feet (sf). This absorption level was impacted slightly with the move of EDC from their previous space to their new premises. Of the approximately 375,000 sf that EDC previously occupied, only 55,000 sf of that has come to market thus far. It is currently unclear when, or if, the remainder will be made available; however, it will most likely not occur until the first quarter of 2012 at the earliest.

Leasing activity remained strong this quarter, at close to 526,000 sf, bringing the year-to-date total to approximately 1.4 msf. Activity remains focused within the class A segment, particularly within the downtown core and Kanata, although the class B segment had a strong showing in the overall Suburban West market. The public administration sector was very active this quarter, leasing close to 100,000 sf in the downtown core. Activity was also strong in Kanata with nearly 111,000 sf.

OUTLOOK

Heading into the last quarter of the year, there will be a variety of factors that could potentially impact the market. It is currently projected that approximately 242,000 sf will be made available in the fourth quarter, with the largest potential pocket about 80,000 sf that will be available for sublease at EDC's new building. An additional significant block of space that will be made available next quarter will come as a result of Smart Technologies departing the city, leaving their 260,000-sf manufacturing/office facility vacant. Positive news for the market will likely come in the form of announcements from the tenants that are currently located at the former Nortel campus that have yet to secure new premises – Genband and Ciena. Last quarter Ericsson announced their intention to occupy 200,000 sf at 349 Terry Fox Drive. It was also recently announced that Avaya has leased 425 Legget Drive, a 104,000-sf manufacturing/office building.

BEAT ON THE STREET

“Within the Ottawa office market, vacancy rates have fluctuated moderately over the past 12 months. Given the uncertainty that presently exists within the economy, can anyone predict with reasonable certainty the direction that Ottawa's leasing market will follow? What we do know is that Morguard's project at 150 Elgin Street is likely to proceed, and recent leasing activity has increased.”

–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 remained strong this quarter with close to 526,000 sf. Activity was evenly split between the Central and Suburban markets. ↑

DIRECT ABSORPTION rose significantly in the third quarter as the completion of the new EDC building contributed about 475,000 sf of positive absorption. ↑

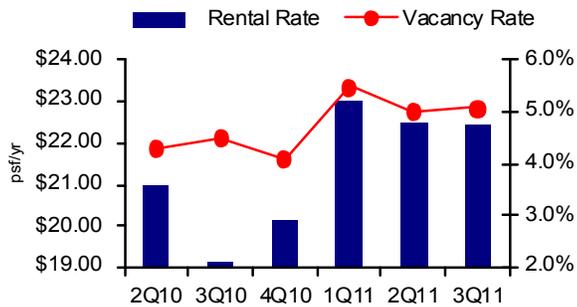
CONSTRUCTION was completed at 150 Slater for EDC. Construction continues on an 80,000-sf building located in the Ottawa West submarket, along with a 269,000-sf build-to-suit for the federal government at The Ottawa Train Yards in the Ottawa East submarket. ↑

OVERALL RENT VS. VACANCY

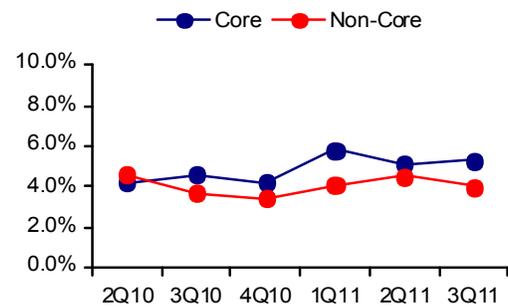


Central Area

Overall Rental vs. Vacancy Rate



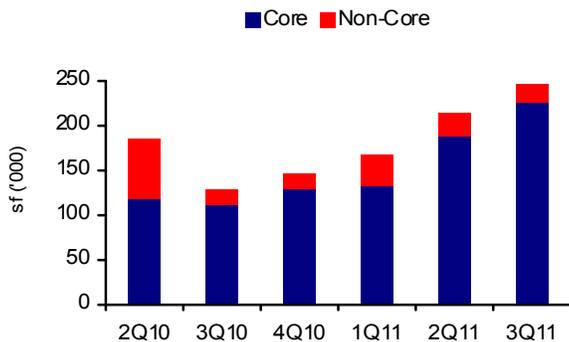
Overall Vacancy Rate Non-Core vs. Core



- The asking rental rate for the overall Central area was flat compared to last quarter with a current average of \$22.45 per square foot (psf). Class A rates remained virtually unchanged for the second straight quarter. Class B rates were also very close to last quarter while class C rates dipped slightly. There continues to be little movement in the class A downtown core rates, remaining unchanged from last quarter at \$26.54 psf
- Vacancy stabilized within the Central area with only a minimal increase of one-tenth of a percentage point to 5.1%. Although there was a decrease in the class A rate to 4.5%, it was counteracted by an increase in the class B rate to 5.6%. Class C rates were almost unchanged from last quarter.

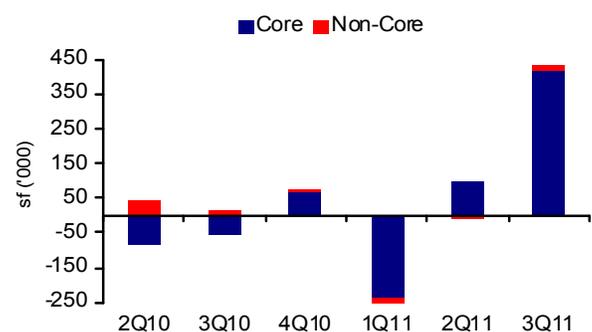
- After two consecutive quarters of rising vacancy in the non-core, vacancy declined in the third quarter to 4.0%, a decrease of half of a percentage point from last quarter. Both the Centretown and Byward Market submarkets experienced declines in vacancy, to 3.7% and 4.6% respectively.
- Vacancy within the downtown core remained fairly close to last quarter's levels, increasing by two-tenths of a percentage point to 5.3%. The class A vacancy rate benefitted from both the completion of EDC's new building, which added 475,000 sf to the inventory, and notable transactions from both the public and private sectors. This resulted in vacancy declining by five-tenths of a percentage point to 4.5%.

Leasing Activity Non-Core vs. Core



- Leasing activity has been consistent in the non-core in 2011 with this quarter totals at approximately 21,000 sf. The majority of the activity was located within the Centretown class B market.
- Leasing activity in the core continues to strengthen through 2011, with amounts this quarter of 225,000 sf. Leasing activity was particularly strong in the class A market with close to 141,000 sf, 107,000 sf of which was located in one property. These transactions involved both the private and public sectors.

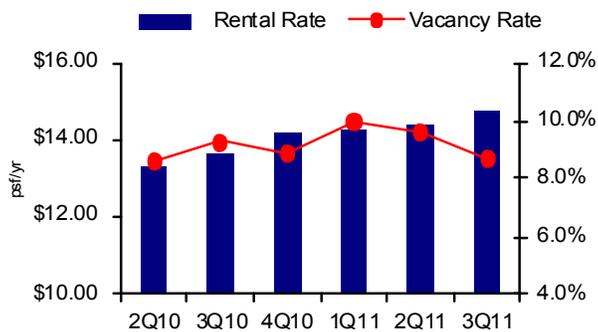
Absorption Non-Core vs. Core



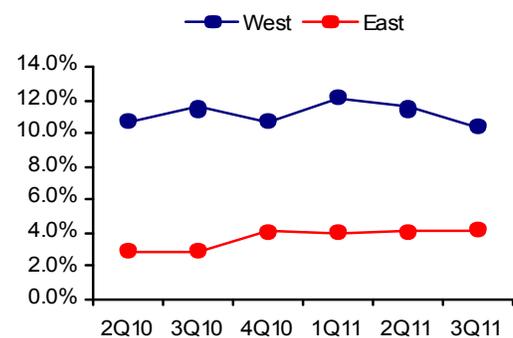
- Absorption levels in the non-core moved into positive territory for the first time in 2011 with absorption this quarter of about 14,000 sf. The increases in occupied space amounts in the two non-core submarkets were very similar to one another; averaging about 7,000 sf.
- Absorption in the downtown core spiked this quarter, largely the result of the completion of EDC's new building. Although there were notable transactions that were closed within the downtown core market this quarter, the impact on absorption was not as significant, as the space was removed from the market last quarter.

Suburban Area

Overall Rental vs. Vacancy Rate



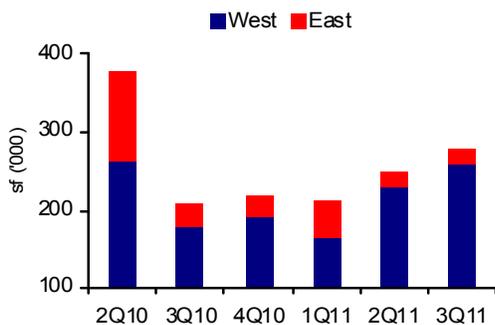
Overall Vacancy Rate West vs. East



- The overall asking rental rate for the Suburban market increased for the fifth straight quarter with a current average asking rate of \$14.75 psf. Increases were seen in both suburban markets with the more significant increase being in the Suburban West market, where the average rate is now at \$14.35 psf. The average rental rate for the Suburban East market is now at \$15.37 psf.
- Vacancy in the Suburban market continues to decline through 2011 and is now at 8.7%, a decrease of almost a full percentage point from last quarter. Vacancy remained almost static in the Suburban East market, while there was a decline in vacancy in the Suburban West market of over a full percentage point.

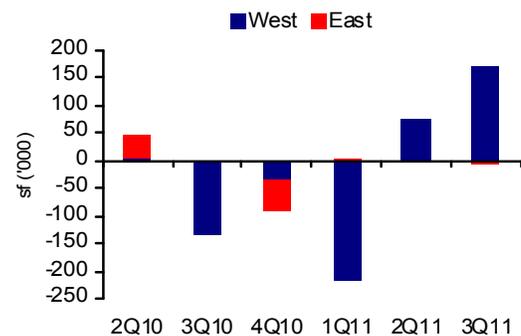
- As is the case with the overall Suburban market, vacancy continues to trend downwards in the Suburban West market and is now at 10.4%, its lowest point in over a year. Vacancy declined across all three western submarkets by nearly a full percentage point, and in the case of Kanata and Ottawa West, more than a full percentage point.
- Vacancy within the Suburban East market remains stable and currently rests at 4.2%, an increase of one-tenth of a percentage point from last quarter.

Leasing Activity West vs. East



- Leasing activity in Suburban West continues to be brisk and in the third quarter reached 258,000 sf. While Kanata accounted for the majority of this total, activity was strong in both Nepean and Ottawa West. Within Kanata there were four transactions over 10,000 sf, the largest being the office component of 425 Legget Drive – a building leased in its entirety by Avaya.
- Leasing activity in Suburban East was almost identical to last quarter at approximately 21,000 sf. Within the Gloucester submarket there was only one transaction of nearly 5,000 sf. The remaining eight transactions were in Ottawa East and ranged from about 2,000-5,000 sf.

Absorption West vs. East



- Absorption in Suburban West continued to improve this quarter with 171,000 sf. All three western submarkets posted positive absorption this quarter, with the highest total located in Kanata.
- Absorption in the Suburban East market continues to be minimal with levels this quarter slightly in the negative at 5,000 sf. Negative absorption in the Ottawa East market, particularly in class C space, where 19,000 sf became available in one property, was counteracted somewhat by positive absorption in the class B space, along with Gloucester class A.

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	15,190,998	83	5.3%	4.6%	544,782	489,000	475,000	286,437	\$50.18
Centretown	1,769,448	34	3.7%	3.2%	48,305	0	0	(314)	N/A
Byward Market	914,861	13	4.6%	4.6%	34,598	0	0	(14,673)	\$38.73
Kanata	5,162,588	64	15.7%	12.0%	362,681	122,450	0	(6,671)	\$24.30
Ottawa West	3,597,207	57	7.9%	6.3%	154,468	80,000	0	32,771	\$33.94
Nepean	5,455,838	83	7.1%	4.8%	134,081	0	0	26	\$28.47
Ottawa East	3,790,796	53	3.8%	2.6%	70,640	269,100	0	12,371	\$32.96
Gloucester	1,397,799	14	5.2%	4.5%	19,857	0	0	(14,997)	\$34.41
Total	37,279,535	401	7.0%	5.5%	1,369,412	960,550	475,000	294,950	\$43.25

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q11 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
160 Elgin Street	Downtown Core	PWGSC	61,182	A
160 Elgin Street	Downtown Core	Nasittuq	28,000	A
180 Kent Street	Downtown Core	PWGSC	20,734	A

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
130 Slater Street	Downtown Core	Dundee Realty Management Corporation	135,629	\$29,650,000
360 Laurier Ave. W.	Downtown Core	Dundee Realty Management Corporation	107,197	\$18,894,000
100 Murray Street	Byward Market	SunLife Assurance Company	53,020	\$18,000,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
150 Slater Street	Downtown Core	EDC	475,000	09/11

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
90 Elgin Street	Downtown Core	PWGSC	489,000	10/14
5000 Innovation Drive	Kanata	Research in Motion	122,450	2012
395 Terminal Avenue	Ottawa East	PWGSC	269,100	01/13
2611 Queensview Drive	Ottawa West	Genivar	80,000	04/12



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