

# MARKETBEAT OFFICE SNAPSHOT



## OTTAWA

A Cushman & Wakefield Research Publication

Q4 2011



### ECONOMIC OVERVIEW

In contrast to the national employment loss of 18,600, the Ottawa-Gatineau region added 1,900 jobs in November 2011. However, due to a larger labour force, the local unemployment rate rose 0.4 percentage points to 6.3%. This marks the highest unemployment rate since this past April. This rate still compares favourably to the national unemployment rate, which increased to 7.4%. Improving local sectors included professional, scientific, technical and educational services, while job losses occurred within the public administration and construction sectors.

### MINIMAL CHANGES IN FOURTH QUARTER

There was little change in the overall office market this quarter, with vacancy climbing by only one-tenth of a percentage point to reach 7.1%. Despite this increase, vacancy has remained fairly consistent throughout 2011, as three out of four quarters posted vacancy within 0.1 percentage points of the previous quarter. While vacancy declined in the Suburban West market this quarter to 9.8%, increases in vacancy occurred within the Central market and the Suburban East market to reach 5.6% and 5.1%, respectively. Vacant space within the Ottawa market has now reached 2.6 million square feet (msf), with space available for sublease accounting for close to 24% of the total.

### EASING DEMAND SEEN THROUGH 2011

Overall absorption was not substantial during the fourth quarter, amounting to approximately negative 52,000 square feet (sf), which brings the end-of-year total to 243,000 sf. Absorption levels this quarter are in dramatic contrast to last quarter when the completion of the new EDC tower pushed absorption to over 600,000 sf. To demonstrate how significant a role the completion of the 475,000-sf tower played in absorption over the course of 2011, if this property had not been built, the result would be an overall negative absorption for the year of more than 100,000 sf.

Leasing activity slowed during the fourth quarter to reach 380,000 sf, which brings the end-of-year total to 1.75 msf. While this marks a decline from overall 2010 levels, the total is consistent with activity that has occurred over the course of the last five years. While class B space had a slight edge over class A space in terms of square footage leased this quarter – particularly within the Central area – when looking at 2011 in its entirety, activity in class A space outpaced all other classes. Activity for the year was primarily focused within the Downtown Core and Kanata as the public sector and current tenants of the former Nortel campus were particularly active in these two submarkets.

### OUTLOOK

Looking to 2012, the Ottawa market will see new construction completions as two new build-to-suits will be delivered. One is located

in the city's east end and is for the federal government. The other is Research in Motion in Kanata. There will also be a building completion in the Suburban West market that has been partially pre-leased. Across the river in Gatineau two additional build-to-suits will be completed for the federal government. Although these buildings will not be part of the surveyed inventory, there may be an impact on Ottawa vacancy rates and absorption figures as it is unclear what departments will be located in these two new buildings and where the public servants will be relocating from. Demand for space will largely hinge upon the federal government, as the private sector is still expected to be cautious as a result of continuing economic uncertainty.

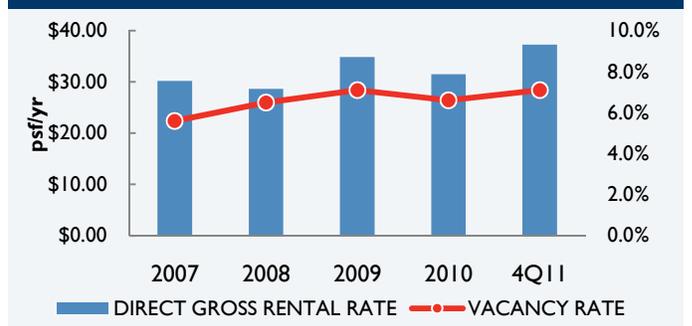
### STATS ON THE GO

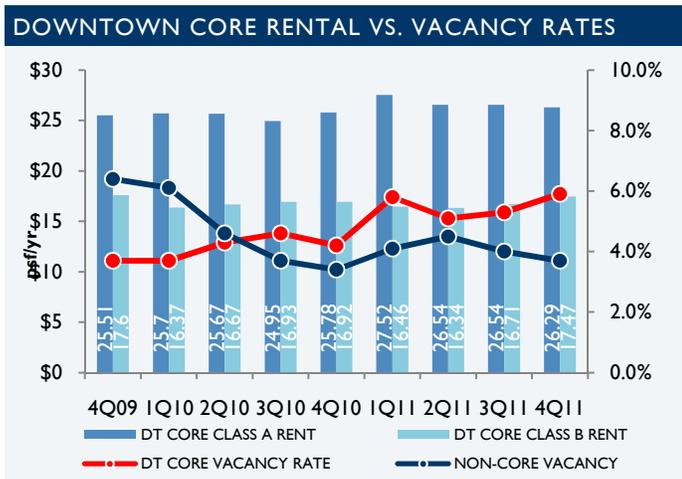
	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.6%	7.1%	0.5pp	▲
Direct Net Asking Rents (psf/yr)	\$16.74	\$19.62	17.2%	◀▶
YTD Leasing Activity (sf)	1,809,838	1,748,638	-3.5%	◀▶

### OVERALL NEW SUPPLY



### DIRECT RENTAL VS. VACANCY RATES

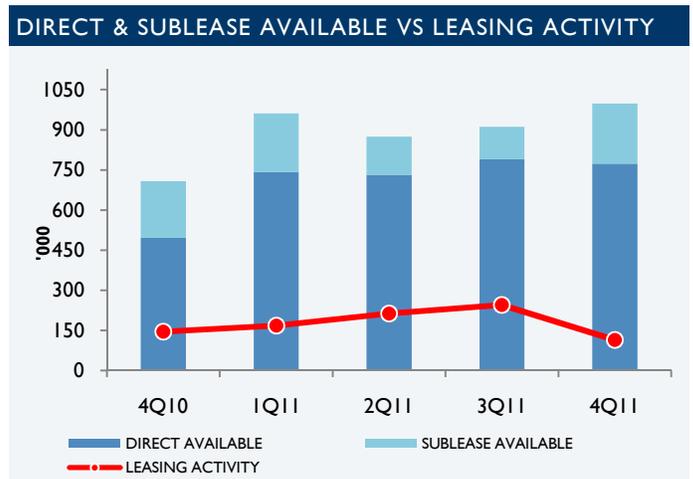




Despite the fluctuating vacancy rates seen in the downtown core through 2011, rental rates have remained fairly consistent in both the class A and class B segments and currently sit at \$26.29 and \$17.47 per square foot (psf), respectively. Current vacancy within the downtown core is 5.9%, which is the highest vacancy has been in over 2 years. Vacancy is poised to continue to climb over the next six months as approximately 138,500 sf could potentially come to the market. In contrast to the Downtown Core, non-Core vacancy is at its lowest point all year, sitting at 3.7%.



There were significant changes in momentum concerning absorption in 2011, which concluded the year at a negative 86,000 sf. Although there were smaller pockets of space that became available this quarter throughout Centretown and the Downtown Core, the majority of the negative absorption was the result of the EDC sublet space coming to market. Additional space is set to become available over the course of the next six months and absorption levels will largely hinge on activity from the public sector.

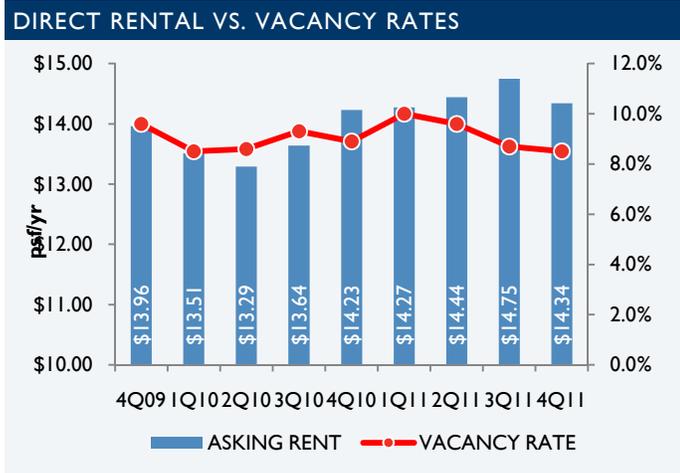


After a substantial climb in the amount of space available in the Central Area from the end of 2010 through to the first quarter of 2011, levels remained fairly consistent during the remainder of the year. The amount of sublease space available doubled from last quarter, primarily the result of 80,000 sf that became available for sublease in EDC's new class A downtown core tower. Leasing activity slowed during the fourth quarter to approximately 115,000 sf, as both the public and private sectors were quiet.

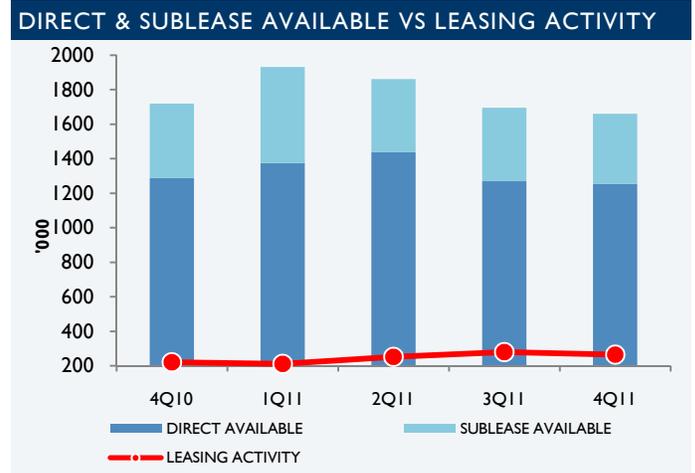


New construction has been limited over the last two years, with the latest construction completion being the tower for EDC. However, new construction activity has ramped up in the Downtown Core over the past two quarters. The redevelopment of 90 Elgin commenced in the third quarter. This 646,000-sf tower for the federal government is expected to be completed in the third quarter of 2014. Development site work has also begun at 150 Elgin. This tower will be 350,000 sf and is being built largely on spec.

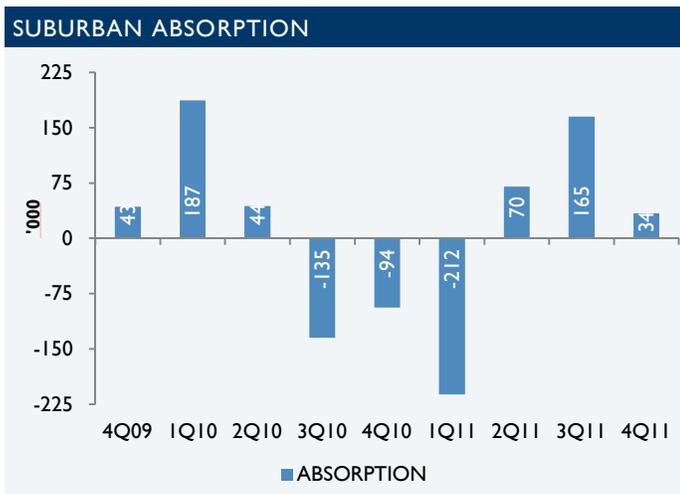
## OVERALL SUBURBAN MARKET



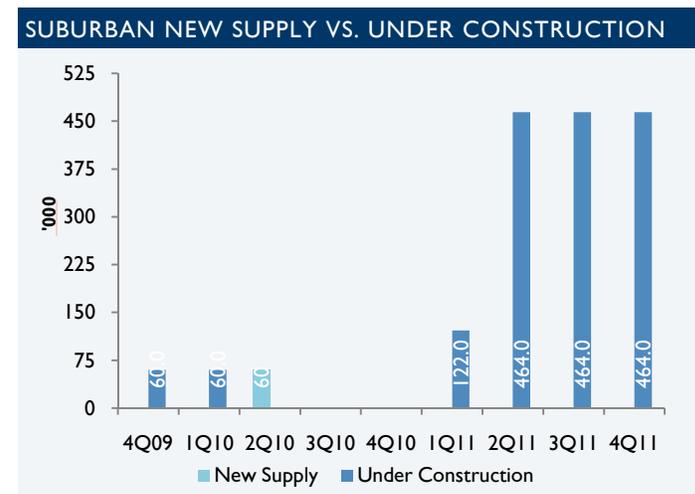
Overall vacancy within the suburban market has been inconsistent over the past two years, although vacancy has dropped steadily over the course of 2011 and now sits at 8.5%. This decline comes despite an increase in vacancy in the Suburban East market to reach 5.1%. Suburban West vacancy declined by 0.6 percentage points to reach 9.8%; however there was a climb in vacancy in Kanata. Despite the fluctuating vacancy within the Suburban market, net rental rates have climbed steadily, although there was a slight decrease to \$14.34 psf.



The amount of space available in the suburban market has declined over the second half of the year, with both the amount of direct and sublet space available at its lowest level seen over the past five quarters. The decline in sublet space was largely the result of the removal of 65,000 sf located at the Abbott Point of Care campus. Leasing activity has been very consistent this year, ranging anywhere from a low of 220,000 sf to a high of 280,000 sf. This quarter, leasing activity was close to 264,000 sf.



As was the case with vacancy, absorption has fluctuated throughout 2011, although it has remained in positive territory for the majority of the year. Fourth quarter absorption for the suburban market was close to 34,000 sf as larger pockets of space (such as the Smart Technologies space) became available, along with additional pockets of space within Kanata, which were balanced out by transactions involving companies such as OCRI and Low, Murchinson who leased space in buildings located within the western suburbs.



There has been limited new supply in the suburban market over the past two years, with the most recent project delivered in the eastern suburban market in the second quarter of 2010. This changed in the first quarter of 2011, when multiple projects got underway. The first was a build-to-suit for Research in Motion in Kanata. Then, in the second quarter, a new 269,000-sf building for the federal government commenced in the eastern suburbs, along with a 72,000-sf building in the west that has been partially pre-leased.

## OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	ABSORPTION CURRENT QUARTER	YTD OVERALL ABSORPTION	DIRECT WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Core	15,211,498	5.9%	4.5%	623,539	839,000	475,000	(94,342)	192,095	\$44.70	\$50.37
Centretown	1,769,448	3.4%	3.2%	77,489	0	0	5,399	5,085	\$29.60	N/A
Byward Market	914,861	4.2%	4.2%	41,932	0	0	3,294	(11,379)	\$36.97	\$41.33
Total Central Class A	9,998,160	5.3%	3.3%	364,651	839,000	475,000	(80,519)	292,134	\$43.08	\$49.99
Total Central Class B	6,067,019	5.6%	5.4%	240,108	0	0	2,984	(111,650)		
Total Central Class C	1,830,628	6.8%	6.7%	138,201	0	0	(8,114)	5,317		
<b>OVERALL CENTRAL</b>	<b>17,895,807</b>	<b>5.6%</b>	<b>4.3%</b>	<b>742,960</b>	<b>839,000</b>	<b>475,000</b>	<b>(85,649)</b>	<b>185,801</b>	<b>\$43.08</b>	<b>\$49.99</b>
Kanata	5,208,463	16.5%	12.2%	438,423	122,450	0	(50,527)	(57,198)	\$24.50	\$25.34
Ottawa West	3,597,207	6.5%	5.1%	244,326	72,000	0	50,131	82,902	\$31.21	\$34.07
Nepean	5,455,838	5.6%	4.6%	209,381	0	0	80,374	80,400	\$26.88	\$28.90
Ottawa East	3,790,796	5.1%	3.4%	90,967	269,100	0	(49,311)	(36,940)	\$28.19	\$32.23
Gloucester	1,397,799	4.9%	4.3%	22,581	0	0	3,193	(11,804)	\$34.05	\$34.05
Total Suburban Class A	13,079,534	8.7%	5.9%	511,906	463,550	0	8,907	(61,625)	\$28.20	\$29.72
Total Suburban Class B	5,096,032	6.5%	6.2%	400,323	0	0	41,172	137,872		
Total Suburban Class C	1,274,537	15.3%	13.1%	93,449	0	0	(16,219)	(18,887)		
<b>OVERALL SUBURBAN</b>	<b>19,450,103</b>	<b>8.5%</b>	<b>6.5%</b>	<b>1,005,678</b>	<b>463,550</b>	<b>0</b>	<b>33,860</b>	<b>57,360</b>	<b>\$28.20</b>	<b>\$29.72</b>
Total City Class A	23,077,694	7.2%	4.8%	876,557	1,302,550	475,000	(71,612)	230,509	\$37.28	\$42.09
Total City Class B	11,163,051	6.0%	5.8%	159,135	0	0	44,156	26,222		
Total City Class C	3,105,165	10.3%	9.3%	231,650	0	0	(24,333)	(13,570)		
<b>OVERALL CITY</b>	<b>37,345,910</b>	<b>7.1%</b>	<b>5.4%</b>	<b>1,748,638</b>	<b>1,302,550</b>	<b>475,000</b>	<b>(51,789)</b>	<b>243,161</b>	<b>\$37.28</b>	<b>\$42.09</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
80 Aberdeen Street	Ottawa West	OCRI	Office	29,768
1565 Carling Avenue	Ottawa West	Low, Murchinson	Office	14,473
411 Legget Drive	Kanata	FreeBalance	Office	12,911
SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
411 Roosevelt Avenue	Ottawa West	411 Roosevelt Avenue Inc.	\$7,100,000	38,000
441 Maclaren Street	Centretown	441 Maclaren Holdings Ltd.	\$5,200,000	26,900
100 Gloucester Street	Downtown Core	Strand Securities Corp.	\$3,785,216	25,000
SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
150 Slater Street	Downtown Core	Export Development Canada	3Q11	475,000
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
90 Elgin Street	Downtown Core	PWGSC	4Q14	489,000
150 Elgin Street	Downtown Core	N/A	4Q13	350,000
395 Terminal Avenue	Ottawa East	PWGSC	1Q13	269,100

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS