

MARKETBEAT OFFICE SNAPSHOT



OTTAWA, ON

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Q1 2012



ECONOMIC OVERVIEW

In its latest Metropolitan Outlook, the Conference Board of Canada has forecasted 1.8% growth in the region's GDP for 2012, as projected, continued job cuts within the public administration sector, slower construction activity, and below average retail sales growth will combine to hinder overall growth in the local economy. However improvement is expected in 2013, with GDP growth expected to reach 2.4%.

Despite this outlook, there were 3,700 more people working in Ottawa-Gatineau in February 2012 compared to one year earlier, and this comes despite job losses in the public sector – the region's largest employer. The job gains did not keep pace with the growth in the local labour force which resulted in a minimal increase in the local unemployment rate to 6.0%, an increase from 5.9% last month. This compares favourably to the national unemployment rate of 7.4%.

VACANCY ON THE UPSWING

Vacancy climbed in the first quarter of 2012 to 7.4%, an increase of 0.3 percentage points from the last quarter of 2011. The increase was the result of vacancy climbing by 0.4 percentage points within both the Central market and the Suburban West market to reach 6.0% and 10.2% respectively. Vacancy in the Central market rose this quarter largely as a result of softening conditions in the downtown core. Total vacant space climbed in the downtown core by 59,000 square feet (sf) which pushed vacancy upwards in both the class A and class B segments. It is important to note that the approximately 337,000 sf of potential vacancy within 234 Laurier Ave. W. – the downtown core office building that was formally 80% occupied by Export Development Canada - is currently not included in vacancy, as it remains unclear when and what amount of space is, or will be, available for occupancy.

OVERALL DEMAND FLAT

Overall absorption remained negative this quarter at 91,000 sf, with negative absorption occurring throughout all classes of the overall Central and Suburban West markets. Significant contributors to the negative absorption this quarter were tenant relocations and companies downsizing their space requirements. A few notable relocations were EWA Canada which vacated space in the downtown core to move to the eastern suburbs and Nasittuq, which remained in the downtown core but moved from class B to class A premises. The impact on overall absorption was not substantial as actual occupied space did not change significantly; however since the tenants moved into different market/class segments, negative absorption occurred within the segments the tenants vacated.

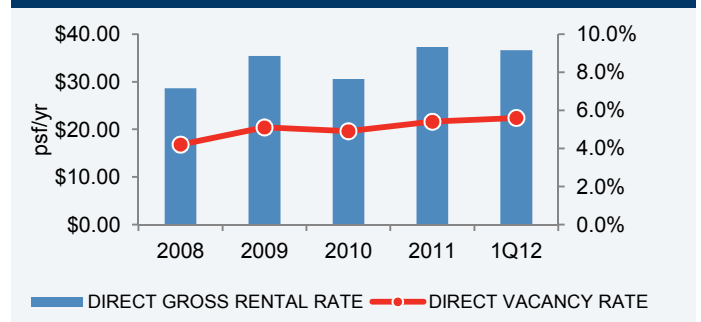
OUTLOOK

Vacancy is projected to rise in the short term as an additional 120,500 sf is set to become available over the next six months, with almost a third of that located within the downtown core class A market. Demand is expected to remain lackluster. However, activity from both sectors may increase in the latter half of the year as the federal budget will have been delivered and departments will have a better grasp of their spending restrictions. There are also some large private sector tenants out in the market evaluating different space options which may provide a boost to absorption. Absorption figures will also benefit from the completion of three new office buildings this year totaling 463,500 sf, of which only 36,000 sf remains to be leased.

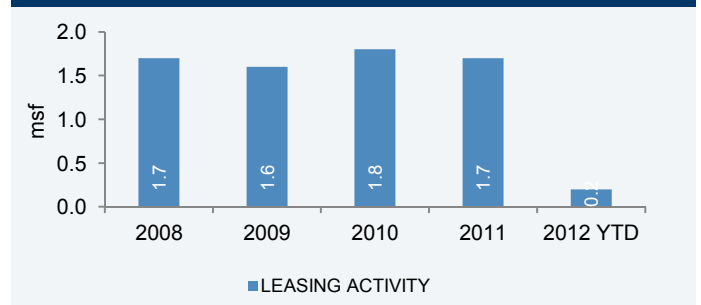
STATS ON THE GO

	1Q11	1Q12	Y-0-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.9%	7.4%	-0.5pp	▲
Direct Asking Rents (psf/yr)	\$20.00	\$19.17	-4.1%	◄►
YTD Leasing Activity (sf)	378,648	249,529	-34.1%	◄►

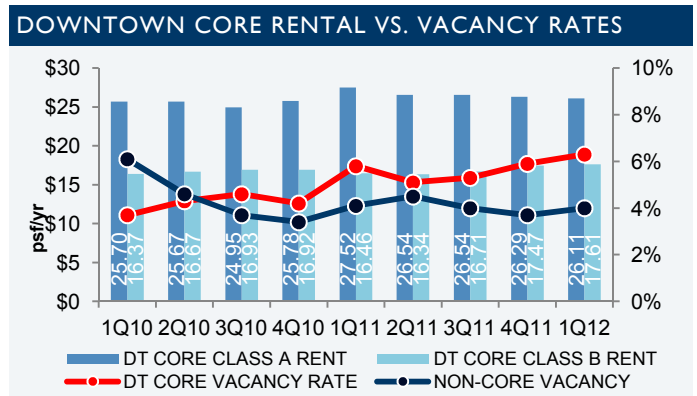
DIRECT RENTAL VS. VACANCY RATES



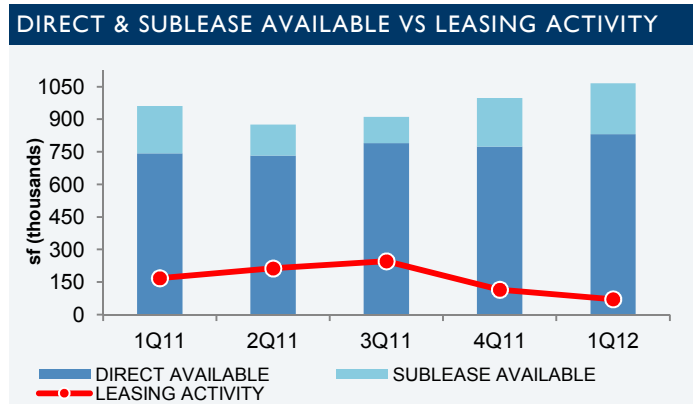
LEASING ACTIVITY



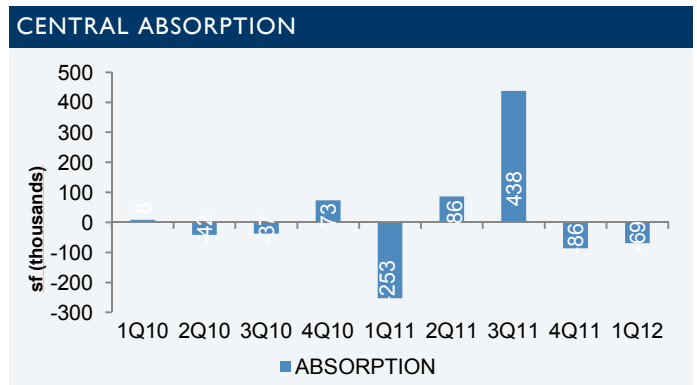
- With vacancy in the Downtown Core continuing to climb over the past four quarters, reaching 6.3% this quarter, rental rates in the class A segment have softened slightly over this same time frame and now average \$26.11 per square foot (psf). In contrast the Downtown Core class B rates continued to edge upwards and now average \$17.61 psf.
- The non-Core vacancy continues to remain fairly stable, climbing by 0.3 percentage points this quarter to reach 4.0%. This increase was largely the result of approximately 14,000 sf of new vacant space within the Centretown submarket.



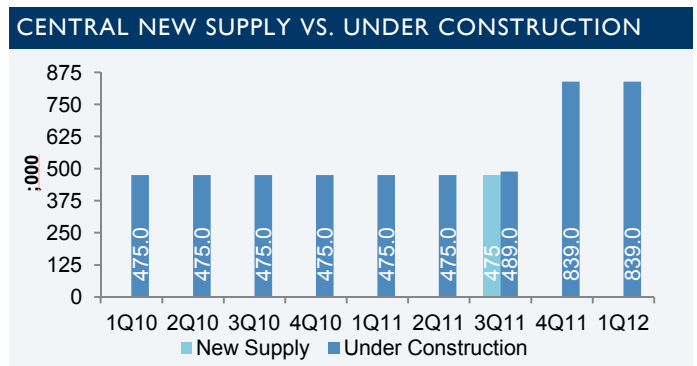
- The amount of available space in the Central Area rose this quarter in both the direct and sublet categories. Currently the amount of direct space available is close to 831,000 sf, while the amount of space available for sublease increased to 235,000 sf, largely located within the Downtown Core.
- Although the increase in available space presents an opportunity for tenants within the Central Area to re-evaluate their current space requirements and location, there has not been an upswing in leasing activity and has in actuality fallen over the past two quarters, with only 71,000 sf this quarter.



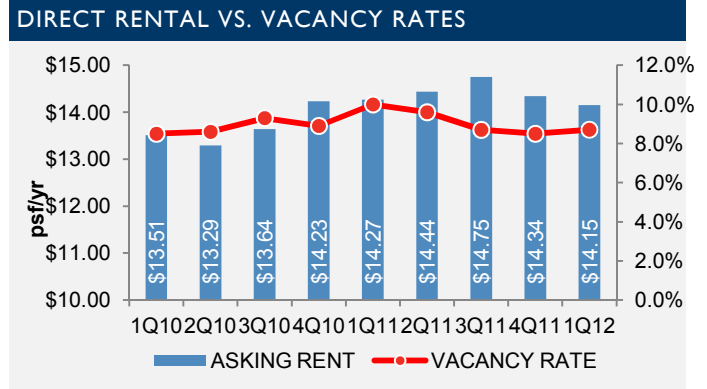
- Although absorption in the Central Area improved this quarter over last, it remains in the negative at nearly 69,000 sf. The majority of the negative absorption was located within the Downtown Core, and was largely split between the class A and class B segments. Within the class A segment, negative absorption was primarily the result of a new 30,000-sf block of space within one property, while in the class B segment pockets of new availability over 10,000 sf became available in four different properties.



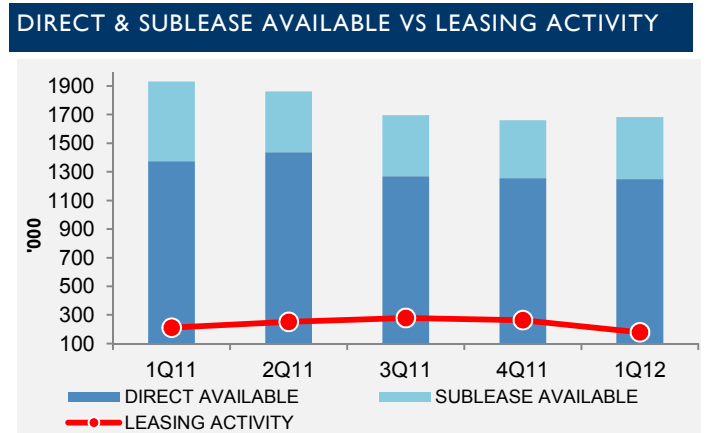
- There was no change in Central Area new supply or buildings currently under construction in the first quarter of 2012. Construction continues at both 90 Elgin Street, the 646,000-sf tower being built for the federal government, and 150 Elgin Street, the 350,000-sf tower that is being constructed largely on speculation; although it is rumored that the landlord has secured a tenant who will occupy approximately 80,000 sf.



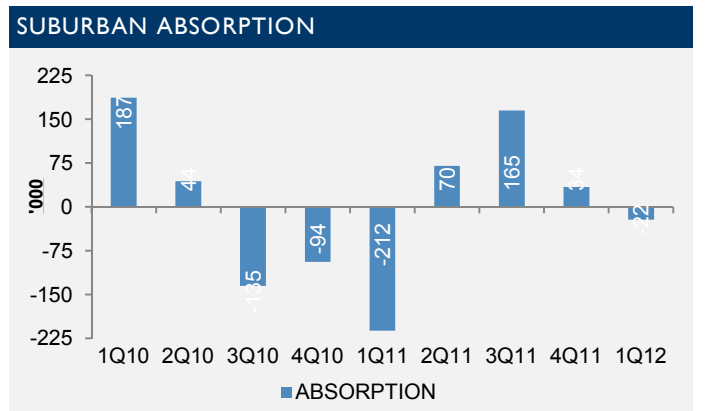
- Overall vacancy within the suburban market continues to remain stable, edging up by 0.2 percentage points from last quarter to reach 8.7%. While vacancy climbed in the Suburban West market to reach 10.2%, vacancy in the Suburban East market declined to 4.4% from 5.1% last quarter - a noteworthy development for a market that has been very consistent in terms of vacancy for numerous years.
- Overall rental rates have softened over the past two quarters and now average \$14.15 psf, as both suburban markets posted lower rates this quarter.



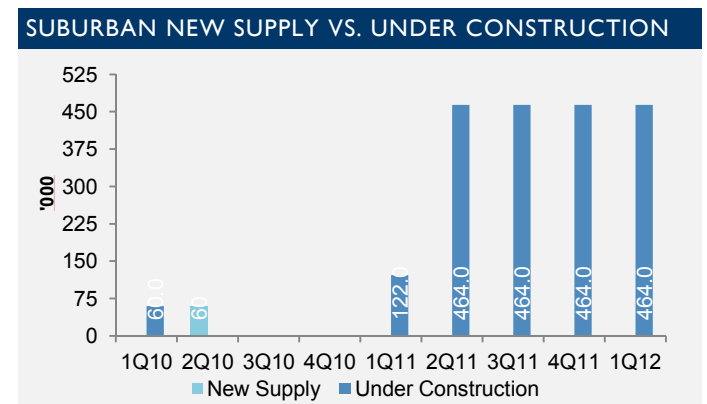
- The amount of space available in the suburban market has remained consistent over the course of the last three quarters. The amount of space available this quarter is close to 1.7 million square feet (msf), of which 1.25 msf is direct availability. Both sublease and direct availability increased in the Suburban West market this quarter to 1.5 msf, while in Suburban East market sublet and direct availability both decreased, totaling approximately 200,000 sf.
- Leasing activity was fairly quiet this quarter at 179,000 sf with the majority of the activity occurring in the Suburban West market.



- Suburban absorption dipped into negative territory this quarter, although it was not substantial at 22,000 sf.
- Suburban West absorption was approximately 59,000 sf in the negative as numerous pockets of class A space became available, particularly within the Ottawa West submarket where additional Adobe space became available for sublease.
- Within the Suburban East market, absorption was positive at 36,000 sf. This was largely the result of a 31,000-sf transaction in the Gloucester class A submarket, involving EWA Canada.



- There was no change in new supply or buildings under construction in the suburban market during the first quarter of 2012. All three buildings currently under construction, two in the Suburban West market and one in the Suburban East market, are due to be delivered by the end of the year.



OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	ABSORPTION CURRENT QUARTER	YTD OVERALL ABSORPTION	WTD. AVG ALL CLASSES GROSS RENTAL RATE*	WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Core	15,211,498	**6.3%	4.8%	59,103	839,000	0	(59,539)	(59,539)	\$43.85	\$50.21
Centretown	1,769,448	4.2%	3.5%	6,523	0	0	(14,235)	(14,235)	\$30.76	N/A
Byward Market	914,861	3.7%	3.7%	4,900	0	0	4,900	4,900	\$37.33	\$41.98
Non-Core Total	2,684,309	4.0%	3.6%	11,423	0	0	(9,335)	(9,335)	\$34.04	\$41.98
Overall Central	17,895,807	6.0%	4.6%	70,526	839,000	0	(68,874)	(68,874)	\$42.37	\$49.83
Kanata	5,208,463	16.7%	12.5%	51,282	122,450	0	(12,839)	(12,839)	\$24.22	\$25.36
Ottawa West	3,597,207	7.6%	5.4%	58,416	72,000	0	(42,210)	(42,210)	\$31.31	\$34.64
Nepean	5,455,838	5.7%	4.6%	22,236	0	0	(3,429)	(3,429)	\$26.19	\$28.90
Suburban West Total	14,261,508	10.2%	7.7%	131,934	194,450	0	(58,478)	(58,478)	\$27.42	\$28.98
Ottawa East	3,790,796	4.8%	3.2%	14,069	269,100	0	12,667	12,667	\$28.61	\$31.80
Gloucester	1,397,799	3.2%	2.6%	33,000	0	0	23,651	23,651	\$34.51	\$34.51
Suburban East Total	5,188,595	4.4%	3.0%	47,069	269,100	0	36,318	36,318	\$30.57	\$33.30
Overall Suburban	19,450,103	8.7%	6.4%	179,003	463,550	0	(22,160)	(22,160)	\$28.21	\$30.21
Total City Class A	23,077,694	7.5%	4.9%	152,392	1,302,550	0	(55,553)	(55,553)	\$36.59	\$41.66
Total City Class B	11,163,051	6.4%	6.1%	76,473	0	0	(44,556)	(44,556)		
Total City Class C	3,105,165	10.0%	8.7%	20,664	0	0	9,075	9,075		
OVERALL CITY	37,345,910	7.4%	5.6%	249,529	1,302,550	0	(91,034)	(91,034)	\$36.59	\$41.66

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

**VACANCY DOES NOT INCLUDE 234 LAURIER AVE. W.

MARKET HIGHLIGHTS

SIGNIFICANT IQ12 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
1223 Michael Street	Gloucester	EWA Canada Ltd.	A	31,207
50 Hines Road	Kanata	Mattamy Homes	A	10,048
2650 Queensview Drive	Ottawa West	Annidis Health Systems	A	9,847
SIGNIFICANT IQ12 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
150 Slater Street	Downtown Core	Manulife Financial	\$165,450,000 / \$345 PSF	479,000
40&46 Elgin Street	Downtown Core	Allied Properties REIT	\$96,000,000 / \$453 PSF	211,861
SIGNIFICANT IQ12 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
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