

MARKETBEAT OFFICE SNAPSHOT



OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q2 2012



ECONOMIC OVERVIEW

After a fairly robust first quarter, the Ottawa-Gatineau region recorded flat job growth in May 2012, as both the number of people working and the number of people looking for work fell. There was no change in the number of local jobs, holding at 716,600. Due to the 3,000 fewer people working or looking for work, the unemployment rate edged down slightly from last month to 6.0%. At a national level, unemployment remained unchanged at 7.3%.

VACANCY REMAINS STABLE

There continues to be little movement in the overall vacancy rate, with current vacancy undergoing a minimal decline of 0.2 percentage points to 7.2%. Vacancy remained unchanged within the Suburban West market at 10.2%. Declines in vacancy were seen in both the Central market and the Suburban East market, which moved to 5.8% and 3.9%, respectively. Within the Central market, vacancy within the Downtown Core and Centretown submarkets was almost identical to last quarter at 6.2% and 4.3%, while vacancy declined within the Byward Market submarket to 2.0%. Within in the Suburban East market, vacancy declined to 4.1% in the Ottawa East submarket, whereas vacancy slightly increased to 3.4% within Gloucester.

TEPID OVERALL DEMAND CONTINUES

Although amounts remain minimal, overall absorption improved over last quarter, reaching close to 61,000 square feet (sf). Across the three class segments, different markets within the city experienced differing levels of demand. While the class A Central market had negative absorption of 13,000 sf, this was counteracted by positive absorption in the B and C classes, totaling nearly 48,000 sf. These conditions were reversed within the overall Suburban market, as negative absorption of approximately 45,000 sf was located in the B and C classes, while class A absorption was in the positive at nearly 71,000 sf. Throughout all the submarkets, there were very few substantial pockets of space that came onto or came off the market this quarter. These conditions were also reflected in leasing activity, which reached close to 272,000 sf this quarter, bringing the year-to-date total to 521,000 sf. This total is approximately 323,000 sf lower than at this point last year, demonstrating that velocity in the market remains low.

OUTLOOK

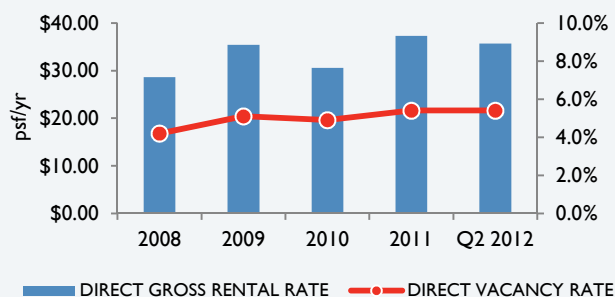
Looking to the second half of the year, the key question is will the Ottawa market escape the holding pattern it has been in for months? It is currently projected that 250,000 sf will become available by the end of

2012, with 90,000 sf of that located in the downtown core, and 86,000 sf located within Kanata. At this point it seems unlikely that demand will be strong enough to absorb this additional space and vacancy may head upwards. The wild card continues to be the federal government. Both the Bank of Canada and the Department of Justice are set to make announcements by the end of the year on where they will be relocating to during the renovations of their crown-owned premises. This could result in upwards of 370,000 sf of current available space coming off of the Downtown Core inventory.

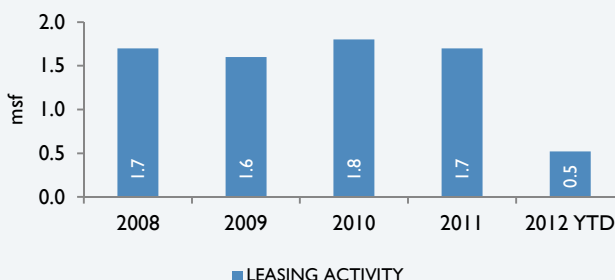
STATS ON THE GO

	Q2 2011	Q2 2012	Y-0-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.4%	7.2%	-0.2pp	▲
Direct Asking Rents (psf/yr)	\$19.93	\$18.62	-6.6%	◀▶
YTD Leasing Activity (sf)	464,988	271,521	-41.6%	◀▶

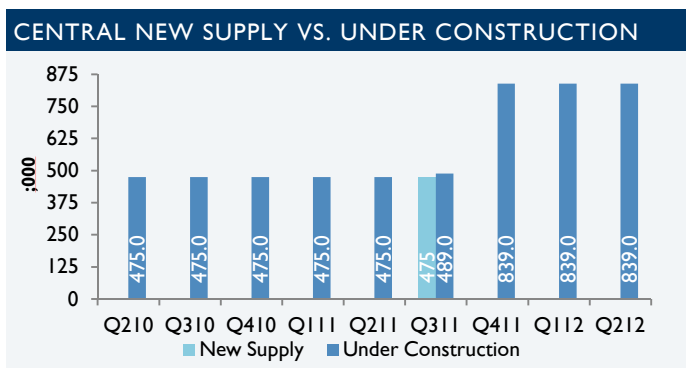
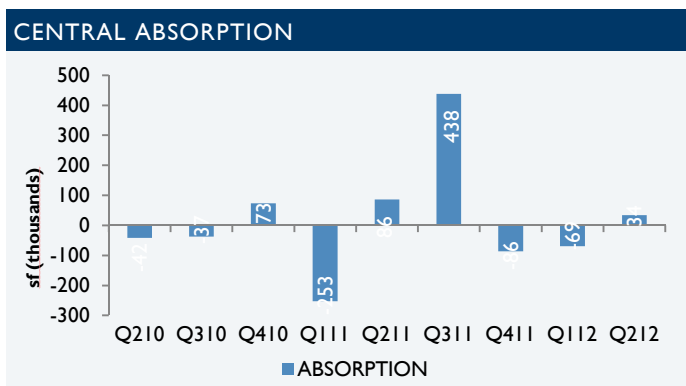
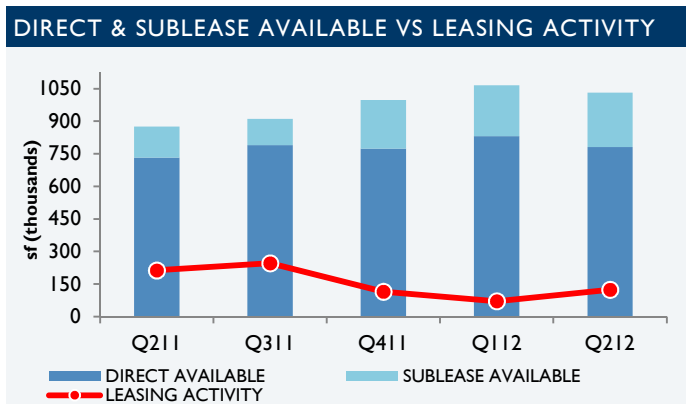
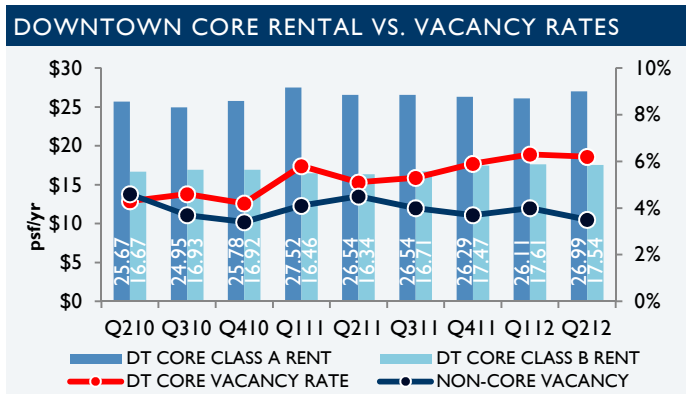
DIRECT RENTAL VS. VACANCY RATES



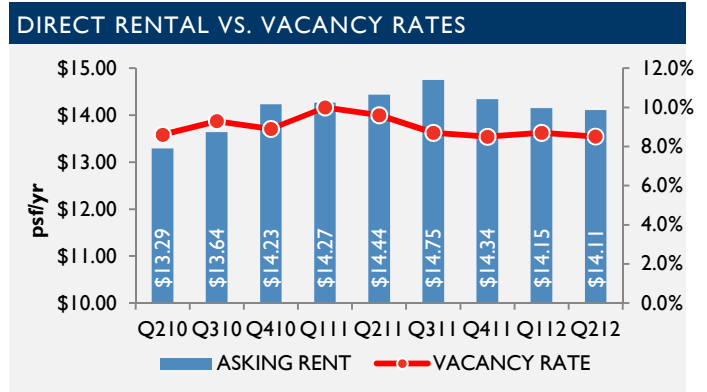
LEASING ACTIVITY



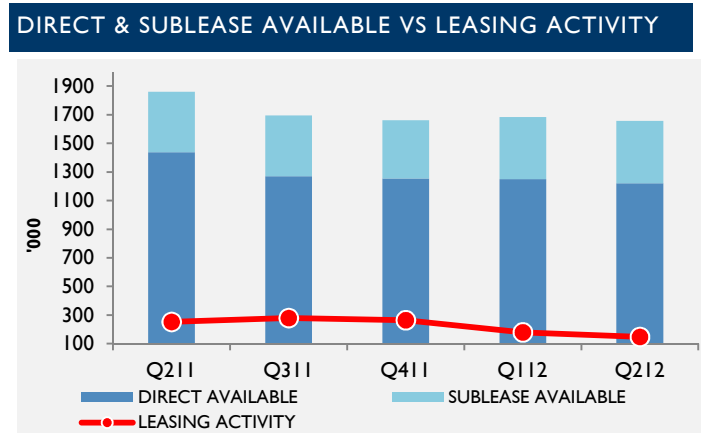
- After almost a year of rising vacancy within the Downtown Core, the vacancy rate stabilized this quarter at 6.2%, a decline of 0.1 percentage points from last quarter. Class A vacancy was almost unchanged at 5.8%, while B and C class vacancy declined to 6.3% and 8.9%, respectively. The overall average asking rental rate for the downtown core remained stable at \$22.31 per square foot (psf), with class A rents edging up slightly from last quarter to \$26.99 psf.
- The non-Core vacancy declined by 0.5 percentage points to reach 3.5%. As vacancy within the Centretown submarket was almost unchanged at 4.3%, the factor behind the overall decrease was a 1.7-percentage point decline in vacancy in the Byward Market to 2.0%; the result of almost 16,000 sf coming off the market.
- While the amount of direct available space in the Central Area declined this quarter to 781,000 sf, the amount available for sublease increased for the fourth straight quarter to close to 251,000 sf, with 85% of that located in the Downtown Core class A segment. The largest pocket continues to be located at 150 Slater, with EDC offering 80,000 sf for sublease.
- Leasing activity rebounded from last quarter's low of 71,000 sf to 124,000 sf this quarter. The class B Downtown Core segment leased the highest amount of space in the overall Central market at 36,000 sf, with the vast majority of the transactions in the 1,000- to 2,000-sf range.
- Despite negative absorption of close to 16,000 sf in the class A Downtown Core market, positive absorption in the other 2 classes, coupled with the strength in the Byward Market, bumped overall absorption in the Central Area into the positive at 34,000 sf.
- The second half of the year should prove to be interesting for the Central Market, as the two previously mentioned government departments are in need for swing space while their premises undergo renovation. The only scenario that would not impact current vacancy or absorption figures is if 234 Laurier Ave. W. was chosen as the "winner" as that space is undergoing renovation and is not currently being marketed as available space.
- There was no change in Central Area new supply or buildings currently under construction in the second 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. Canada Council of the Arts has been announced as a tenant in that building and will be occupying approximately 85,000 sf. It has also been rumoured that the landlord is close to securing a second tenant.



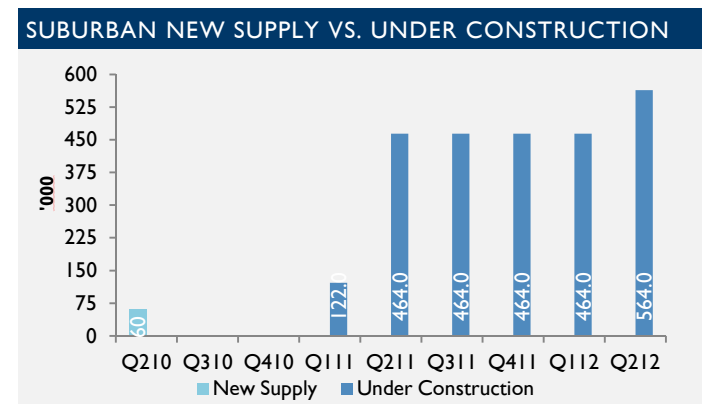
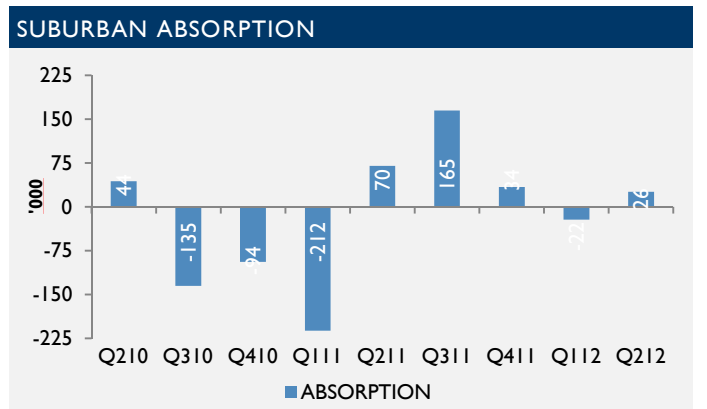
- There has been little movement in the vacancy rate for the overall Suburban Market during the past four quarters, sliding down by 0.2 percentage points from last quarter to reach 8.5%; which is identical to the vacancy rate posted in the fourth quarter of 2011. The Suburban West vacancy rate remained unchanged at 10.2%, while vacancy within the Suburban East market continues to decline and now sits at 3.9%.
- Overall asking rental rates remain stable, sitting at \$14.11psf. Within the Suburban West market rates edged down slightly to \$13.57 psf, while in the Suburban East market rates increased to \$15.23.



- The amount of direct space available in the Suburban market reached its lowest point over the last five quarters, sitting at 1.2 million square feet (msf). The amount of overall sublease space available remained almost unchanged from last quarter at close to 437,000 sf, even with the amount of sublease space growing in the Suburban West market by nearly 40,000 sf. About half of that was located in Nepean as IBM is subletting their space at 62 Auriga Drive.
- Leasing activity slowed even further this quarter, sliding down to 147,000 sf. Activity was the most robust in Kanata in terms of square footage leased at close to 61,000 sf with the largest transaction being close to 14,000 sf in the class A segment.



- Similar to the Central market, overall absorption for the Suburban market was unremarkable, although totals moved back into the positive range at 26,000 sf.
- Suburban West absorption was almost flat this quarter as occupied space only increased by 1,700 sf compared to the previous quarter. Absorption amounts will receive a boost from 2611 Queensview Drive, which should be completed by the end of the year.
- Within the Suburban East market, absorption was positive at 24,000 sf and was entirely located in the Ottawa East submarket as a few pockets of class A space over 10,000 sf were taken off the market. Similar to the Suburban West market, absorption will climb by the end of the year as the new build-to-suit for the federal government will be completed on Terminal Avenue.
- In the Suburban West market, a new project got underway this quarter. The new build is located at the SmartCentres development on Baseline Road. This 100,000-sf property has been almost entirely pre-leased by Stantec and is scheduled for completion in Q2 2013. The other three buildings remain under construction, and all are scheduled for completion by the end of 2012.



OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	DIRECT NET ABSORPTION CURRENT QUARTER	YTD OVERALL NET ABSORPTION	WTD. AVG ALL CLASSES GROSS RENTAL RATE*	WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Core	15,211,498	**6.2%	4.6%	138,282	839,000	0	19,766	(39,773)	\$43.33	\$51.91
Centretown	1,769,448	4.3%	3.9%	28,770	0	0	(1,311)	(15,546)	\$30.50	N/A
Byward Market	914,861	2.0%	0.9%	27,811	0	0	15,839	20,739	\$32.29	\$34.00
Non-Core Total	2,684,309	3.5%	2.9%	56,581	0	0	14,528	5,193	\$31.39	\$34.00
Overall Central	17,895,807	5.8%	4.4%	194,863	839,000	0	34,294	(34,580)	\$41.72	\$51.66
Kanata	5,208,463	16.1%	11.6%	112,105	122,450	0	35,228	22,449	\$24.36	\$25.39
Ottawa West	3,597,207	7.6%	5.2%	98,257	72,000	0	2,925	(39,285)	\$31.09	\$34.44
Nepean	5,455,838	6.3%	4.8%	50,898	100,000	0	(36,528)	(39,957)	\$26.65	\$28.40
Suburban West Total	14,261,508	10.2%	7.4%	261,260	294,450	0	1,685	(56,793)	\$27.20	\$28.33
Ottawa East	3,790,796	4.1%	3.3%	23,492	269,100	0	26,354	39,021	\$28.94	\$33.27
Gloucester	1,397,799	3.4%	3.3%	41,435	0	0	(1,755)	21,896	\$34.51	\$34.51
Suburban East Total	5,188,595	3.9%	3.3%	64,927	269,100	0	24,599	60,917	\$30.89	\$34.05
Overall Suburban	19,450,103	8.5%	6.3%	326,187	563,550	0	26,284	4,124	\$28.13	\$29.93
OVERALL CITY	37,345,910	7.2%	5.4%	521,050	1,402,550	0	60,578	(30,456)	\$35.70	\$40.81

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

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

MARKET HIGHLIGHTS

Significant Q2 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
250 City Centre Avenue	Ottawa West	Academie de Formation Linguistique	C	9,600
Significant Q2 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
80 Aberdeen Street	Ottawa West	BTB REIT	\$14,000,000 / \$257	54,821
1130 Morrison Drive	Ottawa West	JDC Apex Inc.	\$10,950,000 / \$179	61,315
Significant Q2 2012 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	Q4 2014	646,000
150 Elgin Street	Downtown Core	Canada Council for the Arts	Q4 2013	350,000
395 Terminal Avenue	Ottawa East	PWGSC	Q1 2013	269,100

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS