

MARKETBEAT OFFICE SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q4 2012



ECONOMIC OVERVIEW

Despite the region adding 3,300 new jobs in November 2012, the unemployment rate hit a 23 month high, reaching 6.7% as an additional 5,200 people were looking for work. Strong employment gains were seen in the construction sector, along with retail and wholesale trade. Another positive for the region is that after five months of shrinking employment, growth within the public administration sector was flat. Unfortunately the technology sector continues to struggle, contracting to 41,500 jobs. That is down from 44,600 in November 2011. Nationally the news was encouraging as the unemployment rate dropped to 7.2%, with almost all of the job gains being full-time employment in the private sector.

VACANCY EDGES UP

In the fourth quarter the overall vacancy rate broke out of the holding pattern it has been in over the past seven quarters, climbing slightly to reach 7.5%. As a result of slightly softening conditions in the non-Core submarkets, vacancy within the Central market climbed by one-tenth of a percentage point to 5.8%. Both the Suburban West and Suburban East markets underwent increases in vacancy to 10.7% and 4.6% respectively as vacancy was either relatively flat or climbed in all five suburban submarkets.

OVERALL DEMAND LACKLUSTER THROUGH 2012

Overall absorption headed back into negative territory during the last quarter of 2012 to 68,000 square feet (sf) as negative absorption was found across all three building class segments this quarter. This brings overall absorption for the year to negative 64,000 sf. Although not dramatic it does demonstrate that new vacancy did outpace demand through 2012. Only class A space had positive absorption for the year, at 53,000 sf – almost entirely the result of activity within the class A downtown core market and to a lesser extent Gloucester and Nepean. Leasing activity continued to grow this quarter to 408,000 sf, and brings the 2012 total to 1.25 million square feet (msf), a decline of approximately 500,000 sf from 2011 levels.

OUTLOOK

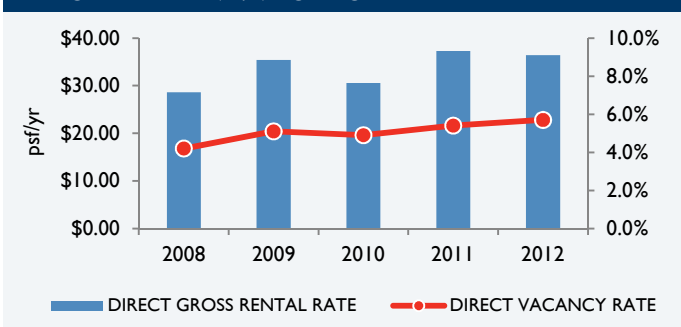
During this past year the Ottawa market could best be characterized as stagnant. Leasing activity was significantly off compared to 2011, vacancy demonstrated little movement quarter-over-quarter and demand was low. Looking towards the first half of 2013, there is no evidence to suggest that these market conditions are going to drastically change. The completion of three new office towers will provide some boost to absorption numbers, however it will be tempered somewhat as two of

these buildings will most likely not be 100% occupied upon completion. The downtown core will be impacted as the government moves out of 123 Slater Street, creating approximately 110,000 sf of vacancy. This amount, coupled with a potential 300,000 sf of space becoming available over the first half of 2013 could result in vacancy climbing to 8.6%. The extent to which this increase occurs will largely hinge on the health of the economy, and perhaps even more importantly, the leasing requirements of the federal government, as they continue to balance continuing departmental spending freezes with the need to address their aging building inventory.

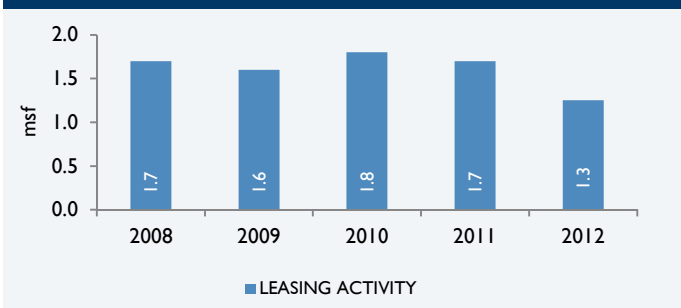
STATS ON THE GO

	Q4 2011	Q4 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.1%	7.5%	0.4pp	▲
Direct Asking Rents (psf/yr)	\$19.62	\$19.18	-2.2%	◀▶
YTD Leasing Activity (sf)	1,748,638	1,251,632	-28.4%	▼

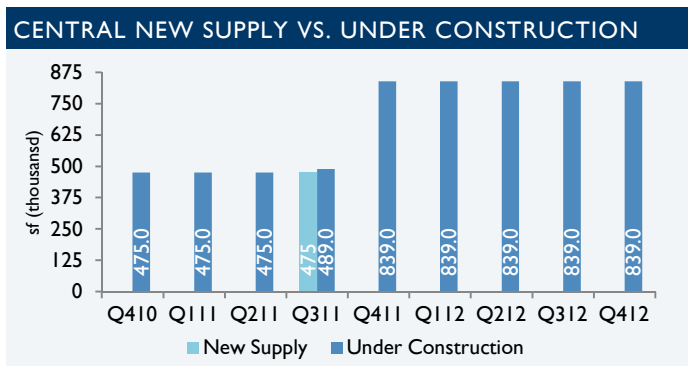
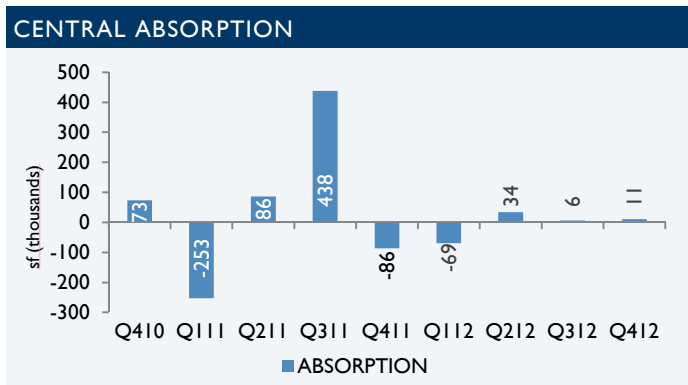
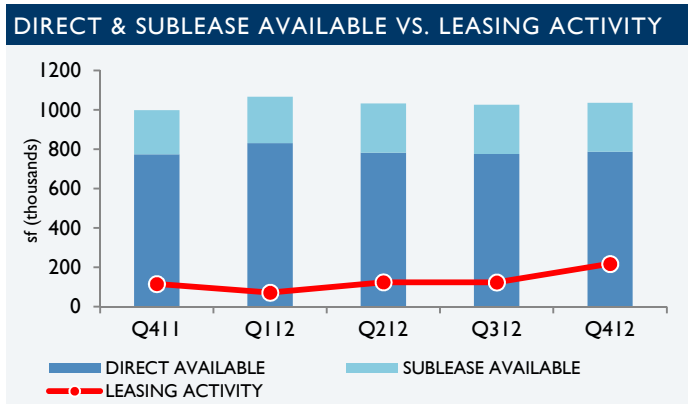
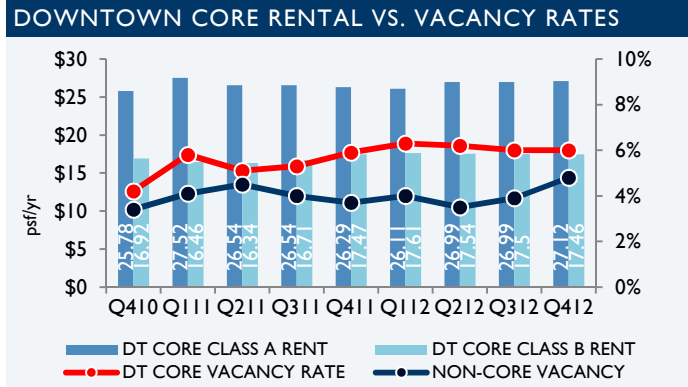
DIRECT RENTAL VS. VACANCY RATES



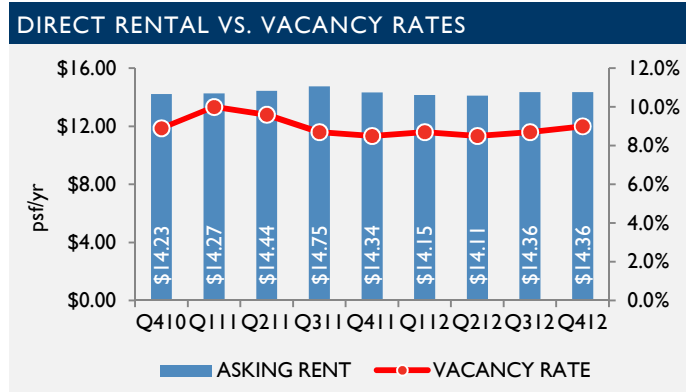
LEASING ACTIVITY



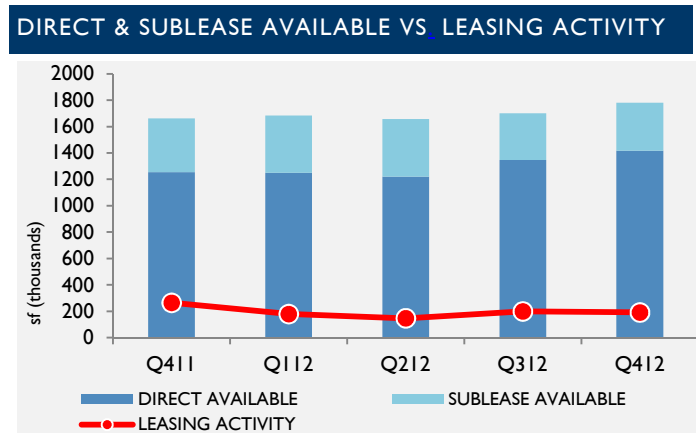
- Vacancy within the Downtown Core was very consistent through 2012, fluctuating between 6.0% and 6.3%. In the fourth quarter vacancy remained unchanged from the previous quarter at 6.0%. Both the class A and class B rental rates followed suit, with only small changes seen through the year. Currently the average asking class A rents sit at \$27.12 per square foot (psf) with class B rents at \$17.46 psf.
- The non-Core vacancy continued to rise in the fourth quarter climbing by almost a full percentage point to 4.8%. Vacancy increased in both the Byward Market and Centretown submarkets. The largest block of space that became available was approximately 20,000 sf at 240 Bank Street that was occupied by the federal government.
- There was little change in the overall amount of space available within the Central Area. In the fourth quarter the amount of direct space was 786,000 sf, about 10,000 sf higher than the previous quarter, while the amount of sublet space climbed by only 600 sf to 250,000 sf. Sublet availability continues to be almost entirely located within the downtown core class A market.
- Leasing activity within the Central Area picked up momentum during the fourth quarter reaching 217,000 sf, the largest amount posted over the course of the previous four quarters. By far the highest leasing activity was in downtown core class A space, as the Department of Justice leased approximately 78,000 sf at the SunLife Financial Centre.
- The upswing in leasing activity this quarter did not translate into strong absorption within the Central market, totaling only 11,000 sf. This brings the year-end total to a negative 18,000 sf. Although there was strong absorption in the class A market this quarter, some large blocks of space became available in class B space, such as 3 full floors at 275 Slater Street along with close to 21,000 sf at 200 Elgin Street.
- Absorption figures through the first half of 2013 will remain minimal, particularly as 222,000 sf is projected to become available within the Central area over the next six months. Although leasing activity will continue at 150 Elgin Street, it will not impact near-term absorption figures as the property will not be added to the surveyed inventory until it is complete in Q1, 2014.
- There was no change in Central Area new supply or buildings currently under construction in the fourth 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 will be a tenant in the new building along with KPMG. There is also some speculation that Morguard is close to securing a deal with a third tenant.



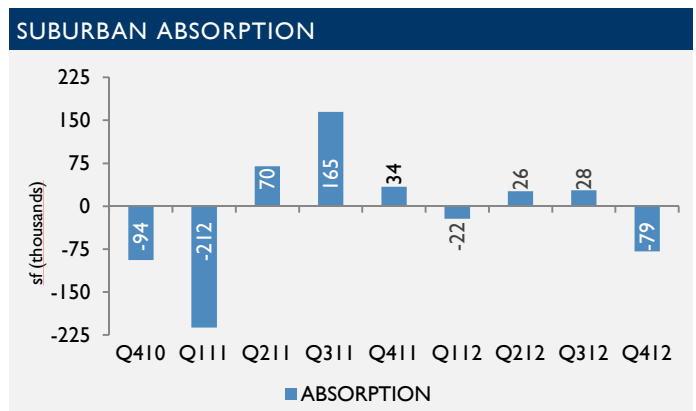
- With an increase to 9.0% this quarter, the vacancy rate broke out of the pattern that saw it hover between 8.5% and 8.7% since the third quarter of 2011. The Suburban West vacancy rate rose again slightly to 10.7% with vacancy climbing more substantially within the Suburban East market, jumping to 4.6% from 3.7% last quarter.
- Overall asking rental rates held at \$14.36 psf. Rates increased in the Suburban West markets to \$14.02 psf while there was a decrease in rates in the Suburban East markets this quarter to \$15.14 psf.



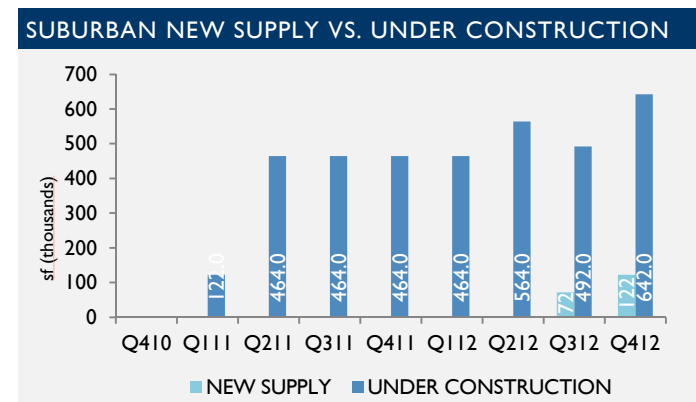
- The amount of direct space available in the Suburban market increased this quarter to 1.42 msf. After a decline last quarter the amount of overall sublease space rose slightly to 363,000 sf. The majority of the new sublease availability was located in one property in Kanata.
- Leasing activity maintained its momentum from last quarter with close to 191,000 sf. The Nepean and Ottawa West submarkets were particularly active this quarter. Although there were only two deals in these submarkets that were over 10,000 sf, an increase in the number of transactions in both submarkets boosted leasing activity totals.



- Overall absorption for the Suburban market headed into the negative this quarter at 79,000 sf and brings the year-end total to negative 46,000 sf.
- Both the Suburban West and Suburban East markets posted negative absorption this quarter of 26,000 sf and 53,000 sf respectively. However while the year-end total in the Suburban West market was negative 66,000 sf, the Suburban East market concluded the year on a positive note at 20,000 sf.
- There will be three new construction completions in 2013 which will certainly boost absorption levels. However any gains made with these completions may be negated somewhat as close to 193,000 sf is projected to come on the market over the first half of 2013 with potential climbs in vacancy across all class segments.



- The new 122,500-sf building for Research in Motion (RIM) was completed this quarter. However it will not be added to the statistical inventory as it is owned and occupied by RIM. The other two buildings – one preleased by the federal government and the other approximately 60% leased by Stantec – are due to be completed in 2013. Construction has also begun on BONA's new build in Vanier. The building is anticipated to be approximately 273,000 sf upon completion, the date of which is currently unknown. Construction is expected to get underway shortly on a new build in the Suburban East market. This 140,000-sf building will house AEFO.



OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	OVERALL 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	6.0%	4.4%	439,755	839,000	0	11,964	(9,355)	\$44.07	\$51.83
Centretown	1,769,448	5.8%	5.7%	66,544	0	0	4,668	(21,880)	\$30.64	N/A
Byward Market	914,861	2.8%	1.7%	29,215	0	0	(5,990)	13,475	\$35.24	\$38.70
Non-Core Total	2,684,309	4.8%	4.4%	95,759	0	0	(1,322)	(8,405)	\$32.94	\$38.70
Overall Central	17,895,807	5.8%	4.4%	535,514	839,000	0	10,642	(17,760)	\$42.38	\$51.30
Kanata	5,302,169	16.0%	12.8%	269,180	10	0	(31,509)	10,244	\$24.69	\$24.71
Ottawa West	3,669,207	9.1%	6.6%	214,798	0	72,000	(7,988)	(29,637)	\$31.32	\$34.08
Nepean	5,455,838	6.5%	5.1%	127,168	100,000	0	13,489	(46,917)	\$27.46	\$29.55
Suburban West Total	14,427,214	10.7%	8.3%	611,146	100,000	72,000	(26,008)	(66,310)	\$27.68	\$28.36
Ottawa East	3,846,496	5.1%	4.4%	62,339	542,500	0	(55,746)	(3,692)	\$28.00	\$30.27
Gloucester	1,397,799	3.2%	3.1%	42,633	0	0	2,978	23,830	\$34.91	\$34.91
Suburban East Total	5,244,295	4.6%	4.1%	104,972	542,500	0	(52,778)	20,138	\$30.54	\$32.84
Overall Suburban	19,671,509	9.0%	7.2%	716,118	642,500	72,000	(78,786)	(46,172)	\$28.36	\$29.50
OVERALL CITY	37,567,316	7.5%	5.9%	1,251,632	1,481,500	72,000	(68,144)	(63,932)	\$36.42	\$40.79

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q4 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
234 Laurier Ave. W.**	Downtown Core	Bank of Canada	A	350,000
SunLife Financial Centre	Downtown Core	Department of Justice	A	78,045
55 Metcalfe Street	Downtown Core	Assembly of First Nations	A	16,146
Significant Q4 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Portfolio Sale (Numerous Addresses)	Across Ottawa	Cominar REIT	\$360,840,000 / \$281	1,285,371
415 Legget Drive	Kanata	The Regional Group	\$16,000,000 / \$80	198,881
245 Stafford Road	Nepean	BTB REIT	\$6,580,000 / \$209	31,463
Significant Q4 2012 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
5050 Innovation Drive	Kanata	Research in Motion	Q4 2012	122,450
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000
150 Elgin Street	Downtown Core	Canada Council for the Arts	Q1 2014	350,000
395 Terminal Avenue	Ottawa East	PWGSC	Q1 2013	269,100

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

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