MARKETBEAT
OFFICE SNAPSHOT

CUSHMAN & WAKEFIELD
OTTAWA

OTTAWA, ON
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Q2 2013

ECONOMIC OVERVIEW

The National Capital Region lost 5,400 jobs in May 2013; the fourth straight month of declines. However as a result of an even larger decline in the number of people seeking work the unemployment rate in Ottawa-Gatineau fell to 6.1% from 6.3% last quarter. Nationally the picture was much brighter as close to 95,000 jobs were created, dropping the unemployment rate one-tenth of a percentage point from last month to 7.1%. In the latest Metropolitan Outlook the Conference Board of Canada is forecasting real GDP growth well below 2% for the Ottawa-Gatineau region for the third straight year, and is expected to continue into 2014. This lackluster growth forecast is largely a result of the cuts to the public administration sector, with employment expected to fall by 7.9% in 2013. These cuts in turn will impact other sectors such as the housing market and retail sales.

VACANCY CLIMBS ONCE AGAIN

Overall vacancy rose by another 0.3 percentage points in the second quarter of 2013, reaching 8.1%. This marks the highest overall vacancy rate in eight years. A substantial influx of new vacancy in the downtown core played a significant role in the overall vacancy increase which in turn resulted in Central area vacancy climbing to 6.6% from 5.8% last quarter. By contrast, Suburban market conditions were relatively unchanged this quarter with a minimal decline in the amount of total vacant space available; resulting in a 0.1 percentage point decrease in vacancy to 9.5%.

OVERALL DEMAND REMAINS SOFT

Although the completion of 1331 Baseline Road contributed close to 75,000 square feet (sf) of positive absorption this quarter, it was not enough to keep overall levels in the positive as absorption declined to close to negative 38,000 sf - bringing the year-to-date total to 90,000 sf. Similar to what was seen last quarter, positive absorption figures proved difficult to achieve across the majority of the markets, the only exceptions were in the Central class A market with a minimal 11,000 sf and the Suburban West class A market with 173,000 sf - a sizable portion of the latter courtesy of the above mentioned construction completion. By a sizeable margin the largest pocket of negative absorption within the city was located at 123 Slater Street, a 111,000-sf property in the downtown core, a result of the federal government fully vacating the premises.

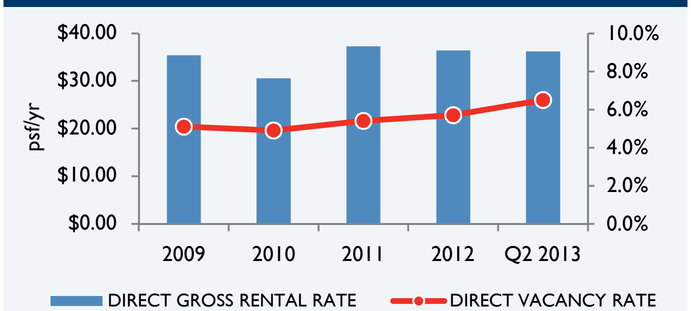
OUTLOOK

Looking towards the second half of 2013 it would appear that there will be no dramatic improvement in the Ottawa office market. Uncertainty within the public administration as it relates to staffing and space requirements is likely to continue and will in turn impact companies that have close links to the federal government. Future available space will likely also act as a drag on any improvement in market conditions. Currently there is an estimated 340,000 sf of additional space set to become available over the remainder of the year, with over 50% of that total located in the downtown core. The Suburban West market may also be impacted by the recent announcement of possible job cuts at both Mitel and Avaya which may in turn place additional space on the market.

STATS ON THE GO

	Q2 2012	Q2 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.2%	8.1%	0.9pp	
Direct Asking Rents (psf/yr)	$18.62	$19.05	2.3%	
YTD Leasing Activity (sf)	521,050	684,380	31.3%	

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY

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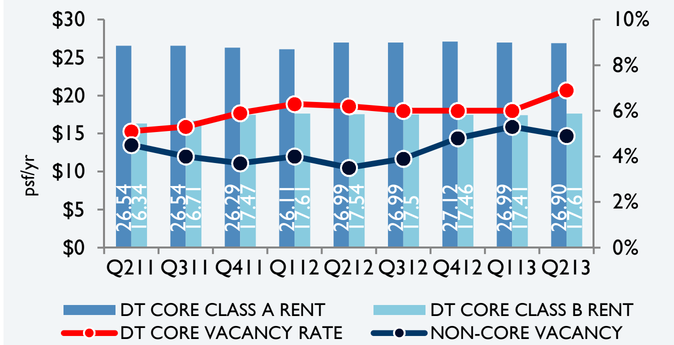
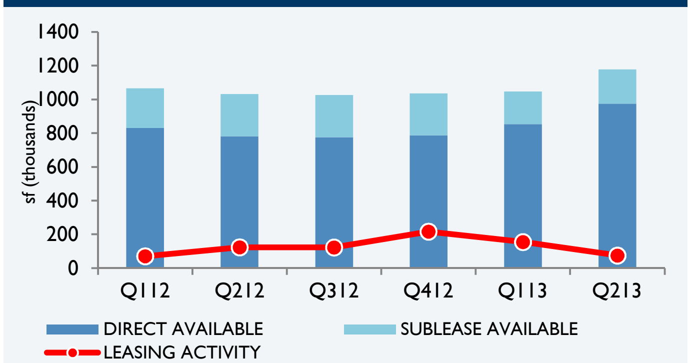
- After numerous quarters of fairly consistent vacancy within the Downtown Core, conditions changed in the second quarter as vacancy climbed by almost a full percentage point to 6.9%. Despite this there was little change in the class A and class B rental rates as the majority of the new vacant space was located within the class C segment. Currently, the average asking class A rents are at $26.90 per square foot (psf) with class B rents at $17.61 psf.
- The non-Core vacancy ticked downwards to 4.9% in the second quarter. Market conditions remained consistent in the Byward Market while in Centretown vacancy declined to 6.0% as demand outpaced new supply this quarter.

DOWNTOWN CORE RENTAL VS. VACANCY RATES



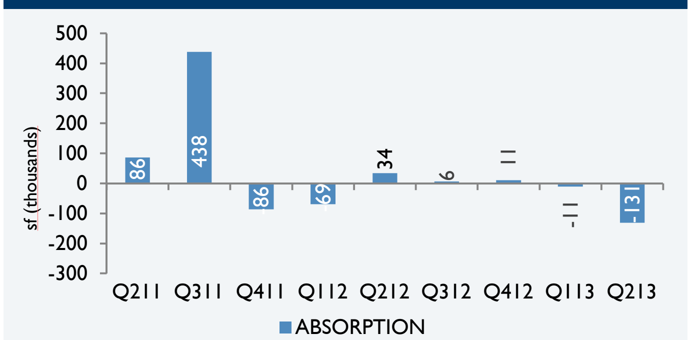
- The overall amount of space available within the Central Area grew once again this quarter, with the majority of the 131,000 sf of new vacancy being comprised of direct space. Sublet availability remained close to last quarter's numbers, climbing by approximately 10,000 sf.
- Leasing activity has slowed substantially over the last six months within the Central Area, totaling 75,000 sf this quarter. This brings the year-to-date total to 231,000 sf. The most significant transaction this quarter was the Deloitte renewal at 100 Queen Street for 35,000 sf. However, because this was a renewal it is not factored into leasing activity totals.

DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



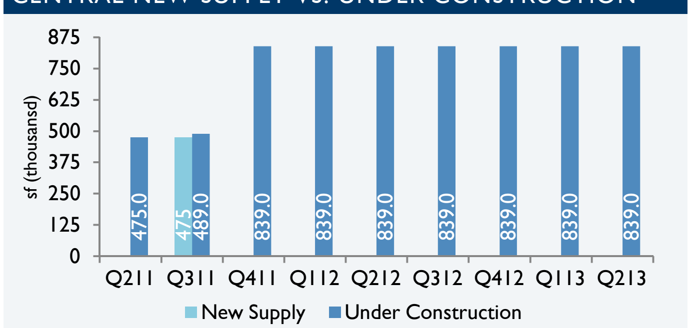
- Overall absorption totals headed sharply downwards this quarter to negative 131,000 sf; again largely the result of the vacancy at 123 Slater Street. There was some softening in the downtown core class B market with approximately 46,000 sf of new vacancy at 473 Albert Street.
- Absorption figures within the overall downtown core market will likely remain in the negative for the remainder of 2013. With close to 200,000 sf of space set to become available over the next six months it is unlikely that demand will be sufficient enough to counteract this new availability. The completion of 150 Elgin Street in Q1 2014 should contribute some positive absorption to the Central Area; however that will depend on how much of the building has been pre-leased prior to completion and from which submarket the tenants will be relocating from.

CENTRAL ABSORPTION



- There was no change in Central Area new supply or buildings currently under construction in the second quarter of 2013. 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. It has also recently been reported that CIBC may be relocating to this property. However, this has yet to be officially confirmed by any of the parties involved.

CENTRAL NEW SUPPLY VS. UNDER CONSTRUCTION



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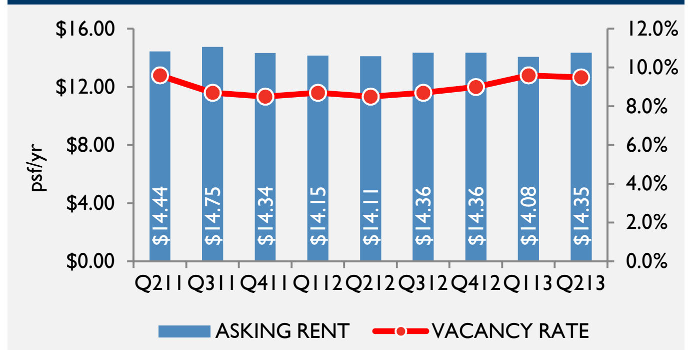
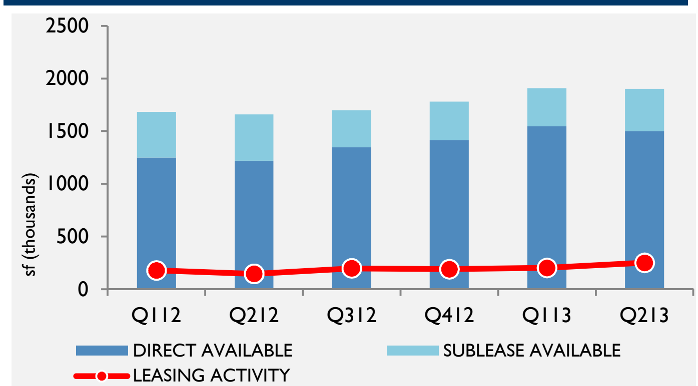
- There was little change in vacancy in the overall Suburban Area this quarter; declining by just 0.1 percentage points to 9.5%. Vacancy declined in the Suburban West market to 10.7%; largely the result of improvement within Kanata. Vacancy in the Suburban East market headed in the opposite direction this quarter climbing to 6.3%; the result of some softening in the Ottawa East submarket
- Overall asking rental rates climbed slightly to $14.35 psf. Rates increased in both of the Suburban markets this quarter; climbing to $14.00 psf in the Suburban West market and $15.12 psf in the Suburban East market.

DIRECT RENTAL VS. VACANCY RATES



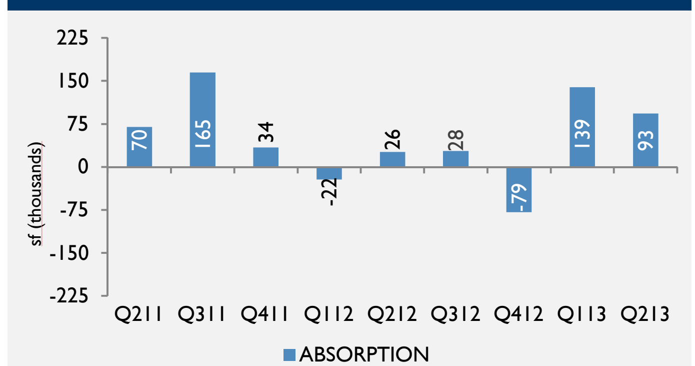
- The amount of overall space available in the Suburban market declined slightly this quarter by just 7,000 sf. The amount of space available for sublease climbed to just over 400,000 sf, the highest level in a year. The majority of this new sublet space was located in Kanata and Nepean. The amount of direct space available declined overall, particularly in Kanata.
- With the Suburban market demonstrating fairly consistent vacancy over the past year, leasing activity has largely followed suit. This quarter activity totaled 250,000 sf and brings the year-to-date total to 454,000 sf. Activity continues to be focused in the Suburban West markets; particularly in Kanata for this quarter with over 155,000 sf of activity

DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



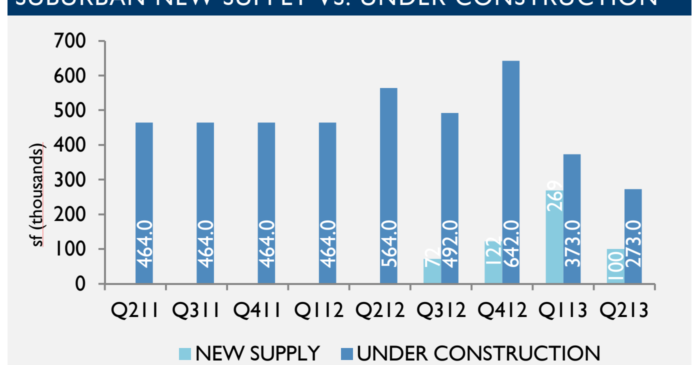
- Overall absorption for the Suburban market remained in positive territory with 93,000 sf.
- In a reversal from last quarter it was the Suburban East market rather than the Suburban West market that had negative absorption this quarter as all classes within both Suburban East submarkets posted negative absorption totals. Absorption figures in the Suburban West market were boosted by the completion of 1331 Baseline Road along with strong absorption figures in Kanata.
- There are two ongoing construction projects in the Suburban East market which when completed will also boost absorption figures. However, it is unclear at this time what the targeted completion date for these projects is. With approximately 143,000 sf set to become available over the remainder of 2013, absorption figures

SUBURBAN ABSORPTION



- Construction was completed at 1331 Baseline Road – a 100,000-sf building that is partially occupied by Stantec. Construction is ongoing at 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. Finally, construction is expected to get underway shortly on a new build in the Suburban East market. This 140,000-sf building will house the AEFO who will occupy approximately 40,000 sf with plans to lease out the remaining space.

SUBURBAN NEW SUPPLY VS. UNDER CONSTRUCTION



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	6.9%	5.6%	187,219	839,000	0	(139,445)	(137,177)	$44.17	$51.62
Centretown	1,769,448	6.0%	5.9%	31,611	0	0	10,177	(3,484)	$30.23	N/A
Byward Market	914,861	2.9%	2.6%	11,752	0	0	(2,202)	(1,495)	$36.70	$40.54
Non-Core Total	2,684,309	4.9%	4.8%	43,363	0	0	7,975	(4,979)	$33.47	$40.54
Overall Central	**17,895,807**	**6.6%**	**5.4%**	**230,582**	**839,000**	**0**	**(131,470)**	**(142,156)**	**$42.62**	**$51.00**
Kanata	5,302,169	15.4%	11.4%	216,496	0	0	96,816	32,873	$24.61	$24.71
Ottawa West	3,669,207	9.5%	7.1%	112,601	0	0	(10,197)	(13,016)	$30.86	$33.11
Nepean	5,542,338	7.0%	5.5%	74,631	0	100,000	74,118	49,617	$27.23	$29.73
Suburban West Total	14,513,714	10.7%	8.1%	403,728	0	100,000	160,737	69,474	$27.63	$27.93
Ottawa East	4,115,596	6.1%	6.0%	42,418	273,400	269,100	(52,273)	213,364	$29.09	$31.44
Gloucester	1,397,799	6.8%	6.0%	7,652	0	0	(14,988)	(50,332)	$33.91	$34.58
Suburban East Total	5,513,395	6.3%	5.9%	50,070	273,400	269,100	(67,261)	163,032	$30.29	$33.30
Overall Suburban	**20,027,109**	**9.5%**	**7.5%**	**453,798**	**273,400**	**369,100**	**93,476**	**232,506**	**$28.28**	**$29.47**
OVERALL CITY	**37,922,916**	**8.1%**	**6.5%**	**684,380**	**1,112,400**	**369,100**	**(37,994)**	**90,350**	**$36.23**	**$40.68**

* RENTAL RATES REFLECT ASKING $PSF/YEAR

MARKET HIGHLIGHTS

Significant Q2 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
100 Queen Street*	Downtown Core	Deloitte Management	A	38,535
2650 Queensview Drive	Ottawa West	ANNIDIS Health Systems	A	9,847
65 Auriga Drive	Nepean	Canadian Science Publishing	A	9,478

Significant Q2 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / $PSF	SQUARE FEET
495 Richmond Road	Nepean	Artis REIT	$39,000,000 / $370	105,359
1644 Bank Street	Ottawa East	8446911 Canada Inc	$3,700,000 / $76	49,000

Significant Q2 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
1331 Baseline Road	Nepean	Stantec	Q2 2013	100,000

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
140 Jeanne Mance	Ottawa East	N/A	Q4 2013	273,400

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

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