MARKETBEAT

OFFICE SNAPSHOT

CUSHMAN & WAKEFIELD®
OTTAWA

OTTAWA, ON

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Q2 2014

ECONOMIC OVERVIEW

Employers in the National Capital Region added approximately 5,100 people to their payrolls in May 2014, resulting in the unemployment rate decreasing by 0.1 percentage points to 6.7%. The public administration sector rebounded slightly, with the number of public servants increasing by 3,600 in May compared to April, although still down by 5,600 year-over-year. An emerging story continues to be the strengthening of the high-tech sector. Statistics Canada recently reported that there were 65,200 tech employees in Ottawa-Gatineau. If this figure is accurate than this sector is certainly on the mend as employment numbers in May 2013 totaled 49,700. The timing of this recovery could not be better as the local economy has slowed over the past couple of years, largely a result of federal government downsizing. Real GDP growth will remain subdued at 0.9% in 2014, although it does mark a slight improvement over 2013 when growth was almost non-existent at 0.1%.

MARKET OVERVIEW

The Suburban market struggled this quarter with almost 500,000 square feet (sf) of new vacancy. This, combined with some slight softening of the Central market, pushed overall vacancy upwards by over a full percentage point to 9.6% – the highest percentage that overall vacancy has reached during the past ten years. The most significant contributor to the overall rise in vacancy was the completion of 1625 Vanier Parkway in the city's east end. Currently the 290,000-sf building is being marketed as fully vacant. The Suburban West market also had significant blocks of new vacancy this quarter – one of the largest was 50,000 sf at 2934 Baseline, space that had been occupied by the Federal Government.

As 1625 Vanier Parkway came to the market fully vacant, its completion generated no positive absorption, unlike last quarter when the completion of 150 Elgin Street boosted absorption figures by 300,000 sf. New vacancy this quarter outpaced demand within almost all major markets and classes. The only exceptions were Central class C and Suburban West class C, although positive absorption in each of these submarkets was less than 20,000 sf.

Leasing activity slowed this quarter to approximately 240,000 sf, about a 40% decline from Q1. This can be partially attributed to the lack of larger transactions, i.e. those over 10,000 sf. Last quarter there were 13 transactions over 10,000 sf, whereas this quarter there were only six transactions over 10,000 sf that counted towards leasing activity.

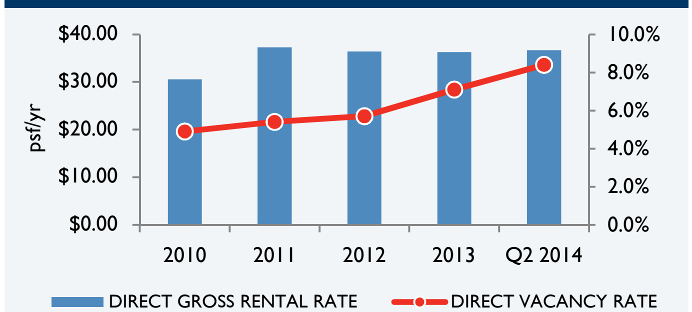
OUTLOOK

Little change is anticipated to occur during the second half of 2014. Future growth is expected in the high tech sector which may boost activity in the Suburban West market. Gains made here however, may be nullified to a certain extent with any additional job cuts in the public sector. Vacancy within the downtown core has risen steadily over the past year and could potentially reach 9.2% at the end of 2014, as close to 135,000 sf is currently being marketed to be available over the course of the next six months.

STATS ON THE GO

	Q2 2013	Q2 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	8.1%	9.6%	1.5 pp	
Direct Asking Rents (psf/yr)	$19.05	$18.58	-2.5%	
YTD Leasing Activity (sf)	684,380	645,406	-5.7%	

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY

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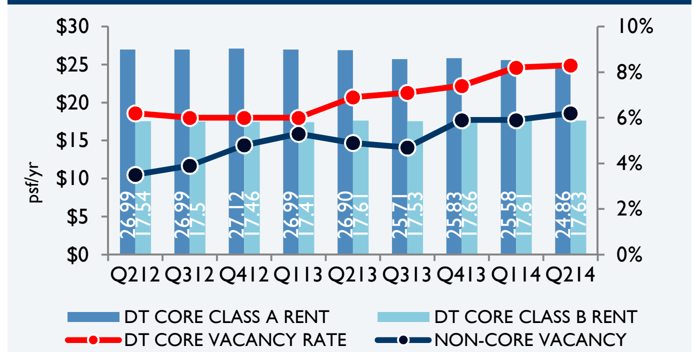
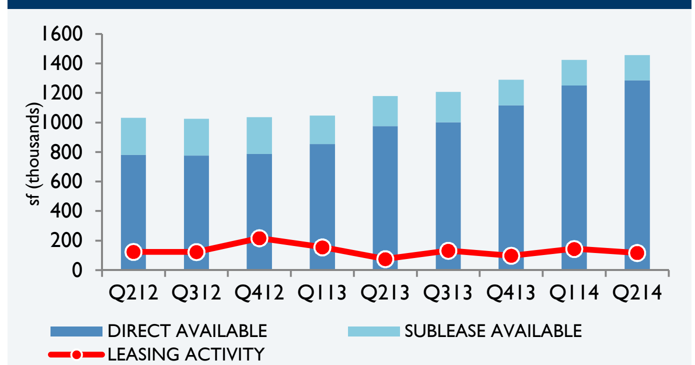
- Overall vacancy within the downtown core was virtually unchanged from last quarter, climbing by 0.1 percentage points to reach 8.3%. The class A vacancy rate demonstrated a bit more movement, increasing by 0.3 percentage points to 6.0% this quarter, and has risen by 1.5 percentage points year-over-year. Class A rental rates in the downtown core have softened through the first half of 2014 and are currently averaging $24.86 per square foot (psf). Class B rents were almost unchanged from last quarter, and average $17.63 psf.
- The non-Core vacancy rate rose slightly to 6.2% this quarter. This was largely the result of 23,000 sf becoming available at 245 Cooper, space that has been vacated by the federal government.

DOWNTOWN CORE RENTAL VS. VACANCY RATES



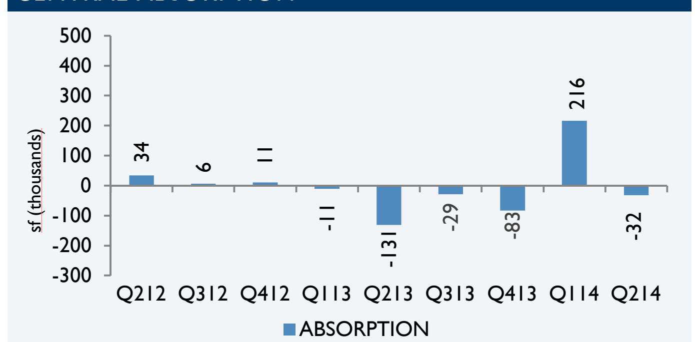
- The amount of direct space available within the Central Area climbed to 1.28 million square feet (msf), while the amount of sublet space was almost unchanged. What is unique this quarter is that this rise in direct availability was almost evenly split between the Centretown and the Downtown Core submarkets, whereas for the past year the rise in direct availability has largely occurred just in the Downtown Core. For this quarter, one of the larger pockets of new vacancy was located at 55 Metcalfe Street as nearly 20,000 sf became available with the closure of Heenan Blaikie.
- Leasing activity within the Central Area slowed in Q2 to 117,000 sf, particularly within the Downtown Core class A segment, which not counting renewals, posted only five transactions.

DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



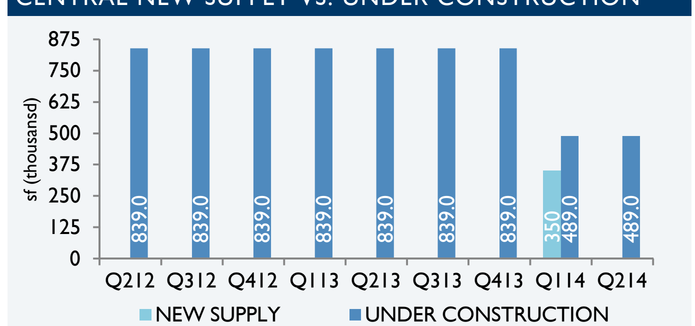
- As was anticipated last quarter, absorption headed back into negative territory in Q2, declining to just over 32,000 sf. The closure of Heenan Blaikie and the vacating of the federal government at 245 Cooper were the driving forces behind the negative absorption this quarter.
- Although continuing soft demand and an additional 102,000 sf being marketed to become available over the next three months will work in tandem to keep absorption totals down, absorption will definitely receive a boost with the completion of 90 Elgin in Q4 2014, as it is fully leased by the federal government.

CENTRAL ABSORPTION



- Work continues at 90 Elgin Street, the 646,000-sf tower being built for the federal government, with a completion date slated for Q4 2014.
- Although construction has not commenced, preleasing – or, perhaps in this case, reservations – are taking place at Windmill Developments project at Cathedral Hill. This new tower is being marketed with office condos being available for purchase, the first development of its kind in Ottawa.

CENTRAL NEW SUPPLY VS. UNDER CONSTRUCTION



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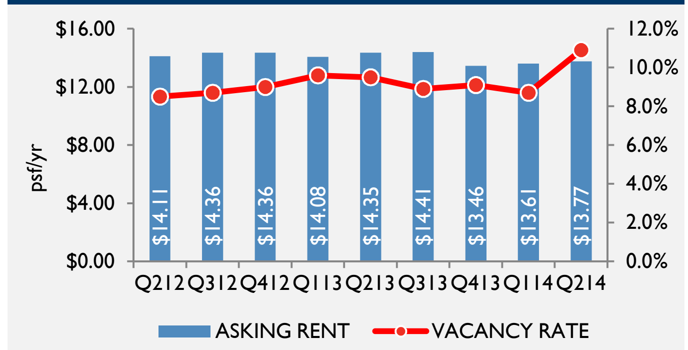
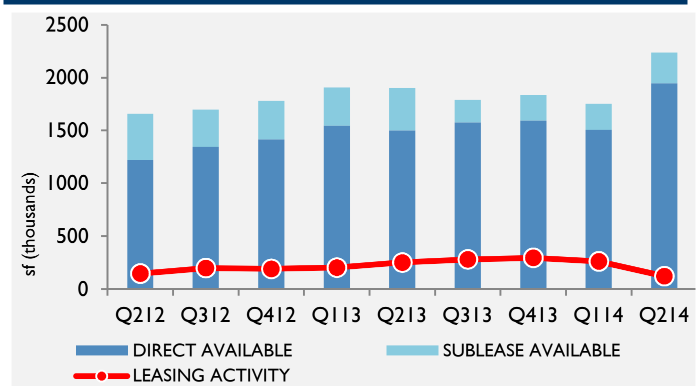
- In comparison to the last two years, overall Suburban vacancy spiked this quarter to reach 10.9%. While vacancy in the Suburban west market climbed by 0.7 percentage points to reach 11.0%, vacancy in the Suburban East market rocketed upwards from 4.5% to 10.8%. This dramatic increase was the result of the completion of the previously mentioned 1625 Vanier Parkway. As the Suburban East market has an inventory of just under 5.9 msf, 290,000 sf of new vacancy had a sizeable impact.
- After hitting a low point in Q4 2013, average asking rents have risen over the first half of 2014, and averaged $13.77 psf this quarter. This increase was the result of rising rents in Suburban West, as rental rates declined in all class segments in Suburban East.

DIRECT RENTAL VS. VACANCY RATES



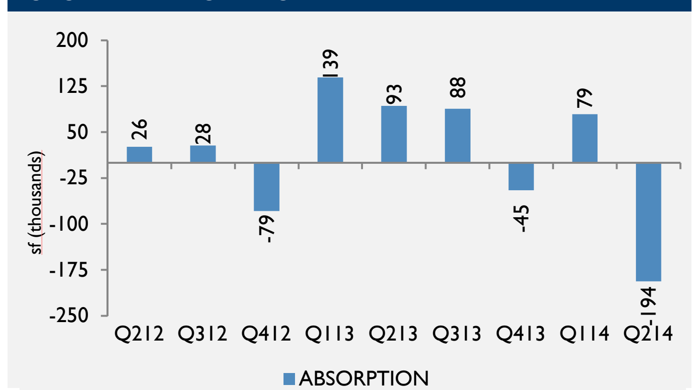
- The amount of direct space available in the Suburban market climbed from last quarter to just shy of 1.95 msf. The vast majority of the new direct space was located in the Suburban East market. The amount of space available for sublease rose by approximately 50,000 sf over last quarter and was almost evenly split between both Suburban markets. This new sublet availability was located in small pockets in multiple buildings rather than large blocks.
- Leasing activity totaled 122,000 sf this quarter, the lowest it has been in two years. Over half of this activity was located in Kanata's class A segment

DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



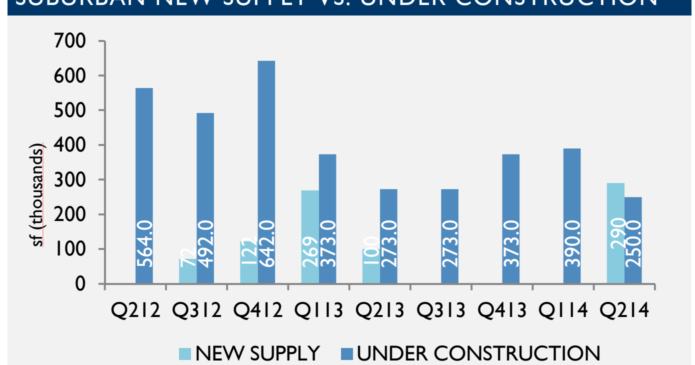
- Absorption in the overall Suburban market took a bit of a nosedive this quarter, with close to 194,000 sf of negative absorption. The Suburban market was hit with multiple new blocks of availability this quarter, as companies such as Checkpoint Software and Schneider Electric have located to new premises, and have placed their former space on the market. The federal government also played a role with approximately 50,000 sf coming on the market at Qualicum Centre.
- Looking towards the second half of 2014, absorption should rebound as only 64,000 sf of space is currently set to come on the market. However there are a few factors that may play a role. One is the timing of 170,000 sf of former Research in Motion space coming on the market. Another is the completion of Minto's new 100,000-sf building at Lansdowne Park.

SUBURBAN ABSORPTION



- Construction was completed at BONA's new 290,000-sf build in the Ottawa East market and is currently fully vacant.
- Construction continues on Minto's 100,000-sf building located at the redeveloped Lansdowne Park, with a projected completion date of Q3 2014. Construction has also commenced on two additional buildings. The first is named Westboro Connection and is located in the Ottawa West submarket. The 116,000-sf office component has largely been preleased by Alterna Bank and The Pythian Group and is scheduled for completion in Q4 2015. The second is a 34,000-sf building located in Orleans. This building is being built on "spec" and is due for completion in Q4.

SUBURBAN NEW SUPPLY VS. UNDER CONSTRUCTION



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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	15,561,498	8.3%	7.2%	225,491	489,000	350,000	(24,518)	188,573	$43.67	$48.73
Centretown	1,769,448	8.8%	8.4%	19,471	0	0	(25,186)	(24,960)	$31.00	n/a
Byward Market	842,861	0.9%	0.9%	16,103	0	0	17,484	20,387	$39.06	$44.27
Non-Core Total	2,612,309	6.2%	6.0%	35,574	0	0	(7,702)	(4,573)	$35.03	$44.27
Overall Central	**18,173,807**	**8.0%**	**7.1%**	**261,065**	**489,000**	**350,000**	**(32,220)**	**184,000**	**$42.83**	**$48.56**
Kanata	5,391,671	15.7%	13.1%	183,952	0	0	(63,540)	5,555	$24.17	$24.77
Ottawa West	3,669,207	9.3%	8.9%	87,370	116,000	0	7.831	25,204	$32.82	$35.77
Nepean	5,507,138	7.6%	6.7%	76,542	0	0	(47,646)	(30,118)	$27.66	$31.67
Suburban West Total	14,568,016	11.0%	9.6%	347,864	116,000	0	(103,355)	641	$27.92	$29.37
Ottawa East	4,477,683	11.7%	10.6%	22,840	100,000	290,000	(55,255)	(82,527)	$28.68	$31.34
Gloucester/Orleans	1,397,799	7.8%	5.1%	13,637	34,213	0	(34,955)	(32,758)	$33.71	$34.26
Suburban East Total	5,875,482	10.8%	9.3%	36,477	134,213	290,000	(90,210)	(115,285)	$29.69	$32.56
Overall Suburban	**20,443,498**	**10.9%**	**9.5%**	**384,341**	**250,213**	**290,000**	**(193,565)**	**(114,644)**	**$28.25**	**$30.04**
OVERALL CITY	**38,617,305**	**9.6%**	**8.4%**	**645,408**	**739,213**	**640,000**	**(225,785)**	**69,356**	**$36.71**	**$40.68**

* RENTAL RATES REFLECT ASKING $PSF/YEAR

MARKET HIGHLIGHTS

Significant Q2 2014 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
160 Elgin Street*	Downtown Core	Learning Tree International	A	13,636
160 Elgin Street*	Downtown Core	City of Ottawa	A	12,587
55 Murray Street	Byward Market	Synacor	A	5,791

Significant Q2 2014 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / $PSF	SQUARE FEET
311 McArthur Avenue	Ottawa East	Tower Building Management	$4,225,000 / $124	34,100
9 Antares Drive	Nepean	Axim Centre Inc.	$3,000,000 / $180	16,700

Significant Q2 2014 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
1525 Vanier Parkway	Ottawa East	N/A	Q2 2014	290,000 / 0%

Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000 / 100%
Westboro Connection – 319 McRae	Ottawa West	Alterna	Q4 2015	116,000 / 84%
979 Bank Street	Ottawa East	N/A	Q3 2014	100,000 / 0%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

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