

MARKETBEAT OFFICE SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q4 2014



ECONOMIC OVERVIEW

The unemployment rate in the National Capital region declined in November 2014 to reach 6.2%, despite the national unemployment rate rising to 6.6%. The public administration sector was amongst the weaker sectors this quarter, but the year-over-year numbers tell a slightly different story and are a better indicator of the overall trend. Compared to November 2013 the number of public administration jobs held was fairly steady, with overall totals up by 1,000 positions. This is in line with forecasts made by the Conference Board of Canada, which expects local public administration output to climb by 0.6% in 2015. While this figure is very modest, it comes after three consecutive years of reduced output.

MARKET OVERVIEW

Vacancy has stabilized over the last half of 2014, with fourth quarter vacancy declining by 0.2 percentage points to reach 9.4%. This was a result of slight declines in vacancy in both the overall Central and Suburban markets to 8.1% and 10.5% respectively. Although the overall amount of space available declined by 12,000 square feet (sf) this quarter, the inventory grew, due to the addition of two new buildings to the competitive supply. The first, located at 90 Elgin Street, is a build-to-suit for the federal government, located in the downtown core, totaling 489,000 sf of office space. The second is a multi-tenant 100,000-sf building built in the redeveloped Lansdowne Park.

After two consecutive quarters of negative absorption, absorption levels rebounded into positive territory in Q4. The majority of this absorption was a result of the completion of 90 Elgin; however the market did see some expansionary demand. Activity within the downtown core and the Kanata submarket were the principal drivers behind overall levels of both leasing activity and positive absorption over the course of 2014. This quarter was no exception as Kanata saw three blocks of space over 10,000 sf come off of the market.

OUTLOOK

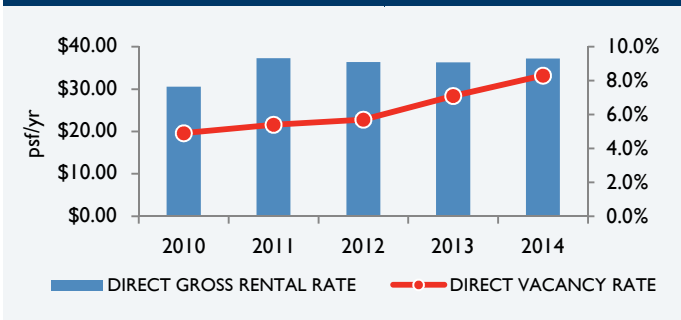
Looking to 2015 there is room for some optimism. The high-tech services sector continues to hold steady and this should continue as there are no signs of layoffs and companies such as Cisco Systems and Huawei have held job fairs. The Conference Board is forecasting some recovery in the public administration, manufacturing, and construction sectors, and it is these sectors which are expected to lead an expansion of the local economy. It is forecast that GDP will expand by 1.8% in 2015, the largest annual gain in five years. It is likely that the office market as a whole will adopt a wait-and-see approach, as it awaits the federal election sometime

later this year. The federal government may loosen its purse strings, due to the upcoming election, but may also put a halt to any new spending initiatives due to plunging oil prices and the resulting interest rate cut made by the Bank of Canada. In the interim it is expected that vacancy will climb over the first half of 2015, as some significant blocks of space come to the market. A few notable examples is 33,000 sf located in the downtown core that was vacated by CIBC as they moved to 150 Elgin Street, the office tower completed in Q1 of this year. Another is the 65,000 sf that will come on the market in Kanata with the recently completed move of Lockheed Martin to their new premises at 501 Palladium Drive, also located in Kanata.

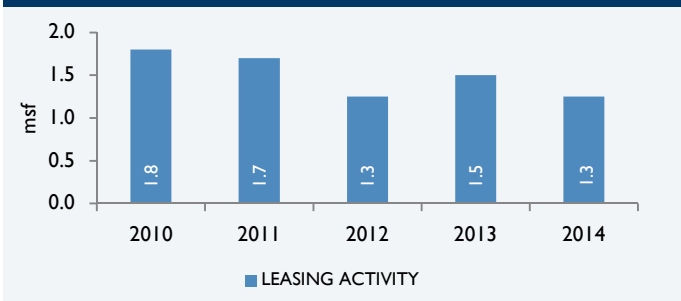
STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	8.2%	9.4%	1.2pp	▲
Direct Asking Rents (psf/yr)	\$18.66	\$18.98	1.7%	◄►
YTD Leasing Activity (sf)	1,492,191	1,249,083	-16.3%	◄►

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY



- After two years of continuously increasing vacancy within the downtown core, vacancy was unchanged in the fourth quarter remaining at 8.5%. However the amount of available space grew to 1.36 million square feet (msf), with the majority of new space located in the class C segment. The class A rental rates in the downtown core rebounded slightly from last quarter and are currently averaging \$24.51 per square foot (psf). In contrast to this, class B rents have remained remarkably stable, with virtually no change seen throughout 2014. In Q4, class B rents averaged \$17.61 psf.

- Like the downtown core, the non-Core vacancy rate remained unchanged at 5.9% as a notable transaction of over 20,000 sf in Centretown helped mitigate a new 10,000-sf availability in the Byward market.

- The amount of direct space available within the Central Area has climbed steadily over the past two years and now totals just shy of 1.37 msf. In contrast, the amount of sublet availability has remained fairly stable and has declined this quarter to 148,000 sf. The vast majority of this sublet space is located in the class A downtown core segment.

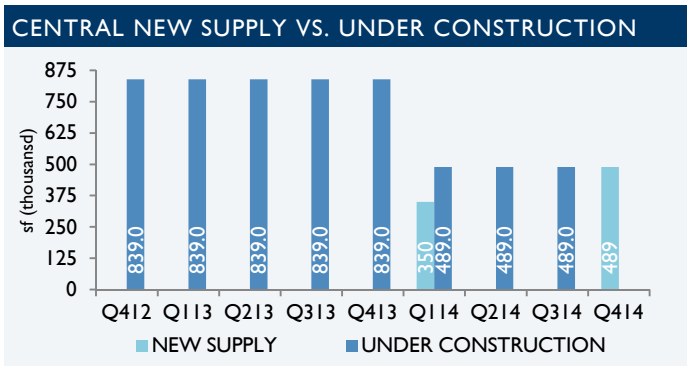
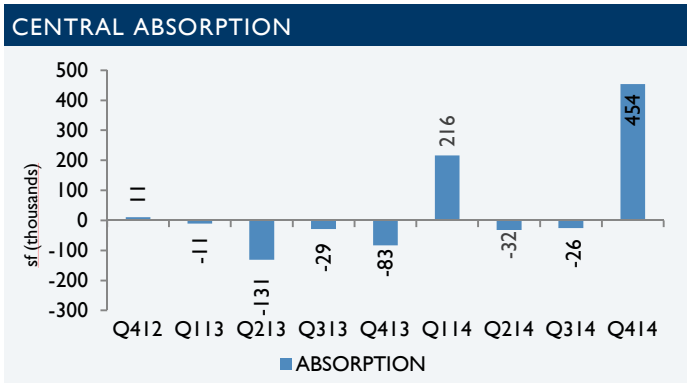
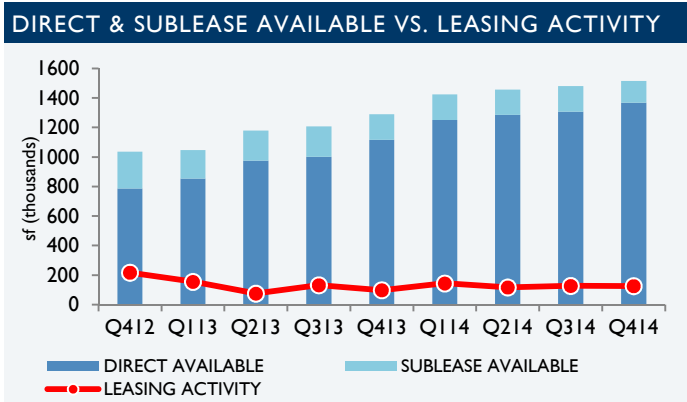
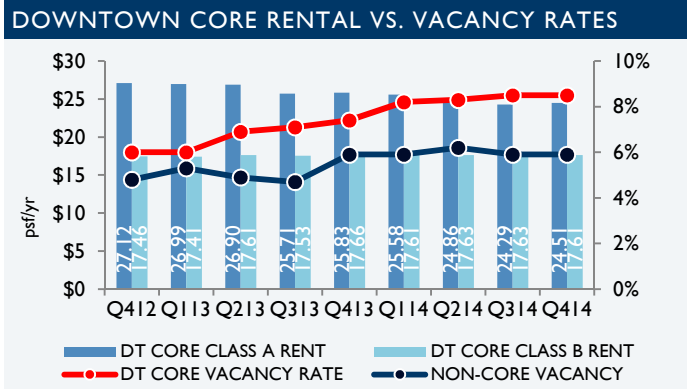
- Leasing activity in 2014 totaled just over 500,000 sf with levels fairly consistent from one quarter to the next. In the fourth quarter leasing activity totaled 126,000 sf, almost identical to last quarter. Notable pockets of space that came off the market were approximately 22,000 sf in a class B Downtown core property, along with approximately 20,000 sf in a class C Centretown property.

- Although absorption increased significantly compared to last quarter, reaching 454,000 sf, this was entirely due to the completion of 90 Elgin Street and the fact that it was fully preleased by the Federal Government. For the year Central area absorption was 613,000 sf, a sizeable improvement over 2013.

- Absorption figures will likely trend downwards and hover in minimally positive to minimally negative territory, at least in the first half of 2015. The reason for this is twofold. One is that approximately 92,000 sf of new availability will come on the market over the next six months and secondly there remains little demand momentum from the private sector. As we head into an election year, demand from the public sector may accelerate. However given recent developments this may not materialize.

- Work was completed at 90 Elgin Street this quarter, the 646,000-sf tower built for the Federal Government, of which 489,000 sf is considered to be office space.

- Preleasing/selling continues at the Windmill Developments condominium project at Cathedral Hill.



- The Suburban market has stabilized over the last half of 2014 and the vacancy rate now sits at 10.5%, 0.3 percentage points lower than last quarter. The Suburban West market continues to see improvement with vacancy declining once again to reach 9.9% this quarter. Vacancy within the Suburban East market climbed to 12.2%, the result of increased vacant space within the Ottawa East submarket. The submarket saw the completion of the 100,000-sf building located at Lansdowne Park, of which approximately 80% remains to be leased.

- Average asking rents have steadily risen throughout 2014, and averaged \$14.66 psf this quarter. For this quarter the increase can largely be contributed to the higher than average asking rents in the new office tower at Lansdowne Park.

- The amount of direct space available in the Suburban market declined slightly from last quarter to 1.9 msf. The amount of space available for sublease was virtually unchanged from last quarter's totals, totaling 276,000 sf.

- Leasing activity has stabilized over the last half of 2014, and for the year the total was just shy of 735,000 sf. Kanata alone accounted for just over half of all leasing activity in the Suburban market for 2014. Kanata will likely prove to be the focal point of leasing activity in the Suburban West market through 2015, while the Suburban East market will likely focus on leasing the new office building at Lansdowne Park.

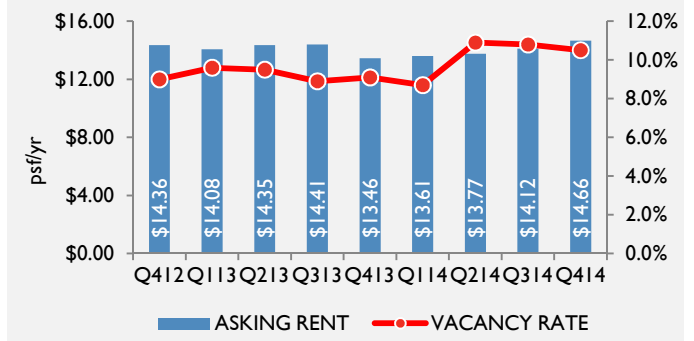
- Absorption figures for the quarter were approximately 101,000 sf, the strongest showing all year. Although there was 100,000 sf of new construction only 19,000 sf counted towards absorption figures, as the remainder of the building was vacant. For the year, absorption figures tallied negative 16,000 sf.

- Looking towards 2015, absorption numbers will be positively impacted by new construction completions as the majority of the space has been preleased. However, overall totals may be dragged down as approximately 222,000 sf of space is set to come on the market over the course of the next six months. Some of the larger blocks include 32,000 sf being vacated by the federal government in the Ottawa East submarket and two large tenants likely vacating close to 100,000 sf in Kanata.

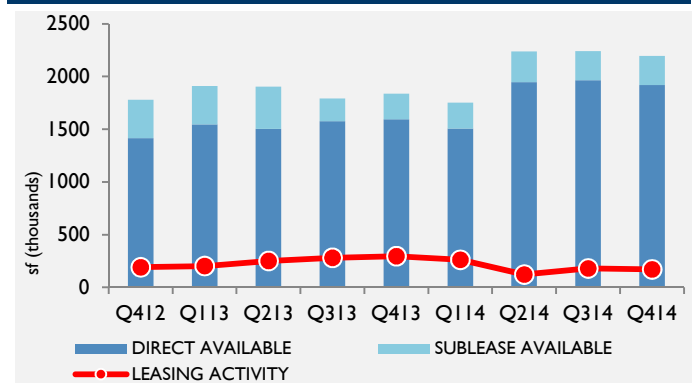
- Construction was completed on Minto's 100,000-sf building located at the redeveloped Lansdowne Park. Approximately 80% of the building remains to be leased.

- Construction is ongoing on three additional buildings. The first is Westboro Connection, of which the 116,000-sf office component has largely been pre-leased by Alterna Bank and The Pythian Group. It is anticipated to be completed towards the end of 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 Q1 2015. Finally there is the 65,000-sf design build for Golder Associates which is also slated for completion in Q1 2015.

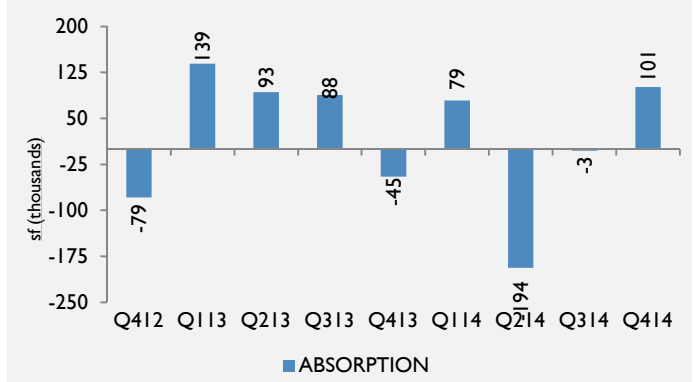
DIRECT RENTAL VS. VACANCY RATES



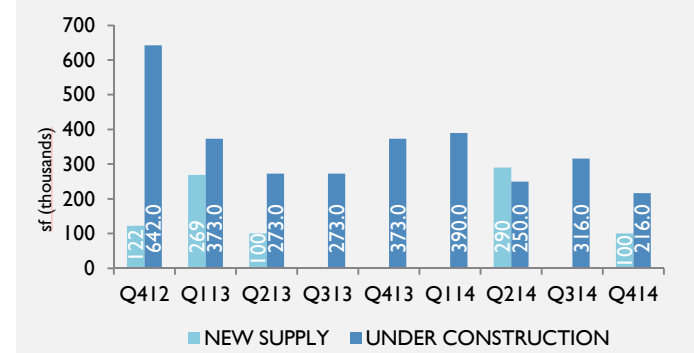
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



SUBURBAN ABSORPTION



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	16,050,498	8.5%	7.6%	430,414	0	839,000	452,517	608,090	\$43.45	\$48.61
Centretown	1,769,448	7.5%	7.0%	65,483	0	0	9,611	(3,408)	\$29.54	n/a
Byward Market	842,861	2.4%	2.1%	18,425	0	0	(7,678)	8,080	\$35.93	\$40.16
NON-CORE TOTAL	2,612,309	5.9%	5.4%	83,908	0	0	1,933	4,672	\$65.47	\$40.16
OVERALL CENTRAL	18,662,807	8.1%	7.3%	514,322	0	839,000	454,450	612,762	\$42.49	\$48.39
Kanata	5,685,584	11.7%	9.5%	375,026	0	0	98,988	145,085	\$24.14	\$24.97
Ottawa West	3,669,207	10.9%	10.3%	145,546	116,000	0	(34,498)	(34,825)	\$32.63	\$35.69
Nepean	5,507,138	7.3%	6.5%	110,019	65,850	0	16,874	(15,151)	\$27.88	\$32.74
SUBURBAN WEST TOTAL	14,861,929	9.9%	8.6%	630,591	181,850	0	81,364	95,109	\$28.70	\$31.11
Ottawa East	4,587,077	13.2%	12.0%	82,191	0	390,000	22,547	(64,390)	\$28.25	\$36.10
Gloucester/Orleans	1,397,799	8.8%	6.7%	21,979	34,213	0	(2,734)	(47,345)	\$33.90	\$34.41
SUBURBAN EAST TOTAL	5,984,876	12.2%	10.8%	104,170	34,213	390,000	19,813	(111,735)	\$31.30	\$34.30
OVERALL SUBURBAN	20,846,805	10.5%	9.2%	734,761	216,063	390,000	101,177	(16,626)	\$29.30	\$31.95
OVERALL CITY	39,509,612	9.4%	8.3%	1,249,083	216,063	1,229,000	555,627	596,136	\$37.25	\$41.79

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q4 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
333 Preston Street*	Ottawa West	Sun Life Assurance Company of Canada	A	40,664
360 Albert Street*	Downtown Core	Rogers Communications	A	13,555
6 Antares Drive III	Nepean	Rogers Communications	A	10,125
SIGNIFICANT Q4 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
11,40,50,80,84 Hines Road & 495,505 March Road	Kanata	Kanata Research Park Corporation	\$69,000,000 / \$168	411,100
SIGNIFICANT Q4 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000 / 100%
979 Bank Street	Ottawa East	Canadian Internet Registration Authority	Q4 2014	100,000 / 18%
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Westboro Connection – 319 McRae	Ottawa West	Alterna	Q4 2015	116,000 / 84%
1891 Robertson Road	Nepean	Golder Associates	Q1 2015	65,850 / 100%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS