MARKETBEAT
OFFICE SNAPSHOT

OTTAWA, ON
A Cushman & Wakefield Alliance Research Publication

Q2 2015

ECONOMIC OVERVIEW
The unemployment rate in the National Capital region sat at 6.6% in May 2015, a decrease of 0.3 percentage points from April. This slight improvement is not an indicator of a strengthening local economy but rather the region's labour force shrinking by 3,200. Total employment in May numbered 709,500; close to where employment numbers stood 3 years ago when the Conservative government began their initiative to cut the public sector workforce and freeze departmental budgets. A major shift in the employment landscape has taken shape in the makeup of the region's workforce. Numbers have declined by 21,000 positions in the Federal Government sector while several other sectors have added enough employees to make up the difference.

MARKET OVERVIEW
Vacancy continued to climb in the second quarter, reaching a high of 10.4%, marking the first time overall vacancy has reached double digits since the third quarter of 2004. The driving factor behind the rise in Q2 is attributed to vacant space increasing in almost all of the submarkets across the city, particularly in Kanata, Ottawa West, and Ottawa East. This is combined with the lack of sufficient expansionary demand to take some of this new and existing space off the market. Compounding the issue even further is that a significant portion of the new vacancy this quarter consisted of large blocks of space; such as 100,000 square feet (sf) being placed on the market by Canada Post and St. Joseph Printing offering 90,000 sf of office space for sublease at their facility at 1165 Kenaston Drive.

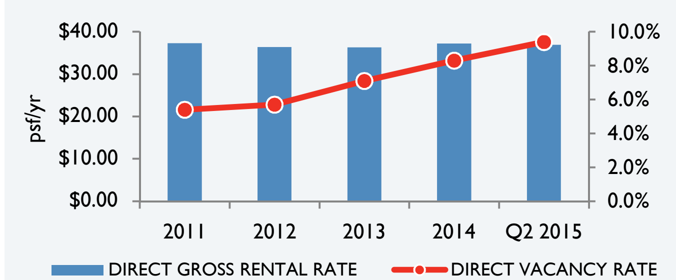
As vacancy climbs, absorption levels generally decline and this quarter was no exception. Overall absorption for the city was close to negative 165,000 sf as the Suburban market totaled close to negative 198,000 sf (largely the result of the aforementioned two new blocks of vacancy) and the Central market only posting just over 33,000 sf. Leasing activity was slower compared to last quarter, however it does remain fairly consistent compared to this point last year.

OUTLOOK
As anticipated, Ottawa's market struggled this quarter as significant new vacancy was introduced, a trend expected to continue into the third quarter, largely the result of tenant relocations. Notable vacancies will include 21,000 sf vacated by the Standards Council of Canada, 36,000 sf vacated by Canadian Commercial Corporation, and 43,000 sf that will be available for sublease with DRS Technologies relocating. Despite the difficulties the office market has been experiencing in recent years there is room for optimism. Several high-tech companies, both multinationals and homegrown firms, have been hiring new staff, which will likely translate to additional space in order to support the influx of people. A shining example is Shopify which has added several hundred new employees over the past few years and now occupies over 100,000 sf at their downtown location. In addition Ciena, the last company to leave the former Nortel campus, demonstrated their continued commitment to the region and will be leasing not only a recently built property for Research in Motion but will be constructing two additional buildings totaling approximately 250,000 sf.

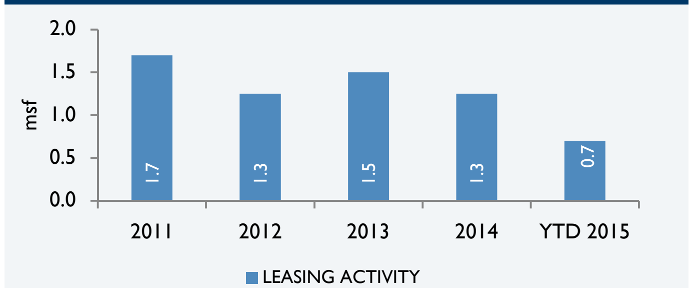
STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.6%	10.4%	0.8pp	
Direct Asking Rents (psf/yr)	$18.58	$18.66	0.4%	
YTD Leasing Activity (sf)	645,406	713,226	10.5%	

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY



Cushman & Wakefield Ottawa
99 Bank Street, Suite 700
Ottawa, ON K1P 6B9
www.cushmanwakefield.com/knowledge

For more information contact:
Alain Desmarais, Senior Managing Director
613-236-7777
adesmarais@cwottawa.com

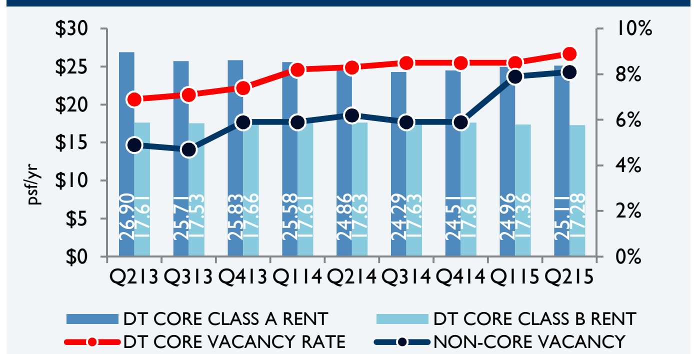
- After three consecutive quarters of unchanged vacancy, overall vacancy within the downtown core climbed to 8.9% in Q2. While class B & C vacancy declined this quarter to 12.2% and 20.4% respectively, class A vacancy headed upwards to 6.4%. Despite this rise in vacancy, average class A rental rates in the downtown core continued to increase slightly this quarter reaching $25.11 per square foot (psf). Although the declines are slight, the average class B rent has trended downwards over the past year and is now averaging $17.28 psf.
- After a fairly substantial climb last quarter non-Core vacancy stabilized somewhat in Q2, sitting at 8.1%. Little movement was seen in Centretown vacancy, sitting at 10.2% this quarter, while vacancy in the Byward Market climbed to 3.6%.

- The amount of direct space available within the Central Area has increased every quarter over the past two years, and now totals just over 1.5 million square feet (msf). In contrast, the amount of sublet availability has declined over the past three quarters and totals just shy of 120,000 sf. The vast majority of this sublet space continues to be located in the class A downtown core market.
- Although leasing activity in the Central Area declined from last quarter's totals to 151,000 sf, it still marks the second highest total over the past two years. The overwhelming majority of the transactions were located in the class A and B downtown core markets.

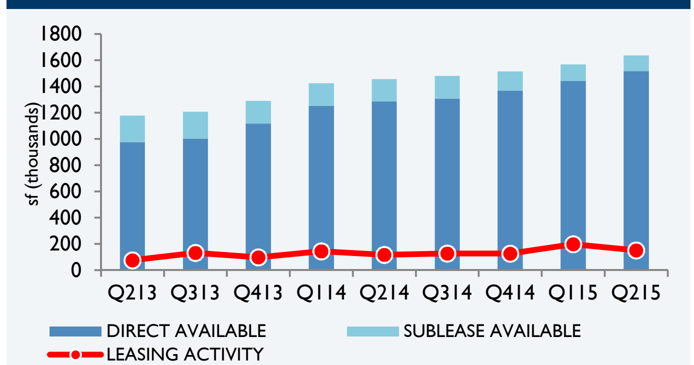
- Despite no new construction completions, absorption in the Central Area climbed out of negative territory this quarter to reach 33,000 sf. Three spaces exceeding 15,000 sf came off the market in the class A segment, while approximately 43,000 sf came off the class B market. However, in terms of the latter, the space removal is likely temporary and will be back on the market next quarter.
- Although this quarter marked a reprieve from the negative absorption seen over the past two years (not including construction driven positive absorption); it is quite likely absorption will head back into negative territory for the remainder of 2015 as approximately 142,000 sf is set to come on the market and market velocity has yet to pick up.

- There were no building completions or new construction projects commenced this quarter.
- Preleasing/selling continues at the Windmill Developments condominium project at Cathedral Hill.

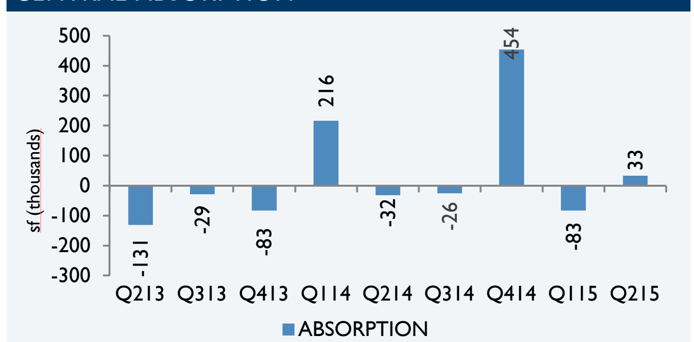
DOWNTOWN CORE RENTAL VS. VACANCY RATES



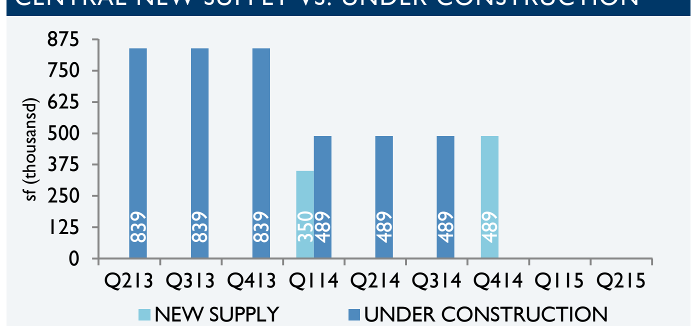
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



CENTRAL ABSORPTION



CENTRAL NEW SUPPLY VS. UNDER CONSTRUCTION



Cushman & Wakefield Ottawa
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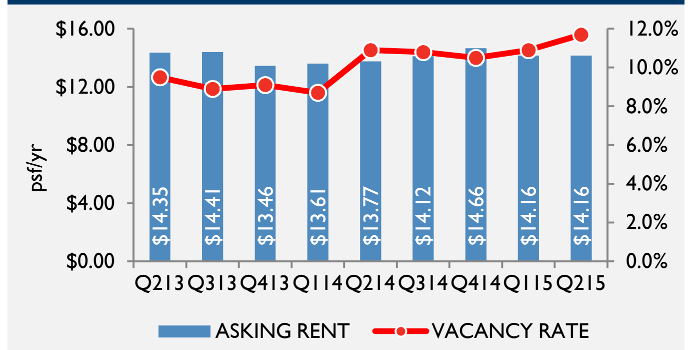
Alain Desmarais, Senior Managing Director
613-236-7777
adesmarais@cwottawa.com

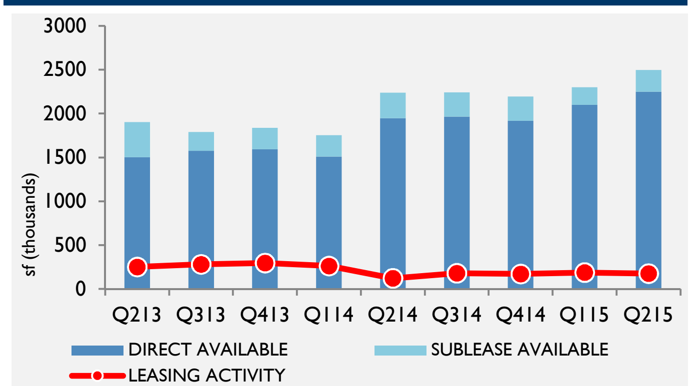
- After a year of fairly stable vacancy, the vacancy rate jumped in the Suburban market this quarter to reach 11.7%, almost a full percentage point increase from Q1. Both the Suburban West and Suburban East markets had vacancy climb to reach 10.7% and 14.5% respectively. Out of five suburban submarkets, three saw increases in vacant space with multiple new availabilities of at least 15,000 sf.
- Average asking rents for the Suburban market remained unchanged, averaging $14.16 psf.

DIRECT RENTAL VS. VACANCY RATES



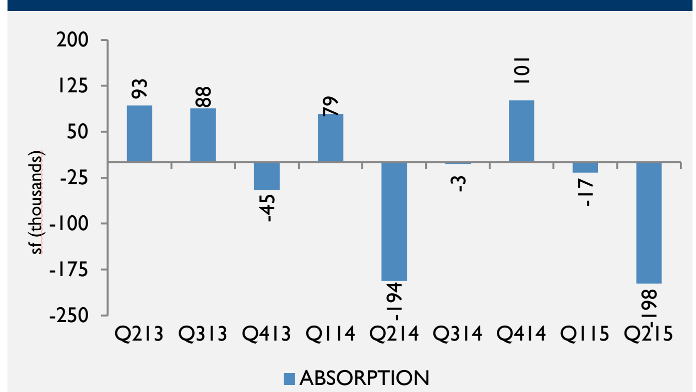
- The amount of direct space available in the Suburban market increased from last quarter to reach just shy of 2.5 msf. After a low point last quarter, the amount of space available for sublease climbed to 250,000 sf. The majority of the new sublet availability was located in Kanata as 21,500 sf became available at LPI Level Platforms former premises and close to 46,000 sf became available at 390 March Road.
- Leasing activity has remained consistent over the past 12 months with Q2 totals of 176,000 sf. The Suburban West class A market continues to be the main driver of activity.

DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



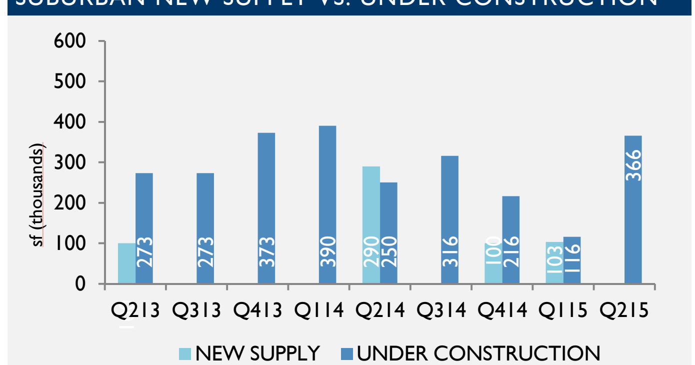
- Absorption figures for the quarter headed sharply downwards to close to 198,000 sf. Although there was softening in most Suburban submarkets the arrival on the market of 100,000 sf from Canada Post and 95,000 sf from St. Joseph Printing were the significant drivers of the negative absorption this quarter.
- Looking towards the remainder of 2015, absorption numbers will be positively impacted by the completion of Westboro Connection, as the majority of the space has been preleased. However there exists the potential for absorption to remain in the negative for at least next quarter as approximately 213,000 sf is set to come on the market. Kanata continues to be the focal point of the majority of the new availability in the suburban market.

SUBURBAN ABSORPTION



- Construction is ongoing on Westboro Connection, of which the 116,000-sf office component has largely been preleased by Alterna Bank and The Pythian Group.
- Construction has commenced on two new buildings being built for Ciena as they relocate out of the former Nortel campus. These two buildings will total 250,000 sf and are expected to be completed in 2017.

SUBURBAN NEW SUPPLY VS. UNDER CONSTRUCTION



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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	8.9%	8.1%	323,447	0	0	37,068	7,531	$43.62	$48.63
Centretown	1,769,448	10.2%	10.1%	7,525	0	0	2,803	(47,746)	$30.28	n/a
Byward Market	842,861	3.6%	3.5%	17,791	0	0	(6,805)	(10,065)	$37.17	$41.35
NON-CORE TOTAL	2,612,309	8.1%	8.0%	25,316	0	0	(4,002)	(57,811)	$33.72	$41.35
OVERALL CENTRAL	18,662,807	8.8%	8.1%	348,763	0	0	33,066	(50,280)	$42.63	$48.43
Kanata	5,869,098	13.6%	11.7%	108,143	250,000	0	(71,616)	(146,535)	$23.62	$24.94
Ottawa West	3,804,207	12.7%	11.9%	109,459	116,000	0	(102,290)	(82,469)	$30.31	$33.80
Nepean	5,572,988	6.3%	6.3%	99,172	0	65,850	48,462	119,001	$27.79	$30.87
SUBURBAN WEST TOTAL	15,246,293	10.7%	9.8%	316,774	366,000	65,850	(125,444)	(110,003)	$27.79	$29.37
Ottawa East	4,624,138	15.9%	13.9%	25,609	0	37,061	(75,767)	(94,401)	$29.69	$31.94
Gloucester/Orleans	1,397,799	9.5%	8.2%	22,080	0	0	3,326	(10,355)	$37.45	$37.71
SUBURBAN EAST TOTAL	6,021,937	14.5%	12.6%	47,689	0	37,061	(72,441)	(104,756)	$32.42	$34.99
OVERALL SUBURBAN	21,268,230	11.7%	10.6%	364,463	366,000	102,911	(197,885)	(214,759)	$29.07	$31.18
OVERALL CITY	**39,931,037**	**10.4%**	**9.4%**	**713,226**	**366,000**	**102,911**	**(164,819)**	**(265,039)**	**$36.96**	**$41.22**

* RENTAL RATES REFLECT ASKING $PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2015 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
160 Elgin Street*	Downtown Core	Gowlings	A	N/A
11 Hines Road	Kanata	Corsa Technology	A	15,469
50 O'Connor Street*	Downtown Core	SunLife Assurance Company of Canada	A	6,228

SIGNIFICANT Q2 2015 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / $PSF	SQUARE FEET
473 Albert Street	Downtown Core	Concentra Financial Services	$13,100,000 / $94	139,885
100-130 Colonnade Road	Nepean	The Regional Group	$29,020,000 / $209	139,011

SIGNIFICANT Q2 2015 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Innovation Drive Buildings B & C	Kanata	Ciena	2017	250,000 / 100%
Westboro Connection – 319 McRae	Ottawa West	Alterna	Q4 2015	116,000 / 84%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

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