

# MARKETBEAT

## OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



1Q08

### ECONOMY

Overall real gross domestic product (GDP) expanded by an estimated 2.6% in 2007, outperforming all other Ontario census metropolitan areas (CMA's). Both healthy domestic demand and a strengthening high-tech sector played key roles in this growth. Although both sectors are expected to cool slightly in 2008, public administration output is expected to accelerate and is anticipated to maintain an average growth of 2.8% annually from 2008 to 2012.

The unemployment rate for Ottawa-Gatineau increased slightly in February to 4.5%. The change was fuelled by an increase in unemployment of approximately 1,100. However employment continues to be higher than a year ago when there were close to 631,400 employed in the Ottawa-Gatineau region. The biggest drivers of employment growth were the various levels of government which added 17,000 jobs, bringing total employment in this sector to 144,000. The high-tech sector experienced another month-over-month decline in employment in February, with the number of people employed declining by 2,000 to 65,600. On a positive note the industry has more workers than a year ago, when there were 57,900 people employed in the sector.

In 2008 expansion in the local economy is expected to remain strong with real GDP forecasted to be 2.7%. This steady economic growth is expected to manifest itself into further job gains with employment expected to increase by 1.3% in 2008.

### OVERVIEW

During the first quarter of 2008 vacancy rose slightly to 5.9%, an increase from 5.6% posted during the last quarter of 2007. This increase was largely driven by 180,000 square feet (sf) of space being put on the market by Nortel; a company in the midst of restructuring. Currently there is just over 2.1 million square feet (msf) of vacant space available in the local market, with 20% of that space available for sublease.

Demand during the first quarter of 2008 was not strong enough to take up the Nortel space and as a result there was just over 171,000 sf of negative absorption. The Kanata submarket also contributed to this figure, as one up-and-coming high-tech company attempted to offload some space.

Leasing activity was a highlight for the office market during the first quarter of this year with over 350,000 sf leased. The federal government played a key role in this leasing activity, accounting for over 100,000 sf.

### OUTLOOK

Although there may be slight fluctuations from quarter to quarter, vacancy is expected to remain fairly consistent throughout 2008, largely due to a very tight downtown core market. Next quarter absorption numbers will once again take a hit as it is anticipated that the newly constructed 150,000-sf Dell building will be coming to the market; however absorption should stabilize in the final half of the year. Leasing activity should remain strong throughout 2008 as the federal government will continue to have a healthy appetite for space.

### BEAT ON THE STREET

"The downtown core office market has experienced a slight reduction in net effective rates. With some new construction of office space underway and with the most significant vacancies concentrated amongst few landlords, tenants contemplating relocation of their office space continue to have a limited number of options."

—Ransome Drcar, Associate Vice-President  
Office Leasing

### ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth	3.0%	2.6%	2.7%
CPI Growth	1.7%	2.0%	1.9%
Unemployment	5.2%	5.5%	6.1%
Employment Growth	4.0%	0.9%	1.3%

Source: Conference Board of Canada

### MARKET FORECAST

LEASING ACTIVITY will remain consistent through 2008 as the federal government will continue to aggressively seek space 

DIRECT ABSORPTION will not be as strong as in 2007 due to little construction and a narrowing of leasing options in the downtown core 

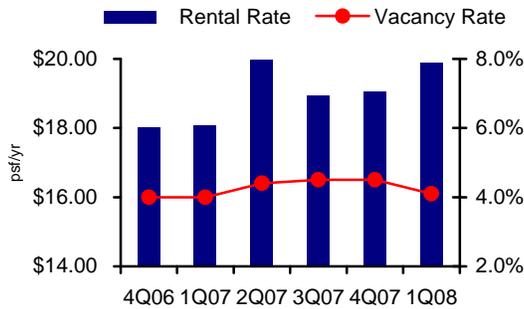
CONSTRUCTION activity will decline from 2007 levels as the next office tower will not be delivered until early 2009 

### OVERALL RENT VS. VACANCY



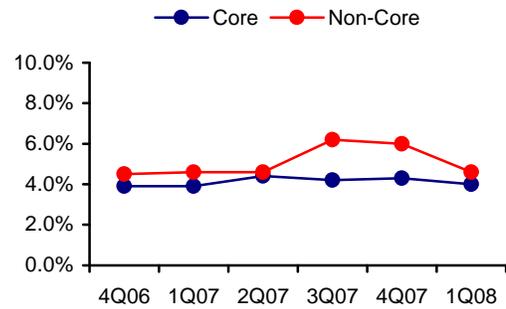
### Central Area

#### Overall Rental vs. Vacancy Rate



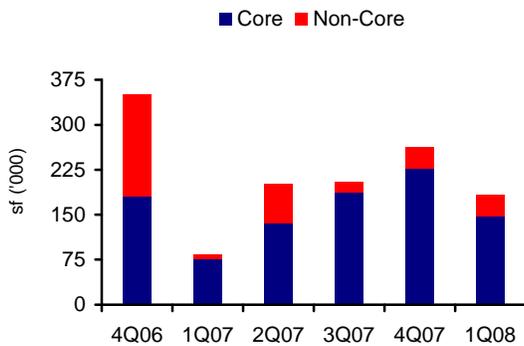
- Rental rates in the Central area averaged \$19.89 per square foot (psf) during this quarter. Only class A rates increased from last quarter and are now averaging close to \$27.00 psf. In the downtown core class A rents edged even higher, averaging \$27.31 psf.
- Vacancy in the Central area has remained consistent over the past six quarters. Overall vacancy declined to 4.1% as there were decreases in vacancy in all three sub-markets of the Central area.

#### Overall Vacancy Rate Core vs. Non-Core



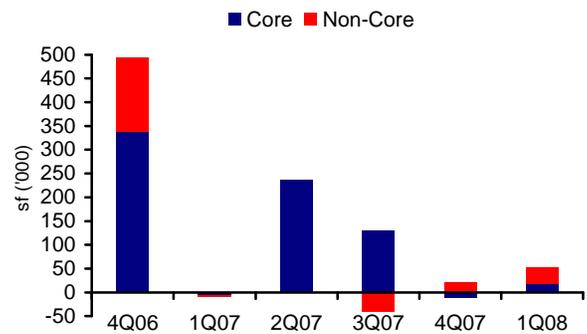
- The spread in vacancy between the core and the non-core narrowed this quarter with downtown core vacancy at 4.0% and the non-core sub-markets at 4.6%. The Centretown sub-market registered a 1.5 percentage point decline in vacancy from last quarter as there was a decrease of over 27,000 sf of vacant space.
- Significant leasing activity in the class A downtown core market this quarter pushed vacancy slightly downwards to 3.0%. Tight market conditions in the class A core market are expected to continue through 2008.

#### Leasing Activity Core vs. Non-Core



- The downtown core continues to dominate leasing activity in the Central market. There was close to 148,000 sf of activity reported in the downtown core compared to 34,000 sf in the Centretown and Byward market sub-markets.
- The federal government continues to be an active player in the downtown core, leasing over 50,000 sf this quarter. This is expected to continue throughout the year as the federal government continues to seek out space and the downtown core is its preferred location.

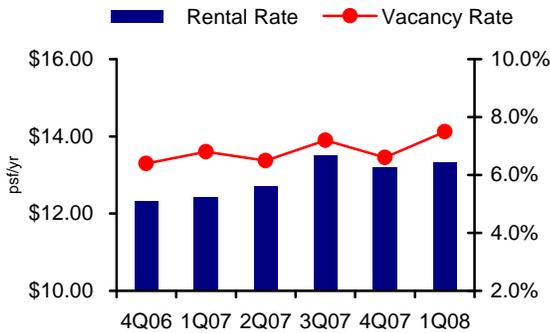
#### Absorption Core vs. Non-Core



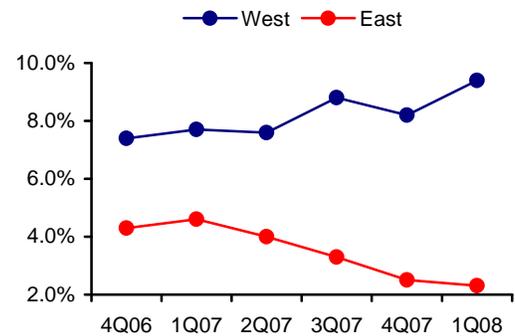
- Despite some gains made by activity from the federal government absorption in the downtown core this quarter was just over 17,000 sf. This figure is not as substantial as previous quarters as there were no construction completions – a factor which has been the driving force behind absorption in the downtown core in recent quarters.
- The Centretown sub-market generated the majority of absorption in the non-core with over 27,000 sf of positive absorption. This was the result of six different buildings posting lower vacancy than last quarter.

### Suburban Area

#### Overall Rental vs. Vacancy Rate



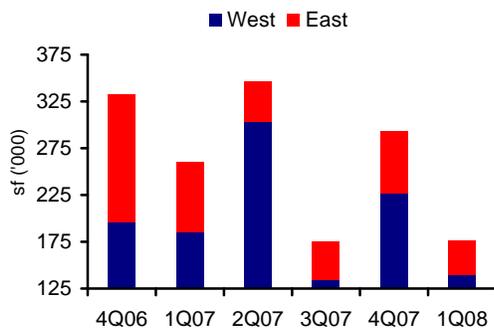
#### Overall Vacancy Rates West vs. East



- Vacancy in the suburban market trended upward this quarter to 7.5%, an increase from 6.6% last quarter. A rise in vacant space of close to 232,000 sf in the suburban west market generated this increase.
- Due to the strength in the suburban east market, rental rates in the overall suburban market rose to \$13.34. Rental rates in the east currently sit at \$13.59, an increase of 12% from last quarter. In the suburban west market rental rates remained fairly static from last quarter, averaging \$13.30.

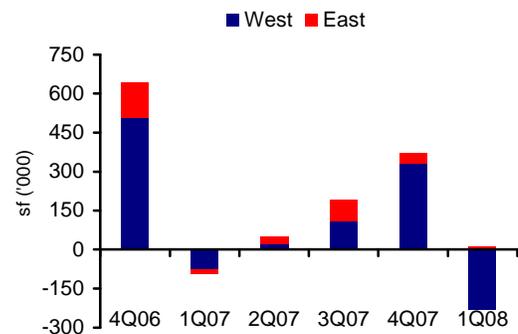
- There is a marked difference in how vacancy is trending in the two suburban markets. Currently vacancy in the western suburbs is at 9.4%, while vacancy in the east is at 2.3%.
- Over the last two quarters large blocks of space have come onto to the market in the suburban west market which has generated significant spikes in vacancy. This quarter it was the Nortel space of over 180,000 sf that drove vacancy upwards.

#### Leasing Activity West vs. East



- Leasing activity was fairly modest this quarter, as the overall suburban market generated just under 177,000 sf. The suburban west market registered just over 139,000 sf of leasing activity while the eastern market contributed just over 37,000 sf.
- While the vast majority of transactions were under 5,000 sf there were a few exceptions. The federal government leased over 33,000 sf in Nepean and over 20,000 sf in Gloucester.

#### Absorption West vs. East



- The release of the Nortel space had a significant impact on the suburban market as there was close to 223,000 sf of negative absorption. Demand in the west was particularly weak with close to 232,000 sf of negative absorption. In the suburban east market absorption was not significant, with just over 9,000 sf of positive absorption. This absorption figure reflects the tight market conditions in the eastern market as tenants are by and large staying put in their present locations.
- Absorption is expected to be in negative territory again next quarter as the 150,000-sf new Dell building is expected to be released onto the market.

### MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Class A Gross Rental Rate*
Downtown Core	14,306,998	80	4.0%	3.7%	147,793	370,000	0	17,606	\$48.39
Centretown	1,746,105	33	5.8%	5.6%	29,180	0	0	27,598	N/A
Byward Market	914,861	13	2.5%	2.5%	5,348	0	0	6,224	\$38.56
Kanata	4,655,774	59	9.4%	5.1%	47,379	0	0	(44,480)	\$24.93
Ottawa West	3,777,207	58	14.9%	13.8%	35,680	0	0	(206,066)	\$35.80
Nepean	5,394,176	81	5.6%	3.0%	56,357	0	0	18,619	\$26.56
Ottawa East	3,714,270	52	2.7%	2.7%	8,867	0	0	11,060	\$27.30
Gloucester	1,312,799	12	1.1%	1.1%	28,587	0	0	(1,942)	\$32.67
<b>Total</b>	<b>35,822,190</b>	<b>388</b>	<b>5.9%</b>	<b>4.7%</b>	<b>359,191</b>	<b>370,000</b>	<b>0</b>	<b>(171,381)</b>	<b>\$36.78</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2934 Baseline Road	Nepean	PWGSC	33,448	A
340 Albert Street	Downtown Core	PWGSC	32,029	A
4210 Labelle Street	Gloucester	PWGSC	22,712	A

#### SIGNIFICANT 1Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
270 Albert Street	Downtown Core	6763332 Canada Inc.	133,772	\$34,800,000
2470 Don Reid Drive	Ottawa East	Aklkai Holdings Inc.	14,425	\$1,360,000

#### SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
180 Kent Street	Downtown Core	N/A	370,000	03/09



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