

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

4Q08

ECONOMY

Defying what is occurring on a national level, Ottawa-Gatineau's unemployment rate dropped by 0.2 percentage points in December to 4.5%. This decline can be attributed to a drop in people seeking work along with a fall in employment levels. Employment decreased by about 1,500 people between November and December to 676,900, although this figure is still 1.6% higher than one year ago. The retail sector achieved one of the largest gains in employment over the last 12 months, adding 9,000 employees from December 2007. On the other side of the coin, one of the largest year-over-year declines for the region occurred in the manufacturing sector which, as of November, saw a 19.6% drop in employment to 36,100 people. The tech sector also trended downwards through 2008 as employment has declined by approximately 2,700 jobs to 56,600.

OVERVIEW

Reversing a year-long trend of increasing vacancy due to deteriorating conditions in the western suburban market, overall vacancy declined slightly this quarter to 6.5%, down three tenths of a percentage point from last quarter. With the suburban east market remaining flat, and a small increase in vacancy in the western suburban market, it was the ever tightening downtown core market that was the key factor behind this quarter's decrease in vacancy. Although a projected 219,000 square feet (sf) is expected to come on the market in the first six months of 2009, increases in vacancy should be minimal due to continued demand from the federal government.

Absorption totals ended 2008 on a positive note with approximately 126,000 sf of positive absorption in the fourth quarter as demand from the federal government was able to counteract the additional 105,000 sf of vacant space that came on the market this quarter. Although this improved the year-end total, absorption remained in negative territory at close to 156,000 sf for 2008. Requirements from the federal government will play a key role in absorption levels in 2009 as demand for additional space from the private sector is anticipated to remain low.

Leasing activity jumped by almost 200,000 sf from last quarter to reach over 500,000 sf this quarter. That brings the year-end total to close to 1.7 million square feet (msf). Although there have been a few notable exceptions, the majority of significant leasing transactions in 2008 involved the federal government, particularly when the space requirement was for expansion purposes rather than just a relocation.

OUTLOOK

Looking ahead 2009 through to 2011 should prove to be interesting for the Ottawa office market. Recently Public Works released a Request for Information (RFI) for approximately 3.875 msf for occupancy by the end of 2011. This RFI was broken down into four separate requirements of various square footages and locales. It almost a certainty that new buildings will be constructed as there are very limited options for existing space that are large enough to fit even the smallest requirement.

BEAT ON THE STREET

"More and more lenders are expecting landlords to secure tenants with strong covenants with relatively longer lease terms. Landlords will need to be aggressive and willing to do creative deals in order to maintain and attract tenants to their buildings and satisfy the needs of their lenders."

-James McNeil, Associate Vice President

ECONOMIC INDICATORS

	2006	2007	2008
GDP Growth	3.3%	2.4%	1.2%
CPI Growth	1.7%	1.9%	2.7%
Unemployment	5.2%	5.2%	5.0%
Employment Growth	4.0%	1.3%	2.4%

Source: Conference Board of Canada

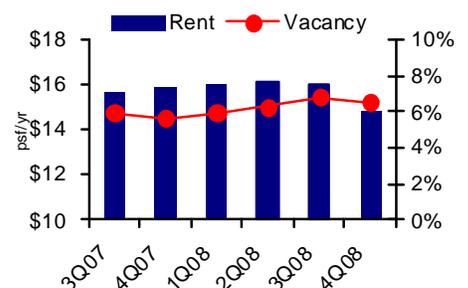
MARKET FORECAST

LEASING ACTIVITY continued to be strong through to the end of 2008 due to a very active federal government 

DIRECT ABSORPTION headed back into positive territory this quarter although the EOY total for 2008 remained in the negative 

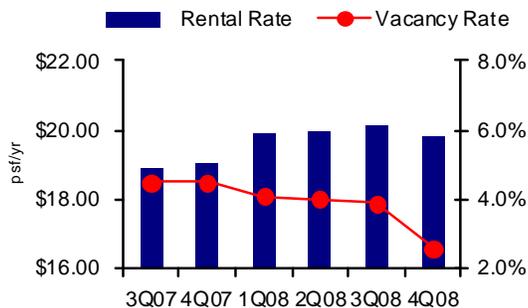
CONSTRUCTION activity has stalled in 2008, but will pick up through 2009-2012 

OVERALL RENT VS. VACANCY

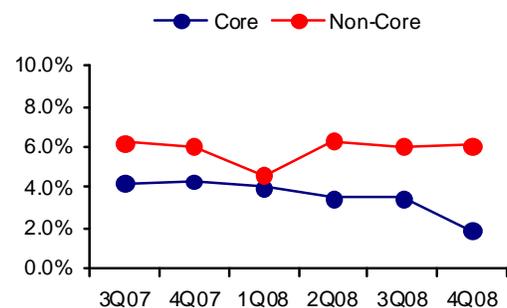


Central Area

Overall Rental vs. Vacancy Rate



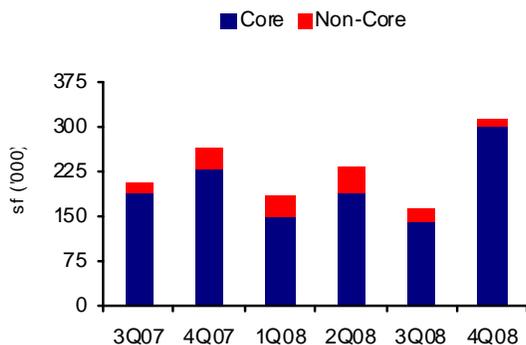
Overall Vacancy Rate Core vs. Non-Core



- Rental rates edged down slightly to average \$19.81 per square foot (psf) with all three classes in the Central area posting declines. Although rates in the class A downtown segment trended down in the fourth quarter this was not due to any weakening but rather space no longer being available at one of the most expensive buildings in the downtown core.
- Relative to numbers posted in previous quarters, vacancy took a nosedive to reach 2.6% this quarter. With vacancy remaining flat in the Centretown and the Byward Market, it was the continuing strength of the downtown core that propelled vacancy downwards.

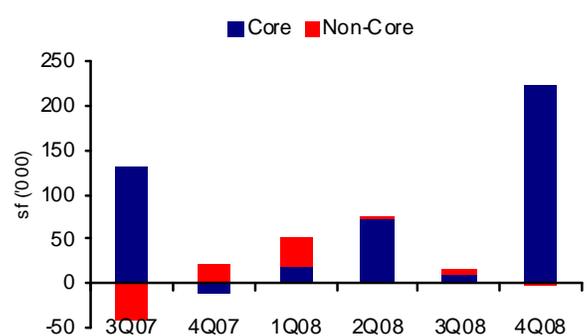
- Vacancy in the non-core remained virtually identical to the last two quarters at 6.0% as there continues to be little activity in the Centretown and Byward Market sub-markets.
- After over a year of vacancy remaining relatively static in the downtown core, vacancy declined in the fourth quarter to reach 1.9% which is close to historic low levels. All three classes in the downtown core posted declines with the most significant being the class B segment that saw vacancy decline over three percentage points.

Leasing Activity Core vs. Non-Core



- Leasing activity in the Central market almost doubled from last quarter to over 300,000 sf to bring the year-end total to just under 900,000 sf. The non-core sub-markets saw minimal leasing activity and accounted for only 5% of all the transactions located in the Central market.
- Leasing activity picked up dramatically in the downtown core this quarter. Although activity in the class A market increased from last quarter to just shy of 90,000 sf, it was the class B market that saw the most activity. There was close to 190,000 sf that was leased in this segment this quarter with 140,000 sf of that being leased by the federal government.

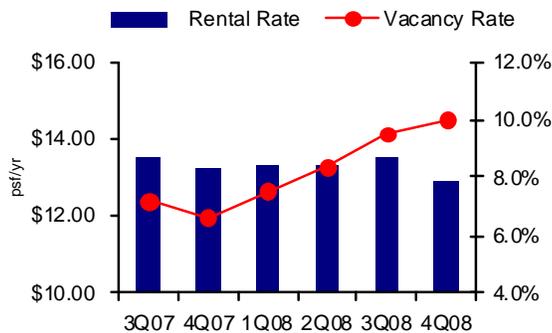
Absorption Core vs. Non-Core



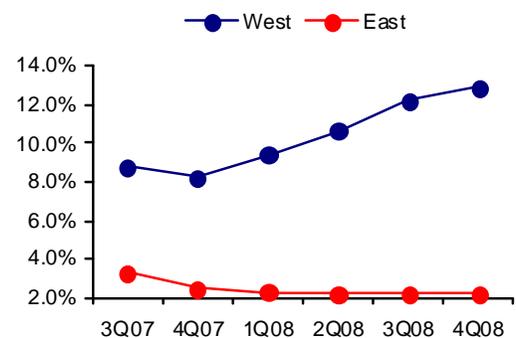
- Absorption in the fourth quarter was at its highest level in over a year with over 220,000 sf of positive absorption. This brought the year-end total to just shy of 365,000 sf. The non-core sub-markets did not contribute to this number as there was approximately 2,000 sf of negative absorption.
- Demand in the downtown core picked up substantially in the fourth quarter as all three classes experienced positive absorption. Demand in the class B market was particularly strong from the federal government's continuing requirement for space, a situation that is expected to continue into 2009.

Suburban Area

Overall Rental vs. Vacancy Rate



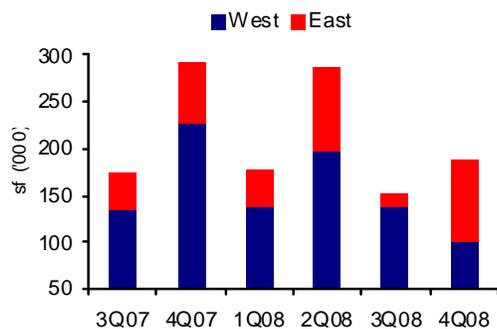
Overall Vacancy Rate West vs. East



- Driven by increasing vacancy in the western suburbs, vacancy in the overall suburban market climbed again this quarter, increasing by half of a percentage point to reach 10%.
- Overall rental rates registered a slight decline from last quarter to reach \$12.93 psf. With asking rents increasing in the suburban east market to reach \$14.10 psf, declining rents in the suburban west market, now averaging \$12.78 psf, led to the overall softening. However it should be noted that rental rates have not decreased on the whole, but rather it was the removal of more expensive-than-average space from the market that led to the decline.

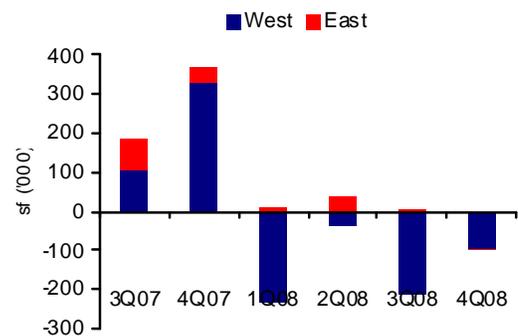
- While the vacancy rate in the western suburbs climbed to 12.9% this quarter, the rate of increase was not as sharp as previous quarters as vacancy rose by under a percentage point. Rising vacancy in Kanata was once again the culprit behind the overall increase as an additional 114,000 sf of space came on the Kanata market.
- Vacancy in the suburban east market remains at 2.2%. A slight change occurred in where the vacant space is located as vacancy rose in Gloucester, but declined in the Ottawa East sub-market. The increase in Gloucester was due to close to 8,800 sf becoming available at Blair Place.

Leasing Activity West vs. East



- Leasing activity in the overall suburban market rebounded from last quarter to reach close to 190,000 sf to bring the year-end total to just over 800,000 sf.
- In a departure from previous quarters, leasing activity was fairly split between the two suburban markets this quarter. Similar to the downtown core market, the federal government played a key role in leasing activity in the eastern suburbs as they leased close to 58,000 sf in Gloucester. This transaction had no impact on vacancy or absorption as the space was not available until 2009. In the western suburbs leasing activity was fairly evenly distributed across the three sub-markets with the largest transaction located in the Nepean class C segment.

Absorption West vs. East



- With the increase of space available in Kanata, absorption was significantly impacted this quarter. Overall, the suburban market posted close to 97,000 sf of negative absorption with the western suburbs accounting for 98% of that amount.
- Although the amount of vacant square footage is expected to increase in the western suburbs in the coming months, there may not be a corresponding significant increase in negative absorption. Demand from the private sector continues to be fairly lackluster, but recently the federal government put out a RFP for 62,000 sf of space located from the east end of the city to Kanata for occupancy at the end of 2009. All the respondents were from Kanata as this is the only area of the city that can accommodate this requirement.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	EOY Leasing Activity	Under Construction	EOY Construction Completions	EOY Overall Absorption	Direct Wtd. Avg. Class A Gross Rental Rate*
Downtown Core	14,306,998	80	1.9%	1.6%	775,435	370,000	0	322,869	\$47.13
Centretown	1,746,105	33	5.7%	5.2%	74,345	0	0	29,189	N/A
Byward Market	914,861	13	6.9%	6.9%	42,636	0	0	12,922	\$41.20
Kanata	4,844,590	60	19.9%	8.4%	195,184	0	0	(402,902)	\$25.60
Ottawa West	3,777,207	58	14.9%	12.8%	210,130	0	0	(203,976)	\$34.13
Nepean	5,438,636	82	5.3%	2.7%	170,255	0	0	36,608	\$26.46
Ottawa East	3,764,270	54	2.7%	2.4%	127,060	0	25,000	22,751	\$26.85
Gloucester	1,337,799	12	0.9%	0.9%	103,475	0	0	26,050	\$33.36
Total	36,130,466	392	6.5%	4.2%	1,698,510	370,000	25,000	(156,489)	\$34.51

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
473 Albert Street	Downtown Core	PWGSC	79,764	B
1601 Telesat Court	Gloucester	PWGSC	57,903	A

SIGNIFICANT 4Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
39 McArthur Avenue	Ottawa East	Oxfam-Canada	19,751	\$2,250,000

SIGNIFICANT 4Q08 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	04/09



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