

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q09

ECONOMY

The unemployment rate for the Ottawa-Gatineau region decreased by half of a percentage point in August—falling to 5.4%—as local employment rose by approximately 9,200 jobs, the largest increase in over three years. Employment gains were widespread in the region, with the largest gains seen in the healthcare and social assistance sectors, as well as finance, real estate, insurance, and leasing. Public administration employment remains strong, posting a gain of about 2,700 jobs, with employment reaching 165,500 jobs in August. The high-tech sector, unfortunately, continues to suffer, as employment in August declined to reach 53,100 jobs. The sector has now lost approximately 8,600 jobs over the past twelve months.

OVERVIEW

As anticipated, the overall office market continued to soften this quarter, as vacancy increased by seven tenths of a percentage point to reach 7.2%, the highest vacancy has been in three years. Currently, the amount of space available in the city is 2.6 million square feet (msf). Of the additional 271,000 square feet (sf) of space that came on the market this quarter, the largest contributor was 180 Kent Street, the new downtown core class A office building that was completed this quarter. As of the beginning of September, approximately 104,000 sf remained to be leased in that property.

With this increase of vacant space—and with both the public and private sectors remaining on the sidelines—absorption figures this quarter would have continued to be in negative territory at approximately 140,000 sf, but the completion of 180 Kent helped absorption to rebound into positive territory this quarter of just over 111,000 sf. Although some vacancy remains in the building, approximately 250,000 sf had been pre-leased and all of this square footage is considered to be positive absorption.

Leasing activity rebounded from last quarter to reach close to 316,000 sf, something that could be seen as a sign of increasing office market velocity. Activity was split fairly evenly between the Central and Suburban West markets, with only minimal activity seen in the Suburban East market. In the Suburban West market it was Kanata that was the most active, and in the Central market it was the downtown core, particularly the class B segment.

OUTLOOK

Although the overall mood in the office market appears to be brightening somewhat, it is unknown if this will translate into any significant decreases in vacancy. Over the last three months of the year, vacancy is anticipated to remain fairly stable and may even rebound slightly, with this being largely contingent upon activity in the class A downtown core, in particular 180 Kent Street. Looking ahead to 2010, the picture is more unclear. Currently, significant blocks of space are forecasted to come on the market in the first six months of 2010. These include close to 60,000 sf in the downtown core class A market, over 100,000 sf in the Ottawa East market and approximately 56,000 sf in Kanata. A significant portion of this space will be coming on the market as a result of tenant consolidations. Time will tell if market conditions will have improved to a point where the market will be able to absorb this new additional vacant space.

BEAT ON THE STREET

“Ottawa’s first multi-tenant LEED building, 180 Kent, officially opened its doors this quarter. The demand from tenants looking for green office space is growing and supply is not keeping up with demand. Progressive landlords and building owners need to understand and inventory the green attributes of their buildings. Buildings with designations such as BOMA BEST or LEED certification will enjoy a distinct competitive advantage.”


—James McNeil, Associate Vice President
Ottawa Green Real Estate Practice Lead


ECONOMIC INDICATORS


| | 2007 | 2008 | 2009F |
|-------------------|------|------|-------|
| GDP Growth | 2.5% | 0.8% | -0.5% |
| CPI Growth | 1.9% | 2.2% | 1.0% |
| Unemployment | 5.2% | 4.8% | 6.1% |
| Employment Growth | 1.3% | 2.8% | -2.8% |

Source: Conference Board of Canada

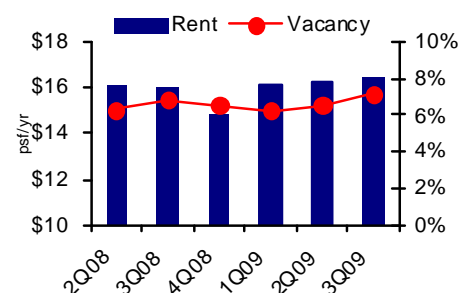
MARKET FORECAST

LEASING ACTIVITY has maintained its momentum with activity levels close to amounts posted in the second quarter. 

DIRECT ABSORPTION headed back into positive territory in the third quarter, entirely due to the completion of 180 Kent Street. 

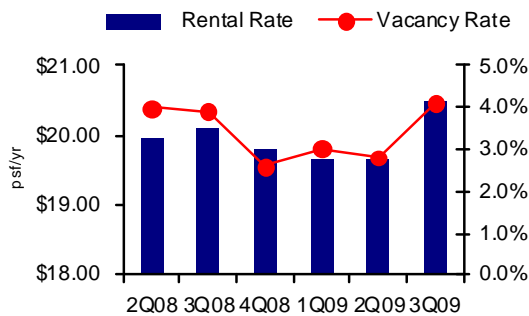
CONSTRUCTION activity has stabilized as construction continues on the new downtown core office tower, due to be completed in 2011, and the new building for Accreditation Canada. 

OVERALL RENT VS. VACANCY

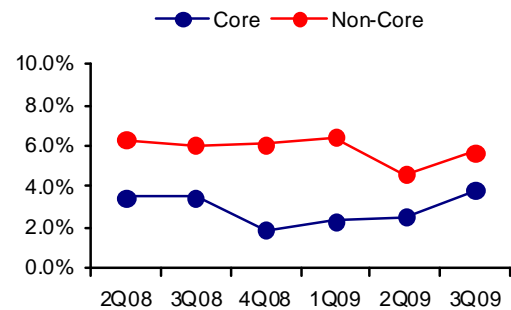


Central Area

Overall Rental vs. Vacancy Rate



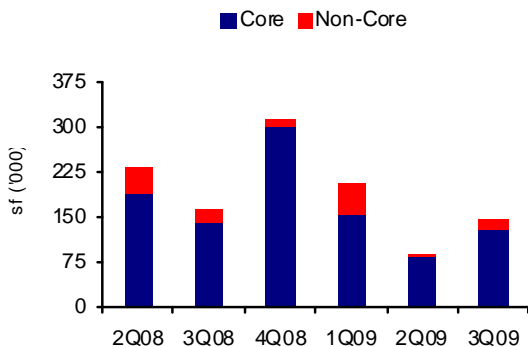
Overall Vacancy Rate Core vs. Non-Core



- Average asking rental rates jumped substantially this quarter to reach close to \$20.50 per square foot (psf). While class A rates held fairly steady, it was increases in class B rents in both the downtown core and Centretown sub-markets that propelled the overall rental rate upwards. Currently, class A downtown core rents average \$24.96 psf, a decrease from last quarter. This decline was the result of less expensive space coming on the market compared to last quarter.
- Vacancy in the central area rose by over a percentage point this quarter to reach 4.1%. This overall increase can be largely attributed to increasing vacancy in the class A market, particularly in the downtown core.

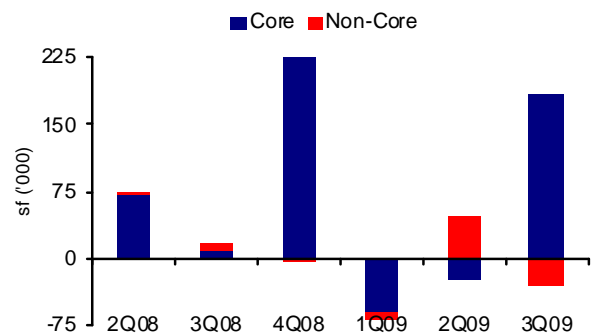
- Vacancy in the non-core ticked upwards this quarter to reach 5.7%. This was the result of vacancy increases in the Centretown class B segment as an additional 10,000 sf came on the market and in the Byward Market class C segment where an additional 20,000 sf came on the market, all of which was located in one property.
- Vacancy in the downtown core was also on the rise in the third quarter and is now sitting at 3.8%. While the class B vacancy rate decreased to 2.2%, there were increases in vacancy in both the class A and class C segments. Vacant space in the class A segment alone increased by close to 220,000 sf, and was largely concentrated within two properties.

Leasing Activity Core vs. Non-Core



- Leasing activity in the non-core continues to be fairly quiet, with approximately 15,000 sf of activity this quarter. This activity was primarily focused in the Centretown class B segment within multiple properties.
- Leasing activity in the downtown core rebounded from last quarter, reaching just over 129,000 sf. Activity was primarily focused within the class A and class B segments, with class B alone accounting for close to two thirds of the total. The vast majority of transactions in the downtown core were under 5,000 sf, although there were a few notable exceptions, one being a 9,000-sf transaction completed at 222 Queen Street and another a 19,000-sf transaction located at 160 Elgin Street.

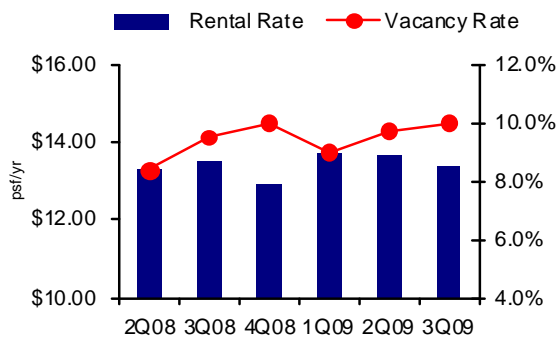
Absorption Core vs. Non-Core



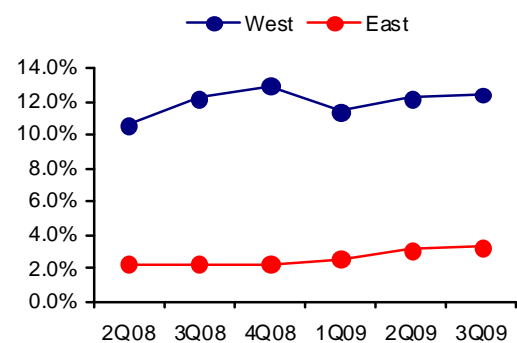
- After experiencing improvement last quarter, absorption in the non-core headed back into negative territory this quarter at approximately 29,000 sf. This total was fairly evenly split between the Centretown and Byward Market sub-markets.
- Absorption within the downtown core improved dramatically over the first half of the year, with levels close to 185,000 sf. However this improvement came as a result of the completion of 180 Kent. Taking this property out of the equation, absorption in the class A market would have been a negative 89,000 sf and the class B market would have shown the strongest absorption in the downtown core, with approximately 44,000 sf.

Suburban Area

Overall Rental vs. Vacancy Rate



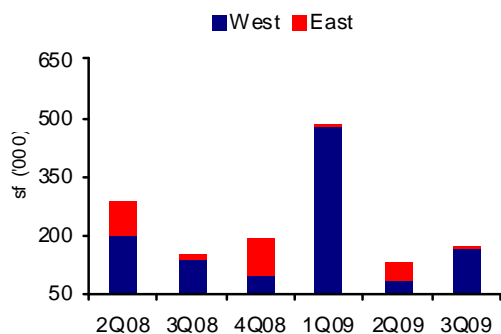
Overall Vacancy Rate West vs. East



- Vacancy nudged upwards this quarter in the overall suburban market, climbing three tenths of a percentage point to reach 10.0%.
- The overall asking average rental rate for the suburban market slid downwards this quarter to sit at \$13.39 psf. With class A rates increasing and minimal change in class B rental rates, this decrease was the result of lower asking average rents in the class C segment in the suburban west market. Currently, rental rates are averaging \$13.39 psf in the suburban west market and \$13.43 psf in the suburban east market.

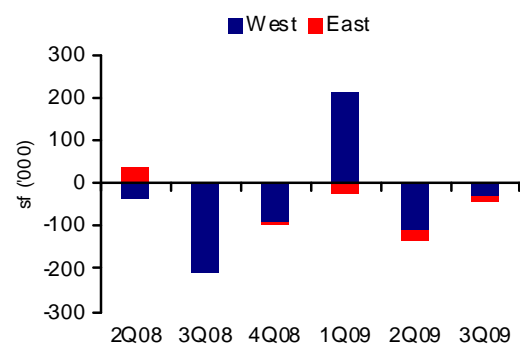
- Although vacancy in the suburban west market has increased over the course of the year, the changes have been minimal. In the third quarter, vacancy increased by two tenths of a percentage point to sit at 12.4%. All three sub-markets in the Suburban West market posted small increases in vacancy.
- Mirroring the Suburban West market, the Suburban East market has remained fairly stable over the course of the year, although vacancy has edged up every quarter. This quarter was no exception as vacancy increased by two tenths of a percentage point to reach 3.3%, with both the Gloucester and Ottawa East sub-markets experiencing slight increases in vacancy.

Leasing Activity West vs. East



- Leasing activity in the western suburbs increased by almost 100% from last quarter, rising to over 163,000 sf. Almost half of this activity was seen in the Kanata class A market as there were nine transactions located here, with the largest located at the 1125-1145 Innovation Drive complex.
- In contrast, leasing activity in the eastern suburbs slowed substantially from last quarter to reach only 8,000 sf. One transaction located at Blair Place accounted for over half of the total amount of square footage leased.

Absorption West vs. East



- While absorption levels for the western suburban market remained in negative territory this quarter, it was not as substantial as last quarter. Third quarter absorption was at negative 31,000 sf compared to last quarter, where it was approximately negative 113,000 sf. The availability of 64 Auriga, formerly occupied by IBM, was by far the largest contributor to this amount as the entire building of approximately 25,000 sf is now vacant.
- Negative absorption also continued in the eastern suburbs this quarter with approximately 14,000 sf, a small improvement over last quarter. Approximately half of this negative absorption total was due to an increase of available space in the Gloucester class A segment.

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. Avg. Class A Gross Rental Rate* |
|------------------|-------------------|---------------|----------------------|---------------------|----------------------|--------------------|------------------------------|------------------------|---------------------------------------------|
| Downtown Core | 14,715,998 | 82 | 3.8% | 3.1% | 363,674 | 475,000 | 370,000 | 100,289 | \$46.96 |
| Centretown | 1,769,448 | 34 | 3.7% | 3.5% | 52,453 | 0 | 0 | 33,558 | N/A |
| Byward Market | 914,861 | 13 | 9.4% | 9.3% | 21,614 | 0 | 0 | (23,629) | \$41.00 |
| Kanata | 4,844,590 | 60 | 19.1% | 9.7% | 388,617 | 0 | 0 | 39,022 | \$26.54 |
| Ottawa West | 3,777,207 | 58 | 12.0% | 10.5% | 227,539 | 0 | 0 | 110,127 | \$34.11 |
| Nepean | 5,455,838 | 83 | 6.7% | 4.8% | 109,958 | 0 | 0 | (80,734) | \$23.65 |
| Ottawa East | 3,790,796 | 54 | 3.2% | 2.8% | 50,344 | 0 | 0 | (20,090) | \$24.56 |
| Gloucester | 1,337,799 | 12 | 3.7% | 0.7% | 14,489 | 60,000 | 0 | (37,547) | \$33.87 |
| Total | 36,606,537 | 396 | 7.2% | 5.1% | 1,228,688 | 535,000 | 370,000 | 120,996 | \$38.10 |

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

| BUILDING | SUBMARKET | TENANT | SQ FT | BLDG CLASS |
|------------------|---------------|-----------------------------|--------|------------|
| 180 Kent Street | Downtown Core | Defense Construction Canada | 51,539 | A |
| 160 Elgin Street | Downtown Core | PWGSC | 18,868 | A |
| 222 Queen Street | Downtown Core | CFN Consultants | 9,369 | B |

SIGNIFICANT 3Q09 SALE TRANSACTIONS

| BUILDING | SUBMARKET | BUYER | SQ FT | PURCHASE PRICE |
|------------------------|-------------|---------------------|--------|----------------|
| 2310 St. Laurent Blvd. | Ottawa East | Viacor Developments | 10,602 | \$1,500,000 |
| 301 Metcalfe Street | Centretown | Aubut Holdings | 4,800 | \$1,100,000 |

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

| BUILDING | SUBMARKET | MAJOR TENANT | SQ FT | COMPLETION DATE |
|-----------------|---------------|--------------|---------|-----------------|
| 180 Kent Street | Downtown Core | PWGSC | 370,000 | 09/09 |

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| BUILDING | SUBMARKET | MAJOR TENANT | SQ FT | COMPLETION DATE |
|--------------------|---------------|----------------------|---------|-----------------|
| 150 Slater Street | Downtown Core | EDC | 475,000 | 09/11 |
| 1150 Cyrville Road | Gloucester | Accreditation Canada | 60,000 | 06/10 |



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