

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q09

ECONOMY

The unemployment rate for the Ottawa-Gatineau region held steady in November at 5.4%. This comes despite a drop in employment of 1,100 jobs, the first employment level drop in five months. On a positive note, however, the region was up 18,000 jobs since May 2009. A highlight of this overall recovery is the performance of the high-tech sector in November, which added 600 jobs from the previous month to reach 51,400. The retail and wholesale trade sectors also demonstrated some improvement compared to the previous month. This improvement was tempered slightly by a small decline in the public administration sector, which saw its workforce fall by approximately 3,300 jobs; however, the sector has experienced gains throughout the year and is still up by about 8,900 jobs since November 2008.

OVERVIEW

The overall office market rebounded slightly this quarter with vacancy declining to 7.0%, two-tenths of a percentage point drop from the third quarter. With vacancy unchanged in the Central Market, it was improving vacancy in the both the Suburban west and east markets that lead to the overall decline. Currently, the amount of space available in the city is 2.5 million square feet (msf), with 1.7 msf of that space located in the suburban west market.

In a year characterized by economic uncertainty, both the private and public sectors were either unwilling or unable to make significant moves and were content to sit on the sidelines. Reflecting the mood of the office market, absorption levels throughout the year have been low and this quarter was no exception with absorption of just over 37,000 square feet (sf). This brings the end-of-year total to approximately 158,000 sf. Due to this overall softening in demand, absorption totals for the year would have been in negative territory were it not for the completion of 180 Kent.

Leasing activity continues to be fairly brisk, with approximately 396,000 sf this quarter, bringing the end-of-year total to just over 1.6 msf, a figure that closely matches last year's total. Activity this quarter was focused within the suburban market; in particular the suburban west sub-markets which accounted for 60% of the total.

OUTLOOK

As anticipated, there was little change in the overall office market over the final three months of the year; however, this stabilization is likely to change in 2010. Currently, over 290,000 sf of space is anticipated to come on the market over the first half of the year, potentially causing the vacancy rate to rise by eight-tenths of a percentage point. A significant factor behind this release of space to the market is tenant consolidations such as those undertaken by Bell Canada and IBM. There is a third consolidation that will most likely occur in 2010, resulting in significant space coming on the market, particularly within the downtown core. This is, however, not guaranteed at this point and is not anticipated to occur until the second half of 2010. As a result of these consolidations, absorption will struggle to remain positive as demand is not expected to keep up with supply. Rental rates are expected to remain flat or even slightly contract as landlords compete to keep existing tenants and lure new ones in the face of increasing space options.

BEAT ON THE STREET

"Although the Ottawa downtown core office market is performing well, back-filling vacancies remain a challenge for landlords due to a flat market with little demand. Despite the low vacancy in the downtown core, landlords continue to focus on tenant retention due to the overall economic uncertainty."

—Ransome Drcar, Vice President Office Leasing

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 continued to remain consistent this quarter and EOY totals are almost identical to EOY 2008 levels. These levels of activity should remain similar in 2010



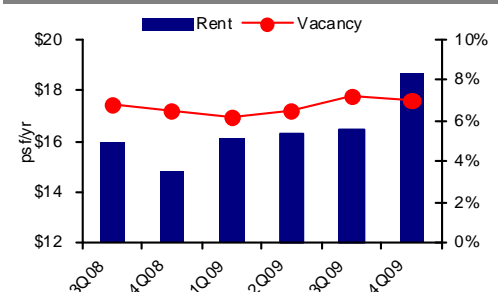
DIRECT ABSORPTION was minimal this quarter, with EOY totals in the positive. However absorption is expected to trend downwards over 2010.



CONSTRUCTION activity has stabilized as construction continues on the new downtown core office tower and the new building for Accreditation Canada.

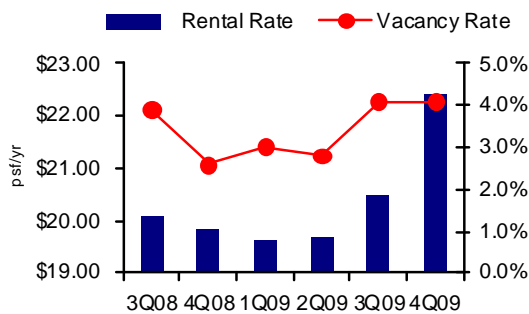


OVERALL RENT VS. VACANCY

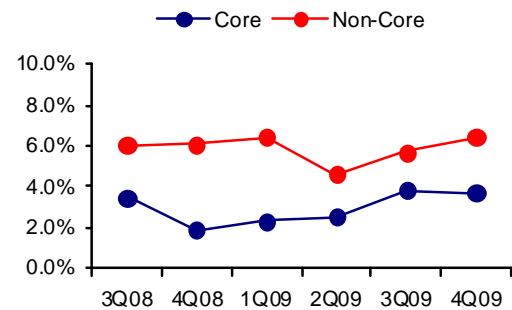


Central Area

Overall Rental vs. Vacancy Rate



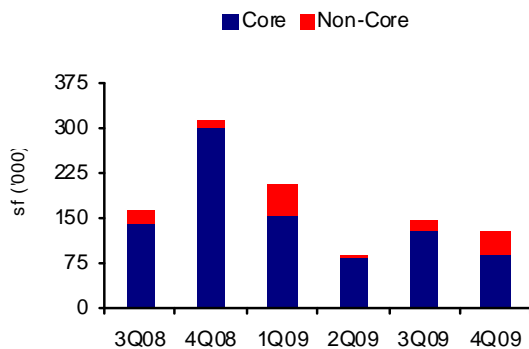
Overall Vacancy Rate Core vs. Non-Core



- Asking rental rates increased for the third straight quarter with the average rate now sitting at \$22.39 per square foot (psf). With the class A and class C rents remaining relatively stable from last quarter, it was once again the class B rates that drove the overall Central Area average rental rate upwards. The downtown core class A rate continues to be the highest in the city, averaging \$25.51 psf, which is a slight increase from last quarter.
- After a marked increase last quarter, vacancy stabilized in the Central Area, remaining at 4.1%.

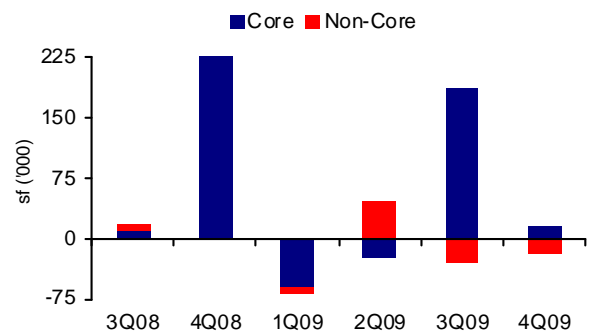
- Vacancy in the non-core increased slightly this quarter with vacancy now at 6.4%. This rise in vacancy can be largely attributed to an increase of vacant space in the Byward Market area, particularly within the class A segment.
- Vacancy in the downtown core remained virtually unchanged from last quarter, decreasing by one-tenth of a percentage point to reach 3.7%. The class A and C segments experienced minimal decreases in vacancy to reach 3.8% and 8.1% respectively, while the class B segment increased by two-tenths of a percentage point to sit at 2.4%.

Leasing Activity Core vs. Non-Core



- Leasing activity in the non-core more than doubled this quarter to reach approximately 39,000 sf. This activity was primarily centred within the Byward Market with multiple transactions contributing to the total.
- Leasing activity in the downtown core declined from last quarter levels and reached just over 87,000 sf this quarter. Although there were multiple transactions throughout all class segments, there were none that were over 10,000 sf, and the vast majority was in the 5,000 sf and under range.

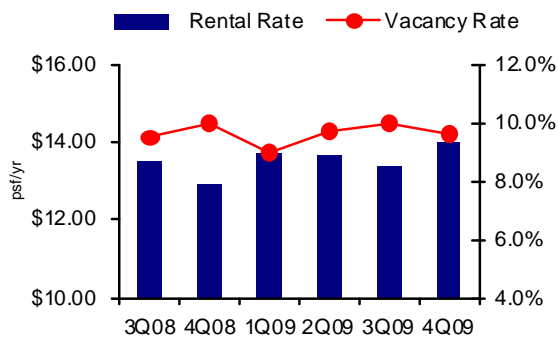
Absorption Core vs. Non-Core



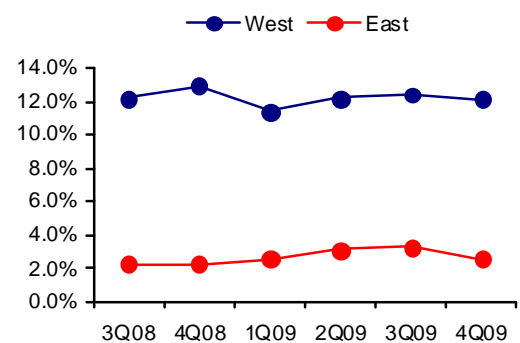
- Absorption remained negative in the non-core submarkets this quarter with an additional 19,000 sf coming on the market that was unable to be absorbed. Although both the Centretown and Byward Market submarkets had negative absorption, the Byward Market, specifically the class A segment, accounted for close to 70% of the total amount.
- Absorption within the downtown core declined substantially from last quarter, although it did remain positive at approximately 14,000 sf. This positive absorption was split fairly evenly between the class A and C segments.

Suburban Area

Overall Rental vs. Vacancy Rate



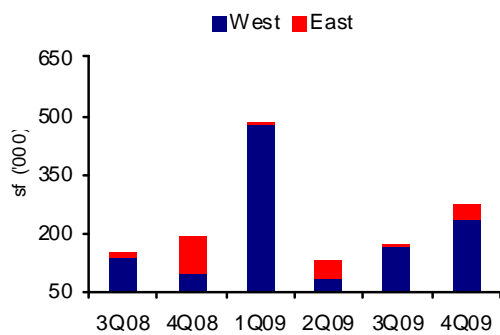
Overall Vacancy Rate West vs. East



- After two quarters of rising vacancy in the overall suburban market, vacancy ticked downwards this quarter to reach 9.6% as the amount of vacant space decreased by 73,000 sf.
- The overall asking average rental rate for the suburban market rebounded this quarter to reach \$13.96 psf. Both the western and eastern suburban markets posted increases this quarter, rising to \$14.02 psf and \$13.67 psf respectively. A substantial average rental rate increase in the suburban west class C segment played a key role in the overall suburban market increase, as a significantly less expensive than average space came off of the market this quarter.

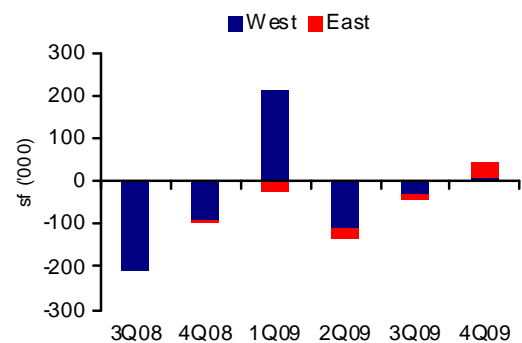
- Vacancy in the suburban west market remained relatively stable this year and concluded the year on a positive note as vacancy decreased slightly to 12.1%. This vacancy decrease comes largely as a result of a decline in vacancy in Kanata of over a percentage point to 18.0%.
- Similar to the suburban west market, vacancy in the eastern suburban market was very consistent in 2009 and also declined this quarter to reach 2.6% as vacant space declined by approximately 38,000 sf. Both submarkets in the eastern suburban market, Gloucester and Ottawa East, underwent decreases in vacancy to both sit at 2.6%.

Leasing Activity West vs. East



- Leasing activity in the western suburbs increased for the second consecutive quarter reaching 231,000 sf. All three western submarkets had fairly strong levels of activity, but it was Kanata that lead the way with approximately 94,000 sf. Activity was focused within the class A segment with two single transactions over 10,000 sf and multiple transactions in another property that totaled close to 15,000 sf.
- After a fairly quiet third quarter, leasing activity rebounded in the eastern suburban markets to just shy of 40,000 sf. Leasing activity in the Ottawa East market accounted for just over 60% of the total, with transactions in five class A and B properties.

Absorption West vs. East



- Absorption in the suburban west market was minimal this quarter at close to 5,000 sf. However it is an improvement over the previous two quarters where absorption was in the negative. Positive absorption of 14,000 sf in Kanata counteracted the negative absorption in the Ottawa West submarket, while Nepean had only minimal absorption of close to 7,000 sf.
- For the first time in over a year, absorption climbed back into positive territory in the eastern suburban market, reaching over 38,000 sf. Both submarkets posted positive absorption with the Ottawa East accounting for 60% of the total.

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	14,715,998	82	3.7%	3.0%	450,694	475,000	370,000	113,981	\$46.33
Centretown	1,769,448	34	4.1%	3.8%	64,094	0	0	27,279	N/A
Byward Market	914,861	13	10.9%	9.3%	48,767	0	0	(36,762)	\$39.98
Kanata	4,884,246	61	18.0%	9.7%	482,855	0	0	53,411	\$22.94
Ottawa West	3,777,207	58	12.4%	11.8%	308,038	0	0	94,012	\$33.04
Nepean	5,455,838	83	6.6%	4.5%	195,311	0	0	(74,144)	\$23.99
Ottawa East	3,790,796	54	2.6%	2.6%	75,194	0	0	3,535	\$25.05
Gloucester	1,337,799	12	2.6%	0.7%	29,294	60,000	0	(22,742)	\$33.87
Total	36,646,193	397	7.0%	5.1%	1,625,174	535,000	370,000	158,570	\$39.27

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
350 Terry Fox Drive	Kanata	Wind River International	26,257	A
161 Greenbank Road	Nepean	Aviva Canada Inc.	12,748	B

SIGNIFICANT 4Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
66 Slater Street	Downtown Core	KS Slater Inc.	244,440	\$55,100,000
1125-35-45 Innovation Drive	Kanata	Dundee Canada (GP) Inc.	119,299	\$17,150,000

SIGNIFICANT 4Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

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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