MARKETBEAT

OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD® OTTAWA

2Q10

ECONOMY

The National Capital Region added 2,600 jobs from April, with an overall increase of 26,300 jobs from last year, but with more workers entering the job market, the unemployment rate for the Ottawa-Gatineau region remained at 6.0% in May. There are potential clouds on the horizon in the form of a freeze in governmental spending budgets, which will likely lead to shrinkage in the public administration job sector. As of April, total employment within this sector numbered 160,500. This contraction will likely create a domino effect across numerous sectors, particularly the retail and wholesale sectors.

OVERVIEW

The overall office market softened slightly this quarter with vacancy rising to 6.6%, a two-tenths of a percentage point increase from the first quarter. Vacancy levels within the Central market remained fairly consistent compared to the previous three quarters, rising three-tenths of a percentage point to 4.3%. With vacancy virtually unchanged in the overall Suburban market, it was this slight uptick in Central area vacancy that led to the overall increase. Currently, there is 2.4 million square feet (msf) of available space across the city, with 1.5 msf of that total located in the Suburban West market

Absorption levels sharply decreased from last quarter with just over 2,000 square feet (sf) of positive absorption, as negative absorption in the Central area was balanced out by positive absorption in the Suburban East market. Two entire buildings became fully leased which, along with a construction completion, resulted in a total of 235,500 sf of positive absorption, but it was barely enough to keep absorption in positive territory this quarter. This low overall absorption figure is in all likelihood an indication of things to come through the remainder of 2010 and into early 2011, as supply is increasingly expected to outpace demand.

Leasing activity continues to be very active with totals over 560,000 sf, bringing the year-to-date total to 1.1 msf. All three areas of the city had well over 100,000 sf of leasing activity this quarter, although close to 70% of the total was located in the Suburban West submarkets. This high percentage was courtesy of the 145,000-sf transaction in Kanata involving Research In Motion.

OUTLOOK

Although vacancy remained fairly stable from the first quarter and absorption levels remained in positive territory (although barely), this was largely due to just two large blocks of space, totalling 190,000 sf, coming off the market. It is still anticipated that vacancy will head upwards and absorption will move into negative territory over the second half of 2010 and into early 2011. In fact, vacancy projections have moved upwards from what was forecasted in the first quarter. Currently, an anticipated 725,000 sf of additional space is set to come on the overall Ottawa office market starting next quarter and continuing through to January 1st 2011. Of that amount, 350,000 sf is located within the downtown core. As it is extremely unlikely private sector demand will be strong enough to counteract this additional space, landlords will be looking to activity from the federal government. It is a safe assumption that this will occur to some extent in the coming months as the government will be in the market for significant amounts of swing space while existing buildings are retrofitted to meet current building standards.

BEAT ON THE STREET

"With the vacancy rate in the downtown core expected to rise, a contracting private sector, and continued macro economic uncertainity, tenants renewing leases or acquiring new space in the downtown core can expect more flexible market conditions. One thing is for sure, going forward tenants should focus on lease flexibility due to the uncertainity within the market".

–Ransome Drcar, Vice President Office Leasing

ECONOMIC INDICATORS

	2008	2009	2010F
GDP Growth	1.3%	-1.2%	2.8%
CPI Growth	2.2%	0.6%	2.5%
Unemployment	4.8%	5.7%	5.9%
Employment Growth	2.9%	-1.5%	1.0%

Source: Conference Board of Canada

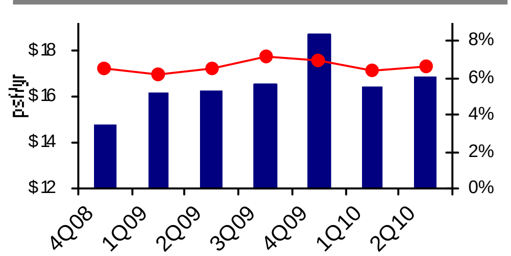
MARKET FORECAST

LEASING ACTIVITY surpassed all expectations this quarter, largely due to activity in the suburban markets. Activity from the federal government will be a key determinant of whether this pace of activity continues through the year.

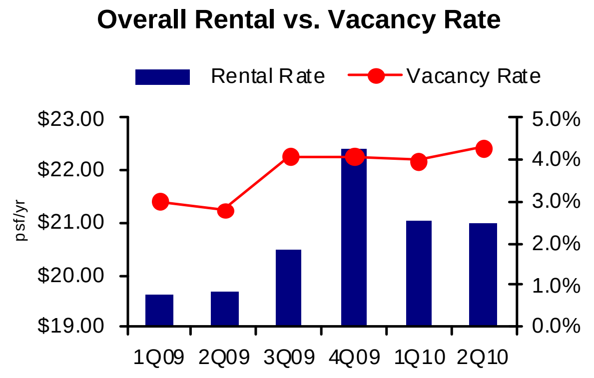
DIRECT ABSORPTION declined significantly from last quarter totals and this downward trend is anticipated to continue for the remainder of 2010.

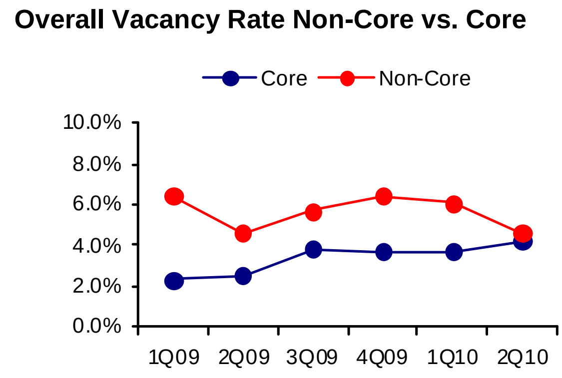
CONSTRUCTION was completed on the new building for Accreditation Canada, while construction continues on the new downtown core office tower for EDC.

OVERALL RENT VS. VACANCY

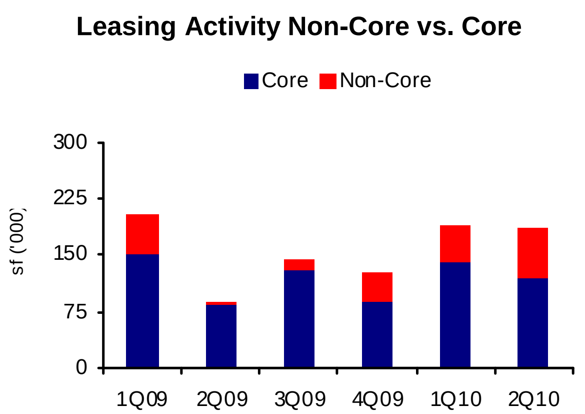


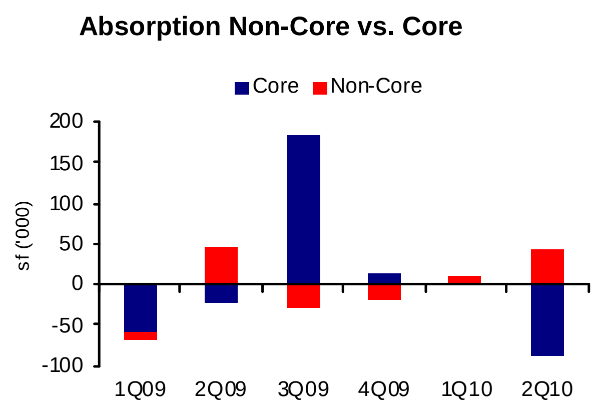
Central Area





- Asking rental rates remained virtually unchanged from last quarter, with the average rate sitting at $20.99 per square foot (psf) with rents in all three classes of space ticking upwards slightly. Downtown core class A rents were almost identical to last quarter at $25.67 psf. Looking ahead, class A asking rents may experience a slight softening due to a more competitive downtown core market.
- Overall vacancy in the Central area edged up slightly in the second quarter to reach 4.3%, three-tenths of a percentage point higher than last quarter. Vacancy is anticipated to continue to rise through the remainder of 2010.
- Vacancy in the non-core declined for the second straight quarter to reach 4.6%, its lowest level in a year. This decline in vacancy can be attributed to a significant decline in vacancy in the Byward Market, where vacancy fell by five-tenths of a percentage point to 5.8%. In this submarket, an entire building totaling 45,000 sf was leased by two tenants.
- After remaining at 3.7% for two consecutive quarters, downtown core vacancy rose in the second quarter to 4.3%, with all classes of space recording increases. Putting the possible federal government leasing requirements aside, vacancy in the downtown core could potentially rise to 6.1% by the first quarter of 2011.

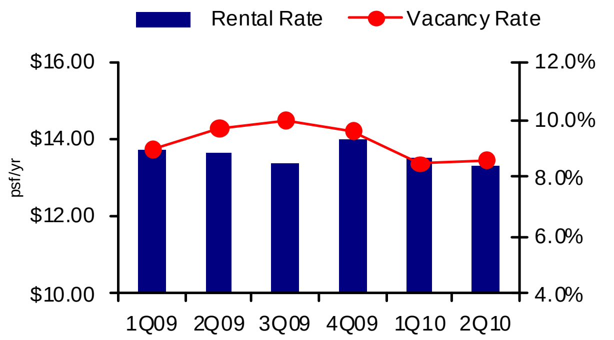




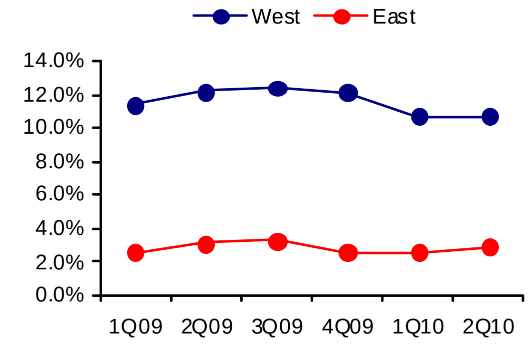
- Leasing activity in the non-core increased for the fourth consecutive quarter, reaching close to 67,000 sf. The vast majority of leasing activity was located within the Byward Market where an entire building totaling 45,000 sf was leased by Open Text and the Federation of Canadian Municipalities.
- Leasing activity in the downtown core slowed from last quarter's levels to 118,000 sf. Leasing activity continues to be focused within the class A segment, which contributed approximately 60% of the total for the downtown core. Once again, 180 Kent continues to be the most active property in the class A segment, with approximately 33,000 sf leased this quarter. This 370,000-sf building is expected to be fully leased by the end of the year.
- Absorption in the non-core continued to improve this quarter, with approximately 45,000 sf of positive absorption. In a reversal from the previous quarter, negative absorption in the Centretown market was offset by positive absorption in the Byward Market. This positive absorption was courtesy of the previously mentioned 45,000-sf transaction.
- For the first time in a year, absorption within the downtown core dipped into negative territory at close to 87,000 sf. Although all three classes within the downtown core registered negative absorption, the majority was located in the class A and B segments. While numerous buildings in the class B segments posted negative absorption, there were only three class A properties where this occurred. This space was located in pockets over 10,000 sf.

Suburban Area

Overall Rental vs. Vacancy Rate

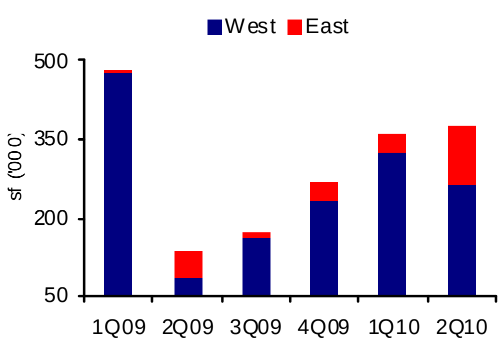


Overall Vacancy Rate West vs. East

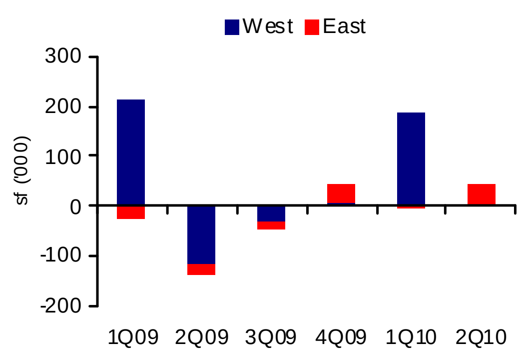


- Vacancy in the overall Suburban market stabilized this quarter at 8.6%, just one-tenth of a percentage point increase from last quarter.
- The overall asking average rental rate for the Suburban market contracted once again this quarter to $13.29 psf. Rental rates were on the decline in the Suburban West market and now sit at $13.11 psf, with lower rents reported in the class A and B segments. The opposite was true in the Suburban East market, where overall rental rates increased to $14.37 psf, with an increase in the class A segment.
- After three consecutive quarters of declining vacancy in the overall Suburban West market vacancy was unchanged this quarter, remaining at 10.7%. With increasing vacancy in the Nepean and Ottawa West submarkets, it was declining vacancy in Kanata that lead to the vacancy remaining unchanged. Vacancy in Kanata now stands at 12.9%, down from 15% last quarter.
- There was minimal change in vacancy in the overall Suburban East market this quarter, increasing by three-tenths of a percentage point to 2.9%. There was an increase in vacancy in the Ottawa East submarket as the space vacated by Accreditation Canada officially became available.

Leasing Activity West vs. East



Absorption West vs. East



- Leasing activity in the western submarkets slowed this quarter, with a total of approximately 263,000 sf. Kanata by far was the most active, with close to 213,000 sf. Close to 70% of that total was located in one transaction alone; the leasing of Dell's former 145,000-sf call centre by Research In Motion.
- Leasing activity dramatically increased in the overall Suburban East market this quarter to close to 115,000 sf. The majority, approximately 90,000 sf, was located in the Ottawa East sub-market where an 80,000 sf property was leased by JPMorgan Chase.
- Absorption in the Suburban West market was almost nil this quarter at just under 3,000 sf. Negative absorption in the Ottawa West and Nepean submarkets was cancelled out by the positive absorption in Kanata of 106,000 sf, with the entire amount attributable to the previously mentioned Research In Motion transaction.
- Absorption in the eastern submarkets improved from last quarter's amount and headed back into positive territory with close to 41,000 sf. This absorption level was the result of the new 60,000-sf building completion in the Gloucester submarket for Accreditation Canada.

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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	4.3%	3.1%	256,390	475,000	0	(86,214)	$48.36
Centretown	1,769,448	34	3.7%	3.4%	36,640	0	0	6,226	N/A
Byward Market	914,861	13	5.8%	4.9%	80,122	0	0	46,623	$36.22
Kanata	4,990,246	62	12.9%	9.4%	393,122	0	0	239,022	$22.63
Ottawa West	3,777,207	58	12.5%	10.9%	119,773	0	0	(3,648)	$33.12
Nepean	5,455,838	83	7.4%	5.1%	76,811	0	0	(43,071)	$27.23
Ottawa East	3,790,796	53	3.4%	3.2%	120,443	0	0	(30,572)	$27.26
Gloucester	1,397,799	14	1.8%	1.8%	25,209	0	60,000	68,974	$33.56
Total	36,812,193	399	6.6%	5.1%	1,108,510	475,000	60,000	197,340	$38.74

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1001 Farrar Road	Kanata	Research In Motion	146,515	A
2220 Walkley Road	Ottawa East	JPMorgan Chase Bank	80,606	B
10 Rideau Street	Byward Market	Open Text	32,500	A

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
363 Coventry Road	Ottawa East	Osgoode Properties	33,500	$6,850,000
283 Dalhousie Street	Byward Market	2232449 Ontario Inc.	11,000	$3,186,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1150 Cyrville Road	Gloucester	Accreditation Canada	60,000	04/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
150 Slater Street	Downtown Core	EDC	475,000	09/11

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