

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q10

ECONOMY

Ottawa-Gatineau's unemployment rate fell one-tenth of a percentage point in November to 6.8% as the number of people actively seeking employment declined. The region recorded a net increase of 700 jobs, for a total of 672,600. This marks the first monthly increase in employment since June, and this improvement came despite a loss of 3,400 jobs in the high-tech sector, which now employs 43,100. On a positive note, employment rose in the educational services, healthcare, and hotel and food industries. Employment in public administration, a key sector for the region, held steady at 167,600 jobs.

OVERVIEW

Vacancy declined in the overall office market for the first time in 2010, and now sits at 6.6%, a four-tenths of a percentage point decrease from the third quarter. Both the Central area and the Suburban West market posted declines in vacancy to 4.1% and 10.7%, respectively. Although tight market conditions continue to exist, vacancy did increase in the Suburban East area to reach 4.1%, its highest point since the first quarter of 2007. There is currently 2.4 million square feet (msf) available within the City of Ottawa, with close to 643,000 square feet (sf) of that total available for sublease.

Despite the decrease in vacancy, overall demand remains low and is reflected in absorption levels, which remained in negative territory at approximately 21,000 sf. The most significant contributor to the lower overall vacancy this quarter was the removal of 180,000 sf of available space at the Nortel campus—due to the purchase of this campus by the federal government this space is no longer available. However, this is not factored into absorption calculations as this space is now considered to be owner-occupied and therefore is no longer part of the survey. The Central area was the only market to have positive absorption this quarter with approximately 73,000 sf, while the Suburban markets posted around 94,000 sf total of negative absorption. This gives a year-end overall positive absorption for the city of a minimal 4,500 sf.

Leasing activity remained steady this quarter with levels fairly similar to the third quarter at approximately 366,000 sf, bringing the year-end total to 1.8 msf. As has been the case for numerous quarters, leasing activity was fairly split between the Central and Suburban West markets. The downtown core led the way in the Central market, while Kanata continues to be the focal point of activity within the Suburban West market.

OUTLOOK

Although vacancy decreased this quarter, this was more a pause than a sign of improving conditions to come in 2011. In the next six months approximately 450,000 sf of additional space is forecasted to come onto the market and vacancy for the city could potentially rise to 7.8%. This potential climb in vacancy is even more evident within the downtown core. Current vacancy within the downtown core is 4.2%, with class A vacancy at 3.7%. By mid-year 2011 vacancy could reach 6.1% and 6.6% respectively, an increase which does not even include the completion of Export Development Canada's new 500,000 sf building. This completion will displace approximately 376,000 sf of EDC's current premises, coupled with 80,000 sf available for sublease at the new premises. If this space is not absorbed, vacancy within the downtown core class A market could potentially climb into the double digits.

BEAT ON THE STREET

"Given that the federal government has recently made several significant moves namely the purchase of the former Nortel Complex, and the leasing of 5 buildings throughout the region totaling 2.05 msf, it appears the federal requirement for new space has been fulfilled for the time being. Add to this rising downtown vacancy and low private sector demand for new space, and you have a more balanced market".

—Ransome Drcar, VP Office Leasing

ECONOMIC INDICATORS

	2009	2010F	2011F
GDP Growth	-0.7%	3.7%	2.5%
CPI Growth	0.6%	3.1%	2.9%
Unemployment	5.7%	6.0%	5.8%
Employment Growth	-1.5%	2.8%	0.4%

Source: Conference Board of Canada

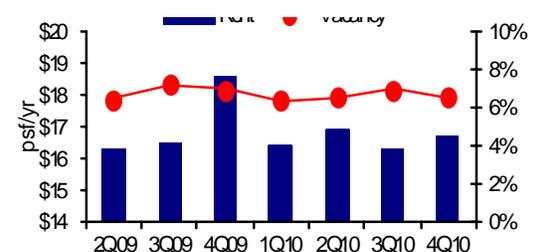
MARKET FORECAST

LEASING ACTIVITY stabilized over the last quarter of 2010 with levels close to those of Q3. The pace of activity is not anticipated to change in a dramatic fashion over the first half of 2011. 

DIRECT ABSORPTION remained in negative territory this quarter although the amount was minimal. Absorption will worsen substantially over the first half of 2011 as 450,000 sf of additional space becomes available. 

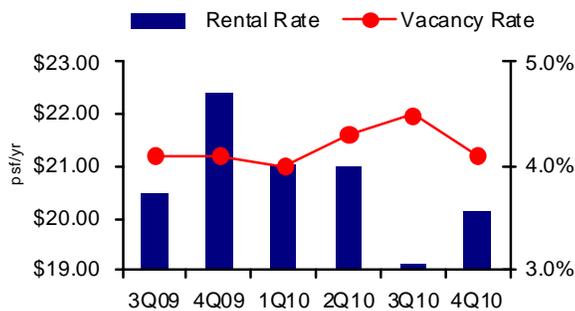
CONSTRUCTION continues on the new downtown core office tower for EDC with no new projects set to get underway on the horizon 

OVERALL RENT VS. VACANCY

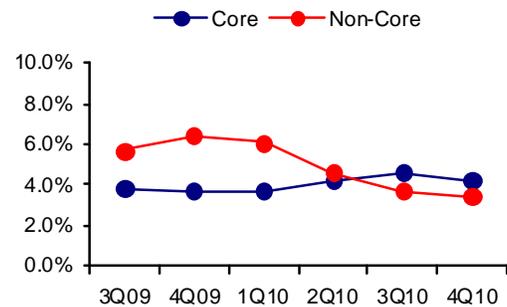


Central Area

Overall Rental vs. Vacancy Rate



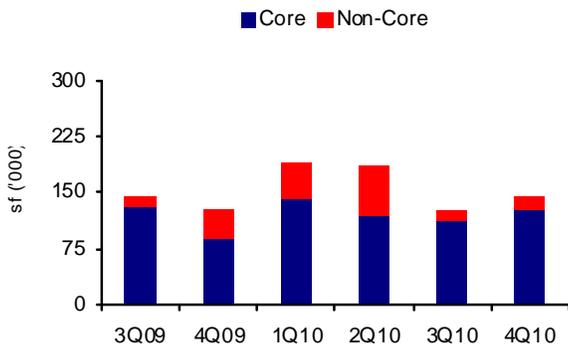
Overall Vacancy Rate Non-Core vs. Core



- Asking rental rates rebounded in the Central area this quarter to reach \$20.14 per square foot (psf). Average rental rates rose across all three Central area sub-markets, with downtown core class A space remaining the most expensive in the city at \$25.78 psf. There may be some softening in the class B and C segments as these buildings will begin to face stiff competition from class A landlords who will be trying to refill their buildings.
- Vacancy in the Central area declined for the first time in 2010, dropping by four-tenths of a percentage point to reach 4.1%. This decline in vacancy was due to a slight shrinkage in available space located within the downtown core and a more than one percentage point decrease in the vacancy rate for the Byward Market.

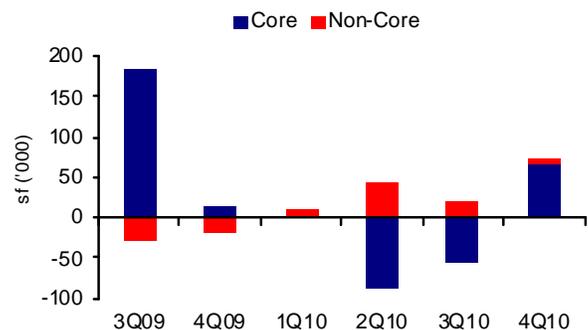
- Vacancy in the non-core declined for the fourth straight quarter and now sits at 3.4%. Although vacancy within the Centretown market increased slightly to 3.7%, conditions in the Byward Market continue to tighten with vacancy now at 3.0%.
- The ongoing rise in vacancy seen in the downtown core throughout 2010 paused in the fourth quarter, when vacancy declined slightly to 4.2%. Vacancy within the class A market also contracted slightly to 3.7%. However, these conditions will not last into 2011. By mid-year downtown core vacancy is forecasted to reach 6.1%, with vacancy potentially climbing to 6.6% in the class A segment.

Leasing Activity Non-Core vs. Core



- Leasing activity in the non-core remained stable during the fourth quarter with levels almost identical to last quarter at approximately 17,000 sf. The level of activity was slightly higher in the Byward Market compared to Centretown, with the class A segment within the Byward Market being the most active at just over 9,000 sf with two estimated transactions in two separate properties.
- Leasing activity in the core also had levels very close to last quarter at approximately 128,000 sf. Close to half of the activity was located in the class A market with the remaining square footage fairly evenly split between the class B and C segments. Some of the more notable transactions occurred in class A with two separate known transactions combining to total 24,000 sf.

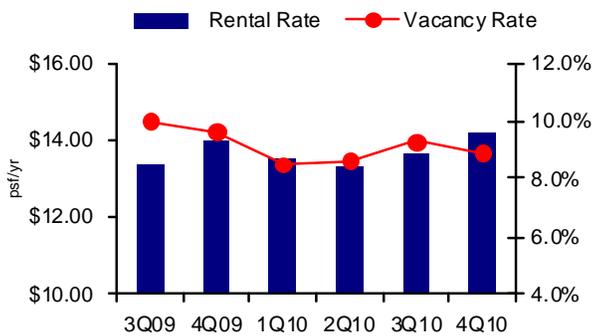
Absorption Non-Core vs. Core



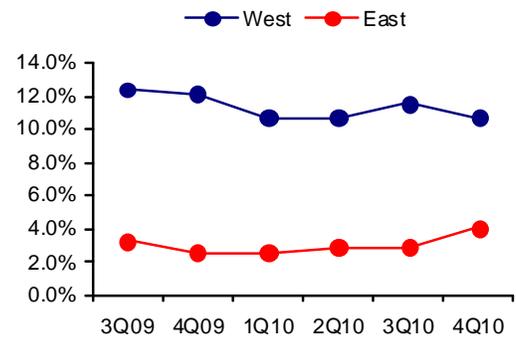
- Although absorption levels continued to decrease in the non-core this quarter, levels remained in positive territory throughout 2010. For this quarter totals were approximately 7,000 sf. Slight negative absorption in the Centretown sub-market was counteracted by over 10,000 sf in the Byward Market, with the majority of that focused within the class A segment.
- After two quarters of negative absorption, conditions improved in the downtown core, which had the highest amount of positive absorption year-to-date at close to 66,000 sf. Absorption numbers will tumble in the downtown core through the first half of 2011 as 224,000 sf of additional space is set to come on the market, almost entirely located within the class A segment.

Suburban Area

Overall Rental vs. Vacancy Rate



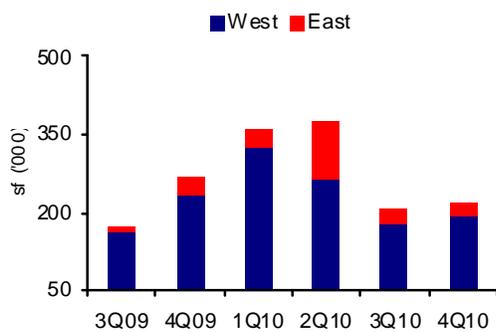
Overall Vacancy Rate West vs. East



- For the first time this year, vacancy in the overall Suburban market declined to 8.9% in the fourth quarter, down from the 9.3% posted during the previous quarter.
- The overall asking average rental rate for the Suburban market continued to rise in the fourth quarter, reaching \$14.23 psf. There were increases in both the Suburban East and Suburban West markets to average \$15.03 psf and \$13.95 psf, respectively. Increases in rents were seen across all market classes in the Suburban West market, along with the class B segment in the Suburban East market.

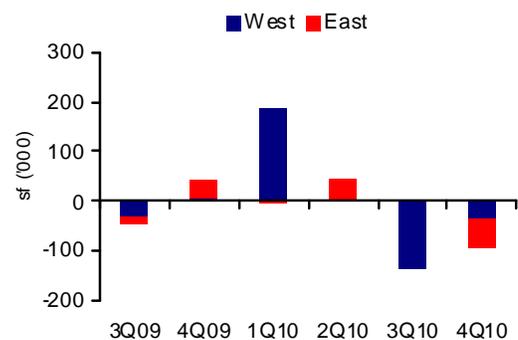
- Although there was a departure in the Suburban West vacancy rate in the third quarter, vacancy this quarter returned to the same percentage seen in the first and second quarter—10.7%.
- Vacancy rose fairly substantially in the Suburban East market to 4.1%, the highest vacancy since the start of 2007. Both the Gloucester and Ottawa East submarkets posted increases in vacancy this quarter, with Gloucester having the most substantial increase, particularly within the class A market where one-third of the properties had increases in available space.

Leasing Activity West vs. East



- Leasing activity in the western submarkets rebounded slightly from last quarter with just over 192,000 sf of activity, bringing the year-end total to close to 959,000 sf. The Kanata and Ottawa West class A segments were the most active this quarter. In Kanata there were three known transactions of over 10,000 sf and in Ottawa West the most notable was a known transaction of close to 20,000 sf.
- Leasing activity in Suburban East was almost identical to last quarter at just over 28,000 sf and brings the year-end total to approximately 205,000 sf. During this quarter all of the activity was focused within the Ottawa East submarket, with the majority in the class A segment. The most significant known transaction here was just over 13,000 sf.

Absorption West vs. East



- Absorption in Suburban West remained negative this quarter at close to 33,000 sf, although it was an improvement over the third quarter and brought the year-end total to a fairly minimal 24,000 sf. The Kanata class B segment played a significant role in this quarter's negative absorption total, with one building having over 10,000 sf of additional vacancy, another with 20,000 sf, and a third of close to 30,000 sf of additional space compared to last quarter.
- Absorption in the eastern submarkets was at its lowest point over the past five quarters with just over 61,000 sf of negative absorption, bringing the year-end total to a negative 22,000 sf. The negative absorption this quarter was spread across all three submarkets in the Ottawa East market and in the class A Gloucester market.

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	4.2%	2.8%	495,671	475,000	0	(76,119)	\$48.23
Centretown	1,769,448	34	3.7%	3.4%	48,671	0	0	6,592	N/A
Byward Market	914,861	13	3.0%	2.6%	102,097	0	0	72,188	\$37.79
Kanata	5,050,943	63	15.9%	12.5%	580,288	0	0	78,233	\$19.60
Ottawa West	3,597,207	57	8.8%	6.5%	233,088	0	0	(28,351)	\$34.06
Nepean	5,455,838	83	7.1%	4.6%	145,415	0	0	(25,634)	\$26.30
Ottawa East	3,790,796	53	4.1%	3.3%	170,417	0	0	(59,379)	\$31.13
Gloucester	1,397,799	14	4.1%	3.5%	34,191	0	60,000	36,921	\$33.82
Total	36,692,890	399	6.6%	4.9%	1,809,838	475,000	60,000	4,451	\$34.17

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1000 Innovation Drive	Kanata	BTI Systems	32,730	A
50 O'Connor Street	Downtown Core	Hewlett Packard	15,967	A
11 Hines Road	Kanata	Mobile Knowledge	15,000	A

SIGNIFICANT 4Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
3500 Carling Avenue	Ottawa West	Government of Canada	2,350,000	\$208,000,000
2204 Walkley Road	Ottawa East	Dundee Properties Inc.	101,729	\$14,340,000

SIGNIFICANT 4Q10 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	500,000	09/11



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