

MARKETBEAT OFFICE SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q1 2013



ECONOMIC OVERVIEW

The National Capital Region lost 2,100 jobs in February 2013; however as a result of fewer people seeking work the unemployment rate in Ottawa-Gatineau fell to 6.3% from 6.7% last quarter.

Nationally the news was also positive as close to 51,000 jobs were created, which kept the unemployment rate at 7.0%. Despite the decrease in the local unemployment rate, the Conference Board of Canada forecasts only marginal growth in the region's GDP to 1.3% in 2013 as cuts within the public administration are expected to continue. These cuts are anticipated to have a cascading effect on other sectors as well, particularly the housing market. On a positive note it is anticipated that the manufacturing sector will begin to rebound in 2013, following consecutive downturns in 2011 and 2012.

VACANCY CONTINUES TO CREEP UPWARDS

In the first quarter of 2013 overall vacancy continued to increase, rising to 7.8%; 0.3 percentage points higher than the fourth quarter. With Central area vacancy remaining unchanged at 5.8%, increasing vacancy within both the Suburban East and Suburban West markets pushed the overall Suburban vacancy rate to 9.6% from 9.0% last quarter. This continued softening in the suburban markets has led to the overall increase in vacancy in the city.

OVERALL DEMAND STILL WEAK

Overall absorption climbed back into the positive in the first quarter at approximately 128,000 square feet (sf). It is worth noting however, that the completion of 395 Terminal Avenue, a class A building located in Ottawa East added approximately 269,000 sf to that positive absorption total. The only other segments that posted positive absorption this quarter were the Central Class A and Suburban West Class C categories, with both of those totals under 25,000 sf. Although leasing activity slowed from last quarter, reaching close to 359,000 sf, it is in line with what has been posted over the course of the last twelve months. Activity was fairly evenly split between the Central and Suburban West markets.

OUTLOOK

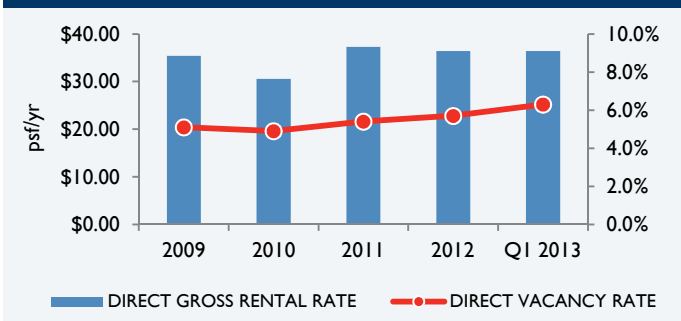
There were no definitive signs of strengthening for the Ottawa market in the first quarter of 2013. The Downtown Core market managed to hold steady at 6.0% as demand just barely outpaced new vacancy. Conditions within the downtown core are expected to change throughout the course of 2013 with expected softening in the class B and C segments,

particularly as 110,000 sf is set to come on the market in the second quarter as the federal government vacates 123 Slater Street; a class C building located in the Downtown Core. In total there could potentially be 342,000 sf of new availability coming on the market over the next six months, with overall vacancy potentially rising to 8.7%.

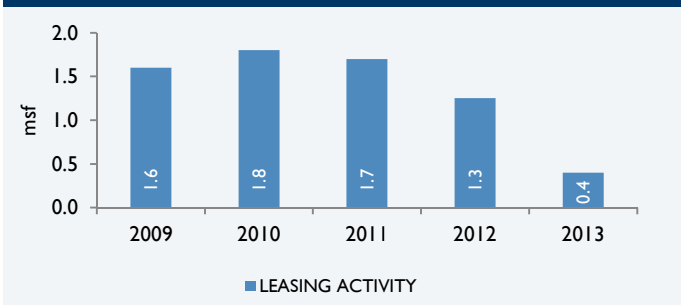
STATS ON THE GO

	Q1 2012	Q1 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.4%	7.8%	0.4pp	▲
Direct Asking Rents (psf/yr)	\$19.17	\$19.11	-0.3%	◀▶
YTD Leasing Activity (sf)	249,529	358,559	43.7%	◀▶

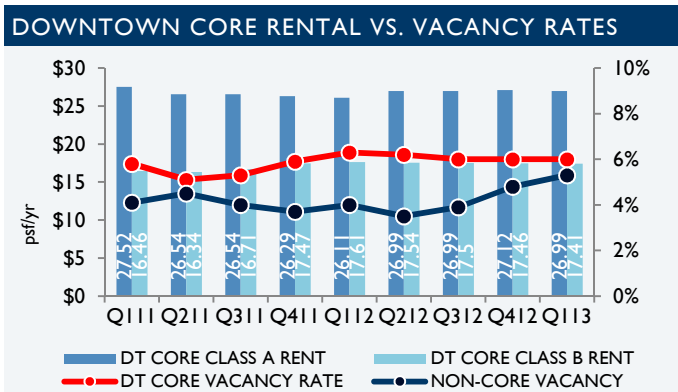
DIRECT RENTAL VS. VACANCY RATES



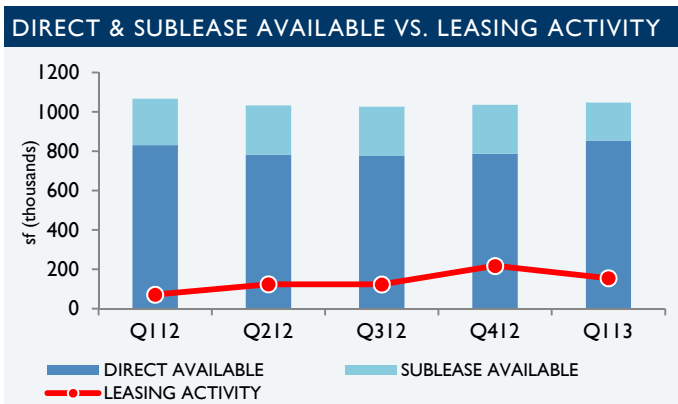
LEASING ACTIVITY



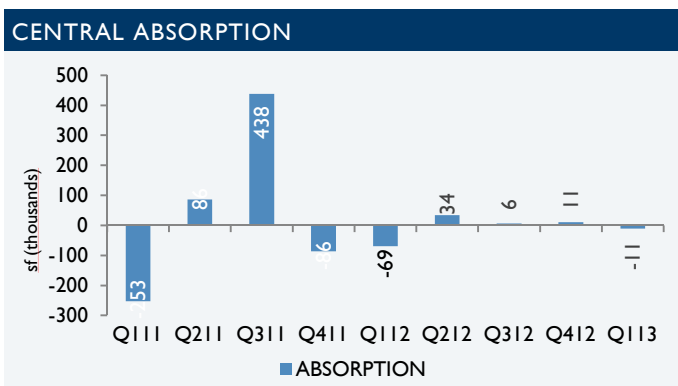
- For the third consecutive quarter vacancy within the Downtown Core remained unchanged at 6.0%. Although both the class A and class B rental rates decreased slightly this quarter, rents in both class segments have remained very consistent over the past 12 months. Currently, the average asking class A rents are at \$26.99 per square foot (psf) with class B rents at \$17.41 psf.
- The non-Core vacancy continued to climb, reaching 5.3% in the first quarter. There was little change in Byward Market vacancy from last quarter, while in Centretown vacancy increased to 6.6% as a few new pockets of space became available in both class B and class C properties.



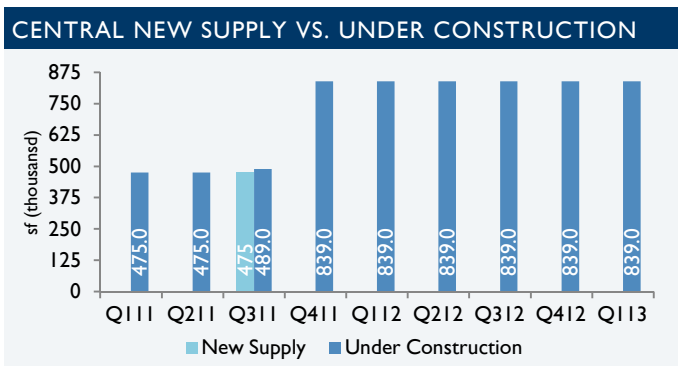
- The overall amount of space available within the Central Area grew by close to 141,000 sf in the first quarter and was comprised entirely of direct space. Sublet availability decreased to its lowest level in 12 months as significant pockets of space were taken off of the class A downtown core market.
- Leasing activity declined slightly from last quarter within the Central Area reaching 155,000 sf; the result of easing demand within the class A downtown core market. Some of the more notable transactions included Boeing leasing approximately 8,900 sf at 45 O'Connor and Blake Services leasing approximately 7,000 sf at 340 Albert Street.



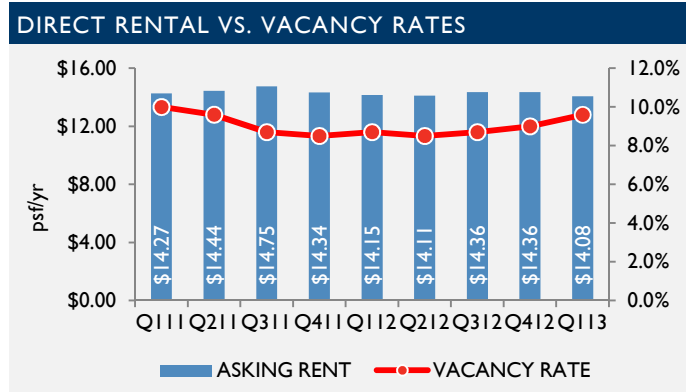
- Overall absorption totals continue to be fairly stagnant with new vacancy slightly outpacing demand this quarter. Only the class A market posted positive absorption and it was fairly minimal at just under 18,000 sf.
- Absorption figures through the first half of 2013 will likely remain in the negative, particularly as close to 200,000 sf is projected to become available over that time frame. Over half of this upcoming availability is located at 123 Slater Street, a building that will be fully vacated by the federal government in the spring.



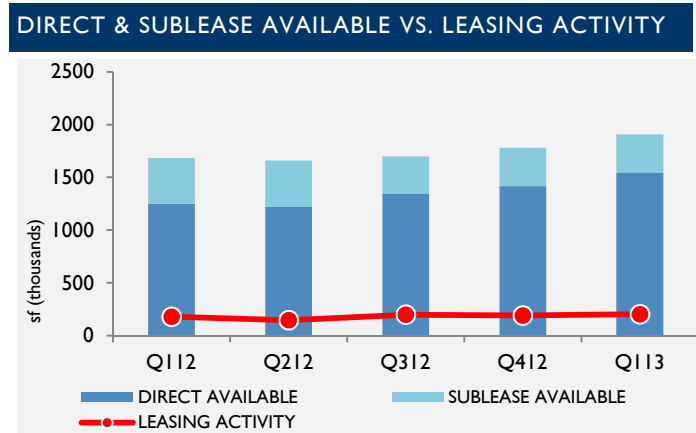
- There was no change in Central Area new supply or buildings currently under construction in the first quarter of 2013. Construction continues at both 90 Elgin Street, the 646,000-sf tower being built for the federal government, and 150 Elgin Street, the 350,000-sf tower that is being constructed largely on speculation. Canada Council of the Arts will be a tenant in the new building along with KPMG. There is also some speculation that Morguard is close to securing deals with other tenants, however no formal announcements have been made.



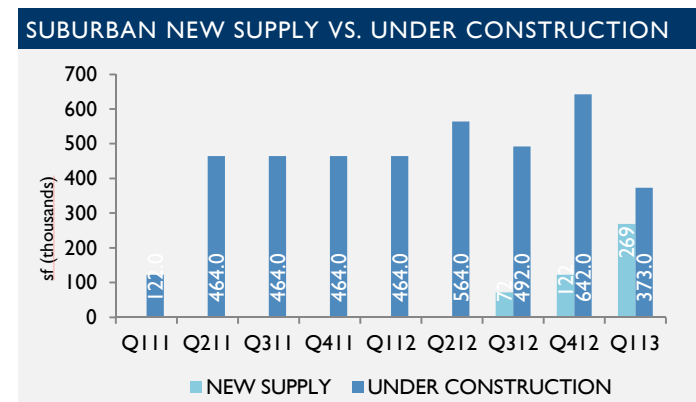
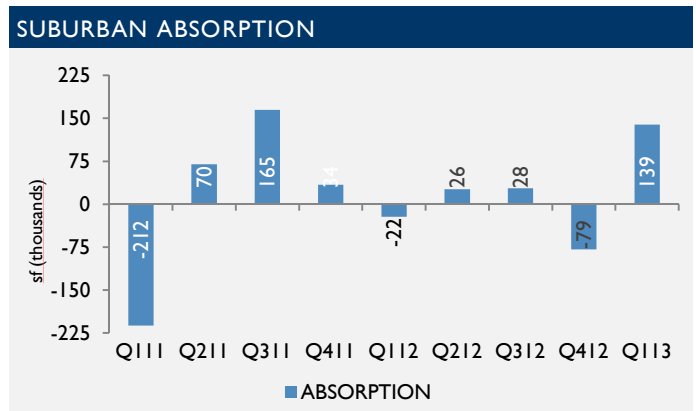
- Vacancy with the overall Suburban Area climbed for the third consecutive quarter to reach 9.6%. As was the case last quarter, vacancy within both the Suburban West and the Suburban East markets jumped this quarter to reach 11.3% and 5.1% respectively.
- Overall asking rental rates declined slightly to \$14.08 psf. Rates decreased in the Suburban West markets to \$13.97 psf, largely the result of some softening in the class A rents. In the Suburban East, market rates declined to \$14.34 psf, as lower rents were seen in all class segments.



- The amount of direct space available in the Suburban market increased this quarter to just over 1.9 million square feet (msf). Like the Central Area, this new space is entirely available direct from the landlord as there was no change from last quarter in the amount of space available for sublease.
- Despite climbing vacancy, leasing activity remains consistent with 203,000 sf in the first quarter. The Kanata and Ottawa West submarkets were particularly active this quarter. Although there were no deals in these submarkets that were over 10,000 sf, a marked increase in the number of transactions in Kanata helped maintain leasing activity totals.



- Overall absorption for the Suburban market climbed back into positive territory this quarter to reach 139,000 sf - its highest level in well over a year.
- The Suburban East market was the driving force behind all of the absorption this quarter as the completion of 395 Terminal Avenue located in the Ottawa East submarket contributed 269,000 sf of positive absorption. The reason why overall absorption was lower than that figure is because the Suburban West market posted negative absorption of 91,000 sf.
- There will be at least one new construction completion in 2013 which will boost absorption levels. However, any gains made with this completion may be negated somewhat as 143,000 sf is projected to come on the market over the next six months with potential climbs in vacancy across all class segments.
- The new 269,000-sf building for the federal government was completed this quarter. Construction continues at 1331 Baseline Road – a 100,000-sf building that has been approximately 60% leased by Stantec – and it is set to be completed next quarter. Construction is ongoing at BONA's new build in Vanier. The building is anticipated to be approximately 273,000 sf upon completion, the date of which is currently unknown. Finally, construction is expected to get underway shortly on a new build in the Suburban East market. This 140,000-sf building will house the AEFO who will occupy approximately 40,000 sf with plans to lease the remaining space.



OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	OVERALL ABSORPTION CURRENT QUARTER	YTD OVERALL ABSORPTION	WTD. AVG. ALL CLASSES GROSS RENTAL RATE*	WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Core	15,211,498	6.0%	4.7%	127,501	839,000	0	2,268	2,268	\$44.72	\$52.01
Centretown	1,769,448	6.6%	6.5%	16,153	0	0	(13,661)	(13,661)	\$30.42	N/A
Byward Market	914,861	2.7%	2.4%	11,752	0	0	707	707	\$35.24	\$38.70
Non-Core Total	2,684,309	5.3%	5.1%	27,905	0	0	(12,954)	(12,954)	\$32.83	\$38.70
Overall Central	17,895,807	5.8%	4.8%	155,406	839,000	0	(10,686)	(10,686)	\$43.11	\$51.52
Kanata	5,302,169	17.2%	13.8%	61,007	10	0	(63,943)	(63,943)	\$24.65	\$24.71
Ottawa West	3,669,207	9.2%	6.8%	71,158	0	0	(2,819)	(2,819)	\$30.70	\$33.65
Nepean	5,455,838	6.9%	5.6%	32,762	100,000	0	(24,501)	(24,501)	\$26.74	\$28.09
Suburban West Total	14,427,214	11.3%	8.9%	164,927	100,000	0	(91,263)	(91,263)	\$27.26	\$27.63
Ottawa East	4,115,596	4.9%	4.7%	37,661	273,400	269,100	265,637	265,637	\$27.53	\$29.77
Gloucester	1,397,799	5.8%	4.9%	565	0	0	(35,344)	(35,344)	\$33.99	\$34.51
Suburban East Total	5,513,395	5.1%	4.7%	38,226	273,400	269,100	230,293	230,293	\$29.09	\$32.55
Overall Suburban	19,940,609	9.6%	7.8%	203,153	373,400	269,100	139,030	139,030	\$27.67	\$28.86
OVERALL CITY	37,836,416	7.8%	6.3%	358,559	1,212,400	269,100	128,344	128,344	\$36.39	\$41.02

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q1 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
177-179 Colonnade Road	Nepean	Dillon Consulting	C	9,000
45 O'Connor Street	Downtown Core	Boeing	A	8,900
340 Albert Street	Downtown Core	Blake Services	A	7,000
Significant Q1 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
340 Laurier Ave. W.	Downtown Core	TNC 340 Laurier Ltd.	\$75,000,000 / \$251	298,623
400 Maple Grove Road	Kanata	TNC 400 Maple Grove Ltd.	\$24,500,000 / \$228	107,243
Portfolio Sale – Various Addresses	Various	Skyline Commercial Real Estate Holdings	\$14,500,000 / \$122	119,843
Significant Q1 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
395 Terminal Avenue	Ottawa East	PWGSC	Q1 2013	269,100
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000
150 Elgin Street	Downtown Core	Canada Council for the Arts	Q1 2014	350,000
140 Jeanne Mance	Ottawa East	N/A	Q4 2013	273,400

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS