

MARKETBEAT

OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



4Q07

ECONOMY

Although Ottawa experienced a modest economic slowdown this year, with GDP growth expected to rank eleventh out of thirteen census metropolitan areas (CMAs) in 2007, this has not had any great impact on the local commercial office market. Overall vacancy currently sits at 5.6%, down three tenths of a percentage point from the third quarter. Strong employment numbers have contributed to this performance with Ottawa's November unemployment rate at 4.6%, its lowest level in at least 19 years. Employment grew by approximately 4,700 jobs from the previous month to bring the total local employment level to 667,100 jobs, which is up 38,900 since the beginning of 2007.

Although output growth in the public administration sector was only expected to reach 1.4% in 2007, it has experienced some of the strongest gains in employment over the year. This sector added close to 16,000 jobs on a year-over-year basis to bring the local head count to approximately 146,000 jobs. It is expected that this pace of activity will accelerate throughout 2008 as federal job growth is expected to continue, with growth continuing through 2008 to 2011 at an average pace of 3% per year. Along with this expansion it is expected there will also be a requirement for additional new space as existing premises become increasingly in need of renovation.

OVERVIEW

Consistent would be one of the best words to use in order to describe the performance of the commercial office market in 2007 as vacancy only fluctuated within four tenths of a percentage point throughout the year. Currently there are 1.95 million square feet (msf) available, compared to over 2 msf last quarter. The amount of square footage available for sublease has increased to over 400,000 square feet (sf), the highest level in the past year.

Overall demand this quarter continued to be heavily influenced by fully-leased construction completions, as has largely been the case throughout 2007. Absorption this quarter measured just over 379,000 sf with the completions of the Dell and JDS facilities being the largest contributors.

Leasing activity concluded the year on a positive note measuring over 550,000 sf, an increase over last quarter's totals. A large contributor to this was the leasing of over 140,000 sf of space at 250 Albert by the federal government. There were a few other transactions over 10,000 sf that took place this quarter, largely located in the west end of the city. The vast majority, however were under 5,000 sf.

OUTLOOK

Absorption is expected to decline in 2008 due to the lack of new construction. However absorption is not expected to fall into negative territory as the federal government is anticipated to remain fairly active, particularly in the downtown core where there remain a few blocks of contiguous space to be leased. This will keep leasing activity stable into 2008 with the majority of activity focused within the downtown core.

BEAT ON THE STREET

"The Ottawa office market continues to be very stable, characterized by low vacancy in the CBD, and a gradual lowering of vacancy in the suburban market as the high tech sector continues to improve. More of the same is expected for 2008 as the federal government will continue to seek large blocks of inside the greenbelt. Additional build-to-suit suburban projects are expected to be announced in 2008."

—Bernard St-Onge, Associate Vice President

ECONOMIC INDICATORS

| | 2006 | 2007 | 2008F |
|-------------------|------|------|-------|
| GDP Growth | 2.8% | 2.3% | 2.9% |
| CPI Growth | 1.7% | 2.2% | 2.1% |
| Unemployment | 5.2% | 5.7% | 6.2% |
| Employment Growth | 4.0% | 0.1% | 1.3% |

Source: Conference Board of Canada

MARKET FORECAST

LEASING ACTIVITY is expected to remain fairly consistent into 2008 with continued activity from the federal government 

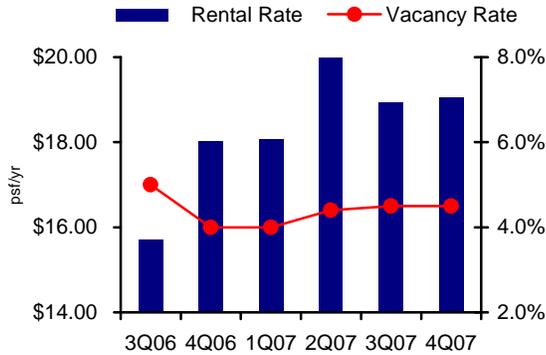
DIRECT ABSORPTION is forecasted to drop in 2008 due to lack of new construction, which drove positive absorption in 2007 

CONSTRUCTION activity will decline significantly in 2008 from the frenetic pace set in 2007 

OVERALL RENT VS. VACANCY

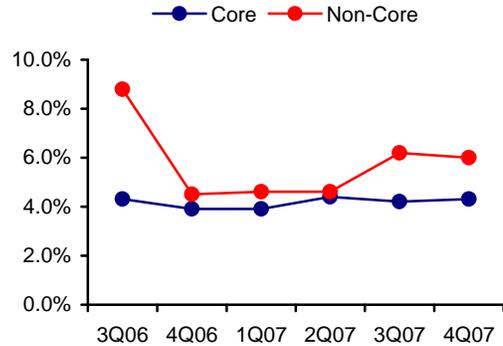


Overall Rental vs. Vacancy Rates



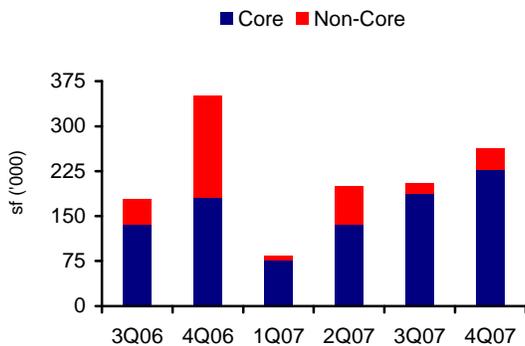
- Vacancy in the Central area currently sits at 4.5%, identical to last quarter. Vacancy has been extremely consistent over the year, fluctuating by only half of a percentage from its highest to its lowest point.
- With the consistency in vacancy in the Central area there has been little change in asking rental rates. Currently rental rates average \$19.04 per square foot (psf) in the Central area, with rates in the downtown core averaging \$20.21. Asking rents in the class A core market continue to be one of the highest in the country, averaging over \$26.00 psf. It is anticipated that rents will only increase modestly over 2008 as vacancy is expected to remain fairly close to this year's levels.

Overall Vacancy Rates Core vs. Non-Core



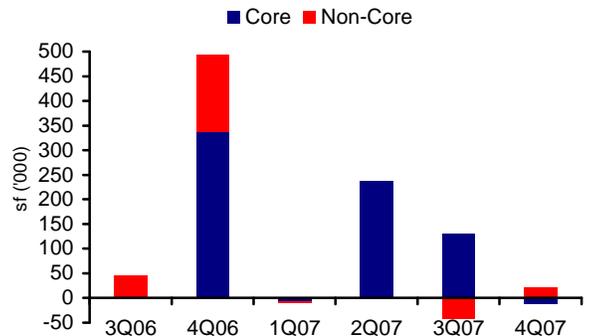
- Vacancy in the downtown core has remained fairly static over the last six quarters. Vacancy is currently at 4.3%, with class A vacancy at 3.2%; both only registering one tenth of a percentage point difference from last quarter.
- Vacancy levels outside of the core have stabilized, with vacancy remaining fairly consistent in Centretown and the Byward Market. Multiple small spaces in Centretown came onto the market causing a slight increase in vacancy while increased demand in the Byward Market led to a decrease in vacancy.

Leasing Activity Core vs. Non-Core



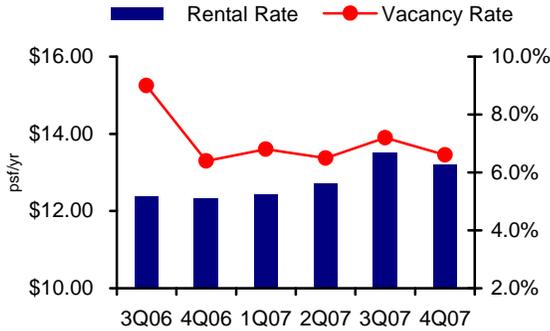
- In the last year leasing activity in the Central area has been dominated by the downtown core, and this quarter was no exception. Over 227,000 sf was leased in the core, accounting for over 85% of all leasing activity in the Central area. Of this total 169,000 sf was located in the class A market alone, with the transaction at 250 Albert accounting for over 140,000 sf.

Absorption Core vs. Non-Core



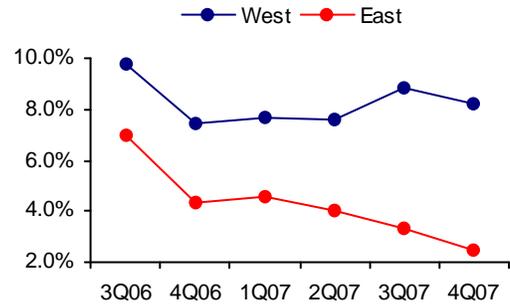
- Absorption in the core softened this quarter with just less than 12,000 sf of negative absorption. Demand was close to nil in the class A and B markets. The class C softened with an additional 20,000 sf coming on the market this quarter.
- There was positive absorption outside the core for the first time in a year with just over 20,000 sf. This was largely the result of 13,000 sf of positive absorption in the Byward Market.

Overall Rental vs. Vacancy Rates



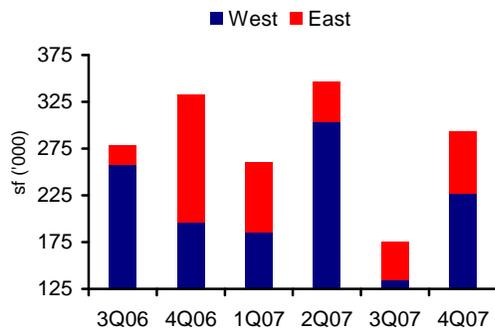
- Vacancy in the Suburban area decreased slightly this quarter reaching 6.6%, down from 7.2% last quarter. The overall suburban market has been more volatile over the past year than its Central area counterpart, largely due to momentum changes in the suburban west market.
- Rental rates in the suburban market are currently averaging \$13.21 psf and have shown a fairly steady increase over the past year. These increases are, in large part, due to the suburban west market, as rental rates continue to climb back from the low rates seen in the years immediately following the high tech bust. Currently rents are averaging \$13.43 psf in the suburban west market and \$12.00 psf in the suburban east market.

Overall Vacancy Rates West vs. East



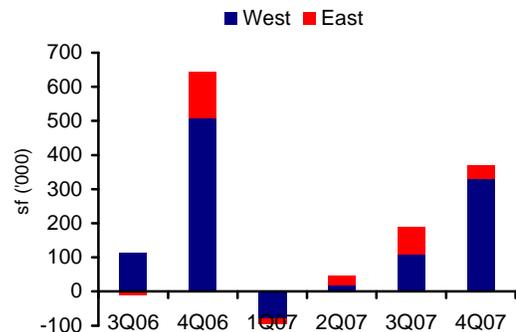
- Vacancy in the suburban east market continued its steady march downwards this quarter with vacancy currently sitting at 2.5%. If, as expected, this extremely tight market continues into 2008 this may prompt construction on the many development sites located in the city's east end.
- In contrast to the eastern suburbs, vacancy in the western suburbs has for the most part plateaued over the past year with vacancy currently sitting at 8.2%, down six-tenths of a percentage point from the third quarter. Both the Kanata and Nepean markets strengthened this quarter, with both sub-markets registering declines in vacancy while the Ottawa West market softened slightly – particularly in the class C market.

Leasing Activity West vs. East



- Leasing activity in the suburban market was just over 293,000 sf, a marked improvement over last quarter.
- As has been the case over the past six quarters, leasing activity in the western suburbs has accounted for the majority of suburban leasing activity. This imbalance is no surprise as extremely tight vacancy in the east does not lend itself to an active leasing market.

Absorption West vs. East



- Absorption numbers continued to improve over the year, with fourth quarter absorption over 370,000 sf. Significant contributors to these numbers were the completion of the fully-leased JDS and Dell facilities, both located in the western suburbs.
- Absorption has been concentrated in the western suburbs.

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* |
|------------------|-------------------|---------------|----------------------|---------------------|----------------------|--------------------|------------------------------|------------------------|---|
| CBD | 13,951,298 | 79 | 4.3% | 3.8% | 627,546 | 370,000 | 440,000 | 348,001 | \$47.03 |
| Centretown | 1,710,898 | 32 | 7.5% | 7.3% | 62,779 | 0 | 0 | (58,238) | N/A |
| Byward Market | 914,861 | 13 | 3.2% | 3.2% | 64,446 | 0 | 0 | 32,567 | \$37.26 |
| Kanata | 4,655,774 | 59 | 8.5% | 5.3% | 310,232 | 0 | 250,000 | 243,389 | \$25.56 |
| Ottawa West | 3,777,207 | 58 | 9.5% | 8.4% | 210,018 | 0 | 130,000 | (4,708) | \$34.54 |
| Nepean | 4,638,670 | 75 | 6.9% | 3.8% | 328,992 | 0 | 150,000 | 139,530 | \$29.54 |
| Ottawa East | 3,714,270 | 52 | 3.0% | 3.0% | 147,668 | 0 | 0 | 101,823 | \$27.27 |
| Gloucester | 1,312,799 | 12 | 1.0% | 0.6% | 78,233 | 0 | 0 | 33,094 | \$31.83 |
| Total | 34,675,777 | 380 | 5.6% | 4.5% | 1,829,914 | 370,000 | 970,000 | 835,458 | \$36.77 |

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

| SIGNIFICANT 4Q07 NEW LEASE TRANSACTIONS | | | | |
|---|-----------|------------------------|--------|------------|
| BUILDING | SUBMARKET | TENANT | SQ FT | BLDG CLASS |
| 303 Terry Fox Drive | Kanata | March Networks | 40,422 | A |
| 50-82 Northside Drive | Nepean | BTI Systems | 29,611 | A |
| 411 Legget Drive | Kanata | Gallium Visual Systems | 19,075 | A |

| SIGNIFICANT 4Q07 SALE TRANSACTIONS | | | | |
|------------------------------------|---------------|--------------------------------|---------|----------------|
| BUILDING | SUBMARKET | BUYER | SQ FT | PURCHASE PRICE |
| Skyline Complex | Nepean | Larco Investments Ltd. | 771,853 | \$202,997,388 |
| 90 Sparks Street | Downtown Core | Larco Investments Ltd. | 483,310 | \$162,397,911 |
| 215 Slater Street | Downtown Core | Degi 215 Slater Ottawa GP Ltd. | 110,250 | \$66,507,396 |

| SIGNIFICANT 4Q07 CONSTRUCTION COMPLETIONS | | | | |
|---|-----------|--------------|---------|-----------------|
| BUILDING | SUBMARKET | MAJOR TENANT | SQ FT | COMPLETION DATE |
| 15 Bill Leatham Drive | Nepean | JDS Uniphase | 150,000 | 12/07 |
| 1001 Farrar Road | Kanata | Dell Canada | 145,000 | 12/07 |

| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | | | | |
|---|---------------|--------------|---------|-----------------|
| BUILDING | SUBMARKET | MAJOR TENANT | SQ FT | COMPLETION DATE |
| 180 Kent Street | Downtown Core | N/A | 370,000 | 03/09 |



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