

MARKETBEAT

OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

1Q09

ECONOMY

Although the local economy managed to avoid the initial impact of the recession due to the strength of the public sector and healthy consumer spending, it now appears that the region is beginning to feel the effects of the economic downturn as the Ottawa-Gatineau area lost 7,200 jobs between January and February. Although the local unemployment rate remained virtually unchanged, rising by just one tenth of a percentage point to 4.8%, this minimal change was the result of approximately 6,400 people either ceasing to work or exiting the local labour force. The local retail and wholesale trade sectors were the hardest hit in February, with employment decreasing by approximately 6,000 jobs, perhaps demonstrating the impact the lengthy transit strike had on the local retail sector. The public administration sector continues to see the most growth in the region, as employment rose by 1,900 jobs in February, with a year-over-year employment increase of 8,000 to reach 152,000.

OVERVIEW

Driven by demand from the federal government, strength in the local office market continued in the first quarter of 2009. Vacancy rates continued the downward trend from the end of last year, declining from the 6.5% posted during the fourth quarter of 2008 to 6.2%. In a marked departure from the previous quarter, it was not activity in the downtown core that propelled vacancy downwards; rather, it was the surprise strengthening in the Suburban west sub-markets. This improvement was the result of federal government leasing activity in both the Ottawa West sub-market and, in an interesting development, Kanata. This long-awaited move by the federal government west across the greenbelt is a positive sign that the public sector is beginning to express interest in a sub-market that has been struggling with high vacancy in the teens and softening rental rates.

Absorption remained in positive territory during the first quarter of 2009 with an absorption figure of around 121,000 square feet (sf). With both the Central and Suburban East markets posting negative absorption, it was the Suburban West market, in particular Kanata and Ottawa West, which contributed all of the positive absorption. This was to be expected as government activity was centered in these two sub-markets. In fact, were it not for the public sector involvement in these transactions, overall absorption for the city would be in the negative teens.

Leasing activity was very strong this quarter with close to 700,000 sf. Leading the way were the Suburban West sub-markets, with a total amount of just under 500,000 sf. The federal government was a key factor in overall leasing activity this quarter, contributing over a third of the total amount.

OUTLOOK

Looking to the year ahead, the public sector will play a key role in the performance of the office market. The federal government has been driving market activity over the past year as growth in the private sector has essentially stalled. If the federal government continues to have a healthy appetite for space throughout 2009, the market should remain relatively stable with fairly small vacancy fluctuations. However, if this does not occur, expect vacancy to rise as over 460,000 sf of space is forecasted to come on the market in the next six months.

BEAT ON THE STREET

“As the economy struggles to find a floor, tenant opportunity continues to grow. Ottawa office vacancy rates range from a low of 2.3% in the downtown core to 17.5% in Kanata. The common denominator throughout is the presence of growing uncertainty. Tenants can benefit from landlord flexibility as they have become more responsive to tenant demands.”

—Ransome Drcar, Associate Vice President
Office Leasing

ECONOMIC INDICATORS

	2007	2008	2009F
GDP Growth	2.6%	1.2%	0.2%
CPI Growth	1.9%	2.2%	0.5%
Unemployment	5.2%	4.8%	5.8%
Employment Growth	1.3%	2.8%	-0.4%

Source: Conference Board of Canada

MARKET FORECAST

LEASING ACTIVITY is expected to remain strong in the short term as leasing continues at 180 Kent Street. ↑

DIRECT ABSORPTION may trend downwards through the remainder of 2009 due to increasing vacant space over the next six months. Changes to this outlook will hinge on activity from the federal government. ↓

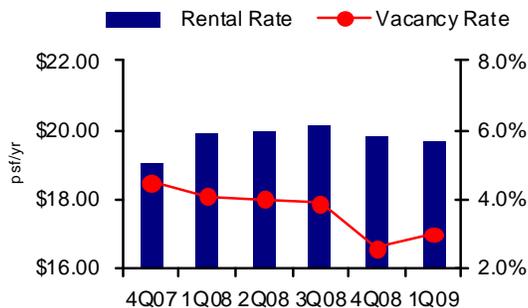
CONSTRUCTION activity will pick up in 2009 with the completion of 180 Kent Street. ↑

OVERALL RENT VS. VACANCY

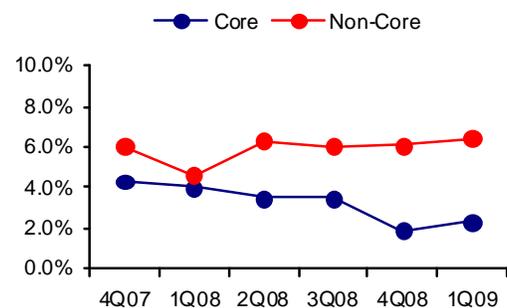


Central Area

Overall Rental vs. Vacancy Rate



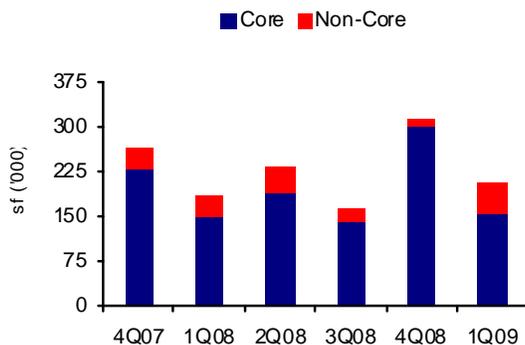
Overall Vacancy Rate Core vs. Non-Core



- Rental rates continued to edge down this quarter to average \$19.64 per square foot (psf) as decreasing asking average rental rates in the class B segment pulled overall rental rates downwards. Although class A downtown core asking rates slightly increased to average \$26.27, this was due to less expensive space coming off the market this quarter rather than an indication of escalating rates.
- Vacancy ticked slightly upwards this quarter to reach 3.0%. With vacancy remaining flat in the Centretown sub-market, slight increases in vacancy in the Byward Market and the downtown core led to the overall increase in vacancy in the Central area.

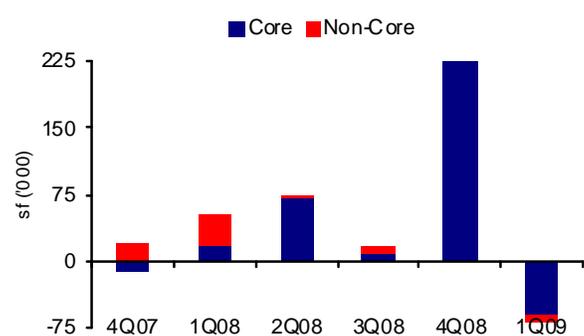
- Vacancy in the non-core continues to be stable, rising slightly this quarter to 6.4% as an additional 10,000 sf became available in the Byward Market area.
- Although vacancy rose in the downtown core this quarter, it continues to remain one of the tightest in the country at 2.3%, with the class A segment posting vacancy of 1.5%, an increase of only two tenths of a percentage point from last quarter. An additional 60,000 sf became available in the downtown core this quarter, which was distributed among numerous properties. The class A market accounted for approximately 25% of this total.

Leasing Activity Core vs. Non-Core



- Leasing activity in the non-core accelerated this quarter, reaching close to 53,000 sf. Activity was focused in the Centretown sub-market with the largest transaction located in the class B segment.
- After a busy fourth quarter, leasing activity in the downtown core decreased to levels that are closer to the six-quarter average. It is worth noting that of the close to 152,000 sf of leasing activity posted within the downtown core this quarter, 110,000 sf of that came from one transaction involving the federal government.

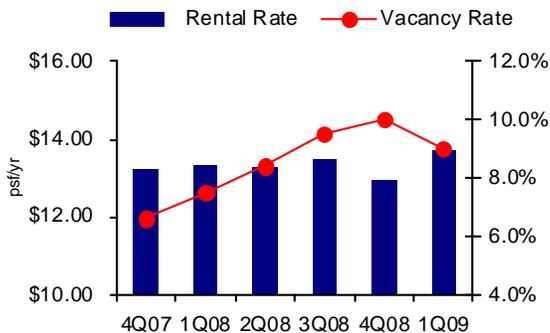
Absorption Core vs. Non-Core



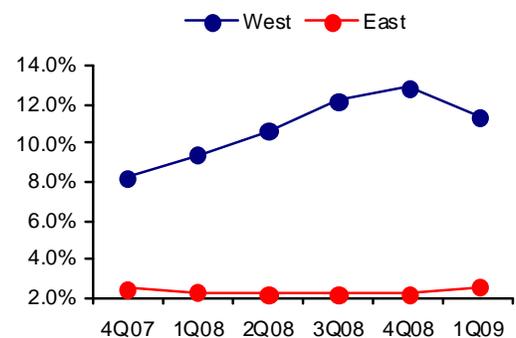
- Absorption in the non-core was once again in negative territory this quarter, at just over 8,000 sf. With virtually no absorption in the Centretown sub-market, it was the slight weakening in the Byward Market that contributed to the negative absorption.
- For the first time in over a year, the downtown core posted negative absorption this quarter of approximately 60,000 sf. Unlike previous quarters, there was no activity from the public sector to counteract the additional space that came on the market. The previously mentioned transaction involving the federal government did not factor into absorption calculations, as this transaction was completed before the space was due to become available.

Suburban Area

Overall Rental vs. Vacancy Rate



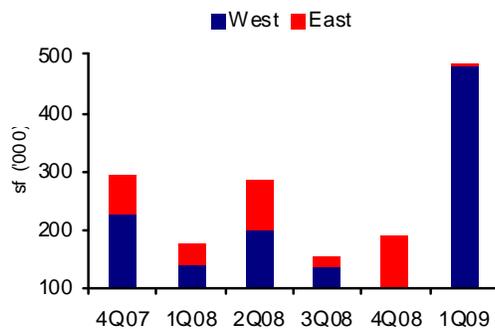
Overall Vacancy Rate West vs. East



- For the first time in six quarters the overall Suburban vacancy decreased to 9.0%, a full percentage point decline from last quarter.
- Overall rental rates edged upwards this quarter to average \$13.70. Although the overall asking rate this quarter did not deviate far from the average seen over the past five quarters, there were changes in the average asking rates for each suburb. Rates increased in the Suburban west market to average \$13.74, while rates in the Suburban east market decreased to average \$13.52.

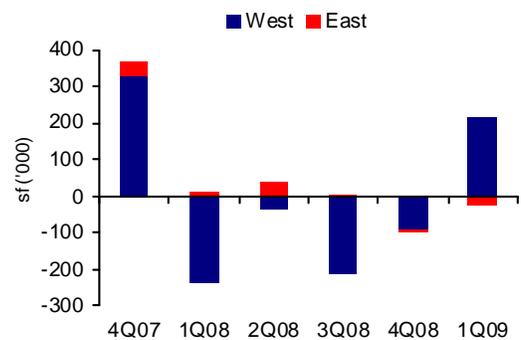
- Driven by improving vacancy numbers in the Kanata and Ottawa West sub-markets, vacancy declined in the Suburban west market to 11.4%, a decrease of one and a half percentage points from last quarter.
- While the Suburban east remains extremely tight, vacancy increased slightly to 2.6%, up from 2.2% last quarter. While vacancy remained unchanged in Gloucester, it rose slightly in Ottawa East as an additional 12,000 sf came on the market in the class B segment.

Leasing Activity West vs. East



- Leasing activity rose dramatically in the overall Suburban market this quarter, with a total amount of close to 485,000 sf.
- As demonstrated by the above graph, the western suburbs were clearly the focus of leasing activity this quarter, accounting for virtually all the square footage that was leased. Within the western Suburban market, Kanata and the Ottawa West sub-markets experienced significant activity this quarter – in particular from the public sector. Leasing activity in the Suburban East market was virtually non-existent. This is to be expected, as an extremely low level of vacancy does not lend itself well to abundant leasing activity.

Absorption West vs. East



- Absorption levels in the overall Suburban market improved dramatically from last quarter. This quarter's absorption total was close to 190,000 sf, its highest level since the end of 2007.
- The Suburban West market accounted for all first quarter absorption with over 212,000 sf. Absorption was fairly split between the Kanata and Ottawa West sub-markets, as Nepean registered negative absorption this quarter. Absorption in the Suburban east market was in negative territory once again this quarter, with just over 22,000 sf, and was split fairly evenly between the two sub-markets.

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	14,306,998	80	2.3%	2.0%	151,539	370,000	0	(60,152)	\$48.61
Centretown	1,746,105	33	5.6%	4.8%	37,238	0	0	1,189	N/A
Byward Market	914,861	13	7.9%	7.4%	15,358	0	0	(9,546)	\$40.84
Kanata	4,844,590	60	17.5%	7.4%	272,137	0	0	115,132	\$30.35
Ottawa West	3,777,207	58	11.5%	10.2%	177,803	0	0	127,229	\$34.07
Nepean	5,455,838	83	5.8%	3.8%	29,073	0	0	(29,990)	\$23.87
Ottawa East	3,764,270	54	2.7%	2.7%	5,468	0	0	(12,028)	\$25.49
Gloucester	1,337,799	12	1.6%	0.9%	0	0	0	(10,404)	\$33.48
Total	36,147,668	393	6.2%	4.2%	688,616	370,000	0	121,430	\$37.75

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
110 O'Connor Street	Downtown Core	PWGSC	109,995	B
180 Kent Street	Downtown Core	PWGSC	103,782	A
340 Legget Drive	Kanata	PWGSC	66,000	B

SIGNIFICANT 1Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
O'Connor/Slater/Laurier	Downtown Core	Broccolini Construction	Redevelopment Site 1.05 Ac	\$18,000,000
245 Stafford Road	Nepean	Strand Securities	31,578	\$3,900,000

SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
180 Kent Street	Downtown Core	PWGSC	370,000	06/09



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Cushman & Wakefield LePage Inc.
99 Bank Street Suite 700
Ottawa, ON K1P 1K6
(613) 236-7777

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