

MARKETBEAT



OTTAWA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

1Q10

ECONOMY

The unemployment rate for the Ottawa-Gatineau region reached 6.2% in February, its highest level in over four years. This comes despite the addition of 1,400 jobs in the National Capital Region. This gain in jobs was primarily due to an increase in the public administration sector, with public administration employment rising to 161,100 in February. There were also gains in the health care and social assistance sector. Approximately 74,600 people worked in that sector during February, which is a year-over-year increase of 10,900 jobs. The high-tech sector struggled during the month with approximately 47,700 people employed in this segment, down from 50,700 in the previous month.

OVERVIEW

The overall office market continued to improve this quarter with vacancy declining to 6.4%, a six-tenths of a percentage point drop from the fourth quarter of 2009. With vacancy remaining virtually unchanged in the Central market for the past three quarters; it was improving market conditions in the Suburban West market that lead to the overall decline. Currently, the amount of space available in the city is 2.35 million square feet (msf), with 1.5 msf of that space located in the Suburban West market.

Absorption levels rebounded strongly from last quarter to reach approximately 195,000 square feet (sf), with the majority of this positive absorption located in the Suburban West sub-markets. Despite this figure, demand in the overall market during the first quarter was not remarkable as only a handful of properties contributed almost all of the positive absorption. To illustrate this point, absorption for this quarter within the Central area was fairly minimal at close to 8,500 sf. Were it not for the leasing activity at 180 Kent, the recently completed downtown core office tower, absorption for the Central Area would have been a negative 54,000 sf.

Leasing activity began the year on a high note with a fairly substantial total of over 546,000 sf. The activity this quarter was focussed within the downtown core and Kanata sub-markets with a combined figure of close to 319,000 sf, which is approximately 58% of the total amount for the city.

OUTLOOK

Although first quarter numbers portray a fairly rosy picture of the Ottawa office market, this could very well be the only quarter of 2010 in which vacancy will be on the decline from the previous quarter and absorption totals will be positive. Over the next six months more than 500,000 sf of space is set to be returned to the market, with close to 90,000 sf of that located within the downtown core. By the end of 2010, the space available will grow by an additional 250,000 sf in the downtown core. With activity from the private sector anticipated to remain fairly flat and the public sector now having to operate under departmental spending freezes, there is a strong possibility that vacancy in the downtown core could climb to 5% or 6% by year's end.

BEAT ON THE STREET

"The downtown core vacancy rate remains unchanged for Q1 2010 at 3.7%; however the dynamics of the leasing market have changed. By the end of 2010 approximately 340,000 square feet of space will be returned to the market. Tenants contemplating a renewal of their lease will now have a variety of options to consider. Couple this with the fact that private sector demand for new space is contracting, and you have a more favourable market for tenants"

-Ransome Drcar, Vice President Office

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 was brisk this quarter due to the strength of the Suburban West class A market. This level of activity is expected to decline over the next six months.



DIRECT ABSORPTION rebounded strongly this quarter; however this level of absorption is not anticipated to maintain itself over the course of 2010 due to the amount of space set to become available.



CONSTRUCTION activity is unchanged as construction continues on the new downtown core office tower and the new building for Accreditation Canada.

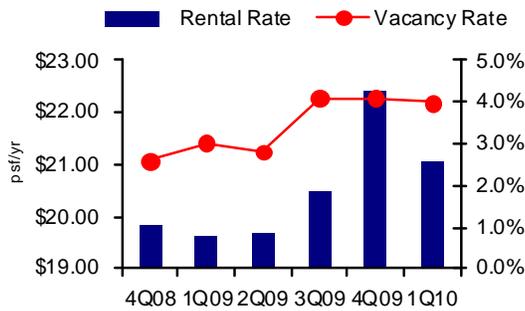


OVERALL RENT VS. VACANCY

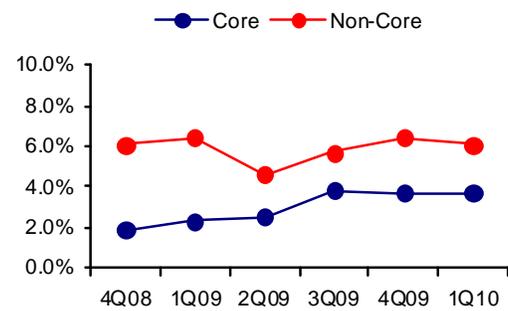


Central Area

Overall Rental vs. Vacancy Rate



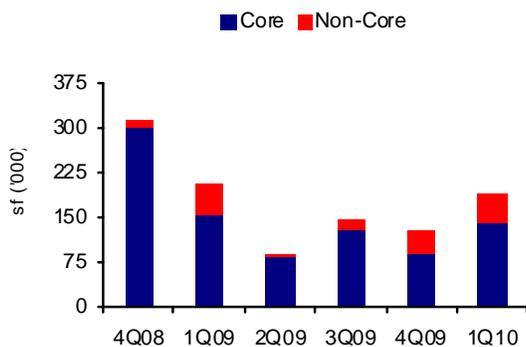
Overall Vacancy Rate Non-Core vs. Core



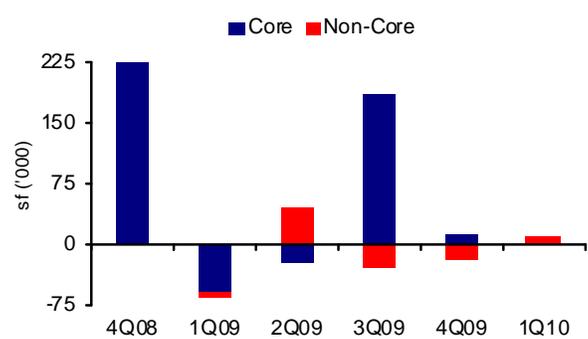
- After a substantial increase last quarter, asking rental rates declined with the average rate now sitting at \$21.06 per square foot (psf). With the class A and class C rents ticking slightly upwards, a declining overall average class B rent lead to the decline. With the range of asking rents in the class B segment remaining fairly similar to last quarter; it was the removal this quarter of the most expensive class B space from the fourth quarter that impacted the average rental rate.
- Overall vacancy in the Central area remained virtually unchanged from the previous two quarters, declining by one-tenth of a percentage point to 4.0%.

- After three quarters of rising vacancy, vacancy in the non-core declined slightly this quarter to reach 6.1%. This decline in vacancy can be largely attributed to a decrease of vacant space in the Centretown sub-market, in particular the class C segment, as four properties registered vacant space decreases.
- Vacancy in the downtown core remained unchanged from last quarter, remaining at 3.7%. This was achieved by vacancy in the class A segment declining by fourth-tenths of a percentage point to sit at 3.4%, which offset the increases in vacant space in both the class B and C segments. Vacancy in these two classes rose to 3.0% and 10.0% respectively.

Leasing Activity Non-Core vs. Core



Absorption Non-Core vs. Core

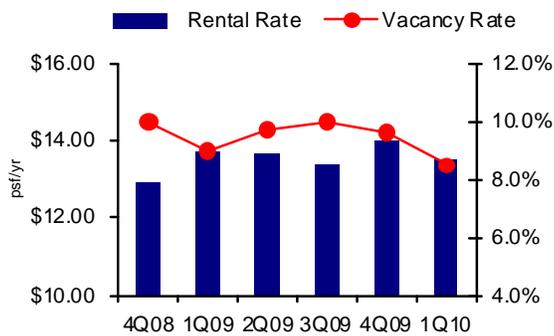


- Leasing activity in the non-core increased for the third consecutive quarter, reaching just over 50,000 sf, the highest level recorded in almost a year. This activity was fairly evenly split between the Centretown and Byward Market areas, with numerous smaller transactions in multiple properties.
- Leasing activity in the downtown core rebounded from last quarter's levels to reach close to 139,000 sf this quarter. Leasing activity was focused within the class A segment, which contributed three-quarters of the total for the downtown core. Although there were transactions in multiple class A properties, activity at 180 Kent saw the highest square footage total with close to 63,000 sf.

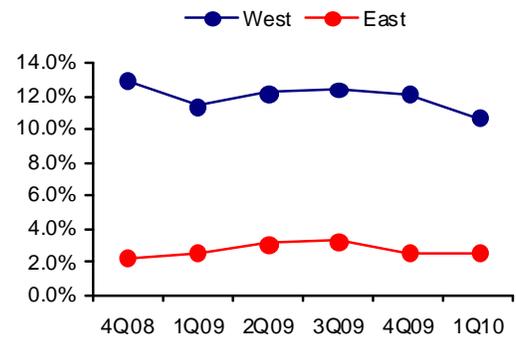
- Although minimal, absorption in the non-core rebounded in the first quarter, heading back into positive territory at close to 8,000 sf. With negative absorption in the Byward Market area, the Centretown submarket accounted for all of the positive absorption this quarter.
- Absorption within the downtown core was virtually nil this quarter, with just 700 sf of positive absorption. Gains made in the class A segment (with approximately 44,000 sf of positive absorption) were negated by negative absorption in both the B and C classes. The positive absorption in the class A market came courtesy of activity at 180 Kent, which contributed close to 63,000 sf. Were it not for activity at this property, absorption for the class A market would have been negative 18,000 sf.

Suburban Area

Overall Rental vs. Vacancy Rate



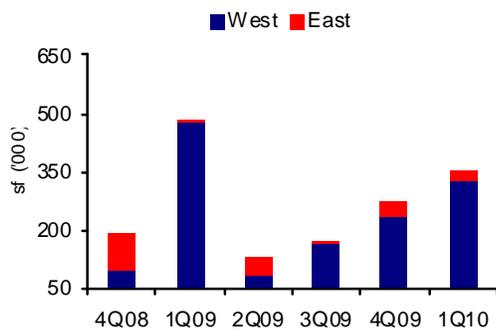
Overall Vacancy Rate West vs. East



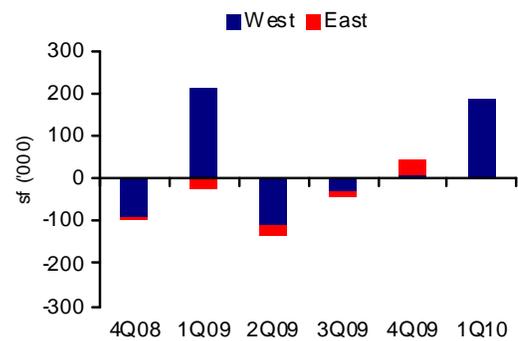
- Vacancy in the overall Suburban market continued its march downwards in the first quarter, declining to 8.5%, which is just over a percentage point decline from last quarter.
- The overall asking average rental rate for the suburban market contracted slightly this quarter to reach \$13.51 psf. Both the western and eastern Suburban markets posted decreases this quarter, declining to \$13.51 psf and \$13.49 psf respectively. The only sub-market to post an increase over last quarter was the Suburban East class A segment. This increase, however, was not indicative of rising rental rates in this submarket but, rather, the removal of less expensive than average space coming off of the market this quarter.

- Vacancy in the overall Suburban West market declined for the third straight quarter to reach 10.7%. While all three western sub-markets posted declines in vacancy this quarter, it was Kanata that underwent the most significant decline, with vacancy in that submarket dropping by three percentage points from last quarter to reach 15%.
- Vacancy in the overall Suburban East market was unchanged from last quarter, remaining at 2.6%. The only change in vacancy throughout the overall Suburban East market was a one-tenth of a percentage point decline in the Gloucester class A submarket compared to the previous quarter.

Leasing Activity West vs. East



Absorption West vs. East



- Leasing activity in the western suburbs increased for the third consecutive quarter to reach close to 327,000 sf. All three western submarkets had fairly strong levels of activity, but it was Kanata that once again led the way with approximately 180,000 sf. The most significant contributor was the 104,000 sf leasing transaction involving Hewlett Packard. There were also five additional transactions over 5,000 sf located in Kanata.
- Leasing activity slowed slightly in the eastern suburbs this quarter to close to 31,000 sf. All of the leasing activity was focused within the Ottawa East submarket, with the majority of the transactions located within the class B segment.

- Absorption in the Suburban West market was at its highest level in a year during the first quarter of 2010, at approximately 189,000 sf. All three western submarkets recorded positive absorption, with the Kanata submarket leading the way with close to 133,000 sf. The majority of the space coming off of the market came courtesy of the previously mentioned Hewlett Packard transaction.
- Absorption in the eastern submarkets was almost non-existent this quarter, with 2,500 sf of negative absorption. The Gloucester class A submarket contributed almost the entire amount as additional space became available in one property.

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	3.7%	3.0%	138,545	475,000	0	736	\$48.06
Centretown	1,769,448	34	3.4%	2.9%	24,239	0	0	11,505	N/A
Byward Market	914,861	13	11.3%	10.3%	25,952	0	0	(3,747)	\$39.02
Kanata	4,990,246	62	15.0%	8.7%	180,240	0	0	132,995	\$22.07
Ottawa West	3,777,207	58	11.4%	10.5%	83,731	0	0	35,275	\$33.17
Nepean	5,455,838	83	6.2%	3.9%	62,657	0	0	21,036	\$26.56
Ottawa East	3,790,796	54	2.6%	2.4%	30,674	0	0	(363)	\$33.48
Gloucester	1,337,799	12	2.7%	0.8%	0	60,000	0	(2,136)	\$33.71
Total	36,752,193	398	6.4%	4.7%	546,038	535,000	0	195,301	\$39.47

* Rental rates reflect psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2500 Solandt Road	Kanata	Hewlett Packard	104,148	A
64 Auriga Drive	Nepean	Ross Video	24,874	A
180 Kent Street	Downtown Core	Brookfield Renewable Power Inc.	20,734	A

SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
340 McLeod Street	Centretown	Urban Capital	40,000	\$6,250,000
2685 Queensview Drive	Ottawa West	Manor Park Management	18,000	\$3,525,000

SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
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N/A

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
150 Slater Street	Downtown Core	EDC	475,000	09/11
1150 Cyrville Road	Gloucester	Accreditation Canada	60,000	04/10



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