OTTAWA

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MARKET OVERVIEW & FORECAST

Despite a brief slowdown in the public administration and construction sectors, Ottawa's economy remains fundamentally healthy. With a turnaround forecast for both of these sectors, Ottawa's GDP is expected to grow by 2.9% in 2006. Ottawa currently boasts a 6.6% unemployment rate and employment growth is forecast to expand by 2.4% in 2006. Investment in the high tech sector continues to show signs of a rebound, significantly expanding in 2005 and expected to prosper again in 2006.

OFFICE MARKET HIGHLIGHTS

Ottawa's downtown office market continues to be one of the tightest markets in Canada with an overall vacancy rate of 3.4%. Vacancy rates are expected to increase slightly in the latter half of 2006 as new construction comes on stream, however, rental rates will remain stable. Net average asking rates for Downtown Class A space are $24.00 per square foot compared to $13.50 per square foot in the suburban market of Kanata.

Finally, after four years of struggling, the high tech sector in Ottawa is rebounding from the tech crash and growing once again. As a result, the Ottawa market saw a flurry of leasing activity in the western suburban office markets in 2005, particularly Kanata. With companies such as Dell Computer Corporation, Abbott Point of Care, and Arvato Services Canada expanding into the Ottawa market, large blocks of vacant space are becoming scarce once again. Kanata's vacancy rate ended 2005 at 13.7%, down from 26.4% at year-end 2004. Suburban vacancy rates will continue to decline in the west end and remain stable in the east end in 2006. As a result, rental rates in the western suburbs will likely rise in the latter half of 2006 while remaining flat in the east.

Currently seven buildings are under construction totaling 1.2 million square feet (62% of which is already pre-leased). Three of the buildings are located in Downtown Ottawa, while the other four are located in Ottawa West and East. Approximately 60.0% of the new space will be completed in 2006.

INDUSTRIAL MARKET HIGHLIGHTS

Demand for high quality industrial space remains strong in Ottawa. The overall vacancy rate decreased in 2005 from 7.1% to 4.6% as occupied space increased by 613,000 square feet.

Industrial vacancy in the east end decreased from 4.7% to 4.0% in 2005 while the west end industrial market was the top performer in 2005 with vacancy decreasing 5.8% to end the year at 4.3%. Occupied space in the west end increased by 588,000 square feet. The largest deal in 2005 was the subleasing of the Corkstown Campus (350,000 square feet manufacturing/lab space and 150,000 square feet of office) by Abbott Point of Care from Nortel Networks.

Despite tight market conditions, Ottawa saw the completion of only one industrial building during 2005 – Coca-Cola's new distribution facility at 3070 Hawthorne Road. Going into 2006 there are no buildings under construction, although several developers are marketing projects that could come to fruition.

Average net asking rates range from $5.00 to $9.00 per square foot, with additional rents averaging $3.00 to $5.00 per square foot. With the manufacturing sector expected to grow by 2.9% in 2006, vacancy rates are expected to decline, and rental rates to hold steady.

OTTAWA MARKET AT A GLANCE

POPULATION
1.1 million

OFFICE INVENTORY
32.0 million sf

OFFICE VACANCY
7.0%

CBD CLASS A VACANCY
3.2%

INDUSTRIAL INVENTORY
27.8 million sf

INDUSTRIAL VACANCY
4.6%

INVESTMENT MARKET HIGHLIGHTS

Ottawa ended 2005 as the second most preferred investment location in Canada with investors showing continued enthusiasm. 2005 was a record setting year in terms of the overall level of investment activity and total value of sales due to continued strong demand, compressed cap rates, and rising prices. The three most active sectors were office, land, and retail. However, the most sought after product types continue to be single and multi-tenant industrial, multi-unit residential, and retail centres.

RETAIL MARKET HIGHLIGHTS

The Ottawa retail market performed exceedingly well in 2005, and the trend is expected to continue through 2006. Even as new retail product comes to the market, overall retail vacancy will continue to hover around 2.5%, and rental rates will continue to rise. Big-box centres will continue to expand in the suburbs, and infill retail will continue to gain popularity throughout 2006.