



Ottawa office report

First quarter 2008

Ottawa office market

The Ottawa office market slowed somewhat in the first quarter of 2008. Overall vacancy increased by 0.9% in the first quarter, from 5.2% to 6.1%. Occupied space decreased by 303,000 square feet in Q1 as the result of a few significant blocks of space coming onto the market from downsizing high tech firms. In the first quarter, approximately 1,700 high tech workers were laid off, which has largely been attributed to the strong Canadian dollar and weakening US economy. For some companies it is simply not economically viable to continue to manufacture in Canada, when cheaper alternatives exist in China and Mexico. Nevertheless, public sector demand remains strong and there are several large private sector firms currently looking for space.

Construction activity sharply declined in the first quarter of 2008. No new office buildings were added to the inventory this quarter, and there is currently only one building under construction - Minto Place IV at 180 Kent Street in the downtown core. There are currently 28 projects in pre-leasing mode, which could potentially add more than 3.8 million square feet to the market in the next few years.

Office sales were also quiet in the first quarter with only one significant transaction closing. Close attention in the next few months will be paid to the fallout of the uncertain credit markets, high Canadian dollar and the overall demand for user driven real estate.

Notable sale transactions during Q1 included:
 - 270 Albert Street purchased by 6763332 Canada Inc. (Canada Post Pension Fund) for \$34.8 million (\$260/ sq ft)

Downtown

Demand for office product in the downtown core remained strong in Q1 2008 while supply continues to be limited. Overall, vacancy ended the quarter at 4.0%, a 0.3% increase from Q4 2007. Occupied space decreased by 47,000 square feet. Class A vacancy in the core held steady at 2.8% with occupied space decreasing by 13,800 square feet.

There remains a shortage of quality office space, forcing tenants to look at their own leases well in advance of expiry. Tenants looking for options greater than 10,000 square feet currently have 19 options to choose from; of which only 1 is greater than 50,000 square feet.

There are six buildings in the pre-leasing stage that will potentially add more than 1.2 million square feet to the inventory if/when completed.



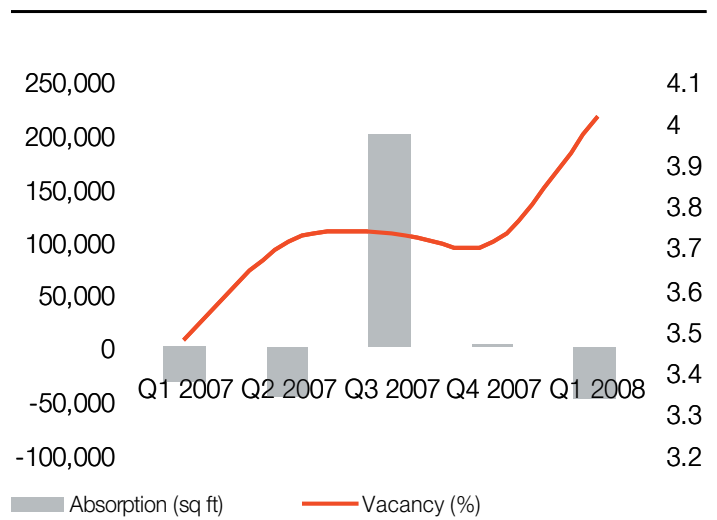
Vacancy in Centretown decreased 0.6% over the quarter to end Q1 at 5.6%, as occupied space increased by 9,400 square feet. The Byward Market also performed well this quarter. Vacancy ended the first quarter at 3.0%, a 1.0% decrease from year-end 2007. 10 Rideau Street, currently undergoing a retrofit remains the largest block available in the downtown fringe markets – 45,500 square feet which will come to the market in May 2008.

With no new buildings scheduled for completion in 2008, and continued pent-up demand for space by the federal government we expect the vacancy rates downtown and in the downtown fringe markets to decline in 2008.

Notable leasing transactions during Q1 included:

- Pricewaterhouse Coopers leased 28,000 square feet at 99 Bank Street - Sun Life Financial Centre
- Nelligan O'Brien Payne LLP leased 28,000 square feet at 50 O'Connor Street - Sun Life Financial Centre

Downtown Absorption and Vacancy
 Q1 2007 – Q1 2008



Source: DTZ Barnicke

Kanata

Demand and leasing activity continues to be strong in Kanata. However, vacancy in the Kanata market increased by 1.3% in Q1, to end the quarter at 7.8%. Occupied space decreased by 59,000 square feet for the quarter, mainly as a result of layoffs in the high tech sector. Tenants looking for opportunities greater than 10,000 square feet currently have 16 options to choose from; of which only 5 are greater than 20,000 square feet, which include: Bookham Technology's former space at 1-9, 10 Brewer Hunt Way offering up to 40,000 square feet; and 360 Terry Fox Drive N, with up to 30,000 square feet.

Looking forward to the second quarter, Dell Canada's new building at 1001 Farrar Road will be completed and the entire building could become available for sublease. Dell Canada announced in January 2008, the cancellation of their plans to expand in Ottawa and that they had laid off staff just a few months before opening their new 1,200-person call centre. Should this building come onto the market in Q2, vacancy in Kanata will rise by approximately 3%.

Notable leasing transactions during Q1 included:

- Plasco Energy Group Inc. subleased 28,000 square feet at 1000 Innovation Drive
- Calian leased 27,000 square feet at 340 Legget Drive

Nepean

Nepean's vacancy rate increased over the quarter by 5.2% to end Q1 at 14.4%, as occupied space decreased by 179,000 square feet, mainly as a result of 70 Moodie Drive coming back on the market. Users looking for larger opportunities in this market have three options available to them at the end of Q1. They include 70 Moodie Drive with 180,000 square feet, 185 Corkstown Road with 126,000 square feet, and 2934 Baseline Road with 33,000 square feet.

Notable leasing transactions during Q1 included:

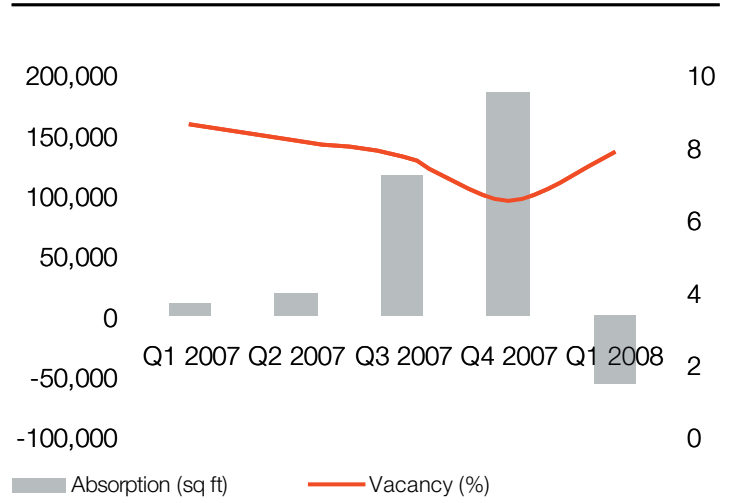
- PWGSC leased 33,000 square feet at 2934 Baseline Road

Ottawa West

The Ottawa West overall vacancy rate increased by 60 basis points to end the first quarter at 9.2% as occupied space decreased by 27,000 square feet. Tenants in the market looking for space options greater than 10,000 square feet currently have 15 spaces to choose from; of which only one is greater than 50,000 square feet (1725 Woodward Drive with 72,700 square feet).

Kanata Absorption and Vacancy

Q1 2007 – Q1 2008



Source: DTZ Barnicke



Ottawa East and Gloucester

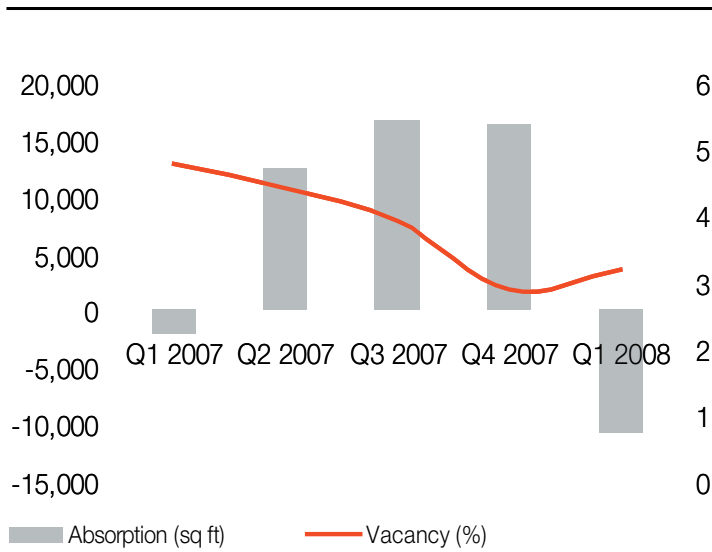
The suburban east markets continue to be the tightest markets in Ottawa. Overall vacancy increased by 18 basis points to end Q1 at 2.5%. Tenants looking for opportunities greater than 20,000 square feet currently have no existing options, but there are five new office buildings in the pre-leasing stage of development. Developers however will not commence construction until they have secured a lead tenant to occupy at least 50% of their building.

Ottawa East's vacancy rate increased by 0.3% in Q1, to end the quarter at 3.2%, as occupied space decreased by 11,000 square feet. The Ottawa East Class A market is extremely tight, with vacancy at 1.5%.

Gloucester's vacancy rate declined by 14 basis points in Q1, to finish the quarter at 0.8%. This trend is expected to continue through 2008, since there are no new buildings under construction and no large vacancies expected to come onto the market in the next year.

Ottawa East Absorption and Vacancy

Q1 2007 – Q1 2008



Source: DTZ Barnicke

Ottawa office market highlights

Q1 2008

| Zone | Q1/08 NRA | Q1/08 Direct | Q1/08 Sublet | Vacancy Rate | Space available in next 24 months | Q1/08 occupied | YTD growth | Weighted average net rent | Under construction | YTD completions |
|---------------------|-------------------|------------------|----------------|--------------|-----------------------------------|-------------------|-----------------|---------------------------|--------------------|-----------------|
| Downtown | 14,430,546 | 497,355 | 81,865 | 4.01% | 471,480 | 13,851,326 | -47,063 | \$22.25 | 360,000 | 0 |
| Centretown | 1,647,421 | 89,018 | 3,034 | 5.59% | 15,490 | 1,555,369 | 9,368 | \$17.60 | 0 | 0 |
| Byward Market | 844,273 | 25,439 | 0 | 3.01% | 58,441 | 818,834 | 8,334 | \$17.41 | 0 | 0 |
| Ottawa East | 3,390,840 | 107,768 | 0 | 3.18% | 22,239 | 3,283,072 | -10,779 | \$13.28 | 0 | 0 |
| Gloucester | 1,395,605 | 10,578 | 0 | 0.76% | 8,759 | 1,385,027 | 1,921 | \$15.77 | 0 | 0 |
| Kanata | 4,464,864 | 208,767 | 141,215 | 7.84% | 198,759 | 4,114,882 | -58,634 | \$12.84 | 0 | 0 |
| Nepean | 3,516,408 | 318,008 | 189,405 | 14.43% | 58,478 | 3,008,995 | -178,848 | \$13.85 | 0 | 0 |
| Ottawa West | 4,385,453 | 357,439 | 44,076 | 9.16% | 29,409 | 3,983,938 | -27,362 | \$16.05 | 0 | 0 |
| Ottawa Total | 34,075,410 | 1,614,372 | 459,595 | 6.09% | 863,055 | 32,001,443 | -303,063 | \$17.85 | 360,000 | 0 |

Source: DTZ Barnicke

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