



10 Rideau Street

Ottawa office report

Second quarter 2008

Ottawa office market

The Ottawa office market's overall vacancy rate increased by a mere 0.2% in the second quarter, from 6.1% to 6.3%, due to strong leasing activity downtown and in Ottawa West which counterbalanced much of the significant blocks of call centre space which came on the market in Kanata. Consequently, overall net absorption was negative 92,000 square feet in the second quarter. Demand for office space remains strong from the public sector and by private sector tenants particularly in the aerospace and defense industries. The global aerospace industry so far is hanging tough despite the slowing U.S. economy, the high Canadian dollar and high oil prices, due to the continued strong global demand for air transportation and from healthy economic growth in emerging markets.

Construction activity continues to be low in Ottawa at the end of the first half 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 activity improved in the second quarter, particularly in Ottawa's tight downtown core, with a few significant transactions closing. Close attention continues to 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 Q2 included:

- 171 Slater Street purchased by GE Canada Real Estate Equity Holding Co for \$35.4 million (\$238/ sq ft)
- 473 Albert Street purchased by 2164613 Ontario Inc. for \$19.5 million (\$139/ sq ft)
- 1209 Michael Street purchased by 1750830 Ontario Inc for \$5.75 million (\$230/ sq ft)
- 70 Gloucester Street purchased by Gloucester Street Property Ltd for \$3.9 million (\$177/ sq ft)

Downtown

Demand for office product in the downtown core remained strong in Q2 2008 while supply continues to be limited. Overall, vacancy ended the quarter at 3.4%, a 0.6% decrease from Q1 2008. Occupied space increased by 90,000 square feet. Class A vacancy in the core tightened as vacancy declined by 0.9% from 2.8% to 1.9% as occupied space increased by 76,000 square feet.

There remains a shortage of quality downtown office space, forcing tenants to look at their own leases well in advance of expiry. Tenants looking for Class A space greater than 10,000 square feet currently have 5 options to choose from; of which only 1 is greater than 20,000 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. Export Development Canada (EDC) is finalizing plans for the construction of its new headquarters in downtown Ottawa that will enable it to consolidate its 1000 employees in one 350,000 square foot building rather than split between two neighbouring downtown buildings. The building is expected to be located at the corner of O'Connor Street and Slater Street with occupancy scheduled for sometime in 2010/2011.

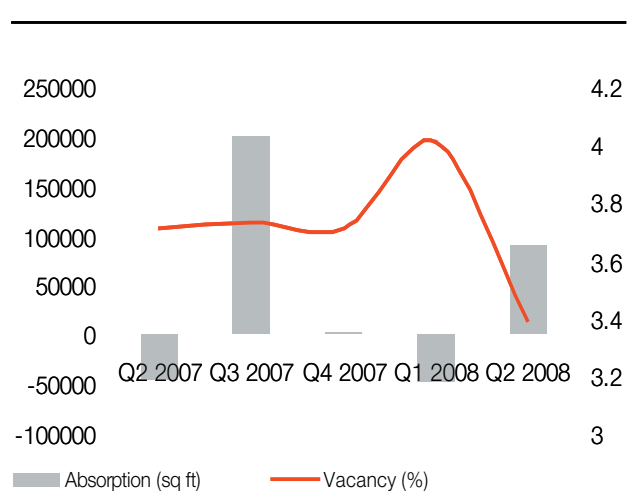
Vacancy in Centretown decreased another 0.3% over the quarter to end Q2 at 5.3%, as occupied space increased by 4,900 square feet. Space options remain very limited in the Byward Market despite the vacancy rate increasing by 5.0% from 3.0% to 8.0% as a result of 10 Rideau Street coming onto the market. Tenants looking for options smaller than 10,000 square feet currently have 9 options to choose from.

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 continue to decline in the second half of 2008.

Notable leasing transactions during Q2 included:

- IDRC leased 18,789 square feet at 340 Albert Street
- Canadian Internet Registry Association leased 11,658 square feet at 350 Sparks Street
- Canadian Association of Broadcasters leased 10,111 square feet at 45 O'Connor Street
- SNC Lavalin leased 10,558 square feet at 170 Laurier Avenue W

Downtown Absorption and Vacancy
Q2 2007 – Q2 2008



Source: DTZ Barnicke

Kanata

As expected, Dell Canada's new building at 1001 Farrar Road (148,000 square feet) was put up for sublease in the second quarter which significantly contributed to Kanata's overall vacancy rate rising by 4.4%, to end the second quarter at 12.2%. Net absorption in Q2 was negative 233,000 square feet. Despite the rise in vacancy, demand and leasing activity continues to be fairly strong in Kanata evidenced by several notable lease transactions in the second quarter.

Looking forward to the third quarter, Dell Canada's building at 2500 Solandt Road is expected to become available for sublease. This would result in an increase in vacancy in Kanata by approximately 3.3% in Q3.

Tenants looking for opportunities greater than 10,000 square feet currently have 22 options to choose from (6 more than in Q1); of which 8 are greater than 20,000 square feet. This is a tenants market and is ideal for price sensitive firms. Landlords will need to be aggressive and willing to do creative deals in order to attract tenants to their building.

There are 7 buildings in the pre-leasing stage offering over 832,000 square feet of potential new space; however with the recent rise in the number of available large blocks of space in Kanata, new construction is certainly not expected to occur in the next 12 months.

Notable leasing transactions during Q2 included:
 - PrairieFyre Software Inc leased 17,000 square feet at 10 Brewer Hunt Way
 - City of Ottawa leased 10,500 square feet at 150 Katimavik Road



Ottawa office report: Q2 2008

Nepean

Nepean's vacancy rate stabilized in the second quarter at 14.8%, as occupied space decreased by only 8,800 square feet square feet. Users looking for larger opportunities in this market have three options available to them at the end of Q2: 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 Q2 included:
 - PWGSC leased 15,000 square feet at 14 Colonnade Road
 - TCC Canada leased 9,700 square feet at 303 Moodie Drive

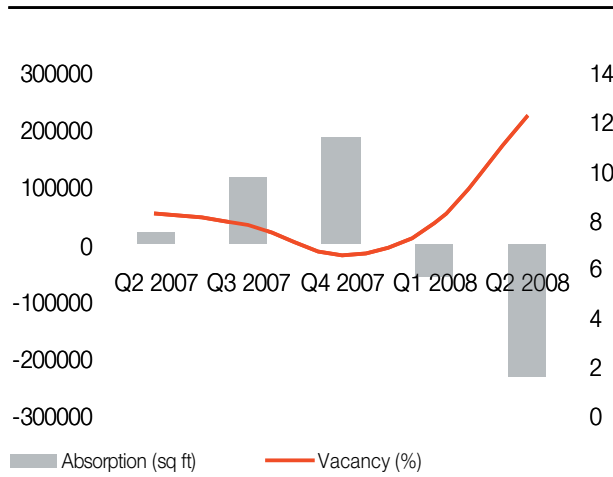
Ottawa West

The Ottawa West overall vacancy rate decreased by 2.0% during the quarter, to end Q2 at 7.2% as occupied space increased by 86,000 square feet. Tenants in the market looking for space options greater than 10,000 square feet currently have 7 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

Q2 2007 - Q2 2008



Source: DTZ Barnicke

Ottawa East and Gloucester

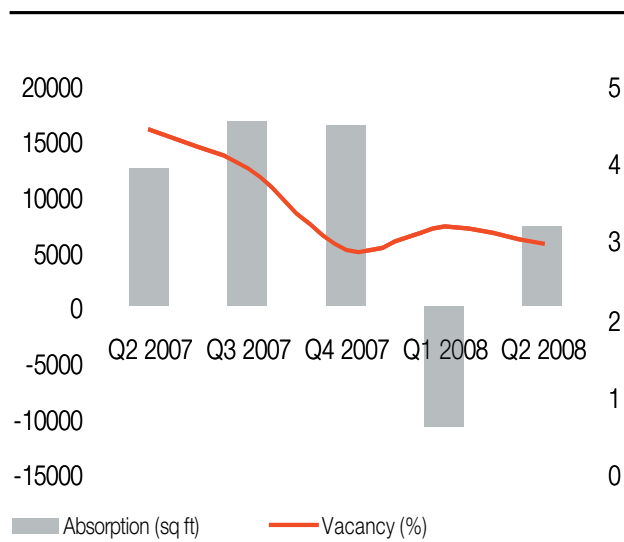
Ottawa East's vacancy rate decreased by 0.2% in Q2, to end the quarter at 3.0%, as occupied space increased by 7,300 square feet. The Ottawa East Class A market is extremely tight, with vacancy at 1.7% - with only one vacant space option greater than 10,000 square feet.

There is virtually no vacant office space in Gloucester. Vacancy declined by 0.4% in Q2, to finish the second quarter at 0.5%. The Gloucester Class A vacancy rate is a mere 0.1%. Morguard announced that there will be 60,000 square feet coming onto the market at 1601 Telesat Court by February 2009.

There are currently five new office buildings being marketed, however, developers will not commence construction until they have secured a lead tenant to occupy at least 50% of their building. As a result, tenants requiring more than 20,000 square feet will either have to kick-off a new building, or relocate to another part of the city to meet their space requirements.

Ottawa East Absorption and Vacancy

Q2 2007 - Q2 2008



Source: DTZ Barnicke

Ottawa office market highlights

Q2 2008

Zone	Q2/08 NRA	Q2/08 Direct	Q2/08 Sublet	Vacancy Rate	Space available in next 24 months	Q2/08 occupied	YTD growth	Weighted average net rent	Under construction	YTD completions
Downtown	14,430,546	376,038	36,903	1.93%	1,026,513	13,941,775	43,386	\$22.26	370,000	0
Centretown	1,647,421	85,162	2,000	5.29%	1,251	1,560,259	14,258	\$17.54	0	0
Byward Market	844,273	66,651	1,237	8.04%	0	776,385	-34,115	\$17.41	0	0
Ottawa East	3,390,840	100,471	0	2.96%	3,233	3,290,369	-3,482	\$13.23	0	0
Gloucester	1,395,605	6,963	0	0.50%	71,894	1,388,642	5,536	\$14.21	0	0
Kanata	4,793,121	256,075	326,865	12.16%	266,842	4,210,181	-291,592	\$12.07	0	0
Nepean	3,516,408	313,765	207,405	14.82%	33,899	2,995,238	-187,653	\$13.87	0	0
Ottawa West	4,385,453	281,179	34,348	7.19%	50,807	4,069,926	58,626	\$16.16	0	0
Ottawa Total	34,403,667	1,486,304	684,588	6.31%	1,454,439	32,232,775	-395,036	\$17.64	370,000	0

Source: DTZ Barnicke

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