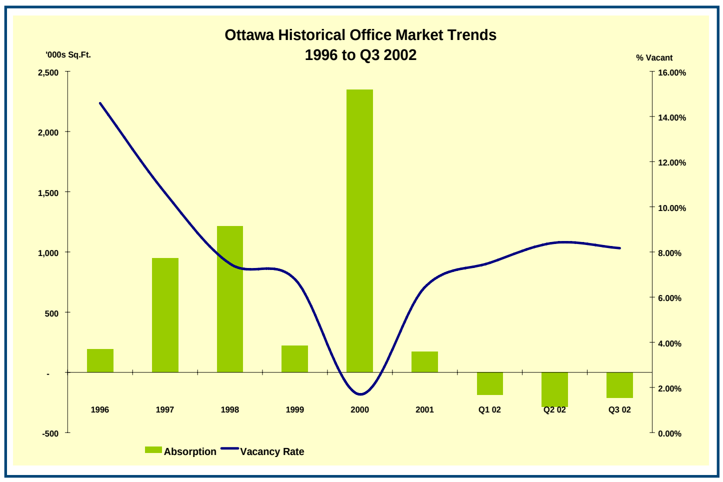
OTTAWA OFFICE QUARTERLY

Third Quarter Review, Fall 2002

As we enter the fourth quarter of 2002, signs of recovery are presenting themselves in the Ottawa office market. The pace of sublease space flooded to the market, by downsizing technology and telecom tenants, has significantly slowed, and as a result, vacancy rates in many of Ottawa's sub-markets have stabilized.

Increasing job growth in the local economy (particularly by the Federal Government) is currently fuelling the turnaround in the Ottawa office market. Commercial real estate is a double lagging indicator, meaning that real estate lags job growth (typically by 6 to 9 months), which in turn lags the general economic recovery. According to Statistics Canada, Ottawa's unemployment rate dropped in August for the third consecutive month, and now stands at 6.7% (significantly lower than the national average of 7.6%) - as 5,800 new jobs were created. Since Q2, 13,200 new jobs were created - the bulk of which were in the public administration sector, however the technology sector has recently shown signs of improvement. According to the latest hiring survey by Manpower Inc., moderate job growth is expected in Ottawa in Q4, as 22% of local businesses plan to expand their workforces, 70% expect no change, and 8% intend to make cuts. J.J. Barnicke Ltd., conducted a survey in Q3 of tenants in the competitive survey buildings in Ottawa (338 building). The survey revealed 629 new companies had been created in the past year, while another 255 firms had relocated.

In the third quarter of 2002, the Ottawa office market remained stable despite troubled stock markets and uncertain economic news, both locally and nationally. The overall vacancy rate remained virtually unchanged as it decreased from 8.41% to 8.17% in the third quarter. Consequently the **Ottawa office market recorded its first quarter of positive net absorption since Q4 2001, totaling 74,448 square feet.** Year-to-date absorption remains negative 211,882 square feet, largely due to the large blocks of sublease space returned to the market in the first half of 2002. Average net asking rents market-wide dropped by 0.7%, or $0.10 per sq.ft., in the third quarter.



Sublease space continues to be an issue in the Ottawa office market as sublease space represents 57 percent of the total available space in the downtown and suburban markets. In terms of total sublease space, suburban markets dominate with 85 percent of all sublease space located in suburban buildings. The continued surplus of sublet space has put downward pressure on some landlords net asking rates in Kanata. We expect, some sub-landlords to lower their rates to entice some tenants who have been playing the "wait and see" game.

Before the Ottawa office market can fully rebound, and absorb the outstanding sublease space on the market, companies need to feel confident that they can grow earnings before they will add staff, while companies generally add staff before they sign leases for more space. (The exception of this occurred during the "internet land rush" of 1999-2000, when companies leased space in advance of hiring for fear of being shut out of the market.

Central Business District

Overall net absorption in Ottawa's downtown during the third quarter registered negative 56,748 square feet, bringing the year-to-date total to negative 146,244 square feet. This marks the third consecutive quarter of negative growth in the CBD. However, this negative absorption provides new opportunities in an area of Ottawa that has had limited new supply, and critical shortages of space (a vacancy rate below 5%) for the last eleven consecutive quarters.

The overall CBD vacancy rate increased from 2.60% to 3.04% in the third quarter. This slight rise in vacancy is attributed to two factors - office space rationalization within the private sector, and the 'flight to quality' as some downtown tenants began to exit the CBD for cheaper 'A' class space in the suburbs. Nevertheless, Ottawa's downtown remains one of the tightest and healthiest markets in Canada. The Downtown Class "A" weighted average net rental rate is $24.78 per sq.ft.

The vacancy rate in the overall Downtown Fringe remained stable in the third quarter at 2.41%. The overall Centretown vacancy rate increased by 0.53 percentage points over the past quarter and stands at 2.96%. The Byward Market overall vacancy rate decreased slightly from 1.93% to 1.43%.

46 Elgin Street
Ottawa
4,374 sq. ft. sublet available through J.J. Barnicke Limited

535 Legget Drive
Kanata
125,964 sq. ft. sublet available through J.J. Barnicke Limited

MARKET AT A GLANCE

Population
1.1 million

Competitive Office Space
31.0 million sf

Federal Government Owned Office Space
16.9 million sf

Total Vacancy
8.17%

CBD Class "A"
2.58%

J.J. Barnicke Limited • ONCOR International
275 Slater Street, Suite 810
Ottawa, Ontario
K1P 5H9

Tel: 613-232-1215
Fax: 613-232-2136
Web: www.jjb.com/Ottawa

"Success is measured by results"

Notable Transactions

Innovapost
365 March Rd., Kanata
71,000 sq. ft. Sublease

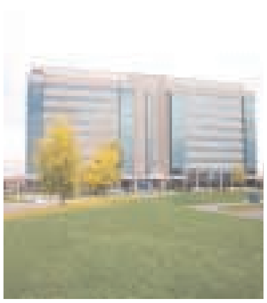
Picarro
495 March Rd., Kanata
23,000 sq. ft. Sublease

Ottawa Carleton Catholic District School Board
570 Hunt Club Rd., Ottawa
76,000 sq. ft. Sale

OXFAM Canada Inc.
880 Wellington St., Ottawa
8,100 sq. ft. Lease

Coley Pharmaceuticals
340 Terry Fox Drive, Kanata
26,000 sq. ft. Sublease

Nellcor Puritan Bennett
303 Terry Fox Drive, Kanata
24,000 sq. ft. Lease



100 Constellation Crescent
Nepean
385,720 sq. ft. sublet available through J.J. Barnicke Limited

Suburban Market

As a result of increased leasing activity in the suburbs, net absorption in Q3 was 135,039 sq.ft., indicating signs of a turnaround. Year-to-date absorption remains at negative 104,225 square feet, primarily due to the large blocks of space returned to the market in the first half of 2002. Nevertheless, the pace of space returned to the market seems to have leveled off. The overall suburban vacancy rate now stands at 13.29%.

For the third consecutive quarter, the Kanata Class 'A' sub-market experienced positive leasing activity as occupied space increased by 101,686sq.ft. The Class 'A' vacancy rate now stands at 25.08% - a significant decrease from the 30.74% recorded at year-end 2001. The overall Kanata vacancy rate now stands at 25.80% down 2.78% from the previous quarter. The Kanata Class "A" weighted average net rental rate is $15.98 per sq.ft.

The Nepean sub-market experienced increased leasing activity in Q3, resulting in positive absorption of 58,845 square feet. As a result, the overall Nepean vacancy rate decreased by 1.95 percentage points to 20.06%. Approximately 64% of the vacant space in the Nepean is available in one building at 100 Constellation Drive. (If we were to exclude this property from the survey, the overall vacancy rate would be 8.71%.)

Despite an increase in tenant activity in Q3, the Ottawa West overall vacancy increased for the third consecutive quarter, and now stands at 3.92% - as a result of two full floors, totaling 20,649 square feet, becoming available for lease at 1150 Morrison Drive.

Leasing activity in the third quarter continued to be quiet in the Suburban East sub-markets of Ottawa East and Gloucester. Occupied space increased by 8,117 square feet in the third quarter, causing the overall vacancy rate to decrease from 7.85% to 7.65%.

Outlook

A return to the record levels of activity and rapidly increasing demand that appeared at the pinnacle of the high tech boom of 1999/2000 is nowhere in sight, however, **the outlook for the remainder of 2002 and early 2003 is optimistic for the Ottawa office market.** We expect continued improvements in the economy, followed by an increase in tenant leasing activity, in both the private and public sectors, to lead the office market further down the road to recovery.

Q3 2002 OFFICE MARKET HIGHLIGHTS

Location Code and Class	Market Size (Sq.Ft.)	Direct Vacant (Sq.Ft.)	Direct Vacancy Rate	Sublet Vacant (Sq.Ft.)	Overall Vacancy Rate	Q3 2002 Net Absorption	Year-to-Date Net Absorption	Year-to-Date New Inventory	Under Construction	Weighted Average Net Rental Rate	Weighted Average Additional Rent
Central Business District											
CBD "A"	7,533,456	64,487	0.86%	129,980	2.58%	9,532	-78,753	0	245000	$24.78	$14.81
CBD "B"	4,491,109	91,324	2.03%	54,868	3.26%	-53,932	-62,834	0	0	$15.62	$11.18
CBD "C"	921,857	26,447	2.87%	26,104	5.70%	-12,348	-4,657	0	0	$12.75	$10.36
CBD TOTAL	**12,946,422**	**182,258**	**1.41%**	**210,952**	**3.04%**	**-56,748**	**-146,244**	**0**	**245,000**	**$17.71**	**$12.11**
Centretown Ottawa											
CTN "B"	906,420	27,432	3.03%	2,816	3.34%	-5,608	27,130	0	0	$13.22	$12.12
CTN "C"	639,480	13,790	2.16%	1,666	2.42%	-2,522	-7,134	0	0	$9.83	$9.05
CTN TOTAL	**1,545,900**	**41,222**	**2.67%**	**4,482**	**2.96%**	**-8,130**	**19,996**	**0**	**0**	**$11.53**	**$10.58**
Ottawa East											
EST "A"	1,053,528	22,257	2.11%	146,505	16.02%	-102	-32,059	215,000	0	$14.97	$10.43
EST "OTHER CLASSES"	1,587,148	33,041	2.08%	5,542	2.43%	14,632	27,495	0	0	$11.66	$9.83
EST TOTAL	**2,640,676**	**55,298**	**2.09%**	**152,047**	**7.85%**	**14,530**	**-4,564**	**215,000**	**0**	**$13.32**	**$10.13**
Byward Market Ottawa											
MKT "A"	338,066	528	0.16%	0	0.16%	4,061	5,133	0	0	$13.38	$12.58
MKT "OTHER CLASSES"	530,939	11,914	2.24%	0	2.24%	226	13,458	0	0	$11.60	$10.37
MKT TOTAL	**869,005**	**12,442**	**1.43%**	**0**	**1.43%**	**4,287**	**18,591**	**0**	**0**	**$12.49**	**$11.47**
Ottawa West											
WST "A"	3,569,552	90,064	2.52%	30,794	3.39%	-1,178	-58,142	0	96,239	$17.53	$13.62
WST "OTHER CLASSES"	1,457,637	95,448	6.55%	15,956	7.64%	-32,431	-42,706	0	0	$12.22	$10.62
WST TOTAL	**5,027,189**	**185,512**	**3.69%**	**46,750**	**4.62%**	**-33,609**	**-100,848**	**0**	**96,239**	**$14.88**	**$12.12**
Gloucester											
GLO "A"	1,295,192	46,331	3.58%	52,690	7.65%	-6,413	78,571	100,744	0	$14.62	$12.89
GLO "OTHER CLASSES"	70,000	0	0.00%	0	0.00%	0	0	0	0	$9.93	$6.53
GLO TOTAL	**1,365,192**	**46,331**	**3.39%**	**52,690**	**7.25%**	**-6,413**	**78,571**	**100,744**	**0**	**$12.28**	**$9.71**
Kanata											
KAN "A"	3,299,377	371,611	11.26%	479,275	25.79%	101,686	265,731	150,000	0	$15.98	$12.33
KAN "OTHER CLASSES"	363,468	30,278	8.33%	63,958	25.93%	0	-68,835	0	0	$13.59	$10.73
KAN TOTAL	**3,662,845**	**401,889**	**10.97%**	**543,233**	**25.80%**	**101,686**	**196,896**	**150,000**	**0**	**$14.78**	**$11.53**
Nepean											
NEP "A"	1,599,598	39,666	2.48%	416,616	28.52%	35,149	-295,638	25,000	0	$17.28	$11.98
NEP "OTHER CLASSES"	1,394,923	114,257	8.19%	30,311	10.36%	23,696	21,358	0	0	$12.19	$9.35
NEP TOTAL	**2,994,521**	**153,923**	**5.14%**	**446,927**	**20.06%**	**58,845**	**-274,280**	**25,000**	**0**	**$14.73**	**$10.67**
OTTAWA TOTALS	**31,051,750**	**1,078,875**	**3.47%**	**1,457,081**	**8.17%**	**74,448**	**-211,882**	**490,744**	**341,239**	**$13.96**	**$11.04**

For more information please contact:

David W. Lees,
Vice President,
Managing Director
email: lees_d@jjb.com

"Success is measured by results"

jjBarnicke LTD REALTOR
ONCOR INTERNATIONAL
Worldwide Real Estate Services