

Green Space

4th Quarter 2013 Ottawa Green Office Market Report
The Year in Review



JJMcNEIL
commercial inc.



Market Commentary

It took a while but now it's unanimous among real estate professionals that Ottawa is going through a major period of change which is having an impact on vacancy levels and how the entire industry is conducting its business. For years it has been said that Ottawa is somewhat immune to the normal laws of gravity, living in a bubble of security based largely on the comfort and the mistaken belief that the Federal government's appetite for space will forever continue. I never understood how people could believe that Ottawa is different from other cities that have economies largely based on one employer. The "Feds" occupy 60 percent of the office inventory and about 20 percent (according to CMHC) of the jobs in the NCR. Are we really any different from a city like Oshawa with General Motors retooling or closing a manufacturing plant? A shrinking workforce, less space per headcount and completed and planned projects that equate to over 7 million sq. ft.. All in, some analysts believe the overall impact to the Ottawa Real Estate market could be as high as 11 million sq. ft. To put that in perspective the total office market in the NCR is about 60 million sq. ft. and 11 million sq. ft. is 18.33 percent of the entire market. The changes are just starting to take hold.

As previously predicted, vacancy in Ottawa has now hit the double digits resting at between 10.2 percent and 10.7 percent which represents a 300 basis point increase from Q4-12 where we finished the year at 7.4 percent vacant.

A major factor in the increase in vacancy is the downtown with vacancy reported at 11%, a 500 basis point increase from the close of last year. The downtown has been most affected by the consolidation of government and an aging inventory of buildings that don't meet the new accommodation standards of the Feds. Add to this the impacts of austerity which have affected organizations that rely on government funding and the downsizing of companies that serve the government, minimal new business and minimal organic growth have led to record vacancy levels. Furthermore, a realty tax differential of between \$5 .00 and \$7.00/ sq. ft. between downtown and the suburbs doesn't help the core.

Speaking of taxes, the [2013 Property Tax Rate Analysis](#), produced for REALpac by the [Altus Group](#) indicates that Ottawa has the 3rd highest commercial tax rates of major cities in Canada at \$31.52.

Vacancy increased in all submarkets with the exception of Kanata which still has the highest vacancy of all submarkets in Ottawa at approximately 13 percent, down about 300 basis points from the close of 2012.

For tenants looking to renew or relocate, it's been over 10 years since we have seen conditions this favourable. Landlords are working very hard to attract and maintain tenants. Tenants who are well represented by experienced brokers are realising lower rental costs and substantial increases in inducements which over the term of the lease can translate into thousands of dollars in savings that transfers directly to their bottom line.

JJMcNeil predicts that the vacancy rate in Ottawa will continue to increase over the course of 2014 and into the beginning of 2015. We will start to see improvements in the downtown office market as more of the condo developments reach completion, placing more people closer to their work place, the Ottawa Centre Ecodistrict becomes more entrenched and rolls out its programs, older B and C class office buildings are repurposed and/or renovated and of course when light rail becomes part of the vocabulary of tenants. We believe once these factors take hold downtown will return to its historic vacancy levels.



Green Office Market

Green buildings weren't immune from the market forces here in Ottawa; over the course of 2013 we saw a steady rise in vacancy. We finished 2013 with a total vacancy of 9.3 percent, an increase from 2012 of 130 basis points. Direct vacancy (not including sublet space) finished the year off at 7.4 percent. Comparatively to the overall office market green buildings fared much better, outperforming the overall market by 140 basis points in total vacancy and over 200 basis points on direct vacancy. Green buildings clearly have higher occupancy levels. The sustainable features of the buildings are contributing factors to the higher occupancy levels but I think overall, green buildings tend to be better managed.

The Green Inventory of office space grew to 10,340,028 in the last quarter with 8 new BOMA BEST 2 buildings of which 6 were owned and managed by Dundee. Dundee has been greening their portfolio and now have 12 buildings under BOMA BEST (4 level 1 and 8 level 2).

The really big news for the end of last year was the first tenants moved into Performance Court, Ottawa's newest multi tenant office building located at 150 Elgin. Performance Court is targeting a minimum certification of LEED Gold Core + Shell and will provide many tangible benefits to tenants, including improved water efficiency, reduced energy consumption (i.e. lower utility costs), lower carbon emissions, and improved indoor air quality for building occupants. This building adds 345,598 sq. ft. to the green inventory and comes to market 86 percent leased. All the committed tenants to date are relocating from other buildings: KPMG, Canada Council for the Arts, CIBC Wood Gundy and Shopify all have made 150 Elgin their place of business.

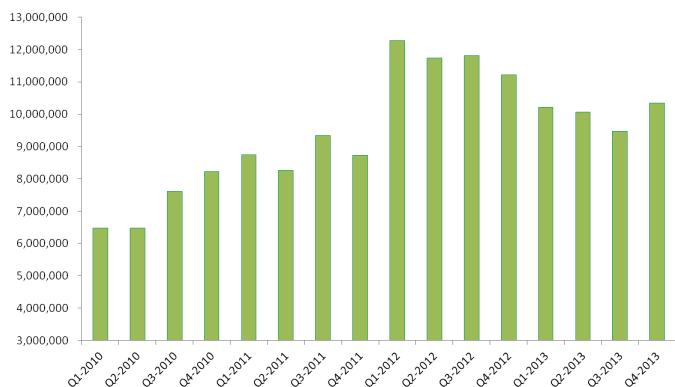
The Ottawa market boasts 58 certified green office buildings with the highest concentration being downtown at 28 buildings. Tenants seeking the advantages of sustainable buildings can find space in any part of the city.

Other Green News

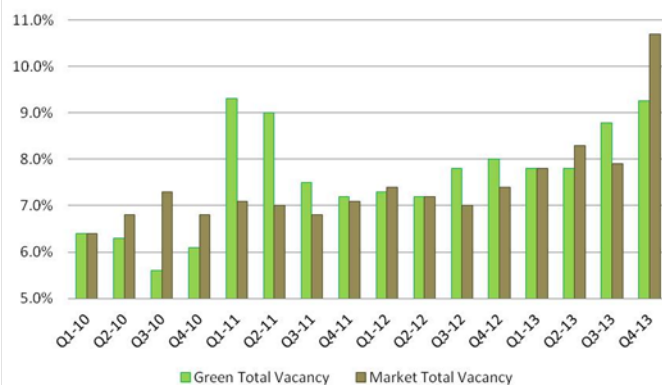
Last quarter there were 3 LEED Certifications of Note:

- The Target store at Billings Bridge received LEED NC Certified.
- Hunt Club Marketplace at 300 Hunt Club a First Capital Development received Leed CS Silver
- 105 Hotel De Ville, Gatineau, 206,286 sq. ft office owned and managed by GWL Realty Advisors Inc. received LEED EB OM Gold.

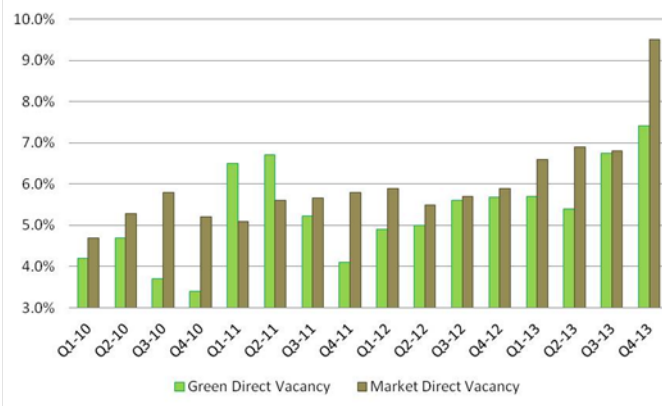
Green Growth



Total Vacancy



Direct Vacancy





Green inventory by submarket

SUBMARKET	NO. OF BUILDINGS	INVENTORY (SF)	TOTAL VACANCY RATE	DIRECT VACANCY RATE
Downtown Core	28	7,376,844	8.4%	6.8%
Byward Market	2	254,051	2.4%	2.4%
Gloucester	5	513,958	12.0%	7.6%
Ottawa East	3	467,418	3.5%	3.5%
Kanata	8	690,972	15.6%	15.6%
Ottawa West	8	677,081	15.4%	13.9%
Nepean	4	359,704	10.8%	0.0%
Total	58	10,340,028	9.3%	7.41%

Green inventory by certification

LEVEL	AREA BY LEVEL (SF)	DUAL CERTIFIED	GREEN INVENTORY (SF)	NO BLD	TOTAL VACANCY RATE	DIRECT VACANCY RATE
BESt 2	3,527,207	(1)327,024	3,200,183	27	6.6%	6.50 %
BESt 3	4,417,306	(4)1,532,180	2,885,126	21	8.9%	7.83 %
BESt 4	776,000	(2)459,000	317,000	3	3.5%	1.01 %
Cert	150,000		150,000	1	25.9%	-
Silver	293,317		293,317	2	41.6%	41.65%
Gold	3,139,402	7 buildings	3,139,402	10	12.0%	8.41 %
Platinum	355,000		355,000	1	0.6%	0.60%
Totals	12,658,232	2,318,204	10,340,028	58	9.26%	7.41%



About James McNeil

James McNeil is the Founder and Managing Principal at JJMcNeil Commercial Inc., which provides the full spectrum of commercial real estate advisory services. With 25 years experience, James is one of the most knowledgeable and effective commercial real estate professionals in Ottawa. He is recognized internationally as a leading expert in green buildings and sustainable workplaces. James specializes in tenant representation for office, industrial and retail clients and has successfully sourced commercial space and negotiated hundreds of leases for private and public sector corporations. He has represented landlords and tenants alike.

James has received the Leadership in Business Award from Earth Day Ottawa for his commitment to the environment and was nominated as Corporate Citizen of the Year by the Kanata Chamber of Commerce. He has lectured on green buildings, leasing and market-related topics to industry stakeholders and holds the designation of Real Property Administrator (RPA) and is a LEED Accredited Professional (LEED AP).

James has held senior positions with major investors, institutional and government real estate organizations. He creates value for his clients from his direct experience and in-depth knowledge of industrial, office and retail markets, extensive experience in administration, leasing, accommodations strategies, portfolio management, building systems, maintenance, design and construction, building retrofits, leasehold improvements, development, property law, contracts, green buildings and sustainable workplaces.

Prior to forming JJMcNeil Commercial Inc., James held a senior position at Cushman & Wakefield Ottawa as a Broker, Vice President & Ottawa Green Real Estate Practice Lead. He is a Co-Founder, Co-Host and Presenter at Ottawa Better Buildings Breakfast Series and the Catalyst and Board President at Ottawa Centre Eco-District – Greening the core, advancing the economy.



JJMcNeil Commercial Inc.

Most Real Estate brokerages are sales centric organizations putting sales, prospecting and the related training above the fundamentals and complexities of real estate. Twenty years experience or one year experience twenty times? At JJMcNeil our experience is rooted in commercial real estate, our principals have extensive experience in portfolio management, major developments, transaction management for institutional investors and corporate occupiers and have been directly responsible for lease negotiations for both the Landlord and for the Tenant.

We use this extensive experience to effectively counter the strong position that landlords have in the market to put Tenants on a equal footing and negotiate lower real estate costs, minimized real estate occupancy risks, improve flexibility and occupancy control, and create more productive work environments for Office, Retail and Industrial clients.

Additionally JJMcNEIL is the market leader in Green Buildings and Sustainable work places. We integrate sustainability into the traditional leasing process. We track all of Ottawa's green buildings, the availability of leased space in these buildings and the overall growth of the green market, providing clients with qualitative and quantitative metrics of features that reduce operating costs, reduce tenants' capital requirements for both initial and ongoing leasehold improvements, as well as design features that specifically increase employee productivity and reduce absenteeism.

We provide the full range of real estate advisory services and have the knowledge and expertise to help your company in its quest for sustainability.

The Better Building Breakfasts

It's important to create a more sustainable Ottawa, JJMcNeil Commercial Inc. along with RENX.ca host the Better Buildings Breakfast Series which is an opportunity for stakeholders to learn about sustainable buildings and network with peers in the green real estate sector. The breakfasts serve an exciting line up of speakers, leaders in real estate, with informative presentations about how to create a sustainable built environment.



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