

Green Space

2nd Quarter 2015 Ottawa Green Office Market Report



JMcNEIL
commercial inc.
REAL ESTATE BROKERAGE



Market Commentary

Here we are again, the 6th straight quarter where overall vacancy has been in the double digits. An increase of 120 basis points pushed the overall vacancy to 12.20%. This rise represents close to 650,000 square feet of additional office space being added to the available inventory, again setting another high water mark for the highest vacancy levels in well over fifteen years.

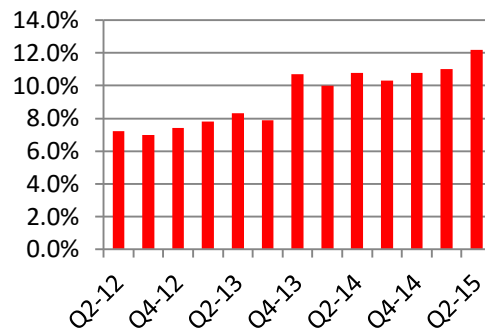
What does 650,000 square feet represent? It represents the equivalent of both towers of the World Exchange Plaza emptying out in one quarter and taking with it the associate jobs and economic vitality.

The office market is in decline and supply is outpacing demand. From a tenant's perspective, this environment provides the ideal situation to optimize business operations and/or reduce accommodation costs leading to an increased bottom line. From the landlord or investor's perspective, there is only one word that comes to mind, it sucks. From Mayor Watson's and the City's perspective they should be very concerned about the impact on the commercial tax base.

Downtown remained relatively unchanged from last quarter finishing at a flat 10% vacant. It's been said that the cream rises to the top, Class "A" office again saw a slight improvement of about 50 basis points finishing at a touch less than 7% vacant. "B" and "C" class office buildings have been the hardest hit by the consolidation of the Federal Government.

All in all, in the downtown we really have not seen much change up or down over the course of this year and it's been quiet on the "central front" but as an

Market Vacancy Trend



industry we are deeply worried about the attack on the downtown office market as platoons of National Defence personnel march west and invade the former Nortel campus.

We keep hearing positive news coming out of Kanata and the tech sector but this positive momentum seems to be lost when it comes to office accommodations. In fact from the beginning of the year vacancy in Kanata has risen by close to 300 basis points finishing the second quarter a shade under 15%.

Ottawa West has taken the top spot for the highest vacancy levels in the city at 19% (16.5% combined with Kanata). This translates to over 1,700,000 square feet of available office space west of Preston Street.

Ottawa East vacancy levels continue to rise finishing the quarter at about 18%. More than double the vacancy in Q2-14 when the eastern suburbs held one of the lowest vacancies in the City at 8.2%.

Outlook

Looking towards the end of 2015 and into 2016 it would appear that there will be no dramatic improvement in the Ottawa office market. Uncertainty within the public administration as it relates to staffing and space requirements are likely to continue and no one can predict what the impact of the outcome of the upcoming federal election will have on the office market.

In my opinion, Blue, Red or Orange, I don't believe the colour on the Hill will make a bit of difference on the market conditions here in Ottawa. Simply stated, we are in an oversupply situation primarily brought on by new supply of over 4.5 million sq.ft of office space which came to market over the last 36 months and a consolidation of our major employer. I find it difficult to believe whatever colour stripe is elected, that the population of Canada would welcome a major expansion of government. We need to find ways for the private sector to fill the void which is more an industry and city responsibility.



Green Office Market

In the subset of 55 buildings that carry green certifications, things seem to be much more golden. Green Office Buildings in Ottawa are bucking the trend and continue to have higher occupancy rates. For the 4th quarter in a row direct (to the landlord) vacancy rates have fallen and finish the second quarter at 8% vacant, a full 350 basis points better than the market direct vacancy rate of 11.5%.

If we throw in the available "green" sublet space the overall vacancy had no change this quarter at 9.4%, 280 basis points better the rest of the market which saw a 120 basis point rise in vacancy.

Besides the obvious environment factors, what are the factors that contribute to higher occupancy levels in green buildings?

Think of a green certification as one of many "best in class business practices" that a building owner will undertake. Green buildings tend to be better managed which leads to higher tenant satisfaction and lease renewal rates.

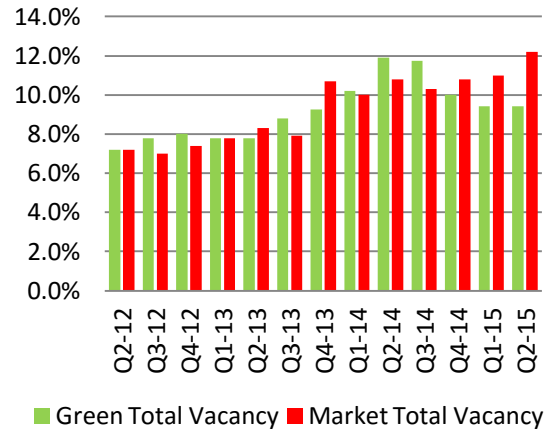
Better air quality, fewer toxins in the air and better resource management cut costs and contribute to higher productivity levels.

For a building owner it's all about occupancy levels and rents. The majority of class "A" office buildings in this city carry a LEED gold or platinum certification. We are witnessing a flight to quality as tenants seek to increase their competitive advantage through a defined improvement in their workplace. The Class "A" market is outperforming the "B" and "C" market.

Last quarter 3 BOMA BEST level 2 certified buildings were added to the green inventory; 450 March Road, 1001 Farrar Road and 99 Metcalfe, all of which are managed by Morguard.

Green buildings consistently demonstrate higher occupancy levels. From the tenant's perspective, better day lighting, better ventilation and air quality lead to a healthier, happier work force which in turn leads to higher productivity and contributes to the top line and bottom line of the organization. Over 968,000 square feet of available green office space located in all parts of the city, can be leased without any cost premiums to tenants.

Vacancy Trend



Ottawa Green Buildings

LEED

5,564,717 Square Feet*

Certified by the CaGBC, Platinum, Gold Silver or Certified

BOMA BEST

6,338,823 Square Feet*

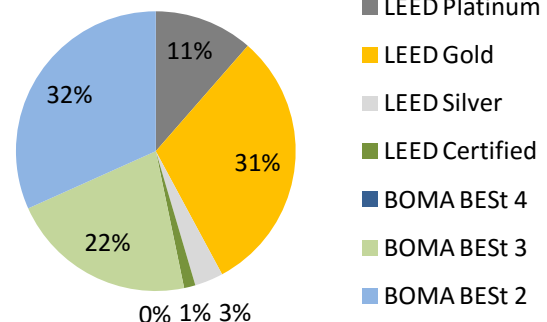
Certified by BOMA Canada, Level 2 or Greater

921,400 Square Feet

Of Certified Green Space available for lease or sublease in all parts of Ottawa

* 2,135,033 Square Feet carry dual certifications

Green by Certification





GREEN BUILDING SHOWCASE

Photo	Building Details		Availability																														
<div>Manulife Place</div> 	Building Address	55 Metcalfe	<table><thead><tr><th>Suite</th><th>Area (SF)</th><th>Type</th></tr></thead><tbody><tr><td>240</td><td>7,157</td><td rowspan="5">Office </td></tr><tr><td>300</td><td>22,055</td></tr><tr><td>610</td><td>2,801</td></tr><tr><td>650</td><td>2,912</td></tr><tr><td>800</td><td>2,807</td></tr></tbody></table>			Suite	Area (SF)	Type	240	7,157	Office 	300	22,055	610	2,801	650	2,912	800	2,807														
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	Office Class	A																															
	Total Office Area	327,024 (sq. ft.)																															
	Number of Floors	16																															
Typical Floor(sq. ft.)	21,000 (sq. ft.)																																
Year Built	1987																																
Parking Ratio (1 per)	1,500 (sq. ft.)																																
Total Available Area	37,732 (sq. ft.)																																
Largest Contiguous Available	22,055 (sq. ft.)																																
Green Certification LEED Gold EBOM																																	
<div>275 Slater</div> 	Building Address	275 Slater	<table><thead><tr><th>Suite</th><th>Area (SF)</th><th>Type</th></tr></thead><tbody><tr><td>402</td><td>5,763</td><td rowspan="12">Office </td></tr><tr><td>501</td><td>7,079</td></tr><tr><td>502</td><td>1,015</td></tr><tr><td>601</td><td>6,980</td></tr><tr><td>701</td><td>5,263</td></tr><tr><td>820</td><td>3,273</td></tr><tr><td>830</td><td>1,582</td></tr><tr><td>1003</td><td>1,887</td></tr><tr><td>1110</td><td>7333</td></tr><tr><td>1600</td><td>12,254</td></tr><tr><td>1700</td><td>12,254</td></tr><tr><td>1800</td><td>12,254</td></tr></tbody></table>			Suite	Area (SF)	Type	402	5,763	Office 	501	7,079	502	1,015	601	6,980	701	5,263	820	3,273	830	1,582	1003	1,887	1110	7333	1600	12,254	1700	12,254	1800	12,254
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Office Class	B																																
Total Office Area	218,718 (sq. ft.)																																
Number of Floors	20																																
Typical Floor	11,798 (sq. ft.)																																
Year Built	1968																																
Total Available Area	79,157 (sq. ft.)																																
Largest Contiguous Available	36,762 (sq. ft.)																																
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<div>World Exchange Plaza</div> 	Building Address	100 Queen/45 O'Connor	<table><thead><tr><th>Suite</th><th>Area (SF)</th><th>Type</th></tr></thead><tbody><tr><td>700 (100)</td><td>20,207</td><td rowspan="11">Office  </td></tr><tr><td>800</td><td>20,207</td></tr><tr><td>940</td><td>7,550</td></tr><tr><td>1050</td><td>6,990</td></tr><tr><td>500 (45)</td><td>3,801</td></tr><tr><td>530</td><td>2,130</td></tr><tr><td>600</td><td>3,535</td></tr><tr><td>660</td><td>1,952</td></tr><tr><td>830</td><td>1,408</td></tr><tr><td>1240</td><td>3,820</td></tr><tr><td>1400</td><td>21,908</td></tr></tbody></table>			Suite	Area (SF)	Type	700 (100)	20,207	Office  	800	20,207	940	7,550	1050	6,990	500 (45)	3,801	530	2,130	600	3,535	660	1,952	830	1,408	1240	3,820	1400	21,908		
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Office Class	A																																
Total Office Area	250,000/414,516 (sq. ft.)																																
Number of Floors	16 /20																																
Typical Floor	19,263/21,000 (sq. ft.)																																
Year Built	2001/1991																																
Parking Ratio (1 per)	1,500 (sq. ft.)																																
Total Available Area	78,968 (sq. ft.)																																
Largest Contiguous Available	40,414 (sq. ft.)																																
LEED Gold EBOM & BOMA BEST 3																																	



Green inventory by submarket

SUBMARKET	NO. OF BUILDINGS	INVENTORY (SF)	TOTAL VACANCY RATE	DIRECT VACANCY RATE
Downtown Core	24	6,528,017	9.6.%	7.9%
Byward Market	2	254,051	3.0%	3.0%
Gloucester	5	513,958	11.5%	10.6%
Ottawa East	3	452,517	7.2%	7.0%
Kanata	9	923,418	9.0%	9.0%
Ottawa West	9	795,442	11.4%	11.4%
Nepean	3	301,104	9.3%	0%
Total	55	9,768,507	9.4%	8.0%

Green inventory by certification

LEVEL	AREA BY LEVEL (SF)	DUAL CERTIFIED	GREEN INVENTORY (SF)	NO. OF BLDGS	TOTAL VACANCY RATE	DIRECT VACANCY RATE
BES ^t 2	3,774,707	(2)602,853	3,171,854	28	5.2%	4.74 %
BES ^t 3	2,564,116	(4)1,532,180	1,031,936	14	14.7%	14.21%
BES ^t 4	-		-	-	-	-
Certified	156,000		156,000	1	18.0%	-
Silver	392,817		392,817	3	28.3%	31.2%
Gold	3,655,755	6 buildings	3,655,755	11	11.5%	8.83%
Platinum	1,360,145		1,360,145	4	5.4%	5.31%
Totals	11,903,540	2,135,033	9,210,489	55	9.4%	8.3%

Total Vacancy includes sublet space –Direct vacancy is space direct from the landlord



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 an international real estate services firm 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 Founder and Board President at Ottawa Centre Eco-District – Greening the core, advancing the economy.



**The Better
Buildings
Breakfast**



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 an 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 Workplaces. 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. hosts 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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