

MARKETBEAT

OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



1Q08

ECONOMY

Overall real gross domestic product (GDP) expanded by an estimated 2.6% in 2007, outperforming all other Ontario census metropolitan areas (CMA's). Both healthy domestic demand and a strengthening high-tech sector played key roles in this growth.

Despite the troubles in the U.S. economy, spending on high-tech goods and services is expected to continue to rise, although it will be at a slower pace. The dollar is also projected to edge down slowly, averaging US\$0.96 in 2008. As a result, manufacturing output growth will ease to 3.4% in 2008. However, output in the commercial services sector is expected to expand by 3.2%.

The unemployment rate for Ottawa-Gatineau increased slightly in February to 4.5%. The change was fuelled by an increase in unemployment of approximately 1,100, along with a 900 person drop in employment, which fell to 664,400 in February. However employment continues to be higher than a year ago when there were close to 631,400 employed in the Ottawa-Gatineau region. The high-tech sector experienced another month-over-month decline in employment in February, with the number of people employed declining by 2,000 to 65,600. On a positive note the industry has more workers than a year ago, when there were 57,900 people employed in the sector.

In 2008 growth in the local economy is expected to remain consistent with real GDP growth forecasted to be 2.7%. This steady economic growth is expected to manifest itself into further job gains with employment expected to increase by 1.3% in 2008.

OVERVIEW

Vacancy in the industrial market edged higher this quarter to 5.4%, up from 5.1% at the end of 2007. Similar to last quarter the increase in vacancy was the result of a large block of space coming on the market. For this quarter it was close to 67,000 square feet (sf) released by Alcatel. Currently there is close to 1.2 million square feet (msf) available for lease, with approximately 20% of that being available for sublet.

Leasing activity was fairly quiet this quarter with close to 147,000 sf. With the western sub-markets continuing to have the vast majority of large blocks of specialized space, leasing continues to be focused in the eastern sub-markets, accounting for over 70% of all transactions.

Although demand was not terribly robust this quarter, there was enough activity to avoid absorption heading into negative territory. For this quarter there was over 10,000 sf of positive absorption, a significant improvement from the last six months of 2007.

OUTLOOK

Vacancy should hold fairly steady for the remainder of the year as no new large blocks of space are expected to come onto the market. It is expected there will be continued steady leasing activity through 2008, particularly in the eastern sub-markets as spaces under 10,000 sf should not be on the market for any significant length of time. This along with new construction expected to be completed by the end of 2008 will boost absorption.

BEAT ON THE STREET

"Currently vacancy in Kanata exists in large blocks that are geared towards high tech/flex space requirements. The majority of this space has been on the market for a lengthy amount of time because of its specialized nature which is not currently in high demand."


-Peter Earwaker, Senior Sales Representative


ECONOMIC INDICATORS


	2006	2007	2008F
GDP Growth	3.0%	2.6%	2.7%
CPI Growth	1.7%	2.0%	1.9%
Unemployment	5.2%	5.5%	6.1%
Employment Growth	4.0%	0.9%	1.3%

Source: Conference Board of Canada

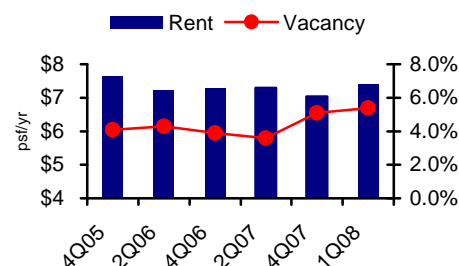
MARKET FORECAST

LEASING ACTIVITY should hold steady through 2008 due to continued demand, particularly in the east. 

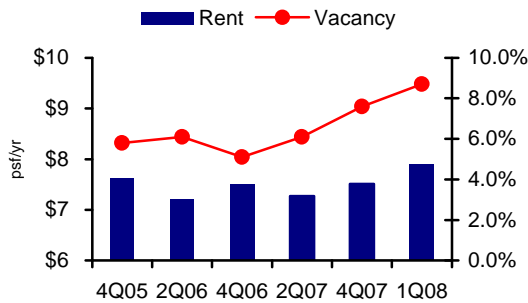
DIRECT ABSORPTION will rebound as no new large blocks of space are expected to be released onto the market. 

CONSTRUCTION was completed on one spec-build project and two build-to-suits are expected to be completed by year-end. 

OVERALL RENT VS. VACANCY RATE

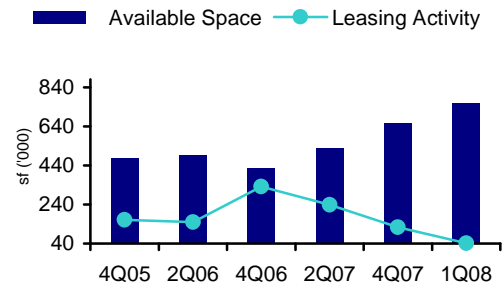


Overall Rental vs. Vacancy Rate



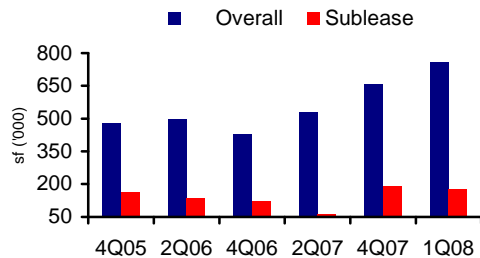
- Vacancy continues to climb in the west, rising to 8.7%, over a percentage point higher than last quarter. Driving forces behind this increase were the additional Alcatel space coming onto the market as well as multiple spaces in the Colonnade Business Park becoming vacant.
- Despite increases in vacancy over the last nine months, rental rates in the western sub-markets have continued to creep upwards. Current average rental rates are \$7.90 per square foot (psf), an increase of over 5% since the end of 2007.

Overall Available Space vs. Leasing Activity



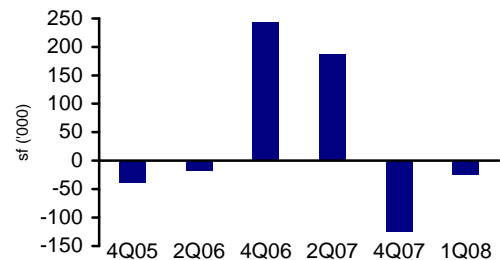
- Space available for lease in the western sub-markets reached close to 758,000 sf in the first quarter of this year, its highest amount available in over 5 years. Kanata has the lion's share of that vacant space with close to 471,000 sf.
- Leasing activity was quiet this quarter with just over 41,000 sf, with only three transactions over 5,000 sf. As more high-tech related space has become available over the last year, opportunities to lease traditional warehouse/showroom space have shrunk which has had a negative impact on leasing activity.

Available Space Trends Overall vs. Sublease



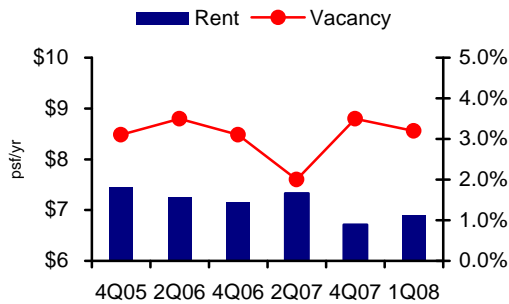
- The amount of space available for sublease compared to overall space available continues to be fairly insignificant. Currently there is close to 177,000 sf available for sublease in the western sub-markets, representing about 23% of all square footage that is available.
- The entirety of sublet space available exists in just three properties. One in Kanata, one in Ottawa South sub-market, and one in the Colonnade Business Park.

Absorption



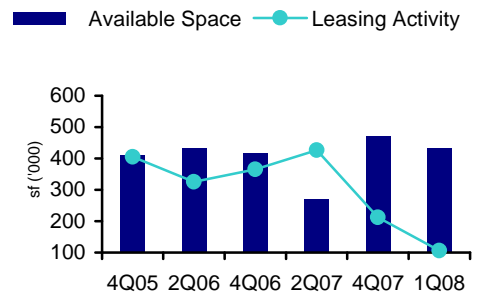
- Demand in the western sub-markets was not strong enough this quarter to counteract the effect of the Alcatel space coming on the market. As a result there was close to 26,000 sf of negative absorption this quarter. The completion of 200 Iber Road did not boost absorption as this property came on the market vacant.
- Absorption should begin to rebound next quarter as no new large blocks of space are expected to come onto the market, and smaller spaces under 10,000 sf should continue to be leased up.

Overall Rental vs. Vacancy Rate



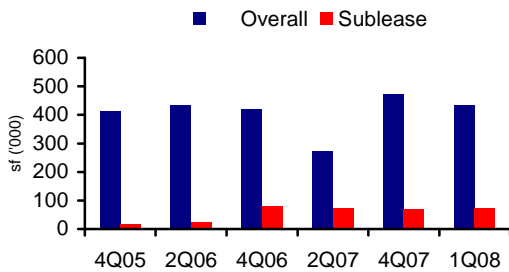
- Vacancy eased back down in the eastern sub-markets this quarter, declining to 3.2% from 3.5% at the end of 2007.
- Average rental rates are currently \$6.90, up slightly from last quarter's numbers. All but one sub-market posted the same or a higher rental rate than at the end of 2007. This trend should continue as tight vacancy will continue through the end of 2008.

Overall Available Space vs. Leasing Activity



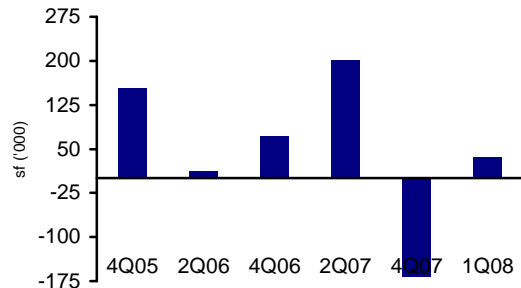
- Available space contracted this quarter, now sitting just shy of 434,000 sf. A large portion of this is the still vacant 133,000 sf facility formerly occupied by Ottawa Regional Hospital Linen.
- Leasing activity continues to head downwards, with close to 106,000 sf. Continuing tight vacancy and the type of space that is becoming available have both played significant roles in this slowdown.

Available Space Trends Overall vs. Sublease



- The amount of sublet space available increased slightly this quarter to close to 71,000 sf. Sublet availability is not widespread and is only located in four sub-markets, with two buildings alone accounting for close to 43,000 sf.
- The amount of space available for sublet should hold fairly steady through 2008 as the majority of tenants are not decreasing their space requirements. They are also not able to move within the eastern sub-market area due to tight market conditions.

Absorption



- Absorption rebounded this quarter, rising to just over 36,000 sf of positive absorption. This was due to increased demand in the Ottawa Business Park as well as the Sheffield/Lancaster area.
- Absorption should continue to remain on the positive side for the remainder of the year as new large blocks of space are expected to come onto the market and demand remains high in the eastern sub-markets. The completion of two new build-to-suit projects towards the end of 2008 will also provide a boost to absorption numbers.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Average Rental Rate
Kanata	3,275,015	57	14.4%	12.1%	17,573	0	76,053	(49,103)	\$7.52
Bell's Corners	363,842	12	1.4%	1.4%	0	0	0	0	\$12.00
Morrison/Queensview	415,519	9	3.0%	3.0%	13,300	0	0	13,300	\$7.50
Woodward/Carling	530,800	22	0.3%	0.3%	0	0	0	0	N/A
Ottawa Centre	904,150	30	10.0%	10.0%	0	0	0	20,500	\$6.50
Ottawa South	695,111	11	11.1%	4.2%	0	0	0	(9,750)	\$11.63
West Merivale	554,593	27	0.4%	0.4%	0	0	0	11,922	\$8.04
East Merivale	557,403	25	0.6%	0.6%	1,000	0	0	0	\$5.00
Colonnade	832,118	27	8.8%	2.5%	4,520	0	0	(14,685)	\$9.55
Rideau Heights	622,918	28	3.3%	3.3%	4,780	0	0	2,276	\$7.80
South Walkley	366,680	15	0.0%	0.0%	0	0	0	0	N/A
Ottawa Business Park	1,321,259	30	1.4%	0.7%	22,922	0	0	22,922	\$9.84
Coventry/Belfast	1,890,479	50	3.0%	3.0%	32,600	0	0	(11,210)	\$8.66
Cyrville	2,182,122	60	1.8%	0.9%	12,417	0	0	737	\$6.50
Sheffield	3,276,043	63	6.1%	5.0%	10,957	0	0	(5,526)	\$6.05
Sheffield/Lancaster	1,170,820	20	3.9%	3.6%	19,405	0	0	22,032	\$8.00
Stevenage/Belgreen	1,725,109	48	2.5%	2.5%	3,645	65,000	0	3,400	\$7.22
South Gloucester/Albion	387,097	15	3.0%	3.0%	0	0	0	0	\$7.50
Queensway	639,185	22	0.6%	0.6%	3,714	0	0	3,714	\$9.00
Orleans	473,365	13	3.2%	3.2%	0	0	0	0	\$7.50
Total	22,183,628	584	5.4%	4.3%	146,833	65,000	76,053	10,529	\$7.41

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2370 Walkley Road	Ottawa Business Park	N/A	15,922	Warehouse/Distribution
2710 Lancaster Road	Sheffield Industrial Park	Asbex Ltd.	8,471	Light Industrial

SIGNIFICANT 1Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1682 Vimont Court	Orleans	Dymon Management	105,014	\$7,000,000

SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
200 Iber Road	Kanata	N/A	76,053	01/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1101 Ages Drive	Stevenage/Belgreen	Princess Auto	40,000	03/08
1091 Ages Drive	Stevenage/Belgreen	Gentek	25,000	04/08



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