

# MARKETBEAT

## OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

2Q08

### ECONOMY

It is anticipated that both domestic and external demand will continue to cool throughout the remainder of 2008. However the situation should improve into 2009 as the U.S. economy rebounds and local construction activity accelerates with several non-residential projects. It is forecasted that real gross domestic product growth in the Ottawa-Gatineau metropolitan area should reach 2.6% in 2008 and improve to 2.9% in 2009.

Unemployment in the Ottawa-Gatineau region rose slightly in May, edging up to 5.0%. Unlike 2007 employment growth has been relatively flat so far this year, with employment numbers down by about 2,300. However on a year-over-year basis employment has risen by roughly 21,600 jobs over the last 12 months. During this same time frame high-tech growth was fairly stagnant, adding approximately 1,100 jobs. As of May the technology sector employed around 61,300.

The high-tech sector in Ottawa has not been immune to the effects of a strong Canadian dollar and has experienced some fall out from weaker demand for high-tech goods and services from the U.S. Manufacturing output growth is expected to slow to 3.3% this year from 7.3% in 2007. At the same time output in the commercial services sector is expected to expand by 2.6% during 2008.

### OVERVIEW

There was a marginal decrease in vacancy in the second quarter with vacancy now at 5.2%, two tenths of a percentage point decrease from the first quarter of this year. For the first time in a year there were no large blocks of space (i.e. over 50,000 square feet) that came on the suburban west market. Currently there is 1.15 million square feet (msf) on the market, about 40,000 square feet (sf) less than the first quarter.

Leasing activity was also similar to last quarter's figures with just over 170,000 sf. Although the eastern sub-markets generated more leasing activity with over 90,000 sf, the western sub-markets were not far behind at close to 80,000 sf. This marks a departure from previous quarters when activity in the eastern sub-markets far outpaced what was occurring in the west.

Although demand remains fairly sedate, it did accelerate from last quarter with over 62,000 sf of positive absorption. Similar to leasing activity, demand was fairly split between the western and eastern markets. The eastern sub-markets had positive absorption that was close to 32,000 sf while the western sub-markets generated just over 30,000 sf of positive absorption.

### OUTLOOK

Vacancy may increase slightly during the second half of the year as over 95,000 sf of additional space is expected to come onto the market. Unfortunately for Kanata this means an additional 63,500 sf of space to contend with. Although absorption will take an initial hit when this space is released, both leasing activity and demand should continue to make small, but steady gains through to the end of 2008.

### BEAT ON THE STREET

"There seems to be no end in sight for a cure to Kanata industrial vacancy. By contrast the eastern sub-markets register an astonishing low vacancy of 1.8% when you remove the two blocks of space located in Orleans and the Sheffield Industrial Park. All institutional portfolios are extremely healthy."

– Peter Earwaker,  
Senior Sales Representative

### ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth	3.5%	2.7%	2.6%
CPI Growth	1.7%	1.9%	0.9%
Unemployment	5.2%	5.2%	5.5%
Employment Growth	4.0%	1.3%	1.1%

Source: Conference Board of Canada

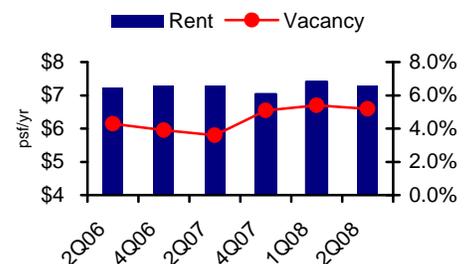
### MARKET FORECAST

LEASING ACTIVITY should remain consistent through 2008 as the most desirable spaces will be leased quickly. 

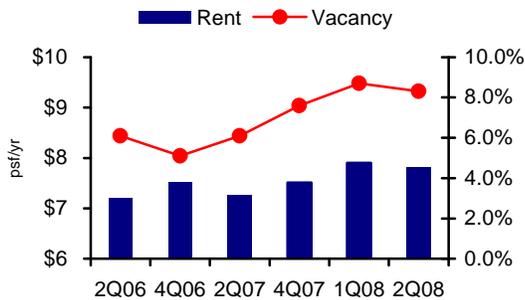
DIRECT ABSORPTION may head into negative territory as an additional 95,000 sf will come to the market by year-end. 

CONSTRUCTION continues on two build-to-suit projects in the east. 

### OVERALL RENT VS. VACANCY RATE

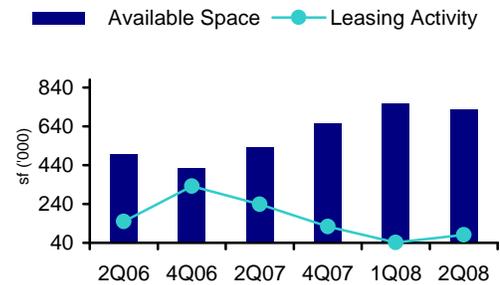


### Overall Rental vs. Vacancy Rate



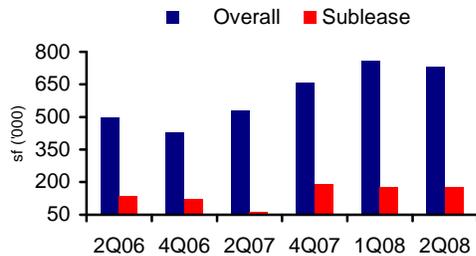
- After a year of steady vacancy increases in the western sub-markets, vacancy edged back down this quarter to 8.3%. This is down from 8.7% last quarter. This decline was driven by multiple sub-markets posting small declines in vacancy from last quarter.
- There was virtually no change in asking rental rates this quarter. Currently the average asking rental rate in the western sub-markets is \$7.82.

### Overall Available Space vs. Leasing Activity



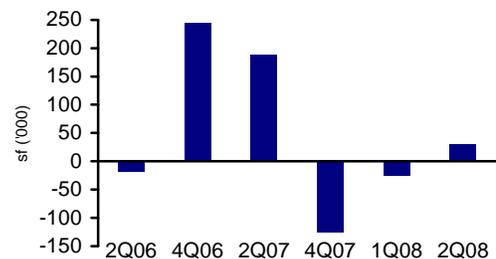
- Mirroring vacancy, the amount of available space in the western sub-markets declined this quarter to close to 728,000 sf. The majority of that vacant space continues to be located in Kanata, where close to 471,000 sf is available.
- Leasing activity also rebounded this quarter, reaching close to 80,000 sf. While the vast majority of transactions were under 5,000 sf there were three transactions over 10,000 sf in three separate sub-markets.

### Available Space Trends Overall vs. Sublease



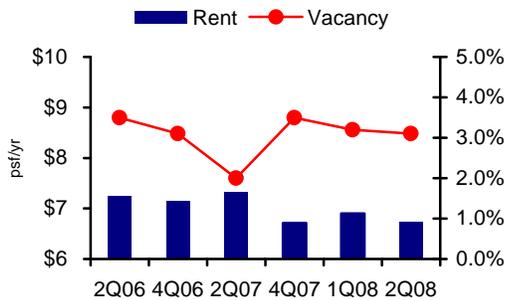
- The amount of sublet space available has remained consistent over the last nine months. In fact, the amount of sublet space available in the western sub-markets is identical to last quarter with close to 177,000 sf.
- There was also no change in where this sublet space is located as it continues to be found in three different buildings in three separate sub-markets.

### Absorption



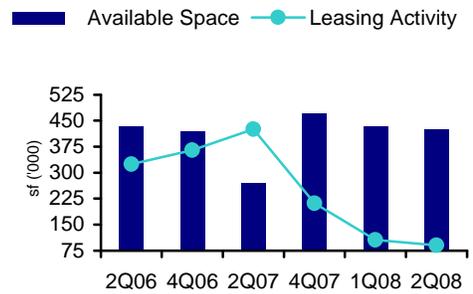
- Demand strengthened in the western sub-markets this quarter as absorption headed into positive territory with just over 30,000 sf. This can largely be attributed to a decrease in available space in the Ottawa Centre and Ottawa South sub-markets.
- Demand is expected to hold steady through to the end of the year. Although absorption will be impacted negatively by 63,500 sf expected to come on the market next quarter, by the end of the year absorption should balance out as the smaller, more traditional industrial spaces continue to be leased quickly.

### Overall Rental vs. Vacancy Rate



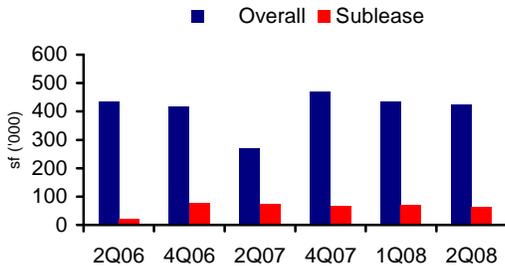
- Vacancy in the eastern sub-markets continues to be stable. This quarter vacancy is 3.2%, unchanged from last quarter.
- Asking rental rates contracted slightly, now averaging \$6.74 in the eastern sub-markets. This decline can be attributed to the fact that some of the space that has become available this quarter is located in less expensive buildings.

### Overall Available Space vs. Leasing Activity



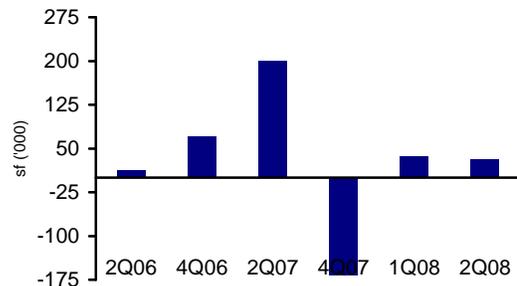
- There was minimal change this quarter in the amount of square footage available in the eastern sub-markets. Currently there is around 424,000 sf available, around 10,000 sf less than last quarter.
- Leasing activity in the eastern sub-markets continues to ease off. For this quarter it was just over 90,000 sf. All of the transactions were under 10,000 sf except for two. Leasing activity should continue to slowdown throughout the remainder of the year as the “in-demand” type spaces become increasingly difficult to find.

### Available Space Trends Overall vs. Sublease



- Sublet space in the eastern sub-markets has remained consistent for over a year. Currently there is just over 64,000 sf available for sublease. Sublet availability is now only located in two sub-markets – the Cyrville Industrial Park and the Sheffield Industrial Park.
- Little change is expected through to the end of the year as there are virtually no tenants looking to move, or in fact being able to move, or have the need to make some of their existing space available.

### Absorption



- Absorption continued to remain in positive territory this quarter at just over 32,000 sf.
- Absorption should remain consistent through the second half of the year as demand remains high. Absorption will also receive a boost as two new build-to-suits are completed over the coming months totaling 65,000 sf.

### 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%	19,573	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	6.2%	6.2%	13,300	0	0	0	\$8.01
Woodward/Carling	530,800	22	0.0%	0.0%	12,321	0	0	1,750	N/A
Ottawa Centre	904,150	30	8.8%	8.8%	12,737	0	0	31,437	N/A
Ottawa South	695,111	11	7.9%	0.9%	26,500	0	0	13,087	\$8.18
West Merivale	554,593	27	0.0%	0.0%	3,545	0	0	14,117	N/A
East Merivale	587,403	26	0.2%	0.2%	4,366	0	0	2,366	\$7.75
Colonnade	786,560	27	9.2%	2.8%	21,383	0	0	(13,939)	\$10.21
Rideau Heights	622,918	28	2.9%	2.9%	7,323	0	0	4,819	\$7.46
South Walkley	441,680	15	0.0%	0.0%	0	0	0	0	N/A
Ottawa Business Park	1,321,259	30	0.3%	0.3%	38,705	0	0	38,655	\$12.00
Coventry/Belfast	1,829,526	50	1.5%	1.5%	47,510	0	0	18,510	\$7.00
Cyrville	2,182,122	60	2.5%	0.9%	12,417	0	0	(14,263)	\$6.50
Sheffield	3,276,043	63	5.6%	4.7%	29,727	0	0	13,244	\$6.00
Sheffield/Lancaster	1,170,820	20	3.4%	3.4%	31,065	0	0	28,376	\$7.86
Stevenage/Belgreen	1,748,009	49	2.5%	2.5%	26,771	65,000	0	25,381	\$8.08
South Gloucester/Albion	387,097	15	1.5%	1.5%	0	0	0	6,145	\$9.00
Queensway	639,185	22	0.5%	0.5%	9,714	0	0	3,914	\$9.00
Orleans	458,369	13	14.5%	14.5%	0	0	0	(51,450)	\$7.11
<b>Total</b>	<b>22,190,021</b>	<b>586</b>	<b>5.2%</b>	<b>4.1%</b>	<b>316,957</b>	<b>65,000</b>	<b>76,053</b>	<b>73,046</b>	<b>\$7.29</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1630-1690 Woodward Drive	Woodward/Carling Business Park	HST Engineering	12,321	Mixed
2935 Conroy Road	South Walkley Business Park	University of Ottawa	10,136	Warehouse
1220 Old Innes Road	Sheffield Industrial Park	Midbec Ltd.	8,270	Industrial Condominiums

#### SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
148 Colonnade Road	Colonnade Business Park	Conundrum Capital Corporation	20,000	\$8,430,663
1840 Walkley Road	South Walkley Business Park	Dymon Management	100,000	\$6,060,000
15 Grenfell Crescent	West Merivale Business Park	Conundrum Capital Corporation	14,960	\$4,255,102

#### SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1101 Ages Drive	Stevenage/Belgreen	Princess Auto	40,000	09/08
1091 Ages Drive	Stevenage/Belgreen	Gentek	25,000	12/08



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