

MARKETBEAT

OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

4Q08

ECONOMY

Defying what is occurring on a national level, Ottawa-Gatineau's unemployment rate dropped by 0.2 percentage points in December to 4.5%. This decline can be attributed to a drop in people seeking work along with a fall in employment levels. Employment decreased by about 1,500 people between November and December to 676,900, although this figure is still 1.6% higher than one year ago. The retail sector achieved one of the largest gains in employment over the last 12 months, adding 9,000 employees from December 2007. On the other side of the coin, one of the largest year-over-year declines for the region occurred in the manufacturing sector which, as of November, saw a 19.6% drop in employment to 36,100 people. The tech sector has also trended downwards through 2008 as employment has declined by approximately 2,700 jobs to 56,600.

OVERVIEW

Vacancy edged up slightly this quarter to finish the year at 5.1%, three-tenths of a percentage point increase from last quarter. Kanata continued to shed space this quarter as two substantial blocks of space came on the market that, like their predecessors in previous quarters, may prove difficult to lease. This will be due to the sheer size of the space available and the current lack of demand from tenants who could possibly have a requirement for premises of over 50,000 square feet (sf).

Leasing activity slowed slightly this quarter to close to 126,000 sf to bring the year-end total to just shy of 634,000 sf. As has been the case for the entire year the eastern sub-markets dominated leasing activity in the city, in fact 70% of all leasing activity in the city over the course of 2008 was located in the eastern sub-markets. This figure is not surprising as more options became available in the east that were the most desirable to tenants and their requirements. Over the course of 2008 the western sub-markets have become dominated by large blocks of high-tech related space for which demand, and therefore leasing activity, has been lack luster.

Absorption was minimal this quarter with close to 5,000 sf of positive absorption. This brings the year-end total to just over 85,000 sf. Despite the strength of the eastern sub-markets over the course of 2008, the weakening west – primarily Kanata – acted as a drag on growth.

OUTLOOK

Vacancy is projected to rise over the course of the next six months as an additional 80,000 sf comes on the market, fairly evenly distributed across the city. With the largest block of space at around 39,000 sf, the remaining smaller spaces should be leased fairly quickly and will not have a significant impact on vacancy. New construction will be the story heading into 2009 as approximately 209,000 sf should be completed by the end of the year.

BEAT ON THE STREET

"Tight market conditions in the east end of the city have kept rates in check. However we have seen downward pressure on rates in the western submarkets, particularly in Kanata, where asking net rental rates have dropped in some instances by a dollar."

– Ryan Barresi, Sales Representative

ECONOMIC INDICATORS

	2006	2007	2008
GDP Growth	3.3%	2.4%	1.2%
CPI Growth	1.7%	1.9%	2.7%
Unemployment	5.2%	5.2%	5.0%
Employment Growth	4.0%	1.3%	2.4%

Source: Conference Board of Canada

MARKET FORECAST

LEASING ACTIVITY slowed slightly as many tenants took a more cautious approach to their space requirements. ⇄

DIRECT ABSORPTION continued to be minimal in the fourth quarter as leasing activity barely counteracted the new space coming on the market. ⇄

CONSTRUCTION was completed on two build-to-suits in the eastern market totalling 65,000 sf. ↑

OVERALL RENT VS. VACANCY RATE

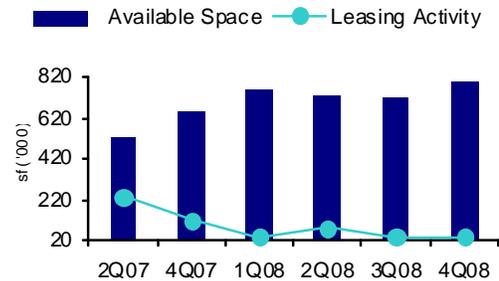


Overall Rental vs. Vacancy Rate



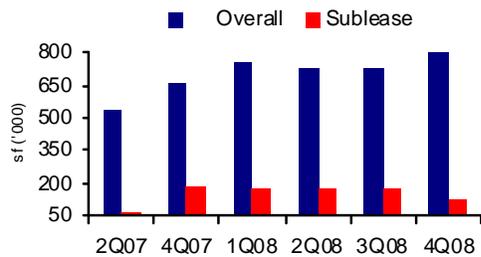
- Vacancy in the western sub-markets resumed its climb upwards this quarter after minimal changes during the first nine months of the year. Vacancy now sits at 9.1%, an increase of close to a percentage point from last quarter. An increase in vacancy of close to three percentage points in Kanata was the deciding factor behind the overall increase in vacancy in the western sub-markets.
- Rental rates remained static this quarter with an average asking rental rate in the western sub-markets of \$7.79 per square foot (psf). Only slight changes are expected through 2009.

Overall Available Space vs. Leasing Activity



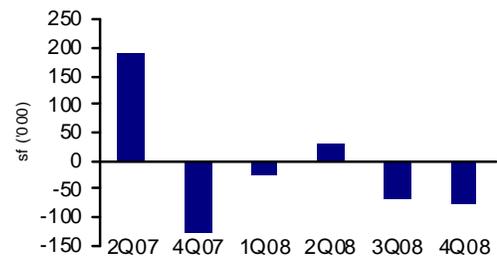
- The amount of available space located in the western sub-markets increased this quarter to close to 800,000 sf, its highest level in well over a year. Kanata alone accounted for 635,000 sf, just shy of 80% of the total amount available.
- Leasing activity continued to slow in the fourth quarter, declining to approximately 34,000 sf. This brings the year-end total to close to 194,000 sf. The largest transaction was located in Kanata, a short-term deal for 12,500 sf located on Terry Fox Drive. Unless there are significant transaction(s) in Kanata, leasing activity is anticipated to remain minimal into 2009.

Available Space Trends Overall vs. Sublease



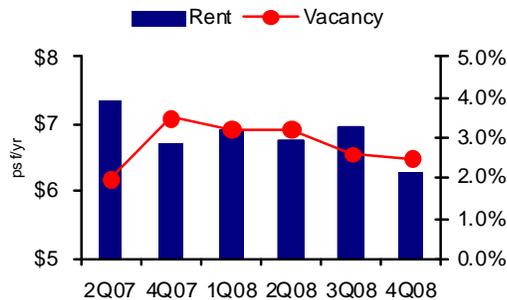
- For the first time in 2008, the amount of sublet space available in the western sub-markets changed – this quarter it decreased to close to 129,000 sf. Space available for sublet now makes up 16% of the total amount of vacant space available.
- The sole reason behind this decrease was the removal of 48,000 sf located at 185 Corkstown. This had no impact on leasing activity as the space was removed from the market and not leased by an outside party.

Absorption



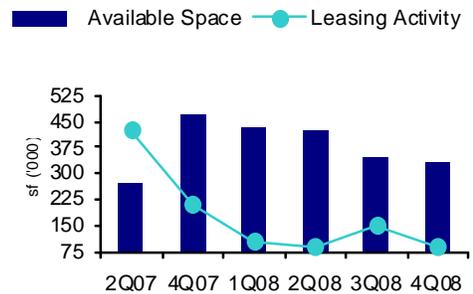
- Absorption remained in negative territory this quarter, with the western sub-markets posting close to 75,000 sf, bringing the year-end total to a negative 138,000 sf. Absorption figures were strongly impacted this quarter by an additional 112,000 sf of space that came on the market in Kanata.
- In the short term, absorption is anticipated to remain in negative territory. The best case scenario would be very slight positive amounts as an additional 49,000 sf is projected to come on the market in the next six months. Absorption levels hinge on what happens in Kanata as almost all of the spaces available in the western areas that are over 10,000 sf are located in this sub-market.

Overall Rental vs. Vacancy Rate



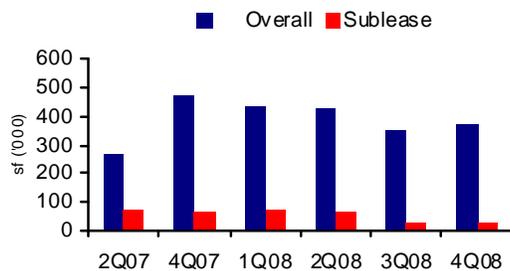
- Vacancy remained virtually unchanged from last quarter, declining one tenth of a percentage point to reach 2.5%.
- Rental rates in the eastern sub-markets continued to fluctuate this quarter, with average asking rental rates declining to \$6.29 psf. This drop was not due to changing market conditions but rather more expensive than average space that was available last quarter in the Coventry/Belfast area came off the market. This is what led to the overall decline.

Overall Available Space vs. Leasing Activity



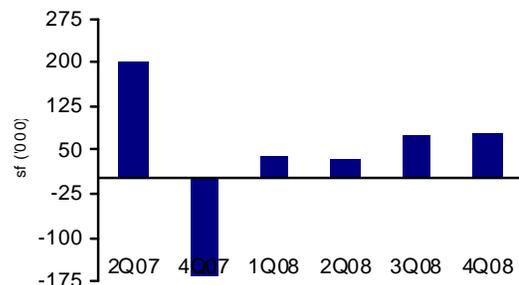
- The amount of square footage available declined this quarter, albeit not dramatically, to close to 336,000 sf. This is a drop of 15,000 sf from last quarter.
- Leasing activity eased back down to 91,000 sf in the fourth quarter, bringing the year-end total to 440,000 sf. What was unique about the leasing activity this quarter is that there were at least five known leasing transactions over 10,000 sf that were located throughout the eastern suburbs; something that has not occurred since the beginning of the year.

Available Space Trends Overall vs. Sublease



- The amount of sublet space increased slightly from last quarter to reach 29,000 sf. This sublet space is located in three separate buildings in the eastern sub-markets.
- It is anticipated that sublet space will remain low heading into 2009 as the vast majority of tenants in the eastern sub-markets are firm in their space requirements.

Absorption



- Absorption was very close to last quarter, with just over 79,000 sf of positive absorption. This brings the year-end total to close to 223,000 sf. Absorption would have been higher this quarter due to the numerous transactions that took place, but it was tempered somewhat due to 36,000 sf coming on the market in Stevenage/Belgreen sub-market.
- Although an additional 32,000 sf of space is forecasted to come on the market over the next six months, activity should be brisk enough to keep absorption in positive territory. Absorption will also be boosted with the completion of three new industrial buildings by the end of 2009 – one build-to-suit and two speculative builds. It is anticipated that there will be very little square footage available for lease once the speculative buildings are completed.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	EOY Leasing Activity	Under Construction	EOY Construction Completions	EOY Overall Absorption	Average Rental Rate
Kanata	3,379,000	57	18.8%	16.5%	44,310	0	76,053	(212,975)	\$7.44
Bell's Corners	363,842	12	1.4%	1.4%	2,880	0	0	0	N/A
Morrison/Queensview	415,519	9	4.1%	4.1%	31,159	0	0	8,790	\$7.97
Woodward/Carling	540,800	23	1.4%	1.4%	12,321	0	0	(5,996)	\$7.50
Ottawa Centre	833,814	29	1.6%	1.6%	12,737	0	0	26,942	\$12.00
Ottawa South	695,111	11	2.4%	2.4%	29,376	0	0	50,669	\$7.50
West Merivale	554,593	27	0.3%	0.3%	6,875	0	0	12,577	\$6.95
East Merivale	587,403	26	3.7%	3.7%	6,126	0	0	(18,439)	\$9.18
Colonnade	786,560	27	9.0%	2.3%	24,158	0	0	(12,104)	\$10.03
Rideau Heights	622,918	28	1.6%	1.6%	23,573	0	0	12,909	\$11.55
South Walkley	441,680	15	0.0%	0.0%	0	0	0	0	N/A
Ottawa Business Park	1,321,259	30	0.2%	0.2%	38,705	0	0	39,505	\$12.00
Coventry/Belfast	1,886,526	51	2.1%	2.1%	67,268	0	0	5,097	N/A
Cyrville	2,190,942	60	1.7%	1.3%	70,268	0	0	2,433	\$6.50
Sheffield	3,276,043	63	4.5%	4.3%	58,712	0	0	49,371	\$5.98
Sheffield/Lancaster	1,170,820	20	2.3%	2.3%	66,636	0	0	40,833	\$7.60
Stevenage/Belgreen	1,813,009	51	3.7%	2.8%	59,539	86,215	65,000	67,339	\$7.90
South Gloucester/Albion	387,097	15	0.0%	0.0%	5,600	0	0	11,745	N/A
Queensway	639,185	22	0.8%	0.8%	11,214	122,500	0	2,414	\$9.00
Orleans	458,369	13	2.4%	2.4%	62,450	0	0	4,000	\$7.50
Total	22,364,490	589	5.1%	4.4%	633,907	208,715	141,053	85,110	\$7.37

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2655 Lancaster Road	Sheffield Industrial Park	PWGSC	25,746	Warehouse/Office
Hawthorne Road	Stevenage/Belgreen	Motion Specialties	15,000	Showroom/Warehouse/Office
3234 Hawthorne Road	Stevenage/Belgreen	Centrestone Granite	10,395	Warehouse

SIGNIFICANT 4Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
900 Ages & 2855 Swansea	Stevenage/Belgreen	Standard Life	87,391	\$10,250,000
3200 Rideau Road	South Gloucester/Albion	RW Tomlinson Limited	200,000	\$3,300,000
1641-1651 Comstock	Cyrville Business Industrial Park	6751431 Canada Inc.	87,120	\$2,675,000

SIGNIFICANT 4Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1101 Ages Drive	Stevenage/Belgreen	Princess Auto	40,000	10/08
1091 Ages Drive	Stevenage/Belgreen	Gentek	25,000	12/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1155 Rainbow Street	Queensway Business Park	N/A	122,500	09/09
1071 Ages Drive	Stevenage/Belgreen	Contract Furniture Source	45,000	07/09
Hawthorne Business Park	Stevenage/Belgreen	Motion Specialties	41,215	04/09



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