

# MARKETBEAT



## OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

1Q10

### ECONOMY

The unemployment rate for the Ottawa-Gatineau region was 6.2% in February, its highest level in over four years. This comes despite the addition of 1,400 jobs in the National Capital Region. This gain in jobs was primarily due to an increase in the public administration sector, with public administration employment rising to 161,100 in February. There were also gains in the health care and social assistance sector. Approximately 74,600 people worked in that sector during February, which is a year-over-year increase of 10,900 jobs. The high-tech sector struggled during the month, with approximately 47,700 people employed in this segment, down from 50,700 in the previous month. The overall manufacturing sector also had employment declines, with the loss of 2,400 jobs, bringing down the number of employed people in that sector to 29,900.

### OVERVIEW

Vacancy in the first quarter of 2010 edged up slightly to 5.3%, which is two-tenths of a percentage point higher than the last quarter of 2009. There are currently 1.17 million square feet (msf) available, with the western submarkets continuing to have more space available than the eastern submarkets; however, this gap has been narrowing over the past five quarters. Currently, availability is 74,000 square feet (sf) higher in the western submarkets compared to the eastern submarkets, whereas one year ago the available space difference between the two markets was 474,000 sf.

Leasing activity accelerated from the end of 2009, with 25 transactions totaling close to 202,000 sf during the first quarter of this year. Leasing activity continues to be fairly evenly split in terms of square footage leased between both markets of the city, with the western submarkets edging slightly ahead of the eastern submarkets this quarter. The majority of the activity in the western submarkets was located within the submarket of Kanata, with three transactions over 20,000 sf that totaled close to 74,000 sf. With a few exceptions, the remaining transactions were in the 2,000-5,000 sf range.

Absorption rebounded during the first quarter of 2010, although it did remain in slight negative territory at just over 34,000 sf. Both markets of the city registered negative absorption this quarter, although the majority was located in the western submarkets. Totals here were close to 27,000 sf, with pockets of negative absorption located throughout numerous submarkets.

### OUTLOOK

Vacancy will certainly be impacted next quarter with the completion of a new 122,000-sf speculative build. With close to 109,000 sf remaining to be leased in the property, combined with the approximately 50,000 sf of existing space being returned to the market, overall vacancy could potentially rise to close to 6.0% next quarter. Looking past this construction completion, along with the other large blocks of space that make up the majority of industrial vacancy in this city, the overall market continues to remain strong. This strength will continue to be reflected in rental rates, which should see little change through to the second half of the year.

### BEAT ON THE STREET

"The story of the Ottawa Industrial market is a story of the persistent vacancy of large spaces. Playing a key role in this vacancy is that the majority of these buildings were built for single tenants and in some instances there is substantial cost and difficulty to sub-divide these spaces"


– Peter Earwaker, Senior Sales Representative


### ECONOMIC INDICATORS


	2008	2009	2010F
GDP Growth	1.3%	-1.2%	2.8%
CPI Growth	2.2%	0.6%	2.5%
Unemployment	5.2%	5.7%	5.9%
Employment Growth	4.8%	-1.5%	1.0%

Source: Conference Board of Canada

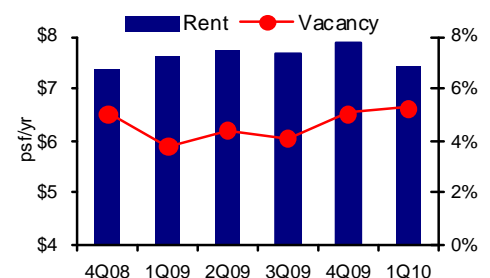
### MARKET FORECAST

LEASING ACTIVITY accelerated this quarter largely due to activity in Kanata. Overall activity is expected to slow in the coming quarters. 

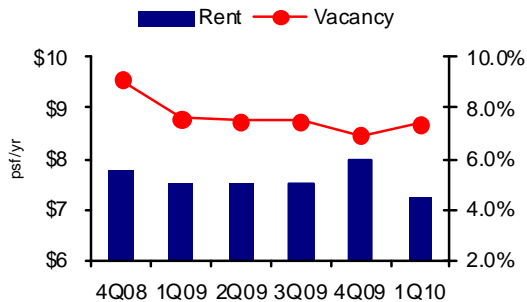
DIRECT ABSORPTION rebounded this quarter, although levels remain in slightly negative territory. Absorption is expected to remain negative in the short term due to a construction completion that will have space available. 

CONSTRUCTION continues on one speculative build that is expected to be delivered in Q2 2010. 

### OVERALL RENT VS. VACANCY RATE

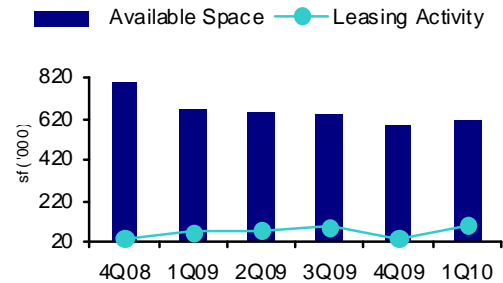


### Vacancy Rate vs. Overall Rental



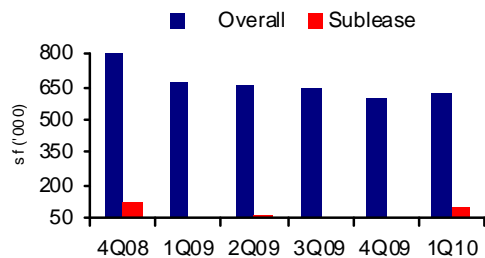
- After four consecutive quarters of vacancy trending downwards, vacancy rose in the western submarkets during the first quarter of the year to reach 7.4%, an increase of five-tenths of a percentage point from last quarter.
- After abnormally higher than average rental rates last quarter, rental rates edged back down and are now more in line with the previous four quarters. The weighted average rental rate for the western submarkets this quarter was \$7.23 per square foot (psf), a slight drop from the fourth quarter of 2009. Softening rental rates throughout numerous submarkets in the western submarket contributed to the overall decline.

### Overall Available Space vs. Leasing Activity



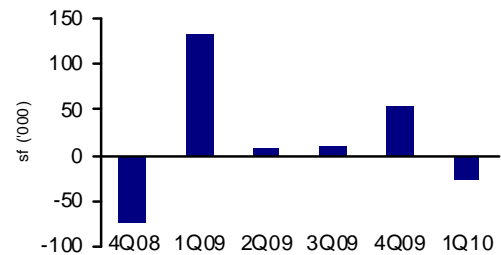
- The amount of available space located in the western submarkets ticked upwards this quarter to reach over 621,000 sf. Although this marks the first increase in a year, the amount of available space is lower than one year ago when approximately 666,000 sf was available.
- Leasing activity rebounded strongly this quarter to reach over 104,000 sf, a total that is almost three times higher than the fourth quarter of 2009. Kanata was the largest contributor to activity totals, with over 73,000 sf contained within three transactions.

### Available Space Trends Overall vs. Sublease



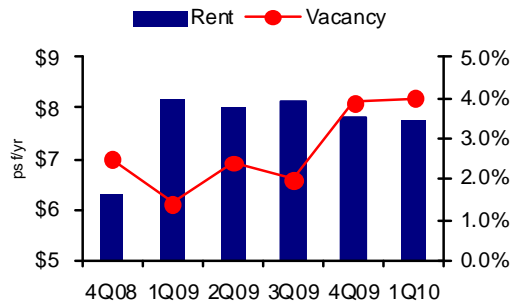
- The amount of sublet space in the western submarkets almost doubled this quarter to reach just over 100,000 sf, the highest amount in over a year.
- This increase in the amount of sublet space was due to one block of space, totaling approximately 45,000 sf, coming back on the market. This space is not new and, in fact, had been available for almost two years—it was removed from the market for 2009, and then returned to the market this quarter.

### Absorption



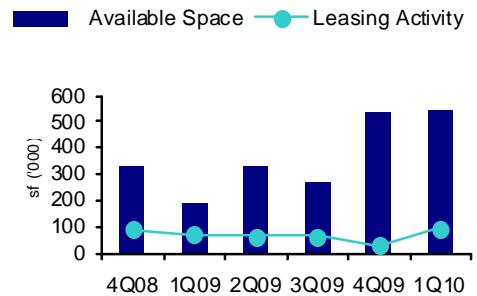
- Absorption dipped into negative territory this quarter at close to 27,000 sf. This negative absorption was entirely the result of the previously mentioned 45,000 sf block of space coming back on the market.
- Absorption levels may continue to languish in negative territory as close to 42,000 sf is forecasted to come on the market over the next six months, with 21,000 sf of that space located in one block. Throughout the next six months absorption levels will be hampered by the fact that vacant space in the western submarkets is increasingly being contained in blocks of space over 10,000 sf. With demand for these pockets of space remaining fairly low, it will prove increasingly difficult to counteract space being returned to the market with new demand.

### Vacancy Rate vs. Overall Rental



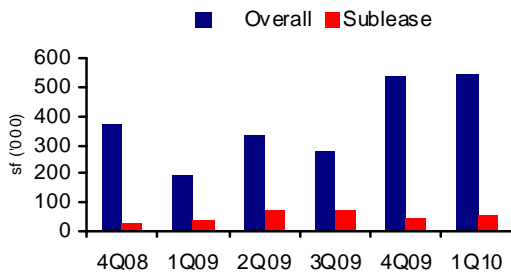
- After a sharp climb in vacancy last quarter, vacancy stabilized in the eastern submarkets in the first quarter to sit at 4.0%, a one-tenth of a percentage point increase from the fourth quarter of 2009.
- Mirroring this stabilizing vacancy, rental rates remained virtually unchanged this quarter compared to last, with the average rental rate sitting at \$7.75 psf.

### Overall Available Space vs. Leasing Activity



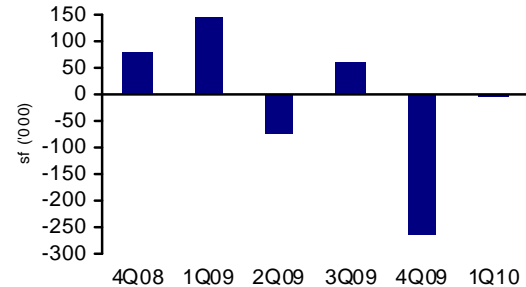
- There was minimal change in the amount of available space located in the eastern submarkets this quarter, increasing by only approximately 8,000 sf to reach close to 547,000 sf.
- As was the case with the western submarkets, leasing activity also accelerated in the eastern submarkets this quarter to over 97,000 sf, the highest total in over five quarters. This activity was distributed in over half of the submarkets and, with a few exceptions, the transactions were in the 2,000-5,000 sf range.

### Available Space Trends Overall vs. Sublease



- The amount of sublet space available increased slightly this quarter to reach just over 52,000 sf.
- This increase came as a result of one property having their entire premises of 12,000 sf becoming available for sublease. Currently, the space available for sublease is located in six properties with the largest blocks being the above mentioned 12,000 sf and an additional block of 20,000 sf.

### Absorption



- Absorption rebounded this quarter, although figures remained in negative territory at approximately 7,000 sf.
- It is anticipated that absorption will head back into positive territory next quarter, as demand should be strong enough to counteract the minimal 8,000 sf that is forecasted to come on the market during the second quarter.

### 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
<b>West Ottawa Submarkets</b>									
Kanata	3,211,680	54	10.2%	10.2%	73,633	0	0	50,443	\$7.24
Bell's Corners	363,842	12	2.2%	2.2%	0	0	0	(2,700)	N/A
Morrison/Queensview	415,519	9	0.0%	0.0%	16,206	0	0	16,206	N/A
Woodward/Carling	540,800	23	7.2%	7.2%	0	0	0	0	N/A
Ottawa Centre	833,814	29	3.4%	3.4%	0	0	0	0	\$6.00
Ottawa South	695,111	11	11.9%	5.5%	0	0	0	(66,514)	\$6.50
West Merivale	554,593	27	3.0%	2.7%	4,070	0	0	(2,085)	\$8.57
East Merivale	587,403	26	7.6%	7.6%	0	0	0	(27,100)	\$9.20
Colonnade	621,923	21	9.9%	1.5%	10,440	0	0	10,440	\$10.21
Rideau Heights	622,918	28	2.2%	1.9%	0	0	0	(5,455)	N/A
<b>East Ottawa Submarkets</b>									
South Walkley	441,680	15	1.9%	1.9%	0	0	0	0	\$9.00
Ottawa Business Park	1,321,259	30	1.8%	1.8%	22,547	0	0	(12,841)	\$9.75
Coventry/Belfast	1,886,526	51	2.5%	1.9%	23,160	0	0	2,512	\$8.18
Cyrville	2,161,942	59	3.2%	3.2%	35,741	0	0	3,581	\$7.30
Sheffield	3,276,043	63	7.6%	7.3%	0	0	0	(9,800)	\$6.25
Sheffield/Lancaster	1,170,820	20	1.4%	1.1%	2,681	0	0	(1,121)	\$7.66
Stevenage/Belgreen	1,854,224	52	4.3%	3.2%	9,890	0	0	9,890	\$8.00
South Gloucester/Albion	409,334	16	3.6%	2.5%	0	0	0	0	N/A
Queensway	639,185	22	1.4%	1.0%	3,212	122,500	0	115	\$8.00
Orleans	458,369	13	6.8%	6.8%	0	0	0	0	\$7.50
<b>Total</b>	<b>22,066,985</b>	<b>581</b>	<b>5.3%</b>	<b>4.6%</b>	<b>201,580</b>	<b>122,500</b>	<b>0</b>	<b>(34,429)</b>	<b>\$7.43</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
302 Legget Drive	Kanata	Furoy's Insulation	7,334	

#### SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1071-1091, 1111 Ages Drive	Stevenage/Belgreen	Insurance Corporation of British Columbia	109,928	\$14,000,000
2801 Sheffield Road	Sheffield Business Park	1075748 Ontario Inc.	15,000	\$1,350,000

#### SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1400 Ages Drive	Stevenage/Belgreen	Busy Bee Tools	20,900	03/10

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1100 Polytek Street	Queensway Business Park	University of Ottawa	122,500	04/10



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