

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q10

ECONOMY

The National Capital Region lost 4,700 jobs in August which resulted in the unemployment rate rising to 6.8%; its highest level since July 2005. As of August there were 677,400 people employed in the Ottawa-Gatineau region, which is down slightly from July, but still up 1.9% from one year ago. Two of the key sectors for the region - public administration and high-tech - both posted job gains in August. The number of people employed in public administration increased to 159,100 and the technology sector added 500 positions to reach 47,800 jobs. However these totals are both lower compared to one year ago. According to the Conference Board of Canada's latest metropolitan release, this slower growth in the public administration sector will have an impact on the overall economy. They forecast GDP growth to slow to 2.5% in 2011 and then average 2.4% per year from 2012-2014.

OVERVIEW

Although vacancy did increase in the third quarter it was at a slower pace compared to last quarter. Vacancy increased by four-tenths of a percentage point to reach 6.7%, compared to the full percentage point increase that occurred last quarter. There are currently 1.45 million square feet (msf) available, as the amount of vacant space available grew this quarter by approximately 45,000 square feet (sf). This new vacant space was largely located within the western submarkets.

Leasing activity appears to have stabilized this quarter, slightly higher compared to one quarter ago, at approximately 150,000 sf. However the number of transactions more than doubled from last quarter to reach 36. Close to two-thirds of this quarter's leasing activity was seen in the eastern submarkets with the largest transaction being close to 15,000 sf located in the Sheffield Business Park. The remaining transactions for both the east and west markets were largely in the 1,000- to 5,000-sf range.

The trend of negative absorption continues for 2010 with approximately 45,000 sf, although this is an improvement from last quarter. Although both eastern and western markets experienced negative absorption this quarter, it was the western submarkets that were the most impacted with approximately 36,000 sf. The western markets continue to be plagued by large blocks of space coming onto the market. During this quarter 72,000 sf became available at Breconridge's former manufacturing facility which is now owned by Sanmina. Worth noting is that the eastern markets had numerous pockets of new availability over 15,000 sf. Some of these include 25,000 sf located in the Ottawa Business Park, 33,000 sf located in the Cyrville Business Park, and 19,000 sf in the Lancaster Road area. However this helps to demonstrate the overall strength of the eastern markets as negative absorption was only 9,500 sf.

OUTLOOK

Looking ahead to the final three months of 2010, vacancy is anticipated to continue to rise as an additional 96,000 sf becomes available. The eastern markets will be particularly affected as 58,000 sf will be vacated in the Sheffield Business Park as NAV Canada moves to their new build-to-suit facility. The resulting negative absorption will only be partially offset for the city if the new 22,000 sf design build project in Kanata is completed prior to the end of the year.

BEAT ON THE STREET

"Although we are seeing increasing availability it is not resulting in any significant movement of tenants, and with a few exceptions, asking prices remain high. Significant factors behind this include the fact that quality spaces enjoy a high tenant retention and the increasing space is high-tech in nature; the type of space that has limited utility to most users."

- Peter Earwaker, Senior Sales Representative

ECONOMIC INDICATORS

	2008	2009	2010F
GDP Growth	1.2%	-0.7%	3.7%
CPI Growth	2.2%	0.6%	3.1%
Unemployment	4.8%	5.7%	6.0%
Employment Growth	2.9%	-1.5%	2.8%

Source: Conference Board of Canada

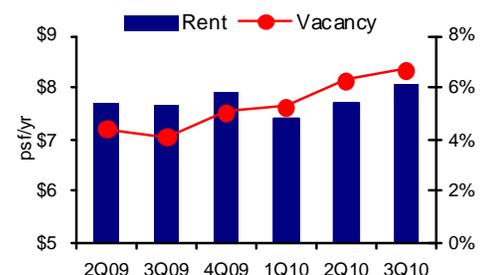
MARKET FORECAST

LEASING ACTIVITY rebounded slightly in the third quarter. For the last three months of 2010 leasing totals are projected to remain roughly in the same territory as the previous two quarters - around 100,000 sf. 

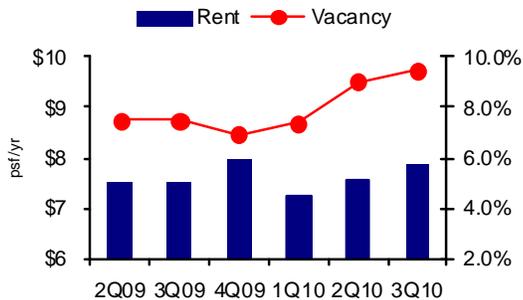
DIRECT ABSORPTION continued to remain in negative territory this quarter and is forecasted to remain there through the end of 2010. 

CONSTRUCTION continues on a 22,000 sf design build in the Kanata area, with Phase II of 86,000 sf set to get underway in the coming weeks. 

OVERALL RENT VS. VACANCY RATE

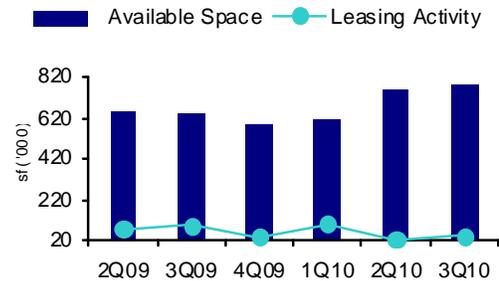


Vacancy Rate vs. Overall Rental



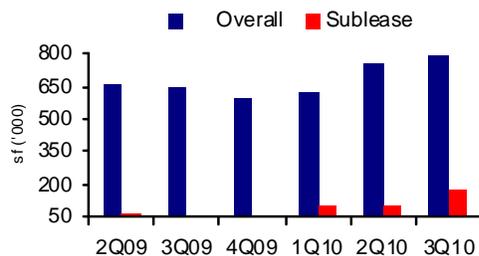
- After a substantial rise in vacancy last quarter, vacancy climbed at a more modest level this quarter, increasing by half of a percentage point to 9.5%.
- Rental rates continue to increase and the average asking rental rate now sits at \$7.87 per square foot (psf). All of the western submarkets posted increases in rental rates this quarter with the highest increase seen in the Colonnade Business Park.

Overall Available Space vs. Leasing Activity



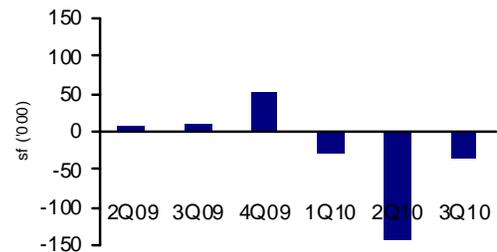
- The amount of available space located in the western submarkets climbed to approximately 787,000 sf this quarter, approximately 35,500 sf higher than what was available during the second quarter.
- Leasing activity did improve this quarter at close to 42,000 sf, which is almost double the amount seen during the second quarter. There were thirteen transactions this quarter with the majority of activity located with the submarkets of Kanata and the Colonnade Business Park. The largest transaction was located in Kanata at 13,000 sf. The remaining transactions were under 3,000 sf.

Available Space Trends Overall vs. Sublease



- The amount of sublet space in the western submarkets increased this quarter to reach approximately 169,000 sf.
- This increase in sublet space was due to the 72,000-sf block of space becoming available in Kanata. The remaining space available for sublease continues to be found in the same two pockets; 45,000 sf in Ottawa South and 52,000 sf in the Colonnade Business Park.

Absorption

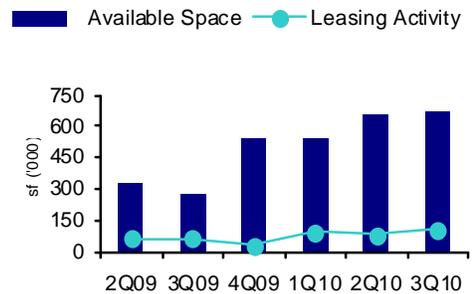


- Although absorption levels in the western submarkets did rebound substantially this quarter, numbers continued to remain in negative territory this quarter at approximately 35,000 sf. As there were only a handful of pockets of negative absorption, the reason behind this quarter's negative absorption was the 72,000 sf of space that came on the market in Kanata.
- Absorption levels should continue to improve through the remainder of the year and numbers are expected to be in the positive. This will be the result of the expected completion of a new 22,000-sf design-build, as well as only approximately 1,000 sf of space forecasted to come onto the market in the fourth quarter.

Vacancy Rate vs. Overall Rental



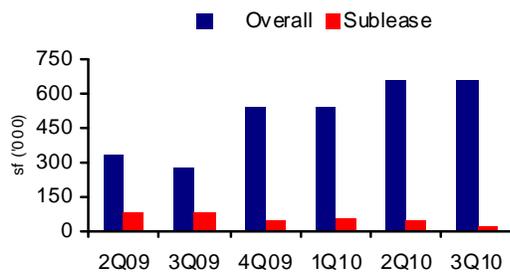
Overall Available Space vs. Leasing Activity



- After a sharp rise in vacancy last quarter, the vacancy rate stabilized somewhat and only increased by two-tenths of a percentage point to 4.9%.
- Rental rates also increased in the eastern markets this quarter with the average asking rent now at \$8.14 psf. Except for the Ottawa Business Park, rental rates in the eastern submarkets were either identical or showed an increase over the rates posted in the second quarter. The Sheffield/Lancaster area registered the highest increase quarter-over-quarter which can be attributed to higher than average asking rents in a newly available space.

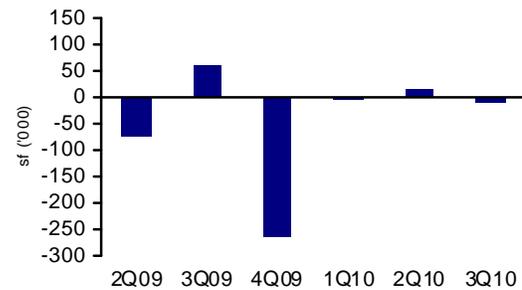
- There was little change in the amount of available space in the eastern markets in the third quarter. Although large pockets of 10,000 sf or more became available this quarter, this was largely balanced out by leasing activity, which resulted in the amount of available space only increasing by 10,000 sf.
- Leasing activity increased from last quarter to reach approximately 108,000 sf. There were twenty three transactions in the eastern markets with the Sheffield Industrial Park and Stevenage/Belgreen areas experiencing the most activity. The largest transaction was close to 15,000 sf in Sheffield area. The majority of the remaining transactions were under 5,000 sf.

Available Space Trends Overall vs. Sublease



- The amount of sublet space continues to decrease over the course of 2010 and has now reached about 27,000 sf. The main reason behind the decline this quarter was 12,000 sf coming off of the market in the Coventry/Belfast area. The other factor was approximately 5,000 sf switching from sublet to direct.
- Currently, the space available for sublease is located in just three properties, with the largest block being 12,000 sf; a space that has been on the market for close to a year.

Absorption



- Absorption figures slipped slightly into the negative this quarter at 9,500 sf. This figure would have been much greater if it were not for rebounding leasing activity that counteracts the three substantial pockets of space that came on the market this quarter.
- Negative absorption is forecasted to continue through to the end of the year as close to 95,000 sf is anticipated to come onto the market, the largest being a 58,000-sf building that will be vacated as NAV Canada moves to their new facility.

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
West Ottawa Submarkets									
Kanata	3,176,784	53	15.0%	12.8%	100,271	22,000	0	(99,866)	\$7.77
Bell's Corners	334,655	11	2.4%	2.4%	0	0	0	(2,700)	N/A
Morrison/Queensview	415,519	9	1.2%	1.2%	16,206	0	0	11,062	N/A
Woodward/Carling	540,800	23	7.2%	7.2%	0	0	0	0	N/A
Ottawa Centre	755,339	26	3.3%	3.3%	3,000	0	0	3,595	\$9.00
Ottawa South	695,111	11	15.9%	15.9%	0	0	0	(94,264)	\$6.58
West Merivale	534,593	26	1.6%	1.6%	9,095	0	0	(6,040)	\$8.64
East Merivale	587,403	26	7.3%	7.3%	1,800	0	0	(25,300)	\$9.30
Colonnade	621,923	21	10.1%	1.7%	31,426	0	0	8,915	\$11.00
Rideau Heights	622,918	28	1.3%	1.3%	6,415	0	0	0	N/A
East Ottawa Submarkets									
South Walkley	325,180	13	2.6%	2.6%	0	0	0	0	\$9.00
Ottawa Business Park	1,439,259	31	2.9%	2.9%	36,940	0	0	(31,688)	\$7.70
Coventry/Belfast	1,835,250	50	1.1%	1.1%	46,513	0	0	28,749	\$9.41
Cyrville	2,021,942	58	5.0%	5.0%	57,741	0	0	(27,494)	\$8.34
Sheffield	3,186,043	61	7.5%	7.5%	43,797	0	0	359	\$7.24
Sheffield/Lancaster	1,170,820	20	4.6%	4.3%	17,361	0	0	(38,536)	\$9.30
Stevenage/Belgreen	1,854,224	52	4.0%	2.9%	30,416	0	0	14,362	\$8.58
South Gloucester/Albion	409,334	16	4.8%	4.8%	10,139	0	0	(4,861)	\$7.88
Queensway	761,685	23	11.9%	11.4%	46,597	0	122,500	41,080	\$8.06
Orleans	474,178	14	3.4%	3.4%	0	0	0	14,700	\$7.50
Total	21,762,960	572	6.7%	5.8%	457,717	22,000	122,500	(207,927)	\$8.04

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
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SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1417,1435,1481 Cyrville Road	Cyrville	Cyrville Road Properties Ltd.	112,670	\$8,100,000
848 Belfast Road	Coventry/Belfast	Controlex Corporation	12,000	\$2,200,000

SIGNIFICANT 3Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
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SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
116 Willowlea Drive	Kanata	N/A	22,000	12/10



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Cushman & Wakefield Ottawa
99 Bank Street Suite 700
Ottawa, ON K1P 1B9
(613) 236-7777

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