

# MARKETBEAT



## OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q10

### ECONOMY

Ottawa-Gatineau's unemployment rate fell one-tenth of a percentage point in November to 6.8% as the number of people actively seeking employment declined. The region recorded a net increase of 700 jobs, for a total of 672,600. This marks the first monthly increase in employment since June, and this improvement came despite a loss of 3,400 jobs in the high-tech sector, which now employs 43,100. On the positive side, employment rose in educational services, healthcare, and the hotel and food industries. Employment in public administration, a key sector for the region, held steady at 167,600 jobs.

### OVERVIEW

After four consecutive quarters of climbing vacancy rates, overall vacancy for the city declined slightly this quarter to 6.6%, just one-tenth of a percentage point lower than last quarter. The amount of vacant space available is very close to last quarter's totals at 1.44 million square feet (msf), with approximately 191,000 square feet (sf) of that total available for sublease.

Leasing activity slowed over the fourth quarter to reach 107,500 sf, bringing the year-end total to approximately 565,000 sf. The number of transactions also slowed this quarter to a total of 23. Once again, the eastern submarkets continue to be the focal point of activity as 14 transactions were located there, with the remaining nine located within the western submarkets. There were only three transactions over 10,000 sf this quarter, two in the eastern submarkets and one in the western. The remainder were for the most part under 5,000 sf.

Absorption rebounded into positive territory in the fourth quarter to nearly 12,000 sf, the first time overall absorption has been positive this year. However, the year-end total remained in negative territory at just over 196,000 sf. While the western submarkets posted positive absorption this quarter of close to 59,000 sf, the eastern submarkets were at the other end of the spectrum at close to negative 47,000 sf. What is worth noting in the western submarkets is that this figure is not representative of a significant increase in demand. The increase in occupied space was not due to leasing activity but rather a change in the available date of two spaces to early 2011. In the eastern submarkets the negative absorption figure was largely the result of 58,000 sf coming on the market; which is the building that was formerly occupied by NAV Canada and left vacant with their move to new facilities.

### OUTLOOK

Looking ahead to 2011, vacancy is projected to rise to 7.5% as an additional 184,000 sf is set to come on the market over the first half of the year. Approximately 134,000 sf of that total is located within the western submarkets, with the two largest spaces combining for a total of 89,000 sf in Kanata. As has been the case for numerous quarters, vacancy within the western submarkets, particularly Kanata, continues to be dragged down by large blocks of high-tech related space becoming available which then proceed to languish on the market for extended periods of time due to low demand. Absorption may receive a boost later in 2011 as the 86,000 sf speculative project on the outskirts of Kanata is set to be completed; currently, approximately 14,000 sf of this project has been pre-leased.

### BEAT ON THE STREET

The large space category continues its market malaise, as defined by minimal leasing activity and new large spaces being added to the available space inventory. The small space category has not been able to off-set this situation and has resulted in the accumulative annual negative absorption of 190,000 sq. ft. for 2010."

– Peter Earwaker, Senior Sales Representative

### ECONOMIC INDICATORS

	2009	2010F	2011F
GDP Growth	-0.7%	3.7%	2.5%
CPI Growth	0.6%	3.1%	2.9%
Unemployment	5.7%	6.0%	5.8%
Employment Growth	-1.5%	2.8%	0.4%

Source: Conference Board of Canada

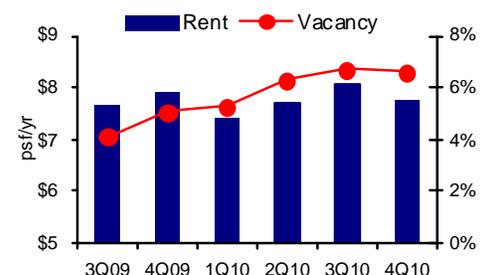
### MARKET FORECAST

LEASING ACTIVITY was steady in the fourth quarter and came in at the projected level of approximately 100,000 sf. 

DIRECT ABSORPTION improved and was in minimal positive territory in Q4. However absorption may trend downwards in early 2011 as 184,000 sf of additional space becomes available. 

CONSTRUCTION has commenced on both a 22,000-sf design build and an 86,000-sf speculative project both in the Kanata area that are slated for completion in summer 2011. 

### OVERALL RENT VS. VACANCY RATE

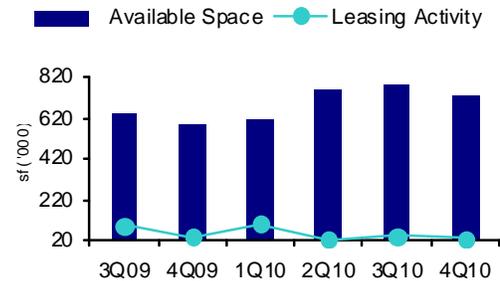


### Vacancy Rate vs. Overall Rental



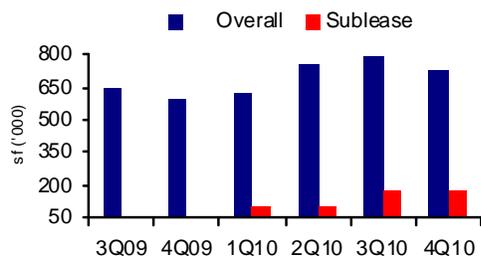
- Vacancy declined for the first time this year, dropping to 8.8% from 9.5% last quarter. This decrease was the result of numerous submarkets posting slight declines in their vacancy.
- Asking average rental rates declined for the first time in 2010 to now sit at \$7.44 per square foot (psf). However, this dollar figure is still higher than what was posted in the first quarter of this year. As was the case with vacancy, a handful of submarkets either had unchanging rents or slightly declining rents which led to the decrease in the overall average.

### Overall Available Space vs. Leasing Activity



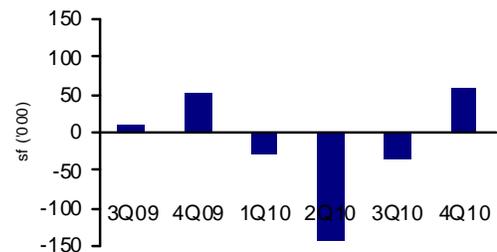
- The amount of available space located in the western submarkets decreased to approximately 728,000 sf this quarter, about 59,000 sf lower than what was available during the third quarter.
- Leasing activity slowed over the fourth quarter to total close to 32,000 sf, which brings the year-end total to just over 200,000 sf. Although Kanata was very quiet this quarter, overall for the year it accounted for about half of all the leasing activity in the western submarkets. Only five submarkets reported activity this quarter, with the largest amount seen in the Woodward/Carling area with one estimated transaction of approximately 11,000 sf.

### Available Space Trends Overall vs. Sublease



- The amount of sublet space in the western submarkets slightly increased this quarter to reach just over 171,000 sf. This change was due to a 1,600-sf space becoming available in the West Merivale Business Park. Otherwise, the space available for sublease is exactly the same as the previous quarter.

### Absorption



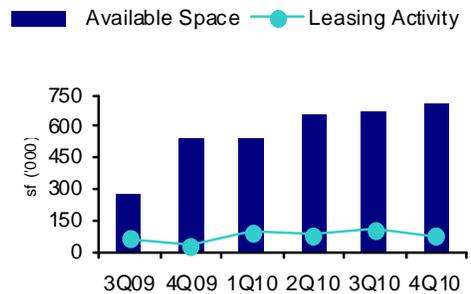
- Absorption levels in the western submarkets moved into positive territory this quarter for the first time in a year at nearly 59,000 sf. Although this improved the year-end amount, the total was still a negative 146,000 sf. The increase in occupied space was due to spaces being withdrawn from the market.
- Absorption levels are expected to trend downward over at least the first half of 2011, as close to 134,000 sf becomes available. The majority of this space is located in Kanata and, as has been the trend for this submarket for well over a year, is high-tech related.

### Vacancy Rate vs. Overall Rental



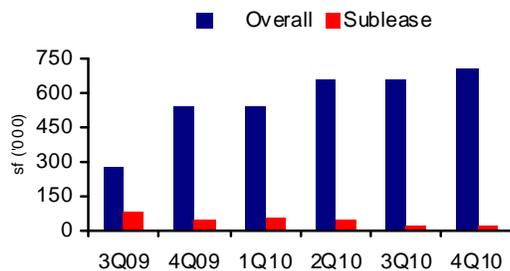
- Vacancy continued its march upwards this quarter, increasing to 5.3%, a four-tenths of a percentage point increase from the third quarter.
- Rental rates contracted slightly from last quarter to \$7.93 psf. There were no dramatic changes in rents in the eastern submarkets this quarter; rather there were just small decreases in numerous submarkets plus the removal this quarter of a more expensive than average space.

### Overall Available Space vs. Leasing Activity



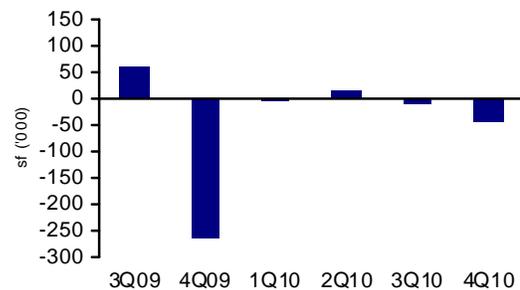
- The amount of vacant space available continued to climb this quarter and is now at approximately 712,000 sf. Over the course of 2010 the amount of vacant space has risen by over 160,000 sf.
- After a fairly active third quarter, leasing activity slowed to approximately 76,000 sf. This brings the year-end total to 365,000 sf. Over the course of the year the Cyrville area was the most active in terms of square footage leased. The largest transaction for the quarter was also located in this submarket with an estimated deal for 13,500 sf.

### Available Space Trends Overall vs. Sublease



- The amount of sublet space decreased once again this quarter and is now at 20,000 sf, its lowest level in the past five quarters.
- Currently, the space available for sublease is located in just one property in the Stevenage/Belgreen area and has been available for well over a year.

### Absorption



- Demand this quarter was lower than recent quarters, with absorption at approximately negative 47,000 sf. This significantly contributed to the year-end total of just over negative 50,000 sf. There were five pockets of negative absorption over 10,000 sf this quarter with the largest about 58,000 sf. This space was vacated by NAV Canada as they moved to their new premises.
- It is anticipated that absorption into the first half of 2011 will be fairly minimal, either on the positive or the negative side. About 50,000 sf of additional space is set to come on the market in the next six months. However, demand should be sufficient to counteract that to a certain degree.

### 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
<b>West Ottawa Submarkets</b>									
Kanata	3,176,784	53	14.2%	11.9%	105,461	108,752	0	(72,207)	\$7.00
Bell's Corners	334,655	11	2.4%	2.4%	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	7.4%	7.4%	11,258	0	0	(1,122)	\$8.00
Ottawa Centre	755,339	26	2.6%	2.6%	11,600	0	0	8,295	\$9.00
Ottawa South	695,111	11	12.2%	5.8%	4,500	0	0	(68,764)	\$6.53
West Merivale	534,593	26	2.1%	1.8%	9,095	0	0	(8,748)	\$8.63
East Merivale	587,403	26	7.6%	7.6%	1,800	0	0	(26,930)	\$9.27
Colonnade	621,923	21	10.0%	1.5%	33,666	0	0	9,990	\$10.31
Rideau Heights	622,918	28	1.3%	1.3%	6,415	0	0	0	N/A
<b>East Ottawa Submarkets</b>									
South Walkley	325,180	13	0.0%	0.0%	8,588	0	0	8,588	N/A
Ottawa Business Park	1,439,259	31	1.7%	1.7%	39,440	0	0	(14,355)	\$7.50
Coventry/Belfast	1,835,250	50	1.6%	1.6%	53,463	0	0	20,989	\$8.44
Cyrville	2,021,942	58	3.3%	3.3%	87,066	0	0	5,822	\$8.12
Sheffield	3,186,043	61	9.3%	9.3%	45,085	0	0	(56,401)	\$7.24
Sheffield/Lancaster	1,170,820	20	4.6%	4.6%	23,240	0	0	(38,598)	\$9.23
Stevenage/Belgreen	1,854,224	52	4.6%	3.5%	35,866	0	0	3,406	\$8.82
South Gloucester/Albion	409,334	16	5.6%	5.6%	10,139	0	0	(8,100)	N/A
Queensway	761,685	23	11.5%	11.5%	50,154	0	122,500	43,922	\$8.02
Orleans	474,178	14	9.8%	9.8%	12,250	0	0	(15,300)	\$7.50
<b>Total</b>	<b>21,762,960</b>	<b>572</b>	<b>6.6%</b>	<b>5.7%</b>	<b>565,292</b>	<b>108,752</b>	<b>122,500</b>	<b>(196,007)</b>	<b>\$7.75</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 4Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2700 Lancaster Road	Sheffield/Lancaster	Alpine Specialty Chemicals Ltd.	2,683	

#### SIGNIFICANT 4Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
2630 Sheffield Road	Sheffield/Lancaster	Richcraft Ltd.	47,321	\$4,020,000
2370 Lancaster Road	Sheffield/Lancaster	Canada Post	25,935	\$3,800,000

#### SIGNIFICANT 4Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
116 Willowlea Drive	Kanata	N/A	108,752	06/11



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

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