

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

1Q11

ECONOMY

Despite a slight gain in employment of 400 jobs in the region, Ottawa-Gatineau's unemployment rate increased one-tenth of a percentage point in February to 6.6%, the result of approximately 1,000 people entering the local workforce. The public administration sector added approximately 4,000 jobs, with total employment in the region rising to 177,000. The high-tech sector experienced slight growth during the month, adding about 400 jobs. This brings total employment in the sector to 46,400. The Conference Board of Canada recently released their latest Metropolitan Outlook and has predicted GDP growth for the region to slow to 2.4% in 2011. This will largely be due to restricted growth in the public administration sector as the effects of a departmental spending freeze and limited program spending growth will become more apparent.

OVERVIEW

After a pause last quarter, overall vacancy for the city resumed its march upwards and now sits at 7.1%, a half of a percentage point increase from the last quarter of 2010. Currently, there are over 1.55 million square feet (msf) of industrial space available within the city, with approximately 60% of that amount located in the western submarkets, specifically Kanata.

Leasing activity had a strong showing during the first quarter of 2011, totaling approximately 242,000 square feet (sf). There was also an increase from last quarter in the number of deals that took place, with an estimated 36 transactions. The eastern submarkets posted the higher number of transactions with 22, along with the majority of space leased, at 164,000 sf.

In keeping with vacancy resuming its upward trend this quarter, absorption returned to negative territory at approximately 110,000 sf. While the eastern markets had positive absorption of 63,000 sf – the highest that overall absorption has been for these markets in over a year – the western markets on the other hand posted a negative overall total of 173,000 sf, the highest amount of negative absorption witnessed in over a year as well.

OUTLOOK

The increases in vacancy this quarter had been anticipated, as the largest blocks of space that came on the market were either geared towards high-tech or were entire buildings that became available; two availability scenarios that, given current market conditions, have proven challenging to lease. Looking ahead to the next six months, vacancy may continue to tick upwards as an additional 206,000 sf is set to come on the market, the majority of which may also prove to be difficult to lease. Of the eleven availabilities set to come on the market during this period, eight are over 10,000 sf, a space requirement that is not in high demand. What may also have an impact during the remainder of the year and into 2012 is the relocation of tenants out of the former Nortel campus. Although the effects of this may primarily impact the office market, whether it is decreasing vacancy or new construction, many of these companies do have a lab/manufacturing component that will also need to be addressed once these companies begin to consider what their space requirements will be.

BEAT ON THE STREET

"The Ottawa industrial market is at an interesting point in the economic cycle. There seems to be an abundance of high bay space in the market yet there is a need for space in the 3,000-10,000 sf range, particularly in the east end. Landlords might consider demising some of the bigger footprints – similar to Merkburn's plan for 436 Hazeldean Road."


– Ryan Barresi, Sales Representative


ECONOMIC INDICATORS


	2010	2011F	2012F
GDP Growth	2.8%	2.4%	2.3%
CPI Growth	2.5%	2.3%	2.1%
Unemployment	6.4%	6.1%	5.8%
Employment Growth	2.5%	0.4%	1.2%

Source: Conference Board of Canada

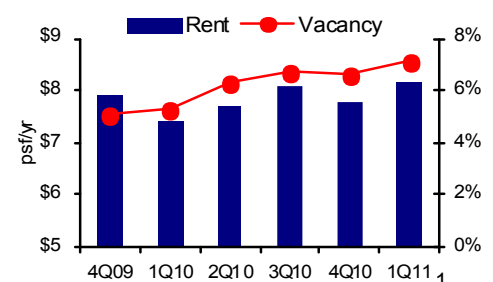
MARKET FORECAST

LEASING ACTIVITY accelerated in Q1 2011, more than doubling the amount from the end of 2010, and was largely the result of increased activity in the eastern markets. 

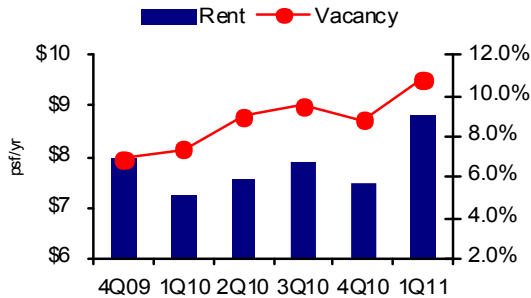
DIRECT ABSORPTION moved back into negative territory this quarter as numerous pockets of additional space became available in the western markets. 

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

OVERALL RENT VS. VACANCY RATE

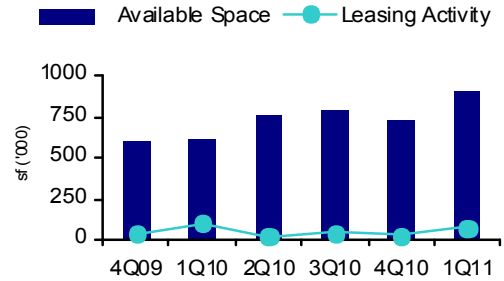


Vacancy Rate vs. Overall Rental



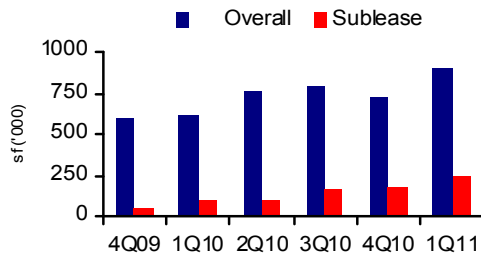
- Vacancy spiked in the first quarter of this year, increasing to 10.8%, two full percentage points higher than the last quarter of 2010. All of the western submarkets except for one had identical or increased vacancy from last quarter.
- Asking average rental rates climbed to \$8.79 per square foot (psf) this quarter. With fairly stable rents through the majority of the western submarkets, this increase was largely due to large availabilities in Kanata having higher than average asking rates as a result of being high-tech related in nature.

Overall Available Space vs. Leasing Activity



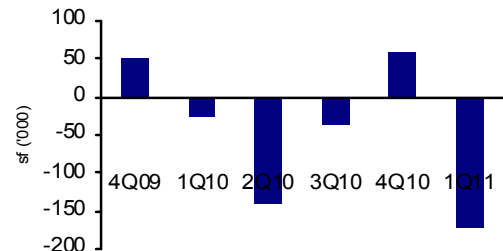
- The amount of available space located in the western submarkets climbed in the first quarter of 2011 to 902,000 sf, with much of this new availability located in Kanata.
- Despite this increase in vacant space, leasing activity was strong this quarter at approximately 77,000 sf, the strongest leasing activity has been since the first quarter of 2010. Activity was focused primarily in Kanata with close to 23,000 sf and the Morrison/Queensview area with 40,144 sf, with one transaction comprising 35,000 sf of that total.

Available Space Trends Overall vs. Sublease



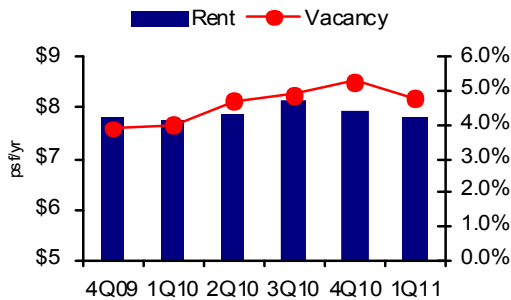
- The amount of sublet space in the western submarkets has been trending steadily upwards over the past year and continued to do so this quarter, with the amount of sublet space now totaling 237,000 sf. This level should stabilize as the additional space set to come on the market over the next six months will be space available directly from the landlord.

Absorption



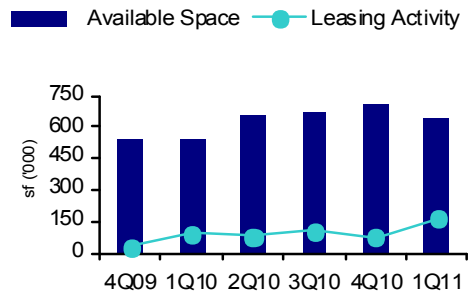
- Absorption levels in the western submarkets headed sharply downwards this quarter to negative 173,000 sf, as approximately 111,000 sf of additional space became available in Kanata.
- Absorption should stabilize somewhat in the next six months and may move back into positive territory as only 52,000 sf is forecasted to be coming onto the market during this time frame.

Vacancy Rate vs. Overall Rental



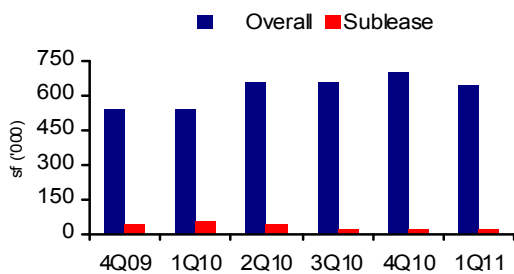
- Vacancy declined for the first time in five quarters and now sits at 4.8%. There were slight fluctuations in vacancy in almost all of the eastern submarkets this quarter compared to last, however the decreasing vacancy in the largest submarkets was enough to bring the overall vacancy down.
- Rental rates continued to decline slightly this quarter with the average asking rental rate now at \$7.84 psf. As in the western submarkets, rental rates remained relatively stable from last quarter. There was, however, a fairly substantial drop in the average in one submarket as a fairly expensive rental rate was removed from an availability. This was enough to nudge the overall asking rent for the eastern markets downwards.

Overall Available Space vs. Leasing Activity



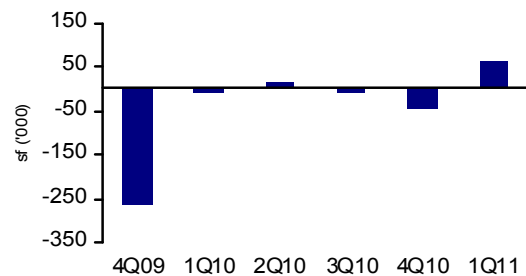
- The amount of vacant space available declined to 649,000 sf this quarter, the lowest amount available since the beginning of 2010.
- Leasing activity demonstrated a marked increase this quarter with 164,000 sf leased, more than double the amount from last quarter and the highest it has been in six quarters. The Sheffield Industrial Park was particularly active with a 61,000-sf pocket of space leased, along with an additional 21,500-sf transaction located in a separate building.

Available Space Trends Overall vs. Sublease



- The amount of sublet space increased slightly this quarter to 23,000 sf. There are now two pockets of sublet space available in the eastern submarkets; one just over 3,000 sf and one at 20,000 sf.
- It is not anticipated that the amount of sublet space will increase over the next six months as the space that is forecasted to become available is space that is available directly through the landlord.

Absorption



- Absorption rebounded this quarter in the eastern markets to reach 63,000 sf, the strongest that absorption has been in six quarters. The majority of the positive absorption was the result of the 61,000-sf transaction that involved Ottawa Logistics.
- Absorption is still anticipated to be fairly minimal through the next six months and may dip slightly into negative territory as 153,000 sf is forecasted to become available over that time frame. Absorption may also be hampered as all of this upcoming vacancy is contained within blocks of 15,000 sf or more.

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	3,245,657	54	17.3%	13.0%	22,614	108,752	0	(110,797)	\$8.79
Bell's Corners	334,655	11	5.8%	5.8%	0	0	0	(11,480)	N/A
Morrison/Queensview	415,519	9	0.0%	0.0%	40,144	0	0	0	N/A
Woodward/Carling	540,800	23	10.1%	10.1%	0	0	0	(14,894)	\$8.00
Ottawa Centre	742,339	25	2.6%	2.6%	3,900	0	0	700	\$9.00
Ottawa South	695,111	11	15.3%	8.8%	0	0	0	(21,000)	\$7.00
West Merivale	534,593	26	4.9%	4.9%	5,255	0	0	(15,085)	\$8.58
East Merivale	587,403	26	7.2%	7.2%	3,505	0	0	2,000	\$8.67
Colonnade	621,923	21	10.0%	1.6%	2,000	0	0	(535)	\$10.13
Rideau Heights	622,918	28	1.6%	1.6%	0	0	0	(2,020)	\$7.75
East Ottawa Submarkets									
South Walkley	325,180	13	2.6%	2.6%	0	0	0	(8,588)	\$9.00
Ottawa Business Park	1,439,259	31	1.9%	1.9%	0	0	0	(2,082)	\$7.50
Coventry/Belfast	1,835,250	50	1.8%	1.8%	4,125	0	0	(5,197)	\$8.00
Cyrville	2,021,942	58	3.8%	3.8%	7,200	0	0	(8,679)	\$8.55
Sheffield	3,186,043	61	7.6%	7.6%	84,157	0	0	53,999	\$7.19
Sheffield/Lancaster	1,170,820	20	3.9%	3.6%	15,300	0	0	8,085	\$7.59
Stevenage/Belgreen	1,854,224	52	3.6%	2.5%	26,406	0	0	19,186	\$8.17
South Gloucester/Albion	409,334	16	5.6%	5.6%	0	0	0	139	\$7.72
Queensway	761,685	23	9.3%	9.3%	22,972	0	0	16,808	\$7.95
Orleans	474,178	14	12.0%	12.0%	4,000	0	0	(10,700)	\$7.50
Total	21,818,833	572	7.1%	5.9%	241,578	108,752	0	(110,140)	\$8.17

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q11 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1270 Leeds Avenue	Sheffield Business Park	Ottawa Logistics	61,469	Warehouse
2750 Sheffield Road	Sheffield Business Park	Portable on Demand Storage	21,523	Warehouse

SIGNIFICANT 1Q11 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
2370 Walkley Road	Ottawa Business Park	Richcraft	321,000	\$29,000,000
2655 Lancaster Road	Sheffield Industrial Park	Insurance Corporation of British Columbia	45,997	\$6,100,000

SIGNIFICANT 1Q11 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	86,752	06/11
116 Willowlea Drive	Kanata	Canada Bread Company	22,000	07/11



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