

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

2Q11

ECONOMY

Job gains in professional services, retailing, and construction resulted in the unemployment rate for Ottawa-Gatineau falling to 6.1% in May, compared to 6.4% in April. The region gained 3,300 jobs in May for an employment total of 695,400. A notable development that has emerged over the past few months has been the decline in the number of public administration jobs. The region lost 5,300 of these jobs in May to bring total employment to 164,800. The adoption of the budget tabled by the Conservative majority government will result in spending growth in federal departments being limited to an average of 1.6% from 2011-2015, compared to the 5.3% average growth in the previous ten years. As a result, the latest Conference Board of Canada Metropolitan Outlook suggests that real GDP growth will be restricted for the region – only reaching 2.2% in 2011.

OVERVIEW

Vacancy for the city declined by eight-tenths of a percentage point to 6.3% during the second quarter of 2011, marking the most significant quarter-over-quarter change in vacancy in almost two years. Currently there is 1.36 million square feet (msf) available for lease within the city. After a quarter where there was a disproportionate amount of space available in the western submarkets, the ratio of available space between the eastern and western submarkets came more in line with what has been seen in recent quarters.

Leasing activity continues to be strong in 2011 with a total amount of close to 360,000 square feet (sf). The amount of space leased was higher in the western submarkets this quarter and was primarily focused within two submarkets – Kanata and Ottawa South. The most significant transaction by far was the Ericsson 205,000-sf deal at 349 Terry Fox Drive; of which approximately 114,000 sf was industrial. The overall number of transactions remained consistent with last quarter with 28 transactions reported and was evenly divided between the western submarkets and the eastern submarkets.

Absorption experienced a strong recovery this quarter climbing to 190,000 sf, primarily the result of significant activity in Kanata. The western submarkets far outpaced the eastern submarkets with 174,000 sf of positive absorption compared to 16,000 sf in the eastern submarkets. This is a complete reversal from last quarter where the western submarkets had close to 173,000 sf of negative absorption.

OUTLOOK

Although there were numerous pockets of space that became available this quarter, a vacancy increase was avoided as four significant blocks of space – all over 50,000 sf, and totaling 291,000 sf – came off of the market. Looking to the second half of the year, vacancy should remain fairly steady as a relatively small 80,000 sf is set to become available. Vacancy may rise in early 2012 as there is the possibility that additional space may come on the market due to a company that is occupying 100,000 sf recently declaring bankruptcy. It has been officially released that Ericsson is the first tenant from the former Nortel campus to secure new premises. During the remainder of the year and into early 2012 we expect to see further announcements from the other tenants that they have also secured locations, although it is not known what impact this will have on the industrial market.

BEAT ON THE STREET

“The Ottawa industrial market experienced a breakthrough this quarter in regards to the leasing activity of large spaces (over 50,000 sq. ft.); many of which were availabilities that have been languishing on the market in excess of a year, and in some instances closer to two or three.”


– Peter Earwaker, Senior Sales Representative


ECONOMIC INDICATORS


	2010	2011F	2012F
GDP Growth	2.7%	2.2%	2.3%
CPI Growth	2.5%	2.4%	2.1%
Unemployment	6.6%	6.3%	6.0%
Employment Growth	2.4%	0.4%	1.8%

Source: Conference Board of Canada

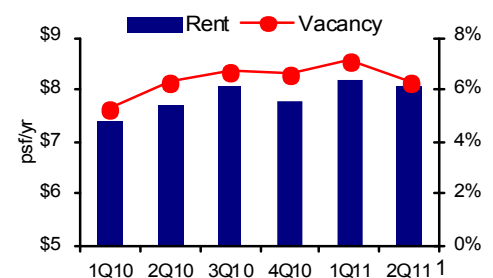
MARKET FORECAST

LEASING ACTIVITY remains strong and accelerated from levels seen in the first quarter. Activity this quarter was particularly brisk in Kanata and Sheffield. 

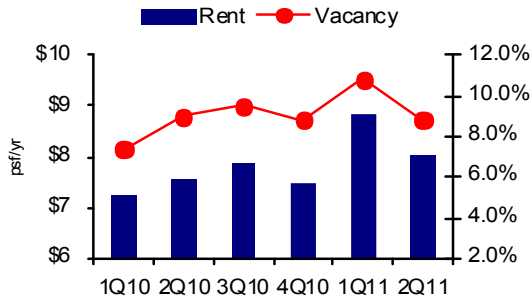
DIRECT ABSORPTION significantly rebounded into the positive this quarter and levels are expected to remain in the positive for the remainder of the year as no new large pockets of space are set to become available. 

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

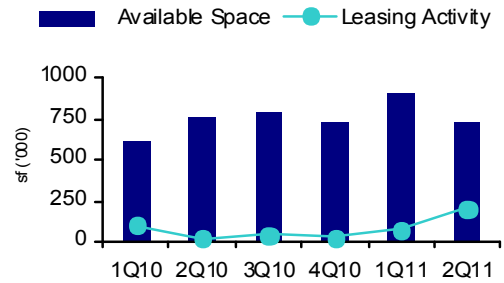


Vacancy Rate vs. Overall Rental



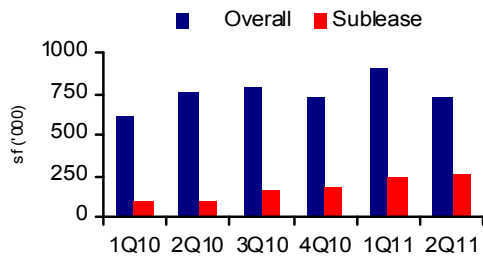
- After a notable spike last quarter, vacancy declined to 8.8%, two full percentage points lower than the first quarter. Kanata played a significant role in the overall vacancy decrease as vacancy within the market dropped by almost five percentage points.
- Asking average rental rates declined to \$8.04 per square foot (psf) which is more in line with what has been reported over the course of the last year. All of the submarkets posted lower asking rental rates this quarter with the exception of Kanata as a 62,000-sf pocket of space was removed from the market that had a lower than average posted rental rate.

Overall Available Space vs. Leasing Activity



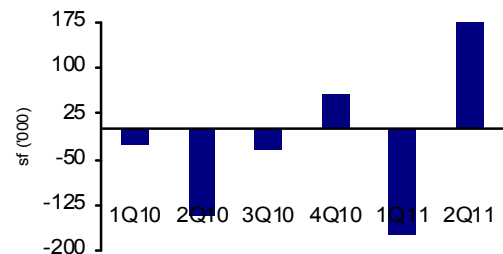
- The amount of available space located in the western markets declined to 727,000 sf, the lowest amount available since the beginning of last year.
- Leasing activity this quarter was almost three times higher compared to the first quarter of the year at 208,000 sf. Numerous submarkets posted leasing activity this quarter, although Kanata, and to a lesser extent, Ottawa South, had the largest transactions which combined totaled 189,000 sf.

Available Space Trends Overall vs. Sublease



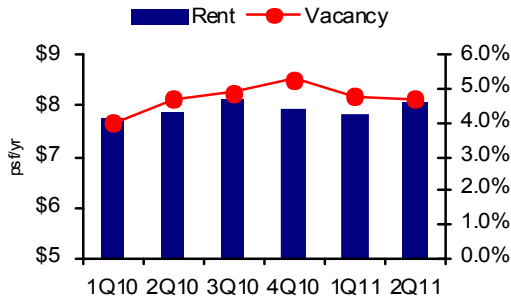
- The amount of sublet space in the western submarkets continued to grow this quarter and now sits at 258,000 sf. The increase of close to 21,000 sf this quarter was due to sublet space available in two additional properties. The amount of sublet space should remain stable through the remainder of 2011 as all of the forecasted available space set to come on the market is being marketed as direct.

Absorption



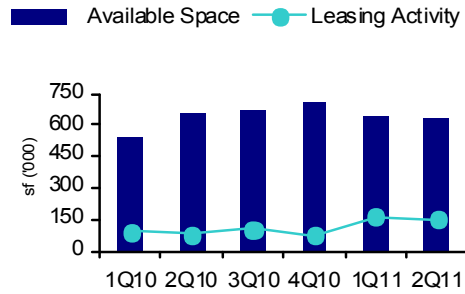
- Absorption levels in the western markets dramatically reversed in the second quarter, climbing from negative 173,000 sf in the first quarter to positive 174,000 sf. Kanata led the way due to the demand for large pockets of space this quarter. One of these spaces was nearly 23,000 sf, one was 62,500 sf, and Ericsson was 114,000 sf.
- Absorption is expected to trend back down over the remainder of the year, although it should remain positive as demand should be sufficient to offset the new availability forecasted to be coming on the market.

Vacancy Rate vs. Overall Rental



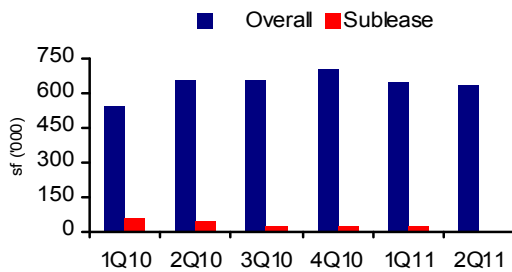
- Vacancy was virtually unchanged from last quarter, decreasing by one-tenth of a percentage point to 4.7%. Five of the individual submarkets posted no change in vacancy quarter-over-quarter with the remainder having just slight fluctuations in vacancy compared to the first quarter.
- After two quarters of declining rents, the average asking rental rate for the eastern markets increased to \$8.08 psf. With five submarkets seeing no change in their asking rental rate this quarter, and only two posting small decreases, the driving force behind the overall increase was escalating rates in the Ottawa Business Park as two fairly expensive pockets of space became available.

Overall Available Space vs. Leasing Activity



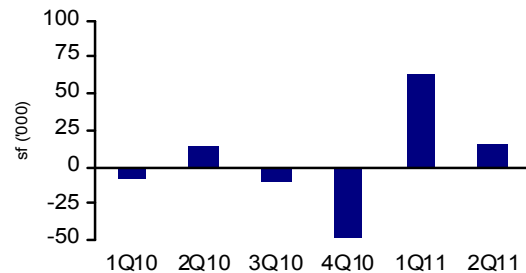
- The amount of vacant space available declined once again this quarter, albeit slightly, to reach 633,000 sf.
- Strong levels of leasing activity continued this quarter with 152,000 sf, down only slightly from last quarter. This leasing activity was not widespread throughout the eastern markets. In fact, only three submarkets registered activity this quarter, with one submarket alone – Sheffield – contributing close to 119,000 sf.

Available Space Trends Overall vs. Sublease



- There was no sublease space available in the eastern markets this quarter as one pocket of sublet space was leased and the other pocket that was available last quarter was withdrawn from the market.
- The lack of sublease space availability is only temporary, as nearly 8,000 sf of sublease space should be available next quarter.

Absorption



- Absorption softened this quarter, although it remained in positive territory at close to 16,000 sf. There are two main factors contributing to this minimal amount. One factor was little change in absorption figures in numerous submarkets this quarter. The other was that the positive absorption that was posted in three submarkets was just enough to counteract the negative absorption that was seen in two submarkets.
- Absorption should stay in positive territory over the second half of the year as only 38,000 sf is forecasted to come on the market. However, there is a potential 100,000 sf that could become available early next year which could certainly result in pushing absorption into the negative.

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	3,165,657	51	12.6%	8.2%	168,804	108,752	0	50,027	\$9.13
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	9.3%	9.3%	4,250	0	0	(10,644)	N/A
Ottawa Centre	742,339	25	3.5%	3.5%	8,900	0	0	(5,669)	\$6.00
Ottawa South	695,111	11	12.1%	3.3%	42,947	0	0	1,287	\$6.62
West Merivale	534,593	26	1.4%	1.4%	8,515	0	0	4,045	\$8.33
East Merivale	587,403	26	7.6%	6.8%	6,160	0	0	(445)	\$8.50
Colonnade	643,847	22	13.3%	5.2%	5,380	0	0	(23,879)	\$9.23
Rideau Heights	606,248	28	1.7%	1.7%	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	4.4%	4.4%	0	0	0	(38,462)	\$9.22
Coventry/Belfast	1,835,250	50	1.8%	1.8%	4,125	0	0	(5,197)	\$8.92
Cyrville	2,021,942	58	3.8%	3.8%	7,200	0	0	(8,679)	\$8.55
Sheffield	3,186,043	61	6.2%	6.2%	203,000	0	0	95,709	\$7.22
Sheffield/Lancaster	1,170,820	20	6.4%	6.4%	31,777	0	0	(21,068)	\$7.25
Stevenage/Belgreen	1,854,224	52	1.5%	1.5%	43,266	0	0	57,469	\$8.11
South Gloucester/Albion	409,334	16	5.2%	5.2%	0	0	0	1,639	\$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	21,744,087	570	6.3%	5.1%	601,440	108,752	0	80,153	\$8.07

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q11 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
349 Terry Fox Drive	Kanata	Ericsson	113,465 (Industrial Component)	Office/R&D
2400 Sheffield Road	Sheffield	Noble Trade	58,017	Office/Whse
2001 Bantree Road	Sheffield	Giant Tiger	56,691	Whse/Distribution

SIGNIFICANT 2Q11 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1165 Kenaston Street	Cyrville	Artis REIT	180,689	\$21,500,000
800 Belfast Road	Coventry/Belfast	J&J Macartney Realty Inc.	26,000	\$2,100,000

SIGNIFICANT 2Q11 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	08/11
116 Willowlea Drive	Kanata	Canada Bread Company	22,000	07/11



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