

MARKETBEAT

OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



4Q07

ECONOMY

Although Ottawa experienced a modest economic slowdown this year, with GDP growth expected to rank eleventh out of thirteen census metropolitan areas (CMA's) in 2007, this has not had any great impact on the local commercial industrial market. Overall vacancy currently sits at 5.1%, an increase from 3.6% at the mid-year point of 2007. Strong employment numbers have contributed to this strength with the November Ottawa unemployment rate at 4.6%, its lowest level in at least 19 years. Employment grew by approximately 4,700 jobs from the previous month to bring the total local employment level to 667,100 jobs, which is up 38,900 since the beginning of 2007.

The outlook for the high-tech sector remains positive. Although the rise in the Canadian dollar has limited the average annual output growth in the trade-dependent manufacturing sector, output growth is still expected to reach 2.7% in 2007. Investment in high-tech products is also expected to remain healthy over the medium term. This optimism has been reflected in employment numbers as the industry has seen an 8.1% employment gain from a year earlier. For 2008 there is also much optimism surrounding companies who are specializing in clean technology – technology which either creates or saves energy, as six of the top ten Canadian emerging clean technology companies hail from Ottawa.

OVERVIEW

After two years of vacancy remaining relatively static, vacancy rose in the second half of 2007. This increase in vacancy was not the result of a dramatic softening in the overall industrial market but rather in that three large blocks of space came onto the market over the last six months of the year. One was located in Kanata, as over 76,000 square feet (sf) of sublet space from Smart Technologies became available. The second is located in the Sheffield Industrial Park where over 130,000 sf, formerly occupied by Ottawa Regional Hospital Linen, came onto the market. The third is located in the Colonnade Business Park as Domtar placed over 56,000 sf on the market for sublease.

Leasing activity slowed over the last half of the year, reaching just over 334,000 sf. This is approximately half of the amount seen in the first six months of the year. Activity in the east has been brisker than the west throughout 2007 with close to 638,000 sf, accounting for close to 65% of all leasing activity for the year.

Absorption weakened substantially over the last half of the year with over 293,000 sf of negative absorption, to bring the year-end total to 95,285 sf.– largely the result of the space released onto the market which was discussed in the first paragraph of this section.

OUTLOOK

Vacancy has been adversely affected over the last six months of the year with large blocks of space coming onto the market. Due to the specialized nature of this space, it may prove difficult to lease and therefore may hinder any significant declines in vacancy in 2008. Absorption over the course of 2007 has largely been driven by construction completions of close to 400,000 sf. Although absorption is not expected to head into negative territory in 2008, absorption will not be as strong as 2007 due to fewer construction projects being delivered in 2008. Leasing activity is also not expected to match the levels seen this year, largely due to tight market conditions in the east market. However this could certainly change if some of these large blocks of space were filled.

BEAT ON THE STREET

"While the Ottawa industrial market is the second smallest in the country, rental rates continue to be at or near the top of other major Canadian markets. For this reason many small and medium companies look to become owners rather than tenants. Unfortunately with little zoned land available, the move from tenant to owner is difficult to execute. Those successful at it have helped drive values of existing industrial stock to at, or above, \$100 a square foot."

Nathan Smith, Senior Vice President Capital Markets Group

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth	2.8%	2.3%	2.9%
CPI Growth	1.7%	2.2%	2.1%
Unemployment	5.2%	5.7%	6.2%
Employment Growth	4.0%	0.1%	1.3%

Source: Conference Board of Canada

MARKET FORECAST

LEASING ACTIVITY will slow in 2008 due to lack of options for tenants in the market for traditional space under 10,000 sf



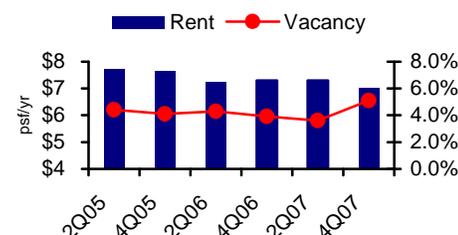
DIRECT ABSORPTION is expected to decline in 2008 as there has been a lack of construction projects announced to be completed in 2008



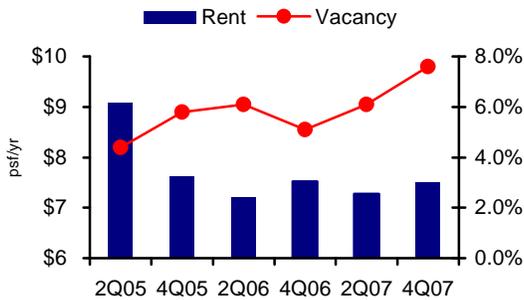
CONSTRUCTION is currently anticipated to decline in 2008 as there has only been one competitive building announced to be completed in 2008



OVERALL RENTAL VS. VACANCY RATE

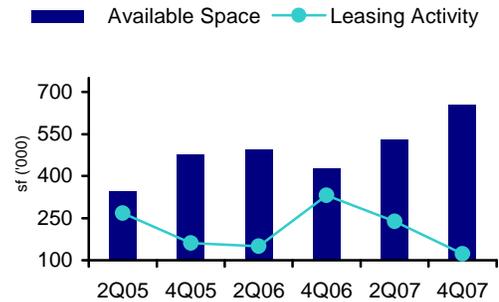


Overall Rental vs. Vacancy Rates



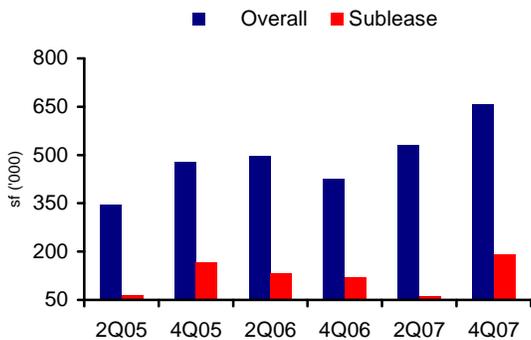
- Vacancy in the West Ottawa market has been trending upwards over the last year, in large part due to large blocks of space coming onto to the market – particularly in Kanata. Currently vacancy is at 7.6%, an increase from 6.1% at mid-year 2007.
- Despite this increase in vacancy, rental rates have remained fairly consistent over the past two years. Currently the average asking rental rate is \$7.51 per square foot (psf) with only modest increases forecasted for 2008.

Overall Available Space vs. Leasing Activity



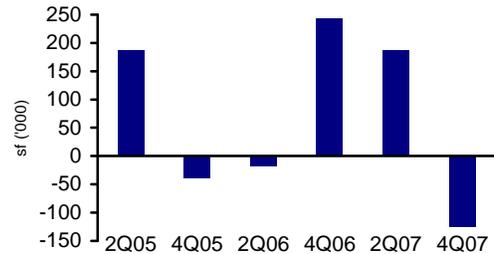
- Over the past year the amount of square footage available for lease has directly corresponded with a decrease in leasing activity. Currently there is over 656,000 sf available for lease in the West Ottawa market with close to 346,000 sf of that located in Kanata.
- Leasing activity has been on the decline over the past year. Over the last six months of the year there was close to 123,000 sf leased with a year-end total of 361,000 sf. This decline could be attributed to the type of space that is becoming available.

Available Space Trends Overall vs. Sublease



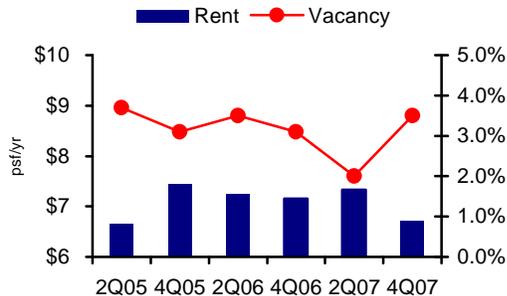
- In the years immediately following the high tech bust, space available for sublease had a far greater proportion of the total amount of square footage available. As demonstrated by the above graph, this is no longer an issue. Currently the amount of square footage available for sublease totals just under 190,000 sf, with over 176,000 sf of that total located in just three properties.

Absorption



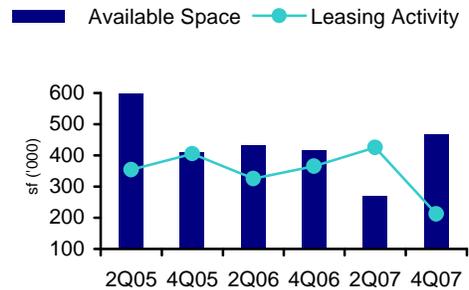
- Absorption headed into negative territory over the last six months of the year, with over 126,000 sf of negative absorption, and a year-end total of just over 62,000 sf positive absorption. Vacant square footage returning to market from just two properties accounted for the entire amount of negative absorption over the last half of the year.
- In the first half of 2008 the completion of 200 Iber and its success in leasing, will play a role in determining whether absorption numbers will improve or continue to decline.

Overall Rental vs. Vacancy Rates



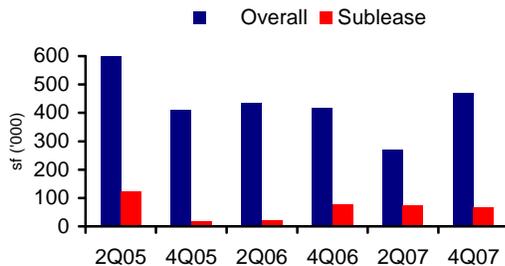
- After over a year of vacancy trending downwards, vacancy in the East Ottawa market climbed back up over the last six months of the year to reach 3.5%, an increase from the 2.0% vacancy at the mid-year point of 2007. However this rise in vacancy came almost entirely from 133,000 sf becoming available at one property.
- Average asking rental rates contracted slightly since mid-year 2007, declining to reach \$6.71. Lower rents in the Coventry/Belfast area helped to account for this decrease.

Overall Available Space vs. Leasing Activity



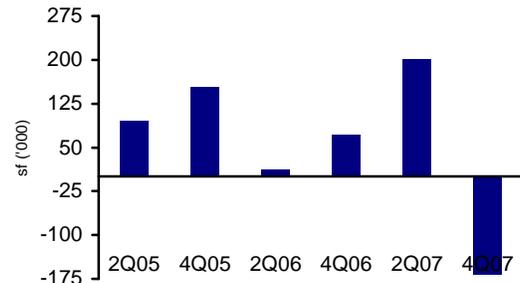
- The total amount of square footage available has remained fairly constant over the last two years. Currently there is just over 470,000 sf available for lease. A large percentage of that vacant square footage is located in the Sheffield Industrial Park, with close to 200,000 sf available.
- Leasing activity dropped substantially over the last six months of the year to just under 212,000 sf with only a handful of transactions over 5,000 sf. This is compared to over 425,000 sf of leasing that took place over the first half of the year.

Available Space Trends Overall vs. Sublease



- The amount of square footage in the Ottawa East market available for sublease remains low. Currently there is just over 66,000 sf available for sublease out of the over 470,000 sf that is currently available. Close to 40% of that total is located in the Ottawa Business Park in two properties.
- This low amount of sublet space available is influenced by the historically tight market conditions in the Ottawa East market. Most tenants are currently not trying to offload space, and with few options to choose from tenants are unable to move.

Absorption



- Absorption headed into the negative territory over the last half of the year with close to 167,000 sf of negative absorption. This was heavily influenced by a 133,000 sf property becoming available.
- It is not expected that this negative absorption will continue into 2008 as the Ottawa East market has historically proven to be a very competitive market with strong demand.

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
Kanata	3,198,962	56	10.8%	8.4%	131,607	76,000	276,521	87,066	\$7.42
Bell's Corners	363,842	12	1.4%	1.4%	11,480	0	0	(5,230)	\$12.00
Morrison/Queensview	415,519	9	6.2%	3.1%	13,435	0	0	135	\$7.50
Woodward/Carling	530,800	22	0.3%	0.3%	6,238	0	0	3,450	N/A
Ottawa Centre	904,150	30	12.2%	12.2%	22,617	0	0	(20,500)	\$6.50
Ottawa South	695,111	11	9.7%	2.8%	21,300	0	0	(5,126)	\$6.92
West Merivale	554,593	27	2.5%	2.5%	35,035	0	0	4,588	\$8.00
East Merivale	557,403	25	0.6%	0.6%	34,543	0	0	22,848	\$5.00
Colonnade	832,118	27	7.1%	0.8%	50,483	0	0	(37,892)	\$8.89
Rideau Heights	622,918	28	3.7%	3.7%	33,453	0	22,000	12,317	\$8.18
South Walkley	366,680	15	0.0%	0.0%	16,437	0	0	12,837	N/A
Ottawa Business Park	1,321,259	30	3.2%	1.2%	48,729	0	0	22,646	\$8.97
Coventry/Belfast	1,890,479	50	2.4%	2.4%	152,768	0	0	528	\$5.80
Cyrville	2,182,122	60	1.8%	0.9%	103,743	0	0	28,003	\$6.38
Sheffield	3,276,043	63	6.0%	5.5%	136,719	0	0	(88,842)	\$6.10
Sheffield/Lancaster	1,170,820	20	5.8%	5.3%	58,166	0	0	(37,011)	\$7.72
Stevenage/Belgreen	1,725,109	48	2.7%	2.7%	90,245	0	75,889	39,507	\$7.14
South Gloucester/Albion	387,097	15	3.0%	3.0%	5,000	0	0	(6,748)	\$7.50
Queensway	639,185	22	1.1%	1.1%	25,674	0	0	52,709	\$7.45
Orleans	473,365	13	3.2%	3.2%	0	0	25,000	10,000	\$7.50
Total	22,107,575	583	5.1%	3.9%	997,672	76,000	399,410	95,285	\$7.04

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3&4Q7 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2001 Bantree Road	Sheffield	Snelling Paper	16,879	Industrial-Warehouse
2905 Swansea Crescent	Stevenage/Belgreen	Medigas	12,620	Industrial-Warehouse
848 Belfast Road	Coventry/Belfast	Sofa 999	12,000	Industrial – Office/Showroom

SIGNIFICANT 3&4Q07 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
425 Legget Drive	Kanata	Canderel	107,000	\$6,965,344

SIGNIFICANT 3&4Q07 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1671 Vimont Court	Orleans	Diresco	25,000	10/07
2905 Swansea Cres. Expansion	Stevenage/Belgreen	Medigas	23,290	12/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
200 Iber Road	Kanata	N/A	76,000	01/08



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