

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

3Q08

ECONOMY

In its latest metropolitan report, the Conference Board of Canada stated that the slowdown in Central Canada and the United States is expected to act as a drag on growth in Ottawa, due to lower demand for the goods and services produced in the area. With weakness in both the high-tech and manufacturing sectors, as well as slowing activity in the construction industry, total gross domestic product (GDP) in the region is expected to reach only 1.8% in 2008, its weakest performance in 12 years. This comes despite recent job growth, healthy consumer spending, and a strong housing market. The picture improves, however, going into 2009, as economic growth is forecast to increase to 2.5%, and average 2.7% per year from 2010 to 2012.

Unemployment in Ottawa edged up slightly from July to reach 5.2% in August, despite the creation of approximately 3,900 new jobs. The unemployment rate rose due to more people searching for work. This low growth may be an indication that the boom in job creation is beginning to cool after adding more than 8,000 jobs in the previous two months, and gaining 19,800 jobs during the last year.

Until recently, Ottawa manufacturers have been able to avoid the slowdown that has affected other manufacturers across Ontario. However, the strong Canadian dollar and sluggish U.S. demand for goods are now causing manufacturing activity to stall, with growth this year expected to fall by 0.1%. Output growth is expected to resume in 2009 at 2.5%.

OVERVIEW

Vacancy declined once again this quarter, with vacancy now at 4.8%, a decrease of four tenths of a percentage point from the second quarter. Last quarter there was a pause in the release of large blocks of space being put on the market, an ongoing situation that has been occurring over the past 12 months. This quarter the pattern reasserted itself as an additional 47,000 square feet (sf) of space became available in Kanata. However vacancy was not negatively impacted as there were multiple spaces over 10,000 sf that were removed from the market.

Leasing activity continues to be brisk, with over 191,000 sf this quarter. Leasing activity will continue to be focused within the eastern sub-markets through to the end of 2008, as the western sub-markets will continue to struggle with finding tenants to fill numerous 50,000 sf blocks of space.

Overall demand was impacted by the release of the space in Kanata, and absorption was minimal at just over 7,000 sf. Demand was again focused on the eastern sub-markets with close to 75,000 sf of positive absorption. After strengthening demand last quarter, the western sub-markets took a step backwards, with negative absorption of over 67,000 sf.

OUTLOOK

Vacancy is anticipated to creep upwards as over 150,000 sf is expected to come onto the market before the end of the year. Unlike this quarter, it is not expected that there will be any significant leasing transactions to balance this out. Large blocks of space that are in some manner high-tech related will most likely remain vacant in the near term as there do not appear to be any users who have a requirement for that type and amount of space.

BEAT ON THE STREET

“Warehouse occupancy in the eastern submarkets continues to be very high, a trend that has continued for some time. To date most expansion plans have been put on hold due to lack of suitable options. This has led to low velocity in the eastern suburban market.”

– Peter Earwaker,
Senior Sales Representative

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth	3.3%	2.5%	1.8%
CPI Growth	1.7%	1.9%	1.8%
Unemployment	5.2%	5.2%	5.3%
Employment Growth	4.0%	1.3%	2.3%

Source: Conference Board of Canada

MARKET FORECAST

LEASING ACTIVITY should remain consistent through to the end of 2008 as the most desirable spaces will be leased quickly. 

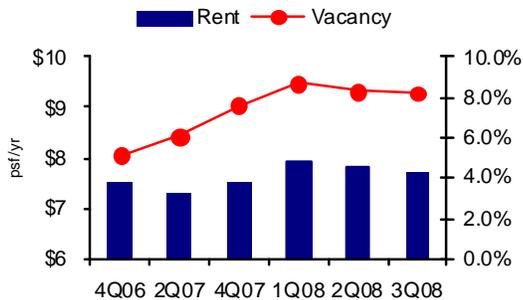
DIRECT ABSORPTION may head into negative territory as an additional 150,000 sf will come to the market by the end of 2008. 

CONSTRUCTION continues on two build-to-suit projects in the east. 

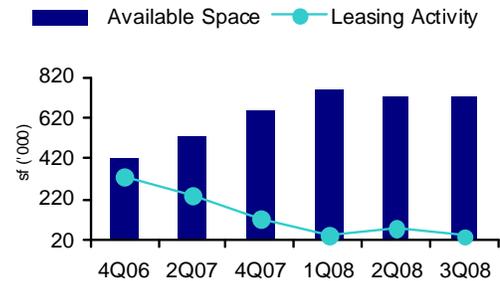
OVERALL RENT VS. VACANCY RATE



Overall Rental vs. Vacancy Rate



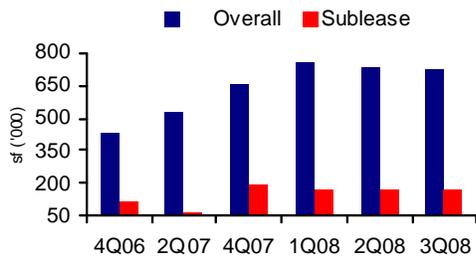
Overall Available Space vs. Leasing Activity



- Despite struggles in leasing activity and overall demand, vacancy in the western sub-markets slightly decreased to 8.2%, one tenth of a percentage point decline from last quarter.
- There continues to be little change in asking rental rates this quarter, with rates just slightly lower at a current average of \$7.74. This slight decline can be attributed to lower asking rates in Kanata.

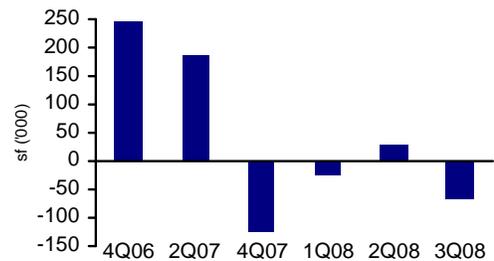
- The amount of available space decreased slightly this quarter, closing at 725,000 sf. Kanata's percentage of that total amount rose this quarter to 72%.
- After a slight rebound last quarter, leasing activity slowed this quarter to just over 38,000 sf. Only four sub-markets in the entire western suburbs registered activity this quarter.

Available Space Trends Overall vs. Sublease



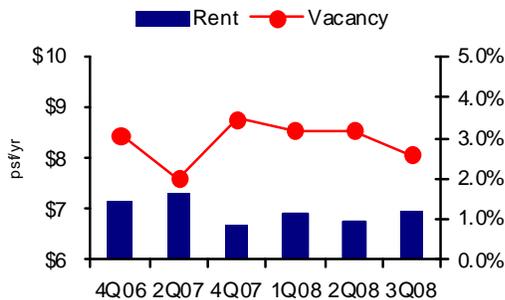
- To date in 2008, the amount of sublet space available in the western sub-markets has remained unchanged at 177,000 sf.
- There was also no change from last quarter in terms of where this sublet space is located—it continues to be found in three different buildings in three separate sub-markets.

Absorption



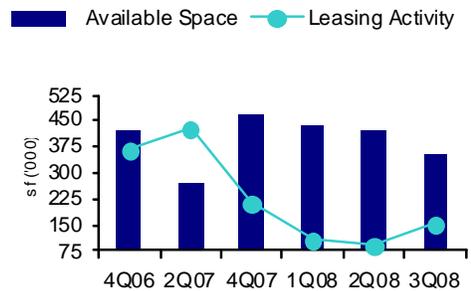
- Demand softened this quarter, with negative absorption of over 67,000 sf. It is worth noting that this softening was not widespread throughout the western sub-markets, as close to 47,000 sf of that newly vacant space was located in one building in Kanata.
- Absorption is expected to remain in negative territory through to the end of 2008, as an additional 63,000 sf comes onto the market. Leasing activity is not expected to be strong enough to counteract this.

Overall Rental vs. Vacancy Rate



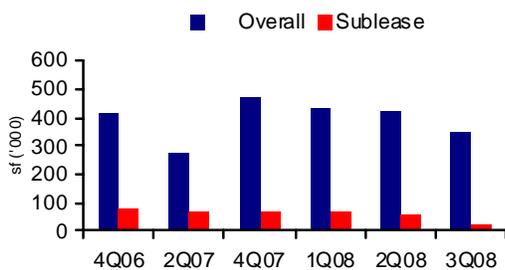
- After a pause last quarter, vacancy continued its march downwards with vacancy in the eastern sub-markets declining to 2.6%.
- After contracting last quarter, rental rates headed upwards with asking rental rates now averaging \$6.96. With rental rates remaining relatively static from last quarter in most sub-markets, it was new availability in the Coventry/Belfast area that drove this increase. Although there may be slight dips and increases in rental rates heading into 2009, overall rental rates are expected to remain stable.

Overall Available Space vs. Leasing Activity



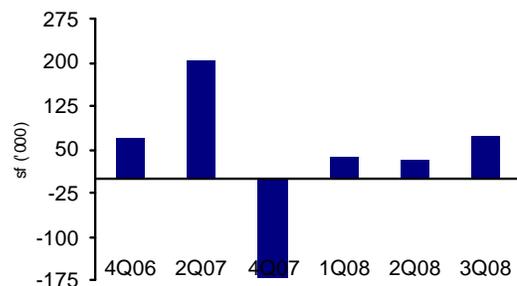
- The amount of square footage available declined this quarter to close to 350,000 sf, a drop of over 70,000 sf from last quarter. The majority of the vacant space removed was located in the Orleans sub-market.
- Leasing activity rebounded this quarter with over 153,000 sf. A third of this square footage was involved in one transaction located in the Orleans sub-market. Leasing activity is expected to ease back down through to the end of the year, as it is not expected the lone vacant block of over 50,000 sf still available in the eastern suburbs will be leased in the short term.

Available Space Trends Overall vs. Sublease



- The amount of sublet space available showed a substantial decline for the first time in six quarters. There is currently just over 23,000 sf available for sublease. Sublet availability continues to be located in two sub-markets—Cyrville Industrial Park and the Stevenage/Belgreen area.
- Little change is expected through to the end of the year, as there are virtually no options for tenants to be able to relocate within the eastern sub-markets. Tenants also do not appear to have any need to shed any of their space.

Absorption



- Demand remains consistent in the eastern sub-markets, as absorption remains in positive territory. Absorption was just over 75,000 sf during the third quarter.
- Absorption should remain stable through the last three months of the year as demand continues. Absorption will also receive a boost as two new build-to-suits will be completed in the fourth quarter of 2008, totaling 65,000 sf.

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
Kanata	3,447,404	57	15.2%	13.0%	31,810	0	76,053	(101,789)	\$7.26
Bell's Corners	363,842	12	2.2%	2.2%	0	0	0	(2,880)	\$12.00
Morrison/Queensview	415,519	9	4.6%	4.6%	22,509	0	0	6,961	\$8.20
Woodward/Carling	530,800	22	0.0%	0.0%	12,321	0	0	1,750	N/A
Ottawa Centre	833,814	29	1.6%	1.6%	12,737	0	0	26,942	N/A
Ottawa South	695,111	11	7.4%	0.5%	29,376	0	0	15,963	N/A
West Merivale	554,593	27	0.7%	0.7%	3,545	0	0	10,117	\$7.35
East Merivale	587,403	26	2.9%	2.9%	4,366	0	0	(13,634)	\$9.40
Colonnade	786,560	27	9.2%	2.6%	21,383	0	0	21,383	\$10.21
Rideau Heights	622,918	28	2.5%	2.5%	21,123	0	0	7,599	\$10.28
South Walkley	441,680	15	0.0%	0.0%	0	0	0	0	N/A
Ottawa Business Park	1,321,259	30	0.2%	0.2%	38,705	0	0	39,505	\$12.00
Coventry/Belfast	1,829,526	50	3.3%	3.3%	56,468	0	0	(13,853)	\$10.12
Cyrville	2,190,942	60	1.7%	1.4%	58,268	0	0	1,068	\$6.50
Sheffield	3,276,043	63	4.5%	4.5%	52,712	0	0	49,029	\$6.00
Sheffield/Lancaster	1,170,820	20	3.7%	3.7%	35,715	0	0	23,909	\$7.89
Stevenage/Belgreen	1,748,009	49	2.5%	1.6%	35,099	65,000	0	25,632	\$7.90
South Gloucester/Albion	387,097	15	1.4%	1.4%	0	0	0	6,145	\$7.00
Queensway	639,185	22	1.0%	1.0%	9,714	0	0	914	\$9.00
Orleans	458,369	13	0.9%	0.9%	62,450	0	0	11,000	N/A
Total	22,300,894	585	4.8%	3.9%	508,301	65,000	76,053	80,439	\$7.44

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
85 Bentley Avenue	East Merivale	N/A	30,105	Industrial - Warehouse
1680 Vimont Court	Orleans	St. Joseph Communications	29,400	Industrial - Warehouse/Office

SIGNIFICANT 3Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
485 Industrial Avenue	Coventry/Belfast	Controlex	57,000	\$5,100,000

SIGNIFICANT 3Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1101 Ages Drive	Stevenage/Belgreen	Princess Auto	40,000	10/08
1091 Ages Drive	Stevenage/Belgreen	Gentek	25,000	10/08



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