

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

2Q09

ECONOMY

The unemployment rate for the Ottawa-Gatineau region rose four tenths of a percentage point in May to reach 5.9%. Although the local economy lost approximately 3,800 jobs, this employment decrease was the smallest number seen year-to-date, and unemployment is well below the national unemployment rate of 8.4%. There were encouraging signs in the high-tech sector, which added approximately 1,500 jobs to employ 54,600 people in May, although overall employment is down by around 7,000 year-over-year. The business, building, and other support services segment, which includes employment agencies and call centres, has experienced some troubles as well and has seen its workforce decrease by 10,000 jobs to currently employ around 18,600 workers. The public administration sector continues to be the shining light for the region and has added around 5,000 jobs over the course of 2009.

OVERVIEW

After a strong first quarter, a slight weakening in certain areas of the industrial market occurred this quarter. After a substantial decline last quarter, vacancy in the second quarter rose to 4.4%, an increase of six tenths of a percentage point. Overall vacant space increased to approximately 991,000 square feet (sf); however, this is still the second lowest vacancy rate the market has achieved in the past six quarters. In a rare occurrence, it was weakening in the eastern sub-markets rather than softening in the western sub-markets that led to the vacancy increase this quarter.

Leasing activity remains consistent in the overall industrial market, with 142,000 sf this quarter, a figure almost identical to the first quarter. Leasing activity also continues to remain fairly evenly split between the eastern and western sub-markets. In both the western and eastern sections of the city the majority of the leasing activity was centered within one building. The remaining transactions were distributed among numerous other properties and were generally under 5,000 sf.

Since overall demand was not strong enough to counteract the additional space that came on the market this quarter the result was an overall negative absorption of approximately 69,000 sf. With the western sub-markets remaining fairly flat, it was the eastern sub-markets that generated all of the negative absorption.

OUTLOOK

Looking ahead to the second half of 2009, the vacancy rate should remain fairly stable, but there is a risk of vacancy ticking upwards. Approximately 80,000 sf is currently being listed to become available over the last six months of the year, with approximately 80% of that space located in the western sub-market of Kanata. Something else that will also have an immediate impact on vacancy rates as well as absorption figures is the 133,000 sf former Hospital Linen Services premises. These buildings were removed from the market last quarter, but were not leased. It is almost a certainty that these buildings will be coming back on the market by the end of the year.

BEAT ON THE STREET

“Interest from tenants remains consistent, as does their frustration due to lack of product. As a result, tenants are having to compromise. This will lead to a constant level of velocity throughout the industrial market for the remainder of 2009.”

– Peter Earwaker, Senior Sales Representative

ECONOMIC INDICATORS

	2007	2008	2009F
GDP Growth	2.6%	1.2%	0.2%
CPI Growth	1.9%	2.2%	0.5%
Unemployment	5.2%	4.8%	5.8%
Employment Growth	1.3%	2.8%	-0.4%

Source: Conference Board of Canada

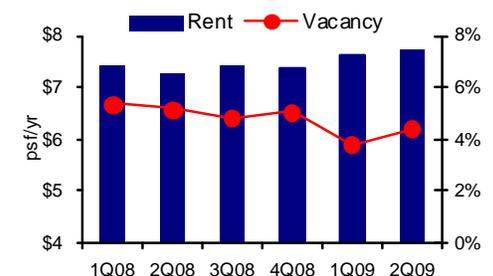
MARKET FORECAST

LEASING ACTIVITY should remain consistent throughout the second half of 2009. 

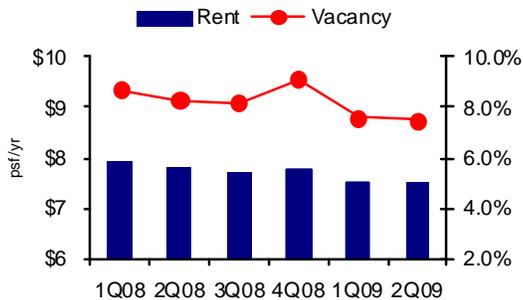
DIRECT ABSORPTION headed into negative territory this quarter and will most likely remain there in the second half of 2009 as up to 200,000 sf is forecasted to come on the market. 

CONSTRUCTION continues on two properties, due to be delivered next quarter and in early 2010. 

OVERALL RENT VS. VACANCY RATE

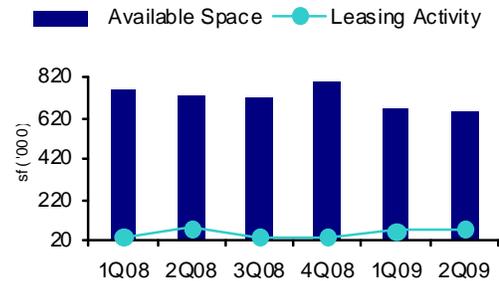


Overall Rental vs. Vacancy Rate



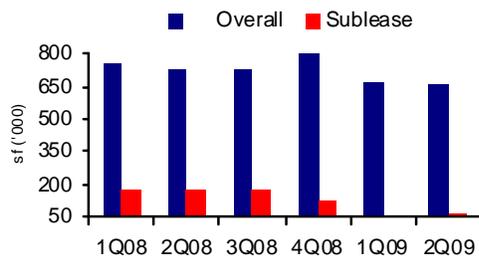
- Although it was not as steep as last quarter's decline, the vacancy rate in the overall western sub-markets nudged downwards to reach 7.5%, a one tenth of a percentage point difference from last quarter.
- Mirroring the small amount of change in the vacancy rate, overall rental rates held fairly steady, with current average asking rates sitting at \$7.51 per square foot (psf), which is two cents higher than last quarter.

Overall Available Space vs. Leasing Activity



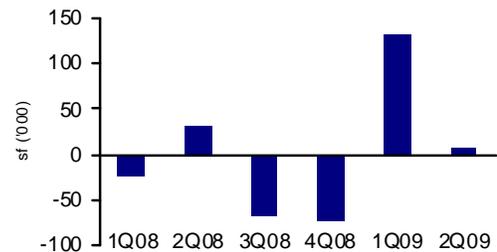
- The amount of available space located in the western sub-markets declined slightly this quarter to approximately 659,000 sf. The vast majority of that space continues to be located in Kanata, with close to 416,000 sf available in this sub-market.
- Leasing activity continues to be consistent with close to 76,000 sf, about 8,000 sf higher than last quarter. As with the first quarter, that leasing activity was located in twelve properties, and once again the largest block of activity was located in Kanata with around 41,000 sf in one property.

Available Space Trends Overall vs. Sublease



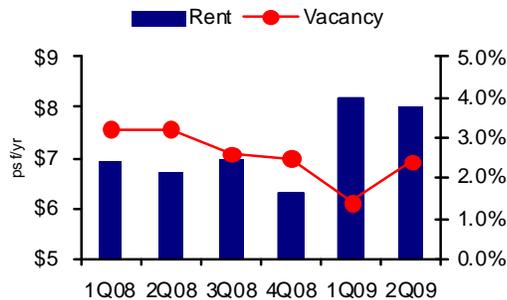
- There was a slight increase in the amount of sublet space available in the western sub-markets, rising by approximately 3,500 sf to reach just over 60,000 sf. This increase was the result of one new listing coming on the market.
- In the short term, little change is expected in the sublet market. Around 56,000 sf of the total amount of space available for sublease is located in one property. It is proving to be difficult to find a suitable tenant for this location and this space does not revert back to the landlord until 2013.

Absorption



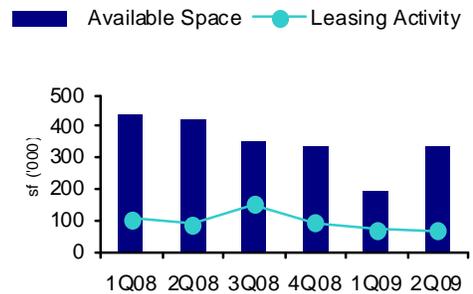
- Although absorption did drop off substantially from last quarter, the western sub-markets remained in positive territory with around 7,500 sf.
- It is expected that absorption will drop back down into the negative through the latter half of 2009, as approximately 66,000 sf is expected to come on the market. As things currently stand, it is not anticipated that demand will be strong enough to counteract this additional space becoming available.

Overall Rental vs. Vacancy Rate



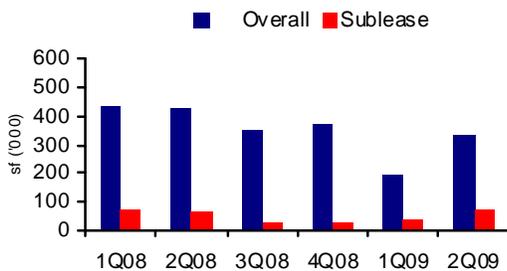
- After five consecutive quarters of vacancy declines, vacancy rose in the eastern sub-markets to 2.4%, an increase of a full percentage point from last quarter.
- With this minimal increase in vacancy came a slight contraction in overall asking rental rates. Rates fell by 17 cents from last quarter to reach \$8.00 psf. Decreases in rental rates were seen in almost all of the sub-markets that posted negative absorption this quarter, which could be a reflection of the type of space that came on the market this quarter.

Overall Available Space vs. Leasing Activity



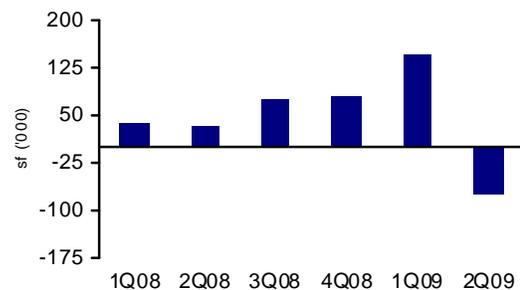
- The amount of square footage available in the eastern sub-markets increased by approximately 140,000 sf to reach 332,000 sf. This increase was not the result of one or two large blocks of space coming on the market; instead, every sub-market in the eastern sub-markets reported an increase in vacant space.
- Leasing activity remained fairly consistent, only decreasing by 7,000 sf this quarter to reach just over 66,000 sf. As was the situation in the western sub-markets, the leasing activity was not evenly distributed among the various sub-markets, as 46,000 sf was located in one property.

Available Space Trends Overall vs. Sublease



- The amount of sublet space available in the eastern sub-markets rose for the fourth straight quarter to reach 76,000 sf, its steepest increase over this same time period.
- This increase in available sublet space comes from a handful of properties that have new space available for sublease this quarter, rather than just one new block of space.

Absorption



- Absorption headed into negative territory this quarter at close to 77,000 sf. Although there was a new 41,000 sf building completed this quarter, the building came on the market with 26,000 sf still vacant. As a result only, 15,000 sf counted towards positive absorption.
- All sub-markets except for two reported negative absorption this quarter, and the outlook does not appear favourable in the short term. Although only 14,000 sf is currently listed to become available over the next six months, it is assumed that the 133,000 sf former Hospital Linen Services premises will be coming back on the market after being removed last quarter due to a change in the brokerage handling the listing.

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	3,379,000	57	12.3%	12.3%	71,417	0	0	219,227	\$6.89
Bell's Corners	363,842	12	1.4%	1.4%	0	0	0	0	N/A
Morrison/Queensview	415,519	9	4.4%	4.4%	8,100	0	0	(1,285)	\$7.50
Woodward/Carling	540,800	23	7.2%	7.2%	7,746	0	0	(30,988)	N/A
Ottawa Centre	833,814	29	3.1%	3.1%	8,870	0	0	(12,330)	\$7.19
Ottawa South	695,111	11	3.6%	3.6%	11,682	0	0	(7,734)	\$7.50
West Merivale	554,593	27	2.6%	2.6%	7,030	0	0	(12,962)	\$9.00
East Merivale	587,403	26	3.2%	2.6%	5,960	0	0	3,245	\$9.38
Colonnade	786,560	27	12.1%	4.9%	7,100	0	0	(24,417)	\$10.69
Rideau Heights	622,918	28	0.3%	0.3%	16,080	0	0	7,965	\$11.55
East Ottawa Submarkets									
South Walkley	441,680	15	6.2%	6.2%	0	0	0	(27,434)	\$9.00
Ottawa Business Park	1,321,259	30	0.9%	0.9%	10,280	0	0	(9,145)	\$10.01
Coventry/Belfast	1,886,526	51	2.2%	2.1%	2,915	0	0	(1,266)	\$7.75
Cyrville	2,190,942	60	1.8%	0.9%	9,038	0	0	(3,732)	\$7.50
Sheffield	3,276,043	63	0.7%	0.6%	8,510	0	0	124,101	\$7.75
Sheffield/Lancaster	1,170,820	20	1.0%	1.0%	35,898	0	0	15,479	\$7.44
Stevenage/Belgreen	1,854,224	52	5.9%	3.3%	26,386	45,000	41,215	(2,548)	\$7.81
South Gloucester/Albion	409,334	16	5.4%	5.4%	0	0	0	0	N/A
Queensway	639,185	22	1.7%	1.7%	0	122,500	0	(6,301)	\$8.07
Orleans	458,369	13	7.4%	7.4%	46,000	0	0	(22,950)	\$7.30
Total	22,427,942	591	4.4%	3.8%	283,012	208,715	41,215	206,925	\$7.71

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1155 Rainbow Street	Queensway	University of Ottawa	19,200	Warehouse

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
2455 Don Reid Drive	Ottawa Business Park	Kaysush Investments Ltd.	38,500	\$3,200,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
3020 Hawthorne Road	Stevenage/Belgreen	Motion Specialties	41,215	06/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1155 Rainbow Street	Queensway Business Park	University of Ottawa	122,500	04/10
1071 Ages Drive	Stevenage/Belgreen	Contract Furniture Source	45,000	07/09



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