

# MARKETBEAT



## OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q09

### ECONOMY

The unemployment rate for the Ottawa-Gatineau region decreased by half of a percentage point in August—falling to 5.4%—as local employment rose by approximately 9,200 jobs, the largest increase in over three years. Employment gains were widespread in the region, with the largest gains seen in the healthcare and social assistance sectors, as well as finance, real estate, insurance, and leasing. Unfortunately, the high-tech sector continues to suffer as employment in August declined to reach 53,100 jobs. The sector has now lost approximately 8,600 jobs over the past twelve months. In the latest Metropolitan Outlook published by the Conference Board of Canada, manufacturing output is forecasted to fall by 10.7% by the end of 2009, while output in commercial services—which include high-tech services—is projected to decline by 1.1%. Recovery is expected for both sectors in 2010, although this could be affected by what happens with the Nortel bankruptcy break-up.

### OVERVIEW

After a slight wobble last quarter, the overall industrial market rebounded in the third quarter, with vacancy declining to 4.1%, down three-tenths of a percentage point. Currently, the amount of vacant space in the city is approximately 923,000 square feet (sf), with the western sub-markets accounting for approximately 70% of that total. With little change in the western sub-markets, it was improving conditions in the eastern sub-markets that propelled the overall vacancy downwards.

Leasing activity remains consistent in the overall industrial market, with amounts close to 163,000 sf in the third quarter. As was the case for the first six months of the year, leasing activity continues to remain roughly split between the western and eastern sub-markets; however, this quarter the gap between the two widened slightly with the west accounting for approximately 60% of the total. This was largely due to increased activity in Kanata, which accounted for over one third of the activity for the entire city.

Absorption moved back into positive territory this quarter, reaching approximately 68,000 sf. Within the western sub-markets, new vacant space on the market and overall demand balanced each other out for the most part, resulting in minimal positive absorption of around 11,000 sf. The eastern sub-markets demonstrated significant improvement over last quarter, rebounding from a negative absorption of close to 77,000 sf last quarter to slightly above 57,000 sf of positive absorption this quarter. These numbers improved due to minimal amounts of new vacant space coming on the market coupled with a few blocks of 10,000 sf or more no longer being available.

### OUTLOOK

Leasing activity has been consistent throughout the year and should remain so through the final quarter of 2009. It is expected that leasing activity totals for the year will at least equal if not surpass the end-of-year totals from 2008. Vacancy is also anticipated to remain fairly steady, as only approximately 14,000 sf of space is forecasted to come on the market in the next three months. As the overall market is expected to remain strong, it should be able to absorb this equivalent amount of square footage.

### BEAT ON THE STREET

“Still suffering from a post-recession hangover, industrial tenants continue to be reluctant to commit to expansion or a flight to quality upgrades. Since the beginning of 2009 the market remains in a state of stasis with slow velocity and continuing uncertainty.”


– Peter Earwaker, Senior Sales Representative


### ECONOMIC INDICATORS


|                   | 2007 | 2008 | 2009F |
|-------------------|------|------|-------|
| GDP Growth        | 2.5% | 0.8% | -0.5% |
| CPI Growth        | 1.9% | 2.2% | 1.0%  |
| Unemployment      | 5.2% | 4.8% | 6.1%  |
| Employment Growth | 1.3% | 2.8% | -2.8% |

Source: Conference Board of Canada

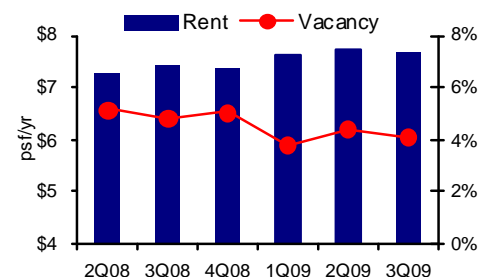
### MARKET FORECAST

LEASING ACTIVITY continues to remain steady with levels close to last quarter. Little change is expected for the last three months of 2009. 

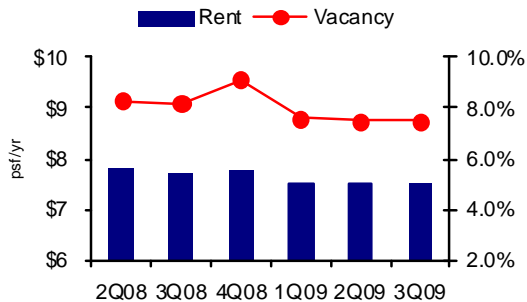
DIRECT ABSORPTION rebounded this quarter to move back into positive territory, and this rebound is expected to be maintained through the last quarter of the year. 

CONSTRUCTION continues on one speculative build that is expected to be delivered in early 2010. 

### OVERALL RENT VS. VACANCY RATE

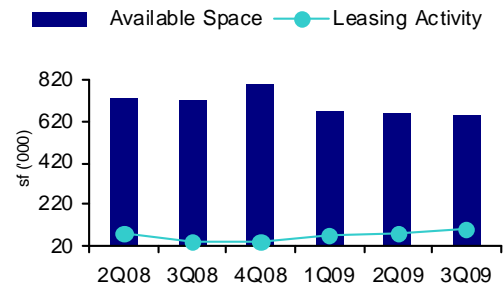


### Overall Rental vs. Vacancy Rate



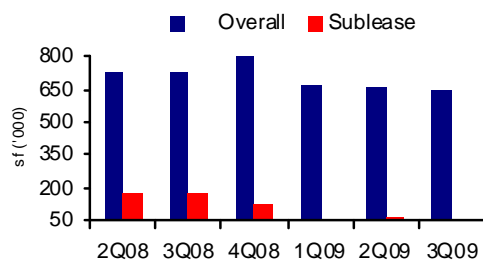
- Vacancy has been fairly static in the western sub-markets so far this year, and that trend continued into the third quarter as vacancy was at 7.5%, identical to last quarter.
- Overall average asking rental rates have also held steady throughout 2009, with current rents at \$7.50 per square foot (psf), almost identical to what was reported last quarter.

### Overall Available Space vs. Leasing Activity



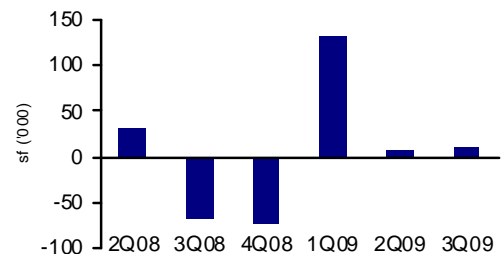
- The amount of available space located in the western sub-markets declined slightly this quarter and now sits at close to 648,000 sf. The majority of space continues to be located within Kanata, with this market accounting for approximately 67% of the total amount available.
- Leasing activity remained consistent, with third quarter totals of around 96,000 sf; a slight increase from what was recorded last quarter. Despite having the highest levels of vacancy in the western sub-markets, Kanata continues to be the focal point of leasing activity. This quarter there were two transactions over 25,000 sf located in this submarket, and Kanata accounted for over 60% of the leasing activity in the entire western sub-market.

### Available Space Trends Overall vs. Sublease



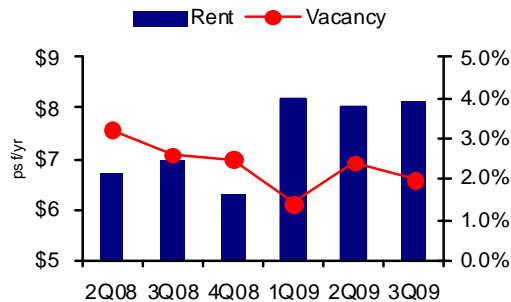
- The amount of sublet space in the western sub-markets continues to be minimal with approximately 52,000 sf available, a slight decrease from last quarter.
- In the short term, little change is expected in the sublet market. All of the space available for sublease is located in one property. It is proving to be difficult to find a suitable tenant for this location and this space does not revert back to the landlord until 2013.

### Absorption

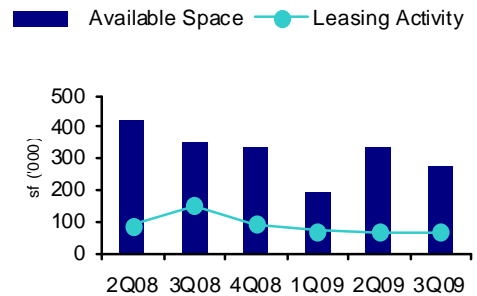


- Although the amount was minimal, absorption continued to remain in positive territory this quarter at just over 11,000 sf.
- There currently is no significant amount of square footage forecasted to come on the market over the last quarter of 2009. This, combined with the fairly steady level of demand, should mean absorption will remain positive, although amounts are not expected to be significant.

### Overall Rental vs. Vacancy Rate



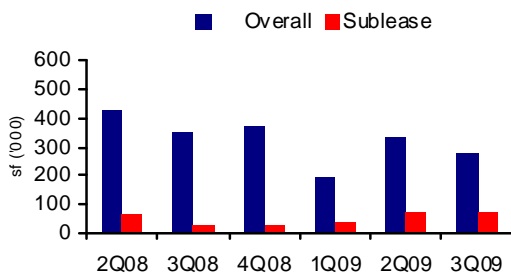
### Overall Available Space vs. Leasing Activity



- In contrast to the western sub-markets, vacancy in the eastern sub-markets has been more turbulent over the course of the year. After a fairly substantial increase last quarter, vacancy moved downwards to 2.0%, a decrease of four-tenths of a percentage point from last quarter.
- Despite this fluctuating vacancy, the market as a whole remains strong and this is reflected in the overall average asking rental rates, which have continued to hold fairly steady over the course of 2009. Current rental rates average \$8.12 psf, a figure very close to that of the previous two quarters.

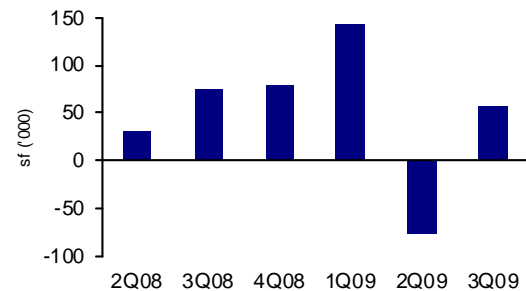
- The amount of square footage available in the eastern sub-markets decreased this quarter to just shy of 275,000 sf. Unlike the western sub-markets, vacancy is distributed in small pockets throughout the eastern sub-markets, rather than concentrated within one.
- Leasing activity has remained steady throughout the year and this quarter was no exception. Leasing activity amounted to approximately 67,000 sf, closely matching amounts for the first and second quarters. The majority of activity occurred in small pockets located in various sub-markets.

### Available Space Trends Overall vs. Sublease



- After four consecutive quarters of sublet space growing, the amount of space available for sublease contracted to just below 74,000 sf. Unlike the western sub-markets, this space was distributed among numerous sub-markets.
- Little change is expected through to the end of the year, as most tenants are maintaining the status quo and the majority of the space that is available for sublease will not be reverting back to the landlord until 2010 at the earliest.

### Absorption



- Absorption rebounded back into the positive this quarter with approximately 57,000 sf.
- In a reversal from last quarter, where all but two sub-markets posted negative absorption, only two sub-markets posted negative absorption this quarter. It is anticipated that absorption will remain positive through to the end of the year, as only approximately 14,000 sf of additional space is forecasted to come on the market and overall demand should be strong enough to counteract this new space.

### 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 |
|-------------------------------|-------------------|---------------|----------------------|---------------------|----------------------|--------------------|------------------------------|------------------------|---------------------|
| <b>West Ottawa Submarkets</b> |                   |               |                      |                     |                      |                    |                              |                        |                     |
| Kanata                        | 3,379,000         | 57            | 12.9%                | 12.9%               | 130,690              | 0                  | 0                            | 198,594                | \$6.89              |
| Bell's Corners                | 363,842           | 12            | 1.4%                 | 1.4%                | 0                    | 0                  | 0                            | 0                      | N/A                 |
| Morrison/Queensview           | 415,519           | 9             | 3.9%                 | 3.9%                | 10,348               | 0                  | 0                            | 963                    | \$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)               | \$7.90              |
| Ottawa South                  | 695,111           | 11            | 2.4%                 | 2.4%                | 20,023               | 0                  | 0                            | 607                    | N/A                 |
| West Merivale                 | 554,593           | 27            | 2.6%                 | 2.6%                | 7,030                | 0                  | 0                            | (12,962)               | \$9.00              |
| East Merivale                 | 587,403           | 26            | 3.0%                 | 3.0%                | 6,960                | 0                  | 0                            | 4,245                  | \$9.28              |
| Colonnade                     | 621,923           | 21            | 11.1%                | 2.7%                | 29,775               | 0                  | 0                            | 1,610                  | \$10.76             |
| Rideau Heights                | 622,918           | 28            | 1.3%                 | 1.3%                | 18,135               | 0                  | 0                            | 2,000                  | N/A                 |
| <b>East Ottawa Submarkets</b> |                   |               |                      |                     |                      |                    |                              |                        |                     |
| South Walkley                 | 441,680           | 15            | 1.7%                 | 1.7%                | 0                    | 0                  | 0                            | (7,434)                | \$9.00              |
| Ottawa Business Park          | 1,321,259         | 30            | 0.8%                 | 0.8%                | 10,280               | 0                  | 0                            | (8,145)                | \$10.01             |
| Coventry/Belfast              | 1,886,526         | 51            | 3.0%                 | 2.3%                | 5,559                | 0                  | 0                            | (16,341)               | \$9.00              |
| Cyrville                      | 2,190,942         | 60            | 2.0%                 | 1.1%                | 23,356               | 0                  | 0                            | (7,918)                | N/A                 |
| Sheffield                     | 3,276,043         | 63            | 0.3%                 | 0.2%                | 19,834               | 0                  | 0                            | 135,425                | N/A                 |
| Sheffield/Lancaster           | 1,170,820         | 20            | 0.8%                 | 0.8%                | 37,864               | 0                  | 0                            | 17,445                 | \$7.29              |
| Stevenage/Belgreen            | 1,854,224         | 52            | 4.7%                 | 3.0%                | 54,286               | 45,000             | 41,215                       | 20,507                 | \$7.50              |
| South Gloucester/Albion       | 409,334           | 16            | 1.2%                 | 0.0%                | 0                    | 0                  | 0                            | 17,360                 | N/A                 |
| Queensway                     | 639,185           | 22            | 1.4%                 | 1.4%                | 2,085                | 122,500            | 0                            | (4,301)                | \$8.30              |
| Orleans                       | 458,369           | 13            | 7.4%                 | 7.4%                | 53,000               | 0                  | 0                            | (22,950)               | \$7.30              |
| <b>Total</b>                  | <b>22,263,305</b> | <b>585</b>    | <b>4.1%</b>          | <b>3.6%</b>         | <b>445,841</b>       | <b>208,715</b>     | <b>41,215</b>                | <b>275,387</b>         | <b>\$7.67</b>       |

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

| SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS |                    |                        |        |            |
|---|--------------------|------------------------|--------|------------|
| BUILDING                                | SUBMARKET          | TENANT                 | SQ FT  | BLDG CLASS |
| 359 Terry Fox Drive                     | Kanata             | N/A                    | 32,539 |            |
| 425 Legget Drive                        | Kanata             | dTel Network Solutions | 25,000 |            |
| 1301 Ages Drive                         | Stevenage/Belgreen | Ottawa Yamaha          | 22,900 |            |

| SIGNIFICANT 3Q09 SALE TRANSACTIONS |                             |   |         |                |
|------------------------------------|-----------------------------|---|---------|----------------|
| BUILDING                           | SUBMARKET                   | BUYER   | SQ FT   | PURCHASE PRICE |
| Multiple Properties                | Multiple                    | Richcraft Properties                            | 306,820 | \$19,735,000   |
| 6 Corvus Street                    | East Merivale Business Park | Labourer's International Union of North America | 24,931  | \$3,225,000    |

| SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS |           |              |       |                 |
|---|-----------|--------------|-------|-----------------|
| BUILDING                                  | SUBMARKET | MAJOR TENANT | SQ FT | COMPLETION DATE |
| N/A                                       |           |              |       |                 |

| 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  | 10/09           |



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