

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q11

ECONOMY

The unemployment rate in the National Capital region fell for the fifth straight month to 5.2% in August, a decrease of three-tenths of a percentage point from July. This compares favourably to the rest of Canada where the jobless rate rose to 7.3%. Although the number of jobs in Ottawa-Gatineau remained approximately the same as July – about 696,300 – the decline was a result of fewer people looking for work. The sectors posting the biggest gains compared to last month were business services, along with healthcare and social assistance. Sectors experiencing job losses included retail trade and professional services. For the sixth straight month, the public administration sector experienced a drop in employment and now sits at around 158,500. However, this figure is not far off from the employment total of 160,300 in August 2010.

OVERVIEW

After a fairly substantial decline in vacancy last quarter of eight-tenths of a percentage point (substantial given that there are generally only small fluctuations quarter-to-quarter in the local industrial market vacancy rate), vacancy remained almost unchanged from the second quarter, bumping up by one-tenth of a percentage point to 6.4%. There is currently just over 1.4 million square feet (msf) available within the market. Of the total amount available, approximately 30% is available for sublease.

Although leasing activity slowed in the third quarter, levels were still strong at 208,000 square feet (sf), bringing the year-to-date total to approximately 810,000 sf. Leasing activity was fairly evenly split between the eastern and western submarkets this quarter, although the eastern market total was higher at 126,000 sf. In total there were 24 transactions in the overall market, with 14 located within the eastern submarkets and the remaining 10 within the western submarkets. Five of these transactions, three in the eastern submarkets and two in the western submarkets, were in excess of 10,000 sf.

Like leasing activity, absorption also contracted from levels achieved last quarter; however, it did remain in positive territory at close to 66,000 sf and brings the year-to-date total to just shy of positive 146,000 sf. The negative absorption within the western submarkets this quarter of 46,000 sf was the sole result of the entire Smart Technologies building, which has both an office and a manufacturing component, becoming available for sublease. This new vacancy is a change from the past quarters where only a 68,000-sf portion of the manufacturing space was available for sublease.

OUTLOOK

Approaching the last quarter of 2011 it is likely the industrial market will chart a fairly even course. Only 28,000 sf is forecasted to become available next quarter, an amount that should easily be absorbed back into the market. As a result, vacancy should remain stable and absorption will remain in positive territory. There is the possibility that vacancy may rise in the first half of 2012 as a potential 100,000 sf could become available within one property. There is also the ongoing situation involving the tenants located at the former Nortel campus. Two of these tenants – Ericsson and Avaya – have secured new premises, which have resulted in 158,000 sf of industrial space coming off of the market over the past two quarters. It still remains to be seen what the relocation plans are for Genband and Ciena, and what – if any – impact, there will be on the industrial market.

BEAT ON THE STREET

“The overall eastern industrial market remains tight and continues to lack flexible, quality options. The western industrial market by contrast has plentiful amounts of quality, high-tech manufacturing space. The similarity between the two lies in the fact that much of this high-tech space was purpose built and only fits a specific use.”

– 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

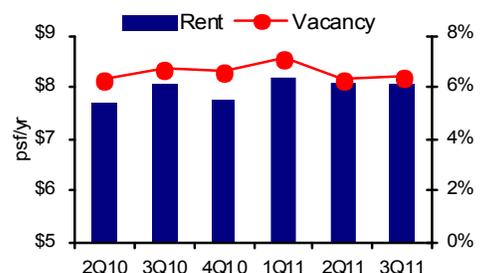
MARKET FORECAST

LEASING ACTIVITY eased down this quarter from levels seen through the first half of the year; however, overall activity remains healthy at over 200,000 sf. 

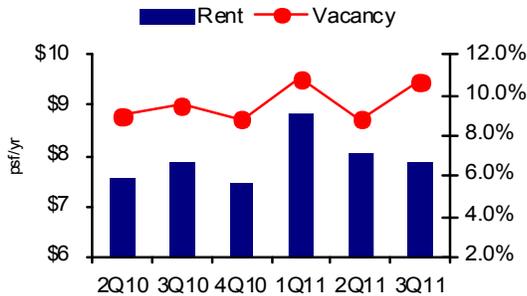
DIRECT ABSORPTION decreased from what was posted last quarter, although it did remain in positive territory at close to 66,000 sf. This level should be maintained through the remainder of 2011 as minimal amounts of space are expected to come on the market next quarter. 

CONSTRUCTION was completed on both a 22,000-sf design build and an 86,000-sf speculative project that are both located in Kanata. 

OVERALL RENT VS. VACANCY RATE

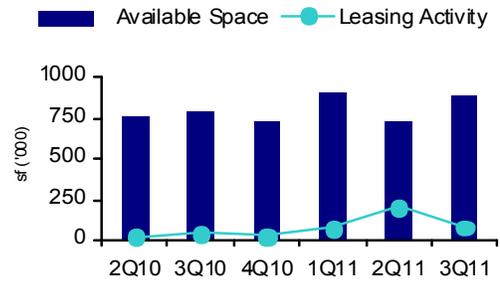


Vacancy Rate vs. Overall Rental



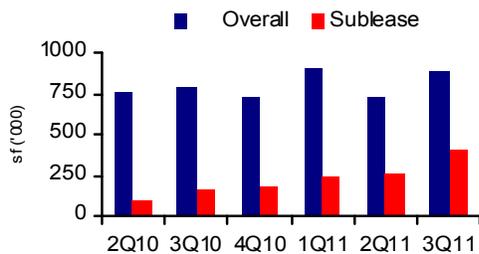
- This year has proven to be a turbulent one in terms of vacancy within the overall western market. After a fairly substantial dip in vacancy last quarter, vacancy increased to 10.7% in the third quarter, very close to where vacancy was at the beginning of the year.
- The average asking rental rate continues to trend downwards and now sits at \$7.85 per square foot (psf). The underlying factor behind the decrease was lower average asking rents within Kanata. This was a result of the vacancy within the new building that was added to the inventory this quarter having a lower asking rental rate than the majority of the other available space within Kanata.

Overall Available Space vs. Leasing Activity



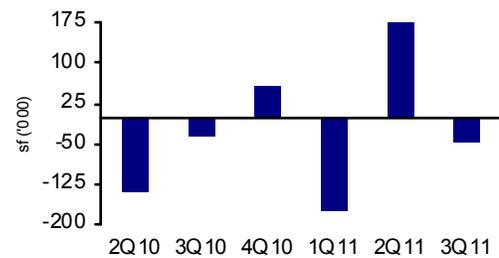
- The amount of available space located in the western markets rose to 883,000 sf this quarter, the second highest amount of vacant space posted over the last six quarters.
- Leasing activity this quarter eased from last quarter's substantial amount to 82,000 sf, bringing the year-to-date total to 367,000 sf. Seven out of the ten western submarkets posted leasing activity this quarter, with Kanata accounting for over 50% of the total. The activity in Kanata was courtesy of just one transaction – Avaya's leasing of 425 Legget Drive.

Available Space Trends Overall vs. Sublease



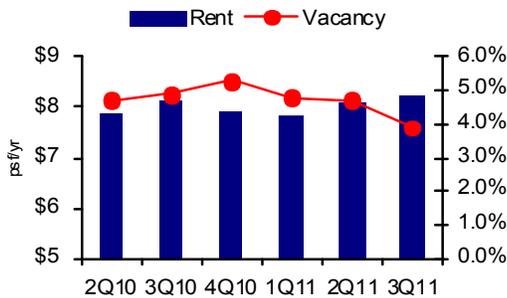
- The amount of sublet space in the western submarkets has consistently grown throughout 2011, with the total now amounting to nearly 398,000 sf. This sublet space is located within five properties in three submarkets. The highest amount available for sublease is located within Kanata, with the increase in sublet space this quarter coming as a result of the new availability of the building formerly occupied by Smart Technologies.

Absorption

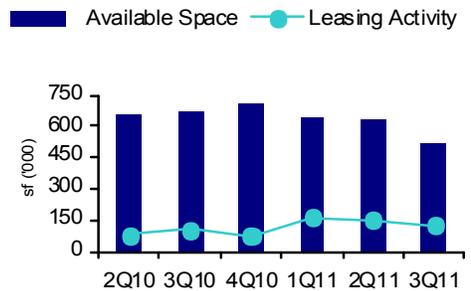


- Absorption levels in the western submarkets headed back into negative territory this quarter, declining to negative 46,000 sf. Four of the western submarkets had negative absorption this quarter, with the most negative absorption located in Kanata. The new availability at Smart Technologies resulted in an additional 144,000 sf being placed on the market; however, this negative absorption was mitigated somewhat by the new construction completion as well as three significant pockets of space coming off the market.
- Absorption is expected to creep back into positive territory in the fourth quarter as only 15,000 sf is set to become available in the overall western market.

Vacancy Rate vs. Overall Rental



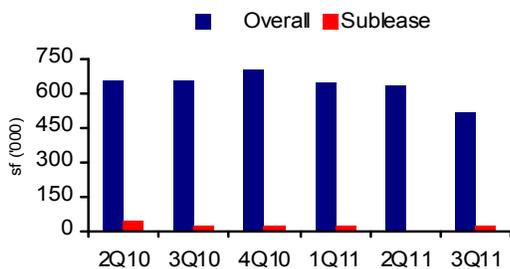
Overall Available Space vs. Leasing Activity



- After a pause last quarter, vacancy within the overall eastern market resumed its downward trend, decreasing by eight-tenths of a percentage point to 3.9%. Only three submarkets posted increases in vacancy this quarter, the remainder either saw vacancy rates remain unchanged or decrease from the previous quarter.
- The average asking rental rate for the eastern markets continued to creep upwards and now sits at \$8.21 psf. Two submarkets posted decreases in rental rates this quarter, while the remainder had rental rates either increase or remain unchanged from last quarter.

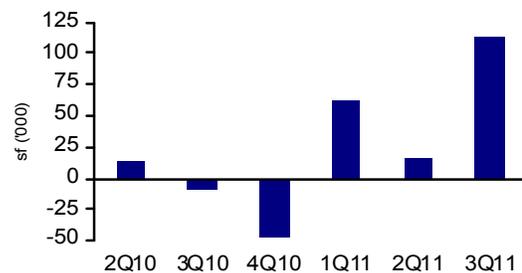
- The amount of vacant space available within the overall eastern market declined by over 100,000 sf from last quarter and now sits at 520,000 sf.
- Leasing activity has remained consistent throughout 2011 with leasing activity edging down slightly from last quarter to total 126,000 sf. Leasing activity was recorded in five submarkets with the highest amounts in the Sheffield and Queensway submarkets. In Sheffield one transaction accounted for close to 29,000 sf and in Queensway there was one transaction of close to 39,000 sf.

Available Space Trends Overall vs. Sublease



- Two new pockets of sublease availability came on the eastern market this quarter. The first was just over 8,000 sf in one property in the Sheffield submarket. The other was somewhat more substantial at close to 15,000 sf in one property in Orleans.

Absorption



- Absorption levels were boosted significantly this quarter, reaching nearly 113,000 sf. Five submarkets had positive absorption this quarter, while three had fairly minimal levels of negative absorption. One of the highest amounts was in the Cyrville submarket as a property that was available for sale or for lease was sold to an owner-user and therefore removed from the availability.
- Absorption should remain in positive territory through to the end of the year as only 13,000 sf is forecasted to become available next quarter. Heading into 2012, uncertainty remains concerning 100,000 sf that may become available in one property.

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	3,174,875	51	17.6%	8.6%	213,804	0	108,752	(169)	\$8.02
Bell's Corners	334,655	11	5.0%	5.0%	2,700	0	0	(8,780)	N/A
Morrison/Queensview	415,519	9	4.5%	4.5%	40,144	0	0	(18,670)	\$7.00
Woodward/Carling	540,800	23	7.1%	7.1%	11,350	0	0	1,253	N/A
Ottawa Centre	742,339	25	3.6%	3.6%	15,400	0	0	(6,969)	\$6.00
Ottawa South	695,111	11	12.1%	3.3%	42,947	0	0	1,287	\$6.79
West Merivale	534,593	26	1.4%	1.4%	18,515	0	0	4,045	\$8.04
East Merivale	587,403	26	7.2%	7.2%	8,635	0	0	2,030	\$8.50
Colonnade	643,847	22	13.7%	5.5%	14,036	0	0	(25,961)	\$9.56
Rideau Heights	606,248	28	0.3%	0.3%	0	0	0	6,000	\$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	3.5%	3.5%	0	0	0	(24,902)	\$8.65
Coventry/Belfast	1,835,250	50	2.3%	2.3%	13,125	0	0	(12,997)	\$9.40
Cyrville	2,021,942	58	1.2%	1.2%	18,854	0	0	42,511	\$9.27
Sheffield	3,186,043	61	5.4%	5.1%	253,679	0	0	122,674	N/A
Sheffield/Lancaster	1,170,820	20	7.3%	7.3%	31,777	0	0	(31,795)	\$7.61
Stevenage/Belgreen	1,854,224	52	1.2%	1.2%	54,093	0	0	63,905	\$8.22
South Gloucester/Albion	409,334	16	7.7%	7.7%	0	0	0	(8,500)	\$7.72
Queensway	761,685	23	3.6%	3.6%	66,465	0	0	60,301	\$7.53
Orleans	474,178	14	12.0%	8.9%	4,000	0	0	(10,700)	\$7.50
Total	21,753,305	570	6.4%	4.5%	809,524	0	108,752	145,975	\$8.04

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q11 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1100 Polytek Street	Queensway Business Park	N/A	39,800	Warehouse
1270 Leeds Avenue	Sheffield Industrial Park	Multicraft Imports	28,800	Warehouse
20 Enterprise Avenue	West Merivale Business Park	Old Dutch Foods	10,000	Mixed
SIGNIFICANT 3Q11 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
400 Industrial Avenue	Coventry Rd/Belfast	Metro Ontario Inc.	45,000	\$7,750,000
2481,2487,2491 Kaladar Ave.	Ottawa South	Stonewater Properties	116,998	\$4,800,000
SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS				
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
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE



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