

# MARKETBEAT INDUSTRIAL SNAPSHOT



## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q1 2012



### ECONOMIC OVERVIEW

In its latest Metropolitan Outlook, the Conference Board of Canada has forecasted 1.8% growth in the region's GDP for 2012. As projected, continued job cuts within the public administration sector, slower construction activity, and below average retail sales growth will combine to hinder overall growth in the local economy. However improvement is expected in 2013, with GDP growth expected to reach 2.4%.

Despite this outlook, there were 3,700 more people working in Ottawa-Gatineau in February 2012 compared to one year earlier, and this comes despite jobs losses in the public sector – the region's largest employer. The job gains did not keep pace with the growth in the local labour force which resulted in a small increase in the local unemployment rate to 6.0% from 5.9% last month. This compares favourably to the national unemployment rate of 7.4%.

### VACANCY DECLINES IN FIRST QUARTER

After nine months with little change in the vacancy rate, movement was seen in the first quarter of 2012 as vacancy declined by half a percentage point to reach 5.8%, marking the lowest vacancy rate posted in two years. Although the western submarkets had an increase in vacancy of 0.6 percentage points to 11.2% this quarter, declining vacancy within the eastern submarkets of over a percentage point to 2.5% lead to the overall decrease. There is approximately 1.26 million square feet (msf) available within the market, with nearly 50% of this located within the Kanata submarket alone. Although the overall amount of space available for sublease declined slightly to 337,000 square feet (sf), as a percentage of the total amount available it increased slightly to 27% - the result of the decline in total space available within the market.

### OVERALL DEMAND REMAINS CONSISTENT

Overall absorption rebounded from last quarter to reach 127,000 sf during the first quarter. While the western submarkets posted negative absorption of close to 31,000 sf, the eastern submarkets totaled positive absorption of 158,000 sf. This positive absorption was almost entirely due to the removal of 142,000 sf from availability as 2575/85 Sheffield Road was sold to an owner-occupier. To demonstrate how significant an impact this one transaction had on absorption this quarter, removing it from the calculation would have resulted in a slight overall negative absorption of 15,000 sf. Leasing activity levels remained consistent compared to recent quarters. This quarter overall leasing totaled 204,000 sf, with eastern and western submarket totals close to each other at 94,000 sf and 110,000 sf respectively. The number of transactions completed has continued to climb and reached 39 this quarter, with the majority of the transactions in the 1,000 to 3,000-sf range.

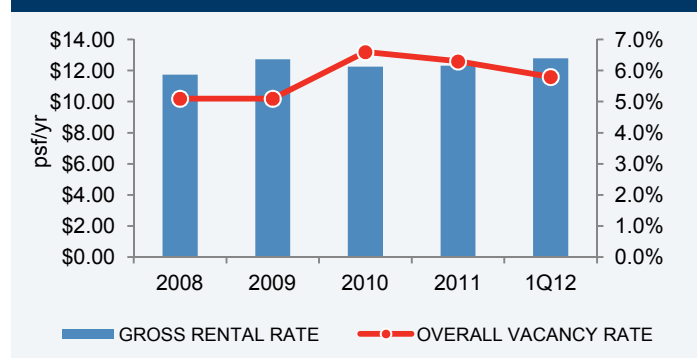
### OUTLOOK

Although a decline in vacancy occurred this quarter, the potential of vacancy increasing to 6.3% over the next six months exists as approximately 106,000 sf is set to become available. Although there are some smaller spaces (i.e. under 3,000 sf) becoming available which should not prove to be difficult to lease, there are three larger spaces over 20,000 sf that may present more of a challenge. Leasing activity levels along with rental rates are anticipated to remain steady through the remainder of 2012.

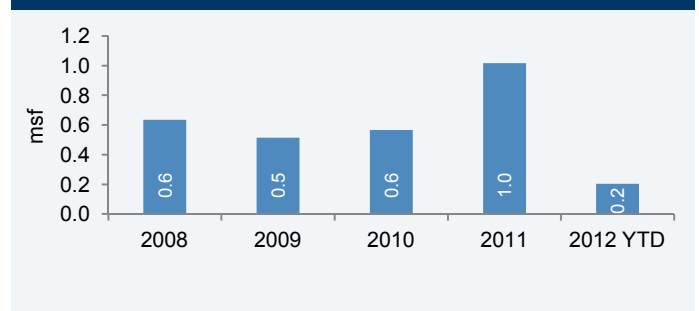
### STATS ON THE GO

	1Q11	1Q12	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.1%	5.8%	-1.3pp	◀▶
Gross Asking Rents (psf/yr)	\$12.79	\$12.63	-1.2%	◀▶
YTD Leasing Activity (sf)	241,578	204,066	-15.5%	◀▶

### RENTAL VS. VACANCY RATES



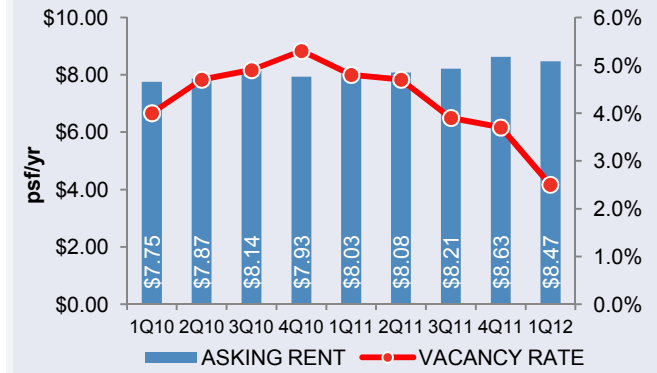
### LEASING ACTIVITY



## EASTERN SUBMARKETS

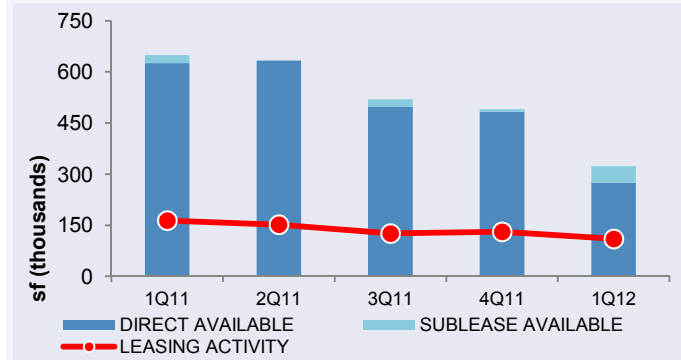
- A sharp decrease in vacancy occurred this quarter in the eastern suburban markets with vacancy declining by over a full percentage point to reach 2.5%. Vacancy may climb slightly over the next six months as 95,000 sf is set to come on the market. Although this is not a significant amount, this future availability is located in three large blocks over 20,000 sf that may be difficult to lease.
- Overall rental rates remain steady with the average net asking rate this quarter at \$8.47 per square foot (psf).

### DIRECT RENTAL VS. VACANCY RATES



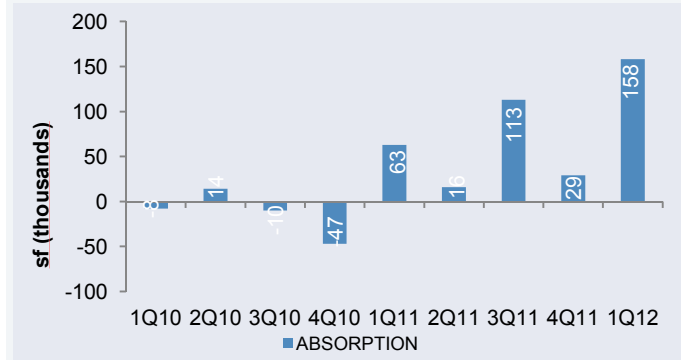
- The amount of direct space available declined substantially this quarter, to approximately 275,000 sf. Sublet space on the other hand climbed to reach 48,000 sf. Sublet space is located in four pockets, with three of those being new availabilities this quarter.
- Leasing activity levels remain very consistent, with this quarter's total at 110,000 sf. The amount of space leased was distributed fairly evenly throughout the eastern submarkets.

### DIRECT & SUBLEASE AVAILABLE VS LEASING ACTIVITY



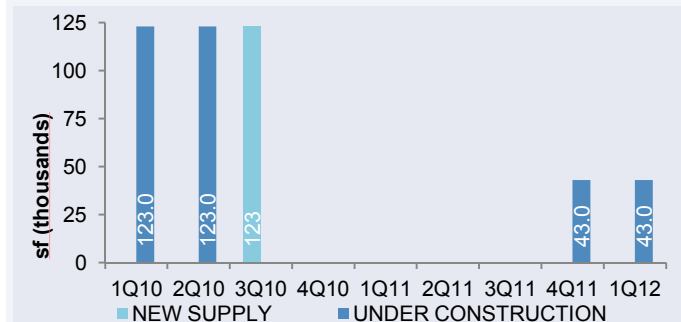
- Absorption figures improved dramatically in the first quarter with 158,000 sf of positive absorption. This was almost entirely the result of the removal of a 142,000-sf space in the Sheffield submarket.
- Similar to last quarter there were larger blocks of new availability this quarter. One of the largest was 800 Belfast Road, a 25,700-sf building now available for sublease, as the tenant will be moving to new design build. Two additional new availabilities were located in the Cyrville submarket and totaled 35,500 sf.

### ABSORPTION



- There was no change in new supply or new construction this quarter. Construction continues on the 43,000-sf build-to-suit for Iridian Spectral Technologies, and is expected to be completed next quarter. Once complete, this building will not be part of the competitive inventory as it will be owned by the tenant.
- There is an additional 32,000-sf building that is in the planning stages for CYR Distribution Centre. However it appears that their existing premises will have to be leased before this build-to-suit will go ahead.

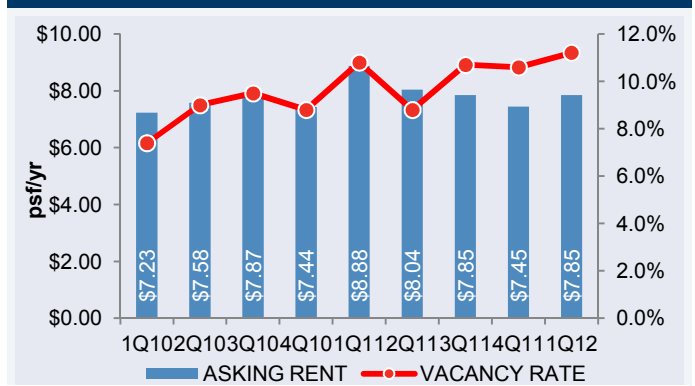
### NEW SUPPLY VS. UNDER CONSTRUCTION



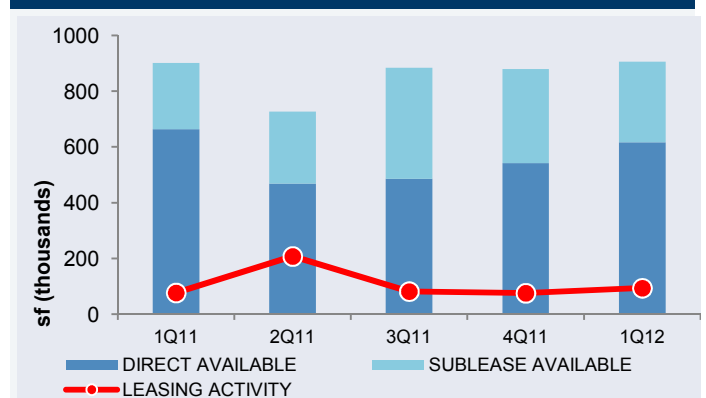
## WESTERN SUBMARKETS

- Vacancy edged up slightly this quarter to reach 11.2%. The increase in vacancy was not the result of a significant block of space become available, but rather, slightly softening conditions through various western submarkets. The Morrison/Queensview submarket had the largest climb in vacancy driven by approximately 31,000 sf becoming available at 1070 Morrison Drive.
- There continues to be little fluctuation in the average net asking rental rates within the western submarkets, with the current rent at \$7.85 psf.
- The amount of direct space available continued to increase in the first quarter to reach nearly 617,000 sf. In contrast, space available for sublease continues to decline, reaching 289,000 sf and is almost entirely located in Kanata.
- Similar to the eastern submarkets, leasing activity has been very consistent over the past three quarters, with current activity totaling 94,000 sf. While the majority of the activity was located in the Kanata and Ottawa Centre submarkets, all of the western submarkets except for two posted activity this quarter.
- Absorption continues to remain minimal in the western submarkets with current absorption at negative 31,000 sf.
- There were some larger blocks that became available this quarter, such as the previously mentioned 31,000 sf in Morrison/Queensview and an entire building of 20,000 sf in the Ottawa South area. The effects of this new availability were mitigated somewhat by 22,000 sf coming off the market in one Kanata property along with the sale of 165 Colonnade - a 22,000-sf property that was available for sale or for lease last quarter.
- There was no change in new supply or properties under construction in the western submarkets this quarter.

### DIRECT RENTAL VS. VACANCY RATES



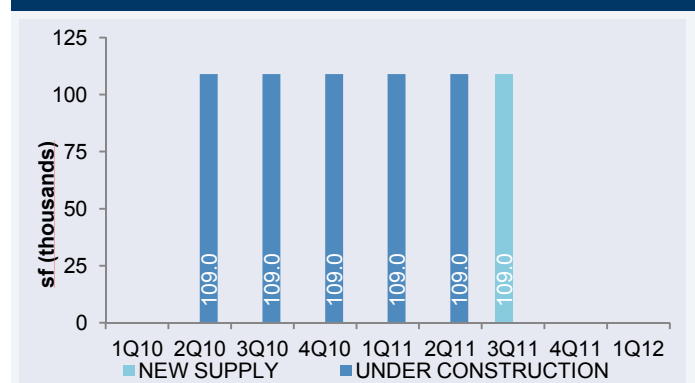
### DIRECT & SUBLEASE AVAILABLE VS LEASING ACTIVITY



### ABSORPTION



### NEW SUPPLY VS. UNDER CONSTRUCTION



## OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	CURRENT QUARTER ABSORPTION	YTD OVERALL ABSORPTION	WTD. AVG. NET RENTAL RATE*	WTD. AVG. ADDITIONAL RENTAL RATE*	WTD. AVG. GROSS RENTAL RATE*
Kanata	3,152,260	18.9%	35,227	0	0	(1,374)	(1,374)	\$7.75	\$4.65	\$12.40
Bell's Corners	334,655	4.9%	8,110	0	0	3,310	3,310	\$10.00	\$5.71	\$15.71
Morrison/Queensview	415,519	11.2%	9,385	0	0	(21,815)	(21,815)	\$8.95	\$4.38	\$13.33
Woodward/Carling	540,800	4.9%	7,329	0	0	7,329	7,329	N/A	\$3.00	N/A
Ottawa Centre	742,339	2.4%	23,069	0	0	9,406	9,406	\$6.00	\$3.95	\$9.95
Ottawa South	695,111	10.0%	2,250	0	0	(17,750)	(17,750)	\$6.64	\$2.94	\$9.58
West Merivale	534,593	2.3%	0	0	0	(4,860)	(4,860)	\$8.71	\$5.19	\$13.90
East Merivale	587,403	8.0%	2,000	0	0	(230)	(230)	\$8.78	\$4.55	\$13.33
Colonnade	643,847	12.3%	7,083	0	0	2,791	2,791	\$7.40	\$4.78	\$12.18
Rideau Heights	606,248	2.5%	0	0	0	(7,775)	(7,775)	\$8.51	\$5.32	\$13.83
<b>WEST OTTAWA</b>	<b>8,252,775</b>	<b>11.2%</b>	<b>94,453</b>	<b>0</b>	<b>0</b>	<b>(30,968)</b>	<b>(30,968)</b>	<b>\$7.85</b>	<b>\$4.53</b>	<b>\$12.38</b>
South Walkley	325,180	0.0%	0	0	0	0	0	N/A	N/A	N/A
Ottawa Business Park	1,439,259	6.0%	29,902	0	0	22,463	22,463	\$9.00	\$4.39	\$13.39
Coventry/Belfast	1,758,250	1.9%	12,982	0	0	8,441	8,441	\$8.00	\$3.59	\$11.59
Cyrville	1,988,517	3.6%	12,299	0	0	(29,775)	(29,775)	\$9.00	\$4.81	\$13.81
Sheffield	3,186,043	0.8%	13,443	0	0	147,747	147,747	N/A	\$4.48	N/A
Sheffield/Lancaster	1,145,820	5.9%	18,060	0	0	7,039	7,039	\$8.46	\$4.36	\$12.82
Stevenage/Belgreen	1,854,224	1.4%	0	43,000	0	(4,249)	(4,249)	\$7.81	\$5.02	\$12.83
South Gloucester/Albion	402,234	3.7%	6,500	0	0	6,500	6,500	\$7.58	\$4.32	\$11.90
Queensway	798,865	0.9%	1,727	0	0	0	0	\$7.45	\$5.17	\$12.62
Orleans	474,178	0.0%	14,700	0	0	0	0	\$8.47	N/A	N/A
<b>EAST OTTAWA</b>	<b>13,372,570</b>	<b>2.5%</b>	<b>109,613</b>	<b>43,000</b>	<b>0</b>	<b>158,166</b>	<b>158,166</b>	<b>\$8.47</b>	<b>\$4.49</b>	<b>\$12.96</b>
<b>OVERALL CITY</b>	<b>21,625,345</b>	<b>5.8%</b>	<b>204,066</b>	<b>43,000</b>	<b>0</b>	<b>127,198</b>	<b>127,198</b>	<b>\$8.11</b>	<b>\$4.51</b>	<b>\$12.62</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

SIGNIFICANT IQ12 LEASE TRANSACTIONS	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
2935 Conroy Road	Ottawa Business Park	Shred-It Corporation	Warehouse	27,082
695 Industrial Avenue	Coventry/Belfast	OCECYMH	Mixed	9,322
SIGNIFICANT IQ12 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
2001 Bantree Road	Sheffield	Canadian Urban Ltd.	\$25,500,000 / \$98 psf	257,788
302 Legget Drive	Kanata	1384449 Ontario Inc.	\$7,175,000 / \$83 psf	86,000
SIGNIFICANT IQ12 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
2700 Swansea Crescent	Stevenage/Belgreen	Iridian Spectral Technologies	2Q12	43,000

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS