

# MARKETBEAT

## OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

1Q09

### ECONOMY

Although the local economy managed to avoid the initial impact of the recession due to the strength of the public sector and healthy consumer spending, it now appears that the region is beginning to feel the effects of the economic downturn as the Ottawa-Gatineau area lost 7,200 jobs between January and February. Although the local unemployment rate remained virtually unchanged, rising by just one-tenth of a percentage point to 4.8%, this minimal change was the result of approximately 6,400 people either ceasing to work or exiting the local labour force. The local retail and wholesale trade sectors were the hardest hit in February, with employment decreasing by approximately 6,000 jobs, perhaps demonstrating the impact the lengthy transit strike had on the local retail sector. The public administration sector continues to see the most growth in the region as employment rose by 1,900 jobs in February, with a year-over-year employment increase of 8,000, to reach 152,000.

### OVERVIEW

Although the decline in vacancy this quarter to 3.8% from 5.1% posted in the fourth quarter of 2008 is not very substantial, it is the largest change in vacancy the industrial market has undergone in almost two years. Overall vacant space declined to approximately 858,000 square feet (sf), its lowest level since the second quarter of 2007. While both the overall western and eastern markets posted declines in vacancy this quarter, it was activity in the sub-market of Kanata that had the most impact on overall industrial vacancy. Vacancy in Kanata declined by a full five percentage points, as over 173,000 sf of space was either leased or removed from that market this quarter.

Steady leasing activity continues in the industrial market with 141,000 sf this quarter, fairly close to levels seen during the fourth quarter of 2008. In a departure from most of last year, where the eastern sub-markets dominated leasing activity, this quarter it was split almost evenly between the western and eastern sub-markets. What has not changed is that the vast majority of transactions continue to be under 10,000 sf, with approximately 50% under 5,000 sf. It is evident that there continues to be little interest in the large blocks of high tech/flex space that remain available – which are primarily concentrated within Kanata.

Absorption accelerated this quarter to reach just over 276,000 sf. Similar to leasing activity, absorption was split between the western sub-markets and the eastern sub-markets. The absorption recorded was a combination of both leasing transactions as well as significant amounts of space being removed from the market – in particular within Kanata and the Sheffield Industrial Park.

### OUTLOOK

Looking ahead into 2009, the industrial market is projected to remain fairly stable with only minor changes in vacancy. Currently, no new large blocks of space are anticipated to come on the market in the short term, while at the same time the existing large availabilities will remain vacant. The only known variable in this outlook is the 133,000 sf former Hospital Linen premises. These buildings were removed from the market this quarter, but were not leased. It is assumed that this space will eventually be returned back to the market, impacting vacancy and absorption.

### BEAT ON THE STREET

“Interest from tenants remains consistent along with their frustration due to lack of product. As a result of this 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

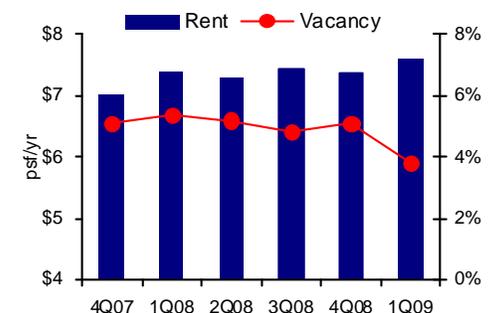
### MARKET FORECAST

LEASING ACTIVITY throughout 2009 is forecasted to remain close to 2008 levels, as the most desirable spaces are quickly leased up. 

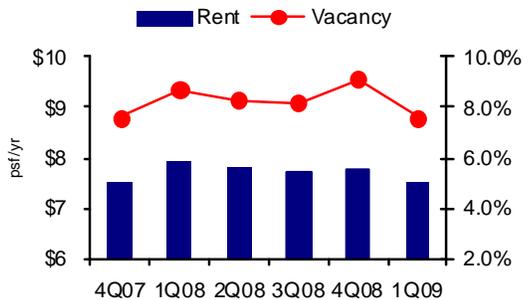
DIRECT ABSORPTION increased substantially this quarter; however levels are expected to moderate in future quarters. 

CONSTRUCTION continues on three properties, due to be delivered throughout 2009. 

### OVERALL RENT VS. VACANCY RATE

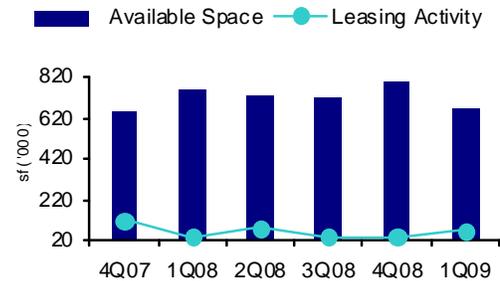


### Overall Rental vs. Vacancy Rate



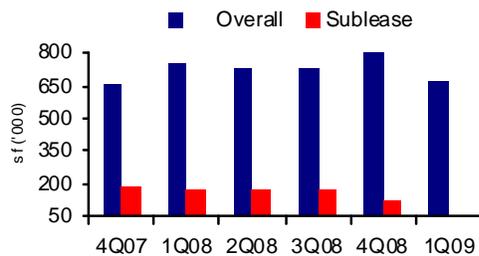
- Vacancy in the western sub-markets declined during the first quarter to reach 7.6%, a drop of one and a half percentage points from the fourth quarter of 2008. Improving conditions in Kanata were the driving force behind this quarter's decline.
- Although asking rental rates declined slightly to average \$7.49, this figure is still close to the previous five-quarter average. Rental rates frequently fluctuate from one quarter to the next dependant on the space that either becomes available or is taken off of the market. For this particular quarter, more expensive flex type space came off of the market in Kanata, while less expensive than average space came on the market in Ottawa Centre.

### Overall Available Space vs. Leasing Activity



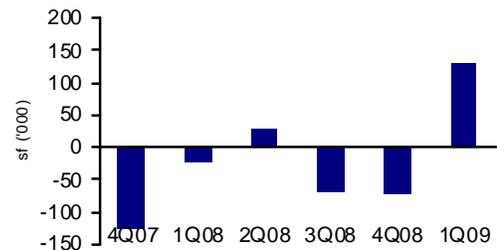
- The amount of available space located in the western sub-markets declined to approximately 858,000 sf, the lowest amount available since the end of 2007. Kanata experienced the steepest drop in available space, declining by 173,000 sf to around 461,000 sf.
- Leasing activity gained some momentum this quarter, reaching just over 68,000 sf; almost double the amount from the last quarter of 2008. This activity was spread among 11 properties, with the largest transaction located in Kanata at around 20,000 sf. The remainder were all under 10,000 sf.

### Available Space Trends Overall vs. Sublease



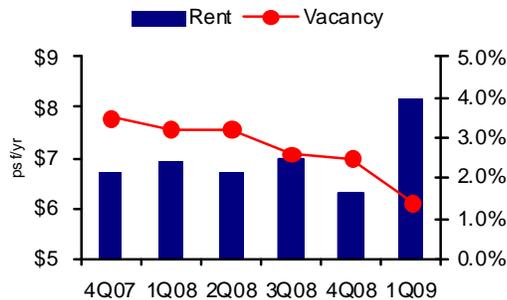
- Relative to the total amount of space available, sublet space accounted for around 8.5%, or about 56,000 sf.
- The sole reason behind this decrease was the removal of a 76,000-sf space located in Kanata that will now not be available until the second half of the year. As this space was removed from current availability and not leased it had no impact on leasing activity.

### Absorption

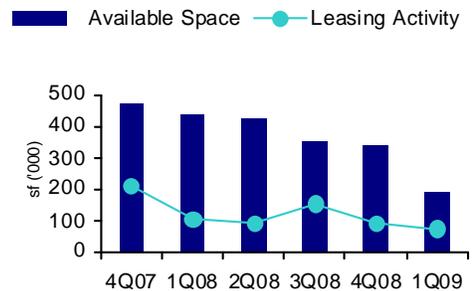


- Absorption totals dramatically improved from the last quarter of 2008 to reach over 133,000 sf, the first time absorption has been in positive territory since the second quarter of 2008.
- Kanata was by far the largest contributor towards this positive absorption, accounting for the removal of 173,000 sf from the market. In fact Kanata was only one of two western sub-markets that registered positive absorption this quarter. Kanata's absorption was due to a combination of new leasing transactions, space removed due to tenant expansions, as well space availability being pushed back until a later date.

### Overall Rental vs. Vacancy Rate



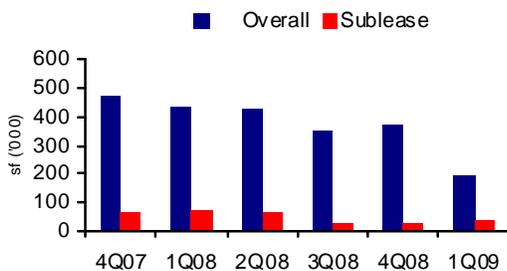
### Overall Available Space vs. Leasing Activity



- Vacancy declined for the sixth straight quarter, with first quarter 2009 vacancy now sitting at 1.4%. This is a drop from 2.3% last quarter.
- Asking rental rates escalated in the first quarter to reach an average of \$8.17. Similar to the western sub-markets, this increase does not point to dramatically increased rental rates in the eastern sub-markets. Rather, the reasons behind this jump were more expensive than average space coming on the market in the sub-market of South Walkley, and less expensive than average space, located in the Sheffield Industrial Park sub-market, being removed from the market.

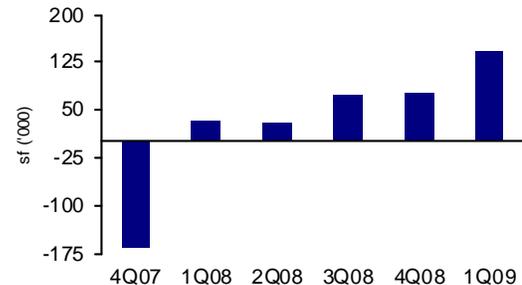
- The amount of square footage available dropped substantially to reach around 192,000 sf. This decline was almost entirely the result of the removal of 133,000 sf located in a two-building complex.
- Leasing activity continues to ease in the eastern sub-markets with first quarter activity at approximately 73,000 sf, the lowest amount posted during the last five quarters. There was no corresponding rise in activity with less space being available since the 133,000 sf mentioned above was removed from the market, not leased. There were 10 transactions registered in the eastern sub-markets this quarter, with two of these above 10,000 sf.

### Available Space Trends Overall vs. Sublease



- The amount of sublet space available in the eastern sub-markets rose for the third straight quarter to reach approximately 35,000 sf. Although there were a few other changes that affected sublet totals, new sublet space was located in only one building.
- It is anticipated that the amount of available sublet space will remain fairly consistent throughout 2009.

### Absorption



- Absorption increased for the fourth quarter to just over 143,000 sf. All of this absorption was due to the removal of 146,000 sf from the Sheffield Industrial Park.
- With extremely low availability and little space expected to come on the market over the next six months, absorption will ease back down over the course of the year. However, amounts should not head into negative territory as absorption figures will benefit from the completion of two speculative builds.

### 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	13.7%	13.7%	22,818	0	0	173,248	\$6.97
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	1.4%	1.4%	0	0	0	0	\$7.50
Ottawa Centre	833,814	29	2.9%	2.9%	7,070	0	0	(11,130)	\$7.90
Ottawa South	695,111	11	3.5%	3.5%	5,841	0	0	(6,981)	\$7.50
West Merivale	554,593	27	2.7%	2.7%	4,630	0	0	(13,322)	N/A
East Merivale	587,403	26	2.6%	2.6%	4,805	0	0	(6,805)	\$9.38
Colonnade	786,560	27	11.6%	4.4%	4,860	0	0	(20,135)	\$9.51
Rideau Heights	622,918	28	0.7%	0.7%	10,020	0	0	5,965	\$11.55
<b>East Ottawa Submarkets</b>									
South Walkley	441,680	15	4.6%	4.6%	0	0	0	(20,271)	\$9.00
Ottawa Business Park	1,321,259	30	0.0%	0.0%	8,212	0	0	0	\$12.00
Coventry/Belfast	1,886,526	51	2.1%	2.1%	0	0	0	1,378	\$8.05
Cyrville	2,190,942	60	1.2%	0.9%	9,038	0	0	9,924	\$7.50
Sheffield	3,276,043	63	0.0%	0.0%	0	0	0	145,099	N/A
Sheffield/Lancaster	1,170,820	20	0.7%	0.6%	31,822	0	0	18,097	\$7.60
Stevenage/Belgreen	1,813,009	51	4.2%	2.8%	23,896	86,215	0	(9,439)	\$7.50
South Gloucester/Albion	387,097	15	0.0%	0.0%	0	0	0	0	N/A
Queensway	639,185	22	1.0%	1.0%	0	122,500	0	(1,716)	\$8.81
Orleans	458,369	13	2.4%	2.4%	0	0	0	0	\$7.50
<b>Total</b>	<b>22,364,490</b>	<b>589</b>	<b>3.8%</b>	<b>3.4%</b>	<b>141,112</b>	<b>208,715</b>	<b>0</b>	<b>276,232</b>	<b>\$7.61</b>

\*Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2615 Lancaster Road	Sheffield/Lancaster	FutechOttawa	8,944	Showroom/Office
2600 Sheffield Road	Sheffield Industrial Park	Capital Textile Restoration	6,400	Warehouse

SIGNIFICANT 1Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
100 Legacy Road	Stevenage/Belgreen	Canadian Urban Equities	103,438	\$8,920,000
2475 Don Reid Drive	South Walkley Business Park	City of Ottawa	20,800	\$1,945,000

SIGNIFICANT 1Q09 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	N/A	122,500	09/09
1071 Ages Drive	Stevenage/Belgreen	Contract Furniture Source	45,000	07/09
Hawthorne Business Park	Stevenage/Belgreen	Motion Specialties	41,215	06/09



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