

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q09

ECONOMY

The unemployment rate for the Ottawa-Gatineau region held steady in November at 5.4%. This comes despite a drop in employment of 1,100 jobs, the first employment level drop in five months. On a positive note, however, the region is up 18,000 jobs since May 2009. A highlight of this overall recovery is the performance of the high-tech sector in November, which added 600 jobs from the previous month to reach 51,400. The retail and wholesale trade sectors also demonstrated some improvement compared to the previous month. This improvement was tempered slightly by a small decline in the public administration sector, which saw its workforce fall by approximately 3,300 jobs; however, the sector has experienced gains throughout the year and is still up by about 8,900 jobs since November 2008.

OVERVIEW

The fourth quarter was no exception to the fluctuating vacancy that was seen in the overall industrial market over the course of 2009. This quarter, vacancy climbed by a full percentage point to reach 5.1%, its highest level this year. Currently, the amount of square footage (sf) available sits at 1.13 million square feet (msf). In a marked departure from the previous quarters of 2009, when approximately two-thirds of the available space had been located within the western sub-markets, during the fourth quarter the available space was split fairly evenly between the eastern and western sub-markets.

Leasing activity slowed substantially this quarter, declining from third quarter totals to approximately 68,000 sf. This brings the end-of-year total to just over 514,000 sf. After a slight departure in the third quarter, when leasing was more active in the western submarkets, activity moved back to being fairly evenly divided between the two markets. Of the fourteen transactions that were reported in the entire Ottawa market this quarter, only two were over 10,000 sf, with one located in the western submarkets and the other located in the eastern submarkets. The remaining transactions were under 5,000 sf.

Absorption headed sharply downwards this quarter to negative 211,000 sf, bringing the end-of-year total to approximately 64,000 sf. The negative result this quarter was due of two large blocks of space, totaling close to 232,000 sf, becoming available in one eastern submarket. Were it not for these spaces becoming available, the overall absorption for the quarter would have been just shy of positive 22,000 sf.

OUTLOOK

After a rise in vacancy this quarter, it is anticipated that vacancy will stabilize and perhaps move slightly back downwards over the first six months of 2010. Currently, approximately 64,000 sf of space is forecasted to come on the market during the first two quarters of 2010; however, the overall market should be strong enough to counteract this additional space. This strength should continue to be reflected in average rental rates which are expected to hold steady over the next six months. At least in the short term, though, vacancy levels will be hampered due to the aforementioned square footage that came on the market this quarter. Due to the sheer size and type of space that is available, it is expected that at least one of these blocks of space will be available for multiple quarters.

BEAT ON THE STREET

“The Ottawa industrial market saw an increase in activity over the past quarter. What is interesting is how the length of time has increased for offers to be submitted and accepted. This signifies some remaining cautiousness concerning the overall economy.”

– Ryan Barresi, 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

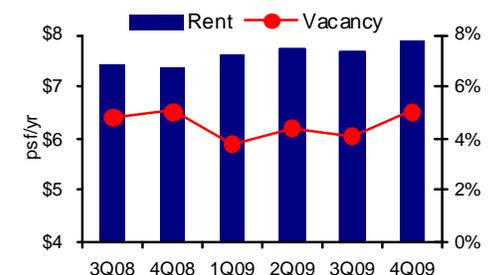
MARKET FORECAST

LEASING ACTIVITY slowed this quarter compared to last; however EOY totals were close to EOY 2008 levels. This slower velocity is expected to continue into early 2010. ⇔

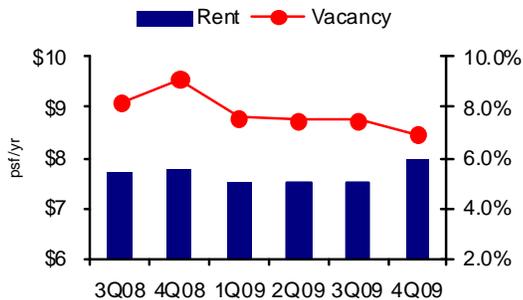
DIRECT ABSORPTION moved sharply downwards into negative territory this quarter; however, a rebound into minimal positive levels is expected in early 2010. ↑

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

OVERALL RENT VS. VACANCY RATE

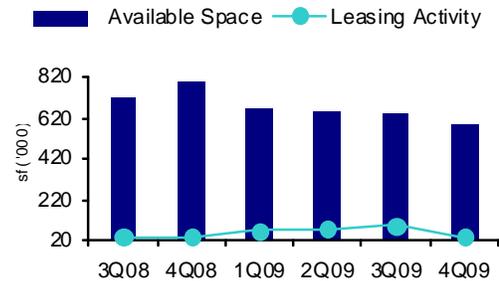


Overall Rental vs. Vacancy Rate



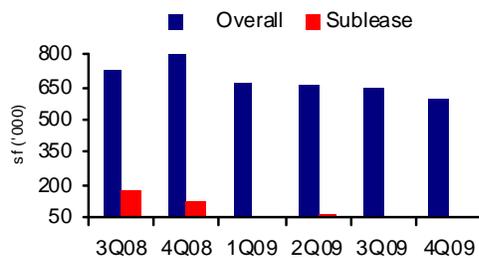
- Vacancy has been fairly stable throughout 2009 in the western submarkets, with only slight fluctuations from quarter to quarter. In the fourth quarter vacancy edged downwards to 6.9%, a six-tenths of a percentage point decline from last quarter.
- Coinciding with this drop in vacancy, the average asking rental rate increased this quarter to \$7.99 per square foot (psf). Increases in the average rental rate in the submarkets of Kanata and Ottawa Centre were the driving force behind the overall increase.

Overall Available Space vs. Leasing Activity



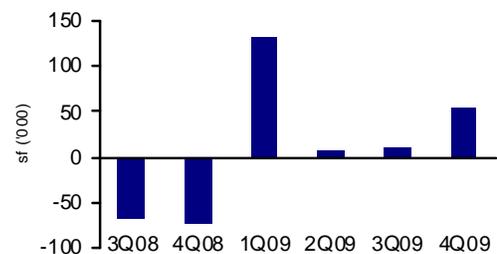
- The amount of available space located in the western sub-markets declined for the fourth straight quarter and now sits at approximately 594,000 sf, more than 200,000 sf less than what was available one year ago. As has been the case for numerous quarters, the majority of vacant space continues to be located in Kanata, with vacant space in this submarket accounting for 60% of the total.
- Leasing activity slowed this quarter to just over 37,000 sf, its lowest level all year. As was the case the previous quarter, leasing activity continues to be centred within Kanata, with the three transactions here accounting for 80% of all the leasing activity in the western submarkets.

Available Space Trends Overall vs. Sublease



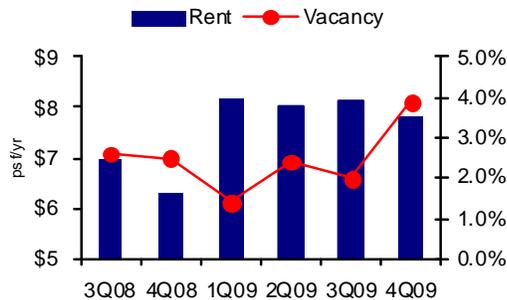
- The amount of sublet space in the western sub-markets continues to be very low, with this quarter's available amount identical to last quarter's at approximately 52,000 sf.
- This amount of sublet space available is not expected to change throughout the first half of 2010. None of the space forecasted to come on the market in the first two quarters of next year is available as a sublet. As well, all of the sublet space available is located in only one property that is proving difficult to lease and which has, in fact, been available now for two years.

Absorption

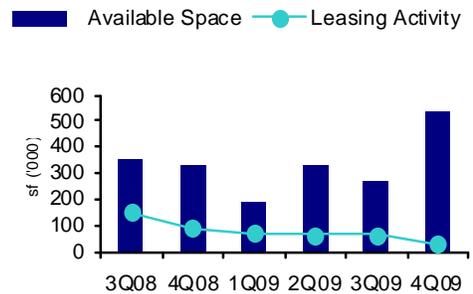


- Absorption remained in positive territory throughout the year with this quarter's amount at just over 53,000 sf.
- It is anticipated that absorption will remain positive throughout the first half of 2010, as only approximately 39,000 sf is forecasted to come on the market over the next six months. Although demand will not sky-rocket in the New Year, it should be sufficient to counteract the effect of this new space becoming available.

Overall Rental vs. Vacancy Rate



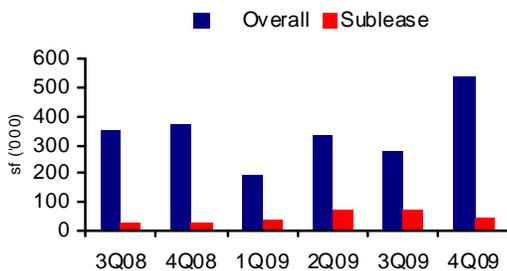
Overall Available Space vs. Leasing Activity



- As has been the case for the entire year, vacancy levels in the eastern submarkets continued to fluctuate this quarter, with vacancy climbing by almost two full percentage points to 3.9%. This increase in vacancy can be attributed to a steep rise in vacancy in the Sheffield Industrial Park of close to seven percentage points.
- Despite this rise in overall vacancy, the market as a whole remains strong and rental rates continued to hold fairly steady, with the rental rate in the eastern suburban markets averaging \$7.80 psf.

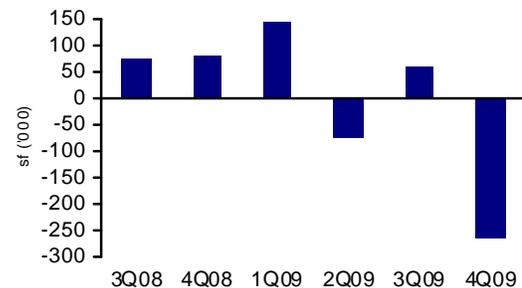
- The amount of space available in the eastern submarkets climbed substantially this quarter to reach close to 540,000 sf. It is worth noting that 238,000 sf of this space is located in only one sub-market where two large blocks of space came on the market this quarter.
- As was the case with the western sub-markets, leasing activity slowed this quarter to just over 31,000 sf. Only seven transactions in total were reported in the eastern submarkets this quarter, with all except one under 5,000 sf.

Available Space Trends Overall vs. Sublease



- The amount of sublet space available continued to contract this quarter to reach just shy of 41,000 sf with the square footage located in only a handful of properties.
- As is the case with the western submarkets; little change is expected in the amount of sublet space available during the first half of 2010 as no new sublet space is anticipated to come on the market. In addition, none of the sublet spaces have leases due to expire in the first six months of the year.

Absorption



- Absorption headed sharply downwards this quarter to just over 264,000 sf.
- There were two main factors leading to the negative absorption in the eastern submarkets this quarter, both located in the same submarket. One was the space left vacant by Concert Airaide as they moved to Gatineau to be closer to their manufacturing facility. The other was the former Ottawa Hospital Linen space that came back on the market after a brief hiatus.

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	EOY Leasing Activity	Under Construction	EOY Construction Completions	EOY Overall Absorption	Average Rental Rate
West Ottawa Submarkets									
Kanata	3,369,000	56	11.2%	11.2%	161,212	0	0	257,294	\$7.45
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	3.4%	3.4%	8,870	0	0	(14,930)	\$12.00
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%	8,425	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	11.6%	3.1%	35,014	0	0	(1,106)	\$11.16
Rideau Heights	622,918	28	1.3%	1.3%	18,135	0	0	2,000	N/A
East Ottawa Submarkets									
South Walkley	441,680	15	1.9%	1.9%	0	0	0	(8,588)	\$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	2.6%	2.6%	16,204	0	0	(8,991)	\$8.91
Cyrville	2,190,942	60	3.3%	2.7%	23,356	0	0	(36,483)	\$7.01
Sheffield	3,276,043	63	7.3%	7.3%	23,892	0	0	(92,348)	\$6.25
Sheffield/Lancaster	1,170,820	20	1.3%	1.3%	39,755	0	0	12,035	\$7.31
Stevenage/Belgreen	1,854,224	52	4.8%	3.7%	63,376	0	86,215	18,880	\$7.95
South Gloucester/Albion	409,334	16	3.6%	2.5%	0	0	0	7,321	N/A
Queensway	639,185	22	1.4%	1.0%	4,670	122,500	0	(4,201)	\$8.81
Orleans	458,369	13	6.7%	6.7%	56,000	0	0	(19,950)	\$7.28
Total	22,253,305	584	5.1%	4.7%	514,266	122,500	86,215	64,653	\$7.91

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
2415 Stevenage Drive	Stevenage/Belgreen	CNIM Canada Inc.	5,090	Warehouse
2275 Stevenage Drive	Stevenage/Belgreen	N/A	4,000	Industrial/Office

SIGNIFICANT 4Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1165 Kenaston Street	Cyrville	Kenaston KS Inc.	180,000	\$15,650,000
2239-2287 Gladwin Crescent	Sheffield/Lancaster	Richcraft	76,061	\$6,375,000

SIGNIFICANT 4Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1071 Ages Drive	Stevenage/Belgreen	Contract Furniture Source	45,000	10/09

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



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