

MARKETBEAT



OTTAWA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

2Q10

ECONOMY

The National Capital Region added 2,600 jobs from April, with an overall increase of 26,300 jobs from last year, but with more workers entering the job market, the unemployment rate for the Ottawa-Gatineau region remained at 6.0% in May. There are potential clouds on the horizon in the form of a freeze in governmental spending budgets, which will likely lead to shrinkage in the public administration job sector. As of April, total employment within this sector numbered 160,500. This contraction will likely create a domino effect across numerous sectors, particularly affecting the retail and wholesale sectors.

OVERVIEW

Vacancy continued to move upwards in the second quarter to reach 6.3%, a full percentage point higher than last quarter. There are currently 1.4 million square feet (msf) available, as the amount of vacant space available grew this quarter by 239,000 square feet (sf). This new vacant space was fairly evenly distributed amongst both the western and eastern submarkets.

Leasing activity declined by approximately 50% from first quarter levels to 106,000 sf. There were a total of 17 transactions this quarter, with 10 located in the eastern submarkets and the remaining seven located in the western submarkets. The majority of the leased square footage, approximately 80%, was located in the eastern submarkets. Of that amount, 37,000 sf was leased in the recently completed building located on Polytek. The remaining transactions throughout the entire market were generally under 5,000 sf.

Absorption remained in negative territory this quarter with approximately 128,000 sf, due to absorption in the western suburban markets at a negative 142,000 sf and absorption in the eastern suburban markets a positive, although minimal, 14,000 sf. Kanata provided the majority of the negative absorption in the western submarkets, while in the eastern submarkets the multiple small pockets of negative absorption were counteracted by the close to 42,000 sf of space, located in two properties, that came off the market. Although the eastern submarkets demonstrated an overall softening due to the amount of properties that had negative absorption, the amounts were relatively small; generally 1,000-5,000 sf. The western submarkets, on the other hand, continue to be characterized by large blocks of space being returned to the market, with four new blocks of space over 20,000 sf becoming available this quarter.

OUTLOOK

As anticipated, vacancy was impacted by the completion of the new 122,000-sf speculative build. With close to 84,000 sf remaining to be leased in the property, combined with the approximately 155,000 sf of additional space that was returned to the market this quarter, overall vacancy rose higher than what was initially forecasted last quarter. Looking ahead to the remainder of the year, vacancy is anticipated to continue to rise as an additional 100,000 sf is set to be returned to the market and demand is not expected to be strong enough to offset this additional space. Leasing activity will continue to be focused within the eastern submarkets due to higher demand for the type and size of space that is available in these areas.

BEAT ON THE STREET

"There continues to be little movement of large industrial spaces in the Ottawa market. However there seems to be preliminary leasing activity that may result in significant leasing transactions towards the end of 2010."

– Peter Earwaker, Senior Sales Representative

ECONOMIC INDICATORS

	2008	2009	2010F
GDP Growth	1.3%	-1.2%	2.8%
CPI Growth	2.2%	0.6%	2.5%
Unemployment	5.2%	5.7%	5.9%
Employment Growth	4.8%	-1.5%	1.0%

Source: Conference Board of Canada

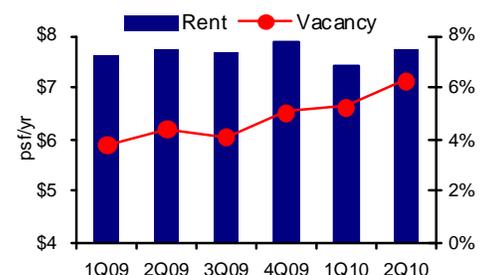
MARKET FORECAST

LEASING ACTIVITY slowed substantially in the second quarter. For the second half of 2010 leasing totals will largely hinge on activity at the new spec build in the east end. ↓

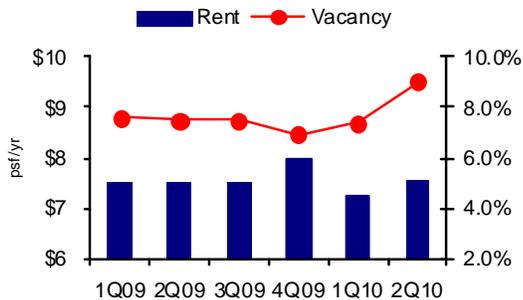
DIRECT ABSORPTION continued to remain in negative territory. This trend is expected to continue through the remainder of 2010. ↓

CONSTRUCTION was completed this quarter on a speculative build of 122,500 sf. Construction has also commenced on a new 76,000 sf spec project in the Kanata area. ↔

OVERALL RENT VS. VACANCY RATE

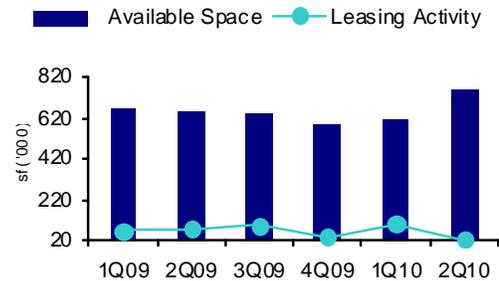


Vacancy Rate vs. Overall Rental



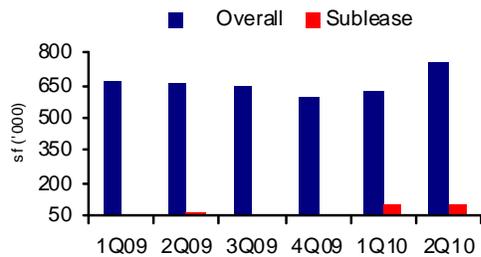
- There was a sharp rise in the western submarket vacancy rate this quarter, with vacancy climbing to 9.0%, an increase of over 1.5 percentage points from last quarter.
- Rental rates climbed this quarter to \$7.58 per square foot (psf), slightly increasing from last quarter, and are now more in line with the recent historical average. With average asking rates in the majority of the western submarkets remaining stable from last quarter, it was an increase in the average rental rate in the Ottawa Centre submarket that led to the overall increase.

Overall Available Space vs. Leasing Activity



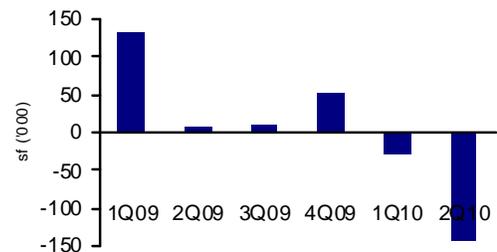
- The amount of available space located in the western submarkets climbed to approximately 752,000 sf, its highest level in five quarters.
- Leasing activity slowed considerably this quarter to close to 22,000 sf, its lowest level in five quarters. Kanata contributed almost half of all leasing activity with two transactions in two properties. Activity is expected to remain slow over the remainder of the year, as availability in the western submarkets becomes increasingly dominated by larger blocks (i.e. over 10,000 sf) that are not in high demand and as a result are more difficult to find suitable tenants for.

Available Space Trends Overall vs. Sublease



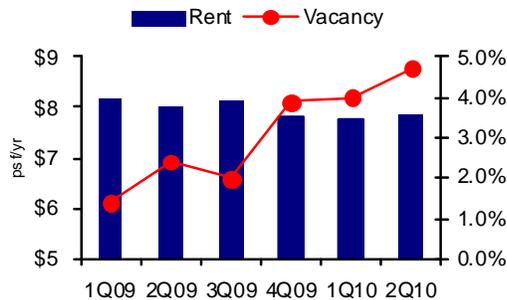
- The amount of sublet space in the western submarkets remains almost identical to the previous quarter at approximately 99,000 sf.
- The sublet space available continues to be located in only three properties, although the square footage is almost entirely located in two. One of these is a 45,000-sf pocket available in Ottawa South and the other a 52,000-sf pocket that is available in the Colonnade Business Park.

Absorption



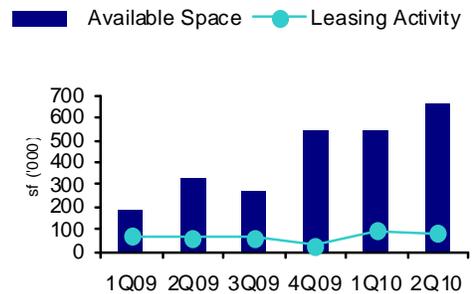
- Absorption levels in the western submarkets remained in negative territory this quarter at approximately 142,000 sf, over five times higher than last quarter. Over 95,000 sf of this space was located in the submarket of Kanata, where two blocks of over 30,000 sf were returned to the market, along with one entire building of over 20,000 sf.
- Absorption levels should stabilize in the coming six months, and perhaps even move back into positive territory, as only 14,000 sf is forecasted to be returned to the market in this period. This space is located in three smaller pockets that should prove easier to lease.

Vacancy Rate vs. Overall Rental



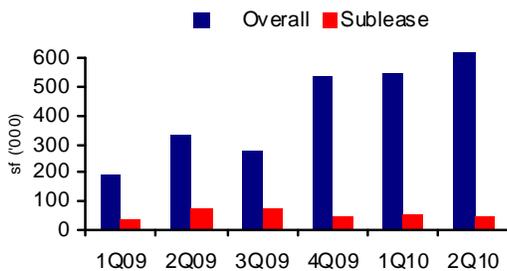
- After stabilization in the vacancy rate last quarter, vacancy resumed its march upwards to reach 4.7% in the eastern suburban markets, a seven-tenths of a percentage point climb from the first quarter.
- There remains little change in the overall rental rate, with current average asking rental rates sitting at \$7.87 psf, a minimal increase from last quarter. With the majority of rental rates remaining fairly flat from last quarter, slight rises in the rental rates of the Coventry/Belfast and Cyrville submarkets led to the overall increase.

Overall Available Space vs. Leasing Activity



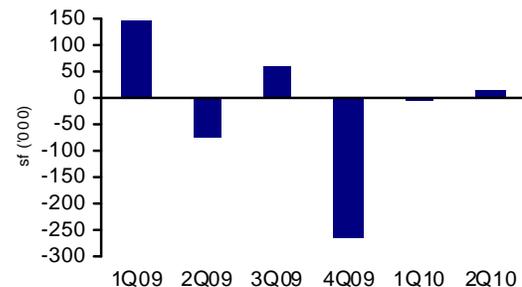
- After two quarters of available space remaining consistent it was on the rise this quarter, reaching approximately 655,000 sf. As was the case with the western submarkets, the amount of square footage available is now higher than any amount seen over the previous five quarters. Approximately 40% of the space is located in the Sheffield Industrial Park, where three properties account for close to 232,000 sf.
- Leasing activity slowed from last quarter to 84,000 sf, although this is the second highest level registered over the previous five quarters. Approximately 40% of all leasing activity in the eastern suburban markets was located at the recently completed building on Polytek.

Available Space Trends Overall vs. Sublease



- The amount of sublet space available decreased slightly this quarter to reach just over 44,000 sf. This decrease was due to the leasing of a 9,800-sf space in the Sheffield Industrial Park which was only on the market for one quarter.
- Currently, the space available for sublease is located in five properties, with the largest blocks being 12,000 sf, which is an entire building, and 20,000 sf.

Absorption



- As anticipated, absorption climbed back into positive territory this quarter at just under 14,000 sf.
- This positive absorption was the result of the completion of 1100 Polytek along with close to 27,000 sf coming off of the market in Orleans. Absorption is expected to trend back down into negative territory over the remainder of the year, as 88,000 sf of additional space is forecasted to become available. By far the largest contributor will be the availability of 2400 Sheffield. This 58,000-sf property is set to become available in November when NAV Canada relocates to their newly constructed facility.

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	3,198,680	53	13.2%	13.2%	83,733	75,046	0	(44,987)	\$7.21
Bell's Corners	334,655	11	2.4%	2.4%	0	0	0	(2,700)	N/A
Morrison/Queensview	415,519	9	1.2%	1.2%	16,206	0	0	11,062	N/A
Woodward/Carling	540,800	23	7.2%	7.2%	0	0	0	0	N/A
Ottawa Centre	772,839	27	4.6%	4.6%	3,000	0	0	(7,280)	\$9.00
Ottawa South	695,111	11	14.9%	8.5%	0	0	0	(87,514)	\$6.50
West Merivale	534,593	26	2.2%	1.9%	5,700	0	0	(9,005)	\$8.00
East Merivale	587,403	26	7.3%	7.3%	1,800	0	0	(25,300)	\$9.28
Colonnade	621,923	21	12.1%	3.7%	10,440	0	0	(3,318)	\$9.66
Rideau Heights	622,918	28	1.3%	1.3%	5,455	0	0	0	N/A
East Ottawa Submarkets									
South Walkley	441,680	15	1.9%	1.9%	0	0	0	0	\$9.00
Ottawa Business Park	1,439,259	31	2.7%	2.7%	22,547	0	0	(27,687)	\$9.75
Coventry/Belfast	1,886,526	51	2.4%	1.7%	25,360	0	0	4,712	\$8.32
Cyrville	2,161,942	59	2.8%	2.8%	50,741	0	0	12,006	\$7.64
Sheffield	3,261,043	62	7.9%	7.9%	9,800	0	0	(21,831)	\$6.25
Sheffield/Lancaster	1,170,820	20	1.7%	1.4%	7,334	0	0	(5,276)	\$7.63
Stevenage/Belgreen	1,854,224	52	5.0%	3.9%	13,010	0	0	(4,940)	\$7.92
South Gloucester/Albion	409,334	16	3.1%	1.9%	10,139	0	0	2,139	N/A
Queensway	761,685	23	14.6%	14.0%	42,097	0	122,500	20,163	\$7.99
Orleans	458,369	13	0.9%	0.9%	0	0	0	26,950	\$7.50
Total	22,169,323	577	6.3%	5.7%	307,362	75,046	122,500	(162,806)	\$7.73

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
3020 Hawthorne Road	Stevenage/Belgreen	PWGSC	9,396	Warehouse
2750-2772 Lancaster Road	Sheffield/Lancaster	Eastop Counters	4,360	

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
2340 St. Laurent Blvd.	Ottawa Business Park	Dundee Properties	115,000	\$11,055,000
1604 Michael Street	Cyrville Business Park	1120886 Ontario Inc.	18,512	\$1,350,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1100 Polytek Street	Queensway Business Park	University of Ottawa	122,500	04/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
116 Willowlea Drive	Kanata	N/A	75,046	N/A



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