

MARKETBEAT INDUSTRIAL SNAPSHOT



OTTAWA

A Cushman & Wakefield Research Publication

Q4 2011



ECONOMIC OVERVIEW

In contrast to the national employment loss of 18,600, the Ottawa-Gatineau region added 1,900 jobs in November 2011. However, due to a larger labour force, the local unemployment rate rose 0.4 percentage points to 6.3%. This marks the highest unemployment rate since this past April but still compares favourably to the national unemployment rate, which increased to 7.4%. Improving local sectors included professional, scientific, technical, and educational services, while job losses occurred within the public administration and construction sectors.

STABLE CONDITIONS IN INDUSTRIAL MARKET

Although there was a significant 0.8-percentage point increase in the vacancy rate from the first quarter to the second quarter of 2011, overall vacancy remained almost unchanged for the remainder of the year. Current vacancy sits at 6.3%, which is identical to the second quarter and 0.1 percentage points lower than last quarter. There was also little change in vacancy in both the eastern and western markets during the fourth quarter. The eastern markets saw a decline of 0.2 percentage points to 3.7%, while in the western markets, vacancy declined by 0.1 percentage points to 10.6%. The total amount of space available in the market is very close to last quarter's amount at 1.4 million square feet (msf). Of that, approximately 25% is available for sublease, a 5.0-percentage point decline from last quarter.

STEADY DEMAND THROUGH 2011

Overall absorption was minimal in both the eastern and western markets this quarter, totaling close to 33,000 square feet (sf). This brings the end-of-year total to nearly 179,000 sf. While there were some larger pockets of space of over 10,000 sf that became available this quarter – particularly the 41,000 sf that became available in one Kanata building as Abbotsford Moving & Storage vacated, and 71,000 sf in the Ottawa Business Park due to some of All Continents Transport's space becoming available – this was mostly counteracted by significant amounts of space being removed from the market. One of the larger pockets was 45,000 sf of sublease space that was taken off the market at 185 Corkstown, as Abbott Point of Care is now in need of that space.

Leasing activity was almost identical to last quarter at 207,000 sf, bringing the end-of-year total to just over 1.0 msf. While leasing activity in the eastern markets was stronger this quarter with 131,000 sf, compared to the western markets at 75,000 sf, overall activity through the year was fairly evenly distributed between both markets. Although leasing activity was fairly close to last quarter in terms of square feet leased, the total number of transactions was higher at 31 compared to 24.

OUTLOOK

Looking towards the first half of 2012, vacancy could potentially rise to 6.9%. However, this increase would be the result of larger pockets of space becoming available rather than an overall softening of the market. After a fairly active 2011 – which included significant transactions such as the approximately 160,000 sf that was leased by Ericsson and Avaya and the expansion of close to 57,000 sf by Giant Tiger – leasing activity is expected to ease back down to levels in line with those generally been seen during the past couple of years. For the most part, rental rates should remain stable heading into 2012, although there may be a slight softening in the overall rents for the city, as landlords may be more aggressive next year with the larger pockets of space that are set to become available.

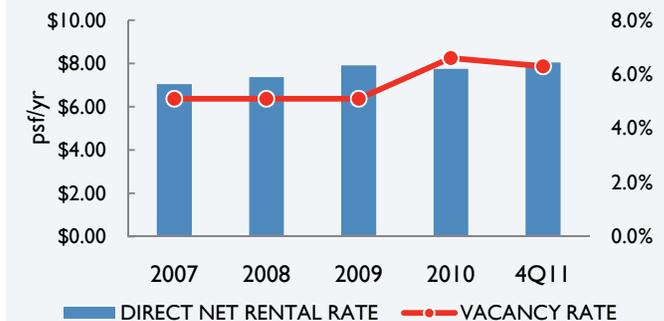
STATS ON THE GO

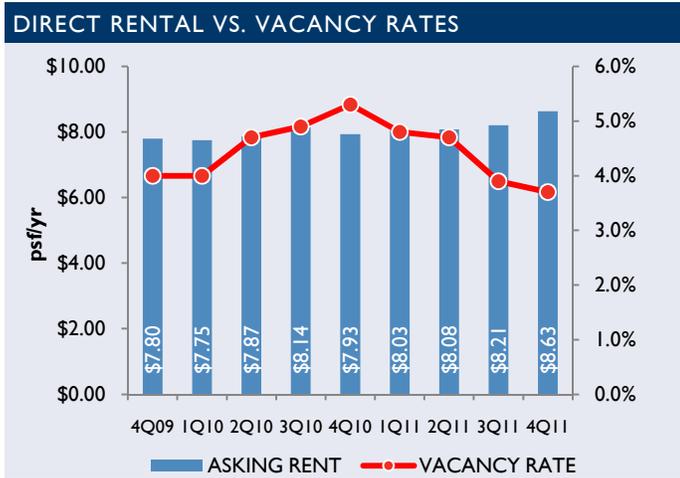
	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.6%	6.3%	-0.3pp	▲
Direct Asking Rents (psf/yr)	\$7.75	\$8.05	3.9%	◀▶
YTD Leasing Activity (sf)	565,292	1,016,553	79.8%	◀▶

OVERALL NEW SUPPLY

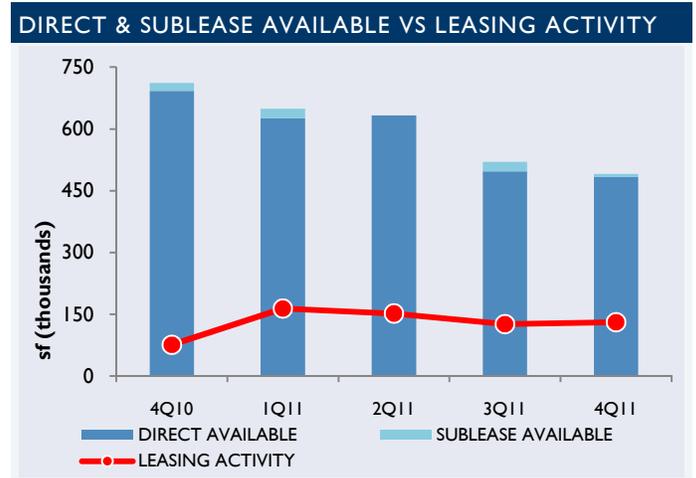


DIRECT RENTAL VS. VACANCY RATES





After peaking one year ago, vacancy in the eastern suburban markets has declined steadily over the course of the last year and currently sits at 3.7%. With the decline in vacancy rates, the overall net average asking rate has climbed over this same time to reach \$8.63 per square foot (psf). Vacancy rates are anticipated to remain stable through the first half of 2012, as the market should be strong enough to absorb the approximately 58,000 sf that is projected to become available over the next six months.



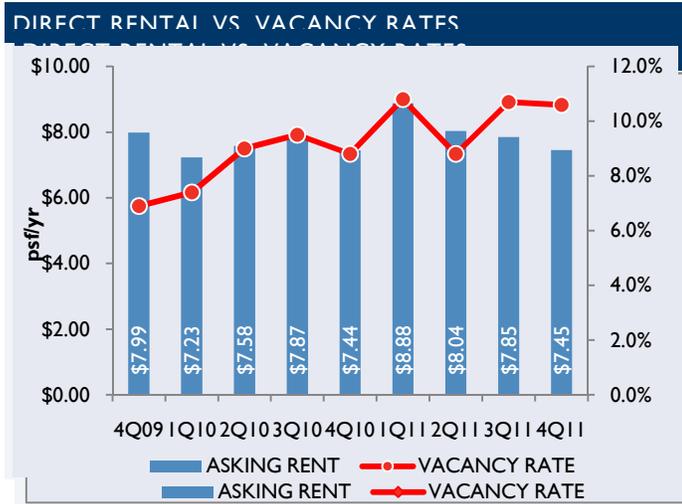
The amount of space available declined slightly this quarter for both direct and sublease space, to reach approximately 483,000 sf and 8,000 sf respectively. The areas with the most available space in the fourth quarter were Ottawa Business Park and Sheffield industrial Park, with Sheffield having the one pocket of sublease space available. Leasing activity has remained very steady over the course of 2011, with the fourth quarter total coming in at about 131,000 sf.



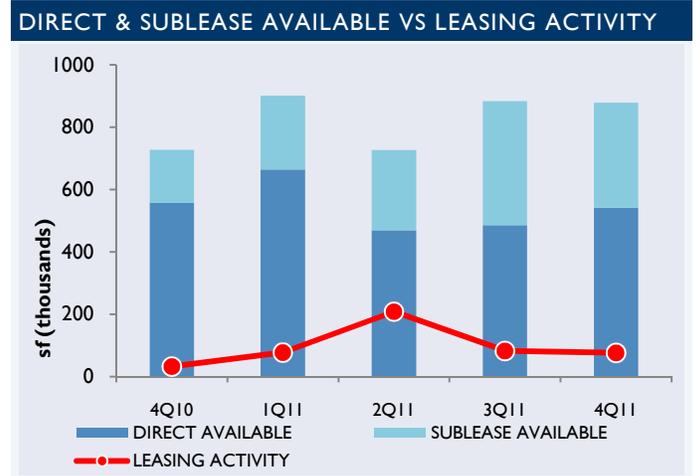
Overall demand remained steady in the eastern suburban markets over the course of 2011 as new availabilities were absorbed back into the market. This quarter, absorption was approximately 29,000 sf as new availabilities such as the 71,000-sf All Continents space were counteracted by leasing activity at 1100 Polytek and the 57,000-sf that was leased at 1680 Vimont by EMCO. Absorption levels during the first half of 2012 are anticipated to remain largely unchanged from 2011.



Despite the tight market conditions in the eastern submarkets there has been little new construction. The latest project was the 122,500-sf speculative build constructed in the Queensway Business Park. Currently there is one project under construction, a 43,000-sf build-to-suit for Iridian Spectral Technologies. There may be additional projects set to get underway in 2012. Phase II of 1100 Polytek is currently in the midst of pre-leasing and there may be new construction in the Hawthorne Business Park.



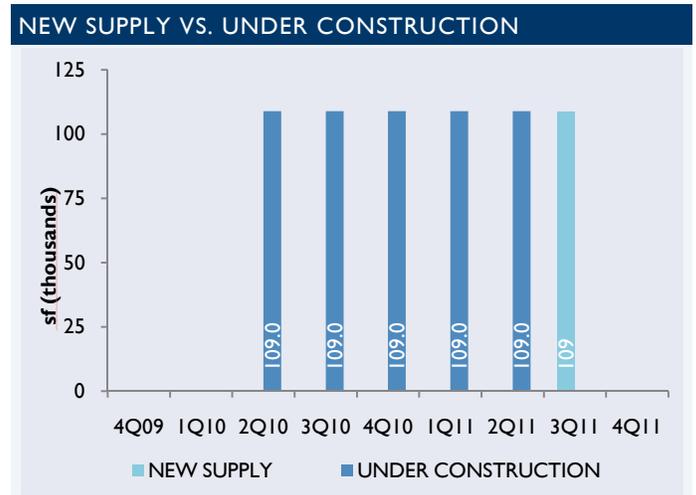
Not counting the second quarter of 2011, when vacancy rates declined to 8.8% as a result of the space coming off the market due to the Ericsson lease at 349 Terry Fox, vacancy in the western submarkets has remained fairly stable through 2011 and is currently at 10.6%. The average asking rental rate has reflected the current vacancy rate to some degree, declining over 2011 to \$7.45 psf, a dollar figure more in line with what has been posted during the last two years.



The amount of direct space available climbed in the fourth quarter to reach nearly 879,000 sf. However, there was little change in the overall vacancy rate as the amount of sublet space available declined to 337,000 sf. Space available for sublease continues to be primarily located in Kanata, with one pocket for sublease of 52,000 sf in the Colonnade Business Park. Despite a noticeable uptick in leasing activity during the second quarter, overall activity levels have been consistent through 2011.



Mirroring the changes in the vacancy rate during the first half of 2011, there were also substantial swings in absorption totals. Significant pockets of former high-tech space became available in Kanata during the first quarter, which lead to high levels of negative absorption while in the second quarter Kanata alone had close to 161,000 sf of positive absorption, largely the result of the Ericsson transaction. Absorption quieted over the second half of the year, with absorption this quarter virtually nil at 4,000 sf.



Similar to the eastern submarkets, there has been little construction in the western submarkets over the past two years. The latest were two completions last quarter located on the outskirts of Kanata. One was a 22,000-sf build-to-suit for Canada Breads, the other an 86,752-sf speculative build of which approximately 63,000 sf remains vacant. There have been no announcements of new construction for 2012 within the western submarkets.

OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	LEASING ACTIVITY CURRENT QUARTER	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	ABSORPTION CURRENT QUARTER	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. NET RENTAL RATE*
Kanata	3,174,875	18.2%	9.2%	39,223	253,027	0	108,752	(19,508)	(19,677)	\$7.17
Bell's Corners	334,655	5.9%	5.9%	0	2,700	0	0	(2,880)	(11,660)	\$11.00
Morrison/Queensview	415,519	6.0%	6.0%	0	40,144	0	0	(6,205)	(24,875)	\$7.00
Woodward/Carling	540,800	6.3%	6.3%	0	11,350	0	0	4,540	5,793	N/A
Ottawa Centre	742,339	3.6%	3.6%	7,800	23,200	0	0	0	(6,969)	\$6.00
Ottawa South	695,111	7.4%	7.4%	15,643	58,590	0	0	32,436	33,723	\$6.72
West Merivale	534,593	1.4%	1.4%	0	18,515	0	0	0	4,045	\$8.04
East Merivale	587,403	8.0%	8.0%	5,000	13,635	0	0	(4,410)	(2,380)	\$8.35
Colonnade	643,847	12.7%	4.6%	5,880	19,916	0	0	5,880	(20,081)	\$9.58
Rideau Heights	606,248	1.2%	1.2%	2,020	2,020	0	0	(5,525)	475	\$8.50
WEST OTTAWA	8,275,390	10.6%	6.5%	75,566	443,097	0	108,752	4,328	(41,606)	\$7.45
South Walkley	325,180	0.0%	0.0%	8,588	8,588	0	0	8,588	0	N/A
Ottawa Business Park	1,439,259	7.6%	7.6%	20,000	20,000	0	0	(59,068)	(83,970)	\$8.79
Coventry/Belfast	1,758,250	2.4%	2.4%	0	13,125	0	0	0	(12,997)	\$9.40
Cyrville	1,981,842	2.1%	2.1%	7,283	26,137	0	0	(16,723)	25,788	\$8.69
Sheffield	3,186,043	5.4%	5.2%	0	253,679	0	0	(1,285)	121,389	\$6.50
Sheffield/Lancaster	1,170,820	6.4%	6.4%	10,727	42,504	0	0	10,727	(21,068)	\$8.91
Stevenage/Belgreen	1,854,224	1.2%	1.2%	21,901	75,994	43,000	0	(1,067)	62,838	\$7.58
South Gloucester/Albion	409,334	5.2%	5.2%	10,139	10,139	0	0	10,139	1,639	\$7.72
Queensway	761,685	0.9%	0.9%	25,875	92,340	0	0	20,390	80,691	\$7.72
Orleans	474,178	0.0%	0.0%	26,950	30,950	0	0	56,950	46,250	N/A
EAST OTTAWA	13,360,815	3.7%	3.6%	131,463	463,550	43,000	0	28,651	220,560	\$8.63
OVERALL CITY	21,636,205	6.3%	4.7%	207,029	1,016,553	43,000	108,752	32,979	178,951	\$8.05

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
1680 Vimont Court	Orleans	EMCO	Warehouse	26,950
1100 Polytek Street	Queensway	N/A	Warehouse	25,600
SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
2760-2770 Sheffield Road	Sheffield Industrial Park	Richcraft (Sheffield South) Ltd.	\$12,000,000	151,000
110 Iber Road	Kanata	City of Ottawa	\$5,050,000	60,000
SIGNIFICANT 2011 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