

Population*
1.1 million

Office vacancy
5.5%

Industrial inventory
27.9 million sq ft

Office inventory
33.6 million sq ft

CBD Class A vacancy
2.7%

Industrial vacancy
4.3%



Roger Casagrande

Market overview

Ottawa's economy performed modestly across all economic sectors in 2007 and is expected to improve over the next 12 months. Although the local market has undergone some diversification, the public administration (federal government) and high tech sectors remain the main drivers of the local economy. The overall economy expanded by 2.3% in 2007 and is projected to grow by 2.9% in 2008. Retail sales remain strong, increasing by 3.7% in 2007 and forecast to increase by 5.4% next year. There were 8,000 housing starts with another 7,500 units expected in 2008.

Office market

Overall office vacancy decreased 1% year over year in Q3 2007 to 5.7%. A further 1% decrease is expected for 2008. Leasing was strong with more than 800,000 square feet of net absorption in 2007. Similar activity levels are anticipated in 2008. The federal government is expected to announce several RFPs for major swing space requirements while they rehabilitate and retrofit aging buildings in their inventory. This will likely have a major impact on the office market in the upcoming years. Lease renewals dominated the office market in 2007 due to continued low vacancy and limited choices for relocation. There have been some significant expansions in the high tech sector in the form of

build to suits for DELL, EMS Satcom and Telus. Rental rates in the downtown core are holding firm, but are increasing in all suburban markets and this trend is expected to continue over the near term.

Construction activity was strong in 2007 with seven building completions totalling more than 950,000 square feet. Currently there are 28 projects in pre-leasing mode, which could potentially add more than 3.8 million square feet to the market in the next few years.

Emerging trends include increased tenant interest in LEED certified buildings. In addition, landlords of aging buildings are looking at retrofit or conversion to remain competitive with newer product in the market. Challenges will include continued low vacancy and limited large block options for larger users as well as continued pressure on the transportation infrastructure both downtown and out to the suburbs.

Industrial market

Industrial vacancy decreased from 5.1% to 4.3% in 2007. With continued improvement in the high tech manufacturing sector, and limited new construction planned in 2008, vacancy should decline further. Larger blocks of modern industrial space are limited across the city. Positive leasing activity is expected to continue

through 2008. Rental rates continue to increase, as demand remains strong for quality, high ceiling, and modern industrial space.

Build to suits continue to drive the construction of new industrial developments. There was 355,000 square feet of new industrial space completed in 2007. The biggest challenge facing the industrial market is the shortage of industrial zoned development land. Consequently, one trend that may occur is the redevelopment of obsolete and underdeveloped industrial buildings and sites.

Investment market

Ottawa's overall investment climate is buoyant. The most active buyers in the market for investment product are mainly foreign and, in particular, German investors. Pension funds have also been active. The most active sellers are entrepreneurs who are looking to cash out, with some pension funds selectively selling older assets.

The level of activity is up slightly from last year. Expect similar levels of investment activity in 2008. There were significant increases in sale prices as yields continued to decline.

Retail market

The retail climate is extremely healthy and market conditions are tight due to strong domestic demand. There are several large new developments under construction in the suburban markets of Kanata, Stittsville, Barrhaven and Orleans. Several redevelopments inside the greenbelt began in 2007, including a new format Canadian Tire on a former car dealership site. SmartCentres purchased the former Laurentian High School on Baseline Road and are in the planning stages of redevelopment of this 15.4 acre site.

New retailers to the market include GEOX, BCBG Max Azria and Crisca. Coach, Lacoste and other 'luxury' brands are expected to open stores in 2008. Net rental rates in regional centres continued to increase as demand for space remained strong. Net rental rates in power centres were flat or declined as competition from landlords for tenants increased.

