

MARKETBEAT INDUSTRIAL SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q4 2013



ECONOMIC OVERVIEW

Despite another year-over-year decrease in employment in the public administration sector, the unemployment rate in the National Capital Region decreased in November, reaching 5.9%.

The public administration sector, which includes federal government employees, saw its employment numbers drop to 143,600. That is a decrease from 164,400 in November 2012. However, the sector that includes high-tech workers has added numbers to its ranks with 55,200 people now working in information and communication technology in November, which is up from 41,500 a year ago. Gains were also reported in several other sectors in November. Despite these positives, the Conference Board of Canada is still forecasting GDP growth for the region at just 0.8% this year, ranking Ottawa-Gatineau 12th out of 13 census metropolitan areas. This will largely be the result of the shrinking public administration sector which accounts for approximately 30% of overall economic activity.

VACANCY RATES RISE ONCE AGAIN

Overall vacancy continued to climb in Q4, rising by 0.3 percentage points to reach 6.4%. While vacancy within the western submarkets declined to 8.9% from 9.4% last quarter – the exact opposite of what occurred in Q3 - vacancy within the eastern submarkets climbed by almost a full percentage point to reach 4.9%. This increase was largely the result of two large blocks of space coming on the market; approximately 60,000 square feet (sf) from the federal government and 45,000 sf from Contract Furniture; a company that closed their doors and placed their entire building on the market

OVERALL DEMAND REMAINS STABLE

Despite solid absorption figures in the western submarkets of 91,000 sf this quarter, which were boosted by the completion of the new Fed/Ex 47,000-sf distribution centre, it was not enough to counteract the negative absorption figures in the eastern submarkets of 114,000 sf - resulting in an overall absorption figure of negative 23,000 sf this quarter. This brings the end-of-year total to approximately negative 49,000 sf. As has been the case throughout the year the overall market was dragged down by large blocks of space becoming available. As evidenced by the end-of-year leasing activity; however, overall demand has remained consistent. This is also illustrated by the fact that over the past three year's vacancy has largely remained between 6.0% – 6.5%.

OUTLOOK

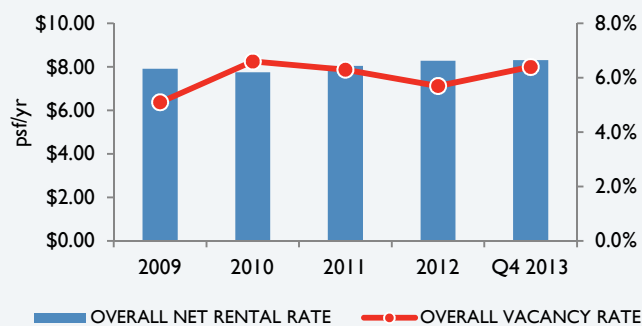
Looking to the first half of 2014 there are no dramatic changes expected. Although an additional 63,000 sf is set to come on the market over the next six months the market should be able to absorb that vacancy. What

may provide a significant boost to absorption and a corresponding drop in vacancy is if the talk surrounding the leasing of 501 Palladium, the former Smart Technologies building which has 212,000 sf of industrial space available for lease; is indeed accurate. New supply construction continues with the design-build for Euro Tile & Stone in the eastern suburbs that will be owner-occupied. There is also a planned 150,000-sf warehouse/distribution centre for Multi-Craft Imports that will also be owner-occupied upon completion.

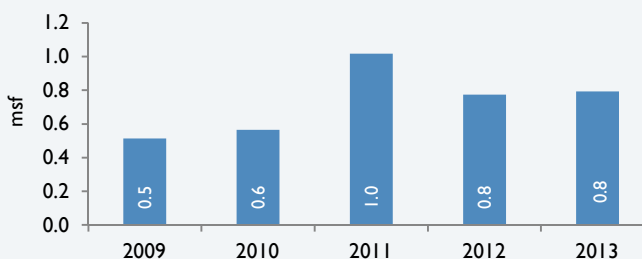
STATS ON THE GO

	Q4 2012	Q4 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	5.7%	6.4%	0.7pp	↕
Direct Asking Rents (psf/yr)	\$8.29	\$8.32	0.4%	↕
YTD Leasing Activity (sf)	774,224	793,014	2.4%	↕

OVERALL RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY



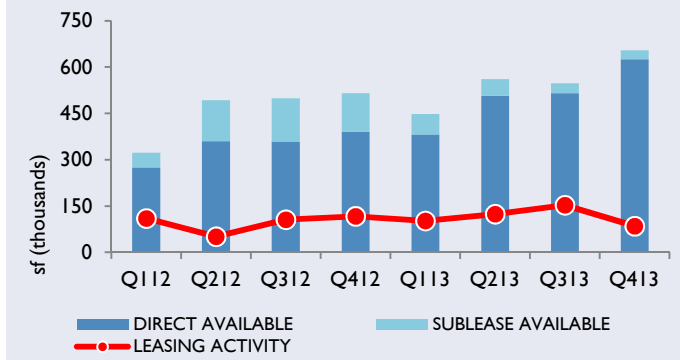
EASTERN SUBMARKETS

- Vacancy moved sharply upwards in Q4 to reach 4.9%, almost a full percentage point higher than last quarter. As previously discussed, the driving force behind this are the two large blocks of space in two separate submarkets coming onto the market totaling 100,000 sf. The majority of the other submarkets had little change in vacancy from last quarter.
- Asking rental rates rebounded this quarter, rising slightly to \$8.51 per square foot (psf) as all of the eastern submarkets reported identical rates if not slightly higher than last quarter.
- The amount of direct space available this quarter increased by close to 111,000 sf, while the amount of sublet space availability has declined throughout 2013 - reaching 29,000 sf this quarter.
- After steady levels of leasing activity through the first three quarters of 2013, activity slowed substantially to approximately 85,000 sf. This brings the end-of-year total to 464,000 sf, which is actually higher than the total from last year. This quarter there were thirteen transactions in the eastern submarkets, with the largest known transaction of 19,500 sf at 2215 Gladwin.
- Absorption figures took a nosedive into negative territory this quarter as demand within the eastern submarkets was not sufficient to counteract the new availability, particularly as the majority of this space was in two large blocks.
- Although overall demand is not anticipated to accelerate substantially through the first half of 2014, it should be sufficient enough to pull the eastern submarkets into minimal positive territory as only 57,000 sf is set to come on the market over the course of the next six months.
- Construction continues on one project in the eastern submarkets for Euro Tile & Stone which will be owner-occupied upon completion. In addition, there is a new 150,000-sf building in the works for Multi-Craft Imports that will also be owner-occupied upon completion.
- In addition, pre-leasing continues at Phase II of the Capital East Business Centre. This 121,000-sf property is anticipated to be built on "spec" with a projected occupancy date of Q2 2014.

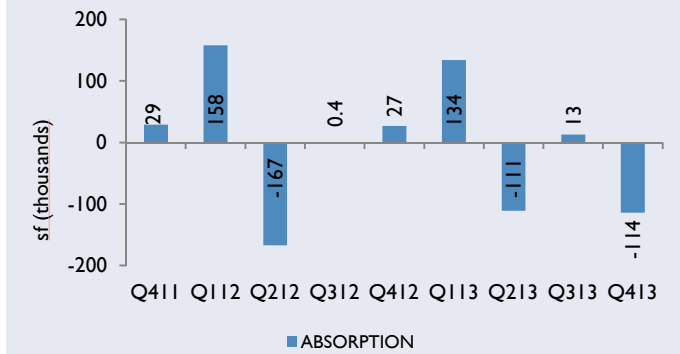
DIRECT RENTAL VS. VACANCY RATES



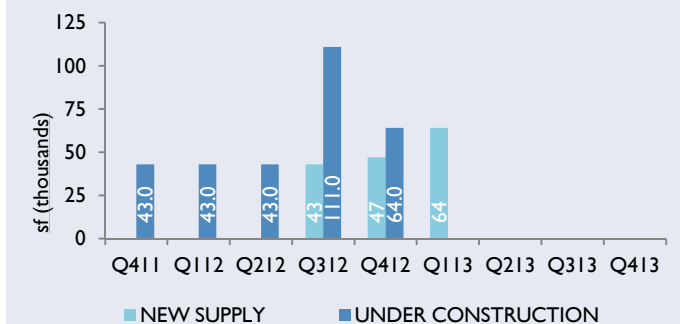
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



ABSORPTION



NEW SUPPLY VS. UNDER CONSTRUCTION



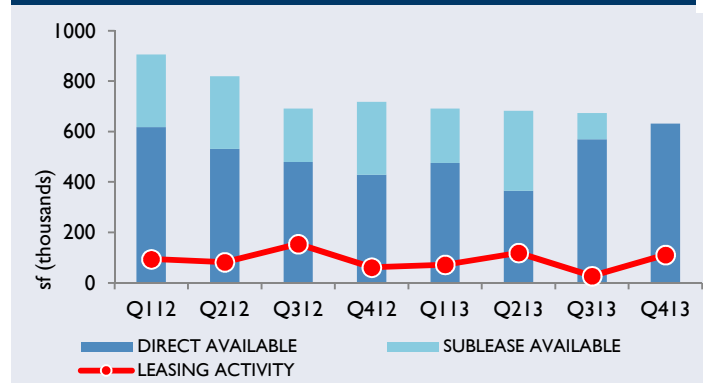
WESTERN SUBMARKETS

- Vacancy in the western submarkets declined slightly in Q4 to reach 8.9%, identical to the Q2 vacancy rate. One of the most significant contributors to this decline was 78,000 sf coming off of the market at 140 Iber in Kanata.
- Average rental rates have remained fairly consistent throughout 2013, although Q4 rates declined slightly averaging \$7.98 psf. This was the result of a handful of submarkets averaging slightly lower asking rates compared to last quarter.
- The amount of direct space available continued to climb in the fourth quarter, reaching 631,000 sf. The amount of direct space climbed in over half of the submarkets, particularly in Ottawa South as close to 32,000 sf became available at 2487 Kaladar. However, overall vacancy declined due to the fact that there is currently no space available for sublease throughout the entire western submarkets.
- Leasing activity rebounded strongly in Q4, climbing back up to reach 111,000 sf. This brings the end-of-year total to 329,000 sf. Kanata had the highest leasing activity totals this quarter, largely due to the previously mentioned 140 Iber. The majority of the other eleven transactions in the western submarkets were in the 1,000-3,000 sf range.
- Absorption figures climbed to its highest level since Q3 of last year, reaching 91,000 sf. This brings the end-of-year total to 29,000 sf. Besides the transaction at 140 Iber, absorption was also boosted this quarter by the completion of the 47,000-sf Fed/Ex facility.
- Absorption levels are anticipated to come back down over the first half of 2014, although numbers should remain in the positive as only 6,000 sf is being marketed to become available in the next six months.
- The 47,000-sf facility for Fed/Ex was completed this quarter. There have been no new developments announced in the western submarkets.

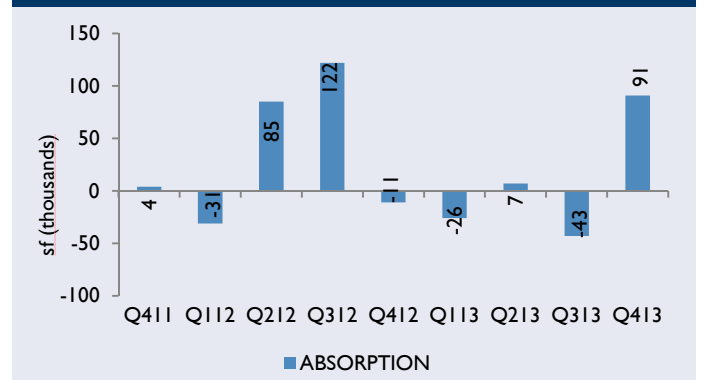
DIRECT RENTAL VS. VACANCY RATES



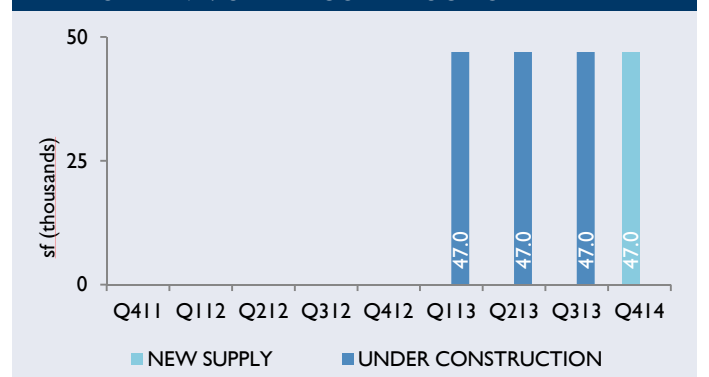
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



ABSORPTION



NEW SUPPLY VS. UNDER CONSTRUCTION



OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	CURRENT QUARTER OVERALL ABSORPTION	YTD OVERALL ABSORPTION	WTD. AVG. NET RENTAL RATE*	WTD. AVG. ADDITIONAL RENTAL RATE*	WTD. AVG. GROSS RENTAL RATE*
Kanata	3,151,662	14.1%	106,420	0	0	48,815	19,095	\$7.60	\$4.84	\$12.44
Bell's Corners	382,019	2.6%	12,779	0	47,364	47,364	53,534	\$10.00	\$6.51	\$16.51
Morrison/Queensview	415,519	11.2%	3,331	0	0	0	3,331	\$8.95	\$4.70	\$13.65
Woodward/Carling	540,800	9.5%	3,520	0	0	(2,500)	(24,599)	\$10.24	\$5.65	\$15.89
Ottawa Centre	777,339	3.0%	29,205	0	0	(3,200)	(7,507)	\$7.50	\$3.87	\$11.37
Ottawa South	695,111	10.0%	28,207	0	0	(31,713)	(14,411)	\$6.64	\$3.91	\$10.55
West Merivale	534,593	3.2%	4,860	0	0	1,860	(11,900)	\$9.00	\$5.10	\$14.10
East Merivale	587,403	1.8%	56,732	0	0	2,282	40,367	\$8.90	\$4.78	\$13.68
Colonnade	634,309	1.3%	78,238	0	0	28,300	26,110	\$9.55	\$5.53	\$15.08
Rideau Heights	623,138	9.4%	6,000	0	0	0	(54,822)	\$11.75	\$5.33	\$17.08
WEST OTTAWA	8,341,943	8.9%	329,292	0	47,364	91,208	29,198	\$7.98	\$4.73	\$12.71
South Walkley	325,180	0.0%	0	0	0	0	0	n/a	n/a	n/a
Ottawa Business Park	1,422,879	4.7%	13,018	0	0	(5,674)	(9,377)	\$9.00	\$4.52	\$13.52
Coventry/Belfast	1,770,250	6.1%	81,643	0	0	28,881	(111)	\$11.02	\$4.00	\$15.02
Cyrville	2,169,483	3.4%	88,941	0	0	5,900	99,584	\$8.75	\$3.83	\$12.58
Sheffield	3,043,681	7.0%	101,673	0	0	(83,241)	(136,261)	\$7.84	\$4.05	\$11.89
Sheffield/Lancaster	1,145,820	1.4%	122,777	0	0	3,895	72,954	\$9.56	\$5.18	\$14.74
Stevenage/Belgreen	2,010,706	4.1%	39,850	0	63,982	(63,106)	(12,410)	\$7.57	\$4.43	\$12.00
South Gloucester/Albion	402,234	0.0%	6,500	0	0	0	4,877	n/a	n/a	n/a
Queensway	798,865	0.8%	9,320	0	0	0	(1,250)	\$7.00	\$4.50	\$11.50
Orleans	474,178	20.2%	0	0	0	(1,000)	(96,004)	\$9.00	\$3.55	\$12.55
EAST OTTAWA	13,563,276	4.9%	463,722	0	63,982	(114,345)	(77,998)	\$8.51	\$4.29	\$12.80
OVERALL CITY	21,905,219	6.4%	793,014	0	111,346	(23,137)	(48,800)	\$8.32	\$4.46	\$12.78

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q4 2013 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
140 Iber Road	Kanata	N/A	Warehouse	77,928
2215 Gladwin Crescent	Sheffield/Lancaster	N/A	Warehouse	12,500
Significant Q4 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
4080 Belgreen Drive	Stevenage/Belgreen	2389281 Ontario Inc	\$3,000,000 / \$100	30,000
2447 Kaladar Avenue	Ottawa South	Huntington Properties Ltd.	\$2,600,000 / \$103	25,186
Significant Q4 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
995 Moodie Drive	Bell's Corners	Fed/Ex	Q4 2013	47,364
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
N/A				

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS