

# MARKETBEAT INDUSTRIAL SNAPSHOT

## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q3 2014



### ECONOMIC OVERVIEW

The unemployment rate for Canada was unchanged in August 2014, remaining at 7.0%. However this was not the case for the cities of Ottawa and Gatineau. Ottawa's unemployment rate jumped to 6.7% from 6.4% in July, while in Gatineau the unemployment rate climbed to 6.9% from 6.5%. This may be an early indication of further increases to come as it was recently announced that federal government departments are poised to eliminate an additional 8,900 jobs over the next three years; this is over and above the 26,000 positions that have already been eliminated over the past three years. It is thought these additional cuts will be the result of the operating freezes departments are continuing to work under, leaving no room for new hires and likely more layoffs. Although it is currently unknown what the consequences of these additional cuts will be on the city, it is fairly certain that there will be some impact due to the heavy presence of the federal government in the Ottawa-Gatineau region.

### OVERVIEW

For the second consecutive quarter, overall vacancy climbed by 0.1 percentage points, ending the third quarter at 6.1%. After an active first half of 2014, conditions within the western markets have stabilized and although vacancy climbed to 8.0% this quarter, it was only a 0.2 percentage increase over Q2. The majority of the western submarkets were fairly quiet this quarter on both sides of the supply and demand equation. The notable exception was a 50,000-square foot (sf) block that was added to the vacancy in the Merivale Road area. It was this new vacancy that was the driving force behind the vacancy increase. An almost identical story can be told for the eastern submarkets this quarter; although in this instance, vacancy declined by 0.2 percentage points from last quarter to reach 4.8%.

Although the federal government does not play as significant a role in the health of the industrial market as it does for the office, the cutbacks and spending freezes implemented by the federal government have had some influence, both directly and indirectly, on market growth. At the same time, the industrial sector can certainly be considered a balanced market in that there has been little change in both vacancy levels and rental rates over the course of the past few years.

### OUTLOOK

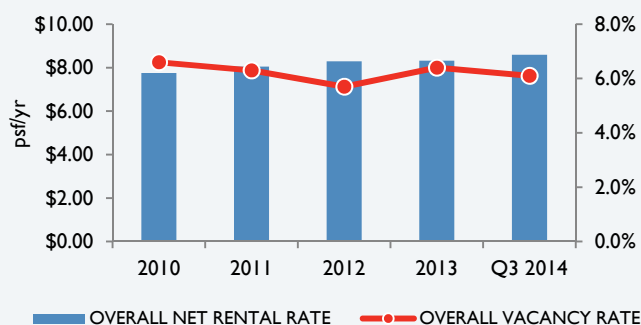
Little change is expected in the market through the remainder of 2014 and into the first quarter of 2015, although vacancy will likely head upwards once again as there are a few existing blocks of space over 10,000 sf that will be coming on the market. Construction is ongoing on

Phase II of 1101 Polytek Road; however, as the developer has yet to secure a tenant this completion could potentially result in vacant space increasing by 121,000 sf. Construction has commenced on the new build for Sanmina, a 119,000-sf facility located in Kanata. In addition to the second floor office component, there will be a manufacturing floor which will produce optical, electronic and mechanical products. This completion will boost absorption levels in that it is a fully leased building as well as the fact that the landlord has reportedly secured a tenant for the space at Sanmina's existing facility and therefore no additional vacancy will come to the market.

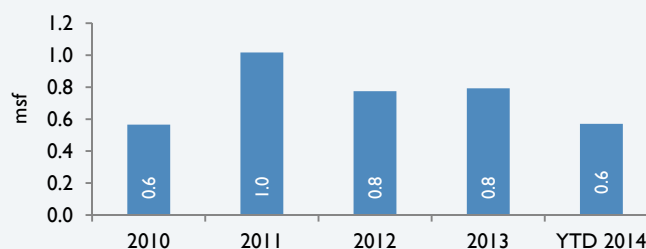
### STATS ON THE GO

	Q3 2013	Q3 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.1%	6.1%	0.0pp	↕
Direct Asking Rents (psf/yr)	\$8.41	\$8.59	2.1%	↕
YTD Leasing Activity (sf)	596,095	570,341	-4.3%	↕

### OVERALL RENTAL VS. VACANCY RATES



### OVERALL LEASING ACTIVITY



## EASTERN SUBMARKETS

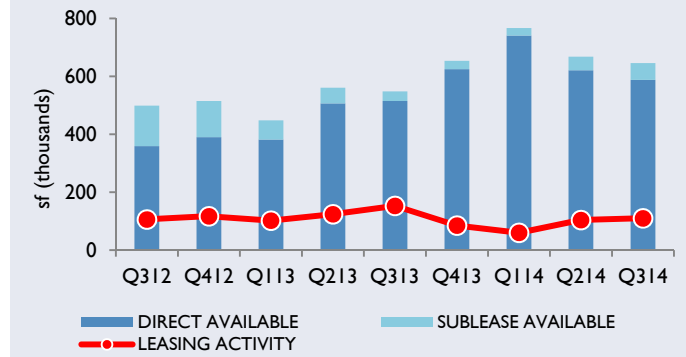
- Vacancy continued to ease downwards this quarter and now sits at 4.8%. As activity was quiet within the majority of the submarkets in the east, the vacancy decline was the result of two significant transactions that exceeded the new space that came on the market this quarter in terms of total square footage.
- Asking rental rates within the eastern submarkets have been remarkably consistent and have climbed slightly every quarter over the past year. This quarter, rents averaged \$8.81 per square foot (psf).

## DIRECT RENTAL VS. VACANCY RATES



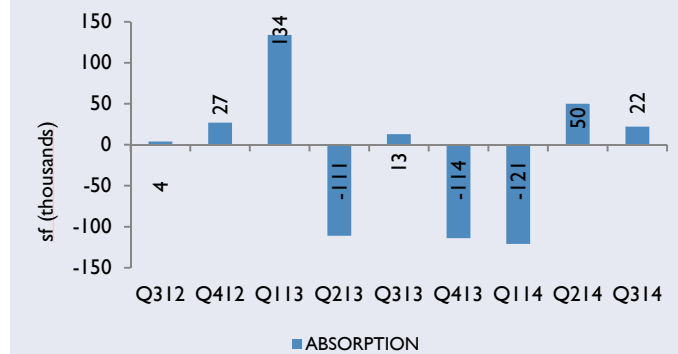
- The amount of direct space available continues to shrink and now sits at 588,000 sf, the lowest it has been in a year. The transactions involving Vesta Marble & Granite at 1402 Star Top Road and Seresco Technologies at 1071 Ages Drive were the most significant contributing factors. The amount of sublet space on the market climbed slightly to reach 58,000 sf as two small sublet vacancies became available.
- Despite the fact that leasing activity was nil or minimal in the majority of the submarkets this quarter, numbers held steady from Q2, totaling 110,000 sf this quarter. The exceptions of course were the above referenced transactions that together totaled close to 83,000 sf.

## DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



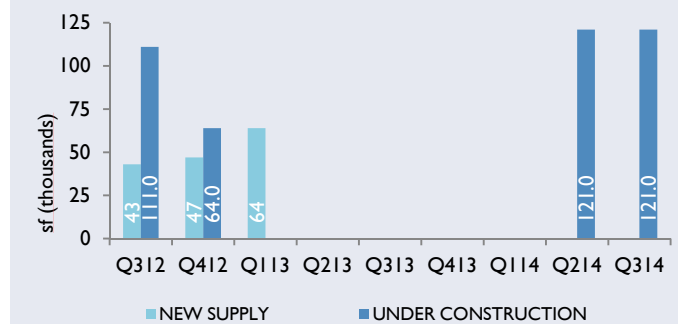
- Absorption figures contracted from last quarter but still remained in the positive at 22,000 sf. Figures would have been higher due to the leasing activity that occurred, however there were a few new 10,000-sf blocks of space that became available, which pulled absorption figures downwards.
- As overall demand is not anticipated to accelerate substantially during the next six months, absorption might trend downwards as approximately 50,000 sf is set to come on the market next quarter. In addition, the new construction completion will not contribute to absorption figure as no preleasing has occurred.

## ABSORPTION



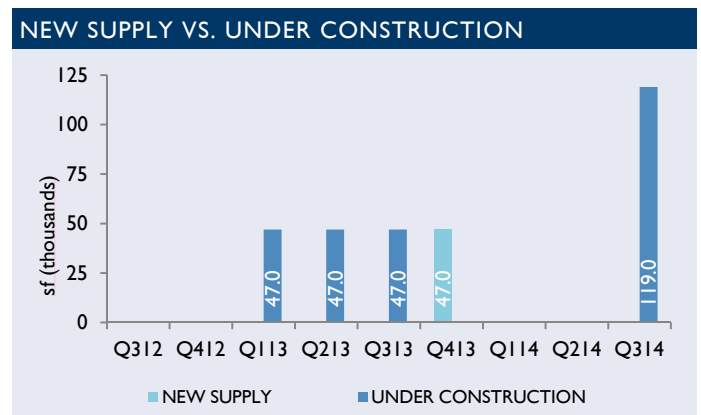
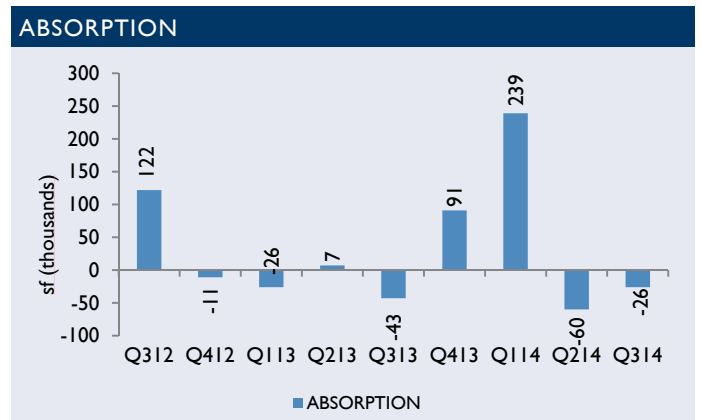
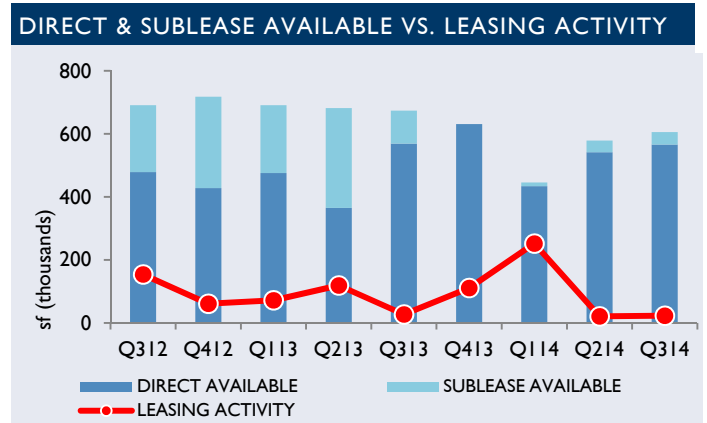
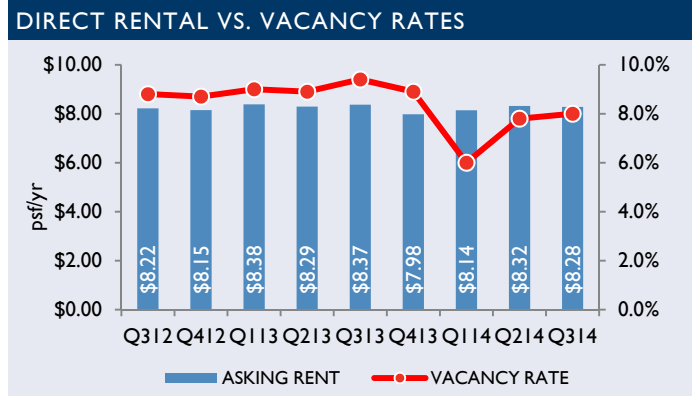
- Construction continues at Phase II of the Capital East Business Centre. This 121,000-sf property is being built on “spec” with a projected occupancy date of October 2014.

## NEW SUPPLY VS. UNDER CONSTRUCTION



## WESTERN SUBMARKETS

- After a turbulent first half of the year, vacancy has stabilized and ended the third quarter at 8.0%.
- As is the case with the eastern submarkets, the average asking rental rates continue to hold steady and currently average \$8.28 psf.
- The amount of direct space available edged up slightly to 566,000 sf this quarter, as a block of close to 53,000 sf was added to the vacancy. The amount of space available for sublet was almost unchanged from last quarter, currently totaling 40,000 sf.
- Leasing activity did not pick up any momentum from last quarter, totaling close to 23,000 sf. Only four western submarkets reported leasing activity with the largest being 16,000 sf that was leased by Big Rig Brewery at 103 Schneider Road.
- Absorption figures did improve over last quarter, although they remained in the negative at 26,000 sf, the result of new vacancy outpacing demand this quarter in the majority of the western submarkets.
- Absorption levels are generally more difficult to predict in the western submarkets as these markets are a bit more volatile and prone to large pockets coming off and on the market. That being said, absorption should improve slightly during the last quarter of the year as only a single availability that is 11,000 sf in size is set to come on the market.
- Ground has been broken on Sanmina's new 119,000-sf build-to-suit facility in Kanata. Completion is scheduled for June 2015. This building features a second floor office component along with a manufacturing floor which will produce optical, electronic and mechanical products.



## 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	3,114,162	6.7%	241,818	119,000	0	21,755	322,488	\$7.78	\$4.41	\$12.19
Bell's Corners	382,019	2.4%	0	0	0	4,880	1,040	\$10.00	\$5.91	\$15.91
Morrison/Queensview	415,519	17.4%	0	0	0	(16,177)	(25,462)	\$8.74	\$5.37	\$14.11
Woodward/Carling	540,800	8.0%	24,216	0	0	(341)	8,244	\$9.97	\$5.74	\$15.71
Ottawa Centre	777,339	2.0%	11,200	0	0	(3,900)	7,300	n/a	n/a	n/a
Ottawa South	695,111	15.7%	8,817	0	0	2,355	(39,528)	\$7.07	\$4.16	\$11.23
West Merivale	534,593	3.8%	2,060	0	0	(1,435)	(3,575)	\$9.00	\$5.22	\$14.22
East Merivale	639,693	11.8%	6,976	0	0	(32,505)	(65,179)	\$9.29	\$4.63	\$13.92
Colonnade	634,309	8.2%	1,600	0	0	(194)	(43,432)	\$9.00	\$6.28	\$15.28
Rideau Heights	623,188	10.6%	0	0	0	23	(7,677)	\$8.25	n/a	n/a
<b>WEST OTTAWA</b>	<b>8,356,733</b>	<b>8.0%</b>	<b>296,687</b>	<b>119,000</b>	<b>0</b>	<b>(25,539)</b>	<b>154,219</b>	<b>\$8.28</b>	<b>\$4.85</b>	<b>\$13.14</b>
South Walkley	325,180	0.0%	0	0	0	0	0	n/a	n/a	n/a
Ottawa Business Park	1,334,879	4.3%	62,866	0	0	(14,842)	10,175	\$11.59	\$6.18	\$17.77
Coventry/Belfast	1,760,250	5.7%	50,126	0	0	4,520	6,852	\$11.80	\$5.11	\$16.91
Cyrville	2,169,483	4.3%	62,477	0	0	8,850	(19,875)	\$8.63	\$4.31	\$12.94
Sheffield	3,043,681	9.5%	6,629	0	0	(7,900)	(74,463)	\$7.92	\$4.37	\$12.29
Sheffield/Lancaster	1,145,820	2.0%	7,999	0	0	0	(7,353)	\$8.00	\$6.36	\$14.36
Stevenage/Belgreen	2,010,706	2.6%	52,104	0	0	31,750	29,584	\$8.16	\$5.41	\$13.57
South Gloucester/Albion	392,234	0.0%	0	0	0	0	0	n/a	n/a	n/a
Queensway	798,865	0.0%	31,453	121,600	0	0	6,250	n/a	n/a	n/a
Orleans	474,178	7.8%	0	0	0	0	0	\$9.00	\$3.55	\$12.55
<b>EAST OTTAWA</b>	<b>13,455,276</b>	<b>4.8%</b>	<b>273,654</b>	<b>121,600</b>	<b>0</b>	<b>22,378</b>	<b>(48,830)</b>	<b>\$8.81</b>	<b>\$4.75</b>	<b>\$13.56</b>
<b>OVERALL CITY</b>	<b>21,812,009</b>	<b>6.1%</b>	<b>570,341</b>	<b>240,600</b>	<b>0</b>	<b>(3,161)</b>	<b>105,389</b>	<b>\$8.59</b>	<b>\$4.80</b>	<b>\$13.39</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

<b>Significant Q3 2014 Lease Transactions</b>	<b>SUBMARKET</b>	<b>TENANT</b>	<b>PROPERTY TYPE</b>	<b>SQUARE FEET</b>
1071 Ages Drive	Stevenage/Belgreen	Seresco Technologies	Manufacturing	44,453
1402 Star Top Road	Cyrville	Vesta Marble & Granite	Warehouse	38,514
<b>Significant Q3 2014 Sale Transactions</b>	<b>SUBMARKET</b>	<b>BUYER</b>	<b>PURCHASE PRICE / \$PSF</b>	<b>SQUARE FEET</b>
15,17,19,21,41,43 Grenfell Crescent	West Merivale	Grenfell Industrial Properties Inc.	\$10,600,000 / \$105	100,470
1009-1011 Thomas Spratt Place	Ottawa Business Park	2205964 Ontario Inc.	\$1,400,000 / \$197	7,100
<b>Significant Q3 2014 Construction Completions</b>	<b>SUBMARKET</b>	<b>MAJOR TENANT</b>	<b>COMPLETION DATE</b>	<b>BUILDING SQUARE FEET (% LEASED)</b>
N/A				
<b>Significant Projects Under Construction</b>	<b>SUBMARKET</b>	<b>MAJOR TENANT</b>	<b>COMPLETION DATE</b>	<b>BUILDING SQUARE FEET (% LEASED)</b>
1101 Polytek Drive	Queensway	N/A	Q4 2014	121,600 / 0%
528 March Road	Kanata	Sanmina	Q2 2015	119,000 / 100%

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS