

MARKETBEAT INDUSTRIAL SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q4 2014



ECONOMIC OVERVIEW

The unemployment rate in the National Capital region declined in November of 2014 to reach 6.2%, despite the national unemployment rate rising to 6.6%. The public administration sector was amongst the weaker sectors this quarter, but the year-over-year numbers however tell a slightly different story and are a better indicator of the overall trend. Compared to November 2013 the number of public administration jobs held fairly steady, with overall totals up by 1,000 positions. This is in line with forecasts made by the Conference Board of Canada, which expects local public administration output to climb by 0.6% in 2015. While this figure is very modest, it comes after three consecutive years of reduced output.

OVERVIEW

Despite some of the challenges faced by the industrial sector, there was little movement in the industrial vacancy rate in 2014, with vacancy concluding the year at 5.9%, 0.2 percentage points lower than last quarter. There was notable improvement in the western submarkets as vacancy declined from 8.0% last quarter, to finish the year at 6.9%. All submarkets, with the exception of Kanata, saw overall demand increase. One of the largest transactions this quarter saw 52,000 square feet (sf) in the East Merivale Business Park taken off the market; the same block of space that came on the market in the third quarter and was largely responsible for that quarter's increase in vacancy. The eastern submarkets were a bit more turbulent in Q4, as a number of different sized pockets of space came on and off the market. The largest new block of vacancy was close to 122,000 sf; courtesy of the construction completion of 1101 Polytek Court. As this building came to market fully vacant, vacancy rates were pushed to 5.3%; half a percentage point higher than last quarter.

Following a relatively inactive six-month period, leasing activity accelerated in the fourth quarter and totaled 272,000 sf, bringing the year-end total to 842,000 sf. Sheffield Industrial Park in the eastern submarkets was of particular interest to tenants this quarter with four transactions over 10,000 sf. Although only two of four quarters saw positive absorption in 2014, overall totals were in the positive at 253,000 sf for the year. Of all the submarkets Kanata was the most significant demand driver in 2014, particularly due to the Lockheed Martin/MobilShred lease at 501 Palladium Drive.

OUTLOOK

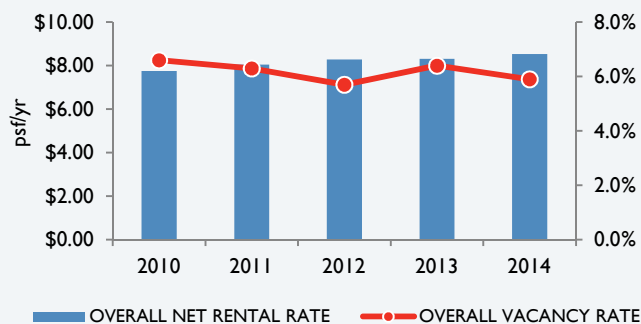
The Conference Board of Canada is forecasting growth in both the manufacturing and high-tech services sectors for the region in 2015; a sentiment echoed by many observers of Ottawa's technology sector.

How that translates into demand for space waits to be seen. Activity from the federal government may also impact the performance of the industrial market in 2015, especially with a looming Federal election and a possible influx of new spending initiatives. However tumbling oil prices and an interest rate cut may put a halt to any expansionary plans. Construction continues on the new build for Sanmina, a 119,000-sf facility located in Kanata, with a scheduled completion date in Q2 2015. Construction will be completed on 1670 Comstock next quarter, a 70,000-sf building in the east end of the city. This will likely have an impact on vacancy rates as the building remains fully vacant.

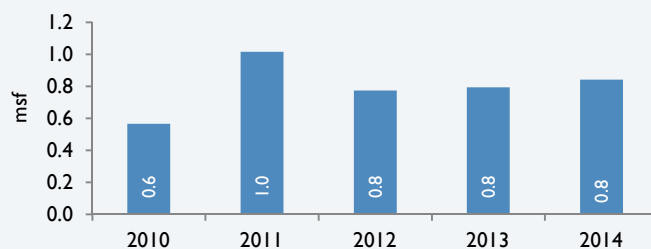
STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.4%	5.9%	-0.5pp	↔
Direct Asking Rents (psf/yr)	\$8.32	\$8.54	2.6%	↔
YTD Leasing Activity (sf)	793,014	842,406	6.2%	↔

OVERALL RENTAL VS. VACANCY RATES



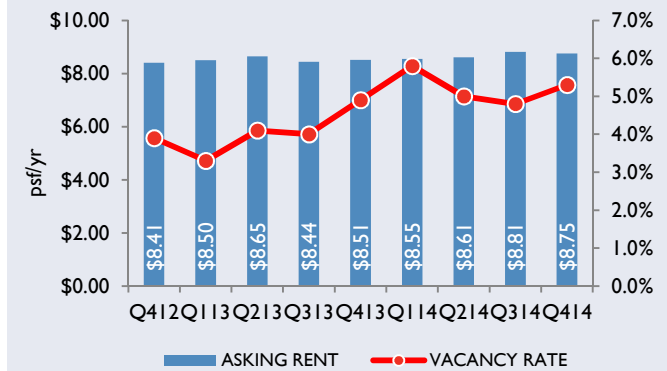
OVERALL LEASING ACTIVITY



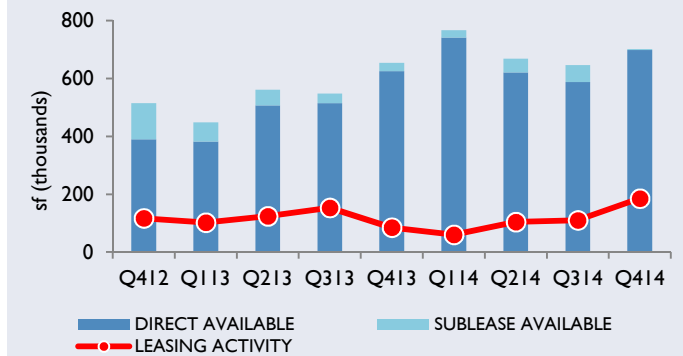
EASTERN SUBMARKETS

- After three consecutive quarters of declines, vacancy edged up by half a percentage point in the fourth quarter to reach 5.3%. Although overall demand lagged in a handful of submarkets it was the arrival of the 122,000-sf vacant building located at 1101 Polytek Court that was the driving force behind the increase.
- Vacancy has fluctuated over the past two years; however, asking rental rates have remained quite consistent. This stability speaks to the nature of the industrial market in Ottawa – a relatively small market in comparison to other Canadian markets, with limited new multi-tenant supply, as well as a lack of available space options that are more flex in nature. For Q4, rental rates averaged \$8.75 per square foot (psf), a slight decrease from last quarter.
- The amount of direct space available climbed to just under 699,000 sf, the result of the aforementioned new construction completion. The amount of sublet space on the market declined to just one availability of 3,250 sf, the lowest amount of sublet availability in two years.
- Leasing activity accelerated throughout 2014 with Q4 numbers at 185,000 sf, bringing the year-end total to 459,000 sf. The most active market from a leasing standpoint was the Sheffield area with totals just under 137,000 sf. There were four different transactions over 10,000 sf in this submarket. The largest of these transactions was a lease of 60,000 sf, at 201 Innes Park Way, to Multicraft Imports.
- Absorption figures ended the year on a high note with close to 56,000 sf, bringing the year-end total to approximately 7,000 sf. There was some softening in a handful of submarkets, particularly the Ottawa Business Park as close to 52,000 sf became available. However this was counteracted by strong demand in the Sheffield Area.
- Looking to 2015, absorption figures will likely trend downwards as approximately 88,000 sf will come on the market over the next two quarters. Although overall demand will remain consistent, it will likely not be strong enough to absorb all of this new availability.
- Construction was completed at Phase II of the Capital East Business Centre. This 121,000-sf property was built on “spec” and remains fully vacant. Construction has commenced on a 100,000-sf building located in the south-east fringe of the city. This property is also being built on spec and some preleasing activity has occurred. Construction is also due to be completed next quarter on a new 70,000-sf building at 1670 Comstock which may arrive on the market fully vacant.

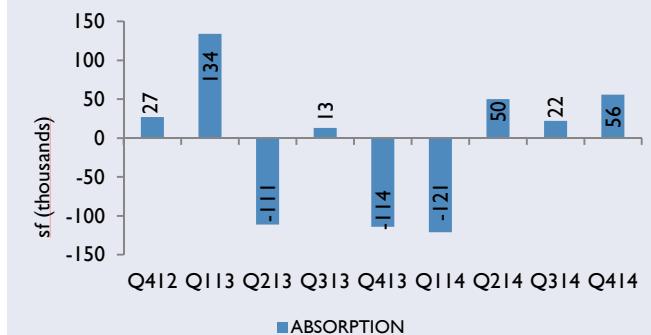
DIRECT RENTAL VS. VACANCY RATES



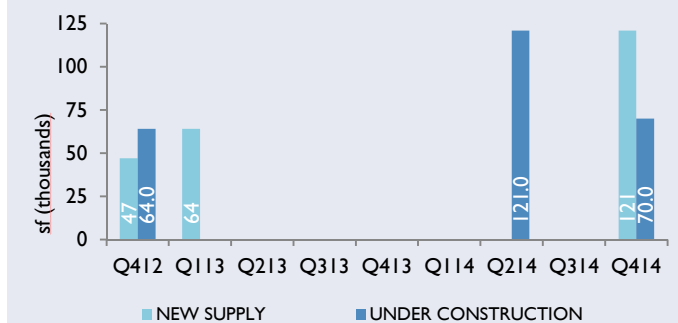
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



ABSORPTION

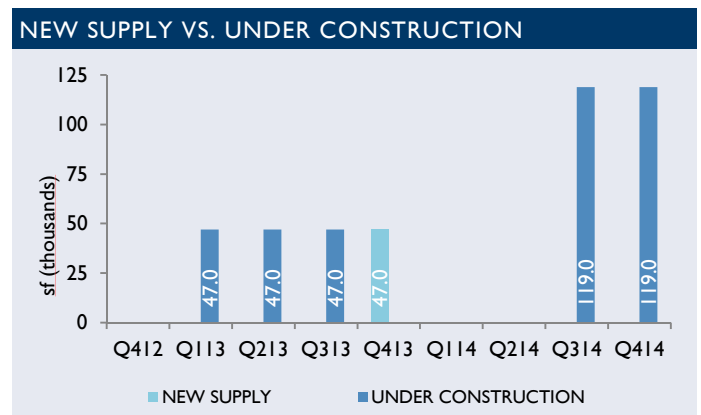
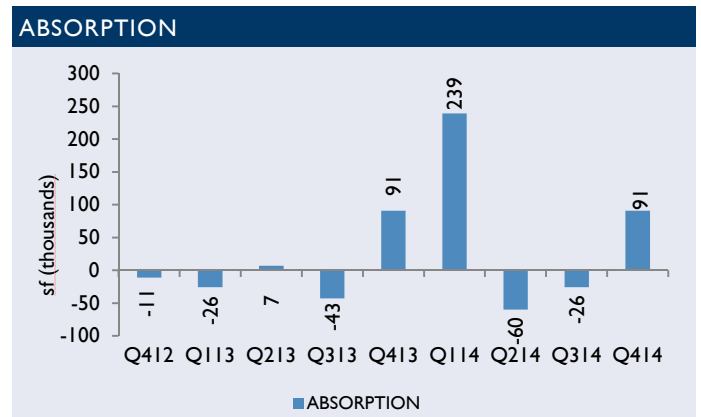
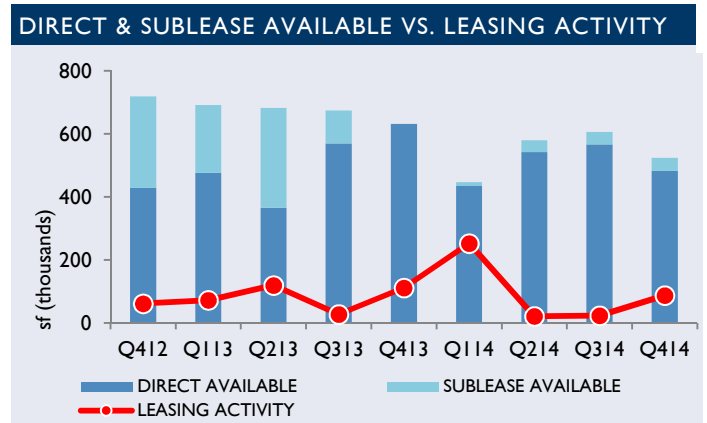
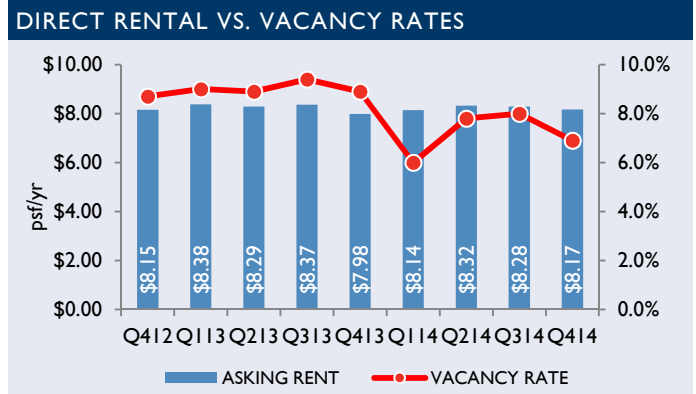


NEW SUPPLY VS. UNDER CONSTRUCTION



WESTERN SUBMARKETS

- After a very stable 2013, 2014 brought a bit more volatility to the vacancy rate in the western submarkets. The fourth quarter experienced a decrease as the vacancy rate declined to 6.9%, just over a full percentage point from last quarter.
- The average rental rates in the western submarkets have generally held steady over the past two years, with only some slight ticks upwards and downwards. In the fourth quarter the average rental rate declined slightly from last quarter and currently averages \$8.17 psf.
- The amount of direct space available declined to 483,000 sf this quarter, as a block of approximately 53,000 sf, added only in Q3, came off the market this quarter. The amount of space available for sublet remained stable for the majority of 2014, currently totaling 41,000 sf.
- After a quiet two quarters, leasing activity accelerated, totaling 87,000 sf. This brings the year-end total close to 384,000 sf, an improvement over 2013 totals. The vast majority of this quarter's leasing activity comes courtesy of 53,000 sf at East Merivale Business Park which came off of the market
- Absorption figures rebounded after soft second and third quarters, reaching 91,500 sf. Although the previously mentioned 53,000-sf transaction accounted for the majority of the absorption, all of the western submarkets - except for Kanata and Ottawa Centre - saw demand slightly outpace new supply.
- Absorption levels will receive a boost with the completion of Sanmina's new facility in the summer of 2015. In addition, there is very little new vacancy expected to come on the market over the next six months which will likely keep absorption in positive territory over the first half of 2015.
- Construction continues 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	(2,600)	319,888	\$7.82	\$4.48	\$12.30
Bell's Corners	382,019	1.4%	3,840	0	0	3,840	4,880	n/a	n/a	n/a
Morrison/Queensview	415,519	14.4%	9,285	0	0	12,203	(13,259)	\$9.30	\$5.43	\$14.73
Woodward/Carling	540,800	7.5%	24,216	0	0	2,400	10,644	\$8.42	\$5.49	\$13.91
Ottawa Centre	777,339	2.0%	11,200	0	0	0	7,300	n/a	n/a	n/a
Ottawa South	695,111	13.8%	22,073	0	0	13,256	(26,272)	\$7.07	\$4.16	\$11.23
West Merivale	534,593	3.4%	3,060	0	0	2,435	(1,140)	\$9.00	\$5.22	\$14.22
East Merivale	639,693	3.1%	65,366	0	0	55,615	(9,564)	\$9.41	\$4.62	\$14.03
Colonnade	634,309	7.6%	2,845	0	0	3,474	(39,958)	\$8.15	\$6.28	\$14.43
Rideau Heights	623,188	10.5%	0	0	0	910	(6,767)	n/a	n/a	n/a
WEST OTTAWA	8,356,733	6.9%	383,703	119,000	0	91,533	245,752	\$8.17	\$4.84	\$13.01
South Walkley	325,180	0.8%	0	0	0	(2,550)	(2,550)	n/a	n/a	n/a
Ottawa Business Park	1,288,846	8.3%	62,866	0	0	(50,497)	(40,322)	\$9.10	\$5.23	\$14.33
Coventry/Belfast	1,760,250	4.8%	65,126	0	0	15,000	21,852	\$11.25	\$5.32	\$15.67
Cyrville	2,169,483	6.0%	73,941	70,000	0	(37,081)	(56,956)	\$8.57	\$4.12	\$12.69
Sheffield	3,043,681	5.2%	143,565	0	0	129,621	55,158	\$8.09	\$3.98	\$12.07
Sheffield/Lancaster	1,145,820	2.8%	11,948	0	0	(9,165)	(16,518)	\$8.00	\$5.80	\$13.80
Stevenage/Belgreen	2,010,706	1.7%	69,804	0	0	17,699	47,283	\$8.30	\$5.27	\$13.57
South Gloucester/Albion	392,234	0.0%	0	0	0	0	0	n/a	n/a	n/a
Queensway	920,465	13.6%	31,453	0	121,600	(3,600)	2,650	\$9.00	\$4.35	\$13.35
Orleans/Fringe East	474,178	8.5%	0	100,000	0	(3,314)	(3,314)	\$8.90	\$3.75	\$12.65
EAST OTTAWA	13,530,843	5.3%	458,703	170,000	121,600	56,113	7,283	\$8.75	\$4.55	\$13.30
OVERALL CITY	21,887,576	5.9%	842,406	289,000	121,600	147,646	253,035	\$8.54	\$4.66	\$13.20

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q4 2014 LEASE TRANSACTIONS

SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET	
201 Innes Park Way	Sheffield Industrial Park	Multicraft Imports	Warehouse	60,367
1230 Old Innes Road	Sheffield Industrial Park	Confidential	Industrial Mall	11,155

SIGNIFICANT Q4 2014 SALE TRANSACTIONS

SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET	
5459 Canotek Road	Queensway Business Park	Classic Tile & Stone	\$3,150,000 / \$110	28,680

SIGNIFICANT Q4 2014 CONSTRUCTION COMPLETIONS

SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)	
1101 Polytek Drive	Queensway Business Park	N/A	Q4 2014	121,600 / 0%

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)	
528 March Road	Kanata	Sanmina	Q2 2015	119,000 / 100%
528 Corduroy Road	Orleans/Fringe East	Mexican Corn Products	Q2 2015	100,000 / 90%
1670 Comstock Road	Cyrville	N/A	Q1 2015	70,000 / 0%

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS