

MARKETBEAT INDUSTRIAL SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q3 2012



ECONOMIC OVERVIEW

Overall employment in the region declined to 705,100 jobs in August, about 3,600 fewer positions than the total for July. However due to the approximate same number of people no longer seeking work, the unemployment rate held steady at 6.3%, three-tenths of a percentage point higher than last quarter. The year-over-year picture does remain positive as there were 8,800 more people working in Ottawa-Gatineau in August 2012 compared to August 2011.

VACANCY DECREASES IN THIRD QUARTER

Vacancy continues to fluctuate, with vacancy declining to 5.7% this quarter, half of a percentage point lower than last quarter but very close to the 5.8% that was posted in the second quarter. While little change was seen in vacancy in the overall eastern market, declining by one-tenth of a percentage point to 3.7%, the same cannot be said for the overall western market as vacancy declined from 10.2% to 8.8%. Although there were small fluctuations in the vacancy rates throughout the western submarkets, the most significant change was seen in Kanata as 124,000 square feet (sf) was taken off of the market, resulting in a vacancy drop of close to four percentage points to 14.5%. The most significant contributor to this decline was Genband, one of the companies who purchased Nortel assets and who were forced to find a new home after the federal government purchased the former Nortel campus. Genband is now moving to 500 Palladium Drive, located in Kanata, where they have leased approximately 72,000 sf.

OVERALL DEMAND STEADY

Overall absorption rebounded in the third quarter to 122,000 sf, bringing the year-to-date total to 168,000 sf. Absorption was almost nil in the eastern markets at just 432 sf. This is not so much a reflection of low demand but rather a demonstration of the few opportunities that exist for tenants due to the low vacancy rate. In the western submarkets absorption was certainly more significant at 122,000 sf. This upswing in demand was not spread throughout all of the western submarkets, in fact absorption was zero in four submarkets, but rather was focused within Kanata. Besides Genband there were two additional transactions that were over 20,000 sf.

OUTLOOK

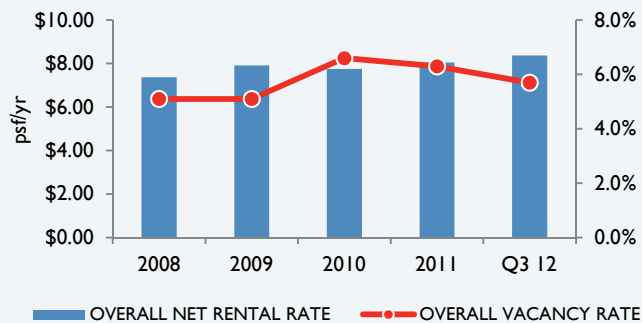
Through the end of 2012, and heading into next year, little change is expected in the overall industrial market. A minimal amount of space is expected to come onto the market over the next six months, which should keep absorption positive. Absorption will also be bolstered by the

completion of two new buildings. One is a 64,000-sf build-to-suit for the federal government. The second is a 47,500-sf building that has been partially preleased to AVW-TELAV. It is expected that construction is imminent on a 32,000-sf distribution centre located in the same submarket as the other two builds, and preleasing continues at the second phase of 1101 Polytek, a 122,000-sf building located in the Queensway Business Park.

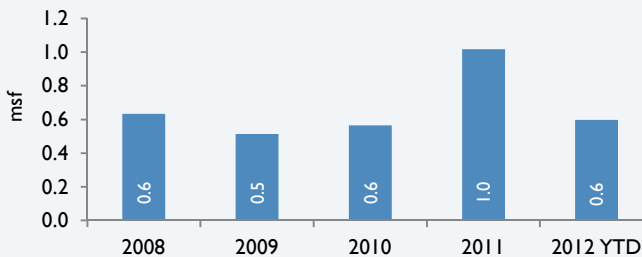
STATS ON THE GO

	Q3 2011	Q3 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.4%	5.7%	-0.7pp	↔
Direct Asking Rents (psf/yr)	\$8.04	\$8.37	4.1%	↔
YTD Leasing Activity (sf)	809,524	596,562	-26.3%	▼

OVERALL RENTAL VS. VACANCY RATES



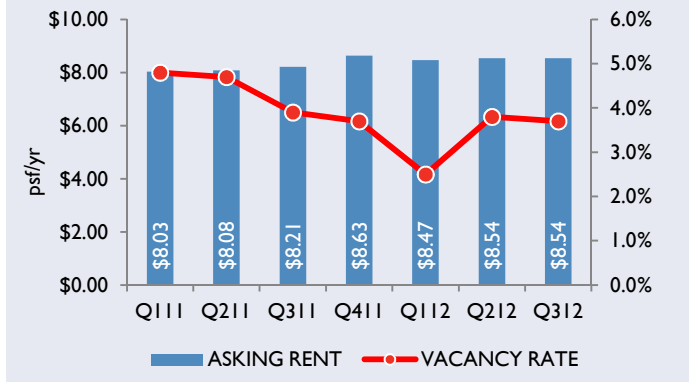
OVERALL LEASING ACTIVITY



EASTERN SUBMARKETS

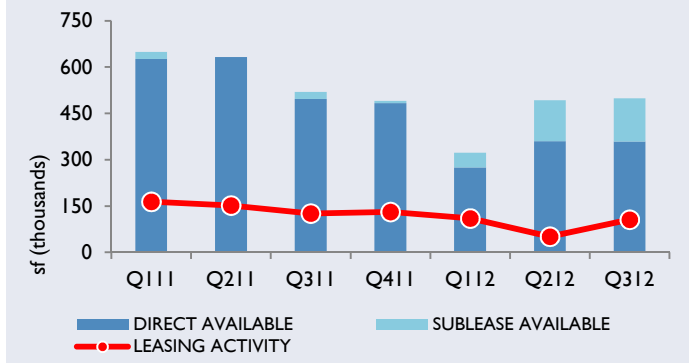
- Vacancy remained stable during the third quarter, declining by 0.1 percentage points to 3.7% as almost all of the Eastern submarkets posted to no change in vacancy. This consistency is expected to continue through the next six months as only 15,500 sf is set to become available – an amount that will be easily absorbed by the market.
- There was no movement at all in the overall rental rates this quarter, remaining at \$8.54 per square foot (psf).

DIRECT RENTAL VS. VACANCY RATES



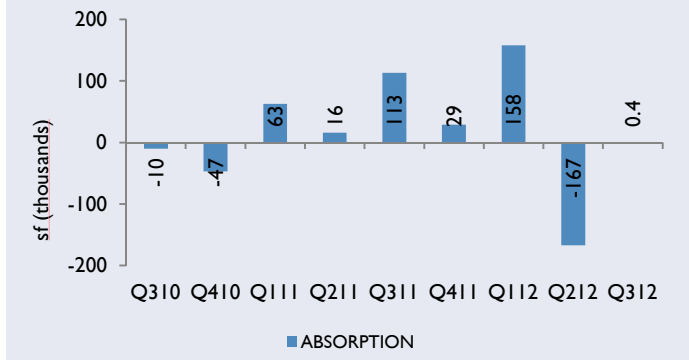
- The amount of both direct and sublet space remained almost identical to last quarter. Currently there is 359,000 sf available direct from the landlord, just 1,000 sf less compared to last quarter, while space available for sublease climbed slightly to nearly 140,000 sf. The changes in sublease availability this quarter were the result of Noble's former 14,500-sf building becoming available, while 7,700 sf that was available for sublease last quarter at 1220 Old Innes Road was leased by JIT Remediation & Restoration Inc.
- Leasing activity recovered nicely this quarter, at approximately 106,000 sf, doubling the total from last quarter, with five transactions over 10,000 sf. This brings the year-to-date total to 266,000 sf.

DIRECT & SUBLEASE AVAILABLE VS LEASING ACTIVITY



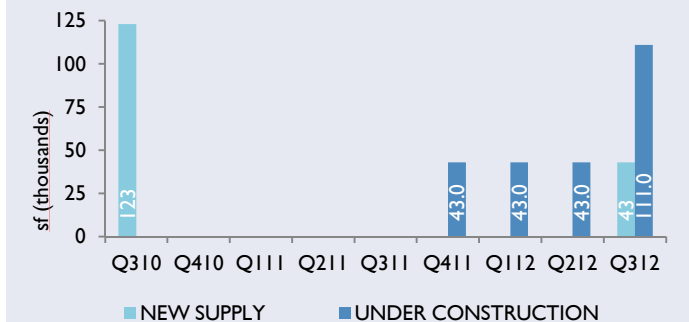
- Absorption figures also rebounded from last quarter, although the amount was negligible at 432 sf.
- Absorption should move further into positive territory through the next two quarters with minimal amounts of space set to become available. Absorption figures will also be bolstered by the completion of 2 buildings on Hawthorne Road totaling 111,000 sf, of which only 12,500 sf remains vacant.

ABSORPTION



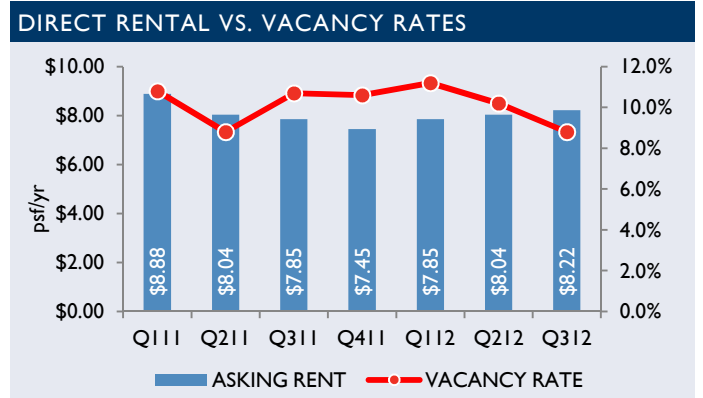
- There were numerous changes this quarter in both buildings under construction and construction completions. Construction was completed on the 43,000-sf build-to-suit for Iridian Spectral Technologies. This building is not part of the competitive inventory as it will be owned by the tenant.
- Construction has commenced on two new buildings on Hawthorne Road, located in the Stevenage/Belgreen submarket. One is a build-to-suit for the federal government and is approximately 64,000 sf. The second, a 47,500-sf building, has been partially preleased to AVW-TELAV. Both buildings are expected to be completed by the end of the year.

NEW SUPPLY VS. UNDER CONSTRUCTION

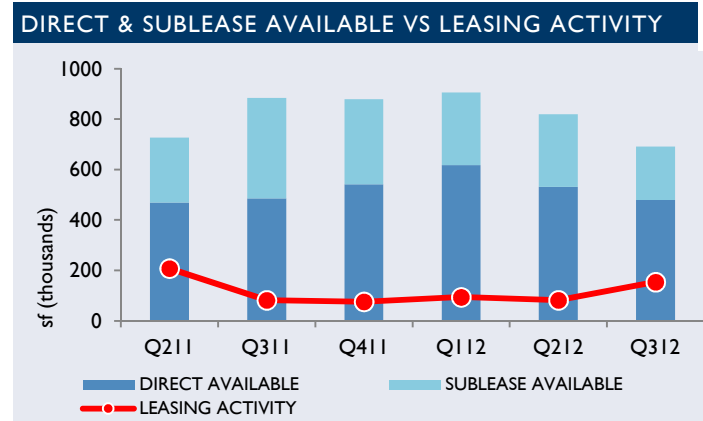


WESTERN SUBMARKETS

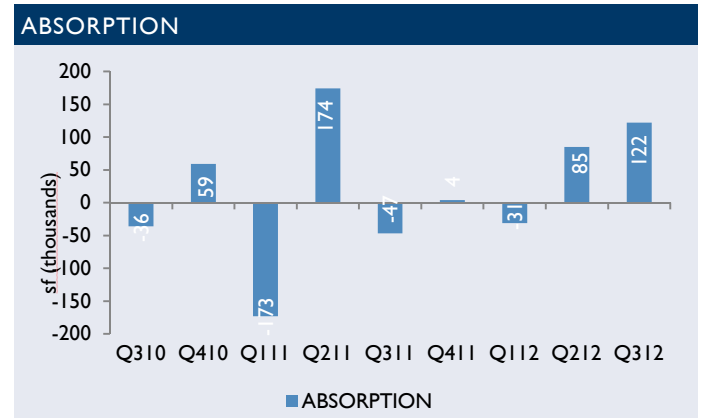
- Vacancy in the western submarkets continued to decline, and ended the third quarter at 8.8%, the lowest vacancy has been since the second quarter of 2011. The decline in vacancy can be contributed to a very active Kanata market where 124,000 sf of space came off of the market.
- Rental rates continue to move upwards, with the current average asking rental rate now at \$8.22 psf, as all of the western submarkets except for one posted either stable rental rates or higher compared to last quarter.



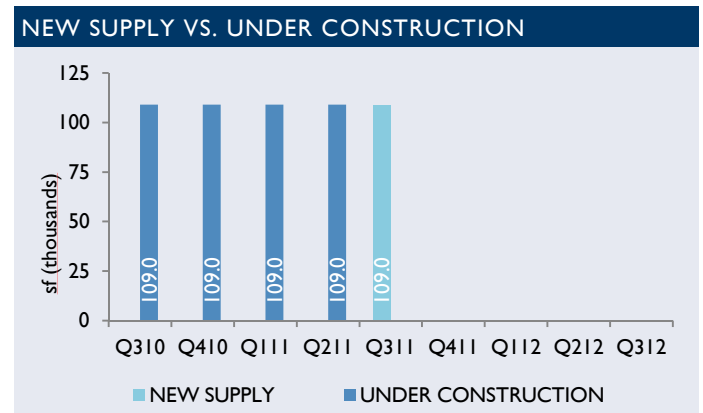
- The amount of direct space available declined for the second straight quarter, to 479,000 sf, the lowest direct availability in over a year. Sublease availability also decreased to 212,000 sf, the lowest it has been since the fourth quarter of 2010. The decrease in total available space occurred almost entirely within Kanata.
- Leasing activity accelerated this quarter to 154,000 sf, almost doubling the amount from last quarter, and bringing the year-to-date total to 330,000 sf. About 130,000 sf of this quarter's activity was in Kanata as there were three transactions over 20,000 sf. The largest transaction was the previously mentioned Genband deal.



- Absorption figures continue to improve this quarter, reaching nearly 122,000 sf.
- Absorption followed almost the exact same pattern as last quarter, where absorption within the vast majority of the western submarkets was minimal: either slightly positive or slightly negative or, in the case of four submarkets this quarter, showing no change at all. The majority of the absorption this quarter was the result of activity within Kanata.



- There was no change in new supply or properties under construction in the western submarkets this quarter.



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	3,152,260	14.5%	212,893	0	0	124,284	137,566	\$8.13	\$5.39	\$13.52
Bell's Corners	334,655	4.9%	8,110	0	0	0	3,310	\$10.00	\$5.71	\$15.71
Morrison/Queensview	415,519	12.0%	9,385	0	0	0	(25,146)	\$8.15	\$4.38	\$12.53
Woodward/Carling	540,800	4.9%	8,141	0	0	0	7,329	n/a	\$3.00	n/a
Ottawa Centre	777,339	2.4%	35,869	0	0	0	17,126	\$9.36	\$3.95	\$13.31
Ottawa South	695,111	11.9%	2,250	0	0	(13,981)	(31,548)	\$7.09	\$3.95	\$11.04
West Merivale	534,593	1.3%	7,283	0	0	2,045	363	\$9.00	\$5.10	\$14.10
East Merivale	587,403	8.5%	4,000	0	0	(2,640)	(3,310)	\$8.78	\$4.55	\$13.33
Colonnade	621,923	2.4%	26,928	0	0	3,789	67,023	\$7.92	\$5.57	\$13.49
Rideau Heights	594,171	0.7%	15,458	0	0	8,440	3,585	\$8.00	n/a	n/a
WEST OTTAWA	8,253,774	8.8%	330,317	0	0	121,937	176,298	\$8.22	\$4.73	\$12.95
South Walkley	325,180	0.0%	0	0	0	0	0	n/a	n/a	n/a
Ottawa Business Park	1,422,879	6.0%	57,067	0	0	(9)	24,224	\$9.00	\$4.74	\$13.74
Coventry/Belfast	1,758,250	5.8%	39,792	0	0	3,660	(59,968)	\$8.13	\$4.06	\$12.19
Cyrville	2,125,207	6.0%	80,598	0	0	(6,720)	(84,736)	\$8.50	\$3.79	\$12.29
Sheffield	3,043,681	1.9%	21,996	0	0	7,720	116,937	\$6.50	\$5.02	\$11.52
Sheffield/Lancaster	1,145,820	7.3%	18,060	0	0	(21,508)	(9,569)	\$8.72	\$4.58	\$13.30
Stevenage/Belgreen	1,854,224	0.4%	17,970	111,500	43,000	18,939	14,690	\$7.21	\$5.81	\$13.02
South Gloucester/Albion	402,234	5.2%	6,500	0	0	0	500	\$7.58	\$4.32	\$11.90
Queensway	798,865	2.1%	9,562	0	0	(1,650)	(10,042)	\$8.54	\$4.93	\$13.47
Orleans	474,178	0.0%	14,700	0	0	0	0	n/a	n/a	n/a
EAST OTTAWA	13,350,518	3.7%	266,245	111,500	43,000	432	(7,964)	\$8.54	\$4.65	\$13.19
OVERALL CITY	21,604,292	5.7%	596,562	111,500	43,000	122,369	168,334	\$8.37	\$4.69	\$13.06

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q3 2012 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
500 Palladium Drive	Kanata	Genband	High-Tech	72,000
3020 Hawthorne Road	Stevenage/Belgreen	PWGSC	Warehouse	63,982
Significant Q3 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / PSF	SQUARE FEET
1481 Michael Street	Cyrville	Insurance Corporation of British Columbia	\$12,000,000 / \$112	107,140
Significant Q3 2012 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
2700 Swansea Crescent	Stevenage/Belgreen	Iridian Spectral Technologies	Q3 2012	43,000
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
3020 Hawthorne Road	Stevenage/Belgreen	PWGSC	Q4 2012	64,000
3020 Hawthorne Road	Stevenage/Belgreen	AVW-Telav Audio Visual	Q4 2012	47,500

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS