

MARKETBEAT INDUSTRIAL SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q2 2013



ECONOMIC OVERVIEW

The National Capital Region lost 5,400 jobs in May 2013; the fourth straight month of declines. However, as a result of an even larger decline in the number of people seeking work the unemployment rate in Ottawa-Gatineau fell to 6.1% from 6.3% last quarter. Nationally the picture was much brighter as close to 95,000 jobs were created, dropping the unemployment rate one-tenth of a percentage point from last month to 7.1%. In the latest Metropolitan Outlook the Conference Board of Canada is forecasting real GDP growth well below 2% for the Ottawa-Gatineau region for the third straight year, and is expected to continue into 2014. This lackluster growth forecast is largely a result of the cuts to the public administration sector, with employment expected to fall by 7.9% in 2013. These cuts in turn will impact other sectors such as the housing market and retail sales.

VACANCY RATES ON THE RISE

After a slight decline last quarter, overall vacancy moved upwards by 0.5 percentage points to reach 6.0%; its highest point in a year. As anticipated the amount of vacant square footage within the eastern submarkets climbed by close to 111,000 square feet (sf) this quarter and lead to an increase in vacancy from 3.3% last quarter to 4.1% this quarter. In contrast, market conditions within the western submarkets remain relatively unchanged with vacancy declining by just 0.1 percentage points to sit at 8.9%.

DESPITE RISING VACANCY DEMAND REMAINS STABLE

Overall absorption levels headed into negative territory this quarter; declining to 103,000 sf. While absorption levels were negligible in the western submarkets at just 7,000 sf, multiple significant blocks of space came on the market within the eastern submarkets leading to negative absorption of close to 111,000 sf. Four of the larger blocks of space (ie over 10,000 sf) that came on the market this quarter were located in the Sheffield Industrial Park. Despite the climb in vacancy leasing activity remains stable, and in fact increased over last quarter's totals to 243,000 sf; bringing the year-to-date total to 417,000 sf.

OUTLOOK

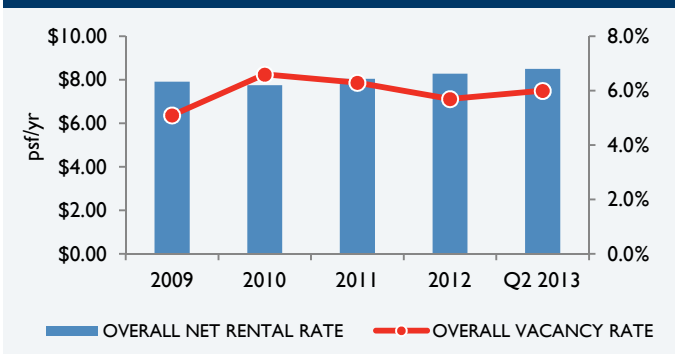
As projected vacancy did climb in the second quarter and although demand remains fairly stable it was not enough to counteract the significant blocks of space that came on the market this quarter. Looking ahead to the remainder of 2013, vacancy should stabilize and will most likely decrease as only 51,000 sf of space is set to come on the market over the next six months. In terms of new

supply construction continues on two design-builds in the eastern suburbs – one for Euro Tile & Stone and the other a 150,000-sf warehouse/distribution centre for Multi-Craft Imports. Both will be owner-occupied upon completion. Construction also continues on the new distribution centre for Fed/Ex which is located in the western submarkets. Pre-leasing has now begun at 1101 Polytek Street, which is Phase 11 of the Capital East Business Centre. Projected occupancy is in the spring of 2014.

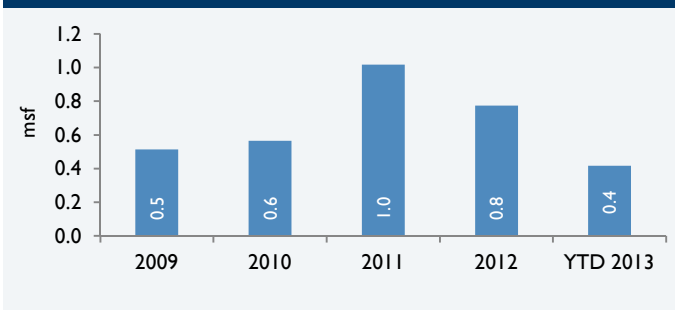
STATS ON THE GO

	Q2 2012	Q2 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.2%	6.0%	0.2pp	↔
Direct Asking Rents (psf/yr)	\$8.24	\$8.50	3.1%	↔
YTD Leasing Activity (sf)	337,184	416,724	23.6%	↘

OVERALL RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY



EASTERN SUBMARKETS

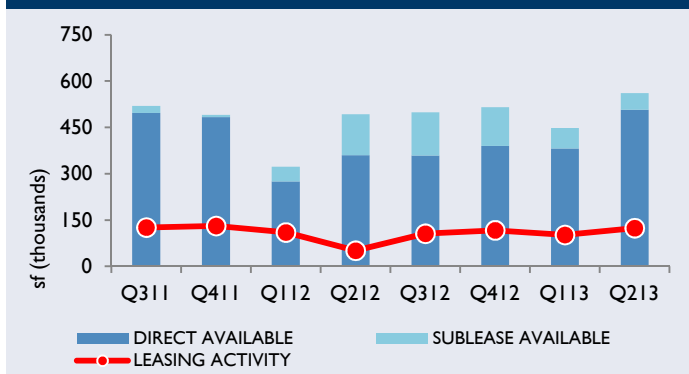
- After a substantial decline in vacancy last quarter, vacancy headed upwards in Q2 to reach 4.1%, 0.8 percentage points higher than last quarter. However increasing vacancy was not seen throughout all of the eastern submarkets as only four out of ten submarkets posted increases in their respective vacancy rates.
- Asking rental rates continue to climb reaching \$8.65 per square foot (psf). As was the case last quarter higher than average rental rates in the Coventry/Belfast submarket, averaging \$12.73 psf this quarter, continue to boost the overall average upwards. Three additional submarkets also had an increase in their average asking rental rates.

DIRECT RENTAL VS. VACANCY RATES



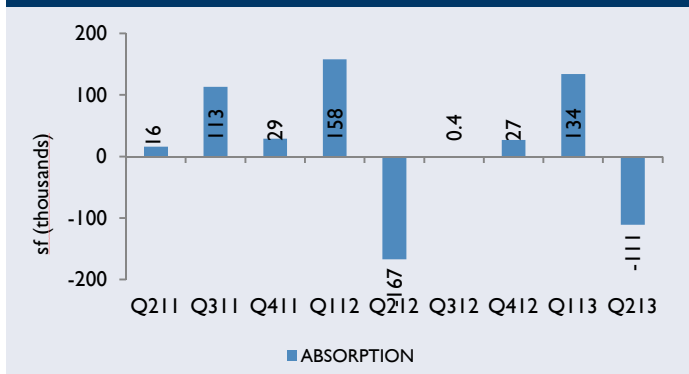
- There was a substantial increase of 125,000 sf of direct space available this quarter to reach over 500,000 sf in total; the highest level in two years. However, the amount of sublet space availability continues to decline – reaching 54,000 sf this quarter.
- Despite the fluctuating vacancy, leasing activity remains steady with this quarter's total at 124,000 sf, up slightly from last quarter. A significant contributor to this total was 45,000 sf of activity at 2495 Lancaster Road. Although the Sheffield area experienced the largest spike in vacancy this quarter, it was also the most active in terms of transactions, with five properties having leasing activity.

DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



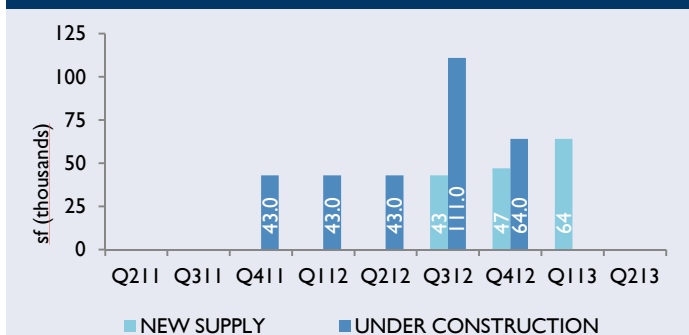
- Absorption figures were significantly impacted this quarter as eight blocks of space of over 10,000 sf came on the market; a square footage size with lesser demand and therefore less likely to be absorbed back into the market.
- Overall demand remains strong and absorption should rebound over the second half of 2013 as only 40,000 sf is set to become available.

ABSORPTION



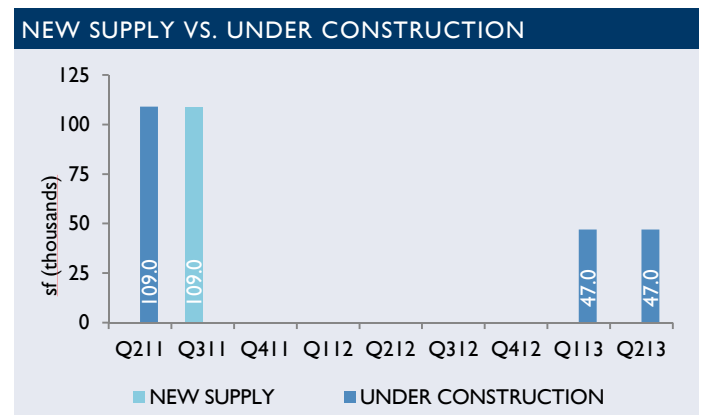
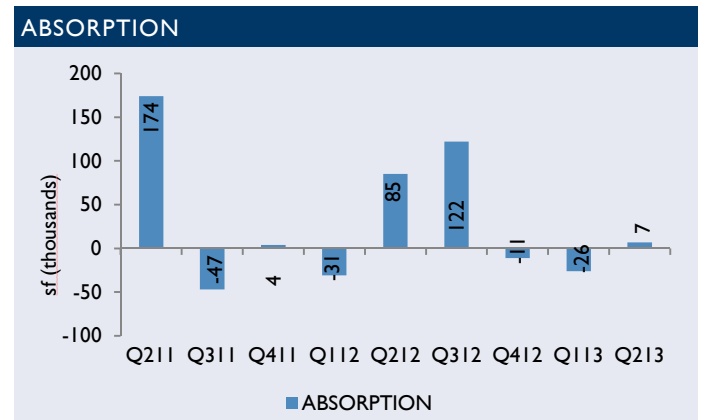
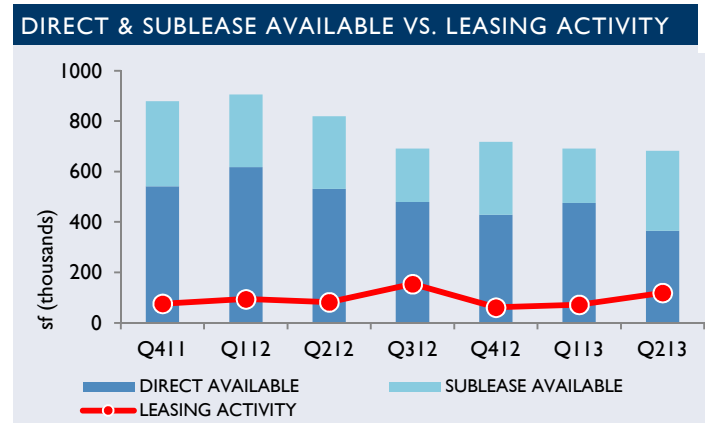
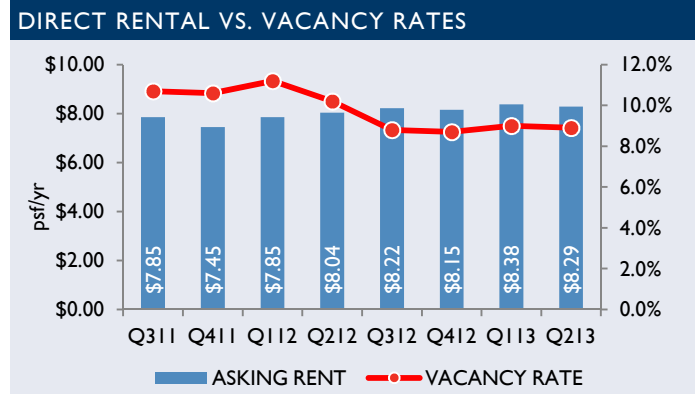
- Construction continues on two projects in the eastern submarkets for Euro Tile & Stone and Multi-Craft Imports - both are build-to-suits. Since both will be owner occupied they will not be part of the competitive inventory.
- In addition, pre-leasing is officially underway at Phase II of the Capital East Business Centre. This 121,000-sf property is anticipated to be built on "spec" with a projected occupancy date of Spring 2014.

NEW SUPPLY VS. UNDER CONSTRUCTION



WESTERN SUBMARKETS

- Vacancy in the western submarkets has remained relatively unchanged for the third straight quarter, with Q2 vacancy at 8.9%, 0.1 percentage points lower than last quarter.
- Average rental rates edged downwards to \$8.29 psf this quarter. The majority of the western submarkets either had unchanged rental rates from last quarter or saw slight decreases.
- The amount of direct space available shrunk substantially in the second quarter to reach 365,000 sf; the lowest amount in over a year. Space available for sublease however climbed to 317,000 sf; the highest amount available since the end of 2011. The vast majority of sublet space remains in Kanata although there were two new sublease availabilities this quarter located in the Colonnade Business Park totaling 23,500 sf.
- Leasing activity accelerated this quarter to reach 119,000 sf; bringing the year-to-date total to 191,000 sf. Leasing activity was not widespread throughout all of the submarkets but rather was focused within five submarkets. The largest transaction was Rosedale Transport Ltd. who leased 56,000 sf.
- Although minimal, absorption figures climbed out of negative territory to reach 7,000 sf.
- A combination of only three submarkets posting negative absorption with the remaining submarkets either having no absorption at all or just minimal amounts lead to the absorption totals this quarter. Absorption figures should improve through the remainder of the year as only 11,000 sf is set to come on the market over the next six months.
- There was no change in new supply or properties under construction in the western submarkets this quarter. However, there will be new supply in 2014 as construction has commenced on a new 47,000-sf distribution centre for FedEx that will be located on Moodie Drive.



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	15.8%	18,451	0	0	16,933	(34,189)	\$7.97	\$4.69	\$12.66
Bell's Corners	334,655	1.5%	12,779	47,000	0	11,400	11,400	\$10.00	n/a	n/a
Morrison/Queensview	415,519	12.0%	0	0	0	0	0	\$8.15	\$4.68	\$12.83
Woodward/Carling	540,800	9.1%	0	0	0	(23,548)	(22,523)	\$10.00	\$5.62	\$15.62
Ottawa Centre	777,339	2.6%	29,205	0	0	9,750	(4,307)	\$9.00	\$3.95	\$12.95
Ottawa South	695,111	5.5%	28,207	0	0	(4,542)	17,302	\$6.73	\$3.19	\$9.92
West Merivale	534,593	3.5%	0	0	0	0	(13,900)	\$9.00	\$5.10	\$14.10
East Merivale	587,403	2.1%	46,540	0	0	2,809	34,225	\$8.84	\$5.12	\$13.96
Colonnade	634,309	5.9%	54,928	0	0	(8,101)	(3,201)	\$8.99	\$5.56	\$14.55
Rideau Heights	594,171	1.2%	1,000	0	0	2,680	(3,450)	\$8.00	\$5.33	\$13.33
WEST OTTAWA	8,265,562	8.9%	191,110	47,000	0	7,381	(18,643)	\$8.29	\$4.68	\$12.97
South Walkley	325,180	0.0%	0	0	0	0	0	n/a	n/a	n/a
Ottawa Business Park	1,422,879	3.8%	13,018	0	0	2,903	2,903	\$9.00	\$4.38	\$13.38
Coventry/Belfast	1,770,250	6.7%	44,450	0	0	(13,754)	(11,304)	\$12.73	\$4.30	\$17.03
Cyrville	2,169,483	5.4%	35,780	0	0	21,581	56,945	\$8.30	\$3.94	\$12.24
Sheffield	3,043,681	5.4%	58,020	0	0	(120,942)	(86,754)	\$7.80	\$4.02	\$11.82
Sheffield/Lancaster	1,145,820	4.5%	61,076	0	0	30,443	36,929	\$9.26	\$5.08	\$14.34
Stevenage/Belgreen	1,965,706	2.3%	5,000	0	63,982	(30,610)	24,512	\$7.85	\$4.85	\$12.70
South Gloucester/Albion	402,234	1.6%	0	0	0	(2,500)	(1,623)	\$7.30	\$4.23	\$11.53
Queensway	798,865	0.5%	8,270	0	0	2,070	1,300	\$7.58	\$4.97	\$12.55
Orleans	474,178	0.0%	0	0	0	0	0	n/a	n/a	n/a
EAST OTTAWA	13,518,276	4.1%	225,614	0	63,982	(110,809)	22,908	\$8.65	\$4.48	\$13.13
OVERALL CITY	21,783,838	6.0%	416,724	47,000	63,982	(103,428)	4,265	\$8.50	\$4.56	\$13.06

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q2 2013 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
125 Colonnade Road	Colonnade	Rosedale Transport Ltd.	Warehouse	56,458
300-320 Moodie Drive	Bell's Corners	Hosie & Brown Auto Electric Ltd.	Mixed	11,480
Significant Q2 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Portfolio Sale	Various	Skyline Commercial Real Estate Holdings	\$25,060,000	n/a
146-148 Colonnade Road	Colonnade	Skyline Commercial Real Estate Holdings	\$6,180,000 / \$101	61,412
Significant Q2 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
995 Moodie Drive	Bell's Corners	Fed/Ex	Q2 2014	47,000

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS