

MARKETBEAT INDUSTRIAL SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q1 2014



ECONOMIC OVERVIEW

The public administration sector continued to shed jobs in February, with the unemployment rate in the National Capital Region reaching 6.5%, a climb of 0.6 percentage points from last quarter.

The public administration sector, which includes federal government employees, saw its employment numbers drop to 140,400. That is a decrease from 154,800 in February 2013. However, the sector that includes high-tech workers has continued to improve with 61,700 people now working in information and communication technology as of February, which is up from 42,400 a year ago. In its latest metropolitan release, the Conference Board of Canada reports that the region's economy certainly suffered in 2013 with GDP growth of only 0.3%. Although more job cuts are expected in the public administration sector, the rate of decline will be much slower, and coupled with strong non-residential construction activity, GDP growth is expected to accelerate to 1.4% in 2014.

OVERVIEW

Overall vacancy decreased in Q1, declining by 0.5 percentage points to 5.9%. This is due to vacancy within the western submarkets, which declined substantially to 6.0%, down from 8.9% last quarter. Vacancy within the eastern submarkets continues to climb, again by almost a full percentage point over last quarter, to reach 5.8%. The changing vacancy that was seen in both the western and eastern submarkets was the result of a few key factors. In the western submarkets, the space that was being marketed as industrial at 501 Palladium Drive, located in Kanata, was taken off of the market, as Summit REIT announced the space has been leased by Lockheed Martin and MobilShred. In the eastern submarkets, approximately seven pockets of space came to market that were over 10,000 square feet (sf) each.

The 212,000-sf transaction at 501 Palladium Drive drove overall absorption upwards to 118,000 sf. However, if this space had remained on the market absorption would certainly have been in the negative as the eastern submarkets struggled this quarter, with all submarkets reporting either negative absorption or no absorption whatsoever. Leasing activity totals were strong at 312,000 sf, but again, over two-thirds of that total was due to the above mentioned transaction.

OUTLOOK

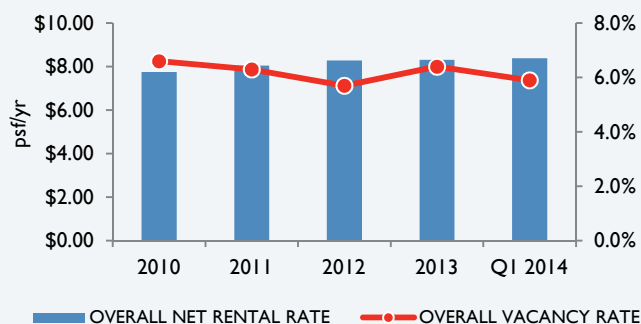
It is anticipated that for the most part the industrial market will maintain status quo. Similar to the office market, market velocity will remain low as the city continues to deal with the fallout from a shrinking public

sector and government cutbacks. Currently, no large pockets of space are being marketed to become available in the next six months; however, that can easily change as the year progresses. Construction was completed on the design-build for Euro Tile & Stone in the eastern suburbs, though it is owner-occupied and therefore is not part of the statistical inventory. There is also a planned 150,000-sf warehouse/distribution centre for Multi-Craft Imports that will also be owner-occupied upon completion.

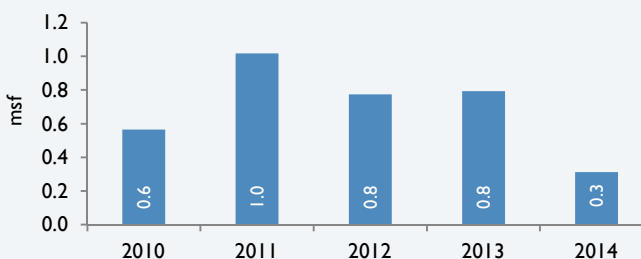
STATS ON THE GO

	Q1 2013	Q1 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	5.5%	5.9%	0.4pp	↕
Direct Asking Rents (psf/yr)	\$8.45	\$8.39	0.7%	↕
YTD Leasing Activity (sf)	173,551	311,998	79.8%	↕

OVERALL RENTAL VS. VACANCY RATES



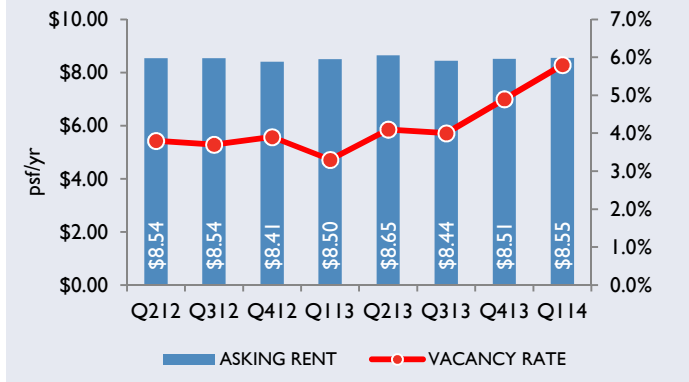
OVERALL LEASING ACTIVITY



EASTERN SUBMARKETS

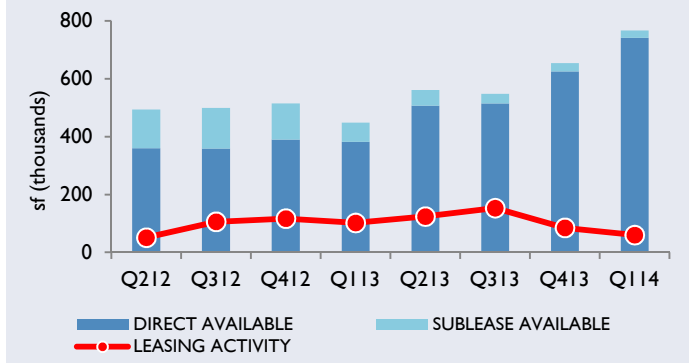
- Vacancy continues to trend upwards with vacancy at 5.8% at the end of the first quarter - almost a full percentage point higher than last quarter. As previously discussed, the driving force behind this increase were the large pockets of space coming on the market and not enough demand to counteract this new supply.
- Despite the climbing vacancy, asking rental rates continue to remain steady, rising slightly this quarter to \$8.55 per square foot (psf).

DIRECT RENTAL VS. VACANCY RATES



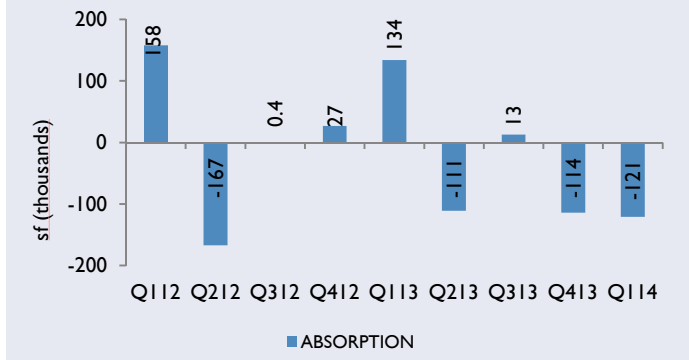
- As vacancy continues to rise so does the amount of direct space available - reaching 741,000 sf this quarter. Sublet space declined slightly to just under 26,000 sf - all of which is one availability.
- Leasing activity continues to slow in the eastern submarkets with activity this quarter totaling just shy of 60,000 sf. There were only nine transactions reported in Q1 and were primarily less than 3,000 sf. One of the exceptions was Coinamatic Canada which leased 6,600 sf at 1250-60 Old Innes Road.

DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



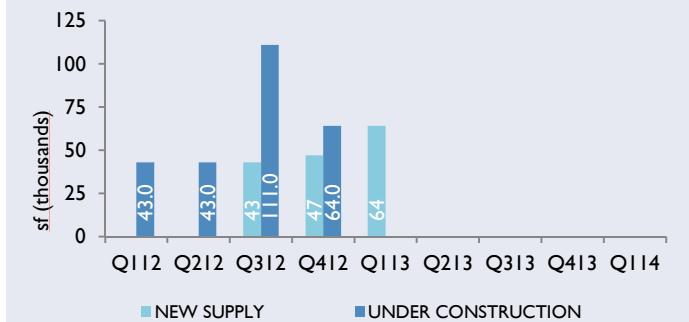
- New availability continues to outpace demand in the eastern submarkets as absorption figures were once again in negative territory reaching just over 121,000 sf.
- Although overall demand is not anticipated to accelerate substantially through the next six months, it should be sufficient enough to pull the eastern submarkets into minimal positive territory as only 20,000 sf is currently being marketed to become available.

ABSORPTION



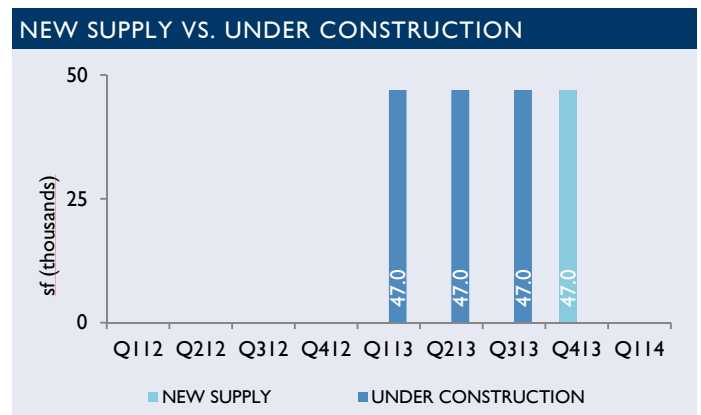
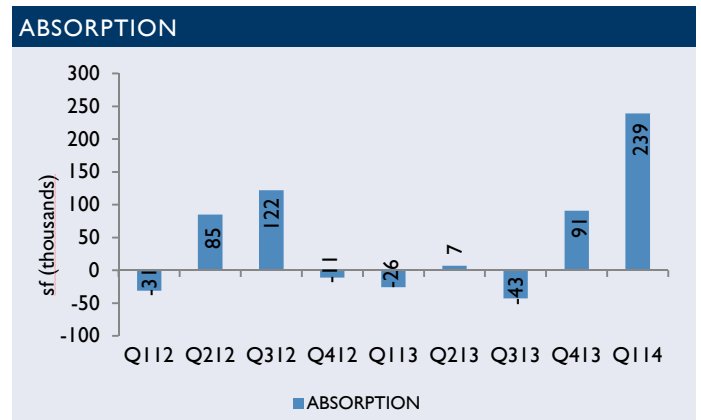
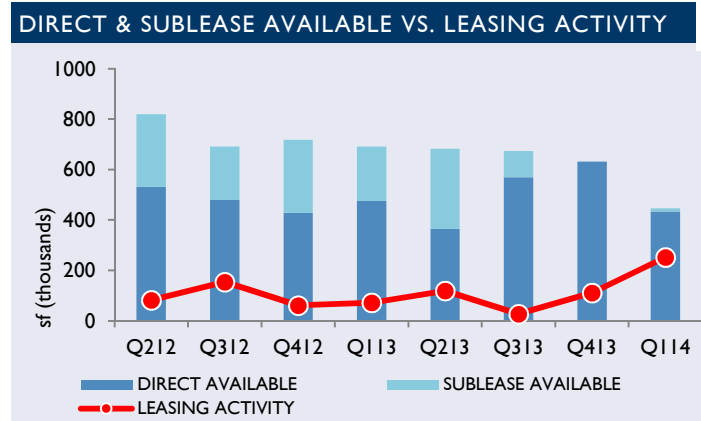
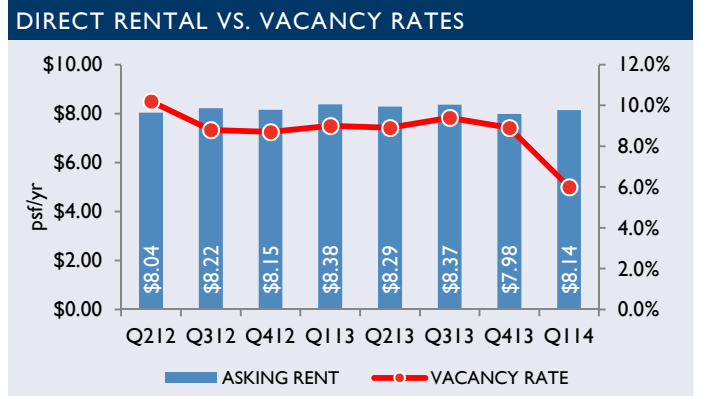
- Construction was completed on one project in the eastern submarkets for Euro Tile & Stone which is owner-occupied and therefore not part of the statistical inventory. In addition, there is a new 150,000-sf building in the works for Multi-Craft Imports that will also be owner-occupied upon completion.
- 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 late 2014.

NEW SUPPLY VS. UNDER CONSTRUCTION



WESTERN SUBMARKETS

- After numerous quarters of stable vacancy within the western submarkets, the vacancy rate plunged to 6.0%. This was the result of the previously mentioned transactions at 501 Palladium Drive.
- Average asking rental rates returned to the norm at more than \$8.00 psf -climbing from last quarter to reach \$8.14 psf.
- The amount of direct space available shrunk to 433,000 sf, with 212,000 sf coming off the market in Kanata. There was one new space that became available for sublease this quarter - 11,500 sf located in the Colonnade Business Park.
- Leasing activity spiked in Q1, reaching 252,000 sf. Besides the large transaction at 501 Palladium Drive in Kanata, the remaining submarkets were fairly quiet this quarter, totaling approximately 27,000 sf. There were a few more transactions in the western submarkets compared to the eastern submarkets; however, the total is fairly low as almost all of these transactions were in the 1,000-3,000 sf range.
- Absorption figures soared in Q1 to reach 239,000 sf. It is certainly worth noting however that if it were not for the one transaction in Kanata, then absorption, while still positive, would have been much lower at just over 27,000 sf.
- Absorption levels will certainly ease over the next six months as overall demand will likely remain low. With approximately 47,000 sf set to become available from now until the beginning of September 2014, absorption should be able to remain in positive territory.
- There are currently no new developments underway in the western submarkets.



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	5.4%	225,278	0	0	275,412	275,412	\$7.60	\$6.20	\$13.80
Bell's Corners	382,019	2.6%	0	0	0	0	0	\$10.00	\$6.95	\$16.95
Morrison/Queensview	415,519	13.5%	0	0	0	(9,285)	(9,285)	\$8.49	\$5.47	\$13.96
Woodward/Carling	540,800	8.1%	7,548	0	0	7,548	7,548	\$10.24	\$5.65	\$15.89
Ottawa Centre	777,339	1.5%	11,200	0	0	11,200	11,200	n/a	\$4.58	n/a
Ottawa South	695,111	12.9%	0	0	0	(20,297)	(20,297)	\$7.07	\$4.22	\$11.29
West Merivale	534,593	2.8%	2,060	0	0	2,060	2,060	n/a	n/a	n/a
East Merivale	587,403	5.1%	6,226	0	0	(19,229)	(19,229)	\$9.34	\$5.12	\$14.46
Colonnade	634,309	2.6%	0	0	0	(8,058)	(8,058)	\$9.27	\$5.82	\$15.09
Rideau Heights	623,188	9.4%	0	0	0	0	0	\$11.75	\$5.33	\$17.08
WEST OTTAWA	8,341,943	6.0%	252,312	0	0	239,351	239,351	\$8.14	\$5.41	\$13.55
South Walkley	325,180	0.0%	0	0	0	0	0	n/a	n/a	n/a
Ottawa Business Park	1,422,879	5.0%	0	0	0	(3,709)	(3,709)	\$9.00	\$4.89	\$13.89
Coventry/Belfast	1,770,250	6.8%	39,481	0	0	(13,528)	(13,528)	\$12.15	\$4.13	\$16.28
Cyrville	2,169,483	5.0%	3,000	0	0	(33,664)	(33,664)	\$8.97	\$4.03	\$13.00
Sheffield	3,043,681	8.4%	6,629	0	0	(42,773)	(42,773)	\$8.06	\$4.35	\$12.41
Sheffield/Lancaster	1,145,820	2.3%	4,874	0	0	(10,478)	(10,478)	\$7.87	\$5.90	\$13.77
Stevenage/Belgreen	2,010,706	4.2%	2,102	0	0	(1,311)	(1,311)	\$7.33	\$5.36	\$12.69
South Gloucester/Albion	402,234	0.0%	0	0	0	0	0	n/a	n/a	n/a
Queensway	798,865	2.7%	3,600	0	0	(15,600)	(15,600)	\$7.38	\$4.50	\$11.88
Orleans	474,178	20.2%	0	0	0	0	0	\$9.00	\$3.55	\$12.55
EAST OTTAWA	13,563,276	5.8%	59,686	0	0	(121,063)	(121,063)	\$8.55	\$4.65	\$13.20
OVERALL CITY	21,905,219	5.9%	311,998	0	0	118,288	118,288	\$8.39	\$4.95	\$13.34

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q1 2014 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
501 Palladium Drive	Kanata	MobilShred / Lockheed Martin	Multi-Use	212,466
1250-60 Old Innes Road	Sheffield	Coinamatic	Office/Warehouse	6,629
Significant Q1 2014 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
2447 Kaladar Avenue	Ottawa South	Huntington Properties	\$2,600,000 / \$103	25,816
22 Cleopatra Drive	West Merivale	1910608 Ontario Inc.	\$2,550,000 / \$116	22,000
Significant Q1 2014 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS