

# MARKETBEAT INDUSTRIAL SNAPSHOT

## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q2 2014



### ECONOMIC OVERVIEW

Employers in the National Capital Region added approximately 5,100 people to their payrolls in May 2014, resulting in the unemployment rate decreasing by 0.1 percentage points to 6.7%. The public administration sector rebounded slightly, with the number of public servants increasing by 3,600 in May compared to April, although still down by 5,600 year-over-year. An emerging story continues to be the strengthening of the high-tech sector. Statistics Canada recently reported that there were 65,200 tech employees in Ottawa-Gatineau. If this figure is accurate than this sector is certainly on the mend as employment numbers in May 2013 totaled 49,700. The timing of this recovery could not be better as the local economy has slowed over the past couple of years, largely a result of federal government downsizing. Real GDP growth will remain subdued at 0.9% in 2014, although it does mark a slight improvement over 2013 when growth was almost non-existent at 0.1%.

### OVERVIEW

Overall vacancy edged up slightly in Q2, climbing by just 0.1 percentage point to 6.0%. After numerous quarters of fairly stable market conditions within the western markets, vacancy rates have swung substantially during the first half of 2014. A marked decline in vacancy last quarter was followed by a climb in vacancy this quarter of close to two percentage points to reach 7.8%. Interestingly enough it was the same building that was the cause of the swings in vacancy. As was reported last quarter the former Smart Technologies building was leased by two tenants – MobilShred and Lockheed Martin. This quarter both tenants put a combined 85,000 square feet (sf) back on the market as MobilShred did not require some space and Lockheed Martin does not require all of their space until 2017. Conditions within the eastern markets rebounded this quarter with increased demand over last quarter and resulted in vacancy declining to reach 5.0%.

Overall absorption this quarter was not substantial at about negative 9,000 sf, as improvement in the eastern submarkets was not quite enough to counteract the new space that became available in the western markets. Leasing activity was also fairly quiet this quarter, with minimal activity within the western submarkets of just 21,000 sf. Activity was a bit stronger within the eastern submarkets at close to 104,000 sf, although close to half of that amount was from just one transaction in the Ottawa Business Park.

### OUTLOOK

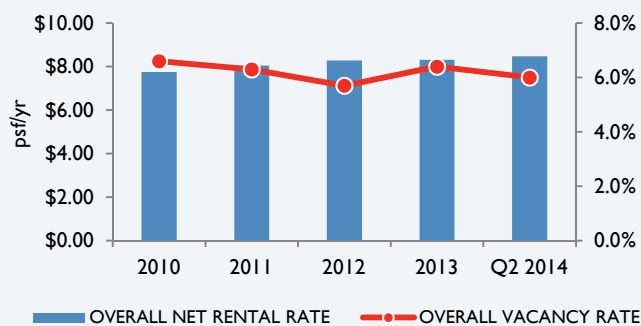
Although large pockets of space came both off and on the industrial market over the first half of the year, overall market conditions remain

largely unchanged. Asking rental rates continue to hold steady, and although absorption levels have swung a bit from negative to positive and back again, this has generally been a result of large blocks of space coming on and off the market and is really not indicative of the strength – or lack thereof – of the overall industrial market. There is one potential new development which would be Phase II of the Capital East Business Centre; currently this project is still in pre-leasing mode. Any new development announcements for the remainder of 2014 will most likely be in the form of build-to-suit projects.

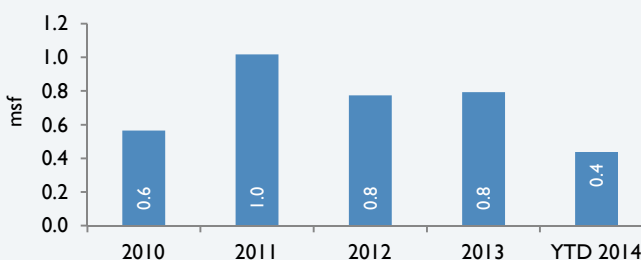
### STATS ON THE GO

	Q2 2013	Q2 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.0%	6.0%	0.0pp	↕
Direct Asking Rents (psf/yr)	\$8.50	\$8.48	-0.2%	↕
YTD Leasing Activity (sf)	416,724	437,044	4.9%	↕

### OVERALL RENTAL VS. VACANCY RATES



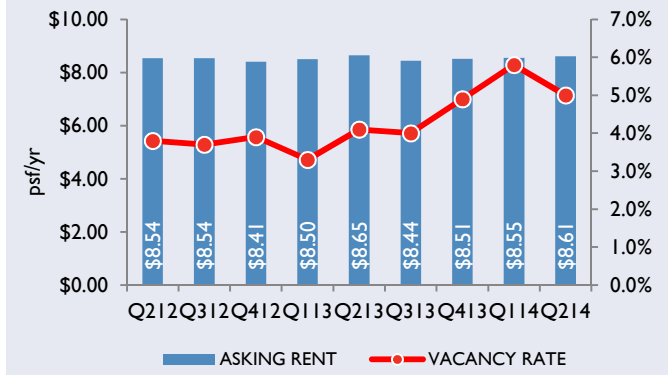
### OVERALL LEASING ACTIVITY



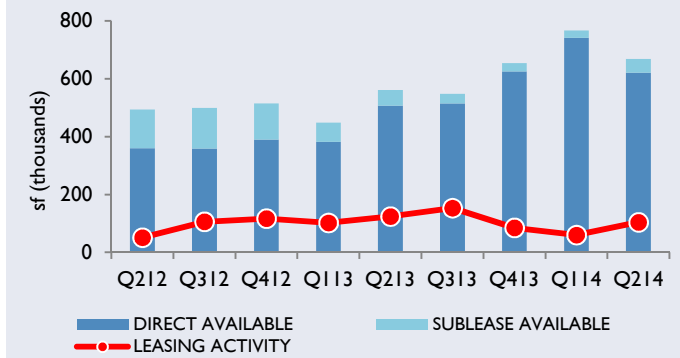
## EASTERN SUBMARKETS

- After trending upwards over most of the past year, vacancy declined by almost a full percentage point to 5.0% this quarter, as overall demand strengthened in multiple submarkets.
- Asking rental rates have been remarkably consistent over the past year despite the climbing vacancy rate, with rates once again rising slightly this quarter to \$8.61 per square foot (psf).
- The amount of direct space available declined to 621,000 sf this quarter, about 141,000 sf lower than what was available last quarter. Some of the larger pockets of direct space that came off of the market were 55,000 sf in the Ottawa Business Park and 19,000 sf in the Queensway Business Park. The overall vacancy rate would have declined a bit further if it were not for an additional block of 21,000 sf of sublet space becoming available at 1230 Old Innes Road.
- Leasing activity accelerated slightly to reach close to 104,000 sf this quarter. Although transactions occurred in five of the eastern submarkets, over half of leased space was located in the Ottawa Business Park.
- Absorption had its strongest showing in two years, at nearly 50,000 sf in Q2, as all but two submarkets were either stable or had demand outpacing new supply.
- Although overall demand is not anticipated to accelerate substantially through the next six months, it should be sufficient enough to keep the eastern submarkets in minimal positive territory, as only 19,000 sf is currently being marketed to become available.
- 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. There is also a new 150,000-sf building in the works for Multi-Craft Imports that will be owner-occupied upon completion.

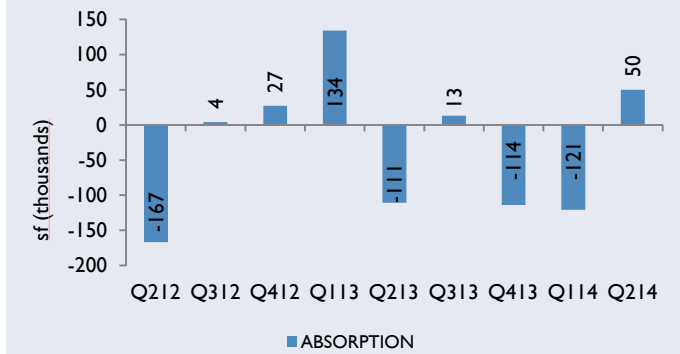
### DIRECT RENTAL VS. VACANCY RATES



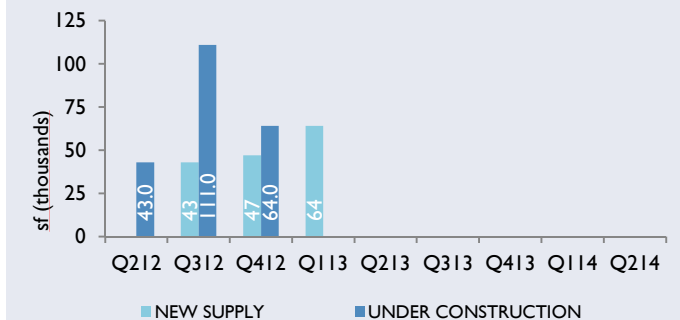
### DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



### ABSORPTION

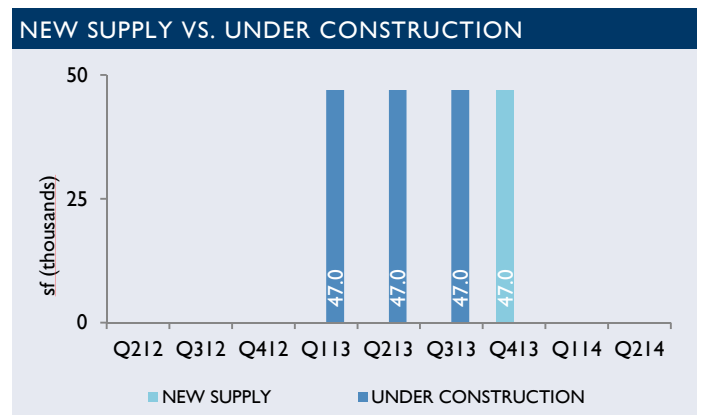
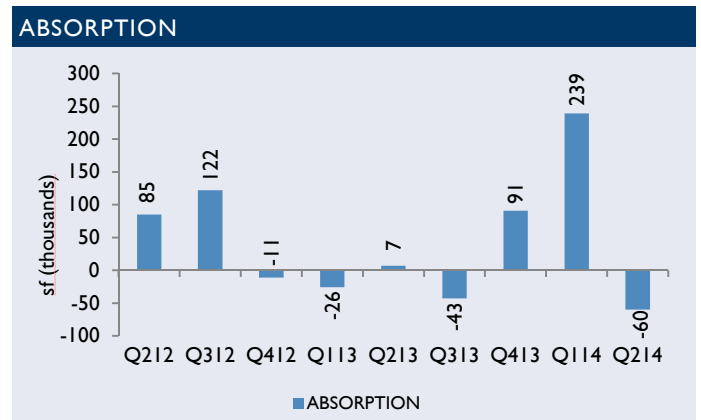
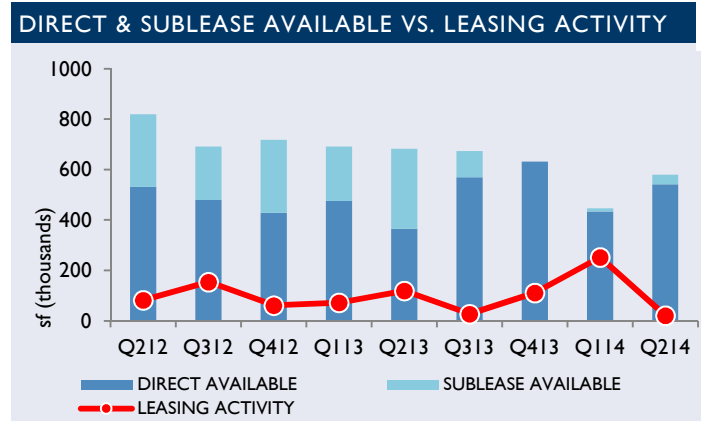
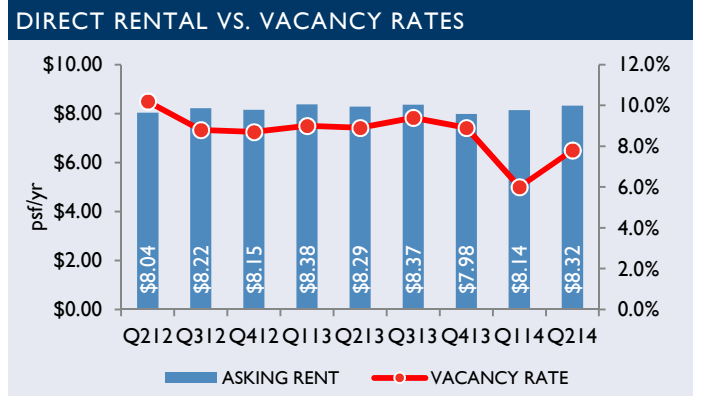


### NEW SUPPLY VS. UNDER CONSTRUCTION



## WESTERN SUBMARKETS

- After last quarter's "blip" in vacancy, the vacancy rate did climb back up to reach 7.8% this quarter. As was discussed earlier, the driving force behind this rise in vacancy was the nearly 85,000 sf coming back on the market at 501 Palladium Drive in Kanata.
- As is the case with the eastern submarkets, the average asking rental rates continue to hold steady and currently average \$8.32 psf.
- The amount of direct space available rose to 542,000 sf this quarter as the 85,000 sf of new availability in Kanata is being marketed as headlease space. The amount of space available for sublet also climbed to reach 37,000 sf as two new pockets became available, both located in the Colonnade Business Park.
- Leasing activity was very quiet in the western submarkets with just over 21,000 sf in Q2. Only three submarkets reported activity this quarter, with the largest known transaction to be 9,000 sf at 1550 Chatelain Avenue, located in the Woodward/Carling submarket. This space was leased by Division Eight Door Solutions.
- After a strong first quarter, absorption headed in the opposite direction this quarter, declining to close to 60,000 sf of negative absorption. Only two submarkets reported positive absorption this quarter and it was not significant enough to counteract the new space that became available. Some of the larger pockets of new availability were 25,000 sf at 125 Colonnade Road and close to 15,000 sf at 2477 Kaladar Avenue.
- 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 over the remainder of the year, as only 14,000 sf is set to become available.
- 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	3,114,162	7.4%	225,278	0	0	25,321	300,733	\$7.78	\$5.20	\$12.98
Bell's Corners	382,019	3.7%	0	0	0	(3,840)	(3,840)	\$10.00	\$5.91	\$15.91
Morrison/Queensview	415,519	13.5%	0	0	0	0	(9,285)	\$8.49	\$5.47	\$13.96
Woodward/Carling	540,800	7.9%	21,716	0	0	1,037	8,585	\$9.97	\$5.27	\$15.24
Ottawa Centre	777,339	1.5%	11,200	0	0	0	11,200	n/a	\$4.58	n/a
Ottawa South	695,111	16.0%	6,462	0	0	(21,586)	(41,883)	\$7.38	\$4.16	\$11.54
West Merivale	534,593	3.6%	2,060	0	0	(4,200)	(2,140)	\$9.00	\$5.22	\$14.22
East Merivale	587,403	7.4%	6,976	0	0	(13,445)	(32,674)	\$9.70	\$4.96	\$14.66
Colonnade	634,309	8.1%	0	0	0	(35,180)	(43,238)	\$9.18	\$6.25	\$15.43
Rideau Heights	623,188	10.6%	0	0	0	(7,700)	(7,700)	\$11.75	n/a	\$11.75
<b>WEST OTTAWA</b>	<b>8,304,443</b>	<b>7.8%</b>	<b>273,692</b>	<b>0</b>	<b>0</b>	<b>(59,593)</b>	<b>179,758</b>	<b>\$8.32</b>	<b>\$5.09</b>	<b>\$13.41</b>
South Walkley	325,180	0.0%	0	0	0	0	0	n/a	n/a	n/a
Ottawa Business Park	1,422,879	3.0%	60,366	0	0	28,726	25,017	\$10.23	\$6.27	\$16.50
Coventry/Belfast	1,770,250	5.9%	39,481	0	0	15,860	2,332	\$12.01	\$4.76	\$16.77
Cyrville	2,169,483	4.7%	16,323	0	0	4,939	(28,725)	\$8.72	\$4.29	\$13.01
Sheffield	3,043,681	9.2%	6,629	0	0	(23,790)	(66,563)	\$7.93	\$4.50	\$12.43
Sheffield/Lancaster	1,145,820	2.0%	7,999	0	0	3,125	(7,353)	\$8.00	\$6.36	\$14.36
Stevenage/Belgreen	2,010,706	4.2%	7,104	0	0	(855)	(2,166)	\$7.49	\$5.21	\$12.70
South Gloucester/Albion	392,234	0.0%	0	0	0	0	0	n/a	n/a	n/a
Queensway	798,865	0.0%	25,450	0	0	21,850	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>13,553,276</b>	<b>5.0%</b>	<b>163,352</b>	<b>0</b>	<b>0</b>	<b>49,855</b>	<b>(71,208)</b>	<b>\$8.61</b>	<b>\$4.81</b>	<b>\$13.42</b>
<b>OVERALL CITY</b>	<b>21,857,719</b>	<b>6.0%</b>	<b>437,044</b>	<b>0</b>	<b>0</b>	<b>(9,738)</b>	<b>108,550</b>	<b>\$8.48</b>	<b>\$4.94</b>	<b>\$13.42</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

Significant Q2 2014 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
925 Belfast Road	Coventry/Belfast	City of Ottawa	Call Centre	16,267
1540-1552 Chatelain Avenue	Woodward/Carling	Division Eight Door Solutions	Mixed	9,168
Significant Q2 2014 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
501 Palladium Drive	Kanata	BMO Life Assurance (75% Interest)	\$25,294,287 / \$98	258,341
1120 Morrison Drive	Morrison/Queensview	Huntington Properties	\$2,425,000 / \$94	25,780
Significant Q2 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