

# MARKETBEAT INDUSTRIAL SNAPSHOT

## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q1 2015



### ECONOMIC OVERVIEW

The unemployment rate in Ottawa jumped to 7.0% in February 2015, slightly higher than the national unemployment rate of 6.8%, which also climbed as Alberta's labour market began to show signs of weakness. Although the Ottawa-Gatineau economy has seen little growth in recent years, in part due to the significant cuts in the public administration sector, there is room for some optimism moving forward into 2015. It is believed that the bulk of the public administration cuts are complete, and with strong non-residential construction activity and continued gains in the high-tech services sector, the Conference Board of Canada anticipates overall economic growth to expand by 1.5%, with further improvement to 2.1% in 2016.

### OVERVIEW

The Q1 vacancy rate increased from last quarter's rate of 5.9% to reach 6.6%. The western submarkets held steady with vacancy climbing by just 0.1 percentage points this quarter to sit at 7.0%. Almost all western submarkets saw minimal amounts of either positive or negative absorption this quarter, which lead to a combined total of just over 6,000 square feet (sf) of positive absorption. For the most part it was the same story with the eastern submarkets this quarter, although with two notable exceptions. One was approximately 22,500 sf of additional sublet space coming on the market in one building in the Ottawa Business Park. The other is two vacant buildings, with a combined total of 50,000 sf, that are now available for sale in the Orleans submarket. This new availability, in combination with the arrival of the newly completed and fully vacant industrial building at 1670 Comstock, were significant contributing factors to both vacancy rates climbing by over a full percentage point from last quarter to 6.4% and a negative absorption total for the eastern submarkets of 72,000 sf.

Although overall leasing activity square footage totals are down from last quarter, they do remain consistent with the trend over the last couple of years. While the number of eastern submarkets saw some leasing activity this quarter, the same as the western submarkets, the square footage totals were higher. In a continuation from Q4 the Sheffield Industrial Park had notable transactions, with two transactions combining for a total of close to 78,000 sf this quarter. The majority of the western submarkets were fairly quiet this quarter with an overall total of 68,000 sf.

### OUTLOOK

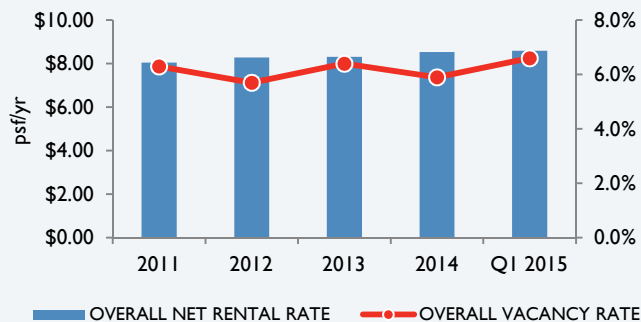
Although there are some significant transactions that took place this quarter overall demand for the most part remains flat. This will likely continue

into next quarter and possibly into the fall of 2015 as the market will likely wait until after the federal election before making any future space requirement decisions. It is almost certain that vacancy will climb next quarter; particularly in the eastern submarkets. Currently 88,000 sf is set to come on the market next quarter, with 78,000 sf of that total located in the eastern submarkets. In addition, it appears that close to 180,000 sf in total will become available for sublease next quarter at 1165 Kenaston Drive; with 90,000 sf comprising of industrial space.

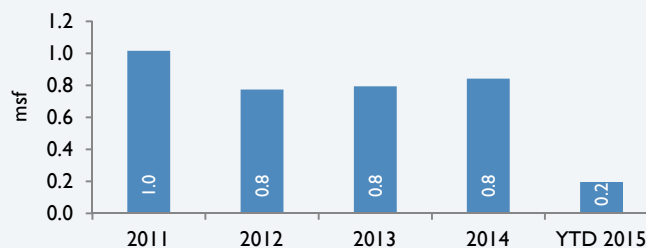
### STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	5.9%	6.6%	0.7pp	↕
Direct Asking Rents (psf/yr)	\$8.39	\$8.60	2.5%	↕
YTD Leasing Activity (sf)	311,988	195,098	-37.5%	↕

### OVERALL RENTAL VS. VACANCY RATES



### OVERALL LEASING ACTIVITY



## EASTERN SUBMARKETS

- Vacancy continued to trend upwards this quarter, reaching 6.4%; its highest point in two years. The combination of large pockets of new availability in existing product, along with the arrival of 1670 Comstock - a 70,000-sf building that remains fully vacant, pushed the amount of vacant space in the eastern submarkets to 870,000 sf.
- Currently rental rates have yet to significantly reflect the rising vacancy rates that have been seen over the last two quarters, with first quarter rental rates of \$8.72 per square foot (psf). This was the case as well in 2013 that saw vacancy climb throughout the majority of the year but yet saw little change in rental rates.

- The amount of direct space available climbed close to 762,000 sf, the result of the aforementioned new construction completion and the two vacant buildings for sale. The amount of sublet space on the market increased to 57,000 sf with four new availabilities for sublease. This total will likely climb next quarter as the sublease space at 1165 Kenaston Drive becomes available.
- After three consecutive quarters of increases, leasing activity slowed in the first quarter to 127,000 sf. As was the case last quarter the majority of the activity was in the Sheffield Industrial Park with one transaction of over 18,000 sf and another transaction of 59,000 sf.

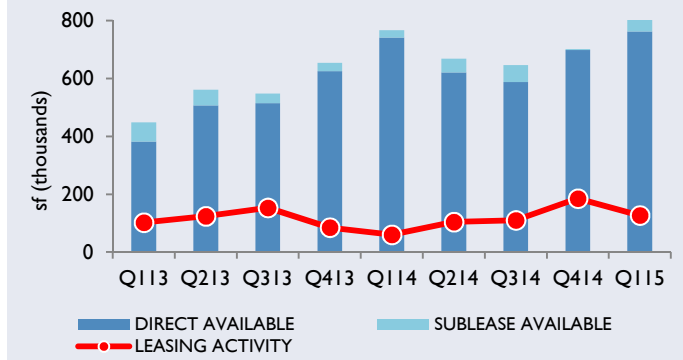
- After a relatively strong second half of 2014, absorption figures dipped back into the negative to 72,000 sf. This negative absorption however was not apparent across all eastern submarkets, but rather because of three new large pockets of space becoming available that resulted in negative absorption figures this quarter.
- Looking to the remainder of 2015, absorption figures will likely continue to trend downwards as approximately 168,000 sf will come on the market in the next quarter. As overall demand will likely remain subdued, the market will not be strong enough to absorb this additional new availability.

- Construction was completed on a 70,000-sf building at 1670 Comstock which arrived on the market fully vacant.
- Construction continues on a 100,000-sf building located in the south-east fringe of the city. Construction is due to be completed in the second quarter.

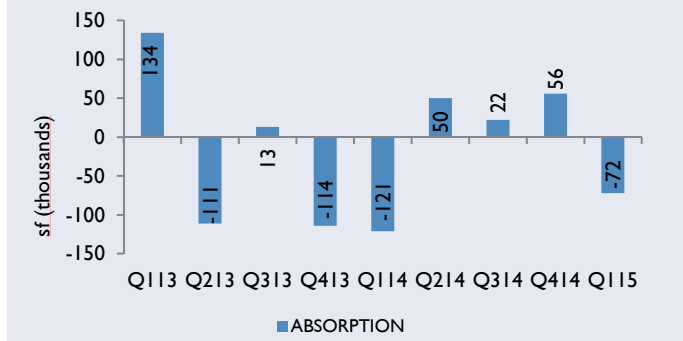
### DIRECT RENTAL VS. VACANCY RATES



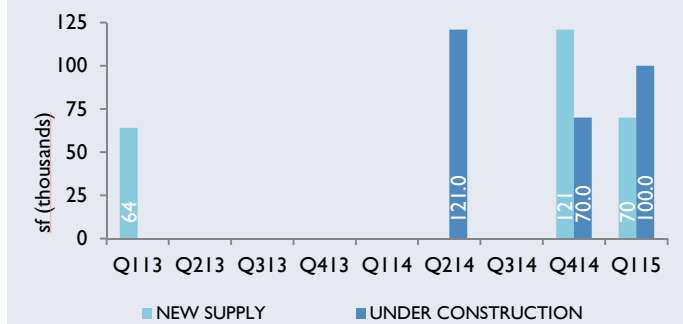
### DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



### ABSORPTION

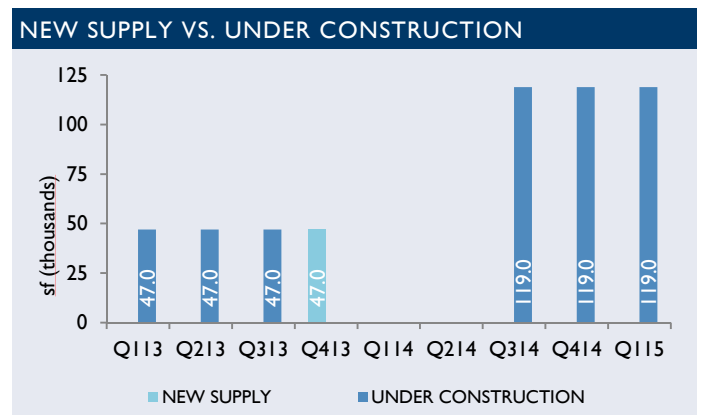
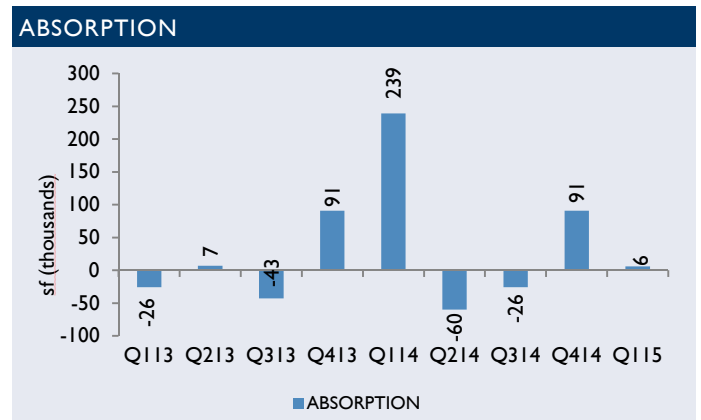
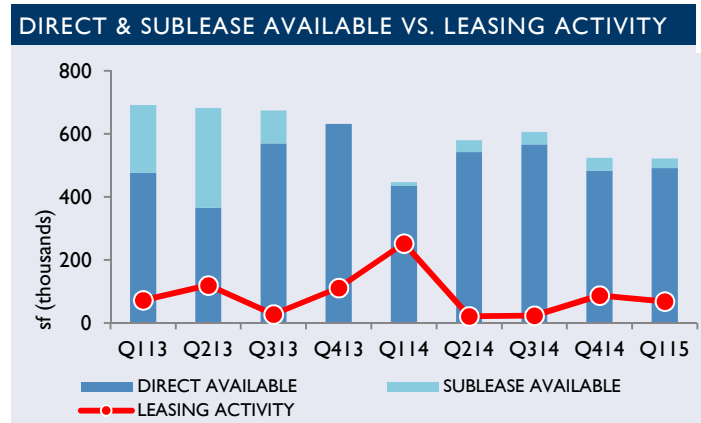
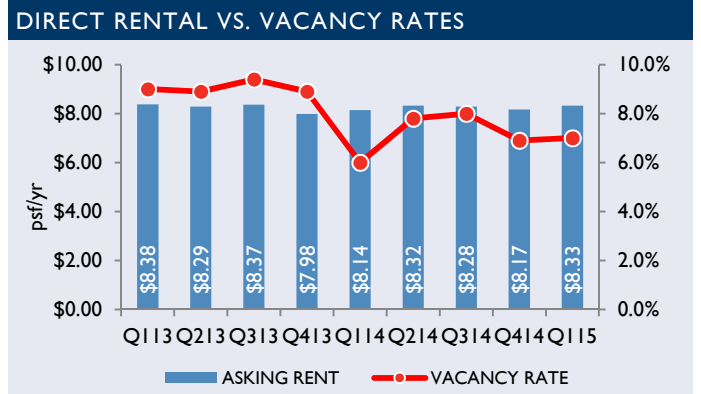


### NEW SUPPLY VS. UNDER CONSTRUCTION



## WESTERN SUBMARKETS

- Vacancy in the western submarkets was almost unchanged in the first quarter, up slightly to 7.0% from 6.9%.
- 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 first quarter the average rental rate rose from last quarter and currently averages \$8.33 psf.
- The amount of direct space available rose to 491,000 sf this quarter, with only minor changes seen in a handful of markets. The amount of space available for sublet decreased this quarter to 30,000 sf as a 12,000-sf block of space in the Colonnade Business Park is now available directly from the landlord.
- Leasing activity maintained its slight momentum from last quarter totaling 68,000 sf; a slight decline from Q4 totals. Leasing activity was primarily focused in two submarkets with an estimated transaction of 16,000 sf in Kanata and 22,000 sf that was leased by Tire Discounter Group at 2481 Kaladar.
- Absorption figures barely remained in positive territory this quarter at just 6,000 sf as demand slightly outpaced new vacancy.
- 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 next two quarters.
- 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	3,094,482	6.9%	19,079	119,000	0	4,079	4,079	\$7.78	\$4.31	\$12.09
Bell's Corners	382,019	1.4%	1,863	0	0	0	0	n/a	n/a	n/a
Morrison/Queensview	415,519	14.9%	2,282	0	0	(2,076)	(2,076)	\$9.30	\$4.70	\$14.00
Woodward/Carling	540,800	9.1%	0	0	0	(8,693)	(8,693)	\$8.42	\$4.43	\$12.85
Ottawa Centre	777,339	2.4%	15,900	0	0	(3,074)	(3,074)	\$9.00	\$4.70	\$13.70
Ottawa South	695,111	12.0%	26,981	0	0	12,272	12,272	\$7.08	\$4.12	\$11.20
West Merivale	534,593	3.3%	0	0	0	425	425	n/a	n/a	n/a
East Merivale	639,693	2.1%	0	0	0	6,625	6,625	\$9.51	\$4.95	\$14.46
Colonnade	634,309	7.7%	2,088	0	0	(437)	(437)	\$9.00	\$6.35	\$15.35
Rideau Heights	623,188	11.0%	0	0	0	(3,000)	(3,000)	\$8.69	\$8.08	\$16.77
<b>WEST OTTAWA</b>	<b>8,337,053</b>	<b>7.0%</b>	<b>68,193</b>	<b>119,000</b>	<b>0</b>	<b>6,121</b>	<b>6,121</b>	<b>\$8.33</b>	<b>\$4.55</b>	<b>\$12.88</b>
South Walkley	325,180	0.8%	0	0	0	0	0	\$7.50	\$4.95	\$12.45
Ottawa Business Park	1,288,846	10.0%	11,140	0	0	(21,531)	(21,531)	\$8.94	\$5.06	\$14.00
Coventry/Belfast	1,760,250	4.5%	4,700	0	0	6,903	6,903	\$10.60	\$5.32	\$15.92
Cyrville	2,234,837	8.0%	29,389	0	70,000	12,684	12,684	\$8.45	\$4.22	\$12.67
Sheffield	3,043,681	6.3%	77,609	0	0	(12,861)	(12,861)	\$7.95	\$4.37	\$12.32
Sheffield/Lancaster	1,185,844	3.2%	3,067	0	0	(5,743)	(5,743)	\$11.35	\$5.87	\$17.22
Stevenage/Belgreen	2,010,706	1.3%	0	0	0	9,318	9,318	\$8.25	\$5.11	\$13.36
South Gloucester/Albion	392,234	0.0%	0	0	0	0	0	n/a	n/a	n/a
Queensway	920,465	14.6%	0	0	0	(9,200)	(9,200)	\$9.00	\$4.20	\$13.20
Orleans/Fringe East	514,473	17.9%	1,000	100,000	0	(51,981)	(51,981)	\$8.15	\$3.00	\$11.15
<b>EAST OTTAWA</b>	<b>13,676,516</b>	<b>6.4%</b>	<b>126,905</b>	<b>219,000</b>	<b>70,000</b>	<b>(72,411)</b>	<b>(72,411)</b>	<b>\$8.72</b>	<b>\$4.59</b>	<b>\$13.31</b>
<b>OVERALL CITY</b>	<b>22,013,569</b>	<b>6.6%</b>	<b>195,098</b>	<b>219,000</b>	<b>70,000</b>	<b>(66,290)</b>	<b>(66,290)</b>	<b>\$8.60</b>	<b>\$4.58</b>	<b>\$13.18</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

### SIGNIFICANT Q1 2015 LEASE TRANSACTIONS

SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET	
2481 Kaladar Avenue	Ottawa South	Tire Discounter Group Inc.	Whse/Distribution	22,453
1255 Leeds Avenue	Sheffield	Distribution Nordix	Whse/Distribution	18,449
861 Boyd Avenue	Woodward/Carling	Cody Party Centres	Whse/Showroom	6,400

### SIGNIFICANT Q1 2015 SALE TRANSACTIONS

SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET	
2615 Lancaster Rd, 2620-2650 Lancaster Rd, 1051 & 1052 Baxter Rd.	Various	Baxter Lancaster Nominee Inc.	\$37,850,000 / \$132	287,194
44 Iber Road	Kanata	Huntington Properties	\$3,067,000 / \$152	20,120

### SIGNIFICANT Q1 2015 CONSTRUCTION COMPLETIONS

SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)	
1670 Comstock Road	Cyrville	N/A	Q1 2015	70,000 / 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%

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS