

MARKETBEAT INDUSTRIAL SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q2 2015



ECONOMIC OVERVIEW

The unemployment rate in the National Capital region sat at 6.6% in May 2015, a decrease of 0.3 percentage points from April. This slight improvement is not an indicator of a strengthening local economy but rather the region's labour force shrinking by 3,200. Total employment in May numbered 709,500; close to where employment numbers stood 3 years ago when the Conservative government began their initiative to cut the public sector workforce and freeze departmental budgets. A major shift in the employment landscape has taken shape in the makeup of the region's workforce. Numbers have declined by 21,000 positions in the Federal Government sector while several other sectors have added enough employees to make up the difference.

OVERVIEW

Vacancy continued to climb in the second quarter, reaching a rate of 6.9%, an increase of 0.3 percentage points from last quarter. Overall, the past three quarters saw a steady vacancy rate in the western submarkets, as vacancy only fluctuated by 0.1 percentage points. Although the total amount of vacant space climbed slightly by approximately 10,000 square feet (sf) since last quarter, the increase in the size of the inventory, due to the completion of the new Sanmina facility in Kanata, led to the minimal vacancy decrease.

Vacancy within the eastern submarkets continues to increase reaching 6.9% this quarter, 0.5 percentage points higher than Q1 as transaction activity was not enough to counteract the new space arriving to market. The greatest contributing factor to the rise in vacancy was the arrival of 90,000 sf of sublet space located at St. Joseph's Printing on Kenaston Street.

Leasing activity square footage totals have trended downwards over the past three quarters, totaling 157,000 sf in Q2 and bringing the year-to-date total to 352,000 sf. Activity was largely generated in the eastern submarkets with the majority of the transactions under 5,000 sf in size. However there were a few notable exceptions. Colonnade secured their first tenant who leased 13,000 sf at Phase II of the Capital Business Centre, and AD Metro leased close to 16,000 sf on Star Top Road. Overall absorption rebounded significantly from last quarter to reach 40,000 sf which brings the year-to-date total to negative 27,000 sf. This rebound was not attributed to a dramatic improvement in overall demand but rather due to the completion of the fully leased 116,000-sf building for Sanmina.

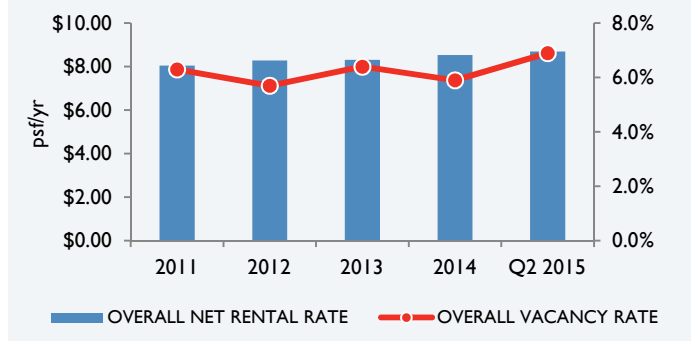
OUTLOOK

Demand in the Ottawa market has yet to pick up any sustained momentum, a situation that will unlikely change over the course of the next six months. Vacancy is likely to climb during this time frame as 166,000 sf is currently being marketed to become available, with the majority of this new space located in the eastern submarkets. The high-tech sector is continuing to recover and will likely benefit the submarket of Kanata due to the concentration of light-manufacturing facilities located there. However the impact on the overall industrial market will not be dramatic as many of the large blocks of space currently available are more warehouse/distribution in nature.

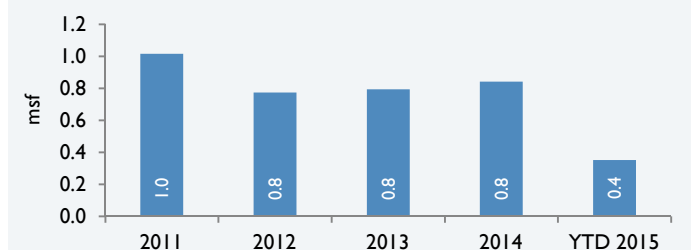
STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	6.0%	6.9%	0.9pp	↕
Direct Asking Rents (psf/yr)	\$8.48	\$8.69	2.5%	↕
YTD Leasing Activity (sf)	437,044	352,307	-19.4%	↕

OVERALL RENTAL VS. VACANCY RATES



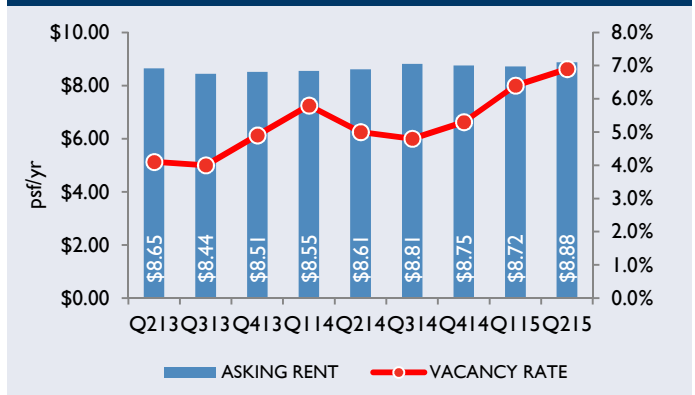
OVERALL LEASING ACTIVITY



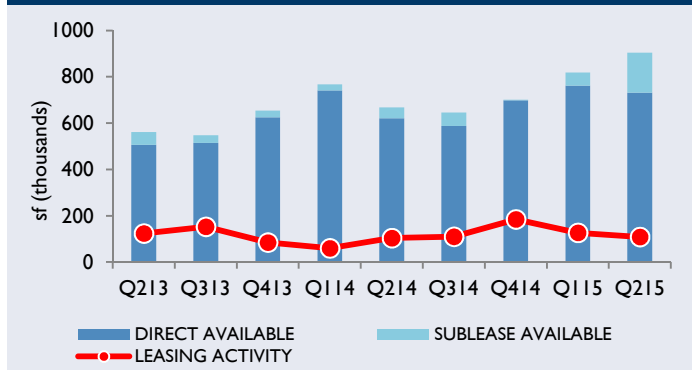
EASTERN SUBMARKETS

- Vacancy continued to march upwards this quarter, reaching 6.9%; its highest point in two years. As was the case in Q1, where large new pockets of space were introduced to the market, the arrival of 90,000 sf of new sublet space, located at 1165 Kenaston Street, increased the amount of vacant space in the eastern submarkets to 939,000 sf.
- Currently, rental rates have yet to significantly reflect the rise of vacancy rates, with second quarter rental rates averaging \$8.88 per square foot (psf). Nearly all of the eastern submarkets had either identical average rents to last quarter or slightly increased rents compared to Q1.
- The increase in vacancy this quarter was attributed to the spike in the amount of sublet space introduced to the market, totaling 172,000 sf, rather than the decline of direct space available. Besides the aforementioned 90,000-sf sublet availability at 1165 Kenaston, there were two additional new pockets of sublet availability.
- Leasing activity has continued to decline in 2015 to reach totals of 109,000 sf in Q2; although in a departure from last quarter activity was located in several submarkets this quarter compared to Q1. A notable deal was the 13,000-sf lease at 1101 Polytek Street.
- Absorption figures stood at negative 69,000 sf, which is very close to last quarter's figures. Negative absorption occurred in half of the eastern submarkets this quarter; however the arrival of the 90,000 sf sublet availability was the driving factor behind the overall negative total.
- Looking to the remainder of 2015, absorption figures will likely remain in negative territory as approximately 139,000 sf is being marketed to come on the market over the next six months. The market will not be robust enough to absorb this additional new availability, as overall demand will likely remain subdued.
- No construction activity commenced in the Suburban East market this quarter.

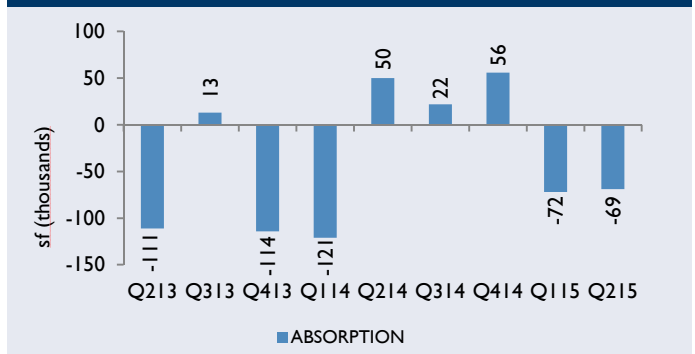
DIRECT RENTAL VS. VACANCY RATES



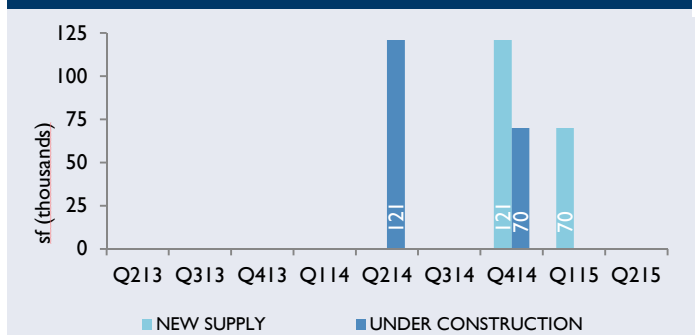
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



ABSORPTION



NEW SUPPLY VS. UNDER CONSTRUCTION



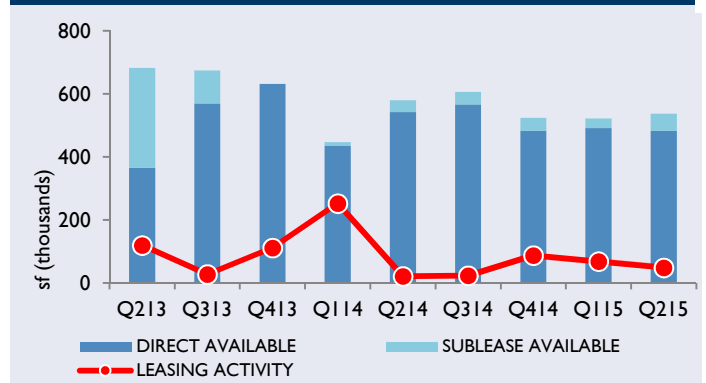
WESTERN SUBMARKETS

- Vacancy in the western submarkets has remained nearly unchanged over the past three quarters, rates dropped marginally to 6.9% from 7.0% last quarter.
- The average rental rates in the western submarkets have generally held steady over the past two years. The second quarter saw the average rental rate decline slightly from last quarter, as it currently averages \$8.30 psf.
- The amount of direct space available declined slightly to 483,000 sf this quarter, with only minor changes seen in a handful of markets. The amount of space available for sublet climbed this quarter to 53,000 sf as 20,000 sf of new sublease space became available in Ottawa South.
- Leasing activity declined slightly from last quarter totaling 48,000 sf, bringing the year-to-date total to 116,000 sf. Leasing activity was primarily focused in two submarkets: an estimated 15,000-sf transaction in Ottawa South and a 12,000-sf transaction in the Colonnade Business Park.
- Absorption figures climbed substantially in the second quarter reaching 109,000 sf; bringing the year-to-date total to 115,000 sf. Absorption this quarter was attributed to the completion of Sanmina's new, and fully occupied, 119,000-sf building in Kanata.
- Absorption levels will almost certainly decline over the remainder of 2015; however, figures may remain positive as just 23,000 sf is being marketed to become available over the next six months.
- Construction was completed on Sanmina's new 119,000-sf build-to-suit facility in Kanata. This building features a second floor office component along with a manufacturing floor which will produce optical, electronic and mechanical products.

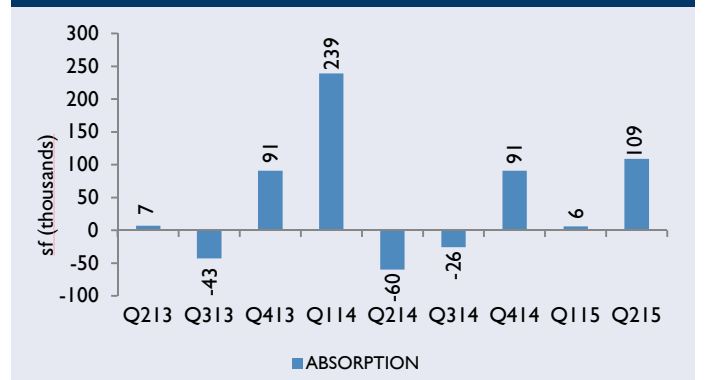
DIRECT RENTAL VS. VACANCY RATES



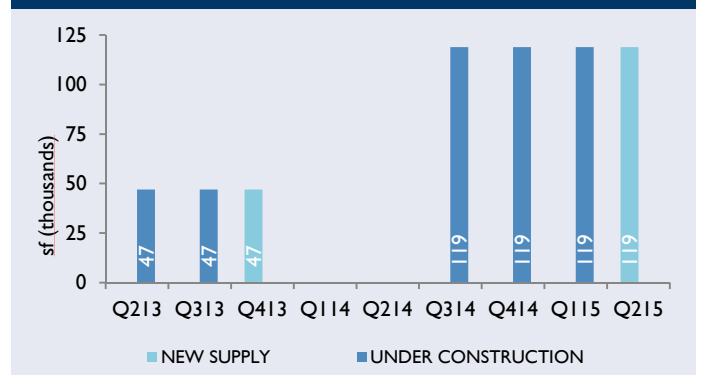
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



ABSORPTION



NEW SUPPLY VS. UNDER CONSTRUCTION



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	3,249,132	6.6%	22,158	0	119,000	116,318	120,397	\$7.65	\$4.84	\$12.49
Bell's Corners	382,019	0.0%	8,956	0	0	5,230	5,230	n/a	n/a	n/a
Morrison/Queensview	415,519	17.5%	2,282	0	0	(10,562)	(12,638)	\$9.30	\$4.70	\$14.00
Woodward/Carling	540,800	11.1%	0	0	0	(10,447)	(19,140)	\$8.31	\$5.88	\$14.19
Ottawa Centre	777,339	2.9%	15,900	0	0	(3,200)	(6,274)	\$8.00	\$5.04	\$13.04
Ottawa South	695,111	13.7%	44,647	0	0	(11,750)	522	\$7.55	\$4.32	\$11.87
West Merivale	534,593	4.3%	0	0	0	(5,280)	(4,855)	\$9.71	\$4.78	\$14.49
East Merivale	639,693	1.0%	0	0	0	7,190	13,815	\$8.50	\$4.80	\$13.30
Colonnade	634,309	5.7%	16,327	0	0	12,314	11,877	\$9.44	\$6.14	\$15.58
Rideau Heights	623,188	9.5%	6,217	0	0	9,217	6,217	\$9.16	\$7.79	\$16.95
WEST OTTAWA	8,491,703	6.9%	116,487	0	119,000	109,030	115,151	\$8.30	\$4.98	\$13.28
South Walkley	325,180	0.8%	0	0	0	0	0	\$7.50	\$4.95	\$12.45
Ottawa Business Park	1,288,846	9.6%	23,327	0	0	5,788	(15,743)	\$9.15	\$4.88	\$14.03
Coventry/Belfast	1,760,250	4.8%	4,700	0	0	(5,462)	1,441	\$10.60	\$5.32	\$15.92
Cyrville	2,234,837	11.9%	61,122	0	70,000	(88,880)	(76,196)	\$8.55	\$4.92	\$13.47
Sheffield	3,043,681	6.9%	102,190	0	0	(16,852)	(29,713)	\$8.31	\$4.34	\$12.65
Sheffield/Lancaster	1,185,844	2.2%	16,086	0	0	11,813	6,070	\$11.35	\$5.87	\$17.22
Stevenage/Belgreen	2,010,706	1.4%	10,395	0	0	(1,860)	7,458	\$8.41	\$5.26	\$13.67
South Gloucester/Albion	392,234	2.6%	0	0	0	(10,361)	(10,361)	n/a	n/a	n/a
Queensway	920,465	13.2%	13,000	0	0	13,000	3,800	\$9.00	\$4.20	\$13.20
Orleans/Fringe East	514,473	13.3%	5,000	0	0	23,875	(28,106)	\$8.08	\$3.55	\$11.63
EAST OTTAWA	13,676,516	6.9%	235,820	0	70,000	(68,939)	(141,350)	\$8.88	\$4.70	\$13.59
OVERALL CITY	22,168,219	6.9%	352,307	0	189,000	40,091	(26,199)	\$8.69	\$4.81	\$13.50

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2015 LEASE TRANSACTIONS

SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET	
1380-1398 Star Top Road	Cyrville Industrial Park	AD Metro Inc.	Industrial/Showroom	15,862
1101 Polytek Street	Queensway Business Park	Confidential	Warehouse	13,000
3234-3270 Hawthorne Road*	Stevenage/Belgreen	Centrestone Granite & Marble	Warehouse	10,395

SIGNIFICANT Q2 2015 SALE TRANSACTIONS

SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET	
5369 Canotek Road	Queensway Business Park	Regimbal Ltd.	\$2,100,000 / \$100	21,075
2590 Sheffield Road	Sheffield Industrial Park	Stephane Campeau Holdings Inc.	\$2,350,000 / \$117	20,000

SIGNIFICANT Q2 2015 CONSTRUCTION COMPLETIONS

SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)	
528 March Road	Kanata	Sanmina	Q2 2015	119,000 / 100%

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A			

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS