

# MARKETBEAT INDUSTRIAL SNAPSHOT

## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q1 2013



### ECONOMIC OVERVIEW

The National Capital Region lost 2,100 jobs in February 2013; however, as a result of fewer people seeking work the unemployment rate in Ottawa-Gatineau fell to 6.3% from 6.7% last quarter. Nationally the news was also positive as close to 51,000 jobs were created, which kept the unemployment rate at 7.0%. Despite the decrease in the local unemployment rate, the Conference Board of Canada forecasts only marginal growth in the region's GDP to 1.3% in 2013 as cuts within the public administration are expected to continue. These cuts are anticipated to have a cascading effect on other sectors as well, particularly the housing market. On a positive note it is anticipated that the manufacturing sector will begin to rebound in 2013, following consecutive downturns in 2011 and 2012.

### VACANCY RATES DECLINE

Vacancy declined slightly in the first quarter 2013 to 5.5% which is 0.2 percentage points lower than the fourth quarter. While vacancy within the western markets climbed to 9.0%, vacancy headed in the opposite direction in the eastern markets, dropping to 3.3% - the lowest vacancy has been in 12 months.

### DEMAND STRONGER IN THE EASTERN MARKETS

Overall absorption levels rebounded in the first quarter to reach close to 108,000 square feet (sf). Over half of this absorption was the result of the completion of a new 64,000-sf building in the Hawthorne Business Park that has been leased to the federal government. Overall demand was stronger within the eastern submarkets this quarter reaching close to 134,000 sf. Only one eastern submarket posted negative absorption and that figure was under 1,000 sf. In contrast, absorption within the western markets was in the negative at approximately 26,000 sf.

### OUTLOOK

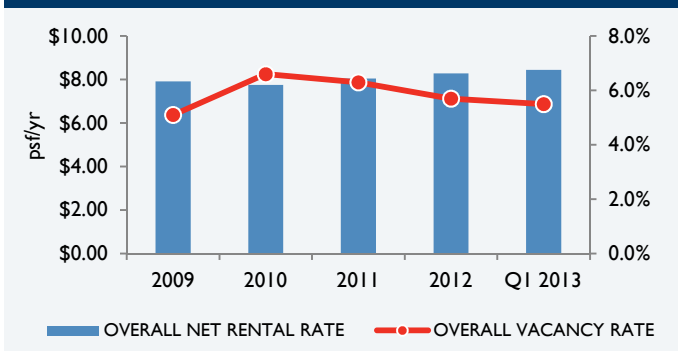
In the first quarter of 2013, the Ottawa industrial market picked up from where it left off at the end of 2012; posting similar vacancy rates and leasing activity totals. It is anticipated however that vacancy will climb over the course of the next two quarters as a total of 266,000 sf is set to become available; largely located in the eastern submarkets. Two of the largest pockets of space that will be coming to market are 40,000 sf that will be vacated by Schleich and close to 50,000 sf that will be vacated by the federal government. This will certainly have an impact on absorption

figures as there is no new construction set to be completed and added to the competitive inventory in 2013. There are two design-builds underway 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.

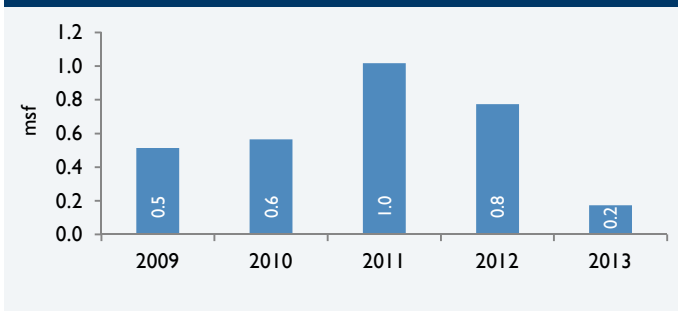
### STATS ON THE GO

|                              | Q1 2012 | Q1 2013 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|---------|---------|--------------|-------------------|
| Overall Vacancy              | 5.8%    | 5.5%    | -0.3pp       | ↔                 |
| Direct Asking Rents (psf/yr) | \$8.11  | \$8.45  | 4.2%         | ↔                 |
| YTD Leasing Activity (sf)    | 204,066 | 173,551 | -14.9%       | ▼                 |

### OVERALL RENTAL VS. VACANCY RATES



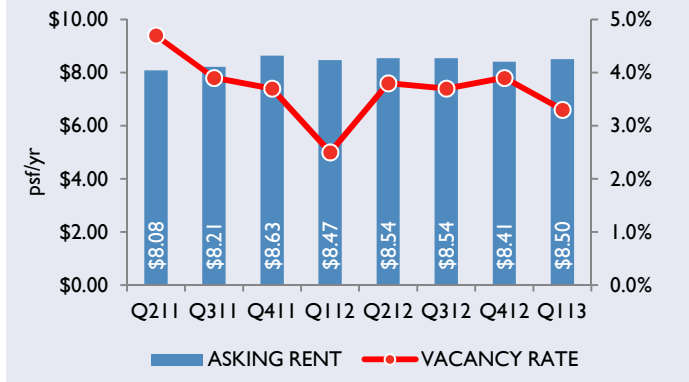
### OVERALL LEASING ACTIVITY



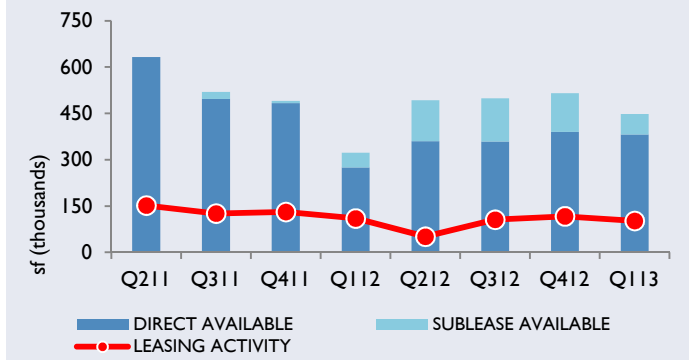
## EASTERN SUBMARKETS

- Vacancy decreased in the first quarter, dropping by 0.6 percentage points to 3.3%, the largest change in vacancy in three quarters, as 8 out of 10 submarkets posted either declines in vacancy or had unchanged vacancy from last quarter. Vacancy is projected to rise in the next six months as approximately 212,000 sf could become available. A significant portion of this vacancy is located in large blocks, particularly within 1255 Leeds Avenue where two tenants could potentially be vacating 90,000 sf.
- Asking rental rates climbed slightly to \$8.50 per square foot (psf). This was largely the result of a higher than average rental rate in the Coventry/Belfast submarket for this quarter as the remaining vacant spaces have asking rental rates in the double digits.
- There was a minimal decline of 7,000 sf of direct space available this quarter to 382,000 sf. However, the amount of sublet space availability declined fairly substantially to 66,000 sf as a 50,000-sf block of availability switched from sublet to direct.
- Leasing activity remains steady with this quarter's total at 102,000 sf, down slightly from last quarter. The Sheffield area was particularly active as three blocks of space over 10,000 sf came off of the market; one of those being SABIC Innovative Plastics which leased close to 10,000 sf at 1230 Old Innes Road.
- Absorption figures were boosted this quarter by the completion of the 64,000-sf build-to-suit for the federal government in the Stevenage/Belgreen submarket. Overall demand was steady throughout the eastern submarkets as only one submarkets posted negative absorption and it was under 1,000 sf.
- It is likely that absorption will dip into negative territory next quarter as approximately 175,000 sf will become available and there are no new construction completions to help off-set that figure. It is likely that this upcoming availability will remain on the market for a number of quarters as there are five blocks of space over 15,000 sf set to become available.
- Construction was completed on the 64,000-sf build-to-suit for the federal government.
- There are two additional projects underway 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.

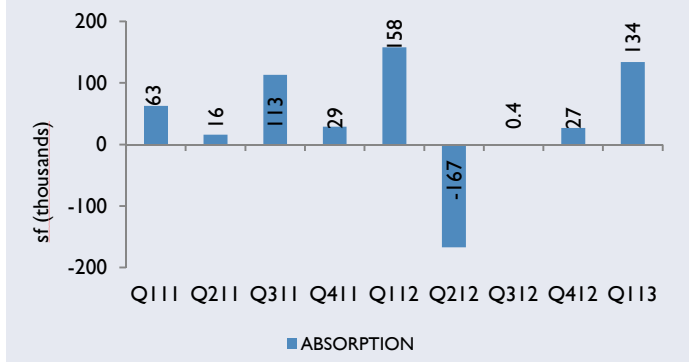
### DIRECT RENTAL VS. VACANCY RATES



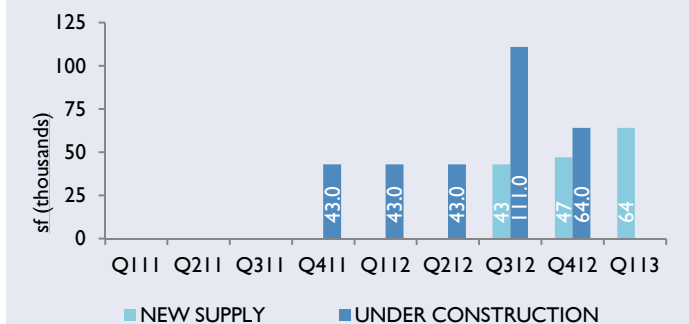
### DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



### ABSORPTION

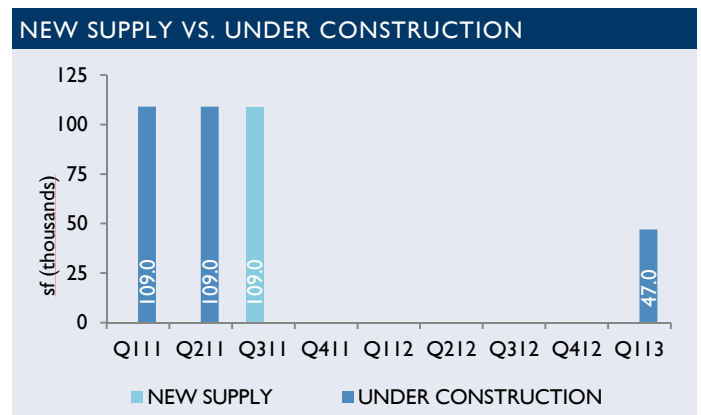
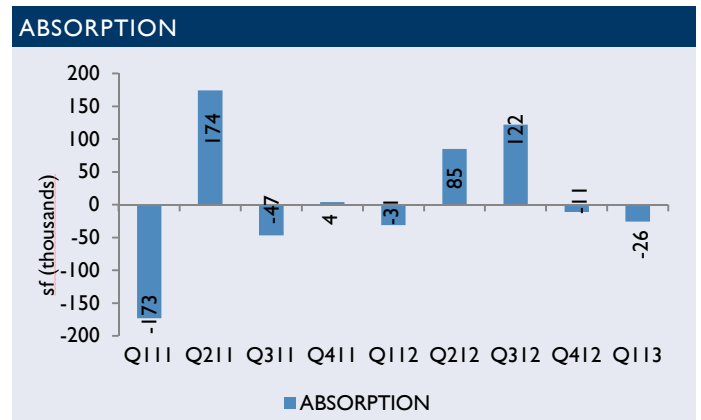
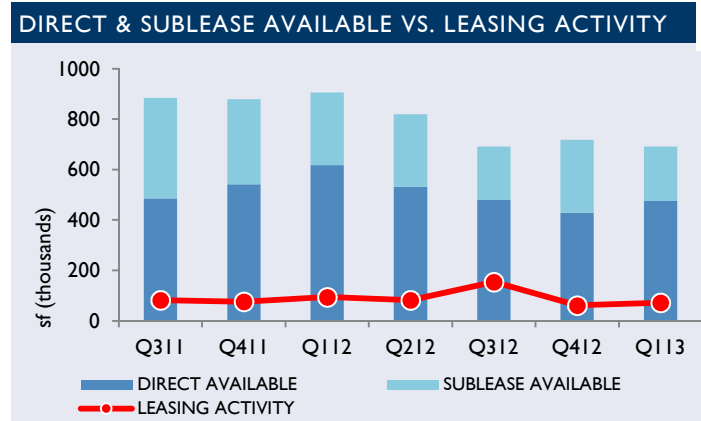
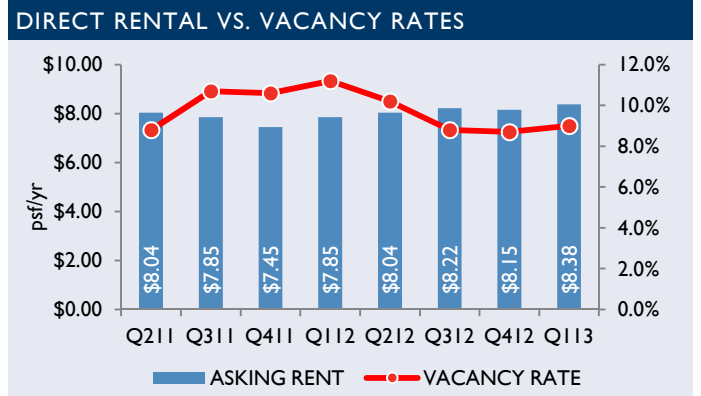


### NEW SUPPLY VS. UNDER CONSTRUCTION



## WESTERN SUBMARKETS

- Vacancy in the western submarkets has remained steady over the past three quarters, climbing slightly to 9.0% this quarter. This was largely the result of rising vacancy in the Kanata submarket.
- Average rental rates edged upwards to \$8.38 psf this quarter. In the majority of the western submarkets rental rates either climbed or were unchanged from last quarter.
- The amount of direct space available continues to fluctuate with a total this quarter of 476,000 sf. This instability also applies to the sublease market as the amount of sublet availability declined to 215,000 sf - the second lowest total in that past seven quarters. All of the sublet availability continues to be located in the submarket of Kanata.
- Leasing activity remains consistent with close to 72,000 sf coming off the market in Q1 2013, slightly higher than last quarter. The East Merivale submarket was the most active with three transactions all over 5,000 sf.
- Absorption figures remained in the negative at approximately 26,000 sf.
- New vacancy outpaced demand in four submarkets which resulted in negative absorption. Kanata posted the highest level of negative absorption at 51,000 sf. This was the result of 175 Terence Matthews coming onto the market, a building that had been occupied by QNX Software, a company that is now owned by Research in Motion.
- 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         | 16.4%                | 1,538                | 0                  | 0                            | (51,122)                           | (51,122)               | \$8.13                     | \$4.66                            | \$12.79                      |
| Bell's Corners          | 334,655           | 4.9%                 | 0                    | 47,000             | 0                            | 0                                  | 0                      | \$10.00                    | \$5.71                            | \$15.71                      |
| Morrison/Queensview     | 415,519           | 12.0%                | 0                    | 0                  | 0                            | 0                                  | 0                      | \$8.15                     | \$4.38                            | \$12.53                      |
| Woodward/Carling        | 540,800           | 4.8%                 | 0                    | 0                  | 0                            | 1,025                              | 1,025                  | n/a                        | \$3.00                            | n/a                          |
| Ottawa Centre           | 777,339           | 3.8%                 | 9,699                | 0                  | 0                            | (14,057)                           | (14,057)               | \$9.00                     | \$3.95                            | \$12.95                      |
| Ottawa South            | 695,111           | 4.8%                 | 18,046               | 0                  | 0                            | 21,844                             | 21,844                 | \$7.24                     | \$3.26                            | \$10.50                      |
| West Merivale           | 534,593           | 3.5%                 | 0                    | 0                  | 0                            | (13,900)                           | (13,900)               | \$9.00                     | \$5.10                            | \$14.10                      |
| East Merivale           | 587,403           | 2.6%                 | 38,980               | 0                  | 0                            | 31,416                             | 31,416                 | \$9.03                     | \$4.62                            | \$13.65                      |
| Colonnade               | 634,309           | 4.7%                 | 2,500                | 0                  | 0                            | 4,900                              | 4,900                  | \$8.21                     | \$5.28                            | \$13.49                      |
| Rideau Heights          | 594,171           | 1.7%                 | 1,000                | 0                  | 0                            | (6,130)                            | (6,130)                | \$8.30                     | \$3.80                            | \$12.10                      |
| <b>WEST OTTAWA</b>      | <b>8,265,562</b>  | <b>9.0%</b>          | <b>71,763</b>        | <b>47,000</b>      | <b>0</b>                     | <b>(26,024)</b>                    | <b>(26,024)</b>        | <b>\$8.38</b>              | <b>\$4.49</b>                     | <b>\$12.87</b>               |
| South Walkley           | 325,180           | 0.0%                 | 0                    | 0                  | 0                            | 0                                  | 0                      | n/a                        | n/a                               | n/a                          |
| Ottawa Business Park    | 1,422,879         | 4.1%                 | 10,115               | 0                  | 0                            | 0                                  | 0                      | \$9.00                     | \$4.39                            | \$13.39                      |
| Coventry/Belfast        | 1,770,250         | 5.9%                 | 12,450               | 0                  | 0                            | 2,450                              | 2,450                  | \$11.84                    | \$4.18                            | \$16.02                      |
| Cyrville                | 2,145,207         | 6.4%                 | 25,780               | 0                  | 0                            | 35,364                             | 35,364                 | \$8.52                     | \$4.52                            | \$13.04                      |
| Sheffield               | 3,043,681         | 1.4%                 | 37,677               | 0                  | 0                            | 34,188                             | 34,188                 | \$7.33                     | \$4.60                            | \$11.93                      |
| Sheffield/Lancaster     | 1,145,820         | 7.2%                 | 11,666               | 0                  | 0                            | 6,486                              | 6,486                  | \$8.60                     | \$4.70                            | \$13.30                      |
| Stevenage/Belgreen      | 1,965,706         | 0.8%                 | 0                    | 0                  | 64,000                       | 55,122                             | 55,122                 | \$7.14                     | \$5.54                            | \$12.68                      |
| South Gloucester/Albion | 402,234           | 1.0%                 | 0                    | 0                  | 0                            | 877                                | 877                    | \$7.50                     | \$4.49                            | \$11.99                      |
| Queensway               | 798,865           | 0.7%                 | 4,100                | 0                  | 0                            | (770)                              | (770)                  | \$7.00                     | \$4.50                            | \$11.50                      |
| Orleans                 | 474,178           | 0.0%                 | 0                    | 0                  | 0                            | 0                                  | 0                      | n/a                        | n/a                               | n/a                          |
| <b>EAST OTTAWA</b>      | <b>13,494,000</b> | <b>3.3%</b>          | <b>101,788</b>       | <b>0</b>           | <b>64,000</b>                | <b>133,717</b>                     | <b>133,717</b>         | <b>\$8.50</b>              | <b>\$4.62</b>                     | <b>\$13.13</b>               |
| <b>OVERALL CITY</b>     | <b>21,759,562</b> | <b>5.5%</b>          | <b>173,551</b>       | <b>47,000</b>      | <b>64,000</b>                | <b>107,693</b>                     | <b>107,693</b>         | <b>\$8.45</b>              | <b>\$4.57</b>                     | <b>\$13.02</b>               |

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

|   |                      |   |                             |                             |
|---|----------------------|---|-----------------------------|-----------------------------|
| <b>Significant Q1 2013 Lease Transactions</b>       | <b>SUBMARKET</b>     | <b>TENANT</b>                           | <b>PROPERTY TYPE</b>        | <b>SQUARE FEET</b>          |
| 2477 Kaladar Drive                                  | Ottawa South         | Canadian Property Stars                 | Warehouse                   | 18,046                      |
| 2935 Conroy Road                                    | Ottawa Business Park | 2345030 Ontario Inc.                    | Mixed                       | 10,115                      |
| <b>Significant Q1 2013 Sale Transactions</b>        | <b>SUBMARKET</b>     | <b>BUYER</b>                            | <b>PURCHASE PRICE / PSF</b> | <b>SQUARE FEET</b>          |
| 1257 - 1283 Algoma Road                             | Cyrville             | Skyline Commercial Real Estate Holdings | \$13,670,000 / \$158        | 86,394                      |
| 60 Colonnade Road                                   | Colonnade            | GPM (12) GP Inc.                        | \$6,600,000 / \$105         | 62,640                      |
| <b>Significant Q1 2013 Construction Completions</b> | <b>SUBMARKET</b>     | <b>MAJOR TENANT</b>                     | <b>COMPLETION DATE</b>      | <b>BUILDING SQUARE FEET</b> |
| 3020 Hawthorne Road                                 | Stevenage/Belgreen   | PWGSC                                   | Q1 2013                     | 64,000                      |
| <b>Significant Projects Under Construction</b>      | <b>SUBMARKET</b>     | <b>MAJOR TENANT</b>                     | <b>COMPLETION DATE</b>      | <b>BUILDING SQUARE FEET</b> |
| 995 Moodie Drive                                    | Bell's Corners       | Fed/Ex                                  | Q2 2014                     | 47,000                      |

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS