

MARKETBEAT INDUSTRIAL SNAPSHOT

OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q3 2013



ECONOMIC OVERVIEW

The unemployment rate in the National Capital Region increased for the third straight month, reaching 6.9% in August. The region's jobless rate has now almost matched the national unemployment rate which currently sits at 7.1%.

There is some good news in that most industry sectors reported steady employment levels and the region overall had a net increase of 1,900 jobs to reach 693,300. The increase in the unemployment rate was a result of approximately 3,400 job seekers entering the workforce. When examined year-over-year, the most significant changes that have occurred in specific sectors becomes more apparent. For example, the number of federal government employees in the region has fallen to 131,400 in August 2013, down by 10,600 compared to August 2012. Other sectors that have experienced marked declines in year-over-year employment numbers include retailing, construction, and information and culture.

VACANCY RATES RISE ONCE AGAIN

Overall vacancy edged upwards by 0.1 percentage points to reach 6.1% in the third quarter. This slight increase resulted from rising vacancy in the western submarkets to 9.4% from 8.9% last quarter. After an influx of new available space within the eastern submarkets last quarter, the market bounced back in the third quarter with vacancy decreasing to 4.0% from 4.1%. Although the change in vacancy was minimal it is worth noting that this decrease occurred despite approximately 95,000 square feet (sf) becoming available in the Orleans submarket.

OVERALL DEMAND REMAINS STABLE

Although overall absorption levels remained in negative territory this quarter at approximately 30,000 sf, it is an improvement over last quarter. Absorption levels in the western submarkets were negative at 43,000 sf; however, the majority of this was the result of a 53,000-sf pocket of space becoming available in one submarket. Absorption in the remaining submarkets was largely unchanged from last quarter. There were multiple eastern submarkets that had strong absorption figures this quarter; however, overall absorption was minimal at 13,000 sf as a 95,000-sf pocket of space came on the market in Orleans.

OUTLOOK

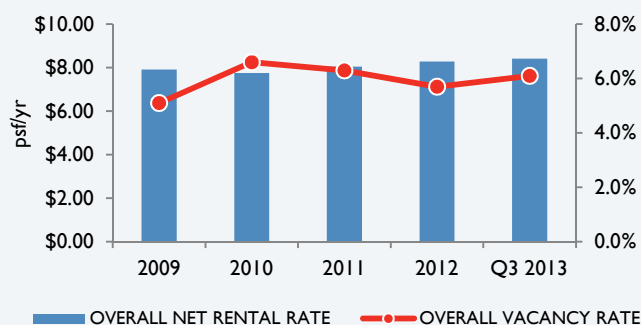
Despite the rising vacancy that has occurred since the beginning of 2013, demand has been consistent. What has been a common occurrence this year is rather than the overall market softening, large pockets of space becoming available have dragged down absorption figures which in turn has resulted in rising vacancy. Vacancy rates should remain fairly stable in

the last quarter of 2013 as 43,000 sf is set to come on the market, an amount that should be able to be absorbed. New supply construction continues with the design-build for Euro Tile & Stone in the eastern suburbs that will be owner-occupied. There is also a planned 150,000-sf warehouse/distribution centre for Multi-Craft Imports that will also be owner-occupied upon completion.

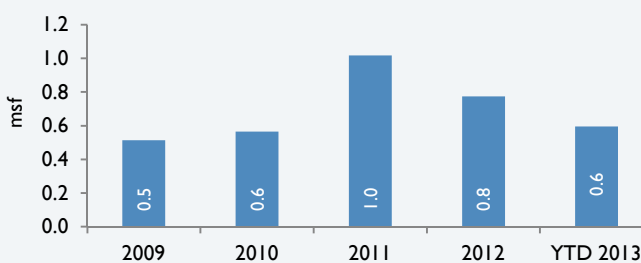
STATS ON THE GO

	Q3 2012	Q3 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	5.7%	6.1%	0.4pp	↔
Direct Asking Rents (psf/yr)	\$8.37	\$8.41	0.5%	↔
YTD Leasing Activity (sf)	596,562	596,095	0.0%	▼

OVERALL RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY



EASTERN SUBMARKETS

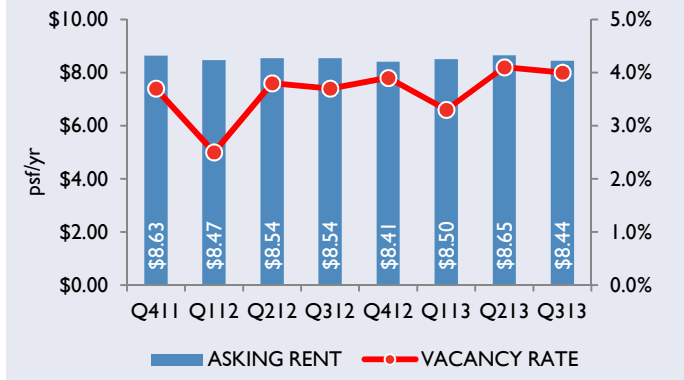
- Vacancy remained stable in Q3 at 4.0%, just 0.1 percentage points lower than last quarter. Vacancy decreased in the majority of the eastern submarkets this quarter; however, with the 95,000-sf pocket of space becoming available the overall change in vacancy was minimal.
- Asking rental rates declined slightly to \$8.44 per square foot (psf). As has been the case for numerous quarters, a change in the average rental rate for the Coventry/Belfast submarket had the largest impact on the overall average. For Q3, the average rate in this submarket was \$10.89, a decline of almost \$2.00 from Q2; therefore resulting in the overall average for the eastern submarkets to decline.

- The amount of direct space available this quarter has stabilized and is almost unchanged from last quarter. The amount of sublet space availability has declined throughout 2013 - reaching 33,000 sf this quarter.
- Leasing activity has maintained its momentum throughout 2013 with this quarter's total at 153,000 sf. There were approximately 25 transactions this quarter with the majority under 5,000 sf. However, there were some exceptions such as close to 18,000 sf being leased at 2644 Glenfield Road by AMJ Campbell Van Lines and approximately 16,000 sf leased at 1230 Old Innes Road.

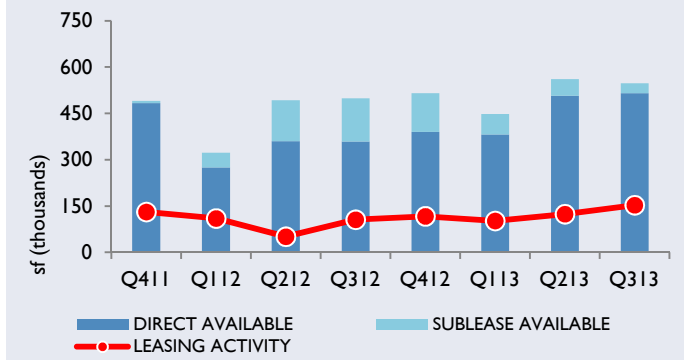
- Absorption figures managed to climb back into positive territory this quarter at 13,000 sf. However, this is not indicative of the demand seen this quarter as four submarkets had positive absorption of over 25,000 sf. As has been discussed earlier, the new 95,000-sf availability negated many of the gains seen in other submarkets.
- It is anticipated that absorption figures will remain in the positive for the remainder of the year as about 37,000 sf is set to come on the market next quarter. Demand should be sufficient enough to mitigate this new availability.

- Construction continues on one project in the eastern submarkets for Euro Tile & Stone which will be owner-occupied upon completion. 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.
- In addition, pre-leasing is officially underway 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 Spring 2014.

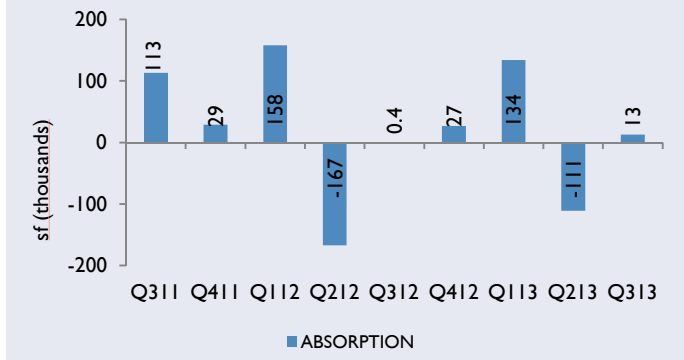
DIRECT RENTAL VS. VACANCY RATES



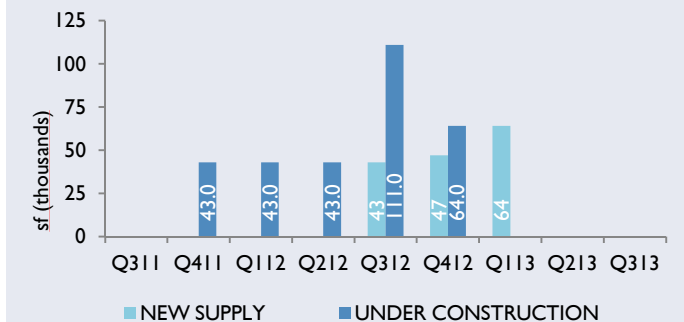
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



ABSORPTION



NEW SUPPLY VS. UNDER CONSTRUCTION



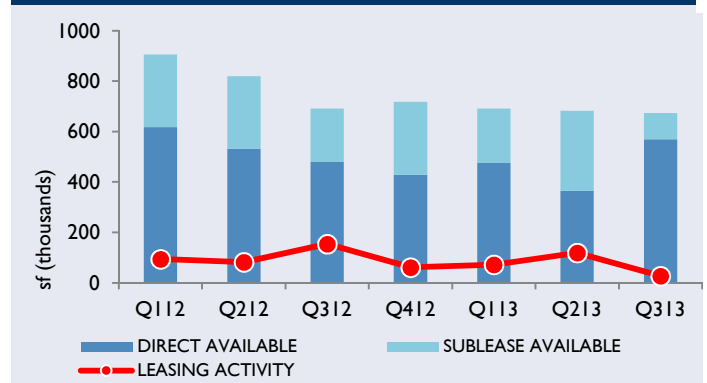
WESTERN SUBMARKETS

- Vacancy in the western submarkets has remained relatively stable for the past year, with Q3 vacancy edging up slightly to 9.4%. This increase was largely the result of a 53,000-sf vacant building becoming available for purchase.
- Average rental rates have also been consistent during the last 12 months, with Q3 rates averaging \$8.37 psf. All of the western submarkets except for one posted average rates either identical to last quarter to slightly higher.
- The amount of direct space available climbed substantially in the third quarter to reach 569,000 sf. The majority of this new direct space was located in Kanata as over 200,000 sf of space located at 501 Palladium changed from sublet to direct. This change in the type of availability at this property is why the amount of sublet space dropped substantially to 104,000 sf.
- Leasing activity slowed noticeably this quarter to 27,000 sf; bringing the year-to-date total to 218,000 sf. Leasing activity for all of the individual western submarkets either came in at zero or totaled less than 7,000 sf.
- Absorption figures for the year have not been substantial and Q3 was no different with negative absorption of 43,000 sf. However, absorption figures would have been positive this quarter had it not been for the 53,000-sf building for sale.
- Absorption should climb back into the positive during the last quarter of 2013 with 12,000 sf set to come on the market; although, this climb back into the positive it will not be a dramatic one, as overall demand continues to be minimal.
- 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.

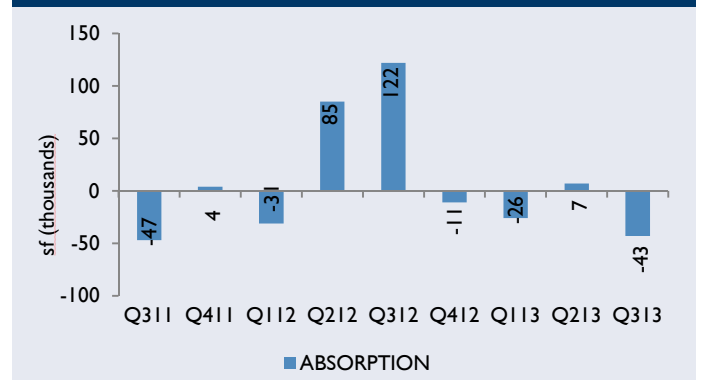
DIRECT RENTAL VS. VACANCY RATES



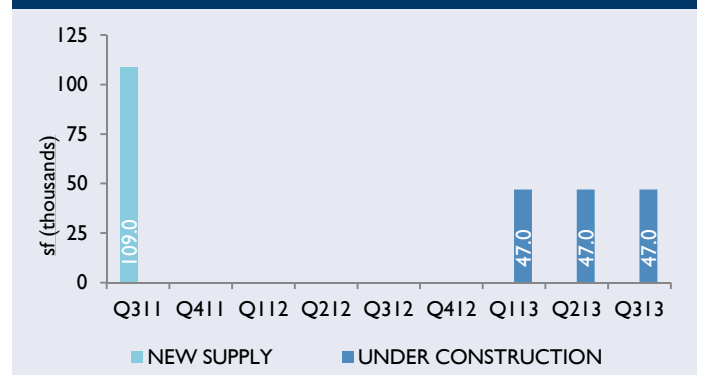
DIRECT & SUBLEASE AVAILABLE VS. LEASING ACTIVITY



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	3,151,662	15.7%	22,920	0	0	4,469	(29,720)	\$7.92	\$4.84	\$12.76
Bell's Corners	334,655	3.0%	12,779	47,000	0	(5,230)	6,170	\$10.00	\$6.51	\$16.51
Morrison/Queensview	415,519	11.2%	3,331	0	0	3,331	3,331	\$8.95	\$3.00	\$11.95
Woodward/Carling	540,800	9.0%	3,520	0	0	424	(22,099)	\$10.24	\$5.65	\$15.89
Ottawa Centre	777,339	2.6%	29,205	0	0	0	(4,307)	\$9.00	\$3.95	\$12.95
Ottawa South	695,111	5.5%	28,207	0	0	0	17,302	\$6.73	\$3.19	\$9.92
West Merivale	534,593	3.5%	3,000	0	0	140	(13,760)	\$9.00	\$5.10	\$14.10
East Merivale	587,403	1.4%	50,400	0	0	3,860	38,085	\$8.90	\$4.88	\$13.78
Colonnade	634,309	5.8%	61,438	0	0	1,011	(2,190)	\$8.66	\$5.53	\$14.19
Rideau Heights	623,138	9.4%	3,000	0	0	(51,372)	(54,822)	\$9.23	n/a	n/a
WEST OTTAWA	8,294,579	9.4%	217,800	47,000	0	(43,367)	(62,010)	\$8.37	\$4.55	\$12.92
South Walkley	325,180	0.0%	0	0	0	0	0	n/a	n/a	n/a
Ottawa Business Park	1,422,879	4.3%	13,018	0	0	(6,606)	(3,703)	\$9.00	\$5.87	\$14.87
Coventry/Belfast	1,770,250	7.7%	52,762	0	0	(17,688)	(28,992)	\$10.89	\$4.00	\$14.89
Cyrville	2,169,483	3.7%	65,056	0	0	36,739	93,684	\$8.75	\$4.11	\$12.86
Sheffield	3,043,681	4.3%	92,407	0	0	33,734	(53,020)	\$7.65	\$3.90	\$11.55
Sheffield/Lancaster	1,145,820	1.7%	99,382	0	0	32,130	69,059	\$8.80	\$5.40	\$14.20
Stevenage/Belgreen	1,965,706	1.0%	39,850	0	63,982	26,184	50,696	\$7.57	\$5.78	\$13.35
South Gloucester/Albion	402,234	0.0%	6,500	0	0	6,500	4,877	n/a	n/a	n/a
Queensway	798,865	0.8%	9,320	0	0	(2,550)	(1,250)	\$7.00	\$4.50	\$11.50
Orleans	474,178	20.0%	0	0	0	(95,004)	(95,004)	\$9.00	\$3.55	\$12.55
EAST OTTAWA	13,518,276	4.0%	378,295	0	63,982	13,439	36,347	\$8.44	\$4.72	\$13.16
OVERALL CITY	21,812,855	6.1%	596,095	47,000	63,982	(29,928)	(25,663)	\$8.41	\$4.64	\$13.05

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q3 2013 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
2644 Glenfield Drive	Stevenage/Belgreen	AMJ Campbell Van Lines	Warehouse	17,890
2700 Lancaster Road	Sheffield/Lancaster	Arnold Glass Ottawa Inc.	Mixed	6,557
Significant Q3 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
975 Gladstone Avenue	Ottawa Centre	Canadian Bank Note Company Ltd.	\$10,215,000 / \$84	121,000
2019 Lanthier/330 Vantage Drive	Orleans	Frecon Construction Ltd.	\$2,000,000 / \$87	23,100
Significant Q3 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
995 Moodie Drive	Bell's Corners	Fed/Ex	Q2 2014	47,000

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS