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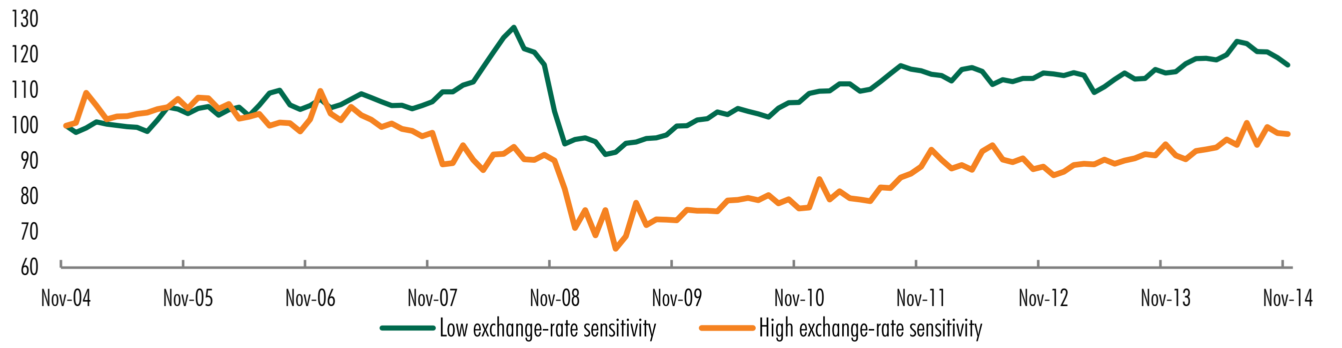
CBRE

Manufacturing Poised to Take Up the Slack in 2015

Manufacturing Sales	USD/CAD Spot Rate	Capacity Utilization Rate	RBC PMI
$51.5 billion (Nov 2014)	$0.80 (Feb 4, 2015)	83.8% (Q3 2014)	51.0 (Jan 2015)

*Arrow indicates change from previous year
PMI = Purchasing Manufacturers Index

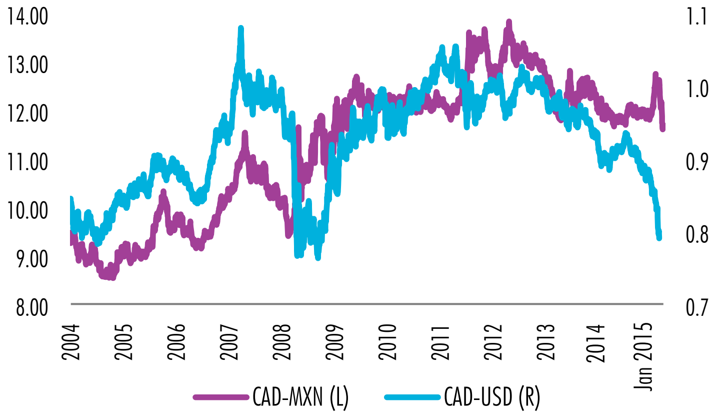
High exchange rate sensitive manufactured goods ready to head higher



Source: Statistics Canada, Bank of Canada, Nov 2014 (Indexed to Nov 2004).

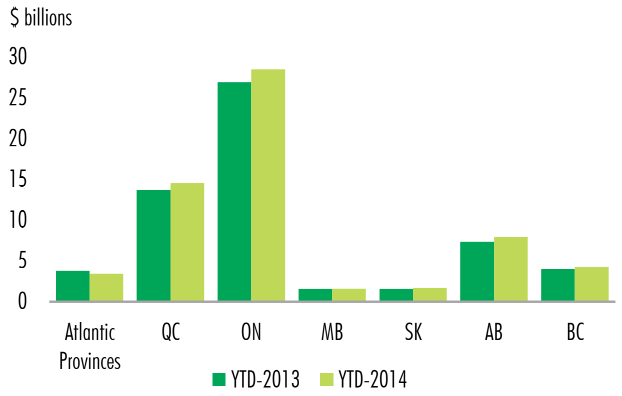
*Low exchange-rate sensitive sectors include food, beverage, tobacco, paper, printing, petroleum and coal, chemical, and primary metal manufacturers. High-exchange-rate sensitive sectors include textile, clothing, plastics and rubber products, wood, machinery, computer, electronics, electrical equipment, transportation, motor vehicles and parts, aerospace, and furniture.

Canadian dollar down against the USD, no real change vs. Mexican Peso



Source: Thomson Reuters Eikon

Ontario and Quebec account for 70.0% of Canadian manufacturing



Source: Statistics Canada, Nov 2014.

With a substantially weaker dollar, the Canadian manufacturing sector has been thrown into the lime light as a possible savior for the Canadian economy as energy producers look set to contract. This will clearly be good news for Central Canada's industrial real estate markets, most notably Ontario and Quebec with the value of the Canadian dollar down 19.0% since the middle of last year touching USD$0.78 in late January and the lowest level since early 2009. It is therefore no surprise that Canadian exporters, of both goods and services, have become significantly more competitive against many U.S. competitors. The more important question is, where will these gains be achieved, and to what degree.

Recent data suggests that with the exception of the past two months, growth in manufacturing shipments has been steady, and earlier in the year even surpassed the pre-recession peak recorded in June 2008. Interestingly, non-energy exports have enjoyed a particularly robust year led by strong gains in the aerospace products industry (+11.1% YTD November) benefiting Montreal in particular. Furthermore, a yearly comparison (2014 YTD vs. 2013 YTD) indicates higher sales have been posted in the motor vehicles and parts sector (+10.6%), mostly benefitting Southwestern Ontario, primary metal (+8.5%), helping Quebec, and transportation equipment (+8.3%), aiding Ontario.

For 2015 and as suggested above, manufacturing growth is expected to tilt in favour of Ontario and Quebec, where relatively large industries (i.e. food, metals, and transportation equipment) will benefit from the lower dollar and stronger growth in the U.S. To what degree they benefit, and with how much time lag, remains uncertain since many face capacity constraints and investment in new production facilities will not be immediate. Hence, while it's tempting to reach the conclusion that sectors which are highly sensitive to the exchange rate (e.g. transportation) will benefit from the lower dollar; these gains will take some time to materialize and the flows will not be as obvious as might be expected. On the real estate front, Canada's largest industrial market faces capacity issues of its own with the latest availability rate at just 4.5%, amongst the lowest in Canada and indeed in North America.

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