

MARKETBEAT

RETAIL SNAPSHOT



OTTAWA, ON

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Q2 2014



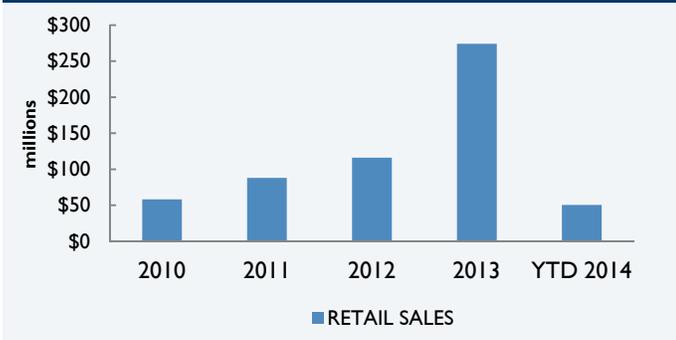
ECONOMIC OVERVIEW

Employers in the National Capital Region added approximately 5,100 people to their payrolls in May 2014, resulting in the unemployment rate decreasing by 0.1 percentage points to 6.7%. The public administration sector rebounded slightly, with the number of public servants increasing by 3,600 in May compared to April, although still down by 5,600 year-over-year. An emerging story continues to be the strengthening of the high-tech sector. Statistics Canada recently reported that there were 65,200 tech employees in Ottawa-Gatineau. If this figure is accurate, then this sector is certainly on the mend, as employment numbers in May 2013 totaled 49,700. The timing of this recovery could not be better, as the local economy has slowed over the past couple of years, largely a result of federal government downsizing. Real GDP growth will remain subdued at 0.9% in 2014, although it does mark a slight improvement over 2013 when growth was almost non-existent at 0.1%.

Despite the struggles that the local economy has been facing, the Ottawa Real Estate Board (OREB) states in its monthly sales report that the Ottawa real estate resale market has rebounded from the slow start to 2014, with June 2014 residential sales up 4.3% year-over-year.

According to the Canadian Mortgage and Housing Corporation, housing starts in June 2014 reached 5,243, a very slight increase from May 2014. The monthly average of starts has hovered around 5,000 for 2014, which is down from 5,700 at this point last year. This decline is not surprising, considering the ongoing uncertainty with regard to employment. This, along with other factors such as a balanced resale housing market and changing demographics, has led the Conference Board of Canada to predict that housing starts will fall to approximately 7,400 units this year. The non-residential outlook is much brighter, as there are a multitude of projects that are ongoing.

RETAIL SALES ACTIVITY



In terms of retail construction, the largest projects are the Rideau Centre and Bayshore Shopping Centre expansions, worth \$360 million and \$200 million respectively. In addition, Tanger Factory Outlet Centres is spending \$120 million to build its 350,000-square foot (sf) outlet mall. Looking to retail sales, growth in consumer retail sales in 2013 was 1.7% for the region. This is expected to accelerate to 2.7% in 2014, with growth reaching 3.5% in 2015.

ECONOMIC INDICATORS

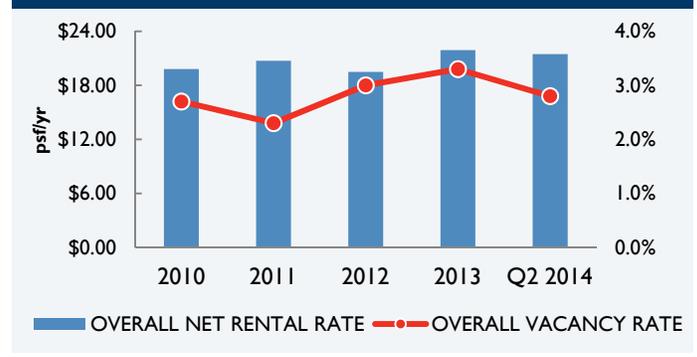
REGIONAL	2013	2014F	2015F
GDP Growth	0.1%	0.9%	1.9%
CPI Growth	1.0%	1.2%	2.0%
Retail Sales Growth	1.7%	2.7%	3.5%
REGIONAL	2013	2014F	2015F
Household Income	44,972	45,999	47,514
Population Growth	1.3%	1.0%	0.8%
Unemployment	6.3%	6.1%	5.9%

Source: Conference Board of Canada

OTTAWA MARKET BREAKDOWN

	VACANCY	RENTAL RATES PSF/YR	MEDIAN SALES PRICE / SQUARE FOOT
Regional Malls	1.3%	N/A	N/A
Community Malls	1.9%	\$20.32	N/A
Core Office Tower	2.6%	\$34.80	N/A
Neighbourhood Malls	5.4%	\$19.92	\$271
TOTAL MARKET	2.8%	\$21.47	N/A

OVERALL RENTAL VS. VACANCY RATES



RETAIL MARKET OVERVIEW

After remaining at 3.3% throughout 2013, the overall retail vacancy rate for the city declined to 2.8% during the first half of 2014. The Regional Mall segment remains quite stable with vacancy declining just slightly to 1.3%, one-tenth of a percentage decline from where vacancy sat for all of 2013. The Downtown Core was also largely unchanged as vacancy declined, also by one-tenth of a percentage point, to 2.6%. The Community Mall segment had a strong first half of the year, as vacancy declined to 1.9% as 150,000 sf of available space came off of the market. The Neighbourhood Mall category on the other hand, saw vacancy climb to 5.4% from 5.0% as new availability outpaced demand in multiple areas across the city. Overall absorption was 179,000 sf, a fairly strong number considering that there were no new major construction completions over the first half of 2014. Overall rental rates continue to hold steady, with the current average sitting at \$21.47 per square foot (psf).

REGIONAL MALLS AND LARGE POWER CENTRES: OVER 375,000 SF

As new development continues across the city, the inventory size of this segment continues to climb. Over the first half of 2014, the completion of a new 40,000-sf Toys R Us at RioCan Belcourt in Orleans resulted in the centre being moved to this category, as the centre is now close to 384,000 sf in size. This new construction was also the driving force behind the total positive absorption of 40,000 sf within this category for the first half of 2014. Phase II of the renovation and expansion work is now underway at the Bayshore Shopping Centre. All in all, 30 new stores have opened their doors and one of the more notable new entries to the Ottawa market during the first half of 2014 was Express, a U.S. unisex clothing store. It is also anticipated that the new food court will be ready by August. Work also continues at the Rideau Centre, and is expected to have a very busy second half of the year. The new 35,000-sf dining hall is expected to be open as of August 1st and will have 16 “premium branded eating establishments”. Bath & Body Works and Express are also expected to open their doors in August, with J. Crew opening in September.

COMMUNITY MALLS AND SMALLER POWER CENTRES – 110,000 - 375,000 SF

Vacancy declined in this segment through the first half of 2014, reaching 1.9%. What is interesting to note is that it was the same space that drove vacancy upwards over the last half of 2013 and then pushed vacancy back down at mid-year 2014. The space in question is the 93,000-sf Zellers store at 59 Robertson Road. Originally this space was vacated as neither Walmart nor Target elected to take over this location. However, in April it was announced that Zellers would in fact be reopening in this space and would be operating as a clearance centre for the Hudson's Bay and Home Outfitter labels. In other new development news, construction continues at Trinity's development at West Hunt Club Road and Merivale Road. Tenants still slated to open here include Chop Steakhouse & Bar and Jack Astor's. Once the centre is completed in the coming years it will total 360,000 sf in size. Construction on the retail component of the redeveloped Lansdowne Park is well underway with construction

completions expected in late 2014/2015. Some of the more notable tenants include Whole Foods and Sporting Life; for both, it will be their first location in Ottawa.

NEIGHBOURHOOD MALLS: 10,000-110,000 SF

Vacancy continues to edge up within this segment, as vacancy climbed to 5.4% during the first half of 2014, about 0.7 percentage points higher than one year ago. New availability just slightly outpaced demand in the majority of the submarkets during the first six months of the year, resulting in a fairly low level of negative absorption of 29,000 sf. The majority of this negative absorption was located in the Nepean/Merivale Road area, as a 20,000-sf block of space became available at Emerald Plaza. New construction remains fairly active in this segment as the outlying suburbs such as Barrhaven, Kanata, and Riverside South continue to grow, which in turn results in new retail construction to service these areas. Construction is ongoing at Centrecorp's The Shoppes at Fairwinds in Kanata with Dollar Tree and The Keg Steakhouse slated to open in the future. There is a new development that is in its final planning stages that will also be located in Kanata and is being developed by Taggart Realty Management. This development will be approximately 71,000 sf and will feature The Brick and a La-Z-Boy furniture store.

CORE OFFICE TOWER: 10,000 SF AND OVER

A new office tower, 150 Elgin Street, was completed in Q1 2014 and as a result, 17,000 sf of retail space was added to the inventory. Renowned restaurant Beckta will be relocating to this building and The Scone Witch has also opened a store here which leaves approximately 8,000 sf vacant. Located next door at 180 Elgin, H&R REIT has recently released plans to completely renovate their lobby, retail, and food court areas with an anticipated completion date of Q2 2016. Finally, work continues at 90 Elgin Street which will have a retail component of approximately 15,000 sf. Retail preleasing has been strong in this building, with just three units totaling approximately 5,000 sf remaining to be leased.

OUTLOOK

The retail landscape in Ottawa is in the midst of significant change with the substantial renovations underway at The Rideau Centre and Bayshore Shopping Centre, along with the new retail development at Lansdowne Park and the Tangier Outlet Centre. However, we may start to see some vacancies creep in, particularly Canadian clothing stores that cater to women. A prime example would be Jacob, which declared bankruptcy and are in the midst of closing their five locations in Ottawa. In addition, Reitman's Canada and Le Chateau are in the midst of reevaluating their real estate needs which may eventually impact the local market, as both companies have locations in both the Regional Mall segment and Community Mall segment.

OTTAWA SUBMARKET STATISTICS

SUBMARKET	INVENTORY	VACANCY RATE MID-YEAR 2014	VACANCY RATE YEAR-END 2013	Q2 2014 ABSORPTION	YTD ABSORPTION	WTD AVERAGE NET RENT	WTD AVERAGE TAX & OP COSTS
REGIONAL MALLS & LARGER POWER CENTRES	7,964,745	1.3%	1.4%	39,726	39,726	N/A	N/A
COMMUNITY MALLS & SMALLER POWER CENTRES	6,614,329	1.9%	4.0%	151,283	151,283	\$20.32	\$11.99
DOWNTOWN CORE	712,846	2.6%	2.7%	16,955	16,955	\$34.80	\$28.82
Ottawa East	480,083	1.0%	0.8%	(1,267)	(1,267)	\$19.32	\$11.10
Gloucester	397,321	13.2%	12.2%	(3,819)	(3,819)	\$15.93	\$13.00
Orleans	834,064	11.4%	10.9%	(3,680)	(3,680)	\$19.20	\$10.79
Ottawa South	1,008,134	3.2%	3.8%	6,308	6,308	\$19.92	\$11.03
Kanata/Stittsville	1,436,078	3.6%	5.0%	20,077	20,077	\$23.21	\$11.30
Bell's Corners	334,640	7.4%	1.7%	(19,146)	(19,146)	\$16.61	\$8.98
Nepean (Merivale)	657,301	8.4%	2.7%	(36,941)	(36,941)	\$15.79	\$12.34
Nepean (Other)/Barrhaven	707,915	2.0%	3.7%	11,155	11,155	\$25.41	\$14.70
Ottawa West	680,736	3.8%	3.6%	(1,380)	(1,380)	\$24.19	\$22.62
NEIGHBOURHOOD MALLS	6,536,272	5.4%	5.0%	(28,693)	(28,693)	\$19.92	\$11.75
TOTAL MARKET	21,828,192	2.8%	3.3%	179,271	179,271	\$21.47	\$12.06

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
Place D'Orleans Shopping Centre	Regional Malls – Orleans	H&M	Regional Malls	19,067
700 Eagleson Road	Kanata/Stittsville	Kids & Company	Neighbourhood Mall	10,000
Kanata Centrum	Regional Malls – Kanata	Active Sports Outlet	Regional Malls	6,225
SIGNIFICANT Q2 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
1356 & 1366 Clyde Avenue	Neighbourhood Malls – Nepean/Merivale Road	Golpro Holdings Inc.	\$7,400,000 / \$382	19,386
350 Viewmount Drive	Neighbourhood Malls – Nepean/Merivale Road	Central Precast Inc.	\$1,700,000 / \$239	7,109
SIGNIFICANT Q2 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
RioCan Belcourt	Regional Malls	Toys R Us	Q2 2014	40,000
Grant Crossing	Regional Malls	JYSK	Q2 2014	18,000
Hunt Club & Merivale Road	Regional Malls	Five Guys, Panera Bread	Q1/Q2 2014	7,000
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Lansdowne Park	Community Malls	Whole Foods, Sporting Life	Fall 2014/Winter 2015	360,000
Tangier Outlet Mall	Community Malls	Nike, Gap, Banana Republic	Fall 2014/Winter 2015	350,000