

MARKETBEAT

OTTAWA RETAIL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



2Q08

ECONOMIC OVERVIEW

It is anticipated that both domestic and external demand will continue to cool throughout the remainder of 2008. However the strength of the public administration sector will help keep the local economy on a path of steady growth as output in this sector is expected to expand by 2.8% in 2008. It is forecasted that real gross domestic product growth in the Ottawa-Gatineau metropolitan area should reach 2.6% in 2008 and improve to 2.9% in 2009. This forecasted GDP growth will rank Ottawa sixth out of thirteen census metropolitan areas.

Unemployment in the Ottawa-Gatineau region rose slightly in May, edging up to 5.0%. Unlike 2007 employment growth has been relatively flat so far this year, with employment numbers down by about 2,300. However on a year-over-year basis employment has risen by roughly 21,600 jobs over the last 12 months. The strong job gains over the past few years have supported healthy domestic demand growth, including consumer spending and real estate activity. A total of 9,300 housing units were started in 2007, the third highest level in the recent housing cycle. Looking forward, new residential construction is expected to ease and decrease to 8,300 units in 2008 and to 7,600 units in 2009 –which historically remains strong.

RETAIL MARKET OVERVIEW

The local retail market continues to shake off any potential ill effects from the strong Canadian dollar and the uncertainty surrounding the economy. Currently vacancy sits at 2.7%, a slight increase of three tenths of a percentage point from six months earlier. Despite this increase, vacancy rental rates have continued to escalate with the asking rental rate currently averaging \$19.75.

Demand has eased off slightly from last year with positive absorption of around 4,600 square feet (sf) during the first half of the year. This decline was not so much a softening of the local retail economy but more the result of a large block of space becoming available in the Ottawa South neighbourhood mall sub-market. An additional factor that minimized absorption was that there was a pause in construction completions at the numerous power centres in the city. However activity is expected to pick up through to the end of the year as construction is expected to be completed on the 130,000 sf Canadian Tire store located at the SmartCentre Orleans site. Construction is also set to begin on four new buildings at the Ottawa Train Yards project that once completed will add over 25,000 sf to the project.

As of late, new retail construction in Ottawa has appeared to have adopted a more “wait and see” approach. Although there will continue to be development of smaller neighbourhood in-fill projects to serve

ECONOMIC INDICATORS

	2008F	2007	2006
Real GDP Growth	2.6%	2.7%	3.5%
CPI Growth	0.9%	1.9%	1.7%
Retail Sales	6.2%	4.6%	4.4%
Personal Income per capita	\$41,311	\$40,078	\$38,215
Population ('000)	1,176	1,169	1,163
Unemployment	5.5%	5.2%	5.2%

Source: Conference Board of Canada

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
South Keys	Bouclair Home	10,062
Kanata Centrum	Bulldog Lounge	3,526
Barrhaven Town Centre	A Gym Tale	3,400

UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
3890 Innes Road	Canadian Tire	130,000

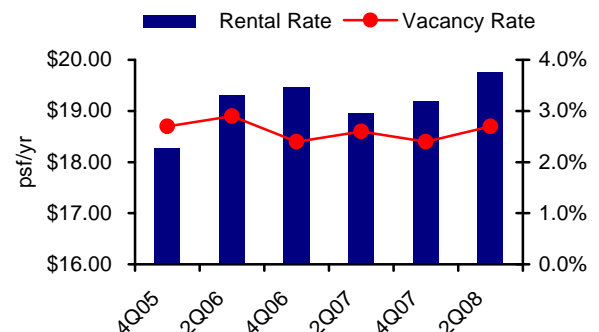
CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
1650-1660 Carling Avenue	Canadian Tire	100,000
3890 Innes Road	Wal-Mart Expansion	65,000
1872 Merivale Road	Various	46,500

KEY INVESTMENT TRANSACTIONS

PROPERTY	TENANT	SALE PRICE
Wedgewood Plaza	Various	\$11,615,000

VACANCY VS. RENTAL RATES



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the rapidly growing suburbs, it appears that developers are holding back on commencing construction on any of the major power centres currently in the planning stages across the city. If any of these developments were to commence construction in the next six months, it is likely it will be at one of the sites in the suburbs of Kanata and Orleans where a Lowe's is proposed to be the anchor tenant.

SUBMARKET HIGHLIGHTS

Regional Malls – Over 375,000 sf

Vacancy in the regional mall segment decreased slightly over the first six months of 2008 to 0.9%, a decline of two tenths of a percentage point from the end of last year. This decline can be attributed to slightly lower vacancy in two of the enclosed malls and in two of the power centres. Although the increase in demand was slight with just under 12,000 sf of positive absorption, it is an improvement from the negative absorption seen during the last half of 2007. Making news over the first half of the year was the opening of Sephora's, which is a leading retail beauty chain from Europe, at the Rideau Centre, one of the premier enclosed malls in the city. This is the boutique's first Ottawa location. Place D'Orleans, another enclosed mall, has had a successful 2008 to date. Seven new stores have opened recently, with three more scheduled to open later this summer. The regional mall sub-market will continue to expand in the short term as development opportunities remain at Kanata Centrum, the largest power centre in Ottawa. SmartCentre Orleans will also be joining the regional mall sub-market later this year as the new Canadian Tire store will be completed. This completion will push this development to over 375,000 sf.

Downtown Core – Over 10,000 sf

Vacancy in the downtown core continued to decline during the first half of the year, edging down to 1.6% from 2.9% during the last half of 2007. Accompanying the drop in vacancy was an increase in demand with positive absorption of over 8,000 sf. The relocation of a premier spa had no impact on vacancy as the space was leased by Shoppers Drug Mart. Little change is expected through to the end of the year, although vacancy may creep

upwards as close to 2,000 sf of retail space is expected to come on the market over the last half of the year.

Community Malls – 110,000 to 375,000 sf

Vacancy continues to be consistent in the community mall segment, with vacancy currently at 1.6%, two tenths of a percentage point decline from six months ago. Activity was slower during the first half of the year with close to 14,000 sf of positive absorption. The reason behind this decline was a lack of new construction which has been driving absorption in the community malls over the last few years. Looking forward through to the end of 2008 and into 2009 construction activity will begin to accelerate as construction continues at the Ottawa Train Yards project. Approximately 25,000 sf is expected to be completed by the end of the year, with an additional 200,000 sf of retail to be completed sometime in 2009. There continues to be numerous projects in the planning stages that are awaiting an anchor tenant(s) before commencing construction. These include a 300,000 sf power centre in Kanata and at the other end of the city Phase 2 of the SmartCentre Orleans project. In the rapidly expanding south end of the city there is also a 132,000 sf project in the works.

Neighbourhood Malls – 10,000 to 110,000 sf

Vacancy in the neighbourhood mall segment rose over the first six months of the year to 5.9%, an increase of one and a half percentage points over the last half of 2007. Demand eased off as the majority of the sub-markets posted negative absorption with an overall negative absorption of around 29,000 sf. The driving force behind this negative absorption was over 50,000 sf coming on the market at Blossom Park Plaza located in the Ottawa South sub-market. The Orleans sub-market experienced the highest absorption due the completion of construction of a new 63,000 sf plaza that has a Sobeys as their anchor tenant. As it stands now absorption should stabilize and head back into positive territory through to the end of the year as no new large spaces are projected to come onto the market and overall demand continues to be strong. Looking even further ahead there are numerous projects planned, with many of them located in the rapidly growing suburbs. Some of these include a 60,000 sf plaza located in the booming suburb of Barrhaven that will be anchored by a Farm Boy. There is also a project planned close to the growing community of Riverside South that once completed will be close to 75,000 sf.

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OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2008	VACANCY RATE YEAR-END 2007	YTD ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
Regional Malls	5,444,967	0.9%	1.1%	11,796	N/A	N/A
Community Malls	6,595,830	1.6%	1.8%	13,906	\$20.47	\$8.59
Downtown Core	631,166	1.6%	2.9%	8,398	\$25.57	\$22.24
Neighbourhood Malls	5,878,634	5.9%	4.4%	(29,464)	\$19.48	\$10.72
Ottawa East	479,539	3.1%	3.2%	99	\$18.98	\$9.46
Gloucester	359,292	5.9%	4.5%	(5,030)	\$14.54	\$11.33
Orleans	819,980	4.0%	4.6%	69,554	\$17.28	\$9.75
Ottawa South	1,089,808	7.7%	3.5%	(54,789)	\$19.63	\$11.20
Kanata/Stittsville	951,443	4.9%	5.9%	7,154	\$21.86	\$11.07
Bell's Corners	296,828	9.7%	8.0%	(5,056)	\$15.07	\$9.26
Nepean (Merivale)	626,801	2.0%	1.1%	(6,340)	\$22.32	\$8.31
Nepean (Other)	680,862	9.6%	6.8%	(20,530)	\$23.50	\$13.63
Ottawa West	574,081	6.9%	2.5%	(14,526)	\$22.87	\$12.08
Total	18,551,597	2.7%	2.4%	4,636	\$19.75	\$10.93



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