MARKETBEAT

OTTAWA RETAIL REPORT

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ECONOMIC OVERVIEW

The National Capital Region added 2,600 jobs from April, with an overall increase of 26,300 jobs from last year, but with more workers entering the job market, the unemployment rate for the Ottawa-Gatineau region remained at 6.0% in May. There are potential clouds on the horizon in the form of a freeze in governmental spending budgets, which will likely lead to shrinkage in the public administration job sector As of April, total employment within this sector numbered 160,500 jobs. This anticipated contraction will likely create a domino effect across numerous sectors, particularly affecting the retail and wholesale sectors, which rely heavily on consumer spending.

Ottawa's residential construction industry saw both positive and negative results in May. Existing home sales saw a 14 percent year-over-year decrease in May; however, it is believed that this is more reflective of the upcoming implementation of the Harmonized Sales Tax rather than an overall dramatic softening of the resale market. Much of the sales volume was pushed back to April as buyers were aware they would be spending 8 percent more for all of the service costs associated with their real estate transaction if their closing date was after July 1st. Housing starts, on the other hand, showed a thirty nine percent year-over-year increase in May. Overall, the Ottawa area had 709 units constructed in May 2010, compared with 369 units in May 2009.

A new report released by the Canadian Mortgage and Housing Corporation stated that 58 percent of Ottawa households, the second most in the country, did some sort of renovation work in 2009, and that approximately 50 percent of local households planned to undertake renovations of $1,000 or more in 2010. It is likely that local trades people and home improvement/furnishing stores have already reaped the rewards of this spending, as the majority of the public would have been taking advantage of the federal government's home renovation tax credit, which was applicable to renovation goods and services purchased between January 2009 and February 1st 2010.

RETAIL MARKET OVERVIEW

Vacancy continues to remain very tight in the overall retail market, with vacancy sitting at 2.9%, a two-tenths of a percentage point decrease from six months ago. Overall retail rents rose substantially to $20.29, almost two dollars higher than December 2009. This was largely due to an increase in rental rates in the neighbourhood mall segment. The strength in the retail market over the first half of the year was also demonstrated in absorption figures, with positive absorption of just over 165,000 square feet (sf).

ECONOMIC INDICATORS

	2008	2009	2010F
Real GDP Growth	1.3%	-1.2%	2.8%
CPI Growth	2.2%	0.6%	2.5%
Retail Sales	4.4%	-1.1%	3.9%
Personal Income per capita	$41,126	$40,954	$41,764
Population ('000)	1,201	1,221	1,235
Unemployment	4.8%	5.7%	5.9%

Source: Conference Board of Canada

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
161-163 Bank Street	Murale	7,970
Orleans Central	Canada Computer	5,274
96 Sparks Street	Bridgehead	Approx. 4,000

CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
Orleans Central	Goodlife Fitness	33,706

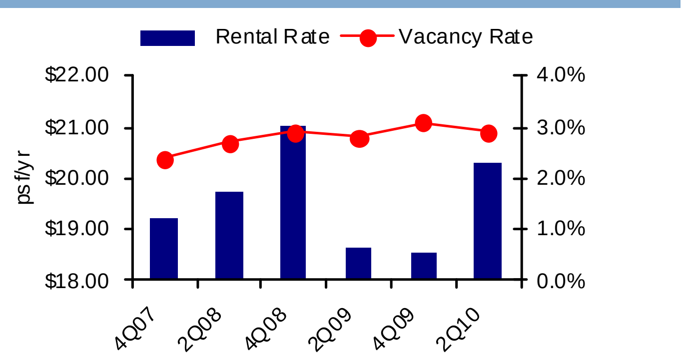
UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
Ottawa Train Yards	Various	163,500
Hazeldean & Huntmar	Lowe's	142,000

KEY INVESTMENT TRANSACTIONS

PROPERTY	PURCHASER	SALE PRICE
1217-1225 Wellington St.	N/A	$3,300,000
297 Bank Street	297 Bank St. Ltd.	$2.000.000

VACANCY VS. RENTAL RATES



Local growth in one-stop shopping continues to be strong. Currently, there are two local Canadian Tire stores out of the nine province-wide offer basic groceries. They join the rapidly expanding Shoppers Drug Mart, who have also set up grocery sections in their new stores**.** These stores are following the model set out by Wal-Mart. There is currently only one Wal-Mart Supercentre in the City of Ottawa, but there are two located in smaller centres just outside of Ottawa, with a third coming soon.

A continuing trend that bears watching over the second half of the year is the arrival of American clothing retailers into the Canadian, and eventually the local, market. Companies such as J. Crew Group and Victoria's Secret are looking to establish a presence in Canada, while Bath & Body Works and Gap Inc. are planning on an expansion of their locations. The Canadian market is an ideal place to expand during this shaky recovery period as it is a way for these companies to expand internationally but in a market that is closer and more familiar than overseas.

SUBMARKET HIGHLIGHTS

Regional Malls and Large Power Centres – Over 375,000 sf

Vacancy in this segment decreased once again over the first six months of the year to reach 0.4%, one-tenth of a percentage difference from the second half of 2009. Decreases in vacancy at RioCan Marketplace led to the overall decline. There were no significant developments in this sector over the first half of the year. By the end of 2010 it is expected that the inventory will grow in this submarket as a power centre, The Ottawa Trainyards, has commenced construction on the second phase of the development and, once some of that is completed, the centre will be of sufficient square footage to be added to this category.

Downtown Core – Over 10,000 sf

After a significant rise in vacancy in this usually stable market last quarter, vacancy headed back down to 2.1%, much closer to the historical average. As expected, the space that was available at 240 Sparks came off of the market as the retail portion of this building is finishing their extensive renovation and is looking to be the premier retail destination within the downtown core. There is expected to be little change to the downtown core retail market in the short term. There will be additional inventory added once construction at 150 Slater is completed in 2011. The retail portion is approximately 14,000 sf and it is believed to already be fully leased.

Community Malls and Smaller Power Centres – 110,000 to 375,000 sf

Vacancy in this segment decreased slightly over the first half of the year, declining by one-tenth of a percentage point to 3.4%. Although there were approximately 10 properties that had increases in vacant space, this negative absorption was counteracted by two large pockets of positive absorption. The first was the removal of 56,000 sf located at Fairlawn plaza. Although this space came on the market last quarter, it was subsequently removed this quarter as the property is about to undergo redevelopment. The second was the completion of additional new construction at The Trainyards, which contributed approximately 88,000 sf of positive absorption. Rental rates remained very close to what was reported over the last half of 2009, ranging from $18.00-$25.00, with the average rental rate coming in at $21.25. Looking to the remainder of 2010, this submarket should remain stable with little change in vacancy and rental rates. Although there were a handful of projects across the city slated to be completed by the end of the summer, it is highly unlikely this will occur. The only new construction in this category that is actively underway is the Trinity site at Hazeldean & Huntmar, which is the site of Ottawa's second Lowe's. It appears, however, that the completion date for the first phase of this project has been pushed back, possibly due to the ongoing expansion of Hazeldean Road.

Neighbourhood Malls – 10,000 to 110,000 sf

Vacancy declined once again in this submarket, with seven of the nine geographical locations surveyed reporting declining vacancy. Overall vacancy now sits at 4.9%, which is four-tenths lower than the last half of 2009. A significant change occurred in the average rental rate for the entire submarket, which increased to $19.81. Numerous areas reported higher rates than six months earlier, with one of the most significant increases seen in Orleans. Orleans also had the highest level of positive absorption, with approximately 32,000 sf. This was due to new construction at Orleans Central, the former Canadian Tire site that has been redeveloped with Goodlife Fitness as its lead tenant. As was the case with the Community Mall segment, there are also numerous projects that were slated for completion by the end of summer 2010. To date, the only new construction that is expected to be completed by summer's end is approximately 22,000 sf located at Hunt Club Place, the recently opened centre with T&T supermarket as its anchor.

OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2010	VACANCY RATE YEAR-END 2009	YTD ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
Regional Malls & Large Power Centres	**5,930,967**	**0.4%**	**0.5%**	**5,804**	**N/A**	**N/A**
Community Malls & Smaller Power Centres	**6,496,644**	**3.4%**	**3.5%**	**90,724**	**$21.25**	**$8.89**
Downtown Core	**648,166**	**2.1%**	**4.0%**	**12,062**	**$28.00**	**$24.33**
Ottawa East	480,083	3.6%	5.8%	10,758	$18.00	$7.50
Gloucester	304,994	4.6%	8.2%	10,958	$15.82	$11.71
Orleans	853,686	4.7%	4.7%	32,446	$22.20	$9.69
Ottawa South	1,008,134	4.1%	4.5%	4,730	$20.83	$11.99
Kanata/Stittsville	988,685	3.8%	3.3%	(4,609)	$18.06	$11.60
Bell's Corners	296,828	11.2%	12.0%	2,511	$17.27	$10.25
Nepean (Merivale)	657,301	2.4%	3.6%	7,648	$24.79	$12.91
Nepean (Other)	680,862	7.2%	7.6%	2,108	N/A	N/A
Ottawa West	669,781	6.0%	4.5%	(10,051)	$22.30	$12.84
Neighbourhood Malls	**5,940,354**	**4.9%**	**5.3%**	**56,499**	**$19.81**	**11.40$**
Total	**19,016,131**	**2.9%**	**3.1%**	**165,089**	**$20.29**	**$10.75**

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