



MARKETBEAT

OTTAWA RETAIL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q10

ECONOMIC OVERVIEW

Ottawa-Gatineau's unemployment rate fell one-tenth of a percentage point in November to 6.8% as the number of people actively seeking employment declined. The region recorded a net increase of 700 jobs, for a total of 672,600. This marks the first monthly increase in employment since June, and this improvement came despite a loss of 3,400 jobs in the high-tech sector, which now employs 43,100. On the positive side, employment rose in educational services, healthcare, and the hotel and food industries. Employment in public administration, a key sector for the region, held steady at 167,600 jobs.

The local real estate resale market remains healthy, as evidenced by a 3.2% increase in sales in November compared to one year ago. Members of the Ottawa real estate board sold 942 properties in November compared with 913 last year. Of these sales, 221 were condominiums. Selling prices continue to increase, albeit at a more sedate pace compared to recent years, and the number of properties for sale has also risen, leading to a stable and balanced market.

New housing construction also had a strong month as starts in Ottawa reached 928 units in November, an increase of 39% from a year ago. The generally more affordable multiple-family homes, in particular condominiums, continue to be the driver behind new construction activity, representing close to three-quarters of new starts in the region.

This continuing strength in the housing market, coupled with Ottawa's relatively stable economy and high average income levels, has certainly benefitted the local retail market in 2010—retail sales are expected to reach \$15.6 billion by year-end, a 5.6% increase over 2009 levels.

RETAIL MARKET OVERVIEW

The vacancy rate continued to decline and now sits at 2.7%, a two-tenths of a percentage point drop from six months earlier. The overall average asking retail rent eased slightly to \$19.81 per square foot (psf). This decrease was largely due to a decline in rental rates in the neighbourhood mall segment and the lack of posted rates in the downtown core segment. The strength of the retail market over the course of 2010 is best illustrated by absorption figures, with positive absorption of over 350,000 square feet (sf) for the second half of the year and an overall absorption figure for the entire year of close to 523,000 sf.

Once viewed as dull and unexciting, the local retail landscape has been undergoing a transformation during the past couple of years. The

ECONOMIC INDICATORS

	2009	2010F	2011F
Real GDP Growth	-0.7%	3.7%	2.5%
CPI Growth	0.6%	3.1%	2.9%
Retail Sales	-0.6%	5.6%	5.1%
Personal Income per capita	\$40,990	\$42,838	\$44,153
Population ('000)	1,221	1,236	1,245
Unemployment	5.7%	6.0%	5.8%

Source: Conference Board of Canada

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Barrhaven Town Centre	Bed, Bath & Beyond	35,000
Barrhaven Town Centre	Future Shop	25,000
1463-1495 Richmond Road	Farm Boy	12,000

CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
Ottawa Train Yards	"M" SAIL	75,000
Ottawa Train Yards	The Athletic Club	70,000
Kanata Trinity Centre	Winners	30,000
Kanata Trinity Centre	Home Sense	26,000

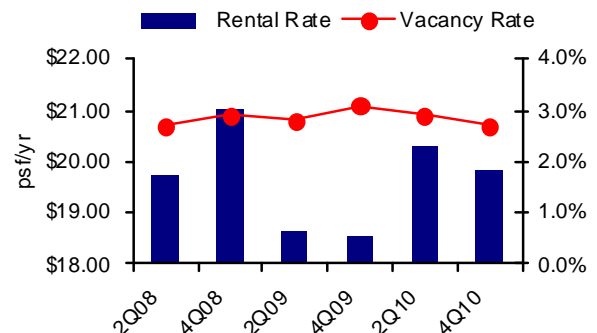
UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
Kanata Trinity Centre	Lowe's	142,000
Hunt Club Place	TD Canada Trust	7,430

KEY INVESTMENT TRANSACTIONS

PROPERTY	PURCHASER	SALE PRICE
3350 Fallowfield Road	Canada Paving Ltd.	\$4,250,000
2000 Montreal Road	Montreal Ogilvie Properties Ltd.	\$2,600,000

VACANCY VS. RENTAL RATES



Rideau Centre, one of the premier shopping malls in the city, now boasts stores such as Coach, Michael Kors, and Zara. Trendy retailer Urban Outfitters opened its first Ottawa location in the Byward Market this past November. The much-anticipated arrival of H&M to Ottawa is inevitable – it is just a matter of when and finding the right location. Other possible international and American retailers looking to establish a presence include Crate & Barrel, Pottery Barn, and Williams-Sonoma.

Although several factors could work to cool local consumer demand in 2011—such as higher interest rates, the freeze in government spending and the continuing effects of the HST implementation—vacancy rates are expected to remain low. A recent study found that the Ottawa region has the smallest amount of shopping mall space per capita in the country, at 8.85 sf. This translates into a high development potential for the region, and mall owners and developers are exploring their options. Three of the four largest enclosed malls in the city are planning expansions. There are also new power centre developments planned throughout the city, including the 300,000 sf that is proposed at the redeveloped Lansdowne Park site.

SUBMARKET HIGHLIGHTS

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

Vacancy in this segment increased slightly over the second half of the year to reach 0.8%, a four-tenths of a percentage point increase from the first half of the year. Vacancy within the Place D'Orleans Shopping Mall was the main driver behind this increase. This increased vacancy led to a negative absorption of approximately 22,500 sf for the second half of the year and brings the year-end total to negative 17,000 sf. Although there were no significant changes to this segment this quarter, that will change in the coming quarters. Development continues at the Train Yards Centre and in 2011 it is expected to have the square footage required to be included in this segment. The St. Laurent Shopping Centre is one step closer to their planned expansion as their rezoning was approved. The proposed expansion will see the size of the centre grow to 1.3 million square feet (msf), making it the tenth largest enclosed mall in the country. Finally, it is anticipated that Trinity's Phase II development at Innes and Belcourt in Orleans should be delivered in late 2011. Upon completion the entire centre will total approximately 465,000 sf.

Downtown Core – Over 10,000 sf

Vacancy edged up over the last half of the year to 3.3%, an increase of 1.2 percentage points from the first six months of 2010. Small increases in vacancy in two properties led to the overall increase and also resulted in negative absorption of 7,400 sf. This brings the end-of-year total to a positive 4,600 sf. There is expected to be little change to the downtown core retail market in the short term. Construction continues on the redevelopment at 240 Sparks. The one new office building that is currently under construction only has

a 6,500-sf retail component, and therefore is too small to be included in the segment.

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

This segment performed well over the second half of the year, with vacancy declining to 2.7%, down from 3.4% over the first half of the year. Absorption was also strongly in positive territory at more than 289,000 sf, bringing the end-of-year total to approximately 380,000 sf. Although there was positive absorption in a handful of other properties, it was the addition of 252,000 sf of new construction in Orleans that was the largest contributor. There was a slight increase in asking rates compared to the first half of 2010, with a current range of \$21.00-\$25.00 psf. Looking ahead to 2011 this segment is poised to grow. Grant Crossing, which is located in Kanata, will join this segment during the first half of 2011 as the completion of Lowe's will increase this development in size to 220,000 sf. Trinity's 360,000-sf development at Hunt Club and Merivale is scheduled for completion in the fall of 2011, with Lowe's as the lead tenant. Finally, Taggart has a 150,000-sf development located in the south end of the city that is also scheduled for completion in the fall. Canadian Tire, Shoppers Drug Mart, and either a Price Chopper or a FreshCo are the lead tenants.

Neighbourhood Malls – 10,000 to 110,000 sf

Vacancy continues to decline in this segment, dropping during the second half of the year by half a percentage point to reach 4.4%. Vacancy declined in all but three geographic locations over the last six months. The largest increase in vacancy was seen in the Gloucester submarket; however, the jump in vacancy is a result of the smaller size of this submarket as only 9,700 sf of additional space became available. Gloucester also reported the lowest average rent in the neighbourhood mall category, at \$14.47 psf. This is to be expected due to the type and age of retail inventory that is located in this area. The average rent for the entire segment for the past six months was \$18.96 psf, which is lower than the first half of the year but not indicative of any softening in this segment. Growth potential also exists for this segment heading into 2011. Minto's Phase II at Klondike Crossing in Kanata is expected to be completed in the spring, which will add approximately 32,000 sf to the inventory. Also in Kanata, Trinity has a development at March and Old Carp that, upon completion in the summer, will be approximately 105,000 sf. Sobeys is the lead tenant in this project. An additional Sobeys is to be built in Kanata as part of Crombie REIT's 110,000-sf development on Carp Road, with a completion date slated for the summer.

OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2010	VACANCY RATE YEAR-END 2010	EOY ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
Regional Malls & Large Power Centres	5,930,967	0.4%	0.8%	(16,792)	N/A	N/A
Community Malls & Smaller Power Centres	6,849,144	3.4%	2.7%	380,088	\$22.71	\$10.96
Downtown Core	648,166	2.1%	3.3%	4,653	N/A	N/A
Ottawa East	480,083	3.6%	3.8%	9,580	\$20.56	\$10.29
Gloucester	304,994	4.6%	7.8%	1,283	\$14.47	\$10.98
Orleans	853,686	4.7%	4.4%	34,979	\$20.40	\$10.00
Ottawa South	1,008,134	4.1%	3.2%	13,292	\$19.53	\$10.47
Kanata/Stittsville	1,175,968	3.8%	3.4%	69,753	\$19.61	\$11.38
Bell's Corners	296,828	11.2%	12.6%	(1,758)	\$17.27	\$9.82
Nepean (Merivale)	657,301	2.4%	2.3%	8,856	\$24.92	\$9.35
Nepean (Other)	680,862	7.2%	5.7%	12,770	\$21.33	\$9.78
Ottawa West	669,781	6.0%	3.6%	5,942	\$22.08	\$12.86
Neighbourhood Malls	6,127,637	4.9%	4.4%	154,697	\$18.96	\$10.57
Total	19,555,914	2.9%	2.7%	522,646	\$19.81	\$10.64



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Cushman & Wakefield Ottawa
99 Bank Street, Suite 700
Ottawa, ON K1P 1K6
(613) 236-7777

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