MARKETBEAT

OTTAWA RETAIL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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2Q11

ECONOMIC OVERVIEW

Job gains in professional services, retailing, and construction resulted in the unemployment rate for Ottawa-Gatineau falling to 6.1% in May, compared to 6.4% in April. The region gained 3,300 jobs in May for an employment total of 695,400. A notable development that has emerged over the past few months has been the decline in the number of public administration jobs. The region lost 5,300 of these jobs in May to bring total employment to 164,800. The adoption of the budget tabled by the Conservative majority government will result in spending growth in federal departments being limited to an average of 1.6% from 2011-2015, compared to the 5.3% average growth in the previous ten years. As a result, the latest Conference Board of Canada Metropolitan Outlook suggests that real GDP growth will be restricted for the region - only reaching 2.2% in 2011.

Sales of existing Ottawa homes in May declined by 1.6% to 1,659 units compared to one year ago. This is part of an ongoing trend seen since the beginning of 2011, as the local residential market is in a transition from a sellers' market to a more balanced market. Despite this slowdown in the number of units sold, the sale price of resale homes continues to increase with the average sale price now at $352,347.

New housing construction experienced a more significant decline in May, with starts falling by 62.5% to 266 units compared to May 2010. The Canadian Mortgage and Housing Corporation (CMHC) had forecasted construction to cool this year, with total housing starts for the year falling by 7.7% from 2010 to an estimated 5,950 units.

Despite a cooling housing market and the possibility of a shrinking public administration labour force, the Conference Board is forecasting retail sales of approximately $16.6 billion, at 4.8% increase from 2010.

RETAIL MARKET OVERVIEW

The vacancy rate for the first half of 2011 was unchanged from the last half of 2010, remaining at 2.7%. The overall average asking retail rent increased to $21.45 per square foot (psf). This increase was the result of escalating rental rates seen across all market segments. Absorption levels did ease from the levels seen at the end of 2010 to 168,000 square feet (sf), with new construction at Grant Crossing in Kanata contributing to almost the entire amount.

The first six months of the year were fairly quiet on the local retail scene. One of the most significant announcements was Target revealing the first 105 Zellers locations that the company plans

ECONOMIC INDICATORS

	2010	2011F	2012F
Real GDP Growth	2.7%	2.2%	2.3%
CPI Growth	2.5%	2.4%	2.1%
Retail Sales	5.3%	4.8%	3.5%
Personal Income per capita	$42,715	$43,267	$44,564
Population ('000)	1,239	1,254	1,264
Unemployment	6.6%	6.3%	6.0%

Source: Conference Board of Canada

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Crossing Bridge Square	Farm Boy	12,201
Chapman Mills Marketplace	Pier 1	9,500
Montreal Square	Dollarama	8,179

CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
Grant Crossing	Lowe's	142,000
832 March Road	Sobey's	40,000
Grant Crossing	Bushtakah	12,000

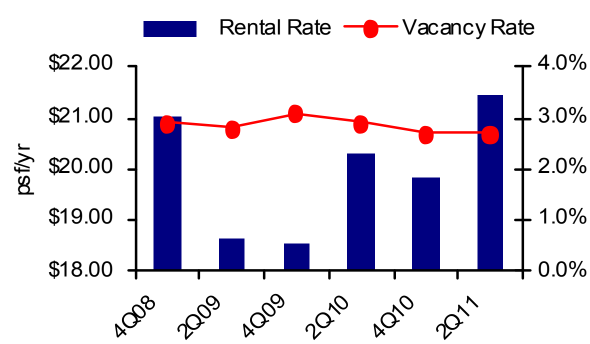
UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
Pinecrest Shopping Centre	Ikea	398,000
Findlay Creek Plaza	Multiple	150,000
1122 Carp Road	Sobey's	50,000

KEY INVESTMENT TRANSACTIONS

PROPERTY	PURCHASER	SALE PRICE
250-260 Bank Street	Named Individuals	$2,400,000
1574-1576 Walkley Road	1828267 Ontario Inc.	$1,780,000

VACANCY VS. RENTAL RATES



to take over and eventually convert into Target stores. Of these, six will open in Ottawa: Bayshore Shopping Plaza, Billings Bridge Plaza, Hazeldean Mall, Meadowlands Shopping Centre, Place D'Orleans, and RioCan St. Laurent. All of the locations will continue to operate as Zellers stores before closing for six to nine months for renovations and reopening as Target stores. Other US companies continue to expand their presence in Ottawa. Lowe's recently opened a new 142,000-sf store at Grant Crossing in Kanata. Site preparation work has also commenced on what will be the third Lowe's store in Ottawa at Hunt Club and Merivale Road. Construction has commenced on a second Bed, Bath, and Beyond location, and three Bath and Body Works are now open. Canada's solid fundamentals compared to the US—such as low unemployment, an expanding economy, and a healthy housing market—have resulted in numerous American companies looking to enter the Canadian market whether it be partnering with Canadian developers or completing acquisitions. Although the Ottawa market does not tend to attract these companies during their initial foray into Canada, it will only be a matter of time before the local retail landscape begins to take on a more distinctive international look.

SUBMARKET HIGHLIGHTS

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

Vacancy in this segment decreased slightly over the first half of the year to reach 0.7%, a one-tenth of a percentage point decrease from the second half of 2010. There were only minimal changes in this submarket during the last six months with a slight positive absorption of approximately 8,000 sf. This submarket is expected to expand over the course of the next couple of years. Construction continues at Grant Crossing in Kanata which, when completed, will total 455,000 sf. Work also continues at the Trinity/RioCan development in Orleans where the total size upon completion will be 465,000 sf. Three of the largest enclosed malls in the city continue to explore expansion plans. St. Laurent Shopping Plaza appears to be the closest to putting a shovel in the ground as they have formally announced their upcoming expansion to 1.3 million square feet (msf) with an anticipated completion date between 2014 and 2015. Expansion plans by the major regional malls are not surprising considering that Canadian malls are fairly successful overall with average retail sales of $680 psf per year. Participants at a recent real estate forum in Vancouver reported that Canadians have 39% less mall space per capita than Americans due to the fact Canadian cities have allowed fewer regional malls to be constructed. These strong retail sales have lead to the eagerness demonstrated by off-shore retailers to enter the Canadian marketplace.

Downtown Core – Over 10,000 sf

Vacancy continued to increase in this submarket and now sits at 4.8%, an increase of 1.5 percentage points from the last six months of 2010. An increase in available square footage at 160 Elgin was the driving force behind this rise in vacancy and also led to negative absorption for the first half of the year of 9,600 sf. This increase may be tied to the substantial increase in vacancy that has occurred in a handful of class A office properties since the beginning of the year – including 160 Elgin. However, the increase in vacant class A office space is anticipated to be fairly short term and the retail in the downtown core office towers should recover quickly.

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

This segment continues to strengthen with vacancy declining once again to 2.4%, down from 2.7% over the second half of 2010. Absorption also remained in positive territory at approximately 177,000 sf. There was slight absorption, both negative and positive, in a handful of properties; however absorption this quarter was driven by the completion of new construction at Grant Crossing. As a result of this new construction, Grant Crossing was moved to this segment from Neighbourhood Malls. Asking rental rates continue to escalate in this submarket and currently sit at an average of $22.97 psf. As is the case with Regional Malls and Large Power Centres, this segment will continue to expand over the year into 2012. Site preparation work has begun on Trinity's 360,000-sf development at Hunt Club and Merivale. It is scheduled for completion in the fall of 2011, with Lowe's as the lead tenant. Construction has also commenced on Taggart's 150,000-sf development located in the south end of the city which is also scheduled for completion in the fall.

Neighbourhood Malls – 10,000 to 110,000 sf

Vacancy in this segment edged upwards over the first half of the year to reach 4.8%, a four-tenths of a percentage point increase from the last half of 2010. There were slight fluctuations in vacancy in all areas of the city, with Orleans experiencing the sharpest rise in vacancy of over three percentage points compared to the last half of last year. Orleans also posted the most negative absorption of 13,500 sf, as pockets of space became available in three separate properties. Despite the overall increase in vacancy, the average asking rate for this submarket rose from last year to now sit at $20.82 psf. Although new housing construction has cooled, there remains a need for additional retail to service the population growth that has been occurring in the suburbs. As a result, growth is still expected to occur in this market over the remainder of the year and into 2012. Construction continues at Trinity's 110,000-sf March Road site with expected completion in the coming months. An additional 105,000-sf project is also underway in the same geographic area that also has an anticipated completion date later in the summer.

OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2011	VACANCY RATE YEAR-END 2010	YTD ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
Regional Malls & Large Power Centres	**5,930,967**	**0.7%**	**0.8%**	**7,817**	**N/A**	**N/A**
Community Malls & Smaller Power Centres	**7,088,644**	**2.4%**	**2.7%**	**177,437**	**$22.97**	**$10.36**
Downtown Core	**648,166**	**4.8%**	**3.3%**	**(9,630)**	**$24.43**	**$22.43**
Ottawa East	480,083	2.0%	3.8%	9,029	$19.91	$9.68
Gloucester	304,994	8.0%	7.8%	(591)	$14.43	$11.79
Orleans	853,686	7.6%	4.4%	(13,530)	$22.98	$10.46
Ottawa South	1,008,134	3.3%	3.2%	(423)	$20.38	$11.67
Kanata/Stittsville	1,098,468	4.0%	3.4%	(3,632)	$22.12	$11.48
Bell's Corners	334,640	10.7%	12.6%	4,366	$22.87	$10.30
Nepean (Merivale)	657,301	2.0%	2.3%	1,814	$21.24	$9.88
Nepean (Other)	680,862	5.4%	5.7%	1,850	$22.24	$10.11
Ottawa West	669,781	4.6%	3.6%	(6,133)	$23.35	$14.46
Neighbourhood Malls	**6,087,949**	**4.8%**	**4.4%**	**(7,250)**	**$20.82**	**$11.23**
Total	**19,755,726**	**2.7%**	**2.7%**	**168,374**	**$21.45**	**$11.94**

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