

MARKETBEAT

RETAIL SNAPSHOT



OTTAWA, ON

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Q4 2011



ECONOMIC OVERVIEW

In contrast to the national employment loss of 18,600, the Ottawa-Gatineau region added 1,900 jobs in November. However, due to a larger labour force, the local unemployment rate rose 0.4 percentage points to 6.3%. This

marks the highest unemployment rate since this past April. This rate still compares favourably to the national unemployment rate, which increased to 7.4%. Improving local sectors included professional, scientific, technical, and educational services, while job losses occurred within the public administration and construction sectors.

Sales of existing homes in the Ottawa area set an all-time record in November with sales of 1,020 properties, an increase of 8.5% from one year ago. The number of properties on the market is higher compared to last year, indicating current homeowners are confident that it is a good time to sell, and when, combined with the strong sales numbers, this demonstrates that buyers feel this is the time to buy. The majority of the sales were residential homes, accounting for 76% of homes sales during the month. While the average sale price for condominiums remained relatively unchanged from one year ago at \$265,800, the sale price of a residential property was \$373,577 in November, an increase of 9.2% over the same month in 2010.

In comparison, housing starts fell more than 40% from November 2010, recording 553 starts compared to 928 at this point last year. This brings the year-to-date starts to 5,231; an 11% decline from November 2010. This month's decline can largely be attributed to a decline in apartment construction, as Ottawa single homes posted the best month in two years with 289 starts.

Local retail sales are expected to expand in 2012 compared to 2011, with anticipated growth of 3.7% to reach sales of \$17.1 billion. It was recently reported that Ottawa shoppers spend more on retail than

almost anywhere else in Canada; spending an average of \$16,000 a year on commercial goods and services. This translates into approximately \$472 for every square foot of retail in the city. Most other Canadian cities come in between \$250 and \$350 per square foot (psf) of retail space annually. This spending, combined with the average Ottawa income being in the top three in the country, makes the city an attractive place for retailers to establish a presence.

ECONOMIC INDICATORS

NATIONAL	2010	2011	2012F
GDP Growth	2.8%	1.4%	1.8%
CPI Growth	2.5%	3.1%	2.0%
Retail Sales Growth	5.4%	3.6%	3.7%
REGION	2010	2011	2012F
Household Income	\$43,235	\$43,811	\$44,490
Population Growth	1.7%	1.2%	0.8%
Unemployment	6.6%	5.9%	6.1%

Source: Conference Board of Canada

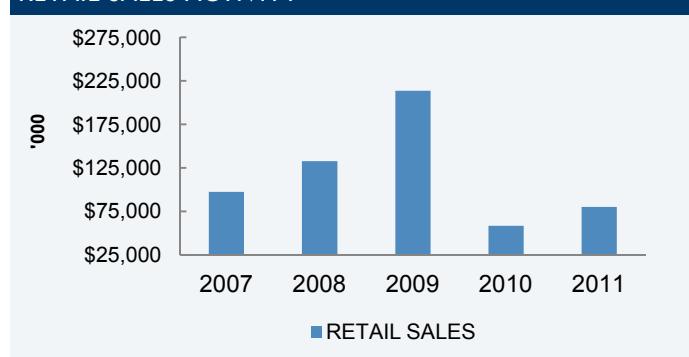
OTTAWA MARKET BREAKDOWN

	VACANCY	RENTAL RATES psfyr	MEDIAN SALES PRICE / SQUARE FOOT
Regional Malls	0.6%	N/A	\$149
Community Malls	2.4%	\$18.35	\$57
Core Office Tower	4.0%	\$25.00	N/A
Neighbourhood Malls	3.9%	\$21.07	\$223
TOTAL MARKET	2.3%	\$20.73	\$210

OVERALL RENTAL VS. VACANCY RATES



RETAIL SALES ACTIVITY



RETAIL MARKET OVERVIEW

With vacancy declining across three of the market segments and remaining unchanged from the first half of the year in the final segment, the overall vacancy rate for the retail market fell over the second half of 2011 to reach 2.3%, a decline of 0.4 percentage points from the first six months of the year. The overall average asking rent declined slightly to \$20.73 psf; largely the result of lower average asking rents within the Community Mall segment. Overall demand remains strong, with absorption levels of approximately 243,000 square feet (sf), and brings the end-of-year total to close to 412,000 sf.

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

The vacancy rate within this segment declined by 0.1 percentage points from the first half of 2011 to reach 0.6%. Although the amount of space available is slightly higher, vacancy still declined as the inventory climbed by over a million square feet (msf). This was the result of the addition of the Pinecrest Shopping Centre to this category as the completion of the 348,000-sf IKEA increased the square footage of this mall to close to 596,000 sf. Growth also came from the addition of the Ottawa Train Yards to this category, as the size of this centre has grown to nearly 500,000 sf. There is also an additional property that is now looking to increase in size. Bayshore Shopping Centre has formally asked the city for permission to expand its retail area to close to 1.1 msf, with the expansion to be built in phases. The medium-term plans are calling for an expansion to approximately 915,000 sf. These plans also call for interior renovation work which will include the food court. Over the course of the next year this segment will be looking to add additional properties to its inventory. Work continues at Grant Crossing, a power centre located in Kanata that is anchored by Lowes. Upon completion of the final phase this centre will be 455,000 sf. Construction is also ongoing on an additional Trinity development located in Orleans. Phase III of this project is set to get underway, and with its completion the centre will total 465,000 sf.

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

Vacancy within this segment remained unchanged through 2011 at 2.4%. There were some small pockets of space that became available in multiple properties over the second half of the year; however, this was balanced out by significant leasing transactions such as the Goodlife Fitness at 1460 Merivale Road and The Mayfair Theatre on Centrum Blvd. in Orleans. Similar to the above category, this segment will also experience growth in the coming year. The Findlay Creek Centre, a 144,000-sf development in the south end of the city, will be largely complete by the end of 2012. In terms of brand new construction, SmartCentres has commenced work on their new site in Kanata. This centre will be approximately 196,000 sf upon completion and is anchored by a 156,000-sf Wal-Mart. In what will be a new type of development for Ottawa, it was recently announced that RioCan REIT and Tanger Outlet Centres have entered into a joint partnership to purchase 50 acres of land to develop a 350,000-sf outlet mall. In other news, plans have once again resurfaced to redevelop Herongate Mall, a 200,000-sf property located in the south end of the city. This is a joint venture between Trinity Developments and RioCan, with current plans pointing to turning the enclosed mall

into a smaller power centre with standalone pads. There also continues to be a handful of new developments in the pipeline, although as of yet there has been no public discussion regarding when or if these projects will get underway.

NEIGHBOURHOOD MALLS: 10,000-110,000 SF

Vacancy within this segment underwent the largest decline across all segments, dropping by almost a full percentage point from the first half of the year to 4.8%, with all but two submarkets posting declines in vacancy. The Bell's Corners submarket had the largest drop in vacancy as about 20,000 sf of space came off the market. Although this amount is not very significant, there was a substantial change in vacancy due the small inventory size of this submarket. Overall average asking rents bumped up over the last half of the year to \$21.07 psf. Kanata was one of the submarkets that experienced an increase and now has the highest average rents in the city within this category. Two new construction projects that fall into this segment were completed during the year. One was 110,000 sf and the other was 105,000 sf, both of which are anchored by a Sobeys. Similar to the Community Mall segment, there are potential developments that would fall into this square footage range. Again, though, it is not known at this time when or if the various developers will move ahead.

CORE OFFICE TOWER: 10,000 SF AND OVER

It was relatively quiet in this segment through the latter half of 2011, with vacancy declining by 0.8 percentage points to 4.0% as approximately 5,000 sf of space came off of the market. In the fall, the new tower for EDC was completed within the core. However the retail component is under 10,000 sf and therefore not included in the survey. There has been little added to the core office tower inventory over the past few years. However there is a retail concourse planned in the new Morguard building at 150 Elgin Street, although it is not known at this time what the exact square footage will be.

OUTLOOK

In its latest metropolitan outlook, the Conference Board of Canada has forecasted limited growth in the Ottawa region's GDP due to the budget tightening of the federal government. Despite this, the local economy is still expected to grow modestly in 2012 by 2.1%. Although continuing economic uncertainty remains on most consumers' minds, Ottawa is in an enviable position. Employment levels are trending upwards and the housing market is balancing out with little risk of a 'housing bubble'. This, combined with a highly educated population and higher than average income, will result in consumers continuing to shop and will lead to a continuing tight retail market. These tight market conditions are proving to be a hindrance to international retailers looking to establish a presence here. It is no surprise, then, that three out of the four largest enclosed malls have expansion plans and retail developments continue to be built.

OTTAWA SUBMARKET STATISTICS

SUBMARKET	INVENTORY	VACANCY RATE MID-YEAR 2011	VACANCY RATE YEAR-END 2011	Q4 2011 ABSORPTION	EOY ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OP COSTS
Regional Malls & Larger Power Centres	6,996,819	0.7%	0.6%	(1,457)	6,360	N/A	N/A
Community Malls & Smaller Power Centres	6,645,598	2.4%	2.4%	9,273	186,710	\$18.35	\$9.52
Downtown Core	648,166	4.8%	4.0%	5,135	(4,495)	\$25.00	\$26.80
Ottawa East	480,083	2.0%	1.7%	1,016	10,045	\$19.23	\$9.10
Gloucester	304,994	8.0%	6.9%	3,129	2,538	\$14.43	\$11.85
Orleans	853,686	7.6%	6.3%	10,967	(2,563)	\$23.00	\$10.34
Ottawa South	1,008,134	3.3%	3.8%	(5,391)	(5,814)	\$21.21	\$11.59
Kanata/Stittsville	1,279,138	4.0%	3.7%	177,574	173,942	\$24.44	\$10.94
Bell's Corners	334,640	10.7%	5.8%	16,497	20,863	\$21.13	\$10.50
Nepean (Merivale)	657,301	2.0%	3.4%	(9,464)	(7,650)	\$23.02	\$11.40
Nepean (Other)	584,465	5.4%	3.2%	17,882	19,732	\$21.66	\$9.75
Ottawa West	669,781	4.6%	1.8%	18,217	12,084	\$23.34	\$15.61
Neighbourhood Malls	6,172,222	4.8%	3.9%	230,427	223,177	\$21.07	\$11.50
TOTAL MARKET	20,462,805	2.7%	2.3%	243,378	411,752	\$20.73	\$12.23

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
250 Centrum Boulevard	Orleans	Mayfair Theatre	Neighbourhood Mall	14,000
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SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
1670 Heron Gate Road	Community Malls	Riotrin Properties	\$17,000,000	196,243
474 Hazeldean Road	Neighbourhood Malls	1828493 Ontario Ltd	\$7,525,000	28,898
SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Pinecrest Shopping Plaza	Regional Malls	IKEA	4Q11	348,000
Ottawa Train Yards	Regional Malls	Various	3&4Q11	96,092
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
SmartCentres Terry Fox Drive	Community Malls	Wal-Mart	2Q12	195,754
Findlay Creek Plaza	Neighbourhood Malls	Freshco	Ongoing	167,500

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS