

# MARKETBEAT RETAIL SNAPSHOT



## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q2 2013



### ECONOMIC OVERVIEW

The National Capital Region lost 5,400 jobs in May 2013; the fourth straight month of declines. However, as a result of an even larger decline in the number of people seeking work the unemployment rate in Ottawa-Gatineau fell

to 6.1% from 6.3% last quarter. Nationally the picture was much brighter as close to 95,000 jobs were created, dropping the unemployment rate one-tenth of a percentage point from last month to 7.1%. In the latest Metropolitan Outlook the Conference Board of Canada (CMHC) is forecasting real GDP growth well below 2% for the Ottawa-Gatineau region for the third straight year, and is expected to continue into 2014. This lackluster growth forecast is largely a result of the cuts to the public administration sector, with employment expected to fall by 7.9% in 2013. These cuts in turn will impact other sectors such as the housing market and retail sales.

According to the monthly report released by the Ottawa Real Estate Board, a total of 1,804 properties were sold in May 2013, down from 1,890 properties sold in May 2012. Home sales are down 7.5% from where they were at this point in 2012 as realtors are now experiencing what could be considered a stagnant market. Despite this decline in year-over-year sales; prices increased by 2.1% in May 2013 with the average sale price now at \$370,501.

Despite the projected slowdown in housing starts, the local homebuilding industry is off to a strong start in 2013. Local home builders have started construction on 2,103 homes so far this year, according to CMHC. Although that is down by about 1,000 starts from the same period last year, it is comparable to the year-to-date figures between 2009-2011.

In its latest metropolitan release, the CMHC states that the local economy is continuing to struggle under the weight of federal government fiscal austerity measures. Real GDP

growth is expected to remain well below 2.0% for the third straight year in 2013, with little expected change in 2014. This combined with minimal expected job growth will likely lead to a slowdown in retail sales; forecasted to be at 3.3% in 2013 and climbing slightly in 2014 to 3.7%

### ECONOMIC INDICATORS

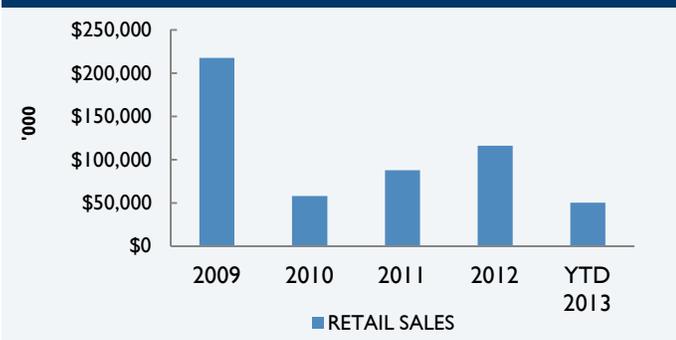
NATIONAL	2012	2013F	2014F
GDP Growth	1.3%	1.3%	1.7%
CPI Growth	1.3%	1.5%	2.2%
Retail Sales Growth	4.4%	3.3%	3.7%
REGIONAL	2012	2013F	2014F
Household Income	46,535	46,857	48,167
Population Growth	1.4%	10.0%	0.7%
Unemployment	6.3%	6.4%	6.1%

Source: Conference Board of Canada

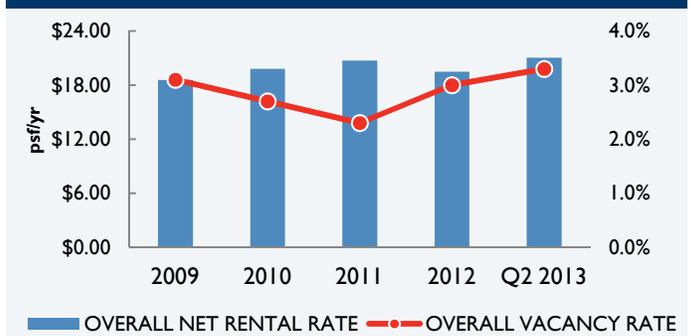
### OTTAWA MARKET BREAKDOWN

	VACANCY	RENTAL RATES PSF/YR	MEDIAN SALES PRICE / SQUARE FOOT
Regional Malls	1.4%	N/A	N/A
Community Malls	3.4%	\$19.50	\$107
Core Office Tower	10.3%	\$31.10	N/A
Neighbourhood Malls	4.7%	\$20.44	\$323
<b>TOTAL MARKET</b>	<b>3.3%</b>	<b>\$21.05</b>	<b>\$249</b>

### RETAIL SALES ACTIVITY



### OVERALL RENTAL VS. VACANCY RATES



## RETAIL MARKET OVERVIEW

There was minimal change in the overall vacancy rate at mid-year 2013 compared to year-end 2012; climbing by 0.3 percentage points to 3.3%. Vacancy climbed across all market categories except for the Neighbourhood Mall segment which saw vacancy decline to 4.7% from 5.6% at year-end 2012. After a contraction in the overall asking rental rate for the city over the last six months of 2012, rental rates climbed upwards over the first half of 2013 to reach \$21.05 per square foot (psf); with all market categories posting increases. Absorption figures improved from the last half of 2012; reaching 249,000 square feet (sf). This total was largely the result of new construction completions. The largest was the new SmartCentres development located in the suburb of Kanata that is anchored by a Walmart.

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

After sitting at 0.6% for all of 2012, the vacancy rate within this segment climbed to 1.4% during the first half of 2013. This increase in vacancy was the result of additional space coming on the market at Place d'Orleans and Kanata Centrum. A total of eight new vacancies came on the market at Place d'Orleans during the last six months with the largest space vacated by Murale, a division of Shoppers Drug Mart, at 7,100 sf. However, Place d'Orleans will likely see an influx of shoppers visiting the mall as Target is set to open in the fall of 2013; its only location in the suburb of Orleans. The Rideau Centre continues to be very active in terms of future plans and tenant announcements. In late March a publication in Montreal reported that Simons, a Quebec based department store with seven locations, are looking to open a new location at the Rideau Centre; this being only their second location to open outside Quebec. Further details have also been released concerning the Rideau Centre's expansion plans. The site plan submitted to the city calls for approximately 28 new stores; and as previously reported, the former two-storey Sears store will be converted into a Nordstrom location and the food court will be relocated. In other news H&M is at long last opening a location in Ottawa. It has been reported that H&M will open a 22,000-sf location at Bayshore Shopping Centre in the fall of this year.

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

Vacancy crept upwards once again over the first half of the year to reach 3.4%; 0.2 percentage points higher than year-end 2012. This market segment saw 200,000 sf of new construction added to the inventory. This new construction factored in considerably to absorption figures for the first six months of the year which reached 253,000 sf. Construction is now almost complete at Findlay Creek Centre as the new 25,000-sf Canadian Tire opened in May. In addition the SmartCentre located on Fernbank Road has been added to the inventory as the Walmart has been completed along with two retail strips. Once the additional retail has been completed the centre will total approximately 196,000 sf. Construction also continues at Trinity's development located at West Hunt Club & Merivale Road. A 150,000-sf Lowe's opened at the centre in the spring of 2013 and construction is on-going on two strips totaling 8,000 sf. What is noteworthy about this centre is that many of the tenants slated to open locations here are based in western Canada

and will be opening their first locations in Ottawa. These tenants include Shark Club Sports Bar, Chop Steakhouse & Bar, and Sandman Hotels. Additional tenants include Panda Express, Panera Bread, and Jack Astor's.

## NEIGHBOURHOOD MALLS: 10,000-110,000 SF

After rising vacancy within this segment throughout 2012; vacancy headed downwards through the first six months of 2013 to reach 4.7%; an almost full percentage point drop from year-end 2012. Six out of nine submarkets posted declines in their vacancy rates, with one additional submarket reporting no change in vacancy. Bell's Corners reported the steepest decline in vacancy; almost eight full percentage points lower than what was posted over the last half of 2012. This was the result of 27,000 sf coming off of the market and as the inventory size of this submarket is the smallest in the city, vacancy numbers are easily impacted. This market segment saw new construction completions over the first half of 2013 with approximately 20,000 sf located at The Shoppes at Fairwinds in Kanata. Construction continues at this centre which is being developed by Centrecorp, and once complete will total 185,000 sf. Construction is also on-going at Strandherd Central; a 32,000-sf centre being developed by Minto; with projected occupancy in August 2013.

## CORE OFFICE TOWER: 10,000 SF AND OVER

Vacancy climbed substantially over the first half of 2013 to reach 10.3%. This was the result of 48,000 sf of former Zeller's space coming on the market at 155 Queen Street. Looking ahead, the retail inventory within the downtown core will rise by approximately 13,000 sf with the completion of 150 Elgin Street, although that will not occur until the first half of 2014.

## OUTLOOK

Although vacancy did climb in the first half of 2013, at 3.3% it still remains a very tight market. Despite that weak economic growth is forecasted for the region, this has not put a damper on new construction projects located throughout the city. With three out of four enclosed regional malls already – or soon to be – undertaking significant expansions and renovations, along with new entries to the Ottawa market such as Nordstrom's and Target opening locations in the latter part of 2013, the local retail landscape continues to evolve. This is certainly evidenced by upcoming projects such as the redevelopment of Lansdowne Park and its 360,000-sf retail component as well as the planned construction of Ottawa's first outlet mall which will feature 350,000 sf of retail space and will include at least 80 units. Construction has commenced on the latter and outlets are expected to be open by late summer/early fall 2014. Some of these tenants include international retailers such as Nike, Calvin Klein, Tommy Hilfiger, Guess, Nine West, Coach, and Donna Karan.

## OTTAWA SUBMARKET STATISTICS

SUBMARKET	INVENTORY	VACANCY RATE MID-YEAR 2013	VACANCY RATE YEAR-END 2012	MID-YEAR 2013 ABSORPTION	YTD ABSORPTION	WTD AVERAGE NET RENT	WTD AVERAGE TAX & OP COSTS
Regional Malls & Larger Power Centres	7,436,219	1.4%	0.6%	(33,191)	(33,191)	N/A	N/A
Community Malls & Smaller Power Centres	6,794,188	3.4%	3.2%	253,393	253,393	\$19.50	\$11.98
Downtown Core	695,846	10.3%	2.6%	(55,017)	(55,017)	\$31.10	\$25.82
Ottawa East	480,083	1.5%	2.1%	2,520	2,520	\$21.60	\$13.13
Gloucester	377,229	11.3%	10.8%	(1,626)	(1,626)	\$14.65	\$12.16
Orleans	781,969	7.7%	8.5%	6,004	6,004	\$20.48	\$10.35
Ottawa South	1,127,134	2.9%	3.4%	9,874	9,874	\$18.22	\$10.72
Kanata/Stittsville	1,436,078	3.5%	4.9%	39,484	39,484	\$22.44	\$10.20
Bell's Corners	334,640	7.2%	15.4%	27,591	27,591	\$17.00	\$10.06
Nepean (Merivale)	657,301	5.7%	5.8%	569	569	\$19.65	\$12.93
Nepean (Other)	638,365	3.7%	3.6%	(962)	(962)	\$24.46	\$12.23
Ottawa West	680,736	3.8%	3.8%	147	147	\$23.70	\$14.50
Neighbourhood Malls	6,394,535	4.7%	5.6%	83,591	83,591	\$20.44	\$11.53
<b>TOTAL MARKET</b>	<b>21,320,788</b>	<b>3.3%</b>	<b>3.0%</b>	<b>248,776</b>	<b>248,776</b>	<b>\$21.05</b>	<b>\$12.63</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

Significant Q2 2013 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
Lincoln Fields Shopping Centre	Community Malls	Canadian National Institute of Health	Community Malls	13,482
RioCan Merivale Place	Community Malls	Ardene	Community Malls	9,954
Significant Q2 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
2012-2036 Ogilvie Road	Community Malls	RioCan REIT	\$16,250,000	152,002
1356-1366 Clyde Avenue	Neighbourhood Malls – Nepean (Merivale Road)	Skyline Commercial Real Estate Holdings	\$6,400,000	19,368
Significant Q2 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
SmartCentres Fernbank	Community Malls	Walmart; Various	First Half 2013	178,511
West Hunt Club Road & Merivale Road	Community Malls	Lowe's	First Half 2013	150,000
Findlay Creek Shopping Centre	Community Malls	Canadian Tire	May 2013	25,000
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Strandherd Central	Neighbourhood Malls – Nepean (Other)	Various	Second Half 2013	31,553
Eagleson Place	Neighbourhood Malls – Kanata	GoodLife Fitness	Summer 2013	25,000
SmartCentres Fernbank	Community Malls	Various	Second Half 2013	12,496