

# MARKETBEAT

## OTTAWA RETAIL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



4Q07

### ECONOMIC OVERVIEW

Although Ottawa experienced a modest economic slowdown this year, with GDP growth expected to rank eleventh out of thirteen census metropolitan areas (CMA's) in 2007, this has not had any great impact on the local retail market. Overall vacancy currently sits at 2.4%, down two-tenths of a percentage point from the first half of the year. Strong employment numbers have contributed to this tight market with the November Ottawa unemployment rate at 4.6%, its lowest level in at least 19 years. Employment grew by approximately 4,700 jobs from the previous month to bring the total local employment level to 667,100 jobs, which is up 38,900 since the beginning of 2007.

In addition to the strength in employment, retail sales have also played a role in keeping retail vacancy so low. In 2007 retail sales are forecasted to reach over \$14 billion, a 3.7% increase from 2006. Growth is expected to accelerate in 2008 with sales of \$14.8 billion, a 5.4% increase from this year; domestic demand is also expected to remain solid. For 2007, wholesale and retail trade output is expected to expand by 2.9%, with further growth of 3.2% in 2008.

Strong employment conditions have also fuelled new home construction activity - activity which plays an important part in the health of the retail economy, particularly in the home furnishings/home improvement sectors. From January to November of 2007, total new-home starts were 6,061 units, up 15% from a year earlier.

### RETAIL MARKET OVERVIEW

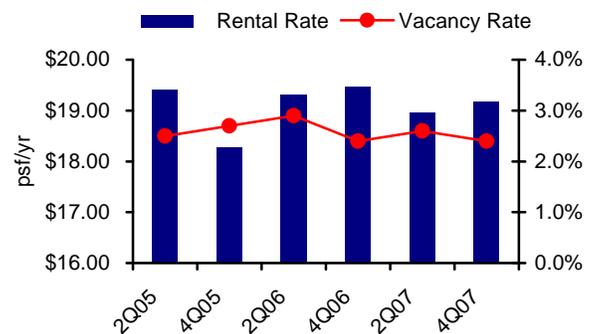
The retail market in Ottawa continues to remain one of the strongest in the country with vacancy continuing to remain below 3.0%. Demand also stayed strong with over 275,000 square feet (sf) of positive absorption during the last six months of the year with an end-of-year total of over 476,000 sf. Absorption was boosted by numerous pockets of space coming off the market during the second half of the year, and a number of construction completions. One of these completions was the first phase of the Ottawa Train Yards project that contributed 185,000 sf of positive absorption. One of the more noteworthy tenants in this project is U.S. retailer Bed, Bath, & Beyond which when it opens its doors in the spring of 2008 will be its first location in Ottawa. This project is unique to the city in that it hopes to combine office and retail into one 92-acre development. The second retail phase is expected to be completed in the spring of 2009.

Wal-Mart continued to make headlines this year. In the late summer it was announced that they will be opening three of its Supercentre format stores in the Ottawa area by early 2008. These Supercentres will range

### ECONOMIC INDICATORS

	2008F	2007F	2006
Real GDP Growth	2.9%	2.3%	2.8%
CPI Growth	2.1%	2.2%	1.7%
Retail Sales	5.4%	3.7%	3.8%
Personal Income per capita	\$40,924	\$39,622	\$38,181
Population ('000)	1,176	1,166	1,158
Unemployment	6.2%	5.7%	5.2%

Source: Conference Board of Canada



anywhere from 160,000 to 200,000 sf and will carry a full line of groceries. These Supercentres have already had an influence at Loblaw's which have added such things as clothing, furniture, and housewares to its product mix in order to compete. Other food retailers have also been required to come up with new strategies in order to retain clientele. Sobeys' has expanded in Ottawa in recent years and both this chain and Loeb have numerous stores open 24 hours a day.

Looking forward to 2008 there are a multitude of things to watch for in the local retail landscape. One of these is the level of the Canadian dollar and how that will influence cross-border shopping, whether by vehicle or online. The value of the dollar could also have an impact on prices here at home.

Development is anticipated to continue in 2008, particularly in the city's west end. Currently there are retail proposals in front of city hall numbering over two million square feet (msf). Notable retailers who are looking to expand include Sobeys', Loblaw's, and Rona. However many of these developments could be put on the shelf if residential growth begins to decline.

## SUBMARKET HIGHLIGHTS

**Regional Malls – Over 375,000 sf**

Vacancy in the regional mall segment currently sits at 1.1%, a slight increase over the first six months of the year. The driving force behind the increase was a pocket of 15,000 sf that became available at St. Laurent mall. Ironically one of the challenges currently facing regional malls is such tight vacancy. Many of the regional malls are trying to attract new, exciting tenants in order to be able to compete with the multitude of power centres that are cropping up throughout the city. However the only way to do this is to try and “weed out” the stores that are underperforming. The Rideau Centre has currently placed their expansion plans on hold due to the construction of the new Congress Centre, which sits adjacent to the mall. However once the new facility is built, it is expected the expansion plans will be revisited.

**Downtown Core – Over 10,000 sf**

Vacancy in the downtown core is at 2.9%, close to a full percentage point drop from the first half of the year. Vacancy is certainly more erratic than other market segments, however this is due to the small market size rather than any dramatic weakening or softening in downtown core retail. Three downtown towers saw small pockets of positive absorption, while only one tower had negative absorption of only 373 sf. It is not expected there will be any significant changes throughout 2008 as there is only one large pocket of space that remains to be filled in the core. There may be some movement in 2009 when 180 Kent is completed, however that is dependent on the amount of the retail that will be made available.

**Community Malls – 110,000 to 375,000 sf**

Vacancy has remained fairly static in community malls over the last year with vacancy currently at 1.8%, an increase of only two-tenths of a percentage point from the first half of the year. The community mall segment accounted for over 169,000 sf of positive absorption, entirely due to the completion of the first phase of the Ottawa Train Yards project. The community mall segment is expected to remain active through 2008 and into 2009. A second retail phase is expected at the Ottawa Train Yards and construction is ongoing on the Canadian Tire store located at the Smart Centre Orleans project. Once this store is completed the square footage of this power centre will place Smart Centre Orleans into the Regional Mall category. There are also numerous projects in the planning stages that once completed will be located in the community mall segment. These include a 185,000-sf project being proposed in the Hazeldean/Huntmar area of Kanata, as well as additional retail planned surrounding the Home Depot in Kanata that total approximately 211,000 sf.

**Neighbourhood Malls – 10,000 to 110,000 sf**

Vacancy in the neighbourhood mall segment was on the decline over the last six months of 2007 dropping to 4.4%, declining a full percentage point from the mid-year point. Demand was also healthy at close to 114,000 sf of positive absorption. Vacancy was at its lowest in the Nepean (Merivale Road) area at 1.1%, with only 6,220 sf available in two properties. The highest vacancy was located in Bell's Corners with close to 24,000 sf vacant, with large pockets of space available in two plazas. The Kanata/Sittsville area was one of the more successful areas of the city over the last half of the year. Vacancy declined by almost six percentage points to reach 5.9%. This sub-market also posted the highest absorption of all the neighbourhood mall areas with over 96,000 sf. Absorption was driven by the completion of Jackson Trails as well as the removal of close to 45,000 sf at Eagleson Place. It appears that this space was removed from the market as the plaza will be undergoing a redevelopment. Development is expected to remain healthy in this market segment as there are numerous projects proposed in various growing residential areas such as Kanata and Orleans.

### KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Kanata Centrum	Pro Hockey Life	18,000
Morgan's Grant	Shopper's Drug Mart	17,000
Strandherd Crossing	Good Life Fitness	10,511

### CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
Ottawa Train Yards	Various	185,000
Jackson Trails	Various	64,215

### KEY INVESTMENT TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Place D'Orleans Mall	Various	747,096
1299-1315 Richmond Rd.	Various	25,772
3023 Cedarview Rd.	Various	14,003

### UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
3890 Innes Road	Canadian Tire	130,000
3890 Innes Road	Wal-Mart Expansion	65,000
1872 Merivale Road	Various	46,500

### OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2007	VACANCY RATE YEAR-END 2007	EOY ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
<b>Regional Malls</b>	<b>5,437,539</b>	<b>0.8%</b>	<b>1.1%</b>	<b>2,651</b>	<b>N/A</b>	<b>N/A</b>
<b>Community Malls</b>	<b>6,497,285</b>	<b>1.6%</b>	<b>1.8%</b>	<b>325,482</b>	<b>\$21.61</b>	<b>\$14.82</b>
<b>Downtown Core</b>	<b>631,166</b>	<b>3.7%</b>	<b>2.9%</b>	<b>4,476</b>	<b>\$37.28</b>	<b>\$26.94</b>
<b>Neighbourhood Malls</b>	<b>5,387,963</b>	<b>5.4%</b>	<b>4.4%</b>	<b>143,731</b>	<b>\$17.81</b>	<b>\$10.05</b>
Ottawa East	479,539	3.2%	3.2%	5,578	\$15.80	\$7.34
Gloucester	359,292	4.4%	4.5%	3,271	\$15.18	\$11.44
Orleans	705,157	4.3%	4.6%	27,346	\$15.22	\$9.71
Ottawa South	829,460	2.5%	3.5%	(13,211)	\$17.71	\$11.11
Kanata/Stittsville	916,443	11.7%	5.9%	96,360	\$19.16	\$10.50
Bell's Corners	296,828	6.9%	8.0%	(5,627)	\$17.91	\$9.47
Nepean (Merivale)	580,301	4.9%	1.1%	27,456	\$25.00	\$12.26
Nepean (Other)	660,862	6.8%	6.8%	345	\$18.57	\$9.38
Ottawa West	560,081	2.1%	2.5%	2,213	\$22.28	\$10.41
<b>Total</b>	<b>17,953,953</b>	<b>2.6%</b>	<b>2.4%</b>	<b>476,610</b>	<b>\$19.19</b>	<b>\$10.36</b>



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