

# MARKETBEAT

## OTTAWA RETAIL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



4Q08

### ECONOMIC OVERVIEW

Defying what is occurring on a national level, Ottawa-Gatineau's unemployment rate dropped by 0.2 percentage points in December to 4.5%. This decline can be attributed to a drop in people seeking work along with a fall in employment levels. Employment decreased by about 1,500 people between November and December to 676,900, although this figure is still 1.6% higher than one year ago. The retail sector achieved one of the largest gains in employment over the last 12 months, adding 9,000 employees from December 2007.

Examining the housing market, which plays a key role in the health of the retail sector, construction activity rose 5.8% on a year-over-year basis, and construction was commenced on 471 units in December. Housing starts for the year exceeded earlier estimates made by CMHC with total starts rising 7.6% to 6,998 units. Although the number of housing starts is expected to drop by 12.4% in 2009 to approximately 6,000 units, this decline will primarily be the result of downsizing rather than any dramatic softening in demand.

### RETAIL MARKET OVERVIEW

Although it will not be known for a few weeks how local retailers performed during the Christmas season, there were indications that the average consumer was fairly confident heading in. In a survey conducted in late November it showed that close to 62% of Ottawa consumers, about 12% more than other Canadians, planned to spend as much this year as they did last year. This optimism was unexpected considering the "doom and gloom" economic news that is battering the public on an almost daily basis.

Unlike our neighbours to the south, many retailers in Canada are in a strong position to ride out this economic storm. Many international and U.S. retailers are continuing to enter the Canadian marketplace as there continues to be a strong appetite for these retailers in Canada. Locally we have seen Bed, Bath, and Beyond open its first location at the Ottawa Train Yards (a power centre located in the east end of the city) with an additional store planned in one of Ottawa's growing suburbs. Lacoste also opened their first Ottawa boutique at Rideau Centre. Looking ahead Lowe's is still poised to open two stores in Ottawa and in 2010 home décor and furniture specialist Urban Barn are anticipated to open three locations along with a distribution warehouse.

So far Canadian retailers have escaped the worst of the retail closures. While Bombay Company closed its American stores, the Canadian stores remain open. Disney closed close to 100 North American stores

### ECONOMIC INDICATORS

	2008	2007	2006
Real GDP Growth	1.2%	2.4%	3.3%
CPI Growth	2.7%	1.9%	1.7%
Retail Sales	5.9%	3.8%	4.7%
Personal Income per capita	\$42,043	\$40,305	\$38,580
Population ('000)	1,176	1,169	1,163
Unemployment	5.0%	5.2%	5.2%

Source: Conference Board of Canada

### KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
RioCan Merivale Place	HomeSense	27,000
Findlay Creek Centre	Canadian Tire	25,000
Findlay Creek Centre	Sobey's	21,096

### CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
SmartCentre Orleans	Canadian Tire	129,625
Klondike Crossing	Shopper's Drug Mart	17,000
Klondike Crossing	TD Canada Trust	5,000

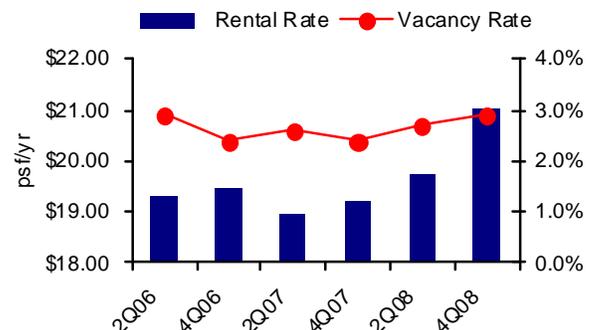
### UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
Hunt Club Place	T&T Supermarket	51,000
Ottawa Train Yards	CIBC	10,000

### KEY INVESTMENT TRANSACTIONS

PROPERTY	KEY TENANT(S)	SALE PRICE
1650-1660 Carling Avenue	Canadian Tire	\$40,000,000
216 Elgin Street	Harvey's Restaurant	\$5,850,000

### VACANCY VS. RENTAL RATES



with the majority located in the U.S. Other chains are also downsizing including Circuit City which is anticipated to close 155 stores. To date Canadian operations have been unaffected. The one casualty we have witnessed here at home is the closure of Linens-N-Things. There were three locations that operated in Ottawa and as a result of these closures, close to 90,000 square feet (sf) will come on the market.

## SUBMARKET HIGHLIGHTS

### **Regional Malls – Over 375,000 sf**

Vacancy in the regional mall segment decreased slightly over the last six months of the year to reach 0.6%. This decline was largely the result of declining vacancy in the St. Laurent Shopping Plaza as well as Place D’Orleans. This activity led to an overall positive absorption of close to 13,000 sf and an overall end-of-year total of close to 25,000 sf. The last six months of the year saw numerous developments occur in the regional mall category. Demand continues to grow for niche services and one-stop shopping and in the suburb of Orleans two new concept stores have opened to address this. At Place D’Orleans Shoppers Drug Mart opened its new retail beauty concept store, Murale. This 7,000-sf store offers numerous brand names in cosmetics and fragrances along with beauty and cosmetic services. At the FirstPro Orleans Centre a new Canadian Tire “Smart” store, one of only two in Ontario, opened its doors. This new 100,000-sf store offers the goods and services that would be located within a traditional Canadian Tire along with a 1,200-sf section dedicated to basic grocery items such as frozen foods along with milk, bread, and eggs.

One hurdle Ottawa regional malls will have to overcome is a prolonged transit strike. Most of Ottawa’s major shopping centres including St. Laurent, Place D’Orleans, and Rideau Centre are also major hubs in the city’s Transitway System. It is almost a certainty that sales numbers will be affected, particularly over the crucial holiday season.

### **Downtown Core – Over 10,000 sf**

Vacancy in the downtown core remained unchanged during the last half of the year, remaining at 1.6%. Absorption over the course of 2008 was minimal at 8,370 sf. Looking ahead into 2009, absorption will receive a boost as a new office tower that contains 17,000 sf of retail space will be completed. The majority of this retail space has been pre-leased.

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

Vacancy climbed by a percentage point over the course of the last six months of 2008, increasing to 2.6%. Propelling vacancy upwards was an increase of vacant space at Lincoln Fields Shopping Centre where 25,000 sf of space came on the market that was formerly occupied by the Canadian Automobile Association. Overall there was a slight negative absorption over the last half of the year, reaching close to 2,500 sf. This dropped the end-of-year total to 11,400 sf. Absorption has been minimal this year due to lack of new construction and overall flat growth. This will change

in 2009 as Phase 1 (totaling approximately 75,000 sf) of a 300,000-sf development located in the suburb of Kanata is anticipated to be completed. Key tenants who are a part of Phase 1 include Loeb, Shoppers Drug Mart, and TD Canada Trust. In the south end of the city a 145,000-sf project is underway. It is expected the key tenant, a 51,000-sf T&T Supermarket, will open its doors in the spring of 2009.

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

There was negligible change in vacancy over the last six months of 2008, decreasing two tenths of a percentage point to reach 5.7%. Due to the lack of new construction and any significant leasing activity, increasing vacancy over the last six months of the year led to negative absorption of 41,000 sf bringing the end-of-year absorption total to negative 71,000 sf. There were no dramatic changes in vacancy over the course of the year in the Neighbourhood Mall sub-markets with the exception being Bell’s Corners. Since Bell’s Corners has a small inventory, any changes in vacancy, however minimal, have a dramatic affect on vacancy percentages.

Although there are numerous developments proposed within this category it appears more and more likely that developers will continue to keep their projects on the back burner until it becomes clearer how the economic downturn will impact consumer confidence, and more importantly, consumer spending.

# MARKETBEAT

## OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2008	VACANCY RATE YEAR-END 2008	EOY ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
<b>Regional Malls</b>	<b>5,930,967</b>	<b>0.9%</b>	<b>0.6%</b>	<b>24,773</b>	<b>N/A</b>	<b>N/A</b>
<b>Community Malls</b>	<b>6,240,525</b>	<b>1.6%</b>	<b>2.6%</b>	<b>11,422</b>	<b>\$23.26</b>	<b>\$11.86</b>
<b>Downtown Core</b>	<b>631,166</b>	<b>1.6%</b>	<b>1.6%</b>	<b>8,370</b>	<b>\$32.56</b>	<b>\$20.80</b>
<b>Neighbourhood Malls</b>	<b>5,857,950</b>	<b>5.9%</b>	<b>5.7%</b>	<b>(71,028)</b>	<b>\$20.33</b>	<b>\$11.35</b>
Ottawa East	480,083	3.1%	6.0%	(13,985)	\$16.77	\$9.54
Gloucester	359,292	5.9%	6.8%	(8,224)	\$16.59	\$10.50
Orleans	819,980	4.0%	3.7%	72,573	\$21.51	\$9.34
Ottawa South	947,460	7.7%	3.6%	(57,632)	\$25.70	\$15.12
Kanata/Stittsville	951,443	4.9%	5.2%	4,348	\$19.55	\$11.92
Bell's Corners	296,828	9.7%	15.6%	(22,548)	\$15.38	\$9.76
Nepean (Merivale)	657,301	2.0%	3.3%	(15,352)	\$22.11	\$8.48
Nepean (Other)	680,862	9.6%	8.5%	(13,216)	\$22.67	\$12.12
Ottawa West	664,701	6.9%	6.3%	(16,992)	\$21.96	\$11.62
<b>Total</b>	<b>18,660,608</b>	<b>2.7%</b>	<b>2.9%</b>	<b>(26,463)</b>	<b>\$21.04</b>	<b>\$11.67</b>



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