

MARKETBEAT

OTTAWA RETAIL REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



2Q09

ECONOMIC OVERVIEW

The unemployment rate for the Ottawa-Gatineau region rose four tenths of a percentage point in May to reach 5.9%. Although the local economy lost approximately 3,800 jobs, this employment decrease was the smallest number seen year-to-date and unemployment is well below the national unemployment rate of 8.4%. On a less positive note, one of the weakest segments was the local retail and wholesale sector, where employment has decreased by approximately 13,000 jobs over the course of 2009, bringing the number of people working in this sector in May down to 72,000.

Construction commenced on a total of 369 residential units in May, a decrease of 45.5% from one year earlier, with both single-family and multiple unit construction reporting double digit decreases. However, this dismal picture brightens dramatically when examining the resale market. Confidence among local homebuyers and sellers is high, as total sales rose 3.9% from May 2008 to 1,969 units, almost entirely due to the strength of the freehold segment. The average selling price also rose across all categories.

RETAIL MARKET OVERVIEW

Despite the uncertain economic climate, it generally appears that retail sales have remained fairly consistent. This is reflected in the city's overall vacancy rate of 2.8%, a one tenth of a percentage point decline from year-end 2008. Most likely playing a role in the continuing low vacancy this quarter were softening rental rates. The average asking rate for the entire city decreased to \$18.63 per square foot, with virtually all segments and sub-markets posting decreases from year-end 2008.

Although there have been retail closures such as Linens N Things and Outback Steakhouse, this has had no impact on vacancy. HomeSense and Value Village have moved into the spaces left vacant by Linens N Things, while the two Outback Steakhouse locations have been leased by another restaurant chain and the Royal Bank. This demonstrates that there continues to be strong interest in the Ottawa retail market, coming both from companies already located in the region and from new companies looking to establish a presence here. IKEA has filed plans with the city that, if approved, would turn their existing 100,000-square foot (sf) premises into a 400,000-sf location. This would make the store the largest in Canada and one of the five largest IKEA stores in North America. This would require a redesign of the Pinecrest Shopping Plaza, with existing tenants relocating to make room for the new construction. Another mall that will be undergoing redevelopment is Herongate Mall. The plans call for tearing down the majority of the current shopping centre and replacing it with a series of

ECONOMIC INDICATORS

	2007	2008	2009F
Real GDP Growth	2.6%	1.2%	0.2%
CPI Growth	1.9%	2.2%	0.5%
Retail Sales	4.3%	5.0%	0.5%
Personal Income per capita	\$40,578	\$42,236	\$42,804
Population ('000)	1,169	1,175	1,183
Unemployment	5.2%	4.8%	5.8%

Source: Conference Board of Canada

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Orleans Place	No Frills	37,000
Viewmount Centre	HomeSense	28,500
4338 Innes Road	Sports Experts	17,500

CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
Klondike Crossing	Multiple	37,242
Ottawa Train Yards	CIBC	9,500

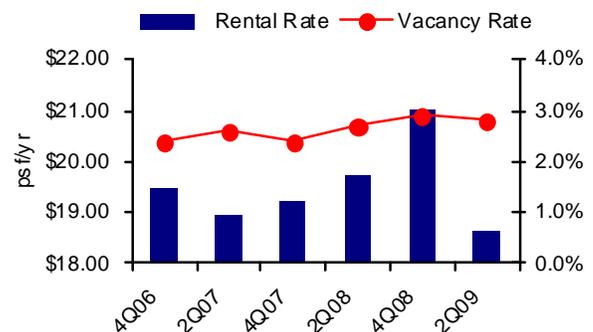
UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
Hunt Club Place	T&T Supermarket	51,000
Coliseum Ottawa	Multiple	13,427

KEY INVESTMENT TRANSACTIONS

PROPERTY	KEY TENANT(S)	SALE PRICE
1 Stafford Road	East Side Mario's	\$7,750,000

VACANCY VS. RENTAL RATES



retail stores around the perimeter. The redeveloped shopping area would have a gross floor area of around 191,000 sf of retail space. Over the past six months the city has continued to see announcements of companies setting up new locations in Ottawa. The Athletic Club Group based in London, Ontario will be commencing construction on three new aquatics centres and fitness facilities. One will be built in the eastern suburb of Orleans along the busy retail corridor of Innes Road, one will be constructed in the Ottawa Train Yards Power Centre and the other will be located in the western suburb of Kanata. Although Orleans will be losing a new Costco store as the Athletic Club group purchased the land that had been earmarked for Costco, they will be gaining a Lowe's sometime in the future. Lowe's has purchased land, also located along Innes Road, that calls for a 142,000-sf store.

SUBMARKET HIGHLIGHTS

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

Vacancy in this segment increased slightly over the first six months of the year to reach 0.7%, virtually unchanged from the last six months of 2008. This minimal climb in the vacancy rate was due to slight increases in vacancy at the Place D'Orleans shopping mall, Kanata Centrum, and RioCan Marketplace. Overall, the centres within this category continue to perform strongly, with the Rideau Centre continuing to be the preferred destination for retailers new to the city. Spanish clothing chain Zara will be opening a 12,000-sf location later in the year. Another trendy brand, Apple Inc., has filed building permit plans to open a 7,000-sf location. Finally, designer Michael Kors will be opening a location at the mall in the near future.

Place D'Orleans is also poised to have a successful 2009. The General Manager of the shopping mall has stated in a local publication that the several new stores that have opened in the past year continue to perform well and there continues to be interest from other retailers looking to open locations within the mall.

Downtown Core – Over 10,000 sf

There continues to be minimal vacancy within the downtown core, with vacancy currently sitting at 1.2%, a decline of four tenths of a percentage point from year-end 2008. Looking ahead to the remainder of 2009, it is expected that there will be little change in vacancy, although absorption will receive a boost when 17,000 sf of fully leased retail space is included in the next survey, courtesy of the new office tower that will have been completed.

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

Although there were numerous malls and smaller power centres reporting slight increases in vacancy, the overall vacancy rate remained virtually unchanged from the last six months of 2008, decreasing by one tenth of a percentage point to reach 2.5%. This was the result of one large transaction located at the Lincoln Fields Shopping Centre, where over 25,000 sf came off of the market. At the end of 2008 it was projected that there would be at least two new developments that would be completed by the end of 2009. One of these developments is a 145,000-sf power centre located in the south end of the city which is anchored by a T&T Supermarket. This appears to be on track and the current expectation is that the first stages will be completed by late summer. The other development is located in Kanata and, when completed in its entirety, will be 300,000 sf. It was initially thought that the first phase of approximately 75,000 sf would be completed by July of this year. Although lead tenants have been confirmed, such as Loeb and Shoppers Drug Mart, construction has yet to begin and the completion date is unknown.

Neighbourhood Malls – 10,000 to 110,000 sf

Vacancy continued its march downwards and now sits at 5.4%, a three tenths of a percentage point drop from year-end 2008 and half a percentage drop from one year ago. There were no drastic changes in terms of vacancy over the past six months, although overall absorption did receive a boost from the completion of Phase 1 of Klondike Crossing located in Kanata. When complete in 2010, the entire development will be just shy of 70,000 sf. There are numerous other projects in the pipeline, with the majority serving the suburbs of Kanata, Orleans, and Barrhaven. None of these potential developments have commenced construction, although it appears that one 60,000 sf development located along March Road in Kanata, which is to be anchored by a Sobeys's, is closer to realization. Although the developer hopes to begin construction this summer, the Sobeys's will not open until the main thoroughfare along the development is widened to four lanes.

OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2009	VACANCY RATE YEAR-END 2008	YTD ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
Regional Malls & Large Power Centres	5,930,967	0.7%	0.6%	(8,898)	N/A	N/A
Community Malls & Smaller Power Centres	6,408,183	2.5%	2.6%	4,537	\$20.51	\$9.46
Downtown Core	631,166	1.2%	1.6%	2,845	\$28.00	\$22.08
Ottawa East	480,083	6.2%	6.0%	(1,267)	\$16.69	\$8.77
Gloucester	304,994	4.9%	6.8%	3,500	\$15.23	\$11.84
Orleans	819,980	4.3%	3.7%	(5,411)	\$20.22	\$9.67
Ottawa South	927,134	4.2%	3.6%	(4,657)	\$17.94	\$10.97
Kanata/Stittsville	988,685	4.6%	5.2%	40,808	\$18.41	\$11.49
Bell's Corners	296,828	16.6%	15.6%	(3,000)	\$15.67	\$9.81
Nepean (Merivale)	657,301	2.5%	3.3%	4,819	\$24.21	\$12.28
Nepean (Other)	680,862	7.5%	8.5%	6,965	\$24.13	\$10.69
Ottawa West	669,781	5.0%	6.3%	8,575	\$20.64	\$12.20
Neighbourhood Malls	5,825,648	5.4%	5.7%	50,332	\$18.34	\$10.88
Total	18,795,964	2.8%	2.9%	48,816	\$18.63	\$10.94



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