

MARKETBEAT

OTTAWA RETAIL REPORT

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4Q09

ECONOMIC OVERVIEW

The unemployment rate for the Ottawa-Gatineau region held steady in November at 5.4%. This comes despite a drop in employment of 1,100 jobs, the first employment level drop in five months. On a positive note, however, the region is up 18,000 jobs overall since May 2009. One of November's highlights was the retail and wholesale trade sectors, which demonstrated some improvement compared to October. As of November these industries employ approximately 81,500 people.

Ottawa's residential construction industry posted its first significant increase in starts this year, commencing work on a total of 668 residential units in November, which is an increase of 35.8% from one year earlier. Multiple unit construction accounted for the majority of growth, with row house starts at 255 units and semi-detached starts at 56 units. It appears that first time homebuyers are continuing to drive demand as these two segments tend to be more affordable. Strength continues in the re-sale market as well. A record 14,742 properties sold in 2009, which is a 7.4% jump from 2008. The average price for all types of resale homes reached \$303,900 for the year, up almost 5% from 2008. This is prompting predictions for a strong 2010, with further moderate price increases.

RETAIL MARKET OVERVIEW

Now that the recession has technically been deemed over, it appears that local consumer confidence has also risen and, along with it, retail sales. Although vacancy increased slightly to 3.1% over the course of the last six months, this was more the result of a few large blocks of space coming on the market rather than indicative of an overall weakening market. Overall average rental rates for the city have held steady through the second half of the year, with an increase in average asking rents in the community mall/small power centre segment balancing out a decrease in rents in the overall neighbourhood mall segment.

Retailers new to the Ottawa market continued to make their entrance over the last half of the year. T&T Supermarkets, which specializes in Asian cuisine, opened their first outlet in Ottawa. The 51,000-square foot (sf) location is aiming to offer Asians and non-Asians alike a convenient one-stop shopping experience. Another retailer new to the Ottawa landscape is Lowe's, which recently opened their first Ottawa store. There are also preliminary plans for an additional two stores to open in the future. Other retailers were also in expansion mode, with GoodLife Fitness planning to open its 17th location in Ottawa to meet growing demand in the suburb of Orleans. This location will

ECONOMIC INDICATORS

	2007	2008	2009F
Real GDP Growth	2.5%	0.8%	-0.5%
CPI Growth	1.9%	2.2%	1.0%
Retail Sales	4.2%	4.0%	-1.9%
Personal Income per capita	\$40,031	\$41,224	\$41,407
Population ('000)	1,183	1,199	1,212
Unemployment	5.2%	4.8%	6.1%

Source: Conference Board of Canada

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Orleans Central	Good Life Fitness	28,432
Westgate Shopping Centre	Capital City Dance School	8,639
Kanata Centrum	Crazy Horse Restaurant	8,010

CONSTRUCTION COMPLETIONS

PROPERTY	TENANT	SQUARE FEET
Innes Rd & Belcourt Blvd.	Lowe's	173,000
Hunt Club Place	T&T Supermarket	51,000

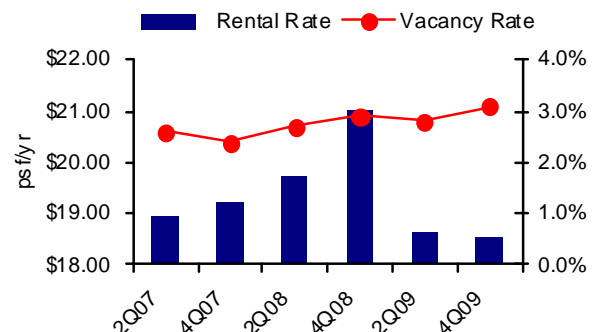
UNDER CONSTRUCTION

PROPERTY	TENANT	SQUARE FEET
Innes Rd & Belcourt Blvd.	The Athletic Club	65,000

KEY INVESTMENT TRANSACTIONS

PROPERTY	KEY TENANT(S)	SALE PRICE
2148 Carling Ave. Fairlawn Plaza	Neighbourhood Plaza	\$13,500,000
100 Bayshore Drive Bayshore Shopping Mall	Multiple	\$157 million

VACANCY VS. RENTAL RATES



be moving into the space left vacant by Canadian Tire's move to newly built premises. Empire Theatres Ltd. also expanded their presence in Ottawa with the opening of their 41,000-sf cinema complex; the first in Ottawa to be fully digital in all of its theatres. New developments are also being planned throughout the city. One that was recently approved was a project to be developed by SmartCentres, proposing retail and office space for the old Laurentian High School site. This project, once completed, will see 217,000 sf of retail space and 98,000 sf of office space.

SUBMARKET HIGHLIGHTS

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

Vacancy in this segment decreased slightly over the last six months of the year to reach 0.5%, two-tenths of a percentage difference from the first half of 2009. Activity at the Place D'Orleans regional mall was the driving force behind this decrease, as the mall is now reporting 0% vacancy. This segment has performed strongly over the course of the year and continues to attract tenants new to the city. Apple Inc. opened its first location at the Rideau Centre in July. Clothing chain Zara and designer Michael Kors also opened locations in the mall during the last half of the year. Bayshore Shopping Centre has also attracted new high-profile tenants this year, including Bath & Body Works and clothing store Jack & Jones.

The most significant development in this retail segment was the proposal from Morguard to undertake a massive expansion of St. Laurent Centre. This expansion includes a new two-storey, 164,500-sf Sears Store, a new one-storey, 80,000-sf department store and an additional 233,700 sf of retail space. This, along with expansion plans at both Bayshore Shopping Centre and Rideau Centre, demonstrates how aggressive the regional malls are becoming to attract shoppers' dollars (particularly the older shopper who would most likely be more appreciative of having all the stores they need under one roof, along with being able to take advantage of added amenities such as food courts).

Downtown Core – Over 10,000 sf

Vacancy within the downtown core jumped substantially this quarter to 4.0%. This increase was the direct result of increased

vacancy at the 240 Sparks complex, which is currently undergoing a significant renovation. It is anticipated that this vacancy will not be on the market for long and it is anticipated that vacancy should head back down through 2010.

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

Vacancy in this segment increased by a percentage point during the last half of 2009 to reach 3.5%. Although there were a handful of centres reporting increases in vacancy, the largest by far was approximately 48,000 sf located in Fairlawn Plaza that came on the market. This space was formerly occupied by Canadian Tire which closed this location due to the brand new facility that opened in the vicinity. Asking rental rates have ranged from \$18-\$25 per square foot (psf) throughout the course of the year, with the average over the last half of 2009 at \$21.74 psf. This segment will receive a boost in absorption during the next survey that will be conducted in mid-year 2010 as Phase I of the new project being developed by Trinity will be added to the inventory. There continues to be numerous new projects that are targeted to be completed in 2010, with the majority of these developments located in Kanata.

Neighbourhood Malls – 10,000 to 110,000 sf

Vacancy declined just slightly over the last half of 2009 to reach 5.3%, one tenth of a percentage point decline from the first half of year. Vacancy in most of the submarkets has remained relatively stable over the course of the year, and this is expected to continue into the first half of 2010. As is the case with the community mall/small power centre segment, there are also numerous developments, as well as expansions of existing malls, that are anticipated to be completed in 2010. Some of these include the redevelopment of the Canadian Tire site in Orleans that was mentioned earlier in the report. Once completed, this project will total approximately 85,000 sf. Phase II of Hunt Club Place is also expected to be completed, which will total approximately 64,000 sf. This centre has T&T Supermarkets as its anchor tenant.

OTTAWA STATISTICAL SUMMARY

MARKET SEGMENT	INVENTORY	VACANCY RATE MID-YEAR 2009	VACANCY RATE YEAR-END 2009	EOY ABSORPTION	AVERAGE NET RENT	AVERAGE TAX & OPS
Regional Malls & Large Power Centres	5,930,967	0.7%	0.5%	3,073	N/A	N/A
Community Malls & Smaller Power Centres	6,408,183	2.5%	3.5%	(55,204)	\$21.74	\$8.43
Downtown Core	648,166	1.2%	4.0%	(15,868)	\$28.00	\$23.33
Ottawa East	480,083	6.2%	5.8%	624	\$18.00	\$7.50
Gloucester	304,994	4.9%	8.2%	(6,480)	\$14.92	\$11.22
Orleans	819,980	4.3%	4.7%	(8,666)	\$15.98	\$11.05
Ottawa South	1,008,134	4.2%	4.5%	69,221	\$17.16	\$11.23
Kanata/Stittsville	988,685	4.6%	3.3%	54,238	\$18.47	\$11.37
Bell's Corners	296,828	16.6%	12.0%	10,638	\$16.59	\$9.94
Nepean (Merivale)	657,301	2.5%	3.6%	(2,106)	\$23.71	\$13.28
Nepean (Other)	680,862	7.5%	7.6%	6,635	N/A	N/A
Ottawa West	669,781	5.0%	4.5%	11,518	\$21.51	\$13.37
Neighbourhood Malls	5,906,648	5.4%	5.3%	135,622	\$17.79	\$11.45
Total	18,893,964	2.8%	3.1%	67,623	\$18.56	\$11.00



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