

MARKETBEAT RETAIL SNAPSHOT



OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q4 2014



ECONOMIC OVERVIEW

Although job losses pushed the national unemployment rate to 6.6% in November 2014, the unemployment rate in the National Capital region declined to 6.2%, the lowest rate in nearly a year. Among the weaker sectors

this month was public administration, which saw the number of jobs decline to 144,600. Year-over-year numbers tell a slightly different story, and perhaps are a better indicator of overall trends. Compared to November 2013 the number of public administration jobs held fairly steady and overall totals are actually up by 1,000 positions. The Conference Board of Canada is forecasting gains for the public administration and manufacturing sectors in 2015, coupled with strong non-residential construction. The Board expects the region's economy to expand by 1.8%, the largest annual gain in five years.

The Ottawa Real Estate Board (OREB) reported a strong year-end for real estate in Ottawa. Agents in the city sold 640 properties in December, with the overall numbers for the year totaling 13,928, an increase of 0.4% from 2013. The average price of all residential properties, including condos, for the year was close to \$362,000, up 1.2% from 2013.

According to the Canadian Mortgage and Housing Corporation, housing starts in December 2014 reached 6,246, a slight increase from last month. Although overall starts were down in 2014, single detached construction was very close to 2013 levels and row construction also remains strong. Looking to 2015, CMHC forecasts that the Ottawa resale housing market is expected to remain balanced although slightly lean towards the seller's side of the equation. Housing starts are expected to decline in 2015 and remain slow into 2016, largely due to a decline in condominium sales.

Retail sales growth in 2014 is expected to reach 3.5% for the region, a notable improvement over 2013. Ottawa area shoppers were

given a plethora of different shopping options in 2014, with the opening of the Tanger Outlet Mall and the retail at the newly developed Lansdowne Park. Although the pace of retail expansion may slow next year, Ottawa remains of particular interest to retailers due to the average household income of \$98,000, making the capital one of the wealthiest cities in the country. Currently, Ottawa shops collect an average of \$475 per square foot (psf) in retail sales annually. In other Canadian cities this figure is more in the range of \$250-\$350 psf.

ECONOMIC INDICATORS

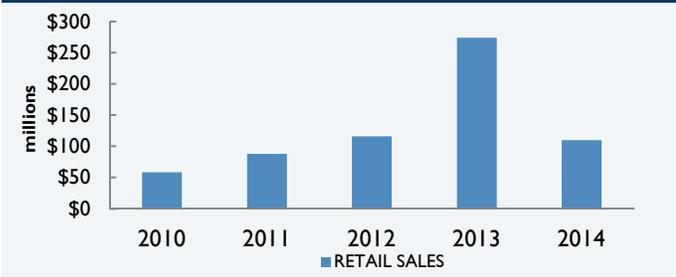
| REGIONAL | 2013 | 2014F | 2015F |
|---------------------|----------|----------|----------|
| GDP Growth | 0.5% | 0.7% | 1.8% |
| CPI Growth | 1.0% | 2.3% | 2.1% |
| Retail Sales Growth | 2.1% | 3.5% | 3.3% |
| Household Income | \$44,926 | \$46,447 | \$47,687 |
| Population Growth | 1.3% | 1.0% | 0.9% |
| Unemployment | 6.3% | 6.6% | 6.2% |

Source: Conference Board of Canada

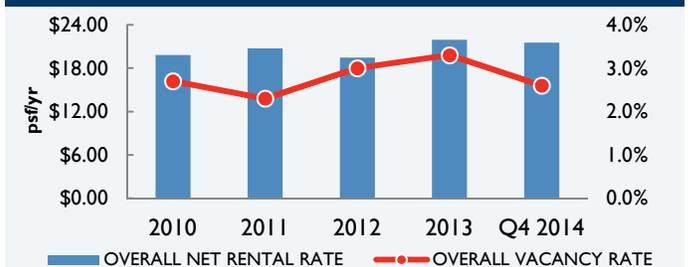
OTTAWA MARKET BREAKDOWN

| | VACANCY | RENTAL RATES PSF/YR | MEDIAN SALES PRICE / SQUARE FOOT |
|---------------------|-------------|------------------------|-------------------------------------|
| Regional Malls | 1.0% | N/A | N/A |
| Community Malls | 1.7% | \$19.70 | N/A |
| Core Office Tower | 6.3% | \$32.13 | N/A |
| Neighbourhood Malls | 5.1% | \$20.24 | \$271 |
| TOTAL MARKET | 2.6% | \$21.54 | N/A |

RETAIL SALES ACTIVITY



OVERALL RENTAL VS. VACANCY RATES



RETAIL MARKET OVERVIEW

The overall retail vacancy rate for the city declined slightly over the last half of 2014 to reach 2.6%, 0.2 percentage points lower than the midpoint of 2014. The Regional Mall and Community Mall segments both performed well in 2014, as vacancy declined throughout the year to reach 1.0% and 1.7% respectively. However there may be some challenges ahead for both market segments. It was recently announced that Target would be pulling out of Canada, resulting in the closure of 133 stores across the country, affecting 17,600 employees. Five of these locations are located in Ottawa, along with a brand new store that was planned for the newly expanded Bayshore Shopping Centre. These closures could potentially result in approximately 500,000 square feet (sf) coming on the market. Overall absorption was very strong over the last half of 2014 at 717,000 sf, bringing the year-end total to 896,000 sf. Almost all of this positive absorption was generated from the new construction completions at Lansdowne Park and the Tanger Outlet Store located in the city's west end. Overall rental rates held steady throughout 2014, with the current average at \$21.54 psf.

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

The renovations and expansions at both the Rideau Centre and Bayshore Shopping Centre are entering into their final stages. When work is complete, each mall will total approximately 1.0 million square feet (msf) of space. Once completed in 2016, estimated combined sales from the stores and businesses in both shopping centres will likely top \$1.5 billion. Based on what Rideau Centre has previously announced, annual sales per square foot are more than \$1,000 psf, placing the mall within the top five in Canada. Both Bayshore and the Rideau Centre have improved the appearance of common areas with new flooring and lighting, as well as significant renovations and expansion of their food courts. In terms of upscale retailers, the Rideau Centre was able to entice Nordstrom, currently the only store in Ottawa. It is set to open in March 2015, employing approximately 400 employees. Bayshore was planning to open a Target in their newly expanded area; however, mall owners will be forced to go back to the drawing board as Target withdraws from Canada. Bayshore will also be losing the only Sony Store in Ottawa, as that retailer announced they will be pulling out of Canada. Mexx Canada is currently in the midst of liquidating their 95 stores in Canada, including their eight locations in Ottawa. In more positive news, popular fashion retailer H&M continued their expansion into Ottawa and opened their third location in the region at Place D'Orleans in the city's east end, occupying approximately 20,000 sf.

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

This market segment saw two very significant arrivals in the second half of 2014. Located in Kanata, Tanger Outlets opened in October, welcoming shoppers to its 75 designer outlet stores, including retailers such as Nike, Calvin Klein, Gap, and Tommy Hilfiger. This area of the city is generating a lot of buzz in terms of new entrants to the Ottawa market. In November 2014 U.S.-based outdoor retailer

Cabela's announced they would be opening their first location in Ottawa, only the second in Ontario, anchoring a 250,000- to 300,000-sf development called Kanata West Centre, located adjacent to the outlet mall. Cabela's would be competition for major outdoor retailer, Bass Pro, which announced in late 2013 that it plans to open a 120,000-sf location in a new retail development planned by Broccolini-Laurentide, located just to the east of Tanger Outlets. Bass Pro planned to open in 2015, however construction has yet to commence and it is currently unclear what their intentions are. In other news, retailers began opening their doors at the newly developed and redesigned Lansdowne Park. Some of the more notable tenants include Whole Foods and Sporting Life, both of which are new entrants to the Ottawa retail landscape.

NEIGHBOURHOOD MALLS: 10,000-110,000 SF

Vacancy declined to 5.1% over the second half of 2014, 0.3 percentage points lower than at the midpoint of the year. The majority of neighbourhood mall submarkets did not experience any large pockets of space coming on or off the market as there were fairly minimal amounts of either positive or negative absorption. As construction winds down at the larger enclosed malls and power centres, it is expected this segment will continue to see new construction to service the outlying suburbs such as Barrhaven, Kanata, and Riverside South. Construction is ongoing at Centrecorp's The Shoppes at Fairwinds in Kanata with Dollar Tree and The Keg Steakhouse slated to open in the near future. There is a new development in the final planning stages that will also be located in Kanata and is being developed by Taggart Realty Management. This development will be approximately 71,000 sf and will feature The Brick and a La-Z-Boy furniture store.

CORE OFFICE TOWER: 10,000 SF AND OVER

A new office tower, 90 Elgin Street, was completed in Q4 2014 and as a result, 15,000 sf of retail space was added to the inventory. Retail preleasing was strong in this property with approximately 2,000 sf remaining to be leased. Overall vacancy in this market segment was 6.3%, largely a result of availability at 240 Sparks Street. Vacancy is likely to climb further into 2015 as Holt Renfrew is closing its only location in Ottawa, a 35,000-sf store located at 240 Sparks Street.

OUTLOOK

Over the past few years Ottawa has seen a remarkable evolution of its retail sector, both in the ever-increasing number of places to shop, and with the continued arrival of new retailers to the city. Despite the fact that some retailers have struggled, particularly women's fashion retailers such as Mexx, Smart Set, and Jacob, whose closures have had some impact on the local market; there should be continued optimism for retail in the city as there is room for growth, particularly in the suburbs which continue to expand. Although the closure of Target will leave a glut of space on the market, it may help lure some companies to Ottawa, given that mall landlords will likely have to be very price competitive to fill the spaces left vacant.

OTTAWA SUBMARKET STATISTICS

| SUBMARKET | INVENTORY | VACANCY RATE MID-YEAR 2014 | VACANCY RATE YEAR-END 2014 | Q4 2014 ABSORPTION | YTD ABSORPTION | WTD AVERAGE NET RENT | WTD AVERAGE TAX & OP COSTS |
|---|-------------------|-------------------------------|-------------------------------|-----------------------|-------------------|-------------------------|-------------------------------|
| REGIONAL MALLS & LARGER POWER CENTRES | 7,964,745 | 1.3% | 1.0% | 24,069 | 63,795 | N/A | N/A |
| COMMUNITY MALLS & SMALLER POWER CENTRES | 7,307,329 | 1.9% | 1.7% | 694,769 | 846,052 | \$19.70 | \$15.00 |
| DOWNTOWN CORE | 728,047 | 2.6% | 6.3% | 4,430 | 21,385 | \$32.13 | \$27.36 |
| Ottawa East | 480,083 | 1.0% | 0.9% | 866 | (401) | \$18.50 | \$10.86 |
| Gloucester | 397,321 | 13.2% | 13.9% | (2,700) | (6,519) | \$15.84 | \$12.64 |
| Orleans | 834,064 | 11.4% | 11.7% | (7,829) | (11,509) | \$19.89 | \$11.10 |
| Ottawa South | 1,008,134 | 3.2% | 2.4% | 7,382 | 13,690 | \$20.03 | \$11.10 |
| Kanata/Stittsville | 1,436,078 | 3.6% | 3.2% | 4,978 | 25,055 | \$22.64 | \$10.54 |
| Bell's Corners | 334,640 | 7.4% | 7.2% | 796 | (18,350) | \$21.29 | \$9.81 |
| Nepean (Merivale) | 657,301 | 8.4% | 5.6% | (5,071) | (42,012) | \$16.26 | \$10.82 |
| Nepean (Other)/Barrhaven | 707,915 | 2.0% | 2.4% | (2,598) | 8,557 | \$25.41 | \$12.07 |
| Ottawa West/Westboro | 680,736 | 3.8% | 4.0% | (1,797) | (3,177) | \$23.92 | \$18.41 |
| NEIGHBOURHOOD MALLS | 6,536,272 | 5.4% | 5.1% | (5,973) | (34,666) | \$20.24 | \$11.37 |
| TOTAL MARKET | 22,536,393 | 2.8% | 2.6% | 717,295 | 896,566 | \$21.54 | \$12.53 |

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

| SIGNIFICANT Q4 2014 LEASE TRANSACTIONS | SUBMARKET | TENANT | PROPERTY TYPE | SQUARE FEET |
|--|-----------------------------|---------------------------------------|------------------------|-------------|
| 5617 Hazeldean Road | Kanata | Dollarama | Community Mall | 22,600 |
| 3000 Strandherd Road | Nepean/Barrhaven | Urban Barn | Regional Mall | 5,627 |
| 3000 Strandherd Road | Nepean/Barrhaven | Anytime Fitness | Regional Mall | 4,200 |
| SIGNIFICANT Q4 2014 SALE TRANSACTIONS | SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET |
| 486 Hazeldean Road | Neighbourhood Mall/ Kanata | Trez Capital Corporation | \$12,442,125 / \$135 | 92,433 |
| 3681 Strandherd Drive | Regional Malls | RioTrin Properties Inc. | \$12,314,000 / \$616 | 20,000 |
| 2026 Lanthier Drive | Neighbourhood Mall/ Orleans | 9029419 Canada Inc. | \$4,575,000 / \$259 | 17,683 |
| SIGNIFICANT Q4 2014 CONSTRUCTION COMPLETIONS | SUBMARKET | MAJOR TENANT | COMPLETION DATE | SQUARE FEET |
| Tanger Outlet Mall | Community Malls | Various | Q4 2014 | 293,000 |
| The Shops at Lansdowne | Community Malls | Sporting Life, Whole Foods, Various | Q4 2014 | 200,000 |
| West Hunt Club Road & Merivale Road | Community Malls | Lowe's, JYSK, Various | Q4 2014 | 200,000 |
| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | SUBMARKET | MAJOR TENANT | COMPLETION DATE | SQUARE FEET |
| The Shops at Lansdowne | Community Malls | Cineplex Odeon, Jack Astor's | Q2 2015 | 160,000 |
| West Hunt Club Road & Merivale Road | Community Malls | Chop Steakhouse, Jack Astors, Various | Q2 – Q4 2015 | 160,000 |