

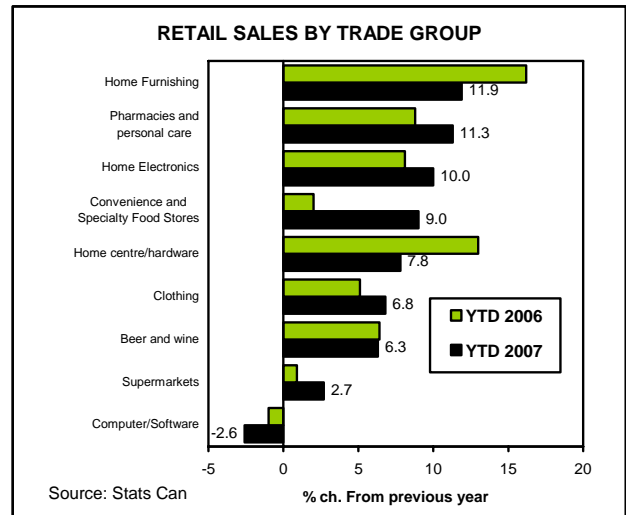
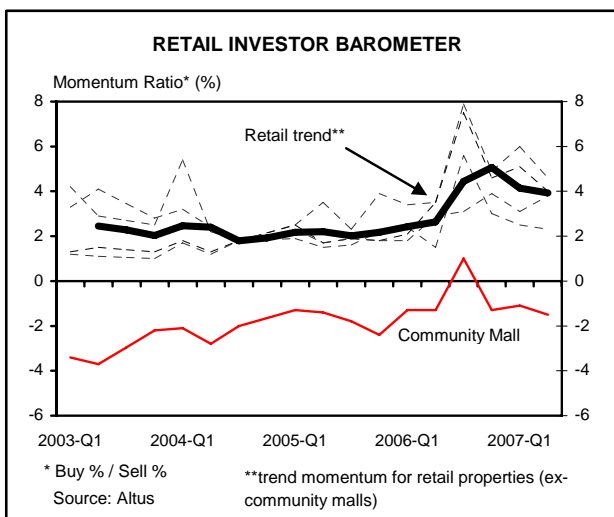


MID-YEAR PROGNOSIS FOR CANADIAN RETAIL LOOKS GOOD

Amidst a puny savings rate, a collapsing housing market and an increasing inability to tap into their homes for cash, the forward looking fundamentals for household spending in the U.S. do not look very rosy. So even though investor demand for retail properties is currently still quite healthy and pricing remains relatively firm south of the border, U.S. property investors have increasingly grown a little more skittish about the prospects for this asset class.

In contrast, the underlying retail environment in Canada has been materially better than the U.S. this year. Consumers on this side of the border continue to be supported not only by a fundamentally healthy housing market, but also a strong dollar and a vibrant labour market that has created robust wage gains in most sectors of the economy. As a result, overall retail sales growth in Canada continues to remain stellar in 2007, even after a banner year in 2006. As of May, the dollar value of year to date retail sales across the country is up a healthy 6.2%.

Largely due to these strong underlying fundamentals, investor momentum for retail properties in Canada has not wavered by much. The momentum ratio for retail noted in the chart below (which looks at the percentage of those investors buying over selling) has remained firmly up near 4 (this indicates that for every one seller of retail properties there are about 4 buyers) with only some modest easing recently, primarily among Tier 2 regional malls and continued selling momentum among community malls. Nevertheless, as of the second quarter, Tier 1 regional malls and power centres remain two of the top property assets of choice among real estate investors.



Canadian Retail Sales Trends and Outlook

Most retail sales categories have been solid so far this year. In particular, the sturdiness of Canada's housing market has continued to inspire strong double-digit increases at home furnishing and home electronic stores while sales at pharmacies, personal care stores, clothing and specialty food stores have even outpaced last year's performance.

The only retail sectors to see some relative weakness this year have been supermarkets (up just 2.7%) and computer and software stores (-2.6%). It's important to note that the overall *volume* of activity remains solid at many of these stores (particularly in the West where population growth has been most intense). However, the dollar *value* of sales receipts at many of these centres has (and will likely continue to) come under pressure due to increasing competition. Indeed, price discounting has become especially intense in both of these trade groups. Furthermore, in the case of supermarkets, the rapid growth of specialty food stores that are directly catering to the broader needs of today's Canadian consumer has also brought a greater degree of competition on the "quality side". Consequently, the future profitability of some supermarkets and computer stores is likely to be challenged going forward, particularly among those that have not, or are having, difficulty improving their operational productivity.

Notwithstanding this, the overall outlook for Canada's retail sector looks good. Healthy underlying fundamentals, particularly a strong Canadian dollar and a tight national labour market should ensure that consumer spending will remain a pillar of strength for the Canadian economy over the rest of this year. That said, slightly higher short term interest rates will begin to bite into some discretionary purchases and this could result in a modest cooling of overall retail sales growth as the year comes to a close.

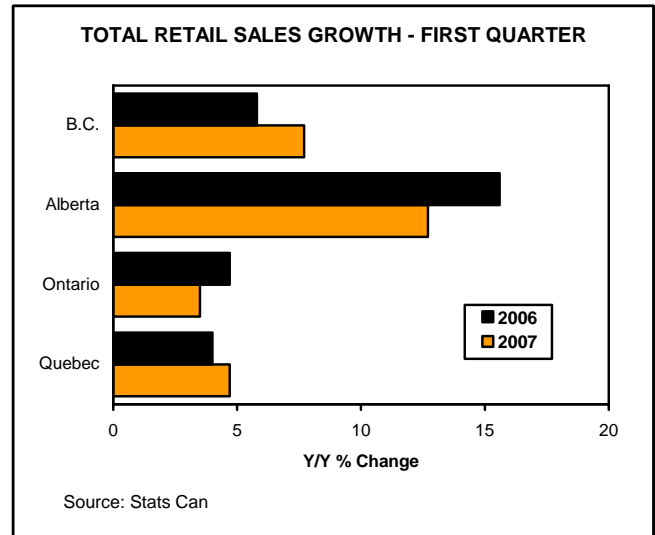
Regional Trends

Vancouver

Solid job and wage growth has helped to keep consumer spending in B.C. very well supported. Over the first quarter of the year, retail sales were up a robust 7.7% from a year ago. A good part of this growth continues to be tied to the province's booming housing sector with sales at specialized building and home centre hardware stores up a whopping 25% and 22% respectively. In contrast, sales at convenience/specialty food stores and supermarkets have seen consistent softness over the last few quarters. Looking ahead, overall retail sales growth will likely remain quite strong, largely owing to continued growth in housing-related purchases. Given the underlying strength in retail spending, a number of new format retailers have begun to emerge in the Greater Vancouver area as part of mixed-use developments, particularly in the downtown but also along Cambie Street. Several suburban projects are also underway and several existing suburban shopping centres are being reconfigured or intensified. Notwithstanding this, Vancouver remains somewhat under-represented in retail space per capita compared to other major centres in Canada. As such, retail property vacancies remain very tight with rental rates holding above \$220/sf for the best locations on Robson Street. Investor surveys indicate that cap rates for regional malls compressed by 10bps to 5.5% in Q2 - the lowest point this decade, with the spread between Toronto and Vancouver narrowing to just 10 basis points. Note, however, that the pace of cap rate compression began to slow over the last two quarters.

Calgary

Powered by a tight labour market, rapid wage gains and booming population growth, consumer spending remains an extremely impressive story in Alberta. In the first quarter of 2007, retail sales were up a sizeable 12.7% from a year ago. While this is still almost double the pace for the country as a whole, it's worthy to note that the rate of growth in Alberta is now slightly softer than last year and also no longer leads the country (that distinction now goes to Saskatchewan). However, this might positively suggest that Alberta is starting to see an orderly cooling of activity to more sustainable levels. Overall sales have been broadly spread across all retail trade groups (save for computer stores) but the most robust gains continue to be at home furnishing stores (up 47%) and specialized building material stores (up 23.4%). Given the overall strength in consumer spending, retail space absorption continues to be very strong in Calgary. Meanwhile, a number of new projects are currently planned for the Calgary area although lack of available serviced land and a backlog of planning applications have delayed some starts. Correspondingly, retail rental rates are up across all submarkets although the pace of growth here has also slowed, undoubtedly because some retailers (who are also coping with rising operating and labour costs) have reached their upper thresholds. On balance, rental rates have approached \$90/sf for



the best locations on 17th Ave. SW. Not surprisingly, investor interest in Calgary remains very strong and according to investor surveys, cap rates for Calgary regional malls in Q2 compressed by 10 bps to 5.5% - the lowest point this decade and only 10 bps higher than Toronto. Note, however, that the pace of compression in Calgary began to slow over the last two quarters.

Toronto

Despite the massive job losses seen in its manufacturing sector over the last two years, Ontario's economy has held up remarkably well, thanks largely to offsetting strength in its diverse service sector. In fact, domestic demand (consumer, business and government spending) in Ontario grew at twice the speed of the national economy last year, quashing any fears that a full-blown recession hit the province. Nevertheless, total retail sales figures in Ontario continue to sorely lag behind the rest of the country with growth of just 3.5% in Q1. However, much of this sluggishness is due to an outright drop in the dollar value of new car sales during the period and significantly lower gasoline station sales compared to other provinces. And this may itself be related more to behavioural changes related to driving activity and to relative pricing differences (Ontario tends to see lower retail prices compared to other provinces) than to any outright weakness in underlying consumer fundamentals. Indeed, sales at clothing stores, home electronic stores, and specialty food stores have all remained robust with growth of between 10-15% during the first quarter. In this regard, investor interest in Toronto retail assets has remained strong and broad-based with private investors usually being the main sellers. Bloor Street retail has continued to draw solid attention and rental rates there have remained firmly above the \$200/SF mark. There have also been announcements for several new high end mixed use projects in the area and the current revitalization of this shopping area should make the corridor even more attractive over the long term. According to investor surveys, cap rates for regional malls in the Toronto area have held steady at 5.4% over the last two quarters. While this is still the lowest in the country, spreads with Vancouver and Calgary, are also now the lowest on record.

Montreal

Although Quebec's economy has also been adversely affected by slumping conditions in manufacturing, the turmoil in this sector has not been as dire as in Ontario. Furthermore, overall job growth in Quebec has been quite robust so far this year (the province's unemployment rate is currently at its lowest on record). These factors, coupled with one-time public sector pay equity settlements of \$1.3 billion dispersed in the spring, have helped to support solid household spending in the province. In the first quarter, provincial retail sales were up 4.7% compared to a year ago while the monthly sales gains in April and May increased at nearly three times the national average. Over the last twelve months, spending has been strongest at pharmacies and personal care stores (+ 20%), specialty building stores (+16.3%) and home electronics stores (+14%) with weakness mostly centred at computer/software stores and new car dealerships. Given the strong underlying consumer fundamentals in Quebec, most major malls in Montreal as well as major street front locations on Ste. Catharine Street or Ste. Laurent have seen healthy demand for space. Indeed, rental

rates on Ste. Catharine are closing in on \$150/sf. Also attesting to healthy retail fundamentals, several large suburban projects by major developers are now underway in Montreal. According to investor surveys, cap rates for regional malls in Montreal compressed by 10 bps to 5.7% in the second quarter. Like other regions, the pace of compression has slowed over the last two quarters, however, the spread between Montreal and Toronto has narrowed from 70 basis points one year ago to 30 basis points as of Q2.

Carl Gomez, VP Research
(416) 813-3633