National Retail Report Canada

SPRING 2018 EDITION

Accelerating success.

Report prepared by Colliers International Consulting

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Colliers International Consulting (CIC)

Colliers International Consulting (CIC) is an independent consulting group based in Vancouver, British Columbia. CIC specializes in strategic real estate analysis for Private and Public Sector clients both domestically and abroad. Our project experience spans a range of specializations in:

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Pro Forma Development
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Retail Locational Analysis
Retail Potential Analysis
Revitalization/Redevelopment Studies
Site Selection and Ranking
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Project Budgeting/Scheduling
Tenant Improvements

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Economic Development
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Urban Planning
Municipal Approval Process
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Community Consultation
Community Workshops & Consultation
Focus Groups

Market Analysis
Absorption Analysis
Competitive Assessment
Demand Assessment
Demographic Modeling
Demographic Profiling
Market Impact Assessment
Residential & Commercial Market Analysis

Anchors 'Away'

Editorial

The casual observer of the retail sector, or even seasoned experts, would be forgiven for sounding the alarm bells and worrying that the so-called anchor effect is no longer relevant or even possible in shopping centres. With several high-profile retail anchor tenants going dark over the last few years, are there any legitimate brands ready to fill the vacancies left behind? More importantly, are the large floorplate tenants we have today justifying their privileged status?

Who are today's anchor tenants? Food stores, including supermarkets owned by Weston, Empire, Metro, and Pattison Group are successfully attracting shoppers to strip centres from coast to coast, but, can an enclosed mall be effectively anchored by a supermarket? Conventional wisdom would suggest that tenants such as Apple, Winners, HomeSense, Uniqlo, popular restaurants, and entertainment venues such as cinemas may attract more shoppers, and therefore provide the anchor benefits that a department store does.

Anchor tenants fulfil three vital roles for every shopping centre:

1. They establish credibility at the early stage a development project which strengthens the overall desirability of the centre and creates an environment of confidence among smaller tenants, thereby increasing absorption and lease rates.

2. For the life of the centre's operations, the anchor tenant(s) attract a volume and type of shopper that complements the mall's CRU tenants. Some estimates have the importance of this function called the "anchor effect" at upwards of 15% on top line CRU revenue. Essentially, the anchor tenant is responsible for the profitability (or not) of the rest of the centre's tenants.

3. In a broader sense, anchor tenants can influence the community around them. As shopping centres are redeveloped into higher density town centres, and as grocery stores continue to thrive in strip centres across the country, it is not hard to see or imagine the different demographic character, residential absorption, and pace and type of office users resulting from different anchors.

Arguably the most damaging anchor closing its doors in recent memory was Target, but the Sears closures could have a similar effect. Both had upwards of 130 department stores; both averaged approximately 100,000 $ft.^2$ per store; and both overwhelmingly occupied stores in shopping centres.

Moving forward, what options do landlords have for Sears vacancies and additional challenges brought by the closures of Target, Future Shop, and others?

1. Backfill with another anchor. Barring any restrictions posed by parking, other existing leases, municipal regulations and so forth, there are a handful of potential candidates for the space, however be prepared to bend over backwards to secure a long-term deal. Some large format anchor tenants that continue to perform relatively well in Canada include Walmart, Costco, Canadian Tire, Simons, Nordstrom, and Lowe's, among others. Only a couple of these favour mall sites.

2. Invest in re-demising the space with the intention of replicating the anchor effect with several smaller tenants rather than one larger tenant. Retailers such as Apple, Winners, HomeSense, independent and chain restaurants, and other medium to larger-format tenants like fitness clubs and entertainment venues may individually or collectively accomplish what the original anchor was intented to.

3. Consider non-retail potential for the space which may support other existing tenants with the same effect as a traditional retail anchor tenant - by generating foot traffic volume. This could include drastic measures such as redeveloping the vacant store into alternative uses such as residential, hotels, offices, institutional space, park space, maker labs, craft breweries, food halls, among others. Or, in an ironic twist, online retail warehouses and fulfillment centres could work as well.

The bottom-line for Canadian shopping centres is that there are options when anchor tenants go dark. None of the options are easy, and it will take all of the creativity of leasing and development teams to make it work. It will be essential to ensure the customer profile of the new anchor tenant aligns with the customer profiles of surrounding CRUs. If done correctly, the end result may be a stronger, more valuable property, and a strategy to be ready to take on the next big vacancy when it inevitably comes.

Colliers' 2017 Forecast versus Reality

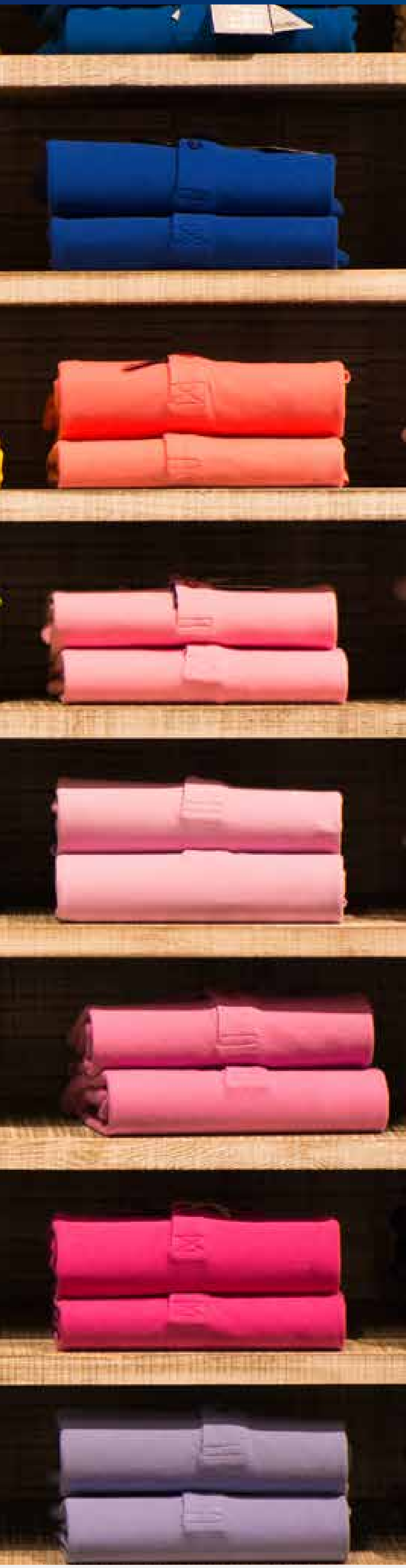
Actual 2017 retail sales growth ended up very close to Colliers' forecasted numbers, as provided in the Fall 2017 edition of the National Retail Report. Actual total national retail sales of $588.83 billion were 6.46% more than 2016, which is $422 million less than the expected total of $589.25 billion. In terms of year-over-year growth, this is 0.52% less than Colliers' projections.

Projections for the "Big 4" provinces, which account for 86% of Canada's national retail sales, were again very close to actual performance:

- **Ontario** — Actual 2017 sales for Canada's largest provincial retail market were $216.32 billion, accounting for roughly 37% of total national retail sales. Ontario places fourth overall in terms of year-over-year retail sales growth at 6.51%, which is 0.40% less than Colliers' projection.
- **Quebec** — Canada's second largest retail market, accounting for approximately 21% of national sales, recorded retail sales of $125.72 billion in 2016. Quebec placed seventh overall in terms of year-over-year growth at 5.76%. This is 0.32% less than Colliers' projection.
- **British Columbia** — British Columbia had another strong year, ranking first in year-over-year sales growth at 8.78% with sales of $84.29 billion. This is 0.70% less than Colliers' projections of 9.48% growth and $84.18 billion in total sales.
- **Alberta** — Rounding out the "Big 4", total retail sales within Alberta were $80.32 billion. Despite experiencing negative overall sales growth, the previous year, Alberta is finally back in the green with total retail sales growth of 6.48%.

Other notable performances worthy of mention:

- **Prince Edward Island** — Despite ranking 1st in this metric last year with projections of ranking 2nd this year, Prince Edward Island ranked 8th in terms of total retail sales growth relative to 2016. During this period, sales within PEI grew by only 4.95%, compared to Colliers' projection of 8.67% growth.
- **New Brunswick** — Unlike recent years when New Brunswick performed significantly worse than expected, its retail market appears to be shifting with higher than expected sales growth over the past year. During this period, total sales within New Brunswick grew by 6.63% ranking 3rd in this metric among all provinces and 0.62% higher than Colliers' projection.
- **Newfoundland and Labrador** — Following a similar pattern observed in previous years, Newfoundland and Labrador had the nation's weakest retail market, experiencing negative overall sales growth for the second consecutive year.



Colliers' 2017 Projection vs. Actual Performance

All Retail Categories

Projected (Actual) Rank	Province	CIC Projected Sales		Actual 2017 Performance		Accuracy of Prediction (+/-)	
		2017 ($B)	2016-17 YOY%	2017 ($B)	2016-17 YOY%	YOY Growth (%)	Sales ($B)
1 (1)	British Columbia	$84.18	9.48%	$84.29	8.78%	-0.70%	$0.11
2 (8)	Prince Edward Island	$2.43	8.67%	$2.35	4.95%	-3.72%	-$0.08
3 (5)	Alberta	$81.30	8.24%	$80.32	6.48%	-1.75%	-$0.98
4 (2)	Nova Scotia	$15.76	7.16%	$15.86	7.30%	0.13%	$0.10
5 (4)	Ontario	$216.21	6.91%	$216.32	6.51%	-0.40%	$0.10
6 (7)	Quebec	$125.68	6.07%	$125.72	5.76%	-0.32%	$0.04
7 (3)	New Brunswick	$12.66	6.01%	$12.79	6.63%	0.62%	$0.13
8 (9)	Saskatchewan	$19.99	4.47%	$19.58	2.26%	-2.21%	-$0.41
9 (6)	Manitoba	$19.87	3.75%	$20.36	5.96%	2.21%	$0.50
10 (10)	Newfoundland and Labrador	$9.19	2.29%	$9.23	2.58%	0.29%	$0.03
	Canada	$589.25	6.98%	$588.83	6.46%	-0.52%	-$0.42

Colliers' 2017 Projection vs. Actual Performance

Retail Net of Automotive and Gasoline

Projected (Actual) Rank	Province	CIC Projected Sales		Actual 2017 Performance		Accuracy of Prediction (+/-)	
		2017 ($B)	2016-17 YOY%	2017 ($B)	2016-17 YOY%	YOY Growth (%)	Sales ($B)
1 (1)	British Columbia	$56.94	12.76%	$54.05	7.02%	-5.74%	-$2.90
2 (6)	Prince Edward Island	$1.53	11.39%	$1.42	3.34%	-8.05%	-$0.11
3 (2)	Ontatio	$141.93	10.50%	$137.41	6.98%	-3.52%	-$4.52
4 (4)	Nova Scotia	$9.66	9.18%	$9.27	4.76%	-4.43%	-$0.39
5 (3)	Manitoba	$12.86	8.39%	$12.47	5.15%	-3.24%	-$0.38
6 (5)	Quebec	$81.63	7.05%	$79.40	4.13%	-2.92%	-$2.22
7 (9)	Saskatchewan	$12.05	5.51%	$11.33	-0.86%	-6.38%	-$0.73
8 (8)	Alberta	$47.90	4.28%	$47.18	2.72%	-1.57%	-$0.72
9 (7)	New Brunswick	$7.35	2.91%	$7.37	3.15%	0.24%	$0.02
10 (10)	Newfoundland and Labrador	$5.38	-2.25%	$5.38	-2.25%	0.00%	$0.00
	Canada	$369.75	6.02%	$366.75	5.16%	-0.86%	-$3.00

Source: Statistics Canada CANSIM database - Cat. 080-0020. Colliers International Consulting Projections.

Note: Rankings in order of projected 2016-2017 YOY growth.

2018 Canadian Retail Performance to Date

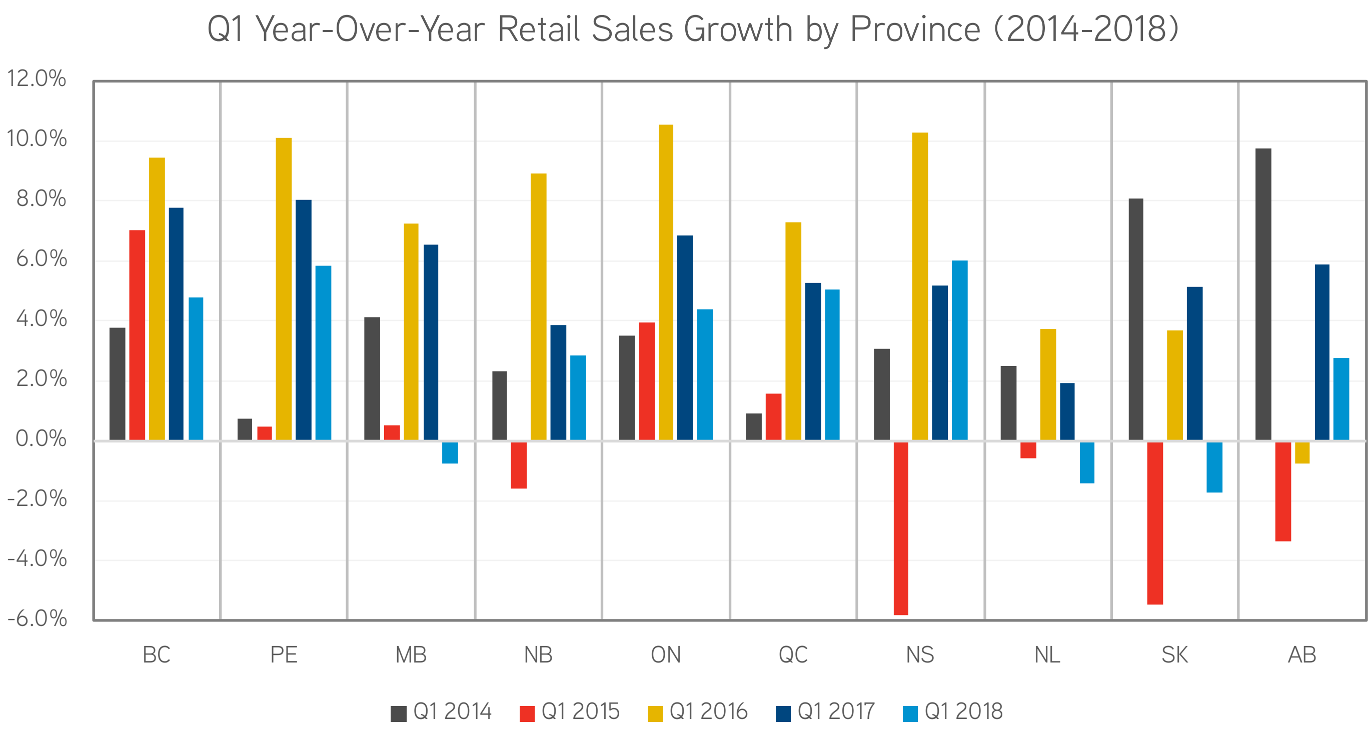
As noted in the chart below, apart from Nova Scotia retail sales growth across the country has slowed down in Q1 2018 when compared to previous years. Between Q1 2017 and Q1 2018, Manitoba, Newfoundland and Labrador, and Saskatchewan all experienced negative overall retail sales growth, registering growth rates of -0.77%, -1.44%, and –1.71%, respectively.

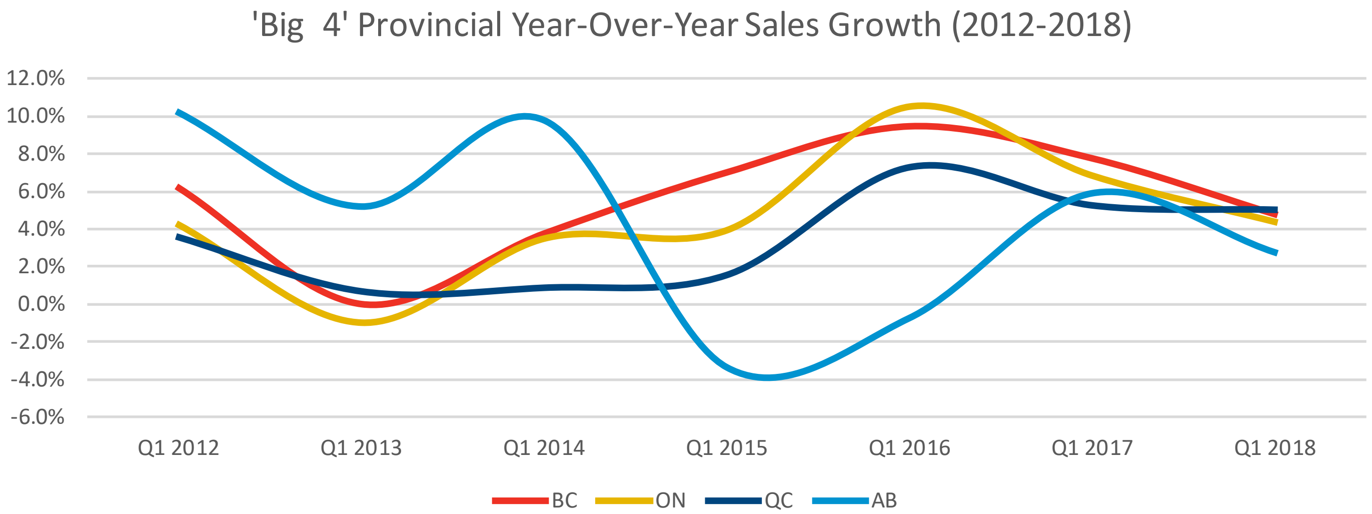
Conversely, although growing at a relatively slower rate compared to the previous period last year, Nova Scotia, Quebec, Prince Edward Island, and British Columbia all started off the year relatively well when compared to the rest of the nation. Sales within these provinces grew at respective rates of 6.01%, 5.04%, 5.84%, and 4.78% between Q1 2017 and Q1 2018.

Q1 Year Over Year Retail Sales Growth by Province (2012-2018)

Province	Q1 2012	Q1 2013	Q1 2014	Q1 2015	Q1 2016	Q1 2017	Q1 2018
BC	6.2%	0.0%	3.8%	7.0%	9.4%	7.75%	4.78%
PE	7.5%	-3.0%	0.7%	0.5%	10.1%	8.01%	5.84%
MB	3.5%	1.3%	4.1%	0.5%	7.2%	6.55%	-0.77%
NB	3.7%	-3.5%	2.3%	-1.6%	8.9%	3.87%	2.85%
ON	4.2%	-1.0%	3.5%	3.9%	10.5%	6.86%	4.39%
QC	3.6%	0.7%	0.9%	1.6%	7.3%	5.27%	5.04%
NS	4.6%	-1.2%	3.1%	-5.8%	10.3%	5.18%	6.01%
NL	4.8%	4.5%	2.5%	-0.6%	3.7%	1.93%	-1.44%
SK	7.6%	4.4%	8.1%	-5.5%	3.7%	5.12%	-1.71%
AB	10.1%	5.2%	9.7%	-3.4%	-0.7%	5.88%	2.75%

Source: Statistics Canada CANSIM database - Cat. 080-0020.





Source: Statistics Canada CANSIM database - Cat. 080-0020.

Major Market Data by City

The information in the following table is from a survey of Colliers' brokers and research specialists in each market and is not represented as actual data. The information was collected to cater to the specific needs and interests of national chain retailers looking for a single source of information on lease rates, vacancy rates and recent trends for major markets across the country.

Retail Survey Market Data (2018)

		Neighbourhood				Regional				Power Centre			
		NET RENT	6 MO. TREND	VACANCY RATE	6 MO. TREND	NET RENT	6 MO. TREND	VACANCY RATE	6 MO. TREND	NET RENT	6 MO. TREND	VACANCY RATE	6 MO. TREND
Victoria	High	$27	↓	5.0%	↓	$40	↓	5.0%	↓	$30	↔	3.0%	↓
	Low	$25		4.0%		$37		4.0%		$28		2.0%	
Vancouver	High	$34	↔	2.0%	↔	$60	↔	7.0%	↔	$30	↑	4.0%	↓
	Low	$22		0.5%		$20		0.0%		$15		0.3%	
Kelowna	High	$34	↔	4.4%	↓	$110	↔	19.2%	↑	$35	↔	1.3%	↓
	Low	$22		0.0%		$50		1.0%		$28		0.0%	
Calgary	High	$45	↔	4.5%	↑	$200	↔	4.0%	↑	$28	↔	3.0%	↔
	Low	$25		2.5%		$60		2.8%		$19		1.5%	
Edmonton	High	$25	↔	4.0%	↔	$60	↔	3.0%	↔	$38	↔	4.0%	↔
	Low	$18		2.0%		$45		1.0%		$32		2.0%	
Saskatoon	High	$25	↓	5.0%	↓	$60	↓	15.0%	↑	$38	↓	5.0%	↔
	Low	$20		2.0%		$25		5.0%		$20		0.0%	
Regina	High	$36	↔	3.5%	↔	$50	↔	6.3%	↔	$55	↑	3.0%	↔
	Low	$24		0.0%		$22		1.0%		$32		0.0%	
Winnipeg	High	$32	↔	15.0%	↔	$100	↔	30.0%	↑	$30	↔	18.0%	↑
	Low	$20		0.0%		$40		2.2%		$20		0.0%	
Toronto	High	$35	↔	8.0%	↔	$140	↔	9.0%	↑	$33	↔	5.0%	↔
	Low	$20		5.0%		$40		2.0%		$18		3.0%	
Ottawa	High	$25	↔	11.0%	↔	$90	↓	12.0%	↔	$35	↔	10.0%	↔
	Low	$16		6.0%		$35		0.0%		$20		5.0%	
Montreal	High	$16	↑	10.0%	↔	$22	↑	6.0%	↔	$35	↑	5.0%	↔
	Low	$12		5.0%		$15		2.5%		$25		0.0%	
Halifax	High	$25	↑	10.0%	↓	$150	↔	15.0%	↓	$25	↔	20.0%	↔
	Low	$15		7.0%		$50		10.0%		$20		15.0%	

Note: Neighbourhood shopping centre lease rates are for 2,000-square-foot, in-line units with 10- to 12-foot ceilings and ground level entrances. Enclosed regional shopping centre lease rates are for 4,000-square-foot units. Power centre lease rates are for 5,000- to 10,000-square-foot units, which could be on a pad site, in a cluster of CRUs, or in-line in a strip.

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EMEA: **131**

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square feet under management

15,400

professionals and staff

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