Canaries in the Coalmine: Early Indicators of Canadian Retail's Future

A Canadian Retail Market White Paper
by Barclay Street Real Estate & Primecorp Commercial Realty

National Outlook

Executive Summary

The 2015 closure of Future Shop is an excellent illustration of new challenges facing Canadian retailers. It represents a demonstration of the evolution taking place in the Canadian retail landscape amid increased competition from online shopping and changing consumer habits. The latter is materializing in a growing dichotomy between cheap-chic clothing sold by mass discount retailers such as Amazon, CostCo, and WalMart, and expensive high-fashion wares sold by Holt, Nordstrom, and Saks Fifth Avenue.

Small to mid-size retailers have been finding it increasingly difficult to compete in a fashion landscape that includes U.S. discounters such as Amazon, Costco Wholesale, Marshalls/Winners, and Wal-Mart. The Canadian retail market has also seen increased competition from multinational competitors such as Forever 21, Gap/Old Navy/Banana Republic, H&M, and Zara, all

A COLLABORATIVE PROJECT BY BARCLAY STREET REAL ESTATE www.barclaystreet.com AND PRIMECORP COMMERCIAL REALTY INC. BROKERAGE www.Primecorp.ca MEMBERS OF TCN WORLDWIDE REAL ESTATE SERVICES www.tcnworldwide.com

of whom have significant leverage with their suppliers and are able to bring product in at value price-points.

In order to survive, retailers will need to rethink their business models. Several unconventional tactics are currently being employed to create engaging shopping experiences that lure customers into stores – if not by price-point alone, then by providing that *je ne sais quoi* that can't be found online.

The Disappearing Middle Ground

2014, 2015, and 2016 to date have proven to be difficult years for fashion retailers. We have witnessed a sizeable reduction in Canadian retail competition as the 'middle-ground' has been thinned-out through major retailer consolidations, such as Sobeys' purchase of Canada Safeway Ltd., Loblaws' acquisition of Shoppers Drug Mart, and Canadian Tire bringing Sport Chek, Nevada Bob's Golf and Pro Hockey Life under its umbrella. Mid-tier clothiers have been finding it increasingly difficult to compete on price with major discount retailers like H&M, Marshalls/Winners, Walmart, and Zara who have significant leverage with their suppliers and are able to bring product in at value price-points. *Fast fashion*, a trend that benefits retailers who can most quickly move fashion from the catwalk to store shelves, is also taking its toll on industry stalwarts.

This *fast fashion* trend led to the closing of Jacob in 2014 and several bankruptcy protection announcements by Canadian companies and subsidiaries. Over the course of 2014, home décor chains Bowring, Bombay, and Benix filed for court protection from creditors as they restructure, while Limité, a fashion chain owned by the Benitah family, and MEXX Canada filed for bankruptcy protection in autumn and December, 2014 respectively. In the early weeks of 2015, MEXX Canada released a statement that it would close all of its stores within a few months. Other fashion retailers such as Bikini Village Inc., Danier Leather Inc., Le Chateau Inc., and Reitmans (Canada) Ltd. were also suffering from weaker earnings. Danier, in January 2016, filed for creditor protection and proceeded with liquidation while seeking a buyer.

January, 2015 brought an announcement from Sony of its intention to close its 14 remaining Canadian Sony Stores and Target Canada declared its Canadian expansion a failure following two years of unprofitability. As such, Target planned to exit the country by the end of the year. Reitmans made headlines shortly thereafter, as it disclosed its plans to close its Smart Set stores and re-brand them to either to its namesake or other banners such as RW & Co. Also in 2015, Comark Inc. – owner of Ricki's, Bootlegger and Cleo – joined the swelling ranks of homegrown Canadian fashion chains who have filed for bankruptcy protection and are closing some stores.

Memory Lane
(Defunct Canadian Retail Brands)

Future Shop is the most wide-spread casualty, with stores from coast to coast in dozens of medium to large town and cities. Best Buy (Future Shop's U.S. owner since 2001), closed 66 Future Shop locations and rebranded the remaining 65 as Best Buy stores.

The general consensus is that heightened competition from online retailers, such as Amazon and eBay, is making for a challenging retail environment but there's more to the story than that. Consumer preferences are changing and doing so very quickly, both in terms of the experiences they want to have while in stores and what they want to be seen to have bought.

Changing Business Models in Response to Consumer Experience Preferences, Fashion Tastes and Price Sensitivity

The advent of data streaming placed the last nail in the coffin for the video rental business model. As well, on-line shopping continues to challenge the viability of certain retail categories

such as computer/technology sales and, to a lesser degree, clothing department stores. Consumers are becoming increasingly adept at researching merchandise on-line thanks to *user review services* such as Yelp and Angie's List.

Net-savvy people can easily compare multiple items at multiple stores, which has been working against the *bricks & mortar* setup, particularly with the homogenization and planned obsolescence of goods such as cellular phones and power tools. As product components are progressively sourced from small groups of suppliers, competing products have, in many cases, become virtually indistinguishable from one another, separated merely by price point. This gives consumers fewer reasons to visit stores and even big box retailers, who only a decade ago placed significant pressure on small businesses, are being forced to devise innovative survival tactics.

For example, a growing list of traditionally *brick & mortar* retailers such as Best Buy, Canadian Tire, Home Depot and Staples are expanding sales promotions and adding pick-up stations to their stores. Wal-Mart's "*Grab & Go"* pickup service, for example, allows customers to buy online and pick up at lockers in a store that are accessible via special codes received at the time of purchase. This service proved so successful it was expanded from a test group of 10 Toronto-area stores in mid-2014 to 45 by mid-2015. Through the addition of such features, retailers have facilitated both the immediate gratification of online shopping as well as shepherding people physically inside the stores where they can grab that one item they may have forgotten on their original shopping lists.

Then there is the *omnichannel experience* trend, which emerged in 2014 and continues to evolve. This marketing phenomenon blurs the line between *brick & mortar* retailers and strictly e-commerce business models as the two previously exclusive business models now borrowing ideas from one another to give shoppers as many avenues as possible to purchase.

This leads us back to the longstanding question how viable the physical store remains. Over the previous decade, a significant number of retailers became little more than showrooms for the Internet and Future Shop was among the first to recognize the trend of consumers doing in-store product research, then finding and purchasing the product on-line elsewhere at better prices. In response, Future shop closed several stores and downsized others to reposition the locations as real-life catalogues where shoppers could learn about products, decide what suites their needs and place their orders electronically. This strategy demonstrated that, while the *brick & mortar* store will always be important to the consumer, embracing the online trend as part of overall sales has become increasingly critical to retailers' success. As well, it means that many retailers will find their current footprints too large. As such, *right-sizing* and *fewer stores* will become the new business strategies for many retailers.

New Store Concepts

In March 2001, the U.S. electronics store chain Best Buy acquired Future Shop for CDN$580 million and continued to operate Future Shop as a separate division in acknowledgment of its established brand strength. In 2002, Best Buy began to open locations in Canada under its own banner with the goal of the dual-banner strategy being to improve the company's Canadian market share by providing new options to consumers. The chains were differentiated by in-store experiences and promotional strategies, with Future Shop continuing to use commission-based salespeople and featuring home appliance selections, while Best Buy used non-commissioned salespeople and featured more interactive displays.

The differences between the stores, it turned out, attracted different demographics and types of consumer; Future Shop's use of haggling appealed to customers who had immigrated to Canada from countries where the practice is commonplace, while Best Buy's relatively relaxed atmosphere was more female-friendly.

In an effort to widen the brand's customer base, Future Shop began to experiment with an updated store concept at new locations in Vancouver and South Edmonton Common in 2008. The new stores featured an expanded, 53,000 square foot layout divided into sections for different categories of products and also featured a central *hub* staffed by *connectivity experts* whom customers could consult for personalized advice on technology options. In December 2011, Future Shop opened a liquidation store in Greenfield Park, Quebec.

Visible, Physical Changes to the Retail landscape

Modern retail essentially falls into two categories: *bricks & mortar* and *multi-channel*. While shopping malls have dominated the Canadian retail landscape since the format emerged in the 1960s and '70s, we have seen mall construction come to an abrupt halt, largely as a result of available land shortages and restrictions that many Canadian cities have put on commercial space. Only two *enclosed* malls have been built in Canada since 1989 - Vaughan Mills in Toronto and CrossIron Mills in Balzac north of Calgary. No new malls have been constructed in Calgary for more than 25 years, although Deerfoot Mall (1981) Chinook Centre (1960), Market Mall (1971), Northland Village Mall (1988 redeveloped), SouthCentre Mall (1974) and Sunridge Mall (1981) have undergone, or will undergo, significant renovations and expansions.

Vaughan Mills

While the demise of *enclosed* shopping malls is not anticipated anytime soon, the way they look and the ways in which shoppers interact with these developments are constantly changing. We expect to see existing malls expand upward on their existing footprints and we anticipate them becoming more 'attraction-oriented' in that they will need to offer a new kind of shopping experience to entice shoppers to visit and stay. We are getting a glimpse of what this will look like as we witness the onset of another *de-malling* wave in Calgary with Shape Properties' Destination: Deerfoot City project. This urban trend involves developing aging malls into something completely different: denser, mixed-use, pedestrian-friendly, open-air hubs that create dynamic new urban shopping destinations with a diverse mix of activities, shops and restaurants. Previous *de-mallings* include TransCanada Mall and North Hill Centre.

With regard to multi-channel retail, we are seeing retailers embrace the use of several, yet interwoven, approaches to manage an increasingly fragmented consumer demographic. Shoppers are being provided with a variety of ways to purchase products and services. Chief among these options has been the aforementioned *show rooming* that Future Shop experimented with.

Also emerging is the *shop-within-a-shop* model, wherein very large single retail line outlets are behaving like department stores by bringing several independently-branded shops into previously cavernous spaces. This approach leverages the appeal of one brand off of another through branded in-store boutiques as a means of filling big box spaces. This concept is becoming increasingly common in North America as large retailers come to see partnering with other companies as a strategy for driving traffic and profits. The retailer's trade-off is between channel efficiency and inter-brand competition, moderated by returns to in-store service and increased store traffic.

CrossIron Mills

Opportunities Created as Chaff Gets Separated from the Wheat

The news isn't all bad. With the current thinning out of less-competitive retail brands, opportunities are created for those well-enough positioned to weather the storm.

La Vie en Rose has expressed its plans to expand Bikini Village across Canada, following its acquisition of the chain in early 2015. La Vie en Rose plans to keep 48 of Bikini Village's stores in Quebec, Ontario, New Brunswick, and Nova Scotia, but will close several outlet locations in Quebec. After stabilizing the business, emphasis will then be placed on Canadian expansion, especially in Western Canada, with the goal of increasing the number of stores to approximately 75.

Target's exit from Canada has facilitated expansion from large format retailers such as Canadian Tire and Lowes. In May of 2015, Canadian Tire Corp. Ltd. announced its purchase of 12 leases previously held by Target Canada, for $17.7 million. These additional locations offer Canadian Tire an unprecedented opportunity to reposition itself in numerous markets across the country and collectively add approximately 400,000 square feet of retail space to Canadian Tire's network.

Conclusion

Modifying existing business models is going to be the key to survival. In addition to the *shop-within-a-shop* model, placing emphasis on personal interaction will be key. That could be advice from knowledgeable sales associates who can help determine or tailor a surround sound system to suit customers' homes or it could be embracing RFID (Radio Frequency Identification) technology and/or beacon technology to recognize consumers in the store via their smartphone or tablet to send a coupon or invite them to purchase a complimentary item to something recently purchased.

What we're seeing is a trend toward a *one-to-one* relationship between companies and consumers, wherein companies serve up specific offers, products, assortments and pricing to individual consumers based on their preferences. ■

Retail Trends in Calgary

Trends in Urban Neighbourhoods: Densification and Urban Renewal

While the move toward density in Calgary continues to involve the concept of *complete communities* which include residential, shopping, recreation and office components, we are witnessing a transfer of *baby boomers* from the suburbs to mixed-use *walking communities* which are increasingly centrally-located in the city.

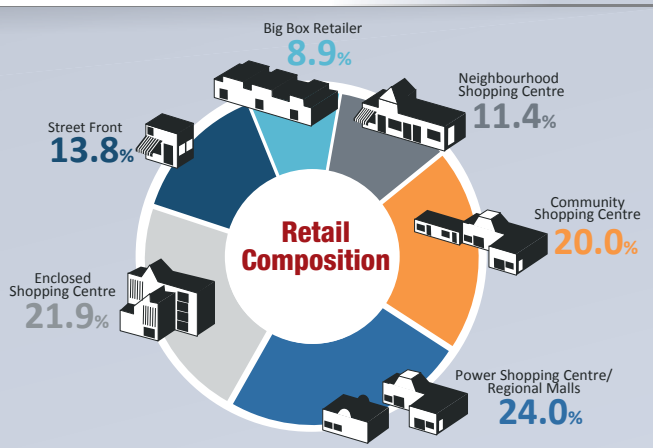
The largest population demographic in the last century, the Baby Boomer, is now experiencing empty nest syndrome en masse and exploring downsizing options as *generations X & Y* leave home. These empty nesters are, in significant numbers, responding to the appeal of greatly shortened commutes to work and the appeal of the village lifestyle made possible by *close-to-home* shopping. As this demographic tends to possess higher disposable income and net-worth, luxury condo developments in quieter inner-city neighbourhoods like Eau Claire and Mission are fulfilling this increasing demand.

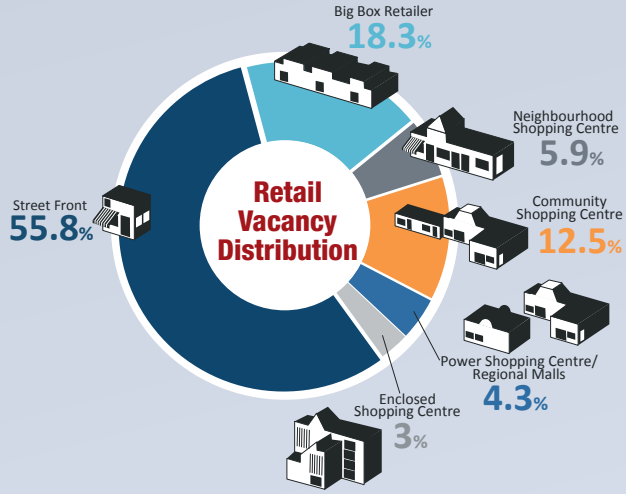
Given this transition, retailers are making a concerted effort to secure urban locations in or near new urban condos to serve this population. For example, Loblaws and Shoppers Drug Mart have committed to RioCan's development in the East Village and Mount Royal Village West by First Capital will feature a 27,000 square foot (sf) Urban Fare premium grocery store to support the residents of The Royal Condos by Embassy Bosa.

At the same time, a move toward density continues in Calgary's suburbs, which is exemplified by Seton in the deep South East of the city. With the population of Seton and the surrounding communities including Cranston, Auburn Bay, Mahogany and Range View estimated to reach approximately 170,000 in 15 to 20 years, Seton's first phase of retail development – Gateway – includes various stores and restaurants in addition to a Save-On-Foods, Shoppers Drug Mart, BMO and TD Bank. A 100,000 sf Superstore opened toward the end of 2015. The completion of a 100,000 sf medical office complex that includes a walk-in clinic, pharmacy, dental practice, and optometrist is expected late in the second half of 2016, as is a Cineplex Odeon theatre.

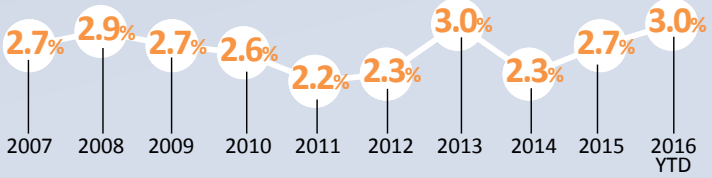
A second phase of retail and commercial development is planned for Seton, with the goal of serving all of the needs of local residents and making travel outside of these communities largely unnecessary. This additional development will comprise approximately 450,000 sf of retail and services.

Calgary Retail Statistics





Historical Retail Vacancy



Significant Retail Transactions 2015 - 2016, brokered by Barclay Street Real Estate

Company & Location	Transaction Type	Transaction Size (sf)
7810 Macleod Trail SE	Sale	Building Size: 13,324 sf Land Area: 98,010 sf
Centre 222 210-222 16th Avenue NE	Sale	Building Size: 32,796 sf Land Area: 28,333 sf
Fish Creek Village 380 Canyon Meadows Drive SE	Sale	Building Size: 53,285 sf Land Area: 217,364 sf
Points West Plaza 200-208 5th Ave, Cochrane AB	Sale	Building Size: 17,127 sf
Sierra Square 7325-7337 Sierra Morena Blvd. SW	Sale	Building Size: 13,446 sf Land Area: 70,567 sf

Retailer Consolidations, Downsizings and Departures

Jacob and MEXX Canada served as canaries in the coalmine for the coming wave of changes in the local retail landscape when the companies declared bankruptcy in late 2014 and early 2015, closing three and seven Calgary stores respectively. Reitmans (Canada) Ltd. plans to close its Smart Set stores, of which Calgary has two, to re-brand them to regain competitiveness. Calgary will also see nine Ricki's, Bootlegger, and Cleo stores close stores as owner, CoMark Inc., restructures. Most recently, Gap Inc. announced that it will close 175 of its North American stores – including an undisclosed number of Canadian locations – in an effort to stop a slide in sales from the namesake brand.

The headlines, however, were grabbed by Target Canada in January, 2015 when its exit from Canada was announced following two years of sustained losses. Locally, the negative headlines were soon forgotten as all but one lease were quickly bought by landlords and other major retailers. Best Buy's decision in May to close the operation of its sister brand Future Shop and rebrand about half of them as Best Buy, excluded three stores in Calgary. As of the first quarter of 2016, two of three Big Box stores, as well as the former Target store in Forest Lawn, were yet to be leased.

Changing business models: 'Brick or Click' is so Passé

As retailers seek to provide shoppers with as many avenues as possible to make purchases, this mixing of retail strategies is morphing into a trend called the *omnichannel experience*, which softens the previous dichotomy of *bricks* ***or*** *clicks* to *bricks* ***and*** *clicks*. We will see the retailers who can maximize both revenue streams become the most successful. Locally, Suit Supply – previously an online-only retailer – secured a small physical space in the Downtown West End and its direct competitor, Indochino, spent time exploring the market as well. The personal interaction fostered within the small store-front shops is expected to increase sales, and make returning or exchanging items easier and in doing so, mitigate the traditional risks associated with buying items sight-unseen & untouched.

With that said, the enclosed mall continues to dominate the retail world. Market Mall, for example, generated $945 in per square foot sales during 2015 while Chinook Centre drew approximately 13 million people and generated per square foot sales of $1,125 that year. Numbers like these draw new entrants such as Cabela's, Hot Topic, and Pottery Barn Kids into the local market. Additionally, the Chapters store at Chinook is being re-branded to Indigo and

Chinook Centre

will expand by 5,500 sf in large part to accommodate another new phenomenon: the *shop-within-a-shop*. We are seeing large single retail line outlets bring independently-branded boutiques into their vast spaces to leverage the appeal of one brand off of another. Top Shop – the UK-based retail phenomenon – secured franchise rights for setting up stores within Bay stores in 2011 and in 2015, Indigo announced that in addition to expanding and re-branding six flagship locations, American Girl will open four in-store doll shops.

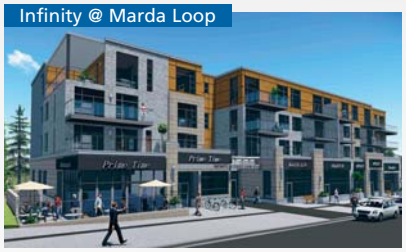
Mixed Use Projects

A number of Western Canadian cities are attempting to curb urban sprawl by densifying communities to reduce the burden on infrastructure. A good example of this would be Quarry Park by Remington Development; a redevelopment of previously industrial land. Residential, shopping, recreation, and a substantial office component form this still-expanding community. In contrast, traditional Power centers with vast pools of consumer parking are being heavily resisted by planners. Retailers and developers who understand, embrace and adjust their models to meet these new City expectations are gaining a substantial advantage over their competition.

While young families continue to move to the suburbs, we are seeing a shift in the priorities of the young professional of today. A trend is developing in Calgary toward young suburbanites moving to the inner-city to be within walking distance of shops and restaurants. With over 140,000 people working in Calgary's downtown core and just below 50% of Calgary's workforce being between the ages of 25-54, Calgary possesses one of the youngest workforces in Canada. Within this workforce is a large population of young, educated *millennials* (ages 18-35) who, as a career and lifestyle oriented demographic, look to renting or first-time condo purchases rather than the *white-picket-fence* idea of home ownership. Areas of the city that have seen a large influx of multi-residential development cater to this demographic by offering high-density housing within walking distance of *work and play*.

The movement appears to be gaining steam and several developers have been able to capture the initial wave by offering chic mixed-use projects in places like Marda Loop which, over recent years, has undergone tremendous changes. A prime example of multi-purposed developments that have taken root is Ronmor's The Shoppes of Marda Loop, which features street-level shopping and condominium units above. Also in the area will be Infinity @ Marda Loop, which will feature similar design upon completion late in 2016. In Northwest Calgary, RioCan has added condos to their Brentwood Village centre and they are also looking to add rental apartments to their Southland Crossing and Glenmore Landing projects in Calgary's South.

Infinity @ Marda Loop



Several other proposed mixed-use developments are in various stages of planning for the inner city. Riocan and Embassy Bosa have a residential/retail project planned for the former Calgary Police Association site in what is now East Village, while Canada Lands and Embassy Bosa have also proposed a mixed-use development at the former CFB Calgary.

Major Redevelopments

The demise of enclosed shopping malls will not come anytime soon, but the way they look and the ways in which shoppers interact with these developments continues to change. Existing malls are generally anticipated to expand upward on their existing footprints and current trends indicate that they will become increasingly *attraction-oriented*, in that they will need to offer a new kind of shopping experience to entice shoppers to visit and stay.

Calgary is currently witnessing an alternative approach to destination shopping by *de-malling* Deerfoot Mall to create Destination: Deerfoot City. This phenomenon involves redeveloping aging malls into denser, mixed-use, pedestrian-friendly, open-air hubs. The goal is to create new, dynamic urban shopping destinations with a diverse mix of activities, shops and restaurants. While the euphemism is new, the concept and local application are not; previous major *de-malling* projects in Calgary include North Hill Centre and TransCanada Mall. ■

Retail Trends in National Capital Region

An Overview of Ottawa, ON and Gatineau, QC

Spanning the border of Eastern Ontario and Southern Quebec, at the junction of the Ottawa, Rideau, and Gatineau Rivers is the National Capital Region (NCR). Comprised of the cities of Ottawa and Gatineau, as well as the surrounding townships, the NCR has an estimated population of 1,236,324 (2011 Census) and is highly bilingual with over 44% (2011 Census) of the population identifying as bilingual (more than twice the National bilingual rate of 17.2%).

The majority of the population of the NCR reside in Gatineau or Ottawa. The city of Gatineau, Quebec is the fourth largest city in Quebec with a population of approximately 301,416 and is situated on the north bank of the Ottawa River. As part of the Capital Region, the main employer in Gatineau is the Federal Government due to federal policy dedicated to the distribution of federal jobs on both sides of the Ottawa River. This has led to the construction of several massive office towers to house federal civil servants in the downtown Gatineau Hull Sector.

For the purposes of this look at retail trends in the National Capital region, we will be focussing on the city of Ottawa. Its main economic drivers include the government sector, high technology,

education and research, and international banking and finances. Other industries dominant in the area include agriculture, biotechnology and life sciences, information technology, tourism, and conventions.

In 2016, the *Mercer Quality of Living Survey* ranked Ottawa as the 3rd highest ranked city concerning quality of living of any city in the Americas and 17th highest in the world. The city was also considered the 3rd cleanest city in the world by Mercer's 2010 eco-city ranking.

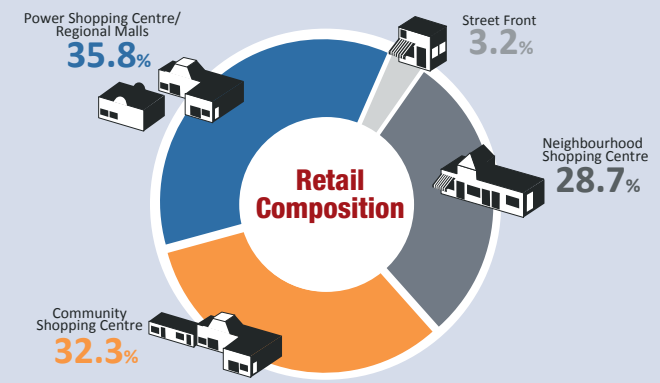
The Ottawa population is highly affluent and highly mobile; the city's average household income is $103,637 and the average for car ownership, bicycle use, and public transit ridership is consistently at or above the provincial and national averages. The new East-West Light Rail will vastly increase transit throughout the city and completion of phase 1 is on track for 2018. These demographic factors paint the picture of a resilient economic market with higher than average consumer spending and despite the recent economic downturn and falling resource prices, particularly oil, Ottawa's retail landscape remains fairly stable.

Retailer Consolidations, Downsizings and Departures

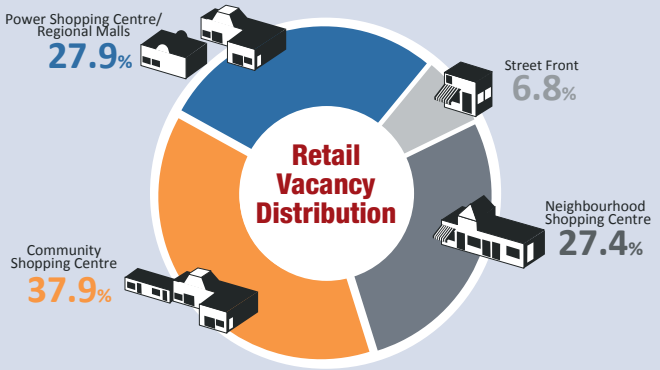
Despite this stability and the reliable nature of Ottawa's economy, the issues appearing across the North American traditional retail landscape are causing concern in certain areas. This is particularly evident in the large vacancies left by retailers such as Future Shop, Target Canada, and more recently, Danier Leather-all of whom occupied significant GLA in the National Capital Region. Cushman Wakefield estimated a vacancy rate in retail centres in Ottawa at 5.0% in Q2 2015, by Q4 of the same year the vacancy decreased by 40 basis points to 4.6%. This vacancy rate is largely a result of the aforementioned retail closures and while some of this space has been backfilled by other large scale retailers, the pool of available tenants for space upwards of 50,000 square feet (sf) is limited and large format stores tend to take longer to lease up.

The loss of Future Shop and Target in 2015 left nine sizable vacancies in the Ottawa retail landscape, but already these spaces are beginning to be absorbed. As of Q4 2015, Wal-Mart occupies two former Targets, while Lowes is currently planning a location in the former Target store at 1055 St. Laurent Blvd. Movati Fitness is taking the former Target space on Merivale Road, while suburban enclosed malls such as Place D'Orleans and Hazeldean Mall are utilising the large vacant spaces as temporary space for short term users and examining various demising and redevelopment options.

NCR Retail Statistics



Source: Cushman & Wakefield Ottawa



Source: Cushman & Wakefield Ottawa

Source: Cushman & Wakefield Ottawa

Significant Retail Transactions 2014 - 2016

Company & Location	Transaction Type	Transaction Size (sf)
Movati 1585 Merivale Road	New Lease	74,000 sf (two floors of 37,000 sf)
Cineplex VIP Lansdowne Park: 325 Marché Way	New Lease	50,000 sf
Sobeys Urban* 185 Metcalfe Street	New Lease	25,000 sf
Buy Buy Baby Trainyards	New Lease	23,000 sf
Winners 155 Queen Street	New Lease	23,000 sf
Designer Shoe Warehouse 595 Industrial Ave	New Lease	22,000 sf

* Brokered by Primecorp

Changing Business Models

The majority of these large scale vacancies are almost exclusively located in large format *Big Box* centres or *enclosed* malls. The struggles of these mid-tier *enclosed* malls has been a well-documented issue in the retail sector for some time. Riocan REIT, Canada's largest retail landlord, has recently announced their intent to construct thousands of residential rentals across Canada which will be directly attached to some of the smaller, struggling, enclosed malls. With an aging population looking to downsize their living arrangements, Riocan is betting that affordable rental housing with the amenities of an enclosed mall directly available will be an attractive concept for those seeking more simplified living arrangements. These new residents will then provide a large immediate consumer base for tenants of the centres involved while simultaneously generating additional income for the development. Concept plans for Westgate Shopping Centre in Ottawa were released in December of 2015 with plans to add similar towers to two other similar centres in Ottawa: Gloucester Silver City & Elmvale Acres. This project will be launched in 2017 and, if successful, could see residential towers added to as many as 20 *enclosed* centres in major urban markets across Canada.

As is clear from RioCan's solution to struggling retail, the remaining large scale vacancies left by former retail giants will require expenditures of both time and money. Many landlords are looking at creative ways to demise spaces into multiple units or are looking for more non-traditional concepts including temporary *pop-up* tenants.

It isn't only landlords of struggling retail properties who are looking to get creative to attract new tenants. New developments are increasingly looking to unique retailers to act as a draw for their property and are focussing on mixed-use developments, like Lansdowne Live, or concept centres, such as Tanger Outlet Malls. By diversifying, landlords provide themselves with the ability to remain competitive in an increasingly malleable *brick & mortar* retail landscape.

One such example of these mixed-use developments is Lansdowne Live- a sporting venue with an outdoor stadium, indoor hockey arena and commercial development containing 360,000 sf of retail, 100,000 sf of office space, and 300 residential units. Lansdowne is home to the local CFL, NASL, and OHL sports teams as well as Ottawa's only Whole Foods location and Cineplex VIP multiplex. Not only is this development mixed-use, it also maintains a focus on the changing trends in retail and has a tenant, the Vancouver based pub chain Local, who has successfully capitalized on their unique appeal.

One of the increasingly popular retail demands is the rapidly emerging *local* trend in both food and retail spending. *Farm-to-table* restaurants and artisan or handmade local products are currently in high demand and both national retailers and local shops are quick to pick up on these trends. Upon locating in the mixed-use Lansdowne Live Entertainment complex, Local was able to capitalize on consumers who are willing to purchase items at higher prices if they are locally produced/sourced by focussing on local craft brews and sourcing any possible ingredients from the surrounding area.

Creative options for unused or underused space is not limited only to the landlords and property owners. In an effort to capitalise on the growing trend of *start-ups*, *pop-up* shops, test kitchens and unique events, the founders of ***thisopenspace.com*** created a *catch-all*, online marketplace devoted to advertising and showcasing a variety of different types of commercial space suitable for short term events and temporary locations. Launched in 2013 in Vancouver, thisopenspace.com has expanded into Toronto and New York City with Ottawa slated for spring 2016. By creating a *one stop* shop for temporary space, ***thisopenspace.com*** is not only giving potential short term tenants a quick thorough resource to help their business, but also increasing awareness and visibility of a vacant space or property through increased exposure.

Due to the population's income level and job stability, Ottawa is beginning to see an influx of high end retailers, a category that continues to outperform expectations. The well-known entry of Nordstrom into Canada began in Vancouver but the second Nordstrom in the country was opened in Ottawa before the larger cities of Toronto, Calgary and Montreal, all of which have further locations planned. In similar fashion, Quebec based luxury retailer Simons chose the CF Rideau Centre as part of their first foray outside of the Quebec retail landscape since opening in the West Edmonton Mall. The Rideau Centre is Ottawa' premier shopping mall containing the most active high end brands in Canada. The CF Rideau Centre was named by Avison Young as the 8th most successful shopping centre in Canada with sales per square foot at approximately $1,018 and recently underwent renovations and expansion. Upon the completion of these renovations, CF Rideau Centre is estimated to currently total approximately 1.0 million square feet of space. Other malls throughout the city are beginning to follow suit. The Bayshore Shopping Centre, located in the city's west-end, saw renovations and expansion this year giving it a total square footage on par with that of Rideau. The St. Laurent Centre also saw renovations this year and is expected to expand in the near future.

The increased demand for, if not luxury, higher end branding is evident not only through the arrival of international luxury retailers, but through the efforts of traditional fast food giants making the effort to improve the perception of their brands. McDonald's new "*Create Your Taste*" burger bar is being tried in select locations across Canada; including once located in Barrhaven, a suburb of Ottawa. Customers can select an item from the traditional McDonald's menu or choose their own speciality ingredients and design their own burger. Similarly,

Zibi project

Tim Hortons has continued to expand their lunch and dinner menu adding new grilled sandwiches and sides and adding more premium hot drinks, moving away from their image as the traditional *donut shop.*

As luxury brands entice those looking for a high-end experience, so too are more affordable retailers becoming increasingly popular. Retailers with lower price-points and second hand and gently used merchandisers are seeing an increase in profitability. Winners/Marshalls, Value Village, and Dollarama continue to report strong sales and are actively expanding in the National Capital Region. Talize Fashions, a gently used and factory second hand store specializing in housewares and clothing, opened their first location in 2005 and have since expanded rapidly with a total of 7 locations in Canada as of 2016 and further expansion planned. Winners has opened two locations in Urban Ottawa within the last 24 months, one a second floor location in Lansdowne Park and the other in the lower level of a building fronting the Sparks Street Outdoor Pedestrian Mall. Costco has tentative plans to shutter one of their older Ottawa locations and replace it with two brand new stores in newer developments; one is to be located within close proximity to their existing location at 1900 Cyrville Rd and the other is rumoured to be the anchor in a new Barrhaven development close to Highway 416.

Overall, Ottawa's retail market is largely mirroring the changing consumer landscape across Canada. Luxury retailers and more affordable retailers are simultaneously dominating the landscape while other retailers focus on providing a unique experience through locally sourced or artisanal products direct from the producer or the independent shop/restaurant.

Major Redevelopments and Urban Renewal

There are ways in which the Ottawa market is unique, largely in matters of accessibility and location; young consumers are gravitating to online shopping to save money, but are also willing to spend slightly more to source local products within close proximity to their home or place of employment.

Using this knowledge to look to the future of the Ottawa Retail landscape, it is likely that due to the high percentage of biking and walking paths in Ottawa and the relative ease of transit in general, the local streetscapes in high value central urban areas will continue see tight vacancy and perhaps an increase in local and independent businesses. Insular, high-end neighbourhoods reliant on new condo developments may see an increase in vacancy or downward pressure on rents, as the residential condo sales slow down and new retail developments are built closer to public transit and parking.

The future Windmill Developments Zibi project on the Islands in between Ontario and Quebec will add more competition to the existing condominium oriented neighbourhoods by potentially adding up to 1,200 new residential units close to Ottawa's downtown core. Similarly, the NCC Lebreton Flats competition generated two competing bids by two local development consortiums with strong financial backers from across Canada. The Lebreton Flats are approximately 66 acres of Federal Government owned vacant land slated for disposition. On May 3rd, 2016 the Natonal Capital Commission selected the Ottawa Senators backed RendeVous Lebreton bid, which will add a downtown arena, up to 800,000 sf of new retail and thousands of residential units. The planned development will take place over the course of at least a decade. The Lebreton Flats are located 2.5 kilometers from the Downtown Core, while Zibi will be less than 1 kilometre from the Central Business District. The two projects combined will add thousands of new residential units, commercial space, and tourist attractions to the urban core and will almost certainly change the dynamics and demographics of outlying urban areas such as Little Italy, Westboro, Lowertown, and New Edinburgh over the course of the next decade.

References

Avison Young (Canada) Inc. (April, 2016). **Canada Retail Landscape Mall Performance Infographic.** Digital image. Retrieved from: http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Research/Links/2016/CanadaRetailLandscapeMallPerformanceInfographic.pdf

Cushman & Wakefield. (2015) "**Long-term Unemployment Has Risen in a Large Majority of Countries, but Sharp Hikes Are Confined to Only a Few, Q4 2007 and Q4 2014.**" (2015): n. page. Marketbeat: Retail Snapshot Q4. Cushman & Wakefield. Web. 21 Apr. 2016. Retrieved from: http://cwottawa.com/wp-content/uploads/2012/05/2015-Q4-Retail.pdf

Jerath, K., Zhang, Z. (2009). Journal of Marketing Research. **Store-Within-a-Store.** Retrieved from: https://server1.tepper.cmu.edu/Seminars/docs/Jerath_paper.pdf

Kopun, F. (February, 2016). The Canadian Press. **The Decline and fall of Danier Leather.** Retrieved from: http://www.thestar.com/business/2016/02/08/the-decline-and-fall-of-danier-leather.html

LaPlante, J., Thompson, M. (June, 2015). **Calgary Multi-Family Outlook.** Avison Young (Calgary).

Lindsey, K. (April, 2015). Retail Dive. **What is the future of brick-and-mortar retail stores?** Retrieved from: http://www.retaildive.com/news/what-is-the-future-of-brick-and-mortar-retail-stores/382167/

Marowits, R. (March, 2015). The Canadian Press. **La Vie en Rose to expand Bikini Village across Canada after buying chain**. Retrieved from: http://business.financialpost.com/news/retail-marketing/la-vie-en-rose-to-buy-insolvent-swimwear-retailer-bikini-village

Marowits, R. (May 2015). **Lowes builds Canadian reach by adding 13 Target stores, distribution centre.** The Canadian Press. Retrieved from: http://www.winnipegfreepress.com/business/lowes-gets-13-target-canada-stores-milton-distribution-centre-for-151-million-303276441.html

Mercer LLC. "**2016 Quality of Living Rankings.**" Mercer. N.p., n.d. Web. 19 Apr. 2016. https://www.imercer.com/content/mobility/quality-of-living-city-rankings.html

Nabatian, Barry. "**Retail Expenditures in Ontario: 2012**" Shore-Tanner & Associates based on Statistics Canada's CANSIM tables no. 080-0023 and 080-0030.

Ontario Chamber of Commerce. (April 2016) "**What's in Store for Ottawa's Regional Economy in 2016?**" N.p., n.d. http://www.occ.ca/advocacy/ontario-economic-update-2016/ottawa-region/

Posadzki, A. (March, 2015) The Canadian Press. Target Canada, **Future Shop Departures Mean Malls Will Need Reinventing**. Retrieved from: http://www.huffingtonpost.ca/2015/03/31/big-box-shopping-centres-_n_6979974.html

Porter, Kate. "**RioCan Aims to Build Highrises at 3 Ottawa Shopping Centres.**" CBC News. N.p., 17 Dec. 2015. Web. 18 Apr. 2016. http://www.cbc.ca/news/canada/ottawa/ottawa-highrise-shopping-centres-1.3369134

Retail Insider. (May, 2015). **Canada's Top 20 Most Productive Shopping Centres.** Online at: http://www.retail-insider.com/retail-insider/2015/5/most-productive

Retail Insider. (May 2015). **Indigo to Overhaul 6 Flagships, Open 4 American Girl Stores.** Online at: http://www.retail-insider.com/retail-insider/2015/5/indigo

Reuters. (May 2015). **Canadian Tire to buy 12 Target property leases in Canada**. Retrieved from: http://www.reuters.com/article/2015/05/06/cdn-tire-asset-buy-idUSL4N0XX45120150506

Reuters. (May, 2015). The Globe and Mail. **Canadian Tire to buy 12 Target property leases in Canada.** Retrieved from: http://www.theglobeandmail.com/report-on-business/canadian-tire-to-buy-12-target-property-leases-in-canada/article24279678/

Rosenblum, P. (June 2015). **Closing More Stores Doesn't Fix Gap's Biggest Problems.** Forbes. Retrieved from: http://www.forbes.com/sites/paularosenblum/2015/06/15/gap-continues-downsizing-closing-an-additional-175-stores/

Scott, A. (December, 2014). **The Retail Report.** Avison Young. Archived.

Shaw, H. (March, 2015). Financial Post. **Comark Inc, owner of Ricki's, Bootlegger and Cleo, is latest Canadian fashion retailer to seek creditor protection.** Retrieved from: http://business.financialpost.com/news/retail-marketing/comark-inc-owner-of-the-rickis-bootlegger-and-cleo-is-latest-canadian-fashion-retailer-to-seek-creditor-protection

Shaw, H, (June 2015). **Why Walmart crushed Target in Canada.** Financial Post. Retrieved from: http://www.theprovince.com/business/Walmart+crushed+Target+Canada/11156926/story.html

Sitewise (2015) **Environics Analytics- E&P, HEP. Data 2015** retrieved 20 Apr. 2016 from PCensus database

Statistics Canada. **2011. Ottawa, Ont.: Statistics Canada.** 18 Apr. 2016 http://www12.statcan.gc.ca/census-recensement/2011/dp-pd/prof/search-recherche/frm_res.cfm?Lang=E&TABID=1&G=1&Geo1=PR&Code1=01&Geo2=0&Code2=0&SearchPR=01&SearchType=Begins&SearchText=Ottawa

Strauss, M. (November 2014). Retail Reboot: **How e-commerce is forcing an industry transformation. The Globe and Mail.** Retrieved from: http://www.theglobeandmail.com/report-on-business/retail-reboot-how-e-commerce-is-forcing-an-industry-transformation/article21602870/?page=all

The Canadian Press (June 2015). **Telus if closing all of its Blacks photography retail stores in Canada by August.** Financial Post. Retrieved from: http://business.financialpost.com/news/retail-marketing/telus-closing-all-blacks-photography-stores-across-canada

This Open Space https://thisopenspace.com/ Web. 18 Apr. 2016

Toneguzzi, M. (January, 2015). T**he Calgary Herald. GoodLife Fitness eyes Target store space for expansion.** Retrieved from: http://calgaryherald.com/business/commercial-real-estate/goodlife-fitness-eyes-target-store-space-for-expansion

Toneguzzi, M. (April, 2015). The Calgary Herald. **Canadian Tire eyes vacated Target spaces, builds SportChek brand.** Retrieved from: http://calgaryherald.com/business/local-business/canadian-tire-eyes-vacated-target-spaces

Toneguzzi, M. (June 2015). **Changes taking place at Chinook Centre.** Calgary Herald. Retrieved from: http://calgaryherald.com/business/commercial-real-estate/changes-taking-place-at-chinook-centre

Wahba, P. (June 2015). **Gap closing 175 stores in its latest turnaround effort.** Fortune. Retrieved from: http://fortune.com/2015/06/15/gap-stores-closings/

A COLLABORATIVE PROJECT BY BARCLAY STREET REAL ESTATE AND PRIMECORP COMMERCIAL REALTY INC. BROKERAGE

MEMBERS OF TCN WORLDWIDE REAL ESTATE SERVICES

www.barclaystreet.com www.Primecorp.ca www.tcnworldwide.com

BARCLAY STREET REAL ESTATE LTD.

Director of Research **Anthony B. Scott**
403.294.7173 • ascott@barclaystreet.com

President **David Wallach**
403.294.7166 • dwallach@barclaystreet.com

Graphic Designer **Eugene Ovzek**
eovzek@barclaystreet.com

PRIMECORP COMMERCIAL REALTY INC.

Research Consultant **Chris Turvill**
613.722.2020 x 248 • chris@Primecorp.ca

Researcher **Kristen Coulas**
613.722.2020 x 236 • kristen@Primecorp.ca

COO, Founding and Managing Partner **Sam Firestone**
613.722.2020 x 222 • sfirestone@Primecorp.ca