

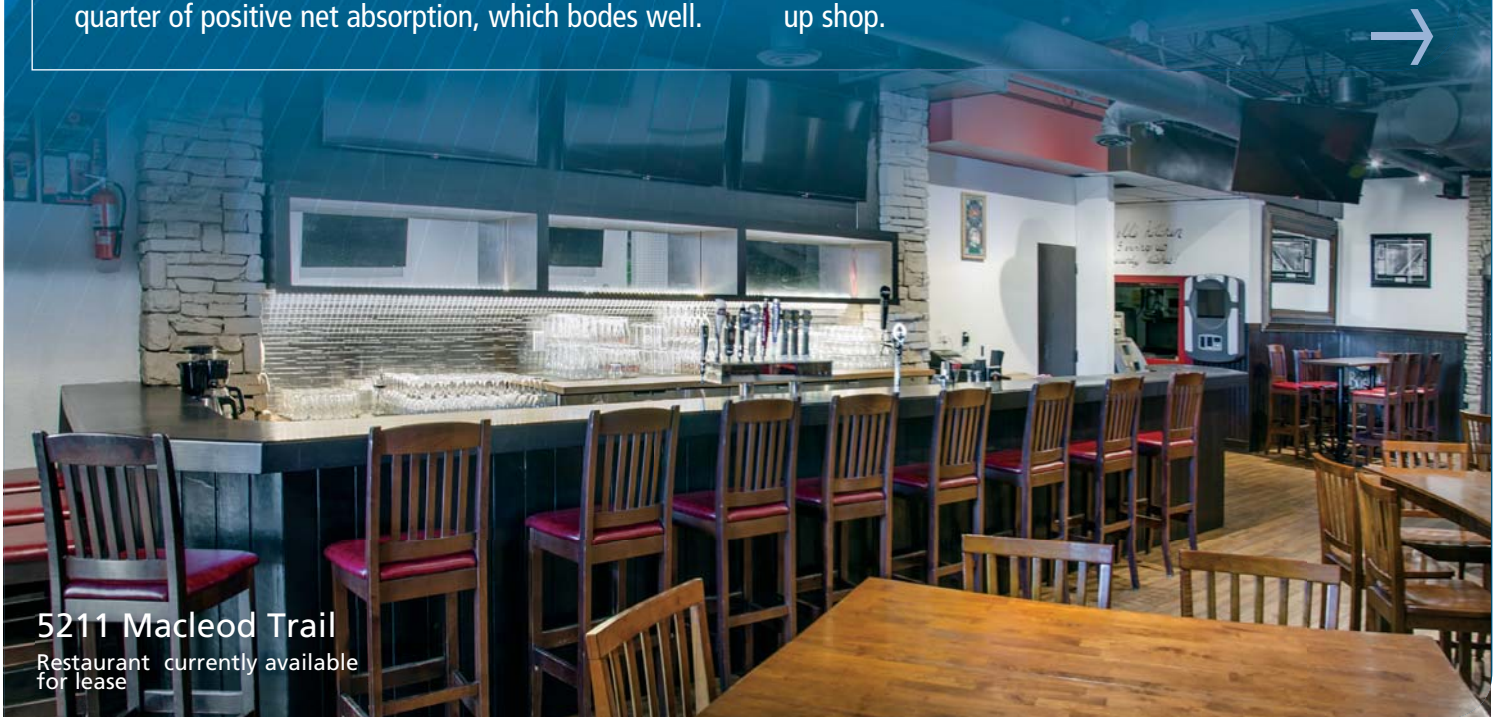
RETAIL MARKET ANALYSIS

3.0%
OVERALL
VACANCY RATE
↓ **-0.4%**
FROM Q1'17

AT THE MID-POINT OF 2017, CALGARY'S OVERALL RETAIL MARKET REFLECTED A NEWFOUND SENSE OF OPTIMISM FOR WHAT THE BALANCE OF THE YEAR WILL BRING.

Vacancy dropped to 3% following four consecutive quarters in the mid-3% range. This marks a return to Q1 2016 levels. The Conference Board of Canada and many economists have forecast 2017 to be the year of recovery for Calgary and all eyes will be focusing on the Central Business District (CBD) as the 'canary in the coalmine'. This submarket has seen a third consecutive quarter of positive net absorption, which bodes well.

While CBD vacancy remained elevated due to two-plus years of decreased foot traffic relied upon by retailers, ongoing activity decreased the vacancy rate to 10.8% from 11.5%, effectively winding the clock back a full year. With the Downtown and Beltline markets comprising approximately 10% of the city's retail inventory by square footage, the effects of the recession-induced reduction in employees/customers have been magnified substantially. With that said, the large number of available options have placed significant competitive pressures on Landlords, thereby lowering rental rates and creating opportunities for scrappy new franchises and restaurant ventures to set up shop.



5211 Macleod Trail
Restaurant currently available
for lease

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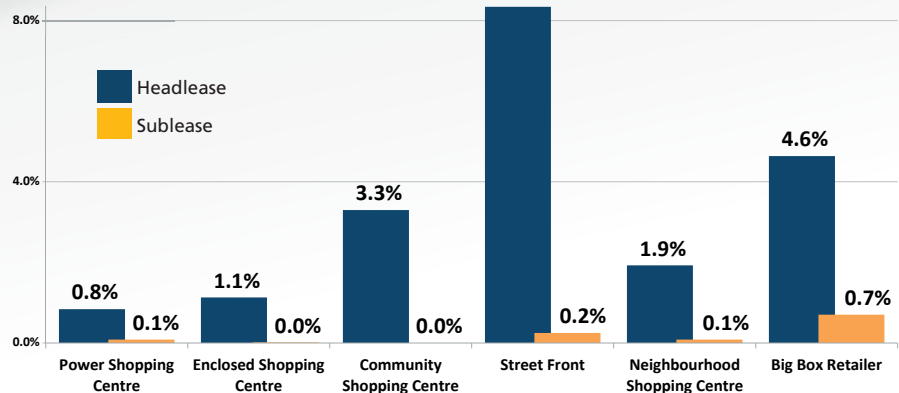
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Calgary's Retail Landscape at Mid-Year 2017

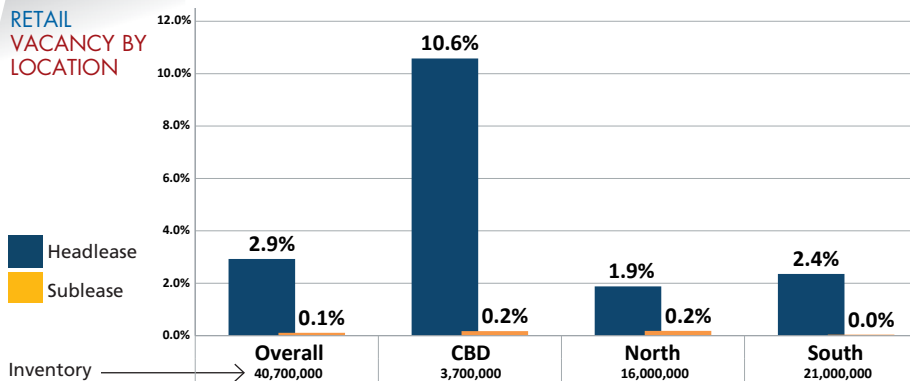
CALGARY CONTINUES TO DRAW SIGNIFICANT INTEREST FROM HIGH-PROFILE RETAILERS, as evidenced by major announcements made during the first quarter pertaining to **CF Market Mall**. Already a top-performing mall by sales per square foot, CF Market Mall is slated to be the primary hub of activity this year with **Saks OFF 5th**, **Sporting Life** and **Zara** opening new stores. **Sport Chek** will expand its current space and **HomeSense** will move within the mall to backfill the former Target space. In the Southeast, a **Nordstrom Rack** location is anticipated at Deerfoot Meadows in the spring of 2018.

Activity returned to the Calgary's Central Business District (CBD) during the second quarter, resulting in approximately 26,000 square feet (sf) of vacant space being taken off the market. This marked the third consecutive quarter of overall positive absorption for the CBD. Helping matters is the limited introduction of new retail space; this is expected to remain the case for the foreseeable future. The limited amount of new inventory has allowed the Downtown and Beltline to stabilize and have excess space slowly absorbed. Even as notable restaurants, clothiers and outdoors equipment retailers closed, several new food,

RETAIL VACANCY BY FORMAT



RETAIL VACANCY BY LOCATION



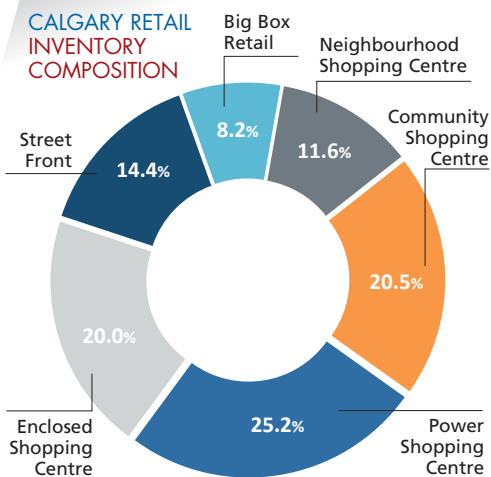
coffee and travel-bookings franchises are setting up shop.

Overall, Street Front format retail space continues to be the primary source of vacancy with this format accounting for about 9% of vacancy. One significant reason for this is the ongoing introduction of new product as a component of mixed-use developments such as **I.D. Inglewood**, **Lido**, **Plaza 1319** and the forthcoming **Infinity @ Marda Loop** and **One6**. As the city seeks to add more residential density, developers have been increasingly combining retail and residential projects over the previous few years. As a result, more than one-third of the 225,000 sf of Street Front & Convenience format space completed during 2015/16 is part of mixed-use developments. Additionally, we've seen

an uptick in 'retail pad' development, where portions of shopping centre parking lots are reclaimed for the construction of clusters of small shops. For 2017 to date, more than 29,000 sf Street Front/Convenience retail space has been delivered.

Overall, more than 687,000 sf of new retail space was introduced during the first half of 2017, with the Suburban South markets seeing the bulk of activity. In the South East quadrant, more than 360,000 sf was completed with **Mahogany Village Market** representing the majority of new inventory. In the Suburban North markets, 125,000 sf of new product was introduced, with the first phase of the **Deerfoot City** expansion being the largest completion. The Central Business District (CBD) saw

CALGARY RETAIL INVENTORY COMPOSITION



RETAIL PROJECT COMPLETIONS SUMMARY (TO JUNE 30, 2017)

Retail Format	Property Name	Community	Retail Area (sf)	Completed	Landlord/Owner
Community Shopping Centre	Springbank Hill Commercial	Springbank	193,000	Q1 2017	Rencor
	Mahogany Village Market	Mahogany	207,000	Q2 2017	Hopewell
Neighbourhood Shopping Centre	Seton Gateway	Seton	128,000	Q1 2017	First Capital
Street Front	Plaza 1319	Crescent Heights	5,200	Q1 2017	1671021 Alberta Inc.
	Stonegate Plaza	Country Hills	17,000	Q2 2017	Royop Development Corporation
	707 Fifth	Downtown	6,925	Q2 2017	Manulife Real Estate
Power Shopping Centre	Deerfoot City (Deerfoot Mall) Expansion Ph. 1	Deerfoot Business Centre	103,000	Q1 2017	Shape Properties
	IKEA Expansion	Deerfoot Meadows	27,000	Q2 2017	IKEA
Total			687,000 sf		

approximately 7,000 sf of new retail space introduced, which was confined to the recently-completed 707 Fifth building.

Overall vacancy fell to 3% at mid-year 2017 after spending four quarters at historic highs – briefly touching 3.5% in the third quarter of 2016. As noted in our Year-End 2016 report, a noticeable increase in leasing activity began during the final quarter of 2016 and the slow absorption of space continued through the first and second quarters of this year. In the Central Business District (CBD) developments such as Landmark Centre benefitted from ongoing renewed activity with **Flight Centre** moving in while the former **Bar C** establishment will be home to new food fusion restaurant.

Examining Calgary at the submarket level, the CBD saw the greatest decrease in vacancy. The amount of available space fell to 10.8%

from 11.5% during the previous quarter. We expect this submarket to remain somewhat volatile for the foreseeable future however. Retail closures in the Downtown continued during the second quarter, with **Mango Shiva** and **Out There Adventure Centre** closing; the latter citing the ongoing downturn. In the Suburban markets, leasing activity was strong - particularly in the South East where vacancy fell from 4.1% in the first quarter to 2.8%.

Retail construction continues at a strong pace in Calgary. Looking ahead to the second half of 2017, approximately 1.4 million square feet (msf) of retail inventory is scheduled for delivery. The primary contributor to this new inventory is Power Shopping Centre format retail, comprised of major projects such **Deerfoot City Phase II** and **Trinity Hills**. Completion of both projects is anticipated in the fourth quarter.

CBD RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Discipline	Retail Area (sf)	Expected Completion	Landlord/Owner
Street Front	Mount Royal Village West	Beltline	60,000	Q2 2018	First Capital Realty Inc.
	Verve	East Village	13,000	Q4 2018	FRAM+SLOKKER Developments
	Brookfield Place - East Tower	Downtown	17,000	Q4 2017	Brookfield Office properties
	TELUS Sky	Downtown	15,000	Q4 2018	Westbank
Total			105,000 sf		

SUBURBAN SOUTH RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Community	Retail Area (sf)	Expected Completion	Landlord/Owner
Power Shopping Centre	East Hills - Phase II	Applewood Park	616,000	Q2 2018	RioCan
	Seton Phase II	Seton	450,000	Q4 2018	Brookfield
Community Shopping Centre	Trinity Hills	COP/Cougar Ridge	700,000	Q4 2017	Trinity Group
	Currie Barracks	Garrison Woods	245,000	Q4 '18/Q1 '19	Canada Lands / Embassy Bosa
Neighbourhood Shopping Centre	Legacy Village	Legacy	58,000	Q4 2017	West Creek Developments
	Westman Village	Mahogany	44,000	Q4 2018	Jaymnan Built
Street Front	Cranston	Cranston	13,200	Q4 2017	Brookfield
	Infinity @ Marda Loop	Marda Loop	11,300	Q3 2018	SNR Group
	Fairmount Park	Fairmount	7,500	Q4 2017	OPUS Development Corp.
	South Trail Superstore Retail Pad	McKenzie	6,700	Q4 2017	Choice Properties
	Chinook 58	Manchester	30,000	Q4 2017	Centron
	Macleod Trail Professional Centre	South MacLeod Trail	7,400	Q3 2018	OPUS Development Corp.
	AVLI on Atlantic	Inglewood	8,100	Q3 2018	Greenview Developments
The Windsor	Britannia	25,000	Q2 2019	Arlington Street Developments	
Total			2,222,000 sf		

SUBURBAN NORTH RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Community	Retail Area (sf)	Expected Completion	Landlord/Owner
Power Shopping Centre	Deerfoot City Expansion (phase II)	Deerfoot Business Park	395,500	Q4 2017	Shape Properties
	Sage Hill Crossing - Pases II - IV	Sage Hill	383,600	Q3 '18-Q4 '18	RioCan
	Sky Pointe Landing	Skyview Ranch	50,000	Q4 2017	The LaCaille Group
	Stonegate Common - Phase I	Country Hills	130,000	Q4 2018	WAM/AIMCO
	Stonegate Common - Phase II	Country Hills	1,340,000	Q4 2020	WAM/AIMCO
Neighbourhood Shopping Centre	District at North Deerfoot	Temple	94,200	Q4 2017	Melcor Developments
Street Front	One North	Northmount	6,600	Q4 2017	Lupi Homes
	Kensington by Bucci	Kensington	9,000	Q2 2018	Bucci
	One6	Capitol Hill	6,700	Q2 2018	Strategic Group
	Medivest Professional Centre	Mount Pleasant	24,000	Q2 2018	Medivest
Total			2,440,000 sf		

Emerging Trends in Retail



Better customer experiences

In recent years, much noise has been made – primarily in the United States - about the erosion and/or loss of relevance facing traditional shopping malls but reports of the death of the shopping centre have been greatly exaggerated. Speaking to the Canadian experience surrounding ‘what’s going to happen to the mall?’, many in the industry are firmly of the opinion that there

is still some place for the shopping centre. The shopping centre is still a meeting place and continues to serve as an entertainment venue for a lot of people who see shopping as entertainment and they want somewhere to go.

Consumers are currently looking for retail experiences they cannot replicate simply by picking up their smartphone and going online. As always, consumers have all the power to sway the direction retailers take to satisfy them and with modern technology that power can be found in the palms of their hands. To get consumers off their phones and into a store, the lure has to be something powerful and that is being increasingly defined as “special and unique experiences.”



Using food as an experience/enticement

“The way to a man’s heart is through his stomach” is a phrase that’s been around for generations. Now it might also be applied to retailers trying to attract and retain customers, particularly those born after 1980. Food is becoming increasingly relevant in supporting this transition by helping make shopping centres or even particular stores more of a destination as opposed to a place to run an errand. Today’s strong centres provide unique customer experiences and that is increasingly being accomplished via dining.

Feeding directly from the established “dwell and sell” tactic, retailers are appealing to Millennials’ tendency to spend more at restaurants and previous generations, eating out an average of 3.5 to four times per week compared to the 2.8

times per week for Generation Y. Since a direct correlation exists between the average length of a shopping trip and average sales per square foot, offering food has become a key strategy for retailers to keep shoppers around a little longer. The most common examples of this are the Harvey’s and Subway outlets in Home Depot stores and McDonald’s in Walmarts. At the higher end of the scale, Nordstrom and Holt Renfrew are offering food and drink options to customers, while O&B has Bannock in the Hudson’s Bay store at Queen and Bay in Toronto, The Guild in the Bay store in downtown Calgary and Leña in downtown Toronto’s Saks Fifth Avenue.

In many cases, the symbiosis would not have been considered even a decade ago. Currently, however, The Bay benefits from partnering with restaurant operators specializing in this business while O&B and The Guild gain significant advantage via real estate deals that are far more tenant-friendly than they would be getting if they were doing a restaurant at Bay and Queen or Stephen Avenue outside of these circumstances.

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