CALGARY YEAR-END 2016

RETAIL MARKET ANALYSIS

CALGARY’S OVERALL RETAIL MARKET STABILIZED DURING THE SECOND HALF OF 2016, FOLLOWING A SIGNIFICANT VACANCY INCREASE DURING THE FIRST SIX MONTHS OF THE YEAR. The ongoing economic downturn continued to exert pressure on Landlords and Tenants, leading to several store and restaurant closures. Therein, however, lay opportunity for others to take advantage of decreasing market rental rates, which led to the opening of multiple new franchise locations. Developers, for their part, continued with numerous projects, delivering more than 500,000 sf of new retail inventory over the course of the year.

Driving the decrease in vacancy during the second half of 2016 was a spate of accelerated leasing activity in the Central Business District (CBD) and the Suburban South markets. For example, two significant spaces in 20/20 were filled by Blaze Pizza and Five Guys Burgers & Fries, which opened in the fourth quarter and in the deep South East, leasing was robust at the recently-completed Auburn Bay Station. The result in the CBD vacancy was significant: registering a 1.6% drop to 10.2%, largely due to the backfilling of Street Front/Convenience format space.

701 11th Avenue SW
Premium Beltline retail space available for lease on the main floor

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SEVERAL SIGNIFICANT ANNOUNCEMENTS IMPACTED THE STATE OF CALGARY’S RETAIL ENVIRONMENT DURING 2016, particularly during the third quarter when Riley & McCormick grabbed headlines with its decision to shut down operations on Stephen Avenue in August. In September, Whole Foods cancelled its plans to move into North Hill Centre as part of its Canadian foray. Ample good news was on-tap however, with No Frills occupying the long-vacant IGA space in Deer Point Plaza and Seattle-based Nordstrom Inc. announcing plans to open a Nordstrom Rack location at Deerfoot Meadows in spring 2018.

Vacancy in Calgary’s Central Business District (CBD), specifically the Downtown, declined markedly during the second half of 2016 but remains well above year-end 2015 levels. The year-over-year increase is equivalent to 148,000 square feet (sf) of additional vacant space on the market; the result of corporate staffing reductions, which have reduced the foot traffic relied upon by Downtown retailers plus the introduction of multiple new retail spaces during the first half of 2016. In the absence of additional large layoffs and new retail product in the latter six months of 2016, the market began slowly absorbing the excess space as several new food and coffee franchises set up shop.

The primary source of retail vacancy in Calgary continues to be Street Front format retail space, accounting for 16% of vacant retail space in the CBD and more than 40% of vacancy in the city as a whole. The primary driver of the overabundance of opportunities within this format is the ongoing introduction of new product as components of mixed-use developments such as I.D. Inglewood and Lido in Kensington. More than 95,000 sf of new Street Front/Convenience retail space was delivered during 2016, comprising nearly one-fifth of new inventory.

More than 95,000 sf of new Street Front/Convenience retail space was delivered during 2016, comprising nearly one-fifth of new inventory. The overall sentiment, however, is that Calgary is not yet over-built and as such, retail construction continues on current projects while new developments are announced. Case in point: Westman Village by Jayman Built, located within Mahogany in the deep South East. The development will comprise nearly 900 homes, boutique retail, restaurants and resort-like amenities. Construction got underway in September with the Village Centre which will anchor the larger project.

More than 500,000 sf of retail inventory was completed during 2016, with the Suburban South markets seeing the bulk of activity. In the South East quadrant, more than 329,000 sf was completed; the bulk of which was delivered during the second half the year. In the Suburban North markets, 300,000 sf of new product was introduced and was largely comprised of the Gates of Nolan Hill and the second phase of Evanston Town Centre. The Central Business District (CBD) saw completion of approximately 25,000 sf among 17th Avenue & Centre, MARK on 10th and Eau Claire Tower which all came to market during the first half of the year.
Overall vacancy decreased slightly during the final quarter of 2016, after increasing substantially to 3.5% at the end of the third quarter. The second half of the year—the fourth quarter in particular—brought a noticeable boost in leasing activity, particularly in long-vacant Central Business District (CBD) developments such as Landmark Centre where Second Cup and The Loft opened for business, while Paramount Grill began building-out its space.

Suburban leasing was strong, most notably in the South West where vacancy fell from 2.5% in the third quarter to 1.3% at year-end. The CBD, however, saw the greatest decrease; falling to 10.2% from 11.8% during the previous quarter.

Looking ahead to 2017, approximately 2.5 million square feet (msf) of retail inventory slated for delivery with the majority anticipated during the second half of the year. The primary contributor to this new inventory is Power Shopping Centre format retail, comprised of major projects such as Deerfoot City, Trinity Hills and the second phase of East Hills.

The Suburban North is poised to host more than half of new 2017 retail completions with approximately 1.3 msf. The Suburban South and Central Business District (CBD) markets will increase by 1.2 msf and 20,000 sf, respectively.
In recent years, Calgary has seen the emergence of **pop-up retail**. Pop-ups are temporary spaces that can be for a multitude of applications, from testing the launch of a brick and mortar idea or product concept to hosting an event and selling tickets. They are generally intended for short-term leases, typically three to six months in duration. The basic premise of this approach to retailing stems from the question: “If new products can come and go, why can’t the stores that display them do the same?”

These initiatives have a tendency to appear unannounced, quickly draw in the crowds, and then disappear or morph into something else. This adds to the fresh feel, sense of exclusivity and surprise that galleries and street theatres have been using for years. There is an appeal for consumers, who are increasingly used to “massclusivity” (a form of affordable premium consumption) and “planned spontaneity”.

The pop-up go platform benefits both retailers and landlords. Retailers are able to open a pop-up shop to launch a brand, test a market, grow a business, host VIP events, and more. Landlords are increasingly turning to this new concept as a means of filling larger empty spaces – even temporarily. In Calgary, this approach to tenancy has been seen in the former Sunridge Future Shop, where Halloween and Christmas-oriented short-term leases have been in rotation since the disappearance of the Future Shop brand in early 2015.

The former Jack Carter GM dealership building at the corner of Macleod Trail and Glenmore Trail in the Southeast has hosted temporary tenants such as the Furniture & Patio Outlet during the summer months and Spirit Halloween Superstore through autumn. Destination Christmas took over the space for the Christmas holiday run-up. The former Le Chateau was also home to a Halloween-themed temporary retail outlet. Additionally, in Calgary’s Suburban South markets, Halloween Alley set up shop in the former Sobeys in Douglas Glen during the autumn months.

Several benefits exist for retailers or brands to operate through the pop-up retail approach. Among the primary benefits are brand awareness with media, social media influencers and customers generated by the excitement of a new, exclusive retailer. The phrase “customer education” increasingly accompanies the pop-up approach to retailing, given that the boutique-style allows the proprietor to give customers a more in-depth education of the niche the shop addresses. Further, this foray into retail offer the opportunity for retailers’ to communicate their value propositions and demonstrate their product offerings in a brick and mortar environment.

**Citations**


