

RETAIL MARKET ANALYSIS

3.4%
OVERALL
VACANCY RATE
↓ **-0.1%**
FROM Q3'16

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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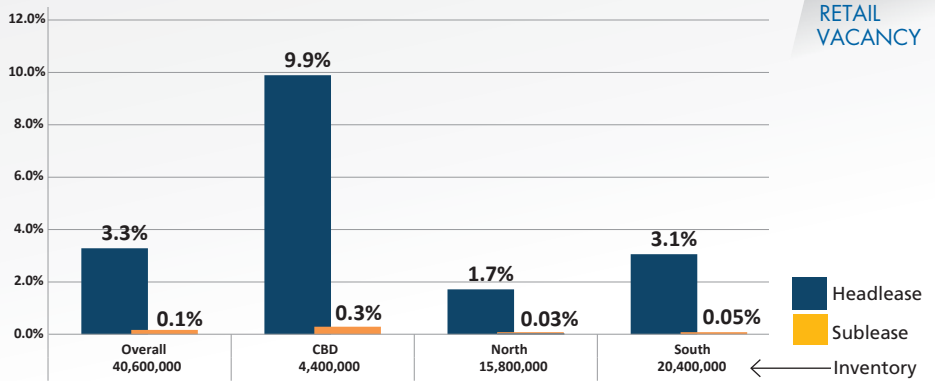


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Calgary's Retail Landscape at Year-End 2016

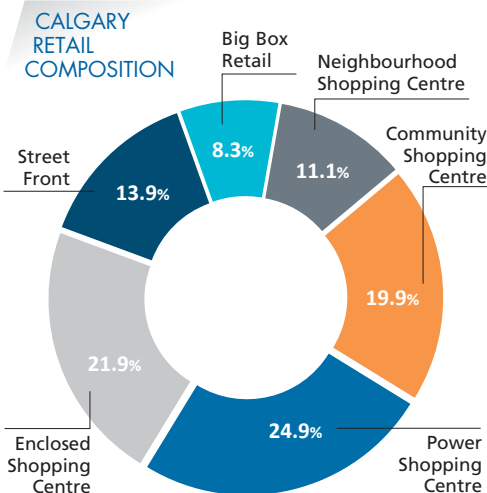
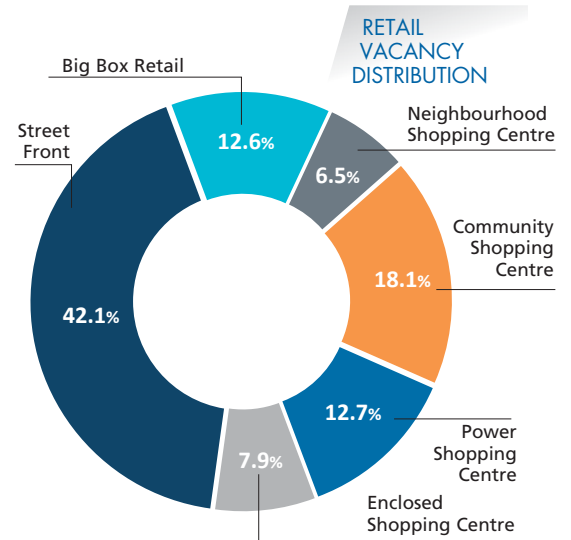
SEVERAL SIGNIFICANT ANNOUNCEMENTS IMPACTED THE STATE OF CALGARY'S RETAIL ENVIRONMENT DURING 2016, particularly during the third quarter when **Riley & McCormick** grabbed headlines with its decision to shut down operations on Stephen Avenue in August. In September, **Whole Foods** cancelled its plans 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.



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.

RETAIL PROJECT COMPLETION SUMMARY (TO SEPT. 30, 2016)

Retail Format	Property Name	Community	Retail Area (sf)	Completed	Landlord/Owner
Community Shopping Centre	Evanston Towne Centre - Phase II	Evanston	31,000	Q1 2016	Qualico
Neighbourhood Shopping Centre	Auburn Bay Station	Auburn Bay	84,600	Q4 2016	Brookfield Residential
	Gates of Nolan Hill	Nolan Hill	94,000	Q1 2016	Royop Development Corporation
Enclosed Shopping Centre	Southcentre Mall Expansion	Willow Park	40,000	Q4 2016	Oxford Properties
Street Front	17th Avenue & Centre	Beltline	8,200	Q1 2016	Qualex-Landmark
	Mark on 10th	Beltline	10,800	Q2 2016	Qualex-Landmark
	New Brighton	New Brighton	15,500	Q2 2016	Bri-Mor
	Lido	Kensington	7,300	Q4 2016	Battistella Developments
	I.D. Inglewood	Inglewood	7,000	Q4 2016	Sarina Homes
	Walden Landing	Walden	22,000	Q4 2016	Genco Development Corp.
	The Odeon	Mardo Loop	11,000	Q4 2016	Ronmor
	619 16 Avenue NE	Renfrew	7,900	Q2 2016	Mylonas Enterprises Ltd.
	Eau Claire Tower	Downtown	5,700	Q2 2016	Oxford Properties
Power Shopping Centre	East Hills - Phase I	Applewood Park	160,000	Q4 2016	RioCan
Total			505,000 sf		

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 **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.

CBD RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Discipline	Retail Area (sf)	Expected Completion	Landlord/Owner
Street Front	707 Fifth	Downtown	6,925	Q2 2017	Manulife Real Estate
	Mount Royal Village West	Beltline	88,000	Q2 2018	First Capital Realty Inc.
	Verve	East Village	13,200	Q4 2017	FRAM+SLOKKER Developments
	Brookfield Place - East Tower	Downtown	16,600	Q1 2018	Brookfield Office properties
	TELUS Sky	Downtown	15,000	Q1 2018	Westbank
Total			139,725 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	Q2 2018	Brookfield
	IKEA Expansion	Deerfoot Meadows	27,000	Q4 2017	IKEA
	Trinity Hills	COP/Cougar Ridge	700,000	Q4 2017	Trinity Group
Community Shopping Centre	Mahogany Village Market	Mahogany	207,000	Q4 2017	Hopewell
	Currie Barracks	Currie	245,000	Q4 '18/Q1 '19	Canada Lands / Embassy Bosa
Neighbourhood Shopping Centre	Seton Gateway	Seton	128,000	Q1 2017	First Capital
	Westman Village	Mahogany	44,000	Q4 2018	Jaymnan Built
Street Front	Cranston	Cranston	10,300	Q3 2017	
	Infinity @ Marda Loop	Marda Loop	11,300	Q2 2017	Steckmar Group
	South Strail Superstore Retail Pad	McKenzie	6,700	Q2 2017	Choice Properties
	Chinook 58	Manchester	30,000	Q4 2017	Centron
	Legacy Village	Legacy	58,000	Q4 2017	West Creek Developments
	Macleod Trail Professional Centre	South MacLeod Trail	7,400	Q3 2018	OPUS Development Corp.
	The Windsor	Britannia	25,000	Q4 2017	Arlington Street Developments
Total			2,565,700 sf		

SUBURBAN NORTH RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Community	Retail Area (sf)	Expected Completion	Landlord/Owner
Power Shopping Centre	Deerfoot City	Deerfoot Business Park	1,122,000	Q4 2017	Shape Properties
	Sage Hill Crossing - Pases II - IV	Sage Hill	383,600	Q3 '17-Q4 '18	RioCan
	Sky Pointe Landing	Skyview Ranch	50,000	Q4 2017	The LaCaille Group
	Stonegate Common - Phase I	Country Hills	160,000	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	Q2 2017	Melcor Developments
Street Front	Keninston by Bucci	Kensington	9,000	Q2 2018	Bucci
	Stonegate Plaza	Country Hills	17,000	Q2 2017	Royop Development Corporation
	One6	Capitol Hill	6,658	Q2 2018	Strategic Group
	Medivest Professional Centre	Mount Pleasant	24,000	Q2 2018	Medivest
Total			3,206,458 sf		

Emerging Trends in Retail

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.



Former Jack Carter GM dealership on Macleod Trail throughout the year

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.

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