

National retail report

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Despite the unseasonably warm weather throughout the fall, and the high Canadian dollar providing an incentive for Canadians to shop south of the border, retail sales in Canada posted a healthy increase of 4% over 2006. Consumer confidence is high, based on solid job growth, a buoyant housing market, relatively low interest rates and a generally strong Canadian economy. Retailers are fighting for space in shopping centres. The new kids on the block (Apple, Abercrombie & Fitch, Sephora and Coach) are setting new standards and raising the bar in terms of sales productivity.

Brand awareness

Canadian consumers welcome US and international retailers, as they are hungry for branded merchandise. With the influence of the Internet, television and magazine advertising, new retailers to Canada are already recognized by consumers well ahead of their arrival. Young people are happy to wait in line to purchase the latest iPod and don't seem to mind shopping in dimly lit fashion stores. It is all about the brand.

In better shopping centres, owners are saying goodbye to long-standing tenants upon lease expiry in order to accommodate the hot new retailers. Without new retail blood, centres would not be able to attract new customers and effectively compete with other shopping formats. Leading the list of desirable retailers are Apple, Abercrombie & Fitch, Hollister, Williams Sonoma, Pottery Barn, Crate & Barrel, MAC Cosmetics, Sephora, Coach, H&M, Zara, and two Canadian retail success stories, Lululemon and Aritzia. There are many strong regional retailers and other 'must have' retailers on the preferred list, but the aforementioned group stands out above the rest.

Lack of quality locations/escalating rents

With these new players, mall owners are seeing strong increases in sales volumes with a few centres now over \$1,000 per square foot in average sales. A few more shopping centres are pushing this, up until now, unprecedented threshold. A direct consequence of this sales productivity is increased rents. With good locations in short supply, retailers are agreeing to pay much higher rates without much push back. It is considered the price of admission to be in the major malls.



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In terms of specific categories, furniture, home furnishings, electronics, building supply, pharmacy and personal care stores are posting the highest increases. Computer and software sales, luggage, leather, ladies apparel, and giftware are showing weaker performance. Bolstered by very strong local economies, the provinces showing the best retail sales increases were Saskatchewan, Prince Edward Island and Alberta. British Columbia equalled the 4% national average, while Ontario, Québec and Nova Scotia showed only modest increases over 2006.

Who is looking at Canada?

A number of retailers are looking at the Canadian market as part of their expansion plans. Brooks Brothers is seeking to establish a Canadian flagship store in Toronto. LL Bean has suggested that adding a store in Canada may be on the horizon and Brookstone is apparently considering Canada through a local partnership. Sharper Image is also looking. Assos, a high-end Swiss specialty clothing retailer, is seeking space in Canada. Cabelas, the hunting, fishing, and camping outfitter, has made a deal to open in Canada. Lowes Home Improvement Warehouse opened its first Canadian locations in Brampton, Hamilton and Brantford in December 2007 with 18 additional sites in the pipeline. Italian eyewear giant Luxottica is seeking locations for its new high-end concept, Ilori. Bed Bath & Beyond has made commitments in Canada, opening its first store in Richmond Hill in December 2007. Crate & Barrel have secured two locations, at Yorkdale in Toronto and Southcentre in Calgary. West Elm is seeking real estate. Design Within Reach will open their first Canadian store on King Street West, in Toronto. Ferragamo is seeking high-end real estate. Bath & Body Works, Anthropologie and Polo Ralph Lauren are also exploring opportunities throughout the country. The steady influx of new retailers into Canada keeps malls, power centres and lifestyle projects fresh and competition for the consumer dollar high.

Impact of US dollar parity

Since approximately 80% of Canada's population is within close proximity to the US border, the high Canadian dollar will result in increased shopping visits to the US. Clearly, this will take a measurable piece of the market, particularly for border locations such as Niagara Falls. A corresponding decrease in the number of Americans shopping in Canada, because their dollar does not buy as much as it did a year ago, will be another hit to Canadian retail sales potential in 2008. Tourist destinations like Toronto, Vancouver, Montréal, Ottawa and Québec City will be impacted most.

Greening of retail

Like other sectors, the retail real estate industry is very environmentally conscious. Owners and occupants alike are mindful of developing new projects and operating existing buildings as efficiently as possible. They attempt to optimize energy performance, seek water use reductions and adhere to recycling programs, all to do their part to help the environment. Retailers like Wal-Mart, Whole Foods, Starbucks, Indigo, The Body Shop, Lowes and Staples have been recognized for their 'green' approach to business. As developers consider new locations for various types of developments, public transit linkages will become very important. Bicycle racks will be everywhere. Wal-Mart has developed a program for conserving energy, partly motivated to appear environmentally aware and partly to save money. Lower occupancy costs can be passed along to customers in the form of lower prices. Expect more retailers to join the wave of becoming 'green', which will produce a better environment and, quite possibly, a better bottom line.

Looking ahead

No doubt that with the incredible growth in residential population in Canada's downtown areas, the addition of new retail players to the market, the scarcity of quality locations, the high Canadian dollar and lifestyle centres beginning to emerge, 2008 will be another interesting year in retail real estate.

The ability to find space for new and growing retailers is a problem now and this will certainly not diminish in 2008. Retailers new to the country need to get off to a good start and establish a presence. However, with limited turnover, securing high quality locations is a huge challenge.

In 2008, anticipate that retail sales will continue to grow, albeit at more modest levels likely in the 2.5%-3.5% range. With the stability of the economy and the rapidly increasing globalization of business, expect that the trend of international retailers seeking Canadian locations will also continue. There are over 100 retailers who each operate in more than 40 countries around the world and Canada is regarded as a stable, low risk environment.

