



Where is Canadian Bricks and Mortar Retail Heading?

COVID-19, changing consumer behaviour & growth of new technologies

Carl Gomez, Chief Economist & Head of Market Analytics

September 2021

The most comprehensive commercial real estate data.

The most influential network of CRE professionals.

\$2.5B

invested in research and technology

35

years of experience

4,700

employees

170K

CoStar users

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brands


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List properties, screen tenants, and collect rent for free



 **Apartments.com™**
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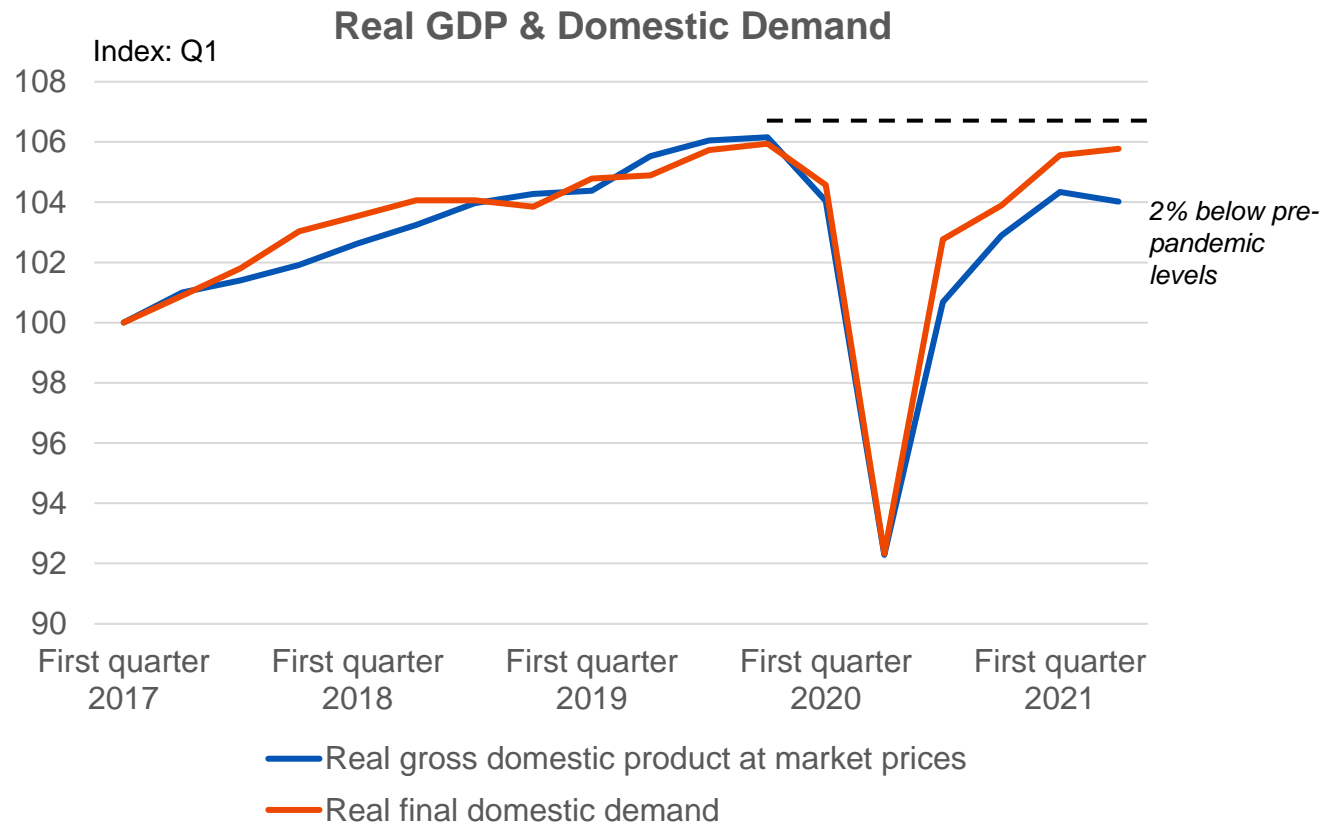
 **BizBuySell™**
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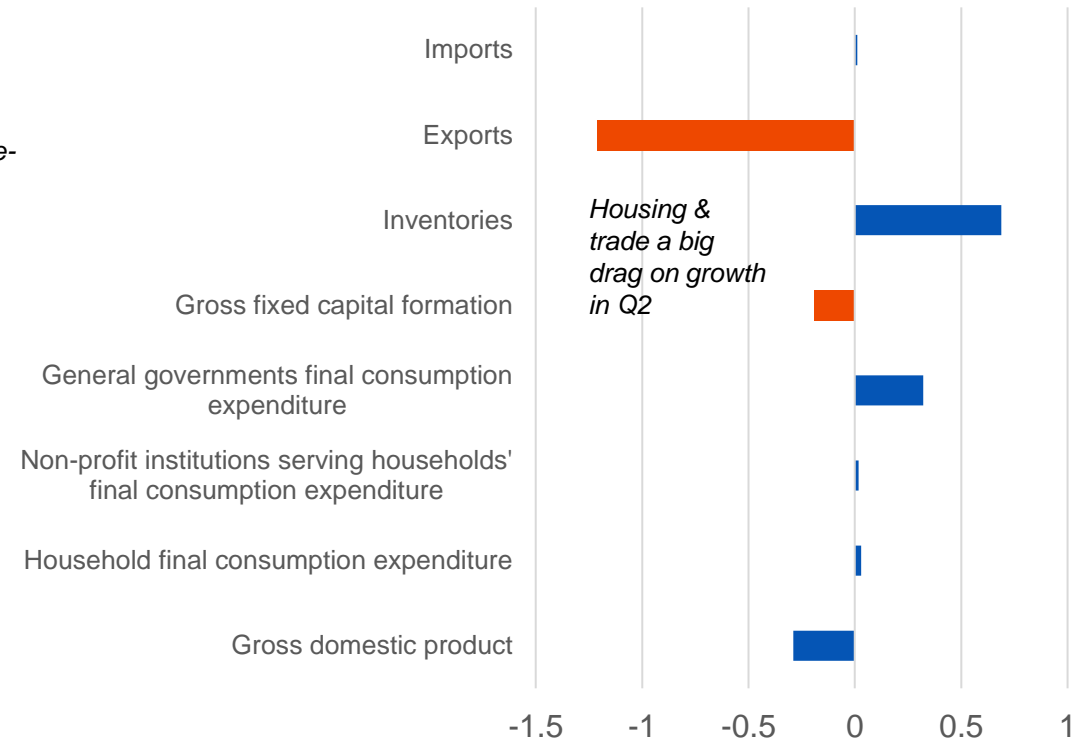
Outline

1. State of the Economy
2. State of the Retail Market
3. Structure of Canada's Bricks and Mortar Retail Sector
4. Evolution of Retail.... "*Pandemic Just Intensifies Existing Trends*"
5. How Bricks and Mortar Retail Might Be Transformed

Economy Not Fully Recovered from the Pandemic



Contribution to % ch. in Real GDP Q2 2021



Source: Statistics Canada

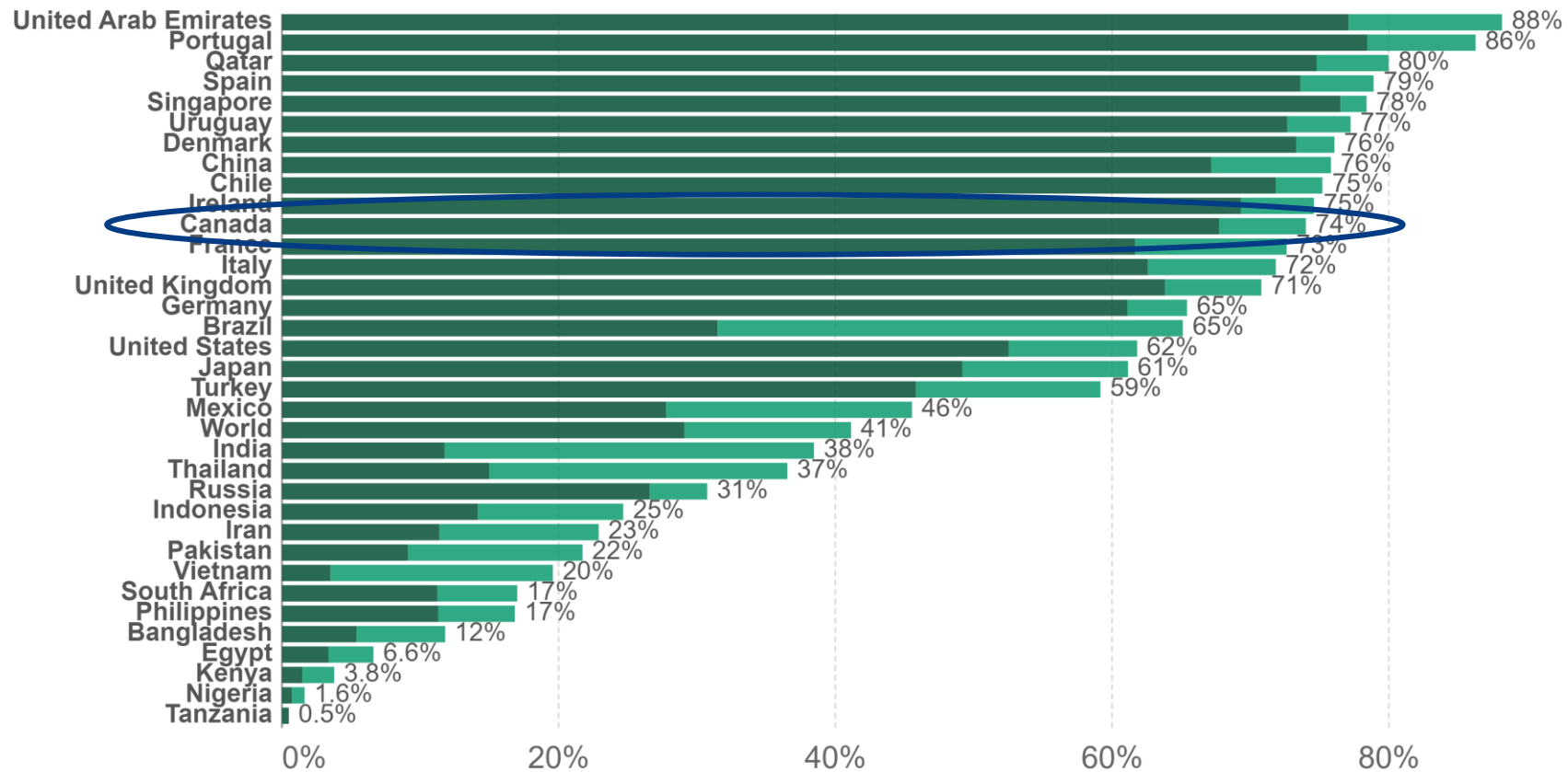
Canada Doing Well in Vaccination Race

Share of people vaccinated against COVID-19, Sep 7, 2021

Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

Our World
in Data

■ Share of people fully vaccinated against COVID-19 ■ Share of people only partly vaccinated against COVID-19



Source: Official data collated by Our World in Data. This data is only available for countries which report the breakdown of doses administered by first and second doses in absolute numbers.

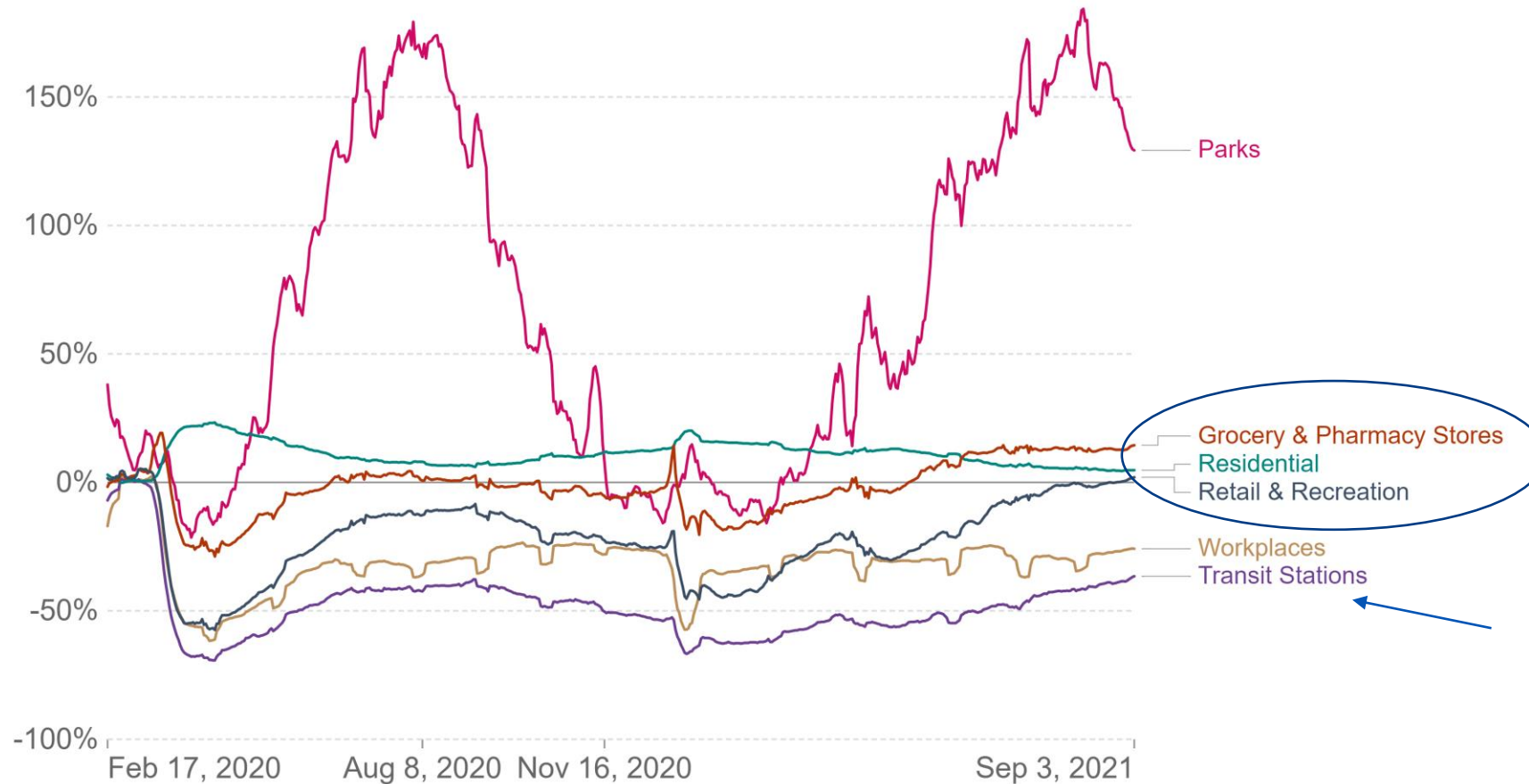
CC BY

Mobility Trends Slowly Improving

How did the number of visitors change since the beginning of the pandemic?, Canada



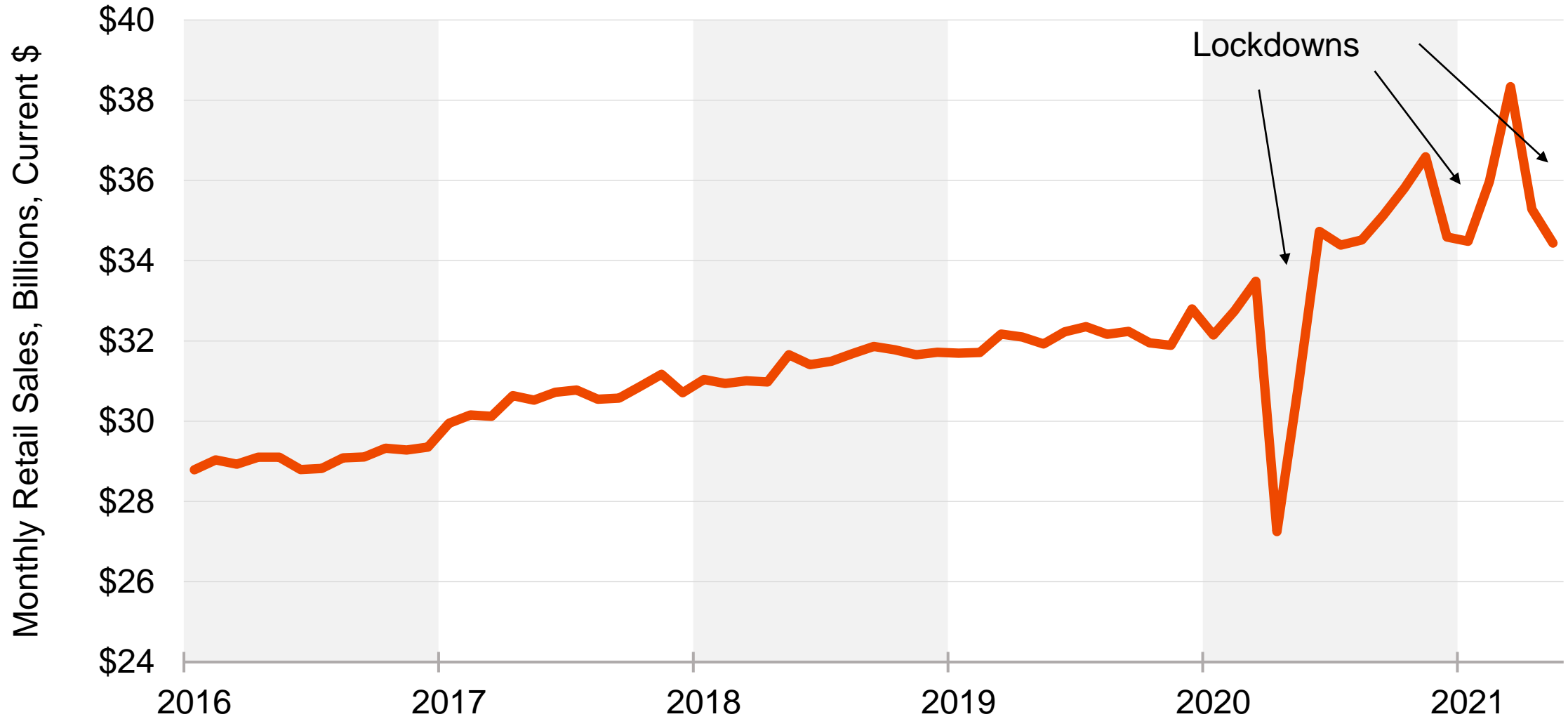
This data shows how community movement in specific locations has changed relative to the period before the pandemic.



Still below pre-pandemic

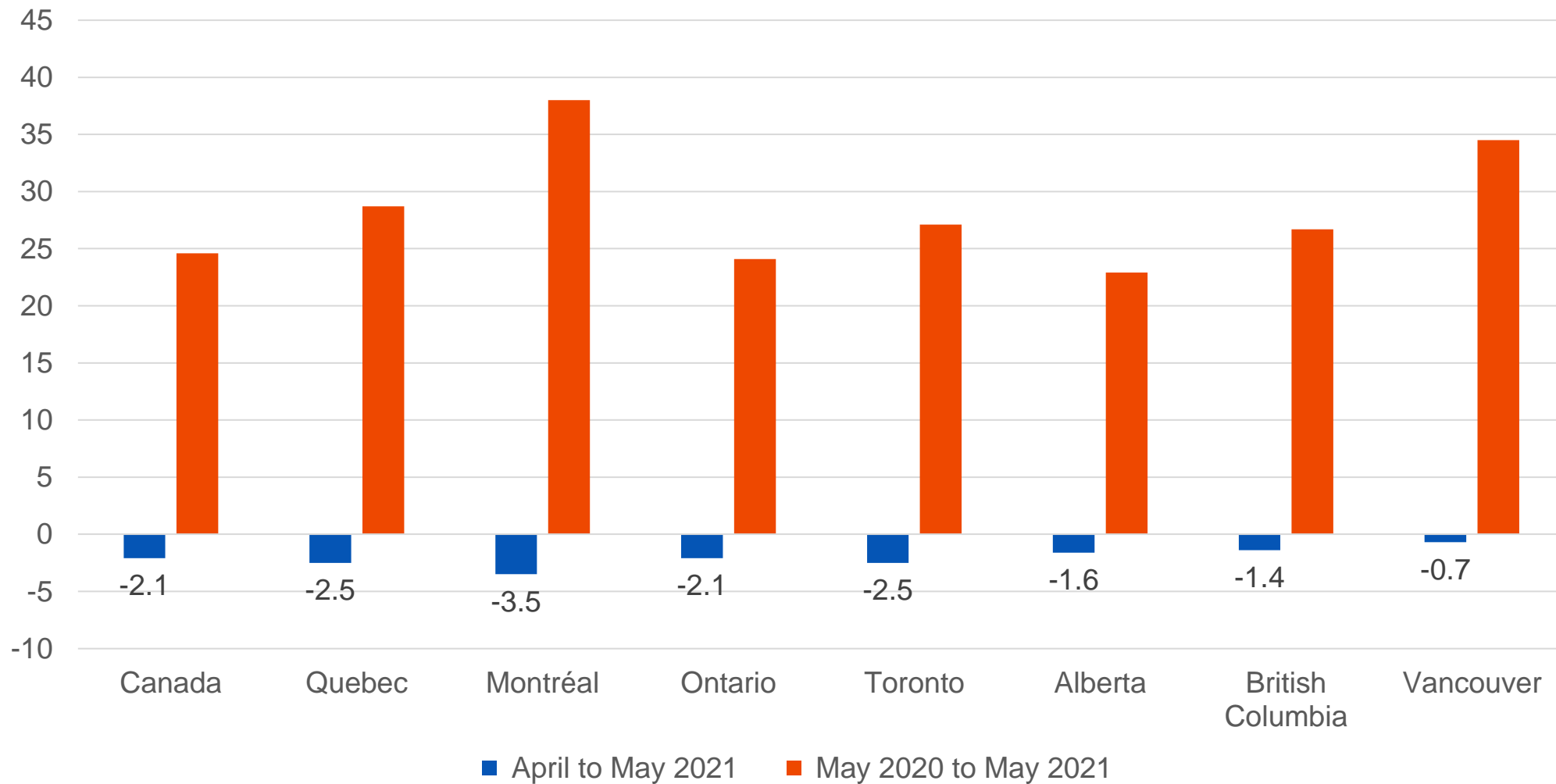
Source: Google COVID-19 Community Mobility Trends – Last updated 8 September 2021, 15:53 (London time)
Note: It's not recommended to compare levels across countries; local differences in categories could be misleading.
OurWorldInData.org/coronavirus • CC BY

Canadian Core* Retail Sales



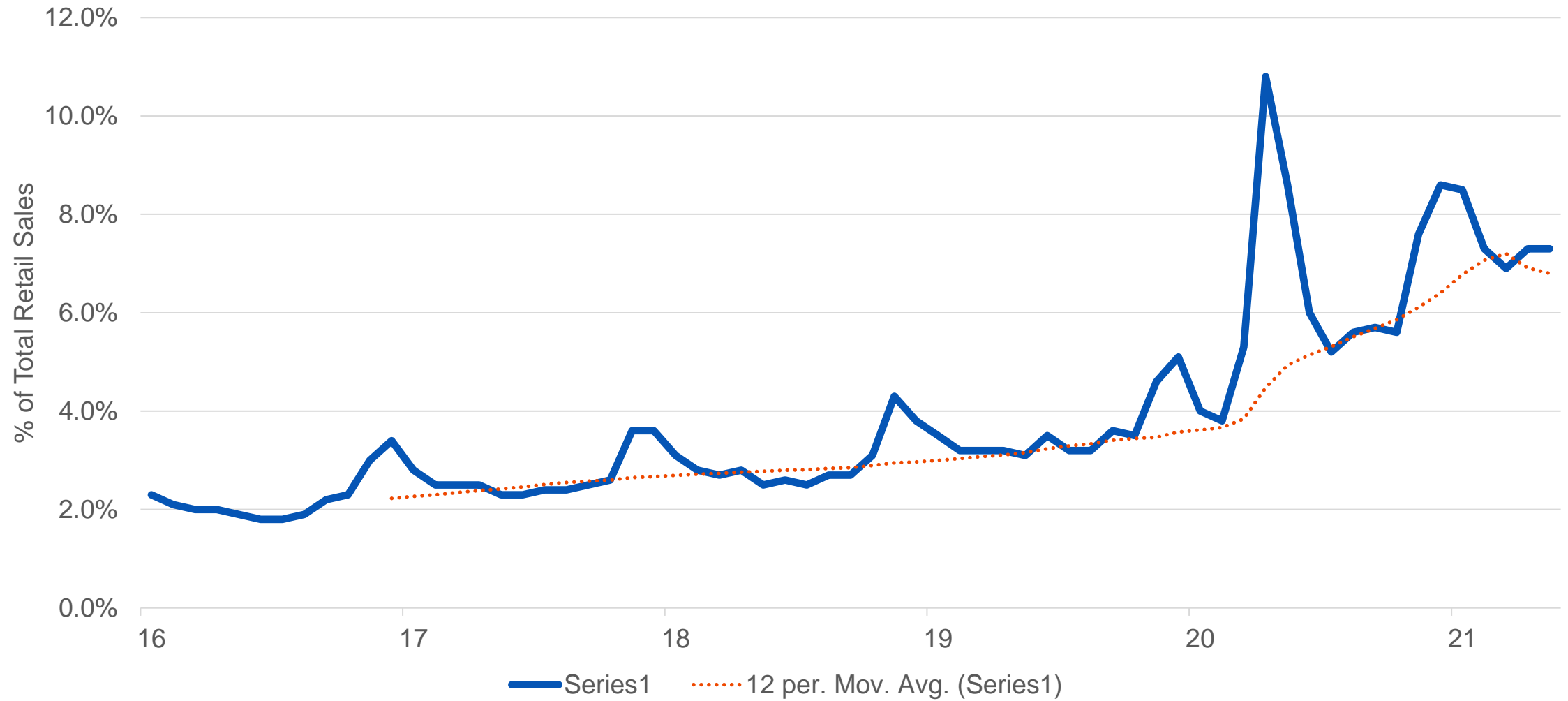
Source: Statistics Canada (*ex autos and gas)

Retail Sales By Region



Source: Statistics Canada (May 2021)

Canadian E-Commerce Sales



Source: Statistics Canada

What Canadians are buying on-line

Categories purchased | Overall*



62%

Clothing apparel
(any)



41%

Computers and
electronics



31%

Books



30%

Footwear



29%

Beauty products



23%

Home and
garden



22%

Health products



20%

Office supplies



17%

Toys



17%

Home decor



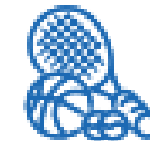
17%

Automotive



16%

Jewellery



16%

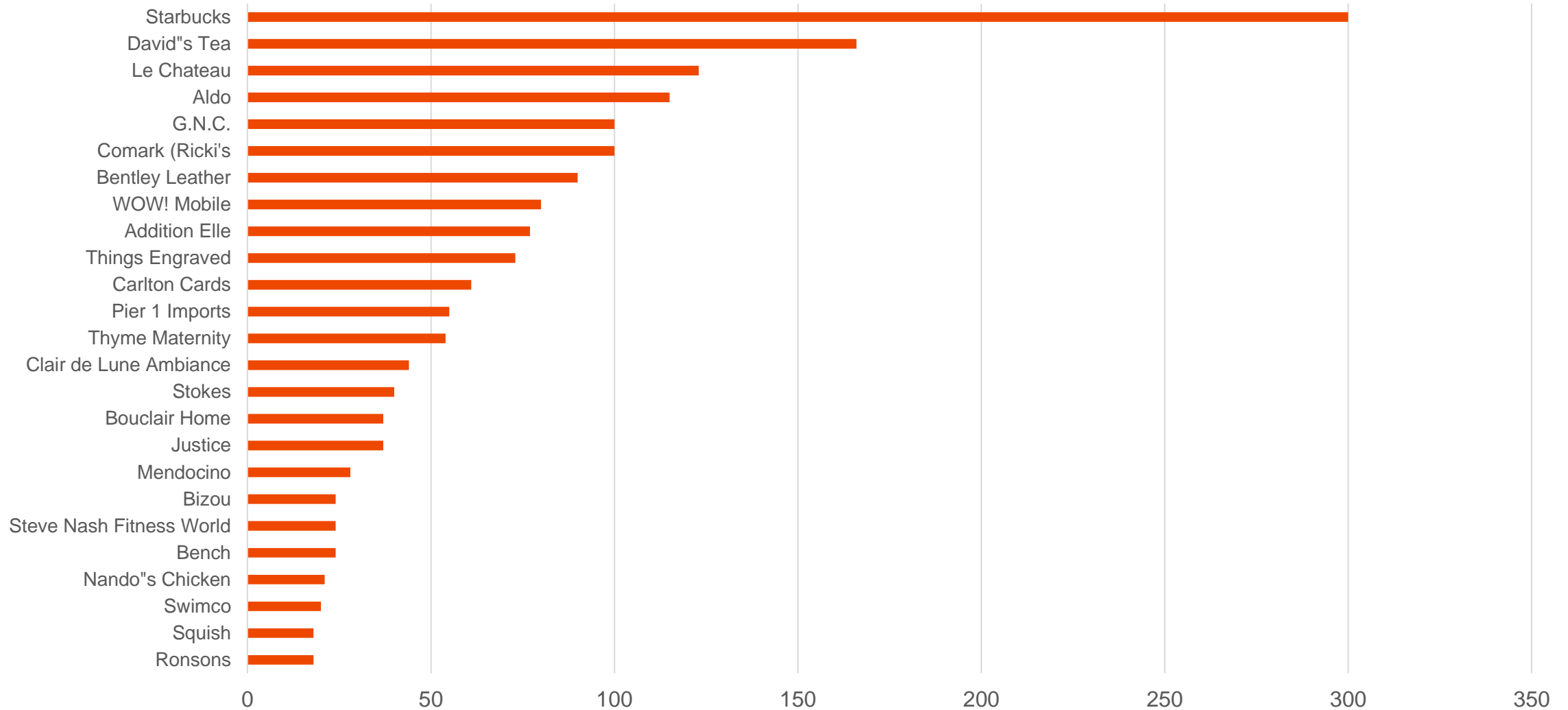
Sporting goods



15%

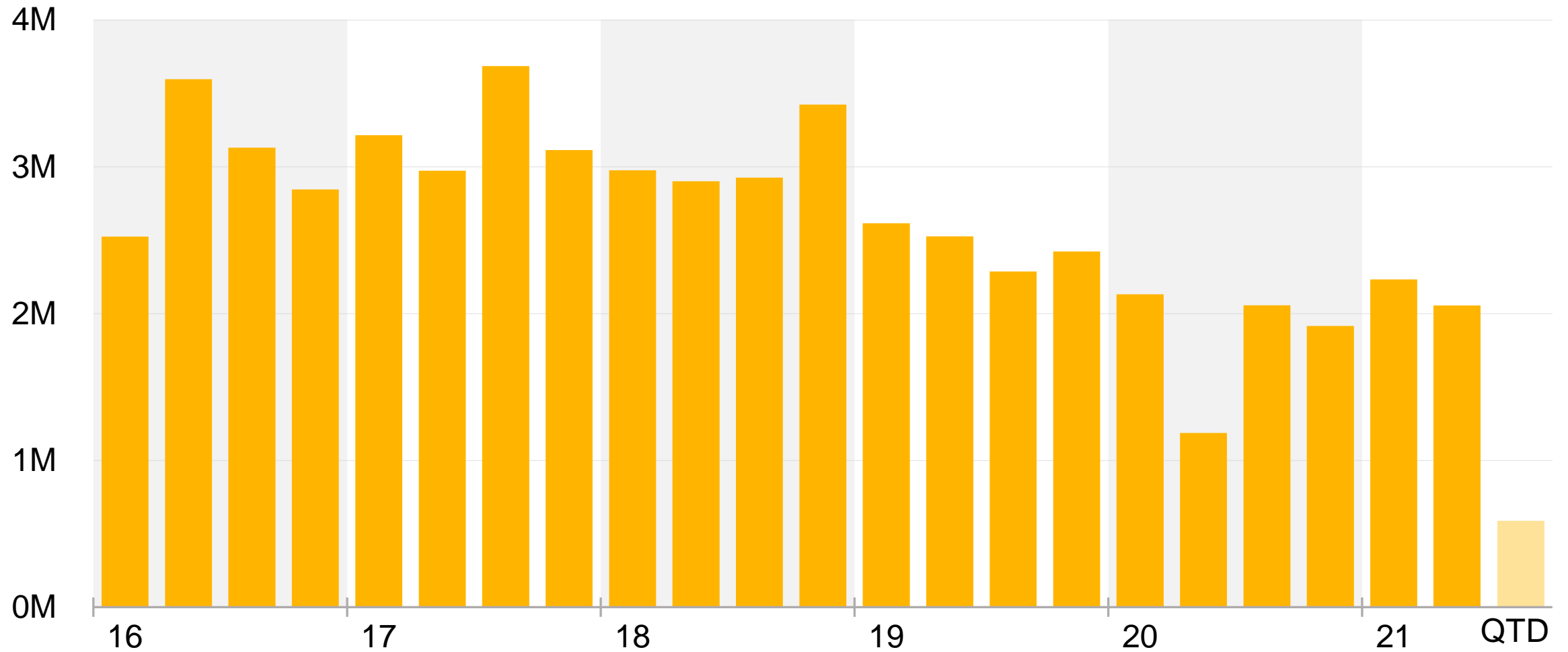
Groceries
(perishable)

Largest Retail Store Closures* in 2020

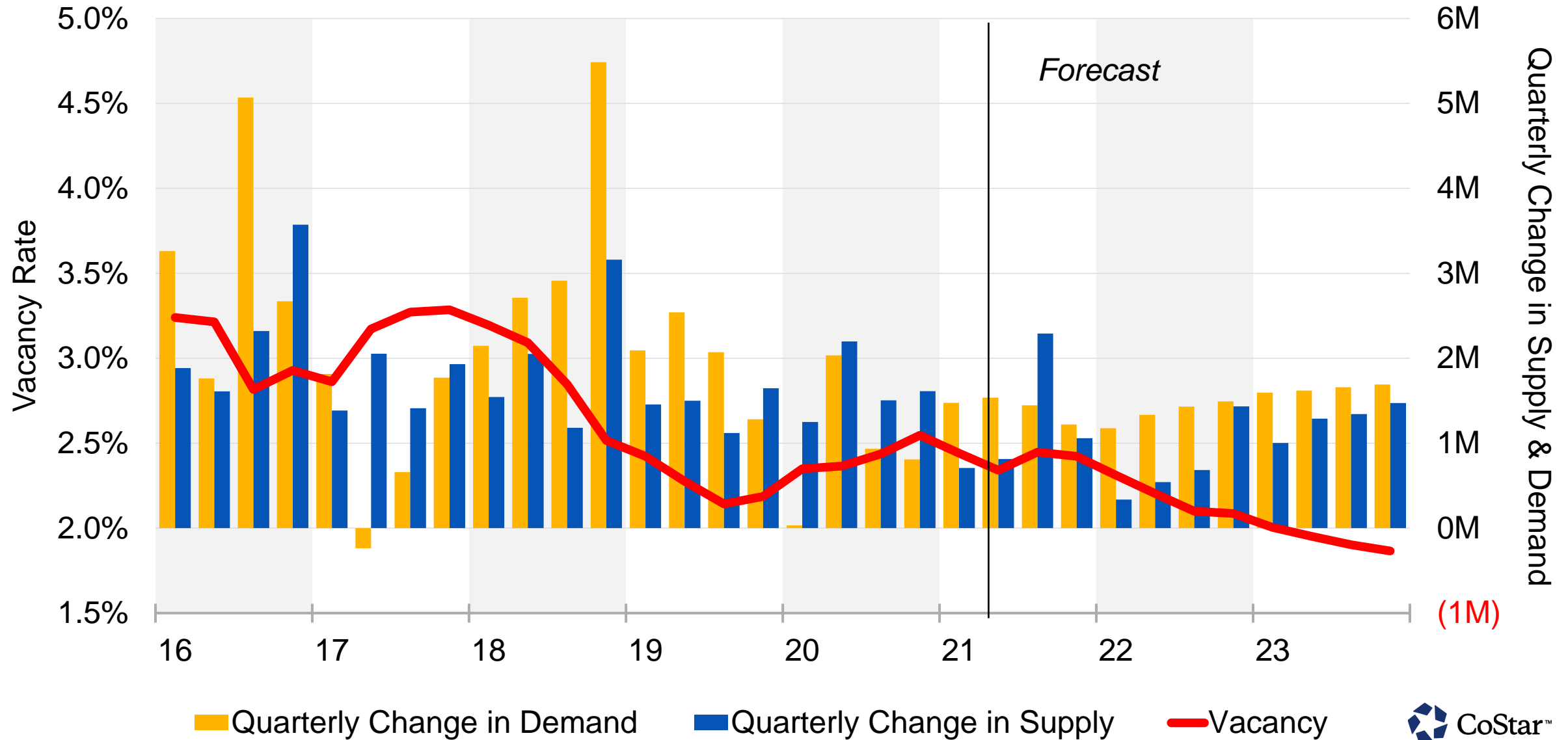


Source: Retail Insider; *actual and announced

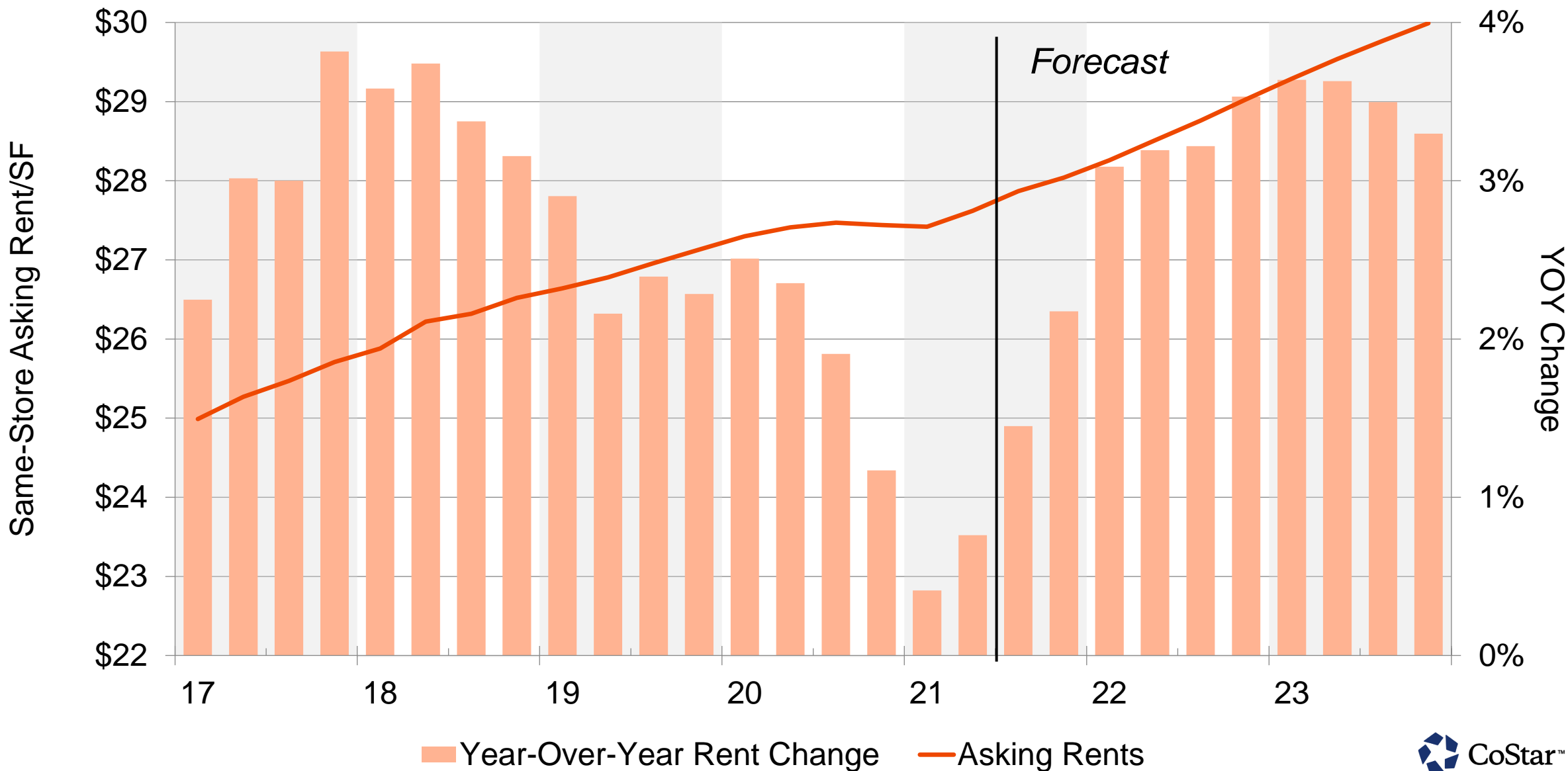
Canada Retail Leasing Volume



Canada Retail Supply, Demand, and Vacancy



National Retail Rent Growth: Base Case Forecast





RETAIL

As store owners sign more short-term leases, landlords are taking a risky bet on the future of retail

PUBLISHED FRI, FEB 26 2021-10:11 AM EST | UPDATED FRI, FEB 26 2021-12:41 PM EST

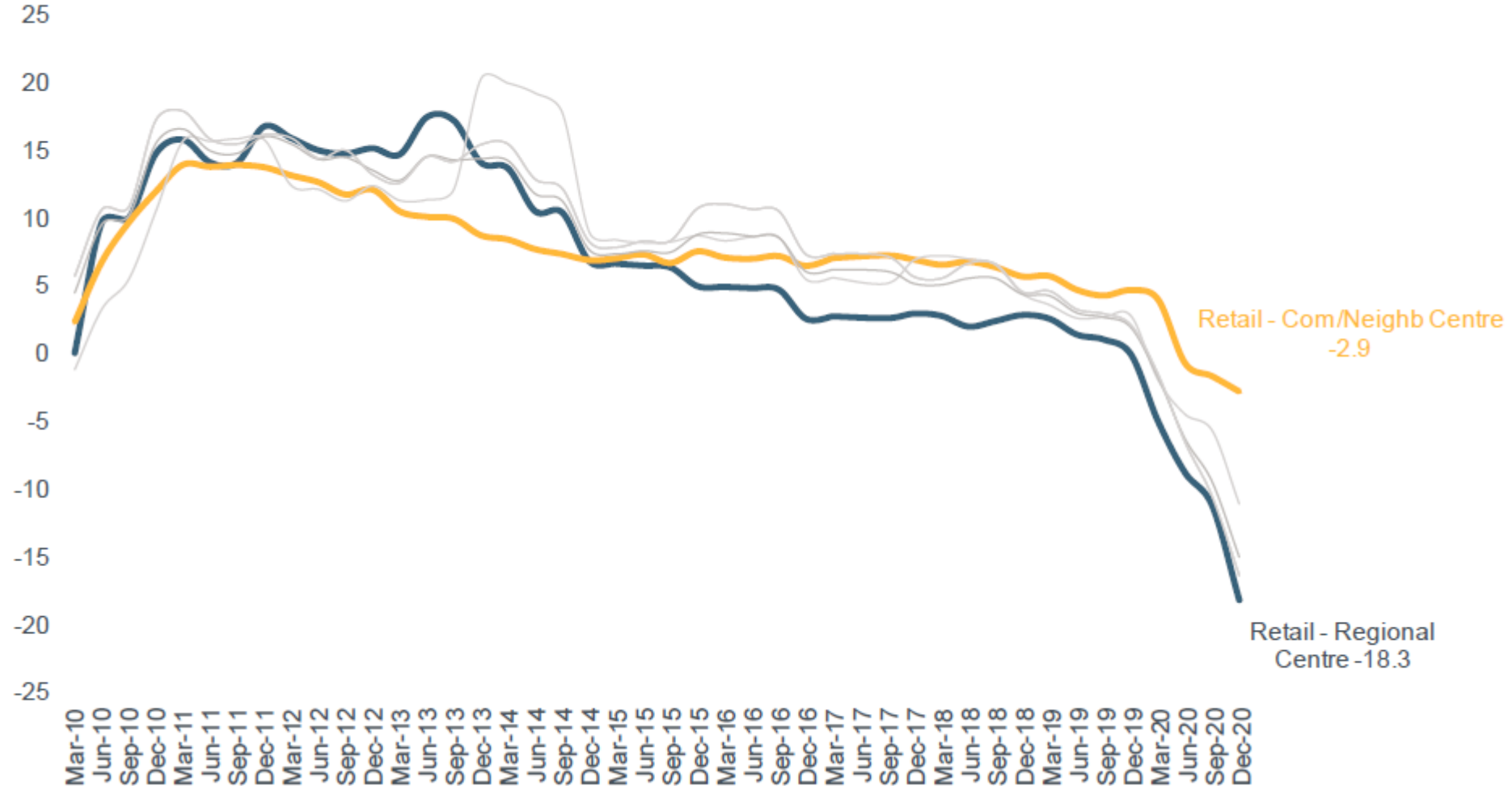
KEY POINTS

- As retailers' leases come up for renewal, their duration is increasingly shrinking, as business owners grapple with an unpredictable future.
- Leases on roughly 1.5 billion square feet of retail space in the United States are set to expire this year, according to a tracking by CoStar Group, or about 14% of the retail market.
- Real estate owners including Simon Property Group and Tanger Factory Outlets said they've been doing more extremely short-term deals for pop-up shops during the pandemic.

Large Retail Malls Especially Hard Hit by Pandemic

ANNUALIZED TOTAL RETURNS ACROSS SECTORS/SEGMENTS

ALL PROPERTY TOTAL RETURNS IN AS OF DECEMBER 2020

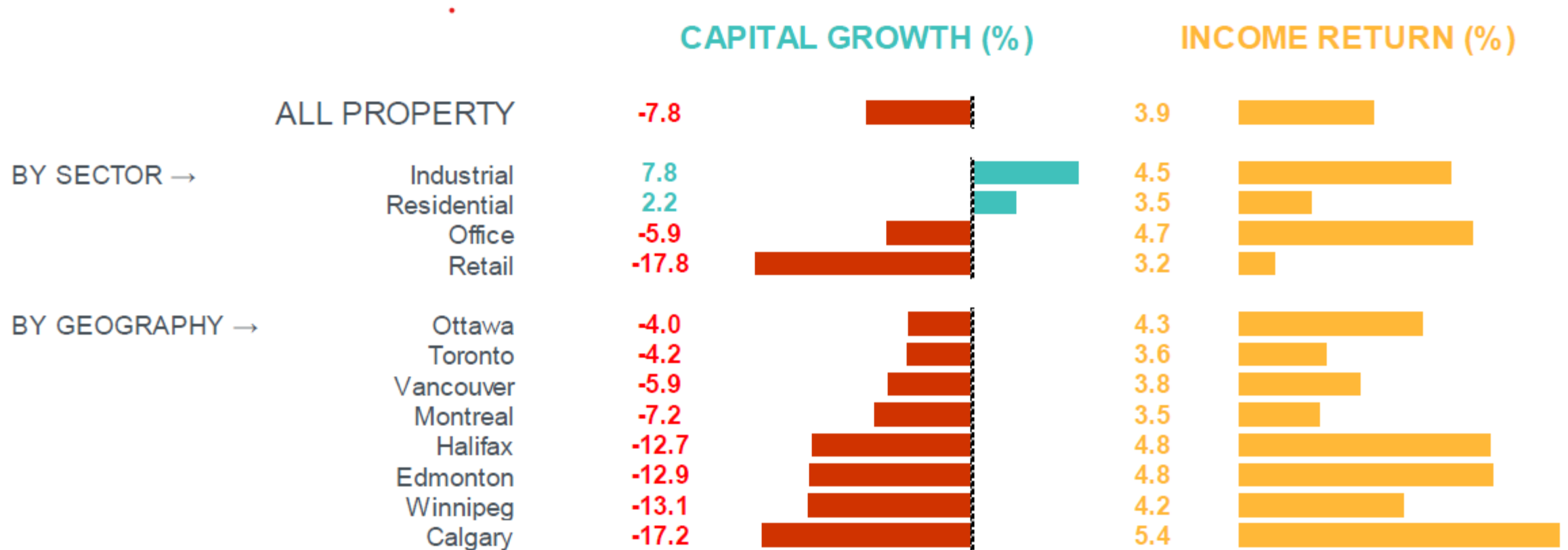


Source: MSCI

Canadian Property Returns by Sector & Geography

COMPONENTS OF TOTAL RETURN IN CANADA AS OF DECEMBER 2020

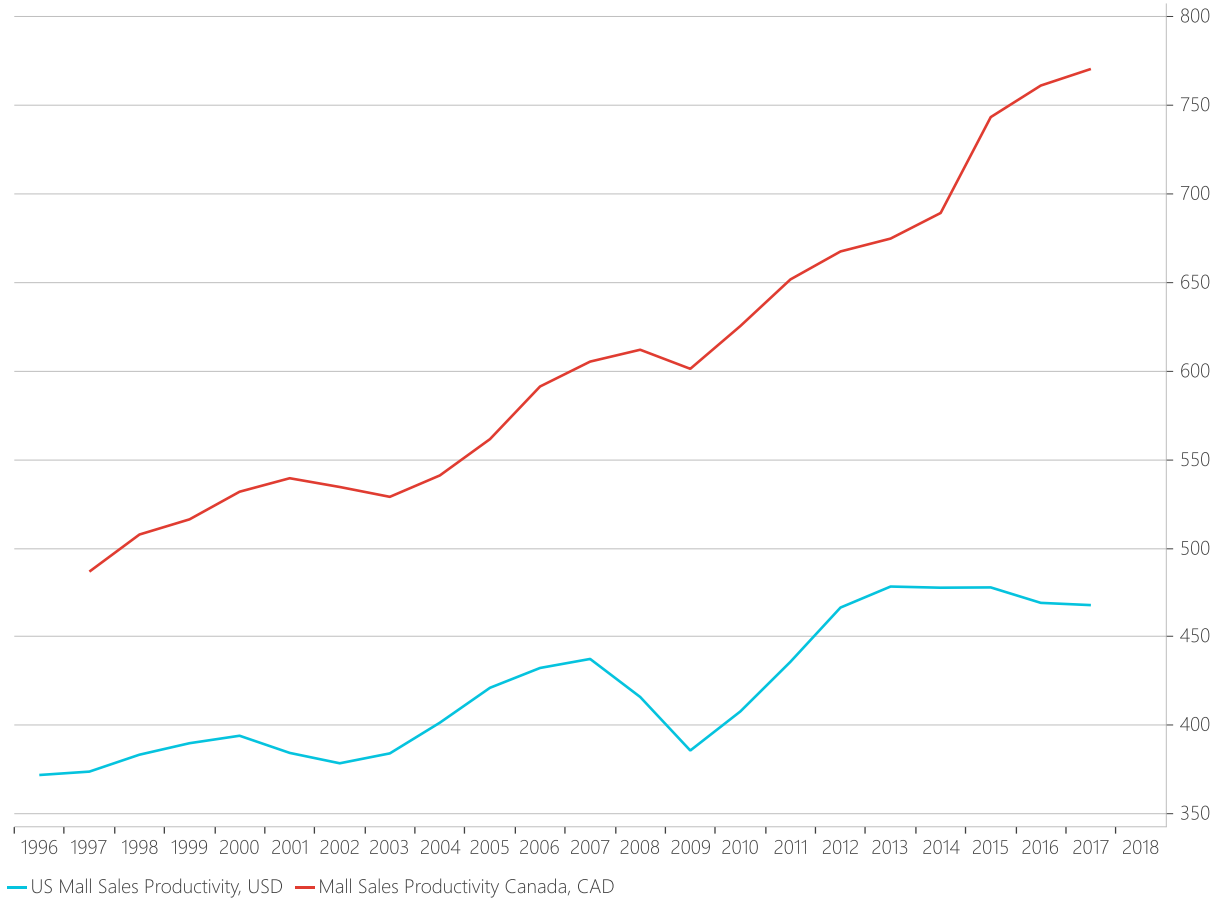
BY PROPERTY SECTOR AND GEOGRAPHIC SEGMENT



Source: MSCI

Canadian Retail Better Positioned than the US

Mall Sales Productivity - US & Canada (in local currency)



— US Mall Sales Productivity, USD — Mall Sales Productivity Canada, CAD

Source: ICSC, Macrobond, QuadReal

Mall Sales Productivity - US & Canada (in USD)

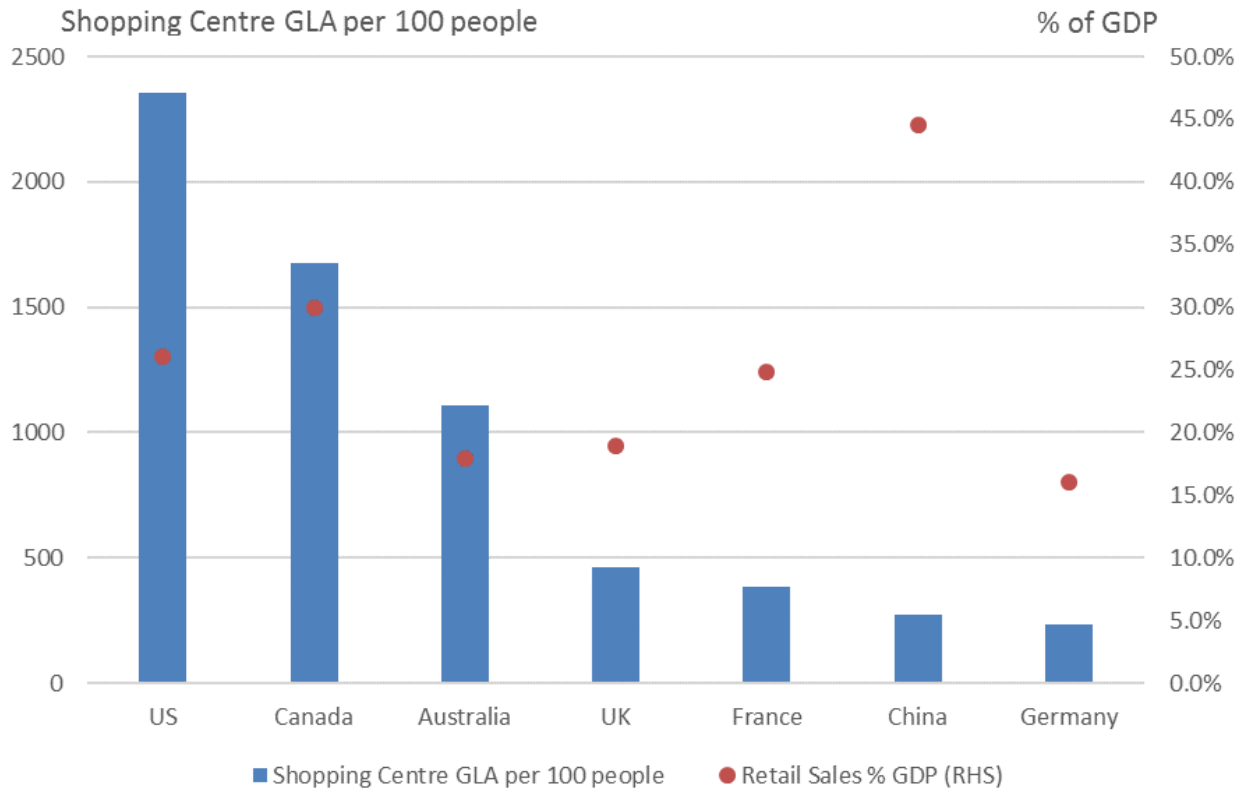


- - - US Mall Sales Productivity (assuming 20% reduction in GLA) — US Mall Sales Productivity — Mall Sales Productivity Canada

Source: ICSC, Macrobond, QuadReal

The US is Over-Retailed; Canada is Just About Right

Retail Real Estate Per Capita and Retail Sales



Source: ICSC; QuadReal

Data as of 2016 except UK, Australia, China 2015; Germany, France 2014

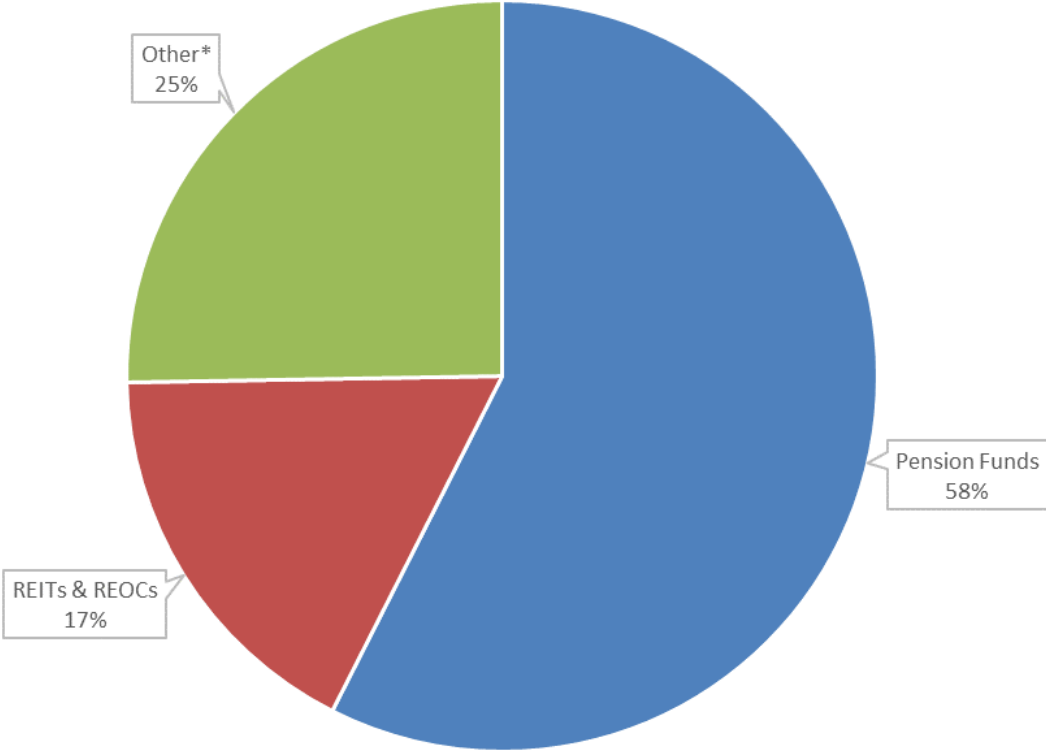
Shopping Center Sales Productivity in 2016*

	Shopping Centre Sale Productivity* (home currency)	Shopping Centre Sale Productivity* (USD)
Canada	\$576	\$432
US	\$347	\$347
US assuming GLA reduction of 25%	\$460	\$460

Source: ICSC; QuadReal

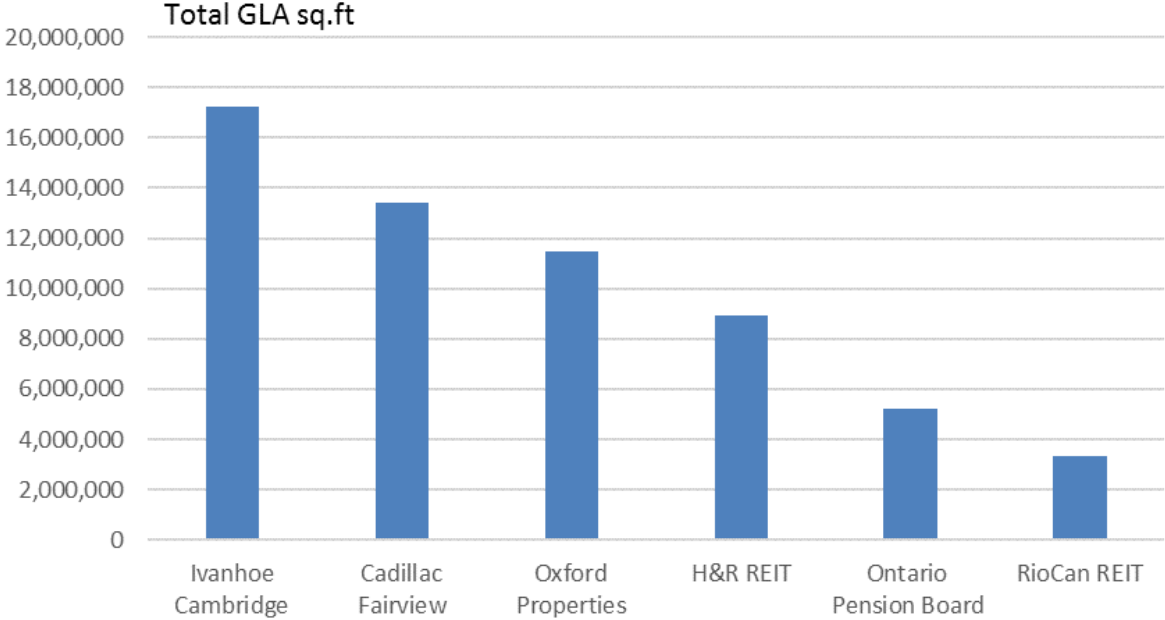
Most High-Quality Canadian Retail Held by Institutions

Canadian Mall Ownership By Total GLA as at 2015



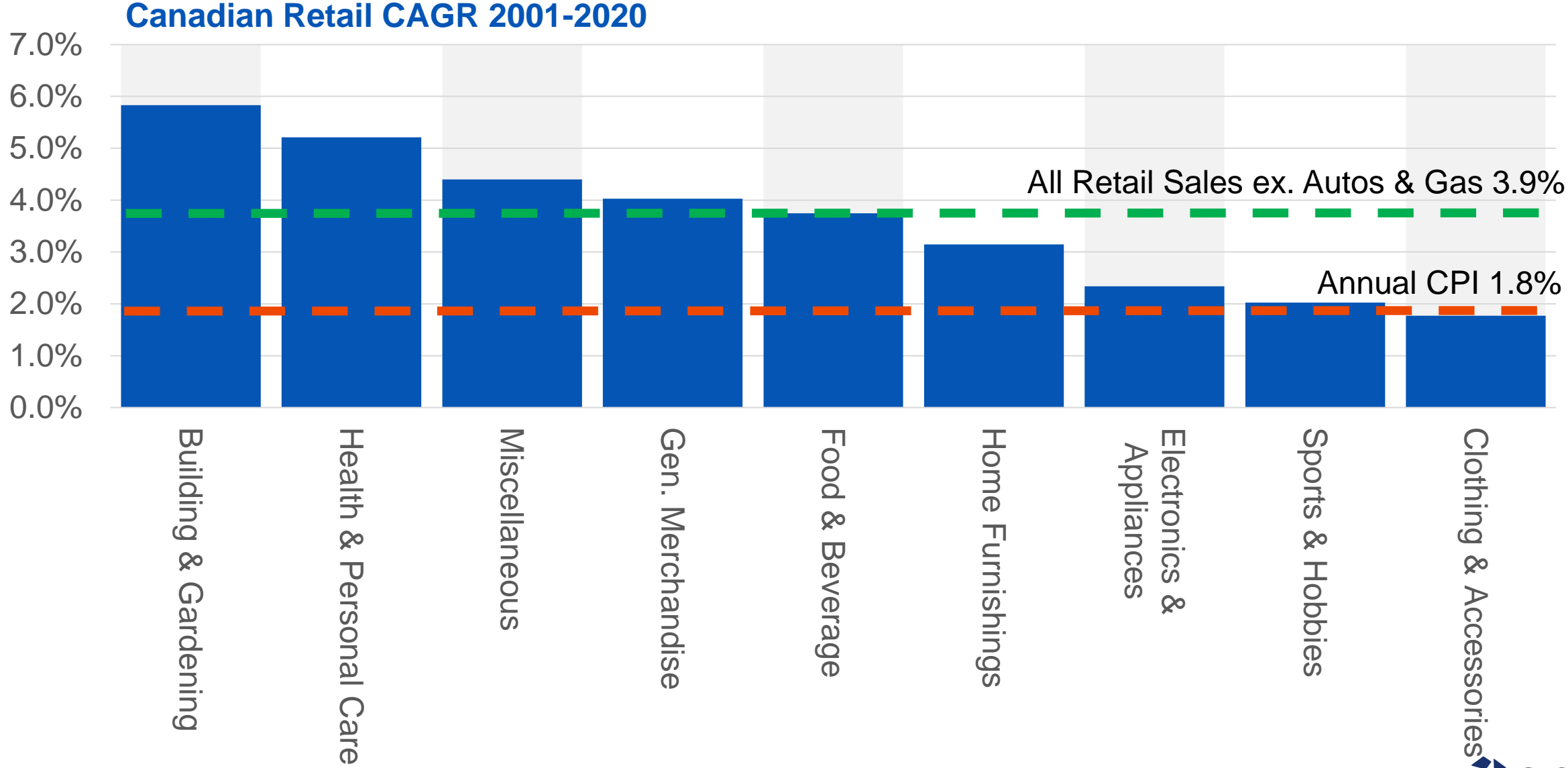
Source: ICSC
* includes institutional investment managers and private real estate companies

Largest Enclosed Shopping Centre Owners in Canada



Source: ICSC as of 2015

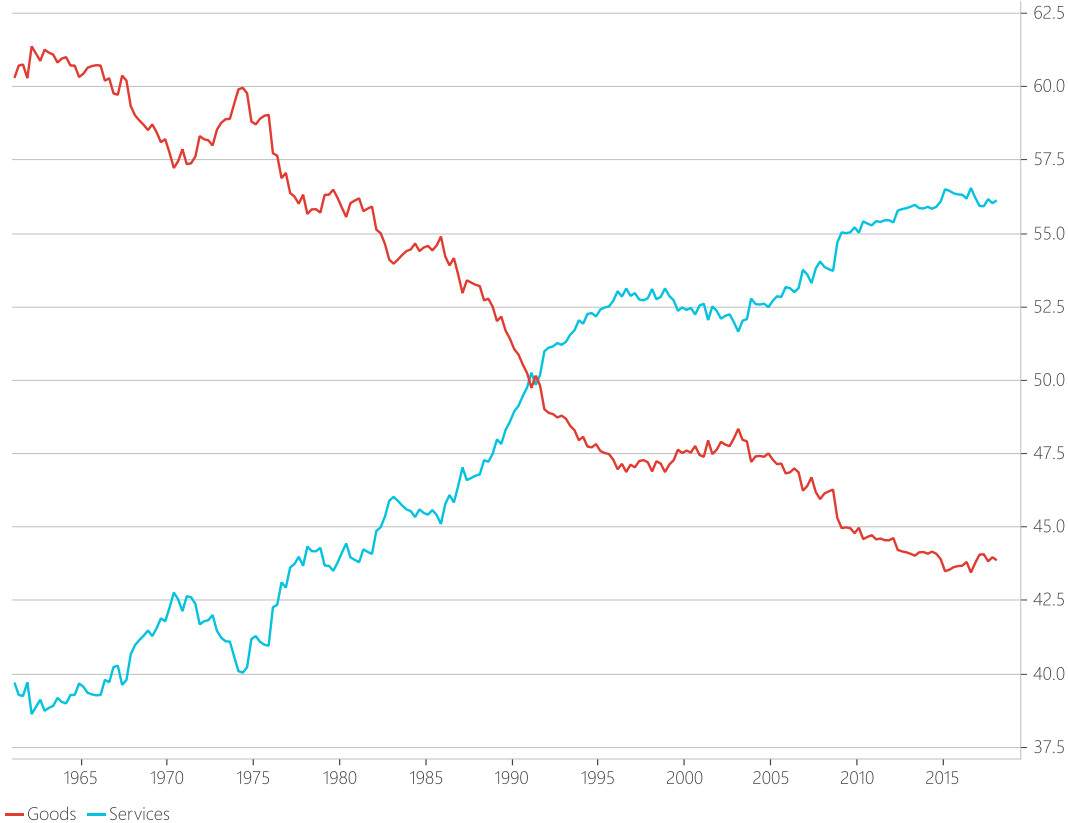
Canadian Consumers Turn their Spending Inward



Source: Statistics Canada, Oxford Economics

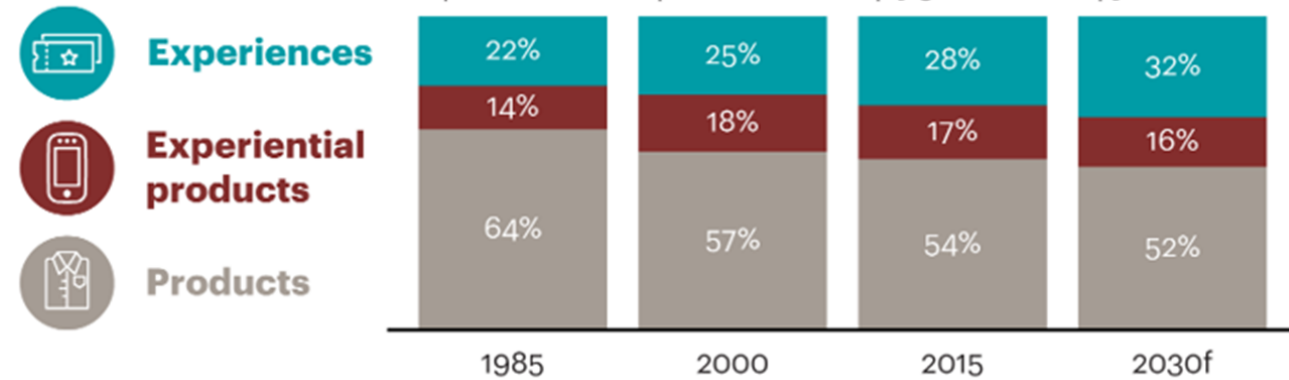
Shift to Services & Experiences Suggests A Need To Right Size Retail

Canadian Household Expenditures (as % of total)



Source: Macrobond, QuadReal, Statistics Canada

(% of total discretionary expenditure excluding cars)



How Retail Will Likely Transform

The Transition to Customer-Centric Retail



Results in the Success of Four New Shopping Formats

Consumer engagement spaces	Anchor tenants	Traditional retailers	➔	Retail, residential, entertainment
	Organizing principle	Retailer and manufacturer "push"	➔	Consumer "pull"
	Primary focus	Selling things	➔	Consumer engagement
	Role of technology	Powering the system	➔	Connecting buyers, sellers, and places
	Tenant mix	Mass market	➔	Market of one

 Destination centers	Large regional centers, anchored by popular attractions, which draw from broad local, national, and some international audiences	 Retailidential space	Mixed-use, multiformat centers located where consumers live, work, and travel
 Values centers	Hyper-curated centers specializing in related retail businesses and services, reflecting the values and preferences of the surrounding community	 Innovation centers	Every "store" (and the center itself) is a smart, active retail environment featuring the latest in high technology

Big box investing in cap ex & e-commerce

< BACK

Menu



Walmart Canada Commits \$500 Million To Modernize Stores

Investment Is Largest Yearly Total to Date for Retailer, Which Also Plans To Close Six Locations



Walmart Canada is spending \$500 million to upgrade stores, including turning a location in Calgary into a Supercentre. (CoStar)

By Garry Marr
CoStar News

March 15, 2021 | 6:32 P.M.



"Walmart Canada unveiled plans to spend \$500 million to modernize stores across the country, a move that comes with a decision to close six locations.

The retailer said the dollar figure was the largest yearly investment in Canadian store upgrades to date and in addition to its planned \$3.5 billion investment over the next five years for simpler and faster online and in-store shopping experiences.

"We are on a mission to modernize all aspects of our business, and that includes our stores," said Horacio Barbeito, president and CEO of Walmart Canada, in a statement.

"Investing in our stores is a major priority. In so many cases our stores are pillars in the community, and we want them at their best," he said.

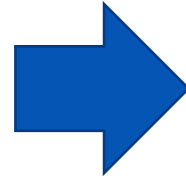
Walmart said the latest upgrades will create more than 2,000 construction jobs across the country.

The retailer said it is upgrading its Supercentres by improving lighting, making repairs, and adding paint and new signage for a refreshed exterior.

The company plans to enhance its highest e-commerce-volume stores with an improved picking space for online orders."



Bayview Village Redevelopment



Towers to include 263 units 30 storey towers and be just minutes away from commuter rail (Bayview Station). Will include Fruit of the Land and Loblaws as retail anchor tenants.

Re-development examples



[Cloverdale Mall](#), Toronto: Redevelopment of Cloverdale Mall proposed by QuadReal. Mixed-use with 3,595,146 square feet of residential across multiple towers between 24-48 storeys. 4050 residential units comprised of rental and condo units (mix unavailable at this time) with at least 40% of units as family-sized layouts. 272,725 square feet of retail space across all residential towers. A total of 5136 parking spaces provided. As well as 21,989 square feet of community space.

[1900 Eglinton East](#), Toronto: SmartCentres development under the SmartLiving brand. Planning entitlements for 5.3 million square feet on 28 acres including 14 towers over 20 stories.



[Scarborough Centre](#), Toronto: mixed-use multi-tower mixed-use developments to eventually total 8,000 units. Development to start with 1,300+ units at 25 Borough Dr.

Other uses?

Massive Chicago Hospital Campus Redevelopment Gets Plan Commission Nod

City Official Cites Benefit of 'Tense Discourse' Behind \$3.8 Billion Mixed-Use Project



The ARC Innovation Center will be the showcase of the 52-acre campus on Chicago's South Side. (Global Research and Innovation Team)

Hospitals/Healthcare



Voters narrowly pass bond proposal in Irondequoit

by WHAM | Tuesday, July 30th 2019



This is a rendering of the south entrance of SkyView on the Ride. (WHAM photo)

Senior Housing & Community Centre

Fort Worth Star-Telegram

Site of defunct, nearly demolished Six Flags Mall has industrial future

By Robert Cadwallader

rcadwallader@star-telegram.com



JANUARY 13, 2017 06:17 PM, UPDATED JANUARY 17, 2017 10:48 AM



Demolition under way at the north side of the former Six Flags Mall, clearing space for an industrial complex.

Industrial

Key Takeaways

- Much like a living organism, bricks and mortar retail was already in a state of flux due to changing demographics and technology. The pandemic only accelerated and amplified these changes
- Large enclosed shopping centres were the most impacted by the pandemic while necessity-based retail held up well
- Canadian retail is comparatively well-positioned to adjust to the secular and behavioural changes impacting the market
- As retail continues to evolve, landlords will be forced to adapt, reinvent or in the most extreme scenario, convert to another “highest and best use”