2019 CANADIAN RETAIL MID-YEAR REPORT

CBRE Research

CBRE

Rapid expansion of fitness and food & beverage concepts boost centre performance

- Boom in fitness and food hall concepts prove to be major draw for many centres, boosting overall productivity and increasing foot traffic.
- Characterized by continued low growth, total retail sales performance has remained muted with year-over-over-year growth of 2.1% as of May 2019.
- Consumer confidence remains positive due to reduced borrowing costs, stronger economic growth and renewed momentum in Canada's housing market.
- The total national vacancy rate decreased by 20 bps from year-end to 3.4%.
- A marked improvement in regional shopping centre vacancy has been aided by the continued absorption of the Target and Sears portfolios.
- Annual new supply is anticipated to reach an 13-year low of 3.4 million sq. ft. Mixed-use projects now account for 63.8% of projects under construction nationally, their highest level on record.

Vacancy Rate
▼ **3.4%**

H1 2019 New Supply
▼ **832,400 sq. ft.**

Consumer Confidence
▲ **55.6***

Average Cap Rate
▲ **5.94%**

Arrows indicate change from previous half-year period.
*Thomson Reuters, August 2019.

Despite recent volatility due to a number of high profile bankruptcies and closures not all hope is lost in the Canadian retail landscape. Fueled by consumer demand for unique offerings, boutique fitness studios and food and beverage retailers have exploded in popularity across the major metros with several brands or concepts in a phase of extensive national expansion. Food halls in particular have become a major draw for shopping centres, driving foot traffic and boosting overall mall productivity. Not exclusively an urban trend, the addition of this restaurant format has become a popular option to backfill vacant space and turned several centres into destinations. Oxford Properties for example, backfilled the vacant Target space in Upper Canada Mall (Newmarket, ON) with a highly successful food hall "Market & Co." Expect this trend to continue as landlords look to inject more experience-based concepts that diversify their centres' tenant mix as traditional fashion retailers continue to slow down.

Market & Co, Upper Canada Mall
Source: Oxford Properties, 2019.

Queen St. Fare, Ottawa
Source: Ottawa Tourism, 2019.

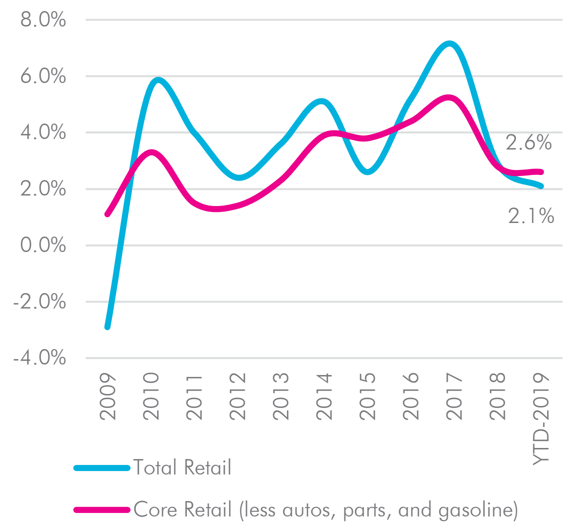
Economic

Characterized by continued low growth, retail sales performance has remained sluggish in 2019 with year-to-date annual growth on-par with the below average results of 2018. Atypical to recent years, total retail sales growth have slightly edged out core retail categories with weaker performance at the pump and in the auto sector.

On a category basis, year-over-year growth is down in five of the eight core categories. The only retailers to outpace their respective previous year results were from the miscellaneous (including cannabis sales), food & beverage and health & personal care categories. Since legalization in October 2018, cannabis store sales have greatly boosted the miscellaneous category and are expected to continue as more store licenses are awarded.

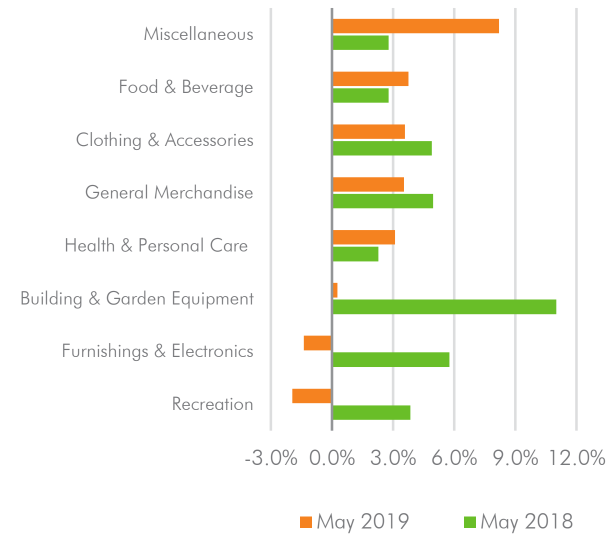
Consumer confidence has varied in 2019 swinging from month-to-month by as much as 4.3 points. General sentiment remains positive for the time being. Respondents indicate lower borrowing costs, stronger economic growth and renewed momentum in Canada's housing market as reasons for optimism in recent months. However, Canadian households remain the most indebted among the G7, which will continue to weigh on consumer sentiment and spending in the near term.

Figure 1: Retail Sales Growth, Annual (%)



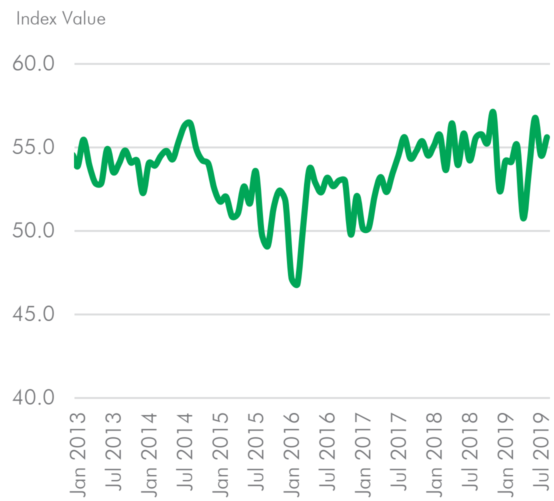
Source: Statistics Canada, May 2019.

Figure 2: Core Retail Sales Category Growth, Rolling 12-months % Change



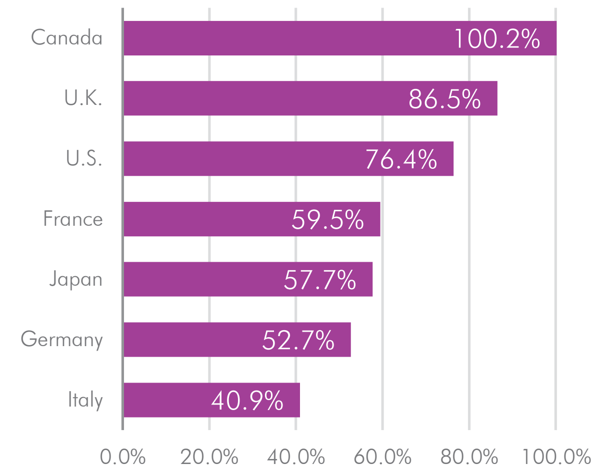
Source: Statistics Canada, May 2019.

Figure 3: Canadian Consumer Confidence



Source: Thomson Reuters, August 2019.

Figure 4: G7 Household Debt to GDP



Source: Bank for International Settlements, 2019.

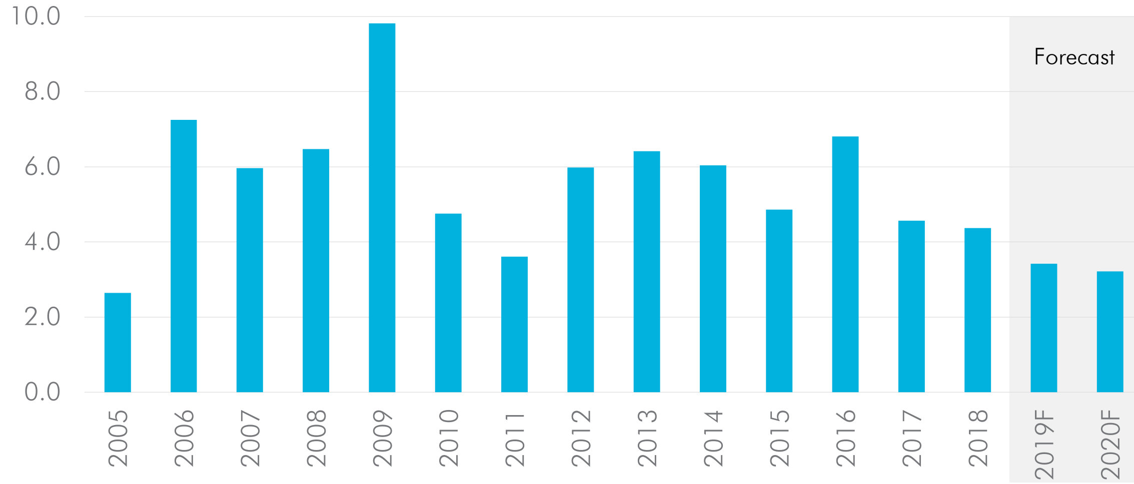
Construction Activity

New supply for 2019 is anticipated to reach an 13-year low of 3.4 million sq. ft. Only a quarter of this product was completed in the first half of the year with major deliveries including the Kings Club mixed-use development (160,000 sq. ft.) in Toronto, The Shipyards complex (64,000 sq. ft.) in North Vancouver and 58,000 sq. ft. of the ongoing Ice District development in Edmonton.

The national under construction total has increased from year-end to 10.3 million sq. ft. over 151 projects. Representing 2.8% of inventory, the level of construction is once again in-line with the five-year average of 10.8 million sq. ft. The pipeline is expected to expand further as several recently announced large-scale mixed-used developments, such as Union Park, kick-off.

Mixed-use projects continue to reign supreme and account for 63.8% of projects under construction nationally, their highest level on record. These desirable urban locations are being anchored by non-traditional retail offerings such as co-working operators, like WeWork at Mirvish Village in Toronto. Viewed as a desirable co-tenant to retail, these types of occupiers help boost daytime foot traffic high as well as improving the mix of clientele.

Figure 5: Historic New Supply (MSF)



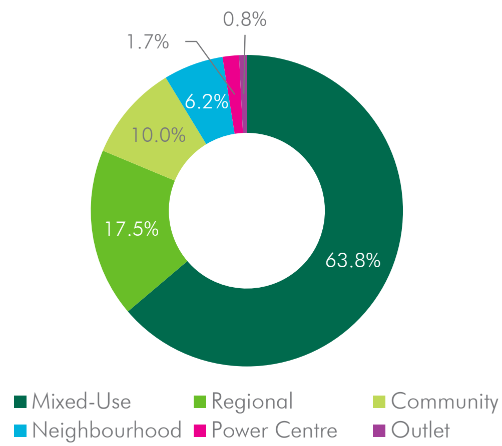
Source: CBRE Research, H1 2019.

Figure 6: Scheduled Delivery of Space (000 SF)

	H1 2019	H2 2019	H1 2020	H2 2020
VAN	116.2	547.4	157.3	340.7
CAL	58.6	847.5	862.1	556
EDM	273.4	285.9	119.3	202.1
WIN	-	-	60	-
TOR	323.2	614.7	524.8	78.9
OTT	-	21.6	130	-
MON	31	181.7	100	42
HAL	30	86.6	40	-
Total	832.4	2,585.40	1,993.50	1,219.70

Source: CBRE Research, H1 2019.

Figure 7: Under Construction by Retail Type



Source: CBRE Research, H1 2019.

Vacancy

CBRE's mid-year survey of select retail REIT and REOC portfolios saw the total national vacancy rate decrease by 20 basis points (bps) to 3.4%.

A marked improvement has been noted in the regional shopping centre segment which dropped 50 bps from year-end 2018 to 6.0%. As landlords continue to work through the remaining Target and Sears space across the country, respectively 17.5% and 71.4% vacant as of July, recent reports have indicated that the Hudson's Bay Company, which already closed their Home Outfitters banner earlier this year, may be next on the chopping block. With a portfolio size of 14.2 million sq. ft. for the namesake department store (excluding Outlet and Home stores), even a few closures could have an adverse impact.

As an increasing number of landlords opt to subdivide and renovate the remaining Sears locations in an effort to reposition their assets, the importance for traditional anchor box space occupied by a single department store has decreased over time and has ushered in a new phase of tenant mix dynamics in shopping centres.

Figure 8: REIT & REOC Retail Vacancy Survey by Format

RETAIL FORMAT	METRIC	VAN	CAL	EDM	WIN	TOR	OTT	MON	HAL	TOTAL
Community, Neighbourhood & Strip	GLA (000 SF)	3,657	4,478	3,325	1,569	15,421	4,209	10,850	5,096	48,606
	Vacancy Rate (%)	2.2	3.1	1.3	5.1	2.6	2.8	3.7	7.4	3.4
	No. of Properties	44	59	44	20	169	62	171	70	639
Power Centre	GLA (000 SF)	2,288	7,452	3,926	1,025	23,775	8,468	10,057	1,336	58,329
	Vacancy Rate (%)	2.5	0.9	1.9	2.5	1.6	4.3	3.8	10.1	2.6
	No. of Properties	7	22	15	3	73	28	28	4	189
Regional Shopping Centre	GLA (000 SF)	n/a	2,387	2,984	858	7,360	2,592	4,861	824	21,866
	Vacancy Rate (%)	n/a	15.8	4.9	15.9	2	6.6	5.4	7.9	6
	No. of Properties	n/a	5	8	2	14	6	9	3	47
Total	**GLA (000 SF)**	**5,946**	**14,317**	**10,235**	**3,453**	**46,557**	**15,269**	**25,769**	**7,256**	**128,800**
	Vacancy Rate (%)	**2.3**	**4.1**	**2.6**	**7**	**2**	**4.3**	**4.1**	**8**	**3.4**
	No. of Properties	**51**	**86**	**67**	**25**	**256**	**96**	**217**	**77**	**875**

Source: Select retail REIT & REOC portfolios, CBRE Research, H1 2019.

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.com/researchgateway.

CONTACT

Marc Meehan
Director, Canada Research
+1 647 943 4205
Marc.Meehan@cbre.com

Christina Cattana
Research Manager, Canada Research
+1 416 847 3255
Christina.Cattana@cbre.com

CBRE Research

CBRE