

Real Estate Outlook - The American Factor

By Jeri Brodie, President and Broker of Record, XO Retail Advisors Inc.

For the past year, the media has been abuzz with American retailers rumoured to be coming. So why should we care?

From a real estate standpoint, the primary cause for concern is that new entrants will add even more pressure to the demand for space in a market that already has very low vacancy rates in most major enclosed centres across Canada. Tight space and strong demand results in higher rents for existing tenants or the risk at lease expiry of maintaining a presence in a popular shopping centre.

High development costs, lack of available land and risk-averse financial institutions have limited construction of new major enclosed malls in Canada to only two in the past decade (Vaughan Mills and Cross Iron Mills – both developed by Ivanhoe Cambridge). Therefore, landlords have focused their efforts across the country on renovating and where possible, expanding existing centres to drive better yields from their portfolios. Part of the rationalization is to attract “first to market” retailers within their primary trade areas, thereby enhancing customer traffic to their centres and increasing rental rates accordingly.

The attraction of Canada for American retailers is proximity, similar culture and consumer shopping patterns, brand awareness and history of successful launches by other U.S. chains here (Crate & Barrel, Limited Brands’ Victoria’s Secret, PINK and Bath & Bodyworks, Lowe’s, and Apple).

Outlined below are a few of the new major players:

Target - The 109-year old American retailer is one of the biggest U.S. department store chains, with revenues of more than US\$67 billion in its last fiscal year. On May 26, 2011 the first 105 Zellers stores to be converted to Target were announced, with a second wave to be reported in September. During the next decade Target aims to open 200 new stores and generate sales of \$6-billion per year. Renovations are expected to cost up to \$10-million for each store and the company will hire 150 to 200 employees (higher than the Zellers average of 115).

On June 24th, Walmart signed a deal with Target Canada to take over leases at up to 39 stores currently operated by Zellers Inc. (locations to be disclosed in September). Walmart is already the biggest retailer in revenues

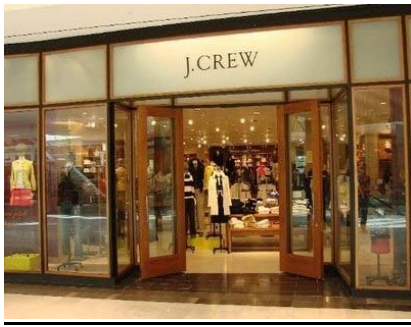
and this country's third-largest employer, with 85,000 workers. If all 39 stores are converted to Walmart outlets, it would expand the discount chain's Canadian network to 364 stores.



Marshalls – The popular U.S. discount department store has already opened five locations in the Greater Toronto Area. Marshalls owner TJX Companies expects to eventually open up to 100 similar stores across the country. In addition to Marshalls, TJX is behind several different store brands primarily dedicated to off-price fashions and housewares in Canada including Winners, HomeSense and StyleSense.



J. Crew - U.S. fashion retailer J. Crew will open its first Canadian store in Yorkdale Shopping Centre in August 2011. The 5,000 sf store will feature women's clothing and accessories. J. Crew plans to open 10-15 stores in Canada –the next store will probably open in West Edmonton Mall.



Kohl's – Family-focused, value-oriented specialty department store Kohl's operates almost 1100 locations in the U.S. and has been noted on a number of developer's (mostly non-enclosed) leasing plans. No formal announcement has been made yet but they have retained a broker and have been meeting with landlords since the beginning of 2011.



Department store giants, **Macy's**, **Nordstrom's** and **J.C. Penney** are also reportedly scouting real estate opportunities in major Canadian cities.

Not to be left behind, some prominent Canadian retailers are also expanding. Simon's will venture outside of Quebec for the first time by opening a 120,000 sf store at West Edmonton Mall in August 2012. Joe Fresh has opened five free-standing stores in the past year across Canada with four more slated to open by Fall 2011. Their first permanent store in the U.S. opens on Fifth Avenue in New York this Fall, preceded by the "summer store" that opened on the July 4th weekend in East Hampton (closing on Labour Day).

Of course the population and overall consumer spending doesn't increase in lockstep with additional retailers, so there will be casualties. Target will undoubtedly have some impact on Walmart although this behemoth will be able withstand the heat. Other Canadian stores like Shoppers Drug Mart and Loblaws may not fare as well.

So is there any good news associated with these changes in the retail landscape? I would suggest a cautious "yes". The replacement of Zellers with popular and well-known Target stores will undoubtedly attract a larger and broader customer base to the designated centres. This should have a spill-over effect for the other tenants in the mall.

Target may also be able to keep more business in the secondary market malls by offering a more attractive and value-driven concept to minimize shopping trips outside primary trade areas, thereby increasing traffic to

smaller centres (albeit at the expense of the regional malls).

Finally, landlords will be required to invest in their malls to attract new retailers and maintain their position in the market, ensuring that the centres are kept "fresh" and appealing to their regular clientele.

In order to keep Hallmark top of mind, key executives of Hallmark made presentations to 6 major landlords in June and have scheduled a number of other presentations throughout 2011. The intent of the presentations and subsequent mailings to the landlords is to provide them with an update as to how Hallmark is addressing changing consumer needs through innovation and enhancements to product, placement and store design. Consumers expect to find a Hallmark store in their favourite mall and we will continue to work with the landlords to ensure that Hallmark Gold Crown is there alongside all the newcomers to the market.

XO Retail Advisors Inc. provides real estate consulting and brokerage services to national and regional retail tenants in enclosed and non-enclosed centres across Canada.

We have proudly represented Hallmark as a premier client since 2003.

If you have any leasing or other enquiries pertaining to market conditions, please do not hesitate to contact us at 416-972-9414 (www.xoretail.ca).

