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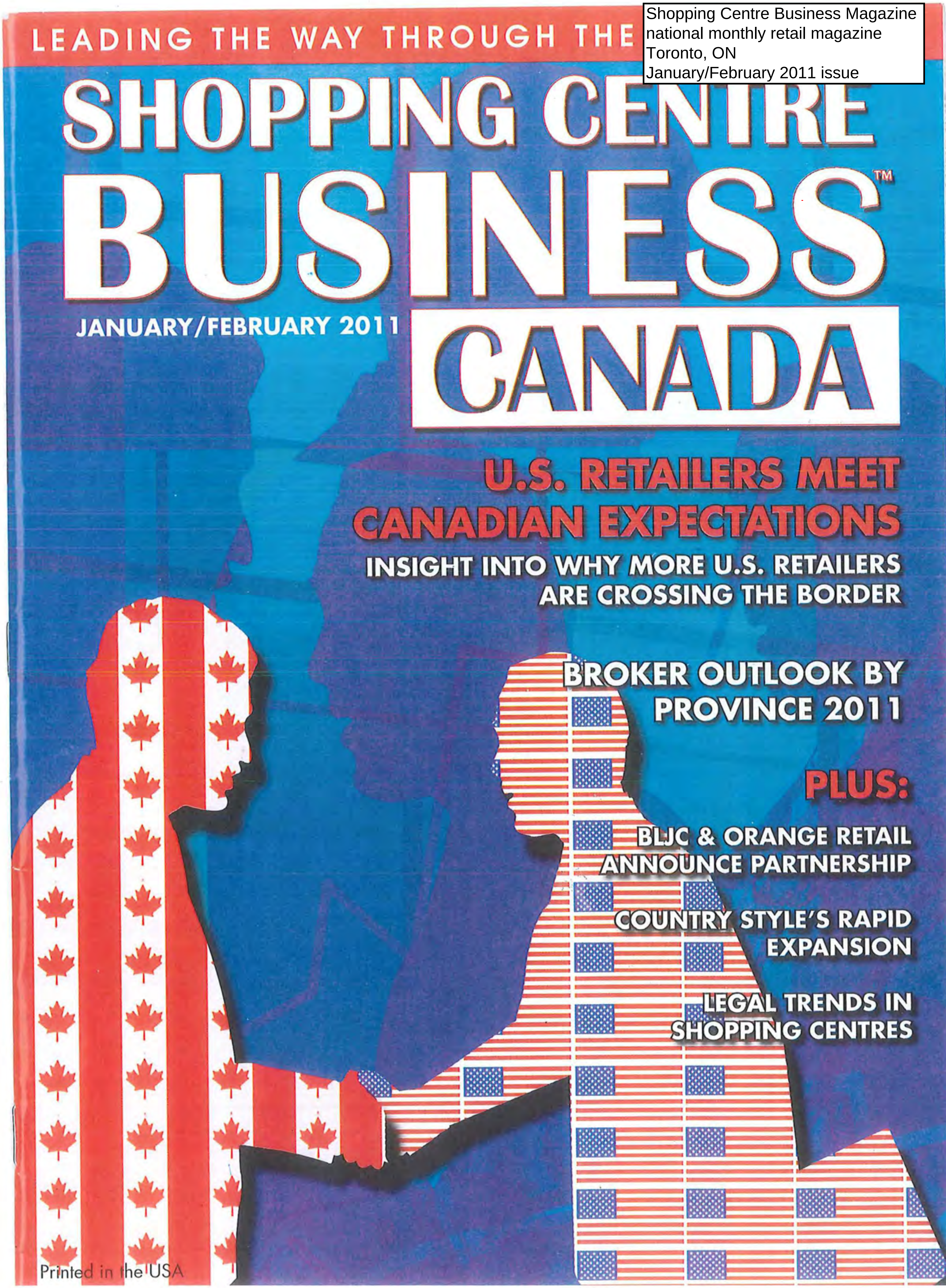


Broker Outlook: 2011

What's in store for retail markets across the country? SCBC asked real estate brokers from each province to offer their predictions on upcoming trends and development projects.

Vanessa Chris

BRITISH COLUMBIA

The South Point Exchange in Surrey, British Columbia, is representative of B.C.'s hot 2010 retail market. The 267,000-square-foot open-air mall sold for $91 million to a private investor in the third quarter of 2010. It is anchored by Save On Foods, Canadian Tire and Staples.

While B.C. was one of the country's top performers in 2010 – with a 6.6 percent year-over-year increase in sales performance, according to Colliers International – that flurry of activity is likely to taper off in 2011. That being said, it will likely be the second highest in development activity, particularly in major metropolitan areas.

Smaller tenants will likely see tougher times ahead in 2011. This, combined with a lack of available retail space – primarily in top locations – in addition to a potential increase in consumers heading south of the border for cross-border bargains, will cause the retail climate to remain stable, says Bob Levine, principal with Avison Young.

"The level of development in 2011 will also be moderate, stemming mostly from previous land bought in years past that is only now 'ripe' for development," he says.

Drew Keddy, vice president-Canada of Colliers International, believes that B.C. will also see a surge in reinvestment in urban areas, and new development projects in suburban areas. Residential and mixed-use development will likely lead the way.

With most larger retailers drawn to markets with larger profit margins and more per capita income, such as Alberta and Eastern Canada, B.C. will not see foreign retailers flooding the marketplace. That being said, some big names, such as Sephora, Victoria's Secret, Forever 21 and Lowe's, have opened or will be opening stores in the province. Food and drug retail outlets – and the shopping centres that are anchored by them – performed well in 2010, and will continue to do well into 2011.

The major obstacles for developers in 2011 will be finding new expansion opportunities, due to geographical boundaries and land constraints. With land at a premium, costs are drastically increasing - which will likely lead to an increase in rental rates.

"This may or may not be achievable, depending on the location, size and tenant mix of the shopping centre," says Levine. "Regional challenges such as municipality regulations and approvals will have a significant impact for larger-scale developments. Regulatory bodies are playing a far more significant role in deciding what is actually built in retail developments across B.C."

The problems developers are experiencing will, in turn, affect tenants as they have increased trouble finding quality space. There will likely be much more competition for well-located space, which will lead to bidding wars.

PROVINCIAL HIGHLIGHTS

- B.C. saw a 6.6 percent year-over-year increase in retail sales performance in 2010
- Like many parts of the country, prime retail space will be at a premium, likely causing rents to increase
- Urban and suburban areas alike will see a surge in development
- Food and drug retailers will likely lead the charge in 2011

DEVELOPMENT HIGHLIGHTS

- Brentwood Town Centre in Burnaby is being renovated and expanded by Shape properties.
- Central at Garden City and Alderbridge Way, Richmond, is a planned 400,000-square-foot shopping centre to be anchored by Walmart. The developer is Smart Centres.
- Tsawwassen Commons is a 1.4 million-square-foot project by Ivanhoe Cambridge/Property Development Group, that is scheduled to be completed in 2012.
- New Westminster Station is a 200,000-square-foot project that will be anchored by a 40,000-square-foot Safeway and 17,000-square-foot Shoppers Drug Mart. The property is being developed by Plaza 88 Developments and is scheduled to be completed some time in 2011 or 2012.

REGIONAL SPOTLIGHT: WHISTLER

Like any resort-type location, Whistler is a unique environment for retail, with the majority of spending coming from non-residents. It's also difficult to determine retail performance because so much of revenue depends on the weather and the success of the ski season.

There are also restrictive policies on expansion and, as a result, even with the Olympics the retail side of things hasn't expanded much over the last few years. That being said, there has been more development along the Sea-to-Sky highway, the main artery connecting Vancouver to Whistler.

DEVELOPMENT HIGHLIGHT

RAINBOW SQUARE

Rainbow Square is a mixed use development project located at the northern point of Whistler.

This mixed-use development project by RonMor is located at the northern point of Whistler. It aims to provide customers with a variety of different tenants. It will be anchored by a 17,000-square-foot grocery store, and will feature 70 units that will include coffee shops, financial institutions and a yoga studio. It will also feature health care, restaurants and a gas bar.

REGIONAL SPOTLIGHT: VANCOUVER

With B.C. being the second hottest province when it comes to retail activity in 2011, the Metro Vancouver area and the rest of the Lower Mainland will definitely be some of the hottest markets in the country, due largely to rapid population growth. That being said, that activity will probably be similar to the levels seen in 2010.

"British Columbia was fortunate to escape the recession much better than the rest of the world, including the rest of the country," says Adam Frizzel, sales representative, Cushman & Wakefield. "We won't be expecting a big 'rebound' as we did not experience a big drop."

There are a number of prominent projects taking place in Metro Vancouver and the Lower Mainland in 2011, including Freemont Village in Port Coquitlam, developed by the Onni Group of Companies. The project will be approximately 650,000 square feet and be anchored by Walmart and Canadian Tire. Shape Properties' High Street Shopping Centre, located in West Abbotsford, will be a similarly-sized 670,000-square-foot project. It will be anchored by Walmart and London Drugs.

While finding appropriate land to develop will be difficult for all developers in 2011, none will face a greater challenge than those seeking to penetrate the Vancouver market. Bordered by mountains, ocean and the United States, there's not a lot of room to spread outwards. For this reason, developers are turning to existing sites hoping to give them a new look, new tenants and a new rental rate. This is likely going to be one of the biggest development trends in Vancouver heading into 2011 and beyond.

REGIONAL SPOTLIGHT: HALIFAX

Halifax's downtown core has changed a lot since the 1990s, when urban sprawl enticed many consumers and retailers to move out of the downtown core and into newly developed bedroom communities. This migration took its toll on Halifax's downtown retail market, causing many larger retailers to pack up shop or move out to the suburbs.

"The race to be the first developer to commence construction on a Halifax office tower in more than 20 years is complicated by the fact that there continues to be significant interest in the suburbs," says Stacy Chesnutt, leasing specialist with Avison Young in Halifax. "Development happens faster in the suburbs and tenants are happy to forgo downtown locations for abundant parking and proximity to bedroom communities."

For this reason, the majority of Halifax's development projects seem to focus on suburban communities like Bedford and Dartmouth. The current suburban retail vacancy rate is 7.5 percent, down from 12.5 percent last year, according to Avison Young. In the same token, the downtown Halifax real estate rate has increased from 6.9 percent last year to 10.3 percent this year. That being said, there are at least half a dozen retail development proposals for downtown Halifax, with a few for the suburbs.

With four power centres approaching completion – Portland Hills (Blue Basin Investments), Dartmouth Crossing (CREIT and North American Development Group), Bedford Commons (Banc Properties) and Russell Lake (Westwood Developments) – new construction in the big box and plaza market will likely slow down in 2011.

"New supply for the retail market will come from residential projects offering ground floor commercial space," says Chesnutt. Some examples of these types of projects are the Trillium Project (WM Fares), Vic Apartments (Lawen Group) and Kings Wharf (WM Fares) in Dartmouth.

DEVELOPMENT HIGHLIGHT

DARTMOUTH CROSSING

As an open-air retail centre, Dartmouth Crossing brings together Big Box shopping and a retail main street known as The Village Shops at Dartmouth Crossing where customers may stroll the cobblestone streetscape enjoying outside music and the fresh air.

When it comes to development activity in 2011, Alberta is expected to lead the pack. Currently, the province boasts only 30 million square feet of retail space. It's expected to add 8 million square feet – in the form of 26 projects – in 2011.

"The majority of this new development is carried over from 2008/2009 when we experienced a softening in the retail market," says Bruce Bynoe, principal with Avison Young. "The municipalities have been playing catch-up to bring on new development lands."

The province has higher retail sales per capita than any other province in Canada, with vacancy rates in the low single digits (between 2 and 4 percent, depending on who you ask). It's been underserved to this point for a number of reasons. With so many markets in the province relying on the success of the oil industry, investors are frequently scared off by the 'boom-or-bust' climate, and many tend to put projects on hold.

Finding available retail sites is also difficult due to the pattern of land development in the province.

"New developments typically involve developing new land in Alberta, usually farm land," says James Smerdon, director of retail and strategic planning with Colliers International. "Developers have to consider a combination of population growth and income growth when developing new land."

Government intervention has also made new development difficult as it limits access to new land.

Sage Hill, developed by United Communities, is a mixed-use community that will include 1.2 million square feet of retail space, 1 million square feet of office space, 4,450 residential units and a 160,000-square-foot recreation centre. It will also feature a 125-room hotel, as well as a transit park-and-ride. The first phase is expected to open in 2012.

Seton is a 365-acre urban centre in South Calgary that will include 875,000 square feet of retail space, 1.5 million square feet of office space and 1200 high density residential units, including seniors housing. The project will also include a high school, public library and $140 million recreation centre, as well as a 16-acre regional park. The $1.14 billion South Calgary Health Campus is expected to open along with Seton in 2012.

After a slowdown in population and residential growth in late 2007 through early 2009, things finally started to pick up in 2009. Since then, the province has seen an influx of U.S. big box retailers and accelerated expansion by both drug and grocery chains.

The list of expanding retailers is long and includes the likes of Lowe's, Cabella's, Costco, Good Life Fitness, LA Fitness and Shoppers Drug Mart. On the grocery side, Save On Foods, Sobeys and Loblaw's are also expanding their Alberta footprint, while U.S. retailers like Target, Marshall's, Kohl's and Whole Foods are rumoured to be researching the market.

Fast, casual restaurants and fashion retailers are expected to strengthen in 2011, while furniture and houseware retailers will likely face tough times due to weak residential growth. Despite that, the overall retail outlook in Alberta looks positive.

"Notwithstanding the strengthening of the oil sector and weak prices in the natural gas sector, we foresee the retail market to be brisk," says Arlyn Stoik, principal with Avison Young. "Existing retailers will try to grow their market share. Where things will get very interesting is if groups such as Target materialize, driving a whole new wave of retail development and redevelopment."

PROVINCIAL HIGHLIGHTS

- In 2011, Alberta is expected to add 8 million square feet of retail space to its existing total of 30 million square feet.
- Alberta has the highest sales per capita in Canada.
- Retail vacancy rates are among the lowest in Canada, too – ranging between 2 and 4 percent.
- Fast, casual restaurants and fashion retailers are expected to lead the charge in 2011.

DEVELOPMENT HIGHLIGHTS

- Gates of Walden, a 68,000-square-foot neighbourhood centre located in Calgary, is being developed by Royop Development Corporation.
- Sliverado Marketplace, a 106,000-square-foot neighbourhood centre, will be anchored by Sobey's and developed in Calgary by Ronmor Developers.
- Manning Crossing is a 50-plus acre theatre and home improvement big box development in North East Edmonton, developed by the Cameron Corporation.
- Emerald Hills, a 55-acre big box development in Sherwood Park, will be anchored by Walmart and Lowes and developed by WAM.

According to the Conference Board of Canada, Manitoba is expected to see a 3.4 percent increase in retail sales in 2011, slightly better than the Canadian average.

Part of this boost is due to some exciting new projects and entries into the market. The province's largest shopping centre – The Seasons of Tuxedo Shopping Centre – will see construction begin in 2011. New retailers such as Bed Bath and Beyond, Dollar Tree and Swiss Chalet are expected to announce openings in Winnipeg. Fitness retailers are also expected to continue their push into the Manitoba market, and many believe it won't be long before Lowe's opens stores as well.

Seasons of Tuxedo, by Fairweather Properties, is a 4-acre town centre with restaurants, entertainment and an ice skating rink.

"The demand for restaurants will continue as people are continuing to dine out more," says Wes Schollenberg, managing director of Avison Young in Manitoba. "Convenience retailers will also see demand rise as our time becomes more precious. Zellers recently opened in the existing Hudson Bay flagship store in downtown Winnipeg with much success."

As seems to be the problem across Canada, land prices will continue to climb in Manitoba in 2011, and servicing and construction costs will make new builds harder to put together on small scales. Population growth – primarily from new immigrants – will continue to help this issue.

"Developers will be challenged by the continued inflation in costs for servicing land and construction," says Derek Chartier, president of CB Richard Ellis Chartier & Associates in Winnipeg. "Tenants will be challenged by very low retail vacancy rates that are influencing renewal rate increases."

A site plan for Seasons of Tuxedo in Winnipeg.

PROVINCIAL HIGHLIGHTS

- Manitoba can look forward to a 3.4 percent increase in retail sales in 2011
- Plenty of new retailers are heading into the market, including U.S. retailers Bed Bath and Beyond and Dollar Tree.
- Fitness retailers will lead the charge in 2011.
- Land prices will continue to climb in 2011, making small scale developments difficult.

DEVELOPMENT HIGHLIGHTS

- Seasons of Tuxedo, by Fairweather Properties, is a 4-acre town centre with restaurants, entertainment and an ice skating rink. The centre features a retractable roof which, combined with its geothermal heating system, allows patrons to experience the outdoors even during Winnipeg's harsh winters. It will be anchored and co-developed by IKEA.

The Cornerstone Prince Albert, a 90-acre site in Prince Albert, Saskatchewan, offers over 500,000 square feet of retail. Seven buildings are set to open in 2011 representing an additional 113,000 square feet. Upon completion, the site will encompass approximately 1 million square feet of retail.

In 2011, there will be little new development in Saskatchewan. Instead, the majority of projects will be existing projects moving into the next stages of development. Leasing activity will remain strong, and small local developers will focus on in-fill type projects.

Saskatchewan's hospitality industry will see a boost in 2011, with new hotels and restaurants entering. Existing tenants, such as Tim Horton's, Original Joe's, Wok Box and Boston Pizza, will continue to expand across the province. Lowe's will also be approaching its grand opening.

Developers will face challenges regarding development issues, such as governmental and municipal approvals, as well as financing. Saskatchewan tenants will be facing the same challenges as those across the country.

"The biggest challenge facing tenants will be that of rising rates," says Joe Trudell, retail leasing specialist with Avison Young. "With low vacancy and the boom in Saskatchewan's economy over the past few years, there is an extreme upward pressure on rates, which are still working their way through renewals."

However, the overall retail climate in Saskatchewan looks positive for 2011. With earnings up, positive growth expected to continue and interest rates continuing to hover near record lows; GDP growth is expected at 6 percent. New jobs are expected to be created as non-retail-based development heats up in the form of the Global Transportation Hub in Regina, and the new children's hospital and BHP potash expansion in Saskatoon, to name only a few.

"These projects will all add new jobs to the economy and more jobs mean people who need products and services," says Trudell. "This will have a direct impact and influence on retail sales throughout the province."

PROVINCIAL HIGHLIGHTS

- Saskatchewan's 2011 development will be limited to existing developments heading into new phases.
- There will likely be an influx in the number of hotels and restaurants opening in the province.
- Tenants can expect to see an increase in rental rates.
- Many existing retailers will continue to expand across the province.

DEVELOPMENT HIGHLIGHTS

- The Cornerstone Prince Albert Centre, by Springwood Developments, is a 415,000-square-foot, 80-acre shopping centre that serves the rural communities of northern Saskatchewan. It is anchored by such tenants as Walmart, Sobeys, Rona and Future Shop.

ONTARIO

When it comes to retail activity in 2011, Ontario will place a distant third, behind Alberta and British Columbia.

"With the continued drag of the U.S. economy, I think jobs and incomes will be somewhat flat for 2011. In addition, some new consumer taxes in Ontario and the introduction of the HST will pinch the consumer from all sides. So the spending should also remain flat," says Howard Meier, senior vice president of Ashlar, a member of NAI Global. "The increases will come from the new population growth in the urban areas of Ontario which continue to fuel residential building."

That being said, the retail investment market has been very hot in Ontario in the recent past, and this will likely continue. "Less urgent" development projects that were put on the back burner during the peak of the recession have gradually started moving back to the forefront, says Meier. With the municipal elections over with, things will also likely start moving forward again on the development front.

In terms of retailers entering the market, there are plenty, particularly those in the U.S. and overseas that are looking for foreign expansion opportunities. Canada's stable economy is a hot draw and because of its large population, Ontario is one of the natural first stops for these retailers.

"I think if you name a brand retailer that is not here yet they have had one of their representatives visit the area in the last year," says Meier.

Those retailers likely to experience the most success will be those in the grocery, restaurant, home improvement and discount store domains. Ontario will also likely see a lot more mixed-use developments and a higher focus on urban development, says Darren Clare, senior retail leasing consultant at Avison Young.

"We've seen an urban street-front strengthening," Clare says. "Street front retailing is doing really well and we expect that to continue, particularly in urban pockets like King Street West in Toronto."

That being said, the high concentration of retailers in many parts of Ontario will make the price of land increase as the availability decreases. Development charges will also affect developers' bottom lines. This will trickle down and cause an increase in rents – particularly for new construction projects – and the newly implemented HST will also continue to be a headache for tenants.

Woodbine Live! will be a large development surrounding Toronto's Woodbine Racetrack and OLG Slots casino.

PROVINCIAL HIGHLIGHTS

- Ontario will fall behind B.C. and Alberta in terms of retail activity in 2011, but that third place position will be a distant third.
- Projects that were put on the back burner during the recession will now start to move forward.
- Ontario will likely be the first stop for foreign retailers looking to gain some ground in the Canadian market.
- Grocery, restaurant, home improvement and discount retailers will likely see the most success in 2011.

DEVELOPMENT HIGHLIGHTS

- Lansdowne Park is a 320,000 square foot project in Ottawa by Trinity Developments/Minto.
- Clappson's Crossing is a 317,000 square foot project located in Hamilton. It is being developed by RioCan REIT.
- Woodbine Live! Is a 1.5 million square foot retail an entertainment space developed by The Cordish Company/Woodbine Entertainment Group.

ATLANTIC PROVINCES

When it comes to retail activity in the Atlantic provinces, Nova Scotia and New Brunswick are by far the hottest markets, with Halifax (and the Greater Halifax Area) and Moncton (followed by Fredericton and St. John) grabbing most of the investment dollars. These areas act as retail "hubs" drawing in customers from across the various provinces.

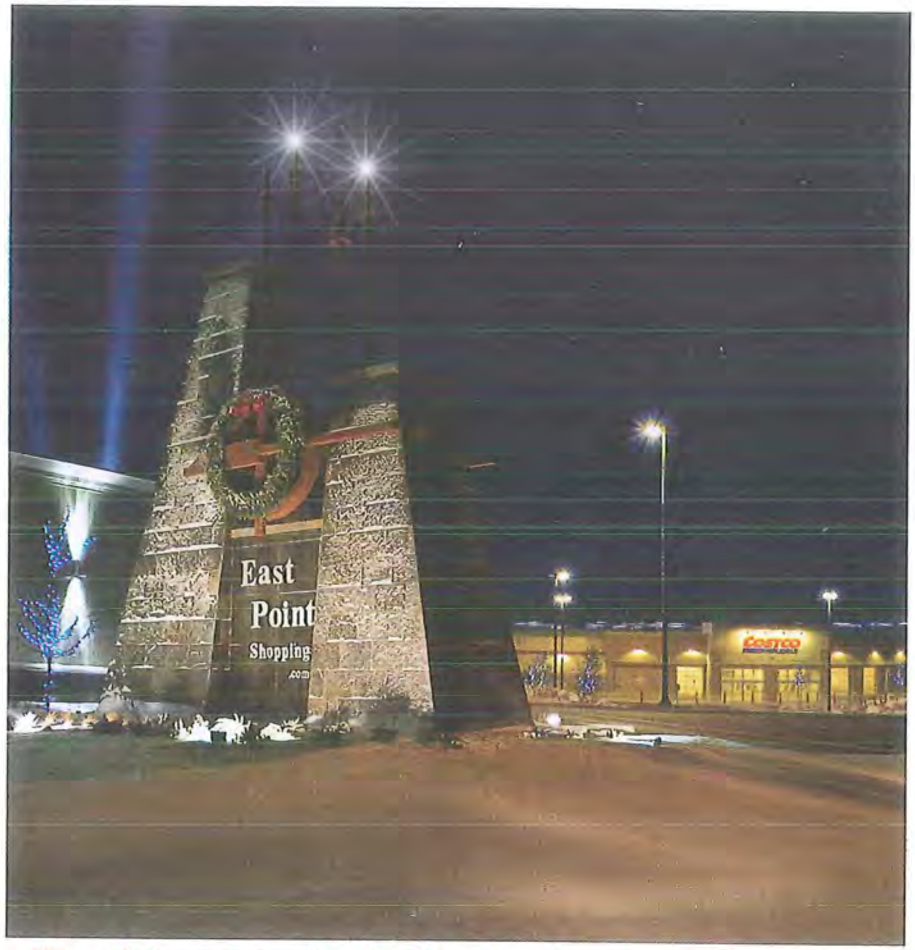
Over the past 5 years or more, these markets have been veering away from the traditional enclosed shopping centre, and moving more towards power and lifestyle designs, says Pam MacFarlane, research director for Colliers International Atlantic. Many of the existing enclosed malls are being transformed into strip malls, or revitalized to make room for offices. This trend is likely to continue moving into 2011.

PROVINCIAL HIGHLIGHTS

- The top "hubs" for retail in the Atlantic Provinces are Moncton, NB, Fredericton, NB, St. John, NB, and Halifax, NS.
- Many of these hubs act as the prime shopping areas for customers scattered across the provinces, and typically have a seven-hour draw time.
- Despite the small population, these areas feature high sales and low vacancy rates in regional malls.

DEVELOPMENT HIGHLIGHTS

- Portland Hills Centre in Dartmouth, Nova Scotia offers over 55,000 square feet of retail and office space on 3.5 acres of land.
- The Millstone Square Shopping Centre, located in Russell Lake West, NS, contains approximately 72,000 square feet of retail and office space. It is anchored by Sobeys, Kent Building Supplies and Bank of Montreal Drive Thru.



When all phases are complete, East Point Shopping will be a 700,000-square-foot shopping centre, the largest in New Brunswick. Four hundred thousand square feet of retail space currently exist now, and the remaining 300,000 are expected to be completed over the next 5 years.

Home decor retailers are seeing much success in the Atlantic provinces, as are international retailers such as Banana Republic and H&M. MacFarlane believes international retailers coming into Canada will have their eye on the Atlantic provinces moving into 2011 and beyond, but it might take a while.

"When new retailers enter into Canada, it usually takes a while for them to make their way here," she says. "We're usually fourth or fifth on the list, behind bigger markets like Toronto, Vancouver and Calgary."

Like the rest of Canada, developers in the Atlantic provinces will likely face challenges finding new land and properties to develop. The cold weather and abundance of snow in the winter also makes construction difficult, and frequently slows down many projects.

QUEBEC

After 3 months of consecutive sales gains, Quebec added a fourth month of improvement with a 1 percent increase in registered sales gains in December 2010.

That spells good news for the province's predicted 2011 performance. According to RBC Economics, overall growth will be about 2.6 percent year-to-year, just slightly below the 2.7 percent of 2010. Low interest rates, gains in employment and strengthening demand will lead the overall growth increase – and will most likely positively affect consumers' willingness to spend.