

CANADA

Cushman & Wakefield

Global Cities Retail Guide



Retail sales are easing across Canadian markets after record highs in 2017.

Retail continues to face headwinds in Canada after a bumpy ride in 2017, marked by the good, bad, and ugly. The latter included the demise of Sears Canada that saw the shuttering of 190 stores and the loss of 15,000 jobs. The good is that retail sales growth hit a 13-year high of 5.2% in 2017 and despite closures, more than 50 international brands entered the Canadian marketplace. The bad is the ongoing pressure caused by evolving technologies, fierce competition, and economic uncertainties.

While sales growth was choppy in the first half of 2018, the underlying trend is weakened growth across all retail sectors. Make no mistake though, there are still retailers who are thriving in this wavering retail market such as electronics & appliance stores and building material & garden equipment/supplies dealers. eCommerce sales continued to grow by double digits, up by 15.1% y-o-y for the three months ending January 2018. Overall, eCommerce represented about 2.6% of Canadian retail sales last year, including both pure play operators as well as the online operations of brick & mortar stores.

For debt-ridden Canadians, high-cost housing and slowly increasing interest rates are factors behind tightening purse strings. Auto sales, which have seen record highs, are expected to ease in the second half of 2018. Unemployment remains low at 6.0% and while economic growth is expected to slow to about 1.8% in 2018, this is still decent and sets the stage for steady, yet cautious, interest rate hikes.

So, while retail sales are showing signs of stress, the overall outlook in Canada remains positive. Availability rates are trending upwards and rental rates softening along weaker sections of street front retail. That said, prime location stores continue to achieve record rental rates. In addition, key retail operations close to the U.S. border are benefiting from strong cross-border sales.

The prospect of a trade war with the U.S. remains a big question mark that could slow real GDP growth and further erode consumer disposable income as we head into 2019.

Factors continuing to bolstering the retail outlook include a weaker Canadian dollar, strong tourism activity, and the economic strength of our largest trading partner south of the border.



CANADA OVERVIEW

CANADA

ECONOMIC OVERVIEW

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2017	2018F	2019F	2020F	2021F
GDP Growth	3.0	1.8	1.8	1.7	1.6
Consumer spending	3.4	2.0	1.9	1.9	1.8
Unemployment rate (%)	6.3	5.9	6.0	6.1	6.1
Inflation, Consumer Price Index (%)	1.6	2.3	1.9	2.0	2.0
Exchange Rate C\$ per Euro (average)	1.5	1.5	1.6	1.6	1.6
Exchange Rate C\$ per US\$ (average)	1.3	1.3	1.3	1.3	1.3
Interest Rate - Central Bank Policy (%)	0.7	1.3	2.0	2.8	3.0
Interest Rates 10-year Benchmark Bond Yield (%)	1.8	2.3	3.0	3.5	3.6

ECONOMIC BREAKDOWN

Population	36.7 Million (2017)
GDP	CDN\$ 1,855 Billion (2017)
Parliament	Liberal Party of Canada
Head of State	Queen Elizabeth II
Prime Minister	Justin Trudeau
Election date	October 2016

RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

CANADA	2017	2018F	2019F	2020F	2021F
Retail Volume	5.2	0.3	1.5	1.1	1.1

NOTE: Annual % growth rate unless otherwise indicated. E estimate F forecast

SOURCES: Statistics Canada / Oxford Economics

CMA	POPULATION
Toronto	6,346,088
Montreal	4,138,254
Vancouver	2,571,262
Calgary	1,488,841
Edmonton	1,411,945
Ottawa	1,040,346
Winnipeg	825,713
Quebec City	812,205
Hamilton	787,195
Kitchener-Waterloo	527,765
London	521,756
Halifax	431,701
St. Catherines	416,539
Oshawa	402,399
Victoria	377,414
Windsor	344,747
Gatineau	336,670
Saskatoon	323,809
Regina	253,220
St. John's	219,207

SOURCE: Statistics Canada:



CANADA LARGEST CITIES

CANADA

RETAIL OVERVIEW

MAJOR DOMESTIC FOOD RETAILERS

Loblaw's, Metro, Sobey's, Foodland

MAJOR DOMESTIC NON-FOOD RETAILERS

Canadian Tire, Giant Tiger, Holt Renfrew, The Hudson's Bay Company, Shoppers Drug Mart, Jean Coutu, La Maison Simons, The Brick, Dollarama

INTERNATIONAL RETAILERS IN CANADA (A SELECTION)

IKEA, Home Depot, Lowe's, Walmart, Old Navy, The Apple Store, Nordstrom's, Saks, Marshalls, Bed, Bath, & Beyond, JYSK, H&M

FOOD AND BEVERAGE OPERATORS

Tim Hortons, Starbucks, McDonald's, Pizza Pizza, Harvey's, Swiss Chalet, Wendy's, Kelsey's, East Side Mario's, St. Hubert

TYPICAL HOURS*

MONDAY - WEDNESDAY	THURSDAY - FRIDAY	SATURDAY	SUNDAY
9:00 – 9:00	9:00 - 9:00	9:00 – 6:00	10:00 - 5/6:00

**Note that trading hours may vary depending on location and retailer type*

NEW ENTRANTS TO MARKET

Designer Shoe Warehouse	Cabela's	MUJI	MINISO
Nordstrom / Nordstrom Rack	UNIQLO	Off-White	Sugarfina
Saks / Saks Off 5th	F21 RED	SoulCycle	Zadig & Voltaire



CANADA

RETAIL SCENE

Low interest rates have been the rocket fuel powering retail sales growth in recent years. With rates slowly rising, record level household debt, and the specter of an escalating trade war, retailers are starting to feel the bite.

Low interest rates were the key monetary policy tool used by the Bank of Canada (BOC) to buoy Canadian GDP growth after the oil shock walloped the economy in June 2014.

And it worked. Retail sales blossomed, with big ticket items like automobiles hitting record-high sales. Consumers had that warm-and-fuzzy feeling as home values skyrocketed to new benchmarks in top Canadian cities – and spent freely on renovations and improvements.

Further, robust U.S. demand for Canadian goods and services helped drive economic activity and support job growth. Over the past year, more than 284,000 full-time job positions were created, driving unemployment to a 40-year low.

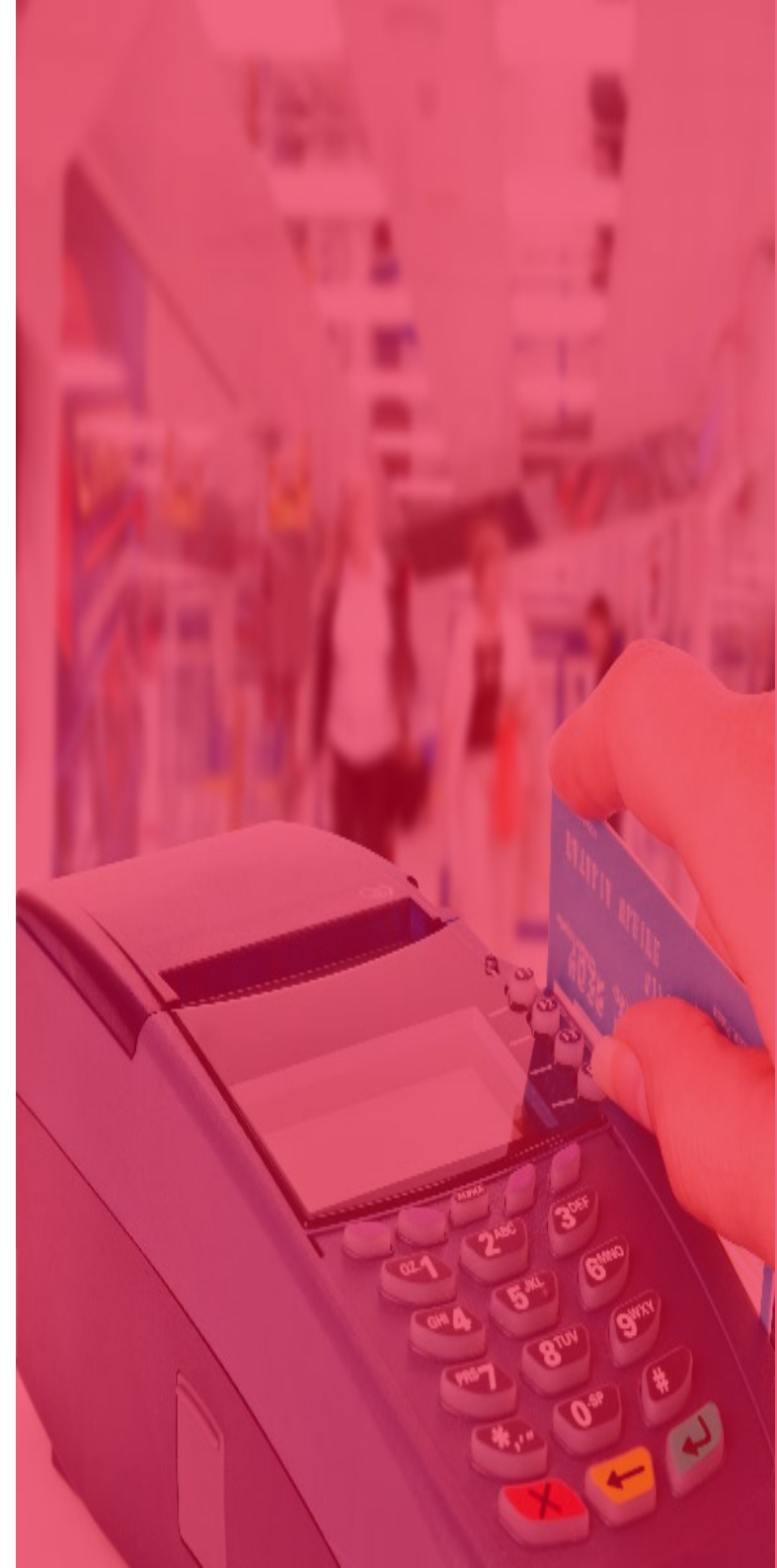
As a result, the economy expanded by 3.0% in 2017, the strongest growth experienced in the G7. Moving through this rosy year, commercial real estate markets were ferociously hot, with retail sales growth reaching an impressive 5.2%.

The Canadian economy was nearing full capacity, resulting in inflationary pressure and labour shortages. This set the BOC on a steady course of interest rate hikes.

We have now seen four interest rate bumps, raising the BOC overnight borrowing rate to 1.5%. In combination with new stress-test rules making it more difficult to qualify for a mortgage, demand in hot residential markets such as Vancouver and Toronto has cooled somewhat.

Given such headwinds, Oxford Economics has projected that retail sales will fall to 0.3% in 2018, down from a buoyant 5.2% in 2017.

Bricks and mortar retail will continue to experience challenges as a result of the steady evolution of eCommerce. However, it is important to remember that Canada continues to operate in a low interest rate environment, and provided there are no drastic economic shocks, retail sales are expected to strengthen once again as we head into 2019.



CANADA

SHOPPING CENTRES

LARGEST MALLS

NAME	METRO AREA	SIZE (GLA SF)	YEAR OPENED
WEST EDMONTON MALL	EDMONTON	3,200,000	1981
CF TORONTO EATON CENTRE	TORONTO	2,098,754	1977
SQUARE ONE SHOPPING CENTRE	MISSISSAUGA	1,904,595	1973
YORKDALE SHOPPING CENTRE	TORONTO	1,841,961	1964
METROPOLIS AT METROTOWN	BURNABY	1,795,326	1986
SCARBOROUGH TOWN CENTRE	SCARBOROUGH	1,593,248	1973
PARK ROYAL SHOPPING CENTRE	VANCOUVER	1,501,405	1950
CF CARREFOUR LAVAL	LAVAL	1,403,947	1974
LES GALERIES DE LA CAPITALE	QUÉBEC CITY	1,348,381	1981
VAUGHAN MILLS	VAUGHAN	1,270,163	2004

SOURCE: Retail Council of Canada, Canadian Shopping Centre Study, 2017

CANADA

KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	COMMENT
Lease Terms	Generally 5 to 10 year lease terms with one or two 5 year options to renew at market rents.
Rental Payment	Made on a monthly basis at the first of the month. Some retailers have to pay percentage rent based on sales volumes.
Rent Review	Not a common practice in Canada.
Service Charges, Repairs and Insurance	Tenant is responsible to pay all service charges for their premises, which include electricity costs, heat, gas, garbage removal, janitorial, etc.
Property Taxes and other costs	Tenant is responsible for their proportionate share of property taxes for the premises.
Disposal of a Lease	Generally the tenant has the right to assign or sublease the premises but must be approved by the landlord, acting reasonably.
Valuation Methods	Property taxes are calculated on market value assessment.
Legislation	Leases are based on the Commercial Tenancy Act.

ERIKA SCHANKE

*Managing Director
Americas Retail Services
1290 Avenue of the Americas
New York, NY 10104, USA
Tel: +1 212 841 5024
Mob: +1 404 680 4363
erika.schanke@cushwake.com*

STUART BARRON

*National Director of Research
Canadian Markets
161 Bay Street, Suite 1500
Toronto, ON M5J 2S1 Canada
Tel: +1 416 359 2652
Mob: +1 416 220 9214
stuart.barron@cushwake.com*

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