CALGARY MID-YEAR 2018

RETAIL MARKET ANALYSIS

4.8%
OVERALL VACANCY RATE
–0.3% FROM Q1'18

AT THE MID-POINT OF 2018, CALGARY'S RETAIL MARKET CONTINUED TO GRAPPLE WITH A FLOOD OF VACANT SEARS RETAIL SPACE THROUGHOUT THE CITY. As mentioned in our Q1'18 Retail Update, the closure of *Sears Canada* left three mall locations (Marlborough Mall, North Hill Centre and Southcentre Mall) and two *Sears Home* stores (Brentwood Village and Glendeer Circle), comprising approximately 650,000 square feet of retail real estate, empty around the city. A couple of Landlords were quick to act however: early in the second quarter, the main floor of the former Sears space at Southcentre Mall was occupied by *Show Home Furniture* and RioCan was busy redeveloping the former *Sears Home* space in Brentwood Village to accommodate future tenants *buybuy BABY* and *Ashley Homestore*. At the North Hill location, which is owned by Concord Pacific, an *Avis* car rental station was setup in the parking lot which was itself, being managed by Indigo parking company.

Focusing on specific submarkets, activity returned to the Central Business District (CBD) where vacancy decreased to 10% from nearly 11% in Q1 While this remains well-above the 2013-15 average of 7%, we anticipate seeing a significant drop when Bill C-45 (Cannabis Act) is hammered-out and following royal assent, the province and the City of Calgary move through the cannabis retail store approval process. The greatest density of retail cannabis store applications is in the Downtown and Beltline, where several dozen of the approximately 245 applications submitted from across the city at mid-June.

Roland Plaza in Red Deer
Restaurant currently available for lease

PREPARED BY
BARCLAY STREET REAL ESTATE

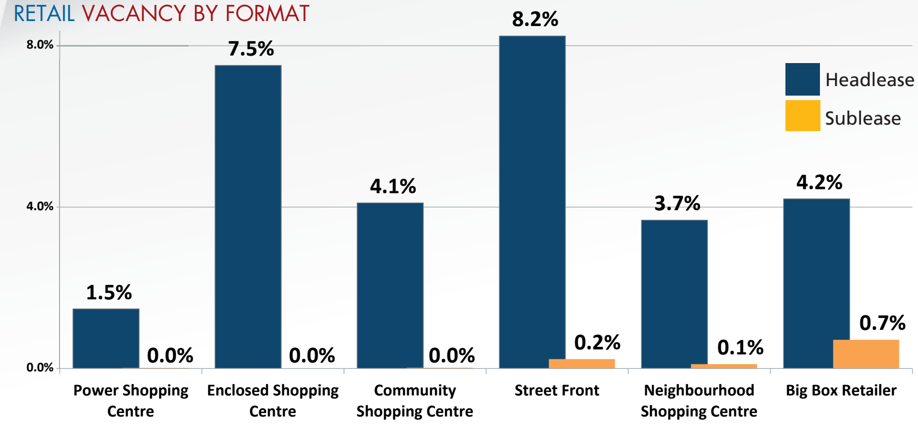
Director of Research – Anthony B. Scott
403-290-0178 • ascott@barclaystreet.com

BARCLAY STREET REAL ESTATE
TCN WORLDWIDE REAL ESTATE SERVICES
CONSUMER CHOICE AWARD 2017 SOUTHERN ALBERTA 4 YEAR WINNER

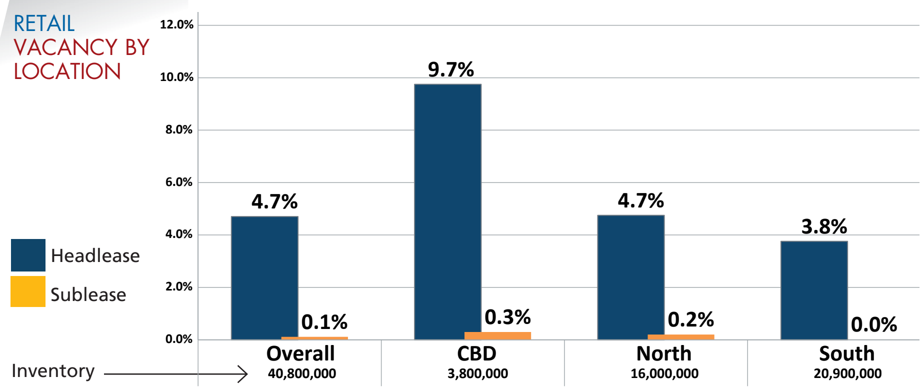
www.barclaystreet.com

Calgary's Retail Landscape at Mid-Year 2018

RETAIL VACANCY BY FORMAT



RETAIL VACANCY BY LOCATION



AFTER SPIKING TO AN ALL-TIME HIGH VACANCY RATE OF 5.1% IN THE FIRST QUARTER OF THE YEAR, OVERALL VACANCY DECREASED SLIGHTLY TO 4.8%. The decrease was driven in part by a large chunk of space left behind by **Sears Canada** at Southcentre Mall being taken by **Show Home Furniture**, who leased the entire main floor. At the other end of the spectrum, some restaurant space left behind by **Chili's** is finding new life. In South Trail Crossing, **Beer Revolution** is backfilling one such space after about a year of vacancy.

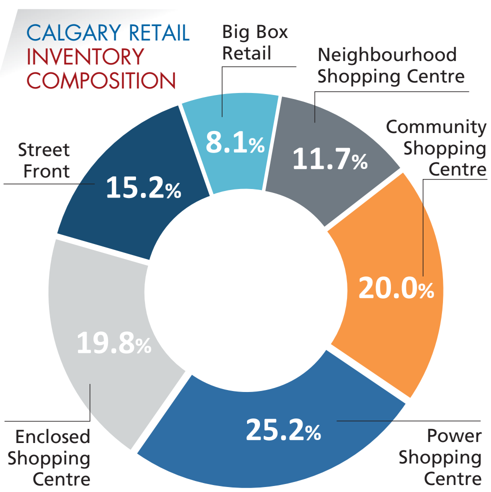
Otherwise, compared to the first half of 2017, Calgary's commercial retail landscape was quiet, though a significant amount of retail space had been tentatively tied-up by would-be retail cannabis shops. No real action in terms of absorption can be determined until Bill C-45 comes into force and the City completes its approval process.

Speaking to the above, the Central Business District - which comprises the Downtown and Beltline - had more than 40 retail applications submitted at June 15th. We anticipate seeing a marked increase in retail subleases from prospective cannabis vendors whose retail applications have been declined, whether this be for reasons such as market share limits or oversaturation in certain neighbourhoods. This latter factor is likely to become a significant determining factor in hot spots where multiple competing applications have been made for locations that are less than 300 metres apart; the minimum distance requirement set out by the City of Calgary. This is especially true in Kensington, Inglewood and the 17th Avenue/4th Street corridor.

After an extremely busy year in the Suburban retail markets, which included significant activity by large-footprint retailers such as **Sport Chek, Saks OFF 5th, Sporting Life and Zara** plus expansions by local businesses **CRAFT** brewery and **Analog Coffee**, the first half of 2018 was subdued. Just outside of Calgary however, New Horizon Mall was completed at the end of May and introduced the first shopping mall in Alberta where retail stores are purchased outright. The stores may be owner-operated or purchased by an independent investor and leased to a retailer.

Adhering to the current marketing strategy among malls, New Horizon follows the 'destination shopping' formula by providing what Torgan Group calls a unique international shopping experience, matched with culturally diverse shops, products, fashion and services, as well as similarly distinct forms of entertainment, and a main

CALGARY RETAIL INVENTORY COMPOSITION



RETAIL PROJECT COMPLETIONS SUMMARY (TO JUNE. 30, 2017)

Retail Format	Property Name	Community	Retail Area (sf)	Completed	Landlord/Owner
Neighbourhood Shopping Centre	District at North Deerfoot - Phase I	The District	94,200	Q1 2018	Melcor Developments
Street Front	Mount Royal Village West	Beltline	60,000	Q2 2018	First Capital Realty Inc.
	Kensington by Bucci	Kensington	9,000	Q2 2018	Bucci
Power Shopping Centre	Deerfoot City Expansion (phase II)	Deerfoot Business Park	395,500	Q2 2018	Shape Properties
Total			559,000 sf		

stage to support cultural events, holiday celebrations and fashion shows throughout the year.

Overall, Street Front format retail space continues to be the primary source of vacancy, with this format accounting for 8.5% of total vacancy. The CBD has the highest vacancy rate for this format at 13.4% while in the North West and South West quadrants boast the next highest rates at 7.9% and 6.6%, respectively. One significant reason for this is the ongoing introduction of new product as a component of mixed-use developments such as I.D. Inglewood, Mission 34, One6 and the forthcoming Infinity @ Marda Loop and Avli On Atlantic. As the city seeks to limit urban sprawl through densification, developers have increasingly combined retail and residential projects during the previous few years.

Additionally, 'retail pad' development and leasing opportunities remained in high gear, carrying over from 2016/17 as property owners seek to densify their developments by adding restaurants and clusters of small shops in their parking lots. Choice Properties' retail pad at SouthPointe shopping centre was successful and we continue to observe retail pads being incorporated into Royal Oak Park and the Hunterhorn Plaza redevelopment. Retail pads are also becoming an element of future plans for new developments like Seton Phase II. The Suburban South in particular, has seen strong uptake of this type of retail project.

Speaking to retail developments, construction continues at a strong pace in Calgary. Approximately 559,000 sf of new retail space was introduced during the first half of 2018 and for the balance of the year, the Suburban North markets are hosting the majority of activity. The largest development anticipated this year is Sage Hill Corner. In the Suburban South markets, 149,000 sf of new product is anticipated, led by Legacy Corner and Westman Village.

CBD RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Discipline	Retail Area (sf)	Expected Completion	Landlord/Owner
Street Front	Verve	East Village	13,000	Q4 2018	FRAM+SLOKKER Developments
	TELUS Sky	Downtown	15,000	Q2 2019	Westbank
Total			28,000 sf		

SUBURBAN SOUTH RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Community	Retail Area	Expected	Landlord/Owner
Power Shopping Centre	East Hills - Phase II	Applewood Park	616,000	2019	RioCan
	Seton Phase II	Seton	450,000	2019	Brookfield
	Trinity Hills - Phase I	COP/Cougar Ridge	250,000	Q2 2019	Trinity Group
	Trinity Hills - Phase II	COP/Cougar Ridge	450,000	2020	Trinity Group
Community Shopping Centre	Currie Barracks	Garrison Woods	245,000	2019	Canada Lands / Emabassy Bosa
Neighbourhood Shopping Centre	Legacy Corner	Legacy	50,000	Q3 2018	West Creek Developments
	Westman Village	Mahogany	44,000	Q4 2018	Jaymnan Built
Street Front	Cranston	Cranston	13,200	Q4 2020	Brookfield
	Infinity @ Marda Loop	Marda Loop	11,300	Q3 2018	SNR Group
	Fairmount Park	Fairmount	7,500	Q3 2018	OPUS Development Corp.
	Chinook 58	Manchester	30,000	Q4 2018	Centron
	Macleod Trail Professional Centre	South MacLeod Trail	7,400	Q3 2018	OPUS Development Corp.
	AVLI on Atlantic	Inglewood	8,100	Q3 2018	Greenview Developments
	The Windsor	Britannia	25,000	Q2 2019	Arlington Street Developments
Total			2,208,000 sf		

SUBURBAN NORTH RETAIL CONSTRUCTION SUMMARY

Retail Format	Property Name	Community	Retail Area (sf)	Expected Completion	Landlord/Owner
Power Shopping Centre	Sage Hill Crossing - Pases II - IV	Sage Hill	383,600	Q4 2018	RioCan
	Sky Pointe Landing	Skyview Ranch	50,000	Q2 2019	The LaCaille Group
	Stonegate Common - Phase I	Country Hills	130,000	Q4 2018	WAM/AIMCO
	Stonegate Common - Phase II	Country Hills	1,340,000	Q4 2020	WAM/AIMCO
	University District - Phase I	University District	100,000	Q4 2018	West Campus Develoment Trust
	University District - Phase II	University District	145,000	TBD	West Campus Develoment Trust
Community Shopping Centre	Sage Hill Quarter	Sage Hill	175,000	Q3 2019	Ronmor
Total			2,324,000 sf		

On the Retail Horizon

Cannabis Growers Prepare for Pending Legalization: What Marijuana Legalization Could Mean for the Real Estate Market

The Demand and The Supply Ramp-up

Growth in this industry comes from two fronts: **the medical market and the recreational market.** Speaking to the former and using the U.S. commercial real estate industry as a reference point, recognizing of the need for commercial space among cannabis producers (in states where cannabis is legal) has resulted in prospective tenants being proactively offered property options and access to agents specializing in correctly zoned, cannabis-friendly spaces.

MEDICAL MARIJUANA CLIENTS
AS OF DECEMBER 2017

269,000+
registered in Canada

104,000+
registered in Alberta

Here in Canada, the demand for medical-grade cannabis is growing at an enormous rate. According to Health Canada, more than 269,000 medical marijuana clients were registered as of December 2017; up significantly from the year before. In Alberta alone, more than 104,000 people were registered – second only to Ontario; both up on a year-over year basis.

It's this demand - which can be quantified - plus the anticipated recreational market that's led to an unprecedented rush to open retail stores throughout Alberta.

Retailer Demand vs. Licenses Available

The maximum number of stores one company can own is 15% of the 250 available Alberta licences expected to be issued. That number is set by the Alberta Gaming and Liquor Commission, which had received more than 450 license applications at the end of April and nearly 600 at mid-year by some estimates.

The Rush to Open Retail Stores in Calgary

Development permits rolled into City Hall en masse in late April, as potential retailers eagerly sought to be the first to open recreational cannabis stores. A total of 226 development permit applications were registered on opening day, with 199 of the applications submitted online. The City said most submissions arrived in the first 17 minutes of the office opening. No licenses will be approved by the province however, until the federal government announces a firm date for legalization.

The City of Calgary released a map showing the proposed locations tied to retail applications and it shows heavy emphasis on the Downtown and Beltline, with notable clusters of proposed shops in Kensington, Bridgeland, Inglewood and along the Macleod Trail corridor down to Chinook Centre.

Hurry-up & Wait

At the time of writing in mid-June, the Canadian Senate had recently sent Bill C-45 (The Cannabis Act) back to the House of Commons with more than 40 amendments attached. Should Parliament decide to accept the amendments outright, royal assent could come quickly but if negotiations are deemed necessary, Bill C-45 will go back to the Senate for more debate.

Regardless, there will still be an eight to twelve week transition period before the Act comes into force. During this period, the Provincial/Territorial and municipal governments will implement their various bylaws, finalize approvals of retail applicants who will then begin setting-up shop, and cannabis companies begin to ship product.

Photo by Frances Ellen

BARCLAY STREET REAL ESTATE
RETAIL TEAM (CALGARY)


Talha Niazi
Associate
tniazi@barclaystreet.com


Amy McGregor
Associate
amcgregor@barclaystreet.com


Anthony B. Scott
Director of Research
ascott@barclaystreet.com


Eugene Ovzek
Graphic Designer
eovzek@barclaystreet.com

403-290-0178

BARCLAY STREET REAL ESTATE
TCN WORLDWIDE REAL ESTATE SERVICES

www.barclaystreet.com

Citations

City of Calgary. Cannabis Store Info. Map. http://www.calgary.ca/PDA/pd/Scripts/land-use-bylaw/cannabis-store-info-map.html

Dobrovolsky, E. & Scott, A. (May, 2018). Cannabis Growers and Calgary's Industrial Market – More Than Munchies. Barclay Street Real Estate Ltd. http://resources.barclaystreet.com/market_reports/Cannabis_Growers_and_Calgarys_Industrial_Market.pdf

Harapyn, L. (June 2018). Now that the Senate has voted 'yes' on cannabis, what happens next? Financial Post. http://business.financialpost.com/cannabis/now-that-the-senate-has-voted-yes-on-cannabis-what-happens-next?utm_campaign=Echobox&utm_medium=Social&utm_source=Twitter#Echobox=1528746347

Rumbolt, R. (April, 2018). Calgary Cannabis: Hundreds of retail store permit applications filed at city hall. Calgary Herald. http://calgaryherald.com/news/local-news/hundreds-of-retail-cannabis-store-permits-filed-at-city-hall