

ICSC Canada Outlook - Whistler January 25, 2016

To begin, here is some very positive news for BC...

ADVANCE (slide #2)

Overall, British Columbia continues to strongly outperform most other parts of Canada and might be viewed by some as 'booming'. For example:

- BC posted the strongest economic performance last year among Canadian provinces and is on track to again achieve that distinction in 2016 and possibly 2017;
- As of October last year, non-automotive retail sales in BC had advanced by 9.5% in the first 10 months of the year, over double the national rate of 4% and well ahead of any other province in Canada;
- Malls in BC continue to perform at levels well above national averages. According to ICSC research, BC average mall sales were an impressive \$910 psf. as of October, 20% above the Canadian average. Two of the top five best performing malls in Canada (Pacific Centre and Oakridge) are located in Vancouver;
- The recent decline in the value of the Canadian dollar is a boost for domestic retailers as it curtails cross border shopping and increases more local shopping at home. Day trips into the U.S. are down by over 25%. A lower dollar also boosts the appeal for tourists to visit and shop in Canada. Tourism levels in BC are on an upward trajectory with increases approaching 10%.

There is clearly a high level of optimism here in this province and....

ADVANCE (slide #3)

Retail real estate owners, investors and developers are looking to capitalize on it.

New shopping centres continue to be constructed, upgraded and expanded in BC. Some of Canada's biggest and best retail properties are located within Greater Vancouver, some of which are under development, have recently opened or in the midst of substantial upgrades and enhancements.

A few of the exciting projects underway or recently completed in the province include:

- The unveiling last October of **Park Royal South's** enhanced offering which included the opening of BC's first Simons department store together with extensive interior renovations to the mall and significant new store offerings;
- **Pacific Centre's** addition of Nordstrom's last September, along with expanded retail offerings at that centre;

- Opening of the **McArthur Glen Group Outlet centre** near the Vancouver Airport. The project recently exceeded 2 million visitors and has been very successful with a second phase now planned;
- If that was the biggest BC retail real estate news story of 2015, then the opening of **Tsawwassen Mills** this coming Fall should be the biggest for 2016. This 1.2 million sf. enclosed mall will feature 200 stores and 16 anchors. It lies adjacent to **Tsawwassen Commons**, a 550,000 sf. centre also planned that will include more local serving tenants.

Elsewhere in the province, existing centres such as **Woodgrove** in Nanaimo and **Uptown** in Victoria continue to expand and improve their retail offering to strengthen customer appeal and sales.

These investments clearly demonstrate long term confidence and commitment to the provinces retail real estate sector.

ADVANCE (slide #4)

Turning to the national picture and the retail sector specifically, last year was unfortunately difficult and challenging for some. There were a number of bankruptcies and store closures, with some still to come including:

- **American Apparel** announcing in October their bankruptcy filing in efforts to reduce debt and interest payments. They have 30 stores in Canada, including 6 here in BC.
- While **Laura's** filed for creditor protection in early August, they reemerged in early December after agreeing to a restructuring plan to renovate and invest in new technology. They also renegotiated leases in some 50 retail locations. Laura's has closed about 20 stores and will remain operating with around 145 locations in every province except PEI.
- **Black's** closure of all remaining 59 store locations as a result of 'technological innovations that have changed the way Canadians take and share photographs';
- **Gap Inc.** indicating some 175 'underperforming' stores will be closed across North America; in Canada they currently operate about 250 locations under various banners including Old Navy and Banana Republic;
- **Best Buy's** restructuring last March of their Canadian operations resulting in the closing of 66 Future Shop stores while rebranding 65 remaining locations to the Best Buy name;
- **Sony's** closure of their remaining 14 Canadian locations early last year;
- **West Marine's** plans to close all Canadian locations over the next few years;
- **Reitman's** closure of all their Smart Set stores;
- **Herbal Magic** closing down in August over 100 locations in Central and Eastern Canada following insolvency, although some Western Canada locations remain open;

Where some have failed to succeed however...others have moved in, seeking opportunity.

ADVANCE (slide #5)

Despite these bankruptcies, some companies stepped up last year to acquire the assets, optimize their portfolios and/or reposition the brands, a few examples include:

- Although **Comark Inc.** filed for bankruptcy in March impacting the **Ricki's**, **Bootlegger** and **Cleo** banners, in July **Pacific West Commercial Corp.**, an affiliate of **Stern Partners** announced the purchase of the company.
- **Nine West Canada** (owned by **Sherson Group**) sought protection from creditors in July but then in August the U.S. owner of the brand – **Nine West Holdings Inc.** stepped up to purchase the chain. The transaction included 45 store leases with all locations to remain open.
- The purchase of 35 **Jones New York** Canadian stores by **Grafton Fraser Inc.** originally slated for closure. They have plans to expand the chain to 50 locations in the next five years.
- While **Bikini Village** declared bankruptcy early last year, **La Vie En Rose** acquired them;
- With the rapid departure of **Target** last April, several large retail chains moved quickly to acquire certain prime real estate locations. Together, Canadian Tire, Lowe's and Walmart purchased several dozen locations allowing for rapid expansion of operations and strengthening of market presence. Several Target locations still vacant will likely be remerchandised for a mix of uses such as grocery, fitness clubs or other opportunities.

ADVANCE (slide #6)

There remain hundreds of international chains operating successfully in Canada, as well as dozens in the early stages of market entry. According to Retail Insider, over 2 dozen new international retailers came into Canada last year while this year will again see plenty of new operators set up here.

In fact, last fall, CBRE's annual report 'How Global is the Business of Retail' identified that Canada still remains one of the top 10 destinations for global retailers.

Internationally, operators either expanding their Canadian presence, recently moving here or actively evaluating plans to come to Canada include, to name a few:

- **Desigual** from Spain;
- **Bulgari** and **GEOX** from Italy; **Versace** as well which opened their second CDN fashion store in Vancouver early last month – last year you may recall Versace chose Vancouver to open their very first **Versace Home** store in the world;
- **Clarks**, **REISS**, **All Saints** and **Mountain Warehouse** from the UK;
- **L'Occitane**, **Le Creuset** and **Loring** from France;

- **Gerry Weber** and **Thomas Sabo** from Germany;
- **UGG**, **Aesop** and **EverNew** from Australia;
- **Uniqlo** and **Muji** from Japan;
- **COS** from Sweden, H&M's upscale brand;
- **JYSK**, **Change of Scandinavia**, **Pandora** and **Bestseller** from Denmark.

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While retailer entry from the U.S. has slowed somewhat, there is still quite a bit of activity...

- Forever 21's spinoff **F21 Red** concept opened their first Canadian stores last Fall in Ottawa and Windsor. They plan to add another up to 30 stores in the next five years. This year alone Forever 21 and their F21Red concept are tracking to open up to 10 new locations. They currently operate only 5 BC locations so others are very likely in the future.
- **Designer Shoe Warehouse** opened their first BC location last August in Victoria and has plans for continued expansion of their brand in Canada, eventually operating 40 to 50 stores; currently they have about a dozen locations.
- **Free people** with 2 Vancouver locations on Grenville Street and at Park Royal is now expanding into premier Ontario malls Sherway Gardens and the Eaton Centre;
- **Whole Foods** has long term plans for up to 40 stores in Canada;
- **Lowe's** is planning to add another 14 stores over the next 2 years, increasing their presence to 54 stores here and are now considering a long awaited move into Quebec;
- **Walmart** is investing hundreds of millions on the expansion of dozens of stores, upgrading to their Supercentre format;
- **TJX Canada** continues to expand with their **Winners**, **HomeSense** and **Marshall's** banners planning to add some 25 stores per year in Canada over the next 2 to 3 years
- And others from the U.S. such as **Kate Spade**, **Rockport**, **West Elm**, **Eileen Fisher**, **Torrid** and **J Crew** are underway or have plans for expansion.

Two large new U.S. retailers moving into Canada that will have an impact on the retail landscape in the coming years include...

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- **Nordstrom's** opened their third Canadian location last September in nearby Pacific Centre in Vancouver. The 'flagship store' is 3-levels and totals 230,000 sf. It's 50% larger than the previous two stores opened in Calgary and Ottawa

and carries a wider selection of brands. It will be the largest of the 6 confirmed stores opening in Canada. Nordstrom's cautious Canadian market entry will continue later this year and in 2017 with 3 more full-line stores to follow at the Toronto Eaton Centre, Yorkdale and Sherway Gardens. Eventually they plan to introduce their **Nordstrom Off Rack** outlet concept sometime late next year with about 15 locations planned.

- **Saks Fifth Avenue** is gearing up for a major push into Canada this year that will commence in a few weeks with the opening of their Downtown Toronto store, their very first Canadian location. It will occupy 4 floors and total 163,000 sf. and while separate from the existing HBC location, there will be a number of access points between the two stores. One week later, on February 25th a second Saks Fifth Avenue will open at Sherway Gardens in Western Toronto.
- In contrast to Nordstrom, Saks is aggressively rolling out their Outlet Concept (**Saks Fifth Avenue Off 5TH**) through the course of this year and next. A total of 10 locations are now confirmed for Quebec City, Montreal (2 locations), Calgary, Winnipeg, Ottawa, Toronto (2 locations), Niagara and yes Vancouver. The Vancouver store will be located at Tsawwassen Mills and will open this Fall at the same time as the centre. Saks announced that up to 25 outlet stores are planned by 2018.

ADVANCE (slide #9)

Several Canadian retailers are not standing still, but are embarking on major expansions:

- Quebec based **La Maison Simons** opened their 11th store last October at Park Royal South in West Vancouver, only their second location outside of the province of Quebec (the other is at West Edmonton Mall). Over the next 3 years, another 6 Simon stores are confirmed including downtown Calgary and Ottawa, northeast Edmonton as well as 3 in the Greater Toronto Area.
- **Saje Natural Wellness** from Vancouver has opened about 20 new locations since late 2014 and has plans to grow to 50 stores by 2018;
- **Aritzia** also from Vancouver has expanded rapidly in recent years and now operates approximately 46 domestic locations in 6 provinces. They have also opened in several major U.S. markets including New York, Chicago, San Francisco, Dallas and Seattle.
- **Holt Renfrew** and **Harry Rosen** are well underway updating and enhancing flagship locations in key markets, testing new concepts and expanding e-commerce and service offerings.
- **Sporting Life** will open 2 new stores this fall in Ontario and South Calgary, with another 2 new locations planned for 2017.
- **David's Tea** which started less than 8 years ago now has over 190 locations, including 37 in the U.S. across 9 different states.
- **Mastermind Toys** is aggressively expanding across Canada, opening 10 stores last year and with plans for dozens more in the coming years. Here in BC they

have only 3 stores in Abbotsford, Coquitlam and Langley but more are expected in the coming months and years.

- **Dollarama** surpassed the 1,000 store count level last fall and remains in growth mode, with plans for another 450 locations in the coming years, including up to 70 new stores this year.
- And several others such as **Frank & Oak**, **Urban Barn** and **Lole** continue to advance their store portfolios.

ADVANCE (slide #10)

Retailers continue to look to innovations that will distinguish them from others, improve the shopping experience and build a stronger connection to consumers

Canadian Tire is investing heavily in new technologies to enhance the shopping experience. In May, they opened their first new concept 'showcase store' in Edmonton which provides immersive, interactive experiences with over 100 digital screens, digital flyer access, an exterior LED screen (seen here on the top right) and even a car simulator where customers can test drive tires in different weather conditions. They plan to spend upwards of \$625 million this year and next on digital technology investments.

Sport Check opened 2 new locations in Toronto this past November that heavily invest in technology in an attempt to seamlessly tie together e-commerce, in-store sales and touchscreen technology. Seen here is one of the 3D holographic displays for products.

IKEA Canada in a move to demonstrate their commitment to sustainability is rolling out electric vehicle charging stations in all of their Canadian locations. They will be the first retailer in Canada to provide this free service on a national basis

Both **Thyme Maternity** and **The Source** opened new concept experiential stores last year at Yorkdale that incorporate various digital technologies in efforts to strengthen their appeal to new millennial customers. The Thyme Maternity store includes in-wall iPads to explain different products while change rooms offer 360 degree interactive mirrors.

ADVANCE (slide #11)

There are also some interesting new retail concepts and operators emerging.

Eataly is an Italian chain that blends together a restaurant, food court, specialty market and store emporium all in one venue. In New York and Chicago, the first North American locations were opened offering a theatre like setting with celebrity chefs, a cooking school, seven restaurants and over 10,000 products on display. Last summer it was reported they had entered a partnership with Canada's Weston family in preparation of a planned downtown Toronto location.

ADVANCE (slide #12)

Last September, wildly popular Primark originally from Dublin, Ireland and a retail 'fast fashion' giant in Europe opened their first U.S. location. Well known for their rock bottom pricing, the store has strong appeal to young budget conscious fashionistas but also sells home and beauty goods as well as kids clothing and activewear. In late November they opened a second U.S. store at King of Prussia Mall in Philadelphia and have plans

for another 10 locations this year. Retail analysts foresee significant impacts to competitors if their American entry proves successful. Canadian expansion seems quite possible at some point.

In the U.S., swim schools such as **Aqua-Tots** from Arizona are becoming regular tenants in retail areas often close to affluent residential areas. The company is now looking to Canada for potential locations.

ADVANCE (slide #13)

Some retailers and even landlords are taking steps to capitalize and leverage physical space with the online world via 'click and collect' programs.

Last summer **Walmart Canada** began offering online grocery pickup for the first time at selected Ottawa locations. For a \$3 fee customers can order various grocery items through the website and have them delivered to their car at Walmart. A minimum of one day's notice is required and orders must be over \$50.

Loblaws began testing a 'click & collect' program in late 2014 at 3 Toronto area stores. The service allows shoppers to order online and pick up their completed goods at the physical stores. It is now being offered at 26 stores across Ontario and at 8 Real Canadian Superstores in Edmonton. In November, Loblaws launched the Click & Collect program at 7 BC Superstores. Loblaws notes that current primary users include millennials, moms and seniors.

Even retail landlord SmartCentres is now getting into the highly competitive food and grocery sector. This past October they began testing 'Penguin Fresh' which is the expansion of their Penguin Pick-Up concept to allow customers to order selected fresh groceries online and pick them up at refrigerated Penguin Pick-Up kiosks.

Only about 1% of all food sold in Canada is sold online compared to 4 to 5% in the U.S. and Europe and therefore these operators see potential growth in the years ahead.

ADVANCE (slide #14)

Beyond food and grocery pick up, if you are ordering goods online from either pure play retailers or numerous bricks and mortar retailers, a key component to a successful transaction for some consumers is simply convenience and ease of pickup.

Inpost operates an automated self service parcel locker network they claim is the largest in the world. Lockers hold goods purchased online and are accessible 24/7 in various locations through partnerships with retailers and landlords. They are expanding rapidly with a goal of 1,000 locations near most Canadians by the end of this year.

Recently, Walmart announced an e-commerce test with Seven Eleven whereby Toronto area shoppers can have online goods delivered to one of six GTA 24-hour convenience stores in designated 'Grab and GO' locations. It's an extension of the service that is provided at some stores starting in 2014. The partnership with 7 Eleven is a test and will run until the Spring.

Forrester Research predicts online shopping to grow in Canada by 13% per year to 2019, reaching an estimated \$40 billion or 10% of total retail sales, versus 6% today.

Easy methods of pickup and delivery that are flexible to the needs and expectations of the consumer will definitely be in demand.

ADVANCE (slide #15)

While some retailers and landlords are moving to more closely link online and offline purchasing, some traditional pure play online operators such as Amazon seem to be advancing into a whole different level and acknowledging the importance of physical store space.

In one sense, they are only acknowledging the obvious. Far from diminishing the role of the physical store, digital retail has actually expanded it. As detailed in the recent ICSC Research report, *Exploring New Leasing Models in an Omni-Channel World* (now available online on the Research portion of the ICSC Website), the physical store has become the cornerstone of omni-channel sales and marketing strategies.

Online sales are influenced by the physical store as part of the pre-purchase journey, fulfillment or post-purchase experience. This holds true for even the most digitally active consumers. A Comscore survey on behalf of UPS solely targeting very active online consumers found that the store influenced the customer journey in up to 60% of their online sales transactions.

Recognizing this, a number of online-only retailers are beginning to establish brick-and-mortar channels to grow their brands, such as the U.S. based firms: Athleta, Bonobos, Boston Proper, and Warby Parker.

Of course, an especially prominent example of this occurred last November, when **Amazon** opened their very first brick and mortar store in Seattle's University Shopping Centre. Pictured here, it totals about 7,500 sf. in size and sells their best book titles, numbering around 5,000 to 6,000. They have not announced yet whether additional locations will follow.

Earlier, in September they launched a new service known as 'Amazon Flex' which pays part time ordinary drivers; and not courier companies; to deliver packages. So far, about a dozen major U.S. cities have the service with many to more to soon come. Analysts suggest Amazon may have borrowed the concept from Uber in embracing the 'gig economy.'

They continue to test fly delivery drones, that they claim one day will deliver packages up to 5 pounds in 30 minutes or less.

Here in Canada, since launching in 2002, **Amazon.ca** has grown to become the nation's leading and undisputed online retailer and its 6th most visited website.

ADVANCE (slide #16)

Many retailers are now re-evaluating and repositioning their real estate portfolios, some with the goal to deliver goods and services within smaller spaces, or possibly even fewer locations.

IKEA Canada is well underway in launching their new 'pick up' store locations. They recently opened the concept in London Ontario and Quebec City last month while several other Ontario stores will be operational this Spring. The stores allow consumers

to pick up online orders and explore showroom areas and to buy various top selling items. The locations are about 30,000 sf. or less than one-tenth the size of a full line store. Canada is one of only a few countries where IKEA is testing the concept.

Other chains such as **Toys R Us**, **Staples** and **HMV** have acknowledged they will require less space in future years. Some are now shrinking retail areas in the front of the store, while expanding storage space in the back to accommodate e-commerce pickups.

The closure last spring of half the former **Future Shop** locations and rebranding of the stores by Best Buy is further indication of the trend towards consolidation. Best Buy, however scaled and streamlined their format a few year ago with the launching of their Best Buy Mobile stores which now number around 60 locations.

In Southern California, **Walmart** is experimenting with a 1,000 sf. store that is essentially a pickup location for online orders.

ADVANCE (slide #17)

In conclusion, there are some profound changes taking place in the retail real estate industry here in British Columbia, in Canada and abroad.

It is already clear that all aspects of the shopping centre industry are being transformed by today's rapidly evolving digital era. Shopping centre landlords and tenants are adapting to a "new consumer" that uses technologies to research, experience and decide on a product. This should lead to new retail formats and concepts.

Interesting times are on the horizon.

ADVANCE (slide #18)

Thank you for your time and attention.