

Gradual But Perceptible Change Behind Top Canadian Retail, Shopping Centre Trends*

Retail Landscape Transformed While Still Amid Strict Regulations

Abstract: This article reviews major trends that are affecting retailers and shopping centres in Canada. Notably, it examines Millennials, a group similar to those in the U.S. in size and impact but different in life experiences. In addition, the report discusses pure-play retailers opening stores, store closures, luxury retail, changing consumer food expectations and tastes, experiential concepts and unconventional uses, pop-up stores, mixed-use centers, and environmental sustainability.

1) Store Closures/Opening: Canada Gets the Lite Version

Despite increased e-commerce activity in Canada (notably by Amazon), a smaller market, less competition and a more stable retail environment have resulted in the level and rate of closures in the nation being lower than what is being experienced in the U.S. this year. In many cases, U.S. parent companies, while shutting a large number of stores in America, have announced none or only a few in Canada, often as a result of better sales performance.

One notable recent exception to that trend: Sears Canada, which in October said it would seek court approval to liquidate all of its remaining stores and assets.¹ Aware of the company's growing difficulties, shopping centre landlords had already undertaken extensive analyses and preliminary preparations before the announcement. Already, many landlords have lined up new tenants to fill these vacancies. Redemising of the space will

Lessons Learned

Canadian shopping centre landlords and their tenants are experiencing many of the same changes that are remaking the industry elsewhere in North America, but the smaller size of the market and a stricter regulatory environment are, at least to some extent, limiting the full impact. Some key aspects of retail real estate in the nation are:

Real Estate:

- A smaller and less competitive market and a more stable retail environment have resulted in fewer store closures in Canada compared with the U.S. this year.
- New development has largely shifted from enclosed malls to live-work-shop-play mixed-use centers and nodes.
- Dominant Canadian malls tend toward institutional ownership, leading to long-term time horizons for investment.
- Owners are pursuing the goal of *environmental sustainability* through innovative practices (e.g., green roofs).

Demographics :

- Millennials are altering the retail landscape through expectations of seamless online and off-price shopping.

Tenants:

- Experiential concepts and *unconventional* uses are drawing entertainment and retailing closer together.
- *Consumer food expectations and tastes* are promoting growth among food-and-beverage tenants.
- *Pop-up stores*, by creating 'buzz,' enable brands to engage customer groups.
- A number of Canadian *online retailers* (e.g., shoes.com) are moving into physical locations, including enclosed malls.
- Rising affluence and increased tourism have led both to the entrance of international *luxury retailers* and to the expansion of those already in Canada.

* This report was compiled by ICSC Research based on various materials and information provided by Robert Boyle, Senior Director, Retail Research, Ivanhoe Cambridge.

¹ ["Sears Canada Wants Court's Permission to Liquidate All Remaining Stores,"](#) CBC News, Oct 10, 2017.

allow premier dominant centres to introduce more appealing tenancies that also pay higher rental rates.²

Middle-market operators in Canada are being squeezed by expanding low- and high-end retailers. But value (e.g., TJX, Wal-Mart) and fast-fashion retailers (e.g., H&M, Zara, Forever 21) are still prospering, and a number of destination operators are still expanding, such as:

- Canadian Tire (including Sport Chek)
- Indigo Books & Music
- Sporting Life
- Simon's
- MEC (Mountain Equipment Co-op)
- Aritzia.

2) International Firms Still Arriving/Expanding

Rising incomes of the affluent and increased tourism in Toronto and Vancouver have produced an influx of both international luxury retailers entering these and other Canadian markets, and those already there expanding operations. The nation's advantages for foreign retailers are a steadily growing population, proximity to the United States, and a large urban base.

An example of a successful international retailer in Canada is IKEA. (Already here 40 years, it plans to double its store count over the next eight years.) Many retailers are gravitating to longstanding streetfront districts in major cities or to select enclosed malls.

3) Mixed-Use and Other Development Preferences

As construction of new malls is becoming increasingly rare, development has shifted toward a preference for mixed-use facilities and nodes, where residents or workers can live, work, shop and play all in one location. The heightened development along major transit lines or road networks in Canada is resulting in thousands of new residential units, plus office, retail, recreational, institutional space.

Mixed-use can take the form of a single building, a city block or even an entire neighbourhood. The trend is driven by rising residential values, municipal preferences for densification, and reduced commuting time. Some recent examples include Brentwood, a 28-acre project in Burnaby, BC, that will involve an enclosed super-regional mall within a larger open-air retail-entertainment space and residential units; Menkes Waterfront, a Toronto development that will include an office tower, 300,000 square feet of commercial retail space, and a new residential community; in the Brewery District in Edmonton, AB, the renovation and restoration of the 104-year-old Molson Tower into a 350,000-square-foot project scheduled to open in 2018; and Solar

Uniquartier, a \$1-billion development that will become the new city centre of Montreal's South Shore.³

Young residents wanting services they had where they grew up are leading to the suburbanization of urban areas—and, conversely, the urbanization of suburbs.

In addition, Canadian mall owners continue to reinvest heavily in existing super-regional centres, with many experiencing dramatic makeovers and expansions. Moreover, Canadians have embraced outlet centres. With a number built in recent years and a few more underway, a saturation point may soon be reached, however.

4) Institutional Ownership of Major Malls

Two-thirds of the GLA in the Top 100 largest malls are fully or partially owned by Canadian pension funds. The overwhelming institutional ownership structure of leading Canadian malls results in long-term time horizons for investment, with resulting average sales productivity higher than U.S. levels.

Class A 'fortress-type' centres rarely change ownership and remain preferred locations for international retailers expanding or establishing a Canadian presence. Moreover, these centers are less susceptible to retail store rationalization. As larger centres continually strengthen their positions, they put more distance between themselves and smaller centres. This means that when a retailer seeks to rationalize their store count or gross leasable area, dominant malls in larger markets are less likely to see closures, as traffic and sales at these properties are already high and will remain so for the foreseeable future.

5) Environmental Sustainability: Further Advancements, With More to Come.

Retailers and shopping centres remain committed to ensuring that environmentally sustainable practices continue to move forward. Advancements are being made through such initiatives as green roofs and even rooftop gardens, as well as renewable energy practices.

Examples of this forward thinking include the Canadian retailer Simons' store in Londonderry Mall, Edmonton, which gets half of its electricity from solar energy, and IGA Extra Famille Duchemin, a St.-Laurent grocery store that sells produce grown on its roof.⁴

6) Demographics: Millennials on the Rise

At the heart of trends are people, and demographics is the study of people at large—population. In Canada, like elsewhere around the world, demographics is being increasingly shaped by a rising generation: the Millennials.

Millennials' impact is already being felt in the retail sphere, as they expect online and offline shopping to be seamless and can display different shopping patterns and preferences from traditional baby boomers.

² Nichola Saminather, "[Sears Canada Collapse Offers Silver Lining for Mall Owners](#)," *Reuters*, Oct. 18, 2017.

³ [Brentwood project brochure](#); "[Landmark Mixed-Use Development Proposed for Toronto Waterfront](#)," [www.newswire.ca](#), May 5, 2016; Kathy Kerr, "[Mixed-Use Development Recreates Edmonton Brewery District](#)," [www.renx.ca](#), June 6, 2017; "[Devinco Breaks Ground on Mixed-Use Development for Montreal's South Shore](#)," [www.building.ca](#).

⁴ David Dodge, "[New Simons Has Largest Solar System in Edmonton](#)," *Green Energy Futures*, Aug. 24, 2017; Jacob Serebrin, "[An IGA in Montreal is Growing Its Own Vegetables on the Roof](#)," *Montreal Gazette*, July 20, 2017.

Coming of age in a post-recession era, Millennials can be highly price-conscious, although they will pay a premium for experiences (e.g., food). They embrace ‘responsible shopping,’ preferring items where a portion of proceeds is donated to a social cause or charity.

Pop-ups are highly appealing to younger Millennials, including Generation Z, who expect constant change and innovation, and desire shopping experiences in non-traditional settings.

ICSC reports that Millennials in the U.S. overwhelmingly use their mobile devices as shopping companions, with 86% accessing a retailer app at least once a week compared with 74% of Generation X and 61% of Baby Boomers.⁵

While Millennials comprise the exact same percentage of their nation’s population in the U.S. and Canada (26%), stark differences emerge in their consumption patterns. Those in the U.S. aged 20 to 29 have to allocate a higher portion of their capital to health care and education (12.2% and 4.2%, respectively), due to expensive health insurance and rising student loan debt, versus consumer expenditure shares for these categories of only 3.9% and 1.5% in Canada.

In Canada, however, this age group dedicates a larger consumer expenditures to housing (25.7%, versus 21.3% in the U.S.), specifically homeowner’s mortgage. (See Table 1.)

Table 1

**Share of Consumer Expenditure by Category
(ages 20-29 in 2012)**

Country	Housing	Health Goods & Medical Services	Education
United States	21.3%	12.2%	4.2%
Canada	25.7%	3.9%	1.5%

Source: Euromonitor International; ICSC Research

7) Experience and Entertainment: New Draws for Retailers and Centres

The new consumer’s preference for one-of-a-kind events and programs is increasingly reflected in engaging experiential concepts and non-conventional uses that cannot be replicated online. Innovative retailers/tenants include Cineplex’s Rec Room and the Samsung Experience Store.

The same appetite for entertainment holds true for shopping centres—not surprisingly, as Canada provided a crucial early impetus toward entertainment in centres with the 1981 opening of West Edmonton Mall. In Quebec City, for instance, Les Galeries de la Capitale is reinventing its Mega Parc amusement centre, investing more than \$50 million, featuring 18 attractions, a stage for shows, and a 230-metre-long skating trail. Shopping centres are also adding non-retail amenities/services such as cooking classes, performing arts, rock-climbing lessons, and gyms.

Ultimately, entertainment and retail are moving closer together—along with services.

8) Food: Consumer Expectations and Tastes are Expanding

Consumer (especially Millennials’) expectations for memorable experiences and fresh, healthy, quality food are spurring impressive growth in food and beverage (F&B) tenants. In parts of Canada, the U.S. and U.K., the amount of space in some large properties dedicated to F&B is forecast to reach up to 20% or more of total space by 2025.⁶

With this increased desire for unique food experiences, the food hall concept is just starting in Canada. Landlords who want to understand how they might function in different settings can look to the U.S., where they are appearing in shopping centres, office buildings, hotels and even train stations. These ‘people places’ include a mix of modern eateries and design elements, often with communal tables for social interaction. Culinary choices are extensive and often higher-end, and sometimes include local or celebrity chefs as an added attraction.

Moreover, several new food concepts and initiatives have opened or are opening in Toronto and surrounding areas: Curbside, in the Outlet Collection at Niagara, Saks Fifth Avenue/Pusateri’s, and Cheesecake Factory (all opened in 2017); and Eataly (2019).

9) Pop-Ups Keep Popping Up!

Pop-ups address the new consumer’s desire for convenience, discounts, and fast fulfillment. Also known as ‘flash retail,’ pop-up stores have evolved beyond their initial premise of springing up temporarily to take advantage of trends or seasonal products to become a highly effective method for brands to connect and engage key customer groups, as well as to generate excitement, awareness, and even longer-lasting impressions through ‘buzz.’ Because they are temporary, the need to see these is urgent.

Retailers like these opportunities to test concepts and evaluate brick-and-mortar locations before long-term commitment; shopping centres like the chance to reinvigorate vacant spaces. Beyond retail, various other businesses, organizations and even celebrities (e.g. Drake, Justin Bieber, Michael Jordan, Kanye West) use pop-ups to elevate their brands and create increased consumer awareness. Their popularity has become so widespread that retail consultant David Ian Gray predicts that 2018 will be the ‘Year of the Pop-Up’.⁷

Examples of this form include Yorkdale’s recent ‘Concept’ pop-up initiative and Air Miles’ Pop-Up shop at CF Shops at Don Mills, which opened in December 2016.

10) Omni-Channel Strategies: The Most Effective, Best Option

From clicks to bricks, numerous online retailers are now moving into physical locations, including enclosed malls. The omni-channel approach is gaining momentum among many original pure-play retailers. These companies are now realizing the much-needed

⁵ ICSC, “[Millennials Most Empowered by Retailer Technology](#),” *Industry Insights: Consumer Series*, Feb. 28, 2017, p. 4.

⁶ ICSC, [Successful Integration of Food & Beverage Within Retail Real Estate](#), 2017.

⁷ “[Experts Predict 2018 to be ‘Year of the Pop-Up](#),” *Retail Insider*, July 20, 2017.

benefits of a physical presence, including high-traffic locations that can convert sales rapidly, exposure to new clients, and the ability to quickly elevate brand awareness – key elements to growing their business.

Canadian shopping centre owners are actively pursuing pure-play e-tailers that have shifted toward physical stores, men's wear retailers Frank & Oak and Indochino.

Conclusion

As a major business influence, the U.S. casts a large shadow north. Even so, the nature of its own experience as well as particular demographic trends have combined to produce a steadier dynamic for Canadian shopping centres and their tenants. Just as the temperatures tend to be moderately cooler north of the U.S.-Canadian border, so, too, does the climate for retail real estate.