

FEATURE Mall renovations, housing links, U.S. invasion and search for “the magic” all shaping the sector

Re-making retail

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WESTERN INVESTOR

It's a quintessential part of modern life. The mall. Big-box retail, fast-food courts, high fashion, technology outlets, perhaps even a medical office.

But change is coming to this North American tradition – especially in Metro Vancouver where the majority of shopping centres were built between the 1950s and early 1970s, refurbished two or three decades later, and are now ready for another level of renovation and expansion. Niche marketing with a strong focus on branding, mixed-use applications increasingly with a sophisticated residential component and creation of a village-style social hub offering recreation, entertainment and community services – many industry insiders predict these will be integral to the new face of retail, and that landlords considering a renovation need to pay attention if they want to survive.

A surprising number also say there needs to be a sense of “magic” – an accurate if slightly whimsical way of indicating it's no longer enough to simply slap on fresh paint and new tile.

“You have to create an energy, a vibe that's different than what you can get from shopping on the Internet,” stressed **Rick Amantea, Larco Developments'** vice-president for Park Royal.

Trendy or well-branded restaurants (such as **Cactus Club** or **Milestones**) with seating that spills out onto the concourses, lifestyle amenities like a **Steve Nash Sport Club**, plus a keen sense of demographic character and perceptions are just some of the methods Larco has successfully used to drive footsteps to this well-established West Vancouver shopping Mecca. “I like to say our number one fashion store [at Park Royal] is **Whole Foods**. They have a style and flair that's unique and, therefore, attracts a certain demographic. If you shop there, you're probably very stylish – which matches with our high-end fashion retailers.”

Park Royal

Park Royal South's upcoming 120,000-square-foot expansion plans include two levels of parking and an extension of the engaging ambiance that's already captivated consumer's hearts – and shopping loyalty – at both the Village at Park Royal and Morgan Crossing in South Surrey. A residential component, something consumers clamoured for but didn't get in the Village at Park Royal is also under discussion though not yet confirmed.

Eric Carlson, president and CEO of **Anthem Properties**, believes the synergy and convenience of higher-density shopping centres that integrate residential with the traditional retail

is an important trend, one that will increasingly define a quality mall renovation.

“There's a vitality and synergy when you can just grab your laptop, step outside your lobby door and be hanging out in a coffee shop in minutes. Today's living environments are smaller – my son lives in a 550-square-foot apartment – so being able to be alone yet connected to a larger community is important.”

This attention to human scale is at the heart of Anthem's redevelopment of Station Square Mall near Metrotown in Burnaby. Working in partnership with the **Beedie Group**, Anthem plans an aggressive move to convert the original 100,000 square feet of traditional mall into a dynamic residential/retail mini-village with an appealing, contemporary edginess.

“By nature, people want something new and different,” said **Darren Kwiatkowski**, executive vice-president at **Shape Properties Corp.** “If you aren't updating and changing, you risk becoming irrelevant.”

Shape's upcoming phased redevelopment and expansion of the 28-acre **Brentwood Town Centre** site will include both highrise and low-rise residential as well as office space in addition to public plazas and enhanced retail.

“This renovation is not just about adding some towers to a mall; it's about transforming



the entire property from a suburban mall into a true town centre." Shape also plans to include a significant residential component when it begins renovations on its other recent acquisition, Lougheed Town Centre on the Burnaby-Coquitlam border.

"Single-entity malls are no longer working," agreed **Geoff Nagle, Morguard's** director of development, Western Canada. "Parking lots are an incredibly expensive and wasteful use of land. Densification will not only provide stronger retail opportunities but is actually a return to the time-honoured way of building we've always seen in Europe."

Victoria

Recently completed, Morguard's \$400 million-plus makeover of the Uptown Mall in Victoria transformed a 1959 state-of-the-art (in its day) 18.75-acre mall into a chic retail hub with sophisticated fashion, restaurants, new office space and the potential for a future half-million square feet of residential.

Guildford

Still high on the mall renovation radar is **Ivanhoé Cambridge**, with two significant projects: a \$280 million expansion and redevelopment of Guildford Town Centre in Surrey, plus a projected eight-to-10-year, billion-dollar-plus re-invention of Vancouver's Oakridge Centre.

Expected to complete by the end of 2013, Guildford Town Centre's gross leasing area will increase from 980,000 to 1.2 million square feet, making it the largest regional shopping centre south of the Fraser River. The project includes an updated, relocated **Wal-Mart Supercentre** and is anticipated to create 4,000 jobs during construction plus a minimum of 750 new, permanent retail jobs.

Oakridge's transformation actually had the potential to begin in 2007 when the **City of Vancouver's** council of that day approved a

proposal to add 1.2 million square feet of condominiums to the existing 50,000 square feet built in the early 1980s. Although the addition never materialized (yet another victim of the economic

crisis that defined the year 2008), the mall did continue its evolution from neighbourhood mall (one of the original **Woodward's Food Floors** was an anchor tenant) to destination shopping centre for the well-heeled urbanite.

The newly revised redevelopment plan includes removing the mall's dated retail theatre to make room for trendy new retail including a **Crate & Barrel** furniture shop; designing pedestrian-friendly walkways and public spaces; and a residential component that could ultimately become home to more than 2,000 homeowners.

Power centres done

"A mall renovation on its own doesn't make financial sense," said **Gordon Wylie**, Ivanhoé Cambridge's senior director of development. "A change that repositions and rebrands the entire mall, it does make sense. Having the correct retail mix is the magic of a successful mall. New lighting fixtures and better, more pedestrian-friendly interior spaces won't attract new shoppers any more than painting a house without renovating the kitchen will make it more saleable. But they will attract new tenants, and that new mix is what makes a vibrant centre – it's the magic of a successful mall."

Wylie also firmly believes mixed-use, especially when combined with a residential factor, is "where we need to go. The Power Centre phenomenon is done because there are simply too many land constraints. We must develop existing land so it becomes more efficient."

But he's also adamant that, in his view, shopping centres remain a solid investment.

"They aren't high yield, but they are very stable – you could say they are the equivalent to bonds in the financial world. We have holdings in 24 countries and we see a bright future in the

western region of Canada. We firmly believe in the potential of this marketplace."

NAIOP meeting

Delegates to a recent NAIOP developer conference on retail trends heard a similar optimistic theme, as a panel of retail experts noted that both U.S. retailers and local companies are planning expansion in Metro Vancouver this year.

The panel, chaired by Carlson of Anthem Properties, included **Brian Kozak**, senior vice-president, Western Canada for **First Capital Realty Inc.**, **John Horton**, president, **Shape Properties** and **Scott Lee**, principal/broker, **Northwest Atlantic Brokerage**.

Generally, the feeling was that the economic story across Canada is still positive, with both retail tenants and landlords moving forward with their western Canadian projects.

Lee said that the U.S.-based tenants he represents remain cautiously optimistic and continue with their growth plans in Canada, while Canadian retail tenants continue to consider expansion opportunities. Kozak noted that tenant defaults have been very rare in First Capital's portfolio and that where they have occurred other tenants have taken up the vacant premises. When **Blockbuster Video** went bankrupt, 17 of the 20 vacancies that resulted were filled almost immediately, he said.

Target stores

Carlson asked the panelists to relate their experience with U.S.-based **Target's** recent expansion into the Canadian market. Lee, whose firm acted as Target's broker, said Target saw the **Zellers** stores as a unique opportunity to buy into a portfolio of good real estate and to use Canada as its first international expansion.

Kozak noted that First Canadian wasn't able to come to terms with Target, which had specific lease requirements, on all of its stores, but that Wal-Mart stepped into

many of the stores that Target did not take. Of the 17 Zellers in the First Capital portfolio, 13 were taken by Wal-Mart, two by Target and two remained as Zellers stores. U.S. tenants that are either currently opening stores or are planning to include **Anne Taylor, Express, JC Penny, J. Crew, Kohls, Marshalls Dicks Sporting Goods, Nordstrom, Kate Spade** and other higher-end fashion retailers, according to Lee. Canadian retailers face stiff competition, he cautioned.

Availability of capital

Carlson asked the panel to comment on how recent economic volatility has affected the amount of capital available. Kozak said that there has been no effect at all and that North American capital markets continue to provide a surplus of capital for real estate.

Although Shape Properties relies on private equity (as opposed to First Capital, which is publicly traded), accessing capital has not been an issue, Horton said.

Carlson noted that the de-leveraging of corporate and bank balance sheets in 2008 and 2009 was short lived in Canada, and that with an abundance of capital available for real estate the bigger issue has become finding opportunities.

Capitalization rates

Retail capitalization rates are now at near-record lows and Kozak's view is they will stay where they are or, possibly go even lower, due to the stability of the market and amount of capital chasing investment opportunities. Horton also predicted reductions in cap rates, although he said it will be more prevalent in urban markets.

Lease rates

Carlson asked if landlords can expect to get

higher rents in the absence of renovating or re-positioning their centre. Lee noted that anchor tenants cannot be expected to agree to pay more, despite evidence of landlords incurring higher land, servicing, construction and approval costs, and that landlords will have to look to other tenants to make up the difference.

Responding to a question about the bigger obstacles to development, Horton said that municipal approval requirements continue to be set at higher levels, with officials looking for more in terms of landscaping, design, store fronts, etc., all of which adds to development costs.

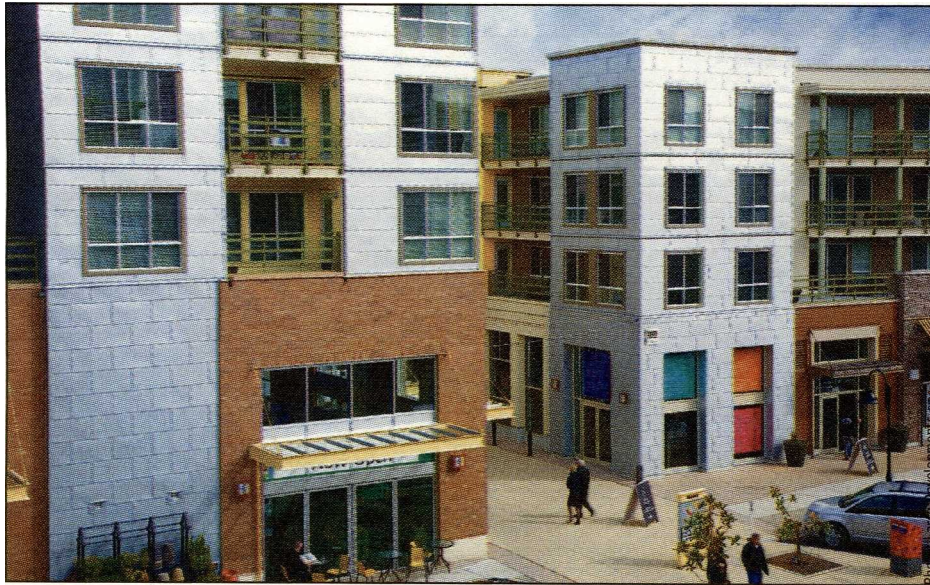
Kozak noted that each market presents different challenges. In Vancouver, it's land prices and availability, he said, pointing to a recent listing of a one-acre parcel on Lonsdale in North Vancouver for \$19 million. In Calgary, the issue is obtaining zoning approval and in Edmonton, which he described as the "wild west," it's just trying to keep up.

Going vertical

Carlson noted that parking is a significant retail issue, with underground parking stalls costing \$30,000 to \$50,000 per stall to develop and construct, and that retailers (particularly anchor tenants) must recognize that their standard parking-stall ratios will not be available. Lee said that many U.S. retailers are not used to the concept of "vertical" retail, coming from markets where the traditional development scheme is sprawling, suburban, big-box centres.

However, many are recognizing that they will have to catch up to the reality of retail under residential, not just in Vancouver but in other major markets in Canada and the United States, he said. ♦

– With a report from James Speakman of
Clark Wilson LLP



High-density residential towers above retail "village" at Morgan Crossing, South Surrey.



Uptown, Victoria: makeover of a 1960s-era mall includes 862,000 square feet of contemporary retail and office space with a residential mix.