



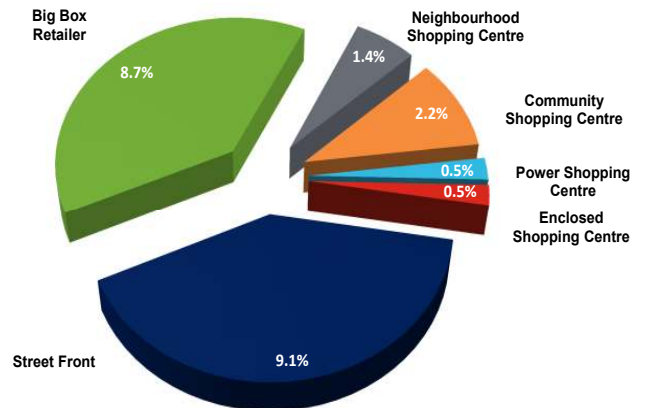
Calgary's retail market displayed surprising buoyancy against the backdrop of low oil prices during the first half of 2015. Headlines were made early in the year as Target Canada announced its impending exit after two years of sustained losses. In January, the Canadian retail landscape lost Mexx Canada and in May, Best Buy made the decision to close the operation of its sister brand Future Shop and rebrand about half of Future Shop stores across Canada to Best Buy. Three stores in Calgary will not be rebranded and have been vacated. June brought a statement from TELUS that all 59 Black's photography retail stores across Canada would close in August. The negative headlines, however, were soon forgotten as all but two Target leases in Calgary to date were purchased, either by landlords or other major retailers such as Lowes. At the mid-point of 2015, Calgary remained a very tight retail environment with 2.9% overall vacancy.

State of the Calgary Market

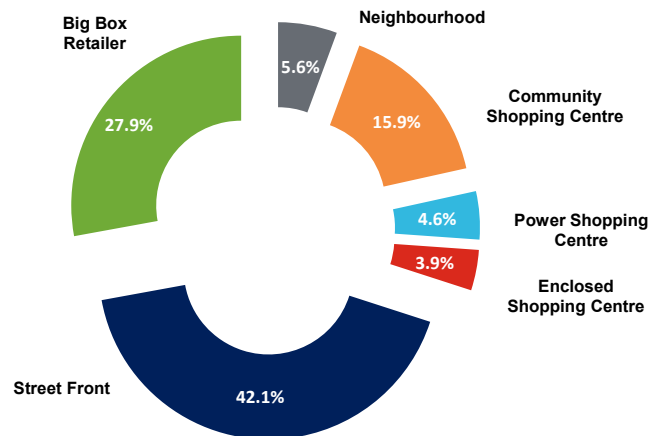
While U.S. retailer expansions defined 2014, the first six months of 2015 were defined by the churn of space resulting from closures and consolidations. Notwithstanding the impending expansion of Canadian Tire and its subsidiary companies (Sport Chek/Nevada Bob's, Pro Hockey Life, Mark's) the large-scale retail presence of Walmart via its 400 Canadian stores, 29 of which are Supercentres, is once again without match. At the other end of the scale, we are seeing small forays into Calgary being made by new entrants from the U.S. such as 9 Rounds who are making their first push into the Canadian market.

Calgary is a dichotomy. Alberta's retail sales per capita have traditionally exceeded the national average, which would lead one to believe a need exists for more retail space. However, Calgary's land use regulations generally serve to limit retail opportunities. As a result, vacant space stemming from closures is highly sought-after. This has been demonstrated

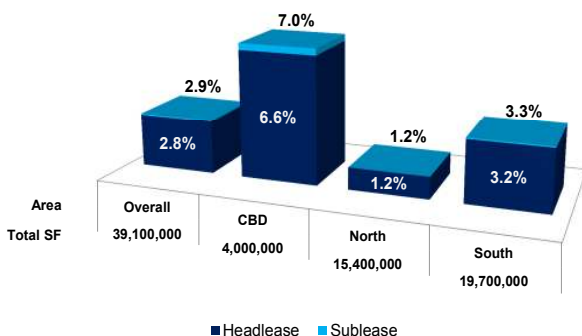
**Calgary Vacancy by Retail Type
Q2 2015**



**Percentage of Vacant Space by Retail Type
Q2 2015**



**Overall Calgary
Retail Vacancy Rates
Q2 2015**



through the immediate action by national, regional and local retailers to take advantage of opportunities in existing centres as they come available. For example, Lowes has purchased the Target leases at Signal Hill and Shawnessy to strengthen their Calgary store network. As well, Cadillac Fairview and Ivanhoe Cambridge paid handsomely for the Target leases at Chinook Centre and Market Mall as a means of regaining control of the spaces and managing the respective tenant mixes.

Additionally, while Sobeys' purchase of Canada Safeway Ltd. prompted the closure of several redundant stores, strong demand for these locations has been shown by an assortment of tenants, with particular focus from health clubs. This has created some conflict as landlords have been holding out for food stores to fill this vacancy, while Sobeys is looking for non-food store sub-tenants that won't compete with their business.

As a retail class, street-front vacancies remained the largest source of retail vacancy, due largely to the current abundant supply of this format. This can be tied to the large amount of new product introduced to the market over the preceding six quarters. More than 105,000 sf of street front space was delivered over 2014 and approximately 33,000 sf has been brought to market to date. This can be attributed to the City of Calgary's emphasis on mixed-use and multi-residential projects as a strategy to reduce the burden on infrastructure and curb perceived urban sprawl.

New Product and Asking Rates

More than 330,000 square feet (sf) of retail inventory was delivered during the first half of 2015, with London at Heritage Station being the most notable project completed. The majority of these projects were grocery-anchored Community Shopping Centres in Calgary's newest residential developments. An additional 226,000 sf of retail inventory is anticipated during the balance of the year with the majority of projects on the immediate horizon being Street Front format retail. A greater proportion of this new retail space will be in new, mixed-use developments such as the Brewery District and Infinity at Marda Loop. Additional large pockets of retail coming to market, however, will be in Calgary's newest office buildings, the Meredith Block and Calgary City Centre. These new developments are anticipated in the third and fourth quarters of 2015, respectively.

Summary of Retail Projects Under Construction in Calgary

Retail Format	Property Name	Community	Retail Area (sf)	Expected Completion	Landlord/Owner
Community Shopping Centre	The District at North Deerfoot	Country Hills	60,000	Q3 2015	Melcor Developments Ltd.
	Evanston Towne Centre - Phase II	Evanston	31,000	Q1 2016	Qualico
	Gates of Nolan Hill	Nolan Hill	94,000	Q1 2016	Royop Development Corporation
Neighbourhood Shopping	Auburn Bay Station	Auburn Bay	84,600	Q3 2016	Brookfield
	Garrison Corner	Garrison Woods	12,000	Q1 2016	Ronmor
Power Shopping Centre	Creekside Phase IV	Creekside	48,800	Q3 2015	Hopewell Development
	East Hills	Applewood	973,000	Q3 2016	RioCan
	Sage Hill Common	Sage Hill	200,000	Q3 2016	Ronmor
	Sage Hill Crossing	Sage Hill	383,600	Q3 2016	RioCan
	Stonegate Common - Phase I	Stonegate	160,000	Q4 2016	WAM/AIMCO
	Seton Phase II	Seton	130,000	Q1 2017	Brookfield
	Deerfoot City	Deerfoot Business Centre	1,122,000	Q4 2017	Shape Properties
Street Front	Stonegate Common - Phase II	Stonegate	1,500,000	2017-2018	WAM/AIMCO
	634 - 6th Avenue SW	Downtown	4,600	Q3 2015	Genco Development Corporation
	Meredith Block	Bridgeland	19,200	Q3 2015	Remington Development Corp.
	South Trail Home Depot Pad	McKenzie	6,500	Q3 2015	Genco Development Corporation
	Brewery District - Phase I	Inglewood	26,300	Q4 2015	M2I Development Corporation
	Calgary City Centre	Downtown	33,000	Q4 2015	Cadillac Fairview
	Infinity at Marda Loop	Marda Loop	11,300	Q4 2015	Steckmar Group
	Sunridge Industrial & Retail Centre	Sunridge	7,500	Q4 2015	OPUS Corp.
	The Centre	Beltline	8,600	Q4 2015	Strategic Group
	619 16 Avenue NE	Transcanada	7,900	Q2 2016	Mylonas Enterprises Ltd.
	1319 Edmonton Trail NE	Renfrew	4,700	Q2 2016	1671021 Alberta Inc.
	Curtis Block	Beltline	61,000	Q2 2016	New Urban Consulting
	Mark on 10th	Beltline	10,800	Q2 2016	Qualex-Landmark
	The Odeon	Marda Loop	11,000	Q2 2016	Ronmor
	Mount Royal Village West	Beltline	88,000	Q4 2016	First Capital Realty Inc.
	Eau Claire Tower	Downtown	26,700	Q1 2017	Oxford Properties
	The Windsor	Windsor Park	25,000	Q1 2017	Arlington Street Developments
	Brookfield Place - East Tower	Downtown	16,600	Q1 2018	Brookfield Office properties
	TELUS Sky	Downtown	15,000	Q1 2018	Westbank
	Total			5,182,700 sf	

Over 2016 and 2017, food store anchored Power Shopping Centre developments will be the dominant format. New food-anchored centres include Mahogany, Auburn Bay and Skypointe. In 2016, these new developments will collectively contribute 1.3 million square feet (msf) of the anticipated 2 msf of new retail product. The East Hills and Sage Hill Crossing developments, as well as the first phase of Stonegate Common, will be the primary contributors to the coming wave of retail space in this format. We continue to watch the evolution of hybrid Lifestyle/Power Shopping Centres, which are now adding significantly more density than many preceding developments delivered only a few years ago. This is due to the City of Calgary imposing restrictions on development permits to further their vision on new development. We anticipate the above-noted shopping centres to mimic several aspects of Seton, where buildings are positioned closer together and pedestrian-friendly Street-Front streetscapes are integrated to tie in with future large box store and theatre-anchored lifestyle centres. Similarly, the proposed Trinity Hills retail development at Canada Olympic Park will integrate parking into the retail areas as a substructure, which will serve as a means of increasing density and will facilitate adapting the development to the contours of the local topography. The end result will be wider pedestrian walkways and multiple green spaces.

On the perimeter of the city, we expect commencement on the proposed New Horizon condominium mall to the south of Cross Iron Mills in early 2016. We also expect outlet malls to gain traction as Tanger and Simon have been looking for sites that are a sufficient distance from CrossIron Mills and large malls. At CrossIron Mills, Ivanhoe Cambridge is relocating its food court space to the theatre wing. This will allow Ivanhoe to remerchandise the existing area to add more retail tenants. Bingham Crossing is seeking outlet tenants to satisfy the demand.

Summary of Completed Calgary Retail Projects (to June 30th, 2015)

Retail Format	Property Name	Community	Retail Area (sf)	Landlord/Owner
Community Shopping Centre	Marlborough Pads	Marlborough	22,400	Ontario Pension Board
	Walden Gate	Walden	61,000	Royop Development Corporation
	West 85th Phase II	West Springs	40,000	Bri-Mor Developments
Neighbourhood Shopping Centre	London at Heritage Station	Heritage	90,000	Westcorp
	Taralake Plaza	Taradale	50,000	Taralake Point Investments Inc.
Flex/Retail	Aviation Crossing	Freeport	30,000	Atlas Development Corporation
Street Front	11th Avenue place	Beltline	8,543	Moreguard
	Evolution at East Village	East Village	17,100	Embassy Bosa Inc.

Leasing activity through the first two quarters of 2015 has served to sustain the rental rates achieved during 2014, as retailers continue to vie for space in communities where young, highly educated individuals with strong disposable incomes reside. Retail regions in South Calgary such as 17th Avenue and 4th Street SW have seen lease rates climb significantly, averaging mid-\$40 per square foot and some reaching \$75 per square foot. The residential areas of Auburn Bay, Copperfield, McKenzie Towne, Mission, Shawnessy and Signal Hill continue to sit at essentially zero vacancy. North Calgary developments in a similar situation are Beacon Hill, Crowfoot and Royal Oak.

Trends Avison Young Sees and Follows

In Calgary, Avison Young follows five basic trends closely. These trends will create both issues and opportunities for the tenants we represent.

I Gentrification and Densification

While the move toward density in Calgary continues to involve the concept of 'complete communities' that include residential, shopping, recreation and office components, we are witnessing an urban transfer of Baby Boomers from the suburbs to mixed-use "walking communities" which are increasingly located centrally in the city. Empty nesters have seen the appeal of greatly shortened commutes to work and the appeal of the village lifestyle made possible by close-to-home shopping. Should the trend hold and new developments such as the East Village, Five West, Garrison Woods and The Montana become destinations for the senior demographic, the potential results will be a pronounced geographical swing in wealth.

Retailers are looking for urban locations to serve this population in new urban condos. For example, Loblaws and Shoppers Drug Mart are already committed to RioCan's development in East Village. Another example, Mount Royal Village West by First Capital, will feature a 27,000 sf Urban Fare grocery store to support the residents of The Royal Condos by Embassy Bosa.

II Brick 'and' Click

A trend called the “Omni-channel Experience” began to emerge in early 2015, wherein the line between bricks-and-mortar retailers and strictly e-commerce business models is becoming blurred. With retailers seeking to give shoppers as many avenues as possible to make purchases, the two previously exclusive business models are now borrowing ideas from one another in an effort to stay relevant in today’s ever-changing retail environment. The question isn’t so much Bricks ‘or’ Clicks but Bricks ‘and’ Clicks as we will see the retailers who can maximize both revenue streams become the most successful. This is a trend that crosses all borders.

The call of the mall, however, continues to dominate the retail world. Chinook Centre, for example, will welcome Hot Topic’s first Calgary location later this year and the Chapters store, which is being re-branded to Indigo, will expand by 5,500 square feet in large part to accommodate another new phenomenon: the ‘shop-within-a-shop’. We are seeing large single retail line outlets begin to behave like department stores by bringing independently-branded shops into their vast spaces to leverage the appeal of one brand off of another through branded in-store boutiques. Joining Starbucks at the re-branded Indigo store in Chinook Centre will be American Girl.

III Vanishing Retailers

In recent years we have witnessed a sizeable reduction in Canadian retail competition. Several major retailer consolidations have taken place, such as Sobeys’ purchase of Canada Safeway Ltd., Loblaw’s acquisition of Shoppers Drug Mart and Canadian Tire bringing Sport Chek, Nevada Bob’s Golf and Pro Hockey Life under its umbrella. As recently as 2014, we began to see the thinning-out of the retail ‘middle-ground’, where clothing cannot compete on price versus the major discount retailers like Walmart and H&M, or exclusivity, which is the domain of Holt Renfrew and Saks Fifth Avenue. Consequently, fashion retailers Jacob and MEXX Canada closed their doors for good in 2014 and early 2015, while Limité filed for bankruptcy protection. Bikini Village Inc., Danier Leather Inc., Le Chateau Inc., and Reitmans (Canada) Ltd. have also suffered from weaker earnings, with Reitmans planning to close its Smart Set stores and re-brand them to regain competitiveness. Ricki’s, Bootlegger, and Cleo are also set to close stores as owner, CoMart, restructures.

2015 began with an announcement from Sony that it would close its 14 remaining Canadian Sony Stores within the year and as the second quarter came to a close, Gap Inc. announced that it will close 175 of its North American stores, 140 of which will be shuttered this year, in an effort to stop a slide in sales from the namesake brand. This store reduction, the second in the last decade, will leave 500 Gap stores and 300 Gap Outlets. The fashion retailer, like many others, is succumbing to ‘fast fashion’, a trend that benefits retailers who can most quickly move fashion from the catwalk to store shelves, and ‘cheap chic’ from retailers offering lower-end, attractively-priced, unique clothing.

IV Ring Roads

We are to closely watching developments between The City of Calgary and the provincial government as to the timing of the project. In May 2015, the federal government ratified the signed agreement between the Province of Alberta and the Tsuu T’ina Nation, which outlines how the South West portion of Stoney Trail will be completed. There is now a seven year window in which to complete the project but, due in part to the economic situation and a recent change in Provincial government, moving forward has been delayed. In order to get this project moving forward, the Mayor of Calgary has proposed that the city use its procurement processes to begin construction while the cost of materials is lower. The intention remains to move forward with construction of the ring road in two sections.

- The Southwest segment of Stoney Trail will extend from east of 69 Street SW on Glenmore Trail/Highway 8 south to Macleod Trail. The Southwest leg of the ring road is slated to be 16 kilometres long with 10 additional kilometres of connector road upgrades included in the overall project. Emphasis is being placed on this section of the ring road being completed first.
- The West segment of Stoney Trail will run south along the west side of the city from Highway 1 (16 Avenue NW) to east of 69 Street SW on Glenmore Trail/Highway 8 where it will connect with the South West segment. This portion of the ring road will be approximately 15 kilometres long. It will be located primarily on the existing Transportation Utility Corridor already owned by the provincial government. The West portion of Stoney Trail is tentatively scheduled to be delivered two years following the Southwest segment.

When complete, Stoney Trail will be a 100 km uninterrupted highway connecting with Calgary’s major streets. Drive times will be shortened and direct links will be available to major industrial centres and distribution facilities. Calgary’s southwest quadrant

hosts numerous older, established shopping centres in Shawnessy, Signal Hill, West Hills and Woodbine, which are anticipated to benefit from the increase in traffic volumes.

V Mixed Use Projects

Alongside the 'grey demographic', a trend continues to develop in Calgary wherein young suburbanites are leaving the communities they grew up in to move to the inner-city and be within walking distance of clubs, shops and restaurants. Several developers began work early and will be ready to offer chic mixed-use projects in places like the East Village, Marda Loop and the former brewery area of Inglewood. Marda Loop has, over recent years, undergone tremendous changes as multi-purpose developments have taken root. A prime example is Ronmor's The Shoppes of Marda Loop which features street-level shopping and condominium units above. Ronmor's The Odeon development will be the next major mixed-use project to come on-stream, due in spring of 2016. Featuring street-level retail, the development aims to build on the success of The Shoppes of Marda Loop by bringing three floors of commercial office space and offering a pedestrian-friendly commute to work for future staff living in Marda Loop, Bankview and Garrison Woods.

Other developments include Westbrook Station, Chinook, Brentwood and RioCan's East Village. RioCan has also added condos to their Brentwood Village centre in Northwest Calgary and are looking to add rental apartments to their Southland Crossing and Glenmore Landing projects.

On the Horizon

The need for retailers to adapt to the digital age is becoming more pronounced as the influence of the Millennial/Generation Y demographic grows. Born between the early 1980's and early 2000's, this demographic is on track to become the largest generation in North American history. Total annual spending by this demographic in the U.S. is estimated at \$1.4 trillion by 2020, comprising approximately 30% of retail sales.

The future of the physical store is therefore becoming increasingly focused on the shopping habits of this group, in that they have largely grown up using mobile, internet, and social media as tools in their social interactions and economic decisions. As a result, brick and mortar retailers are looking to consumer-facing technology to build unique, in-store experiences for these customers. In the U.S., Gap is testing showroom formats and mobile registers. Target has installed digital tablet kiosks in some smaller format stores to help customers navigate aisles and locate inventory and in September 2014, Macy's announced the roll-out of beacons in all of its stores nationwide. The beacons will greet consumers using the Macy's app and offer suggestions on items they might like while walking through the store. ■

References:

Hudes, S. (May 2015). Nenshi says ring road will be city's first order of business with new premier. Calgary Herald. Retrieved from: <http://calgaryherald.com/news/politics/calgary-ready-to-foot-ring-road-bill-mayor-says>

Lindsey, K. (April 2015). What is the future of brick-and-mortar retail stores? retaildive.com. Retrieved from: <http://www.retaildive.com/news/what-is-the-future-of-brick-and-mortar-retail-stores/382167/>

Marowits, R. (May 2015). Lowes builds Canadian reach by adding 13 Target stores, distribution centre. The Canadian Press. Retrieved from: <http://www.winnipegfreepress.com/business/lowes-gets-13-target-canada-stores-milton-distribution-centre-for-151-million-303276441.html>

Reuters. (May 2015). Canadian Tire to buy 12 Target property leases in Canada. Retrieved from: <http://www.reuters.com/article/2015/05/06/cdn-tire-asset-buy-idUSL4N0XX45120150506>

Rosenblum, P. (June 2015). Closing More Stores Doesn't Fix Gap's Biggest Problems. Forbes. Retrieved from: <http://www.forbes.com/sites/paularosenblum/2015/06/15/gap-continues-downsizing-closing-an-additional-175-stores/>

Shaw, H. (March 2015). Comark Inc, owner of Ricki's, Bootlegger and Cleo, is latest Canadian fashion retailer to seek creditor protection. National Post. Retrieved from: <http://business.financialpost.com/news/retail-marketing/comark-inc-owner-of-the-rickis-bootlegger-and-cleo-is-latest-canadian-fashion-retailer-to-see-creditor-protection>

Shaw, H. (June 2015). Why Walmart crushed Target in Canada. Financial Post. Retrieved from: <http://www.theprovince.com/business/Walmart+crushed+Target+Canada/11156926/story.html>

The Canadian Press (June 2015). Telus if closing all of its Blacks photography retail stores in Canada by August. Financial Post. Retrieved from: <http://business.financialpost.com/news/retail-marketing/telus-closing-all-blacks-photography-stores-across-canada>

Toneguzzi, M. (June 2015). Changes taking place at Chinook Centre. Calgary Herald. Retrieved from: <http://calgaryherald.com/business/commercial-real-estate/changes-taking-place-at-chinook-centre>

Transportation Alberta. Southwest Calgary Ring Road. Retrieved from: <https://www.transportation.alberta.ca/sw-crrgp.htm>

Transportation Alberta. West Calgary Ring Road. Retrieved from: <https://www.transportation.alberta.ca/w-crrgp.htm>

Wahba, P. (June 2015). Gap closing 175 stores in its latest turnaround effort. Fortune. Retrieved from: <http://fortune.com/2015/06/15/gap-stores-closings/>

Avison Young's Featured Retail Listings

FORMER SAFEWAY STORE



97 - 8 Street NW, Medicine Hat, AB
11,895 SF building + 33 stalls, on
32,950 SF corner lot

SIERRA SPRINGS SHOPPING CENTRE



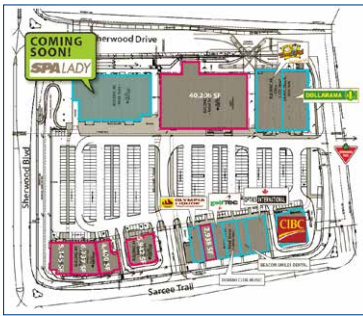
Located in Airdrie, AB
Anchored by Wal-Mart Super
Centre, Home Depot & Rona

HULL BLOCK



205 - 8 Avenue SW
6,571 SF on Stephen Avenue

BEACON HEIGHTS SHOPPING CENTRE



12024 Sarcee Trail NW
Ten acre shopping centre located
on Sarcee Trail directly north of
Beacon Hill. In-line retail & pad
sites available

CREEKSIDE SITE FOUR



Symons Valley Rd & Symons Valley
Parkway NW
Restaurant Pad: 6,000 sf
& Retail Space: 1,563 sf C/L

CALGARY CO-OP PORTFOLIO



Calgary Co-op Shopping Centres
Over 20 listings in Calgary, Airdrie,
Strathmore, and High River

Calgary Retail Team

Bruce Bynoe, Principal
403.232.4384
bruce.bynoe@avisonyoung.com

Josh Rahme, Senior Associate
403.232.4333
josh.rahme@avisonyoung.com

Ryan Rutherford, Senior Associate
403.232.4334
ryan.rutherford@avisonyoung.com

Hani Abdelkader, Associate
403.232.4321
hani.abdelkader@avisonyoung.com

Morena Ianniello, Assistant
587.293.3367
morena.ianniello@avisonyoung.com



Anthony B. Scott, Research Manager
403.232.4344 | anthony.scott@avisonyoung.com

© 2015, Avison Young Real Estate Alberta Inc. All rights reserved.

The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.