



Lethbridge retail market report

October 2023

**AVISON
YOUNG**

What's the scoop?

Market conditions in Canada

The Bank of Canada (BOC) took steps to stimulate the economy during the COVID-19 pandemic, which included lowering the national overnight interest rate and creating accessible lending capital for investors. While these measures ensured a 'soft landing' for the Canadian economy, the BOC is now managing countermeasures to cool the national GDP, increase unemployment, and lower inflation.

While the high interest rate has started to slow the economy, inflation on consumer essentials remains high, unemployment continues to be low, and property owners who locked in at low fixed mortgage rates are now up for renewal at higher rates. These factors have led to higher overall costs and cautious investor sentiment.

Growth in Alberta

Despite the challenges, the retail outlook in Alberta remains positive overall. Alberta's GDP, buoyed by oil and gas and agriculture, is projected to grow 3.0% in 2023, and 2.9% in 2024. Province-wide, retail vacancy rates are very low and retail rents continue to rise in nearly all retail classes.

The cost of living in Alberta is still lower on average than many other provinces, prompting an increase in immigration and migration to Alberta. According to the 2023 census, more than 46,000 of Alberta's new residents are from other provinces. Driven by demand from new residents, discretionary spending on retail goods, restaurants, and personal services is expected to remain strong.

Demand in Lethbridge

Locally, we have seen consistent demand for retail real estate without any significant slowdown. Asking rents have increased since 2020 in line with economic growth and will likely continue to increase in the foreseeable future. With low vacancy in retail space, and a slowdown in construction this year, Lethbridge will likely see new builds in 2024 despite inflated construction costs. However, these high costs will drive asking rents even higher in the new shell and built-to-suit spaces.



Lethbridge area market leasing fundamentals

3.0%

estimated **retail vacancy**

\$24.98

average NNN **asking rent**
per **square foot, per year**

\$9.91

average **additional rent** per
square foot, per year

\$13.53

average **tenant improvement allowance (TIA)**
per **square foot, per year**

1,988

average **square footage** of
new retail concepts

2 mo.

average **free rent period**
for **new** retail leases

Retail market trends



Rental rates

The high cost of construction, particularly in labour, concrete, and pre-fab components, drives rental rates in new builds. However, lease rates in existing space and lease renewals have generally followed economic growth and inflationary pressures. There has also been demand-driven rent growth in high quality space.

Our take on this trend...

Lethbridge is polarized between the moderate asking rents in existing space and inflated asking rents in new builds. Market value has not increased, but rates in new builds are driven by construction costs. Tenant inducements are also significantly disparate and will vary depending on the landlord.



Vacancy and demand

With extremely low vacancy in retail space and some economic uncertainty, landlords are seeking the security of national tenants and long-term leases. Landlords who have invested in their space are looking at long-term growth as capital margins narrow amidst rising costs.

Our take on this trend...

The guaranteed income of a long-term lease and the indemnity of working with national entities is more desirable than ever. In Lethbridge, the average lease term has increased to 7.7 years up from 6.75 years in 2022. However, demand for retail space remains strong; with long tenancies and low vacancy, new space will have to be built.



Mixed-use plazas

The grocery-anchored retail plaza has long been the standard for retail developments. Trends such as wellness services backfilling traditional retail space, demand for quick service restaurants, and adjacent built-purpose residential development, are being integrated into new mixed-use plazas.

Our take on this trend...

The inclusion of office, retail, hospitality, wellness services, and residential development in mixed-use plazas are creating successful and competitive retail sites. In Lethbridge, developers have pivoted to focus on creating retail plazas that serve as community hubs, focused on a wide range of services.

Rates in new builds

New space vs. existing space

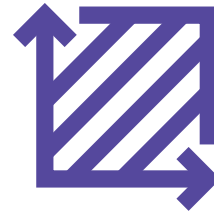
Rental rates in Lethbridge generally fall into one of two categories: the higher rates of newly built or renovated space, and the lower rates of existing or downtown space.

In **Downtown Lethbridge**, rates average around \$12-16 per square foot (sf), depending on the product. Tenant allowances are also not included in every deal. In this area, we see more specialized retailers and food vendors with cosmetic build-outs over 'big-box' tenants that have certain brand standards that can dictate the build-out of certain features and layouts.

South and West Lethbridge have less built retail space and infrastructure, so asking rates more accurately reflect the cost of newly built or renovated space. Asking rates in new builds and built-to-suit spaces average around \$30-35 per sf and are concentrated primarily in these areas.

Drive-thru restaurant space is also distinct, with asking rents trending at the highest they have been in Lethbridge, particularly in new drive-thru space where asking rents can start at \$40 per sf.

The inflated costs of construction continue to drive high asking rents in new builds, and overall operating expenses for both tenants and landlords are higher. Despite this, demand remains steady. Lethbridge has not taken on significant additional vacancies, with the exception of the 22,000 sf former Bed, Bath, and Beyond space which currently has a seasonal tenant. New leases in Lethbridge have been primarily backfilling existing space, priming Lethbridge for a push for new construction in 2024.



New builds

Average basic rent

\$29.63

per square foot, per year

Average tenant improvement allowance

\$20.56

per square foot, per year

Average additional rent

\$10.93

per square foot, per year

Average square feet

1,766

for new rental concepts in new space

Market conditions

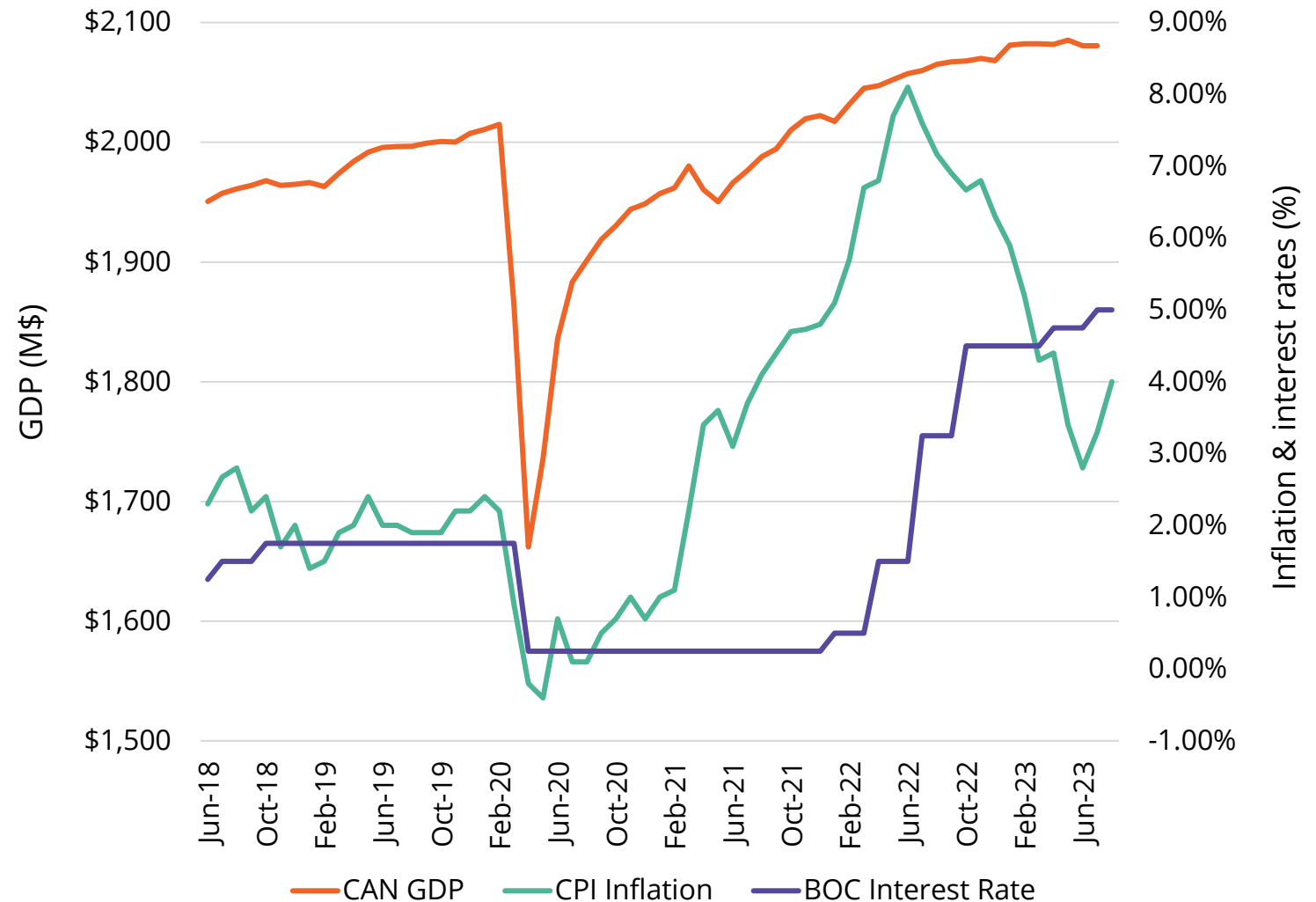
Inflation, interest rates, and GDP

CPI inflation hit a 40-year high in Canada of 8.1% in June 2022 but has since decreased to 4.0% as of August 2023. Although generally trending down - despite the August uptick - some consumer goods remain at an inflation rate of approximately 8% which has begun to slow national household spending. Retail sales growth slowed to 0.1% in June 2023, and sales volumes declined 0.8% in Q2 2023.

The BOC increased the overnight interest rate in both June and July 2023, bringing it to 5.0%, the highest rate since 2001. However, due to the first significant cooling of the national GDP reported as of June 2023, the BOC opted not to raise interest rates again on the September 6th announcement. With the Canadian GDP contracting by -0.2% annualized, the BOC will likely hold off on increasing interest rates again this year if the trend continues. Economists credit the cooling of the national GDP mainly with decreased debt spending.

While retail real estate leases are strong in our market, retail real estate sales are infrequent. In 2023 there has been a shift from purchasers being predominantly investors to owner-users instead. As inflation and interest rates continue to rise, banks are tightening lending parameters and acting more cautiously toward investment sales. However, for owner-users, banks are motivated to lend. Owner-users investing in their own space may be better positioned for future growth. As property owners, they can begin building equity and hedge capital against inflation over the long-term. If their space also includes other tenants as well, property ownership can provide additional income and financial security.

Canadian GDP vs. inflation and interest rates



Source: www150.statcan.gc.ca
www.ctvnews.ca



“Retail real estate in Lethbridge has had sustained growth since 2020, with no signs of slowing down despite national headwinds. While landlords and tenants may be acting cautiously, and some deals may be taking longer they are still getting done - an overall positive sign for the retail sector.”

- Jeremy Roden
Executive Vice President,
Avison Young

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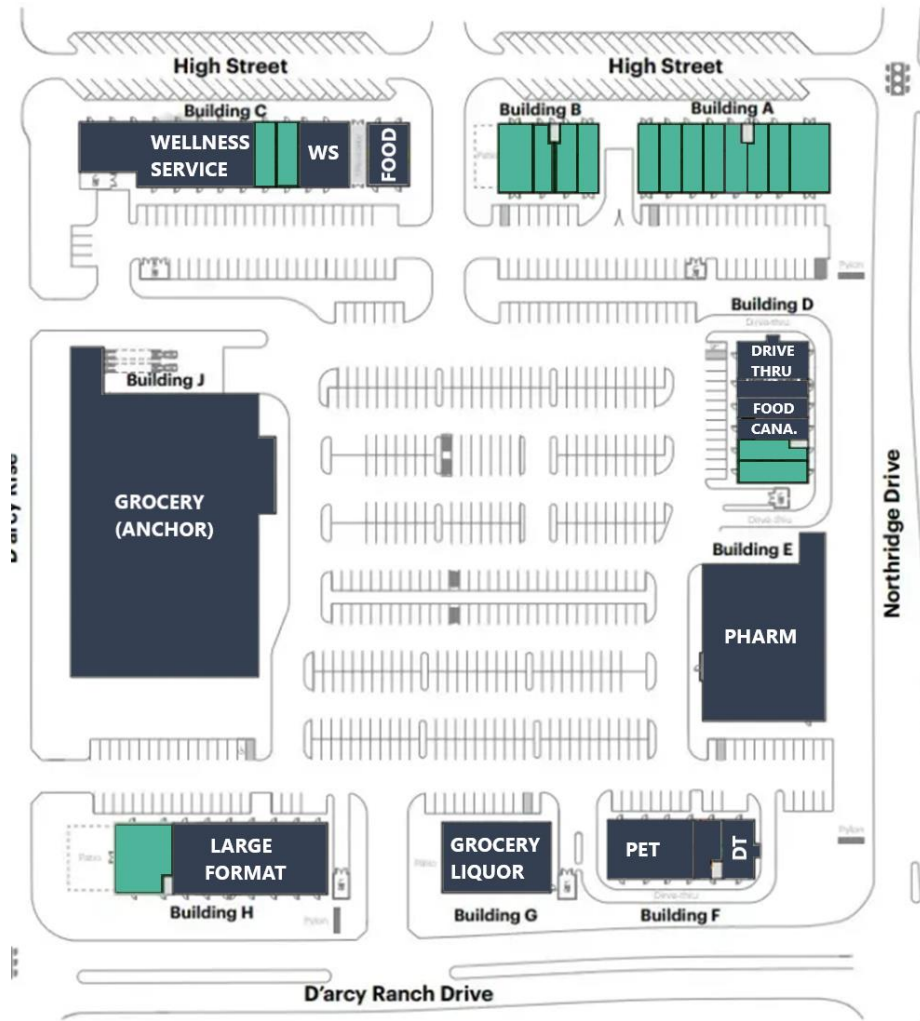
New retail development

Grocery-anchored retail plazas

The new 150,000 square foot (sf) D'Arcy Crossing shopping centre by Anthem Properties is a perfect template for a midsize market retail plaza, especially one that services a tertiary area. This open-air shopping centre in Okotoks is a model for smaller cities like Lethbridge and other small markets that are trying to attract national tenants to new retail plaza developments. As an essential service, and often a national tenant, a grocery retailer has a guaranteed draw for consumers. With Loblaws, Sobeys, and Metro (ON/QB) making up more than half of all food retail sales in Canada, one of these secure national tenants will likely be the occupant. Tertiary retailer offerings such as pharmaceutical, liquor, and personal goods sales operate in dense outparcel development and share parking allowances, services, and fire suppression for a very efficient system. The expansion of wellness services and restaurants offering curbside pickup have contributed to the success of this development style.

Location is also an important part of the intention of the development. These retail plazas are built adjacent to residential areas or can even include built-purpose residential units that are serviced by the site. Rather than seeking traditional commercial sites, these plazas integrate into communities where market share is supported by proximity. In Lethbridge, office, residential, and other asset classes are included in the planning of mixed-use plazas.

D'arcy Crossing – Okotoks, AB



Source: avisonyoung.ca
darcycrossing.com/leasing/

Small market development

National tenants in Crowsnest Pass

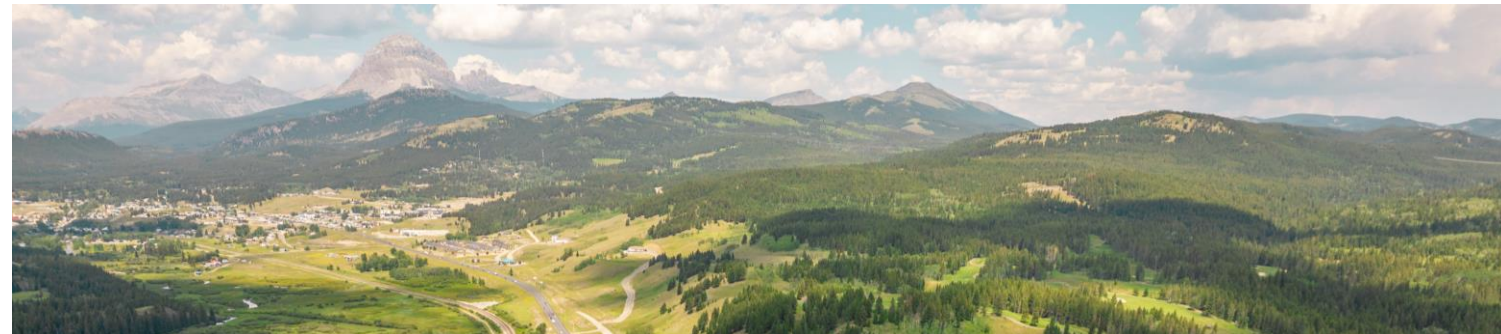
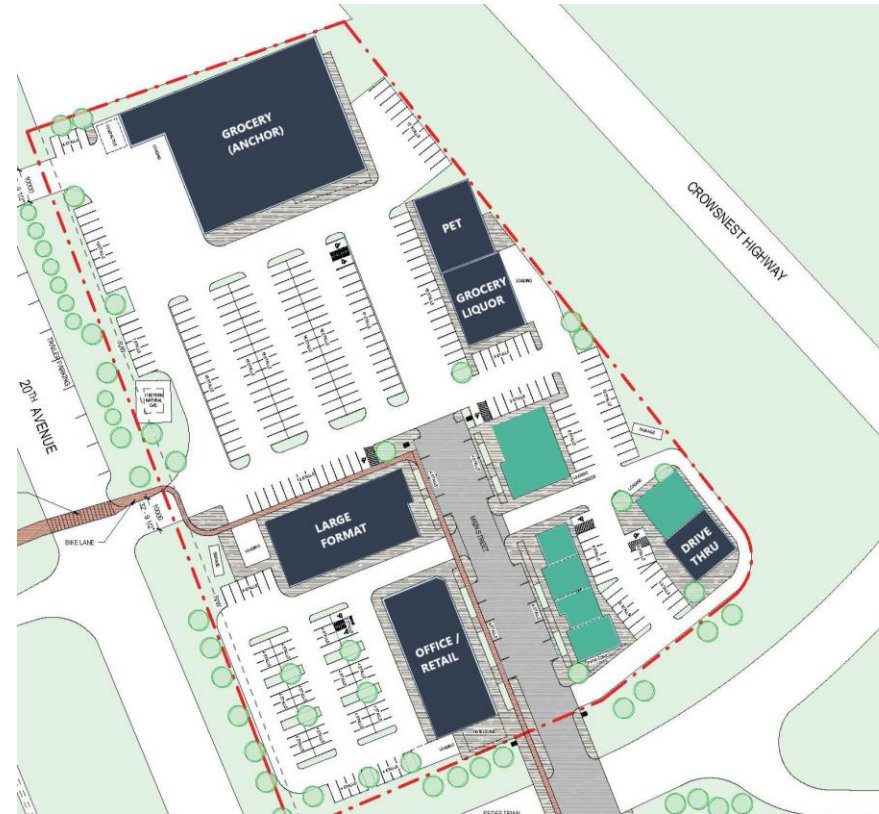
This new 7.13-acre development site is located in the small municipality of Crowsnest Pass along Highway 3. The land for development was purchased in 2022 and is currently in the preleasing stage. The plaza has already secured Sobeys Canada as a grocery-anchor tenant for 25,000 square feet. Additionally, the mixed-use site includes planning for other asset classes such as office, medical services, and hospitality and is zoned 'Comprehensive Mixed-Use.' Drive-thru space, which is in high demand, is planned as well.

“National tenants are not focusing exclusively on high competition sites. When carefully considering market share through the lens of a growth-focused business model, small markets are increasingly desirable.”

**- Jeremy Roden,
Executive Vice President**

Although Crowsnest Pass is a small market with a seasonal population of approximately 17,620, it is situated along a well-trafficked freight route with 22,070+ vehicles per day and acts as a popular access route into the mountains for recreational traffic. The site can also service other small communities in the surrounding area. The region is primed for investment and economic growth.

Crowsnest Crossing – Crowsnest Pass, AB



Source: avisonyoung.ca

Mixed-use developments in Lethbridge

Warehouse Square (Downtown Lethbridge) is currently under a redevelopment strategy that focuses on converting the aged retail space into modern retail units, offices, and residential development near the downtown.

Fairmont Square (South Lethbridge) was originally a proposed retail development that has since been subdivided into parcels for built-to-suit corporate offices and multi-family residential. This development pivoted from its original tenant structure to offer lease and sale opportunities, including spaces in a mixed-use, multi-level building. Having sold a parcel to a multi-family developer, the site will have built-purpose residential rental units that will be serviced by the plaza.

Wal Mart North (North Lethbridge) is a typical retail plaza based on the grocery-anchored template with other retail outparcels. Although primarily commercial, in August 2023 an adjacent parcel of land that was originally approved for commercial use has come to market as a possible residential development.

The Crossings (West Lethbridge) is now in pre-leasing for Phase 2 of the 66-acre mixed-use development. While initially proposed as a retail development, it has evolved to include multi-residential, religious institutions, storage facilities, educational services, and hospitality.



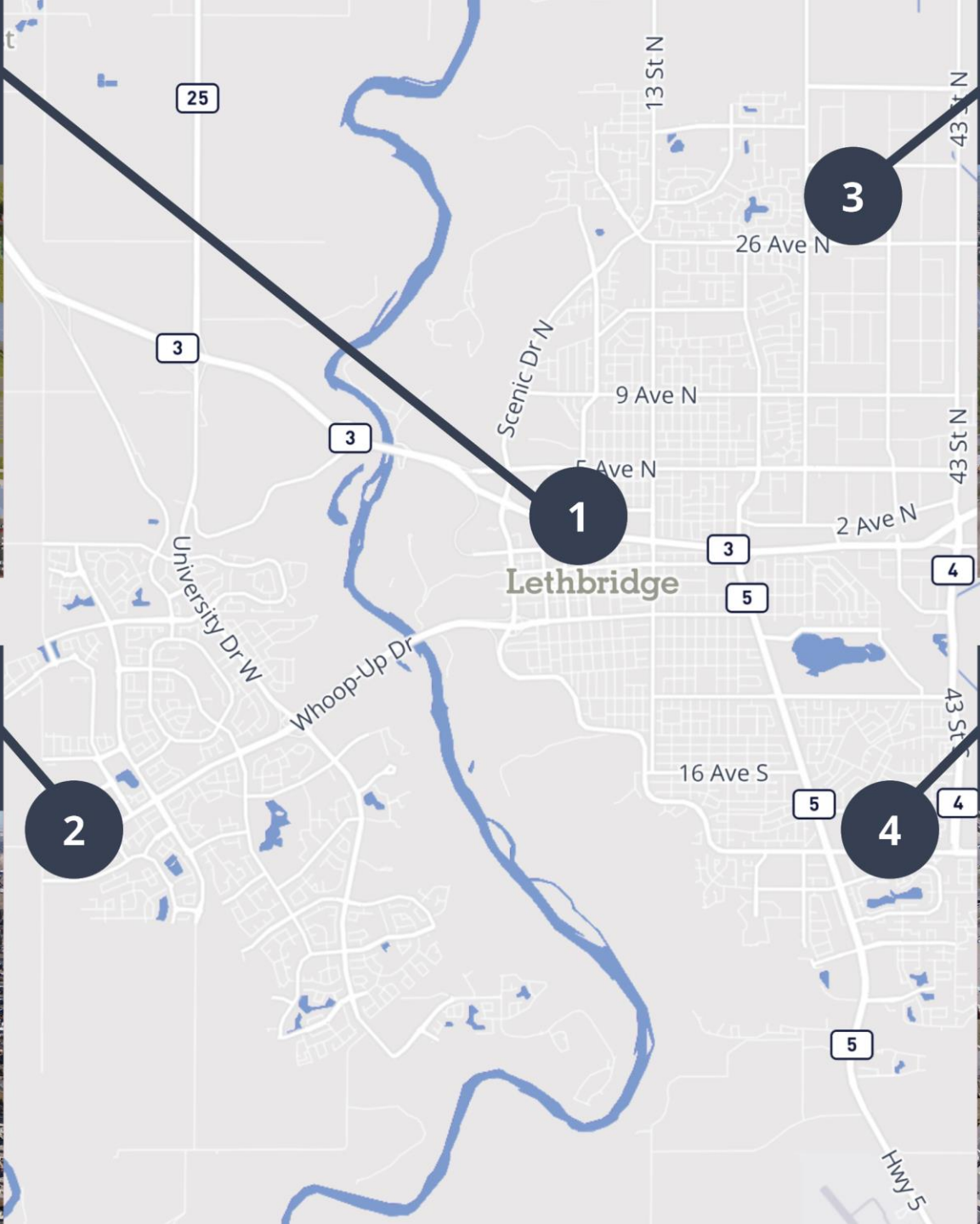
1. Warehouse Square

905 1st Avenue South



2. Crossings

5 Mauretania Road West



3. Walmart North

3055 26th Avenue North



4. Fairmont Square

3402 Fairway Plaza Road South



Lethbridge retail market activity

Recent leasing activity

Tenant name	Address	Sign date	Size	Term	Rent / SF / year	Add. Rent / SF / year	TIA / SF / year
HearingLife	401 Highlands Blvd West	Oct-23	1,525	5 years	\$29.80	\$12.50	\$20.00
Supplement King	23 Southgate Blvd South, Unit 60	Oct-23	1,341	10 years	\$33.50	\$14.15	\$25.00
Love Cheese Shop	2653 Scenic Drive North, Unit 30	Oct-23	1,308	10 years	\$34.50	\$12.50	\$45.00
Crumbl Cookies	3751 Mayor Magrath Dr. S, Unit TBD	Jun-23	2,077	10 years	\$32.50	\$12.00	\$25.00
Church's Chicken	3751 Mayor Magrath Dr. S, Unit 1	May-23	1,970	10 years	\$33.00	\$11.00	\$15.00
Marble Slab	2803 Scenic Dr North, Unit 20	Feb-23	1,700	5 years	\$14.30	\$4.50	-
DynaLife	405 Highlands Blvd West	Feb-23	3,018	10 years	\$30.50	\$12.50	\$30.00

Recent sales activity

Buyer	Address	Sale date	Sale price	SF	Sale price / SF / year	Seller
Childcare service provider	1120 1 Avenue South	Nov-23	\$1,850,000	17,308	\$106.89	1883664 AB Ltd.
Downtown retailer	427 5 Street South	Sep-23	\$1,500,000	8,750	\$171.43	Remington Ventures Ltd.
Large format retailer	1017 2A Avenue North	Jul-23	\$3,500,000	39,500	\$88.61	Melcor REIT GP Inc.

Large contiguous space availabilities

Owner	Site Name	Address	SF	Floors	Landlord Broker
Coulee Creek Common Ltd.	Former Bed, Bath, & Beyond	3829 Mayor Magrath Drive South	22,000	1	Avison Young
c/o Ulmer & Brock Management	Former Sobeys South	2920 26 Avenue South	36,814	1	Avison Young
c/o Omada Commercial	Former Safeway at Park Meadows	1760 23 Street North	45,231	1	Omada Commercial
Anthem Centre Village Mall Ltd.	Former Save-On-Foods	1240 2A Avenue North	95,530	1	Avison Young
Primaris Property Group	Former Sears at Park Place Mall	501 1 Avenue South	130,000 (+/-)	1	Primaris Property Group

Lethbridge in 2023

The retail vacancy rate in Lethbridge continues to be tight. Construction slowed in 2023 due to inflated costs and developers acting cautiously in light of some economic uncertainty. Despite the increased costs, sustained demand will support higher rents in new builds and there will likely be a push for new retail space to be built.

“This has been a strong year for retail real estate and we anticipate seeing notable construction as we head into 2024. Although construction costs are high, we are still seeing the demand for growth that supports new development.”

**- Ashley Soames,
Senior Associate**

In Lethbridge and in the surrounding area, **national tenants are moving into smaller markets** to capitalize on the stronger market share, with less competition, that is offered by smaller populations. Likewise, landlords are increasingly motivated to secure national tenants and long-term tenancies. Although continued demand for retail space supports a positive outlook, investors and landlords are acting cautiously and general market sentiment is more conservative. **Banks are similarly tightening lending parameters**, especially for investors. Retail real estate sale transactions in Lethbridge have almost exclusively seen owner-user purchasers in 2023.

Mixed-use retail plazas are the modern, model commercial development. With the inclusion of different asset classes, these retail centers cater to the communities they serve and promote a walkable, full-service shopping experience. Wellness services continue to expand since the post-COVID surge, now occupying traditional retail space instead of the stand-alone medical campuses that we used to see. In 2023, private education services and daycare services are following suit and moving into retail space. These **new user groups are driving competition for retail spaces and keeping the vacancy rate low.**

Closing thoughts

Although the retail commercial real estate market is being affected by national economic headwinds, growth continues in smaller markets such as Lethbridge. With a population growth rate of nearly 5% since 2019, Lethbridge has a growing consumer base that supports local demand for retail goods and services. Retail real estate leasing activity has been consistent, and there is very little vacancy, which has primed Lethbridge for an increase in new retail construction despite inflated costs. The increased asking rental rates in existing space follows economic growth and, in new space, reflects inflationary pressures as well. Overall, the retail outlook in Lethbridge is very positive and we are optimistic for 2024 to be a growth year for the city and surrounding area.



For more market insights
and information visit
avisonyoung.com

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