



# Lethbridge retail market report

October 2022

**AVISON  
YOUNG**

# Lethbridge area market fundamentals

3%

overall **Lethbridge retail vacancy rate** as of Q3 2022

2,407 sf

average **size of new retail concepts** since Q1 2022

\$20.31

average **NNN asking rent per sf, per year** as of Q3 2022

\$20.71

average **tenant improvement allowance (TIA)** per **sf, per year** as of Q3 2022

\$9.26

average **additional rent per sf, per year** as of Q3 2022

3 mo.

average **free rent period** for new retail leases as of Q3 2022



# Recovery continues

## Retail sales in Canada continue to trend upward.

The COVID-19 pandemic caused an unprecedented shift in retail practice. Retailers faced supply chain issues, shutdowns and restrictions that led to lasting changes in shopping and spending habits. These challenges proved that a successful retail venture must be adaptable and prepared to pivot their business model to react to changing social climates.

Key trends include:

- Pick-up and delivery services have become a crucial component of many business models.
- Brick-and-mortar stores are diversifying their platforms by including e-commerce and social media e-commerce.
- Automation and self-service are in high demand as companies look to streamline service and reduce points of contact.
- Storefronts are shrinking and warehouses are growing in an effort to carry extra stock in case of supply chain disruptions.
- Businesses are moving outdoors, to outparcels and shopping plazas, in hopes of avoiding future shutdowns and appealing to new consumer preferences.



# What's the scoop?

## E-Commerce and COVID-19

E-commerce sales exploded with the onset of the COVID-19 pandemic and global lockdowns. This surge in online retail sales put greater demand on the distribution of retail products globally, nationally, and locally.

This spike has mostly flattened since restrictions eased and now e-commerce continues slow, sustained growth. However, it changed the way businesses viewed their supply chain and secondary markets.

We have witnessed three major distribution companies acquire real estate in our region to expand operations to meet the demand in secondary and tertiary markets.

## Foot-traffic returns, and business picks up

As pandemic restrictions eased in Alberta, foot traffic in major centres and main streets increased sharply. As office personnel returned to work, retail and restaurants saw another uptick. The pent-up demand for a physical shopping experience played a large part in the recovery of brick-and-mortar retailers.

While activity has returned to nearly pre-pandemic levels, there are weekly fluctuations in foot traffic that represent the new hybrid work system. Retailers are looking toward including e-commerce offerings to supplement sales.

## Local retailers pivot to new strategies

Locally, we have witnessed traditional brick and mortar retail stores push to increase their online presence while retracting their retail floor space and seeking larger warehousing opportunities for more inventory and ease of distribution.



# Top retail trends in Lethbridge



## Restaurant downsizing

The trend of **restaurant space shrinking continues** and will likely persist for the next two to three years. We are seeing larger format restaurants reduce square footage (sf) when relocating and we have seen **Quick Serve Restaurants (QSRs) reduce sf 15-20%**. New QSR concepts have outnumbered larger format sit-down restaurant concepts 10-to-1 in our market since 2020.



## Wellness services

We have seen the **health, wellness, medical, mental health, and counselling services** become quite active in our region over the past two years, with new locations and expansion in size to accommodate demand. We are also seeing these businesses securing real estate in what have predominately been traditional retail centers, **backfilling retail space.**



## Retail spaces

Retail spaces are shifting to more **outdoor plazas, green space, and common space.** With the benefit of an outdoor storefront, businesses increase exposure, make access more convenient, and can avoid any future shutdowns or similar impacts to their operation. **Outparcels with anchor tenants** are also popular and parking restrictions are being re-examined to no longer be a limiting factor to development.



# Retail in Canada

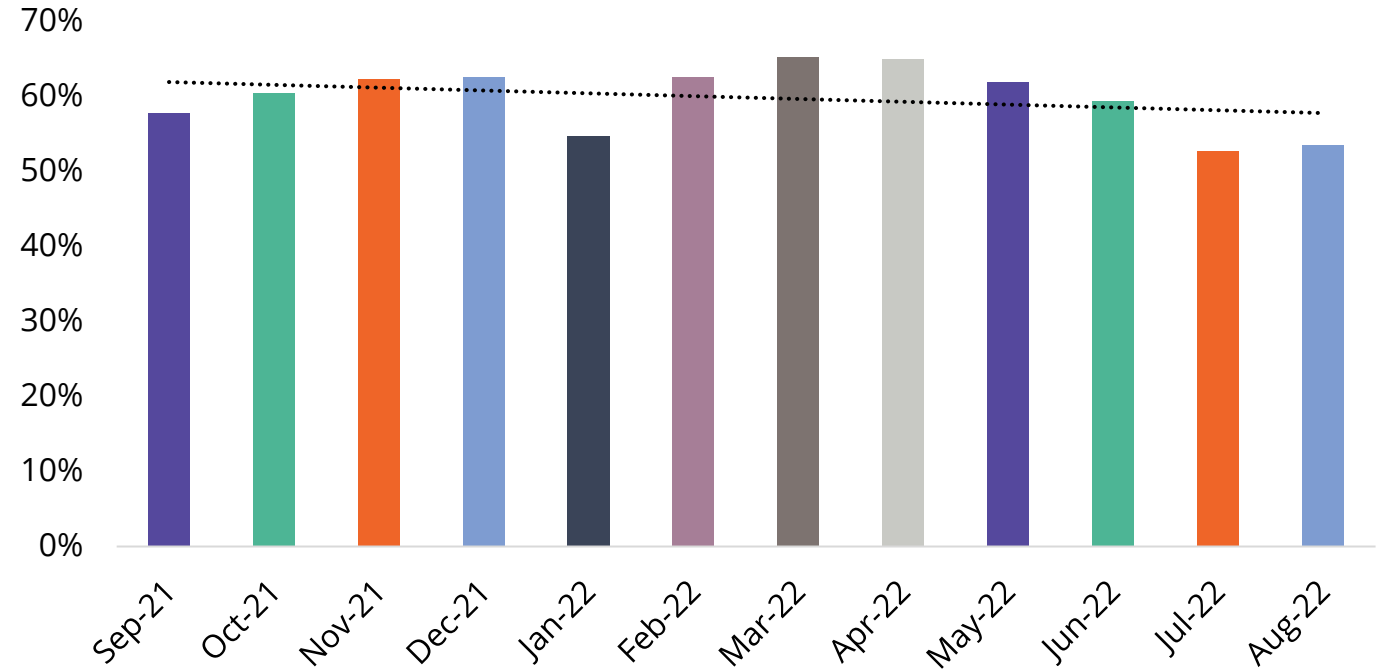
## Small business confidence

Small businesses made up 98.1% of all employer businesses in Canada in 2021. Yet, the federal budget release in Quarter (Q) 2, 2022, saw the end of all COVID support programs for small business. According to the CFIB, 67% were forced to take on COVID-related debt, at an average of \$158,000 per business. The retail boom that came with the easing of pandemic restrictions in Alberta bolstered sales in spring 2022, but many small businesses are still recovering.

Small business confidence hit a record low of 30.84% - where 50 points is neutral and 65+ shows economic growth - in March of 2020. Confidence has seen a steep recovery in 2022, however, the average mean of small business confidence is still down-trending. Seasonal variations should also be considered as retail is in a bit of a slow-down prior to the holiday season.

Retail sales revenue continues to increase Canada-wide. Although the numbers may be buoyed by inflation, seasonally adjusted retail sales were up 1.1% in June and the volume of sales increased 2.2% although analysts are expecting a 2% drop in July 2022.

## Small business confidence



**34.0%**  
expect to **raise the price of goods and services in Q4 2022**

**22.4%**  
expect **demand** to increase in Q4 2022

**82.8%**  
of businesses **purchase materials** from a foreign supplier in Q3 2022

# Headwinds

## Construction

Construction of new retail property has slowed nation-wide due to the increased cost of building. In Q2 2022, costs increased approximately 12.8% year-over-year. Construction prices continue to trend up nationally.

In Calgary, costs increased 9.1% but the city bucked the national trend and continued to build retail and office space for expanding demand. In Lethbridge, new builds are averaging approximately 24 months from breaking ground to completion.

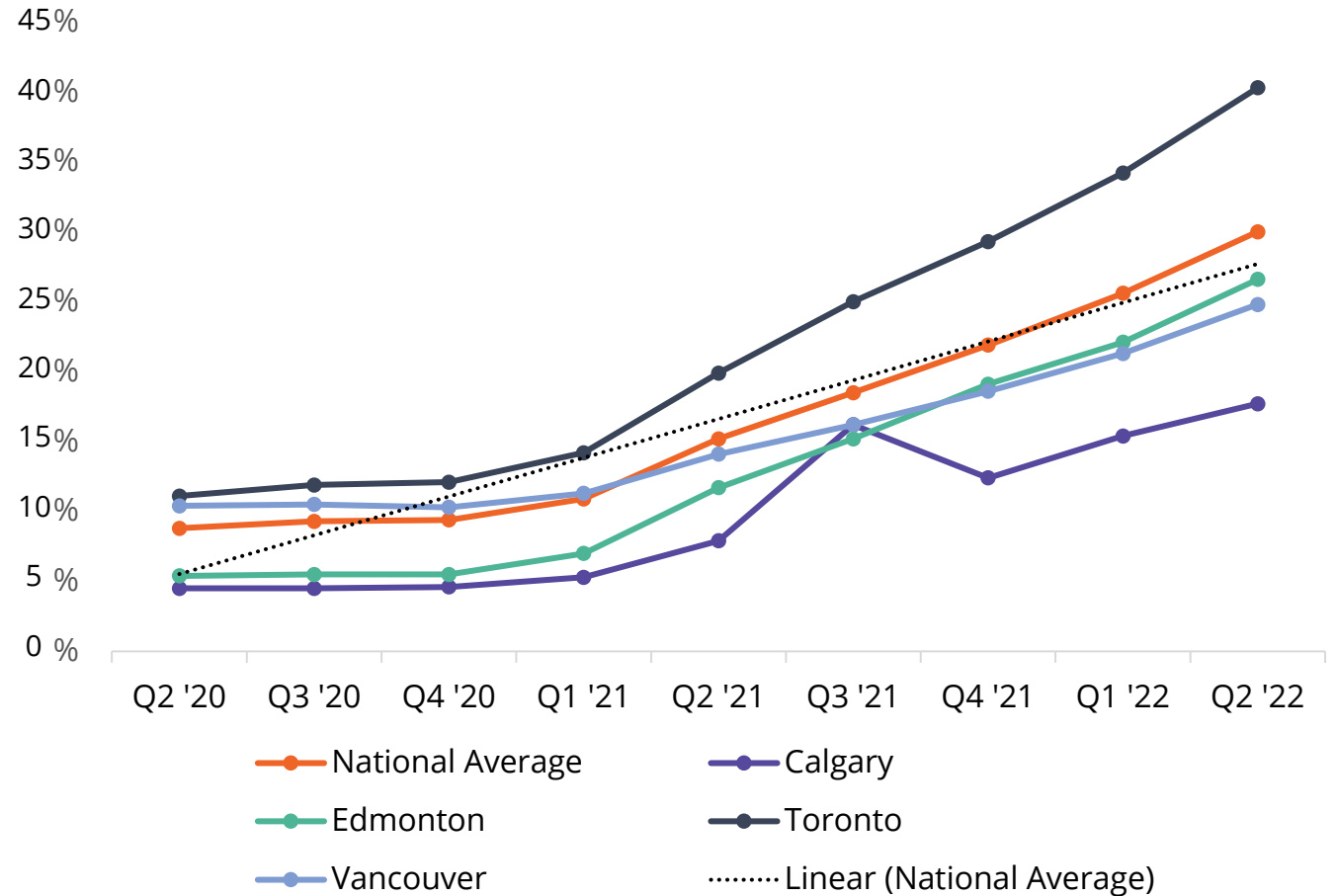
## Supply chain

Supply chain issues persist as 59% of retail businesses expect difficulties in the next quarter of 2022. Retail businesses are seeking additional warehouse and/or storage space to retain surplus goods in case of a supply chain interruption.

## Inflation

CPI inflation hit a 39-year high of 8.1% in June 2022 but decreased to 7.6% in July 2022. Although this trend is promising, remains above the Bank of Canada's (BoC) 2% target which prompted a 75-point increase in September; the BoC interest rate now sits at 3.25%.

## Building construction price index non-residential (% increase since 2017)



Source: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=2010000802&pickMembers%5B0%5D=1.1&cubeTimeFrame.startMonth=06&cubeTimeFrame.startYear=2021&cubeTimeFrame.endMonth=06&cubeTimeFrame.endYear=2022&referencePeriods=20210601%2C20220601>

# Canadian retail CAP rates

**CAP Rates began trending up in relation to increased interest rates.**

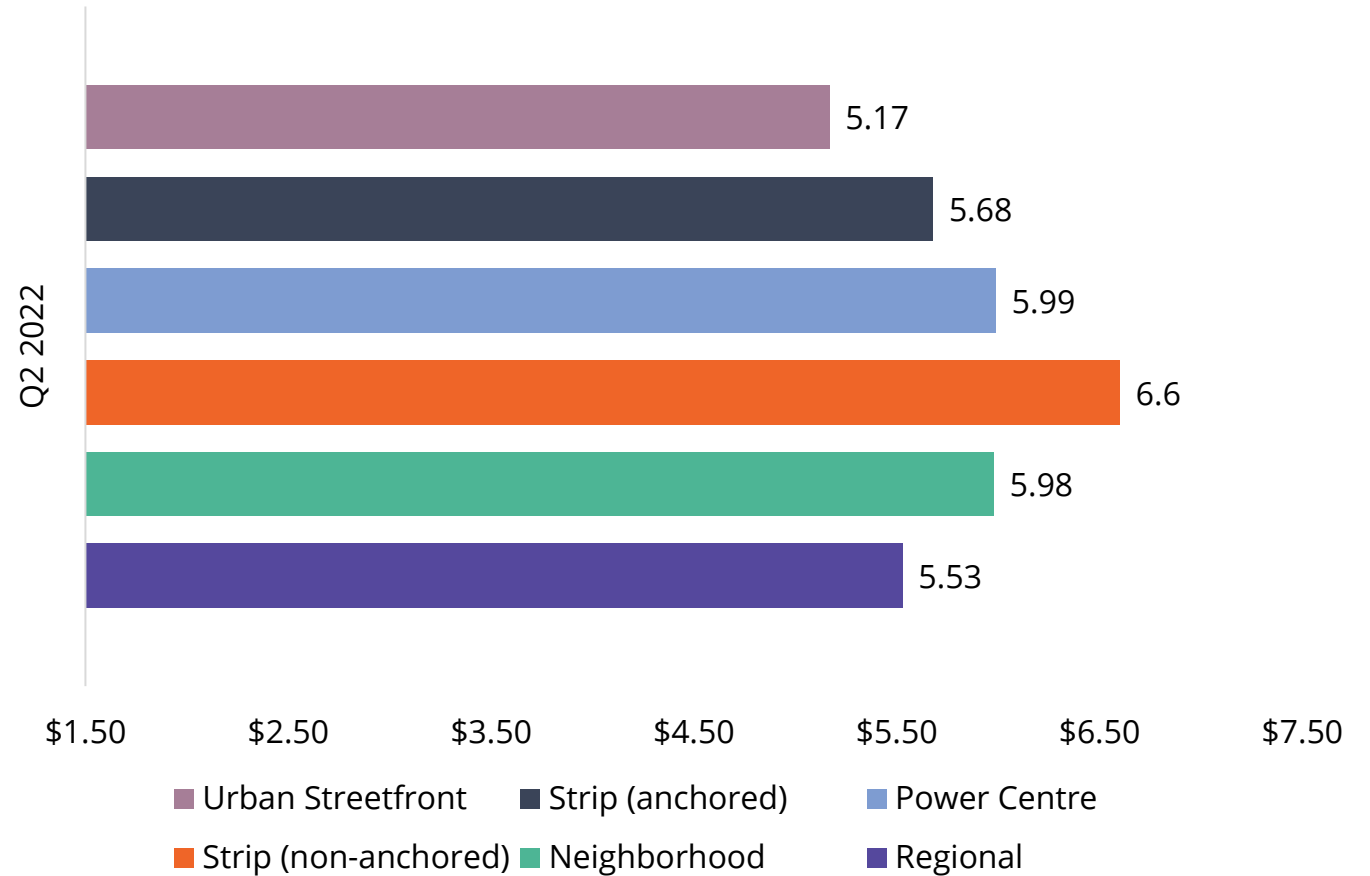
The four benchmark asset classes show that the Overall Capitalization Rate (OCR) rose to 5.04% in Q2 2022 as compared to the previous quarter at 4.91%.

In a survey conducted by Canadian Property Management, the overwhelming majority predict higher cap rates on retail assets in urban and secondary markets. Additionally, most investors and lenders now apply, “a higher internal rate of return to assess the viability of an asset” predominantly for office/retail properties and any investments in secondary markets according to Canadian Property Management .

CAP rates are rising in all retail markets. Calgary, however, has been significantly more stable than the average due to new builds and ‘pent up’ demand allowing retail properties in Calgary to post increased asking rents in Q2 2022.

CBRE names food-anchored retail plazas as the most desirable retail asset type across nearly all markets with Industrial and Multi-family investment also remaining sound.

## Average Canada retail CAP rates (primary markets)



Source: Canadian Cap Rate Report Cushman Wakefield



# Return to work

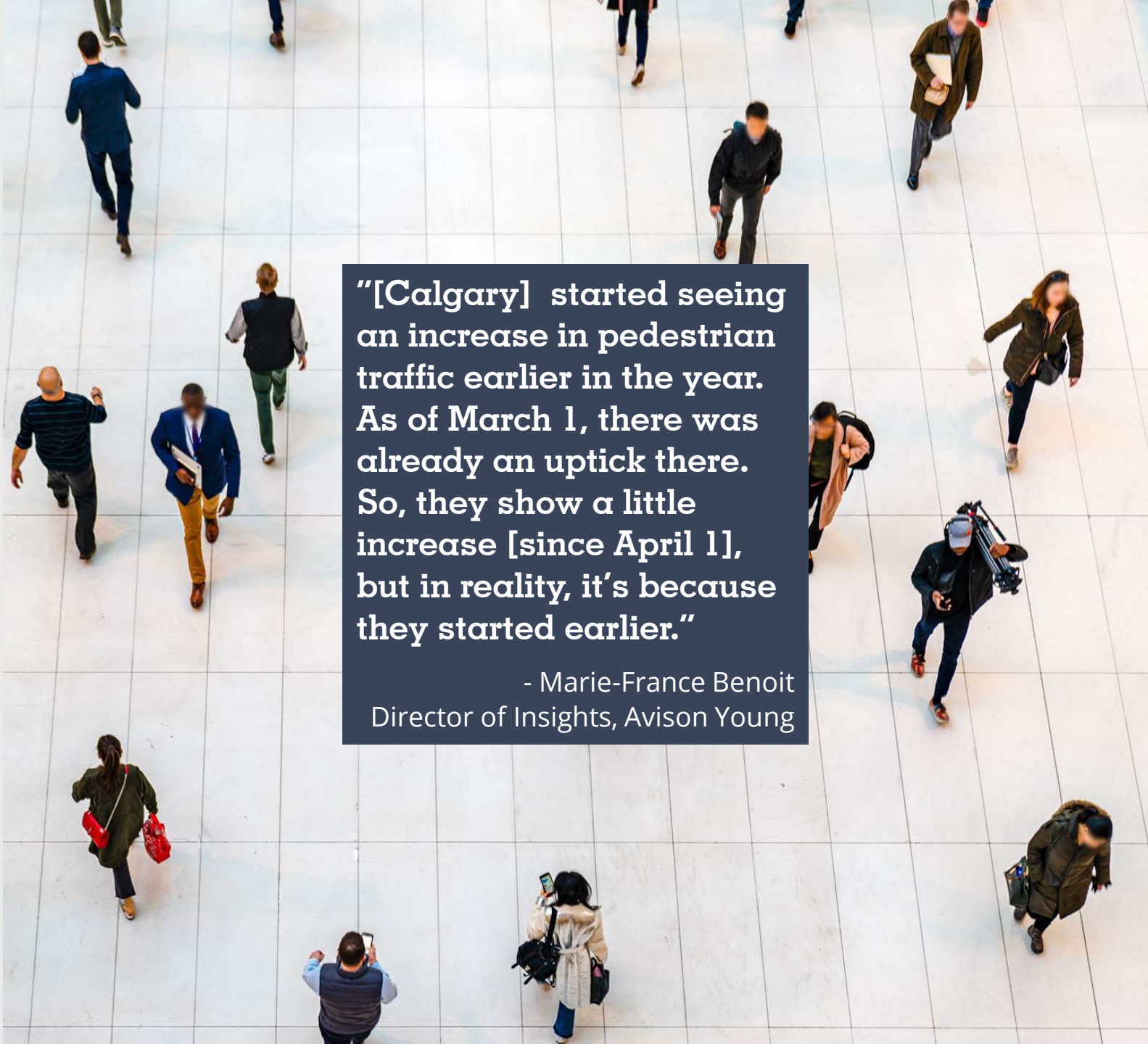
## While employees return to work, downtown and other urban foot traffic returns.

Foot traffic in metropolitan centres has shown rapid increase since the end of Q1 2022. In Q3, Toronto experienced a 74% spike in traffic. Although Alberta markets posted more conservative increases, it is encouraging that traffic is still increasing since the province was the first to lift restrictions in March 2022. With the return of traffic to nearly pre-pandemic levels, retail delivery in these centres has seen a parallel increase.

### Workforce

While unemployment is extremely low in Canada, the strain of having a tight job market has caused a labour shortage in several industries. In August 2022, the national unemployment rate up-ticked to 5.4% due in large part to the elimination of 77,000 full-time positions according to the Labor Force Survey.

In construction especially, appx 28,000 positions were lost. This was due to the labor shortage, combined with high material costs, having significantly slowed the pace of new builds. With real estate inventory low, this is good news for commercial real estate (CRE) classes that are in high demand and will help to control rising CAP rates.



**“[Calgary] started seeing an increase in pedestrian traffic earlier in the year. As of March 1, there was already an uptick there. So, they show a little increase [since April 1], but in reality, it’s because they started earlier.”**

- Marie-France Benoit  
Director of Insights, Avison Young

# Alberta

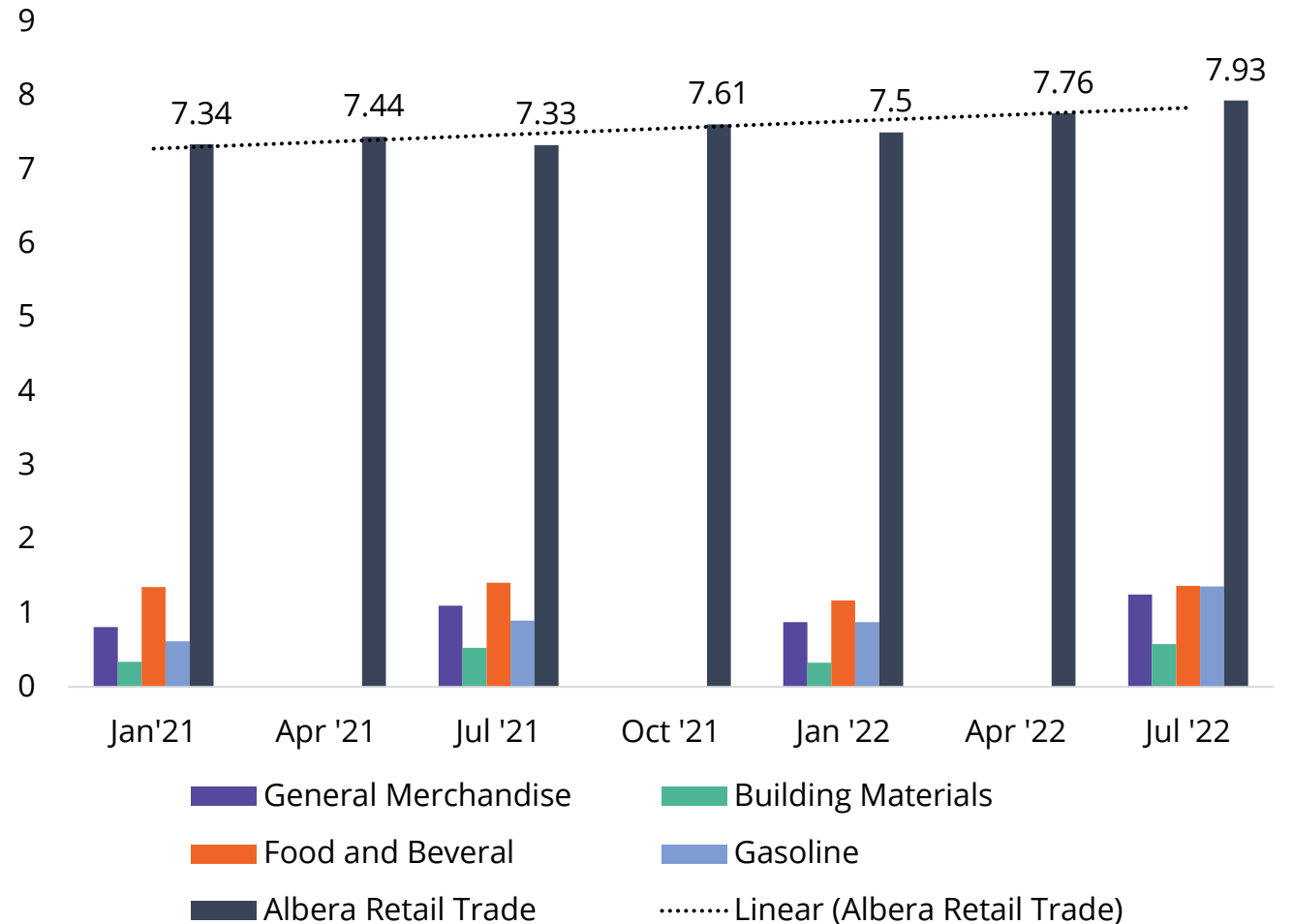
## Albertans pay less taxes than any other province

Investors from Ontario and BC have increased purchasing commercial real estate in Alberta because of lower rates and taxes compared to their respective markets. Outside interest, combined with diversified local investment, led to a 120% increase in CRE sales year-over-year in Alberta.

While the Alberta economy is mostly buoyed by oil and gas, agriculture, and industry, the economic value of retail trade is still significant. According to the Retail Council of Canada (RCC), “nearly one in every ten jobs in Alberta is in retail and for every single retail job, an additional four more jobs are created.”

Retail trade in Alberta increased by 6.5% at the end of Q2 2022 to \$7.9 billion representing an increase that has now exceeded pre-pandemic numbers.

## Retail trade in Alberta (B)



# Edmonton

**Asking retail rents have been mostly stable as vacancy continues to drop.**

CRE investment in Edmonton reached \$1.46 billion by the end of Q2 2022 and vacancy rates significantly dropped in Q3 2022. Edmonton's growing net absorption is mainly attributable to general retail, malls, and neighbourhood centers. Shopping centres with quality (typically food) anchor tenants are performing notably well. With a healthy vacancy rate stabilizing below 5%, landlords are likely to begin raising rents to counter inflation and higher CAP rates.

There are also three major retail/office projects under construction designed to attract shoppers, residents, and office workers; the Station Lands, the CWB Tower, and the Connect Centre (completed in 2022).

## West Edmonton Mall

The West Edmonton Mall has seen excellent recovery due to a surge in domestic tourism. General manager Danielle Woo stated that the West Edmonton Mall is, "definitely where we were or better than we were pre-pandemic as far as what the mall feels like as a whole." International and new 'first-to-market' retailers are also seeking the exposure and infrastructure the mall offers.

61.5m

total Inventory sf Q3 2022

2.35m

sf proposed retail/office development Q3 2022

4.6%

retail Vacancy Q3 2022

\$22.64

average NNN rate Q1 2022

Source: Avison Young Edmonton

Source: CBRE Canada Retail Rent Survey H1 2022



# Calgary

**Asking rents in Calgary have been trending up since Q1 of 2022.**

CRE investment in Calgary reached \$1.3 billion (not including the \$1.2 billion Bow Tower sale) by the end of Q2 2022.

Calgary has been an outlier in terms of new retail construction. New developments and most of the new space is pre-leased prior to breaking ground.

These development trends trickle down into Calgary submarkets as well. For Example, in Okotoks the 150,000-sf retail/office plaza D'Arcy Crossings is over 70% leased and expected to be fully leased by the time it opens in April 2023. Tertiary markets such as Lethbridge are also dependent on pre-leasing to secure financing for project completions.

Suburban demand is increasing; areas that have denser residential development are requiring more retail and mixed-use services to be offered locally. In Lethbridge, we have seen a similar trend of mixed-use retail developments having success in residential areas.

**7.49m**

**total Inventory sf Q1 2022**

**500k**

**sf under construction Q1 2022**

**4.2%**

**total Availability Q1 2022**

**\$26.30**

**average NNN rate Q1 2022**

Source: Avison Young Calgary

Source: CBRE - Canada Retail Rent Survey H1 2022



# Lethbridge

**Lethbridge has a diversified economic base that helped sustain growth through the pandemic.**

The number of licensed business in Lethbridge is on the rise after a steep decline during the COVID-19 shutdowns. Lethbridge has a large service area and has redeveloped the Lethbridge Regional Airport. The city is also currently expanding the Exhibition Park with a 268,000 sf Agri-food Hub and Trade Centre.

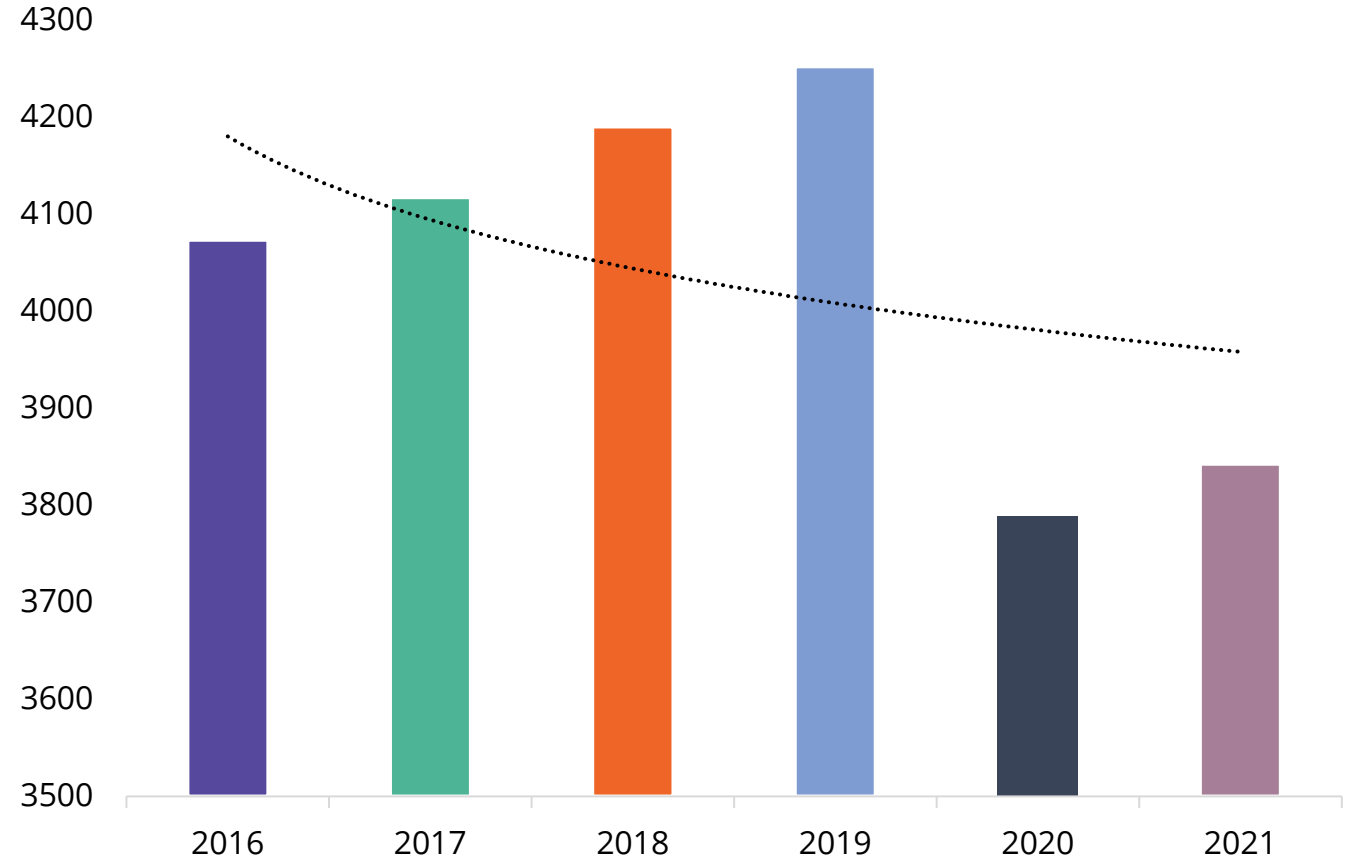
The Downtown Business Revitalization Zone (BRZ) opened the 'Festival Square' in August 2022 to help draw foot traffic, events, and vendors to the downtown. The BRZ also offers grants and support for small businesses.

## Retail plazas

New retail developments in Lethbridge have reexamined their proposed tenant base and have opted for mixed-use over strictly retail. The incorporation of services, offices, residential, and other uses have successfully filled retail developments to full capacity, including outparcels.

In West Lethbridge especially, heavy residential saturation means that there is localized demand for retail, office, and services outside of the downtown or the 'big-box' shopping centres along Mayor Magrath Drive South.

## Number of Lethbridge licensed businesses



Source: Lethbridge Economic Development

**“It can drastically change a small community when a major grocery retailer is introduced.”**

- Shane Garner, Associate, Avison Young

# Why Lethbridge?

**Lethbridge was ranked #10 in the 2022 Canada's Best Small Cities report.**

## **Balanced economy**

Lethbridge maintains balanced growth and a diversified local economy. Being less dependent on oil and gas, Lethbridge is generally more stable than many Alberta markets. Hosting two post-secondary institutions, Lethbridge has a well-educated labor force with a rate of 65.4% labor force participation. Top employment sectors include retail trade, construction, and accommodation and food services.

## **Low costs**

With no provincial, business, payroll, or machinery tax, and competitive market rates, Lethbridge offers a low-cost operating environment with demonstrated savings in areas such as taxation, land, construction, and transport.

## **Location**

Lethbridge is located in the southern portion of the western province of Alberta, Canada, only one hour north of the Alberta-Montana border. Lethbridge is closer to the U.S. market than any other city in Alberta.



**“The Lethbridge Airport was just renovated in anticipation of a post-pandemic tourism boom.”**

- 2022 Canada's Best Small Cities report

**“Lethbridge's economy has always been distinguished by the ability of businesses and entrepreneurs to adapt and innovate with changing times.”**

- Economic Development Lethbridge



# E-commerce in Lethbridge

Retail 'omni-channeling' is the sales strategy of providing a physical and online shopping experiences through computer, mobile, phone, social media, and the brick-and-mortar store.

E-commerce continues to grow, putting pressure on retailers to offer an omni-channeled shopping experience.

## Silla Designs

Silla Designs is a great example of a growing local retailer who embraced omni-channel sales. When they opened in Lethbridge in 2008, the vision was to "create a shop that was warm, inviting and endlessly inspiring." Silla created a successful 'shopping experience,' for consumers and has opened a second location in Market Mall in Calgary. Not only is the physical store expanding, but Silla Designs has evolved into an online retailer that offers online shopping, curbside pickup and wholesaling. Additionally, they are utilizing social media ecommerce strategies, notably on TikTok, where they feature a unique curated collection exclusively marketed on that platform.

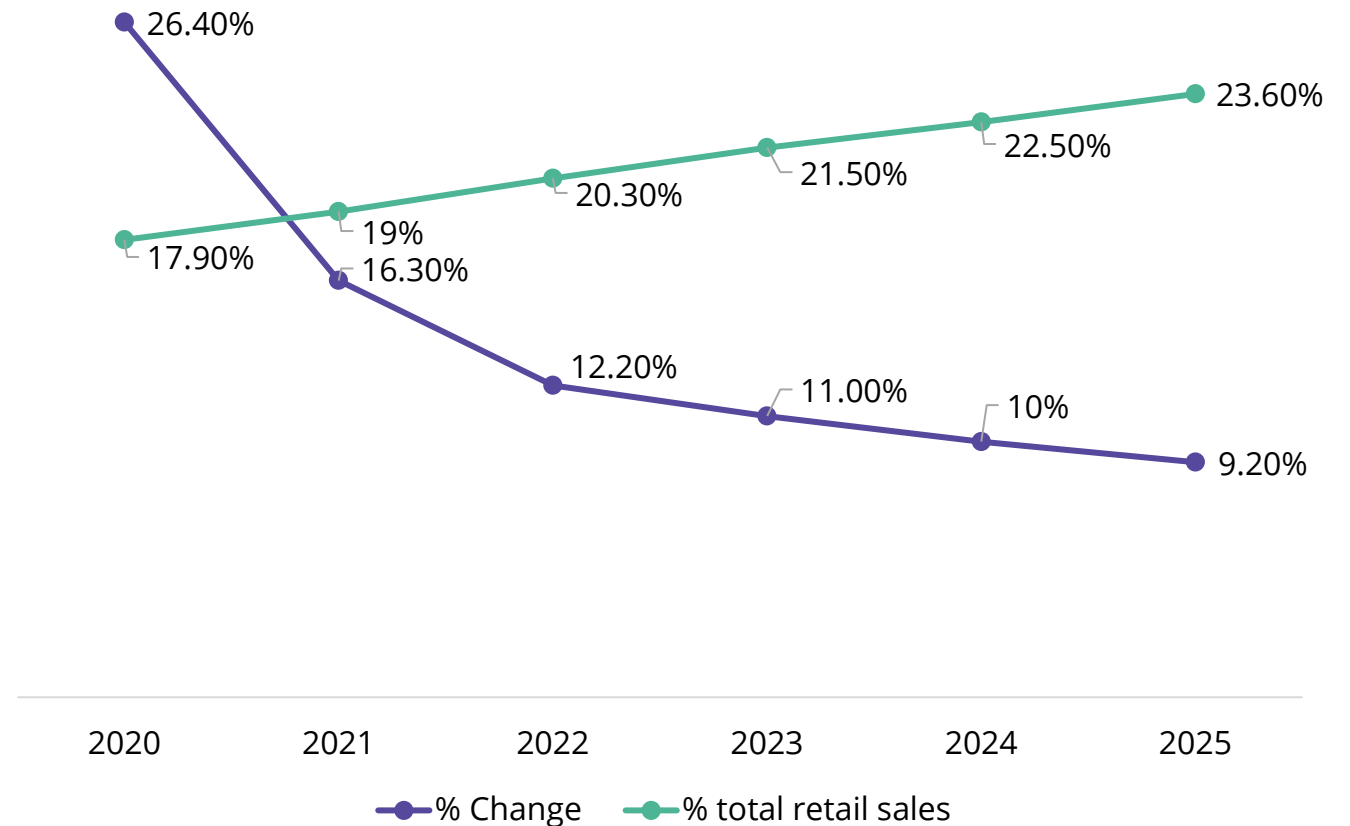


S I L L A

<https://silladesigns.com/>

222 5th Street South, Lethbridge AB

## E-Commerce in Canada 2020-2025



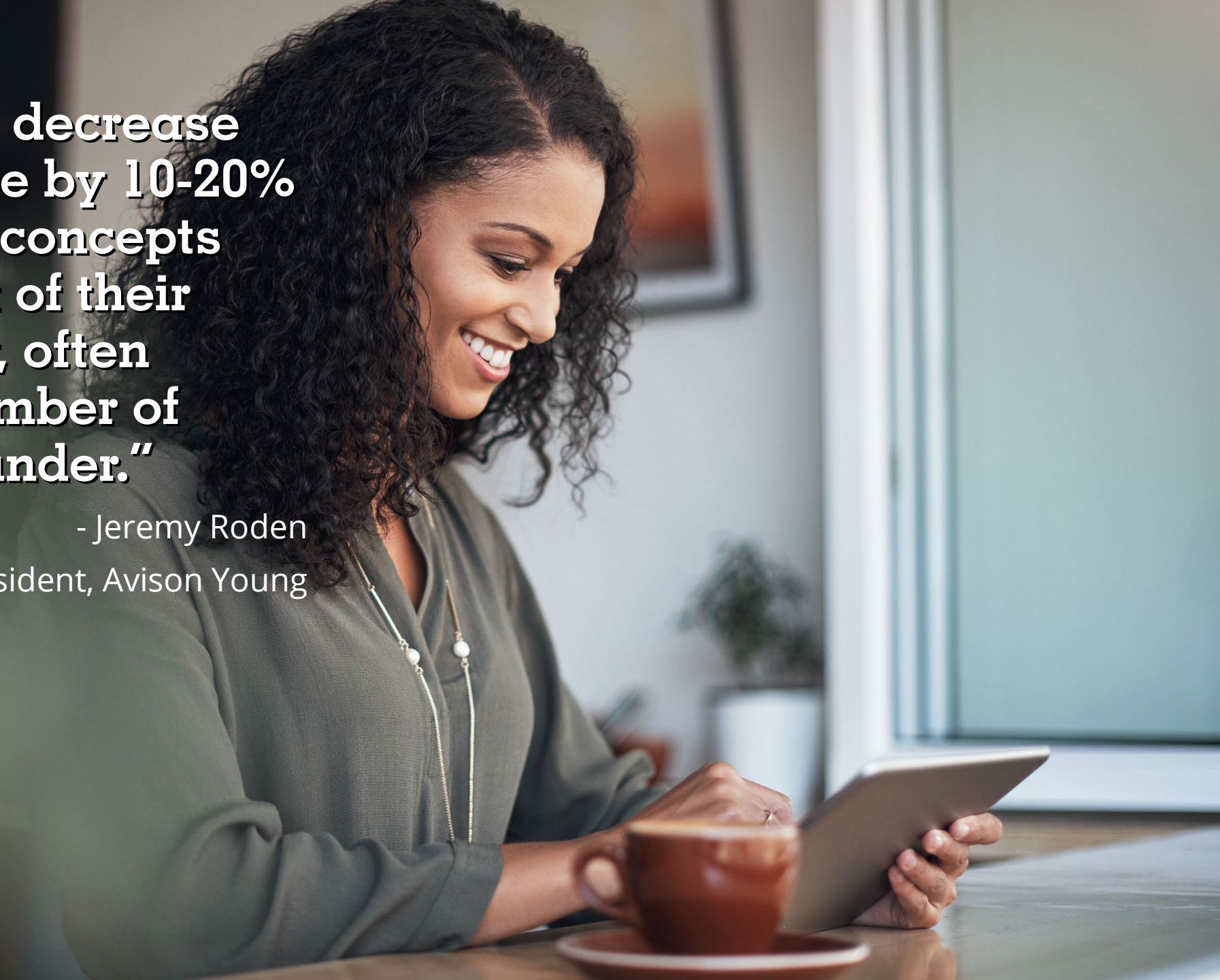
Source: eMarketer, Jan 2022

**"All retail has expanded their online offerings as a necessity."**

- Jeremy Roden, Executive Vice President, Avison Young

**“We have seen a decrease in QSR space size by 10-20% on average with concepts eliminating most of their seating capacity, often keeping their number of seats to 10 and under.”**

- Jeremy Roden  
Executive Vice President, Avison Young





## Restaurant downsizing



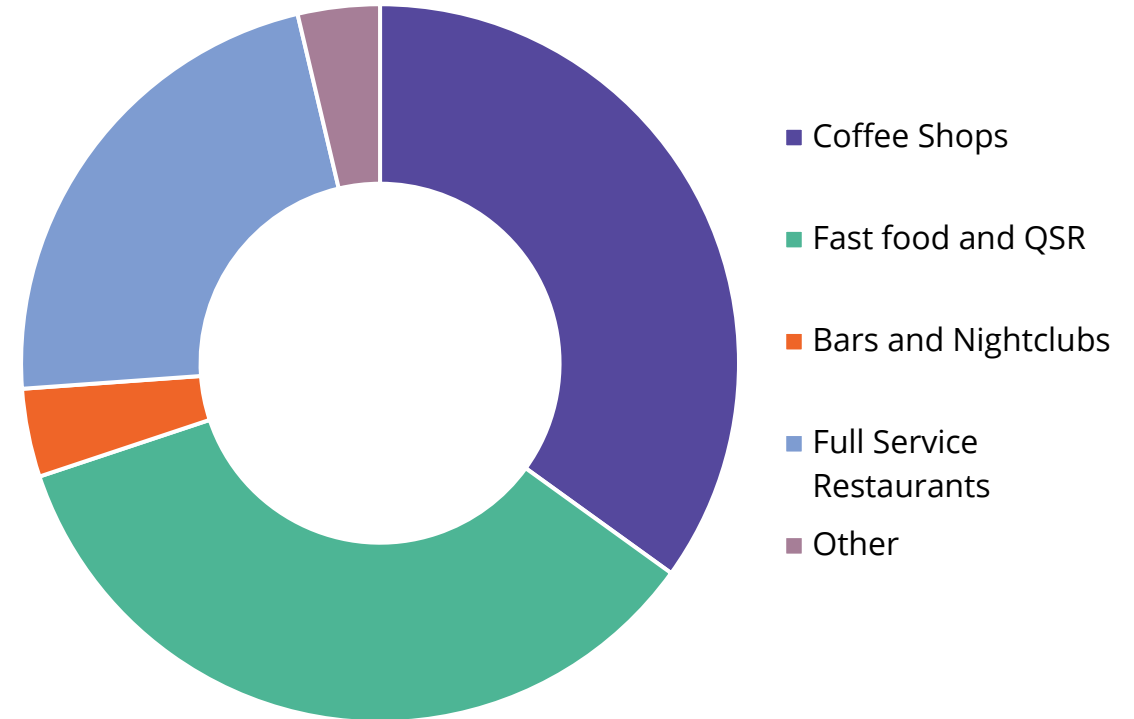
Lethbridge is moving away from the traditional sit-down restaurant in favour of digital/mobile orders, drive-thrus, pick-up windows, and curbside pickup.

We have seen a decrease in QSR space size by 10-20% on average with concepts eliminating most of their seating capacity, often keeping their number of seats to 10 and under.

We have also seen a parallel trend of increasing storage and warehouse space, while utilizing minimum storefront square footage. For example, a new food concept tenant in South Lethbridge has designed a minimum, full-service storefront and will utilize shipping containers stored in the back lot of additional stock in anticipation of supply-chain issues.

Additionally, national restaurant and QSR chains have been increasingly backfilling into smaller markets. Taking advantage of the 'pick-up-and-go' mentality, these food concepts have been successful in secondary markets when they have direct exposure to their customer base smaller in residential neighbourhoods.

## Lethbridge food and drink retailers (2021)



Source: Economic Development Lethbridge

**“In the first full year following the onset of COVID-19 quick -service outlets have fared far better than competitors. One could argue that quick service food concepts have become one of the hottest retail growth areas in 2022.”**

- Shane Garner, Associate, Avison Young

# Wellness services

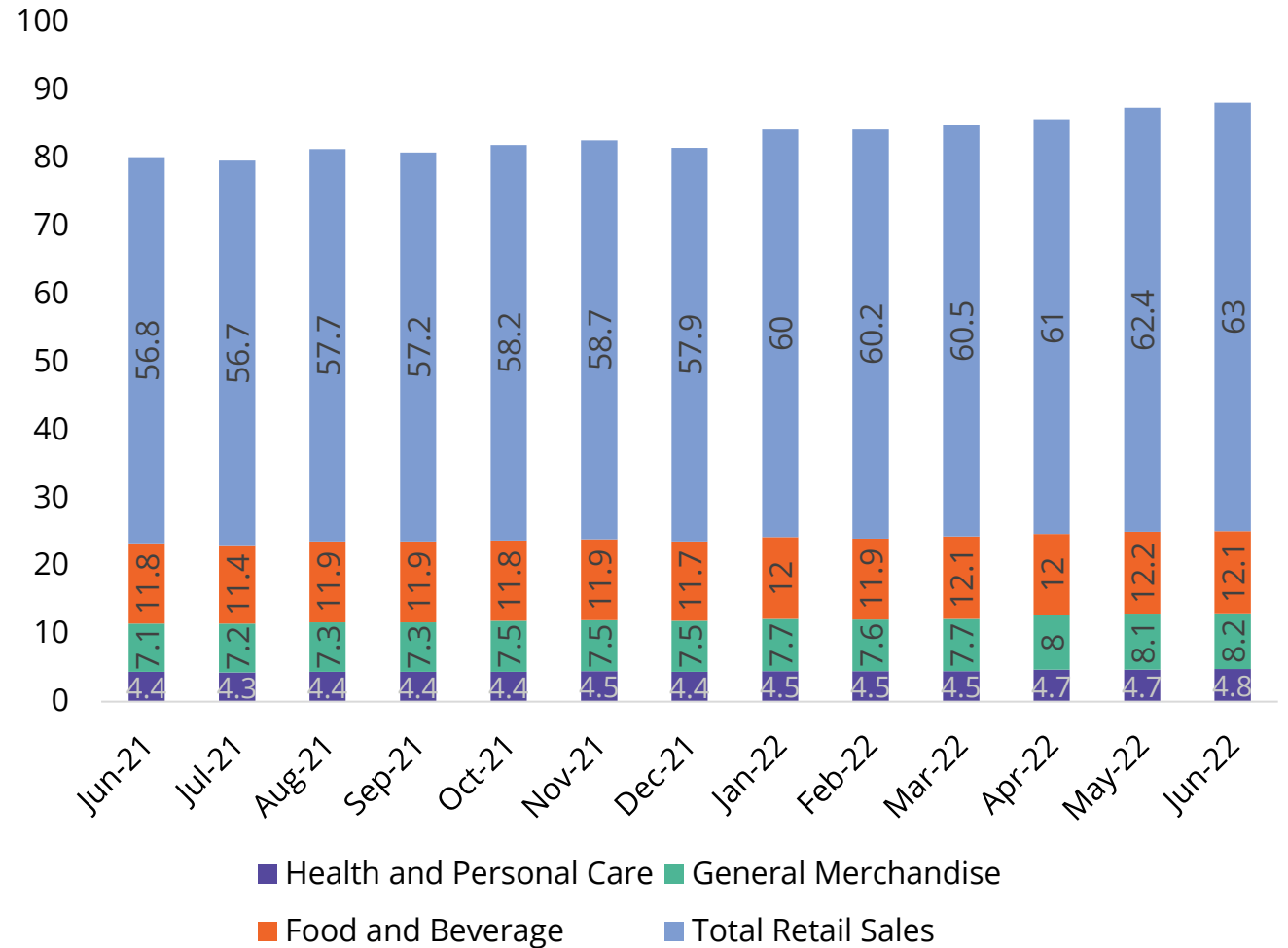


**Wellness and outpatient services have been expanding since COVID-19 and are now moving into traditional retail spaces.**

According to CBRE, food and beverage, grocery, and health and personal services are experiencing sustained growth in 2022. Throughout the COVID-19 pandemic, the strain on the federal health system was supported by tertiary service offerings. Outpatient services expanded and, in some cases, to the extent that new entities were created for secondary services. For example, Southern Alberta Community Living Association (SACLA) Lethbridge expanded their program from approximately 5,000 sf to an 11,000 sf facility in 2022.

With these types of services requiring significant square footage, they can backfill traditional retail centres and support mixed-use developments. Retail spaces offer advantages to wellness services, primarily more visibility, accessibility, and convenience. Formerly these businesses were 'above main level access,' which made them more of a destination service whereas now they function as part of a shared marketplace with more access and convenience. This expansion of their customer base, in turn, creates more demand that supports continued expansion of services.

## Retail trade sales in Canada (millions)



# Retail spaces



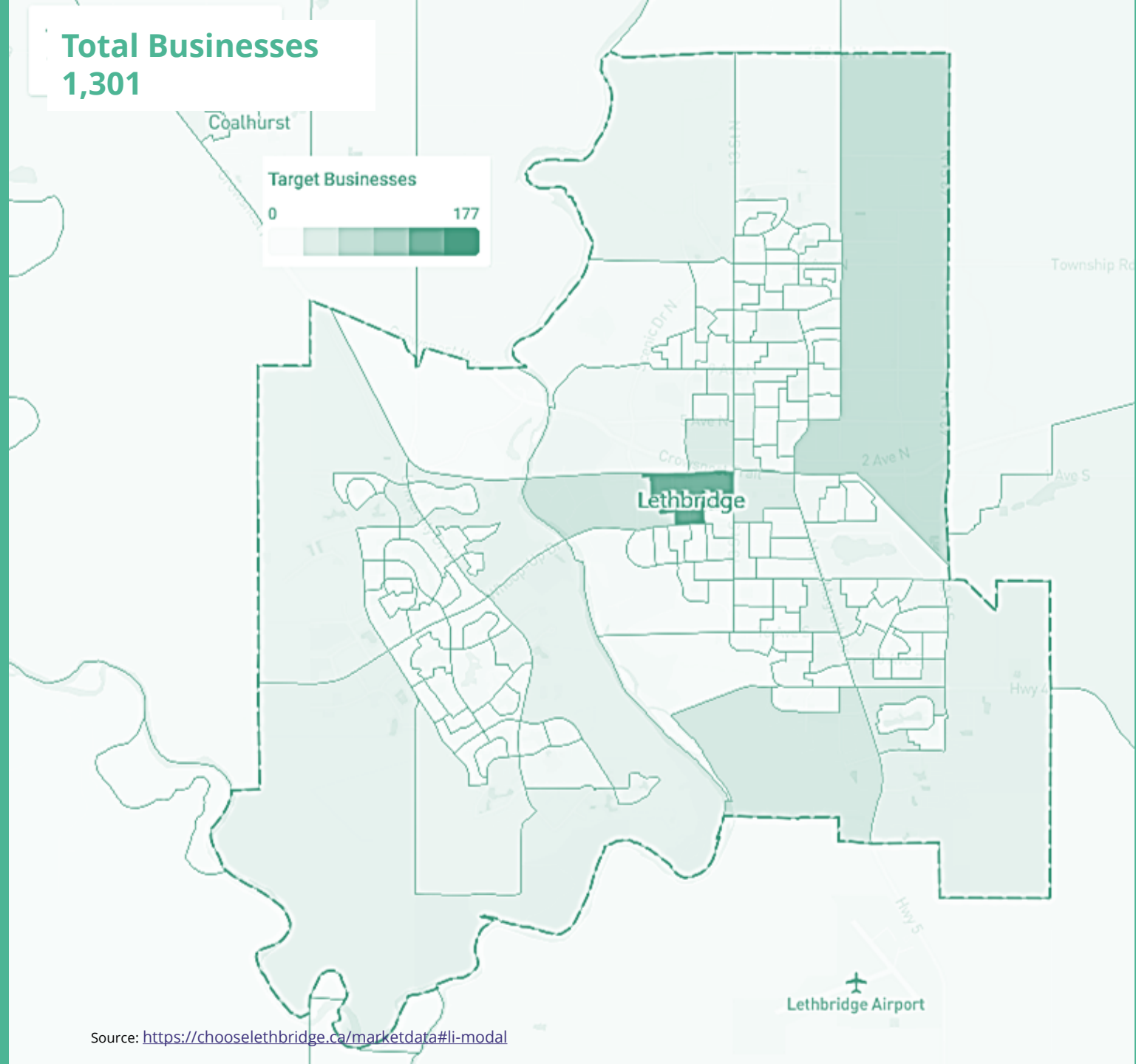
**Retail businesses are more inclined to favour outdoor malls, strip malls, and outparcels with the benefits of ground floor exposure, access, and the opportunity for warehouse space.**

Warehousing is a major consideration for retail businesses that were forced to manage supply-chain disruptions during COVID-19. With lockdowns in China and the continuation of the war in Ukraine, the supply chain remains precarious. Some retailers in Lethbridge are leasing additional industrial property to house local resupply. This additional space allows storefronts to occupy limited space in retail-dense areas such as downtown while their logistics operate out of industrial areas.

The 'off-mall' movement of retail represents the consumer mentality shift to preferring an efficiency-based shopping experience where quick access, pick-up, and contactless service is supported. While Lethbridge's premier mall, Park Place Mall, has seen positive recovery, there is a sense of mall retailers being 'trendy' and catering to a younger population.

Outdoor, outparcel, off-mall, mixed-use is the future of retail in Lethbridge.

**Total Businesses**  
**1,301**





# CASE STUDY:

## Crossings

Crossings is now in pre-leasing for Phase 2 of the 66-acre mixed-use development with construction set to begin in 2023. Flexible space options available to suit a wide variety of users including mid-box, commercial retail units (CRU), and drive-thru options. Phase 1 tenants including No Frills, Tim Hortons, Boston Pizza, Rexall, Original Joe's, SERVUS Credit Union, Smitty's, Able Dental, Bone & Biscuit and Coulee Veterinary.

**While the Crossings was initially visualized as a retail commercial development, it has evolved into a mixed-use development. The inclusion of multi-residential, religious institutions, storage facilities, educational services, and hospitality has made this development a success.**

Densification and the use of outparcels has optimized the development for CRUs for appeal and profitability. Curbside pickup, Quick Service CRUs and grocery anchor tenants have contributed to the success of this development.



## Crossings

### Aquitania Boulevard West, Lethbridge



# CASE STUDY:

## Towne Square

Lethbridge Towne Square is located at the entryway to downtown Lethbridge at the highest trafficked intersection in the city. Adjacent to the retail core of downtown, the property benefits from the revitalization and redevelopment around it.

**Originally, this retail centre was owned by an institutional landlord until it was purchased locally in 2022. Under new ownership, vacancies are being addressed and a redevelopment marketing strategy is underway which focuses on converting Towne Square from traditional retail to mixed-use development.**

This aligns with the City of Lethbridge's Area Redevelopment Plan (ARP) for the 'Warehouse District' and the revitalization of this portion of central Lethbridge. With an overarching vision and coordinated plan for development, the city aims to "establish a broader district-level vision based on extensive stakeholder engagement and a thorough understanding of the area's past and current context."

View the City of Lethbridge ARP at:  
<https://getinvolvedlethbridge.ca/warehouse-district-area-redevelopment-plan>



**Towne Square**  
905 1<sup>st</sup> Avenue South, Lethbridge



# CASE STUDY:

## Fairmont Square

Fairmont Square is ideally located in South Lethbridge, just off Mayor Magrath Drive South. The location is near major retailers and new and mature residential neighborhoods. South Lethbridge is home to 32% of the City of Lethbridge's population (32,558 people) and there are two actively developing communities nearby - Prairie Arbour Estates and Southbrook. This location is well-positioned to benefit from that growth.

Spaces are built-to-suit providing users an opportunity to customize a space to best suit their individual needs. Condos are ideal for retail or professional office users.

**This site was originally a proposed retail development which 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 multi-level lease and sale opportunities including condo spaces in a mixed-use, multi-level building.**

**Additionally, by having a parcel sold to a multi-family developer the site will have adjacent built-purpose residential rental units that will be serviced by the plaza.**

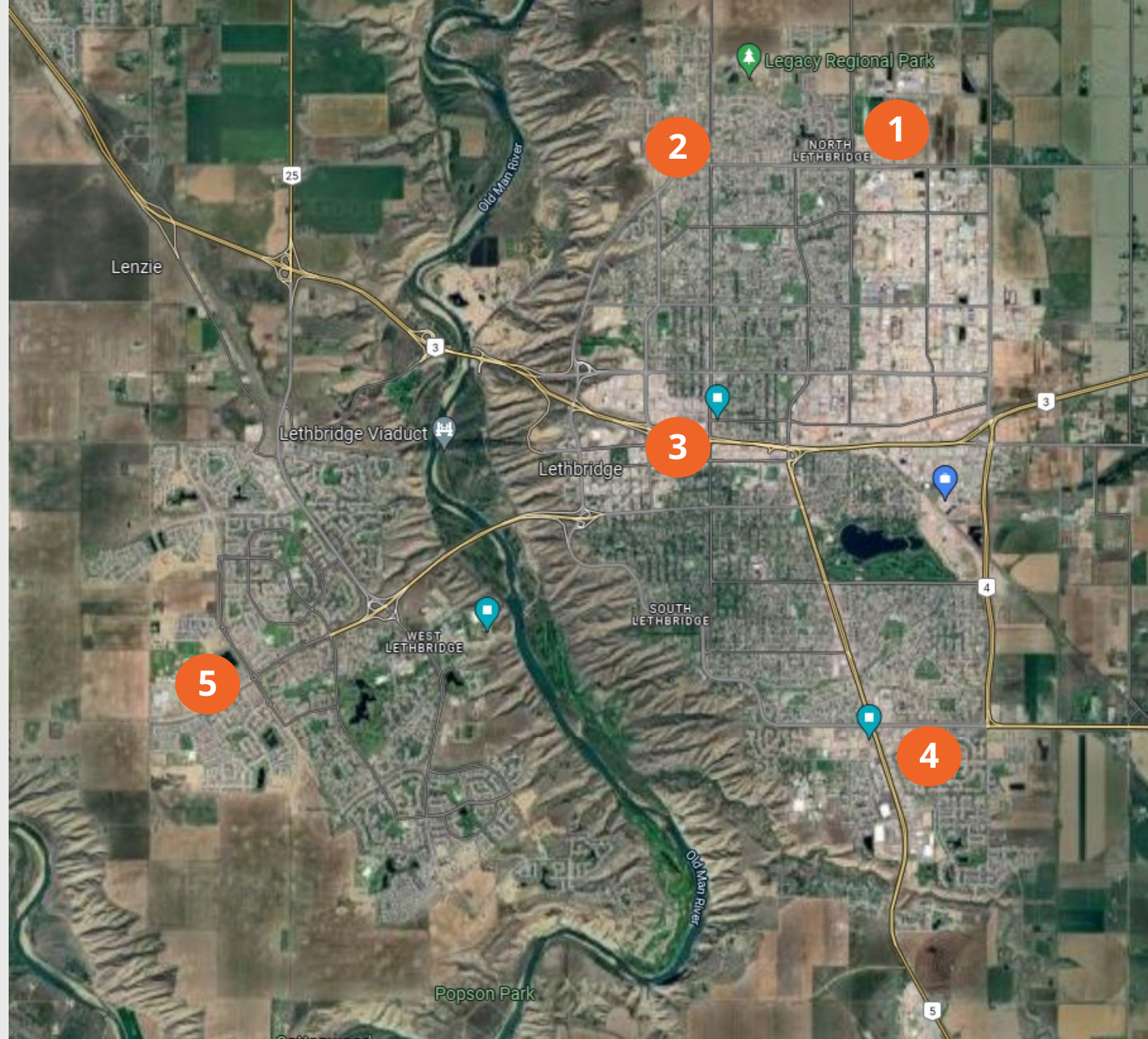


**Fairmont Square**  
**3402 Fairway Plaza Road South, Lethbridge**



# Lethbridge retail growth areas

- 1 - Walmart (North)
- 2 - Legacy Gate (North)
- 3 - The Warehouse District (Downtown)
- 4 - Fairmont Square (South)
- 5 - Crossings (West)





# Lethbridge retail market activity

## Recent leasing activity

Tenant name	Address	Sign date	Size	Transaction type	Lease type	Term	Rent / sf / year
Matters of Design	3160 Fairway Street S, Unit 3	Mar 2022	2,800	New	Direct	5 years	\$13.00
Subway (Franchisee)	2639 Scenic Drive N, Unit 30	Mar 2022	1,565	New	Direct	10 years	\$25.00
Hearing Life Canada Ltd.	2653 Scenic Drive North	Jun 2022	1,458	New	Direct	5 years	\$30.00
The Little Bakehouse Ltd.	1105 3 Avenue South	Jun 2022	1,923	New	Direct	7 years	\$19.00
Kumon Math and Reading Center	2045 Mayor Magrath Drive S, Unit 113	Jul 2022	983	New	Direct	10 years	\$18.00

## Recent sales activity

Buyer	Address	Sale date	Sale price	sf	Sale price psf	Seller
Collective Assets Limited Partnership	905 1 Avenue South	Jan 2022	\$7,455,000	76,351	\$98	RioCan Management Inc.
ALPI Construction Ltd.	3055 26 Avenue North	Jun 2022	\$27,625,000	23,321	\$1,185	RioCan Management Inc.
Shift REI Admin Ltd.	311 7 Street South	Jun 2022	\$775,000	5,890	\$132	Ted A. & Sharon D. Bonertz
Pinewood Homes	3420 Fairway Plaza Road S, Bay 2	Jun 2022	\$522,600	1,608	\$325	Fairmont Square Developments Inc.
Synergy Dental Digital Arts Ltd.	495 W T Hill Boulevard South	Jun 2022	\$300,000	1,458	\$206	Huebner Holdings Ltd.

## Large contiguous space availabilities

Owner	Site Name	Address	sf	Floors	Landlord Broker
Anthem Centre Village Mall Ltd.	Former Save-On-Foods	1240 2A Avenue North	80,258	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
Primaris Property Group	Former Sears at Park Place Mall	501 1 Avenue South	130,000 (+/-)	1	Primaris Property Group

# Information sources

## Primary sources

- Avison Young
- Economic Development Lethbridge
- Statistics Canada

## Secondary sources

- Altus Group
- Canadian Property Management
- CBRE
- CFIB
- CMP
- The Edmonton Journal
- Global News
- Investing.com
- JLL Canada
- The Retail Council of Canada
- Tourism Lethbridge
- Trading Economics
- Western Investor



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