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Retail Vacancy Rates Jump Following Sears Canada Closure

By Mario Toneguzzi, February 27, 2018

Vacant Sears Canada space in Calgary pushed the city's retail vacancy rate at the end of 2017 to more than twice the 10-year average.

A report by CBRE said Sears Canada released more than 650,000 square feet of space back to the market, accounting for 60 per cent of the overall vacancy increase which rose from 3.52 per cent in the first half of the year to 6.5 per cent in the second half.

The 10-year average is 3.02 per cent.

CBRE says that besides the Sears space several other factors contributed to the soaring vacancy - high turnover in top-tier restaurants; struggling mid-tier fashion, which led to the closure of several mid-to-big-box retail spaces and the increase in minimum wage.

CBRE says the vacant Sears space came from five locations throughout Calgary including Southcentre Mall, North Hill Shopping Centre, Marlborough Mall, Glendeer Junction and the Sears Sunridge location.

Alistair Corbett, senior vice-president with CBRE, says he hasn't seen a vacancy rate this high in the retail market in the last 20 years.

"That's a big jump for this market," he says.

"Seeing that much space come onto the market, apart from Target, is the biggest thing that's happened for quite some time."

If Sears was taken out of the factoring, the city's retail vacancy rate would be 4.7 per cent, according to the report.

"Historically speaking, using Target Canada as an example, footprints of this size take time to fill and require exceptionally large tenants. The submarkets most impacted by these anticipated prolonged pockets of vacancy are the East, Southeast, South Central and Northwest submarkets."

Michael Kehoe, an Alberta-based retail specialist with Fairfield Commercial Real Estate in Calgary, said the departure of Sears from the Calgary retail scene will have a short-term impact on the overall retail vacancy rate as the affected retail landlords work to recycle these major blocks of the space with new tenants.

"Most of the five former Calgary Sears locations are prime candidates for redevelopment and possible densification perhaps with non-retail uses and should cycle quickly with a new look. The owners of the former Sears locations have had ample lead time to plan and execute remerchandising or redevelopment strategies as the demise of Sears was a long and drawn out process and we can expect some significant announcements in the near future," he said.

"Calgary is blessed with a robust retail scene, however other markets across Canada will see longer periods where the former Sears spaces sit vacant and available to be recycled with new retail tenants or alternate uses. These large blocks of space, many in older shopping centres will likely be back-filled with non-retail tenants such as entertainment, office, fitness or medical tenants such as the REC Room by Cineplex and World Health, Good Life Fitness or public libraries."

CBRE says tenants in the market are experiencing compressed margins due to several microeconomic factors, including the increase in minimum wage and mandatory vacation pay.

"This has led tenants to shrink their footprints and undergo a fundamental shift from a product/inventory heavy retail presence to a more experience-driven retail model. Enhanced supply chains have made this transition easier for retailers as the need to store inventory on-site becomes less of a necessity," added the CBRE report.

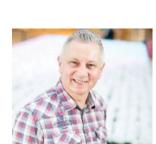
There is currently close to 1.5 million square feet of new supply under construction with another 2.5 million square feet planned or proposed.

According to a Barclay Street Real Estate report, the dollar volume for commercial real estate investment sales of $1-million-plus was down in the Calgary retail market in 2017 but the number of sales rose.

Dollar volume dipped from $449 million in 2016 to $306 million in 2017 while sales rose from 52 transactions to 56.

The retail investment market represented 13 per cent of the overall market.

The average sale price per square foot also rose from $399 in 2016 to $455 last year.



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