

Good news for Calgary's retail CRE: Demand outstrips supply

Strong momentum to lease premium space in good locations

Mario Toneguzzi | Oct. 27 2023

Elevated interest rates and rising construction costs are among the factors creating a challenging retail development sector in Calgary, but optimism reigns because there simply isn't enough space to satisfy demand.

At the recent Calgary Real Estate Forum, Eve Renaud, director, retail leasing, Cushman & Wakefield Asset Services and the vice-president at Rencor Developments, said what compounds development costs is a lengthy municipal planning process.

"In the municipalities we've (Rencor) worked with, we've had to work together in very complicated (situations) and it is a very harrowing process. . . . Every delay, every permit fee, every offsite levy, every acres assessment . . . that really, really affects your return," she said. "It also affects what you can charge on rents on the project. It's a balance.

"But I'll say we're excited because there is that demand there, but it's very challenging."

She noted availability of well-sited land is also important for retail developers, though sometimes those locations don't have existing infrastructure in place.

"So basically there's a huge up-front cost to developers to be the first in to put that infrastructure in. It's very similar to a residential subdivision. You have to spend millions and millions of dollars."

Strong demand continues for retail space

While those and other factors present challenges, they are not preventing expansion.

As an example Darryl Schmidt, vice-president, national leasing, Cadillac Fairview, said a wave of athleisure brands have entered the Calgary market recently at its properties CF Chinook Centre and CF Market Mall.

"We don't see that trend diminishing. So we're going to see more athleisure players coming into the market," Schmidt explained.

"I think the other thing you're going to see with the closures of Nordstrom is that anybody who had a shop-in-shop, or had a strong wholesale business within those doors, they now have to replace those stores with bricks-and-mortar."

The retail market in Calgary is currently quite strong. He said fast fashion at a low price point is one sector which is resonating with consumers.

"We opened Uniqlo (at Chinook Centre) at the end of August. They're absolutely on fire. If sales trend the way they are right now, they could top \$30 million in Year 1," Schmidt said.

"I don't know if they'll hold, but it's been phenomenal. . . . Zara the same thing. They're in the midst of doubling in size, going to a flagship size at Chinook.

"On the high end, Louis Vuitton had an all-time sales high within Chinook. We've got lots of demands from luxury brands because of their sales and because they've seen how much is getting transacted in the market. . . . So I think it's safe to say you're going to see more luxury coming into the city.



Calgary's CF Chinook Centre shopping mall.
(Courtesy CF Chinook Centre)

"There's lots of new brands coming into the market. . . . I've been doing this for 35 years and I don't think the market's been this strong in at least 12 years and maybe going back to 30 years."

Calgary sees rapid population growth

Renaud said the market is also seeing brands that have traditionally been in enclosed shopping centres now looking to mixed-use sites as a growth opportunity.

Population growth is one of the significant factors fuelling the retail sector in the Calgary area.

In another presentation, Stan Ivankovic, vice-president, business development, Environics Analytics, said Calgary was the fourth-fastest-growing Census Metropolitan Area in Canada in 2021-'22 with annual hikes of 3.2 per cent.

He said the number of newly arrived permanent residents in the Calgary area between Q2 2022 and Q1 2023 was 17,553.

For newly arrived non-permanent residents, the number was 33,092.

Ivankovic said the aging population has also become an important retail trend.

"In terms of the services and needs of this population, it's very different than other sort of demographic cohorts or groups within Canada. We need to watch this carefully because this is a tidal wave in terms of population growth and the rate of growth," he said.

"And we're not just talking about folks 65 to 75, or 65 to 85. We're actually talking about 85-plus."

Seniors will spend many of their dollars on health products and services, travel and other leisure activity, financial services, wealth management and retirement planning, luxury goods, home renovations and furniture, home care and caregiving services, home monitoring services, and home delivery of goods and services.

Retail vacancy data

A recent report by [Barclay Street Real Estate](#) found retail vacancy in Calgary at 4.2 per cent.

"Calgary's overall retail vacancy rate continued to demonstrate remarkable consistency through the third quarter of 2023, remaining settled in the high-three to low-four per cent range seen over the previous few years," the report states.

"The primary contributor to Calgary's vacancy is the vast inventory of street-front spaces which have proliferated in recent years as small, local shopping destinations and mixed-use developments have gained favour over power centres."

Barclay Street said retail vacancy at community shopping centres in Calgary is the highest at 7.3 per cent, followed by 6.4 per cent for street front, 4.8 per cent for neighbourhood shopping centres, 0.3 per cent for enclosed shopping centres, 0.1 per cent for big-box retailers and 0.1 per cent for power shopping centres.

The total retail inventory in Calgary is 44.3 million square feet.