Welcome to the Wonderful World of Retail

What is happening to our …

Customers?

Retailers?

Retail Real Estate?

Customers

- Now in a funk – real and perceived, outside influences
- Toronto has experienced strong growth, but layoffs will hurt
  - Toronto's economy is tied to global financial markets
  - Office vacancy: Downtown 5.0%, GTA 7.7%
  - Down from highs of 15–16% in 2004/2005 (downtown)
  - New office coming on stream
- Condo boom created intensity – good
  - Over 123,000 live Downtown; gentrification is over
  - Housing units: 11,800 under construction and 13,000 proposed
  - Avenue Study – intensifying the corridors
- Tourism – been down and out before
- Ethnicity adds diversity and vitality – maximize potential

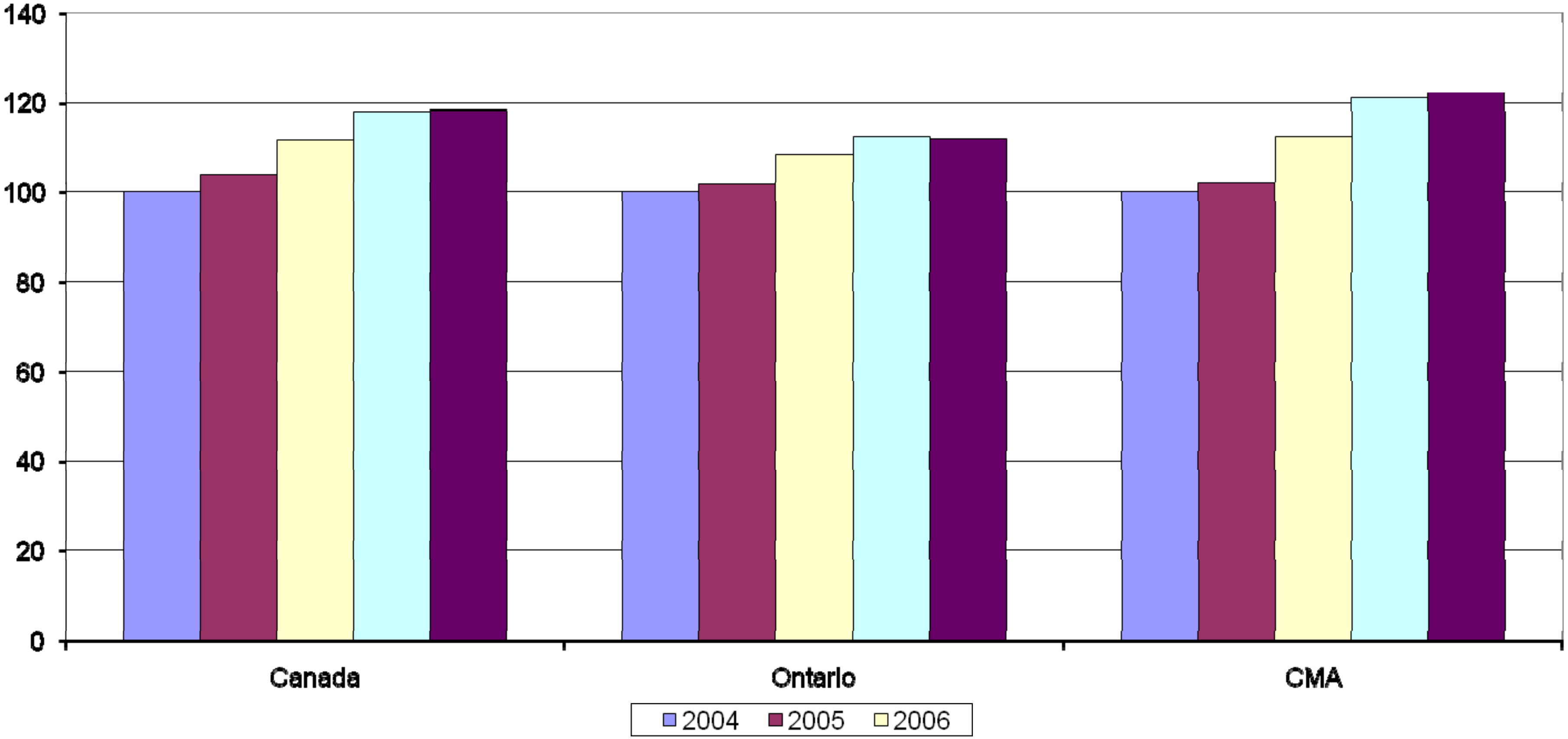
Customers

- Long-term vs. short-term trends
  - Green?
  - Buy local?
  - Trading down, end of mass luxury?
- Haves, have nots, and not sures
  - Haves – boomers, paid off homes, kids out of college
  - Have nots – younger, 25–40 years of age, layoffs, job stress
  - Not sures – people in threatened industries or new hires

Retailers

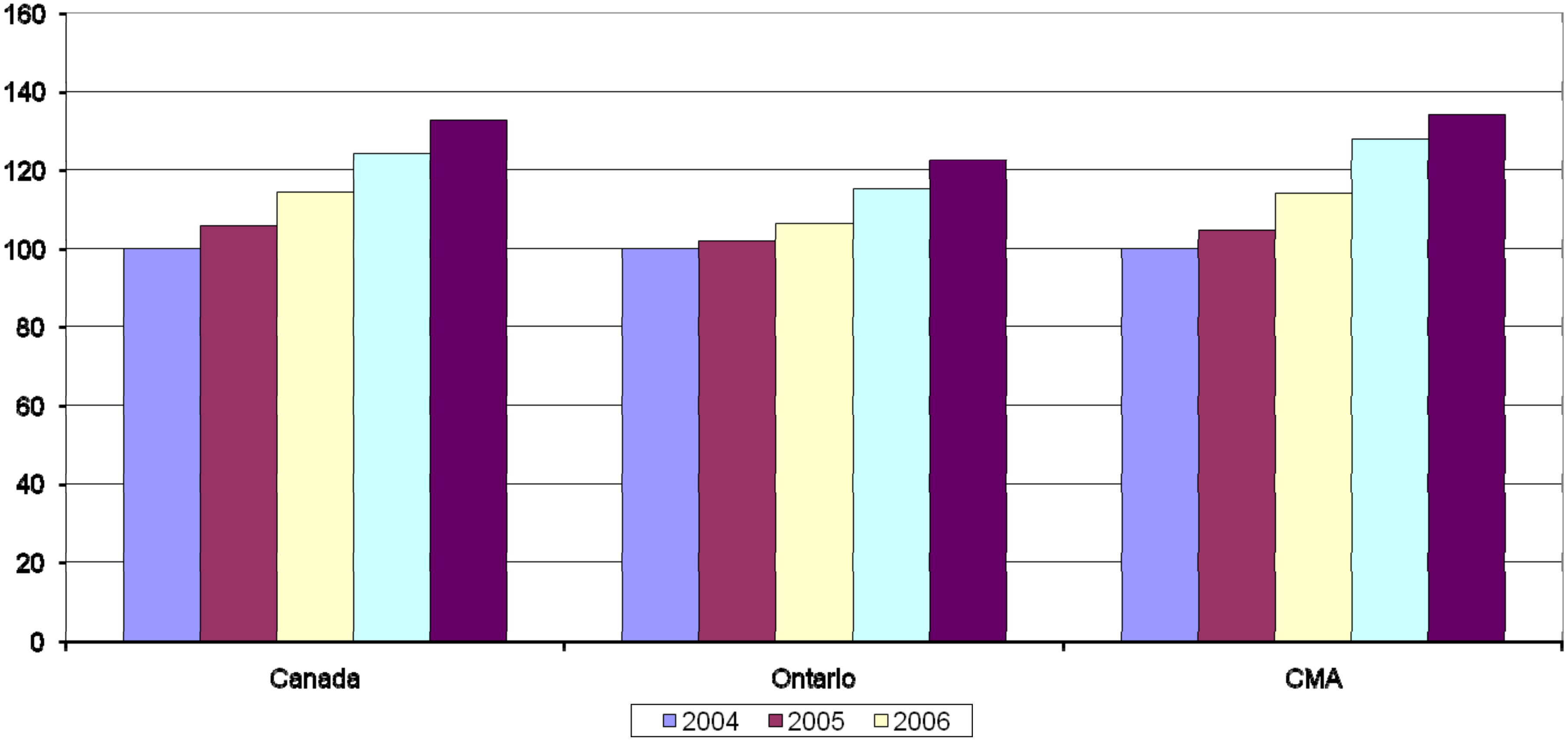
- Doing well – deep discounters, dollar stores, repair, thrift, health, alcohol, popular cafes
- Doing ok – some home, popular priced apparel, electronics
- Hurting – luxury, discretionary, automotive, furniture, fine dining
- January was ok, February was horrible, and March rebounded
- There will always be retail turnover, mergers, acquisitions – Darwinism
  - Normal and highly visible in retail
- Toronto attracts international retail brands – Crate & Barrel, Anthropologie, Brook's Brothers, H&M, Whole Foods
  - Education that Canadian/Toronto consumers are different than U.S. – spend on eating out, high end fashion – lack critical mass of super rich, don't use coupons
- Retail follows people – not the reverse
  - Number one rule for any revitalization – more people
  - Retail under towers need to be in dense areas
- Mixed-use must plan for larger sizes

Clothing and Accessories Index



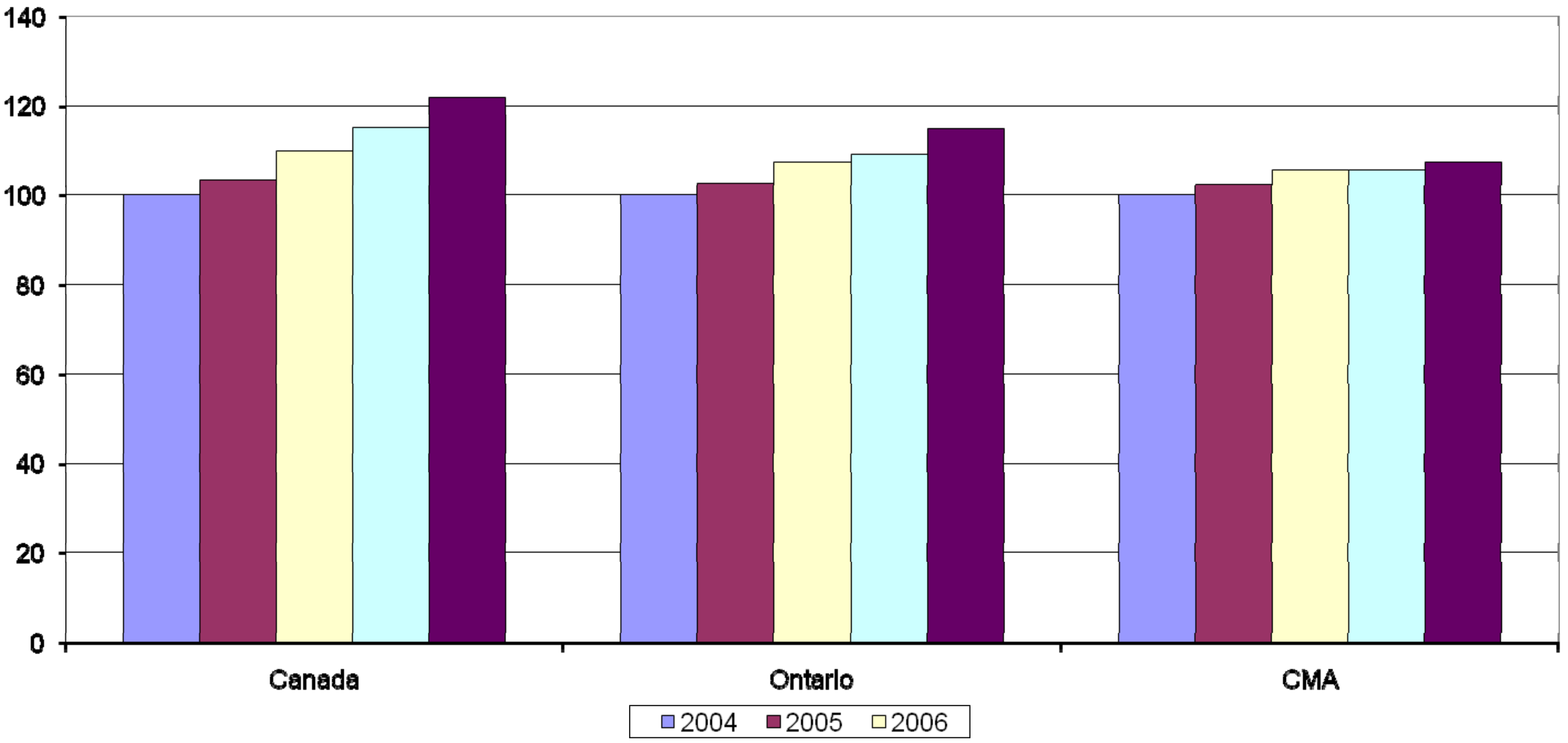
Source: Statistics Canada, 2004 = 100

Electronics and Appliances Index



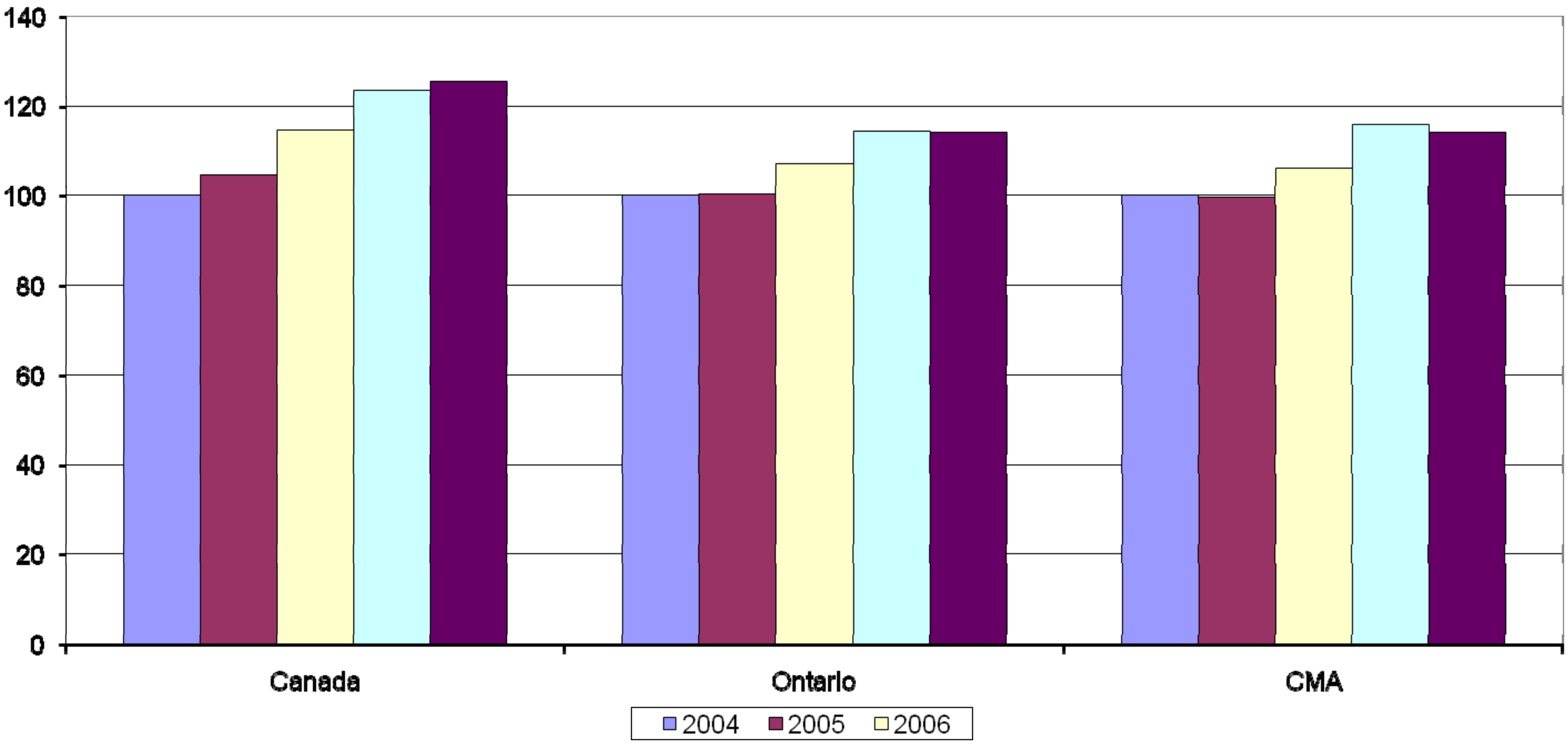
Source: Statistics Canada, 2004 = 100

General Merchandise Sales Index



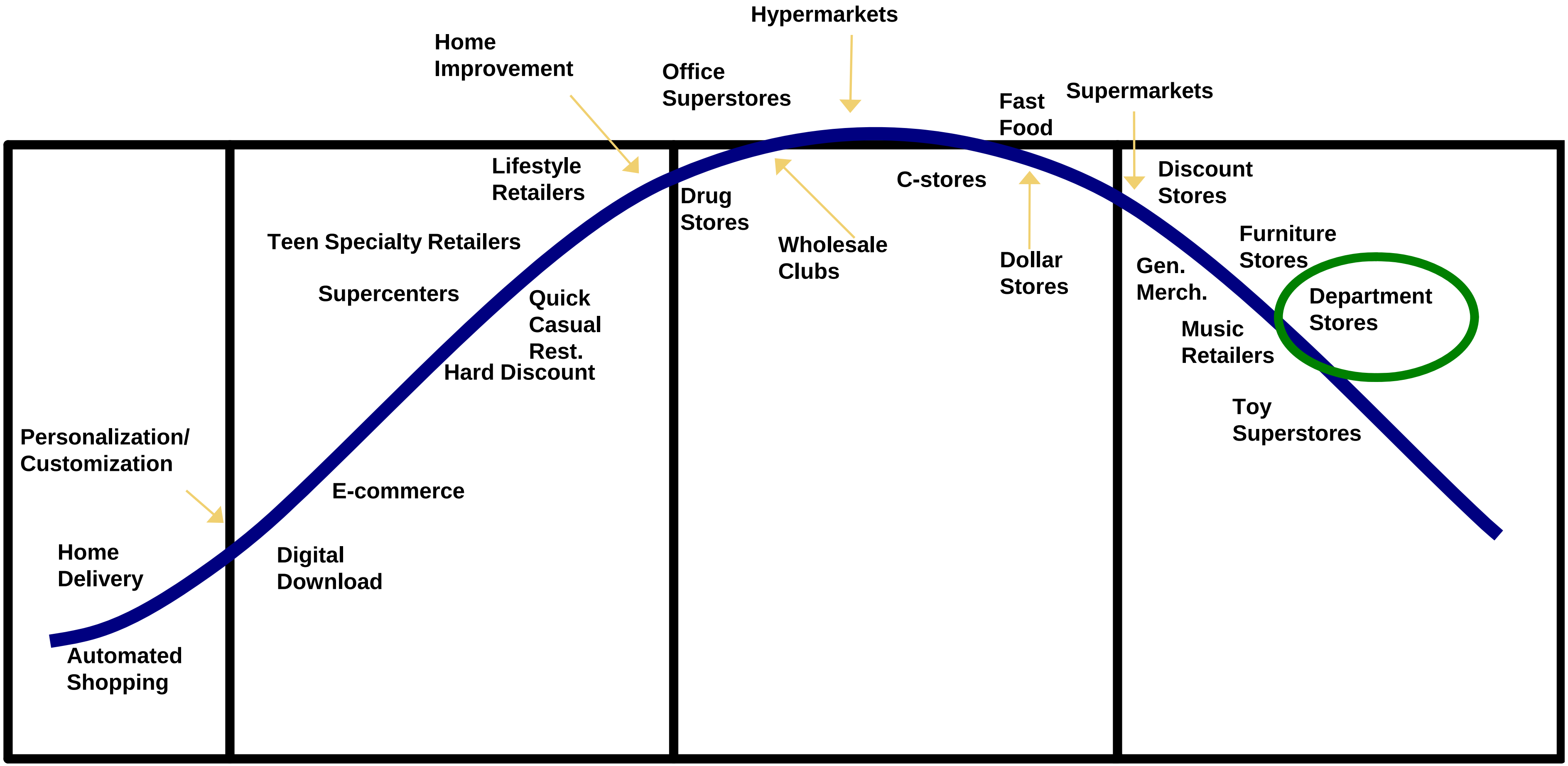
Source: Statistics Canada, 2004 = 100

Furniture and Home Furnishings Index



Source: Statistics Canada, 2004 = 100

The Retail Lifecycle



Profit Model: Traditional Retailers

	Dept. Store/ Specialty Chain	Promotional Dept. Store	Mass Merchandiser/ Chain Discounter	Specialty Book Store
Sales	100%	100%	100%	100%
Gross Margin	±40%	35%	28%	39%
Operating Expenses	±37%	32%	26%	35%
Operating Profit	3%	3%	2%	4%

Profit Model: New Wave Retailers

	EDLP* Discounter	Super Center	Category Killer	Club Warehouse
Sales	100%	100%	100%	100%
Gross Margin	25%	23%	15–22%	11–12%
Operating Expenses	19%	18%	13–18%	10%
Operating Profit	6%	5%	4%	+2%

Retail Operating Statement

Net sales (after taxes and returns)		100%
Less cost of goods:	50%	45%
Freight-in		
Markdowns, shrinkage, work room		5%
Gross margin, gross profit		50%
Less:		
Expenses:		
Fixed		
Variable		
Depreciation (non-cash)		44%
Pre-tax profit		6%

Retail Operating Statement – Expenses

Gross Margin/Profit	**50%**
Wages (store and non-store; management and staff)	17%
Benefits	3%
Occupancy (rent, taxes, etc.)	10%
Marketing	4%
Accounting, IT	2%
Banking, credit	2%
Administration	2%
Buying	1%
Receiving	1%
Depreciation	2%
Total expenses	**44%**
Pretax profit	**6%**

Retail Real Estate

- Main streets – vacancy concern but BIAs are getting stronger
- Malls are some of the strongest in Canada – continually re-inventing/refreshing due to competition: Fairview, Yorkdale, Eaton Centre, Gerrard Square, Cloverdale
- Newer concepts – Don Mills
- Opportunities for transit-oriented-development
- Mixed-use must be better planned – larger units, better management/leasing
- Partially developed sites – temporary use
- On-line – social media sites

Unprecedented Recent Rent Deals

Retailer	Address	Sq. Ft.	Net Rent/Sq. Ft.	Start
Lacoste	131 BSW	2,225	$325	Aug 08
Cole Hahn	101 BSW	2,800	$240	n/a
Hermes	131 BSW	4,400	$220	Jun 07
RW&Co	50 BSW	5,056	$217	Jan 08
La Senza	131 BSW	2,374	$205	n/a
Sephora	131 BSW	6,108	$175	Nov 07

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