

PROPERTY REPORT

RETAIL

Shopping malls see future in Canadian winter

The proliferation of power centres has cast doubt on the future of enclosed malls. But owners insist our climate will save the day

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Harold Spring is not complaining about winter. The president and chief executive officer of Toronto-based Bayfield Realty Advisors Inc., an institutional real estate investment firm, is betting millions that Canada's icy temperatures will keep shopping malls in favour for years to come.

"The weather is a factor in most Canadian cities, other than maybe Vancouver," Mr. Spring says. "And it's a pretty big factor."

Though some point to the rise of power centres and smaller, village-type shopping hubs as signalling the end of the traditional enclosed mall, Mr. Spring argues they are here to stay, thanks to shoppers who enjoy the convenience and cozy indoor environments they provide.

Power centres – open-air developments that typically host three or four big-box retailers and a few smaller ones that all share a common parking lot – provide a one-stop shopping opportunity. Some have even been modelled to feel like small-town main streets.

Enclosed shopping malls make up about 70 per cent of all large retail centre space, according to a 2010 report from Colliers International Consulting. Power centres account for the rest.

That 30 per cent is significant, says James Smerdon, director of retail and strategic planning for Colliers, because shopping malls have been around for about 60 years while power centres have emerged only in the past 15 or so.

"In the last decade I could count on one hand the number of new enclosed shopping centres that have been developed in this country, but there have been literally hundreds of power centres," Mr. Smerdon says.

"Shopping malls are not dead, but at the neighbourhood and community level they are building power centres for efficiency."

Still, Mr. Spring believes these centres won't replace enclosed malls, and Mother Nature isn't the only reason, he says. Large, destination-type malls are, in effect, grandfathered into the landscape, as building such large, high-profile structures has become prohibitively expensive, Mr. Spring says.

Three types of shopping centres dominate Canada's retail landscape, he says: neighbourhood malls, typically the size of a strip centre; community malls, known as second-tier regional malls, which are the smaller centres in big cities or the biggest centres in smaller cities; and regional malls, the West Edmonton/Pacific Centre/Eaton



Harold Spring, president and chief executive officer of Toronto-based Bayfield Realty Advisors Inc., is betting the mall's future is bright.

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Centre-style major facility that, Mr. Spring says, have not suffered during the recession.

"The ones under the most stress are the community malls and the strip malls that aren't grocery- or pharmacy-anchored," he notes.

In late December, Bayfield and a joint partner, RioCan Real Estate Investment Trust, announced it closed on the \$94-million purchase of a 59-acre regional shopping centre in Mill Woods, Alta., near Edmonton. Mill Woods Town Centre has an enclosed mall with a Zellers, Canadian Tire, Safeway and a medical office building. It also includes about six acres of developable land.

"We're trying to take advantage of the economic times by buying things we thought were below market value," Mr. Spring says.

In addition to Mill Woods, Bayfield owns multiple enclosed second-tier and community malls, such as Garden City Shopping Centre in Winnipeg and Confederation Mall in Saskatoon.

"People like to go to [malls in] bigger cities where they can shop for full fashion, or to power centres where they can get a bigger selection and better prices."

In the late 1990s Mr. Spring began acquiring and redeveloping shopping centre and street retail properties, and for the past 20 years has built Bayfield's corporate net worth to more than \$350-million. That doesn't include the \$150-million in deals he and his team pulled together in 2010.

Though Mr. Spring remains bullish on the future of large enclosed malls, some urban real estate experts say the mall's future could be threatened by shoppers' growing preference for power centres, on one hand, and quaint, high-street-type outdoor malls on the other.

"Power centres are offering a lot of items at a low cost, which means shopping centres have to be something more than just a place where there are stores," says Tsur Somerville, director of the University of British Columbia Centre for Urban Economics and Real Estate.

Malls need to focus on atmosphere and experience, though village-style outdoor malls are pushing against them in that realm, he notes. "You certainly see in the U.S. – and even in cold weather locations in Canada – more open-air malls. People

seem to be looking for a shopping centre that gives them more of a town experience."

Another challenge owners of enclosed malls face today is the dwindling appeal of anchor tenants. "They're not the draw they once were," Mr. Somerville says. "It remains a challenge to figure out how to successfully make the enclosed shopping centre work without a clear draw, but one way is to create an identity and an experience at the location. For example, you could make an argument that an Apple store might be a better anchor than a Bay."

The growing popularity of power centres and online shopping is also hurting traditional malls, Mr. Somerville says, but it's too soon to forecast their end. "None of this means that enclosed malls are going away – especially in February," he adds.

After the recession, while many commercial real estate insiders were taking a wait-and-see approach, Mr. Spring remained ready to pounce.

"We continue to be confident in the desire of Canadians for these types of mall environments."

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