

REAL ESTATE

Target's arrival sparks mall land rush

Retailers brace for tightened competition in getting space as more U.S. rivals look north

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The race for Canadian retail space is on, with U.S. discounter Target Corp. naming the first 105 Zellers stores it plans to convert to its own banner in the next two years.

Target's bold step into this market has landlords scrambling to expand their shopping centres and build new ones to serve foreign retailers that want to set up shop here in the next few years. U.S. chains such as J. Crew and Nordstrom Inc. are attracted by Canadians' appetite for shopping. Sales average \$580 per square foot in Canada, while the U.S. market average is \$309.

But there's only so much space to go around – which means if landlords want to accommodate everyone, they must either build more space, expand existing malls or squeeze out incumbent retail tenants.

“Even in the major enclosed malls, you're seeing those landlords approve budgets of tens of millions – in some instances hundreds of millions of dollars – to expand and renovate,” said Jeffrey Berkowitz, president of Aurora Realty Consultants in Montreal. “The challenge is coming up with new space.”

On Thursday, the feeding frenzy was elevated as Target, the second-largest U.S. retailer after Wal-Mart, unveiled its first round of Zellers conversions to Target, with a second list to be announced in September. As a bonus to landlords, the cheap-chic U.S. chain, which bought rights to up to 220 Zellers stores in a \$1.8-million deal with Hudson's Bay Co., plans to spend up to \$10-million renovating each store.

As an illustration of the appeal of Target to developers, Primaris Retail Real Estate Investment Trust this week clinched a \$572-million deal to buy five shopping malls from Ivanhoe Cambridge when it got confirmation the Zellers stores in four of the properties would be converted to Target.

Target negotiated with 22 Canadian landlords individually – from national heavyweight Rio-

ONLINE

Will there be a Target near you?

Zoom in to your area and find out in an interactive map of Canada at tgam.ca/C2sa

Can REIT with its 21 locations, to the University of Guelph and its single property. There were two things Target wouldn't negotiate – it wanted leases that could stretch as long as 60 years with options, and it wanted to wipe out a provision in Zellers leases that saw the landlords receive a percentage of total sales.

Target's vow to spend up to \$10-million per store on renovations is a boon to landlords who were concerned they'd be asked to share costs. “We need to replace a roof at one site, but otherwise we're not carrying any of those costs,” said Edward Sonshine, CEO of RioCan. “As for percentage of rent, we never saw a dime from Zellers anyway.”

RioCan has also ensured that all its 21 sites will be converted into Target stores, something not all of the landlords can say. Target said that the “vast majority” of the sites would be converted, but that a few could be given over to other tenants or back to the landlord.

Ivanhoe Cambridge also expects its Target stores – it signed 14 leases – will boost sales at its shopping centres, said chief operating officer Claude Dion. The stores are expected to draw up to 50-per-cent more traffic than Zellers, making space that is traditionally difficult to lease easier to fill, he said.

Still, burgeoning demand from retailers will outstrip the supply of space, Rick Pennycooke, president of retail real estate consultancy Lakeshore Group, warned. Existing malls already are taking advantage of their tenants' leases coming due, pushing them out in favour of new foreign retailers.

He said the heightened demand is forcing developers to find non-traditional space for retailers.

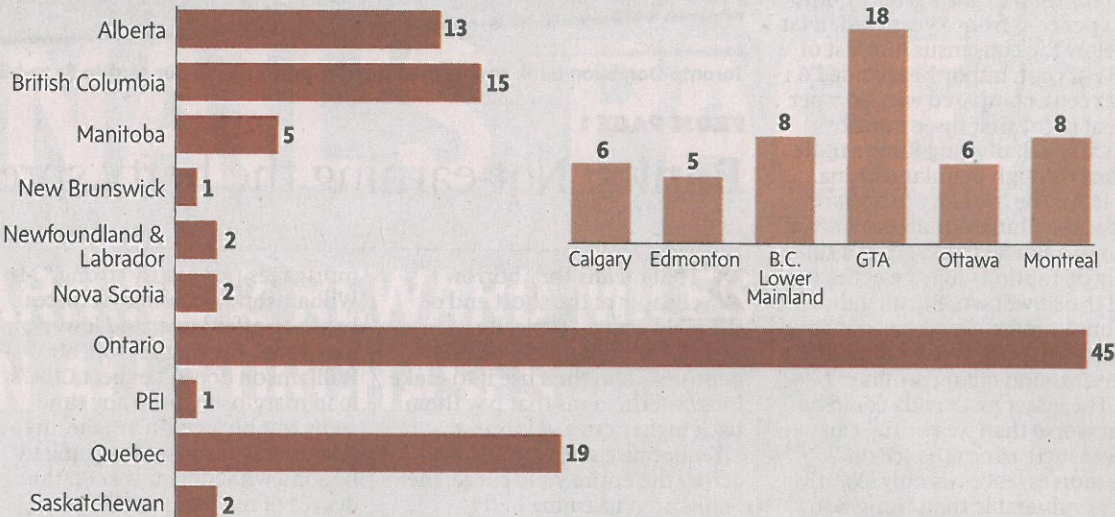
Target (TGT)
Close: \$49.41 (U.S.), up 5¢



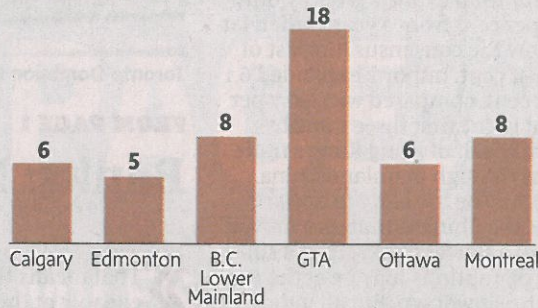
Coming soon to a mall near you

One-hundred and five Zellers sites will open as Target stores beginning in 2013.

TARGET STORES, BY PROVINCE



TARGET STORES, BY METRO AREA



THE GLOBE AND MAIL » SOURCE: TARGET CORP.