

RESEARCH BRIEF

CANADA RETAIL SALES

IPA INSTITUTIONAL
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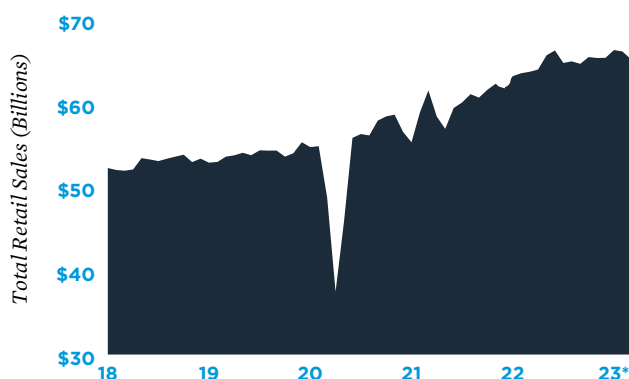
MAY 2023

Retail Sales Show Signs of Easing; Long-Term Commercial Real Estate Outlook Positive

Retail sales support economic growth. Despite a second month with a mild pullback in retail sales, retail consumption was up 2.4 per cent on an annual basis, with food-related products showing healthy results. Restaurant spending increased for the third straight month, translating into a 3.0 per cent annual gain. The Canadian economy also began to see a broader shift toward more essential goods. For example, grocery spending saw its fourth consecutive monthly increase, which equated to 4.4 per cent on an annual basis. Overall sales volumes jumped 4.9 per cent annualized in the first quarter, suggesting GDP expanded. Still, March's monthly decline indicates softer economic growth ahead.

Easing consumption may aid investment activity. With inflation seeing a mild uptick in May, the potential for an additional rate hike became more probable. However, broad-based indicators suggest inflation should continue to trend down, which will likely be further aided by the expected slowdown in retail sales. This may be an indication that the Canadian economy is slowing faster than the Bank of Canada expects, which may be enough to keep the Central Bank on the sidelines. If true, this outcome would be positive for commercial real estate investment as it would cause some uncertainty to abate. This would also assist in the recalibration of asset values and mitigate price expectation gaps between buyers and sellers. As interest rates show signs of stabilizing over the coming months, positive investor sentiment may build and transaction activity could gain momentum over the latter half of the year as underlying fundamentals remain sound across the property spectrum.

Retail Sales Remain Above Long-Term Trend

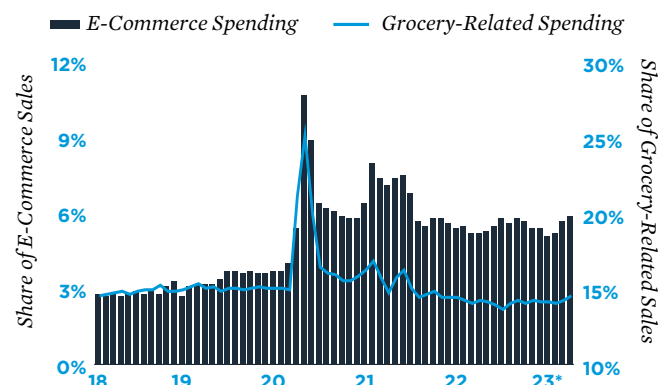


Commercial Real Estate Outlook

Industrial demand still persists. Seasonally-adjusted e-commerce sales rose for the third consecutive month, increasing 2.2 per cent in March. This translated into a 14.7 per cent annual gain, with online sales now accounting for 5.9 per cent of total retail sales. While this share is down from the highs witnessed in 2020, which helped the national vacancy rate contract to a historic low of 1.1 per cent in 2022, it remains well above the pre-pandemic share of 3.2 per cent. Industrial space demand is expected to remain above its long-term average in 2023, which is likely to support further double-digit annual rent growth. With investors looking to capitalize on robust fundamentals, an influx of supply is expected this year, possibly causing slight upward pressure on vacancy. As e-commerce-related demand remains elevated, coupled with emerging demand drivers from the manufacturing sector, vacancy is forecast to remain sub-2 per cent by year-end.

Food-related retail attracts investor attention. With ongoing economic uncertainty, investors are seeking stable assets in order to generate returns while mitigating risk. One property type offering these characteristics is grocery-anchored retail power centres. The essential nature of the products offered creates stability, while the diversified tenant mix mitigates risk. Despite real disposable incomes falling, this stability is seen in the four consecutive monthly gains in grocery-related spending, coupled with this segment's long-term trend. Retail sales velocity remained relatively more constant in 2022 when compared to other asset types, as total dollar volume transacted only fell 8 per cent annually.

E-Commerce & Food Attract Investor Attention



* Through March

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada



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