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RETAIL CANADA GO

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A NOTE FROM OUR CONSULTANTS

Clearly, the global retail economy has undergone unprecedented change and will continue to do so in the coming months and perhaps years ahead, due to the impact of COVID-19 on the customer retail experience.

The important thing to realize as a retailer, landlord, and customer is that no singular voice has all the right answers as to what comes next. The opinions and analysis expressed in this publication is that of the consultants and operators of TGS Asset Management Company, based in Toronto, Canada.

The goal is to put together relevant, practical information based on our market experience and knowledge, and provide mechanisms in which to cope, think, and better understand the world that lies ahead.

Thanks to all the front-liners that are at various points of this supply chain that work to provide and protect consumers and make this discussion relevant.

SHLOMO SCHEINBACH
PRESIDENT, TGS Group

CANADA EMERGENCY COMMERCIAL RENT ASSISTANCE – (CECRA) – WHAT WE KNOW

The Government of Canada announced the implementation of the Canada Emergency Commercial Rent Assistance program (CECRA). The intent is to provide the retail industry with support in order to mitigate the potential receiverships and lost income. The program is setup to allow affected business to pay only 25% of their monthly rent for the months of April, May, and June 2020.

The government will be providing forgivable loans to commercial property owners that will cover 50% of three months rental income (which will be paid through both the federal and provincial branches of government).

TENANT CRITERIA

- RENT LESS THAN $50,000 PER MONTH.
- HAVE TEMPORAILY CLOSED OR CEASED OPERATIONS DUE TO COVID-19.
- HAVE EXPERIENCED A MINIMUM 70% DROP IN PRE-COVID 19 REVENUE.

The property owner must cover 25% of the rent, thereby reducing the rent by 75% for the tenant, who will then be responsible for 25% of their rental amount according to their lease agreement. This subsidy will be governed by a rent forgiveness agreement, which must also remove any ability to evict the tenant under such forgiveness during this time period as a result. The commercial subsidy is only applicable to small businesses, defined as tenants who are paying less than $50,000 per month In rent. The tenant must have also temporarily ceased operations as a result of COVID-19; or have experienced at least a 70% drop in pre-COVID revenue. The understanding is that sales drops, should be in respect to same month sales for year prior (2019), although it is unclear. It would be wise to compare sales for Q1 as well, to make sure qualification criteria has been satisfied.

The government seems to have defined the program as commercial specific and mixed-use operators should exercise caution in compiling due diligence to qualify, in that only the commercial component of the rent may be subsidized.

Although we are in the month of May, final details as to how the program will be administered have not been released as of publication, although it is expected to be finalized by mid-month. The program will be administered through the Canadian Mortgage and Housing Corporation and will be available until September, 30, 2020. The subsidy will be retroactive back to April 1 and is intended to cover April, May and June. As details are pending it would be wise to wait until negotiating or finalizing any contracts based on CECRA.

WHAT DOES THE FUTURE OF RETAIL LOOK LIKE?

There is no doubt that although commercially and economically things will be normal again, what that normal may look like on the other side may be dramatically different than a pre-COVID commercial market.

Retailers have already significantly modified and changed their method of operation, and have begun placing a greater importance on several key factors which will impact how they fare moving forward. Perhaps the most significant change will come from areas of technology and inventory control, and how well the retailer adapts to the changing demand from their consumer in respect to these two key areas, will go a long way in creating a sustainable business model moving forward.

Interestingly enough, and of no surprise, will be the new retailers that emerge from this crisis who essentially had the advantage of starting fresh so to speak without having to adapt an existing model. We will look at different aspects of key retail evolutions moving forward in this column, beginning with an examination of the evolution of product inventory. *continued on p.03*

TGS Asset Management Group
STRATEGIC IMPLEMENTATION

MANAGING YOUR BUSINESS THROUGH COVID-19

IN ORDER TO EFFECTIVELY MANAGE WHAT COMES NEXT, IT IS IMPORTANT TO EVALUATE WHAT YOU DO NOW

EVERY BUSINESS SHOULD BE THINKING ABOUT THIS NOW

5 STEPS TO KEEP MOVING FORWARD

STEP 1: COMMUNICATE

The most important thing landlords, retailers, front-line workers and consumers can do is maintain an open channel of communication. Communicate what steps are being taken to make properties and buildings safe.

STEP 2: CLEAN AND ADAPT

Landlords and tenants should be implementing deep cleaning procedures and deploy schedules that permit them to take place. All retail locations should have hand sanitizer available to customers and clear notification as to cleaning practices.

STEP 3: SOCIALLY DISTANT MEASURES

Properties and retail locations need to be modified to comply with socially distant initiatives. Parking, signage, and hours of operation are several examples.

STEP 4: EVOLVE WITH TECHNOLOGY

Determine how and which technology can help strengthen core business practices and sales.

STEP 5: SUPPORT LOCAL

The stronger we can make our supply chain, the more resilient to change it becomes.

Q&A ON THE MARKET

Q: ***Prior to COVID-19, Canada experienced near historic lows for unemployment and vacancy rates, coupled with strong investor demand for commercial real estate. Will these strong key fundamentals mean anything in a post COVID-19 real estate market?***

A: The short answer is yes and no, but there will be pent up demand and suffering segments within the commercial market, that will mitigate some of the extreme outliers of this answer, meaning what comes next probably lies somewhere in the middle. In reality, what happens once the economy is re-opened will very much be dependent on which segment of commercial real estate we are discussing, and how profound the impact of the current situation of COVID-19 will have on the future of business.

Our best case study for Canada is the recent economic downturn of 2008, which saw Canada exceed expectations for a recovery based on exactly those key fundamentals being in place. Canada was (and is) looked upon as a safe investment with stable opportunity for returns and cashflow, making the investment market quite strong across asset class. Economics however, is where the parallels end, as we may be seeing a fundamental change in the way business is conducted. There may be, as there is already, an increased importance in local business, and specifically a growth in what has now been referred to as essential retail. Businesses that support and solidify this sector should as a beneficiary, see the same growth and stability moving forward. As far as retail real estate is concerned, much will be dependent on covenants, lease terms, and asset locations, but it is not hard to see that real estate in this sector that has weathered the storm so to speak, will see their values rise significantly moving forward. Remaining assets within this sector, of which there are many, will be as dependent on the effectiveness of the individual tenants to adapt and modify their business model, as they will be on sector data itself. That is to say, the tenants that can supplement their sales through online activity, or have effective in store procedures beyond the trust in their brand, should see the return of their sales as a result.

Supply chain demand will help overlap and strengthen some retail that may suffer, as demand for industrial space should see a significant increase due to inventory paradigm shifts, and the emergence of e-commerce as an extension of in-line sales. Asset shortage in this class, coupled with resultant increasing rents, may shift underperforming retail to conversion opportunities.

The low vacancy rates prior to the mandatory shutdown of non-essential business, in conjunction with new online retailers that may suddenly find themselves in need of physical office space, might help the negative impact potential on the office market. One could assume, however, that companies who have had staff working from home during the pandemic, without skipping a beat, may now see that as a viable solution, at least for periods of time, and may come to the conclusion that they need less office space, as a result impacting this sector the most.

Retirement facilities, as an investment, may see a weakened market moving forward, as new cleaning procedures, staffing, insurance requirements and protocols may be necessary and may alter expenditure calculations as a result.

The multi-residential market, although should hold steady as far as consumer demand, should see a significant loss in value due to decreasing rental income.

Clearly industrial real estate should see the least negative fluctuation, with the highest probability of growth across a sector, although risk should be assessed on an individual basis should product demand return to pre-COVID conditions.

KEEP AN EYE ON

Industrial and Essential Service Centre Retail should lead the way in Commercial Real Estate post COVID-19. Strong market fundamentals heading into the crisis should stabilize the market heading out.

FUTURE OF RETAIL

A LOOK AT INVENTORY DEMAND AND WHAT IT ALL MEANS

When looking at the significant impact current demand will have on inventory practice and the resultant real estate necessity, it is important to step back and understand that inventory is different across industry and product segment. The changes to inventory practice will be very much based on how a certain business deals with inventory, what goods it produces, and where it fits along the product life cycle.

Although, there are additional inventory types, for the purpose of understanding demand shifts, we can focus on the following types:

Raw Materials – Inventory items used to produce finished products. As an extension we can include Work in Progress Inventory and Finished Goods, as they are part of the same product chain.

Transit Inventory – Inventories that require transport from one location to the next which may need to be stored as well along the way.

Buffer or Anticipation – Inventory used to prepare for demand or unforeseen circumstances.

MRO Goods – Items used to support production process and infrastructure. Items such as supplies, office products and PPE for instance.

When discussing future inventory demands it is important to realize that certain retail segments may be impacted differently than market averages for most goods. The most negatively affected industry seems to be fashion and specifically clothing. Due to the seasonal nature of product lines changing from season to season and year over year, slow sales or no sales during the pandemic may lead to warehouses that are overstocked. This may have a negative impact on

warehouse necessity, and brand strength, if deep discounts are required to clear inventory, ultimately changing their customer profile. Obviously, even though an increase in online sales and shifting customer shopping patterns may affect inventory positively, there may not be a need to cycle inventory ahead of demand or product release. Industrial space should however see an increase in demand as areas such as grocery, pharmacy, technology, office supplies, and MRO goods to name a few have seen an increase in demand and shifting inventory practice to meet those needs. Storage and transit of goods should also increase with demand for similar products being global and at the same time. Planning, anticipation, and execution of goods storage should be a vital part of business models moving forward. As a result of increased demand, and an increase in rents until supply catches up, should see the Industrial sector of Commercial Real estate leading the way moving forward as the economy gets restarted. The largest benefactor as a result should be the retail that is supported by these shifting business practices.

DEMAND INCREASE

Online sales, increased inventory models and new product lines should fuel demand both corporately and among investors for Industrial Commercial Real Estate.

DO THE MATH

TAKING ADVANTAGE OF THE MARKET

According to a Statistics Canada study, grocery sales for March increased nearly 40% compared to average sales in 2019. Non-perishable foods such as rice and pasta experienced sales increases well above 200% on average, with items such as meat, canned soup and vegetables not far behind.

Household cleaning products all saw increases in sales well above 200% year over year, with hand sanitizer leading the way with a sales increase of over 600% compared to 2019.

Online shopping has definitely seen a surge due to the COVID-19 pandemic, but US sources are reporting that online grocery sales are only at 10% of total shoppers, indicating that even if online shopping levels do not return to pre-virus conditions, corporate technology dollars may be better spent in improving in store AI initiatives, such as developing checkout free systems or digital shopping instore, rather than building a better website.

As product supply also returns to a manageable level, it is important to remember that grocery is already a business accustomed to working with smaller product margins compared to other businesses. One would think that as consumer purchasing costs come down, even with modest inflation accounted for, grocery stores will focus on a better digital customer experience in store as they may have a greater impact on the bottom line. This would also include the deployment of social distancing initiatives and customer and employee safety practices.

TECH CORNER

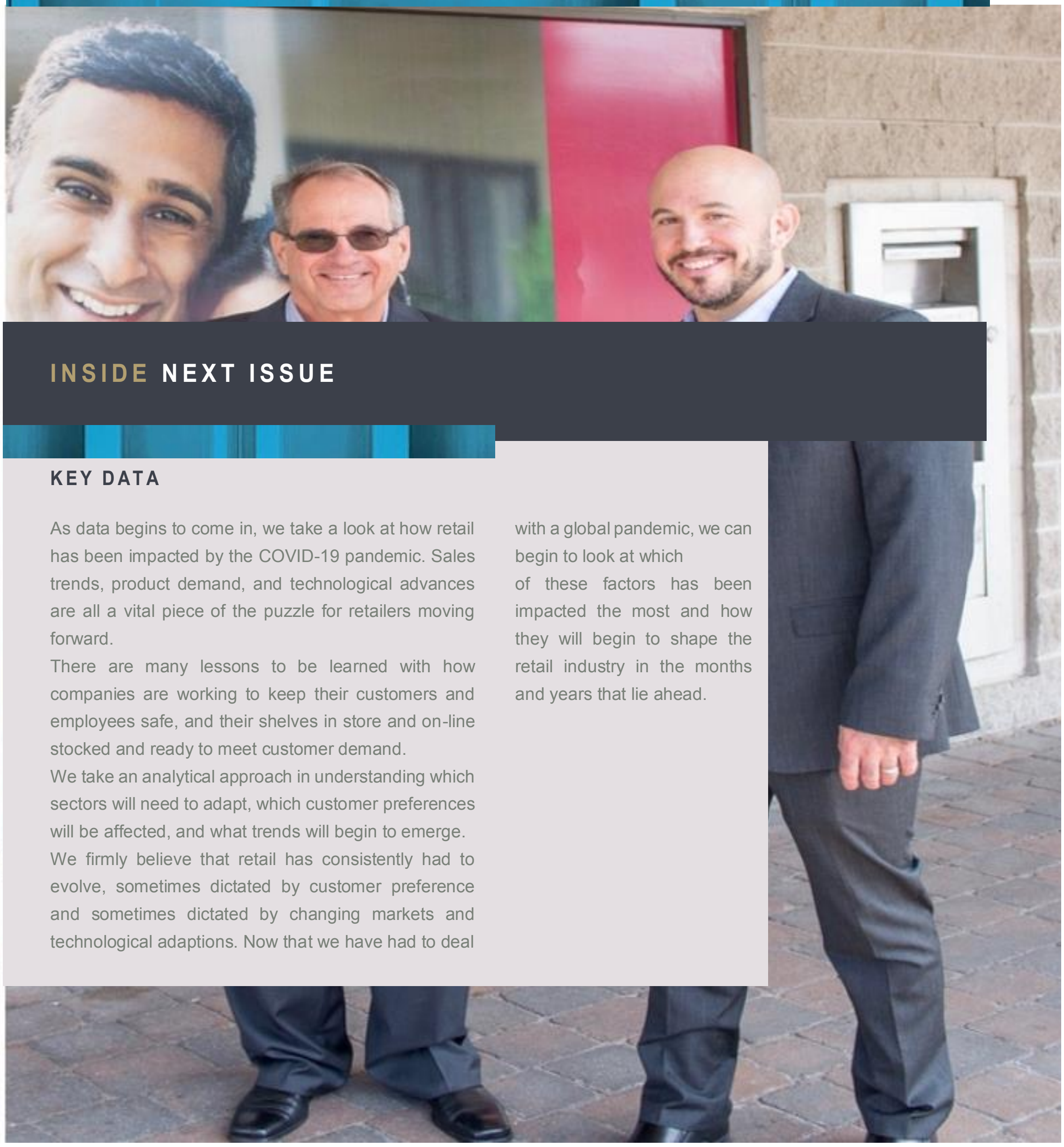
ADVICE FOR USING ZOOM

Zoom meeting is a cloud-based video conferencing app that allows interactions with family, friends, co-workers and employers when meetings are not possible. Obviously with COVID-19 keeping people at home, it has become the leading communication app to minimize corporate disruption and allow regular interaction to take place.

Zoom allows one on one on meetings, group video conferences and screen sharing capabilities so that large groups can see what you see. They offer a free plan and various paid plans depending on your business needs.

The desktop app is available for Windows and macOS, and the mobile app is available for Android and iOS. It is possible to join a meeting without signing in, however with an account, you can start and meeting and control participants in terms of muting, screen sharing, chatting and recording the meeting.

A nice feature of Zoom, is that is lets you create recurring meetings after setting the information once and scheduling for every additional time you plan on meeting. This would utilize the same meeting ID and make access much simpler. Additionally, beyond the fun you can add to meetings by changing the virtual background on your screen, Zoom allows users to touch up appearances by using the feature of the same name which can smooth fine lines. It is found in the Settings tab, under Video; a useful tool for users who have not had their morning coffee yet.



INSIDE NEXT ISSUE

KEY DATA

As data begins to come in, we take a look at how retail has been impacted by the COVID-19 pandemic. Sales trends, product demand, and technological advances are all a vital piece of the puzzle for retailers moving forward.

There are many lessons to be learned with how companies are working to keep their customers and employees safe, and their shelves in store and on-line stocked and ready to meet customer demand.

We take an analytical approach in understanding which sectors will need to adapt, which customer preferences will be affected, and what trends will begin to emerge.

We firmly believe that retail has consistently had to evolve, sometimes dictated by customer preference and sometimes dictated by changing markets and technological adaptions. Now that we have had to deal with a global pandemic, we can begin to look at which of these factors has been impacted the most and how they will begin to shape the retail industry in the months and years that lie ahead.

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