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December 11, 2018

Jamie Kitlarchuk
Project Manager
Qualico Communities
280, 3208 – 93 Street NW
Edmonton, AB T6N 0B2

Dear Jamie

Further to our correspondence and conversations, we are pleased to provide you with our memorandum in support of Qualico's East Pioneer ASP amendment for removal of the Urban Village designation from the previously approved ASP.

If you have any further questions or comments that may arise from this memorandum, please do not hesitate to reach out.

Sincerely,

Kieron Hunt
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MEMORANDUM

TO: Jamie Kitlarchuk, Project Manager, Qualico Communities
FROM: Kieron Hunt, President, Key Planning Strategies
DATE: December 11, 2018
RE: East Pioneer ASP Amendment - removal of the Urban Village designation from the plan

Key Planning Strategies (Key Planning) was retained by Qualico Communities (Qualico) to provide this memorandum in support of their ASP amendment of the East Pioneer lands in the City of Spruce Grove.

Key Planning and its President, Kieron Hunt have been actively involved in working with the City of Spruce Grove over the past decade on a number of projects. Currently, Kieron is the Lead Planning Consultant and Project Manager for the City Centre ARP project. Previous to that and on 3 occasions, Kieron has been the Lead Consultant and Analyst in the preparation of the City's Retail & Office Market Analysis. Kieron has also provided the due diligence and Market Analysis for the Westwind lands in the City's northeast sector. All of these studies provide a level of expertise and knowledge of the City's retail demand and positioning, and planning objectives that are directly relevant to the East Pioneer lands.

Kieron has also been a long-standing member of the International Council of Shopping Centers (ICSC) where he has been on numerous professional presentation panels, as well as an Editorial Member of the ICSC/EDAC publication "*Retail as a Catalyst for Economic Development*". Therefore, he has the expertise and experience to provide the necessary perspectives and rationale for this type of project.

Lastly, the ongoing work in creating the City Centre ARP has made Key Planning acutely aware of the aspirations of the EMRB, but also the importance that appropriate retail positioning has for the long-term viability of the community.

The following provides a summary of the salient finding and recommendations, based on the experience and in-depth market knowledge of Key Planning.

1. Introduction

- On the basis of the most recently submitted East Pioneer ASP by Qualico, it is our understanding that Qualico is seeking an amendment in its previously approved ASP that would remove the Mixed-Use Urban Village and replace this with additional, more traditional highway commercial uses. The purpose of this memorandum is to provide an objective, quantitative and qualitative rationale in support of this amendment.

MEMORANDUM (cont.)

2. Retail Market Demand

- In 2017, Kieron Hunt, under the Cushing Terrell banner, provided its 3rd update to the City's Retail & Office Market Analysis. The Executive Summary of this report is included as an attachment to this memorandum.
- The most significant finding of this study is that the City of Spruce Grove could support an additional 750,000 sf to 1,000,000 sf of new retail space over the next decade at various nodes across the City.
- Specifically, the Retail & Office Market Analysis states: "*Future demand forecasts for new retail space over the next decade suggest that the City of Spruce Grove could grow by an additional 775,000 to 1 million sf. Pioneer Point (also known as Pioneer Lands), located immediately east of Century Crossing fronting Hwy 16A is one such development that will tap into this figure as could the future development as outlined in the West Central Area Structure Plan...*"
- This amount of retail demand represents an allocation across the City over time, but it is also worth noting that this amount of space is likely to be predominantly occupied by branded retail formats in a range of sizes from smaller CRU to Junior Box Anchors.
- The Pioneer Lands location, access and visibility suggest that the area will be viewed as an extension of Century Crossing and thus the strongest demand will be for branded tenants for whom Hwy 16A visibility and access is essential.
- One could opine that the increasing critical mass of demand provided along this stretch of Hwy 16A could benefit a smaller retail node. However, as will be outlined, this viewpoint is counter to the concept of providing a strong City Centre shopping, services and employment node.
- Branded retailers for whom the Pioneer Lands are their prime location are not tenants for whom the City Centre would be a target. However, this same notion cannot be said for local businesses for whom a potential Urban Village concept would be similarly compatible in the City Centre.
- Ultimately, the future demand for City Centre or Urban Village retail and commercial is not significant enough to warrant both, and particularly not the Urban Village concept.

3. Retail Mix & Positioning

- The East Pioneer ASP with its linear Hwy 16A frontage is best positioned to have more traditional retail with smaller ancillary supporting neighbourhood-scale retail elsewhere in the ASP, where appropriate. Within this hierarchy, the mix of branded to local retail would be on average 80%:20%.
- In contrast, an Urban Village would typically have a branded to local ratio at 20%:80%. Given that this mix is nearly the same as that which is targeted and deemed most desirable for the City Centre, this would be unnecessarily competitive. Brands have more financial leverage to compete in the marketplace than local businesses and it is thus most economically feasible for the City Centre to be the "urban" composition that can be supported by significant investment in infrastructure, streetscape in a true urban, pedestrian environment.
- Demand for non-branded and local businesses is always a challenge, but even more so if there is a competitive node representing a similar scale of format in a village concept.
- The City's focus on having compatible businesses and retailers is now focused in the City's ARP and not in a suburban neighbourhood Mixed-Use Urban Village model, which is now the antithesis to optimal and most feasible demand and planning principles.
- A suburban Mixed-Use Urban Village model has proven to be a difficult development model to support, except where in existing dense downtown areas. In many of these areas, the rent structures that result from parking requirements and development costs result in retail lease rates that are not sustainable for smaller local businesses, which are the target mix for such projects.
- The City Centre has the potential for better economics through possible incentives that may lower development costs which could support more feasible rent structures for local businesses.

MEMORANDUM (cont.)

4. Employment

- In a concept in which an Urban Village is provided in addition to a traditional Highway Commercial retail node, the amount of employment generated would be less than having a larger full highway commercial component. As an example, in the Urban Village concept comprised of an estimated 40,000 sf of retail services and 10,000 sf of office space, and a 200,000 sf highway commercial, the estimated employment could be in the range of 530 employees. Conversely, a project comprised of 300,000 sf of retail and services in a highway commercial orientation, could result in a total employment of 600.
- Moreover, the City Centre ARP is placing a strong focus on generating important, high value office and service employment opportunities to support the rebirth and regeneration of retail in the City Centre. To further have yet another suburban office node, albeit mixed-use, would have the potential of limiting the City's Centre attractiveness and resulting opportunity.

5. City Centre ARP

- First and foremost, the original concept for an Urban Village, predated the City's resurgent focus and desire to revitalize its City Centre core.
- The framework for the City Centre ARP is moving forward at a much faster pace than any of the previous attempts and is being driven by the downtown businesses who would view another competitive urban village concept to be a competitive threat to their business model and may even attract them away from the City Centre.
- The City Centre is focused on achieving the EMRB's aspirational density of greater than 100 upnha, which far exceeds the ASP and thus is better suited for a Mixed-Use Urban model.

6. Cultural Master Plan

- A central component to the City Centre ARP, that was also not considered at the time of the originally approved East Pioneer ASP, is the significant role that cultural amenities will play.
- The City Centre ARP is allocating significant expenditure in infrastructure and streetscape improvements, as well as a major investment in revisioning and redesigning Columbus Park into Columbus Plaza, which will become an activated, flexible green space with fixed staging for community and cultural events.
- The ARP is envisioning Columbus Plaza, as part of the Cultural Master Plan, to become a focal point for Cultural activities and events. In the past, these types of events may have been designated in the future for nodes like East Pioneer and its Mixed-Use Urban Village. But the renewed focus on the City Centre ARP and the opportunity to rekindle civic, community and cultural engagement runs counter to having another cultural node in the community provide these components.
- A key component of the City Centre cultural space is to bring activity back to the City Centre, and another Urban Village would be competitive and yet again hinder the goal of redefining, revitalizing and enhancing the public realm, which is arguably more critical to the community overall than an urban village at the periphery and fringe of the community.
- The East Pioneer lands will still have recreational green space necessary for active use, but the cultural significance of the City Centre, must take precedence over an urban village concept.

7. Density

- The EMRB's aspirational greenfield densities are noted within the ASP amendment and have been detailed by Qualico. While the removal of the urban village does result in a minor reduction in density, since density calculations are an imprecise forecast, it is not inconceivable to suggest that densities can be tweaked in other areas of the ASP to meet the full minimum requirements.
- The loss of some density in the mixed-use urban village should not on its own justify keeping a format that is in many other respects not optimal or compatible within the wider community.

MEMORANDUM (cont.)

8. Conclusion

- A core consideration of the City's Retail & Office Market Analysis stated "ensure that retail growth does not come at the expense of the City Centre revitalization". It is strongly believed that a mixed-use Urban Village concept, as currently required in the ASP, would pose a competitive threat to the City Centre's revitalization and go against the vision, principles and objectives of the ARP.
- In a general sense, when looking at other suburban communities in the region that have had Urban Village or Mixed-Use requirements (e.g. Windermere, Heritage Valley), it is often found that these components are left till the very end of an ASP's buildout, but most often never get built in their intended form and even more are scaled back or value-engineered. Therefore, it is best to acknowledge at this point, the challenges and present a development strategy that responds best to market demand as well as complementary positioning within the community, particularly with respect to the City Centre.
- On the basis of market demand, the East Pioneer lands periphery location would make it difficult for an Urban Village concept to gain traction, whereas a more traditional highway commercial development that fronts Hwy 16A is a far more compatible form of development.
- From a competitive perspective, a larger highway commercial development would actually be less competitive to the future fortunes of the City Centre than would a Mixed-Use Urban Village concept. The rental structures of a highway commercial node and the mix of branded to local businesses is not the same as the positioning for the City Centre. However, the typical mix of a mixed-use urban village would be directly competitive to the City Centre ARP vision for Mixed-Use redevelopment.
- The amount of investment in infrastructure, streetscape and culture in the City Centre suggests that the City Centre should be the focus of any Mixed-Use "urban" type of development and not the East Pioneer ASP.
- The information contained herein provides a rationale in support of Qualico's East Pioneer ASP amendment and in particular supports the removal of the Mixed-Use Urban Village.

Respectfully submitted



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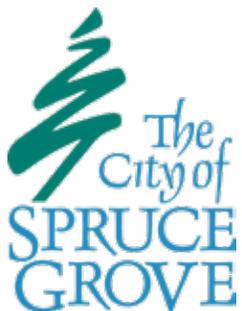
Retail & Office Market Analysis

The City of Spruce Grove

December 2017



Photos Courtesy of City of Spruce Grove, 2017



ii EXECUTIVE SUMMARY

LOCATION CONTEXT SUMMARY

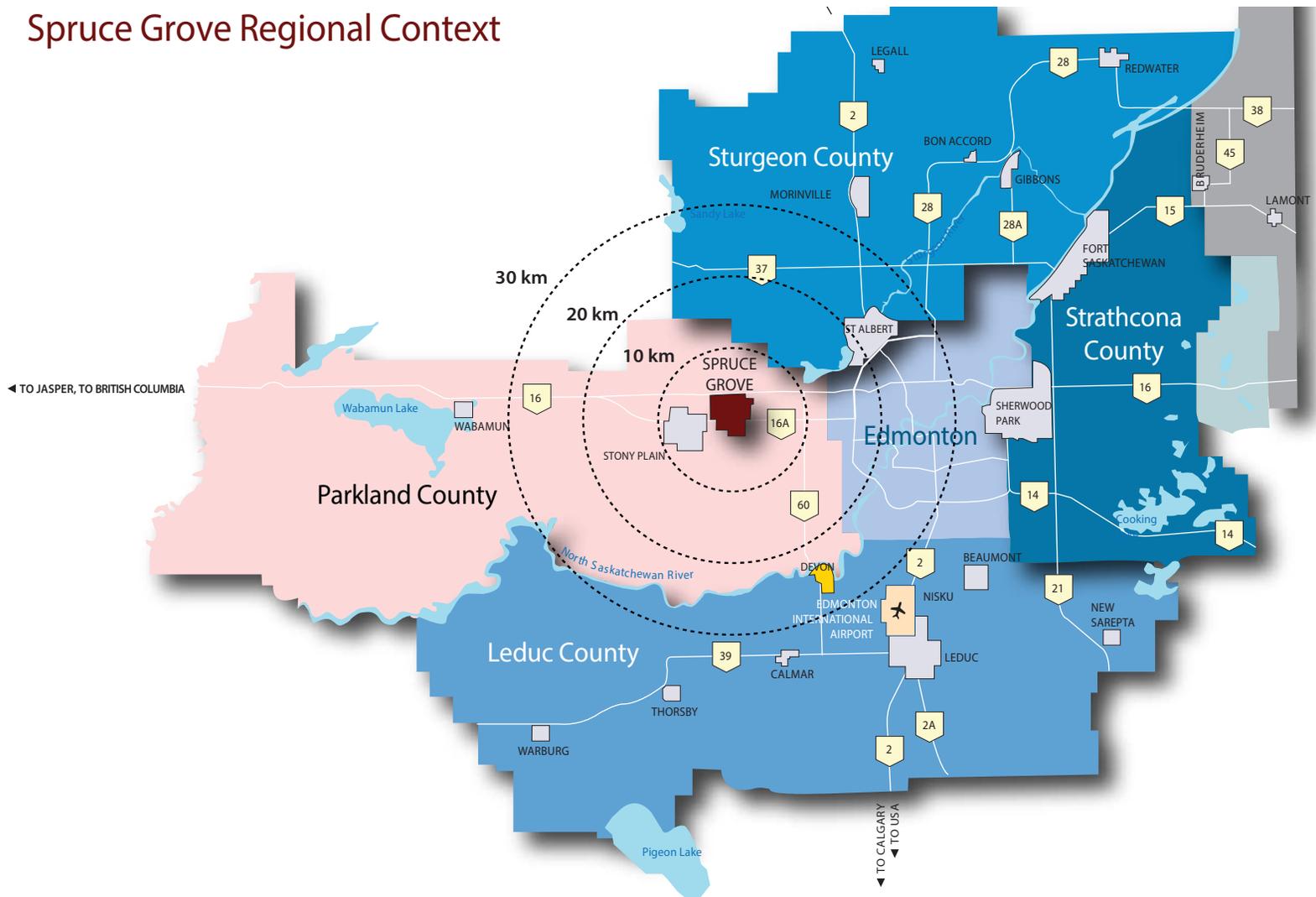
The City of Spruce continues to be a market supported by robust growth dynamics in terms of population growth, new residential development activity and commensurate retail opportunities.

The City's location as a regional hub for western communities including Stony Plain, those in Parkland County and beyond remains a key factor in the success of the City in garnering commercial opportunities.

The historic pattern of development permits and growth in traffic volumes along major arterials further validates Spruce Grove's evolution as a city whereby it is no longer viewed simply as a bedroom community to Edmonton, but rather a thriving, ***"prosperous, self-sustaining regional economic home to competitive, successful commercial and industrial companies."***

Over the last 6-year period 2011 to 2017 (using the City's Municipal Census), the City of Spruce Grove grew from 26,171 to 34,881; an average annual growth rate of 4.9%.

Spruce Grove Regional Context





EXECUTIVE SUMMARY

As a comparison, the Town of Stony Plain's population per the 2016 Federal Census was 17,189 (an increase of 2,138 from 2011), while Parkland County's population per the 2016 Federal Census was 32,097 (an increase of 1,529 from 2011).

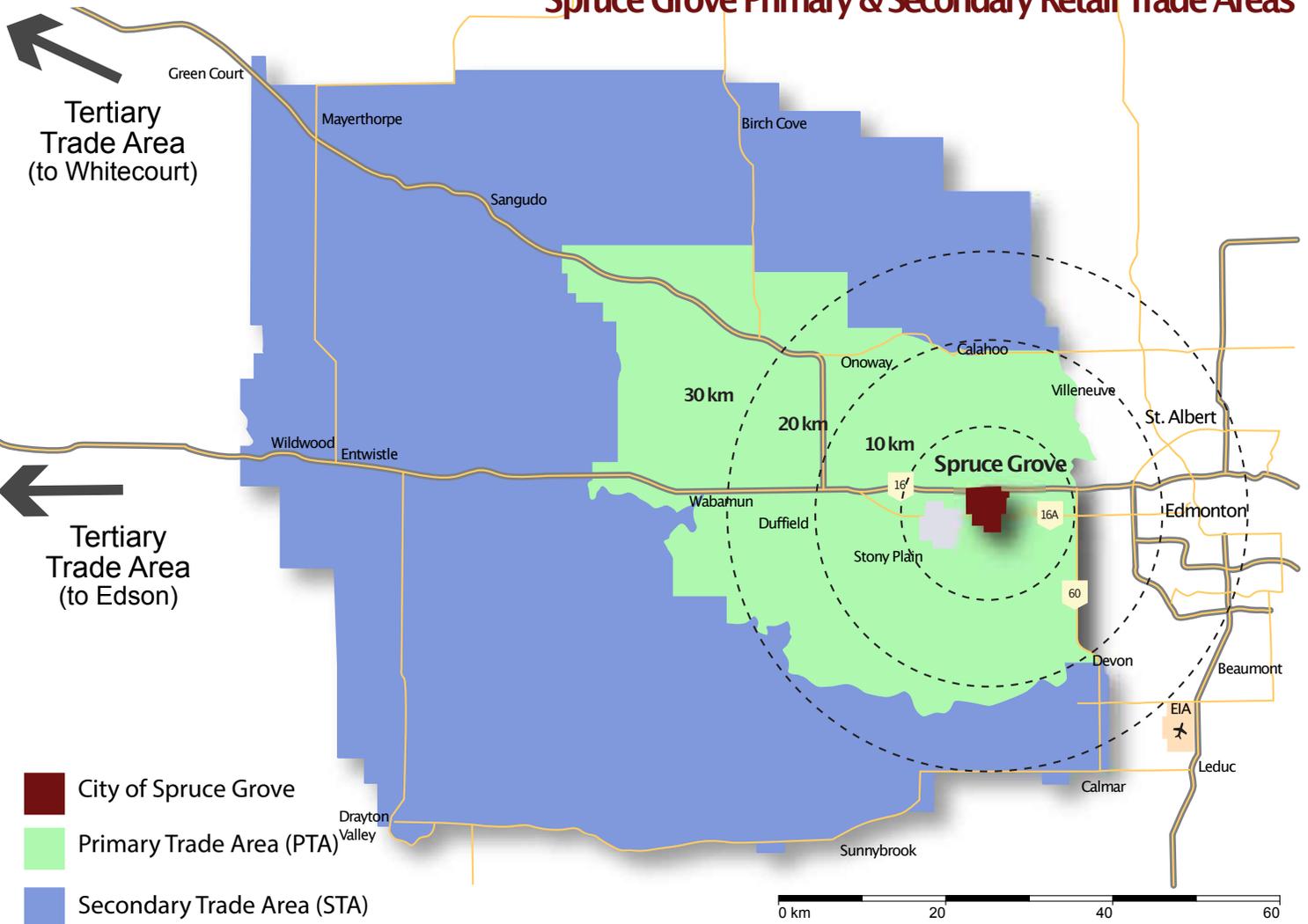
Over the period of 2009-2017 (year-to-date), the City of Spruce Grove has exhibited strength and resiliency as evidenced by an average of over 900 annual permits issued for all types of sectors.

RETAIL TRADE AREA SUMMARY

Spruce Grove's Retail Trade Area reflects a strong pattern of regional market penetration wherein the majority of customers are likely to come from communities west of Spruce Grove. Even communities outside of the Primary & Secondary such as Whitecourt and Edson will use Spruce Grove as its regional hub for larger and bulk merchandise and services.

Spruce Grove's Trade Area is a true reflection of the strategic location of the City as an interceptor to consumers coming from the west.

Spruce Grove Primary & Secondary Retail Trade Areas



ii EXECUTIVE SUMMARY

The Retail Trade Area Demographic Profile illustrates a growing regional market of 138,000 residents in 2017 growing to 164,000 by 2027.

Spruce Grove's Retail Trade Area is characterized by a young, aspirational family-oriented demographic with a commensurate high average household income profile. The Retail Trade Area profile is highly mobile in their shopping patterns, yet they are increasingly seeking opportunities to spend their money closer to home for more frequent purchases.

Overall, Spruce Grove represents a \$1.9 Billion retail market in which categories such as Grocery, Automotive/RV and Restaurants, Clothing/Apparel & Footwear, Toys & Hobbies and Home Furnishings represent growing and significant spending segments.

RETAIL SUPPLY SUMMARY

The resulting inventory for the City of Spruce Grove clearly illustrates a regional retail offering that provides the day-to-day as well as non-destination oriented, yet essential comparison merchandise.

The City of Spruce Grove's retail inventory continues to mature and evolve to point whereby concerns are less so with the overall amount of retail space, but rather more so with the actual mix of specific retail. Spruce Grove is a regional retail market which continues to grow in-step with population growth outwards from the City of Edmonton.

The City has an estimated retail inventory of almost 2.55 million sf and a vacancy of less than 3% (2.4%), which is more an indication of older obsolete retail spaces that are losing favour to the new retail nodes and projects, not just at Century Crossing, but elsewhere in the community such as at the Tri-Leisure Village and new Westwind Centre.

Over the past 5 year period retail vacancy in Spruce Grove has remained less than 5%. Moreover, in the past 3 years, retail vacancy declined from 4% in 2015 to 2.4% in 2017.

Categories like Home Furnishings, Fashion, Full Service Restaurants and Toys & Hobbies could be enhanced in response to the demographics.

Often, a growing market that starts to get new sought after tenants starts to exhibit further "wish lists" that indicate they can get bored quickly if other shopping opportunities aren't provided. This is the double-sided nature of attracting retail businesses. The case in point at the value ends of the price point spectrum would be the introduction of Winners and Value Village, each of which has been met with great success in Spruce Grove. In the near future though, expectations will be for Spruce Grove to have more retail at mid price points (e.g. Aldo, H&M, Marshall's, Bed Bath & Beyond, Buy Buy Baby, Mastermind Toys, Urban Barn, Bouclair etc). If not provided, then the propensity for outflow could resurface.

Future demand forecasts for new retail space over the next decade suggest that the City of Spruce Grove could grow by an additional 775,000 to 1 million sf. Pioneer Point, located immediately east of Century Crossing fronting Hwy 16A is one such development that will tap into this figure as could the future development as outlined in the West Central Area Structure Plan (northwest corner of Hwy 16A & Jennifer Heil Way).

This is a cumulative figure and thus any demand would need to occur in step and balance with demand from both the market, consumer and tenant perspectives.



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RETAIL DEMAND SUMMARY

The current patterns of retail spending and market share provide further validation that Spruce Grove has a wide regional trade area penetration.

The City is successful in retaining expenditure from its own residents at an overall market share of 56%. Convenience categories average over 90% retained sales from Spruce Grove residents.

Similarly, the City does well to garner inflow from its PTA, largely from Stony Plain and Parkland County residents at an overall market share of 56%, thus a marginal drop in market share.

Total demand across the Primary Trade Area (PTA) and Secondary Trade Area (STA) based on market share of resident spending suggests current demand for approximately 2.34 million sf.

Assuming continued growth and increased market penetration of trade area retail sales, there is an excellent opportunity for the City of Spruce Grove to continue its path of growth for retail.

Spruce Grove's regional catchment is evidenced by a net sales inflow of \$697 million from the PTA and STA combined. Spruce Grove garners an estimated net inflow of almost \$210.9 million in Convenience Merchandise retail sales from the PTA and STA combined of which \$156 million is in Grocery & Specialty Foods Sales.

Spruce Grove has a leakage/outflow of just under \$49.3 million in Home Furnishings and Home Electronics categories (\$29.0 million and \$20.2 million respectively) as well as Footwear (\$6.3 million), Books & Media (\$3.5 million) and Toys & Hobbies (\$350,000).

The City should strive to keep balance and seek to identify the optimal mix of categories and store types in the community. While it is not possible to stop retailers from opening in the community, it is incumbent to use a study such as this to work with developers and property owners to identify voids and opportunities in the market that should be pursued such as Toys & Hobbies, Home Furnishings etc.

As a goal, the City could aim for 5 percentage point increase in overall market share of expenditure for the entire trade area from 48% to 53% could result in additional demand for almost 425,000 sf by 2022.

CONSUMER SURVEY SUMMARY (2015)

The Consumer Intercept Survey (conducted in Fall 2015) yielded findings that reinforce the more regional market/draw for the City of Spruce Grove. Although this Consumer Intercept Survey was conducted in 2015 and while some identified tenants have since entered the market, the overall findings remain relevant to the current day.

The majority of respondents indicated a desire to have more Clothing & Footwear and Full Service Restaurants. These particular categories were not only identified as specific categories, but the spending patterns and importance ratings of the respondents validated these sentiments.

Even though consumers identified specific retailers in categories such as Home Furnishings and Home Electronics, their overall importance ratings as it relates to retaining more spending in Spruce Grove did not seem to resonate as much. Regardless, using the example of Winners would suggest that the introduction of some home furnishings and home electronics retailers could be viable for the market if in the right location.

ii EXECUTIVE SUMMARY

Respondents identified a number of recognized restaurant and retailer brands. With the success of Century Crossing, Spruce Grove is well positioned to attract many of the identified restaurants, or at least make an effort at attracting them.

The City Centre is still recognized as a key node that can accommodate future tenant opportunities, particularly in the specialty retail, food & beverage categories and personal services categories.

However, the City Centre has an opportunity to respond and create a framework that brings consumers back to the City Centre for more than just the quick in and out essential needs, but for longer stay social interaction and community engagement.

As more traditional retail developments enter the market, the more residents will harken back to wanting the social and experiential side of shopping, dining and leisure. Ultimately, this is where the City Centre can fill a void and niche in the market.

OFFICE MARKET SUPPLY SUMMARY

The compilation of office inventory reveals a total inventory of office space in the City of Spruce Grove in the range of 350,000 sf (including new buildings under construction at Westwind).

Not surprisingly the City Centre is the dominant location for office-related businesses, with an inventory of 157,200 sf or almost 45% of the City's office inventory.

The biggest weakness of the City's office inventory, with the exception of the Queen Street Professional Centre, is the age and quality of the office product in the City.

The majority of the office inventory is in older buildings and spaces and thus while potentially having lower lease rates will present a challenge in attracting potential new office tenants.

In response to the limited quality and amount of available traditional office space, the market is finding that users are taking up what would otherwise be streetfront retail uses.

As the City continues to grow, new locations for Office space should be considered in the City Centre as well as other areas, such as Westwind.

OFFICE MARKET DEMAND SUMMARY

On an incremental annual basis, the demand averages approximately 20,000 sf. The historic trend in Spruce Grove has been an absorption of approximately 5,000 to 7,000 sf per year. Therefore, the estimates of future demand could be considered slightly aggressive, but as Spruce Grove continues to grow and its relationship with Acheson becomes more important, the drivers of office demand are expected to increase, albeit at modest levels.

The office demand forecasts suggest that by 2022 there would be enough demand in the City for approximately 90,000 sf of new office space which may not be all in one development, but could be allocated in two areas of the city, namely the City Centre and Westwind.

Further growth suggests a total demand for just over 200,000 sf of new office space by 2027.



EXECUTIVE SUMMARY

CONCLUSION

The Retail & Office Market Analysis for the City of Spruce Grove entailed an extensive process summarized in the following:

KEY FINDINGS:

- Spruce Grove continues to grow and solidify itself as a self-sufficient regional and freestanding retail market.
- Spruce Grove's demographic profile is comprised of a young, family demographic with an emerging affluence and corresponding discretionary income.
- Spruce Grove's retail trade area catchment serves a market of almost 138,000 full time residents, which is forecast to increase to over 164,000 by 2027.
- The City of Spruce Grove currently has approximately 2.39 million sf of total **occupied** retail space.
- Current estimates for the trade area suggest current demand for 2.35 million sf of retail space.
- Future demand forecasts for new retail space over the next decade suggest that the City of Spruce Grove could grow by an additional 775,000 to 1 million sf.
- Spruce Grove's regional catchment is evidenced by a net sales inflow of \$697.1 million.
- Spruce Grove garners an estimated inflow of almost \$210.8 million in Convenience Merchandise retail sales of which \$156.3 million is in Grocery & Specialty Foods Sales.
- Spruce Grove has a leakage/outflow of just under \$49.2 million in Home Furnishings and Home Electronics categories (\$29.0 million and \$20.2 million respectively), as well as a further \$6.3 million in Footwear, \$3.5 million in Books & Media and \$340,000 in Toys & Hobbies.

- Spruce Grove has a total occupied office inventory of 225,000 sf excluding approximately 80,000 sf of new office space either recently completed or scheduled to come on stream in 2018.
- Forecast for new office space indicates cumulative demand for approximately 200,000 sf by 2027.

CONSIDERATIONS

- Ensure that retail growth does not come at the expense of the City Centre's revitalization efforts.
- Prioritize future retail developments that respond to tenant-driven, consumer-driven and market-driven demand.
- Undertake Retail Impact Assessments to make sure that projects are feasible and that their impact on existing retail is not detrimental within reason.
- Prioritize key target categories and tenants that can benefit from the sales inflow as well as curbing some outflow.
- Over the next decade and in addition to demand from population growth, the City of Spruce Grove should strive to increase its market share of retail spending from **City** Residents from an estimated 57% today to 60% and an increase of **Total** Retail Trade Area market share penetration from 48% to 53%. An increase in market share not only provides a rationale for attracting new businesses, it equally as importantly provides a necessary framework for local independent stores to increase their profitability and resulting stability in the community in the face of competition. Simply put, an increasing market share does not always mean new space, but could mean more sales for existing businesses.

HERE
WE
GROW

