RETAIL STRATEGIES REVIEW
SPRING 2022

CCI CORPFIN CAPITAL INC.

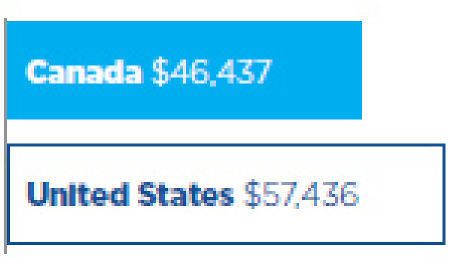
In the last several years the retail real estate sector has faced unprecedented challenges. These include: the impact of ongoing consolidation of the department store business, the general impact of online shopping, and the specific impact on the day-to-day business strategy for most "bricks and mortar" retailers. In addition, over the last 2 years, various and unpredictable Covid-19 restrictions/shutdowns, were added to an industry in the middle of substantial change. Notwithstanding these challenges we at Corpfin Capital Inc. have continued to develop property-specific asset management strategies and identified value-add opportunities. We have executed these asset-specific strategies to the benefit of properties and all stakeholders. In this review we are pleased to share some of our strategic thinking, observations, and experiences in today's market.

Shopping Centres (Evolution and Innovation)

The first mall in the U.S., Southdale Mall, was built in 1956, in Edina, Minnesota. By 1960 there were 4,500 malls accounting for 14% of all retail sales in the US. By 1975, there were 30,000 malls accounting for more than 50% of retail spending. Today in the US there are 23.5 sq ft of retail space per capita. In Canada we have experienced similar growth. As of May 2017, there were 3,742 enclosed and strip malls in Canada (properties larger than 40,000 square feet). Total retail space stands at 16.4 sq ft per capita (71% of the U.S). When we consider that GDP per capita in Canada is 73% of that in the US it is not surprising the Canadian market has proportionately less space.

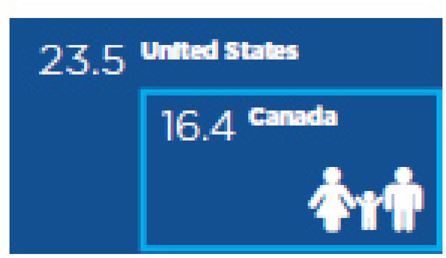
The shopping centre industry is a major part of the Canadian economy. In 2017 it generated 1 in 10 jobs and constituted 13% of Canada's GDP. Notwithstanding the many advantages and synergies of collective retailing in shopping centres, recent years have seen continuing competitive changes which have stressed property vacancy rates and net operating incomes. In the face of these challenges, shopping centre owners and managers are rethinking how to optimize value at their properties. We at CCI along with our partners at McCor have been actively working through these challenges and see significant opportunities emerging from what we expect as the next stage of evolution/innovation in the shopping centre industry.

Gross Domestic Product per capita



(Source: International Monetary Fund 2016, $US)

Shopping Centre space per capita (GLA)



(Source: International Council of Shopping Centres)

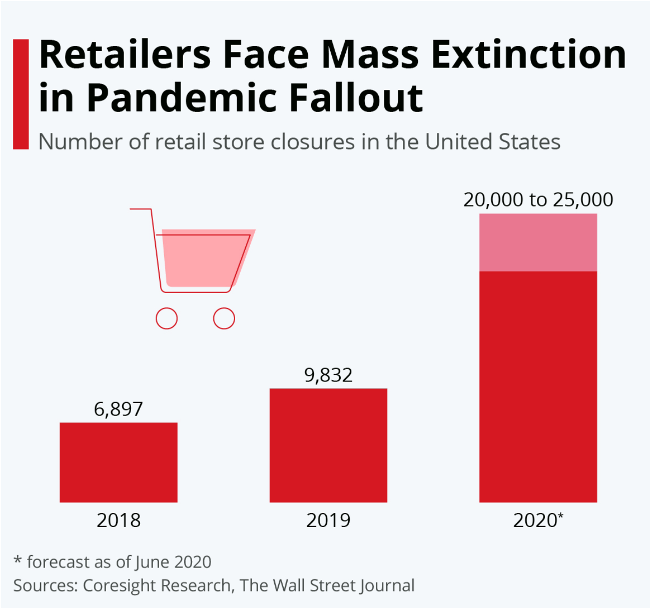
The Changing Retail Shopping Centre Landscape

Department store closings

In the US and Canada there have been an unprecedented number of department store closings over the last 5 years. Significant closing in the US, include chains such as JC Penny with 242 closings, Macy's closing 45 stores, Kohls closing 18 locations (mostly mall stores) and Sears who at last count is down from 3,000 stores to 26 stores (including Kmart). The Canadian experience has been arguably worse, with the loss of Zellers/Target and most recently Sears, the Canadian market has been left with the Bay as the last traditional "full-line" department store. The impact of department store closings on enclosed malls has been particularly harsh. Given the original role of department stores as an "anchor tenant", properties have faced not only the loss of a major tenant but also the burden of many CRU leases with punishing co-tenancy clauses. The bright side for some properties has been the elimination of "site controls" contained in department store leases. The positive result can be seen in the unlocking of substantial development opportunities by easing density and parking obligations. We at Corpfin have had significant success in capitalizing on these opportunities.

The "retail apocalypse"

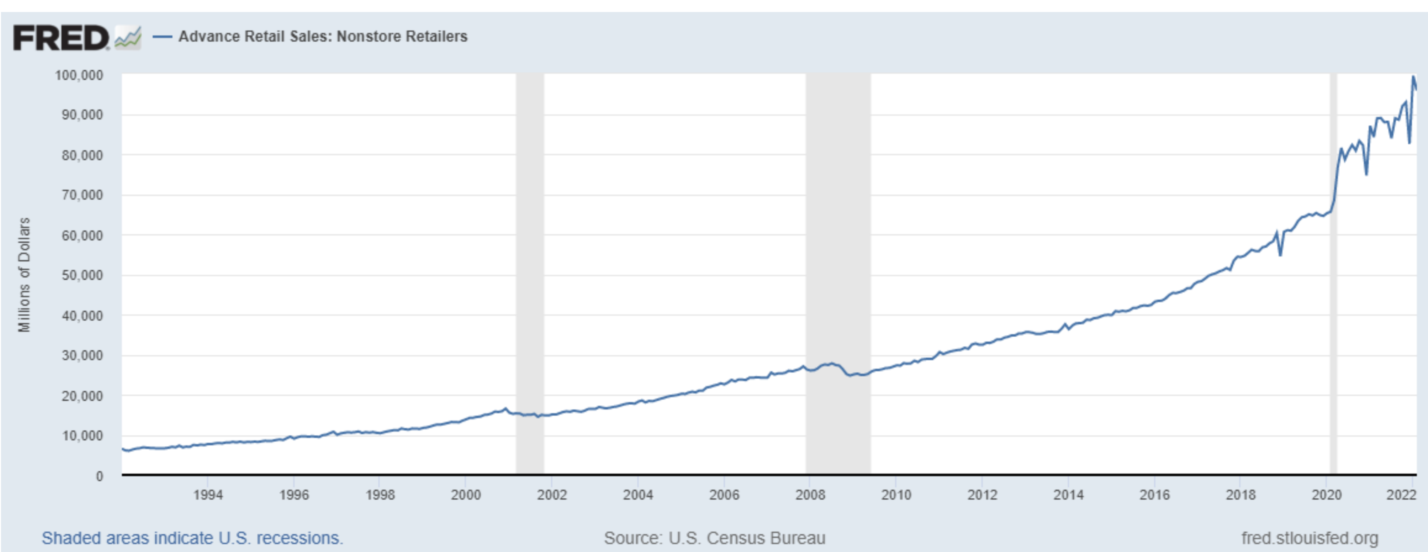
At the beginning of 2019, projections in the U.S., were for a "retail apocalypse" and the closing of over 9,300 stores. The Canadian retail industry faced similar gloomy predictions. Despite many store closures in Canada (Le Chateau, Bentley, and others) and closings associated with chains that sought restructuring under CCAA (Aldo, Reitmans) to date, the impact of these closings has not been as devastating as initially projected.This provides cause for optimism. However, the next 12 months may reveal if



we have only been successful in "kicking the can down the road". A reliable picture will emerge as covid-19 restrictions end along with government subsidies and supports. Many industry professionals still have expectations of rising bankruptcies over the next 12 - 18 months. Accordingly, retailer viability continues to cast a dark shadow over future projections and retail property underwritings. Once again, we at CCI along with our partners at McCor, have substantial experience in retail restructuring as well as the remerchandising insight needed to provide each property we manage a value optimizing merchandise strategy. Each strategy is built on a realistic understanding of each tenant, the local market, and the property in question.

Impact of online shopping

Online sales in Canada rose 110.7% in 2021. While digital products such as music, software, and concert tickets have historically been a substantial portion of total online sales, physical goods have increased rapidly. For instance, 13% of Canadians ordered groceries online for the first time during the Covid-19 pandemic. To illustrate the impact of online sales consider Amazon's 2021 sales in shopping centre terms. Based on Amazon's 2021 total sales they would require 469 million sq ft of retail space generating $1,000/sf! If Amazon achieved its 2021 Canadian sales in a shopping centre environment, they would occupy eighteen regional malls of 500,000 sq ft generating sales of $800 per square foot. While these figures are substantial, it is important to keep in mind that Amazon



is less still less than half of all online sales. While it will vary from market to market, in our view, most retail real estate markets are, when taking the substantial changes in anchor tenants and the impact of online shopping into consideration, approximately 30% overbuilt.

Interest rate and inflation risk – the real estate hedge

Disrupted supply chains and pent-up consumer demand have created a perfect storm of economic forces that are putting pressure on prices and central banks to craft an interest rate response to inflationary pressures. Higher interest rates are typically viewed as problematic for highly capital-intensive industries such as real estate. When interest rates go up, capitalization rates typically follow, with the resulting negative impact on value. This, however, is not the whole story.

Real estate benefits from not only being valued based on NOI and cap rates, but also by calculating replacement cost (typical on the industrial side of the business where properties are often highly specialized). Replacement cost valuations inevitably rise along with the inflationary impacted input costs (concrete, steel, land etc.). In addition, rental rates are also subject to inflation, albeit lagging the broader economy. As a result, we view real estate as the ultimate safe-haven asset. In fact, real estate can often provide a hedge against economic volatility. Lastly, opportunities for strategic repositioning and re-capitalizing of under-managed and under-capitalized assets can provide substantial upside and create long term value. These are the types of assets we at CCI/McCor focus on for our Opportunity Fund investments. We believe substantial opportunities exist in this space today.

Investment implications

While Covid-19 has certainly been a unique headwind, our view is that it has served to accelerate what was an inevitable evolution towards more efficient retail distribution. Online retail has continued to emerge as an effective means to meet consumers' needs. With ongoing innovations, it is likely to become increasingly competitive/productive. In addition, economic uncertainty continues to complicate the calculations of risk and reward for investors. In such an environment, those with superior insights and fact- based asset management plans will out-perform.

In this ever-changing retail landscape, those in the shopping centre/retail real estate sector must find creative and innovative ways to enhance value and manage existing assets. A value-optimizing strategy must be developed that is specific to each opportunity. Factors we at CCI/McCor focus on include:

1. Optimizing the retail footprint to achieve higher retail productivity.

2. Strategic merchandising plans to meet market needs.
3. Critically evaluating all existing uses.
4. Optimize development density and value.
5. Ensure that the property strategy ensures the ongoing viability for "go forward" uses.
6. Identify highest and best use across the full range of potential options including those historically not included in a retail property such as entertainment, mixed-use, office, residential, and senior housing.

WESTMOUNT CASE STUDY

Situation

Westmount Commons was a 535,000 SF, 2 level fashion mall with a vacant Target and a Sears which was about to close. Located in London, Ontario, an already over retailed market, losing both anchors would have been highly problematic for the centre. At the time of purchase there was already a high vacancy rate. The asset was owned in a fund that was reaching a "sunset" date and the fund manager needed to sell. Given these circumstances the asset was purchased for a discounted purchase price allowing for a complete re-purposing and redevelopment.

Solution

- Fill the void in the downtown office market where there is a lack of large floor plate space and limited/expensive parking.
- Capitalize on the intensification opportunities represented in 950 underground parking spaces and 2,250 above ground.
- Capitalize on the Transit Hub for Southwest London.
- Fill the void for the 2nd generation destination, lifestyle and entertainment uses currently not represented in Southwest London, building on the strength of existing tenants such as Cineplex Odeon.

Outcome

- The upper level of the former Target space was converted to state-of-the-art office space with sky lights and live walls.
- Phase 1 and 2 of the office level conversion is now complete with 85% occupancy attained. Phase 3 is now being marketed with a total of 220,000 SF planned on completion.
- Finalized 52,000 SF of ground floor Lifestyle and Entertainment tenancies including Reptilia, Fit for Less and Dollarama. Other non-traditional uses introduced to the property include YMCA (community services) and 50,000 sq ft of medical services across several specializations.
- Developing new food uses to provide further office tenant amenities as well as serving local market demands.
- As part of our intensification and value-add strategy, we identified 3 pad sites for sale/lease. We have sold one to date, enhancing our returns and providing cash for ongoing development requirements.

- Additional value-add/intensification plans include the development of approximately 500 residential units (in 3 phases over 10 years).
- Our remerchandising and leasing strategy has taken the project from 47% occupancy in 2018 to over 74% as of April 2022.
- Recent upward financing from $22 to $30 million is indicative of the success of our value-add strategy.

ABOUT US

Corpfin Capital is a full service Real Estate Advisor offering investment and management services focused on delivering superior results through an integrated and flexible commercial real estate investing and management platform. We believe relationships are our most important assets and align ourselves with our equity partners by co-investing alongside the institutions, pension funds and high net worth individuals that entrust us with their capital.

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McCOR has offices in Calgary, Edmonton, Gatineau, Regina, Toronto, Vancouver and Winnipeg, offering the national reach needed to best serve leading investors and occupiers whilst retaining the local expertise to accommodate smaller firms and sole proprietorships competitively. The formation of McCOR creates one of Canada's largest privately-owned real estate development and property management companies, with over $3-billion of assets under management.

For further information about McCOR, visit www.mccor.ca