

Retail Condominiums as a Development Option

*Experience To Date Is Mixed, Reflecting
Timing and Approach*

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Abstract: Retail condominiums are relatively rare in North America, but in the ethnically highly diverse Toronto market, four large retail condominiums have been built. Three of those are directed to the Chinese and one to the South Asian markets. So far, the ratio of successful developments to less successful ones is 1:3.

Introduction

A retail condominium may look similar to any other retail development or shopping center, but it differs in one important respect: the form of ownership. In this kind of real property, a specific part of a development is individually owned. The common areas, HVAC, and land as well as parking areas are usually owned by a condominium corporation. The condominium owner is charged a fee for services performed by the condominium corporation.

Retail condominiums typically have covenants, restrictions and rules. These govern how individual unit owners must share the space, but they do not control the specific retail use of the premises.

Though well known in several Asian countries, retail condominiums are rare in North America. This article offers insights gained through developing four significant retail condominium projects directly aimed at ethnic groups in the Greater Toronto area: three Chinese and one South Asian. The Toronto Census Metropolitan Area recorded some 5.5 million residents during the last (2011) Census of Canada, of which approximately 530,000 (nearly 10%) were Chinese and some 830,000 (15%) South Asian.¹ These ethnic groups prefer to congregate in several suburban areas, where the properties discussed in this article are located.

Pacific Mall

With about 270,000 square feet (sf) of retail and related service space, including some 400 tenants, Pacific Mall is the largest purpose-built retail condominium in the Toronto market area. Located in the City of Markham, it has attracted a substantial amount of additional, complementary retail developments in several separate buildings since opening in 1997. It serves the Chinese ethnic community, which comprises more than a third of the Markham population.²

A significant portion of the customer base of Pacific Mall appears to consist of families and groups of individuals who use the mall not only for shopping and eating, but also for medical/dental, personal as well as social services. A stage in the center of the ground-floor level serves as a performance venue for festivals and celebrations of the Chinese community.

The mall itself has surface parking as well as two levels of underground parking. A portion of the second underground parking level is restricted to retail tenant parking, which is unique in Toronto to retail condominiums.

The center's ground floor is devoted to retail space, while the upper level consists primarily of restaurants, food kiosks, a food court seating area, as well as a few retailers, including one large general merchandise store and personal services. (See Figure X-1.) Stores and food

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¹ Statistics Canada, National Household Survey (NHS), Analytical Products, 2011, Focus on Geography Series, "NHS Focus on Geography Series—Toronto," [Immigration and Ethnocultural Diversity, Table—Population Showing Visible Minority Groups, Toronto \(CMA\), Ontario, and Canada](#), retrieved March 17, 2015.

² Marcus Gee, "[Demographics: Markham's Rapid Change Into Canada's Most Diverse City](#)," *The Globe and Mail* (Toronto), Oct. 26 2013, retrieved Feb. 19, 2015.

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Figure X-1
Pacific Mall



Source: Hermann Kircher. Used with permission.

services are primarily oriented towards the Chinese customer.

Stores on the ground floor are fairly uniform, mostly comprising about 250 sf per unit. Some units are combined, mostly resulting in about 500 sf. Along one wall, 66 smaller units average approximately 140 sf each. The mall offers a large assortment of merchandise. The largest retail category, currently including 58 tenants throughout the mall, consists of "Computer Electronics and Communication (Cell Phones)." Based on the author's experience, Chinese retailers, particularly those operating small spaces, frequently prefer owning rather than renting their stores.

Pacific Mall's success is evident by its low vacancy level. This development has succeeded because it was not only one of the first retail properties servicing the nearby Chinese community but also the largest, discouraging competing developments for some time. The fact that it also served as the social meeting place for families of this community, by offering entertainment and social services, strengthened its market position.

Shoppes of the Parkway

A retail condominium development in Richmond Hill, this enclosed shopping center (see Figure X-2) is directly connected to the Town of Richmond Hill City Hall office building and a Sheraton hotel. Operational for more than a dozen years, it includes some 80 units, as well as two levels of underground parking.

The center has significant vacancies. Some occupied units appear to be artisan-type workshops or operated as hobbies or services. It lacks customer traffic, except at several fast-food outlets during lunch time.

Despite its proximity to office and hotel space, as well as ample free underground parking, The Shoppes of the

Figure X-2
Shoppes of the Parkway



Source: Hermann Kircher. Used with permission.

Parkway cannot be considered a successful retail development. This may reflect the absence of a major tenant as well as the static nature of a retail condominium. As such, it does not address changing customer needs that may require different store configurations.

The Mall at Langham Square

Originally called "The Mall at South Unionville Square," this Asian-themed retail condominium development was renamed, for marketing reasons, to echo "Langham Place," a successful shopping mall in Hong Kong. The mall, located in the City of Markham, is attached to a residential condominium and offers surface and underground parking.

The two-level enclosed mall opened in 2013 with enough space for approximately 700 retail condominium units. The anchor tenant, located on the concourse level, is a large Asian-themed T & T supermarket, which belongs to Loblaw's Ltd., the largest supermarket operator in Canada. (See Figure X-3.)

A large number of the small units averaging 100-200 sf are grouped together along relatively narrow corridors. Other sections of the mall contain larger units. As in several other similar malls, a few spaces are occupied as specialty, craft or hobby retail or service units. Aside from the anchor tenant, however, both mall levels are mostly vacant and appear to be in a "holding" position.

Few units that have been sold are open. In fact, there is no customer traffic other than for the supermarket.

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Figure X-3
The Mall at Langham Square



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Whether or not this situation will improve as the mall matures is uncertain.

Westwood Square

This enclosed, one-level mall opened in 1969. Until recently, its 400,000 sf of retail space included some 104 tenants, including two supermarkets (one of which has since closed), a now-defunct junior department store, Zellers, as well as a drug and a liquor store. It is now amid a three-phase redevelopment that combines a 1969 community shopping center with a modern multi-level retail condominium. (See Figure X-4.)

Figure X-4
Exterior, Westwood Square



Source: Hermann Kircher. Used with permission.

In the first phase of this project, a Wal-Mart Supercentre was built immediately adjacent to the mall but not connected to it. A third phase is planned, featuring a new Dollarama discount store, expansion of an existing food store, and construction of several freestanding units at the front of the mall.

At the center of the property, a two-level retail condominium building, part of a recently completed second phase, connects to the mall. The closed Zellers location has been redeveloped as "The Shops at Westwood Square" and is referred to as "Canada's Largest South Asian Mall" by the developer.

Retail units are planned for the ground floor and eating places for the upper level. In contrast to Chinese retailers, South Asian retailers are not known as typical owner/occupiers of retail shops. Nevertheless, it appears that the sale of the retail condominium units has been successful.

Current plans show about 120 retail units on the lower level and about 75 units on the upper floor. Units range from less than 100 to about 1,400 sf with most of them on the smaller end of this spectrum. The reported minimum price per unit was \$90,000, which would be nearly Can\$1,000 per sf, including taxes. Many units were purchased as investments rather than by retailers, thereby entailing leasing to an operator.³

The condominium officially opened in November 2014. In spite of its excellent construction quality, as of March 2015, the condominium development is almost totally vacant. Most units appear to have been sold, which meant success for the owner of the mall and developer of the condominium. (See Figure X-5.)

However, "For Rent" signs hang in the windows of most units, reflecting space purchases made more by investors than by retailers. A few unit owners list annual asking

Figure X-5
Interior, Westwood Square



Source: Hermann Kircher. Used with permission.

³ Angela Kryhul, "Retail Condos Snapped Up in Shopping Malls," *The Globe and Mail* (Toronto), Sept. 30, 2014, retrieved March 17, 2015.

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rents of about Can\$70-75 per sf, plus condominium charges. It is unlikely that the cost structure and configuration can result in profitability for the owners of such condominium units.

Since the opening was relatively recent, the long-term operating outcome of this development remains to be established.

Assessing the Mixed Record

Throughout North America, growing ethnic communities have given rise to retailers who display entrepreneurialism and inspire intense customer loyalty, leading landlords to view such tenants as potential targets for in-line retail incubation programs.⁴ In Canada, Asian groups in particular have led developers in the last decade to create projects powered by such groups and retailers. The retail condominium can be viewed as a carryover from Asian models with which such smaller tenants would be familiar.

That niche focus may account for the fact that no large retail condominiums—including the ones in this article—appeal to a broad cross-section of customers in the Toronto market area. The experience to date of these ethnic-based retail condominiums is mixed.

In general, where developers were able to sell the units, the process must be considered successful from their point of view. However, the same is generally not the case for the condominium owner, who is frequently an investor rather than a retailer.

Some reasons for the lack of success for the unsuccessful developments described in this article are:

1. The investor/owner will likely lack retail experience and industry contacts, resulting in difficulties finding suitable tenants.
2. Due to the small size of many retail condominium units, merchandise has to be compact and of high value. There is a limited supply of such merchandise.
3. As a result of the individual ownership, tenant mix cannot be optimized.
4. The condominium corporation, to which all unit owners must belong, is responsible for the technical operating aspects of the development and cost recovery. However, it cannot operate as shopping center manager because it lacks such experience.

5. A retail condominium is essentially “chiseled in stone,” i.e., almost totally inflexible, due to individual store ownership, even though the constantly changing consumer market may require frequent adjustments in store sizes, merchandise selection, adjacencies, and promotional efforts.

6. When a retail condominium forms part of a traditional shopping center, as is the case at Westwood Mall, inherent difficulties exist in the competitive interactions between standard mall tenants and condominium owners at the same location, due to different cost/rental structures.

7. The operating cost structure of a retail condominium is frequently uneconomic, particularly when recognizing not only rental fees and employment cost but also condominium fees, insurance and real estate taxes.

Conclusion

A retail condominium development consists of two distinct and separate entities, the developer and the investor/operator. The recent experience with ethnically oriented condominium retail developments in the Toronto market calls for considerable caution, especially if an additional retail condominium development is contemplated, particularly from an investor/operator point of view. (In the case of the one clear success discussed here, Pacific Mall, the center overcame the seven factors mentioned above, to a large extent, by establishing early on its stronghold position in the market.) These types of structures cannot simply be carried over from Asia but need to be evaluated in light of local conditions.

Aside from the issues related to the structure of the retail condominium itself, several marketing factors may also have inhibited the success of this form of real property. Many large retailers operating in the Toronto market area have increasingly adopted their offerings to serve their large and diverse clientele. Furthermore, second-generation immigrants tend to adopt the typical shopping patterns of the majority.⁵ Finally, the limited selection of merchandise, which is a consequence of small store size, can put retail condominiums at a disadvantage, particularly regarding merchandise choice and assortment, and especially the highly competitive price attraction of large-scale retailers.

⁴ “Landlords, Mom-and-Pops Make Good Teams, Panel Says,” *SCT Newswire*, Feb. 20, 2015, retrieved Feb. 23, 2015.

⁵ See, for example, Dakshana Bascaramurty, “The Rise and Fall of the Ethnic Mall,” *The Globe and Mail* (Toronto), June 15, 2012, retrieved Feb. 23, 2015.

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