

space

A FINGER IN THE WIND

Once upon a time, when the world was predictable and the rules clear and true, the job of the Canadian economic forecaster was a rather sweet one. One just had to look south of the border, peek over the fence to see what our neighbour was up to and copy their homework. This year, forecasters will have to earn their paycheques. They won't be able to mail it in and watch the obvious come true. Looking over the fence just won't get it done in 2008. Our powerful friend and neighbour seems headed for a recession, but for how long nobody knows. Other powerful economies such as India, Japan and China now have the clout to set their own agendas and will likely record respectable growth in 08. And then there's the oil factor; we haven't even mentioned that yet. The good news for Canada is

that we have it and the world continues to want it at record levels and record prices. The truth is that Canada is in pretty good shape. Our government leaders are reasonably good managers, our population is educated and entrepreneurial, and we do have the resources the world needs. 2008 may be a respectable year for the Canadian economy, but then again, don't quote us.

Here's how to determine if you have the skills and the courage to be an economic forecaster in our new and unpredictable world. Raise one arm over your head, extend one finger for about 10 seconds until you can feel the wind. If you can determine which direction the wind is blowing, you may have a future. Now if the wind suddenly changes direction, start again at step one and repeat.



www.cfspace.com

Information, contacts, events and ideas...

we hope to hear from you!

We want to know what you think of Space.

Contact Wendy Greenwood, Editor of Space
at space@cadillacfairview.com.

We tracked down Tom Johnson, Chief Operating Officer of Aeropostale Inc. over the holidays and he generously took the time to answer our questions.

I guess the first question we should ask is... is your aggressive expansion into Canada measuring up to your expectations and which cities stand out in terms of sales?

We are very pleased with the overall acceptance of our brand in the Canadian market. The sales have been above our expectations as well as above the average sales for the U.S. (where we have been established for 20 years). We are currently in Toronto and Vancouver and both cities are performing well.

We are overwhelmed with the warmth and welcome feeling that we have experienced in Canada from our customers and partners!!!

Is it accurate to say that a 15 year old girl in Chicago is the same as her counterpart in Calgary? Before coming to Canada did you consider the differences or did you conclude that the similarities were overwhelming and therefore not an issue?

While we recognize there are differences between teens in two different countries, overall teens are teens. We believe that what

is important to a 15 year old girl in Canada is important to a 15 year old girl in the U.S. Things that we think are important to them are looking great and having great friends to hang out with. We also think that while they might not admit it, teens want parents in their life.

Your target market is 14 to 17 year old girls and boys who are at that point in life where change is an everyday thing and loyalty is often, still just a word. If knowing your core customer is everything in retail, how have you come to understand the complex teenage consumer so well?

We have a unique position in the market and a large part of our business is driven by moms. For us either mom is making the purchase or has a heavy influence upon the purchase. We actually have a sales program that focuses attention upon moms.

We would never proclaim to fully understand the teenage consumer, but we do regularly conduct market research through focus groups, on line surveys and store intercepts, all of which helps us understand our customer.

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MEGAREVIEW BOOK



Every once in a while a book comes along that catches the imagination of an industry and shifts the conversation. Anthony Stokan's 'Naked Consumption' was such a book when it was first released in 2005. It was hugely popular, laying bare the new retail experience where endless information is available online, consumers are increasingly calling the shots and everyone is programmed to want everything now! Well the second, updated version of 'Naked Consumption' is set to hit the bookstores in the next 4 weeks, so we thought we'd highlight the old and a bit of the new.

The Online Challenge:

At the height of the dotcom mania, many North Americans envisioned the obsolescence of the bricks-and-mortar store, as the Internet transformed every facet of consumption. A decade later e-commerce still represents a minor share of overall retail sales, but the Internet's importance to marketing and research increases as consumers spend more time online. Each year marketers find new ways of reaching consumers and encouraging word-of-mouth online. Many pioneering opportunities for brands and retailers are now available for marketers to exploit cyber-space, including microsites, social networking and virtual reality sites.

The Ministry of First Impressions:

You form a first impression of a new acquaintance within 10 seconds of meeting, and that impression will determine what you think about that person for a long time afterward. Walking into a store for the first time is a lot like meeting someone. Innovative stores and brands have always recognized that making an excellent first impression on shoppers is crucial, but few 21st-century retailers engage shoppers emotionally. Specialty retailers must cultivate their competitive advantage on wowing customers through inviting store environments, skilled staff and technological savvy.

Luxury For All:

Growing numbers of consumers around the world feel entitled to luxury, regardless of the state of the economy or mounting personal debt. Luxury brands have introduced affordable "new luxury" products, while industrializing societies like China and India enthusiastically adopt Western attitudes toward luxury shopping. It could easily be argued that the cosmetics category pioneered the concept of the democratization of luxury however we now observe this phenomenon sweeping through most categories.

Empowered Consumers:

The wealth of information online has forever transformed the relationship between retailers and consumers. Consumers are not only better informed than ever, they can readily share their opinions of shopping with thousands of strangers on the Internet. Retailers and brands must now go to greater lengths to respect consumers' individuality and exceed their expectations.

Brand Obsession:

In an era when many products, services and stores seem interchangeable, branding can help consumers distinguish between offerings that are otherwise identical. Branding helps forge a relationship between consumer and brand, often creating aspirational lifestyles that people can take part in by buying the brand. The world's most successful retailers reinforce their branding in every aspect of their operations. Retail icons like Starbucks, Zara, H&M and Ikea achieve global domination through brilliant branding.

It's a Wally Wally World:

Earlier this decade Wal-Mart Stores Inc. topped Fortune magazine's list of most-admired companies, but since then the mood of North America's consumers and business press has shifted. Wal-Mart remains the world's largest retailer, and the largest American corporation in terms of sales. Yet many U.S. cities have banned large stores like Wal-Mart's supercenters, while others have enacted ordinances to force Wal-Mart to pay higher wages. Developing a deeper understanding of Wal-Mart — both its successes and the challenges it faces — is essential to understanding the dynamics of today's retail landscape. And Wal-Mart once again proves that as you grow larger and dominate the marketplace maintaining positive public perception is even more challenging than maintaining consistent sales growth.

Anthony Stokan barbers in reality, providing brands, retailers and shopping centres the insight they need to thrive in a competitive marketplace. Look for the revised edition of Naked Consumption — appearing in February 2008.



Out with the Old, In with the New

This past Boxing Day, I invited some friends over for drinks and some tasty treats. After two solid months spent searching for the perfect gift for everyone on my list (with a few thrown in for myself), I was simply too exhausted to hit the stores the day after Christmas. Any seasoned shopper knows you need to be in great shape to duke it out with other drivers for a parking spot, have the dexterity of a tightrope walker to navigate the crowds and a surfeit of patience to endure long line-ups at the cash.

I'm conflicted though. Who doesn't love a good bargain? While I may have managed to avoid Boxing Day madness itself, I did inadvertently find myself in a store several days later, returning or rather upgrading an item (with more gigabytes). Because of the hour long customer service line-up which I stuck my daughter in, (because she was getting the upgrade), I wandered off, picked out a new home phone, looked longingly at an upgraded IPOD and decided to spend my Christmas money on a digital camera and not a new winter coat.

Apparently, I'm not alone says Ralph Moyal, executive director of the Retail Merchants Association says, "Many people come back to the stores because they want to return things. They're also back for the discounts. Many of them are buying electronics and it's not just baby boomers doing that- it's everybody. No one can resist the big screen TV."

Analysts are saying this year that in fact it's the 'nesting' goodies that have people purchasing everything from furniture to the extremely popular big screen TV.

However, this year Moyal says it may take more than that to get customers into the stores and retailers back on their feet. Many retailers are still fighting the effect the higher Canadian dollar had on sending Canadian shoppers south. Says Moyal, "That's still going to be a challenge in the New Year." As for the 1% reduction in the GST, Moyal thinks it will have little effect on consumers. "It's some kind of assistance for the consumer, but the damage has been done."

Still retailers can take heart in the fact that the majority of Canadians like to spend. An Ipsos Reid poll released in November revealed that a majority (54%) of Canadians who have a bank account say they would classify themselves as spenders. I'm one of them. Yes, I have my little savings account, but I still like to hit the stores.

I always think that the best way to woo shoppers back into the stores is with that feeling of a clean new start to the year. That's why the January white sales are so great. What could be fresher than a new set of linen for the bed, towels for the bathroom? The good news is that, a week ago I found some terrific sheets greatly reduced at a nearby neighbourhood store, few crowds and a parking spot right in front. It was a task that in my post Christmas body I was up to. The bad news was that the meter wasn't working and I ended up with a parking ticket.

It won't scare me away from shopping, but it may force me back to the malls, where the parking is free and shopping can be a contact sport.

(Georgie Binks is a well know lifestyle writer located in Toronto)



Q&A Continued

This is a question we ask most of our Q & A guests. Aeropostale has worked so hard to build a strong brand with teens under 18; what happens when they turn 19 and then break into their 20s. Do you have ideas, new concepts that will keep them in Aeropostale stores, or do you just let them go?

We like to believe that Aeropostale is a lifestyle brand and age is only a state of mind (ok maybe that is my belief). Seriously while our target customer is 14-17 we do trade to people of all ages especially college students that want great value for their money.

That said, we currently have a second brand named JIMMYZ, a 14 store chain that focuses upon customers that are 18-25.

A recent Forbes Magazine article was very flattering to Aeropostale in a crowded teen retail landscape. Your company has impressive annualized revenue growth and no long term debt. Does your debt free status give you what most successful businesses seem to have, 'control' and 'options'?

Yes it is a crowded retail landscape; we feel our competitive advantage is our value position. We deliver results by having a winning mentality focused upon giving our customers a great value in a fun and friendly environment.

Our debt free status allows to make the right decisions for the long term positioning of the brand. When you are overly concerned about the check book balance you tend to make the decisions that are short term.

Your website, www.aeropostale.com, is very straight forward and customer friendly, just as you were when you personally returned our call within 24 hours. Is that impressive personal approach part of the culture of the company? In other words, would we experience it at store level?

We believe in a hands on and face to face approach to business. From our C.E.O. to our part time team members, acting like an

owner is critical. I often say "I don't worry about the business, I care about it — enough to sweat the details".

At the store level our expectations are a friendly and engaging experience. We try to keep it simple, "Hire nice people and they will take good care of the customer".

A leading story on most Canadian newscasts over the past 90 days has been the Canadian dollar. Has its rise to parity with the U.S. dollar affected your Canadian expansion plans in any way?

With the Canadian dollar being as strong as it is currently, the rhythm of the business for our U.S. stores on the border of Canada has changed. We have experienced a significant lift in sales in the border stores. Our Canadian stores continue to do great and our expansion plans have remained the same.

As C.O.O. of a billion dollar company with close to 750 stores in 47 states and Canada, your frequent flyer miles account must be pretty impressive. Can you give us an example of a typical month for the C.O.O. of Aeropostale?

Sure, my week begins by staying connected to the business at all times, actually over the weekend my ritual is to get up early and review the prior days numbers. Monday begins early like most people and the day is filled with meetings focused upon the prior weeks results and ways to drive the business going forward. The rest of the week consists of days in our two offices in New York and New Jersey, visiting new markets and of course visiting our stores. Not a week goes by without spending time in our stores—my favorite part of my job.

Crystal Ball Time

At the beginning of every year, all the forecasters, economists, prognosticators, and anyone interested in giving you an opinion, write about what they think will happen to the economy in 2008. The predictions typically range from the mundane, "the economy will chug right along", to the fearful, "The US housing crisis will take us all down with it".

While the Economy south of the border is seeing some serious issues in regards to housing valuations, weak currency, a sliding capital market, and recently reported weak holiday sales, its impact on the Canadian Economy could be somewhat limited. The Canadian finance department is expecting real GDP growth of two per cent to 2.2 per cent. This number has been revised down, due to the issues going on in the States, but overall growth is still forecasted.

The Canadian economy is tightly intertwined with the U.S. economy, but will a slow down south of the border really negatively impact retail sales? Retail sales are driven by consumers' own economic standing, and in Canada, so far, that has not been greatly affected. The housing market is still strong across Canada, and interest rates are very low. The current government has lowered the GST a total of two percentage points, and tax cuts have been implemented.

However, could the Canadian consumer's economic position change over the next year? The short answer is yes. While the unemployment number is still very low at 5.9%, Statistics Canada reported that private-sector employment plunged by 18,700 jobs in December. The manufacturing sector is almost exclusively responsible for that decline. Manufacturing employment dropped 6.2 per cent for the year.

Manufacturing has been impacted by the weak US economy, but natural resources and utilities registered employment growth of 3.5 per cent and 13 per cent, respectively. The services sector has also been strong, with job growth of 3.3 per cent. Ontario and Quebec have been affected the most by the downturn in the manufacturing sector.

The Canadian housing sector has also weakened the later part of the year. A mostly stellar 2007 ended on a low note when housing starts dropped in December to their lowest level in more than five years. The value of building permits issued in November also fell, almost 10 per cent from October.

Both the manufacturing sector and lowered housing market numbers tend to be forecasters of difficult times ahead, but until the Canadian consumer is actually hit in the pocket book, retail sales will still grow. Look for retail sales to show signs of a slow-down mid year and purchases of larger ticket items (cars and appliances) to decrease as consumers keep a closer eye on their personal finances. 2008 will be an important year as consumers realize the need to reduce personal debt and watch spending.

Steve Boase
Manager of Retail Analysis
Cadillac Fairview

Sideways



Michelle Carrie
Director, Tenant Relations
Cadillac Fairview

The Yin Yang of Retail

Expansion and contraction, it's the yin yang of retail. The resulting changes are what keeps our malls new, fresh and exciting. Look what has happened with Aeropostale and its entry into Canada in August. In the December same-store sales results for apparel category chain stores, Aeropostale reported the highest percentage increase over the same month last year and was up 12.2%. We like this new kid on the block.

As Apple continues to expand with us, their numbers are over six times the category average. In fact, they are single handedly skewing the whole electronics category, which is up 13% over last year in our portfolio, the largest category gain.

Another big name retailer is coming to Canada and will likely kick off with eight new stores in the GTA in the fall of 2008. Ahh, the intrigue. I cannot tell you who this mystery retailer is yet, but I'll give you a clue — they have over 1,500 stores in the U.S. — so you will know the name when you see it.

Being busy at work is not always a good thing. I say this because I am involved in dealing with national bankruptcies and insolvencies. This time last year, things were downright leisurely for me as there were very few bankruptcies to report. In recent months, things have been hopping with The Bombay Company, Music World and Athlete's World. Is there a trend here? Too soon to tell, but if your trade name ends in "World", perhaps you should be worried.

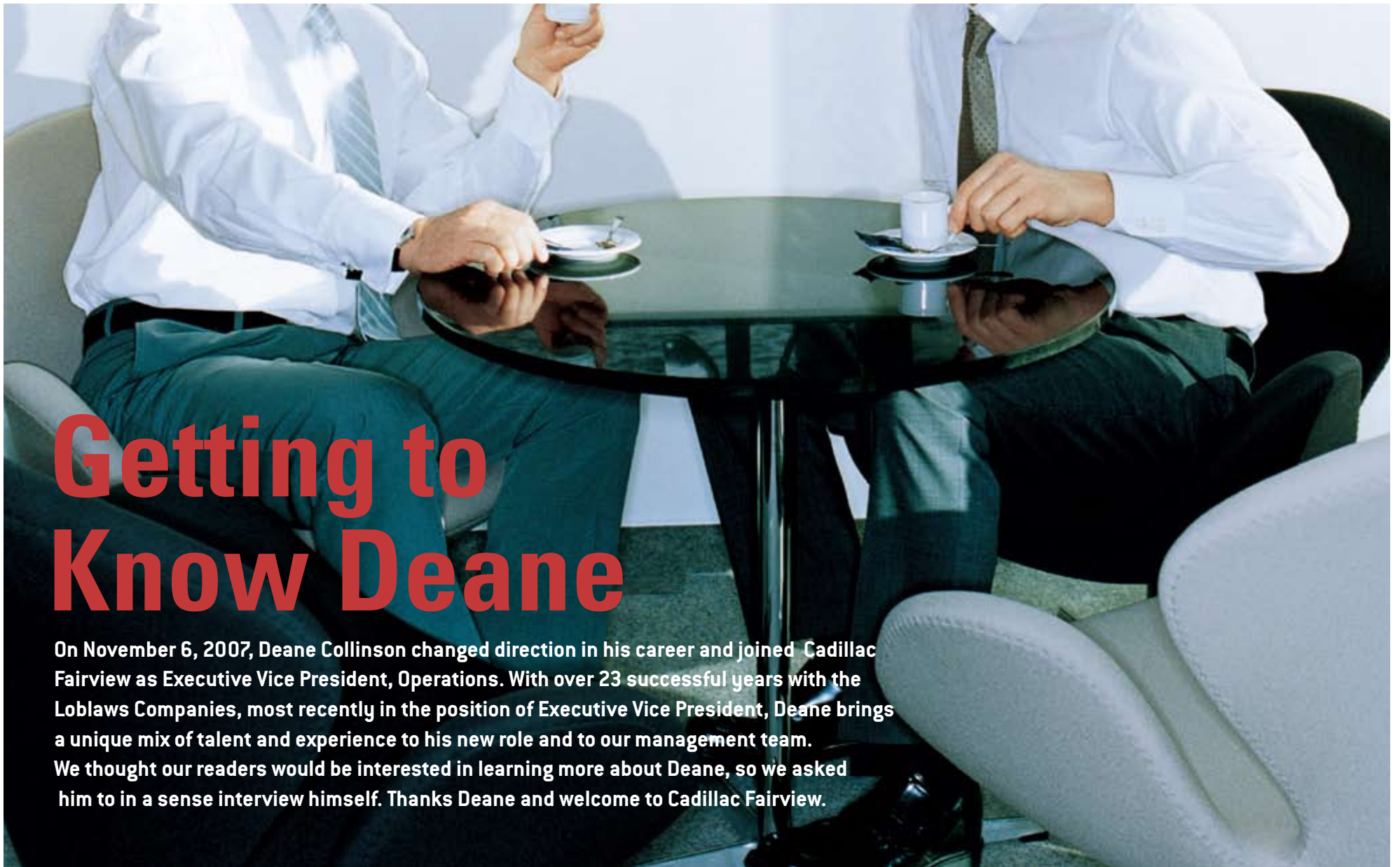
Music World officially went bankrupt on January 11th and its doors have now closed. It is assigning 19 of its 72 stores to Gamestop!, a U.S. based retailer owned by EB Games, who will re-open these 19 locations starting in March. We welcome this new concept into two of our centres, Georgian Mall and Lime Ridge Mall. Let the electronic gamers in Barrie and Hamilton rejoice!

The Athlete's World file has been a roller coaster ride. YM (Sales) Inc., which owns Suzy Shier, Bluenotes and other chains, came very close to acquiring the Athlete's World chain in October, but that transaction was not meant to be. We are now dealing with The Forzani Group, the country's largest sporting goods retailer, who acquired this chain when it was put into bankruptcy protection.

The bankruptcy of Bombay resulted in the closure of all of its U.S. stores. This chain will continue on in Canada as the Benix group is finalizing its deal to buy the Canadian stores.

Overall, it is still a rosy looking picture for our retailers. Our tabulations show that sales in our centres were up three percent in September, were flat in October, but up again in November by four percent. December's numbers are not in yet. November sales are looking great at an average of \$625 psf. So as the song goes, let's "accentuate the positive, eliminate the negative, latch on to the affirmative and don't mess with Mr. In Between." That's right, think positively and let's focus on growing sales together.

All the best for 2008!



Getting to Know Deane

On November 6, 2007, Deane Collinson changed direction in his career and joined Cadillac Fairview as Executive Vice President, Operations. With over 23 successful years with the Loblaw's Companies, most recently in the position of Executive Vice President, Deane brings a unique mix of talent and experience to his new role and to our management team. We thought our readers would be interested in learning more about Deane, so we asked him to in a sense interview himself. Thanks Deane and welcome to Cadillac Fairview.



Deane Collinson
Executive Vice President,
Operations
 Cadillac Fairview

How did I get into retail?

Believe it or not, I did a marketing project in Grade 11 where we had to research, design, build and merchandise a retail store. Our group chose a men's wear store and we actually went so far as to merchandise the windows of a local store to show our new concept. I was hooked. My first high school part-time job was at Robinson Department store in Burlington.

I have always been a seller or merchandiser and retailing is mostly about determining what your customer wants and trying to surpass their expectations. The greatest thrill for me is achieving fantastic sales through unique product development, exciting merchandising and promotion and phenomenal store execution.

Key Lessons about Customer Behaviour

I feel the most important aspect of retailing or building a brand is the challenge of creating an emotional connection with the customer. Initially a customer will choose to shop with you because you meet their expectations. They come back and become loyal because they trust that you will consistently meet their expectations. If you are a low price retailer, you had better deliver consistently low prices; if you are a high price, high service retailer, you had better deliver superior service; if you are a high fashion retailer, you had better be leading the trends.

Why CF?

CF has an incredible portfolio of office and retail properties, with exciting new developments in the pipeline both in Canada and other parts of the world. Additionally, CF has an incredible depth of people talent in all areas of business. In the operations

area, the leadership is the best in the industry, with a leasing team of professionals that are highly focused with operational expertise that can really deliver a "Best in Class" experience to mall patrons and retailers.

Similarities & Differences

The two greatest similarities are leadership and innovation. CF is a large organization that is decentralized across the United States and Canada with an experienced, dedicated workforce.

My leadership goal is to facilitate best practice leasing from our people and leverage their learnings into ways that we can use to differentiate our properties so that we can maintain our market leadership position. Innovation and an entrepreneurial attitude are critical to keeping any organization growing and responding to the ever changing market place.

Now that I am no longer a retailer per se, I am no longer listening to thousands of shoppers. It will now be important for me to listen to a much smaller group of retailers to determine how to provide them with the best facility to help them achieve their success goals.

Dislike/Like about Malls

Like many time deprived people, I like the "one-stop" shopping convenience of malls. For gift shopping, it is a great way to shop for ideas for those hard to buy for people. Our family mall is Sherway Gardens and I have always loved this mall because of the greenery, soft seating and retail mix. The only dislike I have with malls is if I want to visit a certain retailer, I invariably park at the furthest point away from that retailer.

What do you hope to accomplish?

I have a number of key goals that I am hoping to achieve with the operational team at CF.

- First, we want to continue to work with our existing retailers and introduce new retailers so that each shopping centre has the absolute best mix of tenants for the shoppers in each trade area. Our goal is to make each mall a market destination through our differentiation strategies.
- Second, we want to provide retail and office properties with a service experience that exceeds our tenants' expectations.

- Third, CF wants to continue to provide leadership through our GREEN initiatives, our shoppers, tenants, and even our kids expect it!
- Fourth, I want to spend quality time with our key office and retail tenants to discover how we can work together to provide them with the locations they need in order to be successful in their own businesses.

Apart from work...

My wife and I have three children, ages 24, 21 and 18 and we like to spend time with them skiing, mountain biking, travelling abroad and hanging out together at the cottage. I also learned the bass guitar a few years ago and play in a band with camp friends of mine. I currently am the Practitioner in Residence at Ryerson University, School of Retail Management which involves some lecturing and consulting work on their curriculum. I also serve on their Advisory Board. I have also been involved in fund-raising efforts for the YMCA and a Honduras Boys Orphanage. Recently, I have become more involved with Human Rights Watch.

Last good book I read was..

Zorba the Greek by Nikos Kazantzakis. Before visiting Greece this summer I read this book as it is one of the classics. I enjoyed this book because it really teaches you to live life to the fullest, take risks and to not sweat the small things, but on the other hand, to take great pleasure from the little things.

Message to convey

The door is open...talk to me about how we can be better partners so we can attain our individual goals and our mutual success.