

A STUDY OF LEASING PRACTICES
AND RETAIL TENANT SELECTION
AND RESTRICTION IN SHOPPING
CENTRES IN CANADA

PRESENTED TO THE RESEARCH BRANCH
BUREAU OF COMPETITION POLICY
DEPARTMENT OF CONSUMER AND
CORPORATE AFFAIRS
GOVERNMENT OF CANADA

by

Bruce Mallen, Ph.D.
Professor of Marketing
Concordia University

in association with

Ronald Savitt, Ph.D.
Associate Professor of Marketing
and Economic Analysis
The University of Alberta

February 1979

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CHAPTER I
Introduction

Chapter I

INTRODUCTION

Purpose of the Study

Introduction

This study was formally commissioned by the Research Branch of the Bureau of Competition Policy, Department of Consumer and Corporate Affairs in August 1977. The concept stage was developed over a period of several months before that date. The study was undertaken because of the Bureau's continuing interest in competition practices and the authors' special interest in retail competition and structure.

This document represents one part of a two-part study. The purpose of this part of the overall study is to analyze the process of selecting retail tenants and allocating rentable space in regional and community shopping centres and in downtown malls. The focus is on those forces which predetermine the retail tenant mix of any given shopping centre outside of market forces, such as major retailers' concept of the appropriate "tenant mix", given the market the centre will serve.

Developers seek to maximize their rents and choose the appropriate tenant mix that will generate maximum traffic and sales volume. The developer, however, may be constrained in his choice of tenants by requirements of mortgage lenders and the leverage associated with market power of retailers. These constraints may prevent the developer from selecting a tenant mix that would maximize the total sale volume from the centre, and may also prohibit entry by certain prospective tenants, e.g., local merchants, even though such tenants may be willing to pay higher rents in order to gain access to the centre.

This study investigates the prevalence of such restraints in Canadian shopping centres. It should, therefore, act as an essential input for possible subsequent studies, the purpose of which would be to determine whether and the degree to which, the restraints competitive effects are detrimental or, indeed, beneficial to the public interest; and if detrimental whether redress is or should be available through application of the Combines Investigation Act.¹

Specific questions to which the research in this part of the overall study addresses itself are developed at the end of this Chapter.

The portion of the overall study with which this report deals, is that concerning the retail viewpoint, whether the retailers are simply tenants, owners (of shopping centres) or owner-tenants. The second part of the overall study deals with the developer-financial institution-landlord viewpoints. That part is due, in a report to be prepared directly by the Branch.

Format of this report

The discussion of research and methodology is found in this Chapter; the remainder of the report is divided into four chapters and an Appendix of four parts. Chapter II provides an overview of the general issues of the magnitude and trends of shopping centres in the Canadian economy. Chapter III provides an analytic framework for understanding the competitive issues in shopping centres as related to tenant mix and exclusionary practices. This Chapter is based on the data collected in the study and relevant analytical concepts. Chapter IV draws conclusions about the findings and provides recommendations for future action.

The Appendix contains four separate sections. Part A provides in summary fashion the results of the interviews with major retailing institutions; Part B provides in the same fashion similar results gathered from other retailing firms. Part C is a detailed Topic Outline which was used in gathering and structuring the data collected. Part D is a bibliography.

The Research Setting

There are two types of retail institutions which dominate shopping centres, and, indeed, retail trade in general, and which today are also very dependent on shopping centres in terms of share of their sales — department stores and supermarkets. There are 13 retail companies operating in one or the other, or both, of the above two categories which may be described as "giants" in terms of their sales volume. The basic concern is that there may exist leasing discrimination and restrictive practices which are in favour of these firms. There are also about 50 large and medium sized supermarket chains, including retail food voluntary groups, and department stores, and other store chains in addition to the 13 giants. It is these chains, as well as the small chains and independents, which it is felt may be the victims of leasing discrimination and restrictive practices. The study limits its scope in studying the possibility of discrimination and restrictions against these large and medium-sized companies, rather than the very small chains and independents for two reasons:

- (a) These companies probably offer the best chance of increasing both the efficiency and competitiveness of the market;
- (b) It brings the study into a more realistic cost and time frame.

Further, the study concentrates on the medium and large (regional) shopping centres, as these are where the problems if any, appear to be. Finally, this Report as part of the overall combined study, deals not with any form of discrimination and restrictions but only those which

are felt to have been brought about by the pressure of other retailers, either in their capacity as owners or major tenants.

Methodology

The research reported upon in this document can best be described as exploratory. By exploratory is meant that the purpose of the study was to investigate. This type of study leads to the creation of further testable hypotheses; it does not follow the classical methodology of hypothesis formation, data gathering, and hypothesis testing. The purpose of exploratory research is to generate and refine hypotheses through empirical investigation. The starting point is questions generated à priori or from the literature. The end point is conclusions or hypotheses which seem to have a reasonable amount of pre-test empirical support, that is, empirically-generated rather than empirically-tested hypotheses.

The main source of information for the study was in-depth interviews with individual retail companies. The format for these interviews followed the guideline presented in the Appendix to this Report. These interviews were augmented with interviews with retail and shopping centre trade associations and shopping centre consultants as well as with a review of the relevant literature and statistics. The interviews took place from early February 1978 through to early May 1978. The specific respondent(s) selected in each company was, after a screening process, the executive(s) who was most knowledgeable and responsible for leasing policies and arrangements.

The following interviews were completed:

1. Depth interviews with executives of 11 of the 13 retail giants; these are listed at the beginning of Part A of the Appendix, except Woodwards which is listed at the beginning of Part B of the Appendix.
2. Depth interviews with executives of a cross section of 21 larger and medium-sized chains; these are listed at the beginning of Part B of the Appendix.
3. Three formal depth interviews (versus various informal discussions) with executives of non-retail organizations (e.g., associations).

It is unfortunate that two of Canada's giant food retailers (see point 1 above) could not be included in this study — in both cases because of their refusal to grant interviews; the only giant firms to do so. It is particularly unfortunate because these two companies respectively operate at the most, and third most economically concentrated market levels of all food retailers², and most probably of all retailers in Canada. Their views may have been enlightening.

Both the literature search and *a priori* reasoning suggest three basic avenues of exploration. In the form of questions these are:

A. Restrictive Practices:

1. Is the direct (formal or informal) participation of retailers, either as tenants or owners, especially the giants (all of whom may have some significant degree of market power) prevalent in the decisions outlined below? If so, what is the nature of this participation? Why

do they participate?

- 1.1 The specific retail companies that may be allowed or disallowed to rent a store in the centre.
- 1.2 The types of retailers that may be allowed or disallowed to rent (as defined by type of product mix, or method of operation).
- 1.3 The tenant mix to have (i.e., the number of stores of each type that will be allowed to lease).
- 1.4 The square foot allocation to other retailers.
- 1.5 Where other tenants may or may not locate in the centre.
- 1.6 The exclusives that may or may not be granted to other retailers.
- 1.7 The method of business operation of other retailers, e.g., promotional, pricing and merchandise mix practices allowed or disallowed.
- 1.8 Where other retailers may or may not be allowed to locate other branch stores outside of the shopping centre, but in its potential trading area (radius requirement).

Discriminatory Practices:

2. Do some retailers, especially the giants, obtain preferential treatment on occupancy costs, equity possibilities (in the centre), and other occupancy requirements (e.g., merchant association dues)? If so, what is the nature of this preferential treatment? Why does it exist?

Construction Trends:

3. What impact will the decline in new shopping centre construction and the growth of downtown shopping malls have?

The above general questions were used as the basis for developing the thirty-nine (or many more if each sub-question is counted separately) specific questions in the interviews guide (including the statistical questions).

Acknowledgments

The author wishes to express his sincere appreciation of the almost unanimous cooperation, and indeed in many cases strong encouragement received from the respondents. A special thanks goes to the International Council of Shopping Centres - Canada Region, especially Mr. John G. W. McIntyre of the Bay in his capacity with the Council, for their cooperation from the very beginning of this study. The author is indebted to the Research Bureau, and particularly to Mr. S. Khemani, Chief of Contract Research and University Liaison, who has been most helpful and encouraging throughout this study. Finally, the author is pleased to acknowledge the vital and excellent field work contribution of his field research associate, Mr. H. J. Halls; and to the insightful analytical contributions of his co-author Dr. R. Savitt of the University of Alberta.

Bruce Mallen, Ph.D.
February 1979

Footnotes

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It is worth stating, and repeating later on, that the objective of this study is not of itself intended to measure shopping centre market performance, but simply to identify and describe the nature and reasons for shopping centre leasing restrictions and anticompetitive practices within shopping centres. Measuring their effects on market performance would require an intensive study of the patronage options open to the consumer in each shopping centre trading area and the leasing practices of each such specific centre. To the extent that these options are wide, the detrimental anticompetitive effects of the restraints within shipping centres will be minimized, and vice-versa. Such a study is not the mandate of this one (or its parallel study), and there exists no published data which provides such information for individual shopping centre trading areas. The most one can say at this point is that whenever there exists a combination of a high level of restraint and high concentration, there is likely to be detrimental market performance effects. Therefore, any such investigation should commence with those cities identified as having high concentration ratios (see footnote 2 below).

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Bruce Mallen, A Preliminary Paper on the Levels, Causes and Effects of Economic Concentration in the Canadian Retail Food Trade: A Study of Supermarket Power, (Ottawa: Food Prices Review Board, 1976), p.78.

CHAPTER II

The Shopping Centre in the Canadian Environment

Chapter II

The Shopping Centre in the Canadian Environment

Introduction

This Chapter has two distinct purposes. The first purpose is to provide an overview of the magnitude of and trends of shopping centres in the Canadian economy. The discussion provides a frame of reference for understanding the competitive problems which are at the centre of the study. The second purpose of the Chapter is to examine the specific issues of barriers entry to shopping centres, especially as they affect tenants.

Shopping Centres in Canada: Magnitude and Trends¹

General Growth

Shopping centre growth in the past two decades has shown substantial growth as the direct result of the population movement to the suburbs and growth in automobile transport. Statistics Canada reports that there were 664 shopping centres in 1973, an increase from 281 in 1961 for the total number. Increases for Type A, 5 to 15 outlets, for Type B, 16 to 30 outlets, and Type C, over 30 outlets between 1961 to 1973 respectively were 191 to 417, 67 to 146 and 23 to 101. The data are shown in Table II-1.

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Besides the effects of an improved highway system and the movement of the Canadian population to the suburbs, there are other factors which have influenced the growth of the shopping centre. The shopping centre has epitomized the concept of "one-stop shopping" which characterized the marketing strategies of several of its components, most notably the supermarket and the department store. It is incorporated convenience with selection in a fashion that no other marketing institution has been able to do. Further, the shopping centre has attempted to become an important centre for civic activities through the incorporation of civic libraries and the institutionalization of civic events. Although it would be unfair to suggest that the shopping centre has replaced the traditional "civic centre" of the traditional Canadian city, there has been movement in that direction. It is fair to suggest that shopping centres at least are viewed as the centre of local community activity. In this dimension the shopping centre has become the locus of important social activities. Finally, the shopping centre has grown as the natural outcome of the developer and land investors' clear recognition of the ability to obtain higher rates of return on investments in office developments in the downtown core of Canadian cities. The higher returns which develop from the intensive use of downtown land through high-rise buildings has meant the creation of the need to transfer retail shopping from downtown areas to other areas in the city. Given population movements to outer fringe areas, the growth of shopping centres was the natural result.

The total number of stores in Canadian shopping centres increased from 9,324 in 1972 to 10,910 stores in 1973. Sales increased from \$5,466 million to \$6,737 million or a change of 23.2% from 1972 to 1973. The greatest increases are found in Newfoundland and Prince Edward Island, New Brunswick, and Nova Scotia. The only province showing a decline was Saskatchewan. The data are presented in Table II-2.

TABLE II-1

NUMBER OF SHOPPING CENTRES BY PROVINCE AND TYPE OF CENTRE
1961, 1966, 1968, 1970, 1972, 1973

Province	1961	1966	1968	1970	1972	1973
<u>Total number of Shopping Centres</u>						
Canada	281	420	480	541	592	664
Newfoundland	1	1	2	2	3	5
P.E.I.	-	-	-	1	1	2
Nova Scotia	4	8	8	8	9	13
New Brunswick	2	4	4	8	10	16
Quebec	55	85	102	127	143	154
Ontario	136	188	217	228	247	266
Manitoba	6	14	15	20	23	25
Saskatchewan	9	15	17	19	19	20
Alberta	26	52	55	59	64	72
British Columbia	42	53	60	69	80	91
<u>Number of Type A Shopping Centres</u>						
Canada	191	301	335	371	390	417
Newfoundland	-	-	-	-	1	2
P.E.I.	-	-	-	1	1	2
Nova Scotia	2	6	6	4	5	7
New Brunswick	2	4	3	6	7	10
Quebec	24	51	59	79	85	89
Ontario	92	131	153	155	158	161
Manitoba	5	12	13	16	18	20
Saskatchewan	8	11	13	14	13	14
Alberta	26	43	43	45	43	49
British Columbia	36	43	45	51	59	63
<u>Number of Type B Shopping Centres</u>						
Canada	67	84	99	107	125	146
Newfoundland	1	1	2	2	1	2
P.E.I.	-	-	-	-	-	-
Nova Scotia	2	1	1	3	2	4
New Brunswick	-	-	-	1	1	5
Quebec	26	26	30	29	33	32
Ontario	31	40	43	47	54	63
Manitoba	-	1	1	3	4	4
Saskatchewan	1	4	4	4	5	6
Alberta	2	5	7	5	10	12
British Columbia	4	6	10	13	14	18
<u>Number of Type C Shopping Centres</u>						
Canada	23	35	46	63	84	101
Newfoundland	-	-	-	-	1	1
P.E.I.	-	-	-	-	-	-
Nova Scotia	-	1	1	1	2	2
New Brunswick	-	-	-	1	1	1
Quebec	5	8	13	19	25	33
Ontario	13	17	21	26	35	42
Manitoba	1	1	1	1	1	1
Saskatchewan	-	-	-	1	1	-
Alberta	2	4	5	9	11	11
British Columbia	2	4	5	5	7	10

Source: Statistics Canada Catalogue No. 43-214 Annual
 Shopping Centres in Canada, 1971, Table 1, p. 14.

TABLE II-2

NUMBER OF RETAIL STORES AND SALES IN SHOPPING CENTRES BY PROVINCE,
1972 AND 1973, AND PERCENTAGE CHANGE OF RETAIL SALE
THROUGH SHOPPING CENTRES 1973/1972

Province	Number of Stores				Sales (\$'000)				% Change of Retail Sales through Shopping Centres 1973/1972
	1972		1973		1972		1973		
		%		%		%		%	
Canada	9,324	100.0	10,910	100.0	5,466,720	100.0	6,736,532	100.0	+ 23.2
Newfoundland and P.E.I.	65	0.7	102	0.9	46,273	0.9	77,326	1.1	+ 67.1
Nova Scotia	147	1.6	202	1.9	100,091	1.8	148,094	2.2	+ 48.0
New Brunswick	136	1.5	226	2.1	96,206	1.8	146,010	2.2	+ 51.8
Quebec	2,521	27.0	2,873	26.3	1,172,198	21.6	1,471,114	21.8	+ 25.5
Ontario	3,970	42.6	4,700	43.1	2,489,081	45.9	2,979,694	44.2	+ 19.7
Manitoba	247	2.6	279	2.6	211,226	3.9	261,562	3.9	+ 23.8
Saskatchewan	247	2.6	227	2.1	142,811	2.6	125,778	1.9	- 11.9
Alberta	914	9.8	1,014	9.3	573,239	10.6	691,416	10.3	+ 20.6
British Columbia	1,077	11.6	1,287	11.8	635,595	11.7	835,537	12.4	+ 31.5

Source: Statistics Canada Catalogue No. 63-214 Annual
 Shopping Centres in Canada, 1973, Table 11 and Table 12, p. 22.

Ontario and Quebec

Because Ontario and Quebec represent such an important proportion of Canadian shopping centres, a closer examination of these provinces is necessary. In 1973, these two provinces accounted for 63.25% of all the centres in Canada; they represented 59.95% of Type A centres, 65.06% of Type B centres, and 74.25% of Type C centres. These, as well as the following data can be found in Table II-1. Quebec had 23 percent of these centres, 154 centres, while Ontario had 40 percent, or 266 centres. However, while Ontario's share of the largest centres remains about the same, 41-1/2 percent, 42 centres, Quebec's moves up to 32-1/2 percent, 33 centres. Also the increase in number of these large centres for Quebec between 1961-73 was 6-1/2 times (from 5 to 33) while in Ontario it was only 3-1/4 times, i.e., twice as fast as Ontario, and one and a half times as fast as all Canada. In 1973, Quebec also had 89 centres in the small category centres and 32 centres in the medium size category. Quebec had 2,873 stores in centres, 26 percent of Canada, while Ontario had 4,700, 43 percent.

The smallest centres in Canada accounted for thirty percent of total shopping centre sales, the medium size for just under one quarter, and the largest for almost one half. Shopping centres accounted for approximately 17-1/2 percent of total retail sales in Canada; and they accounted for about 22-1/2 percent of total retail sales of trades usually found in shopping centres, that is, excluding car dealers, fuel dealers and general stores. This proportion is lowest in the Atlantic provinces and Saskatchewan and highest in Ontario (20-1/2 percent) and Alberta. It is 15.2 percent in Quebec with \$1,471 million of retail sales. This has moved up from a 1-1/2 percent proportion in 1956.

In Montreal it is 25 percent (\$919 million) versus Toronto's 34-1/2 percent.

On a "kind of business" basis these proportions ranged (for all Canada) from 51-1/2 percent for department stores to 4-1/2 percent for general merchandise stores. Other shopping centre shares of total retail sales in Canada include 43-1/2 percent for women's clothing stores; 31 percent for shoe stores; 26 percent for grocery and combination stores; 19-1/2 percent for variety stores; 21-1/2 percent for drug stores, and so on.

For the sales of retail chain stores in shopping centres as a percentage of total retail chain stores, these figures are higher. 62-1/2 percent for women's clothing stores; 44 percent for shoe stores; 41-1/2 percent for grocery and combination stores; 24 percent for variety stores; and 26 percent for drug stores.

Table II-3 shows the 1973 shopping centre retail sales for Canada, Quebec and Ontario by kind of business.

Thirty-three percent (37-1/2 percent in Quebec and 34-1/2 percent in Ontario) of shopping centre sales consisted of sales of grocery and combination stores, while another 33 percent consisted of sales by department stores (25 percent in Quebec and 30-1/2 percent in Ontario) though these two retail institutions together comprised under 10 percent of total store units in shopping centres. Chain stores, including chainfood combination stores but excluding department stores, accounted for 50-1/2 percent of total retail sales.

Chain Versus Independent Stores

Chain stores have participated to a much greater extent, particularly in the larger centres, than have independent merchants.

TABLE II-3

Retail Sales in Shopping Centres, by Kind of
Business and Province, 1973

Kind of business	Canada	Quebec	Ontario
		\$000	
All stores - Total	6,736,532	1,471,114	2,979,694
Grocery and combination stores	2,230,247	550,515	1,029,395
All other food stores	91,588	16,748	48,464
Department stores	2,228,282	372,824	908,244
General merchandise stores	55,930	10,460	17,471
Variety stores	138,146	33,581	53,124
Service stations & garages	57,611	8,533	22,633
Men's clothing stores	140,551	35,758	77,341
Women's clothing stores	280,081	82,995	130,228
Family clothing stores	88,865	40,470	19,061
Shoe stores	122,881	40,707	55,095
Hardware stores	67,886	42,767	16,280
Furniture, TV, radio & appliance stores	97,836	22,483	52,164
Drug stores	239,036	46,449	115,676
Jewellery stores	71,840	14,916	29,540
All other stores	825,753	151,907	404,979

SOURCE: Statistic's Canada, "Shopping Centres In Canada, 1951-1973," No. 63-527 (Ottawa, 1976).

Independents have had a rather stable 18 percent share of shopping centre retail sales since 1958; though their share fell from 19.9 percent in 1969 to 16.5 percent in 1973. Further their sales share of the large regional shopping centres was only 12.7 percent compared to the department stores 45-1/2 percent and the chain store's (all) 42 percent. Another way of seeing this weakness is to note that only 7-1/2 percent of independents sales were made in shopping centres. This ranged from a high of 29 percent for women's clothing stores to a (excluding service stations) low of 3-1/2 percent for variety stores, 4-1/2 percent for grocery and combination stores, 6-1/2 percent for furniture stores, and so on. The statistics for 1973 are shown in Table II-4.

Trends in the Industry

Some of the larger regional shopping centres are particularly impressive and rank among the most modern and complete in the world. These would include the giant (over 1 million square feet each) enclosed (an almost universal trend)² malls of the Square One shopping centre in Toronto (over 150 outlets) and Les Galeries d'Anjou shopping centre (over 125 outlets) in Montreal. Both these shopping centres include units of Canada's largest department store chains. Also of major significance is the complex of shopping centres in St. Foy, Quebec. Also unique, though not statistically defined as a shopping centre is Montreal's strong downtown underground shopping complex, with the Place Ville Marie shopping mall at its nucleus; and in Toronto, the Toronto Eaton Centre.

However, there are definite signs that large shopping centre construction is levelling off and that the country has hit the saturation

TABLE II-4

NUMBER OF RETAIL STORES AND RETAIL SALES IN SHOPPING CENTRES,
BY KIND OF BUSINESS, 1973.

	Total		Chains		Independents	
	Number of Stores	Sales (\$'000)	Number of Stores	Sales (\$'000)	Number of Stores	Sales (\$'000)
All Stores - Total	10,910	6,736,532	4,689	5,626,839	6,221	1,109,693
Food Group	1,705	2,321,835	847	2,091,350	858	230,485
Department Stores	262	2,228,282	262	2,228,282	-	-
General Merchandise Stores	62	55,930	56	54,960	6	970
Variety Stores	226	138,146	190	132,083	36	6,063
Service Stations and Garages	196	57,611	22	13,316	174	44,296
Apparel and Accessories Group	3,245	632,378	1,760	404,559	1,485	227,819
Hardware Stores	220	67,886	13	37,751	207	30,136
Home Furnishings	270	97,831	95	45,244	175	52,593
Drug Stores	553	239,036	131	50,643	422	188,393
Jewellery Stores	379	71,840	154	43,507	225	28,333
All Other Stores	3,792	825,753	1,159	525,145	2,633	300,608

Source: Statistics Canada Catalogue, No. 63-214 Annual
Shopping Centres in Canada, 1973, Table 6, p.18 and Table 7, p.19.

3
point. Further growth would appear mainly to be available in the less economically advanced provinces and smaller cities of the nation.

There are two major reasons to explain why the growth in the numbers of regional shopping centres will decline and stabilize. One reason is related to higher alternative investment opportunities (this will receive more specific attention in Chapter III). Land developers are responding to the demands for major office complexes in many Canadian cities and the higher rates of return on investment in the United States. In the first case, they are also avoiding delays in actual developments which have arisen from land assembly and permit problems in shopping centres. The second reason is related to the ability to increase volume and profits from expanding and renewing the present shopping centres. Since shopping centres are not easily abandoned, there is great merit in enclosing present malls or adding new shopping space. These activities take advantage of the past patronage of the centre and are often completed without enormous investments.

Barriers to Entry in Canadian Shopping Centres

Introduction

A structural variable usually considered to be a major determinant of market conduct and performance is entry barriers, i.e., the degree of economic advantage that established firms have over potential entrants to the field. If this advantage is great, barrier to entry is said to be high and vice-versa if the advantage is minimal. The effect of high barriers is to allow established firms to act less competitively than they would otherwise have acted. If entry is easy then established firms must act more competitively in terms of price, profit-making, efficiency, etc.

Forms of high barriers to entry include, a) difficulty in obtaining supplies; b) increasing economies of scale leading to the efficiency need for fewer firms; c) high amounts of capital required; d) various trade practices such as collusion, discriminatory pricing (by suppliers) predatory pricing (purposefully setting prices abnormally low to keep out potential entrants, and subsidizing any losses from other sources); e) the economies of city-wide advertising accruing to those firms having many stores in one city; and f) difficulty in obtaining satisfactory store locations, especially in shopping centres because of the latter's growing share of retail sales.

In a recent study of Canadian food retailing only the last two forms were seen to be of significance. The economies of scale in advertising that a high local share of stores, footage and sales will bring to a supermarket company, appear to be substantial. Very simply, an advertisement for many stores in a given city will cost far less

per store, than the same size (or time) advertisement for one or only a few stores. Further, since the company with many stores in a local market can afford to advertise more, because of its low cost-per-store or sales ratio, it may also receive volume discounts on its advertising expenditure, thus further lowering its average costs, and increasing its advantage over its competitors.

The purpose of this section of the Chapter is to examine the problems of barriers to entry to Canadian shopping centres. On an *a priori* basis, this is an important problem because of the importance of shopping centres in the Canadian economy. In Table II-5, retail trade in shopping centres has increased in general and for all but one of the 15 merchandise groups. Of great importance are the increases in Grocery and Combination Stores, Department Stores, Women's Clothing Stores, and Furniture, Radio and Appliance Stores. The shopping centre is becoming a critical locational choice for all types of business firms. Inaccessibility to desirable locations, particularly in retailing can act as an important barrier to entry.

This problem can best be understood in terms of consumers' preferences. Convenient location and good parking were the two most frequently mentioned reasons, out of twenty listed, in a Canadian survey of 1,610 women who were asked why they usually shopped at their particular supermarket.⁵ "Lower prices" were ranked half-way down the list, with a frequency of mention of only about half of that of "location convenience". Hence, locations could be the most significant factor in providing some monopolistic ability, that is, (to charge more than minimum prices) to supermarkets. To some extent this may also be true for department stores.

TABLE II-5

COMPARATIVE ANALYSIS: TOTAL RETAIL SALES AND RETAIL SALES IN SHOPPING CENTRES, 1969, 1970, 1972, 1973

Kind of Business	Total Retail Trade (\$'000)				Retail Trade in Shopping Centres (\$'000)				Retail Trade in Shopping Centres as a % of Total Retail Trade			
	1969	1970	1972	1973	1969	1970	1972	1973	1969	1970	1972	1973
All Stores, total	27,401,419	28,033,905	34,107,040	38,335,226	3,320,604	3,856,305	5,466,720	6,736,532	12.1	13.8	16.0	17.6
Grocery and Combination Stores	6,400,942	6,849,224	7,721,282	8,594,929	1,057,569	1,309,431	1,792,952	2,230,247	16.6	19.1	23.2	25.9
All Other Food Stores	619,711	640,055	719,454	787,174	50,451	53,392	75,710	91,588	8.1	8.3	10.5	11.6
Department Stores	2,737,081	2,852,320	3,713,822	4,316,129	1,055,657	1,213,291	1,844,182	2,228,282	38.6	42.5	49.7	51.6
General Merchandise Stores	825,151	843,454	1,123,404	1,221,917	27,316	35,612	53,511	55,930	3.3	4.2	4.8	4.6
Variety Stores	541,705	552,907	673,374	710,658	111,390	112,911	121,066	133,146	20.6	20.4	18.0	19.4
Service Stations and Garages	2,318,185	2,530,675	2,686,917	2,978,321	36,620	40,175	51,603	57,611	1.6	1.6	1.9	1.9
Men's Clothing Stores	423,741	445,976	515,722	557,247	65,934	78,014	110,010	140,551	15.6	17.5	21.3	25.2
Women's Clothing Stores	544,783	561,411	638,996	643,274	132,352	150,260	243,472	260,081	24.3	28.5	38.1	43.5
Family Clothing Stores	385,488	397,516	468,616	562,710	41,841	47,857	68,637	88,855	10.8	12.0	14.6	15.8
Shoe Stores	317,685	327,510	367,272	394,702	67,960	76,376	108,251	122,881	21.4	23.3	29.5	31.1
Hardware Stores	391,427	382,830	433,416	452,040	52,666	55,585	68,400	67,886	13.4	14.5	15.8	15.0
Furniture, Radio and Appliance Stores	868,359	847,403	953,417	1,071,947	46,763	53,569	66,820	97,836	5.4	6.3	7.2	9.1
Drug Stores	791,631	840,017	1,026,740	1,106,681	131,965	152,882	203,513	239,036	16.7	18.2	19.6	21.6
Jewellery Stores	224,354	218,503	261,219	313,463	30,400	33,444	51,515	71,840	13.5	15.3	19.7	22.9
All Other Stores	10,010,675	9,739,104	12,803,389	14,624,034	401,210	443,504	605,058	825,753	4.0	4.6	10.5	13.0

Source: Statistics Canada Catalogue No. 63-214 Annual

Shopping Centres in Canada 1970, Table 7, p.17 and Shopping Centres in Canada, 1973, Table 5, p.17.

The general issues of barriers to entry

The shopping centre, it has been argued, through its barriers to entry has lead to the increase in retail concentration and thereby has posed a threat to the viability of the independent business. Bucklin has observed that increase of shopping centres as a major marketing institution in the United States "has been a principal cog leading toward increased concentration in retailing. The shopping centre control of tenant selection may well become a question in the future of the legal rights to access in a market."⁶ Snyder in evaluating the Canadian situation has argued that the shopping centre threatens the independent business through exclusionary and leasing behavior. "If this trend continues, many independent merchants will be unable to compete effectively with similar business outside of the regional centre."⁷

The specific problems facing the independent business stem, it is alleged, from the practices of shopping centre developers to select chain organizations to the exclusion of local, small business firms. The problem is enlarged to the extent that if small independent firms are chosen as tenants they are subject to higher rental rates, less favourable locations, and in some cases covenants which limit the degree to which they can compete with the other tenants.⁸

The discrimination against smaller tenants may not only take the form of

- (a) refusal to rent space, or even
- (b) charging of higher relative rental rates⁹

but can include

- (c) refusal to rent a sufficient amount of space;
- (d) refusal to rent the more desirable locations within centres;

- (e) restriction on the opening of outlets of the same firm within a given area, as a condition of rental;
- (f) restriction on the type of merchandise that can be handled, as a condition of rental.

The source of entry barriers

The source of entry barriers especially against small, independent firms has not been well described. There are a number of hypotheses including the profit maximizing goals of developers, the market structure of major tenants primarily department stores and supermarket chains, and monopolistic and predatory behaviour of tenants.

Of all of these factors, the first two are more fully understood. A major reason for the choice of chains by shopping centre developers is that they are favoured by landlords not only because they are the best credit risks as tenants, but also because their well known names can draw customers to the centre. Further, the well known chains provide a type of leverage that the developers can use in financing the centre.

Another hypothesis is based on the high levels of concentration found among the various tenant groups which locate in shopping centres. The argument is that the levels of concentration allow these firms to exercise a certain degree of market power over shopping centre developers. This power is exercised in terms of the choice of prime locations, the level of rents, and the power to exclude certain types of competitors, among them small independent firms. The argument has merit and is presently developed.

The contrast between the number of stores for chains and independents between shopping centre locations and all locations is startling (Table II-6).

Table II-6

NUMBER OF GROCERY AND COMBINATIONSTORES IN SHOPPING CENTRESCANADA - 1972

	Shopping Centres With 5 to 15 Outlets A	Shopping Centres With 16 to 30 Outlets B	Shopping Centres With Over 30 Outlets C	All Shopping Centres
Chain Stores	329	131	98	558
Independents	140	30	16	186
TOTAL	469	161	114	744

Source: Statistics Canada, Shopping Centres In Canada 1972,
(Ottawa: Queen's Printer, No. 63-214), p. 20.

For example, in the supermarket field, the share of stores for chains for all locations was around 7 percent in 1973, but they had over a three-quarter share (of stores) for shopping centres. Almost all stores in the largest shopping centres, and the vast majority of stores in the medium sized centres were owned by the four national giants; while significantly less than half of the stores in the smaller centres were part of these chains. Further, the share of total stores owned by the giants, outside of shopping centres, was insignificant.¹⁰

As noted, by 1973, 26 percent of the sales of all grocery and combination stores but 41-1/2 percent of chain and 4-1/2 percent of independent grocery and combination stores were made in shopping centres. One-third of all sales made in Canada's shopping centres, 27-1/2 percent in Quebec, and 34-1/5 percent in Ontario are made in their supermarkets.

Interestingly, the shopping centre has grown most rapidly in the large urban areas. These cities also have higher levels of economic concentration than the nation in general. Hence, the higher concentration associated with urban concentration, may well be due to the higher incidence of shopping centres in these areas. Certainly, at least, the shopping centre is a handmaiden to economic concentration. Further, since the rate of growth of shopping centres is now expected to be faster in smaller markets, markets which appear to have lower levels of concentration, this may well be a harbinger of higher concentration for these smaller towns.

The following table, Table II-7, shows 1967 shopping centre concentration levels developed for a Combines Branch study.¹¹ The top three and top six chain store enterprises had concentration levels

TABLE II-7

SALES OF GROCERY AND COMBINATION CHAIN STORE ENTERPRISES BY SIZE GROUPS,
AS PERCENTAGES OF FOOD STORE SALES, GROCERY AND COMBINATION STORE SALES
AND GROCERY AND COMBINATION CHAIN STORE SALES IN SHOPPING CENTRES, 1967.

Region	Total Sales in Shopping Centres by:			Number of Shopping Centres	Number of Chain Enterprises	Sales of three largest chain store enterprises as a percentage of			Sales of six largest chain store enterprises as a percentage of			Sales of all chain store enterprises as a percentage of	
	Retail Food Stores	Grocery and Combination Stores	Grocery and Combination Chain Stores			Retail Food Store Sales	Grocery and Combination Store Sales	Chain Store Sales	Retail Food Store Sales	Grocery and Combination Store Sales	Chain Store Sales	Retail Food Store Sales	Grocery and Combination Store Sales
Canada.....	1909	1909	1909	461	n.a.	67.65	64.99	71.99	16.35	62.76	61.67	64.19	60.64
Quebec.....	215,924	207,039	n.a.	93	3	77.37	69.69	n.a.	—	—	—	n.a.	n.a.
Ontario.....	651,425	429,167	n.a.	213	8	63.90	90.47	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Alberta.....	82,323	78,639	67,846	86	3	76.36	76.66	102.00	—	—	—	76.35	76.65
British Columbia...	16,053	75,171	n.a.	38	4	67.61	97.35	n.a.	—	—	—	n.a.	n.a.
All Other Provinces.	23,418	72,719	n.a.	43	6	61.93	66.91	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes: Based upon a special tabulation by the Dominion Bureau of Statistics.

well over double these noted for all locations in the Branch's Study, again indicating the especially strong concentrating power of the shopping centres. In Quebec, the three largest chains had a 26-1/2 percent combined share of the total market in 1967; but as was shown in Table II-3, they had an 89-1/2 percent share of the shopping centre grocery and combination store market - over three times as high.

This discussion clearly shows that concentration among tenant types exists. What it does not show is whether the market power is used and if it is used how is it expressed.

Shopping Centre Development

To see if the market power described in the previous discussion can be exercised, it is necessary to understand the process by which shopping centres are developed. This, it is hoped, will provide some insights into the places at which market power by the large tenants can be placed against the developer. The purpose of this exercise is to test the hypothesis about the ability of the major tenant to exercise influence. Acceptance of that hypothesis, once again, does not mean that such power is exercised.

The development of a shopping centre from conception to operation consists of several steps. The following pattern pertains to the development of centres in Ontario.⁻¹²

Planning Stage:

- (1) Market Analysis;
- (2) Site Evaluation;
- (3) Zoning;

- (4) Leasing: anchor stores committed by way of
letter of intent;
- (5) Financing: interim short-term purchase money
mortgage; and
- (6) Purchase.

Re-zoning Stage:

- (1) Initial meetings with rate-payers, merchants,
Planning Board, Council;
- (2) Preparation of formal marketing, engineering
and transportation studies;
- (3) Public meeting with Planning Board;
- (4) Ontario Municipal Board; and
- (5) Site Plan or Servicing Agreements.

Construction Stage:

- (1) Formalizing lease commitments to anchors and
leasing campaign on small store leases;
- (2) Formalizing interim construction and long-
term take-out financing based on anchor lease
commitments;
- (3) Development of working drawings and specifications
and letting construction contracts;
- (4) Commencement consistent with anchor tenant re-
quirements of Fall or Spring opening; and
- (5) Completion of shell and commencement of tenant
fixturing.

Completion Stage:

- (1) Finalize all leases;
- (2) Finalize take-out financing;
- (3) Complete tenant fixturing;
- (4) Obtain necessary municipal clearances with respect to servicing agreements; and
- (5) Opening.

An examination of the four major stages suggests that the tenant complement is important to one degree or another in each stage. In the Planning Stage, market analysis is to some degree dependent upon the store mix to be considered, that is, the market reach for the centre is dependent to some degree on the pulling power of the major stores to be found in the centre. In the Re-zoning Stage, knowledge of tenant types becomes important in order that development plans can be submitted to municipal planning bodies. In the latter two stages, Construction and Completion, exact information about potential tenants and specific choices are developed and made. While in the latter stage, the potential pressures from major tenants would be most explicitly felt, their market power and stature is implicitly expressed in the previous stages.

In terms of the financing aspect, choice of tenants is also important through the development process. This can best be seen in the following extensive quote from the literature. ¹³

It has been the tendency of the mortgage bankers and insurance companies to place principal reliance upon tenant credit rather than upon the economic productivity of the center or the desirability of its location. They do take the latter factors into account in selecting one loan as opposed to another, but, by and large, they will lend no more than is rendered safe by leases with tenants who have good credit.

Consequently, although the shopping center developer may wish to lease to local merchants or to small chains, he finds that he must lease at least a substantial amount of space to national tenants. He must continually walk a tightrope be-

tween establishing a centre which has the best merchants and the best balance of tenancy and meeting credit requirements by producing enough "acceptable" leases to cover debt service. Other things being equal, therefore, he will always take a national tenant rather than a local one and will reserve his local leases for the best local merchants or for those who will pay him the highest rent.

The nature of restrictive agreements

The types of restrictive covenants found in shopping centre leases include the following:¹⁴

(1) Major Tenant Approval Clauses

- (a) Agreements to exclude named competitors;
- (b) Agreements giving right to approve all other tenants;
- (c) Agreements restricting size of competitors; and
- (d) "Contingency clauses" respecting co-tenants.

(2) Exclusives

(3) Use Clauses

- (a) Respecting the types of business including advertising; and
- (b) Respecting the types of commodities (including price ranges) to be sold.

(4) Non-assignment Clauses

(5) Radius Clauses

(6) Other Regulatory Provisions

- (a) Respecting membership in Merchants' Association; and
- (b) Centre promotion, etc.

Aside from the general concern that such restrictions can adversely affect economic structure and performance by leading to prices that are higher than they would be without such restrictions, the literature identifies some specific consequences:

- (a) it thwarts the evolutionary process of merchandise line development;¹⁵ a process which is at the core of innovation in retailing methods;
- (b) it tends to reduce the representation of manufacturers' brands, since some chains tend to emphasize their own dealer brands;¹⁶
- (c) it generates high similarity in tenant composition between shopping centres and reduces consumer choice in shopping at distinctive stores and shops;¹⁷
- (d) it restricts the real discounters or low margin operators (small or big) from operating in the major shopping centres.¹⁸

J. Whybrow feels that this latter type of "No Discounter" restriction discourages the reduction of prices, and a landlord who insists on such a restriction may well be committing an offence under section 38, resale price maintenance. In addition, major tenants who attempt to influence developers into denying space to "discounters" may also be caught under section 38(6). Given the probable difficulty in applying the criteria necessary for a prohibitory order against a reviewable practice, e.g., refusal to deal,

market restriction, typing, etc., to shopping centres, section 38 may offer the greatest opportunities for modifying the restrictive effects of some clauses.

Such provisions are many and varied, but one of special interest relates to the strong bargaining power of the dominant tenant at the time that the centre is in the lease negotiation stage. Such a prospective tenant can often obtain concessions that would give him the right to pass on the acceptability of other potential tenants. Various instances are on record where dominant tenants of an orthodox type have used their bargaining power to exclude from shopping centres innovating establishments of a low-margin or discount nature.²⁰

It must be kept in mind that the very essence of an "organized" shopping centre is the existence of some central control over its operation, particularly control over the tenant and merchandise mix. Indeed, "controlled or orderly competition" (perhaps a euphemism for restraint of trade) is given as a prime advantage of locating in a shopping centre to tenants fortunate enough to get in:

The centres are organized and controlled to a point where the amount of competition is limited ... it guarantees that a certain amount of shoppers are restricted to the available retail shops in the centre.²¹

Controlled competition. In a situation where a single individual or group makes all of the decisions concerning tenancy, it is possible to select ... [so that] stores that complement each other would be substituted for stores that compete with each other.²²

According to some retail textbooks, regional centres should not have strong competitors within a radius of five miles or more.²³

Of course, not all organized control measures imposed on tenants are of an anti-competitive nature. Excluded would be maintenance requirements, cooperative promotion, and restrictions on certain types of trade, e.g., pornographic shops.²⁴

Furthermore, the chains own subsidiaries are sometimes the landlord (e.g., Ivanhoe-Steinberg's). Also, if the chains exercise veto power over what other tenants may be accepted and/or are given lower rental rates, as some commentators have suggested, these too would contribute to their higher share of shopping centre locations.

The American Experience

The purpose of this section is to introduce public policy activities which have taken place in the United States in the past several years. This discussion is in no way meant to be exhaustive and should not be taken as more than the "state of the art". The present discussion could be used as the basis of developing public policy in Canada although no specific direction is given.²⁵

The Federal Trade Commission through its administrative procedures concerned itself with restrictive practices against a major shopping center and against Gimbels. The complaints are as follows:²⁶

Tyson's Corner is one of the nation's largest regional shopping centers and has over 100 retail stores and 1.2 million square feet of floor space, of which Lansburgh's, Hecht and Woodward and Lothrop occupy approximately 450,000 square feet. The proposed complaint contended that restrictive lease provisions enabled the three major tenants to exclude competitors, fix retail prices, eliminate discount selling, and otherwise restrain trade.

The proposed complaint against Gimbels stated that the challenged lease provisions tended to eliminate, discourage, and hinder discount operations in shopping centers, and to unlawfully restrain trade by fixing retail prices by allowing Gimbels to select its competitors and coerce shopping center developers in their choice of potential tenants.

In both cases, consent decrees were established to restrict the right of tenant approval and tenant exclusion clauses.²⁷ While the strength of the decrees in these cases was clearly annunciated, it is important to recognize that consent decrees are very different from

case law; indeed, "Federal Trade Commission consent orders are not legal precedents, so the worst thing for the shopping center industry to do would be to take the terms of the Gimbels and Tysons Corner consent orders and turn them into 'de facto trade regulation rules'."28

What needs to take place in order to turn consent decrees into precedents is the start of litigation to clarify the stature of the restrictive practices.

Summary

It is clear that the opportunities and potentialities for exclusionary and discriminatory practices are present in shopping centres.

The present discussion has shown not only are the potentials great but also they are exercised. The nature of the practices are many and varied; they are based to a considerable degree on the bargaining power of the dominant tenants, primarily department stores and supermarket chains, during the early stages of the development of the shopping centre. Such types of prospective tenants can often obtain concessions that would give the firm the right to pass on the acceptability of other tenants, influence their rental obligations, and determine their locations.

Footnotes

1. Statistical data for this section come from Statistics Canada, "Shopping Centres in Canada, 1973," No. 63-214 (Ottawa: 1975); and "Shopping Centres In Canada, 1951-1973," No. 63-527 (Ottawa, 1976). A shopping centre is a group of at least five retail establishments which are designed as a unit with at least 20,000 square feet of free adjacent parking. The centre must include either a combination food store, department store or a chain variety store. These do not include the downtown indoor shopping malls which are creating new interest with the start of a return to downtown living. In 1973 there were 50 such malls with 1,534 outlets doing almost \$400 million in retail and service sales. Quebec is registered as having 16 such malls (all in Montreal) with 573 outlets and doing \$134 million in sales, more than Ontario's \$117 but less in terms of number of malls and outlets (Ontario: 24 malls and 594 outlets). Unlike a shopping centre, parking is not free (though it may be conditional on purchase) and it doesn't need one of the anchor stores. But it must have at least ten outlets, five of which must be retailers; and must have at least 10,000 square feet of space to lease.
2. Of Canada's largest 101 shopping centres in 1973, 85 were completely enclosed and they accounted for 86 percent of retail sales of this category. Only 13-1/2 percent of the smallest category was enclosed.
3. M.S. Moyer, "Shopping Centres In Canada: Their Impact, Anatomy, And Evolution", The Business Quarterly (Summer, 1973), pp. 23-31; Susan Goldenberg, "After 1,800 Shopping Centres, They've Run Out of Location", The Financial Post, May 24, 1975, p. C-8; Gary Weiss, "Shopping Centres", The Financial Post, November 22, 1975, p. D-9; Herman Kirther, "Shopping Centre Construction About At Saturation Point", The Financial Post, April 24, 1975, p. 16; Statistics Canada, No. 63-527 reported in Alan Gray, "Shopping Centre Growth To Taper Off As Costs Up, Population Shifts: Study", The Gazette, September 27, 1976, p. 23; Gary Weiss, "Shopping Plaza Expansion Is Slow and Expensive," The Financial Post, August 6, 1977, p. 13. This last article also provides information on current shopping centre construction projects.

4. Bruce Mallen, A Preliminary Paper on the Levels, Causes & Effects of Economic Concentration in the Canadian Retail Food Trade: A Study of Supermarket Power, Ottawa: Food Prices Review Board, 1976, pp. 102-114.
5. "Why They Shop At Their Present Supermarket," Marketing: Food & Grocery Industry Report, December 1973, p. 9.
6. Louis P. Bucklin, Competition and Evolution In The Distributive Trades, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1972, p. 146. Though referring to the U.S. situation, it is probably even more applicable in Canada. The National Commission on Food Marketing also noted that small food retailers face these obstacles in obtaining desired store locations: National Commission on Food Marketing, Organizing and Operating in Food Retailing, Technical Study No. 7, Washington, D.C.: Government Printing Office, 1966.
7. G.S. Snyder, Shopping Centres in Canada 1951-1973: Research Paper No. 1, Cat. 63-527, Ottawa: Statistics Canada, 1976, p. 25.
8. Martin Eker, Principles of Marketing, Boston, Mass.: Allyn and Bacon, Inc., 1971, p. 253; also see Morris L. Sweet, "Tenant-Selection Policies of Regional Shopping Centers," The Journal of Marketing, April, 1959, pp. 399-404.
9. For a comparison of such rates see "Abstracts of Latest Shopping Center Leases," Chain Store Age (executive edition), May 1974, pp. 14, 116, 123; and Dollars and Cents of Shopping Centers 1975, Washington, Urban Land Institute, 1975, p. 71. In the latter survey, for example, hosiery shops paid on average \$11.36 rent per square foot while department stores paid \$1.44 per square foot. For an analysis of the application of section 34(1)(a), price discrimination, to differential rents, see Carswell & Balfour, "The Amended Combines Investigation Act and its Application to Shopping Centres", Shopping Centre Leases, ed. Balfour & Haber, Toronto: Canada Law Book, 1976, p. 173.
10. Bruce Mallen, op.cit., p. 107.
11. Report of the Director of Investigation and Research, Combines Investigation Act, For The Year Ended March 31, 1971, Ottawa: Queen's Printer, p.23.
12. See White, "Shopping Centres - New Trends", Real Property: Shopping Centre Leases, Department of Continuing Education, The Law Society of Upper Canada, Toronto: by the Society, April 1974, A-2 to A-4. (Version here from J. Whybrow, "Tenant Selection and Allocation of Space in Shopping Centres: Background (Unpublished paper for Internal Use Only, Combines Research Branch, March 1977, pp. 3-4).

13. Richard L. Nelson, The Selection of Retail Locations, New York: F.W. Dodge Corporation, 1958, p. 270. Underlining added.
14. From a list provided by J. Whybrow, "Tenant Selection And Allocation of Space in Shopping Centres: Background," Ottawa: Combines Research Branch, unpublished, March 1977, pp. 6-7.
15. William R. Davidson and Alton F. Doody, Retailing Management, New York: The Ronald Press Company, 1966, 3rd edition, p. 118.
16. E.J. McCarthy and S.J. Shapiro, Basic Marketing, Georgetown, Ontario: Irwin-Dorsey Ltd., 1975, 1st Canadian edition, p. 347.
17. Davidson, op. cit.
18. D. J. Duncan and Charles F. Phillips, Retailing, Homewood, Ill.: Richard D. Irwin, Inc., 1967, 7th edition, p. 115.
19. Whybrow, op. cit., p. 8.
20. T. Beckman, W. Davidson, W. Talarzyk, Marketing, New York: The Ronald Press, 1973, 9th edition, p. 279.
21. Gerald Pintel and Jay Diamond, Retailing, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1977, p. 45, 47. Underlining added.
22. Ibid.
23. E. Cundiff and R. Still, Marketing, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1971, 2nd edition, p. 313.
24. Eagle, "Shopping Centre Control: The Developer Besieged," Vol. 51, Journal of Urban Land, 1974, pp. 585, 607; "The Antitrust Implications of Restrictive Covenants In Shopping Centre Leases," Vol. 86, Harvard Law Review, 1973, p. 1207 and 1239.
25. International Council of Shopping Centers, Combines Investigation Act, March 1978. This report discusses the 1976 amendments to the Combines Investigation Act to the extent that shopping centres may be affected by the legislation. The opinions stated represent the views of four individuals who participated in a panel discussion. It is fair to suggest that the views represent honest speculation about certain practices which have not been tested. The outcome of such tests is conjectural. In any event, many of the practices may not be clearly established in agreements but may come about as the result of cues sent and received by developers and tenants.

26. Joseph Barry Mason, "Power and Channel Conflicts in Shopping Center Development," Journal of Marketing, 39, April 1975, p. 29.
27. Ernest G. Barnes, The Federal Trade Commission and Shopping Centers, New York: International Council of Shopping Centers, 1972, p. 4.
28. "Lawyer Says That FTC Rulings Aren't Precedents," Chain Store Age, July, 1974, p. E-5.

CHAPTER III

Restrictive Practices in Shopping Centres
from the Perspective of Retailers

CHAPTER III

Restrictive Practices in Shopping Centres from the Perspective of Retailers

Introduction

This Chapter has three distinct purposes. The first is to provide a discussion of the complexities of analysis involved in studying the shopping centre. The second purpose is to establish a framework for understanding the practices of shopping centre operators as seen from the perspective of the retailer. The last purpose of the Chapter is to evaluate the findings of the study. This exercise will provide the bases for the drawing of conclusions and the stating of recommendations. These are found in Chapter IV.

The Analytical Complexities

Introduction

The complexities in the analysis of the shopping centre come from two sources. The first is the absence of a major systematic approach in economics, geography and marketing which might guide the researcher in formulating hypotheses.

The second source of complexity in understanding the nature of competition comes from the diversity of participants found in the development of shopping centres, including developers, owners, managers and tenants. Indeed, it is one of the goals of this study to clarify the diversity of types and understand how their behaviour affects the ways in which shopping centres are operated and the effect of that on retailers.

The bases of analysis

Although there are several disciplines which might have explored behavioral aspects of shopping centres, none of these have done so in a way which provides direction for this study. Economics, geography, and marketing have in one way or another attacked the issues but only in relatively confining ways and more importantly there has been no attempt to synthesize what work has been done. Beyond the specific purpose of understanding restrictive practices by shopping centres, it is hoped that this work will offer the first push in the direction of synthesis.

Economists have had little to say about the shopping centre except to the degree that the most general concepts of market structure and behaviour have relevance in establishing a framework for analysis. There would appear to be some possible contributions from the area of monopolistic competition and the analysis of bilateral oligopoly.¹

Geographers have treated shopping centres in two dimensions. The first is aimed at extending the notions of central place theory, namely, an aggregate analysis of the location of markets in time and space. The second dimension has to deal with the more pragmatic issues of location and design which are part of the area of city and regional planning.² The contribution of geography may be found in the development of an understanding of the nature of spatial competition in and among shopping centres. An understanding of the factors which provide differential edges to one centre over another may clearly lead to a more precise predictive power as to types of retail functions performed and ultimately the type and nature of firms found in shopping centres.³

Marketing has taken a rather varied approach at studying shopping centres. There has been extensive research which examines the competitive nature of shopping centres and the individual stores within them as viewed by ultimate consumers. The research has generally concentrated on the concept of image and especially the development of image in regard to attracting patronage.⁴ Indirectly, marketing research has looked at store design, promotion, and management. As is the case in economics and geography, there is no holistic approach to analysis of shopping centres.

In conclusion, there have been no attempts to synthesize the concepts of the various disciplines into a single approach.

A Framework of Analysis

Introduction

The basic framework is the structure-behaviour model used in industrial organization. In general, the basic model of industrial organization with the components of structure and behaviour are used in the present analysis. Structure is defined as the elements that a rational decision-maker takes into account in coming to a decision. Behaviour has two elements. One is conduct which is represented by the policies and decisions themselves; the other is performance, that is, the net result of the decisions for those affected by it, including the firm, competitors, consumers and society. Structure affects behaviour and over time in the dynamic perspective behaviour affects structure.⁵

The elements of structure

The elements of structure for any decision-maker not only come from internally within the organization but from the market and the participants, buyers and sellers; these appear at a number of levels as well as the level of the decision-maker. Some of the elements are controllable, others are not. For each decision-maker the number of elements, their importance, and the amount of control will vary. In general, it can be stated that firms attempt to simplify decision-making by gaining more and more control over a smaller number of structural elements. In economic analysis, the following six items are defined as part of market structure:

1. market concentration;
2. product differentiation;
3. barriers to entry;
4. cost structures;
5. degrees of horizontal and vertical integration; and
6. growth rate of market demand and elasticity of demand.

In the present study, these elements are viewed in general from the perspective of retailers and specifically those retailers which are located in shopping centres. It is important to recognize that the elements of structure presented do not necessarily represent the structures that would be found by other observers. Further, because the study did not investigate those retailers excluded from shopping centres, there is no measure of structure from that perspective.

The discussion later in this Chapter, by and large, integrates the elements of structure.

The elements of behaviour

Behaviour is traditionally defined in conduct terms by the competition practices used. These as developed in marketing analysis are known as the marketing mix; it contains policies regarding products and offerings, prices, promotion and distribution including location. These may be evaluated in terms of their benefits to the firm, the market, and the economy. They can be classified as acceptable or unacceptable in so far as their benefits are viewed by any of these levels. The framework of structure affecting behaviour, conduct and performance, and behaviour in turn affecting structure is clear as a descriptive concept. The problems arise when the concept is applied to a specific situation such as the one at hand. The problems arise because of the absence of complete information describing the various structural elements and predispositions of decision-makers.

What the present study does is to identify practices of behaviour which are described by the respondents. It should be understood that these are in greater part allegations in so far as no documentation was provided as would be required, for example, for a court of law. The discussion identifies those behaviours which evolve as the natural play of market forces as well as those which might be considered predatory. Clearly, further research is required to be fully able to allocate behaviours to each of the categories with greater precision.

The elements of performance

Performance is concerned with the net results of behaviour. These can be evaluated at several levels including the economy level,

the market level, and the firm level.

It is evident that given the alleged practices of shopping centres excluding certain types of stores, most notably, independent stores, the effects are great. Consumers may have fewer and fewer choices among retail merchants if independents are excluded from the shopping centre. This issue is not well understood and it would be inappropriate to draw conclusions at this point without a more extensive examination of the small, independent business in Canada.

At the market level, performance has different characteristics. These relate to the intensity of competition, the efficiency at which marketing activities take place, and the progressiveness which occurs. Shopping centres as institutions appear to score highly on goals related to these factors except for the area of food retailing. The shopping centre encourages the benefits of competition to the degree that they compete with one another and have active competition among their own retailers. Shopping centres would appear to be efficient in their use of resources especially in terms of consumers' use of them. To the extent they are new and to the extent that older shopping centres are in continual change, they appear to be progressive. Their numbers alone attest to their economic importance.

Firm level performance relates to issues of profitability and survivability. For those firms that are a part of a shopping centre, these factors are met although it is difficult to know clearly if those stores that received "less than optimum" locations would have fared better in the optimum location. Those firms which have been

excluded in one way or another may not either be profitable or have survived. About these little is known and speculation unwise until more is known.

The structure of shopping centre developers

As a special case in point, a brief discussion of the structure of shopping centre developers is offered. This is done in order to lay the foundation for some of the analysis in the following section and with full recognition of the presence of the study to fully investigate this area. The present discussion is based, in part, on one of the studies recently published by the Royal Commission on Corporate Concentration; it reflects their data and conclusions.⁶ The presentation here is the logical linking point for the two studies on shopping centres.

There appears to be relatively limited concentration in the development industry; about ten firms including Cadillac Fairview, with about 11% ownership, control most of the regional centres. Entry into the industry is relatively easy but must be developed over time as the skills for development projects grow with the size of the centres developed. While entry is easy and rates of profitability high, the demand for centres is somewhat restricted in the Canadian environment primarily because of the structure of potential and actual major tenants. The absolute number of major tenants, full-time department stores is low; many of these retail firms have not undertaken massive expansion programs. Further, there is little product differentiation and developer loyalty; the major department store chains occupy space developed and owned by a number of developers. It would appear that the department

stores have some leverage over the developer. This is because the developers recognize that the chain department stores provide the basis for success to the extent that financing and other tenants are attracted to a centre with a major tenant.

The barriers to entry in the industry are created by limitations in the demand for new centres and the extensive processes required in most municipalities for centre development. In the first case, "department stores are unwilling to commit themselves."⁷ Unlike the market for office space, warehouses and apartments, there is no room for speculation. Secondly, there is increasing complexity in the process of land assembly, acquisition of development permits, and construction time. Therefore, the total development time has increased greatly. As with other real estate investment opportunities in Canada and the United States, it would appear that there will be a slowdown in the construction of new shopping centres across Canada. There will be exceptions, of course, primarily in the areas of rapid growth such as Alberta.

It is reasonable to suggest that with a slowdown in the increase of new shopping centres that there will be an increase of expansion activities among some of the present shopping centres. There are many examples of open centres becoming closed malls and other centres expanding with the addition of more stores. The data presented in Chapter II are in part helpful in describing some of the changes which have taken place in the past although they do not full reveal all of the phenomena discussed in this section.

Barriers to entry to the shopping centre industry are not great in financial terms in comparison with other real estate investments

once it has been established that the centre is a viable alternative, that is, there is no better in terms of the rate of return on investment. Implicitly that means that the demand for a centre is present and that it can be developed in a relatively short time. It is estimated that for a regional shopping centre 50 acres of land costs approximately \$80,000 an acre.⁸ The total cost would then be \$4 million.⁹ Building costs are difficult to estimate in periods of inflation, however, average construction costs of \$40 per net rentable square foot is accepted as reasonable. Assuming that the centre contains 500,000 square feet of total retail space or gross leasable area, the construction costs would be \$20 million. The total would be \$24 million.

Shopping centres are often characterized by some degree of vertical integration in so far as major tenants either own the centre or have some equity position in it. This phenomenon makes the analysis of restrictive practices more difficult to evaluate in terms of establishing predatory behaviour. To the extent that a party has equity in a property, that party has some say over how it may be used by others. This, of course, is different from those situations in which the centre and the tenants are independent of one another. Clearly, this study shows that a major reason for retailers to enter into partial or equity positions in shopping centres is to obtain control. Whether this is because they cannot get control through market power and must pursue this end is not totally clear. If that allegation is true, then retailers do not have as much control as is thought they have.

The behaviour of the owner-developer-tenant is exceedingly complex. On the one hand, the power to exclude and enforce specific practices is great. That power is limited, however, by the need to develop and operate a viable centre. When equity is present there is more exercise over the tenant mix and their practices. Probably, there is some greater degree of discrimination towards the tenants in terms of rental rates and common space charges.

The Behaviour and Practices of Shopping Centres

Introduction

The purpose of this section is to present the evidence collected in the study in a systematic manner. The great volumes of data are presented on a question-by-question basis for various types of retailers in the Appendices of this study. In this discussion the data are evaluated and stated in the form of hypotheses. This approach is consistent with general conditions of exploratory research. This should not imply that these are untested, they are based on the present data. Total verification in many cases will require future research.

These hypotheses, it must be remembered, reflect the perspective of retail tenants and hence have a bias; although many of the companies surveyed have equity positions in shopping centres.

The General Issue of Market Power

The richest approach to understanding the market confrontation of the shopping centre and the major retail tenant, most importantly the department store, is that of bilateral oligopoly. It is a market situation in which a relatively small number of buyers and sellers of relatively similar size face each other across a market. In this on the seller's side, there are about ten developers including Westcliff Developments of Montreal, Multi Malls of Ontario, Cadillac Fairview, Tiger, Bramalea, Campena, Orlando, Cambridge, Oxford, Woodward's, and so on. On the buyer's side, there are the four major department stores including Simpson-Sears, The Bay, Eatons, Woodward's, and the five major junior department stores or "discounters" including Woolco, K-Mart, Zeller's, Miracle Mart and Towers.

The problem with concept of bilateral oligopoly is that the nature of outcome is relatively conjectural. It would appear that if the observation that the department stores have more power over the sellers is valid, then their will will be expressed. This argument needs further explanation. The developers have a monopoly over any centre through their efforts in land assembly and development and construction. However, the developer's success is measured by the quality of the tenants which are secured. The second order effect develops in so far as the other potential tenants find credence in the selection of a certain major tenant; this forms the basis for their desire to participate in a given centre. Of course, the ability to attract a major department store also allows the developer a financial advantage. An economically viable tenant means a greater probability of success for the centre; lending money becomes a lower risk.

It would appear that on balance the larger department stores do have some advantage over shopping centre developers and it would appear that this market power is used.

The Expression of Market Power

The expression of market power by major tenants over shopping centre developers is found in four areas, rents paid, choice of tenants, the tenant mix, and other factors.

1. Rents

In the case of rents, there is evidence to suggest that major tenants pay lower rents than other tenants in the centre. This principle would appear to hold true as the examination moves from major to intermediate and to minor tenants. Major tenants pay lower rents than intermediate tenants who in turn pay lower rents than the minor tenants. The major department stores have a more advantageous position than other national retail chains such as Dylex, Reitman's, Dalmy's and Kofflers, for example, who in turn have bargaining strength greater than local retailers. On the other hand, developers will want a certain proportion of local retailers because they provide a higher per square foot rental.¹⁰

2. Choice of tenants

In the case of tenants, it is necessary to step back from the immediate data and apply some concepts of marketing analysis to the problem. This is especially important in terms of the major tenant, the anchor department store, and its expression of power regarding other major department stores. The data collected is in line with the theoretical predictions that competition between or among major department stores is sought. In this area, there is little exclusionary activity towards other department stores except in the case of those which are known as "discount stores."

The department stores might explicitly exact control over the types of stores and their operating characteristics. From a purely economic point of view, it is easy to conclude that buyer power would be exercised in this fashion. Namely, a tenant would be better off if it were able to limit its competition in some fashion especially by market exclusion. This argument takes on a very different light in terms of marketing theory. Competition in economics is based on rather limiting notions of product or enterprise differentiation. The writings of E.H. Chamberlin and Joan Robinson did not go far enough in predicting how monopolistic competition would evolve as epitomized in the shopping centre.

A pertinent approach is to examine the nature of competition from a buyer behaviour perspective. The concept of shopping goods which explicitly includes the concept of comparison is the basis for understanding competition in this case. Shopping goods are "those goods which the customer in the process of selection and purchase characteristically compares on the basis of quality, price, and style."¹¹ In so far as shopping goods represent the product assortments offered in shopping centres and in so far as the larger the shopping opportunities lead to a greater market, limitations on the type and number of stores by anchor department stores is irrational behaviour. It is not in their best interest to be totally restrictive. To the extent that Gimbells locates next to Macy's and to the extent that shopping centres have two, three and even four department stores as lead tenants, the shopping goods approach would suggest that extensive limitation behaviour will not be part of agreements between developers and major tenants regarding other major tenants. This does not mean that

for all time and in all cases that major tenants do not exclude or have not attempted to exclude tenants.

The department stores do, however, appear to seek some control over specialty stores in the shopping centre. This primarily is found in the locational alternatives that some specialty stores are forced into taking. It is not clear that this is necessarily the reaction of the major tenant influencing the shopping centre developer to force these stores into less visible areas explicitly or the result of implicit rental differentials. It is reasonable to argue that stores located next to the high traffic generators in the shopping centre will have to face higher rents. To the extent that these stores represent either intermediate or minor (local) retailers, they may not be able to afford the levels of rents required.

In the case of food retailing different results occur. Clearly, competition in terms of directly competitive activities are not the case. It is clear that supermarkets, the major food chains, do not see themselves in an industry characterized by shopping goods; theirs are rather basically convenience goods and given that condition direct rivalry becomes an ominous proposition. In such cases, the need to exclude competitors especially those specialty stores such as meat stores, delicatessens, cheese stores, greengrocers, and fishmongers, becomes imperative. This arises from the ability of these latter types to specialize in certain products that the supermarket cannot; hence their presence is not desired. The notion of one-stop shopping and monopolistic control over the consumer found in supermarkets would be broken if the variety and choice were too great. While there are pressures for the restriction of potential competitors by the supermarkets, these seem best to be expressed in terms of power

over the location of specialty stores rather than their total exclusion.

In general, regional shopping centres only contain one supermarket. It is not clear why this is so. One popular argument often put forward suggests that the inclusion of two or more supermarkets will not have the effect of increasing the trading area for the centre. If that were true one would not expect to see supermarkets developing in the near proximity to regional shopping centres. While no empirical measurement of the number of supermarkets located near to or next to regional shopping centres exists, it is easy to observe the phenomenon.

It is difficult to fully explain why exclusionary practices exist for supermarkets.¹² It is necessary to hypothesize, however, that the major supermarket chains because of their numbers and size are able to extract major concessions from shopping centre developers. This is obviously the case when an integrated firm develops its own centre. While this practice might appear to be monopolistic in nature that conclusion should not be drawn. The basis for exclusionary desires might be attributed to differences in margins and expectations between department stores and supermarkets. In any event, it does exist.

3. The Tenant Mix

The tenant mix is different from the one relating to the choice of major tenants, namely, the department store or stores and the super-

market. This issue relates to the mix of stores which will be part of the shopping centre once the previous choices have been made. In part some of the specifics, namely allocation of space, were discussed previously.

The present discussion focuses on the three types of stores in shopping centres which were described as the major tenants, the intermediate tenants, and the minor tenants. This classification is used to describe respectively the major anchors of the shopping centre, the national chains primarily in fashion and variety goods, and the local chains or independents. The discussion is incomplete because the terms of reference of the study did not include the latter group. It would be unfair to conclude that this group takes what is left and/or has no influence on the tenant mix since some of these firms are indeed developers and owners of shopping centres. A study of smaller regional chains and local independent retailers needs to be undertaken.

The presentation is hence limited to the major and intermediate retailers. Their views about the tenant mix are evaluated along three lines, namely centre characteristics, participation, and competitors.

It is clear that for both of these groups, the study shows that a shopping centre must be organized around viable stores which are likely to engage "in active competition". The problem with this view is that there are several definitions of competition and it is not clear which of these is most appropriate. Clearly, the study shows that active price competition as might be engaged in by "discount"

stores is beyond the limits of desirability. The most easily understood of the characteristics is that of viability. The responses suggest that the tenant mix must contain stores that mutually affect the total trade of the centre. This means that there must be a balance of retail functions and retail facilities and associated with that some range of alternatives within the general image of the shopping centre.¹³ There is no one best model of the tenant mix; most will have some combination of department stores, food stores, men's wear, shoe stores, drug stores, jewellers, photographers, book stores, fabric stores, record and stereo stores, card and flower stores, tobacco stores, gift stores, sporting goods, liquor stores, and the service institutions.

In terms of participation of national versus local chains and major local independent stores, the views of the two groups are somewhat more divergent. The majors are interested in attracting the "best" possible assortment of stores which at least by observation includes other major national retail chain organizations. This obviously is neither a hard and fast rule nor a goal which can be achieved since the majors recognize the importance of major regional chains and major independents. Further, for many types of stores, there are local allegiances on the part of consumers which must be recognized.

The intermediate stores share the prior views except to the extent that they would like to appear to have more prominence within the centre. By that is meant they would like to be able to affect the tenant mix selection in some more formal way, perhaps, as they see the majors affecting the mix. The degree to which they are unhappy with the traditional mix and the degree to which they want to influence

such has, for at least the "junior" department stores, been part of the reasoning behind their location in smaller shopping centres. The intermediate stores, as well as, most likely, the minor stores, must put their faith in the developer to come up with the optimum tenant mix. To the extent that developers involve the major stores, part of the expectation is realized although for certain not all of it.

The types of competitors refer less to the specific merchandise offerings and more to what might better be termed "managerial style". Both groups responded in a highly similar fashion to questions about this issue. The sense of the responses is that the various stores should behave within "accepted practices", that is, work within the acceptable practices regarding promotional activities, prices, and merchandise offerings. It is worth speculating about the "rules of behaviour" which are established in an oligopolistic setting such as a supermarket shopping centre. There would appear to be general unwritten agreements about practices which will be tolerated and which will not be. These are the bases of the general exclusion of "discount stores" who are thought to be institutions that do not compete within the "known guidelines."

The "rules of behaviour" most likely influence the choice of retail stores from among the local independent set of retailers although it is difficult to understand clearly how they are applied in the decision. Clearly, the study on shopping centre developers should add much.

4. Other factors

The other factors include the influence of the major tenant or tenants on the methods of business operations of other retailers; these include promotion, pricing, merchandise mix and other marketing activities.

The existence of and pressures to belong to the shopping centre association does affect certain tenants. To some these effects are viewed as negative in terms of operating and promotional requirements. The bigger retailers generally perceive the advantages in favour of the small merchants and the smaller see the opposite.

Allegations were made that there is some general effort to establish and to maintain price ranges for various merchandise lines within a shopping centre. It is difficult to document such charges as it is with those relating to the forcing of merchants to follow uniform (and desired) policies of the major tenants. There is most likely some of this type of behaviour present, however, it is probably best attributed to other factors. These are developed in some great detail in the following section.

Some General Hypotheses

This section attempts to synthesize and from that propose some general hypotheses about the behaviour of shopping centre operators vis a vis the various tenants. This discussion proposes hypotheses which in part explain what is known as exclusionary and restrictive practices by shopping centres. Once again, it need be said that these have been developed from the perspective of tenants. The concern is with four aspects of behaviour; these are store image, compatibility, product assortment compatibility, managerial skill requirements, and purposeful predatory behaviour.

1. It is hypothesized that the success of regional shopping centres is dependent on store image compatibility. By that is meant that each regional shopping centre is created to portray a specific image to consumers. A prime requisite of the develop-

ment and maintenance of an image is the selection of stores which fit the image. Selection of stores which do not fit the image may have deleterious effects on the total centre. The mixture of The Bay and Army and Navy would create a discordant image for a shopping centre. This image difference problem is one to be avoided at all costs and hence the exclusion of stores which are not consistent with that image would be expected. It is difficult to indicate clearly what stores by name except for the Army and Navy Department Store which was mentioned by respondents. Another study focussing upon actual and potential stores excluded would be necessary to test this hypothesis.

2. It is hypothesized that competition among members of a given regional shopping centre provides the basis for exclusionary practices. As was discussed earlier, department store management appears less concerned about the potential dangers of comparison shopping than supermarkets, although there are some concerns about the effect of supermarket space on the rest of the centre. That may be explained by the wide nature of their product assortments and the belief that supermarket consumers do not combine food shopping trips with other shopping activities. While there is much overlap among the majority items offered by the majors stores, there are also significant areas of product differentiation which affect demand and which lead consumers to have greater preference for one over the other. The need to exclude other department stores is less important and is certainly overshadowed by the drawing power of several department stores.

Moreover, a close examination of regional shopping centres suggests that the department stores are differentiated in quality and service levels as well as product offerings. The need for exclusion of direct competitors is thus not appropriate. On the other hand, some exclusionary behaviour is probably desirous in terms of specialty stores. The study data indicate there is no reason to suggest that this is widespread as it might be. This is because the developer does face several department stores some of whom may not be as desirous of excluding competitors, hence the full impact of exclusionary requests and behaviour will not be carried out. In any event, most of the competition among all stores is image based. Specialty shops do become a problem if the total number were so great as to radically affect the image of the department stores. However, the general "mass market" product assortment approach of most retailers does not encourage product assortments significantly different from the norm.

For the supermarket in a regional centre, exclusion becomes an important issue because of the belief that direct product assortment comparisons would be made as well as price and service comparisons. There has been no empirical test of the belief truth like beauty is in the eyes of the beholder. Supermarket management argue that additional supermarkets would have no effect on the total volume of the shopping centre, implicitly of course, reduce the volume of the single store. This argument may be true if consumers perceived supermarkets as providing homogeneous product, price, and service offerings.

Since they do not and since they do promote specific image differences, their arguments are somewhat difficult to accept except to the extent that their product assortments are somewhat more homogeneous than department stores. What is needed is a measure of the degree to which the same brands of products overlap among department stores and the degree to which the same brands of products overlap among supermarkets. A priori it is fair to suggest that supermarkets do tend to offer like items identified by national and regional brands where the department stores do not. Hence, the fear of direct comparison of consumers may be a rational explanation for the argument put forth by supermarket management. More about these differences would certainly have to be known before reaching a more tentative conclusion. As suggested earlier, the observed tendency of competing supermarket chains to locate near the major regional shopping centres would tend to reject part of the limited market size argument and give more credence to the product argument.

In so far as specialty foodstores are concerned, this does not seem to be a major issue. Since they specialize in lines not carried or not carried in depth by major department stores, they become complementary rather than competitive. When located at some distance to the supermarket, they do not appear to be of major consequence.

3. It is hypothesized that some exclusionary behaviour implicitly takes place as what can be termed "managerial skill".

This is to suggest that the type of stores included in regional shopping centres have relatively sophisticated management, most likely developed from previous experience in shopping centres. Being a tenant in and being a competitor in a shopping centre imply that management understands cues of behaviour that go beyond those spelled out in contracts and agreements. The data from the interviews suggest that a well developed shopping centre contains tenants who know how to co-operate and to compete. There is an implicit equilibrium which must be maintained; only certain types of firms know about this behaviour. Given the statement about know-how or experience, it is easy to conclude that firms with either or preferably both will be sought out by shopping centre management.

There is in this hypothesis the basis for understanding why some types of local firms are excluded from shopping centres. Once again a comprehensive study of the major regional shopping centres in Canada which identify type of store, type of organization, and type of management would be able to test this hypothesis. Observation would lead to hypothesize that very few local, independent stores are found in regional shopping centres. Most stores could be characterized by being part of either local, regional or national chains.

4. It is hypothesized that there is exclusionary or restrictive behaviour based on predatory practices. The reasons are obvious; market restriction can lead to higher profits and to a smaller need to engage in active rivalry. Excluding

certain types of stores, limiting their merchandise lines, or restricting or confining their locational alternatives in the shopping centre would be the rational avenues to follow. Owner/developers and large tenants would be most interested in following such policies depending upon structural conditions in each of the two levels.

The present study does not provide proof of such practices. That result should not be startling in so far as the respondents might represent the list of the types of firms that could be alleged to engage in such activities. There is no reason to suspect that they would admit to such allegations if true. On the other hand, such allegations do exist or are widely thought to be true. The problem is that there is no systematic way of identifying them and then examining them to see if they are valid. In order to do this, systematic research about firms who might have been excluded, if they could be identified, would have to be undertaken.

To the extent that centre developers may be prejudiced about the "independent" there is little evidence to suggest that this comes about as the result of predatory behaviour. This seems improbable for the simple reason that the independent is more likely to pay higher rentals and overage percentages to the developers. What has actually occurred is that the sharp costs of entering new regional shopping centres have escalated sharply in recent years. In addition to the basic rentals, the costs of construction for the store and operating expenses have risen sharply. The national specialty chains have been in a better position than the smaller local merchants

to absorb these costs.

Summary

The discussion in this chapter has examined several approaches to understanding the competitive factors in the selection of tenants of shopping centres from two points of view, the developer and the tenants, primarily the major tenants. The framework which was developed represents the attempt to integrate a number of theories from economics, geography and marketing. The general thrust has been to evaluate why exclusionary activities would take place and to discover under what conditions.

There is no doubt that some exclusionary behaviour takes place, however, except in the case of supermarkets, it is not thought to be extensive nor beyond the expectations of the structural conditions found in shopping centre development. In the case of food retailing the exclusionary practices appear to be more extensive and based on less firm reasoning. There is reason to suggest that issues beyond low margins and highly comparative products affect this behaviour. However, until further research is undertaken, it would be unfair to accept fully the monopolistic practice. It should be recognized that the increasing levels of market concentration found in food retailing, especially among the largest supermarket chains, has had some major impact on this type of behaviour.¹⁴

Footnotes

1. W.J.L. Ryan, Price Theory, New York: St. Martin's Press, 1961, Chapter 11, "Oligopoly and Bilateral Monopoly," pp. 320-369; R.C. Heflebower, "Mass Distribution: A Phase of Bilateral Oligopoly," American Economic Review Papers and Proceedings, XLVII, May 1967, pp. 274-285; E.H. Chamberlin, Theory of Monopolistic Competition, 5th edition, Cambridge, Mass.: Harvard University Press, 1947; and Joan Robinson, Economics of Imperfect Competition, London: Macmillan, 1933.
2. R.L. Davies, Marketing Geography, London: Methuen & Co. Ltd., 1976, Chapter 4, "National and Regional Systems of Centres."
3. Brian J.L. Berry, Geography of Market Centers and Retail Distribution, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1967, Chapter 2, "Systematic Variations of the Hierarchy," pp. 26-58.
4. R.L. Davies, Op. cit., Chapter 7, "Consumer Behaviour and Space Preferences in Shopping"; G. Fisk, "A Conceptual Model for Studying Customer Image," Journal of Retailing, 37, Winter, 1961-1962, pp. 1-18; J.H. Kunbel and L.L. Berry, "A Behavioral Conception of Retail Image," Journal of Marketing, 32, October 1968, pp. 21-27; and W.O. Bearden, "Consumer Images of Retail Institutions," in A.G. Woodside, J.T. Sims, D.M. Lewison, and I.F. Wilkinson (eds.), Foundations of Marketing Channels, Austin, Texas: Lone Star Publishers, Inc., 1978, pp. 152-188.
5. J.C. Narver and R. Savitt, The Marketing Economy: An Analytical Approach, New York: Holt, Rinehart and Winston, Inc., 1971, Chapter 4, "Marketing Structure and Behavior," especially pp. 113-114. Much of this section is based on this source, no further citation for general concepts will appear.
6. Royal Commission on Corporate Concentration, Study No. 3, Cadillac Fairview Corporation Limited, A Corporate Background Report, Ottawa: Minister of Supply and Services, 1977, prepared by Ira Glushin, Brown, Baldwin & Nisher, Ltd. Much of the analysis comes from this report; only direct quotations have been cited. This is done as a means of reducing the footnotes and not as a means of failing to acknowledge the proper source.
7. Ibid., p. 113.
8. Ibid., p. 106.
9. Ibid., p. 107.

10. Ibid., pp. 107-108. The Royal Commission Study provides a hypothetical example of the differences in rates charged major and other tenants. Further study of rental structure is required if the true degree of differences between tenants is to be fully understood. There are clearly a number of trade-offs which are present, including for example, the basic rental and charges for common space. The responses to the questions of the present study do not provide sufficient depth for clearly measuring this practice. The responses do point out that there appear to be some advantages given to larger tenants during the lease negotiations, however, what they are and how large they are is not clear. It is inappropriate to speculate about lease negotiations without a thorough examination of leases from a rather large sample of shopping centres.
11. J.C. Narver and R. Savitt, Op. cit., p. 164. The marketing approach which focuses on the behaviour of consumers in terms of the shopping behaviour needs to be considered in the development of policy. There is relatively little known about how consumers view shopping centres as "markets". While there are a few studies, see footnote 13, none really focus on how consumers perceive shopping centre size, the variety of stores, the offerings of merchandise, the presence of amenities, and other factors. It becomes totally inappropriate to pass judgment on consumer welfare matters and then develop policies to augment them without a full understanding of consumers' preferences.
12. It has been suggested that the 1973 ruling against Safeway Canada Ltd. in Alberta is important in understanding exclusionary practices. Safeway was constrained from expanding the number of stores in Calgary and Edmonton over a five-year period. This action does not speak to the present problem because Safeway has tended not to locate in the regional shopping centre but at the periphery of such centres or in other developments. Because Safeway could not expand other food retailers had the opportunity to occupy space in the regional centres. This, however, is not the issue of the present investigation; that issue is: "Why is there only one supermarket in the regional shopping centre?"
13. One Canadian study illustrates consumers' choice of shopping centres. It basically suggests that shoppers tend to go to one centre based on convenience; others, however, are visited on the basis of specialized needs, the desire for diversity, and browsing or shopping behaviour, see: S.A. Brown, "Shopper Attitudes Toward Competitive Regional Centres as a Factor in Patronage Choice," in P.J. Smith (ed.), Edmonton The Emerging Metropolitan Pattern, Victoria: University of Victoria Press, 1978, pp. 93-118.

14. Bruce Mallen and Ronald Savitt, "Market Concentration and Economies of Scale: The Canadian Retail Food Industry," in S. Brown, M.J. Dunn, and R. Savitt (eds.), Analysis for Marketing Strategies: A Canadian Perspective, Edmonton: Faculty of Business Administration and Commerce, The University of Alberta, 1976, pp. 142-143.

CHAPTER IV

Conclusions and Recommendations

Chapter IV

Conclusions and Recommendations

Introduction

The purpose of this Chapter is to place the study findings in perspective. This activity is performed by examining the limitations of the study, drawing conclusions from the data, and proposing recommendations.

Study Limitations

An important part of any piece of research is the evaluation of the study's limitations. This is done in order to clearly understand how well the study met its objectives and to provide a basis for understanding the setting in which conclusions were developed and recommendations proposed. The limitations also serve as a means of establishing further research.

The major limitations of the study are as follows:

1. This study covered only one part of a two-sided problem. The data collected come from the retailer. The present data need to be merged with that being developed from the study of shopping centre developers.
2. The objective of this study and its parallel was not in and of themselves to measure shopping centre market performance (See Footnote 1, Chapter 1).
3. The study was purposively biased towards the larger retailers. Even the smaller firms included are much larger than most of the small independent firms which appear to be affected by problems in the industry. Thus, the conclusions herein stated should not be applied to the truly small chains or unaffiliated independents.

Dominion and Canada Safeway were not participants in the study. Their participation may have changed the results and the conclusions although probably not in a major way.

The data come from interviews; there was no opportunity to examine actual lease arrangements. Hence, the study to a great extent is based on retailer's opinions, statements, and policies.

These limitations affected the nature of recommendations made. The recommendations have had to be formulated in general policy terms rather than in specific terms related to structure and behaviour in this industry. The Bureau must then take the present study and its companion and use their skill in translating these recommendations into specific statements.

Conclusions

Introduction

This section is divided into three sub sections. The first two draw general conclusions and conclusions about department stores. The third section is concerned with problems arising from concentration in food retailing. This division reflects the view that the restrictive practices and the exercise of market power appears to be greater and hence more problematic in the food retailing area. This is not to deny the existence of barriers to entry elsewhere in shopping centres but to recognize differing reasons for their existence and differing potential levels of impact.

General Conclusions

1. There are some instances where specific firms, in contrast to competitors in general, have been excluded from shopping centres. This appears to be relatively a rare practice.
 2. The giants are normally consulted on the tenant mix, store sizes and the proposed tenants. Also, some other type of retailers will want to have restrictions placed on the number and size of stores of their type allowed into a centre, for example, hardware stores, shoe stores, jewellers. In some cases these other stores will often want an exclusive because of the restricted market or special nature of their operation, that is, tobacco stores, drug stores, catalogue showroom stores. The food giants, in particular, demand and obtain competitive restrictions; citing the high volume they need to turn a reasonable profit. They normally will arrange to bar a competitive supermarket from entering the centre. They will, as well restrict the amount of space and the location available to smaller specialty food stores such as bakers, delicatessens specialty meat markets, fish stores, cheese shops, greengrocers, health food stores, etc. Further, they will often restrict the tenancy of a non-food retailer affiliate, that is, a pharmacy.
- On the other hand, department and fashion stores usually welcome competitive stores, citing the wish of shoppers to "shop" a variety of fashion merchants. Also, to a greater degree than supermarkets, the merchandise lines carried tend to be different between these non-food retailers, so that direct "head-on" competition is avoided. The objection to discounters that was very prevalent in the past

has dissipated to a great extent. Apparently, "no-discounter" clauses are very rare today. The large discounters such as Woolco are becoming more and more welcome to large centres. However, the smaller discounters or "bargain" stores are still barely tolerated; not so much because of their competitive prices, but because of the general damage they do to the centre's image.

3. Retailers may also apply pressure to bar certain classes of outlets, for reasons which have nothing to do with competitive restraints, for example, where a retailer has a record as a poor tenant citizen, such as not doing its fair share of house cleaning; where an outlet can be a public nuisance, such as auctioneers; where an outlet hurts the centre's image, such as the bargain stores noted above, or pornographic shops.
4. The main concern of most stores is the nature of their adjacent tenants. Except for the food giants, the main worry here is not competition but incompatibility, for example, an ice cream parlour next to a dress shop; a hardware store next to a children's wear store. In general the supermarkets do not approve of the specialty food retailers being located "at their doorstep".
5. Except for promotional and merchandise tactics which hurt the centre's image, such as loudspeaker advertising, merchandise in aisles, distress merchandise sales, the department store giants claim to have a "hands-off" attitude here. This claim is supported by the other stores.
6. Department stores claim, as tenants at least, not to influence or pressure other retailers for radius restrictions.
7. The department stores may tolerate or even support (but unless they are centre owners, not very vigorously) exclusives for another tenant if the market is limited, e.g., house organs and/or the other retailer has demonstrated drawing power.

8. It may be concluded that with regard to the restrictive practices, the department store giants, as well as the other large specialty stores, are not in general involved as tenants in practices which can be considered detrimental to competition or the public interest. Indeed, their market conduct at least as tenants appears to be quite commendable. Large nonfood retailers have almost certainly become relatively larger because of their higher participation in shopping centres, but this higher participation is not the result of anti-competitive practices. Unfortunately, these statements do not apply to the retail food giants. Quite the reverse is true. The case of the giant food retailers will be considered later in this Chapter.

Conclusions relating to department stores

1. The large anchor/department stores consider themselves essential to a large suburban shopping centre. Because of this, they request and usually receive lease agreements that differ from other tenants. The lease agreement would contain benefits or advantages not available to the other tenants. Some of these benefits or advantages include: reduced or no common area/administration charges; rents based on a substantially reduced cost per square foot; opportunity to participate in ownership at favourable terms; and limited or no contributions to the merchants' association. While the ancillary shopping centre tenants are highly critical of the benefits the larger stores receive, the ancillary tenants acknowledge that the large anchor stores are essential for a viable and profitable centre.
2. The problem which appears most unfair and creates the greatest amount of bitterness among the non-giants is what is considered to be the discriminatory common area/administration charges. Leases

typically do not protect the smaller tenants from increased common area/administration charges or assessments. The large tenants have protection clauses built into their leases. There are indications that landlords/developers misuse, or even fraudulently levy, increased charges against the smaller tenant. As a result, tenants typically complain that the landlord/developers make profits on funds collected to cover costs for common area/administration charges.

Over the past few years, assessments for common area charges have increased dramatically. The smaller tenants are carrying this increased burden. This appears to be a form of price discrimination, though, not necessarily one perpetrated by the major retailers, at least in their tenant role. The practice warrants intensive investigation by the Bureau.

Conclusions about food retailing chains

The most consistent finding of this study, repeated over and over again in the interviews, is the highly restrictive competitive practices of the supermarket giants. As noted throughout this report, this restrictive pressure they apply as landlords or as tenants takes most of the forms investigated.

Further, they are prevalent enough to warrant their designation as a general practice. Indeed, they are almost always applied:

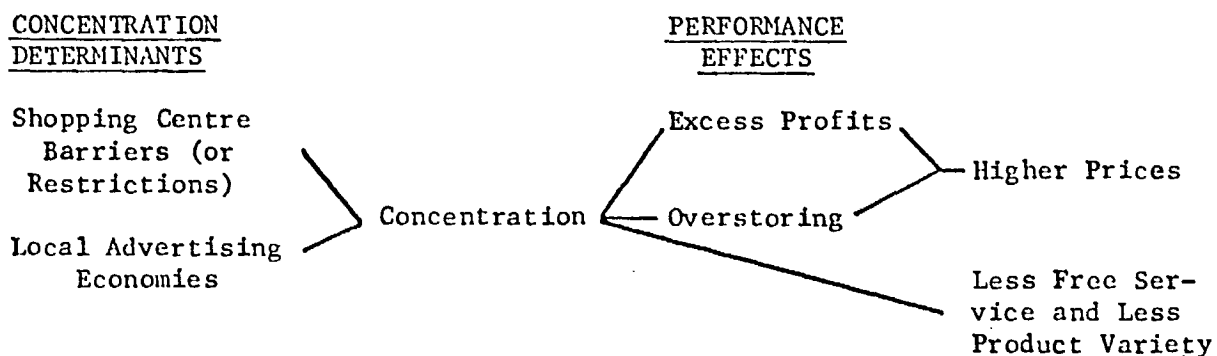
1. With relatively few exceptions, a supermarket giant will not tolerate a second competitor supermarket in a centre.
2. To the extent that they will allow only certain small specialty food stores into a centre, they will rule on the space allowed to these stores, and their location.

3. They will often exclude non-food retailers as well, if these stores compete with their non-food subsidiaries, e.g., pharmacies.
4. They are active practitioners of the use of servitudes; whereby developers are disallowed the option of renting to a rival supermarket even when the first supermarket does not itself intend to lease space in that development.

This situation is serious, because in a recent study¹ the fundamental findings were that the Canadian Retail Food Trade has very high levels of economic concentration in urban areas; that these levels are rapidly growing; that the four national giants play the major role in this phenomenon; that barrier to shopping centre sites was one of two basic determinants of this concentration; i.e., in food retailing, there is a tendency of larger retailers to become relatively larger as a result of prevailing practices; that the negative impacts of high concentration include (a) "over-storing", and extra profits which lead to higher price levels; and (b) less product variety and less free service.

A simple causative model of concentration in the Canadian Retail Food Trade was developed in that study:

CANADIAN RETAIL FOOD TRADE CONCENTRATION MODEL



In other words, a cause-effect relationship can be seen to flow from the various shopping centre restrictions the food giants impose, to higher prices for food and less service for Canadians.

Admittedly, without a study of the total retail market (which was not the mandate of this study), local market by local market, not just the shopping centre market, it is impossible to measure the level of impact of these restrictive practices. Just how detrimental they are is unclear. But that they do exist and are very likely to be detrimental to the public interest appears quite obvious.

In the interviews, the basic reasoning food retailers and others offer in defense of the giant food retailers is that large stores are required to obtain the potential economies that allow these stores to run most efficiently and bring food to the consumer at the lowest possible price. Further, the argument goes, in order to realize these store economies, for almost all centres, the trading area they service only provide enough potential business for one such large good store to operate in each centre. In other words, that large store needs all the available business to obtain a utilization rate high enough to keep their average store operating costs down to a minimum and to provide a reasonable return on investment.

The "fly-in-the-ointment" of this argument is the assumption that the very large stores now in existence and being built are necessary to achieve maximum economies of scale. The remainder of this Chapter will be devoted to showing why this assumption is fallacious, and how two (or perhaps more) stores in a centre, each of approximately half the size of the original can achieve at least equal or perhaps even better economies than the very large store.

The general consensus that can be derived from empirical studies that have been completed over the years is that though there are significant economies of utilization, i.e., increasing sales volume for a given store size; economies of physical scale are relatively insignificant.

The U.S. National Commission on Food Marketing "Food Retailing" study showed that the variations in costs attributed to size of stores "... rarely amounts to more than 2 cents when moving from very small to very large stores. The variation in costs attributed to utilization, however, often varied by more than a 10 percent change in cost."² Thus, they also conclude that, "no particularly strong incentive for building very large stores grows out of cost behavior alone."³

On the Canadian scene, the conclusion of the Prairie report also holds to the view "that economies of scale (store size) cannot be very great."⁴ Again, however, the economies of utilization were found to be significant. There are also significant economies of mass buying and advertising, but these are at the firm, not store level.⁵

Finally, two recently reported Canadian studies once again confirm the finding that store size increases do not provide increased economies beyond a rather small store size, but that utilization increases do.⁶

In the Mallen-Haberman study, the overall optimum store size was 14,245 square feet (selling space) at a utilization rate of \$11.25⁷ per square foot per week. This optimum generated the lowest average cost at 10-1/2 percent of sales (direct store operating expenses excluding transportation, warehousing and head office administrative charges). Holding utilization constant lead to very small changes in average cost as store size changed. All stores between 5,000 - 20,000 square feet had average cost less than one half of a percentage point more than the 14,245 square feet optimum. As a matter of fact,

it was only at the higher end (beyond 26,000 square feet) that average cost (at the optimum utilization) moved above 11 percent of sales.

Therefore, it should be noted that diseconomies of size, such as they are, are setting in at a level which is substantially below the size of most supermarkets that have been built recently or are being planned for tomorrow. Two supermarkets of the proper size in a centre (or even more, depending on the volume available) even if they split the business in half could easily provide these economies and provide the needed competition as well.

Although there is little evidence of economies of physical scale, the trade press and journals continue to record the growth of store size; and more significant, repeat the false assumption of their supermarket executive readers that the economies so generated are the driving force behind this trend.⁸ In Canada, this ranges up to the giant Hypermarché, in Montreal, which devotes up to 75,000 square feet of gross space to food sales.⁹ In October 1973, Dominion opened their largest at that time - a 50,000 square feet store in Mississauga, Ontario (Toronto). Sobey's in Dartmouth, Nova Scotia and Zehr's in Waterloo, Ontario (both Loblaw-Weston affiliates) and Canadian A & P have also recently announced their largest.¹⁰

Not only is this trend eliminating the possibility of competition within the centres, but also outside of centres it can only reduce consumer convenience by having fewer outlets than would otherwise be available, i.e., the average distance travelled will have to be longer without increasing efficiency. This is a net loss to the consumer.

The problem of retail food concentration is significant especially in light of the decline in the development of new shopping centres.

Future shopping centre developments will likely take place in small population areas. These centres will be small by comparison with some of the suburban shopping centres. These new developments will likely offer opportunities for small size department stores to act as centre anchors. As well, there should be opportunities available for local merchants to participate in these shopping centres. However, there is a danger that the reverse will happen, especially in the food field. The areas with the least economic concentration in retail food markets have been the smaller towns. Shopping centre growth has tended to be highly correlated with economic concentration in food retailing as noted. The very growth of shopping centres in these areas may therefore lead to an increase in such concentration, as the food giants move in and push out the local food retailers. Hence, the discussion above on the retail food giants takes on added meaning. It is likely that space in major suburban shopping centres will be in short supply. There are some indications that this could mean higher rents in the future, particularly for the ancillary tenants that are already carrying a heavy burden. There is likely to be an up-grading of existing major centre locations. There were concerns among tenants that this also may result in higher rent. Turning to the question of downtown shopping malls, the problem of giant retail restrictive practices does not apply, because seldom do they participate in such centres.

Recommendations

1. It is the fundamental policy recommendation of this study that the Bureau do whatever it can, whether through new legislation and/or

the vigorous enforcement of the Act, where it may apply, to eliminate in the interest of Canadian consumers, that discrimination that smaller general and specialty food retailers face, because of the competitive restrictive practices of the giant food retailers in Canada.

This recommendation and the previous analysis of store size economies should not be misinterpreted as a plea that per se there should be smaller and/or two or more supermarkets in every important shopping centre. Remove the restrictions, and let the free forces of the market place decide that.

2. The Bureau, as noted above, should investigate, case by case, potential discriminatory common area/administration charges.

3. There is a substantial need to expand the present research program. In order to formulate more useful policy alternatives in this area, the following studies must be undertaken.

(a) A structural study which describe the tenant mix for all Canadian shopping centres. Names of tenant, descriptions of operating types, and identifications of owners would have to be developed. The purpose of this research would be to provide an accurate description of structure rather than the current reliance upon assertions.

(b) An exploratory study and a subsequent survey of excluded tenants. The purpose of this study would be to identify more clearly those firms which were excluded from shopping centres. It would further isolate what effects exclusion had, what measures they implemented, and what problems still exist.

- (c) A study of the patronage options open to the consumer in each shopping centre's trading area. The purpose of this study would be to help measure the market performance effects of leasing restrictions of each such shopping centre studied (see footnote 1, Chapter 1).

4. There is a need to provide a reporting system by which firms alleging exclusionary, restrictive or predatory practices can make representations during the development stages of shopping centres rather than wait until completion when action is less effective.

Footnotes

1. Bruce Mallen, A Preliminary Paper on the Levels, Causes and Effects of Economic Concentration in the Canadian Retail Food Trade: A Study of Supermarket Power, Ottawa: Food Prices Review Board, 1976.
2. National Commission on Food Marketing, Organization and Competition In Food Retailing: Technical Study No. 7, Washington: U.S. Government Printing Office, 1966, p. 143.
3. Ibid., p. 149.
4. Peter C. Dooley, Retail Oligopoly: An Empirical Study of the Structure, Conduct and Performance of the Grocery Trade on The Prairies, Regina: Queen's Printer, 1968.
5. Ibid.
6. Ronald Savitt, "Efficiency And Size in Canadian Supermarkets"; and Bruce Mallen and M. Haberman, "Economies of Scale: A Determinant of 'Over Storing and Super Storing'?" Both in Conference Proceedings of the Canadian Association of Administrative Sciences, Edmonton, 1975.
7. Because of inflation, this dollar amount would have moved up by now.
8. See for example, W.J. Salmon, R. Buzzell, S. Cort, "Today The Shopping Center, Tomorrow the Superstore," Harvard Business Review, January - February 1974, pp. 89-98; R. Wolfe, "As Prices Rise, Oshawa Moves To New Generation Retailing," Canadian Grocer, July, 1973, p. 18; "Trend To Bigness Accelerating," Canadian Grocer, September 1973, p. 28; "New U.S. Supers 10.2% Bigger Last Year," Canadian Grocer, June 1974, p. 33; F. Shore, "Super Stores Essential for Profitable Survival of Grocery Retailers," in 1974 Annual Report of Robin Hood Multifoods Inc., Montreal, p. 7
9. Burns Bros. and Denton Ltd., Investment Notes, April 19, 1974, p. 5. Also see Jane Davidson, "Hypermarché Is No Corner Store," Financial Times of Canada, November 5, 1973, p. 8.
10. See following respective issues of Canadian Grocer - March 1973, p. 4; May 1974, p. 1; May 1974, p. 10; February 1973, p. 12.

APPENDICIES

APPENDIX A

FINDINGS FROM
INTERVIEWS WITH
GIANT EASTERN
RETAILERS

SUMMARY OF INTERVIEWS WITH THE GIANT EASTERN RETAILERS

This appendix summarizes the responses to each question asked in the first field phase of this study on shopping centre leasing practices in Canada.

This first field phase of the study covered the giant Eastern retailers as respondents. Thus, the appendix covers all the giants in Canada except Canada Safeway and Woodwards. Unfortunately, it also excludes Dominion since, as already reported, at least at this stage, that organization has decided not to co-operate with the study. Specifically, the following companies are included in this phase: Sears, Eatons, The Bay, Simpsons, Woolco, K-Mart, Canadian Tire, Loblaws, Steinbergs and I.G.A. (Oshawa Group).

FULL-LINE DEPARTMENT STORES.

General

Q.1 At what stage does a developer approach you regarding locating in a proposed shopping centre ?

A developer approaches potential anchor tenants at a very early stage in the planning/development of a shopping centre. The approach to a department store typically is initiated before a developer acquires property, or even before options are taken on property for a potential site. Early approach and commitment is desirable and often necessary for a developer to plan and arrange financing.

Q.2 What determines whether you will participate in the ownership of a centre rather than simply as a tenant ?

Among the firms that participate in ownership of shopping centres (the discount department stores do not) there are a few reasons that account for ownership participation. First, ownership brings with it some "control" that is not available through just renting/leasing. As well, with ownership there is a return on investment involved. Naturally, if the return is advantageous a major chain, as a matter of policy, will seek ownership. Ownership is often made attractive to major department store chains because a developer is frequently prepared to offer favourable investment terms in exchange for a commitment to participate in the shopping centre. The addition of a major store is desirable to developers because it speeds up financing and leasing of the potential site, and increases the probability of success of the operation.

Q.3 What influence does the lending institution have on the form of your participation in the centre and the arrangements concerning leasing of your space (i.e., lease-back, ownership etc.) ?

The lending institution has very little influence on the form of participation of giant tenants in a development. Among those firms that prefer to be tenants, they use standard leases that are accepted unaltered by developers and financial institutions. Among the retail firms that participate in shopping centre ownership it also appears that the lending institution has only minor, if any, influence on their form of participation. This is usually because the latter become involved after agreement has been reached with the developer. More than one national chain department store finances their own construction from internal resources, although at a later stage they may sell to and lease back from a developer. One major department store sometimes finances through a bond issue, or by obtaining financing "well prior to the building of any store". Because of this, financing costs are "at a lower rate than the developer can offer".

Q.4 What does your firm perceive it needs to make a shopping centre location a viable, and profitable operation/investment ?

Responses to this question varied from firm to firm. Inherent in all responses, however, was a requirement by the retailers that the present and future population be commensurate with the size of the shopping centre. Some firms have

norms as to the size/density of the trading area needed to support shopping complexes. For a major regional mall one giant retailer estimated that 250,000 people would be necessary for a viable and profitable shopping centre. A good location is a vital prerequisite to make a location viable. Land location is described as an area having a good transportation system along with a good road/street system.

One major department store said that "a knowledgeable and reputable developer along with one or two strong co-anchor (competitive) stores is considered necessary for a successful shopping centre."

Another firm suggested that estimates of potential sales volume related to the cost of entering a site is an important criteria.

For another firm in food merchandising, it is important that a site have sufficient shopping population to support a "free standing" store. This firm evaluates sites after considering present store networks and also competitor store networks.

AS A TENANT ONLY

Q.5 Does the developer consult you about proposed tenants ?

The developer normally consults (sometimes it is a requirement) with the giant department stores regarding other tenants. This consulting, according to the giant stores, is necessary so that a potential site can be effectively evaluated as to competitiveness with other shopping sites. It is evident that

the giant stores negotiate with developers to influence the tenant mix. Discussions about tenants normally focus on tenant type rather than on specific tenants.

To the giant conventional (as opposed to discount) department stores, the addition to a site of one or two competitive major department stores is desirable because it offers comparative shopping and this enhances the drawing power of a centre. The major food retailers, however, are very sensitive and they discourage additions of other food retailers to shopping centres.

Q.6 What has experience taught you about the ideal tenant mix ?
e.g. Do you have policies concerning desirable tenant mix ?

The ideal tenant mix consists of the most vigorous, successful and competitive merchants that can be found. There should be a combination of tenants in a centre that offers a variety of services.

For the giant department stores a fashion oriented group of tenants is desirable. The giant food stores suggest a convenience orientation e.g. barbers, hairdressers, cleaners, is desirable.

None of the major firms interviewed indicated they had policies concerning desirable tenant mix.

Q.7 Is your participation to some degree contingent on the tenant mix ?

Participation as a tenant in a shopping centre often depends upon the tenant mix. The focus, however, is on tenant type

rather than on specific tenants. The tenants mix should be complimentary, in that a fashion oriented centre should attract fashion oriented tenants and a hardgoods/hardware orientation should attract tenants with a hardware orientation. The giant retailers rely on an experienced, reputable developer to assemble a complimentary mix of tenants. An experienced developer is cognizant of what constitutes an acceptable tenant mix. A giant department store may enter a proposed site contingent upon the entry to the site of another one or two giant competitive stores.

Q.8 What if the proposed tenant (type/specific) mix is not satisfactory ? (Have you ever asked for, insisted upon or been granted the right to approve other tenants ?)

If the proposed tenant mix is not satisfactory the giant retailers would make that known to the developer, along with the reasons why the list of tenants is unsatisfactory. As a last resort, a firm would withdraw from a site if the tenant mix was unacceptable.

One major department store, as a standard practice, approves of the tenants surrounding the entrance to its store. A specification to this effect is contained in the lease, or it is covered separately in a letter to the developer. Another giant department store maintains a list of approved tenants and this list is given to the developer.

Q.9 Are there any competitors you would, as a matter of course, not want to see in the same shopping centre as yourself ?

Among the conventional (non-discount) department stores there is no reluctance to enter a shopping centre if a major competitive store is present. In fact the department stores suggest that the presence of two or three major department stores as co-anchors can enhance the site by increasing its drawing power. These stores, however, are careful to suggest that a competitive store should be a similar type e.g. Eaton's would accept Simpson's and/or The Bay, and vice-versa. However, these stores appear to be selective in their acceptance of discount department stores. One of the giant department stores indicated they would not want an Army & Navy Discount type store in a shopping centre. The discount department stores and the major food chains are selfish in their attitude towards competitive stores. These stores prefer not to locate in a shopping centre with a direct competitor. The major discount retailers, e.g. Kresge, would accept department stores such as Eaton's, Simpson's, The Bay, but would not accept such direct competitors as Zeller's or Woolworth's.

The food chains prefer, and usually insist as a condition of joining a site, that competitive supermarkets be barred. This is because shopping for food is convenience oriented and the presence of two competitive stores does not increase the volume of food shoppers; rather according to one major

retailer "effectively it cuts the business in half".

Q.10 What about tenant mix being influenced by the degree of diversification or product specialization by prospective tenants ? For example, a department store may not object to a specialty furniture store if it does not plan to push that product line, whereas it may object to the tenancy of another department store. (Circumstances and reasons why a tenant mix is "not satisfactory" and/or the desire not to see certain competitors in the same shopping centre should be explored.)

As explained in previous questions, the major conventional department stores prefer to have another one or two major stores as co-anchors in a shopping centre. These major stores fully expect and accept that merchandise they carry will likely be available in competitive shops in the shopping centre. None of the firms interviewed claimed to have ever insisted upon exclusion of a specific competitive tenant.

The major stores, however, demonstrated some sensitivity to the type of stores that are their immediate neighbours. One firm, using an example of a travel agent, stated "we would express our comments to the developer concerned if he were trying to locate another travel service directly outside our doors..." Specialty stores, in general, it appears are tolerated by the retailing giants provided these specialty stores are located

down the mall from the large department stores .

Q.11 What is your general attitude towards discount stores in shopping centres ? Why ?

There was some qualified approval given to discount stores by the major conventional stores (e.g. Simpson's, Eaton's, The Bay). The conventional stores will tolerate discount stores provided the discount stores "attract the type of customer that we are looking for". As well, the major retailers carefully evaluate the merchandising techniques used by discounters. Small discount stores are generally not well accepted by the giants. These stores were described as engaging in poor advertising, selling inferior merchandise, and lacking any real identification. Most concerns about discount stores related to overly aggressive selling techniques which carried the risk of damaging a shopping centre's reputation or image.

Q.12 Would you want to be in the same shopping centre with a discount store ? Are there any exceptions ? (Do you insist on "no discounter" clauses in leases (examples); is this practice consistent or does it depend on the "discounter" ? Why ?

There were no objections to being located in a shopping centre with a discounter as long as the discounter is reputable, and "a first class operation". The major discount department stores like K-Mart, Towers, Woolco, sometimes co-anchor a centre with one of the giant conventional department stores. It seems clear, however, that the major department stores have a profile •

of what constitutes an acceptable tenant. One firm, as indicated earlier, maintains a list of acceptable tenants. Criticism, by the major department stores, of discounters was generally directed to small discount store operators. The following example is illustrative:

An unacceptable tenant for one major retailer was a discount fabric outlet. After visiting "a couple of their operations" it was decided that the fabric outlet "would not be good for the shopping centre because there was no sort of real identification, and the stuff (merchandise) was all thrown onto counters with rather garish advertising so we just didn't want it (the tenant)."

Some firms have protection against "unacceptable" discounters in their leases.

Q.13 Do you prefer to have a local outlet or a national chain as the second department store in a regional centre ? (IF YES) what is the reasoning behind this ?

The combination of a major local retailer and a national retail chain as co-anchors is evidently viewed as a better alternative than two national chains. Major local department stores have strong community affiliations and loyalties. This can provide a strong drawing attraction to shoppers. It was indicated by several firms interviewed that there are very few independents that would qualify as co-anchor for a shopping centre.

Q.14 Have you been permitted/or asked in any centre to suggest,
or have you wanted -

(a) The allocation of floor space available to other tenants ?
Amount/Location.

It was generally claimed that allocation of floor space is the responsibility of the developer and/or leasing agent. There was, however, some evidence to indicate that the major firms sometimes exercise influence in allocating space. One major firm claims:

'We've often been on the other end of that where other major tenants have that particular right, either written into their agreement and have given us some difficulty on the amount of floor space that we want to have, it is not uncommon to run into it, many times in Western Canada.'

The major food supermarkets are sensitive about the presence of other food retailers in a centre and it would appear that food supermarkets are given protection in their leases from other food retailers.

Have you been permitted/or asked in any centre to suggest,
or have you wanted -

(b) Limits to the entry by any particular class of retailers ?

Most giant retailers claim they do not interfere with entry of particular class of retailers. A "reputable" developer is a firm's best protection against undesirable tenants. To some

extent it may be that the retail giants have developers
 programmed to refuse unacceptable tenants. Developers
 often ask the retail giants for opinions or ratings of
 one tenant versus another.

A minority of firms admit they have in past years requested,
 from developers, protection from specific undesirable tenants.
 However, that is not standard policy.

A tenant may be refused entry to a shopping centre for a
 number of reasons. Among those given in this research were:

1. Previous experience has shown that a tenant refuses
 to undertake tenant responsibilities, e.g. house cleaning
 and maintenance.
2. Some competitors (e.g. Consumers Distributing) "are tough
 on a price basis".
3. Some tenants can be a public nuisance e.g. auctioneers,
 sellers of bankrupt merchandise.
4. The giant department stores object to more than one
 food store. The objection seems to be that food stores
 create concentrated traffic, and do not contribute to the
 concept of competitive shopping.

Have you been permitted/or asked in any centre to suggest,
or have you wanted -

(c) To limit the type of tenant immediately adjacent to your
store ? In the immediate proximity ?

The major retailers are concerned about tenants that may be
 located near their stores. As a consequence, these giant
 retailers have guidelines or policies that limit a developer

in locating tenants in a shopping centre. The major co-anchors of a shopping centre would object to having the following tenant types located close to their stores:

1. Ice-cream sellers (they create a mess that leads to house cleaning problems).
2. Automobile service stations. The major food retailers object to this type of tenant.
3. The giant department stores object to having food supermarkets close to their stores. One major firm explained "You get a lot of traffic through a grocery store but it doesn't go anywhere else, so you feel that it isn't too desirable to have right next to us."
4. Amusement areas. These tenants in the words of one major firm "May be loud, maybe they get roudy, and maybe they take up parking spaces without coming into our store to buy any kind of merchandise.
5. Fast food restaurants are not welcomed close to the major department stores because of odour problems and problems of keeping the area clean.

Have you been permitted/or asked in any centre to suggest,
or have you wanted -

(d) To set firm guidelines on the form or type of advertising
used by (other) tenants ?

The major department stores expressed some interest in controlling or guiding the type or form of advertising used by other tenants in a shopping centre. Specifically, one store objected to the use of "loudspeakers blarring" in mall areas

to attract attention. As well, the big stores objected to merchandise displays outside a tenant's store, that is displays in the common mall area.

With regard to advertising or promotion for the shopping centre, these major retailers leave this responsibility to the merchants' association.

Have you been permitted/or asked in any centre to suggest, or have you wanted -

(e) Merchandise mix or product lines ?

There are some tendencies, although not widespread, for major stores to request restrictions on merchandise or product lines carried by competing shops. However, and as indicated earlier, the developer and the major co-anchor stores discuss and agree to the tenant mix during the planning stages of a shopping centre. Discussions at this stage prevents conflicts later on. It is claimed that experienced and knowledgeable developers are well aware of what constitutes an acceptable tenant mix for major tenants of a shopping centre.

Specific cases of co-anchor stores restricting the product lines or merchandise carried by other tenants were not illustrated during the interviews. However, discount department stores, allegedly, attempt to supervise the merchandise a supermarket sells.

Major retailers request from manufacturers exclusiveness on branded items or appliances in shopping centres. For example,

a General Electric retailer would insist that another G.E. Dealer not be located in the same shopping centre.

Have you been permitted/or asked in any centre to suggest, or have you wanted -

(f) Guidelines on pricing ?

There was no evidence that the giant retailers have guidelines on pricing policies to be followed by tenants in shopping centres. However, there are restrictions on the sale of "distressed merchandise", bankruptcy, or fire sales. The major retailers generally regard sales of this type as inappropriate for a shopping centre image.

The merchants' association plays a role in administering sales in a shopping centre. One major store claimed it is not desirable to have "too many sales too frequently" because this could "diminish the punch (of the centre)."

Have you been permitted/or asked in any centre to suggest, or have you wanted -

(g) Any other guidelines concerning (other) tenants (sub-leasing/layout/hiring practices) ?

Other guidelines that may be discussed with a developer are itemized as follows:

1. The major tenants, want assurance from the developer that building on the parking lot will not be permitted.
2. The approved site plan is put in the lease along with agreed tenant mix, the parking lot operation, and access roads to the parking lot.

Such issues as shopping centre hiring practices, and sub-leasing are left to the site developer.

(h) If you did not have guidelines/controls, what would be the result for your store ? For the shopping centre industry ?

To the major stores guidelines and/or controls with a developer are necessary for a successful operation of a shopping centre. There is reluctance to enter a site unless the developer has experience and knowledge. The giant retailers, or co-anchor of a site, insist that their store locations provide clear exposure to shopping traffic. The experience of the developer with the giant retailers often renders specific reference to controls or guidelines unnecessary because the experienced developer knows what is expected by the major stores.

If the giant retailers had no guidelines or controls over developers, the implication is that the retailers would not join many potential sites. An alternative would be (as some giant retailers now do) for the giants to acquire land and hire developers.

Re: YOUR LEASE

Q.15 Do you require a "turn-key" operation, why are rentals so low compared to other tenants ?

Conventional-type department stores do not require a turn-key operation. However, the discount type department stores do.

In situations where a turn-key operation is used, rental rates are comparatively low because the developer has negotiated with a major tenant(s), usually as an anchor or co-anchor, at an early stage of site development. A developer can negotiate and trade-off with giant retailers because as committed tenants these giants can facilitate financing and, of course, attract other tenants.

With respect to rental rates, there was an observation that developers "like to divide and conquer" the smaller tenants. As a result, small tenants compared to the co-anchors pay disproportionately higher rent. One major retailer explained as follows:

"I would say that and I think we are, I know we are, subsidised in our rent by other tenants. It costs the landlord so much to build the store and I'm only prepared to pay 'X' dollars in rent and there's a shortfall between his (the developer's) capital cost and what I'm paying. Somebody's picking that up and I assume it's not out of the landlord's pocket but out of some other tenants pockets."

Another major store commented as follows on rental rates:

"One of the, I think unfair situations or things that exist about shopping centres, is the unequal bargaining power of the tenants; the real abuse is in the shopping centre industry in my mind, are not in the areas of exclusion of one tenant or another from a shopping centre, but are in the lease negotiation area, the tremendous strength the developer has basically over everyone and because he often has a monopoly situation, and the inability of the retailers to get together as a group and deal with the developer as a group and, therefore, he's able to divide and conquer, and the tremendous differences in rentals that each of the tenants has, the very big ones get preferred positions, they get lower rents, they get exclusions from having to pay their full share of operating costs and, therefore, the smaller tenants with the lower negotiating power end up carrying all of those costs."

Q.16 What guarantees do you give for continued operation ?

Guarantees made by the giant retailers for continued operation appear to vary by retailers. For some major retailers renewal clauses are built-in to the original lease. With others the lease continues for the developer's term of financing, i.e. usually twenty-five to thirty years. The tenant may undertake to sub-lease and provide a tenant of comparable credit. Some major tenants, however, prefer to give no guarantees to a developer, or as one firm stated: "We do not give anything beyond five years. We can close our doors after five years."

Q.17 What contributions do you make toward common area charges ?

Do yours differ from other tenants ? In what way do they differ ?

The contribution to common area charges depends upon a tenant's ability to negotiate. As a general rule contributions vary from centre to centre and from tenant to tenant. In some centres a major retailer pays nothing, while in other centres a fixed amount or a variable amount (tied to Consumer Price Index) is agreed upon.

Q.18 Do you participate in the centre's merchants' association - what contributions ? Do yours differ from other tenants ?

Most major retailers join the merchants' association, although usually membership is not a requirement. The indications are that the fees to join are based on the square footage rented, and individual negotiation by each tenant. The allocated cost per square foot declines as the amount of space occupied increases. Smaller tenants, as a result, usually pay pro-

portionably more to belong to the association. The major retailers argue that, as a matter of normal business, they do substantial advertising, independent of the association, that draws shoppers to a shopping centre. As one firm stated:

"We think we should have a certain amount of special consideration because we are heavy advertisers on our own. We spend a lot more than the shopping centre association."

Q.19 Advantages of membership ? Is membership compulsory ?

There was mixed reaction to the benefit(s) of a merchants' association. The indications are that the large retailers, particularly discounters, perceive little value from the association. The large retailers seem to think there may be some value in the association for small tenants.

The large retailers that suggest there is some value to merchants' associations listed two reasons:

1. The promotion organized by the association can increase the shopping centre attractiveness and, as a result in the long term, will draw customers.
2. The association can promote improved relationship with the community.

Membership, at least for the large retailers, is not compulsory. Membership, however, may be compulsory for small tenants.

Q.20 Does the association impose additional restrictions ?

The major retailers tend to seek their own way and are not deeply involved with the association. As one major firm stated:

"If we are going to get involved with the merchants' association our normal practice is that we are a voluntary member and the by-laws of the association won't affect our operation."

The giant retailers perceive the benefits from the association as applying more to the smaller tenants. With regard to restrictions imposed by the association, the following items were listed:

1. The association has regulations concerning garbage disposal.
2. Regulations concerning opening and closing hours.
3. And the association has negotiations concerning parking for employees.

Re: OTHER LEASES

Q.21 What is your firm's attitude concerning the granting of exclusives to other tenants ?

The prevailing attitude is that the co-anchor retailers like exclusives for themselves but not for other tenants. The giant retailers claim they do not become involved in exclusive arrangements with developers.

Q.22 Do you encourage or influence exclusives for other tenants (e.g. to a national chain drugstore) ?

The major retailers sometimes give encouragement so that other tenants will enjoy exclusivity. However, before encouragement is given by a major chain, they naturally desire to evaluate the tenant. Support may be given particularly in situations where a tenant is selling to a limited market, e.g. home organs.

In the case of drug chains, the majors will tolerate an exclusive provided their department store is "excluded from the exclusive".

Q.23 (IF YES) why is that ? (What purpose, what effect on your store, the shopping centre ?)

Exclusives are supported by major tenants or co-anchors in situations where a tenant can fill a void in the centre, and when a potential tenant has a record of good marketing and has demonstrated drawing power in other centre locations. Support is justified by the major retailers because the image of the centre will be enhanced.

Q.24 Are exclusives necessary to protect the "image" of centre, prevent ("unfair") competition, or what ?

When asked the direct question, a majority of firms agreed that exclusives were not necessary to perfect the image of the centre nor were exclusives necessary to prevent "unfair" competition.

There is a prevailing impression that food stores have some justification in requesting an exclusive. Two or more major

department stores can be a powerful drawing attraction, because they offer and encourage competitive shopping. However, the presence of two major food stores does not apparently encourage competitive shopping. For food shopping there appears to be a limited amount of food dollars whereas for department stores there is not necessarily a limited budget.

Banks generally request exclusives in shopping centres and there were no opinions as to whether this was good or bad for a shopping centre.

Q.25 What in your opinion is UNFAIR COMPETITION ?

There were varying definitions of what constitutes unfair competition in a shopping centre.

- Unfair competition according to one firm was charging unnecessary high rents for the privilege of being in a shopping centre, thereby excluding local merchants who cannot afford the rents.
- Another firm described unfair competition as follows. Small stores now pay proportionately higher rent than the large stores. The developer generally wants to fill the centre with department stores and use small tenants to make up any shortfalls in merchandise or services.
- It was claimed by another major retailer that unfair competition occurs by "letting everyone in (a shopping centre) and nobody able to make money."

- Including exclusives in leases was considered unfair competition by another firm.
- Setting price ranges within which merchandise must be sold was described as unfair competition.
- Developers usually impose a contractor on tenants. This happens when improvements or re-design work is requested by tenants. The perception is, tenants may pay more because tenants generally are unable to bargain with the contractor because of his "tie in" with the developer.

AS AN OWNER-DEVELOPER

Q.26 Do any of the views you have expressed change when you have an equity interest in the centre ? (IF SO) how would this affect leases, for example ?

The views expressed as a tenant can change when the giant has an equity interest in a shopping centre. There is more consideration given to selection of tenant mix so that the tenant selection fits the character of the area shoppers. There are attempts to ensure that tenants use quality in furnishings, fixtures, and decorating. As well, there would be controls to ensure that other tenants carry adequate inventory levels in their shops.

As a part owner of a shopping centre, a tenant-owner has the opportunity of negotiating leases with other tenants. This has advantages as one giant retailer indicated:

"It (leasing) is handled by a developer... but he must submit the leases and the offers to lease so that we do get to review these things, whereas strictly as a tenant we don't."

Another major retailer went further by stating:

"I would look for net leases as a developer, whereas as a tenant I would look for gross leases ... as gross as I can make them. It makes a big difference. You can expect a lot more rent from the other stores as compared to a department store. Definitely."

Q.27 As an owner, what is your policy concerning exclusives to other chains, or independents ? (Allocation of floor space (amount/location) - Rental Rate/Area restrictions concerning another shop close by.)

As an owner there is a tendency to offer more exclusives to potential tenants, It was agreed by the major chains that this was desirable for development of a shopping centre and for the centre to adjust to changes.

Exclusives for full-line restaurants, fast food outlets, drug stores, and others, are often necessary so a centre can remain competitive with other centres. It would seem that exclusives are used to attract the most able tenants.

With regard to rental rates, one major firm suggested that rental rates "should be up as high as possible, especially if it's a triple A."

Another major retailer claimed:

"Each lease we enter as an owner ...
it really doesn't bear any necessary
correlation to the rentals of other
stores adjacent to us."

OTHER ISSUES

Q.28 Downtown shopping centre/mall developments (are they a different animal ?)

All the giant retailers stated that downtown shopping centres are different than suburban shopping centres. The differences usually result from the physical location, e.g. parking is usually not provided in downtown locations; shopping downtown is multi-level; shoppers are served at different times of the day in downtown locations, that is daytime shopping predominates whereas in suburban centres shopping reaches peaks during the evenings and on Saturdays. As well, there is a difference in the type of shopper. In downtown areas the working man and working woman are the typical shopper. In suburban centres housewives predominate as shoppers.

Downtown stores it was claimed carry a better and wider variety of merchandise. As a result downtown malls can serve a greater need.

Leasing and operating costs in downtown locations, as compared to suburban locations, was described as "much, much, higher" by some firms.

Q.29 It has been suggested that there has been a slow-down in suburban centres development - prognostication for future ?

All the major retailers indicated that there has been a slow-down in suburban shopping centre development. This slow-down was explained as follows:

- Good suburban locations are already acquired and/or developed.
- The shopping population is saturated with shopping centres.
- The poor economy of the past 3-4 years has not encouraged new development.
- The task of developing property is becoming increasingly difficult as a result of cost increases (land and labour) and zoning laws.

In the future these major retailers suggested that development of major centres will be limited. The indications are that future investment will be made toward improving and re-developing existing locations.

Two retailers speculated that in the future, development of shopping centres will be undertaken in the small communities of Canada.

Q.30 What impact do you expect it to have on your organization ?

On the industry ?

Most major retailers, for the immediate future, forecast a period of "settling in" and concentrating on efficiently running current locations. For some major retailers it will be a period to upgrade existing locations. For others, notably the discount department stores, development of "free standing" stores could be the likely direction.

As indicated above, the industry slow-down will likely bring about a focus on development in smaller areas. As well, there may be increasing interest toward developing shopping areas along with commercial office space.

The industry slow-down, it was said, may have the effect of "shaking out" marginal operators (developers) and, in the long term, the industry will end up with a better group of developers.

One firm suggested, investments may be directed to the United States where it is alleged there are comparatively few zoning problems; land costs are reasonable; and financing costs are lower than in Canada.

SPECIFIC DEPARTMENT STORES

Q.31 Woolco and K-Mart tend to locate in their own centres or plaza with a supermarket under the same roof or in a strip plaza. What are the reasons for this ? Have they encountered problems in gaining entry into malls with the giants ? Why is that ?

Woolco and K-Mart tend to locate in their own centres or plaza with a supermarket under the same roof. This is because their store locations are typically in small communities as compared to being located in large regional shopping centres. To some degree, Woolco/Woolworths perceive themselves "as getting in with the "big majors" (Sear's, Simpson's, Eaton's, The Bay). This is a change from the 1960's for the Woolworth organization. Woolco has several locations in centres that it co-anchors with one or two large chain department stores.

It is alleged that the large developers ("of the Yorkville kind") prefer not to do business with the K-Mart type operation. The large developers seek the major conventional type department stores and, if the discount type (K-Mart) department stores are invited to join a location, the rent is generally too high. Further, one store commented "by the time we find out about these centres, the major department stores are typically in place already." That is not necessarily a complaint by the large discount stores. There are indications that K-Mart prefers to operate more independently than the major conventional department stores. Because

of this the small community locations are more attractive than the large regional shopping centres.

It may be because the K-Mart type operations have been "blackened" from major regional centres that these stores have developed in the smaller areas and, apparently, successfully.

SUPERMARKETS

Q.32 Often there are two large department stores in a mall or centre, why not more than one supermarket ?

The food shopping population in an area is often not large enough to support two supermarkets. Because of this supermarkets typically negotiate for an exclusive on food items. The addition of another large supermarket in a shopping centre apparently does not attract a proportionately large number of shoppers. This is because food budgets are fixed and comparative food shopping does not necessarily expand food shopping budgets. By comparison, comparative shopping for department store merchandise does not, or least to the same extent, carry a restricted budget (credit cards, etc.) and, therefore, two or more department stores expand the business and not merely share a "fixed pie". Department stores tend, with the influence they have, to limit the number of supermarkets in a centre. In situations where the large department stores act as owner-tenant an exclusive is typically given to a supermarket.

Q.33 Are there limits placed on any other sales of food for off-premises consumption ?

In some cases limits are placed on sales of other foods for off-premise consumption. Explanations, however, are not available.

Q.34 What limits would be placed on a complete food department in a department store (e.g. Woodward's) ?
(Product line / prices / floor space)

There may be some limits placed on product lines but there are no limits placed on prices. If there are restrictions in leases, it is alleged that the leases have been inherited with those restrictions.

Woodward's presents a different problem to supermarkets because Woodward's are a combination department store and supermarket. One supermarket commented on Woodward's as follows:

'We would certainly regard Woodward's as a high powered competitor. They are a combination department store and supermarket, and that might be even more formidable than just another supermarket.'

Q.35 Do you require or influence intra centre competition to certain classes of food ?

Supermarkets tend to negotiate protection for themselves through exclusives or restrictions on square footage allocation to competitive food stores. The specialty food shops are tolerated but restricted (in space available) by the supermarkets. Examples of small shops that are tolerated are listed below:

- small bakeries
- delicatessens
- greengrocers
- cheese shops
- fish stores
- Kosher butcher shops.

Q.36 Are standards set for amount of floor area from which the other tenants may sell all types of certain classes of food ?

Standards are set or negotiated by supermarkets as to the amount of floor space other tenants may use to sell food items. As well, there may be restrictions on fast-food operators, especially if convenient parking space is being used by these tenants.

Q.37 What safeguards are necessary with other "food" retailers: e.g. drugstores, variety stores, specialty foods, restaurants and fast-food operations ?

Supermarkets negotiate restrictions with developers when there is evidence that competitive shops are taking business from the supermarkets. As well, and as indicated above, there can be restrictions on fast-food operations regarding parking space.

APPENDIX B

FINDINGS FROM
INTERVIEWS WITH
OTHER RETAILERS

SUMMARY OF INTERVIEWS WITH ALL
OTHER RETAILER RESPONDENTS

This appendix summarizes the responses to each question asked in the second field phase of the study. This second field phase covered all other respondents interviewed with the exclusion, of course, of those (Eastern giants) covered in the last chapter. These companies mainly consist of medium to large chains (including voluntary groups) operations. Specifically, the following companies are included in this phase:

A & P Stores	Koffler Stores
Agnew Surpass	Oshawa Group
Astral Belleview Pathe	Peoples Jewelers
Cantor Bankeries	Provigo
Consumer Distributing	Reitmans
Cumberland Drugs	Scott-Lasalle
Dalmy's	United Cigar Stores
Dylex	The Villager Shoe Shop
Grafton Fraser	Wise (Clothing) Bros.
Handy Andy	Woodwards
Henry Birks	Zellers

General

Q.1 At what stage does a developer approach you regarding locating in a proposed shopping centre?

A developer typically approaches these retail chain stores after the lease plan has been completed with the anchor stores and the grocery outlet(s) but before a mortgage commitment has been negotiated. The developer endeavours to have the lease plan include as many Triple A tenants as feasible before negotiating the financing for a centre.

The retail stores would prefer that the developer approach them at an earlier date. However, it is observed that a developer, to some extent, is dependant upon the direction the large stores wish to pursue. The large department stores, it is alleged, have "strong feelings" concerning the mix of tenants and the allocation of space that should be offered to these smaller, ancillary stores. Often these smaller stores are shown a lease plan with a pre-determined space available to them.

These retail stores are keenly interested in being informed on new shopping centre development. One store, for example maintains an active interest and presence in trade associations. The following comment illustrates: "I am a member of trade associations....so I meet these fellows (developers) regularly and I am informed of where they're looking in the future, where they're planning shopping centres,...I bug the fellow for a year before he finally comes to me and says, alright I think I'll rent the space (to you)."

One discount retail chain claimed that developers came to his store when "he's (the developer) desperate, after all the big guys turned him down, or there's a big guy right across the street... and he has no choice but to come to me and negotiate, and even then I pay an exorbitant price."

A food retailer indicated that his store has not had the chance to join a large regional shopping centre. The developers, he claims prefer to rent to grocery chains like Steinberg or Dominion.

Q.2 What determines whether you will participate in the ownership of a centre rather than simply a tenant?

Most of these stores as a matter of company policy do not participate in ownership. Lack of expertise in real estate development is frequently mentioned as a reason for not participating. As well, these stores claim that the available working capital is used in day to day store operations. These smaller retail chains do not perceive themselves as owners of shopping centres. Two comments illustrate.

"We've never really been approached to participate as an owner in a shopping centre and we have never really thought in those terms or really considered it." "We've got no weight at all to say we'd like ownership in a shopping centre, we even have trouble getting into a shopping centre."

One retailer, (an exception) sometimes develops small shopping centres but then arranges a sale and lease back arrangement.

Another retailer, a discounter, claimed it was often difficult or even impossible for his firm to participate in shopping centres as a tenant. This retailer alleges that sometimes the major stores/tenants decide, likely as a condition of their entry, who some of the ancillary store tenants will be. This is because some of the major tenants have subsidiary stores in different but related lines of products. For example, it may be that Steinbergs as a condition of joining a shopping centre would specify that Pharmaprix would be the drug store tenant.

Q.3 What influence does the lending institution have on the form of your participation in the centre and the arrangements concerning leasing of your space (i.e., lease-back, ownership etc.)?

The lending institutions have little, if any, influence on the form of participation these stores take in a shopping centre. As indicated above all stores in this section of the report do not participate in ownership. Historically however, tenants of this type have been important to a

developer because lending institutions desire tenants of Triple A ratings. A developer with a high percentage of Triple A tenants can expect speedy financing. For the retailer (noted above) that develops, sells and leases back, the lending institutions will provide sufficient resources if the rental is covered by Triple A tenants.

Q.4 What does your firm perceive it needs to make a shopping centre location a viable, and profitable operation/investment?

The most important criteria for a viable and profitable shopping centre location is to have at least one major anchor - a department store. Some of these smaller chain stores specify two anchor stores are necessary. To some stores the identity of the anchor store(s) is necessary before they enter a lease.

Another criteria is the reputation of the developer. It is recognized that major developers, like Cadillac-Fairview or Cambridge along with a major anchor, would have done substantial research in

the planning stages of a shopping centre.

For many smaller stores a centre with a fashion orientation is important. One store commented: "We've got to be where the fashion tenants are."

Some stores are concerned about the number of competing outlets planned for a shopping centre. Shoe stores are particularly concerned about the number of shoe outlets. The stores acknowledge that having a variety of outlets is important, but it is claimed that in too many centres there has been a preponderance of outlets and as a result no outlets do well. Tobacco stores are also concerned about competing stores and often seek protection from competition in their lease. The products sold by tobacco stores were described as high volume low margin and because of that most shopping centres could not support more than one tobacco store.

Another important criteria for a viable and profitable shopping centre is the size and character of the shopping area population. One store claimed a population of at least 20,000 within a 2 - 3 mile radius was necessary for its stores to do well.

For one retailer, access to the store in a centre with an appropriate population is vitally important. This means that customers should be free to stop and park in front of the store.

AS A TENANT ONLY

Q.5 Does the developer consult you about proposed tenants?

The developers, especially the larger ones, do not consult these smaller stores about proposed tenants. Some stores desire consultation. For example, the shoe retailers want to know the amount of square feet allocated to shoe stores and the number of shoe store outlets planned for the centre. The catalogue stores also want to know if a competing catalogue store will be in the centre.

The small developers sometimes ask these retail stores about other tenants. Typically, questions relate to evaluation of other tenants in terms of whether or not another tenant will add strength to a shopping centre.

One retailer claimed that his firm will not enter a shopping centre unless the developer has a minimum of 50% of the smaller tenants in occupancy.

Q.6 What has experience taught you about the ideal tenant mix? e.g. Do you have policies concerning desirable tenant mix?

These chain stores favour a mix of fashion tenants in a shopping centre. One store stated that a ratio of 3 or 4 to 1 in square footage of fashion stores to ancillary stores is desirable. Many stores felt that the presence of two major anchor stores triggers a viable centre because they tend to draw the "better class of tenants." A mix of national retailers and good local retailers contributes toward a good tenant mix.

Some of these chain stores prefer the smaller type shopping centres to the large regional centres. The small centre attract local tenants and the locals add strength to shopping centres. Local tenants are often well known in a community because frequently they may be owned by an alderman, or a mayor or

local sports figure.

These stores do not have policies concerning desirable tenant mix. The developer is seen as having full responsibility for assembling an acceptable mix. It is recognized that the larger centres draw a desirable range of fashion tenants.

One retailer in this research participates mostly in "Strip Centres." In these locations the retailer prefers other tenants that have a convenience orientation, e.g. drug stores, dry cleaners, banks, hairdressers, etc.

Q.7 Is your participation to some degree contingent on the tenant mix?

Participation by these retailers in a shopping centre is contingent upon the tenant mix. At least one anchor department store is necessary. Some retailers require two major anchor stores. In general the smaller stores want to know who the major anchor tenants are and as well the small stores want to know what tenants the developer has in mind for the balance of the mall. In addition the smaller stores wish to know the ratio of

fashion stores to the service shops e.g. barber shops, banks, cleaners, etc. The latter, while important does not appear to be a criteria of participation in a shopping centre.

Several retailers claim to have rejected centre locations because the centre lacked a major anchor or the tenant mix was otherwise unsatisfactory. In small shopping centres, entrance for many retailers is contingent upon there being no other direct competitor.

Q.8 What if the proposed tenant (type/specific) mix is not satisfactory? (have you ever asked for, insisted upon or been granted the right to approve other tenants?)

These retailers claim not to have asked or to have been granted the right to approve other tenants. Often they claim to have little choice (especially in large centres), should it turn out that the tenant mix is unsatisfactory. They become locked in after signing a lease.

They expect a developer to realize a competitor would not be welcome next door. In some situations however there may be an opportunity to decide on tenant selection. One retailer mentioned leasing a location and the location next to it was vacant. "We specified (before signing the lease) that there had to be some form of fashion tenancy, either men's wear, ladies wear or childrens wear, we didn't want a hardware store up in there or a beauty parlour, that kind of thing. That's about the only kind of specification we can make."

In the major malls like Fairview Centres, Trizec and Cambridge Centres, the smaller stores are unconcerned about tenant mix because the developers are professional and they will put together a satisfactory tenant mix. To some stores the choice of anchor tenant(s) often carries with it a good indication of tenant type.

Q.9 Are there any competitors you would, as a matter of course, not want to see in the same shopping centre as yourself?

All stores, except three, stated that there were no competitors they wished to have excluded from shopping centres. One of the exceptions deals in high volume low margin items and as a result the store claims sharing business with any competitor would be discouraged. Another exception would like to be able to exclude catalogue stores from shopping centres, "because of the type of competition, and let's say the traffic they don't generate."

The major food stores do not permit, as a general rule direct competitors in a shopping centre in which they are located.

The third exception deals in hardware, sports and automotive goods. This retailer claims that very few shopping centres can support two direct competitors of the same type. This retailer alleges that the "junior department stores" frequently sell hardgoods e.g. a toaster at their cost. These sales are carried out by the junior department stores so as to bring in traffic for softgoods sales that account for 90% of the department store business. With this type of competition they do not encourage directly competitive stores.

Many stores claimed that they encourage competition but not excessive competition. Experience has shown that, in the long run, stores do better when there are several competitors that offer comparison shopping. One store commented as follows: "You'd think that exclusives would be worthwhile but it isn't that big a factor in today's market."

The size of the shopping centre is an important factor. In a large regional centre competitors are generally welcomed. In the small centres competitors may not be welcomed, especially competitors of equal size.

It appears normal practice that a developer in a major centre after signing a store to a lease will next telephone a competing store and attempt to lease space.

Some retailers made reference to the use of specific store exclusion clauses in leases years ago. It seems now, however, that most retailers are concerned about the number of outlets rather than specific outlets.

Q.11 What about tenant mix being influenced by the degree of diversification or product specialization by prospective tenants? For example, a department store may not object to a specialty furniture store if it does not plan to push that product line, whereas it may object to the tenancy of another department store..

(Circumstances and reasons why a tenant mix is "not satisfactory" and/or the desire not to see certain competitors in the same shopping centre should be explored.)

Most stores had difficulty responding to this question. None of the stores have asked for or insisted upon the exclusion of any specific retailers in a particular centre. In the small shopping centres the retailers ask for a limit on the number of competing stores, e.g. shoe stores would want a limit on the number of outlets.

In the large shopping centres these retail stores have no influence. One retailer commented as follows: "we have to accept pretty well whatever store (space) is given to us." Often, retailers

have to accept a store (space) smaller than they request "simply because the developer says that's the store for you and that's it."

There were some allegations of collusion among the major department stores and the developer. One store expressed it this way. "That kind of thing happens between the developer and the major department stores. The major department store often will specify how many square feet of shoe stores there will be in the mall. Now I don't see any of these contracts...but from talking with developers I am confident that the department stores do have a reasonable say in the mix of the mall."

The major tenants appear to have privileges that are not available to the smaller tenants. This is indicated in the following comment: "In some of our shopping centres we try to get a covenant from the landlord that he will not put in a second drug store per se but always the department store has the privilege of putting in whatever it wants and generally the major food stores does too."

One discount retailer claimed that he enters shopping centres under his terms "...The shopping centres that I go into are usually under policies of last desperation so I call the shots...you know when you have the landlord over a barrel you can get anything you want."

Q.11 What is your general attitude towards discount stores in shopping centres? Why?

Attitudes to discount stores in shopping centres varied. On the one hand some stores felt they generate traffic and provide "lower end shopping." To that extent some stores felt discount stores have a place in shopping centres.

Other stores were critical of discount type stores (other than the majors like Woolco, K-Mart, Kresge.), claiming that often they are "fly by nights". One retailer stated his attitude this way. "we don't particularly encourage them because usually they down-grade a mall." It was also felt by these stores that if a shopping centre was not doing well there is an increasing chance of a discount operator becoming involved as a tenant.

One store felt that "from the landlord's point of view it lowers the ambience of the shopping centre and he (the landlord) prefers to keep an upper grade mall, and that's why he does not let these kind of stores go into the centre."

One discount retailer included in this research naturally had a positive attitude to discount operators. However this retailer (normally in small shopping centres) alleges that other retailers react unfavourably to his stores.

- Q.12 Would you want to be in the same shopping centre with a discount store? Are there any exceptions? (Do you insist on "no discounter" clauses in leases (examples); Is this practice consistent or does it depend on the "discounter"? Why?

Most stores stated, although with some reluctance, that they would enter a shopping centre with a discount store. There was no reluctance to entering with the major discounters (like Woolco, Bonimart, Towers etc). It would be a deterrent to most stores if all the shopping centre was a discount centre. Discount stores, by and large, do not have a good image among these retailers.

Some retailers suggested that today, discount stores have lost their appeal because discounting has become such common practice.

None of the retailers interviewed in the research claimed to insist on "no discounter clauses" in their leases.

Q.13 Do you prefer to have a local outlet or a national chain as the second department store in a regional centre? (IF YES) what is the reasoning behind this?

Preferences among the smaller stores on this issue tended to favour national chains. Most stores as might be expected wanted the strongest available tenant. Among a few stores there was recognition that local tenants provided a special attraction. However it was also stated that local tenants often can not afford rents in shopping centres. Rents in shopping centres are sometimes five times the rents in downtown locations. Most stores suggested that there were only a few local independents strong and large enough to enter a centre as an anchor. Robinson's of Hamilton and Woodward's were mentioned.

Q.14 : Have you been permitted/or asked in any centre
to suggest, or have you wanted -
(a) The allocation of floor space available to
other tenants? Amount/Location.

In the large regional shopping centres these retail stores have very little influence with developers. However in the smaller shopping centres some retailers request and receive protection in their leases concerning the number of competitive stores that may operate. This is done, it is said, to protect the long-term viability of a small centre. One retailer stated the reason this way. "...if we are into a centre that's not successful, then the landlord tends to start making short term decisions to help his cash flow rather than long term decisions for the tenant mix: So if he has six empty spaces and has got to lease them to meet some mortgage payments, he'll put anybody into the damn things and it will seriously compromise the long-term viability of the whole damn centre and the location as well. It's not a problem in a regional shopping centre where first off we have no ability to ask and no ability to enforce that

kind of request and its not something that worries us anyway. It worries us in the marginal locations."

One firm in this research stated that in two instances it was able through the developer to restrict space to a competitive drug store. Space for the competitor was restricted to 5,000 feet as compared to a normal 8,000 to 8,500 square feet for a store of this type.

Another retailer (of the discount department type) stated that when it can, his firm limits the space available to junior department stores; "I protect myself that he must stay within a certain size of store."

One small retailer in this research stated that developers have tried to restrict his space "in quite a few centres."

The food retailers, especially the major ones, restrict space to other stores, such as health food stores, specialty meat and fish stores and delicatessens.

Have you been permitted/or asked in any centre to suggest, or have you wanted -

(b) Limits to the entry by any particular class of retailers?

The answer to this question was generally no. There were some exceptions. One exception was a tobacco retail chain that operates on a high volume low profit margin. This chain requests an exclusive and if an exclusive is not obtained the store will not enter the centre. There were indications that an imbalance of tenants in favour of fashion stores is acceptable in a shopping centre, but not an imbalance in favour of food or hardware stores.

A shoe retailer was concerned about the number of shoe outlets a developer plans for a centre. This retailer seeks restrictions in the number of shoe stores before it enters a centre. The food stores as indicated above limit entry of other food stores.

Have you been permitted/or asked in any centre to suggest, or have you wanted -

(c) To limit the type of tenant immediately adjacent to your store? In the immediate proximity?

Most retailers have not been permitted nor have they requested limits on the type of tenant immediately adjacent to their store. There is a general specification that there will be nothing in the mall that interferes with the front of a store. One retailer does not want service-type tenants close to his store. Service-type tenants are the dry-cleaners, and the beauty parlours. Hardware stores are tolerated by these retailers but as indicated above the preference is for fashion stores.

Two retailers, while claiming that competitive stores are advantageous, prefer not to have a competitive store in their immediate area: One store commented as follows: "We found that there's a great deal of confusion on the part of the customer when you have retailers of the same type besides each other, simply because they're confused as to what store they are in. We have a few instances that we're right next door to a competitor, its more of a nuisance than anything else, and in our opinion it's a detriment to the shopping centre. Retailers are frequently concerned about a vacant location in close proximity to their store. In these situations retailers

request that the landlord consult them before leasing the space. This precaution is necessary so that the landlord will lease to allied stores, e.g. photographic stores, consider bookstores and record stores as allied stores.

One major retailer requests approval of tenants within seventy-five feet of its door ("it's a matter of housekeeping.")

Have you been permitted/or asked in any centre to suggest or have you wanted -

(d) To set firm guidelines on the form or type of advertising used by (other) tenants?

There was no desire on the part of these retail chain stores to set guidelines on the type of advertising used by other tenants. An exception is that most firms demand restrictions on loud speakers in a centre. One firm mentioned that the landlords are becoming more vocal about participating in the merchants' association. It is said that lease clauses are becoming firmer in that landlords frequently request that a tenant spend a percentage of gross revenue on advertising and also that tenants belong to the merchants'

association.

Have you been permitted/or asked in any centre to suggest or have you wanted -

(e) Merchandise mix or product lines?

Most of these retailers have not been permitted nor have they asked for guidelines concerning merchandise mix or product lines carried by other tenants. There were a few exceptions, One retailer, as stated in an earlier question, requests controls/limits on the number of competitive shoe stores the landlord can lease. As well this retailer, especially in small centres, tried to specify the price range of products a competitive store can carry. The retailer claims however that it cannot enforce these practices because inflation makes it difficult to set price ranges.

A tobacco retailer frequently likes to suggest, to the developer/landlord, the number of tobacco stores a centre can profitably support. This retailer prefers exclusive arrangements with shopping centres.

The majority of fashion retailers in the research however mentioned their desire to have directly competitive stores in a shopping centre.

One retailer suggested that in past years developers liked to place restrictions on merchandise mix and product lines but now it appears that developers have abandoned those restrictions.

Have you been permitted/or asked in any centre to suggest, or have you wanted -

(f) Guidelines on pricing?

Only one retailer in this research claims to have been permitted and to have asked for guidelines on prices. Most retailers said they prefer to let the centre find its own price level.

One discount retailer states that the large department stores frequently complain to manufacturers concerning his stores' pricing policies. There have been situations when the major stores have threatened to discontinue a manufacturer if the manufacturer does not cease selling to discounters. This retailer states, "I know of several companies that can not get into department stores because Alice or Jean Coutu cut prices. That's why you find many cosmetics lines strictly in department stores".

Have you been permitted/or asked in any centre to suggest, or have you wanted -

(g) Any other guidelines concerning (other) tenants (sub-leasing/layout/hiring practices)?

Some stores have guidelines concerning sub-leasing. Two retailers insist on an assignment clause whereby they can assign a store to another tenant before the lease expires. There are no guidelines however which affect other tenants.

By and large most retailers suggested guidelines on other tenants are unnecessary. A good centre will attract only the better tenants because only the better tenants can afford to lease. A tobacco retailer has a restriction in its leases that prohibits competitive stores from sub-letting or otherwise entering a centre as long as the centre exists in its present size.

Some retailers have protection built into leases in the event that the anchor store(s) leaves the centre. These retailers obtain the right to close their stores if the anchor store(s) close. Another retailer insists that the food store operator must stay in operation

otherwise their lease will expire when the food store vacates a centre.

There are no guidelines that these retailers seek that affect other tenants with respect to store layout or hiring practices.

Developers usually request that their tenants agree to a radius restriction on new stores. This means that a retailer agrees not to open another store within a specified distance of a shopping centre in which it is a tenant.

- (h) If you did not have guidelines/controls, what would be the result for your store? For the shopping centre industry?

All firms stated that some control and guidelines are imperative for the survival of stores and the shopping centre industry. One retailer stated that a centre without guidelines would be "like saying there's no plan for a city, it would be chaos."

Another retailer in the following comment seemed

to express the thoughts of other retailers.

"Landlords; the big guys in this country, have developed through experience a knowledge of how to allocate space in a shopping centre to maximize the impact of the space upon the local community it serves and if they (landlords) weren't allowed to use those decision rules then you might find a tenant mix that just didn't respond to the requirements of the consuming market."

RE: LEASES

Q.15 Do you require a "turn-key" operation, why are rentals so low compared to other tenants?

These retail stores prefer to have a turn-key operation. However it is apparent that, most often, they do not have the negotiating power with landlords. This was stated by one retailer as follows: "ten or fifteen years ago landlords used to offer a fair amount, now you're lucky to get the space let alone the landlord that will do any work for you." Another retailer stated: "if it's a good centre you get very little in the way of allowance from the landlord."

Some retailers when they are permitted (usually in small centres) build their own stores. In the small centres the retailers can negotiate with a landlord. Often the situation is reversed in small centres, Landlords ask: "What kind of a deal do we have to make to get you into this centre?"

Most retailers though their rents were comparable on a square footage basis to other tenants. It was indicated that rents in a three, department store centre are dictated by the developer, but in the small marginal centres the tenant dictates the rent.

Q.16 What guarantees do you give for continued operation?

Usually the guarantees retailers have to give are related to the mortgage terms the developer negotiated. The mortgage company usually requires a number of Triple A tenants to be guaranteed over a certain number of years usually the period of financing. Usual lease terms with these retailers, are for periods of 15 to 20 years. The minimum term appears to be 10 years. There are clauses in the lease that restrict the number of days a store

can be closed at any one time.

In cases when a retailer may wish to terminate a lease there is a requirement that the tenant provide another tenant of equal rating. The landlord/developer usually imposes exclusives on tenants. This takes the form of a radius clause in the lease. The tenant is asked to agree not to open a store within a mileage radius of a shopping centre in which he is a tenant.

One retailer who participates in small shopping centres guarantees his lease as long as the food operator stays in the shopping centre.

A minority of retailers claimed that they give no guarantees other than the company signature.

Q.17 What contributions do you make toward common area charges? Do yours differ from other tenants? In what way do they differ?

All retailers stated that they pay common area charges on the basis of square footage rented. That does not vary by tenant. The department stores, however, it was alleged do not pay common

area charges on the same basis as the smaller retailers. One retailer's remark was descriptive of others: "the department stores don't generally pull their weight in that respect. Those guys (department stores) are tough about common area contributions. They claim that they're the attraction. The mall is only for the ancillary tenants and therefore the ancillary tenants should pay it all."

A few retailers claimed that the anchor stores do not pay any common area charges. Several retailers claimed that developers were escalating common area charges to the point where the charges are no longer justified. It is alleged that the developer is making a profit on common area charges. To illustrate, one retailer remarked. "Some of them (developers) use that (common area charges) as a blank cheque." It was said some centres have common area/administration charges that could amount to 80% of the rent. One retailer stated their mall charges range between \$3.00 to \$16.00 a foot. Rents by comparison range between \$12.00 and \$25.00 a foot.

Increasingly common area/administration charges are adversely affecting the small tenant. In the future, it was said, the small tenants may be forced out of shopping centres by a combination of high rent and high administration charges.

Another retailer commented as follows, "Well I happen to know quite a few developers, personal friends of mine, and I think they might make more money on their common area charges than renting the properties. It is a way of camouflaging expenses and I would say actually stealing from tenants and I happen to know this as a fact because a lot of these boys brag to me on how much extra they make on the extra charges".

Some of the larger tenants do not pay common area charges or they refuse to pay additional charges when they are levied. In that case the small tenants have to account for more than their fair share of expenses.

It was alleged by one retailer and supported by others that landlords, fraudulently prepare

statements of common area costs. The small tenants do not have protection in their leases from escalation of common area charges. The larger tenants have negotiated protection in their leases by establishing a ceiling on common area charges.

Q.18 Do you participate in the centre's merchants' association - What contributions? Do yours differ from other tenants?

Most of these retailers participate in a centre's merchants' association. The landlord/developer makes participation a condition of the lease, at least for the smaller tenants. Contributions depend upon the mall's geographic location, but contributions are comparable among tenants. However the contributions made by anchor stores differ from other tenants. Contributions for other than anchor tenants are based upon the square footage leased or a percentage of the rent. The small retailers other than anchor stores may pay anywhere from .20¢ - .50¢ per square foot and the department store anchor by comparison

would pay .03¢ - .04¢ per square foot.

Q.19 Advantages of membership? Is membership compulsory?

Membership in the merchants association is normally compulsory for the smaller tenants. It forms part of the lease agreement. Most stores stated there are few benefits or advantages derived from membership in the association. Some retailers thought the department stores reaped benefits from the association because centre promotions are tied around department store main promotional events. Others stated that the promotions undertaken by the association are amateurish and the promotions are frequently criticised by tenants. One retailer suggested this was because tenants as a rule do not take an active interest in the association.

One retailer suggested that tenant interests would be better served if the landlord/developer used a professional promotion house to draw up "proper and appropriate promotional activities."

Q.20 Does the association impose additional restrictions?

The merchants' association does sometimes impose additional restrictions. The association can

request contributions over the minimum amount specified in the lease to cover costs for certain promotional plans.

As well the association can specify and require participation in a number of promotions per year and specify a number of advertising pages in flyers per year. As well, there may be a requirement to participate in sidewalk sales. The latter is frequently regarded by some tenants as an imposition and often considered inappropriate for some tenants.

One retailer stated that the association can restrict the amount of advertising carried out independent of the mall. This means that a tenant is expected to support mall or plaza advertising by contributing to advertising supplements published under the shopping centre banner. Most retailers find they can advertise more efficiently and economically by advertising in city newspapers.

The merchants' association regulates store opening and closing hours. The association also regulates parking and designates certain areas for employee parking.

OTHER LEASES

Q.21 What is your firm's attitude concerning the granting of exclusives to other tenants?

Most of these retailers reacted unfavourably to exclusives, especially in the large shopping centres. Once again the desire by tenants to have a large variety of fashion stores was underlined. Some retailers were not concerned about exclusives being granted to such tenants as banks, trust companies or travel agents. Retailers in certain product categories e.g. jewelery, felt that exclusives were not necessary however there were indications that the number of jewelery tenants should be restricted.

A few specialized retailers stated they prefer exclusives for themselves and they try to negotiate for exclusiveness. Usually in the large centres they are not successful. Food retailers that request exclusiveness suggest it is necessary to protect investments.

One major retailer involved in the supervision of some shopping centres stated its policy as follows:

"We are very concerned about the Combines

Investigation, we are very concerned about people telling us how to lease a shopping centre...In the West we have between 30% and 40% of tenants who are independents compared to a lesser percentage in the East. Now we are very concerned about getting these tenants...for example Children Wear Stores, there's not a shopping centre in the country that can afford to have more than one, so we have to protect that independence...from what I hear is happening in the East, Ottawa and so forth on the Combines Investigation, it scares the hell out of me, because we are very paternal in our company to look after these tenants."

Q.22 Do you encourage or influence exclusives for other tenants (e.g. to a national chain drugstore?)

The answer to this question was very clear. All retailers stated that they do not encourage exclusives for other tenants.

Q.24 Are exclusives necessary to protect the "image" of centre, prevent ("unfair") competition, or what?

Most retailers stated that exclusives were not necessary to protect the image of a shopping centre. It was also indicated that exclusives do not prevent

unfair competition... Some retailers argued that exclusives can create unfair competition by locking potential tenants out of shopping centres.

Q.25 What in your opinion is UNFAIR COMPETITION?

Most retailers had difficulty defining unfair competition. Responses when they were offered varied from retailer to retailer.

- One retailer suggested unfair competition consisted of "a significant discount operation, a heavy operation would be an unfair form of competition to us." The same retailer also suggested that small centres that build around a major mall can present unfair competition.
- Another retailer described unfair competition as unwise competition. The latter consists of too many stores of one kind in a shopping centre.
- Exclusives were defined as unfair competition. One retailer described unfair competition as "a retailer that is selling at prices that do not allow a fair return"
- The tobacco and drug retailers described unfair competition as the entrance of a competitor into a centre that is not large enough to support more

than one store.

- Another retailer suggested that the major department stores operate unfairly in shopping centres because these stores get "all the freebies and all the great deals." Further, this retailer argued that the large anchor stores should carry a larger portion of rent in shopping centres. Smaller stores are often prevented from joining shopping centres because of high rents.
- One retailer described the catalogue stores as unfair competition because of the lack of service these stores offer customers.
- Some retailers mentioned the case of a powerful store eliminating another store in the same centre; "Well it would be where you pick a retailer that is well established and is trying to knock off a retailer of the same kind which is not too well established and hasn't got the same resources for finance or provisions. We saw a couple of cases... at Cavendish Mall, for example..."

AS AN OWNER-DEVELOPER

Note: Only three of these retail chains qualified as Owner-Developers.

- Q.26 Do any of the views you have expressed change
when you have an equity interest in the centre?
(IF SO) how would this affect leases, for example?

These retailers stated that their views already expressed would not change under conditions of an equity interest.

- Q.27 As an owner, what is your policy concerning
exclusives to other chains, or independents?
(Allocation of floor space (amount/location)
-Rental Rate/Area restrictions concerning
another shop close by.)

For these retailers their involvement is in small shopping centres. As a consequence they claim exclusives would not create any problems because the locations will have five or six stores. One store offers exclusives to specialized tenants.

OTHER ISSUES

- Q.28 Downtown shopping centre/mall developments
(are they a different animal?)

Most retailers stated that downtown shopping centres were different to suburban shopping centres.

It was said by many that downtown locations were more expensive to operate because of higher land costs, higher real estate taxes and higher costs for security, and sometimes parking obligations. The downtown location do not have the volume of family shopping that the suburban centres have. The downtown locations are more fashion oriented, tending to cater to the "swinging work crowd." Merchandise as a result in downtown centres tends to be much more expensive. Some retailers do not carry children's clothes in downtown locations.

Downtown centres (e.g. Place Ville Marie and Toronto Dominion Centre) do not have the major anchor stores that are necessary in the suburban locations.

Along with a difference in the shopping clientele (mostly working people) the downtown stores do most of their business during the lunch periods. Suburban centres attract as much as 60% of their weekly business on Thursday and Friday nights, plus Saturday. These usually are the slowest business hours for downtown stores.

Q.29 It has been suggested that there has been a slow-down in suburban centres' development - prognostication for future?

All but one retailer agreed that there has been a notable decline in the development of shopping centres. Many retailers suggested the poor economy and decline in population growth as the cause. Several retailers suggested the industry has become saturated in the major population centres. It was also suggested that the slow down was due to the major department stores. These firms have slowed down their rate of expansion. Many retailers suggested that developers will turn to the small communities in Canada and/or the large developers will seek opportunities in the United States.

Q.30 What impact do you expect it to have on your organization? On the industry?

Most retailers felt vacancies in shopping centres will be scarce for several years. As a result rents will likely accelerate. Most retailers expect a reduction in expansion i.e. opening new stores plan for a number of years. There will be increased pressure to improve profits in existing

locations. A few retailers stated that they will look for expansion opportunities in smaller population centres.

With regard to the shopping centre industry it is thought that the slow down will benefit developers in their current locations. Rents can be increased. As well, developers will likely work toward up-grading and improving existing centres. Again there was reference to the possibility that the large developers will seek opportunities in the U.S.A.

SPECIFIC DEPARTMENT STORES

Q.31 Re: Woodward's

- Most, if not all Woodward stores, have a complete food floor.
 - Woodward often locate in a medium size centre as the only department store, but possibly as/with another supermarket.
 - Woodwards own most of these centres outright.
- What has prompted this trend?

Woodward's are often located in medium size centres as a result of history. Woodward's claims to have developed in Alberta and British Columbia

"long before Bay Street money heard of Alberta or British Columbia." As a result Woodward's operated in Western shopping centres as the only department store. Many of Woodward's shopping centres have or are currently adding one or more department stores.

In centres where Woodward's are located they operate the food outlet. They claimed to have experimented with other food retailers in the same centre but with poor results. As a result the food store tenant of their shopping centres belongs to them.

SUPERMARKETS

Q.32 Often there are two large department stores in a Mall or Centre, why not more than one Supermarket?

Department Stores and food stores, it was suggested, do not cater to the same shoppers. Department stores draw shoppers from a distance up to 75 miles. By comparison food stores draw from close range, up to three miles. A few retailers explained that people prefer to shop for food at an outlet near their home.

It was also indicated in this research that department stores can offer a variety of fashion and appeal in the products they sell. Suppliers tend to sell to particular department stores thereby creating variation. In food store retailing, stores frequently purchase provisions from the same suppliers. As a result many products are sold as commodities e.g. eggs, vegetables etc. The store can not through marketing efforts enhance the value of its lines over competitive stores.

Q.33 Are there limits placed on any other sales of food for off premises consumption?

Yes there are limits placed by the large food retailers on sales of food by other stores in a shopping centre. Typically however these limits are placed on food sales by small tenants. Food sold by department stores is not controlled by the major food retailers. The limits placed on small food stores takes the form of restricted floor space.

Q.34 What limits would be placed on a complete food department in a department store (e.g. Woodward's)?
(Product line/prices/floor space)

There are, apparently, no restrictions placed on the food lines a major department store can sell. There are as indicated elsewhere, restrictions placed on small stores. There are no restrictions placed on selling prices used department stores or small food stores.

Q.35 Do you require or influence intra centre competition to certain classes of food?

Generally food items are not limited per se, but they are restricted as to space. Some major stores

claim they have no restrictions on the sales of health foods. As well they claim to be generous to small bakeries and delicatessens.

Q.36 Are standards set for amount of floor area from which the other tenants may sell all types of certain classes of food?

Yes there are standards set by the major food retailers as to the amount of floor space other tenants may use to sell food items.

Q.37 What safeguards are necessary with other "food" retailers: e.g. drugstores, variety stores, specialty foods, restaurants and fast-food operations?

Variety stores, convenience stores and some specialty stores are controlled as to the amount of space a landlord can make available to them. Restaurants need control, it is said, because they create parking problems. A few food retailers said that they tolerate some stores like cheese shops and specialty meat shops because they are complimentary to their business.

Q.38 Does this mean a minimum physical distance from
the supermarket on the sale of "food" for off
premise use?

Many food retailers prefer to have the small
food tenants "as far away as possible."

One food retailer, on what may be a related
issue, stated that it had difficulties buying
property for use to locate a store. This retailer
stated that land his store wanted to purchase was
not available for purchase because servitudes
were placed on the land against construction of
supermarkets. Steinberg held one servitude and
Dominion the other.

OTHER RETAIL CHAINS

Re: Drugstores/Shoes/Men's and Ladies Wear/ and
Variety Chains.

Q.39 Do you ask for or insist upon: Being the exclusive
(a) outlet (i.e. one only);

Retailers that are not in the fashion business tend to request exclusives. In most locations exclusives are refused. The drug store chains however appear to be successful at least more so than other stores in negotiating exclusives. If an exclusive cannot be negotiated often they can acquire a condition that limits the size of the competitive store.

Q.39 Do you ask for or insist upon: Being one of a
(b) limited number (e.g. no more than two stores in the
centre);

In small shopping centres most retailers request a limit of two stores of a similar type. Usually it appears retailers in small centres are successful in negotiating a limit to the number of competing outlets.

Q.39 (c) Do you ask for or insist upon: That competitors not offer for sale goods and services in the same price range or in the same class.

A few stores have asked the land/developer that competitors not offer for sale goods in the same price range or in the same class. These requests normally are made in small shopping centres. Most stores do not make any requests in this regard.

All stores said they have little or no say regarding the selection of tenants.

In some situations retailers have been asked opinions regarding entry of a competitive store. This is an infrequent occurrence however. When it does happen, the landlord/developer seeks opinions as to whether a potential tenant may adversely affect sales volumes.

APPENDIX C
TOPIC OUTLINE

FULL-LINE DEPARTMENT STORES

1. General

- At what stage does a developer approach you regarding locating in a proposed shopping centre ?
- What determines whether you will participate in the ownership of a centre rather than simply as a tenant ?
- What influence does the lending institution have on the form of your participation in the centre and the arrangements concerning leasing of your space (i.e., lease-back, ownership etc.) ?
- What does your firm perceive it needs to make a shopping centre location a viable, and profitable operation/investment ?

2. AS A TENANT ONLY

Re: other tenants

- Does the developer consult you about proposed tenants ?
- What has experience taught you about the ideal tenant mix*? e.g. Do you have policies concerning desirable tenant mix ?
- Is your participation to some degree contingent on the tenant mix ?
- What if the proposed tenant (type/specific) mix is not satisfactory ? (Have you ever asked for, insisted upon or been granted the right to approve other tenants?) (Examples in leases.)
- Are there any competitors you would, as a matter of course, not want to see in the same shopping centre as yourselves ?

*Footnote: The degree of diversification/product specialization by prospective tenants.

What about tenant mix being influenced by the degree of diversification or product specialization by prospective tenants ? For example, a department store may not object to a specialty furniture store if it does not plan to push that product line, whereas it may object to the tenancy of another department store. Circumstances and reasons why a tenant mix is "not satisfactory" and/or the desire not to see certain competitors in the same shopping centre should be explored.

- What do you do in such circumstances ?
(Have you ever asked for or insisted upon the exclusion of any specific retailer(s) (name) in any particular centre ? - If so, why ?)
- What is your general attitude towards discount stores in shopping centres ? Why ?
- Would you want to be in the same shopping centre with a discount store ? Are there any exceptions ?
(Do you insist on "no discounter" clauses in leases (examples); is this practice consistent or does it depend on the "discounter" ? Why ?)
- Do you prefer to have another outlet or a NATIONAL CHAIN as the second department store in a regional centre ? (IF YES) what is the reasoning behind this ?

- Have you been permitted/or asked in any centre to suggest, or have you wanted -
 - The allocation of floor space available to other tenants ? Amount/Location.
 - Limits to the entry by any particular class of retailers ?
 - To limit the type of tenant immediately adjacent to your store ? In the immediate proximity ?
 - To set firm guidelines on the form or type of advertising used by (other) tenants ?
 - Any other guidelines concerning (other) tenants (sub-leasing/layout/hiring practices) ?
- If you did not have guidelines/controls, what would be the result for your store ? For the shopping centre industry ?

Re: YOUR LEASE

- Do you require a "turn-key" operation, why are rentals so low compared to other tenants ?
- What guarantees do you give for continued operation ?
- What contributions do you make toward common area charges ? Do yours differ from other tenants ? In what way do they differ ?
- Do you participate in the centre's Merchants' Association - what contributions ? Do yours differ from other tenants ?

- Advantages of membership ? Is membership compulsory ?
- Does the association impose additional restrictions ?

Re: OTHER LEASES

- What is your firm's attitude concerning the granting of exclusives to other tenants ?
- Do you encourage or influence exclusives for other tenants (e.g. to a national chain drugstore) ?
- (IF YES) why is that ?
(what purpose, what effect on your store, the shopping centre ?)
- Are exclusives necessary to protect the "image" of centre, prevent ("unfair") competition, or what ?
- What in your opinion is UNFAIR COMPETITION ?

3. AS AN OWNER-DEVELOPER

- Do any of the views you have expressed change when you have an equity interest in the centre ?
(IF SO) how would this affect leases, for example ?
- As an owner, what is your policy concerning exclusives to other chains, or independents ?
(Allocation of floor space (amount/location)
 - Rental Rate/Area restrictions concerning another shop close by.)

4. OTHER ISSUES

- Downtown shopping centre/Mall developments
(are they a different animal ?)
- It has been suggested that there has been
a slow-down in suburban centres development -
prognostication for future ?
- What impact do you expect it to have on
your organization ? On the industry ?

P. 180
Missing

6. SUPERMARKETS

Separate - (Repeat questions in 1 to 5 above)
Questionnaire

Re: Specific Exclusives .

may be directed against -

- (1) Any other supermarket. .
Often there are two large department stores in a Mall or Centre, why not more than one Supermarket ?
- (2) Are there limits placed on any other sales of food for off premises consumption ?
- (3) What limits would be placed on a complete food department in a department store (e.g. Woodward's) ?
(product line / prices / floor space)
- (4) Do you require or influence intra centre competition to certain classes of food ?
- (5) Are standards set for amount of floor area from which the other tenants may sell all types of certain classes of food ?
- (6) What safeguards are necessary with other "food" retailers: e.g. drugstores, variety stores, specialty foods, restaurants and fast-food operations ?
- (7) Does this mean a minimum physical distance from the supermarket on the sale of "food" for off premise use ?

7. OTHER RETAIL CHAINS

Separate - (Repeat questions 1 to 5 above)
Questionnaire

Re: Drugstores/Shoes/Men's and Ladies' Wear/and Variety Chains.

- Do you ask for or insist upon:
 - Being the exclusive outlet (i.e. one only);
 - Being one of a limited number (e.g. no more than two stores in the centre); or
 - That competitors not off for sale goods and services in the same price range or in the same class.
- Examples of above.
- (If this is a standard practice) would you, or have you, waived the exclusive clause in order to gain entry into any particular centre ?
- How much say are you given regarding the selection of tenants ?
- Have you ever asked for, insisted upon or been granted the right to approve the entry of a competitor's outlet into any centre (examples) ?

8. STATISTICAL INFORMATION

- (1) Number of stores in Canada; total sales since 1970.
- (2) Number of stores located in shopping centres including downtown malls. Total sales since 1970.
- (3) For each centre in which you have a store:
 - (a) Name, location and size of centre.
 - (b) Ownership of centre including your % share and partners.
 - (c) Ownership of your store and land (e.g. leased store and land, leased land but own store, etc.). Minimum rent per sq. ft. and % rent (on what base?)
 - (d) Leases for all your stores in centres.
 - (e) Leases or agreements to lease containing examples of any of the restrictions discussed above including:
 - Major Tenant Approval Clauses
 - Exclusives (granted by the developer)
 - Use Clauses
 - Non-assignment Clauses
 - Radius Clauses
 - Clauses respecting promotion and membership in merchants' association.
 - (f) If these clauses are standard, some examples only.
 - (g) If marked departure in any circumstances, some examples necessary.

(h) Any departure if you are part-owner,
some examples.

APPENDIX D
BIBLIOGRAPHY

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