

## Speech given on November 2003 at International Council of Shopping Centers

Good morning and greetings from Canada. This past Sunday I read an article in the Montreal Gazette addressing the following question:

"What do Americans think of us? Judging by popular TV: not much."

The author provides a satirical litany from Cross Fire's Tucker Carlson "Jahnn Crat - yawn" planning to try marijuana once it is legalized, to the Simpsons insinuation that Canada has the bomb, to Jerry Seinfeld refusing to offer Kramer a Super Bowl ticket as Kramer likes Canadian 3 down football.

Fortunately, the retail real estate industry takes Canada much more seriously. When you shop in Canada with your favourable exchange, some stores, The Gap, Best Buy and Home Dépôt, and fast food chains like McDonalds, Pizza Hut and Subway, you recognize my name; others you may recognize by merchandising concept, such as Business Depot or Bureau en Gros in Quebec which is owned by Staples; Winners is part of the TGX Group and Wal-Mart, which only arrived in Canada through Woolco in 1994, dominates its category. Wal-Mart now operates 214 department stores, increasing the original 122 Woolco complement by 92 in 9 years. Sam's Club just opened its first Canadian stores in the Toronto area. Just announcing the arrival of Sam's Club in Canada caused the stock major supermarket operators Loblaws and Sobeys to temporarily drop.

Your institutional lenders like GMAC, GE Capital, Bank of America, Merrill Lynch, Column Financial to name a few, actively and aggressively finance Canadian real estate.

Institutions like TIAA-CREF recognize the value in Canadian shopping centres and the KKR – led equity investment in leading drug store chain Shoppers Drug Mart speak volumes.

ICSC devotes an entire division to Canada and the Canadian division committee assembles representatives of the biggest and the best. Our cities, while reputedly safer than yours, confront planning and funding issues yours confront. ICSC is a recognized force in representing the shopping centre industry's interests in Canada, often in coalition with other industry groups.

Most of these are chapter-run, such as our usual partners, the Urban Development Institute (UDI) and the Building Owners and Managers Association (BOMA). While

these groups tend to be developer-dominated, ICSC, being worldwide with a membership of over 40 000 strong and drawing from all segments of the industry, is an impressive sell to government authorities at all levels.

What's going on in government relations?

Every so often, bankruptcy and insolvency, which is governed by Federal legislation, becomes a recurrent theme as diverse groups jockey to improve their relative positions in the restructuring process. This often pits developers against chain retailers, as a successful restructuring usually requires shedding unprofitable leases, rendering consensus and common positioning difficult to reach.

Consensus-building proved impossible in Ontario on the issue of apportioning realty taxes as between anchors and CRU space in malls. ICSC could not take a position on this matter, anymore that it could take a position on a new phenomenon in Canada: legislation hampering big box development which we saw recently in Quebec City, due to divergent view points and competing interests.

Sunday shopping, while available in most major markets, is still on the drawing board in Nova Scotia. The Provincial Government, led by a Premier who, on religious grounds, is staunchly opposed to Sunday shopping, was forced to divert political danger here recently by agreeing to test the concept this Christmas season. So local leaders preferred to await the results and the public sentiment before taking a position.

The most intense and successful activity involves property taxation, by far largest of the pre-debt expense item a commercial property bears. Governments view real estate has a prime source of revenue. Our job is to keep a watchful eye over what is coming, so that commercial real estate, while contributing a fair share, does not have to overly subsidize society's expenses and goals. No simple task in the political arena, given the buildings don't vote.

As Divisional Chair, I recently established a Taxation Committee, headed by the directors of property taxation for Ivanhoe Cambridge and Cadillac Fairview, Canada's largest mall owners/managers. Sub-committees have now been established in British Columbia, the Prairie Provinces, Ontario, Quebec and Atlantic Canada to observe and report. If consensus among the player groups is reached, we then act, usually in concert with other industry groups.

The greatest success we have achieved thus far, concerns the dreaded tax on parking spaces in both Vancouver and Montreal. Provincial and Municipal Governments are forever searching for methods to finance public transportation. Studies show the funding requirements are usually two fold: coverage of mounting operating deficits and capital investment into equipment and infrastructure. For example in Montreal, the trains, tracks and other equipment constituting the underground metro system that was built for the 1976 Olympic Games are showing their age. Not only do these have to be upgraded and replaced, but there is a push to extend the geographical boundaries of the Metro system. In Vancouver, Translink, the Greater Vancouver Metropolitan Area's

transportation agency, has identified infrastructural projects over the next 10 years estimated to cost an excess of 6 billion dollars. Add to this the promises that were made in connection with the successful 2010 Winter Olympic bid for the lower main land and Whistler B.C. Just imagine that the road through the mountain to Whistler has to be revamped. The high peaked mountains and inlets buffering the main land from the Pacific Ocean provide magnificent scenery, but the road is treacherous if not life threatening in a snow storm.

The parking tax attempts to charge a unit amount, anything from 25 cents to a dollar, per parking space per day. A typical retail ratios in the five (5) car per 1,000 square foot of GLA range, Governments are tempted to wake up and smell these roses.

In Quebec, we have been warding this off intermittently since 1991. Things went full throttle in 2002, when ICSC joined with UDI and BOMA to keep this off the table. We characterize this simply as a disguised property tax; yet you simply have no idea how many influential voices, either naively or otherwise, believe that it was actually going to be users tax in the sense that the retailers would raise their prices to cover the additional charge and the shoppers would ultimately pay. Much of our lobbying effort was spent in dispelling this myth to politicians and policy framers alike.

We had a real scare in Quebec last December which is a pretty wild story for a cocktail reception in its own right. The good news is that the intent was not to charge for free parking spaces. The bad news was both the parking tax generally and the unclear drafting. It was put off the table but has now resurfaced as one of several alternatives to fund public transport. If this idea hits your area, the ICSC, UDI and BOMA brief prepared in 2002 is available on the ICSC website at [www.growthmanagement-ICSC](http://www.growthmanagement-ICSC). Special retail driven arguments were raised, such as CRU tenants covering anchor shortfalls and the magic retailer correlation between occupancy expenses and gross sales.

Vancouver's legislation allows for a parking tax on both free as well as unpaid parking spaces. In 2000, Translink successfully levied the tax at 7% on paid parking and left free parking alone. According to BC Government Relations Chair Ted Williams of Ivanhoe Cambridge, now under hot discussion are proposals to (i) increase the percentage on revenue producing parking from 7% to 21%; and (ii) introduce a parking tax on the parking stalls; Ted observes public sympathy shifting in favour of this type of tax. Ted has organized a committee of people he can count on to formulate a written position on these issues. The committee met yesterday and I shall monitor the results.

In closing, I hope this meeting will spring board discussions that transcend the U.S.-Canadian border. We both can benefit from our respective experiences in Government Relations as the issues and proposed solutions are often similar if not all together the same.