

Q+A: Forum's Mendel bullish on Québec retail, but now seeing resi opportunities too

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The developer remains committed to its essential services thesis while evolving its approach



Dean Mendel

Forum is best known for its portfolio of grocery-anchored retail centers across Québec, and for its disciplined, risk-averse approach to development.

But as population patterns change and capital sources evolve, the Montréal-based firm has begun to adapt, adding more residential phases to select projects and welcoming institutional partners to fuel further growth.

Forum founder and principal Dean Mendel sat down with *Green Street News* to reveal how the firm's investment thesis has – and hasn't – changed, discuss the unique challenges of the Québec markets and explain why Forum is betting big on the province's future.

How has Forum's investment thesis adapted in response to changes in urban demographics, retail consumption patterns and capital markets?

Our investment thesis is all about essential services, and that hasn't changed since we started. For 25 years, we've focused on developing grocery-anchored strips with essential services – groceries, pharmacies, restaurants, financial institutions – services people need in any economic climate.

The only adjustment is that sometimes, if there's extra land, it may make more sense for a small rental residential project rather than more retail, especially in Québec where retail depth is limited beyond core chains. In those cases, we keep mom-and-pop tenants to a minimum for credit and stability reasons. As a rule, a 30,000 sq ft grocery store can support another 30,000 sq ft of retail. Beyond that, other uses like residential may make sense, particularly in secondary and tertiary markets.

Retail margins and demand remain strong, and retail remains our primary focus, but we'll add residential when the economics work. Our relationships with hundreds of retailers are deep, and that's the foundation of our business.

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During the pandemic, Forum sought permit modifications for residual parcels adjacent to grocery-anchored strips. What regulatory, financial and market factors informed that decision?

Municipalities are looking for tax revenue, and residential projects provide that along with densification. If we can integrate residential with adjacent commercial, councils are usually supportive, and we've added residential zoning to many sites. This gives us flexibility for future phases.

We almost never put retail underneath residential, as large retailers don't like it, but cities are asking for it more. During Covid, we spent time rezoning to future-proof our sites, looking at various potential uses. Residential rentals became attractive due to existing demand and access to favorable financing, especially through CMHC, even though margins are tight.

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The regulatory push for more housing supply, and the ability to finance a large percentage of costs, drove these changes. Having sites already entitled allowed us to adapt quickly and avoid lengthy municipal battles over new locations throughout Québec.

When evaluating whether to introduce residential or retail, what data points and stakeholder inputs are most determinative?

If there's retail demand, we'll prioritize retail because it's a simpler project with higher margins. If we have quality retailers, we'll do a retail phase – returns are typically 7% to 8% for retail versus 4% to 5% for residential, which is riskier and more complex. As long as there's demand, it's an easy decision to do retail. Retail is also easier to plan and construct, especially as extensions to existing projects where much of the infrastructure is already in place. There's less risk compared to residential, and we typically have some of the parking lot already built.

Forum is known for acquiring land that is fully entitled or “re-leased.” How does this acquisition discipline interact with today's scarcity of developable land and rising competition among institutional buyers?

We're not land speculators. Our core competency is optioning sites for as long as possible to get a major tenant, like a grocer, signed before committing. We do all due diligence and only buy with zoning in place for both main and residual uses. We'd rather overpay for a site that's ready to build than take rezoning risks.

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Developable land is increasingly scarce due to factors like wetlands, zoning restrictions and price, so we focus on monetizing residual land and future-

proofing sites by getting them zoned for higher density when possible. We're also working on some master plans with thousands of doors, where over time we could redevelop existing strips into higher-density, mixed-use projects in key markets across Québec.

Looking ahead, what are the most significant opportunities and risks facing mixed-use and infill development in Québec, and how is Forum positioning its pipeline in response?

We are very bullish on Québec. There's strong population growth, positive demographics, comparatively less competition and lower pricing because many investors and retailers still shy away from Québec. There's also significant innovation and job growth, which drives both in-migration and immigration.

"We are very bullish on Québec"

One challenge is Québec's language legislation, which does create some hurdles for business, but in the grand scheme, it's a manageable issue. We see continued opportunity by staying highly focused on our niche and improving at it. Historically, we used our own capital to own most sites, but since 2019, we've started syndicating deals and bringing in outside and institutional partners to fuel larger projects and more ambitious growth. We intend to keep growing through syndication and institutional capital, while maintaining our culture and focus on being the heart of the community in our grocery-anchored projects. Being the central gathering place in secondary and tertiary markets is a unique advantage, and we're focused on scaling our business for the next generation.