

**CUSHMAN &  
WAKEFIELD**



# **RETAIL THERAPY**

2015



# INTRODUCTION

**The retail market across Europe is strongly reviving, particularly in capital markets; the strongest evidence of this is in the startling pace of the recovery of Southern Europe Investment activity.**

Cushman & Wakefield Research indicates the market growing from €3 billion in 2013 to €8 billion in 2014, the biggest ever year on year increase across the region. Market commentary across Europe, as well as US and Asian markets, reveal how the evolution of retail markets is happening at different speeds. Internet penetration, restrictions on foreign brands and restrictions on capital availability for development in recession hit countries have all affected the speed of recovery of different markets. Meanwhile the UK market often described as mature is still evolving at a remarkable pace not least with the increasing importance of transport hubs and retail destinations, as shown by the example of Grand Central in Birmingham.

**“Cushman & Wakefield Research indicates Southern European Investment activity growing from €3 billion in 2013 to €8 billion in 2014, the biggest ever year on year increase across the region.”**

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# EUROPEAN RETAIL INVESTMENT MARKET SETS NEW RECORDS

**“Southern Europe, where retail assets sales and acquisitions rose from €3bn in 2013 to €8bn in 2014.”**

**2014 saw a sharp rebound of activity in Europe’s commercial real estate investment market. Volume reached a record level of €194bn, up by 33% from 2013.**

Whilst the French market recorded the highest volume of transactions on record (€6.4bn), the surprise of the year came from Southern Europe, where retail asset sales and acquisitions rose from €3bn in 2013 to €8bn in 2014. This reflects the biggest ever year-on-year increase (135%) in volume across the region. It was also a record year for investment in Southern European countries with a total of €4.8bn.

Investor interest in the Southern European market is set to continue in 2015 with €3bn in acquisitions already recorded in the first quarter. At the same time, the appetite of investors for the commercial real estate market in general and the retail sector in particular is likely to lead them to explore new territories to find more opportunities across the region.

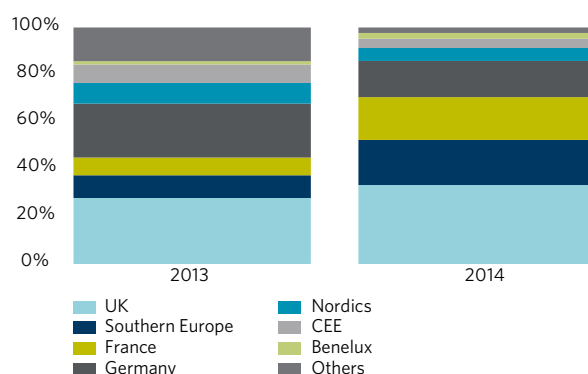
Shopping centres remain the most sought-after sub-sector for investors, and accounted for more than half of total retail investment with €24bn invested in 2014, up 38% on 2013. This is an absolute record for both market share and investment volume. The number of deals in this sub-sector was also a first. 319 shopping centres changed hands in Europe in 2014, compared to an average of 196 deals per year over the last decade.

Another record was set with 46 portfolio deals, almost three times the usual number. The largest portfolio deal so far this year was carried out by Carrefour, which took control of a European portfolio of 126 shopping galleries from Klepierre for €2.3bn.

Market activity was similarly buoyant for single asset deals. Seven shopping centres changed hands for between €115m and €260m. Most of these were in Spain, with Merlin Properties Socimi’s acquisition of the Marineda City shopping centre in Galicia for €260m being the most notable.

Benelux countries and the Netherlands also benefited from the willingness of investors to widen their geographical allocation. €568m was invested in shopping centres in this sub-region, an historical peak and more than twice the volume registered in 2013.

European investment volume in shopping centres



Source : Cushman & Wakefield Research



The UK remained the most dominant country in terms of shopping centre acquisitions, with almost €8.2bn invested in 2014, up from €6.3bn in 2013. Germany and France also enjoyed a dynamic year with €4.5m and €3.6m invested respectively.

The European retail sector is likely to continue to benefit from stronger domestic and investor interest. Recent research undertaken by Cushman & Wakefield highlighted an increase in new capital earmarked for retail investment. Of the single sector funds currently being raised, close to half (45%) is focused on retail assets. According to the last Cushman & Wakefield European Fair Value Index analysis, the retail sector is now much more attractive than the office sector, with CEE and Southern European countries offering the most underpriced markets.

**“319 shopping centres changed hands in Europe in 2014, compared to an average of 196 deals per year over the last decade.”**

The economic environment is expected to gain momentum. Consumer spending and retail sales are anticipated to grow at a moderate pace over the next four years, which will help the retail sector maintain its already strong appeal. We forecast that retail investment will reach €52bn by the end of 2015, with half of this invested in shopping centres.

The market will continue to be led by strong activity in the three core markets - UK, Germany and France - where listed companies are continuing to reshape their retail and shopping centre portfolios. Additionally, renewed interest from value added and opportunist investors, which accounts for close to 46% of newly raised capital, will lead to increasing investment volumes in peripheral markets, assuming attractive pricing continues.

European investment volume in retail sector, EURbn



Source : Cushman & Wakefield Research



# UK RETAIL PROPERTY HEALTH INDEX

The UK economy performed strongly through 2014 and although there has been a marginal slowdown in GDP growth in the first quarter of 2015, the foundations for a sustainable recovery have been laid.

The consumer economy has performed particularly well; retail sales have seen 25 months of consecutive monthly year-on-year growth, the longest period of sustained growth since May 2008. This has been supported by consumer confidence being at its highest level since September 2002.

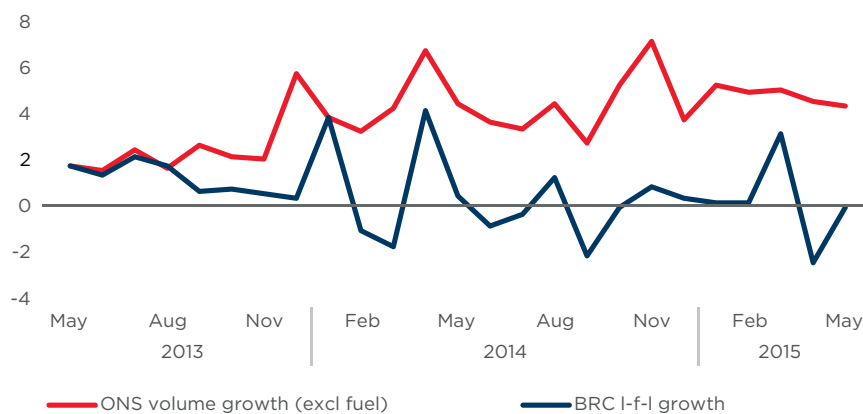
Retail and service vacancy rates fell to 11.3% in April 2015, compared to 11.4% in April 2014 (Experian GOAD). As we discussed last year, the percentage of vacant floorspace is higher than the number of units signifying retailers are keeping or taking on new larger

units to show more stock with the ability to create an experience.

## THE RETAIL PROPERTY HEALTH INDEX

The Cushman & Wakefield Retail Property Health Index (RPHI) was a tool developed in 2014 by Cushman & Wakefield to identify and assess the most and least 'healthy' retail locations. The weighted index utilises economic data, socio-demographic characteristics and retail property information to enable comparison to be made between geographic areas and retail centres across GB.

Retail Sales



Source : Cushman & Wakefield Research

**“Retail sales have seen 25 months of consecutive monthly year-on-year growth, the longest period of sustained growth since May 2008.”**

Top 5 ranking



Source : Cushman & Wakefield Research

Last year, the RPHI index enabled a comparison of centre health down to areas broadly equivalent to Unitary Authorities (128 areas). This year, however, we have widened the index to allow an assessment of over 2,500 centres.

**CURRENT RPHI**

At a regional level, once again we have identified London as the strongest location. This is supported by an affluent demographic profile, strong economic fundamentals and a low vacancy rate. The index score of 127 compares to the lowest regional index scores of the North East and Scotland at 83 - caused by less affluent shoppers, lower economic growth over the past five years and higher than average vacancy rates. At a more local level, the top five areas are York, Outer West London, Oxfordshire, West Sussex and Milton Keynes. Of retail centres with over 100 units classed as comparison retail, the top rated centres are Witney, Whitstable, London - Canary Wharf, St Ives - Cornwall and Hove.

**RPHI OUTLOOK**

In order to assess the outlook for retail locations, we have utilised economic forecasts for the period 2015-2020 to generate an ‘outlook’

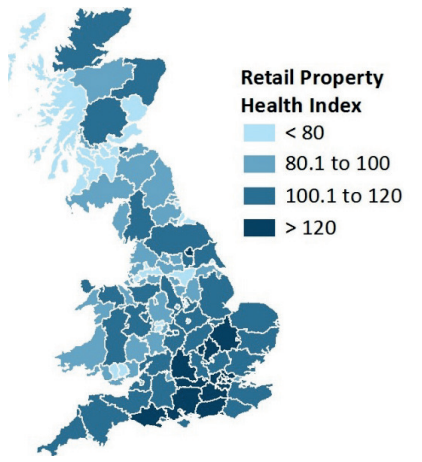
index. The ‘outlook economic’ UK index rises from the current 100 benchmark to 115. Although the rate of population growth is forecast to fall in the next five years compared to the previous five years, unemployment is forecast to fall to 5% accompanied by an increased rate of residential consumer and retail sales growth. When we use this with the other RPHI variables, the region with the greatest growth from the current final index to outlook index is the East Midlands; rising from 94 to 103. This region has a relatively favourable demographic mix along with a faster improvement in its economic fundamentals than corresponding regions. The top five centres in this outlook index include Witney, Whitstable, St Ives - Cornwall, London - Canary Wharf and London - Clapham Junction. These centres already exhibit very low vacancy rates which we would expect to continue to fall supporting strong rental growth.

**HOTSPOTS**

The RPHI outlook index allows us to identify centres with higher than average growth prospects but with current high vacancy levels. The top five centres with the strongest RPHI outlook index but with a

vacancy rate index below 75 (100 being average) are Camberley, Reading, Newbury, Chester and Croydon. These are places currently experiencing higher than average vacancy rates, but forecast to experience above average economic growth. Stronger than average economic growth is likely to erode vacancy rates relatively quickly and underpin subsequent rental growth. We would expect landlords and retailers to closely assess these centres given their potential.

Current RPHI NUTS 3 Map



Source : Cushman & Wakefield Research



**“Funf Hofe City Quarter is anchored by brands such as Max Mara, Marc O’Polo, Guess, Emporio Armani, Massimo Dutti, Kunsthalle, Hugendubel, and Karl Lagerfeld.”**



# MUNICH'S MAJOR URBAN REGENERATION SUCCESS STORY

Situated within Munich's historic centre around Theatinerstrasse and Kardinal-Faulhaber-Strasse, Fünf Höfe CityQuartier successfully dovetails historic and contemporary elements in a complex of five courts with shops, restaurants, offices and residential accommodation.

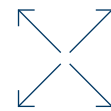
The centre features neo-Baroque facades, spacious arcades, vaulted spaces with glass sequins set into the plastered walls, glass ceilings above narrow glass courts, and a contemporary entrance of reflecting glass.

Swiss architects Herzog & de Meuron, which was also responsible for the Beijing Olympic stadium, transformed the former HypoVereinsbank headquarters site into a vibrant old town city centre destination. Four of the five courts were acquired by Union Investment Real Estate in 2003, the fifth court, although included in the scheme, is retained by HypoVereinsbank.

The development represents a major urban regeneration success story. Each day, the centre receives around 25,000 visitors, attracted by the unique ambience created by its architecture, shops, cafés, restaurants, businesses and residential spaces. The halo effect of the Fünf Höfe CityQuartier can be felt throughout the adjoining neighbourhoods and wider Munich.

Cushman & Wakefield's retail team in Germany has been a part of the success story of Fünf Höfe CityQuartier, having placed a number of premium brands into the centre over the last decade. Just counting the last three years, these brands include **René Lezard**, **Twin Set Simona Barbieri**, **Falconeri**, **Michael Kors** and premium restaurant **Pageou** in 2014; **Bogner Fire & Ice**, **Karl Lagerfeld** and **Jacques Britt** in 2013; and **7 For All Mankind** and **Guess** in 2012.

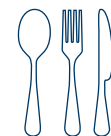
Of the premium brands recently placed by Cushman & Wakefield, **René Lezard**, a German premium women's and men's fashion brand, opened in the late summer of 2014; **Twin Set Simona Barbieri**, a high quality Italian women's fashion brand, opened its first store in Germany in the autumn of 2014; and the Italian **Calzedonia** group opened its first Falconeri branded store (specialising in cashmere and more refined natural knitwear for men and women) in Germany in December 2014.



**48,000 sq m**  
approximate total space



**61**  
shops



**2,450 sq m**  
food and beverage



**3,200 sq m**  
art gallery



**24,500 sq m**  
office space



**26**  
residential units

# IRISH RETAIL INVESTMENT MARKET OPENS UP



With foreign investment now pouring in, the Irish retail investment market is no longer a closed shop and will become more liquid and transparent in the coming years.

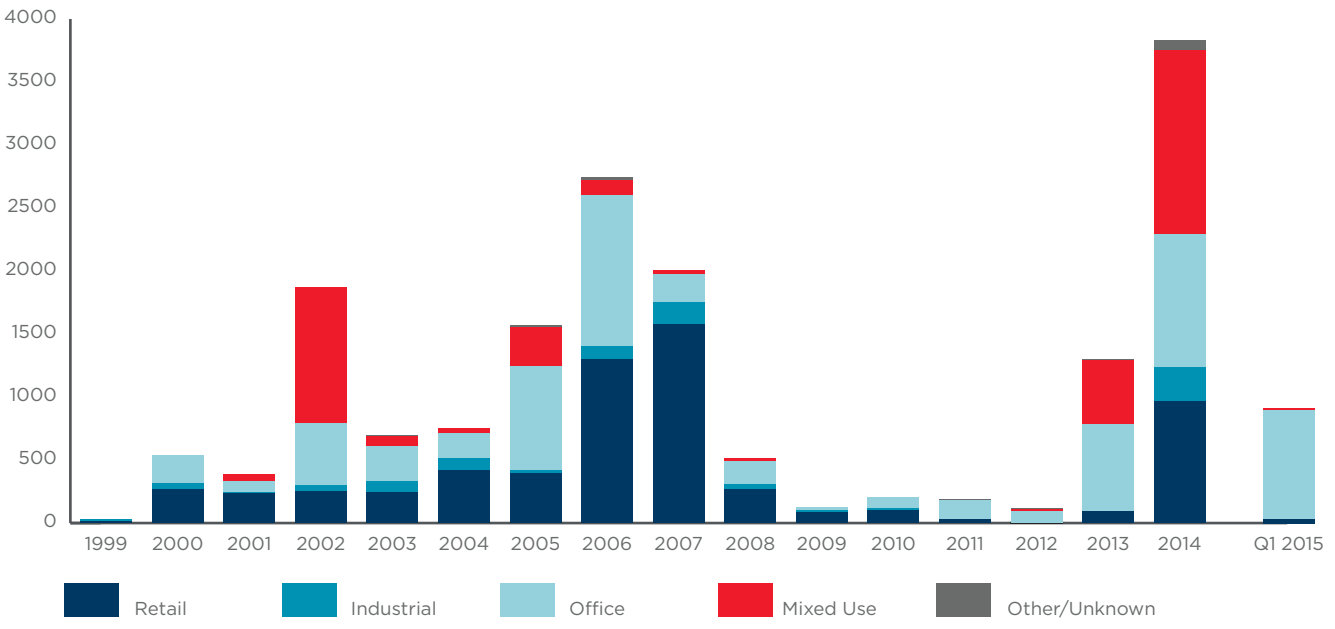
Irish Funds and REITS such as Irish Life, IPUT, Green REIT, Hibernian REIT and Hines/HAIL were the principal buyers for most of the year, but with the rapid recovery of the Irish economy, overseas funds and private equity were more active towards the latter part of 2014, with US private equity funds acquiring property loans at substantial discounts from par value.

Funds such as Standard Life and Credit Suisse have recently acquired office investments in Dublin, and German Institutions such as Union Investment, Deka and Realis have also been active in the market. These investors are unlikely to stray too far from Dublin, and as a result more regional investments continue to attract value added and opportunist funds such as Marathon and Varde, which are seeking higher returns for potentially higher risks.

In the face of strong rental growth, supply and demand issues and falling returns, office yields have moved in significantly over the past 12 months.



Ireland Investment Market, €m



Source : Cushman & Wakefield Research

In contrast, the retail sector is now seeing strong investment activity due to an increase in retailer enquires together with expansion programmes and a number of new retailers entering the market. Retail investment activity in 2014 was boosted by a number of large transactions including the sale by Aviva Investors of a majority stake in the Liffey Valley shopping centre in Dublin in an off-market sale for a sum in excess of €250m.

2015 has witnessed further major assets disposals coming to market as NAMA unwind their position, confident that the market appetite is there and offering investors the opportunity to acquire prime retail assets at substantial discounts compared to similar markets throughout Europe.

Over the coming year, we expect to see more foreign investors being attracted to Ireland’s retail sector by the rapidly improving economy,

increasing consumer spend and, more importantly, liquidity.

The old scenario of retail investment rarely transacting in Ireland has now disappeared. The new landlords of retail assets are seasoned and predominately overseas investors, and they will look to acquire and dispose of assets over the coming years as their investment criteria demands. Ireland has defiantly entered a new stage.

**“The Irish retail investment market saw more than €4.5bn of asset sales and over €22bn of loan sales transacted in 2014.”**



# ITALIANS DEMONSTRATE INCREASED APPETITE FOR FOOD AND DRINK

Over recent years, the Italian retail market has suffered from the economic downturn with high levels of unemployment and falls in household disposable income, but there are now general signs of a slow improvement.

The luxury sector seems to have largely resisted the recession, thanks in part to the influx of tourist consumers from Russia, the Middle East and the Far East. The buoyancy of the sector is reflected in the rents of the Golden Quadrilateral in Milan, where prime levels are now easily in excess of €5,000 per sq m per year.

Whilst the appreciation of good food and drink is something imbued in all Italians from birth, the Slow Food movement that started in the 1980s was in response to the challenge posed by globalisation.

Since then, the country has further developed its expertise in food technology and marketing. Italy now hosts the European Food Safety Agency in Parma, and this year EXPO International is being held in Milan with the theme of Feed the Planet, Energy for Life.

Eataly exemplifies this concept, with a layout in the form of market stalls for fresh, local food and a mix of restaurant dining and fast quality food.

In the space of just four years, it now has 12 stores in Italy and five

abroad (New York, Chicago, Dubai, Istanbul and Japan), with openings planned in the coming year for San Paolo, Brazil, Moscow, Munich, Seoul and a second outlet in New York.

The Milan store is a good example of the type of property the company looks for. It is a former, well-known theatre located close to the new CBD of Milan and near to the pedestrianized shopping zone of Corso Como.

**“Milan, where prime levels are now easily in excess of €5,000 per sq.m per year.”**

With a total area of 5,000 sq.m arranged over four floors, 19 different eating concessions as well as food shopping, **Eataly** claims that this store alone turned over €40m in 2014.

At MIPIM 2015, and supported by **Eataly**, Prelios SGR launched a bid for the redevelopment of a food market in Bologna. The project is known as FICO and will comprise a total of 80,000 sq.m of covered space dedicated to Italian food and wine and serving as a marketplace for local producers selling directly to the public.

Bellavista is a similar operator, working on the concept of a covered market with concessions to local producers and retailers. They are looking to export this concept abroad and have targeted London as their next location for a 2,000 sq.m unit.

A different approach can be seen in the combination of luxury goods and food and drink under one roof. **La Rinascente** department store in central Milan pioneered this concept in Italy, under the direction of former Selfridges’ head, Vittorio Radice.

The Italian department store chain **COIN** has also developed its own food and drink brand, operating under the name **Eat’s**.

**“The food and drink sector has not just resisted the recession but has shown remarkable growth over the past few years.”**

This is currently operating within **COIN** stores as well as the **Excelsior**, a 4,000 sq.m luxury multi-brand store in central Milan. The latest addition to the chain is the **Brian and Barry** department store, located in a former 12 storey office building in central Milan, with almost half of the sales space dedicated to bars, restaurants and food shopping.

Be prepared for high end Italian food and drink operators coming to your market soon.



# RETAIL IN DUTCH HIGH STREETS GROW BIGGER AND SMALLER

The number of foreign retailers in the Netherlands' four largest cities has doubled in the last 10 years, whilst the number of Dutch retailers has decreased by 33%. The proportion of international brands is expected to continue to rise.



**“The major shopping cities in the Netherlands are welcoming more visitors every year.”**

Where retailers used to pursue domestic expansion, they now seek out whichever foreign cities offer the highest volumes of consumer traffic. As a result, more global retail chains are concentrating their operations in fewer cities, and in smaller, more dynamic shopping areas. International retailers in the fashion sector in particular are focusing their operations in the best European cities.

Consumers are increasingly willing to travel to these cities. With a wide range of shopping channels open to them, they no longer need to visit stores to buy products. When they do so, they are choosing cities that offer a total experience. Total experience is a well balanced combination of retail, leisure, culture, restaurants and coffee shops. The prime retail locations are consequently extending their catchment areas.

There is room for only a limited number of Dutch cities within the European network of prime cities such as Amsterdam, Rotterdam, The Hague and Utrecht (Maastricht).

For the Netherlands, this means that fewer shopping streets can consider themselves part of the prime retail market and an even smaller number of those belong to the very top tier of locations. The difference between Dutch prime retail and other retail is becoming more and more distinct.

The reality is that the variety of shops is decreasing. We see the emergence of a European network of prime shopping cities primarily aimed at fashion with a comparable product offering.

These changes are visible at the single high street level. Amsterdam's Kalverstraat, which is the most prime shopping high street in the Netherlands, now has less stores but a bigger international presence. Such as **H&M, Forever 21, Top Shop, Tommy Hilfiger, Urban Outfitters, River Island** and **Stradivarius**. As the shops become larger, the prime retail areas effectively shrink.

Fashion and experience are keywords in the best retail shopping streets in the Netherlands.

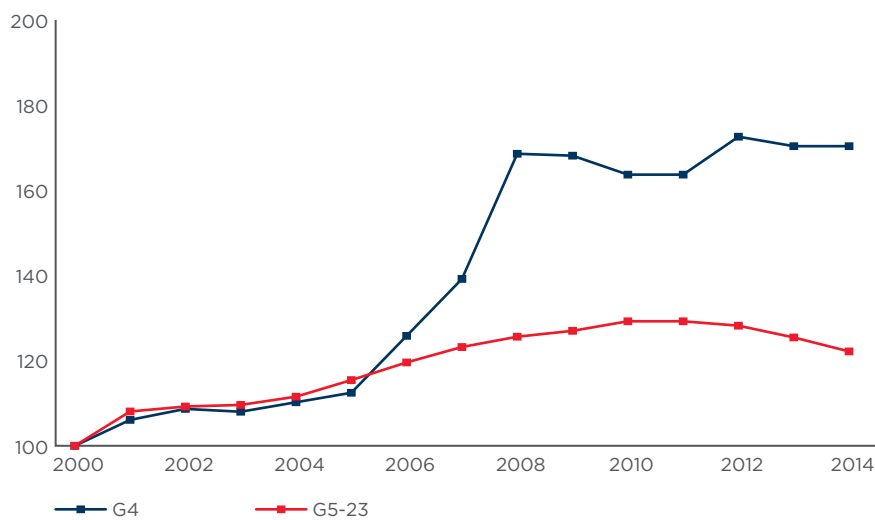


Consumers want to be amazed by the products on offer in shops (exclusivity experience). Fast fashion depends on a high consumer traffic volume as this ensures that collections are quickly sold out, and the very best locations in the very best shopping streets offer the ideal conditions.

The resulting battle for super prime retail locations is fierce, with retailers jockeying for the best positions. Rents in these areas have either remained stable or risen at a time when the recession has scaled down consumer spending.

For this business model to succeed, only the best sites will do. It is therefore likely that the pressure on super prime retail locations will cause rent levels to rise further.

Rent price development prime high streets biggest five cities versus cities ranked 5 to 23 by population  
Index: 2000 = 100 (23 towns/cities > 100,000 inhabitants)



Source : Cushman & Wakefield Research

**“The number of foreign retailers in the Netherlands’ five largest cities has doubled in the last 10 years, whilst the number of Dutch retailers has decreased by 33%.”**

“The rate of failure in centres with a total space of less than 20,000 sq m can be up to 50%.”

## AGEING RETAIL STOCK IN POLAND

Today we have 394 shopping centres that account for 73% of the total volume of retail stock in Poland (13 million sq m). With almost half of them constructed before 2004, and another 35% at least five years old, owners are facing a number of challenges.

Approximately 40% of Polish shopping centres are hypermarket-driven but with increasing consumer preference for quicker and more convenient shopping, large food outlets are no longer such major footfall generators for retail schemes. The behaviour of consumers is evolving and their expectations of what retailing should offer is changing.

Expansion of existing centres is the most popular option to strengthen a scheme's position in the market. In the next two years, 25% of the pipeline stock will be made up of extensions of existing schemes.

These include **Galeria Sudecka** in Jelenia Góra, **Centrum Bielany** in Wrocław, **Factory Ursus** in Warsaw, **Supersam** in Katowice, **Wola Park** in Warsaw, **Ogrody** in Elbląg, **Galeria Pomorska** in Bydgoszcz, **Magnolia Park** in Wrocław, and **Smyk** in Warsaw.

Even the owners of prime schemes with solid market positions have been working to strengthen their assets. Refreshing the interior design, refurbishing food courts, introducing new entertainment amenities, and rearranging anchor tenants have been the most common trends.





Blue City shopping centre in Warsaw – the successful example of the remodelled and repositioned retail asset

There are a number of examples in the Polish market of successful extensions/refurbishments, as well as several cases where the value of the shopping centre remained largely unchanged. The smaller the shopping centre, the less likely it is to succeed. The rate of failure in centres with a total space of less than 20,000 sq m can be up to 50%.

Risk assessment is key to finding means of expansion that do not involve common mistakes, such as over-scaling the extension or a lack of functional access between the old and the new part of the centre.

Given the toughening conditions in modern retailing and the challenges of ever-changing customer behaviour, a wide-ranging analysis of the remodelling trend should be applied to shopping centres that have been operating for at least five years. Such an examination should cover a number of variables, including the quality of the asset, its offer, tenant mix, footfall and performance figures, plus external factors such as competition and overall market situation.

Cushman & Wakefield has conducted a multi-dimensional analysis of a selected pool of approximately

130 retail assets that have been present in the market for at least five years. Alarmingly, almost 80% of the examined schemes were graded below 70% of the maximum score. This means owners need to consider a wide range of difficult questions.

Areas that should be addressed include the centre's future profile and positioning, best tenant mix, target customers, ways to differentiate from the competition and, finally, means of coping with market challenges posed by the growing e-commerce sector.

**“In the next two years, 25% of the Polish pipeline stock will be made up of extensions of existing schemes.”**



# THE SPANISH SHOPPING CENTRE INVESTMENT TSUNAMI

For the Spanish economy, 2014 was a major turning point in the financial crisis. The year ended with 1.4% GDP growth on the previous year, the first time since 2008 that the country had seen full-year growth. After six years of falling sales for retailers and mall owners, 2014 closed on a very positive note.

**“Over the next two years, there are 20 openings and eight extensions of shopping malls planned, with an expected volume of new supply of over 700,000 sq m GLA.”**

It was Spanish shopping centre assets that shone the brightest during 2014. Of the €8.4bn invested in the non-residential real estate sector, €2.5bn went to transactions of shopping malls. There were 24 deals involving 34 centres, with 1,300,000 sq m of GLA changing hands over the year. This figure represents four times the investment volume reached in 2013, which was just over €600m.

An increase in consumer activity was also registered. Lower energy prices and rising employment - nearly half a million jobs were created last year - led to a rise in disposable income. Shopping centres saw sales increase to €38.6bn, 5% up on the previous year, and visitors increase by 5.8%.

2015 promises an even better performance, until H3 2015 major shopping centre acquisitions include **Plenilunio** for €375m, **Puerto Venecia** for €451m, **Marineda City** for €260, and **Islazul** for €230m, **El Rosal** for €87.5m,



## MAJOR SHOPPING CENTER TRANSACTIONS

**Espacio Leon** for €81m and **Zielo de Pozuelo** for €70m.

Buyers have been mainly international investors (53%). We also expect the trend of investing in the Spanish shopping centre sector to continue, with a growing interest for secondary shopping centres. We anticipate yields of between 5% and 5.5% for shopping centres located in prime areas, and around 7% for those located in secondary areas.

Over the next two years, there are 20 openings and eight extensions of shopping malls planned, with an expected volume of new supply of over 700,000 sq m GLA.

This growth will be supported and sustained by low interest rates and easier financing, a continued rise in consumption together with the general improvement of the economy (estimated at 3.1% for the whole of 2015), the debt purchase programme announced by the ECB, and a rise in employment.

### **Boulevard**

**City:** Pais Vasco  
**Sale Price:** €153m  
**Buyer:** ING  
**Year:** 2014

### **Marineda City**

**City:** La Coruña  
**Sale Price:** €260m  
**Buyer:** Merlin Properties  
**Year:** 2014

### **Islazul**

**City:** Madrid  
**Sale Price:** €230m  
**Buyer:** Tiaa Henderson  
**Year:** 2014

### **Gran Via de Vigo**

**City:** Galicia  
**Sale Price:** €113m  
**Buyer:** Oaktree Core  
**Year:** 2014

### **Puerto Venecia**

**City:** Zaragoza  
**Sale Price:** €451m  
**Buyer:** Intu Properties  
**Year:** 2014

### **Plenilunio**

**City:** Madrid  
**Sale Price:** €375m  
**Buyer:** Klepierre  
**Year:** 2015

### **AireSur**

**City:** Sevilla  
**Sale Price:** €75m  
**Buyer:** CBRE Global Investors  
**Year:** 2015

### **El Rosal**

**City:** Leon  
**Sale Price:** €87.5m  
**Buyer:** Lar Real Estate  
**Year:** 2015

### **Espacio Leon**

**City:** Leon  
**Sale Price:** €81.0m  
**Buyer:** Blackstone Real Estate Partners Europe IV  
**Year:** 2015

### **Zielo**

**City:** Madrid  
**Sale Price:** €70.0m  
**Buyer:** UBS  
**Year:** 2015

### **As Termas**

**City:** Lugo  
**Sale Price:** €67.0m  
**Buyer:** Lar Real Estate  
**Year:** 2015

# HOW TO SEE THE POTENTIAL RATHER THAN THE THREAT OF E-COMMERCE

**E-commerce has grown steadily in Sweden over the last decade, rising from SEK4.9bn in 2003 to SEK42.5bn in 2014.**

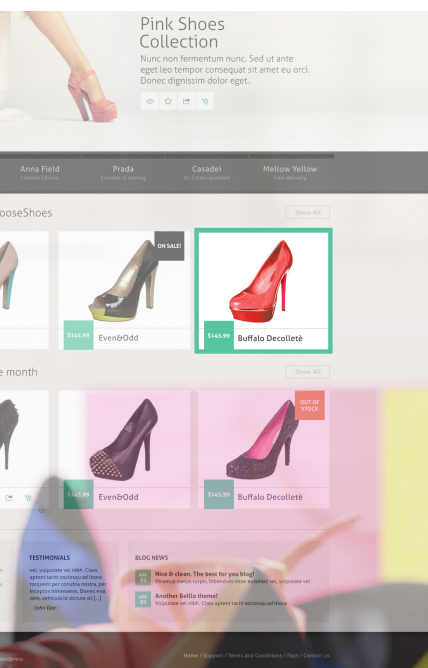
According to the E-commerce Barometer produced by Postnord, Svensk Digital Handel and HUI Research, e-commerce in Sweden now accounts for 6% of total retail sales. Meanwhile, Eurostat figures state that Sweden has one of the highest percentage of households with internet access (90%) and also individuals having purchased online in the last 12 months (79%).

Considering Sweden's high percentage of households with online access and purchasers willing to spend online, the 6% share of e-commerce sales online is relatively low when looking at other major European countries. For example, the proportion of all retail spend online in the UK is approximately 11.3% with the major markets of Germany and France also having a greater proportion of online spend than Sweden.

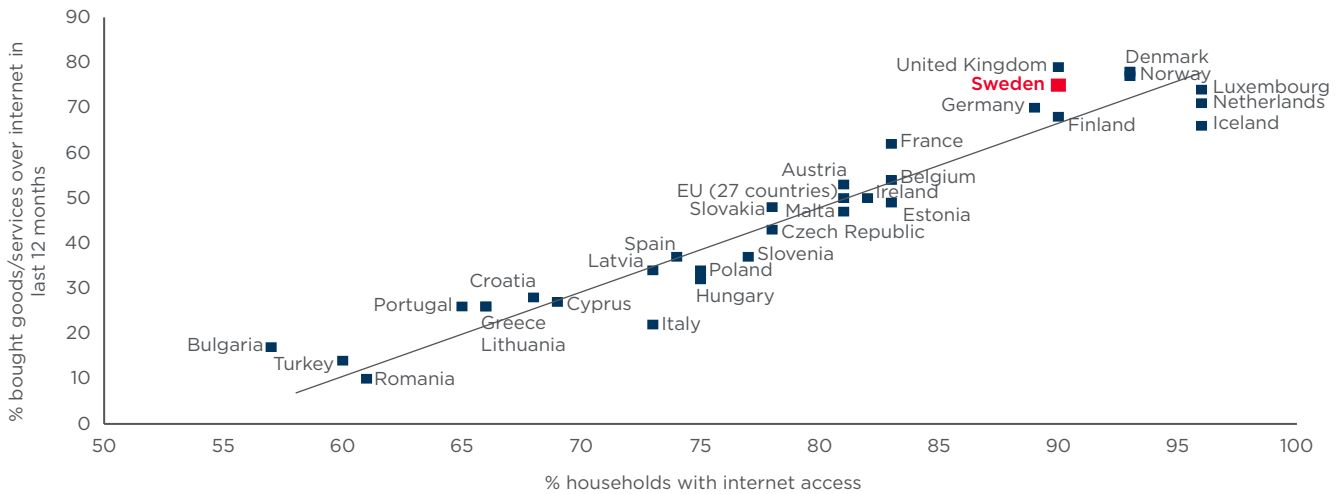
Given Sweden's (and Scandinavia in general) lower position on the online retail maturity than other Western European countries it has the opportunity to learn from adaptations made by markets further up the maturity curve.

Online retail is still often seen as a threat to shopping destinations. However, an increasing number of landlords and retailers are now employing omni-channel strategies to cater for the experiential and convenient shopping experience that online retailing mean for customers.

The growth of online retail has had the effect of retailers seeking larger stores for 'showrooming' to showcase their entire product range in large prime centres with large catchments, but also to create click-&-collect sites in smaller store formats to



Household internet access versus Individuals (16-74) having bought goods/ services in the last 12 months over the internet



Source : Cushman & Wakefield Research

enable consumers to pick up their goods in convenient locations and avoiding the expensive 'final mile' in the online delivery route. Click-&-collect has the additional benefit of encouraging footfall through stores and additional spend.

### “E-commerce in Sweden now accounts for 6% of total retail sales.”

As e-commerce creates increased competition, it is important for shopping malls to define their target audience and, where necessary, to adapt their brand strategy. A good tenant mix is also important, preferably with a relatively large range of retailers that are experiential and hard to experience online, such as restaurants and cafes.

The ability to offer good service can provide another competitive edge. Being assisted on a personal level cannot be fully replicated in the online shopping experience. The way that the consumer is treated can generate customer loyalty and a corresponding increase in sales and profitability.

The growth in e-commerce will continue to challenge the retail industry. To survive, it must adapt.

### THERE ARE MANY E-COMMERCE INTEGRATION POSSIBILITIES.

- Thanks to developments in the gathering and processing of big data, research can now find new patterns in consumer behavior. From this information it is possible to customize market measures for the consumer.
- Click-and-collect systems enable consumers to make purchases online and then go to a mall to pick up their goods. This generates additional footfall, which in turn can generate additional purchasing opportunities.
- Showrooms are areas where retailers can showcase their products, which the customer can then order online.
- Pop-up-stores are temporary, often small, stores where the products are presented for consumers. Pop-up-stores can also be used to test different concepts and to fill vacancies in shopping centres.
- A virtual shopping wall is a type of virtual store, where the consumer can make purchases from a touch screen.





**“Based on the height, weight and stature of the person scanned, video screens display the advert deemed most appropriate.”**

# RETAIL TECHNOLOGY

**As retailers try to embrace the power of the internet in their pursuit of omni-channel retailing, the presence of technology in bricks-and-mortar stores and shopping centres is becoming ever more prevalent and advanced.**

Whilst the jury is still out on the effectiveness of various technologies so far employed in the physical retail environment, retailers seem to be trialing every concept they can get their hands on.

**“The latest football boots might be displayed to a young male shopper, or a promotion on 2 for 1 baby food shown to a mother pushing a pram.”**

Marina Bay Sands in Singapore typifies the more experimental end of the market. They have installed video advertising walls with technology similar to that in an Xbox to scan shoppers as they approach. Based on the height, weight and stature of the person scanned, the screens display the advert deemed most appropriate. The latest football boots might be displayed to a young male shopper, or a promotion on 2 for 1 baby food shown to a mother pushing a pram. This technology is now entering the UK markets with screens being trialed in Grand Central Birmingham from September.

Another example of new technology in retail can be found in the **Burberry** store on London's Regent Street, where they track customers' movements around the store via their mobile phones, and then send them promotions about specific products via bluetooth when they are standing by the

relevant product. There is some doubt about whether this actually distracts shoppers rather than entices them into a purchase, and whether the message is better delivered via bluetooth rather than by a shop assistant.

An area of technology shoppers are very familiar with is the self-service kiosk. It was first introduced to the UK in 1996, and we now have more of them than the rest of Europe combined. Whilst they are an aspect of technology that appears to have been accepted by the UK retail market, they are not popular with everyone. A 2014 Which? survey revealed that 63% of shoppers don't like using them. Poor customer service experience could be the reason they are so widely utilised.

Retailers are acutely aware that good customer service is not only difficult to do but is also expensive. One way to overcome the problem is to reduce interaction with the customer by empowering shoppers to take control of their own shopping experience, including paying for their goods themselves at a self-service kiosk. The supermarkets have led the way in embracing this approach, closely followed by the DIY sector, and now we are seeing self-service facilities in airports, hotels, restaurants (mainly fast food), and most recently fashion retailers.

Recent research from The National University of Singapore found that when an off-license changed from face-to-face to self-service, the market share of difficult to

pronounce items increased 8.4%. The conclusion of this research was that customers possibly fear being misunderstood or appearing unsophisticated in front of the shop assistant. The change to self-service returned control to the customer and removed any potential social friction or embarrassment.

Similar research has shown a change to self-service in fast food restaurants resulted in customers ordering meals with higher calorie content, which led researchers to conclude that customers make different choices when they can be certain those choices do not attract negative judgment.

**“When an off-license changed from face-to-face to self-service, the market share of difficult to pronounce items increased 8.4%.”**

The retail industry is yet to understand fully what technology the customer wants and how to utilise it within the bricks-and-mortar environment, but while the industry finds the right balance we can expect to see retailers trail more innovative technologies in the years to come.

# THE INCREASING IMPORTANCE OF FOOD AND LEISURE IN ANY SHOPPING CENTRE MIX

The eating out market continues to grow, rising by 4% in 2014 (Horizon), and predicted to rise by 7% in 2015. New generation food courts within shopping centres are expected to grow in importance as anchors.

In spite of signs that the retail market is recovering, vacancy rates in the UK remain at 12-14%, and as high as 60% in the most extreme cases. Whilst there have been many suggestions about how the voids in shopping centres and high streets can be filled, ultimately the market decides. As the customer looks beyond just a shopping experience, restaurants and leisure are playing an increasingly important role in improving dwell time within centres.

Eating habits have changed, and food courts have moved on from just burgers and jacket potatoes. As more health conscious consumers are interested to see what is being prepared, there is an opportunity for restaurateurs to create some theatre. **Pho**, for example, use fresh ingredients and generate excitement by preparing individual orders face-

to-face with the customer.

In key locations, these operators are now able to compete on rental terms with retailers. In addition to offering longer lease terms, which are attractive to landlords, developers and investors, they are prepared to base turnover rents over and above the market rent if the right thresholds are reached. As these occupiers take longer lease terms and pay increasing rents, restaurant rents are predicted to increase even beyond existing record levels in the super prime shopping centres.

New food and drink formats are appearing. **Trinity Quarter** in Leeds, for example, is an indoor street food market featuring seven permanent restaurants and five 'pop-up' cool street food traders such as **Manjits Kitchen**. The permanent

restaurants include pizzas, burgers, Mexican and Vietnamese. The five street food traders will change once a month to ensure variety for the customer.

Cushman & Wakefield are involved in the most significant new shopping centre development to open in 2015: **Grand Central** in Birmingham. The scheme, which will become operational in September, is anchored by a 23,000 sq m **John Lewis** store. When first planning the tenant mix in 2011, restaurant space was anticipated to be no more than 8% of the total floor space. It now accounts for 28%, which is a strong indication of the changes taking place.

A number of other projects opening over the next couple of years are experiencing similar rises in demand.





**“Eating habits have changed, and food courts have moved on from just burgers and jacket potatoes.”**

As well as food, leisure demand is driving the current development pipeline. Typically, leisure amounts to between 10% and 15% of a shopping centre's GLA, but this percentage is growing.

2015, cinema attendances are expected to outperform 2014. There are 220 new screens in the development pipeline for the UK, although it is unlikely all of these will be delivered. **Cineworld** has the most aggressive expansion programme, aiming to deliver over 20 new cinemas in the next three years.

**“Leisure amounts to between 10% and 15% of a shopping centre's GLA, but this percentage is growing.”**

New leisure concepts such as **KidsZania** at **Westfield London** are entering the UK market, and low cost gyms continue to grow significantly with **Sweat!**, **Pure Gym** and **The Gym Group** leading the way.

As with all things related to retail, trends change on a regular basis. We had the rise of the coffee shops and the phone shops; now it is restaurants and leisure. Who knows what will be next!



# THE BLURRING OF RETAIL SECTORS

As much as the property industry likes to pigeonhole the retail sector in defined categories such as in-town, out-of-town, shopping centres, retail parks and high streets, the reality is increasingly blurred.

Retailers know that consumers cast their vote by where they choose to spend their money, and continually strive to adapt and attract more custom. The rise of omni-channel retailing has enabled retailers to capture and cater for a larger and more diverse customer base, and as a result they are increasingly moving away from historic store formats that do not suit the current environment.

A prime example of a retailer that has understood how the retail landscape is evolving and how their retail offer needs to develop is **Next**. Historically, the brand has predominantly been a Central Business District (CBD) retailer on high streets as well as anchoring major shopping centres. To complement their existing portfolio and to gain market share, they are now making a concerted move to acquire out-of-town locations.





The **Next Home & Garden** stores are typically 1,850 – 2,800 sq m over two floors, and are in effect a retail destination.

The larger floor space allows the retailer to include both the fashion and home elements of their product line in one location and, with the addition of a garden area, to extend their sales range further. There are approximately a dozen of these stores open, with another 5-10 in the pipeline. The design and environment **Next** has created provides an engaging retail experience, and its apparent success means that it is likely to be a continuing trend.



Other cases of retailers that have branched out from initial CBD formats include **Primark, Marks & Spencer, Debenhams, John Lewis, Wilko, Moss, Fat Face** and **Metro Bank**.

The food and beverage market has also seen occupiers changing their format and locations. **Costa** and

**Starbucks** are examples of brands that started out in CBD locations but are now a large feature in the out-of-town market. Casual dining has also made the jump with well-known CBD restaurant names opening in increasing numbers in out-of-town retail parks. These include **Bella Italia, Nandos** and **Pizza Express**, with **Zizzi** opening on the predominately furniture retail park Junction 27 at Leeds Birstall.

### “Casual dining has also made the jump with well-known CBD restaurant names opening in increasing numbers in out-of-town retail parks.”

The evolution of retail sectors is working both ways, with some out-of-town retailers moving into in-town locations and smaller stores. The French global sports giant **Decathlon** are synonymous with large roadside stores across Europe, but in London they have recently opened two stores in very different locations compared to their traditional estate. The first is a 650 sq m store in the **Southside Shopping Centre**, which captures a wealthy catchment area. The second is a 55 sq m store in **Old Street** London Underground Station, which benefits from

commuter footfall from City and **Silicon Roundabout** workers. Different properties, different customer experience, same retailer.

There is also a trend of online retailers taking physical floor space. This can be purely for operational reasons such as click-and-collect lockers, or because it offers the allure of a prominent shop window or showroom to increase and reinforce brand awareness. For other operators, such a move represents a large scale expansion and market penetration. A good example is **Oak Furnitureland**, a former online retailer that now has more than 60 stores in the UK covering over 46,000 sq m of retail space.

As retail space requirements change, developers are increasingly offering product that does not uniformly fit into one of the conventional retail subsectors. **Whiteley Shopping Centre** in Hampshire is an out-of-town location that offers retailers flexible units that are capable of having mezzanine floors. For shoppers, the centre provides a pedestrianised high street style outdoor environment, complimented by casual dining and car parking. So is it a shopping centre, a high street or a retail park? The reality is that it is a successful retail destination.

“Other cases of retailers that have branched out from initial CBD formats include **Primark, Marks & Spencer, Debenhams, John Lewis, Wilko, Moss, Fat Face** and **Metro Bank**.”

# A MAJOR NEW DESTINATION IN BIRMINGHAM

**Cushman & Wakefield have played a key role in developing the final jigsaw piece in one of the country's busiest city centres.**

Originally built in 1854, New Street Station in Birmingham is the UK's busiest rail transport hub outside of London. Extensive renovation is now underway to prepare it for even more passengers in the near future. Alongside new platforms, tracks and public spaces, the work includes the integration of the station with a major retail destination, **Grand Central Birmingham**. The new centre is expected to have a transformative effect on the city.

The station was rebuilt in the 1960s with the expectation of less than half of the 140,000 passengers a day it now receives. New Street's interior spaces were roofed over, creating a dark and unwelcoming impression for visitors, and there was an above station shopping level with a downscale tenant mix resulting from years of under investment.

Once a consortium was formed for the station redevelopment, funded by Birmingham City Council, Network Rail and various relevant government bodies, it soon turned its attention to how to upgrade these aspects.

Cushman & Wakefield were among the early participants in these strategic discussions. Gap and spend analysis highlighted a huge opportunity for a quality

shopping/F&B scheme, properly integrated within a modern station building. Much optimism derived from the location itself. With the station footprint occupying a prime focal point directly between major existing offers in the city (notably the 2003 Bullring centre and the upmarket Mailbox development), a good retail offering would potentially form a missing link, encouraging seamless visitor transition across central Birmingham.

Accordingly, the delivery partners expanded the initial brief and by 2011 were able to present plans for a truly new New Street Station, featuring delightful, exemplar architecture to embody the revitalised spirit of Birmingham. Inside, each railway platform will be wider and brighter, and the



**“The new centre is expected to have a transformative effect on the city.”**

interconnecting public spaces hugely improved. In perhaps the largest single upgrade, the design incorporates Grand Central, an over 45,000 sq m shopping and dining destination that sits above the transformed station.

Fundamental to the plans for the centre was the inclusion of the first full line John Lewis department store to be built for a few years. The demand at **Grand Central** has been exceptional, with brands and fascias committing that have previously only looked at London. More than half the restaurants are coming to the city for the first time.

Over 95% of the project was pre-let, with tenants including **Foyles, The White Company, Joules, Kiehls, Francesca, Cath Kidston, Pylones,**

**Hobbs, Neals Yard Remedies, L’Occitane, Fat Face, Paperchase,**

**“Fundamental to the plans for the centre was the inclusion of the first full line John Lewis department store to be built for a few years.”**

**Monsoon/Accessorise, Caffé Concerto, Tapas Revolution, Pho, Tortilla, Giraffe, Square Pie, Crepe Affaire and Frizzenti, and many others.**

The centre had a spectacularly successful opening in September 2015. Cushman & Wakefield continue

to work hard to lease the few remaining units and complete a very interesting offer and not just from a **Grand Central** perspective.

The £35m investment from **John Lewis** will make Birmingham the only city outside London to offer all six of the UK’s major department stores: **Harvey Nichols, Selfridges, Debenhams, Primark, House of Fraser and John Lewis** – and in this case all within a short walking distance of each other. If that doesn’t get a lot more people taking the train to New Street, we will be very surprised.





## OUTLET CENTRES IN CZECH REPUBLIC SET TO MORE THAN DOUBLE

Back in 2007, it looked like a record number of outlets would be opened in the Czech Republic. But when the global financial crisis hit, a number of projects were terminated, including developments that were in construction or close to completion, and it is only now that developers are building outlet centres.



The financial crisis was not the only reason for the slowdown. The limited construction of shopping centres has also been due to the high level of retail saturation in the Czech market, which has reached 320 sq m of retail space per 1,000 inhabitants, against a European average of 244 sq m per 1,000 inhabitants.

The outlet saturation stands at 4.49 sq m outlet space per 1,000 inhabitants. Whilst this is low compared to most Western European countries - the UK's saturation level is 10.8 sq m and Italy's is 9.68 sq m - these other markets enjoy significantly higher spending patterns.

There are currently only two outlet centres operating in the Czech Republic. Freeport Hate near Znojmo was the country's first outlet centre and opened in 2003. Situated at a border crossing to Austria, the centre has a total sales area of 22,000 sq m and more than 70 stores aimed mainly at Austrian

shoppers. The Fashion Arena Outlet Center in Prague is the country's second outlet centre and was opened in 2007. It has more than 100 shops and a total sales area of 25,200 sq m. The two centres offer a nearly identical assortment of brands, focused primarily on the middle and, to a lesser extent, premium segments of the fashion and sporting goods markets.

**“There is excitement about the planned influx of premium orientated outlets.”**

The number of outlet centres in the Czech Republic is likely to grow to five in the near future, with three new projects planned for release between 2015 and 2018. These are the Luxury Premium Outlet Bohemia Village in Benešovice near the border with Germany, The Prague Outlet near Václav Havel International Airport in

Prague, and Outlet Arena Moravia in Ostrava on the arterial road to Poland. The locations of these new centres suggest the type of customers each one aims to target. The first two have a particular interest in presenting themselves as luxury premium outlets, which are in short supply in the Czech market. Since the luxury brands operating in the Czech market have so far limited their presence almost exclusively to the most prestigious high streets in Prague and Karlovy Vary, there is excitement about the planned influx of premium orientated outlets. But there is also a need for caution. Analysis of the cause of outlet failures in the region shows that the combination of high-priced premium and designer brands with experienced centre operators is the most reliable recipe for success. Developers must therefore plan their mixes carefully to give customers what they want.



# COPENHAGEN BECOMES ONE OF EUROPE'S TOP LUXURY SHOPPING DESTINATIONS

**Rising wages and an influx of wealthy tourists from China and Russia have increased demand for luxury brands in the Danish capital.**

The central shopping area in Copenhagen, commonly known as Strøget (The Strait), is one of Europe's longest and oldest pedestrianised high streets. Along with restaurants and cafes, it comprises around 250 shops that range from international luxury brands to quirky gift-shops and second-hand stores.

From the moment it opened in 1962, Strøget has been home to top brands. Large international names such as **H&M** and **Luis Vuitton** as well as Danish brands such as **Lego**, **Bang & Olufsen** and **Royal Copenhagen** have been an integral part of the street for many years. More recently, an increasing number of the world's most luxurious brands have found their way there.

Today you can buy anything from a shiny new **Jaeger-LeCoultre** watch to a pair of shoes from **Alexander McQueen** or a little black dress from **Chanel**.

When Italian retail giant **la Rinascente** bought the department store **Illum** on Strøget from Solstra Capital Partners in 2013, it was with the clear intention of developing it into the most luxurious department store in Scandinavia. The renovation of **Illum** is currently underway and it has already added ground floor stores with direct street access, bringing luxury names such as **Valentino**, **Salvatore Ferragamo** and **Tod's** into **la Rinascente's** brand portfolio. Even more top brands are expected to follow during the next two years.





**“Upwards of 100,000 people take a stroll down Strøget (The Strait) on a hot summer day.”**

There are a number of reasons why Strøget is so attractive to luxury brands. The area’s large footfall is one of its main strengths. Upwards of 100,000 people take a stroll down the street on a hot summer day.

**“The increased attention from international brands has had a significant effect on Copenhagen’s retail property market.”**

Another factor is that Denmark is a wealthy nation and a large proportion of the population can afford to buy luxury goods at least occasionally.

Danes generally value the quality and sustainability luxury brands offer. The Danish luxury goods market also draws a significant number of tourists from outside the European Union.

The increased attention from international brands has had a significant effect on Copenhagen’s retail property market. As the rental levels have increased dramatically, the yields have decreased substantially. Prime rent on Strøget has risen to around €4,000 per sq m for the very best locations, and yields have fallen to just above 3%, one of the lowest levels ever recorded in Denmark.

The main reason for the increase in rental levels is that top international brands are often picky about their

shop locations, whilst few, if any, prime store locations are available for rent or purchase at any given time. When a prime location is put up for rent, the owner holds all the cards and can rent to the highest bidder.

Given the critical mass of luxury brands on Strøget, it is expected that even more will establish a flagship store on this street in the near future. The increased demand for prime retail is likely to raise further the overall achievable rental level and lower the yield on retail properties. Copenhagen is well on the way to becoming one of Europe’s top luxury shopping destinations.

## ‘THE BIG APPLE’ FINLAND

Following a brief decline in the retail market in Finland, confidence has returned and demand for prime retail premises in the Helsinki CBD have increased.

Multiple international retailers are looking to open flagship stores in Finland. Major brands, including **Marks & Spencer**, **Burger King** and **Starbucks** have already entered the market, and new international players are looking to expand their operations. There are also numerous shopping centre developments underway, especially in the Helsinki Metropolitan Area. One of the most significant of these is the expansion of Iso Omena, which is Finnish for ‘the Big Apple’.

Iso Omena is situated in the city of Espoo and is connected to the end station of a new extension of the Helsinki metro line that will start to operate in 2016. More than 35,000 passengers will pass through this station daily, whilst the nearby feeder traffic terminal will bring bus traffic from around the region to the shopping centre.

The catchment area of Iso Omena is unique in Finland. It is situated at the centre of the most affluent capital zone, where the income

**“Iso Omena is already a strong and versatile shopping centre, but with the expansion project it will evolve into Finland’s most significant development.”**



level of households is at least twice the national average.

Iso Omena is already a strong and versatile shopping centre, but with the expansion project it will evolve into Finland's most significant development.

The surroundings of the shopping centre will be made more compact and many new residential units will be built. Once completed, the centre will contain nearly 100,000 sq m of leasable area and more than 200 different shops and services. These will include diverse specialty stores, international and Nordic fashion and interior design brands, a multiplex cinema with seven screens, a varied selection of grocery stores and a range of public services such as a library and a health centre. The extension will also

include a unique restaurant world with approximately over 5,000 sq m of different types of eateries.

The Iso Omena extension will be opened phase by phase. The first and largest part of the project is due for completion in August 2016 and will open simultaneously with the new metro line. The second phase will be completed in Spring 2017.

**“Citycon owns 54 shopping centres, with assets under management totalling close to €5 billion.”**

Iso Omena is owned by Citycon, a leading owner, manager and developer of urban grocery-

anchored shopping centres in the most attractive locations in the Nordic and Baltic regions. The company is the market leader in Finland and Estonia, and among the market leaders in Norway and Sweden. It also operates in the Danish market.

Citycon owns 54 shopping centres, with assets under management totalling close to €5 billion.

Citycon aims to expand and diversify its range of brands for Finnish consumers through the introduction of new businesses into the Finnish market, combining the strength of Cushman & Wakefield retail teams in London and Finland. Finding suitable brands for the Iso Omena extension project is an important part of this strategy.



# FRANCE: THE LETTINGS MARKET

## THE HIGH-STREET MARKET

Retailer demand remains strong for locations on Paris's major commercial thoroughfares. This is certainly the case for the beauty and restaurant sectors, whose upmarket concepts continue to spread throughout the city. In addition, fashion still brings in the largest contingent of new international players. For example, the first French boutique of the Italian chain **Harmont & Blaine** will open in October on the Boulevard des Capucines, joining the ranks of **Boulanger**, **Tommy Hilfiger**, and **Montblanc**, all of which have (or are slated to have) sales points on that street.

Retailers continue to favor certain districts of Paris. Each in its way, Rue Saint-Honoré and the Saint-Germain-des-Près neighborhood remain vital to the Paris market. Saint-Germain-des-Près should benefit from the Banimmo restructuring of the Marché Saint-Germain, where Uniqlo and Nespresso will move in by the end of 2016. Le Marais, however, continues to attract the most intense activity, as it did in 2014. The Italian food chain **Eataly** has confirmed its arrival on the scene, **BHV** continues to reposition itself, and designer showrooms proliferate along with pop-ups (**Kiabi**) and the opening of new single-brand stores (**Faguo**, **Fusalp**, **Le Creuset**, etc.). Le Marais has become a testing ground for trends as it has moved upmarket. Rue des Archives is now the home to projects and openings of luxury (**Valentino**) and accessible luxury (**Sandro**) brands.

Retailer expansion and repositioning also explain the momentum of high-street markets elsewhere in France. This is the case in Lyon, where **Michael Kors** will open a 120 m<sup>2</sup>

shop on Rue du Président Édouard Herriot, and in several other French cities (Bordeaux, Toulouse, etc.). Recent movements in these cities reflect the opportunities created by retailers forced to restructure their network or even to wind up their business. For example, the former Virgin Megastores continue to attract other large retailers, such as **Habitat** in Strasbourg, **Tati** in Rennes, and **H&M** in Marseille. Although the supply of properties is generally limited on the principal high streets of major cities, Marseille is an exception to the rule. France's southern capital has abundant supply that is sometimes difficult to absorb because of the wait-and-see attitude of retailers.



**“Fashion still brings in the largest contingent of new international players.”**

### Prime rental values (€/m<sup>2</sup>/Year)

	Q3 2014	Q3 2015
High streets (ZA rent)		
Paris   Champs-Élysées	18,000	18,000
Paris   Rue Saint-Honoré	11,000	12,000
Paris   Bd Saint-Germain	6 500	6,500
Paris   Bd Haussmann	8,000	8,000
Paris   Francs-Bourgeois	4,500	4,500
Bordeaux   Sainte-Catherine	2,200	2,200
Cannes   Croisette	8,000	8,000
Lille   Neuve/Béthune	2,000	2,000
Lyon   République	2,300	2,400
Marseille   Saint-Ferréol	1,800	1,800
Nice   Jean Médecin	2,200	2,200
Toulouse   Alsace-Lorraine	2,000	2,000
<b>Shopping centers</b>		
Regional SC   Ile-de-France	2,000	2,000
Regional SC   Provinces	1,400	1,400
<b>Retail parks</b>		
France	180	180



## FOCUS ON THE RESTAURANT SECTOR

According to a recent INSEE study,<sup>1</sup> the number of businesses in the restaurant sector grew 3% between 2009 and 2012. Fast food has shown particularly vigorous growth—15% over the same period—far ahead of traditional restaurants (+2%) and bars (−6%). These contrasting performances can explain the challenges facing traditional chains (Groupe Flo) and the major strategic changes under way in the restaurant sector.

In the fast-food segment, hamburgers are enjoying an especially favorable context. In 2014, burger sales reached 1.07 billion in France, a 10% rise year on year.<sup>2</sup> **Burger King** is an example of the perfect success story. The American group's network could expand even faster if negotiations succeed for the acquisition of Quick Group. Parallel to the **Burger King** phenomenon, several upscale burger formats have emerged. **Big Fernand** has opened numerous outlets in high streets and shopping centers (Val d'Europe, Les Docks Marseille), and other such chains are expected soon in France (e.g., **Five Guys** and **Steak 'n Shake**). The fast-food market is also driven by a myriad of concepts that offer other

types of products, whether recent newcomers such as **Vapiano**, **Chipotle**, **Costa Coffee**, and **Prêt à Manger**, or international groups long established in France. One such example is **Starbucks**, which is opening new sales points in various formats (franchises, train stations, airports, etc.).

**“In 2014, burger sales reached 1.07 billion in France, a 10% rise year on year. Burger King is an example of the perfect success story.”**

The recent agreement concluded between **Starbucks** and Monoprix for the development of shop-in-shops illustrates the variety of approaches to retailing and reveals the changing behavior of the French consumer. Growing competition among retailers and the importance of consumer choices require a denser network of outlets that bring the products closer to the consumer. Food retailers tend to position themselves on numerous fronts, thereby whetting

the appetite of landlords. With an array of high-quality food concepts at their disposal, landlords are able to employ the range of their supply as an additional strategy for increasing the time spent by consumers in their shopping centers. This strategy is clearly illustrated by Unibail-Rodamco's Dining Experience™ and Frey's F-Experience® retail park.

### Examples of expanding retailers

Retailer	Target
Burger King	HS/SC/RP/T
Big Fernand	HS/SC
Vapiano	HS/SC
Bagelstein	HS/SC
Bagel Corner	HS/SC
Chipotle	HS/SC
Prêt à Manger	HS/SC/T
Maison Pradier	HS/SC
Starbucks	HS/SC/T
Memphis Coffee	SC/RP
Costa Coffee	HS/SC/T
Columbus Café & Co	HS/SC/T

<sup>1</sup>Source: INSEE, INSEE Focus No. 34, September 2015 / <sup>2</sup>Source: Gira Conseil

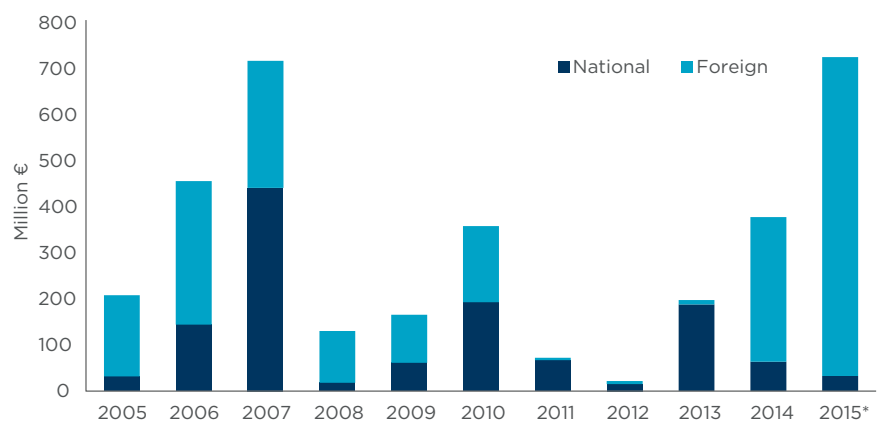
# PORTUGAL: RETAIL ASSETS BACK ON THE RADAR FOR FOREIGN INVESTORS

Portugal has shown signs of a sustained economic recovery over the last 18 months, thanks to the ongoing adjustment process of macroeconomic imbalances started in 2013. Main drivers of growth were exports, improved financing conditions and higher domestic demand in the form of private household consumption.

The retail sector reflected over 2015 the positive evolution of the economy with a significant increase in sales, retailer occupational demand and investment demand. The investment activity in the Portuguese property market has already achieved an all-time high in the first nine months of 2015, with the retail sector the main beneficiary in terms of the volume of capital investment.

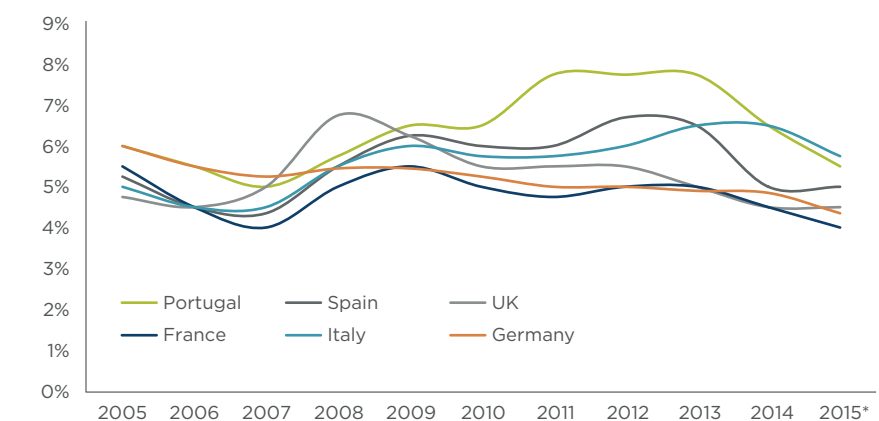
A record amount of €730 million of retail assets were transacted in the first nine months of 2015, mostly by foreign investors taking a position in the shopping centre industry. US private equity players such as **Blackstone** and **Lone Star** took advantage of attractive pricing when compared to Spain or other Euro countries. Supermarket sale & leaseback is another area of much interest with for instance Sonae Retail Properties bringing a €100m+ portfolio of assets on the market. At a smaller scale but no less dynamic is the high street investment scene, where insurance companies and family offices from a variety of origins vie for the few prime opportunities that become available. As a result, yields for both shopping centres and high street retail are hardening with prime stock now trading around the 5.50% mark - a reduction of 100-150 basis points over the past 12 months alone.

[Graph Name]



\*January to September.  
Source: Cushman & Wakefield

[Graph Name]



\*January to September.  
Source: Cushman & Wakefield



Since the early 1990's, the shopping centre industry in Portugal has been the most dynamic real estate sector in the country, and the most sought after by foreign investors. The country boasts a total stock of ca. 2.9 million m<sup>2</sup> GLA of shopping centres, and for decades this has been the preferred route of entry for foreign retailers. The sector is now reaching maturity and the volume of new supply came to a virtual stop in recent years, except for some expansion of existing schemes - with Immochan's recently opened 42,500 m<sup>2</sup> Alegro centre in Setubal being a case in point. Otherwise, most shopping centre owners have been focusing on adding value through remodelling or refurbishment of their existing centres. However, a few new schemes are now in the pipeline: the Interikea Group has recently broken ground on a major project in the Algarve comprising a 21,000 m<sup>2</sup> IKEA store, a 45,000 m<sup>2</sup> shopping centre, and a 23,000 m<sup>2</sup> factory outlet. In Braga,

northern Portugal, construction has recommenced on the former, unfinished 67,500 m<sup>2</sup> Dolce Vita Braga centre, now renamed Nova Arcada which will also be anchored by IKEA. Retailer demand for shopping centres meanwhile is increasing with Primark shortly to announce a new store in greater Lisbon, Asics opening its first flagship at the Centro Colombo and fashion houses H&M and Mango taking larger units to accommodate more than one sub-brand. Prime shopping centre rents are currently of the order of €75 per m<sup>2</sup> per month.

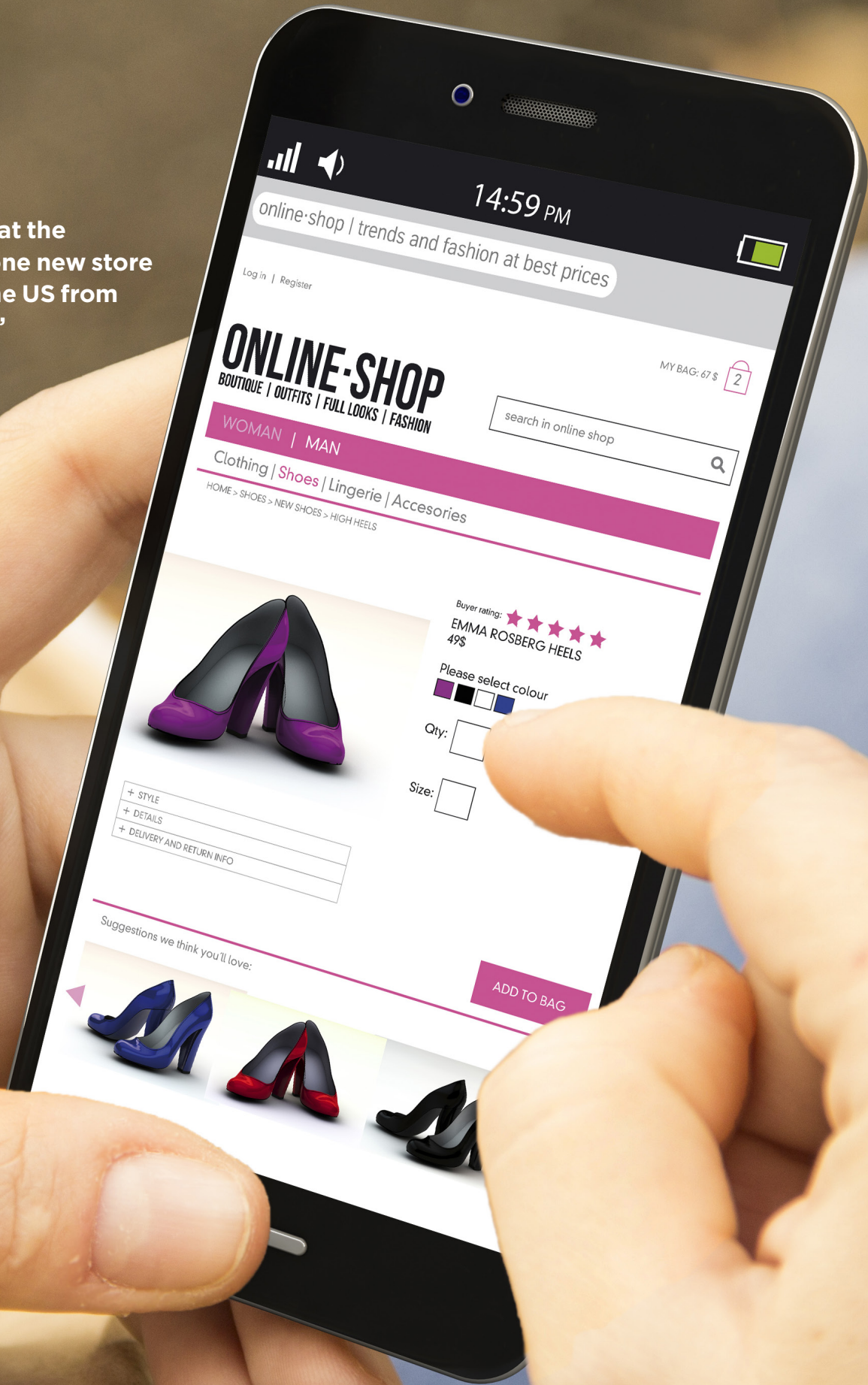
**“A record amount of €730 million of retail assets were transacted in the first nine months of 2015.”**

High street retail has been a very dynamic market, fuelled in no small part by ever-increasing tourist numbers. While retailer interest was initially focused mainly on

the prime Lisbon locations of Liberdade, Baixa and Chiado, this is now extending to Portugal's second city, Porto, where the Clérigos area and the Rua de Santa Catarina are the main focus of demand. Lisbon's Avenida da Liberdade remains the main location for luxury retail and in the last 18 months or so retailers such as Hackett London, Fendi Collection, Michael Kors and Juliana Herc have taken stores, while Boss and Ermenegildo Zegna have expanded theirs. Chiado and Principe Real are the more trendy quarters with a new wave of independent retailers lending extra charm to these locations. The recent change in the lease legislation is opening up many opportunities for redevelopment and will increase the stock of prime locations in the city, including on Avenida da Liberdade where savvy developers have been picking up sites or buildings for redevelopment into high-end retail and residential. Prime rents are rising and are currently close to €100 per m<sup>2</sup> per month.



“Dollar stores grew at the astounding rate of one new store every 4.5 hours in the US from 2010 through 2014.”





# US RETAIL MARKET SPLIT BY GROWTH OF E-COMMERCE AND MIDDLE CLASS FRUGALITY

**Whilst retailer expansion in the US continues to be driven by e-commerce and the economy, thriftiness holds it back.**

The American economy has seen strong growth coming from concepts at the far ends of the economic spectrum. High-end consumers have been back since recovery began in 2010 and luxury retail concepts have followed. But in terms of sheer numbers and occupancy growth, the primary theme of post-recession retail has been the rapid expansion of discounters and off-price retail concepts.

The real challenge has been in the middle of this exaggerated hourglass. Middle class consumers retreated during the downturn and have largely remained in frugality mode despite the fact that the US is now entering its sixth year of recovery, with the pace of economic improvement significantly accelerating over the past three years. This has translated into little growth for mid-priced retail concepts, particularly for hard goods retailers facing challenges posed by e-commerce.

In the US, e-commerce currently accounts for just 8% of retail sales, but e-commerce sales have consistently grown between 15% and 20% annually since 2010, while bricks-and-mortar retail sales growth has managed only between 2% and 4% during that same period. This trend will continue well into the next decade. We anticipate that e-commerce will eventually account for somewhere between 20% and 25% of all US retail sales.

Although it has caused major disruption, the rise of e-commerce has not been the apocalyptic force many predicted. Developing technologies have wreaked havoc with a number of retail categories such as video, music, book stores, office supplies and consumer electronics, but consumers are not abandoning shopping. The footfall in virtually every premier shopping centre or high street retail location in the US continues to rise, not fall.



## MIDDLE CLASS FRUGALITY

Recent consumer surveys indicate that 75% of all Millennials use the internet to inform their purchases. The actual sales totals are closer to 25% (they vary depending on retail category), but shoppers are increasingly using their smartphones and tablets (and new consumer-focused applications) to find the best value purchases. Whilst those numbers fall to around 50% for Generation X and 35% for Baby Boomers, this trend is one of the primary reasons why middle class frugality has been so slow to lift in the post-recessionary period. Widespread thriftiness is eroding retailer margins, particularly those who had previously counted on middle class consumers willing to spend more for quality, brand name loyalty or perceived value.

In terms of retailer growth, e-commerce has hobbled the expansion of mid-priced hard goods retailers. Those who are doing well are still either in no/slow growth mode or have shifted their capital expenditure budgets towards creating e-commerce platforms, primarily

building distribution chains with next-day delivery capabilities. For example, whilst **Macy's** remains the dominant department store player in the US, it will be closing at least 100 stores in the coming year. Even so, they will record net employment gains as they expand their e-commerce fulfilment capabilities (usually in the form of mega-distribution centres of 90,000 sq m or more).

As far as bricks-and-mortar growth is concerned, the rise of e-commerce has meant that experiential retail is at the forefront of traditional expansion. These retail concepts usually feature a heavy service component and continue to draw consumers into their stores. Sporting goods concepts have led the way, with many chains actually increasing their space usage in an era when most big box concepts are shrinking. Kitchen stores (**Williams & Sonoma**, **Sur la Table** and others) have also been active, as have entertainment/food based concepts. But the real growth has come from concepts that simply do not compete with online retail.

Food concepts have been the biggest driver of growth over the past five years. Although the grocery sector has seen the same kind of economic barbell expansion that has impacted every portion of the marketplace (**Whole Foods** on the luxury end and **Walmart** on the budget side), this sector has also seen consolidation in the middle from mid-priced local and regional chains that have struggled to find their place in the tug of war between value and service. The good news is that frugal consumers are slowly returning here, but the key word is slowly.

The real explosion in food concepts has been in the restaurant arena where, in terms of unit count growth, restaurants have accounted for nearly 45% of all shopping centre expansion over the past five years. New higher quality fast/casual concepts have accounted for most of this growth (better burgers, fast-fire pizzas and new ethnic cuisines), while mid-priced casual dining concepts (particularly older ones struggling to remain fresh) have felt the greatest pain.



## “Restaurant expansion has accounted for nearly 45% of all new growth since 2010.”

### COMMERCIAL REAL ESTATE

These trends have translated into a highly bifurcated marketplace where retail demand has been almost exclusively focused on high quality Class A shopping centres, including regional malls/lifestyle centres, regional/power centres and community/neighbourhood centres.

Shopping centre vacancies in the US stood at 8.0% at the close of Q1 2015. This is down from 12.1% in Q1 2010, but these gains have mainly been driven by first-tier product. Meanwhile, new development has been ramping up. We are tracking more than two million square metres of product currently under development, and half of it already has tenant commitments in place. 70% of development is either expansion in existing centres or urban redevelopment projects.

### “Food concepts have been the biggest driver of growth over the past five years.”

Rents for trophy product in most major US markets have increased by 10% or more over the past two years, but few of these gains have spilled over to Class B or C centres outside of the most robust US retail areas (San Francisco Bay Area, Boston, New York City, Hawaii, Los Angeles, Miami and Washington DC). The rise of new developments will likely mean that bifurcation based on class stays firmly in place and even solidifies going forward.

### FUTURE GROWTH

There remains some cause for concern in terms of future retail growth. Whilst improving consumer metrics (confidence, spending and income growth, in particular) will mean increased levels of retailer demand ahead, some of the concepts that drove post-recessionary growth (2010 to 2015) may be reaching

saturation point. Dollar stores grew at the astounding rate of one new store every 4.5 hours in the US from 2010 through 2014. But consolidation is beginning to occur in this industry, and most chains are planning on slowing growth levels and potentially right-sizing their store counts.

Restaurant expansion has accounted for nearly 45% of all new growth since 2010, but growth in total restaurant sales has only increased by about 4% annually since then. Although the Food & Drink sector will continue to see a flood of new concepts and new growth, a shake-up is due.

Similarly, automotive service chains consistently added at least 1,500 new stores annually over the past five years, but 2014 saw the sale of over 17 million new cars, the highest total since 2001. When new car sales increase, sales at automotive service retailers (who are hugely dependent upon consumers fixing up their older, used cars) tend to fall. As a result, most of these chains are scaling back growth.

In the coming years, the improving US economy will undoubtedly bring more retailer demand to bear, but in the categories that carried the marketplace over the past five years those that have not reached saturation are facing other factors that could inhibit net growth. Rising development levels will mean that the majority of new growth (outside of a few bargain-seeking concepts) will be limited to Class A shopping centres. As a result, bifurcation between retail classes will only intensify. Trophies will see the lion's share of demand, rental rate growth and investor interest. The leasing environment for Class B space is likely to stay competitive, and Class C space will continue to find a challenging marketplace where creative adaptation and reuse may be the only solution.



# AUSTRALIAN RETAIL PROPERTY MARKET CONTINUES TO GROW

International retailer interest in Australia remains strong and is exemplified by the progressive expansion of Uniqlo, Zara and Top Shop, and Forever 21's recent opening in Sydney.





As luxury brands continue to dominate high profile streets and retail strips in Sydney's CBD, the bigger Australian brands are expanding to outer metropolitan shopping centres and boutique High Streets. Whilst these national retailers have reduced store numbers, they have increased their size from approximately 200 sq m to 1000-1200 sq m, following the success of the larger international store formats.

Food remains the driver of retail sales in general. Fast fresh food is increasingly important to the Australian consumer and is growing at a rapid rate throughout the country. The big winners are mixed use developments that include food as well as service orientated shopping centres, which have seen significant growth in all cities in Australia.

Retail sales across the country are rising and, with the weaker Australian dollar encouraging

Australians to remain onshore during holiday periods, they are expected to keep rising.

As a result, the retail property investment market is running 'hot', with sharp yields being paid in all retail asset classes, from freehold standalone mixed use developments to strata shops and all classes of shopping centres.

Strata properties continue to attract yields of 6.25-7.5%, whilst neighborhood shopping centres are achieving only 5.25% or lower, with mixed use development potential gaining significant interest and value with both on and offshore investors.

Although major investments from onshore Superannuation Funds, REITS and private investment remain very strong, competition from offshore investment from Asia is increasing daily, pushing up values significantly.

Major shopping centre managers Westfield and AMP continue to develop quality centres. Redevelopments are underway in all states on the East Coast, and this programme will expand to the West Coast in 2016-17.

Growth in the retail sector in Australia is a key strategy for Cushman & Wakefield. We have recently acquired a number of properties for our clients, ranging from A\$13m to A\$100m. We are currently selling a number of retail assets and also providing property and asset management services. Our occupier services team is growing its sector of the market by providing retail occupier services to most of the large banks and government services, whilst our agency team is working with the expansion of more and more Australian retail brands.

**“Food remains the driver of retail sales in general. Redevelopments are underway in all states on the East Coast, and this program will expand to the West Coast in 2016-17.”**

# LURING CHINESE SHOPPERS

Whilst Chinese shopping malls have become more popular than high street outlets and department stores, they are under increasing pressure to attract shoppers who have more and more channels to choose from.





As the supply of shopping options expands to meet the ever more sophisticated demands of the Chinese middle class, malls are fighting to find a point of difference. Today's Chinese consumers want to be immersed in a shopping experience not available elsewhere, and malls throughout the country are responding with a variety of enticements.

Beijing's **Solana Lifestyle Shopping Park**, for example, offers not only a wide range of shops, restaurants and cafes, but also an indoor ice rink.

### **“Chengdu’s Seaside City features one of the largest aquariums in China and helicopter tour rides.”**

Chengdu's **Seaside City** features one of the largest aquariums in China and helicopter tour rides.

Some malls are attempting to increase their competitive edge by changing their trade mix. Traditionally, food and beverage (F&B) comprises

20% to 30% of the trade mix, but malls are now including up to 45% F&B to create unique dining experiences.

Other shopping centres integrate culture and arts with the shopping experience by exhibiting artworks and sculptures throughout the mall.

Last year, the **K11 Art Mall** in Shanghai launched the first ever exhibition of Monet in Mainland China with 40 original paintings.

Beijing's **Joy City** is a 13-storey complex with the world's longest escalator, the largest digital cinema in China and the biggest cosmetic shop in Beijing, but it regularly holds events in an effort to increase footfall. The mall also has a clear market positioning that targets young consumers with brands that appeal to their demographic.

In order to remain competitive, centres need to feature brands that are new to China or even to the region. As increasing numbers of Chinese go overseas, they are exposed to more new brands and concepts that they would like to see back home.

Chinese consumers further familiarize themselves with foreign products with **Haitao**, the name given to the purchasing of products via overseas online shopping platforms. In 2013, Chinese shoppers spent 74.4 billion yuan (approx. US\$12bn) on international online platforms, up from 12 billion yuan (approx. US\$2bn) in 2010.

These practices are also putting

### **“Beijing’s Joy City is a 13-storey complex.”**

pressure on retailers, and many of them are currently focusing on existing store productivity rather than opening new outlets. To attract shoppers, luxury retailers must enhance their brands. **Gucci** now has a **Gucci Café**, as does **Vivienne Westwood** and **Burberry**. **Muji's** has added food & beverage with **Muji Café & Meal**, whilst the bookstore **Fang Suo Commune** combines fashion retailing with a museum, a showroom and food & beverage.

**“Last year, the K11 Art Mall in Shanghai launched the first ever exhibition of Monet in Mainland China with 40 original paintings.”**

# THE EVOLUTION OF RETAIL MALLS IN INDIA

“Over the last five years, large metro cities have seen the emergence of specialized malls for high end luxury brands.”

Over the last decade, shopping malls in India have experienced rapid growth in both tier 1 and tier 2 cities. At the same time, the sector has undergone significant changes in terms of mall size, format and tenant mix.

From the late 1990s until the end of 2008, the average GLA for malls in India was approximately 25,000 sq m. Of the malls that became operational in this time, about 33% housed a multiplex, a food court and entertainment and gaming zones, with the majority given over to pure play stores.

Between 2009 and 2014, this bias was reversed. Squeezed by the global economic crisis and the emergence of eCommerce, developers focused on structured mall formats with designated spaces for multiplex, food courts, and gaming and entertainment activities. As a result, 63% of malls now feature this mix, and their average GLA has increased to 38,000 sq m.

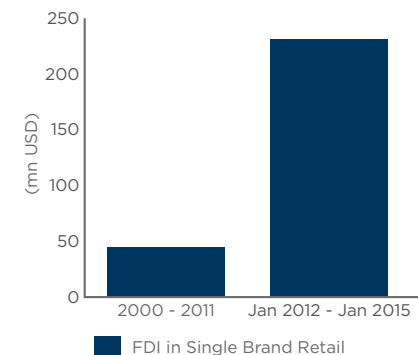
During these years, retailers were also challenged by economic conditions and pushed mall operators to change their leasing terms.

By shifting from a fixed rental basis to a ‘minimum guarantee/revenue share model’, retailers sought to

pay a minimum guaranteed rent and or a set percentage of the revenue they generated, enabling them to share the risk of a downturn with the mall developers, who would benefit from higher rents during better times.

In the search for those better times, malls took initiatives to attract higher foot falls, including free car parking, valet car parking, promotional sales and discounts, celebrity invites, book launches,

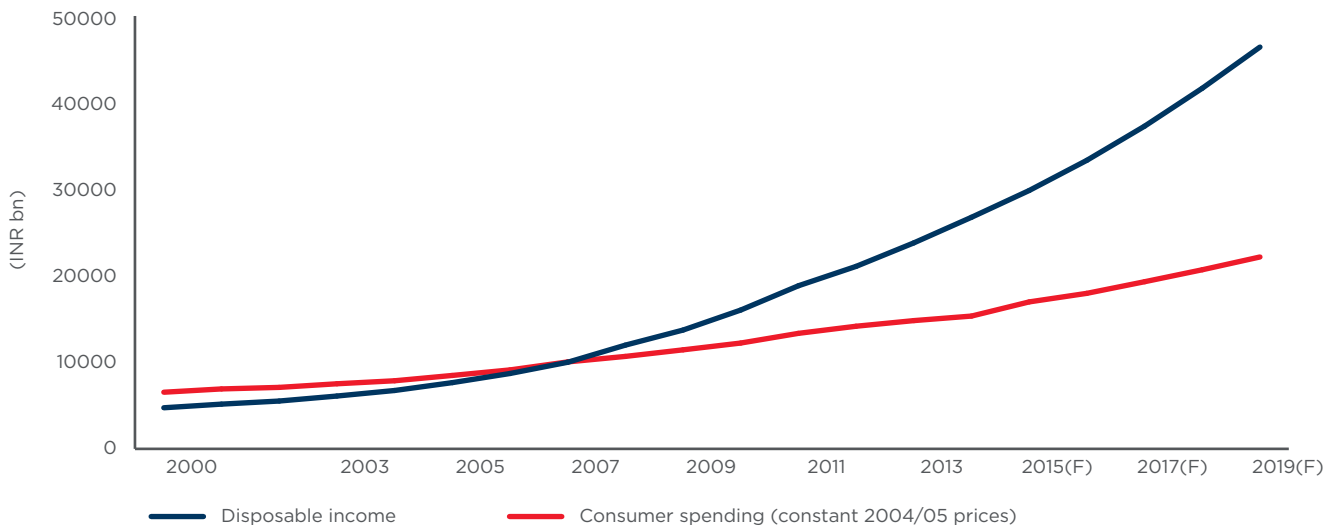
Foreign Direct Investments (FDI) in Single Brand Retail (mn USD)



“India has the world’s fastest growing internet user base and, with the proliferation of eCommerce start-ups, the contribution of eCommerce to the overall retail sector in India will increase significantly in the coming years.”



Consumer Spending (INR bn) and Disposable Income (INR bn)



festival celebrations, lucky draws, and the screening of popular sporting events.

These activities, coupled with the offer of combined shopping, dining and entertainment experiences, have enabled shopping centres to position themselves as ‘getaway’ destinations. Between 72% and 80% of upcoming malls are expected to feature this mix, and most developers have accordingly shifted their preference towards large format malls. The average size for upcoming malls stands at about 46,000 sq m.

**THE INFLUX OF SINGLE BRAND RETAILERS**

In Jan 2012, the Department of Industrial Policy and Promotion (DIPP) of the Ministry of Commerce and Industry relaxed the FDI norms to allow 100% FDI for single brand retailers.

Since then, a number of multinational luxury brands have entered India, including **Michael Kors, Emilio Pucci, Christian Louboutin, Stuart Weitzman, Roche Bobois, Roberto Cavalli,**

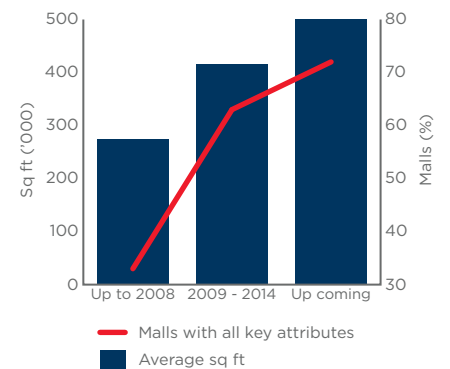
**Christopher Guy** and **Kitsch**. Not to forget other new entrant brands such as **Cinapolis, Starbucks, Krispy Kreme, Burger King, ci gusta!** and **Dunkin Donuts**.

With rising disposable incomes and consumer spending, luxury brands have started to attract buyers from mid-income groups. Over the last five years, large metro cities have seen the emergence of specialised malls for high end luxury brands. These include the Palladium Mall in Mumbai, DLF Emporio in Delhi NCR and The Collection - UB City in Bengaluru.

**THE RISE OF E-COMMERCE**

The e-commerce segment has risen to around US\$19bn. India has the world’s fastest growing internet user base and, with the proliferation of e-commerce start-ups, the contribution of e-commerce to the overall retail sector in India will increase significantly in the coming years. Categories such as electronics and books are already feeling the pinch in the traditional malls as developers allocate less and less space for them. Even

Average mall size and change in configuration



fashion is slowly moving online with **Myntra** and **Jabong**, two successful e-commerce players in the fashion/ apparel category, leading the way.

The traditional brick-and-mortar retail malls will have to gear themselves for the onslaught of the burgeoning e-commerce juggernaut. Whilst the small format malls may find it difficult to survive in the face of competition from large format malls and e-commerce, the large format malls that offer complete shopping and entertainment experiences to their visitors are most likely to succeed.



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