

Briefing note

Shopping centres and retail parks: Let's buy happiness

Nov 2017



SUMMARY

New anchors for a changing landscape

■ New technologies have spurred significant changes in consumer spending habits over the last ten years. Faced with the rise of online sales, traditional retailers now have no other option than to rethink their strategies.

■ Against this backdrop, a new generation of shopping centres and retail parks has developed in France.

■ Real-estate operators, the owners of the older retail destinations, are

applying a range of different tactics to help breathe a new lease of life into their properties.

■ One of the key areas of this strategy focuses on increasing and improving the leisure and entertainment offering, the main objective being to improve the destination's draw. Customers no longer just visit a shopping centre or retail park to shop, they now want to also enjoy the whole experience that this new generation of retail

destinations offers them.

■ This trend is reflected through various aspects: revamping restaurant offerings, improving the services offered to customers, investing in digital technology, creating synergies with other attractive markets (offices, housing, cultural and sports facilities, etc.).

The rise of the internet and the emergence of new consumer spending habits have made one thing clear to shopping centre players; physical stores have to reinvent themselves if they are to find their place in this new retail landscape, one that has been reshaped by new technology. This trend has opened the door to a new generation of shopping centres and retail parks in France.

Understanding the tech-savvy consumer

Over the course of the last ten years, major social changes have impacted our everyday lives: urban lifestyles are more varied than ever before, work patterns have changed drastically and boundaries between work and home life have become increasingly blurred. Inevitably, these changes have altered the way we choose to spend our money.

New technology, which is without doubt the factor to have influenced the changes in our everyday lives the most, has made e-commerce a regular part of our spending habits. According to Fevad's latest figures, in Q2 French people spent almost €19,500 million online, which equated to an 11% y-o-y increase. The average consumer is buying less, but more frequently, with every buyer carrying out close to 10 transactions over the aforementioned quarter. Consumers spent on average €664 in the quarter, €100 more compared to two years ago. This increase was fuelled by the growing number of e-consumers (+964,000 over one year according to Médiamétrie) and the ever-increasing offer of e-commerce websites (+18,400 websites).

Leisure and experiences favoured over shopping

The growing purchasing power of Millennials, born between the early 1980s and the year 2000, has also ushered in a number of changes, forcing brands to rethink their offering in order to meet the demands of these new consumers. The consumer habits of these young people are very different to those of the previous generation; dedicating an increasing amount of time and money to leisure and experiences and significantly less time to shopping in bricks-and-mortar stores. In light of this, the "customer experience" is forecast to become the number one differentiating factor by 2020, ousting price and product off the top spot.

To meet customer needs and attract new visitors, a number of retailers have adopted a model that puts use and experience on a par with physical ownership. The subscription model, which has taken centre stage and is increasing its market share, is a sign of this trend, and one that is not solely limited to non-material products such as online video, game and music (driven by Spotify, Netflix and the recent launching of Playstation Now, etc.). This concept has notably expanded to the food industry, where the offering of subscription boxes filled with selections of luxury food and alcoholic beverages is now widespread. Retailers specialised in manufactured goods have also been drawn to this model, particularly the cosmetics sector (Birchbox) and the fashion sector (Stitch Fix, Le Closet in France).

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 "Nowadays, time-poor consumers, looking for low prices and exclusive promotions will first search offers on the internet before finalising their purchase online. Motivations are radically different for on-site shopping, the goods must be linked to a destination, a relationship, and an emotion." Emilie Renté, Savills Research

Adapting to a new reality

Faced with these new consumer habits, traditional retailers may appear to be in a weak position. This new backdrop throws a shadow of doubt over shopping centres, especially older ones, and supermarkets that are waning slightly due to competition from online shopping and drive-thrus. However, the day when these retail spaces become completely obsolete remains a very distant prospect. According to forecasts, real-estate operators and brands are adapting to this new reality by focusing on their new clients' preferences. New-build shopping centres and retail parks are proof that this transformation is well underway. Designed by renowned architects, these new destinations are more attractive, impressive and diversified than ever, they are highly leisure-oriented and offer an ever richer range of services.

■ **A wider variety of services**

These new shopping destinations have readjusted their services and leisure offering. Services offered in first generation shopping centres are mainly limited to telephony: Orange is in fact the brand with the most shopping centre stores (more than 370 according to Codata). Yet, shopping centre services have clear potential and are already being further developed in the cosmetics and well-being sectors (ex. nail bars and massage salons). Far from being



Positive economic indicators

Bright outlook for French consumer spending

Good news for the French economy: the market consensus agrees that the French economy is on the road to recovery, spurred by a favourable global backdrop.

According to Insee's latest estimates, the French economy grew by +0.5% for the third quarter running. Between now and the end of the year, growth is expected to reach +1.8%, exceeding the modest growth of circa +1% seen for the last three years. A series of positive indicators, particularly business indicators, clearly demonstrate the economic recovery.

Household consumer confidence consolidated this summer, with the index peaking in June at 108 basis points. Such a level had not been reached since June 2007, exactly 10 years ago. Nevertheless, household consumer confidence dipped slightly at the beginning of September, no doubt a reaction to the reforms implemented by the

Macron government. However, the indicator remained at a satisfactory level during October (100 points). Driven by renewed confidence, household spending has regained momentum. According to Insee's latest estimates, purchases concerning manufactured goods increased by +1.2% during July, mainly thanks to spending on household goods and clothing.

Finally, 2017 registered a significant improvement in tourism (up +10.2% y-o-y). This increase was particularly noticeable in the Paris region, where hotel overnight stays rose by +13.6% y-o-y.

French businesses of all sizes have benefited immensely from this favourable climate. Overall, shopping centres have made the most of the seasonal embellishment and noticed a particular improvement in their turnover. The CNCC (National Shopping Centre Council) unveiled a 5.7% y-o-y increase in shopping centre footfall.



GDP
+1.8% en 2017



Unemployment rate
-0.1% in Q2 2017



Household confidence
108 pts in June 2017



Household consumption
+1.2% in July 2017



Overnight stays
+13.6% in the Paris Region in July 2017



Shopping centre footfall
+5.7% in July 2017

→ mere extras, these services enrich the shopping experience and increase the average dwell time.

■ An enhanced restaurant offering

As well as a vast array of services, developing the restaurant offering is the second most important driver for increasing a shopping centre's appeal. Unibail-Rodamco was one of the first to explore this field, implementing "The Dining Experience" in ten of its shopping centres. The main objectives involve offering larger refurbished spaces, more varied restaurant concepts and a friendly and interactive setting; initiatives that have proven fruitful and encouraged the model to be widely adopted. Today, the number of restaurants in any one centre has increased significantly (11% in shopping centres according to Codata). This area is not confined to the sandwich and fast-food segments, shopping centres regularly invite top Michelin-starred chefs to open pop-up restaurants.

The fact that real-estate consultancy firms now offer advisory services on how to develop this area demonstrates the strategic importance of the restaurant offering (for example, Ak Consulting now specialises in this domain).

■ Entertainment: a new differentiation strategy

Today, the leisure offering has become key to attracting and retaining visitors and this has given rise to a range of extremely diversified and ambitious projects. These include "traditional" cultural facilities (cinema, theatre, concert halls, etc.), but also sports facilities (special purpose areas, trampolines, climbing walls, etc.). Some projects offer extremely original ideas, such as the ropes course in the Quatre Temps shopping centre located in La Défense and the vertical wind tunnel for indoor sky-diving at Vill'Up. There are also outdoor facilities in the pipeline that are completely reshaping retail destinations: a ski slope in the

upcoming Europacity and a lake which will be converted into an ice rink during the winter in Caen.

Reinforcing the "fun shopping" experience is now key to boosting a shopping centre's draw, and developing the entertainment offering by organising events is another way to do this. Promotional campaigns outside the "traditional" sales periods have been significantly ramped up in order to compete with online sales. More and more special shopping day events that bolster footfall are being regularly organised, days that are in a similar vein to Black Friday and Boxing Day (the aim being to boost January sales). Moreover, shopping centre managers are now scheduling their events programme in association with major figures from the entertainment industry. For example, at the end of August, life-size emoji races were organised in nine shopping centres belonging to the real-estate firm Klépierre in Ile-de-France.



➔ ■ **Integrated facilities**

Another trend developing as part of the retail destination transformation are the significant synergies being created between different types of locations and spaces. Integrating uses in response to changing consumer habits is one of the factors driving growth in retail destinations, with today's developments combining office space, co-living and co-working spaces, apartments and hotels, etc. all under one roof. Shopping centres are no longer just about shopping; many people now call them their home... La Compagnie de Phalsbourg's Mille Arbres project is an example of such a model, as stretching along the Boulevard Périphérique in Porte Maillot, and arranged over 8 levels, it will feature a street entirely dedicated to dining "rue gastronomique", a bus station, 127 apartments, a hotel, 28,000 sq m of office space and several crèches.

Moreover, connecting with other facilities and attractions (museums, train and bus stations, city centres, etc.) is becoming more and more frequent. For example, the Muse shopping centre in Metz, owned by the real estate firm Apsys, draws on its proximity to the Centre Pompidou to integrate works of art into the centre so that its look and feel echoes that of the museum of modern art itself. Strong ties with the surrounding landscape

allow for an extended entertainment offer. This trend is also apparent in the Vill'Up shopping centre, also owned by Apsys, where the centre's relationship with nearby attractions is key: the Cité des Sciences is directly linked to the shopping centre and the museum's management is delighted with its new retail neighbour. This proves that the destination itself is becoming one of the key drivers of consumer spending. If this trend continues to grow, it is safe to say that in several years' time entertainment will have become the main anchor for shopping centres and retail parks.

Upcoming new-build developments

The long-awaited openings of Muse in Metz (2017) and Open Sky in Valbonne (2020) are an example of shopping centre regeneration. Other innovative projects are currently being explored, such as Europacity in Gonesse; a future complex being developed by Immochan and expected to be delivered in 2024.

According to LSA, the retail pipeline is growing: the number of building permits granted rose during the summer (+38% in July and August). This upbeat activity is underpinned by the thriving personal goods and sports sectors (+179%), as well as the household goods sector (+75%). ■

Boosting retail draw

What other anchors should we expect to see?

Attracting both major and new brands is part of a diversification strategy being employed by shopping centres to drive up customer numbers. Hence why real estate firms and shopping centre managers are welcoming new brands as well as partnerships with major e-commerce players. Temporary pop-up stores stem from this initiative; shopping centres allow these retailers to set up in destinations where they would not normally operate (e.g. Le Bon Coin, Dress in the City). Going forwards, shopping centres are likely to enter into more partnerships and favour brands that are more specialised in lifestyle, restaurants and services rather than fashion goods which benefit from higher online sales rates.

Optimising distribution channels is crucial for brands if they are to survive in the current market climate. In this regard, brands are increasingly investing in e-reservation and Click&Collect systems. It would be wrong to think that these only form a staging ground for e-commerce. They actually present retailers with a real opportunity. In fact, Amazon has already opened Amazon Lockers in more than 230 cities, notably in shopping centres. Market commentators are already intrigued by this trend: could Click&Collect projects one day become shopping centre anchors?

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