

Spotlight

The impact of e-commerce on German high streets

Autumn 2012

Retail sales have been stable - e-commerce has rocketed

Total retail sales in Germany have been relatively stable over the past years, despite the financial crisis. Indeed, since 2007 retail sales have increased by 0.5% pa in Germany compared to a drop of 0.3% pa in the Euro area.

Consumer confidence and retail sales in Germany have held up better than in most European countries due to the stable economy and record low unemployment levels standing at 6.8% in 2012, compared to 11.3% in the Euro area. Nevertheless, a number of recent defaults by retailers and shop closures demonstrate a changing market structure, which is related not only to the falling retail volumes internationally but also to increasing competition and diversion of spend to

online; online sales have seen strong growth levels, increasing by about 10% on average each year since 2007. E-commerce still only makes up a small part of total sales and is forecast to reach €29.5 bn in 2012; however its share has increased steadily to now 6.9% of all retail sales.

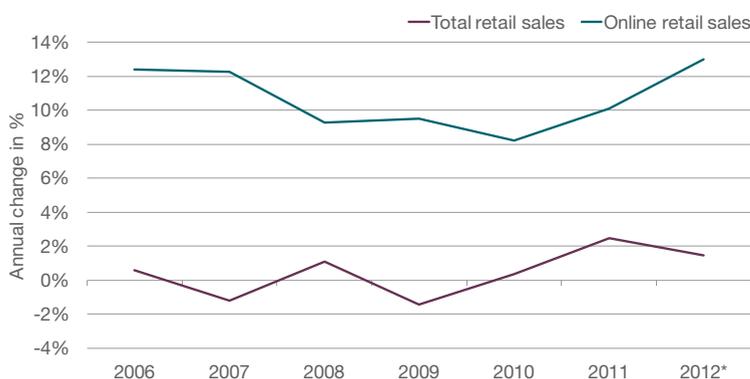
The biggest online retailers by turnover are businesses which operate only or mainly online (Amazon, Conrad) or which have their roots in the mail-order trade (Otto, Weltbild, Bauer).

Which retail sectors have done well, which ones have lost market share?

The prime high streets of the largest German consumer markets are reflecting the key trends in retailing in Germany. Over the past five years we have noticed a change in the country's major high streets, with the closures of small-medium sized local enterprises and an aggressive expansion of international retail chains aiming to capture market share in one of the healthiest retail markets in Europe.

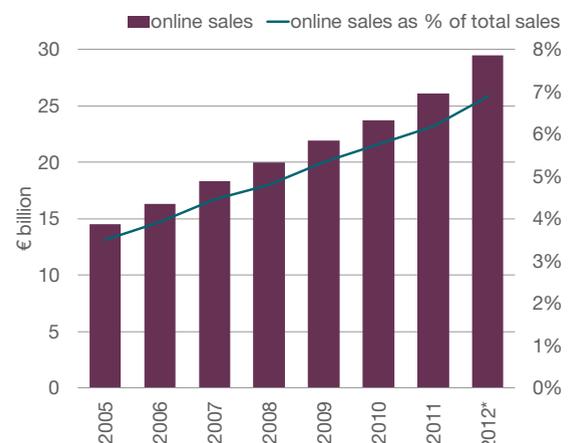
Additionally, traditional sectors that had a dominant presence on the high street, such as books, electronics, sports and footwear are shrinking giving way to mobile phones, accessories and personal care products.

GRAPH 1
Retail sales have increased by 0.5%pa, online sales by 10% pa on average between 2006-2012



Graph source: HDE / *forecast

GRAPH 2
Importance of ecommerce growing rapidly



Graph source: HDE / *forecast

→ A number of factors related to demographics and economics are responsible for these changes, but in this report we will focus on the potential links between the evolution of the online retail market and the stationary retail market.

To do this we have looked at the retail structure of the prime shopping streets in the six biggest German cities, Berlin, Hamburg, Munich, Cologne, Frankfurt and Dusseldorf and analysed how it has changed over the past five years. We have attempted an analysis by retail sector and have made the following observations:

Retail sectors with increasing presence on the high streets

■ Overall spending on fashion has shrunk by 2.8% between 2007 and 2011, but in the prime high streets surveyed in this report, fashion retailers are still the most active occupiers. Over the past five years they have opened 91 new shops and made up almost 59% of all new openings which is far more than any other segment. In about 20% of cases, international and sometimes national fashion chains have replaced the more local fashion retailers. About a quarter of the new fashion shops belong to the luxury segment, more than 45% were chains and only about one third local retailers. In terms of numbers, again fashion retailers have had to close down most stores, 84 in total. About half of these were independent or local shops, and a quarter each were luxury brands and chains. They were closing the shops mainly for three reasons: relocation to another location, mostly due to cost rationalisation, failed market entry and closure of all existing shops in Germany, or bankruptcy.

■ After fashion, two rather distinct sectors follow on in second and third place in terms of numbers of new shop openings: watches & jewellery and mobile phones. However, only mobile phones recorded a positive growth in the number of shops, while watches and jewellery have seen a slight decline in these prime locations. Sales statistics are collected for telecommunication devices as a whole and not just mobile phones, however the figures here paint a clear picture: Total retail sales have risen by more than 50% since 2007, although growth rates have slowed recently

with only 6% between 2010 and 2011. Between 2007 and 2011 online sales of communication devices have also risen strongly, by a spectacular 900%.

■ Furniture and home design shops, beauty and health retailers, leather goods and mobile phones were the sectors with more openings than closures (apart from fashion). Sales of furniture and other decorative homeware have varied over the past five years, and they have only seen a rise of about 4% in 2011. Online sales have proved to be stronger, with an increase of 37% in sales between 2007 and 2011 but a drop of 8% in 2011, meaning that high street shops have clearly been benefitting from the recent upward trend. On the surveyed high streets it was mostly international chains expanding into the German market which took up new space, including Zara Home, Marimekko, Muji and Riviera Maison.

■ Beauty and health retailers continue to expand in prime locations, both national chains (predominantly Douglas) and international brands like Rituals and Body Shop. The closures were again mainly on the independent and local retailer's side. Total sales (+10%) and online sales (+28%) have developed quite robustly in this sector between 2007-2011. The situation has changed a bit recently with total sales staying stable but online sales going down by 17% in 2011, which again could mean that the prime brands located in prime locations are able to defy any fluctuations in consumer

METHODOLOGY

High streets covered in this report

■ In this report we have looked at the retail occupancy structure of the 19 main shopping streets in the six biggest German cities.

■ In order to analyse the changes which have occurred over the past five years, we have compared the retail structure in 2007 with that in 2012.

■ The following high streets have been included in the analysis:

■ Berlin: Alte Schönhauser Strasse, Friedrichstrasse, Kurfürstendamm, Tauentzienstrasse

■ Cologne: Breite Strasse, Ehrenstrasse, Hohe Strasse, Neumarkt, Schildergasse

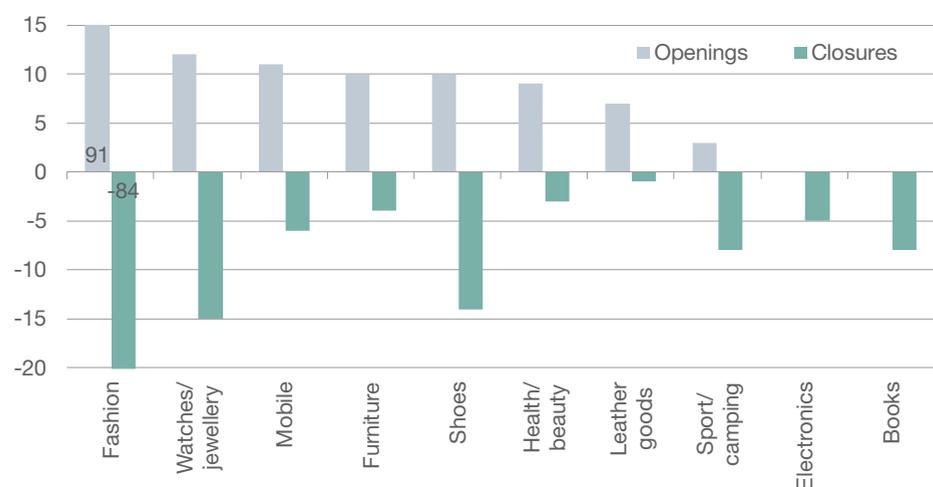
■ Dusseldorf: Königsallee

■ Frankfurt: Goethestrasse, Zeil

■ Hamburg: Grosse Bleichen, Jungfernstieg, Mönckebergstrasse, Neuer Wall

■ Munich: Kaufingerstrasse, Maximilianstrasse, Neuhauserstrasse, Theatinerstrasse.

GRAPH 3
Total number of shop openings and closures



Graph source: RetailIP, Savills

→ trends.

Retail sectors which are losing high street market share

■ In total, there are five retail segments where shop closures have exceeded new openings: watches & jewellery, footwear, books, sports & camping, and electronics. Apart from books, these sectors have seen sales increasing since 2007, on average by 15%. Online sales, on the other hand, have been growing for all of these, on average by almost 83% between 2007 and 2011.

■ Two sectors have recorded shop closures without any new openings over the survey period. These are unsurprisingly books and electronics.

■ Book stores, especially the independent retailers, had started to withdraw from the prime high streets some time before the survey period. The book stores left in 2007 were mostly big chains (Thalia, Hugendubel) and a number of local stores and both of these have seen closures since then. In 2012 there are only two independent book shops left. The books sector has experienced difficulties for some time now with sales having fallen by 10% over the past five years. Online sales and eBooks still make up a small share of the total market but have seen sales rising by 38% between 2007 and 2011 (+11% in 2011). Publishers and the major book retailers are already investing heavily in their online presence to make up for the falling book sales in high street shops, which undermines that there will not be any revival of book shops in prime retail locations.

■ Similar to the books sector, electronics retailers (including the big chains like Saturn and Mediamarkt) now only have a minor presence on the top high street locations. Since 2007, there have been five closures of both chains and independent stores and only one notable new opening - of an Apple store. The overall sales trend (for consumer electronics, software, electronic home appliances, film/sound carrier) is, however, positive, sales have increased by 18% since 2007, countered by a 114% increase of online sales. This has been an ongoing trend in each year since 2007, showing that ecommerce is increasingly capturing the sales of traditional shops, and that electrical

retailers have also refocused away from the high street and back towards larger out-of-town units.

■ In the footwear segment, there have been 14 closures but only ten new openings. This sector, at least in these prime locations, is already almost solely characterised by chains or shops of individual international brands like ecco or Geox. Accordingly all activity was in the context of big retailers and a couple of closures were of chains which reportedly are experiencing difficulties (e.g. Görtz, Leiser). The sales figures show that a 6.5% growth in global sales is countered by a plus of more than 57% in online turnover. Recently, in 2011, sales have actually decreased slightly (1.6%) but online sales went up by 14% in the same time period.

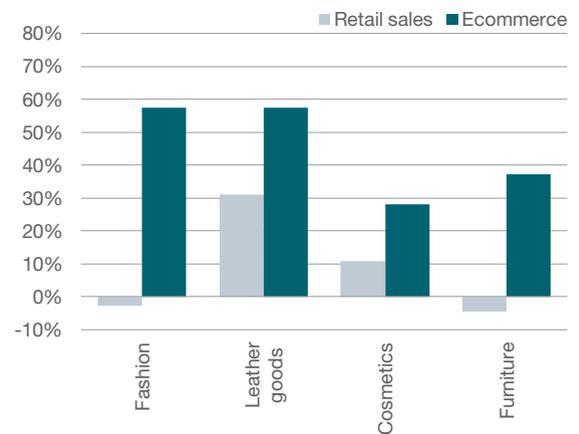
■ Sports & camping stores are clearly losing market share to the online business. This sector had been boosted by the expansion of outdoor stores in recent years, but shop closures have happened across all types of businesses. Over the past five years, there have been eight closures and only three new openings, although total retail sales have developed positively (+7.9%). Online sales have however jumped by more than 90% over the same period of time.

■ Watches & jewellery has been one of the sectors with most movement. On balance, the number of stores is shrinking with 12 new openings but 15 closures since 2007. As with the other sectors, online sales have developed far more strongly than sales as a whole; they jumped by 113% between 2007-2011 while total sales have increased by almost 30%. More recently, in 2011, the 7% increase in total sales is contrasted by the more than 90% rise in online turnover.

■ About half of the new shop openings were by the brands/ designers themselves (e.g. Swarovski, Pandora), and the other half by national chains. Closures have relatively often been by the same businesses mostly due to relocations and restructuring. About a third of the closing businesses were independent retailers who quite often had to relocate, although there have been bankruptcies as well.

Rising prime rents show

GRAPH 4 **Sectors with increasing high street presence** Development of retail and online sales between 2007-2011

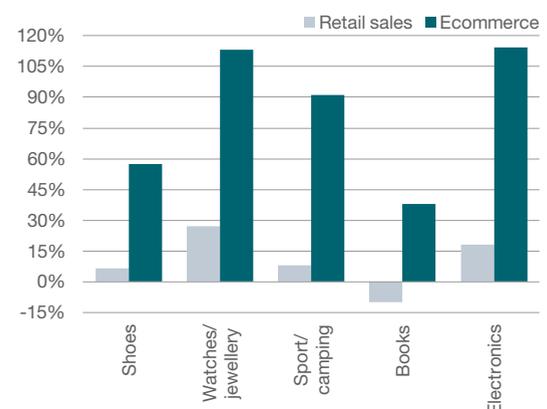


Graph source: Destatis, BVH

“Despite rising online retail sales, the importance of a high street presence remains significant for the major retail brands”

Julia Maurer, Savills Research

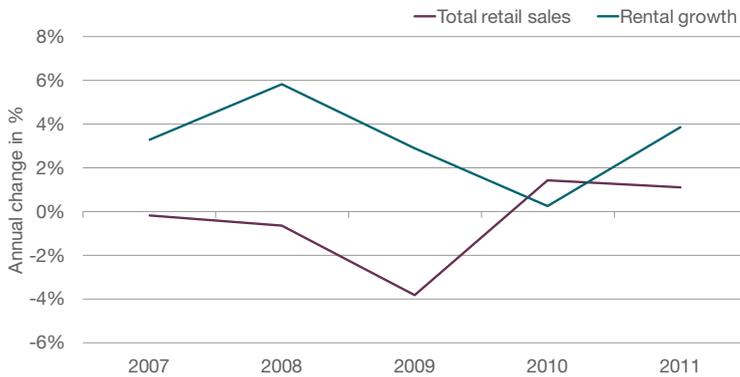
GRAPH 5 **Retail sectors which are losing high street presence** Development of retail and online sales between 2007-2011



Graph source: Destatis, BVH, Savills analysis

GRAPH 6
Development of prime rents against retail sales

Prime high street rents have increased by 13.4% on average in the six cities since 2007



Graph source: Oxford Economics, Riwis

→ **that retailers are still committed to the best streets**

The growing e-commerce business has weakened the high street presence of some sectors and contributed to their disappearance from these locations. In the main high streets surveyed in this report, this has not led to a spread of empty shops but to a change of the tenant structure with the growing sectors, mainly driven by the expansion of big chains, taking all space left by shop closures. The demand for prime retail locations has been continuously high and given the scarcity of available

space, retail rents across all markets have developed quite strongly over the past five years.

They have increased by 13.4% on average, with the biggest rise in Frankfurt (18.6%), followed by Hamburg (14.6%) and Dusseldorf (14.2%). Although retail sales in these locations have in fact decreased by 1.9% on average over the same period, this has not had an effect on the prime high streets. ■

OUTLOOK

e-commerce will drive polarisation between strong and weak high streets

- We expect that online sales will continue to rise in Germany, but the majority of diversion will be to the online stores of traditional retailers.
- The profitability of the online portion of these multi-channel retailers will support their ability to pay rents on the high street, as well as a rise of the high street store as a showcase for brands.
- We also expect to see a rise in click and collect, particularly in out-of-town retail locations. This will be supported by the consumer's desire to receive their products today, and allow retailers to up-sell at the point of sale.
- The rise of online shopping in Germany will mean that retailers need fewer stores to cover the whole country. This will lead to increasing polarisation between strong and weak trading locations. We expect that retailer demand will remain strong for the best streets in the strongest trading locations which will drive steady upward rental growth. Secondary and tertiary locations will suffer from declining retailer demand and increasing voids.

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