



Department stores in Germany

Status | Quo | Vadis





Foreword

Quo vadis, department stores? The title of this study reflects the prevailing uncertainty surrounding the future of the department store. For decades, department stores have represented local retail leaders and main draws in many town and city centres. In recent times, however, department stores in Germany have lost significant market share and whether the store closures over the last decade should be regarded as consolidation or as erosion is a matter of perspective.

Both the type of property and quality of location cover a broad spectrum. From flagship store to local supplier: who will „draw the short straw“ in the competition against other formats and the Internet? Where does strong positioning succeed? Sweeping judgements regarding the department store as a retail format are always inadequate. The differences are simply too great both in respect of the quality of individual locations and properties

as well as the competition structure and potential demand in the retail and property sectors.

This is why, in summer 2015, Savills and Stadt+Handel compiled store data on Karstadt and Kaufhof properties, analysed this data and evaluated it via a scoring process. The outcome is the present study, which provides a bird's eye view of the situation and structures the department store stock in terms of location and property-related conditions. The scoring results and tools presented in the study can be used by owners and retailers, investors and developers and even local authorities and expansionists to gain a good impression of future options for the individual stores. This not only refers to owners and purchasers of department store properties but also surrounding properties, which can be affected either positively or negatively by the fate of nearby department stores.

The study is particularly intended for practical use in everyday work. The body of data presented can also act as an essential reference work.

We hope that the study will assist you with your discussions and decision-making processes.



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Content

- 04 Executive Summary
- 06 1 | Introduction
- 08 2 | The department store sector in Germany
- 22 3 | German department stores compared
- 46 4 | Quo vadis, department store? Five theses

Executive Summary

Where next for German department stores? Once regarded as „cathedrals of retail“, the department store is experiencing a prolonged period of crisis as a retail format in Germany. A review of the current situation in the retail sector illustrates that the situation for department stores is not hopeless but there are many challenges to overcome in order to emerge from the current crisis. Online retail continues to exert pressure on stationary operators in the sector, mainstream prices are becoming increasingly unattractive and department stores are not alone in having to go to ever greater lengths to attract customers through the doors. The crisis and ultimate fate of department stores not only affects consumers, municipalities and, of course, the department store retailers themselves, but also property owners and investors. The department store retail format is intrinsically linked with its structural envelope. This is not least attributable to department stores' unique capability to use several storeys (more than five on average) as sales space. If a department store closes, conversion of the department store property to an alternative use is the only option in the vast majority of cases.

Today, there are 161 remaining free-standing department store properties in Germany occupied by either Galeria Kaufhof or Karstadt. These have an average lettable area of around 17,900 sq m and an average sales area of some 14,400 sq m. Department stores are, therefore, among the largest retail properties both in terms of footprint and usable floor area. This characteristic, combined with their normally central locations in town and city centres, makes department stores a unique property type. Around three quarters of all properties are situated in A locations.

It is not least the high-quality locations that make department stores appealing to investors. Department stores have accounted for inflows of around €6.2bn, more than 10% of investment in retail property, since 2009. By way of comparison, hotel and logistics properties have each accounted for

approximately €9.5bn of investment during the same period. A total of 193 department stores have changed hands, almost half of which were part of portfolio transactions.

An analysis of transaction activity demonstrates that department stores can represent an appealing investment for all types of investors. For conservative investor groups, such as insurance companies and pension funds, department stores let on long-term leases in 1a locations are particularly interesting since they offer a stable rental yield and a high probability of capital preservation. Opportunistic investors and developers, on the other hand, are more interested in properties with short lease terms and uncertain futures since this creates opportunities for re-positioning and the associated value-add potential.

Against this background, and taking into account the close relationship between the department store as a retail format and property type, it is essential to consider the current situation and future viability of the remaining department stores. The outcome of such deliberations will determine the extent to which a department store property is of interest to completely different types of investor. Furthermore, an understanding of the current conditions of a department store will be helpful to local authorities as well as other stakeholders. Despite the general crisis facing the retail format, the German department store is highly diverse and each property has its specific strengths and weaknesses.

The scoring system, which evaluates the macro and micro-locations as well as the quality of the 160 or so department store properties in Germany, covers such strengths and weaknesses. The results of the scoring allow for conclusions as to the future viability of the individual department store locations in the context of these conditions. Thus, property investors, local authorities and department store retailers themselves, as well as other stakeholders, can use the results as a guideline or basis for decision-making.

A total of 46 department stores make up the group of „frontrunners“, which have the highest scores and, thus, the best conditions. This group includes the three premium stores of the KaDeWe Group as well as both stores in Mannheim. Galeria Kaufhof operates 24 of these stores while 22 belong to Karstadt. The „midfield“ group comprises a total of 62 department store properties with mid-range scores. These include 33 Kaufhof department stores and 29 Karstadt properties. Finally, 53 department stores make up the „laggards“, which are generally characterised by less favourable conditions in terms of property and location. Galeria Kaufhof operates 29 of these stores while the other 24 are Karstadt department stores.

Upon analysing the scoring results, it is immediately apparent that the frontrunners are predominantly situated in major cities, whereas the laggard stores are over-represented in smaller towns and cities. No town or city with 50,000 or fewer inhabitants appears among the frontrunners, while almost three quarters of stores in such locations are found in the laggard group of the scoring. Thus, the scoring results suggest that the conditions for the future viability of department stores tend to be worse in medium-sized towns and cities than in major cities. However, this places department stores in such towns and cities in a predicament. On the one hand, the less favourable conditions restrict the size of the department store while, on the other hand, history shows that a department store should have a minimum sales area of 8,000 sq m in order to successfully fulfil its role as a full-range provider. Consequently, the outlook for the future viability of such stores is less auspicious. To assess whether the existence of any stores is under threat, and which stores they might be, requires consideration of the specific competitive conditions in each location. Properties in competitive markets such as Gießen will face greater challenges than those that enjoy the status of local retail leader such as in Iserlohn.

Executive Summary

The scoring results also show that most department stores are situated in good to very good micro-locations. Only few properties are situated in genuinely poor micro-locations. Furthermore, the spectrum is narrower in this respect than that for the quality of macro-locations and properties. Thus, department stores differ relatively modestly in the quality of their micro-locations but considerably in terms of how these locations have developed. In particular, it can be observed from the scoring results that micro-locations with generally below-average performance in the scoring have fared much worse in terms of attractiveness in recent years, which is manifested in declining rents. On the other hand, those micro-locations with above-average location quality frequently show rising or at least stable rental levels. Thus, department stores in such locations are in danger of losing their competitive advantages while the selection process threatening otherwise crisis-stricken department stores is likely to continue.

It is precisely this structure created by the discovery of location and property-related strengths and weaknesses that makes the scoring a valuable instrument in practice. Property investors, local authorities and other stakeholders can use the scoring to prepare, reach or validate decisions. Furthermore, combined with retail expertise and knowledge of the property market, the scoring results provide a basis for venturing a number of theses on the future of the „old lady“ of retail over the coming years. There is much to suggest that some department stores will continue to lose their magnetic effect going forward while others will even close. Properties in medium-sized towns and cities with fewer than 100,000 inhabitants are particularly under threat, as are those situated in unfavourable micro-locations and faced with intensive competition in the local retail market. However, it is precisely the high-quality micro-locations of most properties that can act as a starting point for a renaissance of the department store.





1 Introduction

Where next for German department stores? This is a question currently occupying both the trade press and the wider public alike. Not only are many jobs under threat, but the department store continues to represent a beloved retail flagship and local full-range provider in many towns and cities. On the other hand, however, many individual stores have long since lost this elevated status. Against this background, it is more pressing than ever to question the future of department stores in the highly competitive and increasingly saturated German market.

The strength of shopping centres and e-commerce, in other words the current dynamic change in the retail sector, has had a material impact on the department store format. Nobody can accurately predict how e-commerce will alter the retail landscape over the long term. However, one thing is

abundantly clear from developments to date: stationary retail is faced with immense challenges. If consumers spoiled by online retail make the effort to visit a prime retail location, they expect perfect brand staging, an experience, surprise and emotion, preferably combined with in-depth service and a wide assortment – ideally, at bargain prices. The assertion that this is unsustainable over the long term is supported by declining footfalls in town and city centres and the demise of owner-operated specialist retailers. At first glance, the falling market share of department stores in the German retail sector is a further consequence. However, a more in-depth analysis reveals underlying reasons.

The subject is also multi-faceted since it not only affects towns, cities and communities but ultimately also consumers and the two remaining major department store retailers in Germany, Galeria Kaufhof and Karstadt. Furthermore, the future of department store property is closely linked to the fate of the retail format. It is the department store's unique ability to offer more floors than other retail formats that restricts the alternative use of the properties. Thus, questions surrounding the future of department stores are also relevant for owners of department store properties and other investors active in the retail sector as well as developers.

1 Introduction

Consequently, the present study turns its attention to the future viability of department stores in Germany with an explicit focus on property-related aspects. For the purposes of this study, a department store is defined as follows:

A department store is a property whose anchor tenant or principal occupier is Galeria Kaufhof or Karstadt, including the premium stores of KaDeWe Group. In addition to traditional department store formats, this also includes speciality stores (e.g. bargain stores). The effective date is 30 June 2015.

Department stores occupying space within a shopping centre or that are structurally integrated into a shopping centre or are at least connected to a shopping centre structurally or via a marketing association (e.g. Karstadt in the Boulevard Berlin mall) have been disregarded in the empirical part of this study since, from a property management perspective, they are located within a different property type. Sportarena and Karstadt Sports stores have also been excluded since these do not primarily occupy entire buildings but generally occupy retail space as one of many tenants.

In order to explore the question of the future viability of department stores as defined above from a retail as well as a property perspective, Chapter 2 examines the German department store landscape from both angles. The retail perspective focuses on the current dynamic situation in the retail sector and discusses trends and influencing factors that, albeit not exclusively, have a material impact on the department store format. A brief journey through the 150-year history of the format reveals that the department store itself once revolutionised the retail sector. And today? Today, the „old lady’s“ glorious past is little more than a distant memory in many places in Germany as illustrated by a concluding look at the status quo of the German department store landscape.

The property perspective starts by examining the role of the department store in the German retail property landscape. Department stores’ unique characteristics, such as generally outstanding locations, make department stores attractive properties to real estate investors. This is reflected in the transaction volumes in recent years. An analysis of this market also illustrates the closeness of the connection between the department store as a format and its structural envelope. Depending on the future viability of a particular department store, the property might be of interest to completely different types of investor. It could be said that every department store has its market.

In keeping with the context of the retail and property management perspectives explored in the second chapter, Chapter 3 presents the analysis results of a full census of all German department stores by way of scoring. The adage that „location, location, location“ is the most important success factor for property in general and retail property in particular is reflected in the composition of the scoring. The scoring comprises three pillars. The first is the macro-location and its relevant conditions for department stores. The second pillar relates to the prevailing conditions in the micro-location and the third and final pillar of the scoring reflects an appraisal of the quality of the property.

The scoring results provide a comprehensive overview of the specific conditions of all German department stores and help to create a structured view of the current department store landscape. They also indicate which properties benefit from outstanding conditions as well as highlighting those in less favourable situations. These results alone can provide a basis for decision-making with regard to department stores, whether by local authorities, property investors or department store retailers themselves. However, the scoring also provides a useful foundation for more detailed analysis. This is illustrated with the example of a competition analysis as well as two analysis tools for property

market participants.

Furthermore, the scoring not only provides a basis for objective analysis but can also act as a frame of reference for looking to the future, which is the core subject of the fourth and concluding chapter. A number of theses on the future of department stores provide an outlook as to the potential future for the „old lady“ of retail in 2016 and beyond.

One thesis can be ventured at this early stage, however: the department store will remain a subject of great interest over the coming year, both as a retail format and property segment.



2 The department store sector in Germany

2.1 Department stores as a retail format

The present study places the department store at the centre of its deliberations. However, this particular format and its development cannot be viewed in isolation but can only be understood in the context of the dynamic retail landscape. The latter, in turn, is characterised by constant change, new trends and innovations and a pressure for continuous renewal. This raises questions such as the following for the department store. What are the general developments that are affecting the department store today and that will affect it in the future? How has the department store evolved in the past and what is its situation today?

Trends in retail

Like any other market, the retail landscape is shaped by the interaction between supply and demand – and all the more if both sides of the equation are undergoing fundamental change.

On the supply side, the nationwide trend in Germany towards building more and more retail space has evidently ceased for the time being.

Retail space grew by a total of approximately 12.1 million sq m between 2001 and 2014 according to GfK, taking the total retail stock to 123.1 million sq m. However, if we look at the last five years, development of space appears to have reached a plateau. According to GfK Geomarketing, Germany has a total retail stock equating to 1.46 sq m per inhabitant, which is relatively high compared with the rest of Europe.

At the same time, the number of operators is in decline. International vertical retailers such as Primark, Uniqlo, Forever21 and Reserved are surging into cities' prime locations and displacing traditional, owner-operated specialist retailers by achieving higher sales and, thus, having larger rental budgets. That this trend has resulted in a further increase in retail space is partly attributable to the fact that the major multiples are increasingly using their stores as showrooms rather than pure sales outlets. Large, modern stores are used to showcase the brand and to make shopping an experience. However, expanding formats such as factory outlet centres and designer outlet centres are also establishing themselves in the German market and swelling the retail stock.

The interaction between these trends is resulting in an increasing homogenisation of the main retail locations, which time and again appear to comprise the same brands. This, in turn, is leading to boredom among consumers and declining footfalls in city centres. The power of e-commerce is further exacerbating this trend and stationary retail is suffering from stagnating sales.

The demand side is also witnessing massive change. Not only are customers becoming more unpredictable, more demanding and increasingly selective in their spending behaviour, the decline in retail purchasing power is also affecting the retail sector. Energy transition and the restructuring of private pensions as well as an increasing emphasis on leisure time are ensuring that there is less money left in people's wallets for consumption. Thus, not only is buying behaviour changing when it comes to fashion retail; mainstream prices in general are becoming increasingly unattractive to consumers. The beneficiaries of this development are price-aggressive retailers, with some 50% of sales in Germany now generated by discount formats.



2 The department store sector in Germany

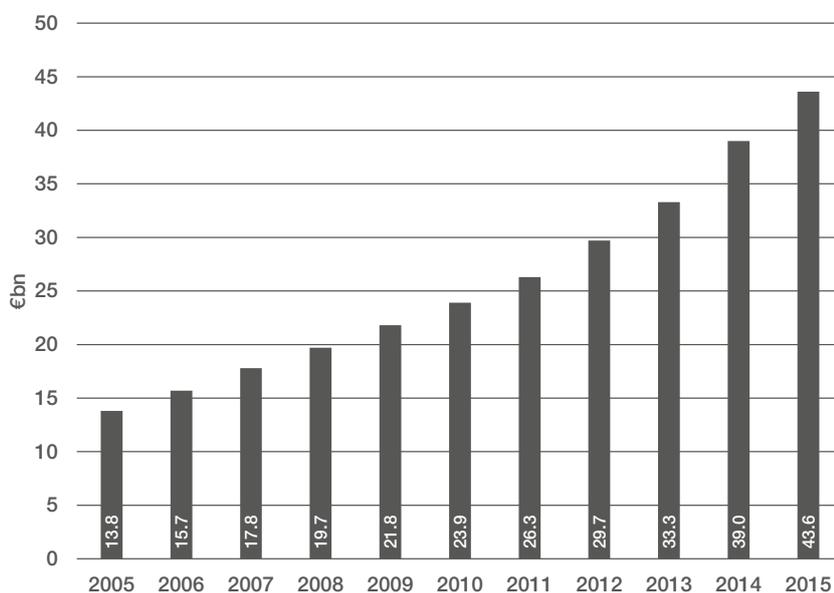
Key factors such as brand value and customer loyalty have fundamentally changed. Over-saturated and bored consumers are now placing increasing value on the „outcome“ or that „certain something extra“. The new customer type „homo eventicus“, the experience or event junkie, can apparently only be enticed away from comfortable sofa shopping by product presentation that includes variety, sensations and brand events. Retailers who manage to imbue the sales process with an „aura of the extraordinary“ can stand out against the competition. Should they fail to attract customers with exciting offers and bargain prices, however, the disappointed customer will turn to the Internet. Indeed, massive increases in sales from the sofa are witnessed on public holidays and weekends. According to projections from the EHI Retail Institute, e-commerce will account for 27% of total retail sales by 2025.

Internet-friendly sectors such as bookselling and electrical goods already account for a significantly higher proportion of revenues. This is having a noticeable impact on city centres, where these sectors previously occupied large stores and are now beginning to reduce their sales areas.

The inexorable rise of smartphones and mobile shopping will only further these trends going forward. Some 45.6 million people in Germany currently own a smartphone and the trend is rising sharply. On the other hand, e-commerce is now making its way into German city centres. One-time pure plays such as Zalando are opening physical stores in cities such as Frankfurt and Berlin. The future looks bright for multi-channel retailers that manage to supply their customers via all platforms and to successfully combine their stationary retail business with online sales.

In general, the increased competitive pressure in the retail sector means that flexibility and readiness to adapt quickly to current trends are key success factors for companies. Ponderous „old ladies“ such as department stores are seemingly unable to keep pace. However, this was not always true as a look back at the early days of department stores reveals.

Fig. 1 B2C-E-Commerce turnover



Source: Own illustration based on HDE Handelsverband Deutschland 2015

2 The department store sector in Germany

Once upon a time...

What future does the department store have in the fiercely competitive market environment outlined above? Many believe none at all. „The category is a dying breed unless the business model is dramatically altered,“ wrote Stern magazine in August 2015 of a format that has been in existence for around 150 years. The department store announced itself as a retail format in 1852 in Paris when Aristide Boucicaut opened his „Au Bon Marche“, one of the first department stores in history. The store was characterised by both a broad and deep assortment of goods and innovations such as advertising and price maintenance; essentially a revolution in retail. Access barriers were removed to reduce the distance between customer and products and enable unconstrained shopping.

Germany continued the trend with stores from Abraham Wertheim (1878) and Leonard Tietz (1879) in Stralsund, Rudolph Karstadt (1881) in Wismar and Hermann Tietz (1882) in Gera. Such department stores drew customers with their accessible city-centre locations and their wide assortments. These were soon followed by major stores such as KaDeWe (1906/1907), built „like stately shopping palaces, bathed in light with multi-storey atriums and ornately sculpted ceilings, with French-influenced, Gothic sacral, historicising and Art Nouveau architecture“ (RKW Rhode Kellermann Wawrowsky 2015, p. 37).

The years of hardship around World War I gave way to growth and expansion of the new format, which was further fuelled by a sellers' market. By 1920, Karstadt had become a stock corporation and increased its portfolio to 44 stores via a merger with Theodor Althoff. However, it was after these „years of plenty“ that department stores suffered their first major slump in the build-up to World War II. „Anti-department-store propaganda“ from the Nazi regime led to intimidation of operators and forced closures. According to figures from Frechen University, only around 364 out of 1,400 large and small department stores remained by 1939.

During the post-war years, the increasing affluence generated by rebuilding the country meant increased demand for consumer goods as well as for greater motorisation of the population. As the economic upswing in Germany continued, large stores with even wider and deeper assortments sprang up on greenfield sites.

The savings achieved by optimising business processes resulted in a constant expansion of retail space. Furthermore, the associated growth in assortments attracted new customers and increased turnover of stock. Higher order volumes led to better purchasing conditions, which had a positive impact on the profitability of companies.

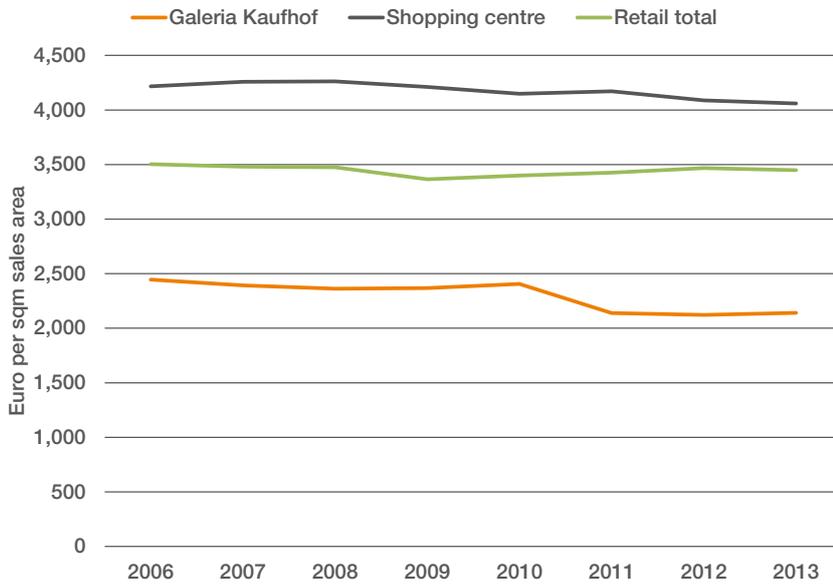
In the city centres, the focus was on larger and larger sales areas. The first pedestrian zones also began to appear around city-centre department stores. In the 1970s, the department store reached its heyday, accounting for a market share of around 15%. At the same time, however, a new format emerged that would quickly put the department store under massive pressure. The shopping centre copied the idea of having „everything under one roof“ but used the intelligent arrangement of retailers by central management to achieve synergies. Consequently, the department store lost its monopoly as a full-range provider and would consistently lose further market share from the 1980s onwards due to the emergence of further competitors, such as vertical retailers and discounters. These developments not only impacted the department stores themselves but also the city centres, which witnessed declining footfalls.

In the 1990s, department store retailers attempted to salvage their profitability via acquisitions. Hertie, the third largest department store group at the time, was sold for DM 300 million to Karstadt, while Kaufhof bought competitor Horten. As the takeovers completed, Germany saw a wave of department store closures.

Shopping was gradually becoming a leisure activity, causing shopping centres to transform from full-range providers to worlds of experience and, thus, retain their status as attractions for shoppers. Compared with the greenfield sites, city centres have witnessed a revival in recent years and are regaining their significance. Shopping centres are now preferably opened in good to very good major retail locations while the number of department stores continues to decline. Despite the closures, turnover by sales area remained low relative to average retail figures, as well as to turnovers achieved in shopping centres, and has continued to decline.

2 The department store sector in Germany

Fig. 2 Development of sales productivity



Source: Own illustration based on Metro Group 2013, German Council of Shopping centres, HDE 2015

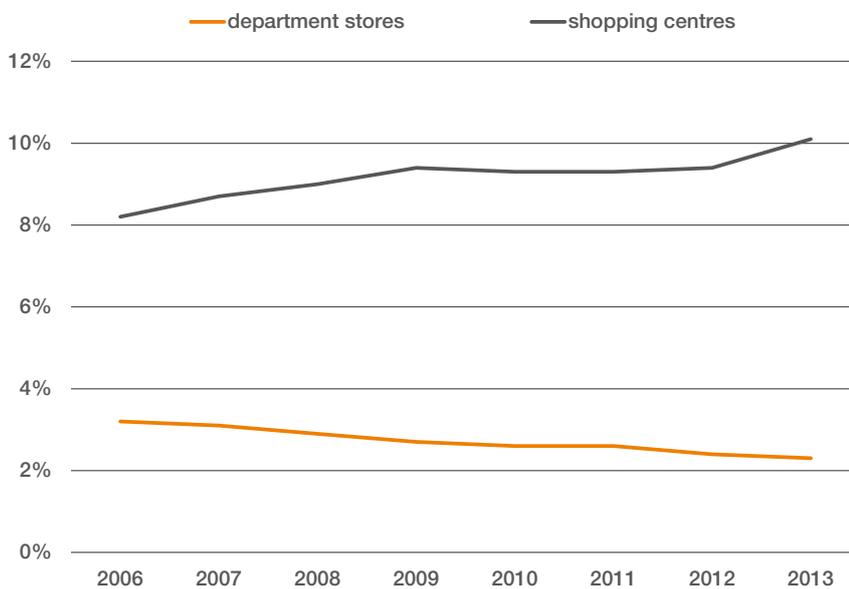
As a result, shopping centres have consistently improved their position in the retail sector while department stores have lost further market share in recent years (Fig. 3).

The provisional nadir of this trend came in 2009 when Karstadt filed for bankruptcy. The turbulent years that followed were characterised by embezzlement proceedings, job cuts and changes of ownership. One-time beacon of hope Nicolas Berggruen, who acquired Karstadt in 2010, sold the group for one euro in 2014 to Austrian property investor René Benko. The latter lost a bidding war for Kaufhof in 2015. The Metro Group parted with Kaufhof following years of declining profits, selling the chain for approximately €2.8bn to Canadian group Hudson's Bay.

Status quo

Not only does the department store have an eventful history, it must also hold its ground in the present in a dynamic and hotly contested market environment. The constant changes in management, rebuilding processes and the associated unsettling of customers has manifested itself in the net revenues of both Karstadt and Kaufhof in recent years (Fig. 4).

Fig. 3 Development of retail market shares



Source: Own illustration based on EHI 2014, German Council of Shopping centres 2015

2 The department store sector in Germany

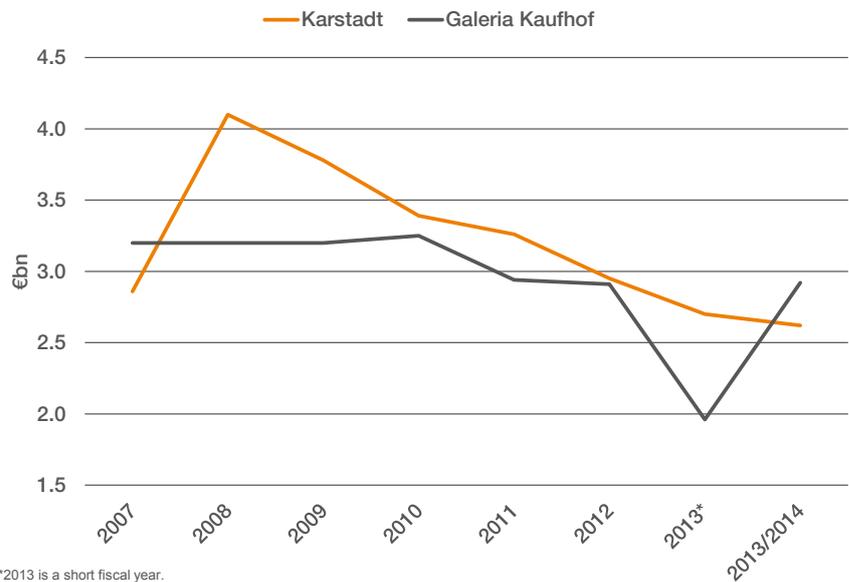
However, the problems are more profound. Falling sales can be attributed to the unclear positioning of assortments, which have traditionally been in the mid-price range. In fashion retail in particular, therefore, there are currently two other beneficiaries; the price-aggressive vertical retailers and those operators that can impress with their retail experience, service and quality. These might be considered core strengths of the department store. However, ongoing personnel reductions by department store retailers threatens to undermine service quality and the associated elaborate and enticing presentation of products. While this continues to be successfully implemented in high-end stores such as KaDeWe and Oberpollinger, some jaded, previously robust department stores in mid-sized towns and cities are witnessing drastic declines in footfall (Fig. 5).

In smaller towns and cities, department stores, with their diverse assortments, continue to hold their own as key retailers and even as anchor tenants. In large cities with a broad and colourful retail landscape, on the other hand, department stores can lose their significance as full-range providers amid competition from numerous specialist retailers. Consequently, it is impractical to make a wholesale judgement as to the future viability of the format. Rather, a more in-depth analysis of the German department store landscape is required.

The 161 department stores studied in this research are regionally distributed as follows (Fig. 6):

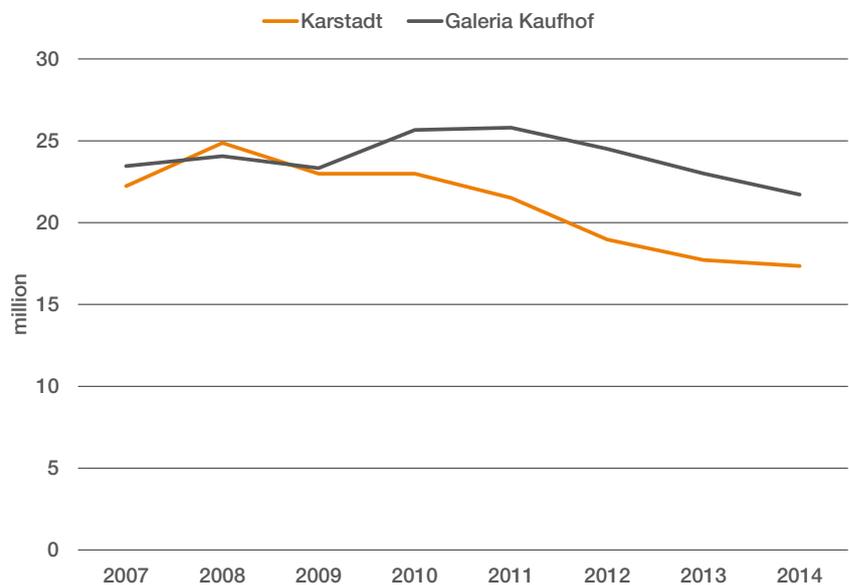
- 49 in large cities with 500,000 inhabitants or more
- 66 in large cities with 100,000 - 500,000 inhabitants
- 31 in large mid-sized towns and cities with 50,000 - 100,000 inhabitants and
- 15 in small mid-sized towns and cities with 20,000 - 50,000 inhabitants

Fig. 4 Development of net revenue



Source: Own illustration based on EHI 2015 / * Galeria Kaufhof: short financial year Jan-Sep 2013

Fig. 5 Development of department stores visitors



Source: Own illustration based on EHI 2012 und Statista 2015

2 The department store sector in Germany

Thus, the distribution is largely consistent with that of the population. Only the former East German federal states have a below-average supply of department stores with just twelve properties. This is particularly striking in the federal state of Thuringia, which has just one store.

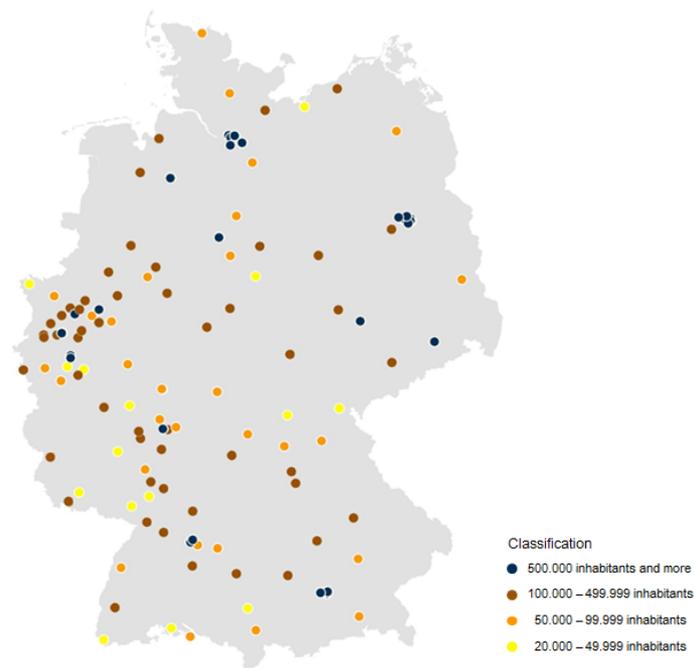
The distribution by department store retailers is almost identical. There are 86 Galeria-Kaufhof stores compared with 75 Karstadt stores. The latter are divided into eight specialist stores and 67 traditional department stores.

An analysis of the sales areas reveals that Kaufhof has a total of 18 department stores with areas below the 8,000 sq m threshold identified by Hessert as a „magic limit“ for a successful department store. Karstadt, meanwhile, has only four stores with a sales area below 8,000 sq m. Galeria-Kaufhof department stores have an average sales area of 12,779 sq m, compared with 15,397 sq m for Karstadt department stores.

One feature that markedly differentiates the department store from other retail formats is the distribution of the sales area over several floors. This is unusual in retail since customers have a clear preference for barrier-free shopping and, thus, ground-floor stores, whereas concepts laid out over several floors require highly attractive uses on the upper floors to achieve an even distribution of internal footfall across all storeys. The department stores studied range from single-storey to ten-storey properties. It is noteworthy that in 139 of the 161 stores, more than three floors are used for retail.

Against a background of the developments outlined in the German retail landscape, as well as the declining turnover by sales area and market share of department stores, the question is whether such stores can remain sufficiently attractive to successfully support their distinctive multi-storey properties.

Fig. 6 Department stores in Germany

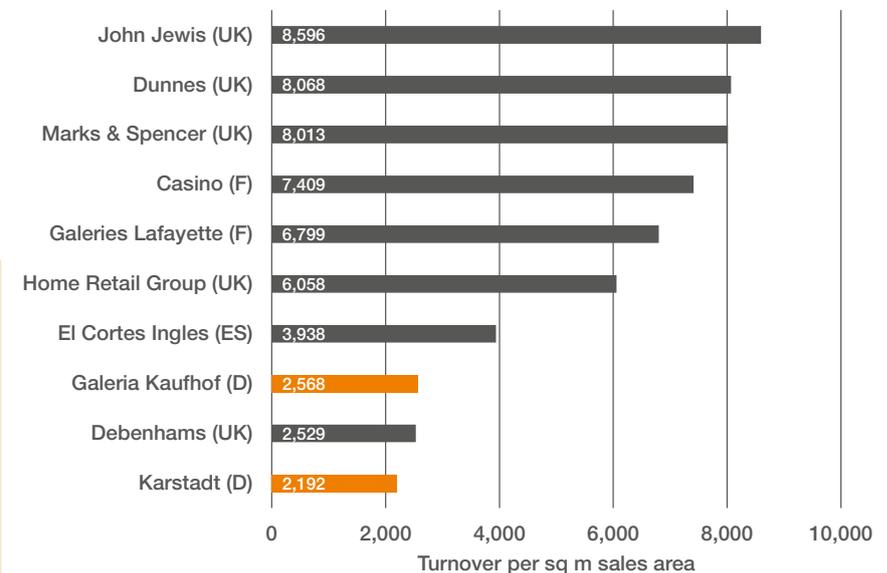


Source: Own illustration Stadt + Handel

Is it premature or pessimistic, therefore, to declare the end of the department store format? Such sweeping questions can be answered in the negative since a glimpse across national boundaries reveals successful international department store chains that are prospering and expanding rather than contracting.

El Corte Ingles in Spain, Rinascente in Italy and Marks & Spencer in Great Britain are just a few such examples.

Fig. 7 Gross sales of the leading department store companies in Europe in 2014



Source: Own illustration based on EHI 2014

2 The department store sector in Germany

At first glance, therefore, the faltering of the department store format appears to be a problem of the German market. A more in-depth look at department stores, the quality of the properties and their locations, as well as the intensity of local competition, provides further indications as to the future viability of the stores and allows detailed discussion as to the future evolution of the „department store species“.

2.2 Department stores as properties

The retail sector is a central pillar of any national economy. And while online retail is increasingly seizing market share from its stationary counterpart, by far the largest proportion of sales continues to be completed „on the shop floor“. In Germany, stationary retail still accounts for approximately 90% of total retail sales at present according to HDE. This also means that retail space currently generates more than €420bn per year in the retail sector, most of which is turned over in retail properties. The number of such properties existing in Germany and their total rental area are unknown. Therefore, the total sales area of 120 million sq m is essentially the only figure that offers an indication as to the size of the German retail property stock. By way of comparison, the present office stock was estimated at around 320 million sq m a number of years ago by the Society of Property Researchers, Germany (gif), while the logistics property stock is believed to be of a similar size. Thus, while its property stock may be somewhat smaller than that of the two other sectors mentioned, retail remains one of the largest commercial property sectors in Germany.

Compared with logistics and particularly office property, the retail property landscape is also significantly more heterogeneous and is divided into several sub-segments, including high-street properties, shopping centres and retail warehouses. These sub-segments are characterised by specific structural and locational qualities and, consequently, represent distinct letting and investment markets. The building envelope of a DIY store, for example, may also be

suitable for a garden centre occupier but not a clothing retailer. This, in turn, makes the property attractive to certain investors but uninteresting to others. The DIY store example also illustrates another point. Some retail properties are intrinsically linked to the corresponding retail segment and each is inconceivable without the other. At the other extreme are agglomerative properties such as shopping centres, which are suited to a wide range of retail segments. Department stores share closer proximity with DIY stores than shopping centres on this intellectual spectrum. Without a department store as an occupier, the department store property also essentially loses its status, although this may only definitively occur once another use is found for the property. At that point, it becomes an emporium or high-street property or, as is often the case, the vacancy paves the way for redevelopment as a completely different property type. However, it is these various options for subsequent use that also fundamentally differentiate the department store from the DIY store. In their original form, department stores display features that make them what they are and distinguish them from other retail properties.

The German department store stock and its characteristics

A fleeting glance at the distinctive „Hortenkachel“ tiled façades alone is sufficient for department store connoisseurs and many consumers to differentiate department stores from other properties. However, since the Horton chain that gave its name to the tiles is no longer in existence and the tiles are becoming an increasingly rare sight on the high street, there are other essential characteristics that distinguish department store properties.

First and foremost, like all other types of property, department stores define themselves by their use. In addition to their use by a department store retailer and the associated status as single-tenant properties, from a property management perspective they are also characterised by a number of structural features as well as by their specific micro-location.

To a certain extent, the combination of these three features of the use, building fabric and micro-location, creates a unique letting and investment market. At the very least, department stores constitute an independent sub-segment of the retail property market. The relevant characteristics of department store properties from a real estate perspective and the respective (sub)markets of this property type are, therefore, discussed in further detail below.

In their halcyon years, department stores were regarded as „cathedrals of retail“. Many of today's department stores have lost this erstwhile splendour, just as their developers have lost their penchant for ostentatious architecture. What has remained, however, is the critical mass of the structures that likely contributed to the origin of the cathedrals metaphor. The 161 department store properties in Germany have an average rental area of some 17,900 sq m over more than five storeys. The sales area of the properties averages approximately 14,400 sq m and some buildings include additional space for offices and other uses. The KaDeWe in Berlin is the largest department store in Germany with a sales area of some 60,000 sq m, while the Galeria Kaufhof on the Zeil in Frankfurt is the highest with ten storeys. Only two properties have fewer than three storeys, the Karstadt-Schnäppchencenter in Gießen with one floor and the Karstadt-Warenhaus in Bremerhaven with two floors. Department stores are, therefore, among the largest retail properties both in terms of footprint and usable floor area. Only shopping centres and retail parks can match such floor areas as a general rule.

2 The department store sector in Germany

There are also only two other types of retail property that can compare with department stores when it comes to their number of floors, namely emporiums and high-street properties. However, it is almost a unique feature of department stores that all storeys are used as sales floors. For the most part, the storeys have generous floor to ceiling heights, no steps and large column grids. They are normally accessed centrally via escalators and lifts. Basement or upper levels are, in some cases, used as underground car parks or parking decks. In many other cases, there are adjacent or neighbouring multi-storey car parks, normally providing 200 to 500 parking spaces.

That department stores have so many parking spaces is an indication for their often easy accessibility by private motorised transport. Local public transport links are normally even better since most department stores are situated in central city-centre locations. Only around one in ten department stores is situated in a non-city-centre location and these are almost exclusively in Berlin, Hamburg, Cologne and Munich, cities with over a million inhabitants. However, not only are the properties centrally located, around three quarters of these are situated in A locations. These high-quality micro-locations also differentiate department stores from most other retail properties. Only emporiums and high-street properties and, to a lesser extent, city-centre shopping centres are found in such highly frequented A locations. The quality of the locations is also reflected in land values, which typically account for 30-50% of the total value of department store properties. In view of the relatively large site areas, the absolute value of the land is often a figure of considerable magnitude, i.e. over €10m. The standard land value for the KaDeWe site, for example, is €20,000 per sq m. In terms of the entire German department store stock, whose value is probably at least €8bn, if we assume that 40% of this is attributable to the land value, this produces a cumulative land value of approx. €3.2bn.

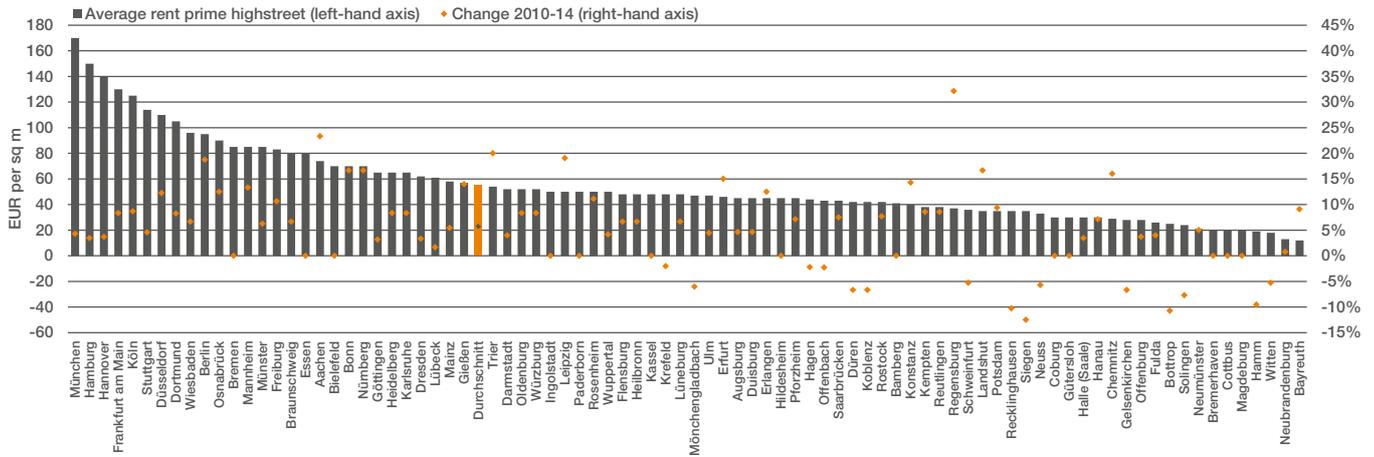
The high-quality locations of most department stores is naturally also reflected in rental levels. Department store rents typically range between €10 per sq m and €20 per sq m with some higher rents in prime locations in the largest cities and significantly lower rents in secondary locations in smaller towns and cities. When comparing these rents with those normally published for prime highstreet locations, it must be taken into account that department store rents indicate the average across all floors whereas the latter typically relate to small, purpose-built and barrier-free ground-floor areas. With this in mind, we take a look at rents and rental growth in prime highstreet locations in the department store cities below. While there are numerous department stores outside of prime highstreet locations, for which the graphic below has little or limited relevance, there is no consistent pool of data for such locations.

Rents for prime highstreet locations are available for 85 of the 107 towns and cities with a department store. These rents average almost €77 per sq m. The lowest average rent is found in Bayreuth at €12 per sq m while the highest figure is achieved in Munich with €170 per sq m. The average rent across all towns and cities has risen by almost 6% since 2010, with Regensburg witnessing the highest rental growth of 32%. In Siegen, on the other hand, rents have fallen by 13% during the same period, the strongest decline across all locations. A comparison with the IPD retail rent index, which rose by 3.6% between 2010 and 2014, illustrates that rents in prime highstreet locations in the towns and cities studied increased by an additional two percentage points. For those department stores in prime highstreet locations at least, the analysis above demonstrates that, not only are these situated in the best locations a city has to offer, but these locations have pulled further ahead of all other locations in terms of value in recent years. The available data for other highstreet locations also indicates that rents have grown at an above-average rate in such locations. If we accept that rents and rental growth are good quality indicators for the micro-

location of a retail property, then we can conclude from this analysis that the decline in department store sales in recent years can only be attributed to causes relating to the micro-location in isolated cases at the most and not for German department stores as a whole.

2 The department store sector in Germany

Fig. 8 Prime highstreet rents in cities with department store(s)



Source: Own illustration based on Riwis / Bulwiengesa

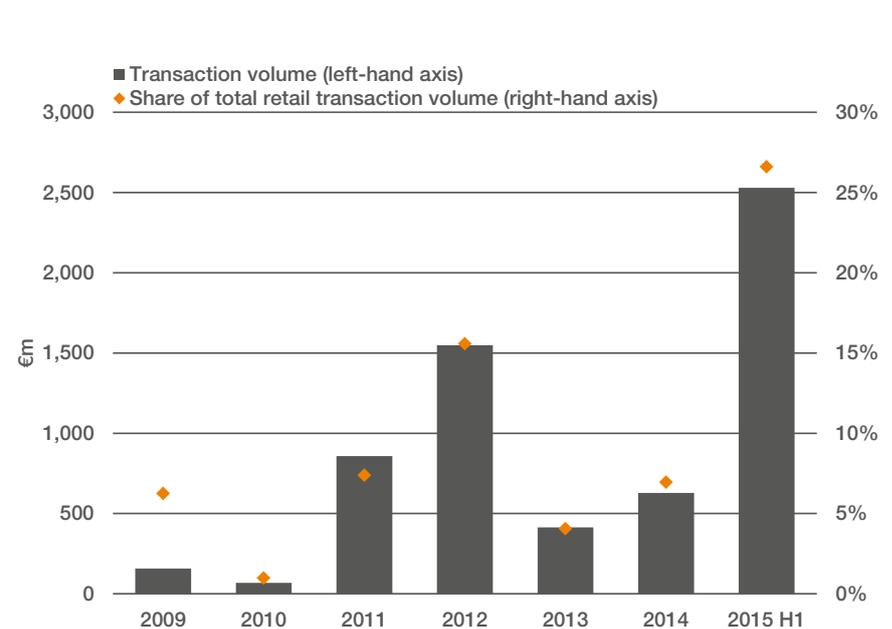
The investment market for department stores

The high-quality locations are not least material grounds for many real estate investors to allocate (some of) their capital to department stores. Retail property in general is one of the most liquid sectors in the commercial property investment market. Since 2009, properties in Germany have changed hands for approximately €60bn. Only office property has seen greater inflows during the same period with €64bn. Around €6.2bn, more than 10% of the funds invested in retail property, was attributable to department stores. By way of comparison, hotel and logistics properties, which are independent sectors in the property market and are, thus, shown separately in investment market reports, each accounted for approximately €9.5bn of investment. This illustrates that department stores are without doubt a significant segment in the German property investment market. This is all the more apparent when the transaction volume is viewed in the context of the overall property stock. There are more than 230 hotels in Berlin, significantly higher than the number of department stores in the whole of Germany. From this perspective, department stores could even be described as an exceptionally liquid segment of the property investment market.

Since the start of 2009, 193 department stores have changed owners. In this context, department stores are defined as not only those properties that were used as department stores at the date of sale, but also vacant properties whose previous occupier before the sale was one of the four major department store retailers (Hertie, Horten, Karstadt and Kaufhof). This is also one reason why the average transaction size per property was just €32.2m. If one only takes into account those properties still occupied at the date of sale, the average transaction size per property rises to almost €47m.

Some 84 of the properties, almost half, changed hands by way of portfolio transactions. The two cities with the highest numbers of department store transactions since 2009 are Berlin and Hamburg, each with 12 stores, followed by Munich with seven property sales. A further 25 cities witnessed at least two department store sales during the same period.

Fig. 9 Department stores transaction volume



Source: Savills

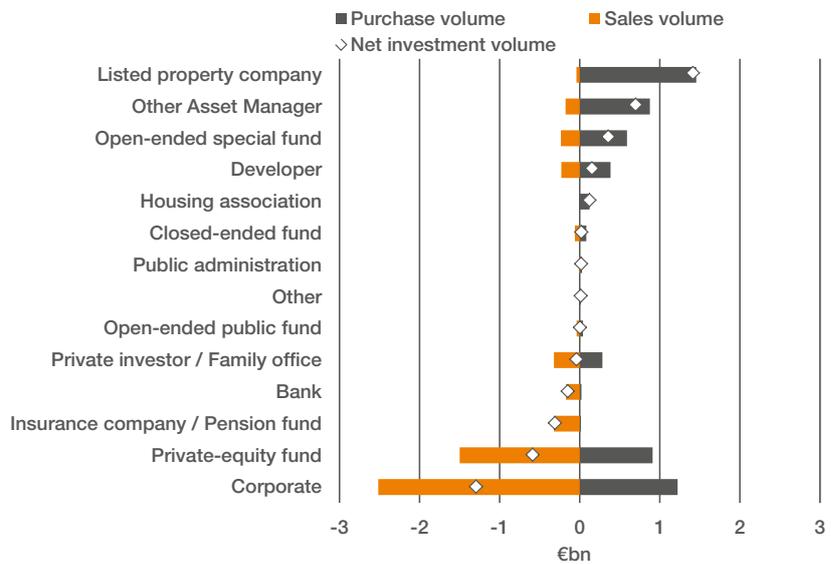
2 The department store sector in Germany

Almost one third of properties sold (31%) were located in cities with at least 500,000 inhabitants, while almost as many (29%) changed hands in cities with 100,000 to 500,000 inhabitants (29%). The remaining 39% of properties were located in towns and cities with fewer than 100,000 inhabitants, with the number of properties sold falling in direct correlation with descending population figures. Only six department stores (4%) changed hands in towns with fewer than 20,000 inhabitants. This distribution is broadly in line with the current property stock, although towns and cities with fewer than 100,000 inhabitants have been represented somewhat more strongly (39% compared with 27% of the current department store stock). This is primarily attributable to the fact that many vacated department stores, including numerous Hertie stores, were sold and these were predominantly located in smaller towns and cities.

By far the largest group of vendors were corporates (primarily department store retailers themselves in the context of this study) with a sales volume of more than €2.5bn. However, this figure was only made possible by the transfer of more than 40 Kaufhof properties for approx. €2.4bn from the new Kaufhof owners Hudson's Bay to a joint venture with Simon Property. The same transaction is also responsible for the fact that Canada provided the most active vendors with disposals totalling €2.4bn.

There are similar anomalies on the purchaser side. Listed property companies represented the largest purchaser group (almost €1.5bn), followed by corporates (approx. €1.2bn). In terms of purchasers' country of origin, USA and Canada claimed second and third place, each with acquisitions totalling approx. €1.2bn (Fig. 11).

Fig. 10 Types of investors

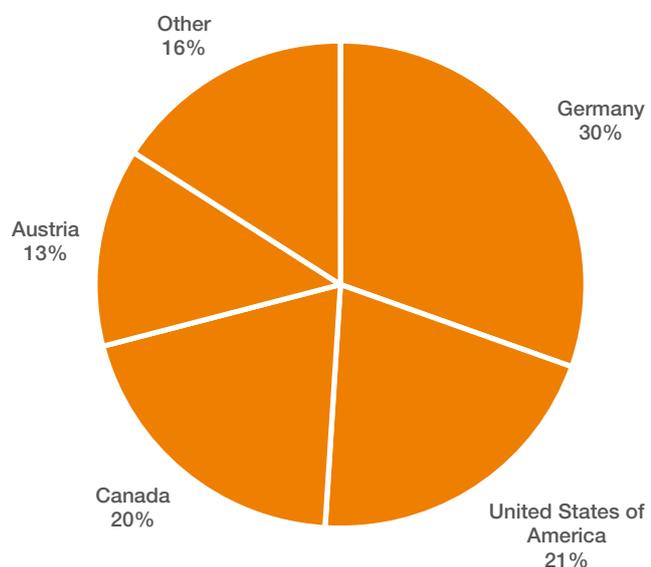


Source: Savills

If this „extraordinary effect“ is excluded when interpreting the figures, we can make other key observations. Investment is evenly balanced between domestic and foreign purchasers. The two most active nations on the purchaser side are Austria (approx. €0.8bn) and Israel (approx. €0.6bn), although these figures are primarily attributable to two investors, Signa-Gruppe and BSG Investments Real Estate. In terms of types of investor, private equity funds represent the largest

purchaser group (approx. €0.9bn), along with special property funds (approx. €0.6bn) and other fund and asset managers (approx. €0.9bn). The vendor side is dominated by US investors (approx. €1.4bn), followed by domestic vendors (approx. €0.8bn). Once again, private equity funds were the most active investor type in terms of department store disposals (approx. €1.5bn). All other investor types were significantly less active on the vendor side.

Fig. 11 Origin of buyers



Source: Savills

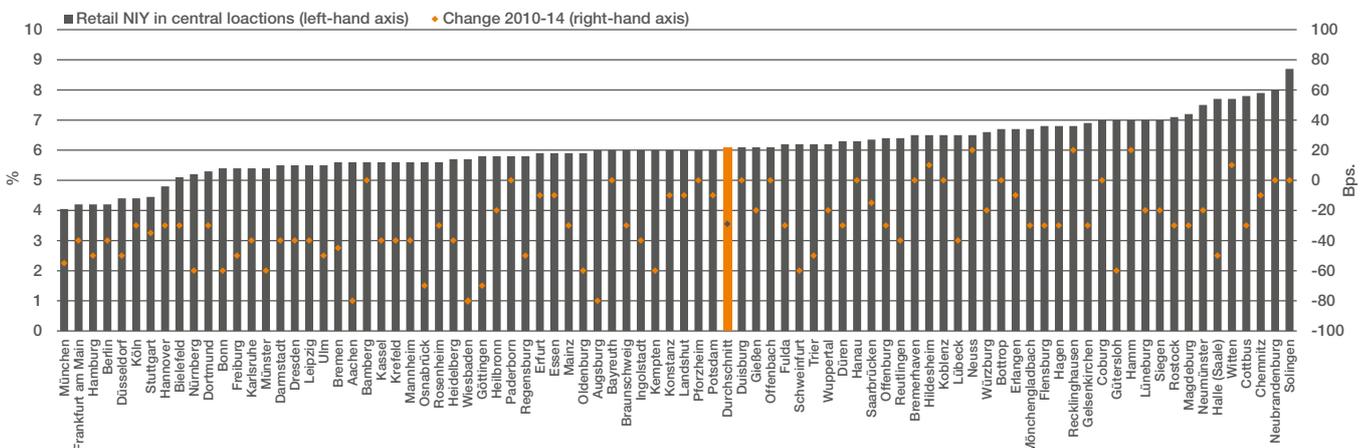
2 The department store sector in Germany

As a general observation on transaction activity from recent years, it is apparent that department stores can represent an interesting investment for all types of investor. For conservative investor groups, such as insurance companies and pension funds, department stores let on long-term leases in 1a locations are particularly interesting since they offer a stable rental yield and a high probability of capital preservation. Opportunistic investors such as private equity funds, on the other hand, are more interested in properties with short lease terms and uncertain futures since this creates opportunities for re-positioning and the associated value-add potential. Department stores are also of interest to developers, particularly when they are vacant or about to be vacated, since this presents an opportunity to redevelop a property in a retail location that will generally enjoy a high level of footfall. Retailers themselves will also have an interest in acquiring the department store properties they occupy since they will have greater freedom in terms of business strategy if they own the property themselves rather than being dependent on third parties.

As mentioned earlier, it is not least the high-quality locations that makes department stores appealing to investors. Therefore, just as we have analysed rents and rental growth, it makes sense to also analyse the yields in these locations, i.e. for 85 of the 107 towns and cities with at least one department store. The net initial yields in central locations of the towns and cities studied averaged approx. 6.1% at the end of 2014. The lowest yield was found in Munich at 4.1% while the highest level was recorded in Solingen at 8.7%. Since 2010, the average yield hardened by 29 basis points. Yields tightened the most in Aachen, Augsburg and Wiesbaden with 80 basis points while Hamm, Neuss and Recklinghausen witnessed the strongest rise in yields of 20 basis points. Once again, a comparison with IPD data produces some interesting observations. According to the IPD, retail yields hardened by 12 basis points during the same period. By combining the rental growth and yield movements in the towns and cities studied in this report, we can conclude that an investor who acquired a portfolio of retail properties in prime highstreet

locations in all of these towns and cities in 2010 would have since achieved a (theoretical) increase in capital value of approx. 11%. In contrast, the IPD retail portfolio would have only achieved capital growth of just below 6% during the same period. While this is purely a synthetic analysis of value based upon market data and does not allow any reliable inferences as to the performance of department store properties, it does at least provide some evidence that, despite the challenging conditions for their occupiers, department stores represent an attractive, highly profitable market segment for investors.

Fig. 12 Net initial yields in central location of cities with department store(s)



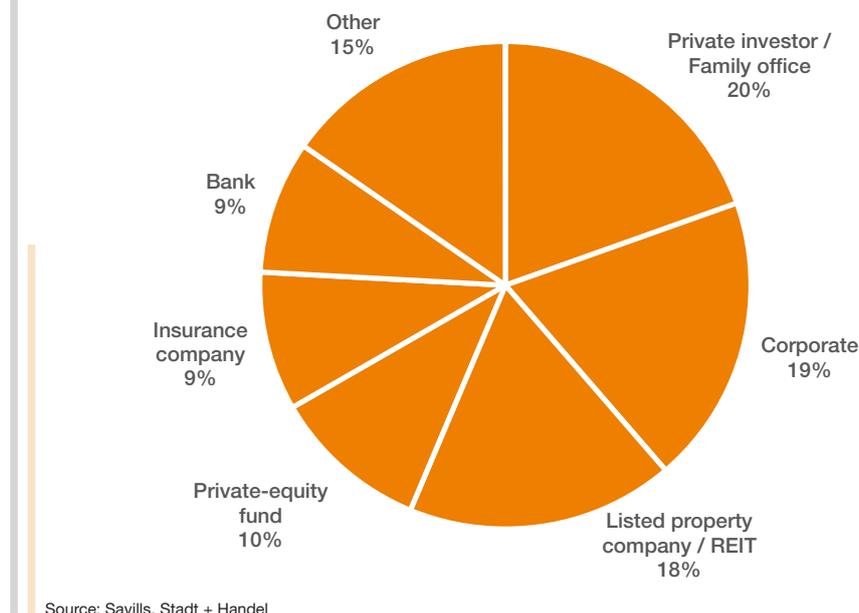
Source: Own illustration based on Riwis / Bulwiengesa

2 The department store sector in Germany

If the performance described above continues over the coming years, Canada's Hudson's Bay Company and America's Simon Property Group will be among the greatest beneficiaries. Following the acquisition of Galeria Kaufhof, these are the two largest owners of German department stores, having incorporated most of these properties into a joint venture. Together, the two partners hold 40 properties (as well as three sports arena properties excluded from this study), with HBC (part) owning a number of other properties. Highstreet-Konsortium remains the third-largest owner with more than 20 Karstadt department stores according to the latest press reports, although the consortium partners would like to dispose of these. Overall, there are currently more than 50 different owners of department stores, of which around 20 companies or private individuals co(-own) more than one department store property. Private investors and family offices represent the largest group of owners with combined holdings of more than 50 properties. The second largest group of owners is corporates, who own 50 department stores. However, this is almost exclusively attributable to the Hudson's portfolio. Property companies and REITs have the third-largest combined holding with 46 properties, 40 of which are accounted for by HBC's joint venture partner, Simon Property. In fourth place are private equity companies with 27 properties, followed by insurance companies in fifth with 24 department stores. Yet again, this distribution illustrates that department stores have highly diverse risk profiles according to the condition and location of properties as well as unexpired lease terms, and the ownership structure of the properties is correspondingly heterogeneous (Fig. 13).

The two major German department store retailers are not alone in being in foreign ownership following the acquisition of Galeria Kaufhof by HBC; most department store properties in Germany are in foreign hands. Around 80 properties are held by domestic owners, with the largest foreign investor nations comprising the USA (approx. 60 properties), Canada (50),

Fig. 13 Ownership structure of department store properties



Italy and Israel (each with 20).

The outlook for department store properties

In summary, we have established that the 160 or so department store properties in Germany represent a specific niche within the retail property sector and a highly attractive niche for investors. This is substantiated by the highly buoyant investment market for this type of property. The attractiveness of department store properties is not least attributable to their specific locations, which, along with other characteristics, differentiate them from many other (retail) properties. The high quality of the locations, combined with the large floor areas, is rare and consequently sought-after by occupiers and investors. Thus, it is little surprise that the department store's crisis as a retail format can only be identified from the property-related figures for this segment under close scrutiny. Indeed, it could even be said with a certain degree of exaggeration that the future of the department store is meaningless for the performance of today's department store properties. However, this conclusion would be misleading. Firstly, such a blanket statement disregards the individual circumstances of each property. Without an occupier, a department store in an unfavourable micro-location and/or macro-location may have no

obvious subsequent use and may, therefore, be considered worthless or at least significantly less valuable. Secondly, only department store retailers have managed to successfully operate properties of such size and with so many floors to date in Germany. This is highly important for property investors since the single-occupier and single-use structure of the properties requires significantly less management compared with multi-tenant or even multi-use properties, which department store properties would almost inevitably become if not used as department stores. Thus, the future of department store properties is indeed closely linked with that of the retail format, albeit the dependencies are certainly asymmetrically distributed. Real estate investors looking at department stores would, therefore, benefit from analysing the location of the properties and hence their future viability. Whether because they want to secure those „gems“ whose future viability as department store properties is almost certain or because they are more interested in finding a „casualty“ with low survival prospects but significant potential for alternative use.

2 The department store sector in Germany

Department stores and shopping centres – a promising symbiosis?

31 department stores in Germany are a structural part of a shopping centre. They are accordingly either a large-scale tenant of the shopping centre or they are located in an independent building in close proximity to the centre. In this case, both are often structurally connected and nearly always part of the centre advertising association. Of those 31 department stores 16 are Galeria Kaufhof stores, 15 belong to Karstadt.

The number of these department stores might be interpreted as a promising symbiosis between both retail formats. On closer inspection, an opening of a department store within a centre often entails the closing of a once detached location, in part even the demolition of the building. The seemingly expansion of department stores in shopping centres is one side of the coin, the other side is a decline of independent department store locations.

Against this background, shopping centre owners with an attached department store currently owned by a third party are vastly interested in acquiring it. This way, it is up to the owners to manage the leased space in case the department store closes and avoid a negative impact on the rest of the shopping centre. In the past years, owners of centres consistently bought attached department stores, especially in the larger cities. Since 2011, there have been at least seven of those transactions (see overview below).

In conclusion: The symbiosis between department stores and shopping centres is based on the relative frailty of the department store format and it remains questionable whether this will stay a continuous connection.

City	Department store, Name of shopping centres, Transaction year, Customer
Berlin	Galeria Kaufhof, Linden-Center, 2012, ECE
Hamburg	Galeria Kaufhof, Alstertal-Einkaufszentrum, 2012, consortium led by ECE
Hamburg	Galeria Kaufhof in Quarrée centre, acquired by UIRE in 2014
Frankfurt (Main)	Galeria Kaufhof, Hessen-Center, 2012, consortium led by ECE
Munich	Galeria Kaufhof, Olympia-Einkaufszentrum, 2012, consortium led by ECE
Nürnberg	Karstadt, Franken-Center, 2011, ECE
Leonberg	Karstadt, Leo-Center, 2011, ECE

Source: Own illustration based on press releases



3 German department stores compared

3.1 Introduction to the department store scoring

Following the acquisitions of Karstadt by Benko and Galeria Kaufhof by Hudson's Bay, the German department store is, once again, entering a new era whose outcome is uncertain. However, the arguments put forward in the previous chapter illustrate that the retail format is faced with great challenges. Like the rest of the retail sector, department stores are losing revenues to online retailers and e-commerce sales are growing particularly strongly in clothing, a core segment for department stores. However, once today's increasingly spoiled and comfortable consumers are attracted into the store, there is another hurdle to overcome in the most literal sense. In order for customers to benefit from the department store's function as a full-range provider, they must negotiate a number of escalators. Then there are other exertions, such as queuing to pay at several counters, carrying purchases over long distances and wintry sweats because, with no in-store lockers, customers are forced to keep their winter coats on throughout the entire shopping experience. This clearly demonstrates that the department store format has a problem. The insolvencies of recent years and numerous closed stores are merely its most obvious manifestation. However, this vivid description is also intended to highlight that the problems are not least home-made. This is further supported when looking outside the German department store sector. Elsewhere, there are stable, functioning and even expanding formats, albeit the market environment in other countries is not entirely comparable with the German market. Indeed, German department stores are implementing various ideas to overcome the challenges mentioned. Furthermore, some of the characteristics described in the previous chapter represent unique competitive advantages from which the department store can benefit in the current changing retail sector. These particularly include the central locations on town and city-centre shopping streets, which is a clear plus point in view of the current trend, both in the retail sector and the wider economy,

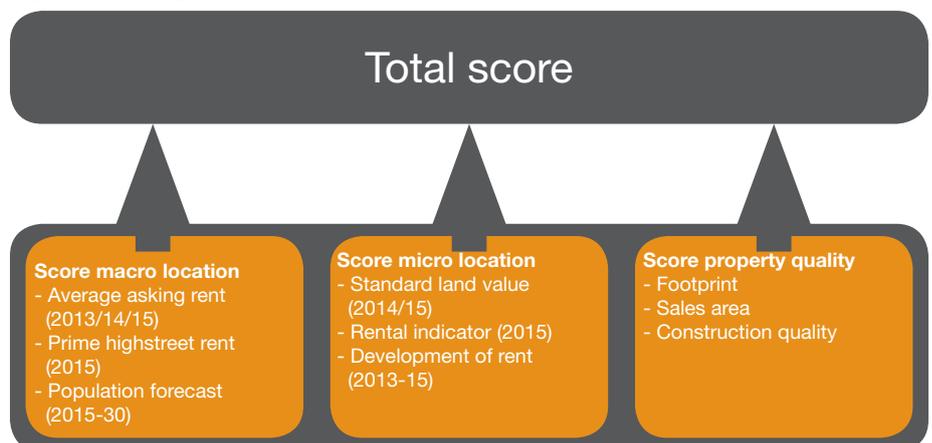
towards people returning to cities and city centres. Department stores are, fundamentally, also ideally equipped for the „experience retail“ trend discussed earlier. The properties combine ideal locations with sufficient space to set the scene for experiences and, thus, to be able to draw in customers.

In brief, the German department store is still without doubt in a state of crisis. However, this crisis does not have to be the last act for the „old lady“ by any means. The only statement that can be made with some degree of certainty is that no sweeping judgements can be reached in respect of the future viability of German department stores, whether as a retail format or property type. The department store landscape is simply too diverse, with each property having specific strengths and weaknesses. The objective of this chapter is to explore such individual strength and weakness profiles. To this end, all department store locations in Germany as defined in this study are evaluated via the scoring process below. This scoring is intended to illustrate the location and property-

of each individual department store location. Thus, property investors, local authorities and department store retailers themselves, as well as other stakeholders, can use the results as a guideline or basis for decision-making.

That properties in general and retail properties in particular are more dependent on their location than any other assets is also demonstrated by the scoring, which is based upon three pillars. The first pillar evaluates the macro-location, i.e. the general conditions in the respective town or city. Since just a few dozen metres' distance from the peak areas of footfall can make the difference between a successful department store and an unsuccessful one, the micro-location represents another pillar of the scoring. In addition to the immediate and wider vicinity of a department store, the property itself is also an important determinant for the success of a store. Thus, the third pillar of the scoring model comprises an assessment of the property. The scores for both the individual pillars and the overall results are assessed on a scale from 1 to 10,

Fig. 14 Scoring model



related conditions of each property. The results of the scoring allow for conclusions as to the future viability of the individual department store locations in the context of these conditions. The actual performance of the department stores is not taken into account. Consequently, the results of the scoring do not make any assertions with regard to the turnover, productivity or general success of a department store. Rather, they indicate the potential

where 10 represents the best and 1 the worst possible score. The methodology for calculating the results was devised such that the full range of the scoring scale is used and that all ten scores are awarded with the same frequency (for further details, see the „Scoring methodology“ text box. A score of 10 always represents the top 10% of the department stores studied (or towns and cities in the case of the macro-location), while a score of 1 represents

3 German department stores compared

the worst 10%. The same applies for scores between these two extremes. That properties in general and retail properties in particular are more dependent on their location than any other assets is also demonstrated by the scoring, which is based upon three pillars. The first pillar evaluates the macro-location, i.e. the general conditions in the respective town or city. Since just a few dozen metres' distance from the peak areas of footfall can make the difference between a successful department store and an unsuccessful one, the micro-location represents another pillar of the scoring. In addition to the immediate and wider vicinity of a department store, the property itself is also an important determinant for the success of a store. Thus, the third pillar of the scoring model comprises an assessment of the property. The scores for both the individual pillars and the overall results are assessed on a scale from 1 to 10, where 10 represents the best and 1 the worst possible score. The methodology for calculating the results was devised such that the full range of the scoring scale is used and that all ten scores are awarded with the same frequency (for further details, see the 'Scoring methodology' text box. A score of 10 always represents the top 10% of the department stores studied (or towns and cities in the case of the macro-location), while a score of 1 represents the worst 10%. The same applies for scores between these two extremes.

3.2 „Macro-location“ scoring pillar Indicators

The macro-location should always play a decisive role from a property management perspective. There are reasons for this that are two-fold. Firstly, the circumstances of the macro-location cannot be influenced by any individual market participant nor the owner or occupier of a property. Rather, they are the product of overriding social and economic developments in a region. Secondly, the prevailing conditions in a macro-location only change over a very prolonged period.

To fulfil the objective of this pillar of the scoring, it seems appropriate to select indicators that reflect the attractiveness of the macro-location as holistically

Scoring methodology

The department store scoring in this study is based upon a quantile ranking evaluation of all initial values, whose results are translated into a scale from 1 to 10. The process is best explained with a concrete example of the scoring.

One of the three indicators for assessing the macro-location quality is the average quoting rent for retail space in a town or city. These range from €6.09 per sq m to €22.73 per sq m in Frankfurt (Main) across all towns and cities with department stores. An appropriate quantile ranking is calculated for the rents in all towns and cities ranging from 0 to 1 and indicating the percentile ranking of each rent. For the two extremes mentioned in this example, this means that Hof has a quantile ranking of 0 because 0% of all rents are below this figure. Conversely, the Frankfurt rent has a quantile ranking of 1 since 100% of all rents are lower than in Frankfurt. Another example: Mannheim has an average rent of €15.91 per sq m, which is higher than in 85% of all towns and cities studied, producing a quantile ranking of 0.85.

The quantile rankings created using this method are translated into a scale from 1 to 10 as follows. All quantile rankings up to 0.1 receive a score of 1. Those with a quantile ranking between 0.1 and 0.2 receive a score of 2, etc. Thus, the scores for the three example towns and cities are: Hof = 1, Mannheim = 9, Frankfurt (Main) = 10.

The same methodology is used to calculate the scores for eight of the total of nine indicators used in the scoring. Only the structural quality indicator in the scoring pillar relating to the quality of the properties uses a different procedure. Here, there are only three possible initial values (above average, average and below average), which are translated into quantile rankings of 1/0.5/0 or the corresponding scores in accordance with the process outlined above.

The initial scores for each of the three pillars are combined into an aggregate score, which is published in this study. These are calculated from the quantile rankings of the three indicators within each column. The first stage is to calculate the arithmetic mean of these quantile rankings. This, in turn, is transformed into a quantile ranking in the second stage and into the ten scores in the third stage following the procedure described above. The quantile ranking for each of the three scoring pillars calculated in the second stage forms the basis for determining the overall score for each department store examined. Here again, the process starts with calculating the mean value before translating this into a quantile ranking and then into the corresponding score.

as possible in relation to retail. Since department stores are full-range providers, they combine a number of different retail assortments under one roof and have a correspondingly diverse target customer base. Against this background, it would not make sense to tailor the scoring indicators purely to clothing retail, for example. Although clothing is indeed the largest element of a typical department store's product range, this assortment itself comprises numerous other

If a department store also offers local supplies, for example, it is conceivable that clothing will represent a significantly smaller proportion of the product range while more space will be given to groceries and drugstore products. Consequently, the indicators for this pillar must fulfil the requirement of combining to reflect the attractiveness of each macro-location for retail as a whole. The first of the three indicators selected is, therefore, the average retail rent for a town or city,

3 German department stores compared

measured as the average of all quoting rents on retail space on the market in the respective town or city during the period between January 2013 and August 2015. The rationale behind this parameter is that, the more attractive a town or city is to retailers, the greater the demand for retail space in the town or city and, consequently, the higher the average rent. Consequently, a high rent is a manifestation of attractive conditions in the macro-location and is, therefore, reflected in a higher score than that for a lower rent.

The logic behind the second indicator, the prime rent in the 1a location of the respective town or city, is essentially the same as that behind the average rent for the entire town or city. However, there is methodical reasoning behind adding this into the scoring. While the average quoting rent in most towns and cities is calculated using several hundred or even several thousand quoting figures, this could still deviate from actual prevailing rental levels in certain circumstances. This may be the case, for instance, if there happens to be a high volume of expensive new-build property or large amounts of inexpensive space in peripheral locations on the market during the period under evaluation. Such distorting effects are excluded from prime rents in prime highstreet locations since these always relate to small, purpose-built, modern space in a defined location. Thus, these figures perfectly complement the average quoting rents since they balance out the methodological weakness in the latter. Conversely, however, they would not be suitable as a sole rental indicator since they reflect not only the conditions of the macro-location but also the specific conditions in the micro-location, i.e. the respective 1a location. Together, the two indicators provide a very good picture of the status quo of a macro-location with regard to its attractiveness in terms of retail. It may be true that rents include effects that are irrelevant from a retail perspective, such as general demand for space, including demand from other uses. However, these should also be taken into account since the rents, therefore, reflect all factors relevant to

retail in a holistic manner that cannot be achieved by other retail-related indicators, such as purchasing power, centrality or footfall.

In order to reflect the future development of a macro-location in addition to the status quo, population projections for the period 2015-2030 are incorporated into the scoring as a third indicator. Since the inhabitants of a town or city are principally responsible for the demand and sales of the stores in each location, the population is fundamental to the local retail market. While purely focusing on the population size does leave aspects such as purchasing power and centrality differences out of the equation, population size can be projected with relatively greater accuracy than any other relevant indicator over prolonged periods. This allows the fundamental change in attractiveness of a macro-location from a retail perspective over the next 15 years to be assessed since a town or city with a declining population will, all other conditions remaining equal, become less attractive to retailers while a location with population growth will become more attractive.

Scoring results

The results of the macro-location scoring, as well as those for the other pillars, are summarised into three groups. The first group represents the „frontrunners“, comprising those towns and cities or department stores with the three highest possible scores, i.e. from 8 to 10. The second group, the „midfield“, includes the results for all towns and cities or department stores with score from 4 to 7. The third and final group, the „laggards“, occupy the scores from 1 to 3 (Table 1).

3 German department stores compared

Table 1 Scoring results macro location

	Score = 10	Score = 9	Score = 8	
Frontrunners	Düsseldorf	Stuttgart	Bad Homburg v.d. Höhe	
	Frankfurt a.Main	Bonn	Berlin	
	Freiburg	Braunschweig	Darmstadt	
	Hamburg	Ingolstadt	Hannover	
	Heidelberg	Lüneburg	Heilbronn	
	Karlsruhe	Mainz	Landshut	
	Köln	Münster	Nürnberg	
	Mannheim	Oldenburg	Regensburg	
	München	Potsdam	Rosenheim	
		Rostock	Ulm	
		Trier		
	Wiesbaden			
Midfield	Score = 7	Score = 6	Score = 5	Score = 4
	Aachen	Bamberg	Bielefeld	Coburg
	Augsburg	Bremen	Dresden	Düren
	Dortmund	Brühl	Gütersloh	Göppingen
	Erlangen	Erfurt	Leipzig	Hanau
	Esslingen	Essen	Lörrach	Kassel
	Göttingen	Flensburg	Neuss	Kempton
	Konstanz	Gießen	Pforzheim	Kleve
	Lübeck	Koblenz	Reutlingen	Krefeld
	Offenbach	Osnabrück	Siegburg	Memmingen
	Offenburg	Paderborn	Speyer	Saarbrücken
Würzburg		Worms	Singen (Hohentwiel)	
Leggards	Score = 3	Score = 2	Score = 1	
	Celle	Bad Kreuznach	Bremerhaven	
	Duisburg	Bayreuth	Chemnitz	
	Fulda	Bottrop	Cottbus	
	Halle	Euskirchen	Goslar	
	Hildesheim	Gelsenkirchen	Hof	
	Landau	Hagen	Iserlohn	
	Limburg (Lahn)	Hamm	Neubrandenburg	
	Schweinfurt	Magdeburg	Neunkirchen	
	Wuppertal	Mönchengladbach	Siegen	
		Neumünster	Solingen	
	Recklinghausen	Wesel		
		Wismar		
		Witten		

3 German department stores compared

Frontrunners

The highest scoring group comprises a total of 31 towns and cities and, unsurprisingly, includes all of Germany's major retail markets, such as Berlin, Düsseldorf, Cologne and Munich. With four exceptions, Bad Homburg, Landshut, Lüneburg and Rosenheim, all locations in this group have more than 100,000 inhabitants. The average population size is almost 460,000, which is several times greater than that of the other two groups. The city with the highest average quoting rent in the group is Frankfurt (Main) with a figure of €22.73 per sq m, followed by Munich with €21.72 per sq m. The lowest rental level is found in Nuremberg with €12.62 per sq m. The average rent across all 31 towns and cities is €16.08 per sq m. The prime rents in 1a locations range from €66 per sq m in Landshut to €360 per sq m in Munich, with an average figure of just over €150 per sq m. In terms of population projections, Potsdam is a clear leader (+12.1% population growth by 2030), while Berlin has the least favourable forecast with -2.6%. On average, the populations in the 31 towns and cities studied will grow by 3.7% by 2030.

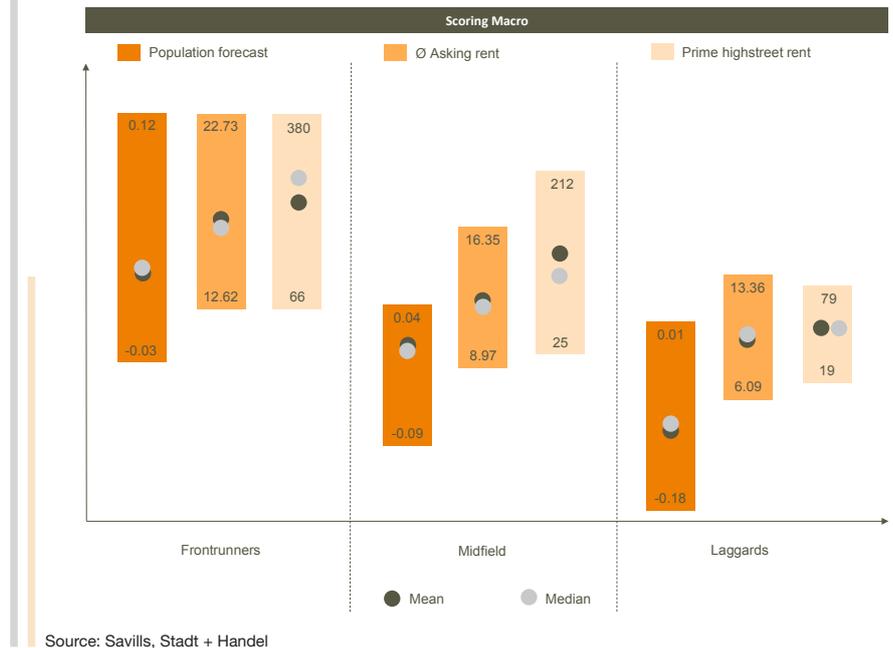
The 31 towns and cities in this group are home to a total of 76 department stores, which represents almost half of all stores taken into account in the scoring. These have a combined sales area of approx. 1.3 million sq m, or almost 60% of the overall stock. Thus, a relatively large proportion of German department stores are found in towns and cities with very favourable conditions in terms of macro-location.

Midfield

The midfield comprises a total of 43 towns and cities, the largest of which is Dortmund with approximately 572,000 inhabitants. There are four other cities with a population of over 500,000 in this cluster; namely Bremen, Dresden, Essen and Leipzig. The smallest municipality in the field is Siegburg with just less than 40,000 inhabitants, while the average population size is approx. 165,000.

The average retail rent in this group is

Fig. 15 Clustered scoring results macro location



€12.43 per sq m, with figures ranging from €8.97 per sq m in Leipzig to €16.35 per sq m in Offenbach. With regard to prime rents in 1a locations, Dortmund leads the field with €212 per sq m, while the lowest rent is found in Singen with €20 per sq m. The average prime rent across all town and cities is almost €81 per sq m. The populations in the midfield towns and cities will decline by an average of 1.5% by 2030, with Freiburg showing the most favourable (+3.8%) and Saarbrücken the least favourable (-10%) projections. The towns and cities with mid-range scores are home to 50 department stores with a total sales area of approx. 630,000 sq m. This corresponds to 31% and 28% respectively of the overall stock studied.

Laggards

The group with the lowest scores comprises 33 towns and cities. The largest representative is Duisburg with almost 490,000 inhabitants, while the smallest group member is Limburg with a population of approx. 34,000. The average population size across these towns and cities is approximately 130,000.

The highest average retail rent in the group is recorded in Neumünster with €13.36 per sq m, while the lowest rent

is found in Hof with €6.09 per sq m. The average rent among these towns and cities is €9.63 per sq m. The highest prime rent in a 1a location is found in Wuppertal with €79 per sq m, while the lowest is found in Neubrandenburg at just €19 per sq m. The average prime rent is approx. €45 per sq m. The population projections are almost entirely negative, the only exception being Landau with a positive figure of 1.2%. The least favourable outlook is found in the town of Goslar, where the population is forecast to decline by almost 19% by 2030. The average projected population change across all towns and cities is -7.6%. The relatively unfavourable conditions from a macro-location perspective are reflected in the number of department stores located in these towns and cities. Only Fulda and Mönchengladbach have two department stores, while all other towns and cities in the cluster have just one store. The 33 towns and cities are home to a total of 35 department stores, representing around a fifth of all stores studied and covering a total sales area of some 340,000 sq m (approx. 15% of the overall stock).

3 German department stores compared

3.3 „Micro-location“ scoring pillar Indicators

The micro-location plays a more decisive role for retail property than almost any other property type. Just a few metres can make the difference between an ideal retail location and a completely unsuitable location. This is also true for department stores. A high level of footfall is just as beneficial to sales, for example, as good accessibility by public and private transport. Consequently, the circumstances of German department stores relating to micro-location represent a further pillar of the scoring.

Chapter 2.2 demonstrated that German department stores are predominantly located in prime highstreet locations and this very fact is a manifestation of the relatively favourable conditions in the micro-locations of department stores. However, highstreet locations themselves vary significantly in terms of quality and it is these very differences that the micro-location scoring is intended to illustrate. The content requirements of the scoring are identical to those of the macro-location scoring. Firstly, the attractiveness of a micro-location is reflected as holistically as possible from a retail perspective, taking into account the function of a department store as a full-range provider. The second objective, in addition to reflecting the current prevailing conditions, is to also account for the (future) development of the location in the scoring.

As per the macro-location, this pillar of the scoring comprises three indicators that are intended to cover this content. The first indicator is based upon the standard land value as a parameter. The underlying idea is that the land value completely reflects the attractiveness of a location or site since the high attractiveness of a location will be manifested in intensive competition from potential occupiers and, hence, a high value. Furthermore, the land value includes the future expectations for the attractiveness of a site, since potential purchasers will take into account expected future income from the occupation of the site as a factor for calculating an appropriate bid

for the site. Thus, in order to reflect the value of the micro-locations of the department stores studied, the standard land value determined by the local valuation committee for each store location has been incorporated into the scoring. However, since the absolute figure of a land value reflects not only the attractiveness of each respective micro-location but also the prevailing conditions in the macro-location, the latter must be filtered out. This is achieved by not using the standard land value for the department store location itself in the scoring but rather its ratio to the highest standard land value in the respective town or city. Accordingly, a value of 1 indicates that the standard land value of a department store location represents the highest value in a town or city and, thus, the best possible micro-location within this town or city. A value of 0.5 means that the standard land value of the department store location is half the amount of the highest value for the respective town or city and, consequently, that the specific micro-location is only to be considered average. This is illustrated by the following two examples. The Oberpollinger store in Munich has a standard land value of €80,000 per sq m, which is the highest figure in Munich. Thus, the standard land value score is 1. The KaDeWe in Berlin is situated in an area with a standard land value of €20,000 per sq m. Since the highest standard land value in Berlin is €40,000 per sq m, the standard land value score for the KaDeWe is 0.5.

In keeping with the macro-location scoring, a second indicator is used for the micro-location that strongly resembles the first in terms of content but compensates for its methodological weaknesses. The weaknesses of the standard land value as the first indicator are as follows. Firstly, standard land values can be based upon very small samples of data since, particularly in town and city centres, few undeveloped sites change hands and the proportion of the land value in relation to the overall sale price is not always known. Secondly, a pure ratio between two standard land values can be misleading since the two

figures will be based upon different planning directives in respect of floor space index, for example. Thirdly, furthermore, the standard land value is not a retail-specific parameter. Rather, it represents the general attractiveness of a site for all conceivable uses. For these reasons, the standard land value is accompanied by the retail rent in the (nearest) A location of the department store site as a related indicator. Since this figure explicitly reflects the attractiveness of a location from a retail perspective, it rectifies one of the weaknesses of the standard land value. In addition, the market rents collated for this indicator consistently reflect the same quality of space, increasing the meaningfulness of comparisons between two figures. As per the standard land value, the retail rent in the department store location is also represented in proportion to the highest value in the respective town or city in order to exclusively reflect the quality of the micro-location. The retail rents would not be suitable as a sole indicator of the quality of the micro-locations since they lack the spatial differentiation of the land values and, additionally, they are only available on a nationwide basis from a consistent data source for the A locations. Thus, the standard land value is more useful outside of the A locations in particular.

The third and final indicator for the micro-location is also based upon the retail rent in the (nearest) A location of a department store. However, it is not the figure itself that is used but rather the change in rent over the last three years. The objective of this indicator is to reflect the current development of the actual micro-location. Accordingly, a declining rent suggests worsening conditions for retail in a location, while a rising rent is indicative of an improving location. As per the second indicator, the market rent in the (nearest) A location of a department store is used.

3 German department stores compared

The scores are calculated in the same manner as those for the other pillars. However, the results for the micro-location pillar differ in terms of distribution from the pattern seen elsewhere. The most visible manifestation of this is the absence of department stores with a score of 6. This is explained by the fact that many stores have identical indicator values (standard land value and rental figures of 1 and change in rent of +/- 0%) and, thus, cannot be differentiated in the scoring results. All of these are given a score of 5 and the next highest score remains unoccupied.



3 German department stores compared

Table 2 Scoring results micro location

Score	City	Address (company)	Score	City	Address (company)
10	Köln	Hohe Straße 41-53 (G)	8	Göttingen	Groner Straße 43 (K)
10	Frankfurt a.Main	Zeil 116-118 (G)	8	Trier	Simeonstraße 46 (K)
10	Leipzig	Neumarkt 1 (G)	8	Trier	Simeonstraße 53 (G)
10	Bielefeld	Bahnhostr. 15-17 (K)	8	Paderborn	Königsplatz 1 (K)
10	Münster	Ludgeristr. 1 (G)	8	Siegburg	Kaiserstraße 21-27 (G)
10	Wiesbaden	Kirchgasse 28 (G)	8	Reutlingen	Karlstr. 20 (G)
10	Wiesbaden	Kirchgasse 35-43 (K)	7	Berlin	Alexanderplatz 9 (G)
10	Aachen	Adalbertstr. 20-30 (G)	7	Berlin	Tauentzienstraße 21-24 (K)
10	Saarbrücken	Bahnhofsstraße 82-100 (G)	7	München	Bahnhofplatz 7 (K)
10	Ulm	Bahnhofstraße 5 (G)	7	Köln	Breite Straße 103-135 (K)
10	Flensburg	Holm 7 (K)	7	Essen	Kettwiger Straße 1a (G)
10	Paderborn	Westernstraße 26 (G)	7	Krefeld	Hochstraße 57-59 (G)
10	Konstanz	Hussenstr. 23 (K)	7	Freiburg	Kaiser-Joseph-Str. 165 (K)
10	Kempten	Residenzplatz 2 (G)	7	Heidelberg	Bergheimer Straße 1 (G)
10	Würzburg	Schönbornstraße 3 (G)	5	Berlin	Carl-Schurz-Str. 24 (K)
9	München	Kaufingerstraße 1-5 (G)	5	Stuttgart	Königstraße 6 (G)
9	Frankfurt a.Main	Zeil 90 (K)	5	Dresden	Prager Straße 12 (K)
9	Düsseldorf	Heinrich-Heine-Platz 1 (K)	5	Hannover	Seilwinderstraße 8 (G)
9	Bremen	Papenstr. 5 (G)	5	Hannover	Ernst-August-Platz 5 (G)
9	Bremen	Obernstraße 5-33 (K)	5	Hannover	Georgstr. 23 (K)
9	Leipzig	Neumarkt 30 (K)	5	Karlsruhe	Kaiserstr. 147-159 (K)
9	Mannheim	P1, 1 (G)	5	Augsburg	Bürgermeister-Fischer-Str. 6-10 (K)
9	Chemnitz	Am Rathaus 1 (G)	5	Gelsenkirchen	Bahnhofstrasse 48-56 (G)
9	Magdeburg	Breiter Weg 128 (K)	5	Mönchengladbach	Hindenburgstr. 125-133 (G)
9	Freiburg	Kaiser-Joseph-Str. 195 (G)	5	Halle	Marktplatz 20 (G)
9	Lüneburg	Große Bäckerstraße 31 (K)	5	Erfurt	Anger 1-3 (K)
9	Darmstadt	Rheinstrasse 2 (G)	5	Potsdam	Brandenburger Str. 49/52 (K)
9	Speyer	Maximilianstr. 43 (G)	5	Regensburg	Neupfarrplatz 8 (G)
9	Heidelberg	Hauptstraße 30 (G)	5	Gütersloh	Berliner Straße 21 (K)
9	Rosenheim	Münchener Str. 12 (K)	5	Gießen	Seltersweg 64 (K)
9	Landshut	Ländtorplatz 1 (K)	5	Cottbus	August-Bebel-Str. 2 (G)
8	Berlin	Kurfürstendamm 231 (K)	5	Neubrandenburg	Stargarder Str. 19 (G)
8	Berlin	Augsburger Straße 36-42 (K)	5	Hildesheim	Almsstr. 41 (G)
8	München	Neuhauser Straße 18 (K)	5	Kassel	Obere Königsstr. 31 (G)
8	Düsseldorf	Königsallee 1-9 (G)	5	Fulda	Universitätsplatz 2 (K)
8	Dortmund	Westenhellweg 70-84 (G)	5	Recklinghausen	Markt 16-19 (K)
8	Dortmund	Westenhellweg 30 (K)	5	Wesel	Hohe Straße 57 (G)
8	Mannheim	N7/Kunststrasse (G)	5	Kleve	Große Straße 42-46 (G)
8	Rostock	Lange Straße 29-31 (G)	5	Bad Kreuznach	Mannheimer Straße 152 (G)
8	Oldenburg	Ritterstr. 17 (G)	5	Koblenz	Löhrstraße 77-85 (G)
8	Osnabrück	Wittekindstr. 23 (G)	5	Bad Homburg	Louisenstr. 91-95 (K)

3 German department stores compared

Score	City	Address (company)	Score	City	Address (company)
5	Limburg (Lahn)	Werner-Senger-Str. 15-17 (K)	3	Landau	Ostbahnstrasse 36 (G)
5	Neunkirchen	Stummstraße 3-9 (G)	2	Hamburg	Mönckebergstraße 3 (G)
5	Worms	Kämmererstr. 24-32 (G)	2	Hamburg	Mönckebergstraße 16 (K)
5	Esslingen	Bahnhofstr. 14 (K)	2	Düsseldorf	Am Wehrhahn 1 (G)
5	Pforzheim	Westl. Karl-Friedrich-Str. 17-19 (G)	2	Düsseldorf	Schadowstraße 93 (K)
5	Singen	Bahnhofstr. 19-21 (K)	2	Wuppertal	Neumarkt 26 (G)
5	Ingolstadt	Ludwigstr. 29 (G)	2	Bonn	Poststr. 23 (K)
5	Erlangen	Nürnberger Str. 30 (G)	2	Münster	Salzstr. 47-50 (K)
5	Hof	Altstadt 26-30 (G)	2	Mönchengladbach	Markt 10 (K)
5	Bamberg	Grüner Markt 23 (K)	2	Braunschweig	Schuhstr. 29-34 (K)
5	Coburg	Mohrenstr. 17-19 (G)	2	Trier	Fleischstraße 68-76 (G)
4	Hamburg	Jungfernstieg 16-20 (K)	2	Fulda	Rabanusstr. 19 (G)
4	München	Leopoldstraße 82 (K)	2	Brühl	Steinweg 26 (G)
4	München	Schleißheimer Straße 93 (K)	2	Euskirchen	Spiegelstr. 14 (G)
4	Nürnberg	Königstr. 14 (K)	2	Siegen	Kölner Str. 41 (K)
4	Bonn	Remigiusstraße 20-24 (G)	2	Iserlohn	Schillerplatz 8-10 (K)
4	Mainz	Schusterstr. 41-45 (G)	2	Göppingen	Bleichstraße 15 (G)
4	Mainz	Ludwigsstr. 12 (K)	2	Heilbronn	Fleinerstraße 15 (G)
4	Wismar	Rudolph-Karstadt-Platz 1 (K)	2	Memmingen	Königsgraben 3 (K)
4	Celle	Bergstr. 1 (K)	2	Braunschweig	Poststraße 4-5 (K)
4	Goslar	Rosentorstr. 1 (K)	1	Berlin	Koppenstraße 8 (G)
4	Neuss	Niederstr. 42 (G)	1	Berlin	Hermannplatz 5-10 (K)
4	Düren	Wirtelstrasse 38-42 (G)	1	Berlin	Wilmersdorfer Straße 118 (K)
4	Witten	Bahnhofstr. 5 (G)	1	Berlin	Tempelhofer Damm 191 (K)
4	Offenburg	Lindenplatz 3 (K)	1	Berlin	Müllerstraße 25 (K)
4	Lörrach	Turmstr. 1 (K)	1	Berlin	Karl-Marx-Straße 101-105 (K)
4	Bayreuth	Maximilianstr. 40-42 (K)	1	Hamburg	Schloßmühlendamm 2 (K)
4	Schweinfurt	Am Jägerbrunnen 11 (G)	1	Hamburg	Wandsbeker Marktstr. 63-65 (K)
3	Stuttgart	Eberhardstraße 28 (G)	1	Hamburg	Osterstr. 119 (K)
3	Nürnberg	Königstraße 42-52 (G)	1	Hamburg	Sachsentor 33-39 (K)
3	Duisburg	Düsseldorfer Str. 32 (G)	1	Hamburg	Bergedorfer Markt 5-7 (K)
3	Braunschweig	Bohlweg 72 (G)	1	München	Karlsplatz 21-24 (G)
3	Lübeck	Königstr. 54+56 (K)	1	München	Pötschnerstraße 5 (G)
3	Hagen	Elberfelder Str. 23-25 (G)	1	Köln	Neusser Str. 242 - 244 (G)
3	Saarbrücken	Bahnhofstr. 15 (K)	1	Stuttgart	Badstr. 8-12 (G)
3	Neumünster	Großflecken 4-10 (K)	1	Aachen	Komphausbadstraße 10 (K)
3	Bremerhaven	Bürgermeister-Smidt-Str. 50-64 (K)	1	Gießen	Rodheimer Straße 116 (K)
3	Solingen	Hauptstr. 75-77 (G)	1	Hamm	Bahnhofstr. 6-12 (G)
3	Bottrop	Hansastr. 7 (K)			
3	Offenbach	Frankfurter Str. 12-16 (G)			
3	Hanau	Am Markt 2 (G)			

Source: Own calculations and graph based on Brockhoff, lokale Gutachterausschüsse, Lührmann / G = Galeria Kaufhof, K = Karstadt

3 German department stores compared

A glance at the mid-range scores of the three indicators reveals that the department stores studied are predominantly situated in good to very good locations within their respective towns and cities. The average standard land value of the department store locations equates to 73% of the highest value for the reference town or city. Around half of all department stores are even situated on sites showing the highest standard land value for the town or city. Moreover, the general quality of the locations is bettered by the quality from a retail perspective. The retail rents in the department store locations correspond, on average, to 84% of the highest value in the respective town or city. In 111 of the 161 cases, these even represent the highest value. These values substantiate the high quality of the department store locations, which was also shown to be a material characteristic in Chapter 2. However, the change in rents since 2013 shows that the locations have evidently not increased in attractiveness since the average rent across all locations has remained unchanged. Nevertheless, more locations show rising rents (58) than declining rents (36). In the majority of cases (67), rents have remained stagnant since 2013.

Frontrunners

A total of 47 department store locations achieve a score of at least 8. These have a combined sales area of almost 740,000 sq m and represent almost a third of the total sales areas studied. A total of 11 towns and cities in the group of frontrunners have two department stores, including major cities such as Munich, mid-sized cities such as Mannheim and smaller municipalities such as Paderborn. It is notable that, of the three Karstadt premium stores, only Oberpollinger features in this group. Alsterhaus and KaDeWe are absent since their indicator values were ultimately inadequate for a top ranking. In the case of KaDeWe, this is not least attributable to Berlin's history as a city that was divided for a long period. Today, the highest standard land values in the German capital are found along strips previously occupied by the Berlin Wall, with the highest value recorded in Pariser Platz. However, there is

Fig. 16 Clustered scoring results micro location



no department store there, meaning that all Berlin department stores are deducted points in terms of standard land value.

The standard land value indicator figures across all 47 locations range between 0.15 and 1 with a mean figure of 0.85. The highest value is achieved by 29 stores, while the Karstadt-Bettenhaus store in Augsburgener Straße, Berlin, shows the lowest score. The stores in the top group are almost exclusively situated in locations where the prime retail rent in the respective town or city is achieved. This is the case for 40 out of 47 stores and, consequently, the average rent indicator value is extremely high at 0.97. The lowest value is achieved by the Carsch-Haus store in Heinrich-Heine-Platz, Düsseldorf (0.76). Furthermore, none of these stores is found in a location with declining rents. The lowest rental growth since 2013 is recorded in Westenhellweg, Dortmund (+1%), which is home to both a Karstadt and Galeria-Kaufhof department store. The Breite Weg in Magdeburg, which features a Karstadt store, shows the highest rental growth of +18%. On average, rents in the locations found in the top group have increased by 6% since 2013.

Midfield

The midfield category comprises a total

of 63 stores with a combined sales area of approx. 876,000 sq m, equating to 39% of the total stock. The standard land value indicator figures for these properties range from 0.03 on the Karstadt store in Berlin-Spandau to a maximum of 1. The highest value is achieved in 42 cases. The average figure is 0.85, which is equal to the corresponding figure for the top group. The Karstadt store in Berlin-Spandau also shows the lowest rent indicator value of 0.18. The highest value of 1 is achieved in 49 cases. The average value is 0.9, which is only marginally lower than in the top group. Thus, the difference in the current location quality of stores in the frontrunners group and those in the midfield group is negligible. However, the difference in rental growth is significantly larger. Rents in A locations in the midfield group have grown by an average of just 1%. Some locations have even witnessed negative growth. Bahnhofstraße in Witten is the worst performer with a rental decline of 6%, while the highest rental growth is shown by Berlin's Alexanderplatz with +25%.

3 German department stores compared

Laggards

The bottom group comprises 51 department stores with a combined sales area of approx. 660,000 sq m, equating to 29% of the total stock. Here again, there are stores that show a standard land value indicator figure of 1. In all five cases, these are properties in smaller towns and cities (Bremerhaven, Hagen, Hanau, Neumünster and Offenbach). In the majority of cases, the figure is significantly lower. The average indicator figure is 0.48, with a low of 0.015 for the Karstadt store in Berlin-Neukölln. With regard to the rent indicator, a value of 1 was achieved in 22 cases. Again, the majority of stores concerned are located in smaller towns and cities. The lowest figure is shown by the Galeria-Kaufhof department store in Berlin's Koppensstraße with 0.08. The average rent indicator value is 0.65, which is significantly lower than in the two other groups. Average rental growth is even negative. Rents have declined by an average of more than 4% since 2013 and not one location witnessed positive growth. In 27 instances, rents have remained stable. The most severe decrease is found in the part of Hamburg's Mönckebergstraße that is home to a Karstadt store. The location has witnessed a 27% decline in rental levels since 2013.

3.4 „Property quality“ scoring pillar Indicators

Having assessed locations at macro and micro level, another important pillar in the overall evaluation of German department stores is the quality of the properties themselves. Naturally, potential purchasers will be interested as to whether it will be necessary to invest capital in refurbishing a property. However, local authorities also have a vested interest in keeping the urban landscape in their town and city centres free from eyesores. Above all, however, it is the customers who determine whether a department store is sufficiently attractive to visit and, ultimately, to make a purchase there by voting with their feet.

As explained in Chapter 2, department stores are not typical retail properties since they usually have several storeys which are predominantly used for retail. In order to evaluate the quality of the property, therefore, the scoring is based upon three indicators: the sales area of the department store, the footprint and an assessment of the structural quality. Accordingly, a larger sales area produces a higher score since more sales area fundamentally offers more potential for product presentation as well as greater breadth and depth of the product assortment. In other words, the larger the sales area, the more potential for successful operation of the department store as a full-range provider.

The footprint provides information as to the size of the property on the ground floor and, thus, represents an important indicator for retail properties in general, since ground-floor sales areas offer the greatest appeal to customers. Since negotiating floors, whether via stairs, escalators or lifts, always presents at least one psychological barrier to customers, a large footprint is regarded as a positive feature for a property.

The final indicator for the quality of the properties constitutes an assessment of the structural condition of the department store property. This appraisal includes structural characteristics such as floor-to-ceiling heights, column grids and state of repair. The combined assessment of these factors is reflected in „above-average“, „average“ and „below-average“ classifications of the structural quality.



3 German department stores compared

Table 3 Scoring results property quality

Score	City	Address (company)	Score	City	Address (company)
10	Berlin	Alexanderplatz 9 (G)	8	Aachen	Adalbertstr. 20-30 (G)
10	Berlin	Tauentzienstraße 21-24 (K)	8	Saarbrücken	Bahnhofsstraße 82-100 (G)
10	Berlin	Kurfürstendamm 231 (K)	8	Oldenburg	Ritterstr. 17 (G)
10	Hamburg	Jungfernstieg 16-20 (K)	8	Osnabrück	Wittekindstr. 23 (G)
10	Hamburg	Mönckebergstraße 16 (K)	8	Limburg (Lahn)	Werner-Senger-Str. 15-17 (K)
10	Hamburg	Wandsbeker Marktstr. 63-65 (K)	7	Berlin	Tempelhofer Damm 191 (K)
10	München	Neuhauser Straße 18 (K)	7	Düsseldorf	Am Wehrhahn 1 (G)
10	Düsseldorf	Königsallee 1-9 (G)	7	Dortmund	Westenhellweg 70-84 (G)
10	Düsseldorf	Schadowstraße 93 (K)	7	Hannover	Georgstr. 23 (K)
10	Dresden	Prager Straße 12 (K)	7	Nürnberg	Königstr. 14 (K)
10	Leipzig	Neumarkt 1 (G)	7	Bonn	Remigiusstraße 20-24 (G)
10	Leipzig	Neumarkt 30 (K)	7	Mannheim	P1, 1 (G)
10	Karlsruhe	Kaiserstr. 147-159 (K)	7	Chemnitz	Am Rathaus 1 (G)
10	Wiesbaden	Kirchgasse 35-43 (K)	7	Aachen	Komphausbadstraße 10 (G)
10	Gießen	Seltersweg 64 (K)	7	Freiburg	Kaiser-Joseph-Str. 165 (K)
9	Berlin	Hermannplatz 5-10 (K)	7	Potsdam	Brandenburger Str. 49/52 (K)
9	Berlin	Wilmerdorfer Straße 118 (K)	7	Flensburg	Holm 7 (K)
9	Berlin	Carl-Schurz-Str. 24 (K)	7	Heidelberg	Hauptstraße 30 (G)
9	München	Bahnhofplatz 7 (K)	7	Reutlingen	Karlstr. 20 (G)
9	Köln	Hohe Straße 41-53 (G)	7	Pforzheim	Westl. Karl-Friedrich-Str. 17-19 (G)
9	Köln	Breite Straße 103-135 (K)	7	Singen (Hohentwiel)	Bahnhofstr. 19-21 (K)
9	Frankfurt a.Main	Zeil 90 (K)	7	Erlangen	Nürnberger Str. 30 (G)
9	Stuttgart	Königstraße 6 (G)	6	Hamburg	Schloßmühlendamm 2 (K)
9	Hannover	Seilwinderstraße 8 (G)	6	München	Kaufingerstraße 1-5 (G)
9	Nürnberg	Königstraße 42-52 (G)	6	Bielefeld	Bahnhofstr. 15-17 (K)
9	Mannheim	N7/Kunststrasse (G)	6	Mönchengladbach	Markt 10 (K)
9	Magdeburg	Breiter Weg 128 (K)	6	Halle	Marktplatz 20 (G)
9	Saarbrücken	Bahnhofstr. 15 (K)	6	Rostock	Lange Straße 29-31 (G)
9	Kassel	Obere Königsstr. 31 (G)	6	Regensburg	Neupfarrplatz 8 (G)
9	Darmstadt	Rheinstrasse 2 (G)	6	Cottbus	August-Bebel-Str. 2 (G)
8	Heilbronn	Fleinerstraße 15 (G)	6	Bremerhaven	Bürgermeister-Smidt-Str. 50-64 (K)
8	Berlin	Koppenstraße 8 (G)	6	Hildesheim	Almsstr. 41 (G)
8	Berlin	Müllerstraße 25 (K)	6	Goslar	Rosentorstr. 1 (K)
8	Hamburg	Mönckebergstraße 3 (G)	6	Neuss	Niederstr. 42 (G)
8	Frankfurt a.Main	Zeil 116-118 (G)	6	Brühl	Steinweg 26 (G)
8	Dortmund	Westenhellweg 30 (K)	6	Koblenz	Löhrstraße 77-85 (G)
8	Bremen	Papenstr. 5 (G)	6	Rosenheim	Münchener Str. 12 (K)
8	Bremen	Obernstraße 5-33 (K)	6	Hof	Altstadt 26-30 (G)
8	Hannover	Ernst-August-Platz 5 (G)	5	Duisburg	Düsseldorfer Str. 32 (G)
8	Bonn	Poststr. 23 (K)	5	Braunschweig	Schuhstr. 29-34 (K)
8	Braunschweig	Bohlweg 72 (G)	5	Krefeld	Hochstraße 57-59 (G)

3 German department stores compared

Score	City	Address (company)	Score	City	Address (company)
5	Ulm	Bahnhofstraße 5 (G)	3	Iserlohn	Schillerplatz 8-10 (K)
5	Lüneburg	Große Bäckerstraße 31 (K)	3	Heidelberg	Bergheimer Straße 1 (G)
5	Neumünster	Großflecken 4-10 (G)	3	Konstanz	Hussenstr. 23 (K)
5	Fulda	Rabanusstr. 19 (G)	3	Memmingen	Königsgraben 3 (K)
5	Recklinghausen	Markt 16-19 (K)	2	Hamburg	Osterstr. 119 (K)
5	Düren	Wirtelstrasse 38-42 (G)	2	München	Leopoldstraße 82 (K)
5	Bad Homburg v.d. Höhe	Louisenstr. 91-95 (K)	2	München	Schleißheimer Straße 93 (K)
5	Hanau	Am Markt 2 (G)	2	Mönchengladbach	Hindenburgstr. 125-133 (G)
5	Offenburg	Lindenplatz 3 (K)	2	Mainz	Schusterstr. 41-45 (G)
5	Ingolstadt	Ludwigstr. 29 (G)	2	Hagen	Elberfelder Str. 23-25 (G)
5	Kempten	Residenzplatz 2 (G)	2	Fulda	Universitätsplatz 2 (K)
5	Bamberg	Grüner Markt 23 (K)	2	Bottrop	Hansastr. 7 (K)
5	Braunschweig	Poststraße 4-5 (K)	2	Wesel	Hohe Straße 57 (G)
4	Berlin	Karl-Marx-Straße 101-105 (K)	2	Siegburg	Kaiserstraße 21-27 (G)
4	München	Karlsplatz 21-24 (G)	2	Euskirchen	Spiegelstr. 14 (G)
4	München	Pötschnerstraße 5 (G)	2	Witten	Bahnhofstr. 5 (G)
4	Essen	Kettwiger Straße 1a (G)	2	Göppingen	Bleichstraße 15 (G)
4	Wuppertal	Neumarkt 26 (G)	2	Landshut	Ländtorplatz 1 (K)
4	Augsburg	Bürgermeister-Fischer-Str. 6-10 (K)	2	Bayreuth	Maximilianstr. 40-42 (K)
4	Lübeck	Königstr. 54+56 (K)	2	Würzburg	Schönbornstraße 3 (G)
4	Göttingen	Groner Straße 43 (K)	1	Berlin	Augsburger Straße 36-42 (K)
4	Trier	Fleischstraße 68-76 (G)	1	Hamburg	Sachsenteor 33-39 (K)
4	Trier	Simeonstraße 46 (K)	1	Köln	Neusser Str. 242 - 244 (G)
4	Trier	Simeonstraße 53 (G)	1	Stuttgart	Badstr. 8-12 (G)
4	Celle	Bergstr. 1 (K)	1	Mainz	Ludwigsstr. 12 (K)
4	Hamm	Bahnhofstr. 6-12 (G)	1	Gießen	Rodheimer Straße 116 (K)
4	Lörrach	Turnstr. 1 (K)	1	Neubrandenburg	Stargarder Str. 19 (G)
4	Coburg	Mohrenstr. 17-19 (G)	1	Wismar	Rudolph-Karstadt-Platz 1 (K)
4	Schweinfurt	Am Jägerbrunnen 11 (G)	1	Paderborn	Königsplatz 1 (K)
3	Hamburg	Bergedorfer Markt 5-7 (K)	1	Paderborn	Westernstraße 26 (G)
3	Stuttgart	Eberhardstraße 28 (G)	1	Solingen	Hauptstr. 75-77 (G)
3	Düsseldorf	Heinrich-Heine-Platz 1 (G)	1	Kleve	Große Straße 42-46 (G)
3	Münster	Ludgeristr. 1 (G)	1	Offenbach	Frankfurter Str. 12-16 (G)
3	Münster	Salzstr. 47-50 (K)	1	Neunkirchen	Stummstraße 3-9 (G)
3	Wiesbaden	Kirchgasse 28 (G)	1	Speyer	Maximilianstr. 43 (G)
3	Gelsenkirchen	Bahnhofstrasse 48-56 (G)	1	Worms	Kämmererstr. 24-32 (G)
3	Freiburg	Kaiser-Joseph-Str. 195 (G)	1	Esslingen	Bahnhofstr. 14 (K)
3	Erfurt	Anger 1-3 (K)	1	Landau	Ostbahnstrasse 36 (G)
3	Gütersloh	Berliner Straße 21 (K)			
3	Bad Kreuznach	Mannheimer Straße 152 (G)			
3	Siegen	Köln Str. 41 (K)			

Source: Own calculations and graph based on Galeria Kaufhof, Karstadt and our own surveys / G = Galeria Kaufhof, K = Karstadt

3 German department stores compared

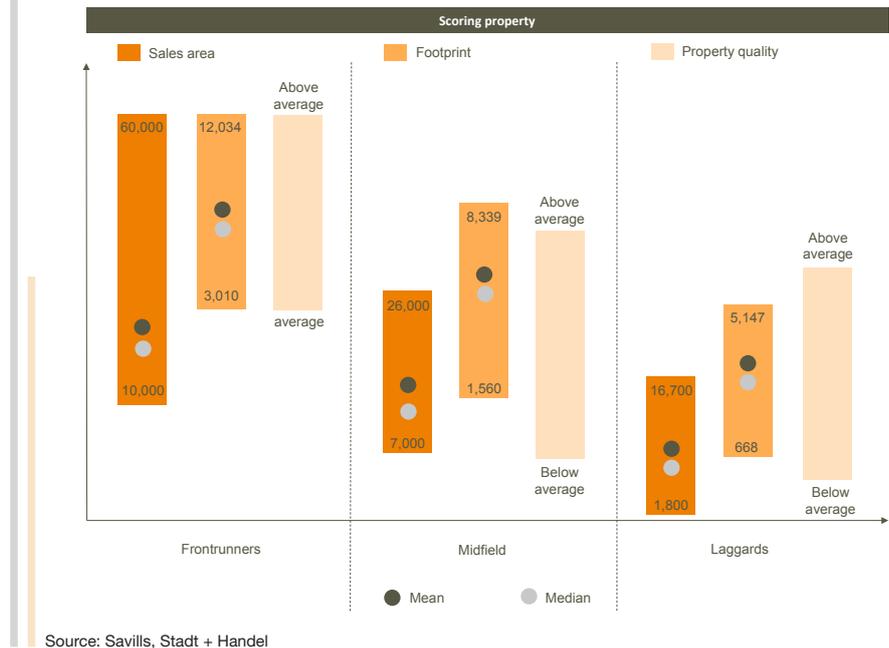
Frontrunners

The frontrunners group comprises 46 buildings with a combined sales area of approx. 1 million sq m, equating to around 44% of the total stock. An analysis of the top third shows an unsurprising regional distribution primarily across cities with more than 500,000 inhabitants. Some 29 department stores are located in cities with a population of over half a million people while a further 15 are found in cities with a population between 100,000 and 500,000. Limburg and Gießen are the only outliers as representatives of smaller mid-sized towns. Dresden, Leipzig and Magdeburg represent the only locations with structurally attractive department stores in the federal states created from the former East Germany. Of the 11 department stores situated in Berlin, eight are among the frontrunners. The frontrunner stores are divided almost equally between Karstadt and Galeria-Kaufhof with 25 and 21 department stores respectively.

The sales areas in the best stores range between approx. 10,000 and 60,000 sq m with KaDeWe being an outlier as the largest store. In terms of sales area, it is apparent that the department stores with a good to very good ranking all have a sales area greater than 8,000 sq m, which is the minimum sales area generally considered necessary for a successful store. Indeed, some 60% of stores have sales areas larger than 20,000 sq m, which is equivalent to the size of a shopping centre. The footprints in the top three rankings are relatively evenly distributed between approx. 3,000 sq m for the Galeria Kaufhof on the Zeil in Frankfurt and approx. 12,000 sq m for the KaDeWe store. Almost all frontrunner stores, or 40 out of 46 properties, have more than four storeys. Thus, it can be concluded that the critical minimum size combined with a higher number of storeys tends to prevail in towns and cities with an adequate potential customer base.

Overall, it can be observed that, unsurprisingly, no property in the top segment with a structural quality deemed to be „below average“ is found among the top three rankings.

Fig. 17 Clustered scoring results property quality



On the contrary, 29 of the frontrunner properties are above average while 17 are of average structural quality.

Midfield

The middle of the pack comprises 65 properties with a total sales area of approx. 815,000 sq m. This equates to around 36% of the overall stock in Germany. Half of the department stores in the midfield of the scoring are situated in B towns and cities, while the other half are principally divided between A towns and cities (10 stores) and C towns and cities (15 stores). Six stores located in D towns and cities also found their way into the middle of the pack. The federal states of Bavaria and Lower Saxony are noticeably well represented in the midfield of the scoring. More than half of all Bavarian department stores and eight out of 13 in Lower Saxony are found in the middle segment.

In terms of department store retailers, there is no clear trend among the midfield stores. Galeria Kaufhof is represented with 37 stores, which is only moderately ahead of Karstadt with 28 outlets. The sales areas of the properties range from approx. 7,000 sq m in Brühl to approx. 26,000 sq m in Nuremberg. A significant majority, 53 properties, are large stores with sales areas of more than 10,000 sq m.

Only the Kaufhof store in Brühl is below the 8,000 sq m threshold. The midfield department stores have smaller footprints than those in the upper segment of the scoring. The Karstadt store in Lübeck has a modest footprint of approx. 1,560 sq m, while the Karstadt in Nuremberg has a substantial ground floor area with a footprint of more than 8,000 sq m. The number of storeys has a correspondingly large range from two to nine, with the majority (54 stores) comprising more than three floors. In view of the somewhat smaller footprints, it is apparent that the stores in this segment tend to have a less favourable ratio of the footprint to the number of storeys. The midfield stores are primarily of average structural quality (37 out of 65 stores). Some 25 stores are of above-average quality while three properties are below average.

3 German department stores compared

Laggards

The bottom segment and, thus, the laggards in the scoring for the quality of the properties comprises 50 department stores. With a total sales area of approx. 415,000 sq m, these account for around 18% of the overall stock. The stores are distributed almost evenly across the different town and city size categories.

Erfurt, Wismar and Neubrandenburg occupy the bottom of the rankings. Around half of all 41 properties in North Rhine-Westphalia are in the lower segment of the scoring. Conversely, the federal state of Lower Saxony does not have a single store with a below-average property score.

The bottom third is noticeably characterised by smaller sales areas, with 23 out of 50 stores having sales areas smaller than 8,000 sq m. A further 11 stores have sales areas of less than 10,000 sq m. Accordingly, around two thirds of the stores can be described as having (excessively) small sales areas for department store use.

Moreover, the footprints are also predominantly small, ranging from approx. 660 sq m to 5,100 sq m. The smallest footprint is found in the original Karstadt store in Wismar, while the Karstadt in Eimsbüttel has a ground floor area of more than 5,000 sq m. In overall comparison, it is evident that 47 of the 161 department stores studied have a footprint of less than 3,000 sq m. Some 32 of these properties lie in the bottom third of the property-based scoring.

Only three laggard stores have above-average structural quality, while three fifths of the laggards are of average quality and 17 stores are deemed to be of below-average quality.

Overall, the property-based scoring demonstrates that there are no fundamental differences between the two department store retailers in terms of structural quality. However, when looking at the department stores with a sales area below 8,000 sq m, it is apparent that Galeria Kaufhof is over-represented with around two thirds of properties. Evidently, Karstadt has succeeded in removing such properties from its portfolio or has converted them. Stores with areas below 8,000 sq m are predominantly found in the laggard segment. Only the store in Brühl makes it into the midfield of the scoring.

3.5 Overall scoring results

The overall results bring together the individual results from the three pillars of macro-location, micro-location and property quality, with each of these elements having equal weighting in the results. Here again, the scores are calculated using deciles, with approximately the same number of properties allocated to each of the 10 scores. A score of 10 indicates that a property is among the best 10% of the stores studied with regard to the conditions analysed. The same rationale applies to all other scores.



3 German department stores compared

Table 4 Total scoring results

Score	City	Address (company)	A	B	C	Score	City	Address (company)	A	B	C
10	München	Neuhauser Straße 18 (K)	10	8	10	8	Wiesbaden	Kirchgasse 28 (G)	9	10	3
10	Köln	Hohe Straße 41-53 (G)	10	10	9	8	Osnabrück	Wittekindstr. 23 (G)	6	8	8
10	Köln	Breite Straße 103-135 (K)	10	7	9	8	Hamburg	Mönckebergstraße 16 (K)	10	2	10
10	Frankfurt a.Main	Zeil 116-118 (G)	10	10	8	8	Konstanz	Hussenstr. 23 (K)	7	10	3
10	Frankfurt a.Main	Zeil 90 (K)	10	9	9	8	Gießen	Seltersweg 64 (K)	6	5	10
10	Düsseldorf	Königsallee 1-9 (G)	10	8	10	7	Bonn	Remigiusstraße 20-24 (G)	9	4	7
10	Mannheim	P1, 1 (G)	10	9	7	7	Reutlingen	Karlstr. 20 (G)	5	8	7
10	Mannheim	N7/Kunststrasse (G)	10	8	9	7	Nürnberg	Königstraße 42-52 (G)	8	3	9
10	Wiesbaden	Kirchgasse 35-43 (K)	9	10	10	7	Hannover	Georgstr. 23 (K)	8	5	7
10	München	Bahnhofplatz 7 (K)	10	7	9	7	Hamburg	Wandsbeker Marktstr. 63-65 (K)	10	1	10
10	Berlin	Alexanderplatz 9 (G)	8	7	10	7	Dresden	Prager Straße 12 (K)	5	5	10
10	Berlin	Tauentzienstraße 21-24 (K)	8	7	10	7	Potsdam	Brandenburger Str. 49/52 (K)	9	5	7
10	Berlin	Kurfürstendamm 231 (K)	8	8	10	7	Heidelberg	Bergheimer Straße 1 (G)	10	7	3
10	München	Kaufingerstraße 1-5 (G)	10	9	6	7	Trier	Simeonstraße 53 (G)	9	8	4
9	Dortmund	Westenhellweg 30 (K)	7	8	8	7	Hamburg	Mönckebergstraße 3 (G)	10	2	8
9	Karlsruhe	Kaiserstr. 147-159 (K)	10	5	10	7	Magdeburg	Breiter Weg 128 (K)	2	9	9
9	Freiburg	Kaiser-Joseph-Str. 165 (K)	10	7	7	7	Saarbrücken	Bahnhofsstraße 82-100 (G)	4	10	8
9	Lüneburg	Große Bäckerstraße 31 (K)	9	9	5	7	Göttingen	Groner Straße 43 (K)	7	8	4
9	Darmstadt	Rheinstrasse 2 (G)	8	9	9	7	Trier	Simeonstraße 46 (K)	9	8	4
9	Aachen	Adalbertstr. 20-30 (G)	7	10	8	7	Braunschweig	Bohlweg 72 (G)	9	3	8
9	Oldenburg	Ritterstr. 17 (G)	9	8	8	7	Erlangen	Nürnberger Str. 30 (G)	7	5	7
9	Heidelberg	Hauptstraße 30 (G)	10	9	7	6	Bonn	Poststr. 23 (K)	9	2	8
9	Rosenheim	Münchener Str. 12 (K)	8	9	6	6	Würzburg	Schönbornstraße 3 (G)	7	10	2
9	Hamburg	Jungfernstieg 16-20 (K)	10	4	10	6	Nürnberg	Königstr. 14 (K)	8	4	7
9	Stuttgart	Königstraße 6 (G)	10	5	9	6	Düsseldorf	Am Wehrhahn 1 (G)	10	2	7
9	Leipzig	Neumarkt 1 (G)	5	10	10	6	Essen	Kettwiger Straße 1a (G)	6	7	4
9	Rostock	Lange Straße 29-31 (G)	9	8	6	6	Heilbronn	Fleinerstraße 15 (G)	8	2	9
9	Leipzig	Neumarkt 30 (K)	5	9	10	6	Ingolstadt	Ludwigstr. 29 (G)	9	5	5
9	Bremen	Obernstraße 5-33 (K)	6	9	8	6	Kassel	Obere Königsstr. 31 (G)	4	5	9
9	Ulm	Bahnhofstraße 5 (G)	8	10	5	6	Pforzheim	Westl. Karl-Friedrich-Str. 17-19 (G)	5	5	7
9	Flensburg	Holm 7 (K)	6	10	7	6	Berlin	Hermannplatz 5-10 (K)	8	1	9
8	Dortmund	Westenhellweg 70-84 (G)	7	8	7	6	Berlin	Wilmsdorfer Straße 118 (K)	8	1	9
8	Bielefeld	Bahnhofstr. 15-17 (K)	5	10	6	6	Berlin	Müllerstraße 25 (K)	8	1	8
8	Münster	Ludgeristr. 1 (G)	9	10	3	6	Paderborn	Westernstraße 26 (G)	6	10	1
8	Freiburg	Kaiser-Joseph-Str. 195 (G)	10	9	3	6	Bad Homburg v.d. Höhe	Louisenstr. 91-95 (K)	8	5	5
8	Berlin	Carl-Schurz-Str. 24 (K)	8	5	9	6	Regensburg	Neupfarrplatz 8 (G)	8	5	6
8	Düsseldorf	Heinrich-Heine-Platz 1 (G)	10	9	3	6	Landshut	Ländtorplatz 1 (K)	8	9	2
8	Düsseldorf	Schadowstraße 93 (K)	10	2	10	6	Kempten	Residenzplatz 2 (G)	4	10	5
8	Bremen	Papenstr. 5 (G)	6	9	8	5	Krefeld	Hochstraße 57-59 (G)	4	7	5
8	Hannover	Seilwinderstraße 8 (G)	8	5	9	5	Offenburg	Lindenplatz 3 (K)	7	4	5
8	Hannover	Ernst-August-Platz 5 (G)	8	5	8	5	München	Leopoldstraße 82 (K)	10	4	2

3 German department stores compared

Score	City	Address (company)	A	B	C	Score	City	Address (company)	A	B	C
5	München	Schleißheimer Straße 93 (K)	10	4	2	3	Brühl	Steinweg 26 (G)	6	2	6
5	Augsburg	Bürgermeister-Fischer-Str. 6-10 (K)	7	5	4	3	Esslingen	Bahnhofstr. 14 (K)	7	5	1
5	Singen (Hohentwiel)	Bahnhofstr. 19-21 (K)	4	5	7	3	Cottbus	August-Bebel-Str. 2 (G)	1	5	6
5	Berlin	Koppenstraße 8 (G)	8	1	8	3	Hanau	Am Markt 2 (G)	4	3	5
5	Stuttgart	Eberhardstraße 28 (G)	10	3	3	2	Gelsenkirchen	Bahnhofstrasse 48-56 (G)	2	5	3
5	Braunschweig	Schuhstr. 29-34 (K)	9	2	5	2	Köln	Neusser Str. 242 - 244 (G)	10	1	1
5	Limburg (Lahn)	Werner-Senger-Str. 15-17 (K)	3	5	8	2	Duisburg	Düsseldorfer Str. 32 (G)	3	3	5
5	Berlin	Augsburger Straße 36-42 (K)	8	8	1	2	Bremerhaven	Bürgermeister-Smidt-Str. 50-64 (K)	1	3	6
5	Berlin	Tempelhofer Damm 191 (K)	8	1	7	2	Celle	Bergstr. 1 (K)	3	4	4
5	Hamburg	Schloßmühlendamm 2 (K)	10	1	6	2	Mönchengladbach	Markt 10 (K)	2	2	6
5	Chemnitz	Am Rathaus 1 (G)	1	9	7	2	Kleve	Große Straße 42-46 (G)	4	5	1
5	Koblenz	Löhrstraße 77-85 (G)	6	5	6	2	Bad Kreuznach	Mannheimer Straße 152 (G)	2	5	3
5	Braunschweig	Poststraße 4-5 (K)	9	2	5	2	Mönchengladbach	Hindenburgstr. 125-133 (G)	2	5	2
4	Siegburg	Kaiserstraße 21-27 (G)	5	8	2	2	Goslar	Rosentorstr. 1 (K)	1	4	6
4	München	Karlsplatz 21-24 (G)	10	1	4	2	Worms	Kämmererstr. 24-32 (G)	5	5	1
4	Hildesheim	Almsstr. 41 (G)	3	5	6	2	Neumünster	Großflecken 4-10 (K)	2	3	5
4	Neuss	Niederstr. 42 (G)	5	4	6	2	Fulda	Rabanusstr. 19 (G)	3	2	5
4	Aachen	Komphausbadstraße 10 (G)	7	1	7	2	Fulda	Universitätsplatz 2 (K)	3	5	2
4	München	Pötschnerstraße 5 (G)	10	1	4	2	Offenbach	Frankfurter Str. 12-16 (G)	7	3	1
4	Bamberg	Grüner Markt 23 (K)	6	5	5	2	Schweinfurt	Am Jägerbrunnen 11 (G)	3	4	4
4	Erfurt	Anger 1-3 (K)	6	5	3	1	Wuppertal	Neumarkt 26 (G)	3	2	4
4	Mainz	Schusterstr. 41-45 (G)	9	4	2	1	Wesel	Hohe Straße 57 (G)	1	5	2
4	Saarbrücken	Bahnhofstr. 15 (K)	4	3	9	1	Bottrop	Hansastr. 7 (K)	2	3	2
4	Paderborn	Königsplatz 1 (K)	6	8	1	1	Iserlohn	Schillerplatz 8-10 (K)	1	2	3
4	Speyer	Maximilianstr. 43 (G)	5	9	1	1	Hamm	Bahnhofstr. 6-12 (G)	2	1	4
4	Trier	Fleischstraße 68-76 (G)	9	2	4	1	Memmingen	Königsgraben 3 (K)	4	2	3
3	Münster	Salzstr. 47-50 (K)	9	2	3	1	Landau	Ostbahnstrasse 36 (G)	3	3	1
3	Gütersloh	Berliner Straße 21 (K)	5	5	3	1	Euskirchen	Spiegelstr. 14 (G)	2	2	2
3	Lörrach	Turmstr. 1 (K)	5	4	4	1	Hagen	Elberfelder Str. 23-25 (G)	2	3	2
3	Düren	Wirtelstrasse 38-42 (G)	4	4	5	1	Gießen	Rodheimer Straße 116 (K)	6	1	1
3	Coburg	Mohrenstr. 17-19 (G)	4	5	4	1	Neubrandenburg	Stargarder Str. 19 (G)	1	5	1
3	Hamburg	Bergedorfer Markt 5-7 (K)	10	1	3	1	Wismar	Rudolph-Karstadt-Platz 1 (K)	1	4	1
3	Halle	Marktplatz 20 (G)	3	5	6	1	Solingen	Hauptstr. 75-77 (G)	1	3	1
3	Mainz	Ludwigsstr. 12 (K)	9	4	1	1	Siegen	Kölner Str. 41 (K)	1	2	3
3	Hof	Altstadt 26-30 (G)	1	5	6	1	Witten	Bahnhofstr. 5 (G)	1	4	2
3	Berlin	Karl-Marx-Straße 101-105 (K)	8	1	4	1	Neunkirchen	Stummstraße 3-9 (G)	1	5	1
3	Hamburg	Osterstr. 119 (K)	10	1	2	1	Göppingen	Bleichstraße 15 (G)	4	2	2
3	Hamburg	Sachsentor 33-39 (K)	10	1	1	1	Bayreuth	Maximilianstr. 40-42 (K)	2	4	2
3	Stuttgart	Badstr. 8-12 (G)	10	1	1						
3	Lübeck	Königstr. 54+56 (K)	7	3	4						
3	Recklinghausen	Markt 16-19 (K)	2	5	5						

Source: Savills und Stadt + Handel / G = Galeria Kaufhof, K = Karstadt, A – Score Makrostandort, B – Score Mikrostandort, C – Score Objektqualität

3 German department stores compared

Frontrunners

The frontrunners group comprises 46 department stores in total, including all three premium Karstadt stores. These stores have a combined sales area of more than 954,000 sq m, which equates to 42% of the overall sales area studied. The 46 properties are divided into 24 Kaufhof department stores (approx. 419,000 sq m) and 22 Karstadt stores (approx. 536,000 sq m).

Midfield

The midfield of the scoring comprises 62 department stores with a total sales area of approx. 847,000 sq m (approx. 37% of the overall stock). These are divided into 33 Kaufhof department stores with a combined area of around 440,000 sq m and 29 Karstadt properties with a total area of approx. 408,000 sq m.

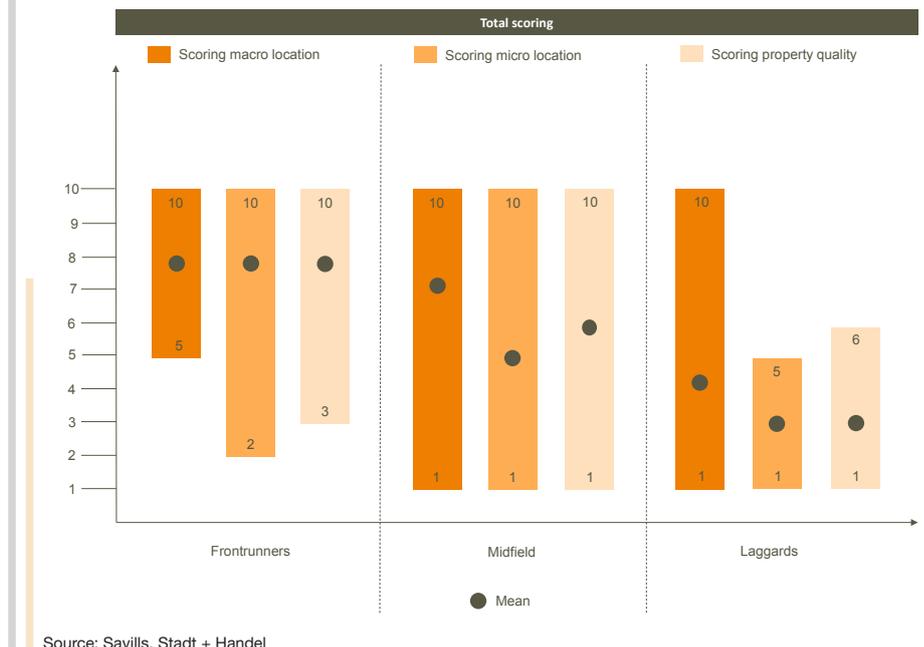
Laggards

The laggard segment comprises 53 department stores. These stores have a combined sales area of approx. 473,000 sq m, equating to 21% of the overall stock. Galeria Kaufhof operates 29 of these stores with a total sales area of approx. 240,000 sq m, while the remaining 24 are Karstadt department stores with a combined sales area of around 233,000 sq m.

Interpreting the scoring results

Upon analysing the scoring results, it is immediately apparent that the frontrunners are predominantly situated in major cities, whereas the laggard stores are over-represented in smaller towns and cities. The following offers a more in-depth appraisal of the situation. Around half of all department stores in cities with more than 500,000 inhabitants are among the frontrunners in the scoring, while only one in ten such stores appears in the laggard group. As population size decreases, the proportion of frontrunners declines while the laggards account for a consistently increasing proportion (see graphic). No city with 50,000 or fewer inhabitants appears among the frontrunners, while almost three quarters of stores in such locations are found in the laggard group of the scoring.

Fig. 18 Clustered total scoring results



Thus, the scoring results suggest that the conditions for the future viability of department stores tend to be worse in smaller towns and cities than in larger municipalities. This may not appear to be a new or surprising discovery at first glance. However, a closer consideration of the individual pillars of the scoring offers two revealing insights in this context. Firstly, the attractiveness of the macro-location is closely correlated with the size of a town or city. In other words, the macro-locations (particularly) suitable for department stores are also large cities. Only very few towns and cities with fewer than 100,000 inhabitants offer attractive conditions. Secondly, the quality of the property also corresponds to the size of a town or city. Department stores with large sales areas, a plus point in the scoring, are primarily found in cities with high populations. This stands to reason, since successfully operating a large sales area requires a sufficiently large potential customer base. However, this places department stores in smaller towns and cities in a predicament as history shows that a department store should have a minimum sales area of 8,000 sq m in order to successfully fulfil its role as a full-range provider. However, to conclude from this realisation that all department stores

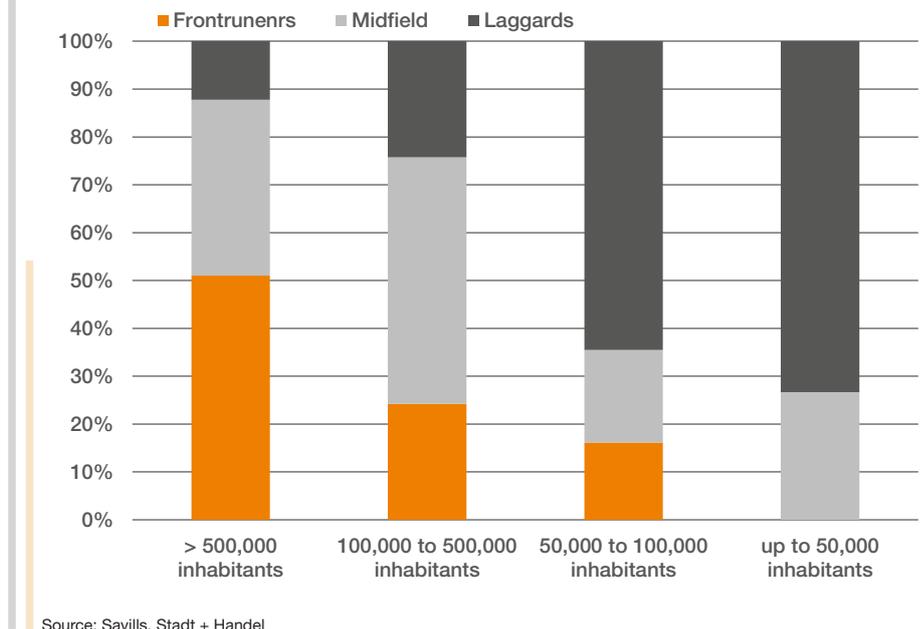
in smaller towns and cities have no future would be too simplistic. Despite, or precisely because of the relatively unfavourable local conditions, department stores in smaller towns and cities have a significant advantage over those in larger municipalities. They are frequently the retail leader in the town or city with no local competition. This is true without exception in municipalities with fewer than 50,000 inhabitants while, of the 29 towns and cities with a population of 50,000 to 100,000, only Fulda and Gießen have two department stores. For those department stores regarded as unrivalled retail leaders, the low degree of competition means that moderate conditions in respect of location and property may well be adequate to be profitable and, potentially, to remain so. Conversely, operating a department store under moderate conditions in a major city contested by department stores and shopping centres may not (or no longer) be worthwhile. However, the central realisation remains that, owing to the generally more unfavourable conditions in a town or city with fewer than 100,000 inhabitants, it is normally more challenging to successfully operate a department store. Consequently, the outlook for the future viability of such stores is less auspicious. To assess whether

3 German department stores compared

the existence of any stores is under threat, and which stores they might be, requires consideration of the specific competitive conditions in each location. This aspect is discussed separately in Chapter 3.6.

In (over-saturated) cities with several department stores in particular, it is ultimately the quality of the individual micro-location that determines which ones will continue to attract enough customers inside. The conditions of the macro-location are the same for all department stores in a given town or city and differences in the quality of properties can be eliminated via appropriate investment in the poorer quality property. The only unchangeable differentiating condition of such stores is the micro-location. In that respect, the micro-location score is highly revealing with regard to the issue of the future viability of those department stores that compete with other department stores in their local market. It can generally be inferred from the scoring results that most department stores are found in good micro-locations. Only few properties are situated in genuinely poor micro-locations. Thus, German department stores differ relatively modestly in the quality of their micro-locations but considerably in terms of how these locations have developed. In particular, it can be observed from the scoring results that locations with generally below-average performance in the scoring have fared much worse in terms of attractiveness in recent years, which is manifested in declining rents. On the other hand, those micro-locations with above-average location quality frequently show rising or at least stable rental levels. The growing spread between good and poorer locations is not a phenomenon limited to department stores but has been generally apparent in the retail sector for a number of years (see Chapter 2.1). However, the consequence of this is that the selection process threatening otherwise crisis-stricken department stores is likely to continue if some department store locations continue to become less attractive. This will deprive such stores of the material

Fig. 19 Scores by size of city



competitive advantages they have over many rival retail formats, such as shopping centres.

The observations above demonstrate the potential of the scoring results. They do not reflect a comprehensive overview of the current department store landscape but, rather, provide a framework for structuring the German department store stock as well as for comparing individual stores. This foundational assessment reveals a number of insights that provide meaningful starting points for more in-depth analysis. Clearly, such scoring must also neglect or completely mask certain aspects and details in order to create a structure. However, these aspects and details can be explored in further stages of analysis that build upon these scoring results. Some examples of how the scoring can be used as a basis for generating additional findings for specific market participants are discussed in the following section.

3 German department stores compared

3.6 The scoring as an analysis tool Competition analyses

The observations above illustrate that the scoring results can be used as a basis to structure the entire German department store segment and to compare individual stores with regard to their location-related and property-specific conditions. However, this is just one factor for assessing the future viability of individual department stores. A further element not considered in the scoring is the individual competitive situation of each department store. However, knowledge of this situation is essential to answer the question as to whether two properties with the same overall score, of 6 for example in the case of the two Galeria-Kaufhof stores in Regensburg and Würzburg, should really be considered equal in terms of future viability.

Reflecting competition in the scoring model would have been difficult for two reasons and was, therefore, excluded. Firstly, the local competitive situation is difficult to record quantitatively since this depends on many details that cannot be sensibly taken into account in a scoring model that covers the entire German department store segment. These include, for example, the spatial proximity of department stores in a given town or city and the attractiveness of the respective town or city centre as well as the overlap of the product ranges of the local department stores. Secondly, including competition in the scoring approach selected would have „diluted“ the results since the competition in attractive macro and micro-locations tends to be more intensive and vice versa. Since the objective of the scoring is to be able to differentiate German department stores, incorporating the element of competition would have been detrimental. Against this background, it appears more sensible to consider the subject of competition in a subsequent analysis in order to be able to interpret the individual scoring results in their specific competitive context. To that end, we have developed a „competition traffic lights“ system based upon the following three indicators: department store sales area per capita, shopping centre sales area per capita and the number of department stores.

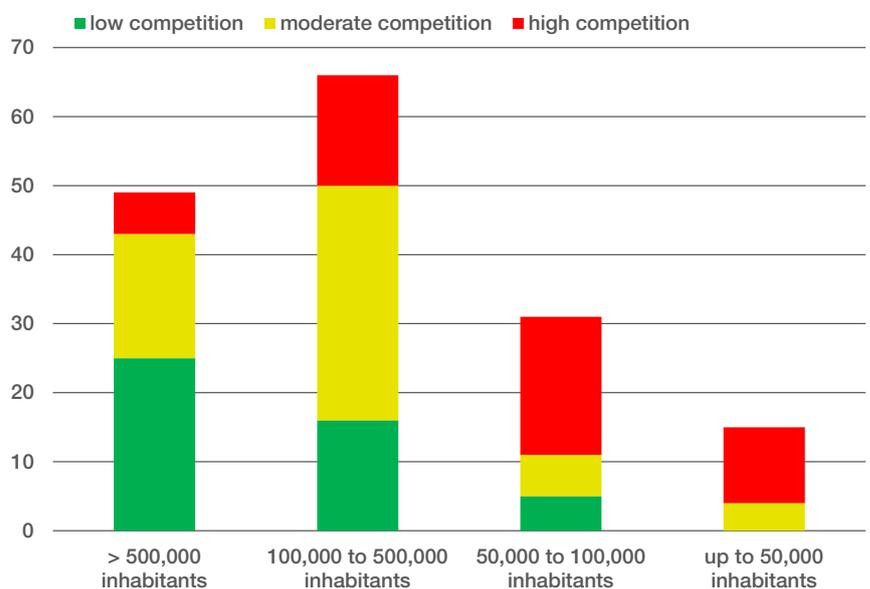
All three indicators are analysed at town or city level. The colour of the competition traffic lights reflects the results according to these three indicators, where red indicates high intensity of competition in a town or city and yellow and green represent moderate and low levels respectively. Naturally, this simple tool only allows for a basic screening of department store towns and cities. However, even such a basic process can reveal a number of meaningful insights and, combined with appropriate knowledge of a local market, can provide a basis for more detailed analysis of the local competition.

Major cities with more than 500,000 inhabitants, such as Berlin, Frankfurt and Hamburg, are characterised by an intensive competitive environment since they are home not only to several department stores but also a number of shopping centres. From the customers' perspective, such cities offer a rich supply of „full-range providers“, where they can satisfy all of their requirements under one roof (Fig. 20).

However, even in some smaller towns and cities, such as Paderborn and Gießen, the competition traffic lights are on red. Both markets have two department stores competing for consumers. In the case of Paderborn,

however, the closure of the Karstadt-Schnäppchencenter after the effective date for data collection in this study demonstrates that the competitive environment in the city was too intense to support two department stores. In the case of Gießen, the composition of the overall scores with one frontrunner (score = 8) and one laggard (score = 1) illustrates that the town has two department stores with completely different conditions. In the event that the competition in Gießen proves too great for the existence of two department stores, one of the two stores is in a significantly worse position, at least with regard to these conditions.

Fig. 20 „Competition traffic lights“ by city size



Source: Savills, Stadt + Handel

3 German department stores compared

The city of Iserlohn can be used as an example of low competitive intensity. The local Karstadt department store is in the comfortable position of neither having to compete with another department store nor with a shopping centre in the city. However, its overall score of 1 indicates markedly poor conditions for the future viability of the department store, yet the low competition in the city might mean that operating a department store is nevertheless profitable.

Dortmund, in contrast, with a green traffic light, appears on the surface to have a completely different competitive situation with two department stores in the city's main retail area plus three shopping centres, one of which is also in the A location. The expectation might be to see strong competition between the department stores as well as between the related retail formats. However, compared with Iserlohn, Dortmund has a significantly larger potential customer base. Within a 20-minute radius of travelling time from each city, Iserlohn has a catchment area comprising almost 250,000 inhabitants, which is significantly lower than that of Dortmund with over a million potential customers. In other words, while the stores in Dortmund are concentrated in the respective micro-locations and, therefore, certainly compete with each other, their actual offerings are shared across an adequate population size. The overall scoring results for the department stores in the city of 8 and 9 are, thus, considered fundamentally plausible while consideration of the competitive situation can, in this instance, provide an additional layer of validation when classifying the results.

However, the competition traffic lights also work in terms of differentiating between similar overall scores across several department stores. With regard to the department stores in Regensburg and Würzburg used as earlier examples, the question as to whether both stores should be assessed similarly in terms of future viability remained unanswered. When the competitive situation is incorporated, the answer is „no“. In the

case of Würzburg, the green traffic light suggests less intensive competition, since Würzburg neither has another department store nor a shopping centre.

On the whole, taking into account the competitive situation allows for differentiation of the scoring results and combining the scoring results with the insights from the competition traffic lights can provide valuable conclusions as to the future viability of the respective department stores. This can be equally helpful to local authorities, investors and other stakeholders and can provide useful guidance when making investment decisions.

As an analysis tool for property market participants

Since the scoring system devised places significant weighting on building-related and property-market-related criteria, among other retail-related factors, it can also serve as a useful analysis tool for property market participants. In principle, the conceivable applications are as diverse as the range of market participants that might use the scoring as such a tool. The potential applications are illustrated below with two practical examples.

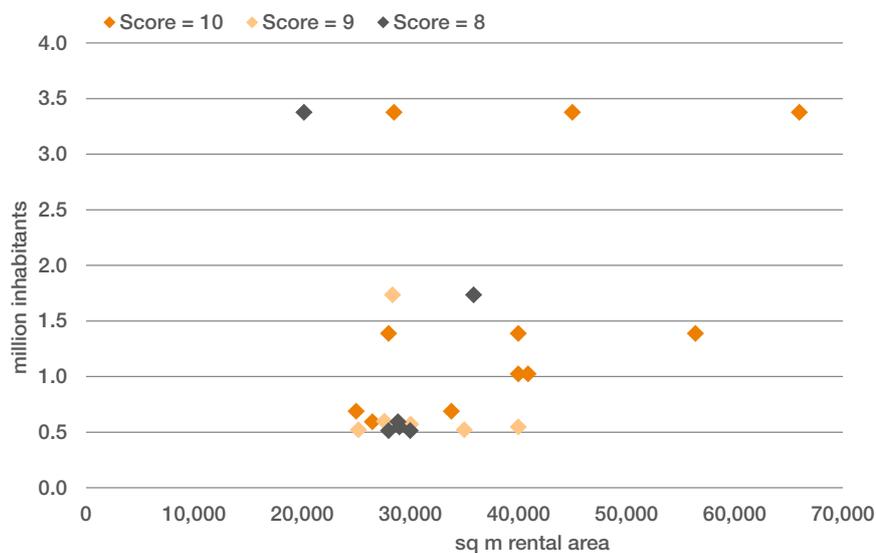
One scenario for applying the scoring involves using the overall and partial scores to identify department stores with a risk profile best suited to a certain property investor. Evidently, the overall scores alone could be used in a basic segmentation process. The frontrunners in the scoring, for example, would surely be of particular interest to risk-averse investors such as insurance companies, while the laggards would be more interesting to investors with an opportunistic approach. This simple yet very basic screening can then be refined in accordance with the requirements of a specific investor.

An insurance company planning to invest in department stores, for example, could concentrate on those stores that feature among the frontrunners in the scoring while also having a sales area of at least 20,000 sq m and being situated in a city

with more than 500,000 inhabitants. The minimum rental area ensures a certain minimum investment volume per property while the restriction to major cities serves to filter on those markets with relatively high liquidity in their investment markets in order to minimise risk on exit. This is more likely to be true of the large metropolises than mid-sized towns and cities. Screening with these criteria produces a list of 23 properties that appear fundamentally suitable as investment properties for our fictitious insurance company (see graphic „Target properties for an insurance company“). This list can then be further filtered by looking only at properties with an overall score of 10, for example. Furthermore, the selected properties can be analysed from a variety of perspectives or extensively investigated in a due diligence process. In any case, such an approach can be used to easily identify department stores best suited to the risk profile and existing portfolio of the insurance company.

3 German department stores compared

Fig. 21 Target properties of an insurance company



Source: Savills, Stadt + Handel

The second potential application can be illustrated using a similar scenario. A developer is looking for department stores whose future viability is questionable or in real jeopardy. The developer would like to identify properties for refurbishment that are suitable for retail use. The department store scoring could be used to restrict the developer's search to the laggard stores since these show the least favourable conditions. As a second selection criterion, the developer could apply a minimum micro-location score of 5 to filter on those properties with the most favourable environment for alternative use with regard to their micro-location. The selection described highlights 16 department stores to the developer, which can then be narrowed down further using additional criteria. The competition traffic lights tool presented above could be used as an additional filter, for example, since the probability of department store use not being sustainable in the long term will surely be highest in the five out of 16 instances with a red competition traffic light. Additional indicators could also be used in a similar manner to identify department stores whose future viability is under threat and that would be suitable for conversion to residential use, for example.

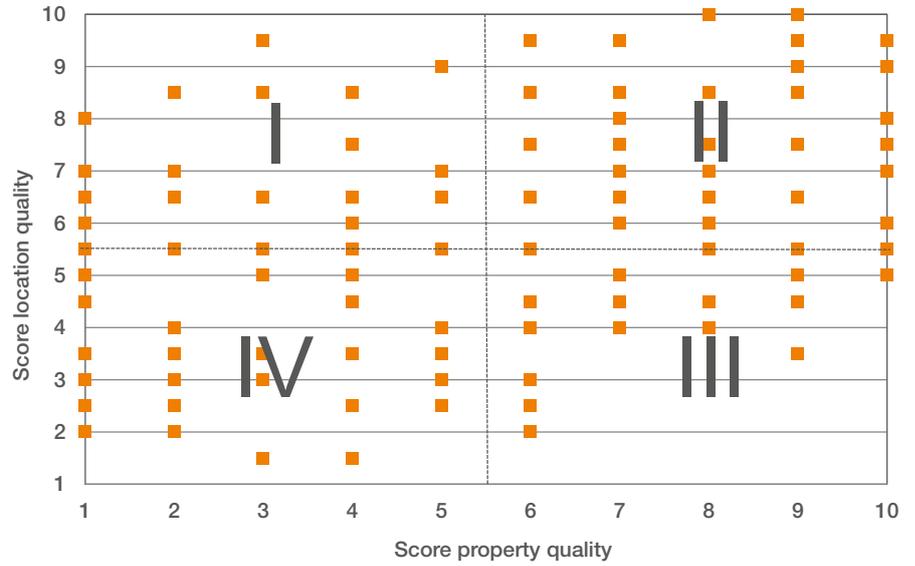
A second scenario for applying the scoring may be useful for current owners of department stores in Germany. Combined with additional data and information, the scoring also represents a meaningful analysis tool that can be used to prepare, reach or validate decisions. A comparison of location and property scores, for example, could be used to identify properties that are worthwhile candidates for investment in the building fabric and properties for which this would be less sensible owing to unfavourable conditions in the location. A simple screen for this question could be created by calculating the average of the macro-location and micro-location score. This value could be labelled the „location score“ and represents the location-related conditions that are unchangeable for the department store owner or that can only be influenced to a limited degree. Each of these location scores produced for all department stores could now be compared with the respective property scores in order to identify how the location-related and property-related conditions of a department store interact (see graphic „Location vs property scores“). For a simple screen, it would initially suffice to divide the resulting „department store cloud“ into four quadrants. In quadrants II and III, the issue of investment in the structural fabric is at least not urgent

since these contain department stores with above-average property scores. Properties in quadrants I and IV, on the other hand, would fundamentally benefit substantially from investment in the building fabric. However, for properties in quadrant IV, it is questionable to what extent such investment would be profitable since both the property-related and location-related conditions are at best average, meaning that the future viability of the current department store use would be in jeopardy despite upgrading the building. Properties in quadrant I would have a greater chance of converting an investment in the building fabric into higher sales and, thus, potentially sustainable rental growth since these locations show above-average conditions and the building currently represents the weakest link in the chain.

3 German department stores compared

Undoubtedly, the methods presented here merely provide a basic instrument that is useful for initial categorisation but that cannot replace an in-depth case-by-case investigation. However, with adequate knowledge of the German department store market, they represent a helpful first stage of analysis that allows sound and time-saving initial classification or selection that can be built upon with additional, more in-depth analysis processes.

Fig. 22 Location vs. property score



Source: Savills, Stadt + Handel





4 Quo vadis, department store? Five theses

Normally, a study such as this ends with a summary and a conclusion including a number of more or less sound recommendations for action. The latter are precluded here since this study primarily takes a bird's eye view of the German department store landscape. Such a perspective means that, while the department stores themselves and their environments can be closely examined, the business processes remain obscured from view. However, such processes are material to the future of department stores in

Germany. That the external conditions for most department stores are overwhelmingly positive is one of the principal findings of this study. Based upon this finding and other insights into the status quo of German department stores, the study therefore closes with an outlook as to the potential path for the department store over the coming years in five theses. Above all, however, these should invite the reader to participate critically in the discussion surrounding the „old lady“ of retail.

4 Quo vadis, department store? Five theses

1. The anchor is rusting

In its heyday, the department store was a magnet, an anchor and a principal starting point for new product ranges and innovative ways of presenting goods to consumers and making sales. This status is now only enjoyed by a limited number of department stores serving as local retail leaders while the latest trends are found only in the premium department stores. In many other cases, it is noticeable that department store uses are being curtailed in favour of other often more successful tenants or, in some cases, are even being replaced completely. This highlights the fact that many department stores are no longer the anchor tenant in their retail location and are even increasingly dependent on other stores to attract sufficient footfall to enable them to function. A further manifestation of this is the relocation of a number of former stand-alone department stores into shopping centres in recent years.

2. Department store deaths to continue for the time being

The complete census and scoring demonstrate that most department stores benefit from good general conditions. However, they also reveal that there are still many stores whose conditions are probably no longer adequate to secure their future in the current retail environment. Some stores, for example, have sales areas that are too small to implement a traditional department store concept or their micro-location, combined with the lost magnetic function of the department store, is no longer suitable. Thus, it can be assumed that further closures will be announced in the coming months.

3. Department stores and small to mid-sized towns and cities - mutually exclusive?

A principal finding of this study is that department stores in towns and cities with fewer than 100,000 inhabitants are faced with relatively unfavourable conditions. Despite low competition in the majority of cases, many such towns and cities may bid farewell to the department store going forward. Fundamentally, this would only be a

continuation of a trend that is already apparent and, barring a change of course, everything points towards towns and cities of this size no longer having a single department store in the future. To avert this denouement, department stores must tailor their assortment far more to local demand than previously and position themselves as local suppliers, for example. Department stores and small to mid-sized towns and cities do not have to be mutually exclusive. On the contrary, it is in these towns and cities in particular that department stores have an opportunity to seize the role of local retail leader.

4. Micro-location? No problem!

The scoring results show one thing very clearly. The majority of department stores are located in very high value (retail) locations. Even many of the laggard stores score at least respectably in terms of micro-location. Few other retail formats could make such a claim. However, this also means that those who wish to understand the plight of the German department store must start their research into the causes elsewhere. Conversely, the micro-location is a veritable asset from which department stores can benefit significantly. Indeed, this asset could be the starting point for a renaissance of the department store. However, even in those locations where such a renaissance is utopian owing to other obstacles, a favourable micro-location expands the potential spectrum for re-positioning and conversion of the properties concerned.

5. „No department store is also no solution“

Department stores are suffering without question from declining footfall, increasing competition, online retail and many home-made problems. Among these is their loss of profile. The one-time strength of department stores as an „everything under one roof“ concept can no longer be implemented in its original form today since even department stores no longer have sufficient sales area at their disposal. However, this does not mean that the concept is wrong in itself. On the contrary, at a time

when retail is becoming increasingly specialised and differentiated, there is a place for precisely this concept. The tremendous success of Amazon is not least based upon the fact that it sells almost everything. Department stores conceivably have the right conditions to become the Amazon of the „real world“. To do so, they must translate their „brand essence“ of „everything under one roof“ into the modern day by incorporating a click-and-collect facility, for example, and achieving a cohesive marriage of online and offline offerings. Then, department stores could offer customers what they once so admired in these stores: good service, a large assortment and everything within close proximity - all in all a convenient shopping experience. This is undoubtedly what many people still want and Peter Praschl was probably speaking to their hearts when he wrote in „Die Welt“ newspaper: „No department store is also no solution“.

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