European Commercial – November 2021

SPOTLIGHT
Savills Research

Retail Parks Europe

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• Occupier trends • Capital markets • Outlook

THE FUTURE OF RETAIL PARKS

Not so long ago the retail park seemed like the shopping format that the future left behind. Too far from anywhere, too reliant on the car, and with only a few stores on site, many too limited to feel much like a shopping destination. But the pandemic changed most things, and retail parks are no exception.
Lockdowns across Europe have generated new hobbies and leisure pursuits. DIY, gardening and home gyms have underpinned sales for typical retail park occupiers. Thus footfall and sales declined less severely at retail parks during the pandemic than they did at shopping centres and high street shops. Investors looking for retail are highly focussed on formats driven by value, convenience and frequent visits, and which have capacity to service e-commerce functions.
Their position in open-air, large scale formats that are easily accessible by car has now flipped from a negative to a positive.
It looks as though retail park assets have a firm place in the sector's future.
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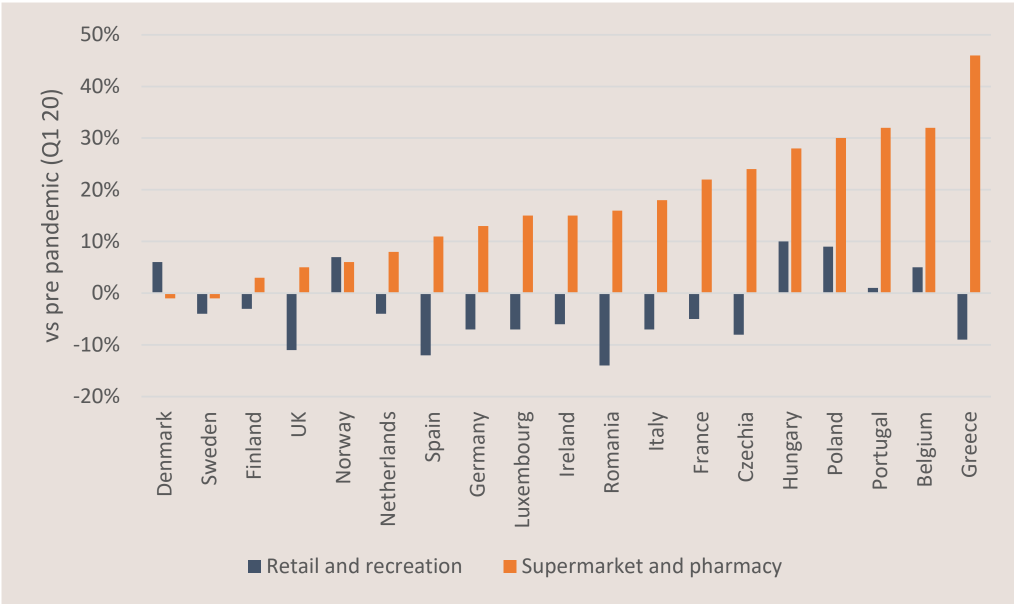
Google mobility data (12/11/21) Movement trends in convenience places are above Q1 2020 levels



Source: Google mobility

Resilience drives performance

Retail parks emerged as the most resilient retail sector during the pandemic, across most European markets.

The most resilient retail sector during the pandemic

Retail park footfall and sales experienced a less dramatic decline compared to shopping centres and main high streets, and recovered faster with the reopening of stores after the lockdown. Consumers have showed preference to open air, large-scale shopping formats, easily accessible by car, where social distancing and hygiene protocols have been easier to follow.

According to the British Retail Consortium, in the UK total retail footfall in October was 13.7% below pre-pandemic levels, with high streets at -18.3%, shopping centres at -33.6% and retail parks at just -0.4%. Spain's retail footfall was down 10.2%, Germany down by 26.2%, and Italy and France declining 34.6% and 34.9%, respectively.

Latest Google mobility data, which show movement trends across different categories of places, indicate that overall footfall in Retail & Recreation places (restaurants, cafés, shopping centres, cinemas etc.) is close to 2020 levels at -3%, while Grocery & Pharmacy locations, which represent convenience retailing are 17% above Q1 2020 levels.

According to Eurostat, the total volume of retail trade picked up in May and June, but has been slowing down ever since. September retail trade volume was down -0.2% on a monthly basis, but still 3.2% up compared to last year. Food (0.8%) and Fuel (1.0%) were the only segments where trade volumes increased slightly vs the previous month.

During periods of crisis, consumer spending typically shifts towards essential goods and value shopping, which are the key product categories for retail parks. This was exacerbated during the pandemic, as shops selling essential goods, such as supermarkets and pharmacies, were the only ones allowed to remain open. The data demonstrate that focus on convenience and essential goods continued after restrictions were lifted.

Value operators drive demand for retail park units

Since the start of the pandemic, people have developed new habits and routines. While spending all their time at home during lockdown, they picked up

> “During periods of crisis, consumer spending typically shifts towards essential goods and value shopping, which are the key product categories for retail parks.”

European retail trade volume was 3.2% up compared to last year in September 2021.

The European average prime achievable retail warehousing rent is at €17.5/sq m per month

In Q3 21 the prime the average retail warehousing yield (5.43%) fully converged with the average prime shopping centre yield

Retail parks and retail warehouses accounted for over 33% of the total retail investment activity this year, up from a five year average of 18%

The share of online sales in Europe is due to increase from 18% in 2020 to almost 25% in 2025

new hobbies, did more DIY and gardening, set-up home gyms, acquired new pets and cooked more at home. These trends have underpinned sales in certain product categories such as food stores, furniture and homeware, sports equipment, gardening, sportswear, pet shops, toy shops etc., which are typical retail park occupiers.

Value oriented operators such as Lidl, Aldi, and Kaufland in the food segment have been driving acquisition activity. Furniture (IKEA, JYSK, Pepco), electrical (Media Markt), and DIY (Leroy Merlin) operators are also expanding in well-performing or newly developed schemes across Europe.

With the challenges that the retail sector has faced over the last decade, including the growth of e-commerce and more recently the COVID crisis, retailers have been increasingly keen to seek more affordable rent agreements. The large and comparatively low-rented units combined with high car parking provision and good accessibility, means the sector has proven to be ideally suited for servicing click-and-collect orders, customer returns and home deliveries.

In addition to food retailers, mass market fashion retailers (Deichmann, Next, Clarks) and sportswear chains (Sports Direct, JDSports) have also embraced the concept. The extended and more diverse tenant mix of the new generation retail parks, is often complemented with leisure and Food & Beverage (F&B) offer. Domestic and international F&B brands are exploring expansion opportunities in this market segment.

Rents remain stable

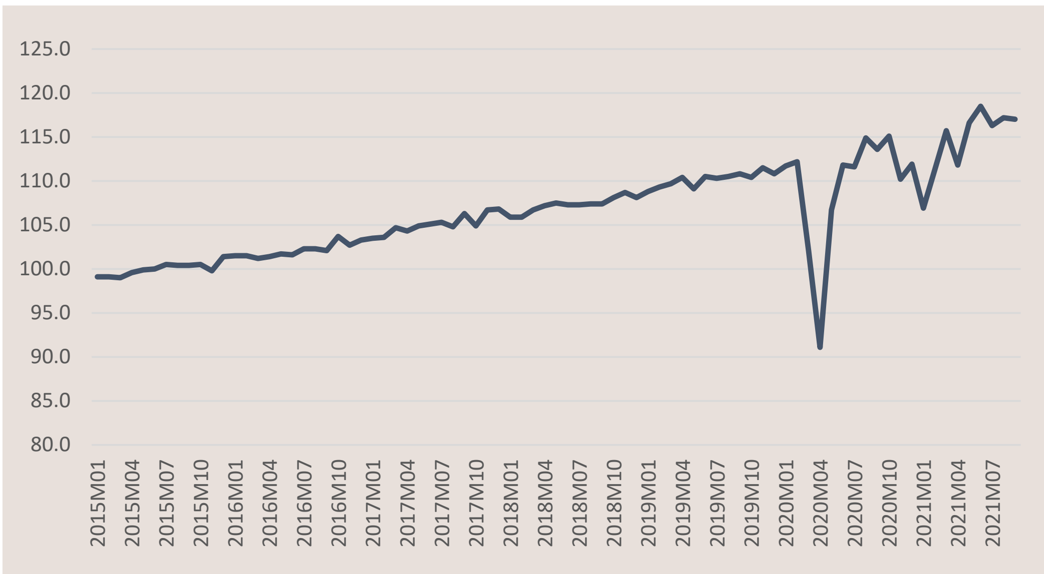
Although rental discounts in shopping centres have increased as a result of the health crisis, these discounts have not become a trend in the best retail parks due to their resilient performance and high occupancy. Average prime achievable rents are at €17.5/sq m per month. Prime rents have increased in Helsinki (3.4% yoy), while they remained stable in other markets.

The highest achievable rents can be found in Dublin, more than double the European average (€38/sq m), followed by Helsinki and Copenhagen, while the lowest rents are achievable in Lisbon (€10/sq m) and Warsaw (€12/sq m).

RENT COLLECTION

Rent payments on existing leases shines more light on how well the retail warehouse sector is performing versus other asset classes in response to the pandemic. Many retailers have of course struggled to make payments due to prolonged trade inactivity throughout the lockdowns. However, with much more of the retail warehouse sector considered to be 'essential' during these periods the sectors' resilience has been further reflected in the proportion of rent and service charge payments that have been made over the last 18 months. The most recent statistics highlight tenants on Savills UK managed retail parks paid 61% of the rent and 47% of service charge due in Q3 2021. Shopping centres however, remain lower at 57% for rent and 35% for service charge collection.

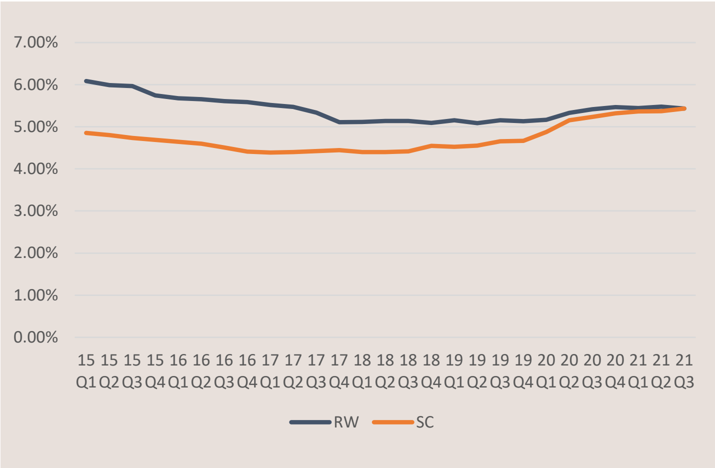
European retail trade index Despite a temporary dip retail trade is above last year's level



Source: Eurostat

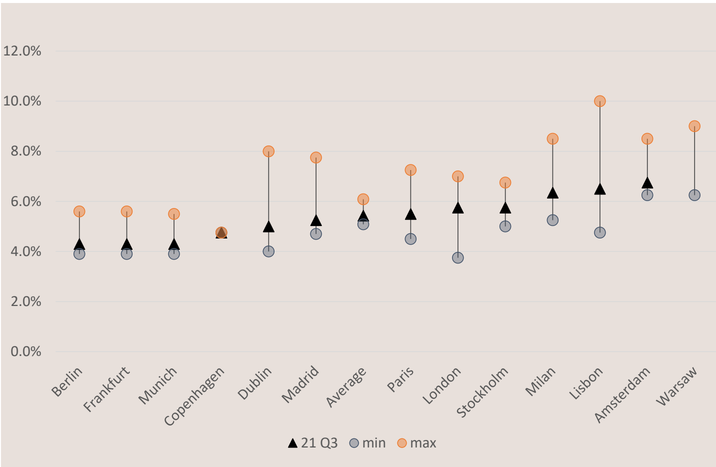
29% The annual increase of investment into retail parks during the first three quarters of the year

Prime retail warehousing yields vs shopping centre yields For the first time they have fully converged



Source: Savills

Prime retail warehousing yields vs the market cycle In most markets they are still above their past peak



Source: Savills

Capital market trends

Retail parks and retail warehouses accounted for over 33% of the total retail investment activity this year, up from a five year average of 18%. Investors looking to meet higher return thresholds while managing income risk have discerned that retail parks and grocery stores are often located close to population centres, and are generally less exposed to changes in discretionary spending due to downturns or public health restrictions. In the first three quarters of the year, more than €5.1bn were invested in retail parks and retail warehouses, across nine European markets. This is 29% up yoy and 20% above the five year average. Q3 alone was 46% up yoy. Activity was driven by the UK, German and French markets, which captured 46%, 37% and 12% of the total respectively.

Retail parks yields first time below shopping centre yields

The defensive characteristics of the convenience sector have been driving investor confidence. This is also reflected in the narrowing of the yield gap between shopping centres and retail warehouses over the past quarters. In Q3 21 and for the first time in our historic series, the prime average retail warehousing (RW) yield (5.43%) fully converged with the average prime shopping centre yield. Since the end of 2019, the average prime RW yield has been gradually moving out. Q3 2021 is the first quarter since Q4 2017 that it was lower compared to a quarter ago, by 5bps. On an annual basis, prime RW yields have softened in Amsterdam (25 bps), Madrid (25 bps), Germany (20 ps) and Milan (10 bps).

The strongest quarterly yield compression was noted in Spain (-25 bps) and in the UK (-25 bps). Pricing in these markets is effectively reverting to their pre-pandemic levels. In the rest of the markets prime yields remained stable on a quarterly basis.

OCCUPIER TRENDS - COUNTRY SNAPSHOTS

SPAIN

In Spain supermarkets are increasingly taking space in retail parks, as they can guarantee daily returning visits. Lidl and Aldi have aggressive expansion plans and part of these requirements will be fulfilled in retail parks. Traditional operators are reviewing their expansion strategies, under the impact of rising online sales and they focus on strong performing schemes for new openings. Besides, new operators have emerged and gained foothold in this market; Sports Direct is aiming to open 10 stores by the end of the year, Pepco household store is looking for units in cities with more than 50,000 inhabitants, Italian Mondo Convenienza furniture brand is making its debut in Spain and several restaurant brands such as Popeyes, Pepe Taco and Carl's Jr are expanding nationally. Leisure operators also take positions in schemes that combine convenience with experience. Climbat, part of French group ABEO plans to open six centres across Spain. Dock39, a family entertainment centre with four locations in Spain is looking to grow further via retail parks.

CZECH REPUBLIC

Despite the Covid-19 pandemic, several new retailers entered the retail park scene in the Czech Republic in 2020 and all of them have expanded rapidly in 2021. Dutch non-food discounter Action opened its first five stores in 2020 and added another 16 new shops in 2021. NKD, a leading apparel retailer in the discount sector, has grown to the current 25 stores and TEDi operates 13 shops. The well-established retailers who usually occupy space in traditional retail parks, like KiK or Pepco, also continue expanding. KiK planned to open 10 new stores in 2021, while Pepco aimed for 25 new openings. The fastest growing supermarket chain in the country this year is Lidl, who intended to expand their portfolio by 25 new shops in 2021, although only some of Lidl's shops are found within retail parks. Billa also follows their expansion path and plans to open 15 stores in 2021.

FINLAND

In Finland, Nordic brands (Finnish included) and operators dominate the retail market and they are major tenants in retail warehouses as well. Brands such as Motonet, XXL, Jysk, Tokmanni, Ikea, Gigantti, Stadium, Budget Sport, Verkkokauppa.com, Varuste.net, Byggmax, Puuilo, as well as major hypermarkets such as Prisma and Citymarket, and large supermarkets such as Lidl are main tenants in many retail parks. Services such as veterinary hospitals, playgrounds and other adventure and sport centers have entered retail parks already a few years ago.

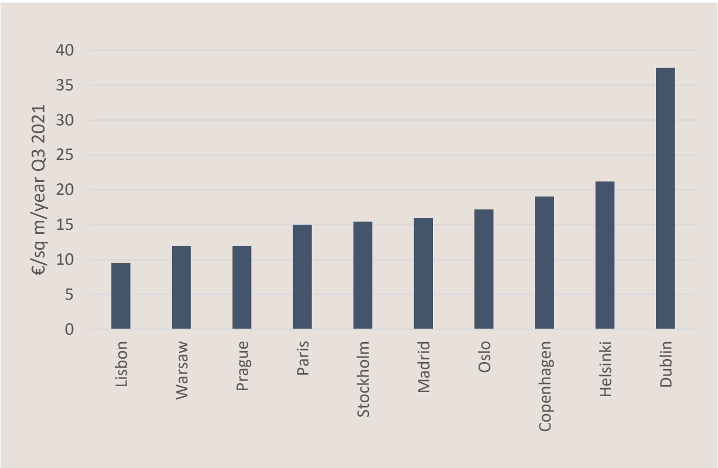
UK

Despite the unforeseen reduction in consumer activity across our physical retail environments, retail operators have still been keen to take space. 2020 saw 701 new openings across the market, some way short of the decade average at 839 but certainly not a disaster when you consider the perilous position some retailers found themselves at the onset of the pandemic. For many, unable to trade for large periods, expansion plans were subsequently put on hold for large parts of the last year.
The results for Q1 2021 certainly seem to suggest the strong appetite for opening new stores has returned. So far, we have seen 375, suggesting that if the same velocity persists, we could potentially achieve results similar to those seen in 2019, a record year in terms of the number of new store openings in the sector. As much as 40% of units taken in Q1 2021 have been for value-oriented brands, such as Lidl, Aldi, B&M Bargains and others.

ITALY

The Italian market is characterised by three main types of retail parks
The most widespread formula is composed by small retail warehouses born along the main road axes promoted by local developers, this is the formula that has seen the greatest development in the last 2- 3 years.
The merchandising mix usually comprises a food anchor, generally a supermarket or a discount store, as well as pet-shops, health&beauty and home goods. The second type of retail parks were created to integrate shopping centers, often developed by the same property, with the aim to accommodate those brands that can't find a location inside the mall due to their large size (Decathlon, DIY, Furnitures). In this case, the attractiveness of the retail pole is strengthened by the different activities present. Large size retail parks in Italy are limited and in any case constitute successful cases due to the excellent performances they have been able to demonstrate over the years. The strength of the formula is also confirmed by the openings that took place in the months of the pandemic with the extension of "Da Vinci Village" in Rome (24,000 sq m), "Serravalle Retail park" in Serravalle Scrivia (35,000 sq m) and the new construction of "Area 151" in Pederobba (TV) with GLA of 24,400 sq m and "Parco 51" in Pomezia (RM) for 20,000 sq m.
In 2021 Immofinanz entered in Italian market as investors buying an existing retail park rebranding it as STOP SHOP. Immofinanz is the owner of 90 commercial parks distributed in 9 countries in Italy and has acquired the "San Fiore" retail park in Conegliano (TV) for a total Gla of 26,500 sq m.

Prime retail park rents are adapting to new product categories entering the sector



Source: Savills

Retailing in transition

The defensive characteristics of retail parks, should not make us oblivious to the fact that the sector will face challenges in the coming years.

The whole retail sector has already been in transition before the pandemic. In the UK, e-commerce had reached 20% of total retail sales already since 2019. Retail failures and rising vacancies forced landlords and public authorities to rethink the future of retail parks, leading to more flexible planning that has allowed the repositioning of schemes. Planning regulations have been revised to allow new land uses in sites with under-performing parks. Some of them have been redeveloped to include residential units, addressing the pressing issue of housing shortages in some parts of the country.

In Europe, despite the fact that online retail penetration has been slower and the supply of retail parks per capita is below UK levels, an increasing amount of the stock is becoming dated. Several retail park owners and investors have identified opportunities for redevelopment and expansion of existing schemes and have enhanced the offer with new product categories, leisure, F&B and even clinics. Moreover, there is a growing focus on the development and repositioning of smaller schemes in secondary cities, with a focus on convenience and services. The schemes, that have focused on improving the design and optimising their tenant mix, have also been able to respond successfully to the changing needs and priorities of shoppers during the current health crisis.

In Spain, Pelayo Capital, the A Coruña-based investment fund is repurposing the former Dolce Vita Coruña shopping centre into a 50,500 sq m state-of-the-art retail park, named Breogán Park. The scheme, which is aimed to open during the first months of 2022, will include 30 retail warehouses, restaurants, gym or co-working, featuring a central grove with direct entrances to the retail units.

Prospects for hybrid operation

The share of online sales in Europe is due to increase from 18% in 2020 to almost 25% in 2025 (Forrester Analytics) challenging traditional retail formats. But challenges come with opportunities. Whilst less retail space will be required in the future, still the majority of retail sales will be taking place in physical stores. Yet, consumers are shopping through multiple channels and retailers need to offer omnichannel options to their customers.

Retail parks are well placed to combine traditional with online retail in one location. Retail parks are increasingly seen as a hybrid operation providing in-store retailing with last mile delivery fulfilment options. It could be argued that fulfilling online orders through the store, essentially translates to store sales; at the very least it relies on the relationship with the physical store, highlighting its true value and continued importance going forward.

The schemes that have lost their attractiveness as retail destinations, can be re-purposed to fulfilment centres, in response to the rising need for last-mile logistics, benefiting from good accessibility and proximity to dense urban areas. Last year for example, we saw Prologis buying Ravenside retail Park in North London in order to expand its distribution network.

Retail parks need to adapt to mobility shift

An additional consideration for the long run is the expected rise in the use of zero emission cars. Future customers who will be users of electric vehicles, will expect to be able to charge their cars, wherever they stop; therefore the installation of charge points becomes essential element of retail park infrastructure.

In the UK, retail estate developer Brookhouse Group in partnership with Engenie, has opened rapid electric vehicle (EV) charging points at its busiest retail parks.

In the Czech Republic, Lidl is installing EV quick charging points at their stores and allows their customers to use these free of charge. The retailer started to offer charging points for e-bikes and is focusing on expanding these as well. Aside from Lidl, the network of EV charging points is massively expanding with many retail parks and shopping centres already connected.

Given the higher cost of EVs, it is likely that overall car ownership will drop and should see a rise in the use of public transportation, walking and cycling. This shift, combined with the growth of working from home, will benefit local convenience stores, which have already experienced a revival during lockdown. In response to this trend, major supermarket brands, have re-evaluated their store portfolio and are opening smaller formats (up to 1,000-1,500 sq m). In Italy Esselunga has announced plans to expand the roll-out of its La Esse proximity store format. SPAR Netherlands has launched a new convenience concept, SPAR City small In the UK, Tesco and Amazon (Fresh) have opened smaller stores in central London, and are experimenting with till-free technologies, that aim to maximize convenience, through seamless checkout. Sainsbury's has also joined forces with Amazon to pilot a cashier-less stores in London. Electrical retailer Media Markt and DIY Leroy Merlin are exploring the opening of smaller urban stores too. IKEA is opening small-format stores in urban areas (Vienna, Piraeus, Madrid, Barcelona), where customers can buy accessories and smaller furniture, have a coffee or a meal at the restaurant and order larger items for next-day home delivery.

Retail parks will remain relevant, as long as they address the evolving consumer needs. Regional parks, which require the use of car, need to offer a purpose to consumers to visit them; free parking, easy access, value and convenience can be complemented with F&B and unique leisure experiences (climbing, karting, family entertainment) and become destinations where customers can spend the day. Mitiska extended Parc Val Saint-Clair near Caen in France with the inclusion of EKART (electric indoor karting). The retail park is adjacent to a Carrefour hypermarket, comprising 18 units occupied by tenants such as Electro Depot, Action, Sport 2000, KFC, Chaussea and Maxi Zoo.

Climbat is a leading operator in the world of climbing gyms. It is active in France and plans to have 30 centres in Europe by 2023. The average area off Climbat centres is around 1,200 sq m and could be located in retail parks.

On the other hand smaller retail parks in easily accessible locations by bike, walking and public transport, will focus on convenience, services and a mix of uses that can generate frequent visits. For example Parc de l'Europe, developed by Mitiska in Wavre, Belgium, combines retail with SME units (for production, storage and distribution), as well as co-working space, and is within walking distance from the local train station.

Meeting ESG requirements

Throughout the epidemic, there has been an increase in attention to ESG, which is expected to continue in 2022

Environmentally, retail has a large carbon footprint, with bricks and mortar emitting significant operational and embodied carbon emissions. The design of new generation retail parks should aim to minimize the environmental impact of the building, through energy and water efficiency methods, use of sustainable materials and landscaping.

In Mechelen, Belgium, Mitiska opened Malinas retail park, which has been designed to be CO2 neutral and to achieve and 'Excellent' rating on the BREEAM scale. The park features a 1.2-hectare reed field, which also serves as a natural rainwater buffer, and over 200 native trees have been planted on site. The entire rear wall of the retail park is covered by an eco-green façade and part of the roof area is green. The roof area also features 6,300 solar panels which generate the equivalent electrical requirements of 700 families, with excess solar energy stored in an on-site smart battery.

Significant share of retail park stock in western Europe was developed over 15 years ago, which means that older schemes are in need of refurbishment and retrofitting, in order to improve their environmental performance.

For example, The Leaf Shopping is a large re-development by Redevco in Belgium, which opened in 2018 and received a BREEAM Excellent rating. The development is based on the re-use of sustainable materials, over 50% of the total roof surface is green, while PV panels are designed to generate 60% of tenant's electricity demand.

In France, the Climate and Resilience Act voted last summer, amongst others, aims to limit new constructions and favours refurbishment and re-purposing where needed. New retail developments are likely to be scarce in the future and instead we expect to see more redevelopment projects aiming to upgrade existing parks. Over half of the retail projects in the pipeline for the next three years in France are extensions and refurbishments.

COP26: DECLARATION TO COMMIT TO ZERO EMISSION CARS

During COP26 30 countries and some of the world's leading automotive companies signed a declaration where they commit to phase out gasoline and diesel-powered motor vehicles by 2040 and replace them with electric cars and trucks. The declaration also acknowledged the need for a wider system transformation of road transport, to include and encourage cycling and public transport.

2020 was a record year for EV sales globally, against a backdrop of a declining overall vehicle market due to the global pandemic. Europe was the driver of growth in 2020, accounting for 43% of global EV sales. New EV registrations totalled 1.4 million with a total market share of 10%. This surge in European EV registrations reflect a number of policy measures and subsidy schemes for EVs as part of stimulus packages to counter the effects of the pandemic.

BIG BOX STORES AS MICRO_FULFILMENT CENTRES

In more advanced markets in terms of online penetration, such as the US and the UK, big box stores operate as in-store micro-fulfilment centres for online delivery at the back of customer facing stores. This is common in the food and grocery sector, which requires quick and easy access to their customers, as it often involves sensitive, temperature control products. But it is not just supermarket operators that have begun to recognise the importance of their out-of-town store network in fulfilling online consumer demand. For Kingfisher in the UK, growing online sales is a key strategic priority, with investment in the channel allowing them to respond quickly and effectively to changing consumer behaviour during COVID-19. Online sales rose 158% during FY2020/21, driven by strong growth in click-and collect(+226%) which now accounts for 78% of group online sales, up 16ppts on last year. In other words, more than three quarters of their online sales require their network of stores for fulfilment, which of course has the added bonus of driving additional consumer sales to the store at the point it is collected.

Selected retail park/warehouse investment transactions in Q1-Q3 2021

Date	Country/ City	Property	Buyer	Seller	Price
Q2 2021	UK	Seven retail park portfolio	Brookfield Asset Management	Hammerson Plc	€330m
Q2 2021	France	Three Decathlon stores	Exeter Property Group	Decathlon	€70m
Q1 2021	Germany	Retail park, Mönchengladbach	Hahn-Immobilien Beteiligungs AG	German investor	€60.6m
Q2 2021	Spain	IKEA, Palma de Mallorca	AB Sagax	Corpfin	€50m
Q2 2021	Italy	Retail Park Parco Fiore ,Treviso	Immofinanz	Barings	€35m
Q3 2021	Netherlands	Retail Warehouse, Arnhem	Mitiska REIM / Glow Real Estate	Highbrook Investors	€17.6m
Q3 2021	Czech R.	OC Opatovská retail park, Prague	Conseq	TTP Invest	€16m
Q1 2021	Sweden	Retail warehouse portfolio	Stenhus Fastigheter	Ture Fastighets AB	€12.6m

Source: Savills

OUTLOOK

- Demand for value goods is expected to continue, with inflationary pressures causing uncertainty around the future strength of disposable incomes. Retail park offer is expected to remain attractive for consumers, especially convenience driven schemes with foods-tore anchor.
- Many consumers are expected to continue investing in their homes, through furniture and DIY sales, especially in cities with growing populations (German cities, Dutch cities, Copenhagen, Dublin, Warsaw) and rising disposable incomes (Copenhagen, Warsaw).
- The growth of click and collect is predicted to expand strongly over the coming years (Global Data), becoming a key growth area for many retail operators. Retail parks are well placed to capture large part of this trend and to benefit from the in-store sales generated.
- The propensity of retail operators to recognize retail warehousing as a solution to their 'last mile' customer fulfilment requirements is becoming increasingly common and will undoubtedly gain more traction in the coming months and years. It is why we have begun to see much more interest from investors, many exploring the sector for the first time.
- We expect higher supply of value-add opportunities in the market, especially in Western European markets where older stock is in need of redevelopment. Product may also come on to the market from owners that are looking to reduce their exposure to retail.
- Strong recovery in consumer spending may support some optimism for retailer performance and covenants in some locations and resilient assets. This may lead to further polarisation between prime and secondary pricing.

Savills Commercial Research
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