European Investment – February 2022

SPOTLIGHT

Savills Research

European Retail

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● Investment trends ● Yield cycle ● Supply and e-commerce ● Outlook

> For the first time in our historic series, the average prime retail warehousing yield is below the average prime shopping centre yield

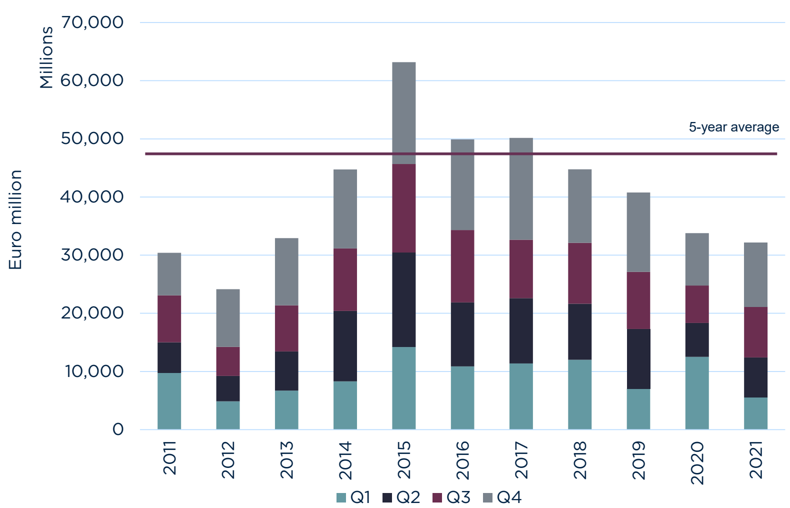
Retail activity picked up in the final quarters of 2021

For the first time since 2015 quarterly investment in retail was higher yoy in Q2 2021. Retail parks and supermarkets are driving demand.

The share of retail investment at historic low level

- Investment into retail assets was down for the fourth year in a row at €32.2bn, across the 13 European markets that we cover. This figure was 5% down (year on year) YoY and -27% below the five-year average. However, Q2 was the first quarter since 2015 that was a higher YoY. At €6.9bn retail turnover was 18% up compared to the same quarter in 2020. Q3 and Q4 were 38% and 34% up YoY respectively. Q4 turnover was in line with the five-year average quarterly activity at around €11bn. Still, the retail share of total investment activity in Europe dropped further to 10%.
- The core markets, UK, Germany and France, captured 72% of the activity. There are some signs of recovery in the UK, Italy and the Nordics, where retail turnover was higher compared to last year. In the UK it was 46% up YoY driven by investments in the retail park and food sectors, which exceeded €4.8bn. In the Nordics these sectors were up 67% vs the five-year average at close to €2bn. In Germany activity was also underpinned by the convenience sector (retail parks/ warehouses and food sectors) which was 30% up vs the five-year average at €5.3bn, capturing almost 60% of total retail turnover. In Italy, on the other hand, activity was up by 13% YoY mainly thanks to high street and luxury segments. Retail represented 15% of annual investment activity.

European retail investment was 5% down yoy in 2021



Source: Savills Research

The opposite fortunes of shopping centres and retail parks

- Retail parks and retail warehouses accounted for over 30% of the total retail investment activity this year, up from a five-year average of 20%. 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.
- Between 2013 and 2019 supermarkets/ hypermarkets accounted for no more than 7% of total retail investment. In 2020 and 2021 their share increased to 20% and 17% respectively.
- Therefore, combined investment in the convenience sector (retail parks/warehouses, supermarkets/hypermarkets) totalled close to €14bn across Europe, corresponding to almost half of the total retail investment turnover, compared to 23% in 2013.
- Conversely, the share of shopping centre investment has been falling along with the rise of e-commerce and the increasing uncertainty around the future of physical retail, which has exacerbated during the pandemic. Shopping centres accounted for 41% of the activity in 2013 and their share dropped to 17% in 2021.

Retail warehousing yields dropped below shopping centre yields for the first time on record

- Shopping centre yields have been steadily moving out since 2018, a trend that has accelerated since the first lockdowns in early 2020. Shopping malls were forced to close for long periods of time resulting in higher uncertainty amongst investors and a sharp drop in transactions. Prime shopping centre yields reached a high of 5.45% in Q4 2021, vs the last cyclical peak of prices at 4.5% in Q3 2018.
- The markets that have experienced the strongest price corrections (current prime shopping centre yield has moved out by 25% or more compared to its last peak) are the most liquid ones, which are also characterised by higher than average e-commerce penetration, such as the UK, Germany, France and Ireland.
- Since the end of 2019, the average European prime retail warehousing yield has also been gradually moving out. Q3 2021 was the first quarter since Q4 2017 that retail warehousing yields moved in on a quarterly basis, by 5 bps on average to 5.43%. In the final quarter of the year we witnessed further compression trends for the best retail parks with the average prime retail warehousing yield moving in further to 5.16%. Quarterly yield compression was noted in London (-25 bps), Paris (-25 bps) and the German markets (-80 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.
- Prime yields have been moving in significantly in the food sector. The stability and length of income streams makes this segment desirable especially for investors with long-term liabilities. Since 2019 the average prime supermarket yield has moved in by 40 bps to 5.3%.

10% The retail investment share of total European property investment turnover; the lowest in our records

Investment into retail was down for the fourth year in a row at €32.2bn.

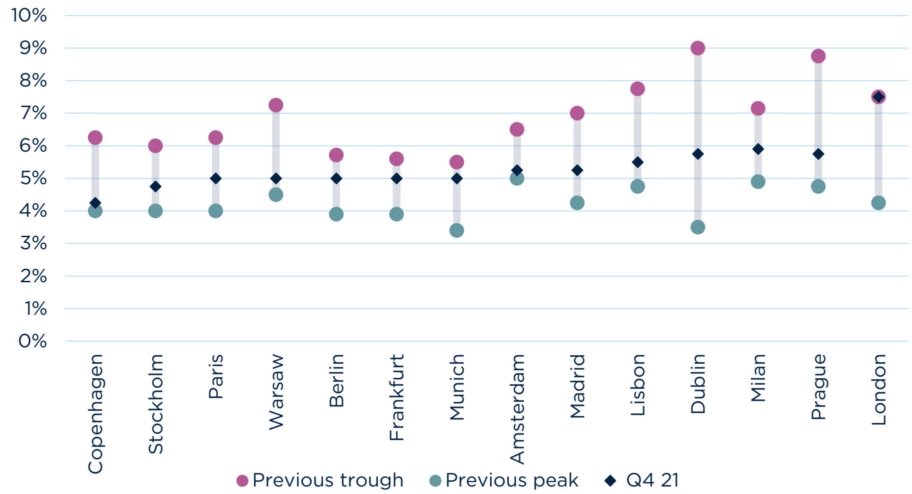
The core markets, UK, Germany and France captured 72% of the activity.

Retail parks and warehouses accounted for over 30% of the total retail turnover.

Prime retail warehousing yields moved in further to an average of 5.16% across Europe.

Since 2019 the average prime supermarket yield has moved in by 40bps to 5.3%

European prime shopping centre yields vs the cycle



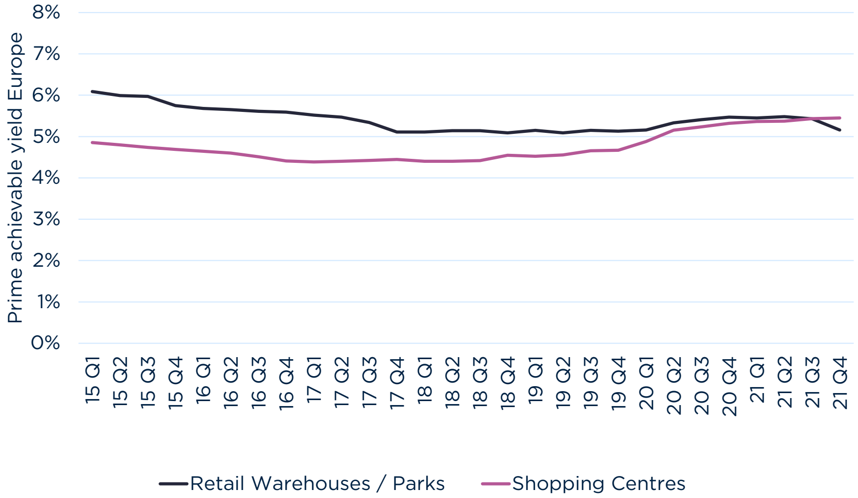
Source: Savills Research

The impact of e-commerce on retail supply

How is retail vacancy evolving in countries with large retail stock and high online sales penetration?

- The pandemic has accelerated the transition of the retail sector forcing retailers to adapt to a new reality, where the European consumer makes about one out of five purchases online on average.
- The UK, the most developed market in terms of online penetration, has seen online sales share reaching close to one third of total retail trade during the pandemic. With a shopping centre density of 260 sq m per 1,000 inhabitants (EU average 355) and a total retail supply of 1,080 sq m per 1,000 inhabitants (European average 1,340, GfK 2018), signs of oversupply were already evident pre-Covid-19. Vacancies have been rising in city centres and dated regional and urban schemes have become obsolete. The average high street vacancy has reached 14.5% and the average shopping centre vacancy 19.4% in Q1 2022.
- Last year, the surge in retail activity in the UK was driven by substantial discounts to justify the investment required for the complete re-purposing of these schemes. Local authorities have acquired town centre schemes for redevelopment purposes while private investors and end users (retailers) have bought underperforming schemes with repositioning/re-purposing potential.
- Overall retail supply as well as shopping centre density in the UK is below the European average according to GfK data. However the online retail sales penetration is the highest. Markets with a combination of above average online retail share and overall retail density include the Netherlands (19.7%, 1,600), Germany (16%, 1,450) and Denmark (15.4%, 1,420).
- In Germany high streets have been suffering a decline even before Covid-19. The pandemic has elevated further the risk of shop closures. Local authorities are looking for solutions to support smaller retailers and revive inner city shopping. As mentioned above, 60% of investment turnover last year was absorbed by the convenience sector, while prime shopping centre assets also attract some interest. Shopping centres in Germany account for about 12% of the total retail stock (vs 26% European average). Investors can benefit from higher returns following the recent repricing. Average prime SC yields are at 5%, vs a cyclical pricing low of 5.5%-5.6%.
- In Denmark, a big part of the shopping centre stock is in the hands of institutional investors, who have long-term investment strategies. Therefore, they have been upgrading their assets already before the pandemic, addressing the risks of the shift to online. Shopping centres account for about 23% of total retail stock. Cross border investors mainly consider retail parks and supermarkets, as elsewhere in Europe. The overall retail vacancy across the country was at 2.8% in Q4 2021, down from 2.94% in Q3.
- After a period of rising vacancies, the Netherlands experienced a rise in conversions of retail units to alternative uses. This has pushed down the total retail vacancy from 7.6% in the beginning of 2021 to 6.7% in Q1 2022. Investors have been focusing on local, food anchored shopping centres. Retail investment turnover was at €1.8bn, -35% down YoY.

Prime retail park yields vs prime shopping centre yields first time in the historic series the average retail park yield is lower



Source: Savills Research

Major retail deals Q4 2021

Date	Country/City	Property	Buyer	Seller	Price
Q4 2021	Italy	Retail element of Reale Compagnia Italiana Portfolio	The Blackstone Group	Reale Compagnia Italiana	>€800m
Q4 2021	France	Alta Retail Park Portfolio	Crédit Agricole Assurances	Altarea	€360m
Q4 2021	Sweden	Solna Centrum Portfolio	Alecta	Unibail-Rodamco -Westfield	€280m
Q4 2021	UK/Glasgow	Silverburn Shopping Centre	Henderson Park	Hammerson Plc	€165.2m
Q4 2021	Denmark/ Copenhagen	BIG Shopping Retail Park portfolio	M&G Real Estate	CBRE Investment Management/Portus	€151.9m
Q4 2021	Romania	Cora Hypermarket portfolio (Sale & Leaseback)	Supernova	Louis Delhaize Group	€150m
Q4 2021	Norway/Greater Oslo	Citycon portfolio	Clarksons Platou	Citycon	€145m
Q4 2021	Netherlands/Am-sterdam	Shopping Centre Waterlandplein	Heeneman & Part-ners	Private investor	€39.5m
Q4 2021	Czech Republic/ České Budějovice	Géčko Shopping centre	Undisclosed (Czech capital)	CPI	€30m
Q4 2021	Portugal/Lisbon	Saldanha Residence Shopping Center	BPI	Santander AM	€27m

Source: Savills Research

OUTLOOK

- **The gradual recovery from Covid-19 is leading to a revival of live shopping and socialising, which should support the industry recovery next year. After all, 72% of shopping on average will continue to take place in physical spaces. Consumer spending is forecast to rise by 4.2% across the euro area in 2022 and by 2.4% in 2023 after a strong bounce back in 2021. This should boost retailer confidence and support new openings in targeted locations.**

- **The evolution of shopping places will accelerate in order to respond to consumer expectations for a better omni-channel shopping experience and to reduce their carbon footprint. Tenant mix of shopping destinations will evolve to diversify away from fashion to include convenience shopping, services, clinics, health centres, co-working, and affordable housing in order to enhance daily footfall, community engagement and long-term viability.**

- **Landlords and tenants are reassessing the terms of their relationship, working closer together to achieve best results. More transparency and collaboration can have positive impact on performance, through the use and analysis of Big Data. In shopping centres we expect shorter leases and further downward adjustment of the fixed rent element, while the variable income element will gain weight. Retail warehousing rents have remained broadly stable over the past two years and we do not expect major changes.**

- **Food and Convenience sectors will prevail in investor retail strategies once again in 2022. Despite the inward yield movement trends, these two segments still provide higher initial yields and stable income streams (food sector). We believe that there will be less opportunities for investment in the food sector and this should shift even more capital towards retail parks and warehouses. The weight of capital in this market segment will lead to further yield compression.**

- **We expect more value-add opportunities to emerge this year. Big part of the retail stock requires active asset management, repositioning or re-purposing and retrofitting to meet future de-carbonisation targets. Convergence of buyer and seller pricing expectations will be the decisive factor to unlock opportunities.**

Savills Commercial Research
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