

# Briefing note

## Retail Hotspots 2020

November 2014

### Retailers expanding despite cautious consumers

■ Retailing is a cross border business and despite the headwinds from low consumer confidence, slow household spending growth and rising share of online retail sales, retailers continue to expand with new stores in popular shopping destinations in Europe. The importance of choosing the next location for a new store is greater than ever, as it should satisfy an omni-channel consumer who does not distinguish anymore between online and offline shopping.

■ Over the past five years, which coincided with the economic downswing, on the one hand retailers have been downsizing and rationalising their networks of stores in order to improve their profitability, on the other hand they have been looking for stores in the best locations of the busiest high streets and shopping centres (SC) in Europe. The correction of rental values (5% drop on average from peak to

trough for SC) and the occurrence of some availability from retailers who did not manage to survive the crisis have created space for entrants in Europe and for cross border expansion of European fascias. Currently rents for the best shopping centres and the most central high streets (HS) of the European capitals have fully recovered and in some cases retailers are once again required to pay premiums to secure the best spot for their stores.

### Seeking Hotspots beyond the capitals

■ The economic forecasts, still show some clouds over Europe, but the few sunny spells from some signs of economic recovery are a good incentive for retailers to continue seeking the next Hotspots for expansion. Beyond the capital cities of Europe, there are affluent catchments that already generate high levels of retail sales and at the same time offer a positive outlook with regards to future growth. Retailers are identifying these regions, where through a multichannel approach they will enhance their sales.

GRAPH 1  
**2014 shopping patterns vs 2020 growth** The lower spending countries will grow faster



Graph source: Savills, Oxford Economics

## SUMMARY

### Polish and Spanish regions will show highest growth in sales

■ Retailers are looking for the next Hotspots that fit into their omni-channel strategies. 2020 retail sales forecasts indicate that Polish and Spanish regions will account for almost 60% of the future Hotspots. French and German agglomerations account for another 30%.

■ In each of the identified Hotspots there are already a number of retailers with no representation yet, demonstrating the existing gaps in these markets. Over the past 18 months about one fifth of the new openings were in these Hotspots, with their majority in Spain and Poland.

■ New shopping centre openings have underpinned retailer expansion over the past 18 months, particularly in Poland, Spain and France. 61% of the recent openings were in shopping malls.

■ Developing Polish regions, recovering Spanish cities, secondary German agglomerations and affluent areas in developed Western markets will be the next step beyond the capitals for expanding cross border fascias

■ Methodology: In this report we focus on the top 10 performing regions of seven European markets (FR, DE, ES, BE, IT, NL, PL). The regions are selected based on the value of retail sales in 2014 and then they are ranked based on their 2015-2020 performance in terms of retail sales growth. In addition to identifying the future Hotspots, we have also performed an analysis of retailer expansion into these regions. We have monitored the openings of a selected number of apparel cross border retailers (a mix of 21 European and US Value/Mass/Mass + retail fascias) that are on expansionary mode in order to identify the potential gaps into these hotspots. Finally, we have distinguished between high street and shopping centre stock and openings in order to illustrate which is the most common route of expansion.

➔ ■ If we look into the future where are going to be the Hotspots for retailer expansion? Capital cities will always capture the largest share of shopping activity, but which are going to be the regions where consumers with rising disposable incomes and rising appetite for shopping will concentrate? And who are the retailers that are already expanding in these regions leading the way for more to follow?

■ The analysis shows that 35% of the agglomerations that are forecast to outperform in the countries studied are going to be in Poland and 24% in Spain. Retail sales in Poland are growing from a lower basis, while Spanish regions are recovering from a period of falling retail spending. These locations should comprise good future targets for Value, Mass and Mass + range retailers.

■ With already relatively high disposable income capabilities, French and German cities that will outperform the average account for about 14% each of the total Hotspots. These cities which in most cases have established retail markets, where mainstream European fascias are already present can offer opportunities for expansion to international Mass and Premium retailers that are relatively new in Europe and are looking for their next new target market.

## Are retailers already present in the Hotspots?

■ The analysis of the existing store network of a sample of cross border retailers has shown that only about one fifth of the total number of stores is located in the Hotspots, 14% in the capital cities and the remaining 65% in other secondary cities.

■ The dominance of capital cities is stronger in Belgium and France, where the share of retail stores in Brussels and Paris accounts for 22% and 20% respectively, while the distribution is more balanced in Germany and Italy where capital cities account for only 8% of the total number of stores.

■ Looking closely into the Hotspots, there are still retailers with no representation in most of them. On average 9 out of 21 retailers have not opened a store yet in these agglomerations. The ones which have the biggest gaps are the Hotspots in Poland and Germany.

## Recent openings: Spain and Poland Hotspots already on retailer radars

■ Over this period the selected retailers have opened about 630 stores in the countries covered in this report. However at the same time they have closed about 281 stores, with the majority in Italy (107) and Spain (98).

■ Although in terms of total number of openings the highest number was in France (206) followed by Spain (161), in terms of net additions to the existing network of stores, the highest were in Belgium (11%) and France (9%). This is an indication that retailers continue to expand their networks in countries with high affluence, where they can ensure good retail sales levels.

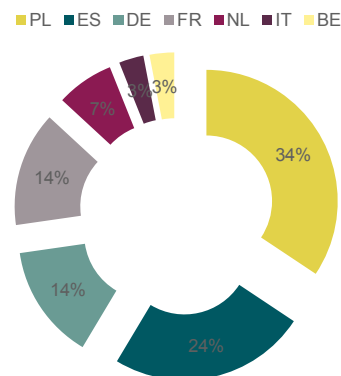
■ About one fifth (21%) of the openings were in the 2020 Hotspots, showing that there is still potential in these catchments for further expansion. The highest share captured by the future Hotspots was in Poland and Spain, where 57% and 42% of the new openings respectively were in these emerging locations. Retailers remained more focused on the established regions in Germany where Hotspots accounted for only 3%.

## High streets or Shopping Centres?

■ The distribution of stores between SCs and HSs is broadly balanced, which demonstrates that retailers have a balanced distribution of their network amongst the best high streets and best shopping centres trying to capture the optimum market share in their catchments. Over the past 18 months 61% of the new openings were in shopping centres (including Factory outlets) and 39% in the high street. These numbers were underpinned by the openings of new retail schemes in these regions.

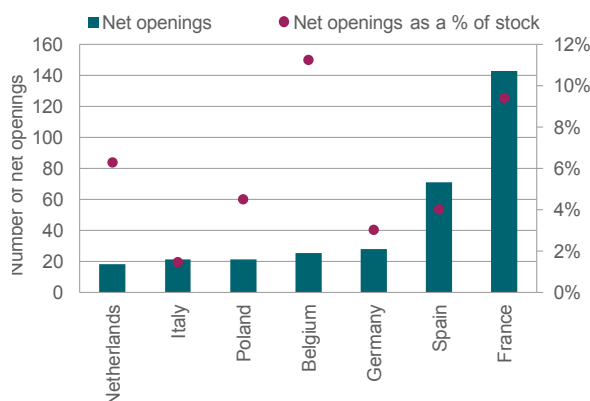
■ New shopping centre openings in Poland have achieved high occupancy rates showing retailer confidence in a growing market with aspirational consumers. Nevertheless several of the retailers analysed have not yet entered the Polish market, or are focusing in the most affluent region around the capital. In new shopping centres in the rest of the regions we find predominantly Value and Mass retailers, and significant share of local brands due to below average disposable income levels.

GRAPH 2 **Hotspots\* by country** developing regions in Spain and Poland lead growth



Graph source: Savills, \*Regions with above average retail sales growth 2014-20

GRAPH 3 **New retailer openings 2014** High spending markets still in focus



Graph source: Savills, Codata, Retail P

■ The low numbers of openings in Germany can be related to more restrictive planning regulations in relation to shopping centre developments, which has squeezed the pipeline figures lately (40% pa drop in total new openings in terms of GLA in 2013). Additionally, several recent openings regarded small scale downtown shopping centre galleries, which tend to cater for smaller catchments and therefore attract mostly Service, Value and Mass retailers who are not included in our basket of apparel fascias selected for this analysis.

■ Shopping centre openings have also slowed down in Spain over the past five years, nevertheless, the new

→ openings have attracted most of the retailers presented in this report. This is partly due to the strength of the Spanish fashion retail groups (Inditex, Mango, Desigual etc) and partly due to the anticipation of a recovery in consumer spending over the coming years.

■ Mature, affluent and consolidated markets such as France, Belgium and The Netherlands, continue to see a churn of retailers on the high street, who are trying to capture competitive positions in the market and at the same time recent shopping centres in France have also captured retailer attention. Mass+ and Premium retailers can expand more safely in these markets, which are characterised by higher spending power.

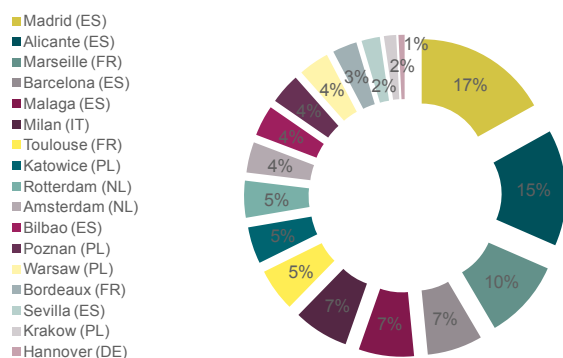
## Outlook

The economic uncertainty in Europe persists, and the impact on consumers is negative, nevertheless, shopping streets and malls will always comprise the most important open spaces in the cities, where people meet, socialise, shop and entertain themselves. Retailers need the exposure to the best of these spaces to exhibit their concepts and products and to offer the consumer a multichannel approach to shopping. We believe that retailers will fill the gaps in the 2020 Hotspots over the coming years, focusing on successful malls and busy streets. Developing Polish regions, recovering Spanish cities, secondary German agglomerations and affluent areas in developed Western markets can be the next step beyond the capitals for expanding cross border fascias. ■

TABLE 1  
**2020 Hotspots** Still space for expansion

City	Country	Total retail sales growth to 2020	Retail sales per working person	Number of retailers (out of 21) with no stores
Bydgoszcz	PL	20.0%	2,995	14
Lodz	PL	15.9%	3,231	11
Wroclaw	PL	20.0%	3,313	9
Krakow	PL	24.9%	3,314	10
Sosnowiec	PL	19.0%	3,452	18
Bielsko-Biala	PL	22.0%	3,559	15
Gdansk	PL	17.8%	3,662	11
Katowice	PL	17.6%	3,671	11
Poznan	PL	21.0%	3,693	9
Murcia	ES	11.8%	3,823	9
Alicante	ES	10.7%	4,078	7
Málaga	ES	14.8%	4,136	7
Sevilla	ES	11.0%	4,360	11
Warsaw	PL	24.2%	4,403	6
Bilbao	ES	10.1%	5,025	7
Madrid	ES	12.7%	5,159	2
Barcelona	ES	10.8%	5,361	3
Leipzig	DE	11.0%	5,622	10
Karlsruhe	DE	10.7%	6,230	13
Hannover	DE	10.7%	6,329	8
Bremen	DE	11.7%	6,806	12
Rotterdam	NL	9.8%	6,810	9
Amsterdam	NL	10.6%	7,102	5
Milano	IT	10.3%	7,553	3
Toulouse	FR	11.7%	9,684	5
Bordeaux	FR	12.9%	9,851	5
Nantes	FR	12.9%	10,037	6
Marseille	FR	9.8%	10,109	3
Waterloo	BE	11.2%	10,252	15

GRAPH 4  
**2014 openings in Hotspots** Spanish regions have attracted most openings



Graph source: Savills, Codata, RetailIP

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