



Savills World Research
European Retail

Spotlight **European Retail Warehouses**

November 2017



A new era for the retail warehousing sector

Changing consumer habits and e-commerce have changed the sector

■ The retail warehousing sector has had a tough decade, challenged by changing consumer habits and rising competition from e-commerce.

■ Consumer spending in Europe dropped from €2.64bn (EU28) in 2007 to €2.55 bn in 2013. Although this was only 3% drop, the impact on retail warehousing goods sectors has been higher, up to -10%. This has changed consumer habits, with value and convenience becoming top priorities.

■ Although retail sales have recovered and are expected to reach a new high this year, €2.86bn by end of the year, the biggest challenge for the sector has been the rising share of e-commerce, particularly in the retail warehousing product categories.

■ Online sales have increased by 2.5 times over the past decade, reaching various degrees of penetration, from 3.5%-5% in CEE and SEE, to 7.5%-10% in WE and up to 15.1% in Germany and 17.8% in the UK.

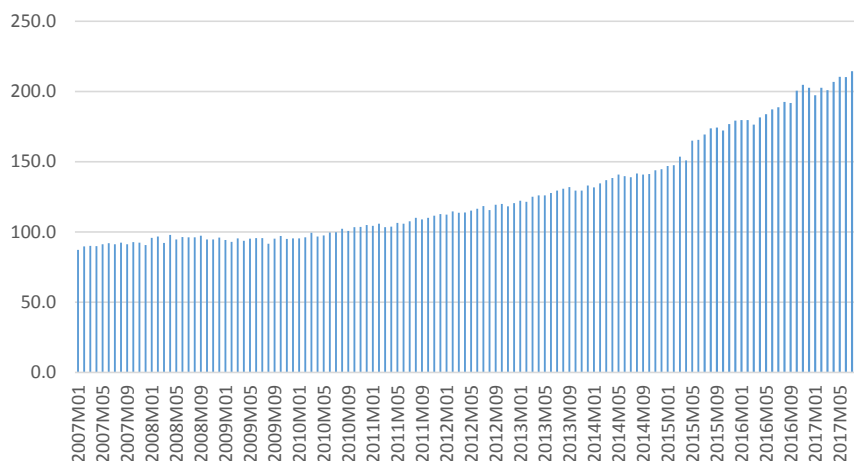
■ The result of this has been a number of retailer insolvencies in the sector leading to vacancies in retail parks. Many of the retailers that survived started downsizing to cope with the market share losses and to adapt to consumer habits.

■ Hypermarkets, have been downsizing in most countries, focusing more on food and less on durable goods and have been opening smaller convenience stores. Electronics retailers have also been downsizing but also introducing smaller 'in town' concepts to access the time poor consumer.

■ Retailers and landlords realised that the changes in the retail sector were structural than cyclical and that it was the time to 'adapt or die'. As consumers have adjusted their spending patterns during the GFC focusing on affordability and convenience, retailers have introduced 'value' lines of products, while discount / value retailers started expanding.

■ By now retail parks have become a location of choice for retailers that have been looking for cost effective space, where they can display their whole range of products. Additionally, well located parks with ample parking and efficiently sized warehousing space have become ideal 'click and collect' points.

FIGURE 1: Online sales are rising and account for about 16% of all retail sales in Europe (EU28 index)

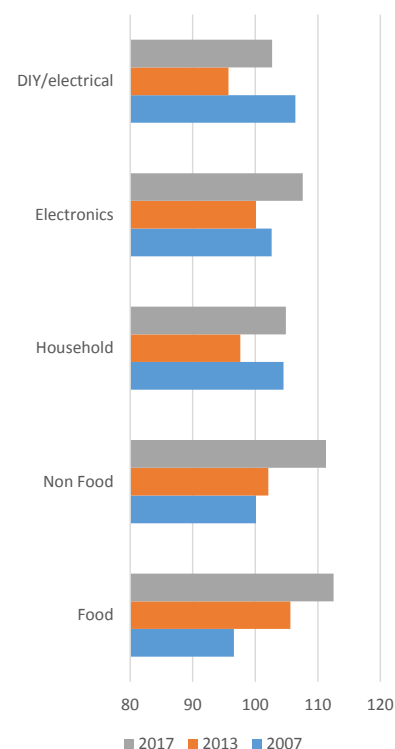


Source: Eurostat

Over the past decade
online sales increased by

2.5
times

FIGURE 2: Retail sales turnover index for retail warehousing product categories in EU28



Source: Eurostat

New perception, new positioning

Lower rents have attracted retailers from a wider range of categories

■ The perception of value retailers has changed and there is a realisation that low price does not mean low quality. In the UK value retailers have more than doubled their store count in out-of-town (OOT) schemes from 5,000 to 10,000 stores since 2014, which in many cases are anchors of OOT schemes (Lidl, Aldi).

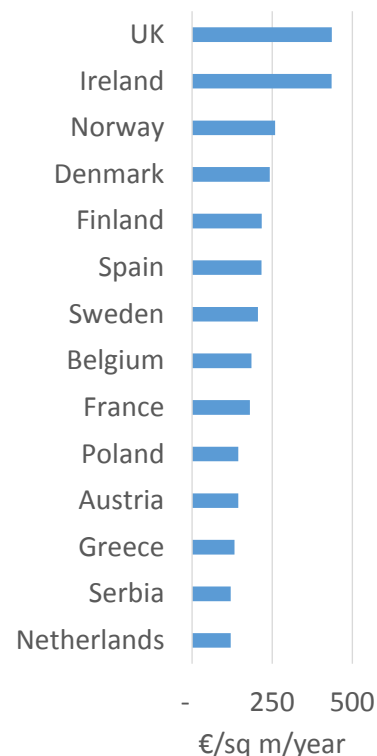
■ Some fashion high street brands (M&S, H&M, Next, TKMaxx in the UK, Globo Moda and Orchestra in Spain) are now taking an ever greater interest in retail parks, while the leisure component and F&B offer has an ever growing importance in retail park tenant mix and positioning. Often these retailers are filling voids created by downsizing and subdivision of larger units.

■ The changes in tenant mix and market positioning of retail parks have been facilitated by the efforts of owners, asset managers and developers of retail parks to 'adapt or die' in an evolving retail scene. Out-of-town schemes need to offer diverse mix of product categories, wide leisure and F&B offer and attractive environment in order to become a destination of choice. As competition is tougher around the major cities, where the best high street and shopping centre offer is concentrated, developers have been looking for market niches in undersupplied secondary cities.

■ Prime retail warehousing rents in Europe (10 markets), dropped by 18% from their highest level in Q4 2007 (€228/sq m/year average) to €186/sq m/year in Q4 2009 and they have stayed around that level for an extended period till Q4 2014 when they started picking up again. Currently (Q3 2017) the average prime rent for our survey area (12 markets) is 7% above the cyclical low level and still 13% below the past peak. The markets that have experienced the most significant annual rises this year are Norway (14.8%) and Spain (12.5%). The UK and Irish markets are the most expensive at €436/sq m/year, followed by Norway at €259 and Denmark at €242, while Spain has reached €216, close to Finland at €217.

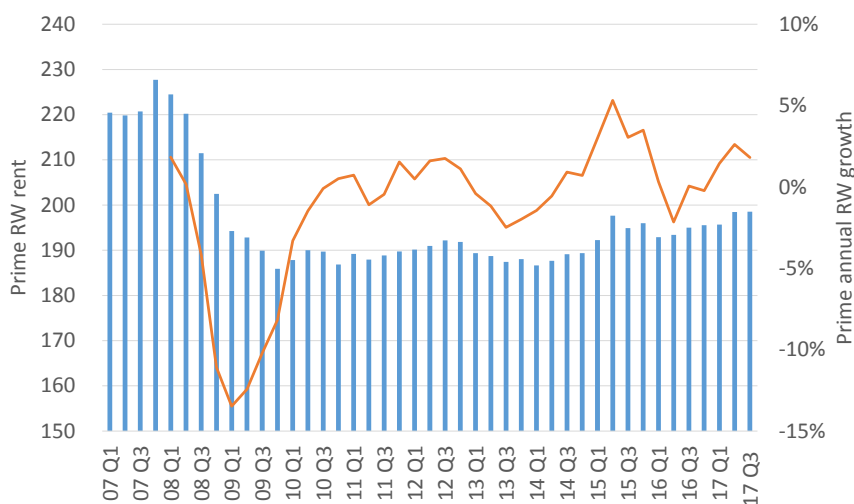
■ While in the previous cycle occupier demand and the expansion of the newly emerging retail park sector in Europe has driven rental growth, in the current cycle the pace of rental recovery is more modest, as retailers' margins are under pressure due to competition from online and rising investment costs into omni-channel strategies.

FIGURE 4: UK is the most expensive retail warehousing market



Source: Savills Research

FIGURE 3: Rising retailer demand for space in retail warehouses and parks has contributed to the recovery of the rental cycle



Source: Savills Research

217

Euro/sq m per year is the average prime retail warehousing rent in Europe

13%

Average prime retail warehousing rents are still below the past peak

Investor perception has also changed

Retail warehousing volumes have been rising and prime yields have been compressing

■ The improvement in the housing market has contributed towards an increase in consumer demand for housing related goods. Over the past four years retail sales in the food sector increased by 6.5%, in the non-food sector by 9%, while the rises specifically for household goods, electronics/electrical and DIY goods have increased by 7.4% on average. The result has been positive on the occupational markets driven by value retailers as well as other non-traditional retail warehousing retailers who take positions in renovated retail parks.

■ Investor perception for the sector has improved, and some players have chosen to take the opportunity to invest in a higher yielding, value-add product and to lead the restructuring of retail parks. So far in 2017 we have recorded a total of 139 Retail Park transactions in the markets we monitor, of which 82 were located in the UK, followed by 17 in Spain and 17 in France.

■ Overall, retail warehousing volumes (including supermarkets, supermarkets, retail parks and stand-alone units) in Europe (eight markets) have been rising at a significant pace (38% pa on average) since the bottom of the market in 2009. Indicatively the total volume last year (€11bn) was 4.2 times higher than the total of 2007. The highest increases over the past decade were noted in Germany (8.8 times) and Sweden (5.7 times).

In the first three quarters of the year the total volume was close to €6.6bn already 60% of last year's level and almost double the 10 year long term average. Germany (9% yoy) and Spain (14% yoy) were the only markets where volumes were higher compared to last year as most markets had very strong turnovers in 2015 or 2016.

■ Germany accounted for the lion's share of the activity at 41%, confirming its safe haven status at the top of investors' list. The UK followed in the second place at 27%, which has an established but also evolving retail warehousing sector that is ahead in the cycle of structural change. Spain and Sweden also shared about a quarter of the activity at 12% each. Transaction levels have risen significantly in recent years also in France which so far this year accounts for 6% for the activity. In all the markets there are many investor and developer initiatives to improve the performance of existing schemes, through active asset management, renovation and repositioning in the market.

■ The historic (10y) peak of the average prime European RW yield was 5.28% achieved in Q3 2007. 10 years later and following a sharp correction post GFC the average prime yield is still 45 bps below the last peak of the cycle at 5.73%. Prime yields have started compressing since Q4 2012 from the high level of 7.07%.

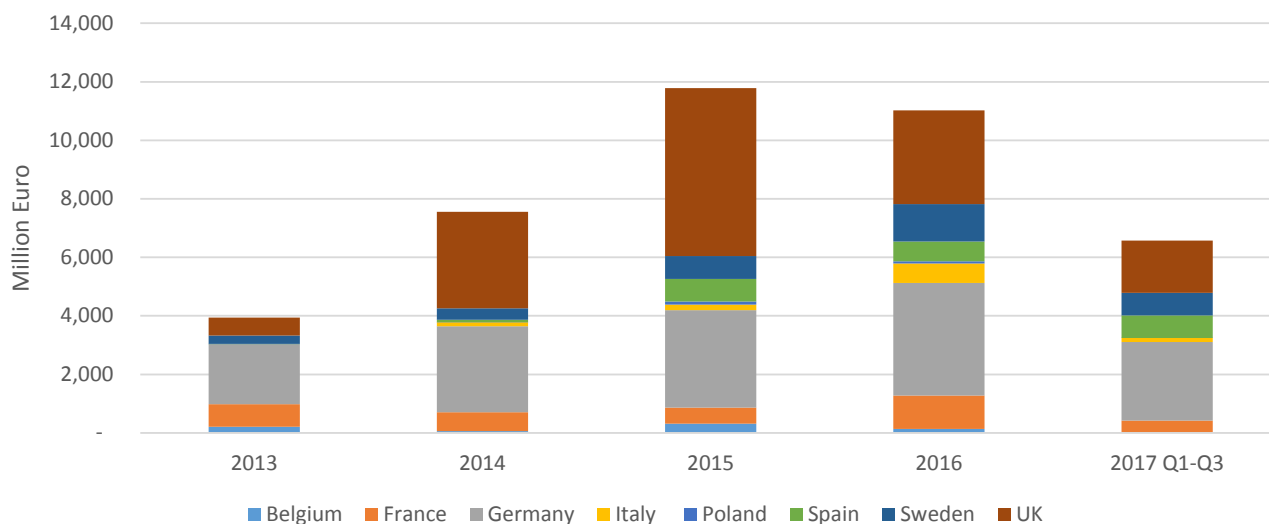
■ In Q3 17 prime yields across all markets were between 25 bps and 75 bps lower than the year before, except Amsterdam and Dublin, where they have stabilised. Prime RW space is most expensive in Paris and Berlin at 4.5% and cheapest in Athens (8.0%) and Amsterdam (7.0%).

Q1-Q3 2017 retail warehousing investment (share of retail volume)

Germany	41%
UK	27%
Spain	12%
Sweden	12%
France	6%
Italy	2%

Source: Savills Research

FIGURE 4: Investor perception for retail warehouses and retail parks has improved as reflected in the higher transaction volumes



Source: Savills Research

Multi-sector retailers are changing the sector

Retailers are attracted by lower rents and larger units

■ At the current stage of the economic cycle household spending is recovering in most countries, supported by improved labour conditions and a more positive economic outlook. Consumer spending is forecast to grow by 1.7% pa in 2017 and to continue to expand by 1.4% pa on average over the next five years. Retail sales in particular will increase by 2.2% this year and by 1.7% pa till 2022.

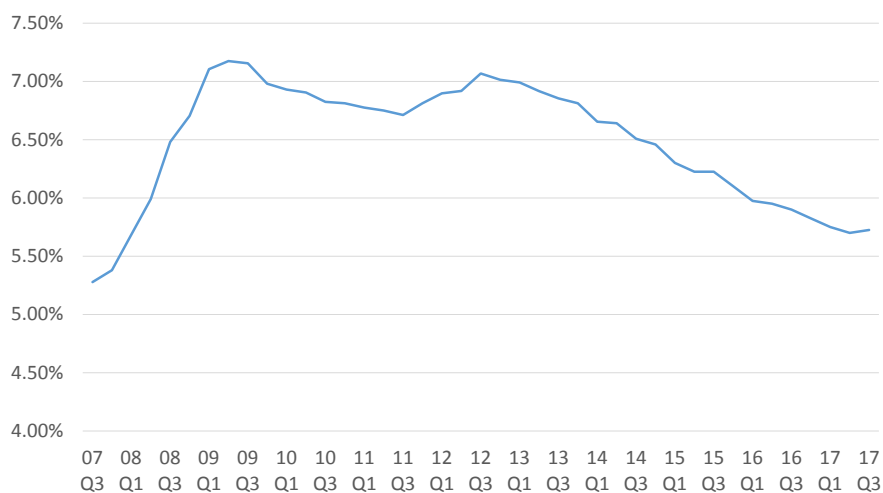
■ Besides the housing markets of the largest cities are quite hot and demand for renting is rising. This will continue to support demand for household improvement goods. But as discussed the future of retail warehouses does not rely anymore only on the traditional product categories. New retail park concepts will continue to attract multi-sector retailers especially from the value end of the market, who are attracted by the lower rents and larger units.

■ The downside risks in the sector will continue to come from the rising shares of online retailing. In the markets with the most technologically savvy population, such as the UK and Germany where the penetration of e-commerce is the highest and still growing, the pace is slowing down. In the rest of the markets the share of e-commerce will still grow further, although this may depend on improvements on infrastructure and logistics.

■ Retail parks will continue to reinvent themselves, shifting from 'big box' parks to shopping destinations that offer experiential retailing. By enhancing the tenant mix with leisure, cafés and restaurants, better design and more product categories they are creating memorable shopping trips and generate repeat visits. In the future, as the competition from e-commerce continues to rise and delivery speeds increase to almost real time, retail parks could increasingly complement retailer omni-channel strategies by becoming partly fulfilment centres. Additionally, larger stores offer the space for returns and click and collect services.

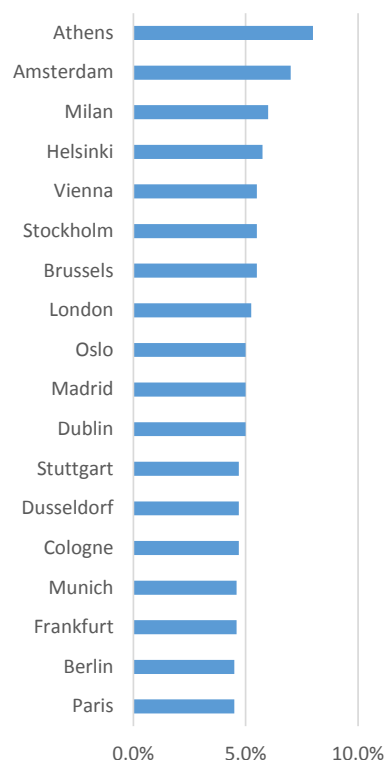
■ Investors who are looking for value-add opportunities and higher returns, will continue to look into the markets where structural changes are at most advanced level and consumer preferences clearer. Although the gains from future rental growth maybe slightly limited, there is scope for further capital growth gains through yield compression. ■

FIGURE 5: Average European prime retail warehousing yields are compressing



Source: Savills Research

FIGURE 6: Prime retail warehousing yields are attractive for investors



Source: Savills Research

Savills team: please contact us for further information



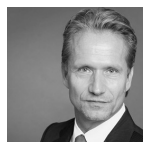
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