



At the beginning of October 2013, the Kurpfalz Center in Mannheim-Vogelstang opened with 26 shops.

RETAIL PARKS IN GERMANY

Retail parks are increasingly popular with both investors and retailers. Now, the first detailed study of the retail park market in Germany has been published. A brief overview.

Retail parks arouse increasing interest among various market participants. The value of retail parks as a separate asset class has increased significantly in recent years, including in the minds of institutional investors. This trend is supported by a lack of core properties with sufficient yields. Since the beginning of 2013, numerous objects have again been traded on the market, such as retail parks in Bonn and Wachtberg (each with 11,700 sq m of lettable area) and in Norden (12,675 sq m of lettable area). Project developments are flourishing as well. In addition to the recently realized revitalization of the Indupark Center in Dortmund-Oespel and the Kurpfalz Center in Mannheim, new retail space in retail parks will increase in the near future in places like Bensheim (11,500 sq m) Langen (12,250 sq m) Würzburg (15,000 sq m), and Schwerin (21,200 sq m). What's more, occupancy rates of two-thirds or more before the groundbreaking ceremony in newly planned parks reflect strong interest from retailers.

Big box retailers emerged in Germany in the early 1980s and their market share has increased continuously since then, benefiting primarily from the declining market share of specialty stores. In comparison, only the market shares of grocery discounters and, of course, online retail, have risen more. To date, discount-oriented retail continues to display above-average growth rates, while traditional forms of retailing, particularly specialty stores and department stores, remain under pressure.

259 RETAIL PARKS WITH A CUMULATIVE SALES AREA OF 5.2 MILLION SQ M

For the study, 259 retail parks with a cumulative sales area of 5.2 million sq m were identified that fit the required criteria (at least two large tenants serving periodic demand, at least three large tenants serving aperiodic demand, recognizable structural context, and at least 10,000 sq m of sales area). On the average, each location had around 19,900 sq m of retail space. These 259 retail parks thus account for about 4.4% of the 118 million sq m of total retail space in Germany.

OVERVIEW OF THE IDENTIFIED RETAIL PARKS IN GERMANY

The state of Saxony has the largest share of retail space in absolute terms, with 655,000 sq m, followed by North Rhine-Westphalia (579,000 sq m), Bavaria (546,400 sq m), Brandenburg (517,700 sq m), and Lower Saxony (468,000 sq m). The top five states account for more than half of the total sales area: around 54%. If the sales area is viewed in relation to population, the picture changes: Except for the city state of Bremen (231 sq m per inhabitant) the new federal states of Brandenburg (204 sq m), Mecklenburg-Vorpommern (196 sq m), Saxony-Anhalt (177 sq m), and Saxony (158 sq m) dominate the ranking in terms of retail space per 1,000 inhabitants. The reason for this is that a disproportionately high number of retail parks settled in the new states after unification due to catch-up effects and,



Retail park in Kassel, Germany.

IMAGE: GfK

THE STUDY

MEC Metro-ECE Centermanagement, together with its partners Corpus Sireo, GfK, Handelsimmobilien Report, Henderson Global Investors, and Dr. Lademann & Partner, has released the first report on the German retail park market, entitled "Retail Parks in Germany. Overview. Trends. Opportunities." The 118-page volume was presented in autumn 2013.



in particular, because of write-downs and lower land prices. In terms of retail space density, city-states lead the ranking: Bremen with 364 sq m of retail space per sq km and Berlin with 162.6 sq m. Interestingly, Hamburg follows in third place with only 39.7 sq m, followed in turn by Saxony (35.6 sq m) and Saarland (27.5 sq m). Of the 259 identified retail parks, 114 have a sales area of between 10,000 and 15,000 sq m. This size class is also the largest, making up 44.0% of the total. Only 31 (12.0%) of the retail parks studied have a sales area of over 30,000 sq m.

OVERVIEW OF THE INVESTOR MARKET

Since retail property is generally perceived as stable, the quality asset class has spread in Germany. More and more institutional investors such as German insurance companies, pension funds, mutual funds, institutional funds, and fund managers are striving to invest in this asset class. In particular after the outbreak of the financial crisis in autumn 2008, city-center commercial buildings in German cities' main shopping areas were the focus of investors' attention, as their location made quality assessment easy.

According to Jones Lang LaSalle, in the first half of 2013, almost €3.8 billion were invested in German commercial real estate, of which just under €1.3 billion went into big box investments – a share of over 30%. Retail parks alone accounted for nearly €400 million. Inner-city business and department stores were the strongest asset class, with €1.5 billion or 40%. Shopping Centers, which were the strongest asset class in 2012, attracting over €3 billion – on top of the €4.8 billion they had attracted in 2011 – only reached a volume of €970 million in 2013 due to scarce supply. Retail parks are increasingly offering an alternative in this area. In view of the fact that most of the large-scale power centers and retail parks in Germany were built in the 1980s, there is a correspondingly large need to revitalize the stock today and there is still a great deal of potential for increasing value. The interest of international investors in “added value” and “opportunistic” investments is thus beneficial for the market's development. These equity-driven investors have less interest in new developments, preferring big box products that need to be revitalized and have short lease terms. This is where the greatest market potential is likely to be.



The next generation: hybrid mall in Baden-Baden (shopping center Cite).

IMAGE: MEC

THE RETAIL PARK SEGMENT WILL PROFESSIONALIZE

The dynamics generated in the segment by the demands of market participants require the professionalization of retail park managements. Institutional investors need professional services for all tasks and they demand that services, processes, documents, reports, and the handling and accounting for capital market regulations and accounting standards are standardized. In addition to standardized procedures, investors demand that services and cost structures are transparent. Retailers in particular call for greater standardization and transparency. Unified lease contracts expedite the signing of contracts, while unified and transparent utility cost calculations reduce costs and create trust. In addition, the cooperation of all parties is thus predictable, which ensures consistent quality. An important aspect of professionalization is also preparing the lettable areas and the supply technology of a site so that retailers' diverse space requirements can be met quickly and cost-effectively. Operators' professional

support of tenants also ensures that retailers can work in a customer-oriented fashion because consumers reward top-quality operators. A good mix of segments and tenants, as well as its occasional re-orientation as demand requires, are consumer requirements that can be handled permanently only by qualified providers. To attract and retain customers in the long term, professional marketing is essential because the competition for retailers and retail locations is increasing. Generating profile by building and caring for brands has long been an important issue for the management of retail parks.

The dynamics in the retail park segment create heavy demands on all those involved, but they create good opportunities at the same time. The need for renewal, professionalization, and revitalization of sites offers owners and experienced investors the opportunity to make an established site marketable again and to keep it as a stable investment property or profit by selling it on. For the retail industry, new expansion areas and the prospect of establishing new space formats results from this development. Revitalized retail parks bind their existing customers and offer the opportunity to attract new ones. This is especially true for big box-oriented shopping centers.

