



ARE SWISS SHOPPING CENTERS IN CRISIS? NO, BUT MANY ARE ON THE VERGE

The current Shopping Center Market Report 2014 by stoffelzurich uncovers an uncomfortable truth: Swiss shopping centers are facing more challenges than ever before.



Switzerland has Europe's highest density of retail space and also occupies a top position with respect to shopping center density, with approximately 0.31 sq m of area per inhabitant. It is obvious that the market has reached a saturation point and that this high sales area density is leading to intensified competition. The consequences are already apparent. Sales growth in the Swiss retail trade in recent years has slowed, particularly in 2011 (which saw a fall of 1.6%). This followed years of stable growth of around 1.8% between 2000 and 2010.

Since 1990, the value of new sales development in the Swiss retail trade was never as bad as in 2011. In 2012, sales growth was positive again, albeit at a rate of just 0.5% following on a bad previous year. In particular, the non-food segment, with a share of approximately 50% of the total market and a sales volume of approximately CHF 48 billion (€39.2 billion), has continuously lost sales. It showed a decline of 2.7% in 2011 and one of 0.4% in 2012.

The hope of improving on these negative developments is limited. According to the latest expert survey on the development of sales in retail stores, which was conducted on behalf of the Retail-Forum GmbH, the forecast is generally negative. About 35% of the surveyed retailers assume a further decline in sales over the next three to five years. Only 9% of respondents believe retail sales will increase.

SALES TRENDS IN ONLINE RETAIL

While sales in bricks-and-mortar stores, especially in the non-food segment, continue to develop negatively, e-commerce is still expanding vigorously. According to a study by the University of St. Gallen, online sales in Switzerland grew by more than 17% between 2010 and 2012. The sales volume now amounts to CHF 10 billion, which accounts for 10% of total Swiss retail sales, and we may assume that e-commerce and online shopping will continue to develop positively. The consulting company RegioPlan in Vienna even assumes it will



IMAGE: STOFFEL

MARCEL STOFFEL

The author of the market report is the owner and founder of stoffelzurich, CEO of the Swiss Council of Shopping Centers (SCSC), and organizer of Retail Forum Switzerland.

The complete Shopping Center Market Report 2014, including recommendations for action, is available for free at www.stoffelzurich.ch as a PDF or can be ordered in print.



IMAGE: HALTER ENTWICKLUNGEN



IMAGE: NEUE BRÜNNEN AG

Westside Shopping and Leisure Centre in Bern-Brunnen is an urban scale architectural project totaling 1.5 million square feet completed by Architekt Daniel Libeskind.

Shoppi Tivoli in Zurich, opened 1970, is considered as Switzerland's first shopping center.



IMAGE: SHOPPI



account for 25% of total retail sales in the future. Distance selling (catalog and online) also showed high growth rates in Germany. According to a study by the GIM (Society for Innovative Market Research, Berlin), sales in September 2013 showed an increase of 26.7% over the same period the year before, with e-commerce accounting for 83.4% of those sales.

It is thus no surprise that over 70% of the expert respondents in the Retail Forum study predict further increases in sales for online businesses. 15% of them even think there will be "strong growth." It is therefore very likely that, in a few years, Swiss online retail will generate the same amount of revenue that all 175 Swiss shopping centers receive today on 2.5 million sq m of retail space.

SALES DEVELOPMENT OF SWISS SHOPPING CENTERS BETWEEN 2010 AND 2012

The expansion in recent years has not only led to a higher density of sales areas and market saturation, but also to more intense competition and displacement. The 56 Swiss centers with a turnover of more than CHF 100 million have lost around CHF 337 million francs, or 3.3% of their turnover, in the last two years. At the same time,

these centers added over 34,000 sq m of additional retail space, which corresponds to a 2.8% increase in area. That is: 2.8% more area with 3.3% less turnover!

That significant saturation has been reached is shown by the fact that only 12 of the 56 centers were able to increase or maintain their sales between 2010 and 2012. The remaining 78% lost sales. Recent surveys also show a negative sales trend for 2013. According to experts, Swiss centers will lose both sales and market share again this year.

Centers that are older than 20 years and have taken no major renovation measures show significantly poorer sales performance than younger centers. These centers lost 6% of sales between 2010 and 2012, while new centers lost only 3%. The lowest losses (1.4%) were reported by centers that were 5-10 years old. The nine locations at train stations (e.g. RailCity) were able to keep their sales at a high level and in some cases even increase them. Productivity per unit of area at these sites grew by 0.5% to CHF 20,239 per sq m over the two-year period studied. Zurich Airport, for its part, increased its retail sales in the same period from CHF 510 to CHF 517 million.

THE DEMAND FOR MORE RETAIL SPACE AND THE CHAIN STORES' EXPANSION PLANS

It is clear that demand for more retail space will be limited in light of declining retail sales in recent years and the trend toward e-commerce. This is why nearly 45% of retailers surveyed in the current retail market study predict declining demand for retail space. Therefore Swiss chain stores are limiting their expansion plans. About 40% of the surveyed retailers predict that no further branches will be opened in the future, while 36% of respondents even think that existing stores will be closed, thus thinning out the branch network.

THE SHARE OF SWISS SHOPPING CENTERS IN THE OVERALL RETAIL MARKET

The market share of the 169 shopping centers (with sales areas over 5,000 sq m), including one airport center (Zurich Airport) and four RailCity centers (train station shopping, SBB, sales area above 5,000 sq m) is currently 17%, with a turnover of approximately CHF 16.4 billion.

The market share of shopping centers in overall retail trade turnover is rather low when compared internationally and has to do primarily with the fact that Switzerland has highly attractive and very well-functioning city centers that are desirable retail locations. In addition, the market is saturated due to the very high density of retail space in Switzerland. Switzerland has one of Europe's highest shopping center densities, with over 2.5 million sq m of total area or 310 sq m per 1,000 people.

The amount of retail space in Switzerland has increased rapidly over the past 14 years. In the years 2000-2012 alone, retail space in shopping centers grew by around 88%. If the plans and forecasts from GfK Switzerland are to be believed, another approximately 450,000 sq m of shopping center space will be added, despite the saturation, in the next few years – an increase of about 20%.

PROFITABILITY

The negative sales trend in retail stores currently affects shopping center tenants in particular. The majority pay a fixed minimum rent rather than a

Only centers that meet these criteria and master these tasks will be successful in the future and be able to defend their market positions.

variable turnover rent. The relationship between rent and sales, as well as profitability in general, is already worrying many tenants, whereas investors and owners can rely on secure and stable rental income during short-term dips in sales. It is only a matter of time, however, until the affected tenants demand rent reductions, consider reducing areas, or even contemplate the early termination of rental contracts. That's because turnover remains the main indicator of an economically sensible and realistic market rent for retailers.

At the same time, the acceptable level of rent-to-turnover depends on the segment. For owners and investors, this in turn means that the value of their retail real estate asset is largely dependent on the sales generated within it. The use of space in retail properties and shopping centers is therefore of central importance for owners. The segment, the structure of the supply, and the optimum and meaningful use of space by tenants are also key.

FUTURE CHALLENGES

In addition to the market downturn, societal changes and changing consumer behavior also present major challenges for the owners and operators of shopping centers. The road from a dusty and boring vending machine to a "third place" – an experience center and social meeting place – is not easy. Many Swiss shopping centers are outdated, poorly managed, and are in urgent need of revitalization, and not just with respect to buildings or equipment: Several centers lack clear market positioning. Very often, centers lack a strategy for standing out against the growing competition in the long term with respect to market performance and public perception.

