

TRENDS
IN RETAIL
REAL ESTATE:

WHAT

FUTURE?

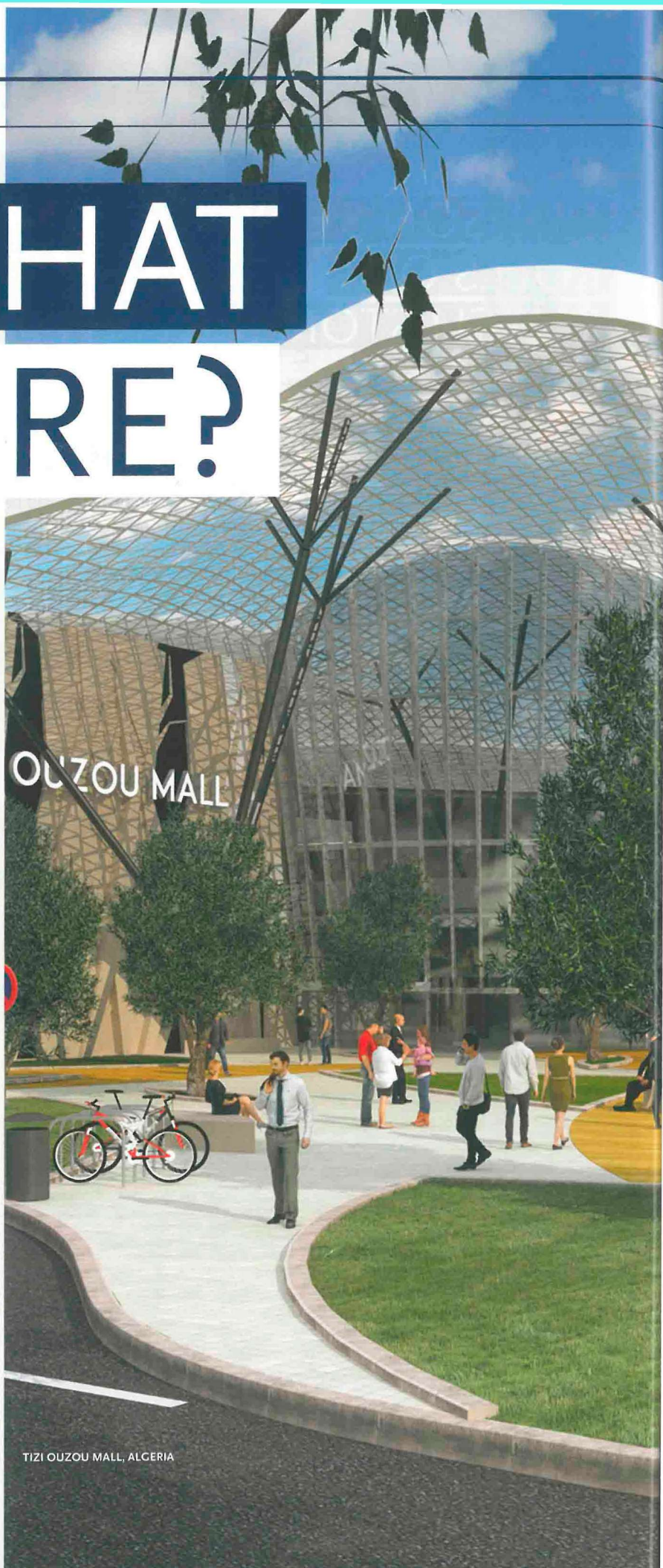
BY JOSÉ FALCÃO MENA, JOÃO CORREIA DE SAMPAIO AND PEDRO CAUPERS

Retail real estate is racing towards the future at a dizzying pace. From the evolution of technology, the globalisation of trends and the growth of purchasing power, to the endless appetite for innovation, the only constant is change. More than ever, retail real estate specialists need to anticipate and lead by example to create valuable projects that stay relevant. Unique experiences lie at the heart of shopping centre visits, beginning off-site – and online. Only world-class services maintain a competitive advantage.

Passionate about bringing innovation and excitement to the retail real estate industry since 1989, Sonae Sierra has been interpreting trends and spearheading a movement that has defined the retail real estate assets of the future.

Our track record speaks for itself, through the development and management of outstanding projects and the delivery of professional services covering the entire retail real estate lifecycle. But we are always looking for new solutions, new concepts and better ways to improve our stakeholders' experience in our owned and managed assets.

By identifying trends – from proptech to architectural solutions, leasing innovation to growth markets – across our three main service areas, our skilled teams are able to plot the industry's evolution, and explore future-proof solutions to stay relevant and at the forefront of the market.



TIZI OUZOU MALL, ALGERIA

DEVELOPMENT SERVICES

BY JOSÉ FALCÃO MENA

Architectural innovation in retail real estate assets is no longer optional – it is compulsory. As consumers demand fresh experiences and leisure options from their outings, the design, architecture, and the property's place in its urban environment must evolve.

Add to this the increasing scarcity of greenfield retail development opportunities within more mature markets, and it's clear that new strategies are essential to generate greater revenue. In the future, more and more businesses will struggle to assemble development pipelines in line with their goals.

At Sonae Sierra, one solution has been to build our competencies and identify appropriate partners to take advantage of opportunities for urban regeneration in the form of mixed-use schemes. We are looking beyond the traditional sense of shopping centres and exploring opportunities that have a strong retail component.

In this context, integrated asset level strategies become drivers for sustainable urban growth, adding value through differentiation. Retail real estate elements contribute to creating or reviving a sense of place, providing a hub for different stakeholder groups and individual community members to physically connect and engage.

Another key trend across the industry has seen the transformation of food and beverage (F&B) areas into key resources for creating value for tenants and owners. This understanding has led Sonae Sierra to develop third generation food court concepts in many projects, which attract more visitors and clients, generating higher spending and ultimately translating into superior sales and rents.

Elsewhere, shopping centres which have strongly defined links to their locations have an increasingly important place in the communities they serve. Themed shopping centres reflect regional differences and reinforce local identities, while being acutely in touch with the needs

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of consumers. Exceptional architectural concepts are the baseline of these stand-out projects, creating differentiation and a fierce sense of loyalty. Sonae Sierra's Romanian centre ParkLake, which opened in September 2016 in one of Bucharest's greenest corners, has taken precisely this approach in terms of architecture and design.

In Morocco, an emerging market where we aim to increase our development activity, we are designing Marina, in Casablanca, which will have 45,000 m² of GLA and Arribat Center, in Rabat, also with 45,000 m² of GLA. Its architecture and design will reflect some of the region's main traits. The same applies for projects in other countries such as Algeria, where we are designing and leading the engineering project for Mall of Alger (Algiers) which will have 75,000 m² of GLA and Tizi Mall (Tizi Ouzou) with its 29,000 m² of space. All of these projects will have strong connections with their location, allowing us to create unique spaces that truly live in their surroundings.

PROPERTY MANAGEMENT

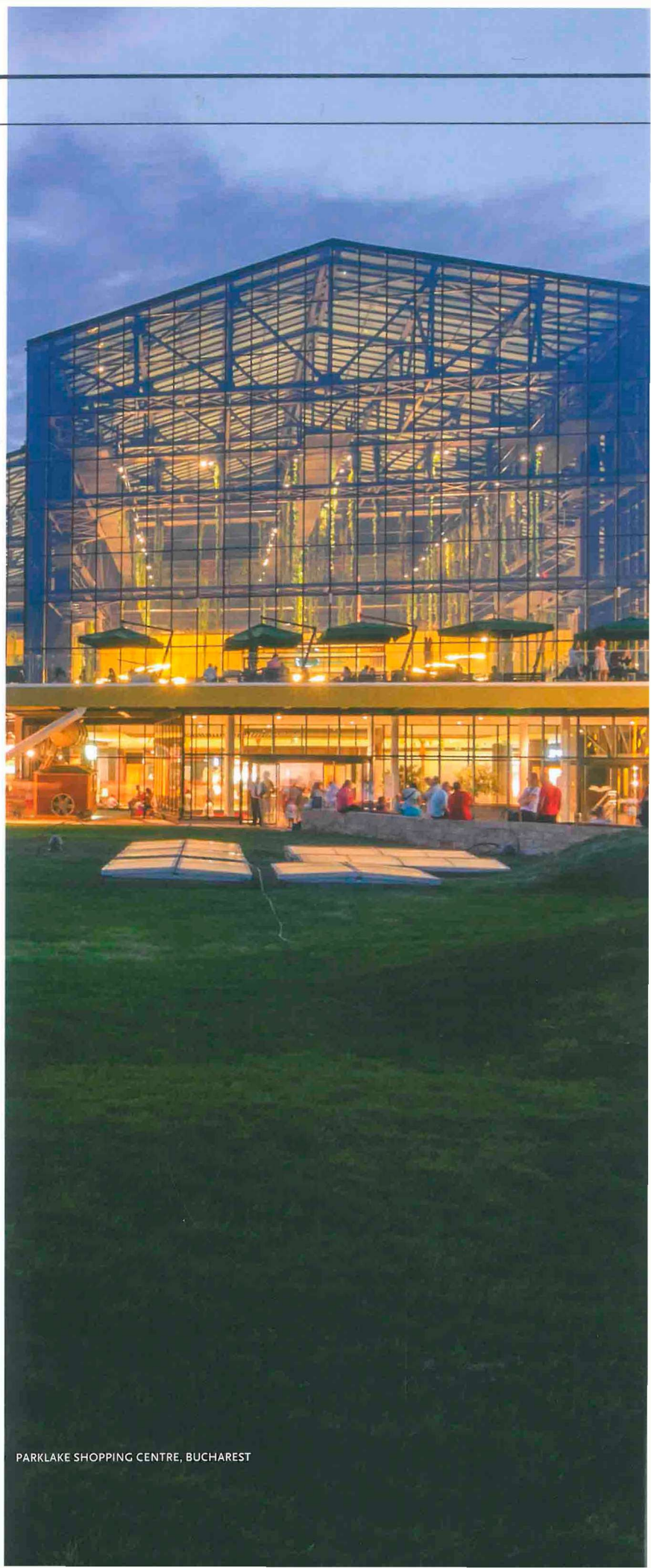
BY JOÃO CORREIA DE SAMPAIO

Successful property management has always been about maximising shopping centre visits and tenant sales while securing high occupancy and high collection rates. And it still is, but now with a larger scope.

The consumer journey has extended online, well beyond the physical visit, and direct client databases have become for Sonae Sierra a new privileged asset, with additional business KPIs monitoring the company's digital footprint. In parallel, tenant relations are pushed to a greater level, with e-commerce, lead generation and other big data new business models' initiatives being piloted by Sonae Sierra. Technology is certainly driving rapid change. Consumers are now digitally fluent and digitally equipped, demanding improved services and constantly requesting novelty and variety. Tenants are using technology to open new communication and sales channels with customers, while encouraging experience at the physical store.

At the same time, the offer has become more segmented and personalised, making possible the co-existence of long tail and niche offers, with locally relevant concepts emerging. Technology is also enabling new logistics and service models, and a higher level of operational efficiency. Sonae Sierra is leveraging this change, with its multichannel B2C and B2B platforms, and a strategy based on content, both digital and physical.

Innovation is also helping Sonae Sierra address new consumer demographics and motivations, and attract new brands and retail formats. Using crowdsourcing processes to scout emergent businesses (Rising Store or First Store programmes), more flexible business models (Flash Stores), and developing new integrated solutions for a premium offer (such as Galleria Mall at Norte Shopping), Sierra is succeeding in bringing innovation and variety to the tenant mix. Leisure is also playing an increasingly important role in the value proposition, with Sonae Sierra creating unique, first-in-class programmes (such as Art arrives at Colombo), and developing family friendly equipment (Family Meal Corners, indoor Playgrounds, Baby Care areas) that increase the visit motivation and consumer loyalty and, consequently, traffic and sales.



PARKLAKE SHOPPING CENTRE, BUCHAREST

INVESTMENT MANAGEMENT

BY PEDRO CAUPERS

Special attention must be given to the real estate market cycle, if one's objective is to maximise investment returns. Across most mature markets, recent years have seen a significant yield compression, mostly for prime assets. However, we still remember the crisis years that were particularly severe in several Southern European countries, meaning that finding the correct timing to buy or sell assets is clearly a fundamental element to consider while managing an asset portfolio.

Since 2014 we have taken advantage of the buoyant economy in both Spain and Portugal, thanks to improved exports and tourism and to the recovery in private consumption. Consequently, investors have been keen to invest in Iberia, because of the relatively higher returns achievable in comparison to more mature markets like UK, Germany and France. As a result of this strong investor appetite for retail assets in Iberia, valuations have been increasing steadily, and have now clearly surpassed the pre-crisis levels for prime assets.

In this context, Sonae Sierra's strategy has been to recycle capital, selling a number of the less prime assets in its portfolio, and reinvesting the proceeds in either new developments or in operating assets with material upside potential, namely due to repositioning or expansion initiatives. Our preferred route has been to invest in partnership with institutional investors, either at a Fund or directly at asset level, with Sonae Sierra acting as the minority operating partner. A good example of such a partnership is Iberia Coop, a fund established in partnership with CBRE GIP, where Sierra has a 10% interest and provides the supporting services, namely asset management, fund management and property management. This venture has already acquired four assets and is actively looking to further expand its portfolio of shopping malls in Iberia.

We have also diversified the range of services provided, becoming the real estate operating partner of ORES, a REIT created with Spanish bank Bankinter at the end of December 2016. The purpose of this venture is to invest in stand-alone retail assets with long-term lease contracts and in retail parks, across Spain and Portugal.

We are currently implementing the ambitious investment plan of ORES, which should reach a total of €400 mln of assets under management before the end of 2018. Sonae Sierra holds a 3.75% interest in this venture, with the majority interest having been placed with Bankinter's private banking clients.

Another recent example worth mentioning is the partnership with AXA Investment Management for the acquisition of Área Sur, the dominant shopping mall of Jerez de la Frontera in Spain. In this venture, Sonae Sierra holds a 15% stake and plays the role of the operating partner, bringing its expertise to manage the centre and create value to the partnership, by optimising the tenant-mix, reducing vacancy and adapting the centre to the expectations of its customers. All of this with the ultimate objective to steer Área Sur into becoming one of the shopping centres of reference in Southern Spain.

For the Italian market, we are currently assessing different possibilities for launching a new vehicle, that will grow our current Italian portfolio of three shopping centres where we are owners or co-owners.

In parallel with our efforts to identify and implement value creation opportunities across our portfolio under management, we also spend a lot of effort keeping each asset up-to-date and attractive to both tenants, investors and visitors. This can be achieved through the refurbishment of older assets and, when possible, also through expansion initiatives. The result of all these efforts should be the maximisation of the returns for our investors and partners, so that they continue to trust us as their preferred operating partner in the different geographies where we are active.

CONCLUSIONS

Plotting the trends of tomorrow and identifying strategies across our three service areas is the first step to stay relevant to the market and our clients. Elements such as technology, globalisation and demographic changes create opportunities as much as challenges, sparking innovative ideas. Developments in proptech enable greater communication, superior data collection and connectedness between our divisions.

The shopping centre of the future has innovation at its heart, but must rise from a careful understanding of consumer behaviour trends and the evolving tools at our disposal. Through a strong partnership policy and integrated approach from our teams, Sonae Sierra's sights are set on ensuring that the assets we develop and manage remain the most practical, exciting and relevant to visitors, tenants and all other stakeholders.

