

WHICH CITIES ARE THE MOST DESIRABLE FOR RETAILERS?

Identifying which characteristics of cities influence rental growth can define the most optimal cities for retailers. And when demand by retailers for those locations increases, so will rent levels

BY JEFFREY BOEREBACH,
RESEARCH ANALYST AT REDEVCO

Now in its sixth year, Redevco's City Attractiveness Model ranks 825 European cities in terms of attractiveness for high street retail. Its latest research shows that rental growth is strongest over time in those cities that also score well on 'soft factors' determining city quality.

Redevco's model combined 19 different indicators, grouped into four main categories: population, economy, retail property market and city quality, which are scored and weighted to derive a city's ranking. This weighting is further enriched with local knowledge from Redevco's seven country teams that enables the grouping of locations into five 'quality buckets', ranging from 'poor' to 'excellent'.

Demand for retail space is stronger in the excellent cities, which have also experienced the strongest rental growth, while the 'poor' cities (the lowest quality bucket) generally have seen decline. High street retail in Europe's most attractive cities will continue to outperform as it combines all the things that the modern consumer is looking for, says the report.

WHAT DO THE CONSUMERS WANT?

Shopping is a consumer-based activity.



NEED TO ENJOY

THE INTERNET CREATES A NEW RETAIL STATE OF MIND

Understanding the consumers is key in identifying which locations are more likely to be visited more often, now and in the future.

Shoppers no longer have to buy when they're out. Consumers are more informed even before setting foot on the high street and shop far more efficiently when there. They can buy online, anytime and anywhere, so a shopping trip is increasingly to meet friends, socialise and be inspired. Consumers are much more informed and no longer need to complete a shopping list. As a result, they are now much more relaxed and efficient while shopping. This impacts how their time is spent, giving more time for leisure, restaurants and other

activities while shopping. Redevco calls this a changed 'retail state of mind' from a need to buy to a need to enjoy. Locations that cater for this modern consumer demand, are deemed more future proof.

WHAT MAKES A CITY MORE DESIRABLE FOR CONSUMERS AND RETAILERS?

The City Attractiveness Model combines characteristics of cities like population, economy, retailer demand, investor demand and city atmosphere to determine its overall attractiveness.

Along with the fundamentals of a robust economy and good demographics, soft factors such as points of interest, the presence of a relatively high share of creative



SHOREDITCH, THRIVING RETAIL HOTSPOT IN LONDON



PRINCES SQUARE SHOPPING CENTRE IN GLASGOW, VOTED MOST POPULAR BUILDING IN SCOTLAND

professions, who help generate a certain 'cool', and a young population all contribute to boosting a city's attractiveness for high street retail.

In fact, leisure activities in city centres gain more importance for the outperformance of retail real estate. The prime rental growth in cities with a large number of leisure activities show the strongest growth rates on a 3-, 5- and 10-year basis. The very best cities in terms of leisure activities have always showed strong rental growth, while in cities with a lower number of leisure activities this has not been the case. Redevco strongly believes that

those cities outperforming their peers will continue to outperform because of their inherent strength.

WHAT ARE MY PEERS DOING?

Identifying where consumers want to shop and spend time is very important in understanding which cities are most likely to be winners. But does retailer demand follow that same pattern?

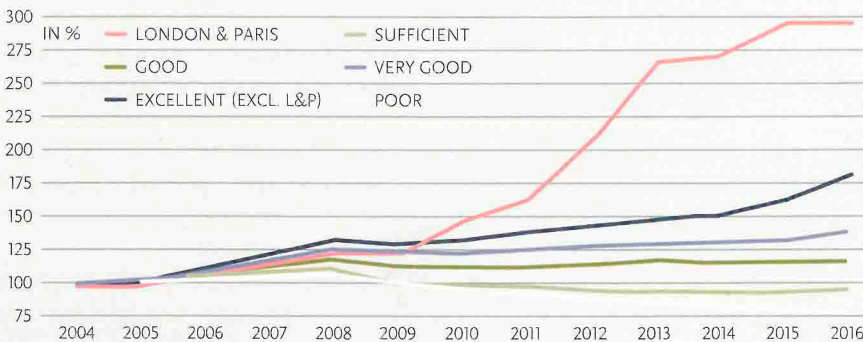
New retailers, or retailers entering new markets, are very selective when it comes to identifying the right location to open stores. Retailers target the best cities first and will further expand down the quality

ladder of cities. Redevco's City Attractiveness Model looked at a selection of prime retailers and their presence in the cities it monitors. It also follows what popular and expanding retailers are doing – and naturally they target better locations.

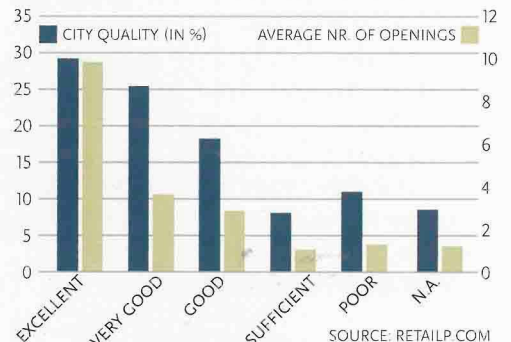
As consumers shop more online, less retail sales will go to the physical stores, putting pressure on the store performance and their affordability, especially in weaker locations. In the best cities retailers notice that having a store in the physical space leads to additional online sales, the so called 'halo effect'. The fact that sales in store are not growing as rapidly as online

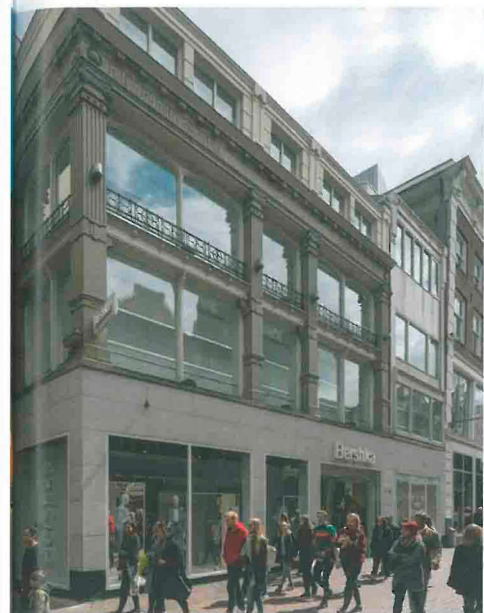
PRIME RENTAL DEVELOPMENT

PER ATTRACTIVENESS CATEGORY (2004 = 100)

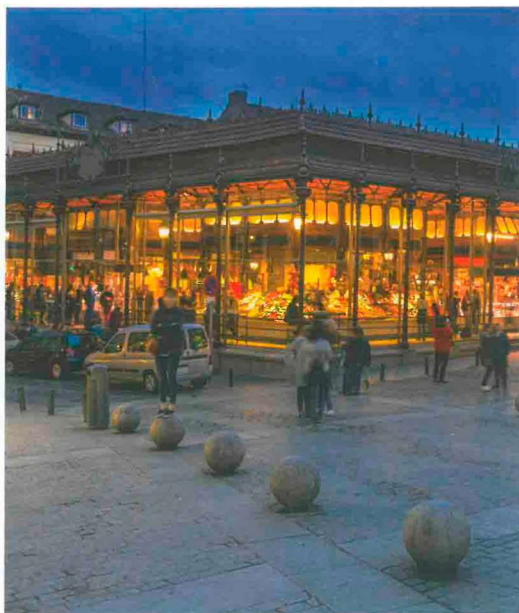


NET STORE OPENINGS





KALVERSTRAAT, THE BUSIEST RETAIL STREET IN AMSTERDAM



MERCADO SAN MIGUEL, FOODMARKET AND TOURIST HOTSPOT IN THE HISTORIC CITY CENTRE OF MADRID

is not necessarily an issue as the role of these stores changes. It is more a concern for less attractive cities where this halo effect is not apparent.

NEW STORE OPENINGS

The store opening pattern confirms that retailers are in fact also interested in the most attractive cities. This concentration of demand in the most attractive cities in combination with the positive performance of existing retailers leads to rental growth. Polarisation continues because retailers are also staying away from the less attractive cities, with declining rent levels and increased vacancy as a result.

Paris tops the cities with the largest number of store openings. In the sample of 35 selected retailers, Paris saw the highest number of store openings (29), followed by London (25 openings) and Brussels (19 openings).

Brussels is perhaps the most surprising as number three, but development activity in the city is high. A whole new pedestrian area in the middle of the city centre is causing the prime pitch to increase significantly, opening up new opportunities for retailers to enter the Brussels market. Additionally, in uptown Brussels new infrastructural improvement will happen in the future making this area more attractive as well.

CITY LOCATION VERSUS CITY LOCATION

Structural change in the retail landscape is accelerating polarisation in terms of property performance. The City Attractiveness Model contributes to Redevco's understanding of what drives performance in retail real estate investments and helps make the right investment decisions in a relatively opaque market.

According to Redevco, the model underpins its' belief that high street retail in Europe's most attractive cities will continue to outperform as it combines all the things that the modern consumer is looking for. Still, Redevco is critical. Out of the 825 cities that the model ranks, 20% have been identified as investment grade cities.

When cities score high on the overall attractiveness, that doesn't mean that all locations within these cities are winners. The polarisation in the retail landscape is also experienced within the cities themselves, with high demand by retailers for the best locations and high vacancy rates for less attractive locations.

As the changing behaviour of consumers continues and demand remains focused on the best locations, this polarisation will continue, resulting in smaller prime pitches. The battle of the micro location will continue. ■

‘The concentration of demand in the most attractive cities in combination with the positive performance of existing retailers leads to rental growth’

Jeffrey Boerebach,
research analyst Redevco

TOP CITIES IN THE RANKING

- 1  London
- 2  Paris
- 3  Munich
- 4  Zürich
- 5  Hamburg
- 6  Amsterdam
- 7  Berlin
- 8  Oslo
- 9  Vienna
- 10  Madrid
- 11  Milan
- 12  Prague
- 13  Copenhagen
- 14  Dublin
- 15  Frankfurt
- 16  Rome
- 17  Barcelona
- 18  Stockholm
- 19  Lyon
- 20  Geneva
- 21  Edinburgh
- 22  Cologne
- 23  Stuttgart
- 24  Düsseldorf
- 25  Glasgow
- 26  Manchester
- 27  Brussels
- 28  Antwerp