

Research & Forecast Report
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THE MAGIC ROUNDAABOUT

The role of F&B and leisure in retail
across the EMEA region

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INTRO

*Last year we reported that the volatility in traditional retail was akin to a (retail) rollercoaster. This year, with the benefit of some hindsight and a lot of facts we're inclined to say **RETAIL IS ON A CAROUSEL AS TRADITIONAL RETAILERS FIND THEIR NEW FEET AND REGAIN GROUND PREVIOUSLY LOST.** Physical retail will in the medium term depend on how retailers meet **CUSTOMERS EXPECTATIONS ON PRODUCT, PRICE POINTS, CONVENIENCE, EXPERIENCE** and to an increasing degree **ENVIRONMENTAL IMPACT.** The financial viability of retailers will depend on rents charged for space that is as much about logistics as branding, selling, space utilisation, location and overlap and retail landlord support in driving customer experience. Incorporating demand growth for F&B, leisure, community and recreational experiences that are relevant to their target market is clearly going to be a key determinant of the success of any retail centre going forwards.*

E-COMMERCE: MANAGING THE OPPORTUNITY

In last years' [MAPIC report](#) we covered the slowing growth, not contraction, of e-commerce and our view still holds. The share prices of the global fashion retailers such as Inditex and H&M beating the pureplay e-fashion retailers shows the markets agree with our expectation. At end October Amazon, the benchmark for e-commerce, saw its share price fall 9% as the cost of forcing same day delivery expectations on customers took its toll on the bottom line.

E-fashion is recognized as the retail sector hardest hit by online sales but there is an interesting transformation afoot within this retail sub-sector.

Based on an analysis of published financial statements of pan-European and global fashion retailers we are able to see how much online sales have developed, and how omni-channel strategies of traditional retailers have fared relative to the pure-play companies.

IN SUMMARY, A BASKET OF TRADITIONAL OMNI-CHANNEL RETAILERS NOW ACCOUNT FOR 12.3% OF THE ONLINE MARKET. WHAT IS MORE TELLING IS THAT THEIR GROWTH RATE IS MUCH HIGHER THAN THAT OF PURE E-FASHION RETAILERS, WHICH WILL SEE THEM TAKING GREATER LEVELS OF E-FASHION MARKET SHARE.

This is important for physical retail due to the use of Click & Collect (CnC) for online fulfillment and the importance of store proximity for online returns. If we use the generally quoted CnC ratio of 50% on fulfillment and 80% of returns going through stores we find that EUR 8.4 billion of online goods were going through physical stores in 2018, in order to meet customer expectations on convenience and experience. Then given that sales are reported at the point where ownership changes hands under US GAAP and IFRS accounting rules, it can be argued that online CnC is actually an instore sale so that the market share of online shifts.

Next PLC the UK fashion and homeware retailer has clearly chosen to embrace the new retail landscape. In its 2017 report it demonstrated the value of its physical stores to an omni-channel strategy highlighting their importance in the fulfillment of customer orders. It is now going a step further by transforming itself into a retail platform opening up its technology and store distribution network to third party retailers to replicate what Amazon does, offering the customer more choice.

Hammerson have taken a similar approach by offering a platform that lists all its tenant's products, allowing customers to search for what they want and be directed towards the relevant retailer.

FIG. 1: E-FASHION RETAILERS VS OMNI-CHANNEL RETAILERS

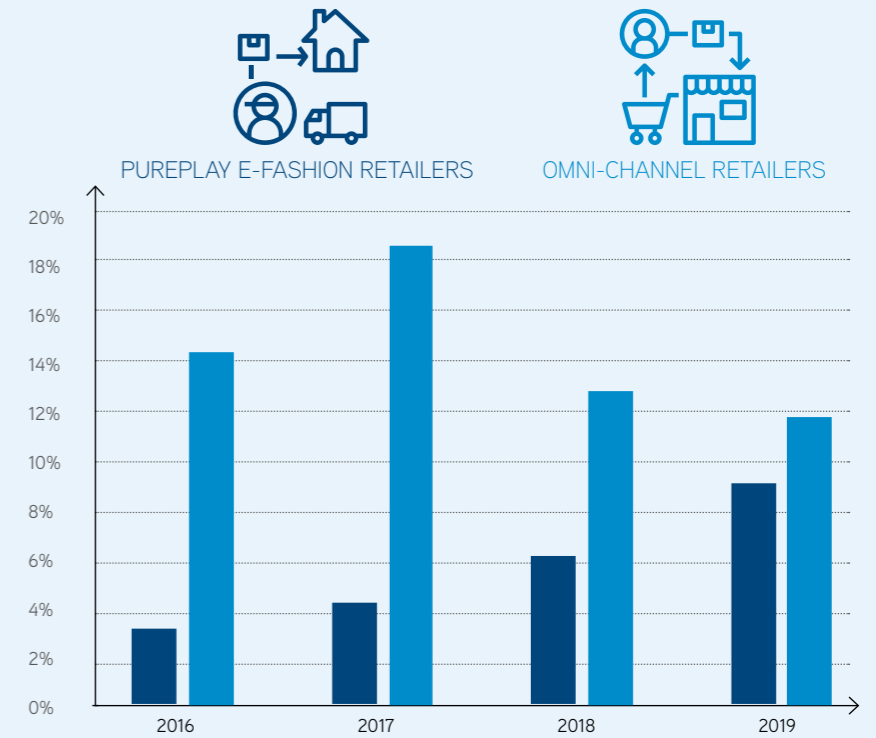
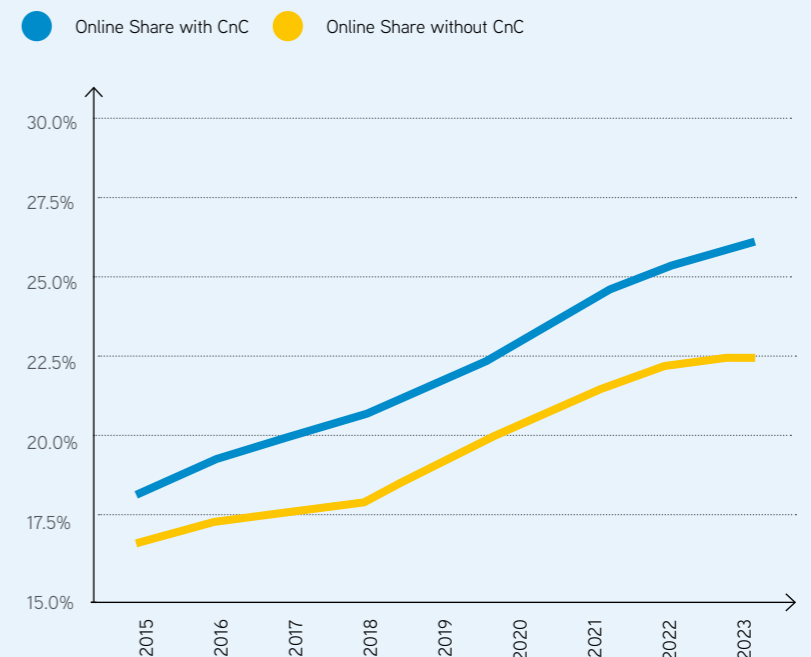


FIG. 2: ONLINE SHARE OF FASHION



Sources: Figure 1: Colliers International; Figure 2: Oxford Economics, Statista, Colliers International

CONSCIOUS CONSUMERS: THE ENVIRONMENTAL IMPACT OF SHOPPING

The real environmental impact concerning retail is primarily the cost and waste impact of returns. Yet it is not the packaging that does the damage, as this accounts for only 5% of the environmental impact of online.

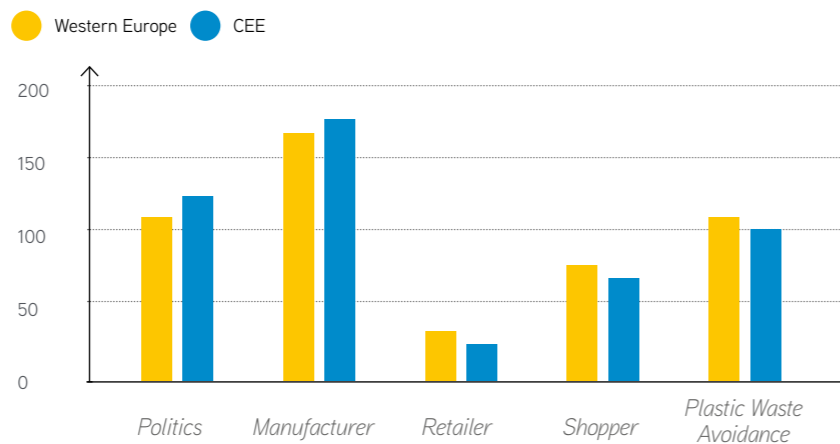
IT IS DAMAGED OR UN-RESELLABLE PRODUCTS THAT CAUSE MOST OF THE DAMAGE.

For example, Amazon France admitted that it had trashed \$900 million of unsold goods in 2018. It has since stopped the practice and now donates unwanted goods to charities.

The positive implications for physical real estate is that only 8-10% of sales bought in a store are returned, while for online the average is just below 30%. For e-fashion the hard evidence is around 38%. Equally, according to Narvar's 2019 consumer report, 52% of customers would prefer to return goods in a store if it reduced the environmental impact.

Broader concerns over climate change have driven protests, debates and some pretty ambitious policy announcements recently. A recent survey by GfK showed that 70% of people think our use of modern plastics is a concern, which when vocalized has motivated some European grocers to announce plans to reduce or even eliminate plastic food packaging. Even McDonalds is looking for ways to eliminate plastics in its fast food operations, particularly in the use of plasticized paper beverage cups. Interestingly, shoppers from both east and Western Europe do not lay any of this blame at the door of the retailer, or by extension the retail landlord. Shoppers feel they are much more to blame, as is the whole production and recycling supply chain. This highlights the importance of retailers and retail landlords to remain relevant to what consumers expect, and how this will impact their Carbon footprint going forwards.

FIG. 3: PERCEPTION OF RESPONSIBILITY OF PLASTIC WASTE REDUCTION IN RETAIL



GETTING PHYSICAL

A KEY PART OF BEING RELEVANT TO THE MODERN-DAY CONSUMER IS NOT JUST ABOUT GOODS, BUT INCREASINGLY SERVICES.

Sport, health and fitness spending is clearly on the up across the EEA 30 area, and has maintained a healthy growth rate despite a drop in total household disposable income and retail spend in 2016.

On average across the EEA30, we spend 5% of our household income on sports and recreation goods and services, with a higher amount going on services, and this is set to grow year-on-year by around 2%. So it is of no surprise that a plethora of gyms, yoga and health classes are cropping up across towns and cities across Europe, and the sale of sports equipment is clearly a key driver in making an existing or new retail centre tick. (-> [See report](#))

A quick review of household disposable income spent on recreation and sports goods shows a difference across the EEA30. Many of the southern European and Alpine nations spend least on recreation, as a proportion of their hard-earned cash, but when you live amongst such great natural landscapes this is perhaps not a surprise. The top spending nations are the Nordic and Baltic countries, alongside the Czech, Slovaks and Dutch who are all keen outdoors enthusiasts and it shows up in the figures. Luxembourgers seem to spend too much time in the office.

When it comes to actual sports and outdoor goods, well the UK love of lycra and the rise of the MAMIL seems to be shining through in the spending as a % of HDI. Brits spend significantly more as a % of HDI than any other EEA30 nation by some margin. They are followed by the Nordic nations where the old adage "it's not the cold, it's what you wear" seems to be helping drive retail sales.

Precisely what different nations spend their money on is difficult to discern from these figures, but if the UK is anything to go by, the diversity of recreational and leisure offer now available within shopping centres and locations is diversifying to meet all manner of needs but a good cinema clearly still works, and helps drive spending across the scheme/location especially in terms of Food & Beverage (F&B).

Resorts World in Birmingham is a mixed-use development next to the National Exhibition Centre (NEC), where retail stores have performed inconsistently. Trusted brands like Nike continue to trade very well but some of the others do not. The leisure and in particular catering part has traded well and space is being re-oriented to create more leisure facilities at the scheme to complement the existing Cineworld, Genting Casino and Vortex Gaming zone.

In the UK, it has typical for schemes that have a cinema, that F&B rents are 20% higher than without. So it is no surprise to see schemes like the Bentall Centre in Kingston is creating space for a cinema on the roof of the complex, largely by clearing redundant plant machinery.

FIG. 4: EEA30 HOUSEHOLD DISPOSABLE INCOME & RETAIL SPEND [2015 -2025, %]

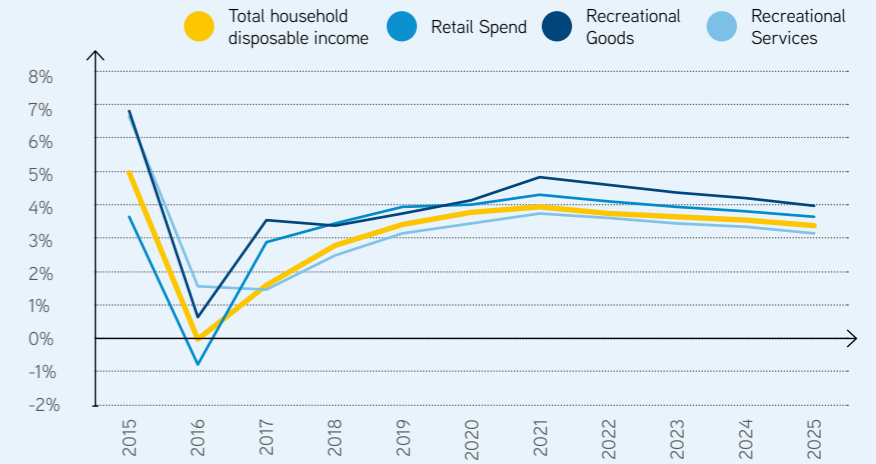
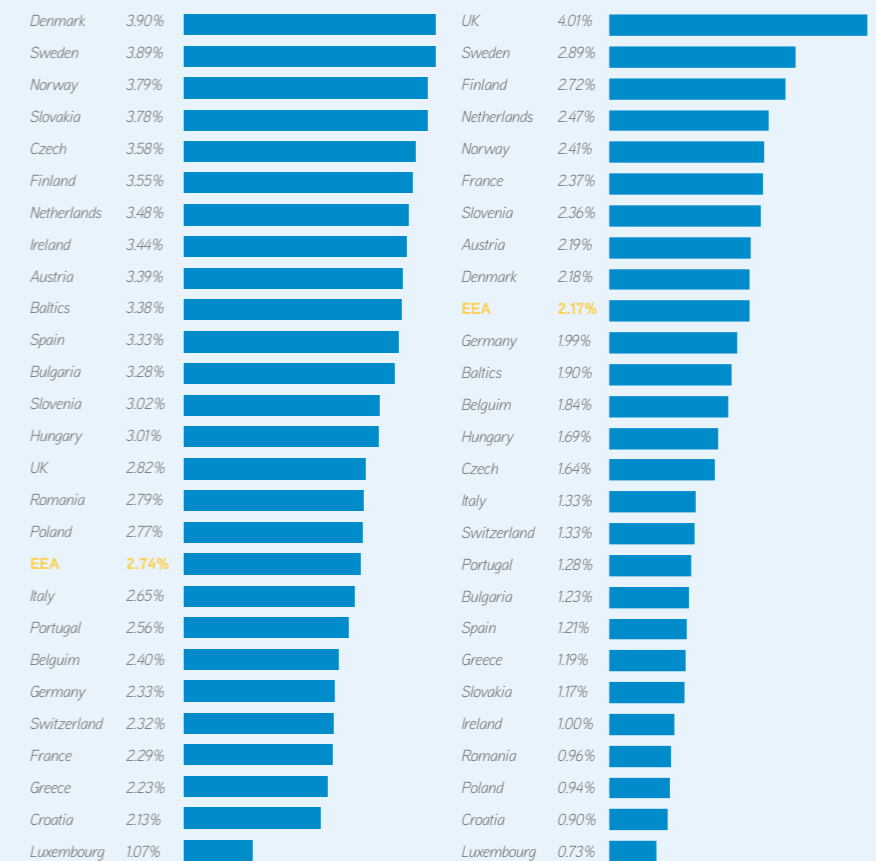


FIG. 5: RECREATION SPENDING [AS % OF HDI, 2019]

SPENDING ON OUTDOOR GOODS



THE HEALTHY OPTIONS

Outside of the UK, many new schemes clearly market the cinema, leisure and F&B elements to attract customers. The Fabryka Norblina (Norblin Factory) project in Warsaw, Poland combines all of these elements into a new retail destination project, including a focus on the health conscious with a new Bio Bazar (the first of its kind in Poland) to offer organic products from local producers. This new mixed-use project by Capital Park is set to open in 2021, and will comprise around 26,000 sqm of retail and convenience space. The Bio Bazaar and food hall will account for 17% of this retail space.

The use of F&B to help drive customers to a centre or location, and both complement and drive retail

sales is clearly growing in prominence as other forms of dated, physical retailing diminish.

Intu's Uxbridge retail scheme close to London, which sits directly adjacent to the underground, includes half of the local high street for which Debenhams department store is the anchor. The department store was oversized for today's needs and subsequently right-sized which led to the creation of four new F&B units. The rents achieved on these new F&B units is at three times the value of those paid by the department store. Similarly, a large Waterstones book store has also been downsized to create a further high-street facing F&B unit which has been let to Cote Brasserie.

PIC. 1: THE FABRYKA NORBLINA



In the Netherlands, there has been significant growth in F&B demand, and this has been a key factor contributing to the success of the Magna Plaza scheme in Amsterdam. Magna Plaza, is the former Amsterdam main post office which has undergone complete redevelopment to create a new, high-end shopping mall. New boutiques and high-end retailers have set foot throughout the building, complemented by Amsterdam's

newest, and most unique food department and lively food destination of the city. The 'Food Department' is on the second floor of the building, comprising 16 different food units and three bars. This new mall is targeted at Amsterdam residents, Dutch and overseas tourists and is succeeding as a result. After the new opening, the number of annual visitors has doubled to four million.

PIC. 2: MAGNA PLAZA



FOOD FOR THOUGHT

While F&B can often drive the value of a retail space, mall or location, understanding the target market and customer base is vital to getting the retail mix correct, with an offer on the right commercial terms. For example, the Markthal project in Rotterdam is a fantastic piece of mixed-use architecture and arguably the centre-piece of the city. By bringing in the old market stalls selling a range of F&B to an internal hall surrounded by other forms of real estate, including residential units above it is a unique proposition.

However, there is disgruntlement amongst the locals who find the F&B on offer too expensive, as do some of the stall owners (in terms of occupational costs), and increasingly overcrowded. The tourist drawn to the building tend to overwhelm the place but spend their time with a selfie stick rather enjoying the fare on offer. Less spending is not driving commercial success, and the project appears to need a rethink in terms of who it should be most relevant to.

F&B SPENDING BY COUNTRY

Netherlands is in the middle of the pack, in terms of % of household disposable income spent on eating out (F&B). There is a significant range in spending on eating out as a percentage of HDI getting up to 15% in the Mediterranean climate countries, plus Ireland, Hungary & Austria. Eastern European countries spend far less, which is a function of lower incomes. Adding Sport and recreation spend into the mix, and we're getting up to 20% of HDI spending.

In terms of growth rates in spending on eating out, the fastest growing markets are in the CEE region, strong divergence with some of the major eastern European economies and Baltics playing catch-up on F&B spending, showing the strongest rates of growth compared to more stable UK, Sweden as well as southern European economies with more challenged economic conditions - notably Greece & Italy - where F&B prices for tourists in particular have been held at relatively high prices.

Overall, F&B clearly has a role to play and for the EEA30 area will continue to grow as a % of total HDI spending in years to come - but at lower rates of growth. These lower rates of growth reflect the likelihood of an economic slowdown in the years ahead where F&B - perhaps the most discretionary form of spending relative to other necessities, is likely to see the sharpest cooling off. While F&B has been the retail poster child of late, it is also worth noting that F&B spending in the UK - the forerunner of trends for Europe - has been slowing since 2015. Brexit aside, there are messages for retail landlords not to put all your eggs in the F&B basket. For example, Eldon Square - a benchmark retail destination in Newcastle-upon-Tyne - ended up with an oversupply of F&B space when the retail space near the Greys Monument entrance was turned into restaurants but a number have closed or handed back via CVAs. Similarly, The Corn Exchange in Manchester - was a failed high end retail scheme which resulted in over-supply and not enough prominence for some units.

FIG. 6: EATING OUT* & F&B GROWTH RATES
[*AS % OF F&B, %, 2019]

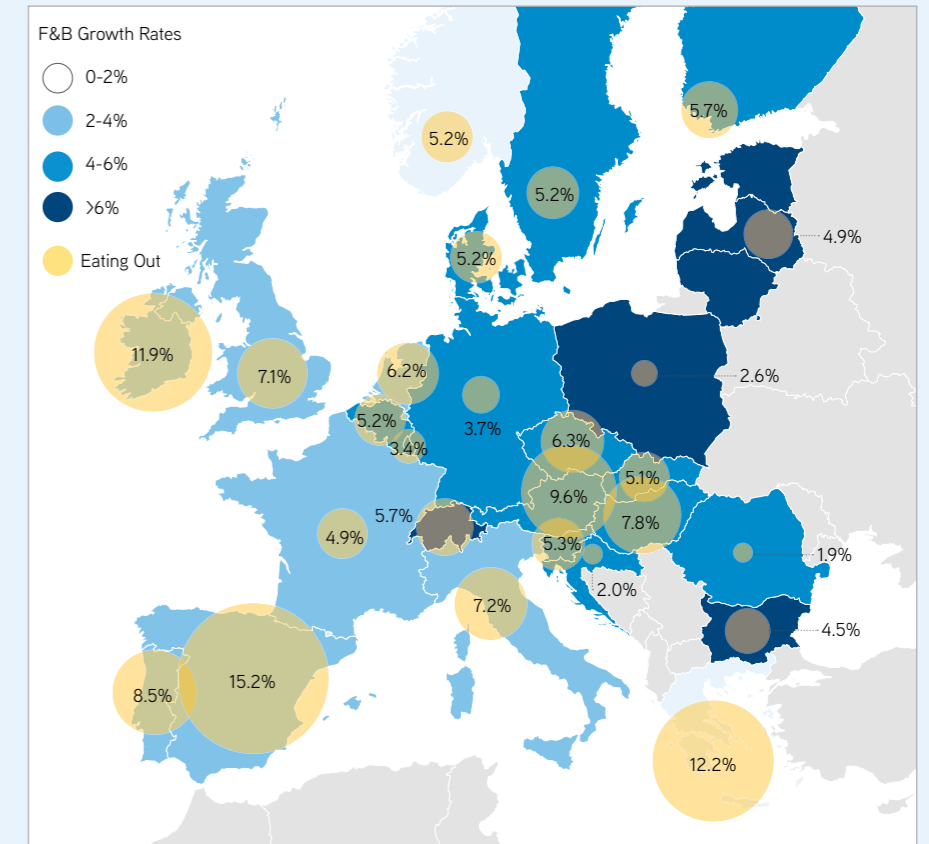
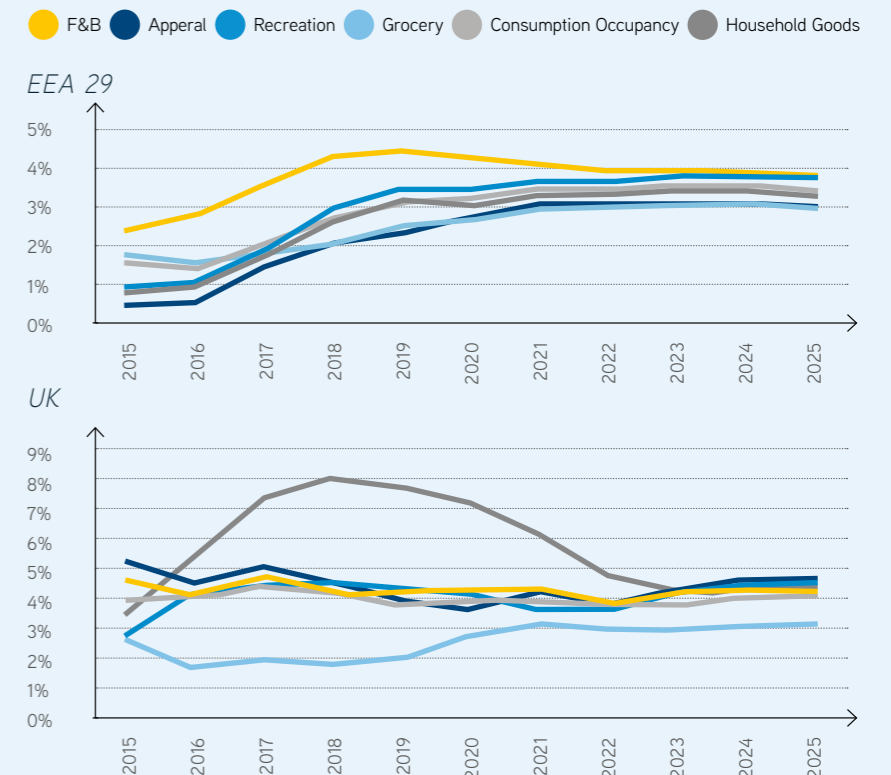


FIG. 7: EEA 29 & UK CONSUMPTION GROWTH BY KEY SECTOR
[2015 - 2025]



Sources: Figure 6: Colliers, OxfordEconomics, Eurostat; Figure 7: Colliers, OxfordEconomics, Eurostat

CONCLUSION/SUMMARY

Not being relevant has created a 'crisis' in retail space in the UK and US in particular. While much of the blame for the demise of physical retail has been laid at the feet of e-commerce, the longer-term impact of a shift from suburbanization to the re-population of core cities and their metropolitan boroughs has come at the expense of 'cookie-cutter' satellite towns and suburbs. This is at the core of the UK's High street issues and also partly to blame for 40% of UK traditional shopping centres falling into commercial obsolescence due to retailer failure, proximity to competing malls or general urban decay.

Reinventing these centres is about creating an environment that is relevant to the local community it supports, its sticky customers, not trying to expand its natural catchment and compete with neighbouring centres. There are numerous examples of where blending entertainment, leisure and F&B can be made to work to great alongside the community services (see Roeselare, Belgium or shopping centres such as Iso Omena in Espoo Finland). There are also several examples where it has not worked – with 'over-supply' often mooted as a critical factor.

On the whole retail GLA per person appears stable with the increase seen in CEE/Baltics as much to do with population shrinkage as it is to do with more space being added. We also see no evidence of significant increases in large capacity retail (TSC/retail parks) as urbanization and e-commerce moves physical retail to a convenience format.

While total retail GLA moves in line with population growth it appears that with the move towards discount and convenience stores across Europe the share held by TSC's is on hold so the move is towards destination assets in capital or tier 1 cities.

But as cities get bigger, and it appears they will, the demand for sustainability will push retail towards a community/convenience bias best met by Multi-Use Developments (MUD's).

DESTINATION MALLS WILL BECOME THE DOMINANT MALL ASSET BUT WILL NEED CONSTANT REDEVELOPMENT IN ORDER TO STAY RELEVANT.

In the new omni-channel era the role of retail space will split to represent a marketing role for the shop window to the logistics role of the rear store room. This shift will drive retailers to demand lower rents to reflect the split role of the space.

Another requirement for large retail investors is the need for country diversity. Looking at the range of discounts to NAV offered by listed retail landlords it is apparent that the more geographically diverse the portfolio the smaller the discount. Overall, the non-goods element of retailing clearly has to be made to work, especially in TSCs which account for over 20% of GLA but only 10% of goods sales in Europe.

The flipside, is that various forms of retail have a large role to play as investable assets and in terms of mixed-use placemaking. Despite much in the way of negative headlines, investment is getting back into the market outside of long-term held shopping centres (TSCs). Retail investment has been on the up for high street, retail parks and grocery-convenience based retailing since 2007. Yet while consumption growth is relatively stable the level of stability varies significantly across countries. Curate your space carefully.

FIG. 8: RETAIL GLA PER PERSON [2015 VS 2025]

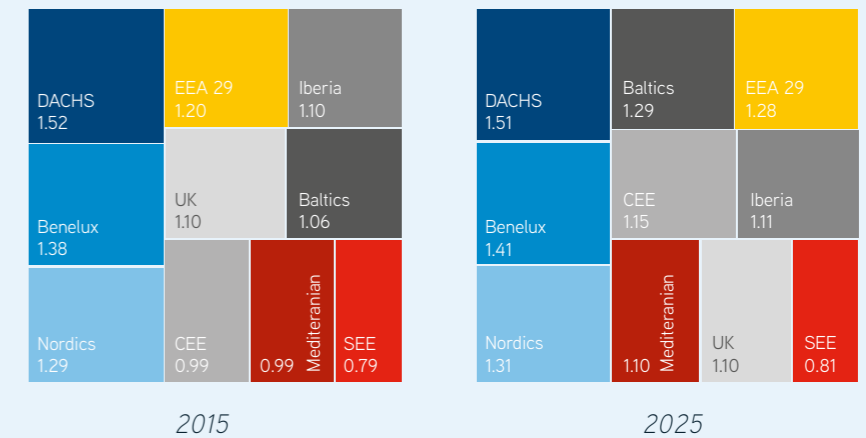


FIG. 9: RETAIL SPACE VS RETAIL SPEND [GOODS]

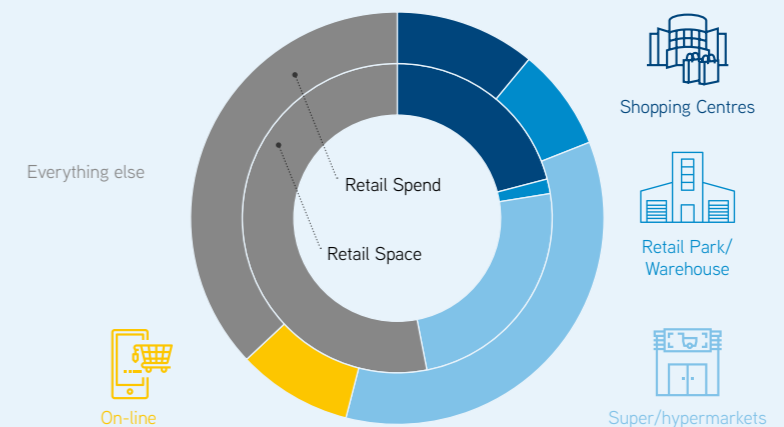
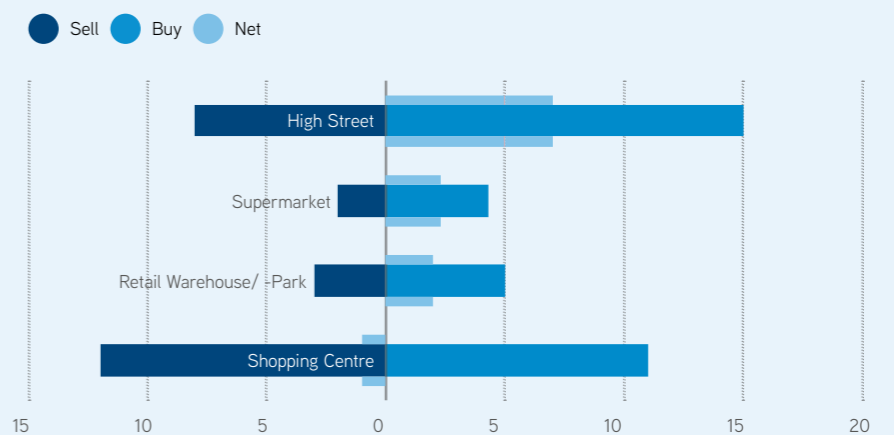


FIG. 10: RETAIL SCALE: INVESTMENT DEMAND [EUR BN SPENT, 2017+, TOP 50 EUROPEAN INSTITUTIONS]



Sources: Figure 8: Colliers, OxfordEconomics, Eurostat; Figure 9: Colliers, OxfordEconomics, Eurostat; Figure 10: Colliers, OxfordEconomics, Eurostat

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