OUTLOOK 2021

RETAIL

FAST FORWARD

CUSHMAN & WAKEFIELD

RETAIL OUTLOOK 2021 – FAST FORWARD

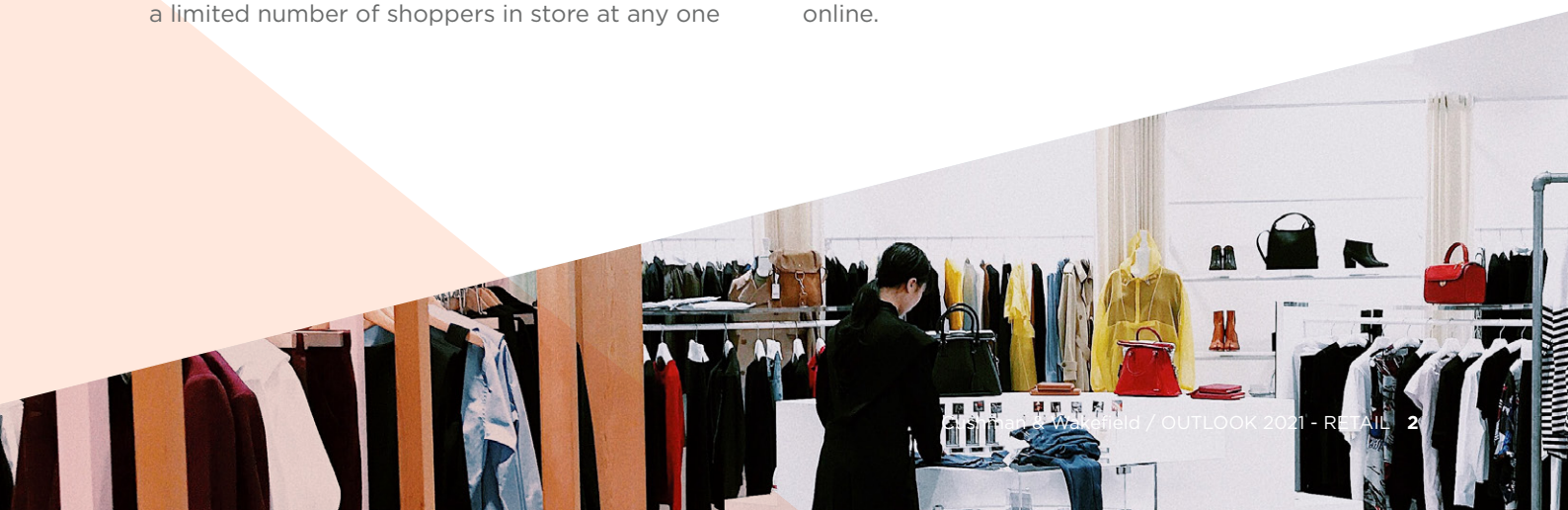
The fact that the retail market in the Netherlands is highly polarized became only too apparent in March last year. While many non-food shops voluntarily closed their doors as shoppers stayed away, those same shoppers were confronted with empty shelves in the supermarket due to panic buying for fear of shortages. In that week, supermarkets experienced their second highest weekly turnover ever. Where luxury Christmas products normally account for peaks in sales, this turnover was generated mainly by pasta, potatoes, flour, soap, toilet paper and paracetamol. Supermarket employees and other shop workers proved to be vital to keep society running, and the typical, fine-meshed Dutch retail structure ensured that there were no really long queues anywhere at the entrances of supermarkets and shopping centres.

IN SEARCH OF A NEW RELATIONSHIP BETWEEN SHOPS, THE HIGH STREET AND THE CONSUMER

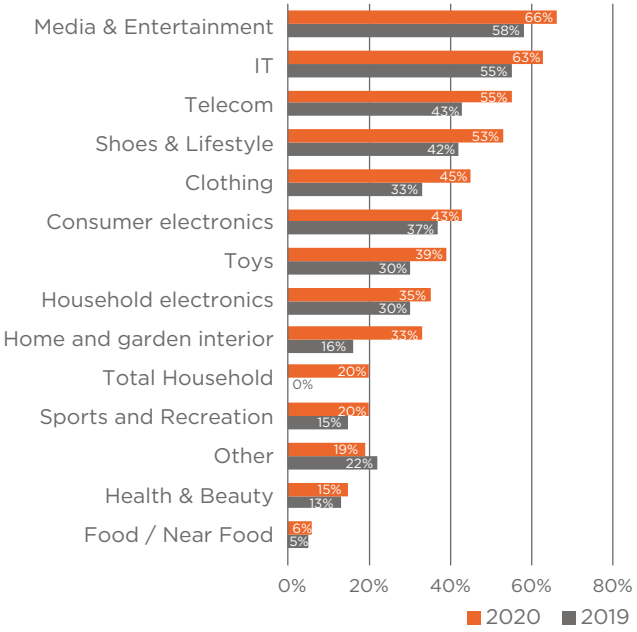
During recent months retailers have demonstrated extraordinary resilience and adaptability. Following a short initial period of voluntary shop closing, the sector itself came up with a major package of hygiene measures, such as protective screens at the checkouts, marking out walking routes through the stores, restricting the number of shoppers in store at any one time and disinfecting the baskets and trolleys. In addition, right from the very start all stakeholders engaged in constructive talks with each other and provided the government with advice, whether asked for or not. This led to a support agreement which included schemes for deferring rent payments and granting rent reductions, so that everyone could get through the crisis together.

For much of 2021 the situation on the Dutch high street will be far from normal. Even when all shops eventually do open their doors, social distancing of 1½ metres will remain the norm for a long time yet. In addition, all the hygiene measures introduced mean that visits to shops will go hand in hand with a limited number of shoppers in store at any one time, continuous disinfection, changing rooms and toilets often closed and the compulsory wearing of a face mask. On top of this, the possibility of a new wave caused by a mutated version of the virus will be a continual threat. Although many consumers were undeterred by these measures in 2020, all these measures are not conducive to an enjoyable shopping experience.

The situation on the high street is in stark contrast to the record turnover being achieved via online shopping channels. During the intelligent lockdown, shoppers turned en masse to online shopping, and have continued to do so even after the first wave. Payments via IDEAL, which had already been rising steadily for many years, accelerated to new heights, even after the first lockdown had been largely lifted. Last year the share of online sales channels grew to around 21% of the total retail trade. This share, however, is not evenly distributed across the various market segments. Many more non-daily product categories in particular are being bought online more often. It's not only the usual suspects being bought online, such as music, games and streaming services, but a large proportion of electronics, toys, clothes and shoes are now increasingly bought online.



Online Retail as % of total expenditure per sector
source: INRetail (2020)



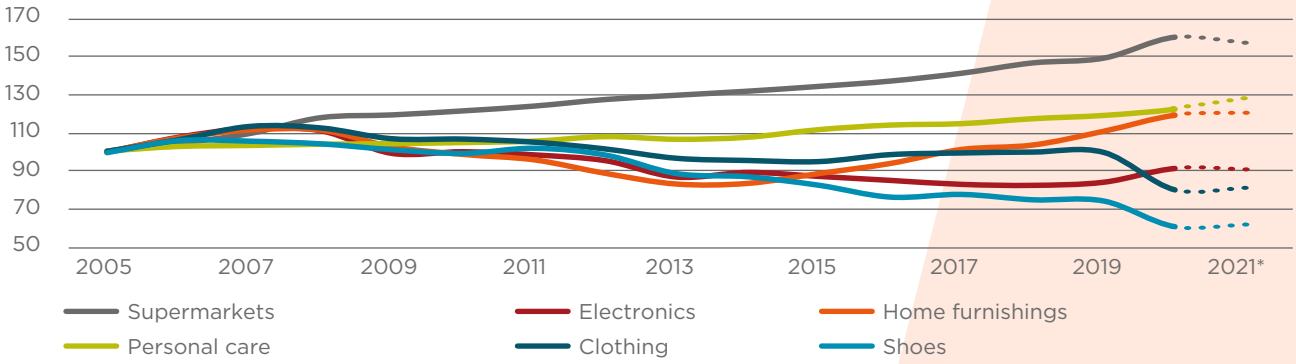
During these COVID times, all kinds of new sectors to do with the home have been added, such as home furnishings, garden products and household goods.

What is striking and important is the persistently low share (6%) of online food retail in the total, while expressed in turnover it is by far the largest segment of the retail trade. In 2020, food retail reached EUR 54 billion, accounting for 44% of the total. This has slowly produced a divide between the resilient food, i.e. 'convenience', segment and the non-food segment of the retail market that is more susceptible to online retail.

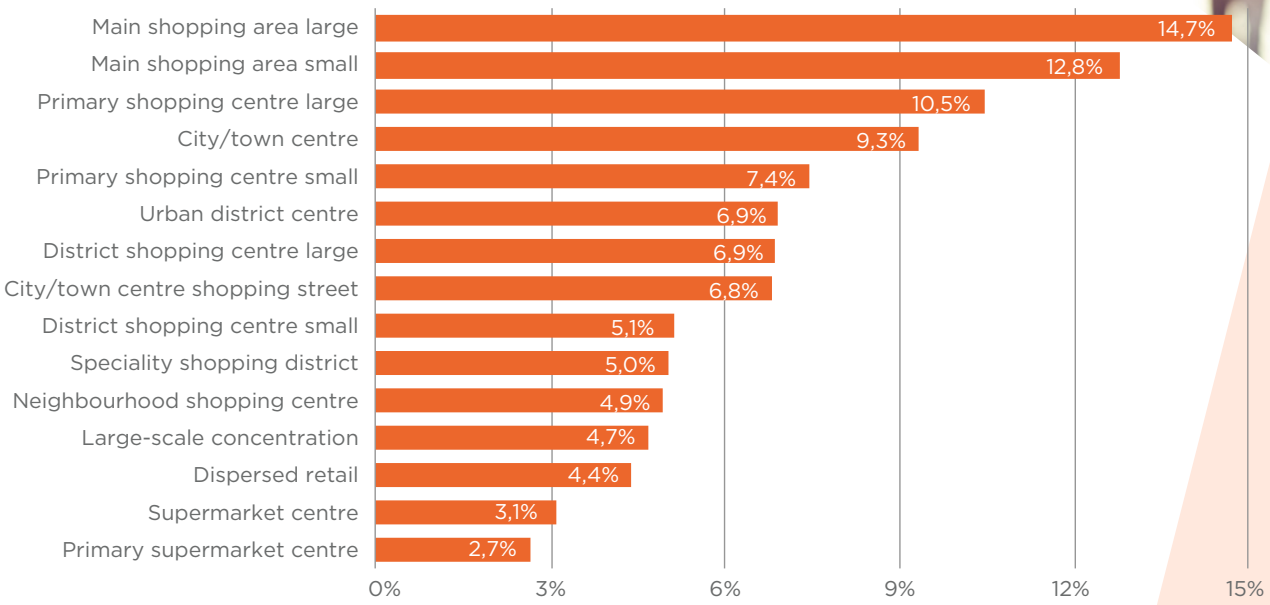
While the larger and smaller shopping centres focusing on the convenience segment are generally experiencing few problems, it is in the central shopping districts and high streets in the Netherlands where retailers with non-daily product ranges are pulling out and leaving gaps in the shopping streets.

If we compare turnover per segment, it is clear that clothing and shoe shops have seen their turnover fall sharply. Turnover fell in 2020 by 19.5% and 18% respectively compared to the previous year. Only a very slight recovery of 1% for clothing and 2% for shoes is expected for 2021, due to a reduction in the number of shops. Supermarkets and speciality food retailers have profited significantly from the closed hospitality sector. For 2021, a fall in turnover of 2% is therefore expected as a large part of this extra turnover will flow back to the restaurants and cafes (Source: kennisbureau ING).

Retail turnover trends per sector
Index: 2005 = 100 (source: Statistics Netherlands)



Retail vacancy per shopping area type
in % of retail floor area, 2020 (source: Locatus)



OUTLOOK OCCUPIER MARKET 2021

On the retail market, even before the lockdown stakeholders had been seeking a 'New Normal', knowing that the offline retail market is undergoing major structural changes as a result of the arrival of alternative information and sales channels. The COVID pandemic has simply revealed these slow, structural changes and accelerated them.

Various major retailers are currently accelerating their online strategy, an increasing part of which also involves outsourcing online sales to platforms such as Bol.com and Amazon. This is at the expense of a physical presence in shopping streets, causing a decline in demand for solitary retail premises in the main shopping areas. This means that rather than bankruptcies being the cause of the decline in demand, retailers are being much more critical of the actual number of shops they need. However, it is likely that the number of bankruptcies will rise considerably during the second half of 2021 after the government-related support measures have come to an end. The retail property market in the main shopping areas is being confronted with downward pressure on market rents, and the demand for space for other uses is becoming better visible in the streetscape. Shopping on upper floors is becoming less relevant, and will lead in the future to alternative uses such as residential or office space.

In the medium-sized and smaller town centres in particular, a trend towards compact shopping districts can be seen, which has led to the market for retail space becoming highly localized: general trends determine the dynamics to a much lesser extent. The relocation of existing shops to vacant units with high footfall is typical of the current trend. Increased availability in combination with competitive rents makes it possible for retailers to relocate to better locations at lower rents. Every town, or even every shopping street, needs its own customized solution, where the potential for redeveloping retail premises into other functions is being more closely examined. The same goes for the big cities too.

On the one hand the retail function of city and town centres is under pressure. Retaining the retail function of the upper floors in particular of large, former department stores is no longer a given. Partly due to the lower rents at these locations, alternatives such as transforming them into homes or offices are some of the possible options. In Amsterdam the former V&D premises are being

largely transformed into an office building, while only the ground floor along Kalverstraat will be retained as retail space.

On Rokin, the former department store of Hudson's Bay is being converted into the new head office for the Dutch fintech firm Adyen, while in Eindhoven a flexible workplace concept and meeting rooms are being developed on the upper floors of the former department store. Various development studies have also been carried out on the former Hudson's Bay premises in Amersfoort, Haarlem, Leiden and Amstelveen, where virtually no retail space is being created on the second and higher floors. As retail rent levels are generally falling and offices at multifunctional and lively locations are rapidly increasing in popularity, transformation into offices is a logical step. This applies not only to offices, though. Residential use is also increasing in the city centres. However, it should be noted that there is always a significant discrepancy between the book values and the market value, so that transformation cannot always be achieved in the short term.

Driven by the huge pressure on the housing market and the increasing popularity to live, work and enjoy leisure time in a lively city centre with all amenities within walking distance, retail buildings are highly desirable places to live in.

On the other hand, in more and more places the retail function is being rethought, with a shift being observed from non-daily shopping to the convenience segment, above all in the medium-sized and smaller town or urban district centres. In Leiden the former V&D building has now given way to the largest Action discount store in the Netherlands, in Enschede the Hudson's Bay building has been taken over by 2 Brüder as a mega-supermarket specifically targeting German visitors, and in Amsterdam-Noord Lidl operates its largest supermarket in the Netherlands in the former V&D building. The number of AH To Go and Jumbo City shops is also rising steadily in city centres.

OUTLOOK INVESTOR MARKET 2021

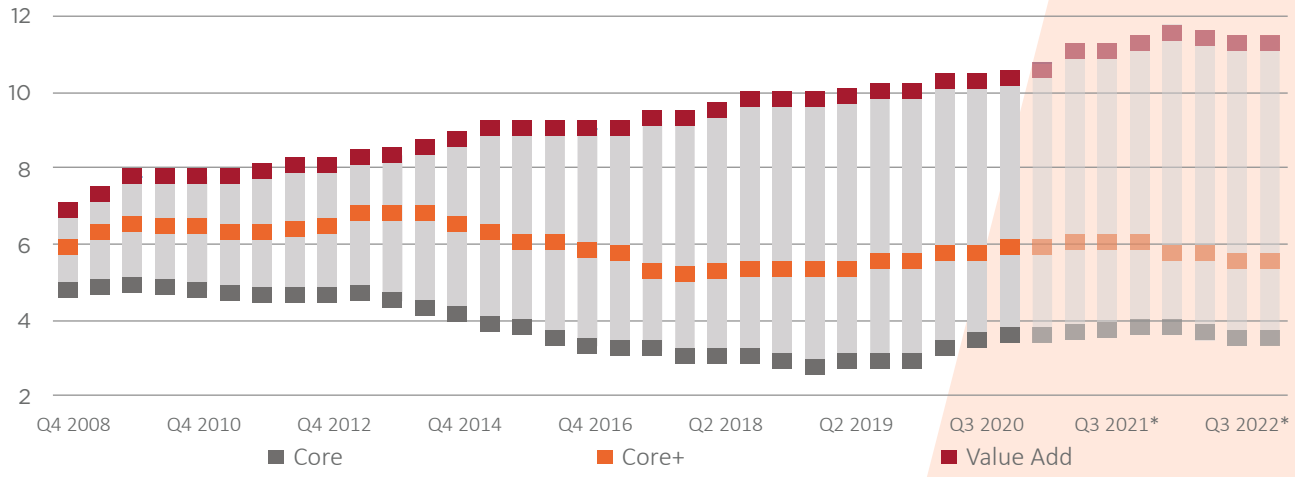
Investors are anticipating the post-COVID era with a strong focus on retail property in the convenience segment. Private investors account for around 85% of the investment volume and therefore put a clear stamp on the transaction dynamics in 2020, which reached EUR 2.02 billion by the end of the year. With a share of 14% in the total investment volume in commercial property, the retail segment remained noticeably stable. Buyers focused to a large extent on acquiring supermarkets and district shopping centres offering a relatively wide range of products to meet daily shopping needs. A further fall in initial yields for convenience is expected in 2021, as demand for these kinds of properties will remain high while supply will fall further. There is a considerable discrepancy between supply and demand. The very best properties for convenience shops will remain scarce on the market in 2021 and so will force investors to adjust their investment profile and settle for convenience centres that are suboptimal for their purposes. Private businesses and funds will move increasingly into the convenience segment to give their portfolios a solid foundation, spread risk, achieve greater diversification within the portfolio and a stable cashflow, and are willing to accept lower initial yields.

A relatively high volume of supply in the retail investment market is found in the larger and smaller urban centres, both in the form of solitary shops and in urban, fashion-related shopping centres. There is limited interest in these properties as the prospect of solvent lessees is somewhat uncertain and with it uncertainty regarding solid cashflow. This caution is further reinforced as the finance market, led by the major Dutch banks, are strongly risk-averse when providing new financing for retail-related property, with the exception of supermarkets and convenience-driven shopping centres. It demands creativity on the part of the selling parties to structure the supply in such a way that buying becomes more attractive to private investors who do not depend on external finance.

Despite the difficult sales conditions, private investors are indeed buying property in the main shopping areas. These investors prefer propositions with the option to transform the upper floors into homes, where convenient access to these floors can be created. A relatively new category of buyers, who will manifest themselves further in the coming year, consists of local authorities playing an increasingly active role in reducing the retail landscape within their municipality.

In this way they are working towards achieving an urban environment which is pleasant to live in, with compact shopping amenities and which besides shopping is a good place in which to live, work and relax.

Trends and forecasts for gross initial yields
in %, Core-, Core+- and Value Add (costs payable by purchaser (k.k.)) for retail space (source: C&W)



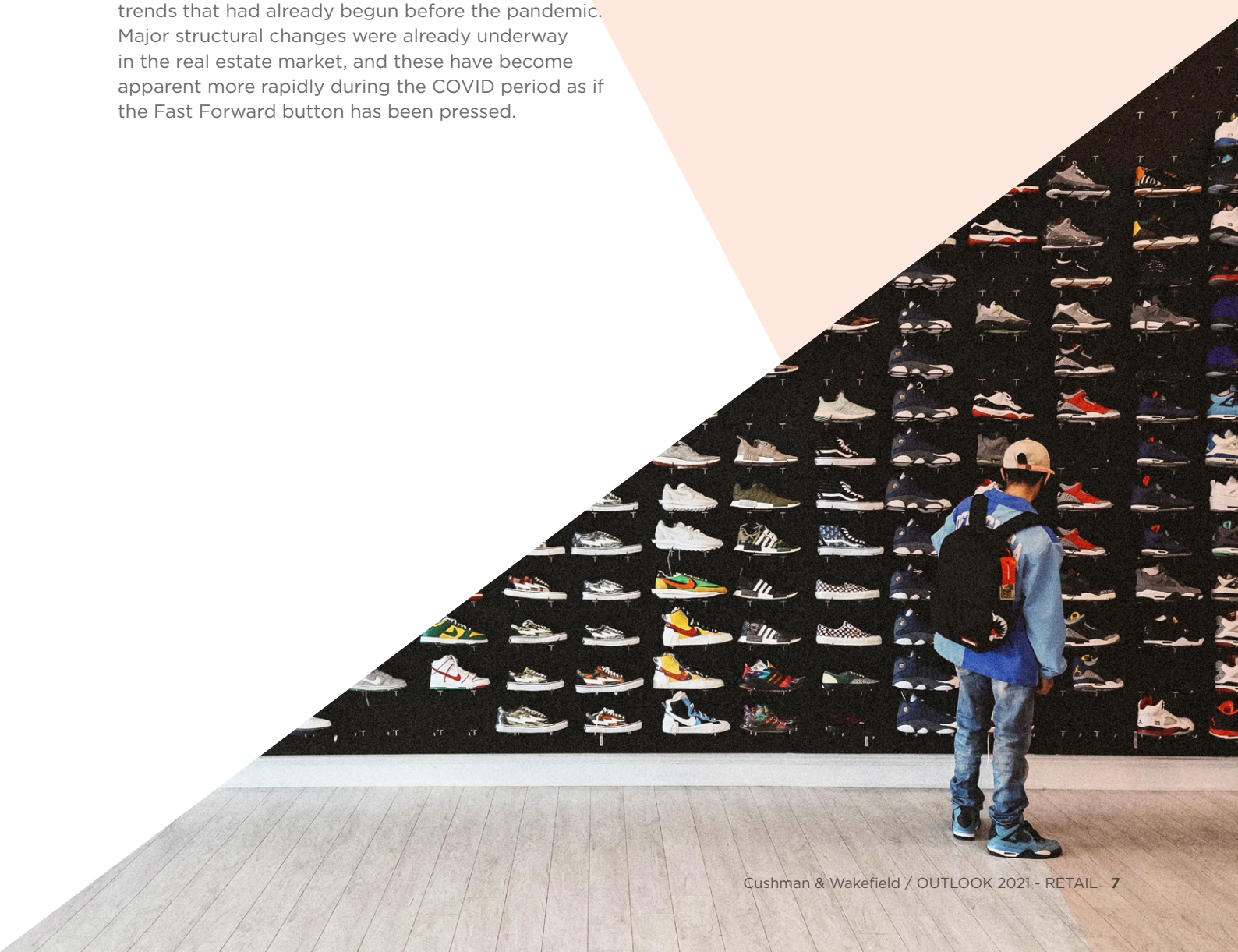
FAST FORWARD 2021

Unlike previous recessions, the current crisis cannot be traced back to systematic economic or social flaws. If the virus can be suppressed this year, there is nothing to prevent a rapid economic recovery.

In its basic estimate, the CPB Netherlands Bureau for Economic Policy Analysis is assuming an economic recovery of 2.8% in 2021. Unemployment will peak at 6.1% in the second quarter of 2021, and then fall slightly. The alternative start-stop scenario, however, assumes a further economic contraction of 1% in 2021 if the current lockdown will have to be repeated several times during the year to keep the number of infections down. In that scenario, unemployment will rise to almost 8%.

It is therefore important to keep an eye on the trends that had already begun before the pandemic. Major structural changes were already underway in the real estate market, and these have become apparent more rapidly during the COVID period as if the Fast Forward button has been pressed.

The year 2020 was an unusual one for the retail market. Huge uncertainty surrounding the progress and effect of the COVID pandemic meant that, although some subsectors have fared better than others, virtually all retailers with a non-daily product range have been in a tough economic situation. The actual consequences will emerge in the course of 2021. Once the government's support measures come to an end and the deferred bankruptcies occur, retailers with proven resilience will bounce back and adjust to the new reality. A reality that will develop towards creating liveable and vibrant inner cities and towns, where living, working, shopping, relaxation and leisure go hand in hand, and where online sales channels become as important for retailers as the physical shops themselves.



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