

GERMANY

Cushman & Wakefield
Global Cities Retail Guide



Holding a central geographical location, the Federal Republic of Germany is one of the world's strongest national economies, and with 82.8 million consumers it is the largest single market in the European Union.

The country has flourished during the age of industrialisation and has had an undeniable impact on the global economy. Germany continues to be a highly industrialised and modernised country, and is one of the world's top exporters.

The retail market in Germany is mature and city centres remain popular. Though German consumers are very brand aware, they are also very price conscious, more so perhaps than anywhere else in Europe. There is increasing representation of international retailers, although it remains to be a competitive market to enter, especially if the nuances of the local consumer are not fully understood.

GERMANY OVERVIEW



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ECONOMIC OVERVIEW

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2018	2019F	2020F	2021F	2022F
GDP growth	1.5	1.1	1.6	1.3	1.2
Consumer spending	0.9	1.6	2.0	1.8	1.5
Industrial production	1.0	-0.9	2.1	1.4	0.9
Investment	2.7	2.6	2.8	2.0	1.5
Unemployment rate (%)	5.2	5.0	5.0	5.0	5.1
Inflation	1.7	1.5	1.5	1.7	1.9
EUR€/ US\$ (average)	1.2	1.1	1.2	1.2	1.3
Interest rates Short term (%)	0.0	0.0	0.2	0.5	0.7
Interest rates 10-year (%)	0.4	0.1	0.4	0.7	1.1

ECONOMIC BREAKDOWN

Population	83.0 million (2018F)
GDP (nominal)	US \$4.0 trillion (2018F)
Public Sector Balance	1.7% of GDP (2018F)
Public Sector Debt	50.2% of GDP (2018F)
Current Account Balance	87.4% of GDP (2018F)
Parliament	Coalition between CDU/CSU and SPD
President	Frank-Walter Steinmeier
Chancellor	Angela Merkel
Election Date	2017 (Presidential & Legislative)

RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

GERMANY	2018F	2019F	2020F	2021F	2022F
Retail Volume*	1.3	2.2	1.9	1.6	1.4

Note: *annual % growth rate unless otherwise indicated. Figures are based on local currency and in real terms. E estimate F forecast

Source: Oxford Economics Ltd.

CITY	POPULATION (2018)
Berlin	3,613,495
Hamburg	1,830,584
Munich	1,456,039
Cologne	1,080,394
Frankfurt am Main	746,878
Stuttgart	632,743
Düsseldorf	617,280
Dortmund	586,600
Essen	583,393
Leipzig	581,980



GERMANY LARGEST CITIES

Source: Destatis

Cushman & Wakefield | Germany | 2019

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RETAIL OVERVIEW

MAJOR DOMESTIC FOOD RETAILERS

Edeka Group, Schwarz Group, Rewe Group, Aldi Group, Metro Group, Lekkerland, dm-Drogeriemarkt and Rossmann

MAJOR INTERNATIONAL FOOD RETAILERS

Amazon Germany

MAJOR DOMESTIC NON-FOOD RETAILERS

Otto Group, Karstadt, Kaufhof, Peek & Cloppenburg, C&A, Tchibo, Ernesting's Family, Esprit, Takko, New Yorker, s.Oliver, Breuninger, Fielmann and Douglas

INTERNATIONAL RETAILERS IN GERMANY

H&M, IKEA, Primark, TK Maxx, Inditex Group (e.g. Zara, Massimo Dutti) and Abercrombie & Fitch.

FOOD AND BEVERAGE OPERATORS

McDonald's Deutschland (McDonald's, McCafé), Burger King, Nordsee, SSP Deutschland (Railway Station Gastro/Retail), YUM! Restaurants (Pizza Hut, KFC), Aral (Petit Bistro), Subway, Autobahn Tank und Rast, Vapiano, Starbucks, Subway, BackWerk, Domino's (Joey's), Hans im Glück, Peter Pane, L'Osteria, dean & david.

TYPICAL HOURS

MONDAY - FRIDAY

10.00-20.00*

SATURDAY

10.00-22.00

SUNDAY

Regularly closed, with the exception of airports & train stations.

*Supermarkets open from 07:00 – 20.00/22.00.

*In Germany the Ladenschlussgesetz regulates the time frame in which shops must not be open. Within the frame retailers are free to choose their opening hours. The hours given above show usual hours in the major cities.

NEW ENTRANTS TO MARKET

Arket (H&M)

Miniso

Five Guys

Tory Burch

Topshop / Topman

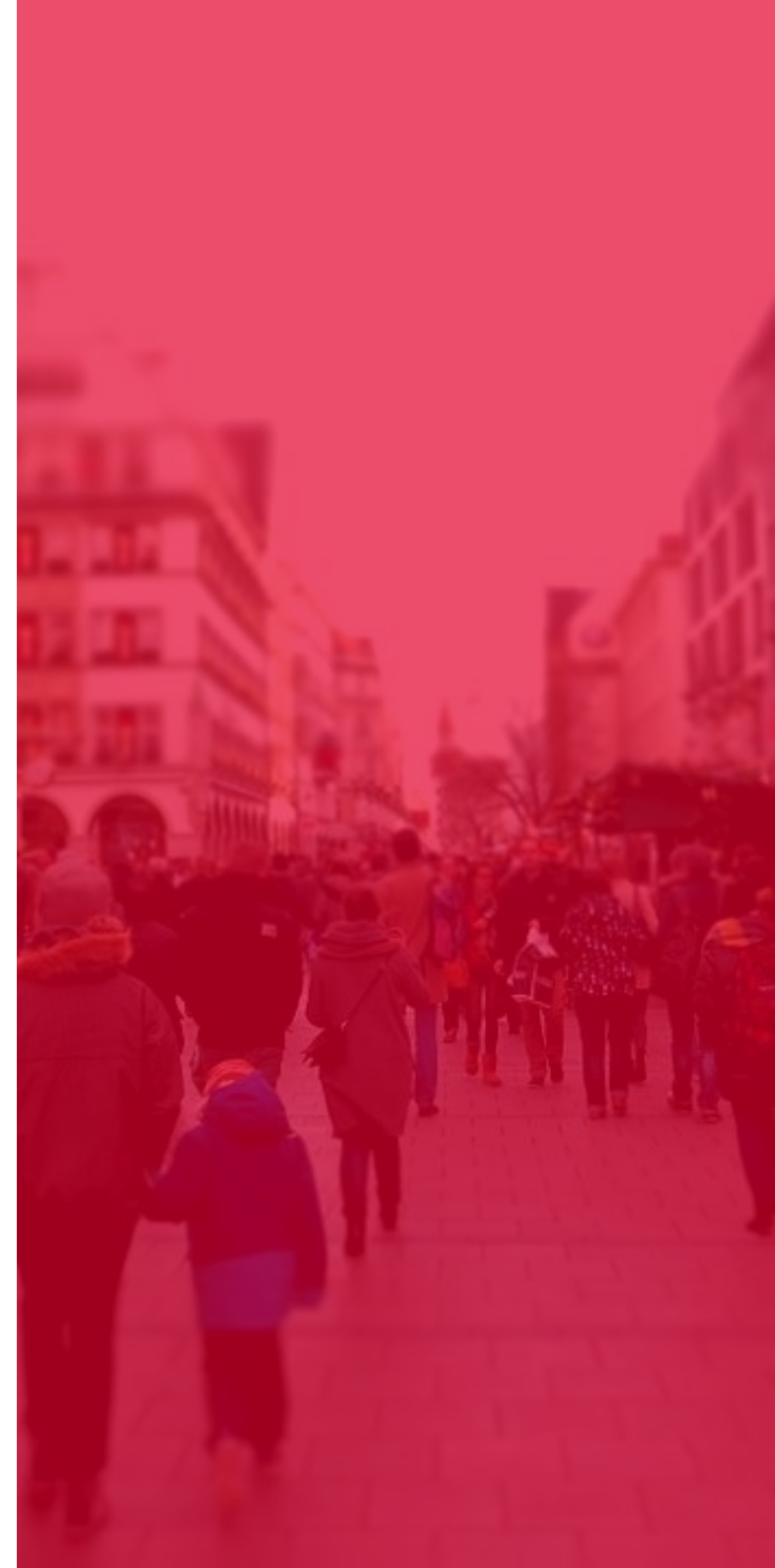
Sephora

NYX

Uniqlo

Ted Baker

& Other Stories (H&M)



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RETAIL SCENE

Germany's retail market, with a population of 82.8 million, combined with its overall stability in terms of retail turnover, is a strong draw for expanding national and international retailers. The sheer size of the market in combination with a comparatively high purchasing power puts Germany on top of their expansion agenda.

At the end of 2017, the total stock of shopping centre space amounted to 14.75 million sqm in 600 schemes (GLA of >5,000 sqm) with a shopping centre provision per thousand inhabitants equal to 171.7 sqm. Germany's shopping centre market is one of the most developed in Europe. Until the late 1990s, shopping centres were generally located in decentralized locations and out of town. However, developers and investors have now turned their focus on centre refurbishments and extensions, with the majority being located in the CBDs. This trend is not at least a result of the difficulty in obtaining building permission for new projects in peripheral locations, but also a response to the rise in attractiveness in the country's high streets and new opportunities to develop brownfield sites close to CBDs.

E-commerce in Germany has risen rapidly in recent years and reached a turnover of some €53.4 billion in 2018 according to Hauptverband Deutscher Einzelhandel (HDE). This figure reflects some 10% of total retail sales in Germany. The main focus of e-commerce is the non-food sector; however, the entry of Amazon Fresh into the online food market will undoubtedly have an impact.

Food retailers are coming back into the heart of the cities, close to the main shopping areas, with both traditional and the newer organic-format supermarkets.

Drugstores like dm-Drogeriemarkt and Rossmann Drogeriemarkt also occupy space on the main shopping streets, while food & beverage operators like coffee shops and snack brands continue to grow.

As German planning law is very restrictive in terms of building permits for new retail premises, and as German cities try to protect their CBDs, supply of prime high street retail space has remained relatively short. Demand from national and international retailers trying to introduce and expand new retail concepts in Germany has always been high. Accordingly, retail rents held stable in recent years or have even showed small increases in some locations. Given that competition by online sales has been steadily increasing further growth in rents cannot be expected.

The stability of the German retail market attracts both national and international investors. In 2018 some €10.5 billion was invested, mainly because lack of product a decline of approx. 20% versus 2017.

Transactions of retail warehouses and retail parks contributed most to the total retail transaction volume. Deals comprising this retail type totalled almost €4.5 billion and thus made up for more than 42% of the total annual volume. The majority of retail warehouses and retail parks changed hands in the context of smaller to very-large portfolio transactions and the majority of assets are widely distributed across Germany.

Further to mention the high importance of prime property purchases (€4.1 billion = approx. 39%) not least the result of big portfolio deals, e.g. the purchase of Galeria Kaufhof-group through Signa Prime Selection or of Pure High Street Portfolio from DIC through Swiss Life.



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RETAIL SCENE

Although the German economy has cooled somewhat the German retail sector is benefiting from a stable economic situation. In contrast to the past where typically foreign trade was the main driver of the positive economic development, the current performance is attributable to domestic demand, in particular, to consumer spending.

Both will continue to rise (almost +2% in real terms according to the institutes' forecasts). The "driver" behind this development is the sustained positive employment trend with continuous growth in employment (the number of people in gainful employment is expected to rise to a record high of over 45 million in 2019, and the unemployment rate to decline to less than 5%). Growth in employment has slowed due to the growing labour shortage, resulting in a sharp increase in wages and salaries. This has impacted the inflation rate, which will rise by around 2% according to the research institutes.

The retail sector is still performing well overall in this framework. According to preliminary information from the German Retail Federation (HDE), the volume of retail sales last year was over € 520 billion, which corresponds to real growth of approx. 2%. Taking 2% price inflation into account, the increase in retail sales was actually around 4%. This development reflects a sustained positive trend in the retail sector, the likes of which have not been seen since the 1990s. The 2019 outlook is also positive, with growth in the region of the previous year's level, although we have to remember that developments can diverge significantly depending on retail segment and sales channel.

But the increasing importance of multi-channel sales make a clear separation of online and offline sales obsolete, however. This is clearly reflected in the increasing online activity by stationary retailers and the growing number of stationary outlets opened by players that used to trade exclusively online such as Cyberport, Zalando, mymuesli, Mr Spex, Home24 etc.

In light of this development, good and attractive city centres with high amenity value that traditionally perform a magnet function for the city and the catchment area will still be the first port of call for experience-oriented shoppers. High street stores and their sales staff provide direct touchpoints for consumers and will therefore continue to play an indispensable role in the digital age. In the future, the city centre experience is likely to be defined to a greater extent than it was in the past by a combination of factors relating to shopping and working, communication and architecture, public spaces and social meeting points, image, culture and many other areas. In this context, retailers will still be an essential part of the total experience, although the cities all differ considerably in terms of their history, natural landscape features, basic parameters, tourism etc.



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SHOPPING CENTRES

TOP SHOPPING CENTRES BY SIZE

NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
CentrO	Oberhausen	119,000	1996
Elbe Park	Dresden	118,075	1995
Paunsdorf Center	Leipzig	116,737	1994
Ruhrpark	Bochum	115,500	1964
Alstertal EKZ	Hamburg	101,000	1970
Main Taunus Zentrum	Sulzbach	91,000	1964
Chemnitz Center	Roehrsdorf	90,000	1992
Nordwest Zentrum	Frankfurt am Main	89,000	1968
Nova Eventis	Guenthersdorf	87,500	1991
Gropius Passagen	Berlin	86,100	1995

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KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	COMMENT
Lease Terms	Retail: 10 years (5+5) with options. 10 year lease is common, however 5+5 years negotiable. Break options are unusual, however, anchor tenants in shopping centres get break options. There is no statutory right of renewal unless it has been agreed in the lease contract. But on the whole renting practices in the current market tend to become more flexible in terms of length, break-options, sales-based rent components.
Rental Payment	Rents are paid monthly in advance. Turnover rents are usually not found on the high street, but do exist in most shopping centre schemes and retail parks. Tenants pay a monthly minimum rent. Sales turnover rent is calculated at the end of the year. Minimum rent is deducted as prepayment. Key money is sometimes paid for stores in premium high-street locations – although not official.
Rent Review	Indexation clauses in leases of 10 years or more (including break options) include automatic adjustment on a given date or whenever the official consumer prices index ("Verbraucherpreisindex") increases by predetermined amount (decreases are not usually considered). Rent may be adjusted as the inflation index changes.
Service Charges, Repairs and Insurance	Service charge is always charged in addition to the base rent. Utilities included in the service charge. The basic principle of German law is that maintenance and repair of the property is the responsibility of the landlord. However, he can include provisions in the rent agreement transferring a large proportion of the internal maintenance obligations to the tenant. This is common practice in German commercial leases. Even so, certain key maintenance tasks always remain the responsibility of the landlord. These include maintenance of the roof, the structural components of the building, the outside walls and the supporting inside walls. Tenant: a proportion of internal repairs and maintenance depend on lease contract. Landlord: Tenant has liability for his business, glass insurance.
Property Taxes and Other Costs	Local property tax "Grundsteuer" is based on the value of the property. The tenant usually pays this through service charge and it is usually a negligible amount. VAT of 19% (current) is payable on rent.
Disposal of a Lease	Assignment of the lease is permitted subject to the landlord's consent. Early termination can be negotiated. The tenant is normally responsible for reinstating the premises, although this is negotiable.
Valuation Methods	There is no mandatory measurement code at present. Usually gross lettable area (GLA) is used. The existing DIN 277 mainly applies to residential property. Properties are valued by use of overall rates per m ² .
Legislation	BGB (Civil Code) / MietG (Rental Law; part of BGB). Leases are legally binding according to German General Law ("BGB").

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TENANT MARKET: PRESSURE ON RENTS, BUT NOT ALL DOOM AND GLOOM

Retail rents continued to rise to a greater or lesser extent until 2016, when they came “under pressure” as the result of an oversupply of retail space (total per capita retail space of 1.44 m²), the increasing significance of online retailing and problems at the retail companies – especially inner city and shopping centre textile retailers – resulting in widespread hesitance to expand. This has triggered a number of developments relating to various new rental business trends, not all of which are negative, even though they appear so at first glance.

Let’s start off with the current high street rent trend. There was a year-on-year decline in rents in the majority of the 132 cities surveyed (in 91, or almost two-thirds) in 2018. In 67 (= around half) of those cities, rents have declined by more than 5%, and in 24 cities (or around 18%) rents are down by between 0 and 5%. In 37 cities (= approx. 28%) top rents remained stable. Rents rose in just four cities (Berlin, Düsseldorf, Freiburg and Konstanz).

A closer look at rents in terms of city size reveals that far more smaller cities are affected by declining rents than larger cities with populations of between 500,000 and 1 million (50%) or cities with populations of more than one million (0%).

The rent trends are driven by the stagnation or overall shrinkage of tenant demand that many cities are experiencing – primarily for large retail units of 1,000 m² or larger and for vertical units with three or more floors. This particularly applies to the traditional city centre retail segment of fashion. Established fashion retailers are still expanding cautiously or optimising their existing chains. Examples include Esprit, GERRY WEBER, s. Oliver, H&M and Inditex with its ZARA flagship. In the past, all these retailers typically concluded a high number of new tenancy agreements each year.

On the other hand, we have never seen so many new concepts being launched or entering the German market across all retail segments (especially from abroad). Most are small and medium-sized brands with stores 100–200 m² or 200–600 m² in size that hope to take advantage of new opportunities in Germany, a major market. The same trend is evident in some parts of the textile sector. For example, the established players Hunkemöller, UNIQLO, Calzedonia/ Intimissimi, H&M’s Afound, ARKET, Home, Weekday, COS, Monki and new international “drivers” such as Topshop/Topman are still on an expansion course. But this won’t change the fact that we’ll be seeing fewer textile retailers in our city centres in the future.

As maximum rents “crumble” there will be an increasing number of consumer durables retailers such as Decathlon, JD Sports, Søstrene Grene, Mister Spex and HEMA. There will also be attractive shop concepts in our city centres serving the periodic demand segment in the future. Food retailers – especially the two market leaders EDEKA and REWE – are introducing more flexible formats. An increasing number of organic food stores (e.g. Alnatura, denn’s and BIOCOMPANY) are emerging, discount supermarkets (e.g. Aldi and Lidl) and drugstores (e.g. dm drogerie markt and Rossmann) are getting larger and a cooperation between traditional Hamburg brand BUDNI and EDEKA has given birth to a new national player (outside the greater Berlin area). We mustn’t forget the dynamic cosmetic/health segment with Rituals and easyApotheke, as well as new players Sephora and LUSH. “Price” is still a relevant argument in favour of high street shopping and it is clearly documented by the progressive expansion of aggressively priced retailers such as TK Maxx, Primark, Woolworth, TEdi and Action, or online retailer outlets on the high street (e.g. Zalando, notebooksbilliger.de).

Last, but not least, the restaurant trade represents an entire sector of sustainable and aspiring tenants. Eateries are increasingly establishing themselves in top locations – and even prime locations, where they are enhancing the amenity value and attractiveness of the city centre retail scene. Some of the relatively new and especially attractive concepts are Five Guys, bona’me, mama Trattoria, dean&david, coa, Jamie Oliver, Burgerlich, Hans im Glück, L’Osteria, Ruff’s Burger and B.GOOD. Traditional restaurant chains like Burger King or KFC are also planning to “step up their game” in coming years.

The development of maximum retail rents (80 – 120 sqm) to population size

CITIES BY SIZE CLASS (TOTAL INHABITANTS)	LONG TERM (2008-2018)	SHORT TERM (2017-2018)
> 1 million	27.9%	1.5%
500,000 - 1million	7.7%	-2.4%
200,000–500,000	2.5%	-3.9%
100,000-200,000	-8.9%	-6.2%
< 100,000	-6.5%	-4.9%

MANFRED SCHALK

Head of Retail Letting, Germany
COMFORT München GmbH
Direct: +49 89 219988 10
Office: +49 89 219988 0
Mobile: +49 89 175 7217706
schalk@comfort.de

YVONNE COURT

International Partner
Cross Border Retail & Leisure
Cushman & Wakefield
Tel: +44 (0)20 7152 5028
Mob: +44 7793 808028
Yvonne.Court@eur.cushwake.com



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