

Retail Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Rents are expected to remain stable in key locations and will decrease in some secondary locations.	▶
Prime Yields:	Yields to remain stable in high streets and to compress for well-managed retail warehouses/parks.	▶
Supply:	Ongoing refurbishment activities in prime locations and in shopping centres.	▶
Demand:	Ongoing demand from specialised shops, F&B sector, leisure & fitness and from online retailers wishing to offer a bricks and mortar consumer experience.	▶

Prime Retail Rents – September 2019

HIGH STREET SHOPS	€		US\$		GROWTH %	
	SQ.M	MTH	SQ.M	YR	1YR	5YR
Berlin	310		3,720	390	-1.6	1.0
Frankfurt	310		3,720	390	0.0	0.0
Hamburg	300		3,600	378	-3.2	-0.3
Munich	365		4,380	459	-1.4	0.0
Dusseldorf	290		3,480	365	0.0	1.1
Stuttgart	270		3,240	340	-1.8	0.0
Cologne	285		3,420	359	-3.4	-0.3
Leipzig	130		1,560	164	0.0	0.0
OUT OF TOWN RETAIL (RETAIL PARKS)	€		US\$		GROWTH %	
	SQ.M	MTH	SQ.M	YR	1YR	5YR
Frankfurt	15.20		182	19.1	0.0	0.1
Munich	16.30		196	20.5	0.0	0.2

Prime Retail Yields – September 2019

HIGH STREET SHOPS (FIGURES ARE NET, %)	CURRENT		LAST		10 YEAR	
	Q	Q	Q	Y	HIGH	LOW
Berlin	3.10		3.10	3.20	4.80	3.10
Frankfurt	3.30		3.40	3.40	4.65	3.30
Hamburg	3.40		3.40	3.40	4.40	3.40
Munich	2.80		2.80	2.90	4.20	2.80
Dusseldorf	3.50		3.50	3.50	4.70	3.50
Stuttgart	3.50		3.50	3.50	4.85	3.50
Cologne	3.50		3.50	3.50	4.65	3.50
Leipzig	4.50		4.50	4.50	5.65	4.50
OUT OF TOWN RETAIL (RETAIL PARKS) (FIGURES ARE NET, %)	CURRENT		LAST		10 YEAR	
	Q	Q	Q	Y	HIGH	LOW
Frankfurt	4.45		4.55	5.00	7.60	4.45
Munich	4.25		4.30	4.75	7.60	4.25
SHOPPING CENTRES (FIGURES ARE NET, %)	CURRENT		LAST		10 YEAR	
	Q	Q	Q	Y	HIGH	LOW
Country prime	3.85		3.85	3.70	5.40	3.70

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Overview

Following year-on-year growth of only 0.4% in the second quarter, with the ifo business index continuing to fall, employment growth is slowing, although unemployment has maintained its low level; 4.9% at the end of September. Nevertheless, conditions for the retail sector remain good, as rising wages are strengthening domestic consumption. In July 2019, retail turnover was 5.4% higher than a year previously.

Occupier focus

US fashion outlet Saks Off 5th closed all its stores in Germany by the end of June. Four of these locations were reopened in September as Karstadt Sports shops and thus cater to strong consumer demand for outdoor & sports clothing and equipment. Online retailer Zalando increased its number of outlet stores to eight with new stores in Stuttgart and Hanover. Fashion retailer H&M opened its first German in-store café in Heidelberg, picking up on the trend towards consumer wellbeing and entertainment. Food discounter Lidl opened its first “metropol” store - a concept for urban areas that moves the sales area to the first floor with parking on the ground floor, and the potential to add more storeys for other uses. Dutch non-food discounter Action is expanding fast, underlining the ever-increasingly dichotomous trend in retailing towards the discounting and premium segments. Retailers from abroad who have entered the German market in recent months include Turkish Monster Notebook (Berlin, 1,000 sq.m) and French cosmetics Sisley Paris (Munich).

Investment focus

With transaction volume of €7.4 bn in the first three quarters, retail investment decreased by 12% compared to the same period in 2018. Due to the structural changes in retail, investors are scrutinising retail assets very intensely and tend to prefer food-anchored shops and retail parks. Yields for shopping centres and prime high street shops have generally remained stable from the previous quarter with Frankfurt's prime high street yields decreasing by 10 basis points.

Outlook

Retail sales are expected to reach €537 bn by the end of the year, again with a major contribution from online-sales. Sectors facing the keenest competition from e-commerce are exhibiting slightly lower propensity to expand overall. In contrast grocery and drugstore operators continue to plan expansion. E-commerce, space-efficiency and enhancing the consumer experience will continue to influence the success of bricks-and-mortar retail.