EUROPEAN RETAIL
THE REVOLUTION CONTINUES

A SUMMARY OF THE KEY TRENDS, CHALLENGES AND OPPORTUNITIES BY SECTOR

WINTER 2018/19
Physical retail is very much alive – but it is undergoing a significant (and rapid) evolution and, in some parts of the market, there is an over-supply of retail space. To-date, this trend has been most evident in the US and the UK, but there is a growing debate about what lies ahead for the wider European retail sector.

Clearly, all markets are different and it is impossible to generalise about how different formats and locations will perform. People will continue to shop in the traditional sense, but there is no doubt that parts of the European retail market will face growing challenges and a shakeout of weaker locations/centres is in prospect.

In some cases, this will mean right-sizing and re-configuration. For others, it will involve complete demolition to make way for redevelopment focused on mixed use, including residential, hotels, events and leisure.

The key driver of this change is the growth of online shopping. In the UK, online sales currently account for around 18% of the total, while in Continental Europe online sales rates are generally lower and vary according to market maturity. Germany (c.15%) and France (c.10%) have the most mature online markets after the UK, while online sales in Sweden and the Netherlands stand at around 10% of the total.

In our view, the more mature retail markets of North Western Europe are most at risk of disruption in the short to medium term, as retailers re-configure their distribution networks to suit the omni-channel world.

In most of Southern and Central & Eastern Europe, online sales remain low at sub-5% of the total. As a result, it may take several more years for online to have a significant impact. Moreover, levels of modern retail provision in Southern and Central & Eastern Europe tend to be lower than the UK, France, Germany or the Nordics, so that supply and demand are more in balance.

Generally, larger city centres and dominant shopping centres/retail parks will prove more resilient, while the most adverse impact will be on tertiary and secondary parts of the market, notably secondary high streets and schemes.

For high streets in smaller cities, there is strong competition from shopping centres and retail parks and, with growing competition from online, consumers are opting increasingly for more accessible shopping locations with a broader and better offer. The locations at greatest risk are those which lack critical mass, a defined offer or a strong experiential or convenience element.

Designer Outlet Centres are perhaps the segment which is at least risk of possible disruption. These centres are destination-led, offer a day out and a strong leisure/heritage component in many cases, as well as a value proposition for the consumer. Rents tend to be turnover-based, so there is little over-renting. Luxury retail will also continue to thrive, supported by its resilience to online, relative under-supply and aspirational stores which are destinations in their own right.

Food also remains a relatively ‘defensive’ sector, given consumers’ propensity to shop in-store rather than online. While online food sales will likely increase from their current low base, we do not expect a rapid shift to online food shopping. In any case, even with a shift to online shopping, most large food stores could still function as ‘last mile delivery’ hubs, given their close proximity to large numbers of people.
Convenience retail will also remain relevant. Consumers will always want to do a ‘top up’ grocery shop at their local store, while commuters will want to pick up a bottle of wine as they battle through the crowds at the railway station on their way home.

The changing nature of retail means that the terminology around shopping and retail property also needs to evolve. With evidence of increasing trips to both ‘destination’ and ‘convenience’ locations, perhaps more analysis of retail locations based on shopper ‘missions’ would be appropriate, rather than the established ‘prime versus secondary’ method of looking at the market? And what should we call ‘shopping’ centres, which are now simply places where many different uses come together to create vibrant hubs, that cater for our diverse commercial, leisure and social needs?

The overriding theme of the next few years will be ‘place-making’. Sectors and uses are blurring, so it is now unthinkable to build a retail scheme without some leisure, residential, offices or co-working space.

In summary, while there will be casualties, many retail locations will continue to survive and thrive. The store is fighting back - retailers continue to innovate and develop new formats, while landlords are employing new ways to attract shoppers, as ‘bricks and mortar’ retail seeks to make the shopping process as convenient, engaging and enjoyable as possible.
# European Retail: The Revolution Continues

<table>
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<th>Retail Sector</th>
<th>Primary Customer Mission</th>
<th>North Western Europe</th>
<th>Southern Europe</th>
<th>Central &amp; Eastern Europe</th>
<th>Risk of Disruption</th>
<th>Key Trends, Challenges &amp; Opportunities</th>
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</thead>
<tbody>
<tr>
<td>Designer Outlet Centres</td>
<td>Destination</td>
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<td></td>
<td>DOCs remain supported by their value proposition, large outlets to sell old/surplus stock but there is scope to enhance surprisingly under-developed in CEE.</td>
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<tr>
<td>Shopping Centres, Major Out-of-Town</td>
<td>Destination</td>
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<td>Generally well-managed by international landlords; attract strong footfall, but lack exclusivity. The concept will survive, albeit with a smaller footprint, while operators will need to invest more in the convenience offer.</td>
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<tr>
<td>Shopping Centres, Major City Centre</td>
<td>Destination</td>
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<td></td>
<td>Boosted by the strong revival in large urban centres in recent years, under increasing threat from online shopping, notably for food. Low risk but continuous upgrading is critical.</td>
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<tr>
<td>Shopping Centres, Secondary Comparison Led</td>
<td>Purpose</td>
<td></td>
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<td></td>
<td>Considered a high-risk retail segment. These schemes typify the shift towards online retail, with frequently updated premises. Many will become obsolete and will present redevelopment opportunities.</td>
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<tr>
<td>Shopping Centres, Secondary Convenience Stores</td>
<td>Purpose/Convenience</td>
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<td>Convenience-led schemes have an important community function, while the food and service-led retail generates footfall. Less risky than smaller schemes with a comparison offer, given that schemes can lose out to larger centres.</td>
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<tr>
<td>Retail Parks, Fashion</td>
<td>Purpose</td>
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<td></td>
<td>This format is found mainly in the UK and parts of Central Europe. Well-located retail parks are attractive to large retailers, and are issues around the age and quality of some schemes, secondary cities are at greatest risk.</td>
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<tr>
<td>Retail Parks, Bulky Goods</td>
<td>Purpose</td>
<td></td>
<td></td>
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<td>Well-located retail parks are attractive to large retailers, and are issues around the age and quality of some schemes, secondary cities are at greatest risk.</td>
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<tr>
<td>Foodstores, Hypermarket</td>
<td>Purpose</td>
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<td></td>
<td></td>
<td>Online shopping and the rise of more convenient formats are supporting Europe's most successful retailers, but the age and quality of some schemes, as they lack an experiential element and parks on the periphery of major cities.</td>
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<tr>
<td>Foodstores, Out-of-Town Supermarket</td>
<td>Purpose</td>
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<td></td>
<td>In many European markets, out-of-town supermarkets form the anchor of suburban/district schemes and are popular with local shoppers. With online food shopping still at low levels, these schemes are relatively immune to disruption.</td>
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<tr>
<td>Foodstores, In-Town Convenience Stores</td>
<td>Convenience</td>
<td></td>
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<td></td>
<td></td>
<td>In Europe, there has been a growing trend towards smaller formats, with strong footfall and limited competition in many areas. Most of these schemes are under-developed.</td>
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<td>High Street, Large Cities</td>
<td>Destination</td>
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<td>High street retail in the largest cities is relatively low risk, but differentiation from competing cities and lack of investment has led to a lack of competitive pricing.</td>
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<tr>
<td>High Street, Medium Cities</td>
<td>Destination</td>
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<td>Perceptions vary by region. In north west Europe, many schemes have good footfall and are well-managed, while in the south, they are under-developed.</td>
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<td>High Street, Small Cities/Towns</td>
<td>Purpose/Convenience</td>
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<td>High streets in smaller cities/towns are under pressure from online, and in the case of smaller towns, the growth in tourism is having a boost for the sector, but the local retail is under-developed.</td>
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<tr>
<td>Department Stores</td>
<td>Destination</td>
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<td></td>
<td>Premium department stores with a unique experiential offer online and a lack of investment. The concept will survive, as the store ‘experience’ is needed, but will ultimately need to offer something distinctive and unique.</td>
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<tr>
<td>Luxury</td>
<td>Destination</td>
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<td>Luxury retail is confined to select high streets in Tier 1 cities and the rise of tourism has been a boost for the sector, but there is still an opportunity to maintain aspirational appeal.</td>
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<tr>
<td>Leisure</td>
<td>Destination</td>
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<td>Low</td>
<td>Generally low risk. Leisure will play a major role in anchors and experiential retail. However, operators and landlords need to keep pace with fast-changing consumer tastes and maintain investment in their schemes.</td>
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**Risk of Disruption:**
- **Very Low**
- **Low**
- **Medium**
- **High**
- **Very High**
For each retail segment in each region, we have assessed the relative risk of disruption based on the collective opinions of our local offices and have graded them accordingly to:

- Very Low
- Low
- Medium
- High
- Very High

**REGIONS**

**North Western Europe**
- UK, Belgium, Denmark, France, Germany, Netherlands, Norway, Sweden

**Southern Europe**
- Greece, Italy, Portugal, Spain

**Central & Eastern Europe**
- Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Russia, Turkey

**CUSTOMER MISSIONS**

Shoppers may undertake a trip for a variety of reasons, but we have divided customer missions into three broad categories, based on the main reason for visiting each location.

- **Destination**
  - Less frequent trips which are primarily focused on spending a day out in the location, which may involve several activities including leisure.

- **Purpose**
  - Fairly frequent trips which are made for a specific purpose, such as a big grocery shop or click & collect.

- **Convenience**
  - Shorter but more frequent trips, normally for a ‘top up’ shop with smaller baskets of goods, sometimes planned but also on the spur of the moment.
If you would like more in-depth information on individual countries and regions or to discuss market opportunities in more detail, please contact one of the following:

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