



# THE RETAIL ROLLERCOASTER

## KEY TAKE-AWAYS

- Retail's rollercoaster ride is heading for a new twist as the growth of e-commerce slows across Europe and online retailers increasingly look to build their presence with physical stores.
- 2025 is set to be a watershed year as we predict it will see e-commerce reach its 'point of maturity' across Europe.
- Amazon's offer is fundamentally shifting from its roots as an online retailer towards being a third-party provider of tech, fulfillment – and physical stores in which it will showcase its power brands. It will reinvent the concept of supermarkets and department stores for the 21st century and become one of the world's biggest occupiers of retailing space.
- While these transformations take place during the next five years, discretionary spending supported by real wage growth is forecast to help drive retail spending by around 3.9% per annum across Europe.
- This will help the physical retailing sector, but it is unlikely to translate into any real uplift in demand for space.
- Future demand for space will either come from new retailers or the online giants who have none of the 20th-century 'legacy' problems of huge store networks and crippling rent and tax bills that burden so many long-established retail offers.
- The online powerhouses have a massively advantageous competitive position but an increasing number of Governments are looking at levelling the playing field through taxation.
- The unstoppable growth of places to eat and drink has seen 25% of space in some UK High Streets dedicated to food & beverage offers. We expect this trend to be replicated across Europe.
- For ailing physical retailing environments, drastic action is needed.
- Redundant retail space must be eradicated through demolition or being re-purposed into residential and other alternative uses.
- Collaboration between all stakeholders in the retail world will be necessary to introduce the necessary measures.

## INTRODUCTION

The retail sector continues to evolve rapidly, as a multitude of factors contribute to the decline of some retailers yet the success of others. Headlines are often oriented towards those in decline, especially when more big global names have hit the buffers in 2018. The news that Sears has gone into administration in the US, is mirrored by the demise of similar household names in the UK House of Fraser earlier in the year, now Debenhams, amongst many others.

Much of the blame is placed at the door of e-commerce. In reality a range of factors have contributed to the demise of retailers recently, just as they have over time. These factors include rapid over expansion, poor site selection, onerous lease arrangements, inexperienced management teams, excessive business rates and out-of-date customer propositions. Insufficient investment into online/omni-channel

operations and technology are the new factors adding to the list.

So while 2018 looks like it will be a bad year for retailer insolvency, and this trend is creeping up, it is not as bad as it has been in the relatively recent past (at least when reviewing the UK market specifically).

In order to create a more balanced view of where the retail market is heading, this report looks at the overall growth trends in retail and consumption across Europe and explores some myths on the threat of e-commerce in particular. We also review how demand for retail space continues to change in terms of format and location, the extent to which traditional shopping centres are performing and how some retail investors/owners are dealing with excess capacity in terms of their non-core product.

FIG. 1: UK RETAIL STORE CLOSURES



## FROM ROLLERCOASTER TO YOGA

There are many expressions we could use to describe what is happening in the retail sector, but perhaps the most apt is a sense that retail markets are coming through their tumultuous stage into an era of calm. Different markets are naturally at different stages, but all should operate like a yoga practitioner: a very strong and stable core, with increasingly lean and flexible 'moving parts'.

### A strong core

It is clear from the performance of prime assets and the activity of major investors and retail landowners that core shopping centre assets continue to do well and are here to stay. Equally, using core assets as experiential advertising space is now a critical part of driving physical and online sales.

### Repositioning and diversification

Assets outside of the definition of core for a respective investor/owner are now being actively sold or repositioned into alternative uses. Recent examples of activity by Intu, Whitbread and Sainsburys show a big push into residential development and/or land sales, or in some cases residential-led schemes. Pushing the boundaries of diversification are Intu which is looking at flexible offices/co-working space and Whitbread, which is shifting into 'ultra-low' budget accommodation via their new Zip hotel brand.

In some cases, retail specific investors are making a much bigger shift into different sectors, with the likes of Meyer Bergman using their retail experience to invest in pan-European logistics assets.

### E-commerce impact dwindling

Our review of forecast growth and change in e-retailing for both goods and services highlights that the peak penetration is not too far off, 2025 the date by which e-retailing's influence over European markets will balance out. The impact of e-retailing for services will take longer, but when it comes to goods it is unlikely that this will be the cause of many more market shocks.

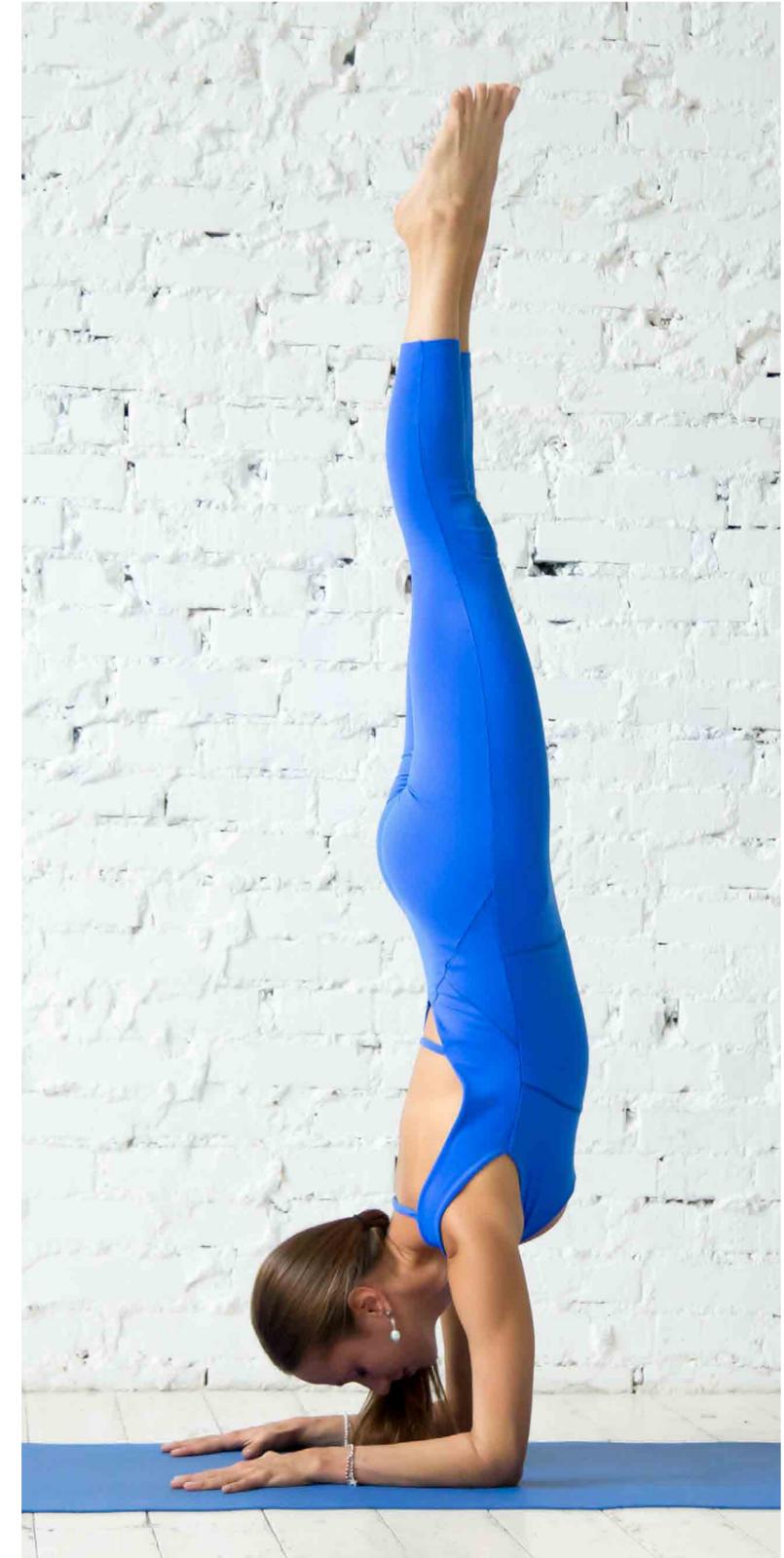
In fact, there is increasing evidence that the retail empire is striking back, as retail stores now drive online sales and 'Click & Collect' in store becomes an increasingly important part of consumer activity.

### The High-street is dead..... Long live the High Street.

As our cities continue to evolve, and in many cases 'pedestrianise', we expect high-streets to be brought back to life as part of more liveable, working environments. Successful environments will need to incorporate a blend of goods, services and F&B to help create sustainable, attractive and experience-driven locations and destinations. Lease terms and conditions for assets will need to reflect the trading reality of locations and their role as more than just a store - in terms of fulfilling last mile logistics via click and collect, retailer marketing, advertising and brand visibility, customer service for returns and incremental sales through traditional point of sales (POS) techniques and mobile apps.

### A level playing field

In order for cities to work, the role of retail in city transport and mixed-use urban planning will need to be better understood and integrated into a city offer. Retail will also require greater legislative support via a more level playing field when it comes to business rates and taxation. Regimes typically favour tech companies over traditional retailers, and it is interesting to see the UK recently make the first steps to try and address this imbalance. We expect other national and/or city governments to follow suit, to support the growth and vitality of our cities.



# CONSUMPTION AND RETAIL GROWTH

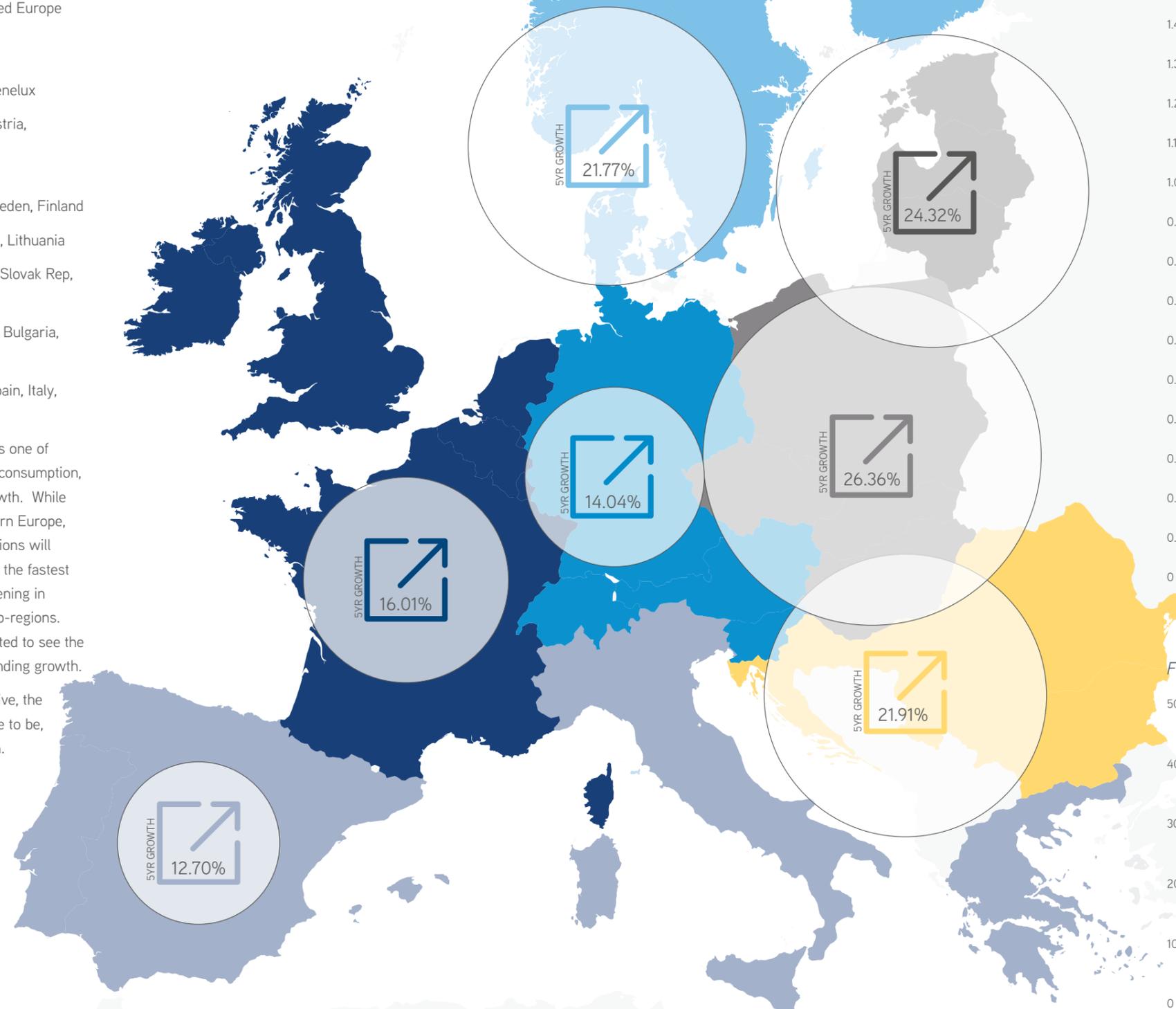
In order to review trends in consumption, retail growth and spending patterns and their impact on retail space demand we have categorised Europe into functional regions:

- Western: UK, Ireland, France, Benelux
- DACHS: Germany, Austria, Switzerland, Slovenia
- Nordic: Denmark, Norway, Sweden, Finland
- Baltics: Estonia, Latvia, Lithuania
- CEE: Poland, Czechia, Slovak Rep, Hungary
- SEE: Romania, Serbia, Bulgaria, Croatia
- Southern: Portugal, Spain, Italy, Greece, Malta, Cyprus

The positive theme overall is one of anticipated growth in retail consumption, but at different rates of growth. While the more established Western Europe, DACHS and Nordic sub-regions will continue to spend the most, the fastest growth in spending is happening in the CEE, Baltic and SEE sub-regions. Southern Europe are expected to see the weakest levels of retail spending growth.

From a per capita perspective, the Nordics is, and will continue to be, the biggest spending region.

FIG. 2: TOTAL RETAIL SPEND 5YR GROWTH [2013 VS 2018, %]



- Western Europe
- DACHS
- Nordics
- Baltics
- CEE
- SEE
- Southern Europe

FIG. 3: TOTAL RETAIL SPEND [EUR MLN]

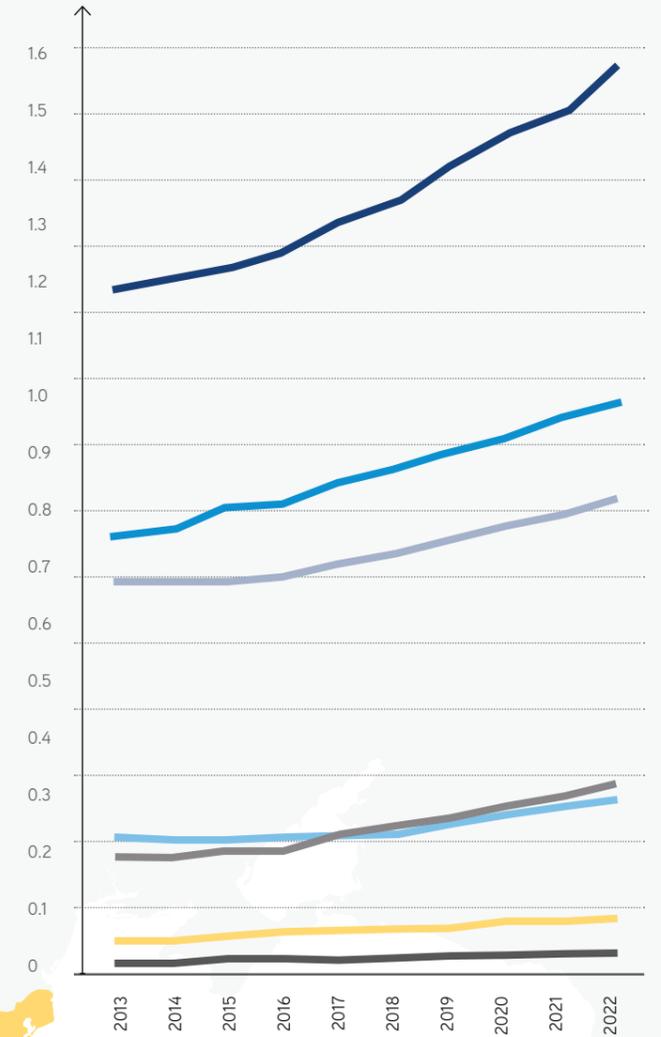
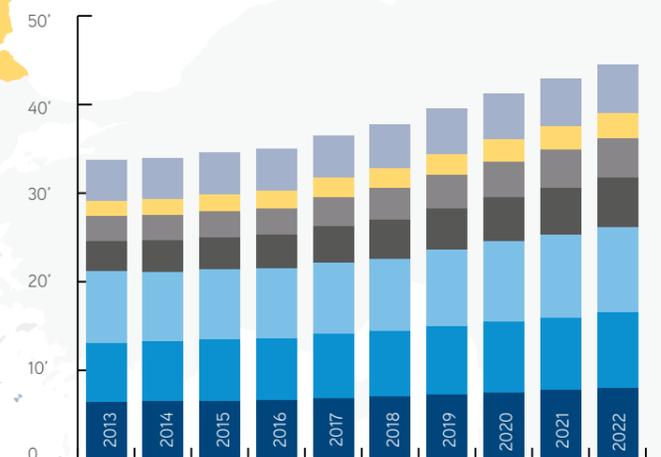


FIG. 4: TOTAL RETAIL SPEND/ CAPITA [EUR TSD]



Sources: Figure 2: Colliers International, OxfordEconomics, Statista; Figure 3: Colliers International, OxfordEconomics, Statista; Figure 4: Colliers International, OxfordEconomics, Statista

# RETAIL CONSUMPTION: NEEDS VS DESIRES

While growth in retail consumption is generally good news for retailers, we first need to consider how much of spending is needs-based, as opposed to discretionary. As we, hopefully, move out of the age of austerity into a brighter future and assume fairly stable levels of CPI growth in 'mandatory household costs' (rent, mortgages, utilities, insurance and the likes), any real increases in income are then more likely to be allocated to discretionary spend.

We notice that growth in retail spend will thus maintain an approximate 20bps advantage over total consumption growth. The allocation for 'mandatory household costs' is fairly consistent across Europe, and so significant wage inflation in Eastern Europe is driving strong growth in retail spend.

## Discretionary Spend by Channel

We are seeing a significant slowdown in e-commerce growth in the near future and we believe that the market penetration of e-commerce of 27 per cent as seen recently in the UK is not going to be repeated elsewhere in Europe. For all European sub-regions we expect e-commerce spending to peak between 2023 and 2025:

- Western, Nordics, CEE & Baltics peaking first in 2023;
- DACHS in 2024, and
- both SEE & Southern Europe in 2025 and Southern = 2025.

This suggests that the impact of e-commerce is going to slow. From which we also conclude that e-commerce will not cause significant further disruption to High Street or TSC retail space.

## Good or Services?

We have also looked at the often-quoted trend away from physical goods to experiential services, especially for millennials. If anything we are seeing a slight consolidation of the procurement of goods via digital channels rather than a massive shift towards services. We have looked at the four key types of experience spend: recreation & culture, package holidays, eating out and accommodation services (within source country).

While these categories are showing robust levels of growth in the near future they are not as stratospheric as some would have us believe. Throughout our assessment period these categories of spend in total only ranged between 16.1 to 16.4 per cent of discretionary spend, meaning there is still plenty of discretionary spending left for goods.

FIG. 5: ALLOCATION OF CONSUMPTION SPEND [EUR BN]

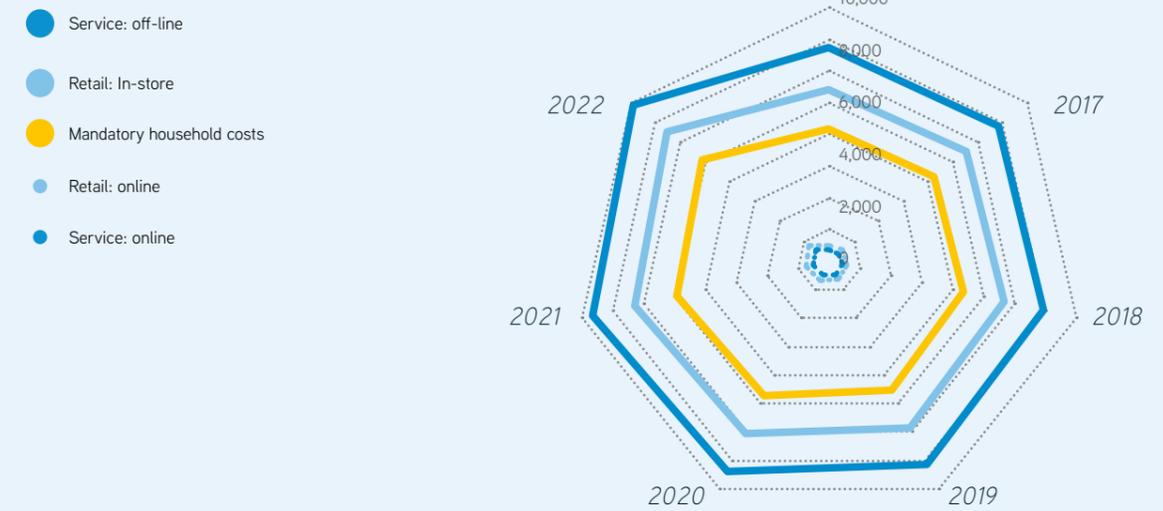


FIG. 6: E-COMMERCE RETAIL SHARE

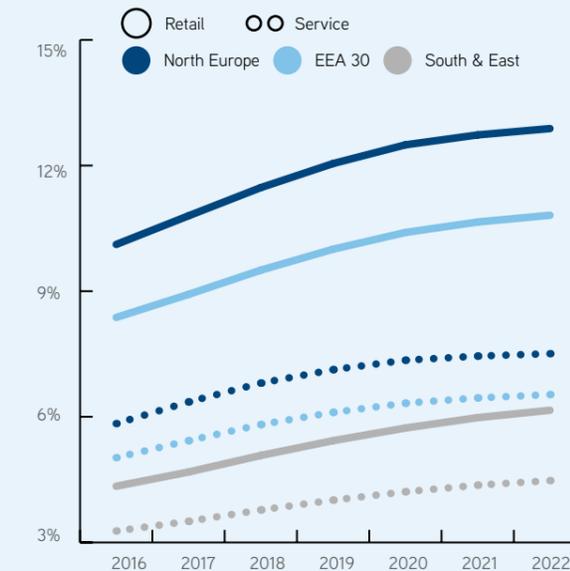


FIG. 7: GROWTH IN DISCRETIONARY SPEND [BY CHANNEL]

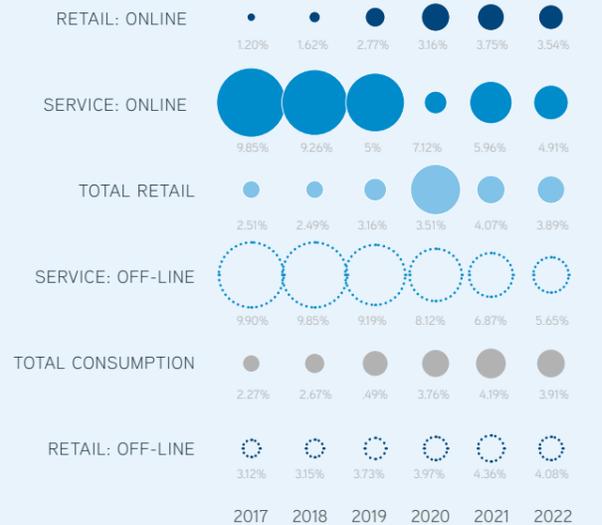
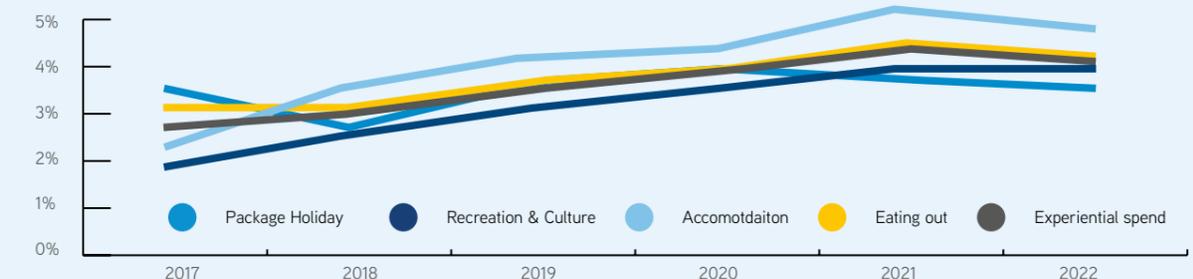


FIG. 8: GROWTH IN EXPERIENTIAL CONSUMPTION



Sources: Figure 5: Colliers International, OxfordEconomics, Statista; Figure 6: Colliers International, OxfordEconomics, Statista; Figure 7: Colliers International, OxfordEconomics, Statista; Figure 8: Colliers International, OxfordEconomics, Statista

## CLICK & COLLECT

What is important to note is that 'Click & Collect' falls under the e-retailing growth story and is a bigger component of store sales than many people think. In Poland, around 70 per cent of online customers use 'Click & Collect' because people aren't at home to collect goods and traditional shopping centres remain open at more convenient hours. 'Click & Collect' is the bridge between in-store retail and e-commerce in several ways that are only now beginning to be fully appreciated.

- It gives customers a no cost option to collect goods at their convenience.
- It allows brands to stay physically connected to their customers.
- It has been proven that the use of point of sales merchandising can deliver incremental spontaneous sales.
- It positions retail real estate as more than a sales point but also as an awareness and fulfillment point.

In fact, a recent report from the International Council of Shopping Centers (ICSC) has illustrated there is a halo-effect when opening a new store, which not only increases brand awareness, but also stimulates online traffic.

According to the study, new store openings can lead to a 37 per cent average gain in overall traffic to a retailer's website and increases its share of web traffic within that market by an average of 27 per cent. Web traffic also tends to fall when stores close.

'Click & Collect' collection rates vary between countries and retail types. In Germany 'Click & Collect' isn't as dominant; people prefer to use train station lockers (BahnhofBoxes) for convenience as they commute home. In France, 95 per cent of food 'Click & Collect' is done via local stores. In the UK it is predicted that by 2022, 62 per cent of online fashion sales will be completed using 'Click & Collect'.

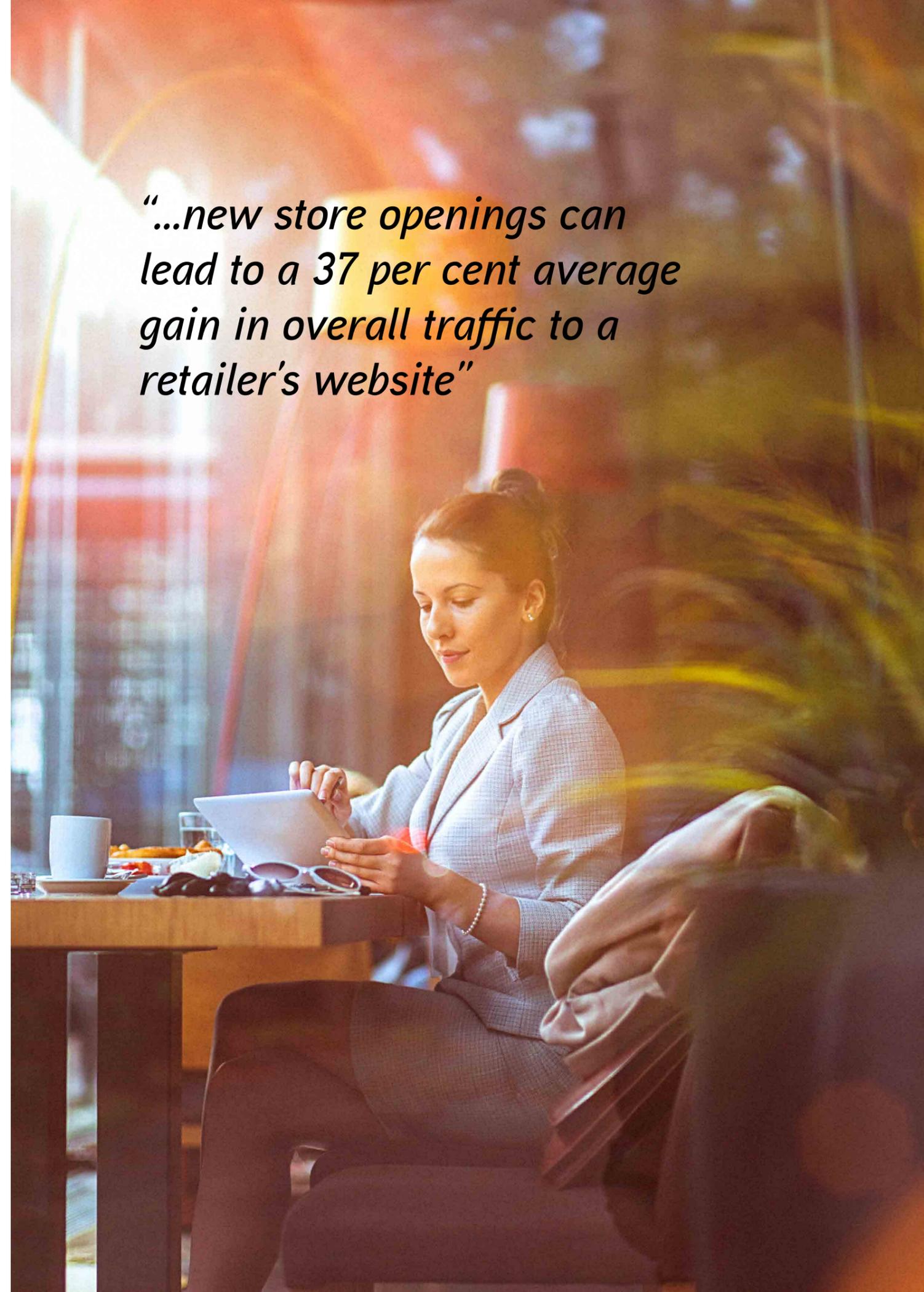
This table by MetaPack from 2016 shows the different types of non-home delivery. City/town residential and commuting patterns undoubtedly contribute to the differences between countries, but overall there is clearly a very high number of European consumers who pick up their goods from one form of physical store.

TAB. 1: TYPES OF ONLINE FULFILLMENT

	FRANCE	GERMANY	ITALY	NETHERLANDS	SPAIN	UK
Collect from vendor's store	51%	32%	38%	48%	51%	68%
Collect from locker	6%	31%	13%	5%	14%	10%
Collect from other local store	76%	25%	35%	54%	49%	43%
Have delivered to place of work	17%	20%	25%	15%	21%	23%

Sources: Table 1: Metapack, Colliers International

*"...new store openings can lead to a 37 per cent average gain in overall traffic to a retailer's website"*



# THE IMPACT ON RETAIL SPACE

Overall, it is clear that will continue to drive sales in retail/fulfillment space, in all its myriad forms as online retailing penetration starts to flatten out. We can see this showing through in a very conservative level of growth in demand for retail space overall, across markets.

That said, we can see some big regional differences in terms of how online retailing is likely to impact retail space demand, particularly when comparing the Nordics with the CEE4 countries – the former seeing a far greater proportion of pure online sales, compared to very retail space oriented sales in the CEE region.

When it comes to the types of space likely to benefit from this increase in retail demand, we expect around 30 per cent (on average) of all retail spending/ demand to take place in the very large dominant, 'experiential-driven' traditional shopping centres. Conversely, we expect large suburban centres to diminish in a push towards small format urban convenience stores which are either stand alone or as part of mixed-use development residential/office schemes.

## Convenience is King

All the major grocers have had a tough time of it over the past five years, primarily off the back of competing against the big German discounters Aldi and Lidl. Again, this has very little to do with Amazon or online competition, as neither have developed a strong presence in Europe.

Each big grocery firm has reacted differently to the hardening grocery market but if there is one trend it is in

the optimization of the space they have. When reviewing UK grocers, we have noted that the growth in sales, both in total and in square meter terms, is better in smaller format stores which supports this evolution toward convenience stores.

- Tesco recently announced it is launching a discounter brand, "Jack's", taking on Aldi and Lidl. It plans to open 10-15 stores in 2019, mainly by repositioning existing Small Tesco branded sites, but may need a far more aggressive roll-out given that the German discounters have over 1,300 stores in the UK with plans for a significant expansion by 2020.
- Morrison's is a retailer, food manufacturer and wholesaler and the manufacturing side gives it better than average margins. It is keeping its firmly in the convenience door by supplying McColls, which has expanded its footprint by 61 per cent over the past 5 years.
- Carrefour, once the leading Hypermarket brand, has also made a considerable shift towards the convenience store and digital format which goes hand-in-hand with French grocery shopping trends – some 95 per cent of French online grocery is 'Click & Collect'.
- Sainsbury's recent acquisition of Argos is as much about buying their technology platform for e-commerce, as it is their network of consumer goods. Their subsequent portfolio objective appears to be to optimize space in Sainsbury's stores by cutting back on back office storage to increase selling space and positioning an Argos store inside a Sainsbury one. It then closes the nearest Argos store.

FIG. 9: EUROPEAN SPENDING [EUR BN]

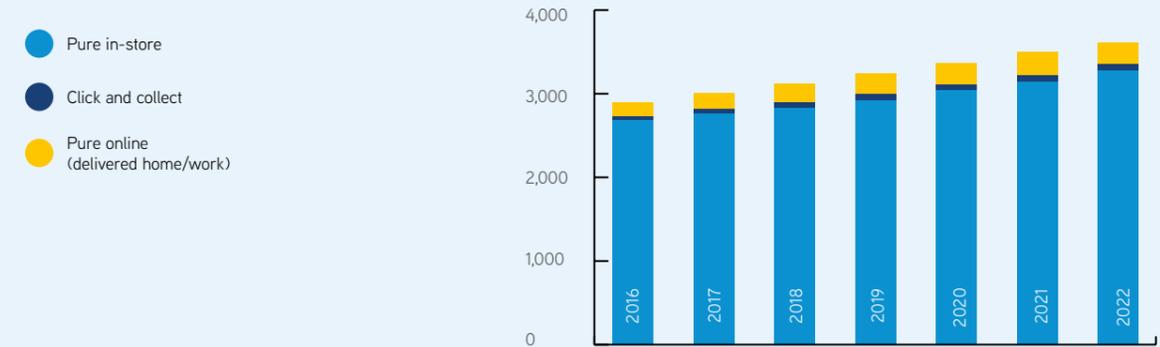


FIG. 10: SUB-REGIONAL RETAIL SALES 'DISTRIBUTION'

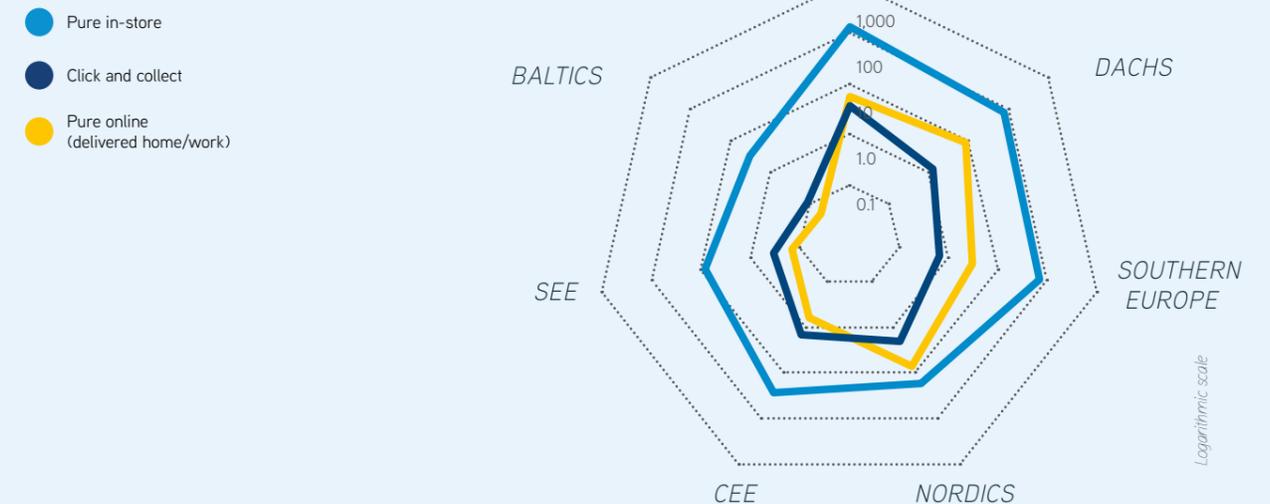
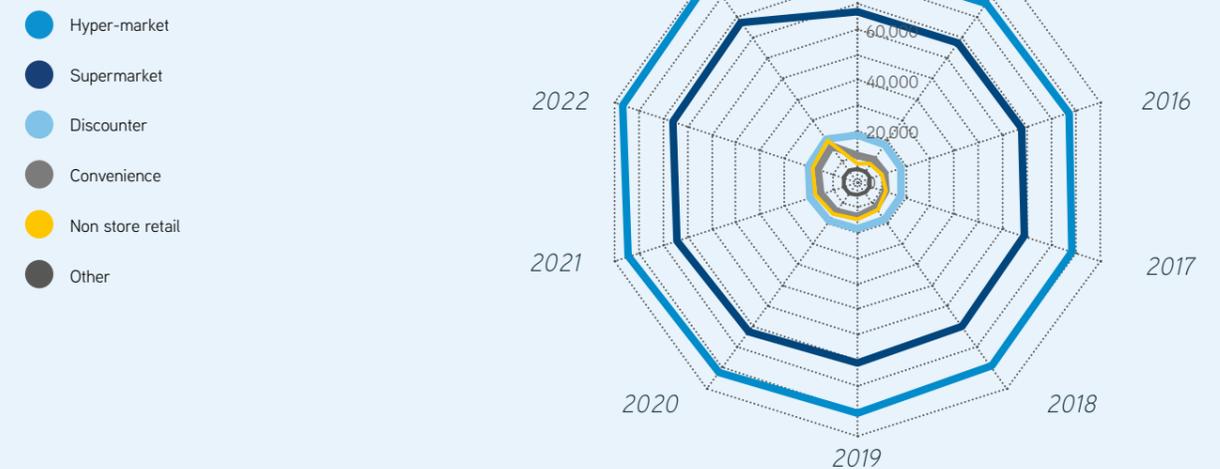


FIG. 11: GROCERY RETAIL SPEND [BY STORE FORMAT, EUR MLN SPENDING]



Sources: Figure 5: Colliers International, OxfordEconomics, Statista; Figure 6: Colliers International, OxfordEconomics, Statista; Figure 7: Colliers International, OxfordEconomics, Statista; Figure 8: Colliers International, OxfordEconomics, Statista

## DIVERSIFYING NON-CORE ASSETS

Another key trend is the disposal or repositioning of non-core retail assets, which is very much in motion today across a range of retailers.

### Intu

News around the performance of Intu has been well publicised of late as it has seen a 8.6 per cent drop in the value of its portfolio over the course of 2018. In response, Intu has identified space for a range of alternative uses including space for 5,000 homes and 600 hotel rooms, and some mentions of interest in developing or providing space for flexible offices.

- There is an initial opportunity to develop 1,700 homes for rent, producing a yield of 5 per cent on development costs of £240 million. Land is excluded as it is a sunk cost.
- Six of its main shopping centers could release 470 acres for residential.
- Another 34 sites valued at £65 million but with no real income could also be re-developed.
- A TSC extension valued at £3 million in June has just been sold for £7 million as a site for student accommodation.

Intu's belief is that changes of use could not only create value directly but, moreover, would increase the overall attractiveness and catchment of some of their existing retail centres. Adding homes to shops is not new to Intu - their own Nottingham centre includes 400 apartments, and it was built in 1972.

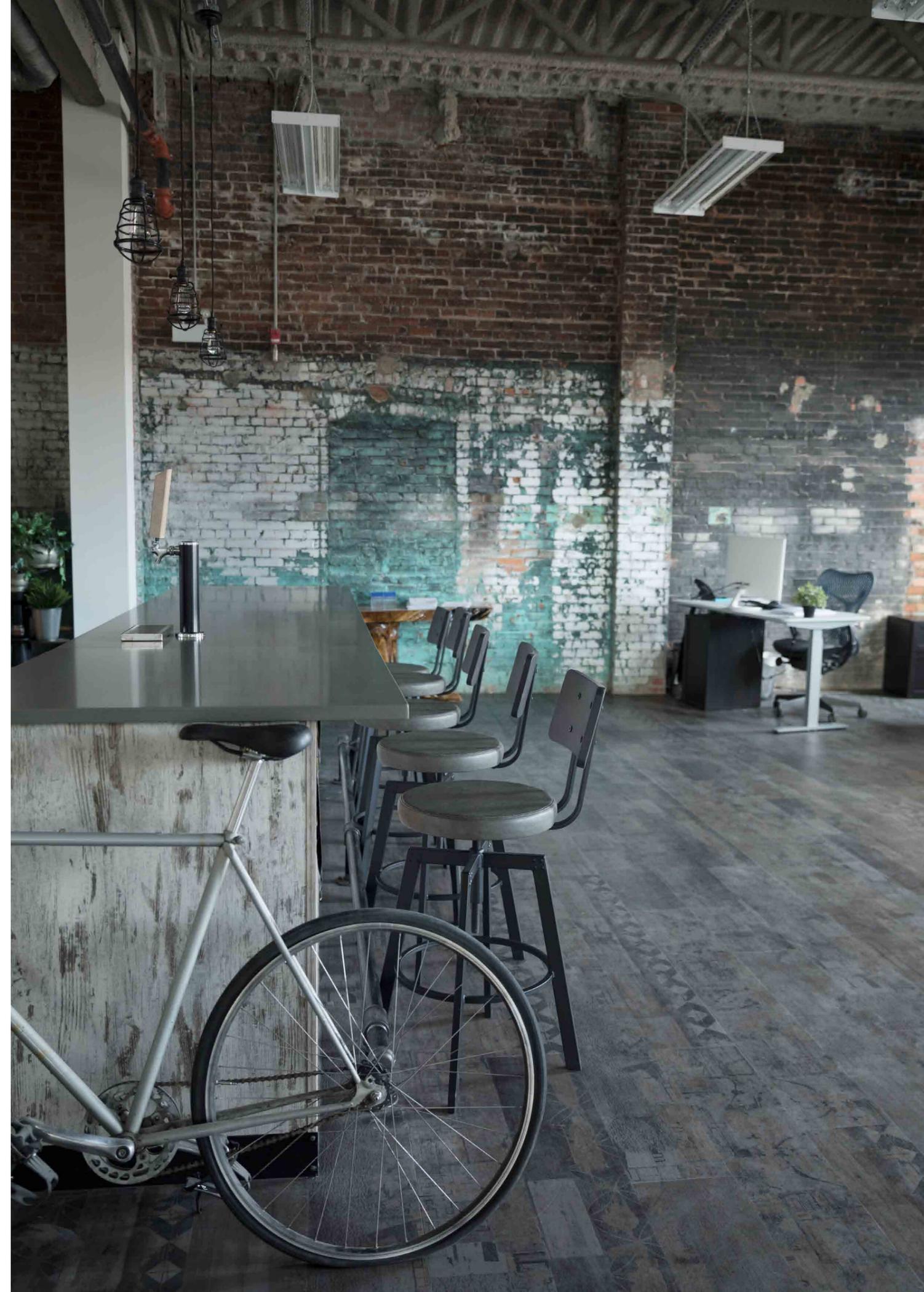
Redeveloping 'non-core' shopping centres is very much de rigueur. So far this year shopping centres in Bristol, Buckinghamshire, Cheshire, Newcastle and Sheffield have all been sold to residential developers, or are the subject of planning applications. Sainsbury's is now including housing in some of its south east of England retail developments.

### Whitbread

Having just gotten rid of its Costa Coffee business to Coke, Whitbread is now a hotel company. It is diversifying with 'Zip' a new ultra-low budget hotel brand, with pods costing £19 per a night as opposed to the standard £49 Premier Inn brand.

Given the rapid rise in Airbnb type budget accommodation across Europe ([see our last report](#)), the potential for this could be huge. There's a German brand called M1 which does the same thing in Germany next to autobahns, supporting Germany's travelling sales men and women and probably a few taxi drivers.

It is also interesting to see how some investors have gone a step further by shifting across sectors. Meyer Bergman for instance now has expanded their investment strategy to include last-mile logistics and made a strategic hire to help with this move by recruiting Marco Riva from Logisor.



## FOR MORE INFORMATION

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