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NORD/LB Real Estate Finance

Real Estate Special Autumn 2024:

Shopping centres – fit for the future?

Finanzgruppe

Contents

Shopping centres – fit for the future?

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Introduction

Shopping centres are faced with a range of economic and structural challenges. The crisis of the coronavirus pandemic has not yet been fully overcome. This period saw the bricks-and-mortar retail sector come under severe pressure from the rapid growth in online shopping, which further accelerated an ongoing structural change in the retail sector. The economic impact of the war in Ukraine, including record inflation and soaring interest rates, has caused a further deterioration in the fundamental conditions for the retail sector. Given ongoing uncertainty, consumers remain extremely cautious even today, and there is a lack of economic stimulus to reinvigorate private consumption in the long term. These economic challenges are compounded by structural changes. There has been a profound shift in customer behaviour. The strategy of adapting shopping centres to the needs of modern society, characterised by the demand for new experiences, digitalisation and sustainability, is a promising one in terms of boosting footfall and reducing vacancy rates. Shopping centres have evolved from their original function as purely consumption-focused and towards more flexible, mixed-use concepts. Shopping is no longer their sole focus. Rather, consumers are increasingly visiting shopping centres with a specific leisure activity in mind. There is no doubt that this change involves both challenges and opportunities that need to be mastered. Given that the German shopping centre market appears to be broadly saturated, the focus is on realigning existing centres. Individual solutions are required depending on factors such as the type and location of a centre. Ultimately, they may also be converted or repurposed. One thing is clear: shopping centres operate in a dynamic competitive environment. These developments can also be seen in other European markets. However, for historical reasons, there are a number of major differences between western and eastern European countries and cities in terms of the significance of shopping centres within the respective retail landscape. The question arises: is the shopping centre market well placed and fit for the future?

In this Real Estate Special, we will start by presenting the current conditions in the German retail sector before taking a look at how the investment market is performing. We will then outline the status quo of the German shopping centre market, taking into account current economic and structural challenges. On this basis, we will then discuss the future viability of shopping centres. In the process, we will explore possible solutions and management strategies from the points of view of owners, investors and centre managers. On this basis, we will demonstrate solutions for achieving the optimal mix of success factors for shopping centres. We will then look at the development of the shopping centre market in Europe, with a particular focus on the UK, France, Spain, Poland and the Netherlands. To conclude, we will present selected best practice examples of shopping centres in Europe that have succeeded in holding their own in the market.

General conditions in the German retail sector

Current market situation in the retail sector
General conditions for the German retail sector have been challenging in recent years. The coronavirus pandemic caused a rapid acceleration in the expansion of the e-commerce sector and a slump in consumer sentiment. This was followed by the war in Ukraine and a sharp increase in record inflation. The retail sector was hit hard by high energy costs, inflation-related rent increases and rising labour costs, which coincided with a marked decline in consumer spending. Last year, the number of corporate insolvencies in the retail sector rose by 26.0 percent to 3,490 cases, with several well-known companies in the industry also being impacted.[1] In view of these challenging conditions, the number of corporate insolvencies in the retail sector also continued to rise in the first half of 2024 (+20.4 percent on the first half of 2023).[2]

Despite the difficult market conditions, nominal sales performed positively in 2023. While high inflation dampened consumer spending, it led to nominally higher sales. Nominal growth in sales of +2.9 percent to EUR 649.0 billion year on year contrasted with a real price-adjusted decline of -3.4 percent. Overall, developments in the retail sector are strongly influenced by sector and company trends, with almost all sectors increasing their nominal sales in 2023 compared to the previous year. Only the construction and furnishings segment recorded a nominal decline in sales. This was due to a lack of stimulus from the residential property market. Grocery and online retailers recorded only a slight increase in sales compared to 2022. This means that the main beneficiaries of the coronavirus period have underperformed over the past two years. It should be noted that the share of online retail in total retail sales stagnated at a high level of 13.2 percent compared to the previous year (2022: 13.4 percent). While nominal bricks-and-mortar retail sales increased by +3.2 percent (real: -3.3 percent) to EUR 563.6 billion, online retail grew by a mere +1.0 percent (real: -2.5 percent) to EUR 85.4 billion.

Assuming that consumption picks up in the second half of the year, HDE is maintaining its sales forecast for 2024 overall and anticipates a nominal increase in sales of +3.5 percent year on year (real: +1.0 percent) to EUR 671.6 billion. While bricks-and-mortar retail sales are also expected to increase by +3.5 percent (real: +1.0 percent) to EUR 583.3 billion, online retail is expected to grow by 3.4 percent (real: +1.4 percent) to EUR 88.3 billion.[3]

Although this is a positive indicator for the sector, the German economy continues to lack any significant impetus. In this uncertain economic environment, consumer confidence is still not keeping up with the strong rise in real wages. According to our forecasts, private consumption is expected to grow by a mere +0.6 percent in 2024 compared to the previous year and by +1.4 percent in 2025. Encouragingly, inflation in Germany fell more sharply than expected in August. For the first time in three and a half years, the year-on-year rate of price increases fell below the 2.0 percent threshold, or to exactly 2.0 percent in the harmonised index of consumer prices (HICP). Nevertheless, upside risks for inflation remain, given the

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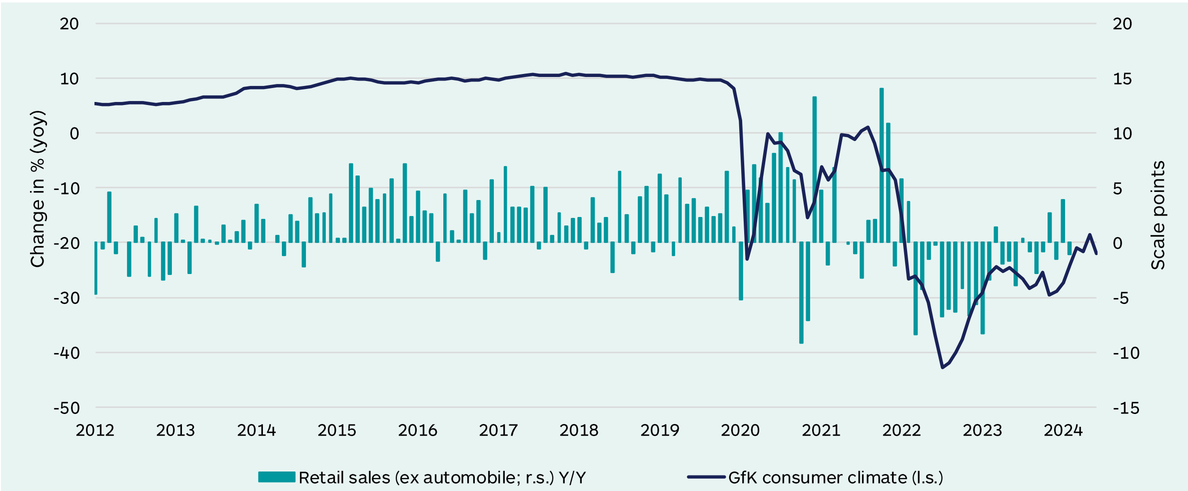
[1] https://www.creditreform.de/aktuelles-wissen/pressemeldungen-fachbeitraege/news-details/show/insolvenzen-in-deutschland-jahr-2023, accessed on 2 September 2024
[2] https://www.creditreform.de/aktuelles-wissen/pressemeldungen-fachbeitraege/news-details/show/insolvenzen-in-deutschland-1-halbjahr-2024, accessed on 18 September 2024
[3] HDE: Press release: HDE maintains annual forecast of +3.5 percent, 8 July 2024

fragile geopolitical environment. Inflation will remain bumpy for the time being, with inflation expected to be up slightly again by the end of the year as a result of base effects (forecast for 2024 as a whole: 2.5 percent).[4]

After a noticeable improvement in consumer confidence in July, sentiment dropped again significantly in August. In the forecast for September, the indicator fell by 3.4 points on the previous month (revised -18.6 points) to -22.0 points. Expectations, both income (-16.2 points to 3.5 points) and economic (-7.8 points to 2.0 points), were down noticeably. There was also a moderate decline in purchase propensity (-2.5 points to -10.9 points). Meanwhile, the propensity to save increased slightly (+2.7 points to 10.7 points). A sustained and stable development in consumer sentiment has yet to materialise. Unfortunately, positive sentiment recorded in July, which was also driven by the European Football Championship in Germany, did not continue. [5] In addition to current real income growth, it is also crucial for consumers to regain planning certainty, which is essential for major household purchases in particular, in order to emerge from the current slump in consumer spending.

Real retail sales and consumer confidence



Source: Macrobond, NORD/LB Sector Strategy Real Estate

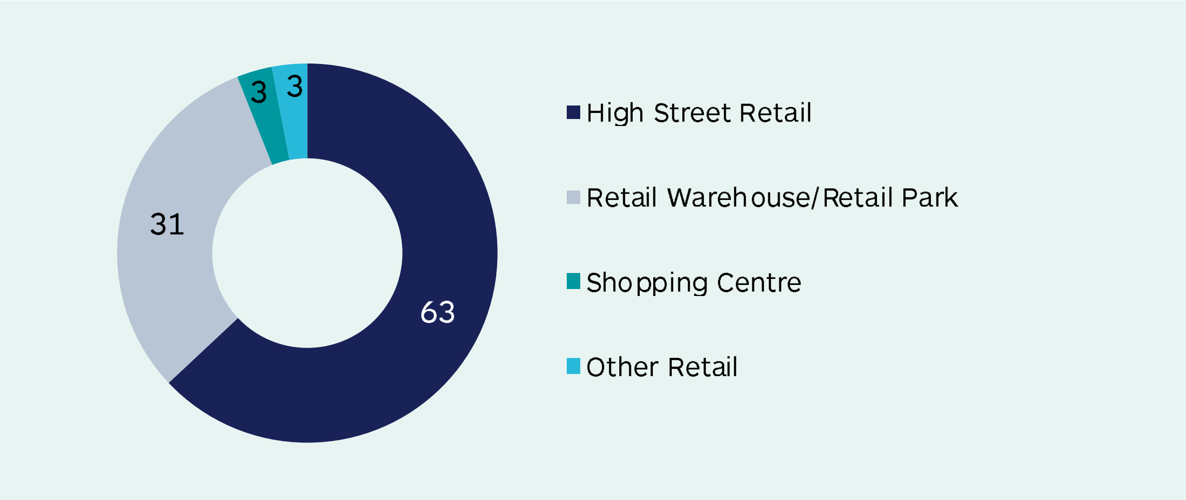
Transaction activity recovered in the first half of 2024

After 2023 saw the lowest result for the retail investment market since 2009 at a transaction volume of EUR 5.4 billion, the transaction volume was extremely dynamic in the first half of 2024, with an increase of EUR 3.6 billion or +115 percent compared to the first half of the previous year, placing it at the top of all asset classes. The market was boosted by three individual transactions worth around EUR 1.5 billion (of which around EUR 1.0 billion was attributable to the purchase of KadeWe by the Central Group in the second quarter of 2024). Although the average volumes of the past ten years have yet to be matched, market sentiment improved again towards mid-year. CBRE estimates investment volume to be at least EUR 5 to 7 billion in 2024. Against the backdrop of these three major transactions, market activity was dominated primarily by prime retail properties with a volume of EUR 2.3 billion or a share of 63 percent (2023: 19 percent). This was followed in second place by food markets, food-oriented specialist retailers and local shopping and specialist retail centres with a volume of EUR 1.1 billion (share: 31 percent).

[4] NORD/LB Macro Research: Economic Adviser, September 2024 issue
[5] GfK: Significant downturn in consumer sentiment, press release of 27 August 2024

Shopping centres, by contrast, accounted for only around EUR 100 million (share: just under 3 percent). Hardly any centres changed hands in 2023 owing to their large volumes, complex financing structures, high levels of uncertainty surrounding the future viability of shopping centres and the high turnover risk associated with retail tenants. In addition, diverging price expectations hindered the transaction process.[6] Shopping centres, particularly those in need of repositioning, continue to be virtually absent from the investment market.

Shares in investment volume by use type H1 2024 (in percent)

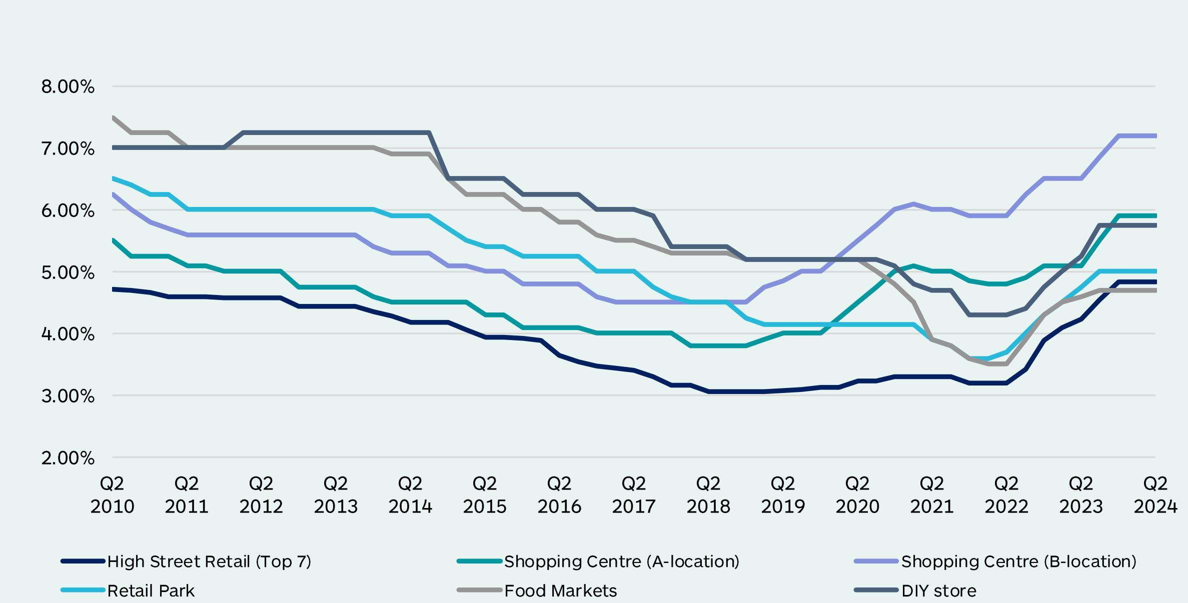


Source: CBRE, NORD/LB Sector Strategy Real Estate

In the second quarter of 2024, prime yields remained stable in all types of retail use compared to the previous quarter. Price adjustment processes have now slowed noticeably. With the exception of high-street properties, no further increases in yields are expected in the second half of the year. The lowest prime yield of 4.7 percent continued to be recorded for food markets, which remain a focal point for investors. The prime yields of shopping centres in class A and class B locations increased by 0.8 and 0.7 percentage points respectively year on year and stood at 5.9 percent in class A locations and 7.2 percent in class B locations in the second quarter of 2024.[7] Due to the risks outlined above, shopping centres have by far the highest prime yields compared to other types of use. However, this is still a relatively recent development, as can be seen by looking at how prime yields have changed over time. Before 2020, shopping centres were extremely popular with risk-averse investors thanks to their diversified and long lease terms and were viewed as extremely liquid on the investment market. Instead of the initial enthusiasm, disillusionment has now taken over, although a differentiated view is recommended in view of the high degree of heterogeneity and the level of capital expenditure required for many shopping centres (see section on future viability of shopping centres).[8]

[6] CBRE: Germany retail investment market, Q2 2024
[7] ibid.
[8] Savills: Repositioning requirements for shopping centres: a cluster analysis. August 2024

Development of prime yields by use type over time



Source: CBRE, NORD/LB Sector Strategy Real Estate

Retail sector faces challenging market environment, but investment market remains strong

The general economic and geopolitical environment remains challenging for the retail sector. Given the anticipated overall economic stagnation in 2024 as a whole, the sustainable stimulus that is needed to revive private consumption will not materialise. While there are rays of hope in the form of lower inflation and a positive trend in real wages, consumers are still uncertain and consumer sentiment continues to suffer setbacks. Combined with rising rental, labour and energy costs, further business closures are expected in the second half of 2024. By contrast, transaction activity on the retail property market has been relatively robust. The advanced structural change in the retail sector, with restructuring and repositioning, is bolstering this trend and increasing the attractiveness of investments in this asset class. While the investment market for shopping centres in particular has been dominated by high illiquidity in recent years, there are now signs that transaction activity for this use type could potentially start to recover once again. This applies mainly to centres in urgent need of refurbishment, which attract the interest of investors looking for a value-add or opportunistic investment profile.[9]

[9] Savills: Repositioning requirements for shopping centres: a cluster analysis. August 2024

The market for shopping centres: status quo and challenges

Differentiation and distribution of shopping centres
By definition, shopping centres have certain features in common, such as a retail rental area of at least 10,000 m², a uniform management that performs specific tasks for all tenants and a large number of on-site tenants. Apart from the rental space, the total area of a shopping centre also comprises the space taken up by the malls (walkways and areas for events within the centre), the space occupied by the centre management and sanitary facilities. Other uses such as residential units, office space or doctors' surgeries are not included in the retail rental space.[10]

Shopping centres have the following common characteristics:

- Concentration of different sized retail units
- Large number of specialist shops from a variety of sectors (retail, catering and retail-related services, leisure facilities), usually in combination with one or more headline providers (e.g. hypermarket, clothing retailers, electronics retailers)
- Plenty of car parking spaces (incl. charging columns)
- Fulfilment of specific functions by all tenants (e.g. marketing activities)

In other respects, individual shopping centres differ considerably in terms of their size, location, number of storeys, type or tenant mix, positioning or any mixed uses on site. The combination of these factors ultimately determines a centre's success.[11] Special sub-types of shopping centres include retail parks, hybrid centres, centres at railway stations and airports and factory outlet centres (FOCs). FOCs in particular became more popular during times of high inflation and sluggish consumer spending and cater to the needs of (price-conscious) shoppers. The outlet segment is also proving to be somewhat resilient in the face of online retail.

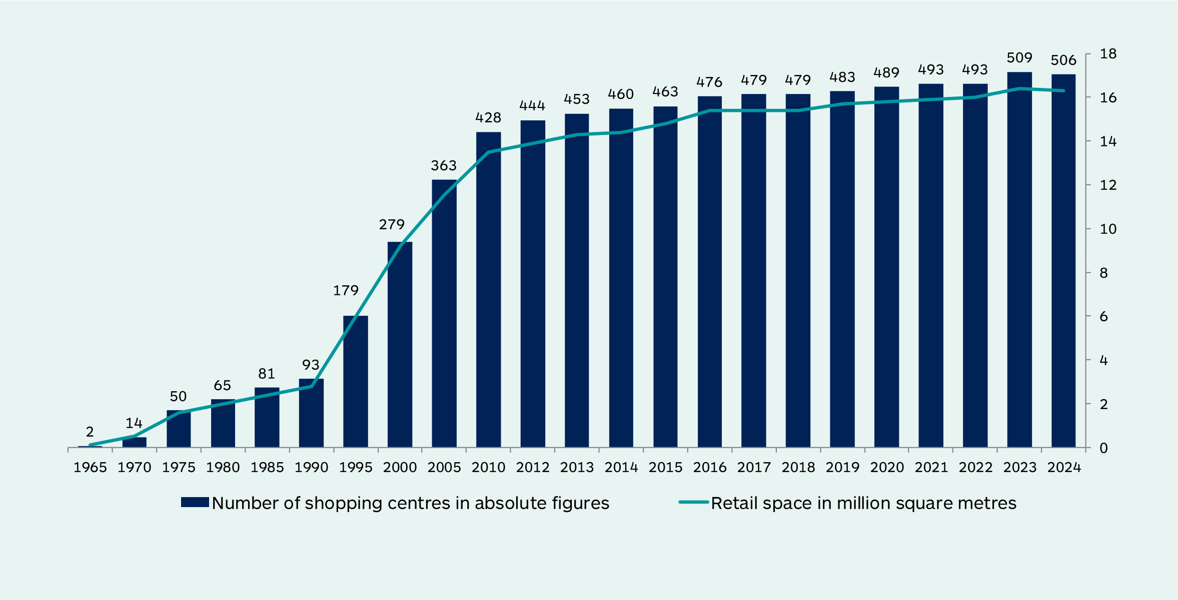
At the beginning of 2024, ECE Marketplaces GmbH & Co. KG (91 centres with a combined retail rental space of 2.86 million m²) once again led the top 10 largest shopping centre management companies (by number of centres) by a wide margin. In second place was MEC Metro-ECE Centermanagement GmbH & Co. KG (41 centres with a retail rental space of 0.98 million m²) followed by Völkel Real Estate GmbH (20 centres with a retail rental floor space of 0.44 million m²) and Unibail-Rodamco-Westfield Germany GmbH (18 centres with a retail rental floor space of 0.94 million m²).[12]

The first two shopping centres, the Main-Taunus-Zentrum in Sulzbach near Frankfurt (retail rental space at the time: 40,000 m²) and the Ruhr Park in Bochum (retail rental space at the time: 24,000 m²) opened in 1964. The 1970s subsequently saw a period of rapid growth in the construction of shopping centres, which began to tail off in 2010. Only a few new properties have been added since 2010 and, in view of the widespread spatial saturation, new locations such as Westfield Überseequartier Hamburg (see section on

[10] EHI: Shopping Centre Report 2024
[11] ZIA: Spring report on the real estate sector 2024
[12] EHI: Shopping Centre Report 2024

best practice examples: selected shopping centres in Europe). At the beginning of 2024, there were 506 shopping centres in Germany with a total floor space of 16.3 million m². Two centres were opened last year: the Westerwald Arkaden retail park in Höhr-Grenzhausen (near Koblenz in Rhineland-Palatinate) and the Husemann Karree in Bochum (first of three parts). These two new openings are offset by five centres that were removed from the figures owing to developments comprising less than 10,000 m² of retail space, meaning that the number of large-scale centres with 10,000 m² or more of retail rental space under review fell by three shopping centres for the first time when compared to 2023. It would therefore appear that the era of growth in the shopping centre market is now over. However, investments in existing properties in order to position outdated shopping centres to meet the demands of the future have become more significant. These developments can be categorised as transforming shopping centres or downsizing shopping centres (see section on the future viability of shopping centres).[13]

Development of the number of shopping centres including retail space from 1965 to 2024*



Source: EHI, NORD/LB Sector Strategy Real Estate, * as at 1 January of the year

Of the current 506 shopping centres in Germany, most are located in North Rhine-Westphalia, partly due to its population. The federal state leads with 90 centres and a total area of 2.9 million m². Bavaria follows with 58 centres covering an area of 1.8 million m² and Baden-Württemberg with 52 centres covering an area of 1.4 million m². Almost every second shopping centre (47.2 percent) is located in a city centre, 37.5 percent in a suburban location and 15.2 percent on a greenfield site. Most greenfield centres (77 centres) were opened in the 1990s: 64 percent of today's greenfield centres were opened between 1990 and 1999. Taking only the past ten years into consideration, almost three quarters of the 58 most recently opened shopping centres are located in city centres, 22 percent in urban districts and 3 percent on greenfield sites. In addition, half of the centres opened in this period were in large cities, 41 percent in medium-sized towns and 9 percent in small towns. More than half of the newer centres (52 percent) are on the smaller side, comprising less than 20,000 m² of retail rental space. During this period, only four centres comprising more than 40,000 m² of retail rental space were opened, all of which in 2014: Palais Vest in Recklinghausen (41,700 m²), Milaneo in Stuttgart (43,000 m²), LUV in Lübeck (55,330 m²) and Mall of Berlin (76,000 m²). With regard to the location of shopping centres, it should be noted that the projected

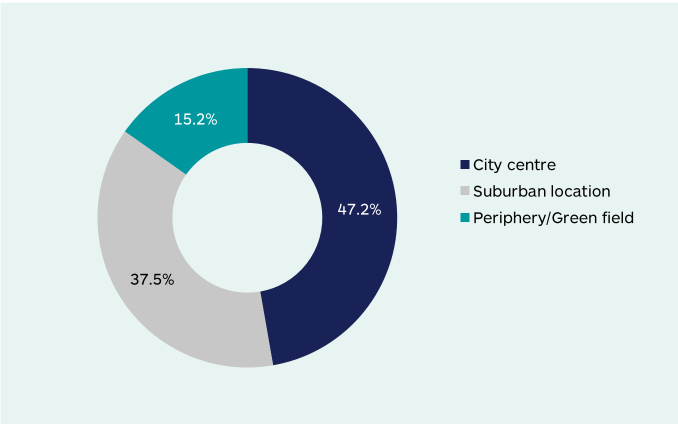
[13] EHI Retail Institute: Shopping Centre Report 2024

population within the catchment area of a centre is an important criterion for determining its location. Ideally, a growing population means an increase in purchasing power in the catchment area, which in itself is a decisive variable for a centre's success.[14]

The tenants of a shopping centre come in many forms. Alongside restaurants, fashion retailers are one of the most important anchor tenants in many shopping centres, which means they are particularly common. Other anchor tenants include electronics, food retailers and chemists. In addition, shopping centres are home to a wide range of service providers such as hairdressers, nail salons, travel agencies and bank branches. Many centres also feature shoe repair and locksmith services, photographers' studios, tailors, dry cleaners, post offices and showrooms.[15]

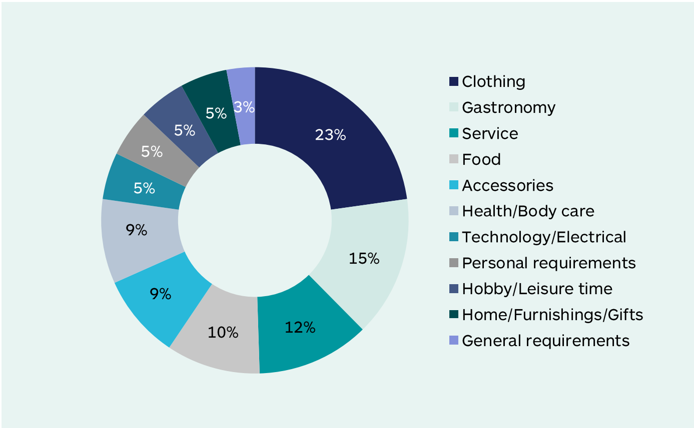
On average, the number of visitors frequenting shopping centres, usually measured using light barriers or video sensors, has not yet returned to pre-COVID-19 levels. Modernised centres with a large catchment area are the exception. Nevertheless, increased sales were recorded overall. This growth is primarily due to high rates of inflation, although a trend towards more specific shopping trips can also be observed.[16]

Breakdown of shopping centres by location (as at 01/2024)*



Source: EHI, NORD/LB Sector Strategy Real Estate
*Deviations from 100 percent are due to rounding.

Sector mix of shopping centres (as at 03/2024)*



Source: EHI, NORD/LB Sector Strategy Real Estate
*by number of tenancies (N=26,674), deviations from 100 percent are due to rounding.

Rental and vacancy trends in shopping centres

A recent market survey by ZIA and EY Real Estate (2024)[17] reveals that rent levels have developed in a differentiated manner between 2019 (pre-COVID-19 level) and 2023. Rents have risen in just under half (46 percent) of the shopping centres surveyed and fallen in the other half (54 percent). However, a comparison of the period between 2022 and 2023 reveals that rents increased in 82 percent of centres. Rents were increased for a variety of reasons. Centres that have been refurbished over the past five years exhibit a positive correlation with rent levels. Centres with a higher percentage of leisure and entertainment as well as food retail in their usage structure recorded particularly high rental growth. Against the backdrop of record inflation in recent years, rental increases can also be attributed to index-

[14] Savills: Repositioning requirements for shopping centres: a cluster analysis. August 2024
[15] EHI Retail Institute: Shopping Centre Report 2024
[16] ZIA and EY Real Estate: Shopping centres 2024: taking stock and the future viability of a sector
[17] ZIA and EY Real Estate: Shopping centres 2024: taking stock and the future viability of a sector. The study encompasses 35 percent of German shopping centres comprising more than 20,000 m².

based increases in existing lease agreements.[18] Less common reasons for an increase in rent levels included an increase in sales by retailers with sales-based lease agreements or the re-letting of previously vacant properties. The reasons for the drop in rental income, by contrast, include rent reductions under existing contracts, re-letting at a lower rent or the inability to re-let vacant units.[19] There is a trend whereby the term of rental agreements is falling significantly and more sales-based rental agreements are being concluded.

At the end of 2023, 64 percent of the shopping centres surveyed were fully let or had a low vacancy rate with a reasonable fluctuation reserve of less than 5 percent (in particular large centres with more than 40,000 m² of rental space). While the vacancy rate ranged between 5 and 10 percent in 25 percent of the centres, it stood at over 10 percent in around 10 percent of the centres. These centres are primarily located in areas with a lower purchasing power and where the clothing sector, at over 50 percent, is represented particularly strongly in the usage structure. It should be noted that the vacancy rate in almost a quarter of the centres surveyed has risen noticeably by between 5 and 15 percent compared to pre-COVID-19 levels. Failure to take customer requirements into account in the usage structure, inadequate integration of online and bricks-and-mortar retail, outdated centre design and poor accessibility lead to consumers visiting shopping centres less frequently, and the decline in visitor numbers is accelerating noticeably. This results in a drop in sales and ultimately a rise in vacancies.[20]

An analysis of the current market trend in prime rents for shopping centres in the top seven German cities reveals that the situation had stabilised in all cities by the end of the second quarter of 2024 when compared to the same quarter in the previous year. While Munich has the highest prime rent of EUR 47.50/m²/month, Cologne and Berlin are significantly more affordable, with a prime rent of EUR 35.50/m²/month in each case.

Prime rents for shopping centres in the top seven German cities

Q2 2024	Prime rent (EUR/m²/month)	Δ Q2 2024/Q2 2023
Berlin	35.50	0%
Cologne	35.50	0%
Düsseldorf	40.00	0%
Frankfurt	38.50	0%
Hamburg	40.50	0%
Munich	47.50	0%
Stuttgart	39.00	0%

Source: Cushman & Wakefield, NORD/LB Sector Strategy Real Estate

[18] An index/stable value clause is usually included in shopping centre rental agreements. The basis rent is linked to a price index (e.g. consumer price index) and is therefore adjusted to the price level.
[19] EHI Retail Institute: centre management in focus 2024
[20] ZIA and EY Real Estate: Shopping centres 2024: taking stock and the future viability of a sector

Shopping centres face a variety of challenges

Irrespective of cyclical developments, shopping centres have been facing a variety of challenges for a number of years. Shopping centres are in the midst of structural change. One in three shopping centres in Germany is classified as not being viable over the long term.[21] Centres with a purely retail usage structure are particularly affected and are facing pressure to adapt. People still primarily visit shopping centres for shopping, but they are also gaining in importance as places to meet socially and engage in leisure activities. In the context of changing consumer needs, designing a customer-oriented tenant mix and creating an appealing shopping experience are both major hurdles and opportunities for ensuring a shopping centre's future viability (see section on future viability of shopping centres).[22] For some shopping centres, their size alone presents a challenge. Upper floors in particular (2nd floor and higher) are often difficult to let. In such cases, it is generally advisable to repurpose these retail spaces for other uses that can generate a comparatively higher footfall.[23] However, implementing this is a complex undertaking because changing usage usually involves extensive structural modifications, such as opening up facades, changing floor plans and creating new access routes.[24] Another important driver of the pressure on shopping centres to change is increasing digitalisation and the resulting growth in e-commerce. The increased use of online retail during the COVID-19 lockdown period compelled retailers to strengthen their e-commerce activities. For example, Click & Collect services were rolled out and digital marketing strategies were stepped up. However, many centres still have work to do when it comes to integrating online and in-store shopping experiences in order to expand their reach and tap into new target groups.[25]

In addition, compliance with regulatory requirements within the context of ESG (environment, social, governance) and related energy requirements present shopping centres with a set of existential challenges. Shopping centres are obliged to take appropriate action to meet sustainability targets. Firstly, both governments and society are demanding an energy and social transformation, and secondly, sustainable action also offers tangible economic benefits, e.g. in the form of lower energy costs. When it comes to finding the right premises, tenants are therefore attaching greater importance to sustainable design in properties.

The characteristics of sustainable shopping centres can be summarised as follows:[26]

- Contribution to climate protection by reducing emissions of gases that harm the climate over an entire life cycle
- High level of comfort
- Increased well-being
- Increased attractiveness for employees and customers
- Increased employee productivity and performance
- Low vacancy risk and therefore sustained sales demand
- High building flexibility (e.g. easier to make adjustments in the event of changes to operating processes)
- Lower cost of repurposing
- Lower operating and maintenance costs

[21] PwC: Retail in transition – are shopping centres still fit for the future? January 2023.
[22] ZIA and EY Real Estate: Shopping centres 2024: taking stock and the future viability of a sector
[23] ZIA: Spring report on the real estate sector 2024
[24] BNP Paribas: Change, Issue 05, September 2022
[25] Cushman & Wakefield: Marketbeat, Q2 2024
[26] https://www.dgnb.de/de/zertifizierung/das-wichtigste-zur-dgnb-zertifizierung/nutzungsprofile/shoppingcenter, accessed on 11 July 2024

According to ZIA and EY Real Estate (2024), 77 percent of the centres surveyed have a sustainability certificate. A total of 31 percent of the centres have been awarded the highest level of certification, while 45 percent have been awarded the second-highest level. Other ESG measures include switching to green electricity (94 percent) and installing e-charging points (86 percent). In addition, around 90 percent of the centres provide community and family facilities with the aim of focusing on social aspects. Progress is also being made in converting existing tenancy agreements to green leases. A green lease is a rental agreement designed with sustainability in mind, which, due to its special requirements, is intended to encourage tenants to utilise the property, and landlords to manage it, as sustainably as possible. However, green leases have not yet been integrated everywhere. In around 25 percent of the shopping centres surveyed, more than half of the leases are green, while between 25 and 50 percent of leases are green in 55 percent of the centres, and less than a quarter of leases are green in 17 percent of the centres. However, the backlog primarily relates to long-term existing contracts, which, in most cases, are not adjusted until the end of their term.[27]

Operational difficulties such as staff shortages and increased ancillary and management costs should also not be overlooked. The strategies and solutions that owners, investors and centre managers need to develop in order to improve prospects for the future should always take specific local factors into account. Active measures are required, especially for centres that are starting to show their age, in order to combat falling sales and rising vacancy rates with new concepts.

Future viability of shopping centres

Factors for success and early warning signs for shopping centres
As already explained, the rise in online retail, changes in consumer behaviour (not least in the wake of the pandemic) and the increase in consumer prices pose major challenges for shopping centres. According to a definition by ZIA and EY Real Estate[28], a shopping centre is ideally categorised as successful if its tenants can achieve high sales and profits and if investors or owners can achieve high returns. In turn, customers should be able to do their shopping in a pleasant environment and choose from the widest possible range of goods. Shopping centres are thus regarded as future-proof if they manage to satisfy these criteria for success so that they can adapt to changing requirements and trends.

Early warning signs that a centre is failing include a growing vacancy rate, declining tenant revenues, falling visitor numbers and increasing tenant turnover. Countermeasures are urgently required no later than when the vacancy rate hits 15 to 20 percent in combination with declining visitor numbers.[29]

[27] ZIA and EY Real Estate: Shopping centres 2024: taking stock and the future viability of a sector
[28] ibid.
[29] PwC: Retail in transition – are shopping centres still fit for the future? January 2023.

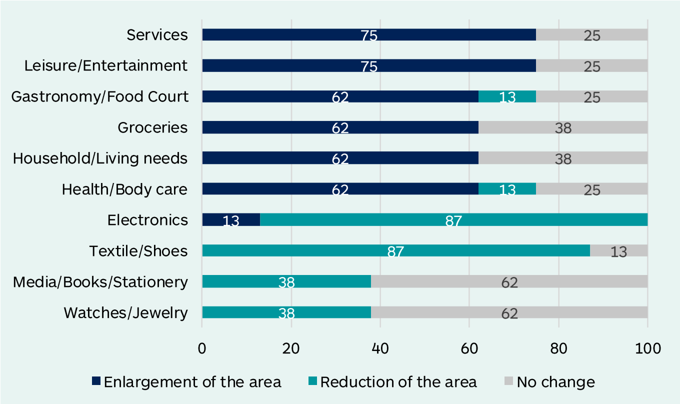
Possible courses of action and solutions

From the point of view of both customers and operators, conventional usage concepts characterised by non-food retail are no longer viable. To make shopping centres more attractive and viable for the future, the options are either repositioning or repurposing.[30] According to a study by Savills, which examined 347 German shopping centres (roughly two-thirds of the portfolio), approximately 40 percent of all shopping centres require significant investment and need to be repositioned or converted.[31] The properties concerned already have a vacancy rate of at least 10 percent. In addition, the vacancy rate is likely to continue to rise in future owing to an unfavourable demographic forecast and/or a less resilient sector structure. If countermeasures are not taken, these shopping centres will have reached the end of their life cycle (e.g. Königsgalerie in Duisburg, Rhein-Ruhr-Zentrum in Mühlheim an der Ruhr).[32]

// **Repositioning**

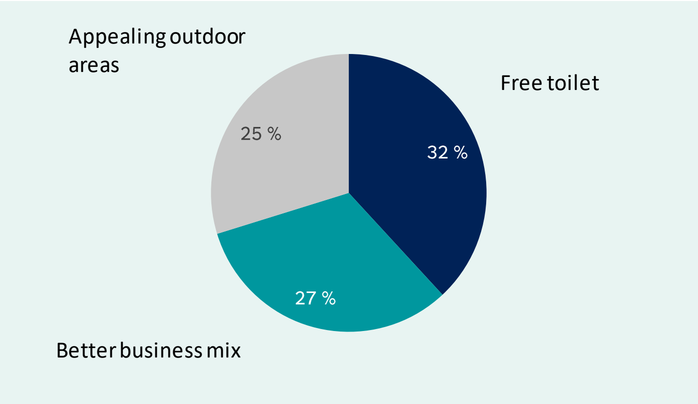
Repositioning allows a centre to be better aligned with new consumer preferences and requirements in the short to medium term. The aim here is to keep investment costs as manageable as possible. A survey carried out by PwC found that consumers attach great importance to a wide range of leisure activities: A total of 62 percent of people aged 50 and under visit shopping centres for recreational purposes. For this reason, there should be sufficient space available for recreational/entertainment and catering facilities. In this context, regular events have also been organised in shopping centres for some time now and supplemented by activities such as bowling alleys, cinemas and themed markets. This approach has proven successful from an operational perspective in the past. This trend is also backed up by the findings of PwC's consumer survey. Consequently, additional space for services, recreation/entertainment, catering/food court, grocery, household/living requirements and health/personal care is desirable. By contrast, the amount of space available for clothing/shoe retail and electronics should be reduced (see illustration). Consumers also attach great importance to attractively designed (outdoor) areas and mixed-use concepts that provide them with flexibility and a wide range of products.

Preference for change in floor space in retail segments (in percent)



Source: PwC, NORD/LB Sector Strategy Real Estate

Potential improvements to shopping centres from the consumer's point of view



Source: PwC, NORD/LB Sector Strategy Real Estate

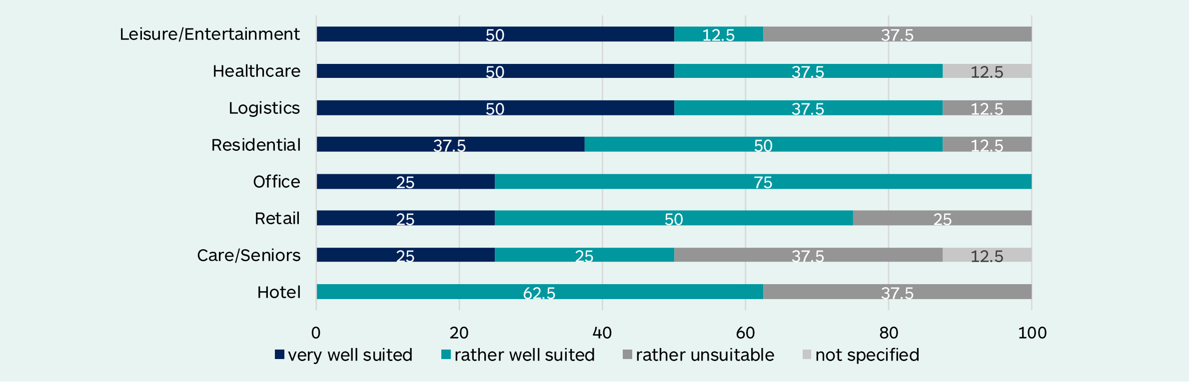
[30] PwC: Retail in transition – are shopping centres still fit for the future? January 2023.
[31] Savills: Repositioning needs of shopping centres – a cluster analysis. August 2024
[32] ibid.

When repositioning a shopping centre, it is also crucial to select the right tenants. Occupancy management and the sector and tenant mix are key factors for the success and future viability of shopping centres. During the repositioning process, tenants who perform well in terms of revenues, footfall and creditworthiness should be encouraged to stay by means of a convincing concept. When extending a lease, the rental amount and term, the relevance of the tenant in the tenant structure and the potential for subsequent utilisation of the space are also decisive factors. In view of the increasing focus on experiences and the resulting reduction in the amount of retail space, the significance of showrooms is also growing. Customers can visit a bricks and mortar retail unit (showroom) to find out more about a product, experience it live on site and, where necessary, seek advice. Ideally, customers can be directed to the retailer's own online shop after a positive shopping experience on site where their purchase can be completed (omnichannelling).[33] Given the trend towards shorter lease terms, the concept of pop-up stores is also proving to be highly attractive and sustainable.[34]

// **Repurposing**

The aim of repurposing is to convert a significant part of the centre to a form of usage other than retail. The type of utilisation should be an additional incentive for potential visitors. The suitability of the space for (partial) repurposing and its economic viability are of key importance. Mixed-use concepts in particular have proven to be very successful. They help to diversify the cluster risks for shopping centre operators that arise from the retail sector and offset structural vacancies. Mixed-use concepts allow for different types of usage to be integrated into one shopping centre. The type of usage should be selected based on whether it provides potential shoppers with an incentive to visit the shopping centre. In addition to a high footfall, synergy effects can also be created for existing usage types. For example, visitors to a shopping centre can combine a doctor's appointment with shopping, office tenants can have lunch and residential tenants can do their shopping in the same building.[35]

Suitability of different types of usage for repurposing or mixed-use



Source: PwC, NORD/LB Sector Strategy Real Estate

Ultimately, deciding whether a shopping centre should be repositioned or repurposed (mixed-use concept) essentially depends on its economic viability, floor space, where it is located as well as its inherent character. The first step is the performance audit, which examines the question of whether, for example, the costs of repurposing are worthwhile in the long term and how financing can be secured.

[33] https://www.ecommerce-werkstatt.de/knowhow/showrooming/#:~:text=Der%20Begriff%20Showroom-ing%20beschreibt%20Kunden,und%20dort%20der%20Kauf%20get%C3%A4tigt, accessed on 17 September 2024.
[34] PwC: Retail in transition – are shopping centres still fit for the future? January 2023.
[35] See also Deutsche Hypo: Real Estate Special Autumn 2023: The future of city centres: can bricks-and-mortar retail survive? (available in German only)

Particularly in light of the sharp increase in construction costs, many measures are currently not feasible from an economic perspective. The location must also be carefully examined. Establishing whether the new usage type is suitable for the location can be carried out as part of a market and location analysis and on the basis of consumer and user surveys. In addition, it must be structurally feasible (e.g. adequate light for residential units, access routes for logistics or requirements associated with a care home). It is important to get all relevant stakeholders on board at an early stage (the local authority, centre managers, tenants and neighbours).[36]

Digitalisation strategies and active tenant management are also essential for shopping centre success. For example, an app can inform shoppers about the opening hours or stock levels at individual retailers. In addition, the Click & Collect concept enables products to be reserved online and then collected from the shopping centre. A sound letting concept should form the basis of active tenant management. This makes a mix of sectors and tenants that is tailor-made for the respective location, consisting of innovative concepts, local and regional retailers and international retail chains, a shopping centre's unique selling point.[37]

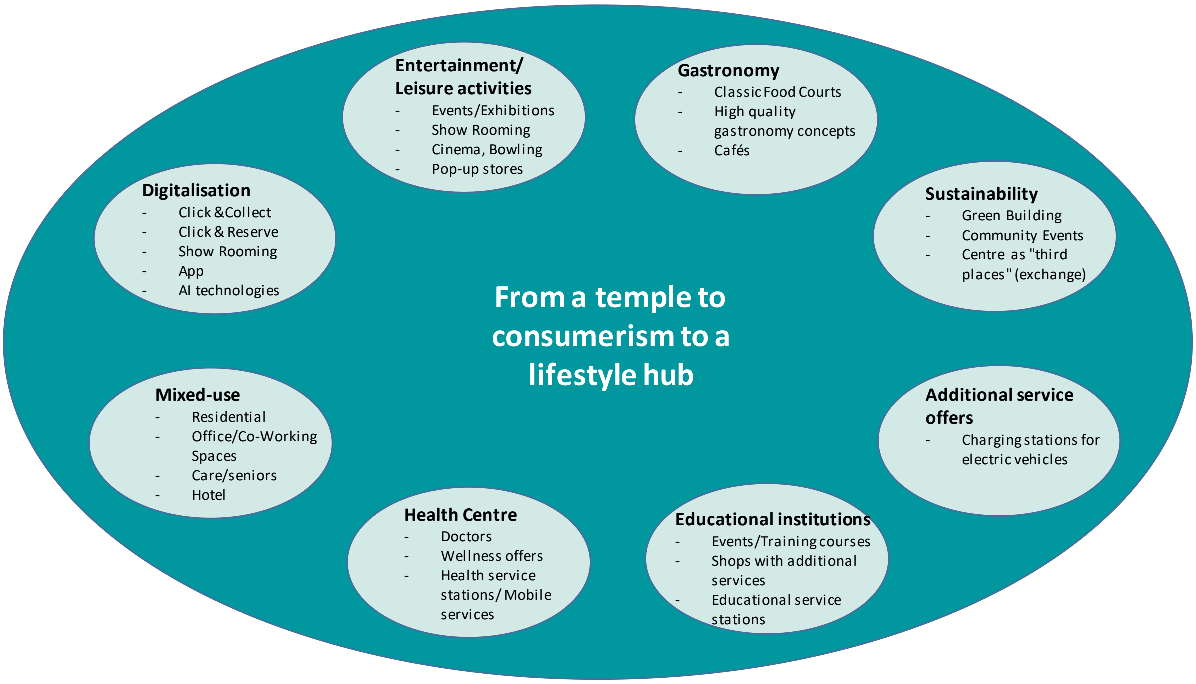
Ten shopping centres were revamped in Germany last year. The key focus was on the restructuring and subsequent usage of large spaces vacated by department stores such as Real, Galeria or Karstadt, the development or modernisation of food courts and energy-efficient refurbishment. For example, the "Das Gerber" shopping centre in Stuttgart was extensively restructured in 2023. A mixed-use neighbourhood was created, whereby the amount of retail space was reduced from 25,000 m² to 16,000 m². The current structure consists of retail, residential units, office space, co-working facilities and a hotel. The focus for the 30-year-old Seidnitz Center in Dresden was also on updating the food court on the ground floor. The shopping centre was also refurbished in terms of energy efficiency (e.g. lighting was converted to LED, electric charging points were installed in the multi-storey car park).[38]

Vision: From a temple to consumerism to a lifestyle hub

While shopping centres have tended to be seen as temples to recreational activities and consumerism over the past 15 years, they now have to adapt to various trends and developments in order to remain fit for the future. The following illustration depicts an ideal, future-proof shopping centre. It combines various utilisations under one roof (mixed-use building) and has an attractive range of catering options. It also has a high level of entertainment and experience appeal (e.g. events). Digitalisation and sustainability play a key role. This means that shopping centres that are viable for the future are green buildings that also function as third places (meeting spots) and connect the digital and analogue worlds of shopping. According to the Zukunftsinstitut, the two megatrends of health and education will also push the future transformation of shopping centres towards lifestyle hubs for future generations.[39] In these places, shopping in the traditional sense is more of a secondary activity.

[36] PwC: Retail in transition – are shopping centres still fit for the future? January 2023.
[37] ibid.
[38] EHI Retail Institute: Shopping Centre Report 2024
[39] Zukunftsinstitut: The future of shopping centres. Press release, 3 December 2022

Shopping centres as lifestyle hubs



Source: Based on Zukunftsinstitut 2022, NORD/LB Sector Strategy Real Estate

A look at Europe

Market environment

Following GDP growth of 0.6 percent in 2023, the eurozone economy continued to recover in spring 2024. As at the start of the year, price and seasonally adjusted GDP rose again in the second quarter by 0.3 percent Q/Q, slightly more than expected. The annual rate climbed to 0.6 percent Y/Y. In addition to Ireland (+1.2 percent Q/Q), most of the larger member states also recorded an increase in real economic output (Netherlands: +1.0 percent, Spain: +0.8 percent, France and Italy both +0.2 percent Q/Q). By contrast, real economic output in Germany contracted slightly (-0.1 percent Y/Y), mainly due to significantly lower investments in equipment and buildings. The eurozone's largest economy remains trapped in a period of stagnation as a result of low levels of investment and is lagging behind the other major economies. The economic outlook for the eurozone is currently very mixed. Overall, the leading indicators point to only subdued economic momentum (GDP forecast: full year 2024: +0.7 percent and 2025: +1.2 percent compared to the respective previous year).[40]

Across the EU, 5.5 percent more money flowed into the retail sector in 2023 than in 2022. In real terms, however, sales fell due to continued high consumer prices and the associated lower propensity to spend.[41] Among the core markets, Germany (-3.1 percent) and the UK (-2.8 percent) in particular suffered real sales losses compared to the previous year. Only Spain was able to achieve growth (+2.6 percent).

[40] NORD/LB Macro Research: Economic Adviser, September 2024 issue
[41] GfK: Einzelhandel Europa 2023 and 2024

Annual inflation in the eurozone fell to around 2.2 percent in August 2024 (August 2023: 5.2 percent).[42] The slowdown in inflation and the return of international tourists (Europe 2023: +17 percent yoy)[43] should lead to a revival in real retail sales in most European countries (euro area: 2024: +0.7 percent; 2025: +2.0 percent). Above-average growth rates are forecast for France and Germany in particular, while retail sales in Spain are expected to grow at around the same rate as the eurozone.[44]

Market environment: comparison of selected key data (2023)

	Germany	UK	France	Spain	Poland	Netherlands
real GDP 2023 (in %, yoy)	-0.2	0.1	0.9	2.5	0.2	0.1
real retail sales 2023 (in %, yoy)	-3.1	-2.8	-1.9	2,6*	-1.2	-1.5
Inflation rate (in %, yoy)	6.0	7.3	5.7	3.4	10.9	4.1

* preliminary data
Source: Destatis and Office for National Statistics (UK), NORD/LB Sector Strategy Real Estate

In 2023, e-commerce was still regarded as the biggest competitor to bricks-and-mortar retail: Following a sharp increase during the pandemic, the online share of consumer spending in Europe initially stabilised at around 10.5 percent in 2023. This share is set to gradually increase to 14 percent by 2028. As the largest European e-commerce market, it is striking that the UK stands out clearly from the rest of the European Union with an online share of 27 percent to date (forecast by 2028: 29 percent).[45 46]

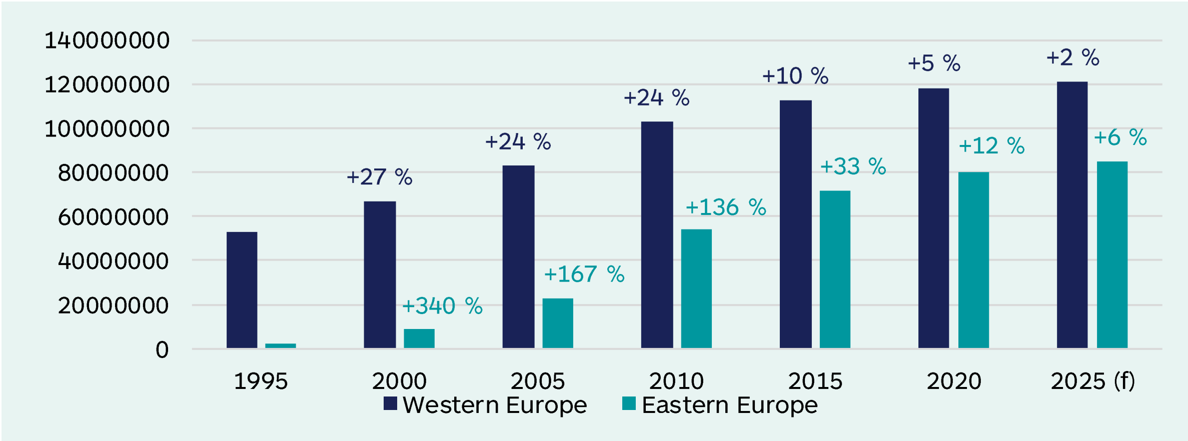
Shopping centres in Europe: Area growth and density

There is currently around 205 million m² of shopping centre space in Europe. The area has thus increased by almost 280 percent since 1995. While shopping centre retail space in western Europe expanded gradually over the past 60 years, it underwent a veritable boom in eastern Europe in the 2000s. This development is due in particular to the changes in the economic systems in many countries in eastern and south-eastern Europe, which were coupled with strong economic growth (see Fig. page 19). The onset of the coronavirus pandemic brought about a significant slump in area growth. While western Europe has stagnated at +0.4 percent per year since then, countries in eastern Europe are at least still showing some momentum at +1.2 percent per year.[47]

The volume of shopping centre completions across Europe reached a low point in 2023. Only around 0.26 million m² of new space came onto the market, with France being the focus. In Germany, the net balance was negative for the third year in a row, which means that more space was taken off the market than new space was added. A similar trend is emerging in the UK, where there was also a negative net balance last year. This development underscores the fact that the focus in the shopping centre sector is currently on repositioning and modernising existing centres. Additional sales space of around 0.43 million m² is expected across Europe this year.[48]

[42] https://ec.europa.eu/eurostat/de/web/products-euro-indicators/w/2-30082024-ap, accessed on 5 September 2024
[43] BNP Paribas: Shadows and bright spots in the European retail investment market, good prospects in the luxury and tourism segment. Press release, 4 March 2024
[44] JLL: European Retail Market Outlook, November 2023
[45] DekaBank: Retail markets Europe, May 2024
[46] NORD/LB Real Estate Special: UK. Real estate market showing signs of optimism. Spring 2024.
[47] RegioData Research: Shopping centres in Europe – momentum now only in eastern Europe. Press release dated 13 June 2024
[48] DekaBank: Retail markets Europe, May 2024

Development of shopping centre retail space in western and eastern Europe (in m²)



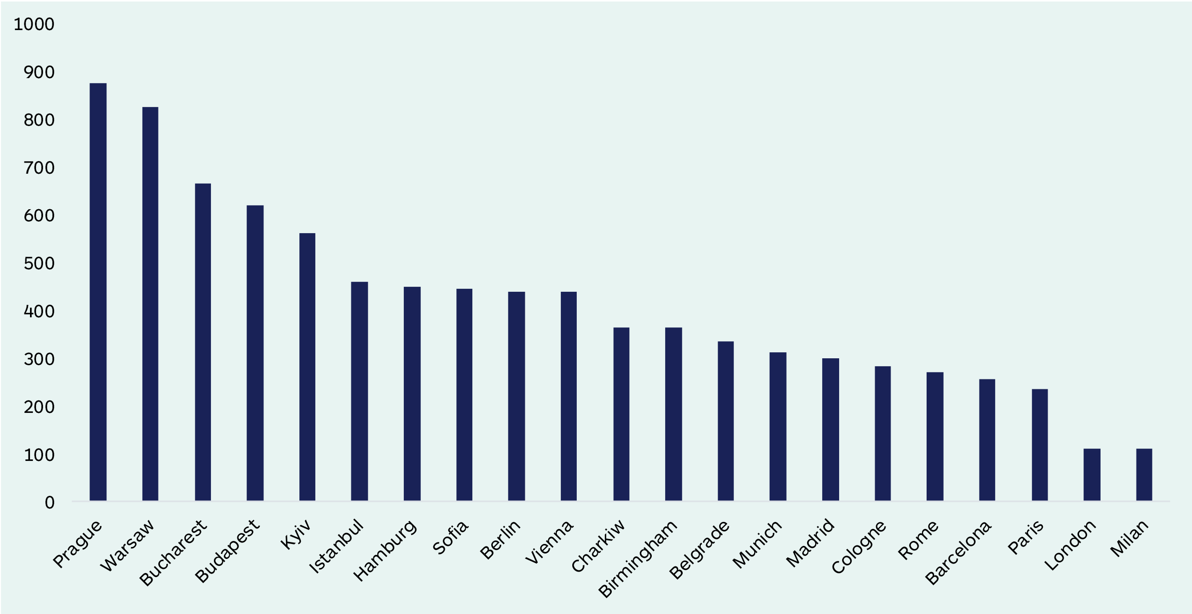
Source: RegioData Research May 2024, NORD/LB Sector Strategy Real Estate

Factors that influence how shopping centres are distributed across Europe include the climate, settlement structures, legislation and the purchasing power of individual countries. Accordingly, a study conducted by RegioData Research in 2022 shows that Sweden, Norway and Finland have some of the highest retail space densities in Europe. Only Monaco has a higher shopping centre density in m² per inhabitant (1.6 m² per inhabitant). The boom in the Scandinavian countries is attributable to the particular climate conditions in northern Europe and the comparatively low level of urbanisation. The fact that topographical factors play an important role in the density of retail space is also shown in the example of Greece. Due to its many dispersed islands, the country has one of the lowest densities in Europe. Purchasing power is also a significant factor in shopping centre density. This is reflected in the slightly higher than average values in Austria, Switzerland and Luxembourg (0.4 to 0.9 m² of retail space per inhabitant). Consequently, countries in northern and central Europe in particular have been able to position themselves as leaders in terms of shopping centre density.[49]

By contrast, looking at shopping centre density at the level of major European cities, a different picture emerges: Here, the capital cities in eastern and south-eastern Europe (CEE/SEE) in particular lead the way. With a density of around 876 m² of shopping centre space per thousand inhabitants, Prague is clearly in the lead. Warsaw follows close behind with 826 m². The high density in the CEE/SEE cities is due to their particular historical development. Following the fall of communism, virtually non-existent retail structures and rising purchasing power generated a huge backlog of demand. Shopping centres have become very popular since 2000. By comparison, large cities in western Europe such as Barcelona, Paris and London have always relied on their established retail structure and have tended to neglect the expansion of shopping centres. As a result, the share of shopping centres in most western European cities does not exceed 25 percent of the total retail volume, while the figure in major eastern and south-eastern European cities can easily exceed 50 percent of the total retail volume. With an area density of 110 m² per thousand inhabitants, the figure for London is just one-eighth that for Warsaw.[50] In cities with a high density of shopping centres, it is essential to regularly monitor the market and analyse competition because it can lead to crowding-out effects.

[49] RegioData Research: European shopping centre density – quo vadis? Press release dated 16 November 2022
[50] RegioData Research: Shopping centre density - CEE/SEE cities clearly “overstored”. Press release dated 27 April 2023

Shopping centre density in major European cities (retail space per 1,000 inhabitants in m²)



Source: RegioData Research 2023, NORD/LB Sector Strategy Real Estate

Comparison of other market data in Europe
Similar to Germany, shopping centres in the rest of Europe are also facing numerous challenges. Along with a very moderate volume of completions in 2023, vacancy rates at shopping centres across Europe have also risen further due to a number of insolvencies and are now mostly in the double-digit range. The UK has the highest vacancy rates among the core markets analysed (over 20 percent in some cases), followed by locations in Germany (18 percent in Berlin, 17 percent in Frankfurt), where vacancy rates have doubled in the past five years.[51] In France, the average shopping centre vacancy rate is 14.9 percent.[52] Large, supra-regional properties are generally less affected than smaller centres with deficits in terms of occupancy and location.[53]

Footfall improved across Europe in 2023 thanks to a recovery in international tourism. Most major European cities have benefited from the increase in international tourism spending. In secondary shopping centres, there continues to be a slight lag in footfall recovery.[54]

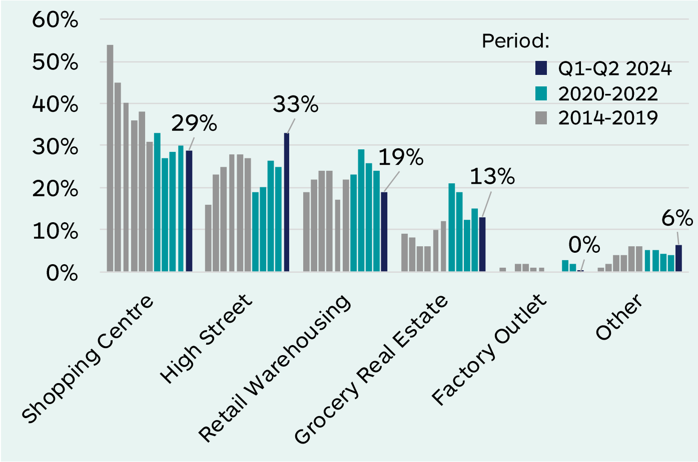
During the coronavirus pandemic, prime rents for shopping centres across Europe plummeted by 14 percent from pre-crisis levels. Stagnation in 2022 was followed by an upward trend in 2023. In the second quarter of 2024, prime rents for shopping centres were 5.0 percent higher year on year (see figure). As a result, prime rents rose more strongly than in the high street segment or in retail parks (+4.3 percent and +3.2 percent, respectively). Rents are also expected to grow across Europe in 2025.[55]

[51] DekaBank: Retail markets Europe, May 2024
[52] CBRE: France Retail Figures Q1/2024, April 2024
[53] DekaBank: Retail markets Europe, May 2024
[54] JLL: European Retail Market Outlook, November 2023
[55] DekaBank: Retail markets Europe, May 2024

European prime rents (Q2 2008 - Q2 2024)

Source: JLL, NORD/LB Sector Strategy Real Estate

Europe: Retail investment volume by segment (in percent)

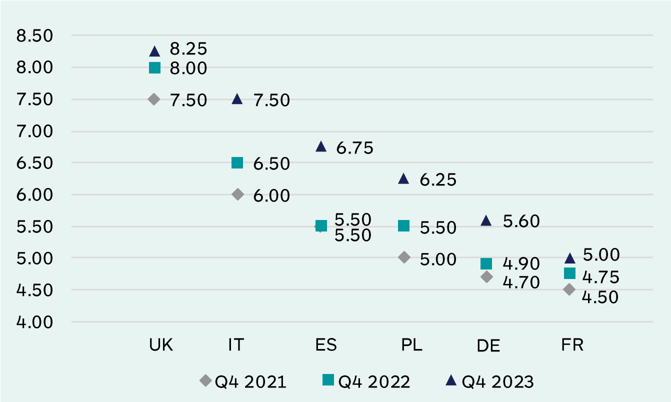


Source: JLL, NORD/LB Sector Strategy Real Estate

Investment volume in the European retail market fell by -40 percent to around EUR 26.2 billion yoy in 2023 (share of the commercial property market: 20 percent after 16 percent in the previous year). Shopping centres contributed around EUR 4 billion to the retail investment volume (-55 percent yoy).[56] While the share of shopping centres in the retail investment volume has fallen continuously since 2014, they still accounted for around 29 percent of the investment volume in the first half of 2024 (see figure). This is due not least to the major role played by shopping centres in eastern European countries, which account for a high percentage of the total retail volume. In Poland, for example, the share of the total retail transaction volume in Q3 2023 was 50 percent.[57] Of the target markets analysed, the UK (EUR 1.35 billion), Germany (EUR 1.05 billion) and France (EUR 1.0 billion) had the highest absolute transaction volume in the shopping centre segment in the third quarter of 2023. Poland followed in fourth place with a transaction volume of EUR 0.48 billion, with Spain in fifth with EUR 0.40 billion. In view of the interest rate reduction cycle that has been initiated, the investment volume in European retail property is likely to increase again in 2024, starting from a historically low level. This is primarily driven by investors with a value-add or opportunistic investment profile.[58] The rise in interest rates as of mid-2022 has led to an increase in prime yields in the retail sector and to a revaluation of all asset classes. This trend continued throughout 2023. However, since there were already noticeable price corrections in the retail sector during the pandemic, the increases in yields in 2023 were relatively moderate compared to other asset classes (such as prime office and logistics properties). Thanks to their risk premium, shopping centres remain attractive and continue to capture the interest of less risk-averse investors. The range of prime yields among the core markets extends from 5.00 percent in France to 8.25 percent in the UK (see Fig. p. 22). This means that the prime yields for shopping centres are higher than those for retail parks or the high street segment. Despite this increase, the latter are still the lowest in most countries (UK: 3.00 percent, DE: 3.45 percent, ES: 4.00 percent, IT: 4.15 percent, FR: 4.25 percent). This is due to the strong performance of the luxury segment during the pandemic.[59] In some European submarkets, further yield increases are expected in the shopping centre segment over the course of 2024.[60]

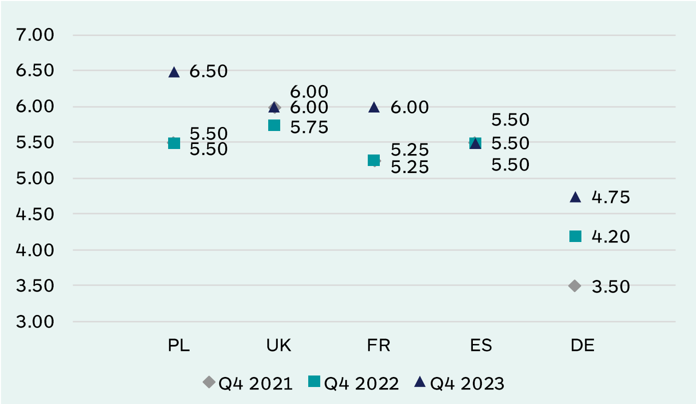
[56] BNP Paribas: Shadows and bright spots in the European retail investment market, good prospects in the luxury and tourism segment. Press release, 4 March 2024
[57] BNP Paribas: European Retail Market Overview, Q3 2023
[58] BNP Paribas: Retail Market in Europe: A mixed picture for investment, occupiers faring better thanks to luxury and tourism. Press release, 27 February 2024
[59] BNP Paribas: Shadows and bright spots in the European retail investment market, good prospects in the luxury and tourism segment. Press release, 4 March 2024
[60] Savills: European Investment. Q1 2024 Preliminary results. March 2024

Prime yields shopping centres (in percent)



Source: BNP Paribas, NORD/LB Sector Strategy Real Estate

Prime yields retail parks (in percent)



Source: BNP Paribas, NORD/LB Sector Strategy Real Estate

Best practice examples: Selected shopping centres in Europe

A number of successful shopping centres in Europe and abroad are presented below. These include both new properties and ones that have undergone repositioning or repurposing and are now successfully holding their own in the market:

// **Pasing Arcaden Munich**

The DGNB Gold-certified Pasing Arcaden (completed in 2011) is located in the centre of the Munich Pasing district, right next to Pasing railway station, a major transport hub in Munich.[61] The direct proximity to Pasing railway station provides excellent accessibility for both residents of the district and commuters. The shopping centre has a mixed usage and combines retail, gastronomy, living and working space and is playing a key role in the redevelopment of the Pasing station area. The result is a vibrant public space in the west of Munich.[62] Covering a total sales area of 53,000 m², 153 retail units offering a blend of the latest fashion trends, high-quality cosmetics, innovative new technology and sports products as well as a wide range of recreational and service facilities – including well-known tenants such as ALDI, HIT, dm, H&M and Müller[63] – attract around 10 million visitors to the centre every year.[64] Promotional areas, pop-up and concept stores are also available.[65] The rooftop of Pasing Arcaden was used to create additional living space and is a successful example of modern urban development and efficient utilisation. Four residential complexes comprising a total of 45 residential units are located on the rooftop of the shopping centre.

The additional roof gardens and terraces give the residential deck a certain charm and at the same time enhance the quality of life of its residents.[66, 67] A highlight of the shopping centre is its promenade

[61] https://www.architonic.com/de/project/allmannwappner-pasing-arcaden/5101272, accessed on 13 June 2024
[62] https://www.hi-heute.de/center-der-woche/pasing-arcaden-erlebnis-shopping-direkt-neben-dem-bahnhof, accessed on 13 June 2024
[63] https://www.unibail-rodamco-westfield.de/portfolio/pasing-arcaden/, accessed on 13 June 2024
[64] https://www.westfieldrise.de/destination/pasing-arcaden, accessed on 13 June 2024
[65] https://www.hi-heute.de/center-der-woche/pasing-arcaden-erlebnis-shopping-direkt-neben-dem-bahnhof, accessed on 13 June 2024
[66] https://www.heinze.de/architekturobjekt/pasing-arcaden/12643152/, accessed on 13 June 2024
[67] https://www.muenchenarchitektur.com/architektur-highlights/17-wohnungsbauten/22464-wohnen-auf-den-pasing-arcaden, accessed on 13 June 2024

and the landscaped outdoor area, which connects the building sections and provides space for additional catering facilities. As a result, Pasing Arcaden has become the place to be, and as a lively public space it is generating new high-quality urban amenities for residents and tourists alike.[68]

// **Westfield Überseequartier Hamburg (opening in 2025)**
Westfield Überseequartier Hamburg, which is about to open, has yet to assert itself on the market, however, it does have a coherent overall concept: This mixed-use project in Hamburg's HafenCity district is not just Unibail-Rodamco-Westfield's attempt to create an urban neighbourhood, but also a lively meeting place for residents and tourists that combines modern shopping concepts with space for living and working, attractive cultural and recreational facilities and entertainment concepts.[69] Covering a total GFA of 419,000 m², a diverse shopping and experience centre is coming to fruition, combining residential, retail, office, hotel, catering, cultural and recreational uses. Public squares and many green spaces are also being built alongside a total of 14 structures, including residential buildings, three hotels and a cruise terminal.[70] Previously scheduled to open in October 2024, the opening of the neighbourhood has been postponed again until spring 2025.[71]

A large shopping centre comprising over 150 retail units is being built in the heart of the Überseequartier.[72] The centre brings together the latest shopping centre megatrends in food and drink, recreational activities in the areas of entertainment and culture, fitness and spa facilities as well as health and beauty, thus ensuring a balanced mix of offerings with a wide variety of usage types. This combination of experiences is expected to create special added value for shoppers. The flagship project in the leisure sector is the 3,400 m² LEGO DiscoveryCentre and a multiplex cinema with more than 2,300 seats. In addition to the large spaces and flagship stores for international brands, it offers space for numerous medium-sized and small units. For example, there will be shops as small as 100 m² that small tenants can lease at attractive rates. These retailers generally do not have the necessary financial resources, but their ideas and products give the neighbourhood a unique character and offer customers something new.[73]

// **"Hoog Catharijne" Utrecht**
With over 30 million visitors a year, Hoog Catharijne is the most visited shopping centre in the Netherlands. The reason for this is not least its strategically advantageous location between the city centre and the railway station. Utrecht railway station is the busiest railway station in the country. The shopping centre has also been extensively modernised in recent years. Covering an area of around 100,000 m², in addition to around 125 retail units, a variety of catering options and regular events ensure a unique shopping experience.[74] The shopping centre is located in a densely populated area, with a large number of retail units, hotels, offices and entertainment venues in the immediate vicinity. For example, TivoliVredenburg – an events/music venue for all kinds of concerts and festivals – is located right next door.[75] The shopping centre is also the only one in the world that can be reached by boat across the canal. Boats can be moored directly in front of the shopping centre.[76]

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[68] https://www.westfieldrise.de/destination/pasing-arcaden, accessed on 13 June 2024
[69] https://b2b.ueberseequartier.de/, accessed on 13 June 2024
[70] https://b2b.ueberseequartier.de/quartier/, accessed on 13 June 2024
[71] https://www.unibail-rttpodamco-westfield.de/unibail-rodamco-westfield-kuendigt-die-eroeffnung-des-westfield-hamburg-ueberseequartier-fuer-das-erste-quar tal-2025-an/, accessed on 19 September 2024
[72] https://www.ndr.de/nachrichten/hamburg/Einkaufszentrum-in-der-Hamburger-Hafencity-Eroeffnung-verschoben,ueberseequartier174.html, accessed on 13 June 2024
[73] https://www.across-magazine.com/what-were-building-is-a-new-part-of-the-city/, accessed on 13 June 2024
[74] https://www.berlinhyp.de/de/kunden/referenzprojekte/berlin-hyp-im-konsortium-einkaufszentrum-hoog-catharijne-in-utrecht-f%C3%BCr-kl%C3%A9pierre green-loan-260-mio-euro, accessed on 13 June 2024
[75] https://www.visitutrechtregion.com/de/standorten/2205751774/tivolivredenburg, accessed on 13 June 2024
[76] https://www.klepierre.com/en/our-malls/hoog-catharijne, accessed on 13 June 2024

// **The Playce Berlin**

The repositioning of what was formerly Potsdamer Platz Arkaden to The Playce Berlin represents a landmark urban development project in Berlin. Its repositioning has transformed The Playce into an attractive, urban centre where visitors can meet and enjoy shopping, dining, entertainment, art and culture. With around 90 retail units and flagship branches of well-known brands, a wide range of restaurants, a multiplex cinema, an amusement arcade, a theatre and an art trail, it offers a varied shopping and leisure experience. “The result is a unique place where people come together to interact and play”.[77] As part of the repositioning, the entire upper floor of the shopping centre was removed and replaced by a two-floor storefront. This created a covered shopping arcade with vertical access. An stand-out feature of the shopping centre is Manifesto Market – a modern food court concept covering an area of 4,400 m². Europe’s largest food hub is home to 22 restaurants ranging from local food start-ups to award-winning restaurants – using sustainable products from four continents, four bars and a stage for cultural events. The Manifesto Market concept combines culinary highlights with cultural and lifestyle programmes and educational and entertainment activities. [78] [79] In addition to the range of culinary options, a children’s area with a climbing wall, a chef’s table for live cooking events and regular events such as Comedy Nights, Art Nights and Kidz Kino create further incentives for a wide variety of target groups such as tourists, local office workers and residents.[80]

// **La Part-Dieu Lyon**

La Part-Dieu in Lyon is Europe’s largest city centre shopping centre and is in a prime location in Lyon with direct access to the tram. Although the shopping centre has been refurbished several times since it originally opened in 1975, none of the previous refurbishments were as extensive as the most recent one. During the recent refurbishment, the centre was expanded by 325,000 m² of commercial and public space.[81] The top floor, which was originally used as a car park, was converted into a roof terrace with green areas and a cinema. At the same time, new shops and restaurants as well as a large number of services such as Click & Collect were added. The greatest challenge during the refurbishment was to make the building accessible from the street so as to provide a direct connection to the city centre.[82]

Conclusion and outlook

Economic developments aside, shopping centres have been facing a variety of different challenges for a number of years. Shopping centres are in the midst of dynamic change. In particular, outdated out-of-town shopping centres or those in locations with poor transport links are increasingly having to contend with declining visitor numbers and falling sales as a result. Given the saturated market, the focus is now on optimising existing shopping centres. After years of restraint on the part of investors, this will also create potential for renewed activity in the transaction market for shopping centres. In view of their risk premium compared to other types of retail use, shopping centres are becoming increasingly attractive and may once again capture the interest of investors with a value-add or opportunistic investment profile in particular.

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[77] https://www.bartenbach.com/the-playce/, accessed on 13 June 2024
[78] https://www.ece.com/de/shopping-marketplaces/the-playce-berlin, accessed on 13 June 2024
[79] https://www.potsdamerplatz.de/de/stores-food-drinks/manifesto-market, accessed 13 June 2024
[80] https://www.manifestomarket.com/berlin/potsdamer-platz/de/, accessed on 13 June 2024
[81] https://www.jll.de/de/trends-and-insights/investoren/transformation-von-einkaufszentren, accessed on 13 June 2024
[82] https://www.lyon-partdieu.com/en/operations/shoppingcenter/, accessed 13 June 2024

While the era of the shopping centre is far from over, around 40 percent of German shopping centres are in great need of investment. Repositioning or repurposing obsolete shopping centres is becoming increasingly important in order to prevent rising vacancy rates, declining tenant revenues or falling footfall. Repositioning a centre enables it to be better aligned with changing consumer preferences in the short to medium term. In this context, an increasing importance is attached to the growth in recreational activities and experiences, attractive dining options and additional services (e.g. bowling alleys, cinemas, themed markets, food courts). Mixed-use concepts have been particularly successful when it comes to repurposing a significant part of the shopping centre floor space for uses other than retail. They create additional incentives for potential visitors, help to diversify cluster risks arising from pure retail and to compensate for structural vacancies. As a result, shopping centres are becoming places where people meet friends and colleagues, work, visit a health consultant, live, eat and shop. They are increasingly being transformed into lifestyle hubs that function as places to meet and combine a wide range of functions under one roof. Shopping centres that are viable for the future also successfully combine online and in-store shopping experiences. Finally, ESG factors also have an impact on whether a shopping centre is sustainable. These include, for example, reducing carbon emissions from operations, increasing energy efficiency and supporting and promoting local communities and retailers.

A comparison with Europe shows that the shopping centre markets are developing in a similar way to Germany. However, a number of specific facts stand out: while the sales area of shopping centres in western Europe has grown continuously over the last 60 years, the market in eastern Europe only began to grow in the 2000s. This is due to changes in the economic systems in many eastern and south-eastern European countries, which went hand in hand with strong economic growth, increased purchasing power and generated many backlog effects. Therefore, it is not surprising that eastern and south-eastern European capitals such as Prague and Warsaw are major cities in terms of shopping centre density. Large western European cities such as Barcelona, Paris and London have always banked on their tried-and-tested retail structures. Overall, the prospects for the development of the European shopping centre markets are promising, even if economic uncertainties remain. The easing of inflation is likely to have a positive impact on consumer spending in Europe. The return of international tourists is also boosting footfall and is expected to stimulate retail sales. Prime rents for shopping centres, which have been trending upwards again since 2023, are likely to continue to grow in the year ahead. The turnaround in interest rates and the advanced stage of price formation are expected to lead to a gradual increase in the volume of investments in European shopping centres.

The above analysis has shown that, despite many challenges and a slowdown in market activity in recent years, it would be unwise to write off the shopping centre sector just yet. The market is very diverse and must be viewed in a differentiated manner. In light of the segment's structural problems, shopping centres are frequently viewed in terms of "one-size fits all".[83] However, profitable properties frequently do not come onto the market. That said, it is likely that shopping centres in need of repositioning will come onto transaction market more frequently in future. Shopping centres are subject to an ongoing process of adaptation and must continuously evolve in order to keep pace with changes in the retail sector and changing customer demands. This requires corresponding, regular investments, which need to be financially viable and profitable. Well-positioned, modern properties will continue to find tenants and customers in the future. This in turn enables retailers to generate stable revenues, while from the investor's point of view, sufficient rent levels can be achieved. Ultimately, our credo is: shopping centres must demonstrate flexibility in order to be or become fit for the future.

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[83] Savills: Repositioning needs of shopping centres - a cluster analysis. August 2024

Appendix

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