Development in 2015

All time high in retail real estate - new bubble on the horizon?

The transaction volume for German retail properties reached a new high in 2015. This amounted to approx. EUR 18 billion this year, about twice as much compared to last year. More than half can be attributed to foreign investors. Germany has therefore expanded its position further as a safe haven. In particular demand were inner-city properties, shopping centers and retail parks. Yields are coming under increasing pressure, particularly for core properties. Investors are refocusing on value-add products and as a result many are already questioning whether this is a new bubble. From our perspective, it has already formed but will not burst yet as, in contrast to 2008, there is significantly more capital in the market due to the current moderate loan-to-value of max. 70–75%. The desired risk / return profile, IRR’s and dividend yields for core / core + properties are difficult to achieve due to high pricing. Real estate risks are therefore no longer adequately priced, especially for retail properties. High-priced investments, are only justified for core / core + properties when they can withstand critical examination in terms of location, property quality and long-term income security. Real estate investments with obvious weaknesses are graded according to the accepted price and the recognized risks or may even not be placed on the market, which can counteract the formation of a bubble.

Is the refugee crisis changing Germany and modifying retail?

The economic conditions in Germany are still stable. Within the EU, Germany remains an anchor. Rising wages, low unemployment and inflation keep German consumer sentiment high. Challenges of demographic change, regional disparities, e.g. between East and West, the affects of the multi-channel era remain. However, with the global crises the EU and in particular Germany have also reached a new momentous challenge that will have a lasting impact. In 2015 alone, approx. 1 million refugees arrived in Germany. A satisfactory political solution is currently not in sight. But what does this mean for commercial real estate? When most refugees spend their „pocket money“ (approx. 140 EUR a month) in the next discounter or supermarket, companies can expect, approximately an additional 1.8 billion EUR, purely in mathematically terms. In the short term this will certainly benefit local shops near the accommodation, as well as Turkish and Arab markets with special ranges in ethnic food, for example halal food. But in the long-term, many have come to Germany as refugee immigrants and will remain. This increase in demand will also change retail. The considerable secondary effects of investment are particularly noteworthy e.g. in household appliances or in furnishing (mattresses, home textiles, etc.).
Retail Trends 2016

Germany’s Shopping Center in Risk

At present, there are over 460 large shopping centers in Germany. The current status implies that around 225 have no long-term perspective. E-commerce, changing consumer behavior, increasing competition as well as innovative retail concepts are intensifying the trading-down process. In this risky situation, inappropriate shopping center management leads to mistakes in capital allocation or losses in value. Timely and competent countermeasures are required.

BBE Retail Consulting, IPH Retail Property, Transact and Centermanagement combine preventative risk management with tailored retail recommendations – including implementation when required. Comprehensive, integrated know-how is required in order to assess a shopping center’s current and future situation and thus create corresponding and effective retail recommendations. Knowledge that our group of companies offers: saving time and resources.

Close contact with retailers is key to success

Retail properties are operator-run. The focus is on the lease, and therefore the tenant. Close contact with tenants is becoming increasingly important. On the one hand this is due to the concentration in retail, such as in the food sector where the acquisition of Tengelmann by the industry leader Edeka has led to less choice in terms of tenant selection and on the other hand many retail sites and properties are facing more pressure due to increased competition. Active asset management plays a crucial role in the success of a retail property.

The relationship between tenant and landlord, however, still requires further efforts, according to results of the recent study: „The tenant in focus“.

Factors of importance and satisfaction with regard to the asset management

<table>
<thead>
<tr>
<th>Personal accessibility</th>
<th>very satisfied</th>
<th>somewhat satisfied</th>
<th>somewhat unsatisfied</th>
<th>dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual approach</td>
<td>1.88</td>
<td>2.27</td>
<td>2.33</td>
<td>2.66</td>
</tr>
<tr>
<td>Regular tenant meetings</td>
<td>1.60</td>
<td>2.01</td>
<td>2.51</td>
<td>2.71</td>
</tr>
<tr>
<td>Sufficient management knowledge of market and consumer trends</td>
<td>1.39</td>
<td>2.27</td>
<td>2.88</td>
<td></td>
</tr>
<tr>
<td>Sufficient management knowledge regarding tenant requirements</td>
<td>1.81</td>
<td>2.00</td>
<td>2.67</td>
<td></td>
</tr>
<tr>
<td>Individual solutions tailored to tenants’ requirements (e.g. layout, rents, etc.)</td>
<td>1.95</td>
<td>2.53</td>
<td>2.95</td>
<td></td>
</tr>
<tr>
<td>Regular information about upcoming events (e.g. events, change of tenant, building work, etc.)</td>
<td>2.15</td>
<td>2.59</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular information on the performance of the location and the center</td>
<td>2.15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Press and public relations for the property</td>
<td>2.27</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional network (e.g. regional retailers, authorities polit. entities etc.)</td>
<td>2.67</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SOURCE The tenant in focus 2015 (Der Mieter im Fokus 2015)
BBE Retail Consulting, IPH Retail Property, Transact and Centermanagement have been one of the leading specialists in retail property consulting, development, transactions and management in Germany for more than 60 years. Focused exclusively on retail real estate, we provide extensive expertise and services in retail market analysis and forecasting to ensure the long-term sustainability of investments. We develop customized solutions for retail real estate, including utilization and leasing strategies for both new developments and revitalization projects.

BBE Retail Consulting
IPH Retail Property
Head Office Munich
Brienner Straße 45
DE - 80333 Munich
Phone: +49 89 55118 – 144
Fax: +49 89 55118 - 153

Office Hamburg
Wendenstraße 8–12
DE - 20097 Hamburg
Phone: +49 40 1804106 – 0
Fax: +49 40 1804106 - 10

Office Cologne
Tacitus Carree
Goltsteinstraße 87a
DE - 50968 Cologne
Phone: +49 221 78941–160
Fax: +49 221 78941–169

Office Leipzig
Uferstraße 21
DE - 04105 Leipzig
Phone: +49 341 98386 – 72
Fax: +49 341 98386 – 80

Office Erfurt
Futterstraße 14
DE - 99084 Erfurt
Phone: +49 361 77806 – 60
Fax: +49 361 77806 – 12

Our in-depth knowledge and understanding of all retail sectors enables us to provide services for a full range of retail real estate, from single outlets to shopping centers. Comprehensive property management for the retail sector is another important element of our service portfolio. Together with our new commercial specialist elaboratum we are responding to the challenges of the multichannel shopping age. We operate in Germany and its neighboring countries.