9 January 2019

News release

A summary of the retail property market in 2018

COMFORT analysis reveals that rents for retail space in German prime locations are only consistent in top shopping cities

- **Substantiated market analysis of prime shopping locations in 132 German cities**
- **Robust information on retail and high street trends, shop units and rents**
- **Stable growth in retail sales of 1.5%**
- **Declining rents in two-thirds of the analysed cities**
- **Increasing sideways trend in the investment market**

The German economy's overall loss of momentum has obviously had a curbing effect on the retail sector, but there's no reason for dismay. The retail property rental market is simply in a phase of extensive readjustment at the moment, which entails some significant changes in the city centres, including the arrival of new concepts and different uses. In the past, the city centres tended to be populated by a high number of fashion retailers. Today, we are seeing more diversity of concepts, sectors and users there. Rents are declining in two-thirds of the cities that were surveyed for the COMFORT High Street Report 2019.

Provisional figures show that German retail sales rose in real terms by 1.5% to over EUR 520 billion in 2018. *"Over the past three years retail sales growth rates have been at their highest level since the 1990s and consumer spending will continue to increase over the next year,"* predicts Olaf Petersen, Research Director at the COMFORT Group. However, the rate of increase will diverge substantially across the different retail sectors and sales channels. There is likely to be significant growth in e-commerce next year, following 10% growth in 2018. It's also remarkable in this connection that high street retailers have recorded higher growth in absolute volume of sales – at EUR 6.5 billion – than their online counterparts, who only achieved growth of just under EUR 5 billion.
According to Olaf Petersen, the reasons for this development are: *"Convenience goods account for the lion's share of the growth, and this is a segment in which online retailers have played a relatively insignificant role until now. The clear distinction between online and offline is also becoming increasingly blurred as the ominchannel trend takes hold and high street retailers step up their online activities."*

Increasing pressure on the textiles segment

The picture is very different when it comes to traditional prime locations for clothing and shoe retailers, where there is obvious pressure on big textile flagship stores. Tenant demand for large premises of at least 1,000 m² in size or vertical units with three or more floors is stagnating and, in some cases, declining. This particularly applies to the traditional city centre retail segment of fashion. Established fashion retailers are still expanding cautiously or optimising their existing chains. Online retailers have already secured a market share in the region of one quarter, and the weather was an additional factor depressing high street sales in 2018.

One quarter of high street retailers now have their own online shops and 15% can be found on an online platform. On the other hand, a growing number of formerly pure online players such as Zalando are coming to realise that the way forward in retail is not a one-way street. In the future we'll be seeing pure players straddling both worlds as the significance of omnichannel retailing grows.

Top trend: experience-oriented shopping

Attractive city centres with high amenity value that traditionally perform a magnet function for their catchment area will still be the first port of call for experience-oriented shoppers. High street shops and their sales assistants will continue to be consumer touchpoints in the digital age. The city centres will become more diverse places, ideally offering an all-encompassing experience of shopping, working and social interaction in a pleasant atmosphere. Overall, the number of textile retailers in the city centres will decline and the number of inner-city convenience goods retailers (various urban food concepts, drugstores), hardware retailers and eateries will increase.

The extent to which Germany's shopping cities will survive these changes depends on their size, catchment area, purchasing power, atmosphere and amenity value, as well as other factors such as competition and tourism – and these differ considerably from city to city. The new COMFORT City Ranking 2019, which is currently being prepared, provides a comparative analysis. It will be published in conjunction with the new COMFORT High Street Report at the end of January/ beginning of February.

Rental market

Hesitance to expand, surplus retail space and online retailers are depressing rents

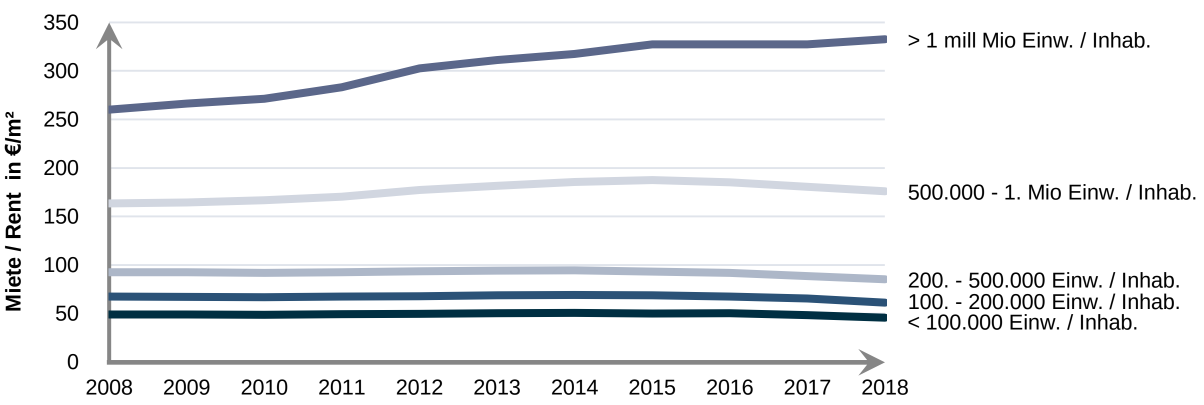
The upward trend in retail rents lasted for many years. However, since 2016 rents have been under pressure as a result of a retail space surplus (1.44 m² per resident), the growing significance of the online retail sector and distinct hesitance to expand.

"It's obviously a tenants' market right now. Top rents can only be secured by property owners today if the property meets the tenant's requirements in every respect. The retail unit's layout and concept have to be a perfect match with the tenant profile. As a result, property owners are having to make concessions," established COMFORT Director Petersen.

In light of this development, genuine prime locations in the cities and on individual street sections are shrinking. Sometimes, depending on the city's size, only single buildings satisfy tenant criteria for top rents.

Development of max. rents (80 – 120 m²) relative to population size

at prime locations in Germany between 2008 and 2018



Change in max. retail rents (80 – 120 m²) at prime locations in Germany 2017 vs. 2018
No. of cities in the relevant city size category

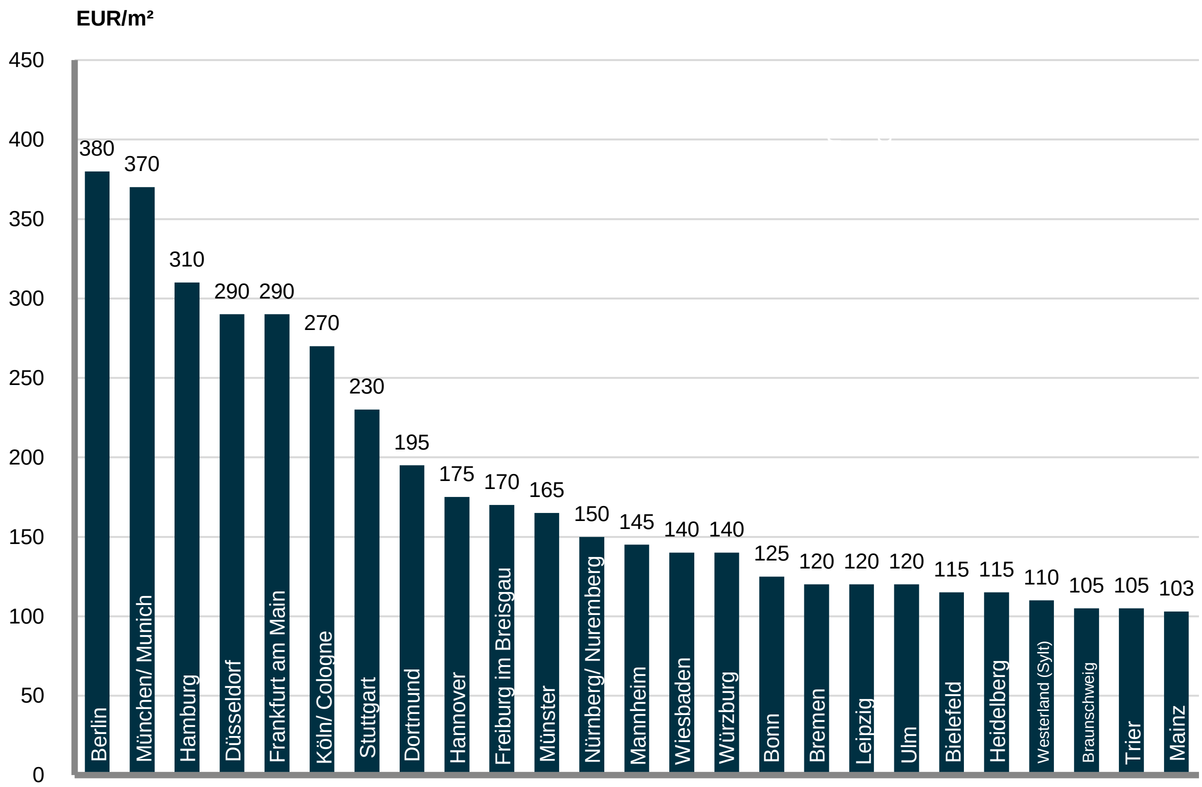
Städte nach Größenklasse Cities by size class	Miete steigend, Städteanzahl Rent increase Number of cities	Miete gleichbleibend, Städteanzahl Constant rent Number of cities	Miete fallend, Städteanzahl Rent decrease Number of cities		Städte insgesamt Cities total
			≥ - 5 %	< - 5 %	
> 1 Mio. Einw. / Inhab.	1	3	0	0	4
500.000 - 1 Mio. Einw. / Inhab.	1	4	1	4	10
200.000 - 500.000 Einw. / Inhab.	1	7	6	11	25
100.000 - 200.000 Einw. / Inhab.	0	6	9	21	36
< 100.000 Einw. / Inhab.	1	17	8	31	57
Städte insgesamt / Cities total	**4**	**37**	**24**	**67**	**132**

Quelle / Source: COMFORT – Research & Consulting

Rents are particularly declining in smaller cities

The COMFORT analysis clearly shows that rents have declined year-over-year in some two-thirds (91) of the 132 surveyed cities. In 67 cities rents have declined by over 5%. In around 18% (24 cities) rents are down by between 0 and 5%. Rents in 28% or 37 cities are still consistently high, and they only increased in four cities: Berlin, Düsseldorf, Freiburg and Konstanz. The analysis clearly shows that declining rents are far more prevalent in smaller cities than in cities with populations of between 500,000 and 1 million (50%), whereas there has been no decline at all in cities with populations in excess of 1 million. A long-term 10-year view of average rent trends also reveals this to be a sustainable development with a much less negative impact on large cities.

Max. rents (80 – 120 m²) at prime locations in Germany in 2018
No. of cities in the relevant city size category



Quelle / Source: COMFORT – Research & Consulting

Development of max. rents (80 – 120 m²) relative to population size
Differentiated by period

Städte nach Größenklasse Cities by size class	Langfristig (2008 - 2018) Long term (2008 - 2018)	Kurzfristig (2017 - 2018) Short term (2017 - 2018)
> 1 Mio. Einw. / Inhab.	+ 27,9 %	+ 1,5 %
500.000 - 1 Mio. Einw. / Inhab.	+ 7,7 %	- 2,4 %
200.000 - 500.000 Einw. / Inhab.	+ 2,5 %	- 3,9 %
100.000 - 200.000 Einw. / Inhab.	- 8,9 %	- 6,2 %
< 100.000 Einw. / Inhab.	- 6,5 %	- 4,9 %

Quelle / Source: COMFORT – Research & Consulting

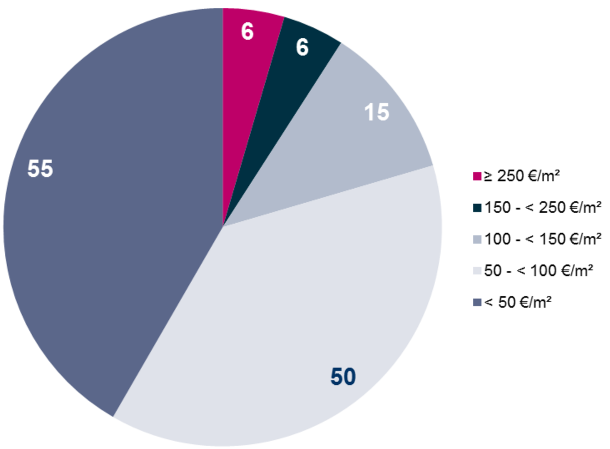
Looking ahead to key rental market trends

The retail property market is currently in an extensive rent realignment phase and lease contracts are becoming more flexible. There is currently a trend of shorter-term, 5-year leases. Some fashion sector tenants are already negotiating 3-year lease terms, whereas convenience goods retailers and restaurants/cafés are still opting for 10-year terms, which better serve the property owners' interests and will continue to be the norm in the future. It is obvious that the tenants have the stronger position in lease negotiations. This is causing a shift in risk to the property owner through sales-based rent components, internal commissions and building subsidies.

Berlin overtakes Munich for top rents

Top retail rents diverged considerably at the end of last year. Maximum rents higher than EUR 100/m² for small units of 80 to 120 m² were identified in around 20% of the surveyed shopping cities. Only 6 cities – the Top 7 except Stuttgart – had maximum rents higher than EUR 250/m². One remarkable development is that Berlin overtook longstanding leader Munich in 2018 as the German city with the absolute highest rent at EUR 380/m². In comparison, 50 of 132 cities (or almost 38%) have rents in the range of EUR 50 to 100/m² and 55 cities (= around 42%) have retail rents of less than EUR 50/m².

Max. rents (80 – 120 m²) at prime locations in Germany in 2018
No. of cities with a specific rent range out of a total of 132



Quelle / Source: COMFORT – Research & Consulting

Investment market

Solid investment climate with predominantly stable prices

More than EUR 10 billion was invested in retail properties during 2018. This is in the two-digit investment volume range that we have seen in previous years, though lower than last year's investment volume of around EUR 14 billion. Portfolio sales such as the Karstadt-Kaufhof deal or the Pure portfolio divestment (DIC High Street Balance open-end property fund) by DIC Asset AG accounted for a substantial portion of that volume. Transaction business was still characterised by a shortage of available products, with demand from domestic and international investors by far exceeding supply.

"The deals being transacted in the German commercial property market remain at a high level. Germany is still a popular investment location with an economy that is developing positively, overall, despite recent glitches in economic performance and interest rates," summarised Olaf Petersen. Investors are becoming increasingly cautious about investing in retail properties as a result of growth in the online retail sector and declining retail rents. From an investment strategy perspective, however, this asset class is still sound is still sound due to the fact that the historical "beaten paths" cannot be replicated – and taking into account the corresponding property values and sustainability (with factored in rents).
The retail investment market is changing. Demand for retail property assets and choices of cities diverge. All categories of retail properties are still in demand in the top cities. However, this cannot be said of B cities, C cities and smaller cities. Investor demand there is focused on retail parks and local shopping areas. Demand for commercial properties and shopping centres has declined, in contrast, and is restricted to prime locations and good B locations as core plus and value-add investments and development projects.

Change in purchase price factors at prime locations in Germany 2017 vs. 2018
No. of cities in the relevant city size category

Stadtgrößenklasse City size	Kaufpreisfaktor steigend, Städteanzahl Purchase factor increase, Number of cities		Kaufpreisfaktor gleichbleibend, Städteanzahl Constant purchase factor, Number of cities	Kaufpreisfaktor fallend, Städteanzahl Purchase factor decrease, Number of cities	Städte insgesamt Cities total
	> + 0,5 %-Punkte	≤ + 0,5 %-Punkte			
> 1 Mio. Einw. / Inhab.	2	1	1	-	4
500.000 - 1 Mio. Einw. / Inhab.	2	5	2	1	10
200.000 - 500.000 Einw. / Inhab.	5	6	10	4	25
100.000 - 200.000 Einw. / Inhab.	2	2	30	2	36
< 100.000 Einw. / Inhab.	5	3	46	3	57
Städte insgesamt Cities total	**16**	**17**	**89**	**10**	**132**

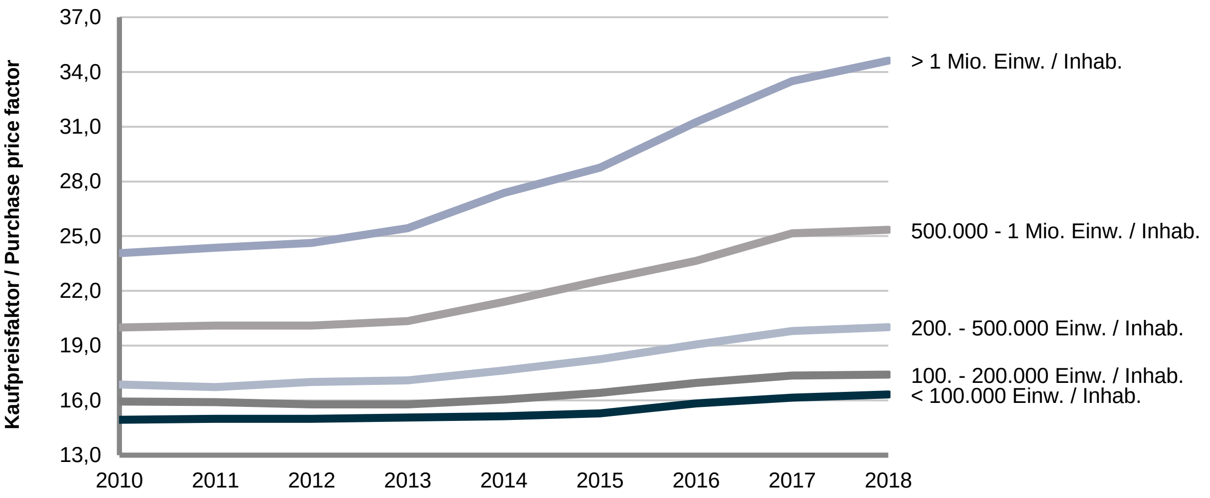
Quelle / Source: COMFORT – Research & Consulting

The COMFORT analysis indicates that purchase price factors reached a zenith in the fourth quarter of 2018. Purchase price factors only increased for high street properties in around 25% (33 cities) as compared to around 60% (80 cities) last year. In contrast, the number of cities with constant purchase price factors increased substantially. Last year there was a sideways trend in only around 40% of cities as compared to two-thirds (89) of the surveyed cities this year. The purchase price factors declined in 10 cities (previous year: 2).

The profitability of retail property investments depends on the valuation of sustainable rents

Prices are currently very high in the retail property investment market. In the top cities of Munich, Hamburg, Düsseldorf, Berlin, Frankfurt am Main and Cologne purchase price factors are more than 30x net annual rent. Stuttgart is one of the midfielders among the 40 shopping cities (previous year: 38). Purchase price factors there are between 20 and 30x net annual rent. *"Since the rental markets* *are unable to keep pace with the high level of demand from investors, the achievement of realistic, long-term retail rents is increasingly posing a problem for the sustainable profitability of retail property investments,"* said COMFORT Director Petersen. As a result of the limited availability of suitable assets and demand pressure, retail property yields are at an all-time low in the top cities except Stuttgart at the beginning of 2019. Retail properties in prime locations and good shopping centres are still at the lower end of the yield scale, whereby the yields for retail parks with local shopping facilities have slowly but surely increased over the past year.

Average purchase price factor development by city size



Quelle / Source: COMFORT – Research & Consulting

About the COMFORT Group

Since it was founded in 1979, the COMFORT Group has specialised in the sale and letting of commercial properties, specialist stores and retail units. As a proven retail property expert, COMFORT makes its know-how available via a consultancy services portfolio which includes expertises, second opinion appraisals and third party due diligence reports. COMFORT continuously analyses rent and purchase price factors in Germany, Austria and Switzerland. It also provides shopping centre consultancy services and has a separate Luxury Retail unit. The retail specialist is also exclusive partner of Cushman & Wakefield for retail property letting in Germany. The COMFORT Group is headquartered in Düsseldorf and has offices in Berlin, Düsseldorf, Hamburg, Leipzig and Munich.

www.comfort.de

COMFORT Group media contact
Karolina Müller
Corporate Communication **I** Schadowplatz 12, 40212 Düsseldorf **I** Tel. +49 211 9550-144 **I** mueller@comfort.de