

KAISERSLAUTERN – THE RULING OF THE COURT

and the Lesson for Expert Opinions ...

In spring 2013, the Administrative Appeals Tribunal of Rhineland-Palatinate in Koblenz (OVG Koblenz) reviewed seven judicial review proceedings questioning the legitimacy of the local development plans of the City of Kaiserslautern (file reference "8 C 10758/12. OVG").

The purpose of the local development plans was to create the basis for the construction of an inner-city shopping centre that would integrate the vacant Karstadt building. On 17 April, the court gave the go ahead for the construction of a 20,900 sqm shopping centre in the inner city of Kaiserslautern (to be completed by spring 2015). In addition to issues relating to transportation and emission control law, the court also reviewed the impact study compiled by BulwienGesa AG. The ruling stated that the court found no fault with the methodological approach of the survey. As it made its case, the court in Koblenz specifically cited the transparency of the analytical method used by BulwienGesa. BulwienGesa uses the purchasing power stream calculus for all of its market and location surveys. The calculus represents a redevelopment of known gravity models by Bruno Tietz, former professor for business management at University of Saarbrücken, which he detailed in his standard work on retail geography (Grundlagen der Handelsforschung).

The purchasing power stream calculus profiles both the current constellation of competitors and the changes to expect as a result of the project realisation in a manner that is plausible to the reader. It was specifically the plausibility of this calculus that was commended by the Koblenz court. The approach of BulwienGesa employs this purchasing power stream calcu-

lus to map the changes in competitive relations in the catchment area of a given new planning project. Having determined the available purchasing power in a given catchment area and the shares in that market area's demand potential that incumbent retailers claim, BulwienGesa will use this data as basis for predicting the shifts in market shares that the entry of another market player are likely to bring. "This means that BulwienGesa AG uses the same method that the in-house expansion departments of national and international retailers employ when contemplating expansions. It is the perfect approach for us to map the market-economic and distributive-trade reality of market relations," said Ralf-Peter Koschny, Member of the Board of BulwienGesa AG.

In its reasons for the judgement, the court specifically commended this high degree of transparency and noted the legitimate identification of purchasing power retention rates and market shares in the respective zones of the catchment area by the survey of BulwienGesa. Moreover, the court countered the project opponents' criticism of the identified expanse of the catchment area by noting that the household polls conducted by BulwienGesa provided sufficient evidence to substantiate the limits of the catchment area. BulwienGesa recommends backing any impact study with a telephone household survey or a customer origin survey. "These empirical samples supply us with valuable information that helps us fine-tune our market models," said Andreas Gustafsson, BulwienGesa.

■ For further information please contact **Johannes Krick** (+49-89-232376-37, krick@bulwiengesa.de)

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Dear Readers,

With its ruling "8 C 10819/12.OVG," the administrative appeals tribunal of Koblenz turned down several judicial review proceedings aimed at the local development plan in downtown Kaiserslautern. The court based its ruling not least on our expert opinion on the ramification of the planned shopping centre for the town centre. The reasons for the judgement read: "The respondent based its decision on a plausible survey-based assessment of the retail compatibility, and therefore manifested no errors in the compilation of the consideration documents."

This means that in the area of urban-planning retail surveys, as in other areas, BulwienGesa lives up to its philosophy: The transparency of data and models lends an extremely high degree of security to the decision-making basis.

Sincerely Yours,



Ralf-Peter Koschny CRE FRICS

Contacts in Germany: **BulwienGesa AG**
Wallstrasse 61, 10179 **Berlin**
Tel +49-30-2787680, Fax +49-30-27876868
Moorfuhrweg 13, 22301 **Hamburg**
Tel +49-40-4232220, Fax +49-40-42322212
Bettinastrasse 62, 60325 **Frankfurt am Main**
Tel +49-69-756146760, Fax +49-69-756146769
Nymphenburger Strasse 5, 80335 **Munich**
Tel +49-89-2323760, Fax +49-89-23237676
www.bulwiengesa.de • info@bulwiengesa.de

TRANSPARENCY IN THE RETAIL WAREHOUSE SECTOR

BulwienGesa’s Retail Warehouse Database

While an excellent data basis is already available for the segments food retailing and shopping centres both in regard to existing structures and in regard to projects planned or under construction, the information available on the retail warehouse sector has not been up to par so far. Indeed, the available data cover only selected sectors.

In a bid to close this gap, BulwienGesa has started to survey Germany’s entire stock in a database, covering all (stand-alone) retail warehouses, retail parks, big

box agglomerations with sales areas of 10,000 sqm or more. The database will enable retailers and investors to launch expansion strategies and undertake portfolio structuring in a pinpoint and qualified fashion.

In addition to data on incumbent occupiers and the associated retail areas, the database also includes details regarding location, environment and property situation. In addition, BulwienGesa surveyed the complementary service and gastronomy spectrum.

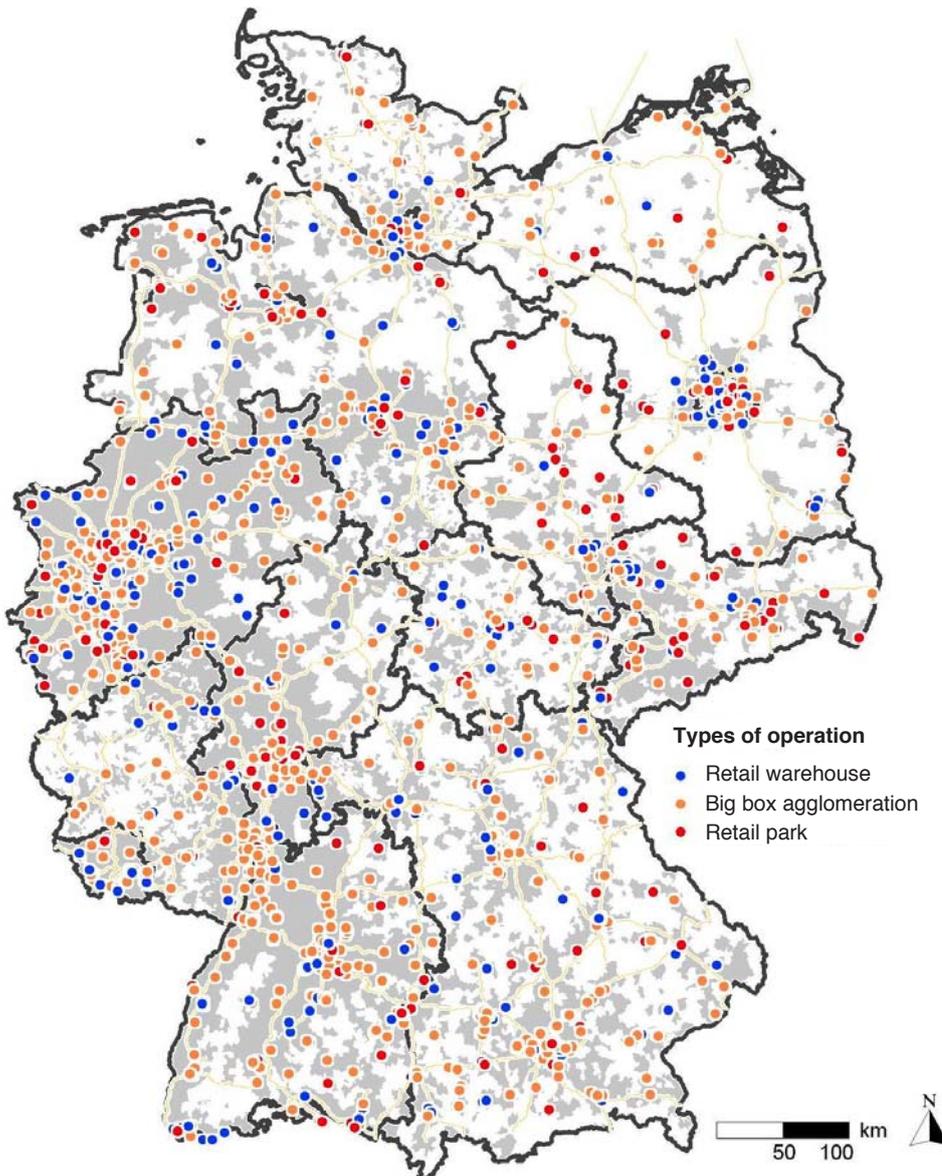
Nationwide, the surveys conducted by BulwienGesa identified a total of

- 891 big box agglomerations (sales area of around 22.2 million sqm)
- 362 stand-alone retail warehouses (sales area of around 6.1 million sqm)
- 339 retail parks (sales area of around 6.3 million sqm)

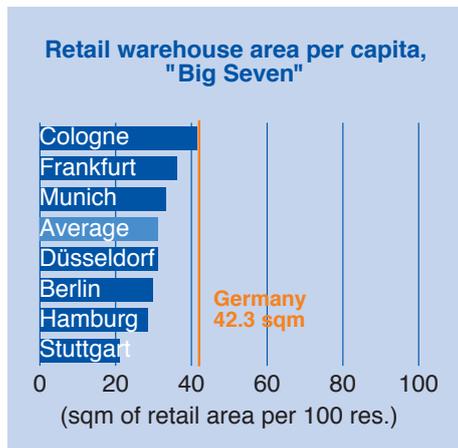
bringing the gross retail area for nearly 1,600 assets up to a total of around 34.6 million sqm. This figure implies a retail-space-per-capita ratio of around 42.3 sqm for every 100 residents, which equates around 30 % of Germany’s total retail area stock. It is impressive testimony to the magnitude and significance of this retail sector, and all the more so because it does not even include smaller retail warehouse sites and properties with sales areas of less than 10,000 sqm.

The retail space per capita in Germany’s Class A or "Big Seven" cities remains below the national average, except Cologne which undercuts the average but slightly at 41.4 sqm per 100 residents. The retail-space-per-capita ratio is particularly low in Stuttgart. Aside from exorbitant land prices, the creation of retail warehouses in Stuttgart has clearly been hampered by the city’s topography. The situation in the "Big Seven" cities is characterised by the fact that the development of retail warehouse locations has focused on suburban communities, some of which show a very high retail-space-per-capita ratio as a result. That said, you need to take into account the high retail-space-per-capita ratio and quality of the retail spectrum in the high-street locations of these cities and in their shopping centre segments, as it is likely to have slowed the development of the floor area supply in the retail warehouse segment.

Germany’s 14 Class B cities, by contrast, report a much higher retail space per capita. Mannheim and Karlsruhe take the lead in this group, with sales areas in retail warehouses and retail warehouse loca-



tions (sales areas of 10,000 sqm or more) nearly twice the national average at 89.9 sqm and 82.2 sqm, per 100 residents. The result underlines the robust position of these cities within their metro area. It contrasts sharply with the situation in Bonn and Wiesbaden, which report 37.5 sqm and 37.6 sqm per 100 residents.



In retrospect, it is safe to say that most of the surveyed big box agglomerations evolved in the wake of large scale retailers, usually a superstore, DIY store or furniture store that relocated to the respective site. Over the years, other retail warehouses and retail operations moved in and grouped themselves successively around these big boxes.

Recently, there has been a trend of retail formats with sales areas of 800 sqm or less to move into existing retail warehouse locations, mostly supplementing them with high-street assortments. These aim specifically for sites next to well-established retail operations, mostly belonging in the food segment. It is particularly common for such combination sites to pair Aldi or/and Lidl with a "dm" or Deichmann branch, complemented by Takko, Kik, T€di, pet supply and drinks cash & carry stores, and sometimes NKD or Woolworth.

Even pharmacies count among occupiers that have lately moved to such sites, the prime mover being Doc Morris. As a result, these venues are no longer limited to the check-out area or arcades outside hypermarkets, but have positioned themselves with large assortments in retail parks, too. On top of that, retail warehouse locations manifest a nascent tendency to provide retail-related services such as hairdressers, travel agencies, locksmiths, etc. that used to be typical of shopping centres. The gastronomic spectrum has widened, too, matching the trend in shopping malls. While Germany's leading fast food chains, McDonald's and Burger King, used to dominate retail warehouse locations and retail parks in the past, recent years have seen a steady increase in the number of bakeries with annexed coffee shops or bistros, other fast food providers such as Subway, Kentucky Fried Chicken (KFC), and Asian fast food providers.

Meanwhile, the conversion of hypermarkets – normally having sales areas of more than 7,000 sqm – is under way. The conversions involve a downscaling of the non-food areas, as superstore operators have come to focus primarily on their competence in the food sector while jettisoning non-food areas they no longer need. The vacated non-food areas can thus be made available to third parties, and tend to be taken over – following restructuring work – by clothing, footwear, multimedia/consumer electronics or sometimes drugs retailers whose position is enhanced by their proximity to well-known, fast-selling big boxes. Clients benefit from all of this not just through an improved supply competence but also through the upgrade of the

shopping environment that in turn helps to boost sales. The property owner, finally, benefits from the change in retail mix through the increase in rent revenues. This kind of shift tends to coincide with change in assortments and an increased in the gross retail area, often necessitating changes in the definitions of the local development plan. Hence the need to substantiate the possible ramifications within the framework of the conversion planning, which can sometimes lead to protracted restructuring processes.

The change and adjustment undergone by hypermarkets (of 7,000 sqm of sales area or more), as well as the redevelopment of retail parks dating back to the late 1980s and early 1990s in an effort to restore their attractiveness, have ushered in a terminological shift. A case in point, the term "hybrid centre" is of recent coinage. It refers to mixed formats that include shopping centre and retail park aspects and combine retail-warehouse-oriented, mostly large-scale retail units with small-scale, occasionally boutique-sized ones in closed malls that are often limited to just one floor. Rather than being exclusively home to retail warehouses, these centres also attract occupiers typically found in high-street locations.

So what are the latest development trends to emerge? In addition to the development of new retail warehouses and more or less convenience-oriented retail parks (mostly properties with sales areas of 7,000 sqm or less, thereof around three quarters of the space earmarked for convenience goods), the market events are dominated by re-launches. The latter promise sound opportunities for higher yields and rents to property owners. The restructuring drives are expedited moreover by the strict licensing policy, which represents a stumbling block for any number of new retail warehouse projects while also protecting existing assets.

Last but not least, it needs to be remembered that the retail warehouse segment has stalwartly stood its ground vis-à-vis the effects of e-commerce so far. In fact, there is reason to believe it might actually benefit from it. If the brick-and-mortar retail business steps up its "click & collect"

strategy (which permits customers to do their shopping online and to pick up their purchases in person later on) – and there are signs suggesting that this is the case –

then easily accessible retail parks with free parking stand to benefit from the trend. It is obvious why it is likely to stimulate added investor interest.

■ For further information please contact **Dr. Joseph Frechen** und **Frank Gohde** (+49-40-423222-0, frechen@bulwiengesa.de, gohde@bulwiengesa.de)

TRENDS IN THE RETAIL TRADE INVESTMENT MARKET

Retail Warehouse Properties Show Greatest Potential

This year as last year, demand for retail warehouses and retail warehouse sites has been keen, and will soon outpace the investment volume in shopping centres, in the opinion of BulwienGesa. The following growth drivers come into play here:

- The transaction volume of shopping centres will continue to drop because there are virtually no core and core+ properties on the market. The most recent shopping centre developments are usually properties of small investment volumes. This means that the number of shopping centres changing hands would have to go up considerably. Both short supply and the fact that new centres tend to be smaller and away from prime locations, thus commanding lower sales prices, will result in a further decline in transaction volumes.
- The supply in retail warehouses and retail parks is much higher, comparatively speaking, and is matched by a steadily growing number of consumers. Given the demographic trend in Germany, more and more people have to get by on shrinking household budgets, and retail warehouses with their relatively affordable, bargain-driven merchandise increasingly benefit from the fact.

– Retail warehouses and retail warehouse locations also offer a high degree of stability and security. Large scale anchor tenants from the food sector normally sign long-term, indexed leases for periods of 15 years or more.

The asset class is not for everyone, because project volumes tend to be much lower than those involving shopping centres or high-street commercial buildings, for instance. Then again, investments of this type outperform shopping centres and downtown commercial buildings as far as returns go.

Preferred investment destinations for retail warehouses and retail warehouse locations are primarily located in western Germany, though first-rate properties are also in demand in eastern Germany. Looking forward, investor interest will increasingly stray from the country's top locations (Grade A/B cities) to focus on smaller towns as well. The investors' attention will centre specifically on retail parks that feature at least one or two food retailers (supermarkets/food discount stores or large supermarkets/superstores) as anchor tenants and are supplemented by other retail warehouses from the drugs, clothing, footwear, bargain segments as well as pet supply stores and health food stores.

The increasing, much-discussed diversion of turnover by online sales will not altogether spare retail warehouse and retail parks even if their products (excepting consumer electronics) show no particular suitability for e-commerce. Yet we noted that well-designed retail parks have favourably positioned to face the challenge as long as their parameters, such as location, robust catchment area, and not least the tenant line-up are sound. These location and property criteria are important insofar as they play a key role in securing attractive follow-up rentals when leases expire.

The future performance of shopping centres will depend on their capability to generate value-add incentives in opposition to the Internet, among other competitors, and to position themselves as "third place," not least by presenting enhanced quality of service and additional service options along with an appealing and differentiated line-up of tenants and sectors. As they assume a "third place" functionality, malls will have to offer themselves as a place away from home and work that is perfect for socialising and sojourn. The repositioning effort will involve serious challenges for the centre management, but potential investors will increasingly pay attention to these "soft" factors.

■ For further information please contact **Andrea Back-Ihrig** (+49-69-7561467-62, back@bulwiengesa.de)

Retail asset classes, yield trends, and target regions

Asset Class	Prime Yield Trend	Yield 2012* Value	Yield Trends 2013	Spectrum of Investment Volumes (euros)	Target Region
Shopping Centre	➔	5.0 %	➔	100 million or more	Germany
High-Street Commercial Building	↘	4.5 %	➔	approx. 5-40 million	Primarily Grade A/B cities
Retail Park	➔	6.0 %	➔	approx. 15-30 million	Western Germany, some in eastern Germany

* in Germany's "Big Seven" cities (Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich, and Stuttgart)