RETAIL NEWS

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BILFINGER REAL ESTATE

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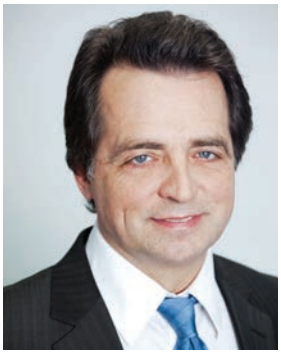
Ladies and gentlemen, dear retailers,



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It gives me great pleasure to present you with the first issue of Bilfinger Real Estate Retail News. My colleagues in the **UK**, **Turkey**, **Poland**, the **Netherlands**, **Germany** and **Switzerland** will in future contribute regular articles to inform you about interesting and important retail issues and trends.

Developments in Europe's retail sector were once again extremely exciting in the past year. Although slower growth in purchasing power and generally muted economic development led to modest overall expansion of only 1 % (with Germany bucking the trend at 3 % and Poland at 3.5 %), compared with other sectors, the European retail sectors did relatively well at managing the crises of recent years.

The impact of social media, increasing demand for smaller retail space, changes in purchasing behaviour and the growing online business are all trends that will shape the future of retailing. We see the task of the retail property segment to deal with these developments and develop and identify suitable solutions.

The overall positive performance of the retail market in Europe was also reflected in retail investments last year, with retail properties topping the shopping lists of investors. At around EUR 70 billion, the investment volume reached a new record high – with Germany and the UK in top position in the European ranking.

In Bilfinger Real Estate Retail News we look at current trends in the retail property sector, provide analyses and assessments of the European retail markets and present fresh ideas and solutions for European trading companies, retailers and investors.

Retail is set to remain an exciting area this year!
We hope you enjoy reading our first Retail News issue.
Yours,

Volker Sonnenschein

GASTRONOMY AS A SUCCESSFUL FACTOR IN SHOPPING CENTRES

According to the German Retail Federation (HDE), online sales rose by approximately 12 % to EUR 41.7 billion in 2015. For 2016, this figure is forecasted to grow by another 11 % to approximately EUR 46.3 billion. Online offerings are becoming increasingly more extensive, online shopping is becoming easier all the time.

NEW TREND: ON-SITE-GASTRONOMY

As we know, the entire range of goods offered in stationary retail, including food and entire menus, can be ordered online with increasing speed and ease. A significant part of the population increasingly place orders for goods and food from the comfort of their living rooms for convenient – yet anonymous – delivery to the front door. Stationary retailers, including consumer brands, in shopping centres are fighting to stem the migration of sales towards online retailing.

In contrast, there is also an increasing eating out trend. According to the Federation of German Food and Drink Industries, the number of restaurant visits rose by 12 % between 2009 and 2014 to generate annual sales of more than EUR 71 billion. The population's increasing mobility, coupled with a returning need for personal face-to-face communication, is making people choose restaurants, bars and cafés as their meeting places.

Shopping centres will have to make greater efforts to harness this change in online customer behaviour to increase footfall in the centres. From our perspective, shopping centres will see a growing trend away from pure-play food courts towards food islands that offer customers a varied experience. The adoption of a gastronomy strategy that focuses on experience and provides good quality at a fair price gives shopping centre operators the opportunity to distinguish their centres from the rest, thus creating important criteria for making the consumer opt for the specific centre.

The resulting aim of many centre operators is to increase the proportion of gastronomy space in their properties from the 15 to at least 20 %.

> Ali Erdogan, Managing Shareholder of the Düsseldorf-based Leonardo Gastro Group, which includes, among others, the Grand Café Leonardo, La Passione and Premium Döner concepts, puts it in a nutshell: "There is no such thing as online gastronomy! Apart from excellent product quality and value for money, the outlet has to have the right atmosphere."

We therefore argue that food courts should not only rely on the shared seating area, but always provide separate seating in their own designated lease area, which reflects the identity of the gastronomy concept.

Access to outer areas is also becoming increasingly important, especially in the summer months. In addition to the technical requirements, we recommend that greater attention is paid to this when planning or revitalising shopping centres.

1 A creation of the Leonardo Gastro Group: the "Premium Doner Kebab"

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THE LONDON RETAIL MARKET

2 Oxford Circus
Traffic junction between
Oxford Street and Regent Street

With a relatively robust economy, increasing wages and benign political environment, London has an affluent population which is spending more year on year. Furthermore London's current population of 8.3 million is forecast to grow to 9.4 million by 2022 and over 10 million by 2029. London's own population is enhanced by millions of visitors from within the UK and international travellers. The West End shopping district contributes 3 % of the UK's economic output. London's mass market High Street is Oxford Street. Over 200 million visitors a year come to the street which generates a turnover of £ 8.8 billion p.a.. The completion of the Crossrail transport scheme in 2018 is expected to increase footfall by 10 %, helping grow retail turnover to £ 11.25 billion by 2020.

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EXPLOSION IN RENT PRICES IN LONDON'S SHOPPING QUARTERS

As well as the renowned John Lewis and Selfridges department stores **Oxford Street** also boast five Zara's. Zone A rents in the street west of Oxford Circus are now bobbling around £ 1000 /sqft and recent in movers include Tesla, Dyson, The Toy Store and New Balance. East of Oxford Circus tends to host more UK brands. Zone A rents here have increased dramatically over the last 18 months from less than £ 400 Zone A to over £ 600 (paid by the makeup retailer Kiko Milano). Benetton recently signed up to a 15,300 sq ft flagship store at Nos.73-89 paying a rent of £ 2.6 million pa.. Sketchers are also arriving with an 8,000 sq ft store paying £ 1.2 million p.a..

Running north/south of Oxford Circus, **Regent Street** continues to evolve under the careful stewardship of the Crown Estate. Recent in movers include Coach, Furla, Karl Lagerfeld, Kit & Ace and Uno de 50, as well as Links of London. Rental prices here are around £ 750 per sq ft. Polo by Ralph Lauren are also on their way.

The third street making up London's West End shopping scene is **Bond Street** where Zone A rents are inevitably going to climb north of £ 1500 / sq ft. The world renowned luxury pitch has traditionally been strongest at its southern end. However with the redevelopment around the new Crossrail station the northern section is improving all the way up to Oxford Street with Zone A's creeping up from £ 500 / sq ft. What is more interesting is the huge increases in rent in the area to the west of Old Bond Street. The enclaves around Albemarle and Dover Street have filled with a number of exotic luxury retail brands, complemented by several international art galleries.

With the increasing number of affluent middle classes being created across the globe, for whom London is a top holiday destination, we don't expect retail demand to drop off anytime soon and the British metropolis looks forward to maintaining its position as one of the top retail cities in the world.

CLICK TO BRICK AND BEYOND

"Click to Brick" describes the trend that increasing online shopping – in contrast with the initial expectations of the retail industry – has a positive impact on physical locations and retail portfolios.

The increase in online shopping has had a significant impact on buying behaviour in the UK and retail property portfolios, but not in the way that was originally predicted.

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„CLICK TO BRICK“

In 2011 I contributed to an article in the UK trade magazine, Retail Week. The article was part of a multi-channel feature on the influence that online shopping was predicted to have on retail property. The trend analysis at the time pointed to significant reductions in portfolios as more people turned to online shopping in the UK.

Fast-forward to 2016 and the reality is somewhat different. Rather than online shopping replacing destination shopping, it instead supports the physical stores.

Whilst shoppers like the flexibility of shopping online, the necessity of having to be at home to have it delivered has created a new trend towards click and collect. This means that the customer orders online and picks up their shopping from a collection point, for example a locker in a shopping center. The advantage: the customer decides themself when they would like to collect their order and do not have to queue anywhere. Click and collect has strengthened the physical locations, especially through out of town retail with free parking and late opening.

According to industry association Interactive Media in Retail Group (IMRG), click and collect accounted for 4 % of online sales in 2010 for multi-channel retailers, that figure jumped to 17.7 % in 2014.

As well as high street retailers like John Lewis and Marks and Spencer complementing their offer with click and collect, online retailer Amazon has changed its retail model by offering its own click and collect system.

Argos's retail model was ahead of the game as it has always been a click and collect business, initially through its catalogues and latterly with the addition of online shopping to complement their offer.

For investors, increased footfall creates commercialisation opportunities in the car parks of out of town retail destinations. The use of commercialisation units provides additional income which is low risk and flexible in contrast to developing new permanent units, given the current economic climate.

Smaller retailers like florists and hot food retailers are taking advantage of the temporary units as are online retailers who need a small physical presence where there is significant footfall.

The click and collect revolution has also seen food retailers like Tesco who already have a physical and online presence offer a click and collect service through temporary units based in car parks whilst simultaneously exiting from the larger 24 hour superstore format due to an increase in mobile technology and the changes in the way we shop.

Recently, retailers like John Lewis and have introduced a charge for click and collect. We will be interested to see if other retailers follow suit and if they do, what impact it will have on the future growth of click and collect in the UK.

RETAIL CHRISTMAS TRADE

It appeared that 2015 was going to be a strong return of business and recovery for many in the retail market, fuelled by low inflation, low fuel prices, reasonable debt, and confidence returning in the sector as well as increasing employment in the UK. Broadly speaking the shine was taken off of 2015 for several reasons. The British love to complain about the weather and for most people last year was just too warm for the Christmas spirit.

Apart from a few days in November, the weather barely dipped below 100c in the run up to Christmas, this of course dampened the appetite for knitwear and outer wear which were in abundant supplies in most fashion stores. This coupled with the extreme wet weather we experienced in the north of the country really gave retailers active across the whole of the UK a tough time with logistics, stock and trading.

We are now 2 years into the "Black Friday" phenomenon, leading to early discounting particularly in online sales from November. With the wet weather and lack of discounting on the High Street, a great deal of shopping was taken care of via online sales again. Thereafter, there was a mixed bag of performances over Christmas. The press were quick to jump on the fact that Next's sales were down. However, Next were quick to point out that "turnover is vanity, profit is sanity" and indicated that they had held their nerve and not discounted early, sticking with their long established plan of going into sale on Boxing Day. Whilst turnover figures did not exceed last years, their profit estimates exceeded budget and thus it was not all bad. Debenhams reported strong Christmas trading results and this was fuelled by refurbishments, better stock and brand range and not discounting heavily so early. Other retailers, such as Majestic Wine achieved good sales growth in 2015, but having invested in the business and discounted heavily during October and November their gross margins were less than this time last year.

As has been typical for the nation's favorite, Marks & Spencer, for a while now, they had outperformance in food sales, but general merchandise was down over 5 %. Whilst they held back from discounting before Christmas, which improved margins, this strategy did reduce overall sales. When the dust settles and we look to results, we see that the company, just as the entire British retail industry, had a mixed Christmas. So let us take a leaf out of the Marks & Spencer CEO's book and look to the future.

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"FRANKENSCHOCK"

Some called it the financial buzzword of the year 2015, others regard it as one of the challenges of everyday working life. There is no doubt that the term (which literally means "shock to the franc") has characterised the Swiss economy since the beginning of last year. But what exactly led to the shock diagnosis? On 15 January 2015, the Swiss National Bank scrapped the minimum peg of the franc against the euro, the country's most important export currency. By abandoning the minimum exchange rate of 1.20 francs, the Swiss currency appreciated further.

THE RULE OF THE FRANC

Within minutes of the announcement by the National Bank, the franc's value against the euro briefly shot up by 20 percent. The euro has gained some ground since and one euro currently fetches around 1.10 francs.

CONSEQUENCES OF THE FRANC-STRENGTH

Retailers in Switzerland are struggling to cope with price reductions. They have had to cut prices as the best way to keep up with foreign competitors. The lower prices went some way towards slowing the decline in retail sales in 2015, while purchases made by Swiss citizens in neighbouring countries increased sharply (and due to online opportunities, these were not restricted to areas near the border). Cosmetics and cleaning products, for example, are substantially cheaper in Germany and, what is more, customers get the German value added tax back when they cross the border back into Switzerland.

Sectors that generate a significant proportion of their sales through exports to the eurozone have been particularly hard hit by the franc's strength. But the stronger franc has also given rise to new business models, innovations and cost reductions. In addition, goods imported from the eurozone have become correspondingly cheaper.
"The changed situation in relation to the euro has provided us with fresh impetus. Through creativity in our logistics operations and dedicated solutions, we were able to almost double both our transport and our warehouse capacities. This led to noticeable cost reductions", enthuses a Swiss retailer with four outlets in the sports segment. "Instead of euro marketing, We also put increasing effort into neuromarketing." Neuromarketing assumes that decisions are also based on emotions, and not just economic reasoning.

We share the opinion of many experts, who agree that the franc will remain strong for the foreseeable future and continue to pose challenges for Switzerland's export-oriented economy. In spite of this: With one of the highest gross incomes per capita in Europe and high private consumer spending, the Swiss retail market is and remains an extremely attractive market for both retailers and investors.

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RETAIL MARKET IN TURKEY

In Turkey, 2015 had been a period in which challenging economic and political conditions were experienced such as two general elections, troubles in neighboring countries, important fluctuations in foreign currencies, change in EUR/USD parity in favor of US Dollar.

Despite all restlessness in 2015, the economic growth in retail sector had continued. The retail turnover of shopping malls increased by 14 % in comparison with 2014 and the number of visitors increased by 4 % compared to the previous year. These increases brought mobility also in terms of contribution to employment.

As far as an assessment of 2016 is concerned, we foresee that the sectoral growth will continue at a similar rate, taking in consideration also the fact that the rate of young population in Turkey aged 15–24 years is 50 %, who is a young and consumption-oriented age group. In this context, new shopping mall investments and openings, being 11 in Istanbul and 22 in Turkey-wide will continue and the local brands will continue to expand their business activities in order to be more efficient both at home and abroad.

As one of the leading shopping centre managers in Turkey, managing an area larger than 1 million square metres, we are present in all parts of the country. In this strong retail environment, we are currently preparing to open four new shopping centres: the Metropol Istanbul, the MNG Mall in Erzurum, the largest city in Eastern Anatolia, the Westa Mall in Zonguldak on the Black Sea Coast and the Paragon SC in Ayvalik on the Aegean Coast. All of the centres will open in the next 12 months. Bilfinger Real Estate handles shopping mall concept design consultation, the leasing of shops, and Centre Management of those projects. In addition, we are also supporting and advising investors and owners in their investment activities in Turkey and in the planning and implementation of their construction projects. With a view to the booming real estate market and the huge number of renovation and new construction projects in the pipeline, we will support our customers in the country by optimally utilizing the opportunities in the Turkish real estate market.

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3 MNG Mall, Erzurum
4 Metropol, Istanbul

TRENDS AND CHALLENGES IN POLAND

INTERVIEW WITH...

Sebastian Karban, Country Head of Bilfinger Real Estate Poland, about trends and challenges of the Polish real estate business and retail industries as well as Warsaw as boom town and promising potentials of smaller locations.

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WHAT CHALLENGES DO THE REAL ESTATE AND RETAIL SECTORS FACE IN POLAND? AND WHAT ARE THE EMERGING TRENDS?

Poland has established itself as the shining star of the CEE region in recent years – stable and resilient to crisis, because it has its own attractive internal market of critical size. It is not possible at this stage to estimate the potential impact of the recent change of government on the Polish real estate market. It seems doubtful whether the nationalisation trends that have been observed will be able to counter the country's now firmly established integration into the European service and industrial economy. Moreover, I think it is unlikely that the tax levied on retail chains will give smaller retailers a lasting competitive advantage and weaken the major players.

WHAT ARE POLAND'S MAJOR RETAIL LOCATIONS, AND HOW ARE THEY PERFORMING?

Warsaw is the number one boom town, way ahead of the other locations. But the city is having to deal with its low urban density. The city centre is very spread out; major multilane roads and high traffic volumes will in the long run harm the city's attractiveness and inner-city retailing. To position Warsaw as a retail magnet in the CEE region, a programme to densify the city centre and expand public transport will be necessary.

The cities of Lodz, Wroclaw, Krakow, Tri-City, Poznan and Katowice are significantly smaller in size, but have high growth potential due to their own catchment areas, low unemployment and increasing economic strength. The duopolis initiative, which aims to link Lodz and Warsaw, will benefit Lodz in particular, enhancing its attractiveness as a retail location.

There is a growing need to reposition and revitalise older retail properties also in Poland. Another factor is the increasingly difficult situation of the Tesco and Carrefour & Co. hyperstores. Creative refurbishment concepts, entrepreneurship and competent asset management will be key in preserving the value of the retail properties concerned.

WHERE CAN NEW OPPORTUNITIES BE FOUND?

Urban redevelopments add colour to the market and attract new opportunities. One example is the Koneser project, a wonderful mixed-use development on the east bank of the Vistula river, which will permanently change the face of the Praga district. Both the retail space being created on the premises and the adjacent streets will become attractive locations of the future. In my view, investors have so far failed to pay sufficient attention to this development.

TRI-CITY

Tri-City is a metropolitan area in Poland measuring 415 sqm; it consists of three centres, Gdańsk, Gdynia and Sopot.

IMPORTANCE OF INTEGRATED AREA MANAGEMENT IN THE NETHERLANDS

As consumers are free to choose between shopping online and buying products at a store, the quality and experience-factor of shopping becomes more and more important. While the owner of a local store or shopping centre can improve the quality of his retail space quite easily through a new interior concept, refurbishment or marketing activities, raising the attractiveness of an entire inner-city retail zone is not as easy. Rotterdam`s retail areas "Koopgoot" and "Lijnbaan" are strong examples.

Bilfinger Real Estate manages Koopgoot and Lijnbaan, which comprise of 148 stores with a total of 125,000 square metres owned by 96 different investors. To be able to compete with attractive shopping centres and retail offering closer to Rotterdam's city's centre, the areas need a good mix of brands and branches as well as a smart marketing strategy and services for the existing retailers and the public.

To raise the profile of **"Koopgoot"** and **"Lijnbaan"** retail areas, Bilfinger Real Estate has taken the lead and started talks with all of the investors, local retailers and the Town Council to convince them to form a BIZ structure. BIZ stands for "Bedrijven Investerings Zone "and is a legal instrument to align all stakeholders in a certain area to form a collaborative stakeholder group.

5 Lijnbaan, Rotterdam
Bilfinger Real Estate delivers integrated area management in the Shopping Area "Lijnbaan" in Rotterdam, The Netherlands.

6 Koopgoot, Rotterdam
Bilfinger Real Estate also delivers the property management of the Koopgoot in Rotterdam where the team also manages the public area. Bilfinger determines and maintains the desired quality and thereby controls the look and feel of the shopping area in the inner city.

The BIZ is financed with money from the Town Council as well as from all other stakeholders of the group. As retail manager and consultancy expert, Bilfinger Real Estate acts as director and coordinator of all of the activities needed to improve the retail areas' quality. This includes keeping the area clean and safe (Facility Management), creating a concept for branch patterns and tenant mix (Consultancy) as well as implementing a marketing campaign to attract customers (Marketing and PR) and coordination real estate agents (Lease Coordination). The project is in its first stages however we expect that, if talks with stakeholders go well, the first BIZ structure will form and go live in January 2017.

As experienced real estate manager and consultant with long-term expertise in all aspects of retail management (technical, commercial, property and facility management, marketing & PR) and local presence in all major regions of the Netherlands, Bilfinger Real Estate is well positioned to further establish BIZ structures as the future model for strengthening retail areas in the Netherlands.

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