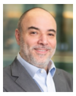
What investors still get wrong about European retail parks



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There are estimated to be more than 5,000 institutional-grade retail parks across Europe, representing an investible universe approaching €100 billion. By any measure, this is a significant real estate sector. Yet one of the most interesting conclusions from research I recently conducted into the sector is that the term European retail park may not be nearly as useful as investors assume.

When investors talk about European retail parks, there is an understandable tendency to think of them as a single asset class. The label is convenient. It groups together thousands of assets spread across multiple countries and markets under one recognisable category.

The difficulty is that, on closer inspection, the similarities between retail parks are often less important than the differences.

Our research, backed by Redevco's longstanding asset management experience, suggests that retail parks are best understood not as a uniform format, but as a collection of assets shaped by different planning regimes, demographic trends, urban environments, tenant structures and ownership histories. What appears to be a single market from a distance quickly becomes far more granular when examined at asset and tenant level.

One of the observations that may surprise those unfamiliar with the emergence of the asset class is just how influential planning policy has been in shaping the sector, particularly during the 1970s-90s.
Most investors naturally associate retail parks with broader forces such as suburbanisation, rising car ownership and changing consumer behaviour. All have played a role. Yet the evidence suggests that planning regimes have often been equally important in determining where retail parks emerged, how quickly they expanded and what form they ultimately took.

This helps explain why retail parks differ so markedly across Europe. While policy supported the format's growth in some countries, in others, it constrained it. The result is a sector with common characteristics but very different local expressions.

The geography of retail parks also challenges several established assumptions.
The conventional view remains that retail parks are largely out-of-town destinations. Yet approximately 60% of retail parks sit within one kilometre of a dense urban centre, while many others are deeply embedded within suburban catchments. In many cases, urban areas have expanded around retail parks over time, making them considerably more integrated into their local environment than the "out-of-town" label suggests.

This has implications beyond geography.
Population growth around retail parks can deepen local catchments and support occupier demand. Increased urban density may also create future flexibility around how assets evolve. The point is not that retail parks are becoming something else; rather, that their relationship with surrounding communities is often far closer than current market understanding suggests.

Picture left: Forretle Center in Kaubeuren, Germany, an asset for Redevco's European Retail Park Fund

The composition of occupiers also reveals important differences across the sector.
A significant proportion of retail park income comes from convenience-led categories, particularly food retail. Grocery operators account for a substantial share of both floorspace and rental income, while DIY retailers are another important component of the tenant base. These occupiers often perform a role that extends beyond the rent they pay. They shape footfall patterns, influence customer behaviour and help define the overall profile of an asset.

Anchor tenants illustrate this particularly well. Although the median anchor tenant pays around 40% less rent per square metre than the other tenants on a park, it typically contributes around 35% more rent in aggregate because of the amount of space it occupies.

The same principle applies to tenant diversification.
On average, tenant income concentration varies considerably across retail parks. In a typical asset within the sample, the largest tenant represents around 50% of income, although this ranges from as little as 15% to as much as 75%.

Similar variation exists in lease structures, tenant mix and occupier profiles. These differences may not be immediately visible from high-level sector analysis, yet they are often among the most important factors in understanding an asset's characteristics and risk profile.

This is where local expertise becomes critical.
The central lesson from the research is not that one type of retail park is inherently and consistently superior to another. It is that the sector is far more heterogeneous than the label implies. Understanding the nuances of catchments, tenant structures, anchor strategies, planning environments and ownership opportunities requires detailed local knowledge and active management.

For investors, that may ultimately be the most useful takeaway.
Retail parks are not attractive simply because they are retail parks. Nor are they all the same. Understanding what differentiates one asset from another increasingly requires detailed local market knowledge as well as an appreciation of the tenant, planning and demographic factors that sit beneath the label.

In a market approaching €100 billion in scale, granularity is not a complication. Increasingly, it is where the opportunity lies.

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