

Retail warehouse parks shine in Europe's burgeoning retail recovery



Herman Jan Faber
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European retail real estate investment is bouncing back in tandem with the post-pandemic surge in consumer spending in stores. And retail warehouse parks (RWHPs) are leading the way, buoyed by their resilience during Covid and the mixed-use and clean-tech development opportunities these usually large-scale formats on urban peripheries offer for the future.

RWHPs emerged as the best performing retail real estate market sub-segment through the pandemic, driven by the predominance of 'convenience retailers' such as hypermarkets and DIY stores in the average tenant mix. They are also well-placed to benefit from the megatrends that are shaping the built environment of our cities, from renewable power generation and electric vehicle charging, to urbanisation and the huge demand for affordable and sustainable housing.

Against this backdrop, Redevco has established one of the largest retail warehouse park asset management platforms in Europe. The platform, with AUM of €4.5 billion, was created by combining Redevco's existing mainly Belgium-focused retail parks with the properties of the funds managed by German retail specialist redos, in which Redevco acquired a majority stake last year. The 180 combined assets – which have a total gross lettable area (GLA) of 2.5 million square metres distributed across Germany (60% of GLA), Belgium (38%) and France (2%) – offer big potential for contributing to Redevco's mission to play a leading role in the sustainable transformation of the cities

where it operates, while ensuring they inclusively meet the future needs of all their citizens.

"Redevco's creation of one of the largest retail warehouse park asset management platforms in Europe, within the most resilient and best performing retail investment market sub-segment, coincides with a bounce-back in retail real estate values after years of pressure from e-commerce competition and more recently the Covid pandemic," Herman Jan Faber, Head of Business Development at Redevco, said.

"Even more noteworthy is that nearly half of our total €9.7 billion in assets under management can be transformed to create positive impact and help make cities more sustainable and liveable," he added.

Retail warehouses showcase their attractions

After two pandemic-affected years, retail investment is in strong recovery mode, emerging as one of the few bright spots in the European commercial real estate landscape in 2022, according to a recent JLL report.¹ Retail investment rose 15% to €37.2 billion across European markets last year, on par with 2019 volumes, compared with a drop of 15% in broader commercial real estate investment.

"Quality shopping centres and retail parks offer higher margins, more flexibility and lower risk for achieving the desired returns," the report noted.

Research from agent Cushman and Wakefield found aggregated prime yields for RWHPs, Germany, Spain, France and the UK, compressed from 5.60% pre-Covid in March 2020 to 5.49% by September 2022, providing a significant yield spread to long-term bonds. The research also pointed to strong rental stability in the retail warehouse sub-segment, with RWHPs enjoying +4% growth over the same period, in marked contrast to shopping centres (-10%) and high street shops (-17%). Still elevated RWHPs yields offer a buffer to absorb higher interest rates in the medium to long term, the Cushman and Wakefield research added, as does the widespread inflation-linked indexation of rents.

Sustainable future

The sustainability performance of the European RWHP platform can play a crucial role for Redevco in achieving its



Sustainable Retail Park Waterloo, Belgium

climate target of making the company's entire real estate portfolio net zero carbon by 2040. The RWHP market has already proved to be one of the most sustainable property sectors with a relatively low intensity of energy use, insulating it from burgeoning ESG-related risks to valuations.

The pan-European scale of Redevco's RWHP platform offers big opportunities to expand its renewable energy production by increasing the solar panel arrays used to supply tenants, electric vehicle charging hubs and local power grids.

By the end of 2022, Redevco had installed approximately 32,000 photovoltaic panels at its Belgian retail warehouse parks under the 'Project Solar' initiative. The current renewable energy power generation capacity of 11.6 MWp is enough to meet the needs of 2,800 households for a year. A further 5 MWp of photovoltaic capacity will be added in 2023. Project Solar will ultimately contribute around 25% of the CO2 reduction abatement needed for Redevco to be carbon neutral by 2040 and in parallel the energy efficiency of the assets in the portfolio will be improved through better insulation and other measures.

Creating more liveable cities

RWHPs also provide the potential for turning single-use assets into attractive mixed-use retail destinations through 'densification' developments. But the key to successfully re-purposing and creating value for both occupiers and investors, lies in combining local real estate knowledge with specialist investment strategy expertise.

The JLL research noted that retail warehouses have typically been under-managed as an asset class, opening-up a wide spectrum of 'value-add' investment opportunities within the core retail component and in other property sectors. RWHPs are generally located on large sites situated on the edge of densely populated urban areas, near arterial routes or motorways, with excellent accessibility. Yet 'place making' has been limited to date, the report said, with: "significant scope to improve the customer experience, which will enhance dwell time and spend."

"Through our RWHP platform we have an opportunity to create the core of thriving neighbourhoods in and around our parks, which are usually located in the peripheries of urban areas," Redevco's Herman Jan Faber said.

"Retail-anchored mixed-use developments could, where local planning permits, incorporate affordable and sustainable residential properties to address Europe's housing supply crisis, as well as building on other functions such as last-mile logistics. The result is dynamic urban locations where people want to live, work and play," he concluded.

FOOTNOTES:

¹ Source: <https://www.jll.co.uk/en/trends-and-insights/research/talking-points/is-european-retail-real-estate-heading-for-a-renaissance>

