

RETAIL PARKS -

An Asset Class with Great Potential

Investors' interest in the asset class of retail parks and retail park oriented shopping centers remains high. This is primarily due to the favorable risk/return ratio and the overall good performance of this asset class. Luxemburg-based Corestate Capital Group is currently also assessing the possibility of investing in a new retail portfolio with a total of ten retail parks. Sascha Wilhelm, CEO of Corestate, discusses these issues below.

Q: Why are retail parks so popular with investors?

Sascha Wilhelm: Besides stability, investors' top priority tends to be high, long-term cash flows – and that's exactly what they find in retail parks as these come with long-term leases, often for 25 years, with highly creditworthy retailers.

Another important aspect is that investors are feeling a certain pressure when it comes to investing. The offering of available core real estate in the top seven German investment locations is limited; in other words, other types of objects – such as retail, logistics and special real estate as well as properties in B and C locations – are gaining in importance. And that's exactly where the retail parks come in.

Q: What makes retail parks attain the desired level of stability?

SW: Retail parks are shopping centers for the immediate neighborhoods; they offer basic and periodically needed consumer items such as groceries, toiletries and clothing. This makes them less susceptible to economic fluctuations or online competition. Even though consumers increasingly shop on the Internet, centers that focus on everyday items remain an attractive one-stop shopping destination in their segment.

More often than not, the anchor tenant is a food retailer with a long-term lease. Thanks to the strong demand for space to lease, vacancy rates are very low. Combined, these aspects make retail parks a reliable and high-yield investment product.

Q: What type of investors are we talking about? Who invests in these retail parks?

SW: Corestate primarily addresses institutional investors such as insurance companies and pension funds. They have come to understand retail parks as an asset class of its own.

Q: Besides the before-mentioned stability, what are the institutional investors' requirements?

SW: Institutional investors expect reliability, transparency, flexibility and an appropriate return on investment to be able to meet their obligations towards policyholders.

Q: Which criteria have an impact on the success of retail parks?

SW: An important aspect is a clearly defined and well connected catchment area, a balanced offering of goods – meaning, a well functioning mix of tenants – as well as sufficient free parking. As a rule, retail parks are located in the urban periphery, in places that can easily be reached by car or public transport.



SASCHA WILHELM
CEO of CORESTATE

Furthermore, we always check certain key parameters that are good indicators for a retail park's success or failure, including the region's purchasing power and economic momentum, as well as a forecast of its population growth.

Q: What's the ideal mix of tenants?

SW: Food retailers are the traditional anchor tenants in this segment. They cover people's basic and periodic demand and attract customers to the retail park. On top of that, there are drugstores and fashion retailers. For a while now, beauty retailers and chain restaurants have shown an interest in retail parks as well, as these centers offer large premises at moderate prices.

Q: What are the characteristics of the retail portfolio you are currently assessing?

SW: This particular retail portfolio includes ten objects in western Germany. All in all, the assets comprise more than 100,000 square meters of leasable, mixed-use space. Among the tenants are the food retailers REWE, Penny, ALDI, Kaufland and "real", as well as the drugstore chains dm and Rossmann, electrical retailer Expert, and fashion retailer C&A. Based on this setup, investors may expect a return of between 5.5 and 6.5 percent.

Q: What distinguishes Corestate from others in the industry?

SW: What matters today is access to the products. Thanks to our Germany-wide network of real estate agents, we have a very valuable asset at our disposal – contacts. That makes us flexible and allows us to act and respond incredibly fast. In the

past two years, we've built up five retail property funds with a total volume of 495 million euros; another two funds are currently being developed. We are planning to increase the volume to 1.5 billion euros within the next two to three years.

Q: What can be done to increase the real estate value in the long term?

SW: Most retail parks in Germany were built in the 1990s as purely functional sites; planners did not set great store by their visual appearance.

So improvements to the look or structure may well have a positive impact on value preservation or even enhancement. Generally speaking, revitalisation makes sense if it stabilises or increases a property's turnover, lease level and market position in the long term.

Q: How do you expect this market to develop in the next five years?

SW: Due to the rather restrictive approval policy of municipal councils, there won't be a lot of construction for new retail parks. So in the future, revitalisation of existing assets will be the focus.

In the past, the quality and visual appeal of the real estate weren't as important. But this has changed: today, the shopping experience is a top priority also for retail parks. As a consequence, the service offering, the ambience and the entire flair of the centers are improving. The large foyers in front of the checkout area are being made available to small specialist retailers, which expands the product portfolio. This in turn attracts new groups of customers: especially younger consumers are beginning to frequent retail parks as well now. All these changes can be summarised under the term of 'hybrid mall', which will replace the basic retail park in the future.

Other key aspects are structural sustainability and high energy efficiency. Obviously, online shopping will continue to play a major role in the future. For instance, customers will increasingly purchase certain products online and then go to the store to pick them up. This trend is called "click and collect."

I am positive that supermarkets, discounters and retail parks will continue to be among the most popular objects for investors in the future.

