COLLABORATION: RETAIL'S NEW DEAL

THE QUESTIONS RETAIL NEEDS TO ANSWER TO REBUILD

Understanding the impact of COVID-19 on retail, consumers, development and investment

mapic®

With the COVID-19 pandemic and the huge challenges the retail and leisure industries are facing and will face, the world of retail will rely more on collaboration: on sharing data, lease negotiations, with humanity at the heart of the business.

This White Paper considers how the industry is beginning to adapt through new business models.

RETAIL AND LEISURE: A NEW BUSINESS MODEL

The retail world is reopening its doors to an uncertain and different future. No-one knows exactly what the ‘new normal’ will look like and core retail sectors such as grocery, homewares and furniture and fashion are only now adjusting to the implications of an enforced shift online for consumers and to a whole season lost to lockdown respectively.

While major grocers worldwide are forced to consider their supply chains, logistics and final mile costs, fashion retailers are working out how best to get rid of inventory, with **many fashion warehouses coming out of lockdown at 90% capacity**, according to analyst GlobalData. Big summer sales are an inevitable consequence and a possible boon for designer outlets, though this sector faces its own challenges from tourism and travel restrictions.

The big question is whether the enforced reliance on online while the shops were predominantly closed will have a longer-term impact. According to the latest research by CapGemini, **59% of consumers worldwide said that they had high levels of interaction with physical stores before COVID-19**, but **today less than a quarter (24%) describe themselves in that high-interaction category**. In contrast, over the next six to nine months, **39% of consumers expect a high level of interaction with physical stores** – so still significantly below pre-COVID levels.

By contrast, **30% said that they had high levels of interaction with online channels before the crisis, but 37% would characterise themselves in that category today**. In the next six to nine months, CapGemini expects this to accelerate further.

“In the post-COVID-19 environment, consumers will place greater emphasis on both convenience and safety”

Jessie Qian,
partner, head of consumer
and retail at KPMG in China

So, while it is still very early to make sweeping conclusions – and responses and online uptake also vary significantly across retail categories - the early signs are that a proportion of new or increased online users will continue to buy online even when all the stores are open again.

“With the virus enduring, retailers are now confronted with the harsh reality of stabilising their balance sheet, while simultaneously making plans to adjust to long-term changes in demand and channel mix as they prepare for what’s next. This raises a question, when the time comes, will and should retailers re-open 100% of stores,” says Robin Bevan, head of Europe, Accenture in the company’s Resetting Your Store Estate report.

“We believe that there are still too many stores trading for long-term viability. Many retailers have not taken the necessary steps to right-size because of long-term leases that have made it too expensive to close. But even well-positioned retailers may find they have to permanently close under-performing stores and take drastic cost-cutting measures,” he says. *“If this becomes a reality, the more widespread creative use of external data indicators and new demand forecasting techniques will be vital in helping retailers get to their new destination the right way. Advanced analytics should be used to track and predict shifts in customer demand, ultimately identifying which stores are the best candidates for either closure and/or conversion into a lower cost alternative.”*

Or in other words, less stores and more use of data for decision-making.

Initial consumer response to the gradual reopening of retail and food and beverage (F&B) across the world has been mixed, with an understandably high level of caution among many and an ongoing focus on groceries and homewares and furniture when buying.

In China, which came out of lockdown first, performance at reopened stores was slow to recover and unlocked Chinese consumers were initially cautious about returning to malls, thanks to economic and health concerns. According to data from China’s National Bureau of Statistics (NBS), April retail sales rebounded to -7.5%. While still negative, it’s an increase from -15.8% in March and certainly a change from the sharp fall to -20.5% in the first two months of the year.

“China’s retail sales took a huge hit in Q1 and is starting to see some improvement,” says Shelleen Shum, eMarketer forecasting director at Insider Intelligence. *“We expect sales to return to growth in H2, but the full year’s performance will be dragged down significantly by a weak first half.”*

“China’s return to growth depends on whether the risk of a second wave of the virus can be curbed and on how the economy worldwide performs,” she says. ***“We estimate that retail sales in China will decline by 4.0% in 2020, before returning to positive territory of 3.5% in 2021 and 5.4% in 2022.”***

In its report Global Retail Trends 2020, consultancy KPMG concludes that retail leaders will need to think more clearly about their investments in three key areas: customer loyalty programmes, customer data, and technologies aimed at making the shopping experience easier, safer and more efficient.

“In the post-COVID-19 environment, consumers will place greater emphasis on both convenience and safety,” says Jessie Qian, partner, head of consumer and retail at KPMG in China. *“During the lock-down, we have seen brands and shopping centres using WeChat Mini-programs, online social groups and live streaming videos to reach consumers through new channels without the need for foot traffic. Customer data has now become both an important and a valuable asset.”*

She says that while many physical stores will return to growth when the COVID-19 crisis passes, consumers’ experience shopping online through necessity will impact shopping behaviour in the future.

“For most retailers, that means leaning strongly into online sales, proving that speaking to customers and understanding their needs has become just as important as the bottom line,” says Qian. ■

SHOPPING CENTRES: REOPENING AND REMODELLING

Despite what seems likely to be a lasting increase in online sales across most categories, notably grocery, Ian Sandford, head of Madrid-based Eurofund Group, feels that the inevitable demise of some well-known retail names as a result of the pandemic was pre-determined anyway. *"In terms of the retail picture overall, we were already on a certain road and I think too many companies have tried to keep something working that had run out of steam,"* he says.

"What the crisis has done is fast forward us five years and the rate of change is going to be very fast, not because of the problem of physical retail – I believe people will always want to engage – but because retail has to respond to what people want."

Less clear is how customers will respond to necessarily higher hygiene and distancing measures, how retailers and operators will cope financially with lower capacities and whether the extended stay-at-home period during lockdown will permanently change personal priorities or simply be a temporary blip. Right now, the key appears to be adaptability – the ability to adapt offers and venues to for short-term survival and build a sustainable business model for an uncharted longer term.

"Right now the challenge is day-to-day, whether to keep stores open, how to look after staff, how to pay rent, keeping each business viable, working with the supply chain and trying to share the burden so that the industry can come through this crisis together and rebuild," says MAPIC event director Nathalie Depetro. *"Our intention for 2020 had always been to focus on new business models for retail, mixing uses, compelling cities, refurbishment and extensions, sustainability and the innovation that underpins all of these. Quite simply, these now feel more important than ever."*

"The way we will approach this at MAPIC will be different, because our emphasis will be on collaboration, the creation of new business models, sustainability, data sharing and a move towards less proprietary attitudes and more sharing and working together for a common goal. Our industry's revival relies on us pulling together and rebuilding with each other." ■

"What the crisis has done is fast forward us five years..."

Ian Sandford,
head of Madrid-based
Eurofund Group

RETAIL DEVELOPMENT AND ACQUISITION

After an understandable lull, the market across Europe awaits the resumption of developments and acquisitions for the shopping centre market. Retail remains challenges, although a number of large investors have been building capital funds ready for acquisitions. Like retail, the commercial office market also faces some fundamental operational questions thanks to so many staff experiencing working from home. That may turn some real estate investors' focus back on to shopping centres, especially in resilient markets or where opportunistic value can be derived.

Tom Leahy, senior director EMEA Analytics at RCA, says that European investment deals were down 75% in March compared with the same month in 2019, with transactions of below €100m hit particularly hard as the crisis is *"exposing and amplifying"* existing weaknesses. ***"The retail market is becoming increasingly polarised across the board and in Western Europe we've also seen a sharp divergence between the prices for the very large and smaller- to medium-sized shopping centres in the past few years," he says. "We think it's likely that smaller shopping centres will, on the whole, bear the brunt of store closures."***

Those real estate markets with higher average liquidity typically recover their pre-crisis pricing quicker and with debt levels lower than in the financial crisis, many lenders well capitalised and a market generally not over-built, there is some room for optimism, especially in an ultra-low interest rate environment. A number of major players, including Unibail-Rodamco-Westfield and, very recently, Klepierre have made use of this situation to issue long term bonds, creating low cost, long term liquidity for their businesses.

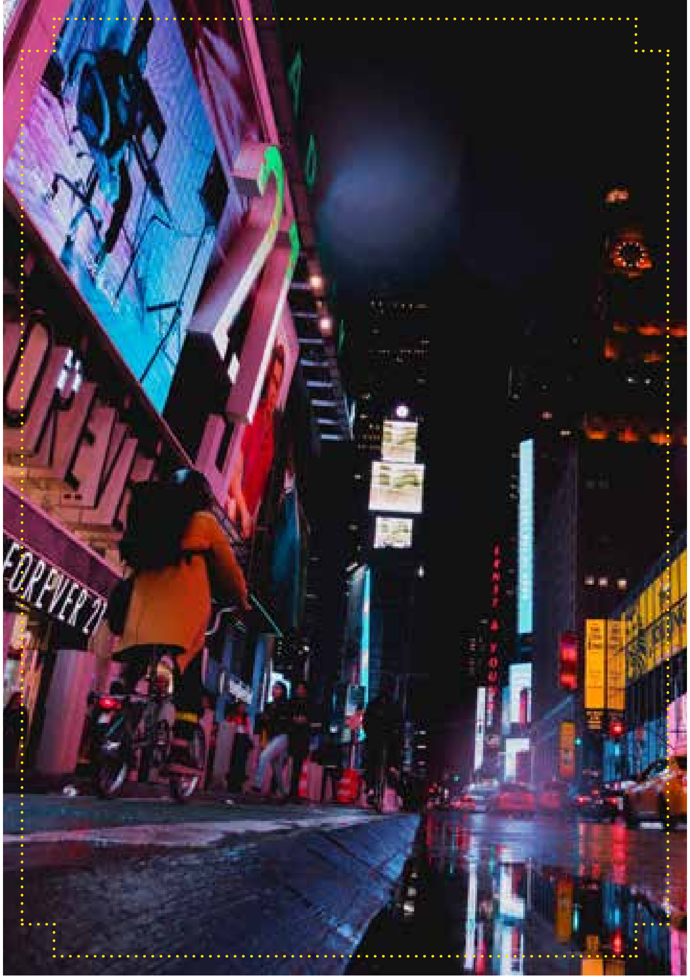
This background is a context taken up by Sandford: ***"There are big walls of capital being assembled, to be deployed in real estate. But where I see a difference is that shopping centres and retail will no longer be considered as part of mainstream investment – where generalists manage the portfolios – but as alternative assets, such as hotels for example. Because I think there is a growing appreciation that highly specialist skills are needed to manage retail and we may well see investment and specialist management combining to direct the strategies for shopping centres."***

However, he fears smaller, less well-funded centres on the other hand may struggle with the capital required to introduce new safety systems.

"Inevitably, a crisis will bring opportunities, although right now is very early. But we will be looking for investment and acquisition opportunities in perhaps the next six to

12 months,” adds Volker Kraft, managing partner, ECE Real Estate Partners. ***“We can foresee some value but if a scheme is robust and sustainable then it won’t be offered at distress levels. Those that are available at distressed prices, will probably be in that situation for a reason.”***
While new development remains low in Europe, those major projects in the pipeline or under construction have inevitably been impacted by lockdown. Constraining of supply is not just about the possible loss of secondary centres but also flagship schemes. Unibail-Rodamco-Westfield temporarily ended funding for its proposed mega shopping centre in Segrate, announcing: ***“URW had divided its pipeline and removed €3.2bn from the projects. Following the outbreak of COVID-19, the group further reviewed its pipeline and announced that it will remove an additional €1.6bn from the controlled projects, including Westfield Milano.”***

URW stresses that the joint venture with Stilo Immobiliare Finanziaria has not been cancelled but suspended and work on its ambitious Mall of the Netherlands, in the Hague, and the large mixed use quarter in Hamburg, continues.
Major European developments are comparatively thin on the ground, with Hines’ Cherrywood in Dublin, the city centre Saint-Jean by Apsys in Bordeaux and Intu Costa del Sol among a handful of significant ongoing schemes. Nuveen’s Edinburgh St James mixed use project in the Scottish capital has been delayed by lockdown and is thought unlikely to open before Christmas as planned.
Meanwhile, themes such as digitalisation, the increase in food and beverage and leisure continue to be evidenced as developers restart their construction sites. Building work on the 46,000 sq m Potsdamer Platz Arkaden, Berlin by ECE is continuing, with completion scheduled for 2022. ECE recently announced that Mercato Metropolitano will move into the new arcades as a 4,400 sq m anchor tenant with its community market concept, with Brookfield Properties as asset manager.
Jonathan Doughty, director foodservice, leisure and placemaking at ECE, says: “***We want to make the place a culinary hotspot for all of Berlin. With Mercato Metropolitano as a partner, we are getting a bit closer to this goal. They are modern, innovative and will be at the heart of Potsdamer Platz.”***
Similarly, the American Dream project in New Jersey, which was previously set at 55% entertainment and 45% retail when complete, is shifting its leasing strategy to be roughly 70% entertainment and 30% retail according to developer Triple Five. Don Ghermezian, co-chief executive of American Dream, says that no retailers had backed out of American Dream but acknowledged: ***“There is no doubt that when this is over, there will be retailers that were just making it along ... trying to survive. Those retailers that were on the bubble — I fully expect a number of those retailers to be gone.”***
In Asia, CapitaLand has launched new e-commerce and food ordering platforms in Singapore. The new eCapitaMall and Capita3Eats services are aiming to drive sales for retailers at its shopping malls during Singapore’s Phase 1 safe reopening protocol, accessible via the firm’s CapitaStar app and mall websites from 1 June.
Chris Chong, managing director, CapitaLand Singapore, says: ***“The circuit breaker has brought to the fore the importance of an omni-channel, 24/7 strategy for Singapore’s retailers. We want to help our retailers reach***



out to more consumers and online business opportunities by using the strong brand awareness of CapitaLand and the digital capabilities we have built up over the years. Retailers on our eCapitaMall and Capita3Eats platforms will get a leg up in the digital space by tapping the more than one million CapitaStar members in Singapore and marketing reach through our physical network.”
Customers that have downloaded the app will be able to buy goods from retail tenants at CapitaLand malls, opting for home delivery or in-store collection. The food app is Singapore’s first mall-operated food ordering platform offering consumers three ways to fulfil their food orders by delivery, takeaway or dine-in.
And in France Altarea group is preparing its sites and in its financial information bulletin for the first quarter of 2020, Alain Taravella, founding president of Altarea, said that after the disposals made in 2019, for a total amount of €515m including the sale of the two Italian shopping centres finalised at the beginning of March, Altarea’s assets are refocused around four formats: ***“both the most resilient and the most promising for the future: regional shopping centres, station shops, large retail parks and urban proximity.”***
Altarea will relaunch developments for Corso at Cap 3000 and phase three of the shops at Paris-Montparnasse station and the Paris-Austerlitz station.
“Overall, we expect the outlook for the retail sector to remain weak as we see more administrations and more rationalisation of portfolios. It is no surprise that prime rents began to fall in Q1, with further reductions very likely over the course of the year,” says Gunnar Herm, head of real estate research & strategy – Europe, UBS, in the company’s latest Real Estate Outlook report. ***“We are very unlikely to see significant development; however, as vacancy rates across Europe are expected to increase – especially in the shopping centre and retail warehouse sectors – and construction activity remains depressed. We expect the UK and Italy to be most negatively affected, while CEE countries may prove to be more defensive.”*** ■

COLLABORATION AND POLARISATION

What remains to be seen is whether landlords and retailers can create a more collaborative business model. The early days of the crisis were punctuated by a fractious rent dispute between tenants and landlords, with little plurality over who should carry the financial load for the lockdown period. Many of these still need to be worked through, though many national governments gave tenants temporary protection. By contrast, Brookfield, one of the largest owners of retail properties in the US, has launched a $5bn Retail Revitalisation Fund, for retail businesses with yearly revenue above $250m.

Meanwhile, designer outlet specialist McArthurGlen Group has launched a rent relief package to support its brand partners until the end of the year. The designer outlet group is waiving all minimum base rent, turnover-based rent and marketing charges for tenants in all of its centres closed from 1 April to 30 June. Once a centre reopens, the group will waive all minimum base rent and from 1 July to 31 December, the group will either charge turnover rent or a *"much-reduced"* minimum base rent.

"Society at large and our industry have faced unprecedented challenges due to the COVID-19 pandemic," chairman JW Kaempfer Jr said of the decision. *"Our long-term partnerships with our brands lie at the heart of McArthurGlen's business so we knew we needed to do something to help them through this crisis. This has always been a partnership. We, together with our investor partners, hope that by providing this significant economic support to our brands, we can contribute to a faster recovery of our mutual business."*

It remains to be seen whether more European developers follow suit but Eric Decouvelaere, head of retail EMEA, CBRE Global Investors, believes that the current crisis has further highlighted structural issues within the retail sector as an asset-class.

"We believe that retail is evolving from a supply to a demand-led model," he says. *"For shopping centres, pricing and polarisation remain two major issues. Too often we have seen not enough price discrimination, so that well-performing shopping centres and projects with limited growth potential are similarly priced. We believe that the current crisis will further accentuate market polarisation. In other words, the strong getting stronger and the weak weaker."* ■

Brookfield has launched a $5bn Retail Revitalisation Fund

McArthurGlen Group Rent has launched a relief package

Retail is evolving from a supply to a demand-led model

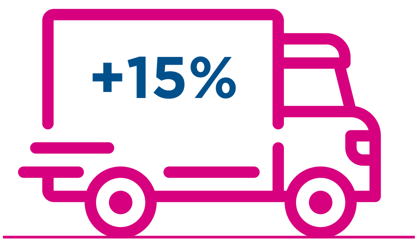
GROCERY: ONLINE AND PARTNERSHIPS SHIFT MODEL

Grocery retail around the world has seen a fundamental shift online. While US e-commerce grocery sales have risen far faster than in-store sales, up 15% year-on-year according to Bricks Meets Clicks, Statista estimates online grocery sales reached $29bn in 2019, less than 4% of total food and beverage store sales of $777.2bn.

In the UK, by contrast, online grocery e-commerce stands at over 7% of grocery sales, according to Kantar. Britons made almost 80m extra grocery shopping trips in March, setting an industry record after shoppers spent almost £2bn more on food and drink than in 2019. UK supermarket groups Morrisons, Co-op and Marks & Spencer and delivery giant Deliveroo have partnered to enable customers to order from a limited assortment of household items for on-demand delivery.

Retailers have also been adapting - Spanish retailer DIA has turned a number of stores over to exclusively process online orders and has also expanded its home delivery service to nearly 500 stores in collaboration with Glovo.

Uber Eats has performed home deliveries for groceries from Carrefour in France, rolled out first in Paris. In the Uber Eats app, users can select their Carrefour store of choice and select products in the food, hygiene and cleaning categories. Heavy or bulky items cannot be ordered but customers will receive their groceries within 30 minutes. ■



US e-commerce grocery sales have risen up 15% year-on-year

Bricks Meets Clicks

FASHION: RECOVERING FROM A SEASON LOST

The fashion industry has been particularly hard hit by store closures and lockdown, with predictions that the pandemic has plunged the $2.5tn global fashion industry into crisis with sales predicted to fall by up to 30% in 2020 and the luxury end of the market even harder hit, with sales slumping by up to 40%, according to a bleak report by The Business of Fashion (BoF) and consultant McKinsey.

McKinsey projects that in a worst case scenario 80% of listed fashion companies in Europe and North America will be in financial distress. Even before the outbreak began, stiff competition meant that more than half of the companies in McKinsey's benchmark global fashion index were described as *"value destroyers"* – meaning the profit made by a company did not exceed its cost of capital.

"The pandemic spells more trouble for this group, which includes department store giants, high street brands and venture-backed start-ups," the report states. *"We expect a large number of global fashion companies to go bankrupt in the next 12 to 18 months."*

Fashion retailers in some of the earliest markets to reopen – including China – found performance remaining subdued, largely because customers remain cautious about shopping for non-essentials, have been hit economically and were reluctant to spend on fashion when 'going out' locations remained largely closed.

To try and support their suppliers, leading brands and retailers including Primark, H&M, Inditex, C&A, Adidas and VF Corp have endorsed a new cross-industry plan to provide urgent financial relief to vulnerable garment factories and workers. Bestseller, PVH, M&S, Ralph Lauren, Under Armour, Tchibo and Zalando are also backing the initiative. ■

HOMEWARES AND FURNITURE: FOCUS ON THE HOME

The DIY, homewares and furniture sectors largely performed robustly during the lockdown period, with DIY stores allowed to remain open in a number of markets. Early signs suggest that consumers – in part more home-focused thanks to lockdown and also perhaps expecting to work more from home in the future – have continued to spend on their homes.

In the US, Williams-Sonoma posted a surprise rise in quarterly same-store sales, as the retailer's online business boomed. The company, which owns West Elm and Pottery Barn, benefited from a surge in demand for furniture and other house essentials as the lockdown confined consumers to their homes, with many setting up home offices due to work-from-home orders.

"This crisis has accelerated our industry's shift to e-commerce, and given rise to a newfound appreciation for the home," CEO Laura Alber said.

Meanwhile, in late May Ingka Centres, the shopping centre division of Ingka Group, re-opened malls in Italy and Spain. Of Ingka Centres 45 Meeting Places, only Russia's 14 MEGA branded malls, two malls in Portugal, one in Spain, and one in the UK remained closed at this point.

The company said that its latest footfall figures and conversion figures from Ingka Centres re-opened Meeting Places continue to show an encouraging and sustained return of customers worldwide, with Tiare Shopping, in the northern Italian region of Friuli-Venezia Giulia, at 92% of its usual number of visitors return in the first week since re-opening. ■