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EUROPEAN RETAIL IN 2016

GfK study on key retail indicators: 2015 review and 2016 forecast


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EDITORIAL

Dear reader,

2015 was a good year for European consumers. The economy of the European Union grew nominally by 4.7% and unemployment fell in most countries. Private consumption increased significantly: The low interest rate made traditional saving less attractive, with the result that many consumers chose to spend their money, which benefited retail.

In 2015, eCommerce growth no longer outpaced stationary retail. Offline retail also experienced robust growth and generated 3.0% more turnover by the end of the year, reinforcing the fact that competition stimulates trade and drives innovation. We also anticipate retail growth for 2016, albeit at a slackened pace.

There are large differences between the individual regions in Europe. And political and economic uncertainties exist alongside the positive developments. It remains to be seen how the willingness to invest among European companies and consumers will be impacted by Europe's refugee crisis and terror threat as well as the continuing economic weaknesses in emergent economies such as Brazil, Russia and especially China.

This study offers an overview of the most important indicators for European retail in 2016. It presents insights on purchasing power, store turnover, retail share of private consumption, sales area and inflation. We hope this study will guide your strategic retail decisions, whether as an investor, retailer or project developer.

Sincerely,

Dr. Gerold Doplbauer
Geomarketing, GfK

Contents

PURCHASING POWER, 2015

More purchasing power for European consumers – upswing in the former crisis countries

3.7%

more purchasing power

On the whole, 2015 was a good year for European consumers. The economy grew and unemployment fell in most countries. This development is reflected in the purchasing power figures, which increased in the European Union by an average of 3.7% compared to the previous year*. This gave each EU citizen an average of €15,948 for consumption, rent, savings and retirement contributions.

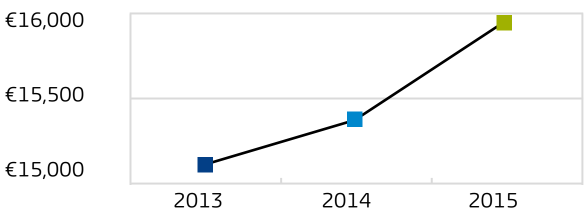
The low crude oil and energy prices coupled with the almost non-existent inflation put more money in consumers' wallets to spend on other things. These developments do not have a positive effect on all European consumers' propensity to spend. In countries with comparatively lower purchasing power, most notably in Eastern Europe, the propensity to spend has fallen over the course of last year. Portugal and Greece are once again in last place in Europe with respect to the absolute consumer climate values at the end of 2015. Before the propensity to spend can climb again, people must be confident that they can cover expenses beyond their basic needs.

An increasing propensity to spend is especially apparent in the Scandinavian and western European countries. These are regions with high purchasing power where subsistence needs are fully met and the additional money boosts consumer mood.

There is an indisputable purchasing power divide between Northern and Western Europe as well as between Eastern and Southern Europe. Even so, the poorer economies are continually catching up. Nevertheless, the per-capita purchasing power in Luxembourg is €28,775, which is still nine times higher than Bulgaria's at €3,143.

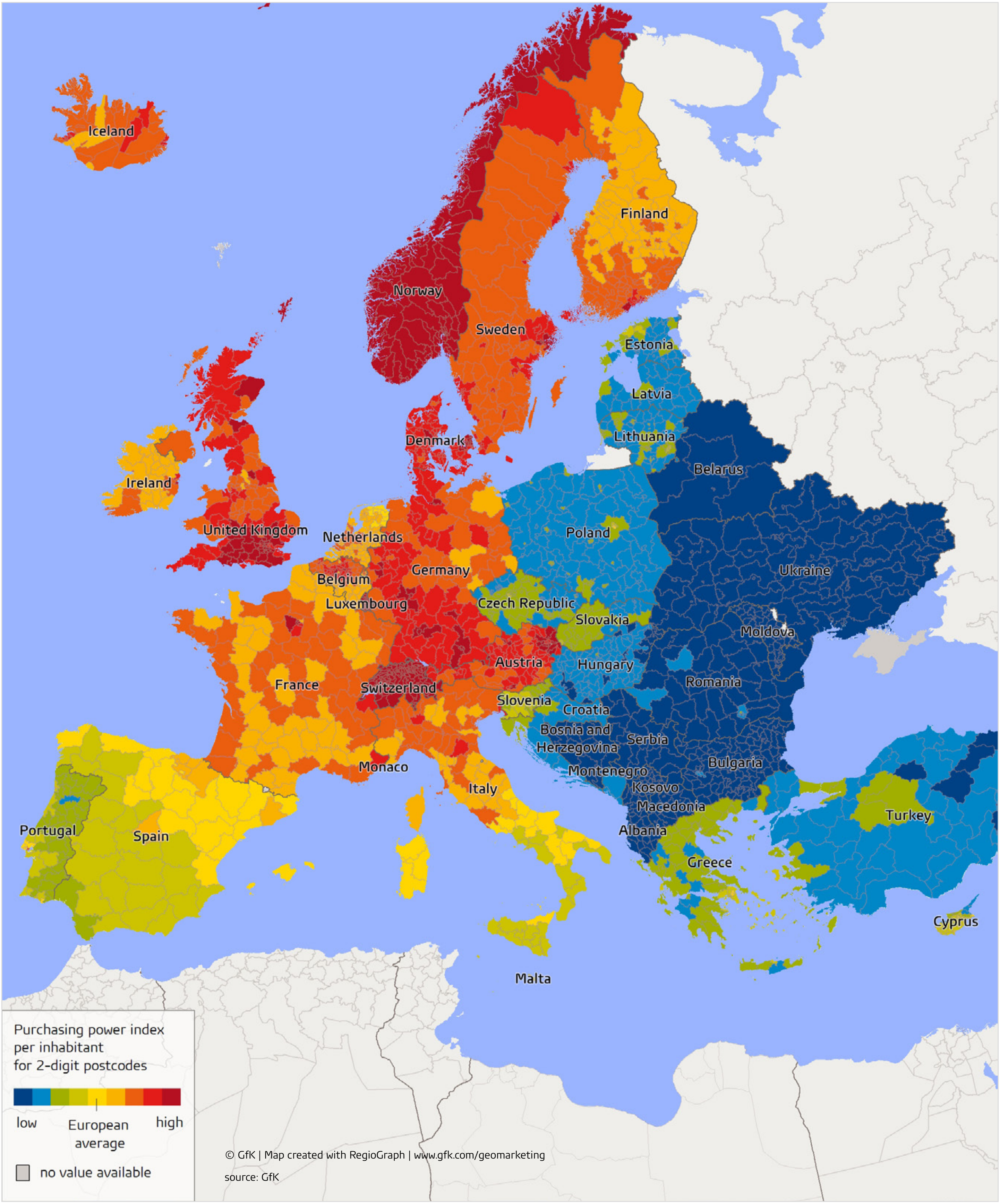
The purchasing power divide within countries is also very pronounced. Italy provides a good example: The economically robust region of Lombardy in northern Italy has a per-capita purchasing power of €19,389, while Sicily in southern Italy has just €11,446.

Per-capita purchasing power (EU-28)



* Purchasing power measures the population's disposable net income, including government subsidies such as pension payments, unemployment assistance and child benefit. Expenditures related to food, accommodation, services, vacations, insurance, private pension plans and retail purchases have to be covered by this sum. Purchasing power is a prognosis and provided in nominal euro values.

GfK Purchasing Power Europe, 2015



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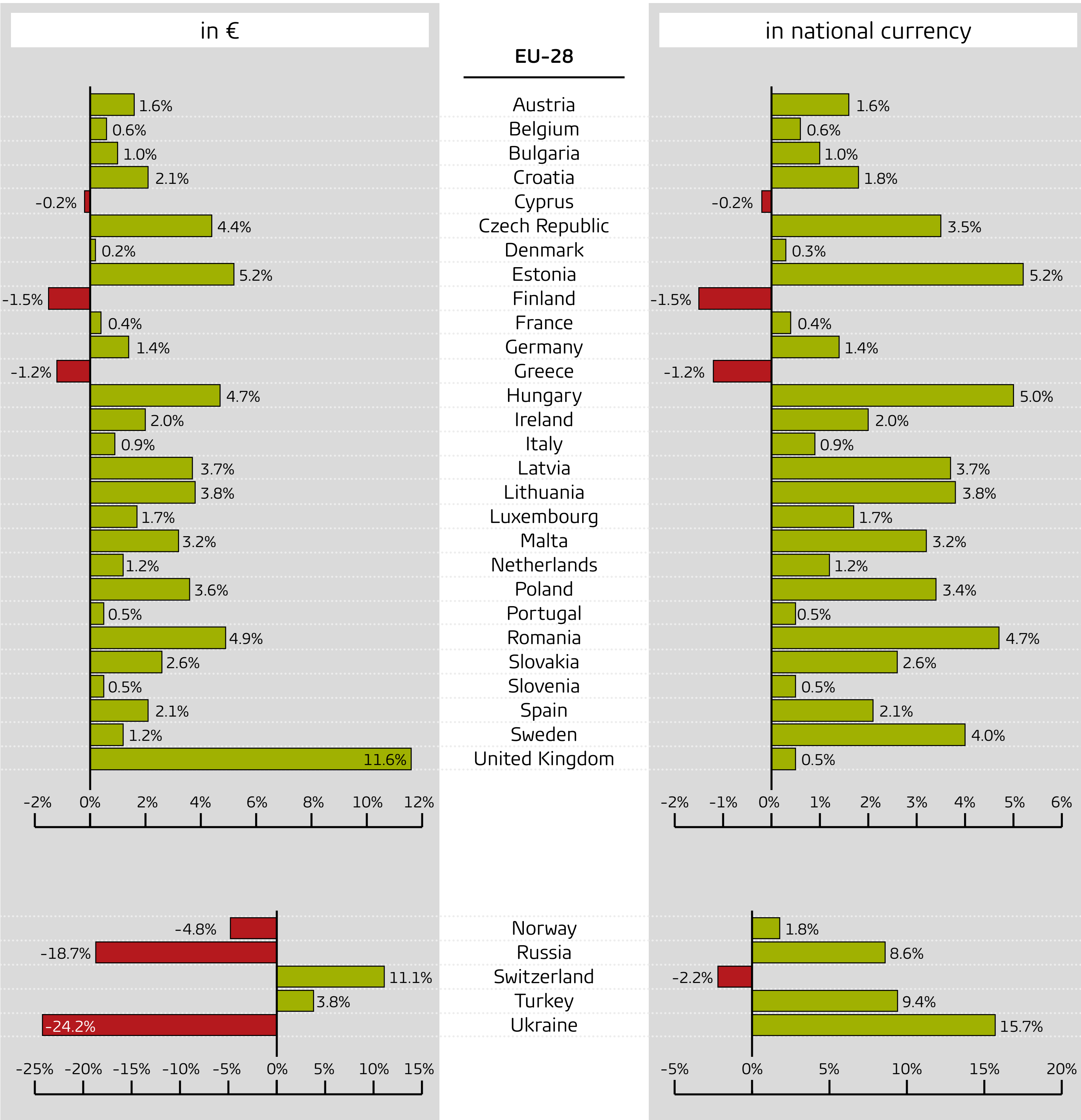
source: GfK

2015 turnover growth in stationary retail compared to last year



source: GfK

STATIONARY RETAIL TURNOVER, 2015

Stationary retail benefited from purchasing power increase and overcame turnover outflow to eCommerce

2015 was a successful year for stationary retail in the EU-28, with retail stores experiencing a nominal turnover increase of 3.0%*. On the one hand, this was due to an increase in prices for consumer goods, even though this was concealed in overall inflation due to falling energy costs.

On the other hand, pressure of eCommerce in more mature markets slackened and a higher share of purchasing power growth went to stationary retail. Eastern European countries, such as Romania, were once again among the winners with respect to retail turnover developments in 2015. Store retail sales grew in Romania (+4.9%) as well as in the Baltic States (Estonia +5.2%, Lithuania +3.8% and Latvia +3.7%) and Hungary (+4.7%). The Czech Republic (+4.4%) also experienced growth, with retail picking up pace again after some weaker years.

At first glance, the numbers for Britain's store retail appear surprisingly positive. But the very robust turnover increase of 11.6% in euros must be viewed in the context of the appreciation of the British pound (the increase translates to just +0.5% in the national currency). And the overall upward tendency in the United Kingdom is accompanied by a polarization of consumer behavior (more luxury and more discount at the same time). An example of the trend toward discount retail in Britain is the success of Aldi and Lidl, which is putting pressure on the market leader Tesco.

Spain already accomplished a turnaround (+0.8%) in 2014 and then experienced accelerated growth in 2015 (+2.1%), while Italy returned to a growth path in 2015 (-0.4% in 2014, +0.9% in 2015).

* All rates are based on nominal values in €, meaning they have not been adjusted for inflation.

3.0%

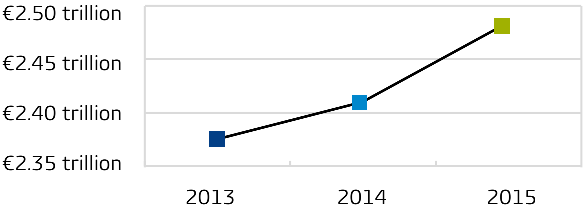
growth in stationary retail in the EU-28

By contrast, declining retail figures continue to characterize Finland (-1.5%) and Norway (-4.8%). In the case of the latter, the recession and associated devaluation of the Norwegian krone (+1.8% in the national currency) can be blamed, while structural problems lie behind Finland's performance.

The crisis in Russia and the Ukraine as well as the associated economic upheavals also negatively impacted retail in 2015. Slumps in both currencies mean that backlash in this region is more drastic in euros than in the national currencies. The political and economic uncertainties will likely continue to dampen the consumer mood for some time to come.

In Switzerland, the exchange rate fluctuations had the exact opposite effect through the decoupling of the franc from the euro: The turnover increase of 11.1% in euros ran counter to the difficult situation with Switzerland's store retail (-2.2% in the national currency). Retailers in border regions had to sustain particularly bitter losses due to consumers crossing the border for cheaper shopping.

Stationary retail turnover (EU-28)



FORECASTED STATIONARY RETAIL TURNOVER, 2016

Positive trend in most European countries – additional challenges in non-EU countries

1.1%

growth in the EU-28 in 2016

The solid store retail business from last year will continue in 2016. For the EU-28 countries, we forecast somewhat decelerated progress, with a nominal growth of 1.1%.* There will be especially positive developments in Romania (+7.2%) as well as continued progress in the Baltic States (+3.8% to +4.9%), which are gradually catching up with the more mature markets.

We expect a robust dynamic in store retail in Sweden (+4.8%) and Spain (+3.7%). In both countries, retail will profit from growth in private consumption. Due to rising income expectations for Hungary and the Czech Republic, we anticipate a continuation of the positive trend in 2015.

Ukraine: Calmer conditions after the storm
For the first time, our study includes the Ukraine (but not the Crimea region, for which no reliable data is available). The political disputes have left deep scars in this economy, which depends heavily on Russia's. After a structural and exchange rate-driven breakdown of stationary retail turnover in 2015 (-24.2%), we forecast a slowed decrease of -1.2% for 2016. However, the conflict with Russia poses a large degree of uncertainty.

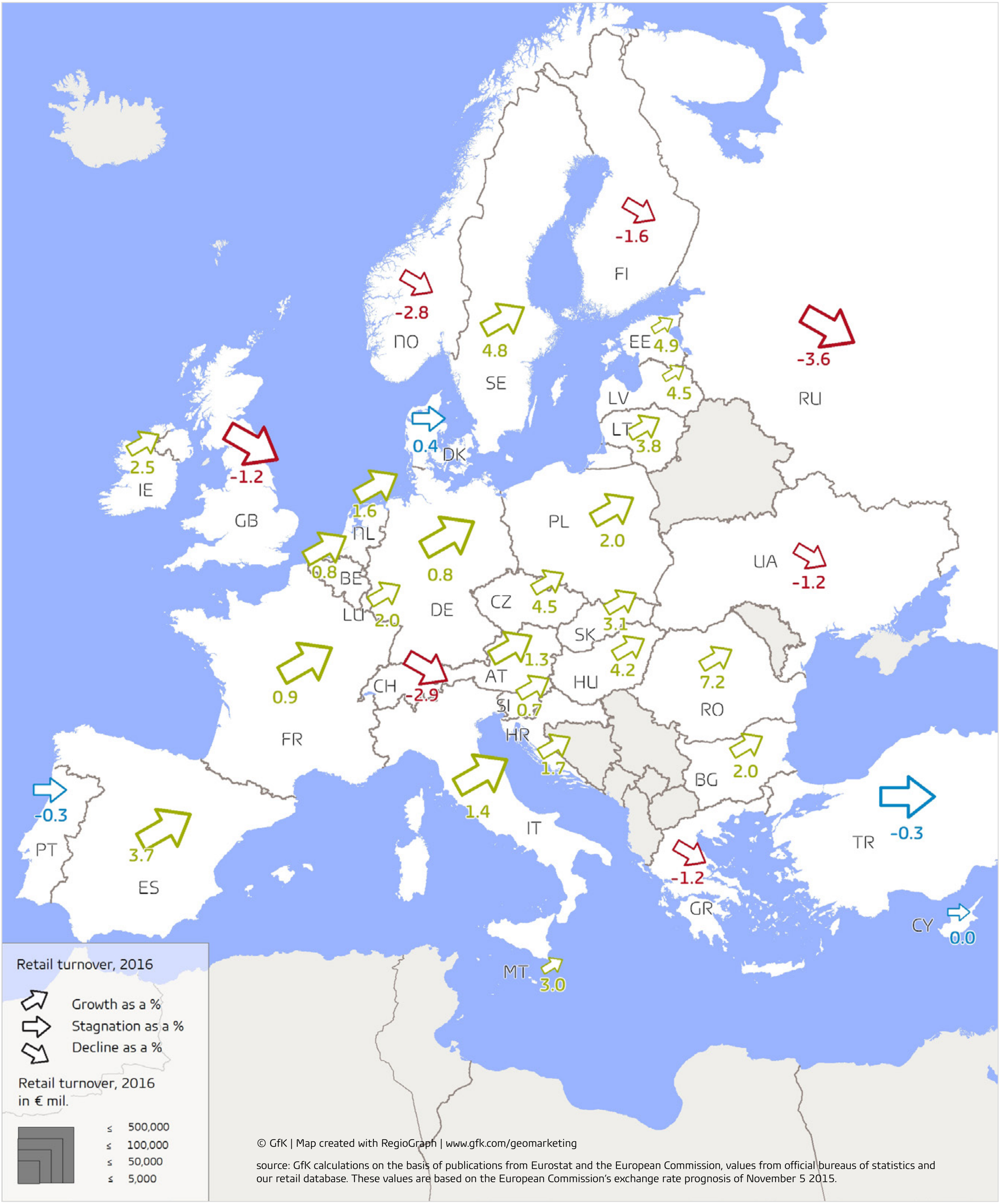
* All rates are based on nominal values in €, meaning they have not been adjusted for inflation.

Romania: Clear lead on Bulgaria
The current year will be an interesting one for Romania, as VAT will go from 24% to 20%. Consumer prices will remain largely stable, and we anticipate that retail will take advantage of the VAT decrease to boost sales. For this reason, we predict an acceleration of the already very positive store retail performance of +7.2%. Bulgaria will experience slow growth (+2.0% in 2016) compared to Romania. The weak ruble has made Bulgaria too expensive of a tourist destination for Russian vacationers, which is contributing to the country's dampened growth.

Italy: Upswing despite ongoing risks
In the fourth quarter of 2015, Italians' consumer mood recovered and reached the highest values in 15 years. Thus, consumer confidence is gradually returning. We expect the moderate upswing from last year to continue into 2016. However, the Italian economy is battling structural problems such as the recently increased concerns over the looming banking crisis. Domestic controversies, which are delaying necessary reforms, and record household debt pose risks for the country.

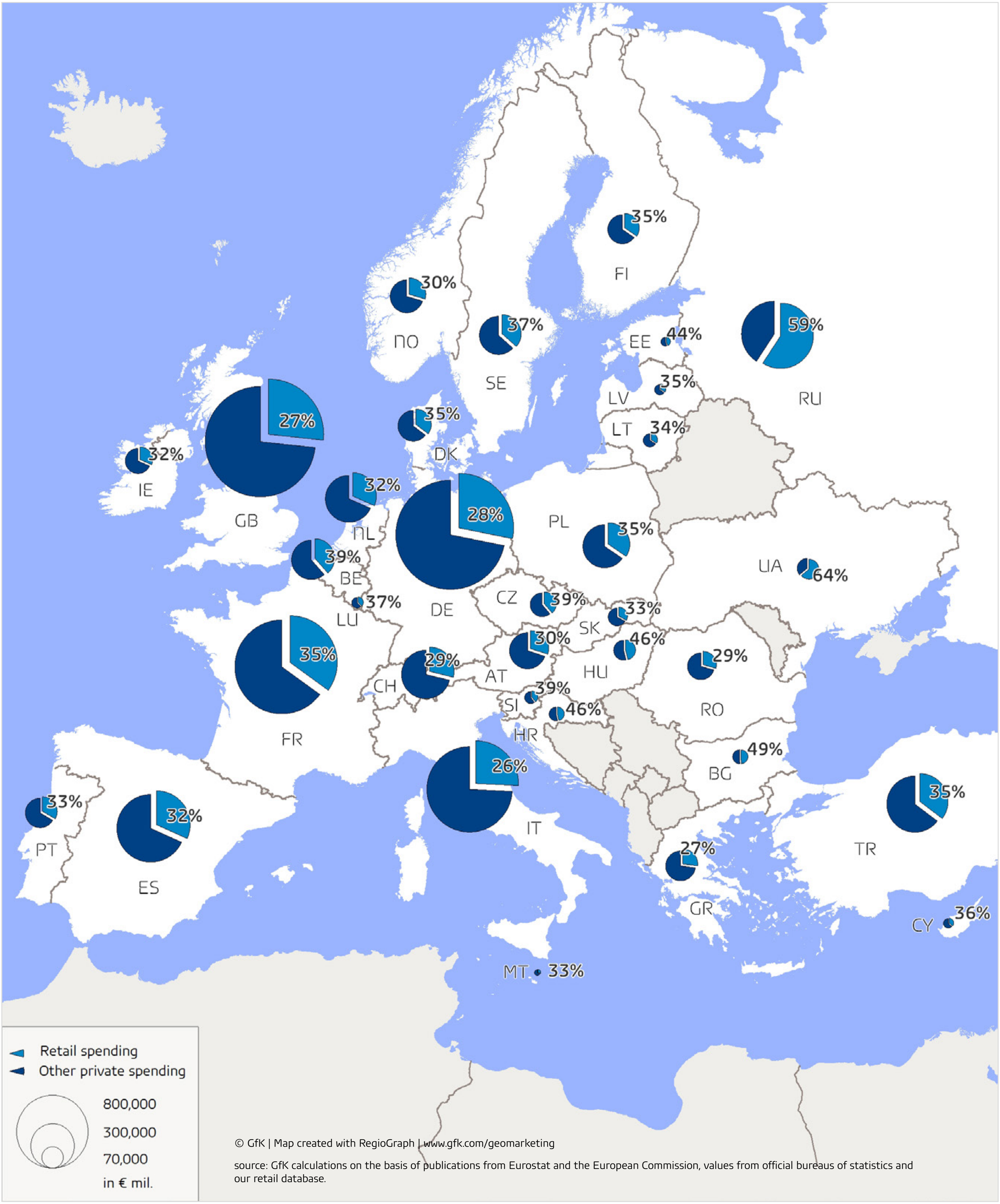
Germany: Stationary battles eCommerce
Stationary retail is still under pressure due to the growth of eCommerce, which will gain additional market share in 2016. But retail purchasing power is expected to grow even more, thus allowing stationary retail to overcompensate for the growth in eCommerce. We forecast moderate growth of 0.8% for Germany's store retail turnover in 2016.

Forecasted stationary retail turnover, 2016



source: GfK calculations on the basis of publications from Eurostat and the European Commission, values from official bureaus of statistics and our retail database. These values are based on the European Commission's exchange rate prognosis of November 5 2015.

Retail share of private consumption, 2015



RETAIL SHARE OF PRIVATE CONSUMPTION, 2015

Falling retail share despite lower energy prices – beneficiaries are traveling and recreational activities

The refugee crisis, terror attacks in Paris and growing debt situation did not have an enduring negative effect on consumer mood in 2015. The GfK consumer climate index for the European Union grew by 1.9 points to 12.2 between September and December 2015. Key factors for this were the low energy and fuel costs, the good economic situation in many European countries and an increase in private wealth.

Even so, the main beneficiaries of these positive conditions were areas other than retail. Consequently, the trend of retail's declining share of private consumption also continued in 2015. The average quota for all countries is 30.4%.

While consumers have more money for purchases, they predominantly spend these funds on services, traveling and recreational activities rather than on retail. These expenditures translate to less money available for retail consumption.

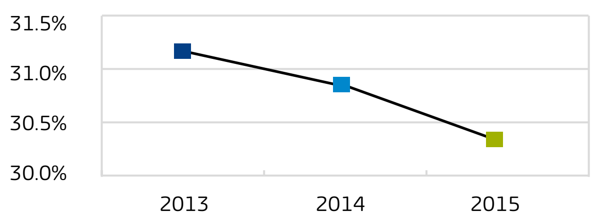
The purchasing power differences are mirrored in the countries' consumption habits. The proportion of private consumption funds spent on eating, accommodation and clothing vary considerably from country to country.

30.4%

retail share of private consumption

The higher consumers' per-capita purchasing power, the greater amount of money they spend on recreational activities, entertainment and culture. And these expenditures mean that they spend proportionally less on retail and basic needs such as food.

Retail share of private consumption as a % (EU-28)



CONSUMER PRICE TRENDS, 2015-2016

No inflation in 2015 and only marginally rising consumer prices in 2016

0.0%

inflation in 2015 (EU-28)

European consumers have accustomed themselves to stealthy price increases over the course of many years. These increases often only become apparent when making comparisons over the long to mid term: For example, canned fruit was priced 25% higher in 2015 compared to 2010.

But consumer prices remained constant (+0.0%) in 2015.* This is a rare situation for industry and retail as well as consumers.

In February 2016, the European Commission forecasted a 2016 price increase of 0.5%, driven by a more expansive central bank policy and an economic upswing. But the inflation expectations are dampened by the low prices for crude materials.

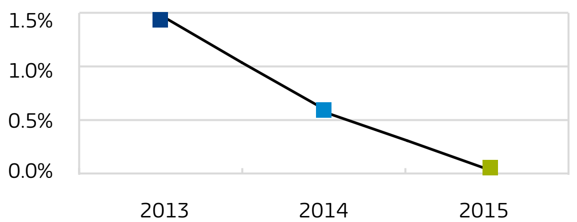
A price deflation actually occurred in many European countries in 2015. But for 2016, the European Commission forecasts declining consumer prices only in Slovenia (-0.3%), Romania (-0.2%), Lithuania (-0.1%) and Bulgaria (-0.1%).

After Poland spent 2015 in a deflationary phase at -0.7%, a price increase of +0.6% is expected for 2016. Hungary (2015: +0.1%, 2016: +1.7%) and Greece (2015: -1.1%%, 2016: +0.5%) are also expected to lift themselves out of the negative in 2016.

In southern Europe, Portugal faces the highest forecasted price increase at +0.7%. Significantly lower price increases are expected for Spain (+0.1%) and Italy (+0.3%).

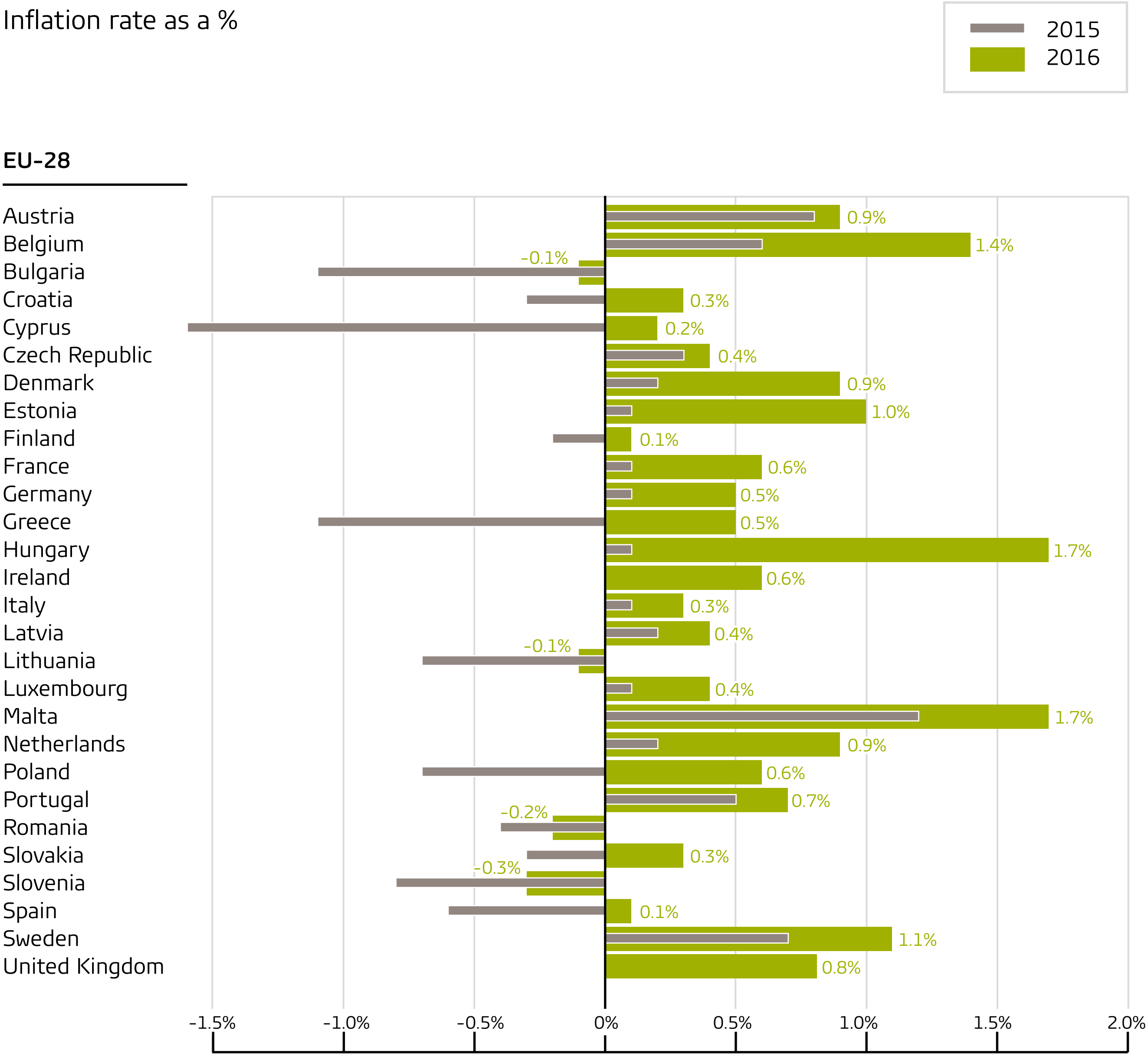
Inflation determines whether retail experiences real-value gains. Due to zero-inflation, store retail in the EU-28 achieved real-value gains in 2015. We anticipate a nominal increase of 1.1% for retail in 2016. Thanks to the forecasted inflation of 0.5%, retail can still achieve a moderate real-value increase.

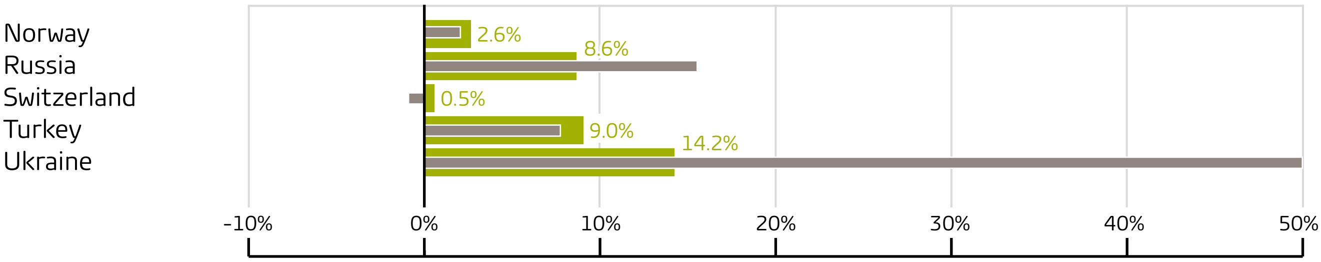
Inflation rate as a % (EU-28)



* To ensure comparability between the countries under review, these figures refer to general inflation (including services, transport, etc.).

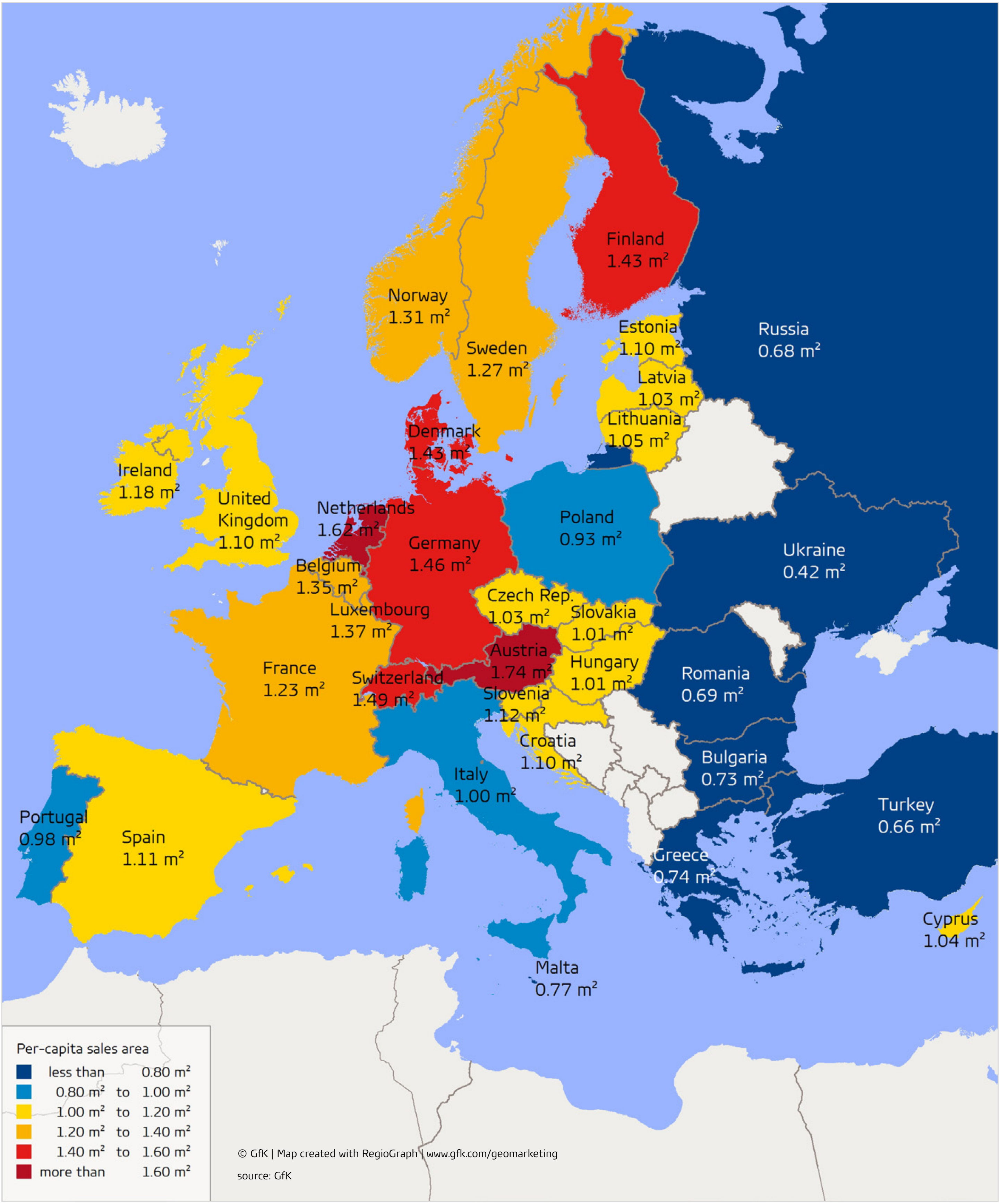
Inflation rate as a %





source: European Commission and International Monetary Fund

Sales area provision, 2015



SALES AREA PROVISION, 2015

Stable sales area provision in Europe – new large stores compensate for closing of smaller stores

The number of stores is decreasing, but sales area remains stable. Two smaller stores are frequently replaced by a large one, and weaker locations are supplanted by project developments at strong locations. Sales area in the EU-28 last year climbed by 0.3%.

Per-capita sales area is an important gauge of a market's maturity and competitiveness. With a per-capita sales area of 1.17 m^2, sales area provision in the EU-28 stagnated in comparison to 2014 due to the simultaneous slight increase in the number of inhabitants.

Despite a difficult retail situation, Portugal increased its per-capita sales area to 0.98 m^2. In contrast to saturated retail markets such as Austria (1.74 m^2), the Netherlands (1.62 m^2) and Switzerland (1.49 m^2), markets such as the Czech Republic (1.03 m^2), Poland (0.93 m^2) and Turkey (0.66 m^2) still offer strong development potential for retail real estate.

Crisis-hit countries that are now recovering also offer attractive conditions for expansion-minded retailers (assuming the recovery continues). Examples include Spain, the Netherlands and Italy.

On the whole, changes in population numbers influence the sales area development, because supply typically follows demand.

0.3%

more sales area in the EU-28

But Turkey illustrates that these trends don't always play out synchronously. An increase in Turkey's number of inhabitants (+1.3%) did indeed lead to more sales area (+1.0%). But the ultimate result was a decrease in per-capita sales area (-0.4%), because sales area grew more slowly than the number of inhabitants.

In other countries, declining population numbers counterbalanced sales area reductions and per-capita sales area provision remained stable. For example, sales area in Greece declined by -1.2%, but the per-capita sales area decreased by only -0.6%.

SALES AREA PRODUCTIVITY, 2015

Trend reversal: Sales area productivity climbs again

Sales area productivity (gross turnover per m² of sales area) is an important reference point for evaluating retail location performance. Sales area productivity, along with the strength of the retail concept, is dependent on external location factors such as the purchasing power volume in the catchment area and the intensity of the competition.

2.7%

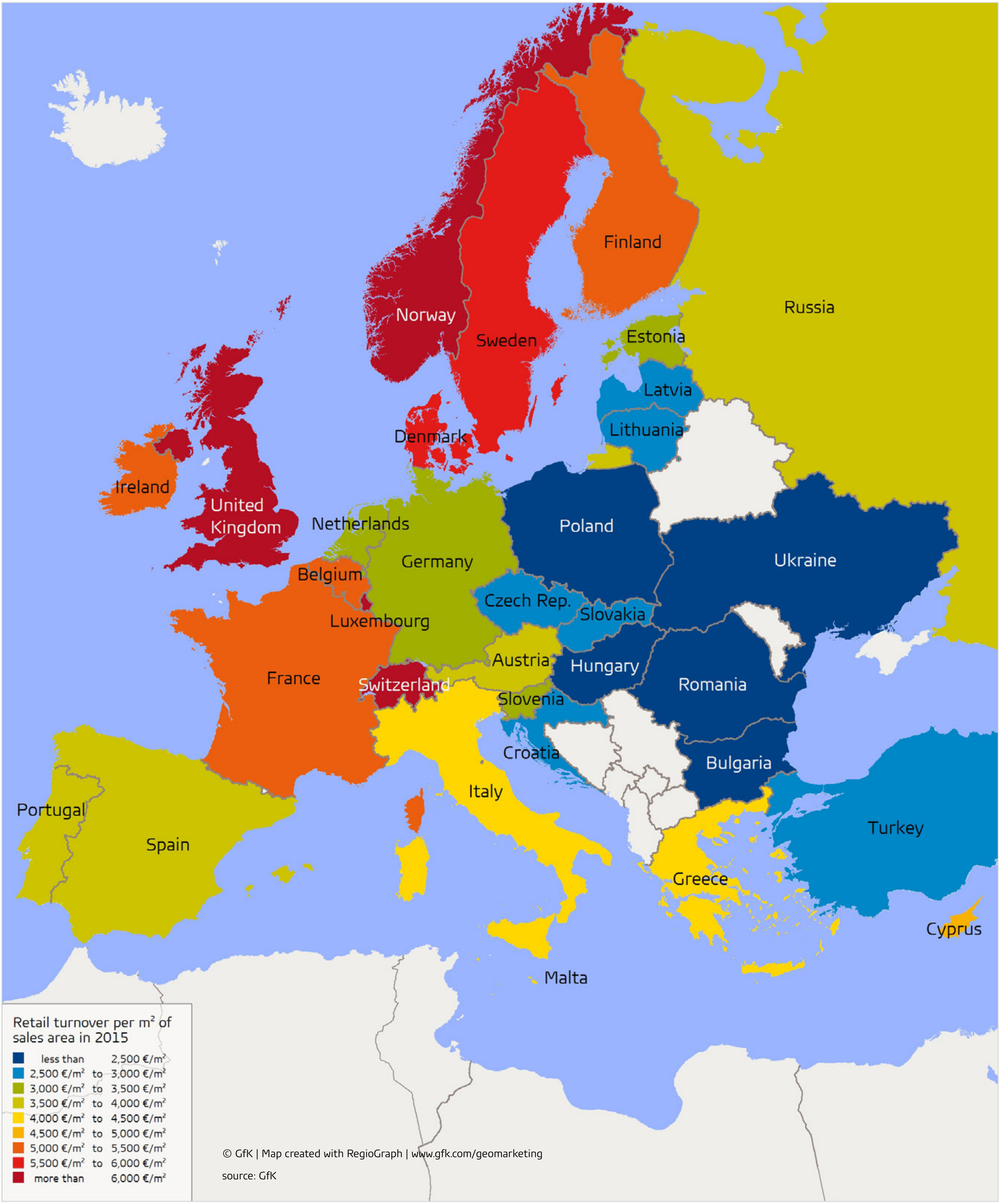
more sales area productivity in the EU-28

Over the past year, sales area productivity in the EU-28 increased by 2.7% to just under €4,200 per m² of sales area. This is good news for stationary retail, which was able to make gains for two years in a row after years of declining performance. The online dynamic slowed in more mature markets, and store retail is gradually adjusting to the new conditions. Unprofitable shops were closed as part of retailers' digitization of their offering and pursuit of omni-channel solutions.

The highest sales area productivity values are traditionally in Northern Europe, Switzerland and Luxembourg, while the lowest are in Eastern and Southeastern Europe. But the latter countries are continually gaining ground.

In an omni-channel market, an analysis of a retailer should not exclusively focus on sales area productivity, but also on all the utilized channels. All sales channels must be taken into consideration to bring the customer journey into focus and reveal the effects of online shops as well as stationary outlets on image and brand.

Sales area productivity, 2015



THE NETHERLANDS IN FOCUS: NEW LIFE AFTER CONSOLIDATION

Retailer interest returns – retail landscape shifts away from the middle

The Netherlands were especially hard hit by the euro crisis. Unemployment rose significantly and peaked at the beginning of 2014. But the economic situation has been improving since 2015. Unemployment fell and the GDP increased by 2.9%. At the end of 2015, Dutch consumers' propensity to spend was at its highest level since 2001.

Retail on the upswing
Turnover in Dutch retail collapsed in 2013 and fell by 3.8% compared to the previous year. But the first signs of recovery (+0.6%) were already apparent in 2014, and the entire market began to revitalize with increased tempo in 2015. Despite multiple location closures and company bankruptcies, store turnover climbed by 1.2%. The time delay between crisis and closure is typical: The difficulties of weakly positioned retailers only become apparent at the stage of insolvency, when all reserves have been exhausted.

Store vacancies in small and mid-sized cities
Most retailers are positioned in the middle offering and price segment. This "unloved" middle must endure attacks from all sides by more clearly positioned concepts. For example, Primark exerts pressure on prices, and Zalando on the range of offering.

1.2%

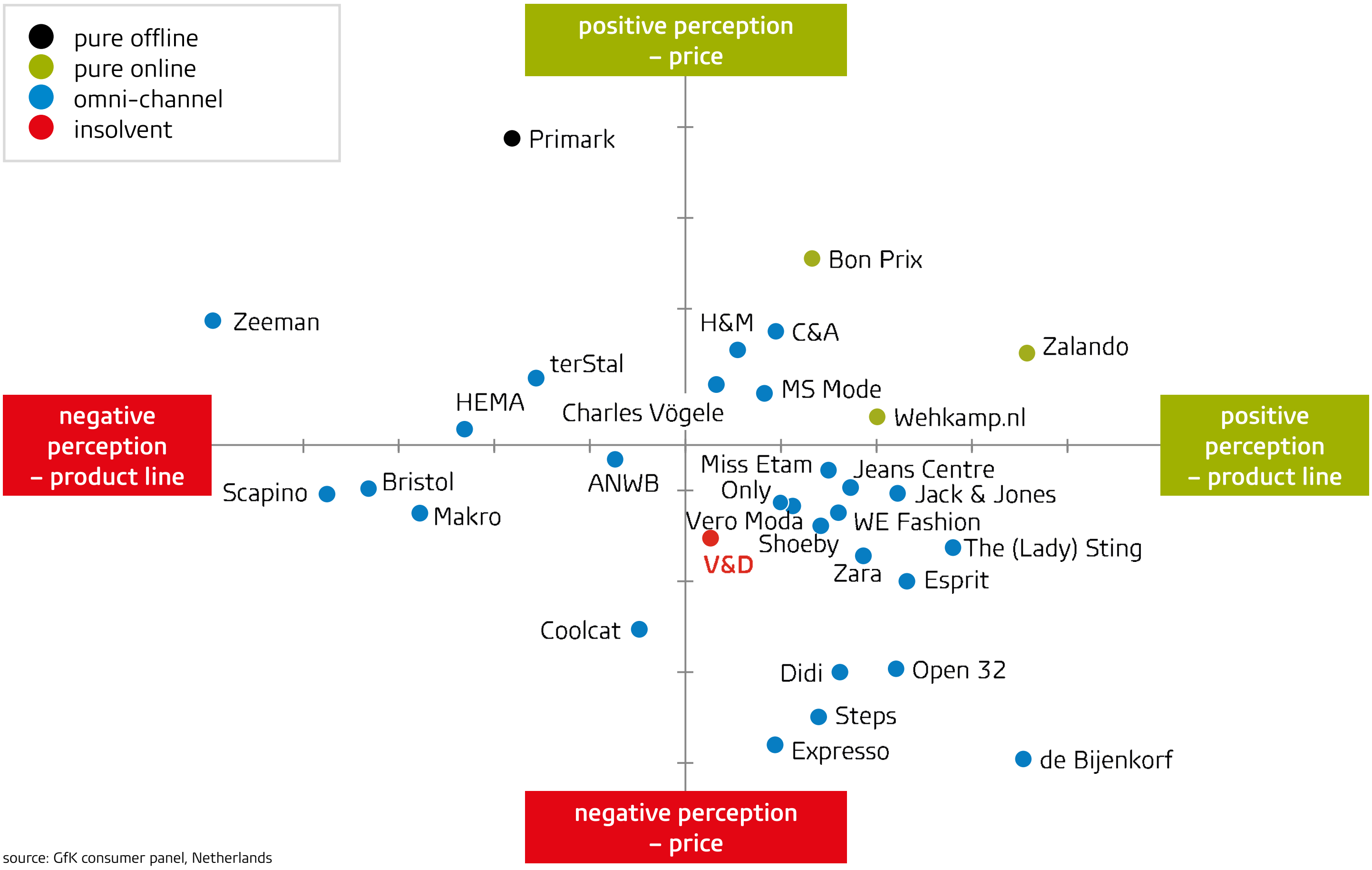
retail growth

The increasing competition and resulting insolvencies have led to many store vacancies, particularly in small and mid-sized cities. In these areas, the significance of local supply retailers is growing. Small-scale grocery stores are also becoming larger. Formats such as Albert Heijn XXL are attempting to appeal to a broader customer base. But up to now there have been only a limited number of hypermarkets in the Dutch market.

Multiple international retailers have entered the Dutch market in recent years, squeezing out domestic retailers. In the fashion segment, global players such as H&M, Inditex and Primark are moving into the vacant retail spaces. However, predominantly large cities such as Amsterdam, Utrecht and Rotterdam are profiting from the expansion of international retailers.

Retailers in search of positioning
The economic crisis has also turned the Dutch into more selective and price-conscious consumers. And the income gap is widening. Retailers in the middle price segment lost price-sensitive customers to discount retailers. At the same time, affluent consumers migrated to the premium and luxury segment, which has grown substantially in recent years. This caused middle-range retailers to be abandoned by their former customer base.

Players in the Dutch fashion market



source: GfK consumer panel, Netherlands

Consequences
Mexx announced insolvency at the end of 2014, and multiple retailers primarily from the mid-priced fashion segment followed suit in 2015 and at the beginning of 2016. Among these retailers are the department store chain Vroom & Dreesmann (V&D) as well as drugstore retailer DA, the Macintosh Group with their shoe sales lines Dolcis, Invito, Manfield and PRO Sport and the shoe and clothing retailer Schoenenreus. It's notable that among these businesses, shoe retailers particularly bore the brunt. The positioning problems became more pronounced when many clothing chains added shoes to their product line.

Market adjustments and repositionings are signals of what is to come: In contrast to the department store chain V&D, De Bijenkorf (after its takeover by Selfridges) was repositioned and now focuses only on a few metropolitan locations with high demand for premium product lines.

To clarify the positioning problem, GfK Netherlands carried out a consumer survey in June 2015 to determine relevant clothing retailers. Consumers were asked how they would categorize the price level of the individual retailers and how much they liked the corresponding product line.

V&D's problems became clear through this survey: The department store chain was unable to distinguish itself in terms of price or product line. As far as consumers are concerned, there is no compelling reason to shop at V&D. A repositioning strategy could focus on offering a particularly high-value or fashionable segment, or on lower prices.

Limited number of large shopping centers
There are only eight shopping centers in the Netherlands with more than 50,000 m² of sales area. One peculiarity is the prevalence of small-scale spaces with comparatively high clothing share in Dutch shopping centers. Many of these small spaces are leased to middle-segment retailers. This poses some risk, because additional bankruptcies in this segment will result in vacancies and loss of rent. Complicating matters further, many shopping centers require refurbishment.

There is definitely expansion potential in the Netherlands. Regions with high potential include Utrecht, Noord- and Zuid-Holland due to the high purchasing power for clothing coupled with comparatively low competitor intensity (low sales area per inhabitant). Due to the low sales area provision, clothing purchasing power is currently most easily converted into turnover in the province of Utrecht. The slightly above-average purchasing power index for clothing also indicates that additional purchasing potential is available.

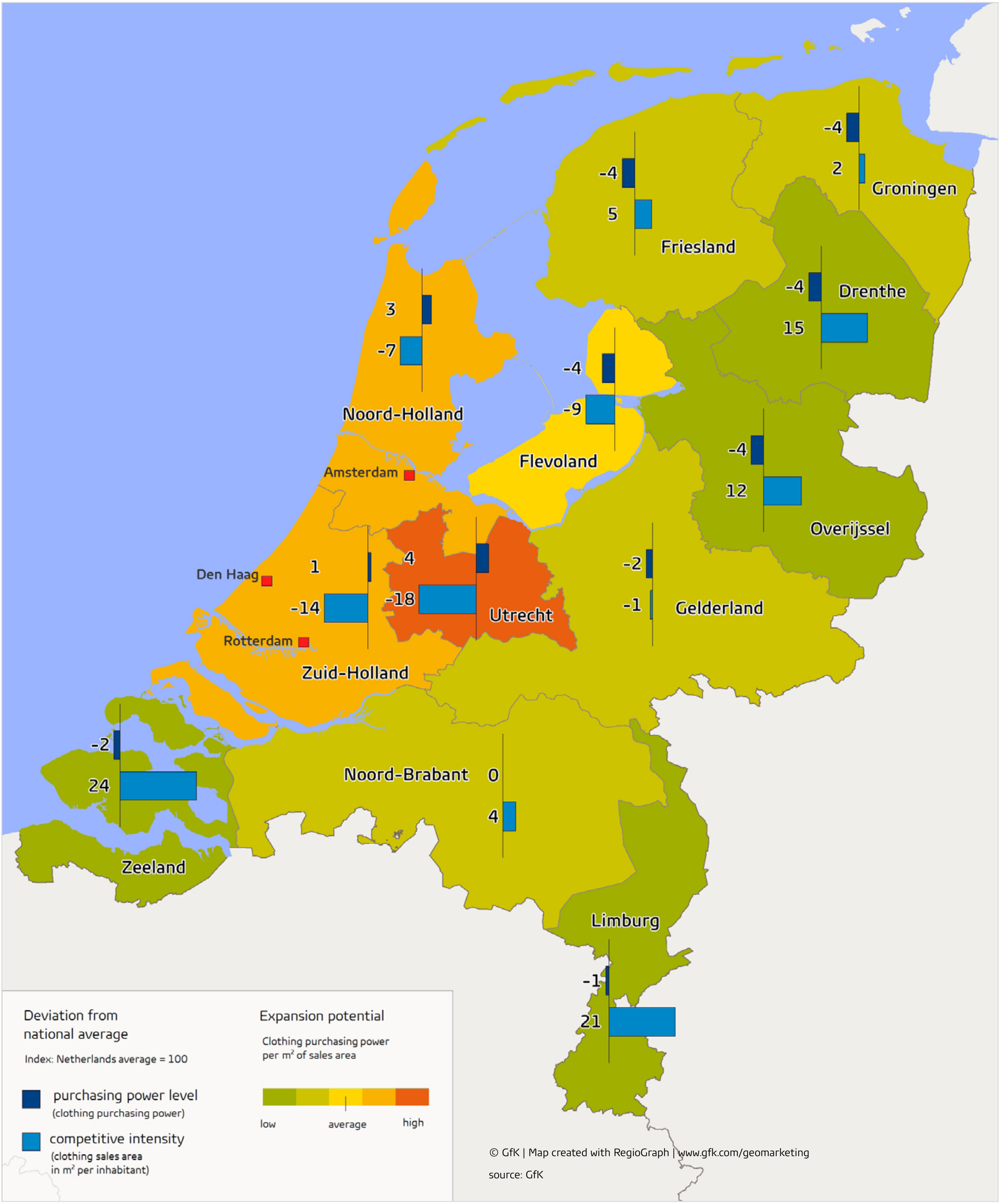
Summary
The Dutch economy has noticeably brightened again, demonstrating a return to growth. Increasing employment, near zero inflation and higher real wages are boosting consumer confidence and mood. The wave of insolvencies in recent months can be interpreted as an inevitable adjustment of a retail landscape in crisis. While conditions remain difficult in some small and mid-sized cities, new potential is expecially emerging in the metropolitan areas of Utrecht, Amsterdam and Rotterdam. Assuming the economy continues to grow, the retail industry can tap this potential.

Selected retailers in the Netherlands

name	format (number of physical stores)	online shops	turnover Netherlands in mil. €
Aldi Holding B.V.	Aldi (497)	–	–
A.S. Watson Group	Kruidvat (869); Trekpleister (144); ICI Paris XL (167); PrijsMepperOutlet (17)	Kruidvat.nl; Trekpleister.nl; Iciparisxl.nl; Prijsmepper.nl	€ 1,897
Blokker Holding B.V.	Blokker (597); MARSKRAMER (205); Intertoys (265); bart smit (189); Xenos (190); other (276)	Blokker.nl; Intertoys.nl; Bartsmit.com; Xenos.nl	€ 1,385
Euretco B.V.	HUBO (154); Libris (107); Sport Point (160), other (2479)	Intersport.nl; Shoprunnersworld.nl	–
GrandVision B.V.	Pearle (311); EYE WISH OPTICIENS (234)	Pearle.nl; Eyewish.nl	€ 222
Ikea B.V.	Ikea (13)	Ikea.com/nl	€ 1,000
Jumbo Group Holding B.V.	Jumbo (499)	Jumbo.com	€ 6,816
Lidl	Lidl (400)	–	–
Macintosh Retail Group N.V.	Scapino (204); Kwantum (98); Dolcis (89); Invito (40); Manfield (69); other (34)	Scapino.nl; Invito.com; Dolcis.nl; Intreza.nl; Manfield.com; Kwantum.nl	€ 551
Royal Ahold	Albert Heijn (969); Etos (539); Gall & Gall (600)	AH.nl; Gall.nl; Bol.com	€ 11,696
Sligro Food Group N.V.	Sligro (47); Emté (130)	–	€ 2,572
Vroom & Dreesmann (V&D)	V&D (63); La Place (123)	Vd.nl; Laplace.nl	€ 599

source: Q&A

Expansion potential for clothing



ABOUT...

ACROSS – The European Retail Real Estate Magazine

ACROSS is the international and independent trade medium for retail real estate in Europe. The magazine covers topics through the entire value chain of modern retail properties. The coverage focuses on interviews and expert opinions. The latest retail and development trends and news about the different markets round out the magazine's content.

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Contact us with any questions:
T + 43 1 533 32 60-80 l office@across-magazine.com
www.across-magazine.com

GfK Retail & Real Estate Consulting

Our retail, real estate and location experts determine the strengths and weaknesses of individual objects and entire portfolios.

We deliver impartial advice about the risks and opportunities associated with retail real estate and the surrounding market environment.

Contact us with any questions:
T +49 40 5701 325 20 l geomarketing@gfk.com

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Responsible for publication:
GfK GeoMarketing GmbH
Werner-von-Siemens-Str. 9
Gebäude 6508
76646 Bruchsal | Germany
T +49 7251 9295 100
F +49 7251 9295 290
www.gfk-geomarketing.com
geomarketing@gfk.com

Managing Directors:
Friedrich Fleischmann
Hans-Peter Klotzbücher

Study lead: Dr. Gerold Doplbauer
Contributors: Dr. Robert Orlowski, Wilfried Reinhardt, Dominique Thiel

Responsible for content:
Cornelia Lichtner, Public Relations

Layout: Nathalie Adlung
Translation: Dr. Christopher Guider

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