ICSC

The Socio-Economic Impact of European Retail Real Estate


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FOREWORD

The European retail real estate industry represents a major sector of the economy and plays a vital role in society. By understanding the full depth and breadth of its contributions to the European economy and society at large, it is hoped that legislation and regulations, be they at the local, national or international levels, serve to promote and enhance our industry and, by extension, European prosperity.

The retail real estate industry in Europe – and indeed across the globe – is in the midst of an exciting transformation, and this report is an update of ICSC's 2015 study highlighting the ongoing success, significance and contribution of European retail destinations.

Technological advancements and evolving consumer tastes and preferences are shaping the next generation of retail real estate offerings. The industry has embraced these changes and adopted innovations to ensure our continued success and our sustained contributions to the socio-economic well-being of the communities we serve.

Bill Kistler

ICSC Executive Vice President and Managing Director | EMEA

EXECUTIVE SUMMARY

The European economy and the individuals who call that region home are incredibly dependent on the health and well-being of the retail real estate industry. First and foremost, the industry is the primary facilitator of retail sales, which drives private consumption which, in turn, drives gross domestic product (GDP). Secondly, the industry is one of the largest employers in the region, accounting for one in eight jobs.

Increasingly, however, the sales and employment generated by retail real estate have become more than just a retail-related impact as retail destinations evolve into community venues offering a wide array of professional services from health care to education to finance. Due to the ubiquitous nature of retail real estate, the industry is often integrated into the bedrock of communities large and small. These centres of commerce act as meeting places for the exchange of not only goods and services, but also ideas, cultures and values. Being free, access to retail real estate is socially inclusive and the entry barriers are low, meaning individuals from all walks of life can come together to shop, dine, socialise, learn, teach, volunteer, be entertained and much, much more.

In short, when the retail real estate industry thrives, so too do the socio-economic conditions in Europe. It is fortunate then, that, by all accounts, the industry is indeed flourishing and is expected to continue to do so for the foreseeable future.

KEY POINTS:

SUPPLY

- The retail real estate market penetrates – and represents an important civic function in – virtually every community in Europe. As a key subsector of European retail real estate, shopping centre gross leasable area (GLA) constitutes over 200 million square metres across 9,546 schemes.
- In the absence of new stock, Europe's existing brick-and-mortar locations are being redeveloped/refurbished and/or extended to ensure there is the right space in the right locations to meet contemporary consumer and retailer needs.

CONSUMER DEMAND/ DEMOGRAPHICS

- Household consumption is a major component of the European Union's (EU) economy, making up 56% of GDP.
- Consumer confidence reached a 16-year high in both the EU and the Eurozone in September 2017.
- By 2025, Millennials are set to overtake Baby Boomers to become the largest demographic group in Europe and, as they move into their prime spending years, will be a significant consumer group and a key driver of demand for retail real estate.
- Despite differences in the way they interact with the physical store, there is a generational consensus that stores play a key role in the consumer journey and, despite being generally viewed as the most technologically savvy, Millennials and Generation Z consumers still prefer the physical store experience.
- European consumers are spending a greater proportion of their discretionary income on recreation and services, and retail real estate owners are responding by diversifying their tenant mix to include a greater proportion of non-retail tenants and property uses, such as food & beverage (F&B) and leisure operators, medical and dental services, fitness and spa amenities and a wide range of educational, cultural and entertainment facilities.
- The amount of shopping centre floorspace dedicated to the foodservice sector has grown exponentially, from 5% a decade ago, to 10-15% now in some European markets and is forecast to reach 20% of total space in some of these markets by 2025. New destination schemes typically have up to 25% allocated to food.

RETAILER DEMAND

- Europe remains a key target for retailer expansion and 81% of retailers believe that online retail growth will not impact physical store expansion in Europe.
- While retailers from EMEA are largely concentrating on their home markets, American retailers are focusing most of their expansion in Europe and also Asia. Europe had the most expansions of any global region in 2016, with 43% of all brands targeting the region.
- Retailers in Europe are generally reported to be in good shape, in part, because many of the weaker ones failed during the last downturn and what survived were the better concepts and those in better financial positions.

THE ROLE OF BRICK-AND-MORTAR

- The growth of e-commerce has changed the role of the store, but has not diminished the relevance and value of maintaining a physical space as the store remains the cornerstone of omni-channel strategies.

- This is further cemented by the acceleration of 'click-and-collect' purchase models, presenting retailers with cross-selling opportunities for other purchases while picking up in-store. In the UK nearly two-fifths – 39% – of customers that collect an online order from a store make an additional purchase, generating on average just over £13 per consumer in additional purchases.

- Brick-and-mortar stores are valuable marketing vehicles and not only generate sales in-store, but also create a halo effect by raising brand awareness and driving incremental traffic online. When a new store opens, traffic to the retailer's website from the surrounding postal area increases by 52% on average within six weeks of opening and then remains around this level.

- Retail real estate is adapting to new opportunities by fostering innovative and experiential concepts and embracing and facilitating online retail, and will also play an increasingly important role in logistics and manufacturing.

- Retail real estate properties offer a critical 'third place' away from home or work to congregate with friends and family in a clean and open environment. Beyond simply providing a place for shopping and entertainment, these community centres also serve as a place for educational, artistic, cultural and humanitarian activities.

SALES AND EMPLOYMENT

- Store-based retailing remains the dominant retail channel, accounting for over 90% of total EU retail turnover in 2016. However, when also considering the online contribution of retailers who have a physical store network, over €2.394 trillion (94%) of EU retail turnover in 2016 is owed all or in part to physical retail real estate, compared with only €111.6 billion (4.4%) in pure-play e-commerce.

- Retail real estate turnover encompasses more than just retail sales. Taking into account a proportion of F&B services turnover, as well as other services and related real estate operations, ICSC estimates that total EU retail real estate turnover reached €2,789 billion in 2016 – 27% (€761.7 billion) of which can be attributed to shopping centres.

- The retail real estate industry directly supports over 27 million jobs in the European Union or one out of every eight people – this number is even higher when considering the multiplier effects from the development and operations of retail real estate.

- The retail sector promotes participation in the labour market by offering accommodating employment terms that are particularly suited to those seeking flexibility, such as students and parents/carers, as well as younger workers and those with lower skills or educational qualifications.

- Sales of goods and services in the EU generated nearly €1.73 trillion in tax revenues in 2016, and the industry creates considerably more revenue when property- and income-tax revenues are included.

CHAPTER 1 – SUPPLY AND DEMAND FUNDAMENTALS

SIZE AND SCOPE OF THE SHOPPING CENTRE INDUSTRY

The retail real estate market penetrates – and represents an important civic function in – virtually every community in Europe.

At the European aggregate, the retail industry's vital signs are strong and retail real estate continues to perform well. On a square-metre basis, retail real estate represents over a quarter of all commercial real estate space in Europe and, while other real estate asset classes are heavily concentrated in principal cities, retail real estate and the services it accommodates are more widely distributed across countries, regional and sub-regional markets.

The vast size and scope of the European shopping centre industry is highlighted in **Table 1**, which reveals that, as at 1st July 2017, there were over 200 million square metres (sq m) of shopping centre gross leasable area (GLA) across the 34 European countries analysed.

Table 1: 2017 European Shopping Centre Count and Gross Leasable Area (GLA) by Centre Type and Size

	Traditional Centres		Retail Parks		Factory Outlets		Total	
Country	Count	Floorspace (GLA sq m)	Count	Floorspace (GLA sq m)	Count	Floorspace (GLA sq m)	Count	Floorspace (GLA sq m)
Austria	166	3,097,190	79	902,640	7	143,500	252	4,143,330
Belgium	67	1,397,853	84	1,377,792	4	62,230	155	2,837,875
Bulgaria	24	722,912	6	113,772	--	--	30	836,684
Croatia	52	1,318,808	6	110,927	2	25,253	60	1,454,988
Cyprus	--	--	--	--	--	--	--	--
Czech Republic	92	1,634,666	116	1,278,717	2	47,600	210	2,960,983
Denmark	104	1,817,192	1	44,000	3	40,500	108	1,901,692
Estonia	48	861,337	--	--	--	--	48	861,337
Finland	108	2,389,064	12	178,983	--	--	120	2,568,047
France	825	18,552,413	404	6,400,624	24	477,081	1,253	25,430,118
Germany	600	14,752,653	177	3,306,614	17	227,500	794	18,286,767
Greece	31	598,125	7	226,180	8	96,850	46	921,155
Hungary	60	1,367,472	52	630,924	2	37,000	114	2,035,396
Ireland	101	1,686,703	89	1,085,440	2	30,302	192	2,802,445
Italy	760	14,243,284	75	1,313,578	25	643,216	860	16,200,078
Latvia	45	623,667	1	46,500	--	--	46	670,167
Lithuania	44	970,107	6	185,650	--	--	50	1,155,757
Luxembourg	13	291,045	8	93,857	--	--	21	384,902
Malta	10	115,231	--	--	--	--	10	115,231
Netherlands	519	6,364,871	5	54,083	4	96,700	528	6,515,654
Poland	425	10,247,819	57	1,036,440	13	228,800	495	11,513,059
Portugal	117	2,892,176	33	407,661	6	238,335	156	3,538,172
Romania	63	2,064,394	31	1,187,019	1	11,000	95	3,262,413
Slovakia	53	936,318	43	482,658	1	15,000	97	1,433,976
Slovenia	41	786,575	1	12,100	--	--	42	798,675
Spain	414	11,269,098	111	2,833,264	27	362,664	552	14,465,026
Sweden	233	4,530,883	30	777,345	--	--	263	5,308,228
United Kingdom	727	17,427,576	757	9,803,894	38	678,473	1,522	27,909,943
EU-28 Total	5,742	122,959,432	2,191	33,890,662	186	3,462,004	8,119	160,312,098
Bosnia and Herzegovina	22	393,070	--	--	--	--	22	393,070
Norway	312	4,915,231	--	--	1	15,000	313	4,930,231
Russia	454	19,092,769	2	103,045	4	101,204	460	19,297,018
Serbia	32	568,980	13	361,644	2	23,500	47	954,124
Switzerland	184	2,733,254	1	9,000	6	79,300	191	2,821,554
Turkey	339	9,924,891	7	183,982	48	1,568,280	394	11,677,153
Greater European Total	7,085	160,587,627	2,214	34,548,333	247	5,249,288	9,546	200,385,248

Source: Cushman & Wakefield (as at 1 July 2017)

European shopping centre stock is led by the mature retail markets of the UK and France, followed closely by the large and fast-growing Russian market, which now has more shopping centre floorspace than Germany (albeit fewer centres in total). In total, this space encompasses 9,546 centres, which includes 7,085 traditional shopping centres, 2,214 retail parks and 247 factory outlets.

Retail real estate encompasses more than just shopping centres.

Although shopping centres, which ICSC defines as 'traditional' centres, retail parks and factory outlets, is a major subsector of retail property, it is important to acknowledge that the retail real estate industry encompasses a myriad of other property types that are not included in the stock analysis presented in **Table 1**. In Europe, in particular, high street retail represents a key sector of the retail real estate industry, with many of the most renowned shopping destinations, such as Oxford Street in London, Via Montenapoleone in Milan and Avenue des Champs Élysées in Paris, being open air, multi-ownership locations.

Other forms of retail property include freestanding solus units, such as individual big box warehouse stores or hypermarkets, as well as the fast-growing travel retail segment, for example at airports and railway stations and on ferries and cruises. Whilst ICSC represents the entire retail real estate industry, currently, there is no available consistent source that monitors the GLA attributed to these additional retail real estate subsectors across Europe.

Europe's existing and ageing stock is being redeveloped, refurbished and/or extended to meet the requirements of cross-channel retailing.

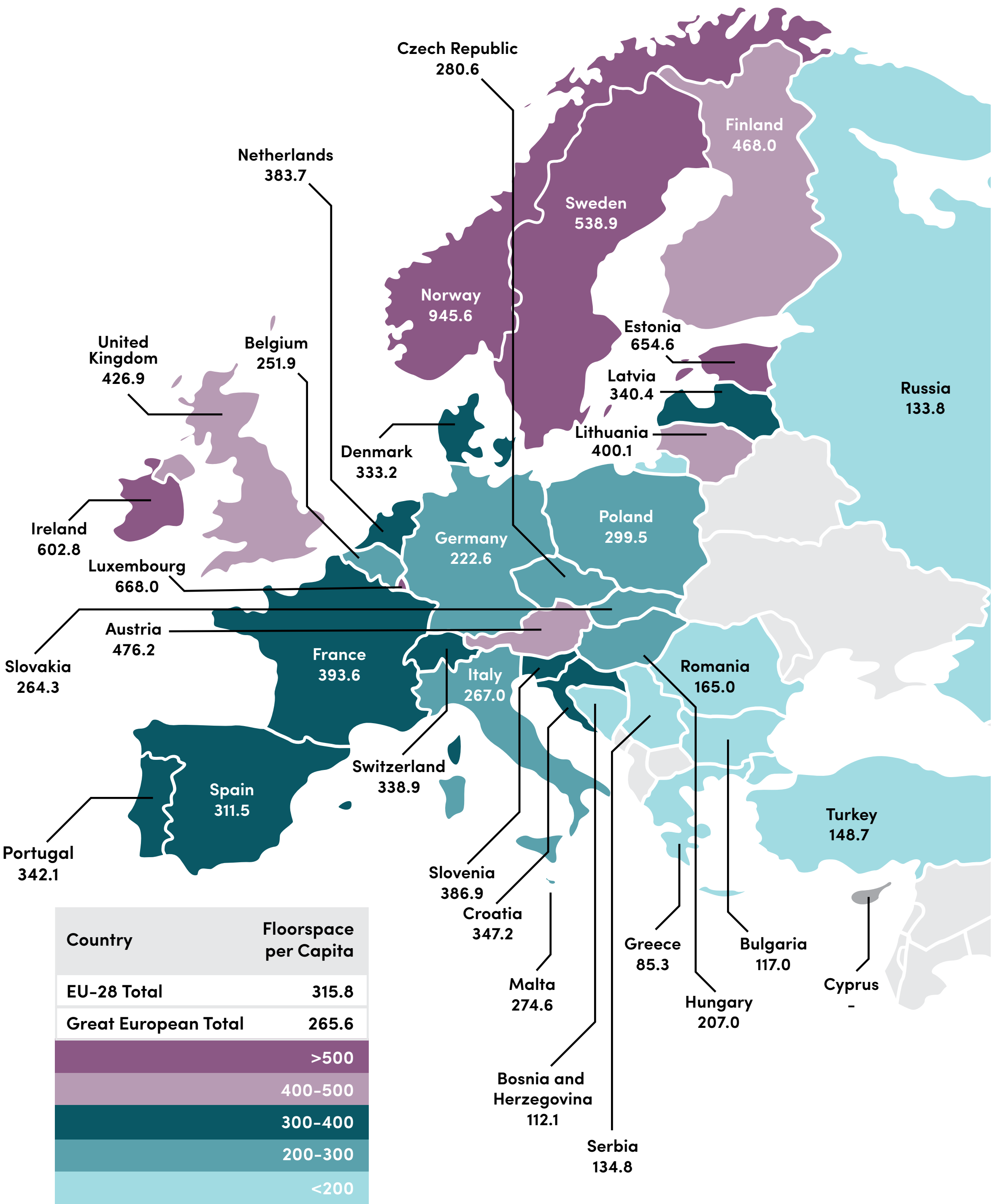
Although overall new development activity has been muted in recent years, retailer demand for space remains high. In its 2017 '*European Shopping Centres – The Development Story*' report, Cushman & Wakefield reports that Western Europe recorded 15% year-on-year growth in new shopping centre completions in 2016, led by France, Italy and Spain, as well as robust activity in the Benelux region with the completion of Docks Bruxsel in October 2016. In Central and Eastern Europe, however, ongoing geopolitical risks and rising shopping centre saturation in many large cities led to a 17% decline in annual shopping centre completions in 2016. Both regions are expected to see a decline in shopping centre completions in 2017-18, with approximately 4.5 million sq m of new shopping centre space expected to be delivered to the European market in 2017 and a further 2.3 million sq m is due to be completed next year.

In the absence of new stock, in the coming years it is expected that there will be a marked shift in focus towards bringing existing brick-and-mortar locations up to date to ensure there is the right space in the right locations to meet contemporary

Image: Oxford Street – London, United Kingdom.
Courtesy of Redevco.

consumer and retailer needs. Cushman & Wakefield highlight London and Edinburgh in the UK as locations with strong potential for future growth, driven mainly by extensions and redevelopments, as well as Cologne and Hamburg in Germany and Lyon, France. In Central and Eastern Europe, the capital cities of the Czech Republic, Romania and Hungary (Prague, Bucharest and Budapest) are considered to offer good development opportunities due to their low shopping centre density (see **Figure 1**) and healthy consumer spending forecasts, and developers are also likely to focus on the fast-growing second-tier cities, such as Krakow and Wroclaw in Poland.

Figure 1: Shopping Centre Density (GLA sq m/1,000 population)



Country	Floorspace per Capita
EU-28 Total	315.8
Great European Total	265.6
	>500
	400-500
	300-400
	200-300
	<200

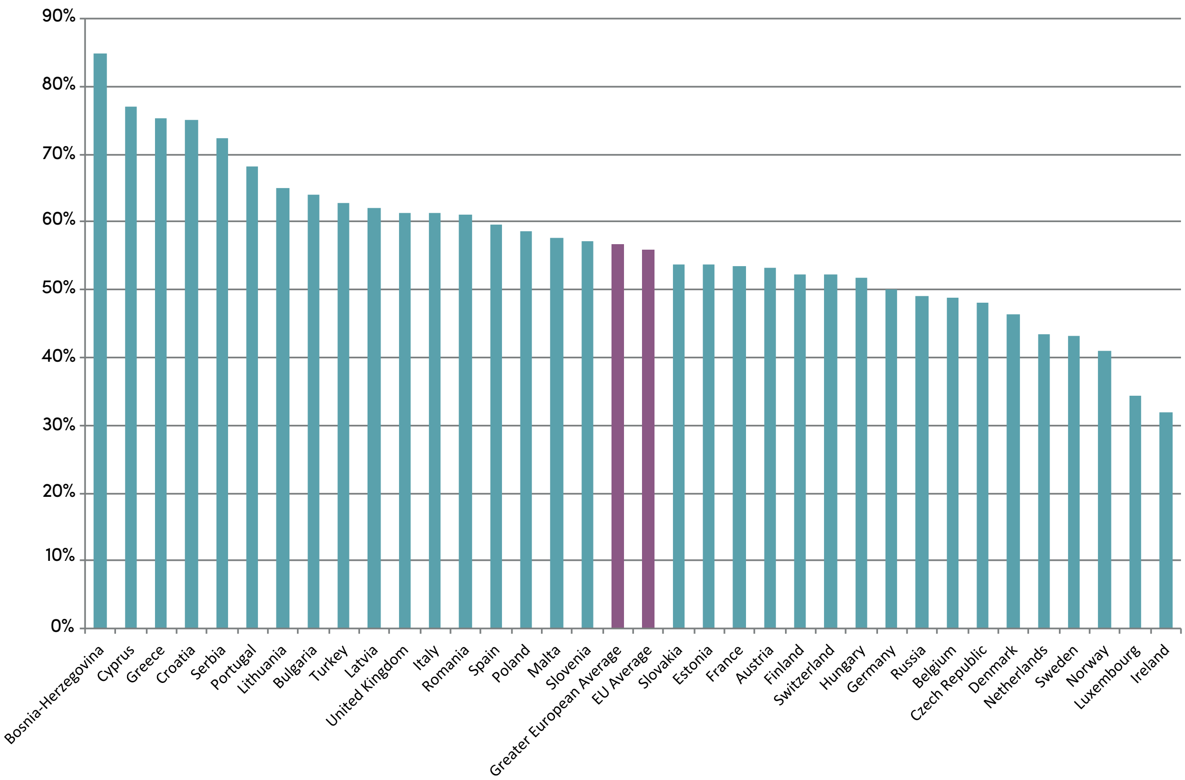
Source: ICSC/Cushman & Wakefield (shopping centre floorspace as at 1 July 2017)/Euromonitor International (2016 population data)

CONSUMER DEMAND

Retail real estate environments are crucial to facilitating and enticing growth, generating efficiencies, and improving productivity by providing retailers with the appropriate infrastructure and a marketplace to engage with their consumers.

As the European economy moves through its fifth year of recovery, which is now reaching all EU Member States, the European Commission expects GDP growth in the EU to remain constant at 1.9% in 2017 and 2018. As is the case with the vast majority of countries, household consumption is a major component of the European economy, with consumer expenditure accounting for 56% of GDP within the EU in 2016 (see **Figure 2**).

Figure 2: Consumer Spending as a Percentage of GDP in 2016

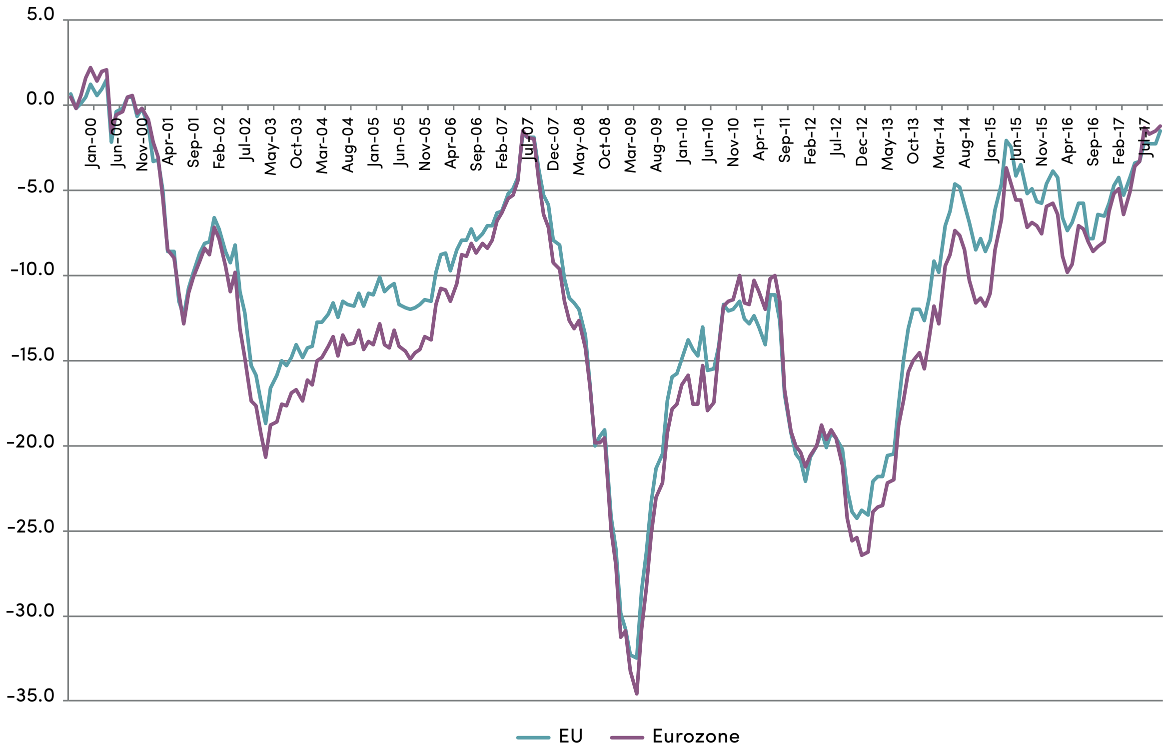


Source: Euromonitor International

Consumer expenditure accounted for 56% of GDP within the EU in 2016.

Although private consumption is set to moderate this year as inflation partly erodes gains in the purchasing power of households, it is expected to pick up again in 2018 as inflation eases. Coupled with a downward trend in EU unemployment, which the European Commission forecasts will fall to 8.0% in 2017 and 7.7% in 2018 (the lowest since late 2008), the outlook for the retail market looks promising, as reflected in consumer confidence, which reached a 16-year high in both the EU and the eurozone in September 2017 (see **Figure 3**).

Figure 3: Consumer Confidence Index

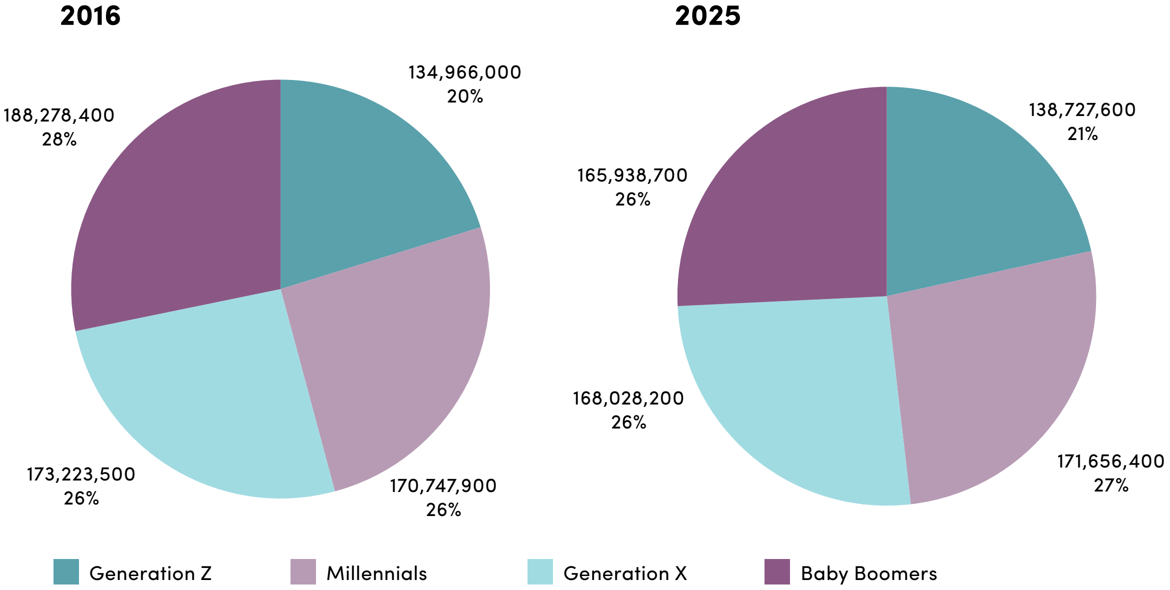


Source: European Commission

Soon to reach their prime spending years, the Millennial generation is a significant consumer group.

Figure 4 shows that, by 2025, Millennials are set to overtake Baby Boomers to become the largest demographic group in Europe. As one of the largest generations in history and soon to reach their prime spending years, the millennial generation, in particular, is a significant consumer group and will be a key driver of demand for retail real estate.

Figure 4: European Population by Generational Cohort in 2016 and 2025



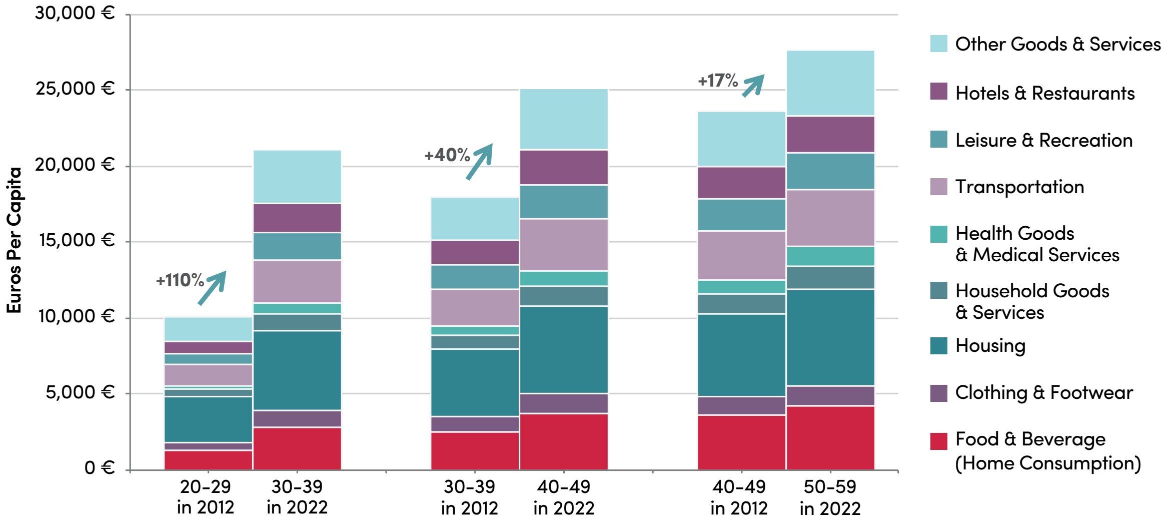
Source: Euromonitor International

Consumers are spending a greater proportion of their discretionary income on recreation and services.

As important as it is to understand the magnitude of consumer spending, it is also helpful to have some understanding of what the money is being spent on – and how that is changing over time. **Figure 5** shows how spending patterns will change for various age groups as they get older. For example, in 2012, European 20-29 year olds were spending approximately €10,047 per person on a variety of goods and services and housing. By 2022, that group of individuals is expected to increase their spending by 110% to €21,053 per person. Spending on two particular categories—health goods and services, and hotels and restaurants—is forecast to see strong growth of 164% and 150%, respectively.

Additionally, by 2022, those individuals will have shifted the proportions of how they spend their money. That is, as they age, this group of Millennials will spend a marginally greater proportion of their discretionary income on things like groceries, leisure and recreation, hotels and restaurants and other goods and services and relatively less on housing (30% to 25%).

Figure 5: European Consumer Spending by Category and Age Group



Note: The data are at current prices. The "other goods & services" category includes spending on communication, education, personal care, jewellery, insurance, financial services, etc. Countries included are the EU-28 (excluding Cyprus, Luxembourg and Malta) and Bosnia-Herzegovina, Macedonia, Norway, Serbia and Switzerland.

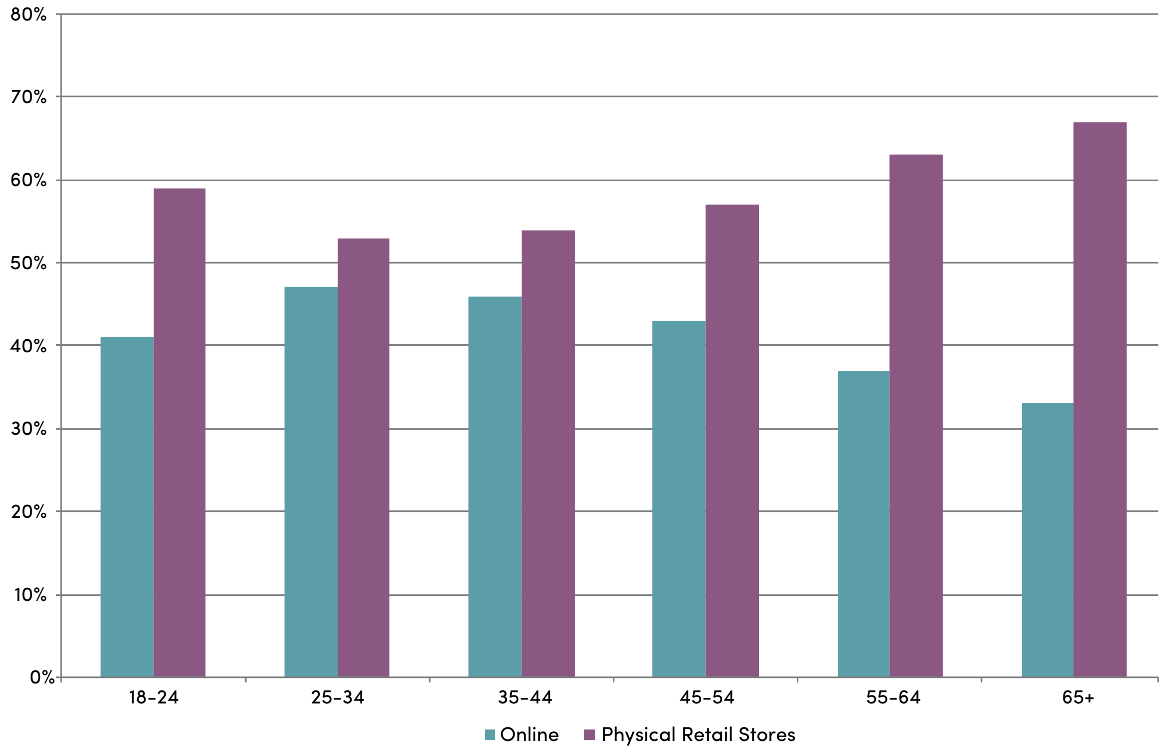
Source: Euromonitor International; ICSC Research

Despite differences in the way they interact with the physical space, there is a generational consensus that stores play a key role in the consumer journey.

Although the Generation Y (also known as 'Millennials') and Generation Z age groups are generally viewed as being the most technologically savvy and thus more likely to look to virtual retail channels during the shopping journey, a 2017 global survey of 6,000 consumers across six countries by Salesforce and SapientRazorfish has revealed that the majority of consumers in these age cohorts still prefer the physical store experience (see **Figure 6**). This preference towards brick-and-mortar is even more pronounced in the more senior age categories – a trend that is growing in importance as a result of increased life expectancy and falling fertility rates leading to an ageing population.

According to the latest estimates from Eurostat, from 2016 to 2080, the share of the EU population of working age is expected to decline steadily through to 2050 before stabilising, while older people will likely account for an increasing share of the total population: those aged 65 years or over will account for 29.1 % of the EU-28's population by 2080, compared with 19.2% in 2016. Furthermore, the share of those aged 80 years or above is projected to more than double between 2016 and 2080, from 5.4% to 12.7%.

Figure 6: Preferred Shopping Channel by Age, 2017



Source: Salesforce/SapientRazorfish

The importance of physical stores to the younger generation is echoed in research carried out by CBRE in 2016 entitled '*Millennials: Myths and Realities*', which found that making purchases in a physical store is still the preferred means of shopping for the millennial generation – a position that they predict is unlikely to change dramatically in the near future as millennials are social animals who like to shop with friends, family, or others. The research goes on to say that instant gratification is highly important to millennials who want the physical experience of seeing, touching, testing and trying out the goods before buying it and taking it with them right away, though often they will have researched a product online beforehand by checking pricing and peer reviews.

According to Euromonitor, the most important forces of global population change are urbanisation, migration and an increasing proportion of elderly people, which are combining to reshape consumer lifestyles and purchasing decisions. The growth of the EU (notwithstanding the UK's imminent departure) and the effects of globalisation will increase the opportunities for cross-border shopping as the barriers to travel, whether physical or virtual, decrease.

RETAILER DEMAND

Europe remains a key target for retailer expansion.

Demand from international retailers continues to be strong and European retail real estate remains a valuable platform for retail growth. In CBRE'S 2017 '*How Active are Retailers in EMEA?*' report, 81% of retailers believe that online retail growth will not impact physical store expansion in Europe. Furthermore, the 2017 edition of CBRE's annual report '*How Global is the Business of Retail?*' continues to identify Europe as a favoured region

81% of retailers believe that online retail growth will not impact physical store expansion in Europe.

for global expansion. Despite political uncertainty, the core markets of Western Europe are the most popular destinations for the expansion of retailers' store networks in 2017, led by the UK, France and Germany.

While retailers from EMEA are largely concentrating on their home markets, American retailers are focusing most of their expansion in Europe and also Asia. Europe had the most expansions of any global region in 2016, with 43% of all brands targeting the region compared with 36% in 2015.

Inditex and H&M continue to expand their portfolio across a variety of different fascias, while Cushman & Wakefield reports that L'Oréal (Urban Decay, NYX), Estée Lauder (Bobbi Brown, Aveda, Smashbox, MAC, Jo Malone, Origins) and VF Corporation (Vans, Lee, Timberland and The North Face) have all been actively expanding, alongside House, Urban Revivo, Reserved, Smiggle, Lovisa, Colette and Typo.

European retail real estate remains resilient to retail headwinds.

Whilst the retail market in the U.S. is under intense media scrutiny with sensationalist headlines referencing a 'retail apocalypse' as a result of a number of retailer administrations, the European retail markets are proving to be more sheltered than its North American counterpart. Although share prices of listed European retail real estate companies have fallen, the decline has not been as dramatic as in the U.S. and values of European centres continue to rise in some markets.

According to analysts, the main reason is that Europe did not experience the same boom in retail development that the U.S. saw in the 30 years leading up to the financial crisis in 2008, with the U.S. having six times as much shopping centre area per capita as Europe. Furthermore, city planners have protected city centre and high street retail from out-of-town competition by limiting supply.

Another important factor is the type of anchor store. Centres in Europe are often anchored by a grocery store, which has maintained footfall to schemes, whereas in the U.S. department store anchors are more prevalent. Department stores such as Macy's, J.C. Penney's and Sears have all announced closures over the past 12 months, which has had a significant impact on secondary malls that are struggling to fill the space.

Retailers in Europe are, according to Green Street Advisors, healthier, in part, because many of the weaker ones failed during the last downturn and what survived were the better concepts and those in better financial positions.

Image: Fischapark - Wiener Neustadt, Austria
Courtesy of SES Spar European Shopping Centers.

CHAPTER 2 – RETAIL REAL ESTATE EVOLUTION

BRICK-AND-MORTAR ON SOLID GROUND

The growth of e-commerce has changed the role of the store, but has not diminished the relevance and value of maintaining a physical presence.

Despite some false media narratives stating otherwise, physical retail is not going away, but digital disruption is transforming most sectors of retail profoundly. Indeed, in an interview in July 2017, David Atkins, CEO, Hammerson remarked: *"All the retailers we speak to and the research we do said that if the last five to ten years have been about investing in online, the next five to ten years will be about investing in-store."*

The store remains the cornerstone of omni-channel strategies for the majority of retailers, which is further cemented by the acceleration of 'click-and-collect' purchase models, offering consumers greater autonomy and flexibility than home delivery, whilst also presenting retailers with greater cross-selling opportunities for other purchases while picking up in-store. In the U.K., the research firm Verdict Retail (now known as GlobalData) forecasts that click-and-collect expenditures will grow 64% from 2016 to 2021 compared with online growth of 38% in the same period.

While expenditures are anticipated to grow in every category, apparel and footwear are expected to drive most of this increase with predicted growth of 85% over the five-year period. This is underlined by UK fashion retailer Next's chief executive Lord Wolfson who in September 2017 commented: "*Our shops are an important part of our online service to the increasing number of customers who collect and return their orders through our stores.*" More than 50% of online orders and 80% of returns are currently fulfilled through Next's store network.

Nearly two-fifths – 39% – of customers that collect an online order from a store make an additional purchase, generating on average just over £13 per consumer in additional purchases.

One of the key advantages to retailers is that click-and-collect seems to be helping to bolster in-store expenditure, with Verdict Retail reporting that nearly two-fifths – 39% – of customers that collect an online order from a store make an additional purchase, generating on average just over £13 per consumer in additional purchases. The equivalent figure in 2013 was just 29%.

Brick-and-mortar stores also represent a key opportunity for customer engagement and building a brand image as the role of the store changes from driving sales in-store to engaging the customer and driving revenue across all channels.

The renowned Canadian retail industry futurist, Doug Stephens, asserts that, in the future, physical stores will act as "*living, breathing physical portals into brand and product experiences. They will become places we go to learn, be inspired, see and try new things, experiment and co-create. Beyond mere consumption, we'll go to these spaces for entertainment, education, connection and community.*"

He believes the retail industry should "*stop thinking 'stores' and start thinking stories. Stop thinking 'product' and start thinking productions.*" And it seems that this message is already being heeded by Westfield, who in 2016 hired a "creative head of global entertainment" — well-regarded Broadway producer Scott Sanders — to integrate compelling new content, live events, entertainment and innovative consumer experiences into Westfield's portfolio.

Brick-and-mortar stores are valuable marketing vehicles and not only generate sales in-store, but also create a halo effect by raising brand awareness and driving incremental traffic online, which also accelerates e-commerce sales. Indeed, research released in August 2017 by UK developer British Land shows that when a new store opens, traffic to the retailer's website from the surrounding postal area increases by 52% on average within six weeks of opening and then remains around this level, demonstrating that "*a physical store has a significant, positive and sustained impact on digital interaction with the brand*". This trend is shown to be particularly pertinent for brands with fewer than 30 stores, which saw uplifts in local traffic to their websites of 84% on average, showing that a physical store can make a critical contribution to the online success of expanding brands.

When a new store opens, traffic to the retailer's website from the surrounding postal area increases by 52% on average within six weeks of opening and then remains around this level.

ADAPTING TO NEW OPPORTUNITIES

Retail real estate fosters innovative retail and experiential concepts.

As the retail real estate industry evolves, existing retailers are expanding their brands by incubating new concepts, often through the use of a limited release of "pop ups" in targeted markets. These one-off stores allow retailers to test unique merchandise and innovative store design before rolling out to other primary or secondary markets.

This strategy could be utilised by a new retailer, restaurant or service provider, or they could be used by an existing operator who, until then, had only offered their goods and services online. In recent years, the industry has witnessed a large number of previously Internet-only retailers opening physical locations to increase awareness and better showcase their brand and forge closer customer relations.

One of the latest, and largest, online stalwarts to build a physical presence is Amazon. Whilst the company's brick-and-mortar expansion has thus far been concentrated in the U.S., its acquisition of Whole Foods Market means it will have nine UK stores, giving them an opportunity to expand the cashier-less Amazon Go store that it has already trialled in Seattle in the U.S. Tellingly, the company has already trademarked the phrase 'Amazon Go' in the UK in December 2016.

Following in the footsteps of Millennial favourite fashion retailer Missguided, which opened its first physical store at Westfield Stratford, London, UK in November 2016 and at Bluewater shopping centre, Kent, UK in June this year, one of Europe's leading online retailers, German fashion retailer Zalando, is reportedly considering opening flagship stores in a number of major European cities, including London, Paris and Berlin. "*We have proper fans in the metropolises who spend much time with us and order a lot. It could be interesting for them to also experience the brand offline,*" said Rubin Ritter, co-chief executive and member of the board at Zalando to German publication Manager Magazin in April 2017. Although the idea is still in early stages, it would not be the first physical stores Zalando would open, as it currently operates a number of outlets in Berlin, Frankfurt and Cologne.

Consumers are increasingly seeking original and compelling experiences. According to new research from AXA Investment Managers, it is not only retailers who are embracing new technology to enhance the customer experience as shopping centres are becoming technology providers for retailers, with partnerships between shopping centre operators, retailers and social media or virtual game developers (such as Pokémon Go), involving digital platforms in

Image: Forum Lviv - Lviv, Ukraine. Courtesy of Multi Ukraine.

The amount of space dedicated to the foodservice sector has grown exponentially, from 5% a decade ago, to 10-15% now in some European markets and is forecast to reach 20% of total space in some of these markets by 2025.

their premises. The research goes on to say that "the importance of technology could create a need for shopping centre certifications related to technology, as is already the case for offices, such as the WiredScore certification."

Shopping centres are diversifying their tenant mix to serve consumers beyond retail consumption.

As shopping centres seek to broaden their appeal as a consumer destination and not just a shopping location, the tenant mix of schemes has expanded to include a greater proportion of consumer services and non-retail tenants to enhance the visitor experience and drive dwell time. The new occupiers include F&B and leisure operators, medical and dental services, fitness and spa amenities and a wide range of educational, cultural and entertainment facilities.

A recent report from Colliers International finds that, on average, consumers in the UK spend £1 in every £5 on leisure. This is predominantly on eating out, which represents 42% of all consumer spending on leisure pursuits in the UK. Accordingly, the amount of space dedicated to the foodservice sector has grown exponentially, from 5% a decade ago, to 10-15% now in some European markets and is forecast to reach 20% of total space in some of these markets by 2025. New destination schemes typically have up to 25% allocated to food, according to ICSC's '*The Successful Integration of Food & Beverage Within Retail Real Estate*'.

With regard to leisure operators, in its '*Megatrends in European Leisure*' report, Savills predicts that multiplex cinemas will continue to expand across Europe, with the strongest growth in cinema attendance in Central and Eastern Europe with more multi-screen cinemas opening and international films appealing to the young, multi-lingual cinema-goers. Consumers will be asking more of the cinematic experience, either through multisensory connections with the film, in-seat dining, or massage chairs, each designed to improve the quality and efficiency of the time spent.

According to Cushman & Wakefield, in the UK alone, there are 144 cinema developments in the pipeline for the next five years, equating to 3.6 million sq ft of new cinema space. If all new developments currently being considered are built, this will deliver a 30% increase in the number of 'commercial' cinemas in the UK – the largest growth rate ever seen. The large majority of new cinemas are in town/city centre locations as landlords seek to re-anchor their shopping centres by making a new cinema the very heart of their scheme. At the same time, increasing numbers of film-goers are reportedly rejecting travelling longer distances out of town and want to make a visit to the cinema part of a wider experience, such as going to restaurants and bars, or heading to the cinema straight after work.

Image: Polygone Riviera - Cagnes sur Mer, France.
Courtesy of Unibail-Rodamco, Socri Promotions and Socri Reim.

Image: Market Place -Bolton, United Kingdom.
Courtesy of Inception Holdings Sarl.

High participation rates and new formats are also projected for the health and fitness sector, with Savills predicting that trampoline parks and climbing centres will merge with concepts such as crossfit and vertical fitness. The report goes on to say that EuropeActive, formerly the European Health and Fitness Association (EHFA), anticipates that by 2025 there will be 80 million members of health & fitness centres across the region. Shopping centres are well placed to take advantage of this growing trend by offering leisure space in central locations to accommodate the demands of the busy consumer.

Case Study: intu Lakeside, Essex, UK

intu Trafford Centre in Manchester already plays host to a Legoland Discovery Centre and Sea Life aquarium and now at intu Lakeside, Essex, the developer has announced plans to introduce Nickelodeon's first UK shopping centre attraction.

Launched in partnership with Spanish leisure park operator Parques Reunidos to create a 50,000 sq ft indoor activity centre, it is poised to open in 2018. The Nickelodeon-themed indoor family entertainment centre will form part of intu Lakeside's 225,000 sq ft leisure extension, which will also be anchored by a 34,000 sq ft Hollywood Bowl. It will be highly interactive, featuring adventure zones, attractions and Nickelodeon-themed rooms designed for birthday parties, in addition to a dedicated F&B area and retail space. The area will also play host to character meet-and-greet sessions, featuring some of Nickelodeon's most famous children's TV characters, including SpongeBob SquarePants and the Teenage Mutant Ninja Turtles.

Beyond simply enhancing the tenant mix, a number of retail real estate developers are taking it one step further to create fully mixed-use properties. These projects often include one or more of the following elements: office, hospitality, residential and common space.

Case Study: Aspern Seestadt, Vienna, Austria

On the northeast side of Vienna, the 240 hectare Aspern Seestadt (Lake City) project will redevelop an abandoned airport into a new multi-functional urban quarter with retail, high quality flats and 'generously sized' spaces for offices, production companies and service providers, science, research and schools. Construction is underway, with about 6,000 people living in what is now designated as the 22nd District of Vienna…an entirely new district. By 2030, Aspern Seestadt is projected to have 8,500 residential units, with 20,000 inhabitants living around an artificial lake and is the largest residential construction project on the European continent. The district will be a 25-minute subway ride away from downtown Vienna (with its own new line) and a 28-minute train trip to the Slovakian capital of Bratislava.

In a joint venture with the City of Vienna, SES Spar European Shopping Centers was commissioned to develop a local supply concept and implement the first managed shopping street in Austria in the new Aspern district. The first 13 local supply shops opened in 2015 and the second phase, the Seeparkquartier (Lake Park Quarter) is already underway, to be completed in stages from 2017 to 2019.

Case Study: Coeur de Ville, Issy-les-Moulineaux, France

Altarea Cogedim, in partnership with the architectural firm Valode & Pistre, is developing a 100,000 sq m mixed-use project in Issy-les-Moulineaux. The Issy Cœur de Ville property complex will develop a new urban hub designed around an urban parkland of 13,000 sq m, a 15,000 sq m new-generation retail offering, a digital creation centre, 40,000 sq m of housing and 40,000 sq m of offices and public amenities including a school and an infant daycare centre. This exemplary new eco-district fully exploits digital technology to promote social interaction and harmonious community living.

Shopping centres will play an increasingly important role in logistics and manufacturing.

In a recent article discussing the shopping centre of the future, Alexander Otto, CEO of ECE Projektmanangement GmbH, stated that he believes that by 2025, shopping centres will be a platform with a dual purpose – as a shopping and leisure destination for consumers, and logistics centre-and manufacturing facility.

As Mr Otto explains, shopping centres, as large storage facilities, have a considerable advantage over 'classic' online retailers in that a considerable proportion of the population can be reached within 30 minutes, thus making the 'last mile' of the delivery chain to the customer's home significantly shorter and allowing for faster delivery times.

In the future, technological innovation will allow retailers to customise and manufacture goods in shopping centres by way of body scanners and 3D printers, adding a new dimension to traditional retailing.

Rather than being disruptors, advances in technology will increasingly enable retailers in shopping centres to enhance customer service, whether it be robots delivering shopping to customers' cars, automatic cashless payments or tailored offers sent to a visitor's smartphone. In the future, technological innovation will allow retailers to customise and manufacture goods in shopping centres by way of body scanners and 3D printers, adding a new dimension to traditional retailing.

Image: Alstertal-Einkaufszentrum -Hamburg, Germany. Courtesy of ECE Projektmanagement

Shopping centres are embracing and facilitating online retail.

The rise of e-commerce is undoubtedly having a dramatic effect on consumer behaviour; however, it is arguably not the most disruptive factor in retail. What's far more transformative is that an increasing number of customer journeys for transactions that ultimately occur in a brick-and-mortar location start in a digital channel – and increasingly that means on a mobile device.

This 'digital-first' retail approach is being acknowledged and embraced by shopping centre landlords who recognise that customers no longer differentiate between online and offline retail and that in order to succeed they must facilitate both the physical and digital connection with consumers. An example is ECE, which since 2016 has been testing the 'Digital Mall' at Alstertal-Einkaufszentrum in Hamburg – a digital version of the shopping centre that lists the products on sale, shows their availability and lets customers reserve them. Not all retailers in the centre can take part in the trial phase but 100,000 products are already available online, aiming to present the centre's entire product range online in the future.

CHAPTER 3 – RETAIL REAL ESTATE TURNOVER

TOTAL RETAIL SPENDING REMAINS STRONG

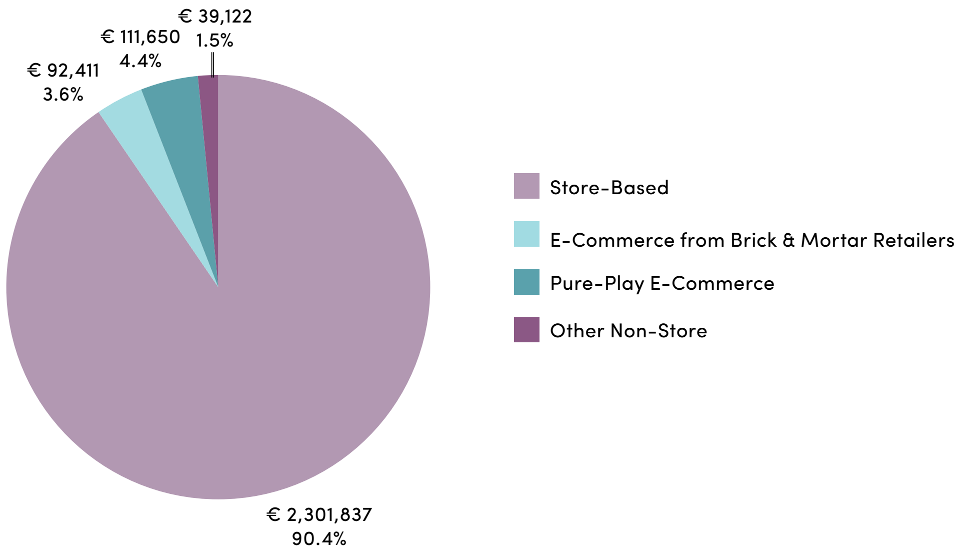
Despite a turbulent decade with many seismic economic and political shocks and ongoing post-Brexit uncertainty, there is no doubt that the European retail market remains an economic powerhouse, registering strong non-auto sales of over €2.544 trillion in 2016 – representing annual growth of 2.1%.

Store-based retailing remains the dominant sales channel.

Non-store sales continue to increase as a proportion of total retail sales and are growing at a rate that far exceeds that of store-based sales; however, whilst growth rates are important, it is helpful to keep the overall levels in perspective and to be cautious when comparing growth rates, as non-store sales are calculated from a much smaller base. By euro volume, a small increase in store-based sales will dwarf a large increase in non-store sales.

What is most important to acknowledge is that, despite high levels of growth in Internet retailing, store-based retail remains the dominant channel for retail sales, accounting for over 90% of total retail turnover in the European Union in 2016, compared with 8% attributed to e-commerce (see **Figure 7**). Furthermore, although Internet retailing continues to achieve double digit annual rates of growth, the pace of growth has consistently slowed, currently standing at 12.4% y-o-y.

Figure 7: Total EU-28 Retail Sales by Channel in 2016 (€ million)



Source: Euromonitor International

Turnover contribution of bricks-and-mortar goes beyond in-store sales.

What is clear, therefore, is that in order to fully understand the value of physical stores, we must also consider the online contribution of retailers who have a physical store network. By challenging the top level e-commerce data and extracting the sales that are generated by brick-and-mortar retailers via their online channels, Euromonitor data reveals that 45% of all EU Internet retail sales in 2016 were attributed to non-pure play retailers, equating to €92.4 billion. When added to the sales that take place in-store, this means that over €2.394 trillion of retail turnover in 2016 is owed all or in part to physical retail real estate compared with only €111.6 billion in pure play e-commerce sales.

Crucially, despite year-on-year growth of 14.7%, pure play sales accounted for only 4.4% of total retail sales in the EU-28 in 2016, whereas 94% of EU retail sales were carried out either in-store or online via a brick-and-mortar retailer.

Going forward, as physical retailers continue to invest in developing their omni-channel strategies, they will be a leading driver of e-commerce sales. As such, far from being a weakness, rising e-commerce sales testify to the strength of retail real estate and the enduring value of the store as an integral part of the consumer experience.

This was analysed in more detail on a national basis in the UK by Verdict Retail (now GlobalData) and British Land in a study published in July 2016. A 2015 survey of 30,000 shoppers in the UK, one of the most developed online markets in the world, found that 89% of all UK retail sales by value touched a store. The research estimated that click-and-collect and store browsing boost physical sales by 5%, rising to 9% when excluding food and grocery, and that, excluding food and grocery, store operators account for two-thirds of all online sales, and over half of these touch a store.

Retail real estate turnover encompasses more than just retail sales.

As discussed in Chapter 2, non-retail tenants are increasingly making up a greater share of retail real estate and, therefore, for a more complete picture of shopping centre and retail real estate turnover it is necessary to include the sales from F&B services (which currently makes up 10%-15% of shopping centre floorspace), as well as turnover from other services such as cinemas and the renting and leasing of personal and household goods. Furthermore, ICSC's calculations include a proportion of turnover from related operations, such as real estate activities, security and landscaping.

ICSC estimates that in 2016 total shopping centre-inclined sales in the EU were €761.7 billion, representing 27% of total retail real estate turnover, which is estimated at over €2,789 billion.

ICSC estimates that in 2016 total shopping centre-inclined sales in the EU were €761.7 billion, representing 27% of total retail real estate turnover, which is estimated at over €2,789 billion (see **Table 2**).

Table 2: European Shopping Centre-Inclined Turnover and Total Retail Real Estate Turnover in 2016 (€ billions)

	Shopping Centre Retail Turnover	Non-Pure-Play Online Turnover	Shopping Centre F&B Turnover	Other Services and Operations Turnover*	Total Shopping Centre-Inclined Turnover	Total Retail Real Estate F&B Turnover	All Store-Based Retail Turnover	Total Retail Real Estate Turnover
Austria	8.9	1.5	1.7	0.9	13.1	8.7	55.6	66.7
Belgium	11.8	3.6	2.1	1.0	18.5	10.5	67.5	82.6
Bulgaria	0.7	0.1	0.2	0.1	1.1	1.1	10.4	11.8
Croatia	1.4	0.1	0.4	0.1	1.9	1.9	11.5	13.5
Cyprus**	0.3	0.1	0.2	0.0	0.6	1.0	3.2	4.2
Czech Republic	6.9	0.4	0.6	0.3	8.3	3.1	26.1	30.0
Denmark	7.1	3.2	0.9	0.8	12.0	4.4	33.3	41.7
Estonia	0.5	0.1	0.1	0.1	0.8	0.5	4.0	4.7
Finland	10.9	2.5	0.8	0.4	14.5	4.0	31.9	38.8
France	125.8	20.4	10.7	6.3	163.2	53.6	391.1	471.4
Germany	77.3	11.2	9.3	6.6	104.4	46.5	416.2	480.5
Greece	1.8	0.5	1.1	0.2	3.5	5.5	33.2	39.3
Hungary	4.1	0.6	0.4	0.4	5.5	2.2	23.5	26.6
Ireland	7.5	1.9	1.2	0.3	10.8	5.8	28.2	36.2
Italy	43.8	3.5	9.5	2.1	58.9	47.4	273.1	326.1
Latvia	0.6	0.1	0.1	0.1	0.9	0.5	4.9	5.6
Lithuania	0.9	0.1	0.1	0.1	1.2	0.6	6.6	7.4
Luxembourg**	2.2	0.2	0.2	0.1	2.6	1.0	6.5	7.8
Malta**	0.3	0.0	0.1	0.1	0.5	0.3	1.1	1.5
Netherlands	17.5	4.1	2.8	1.8	26.2	14.1	85.7	105.7
Poland	30.2	1.2	1.0	0.9	33.2	4.9	79.2	86.2
Portugal	7.5	1.0	1.2	0.3	10.0	6.1	40.3	47.7
Romania	2.5	0.3	0.5	0.2	3.5	2.4	29.7	32.6
Slovakia	5.3	0.1	0.2	0.2	5.9	1.2	13.3	14.8
Slovenia	1.1	0.1	0.2	0.1	1.4	1.0	6.4	7.5
Spain	52.7	3.4	7.6	2.1	65.7	37.9	187.8	231.1
Sweden	21.8	2.4	2.7	1.5	28.4	13.4	62.0	79.3
United Kingdom	110.4	29.2	16.0	9.5	165.1	80.0	369.4	488.1
European Union (28 countries)	561.9	92.0	71.9	35.9	761.7	359.4	2,301.8	2,789.2

Source: ICSC Research/Eurostat/Euromonitor International

*Other services and operations includes cinemas, real estate activities, renting & leasing of personal and household goods, private security activities and services to buildings and landscape activities.

**Non-pure-play online sales for Cyprus, Luxembourg and Malta have been estimated using the regional average.

The retail real estate industry is responsible for approximately 12.4% of all EU employment or 1 out of every 8 jobs.

CHAPTER 4 – RETAIL REAL ESTATE EMPLOYMENT

DIRECT EMPLOYMENT

Virtually every community across Europe has access to a retail centre and thus, virtually every community across Europe employs some number of retail real estate-related employees.

Based on the most recent data available from Eurostat, retail trade (except autos) accounts for 8.7% of total employment (ages 15-64) in the EU or 19 million jobs. Of that figure, ICSC estimates that approximately 4.2 million (22.4%) of retail employees are located within shopping centres. However, a more complete account of the industry's direct impact should include elements of the service sector, which is an increasingly important component of the tenant mix within shopping centres. Other direct employment contributions include those pertaining to the development and operation of shopping centres[1].

ICSC has, therefore, estimated a wider direct employment figure for shopping centres of 6.1 million and for total retail real estate of 27 million. This means that the retail real estate industry is responsible for approximately 12.4% of all EU employment or 1 out of every 8 jobs. Those figures on a country-by-country basis are shown in Table 3.

[1]The development jobs refer to those on both the pre-construction phase and the construction phase. Occupations in the pre-construction phase include architects, engineers, lawyers and finance professionals. Occupations in the construction phase include those from site development to tenant fit-out. Operations jobs include individuals in the maintenance, utilities, technology and property management professions.

Table 3: European Shopping Centre-Related Direct Employment and Total Retail Real Estate Direct Employment in 2016

	Shopping Centre Retail Employment	Shopping Centre F&B Employment	Other Services and Operations Employment*	Total Shopping Centre-Related Employment	Total Retail Employment	Total F&B Employment	Total Retail Real Estate Employment
Austria	73,853	35,642	6,161	115,655	373,150	178,209	557,520
Belgium	50,988	28,836	7,132	86,956	344,837	144,181	496,150
Bulgaria	43,102	17,932	3,577	64,612	293,769	89,661	387,008
Croatia	28,035	12,993	1,621	42,649	133,156	64,966	199,743
Cyprus	7,536	4,097	257	11,891	33,831	20,486	54,575
Czech Republic	61,006	23,154	5,159	89,319	345,284	115,769	466,212
Denmark	56,712	9,916	3,372	70,000	177,682	49,578	230,632
Estonia	5,629	3,282	1,075	9,986	51,156	16,408	68,639
Finland	50,827	10,009	3,210	64,046	161,991	50,044	215,245
France	523,297	142,647	47,353	713,298	1,920,378	713,237	2,680,969
Germany	733,175	278,160	69,533	1,080,867	3,758,046	1,390,798	5,218,376
Greece	1,867	50,179	5,056	57,102	423,702	250,896	679,654
Hungary	115,568	18,198	5,167	138,933	320,143	90,991	416,301
Ireland	48,863	21,364	4,053	74,280	217,455	106,822	328,329
Italy	322,580	191,359	25,105	539,045	1,800,241	956,797	2,782,143
Latvia	13,286	5,427	1,570	20,282	97,244	27,133	125,947
Lithuania	23,626	6,403	1,967	31,996	140,685	32,015	174,667
Luxembourg	620	2,680	1,014	4,315	25,929	13,400	40,342
Malta	209	1,555	388	2,152	17,721	7,774	25,884
Netherlands	228,639	62,867	14,555	306,061	840,087	314,333	1,168,976
Poland	378,565	31,224	13,130	422,919	1,233,540	156,122	1,402,791
Portugal	92,803	40,852	5,302	138,956	417,402	204,258	626,962
Romania	44,213	22,524	7,793	74,530	471,961	112,621	592,375
Slovakia	25,111	8,765	2,560	36,435	176,402	43,824	222,786
Slovenia	11,376	4,596	909	16,882	56,280	22,981	80,171
Spain	326,373	177,184	29,377	532,934	1,639,918	885,920	2,555,215
Sweden	110,676	41,902	7,081	159,660	319,255	209,512	535,848
United Kingdom	877,125	297,329	61,561	1,236,014	3,218,243	1,486,645	4,766,449
European Union (28 countries)	4,255,659	1,551,077	335,037	6,141,773	19,009,488	7,755,383	27,099,908

Source: ICSC Research/Eurostat/Euromonitor International

*Other services and operations includes cinemas, real estate activities, renting and leasing of personal and household goods, private security activities and services to buildings and landscape activities.

MULTIPLIER EFFECT

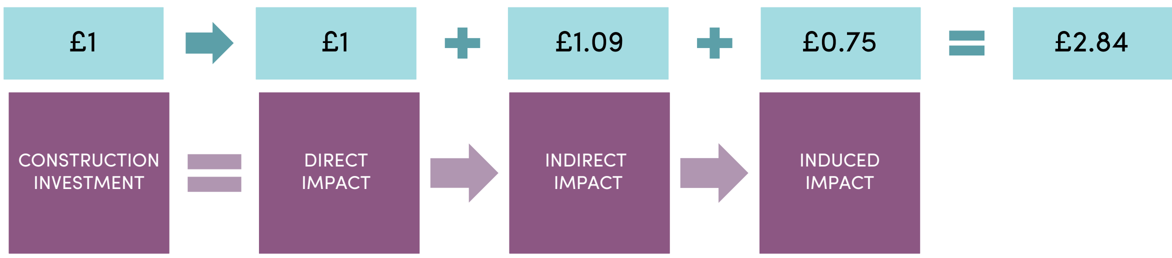
Beyond those individuals employed directly by retail real estate owners, developers and tenants are those whose jobs are dependent on the development and/or operational persistence of a shopping centre in their community.

These jobs are referred to as indirect and induced employment and are the result of what is typically referred to as the "multiplier effect". For example, if £1 million was directly spent on a shopping centre development project, there would be an indirect impact through the construction supply chain. That is, various local subcontractors would benefit as they supplied building products, cement, industrial equipment, etc.

The induced employment refers to the jobs that are created and supported as a result of these construction workers spending their wages and salaries within the local region. That is, the employees of the restaurant, grocery store, or cinema that have a job because of the shopping centre construction worker's patronage.

A 2016 report on 'Commercial Real Estate Debt in the European Economy', commissioned by the Association of Property Lenders, CREFC Europe, INREV and ZIA, stated that the UK Contractors Group (now Build UK) estimates that for every £1 spent in the UK commercial real estate construction sector there is a £2.84 impact on the UK economy. This includes the direct impact of spending on wages and other inputs, the indirect impact of increased output and income in the supply chain, and the induced impact of increased wage spending in the economy (see **Figure 8**).

Figure 8: Multiplier Effect of Real Estate Construction



- *The type I output multiplier is a measure of the direct and indirect effects associated with an additional 1 unit spent on a particular sector. The type I multiplier for construction in the UK was estimated by the Office for National Statistics to be 2.09.*
- *The type II multipliers include the induced impacts associated with the increased economic activity and income in the economy. This has been estimated by L.E.K. based on income tax and National Insurance rates, indirect taxes, savings ratios and import share of disposable income.*

Source: L.E.K. Consulting on behalf of the UK Contractors Group, "Construction in the UK Economy", October 2010.

Case Study: intu, UK

In the UK, intu's 22 million sq ft of retail, leisure and catering space supports 137,475 jobs, including 106,000 direct jobs and 31,000 indirect jobs in their centres. This represents almost 3% of the UK's total retail employment and an indirect wage bill of £1.9 billion. The company also generated 510 jobs from the £89.5 million they invested in developing their centres in 2016 and has an investment pipeline of £1.9 billion in the UK over the net 10 years, which is expected to create an additional 11,200 construction jobs and 16,900 jobs indirectly within the construction supply chain.

CATALYST FOR ECONOMIC DEVELOPMENT

Through these direct, indirect and induced impacts, the development and operations of retail real estate projects create long-term value in the communities that surround them.

Investments in these types of projects are often a first step in a cascade of other investments into infrastructure improvements, transportation systems, or other nearby commercial or residential developments. In this way, retail real estate acts as a catalyst for economic development often leading to an improved quality of life for local residents and an increase in surrounding property values.

CASE STUDY: Westfield Stratford City, London, UK

Westfield Stratford City represented a £1.85 billion investment in east London and was part of a key commitment in the original bid for the London 2012 Olympics: to secure a legacy for the surrounding area. In addition to the neighbouring Olympic Park, the 1.9 million sq ft development had a pivotal role in the regeneration of Stratford – a socially and economically disadvantaged area – acting as a catalyst for further inward investment, which by 2025 is expected to top £22 billion.

The Westfield office developments and the International Quarter provide five million sq ft of flexible commercial office space. The Athletes' Village has become East Village, which, along with the other residential quarters of Stratford City, provides nearly 7,000 homes. In addition, residential development in the Olympic Park and surrounding area will create a further 10,000 homes by 2030.

The Queen Elizabeth Olympic Park (QEOP), which opened in 2014 following a transformation after the 2012 Games, hosts sporting and social venues and attractions that sit alongside homes, schools and businesses, building communities amongst open green spaces and pieces of art. Future developments include a new Culture and Education Quarter on QEOP, while the arrival of Crossrail, a new high frequency, high capacity railway for London and the South East, will further improve transport links.

Six years after opening, Westfield Stratford City shopping centre goes from strength to strength. In the year of the Olympics the scheme smashed UK footfall records by attracting 47 million people and it continues to generate exceptionally strong annual traffic of 45.5 million visitors.

Images: Westfield Stratford City - London, United Kingdom. Courtesy of Westfield Europe Ltd.

DIVERSE AND FLEXIBLE WORKING OPPORTUNITIES

The retail sector promotes participation in the labour market by offering accommodating employment terms.

The reconciliation of work and life responsibilities has become an increasingly relevant policy topic in recent decades. It has an implicit societal value linked to gender equality and quality of life. It also has an economic dimension, with poor work–life balance clearly hampering participation in the labour market, the latter having been defined as a key objective of the European growth strategy.

The retail sector promotes social inclusion and makes a significant contribution to female employment. Indeed, Eurostat figures suggest that the industry encourages high female participation rates with women accounting for over 49% of Europe's wholesale and retail trade workforce in 2016. Moreover, the industry also offers accommodating employment terms and lends itself to part-time opportunities, making it particularly attractive to those seeking flexibility, students, parents/carers and retirees keen to re-join the workforce.

According to the International Labour Organization, part-time employment not only provides flexibility to employees but also allows retailers to match staffing to peak days and hours, reducing 'excess' labour, especially in the context of new just-in-time inventory management systems and also to cover longer opening hours.

Image: Maastricht, the Netherlands. Courtesy of Redevco.

In addition, the retail sector provides opportunities for younger workers and those with lower skills or educational qualifications. Eurostat reports that over 20% of all employed 15-24 year olds work in the wholesale and retail trade sector.

CASE STUDY: Unibail-Rodamco

Unibail-Rodamco's new corporate social responsibility strategy, 'Better Places 2030', reaffirms the company's determination to support local communities and focuses on local economic development and youth employment. Young people are the lifeblood of the company, with around 50% of staff aged 35 or under. The commerce, catering and retail industries are among the biggest recruiters of young people, and Unibail has chosen to step up its commitment to helping young people train and find work. Specific initiatives were rolled out in this field in 2015, with the creation of the 'UR for Jobs' programme. In 2016, a total of 35 young people were recruited under this programme and given fixed-term contracts of over six months with tenants and service providers in three pilot shopping centres, or were able to return to training in order to gain a qualification. In France, the École de la Deuxième Chance was also a key partner in this initiative.

By 2020, the programme aims to help 1,000 young people every year to find jobs among the tenants and service providers in Unibail's shopping centres.

CHAPTER 5 – CONTRIBUTION TO PUBLIC SECTOR REVENUES

Apart from contributing vast quantities of jobs, GDP and income to communities across Europe, the retail real estate industry also generates billions of euros in public revenues from tax collections on real property, sales and income. These revenues are critical to supporting national, regional and local governments and the infrastructure and services they are tasked with providing.

VALUE-ADDED TAX (VAT) COLLECTION ON TURNOVER

European retailers make a significant contribution to government revenues through the collection and remittance of taxes on the sale of goods and services.

These sales tax rates vary widely between countries. Within the EU, Hungary has the highest rate of VAT at 27%, while Luxembourg has the lowest at 17%; however, across wider Europe, Switzerland has the lowest VAT rate at only 8%. Total sales of goods and services in the EU generated nearly €1.73 trillion in tax revenues in 2016, of which approximately 27% occurred in shopping centres. **Table 4** below lists the sales tax revenues and rates by country in 2016.

Table 4: Taxes on Goods and Services, 2016

	National VAT Rate %	Total Taxes on Goods and Services (€ million)	Taxes on Goods and Services in Shopping Centres (€ million)
Austria	20	41,889	8,198
Belgium	21	49,843	11,166
Bulgaria	20	6,226	579
Croatia	25	9,335	1,282
Cyprus	19	2,407	333
Czech Republic	21	20,667	5,725
Denmark	25	39,305	11,304
Estonia	20	3,050	539
Finland	24	31,352	11,749
France	20	258,959	89,632
Germany	19	331,463	72,024
Greece	24	26,842	2,404
Hungary	27	18,616	3,866
Ireland	23	22,185	6,617
Italy	22	202,788	36,637
Latvia	21	3,176	490
Lithuania	21	4,142	691
Luxembourg	17	6,415	2,176
Malta	18	1,291	418
Netherlands	21	74,395	18,463
Poland	23	49,595	19,117
Portugal	23	22,852	4,816
Romania	19	19,563	2,089
Slovakia	20	7,917	3,145
Slovenia	22	5,756	1,081
Spain	21	123,521	35,124
Sweden	25	59,188	21,165
United Kingdom	20	284,815	96,334
EU Total		1,727,550	471,782

Source: Euromonitor International/Ernst & Young/ICSC Research

OTHER TAX REVENUE

Beyond sales taxes, retail real estate generates public revenues from a number of other sources: shopping centre employees pay income taxes and national insurance; employers pay corporate and payroll taxes; and land and building owners pay property taxes which are often critical for governments at the local level.

CASE STUDY: Hammerson, UK & France

In July 2017, Hammerson launched its 'True Value of Retail' report measuring the socio-economic contributions of the Group's European assets and developments. The study found that 40,000 full-time jobs were created across Hammerson's European portfolio of retail destinations, with a combined annual wage bill of £800 million. Local residents secure 82% of retail jobs, with almost half (48%) of those under the age of 25.

Hammerson's assets deliver over £300 million in employment taxes and, in the UK, business rates contribute an additional £250 million to local authorities. Calculations within the research estimate that the annual saving to the Government in reduced unemployment benefits for people employed at the assets who were previously unemployed is approximately £7 million annually. This includes savings both from the immediate impact of moving an individual from unemployment into work, but also from reducing the chance of a young person entering long term unemployment again later in life.

Measuring the socio-economic impacts of its portfolio is an important step for Hammerson to become Net Positive by 2030, a key objective in the company's 'Positive Places' sustainability strategy.

CHAPTER 6 – RETAIL REAL ESTATE SERVING EUROPEAN CONSUMERS AND SOCIETY

Retail real estate across Europe provides far more than just a place to buy goods and services. Given that they impact virtually every community across Europe, retail properties are a vital component of the fabric of everyday life and are a cornerstone for communities. From a social point of view, these retail properties act as meeting places to gather, socialise and enjoy leisure and entertainment opportunities or take advantage of cultural and educational programmes.

COMMUNITY ENGAGEMENT

Retail properties are good corporate citizens.

Given this central place in European society, both retailers and retail property owners recognise that they need to look beyond revenue-generation and actively participate in educational, artistic, cultural and humanitarian programmes to support and connect with the regional community.

ICSC encourages and recognises the positive contribution that the retail real estate industry makes to the local community through its annual Solal Marketing Awards, which includes a category dedicated to corporate social responsibility. Some examples of initiatives that won awards or were finalists in 2017 are summarised below:

Educational Activities:

- *Galeria Jurajska* in Częstochowa, Poland developed an interactive 'JuRajska Island' project to educate school children about the importance of ocean conservation, environmental preservation and eco-system health.

- In Genoa, Italy, *Fiumara* shopping centre's innovative 'Connected to Safety' campaign, in collaboration with several local organisations, educated and raised awareness about the dangers of cyberbullying and cybercrime in the community.

Artistic and Cultural Initiatives:

- To celebrate National Children's Day, *Primemall Anatakya* in Turkey loaded a mini-van with scenery, costumes and actors and travelled to ten rural schools to perform 'The Fairy World of Trees' to 3,000 children.

- At *Das Gerber* in Stuttgart, Germany, 'LOKSTOFF', a group who perform dramatic presentations in public spaces, staged a series of plays depicting the issue of homelessness, using the mall as their stage.

Entertainment Programmes:

- The 'Dating Center' at *Wijnegem* shopping centre in Belgium, managed by SCMS-CEUSTERS, included group dinners, speed dating sessions, after work cocktail hours and an identifying bracelet designed to help singles connect with one another.

- At Baneasa Development's *Shopping City* in Bucharest, Romania, 50 teams of children ranging from 6 to 13 years old competed in a Lego building competition for the opportunity to win prizes and have their structures displayed at Baneasa's 'Imagination Exhibit'.

Image: Wijnegem Dating Center - Wijnegem Shopping Center, Wijnegem, Belgium. Courtesy of AXA REIM and CELSIUS HOLDING (by AEW)

Image: Espark Shopping - Eskisehir, Turkey. Courtesy of ECE Projecktmanagement.

Community Support:

- As part of their 10th anniversary celebrations, *Forum Bornova* in Izmir, owned by Commerz Real Investment and managed by Multi Turkey, launched the multifaceted 'Ten Thousand Warm Hearts' to generate donations towards providing winter coats for 10,000 children in need.

- ECE's 'Boxes Full of Happiness' campaign at its *Espark* shopping centre in Eskisehir, Turkey invited shoppers to choose gifts for less privileged children and live-streamed the gift deliveries and the children's happy reactions on the centre's digital screens.

SUSTAINABILITY

Environmental sustainability is a key consideration for landlords.

Sustainability initiatives include the use of energy-efficient building materials, lighting and refrigeration systems, renewable power sources, water conservation, use of recycled materials, waste recycling and higher fuel efficiency for vehicle fleets. For a variety of reasons, the retail real estate industry has been on the leading edge of the design and execution of these types of sustainable development initiatives.

The pursuit of environmentally sustainable retail properties is so high on the political agenda that over the last four years the EU funded the 'CommONEnergy' project. Led by 23 partners from across Europe, it aims to offer guidance on re-conceptualising shopping centres through deep retrofitting by developing a systematic approach comprising innovative technologies and solutions, as well as methods and tools to support their implementation and to assess their environmental and social impact. The project, which was completed in 2017, implemented and/or tested over 25 solutions and tools in three demo cases in Italy, Spain and Norway and eight reference buildings, leading to a 75% reduction in energy demand and costs, with the initial investment paid back within at most seven years.

Projects like CommONEenergy play an important role in raising awareness of energy and environmental issues. According to the Buildings Performance Institute Europe, drastically reducing energy needs will provide retail properties in the future with the potential to become energy hubs at the heart of local smart grids, integrated with demand/response mechanisms and renewable energy sources.

Case Study: ReTuna Återbruksgalleria, Eskilstuna, Sweden

ReTuna Återbruksgalleria, reportedly the world's first mall for repaired and recycled goods, opened in August 2015 in Eskilstuna, a city 75 miles west of Stockholm. Arriving shoppers are encouraged to drop off used items, which will later be transformed by the designers, craftspeople, and store owners working inside. Products are then sorted into 14 specialty shops that include furniture, computers, audio equipment, clothes, toys, bikes, and gardening and building materials; all garnered from second-hand products.

The centre, which is operated by the local municipality, also includes a café and restaurant with a heavy focus on organic products, as well as a conference and exhibition facility complete with a specialty school for studying recycling. The scheme has benefitted the local economy by creating 50 new repair and retail jobs, and providing space for private start-ups and local artisans.

Since opening, the centre has drawn about 600-700 people a day, and 2016 sales totalled 8.1 million SEK, or over €830,000.

Case Study: ParkLake, Bucharest, Romania

Sonae Sierra's €180 million ParkLake project, in partnership with Caelum Development, opened in September 2016 and provides 70,000 sq m of GLA with an integrated theme based on 'park, nature and family'. Located beside Titan Park, the architectural concept drew inspiration from the landscape and colours of the park to create a harmonious transition between indoors and outdoors, including references to local history and folklore.

Sustainability considerations were a key feature throughout the project and it achieved a pre-certification 'Excellent' BREEAM rating. Furthermore, the construction works were certified in accordance with ISO 14001 and OHSAS 18001 for environment and safety and health management safety respectively. These two groups of certifications are the first of their kind to be achieved on a shopping centre project in Romania.

Image: ParkLake - Bucharest, Romania. Courtesy of Sonae Sierra.

Case Study: MAHÜ77, Vienna, Austria

After nine months of radical makeover, Redevco's MAHÜ77 shopping centre in the heart of Vienna reopened on 1st December 2016, becoming the first retail development in Austria to be awarded an 'Excellent' BREEAM sustainability certification. MAHÜ77 is a 16,000 sq m property, with offices on the top six floors and retail in the basement and on the ground and first floors. The existing retail area was completely gutted and rebuilt. Three new retail outlets, Eurospar, CCC and TK Maxx, now occupy the entire floor of 8,000 sq m; each has its own facade and entrance directly on the Mariahilfer Strasse. ATP Architects and Engineers were responsible for the transformation of this 1970s shopping centre into a contemporary retail concept.

MAHÜ77 was redeveloped with a special focus on achieving sustainability certification. For example, the building's shell was thermally developed and extensive roof greening now enhances biodiversity. Besides environmental sustainability, social responsibility was another major focus in the project. A dedicated bicycle parking facility and an additional social area were provided for those working in the building. In addition, Redevco has dedicated a small unit in the building to a store for Caritas, a Catholic charity organisation active in a range of social projects.

Retail real estate owners and developers are striving to create 'well buildings'.

As outlined above, sustainability has long been a key element of property companies' corporate responsibility strategies; however, in recent years, a new aspect of the sustainability conversation has emerged which considers not only the impact of buildings on the physical environment, but also the health and wellbeing of the occupants who inhabit, visit or work in them.

Forum for the Future, a London-based non-profit organisation, believes that health and wellbeing are an integral part of a sustainable future and it is essential for people to be healthy, both physically and mentally, in order to thrive. It highlights a key trend known as 'holistic consumerism' whereby consumers want products and places that make them feel good in their mind, body and soul.

Whilst the concept of 'green buildings' has been immersed into the retail real estate industry's psyche for many years, the notion of health and wellness as a key component of that is an emerging practice, yet one that is rising up the sustainability agenda as it can have real benefits for the asset owners, staff and consumers. Research by the World Green Building Council revealed that a range of building design features, including lighting, air quality and interior layout, can affect the health, wellbeing and job performance of workers leading to happier staff, greater productivity and reduced sick leave. Within retail property, 'happier' places and people make for happier customers – increasing the potential for more footfall, longer dwell times, increased loyalty and spend.

Over the past year a number of new health and wellbeing initiatives have been introduced in the EMEA retail sector, led by the Well Building Standard, originating from the United States, which is a performance-based system that measures and monitors the features of a building that affect human health and wellbeing and gives an overall rating which encompasses seven criteria – air, water, nourishment, light, fitness, comfort and mind. The certification, which must be renewed every three years, is starting to percolate into Europe with the region's first building, located at One Carter Land in London, achieving the Well Building Standard in 2016.

CASE STUDY: NewRiver Retail, UK

> NewRiver Retail, one of the UK's largest shopping centre investors, has been working with Cushman & Wakefield to develop a comprehensive sustainability programme, including the development of health and wellbeing metrics in line with the UK Green Buildings Council Retail Metrics framework. The company collects and reports on perceptual metrics such as cleanliness and security, the quality of the toilet facilities, cosmetics of the shopping centre and parking facilities. Through this, connections can be made between customer satisfaction and wellbeing in the retail environment, and the financial performance of the retail centre.

SOCIAL INCLUSION AND ACCESSIBILITY

Being free, access to retail properties is socially inclusive and the entry barriers to enjoy services, leisure and entertainment are low.

Retail properties offer a range of retail, leisure and other services that enable consumers to fulfil their basic needs conveniently and efficiently and/or to participate in retail as an 'experiential' activity. The design of retail real estate goes further than attractive and eye catching aesthetics, however, as owners and developers are also aware of the need to incorporate features that promote social inclusion and allow all members of the local community to visit the destination and enjoy the shopping experience, including those with disabilities or health issues such as sight or hearing loss or dementia, and the older generation.

CASE STUDY: Unibail-Rodamco

> Europe's largest listed commercial property company, Unibail-Rodamco, which specialises in shopping centres in European capital cities, wants its shopping centres to be welcoming and accessible to everyone. The Welcome Attitude programme in Unibail-Rodamco's centres helps to ensure a high standard of service for customers with disabilities. For example, the Statio-Pass car parking system keeps disabled parking bays free for people who really need them. During renovation works, the company aims to identify and correct any features that could interfere with the enjoyment of customers with physical and sensory disabilities.
>
> In France, Unibail-Rodamco is building a close partnership with the UNAPEI, a charitable association that works on behalf of people with mental disabilities. Since 2011, shopping centre staff has received training in welcoming customers with mental disabilities and accommodating their needs.

Social inclusion also involves providing facilities designed to aid families with children. A 2016 research study of Polish shopping centres, carried out by the Polish Council of Shopping Centres and Colliers International, found that the leading retail properties have well-equipped and clean baby-changing and feeding rooms, toilets adapted for children, vending machines with nappies, spacious play areas and tables and chairs for children in the food court, as well as parking spaces designated for families with children that are wider than standard-sized ones.

In addition, some centres have introduced safety systems, such as information points, a clear signage system and wristbands for children, rest areas, including comfortable sofas, interactive play areas, children's book and game rentals, as well as organising various events for families, for example art classes and theatre performances.

CONCLUSION

The retail real estate industry continues to be a vibrant and dynamic sector which is at the heart of the economy and communities across Europe. The growth of e-commerce has changed the role of the store, but it has not diminished the relevance and value of maintaining a physical presence. Omni-channel is at the core of retailers' strategies, which has led to the convergence of the digital and physical world.

Retail properties are becoming multi-functional venues and destinations of the future will be community centres containing a wide variety of occupiers and uses, where consumers can engage with brands and enjoy innovative experiences without necessarily making a purchase.

As the primary channel for retail sales, as well as other non-retail and related operations turnover, retail real estate is an important contributor to economic productivity. Furthermore, the development and operations of retail real estate leads to net economic impacts that far exceed the direct investments. The positive ripple and feedback effects from retail properties resonate throughout the European economy via indirect and induced impacts, accruing benefits at the local, national and regional levels.

Beyond supporting the local supply chain, retail real estate generates net employment growth, particularly among females, teens and seniors, many of whom require flexible, entry-level job opportunities. Retail real estate also generates billions of euros of tax revenues used to fund government programmes and services.

Socially, the retail real estate industry is at the heart of civic life in European communities and placemaking has become the cornerstone of retail real estate development and management. Both property owners and occupiers recognise that they need to look beyond revenue generation and be 'good corporate citizens' by supporting and connecting with local communities.

Despite the inevitable challenges, the industry as a whole will thrive as it continues to embrace innovation and adapt to technological changes and evolving consumer preferences. This continued success is critical to the future growth of the European economy as retail real estate is a primary driver of the major components of GDP – private consumption, investment and public revenues – and is essential for sustaining social vitality.

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