INTERNATIONALISATION OF RETAIL

COULEUR INTERNATIONALE

RETAIL REPORT 2017

CUSHMAN & WAKEFIELD

TRANSFORMATION IN RETAIL

Whereas a year ago news from the retail sector was dominated by bankruptcies, we have started 2017 with an expectation that the sector will grow by two percent this year. All signals are on green for Retail, but not for continuing to do what we were doing. The playing field has changed dramatically, with more innovation, more internationalisation and more modernisation being the adage.

For years, Dutch chain stores determined the overall look of shopping areas and there still is dominance on the part of household brands. Shops that generations of Dutch people have grown up with and which still have a raison d'être. At least, as long as they manage to maintain their relevance in the eyes of the consumer by homing in on important trends and continuing to innovate. After all, innovation and change are following each other in quicker succession than ever before - something that applies to all retailers, and hence also to the well-known household brands in the Netherlands. We could get nostalgic about it, or we could look at what huge opportunities exist because of the transformation in retail. Providing you with insight into these opportunities is precisely the focus of this edition of the annual Retail Report from Cushman & Wakefield.

'THE CRISIS' IN PERSPECTIVE

Shopping areas in the Netherlands are changing rapidly and waiting for no one. Whereas in recent years bankruptcies in retail, vacant premises and waning footfall were often put down to 'the crisis', it has now become clear that the reality is more nuanced.

Online shopping has largely superseded purposive shopping trips. What today's consumers are primarily looking for in physical retail environments is to be inspired by fast fashion retailers' ephemeral collections and to be surprised by new, unfamiliar products. This has effected permanent change in terms of shopping and, therefore, the character of shopping towns. The transformation can be characterised as a transformation from a retail centre in a wide sense to a retail centre in a narrow sense, or from a complete range of daily and non-daily products to a limited range of products. Always offering the latest and the best.

The playing field has been changed permanently, with major shopping cities in the Netherlands finding themselves faced with new dynamics in retail areas due to the advent of new, international retail concepts. Looking for new markets, sales territories and footfall, a sizeable number of major retailers from abroad have started to become a feature on Dutch shopping streets in recent years. This is understandable, as the Netherlands is highly ranked in international benchmarks due to its relatively low store rental prices, affluent consumers and the generally bustling shopping cities and retail areas.

These international retailers are choosing the best locations and are increasingly replacing traditional Dutch retailers.

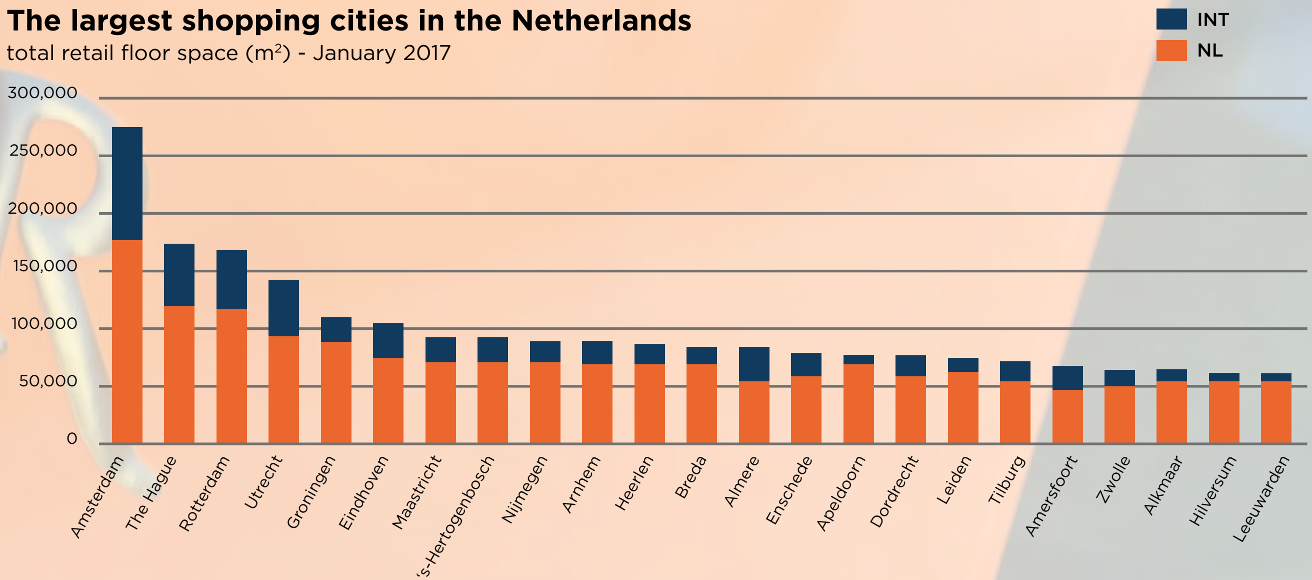
The playing field continues to change. Whereas we have seen a shift from a locally oriented market to a nationwide market, we see this shift expanding from a nationwide market to an internal market.

The arrival of international concepts is not new; many international players have been (successful-ly) active in the Netherlands for decades now. Nonetheless, there has been an exponential increase in recent years with the advent of con-cepts such as Primark, &Other Stories, JD Sports and soon Hudson's Bay Company as well.

"Change has the capacity to generate nostalgia, but it also presents plenty of opportunities"

The largest shopping cities in the Netherlands

total retail floor space (m^2) - January 2017



FADING BOUNDARIES AND DISAPPEARING BARRIERS

Between 2005 and 2016, the number of stores from foreign retailers increased by 60 percent and the number of stores from Dutch concepts fell by 16 percent. Expressed in retail floor space, the internationalisation is far more comprehensive: over the past eleven years, international chains have more than doubled their footprint in the Netherlands (+161%), whilst the footprint of national retailers has fallen by nearly a fifth (-19%).

The foreign entrants are emphatically active in a limited number of sectors: fashion, shoes, and jewellery, household and luxury items.
Sectors in which the boundaries between online and physical shops are least blurred because the products are less amenable for online shopping.

Shops that have not made it virtually all come from the traditional Dutch mid-range segment, which was wholly inadequate when it came to anticipating the threats and opportunities that the aforementioned developments entailed. As a result, the retail concept they were operating ultimately no longer tallied with consumer demand.

Nevertheless, internationalisation is not a one-way street. For example, HEMA is expanding swiftly and successfully in Europe after disappointing results on home grounds. HEMA has managed to turn the tide by having an international outlook. In addition to HEMA, there are plenty of Dutch retailers enjoying success abroad. Consider in this regard Scotch & Soda, Rituals, G-Star, Suit Supply, and Ace & Tate.

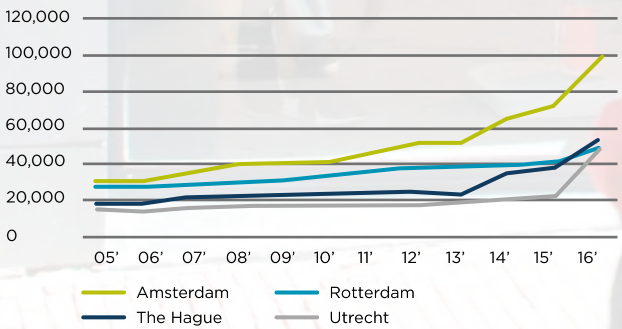
Internationalisation is not a sudden process that unfolds abruptly in Dutch shopping cities. There is a manifest trend towards internationalisation, and yet clear and significant differences between cities themselves, which is hardly surprising, as Amsterdam is by far the most international shopping city in the Netherlands, home to twenty percent of the total volume of international shops in the major shopping cities.

Furthermore, the growth of the number of shops from foreign formulas has been most considerable in Amsterdam, with the number of shops doubling between 2005 and 2016, marking an increase of at least 249 percent in terms of shop floor square metres.

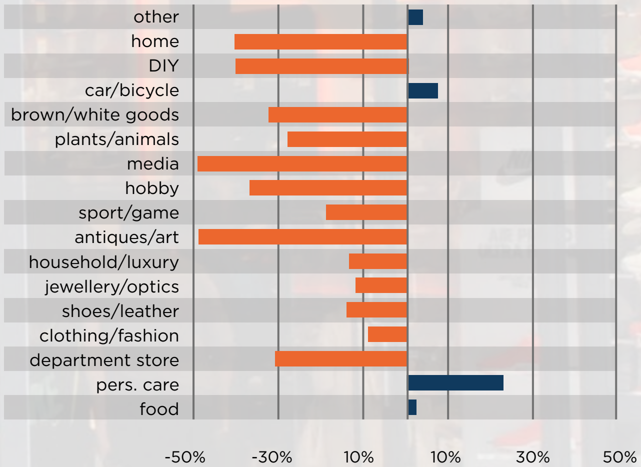
The figures corroborate the impression that the most important shopping cities in the Netherlands are undergoing continuing internationalisation. In pretty much all sectors, the number of Dutch retailers fell and the number of international retailers rose.

Sector development clothing and fashion
in total retail floor area

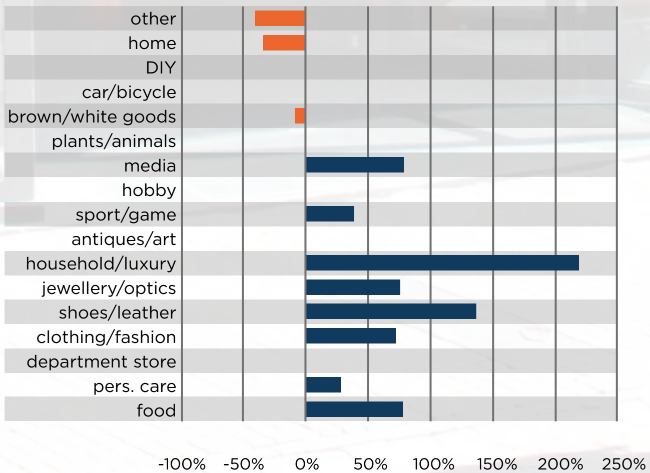
Internationalisation of shopping streets
development retail floor space int. retailers per city between 2005 and 2006



Sector development retail ’05-’16
% outlets Dutch retailers



Sector development retail ’05-’16
% outlets foreign retailers



HEMA on Dutch Kingsday in Paris (26 April 2017)

THE NEXT STEP

In addition to the quantitative changes, the qualitative changes will also be significant. Competition between major shopping cities will increase due to catchment areas expanding and retailers being highly selective when it comes to the number of sites they wish to have in the Netherlands. The requirements that retailers (and consumers) set in terms of the spatial quality of shops are becoming increasingly strict. In order to be successful, a retailer needs to get things spot on and not just quite good. Consider in this regard pricing and range, though certainly also the atmosphere and perception in-store and hence the quality of the real estate.

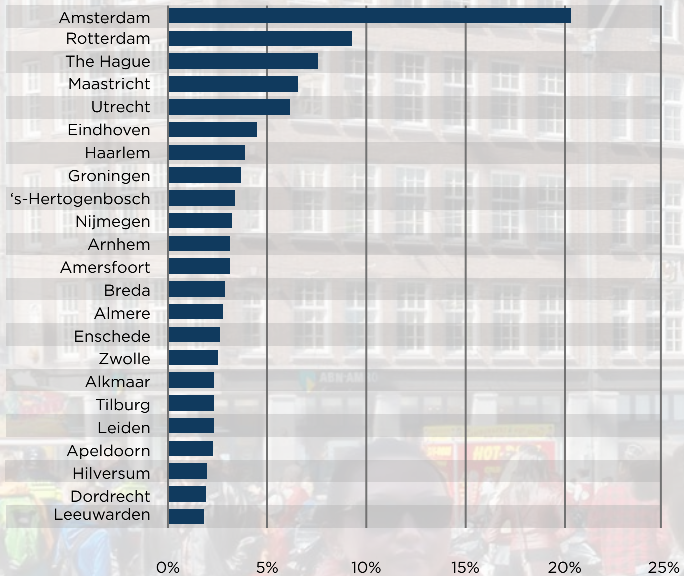
WOVEN INTO A TOTAL CONCEPT

The retail environment is not stand-alone and independent from other functions in and of the city. Together with retail, cultural facilities, hotel and catering, food and hospitality, leisure and public functions constitute an integrated part of a city's appeal. Cooperation is now needed more than ever to ensure that consumers from inside and beyond catchment areas are keen to stay there and for longer. It is not without reason that many retail areas are engaged in building the total concept that dovetails with the specific characteristics of the city concerned.

Success is no longer just determined by number of inhabitants combined with the size of the catchment area - the facts are more nuanced. There are cities having over 100,000 inhabitants where the retail area is not performing as well as places with a mere 20,000 inhabitants where the retail market is nevertheless managing to cultivate a sizeable regional sales territory. Increasingly, the feel, perception and quality a consumer experiences in a shopping city are the deciding success factors. These aspects are hard to quantify.

For that reason, international retailers are choosing the best shopping streets in a select number of shopping cities. Thereby increasing pressure on this real estate. Although rental prices have fallen in general, in the very best locations they remain high or are even rising again.

Proportion of international retailers
% foreign stores



"At some point these days too will become the good old days"

Godfried Bomans

UTRECHT

UTRECHT CENTRE
2007

RETAILERS THE NETHERLANDS

Leisure/hotel & catering
Services
Vacancy
Retail
Other

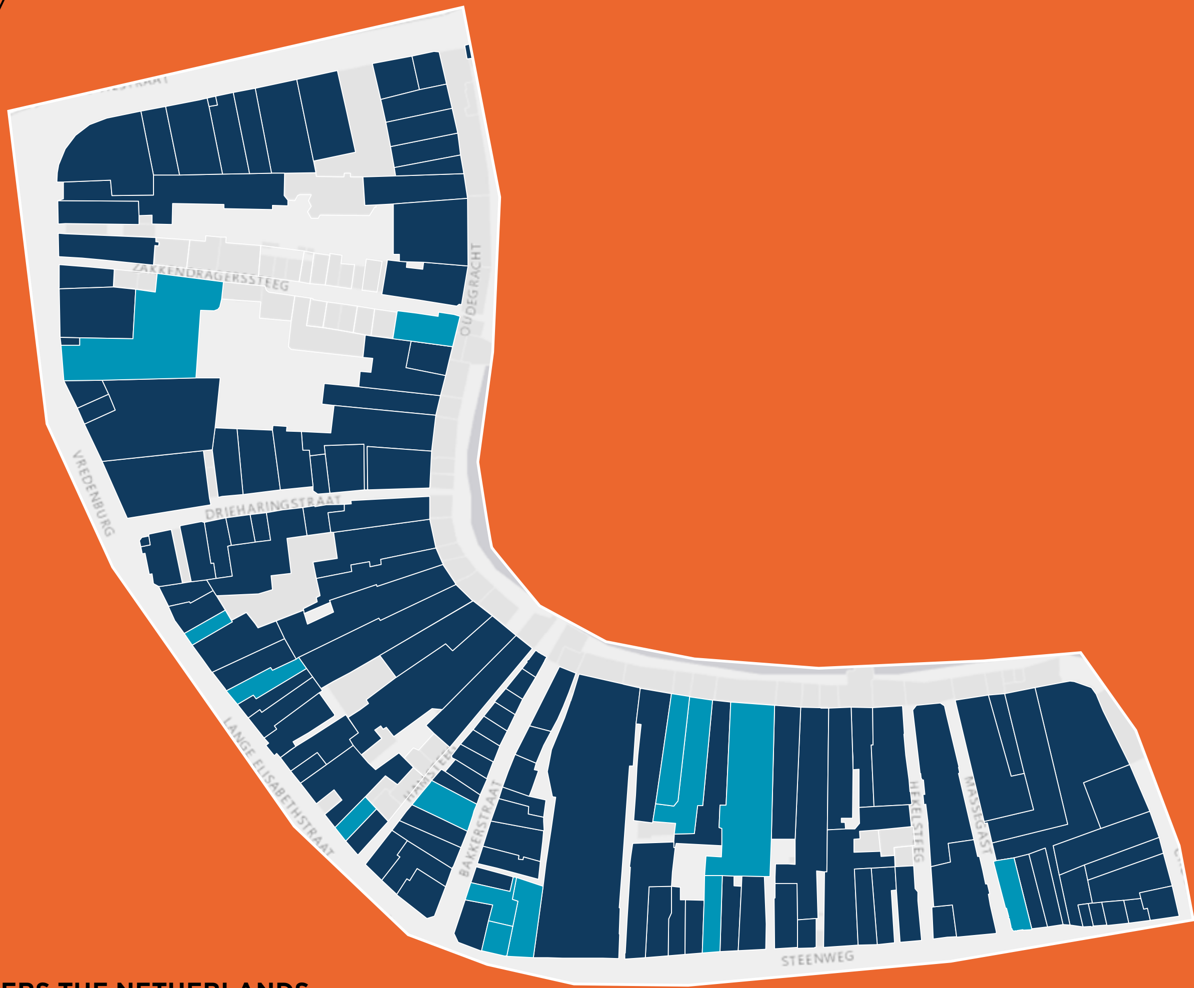
UTRECHT CENTRE
2017

RETAILERS THE NETHERLANDS

Leisure/hotel & catering
Retail
Services
Other
Vacancy

UTRECHT

LANGE ELISABETHSTRAAT/OUDEGRACHT
2007



RETAILERS THE NETHERLANDS

International

National

LANGE ELISABETHSTRAAT/OUDEGRACHT

2017

RETAILERS THE NETHERLANDS

- International
- National

AMSTERDAM

KALVERSTRAAT
2007

RETAILERS THE NETHERLANDS

- International
- National

KALVERSTRAAT
2017

RETAILERS THE NETHERLANDS
- International
- National

ROTTERDAM

LIJNBAAN
2007

RETAILERS THE NETHERLANDS

- International
- National

LIJNBAAN
2017

RETAILERS THE NETHERLANDS

- International
- National

THE HAGUE

GROTE MARKTSTRAAT
2007

RETAILERS THE NETHERLANDS

- International
- National

GROTE MARKTSTRAAT
2017

RETAILERS THE NETHERLANDS

- International
- National

CUSHMAN & WAKEFIELD RETAILTEAM

Cushman & Wakefield's retail advisors are recognized worldwide as leading advisors for investors, developers and retailers when it comes to acquisition and leasing of retail real estate. Our professionals have a proven track record in the retail sector and are focussed on creating the best solutions for our clients at local, national and international level. Whether this pertains to acquisition or leasing, rent reviews, real estate valuations, consultancy or real estate marketing. The team is supported by a leading research platform and an internationally operating Cross-border Retail team.

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THROUGH **INSIGHT**

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