Bouwinvest
Dutch Retail Landscape

Dutch retail sector heads multichannel on the road to a new normal

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How to read this report

The goal of this report is to provide an in-depth overview and analysis of the trends shaping the Dutch retail landscape. Our aim is to be as comprehensive as possible given the complexity of the topic, and the large number of trends that are already having an impact and which will intensify in years to come. The report has been divided into four chapters, each with a short introduction and a box containing the key conclusions at the end.

Chapter 1 describes the existing structure of the Dutch retail market and developments that have had an impact in the past 10 years. We explore how the number of stores and total volume of retail space has developed, as well as the performance of individual retail segments and the big differences in vacancy levels at different types of locations.

Chapter 2 looks at the future and zooms in on trends expected to have the greatest impact on the Dutch retail landscape in the next 10 to 15 years. This includes demographic developments, changing spending patterns, the growth of online sales, the importance of experience, and technological developments in and around stores.

The focus of Chapter 3 is on retailers. What lessons can be learned from retailers that went bankrupt in the past few years? And which new retailers will grow in the future? In addition, we take a detailed look at supermarkets, the anchors of local shopping centres. We conclude with an overview of the expected impact of market developments on both main high streets and neighbourhood shopping centres.

Chapter 4 analyses the retail investment market. How has retail added value to investment portfolios in the past few years? What are our market forecasts and which factors are of importance in evaluating future risks of retail investments?

Finally, Chapter 5 provides a summary of our key conclusions.

Summary

The retail market is constantly changing. What is different in today's increasingly connected world is the speed of change and the number of new developments that are converging to create a new shopping environment. The Netherlands is not immune to these turbulent times. As a major retail landlord, Bouwinvest has an obligation to keep close tabs on all the moving parts and the multichannel retail strategies that are reshaping our brick-and-mortar stores.

The physical retail landscape in the Netherlands is determined to a large extent by its historic structure, urban planning regulations and strict hierarchy of retail destinations. While the country's finely-meshed structure is unique to the Netherlands, the total volume of retail space per inhabitant is amongst the highest in Europe, although significantly lower than the U.S. and Australia.

In the past 10 years, the Netherlands has witnessed strong growth of e-commerce, combined with a 11.3% decline in the number of stores, despite a 4.7% increase in the total volume of retail space. Some location types have performed significantly better than others and less retail space will be required in weaker areas in the period ahead. It is difficult to predict exactly how many stores will no longer be needed in future. What we can say based on our research is where retail space is most likely to disappear. We believe that will take place primarily in areas where vacancies have increased in the past decade: the city centres in all but the largest cities, as well as the largest shopping centres. The growth or contraction of consumers aged between 15 and 65 is also a key demographic trend that will affect retail locations' potential across the country.

The stores and retail areas that remain need to adapt to changing consumer demands. Stores with the best chances of survival are those that are able to distinguish themselves in a positive manner and in various ways from the competition. These differentiating factors are an important part of the specific experience that a retailer can offer. In this context, brand retailers have a strong basis. In addition, the full integration of the physical store and the online channel is increasingly an essential factor: the future is multichannel.

High streets in the largest cities offer the greatest opportunities. Not only are demographic developments most favourable in these locations, but the large number of retailers ensures a distinctive offering and experience, thereby retaining and enhancing their attractiveness. At the other end of the spectrum, demand for retail space will decline further in smaller city centres and they will need to become more compact.

Local shopping centres focused on daily convenience will also continue to have traction. To some extent a greying population is an advantage as the shopping radius of these consumers declines and they will become increasingly focused on their local shopping centre. Proximity to consumers is, and remains, a strong plus point. However, as a

rising share of retail turnover flows to online, competition between local neighbourhood centres will increase. Retailers and shopping centres that succeed best in adapting to these shifts will be most future-proofed. In that context, local dominance of a shopping centre is key.

As the Dutch retail sector charts a new course towards more sustainable supply, the polarisation between weak and stronger locations will intensify. Huge differences exist within the Dutch retail sector but, in our view, only the best locations will be able to resist and adapt to the huge changes already taking place and the new developments that are coming. Our report on the Dutch retail landscape provides a thorough analysis of the trends shaping the sector and an overview of the locations that we believe are fit for the future.

As an investment class, retail real estate has had a low correlation with other property categories historically and has never generated negative total returns in the Netherlands. It also enjoys a high Sharpe ratio – an indicator of the real return of an investment when compared with 'risk-free' government bonds – compared to other real estate sectors. The headwinds facing the sector may, however, have an impact on volatility and return expectations for the coming period. Investors must remain vigilant, as major differences exist between strong and struggling locations, as well as individual assets. One thing is clear, however: physical stores will retain a key role in the Dutch retail landscape, and retail will continue to add value to investment portfolios, especially in terms of diversification benefits and income return.

That said, it is essential to make the right choices as we chart a course in search of 'a new normal'. To do that, we must remain critical and alert to the challenges facing retailers, and strive to understand how their operations are being affected. Only then will we be able to recognise the opportunities that will inevitably emerge and select the properties that will be tomorrow's winners.

1 The Dutch retail sector in review

The Netherlands has a unique, densely woven retail structure that differentiates it from most other countries in Europe. This chapter describes the key developments that have impacted on the Dutch retail landscape in the past 15 years.

Berkel Shopping Centre, Berkel en Rodenrijs (Bouwinvest Retail Fund)

A unique starting point

In contrast to many other countries, the old centres of Dutch towns and cities still form the traditional shopping heartlands across the country. These central retail areas are supported in big cities by local neighbourhood centres, large and smaller district centres, inner urban shopping streets and standalone supermarkets in inner-city districts and outlying suburbs. This pattern is replicated on a smaller scale in Dutch villages, creating a finely-meshed retail offering unique to the Netherlands.

In the 1970s, these traditional shopping locations were supplemented with large-scale retail parks comprising Do-It-Yourself (DIY), sports and electronics stores, located in peripheral locations around the cities. More recently, factory outlet centres have made their debut in the country. The Netherlands now has three in total, with one under construction. Transport hubs, particularly railway stations, have meanwhile witnessed a huge expansion in the number of convenience stores and food & beverage outlets, further diversifying the retail landscape.

The ongoing growth of online sales is certainly disrupting the sector. That said, physical stores remain the dominant location for shopping, generating 90% of all retail sales in the Netherlands in 2018. That share is, however, declining.

Dutch retail supply per head of the population ranks third in Europe

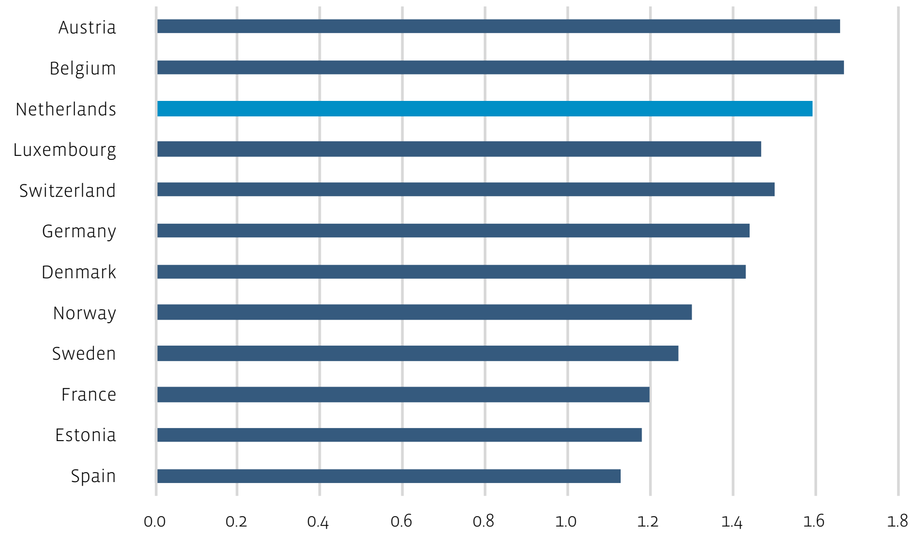
In the past decade, the total retail supply in the Netherlands in terms of gross leasable area per square metre (GLA sqm) rose 4.7% to 28 million sqm, on a par in percentage terms with the growth of the country's population, which expanded by 4.8%. As a result, average retail supply per inhabitant has remained more or less the same over this period.

In mainland Europe, the Netherlands ranks third by amount of retail space per inhabitant, with 1.59 sqm, behind Austria and Belgium. Although this score is high compared to its European neighbours, it is significantly lower than that of countries such as the U.S., the U.K. and Australia.

The relatively large supply of retail space across the country, changing consumption patterns against the backdrop of growing online sales, as well as economic headwinds in the wake of the Global Financial Crisis (GFC) have had a huge impact on the sector, and led to rising levels of retailer failures and vacancies. Substantial differences exist, however, in terms of locations most affected.

Per capita retail sales area provision (in sqm)

Source: GfK (2018)



Polarisation between weak and strong shopping locations is intensifying

The polarisation between big and smaller cities is increasing across the country, although overall vacancy rates are somewhat lower in the western part of the Netherlands. The greying of the population is visible across the country, but larger cities are less affected as they are witnessing stronger growth of inhabitants aged between 15 and 65. Overall though, total Dutch retail spending is expected to decline in coming years.

While the total retail supply has increased in the past 10 years, the number of stores has fallen by 11.3% over this period, to a total of 92,900. This partly reflects the merger of small retail stores, that smaller stores located in city fringe areas are more easily converted to other functions, and the growth of large-scale retail parks in peripheral locations.

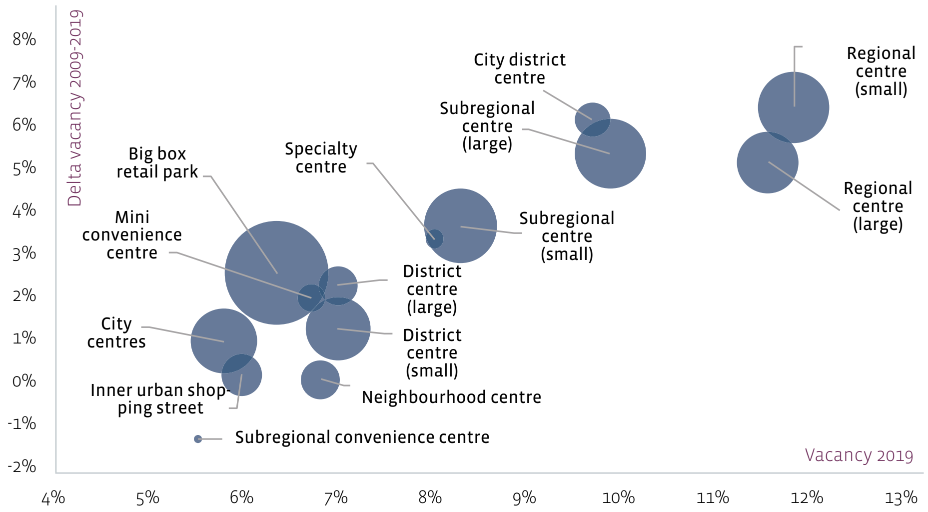
Fashion, consumer electronics and toy segments are bearing the brunt of rising vacancy levels

Vacancy levels rose significantly in the period after 2008 due to a combination of reasons. The GFC ushered in a period of falling consumer confidence and a decline in retail spending. Because the Netherlands already had a high volume of retail space per head, this immediately had an impact on profitability, leading to a substantial number of bankruptcies, particularly among retail chains that had failed to keep up with changing consumer preferences. That development was further compounded by the rise of online sales.

The total retail vacancy level in the Netherlands rose between 2009 and 2019, although vacancy levels have declined in a number of location types in the past two to three years. The figure right shows that location types represented above right in the graph performed significantly worse (high vacancy and relatively strong increase in vacancy rate) than the location types represented below left. The size of the circles is determined by the total volume of retail space for the specific retail location. The circles above right in the graph are likely to shrink sooner than the circles below left.

Vacancy by type of retail destination

Source: Locatus (Q1 2019)



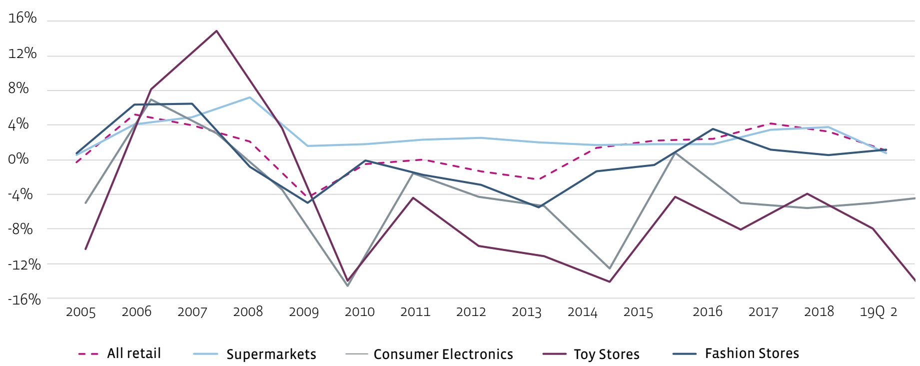
Hoog Catharijne Shopping Centre in Utrecht

Local supermarket-anchored shopping centres hold their own

In terms of retail segments, supermarkets have held their own in the Netherlands in the past decade, and retail landlords are keen to have them as anchor tenants of local convenience centres and regional shopping malls. Other retail segments such as fashion, toys and consumer electronics are bearing the brunt of the headwinds, as online sales gain ground at the expense of brick-and-mortar stores. The historical sales development of the total Dutch retail sector (including physical stores and online) is pictured on the right.

Annual growth of retail turnover by sector (in %)

Source: CBS/Statline (As per 26-9-2019)



Supermarkets did not register any decline in sales at all during the entire period. After an extended period of falling sales, the clothing sector experienced growth after 2016, albeit at a shrinking rate. Sales of consumer electronics have fluctuated significantly, but have remained in the black since the economy started recovering in 2015.

The toys retail sector ranks among those with the most negative sales development due to a number of factors, primarily the shift to online products (such as computer games) and arrival of new competitors from other sectors (such as Action, which also sells toys).

"The retail sector in the Netherlands stands out in Europe due to the compact nature of the country, the key role of convenience shopping centres in local neighbourhoods and stringent urban planning regulations that have helped check the development of hypermarkets and out-of-town retail parks."

Jeroen Jansen Research Manager Dutch Commercial Markets

KEY POINTS

1

The Netherlands has a finely-meshed retail offering that is unique in Europe, comprising central shopping districts and high streets in the big cities, large and smaller retail centres in smaller towns and villages, and local neighbourhood centres.

2

Specific types of retail locations are performing better than others, and high streets and neighbourhood shopping centres in the big cities appear to be the winners.

3

Supermarkets and food & beverage have performed significantly better than non-convenience segments in terms of sales. This is due to macro-economic factors (affecting fashion, DIY, furniture) and structural factors (affecting white goods, toys).

2 Key trends

In this section, we outline five key trends that will have an impact on the way we shop in the next 15 years. These include: economic, demographic, socio-cultural, technological, ecological and political trends and developments.

Consumer spending patterns are shifting towards services

Disposable income has stabilised in the Netherlands and spending patterns are shifting towards services and healthcare. The short-term growth and contraction of total retail spending is directly linked to the state of the economy and, in turn, to consumer confidence. Consumer spending's cyclical nature is not a subject for this report, but economic shifts are taking place that are impacting on potential spending on retail goods.

For example, disposable household income has hardly increased since 1977 (in contrast to the 1960s and a large part of the 1970s), due in part to the effects of inflation and a decline in household size. In addition, the spending shift towards services is a long-term trend and a logical consequence of the greying of the population, which is being further intensified by the fact many products are now offered as digital services, e.g. Spotify instead of CDs and Netflix instead of DVDs. Moreover, a mobile telephone subscription now costs as much as two pairs of good jeans, excluding the cost of the phone itself.

Given total disposable income per household in the Netherlands has hardly increased in the past 40 years, along with the expected impact of the greying population and related rise of healthcare spending, it is unlikely retail spending patterns will change in future. In fact, a decline appears more likely. The shift towards services is also expected to remain a trend, which means any growth in total disposable income that could be spent on retail goods would be due to an increase in the population, particularly in the working population age bracket of 20-65 years.

Population growth derived from people aged over 65 and 1-person households

The Dutch population is expected to grow by roughly 1 million inhabitants to 18.3 million by 2040, due largely to immigration. The number of people aged over 65 will rise the fastest, particularly in the 75+ category.

The growth and spread of the number of households follows the same pattern: of the 860,000 additional households that will emerge, the majority – or 700,000 – will be single households, and single elderly people will account for the greatest increase.

The number of Dutch people aged between 15 and 64 – a key target group for the retail market – rose from 10.5 million in 1995 to 11.1 million in 2010. Between 2010 and 2020, this group remained stable, but is forecast to shrink to 10.4 million in 2040. That means the most important target group for the retail market is not growing, and any increase is concentrated in a part of the population that spends less on the whole, i.e. those aged over 65.

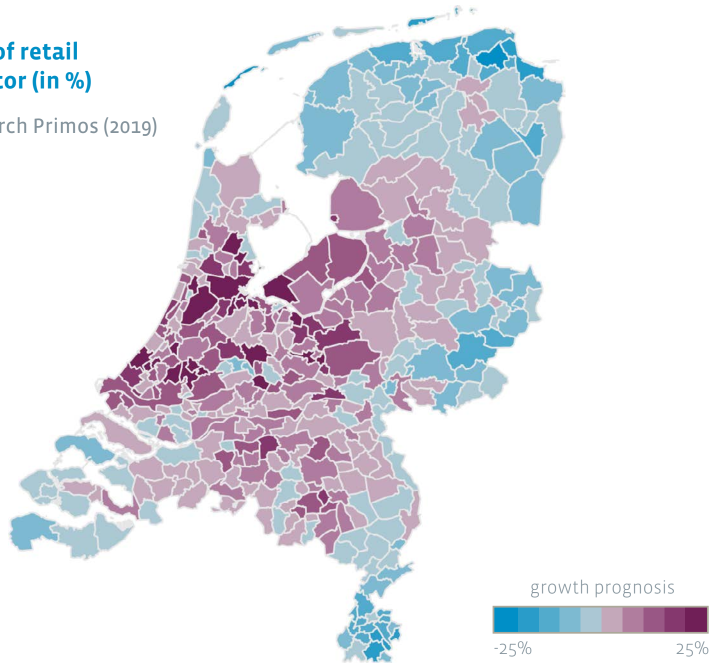
Greying of the population is least visible in the big cities

Population growth is not distributed evenly across the Netherlands. The map on the right clearly shows that growth is concentrated in the urban Randstad conglomeration in the western part of the country, the major cities in the province of Brabant and several peripheral cities including Nijmegen and Groningen. This is where the greatest opportunities for retailers are concentrated, especially those targeting sectors other than convenience.

Research by ING shows the twin trends of concentration and polarisation are irreversible, given only a small percentage (9%) of homeowners who have moved to another province expect to return to the province where they grew up. In other words, the younger, highly-educated population will continue to live in the largest and most attractive cities in the country. These cities are also affected least by the greying population, as they are able to offset this trend by attracting young people who are willing to move to the cities with the greatest choice of quality education and work.

Annual growth of retail turnover by sector (in %)

Source: ABF Research Primos (2019)



KEY POINTS

1

The Dutch population is expected to grow by roughly 1 million inhabitants to 18.3 million by 2040, due largely to immigration.

2

The number of people aged over 65 will rise fastest due to the greying of the population, particularly in the 75+ category.

3

Total disposable income per household in the Netherlands has hardly increased in the past 40 years. It is unlikely this will change in the future, in view of the expected impact of the greying population and the related rise on healthcare spending.

4

The twin trends of concentration in the biggest cities, primarily in the western Netherlands, and polarisation with smaller cities elsewhere are irreversible.

TREND 2 DIFFERENCES IN SHOPPING PATTERNS BETWEEN GENERATIONS

Shopping patterns of the elderly are different to younger generations

Research by Q&A (commissioned by Ebeltoft Group) shows that although the current generation of the elderly in the Netherlands is relatively well-off, their purchasing power has not risen in line with the economic recovery, largely because pension benefits have not kept up with inflation and the rise of healthcare costs. Indeed, a negative impact on the spending patterns of this group cannot be ruled out.

Q&A also concludes that the elderly have different shopping preferences to younger people: they do not enjoy shopping as much as a leisure activity and often only go shopping if they really need something. Elderly shoppers are less interested than younger people in bargains or discounts, but are more open to advice or recommendations from store personnel.

As a result, neighbourhood shopping centres located in areas with a greying population will need to adapt to the demands of the elderly with:

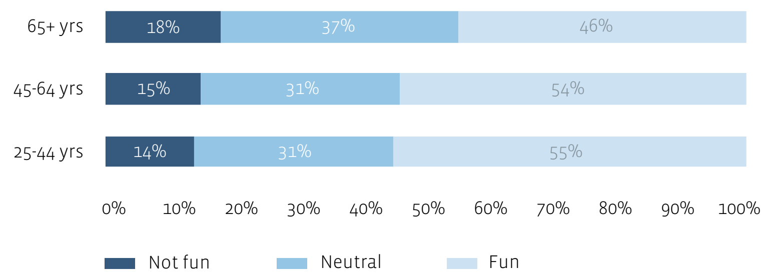
- More stores focusing on healthcare (opticians, hearing aid/pedicure/manicure specialists, etc.).
- Greater attention to accessibility (pedestrian crossings, sufficient and bigger parking spaces, lower steps).
- Greater attention to public spaces (public benches, partially indoors, public toilets, F&B facilities).
- More stores with additional services (attention to customer needs, free installation of electronic goods).
- More stores targeting the elderly (coffee tables, wide corridors, bigger changing rooms, smaller food packaging, ready-made meals).

Potential growth in spending of households aged over 65

Source: ING - Vergrijzing als kans (2016)

Shopping as a leisure activity: fun or necessity?

Source: Ebeltoft Group / Q&A – De invloed van vergrijzing op het winkellandschap (2016)



Younger generations are comfortable with online shopping and online sales will therefore only grow in importance as the youngest generation of consumers advances in age. However, these younger generations also still like to browse in physical stores, coupled with visits to food and beverage outlets, and actually make the bulk of their purchases offline.

Young people in the 14-18 and 19-25 age groups (known as Generation Z) grew up with e-commerce. They are therefore more critical of physical stores and the shopping experience. For them, it is a key condition that a physical store merges seamlessly with online shopping: delivery of products if they are not in supply, a good returns policy, in-store discounts, comprehensive product information, maximum opening times, etc.

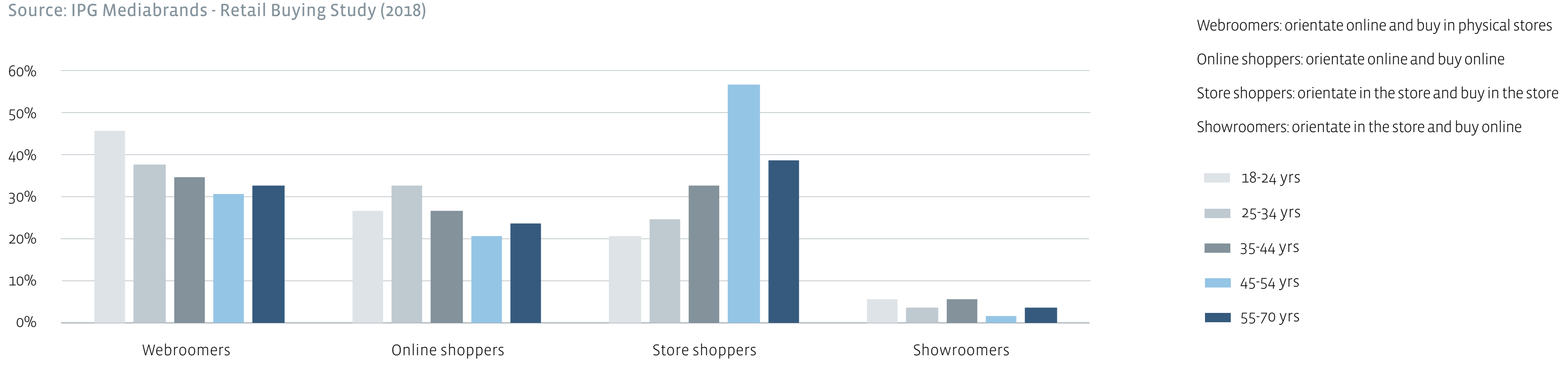
Overall, however, the parallels in shopping behaviour between younger and older generations are greater than the differences, as both groups make purchases predominantly in physical stores. That said, the differences are big enough to have quite an impact on areas and cities hit hardest by the greying population. The repercussions will be greatest in the main high streets, because recreational shopping in particular is less popular among the elderly. In the main high streets, bookstores, opticians and women's fashion will be best placed to withstand the greying of the population, according to ING Research.

Shopping centres focused more on convenience will be less affected, because spending on food does not necessarily decline with increasing age. Opportunities exist here for specialty stores that offer quality and customer services, including bicycle shops, opticians and hearing aid specialists.

Finally, areas where there is significant greying of the population will be characterised by the declining size of households and could therefore face declining total spending potential (fewer people coupled with a relative increase in household costs per person).

Webroomers and store shoppers

Source: IPG Mediabrands - Retail Buying Study (2018)



KEY POINTS

1

The greying population will have the greatest repercussions on the main high streets, because recreational shopping is less popular among the elderly. Neighbourhood shopping centres located in areas with a greying population will need to adapt to the demands of the elderly in terms of facilities, stores and other services.

2

Shopping centres focused more on convenience will be less affected by the greying population, because spending on food does not necessarily decline with increasing age.

3

The youngest generations have different needs and demand seamless integration between online and offline.

4

That said, the similarities between young and older consumers are greater than the differences: they also like to shop in a physical store, even if they tend to orientate themselves more often on the internet.

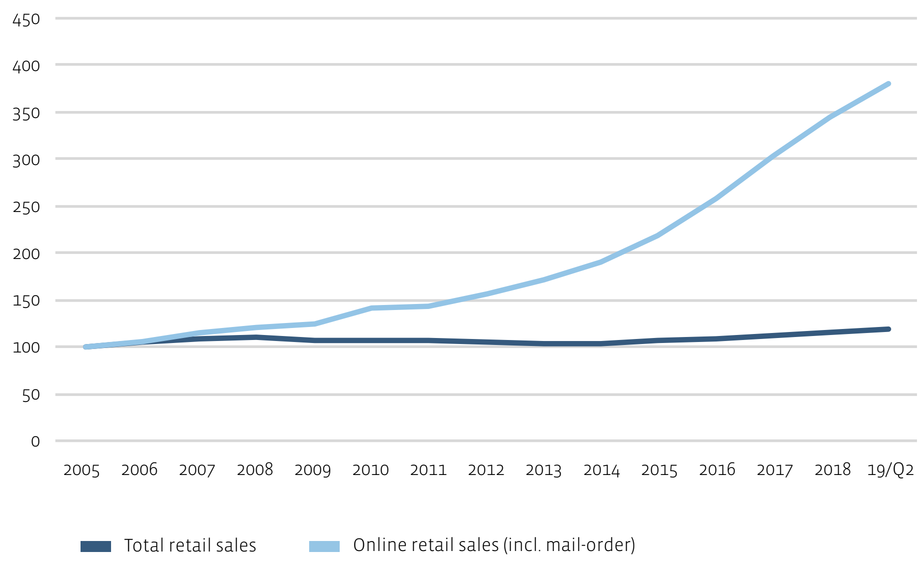
Online sales are growing fast and are expected to reach up to 19% by 2025

Online sales have grown significantly in the Netherlands in the past few years, fuelled by changing shopping patterns among the younger generations, and currently account for roughly 10% of all retail turnover excluding services. We believe we are at the beginning of a transition in the e-commerce arena in the Netherlands with the pending arrival of the global giants, which will usher in a period of consolidation among local players as the sector becomes more professionalised.

Internet sales may have been growing much faster than traditional retail turnover, but there are major differences per segment. For supermarkets, the online share remains low at around 3%-4%, while toy shops account for a much higher share of roughly 45%. Put differently, on average 90% of all retail sales are still generated by regular brick-and-mortar stores. Moreover, multichannel retailers are grabbing a larger share of online growth than pure online players whose growth has been shrinking over the past two years. Within the total retail sector, online sales are expected to grow from 10% now to 16.5%-19% by 2025.

Annual growth of retail turnover (index 2005 = 100)

Source: CBS/Statline

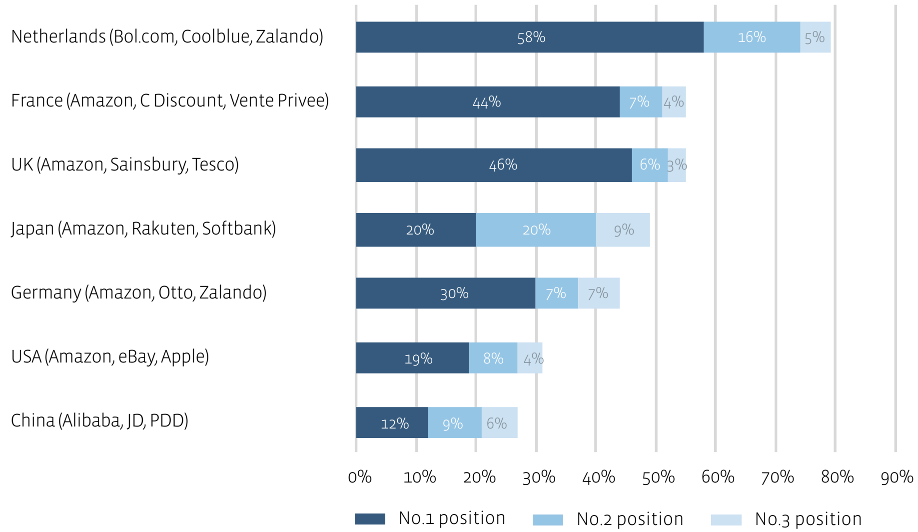


The total market share of the top three online players in the Netherlands is still limited compared with other countries, due to fragmentation and the lack of a local presence by the biggest international e-tailers such as Amazon and Alibaba. However, Alibaba is building a distribution centre in Belgium that can serve the Dutch market, while Amazon is advertising a large number of jobs for a Dutch unit on its website, suggesting it too is targeting the country.

We believe these international players will gradually increase their position in the Netherlands from neighbouring countries, and possibly even set up a fully-fledged presence in the country. The Netherlands is densely populated, with 17.3 million consumers with a high-income profile, is highly accessible, and has good internet/4G connections. That potential will eventually be tapped. In due course, we believe a wave of consolidation will take place, and smaller and medium-sized online retailers will lose the battle to a limited number of dominant players, in line with trends in other countries.

Dominant online platforms

Source: ING Economisch Bureau - Nieuwe strijd staat voor de deur in online retail (January 2019)



NOTE: The figures can fluctuate significantly over time.

Most scenarios point to growth of online sales

There are many reasons to assume online sales will continue to grow in the Netherlands. First, retailers are forced to go online if they do not want to relinquish market share. While online sales may not yet be profitable, retailers who want to retain their market share need to have a presence in the online market as well.

Secondly, existing operators, both pure players and multichannel retailers, will continue to improve their business models as the online channel is professionalised further. For example, subscription models, where consumers pay an annual fee and get groceries delivered free, are on the rise. In the Netherlands, Albert Heijn among others is experimenting with a subscription model, with a view to keeping its customers ‘captive’ in its own ecosystem. Alberth Heijn’s online platform bol.com already offers a membership option called ‘Select’ which includes free delivery and returns, and special offers for a fixed annual fee.

In that context, it should be pointed out that the world’s largest players, Amazon and Alibaba, are not yet fully operational in the Netherlands. In their home markets, they offer

Home delivery is an efficient solution for many households

a large package of supplementary services, all within a form of subscription. Those additional services include unlimited one-day delivery (or even faster in some areas), early access to special deals, monthly selection of free digital books, unlimited digital storage facilities and streaming services for music, films and TV series, all in a bid to retain the consumer within the Amazon universe.

In addition, new players with new business models have entered and will continue to enter the Dutch retail market. Grocery delivery service Picnic is an excellent example, with a gradual geographic expansion of its services with a focus on convenience. Recently it added the possibility of returning packages ordered online via its delivery van.

From a consumer perspective, young people have grown up with online and account for a gradually growing share of the consumer market. Moreover, products available online are generally speaking cheaper than in stores, making them attractive for many customers. Finally, ordering online and having a package delivered at home is in many cases an efficient solution for many households with busy daily routines.

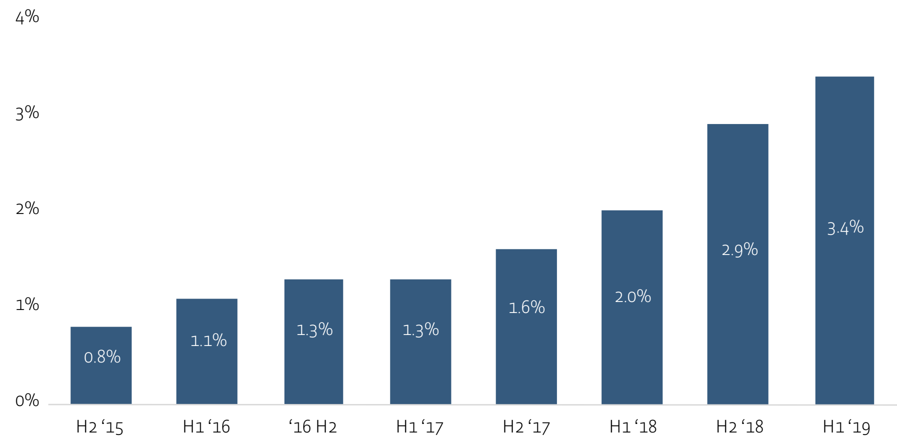
The one thing that could significantly temper the growth of e-commerce is the introduction of delivery and return costs for products purchased online, as this would lead to higher prices, affecting younger consumers in particular. A number of pure players as well as multichannel retailers have started to do just that, in order to bring down unnecessary purchases and improve the financials, but the future will tell what the effects will be. In addition, sustainability charges for deliveries may be introduced at some point, but this is likely further down the road. Finally, it is feasible that import tariffs will rise, in particular to tackle the dumping of cheap products that are sometimes of very low quality.

Online share of convenience sector set to more than treble in coming years

A key question regarding the growth of online sales is whether it will be concentrated within or outside the sphere of convenience shopping. The online market share of the convenience sector is still low, with supermarkets accounting for just 3%-4% of all purchases made via the internet. This could grow significantly if consumers automate repeat purchases via apps and Internet of Things (IoT) devices, which are becoming smarter through client data and Artificial Intelligence (AI). Retail specialists estimate supermarkets could capture an online market share of 10%-15% by 2025. Within the supermarket sector, Albert Heijn currently accounts for the highest share of online sales with 42%, followed by Picnic (23%) and Jumbo (21%).

Online supermarket sales (excl. business)

Source: Supermarkt en Ruimte (September 2019)

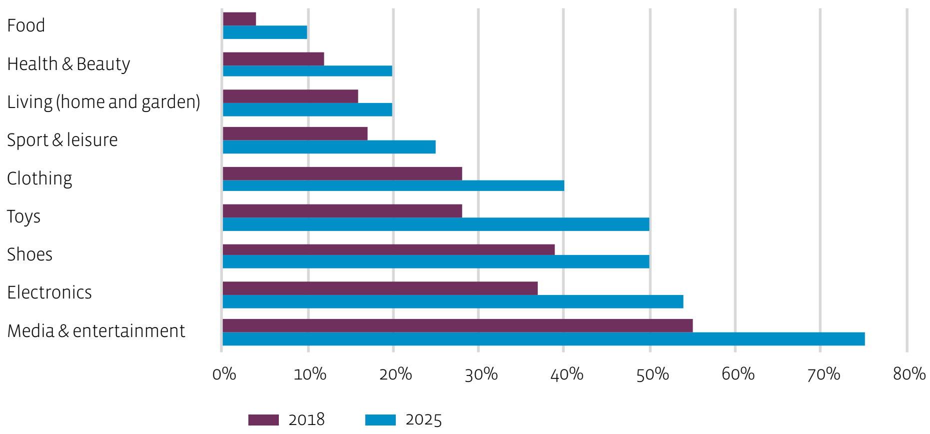


Forecasts for online market share vary per segment

The share of non-food products in online is already quite high and may increase further due to the above-mentioned trends, as well as innovations such as virtual reality (VR) and augmented reality (AR), which enable retailers to provide a virtual shopping environment in the consumer's home. There is little reason to believe online sales will not grow further, but eventually they will stabilise and a new balance will emerge, with variations between the different product categories.

Online sales by category

Source: ING Economisch Bureau - Nieuwe strijd staat voor de deur in online retail (January 2019)



Physical stores continue to play a key role in the battle for market share

The shift towards online means total store sales will drop. This will prompt retailers to optimise their store portfolio and close stores with the lowest profitability. However, physical stores continue to play a key role in the battle for market share and as a physical pick-up point. Indeed, large online players are opening or acquiring physical stores, as they form a marketing channel where consumers can experience a brand's appeal to all the senses. In addition, various studies show the online market share of a newly opened store rises significantly in the direct surroundings.

The graph on the right shows that the online sales of multichannel players are growing significantly faster than for pure-play online retailers. The future will be multichannel – the question is how many stores will be needed to optimally complement online sales?

Additionally, a physical store can:

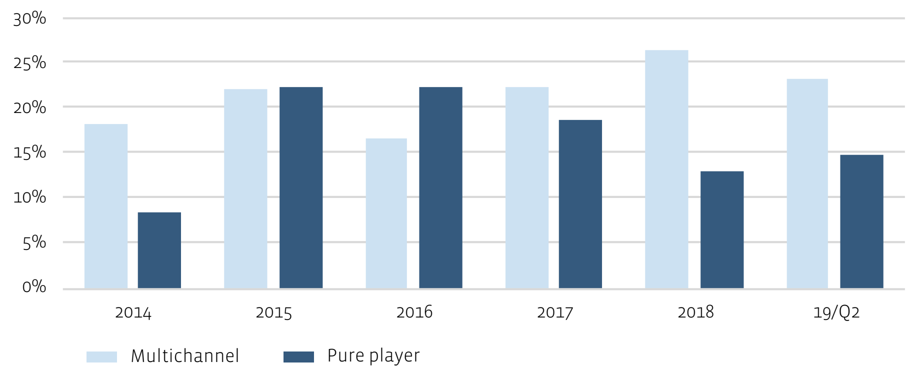
- Act as a pick-up point for deliveries or returns or fulfilment.
- Be a channel for people who also like to shop in physical stores.
- Offer opportunities for customer relations that are not possible online (extra information, service, testing products or trying on items).

The symbiosis between online sales and a physical presence will therefore be key in the future.

Stores are already taking on a much broader function than just selling goods to consumers. That also means that the actual value of a physical store should – increasingly – be determined by the added value that the store delivers to the brand experience and thus to online sales. As a result, the relationship between physical store sales and rental levels is weakening.

Growth online - multichannel versus pure player

Source: CBS / Statline (As per 2-10-2019)



KEY POINTS

1

Within the total retail sector, online sales are expected to grow from 10% at present to 16.5%-19% by 2025. This is true for both the food and non-food sectors.

2

The shift to online ultimately means fewer retail square metres will be required in future and retailers will thus need to consider (further) optimisation of their location strategy.

3

However, since physical stores play a fundamental role in attracting online sales and offer opportunities for customer relations that are unmatched online, retailers need to move towards an optimal (symbiotic) multi-channel strategy.

Importance of experience is increasing

In 1999, Joseph Pine and James Gilmore put the term 'experience economy' on the map. Their book argued the world is changing from a situation where a product or service is key to an economy to one where experience related to a product or service is central. Look at Apple, which started out selling not just personal computers but a lifestyle ("Think different"). It announces each new product as a new event, its stores put experience first and it wraps every product like a gift.

The world has moved on again since then and experience is now being decoupled from products. Despite the arrival of Netflix and other streaming services, cinema attendance is actually increasing. Football stadiums are often full and leisure parks are busier than ever. The number of concerts and festivals continues to grow, while travel is likewise becoming more popular. The F&B sector is cashing in on these trends, via both fixed and mobile locations.

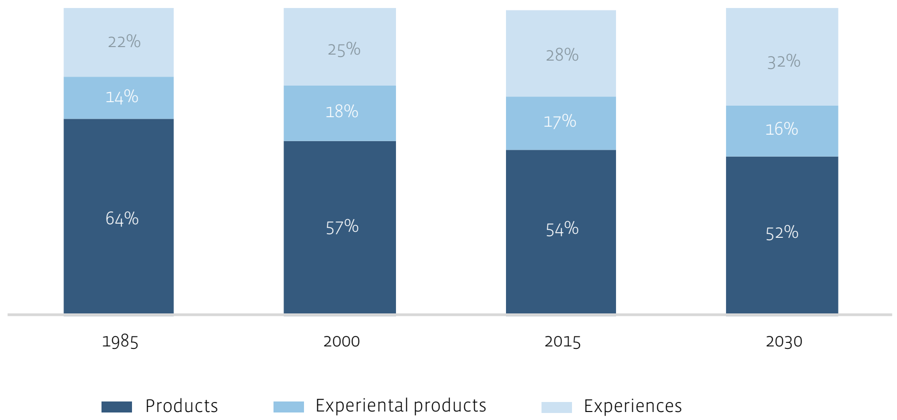
The share of spending on experience is increasing and is not expected to change. Products that can be used for an experience and appeal to the human senses (telephone, cameras, sports equipment, recreational products, etc.) are expected to capture a higher market share in 2030 than in 1985 (16% versus 14%), while the share of regular products is expected to decline to 52% from 64%. Consumers can only spend their money once, and money that is spent on experiences and events cannot be spent on products.

The implications are that retailers need to add elements of 'experience' to their stores, products and market strategy if they wish to retain their appeal. Examples of retailers currently doing this successfully include Rituals, Lush, Action and Jumbo XL. These wide-ranging examples show that experience can take different forms: from the combination of a fast-moving product range (Action); to stores focused on mindfulness (Rituals); to stores where product innovation, craftmanship and sustainability are key (Lush); to a supermarket offering a comprehensive range of fresh products and ready-made meals (Jumbo XL).

What emerges from these examples is that a store must be more than just a place to conduct a transaction. How retailers fill that in will change constantly, but they must remain faithful to the core values of their own corporate culture.

Spending on experiences and products

Source: ATKearney - The Future of Shopping Centers (2018)



A canal cruise is a great way for tourists to experience a city's historic sites and attractions

Consumer spending is rising on the back of growth in tourism

Tourism is growing unabatedly, both in the Netherlands and globally. As a result, part of the disposable income of the Dutch population is shifting towards tourism, but spending by both domestic and foreign visitors in the Netherlands is growing as well. The number of tourists that visit the Netherlands has been rising for years, and increased 5.9% annually from 2012 to 2018 (or by 8.6 million to 29.6 million). The Netherlands Board of Tourism & Conventions (NBTC) forecasts growth of another 4.2% annually to 2030. Spending by foreign tourists accounted for €29.9 billion in 2018, while Dutch tourists spent €43 billion within the Netherlands.

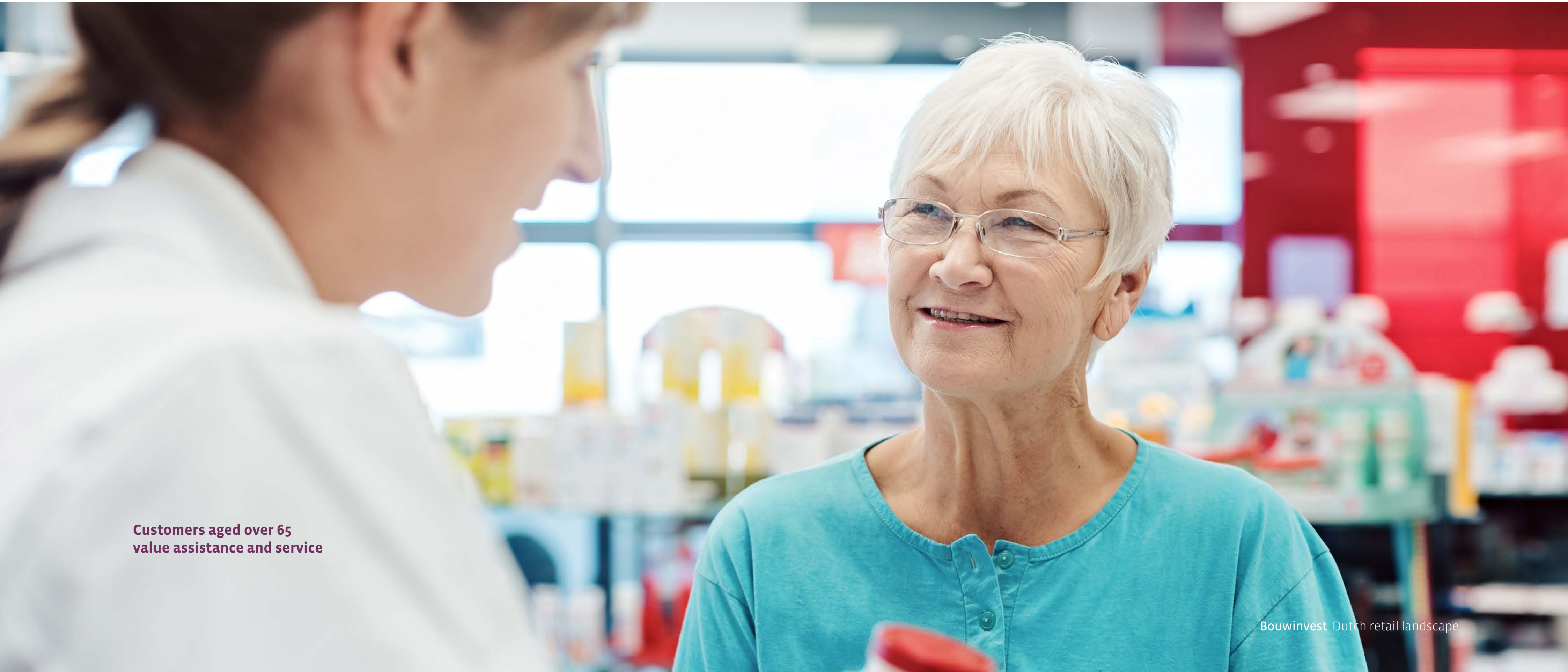
The F&B sector has profited most from this growth. In terms of specific shopping areas, the locations below are best placed to benefit:

- The inner centres of the biggest tourist cities in the Netherlands, including the five big cities with the highest tourist numbers: Amsterdam (8.6 million visitors), Rotterdam (1.3 million), The Hague (1.1 million), Maastricht (0.7 million) and, to a lesser extent, Utrecht (0.4 million).
- Cities close to the Belgian and German borders, such as Enschede, Nijmegen, Venlo, Roermond, Sittard, Heerlen/Kerkrade, Maastricht, Breda, Tilburg and Eindhoven.
- Convenience locations that are part of a tourist visit, such as the stores and F&B spaces at Schiphol airport and larger railway stations.
- Shopping areas focused primarily on experience and days out, including factory outlet centres (FOCs) such as Bataviastad Lelystad, Designer Outlet Roosendaal, Designer Outlet Roermond and the new FOC planned for Halfweg. Designer Outlet Roosendaal saw its visitor numbers rise 11% in 2018 to 1.5 million visitors, with Belgium accounting for 25% of the total.
- The largest shopping centres (such as the new Mall of the Netherlands).

Customer advice is growing in importance

Personal advice and attention are part of the shopping experience, but deserve a separate mention. These services can be offered via digital channels such as Spotify, which makes suggestions based on a person's download history. Or via smart algorithms: for example, online retailer Zalando is able to offer automated, personal recommendations based on clever feedback questions and a better knowledge of the consumer and product. These recommendations focus primarily on the size of items that can be ordered, but may well broaden in future.

Not every shopper is interested in personal customer advice, but research by Q&A shows that assistance and services in a store are very important for customers aged over 65. Given the greying of the population, retailers would do well to pay greater attention to personal customer assistance.



Customers aged over 65 value assistance and service

Innovative product-sharing concepts gain traction

A recent trend that is gaining traction in the Netherlands revolves around a rental subscription package offered by companies and retailers for specific consumer products. This is closely linked to the growing importance of sustainability and cradle-to-cradle thinking but is also part of a wider trend where being able to use a product is more important than actually owning it as the examples of Spotify and Storytel testify.

The trend was first visible in the physical world in more expensive products like cars. Via platforms such as Car2Go and Greenwheels, it is possible to have access to a car in many cities in the Netherlands, without the worry of maintenance. Via SnappCar, car owners can share their own car. Private car leasing is also experiencing huge growth and rose by 45% in 2018 to 150,000 cars.

The rental model is now also shifting towards more regular retail segments. Since 2013, Dutch company MUD Jeans has been operating a lease-a-pair-of-jeans model which allows consumers to rent a pair of jeans for €7.50 per month for 12 months. At the end of the year, the consumer can bring back the pair of jeans and rent a new pair.

IKEA has embarked on a pilot project in the Netherlands to rent furniture and the Swedish home furnishings store chain takes the furniture back after the rental period. Another example of this trend is the Bluemovement label of German white goods manufacturer Bosch which allows clients to rent a washing machine for € 9.99 per month. Intermediaries like Coolblue are also offering similar rental products.

MUD Jeans can be leased through a membership fee

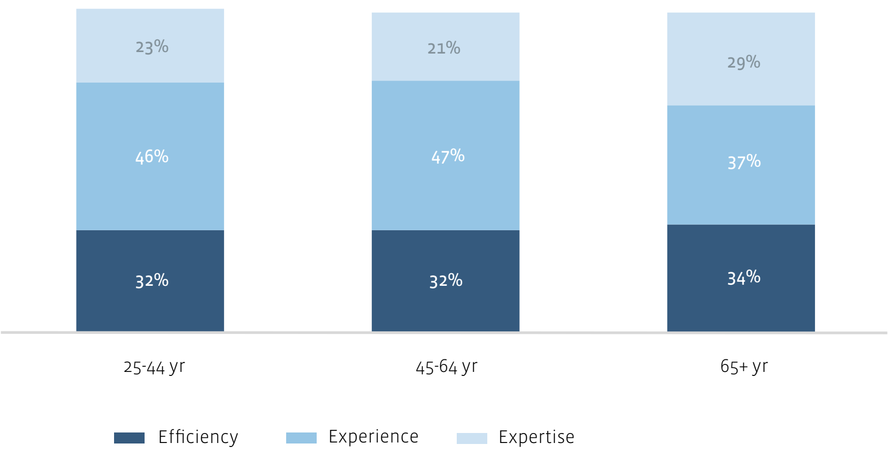
One of the key consequences of this rental model is that producers are expected to offer a higher quality of product in future. After all, the longer the product continues to meet demand, the longer it can be leased. That is good for the business model, consumer confidence and sustainability.

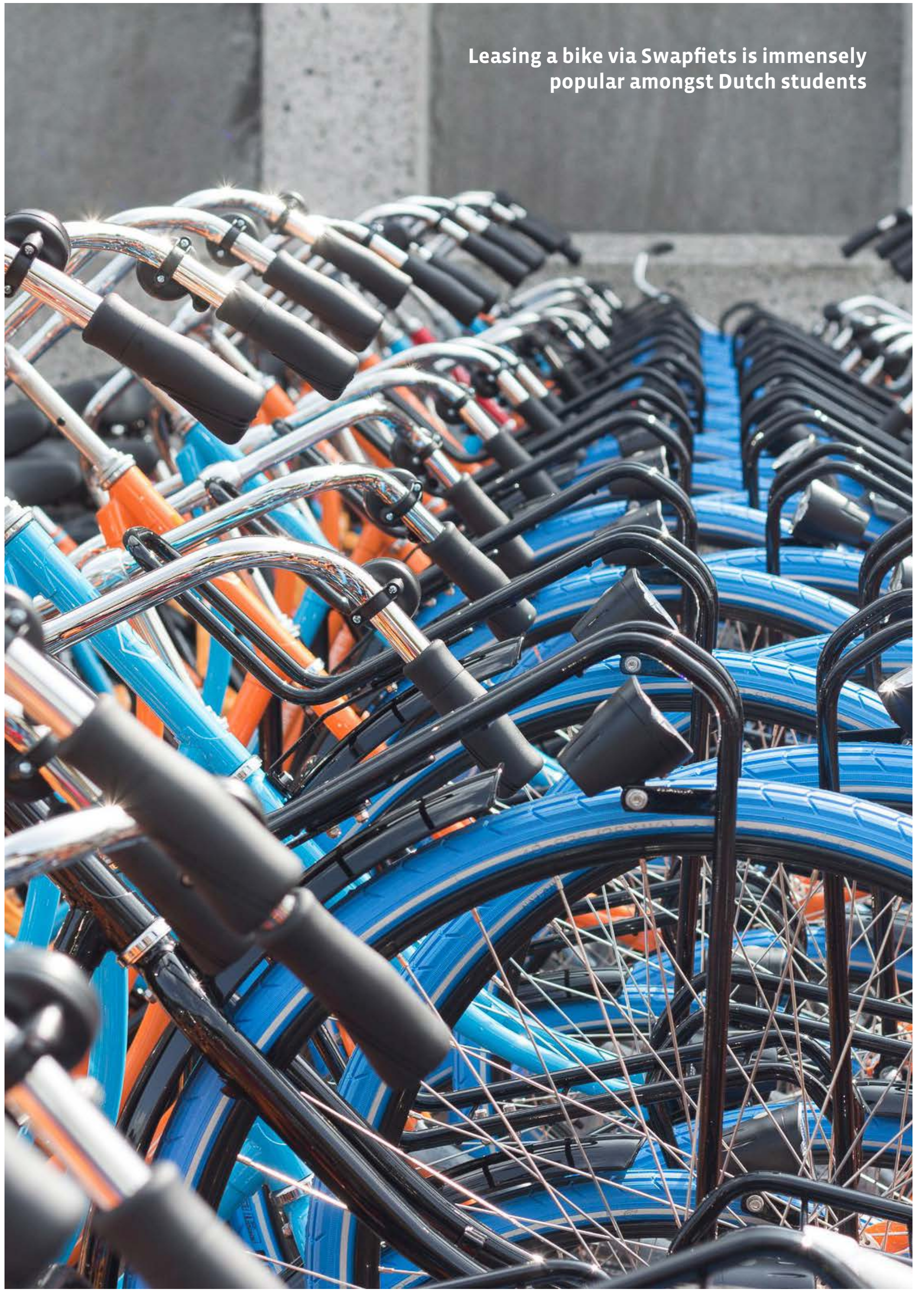
One of the disadvantages is this means of 'ownership' appears to be more expensive ultimately for the consumer. It therefore appears interesting primarily for more expensive products such as cars, where the higher price weighs against the risk of costly repairs.

A key question is how big will the shift from 'ownership to usage' become? In some (digital) sectors it has already become the leading form: few people still buy physical recordings of music now we can listen to virtually any music available via Spotify or Apple Music. Other segments like private car leasing are growing rapidly. But the growth of product sharing is significantly slower for physical products such as clothing, shoes, furniture and other household products.

Relative importance of key factors retail stores by age group

Ebeltoft Group / Q&A – De invloed van vergrijzing op het winkellandschap (2016)





Leasing a bike via Swapfiets is immensely popular amongst Dutch students

KEY POINTS

1

The share of spending on experience is increasing and this is not expected to change.

2

Retailers therefore need to add an element of ‘experience’ to their stores, products and market strategy if they wish to retain their appeal.

3

Customer advice is growing in importance due to the growth of those aged over 65.

4

Innovative product-sharing concepts are gaining traction at the expense of ownership, but the trend has not penetrated the mainstream retail sector as yet.

TREND 5 TECHNOLOGICAL BREAKTHROUGHS IN AND AROUND STORES

A huge number of technological innovations such as Artificial Intelligence (AI), the Internet of Things (IoT), Virtual Reality and Augmented Reality (VR/AR), smart cameras, 3D printing and wearables are having an impact on the entire customer journey of shoppers, both at home and in stores.

At home

VR/AR makes it possible to create a store environment in your own home or to place a product in your interior. AI is enabling consumers to communicate with retailers/producers via chatbots. It also facilitates the creation of automated shopping lists and menu suggestions that fit with a consumer's diary and special wishes. Google Assistant can help consumers find price information and then be redirected to the bol.com app. The creation of new types of food products via 3D printing is complex, but it is possible – and who knows what it will bring in the next 10 years.

In stores

AR makes it possible to find extra information about products in the store. Contactless payment is becoming more common and is now possible with the Apple Watch and other wearables. Smart cameras follow customers in the store, generating data on which parts of the store are used well and which are not, which items customers pick up and buy and which ones they put down again, which paths they follow, how many customers visit a store daily, which customers hesitate and which ones could do with assistance. And they can also track theft.

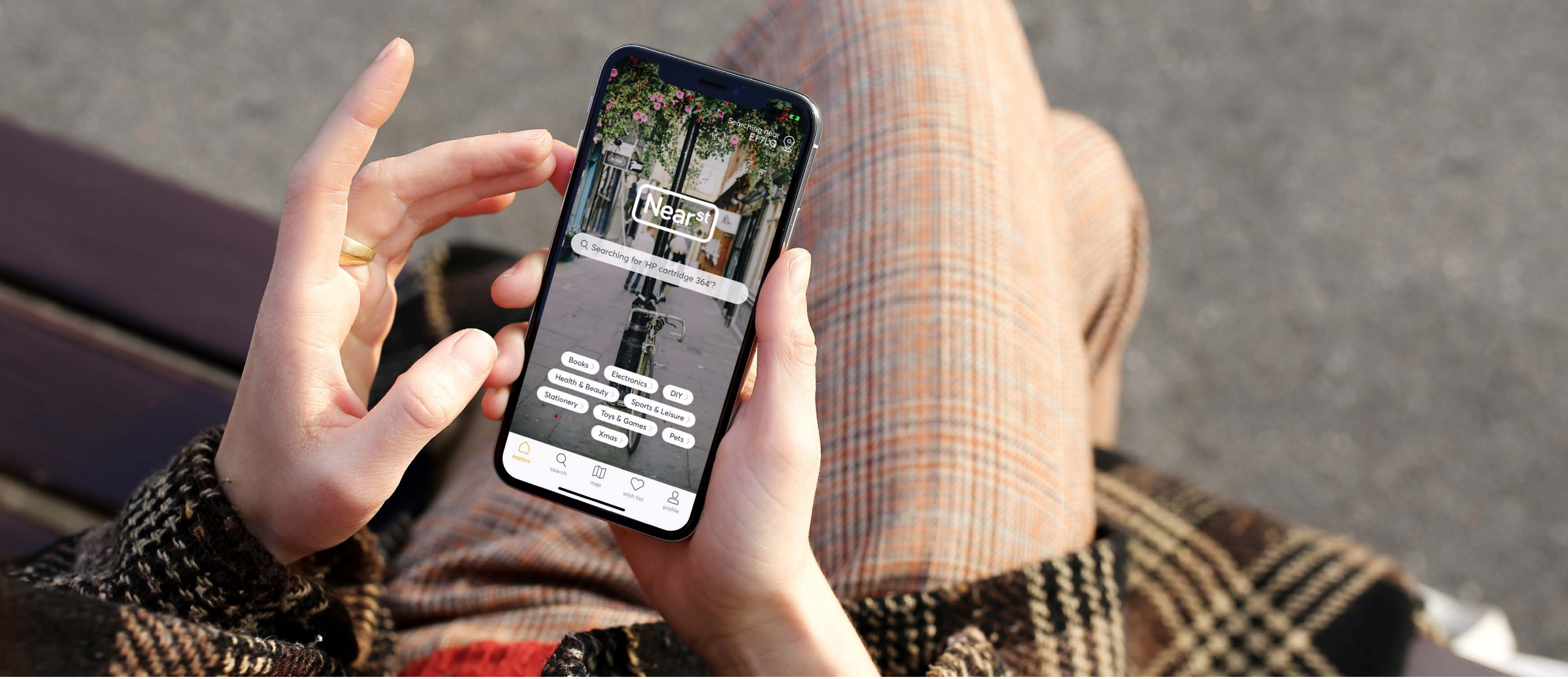
Smart cameras can even be used to keep stock up-to-date, while smart shopping trolleys can help customers find their way through a shop as efficiently as possible. Blockchain offers customers the possibility to obtain verified information about products, for example ingredients and their environmental impact, while smart mirrors and smart changing rooms can provide additional information about clothing items and display them on an image of the customer's body.

Other developments in the area of automation include self-serve grocers with fully or partly automated cashless payment solutions. AmazonGo customers in the US (15 stores and two planned openings) who have 'checked in' to a store via the Amazon app can simply take their groceries from the shelves and the groceries are automatically paid for when they leave. In the Netherlands, Albert Heijn has outfitted two AHToGo stores with 'tap to go' buttons next to the groceries. Tapping an AHToGo card on the button puts the grocery on a shopping list and 15 minutes after leaving the store all 'tapped' groceries are automatically debited from the customer's bank account. Other supermarkets chains like Coop and Tesco are also experimenting with this type of technology. Sporting goods giant Decathlon is likewise eyeing a cashier-less future for its stores.

Outside the store

AI can be used for predictive logistics and help reduce the number of returned products ordered online. Smart cameras can also be used in high streets and shopping centres, while retailers in a shopping centre can communicate and cooperate with each other more effectively via apps and platforms. Products that have been ordered online can be collected or returned in a vending machine.

These developments will change the way we shop. Total retail sales are not expected to rise significantly as a result, but some chains may be able to offer a competitive advantage. A key thing to remember is these developments will generate an enormous amount of data that will need to be converted into expertise to better assist the customer. Retailers will need to adapt to these developments to withstand the arrival of e-tailing giants such as Amazon and Alibaba.



Physical retail stock brought online

One of the biggest advantages of online shopping is that a consumer can see whether the required items are in stock and when they can be delivered. However, this is not a solution if you want an item quickly, as one or two-hour deliveries are not (yet) possible in the Netherlands and most cities around the world. It is a logical next step for physical stores to put their retail stock online since the information about product availability and sheer proximity to the consumer give them a competitive advantage.

The Near.st app is one of the new platforms meeting that demand. The app allows retailers to make their stock available online via the near.st website, which is redirected via Google maps to offer consumers the opportunity to find a product close to where they are. The app makes a physical high street just as easy to search as the internet, offering retailers the opportunity to compete with online retailers.

It seems highly plausible that in future most physical stores will make their stock searchable online, as it will make them more competitive. In any case, market watchers expect online and offline to become increasingly blurred. That will generate opportunities for investors to make shopping centres and high streets more competitive.

Drones will speed up deliveries in the future

New mobility will impact deliveries and logistics

Innovations in the automotive industry are gathering pace and one of the most appealing is the rise of autonomous vehicles. Nevertheless, autonomous vehicles are not expected to become commonplace in the Netherlands for the next 15 years at least.

The retail market needs to take these developments into account:

- Autonomous robots in distribution centres are already becoming commonplace. To become and remain competitive and profitable, pure-play online retailers, multichannel players and physical stores will need to improve their efficiency, and cost savings in logistics can help enormously.
- In the slightly longer term (5-10 years), fully automated delivery via slow-driving autonomous delivery vans equipped with delivery robots and drones should be possible. However, much still needs to be done in terms of regulations and social acceptance.
- In the long term, the combination of fully autonomous vehicles in the form of subscriptions will ensure car travel will increase significantly, including to shopping centres. But initially the impact of autonomous vehicles on consumers will be limited. The greatest impact will be visible in the logistics arena, where improvements in automation will shore up profit margins.

KEY POINTS

1

A huge number of technological innovations are taking place in and around stores. Some may in future have a significant impact on a shopper's entire customer journey.

2

These include Artificial Intelligence (AI), the Internet of Things (IoT), Virtual Reality and Augmented Reality (VR/AR), smart cameras, 3D printing and wearables.

3

Innovations in the automotive industry are also gathering pace and one of the most appealing is the rise of autonomous vehicles.

4

Nevertheless, autonomous vehicles are not expected to become commonplace in the Netherlands for the next 15 years at least.

3 Impact on retail chains

In this chapter the focus is on actual retail chains. What can be learned from retailers that have gone bankrupt, in particular the large number of chains that have relaunched in recent years with a significantly lower number of stores? Also, what are the shared characteristics of new and growing retail chains? We look at what lessons can be learned from newcomers.

Retail segments face widely different growth scenarios

Significant differences exist per retail segment in terms of their prospects for growth or contraction. A number of segments are shrinking, largely due to the effects of digitalisation. Others are more affected by economic cycles, while consolidation is a substantial driver in mature sectors.

A number of new formats have opened stores in the Netherlands in the past few years and their success stories offer valuable lessons. One of the fastest growers at present is fashion chain **Norah**, which opened its first store in 2014 and now has 55 branches across the country. The chain uses the existing shop décor of vacant stores, enabling it to open new locations quickly. It also works with short-term leasing contracts for additional flexibility.

Other chains such as **&Other Stories**, part of H&M, and **Stradivarius**, part of Inditex and a sister of Zara, Bershka and Pull&Bear, are the pioneers of superfast product renewal. This encourages shoppers to walk in to see what's new and to buy, as the item may soon be removed from the assortment. With these new brands, H&M and Inditex are targeting other audiences than their existing brands in a bid to expand their market share.

Fietsenwinkel.nl was set up in 2012 as a webstore initially with a focus on low prices. That focus has shifted since to quality and service, and it now has a significant number of brick-and-mortar stores. One of the key drivers for this development has been the growing popularity of e-bikes and demand for testing areas. The chain has 300 affiliated service points, 109 pick-up points and mobile bicycle repair specialists.

Under Armour opened its first flagship store in the Netherlands in 2017, the Under Armour Brand House in Amsterdam (where the European head office is located). This is the U.S. retailer's first and biggest Brand House in Europe. The company is growing strongly by linking up with prominent sportspeople, clever marketing, and especially through its attention to innovation. Another U.S. sports brand, **New Balance**, is pursuing a similar strategy after arriving in Amsterdam in 2016, where it opened a 300 sqm flagship store as part of a chain of flagship stores in New York, Tokyo, Berlin, Boston, San Francisco, London and Milan.

Damrak 70, Amsterdam (Bouwinvest Retail Fund)

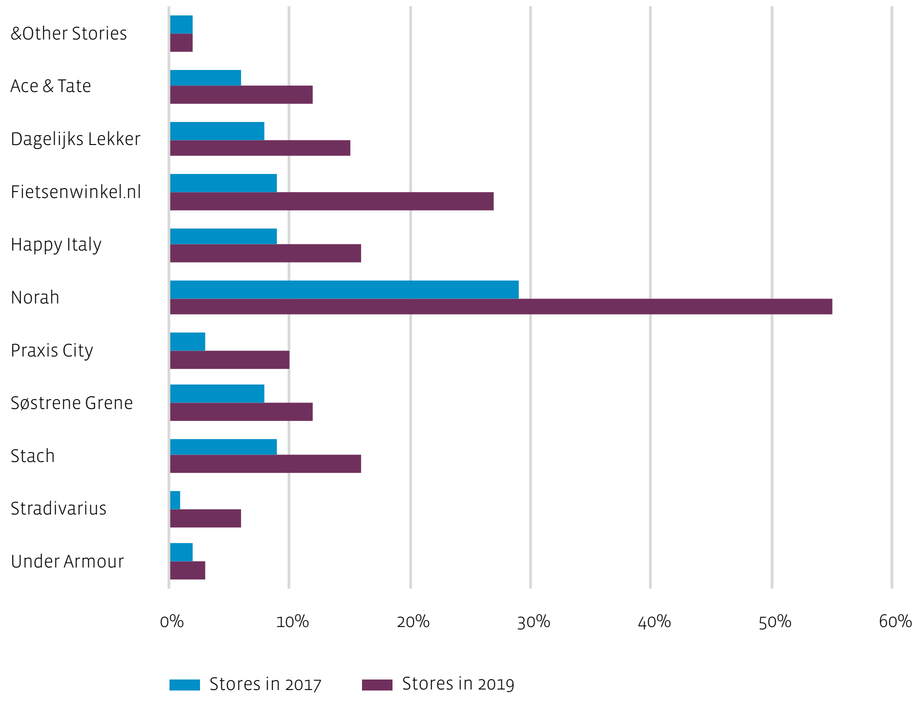
Opening flagship stores is not a new phenomenon, but market watchers expect the trend to become more important. Retailers can offer a complete brand experience with a comprehensive product range in flagship stores and show innovations to excite the consumer. These stores will be limited to the biggest cities in the Netherlands.

The F&B sector has seen the rise of many new formulas, such as **Stach**, Dagelijks Lekker and Happy Italy. Stach focuses on busy consumers and offers ready-made sandwiches, salads and meals with an emphasis on fresh, local, natural and healthy food. **Dagelijks Lekker** has a simple format: a limited but inexpensive product range for breakfast and lunch with a fixed price for all products including sandwiches, smoothies, soups, drinks and other items. Thanks to the small product range, customers are always served quickly. **Happy Italy** is the fast-food version of Italian cuisine, a niche which did not exist in the Netherlands. The product range is comprehensive, the price fair, and the fast-food format means a quick meal.

Danish chain **Sostrene Grene** offers a wide range of affordable products for the home, including furniture, kitchenware, crockery, school and office supplies, toys, and craft and party supplies. The chain has 12 stores across the country and aims to expand further, but only on the leading high streets. Interestingly, it does not have a webstore because: "We want to get people into the physical store. We believe we offer a special experience there with classical music and a labyrinth. That is difficult to replicate online."

Fastest growing new retail and catering chains (opened since 2014)

Source: Locatus (2019)



Praxis City is the new urban store of Praxis, designed in line with the new look and feel of the DIY chain. The format revolves around 'small odd jobs.' In addition, customers can rent tools and mix paint. Praxis expects to open no more than 25 urban stores, as the large DIY centres will remain the backbone. It will not open urban stores in small or medium-sized cities, because a large store is often close by and the travelling time is not all that different.

Lessons from new retailers

What new retailers all have in common is they seek to stand out on at least two key characteristics related to price, convenience, service, innovation, changes in the assortment or an own brand. The fast changes in assortment originate in the retail world, where changing collections ensure a constant flow of customers, but the trend is also visible in other categories, including food & beverage. Having an own product line enables chains to adapt quickly and retain control over quality and pricing. The future will tell whether these chains have succeeded in being distinctive enough in terms of their own selection criteria, and whether their choice of location fits with their concept.

Added value of new retail chains in the Netherlands

Source: Bouwinvest Research & Strategic Advisory (2019)

	own products	fast changing assortment	innovative products	comfort	service level
&Other Stories	+	+			
Ace & Tate	+	+	+	+	+
Dagelijks Lekker	+			+	
Fietsenwinkel.nl			+		+
Happy Italy	+			+	
Norah	+	+			
Praxis City				+	+
Søstrene Grene	+	+	+		
Stach	+	+		+	
Stradivarius	+	+			
Under Armour	+	+	+		

Lessons from strong retailers

In addition to newcomers, a number of existing chains have succeeded in expanding their operations. Many of these are active in the F&B sector and have been able to benefit from economic growth, the rising importance of experience and convenience (supermarkets and drugstores). But some chains have also expanded the number of outlets in the competitive world of sports goods, fashion and shoes. In the fashion segment, this has mainly been brand stores with their own unique product range.

A 2019 study on the distinctiveness of retailers in the Netherlands showed a mere 9% truly differentiate themselves. In other words, most stores are not distinctive in some way – via a good online profile, a distinctive store or ability to generate a lot of traffic. The four retailers considered to be most distinctive are: **Ekoplaza, Hans Anders, Lush** and **Rituals.**

Lessons from bankruptcies and struggling retailers

In the past five years, some 21 larger retail chains have gone bankrupt in the Netherlands. Of these, 13 have relaunched, but on the whole in a slimmed-down version, as seen with sports good stores **Perry Sport** and **Aktiesport**, which were both acquired by JD Sports. The total number of stores of these two formats has been almost halved from 189, with now 40 Perry Sport branches and 60 Aktiesport outlets.

Fashion chains **Miss Etam** and **Promiss** have likewise been rationalised. Of the original 140 Miss Etam stores, only 60 have survived. For Promiss, 17 of the 60 outlets are still open. Another example is **Halfords**, whose parent company collapsed in 2016, but the 28 franchisees have continued.

Hudson's Bay is closing all 15 stores in the Netherlands

All in all, bankruptcies offer opportunities to retain the most profitable stores and start again. The future will reveal whether that is sustainable or whether chains that have had a second lease of life will fail again further down the track.

Analysis by Dutch research firm Locatus into a number of recent failures draws two conclusions:

- Each chain needs to evaluate every one of its locations on a regular basis, not just when the leasing contract terminates. High streets are changing rapidly. Locations that may have been fine for a store format 10 years ago may no longer be suitable.
- A leasing contract for five years is long, but one that looks 10 years ahead is virtually impossible. Retail landlords want certainty, but the market has become so volatile that retailers no longer want to commit to such long periods.

While some chains have waited too long to prune the number of stores, others have been working on this for some time. The best-known example in the Netherlands is **de Bijenkorf**. The department store chain closed five of its 12 branches between 2013 and 2016 to focus exclusively on the top segment, and invested in expanding the remaining stores and online. This has generated positive results. In 2018, the firm booked sales growth of 7.1%, mainly due to 33% growth of online sales and a 1% rise in turnover of its brick-and-mortar stores. The days when well-performing stores could compensate for weaker counterparts are gone. The competition now is too great and investments need to be made in online channels.

Bankruptcies of leading Dutch retail chains since 2013

Source: Busines Insider (19-3-2019)

Retail chain	Year	Employees	Stores
Sissy-Boy	2019	600	45
Op=Op Voordeelshop	2019	1,164	130
CoolCat*	2019	1,450	80
Fred de le Bretoniere	2019	115	2
Intertoys	2019	3,200	286
Men at work	2018	425	27
SuperTrash	2018	60	5
Kijkshop	2018	400	70
McGregor / Gaastra	2017	320	53
Witteveen	2017	400	94
The Phone House	2017	806	70
Charles Vögele*	2017	700	85
MS Mode*	2016	660	130
Scheer&Foppen	2016	475	56
Perry Sport / Aktiesport	2016	2,500	350
La Ligna	2016	230	52
Scapino	2016	2,000	190
V&D	2015	10,000	62
DA	2015	212	6 and 266 franchisees
Dixons	2015	650	88
Miss Etam / Promiss	2015	2,000	200
Schoenenreus	2015	1,500	40
Mexx	2014	500	315
Halfords	2014	536	102
Free Record Shop	2014	755	141
iCentre	2013	400	34

* These closures refer only to the Dutch operations

3.1 Impact on supermarkets

Consolidation is likely to continue

Supermarkets have performed well in the past decade and form the only retail segment in the Netherlands that has not seen a decline in turnover since 2005. Supermarkets are able to adapt to periods of both economic weakness and strength by reducing prices and thus boosting turnover in the former, and raising prices and offering more luxury items in the latter. In addition, they are well positioned to adapt to market changes and local demand.

The Dutch supermarket universe has changed significantly in the past decade, however, due to a huge wave of consolidation. Between 2000 and 2008, the total number of supermarket stores fell from 4,359 to 4,045. At the same time, the number of stores that ranked among the top 10 chains increased. The decline was mainly at the expense of smaller chains.

The same trends mark the period between 2008 and 2018: a rise in the number of stores ranking among the top 10 chains and a further decline in the number of stores belonging to the smaller ones. Interestingly, the total number of supermarkets increased during this period. That is due in particular to enormous market differentiation, with the larger chains opening smaller stores (AHToGo, Jumbo City, Spar City) at busy locations near transport hubs and city centres.

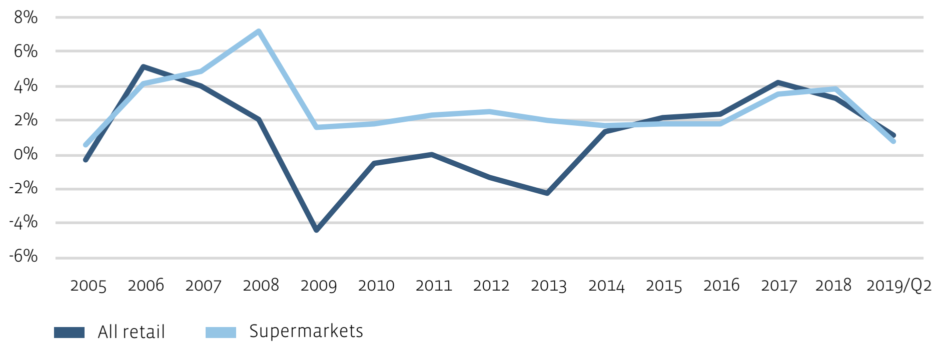
The question is: what does the future hold for supermarkets? Market leader Albert Heijn has indicated it is more likely the number of supermarkets will fall rather than rise, while Lidl and Jumbo are aiming at expanding their presence in the Netherlands.

What role will supermarkets play?

Online is also gaining ground in the supermarket sector and currently totals around 3%-4%. At present, AH accounts for the bulk of that figure (42%), while Picnic accounts for 23% and Jumbo 21%. Their online market share is expected to increase further. We foresee that in 15 years from now, people will still be buying their groceries at a supermarket and there will still be people who have their groceries delivered. A hybrid offering consisting of a physical supermarket, online delivery and click-and-collect pickup points is the most logical development.

Annual growth of retail turnover by sector (in %)

Source: CBS / Statline (26-9-2019)



Supermarkets need to turn their stores into a destination too. Customers need to be convinced over and over again that they need to go to the store. That means providing more experience in the store, more product demonstrations, ready-made meals, expert consultation on a personal level (including healthy dietary advice), personal discounts, inspiration, workshops, complementary services and so on.

Another path to customer loyalty alongside the usual savings promotions is the offer of a subscription model. This is only possible if you have a big enough offering and are able to provide home deliveries. Amazon already does this in the U.S., but AH/bol.com is also experimenting with this model in the Netherlands. If consumers were to pay an annual fee for free delivery the whole year round, and obtain discounts on complementary services, special offers and so on, they would be less likely to cross over to a competitor.

While physical stores, including those of supermarkets, will remain a key part of the offering and marketing mix, consumers are on the whole less willing to travel a bit further for a supermarket than for a specialty store.

Supermarkets must therefore offer an experience, but some stores may also play a fulfilment role. In China, HEMA, a supermarket chain operated by Alibaba, offers its clients the option of shopping in store and having the goods delivered at home, or putting together small orders and delivering them free of charge from a store within a three-kilometre radius. AH has also indicated it will deliver groceries directly from its stores in 2025, and not from its distribution centres.

In addition, supermarkets will offer more complementary services in future, particularly in regions where the population is declining and where it is becoming more difficult to offer stand-alone services profitably. A similar trend may become visible in suburban shopping centres via the addition of a postal agency, launderette, heel bar, bicycle repair shop, hairdresser, creche, a municipal office, homework supervision, etc., for example within supermarkets. In that way, stores will continue to play a social role in their environment.

Stadionplein, Amsterdam (Bouwinvest Retail Fund)

3.2 Impact on major shopping destinations

Role and segment mix on high streets

The central shopping areas of the 17 biggest Dutch cities have performed much better in the past decade than almost all other shopping locations. Vacancy rates are low and have risen only slightly. Central shopping areas in smaller towns and cities are facing headwinds and the polarisation between the two is huge.

The big cities are expected to book the strongest population growth and be affected least by the greying of the population in the next 15 years. In these cities, population growth is expected among those aged between 15-65, which is the key target group for inner-city shopping areas.

But there are big differences between the big cities. Within the 30 biggest cities in the Netherlands, outlier provincial cities like Alkmaar, Alphen, Apeldoorn and Venlo are seeing their populations age significantly more than the largest urban centres. As the graph right shows, Groningen, Utrecht and Amsterdam stand out at the positive end of the spectrum. That polarisation will grow: the big cities will continue to function well, but the medium-sized cities with a regional function will face headwinds.

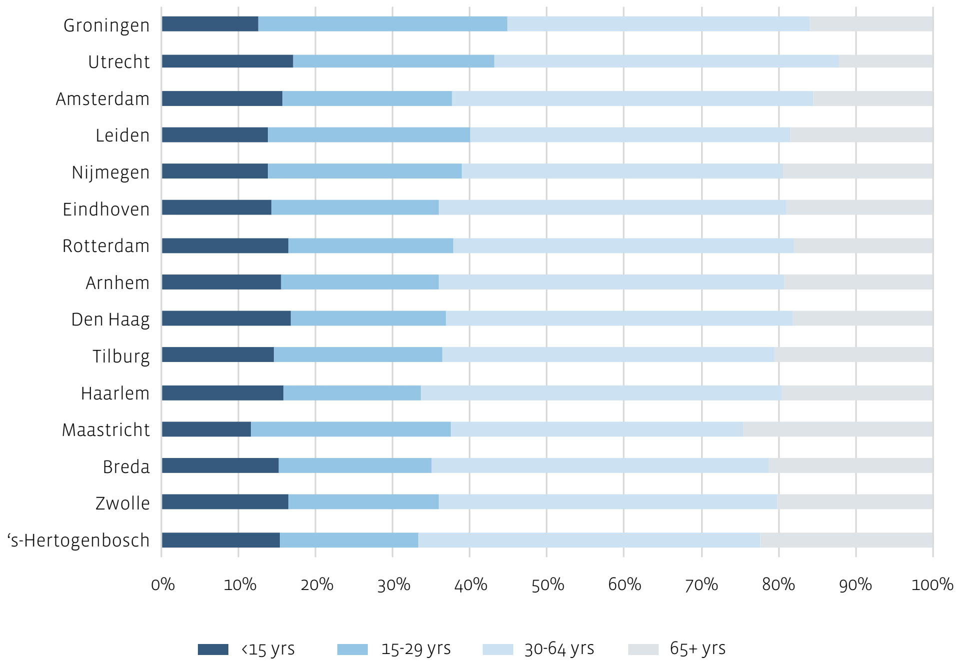
City centres are also feeling the impact of the growth of online shopping. Some segments have virtually disappeared from shopping streets and others have had to reinvent themselves. That development is not only negative: it means retailers have to focus more on their added value and improve themselves.

As a result, city centres will generally become more compact, possibly with the exception of a select number of the very biggest cities. Choosing the best locations will therefore become even more important.

Generally speaking, the future is multichannel. Even with the growth of online sales, physical stores will continue to exist, as they have their own place in the retail ecosystem. Moreover, online chains are opening stores and service points, although they are not doing that yet in the top high streets. Landlords in inner city centres are also seeing strong demand for greater flexibility in rental contracts so retailers can adapt their business if necessary. At the same time, the maximum size of stores will decline in line with the size of the city centre to boost the rentability.

Largest Dutch cities by age group in 2030

Source: ABF Research Primos (2019)



Role and segment mix of local shopping centres

Online shopping will continue to grow in the coming years, including in the convenience sector. However, there will still be room for local shopping centres in future. Even if supermarkets boost the share of online sales to 10%-15%, the bulk of their products will still be purchased in physical stores.

Shopping centres focused primarily on daily convenience shopping have performed relatively well in the past 10 years: vacancy rates have been low and have risen only marginally. The supermarket sector itself has not reported any sales decline in the past 15 years.

Proximity is, and remains, a strong argument for visiting a local shopping centre. Store chains and local specialists will need to be as close as possible to their customers, preferably at locations their customers often visit and where they are reminded that the retail chain is there. Stores in local neighbourhood shopping centres also have the advantage of being able to create pick-up points and a place for returns. Indeed, local shopping centres may become even more important in the future as a pick-up point. That is especially true of the supermarkets, which will evolve into a hybrid format where weekly repeat groceries are ready to be picked up, and the main offering centres on fresh produce and ready-made meals.

"The retail market is constantly changing and that is true today more than ever. What is different today is the speed of change and the number of new developments that are converging and creating a new shopping environment. The Netherlands is not immune to these turbulent times. As a major retail landlord, we have an obligation to keep close tabs on all the moving parts and the multichannel strategies that are reshaping our brick-and-mortar stores."

Collin Boelhouwer Director Dutch Retail Investments

However, as a larger share of retail turnover is generated online, competition between various local neighbourhood shopping centres will increase. The prospects are best for retailers and shopping centres able to adapt to this shift. That is particularly true of the local shopping centres that are dominant in their catchment area.

Within these dominant local shopping centres, landlords also need to engage with their tenants in the search for opportunities that will be advantageous to both in the long term. This could mean creating greater flexibility in rental contracts, combining several retail formats in a single building, improving cooperation between retailers and increasing the online presence of the shopping centre.

One of the key advantages of a neighbourhood shopping centre is its central location in a residential area, its accessibility and development potential (above stores, parking areas, store conversion). That is why these locations will retain their function, even if the pure retail function is likely to be smaller in future.

Since the elderly appear to be more focused on local shopping centres, there are opportunities to meet their requirements and demands, especially since the greying population will have an impact almost everywhere in the country. For example, landlords need to look at the potential for converting retail spaces to other social or commercial functions like coworking spaces, fitness areas and so on. On the negative side, areas with an ageing population will have fewer families, which will lead to a decline in purchasing power.

Experience will also increase in importance for local shopping centres – not to the same extent as centres focused primarily on non-convenience goods, but enough to be taken into account. All these elements need to be weighed in acquisition strategies, hold-sell analyses and the activities of fund employees.

Oosterheem Shopping Centre, Zoetermeer (Bouwinvest Retail Fund)

KEY POINTS

1

In the wake of macro-economic trends that are changing the retail landscape, significant differences exist per retail segment in terms of their prospects for growth and contraction.

2

In every segment we have seen existing retailers going bankrupt at the same time as others are expanding. This trend has accelerated in the last 10 years.

3

It is essential for retailers to differentiate themselves. In this context, brand retailers have a strong basis.

4

Experience is another increasingly important differentiating factor. Stores need to be inviting and inspirational, while 'standard' purchases need to be automated as much as possible.

5

In other words, a symbiosis of physical stores and online: the future is multichannel.

6

That is also true for supermarkets, which face an interesting challenge, but will remain an essential part of the retail landscape.

7

The central shopping areas of the biggest Dutch cities have outperformed almost all other shopping locations and will most likely continue to do so. They offer the ultimate experience in combination with a favourable demographic profile.

8

Local shopping centres aimed at daily shopping will also retain their importance. Retail chains focusing on daily shopping need to be as close as possible to their customers.

9

Finally, landlords need to actively engage with their tenants in their search for opportunities that are advantageous to both and which are focused on the longer term.

4 Investing in retail property

In this chapter, we analyse the retail investment market and how retail has added value to investment portfolios in the past few years. We also look at market forecasts and factors that are of importance in evaluating future risks of retail investments.

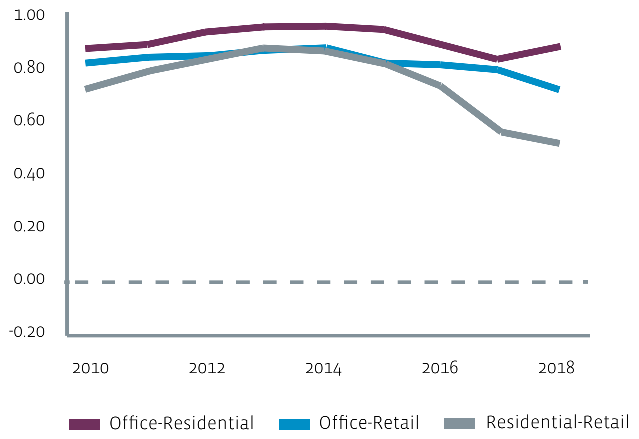
Retail has never generated a negative total return

Retail property has traditionally played an important role within the real estate investment universe. Viewed historically, it has also offered clear added value. For a start, the correlation between retail and other real estate sectors is lowest, certainly in the long term. The graph below lists the 15-year moving correlation between the three largest real estate investment sectors in the Netherlands.

Additionally, all the historical market data from MSCI indicate that retail property has never generated a negative total returns in the Netherlands since 1995. Retail real estate was less volatile than other categories as well.

Correlation between retail and other real estate sectors*

Source: MSCI (2019)



* Correlation based on total returns

Total returns per investment category (the Netherlands)

Source: MSCI (2019)

The combination of both has led to a relatively high Sharpe ratio of 1.93 over the period between 1995 and 2018, and 1.85 over the 2009-2018 period. The Sharpe ratio expresses the return above the risk-free return per unit. The higher the ratio, the more successful the investment in terms of the risk taken to generate additional return. According to investment theory, adding an asset category with a relatively high Sharpe ratio to a portfolio will raise the total Sharpe ratio of the portfolio as a whole. In combination with a relatively low correlation with other real estate sectors and the diversification benefit, retail property has therefore been able to add significant value to real estate portfolios.

Sharpe ratio based on market data 1995-2018

Source: MSCI

Sector	Average compounded annual total return	Standard deviation average compounded annual total return	Sharpe ratio*
Residential	8.7%	5.9%	1.47
Retail	**7.8%**	**4.0%**	**1.93**
Office	7.0%	5.6%	1.26
Industrial	8.6%	4.5%	1.90

* The Sharpe ratio express excess returns and the standard deviation of these excess returns

Sharpe ratio based on market data 2009-2018

Source: MSCI

Sector	Average compounded annual total return	Standard deviation average compounded annual total return	Sharpe ratio*
Residential	6.8%	7.2%	0.93
Retail	**4.2%**	**2.3%**	**1.85**
Office	4.5%	6.1%	0.74
Industrial	6.7%	5.1%	1.32

If we look in more detail, differences emerge between the sub-segments. Within the retail property market, MSCI distinguishes between 11 sub-segments. The table below shows the total returns, the volatility of these returns (standard deviation) and the Sharpe ratios for these sub-segments. The table shows that the sub-segments highlighted in bold combine a high total return (above the risk-free rate) with a high Sharpe ratio.

In addition, the divergence within the various sub-segments has only increased from 2013, as the graph page 50 reveals. City centres, district centres/community centres and in-town shopping high streets have performed best. The polarisation between the different retail areas is not only visible in terms of vacancy, but in returns and volatility.

Sharpe ratio based on market data 2009-2018 retail sub-segments

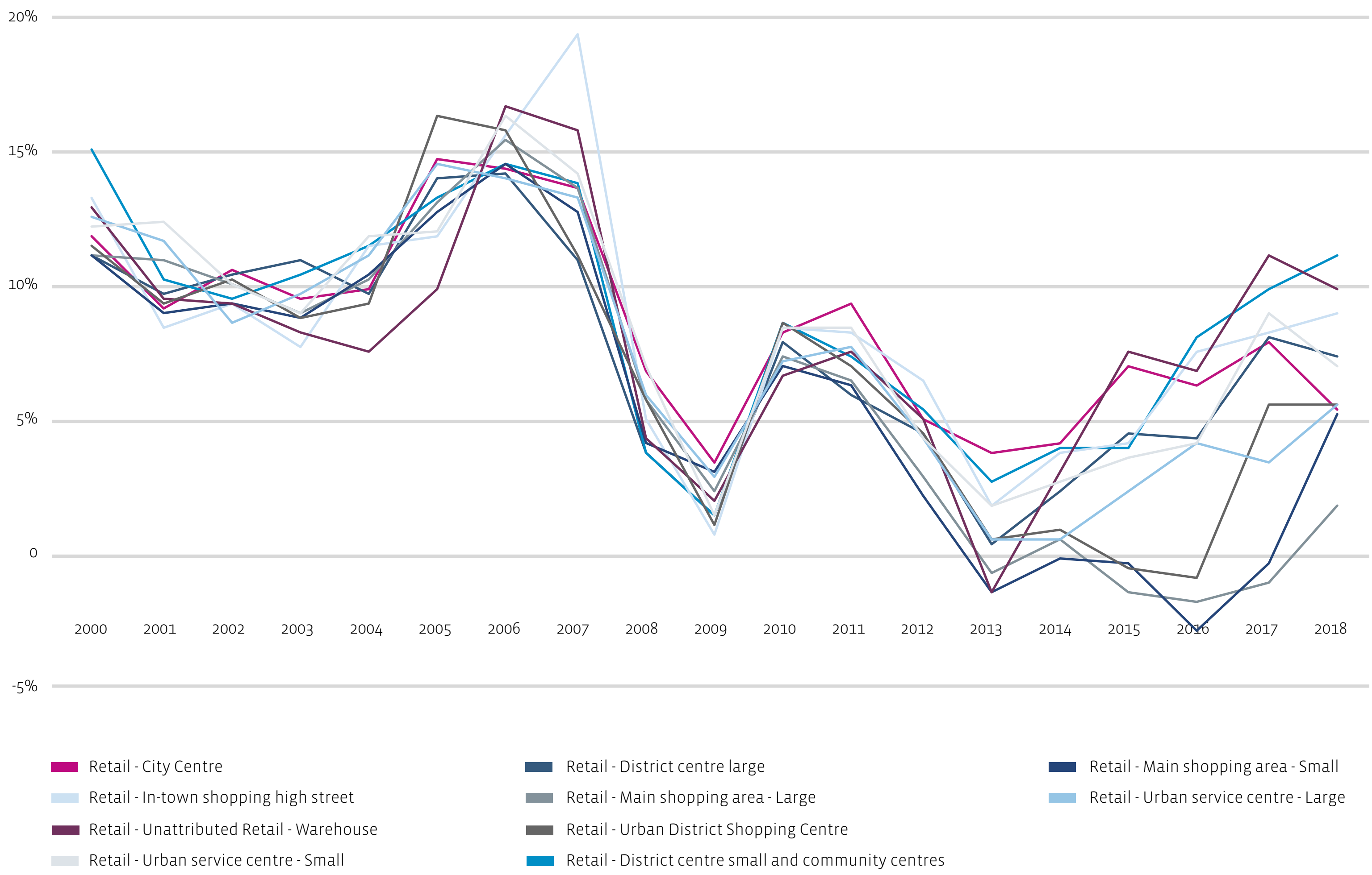
Source: MSCI

Retail sub-segment	Average compounded annual total return	Standard deviation average compounded annual total return	Sharpe ratio*
Retail total	4.2%	2.3%	1.85
City centre	**5.7%**	**2.0%**	**2.85**
District centre large	4.5%	2.7%	1.67
District centre small, community centres	**6.1%**	**3.2%**	**1.88**
In-town shopping high street	**5.8%**	**3.0%**	**1.92**
Main shopping area – Large	1.4%	3.2%	0.43
Main shopping area – Small	1.5%	3.4%	0.45
Unattributed Retail - Warehouse	5.6%	3.7%	1.49
Urban District Shopping Centre	3.1%	3.4%	0.90
Urban service centre - Large	3.6%	2.5%	1.46
Urban service centre - Small	4.9%	2.9%	1.69

* The Sharpe ratio express excess returns and the standard deviation of these excess returns

Total returns per retail sub-segment (the Netherlands)

Source: MSCI (2019)



Market expectations

Looking ahead, Bouwinvest expects the volatility of retail to increase somewhat due, for example, to the shortening of cycles, particularly in areas that already have a lower Sharpe ratio. The best areas are expected to be significantly more resistant. In these shopping areas, vacancy levels have risen only minimally in the past 10 years and they have also shown the highest total returns. While rental and property values have been declining across the Netherlands, they have been far more stable in these shopping areas. Since retailers want to continue renting there, we do not expect major fluctuations in rental levels in these areas. In the coming years, we therefore expect falling rental and property levels in problematic locations and far more stable development in the best locations.

In addition, the Netherlands will not be able to fully avoid the fallout from negative sentiment in the international retail market. In the first half of 2019, retail investment volumes were half the level of the comparable 2018 period. In a market characterised by strong polarisation, it is essential that real estate investors engage in bottom-up asset selection and adhere to stringent conditions. Opportunities will emerge within the vast spectrum of the retail market in view of the great differentiation between segments, locations and assets.

In addition, retail offers an attractive direct return, certainly in local neighbourhood shopping centres, which is an important argument for institutional investors.

5 Conclusion

Multichannel retail will become the new normal

The changes sweeping through the retail landscape, both in the Netherlands and abroad, have had a major impact on retailers and retail landlords, and will continue to do so in the decade to come. A 'new normal' will eventually evolve, but we expect fewer stores and fewer square metres of GLA will be needed in the retail landscape of the future, especially in the weakest retail locations. That said, there will be greater integration between e-commerce and brick-and-mortar stores as multichannel retailing becomes the norm. The growth of e-commerce continues apace, but the vast majority of items are still purchased in physical stores. We believe that will remain the case in the future given younger generations continue to enjoy shopping, even if they do increasingly use the internet to orientate themselves on eventual purchases.

It is difficult to predict exactly what number of stores and how much GLA will disappear, especially given total retail space increased 4.7% in the past decade, despite a 10% rise in e-commerce. What is easier to predict is which shopping locations and areas will be most affected. Our analysis indicates the locations with the lowest risks are those that performed well in the past 10 years in terms of occupancy as well as returns. These include high streets in the largest cities that offer experience, the largest supply of stores and favourable demographics, along with shopping centres focusing on convenience. Secondary inner-city shopping streets in the largest cities and large-scale retail centres are also well positioned, although the latter show a greater deviation in terms of total returns.

> "As a major retail landlord, we have an obligation to keep close tabs on all the moving parts and the multichannel strategies that are reshaping our brick-and-mortar stores."
>
> **Collin Boelhouwer** Director Dutch Retail Investments

The retail property market is currently under pressure in many countries across the world due to the growth of e-commerce, demographic developments, economic uncertainties and changing consumer preferences, which has led to a growing number of bankruptcies. Retailers and stores unable to add value will run into problems.

In addition to more cyclical trends, the Dutch retail market is not immune to international developments and global sentiment. It is different though to most of its peers elsewhere in Europe. This is particularly true of the country's inner-city centres, which generally do not face competition from large shopping centres, as well as neighbourhood centres, since they focus far more on convenience than is the norm abroad. It is, however, still quite possible that Dutch retail pricing will also be affected by the negative sentiment that currently prevails more generally in the retail sector.

As a result of the developments and challenges in the retail market, retail investors need to adapt and create clear objectives in terms of their investment and hold/sell strategies. Investors also need to team up with businesses and all other stakeholders to think of ways to make their shopping centres as strong as possible, with a view to adding non-retail functions, creating solutions with regard to contract terms, attracting local heroes, expanding partnerships and expertise sharing, and stepping up the online presence. The market is changing rapidly and more than ever investors need to offer retailers greater flexibility.

Huge differences also exist per retail segment in terms of opportunities and threats. Some segments will be affected more than others by the growth of e-commerce and therefore need to find ways to integrate that trend. But in all segments, retailers need to combine their brick-and-mortar stores with an online presence. Only a few exceptions at the lower end of the market can afford not to do so.

Investors in retail therefore need to keep close tabs on developments per segment. But that in itself is not enough. Within each segment, some retailers will be able to expand, while others will be forced to shrink their operations. As a result, a critical view at the retail chain level will become increasingly important. Additionally, the underlying asset and specific location remain of great importance in terms of local dominance, visibility, accessibility, size, quality, ESG parameters and so on.

Inevitably this view on the future of the Dutch retail landscape is coloured by our perspective today. Some trends may develop more rapidly than others, which is why the retail landscape needs to be monitored constantly. Investors also need a greater insight into the segments that converge with the traditional retail market, such as urban logistics and the growth of food services and delivery or ready-to-eat meals, and the role that stores, shopping centres and food retailers can play there.

Looking to the future, Bouwinvest expects a far-reaching symbiosis between online channels and physical stores. There will be fewer stores, but the retailers will be better. The Dutch retail market needs to adapt to the rising number of socio-economic and demographic developments as it charts a course to a new normal. There is only one way forward: the future of the Dutch retail sector is multichannel.

About Bouwinvest

Bouwinvest Real Estate Investors B.V. specialises in managing real estate portfolios for institutional investors. Bouwinvest strives to achieve sustainable returns on behalf of its institutional clients. We manage €12.1 billion (HY 2019) in assets within five Dutch property sector funds and three international real estate investment mandates in Europe, North America and Asia-Pacific. With more than 65 years of experience and a heritage rooted in pension funds and the construction industry, we understand the needs of long-term institutional investors and the dynamics of the domestic and international real estate investment markets. Bouwinvest has an experienced team of 180 professionals. With our long successful track record of managing real estate investments in the Netherlands, we have been able to transfer this winning model to markets across the globe with similarly successful results. What we learn abroad can also be applied at home.

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