

Shopping centre & retail market

Kiinteistötalouden ja -arvioinnin perusteet

23.4.2019

Tuomas Vuorinen, JLL



JLL: Global excellence, locally delivered



For more than 250 years, JLL has been a trusted partner to organisations that want more value from the commercial real estate they own, use and invest in. We help our clients Achieve Ambitions.

Goal to be the largest in America

• 80+ professionals in Finland
The largest in EMEA

The largest in Asia-Pacific

80 000+

Professionals

80

Countries

\$7,9 B

Turnover, 2017

2017 WORLD'S MOST ETHICAL COMPANIES™
WWW.ETHISPHERE.COM

Goals for the day



1. Retail-market basics

Understanding retail market on high-level, basically various graphs pointing up or down

2. Understanding shopping centre value

Understanding the value of a shopping centre through income approach & business model

3. Building blocks of a winning shopping centre

Understanding what makes a good shopping centre and how to analyse it

Agenda

1. Introduction
- 2. Retail-market**
3. Value of a business
 - Income approach
 - Business model approach
4. Foundation of a winning shopping centre
5. Understanding competition
6. Trends

Retail rents are the highest in the business



~31€/m²

~170€/m²

Prime office rent per month in Helsinki

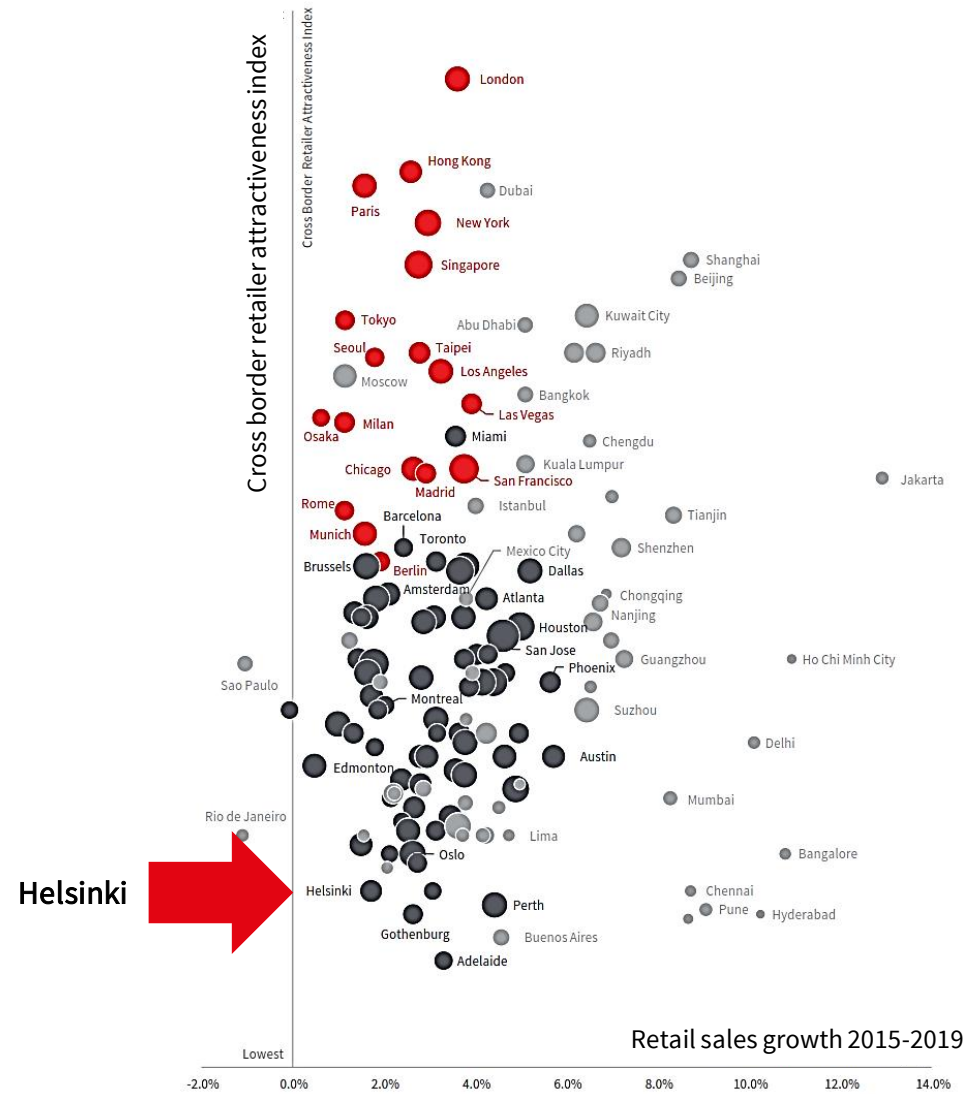
Prime retail rent per month in Helsinki



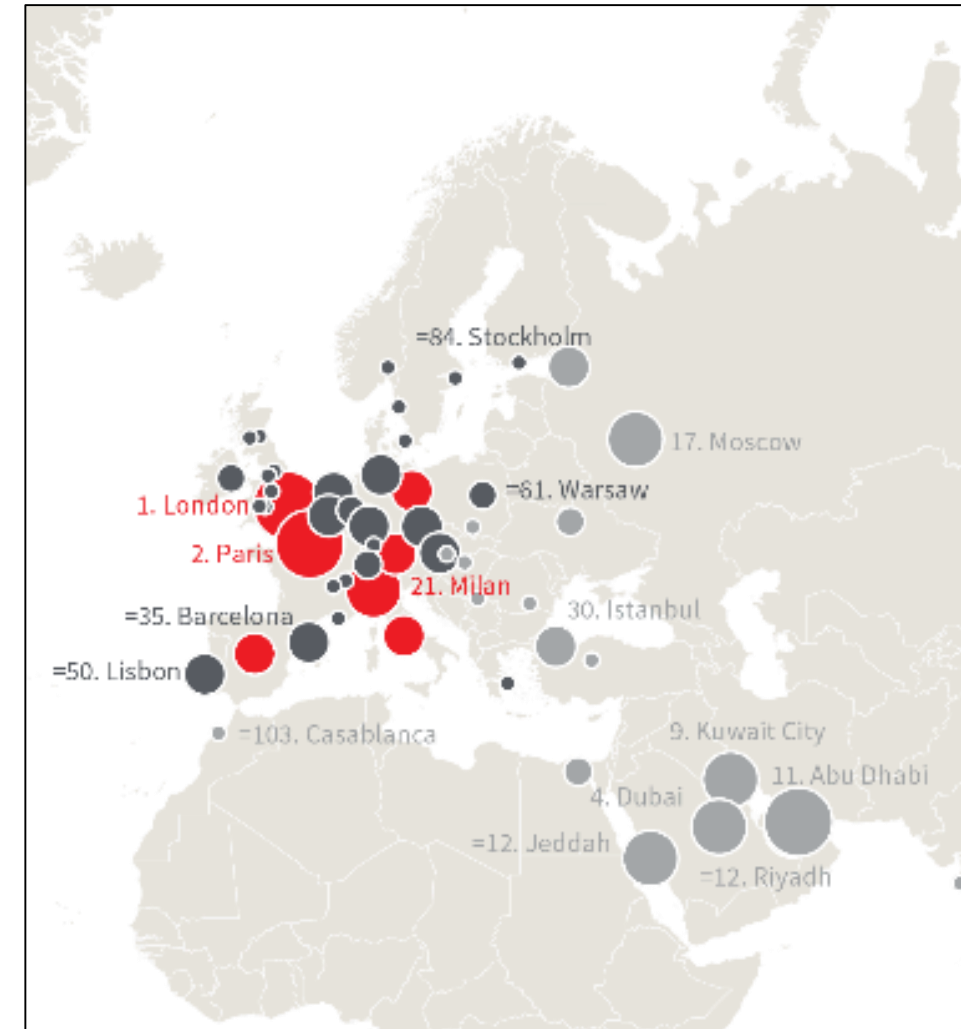
Internationally, Helsinki retail attractiveness ranks low



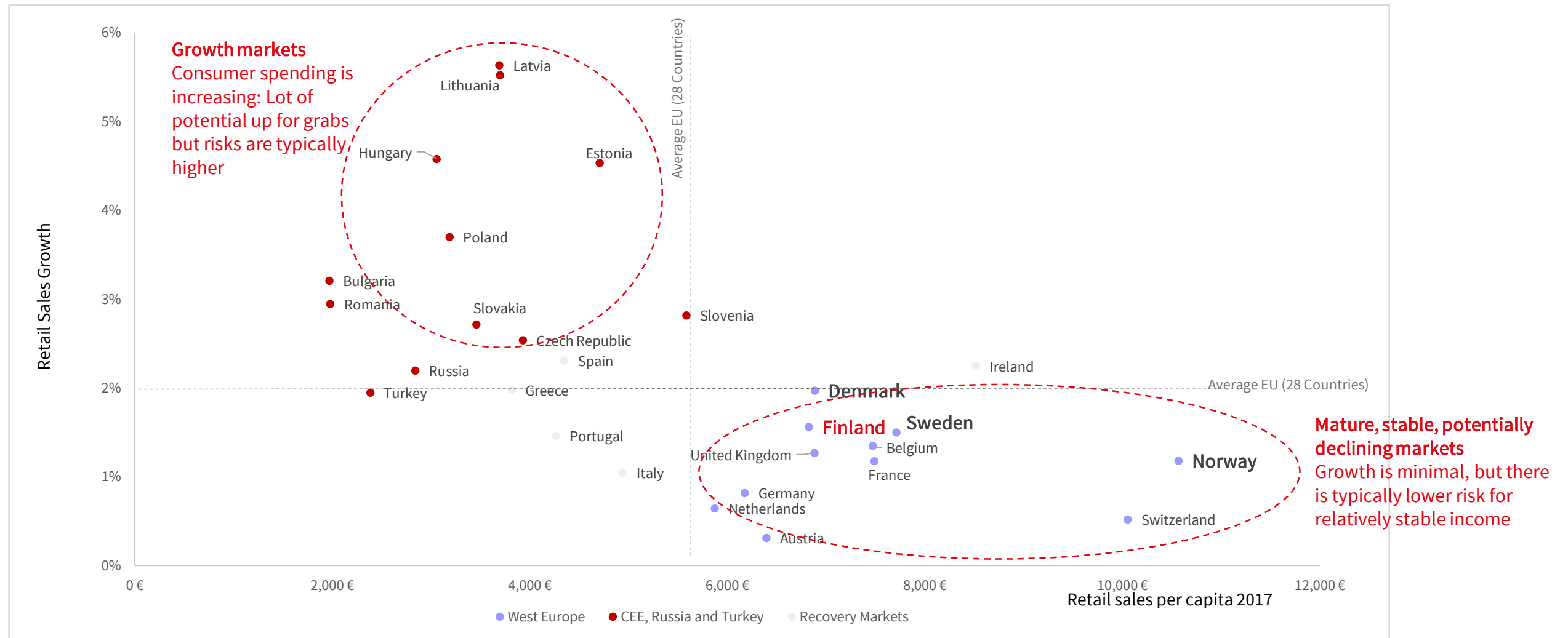
Ranking of global retail cities by attractiveness



Retail attractiveness of cities in Europe



Two typical (retail) opportunities are growth and stable income

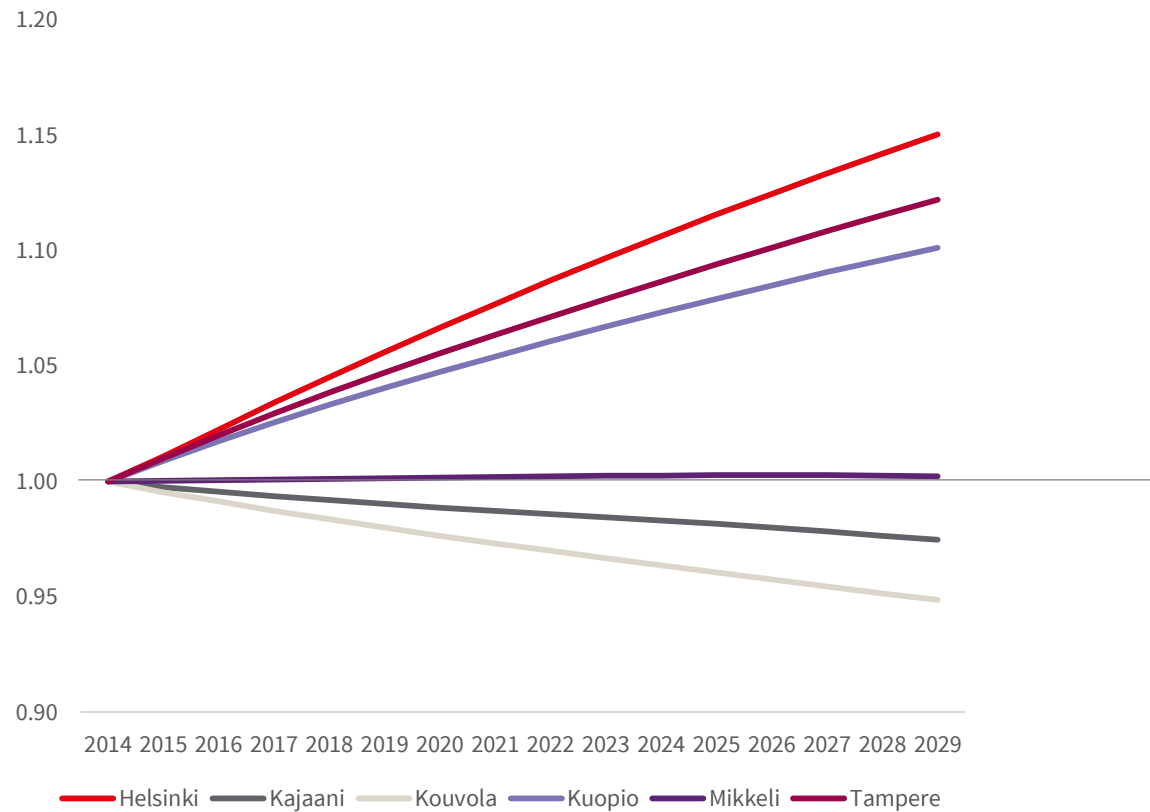


In Finland, growth cities, and mostly HMA attract the most retail interest

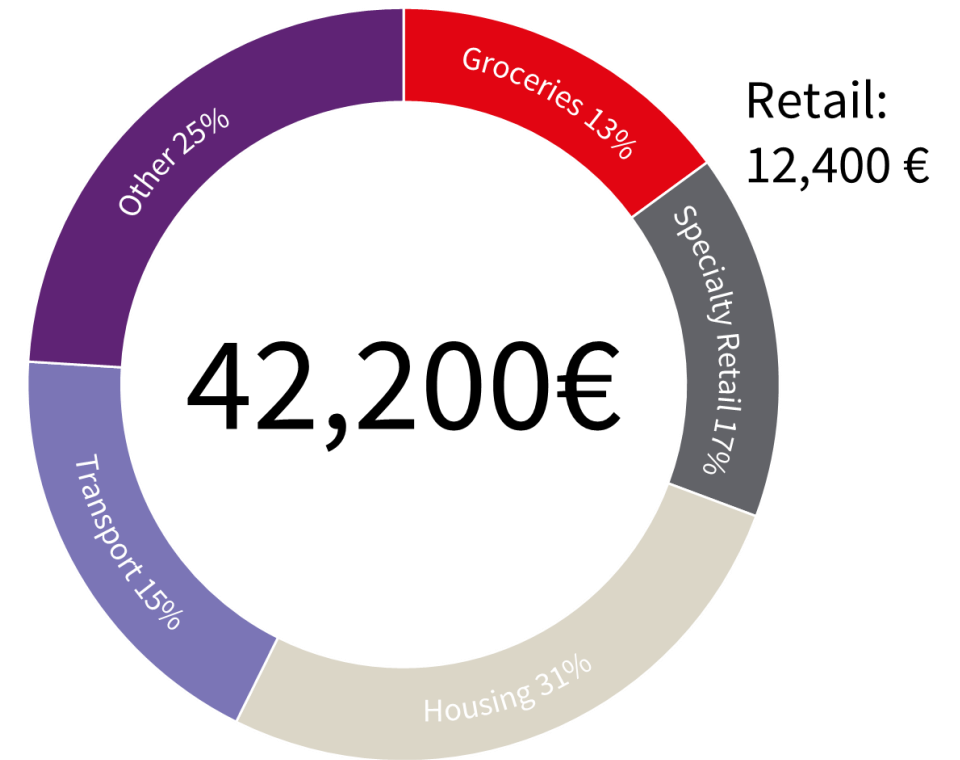


Cities as growth centres

Population growth index 2014-2029
Select cities

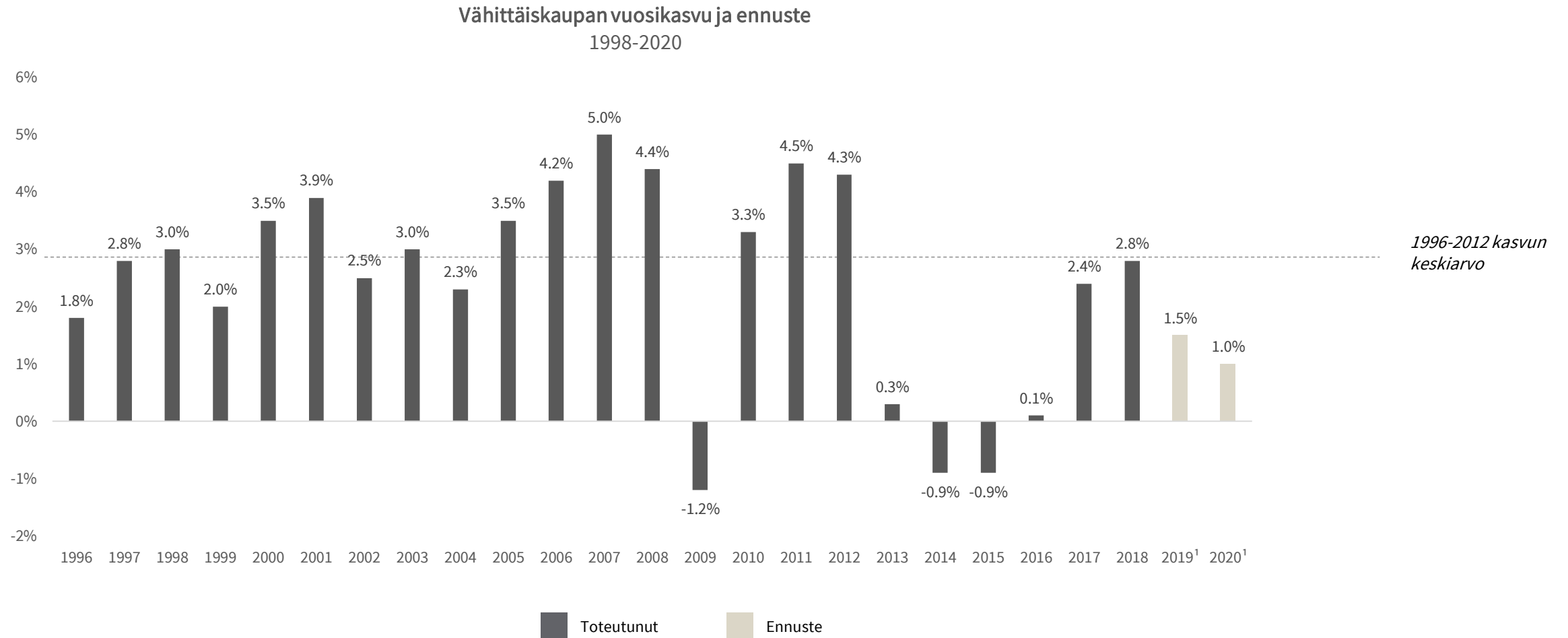


Total potential per household in Finland



Sources: Statistics Finland (2014), JLL (2017)

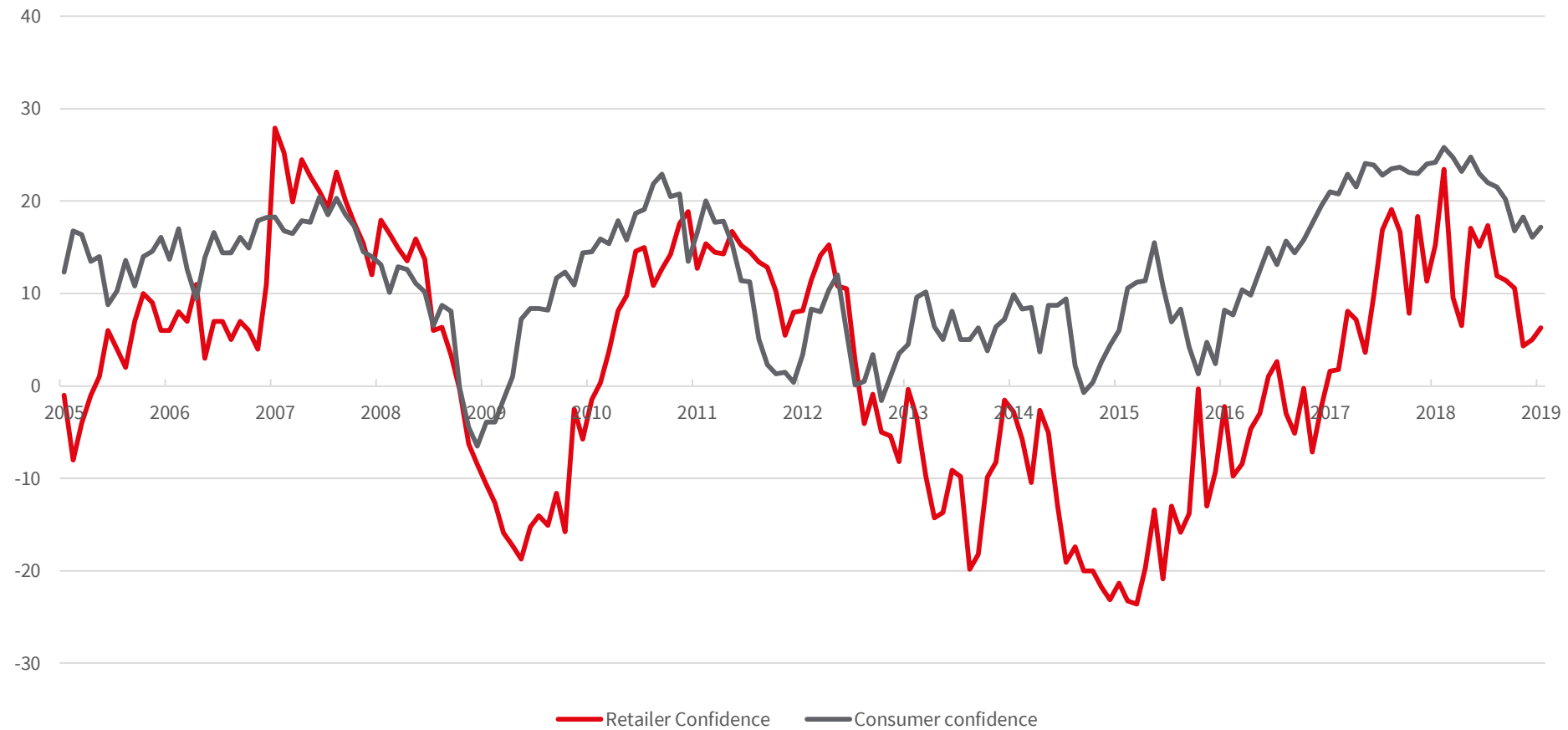
Retail growth in Finland again slowing down



Confidence of retailers and consumers peaked in 2018



Kuluttajien ja vähittäiskauppioiden luottamusindikaattorit 2005-2019
Seurantaaindeksi

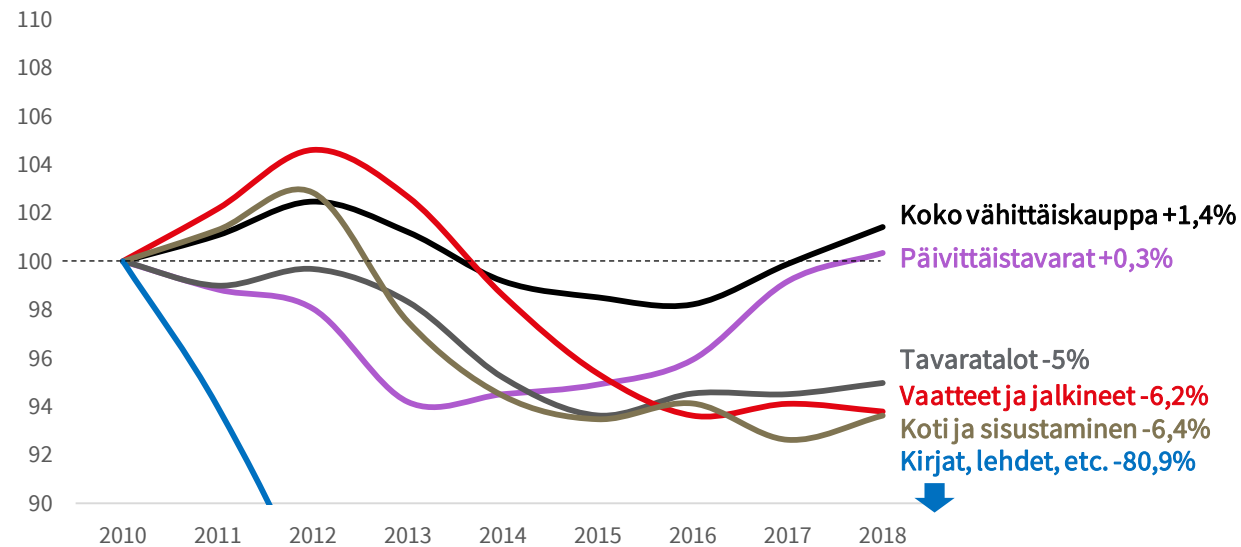


Overall retail market has been in turbulence



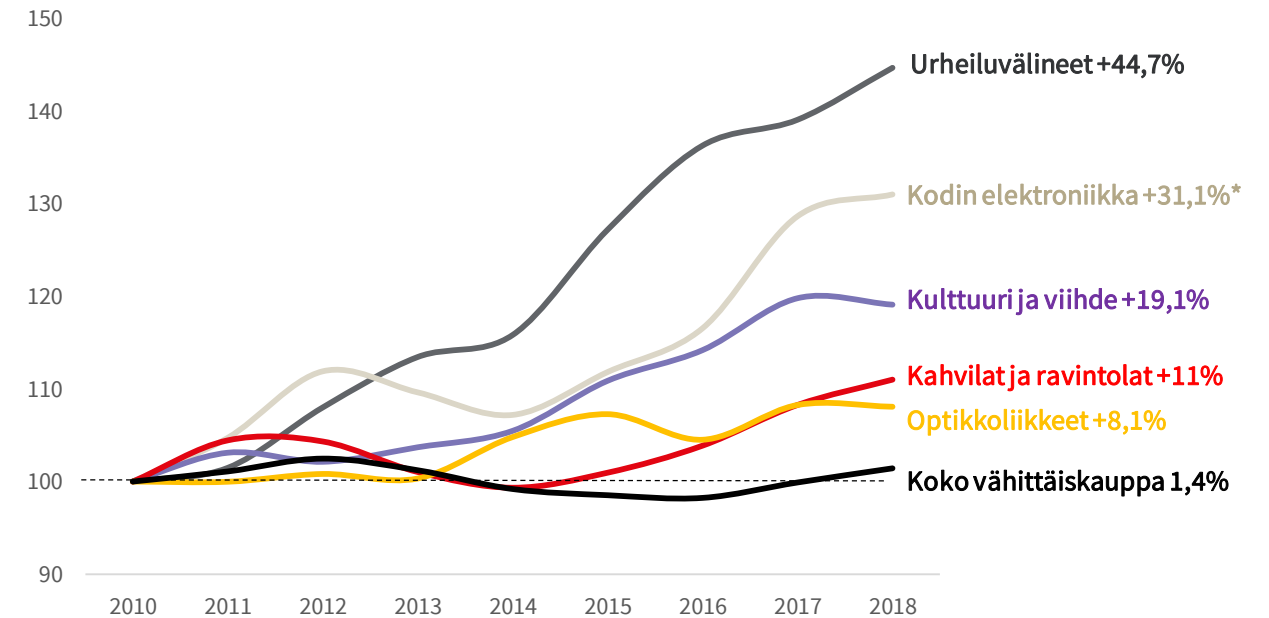
Vähentynyt kulutus

Inflaatiokorjattu liikevaihto Suomessa 2010-2018
Indeksi 2010 = 100



Kasvanut kulutus

Inflaatiokorjattu liikevaihto Suomessa 2010-2018
Indeksi 2010 = 100

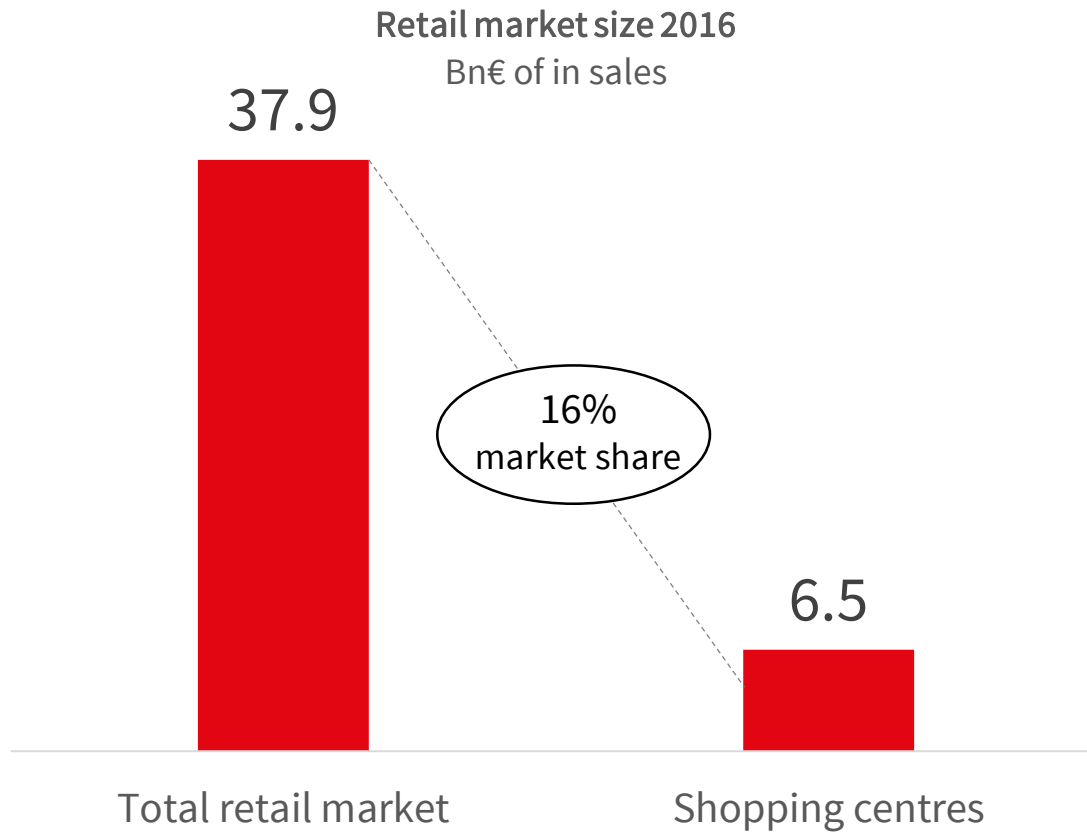


Shopping centres take a small, but high-profile, chunk of the market



20 Largest Shopping Centers in Finland

20 suurinta kauppakeskusta Suomessa



Nro	Shopping Center Kauppakeskus	Municipality Palkkakunta	Leasable Retail Area (m ²) Vuokrattava liikepinta-ala	Gross Leasable Area, GLA (m ²) Vuokrattava kokonaisliikeala	Visitors (M, 2017) Kävijämäärä	Sales per year (M€, 2017) Myynti	Sales / Leasable Retail Area Myynti / Liikepinta-ala (€/m ²)	Sales / Visitors (€/visitor) Myynti / Kävijämäärä (€/hlo)
1	Sello	Espoo	97 900	102 000	24,3	4 055	16,3	
2	Ideapark	Lempäälä	91 712	92 463	7,0	2 726	35,7	
3	Jumbo	Vantaa	85 000	86 100	12,1	4 936	34,7	
4	Iso Omena*	Espoo	84 700	100 900	11,5	3 745	27,6	
5	Itis	Helsinki	78 559	100 679	17,6	4 175	18,6	
6	Matkus	Kuopio	65 000	65 000	3,0	1 292	28,0	
7	Mylly	Raisio	58 149	60 344	5,5	3 835	40,5	
8	Willa	Hyvinkää	53 415	54 839	7,5	3 482	24,8	
9	Hansakortteli (Hansa)	Turku	49 121	55 664	12,4	4 621	18,3	
10	Veturi	Kouvola	48 500	48 500	3,3	2 567	37,7	
11	Kaari	Helsinki	47 445	48 708	6,9	4 540	31,2	
12	Forum	Helsinki	39 950	81 250	14,9	5 457	14,6	
13	Skanssi	Turku	38 010	41 555	3,3	3 236	37,3	
14	Kamppi	Helsinki	34 075	44 787	42,8	7 337	5,8	
15	Puuvilla	Pori	34 072	41 562	4,9	2 380	16,6	
16	Karisma	Lahti	33 500	33 500	2,9	2 719	31,4	
17	Trio	Lahti	32 900	45 900	5,3	1 568	9,7	
18	Myyrmani	Vantaa	31 800	40 200	8,0	4 808	19,1	
19	Ideapark Oulu	Oulu	30 150	31 000	4,0	**	**	**
20	AINOA*	Espoo	29 425	30 778	5,0	3 861	22,7	
			1 063 383	1 205 729	202	3 567	24	

* Development Project in 2017 / Kehityshanke vuonna 2017

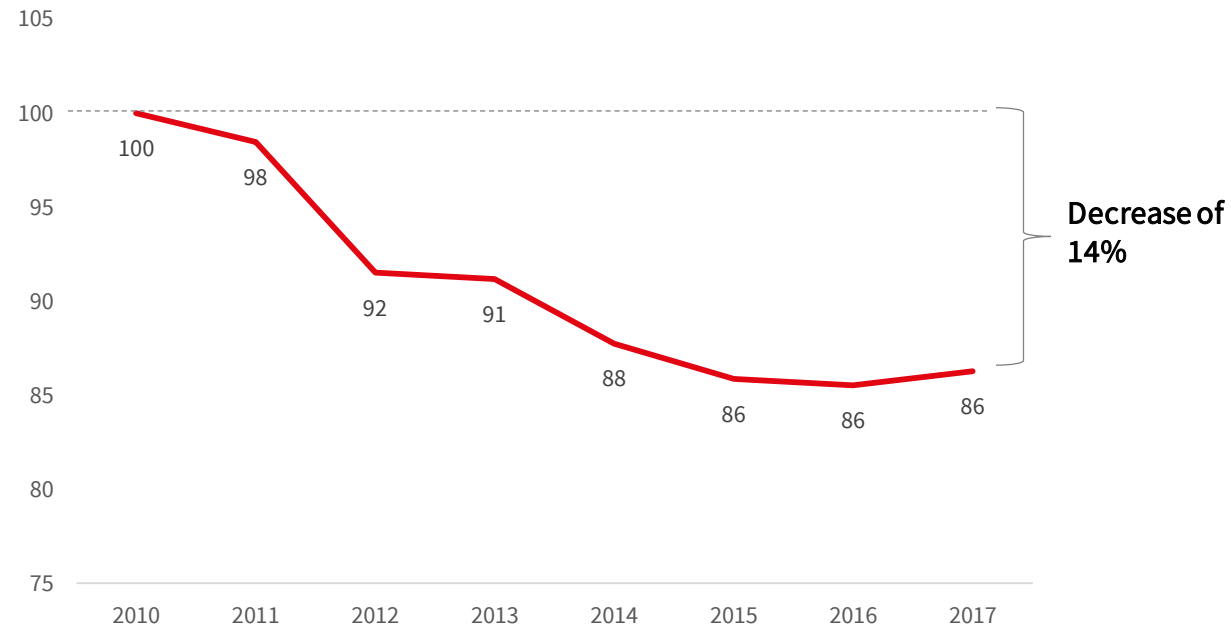
** Information not published / Tietoa ei ole julkaistu

Lähde: Suomen kauppakeskusyhdistys

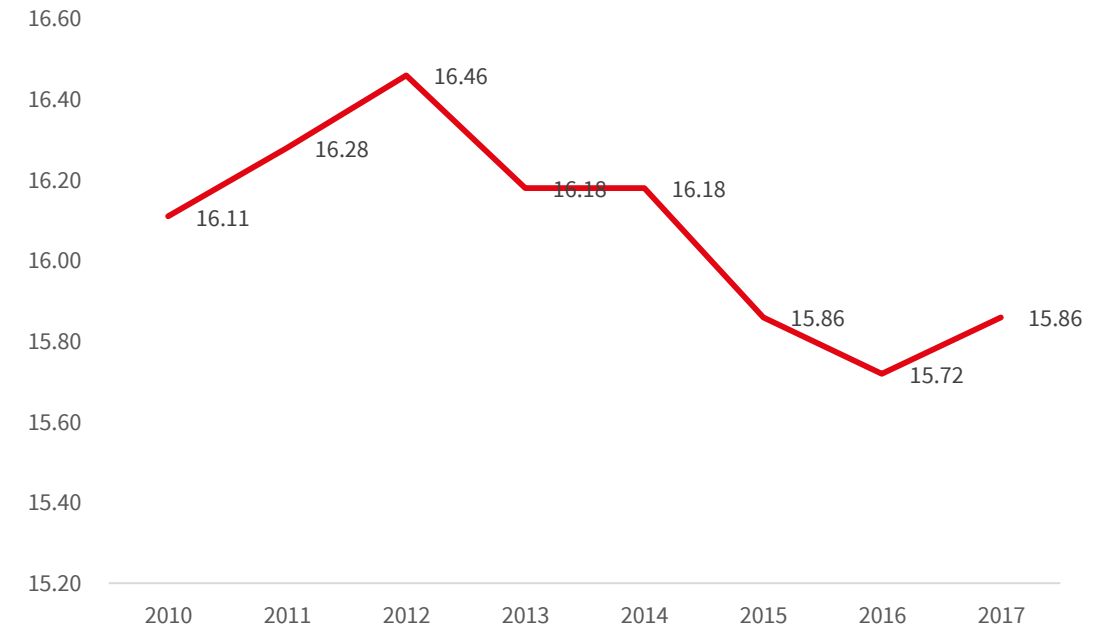
Shopping centre sales efficiencies in Finland have declined



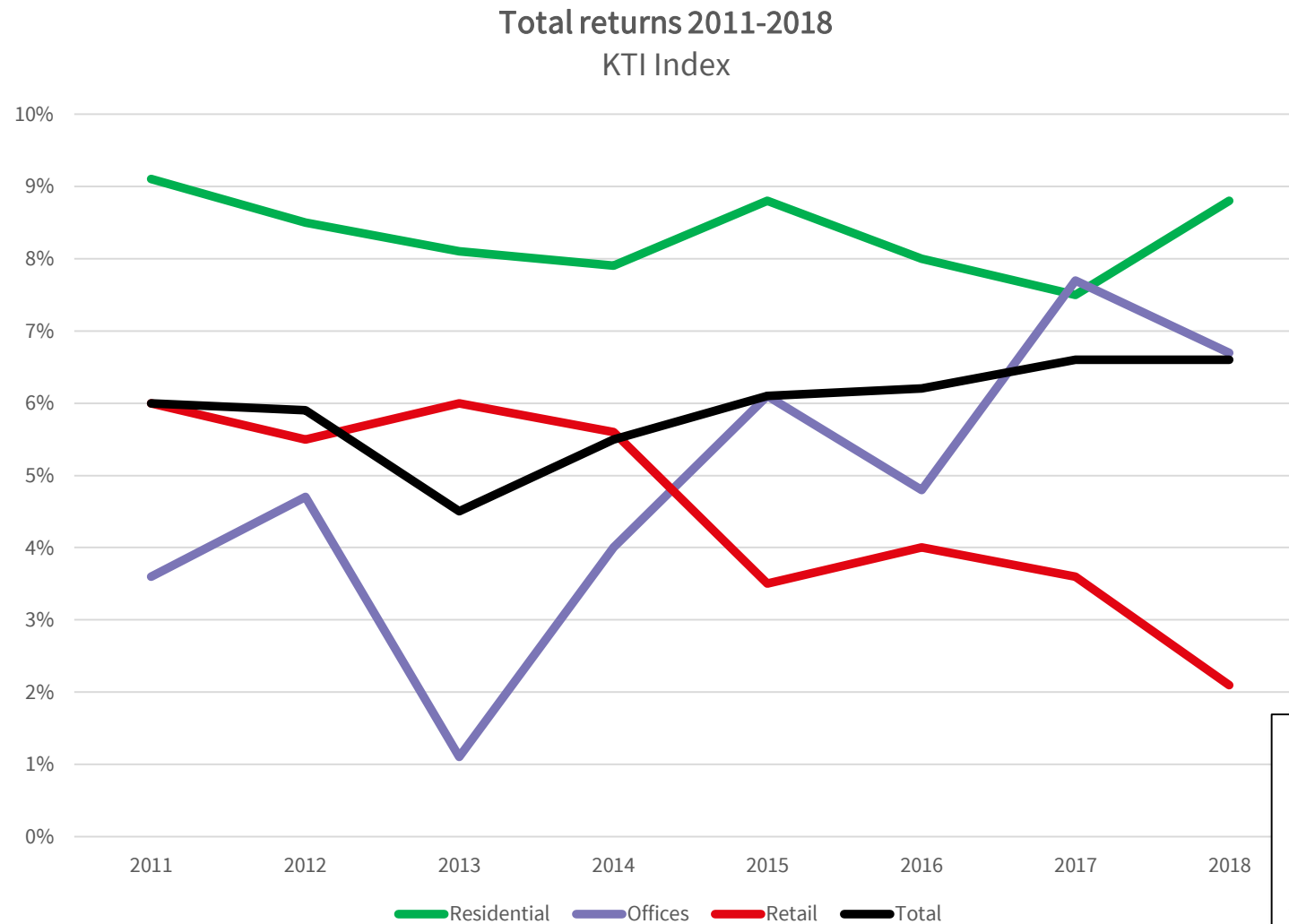
Finland shopping centre sales efficiency €/m² 2010-2017
Index 2010 = 100, nominal terms



Sales (€) / Visitor in Finnish shopping centres
Nominal terms



Retail performing weakly at the moment



KTI 2019: “Expectations remain the most positive for large shopping centres in the Helsinki metropolitan area, whereas for smaller centres and other areas, the outlook for both rents and occupancy rates is negative.”

Shopping centre owners in Finland



The Ownership Structure of Finnish Shopping Centers

Kauppakeskusten omistajatahot

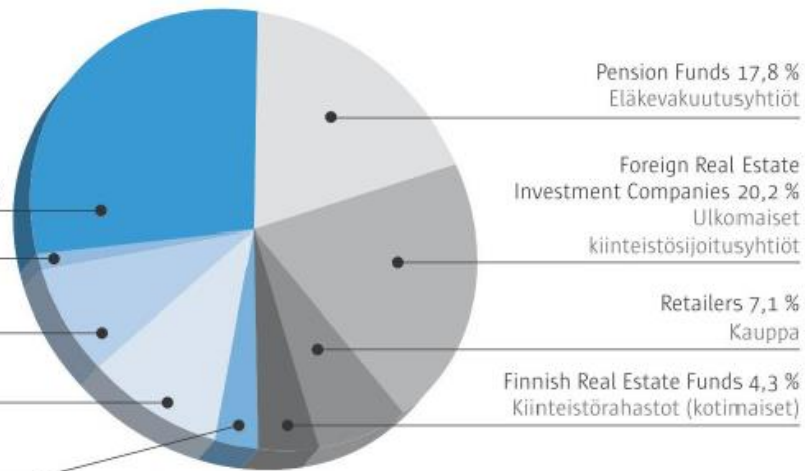
Finnish Real Estate Investment Companies 29,3 %
Kiinteistösijoitusyhtiöt (kotimaiset)

No information Ei tietoa 0,9 %

Other 7,7 %
Muut

Foreign Real Estate Funds 9,4 %
Ulkomaiset rahastot

Private persons 3,3 %
Yksityishenkilöt



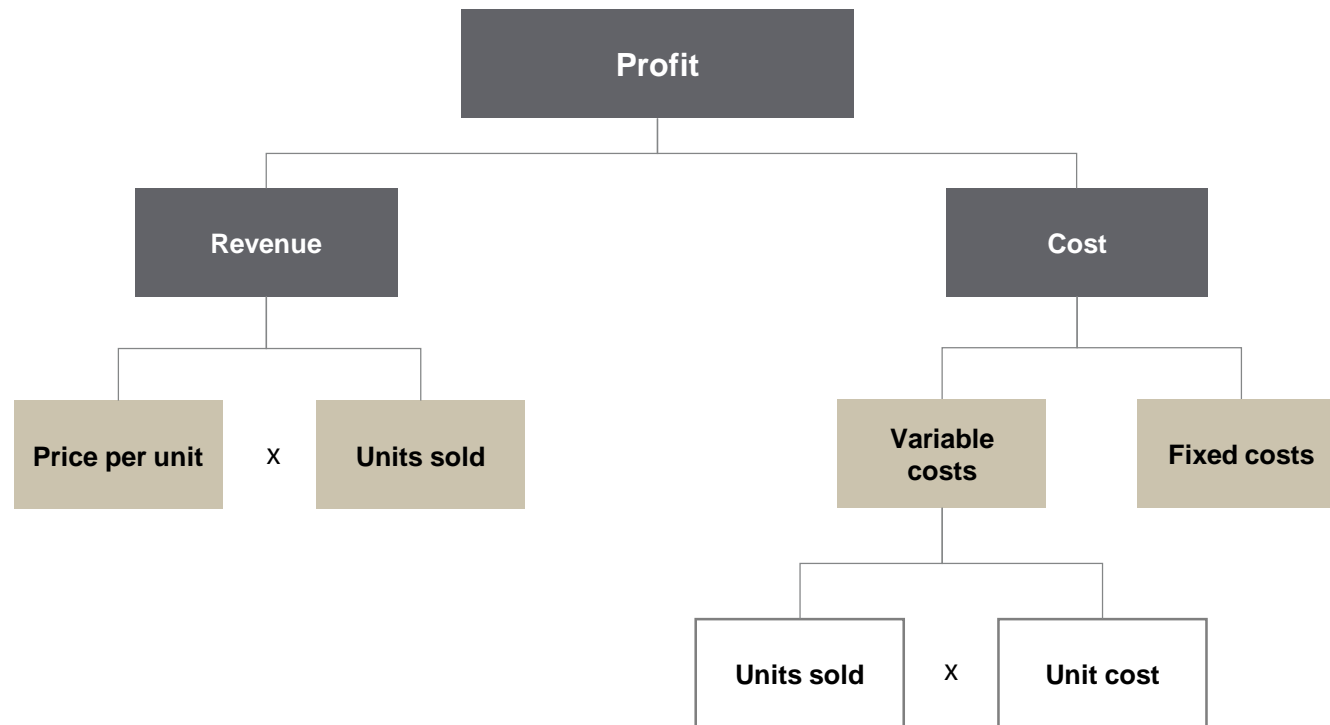
		Shopping Centers Kauppakeskuksia	Net Leasable Retail Area Vuokrattava liikeala	Market Share Markkinaosuus
1	Citycon Oyj	13	257 807	12,0 %
2	Sponda Oy	5	131 885	6,1 %
3	Keva	6	109 869	5,1 %
4	Keskinäinen Työeläkevakuutusyhtiö Elo	5	62 858	2,9 %
5	KOy Ideapark Ab	1	91 712	4,3 %
6	LähiTapiola	4	85 187	4,0 %
7	Mercada Oy	2	82 000	3,8 %
8	Wereldhave Finland Oy	1	78 559	3,7 %
9	Ilmarinen	5	70 639	3,3 %
10	IKEA Centres Kuopio Oy	1	65 000	3,0 %

Lähde: Suomen kauppakeskusyhdistys

Agenda

1. Introduction
2. Retail-market
3. Value of a business
 - **Income approach**
 - Business model approach
4. Foundation of a winning shopping centre
5. Understanding competition
6. Trends

Income approach for understanding the value of a business

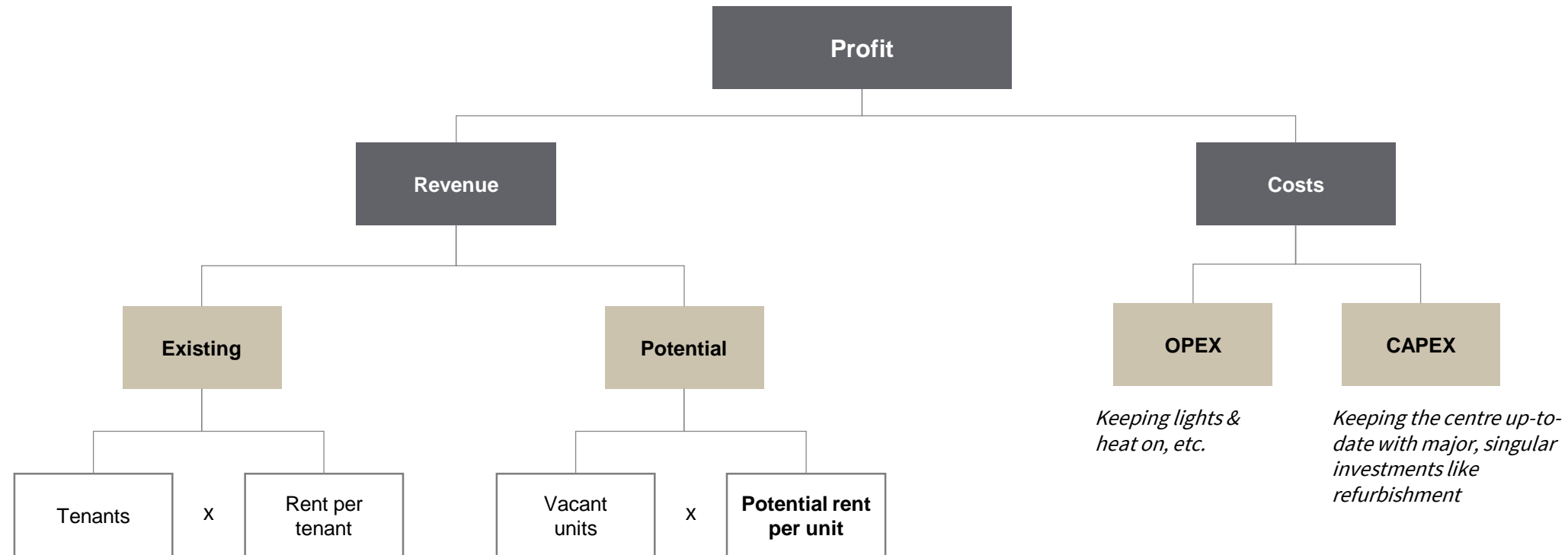


- When analysing business value, the key question is how does this equation play out in the coming years?
- The value of any business is an estimate of expected profits in future
- While the equation helps understand current value and cash flow, it does not readily lead to understanding *what* drives the profit formula's components

Profit formula in a shopping centre



In shopping centres it is mostly the revenue-side (“rent roll”) that is analysed, as on-going costs are not directly related to revenue



1. How sustainable is our current rental income?

2. How likely is it that we can lease out the vacant space?

Key questions when analysing a shopping centre

1. Income: Rent roll – The list of tenants, their rent levels and other relevant contract info



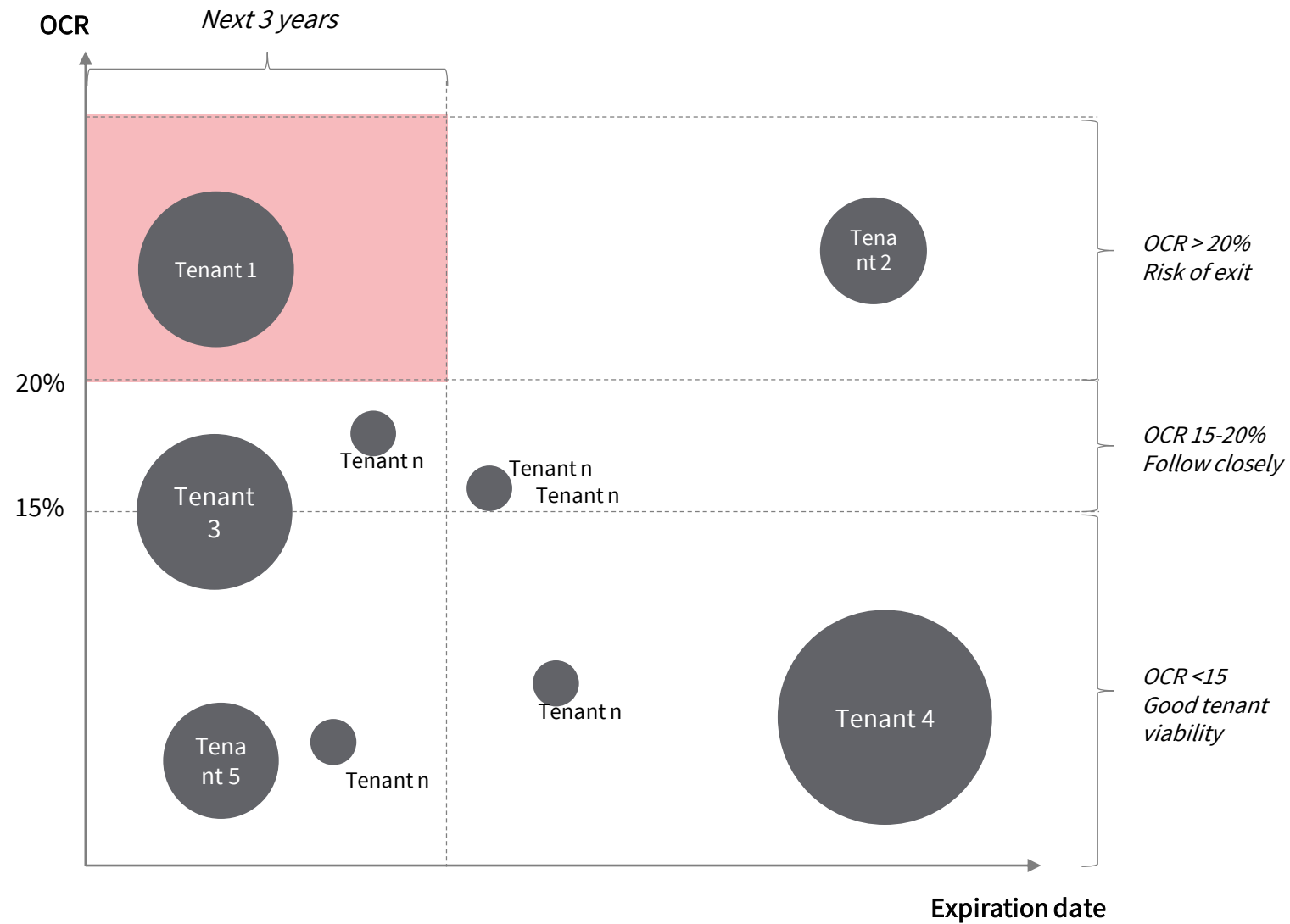
Tenant name	Category	Leased area	Rent	Date of lease	First date of exit	Comments
H&M	Fashion	xxxx m ²	x €/m ² /month	dd/mm/yyyy	dd/mm/yyyy	...
Vero Moda	Fashion	xxxx m ²	x €/m ² /month	dd/mm/yyyy	dd/mm/yyyy	...
K-Citymarket	Groceries	xxxx m ²	x €/m ² /month	dd/mm/yyyy	dd/mm/yyyy	...
Gigantti	Electronics	xxxx m ²	x €/m ² /month	dd/mm/yyyy	dd/mm/yyyy	...
Classic Pizza	F&B	xxxx m ²	x €/m ² /month	dd/mm/yyyy	dd/mm/yyyy	...
Tenant <i>n</i>	Etc.	Etc.	Etc.	Etc.	Etc.	Etc.
Total	n/a	e.g. 50 000m ²	e.g. 1,4m€ monthly			

What will happen to this figure in the next year? What about in 3 years? 5 years? 10 years?

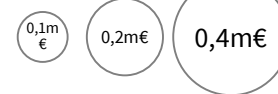
1. Income & OCR – “Occupancy cost ratio” helps understand tenant viability



$$\text{OCR} = \frac{\text{Gross rent 2019} + \text{Service charge 2019} + \text{VAT}}{\text{Sales 2019}}$$



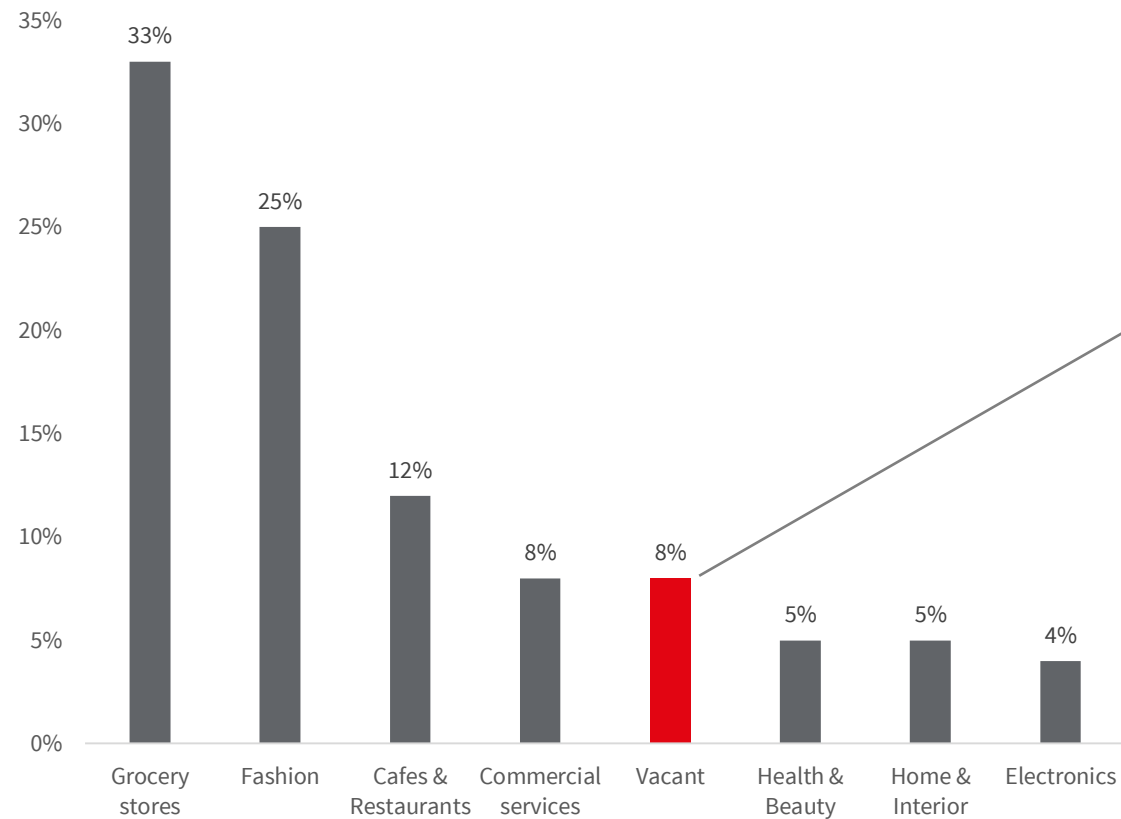
Bubble size indicates annual capital rent



2. Filling vacant space: Estimating likelihood of filling up vacant space is more difficult



Illustrative space allocation in a shopping centre
% share of retail space by category



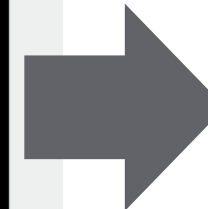
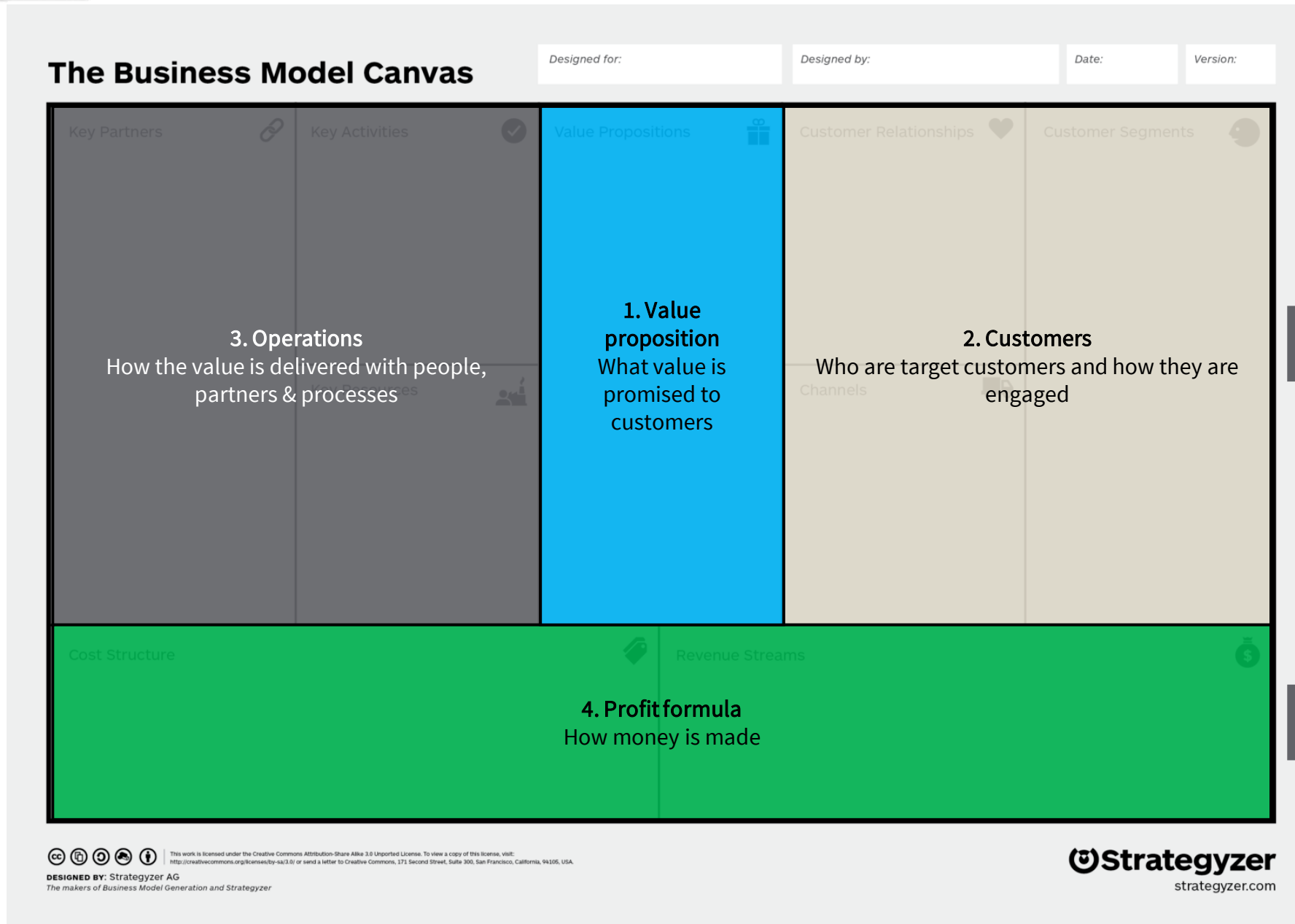
How likely is it that we can fill this empty space with income-generating tenants?

→ This is when understanding market conditions, tenant demand, strength of location, customer wishes and marketing activities become increasingly important

Agenda

1. Introduction
2. Retail-market
3. Value of a business
 - Income approach
 - **Business model approach**
4. Foundation of a winning shopping centre
5. Understanding competition
6. Trends

A broader approach: Understanding value through a business model



Understanding the business model helps take a customer-point view. Profit formula is merely the outcome of a well-delivered value proposition



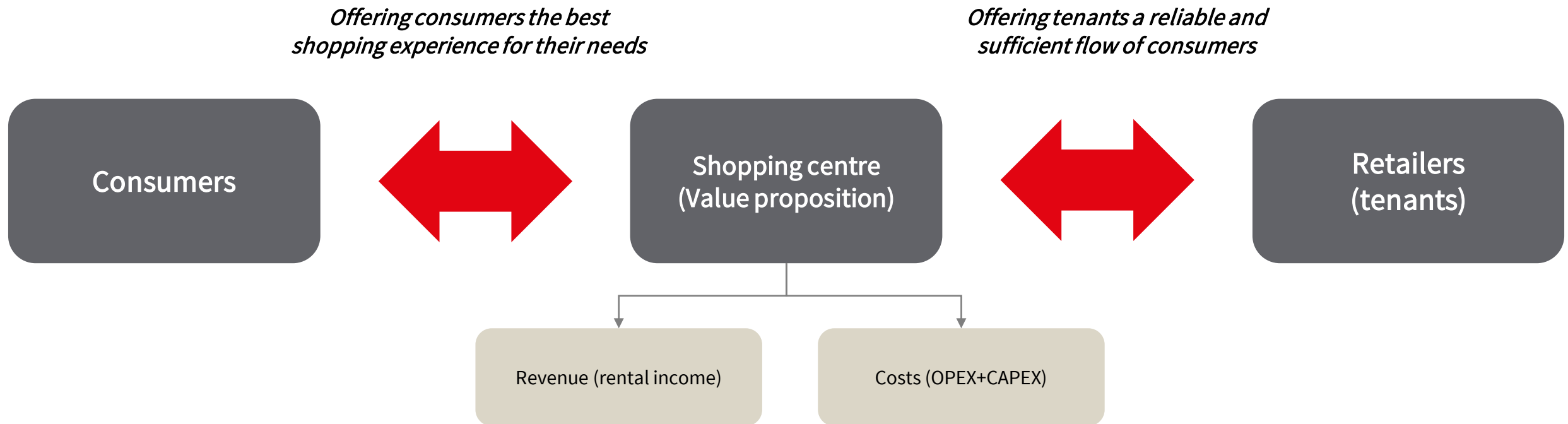
Currently and historically focus in valuing & understanding real estate (including shopping centres) is typically here, which is not conducive to good *business-/shopping centre* development

Background: Multi-sided business models

Platform



Shopping centre, multi-sided business model



Why focus on business models?



- **Opens up new perspectives:** (Retail) properties are typically managed like properties, not like businesses. Business model allows a broader understanding
- **Helps understand customer needs:** Understanding cash flow is not a good starting point for creating experiences that make consumers happy to shop
- **There is currently lack of innovation:** Shopping centres should have been the natural starting point for eCommerce (e.g. Amazon), instead shopping centres are lagging critically behind in online experience

Comparing the two approaches



	Income approach	Business model approach
Focus	Understanding how the asset generates net cash flows in future. In shopping centres resulting from rental income (revenue) and operational+capital expenditure (costs)	Understanding why a business delivers superior value to both customers and retailers. In shopping centres it means why customers love to visit the shopping centre and spend money there , and why retailers want into the centre
When to use	When it is important to understand the current value of a shopping centre or compare investment options (e.g. for valuations, investment memos)	When it is important to understand how to build and develop winning shopping centres

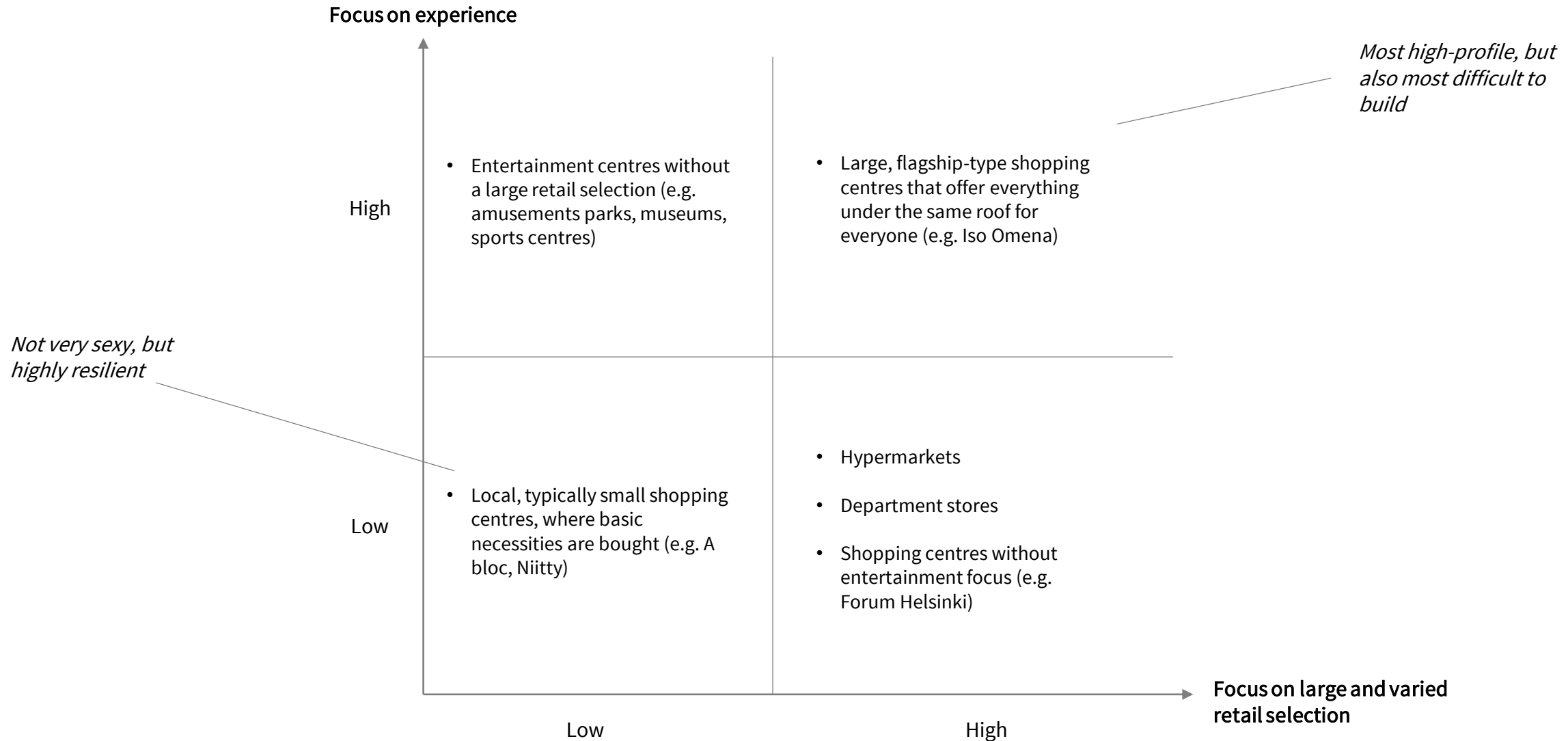
Agenda

1. Introduction
2. Retail-market
3. Value of a business
 - Income approach
 - Business model approach

4. Foundation of a winning shopping centre

5. Understanding competition
6. Trends

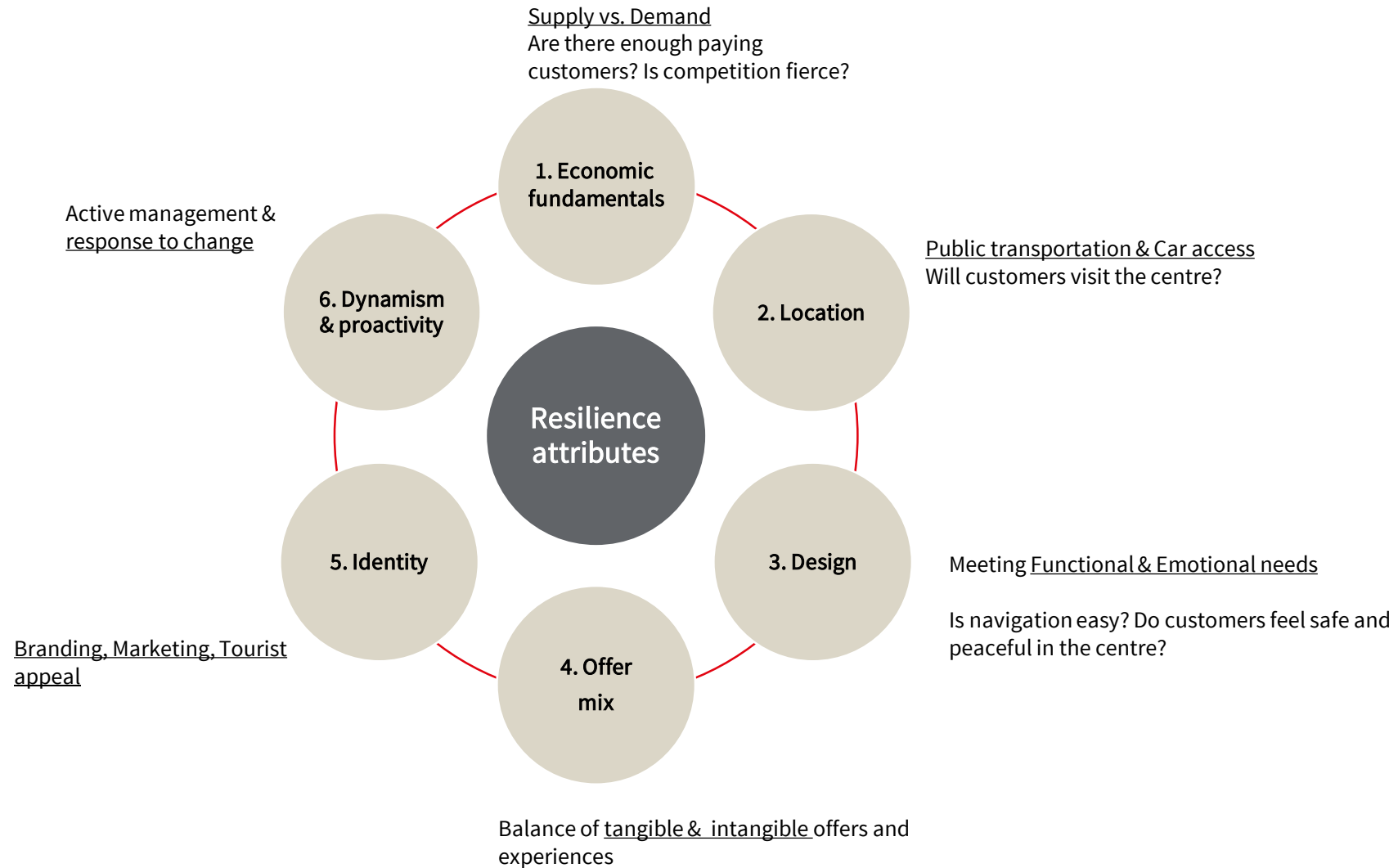
Shopping centre categories – One approach



Understanding a winning shopping centre platform

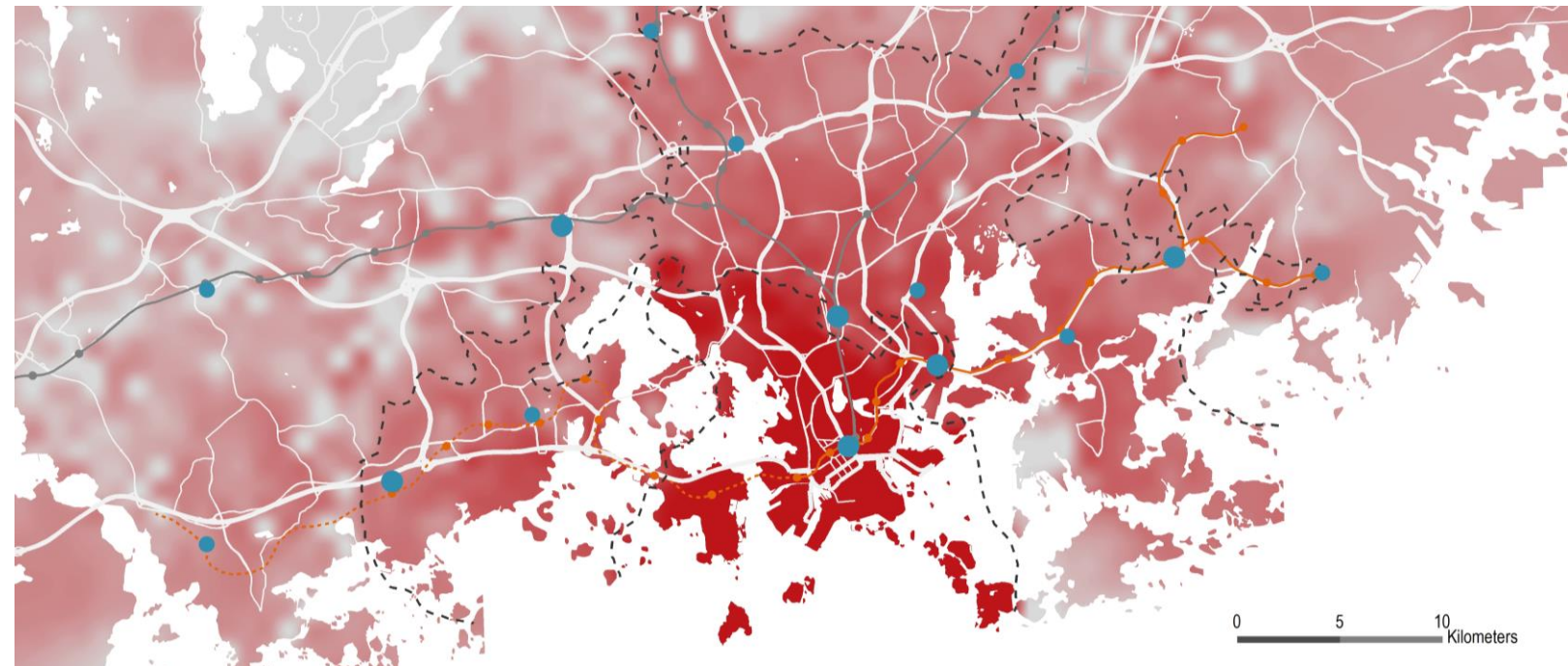
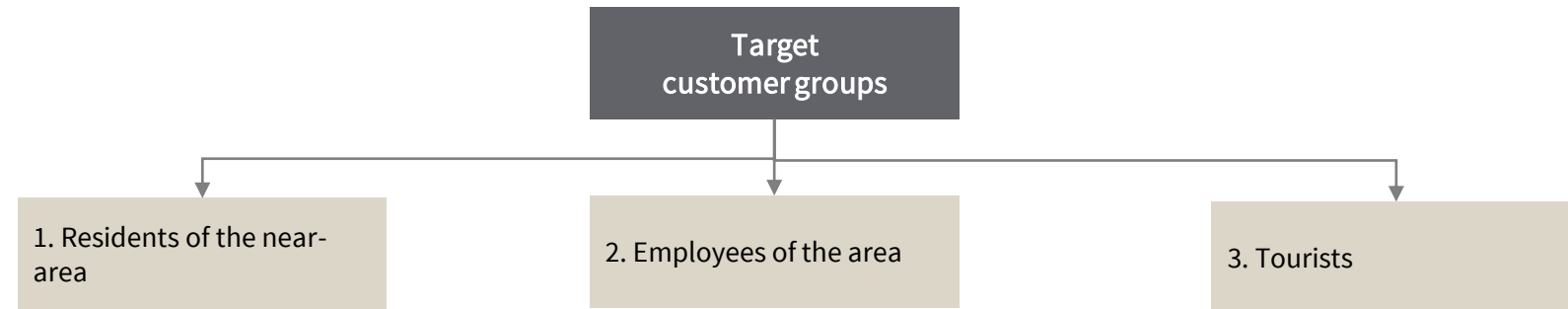


JLL's resilience attributes for shopping centres & cases to study Modified version



1/6 Economic fundamental: Demand & Supply

Example:



Goal:

- Understand potential paying customers
- Understand competing shopping centres

Potential factors to analyse:

- Amount of people living or working in catchment area
- Population growth
- Amount of tourists in the catchment area
- Amount of retail sales in catchment area
- Amount of grocery stores in the area
- Etc.

2/6 Location

Examples:

Goal:

- Understand people flows in the area

Potential factors to analyse:

- Number of people entering public transportation daily
- Daily footfall in the streets
- Daily car traffic amount
- Purchasing mode of people (why are they there?) – Spending time, commuting, shopping, other
- Plans for new transportation routes
- Location distance from a major transit hub
- Routes connecting different methods of transportation
- Location in relation to main points of interest



3/6: Design: Emotional & Functional

Goal:

- Understand functionality of the shopping centre
- Understand the quality of the interior/ambiance

Potential factors to analyse:

- Location of doors
- Amount of floors
- Locations of anchor tenants
- Walking distance across the centre
- Cleanliness of public areas
- Use of lights, plants and materials
- Noise-levels
- Visibility to shops
- Number of toilets per visitors
- Number of elevators per visitors

Example:



© Steffen Schmitz ([Carschten](#)) / [Wikimedia Commons](#) / [CC BY-SA 4.0](#)

4/6: Tenant/offer mix – What is offered to customers



Example:

Distribution of Business Fields

Toimialajakauma kauppakeskuksissa

The distribution of Business Fields by Leasable Area

Liikkeiden pinta-alajakauma toimialoittain

Fashion 24,7 %
Pukeutuminen

Public services 2,6 %
Julkiset palvelut

Other commercial services 10,1 %
Muut kaupalliset palvelut

Speciality retailers 2,5 %
Muut erikoisliikkeet

Department stores 8,8 %
Tavaratalomyymälät

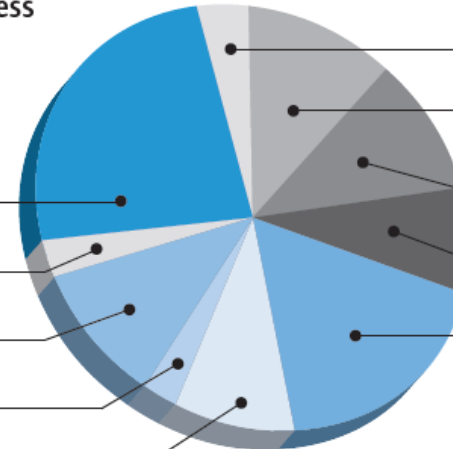
Health and beauty 3,9 %
Kauneus ja terveys

Leisure 10,9 %
Vapaa aika

Furnishing, home decor and supplies 9,9 %
Sisustaminen ja kodin tarvikkeet

Cafés and restaurants 8,1 %
Kahvilat ja ravintolat

Grocery stores 18,4 %
Päivittäistavaramyymälät



Source: Suomen kauppakeskusyhdisty

Goal:

- Understand the components of tenant mix
- Understand non-tangible offers, such as free exhibits, events or campaigns

Potential factors to analyse:

- Number of unique tenants and/or points of interest
- Tenant mix allocation per retail category
- Are peak units in the centre new/fresh/interesting or not?
- Sales per tenant mix segment
- Share of café & restaurant area of total space
- Share of entertainment tenants of total area
- Number of events annually



5/6: Brand, marketing, identity



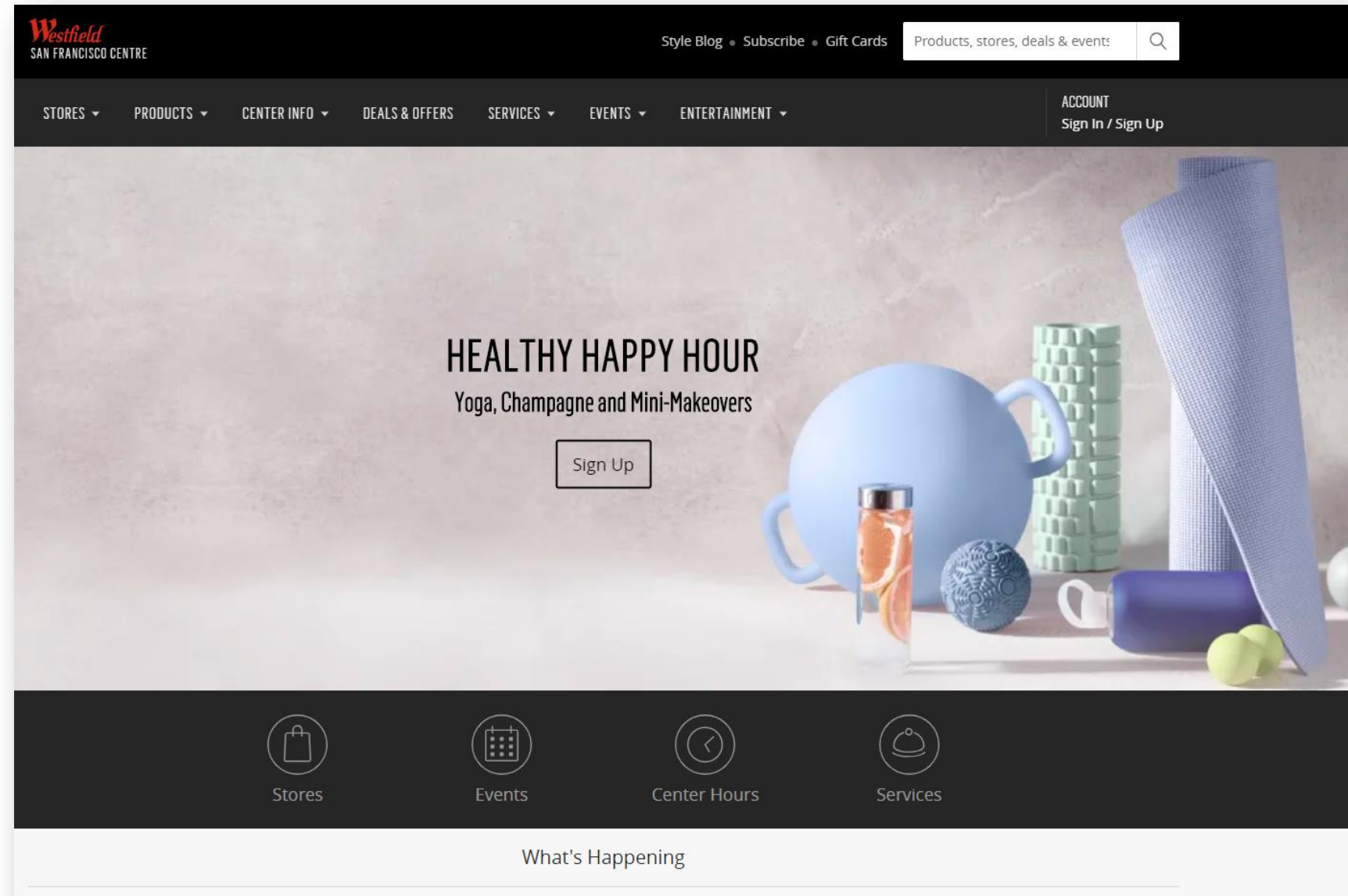
Example:

Goal:

- Understand why the shopping centre exists and how they communicate and engage with customers

Potential factors to analyse:

- Quality of website
- Online / Offline marketing mix
- Activity in social media
- Followers in social media
- Links to local culture / specialities
- Availability of mobile app
- Marketing themes & messages
- Amount of campaigns annually
- Is the logo, colours and theme visible in the shopping centre?
- Is there a loyalty program?



6/6: Active management



Example:

Epic department store failures

DEALS APRIL 9, 2019 / 1:51 PM / 7 DAYS AGO

Creditors take control of British department store chain Debenhams

1 MIN READ

LONDON (Reuters) - Lenders in Debenhams took control of the ailing British retailer on Tuesday after it went into administration, wiping out shareholders including billionaire Mike Ashley who failed in his own attempt to take over the company.

RETAIL

Sears, Mattress Firm and more: Here are the retailers that went bankrupt in 2018

PUBLISHED MON, DEC 31 2018 · 9:05 AM EST | UPDATED MON, DEC 31 2018 · 3:02 PM EST

Lauren Thomas @LAURENTHOMASX3

VIDEO 01:24

Retail had a rough 2018 — Here are five big name brands that went under

TRENDING NOW

- 1 Paris' Notre Dame 'saved from total destruction,' French fire official says
- 2 Warren Buffett wants young people to know: Ignoring this is like 'leaving a car out in hallstoms'
- 3 Warren Buffett and Bill Gates agree this 1969 classic is still the No. 1 business book of all time —here's why

Selfridges - The unlikely success



Selfridges records sales increase of 11.5 percent in FY17-18

Prachi Singh | Monday, 01 October 2018

For the year ending February 3, 2018, Selfridges recorded sales of over 1.75 billion pounds (2.2 billion dollars), up 11.5 percent and increase in operating profit to 181 million pounds (235.7 million dollars). The company said, sales and operating profit growth were delivered against a challenging retail backdrop, and continuing major investment across the business, in both its stores and digital platforms.

Commenting on the company's performance, Paul Kelly, Managing Director Selfridges Group said in a statement: "Selfridges has delivered another excellent performance in 2017/18, and we have

Goal:

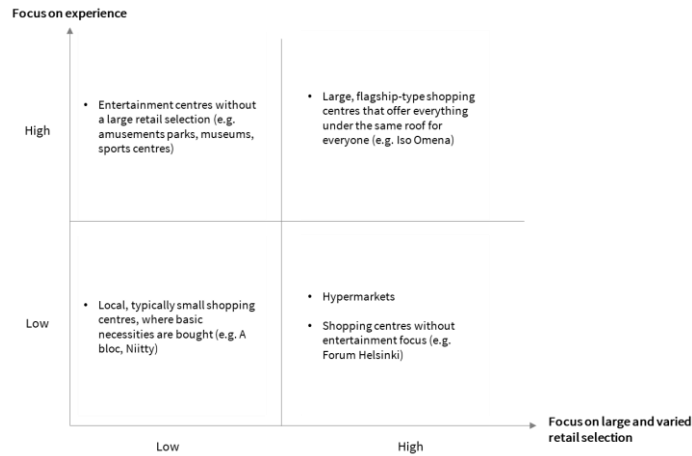
- Understand if the shopping centre is actively managing its tenant mix, brand and staying in tune with latest changes

Potential factors to analyse:

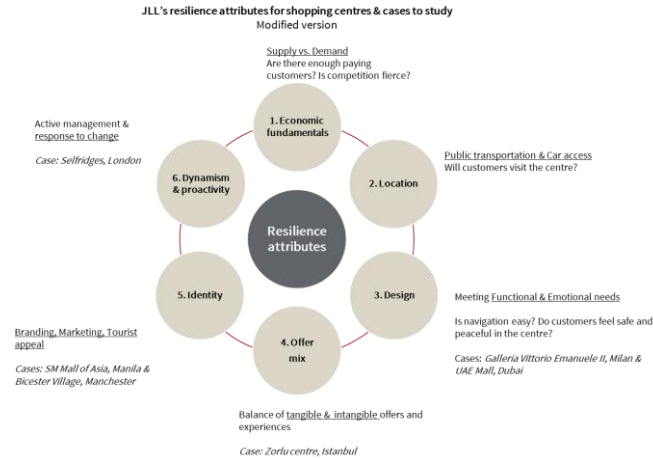
- Share of new retail entries to Finnish market
- Retail sales / visitors growth
- Refurbishment history
- Number of unique tenants & comparing this to competitors
- Size of shopping centre organisation
- Shopping centre management background (property, marketing, technology, startups, ecommerce, etc.)

Conclusion: How to analyse a shopping centre?

1. Identify shopping centre type



2. Select attributes to study



3. Identify solutions for development



Is it a local centre, entertainment centre, hypermarket or a large flagship centre?

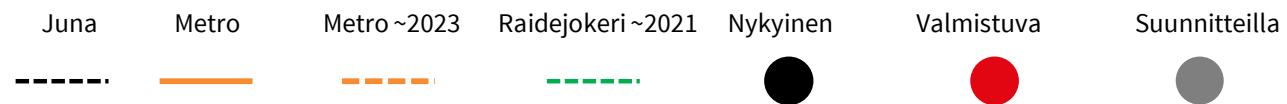
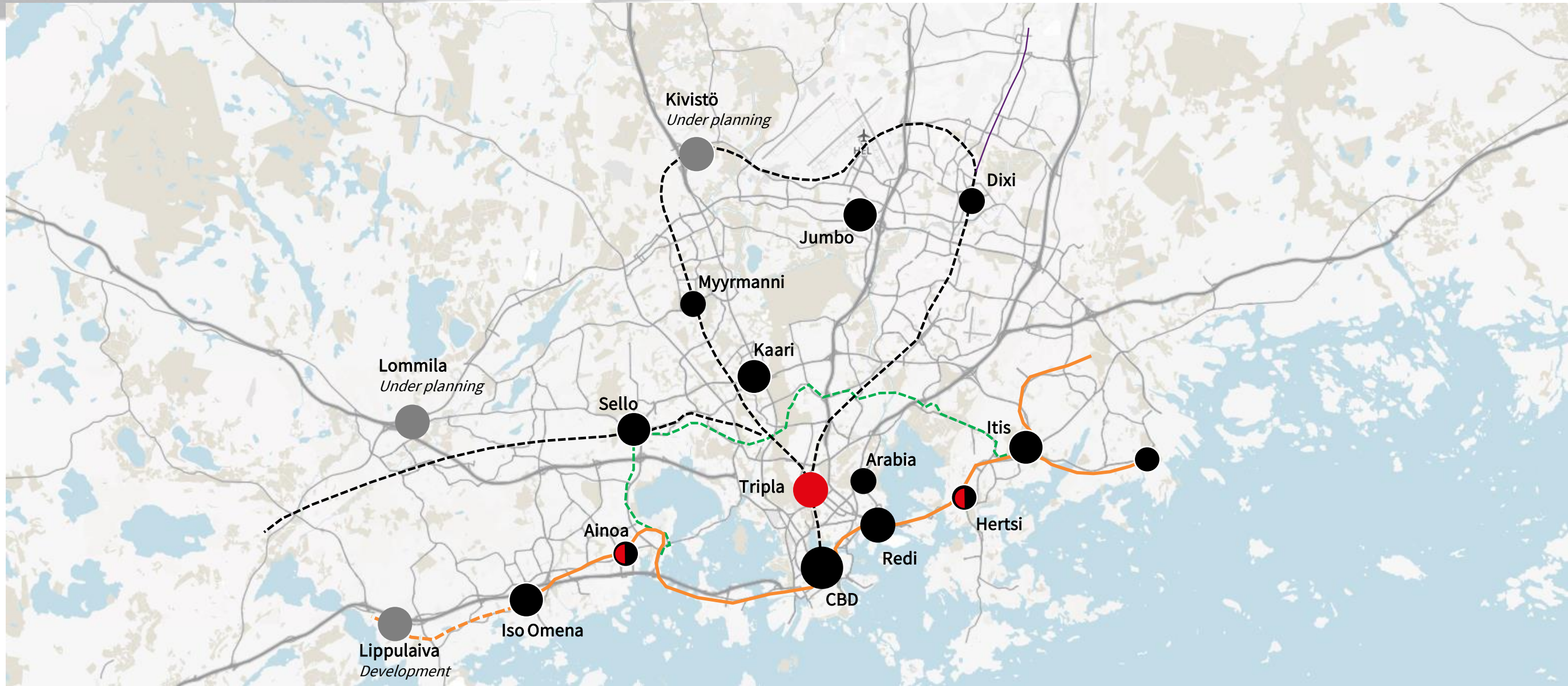
Based on market conditions, client needs, and suspected shopping centre issues, choose the right attributes to study further. Not all attributes are useful in all centres

Based on findings, identify ways to improve the shopping centre under study. Changes can be small: e.g. changing location of tenants, improving cleanliness, or large: e.g. building a restaurant cluster, changing the entire shopping centre concept direction

Agenda

1. Introduction
2. Retail-market
3. Value of a business
 - Income approach
 - Business model approach
4. Foundation of a winning shopping centre
- 5. Understanding competition**
6. Trends

Key shopping locations in HMA



Example: Comparing unique tenants between locations



Unique tenant: Something interesting competitors don't have, a tenant or an attraction

Anchor tenant: A tenant that attracts frequent, high-volume footfall. Typically a grocery store, but also sub-segment anchors e.g. H&M, Power, Gigantti, McDonald's

Iso Omena	Tapiola	Kamppi	Forum	Stockmann	Sokos	Jumbo
<ul style="list-style-type: none"> -Decanter -Duudsonit Activity Park (-Finnkino) -Finnmari -Golla -Juoksulabra -Kenkä-Pertti -M.E.E.T -Moda -Pikseli Arcade -Public services -Tempur (-Zara) 	<ul style="list-style-type: none"> -Etola (-Stockmann) 	<ul style="list-style-type: none"> -6K -Aukia -Bebes äitiyden erikoisliike -Calvin Klein Underwear -Calvin Klein (-Finnkino) -Kortteli -Marco Polo -Muji pop up -Sisley -United Colors Of Benetton -Tommy Hilfiger - Muji 	<ul style="list-style-type: none"> -H&M Kids -Hehku -Nahka Albert -Scandinavian Outdoor -Timberland -Union Five -Vans -Victoria's Secret 	<ul style="list-style-type: none"> -Acne -Adidas -Burberry -Gerry Weber -Hugo Boss -J. Lindeberg -Joe & The Juice -Karen Millen -Kari Traa -Michael Kors -Nike -Noom -Peak Performance -Röhnisch -Samsoe & Samsoe -Samuji -Sand -Ted Baker -XS Lelut 	<ul style="list-style-type: none"> -R/H Studio -Henri Llyod -PBO (Philosophy Blues Orginal) -Object -S.Oliver 	<ul style="list-style-type: none"> (-Finnkino) (-Flamingo) -Kekäle -Quicksilver (-Stockmann) -Virtual Reality (-Zara)

Agenda

1. Introduction
2. Retail-market
3. Value of a business
 - Income approach
 - Business model approach
4. Foundation of a winning shopping centre
5. Understanding competition
- 6. Trends**

Timeline of changes in shopping



Product Focus:
Differentiation via product, price place and promotion

Service Focus:
Shift towards the customer, driving segmentation and new satisfaction measures

Channel Focus:
Disruption from e-commerce entrants drives mergers and store closures

Experience Focus:
Customer experience emerges as the ultimate business driver



“Eating is the new shopping”



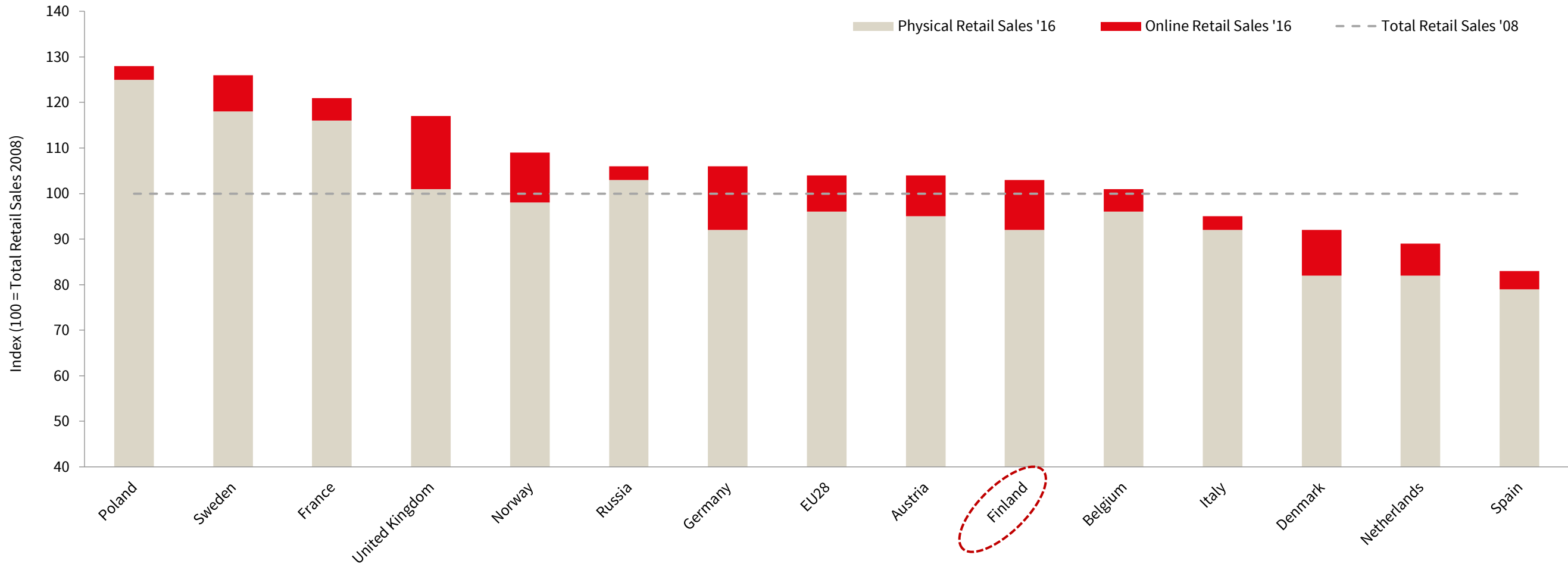
“By 2025, in new shopping centre developments in Europe, around 25% of net leasable area will be dedicated for food & beverage”



Structural change driven by e-commerce and multi-speed RS growth



Retail Sales Index Europe 2008 vs 2016



Source: Oxford Economics, Statista (October 2017)

Contact



Tuomas Vuorinen

Senior Analyst,
Retail

+358 50 302 3037

tuomas.vuorinen@eu.jll.com