



RESILIENCE OR OBSOLENCE?

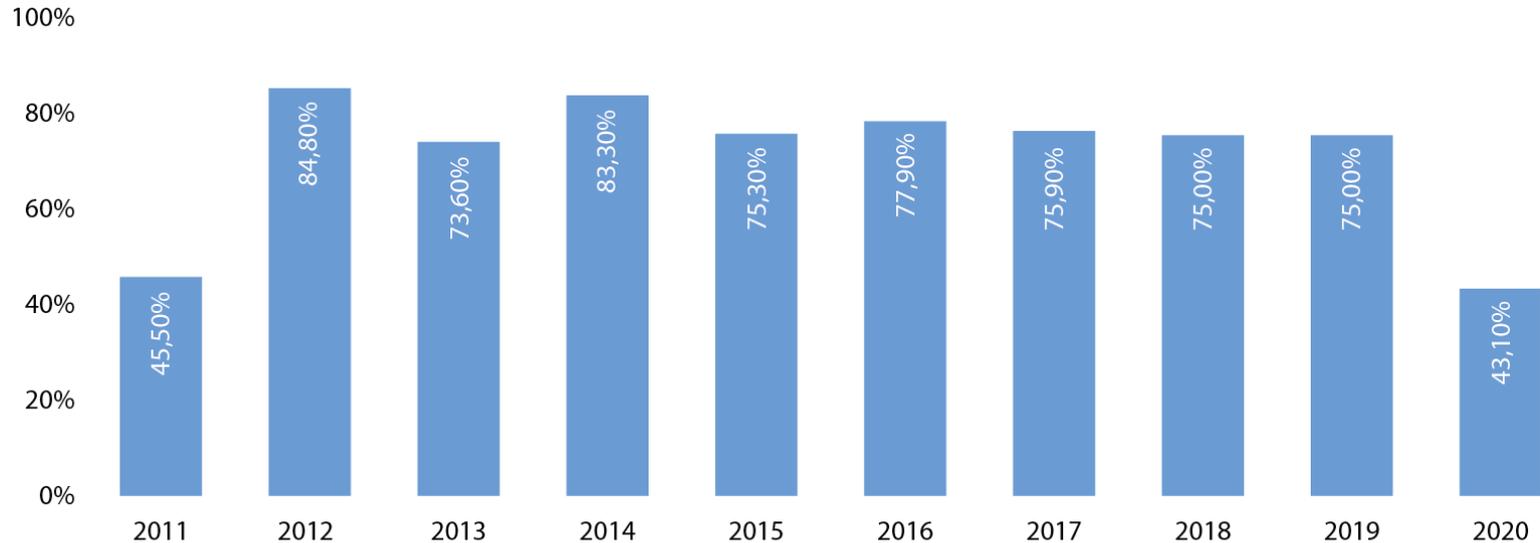
IMPLICATIONS OF THE CORONA CRISIS ON THE SHOPPING CENTRE SECTOR



Dr. Volker Kraft, ECE Real Estate Partners
INREV Live online: Around Europe by Sector Seminar 2020 - Real Estate Outlook
02 July 2020

% OF INVESTORS SELECTING RETAIL AS ONE OF THEIR PREFERRED SECTORS IN EUROPE

% of respondents



IMPLICATIONS OF THE CORONA CRISIS ON RETAIL

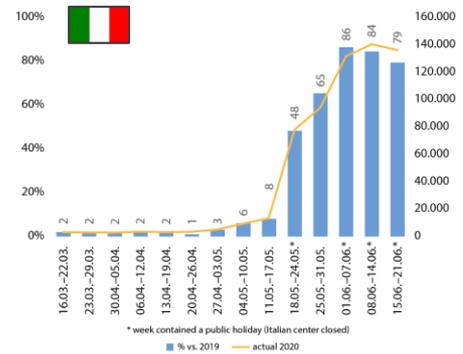
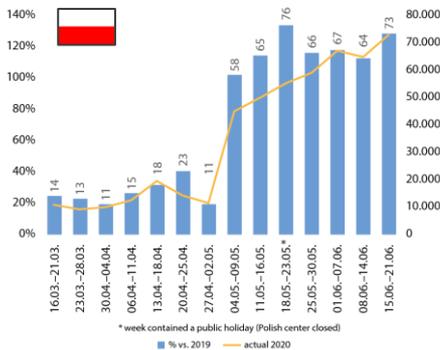
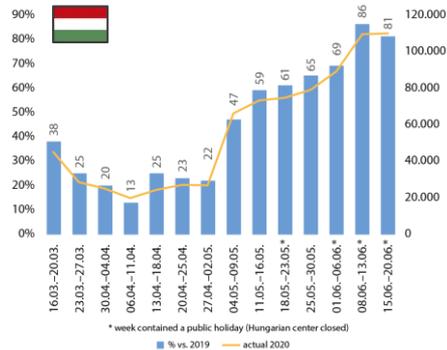
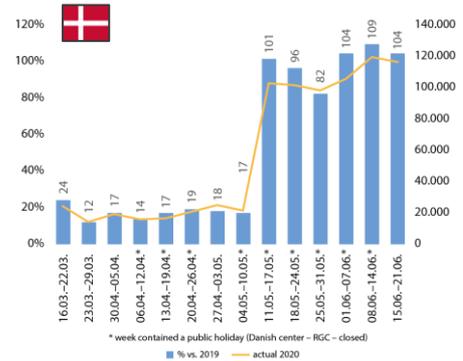
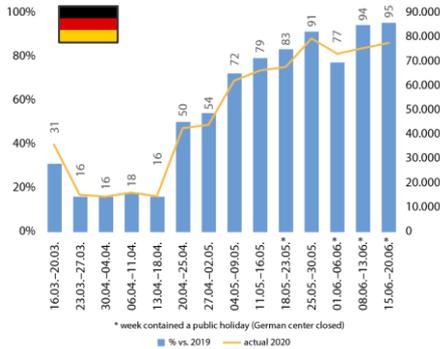
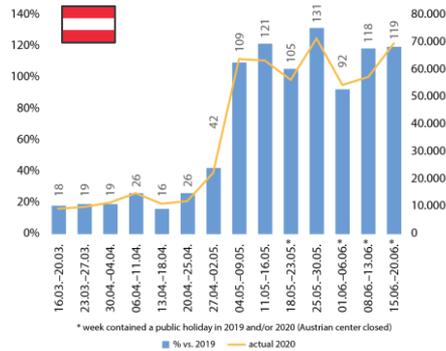
Where is the retail real estate industry heading?

- **Perfect storm:** the corona crisis was a shock for the retail sector, hitting the market in the middle of a period of change.
- **Lockdown:** during several weeks of lockdown, most European governments imposed unprecedented restrictions on retail.
- **Footfall:** footfall in retail destinations came to an abrupt halt with online retail surging.
- **Centre operations:** landlords and retailers faced with new legal and health protection requirements.
- **New legislation:** during the lockdown, new legislation has been put in place in various European jurisdictions, allowing tenants to defer or reduce their rental payments, thus shifting the business risk from the retailer to the landlord.
- **Tenant relations:** many retailers approached their landlords with requests to defer or reduce rental payments.
- **Capital markets:** uncertainty has led to a standstill in the capital markets.



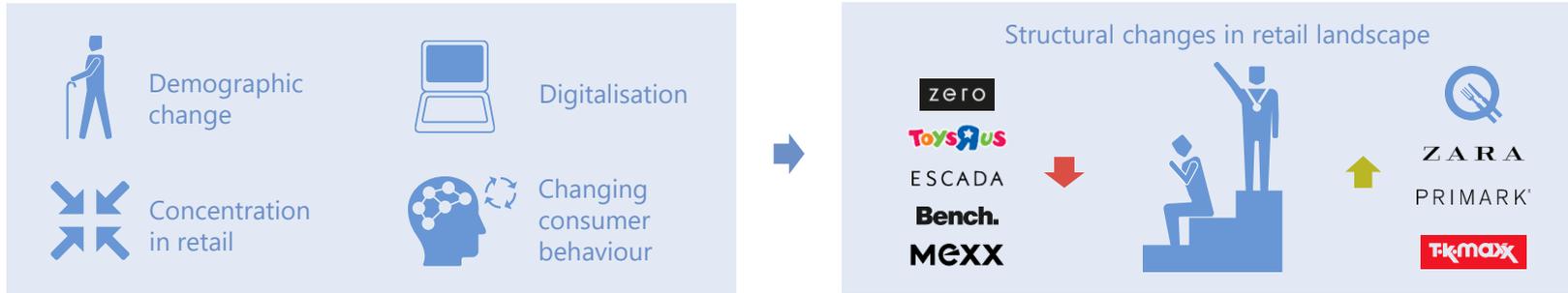
CENTRES SHOW A STEADY RECOVERY IN CUSTOMER FREQUENCIES

Development of weekly footfall since lockdown in selected countries



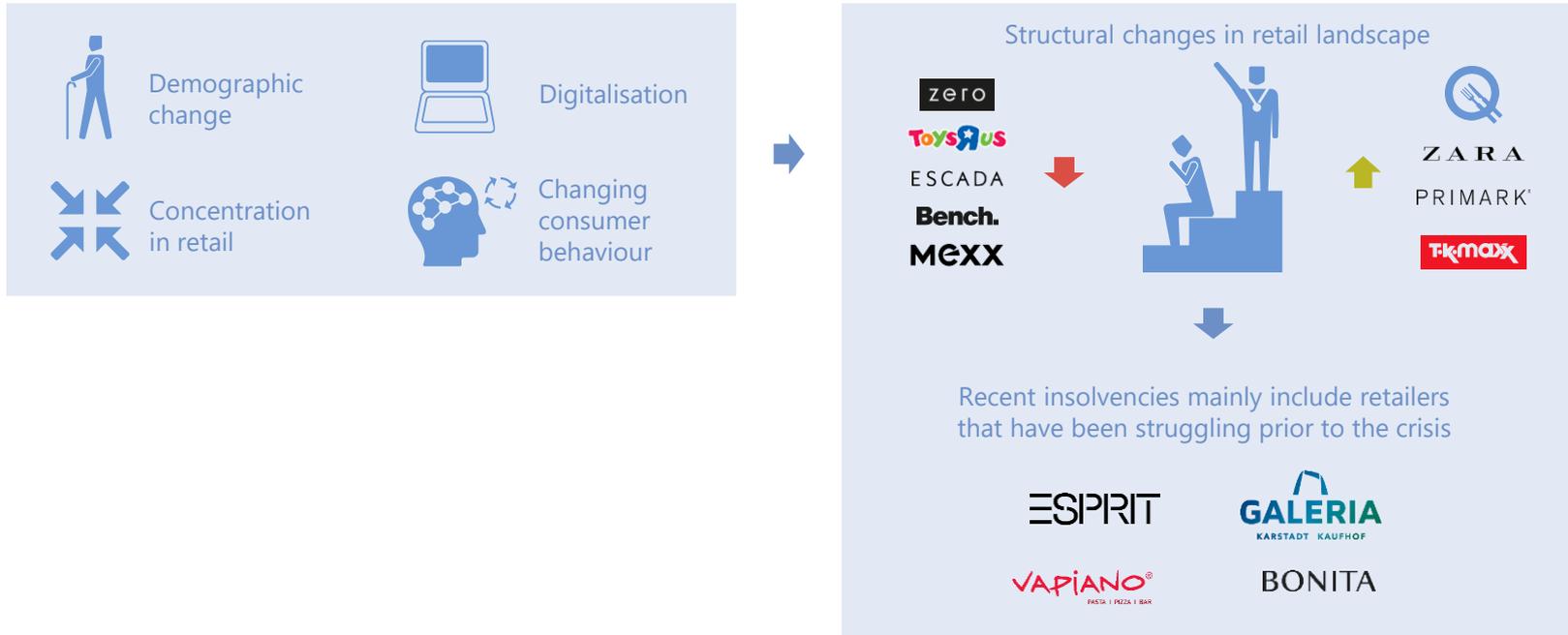
THE CORONA PANDEMIC ACCELERATES STRUCTURAL CHANGES IN THE RETAIL LANDSCAPE

Structural changes in the retail landscape result in increased polarization of the shopping centre market



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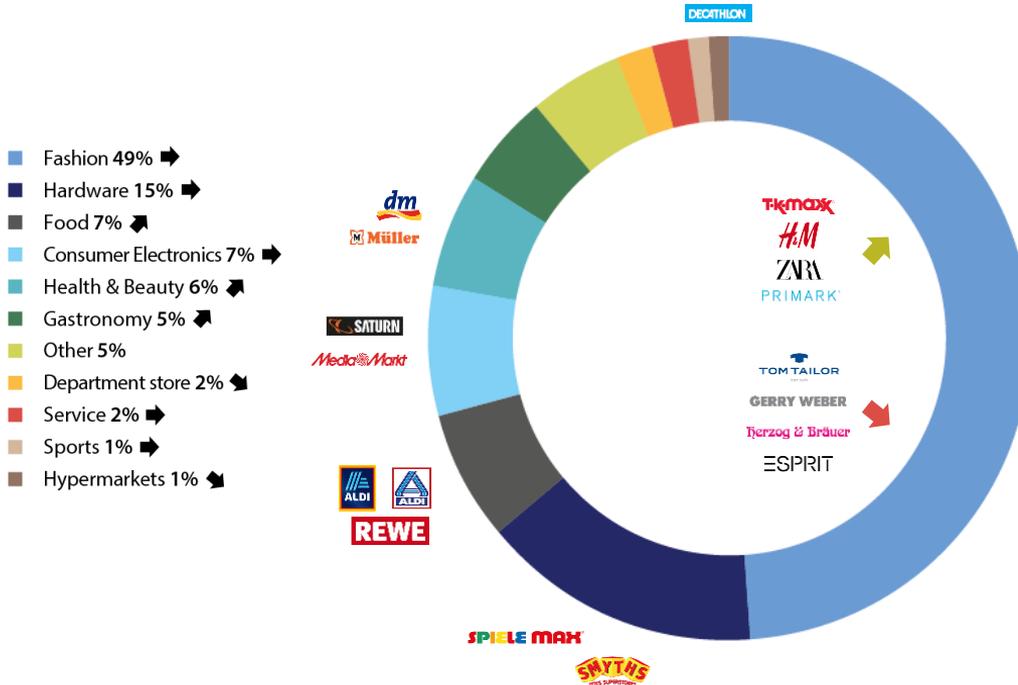
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Structural changes in the retail landscape result in increased polarization of the shopping centre market



GOOD SHOPPING CENTRES ARE FLEXIBLE SHELLS, PERMANENTLY ADOPTING TO STRUCTURAL CHANGE IN RETAIL

Sector mix development*



Shopping centres provide a stage for retailers and are able to adapt to structural changes in the retail market



Winning sectors:
Gastronomy, food, health, discount and fast fashion, brands



Suffering sectors:
Boutiques, mid-market fashion, hypermarkets, department stores



Discount retailers gain market share in all sectors with "value for money" approaches



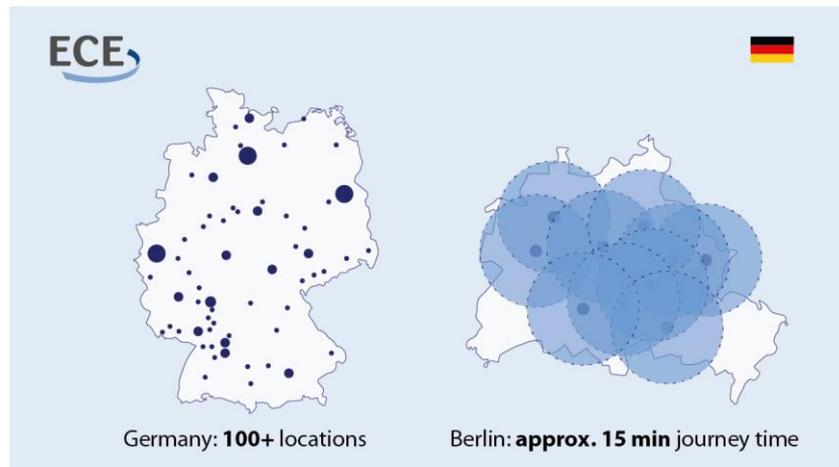
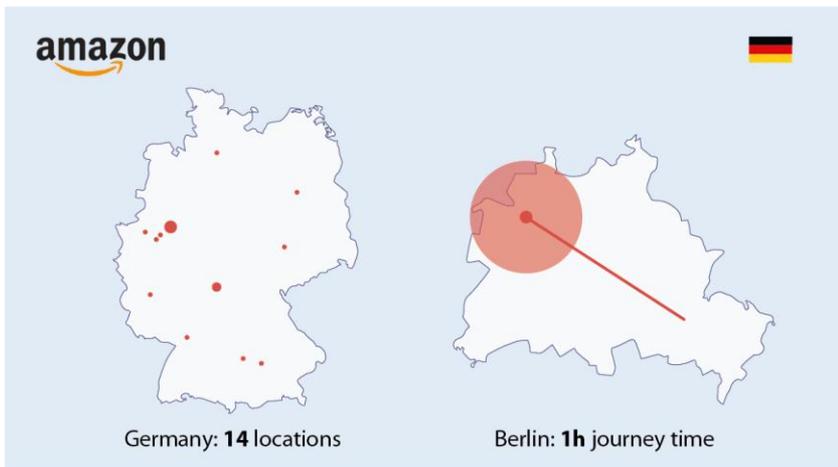
Omni-channel becomes a decisive factor, separating successful from failing retailers



Global brands beat local concepts through economies of scale, resounding marketing and innovation

DOMINANT SHOPPING CENTRES WILL PLAY A VITAL ROLE IN THE OMNI-CHANNEL WORLD

Opportunity to leverage shopping centres as micro distribution hubs



56%

of the German population lives within a **30 minute** car journey of an ECE mall



#1

landlord (by size) to retailers in Europe

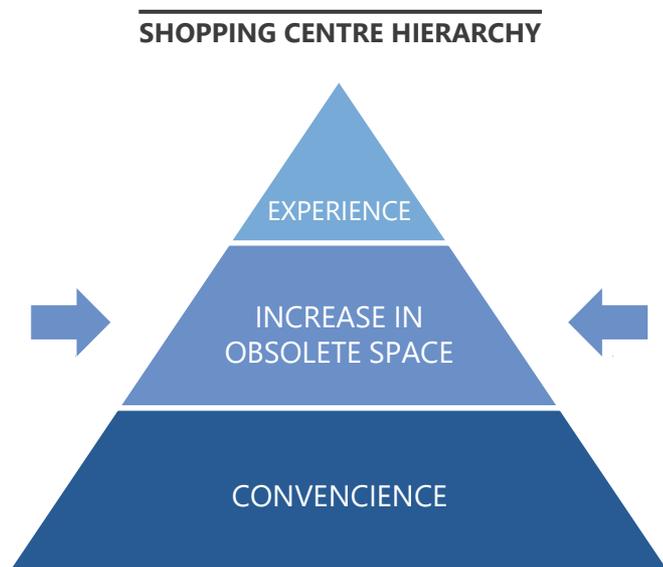


3rd

largest online retailer globally as sister company

PRIME SHOPPING CENTRES AND NEIGHBORHOOD CENTRES ARE MOST RESILIENT

Increase in obsolete space in secondary locations



RISK

- Potential retailer insolvencies
- Pool of prime shopping centres is shrinking
- Tighter lending conditions may constrain investments to keep assets up to date

OPPORTUNITY

- Premium for physical space in high quality shopping centres
- Neighbourhood shopping centres remain well visited due to daily-goods offer
- Increased importance of expertise as performance driver

PRIME SHOPPING CENTRES HAVE SHOWN HIGH RESILIENCE IN PREVIOUS ECONOMIC DOWNTURNS

ECE historical operating performance



Proven performance throughout multiple crisis periods



Active asset management

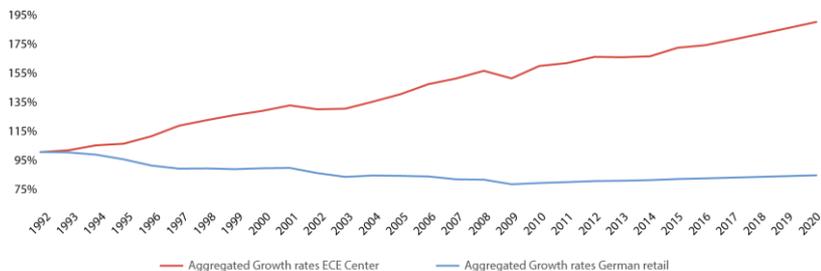


Highly diversified tenant base

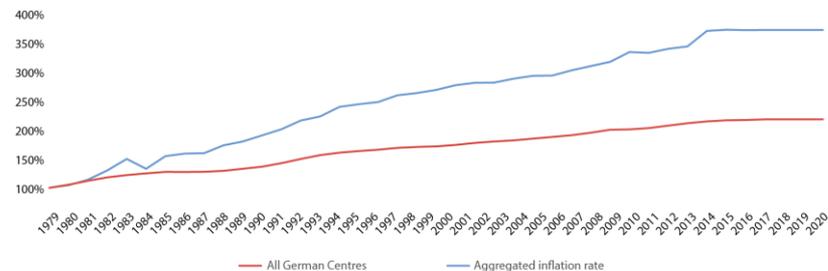


Dominant and superior locations

ECE German centres sales growth (per m²) vs. German retail sales growth (per m²)*,**



ECE German centres rental growth (per m²) vs. German inflation rate*

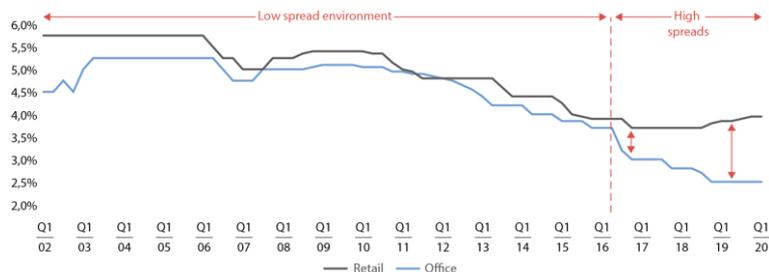


*Includes ECE's German Centres with Otto participation, 2017 to 2020 extrapolated, **Source: ECE + GfK (GfK data only available from 1992 onwards).

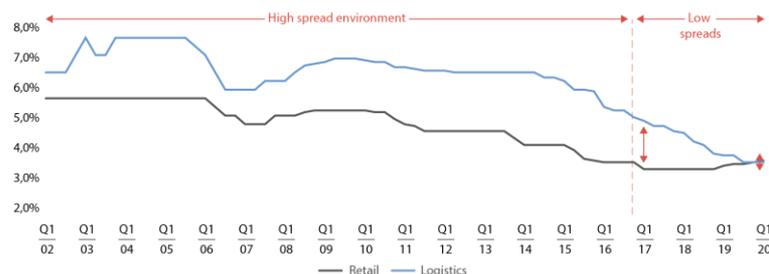
SHOPPING CENTRE YIELDS AT ATTRACTIVE ENTRY LEVELS COMPARED TO OTHER ASSET CLASSES

High barriers to entry sector providing stable recession resistant returns

GER SHOPPING CENTRES vs. OFFICE PRIME YIELDS



GER SHOPPING CENTRES vs. LOGISTICS PRIME YIELDS



GER SHOPPING CENTRES vs. 10 yr GER GOVERNMENT BOND YIELDS



COMMENTS

- Shopping Centre yields have **compressed much less** compared to e.g. Office and Logistics
- Spreads over Bond yields **are at a long-term high**
- Shopping Centre yields are at an **attractive entry level**, also considering **financing costs**

IMPLICATIONS OF THE CORONA CRISIS ON RETAIL

Where is the retail real estate industry heading?

- **Perfect storm:** the corona crisis accelerates structural change in the retail landscape.
- **Lockdown:** most restrictions have been lifted with certain health protection measures still in place.
- **Footfall:** consumers adopted quickly with footfall almost reaching pre crisis levels.
- **Centre operations:** landlords and retailers developed procedures to ensure safe visits and establish confidence.
- **New legislation:** European governments supporting consumption in order to overcome crisis.
- **Tenant relations:** large landlords and market leading retailers are agreeing to partnership-based solutions that mutually benefit both sides.
- **Capital markets:** current uncertainty leads to interesting counter cyclical investment opportunities.



THANK YOU

for your attention

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