

Italy and Spain to see further strong growth in the out-of-town retail market

A new report, "European OOT retailing 2008", published this week by retail analysts Verdict Research, part of the Datamonitor Group, in association with the leading global real estate service provider Savills, finds that despite the credit crunch, there are still significant opportunities for retailers and developers in the European out-of-town (OOT) arena, with the Mediterranean countries showing strong potential for further rapid development.

However – going forward – these opportunities will become harder to find. In the south, the prime OOT locations are snapped up, while in northern Europe retailers and developers will increasingly need to focus on redeveloping older sites and make existing space work harder.

For many years OOT development appeared a relatively easy route to riches for both retailers and developers, however over the last five years profitability at many OOT retailers has been adversely impacted by the boom in OOT superstores, especially in the DIY and furniture sectors. As the operating costs of these stores have risen in tandem with slowing top line sales, going forward profitability growth will be a lot harder to come by. The research also shows that the European out-of-town market is still characterised by huge differences, despite convergence being a major theme across business activities in the EU.

In a catch-up phase

Daniel Lucht, Senior Analyst at Verdict Research and author of the report, comments: "OOT growth will be fastest for Italy and Spain. Both markets are currently in a catch-up phase and especially attractive to retailers and developers." For Italy and Spain Verdict Research predicts buoyant sales and space growth in OOT retailing, as the relatively new concept is introduced by international investors and retailers eager to gain a share of these markets. The fastest growing country will be Italy (46.0% space growth over the 2007-12 period), as the potential to develop the sector is greatest. Spain will come in second place over the period (25.0%), as the currently buoyant growth levels slow somewhat, especially against the backdrop of concerns about the robustness of the Spanish property market.

Stifled by a lack of quality space

Looking north, according to Verdict Research OOT sales in France, Germany, the Netherlands and the UK will grow more slowly over the next five years. In the more mature markets, growth in the OOT sector will be stifled by the absence of available, high-quality space that could be developed. This problem is especially acute for the UK, the Netherlands, France and to a degree Germany. Moreover, in these markets a new focus on the high street and especially inner city shopping centre development will provide fierce competition against OOT development. Compared with southern European economies, the more mature northern European markets have a longer established OOT proposition. Here growth in OOT retailing will be driven by initiatives to rejuvenate many of the older retail parks. Hand in hand with this rejuvenation comes the trend towards more space as investors seek to maximize their returns and extend existing schemes. "Following the recent trend of clothing retailers vying for OOT space across the EU, we believe that future demand will be driven by other types of retailer currently not present in OOT locations (for example music & video retailer Fnac moving to OOT locations in France)," adds Lucht.

Restrictive legislation stands in the way

According to Verdict growth in OOT expenditure in the six core markets over next five years will be 17.4% compared to 19.1% over 2002-07 and growth will mainly come from Southern Europe. Standing in the way of further rapid OOT development across the EU are restrictive legislation, an increasingly ageing and immobile population and the Internet. It is

primarily the current political will to regenerate inner cities and the town centres of smaller and major conurbations and hence more restrictive legislation, that is holding back OOT development. Second, changing demographics spell further bad news for OOT retailers as an increasingly ageing and immobile population is not being served by OOT but prefers the high street especially at times when rising energy costs reduce spending power and soaring petrol costs make car trips more expensive. Thirdly, the rise of the Internet is often perceived as a major threat to OOT, as e-retailing could alter shopping patterns and impact OOT especially hard.

Significant opportunities

That said there also remain a number of significant opportunities for OOT retail across the EU, such as the Internet, the increasing number of households, green issues and format development. While it is commonly seen as a threat to the sector, Verdict Research argues that Internet retailing is also a major opportunity for OOT. Though the rise of this new channel has had an impact on footfall to OOT shopping destinations, the rise in home delivery services can also be seen as an opportunity.

If consumers do not come to the stores any more, retailers have to find ways to take the offer to the consumer, though this will require significant investment.

The second growth opportunity lies in social and demographic change across the EU. According to Lucht the increasing number of households across the EU acts as a key driver for demand of home-related goods, which are a major constituent of OOT retail, as much of this sector's offer is made up of bulky, non-food items. "More households translates into more furniture, homewares, electricals and DIY spend, and this trend is good news for OOT retailers and common to all EU markets".

Green issues are key

Finally, green issues become a key consideration for OOT in two ways. In the first place, OOT operators such as IKEA could develop their home delivery services and by doing so, position themselves as environmentally friendly by substituting many single and individual car journeys with one delivery trip using low emission delivery vehicles, as Tesco is introducing in the UK. Secondly, environmental sustainability will also have a major impact on retail property and store design. Energy efficiency is rising up on the agenda and OOT retailers and developers should see this as a major growth opportunity, as energy efficient buildings reduce costs and modern outlets attract more footfalls and spend – aside from the possibility of marketing campaigns outlining green credentials.

Direct from the factory

Verdict believes that the future of OOT retailing in the EU will lie in new format developments. In many EU markets, the factory outlet centre is a relative novelty, and Dutch furniture boulevards are now making an appearance across the Continent. Furniture boulevards group many retailers from a sector such as homewares and furniture into a centre and create unrivalled destination status. A more diverse tenant mix should also benefit OOT retail – for instance through the

inclusion of clothing retailers. This should lead to a greater diversity in the offer, attracting higher footfall. Moreover, an increase in the provision of leisure activities, including restaurants, cinemas, sports facilities and the like could make OOT shopping into a family day out.

Commenting on the real-estate implications of the research, Lydia Brissy of Savills' European Research team says:

“Over the last few years we have seen a boom in retailer and consumer interest in retail warehousing across mainland Europe. We believe that there will continue to be strong opportunities for developers and investors in this sector, particularly in Spain and Italy.”

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