

Study

Valuation of Retail Properties

HypZert Professional Group Retail

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To make the text easier to read, only the masculine form is used throughout; however, all references to persons apply to all genders.

Foreword by the Professional Group

Anyone investing in or financing real estate needs a robust foundation upon which to base their decisions. HypZert sets the standard as Germany's leading company in the certification of real estate valuers. At present, the property industry is clearly aware of how social conditions are changing, not only as a result of current crises, but also as a result of long-term megatrends such as digitalisation and demographic changes. The demands of uses on spaces, buildings and locations are changing accordingly and, as a result, the perception of a city (and ultimately the city itself) is evolving. To explain this, we have invited Sabine Georgi, Managing Director of the ULI Urban Land Institute, to deliver the welcoming address.

It has always been said that retail is constantly evolving, but the challenges facing retail property go far beyond previous adaptation processes. The significant change in consumer behaviour is putting sustained pressure, especially on large sections of the non-food retail sector. Previous quality categories in retail such as pedestrian zones or prime locations, prime rents and prime yields, city centre or shopping centre formats, are currently being replaced by hard industry- and tenant-specific factors. These factors include marketing and addressing target groups, customer and sales potential, online competition, multichannel options, turnover rent, break options, space efficiency, operating expenses, sustainability and energy.

Consequently, and increasingly, the valuation of retail properties requires a view beyond the property itself. Knowledge about the development of consumer behaviour allows conclusions to be drawn about the opportunities and risks of the various retail segments and locations. An awareness of tenants' demands on locations and properties enables assessments to be made about the security of rental income or the potential of re-letting space.

In this update to the 2019 study, we focus more than ever on the transformational pressures that have gripped the retail industry and its real estate. The pandemic has proven to be a trend accelerator, allowing trends to be seen more clearly and verifiably today than ever before.

We wish you an interesting read.

Your HypZert Professional Group Retail

Welcoming Address by the Urban Land Institute (ULI)

The Covid crisis has highlighted a profound need for transformation in our cities. During the various phases of lockdown, those parts of the city that are or were monofunctional such as purely office locations, but also classic shopping boulevards, were substantially depopulated. Major cities also lost those functions and subsequently the benefits that contributed to the advantages of living in an urban environment, especially the benefits from connectivity effects and lower transaction costs. However, cities are of paramount importance for advancing innovation and education. Consequently, one function of the city which must be specifically strengthened in the future is increasingly coming to the fore: social interaction. Associated benefits also arise from the density that exists in cities. This points to a requirement to reassess social interaction which can take place both through “positive” spaces such as public squares and through neighbourhoods that need to become more functionally mixed. Because of the importance of the real estate environment for the quality of stay in the neighbourhood, owners are becoming increasingly aware of their responsibilities. In the creation of positive spaces (such as placemaking), this is also associated with opportunities. Moreover, it has become clear that spaces should be coded several times in future to meet several use requirements. Here, it will be a matter of better dovetailing attractive outdoor spaces to create added value for users, which can then also affect rents.

Moreover, the mix of uses is not only necessary for greater resilience but is also required because of the need for decarbonisation to curb private transport. This mix should take place in both the neighbourhood and the building. These findings, which were incidentally also supported in the “European City after Covid” study by IREBS and ULI, are therefore related to the “Leipzig Charter”. This charter strongly recommends reintroducing a stronger mix of housing with other use classes in city-centre areas.

Ground-floor locations represent both a challenge and potential, especially where traditional retail is retreating. However, this could be the key to more social interaction. How can we light the “campfire” around which people gather?

In this context, multiple uses which are intended to provide structured added value for the building or neighbourhood are increasingly being discussed. This could soon be a question of assessment as to how these multiple uses and the resulting added value for tenants can be measured. A further field of action arises from the requirement to align our business activities more sustainably; this relates to the imperative not only to develop and operate ESG-compliant properties, but also to integrate retail properties into ESG-compliant neighbourhoods. In terms of environmental factors, carbon footprint and energy consumption are at the top of the agenda. When determining a purchase price, leading investors in the industry are already looking at CapEx, carbon taxes and other factors to properly assess the transformational risks. Here, the ULI Guideline, which was developed as part of the “C Change” initiative, offers a concept for standardised handling with the integration of CREM pathways. In the context of the “S” in ESG, it is now also becoming clear that buildings have a direct social impact on their surroundings. Retail properties in particular have a strong potential to exert a positive social impact on a neighbourhood. Even in combination with other use classes (such as healthcare and social facilities), properties used solely for retail purposes can make a positive contribution to diversity and resilience if integrated with a mixed-use approach following the idea of a structured neighbourhood.

The first transformation properties, which are still properties used solely for retail purposes today, will point the way and show how it can be possible to continue to create places with which people associate positive memories, or will do so again. After all, retail property is all about great shopping experiences.

Sabine Georgi
Managing Director of ULI in Germany

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