

Study

Valuation of Retail Properties

HypZert Professional Group 'Retail'

As at: January 2013, second update

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Foreword by the EHI Retail Institute

Population numbers in Germany are expected to decrease over the long-term. Despite slight growth in 2011, the population is not expected to exceed the 70 million mark in the next 40 years. At the same time, households in Germany are reducing in size. Currently, the average size of household is less than two people and in the major conurbations, more than half of households are single person households.

This development will have an effect on popular retail locations. Town and city centres are now sought-after more than out-of-town locations. Retailers, previously very much rooted on the outskirts, are developing new concepts and refocusing the direction of their expansions. New formats for integrated locations are being developed and DIY and furniture stores are reducing their sizes and concentrating on towns and cities. The trends observed in the USA over the last few years are now also being seen in Germany.

Specialisation is increasing in the cities, with tailor-made solutions being developed for every type of household, age group and lifestyle. There is a wide product offer in every segment, which is a dream for every customer.

However, smaller towns and communities are witnessing the downside of this development, especially those within reach of a primary centre; they are feeling the full force of the law of gravity. The extensive retail supply in the major cities is absorbing purchasing power from the periphery like a sponge, with the result that the surrounding areas are no longer attractive.

Specialist retail is moving out of smaller towns and communities in increasing numbers, leaving behind local retailers such as supermarkets, mobile telephone shops, price-aggressive specialists and discounters with their mixed product ranges. For Schlecker, the leftover purchasing power was insufficient to be able to survive as a local retailer with comprehensive geographic coverage. This is also a prime example of the cut-throat nature of competition in retail. Any retailer taking their eye off the ball in terms of progress will be left behind, taken over or simply vanish from the market.

Department stores are also currently profiting from this move back to the city centre and, in particular, from the rise in footfall. Nevertheless, they will continue to find the market difficult. The increasing specialisation is forcing them to focus their attention on core competencies. Even if the concept of ‘Everything under one roof’ remains successful, this will be better serviced by town/city centre shopping centres than by the traditional consumer temples.

Questions are also being asked about the future of online retail. With constant annual growth rates of 10% to 15%, the market share held by online retail could grow to 15% to 25% by 2025; however, the situation is becoming much more alarming in individual branches such as books and consumer electronics. Here, the market shares held by e-Commerce are already well above the 20% mark. As a result, despite completely transforming their concepts in an effort to react to the new competition on the internet, established retailers are suffering. Such efforts are often not implemented fast enough, despite retailers doing everything right.

This situation will affect retailers of DVDs and CDs in particular, with these product ranges vanishing completely from the market, to be replaced by digital products. In New York, megastores operated by Virgin, Tower Records & Co. have long disappeared from the cityscape. In all likelihood, the same will happen to us.

Only food retail appears resilient to the force of the internet. Here, no major shifts in market share are evident and even the frequent attempts to promote delivery services and collection points are not bearing much fruit.

Retail remains in flux and point-of-sale retail is still the dominant force; nonetheless, elements of the sector will change and this will affect the property market. It therefore makes sense to watch closely.

Cologne, Winter 2012/2013

Michael Gerling
Managing Director
EHI Retail Institute



Foreword by the Professional Group

Since its foundation in 1996, HypZert GmbH, as one of the first certification bodies for real estate valuers, has certified over 1,200 valuers, responsible for the determination of market and mortgage lending values in and for the finance industry.

A new aspect of HypZert's activities is the recording and distribution of the professional knowledge of this large number of valuers, including specialist subjects, for the mutual benefit of its members. For this, HypZert has set up a number of different professional groups since 2002, which currently include the following:

International, Hospitality and Restaurant Industry, Retail, Energy & Environment, Industry, Agriculture, Logistics and Care Facilities.

Members of these professional groups have extensive knowledge in their respective specialist fields as a result of their professional experience, and wish to make this knowledge and experience available to all association members by using these studies.

The Professional Group 'Retail' was one of the first professional groups to be set up by HypZert GmbH. Today, its members, who are also the authors of the following study, include:

■ *Anja Frankemölle*

... looks back at 13 years of experience as a valuer. Since 2006, she has been employed by HIB Helaba Property valuation as a specialist in the valuation of large-scale retail properties, before which she worked as a real estate valuer in the Rhein-Main region and Lower Saxony after completing her degree in Architecture. She gained her HypZert (F) certification in 2008 and has been a member of the HypZert Professional Group 'Retail' since 2012.

■ *Manuel Jahn*

... in his 15-year professional experience, he has specialised in the provision of independent retail property advice. In 2010, he was elected to the ZIA Real Estate Advisory Board. He has worked with GfK since 2004, heading the Real

Estate Consulting Division. In previous years, he worked with the Westdeutsche ImmobilienBank Group focusing on the design and realisation of shopping centres after completing his diploma in Banking and studies in Architecture and Town Planning. He has been a member of the HypZert Professional Group 'Retail' since 2012.

■ *Gerd Köpp*

... holds a Building Engineering degree from TU Berlin, has 16 years management experience in the Berlin construction industry, and has been a property valuer in Munich and Hamburg since 2000 (HypZert F/M since 2003; MRICS). He has worked at KSC GmbH (a subsidiary of the Sparkasse Group) since 2010, and is an honorary member of the Valuation Board for the District of Pinneberg (Schleswig-Holstein) and member of the BVS. He has been a member of the HypZert Professional Group 'Retail' since 2006.

■ *Carolin Lutz-Herrmann*

... has worked with the HypoVereinsbank – UniCredit Bank AG in the Property Valuation and Consulting Department since 1995. Her educational background includes a combined degree in Architecture at TU Munich (Dipl.-Ing. (univ.)) and Business Administration in Fort Worth, Texas (MBA). A HypZert (F/M) certified valuer since 2003 and department director, she currently values individual and specialised properties with a regional focus on Munich and Upper Bavaria and in future, will be responsible for the valuation of portfolios and specialised properties. She has been a member of the HypZert Professional Group 'Retail' since 2012.

■ *Paul Mattes*

... has been active in the property industry for around 20 years, ca. 12 of which as a property valuer for Landesbank Baden-Württemberg, Stuttgart. As a property valuer, he has specialised in a number of fields, most recently in the valuation of retail properties. He has been a member of the HypZert Professional Group 'Retail' since 2007.

■ *Jens Rödiger*

... is a graduate building engineer and has over 20 years' experience working for banks as a property valuer. He currently heads the Leipzig regional office for Kenstone GmbH. He has been a HypZert (F/M) certified valuer since 1997. He is also a member of the Valuation Board for the City of Leipzig. He has been a member of the HypZert Professional Group 'Retail' since 2006.

■ *Carsten Vogt*

... began his professional training in 1990 at NORD/LB. As a qualified banker (Bankkaufmann and Bankfachwirt), he was a finance specialist in commercial construction financing at NORD/LB for around 7 years. In 2000, he transferred to Valuation Management at NORD/LB as a property valuer. He has been a HypZert (F/M) certified valuer since 2003. In 2008, he ended his intensive studies in retail property at the IREBS, becoming a Retail Property Manager (GCSC/IREBS) and he has been a member of the HypZert Professional Group 'Retail' since 2009.

The Group published its 'Bewertung von Einzelhandelsimmobilien' (Valuation of Retail Property) study for the first time in Autumn 2007. The first update was published in Autumn 2009.

The focus of the second update of this study is a comprehensive revision and an expansion of the data sheets to include current property and market data.

The professional group looks forward to constructive dialogue with valuers and interested readers. If you have any suggestions, questions or comments, or wish to contact us for any other reason, please do not hesitate to get in touch. Our contact data can be found under www.hypzert.de.

Your HypZert Professional Group 'Retail'