Theme 1) Embracing retail and logistics as part of omnichannel strategies

The implementation of further restrictions and potential for further lockdowns will continue to support online retail spending in 2022, creating new occupier demand for logistics space. Since the pandemic, UK online retail sales rose from 21% of total retail sales in Q1 2020 to reach 36% in Q1 2021 and mainland Europe has observed a similar upwards trend over the same period (Forrester data indicates circa 18% of total retail sales will be made online during 2021, up from 15% in 2020).

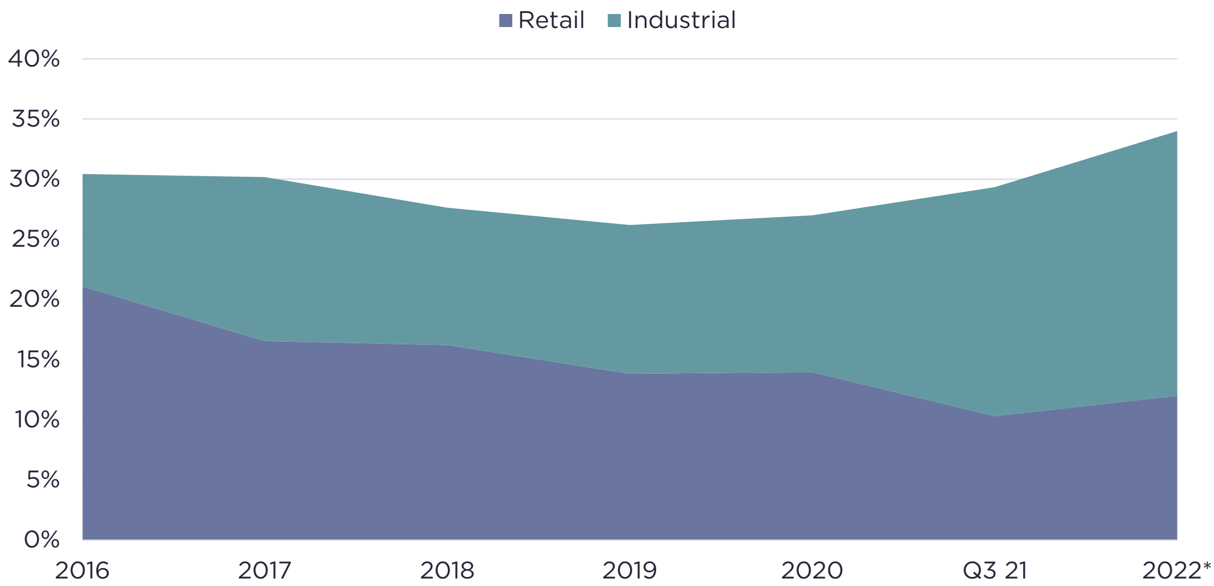
The sprawling occupier demand has been particularly visible across online retailers and 3PLs. According to Savills European Logistics Census of industry experts, 58% of 3PLs and 46% of retailers expect to increase their warehouse occupancy over the next three years. 41% of manufacturers, who have been particularly disrupted by supply chain challenges and rising input costs anticipate an increase in warehouse demand. However, building affordability and expansion capacity remain the most significant warehouse challenges for occupiers over the next 12 months as speculative development and zoning of new logistics space fail to meet record levels of demand. This is beginning to apply upwards pressure on rents (an average 3% increase over the 12 months to end Q3 2021) and we anticipate similar rental increases in 2022.

These same trends have had the opposite effect on the retail sector. Investor allocations in physical stores and malls have been falling along with the rise of online consumption. Over the past decade the share of retail investment has dropped from over 25% of the total activity to 13% in 2021. Prime shopping centre yields have been moving out over the past five years to reach 5.35% on average in the end of 2021, across Europe. This compares to a peak of 4.45% in Q1 2018 and a trough of 6.6% in Q2 2009.

The pandemic has accelerated the transition forcing retailers to adapt to a new reality, where the consumer makes one out of five purchases online. Winners and losers have emerged and certain retail formats in certain locations have proven more resilient than others. In 2021, the share of the convenience sector, including retail parks, retail warehouses, hypermarkets, and supermarkets, increased from a ten-year average of 20% to 50% of total retail investment in 2021. Investors looking to meet higher return thresholds while managing income risk have discerned that retail parks and grocery stores are often located close to population centres and are generally less exposed to changes in discretionary spending due to downturns or public health restrictions. Moreover, retail warehouses and parks are increasingly seen as a hybrid operation providing in-store retailing with last mile delivery fulfilment options.

We expect investor focus on these market segments to continue in 2022. Supply of prime assets will be scarce, but value-add opportunities will come-up, especially in Western European markets where a significant share of retail stock was built over 15 years ago and is becoming dated. Repriced retail centres, in strong catchment areas with good accessibility will offer refurbishment and redevelopment potential. Depending on the profile of the scheme and the local planning regime, retail can be complemented with leisure, housing, co-working, healthcare, and other community services, offering more diversified income. Moreover, new and refurbished retail assets should aim to minimise their environmental impact through energy and water efficiency methods, use of sustainable materials and landscaping.

Chart 3: European omnichannel investment allocation as a % of total investment



Source: Savills (* indicates forecast)