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# Fluctuation in prime retail locations in Germany's "Big 7" real estate markets – an empirical survey

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# Abstract:

Retail trade is always subject to a high degree of change. The dynamics of change in the retail sector is intensified by the massive growth of the online trade. Changes in the classic retail trade are followed by changes that are of highest importance for the real estate industry with a more or less pronounced time lag. That is changes of the tenant-mix, stores, or even vacancies of outlets in the retail real estate market. This paper analyses the changes and turnover of retail outlets in the retail real estate markets of the "Big 7", i.e. Germany's most important real estate markets, for the time period 2008 to 2018. An important indicator of change in the retail sector is the level of change of retail-tenants, that is the retail fluctuation.

The paper focuses on retail outlets in high streets, as these prime retail locations are of the utmost importance for retail markets. In high streets, the majority of retail sales are generated and the highest rents are achieved. Furthermore, this real estate type is the flagship of the retail, or even the commercial real estate markets. In this respect, as described above, the paper compares the retail fluctuation in the "Big 7", and it examines the extent of these changes.

Basically, a distinction can be made, whether a change was initiated by a tenant, or several tenants, the landlord, or real estate development. At the same time the reasons for undertaking real estate developments can also be complex and can be caused by a tenant or several tenants who terminate their leases, or construction activities which are triggered by the landlord.

At the same time a very low fluctuation rate is also not desirable, as trade also needs a certain level of change. A very low fluctuation can indicate that necessary adaptation

processes do not take place, are pent up, or - even more unfavorably - no new operators or concepts are willing to spearhead this drive to change. Such a situation can at a later point in time initiate the downturn of a retail location, and an increased vacancy rate.

#### 1. Methodology and research design

The fluctuation rate sets the number of stores with new tenants, in relation to stores at a certain high street location. If existing tenants do not go out of business, but are just relocating to a new outlet close to their previous location, they are nevertheless taken into account, since these changes affect the retail sector, as in most instances floor space is re-adjusted, and in many cases these changes involve a broker, or even several brokers representing each negotiating party.

Where shops changed several times in a certain period of time, these are only counted as one change, so that individual - bad - shops, which for whatever reason, do not perform, do not distort the numbers of a whole high street. At the same time, this avoids pop-up stores which are used to bridge temporary vacancies, camouflage vacancies, or to use these available times for other retail concepts, also distorting the turnover of a particular store.

The fluctuation rate can be used as an important indicator of change in the retail industry. There are different variants for the comparison periods. On the one hand, it is possible to make an annual comparison of the changes. As however in some high streets only relatively small changes can be observed, and because real estate developments can generate retail space for a substantial number of retail outlets in a relatively short period of time, it does not seem reasonable to place such a short period in the center of this analysis, and to calculate this change rate on a yearly basis. Therefore, this paper examines the extent to which changes in the store structure took place, during the periods 2004 to 2018, 2006/2007 to 2018, 2011 to 2018, and 2016 to 2018, and with a focus on prime retail locations in Germany's "Big 7", the cities that are the German retail hotspots. These are Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich, and Stuttgart.

The paper focuses on retail outlets in prime high street locations, as these prime retail locations are of the utmost importance for retail markets. In the high streets, the majority of retail sales are generated and the highest rents are achieved. Furthermore, this real estate type is the flagship of the retail real estate markets. In this respect, as described above, the paper compares retail fluctuations in the "Big 7", and it examines the extent of these changes.

In order to make the changes in the retail sales situation in the different high streets comparable, fluctuation rates are expressed as a percentage. Since each high street comprises only a relatively small number of changes, it makes sense to consider the percentage changes in each case in connection with the total number of stores in the respective high street.

In addition, the foot traffic of a specific high street, and the rental level can also be taken into consideration. Furthermore, as stated before, it is highly advisable to examine the changes in the fluctuation rate in the retail sector over several years, and not only on the basis of one or two years, since in most cases there is only a very limited change, and the results would be prone to coincident.

Basically, a distinction can be made, whether a change was initiated by a tenant, or several tenants, the landlord, or real estate development. At the same time the reasons for undertaking real estate developments can also be complex and can be caused by a tenant or several tenants who terminate their leases, or construction activities are triggered by the landlord.

The fluctuation rate in the retail sector was recorded and analyzed on the basis of yellow pages, maps of retail outlets of large brokerage houses (Kemper's 2006, JLL 2011, Lührmann 2004, Lührmann 2006, Lührmann 2016, Brockhoff 2016, Comfort 2016, Comfort 2018), Google Maps. The calculation bases of the fluctuation rates are the years 2004 to 2018, 2006/2007 to 2018, 2011 to 2018, and 2016 to 2018, and the percentage changes in prime high street locations were calculated.

#### 2. Results and analysis

Retail trade in Germany as well as in other countries is subject to a high degree of change (Ingene 2014, Kippes 2017). It has always been characterized by adaption processes and changes, therefore the statement "trade is change" is proverbial. The dynamics of change in the retail sector is further intensified by the steadily growing online trade, which is increasingly putting pressure on traditional brick and mortar stores.

Changes in the classic retail trade, e.g. upturns or downturns of sales, are followed by changes that are of highest importance for the real estate industry with a more or less pronounced time lag. That is changes of the tenant-mix, stores, or even vacancies of outlets in the retail real estate market. This paper analyses the changes and turnover of retail outlets in the retail real estate markets of the "Big 7", i.e. Germany's most important real estate markets. An important indicator of change in the retail sector is the level of change of retail-tenants, that is the retail fluctuation.

The operators of shopping malls collect such data on retail fluctuation in most cases very meticulously and they treat this information almost as business secrets. In the shopping mall field, there is a much higher density of information regarding footfall, tenant structure, tenants' financial performance, tenants' turnover, etc. In the shopping mall industry, this information is mostly only available to the shopping mall operator and the mall's owner.

This information is in many cases available due to the fact that floor space is leased up on a sales-based percentage rent. Because of this the tenant is obliged to submit sales figures regularly - e.g. quarterly. Thus, shopping mall operators receive much valuable information literally for free. Therefore, shopping malls try to receive salesbased percentage rents, whereby sales-based percentage rents are often combined with base rents in order to eliminate greater risks for owners or landlords of the shopping mall.

	2004 to 2018	%	2006/2007 to 2018	%	2011 zu 2018	%	2016 zu 2018	%	shops 2018
Berlin	543	75	501	69.2	345	47.7	166	22.9	724
Cologne	277	68.2	211	52	203	50	126	31.0	406
Dusseldorf	136	65.7	133	64.3	109	52.7	70	33.8	207
Frankfurt	140	63.3	135	61.1	98	44.3	52	23.5	221
Hamburg	162	63.5	150	58.8	94	36.9	47	18.4	255
Munich	233	58.5	216	54.3	158	39.7	64	16.1	398
Stuttgart	106	58.9	98	54.4	63	35	32	17.8	180

## Table 1: Fluctuation in prime retail locations in Germany (cities)

In principle in the period 2004 - 2018, the retail fluctuation was at the lower end in Munich (58.5%), Dusseldorf (65.7%), Hamburg (63.5%), with Cologne (68.2%) and Berlin (75.0%) at the higher end (Table 1). These figures are extremely noteworthy, bearing in mind, that in most of the cities over a period of 14 years, with the exception of Munich more than 60%, and in Berlin even threequarters of the stores changed.

It should also be taken into account that individual stores, which changed several times during this period, were only counted as one change. That means, these figures would be much higher if multiple tenant changes of individual stores were to be taken into account. This strategy was applied for methodological reasons, because it might lead to considerable distortions, and to the fact that individual, non-marketable or uncompetitive store locations, which due to structural deficiencies change their tenants very often, overshadow the overall situation.

Looking at the relatively short period 2016 to 2018, the range of retail fluctuation ranges from 16.1% in Munich, and 17.8% in Stuttgart, at the lower end, up to 33.8% in Dusseldorf, and 31.0% in Cologne at the upper end.

A very high fluctuation rate, combined with disproportionate marketing time and simultaneous vacancy of several stores, indicates marketing problems concerning a certain retail location. A very low fluctuation rate, however may also be not very desirable, as trade requires a certain amount of change. A very low fluctuation can indicate that necessary adaptation processes do not take place, are pent up, or - even more unfavorably - no new operators or concepts are willing to spearhead this drive to change. Such a situation can at a later point in time initiate the downturn of a retail location, and an increased vacancy rate.

With regard to the retail fluctuation observed here, one important explanation for the high fluctuation is, that overall in the retail industry lease terms are not as long anymore as they were in the past. Therefore, it is easier for both parties to terminate a lease, which leads to a higher fluctuation rate.

When transregional chains, or franchisers are getting into trouble and need to close down stores at several locations on short notice, they drive up the fluctuation rate in a short time. Problems and closures of store locations of regional suppliers, on the other hand, do not have such a strong effect on the frequency index. Chart 1: Retail rents in the Big7 (IVD Institut, 2019)



It should be borne in mind that the high retail rents exert enormous pressure on retailers to adapt or opt out (Chart 1), with e.g. rents of more than  $400 \notin m^2$  in Munich. If a particular retail concept does not work out, the high rents per square meter (IVD Institute 2019) which are required to be paid each month, put enormous pressure on the respective retailer to adapt his concept, to reduce the sales area, to move to a better, or a less costly location (Kotzab/Madlberger, 2001). If these measures do not work, retailers are forced to close outlets completely, which increases the fluctuation rate.

The multi-branch ratio, als called chain-store-ratio, provides important information to explain the retail fluctuation. It specifies at what percentage in a particular street, individual stores are operated by franchisers and chain stores.

In principle, it can be established that the multi-branch ratio has increased significantly (Table 2) during the observation period (BNP, 2014; BNP, 2019). This development contributes to a considerable extent to the high level of retail fluctuation detected in this survey.

# Table 2: Multi-branch ratio (Kemper's 2006/2007, JLL 2011, BNP 2016, JLL 2016, BNP 2018)

BERLIN				
	2006/2007			
High Street	(Kemper's)	2011 (JLL)	2016 (BNP)	2018 (BNP)
Kurfürstendamm	67.2%	60.0%	97.5%	97.0%
Karl-Marx-Strasse	55.1%	46.3%		
Carl-Schurz-Strasse	50.8%	50.0%		
Friedrichstrasse	80.6%	73.2%	90.0%	85.0%
Tauentzienstrasse	92.6%	85.3%	97.0%	97.0%
Wilmersdorfer Strasse	55.6%	47.7%	85.0%	85.0%
Tempelhofer Damm	39.6%	38.2%		
Schlossstrasse	67.6%	72.4%	88.0%	84.0%
Total prime high street location			64.7% (JLL)	

DUSSELDORF				
High Street	2006/2007 (Kemper's)	2011 (JLL)	2016 (BNP)	2018 (BNP)
Königsallee	69.8%	65.7%	85.0%	92.0%
Shadowstrasse	89.1%	83.3%	90.0%	97.0%
Flinger Strasse	84.3%	80.0%	90.0%	96.0%
Mittelstrasse	60.0%	75.0%	71.0%	86.0%
Total prime high street location			79.8% (JLL)	

FRANKFURT				
	2006/2007			
High Street	(Kemper's)	2011 (JLL)	2016 (BNP)	2018 (BNP)
Große Bockenheimer Strasse	63.2%	70.3%	54.0%	59.0%
Zeil	85.7%	81.2%	84.0%	84.0%
Schillerstrasse	52.9%	54.0%		58.0%
Goethestrasse	76.4%	76.4%	87.0%	92.0%
Steinweg		68.4%	88.0%	93.0%
Total prime high street location			71.7% (JLL)	

HAMBURG				
	2006/2007			
High Street	(Kemper's)	2011 (JLL)	2016 (BNP)	2018 (BNP)
Große Bleichen	54.8%	52.5%	57.0%	75.0%

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Jungfernstieg	75.0%	65.5%	70.0%	90.0%
Neuer Wall	72.1%	69.9%	75.0%	90.0%
Mönckebergstrasse	90.6%	87.5%	88.0%	90.0%
Gerhofstrasse	60.7% *	46.8% *	63.0% *	70.0%
Poststrasse	56.3%	65.9%	71.0%	85.0%
Total prime high street location			68.7% (JLL)	

<sup>\*</sup> together with the Gänsemarkt

Cologne				
	2006/2007	0044 (111)		
High Street	(Kemper's)	2011 (JLL)	2016 (BNP)	2018 (BNP)
Breite Strasse		53.2%	48.0%	73.0%
Ehrenstrasse	53.9%	68.0%	62.0%	84.0%
Hohe Strasse	87.0%	80.5%	87.0%	86.0%
Mittelstrasse	53.7%	55.6%	55.0%	74.0%
Schildergasse	90.8%	88.0%	85.0%	95.0%
Total prime high street location			68.7% (JLL)	

MUNICH				
	2006/2007			
High Street	(Kemper's)	2011 (JLL)	2016 (BNP)	2018 (BNP)
Maximilianstrasse	56.1%	64.7%	87.0%	87.0%
Leopoldstrasse	45.8%	47.3%		
Kaufingerstrasse	66.10% *	68.80% *	97.0%	97.0%
Neuhauser Strasse	71.2%	68.7%	89.0%	89.0%
Residenzsstrasse/Dienerstrasse	49.2%	42.1%	81.0%	81.0%
Sendlinger Strasse	41.4%	52.3%	69.0%	74.0%
Tal	46.6%	57.1%		
Total prime high street location			63.4% (JLL)	

\* together with the Marienplatz

Behind the changes shown here (Table 1), lies in particular a shift from traditional owner-run retail trade, to typical franchises and chain stores. These traditional owner-run retailers are often unable to compete with franchisers and chain stores, as they are burdened by their unfavorable cost structure, poorer access to production channels, and last but not least, considerably lower flexibility. Partly, traditional retailers have the advantage, that they are also the owners of their outlets. In many cases, it is not adequately examined by these owners, whether leasing a store to a third party would be more advisable under economic terms, than running it themselves. Otherwise a much higher proportion of traditional owner-run retail stores were closed and leased out, which would further increase the fluctuation rate.

Especially the so-called "vertical" franchisers or chain stores such as Zara or H&M have the advantage that they can cover the entire added-value chain, from product

design, to production to the sale, largely independently in their own outlets. Thus, at each stage, they can generate the corresponding margins and synergies and are highly flexible.

When assessing retail fluctuation, it should also be taken into account that major chain stores and franchisers, or brands, operate large flagship, or experience stores (Jones et al., 2010). In this case, a loss can be sustained in the long run, and the store does not need to relocate or close down, because the main purpose of the store is to promote the brand at high-frequency locations.

Traditional retail on high streets is also under increasing pressure from online companies and their sales channels, which reduces the sales potential of retailers operating of brick and mortar stores.

Therefore, traditional retailers on the high streets need to scale down their floor space, relocate from the center to city districts or to streets with lower rents, or close down altogether. Compared to the floor space lost by brick and mortar stores due to the growth of online trading, the floor space rented by these former online-only companies compensates for the loss only to a small extent.

Another trend which has an impact on the retail turnover is to split stores into smaller store units; for example, to make three out of two adjacent stores. In this way, more tenants can be accommodated and the shops have a lower monthly rent, but a higher rent per square meter. Such a strategy only works if the sales program and store design can be adapted to the reduced sales area by a skillful shop design, without resulting in significant sales losses.

Reducing space helps tenants whose concepts have problems. An example of this is the book trade. In the face of significantly lower sales, large bookstores are massively shrinking their sales areas when their leases expire. In part, these sales areas are used until such a reduction is possible, for other assortments such as toys and office supplies.

A small part of the fluctuation was triggered by a convergence concerning online and offline sales channels. Online companies are increasingly abandoning their long held online-only policy, and are investing in traditional store locations on high streets, or in shopping malls to optimize their sales structure, avoid costly returns of goods, and to achieve increased proximity to their customers. On the other hand, classic retailers are under growing pressure to build up online stores or to use them actively to increase their sales, and stay competitive in a time of dwindling offline, and growing online sales.

Examples of former pure online companies diversifying into brick and mortar stores:

- Amazon
- Cyberport
- Ebay
- fashionforhome
- Home24
- Jochen Schweizer
- Microsoft
- Mr. Spex
- MyMuesli.de
- Mytoys.de (part of the Otto group)
- notebooksbilliger.de
- Notino
- Walbusch

Zalando

BERLIN

When online companies now rent stores on high streets, the floor space demanded by these companies is considerably less than the floor space lost, because traditional stores on high streets achieve lower turnovers due to the competition by online companies.

It can be concluded that traditional retailers on the high streets are less and less able to afford not to use online stores, and to continue an offline-only strategy. In some cases, traditional brick and mortar stores are closed, and reduced to some sort of an online shop.

# Table 3:Fluctuation in prime retail locations in Germany (cities and streets)

Streets	store changes 2004 vs. 2018	%	store changes 2006/2007 vs. 2018	%	store changes 2011 vs. 2018	%	store changes 2016 vs. 2018	%	No. of stores 2018
Kurfürstendamm	171	78.1	158	72.1	117	53.4	52	23.7	219
Karl-Marx-Straße	59	79.7	55	74.3	35	47.3	23	31.1	74
Carl-Schurz- Straße	32	72.7	30	68.2	21	47.7	11	25.0	44
Friedrichstraße	86*	71.7*	77	64.2	53	44.2	25	20.8	120
Tauentzienstraße	40	71.4	38	67.9	28	50.0	14	25.0	56
Wilmersdorfer Straße	69	75.8	65	71.4	41	45.1	20	22.0	91
Schloßstraße	86	71.7	78	65.0	50	41.7	21	17.5	120
Total	543	75.0	501	69.2	345	47.7	166	22.9	724

#### COLOGNE

Streets	store changes 2004 vs. 2018	%	store changes 2006/2007 vs. 2018	%	store changes 2011 vs. 2018	%	store changes 2016 vs. 2018	%	No. of stores 2018
Breite Straße	63	64.3			48	49.0	28	28.6	98
Ehrenstraße	64*	73.6*	63	72.4	48	55.2	30	34.5	87
Hohe Straße	64	71.9	64	71.9	48	53.9	28	31.5	89
Mittelstraße	44	68.8	42	65.6	32	50.0	24	37.5	64
Schildergasse	42	61.8	42	61.8	27	39.7	16	23.5	68
Total	277	68.2	211	52.0	203	50.0	126	31.0	406

# DUSSELDORF

Streets	store changes 2004 vs. 2018	%	store changes 2006/2007 vs. 2018	%	store changes 2011 vs. 2018	%	store changes 2016 vs. 2018	%	No. of stores 2018
Königsallee	52	59.1	50	56.8	35	39.8	24	27.3	88
Shadowstraße	41	73.2	40	71.4	35	62.5	25	44.6	56
Flinger Straße	30	71.4	30	71.4	26	61.9	13	31.0	42
Mittelstraße	13	61.9	13	61.9	13	61.9	8	38.1	21
Total	136	65.7	133	64.3	109	52.7	70	33.8	207

# FRANKFURT

Streets	store changes 2004 vs. 2018	%	store changes 2006/2007 vs. 2018	%	store changes 2011 vs. 2018	%	store changes 2016 vs. 2018	%	No. of stores 2018
Große Bocken- heimer Straße	36	63.2	36	63.2	22	38.6	10	17.5	57
Zeil	43	63.2	39	57.4	32	47.1	21	30.9	68
Schillerstraße	10	41.7	10	41.7	10	41.7	10	41.7	24
Goethestraße	38	69.1	37*	67.3	26	47.3	9	16.4	55
Steinweg	13	76.5	13	76.5	8	47.1	2	11.8	17
Total	140	63.3	135	61.1	98	44.3	52	23.5	221

# HAMBURG

Streets	store changes 2004 vs. 2018	%	store changes 2006/2007 vs. 2018	%	store changes 2011 vs. 2018	%	store changes 2016 vs. 2018	%	No. of stores 2018
Große Bleichen	28	80.0	26	74.3	14	40.0	9	25.7	35
Jungfernstieg	20	58.8	19	55.9	12	35.3	6	17.6	34
Neuer Wall	38	61.3	33	53.2	16	25.8	5	8.1	62
Mönckebergstraße	33	50.0	29	43.9	16	24.2	9	13.6	66
Gerhofstraße	18	75.0	18	75.0	17	70.8	11	45.8	24
Poststraße	25	73.5	25	73.5	19	55.9	7	20.6	34
Total	162	63.5	150	58.8	94	36.9	47	18.4	255

MUNICH

Streets	store changes 2004 vs. 2018	%	store changes 2006/2007 vs. 2018	%	store changes 2011 vs. 2018	%	store changes 2016 vs. 2018	%	No. of stores 2018
Maximilianstraße	35	58.3	32	53.3	20	33.3	12	20.0	60
Leopoldstraße	47	71.2	43	65.2	33	50.0	13	19.7	66
Kaufingerstraße	12	38.7	11	35.5	9	29.0	6	19.4	31
Neuhauser Str	26	51.0	25	49.0	21	41.2	9	17.6	51
Residenzsstraße/ Dienerstraße	25*	58.1*	19	44.2	12	27.9	0	0.0	43
Sendlinger Straße	60	65.2	59	64.1	44	47.8	16	17.4	92
Tal	28	50.9	27	49.1	19	34.5	8	14.5	55
Total	233	58.5	216	54.3	158	39.7	64	16.1	398

#### STUTTGART

Streets	store changes 2004 vs. 2018	%	store chan- ges 2006/2007 vs. 2018	%	store changes 2011 vs. 2018	%	store changes 2016 vs. 2018	%	No. of stores 2018
Königsstraße	83	56.5	76	51.7	51	34.7	25	17.0	147
Schulstraße	15	65.2	14	60.9	7	30.4	5	21.7	23
Stiftsstraße	8*	80.0*	8	80.0	5	50.0	2	20.0	10
Total	106	58.9	98	54.4	63	35.0	32	17.8	180

\* in some cases, data from 2003 had to be included, because for certain streets there was no data from 2004 available.

In addition to an analysis of the fluctuation rate of the "Big 7" cities, it is advisable to dig deeper and examine the fluctuation of the different high streets in the "Big 7" cities (Table 3). This will be conducted with special emphasis on Munich.

#### Berlin

In Berlin, the high retail fluctuation on Wilmersdorfer Straße is noticeably with 75.8% during the period 2004 to 2018. Drivers of this trend are two large shopping malls, which represent considerable competition for Wilmersdorfer Straße.

Overall, the retail fluctuation rate of Berlin is very high, it reached 75.0% during the period 2004 to 2018. Likewise, this rate is high on Kurfürstendamm, an established retail location. The 78.1% retail fluctuation of Kurfürstendamm corresponds to the very high Berlin trend. The trend is driven by a steady upturn in numbers of franchisers and chain stores, which led to a multi-branch ratio of 97% on Kurfürstendamm (bnp 2018a).

The Hohe Straße and Mittelstraße are at the fringes of the main shopping areas. Compared to the foot traffic, the rent level is relatively high. In contrast to 2004, the fluctuation on Hohe Straße was at 71.9% and on Mittelstraße at 68.8%.

Both high streets had succeeded in attracting upmarket brands, even though some of which have since been hit by economic difficulties. Mittelstraße attracts a considerable number of tourists, who are only buying few goods. Some of the stores of Mittelstraße have unusual floor plans which makes it even more difficult for retailers to keep their business running in these locations.

# Dusseldorf

Shadowstraße and Flinger Straße are characterized by relatively high rents and a poor parking situation. Pedestrians are to a large extent tourists, who are buying goods only few goods. Therefore, both streets had a high fluctuation rate regarding the period 2004 to 2018; Shadowstraße 73.2% and Flinger Straße 71.4%.

On the other hand, the Königsallee is a traditional, established location with a stable customer structure; during the period 2004 to 2018 the fluctuation rate was only at 59.1%.

In Dusseldorf the shopping center "Kö-Bogen 2" is in the process of completion; this had an effect on the retail turnover

# Frankfurt

Looking at retail fluctuation in Frankfurt, it is striking that the level on Steinweg is very high at 76.5% (period 2004 - 2018). The reasons are that this location is fairly off Zeil, comprises relatively few stores and has a considerable high rental level in relation to the foot traffic. Compared to Zeil, Steinweg has a footfall of less than one third of Zeil (BNP 2018c).

On the other hand, on the Schiller Straße only 41.7 percent of the stores changed hands in the period 2006 to 2016. Foot traffic on Schillerstraße was lower than on Steinweg, but as top rents are higher on the Steinweg;  $220 \notin m^2$  compared to only 115  $\notin m^2$  on Schillerstraße (BNP 2018c); stores on the Schillerstraße are much more competitive.

# Hamburg

What is striking in Hamburg is the large retail fluctuation on Große Bleichen (80% during the period from 2004 to 2018) caused by a number of real estate developments. On Mönckebergstraße as on Jungfernstieg the retail fluctuation rate is with 50.0% and 58.8% between 2004 and 2018 relatively low. On Mönckebergstraße some landlords are not primarily concerned with rent maximization, but rather focus on a stable retail structure.

## Stuttgart

In Stuttgart, the development of two huge shopping malls - the Gerber and the Milaneo – triggered considerable movement on the retail market. The fluctuation rate compared to 2004 was particularly high on the Schulstraße (65.2%) and Stiftstraße (80%). The reason for this is that Schulstraße, which is characterized by a relatively large number of small stores, got partly under pressure by the changes in the retail market.

Retail trade in the so-called Automobile City of Stuttgart has been considerably impaired for a number of years by a considerable number of large-scale construction sites, including the huge railway development project Stuttgart 21. Due to this situation access by car to Stuttgart has become significantly more difficult and retail sales are impacted negatively. Over the last few years the traffic problem was enhanced by fine dust alarms and related attempts to reduce the number of cars entering Stuttgart.

## Munich

Munich has by far the highest rental level of retail properties followed by Frankfurt (see also Chart 1, IVD 2019). In Munich, the most attractive and at the same time the highest-selling shopping locations are Kaufingerstraße, Neuhauser Straße, and Maximiliansstraße, followed by Sendlinger Straße. Despite prime rent levels, the Kaufingerstraße, and Neuhauser Straße are particularly in demand, but hardly available on the market.

Especially in Kaufinger and Neuhauser Straße outlets are frequently leased "underhand" i.e. off market. New areas are usually created by demolition and new real estate developments.

If a retailer, in most cases an internationally operating chain, is able to secure an outlet on Kaufinger or Neuhauser Straße, the strategy is typically to hold on to the store for a long time. Many large flagship stores are situated at Kaufinger and Neuhauser Straße

Among Munich's top high streets Kaufingerstraße has the lowest fluctuation rate. Compared to 2004, the fluctuation rate on Kaufingerstraße is 38.7%. That means, on Kaufingerstraße roughly 62% of the retail stores operating in 2004 still operate in the same outlet.

On Kaufingerstraße only twelve new stores opened between 2004 compared and 2018 and six during the period 2016 to 2018. Since Kaufingerstraße is one of Munich's most attractive shopping locations, which at the same time generates the highest retail turnover, there is a high demand for available outlets from potential tenants, which results in waiting lists. If new concepts do not work out as planned, the leases are often terminated relatively quickly, not least due to above mentioned very high rental levels. Since 2004, 26 new stores have been opened in Neuhauser Straße. The fluctuation rate was 51.0%. There were 9 changes during the period 2016 to 2018.

Among the new entrants over the last few years are among others TK Maxx, Mango, the huge sports store Sport Scheck, ONLY and Snipes. New tenants in the "Joseph-Pschorr" building added to the retail fluctuation. Here retailers such as Douglas, Snipes, bartu and Desigual opened new outlets.

At Marienplatz a few telecommunications outlets, and some smaller retailers joined the existing tenant-mix.

Sendlinger Straße is increasingly attracting international brands. With the introduction of the pedestrian zone and the construction of the retail mall Hofstatt, the city council wanted to create a new pedestrian area between Sendlinger Tor and Marienplatz and thus wanted to attract additional customers. The stores on Sendlinger Straße predominantly target young customers with upscale brands and products such as Superdry or the eyeglass company Oakley. Through the real estate development Hofstatt Sendlinger Straße became increasingly attractive. Especially young and brand-oriented customers are attracted by the new retail concepts.

Ten years ago, Sendlinger Straße was still dominated by local retailers, now more and more international labels are discovering the newly created pedestrian zone. Since 2004 60 new stores opened on Sendlinger Straße and a fluctuation rate of around 65% was observed. That means that most of the stores existing in 2004 were replaced by other brands. In comparison: during the period 2016 to 2018 8 stores changed their tenants (14.5 % fluctuation rate).

More and more chain stores are located on Sendlinger Straße. While their share in 2006 was only 41%, 74% of the stores are currently operated by franchisers, and chain stores (BNP 2018f). Retailers not belonging to a chain had to give way to this trend.

It remains to be seen whether this trend continues and for how long small individual retailers will remain on Sendlinger Straße, especially if rents continue to increase significantly due to growing attractiveness and demand, and when retailers do not own their stores.

The second highest change of tenants over the last ten years took place on the Leopold Straße; the fluctuation rate was 57% (39 store changes).

This is attributable to the high number of modernizations and conversions in this retail location. An example for this is the conversion of the former Residenz Post Office on Dienerstraße at the corner to Maximiliansstraße. With a total of 1,300 m<sup>2</sup>, the Louis Vuitton Munich Residenzpost is now available for upscale buyers. In addition, several other top brands opened new stores on the Maximiliansstraße.

#### 3. Findings and Conclusions

Changes in the classic retail trade are usually followed by changes that are of highest importance for the real estate industry with a more or less pronounced time lag. That is changes of the tenant-mix, stores, or even vacancies of outlets in the retail real estate market.

This paper analyzed the changes and turnover of retail outlets in the retail real estate markets of the "Big 7", i.e. Germany's most important real estate markets. An important indicator of change in the retail sector is the extent the level of change of retail-tenants, that is the retail fluctuation, which till wasn't in the focus of comprehensive research activities.

The study shows a high level of retail fluctuation. In comparison to the retail fluctuation of the "Big 7", Dusseldorf and Cologne both have a relatively high level of 65.7%, and 68.2% respectively in the period from 2006 to 2016. The highest level in the seven real estate hotspots, was observed in Berlin with a retail fluctuation of 75%.

These figures are extremely noteworthy, bearing in mind that in nearly all of the cities over a period of 14 years, more than 60% of the stores changed. It should also be taken into account that individual stores, which change several times during this period, were only counted as one change.

Trade is change, the dynamics of change in the retail sector is further intensified by the steadily growing online trade, which is increasingly putting pressure on traditional brick and mortar stores.

There is a convergence concerning online and offline sales channels, which is gaining momentum, and leads to a higher retail fluctuation. Online companies are abandoning their long held online-only policy, and are investing in traditional store locations on high streets, or in shopping malls to optimize their sales structure, avoid costly returns of goods, and to achieve increased proximity to their customers.

On the other hand, classical retailers are under growing pressure to build up online stores or to use them actively to increase their sales, and stay competitive in a time of dwindling offline, and growing online sales.

It can be concluded that traditional retailers on the high streets are less and less able to afford not to use online stores, and to continue an offline-only strategy. When online companies now rent in some cases stores on high streets, the floor space demanded by these companies is considerably less than the floor space lost, because traditional stores on high streets achieve lower turnovers due to the competition by online companies.

In view of the increasingly difficult overall situation for retailers, the prospective tenants are less and less willing to accept long lease terms. They demand either shorter contract terms or exit clauses. This in turn also leads to a greater fluctuation.

At the center of this paper were prime high street locations, which were analyzed in detail over different time periods. Further extensive investigations are useful here, which might compare the fluctuation in these prime high street locations with the trends observed in other locations, especially also in secondary high street locations.

Concerning future research, a comparison between the prime high street locations examined here and the fluctuation of neighboring large shopping malls, could yield further important results, and should be analyzed in following papers.

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