

Press release

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FOC and neighborhood center portfolios offer best 2010 risk-return profile says GfK expert Manuel Jahn

GfK GeoMarketing releases a portrait of Germany's promising and sustainable asset classes. Author Manuel Jahn identifies factory outlet center (FOC) and neighborhood center portfolios as attractive investment alternatives to the popular but expensive shopping centers.

GfK GeoMarketing investment expert Manuel Jahn presents an asset class portrait that illuminates Germany's asset classes that constitute promising, sustainable investments.

Top-class retail real estate - looking behind the facade

GfK real estate expert Manuel Jahn notes the palpable anxiety that has characterized the investment market since the onset of the financial and real estate crisis. Prior to the crisis, even premium-class retail real estate objects were often included in portfolios of questionable quality and then sold at inflated prices, leading to massive and even existential problems among banks and investors.

Jahn recommends evaluating prospective investments critically and from a variety of angles. It's vital to carefully weigh the potential return on real estate investments against the risks, such as high development, operating and management costs. However, Jahn still sees positive development opportunities for shopping centers, particularly in Germany: "Despite the current economic crisis, well-functioning shopping centers can be secure, sustainable investments." He also warns that "most investors are looking for core objects, which has led to scarcity in the premium market. Product offering and demand determine the price, and fears of a 'real estate bubble effect' are not unwarranted."

According to Jahn, sustainable success requires quality conditions with regard to layout, tenant mix, management, etc: "Only real estate expertise can illuminate whether a shopping center will enjoy long-term success and reliable returns. Shopping center investments are risky without a thorough due diligence assessment of these criteria."

Quality at a bargain price - FOCs coming to Germany

Jahn emphasizes that beyond the mainstream there are promising investment alternatives, particularly FOCs. Compared to the rest of Europe, Germany lags behind in terms of the number and sales area provision of factory outlet centers. "At the moment

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there really isn't a market for FOCs in Germany," explains Jahn, citing as a cause the formerly restrictive regulations governing large-area retail in Germany's federal states.

Despite this current lack, Germany provides excellent conditions for FOC development. Germany has a purchasing power index of 170.1, which places it well above the European average (100). As Western Europe's most populous country, Germany also offers enormous customer potential with more than 80 million inhabitants. Jahn also points to Germans' desire to acquire fashion and brand-name products as inexpensively as possible as an additional positive: "These factors suggest a promising future for the establishment of FOCs in Germany."

The expert expects Germany's FOC market to catch up given the high degree of market saturation in FOC markets in neighboring countries. Germany's recent relaxing of its planning permission policies also plays a role here. "The high number of planned FOCs in Germany is a good indicator that the FOC market is in ascendency. This development should provide lucrative investment opportunities even in the short-term, with the FOC emerging as a new and promising asset class. However, it's important to secure partnerships early, as investors will move quickly on these opportunities."

Manuel Jahn emphasizes that despite these very favorable conditions with regard to demand, it's essential to evaluate FOC ventures according to certain key real estate- and location-specific factors.

"FOCs must meet the same quality standards as shopping centers with regard to product offering, conception and management," explains Jahn. "It's risky to disregard these criteria when assessing factory outlet center portfolios. Factory outlet centers are and will remain a specialized form of real estate that requires professional know-how."

Unflashy but reliable investment options

Neighborhood centers constitute another attractive investment alternative beyond the mainstream, according to Jahn. These venues offer favorable qualities that may not be discernible at first glance: "They may not be particularly flashy or cool, but neighborhood centers are reliable investments: This format fares relatively well even in crisis periods, because signs of an economic slump tend to first impact longer-term purchases. With their focus on meeting daily needs, neighborhood centers are more recession-proof than other formats."

Jahn highlights the importance of discount stores in the local merchant segment: "Discount stores still comprise the most rapidly growing segment. After significant expansion in recent years, this format continues to achieve the highest sales area expansion rates. Turnover remains comparatively stable despite the crisis." While the growth in the grocery store segment is slowly leveling out, expansion among non-food discount stores continues unabated.

Even so, the success of discount formats increasingly relies on meeting specific criteria. "The clearer the business concept, the greater the success it is likely to enjoy," Jahn explains.

Beyond the discount segment and amidst significant consolidation in the full-service grocery store and drugstore markets, the high-performing chains Edeka, Rewe, Kaufland, dm and Rossmann have come out ahead and promise to remain high-performing, recession-proof tenants.

"Well-planned and managed neighborhood centers constitute an attractive asset class," says Jahn. "New objects with lengthy rental periods are particularly alluring, giving buyers secure and long-term cash flow." The expert emphasizes, however, that among

these promising opportunities are many weak objects that are not attuned to prevailing market conditions, a fact that is causing headaches among some equity fund holders.

Jahn goes on to stress that a location's quality is ultimately the decisive factor in its prospects for long-term success. He identifies objects in good micro-locations as low-risk, sustainable investments. "In sound micro-locations, re-renting is usually unproblematic should a key tenant pull out prematurely or the rental contract not be extended. In the case of older assets, a refurbishment can often generate significant upside potential. Finally, retail evictions amidst the currently restrictive planning permission policies have sustainable value in and of themselves."

Conclusion

Jahn underscores that the German real estate investment market already offers investors attractive asset classes that can be successful even during periods of crisis or economic dry spells. He distinguishes FOC and neighborhood center portfolios as offering the most favorable risk-return profile for 2010. "Even so, the key criteria governing success should always be taken into account for each investment, whether it's a shopping center, factory outlet center or neighborhood center. As a general rule, real estate investments should always be evaluated beforehand by real estate experts via objective due diligence studies and thorough, on-site analyses of the market and competition."

Additional information on Manuel Jahn's asset class portrait can be obtained from Cornelia Lichtner, GfK GeoMarketing, Public Relations: c.lichtner@gfk-geomarketing.com or +49 (0)7251 9295270.

About Manuel Jahn

Manuel Jahn heads the investment and financing branch of GfK GeoMarketing's Real Estate Consulting division. He has been with GfK GeoMarketing since 2004 and has extensive knowledge of retail real estate as a result of preparing real estate object reports throughout Europe. He was previously employed by Westdeutsche ImmobilienBank.

Author photo

A print-quality photo of Manuel Jahn can be found at www.gfk-geomarketing.de/manuel_jahn.


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