Europe's retail parks and the cities that caught up with them



THE ANALYST

Once defined by their distance from city centres, retail parks are now embedded in urban areas.

Simon Marx



The European retail park was originally conceived for a geography that is steadily disappearing. Its blueprint – a low-rise cluster of stores wrapped around generous surface parking – assumed a shopper arriving by car. And, so, the format was positioned accordingly, namely at the perimeter of the town, on the ring road, at the point where the urban fabric gave way to more affordable land.

Three decades later, that perimeter has moved. Our recent geospatial analysis of locations across Europe, drawing on our own extensive portfolio of assets and additional contextual data from the Global Human Settlement Layer and the United Nations, shows that the sector's supposed defining characteristic, its detachment from the urban core, is increasingly a matter of history rather than fact. The majority of parks now sit inside dense urban areas, with most of the rest woven into suburbs and towns. Truly isolated schemes, the kind the "out-of-town" label implies, are the exception.

The parks did not move. The people did.

More interesting than where parks sit today is the direction their surroundings are travelling. Tracking population change at the local level over a period of thirty years reveals a sector whose catchments are, in most of Europe, filling in. Across more than half of the continent, roughly four in five retail park localities are gaining density. The UK's sustained population growth has lifted the areas around most of its parks; Spain and the Nordic countries show the sharpest gains of all, as their populations concentrate into successful urban regions.

But this is not a uniform European story. In Germany, weak demographic growth combined with migration towards the larger cities has left a substantial minority of retail park localities losing people. Similar, gentler patterns appear across parts of Italy and CEE, where around three-quarters of park catchments are thinning. The countries affected are fewer, but there is nonetheless a divergence. The same physical format, in different parts of the continent, is being driven by two quite different demographic trends.

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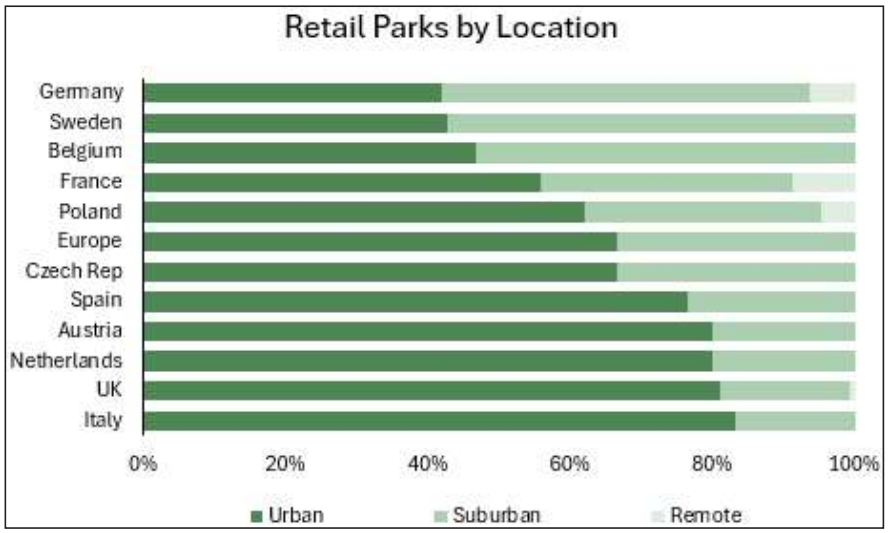
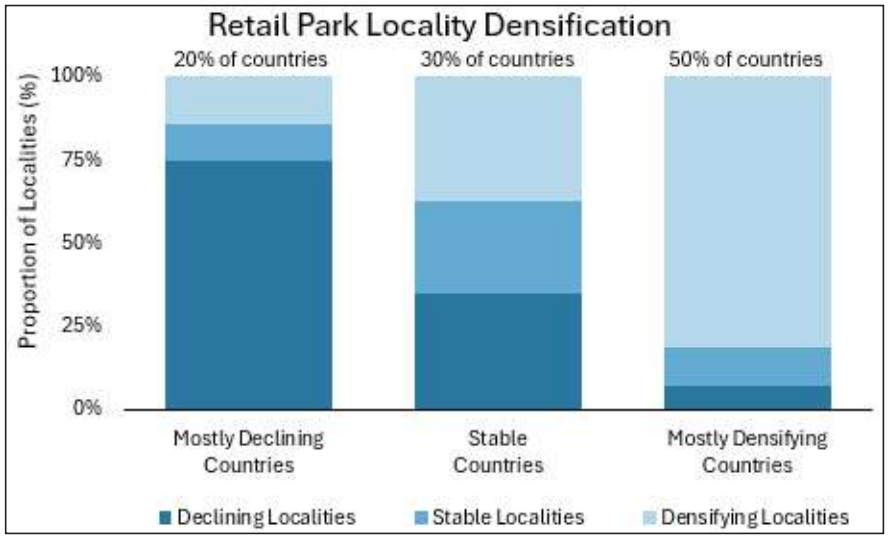
For investors, that divide matters more than any sector-level average. A retail park is a fixed point in a moving landscape, and the trajectory of its surroundings compounds over





a hold period in a way that a static catchment snapshot never captures.

A denser pool of customers benefits the asset from two directions. The first is trading. A deeper catchment delivers more households, and the retail park that is built around frequent, convenience-based shopping trips is unusually well placed to absorb them.

Household affluence, shopping habits and preferences are also likely to evolve over time. Here, the format's simplicity is a strength: uncomplicated buildings, large plots and low site coverage give owners latitude to reshape the tenant mix as the neighbourhood around it changes character, adding the food, services and everyday uses that a residential population demands, or indeed food & beverage or leisure when it is appropriate. Similarly, rightsizing the units to best suit the evolving retailer is not a prohibitively costly endeavour.

The second effect is less obvious, but in the very long run possibly more impactful; it concerns the land. Retail parks are among the least intensively developed assets in institutional real estate. They are little more than a modest built footprint surrounded by tarmac. When surrounded by a growing city with a housing shortage, the same site becomes a rare, low-density, well-connected landholding whose most valuable eventual use may not be retail at all. This is the point where densification stops being merely a trading tailwind and becomes an option on the land itself.

Most owners will never need to redevelop: demand from retailers wanting to stay and serve a densifying locality will endure, and rents will follow suit. But the option itself has value in a real estate portfolio, and that value accrues disproportionately where the demographics are strongest.

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There is a warning embedded in the trends we have uncovered. Retail parks in thinning catchments can still perform, but the asset management challenge is a different one when demographics are not in one's favour. Performance leans more heavily on the park's dominance and how well it fits its catchment. There will always be a requirement for food, convenience and discount retail, even in locations with negative or stable population growth. But the performance here comes from income durability and efficiency rather than income growth.

Location is one of the most important characteristics driving the performance of a real asset – if not the most important. But the lesson here is that it is not necessarily static over time. Cities grow or shrink, enabled by changes to demographics or infrastructure. Tenants become more or less cost-conscious or impacted by technology. Retail pitches move or change character. Leisure destinations fall in and out of favour with their clientele.

We tend to ask ourselves *where* a retail park sits. But it is also worth considering *what is happening around it*. Answers will surely vary from country to country and locality to locality. Europe's retail parks were built at the edge of markets. For a growing majority, the edge is gone, and what a retail park owner does about that will increasingly separate the performance of assets that superficially have the same label.

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