

## Press release

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# GfK study illuminates risks and opportunities associated with small shopping centers in mid-sized cities

**In response to the trend toward smaller shopping centers and hybrid malls, GfK GeoMarketing evaluated 45 small German shopping centers in April 2011 with a sales area of 10,000 to 15,000 m<sup>2</sup>. The results show that more than half of these shopping centers are failing. To provide further insight, GfK GeoMarketing subsequently released a white paper that details the specific risks and opportunities associated with hybrid malls.**

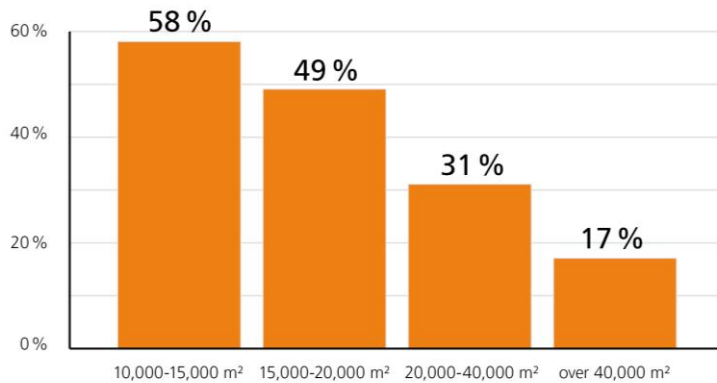
After examining the performance of around 220 shopping centers in 2010 and evaluating their various components, GfK GeoMarketing determined that the size of a shopping center as well as its conceptual design are among the most important success factors.

"The essential finding of the study was that retail real estate objects will fail if they are built too small or inexpensively," says Manual Jahn, retail real estate expert at GfK GeoMarketing and author of the white paper.

The evaluation of 220 centers revealed that the failure rate increases as the amount of rental space decreases. A recent study of 45 small shopping centers with a rental space of 10,000 to 15,000 m<sup>2</sup> showed that 58 percent are too small in order to successfully compete with nearby shopping venues (city centers, neighborhood centers, retail warehouses, shopping centers, etc.).

The most common mistake among small shopping centers is too little space, which results in a lack of drawing power. This alone can cause a shopping center to fail.

Failure rate according to rental space



Source: © GfK GeoMarketing

Almost equally common are conceptual errors in the layout (63%) - i.e., the arrangement of the rental spaces within the structure. "A sound arrangement of rental space facilitates ease of flow through the object and a steady stream of customers in front of every shop," explains Jahn. "Sometimes small centers are starter projects for less experienced developers, resulting in beginner's mistakes. These mistakes can be avoided with professional guidance - if not at the conceptual stage, then at the latest by the stage at which developers seek to attract foreign capital for the project development. Beyond the selling-on stage, it's often too late to correct these areas, as the project is already well advanced."

Even more common than the classic location-related mistakes (wrong location: 41%) is the error of building too many floors with retail usages (44%), followed by errors related to branch- and tenant mix (37%).

mistake	frequency
not enough drawing power due to insufficient size	67%
conceptual errors in the layout	63%
too many floors	44%
micro-location not good enough - too far from main pedestrian area	41%
branch-mix or tenant-mix errors	37%
overly competitive market	7%

*The analysis considered 27 of the 45 shopping centers with 10,000 to 15,000 m² of sales area that had failed or were running poorly (the performance strength of the tenants and the resulting rental income risks and threats to the return on investment following the corresponding initial investment constituted the measure of economic success).*

### Hybrid malls - all hype or model for success?

In tracking shopping center openings in recent years, GfK GeoMarketing has determined that not only is the number of small malls in Germany increasing, but also the number of these shopping centers that fall into the category of "hybrid mall". In addition to having a rental space of approximately 10,000 to 15,000 m², hybrid malls are characterized by a combination of shopping center and retail warehouse elements.

Depending on local conditions and the specific goals of the developers, the characteristics of hybrid malls and the prominence of these characteristics can vary. GfK GeoMarketing has identified the following key recurring traits of hybrid malls:

- Hybrid malls are more architecturally attractive compared to retail warehouses, whose construction is carried out as economically as possible.
- Hybrid malls are smaller than conventional shopping centers. The total rental space of all shops in a hybrid mall is typically less than 15,000 m<sup>2</sup>.
- Hybrid malls are located in a less competitively dense environment, typically in small and mid-sized cities that are beyond the influence of high-performing city centers and large shopping centers.
- The branch mix of a hybrid mall always consists of a base offering of periodic-need items as well as a discounted, mid-range clothing offering and gastronomic options.

Examples of hybrid malls in Germany include the Flörsheim Kolonnaden, Chinon-Center in Hofheim, Postcarré in Hanau, City Center Kehl, Giessler Galerie in Brühl and the Mönkhof Karree in Lübeck.

### **Opportunities**

In the white paper on hybrid malls, Jahn outlines some of the strengths associated with this new form of shopping center: "From a planning perspective in Germany, a smaller shopping center is often met with less resistance, meaning that developers can usually realize the project more quickly and often less expensively. From an urban planning perspective, the architecture of smaller shopping centers is more appealing than that of conventional retail warehouses. Citizens and communities can both profit from this more aesthetically pleasing structure: Such additions provide a 'shopping center feeling' even in smaller cities, while stopping the outflow of customers to the nearest larger city. From a real estate perspective, a hybrid mall is typically able to secure higher rental income than a retail warehouse thanks to its higher sales area productivity. And this can be achieved without the high management costs of a shopping center."

Mid-sized cities that have their own catchment area and therefore a robust and well frequented city center are particularly suited to the establishment and success of hybrid malls. The same is true for attractive district centers located adjacent to larger cities that already have a high-performing retail offering and therefore good customer frequency.

There is a good chance that hybrid malls can become a (new) center of gravity in Germany's mid-sized cities. However, it's important to evaluate whether competitor locations in the surrounding region threaten this position.

### **Risks**

Hybrid malls have significantly less drawing power than classic larger shopping centers. In order to be successful, hybrid malls need to establish a synergy with an already robust retail offering in the immediate environs.

The establishment of hybrid malls in mid-sized cities that are encompassed by the catchment area of dominant city centers is problematic. This is particularly the case when the city center retail scene in question has already taken a turn for the worse. "Extreme caution is advised in these instances, because the comparatively modest offering of a hybrid mall will not be able to successfully compete with the nearby city center," explains Jahn.

If a hybrid mall is to be established in an existing and already well frequented retail agglomeration - which can be a city center, neighborhood center or a retail agglomeration located on an urban periphery, it's essential to position the mall as closely as possible to the existing customer frequency flows.

"Hybrid malls will only be able to achieve sufficient retail drawing power in smaller cities located some distance from major retail locations," explains Jahn. "Only in these locations can they assume dominance, which is in fact an essential success factor. It's also crucial that the planning phase include a future-oriented evaluation of the competitive situation to determine whether the hybrid mall will be able to sustain this position of dominance."

#### **Additional information**

and the "hybrid malls" white paper by GfK GeoMarketing can be obtained from Cornelia Lichtner, public relations, GfK GeoMarketing at +49 (0)7251 9295270 or [c.lichtner@gfk-geomarketing.com](mailto:c.lichtner@gfk-geomarketing.com).

#### **About Manuel Jahn**





Manuel Jahn heads 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, where he was active in the project development of shopping centers. Jahn represents the retail segment in the Rat der Immobilienweisen (real estate advisory board).

#### **Author photo**

A print-quality photo of Manuel Jahn can be found at [www.gfk-geomarketing.com/manuel\\_jahn](http://www.gfk-geomarketing.com/manuel_jahn).

#### **About GfK GeoMarketing**

GfK GeoMarketing is one of the largest providers of geomarketing services in Europe for customers and users from all branches of trade. Key business areas include:

-  Consultancy
-  Market data
-  Digital maps
-  Geomarketing software RegioGraph

GfK GeoMarketing is one of the leading independent providers of consultancy services in the area of real estate and location research. The company produces studies and reports for customers from the retail, public authority, investment, banking and project development sectors.

GfK GeoMarketing is a subsidiary of the globally active GfK Group. Ranked fourth among the world's market research institutes, the GfK is represented in 100 countries with over 115 subsidiaries and approximately 10,000 employees.