RETAIL RESEARCH

Knight Frank

E-COMMERCE

ALL JUST A CLICK AWAY

RETAIL 2018

E-COMMERCE

THE PROFOUND IMPACT OF E-COMMERCE IS REFLECTED IN CONSUMER EXPECTATIONS. RETAILERS MUST ADAPT TO MEET THE NEEDS OF INCREASINGLY DEMANDING CUSTOMERS.

E-commerce is changing, and will continue to change, the way we shop. Retailers are adopting new strategies that allow them to adapt to this new consumer model.

At YE 2017, global online sales were up more than 20% y-o-y, with significant growth in Europe and Asia. The rise of e-commerce in the European market has been boosted by economic growth, widespread internet access and strong cross-border trade between European countries. Asia, and China in particular, will set the trend for e-commerce over the upcoming years. 19.6% of Chinese consumers already buy online daily, and 65% do so using their mobile.

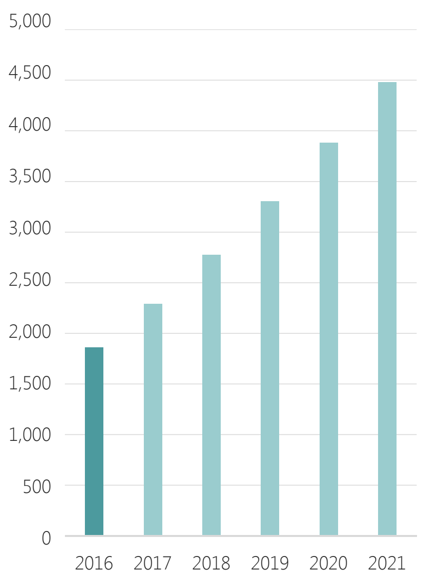
In Spain, e-commerce has gone from generating revenues of €5,700 million in 2007 to over €24,000 million in 2016, growing by an average of 17% in recent years. Pending the release of official figures, e-commerce revenues are expected to have grown by close to 20% by YE 2017, exceeding other European countries.

However, e-commerce in Spain is far from a mature market, and has huge upside potential. At present, just 5% of retail purchases are made online, still well below 17% in the United Kingdom, 15% in Germany and 10% in France.

Less than a third of online stores in Spain offer nationwide delivery and, according to the latest data published by INE, only 8% of companies with over 10 employees or more, make more than 25% of their sales online.

50% of people in Spain aged between 16 and 74 made purchases online in the last year, whilst the European Union average stands at 57%. Only 27% of Spaniards buy online at least once a week, below 45% in the UK and 40% in Germany.

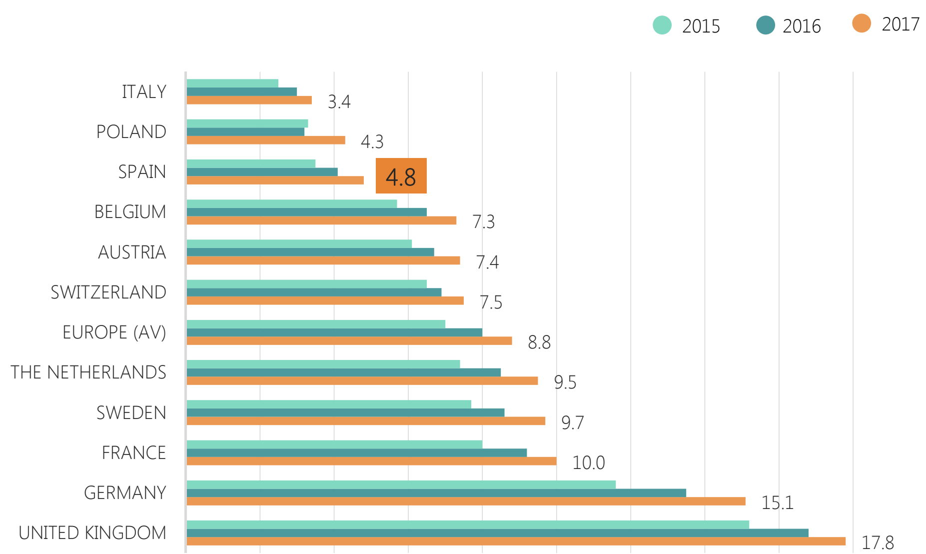
GRAPH 1
WORLDWIDE RETAIL E-COMMERCE SALES*
Trillions (USD). 2016 - 2021



Source: eMarketer. Latest available data.

* Excludes holidays and event tickets

GRAPH 2
EUROPEAN E-COMMERCE SALES*
% of total retail sales



Source: Centre for Retail Research

* Excludes holidays, vehicles, fuel and tickets

E-COMMERCE AND THE CONSUMER IN THE DIGITAL ERA

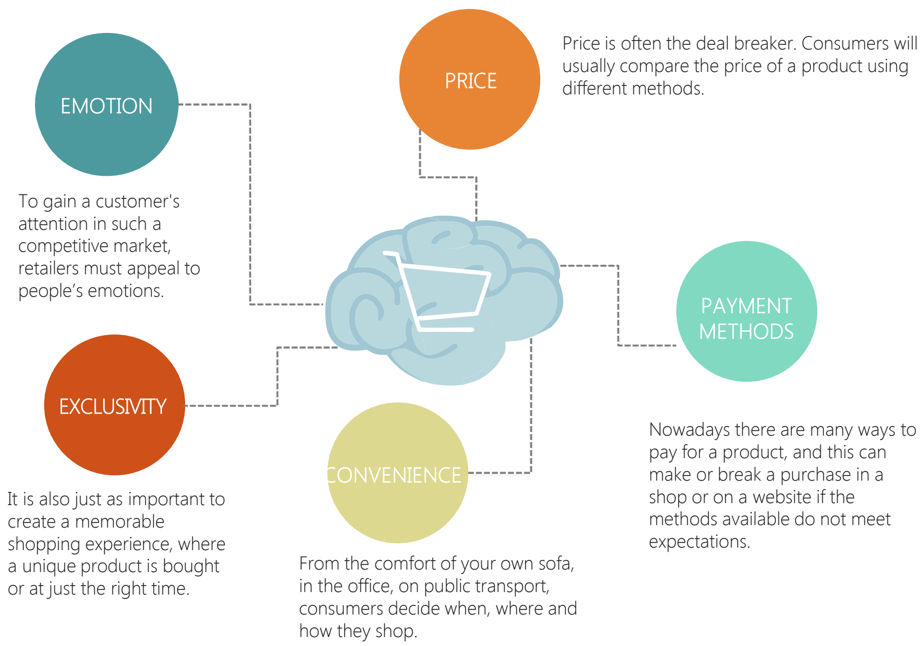
The quantity and variety of products that can be found online, together with the increasingly rapid delivery times, are changing the way we shop and it is all thanks to e-commerce. Sites that offer you anything at anytime and anywhere are changing consumer habits, making people more likely to buy more, but also making them more demanding with their expectations.

Trends are no longer shaped by brands alone, but also by customer needs. In a world where the consumer is increasingly demanding, it is vital for firms to develop methods to build long-lasting relationships ("convince rather than sell").

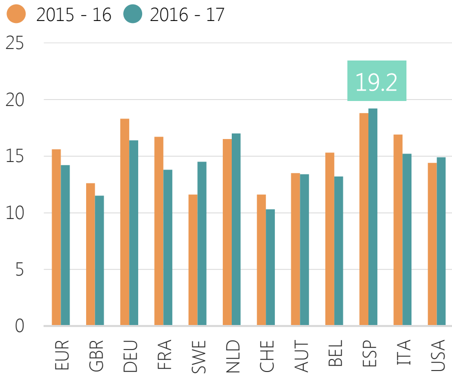
Today's consumer is aware of how companies collect data about their behaviour, location, interests and shopping habits. However, they are also willing to sacrifice some private information in order to let brands make their lives easier and more comfortable.

The possibilities that a digital world offers to the hyperconnected consumer are growing at breakneck speed. Against this backdrop, brands are not only forced to compete with each other, but also with other activities. It is increasingly difficult to catch the modern consumer's attention, as they receive so many messages from so many different channels, and have access to an unlimited number of possibilities.

GRAPH 3
WAYS TO WIN OVER THE CONSUMER
Analysis of the hyper-connected shopper

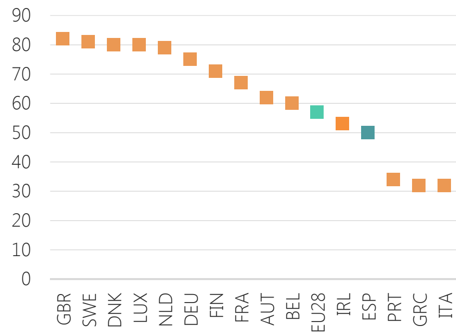


GRAPH 4
GROWTH IN E-COMMERCE SALES IN EUROPE AND USA*. %. 2015 - 2017



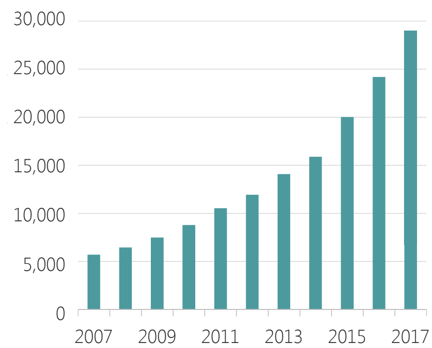
Source: Centre for Retail Research
* Excludes holidays, vehicles, fuel and tickets

GRAPH 5
PEOPLE WHO SHOPPED ONLINE IN THE LAST YEAR.
% of population between 16 and 74.



Source: Eurostat. Survey carried out in 2017.

GRAPH 6
E-COMMERCE REVENUES IN SPAIN
Millions (€). 2007 - 2017



Source: CNMC | ONTSI | Knight Frank

E-COMMERCE: KEY IN THE STRATEGY OF TOP BRANDS

The opportunities that e-commerce offers have pushed it to the forefront of companies' global strategies. We have moved from multichannel to omnichannel, where the online and physical experience overlap, using synergies to establish a much deeper customer relationship and create a much clearer brand recognition via so-called omnicommerce.

The goal for physical stores is to be where the consumer needs them to be and to offer a unique experience.
Technology is therefore key to the omnichannel strategy.

Thanks to interactive experiences, stores can convey information to the consumer to deepen their connection with the brand. This is why big-name brands are investing in second generation flagship stores and pure players are opting for brick-and-mortar stores.

With the development of Big Data, retailers can track consumer needs and behaviour in real time, and design a much more effective marketing strategy to increase customer loyalty, promote cross-selling and track the status of each individual and their buying preferences.

Increasingly, customers are generating information not only when they surf retailers' websites, but also during their visits to physical stores, via interactive activities, apps and sensors that track their movements. This is a further sign that the gap between the online and offline worlds is narrowing.

The challenge now facing retailers is knowing which data to collect, and having enough internal flexibility to make the necessary changes at all levels, in order to turn that knowledge into positive results for their business.

FROM THE PURELY DIGITAL MODEL TO THE OMNICHANNEL MODEL

amazon

Amazon is first and foremost an online marketplace. However, it opened its first physical stores in 2015, where customers can find books, electronic devices and even groceries. These stores are designed to boost the image of the brand, allowing consumers to both physically see the product they want, as well as discover other products. Discounts are offered to Amazon Prime members, to further enhance customer loyalty. Amazon Lockers landed in Spain in 2017, offering customers the option to pick up their orders from more than 120 collection points located across 30 cities in Spain. They can choose from various locations: Repsol petrol stations, Telepizza restaurants, DIA supermarkets, OhMyBox storage units and Merlin and Unibail shopping centres.

AliExpress

Chinese retail giant AliExpress is Amazon's main rival, competing with low prices and a wide range of products. Their delivery times tend to be longer than Amazon's, and can sometimes take longer due to delays at customs. Part of their strategy is to reach potential customers in a more entertaining and interactive way via their physical stores. Their first physical store in Madrid will be a pop-up format, and will be called "Redescubre AliExpress" (*Rediscover AliExpress*). Based in Malasaña, this store will reach out to a younger audience by hosting workshops with influencers as part of the world's biggest online shopping event.

CURRENT TRENDS

FLAGSHIP STORES

Big-name retailers want their brand to be seen and recognised, with strategically located stores that are able to showcase their culture and brand values via multi-sensory experiences.

CHATBOTS AND ARTIFICIAL INTELLIGENCE

These inventions are changing the way that brands interact with their customers. The use of virtual assistants has become more common on our devices in recent years (Siri, Cortana and Google Assistant) and e-commerce pages are now adapting the technology for conversational commerce. Facebook has incorporated chatbots into its Messenger app, so that companies can have conversations with their customers either as a marketing tool or as part of their customer service strategy.

MOBILE

Mobile phones are being increasingly used to shop online, making them a priority in the design of new user interfaces.

CONSUMER SEGMENTATION

Machine learning and predictive analysis tools are increasingly important and will continue to improve. Thanks to Big Data, consumers can be analysed and placed into segments based on their habits and shopping behaviour, offering more tailored discounts, offers and information about products.

DELIVERY TIMES

Reducing delivery times is one of the key objectives of online retailers. Same-day delivery is becoming the norm.

PAYMENT METHODS

Mobile payment is becoming increasingly common. The launch of Apple Pay will have a positive impact on its expansion into more countries and markets.

E-COMMERCE OF THE FUTURE

POP-UPS

Alongside second generation flagship stores, the next few years will see a greater presence of temporary stores, adding physical contact to different lines of a brand's business. Many consumers reach a certain level of trust with a brand within a very short number of visits to a physical store. Hawkers has already started to do this, with several pop-up stores in shopping centres.

FIRST-RATE AUGMENTED REALITY

Augmented reality has the potential to break down the barriers between the digital world and the physical world, and bring together the online and offline shopping experience. Burberry is already using this technology in its Regent Street flagship store as a way of creating new customer experiences. Over the next few years, consumers will be able to virtually try on jewellery and clothing, or see and buy products from the comfort of their own homes using augmented reality.

PORTABLE DEVICES

The portable devices of the future will compile a great deal of data relating to the customer's background, their emotional state and their health, so that this information can be used to better tailor products and advertising.

HYPERCONNECTIVITY AND CUSTOMISATION

M2M (machine to machine) will increase retailer efficiency, allowing them to track demand and make the supply chain more effective. Advertising content will be adapted to consumer needs in real time, according to their location in that exact moment in time.

NEW WAYS OF DELIVERY

Exploring and spreading alternative ways of delivering orders, from initiatives like Uber to the use of driverless cars and drones.

NEW PAYMENT METHODS

Cutting out the middle man, cryptocurrency like Bitcoin, Ethereum, Ripple and Litecoin will start to become more commonplace.

HOW IS IT AFFECTING FLAGSHIP STORES AND SHOPPING CENTRES?

SECOND-GENERATION FLAGSHIP STORES

E-commerce is becoming an opportunity for some firms to showcase their brand before making the click-to-brick leap. Modern Citizen, the rival brand of Zara in the United States, has already opened a high street store in San Francisco. Zalando is aiming to open up stores in London, Paris and Berlin. In Spain, Hawkers started out as a pure player, but has now opened its first physical store in Madrid at Calle Carretas 17, including a videogame area. They also accept payments in Bitcoin, the most famous virtual currency on the market.

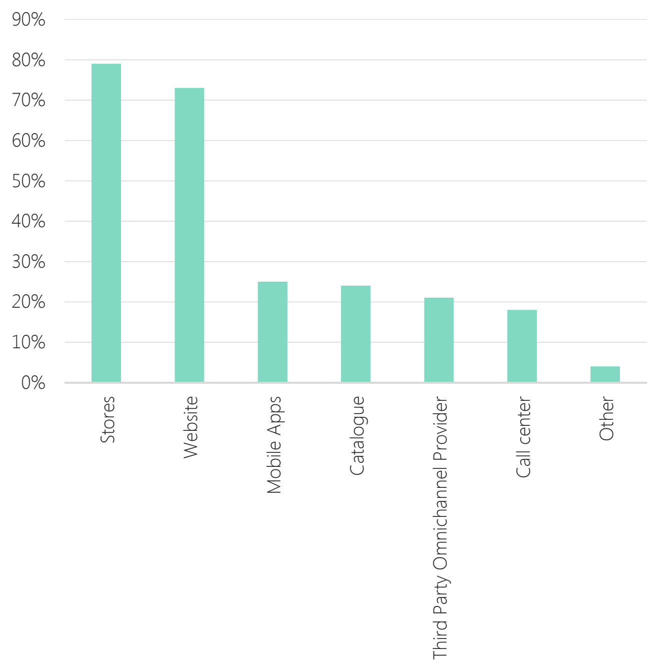
The physical store remains a key element in the shopping process. Consumers continue to shop in physical stores as they offer them the opportunity to see and touch products, to purchase them immediately in a secure environment, as well as the opportunity to receive further information and enjoy the full in-store experience.

Companies use physical stores to get closer to consumers and gain their loyalty through multi-sensory experiences. For instance, bookshops have adapted and turned into diverse cultural spaces, organising events with authors and editors, book clubs, storytelling sessions, puppet shows, or inviting customers to drink wine while they read. These experiences add extra charm to shops for readers, and invite the wider public to engage in reading. Retailers continue to invest in physical stores as one of their main sales channels, as they create more real-life interactions with customers.

The top brands are investing in second-generation flagship stores in iconic properties where the fusion of multi-sensory and omnichannel experiences take centre stage. This type of store has become the perfect space to combine online business with traditional retail.

These new flagships are not just a shell in which to sell a product, they provide an exclusive setting in which big brands can innovate, present their most creative design and technology concepts and continually reinvent themselves to provide their customers with truly unique experiences. The flagship provides a key experimental marketing tool to boost sales, producing a greater effort rate than any other high street model.

GRAPH 7
CHANNELS USED BY RETAILERS TO GENERATE SALES
2016



Source: PwC Total Retail 2017. *Based on a survey carried out by PwC and SAP with over 300 retailers in Europe. Responses to the question: Which of the following channels does your organisation use to generate sales?*

PREFERENCE FOR PHYSICAL STORES BY SECTOR

The way in which consumers use online and offline channels when shopping largely depends on the type of product and its features. Generally speaking, more people prefer to go online to look for information than actually make the purchase.
Consumers browse and compare online, and then test out, discover and experiment offline.

When it comes to electronics and digital content, people are increasingly shopping online. Books, music, films and videogames were the first products where e-commerce overtook physical stores in Spain. It is no coincidence that these were the first products that Amazon used to launch its business model.

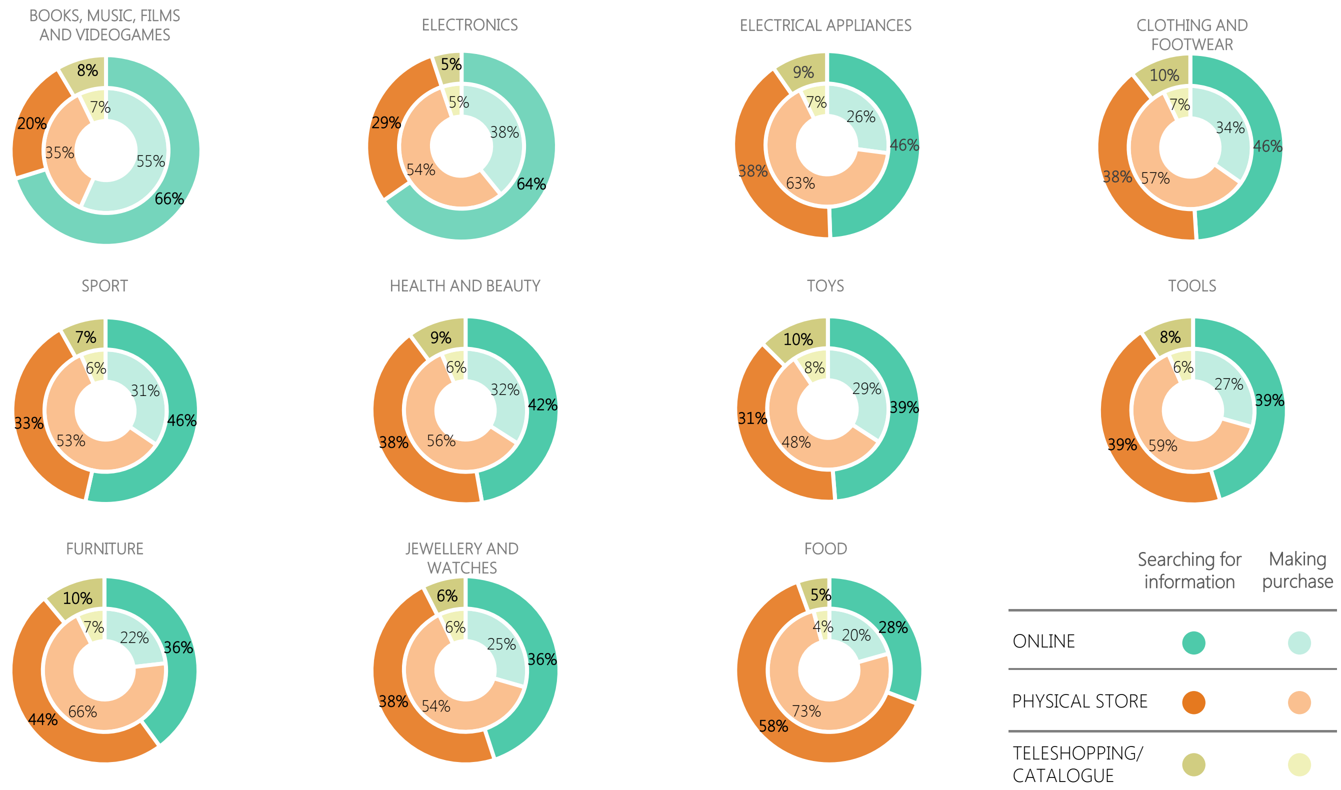
The physical store continues to be the top channel for some sectors where customers can see the product and make their choice in-store, especially for jewellery and watches, health and beauty products, toys and tools.

When it comes to food shopping, most people prefer to shop in a physical store. These trends are generally the same among consumers across the main countries in Europe.

The size of electrical appliances, sports equipment and furniture makes them prime candidates for developing further e-commerce potential. Although the physical store still leads the way for most of these sectors, shoppers tend to prefer to search online for information about the products that they are going to purchase.

The growing use of mobiles and other portable devices, even within physical stores themselves, to compare prices, find product information, pay, receive news and promotions, and generally interact with the brand, means that consumers increasingly use both channels to find out information and make their purchases, once again blurring the boundaries between the online and offline world.

GRAPH 8
PREFERRED CHANNELS FOR BROWSING AND BUYING IN SPAIN BY SECTOR
2016



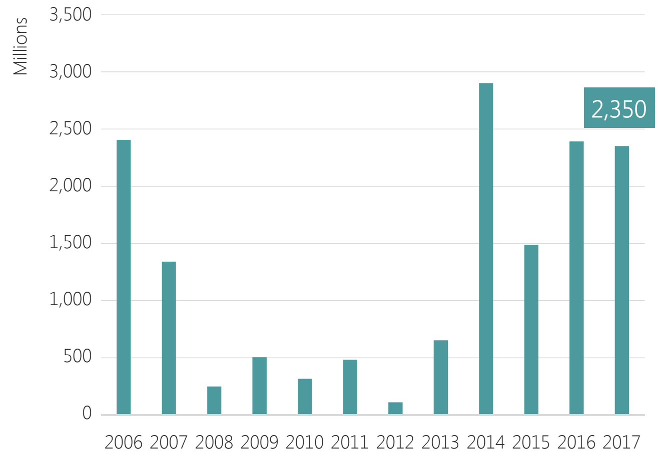
Source: PwC. Total Retail 2016

INTEGRATING E-COMMERCE INTO SHOPPING CENTRES

E-commerce is playing a vital role in offering new options for shopping centres, helping to give them a new image. Consumers are looking for high quality experiences, and shopping centres are changing in order to offer this to their visitors. The aim is to turn new shopping centres into a leisure space, where people want to go to shop, and ensure that they keep coming back.

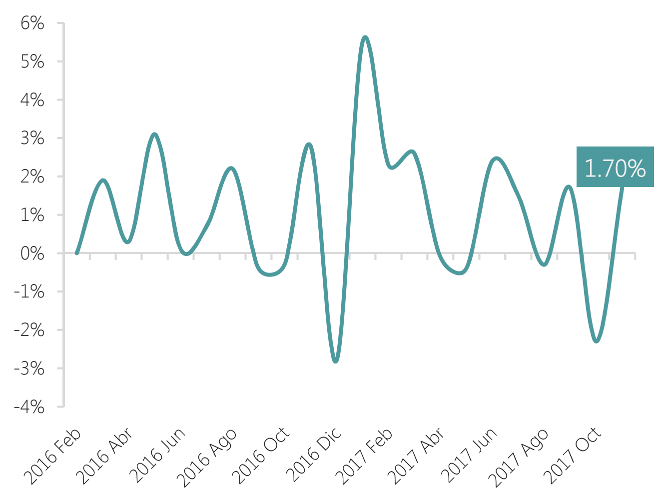
New shopping centres are becoming open, mixed-use spaces, where retailers can use their stores to promote their online channel, and share their location with sports facilities, cinemas and theatres, theme parks and open-air spaces.

GRAPH 10
SHOPPING CENTRE INVESTMENT IN SPAIN
Millions (€). 2006 - 2017



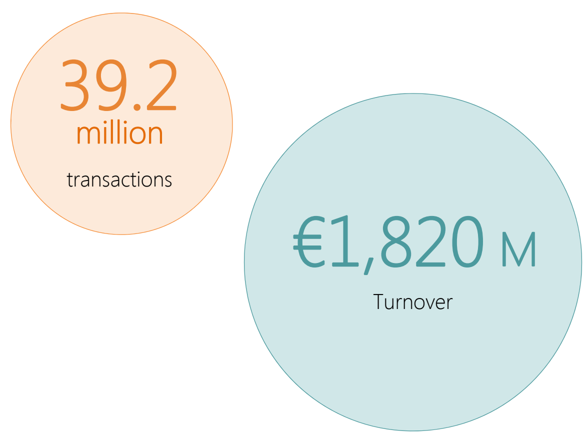
Source: Knight Frank

GRAPH 9
FOOTFALL IN SPAIN
Y-o-y growth (%)



Source: ShopperTrak

GRAPH 11
E-COMMERCE IN SPAIN LINKED TO SHOPPING CENTRES
Q2 2017

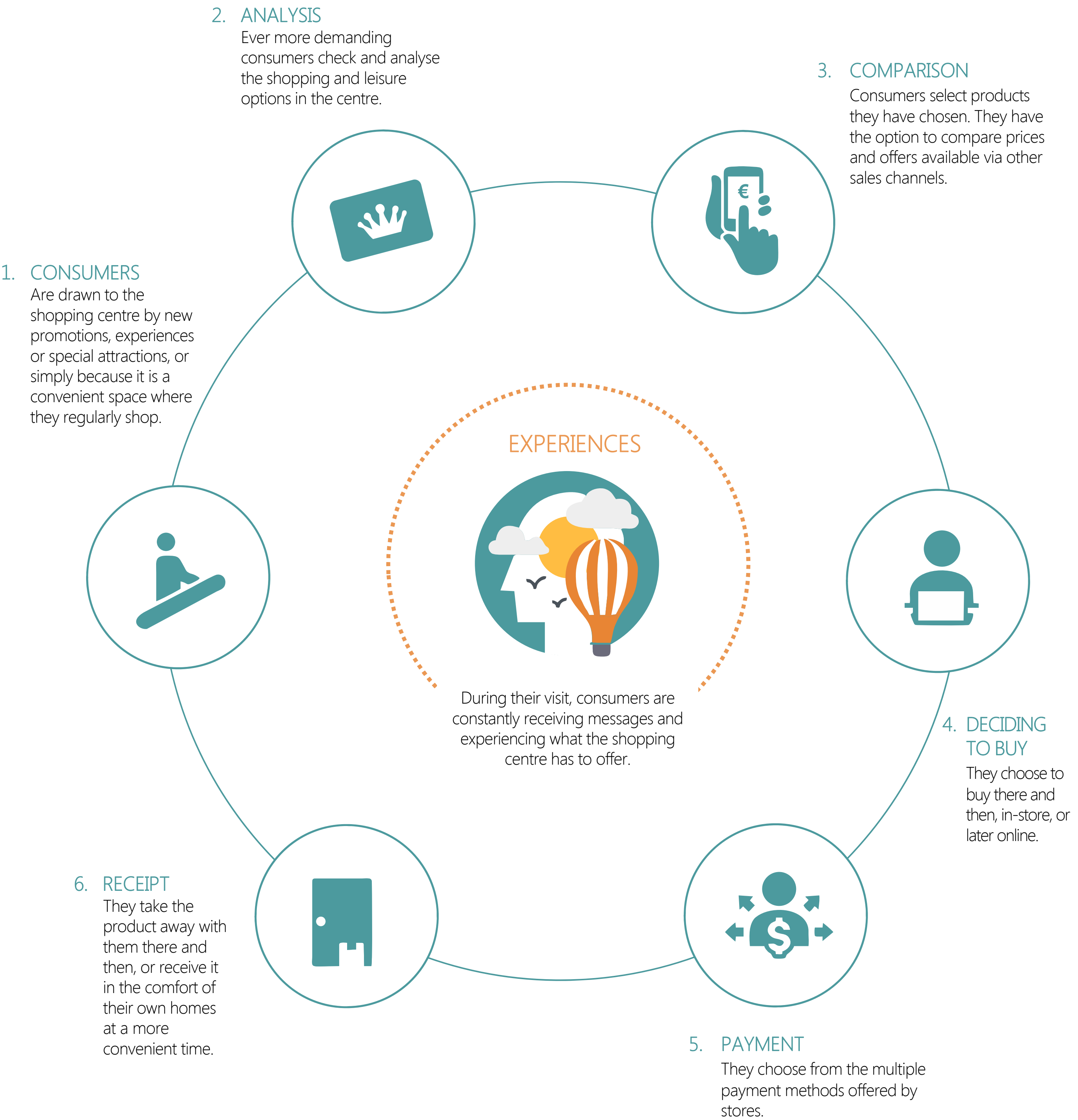


Source: CNMC

GRAPH 12

NEW SHOPPING MODEL IN SHOPPING CENTRES

Consumer behaviour



Source: Knight Frank

E-COMMERCE DOES NOT SPELL THE END FOR SHOPPING CENTRES, IN FACT IT WILL HELP BREATHE NEW LIFE INTO THEM

PABLO PÁRRAGA | Head of Retail, Knight Frank Spain

"THE KEY IS TO PROVIDE SHOPPING CENTRES WITH THEIR VERY OWN IDENTITY. SUCCESS IS ULTIMATELY DERIVED FROM THE CENTRE'S CONVENIENCE, THE SHOPPING EXPERIENCE OFFERED BY THE SPACE, AND THE ABILITY TO DEVELOP A UNIQUE CONCEPT THAT APPEALS TO PEOPLE'S EMOTIONS"

We are living at a time when e-commerce has turned the retail sector on its head within a very short space of time. Not only is the retail space itself changing, but shoppers are also changing their behaviour and habits. Which changes have had the biggest impact?

Over the last decade, retailers have become more professionalised, and consumers have become more demanding. Without a shadow of a doubt, e-commerce is now the main driver of retail. The consumer wants a simpler shopping experience, and today's retailer is now offering them a fully omnichannel model.

New technology is taking huge steps forward and will continue to change the rules of the game, one in which we must be able to keep up. What measures are shopping centres taking?

They really have to pioneer new technology. One clear example of this is online marketing, which is now fully integrated with the offline marketing strategy, with special emphasis placed on social networks. They are also constantly looking for technological solutions that provide customers with fantastic services and the best shopping experience, using properties to their full potential, increasing sustainability and efficiency and giving managers useful information to better understand their customers and know how to adapt to their needs.

It seems that e-commerce has a long future ahead of it, and this will have a direct impact on shopping and leisure spaces. Will shopping models change even more than they have in recent years? What will shopping centres of the future be like?

As you say, e-commerce is far from a mature market, especially in countries like Spain that are still a long way behind other countries such as the US and the UK. This means that the shopping model in Spain will continue to adapt, and shopping centres will adapt with it. In my opinion, there will be two types of shopping centres in the future: complexes with unique leisure components, where value is placed on the visitor experience, and convenience-based centres, where the focus is on customer comfort. In both of these centres, we will also see a priority to develop omnichannel strategies.

Some centres are already experimenting with a new concept, like the new X Madrid centre, owned by Merlin Properties, where they are promoting the concept of a sports-based adventure. Are there any other projects in the pipeline with a similarly innovative concept?

Given the immense competition and the unstoppable growth of e-commerce, shopping centres have to offer something that stands out from the rest. Knight Frank is currently working on two projects that will open later this year and bring something truly unique to the market: Torre Sevilla and Torrecárdenas.

TORRE SEVILLA SHOPPING CENTRE

Torre Sevilla will become a true landmark in Seville due to the complex where it is located. As well as a top retail hub, it will also provide cultural experiences, thanks to Caixa Fórum, as well as sports and environmental activities, boasting a stunning park alongside the Guadalquivir river. It will also house the city's most modern office property, and a first-rate hotel. The shopping centre at Torrecárdenas, in Almería, is inspired by the world of cinema and the key role that it has played in the city. This inspiration is reflected in the design of the buildings and retail layout, and will feature heavily in the centre's day-to-day, raising the cultural bar not only for Almería but for the south of Spain as a whole.

Up until now, firms have been choosing very central high street locations for their flagships. Do you think we will see more of these opening in shopping centres? What are the requirements that shopping centres and their stores need to meet?

Brands have traditionally chosen to open their flagship stores in prime, city centre locations. However, more and more retailers are looking to open second flagship stores in shopping centres.

At the same time, the main retailers such as Inditex, Mango and H&M are increasingly looking for stores that can stock their entire collection, leading them to close some of their smaller stores. In order to attract these increasingly demanding retailers, the centre must guarantee them optimum levels of footfall and services, a competitive retail mix and, from a technical point of view, efficient stores that are big enough to meet the needs of new formats.

Hypermarkets have traditionally been a main shopping centre anchor. Do you think this will change over the next 5-10 years, with the introduction of new shopping centre models?

Although food shopping will continue to be a key anchor that complements the retail mix, new ways of shopping mean that we will begin to see smaller format stores, with supermarkets rather than huge hypermarkets.

Will the 2018-2019 period see an even greater boom in the creation of new shopping centre concepts?

Perhaps it's too early to see new concepts fully rolled out in shopping centres, we might have to wait a few more years yet to see that.

It is, however, obvious that these new concepts are being incorporated right now, especially in the project designs for new-builds and refurbishments of existing shopping centres. One example is the comprehensive refurbishment due to take place at one of the main centres managed by Knight Frank, Tres Aguas, which has been designed around these new concepts, new market trends and the implementation of technology and services to improve the visitor experience.

What are the technical requirements for developing this new shopping centre concept? Can these centres be opened in well-established residential and office areas, or is it better to open them in areas with large open spaces?

As I said earlier, as well as offering retailers the latest formats and technology, we must also offer them omnichannel services. In terms of location, whilst the larger centres that are leisure and experience-based destinations can be built further away, convenience-based centres ought to be built in consolidated residential or office areas.

EDITING AND WRITING:
KNIGHT FRANK RESEARCH

NEW SHOPPING CENTRES

Making visitors feel comfortable is a priority when it comes to designing which initiatives to implement in shopping centres. Puerto Venecia has commenced its Easy Shopping service, which lets customers collect their purchases at an information point, or send them home by courier, allowing them to stay longer and enjoy a much better shopping experience.

The concept of the shopping centre as we know it is moving towards open-air leisure spaces, that are designed to generate experiences and capture hyper-connected consumers who require more impulsive elements to attract them to retail spaces.

X-MADRID

Merlin is set to invest €30 million in refurbishing the outdated Opción Shopping Centre in Alcorcón, a 39,000 sqm space that is set to include areas for beach volleyball, parkour, crossfit with a healthy eating restaurant, BMX, a 15-metre deep diving centre, rock climbing, surfing, test-driving cars, private cinemas with sofas and catering and a snow sports space. Clearly aimed at adventure and challenges, it is due to open at the end of 2018.

X-MADRID SHOPPING CENTRE

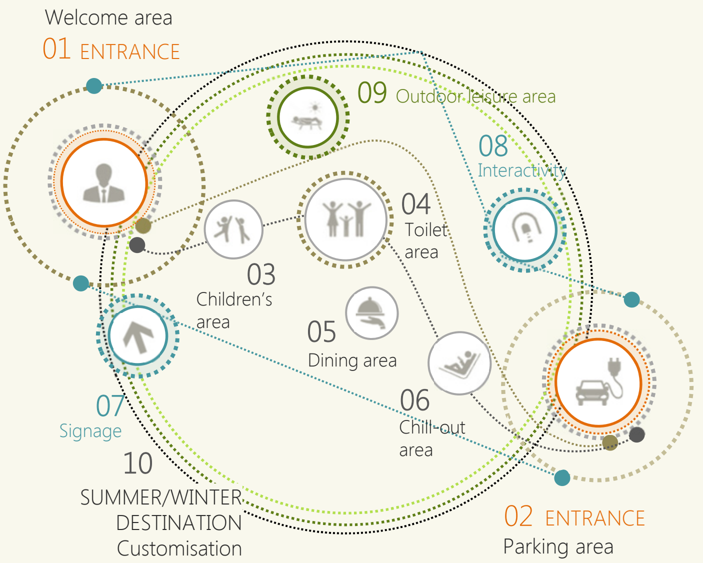
CREATING DESTINATION SPACES

by the Chapman Taylor Creative Research Team

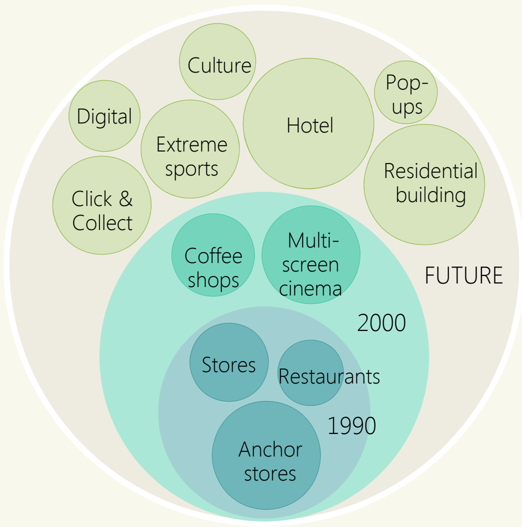
Today there is so much more in a retail space than you could find in the 90s, when retail parks were first consolidating. Now there's more than just food courts and shops, with a combination of experiences and services in one space, from sports, cultural and leisure activities to apartments and hotels. A successful shopping centre requires a well-defined building plan, adapted to each centre, reflecting the latest trends in terms of both architecture and services, along with an in-depth study that helps to plan the route for visitors to follow, that leads from one attraction to the next.

This all helps to give the shopping centre its own brand and identity, reflected its objectives in its architecture and design.

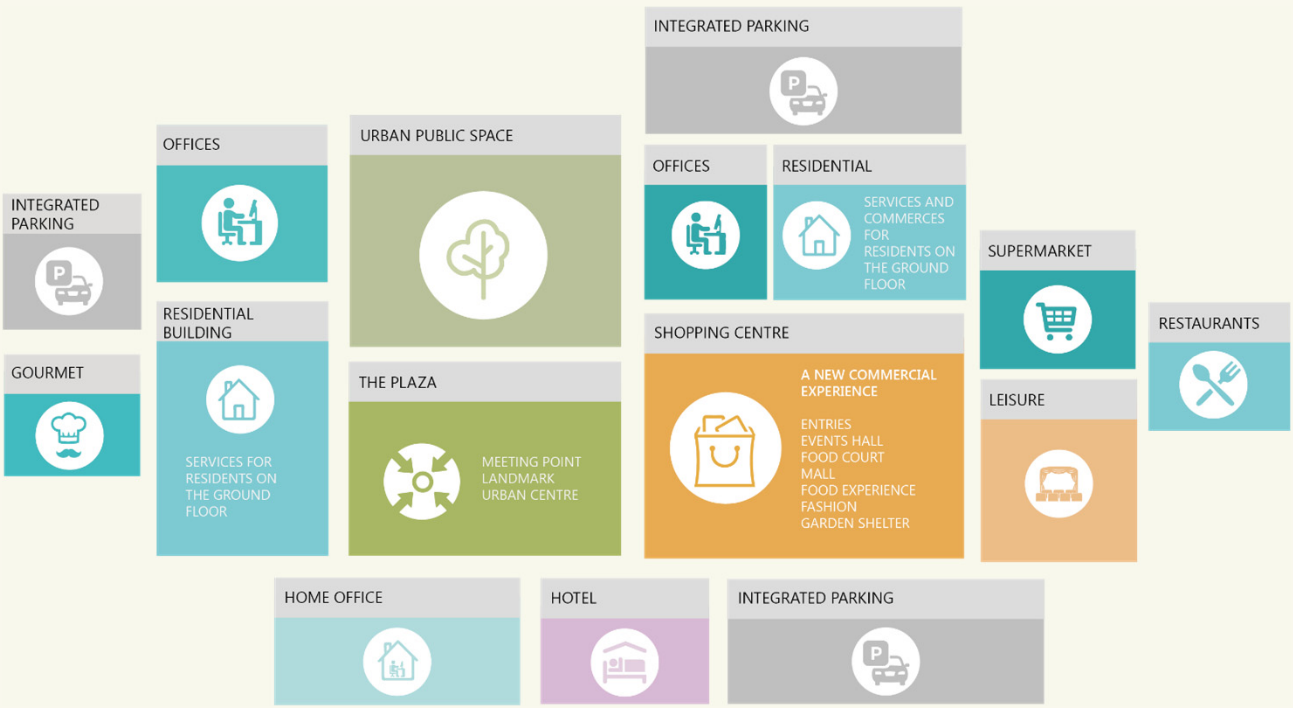
GRAPH 13
CUSTOMER JOURNEY: A NEW DESTINATION SPACE



GRAPH 14
THE GROWTH OF RETAIL



GRAPH 15
ANALYSIS OF THE CURRENT DESIGN OF DESTINATION SPACES



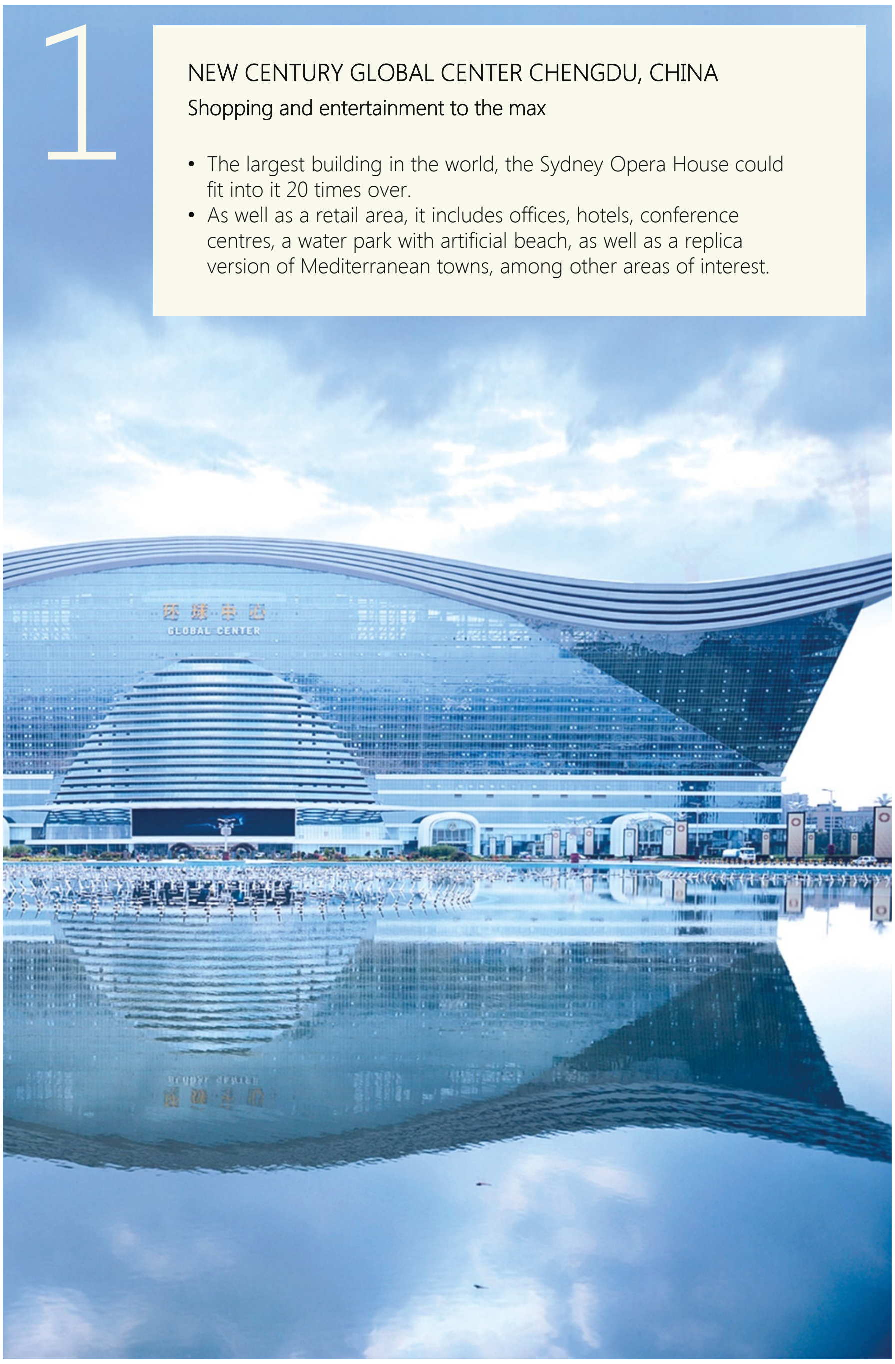
WHERE CAN YOU ENJOY UNIQUE EXPERIENCES AROUND THE WORLD?

FIVE STUNNING SHOPPING CENTRES

The success of the most stunning shopping centres in the world, is not based solely on the brands that they offer, but also the experiences.

Up until just a few years ago, the best centres had a large number of stores, restaurants and cinema screens. Many also had open-air spaces, with terraces, green spaces, lakes and swimming pools.

In recent decades, a new shopping centre concept has been developed, covering more areas and focusing more on sensory experiences. These centres comprise enormous spaces, with great attention to architecture, decoration and design, and offer a wide variety of stores aimed at entertainment, and not always related to shopping. These centres contain comedy clubs, zoos, rollercoasters, authentic Venetian canals complete with gondolas, Chinatown and even a chapel.

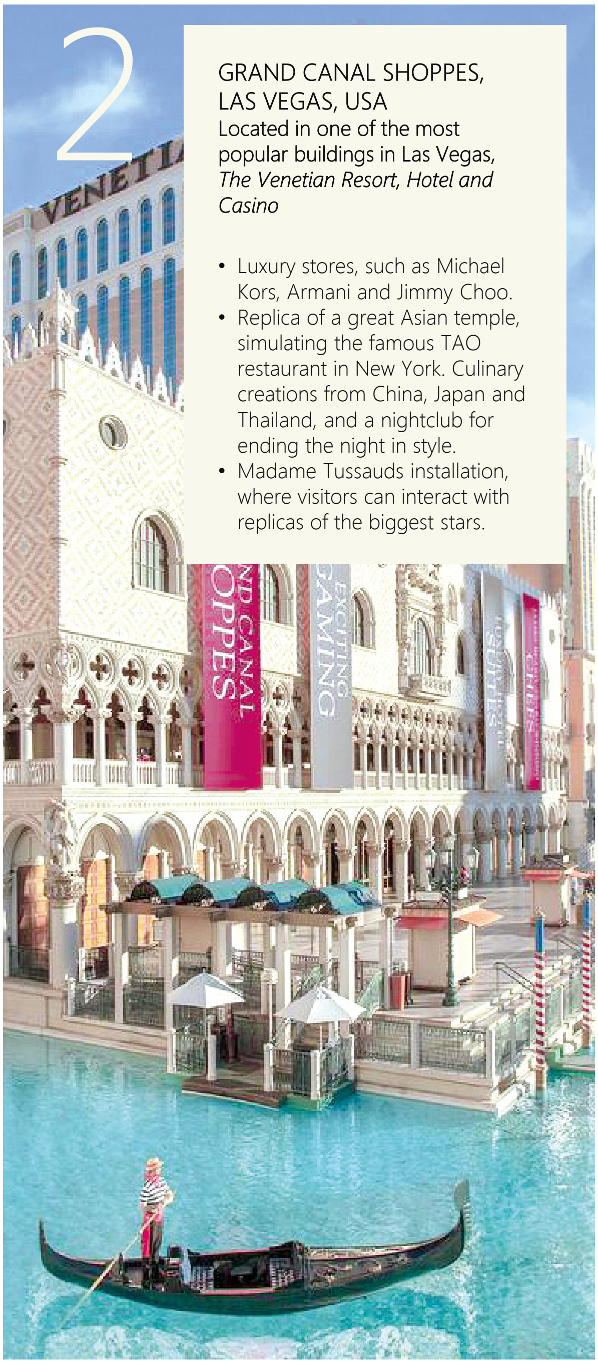


1

NEW CENTURY GLOBAL CENTER CHENGDU, CHINA

Shopping and entertainment to the max

- The largest building in the world, the Sydney Opera House could fit into it 20 times over.
- As well as a retail area, it includes offices, hotels, conference centres, a water park with artificial beach, as well as a replica version of Mediterranean towns, among other areas of interest.



2

GRAND CANAL SHOPPES, LAS VEGAS, USA

Located in one of the most popular buildings in Las Vegas, *The Venetian Resort, Hotel and Casino*

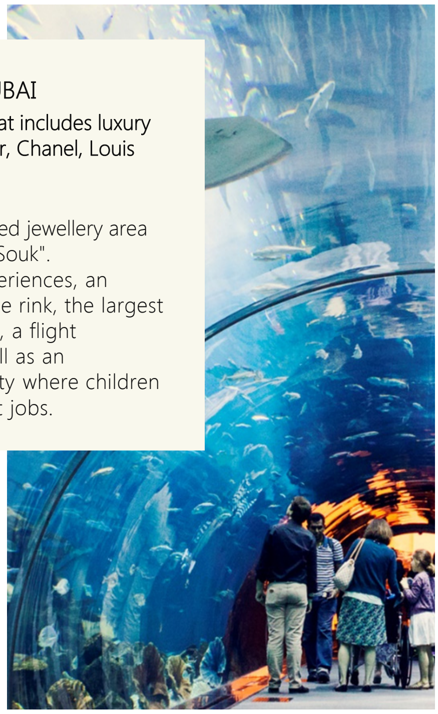
- Luxury stores, such as Michael Kors, Armani and Jimmy Choo.
- Replica of a great Asian temple, simulating the famous TAO restaurant in New York. Culinary creations from China, Japan and Thailand, and a nightclub for ending the night in style.
- Madame Tussauds installation, where visitors can interact with replicas of the biggest stars.

3

WEST EDMOND MALL, ALBERTA, CANADA

Where fun comes first and foremost

- Themed decoration in shopping and dining area, simulating European cities and even the iconic Chinatown.
- Variety of entertainment options: a theatre, waterpark, theme park, zoo and ice skating rink.

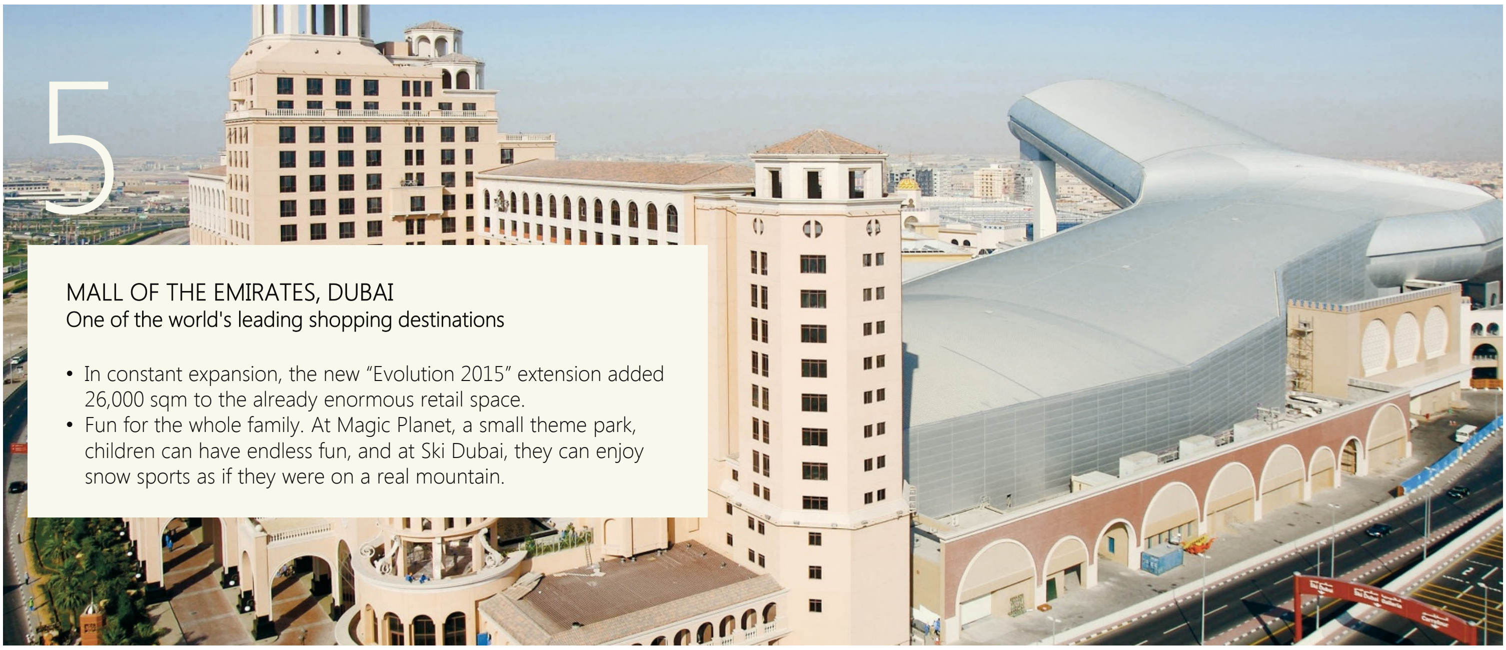


4

DUBAI MALL, DUBAI

With a retail mix that includes luxury brands such as Dior, Chanel, Louis Vuitton, etc.

- Separate dedicated jewellery area called the "Gold Souk".
- Underwater experiences, an Olympic sized ice rink, the largest cinema in Dubai, a flight simulator, as well as an interactive activity where children can try out adult jobs.



5

MALL OF THE EMIRATES, DUBAI

One of the world's leading shopping destinations

- In constant expansion, the new “Evolution 2015” extension added 26,000 sqm to the already enormous retail space.
- Fun for the whole family. At Magic Planet, a small theme park, children can have endless fun, and at Ski Dubai, they can enjoy snow sports as if they were on a real mountain.

COMMERCIAL BRIEFING

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RESEARCH

Pablo Párraga
Head of Retail
Pablo.Parraga@es.knightfrank.com
+34 600 919 078

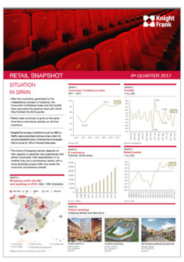
Elaine Beachill
Director of Retail Capital Markets
Elaine.Beachill@es.knightfrank.com
+34 600 919 016

Brynn Evans
Senior Flagships Capital Markets
Brynn.Evans@es.knightfrank.com
+34 600 919 129

Tamara Sánchez
Senior Flagships Leasing
Tamara.Sanchez@es.knightfrank.com
+34 600 919 073

Rosa Uriol
Head of Research
Rosa.Uriol@es.knightfrank.com
+34 600 919 114

Alba Fernández
Research Consultant
Alba.Fernandez@es.knightfrank.com
+34 600 919 020



Retail Snapshot Q4 2017

Puerta del Sol Snapshot Autumn 2017

Spotlight on Retail 2016

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