

Retail Insights



Green Street Advisors

6 May 2020

GPR 250 Europe: 15.88 | STOXX Europe 600: 334.34

10-Year French Gov't Bond: 0.008% | 10-Year Germany Gov't Bond : -0.51%

10-Year UK Gov't Bond: 0.23% | 10-Year Spanish Gov't Bond: 0.85%

10-Year Swedish Gov't Bond: -0.05% | 10-Year Swiss Gov't Bond: -0.49%

Tenant Quality: Whack a Mole

- Today's predicament of retail real estate reminds us of the Whack-a-Mole game....
- ...as soon as one problem area is hammered down another one pops up
- e-commerce was **the** problem; 'experiential retail' was considered a savvy response
- Social-distancing norms **now** significantly dislocate such 'get-together' business models
- Tenant bankruptcies may thus be the next problem area to rear its ugly head
- F&B, Leisure and Fashion (c. 50% of PropCo rental exposure) highest at-risk segments
- Credit markets price elevated tenant default risk while showing no concern for landlords
- Our newly-constructed **Retail Tenant Risk Index** relies on several important occupational metrics that should correlate well with future rental cash-flow resilience
- Citycon and Eurocommercial tenant risk is below average; Intu and Hammerson above
- No Recommendation changes in this report



Important disclosure on page 12

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Key Points

Retail in a Post Covid-19 World

Your Guess... ... or Mine?

- Covid-19 is accelerating the e-commerce-induced paradigm shift underway in global retail consumption
- Segments previously immune to e-commerce (Food & Beverage, Leisure) decimated by social distancing
- Retailers' ability to pay rent is impaired both during and after lockdowns end; Landlords will share the pain
- The archetypal centre layout and tenant mix will need to evolve faster; convenience now trumps experience
- Significant re-purposing capex will be required, an additional headwind most listed landlords can ill-afford

Tenant Fundamentals

Shaky Ground

- F&B, Leisure and Fashion — on average c. 50% of rent roll — are vulnerable; grocery anchors faring quite well
- Covenant strength always matters, but even financially healthy international tenants seeking rent concessions
- Weak landlord B/S reduces negotiating wiggle room with struggling tenants; amplifying tenant default risk
- Credit markets envisage a shaky future for several — esp. Fashion — tenants; equity markets seem more upbeat

Retail Tenant Risk Index

Who's at Risk?

- Green Street has assessed listed landlords' tenant quality and created a Retail Tenant Risk Index ('RTRI')
- RTRI = (i) Geography, (ii) Sector Mix, (iii) Tenant Performance, (iv) Rent Affordability, and (v) Default Risk
- Citycon and Eurocommercial score below average on RTRI (good thing); intu, Hammerson and Vastned poorly

Recommendations

One Eye on RTRI

- Managing occupancy and the 'right' tenant mix, rather than maintaining rent, is a better long-term strategy
- **Retail Sector's projected 5-yr unlevered return, at current share prices, is a paltry mid-3% p.a.**
- Stock picks remain tilted towards grocery-anchored smaller portfolios with less fashion exposure
- At current prices, we see better risk/return prospects for **LI** vs **URW**, **MERY** vs **WHA** and **CAPC** vs **SHB**

Recommendations

At current share prices, our investment recommendations are:

BUY: **CAPC, ECMPA, MERY**
HOLD: **CTY1S, DEQ, HMSO, LI**
SELL: **SHB, URW, VASTN, WHA**

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Follow the Bond Market

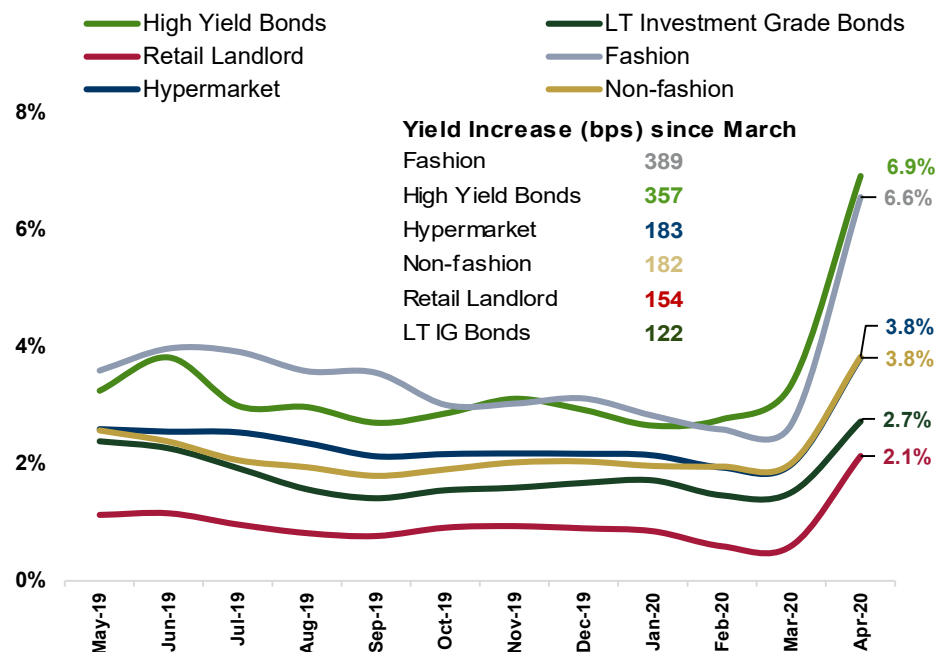
House of Cards? Retail PropCo debt yields have expanded by only ~30 bps more than long-term investment grade bonds since March. However, a cursory review of PropCo tenants' own traded unsecured bond yields to maturities suggests bigger problems ahead. Fashion tenants (~40% of most PropCo's rent roll) have seen their YTMs blow out by ~400 bps, more than even the overall 'junk' bond series. Of the six retail PropCo's that have external credit ratings all are investment-grade rated. There appears to be a disconnect between landlord and tenant assessment of credit risk by the bond market given the currently precarious nature of rent obligations.

PropCo Credit Ratings ⁽¹⁾

Company	S&P		Moody's	
	Rating	Outlook	Rating	Outlook
CTY1S	BBB-	▼	Baa3	►
HMSO	n/a	n/a	Baa1	▼
WHA	n/a	n/a	Baa3	►
MERY	BBB	▼	n/a	n/a
LI	A-	▼	n/a	n/a
URW	A-	▼	A3	▼

Legend: Outlook: ▲ Positive; ▼ Negative; ► Stable.

Yields: Retail Landlords vs. Retail Tenants ⁽²⁾



(1) Long-term rating (foreign) for CTY1S, HMSO, MERY and LI; Long-term rating (domestic) for WHA and URW.

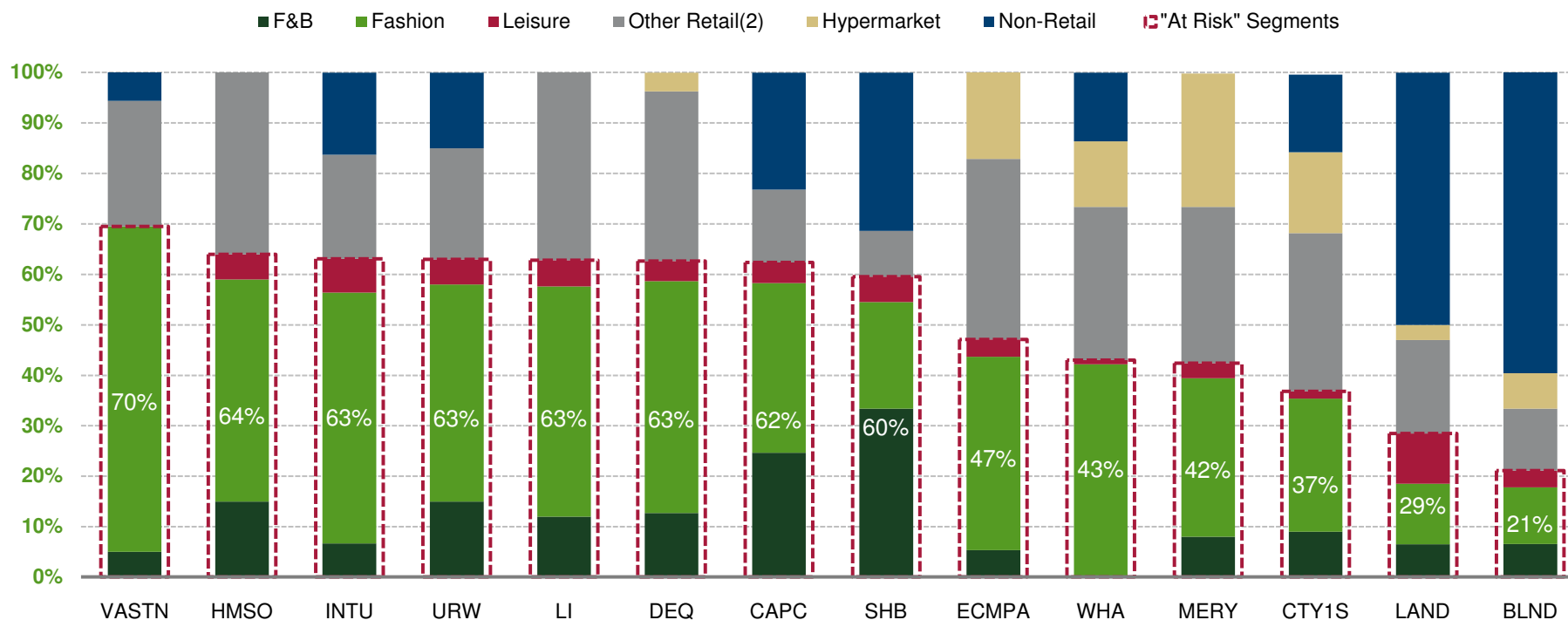
(2) Average YTM for 10-year duration bonds. Companies included within: Fashion: Next, Victoria's Secret (L Brands), Fast Retailing, Signet Group; Non-fashion: Fnac Darty, CK Hutchison; Hypermarket: M&S, Sainsbury's, Metro Group and Ahold Delhaize.

Source: S&P, Moody's, Bloomberg, BAML (High-Yield), IHS Markit (Investment Grade), Green Street Advisors

Sector Mix: Who's At Risk

Lots of Concerns: Covid-19-induced lockdowns have hit all brick-and-mortar retail sectors hard — bar grocery dominated hypermarkets. The pandemic has accelerated e-commerce trends across all retail categories and even those previously resilient (e.g. F&B, Leisure - hotel, gyms, cinemas) have suffered. These segments are most likely to require near-term rent relief given their rising risk of bankruptcy — as opposed to rent deferral. Combined, these segments represent, on average, half of many listed landlords' overall rental income.

Rent Exposure to "At Risk" Segments⁽¹⁾



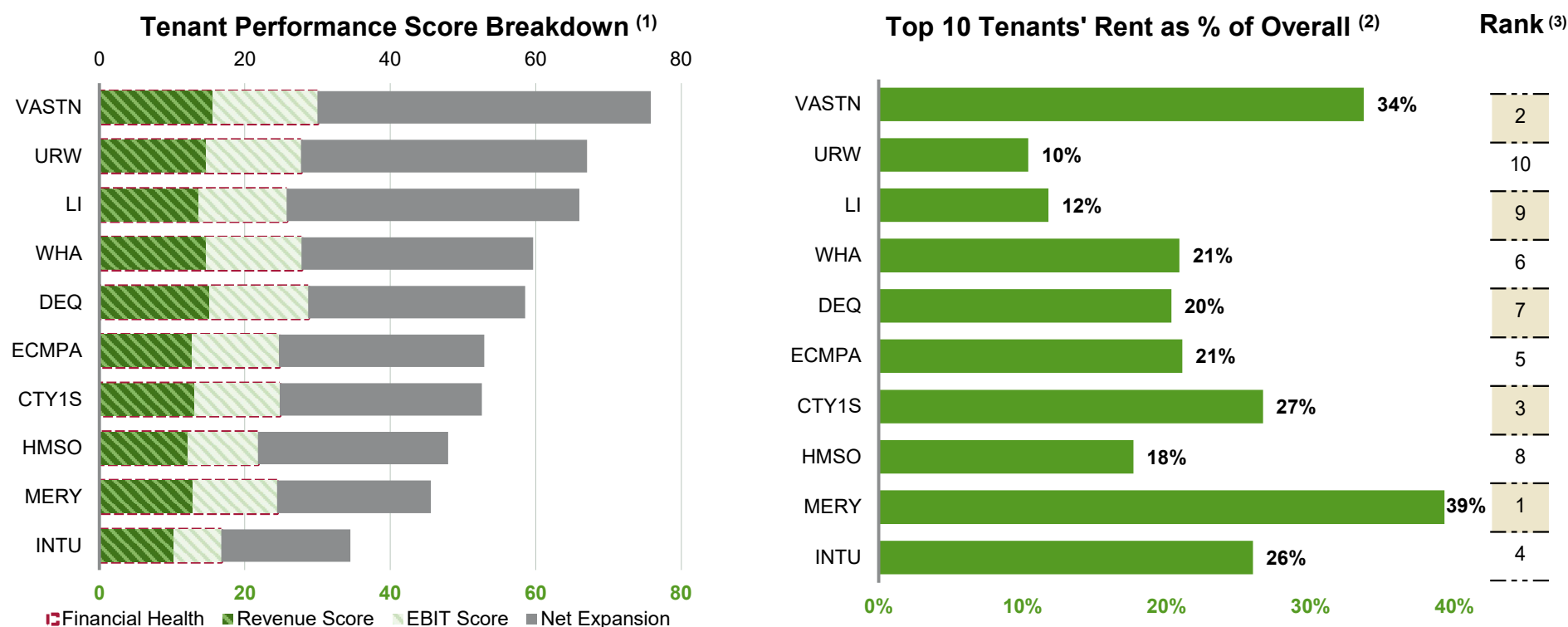
Note: Due to limited company disclosure, the above retail categories are broad groupings and this analysis by definition is therefore imprecise.

(1) Sector breakdown defined as % of: VASTN's rent; HMSO's income; INTU's Rent; URW's MGR; LI's rent; DEQ's sales; CAPC's gross income and SHB's current income (assuming retail sector split fashion: 70%, non-fashion: 30%); WHA's contracted rent; MERY's income; ECMPA's floor area adjusted for rent; CTY1S' revenue; LAND's and BLND's contracted rent. (2) Other retail include, but are not limited to: Household equipment, Health & Beauty and Electronics. Non-retail include both residential and office.

Source: Company disclosures, Green Street Advisors

Tenant Performance: Covenants Matter Again

How the Top 10 Stack Up: Covenant strength always matters, more so in uncertain times. Retail PropCo's are being barraged with demands for rent relief. Landlords are offering undisclosed terms for rent deferrals on a case-by-case basis, however those with weaker tenant lists will struggle. Mercialys' score is skewed lower by its historically weak anchor Géant Casino, which paradoxically may fare better in the current environment. Vastned has the highest quality score, however rent concentration — one-third of rent from top ten tenants — increases risk.

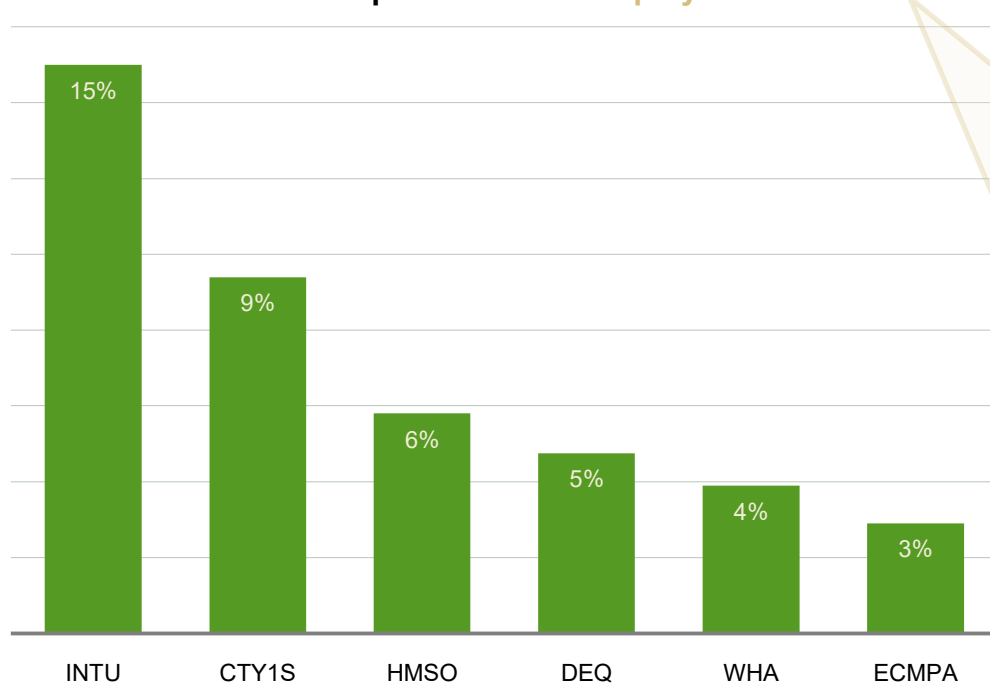


(1) Tenant Performance Score is based on a) Financial Health, i.e. revenue and EBIT growth for the most recent 36 month period and b) Net store expansion plans announced since 1-Jan-19. (2) Top 10 tenants defined as a % of: VASTN's gross rental income, URW's MGR, LI's total rent, WHA's annualised rent, DEQ's total rent, ECMPA's income, CITY1S's rent roll, HMSO's passing rent, MERY's total rent and INTU's rent roll. Neither SHB nor CAPC disclose top-10 tenant exposure. (3) Ranked by percentage of total rent. Source: Bloomberg, Company Disclosures

Tenant Default Risk: Who Needs A Close Watch

An Ever-Growing List: Many tenants were struggling prior to the global pandemic. The ensuing recession could push them over the brink. PropCo's with a higher proportion of department stores — shopping centres *within* shopping centres — and fashion-oriented tenants generally have greater exposure to Green Street Advisors' identified bankruptcy watchlist. The watchlist is currently based on the Top 10 tenants disclosed (by rents) and thus the potential for further bankruptcies by smaller (potentially weaker) tenants outside this list remains sizable.

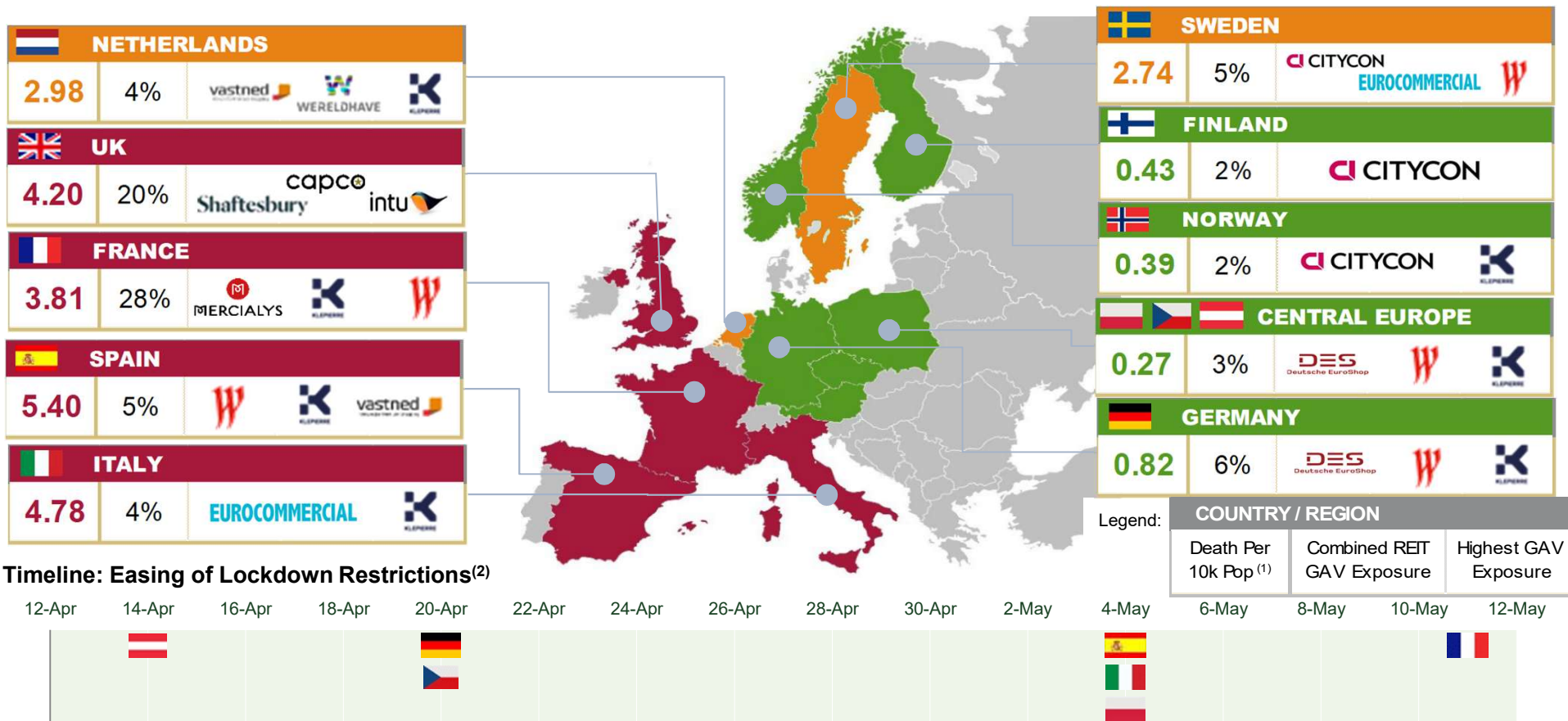
Estimated Rent Exposure to Bankruptcy Watchlist ⁽¹⁾



Note: MERY, LI, URW and MERY do not have any tenants in Green Street Advisors' bankruptcy watchlist in their top-10 tenant list. SHB and CAPC do not disclose top-10 tenants.
 (1) Of PropCo's top 10 tenants, rent exposure as % of: INTU's rent roll, CTY1S's rent roll, HMSO's passing rent, DEQ's total rents, WHA's annualised rent and ECMPA's income.
 Source: Company disclosures, Green Street Advisors

Geographic Risk: Pandemic Watch

Lockdown Extensions or Opening-up? Governments are taking different approaches across Europe. Central Europe and the Nordics have so far fared relatively well with Covid-19 and have begun easing restrictions. The sooner "normality" returns — albeit a socially-distanced one — the lower the risk of surging tenant bankruptcies.



(1) As at 5-May. (2) Easing dates refer to any partial relaxing on non-essential retail; Austrian shopping centres reopened on 2 May; Czech Republic shopping centres to open on 11 May. Spain expect to ease restrictions between May 24 and June 3. In France, most shopping centres <40k sqm are expected to open on May 11 dependant upon local prefect. Source: Company disclosure, Green Street Advisors, John Hopkins Covid-19 case tracker, United Nations Population Division

Retail Tenant Risk Index

Putting It All Together: Green Street's **Retail Tenant Risk Index** (RTRI) ranks landlords' resilience to their tenant line-ups — with an emphasis on the post-Covid-19 world. A weighted average score is applied to the following factors: (i) Geographic Risk, (ii) Sector Mix, (iii) Tenant Performance, (iv) Tenant Affordability (OCR) and (v) Tenant Default Risk. Green Street's RTRI ranking suggests Citycon, Eurocommercial and Deutsche EuroShop tenants are least at risk, whilst intu, Hammerson and Vastned are most vulnerable.

Retail Tenant Risk Index (RTRI)⁽¹⁾

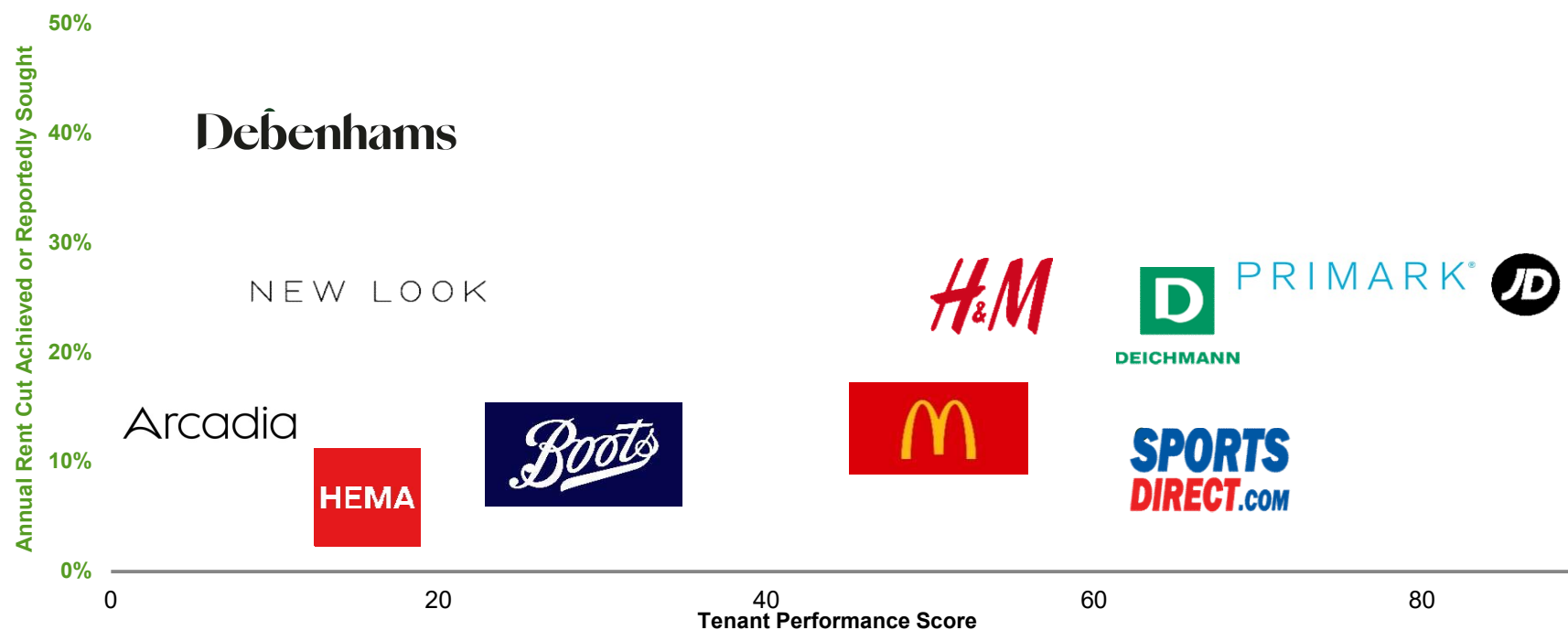


(1) Retail Tenant Risk Index is based on Geographic Risk (25% weighting), Sector Mix (30%), Tenant Performance (25%), Tenant Affordability (10%) and Tenant Default Risk (10%). Geographic Risk is based upon severity of Covid-19 (60% weighting) and eREA country ranking (40%).
Source: Company disclosure, Green Street Advisors

Rent Reductions – Many Are Asking

Please Sir, I Want Some More: Many retailers' ability to pay rent has been severely impacted during the closed period and is likely to remain so after restrictions have eased. Tenants are asking for significant rent reductions — up to c. 25% of annual rent payments — even financially sound tenants on the Continent. Whilst perhaps opportunistic, Covid-19 presents the opportunity to re-negotiate contracts. However even with rent reductions, many retailers are likely to still drastically reduce their footprint and close unprofitable stores. Who will fill these empty stores?

Selected Major Retailers Seeking Material Rent Reduction ⁽¹⁾



(1) H&M intends to defer rents for three months for its 460 stores in Germany; Primark reportedly withholding quarterly rent for most of its 110 leasehold UK stores (of a total 189); Deichmann suspended rent payment for German stores from April for the duration of the government mandated closures; Boots postponed 50% of its 2Q UK rent payments due 25 March; JD Sports did not pay its quarterly rent for its 390 UK stores; McDonald's seeking a 3Q c. 50% rent reduction for its UK stores.

Source: Company disclosures, Green Street Advisors

Rent Collection: What We Know So Far

Sketchy Details: Rent collection — a tell on which tenants will come out of this pandemic as going concerns — is the hot topic; yet Continental retail PropCo's have been shy to divulge details. UK retail REITs note that c. 40% of 2Q rents have been collected. All PropCo's are reviewing deferral requests, most are now billing monthly in arrears and have reduced their service charges. Some have deferred April rent payments to 2H and Klépierre has offered a three-month rent holiday to small French businesses. However, there is lack of specific commentary across the board.

Company	Rent Deferral	Comment	Q2 Rent Collection Disclosed	Comment
Citycon	✓	Deferrals offered on a case-by-case basis	✗	Not disclosed for 2Q, c. 95% of rent collected for 1Q
Deutsche EuroShop	✓	Deferrals offered on a case-by-case basis	✗	Not disclosed
Eurocommercial	✓	Belgium: April rent deferred France: Monthly billing / April rent deferred / Three-month rent holiday for small businesses Sweden: Monthly billing in advance	✓	Sweden: collected c. 55% of Q4 rent
Klépierre	✓	France, Italy, Scandinavia: 2Q rent invoiced monthly France: April rent payment deadline deferred to 2H France: three-month rent holiday to small businesses	✗	Not disclosed
Mercialys	✓	Deferrals offered on a case-by-case basis	✗	Not disclosed
Unibail-RW	✓	Monthly billing across all geographies Rent relief and deferral on case-by-case basis April / May rent deferred to 2H	✓	c. 20% of April retail rent collected
Vastned	✓	2Q rents billed in arrears with payment plans over months	✗	Not disclosed
Wereldhave	✓	Deferrals offered on a case-by-case basis	✗	"Many" tenants to pay only part of or no rent at all
Capital & Counties	✓	Deferrals offered on a case-by-case basis	✗	Not disclosed
Hammerson	✓	Deferrals / waivers / monthly payment; case-by-case France: billed monthly in arrears, April rent deferred to 2H	✓	Received 37% of UK rent that had been billed for 2Q
INTU	✓	Rent billed monthly until January 2021	✓	c. 40% of 2Q rent collected
Shaftesbury	✓	Deferrals offered on a case-by-case basis	✗	Not disclosed

Source: Company disclosure, Green Street Advisors

Recommendation Changes and History

Green Street's Published Opinion (PO) History

Company	Symbol	Current PO	Prior PO	Prior PO First Published	Latest Closing Share Price
ASSURA	AGR	BUY	BUY	3-Mar-20	77p
BIG YELLOW GROUP	BYG	BUY	BUY	1-Oct-19	1,014p
BRITISH LAND	BLND	SELL	SELL	3-Mar-20	376p
CAPITAL & COUNTIES	CAPC	BUY	BUY	3-Feb-20	156p
CASTELLUM	CAST	HOLD	HOLD	2-Dec-19	170.4 kr
CITYCON	CTY1S	HOLD	HOLD	1-May-20	€ 5.67
COVIVIO	COV	SELL	SELL	30-Mar-20	€ 52.95
DERWENT LONDON	DLN	BUY	BUY	3-Mar-20	2,880p
DEUTSCHE EUROSHOP	DEQ	HOLD	HOLD	1-May-20	€ 12.76
DEUTSCHE WOHNEN	DWNI	BUY	BUY	3-Mar-20	€ 37.09
EUROCOMMERCIAL PROPERTIES	ECMPA	BUY	BUY	25-Mar-20	€ 9.83
FABEGE	FABG	BUY	BUY	2-Aug-19	110.4 kr
GECINA	GFC	BUY	BUY	1-May-20	€ 112.50
GRAINGER	GRI	SELL	SELL	20-Apr-20	254p
GREAT PORTLAND ESTATES	GPOR	HOLD	HOLD	1-May-20	648p
HAMMERSON	HMSO	HOLD	HOLD	3-Feb-20	51p
HUFVUDSTADEN	HUFVA	HOLD	HOLD	1-May-20	123.8 kr
ICADE	ICAD	HOLD	HOLD	1-May-20	€ 66.90
INMOBILIARIA COLONIAL	COL	HOLD	HOLD	1-May-20	€ 8.20
INTU PROPERTIES	INTU	NR	NR	1-Aug-19	5p
KLÉPIERRE	LI	HOLD	HOLD	31-Mar-20	€ 16.81
KUNGSLEDEN	KLED	SELL	SELL	25-Mar-20	69.2 kr
LANDSEC	LAND	HOLD	HOLD	1-May-20	630p
LEG IMMOBILIEN	LEG	HOLD	HOLD	1-May-20	€ 106.66
LONDONMETRIC PROPERTY	LMP	BUY	BUY	17-Mar-20	189p
MERCIALYS	MERY	BUY	BUY	31-Mar-20	€ 6.73
MERLIN PROPERTIES	MRL	SELL	SELL	3-Mar-20	€ 7.60
PSP SWISS PROPERTY	PSPN	BUY	BUY	1-Oct-19	Fr 107.50
SAFESTORE	SAFE	SELL	SELL	1-May-20	673p
SEGRO	SGRO	HOLD	HOLD	3-Mar-20	794p
SHAFTESBURY	SHB	SELL	SELL	3-Mar-20	549p
SWISS PRIME SITE	SPSN	SELL	SELL	2-Jul-19	Fr 89.15
TAG IMMOBILIEN	TEG	HOLD	HOLD	1-Apr-20	€ 20.02
TRITAX BIG BOX	BBOX	BUY	BUY	3-Mar-20	123p
UNIBAIL-RODAMCO-WESTFIELD	URW	SELL	SELL	31-Mar-20	€ 49.37
UNITE GROUP	UTG	BUY	BUY	20-Apr-20	800p
VASTNED	VASTN	SELL	SELL	3-Feb-20	€ 16.30
VONOVIA	VNA	HOLD	HOLD	20-Apr-20	€ 47.16
WERELDHAVE	WHA	SELL	SELL	31-Mar-20	€ 7.50
WIHLBORGS	WIHL	BUY	BUY	1-May-20	137.4 kr
WORKSPACE GROUP	WKP	HOLD	HOLD	3-Mar-20	719p

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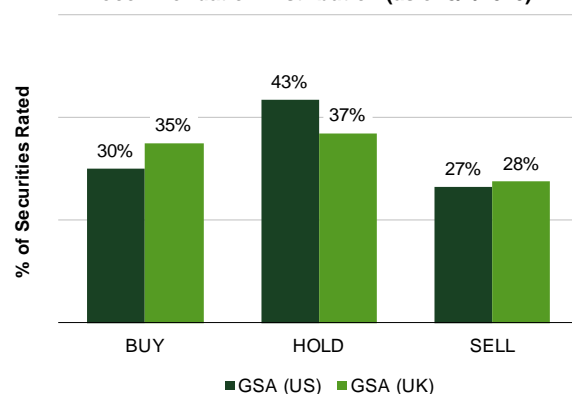
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Total Return of Green Street's Recommendations^{1,2}

Year ³	Buy	Hold	Sell	Universe
2020 YTD	-20.3%	-33.5%	-29.3%	-27.5%
2019	40.8%	26.1%	23.5%	29.0%
2018	1.8%	-6.9%	-20.9%	-8.5%
2017	30.9%	19.2%	11.1%	19.9%
2016	5.4%	2.1%	-2.3%	1.9%
2015	22.8%	14.4%	10.5%	16.1%
2014	35.6%	28.3%	24.1%	29.8%
2013	16.3%	7.6%	9.4%	11.2%
2012	39.8%	29.3%	17.0%	29.8%
2011	-7.6%	-8.2%	-12.7%	-9.2%
2010	13.1%	0.3%	7.9%	9.2%
2009	10.0%	5.5%	1.6%	7.0%
Cumulative Total Return	515.9%	183.6%	78.2%	232.8%
Annualized	18.6%	10.3%	5.6%	11.9%

The results shown above are hypothetical and for illustrative purposes only. Hypothetical results do not represent actual trading. Actual performance will vary from the hypothetical performance shown above due to, but not limited to, (1) advisory fees and other expenses incurred; (2) transaction costs; (3) exchange rate movements; (4) the inability to execute trades at the last published price (the hypothetical returns assume execution at the last closing price); (5) the inability to maintain an equally-weighted portfolio in size (the returns above assume an equal weighting); and (6) market and economic factors that will almost certainly cause one to invest differently than projected by the model that simulated the above returns. All returns assume reinvestment of dividends. Hypothetical and past performance does not guarantee future results.

- (1) Results are for recommendations made by Green Street's European Research Team only. Since 5 July 2017, performance is calculated whenever a recommendation is changed using the share price at the most recent market close. Previously, performance was based on recommendations provided in Green Street's "Real Estate Securities Monthly" (RESM) and assumed no change in recommendation between RESM publications. Results from 1 September 2009 through 4 January 2016 were independently verified by an international "Big 4" accounting firm. The accounting firm did not verify the stated results subsequent to 4 January 2016. As of 4 January 2016, the annualised total return of Green Street's recommendations since 1 September 2009 was: Buy +19.6%, Hold +11.4%, Sell +8.5%, Universe +14.1%.
- (2) Beginning 5 July 2017, all companies in Green Street's European coverage universe are included in the performance calculation. Previously, inclusion in the calculation of total return had been based on whether the companies were listed in the primary exhibit of Green Street's RESM.
- (3) From 1993 until 3 July 2017, the returns for each year cover the period following the first RESM issued in the respective year through the first RESM issued in the following year and are not based on a calendar year. Subsequent to 5 July 2017, returns are based on calendar months.
- (4) Green Street has only three recommendations: BUY ("B"), HOLD ("H") and SELL ("S"). The firm does not consistently publish price targets and therefore price targets are not included in this graph. "Buy" = Most attractively valued stocks, in which we recommend overweight position; "Hold" = Fairly valued stocks, in which we recommend market-weighting; "Sell" = Least attractively valued stocks, in which we recommend underweight position. "Not Rated" companies are covered by the firm's research department, but are not rated due to fundamental attributes related to business prospects and balance sheets that are deemed to make the securities more option-like than equity-like.

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Green Street will furnish upon request available investment information regarding the recommendation

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