



New in Deutsche Euroshop AG's portfolio: Allee Center in Magdeburg.

THE MARKET IS CURRENTLY RUNNING SLIGHTLY HOT

Deutsche Euroshop AG invests in high - quality downtown shopping centers and existing locations with a focus on Germany. CEO Claus-Matthias Böge on investment strategies and his aversion to risk.

TEXT: MR. HANSJÖRG PREIMS, IMAGES: DES



ACROSS: MR. BÖGE, WHAT MAKES THE SHOPPING CENTER APPEALING AS AN INVESTMENT PROPERTY? WHAT ARE THE SPECIFIC OPPORTUNITIES AND RISKS ASSOCIATED WITH THIS INVESTMENT?

BÖGE: The long term leases and secure cash flows are appealing. The general risks in this business are, on one hand, the growing competition, and on the other, decreasing consumption.

ACROSS: TO WHAT EXTENT ARE YOU AFFECTED BY DECREASING CONSUMPTION, SINCE YOU ARE NOT THE RETAILER, BUT "ONLY" LEASING SPACE TO RETAIL?

BÖGE: The rents are generally tied to sales. That means that every retailer who signs a lease pays an indexed minimum rent as long as he remains under a certain turnover threshold. If he crosses this threshold, the rent increases with



the turnover by a percentage that can vary from sector to sector. For example, turnover based rent has a different percentage rate for shoe retailers than jewelers. Therefore, lower consumer spending could accompany sinking income from turnover rent. But because turnover rents only make up around 2% of our overall rental income, it would be bearable. However, it would be more dangerous if consumers shopped less for a longer period, because it would have a long-term influence on the achievable minimum rent.

ACROSS: THAT MEANS THAT YOU MUST BE JUST AS INTERESTED AS RETAILERS IN HIGH CONSUMER PURCHASING POWER

BÖGE: We have to be interested in bringing as many people as possible to the locations we have invested in every day in order to increase sales or at least keep them stable. But purchasing power is not the only key factor for our success. There are also successful shopping centers in catchment areas with weak purchasing power that are able to import purchasing power due to their central location. One of our most successful centers, for example, is the Altmarkt Galerie in Dresden, which is regularly among the top three in our portfolio for sales per square meter. And Dresden actually has a purchasing power that is noticeably below the German average. In spite of this, the center is in a position to generate attractive sales in this catchment area with the right tenant mix.

ACROSS: HOW MANY SHOPPING CENTERS MAKE UP THE DES INVESTMENT PORTFOLIO?

BÖGE: Currently there are 19 shopping centers, 15 in Germany, two in Poland, and one in both Austria and Hungary. We just bought the 19th center on October 1st this year in Magdeburg.

ACROSS: ARE THERE PLANS FOR MORE IN THE NEAR FUTURE?

BÖGE: Not at the moment, at least not in terms of new properties. If so, it would involve purchasing further shares of shopping centers in our portfolio that we do not yet fully own.

ACROSS: IN WHICH REGIONS DO YOU SEE INVESTMENT AND DEVELOPMENT POTENTIAL FOR SHOPPING CENTERS?

ARE INCREASED INVESTMENTS ALSO PLANNED IN THE CEE REGION?

BÖGE: This business is about opportunities. For example, we would gladly invest more in Poland, but the prices there are so high that it is out of the question at the moment. Hungary is less of an option for us right now, but Austria is always interesting.

ACROSS: HOW DO YOU CHOOSE THE LOCATIONS FOR YOUR INVESTMENTS?

BÖGE: We don't look for a location in that sense, we are offered locations and then we look at them. When it comes to project developments, we have an aversion to risk. The building permits have to be on hand, the properties have to be purchased, and the pre-leasing rate has to be at least 50% for us to get involved. With existing properties we look at the location, the layout of the center, the catchment area, the tenant mix, and the leases. The most important criterion is the achievable net initial yield.

ACROSS: HOW IS THE CURRENT INVESTMENT MARKET? WHAT IS THE COMPETITIVE SITUATION?

BÖGE: The market is highly competitive; yields are quite low. But naturally it is also a question of financing possibilities. Those who require outside capital may be having some slight difficulties right now. But that doesn't affect those with a lot of equity. At present the market is running somewhat hot, from what we've seen.

ACROSS: HOW MUCH DO YOU GENERALLY INVEST?

BÖGE: Regularly at least around €100 to €200 million. That can be an entire project, but in some cases we would also want to invest this much money for shares of a property. For example, we invested €118 million for a 50% share in our latest center in Magdeburg. But we can also shoulder larger investments, like in 2010 when we invested €265 million in the A10 Center in Wildau near Berlin and €160 million in the Billstedt Center in Hamburg.

ACROSS: WHAT IS YOUR LONG-TERM STRATEGY FOR AN INVESTMENT LIKE THIS?

BÖGE: The strategy is very clear: Our centers

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THE SHOPPING CENTER PRO'S ARE READING **ACROSS** NEW EUROPE'S SHOPPING CENTERS

ACROSS, Europe's Shopping Centers, is the only international and independent medium for the shopping center industry in Europe. The magazine is published six times a year entirely in English, and is distributed in 38 European countries directly to the decision makers of the retail real estate sector.

CEO CLAUS-MATTHIAS BÖGE

"This business is about opportunities."



should be the most important marketplaces in their catchment area and defend or even expand this position. In order to do this, the success factors I mentioned have to be considered: location, size of the catchment area, i.e. how many people live there and how much money they can spend in total. In areas where people have a lot of money it can be less. Where there is less money per person, there has to be accordingly more people. And the competitive environment also plays a very large role. At the Magdeburg location, for instance, there is hardly any competition for our Allee Center. The purchasing power is considerably below the national average and you don't reach an amazing amount of people there either, but in this case €700,000 are definitely enough to have a good market share, because we can offer a relatively unique range of goods in the catchment area.

ACROSS: WHAT ROLE DOES THE SHOP MIX PLAY IN THE BUSINESS?

BÖGE: On one hand, that has to do with the size of the property, on the other with the local conditions. The mix has to be based on the location. There are centers that have a larger hypermarket or a large electronics store, and there are

those that don't because of the competitive situation in the area. Fashion is certainly a major focus in our business, but here you need a certain area and certain brands. That can be covered by one big supplier and a few other individual brands or by many individual brands that cover the product range of a major supplier. There are a lot of changes in this field; retail is change. Every year some smaller tenants pull out, and then you have the opportunity to redesign space and bring new concepts into the shopping center, which can create a certain variety for the visitors.

ACROSS: HOW IMPORTANT IS THE SUSTAINABILITY OF CENTER BUILDINGS TO INVESTORS?

BÖGE: Sustainability is indeed a very interesting discussion in public, but in many cases it's not as bad as it seems. In terms of shopping centers, if we reduce sustainability to energy consumption, heating or insulation, for example, is not a major issue, because more cooling is done. But new centers are built according to the latest environmental standards anyway. Existing properties are not being modified for this. Changes can be made in lighting to reduce

energy consumption. That is usually up to the retailer though, because we can't force anyone to use energy-saving bulbs. Fortunately technology has made solid progress here. You also have to admit that the German regulations have always stipulated very high environmental standards, so we are already much further along compared to what is built in the Southern European countries or even England, for example.

ACROSS: DEUTSCHE EUROSHOP WORKS CLOSELY WITH ECE. DO YOU ALSO BUY DEVELOPMENTS FROM ECE?

BÖGE: ECE manages our shopping centers. In the past we also bought developments from ECE. Unfortunately we haven't had the chance in the past few years, because others made higher offers.

ACROSS: DES IS LISTED ON THE STOCK EXCHANGE AS AN MDAX COMPANY. HOW DID THAT START AND HOW IS THE PERFORMANCE?

BÖGE: The goals defined by the founders when we went public were achieved. It started when Deutsche Euroshop was brought to life in 2000 under the auspices of Deutsche Grundbesitz. A few days later we went public, which was not

exactly smooth in the beginning due to the Internet bubble bursting. Later we were able to move up in the SDAX stock index and in the MDAX in 2004. The historical DAX average was at around 8% performance per year at the time. We have managed 10% per year since we've been listed, but the DAX only 1%. So, the performance is very satisfactory.

ACROSS: TO WHAT DEGREE WERE YOU AFFECTED BY THE CRISIS?

BÖGE: Deutsche Euroshop withstood the crisis comparably well on the stock exchange, so that at times we not only advanced to the largest real estate company on the German stock list, but were also publicly described as a model company. And this is primarily because we practiced self-restraint.

ACROSS: WHAT DO YOU THINK ABOUT SHOPPING CENTER FUNDS? SOME OF YOUR COMPETITION RECENTLY ISSUED ONE.

BÖGE: These are new players that have to invest money. We don't have to do that. We finance new properties through equity increases, which is why we don't have the pressure to buy new properties.

