

# "Supply and demand will change in retail"

Interview with Issei Komi of Italy Fudosan Real Estate:

"More opportunity in the so-called Affordable High Streets"



"In Italy and Europe the pandemic will cause significant changes in the retail sector of commercial real estate: there will be difficulties in the transition but we can be relatively optimistic". This is the opinion of Issei Komi, CEO of Italy Fudosan Real Estate, a company he founded in Milan in 2006 after leaving Merrill Lynch. Over the past 10 years his company has supported a number of brands in their expansion phase in Italian cities, as well as assisting Italian brands in the opening of direct stores and also in the identification of distribution partners in Japan. Among its recent operations are Tenoha (the 2,500 sqm concept store with retail space, a coffeeshop, co-working and event spaces based on Daikanyama in Tokyo); MSGM's new Italian Flagship store (brand operated by Style Capital, which occupies a property in Via Broletto owned by Generali); the latest store of Pineider, a historic Florentine brand that will open in Via Manzoni in the place of the first and historic Milanese boutique of Feltrinelli.

## What will happen to Europe's shopping streets in the post-lockdown?

"First of all, it is necessary to distinguish between three categories of "High Street". The first is the so-called "**Mass Market**", which revolves around casual fashion and features the brands of fast fashion, sports brands and department stores as the main players. These are usually streets with very high "footfalls", large catches and a diverse range of target customers. The second is the one related to the "**Luxury**" industry: these High Streets are mostly occupied by the boutiques of prestigious brands and by the Great Signatures of haute couture. The elite clientele is mainly international and accounts for more than 80% of sales volumes. The third category is what I like to call "**Affordable High Street.**" These

shopping streets are usually occupied by niche brands present in the territory, with few outlets and with a sophisticated clientele, sensitive to design and attentive to new lifestyle trends. Generally, the influx of foreign tourists is much lower than that of the "locals". I speak of commercial areas such as Brera in Milan, Shoreditch and Marylebone in London, Le Marais in Paris and Daikanyama in Tokyo.

As for the first category, the Fast Fashion industry has grown exponentially since 2007-2008 (and many Western brands arrived in Japan a few years later). The crisis of 2008 has been an accelerator to the growth of this sector: many consumers have changed their lifestyle and purchasing habits by preferring low-cost shopping. Since then the expansion has been very fast and has led the major players in the industry to race for better locations on the high street and in shopping centers in the suburbs. Along with the number of stores, the trend has also been to open stores with larger and larger areas. In response to these developments and needs, rents rose rapidly, with property owners beginning to annex the upper floors and basements to the street-level shops, thus creating shops with commercial areas greater than 2,000 square meters. This sector now has the largest number of stores in the world, many with an area of up to 5,000 square meters and very expensive fixed costs. Already in recent years, the trend towards online shopping had forced industry leaders to rethink some business strategies, focusing on online as well as offline. The Covid-19 crisis and the measures to contain the spread of the virus will probably act as an accelerator to the changes in business models that were already (in easier times) beginning to be overcome by the new market demands. I therefore do not rule out a decline in Fast Fashion and the closure of many stores. High Streets such as Oxford Street in London and Corso Vittorio Emanuele in Milan will probably be the ones most affected by the current crisis and therefore these streets will see an increase in the number of properties available and probably a reduction in rents.'

### **So will there be new tenants interested in the "Mass Market" High Street?**

"While I assume that landlords will adjust rents downwards, I do not believe that the area that will be available on the market can be easily reabsorbed. Today, there are not many retail companies that need large areas such as those occupied up to now by the Fast Fashion industry. Instead, I think that by changing the spaces, creating shops with areas of about 300 square meters and reviewing the levels of rents, we can create new opportunities by perhaps attracting new companies and new formats. For example, new opportunities could be created for "**guideshops**" such as those developed by Ikea and Superstore, or even innovative formats related to food and beverage retailing. In addition, I believe that in the near future there may be a growing need for temporary spaces that allow companies to compete in the post-Covid-19 market."

### **What's the future for the other two High Street categories?**

"As for the Luxury High Street, the second largest number of stores in the world are some international holding companies operating in the luxury and mainly fashion industry, such as Kering and LVMH. These groups, owners of different brands, are present in the European Luxury High Street with a high number of stores that have different characteristics to Fast Fashion. These are medium/large storage shops, but with much higher levels of rents/sqm than Fast Fashion. I therefore believe that even in this case, very expensive rents and lockdown will certainly have an effect on this sector and on sales in 2020,

considering that 80% of the volume of sales is attributable to international tourists who will probably not be able to travel for a few more months.

The real estate market in these streets is characterized by real estate owners - such as noble families historically owning real estate, foundations and insurance companies - who tend not to have properties burdened by mortgages and financing. While the tenants have created a monopoly among the most important groups in the world such as those mentioned above (LVMH etc). This has led to greater flexibility on the part of property owners to engage with tenants in order to cope with the covid-19 emergency, in order to ensure the maintenance of solid long-term relationships: they tend to meet the demands of tenants for discounts and concessions. Taking into account the fact that in recent years rents have reached very high levels, and the new situation that has arisen, I believe that for this category of High Street there will not be many spaces available, also in view of the fact that supply to date has always been much lower than demand, so it is likely that in the future there will still be companies interested in renting these highly coveted spaces."

### **And what about what you call "Affordable High Streets"?**

These High Streets have not always been recognized as shopping streets; they are generally not located in the historic centers of the cities, but are born in nearby neighborhoods because of artists moving in, new real estate developments or valuable residential areas. The supply of shop windows on the street is limited and the area of the shops is about 100-150 sqm. To date, these streets have almost never been the subject of interest for Fast Fashion or luxury brands. The levels of rents are very competitive compared to the categories described above. The clients are accustomed to a "face to face" shopping experience, therefore I believe that once they are back to normal, these consumers will be the first to return to the store and I do not rule out that there will be growing interest from retailers in these areas; so I don't foresee any major downward adjustments in the rents, let alone an increase in vacancies. It is possible that new "Affordable" High Streets will be created in the future.

### **In short, will the changes related to the pandemic affect both supply and demand?**

That's right. I have always described the main High Streets of European shopping with a Japanese saying: "They are like **Kintaro** candy." These are sweets made from cylindrical sticks that when cut, create identical candies, each with the facial features of the popular character Kintaro. Currently the protagonists of the High Streets in Europe are almost exclusively brands of "mass market" or "Luxury": regardless of the city we visit, the brands we find are always the same and the stores almost always the same. The coronavirus effect will lead some companies to rethink their strategies and probably reduce the number of outlets or the areas they are in: they will create opportunities for new retailers that will finally be able to occupy (for the first time) spaces that in the past, they could not afford, because they were too large or too expensive. Malls will also have to change direction by focusing on a different offering, which makes them stand out more and makes them more attractive than in the past. In Italy, the shopping malls are practically all the same: quite different from others that I had the pleasure of visiting in Asia and Europe, which are more innovative and fun and have a more varied offering.

The consumers will also be different after the lockdown: they will look for an omni-channel retail offer, depending on the type of product they want to buy, and will probably look for the pleasure of buying in-store where they will expect dedicated services, good value for money and a pleasant environment, which add value to their shopping. Finally, I believe that there will still be difficulties to be faced after the end of the lockdown, but I am very confident and I think that the changes that we will face will bring new life to retail and Real Estate and, consequently, it will create new opportunities."

### **What do you think of the support outlined by the Italian government for retailers?**

"Italy moved rapidly compared to other European countries, for example with the introduction, immediately after the lockdown, of the tax credit for tenants equal to 60% of the rent and the redundancy. Thanks to this, we have not seen massive redundancies so far as has happened in the United States, and for this reason I believe that in Italy many companies will be able to start again more quickly than in other countries.

Less attention may have been paid to real estate owners, who in the second quarter recorded a revenue of about 30% of the rents due in addition to having to manage intense negotiations with the tenants. The ideal solution (so far not seen) would have been to quickly introduce ad hoc regulations on reductions and re-negotiations of rents, in order to give greater protection to both retailers and store owners. Japan, by comparison, did not move as quickly and did not provide any help for retailers either from a rent point of view or for employees. The government, by the way, did not impose a lockdown, leaving the responsibility to the provinces; For example, Tokyo has decided to incentivize shopkeepers to close with a one-off payment of 4,000-8,000 Euros (equivalent) based on the number of stores managed, but of course these measures are not sufficient.'

### **Do you foresee that there will still be foreign companies interested in the Italian market post-coronavirus?**

"In the last few years, we have seen the arrival of foreign multinationals that have enriched the retail offer in Italy. For example, imported brands include: Starbucks, Uniqlo, Primark, Canada Goose etc. It should be emphasized that the brands of great interest to foreign investors were the companies that could say "made in Italy". Groups from many different parts of the world have come "shopping" in Italy, acquiring a significant number of Italian fashion houses. As for the future I can say that some of the developments/acquisitions underway before the coronavirus are in the "wait and see" phase, while others are continuing with previous strategies, as in the cases of some companies that we have the pleasure of helping in their search for their Flagship store in Italy. In fact, for many retailers, the presence on squares in places such as Milan remains fundamental as they are vital for the positioning and image of the brand and more generally to the penetration of foreign markets."

Il Sole 24 Ore <https://www.ilsole24ore.com/art/nel-retail-cambiera-l-offerta-e-domanda-ADpJIpP?fromSearch> (2020-05-14)

Nikkei <https://www.nikkei.com/article/DGXMZO58589920Y0A420C2000000/> (2020-05-01)

