



MARKETBEAT

SHOPPING CENTRE DEVELOPMENT REPORT EUROPE

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



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OVERVIEW

Shopping centre development remained subdued in 2010, with completion levels falling for the second consecutive year. Around 5.2 million sq.m GLA was completed in Europe over the course of the year, a 30% decline on 2009. This represents the lowest annual completion level since 2004, as well as the sharpest decline in development since 1983. In total, 165 new shopping centres opened in 2010, representing 83% of new space, with refurbishments and extensions accounting for the remainder. Total shopping centre GLA now stands at more than 131.9 million sq.m for the whole of Europe.

Development is expected to pick up in 2011, with 6.9 million sq.m of new shopping centre space scheduled for completion before the end of the year. This represents a 33% increase on 2010. However, several countries have seen major projects postponed from 2010 to 2011, and further delays cannot be ruled out. At present, around 4.5 million sq.m GLA is scheduled for completion in 2012, although reliable forecasts for 2012 and beyond are difficult given the uncertain economic climate in some European markets.

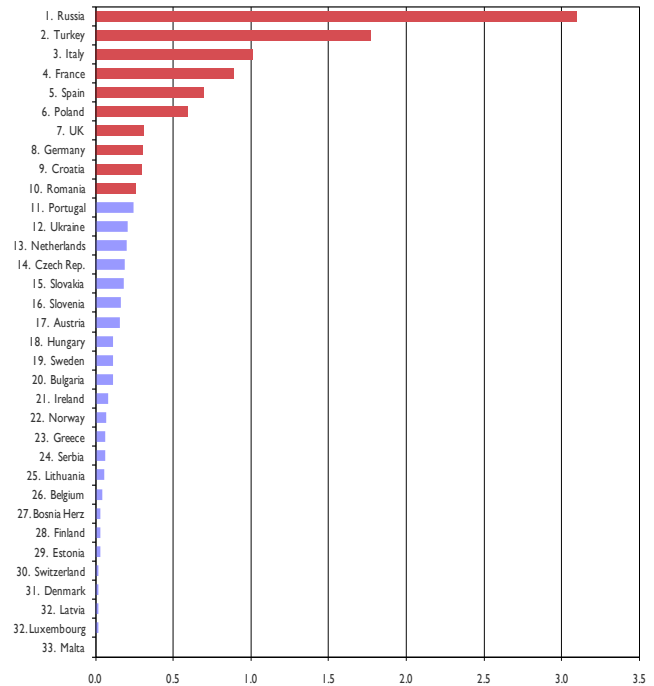
MARKET SIZE

Central and Eastern Europe is forecast to account for 63% of the 2011/12 development pipeline. Russia and Turkey continue to top the pipeline "league table". Indeed, their combined 2011/12 pipeline accounts for over 40% of the European total. Large increases in development are predicted in both markets in 2011. In Russia alone, more than 3 million sq.m GLA is currently scheduled for completion in 2011/12. This includes several schemes which were on hold and have recently been revived. Around 600,000sq.m is due to be delivered in Moscow, with the remainder of the pipeline focused on other major cities. However, some of the schemes scheduled for 2011/12 may not be delivered on time, and the pipeline may contract as projects are delayed or put on hold. In Turkey, nearly 1.8 million sq.m of new space is expected to be completed before the end of 2012. Development is firmly focused on Istanbul, which accounts for almost 60% of the pipeline. However, it is worth noting that several schemes were put on hold in the last six months of 2010, including the 125,000sq.m Forum Antalya.

In Western Europe, Italy and France remain at the top of the pipeline table. Around one million sq.m of new space is scheduled to open in Italy before the end of 2012. Whilst the Italian 2011/12 pipeline figures are significantly higher than the 2010 development total, several projects have recently been postponed from 2011 to 2012 and further delays are a distinct possibility. France, meanwhile, is expected to see a rebound in development after a subdued performance in 2010, with more than 890,000sq.m scheduled for completion in 2011/12. The focus remains on smaller shopping centres. Indeed, the average size of pipeline schemes is less than 16,000sq.m, with only two large projects (over 40,000sq.m) due to open before the end of 2012. In addition, around 40% of the French pipeline currently comprises extensions and redevelopments of existing schemes.

Spain, Poland, and Germany have held on to their positions near the top of the pipeline table, but are likely to see annual completion levels decline in 2011. The UK, on the other hand, is expected to see a small increase in development in the year ahead. However, the UK pipeline figures are skewed by the 176,500sq.m Stratford City scheme, the largest pipeline scheme in Europe, currently under construction and scheduled to open in London before the end of the year.

European Shopping Centre Pipeline 2011/12 (million sq.m)



Major Schemes in the Pipeline

Country	City	Scheme name	GLA	Year
UK	London	Stratford City	176,500	2011
Russia	Krasnodar	OZ Mall	163,000	2011
Turkey	Istanbul	Forum Marmara	160,000	2011
Croatia	Rugvica	IKEA Zagreb East	140,000	2012
Spain	Zaragoza	Puerto Venezia	123,475	2012
Spain	A Coruña	Marineda City	116,500	2011
Russia	Moscow	AFImall City	114,213	2011
Russia	Samara	MEGA Samara	103,000	2011
Russia	Nizhny Novgorod	Sedmoe Nebo	100,000	2012
Turkey	Istanbul	Marmara Park	100,000	2012
Slovenia	Ljubljana	Sportni Park Stožice	96,319	2012
Italy	Villesse	Villesse Shopping	95,000	2012

Shopping Centre Definition

Cushman & Wakefield define a shopping centre as a centrally managed, purpose-built retail facility, comprising units and communal areas, with a Gross Lettable Area of over 5,000m². Factory Outlets and Retail Parks are excluded. All tables are based on information from Cushman & Wakefield's in-house European Shopping Centre Database.

OVERVIEW OF DEVELOPMENT IN 2010

Activity picked up in the second half of the year with the opening of around 3 million sq.m of new space. This brought the European completion total for 2010 to 5.2 million sq.m. Development declined by 30% relative to 2009, with much of Europe, including most Central and Eastern European markets, recording significant reductions in completion levels. Average shopping centre provision per 1,000 population across the EU-27 now stands at 235.4sq.m. In line with previous years, Central and Eastern Europe accounted for the majority of new space opened in 2010, both in the second half (65%) and over the year as a whole (63%). This is mainly due to continuing strong development levels in Russia, Turkey, Poland and Bulgaria.

The largest scheme completed in the last six months of 2010 and over the year as a whole was the City-Park Grad shopping centre in Voronezh, in south-western Russia. The 144,300sq.m scheme, developed by Voronezhskaya Developerskaya Kompaniya, opened in August and is the largest shopping centre in Russia outside Moscow.

KEY TRENDS ACROSS EUROPE

Russia recorded the highest development total of all of the markets covered and accounts for a quarter of the new space opened in Europe in 2010. 916,000sq.m GLA was completed in the second half, bringing the 2010 development total to more than 1.3 million sq.m. Whilst this represents a 26% decline in annual completion relative to 2009, it nevertheless amounts to a 13% increase in floorspace. With the opening of City-Park Grad and three other schemes, Voronezh accounted for 19% of new GLA. However, development activity remains firmly focused on Moscow, with 29% of new GLA located in the capital.

In terms of percentage growth in floorspace, Bulgaria tops the chart. The opening of seven new schemes brings total GLA added in 2010 to nearly 290,000sq.m. This represents a 139% increase in shopping centre space on the previous year, and has been a boon for incoming retailers. However, some new schemes have struggled to match their business plan, with many retailers still cautious about expansion. Several pipeline projects have been put on hold, and development is expected to slow significantly in 2011 and 2012.

Many other Central and Eastern European markets also recorded significant increases in floorspace, despite the general slowdown in development activity. Slovakia and Croatia saw provision increase by more than 20%, while Serbia, Ukraine, Romania, Turkey, Slovenia and Bosnia Herzegovina experienced growth of between 7% and 12%. Poland, with the addition of 350,000sq.m GLA, saw provision increase by more than 5%.

At the other end of the spectrum, three countries – Ireland, Luxembourg and Lithuania – recorded no shopping centre openings in 2010. In fact, shopping centre provision in Lithuania decreased slightly with the closing of the Vilniaus Vartai centre.

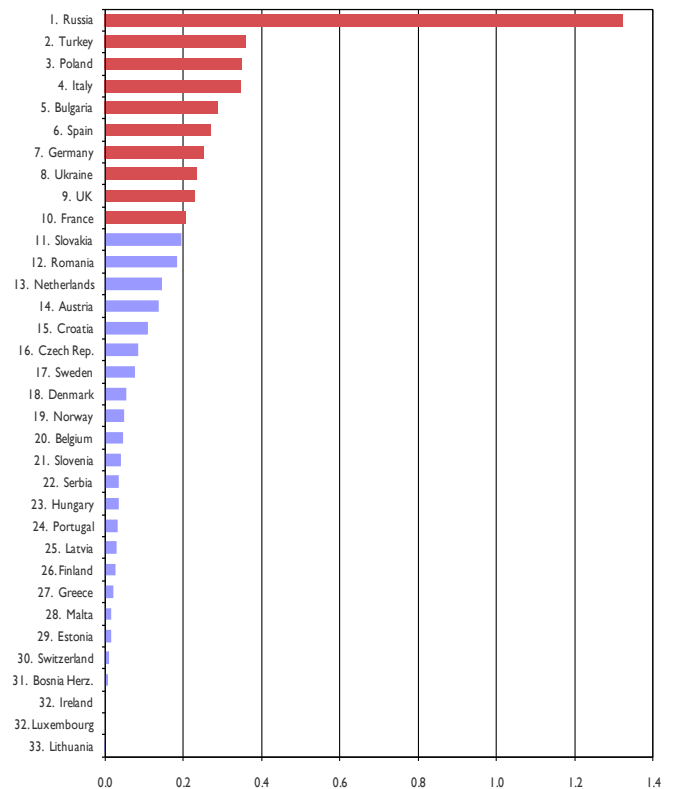
In Western Europe, Italy and Spain recorded the largest volume of new space added, both in the second half and over the year as a whole. In Italy, fifteen new shopping centres and four extensions opened in 2010, adding some 350,000sq.m GLA to the market and increasing floorspace by nearly 3%. However, despite the high completion level, development fell by nearly 47% relative to 2009. Indeed, many projects originally scheduled for 2010 have now been postponed to 2011/12. In Spain, seven new schemes and three extensions were completed in 2010, amounting to nearly 270,000sq.m GLA and increasing provision by nearly 3%. This represents a 29% increase in annual completion relative to 2009; however, development remains subdued when compared with previous years, and is likely to slow in 2011.

Elsewhere in Western Europe, France and Portugal recorded particularly large falls in completion levels, at 61% and 88%, respectively. Germany saw development decline by 32%, whilst in the UK activity slowed only marginally relative to the previous year.

Shopping Centre GLA (sq.m) per 1,000 Population



New Shopping Centre GLA 2010 (million sq.m)



EUROPEAN SHOPPING CENTRE GROWTH

Based on current estimates, an increase in development activity is predicted for 2011. Indeed, over half of the markets covered, including much of Central and Eastern Europe, are expected to see higher completion levels in the year ahead. However, most of the projects in the 2011 pipeline started construction before the economic downturn; some were previously on hold and have recently been restarted. If all of the projects scheduled for 2011 are completed on time, this year's development total will be 33% higher than last year's. Factors contributing to the projected upturn include improving retailer demand and concerns over potential shortages of prime space.

On the other hand, market conditions remain uncertain in many countries, notably surrounding the potential impact of fiscal tightening measures on consumer confidence and occupier demand. A number of major projects have been delayed from 2010 to 2011, and further delays cannot be excluded. As such, it is worth noting that the pipeline is subject to change depending on economic performance. As a result of uncertain market conditions, forecasting completion levels for 2012 and beyond is difficult. Indeed, the 2012 pipeline may expand as projects begin construction or are pushed back from 2011.

SHOPPING CENTRE INVESTMENT

There was a rebound in investment activity across all sectors in 2010. European retail investment volumes amounted to nearly €38.5bn in 2010, a 72% increase on the previous year. Retail's share of total commercial property investment moved to approximately 33%, up from 30% in 2009, indicating its continuing popularity as an asset class within the overall property sector.

Investment activity increased significantly in most Western European markets, with the UK, Germany and France all recording particularly strong growth in transaction volumes. Many Central and Eastern European markets also saw increased activity in 2010, with particularly strong growth in Poland, Russia, Turkey and the Czech Republic and signs of interest returning in markets such as Romania and Bulgaria. On the other hand, a shortage of quality stock has held back investors in a number of areas. Austria, Belgium and Spain saw activity decline relative to 2009.

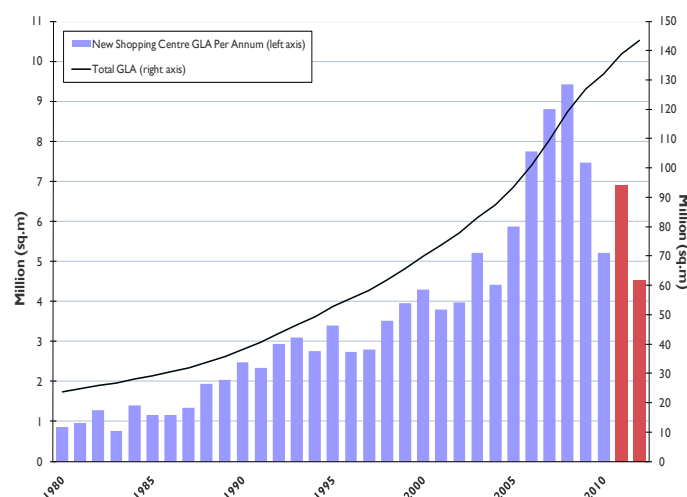
In Europe as a whole, prime shopping centre yields continued to harden in the last six months of 2010, albeit at a slower rate than in the first half. Indeed, yields in many countries remained unchanged since June. The average European prime yield ended the year at 7.08%, moving in from 7.22% in June 2010 and 7.51% in December 2009. Russia recorded by far the sharpest yield compression of all the markets covered: the prime yield hardened by 100 basis points in the second half and by 300 basis points over the year as a whole, ending the year at 10%. UK yields, after sharp falls in late 2009 and the first half of 2010, remained stable in the second half, with the prime yield ending the year at 5.5%.

Investment activity is expected to increase slightly across most of Europe in 2011, and yields are expected to remain stable or harden marginally. The availability of debt finance is improving in many European countries, and occupier demand is showing signs of recovery. Indeed, the downward readjustment in prime rents has largely run its course, with rents remaining unchanged in the second half across most of Europe. However, lenders generally remain risk-averse, and although the health of many occupational markets is improving, most retailers are still cautious in their expansion plans. As such, any increases in performance are likely to be modest, although activity will increase more notably if the right supply is available at the right pricing.

Retail Market Indicators EU-27 Av.

	2010	2009
GDP Per Head (€)	20,892	20,586
Private Consumption Per Head (€)	12,392	12,320
Private Consumption (% real change pa)	0.8%	-1.6%
Average Consumer Prices (% change pa)	2.1%	1.0%

European Shopping Centre Growth



Shopping Centre Rents & Yields

Country	Prime Rent (€/sq.m/year)	Prime Yield (%)	Short Term Yield Outlook
Austria	700 - 1,000	6.10 - 6.75	→
Belgium	800 - 1,400	5.50 - 6.50	→
Czech Rep.	700 - 850	6.25 - 7.75	↘
Denmark	500 - 1,200	5.75 - 6.25	↘
Finland	900 - 1,600	5.50 - 6.50	↘
France	1,400 - 2,000	5.25 - 5.75	↘
Germany	600 - 1,000	5.10 - 6.00	→
Hungary	600 - 1,200	7.25 - 8.00	↘
Ireland	1,200 - 1,700	7.25 - 7.75	→
Italy	600 - 750	6.25 - 7.25	→
Netherlands	650 - 900	6.25 - 7.00	↘
Norway	800 - 1,050	6.25 - 7.00	↘
Poland	550 - 950	6.25 - 7.25	↘
Portugal	700 - 900	6.50 - 7.75	↘
Romania	300 - 650	9.00 - 10.00	→
Russia	1,500 - 1,900	10.00 - 11.00	↘
Slovakia	650 - 800	7.25 - 8.00	→
Spain	700 - 950	6.00 - 6.75	→
Sweden	500 - 700	5.50 - 6.00	↘
Turkey	600 - 850	8.00 - 9.00	↘
United Kingdom	1,400 - 1,950	5.50 - 6.25	↘

Rents and yields relate to a range for the best shopping centres in each country and are indicative only. With respect to yields, given the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property. It should also be noted that the shopping centre format varies by country and a direct comparison between schemes in different markets should take account of this.

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