MARKETBEAT

SHOPPING CENTRE DEVELOPMENT REPORT EUROPE

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions

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OVERVIEW

The first half of 2009 saw the effects of the credit crisis and global recession finally translate into a drop in shopping centre completion levels across Europe. Indeed, the first six months of 2009 saw roughly 3.1 million sq.m of space being added to the market, approximately 18% less than the same period in 2008. Nevertheless, development activity was in line with expectations and the number of schemes being put on hold and cancelled seems to have stabilised somewhat. In total 115 new shopping centres opened across Europe, representing around 89% of total new space, with refurbishments and extensions accounting for the remainder. Total shopping centre GLA now stands at just under 123.7 million sq.m for the whole of Europe.

A further 5.5 million sq.m of shopping centre space is expected to be completed in the second half of 2009, lifting the annual total to around 8.7 million sq.m, which is 5% less than in 2008. However, it is expected that delays will ensure that completion levels end up nearer to the 8 million sq.m mark. In 2010 development activity is expected to decline to around 7 million sq.m, which would be the lowest level in five years. The full impact of the credit crisis and the recession in the real economy on development is only likely to be known in 2011/12. Indeed, initial estimates for 2011 indicate a further fall in development activity, with approximately 5 million sq.m of new shopping centre space due for completion. However, the precise impact will depend on the pace of economic recovery across Europe, not to mention the extent to which finance comes back to the property development/ investment market. There are numerous projects currently on hold, particularly in emerging countries, which may be revived quickly when market conditions improve.

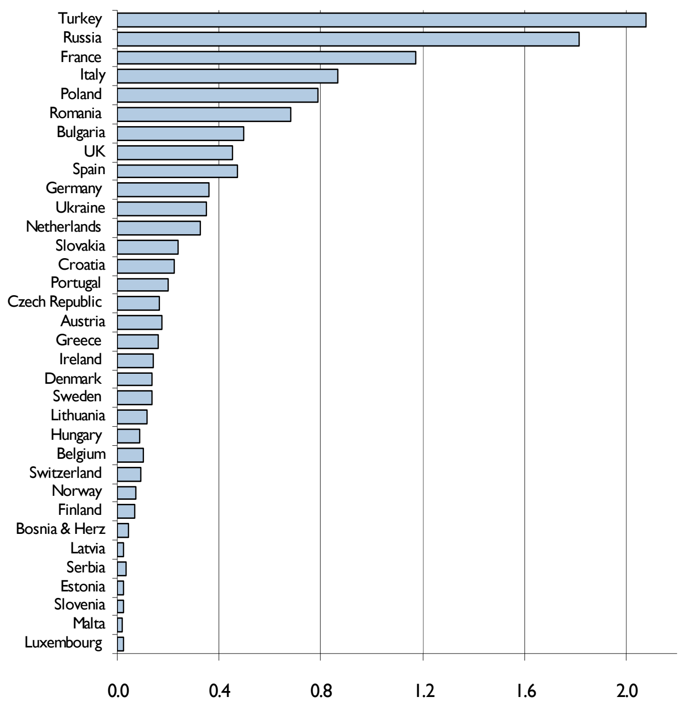
MARKET SIZE

There have not been any significant changes to the pipeline 'league table' over the last six months, with Turkey and Russia taking first and second place respectively. In Russia forecasts for 2010 have increased compared with January 2009 as there is now a better understanding of the schemes which are expected to go ahead and those which may not come fruition. However, the market still lacks transparency and a large number of developers are in financial difficulties and have pulled out of the market.

In Western Europe, France, Italy and Spain lead the development pipeline. In France, which has the highest pipeline in Western Europe, the development focus is shifting increasingly towards smaller schemes in secondary and tertiary cities. The average new pipeline scheme has a GLA of just over 15,000sq.m.

In terms of percentage growth in floorspace, Bulgaria, Latvia and Romania top the chart. Latvia saw the completion of four new shopping centres in the first half of 2009 and, on a per capita basis, is now in line with mature markets such as the UK, France and Spain. Bulgaria and Romania saw provision increase by 32% and 9% respectively. Whilst these countries are still well behind on most central European countries on a per capita basis, the large influx of new space may lead to over-supply in some parts of the market, particularly in the current economic environment. Indeed, there is evidence of an increasing number of struggling shopping centres in Eastern Europe, some which were fully leased upon completion, but subsequently recorded a significant increase in vacancy rates as retailers decided to delay or cancel new store openings.

European Shopping Centre Pipeline (1,000sq.m)



Major Schemes in the Pipeline

Country	City	Scheme name	GLA (sq.m)	Year
Turkey	Istanbul	Forum Istanbul	178,000	2010
Russia	Moscow	Golden Babylon Rostokino	170,000	2009
Turkey	Istanbul	Forum Marmara	160,000	2011
Russia	Moscow	Vegas Mall	124,000	2010
Poland	Kraków	Bonarka	101,000	2009
Croatia	Zagreb	West Gate Shopping Centre	100,000	2009
Turkey	Istanbul	Marmara Park Center	100,000	2010
Poland	Lodz	IKEA Port Lodz	100,000	2010
UK	Cardiff	St David's Centre II	89,880	2009
Italy	Catania	Catania Bicocca	80,000	2010
Romania	Bucharest	AFI Palace Cotroceni Mega Mall	76,000	2009
Spain	Murcia	El Tiro	70,000	2009

Shopping Centre Definition

Cushman & Wakefield define a shopping centre as a centrally managed, purpose built facility with a Gross Lettable Area of over 5,000m² and comprising 10+ retail units. 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 H1 2009

The first six months of 2009 saw roughly 3.1 million sq.m of shopping centre floor space added to the market, representing a 2.6% rise in provision. This is a relatively modest figure compared with the amount of space expected to come on-stream in the second half of 2009. However, this is in line with the usual trend for development to accelerate in the second half of the year. Average shopping centre provision per 1,000 inhabitants across the EU-27 now stands at 214.2sq.m.

The Dolce Vita Tejo shopping centre in Amadora, Portugal, was by far the largest shopping centre completion in H1 2009. The 122,000sq.m scheme, developed by Chamartín Imobiliária, officially opened in May and is the largest shopping centre trading in Portugal.

KEY TRENDS ACROSS EUROPE

It is clear that the credit crisis and global recession have had a severe impact on the shopping centre development market. Current estimates suggest that there will be a significant slowdown and completion levels are not expected to pick up significantly for 2-3 years. However, this does not mean that development of new shopping centres will come to a complete standstill. There are still numerous projects receiving the necessary permits and finance. However, there has been a "flight to quality" and the schemes which get the go ahead are generally prime projects which in some way complement the existing retail landscape.

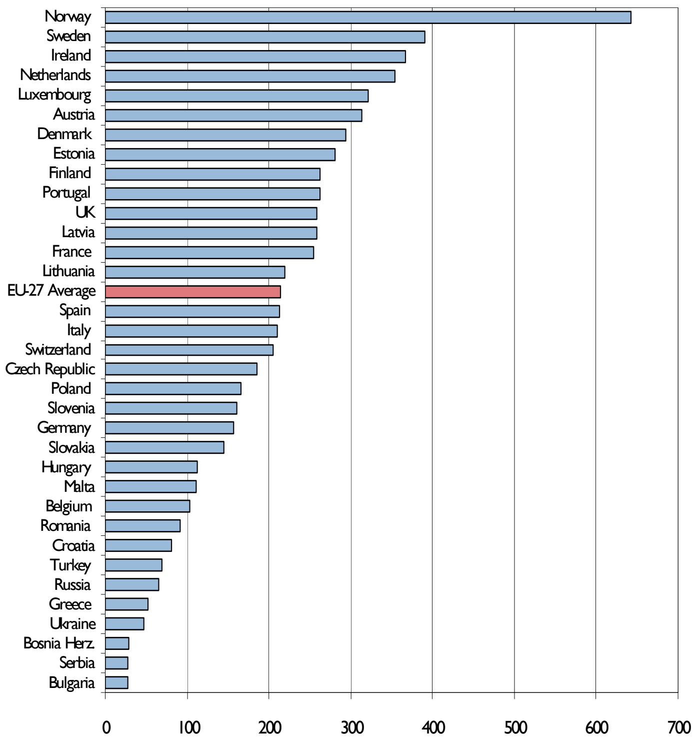
Whilst development has clearly slowed, Russia continues to lead the development table, followed by Italy and Turkey. In Russia roughly 580,000sq.m of new shopping centre space was added to the market in H1 2009, representing a 6.6% increase in stock. The risk-averse attitude of developers has shifted the focus somewhat back to Moscow and it seems that projects in and around the capital are more likely to go ahead. Indeed, for the first half of 2009, Moscow accounted for just over 45% of total new shopping centre space. For the second half of 2009 and 2010 the capital's share of total new space in Russia is expected to be around 50%.

In Western Europe Italy recorded the highest amount of new shopping centre space. In total 18 new shopping centres opened, adding 370,000sq.m to the market. In line with 2008, no large-scale projects were completed and the large number of medium-sized schemes boosted completion levels. Germany and the Netherlands also experienced strong activity in the first half of 2009. Whilst for Germany new shopping centre space was in line with the 10-year average, the Netherlands saw an exceptionally high completion level of around 165,000sq.m, which was mainly due to the arrival of two medium-sized projects and a large number of extensions and refurbishments to existing centres (the latter accounted for more than 30% of new space).

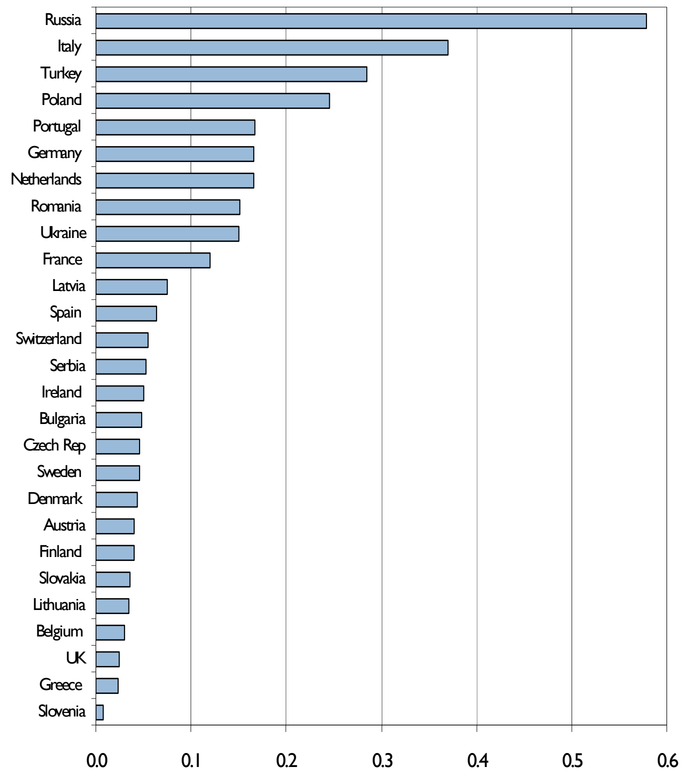
Bulgaria recorded the largest percentage increase in shopping centre provision at 33% in H1 2009. However, the 2009-10 development pipeline for Bulgaria has been revised downwards by around 20% and the forecast pipeline may yet decrease further towards the end of 2009. Shopping centre GLA is expected to increase by approximately 370% in the next 18 months if all schemes currently under construction are delivered on time. Whilst the Bulgarian market offers significant potential for new "modern" shopping centres, a slowdown in development after 2010 would enable these newly built schemes to become more established within the local retail hierarchy.

Development activity in Mediterranean Europe was typically strong, with Portugal and Italy seeing an increase in provision of 6.3% and 3.1% respectively. As might be expected, the recession has had a significant impact on shopping centre development in Spain and the latest figures indicate a strong decrease in activity. There are also delays in the completion of various shopping centres which are currently under construction.

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



New Shopping Centre GLA H1 2009



EUROPEAN SHOPPING CENTRE GROWTH

Mature markets in both Mediterranean and Western Europe have experienced a steady increase in development activity in recent years. However, the strong acceleration in shopping centre development in the last five years has been mainly due to the development boom in Central and Eastern Europe. With the majority of these markets seeing large number of schemes being shelved, their share of the total European shopping centre development pipeline has also dropped. Central and Eastern Europe now accounts for roughly 60% of the 18-month pipeline, compared with approximately 70% a year ago.

Whilst emerging Europe has been the most adversely affected by the crisis, the region still dominates the development pipeline, with Turkey, Russia and Poland all in the top five of the European pipeline table.

Forecasting completion levels for 2011 is difficult given the uncertain market conditions, but annual development levels are expected to fall to 5 million sq.m, which is in line with 2003, before the shopping centre development boom. The reality is that this figure could turn out to be slightly higher, depending on the number of schemes being pushed back until 2010 and the rate of economic recovery in Eastern Europe. In markets such as Russia and Ukraine, there are numerous half-finished projects which could potentially be re-activated relatively quickly.

SHOPPING CENTRE INVESTMENT

Property investment activity continued to slow across all sectors in Europe in the first six months of 2009. The overall volume of retail investment transactions amounted to just €8.3bn for the whole of Europe, a 54% decline on the same period in 2008. However, retail's share of the total still amounted to 35%, indicating its continuing popularity as an asset class within the overall property sector.

Investment activity in Eastern Europe has come to a virtual standstill and Central Europe is also seeing few deals in the shopping centre sector. However, there are a number of countries where shopping centre investment deals (albeit a small number) continue to be done including the UK, Germany, France and Spain. Indeed, the UK and Germany together accounted for just over 50% of total retail investment volumes in H1 2009.

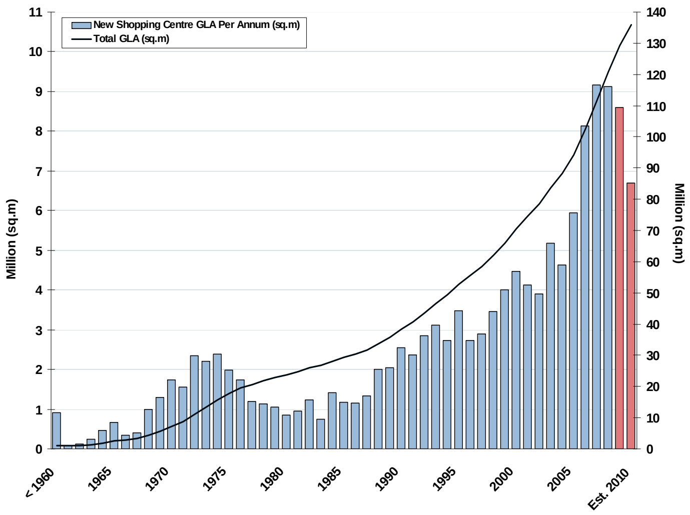
Following almost two years of increases, there is evidence that prime shopping centre yields are now stabilising across Europe. In June, the average European prime shopping centre yield stood at 9.5%, compared with 5.47% at the peak of the market in September 2007. The rate of yield softening has slowed considerably, however, particularly in Western Europe, with June yields moving up just a few basis points on average. It should be noted that in central and eastern Europe the yields quoted are based on limited evidence given the paucity of deals in the first half of 2009.

Whilst the next few months should bring greater stabilisation in yields, falling rents may impact further on capital values. However, whilst a steady improvement in lending is expected, the availability of finance currently remains restricted, with LTV rates down to 60-65% and lending margins still higher than two years ago at 2-2.5%. The non-financial criteria of loan agreements also remain tight, with many lenders requiring borrowers to have a good track record and a pipeline of deals for example.

Retail Market Indicators EU-27 Av.

	2008	2007
GDP Per Head (€)	28,961	23,452
Private Consumption Per Head (€)	16,797	13,500
Private Consumption (% real change pa)	2.1%	2.2%
Average Consumer Prices (% change pa)	2.4%	2.2%

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 – 6.80	↗
Belgium	800 – 1,100	5.50 – 6.25	↗
Czech Rep.	600 – 1,000	7.00 – 8.00	↗
Denmark	450 - 550	5.75 – 6.25	→
Finland	900 – 1,100	6.25 – 7.00	→
France	1,400 – 2,000	5.50 – 6.25	↗
Germany	1,300 – 1,800	5.50 – 6.50	↗
Hungary	600 – 1,300	7.25 – 8.25	↗
Ireland	2,000 – 2,400	6.75 – 7.50	→
Italy	700 – 750	6.50 – 7.25	↗
Netherlands	650 – 850	7.00 – 7.50	→
Norway	700 – 1,000	6.50 – 7.50	→
Poland	650 - 950	7.75 – 8.50	↗
Portugal	700 – 1,000	6.50 – 7.50	→
Romania	500 - 750	9.00 – 10.00	↗
Russia	1,700 – 2,200	13.00 – 14.00	→
Spain	700 – 1,000	6.75 – 7.25	↗
Sweden	500 - 800	6.25 – 7.00	→
Turkey	600 – 850	9.50 – 10.50	↗
United Kingdom	1,900 – 2,300	6.50 – 7.00	→

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and 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.

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