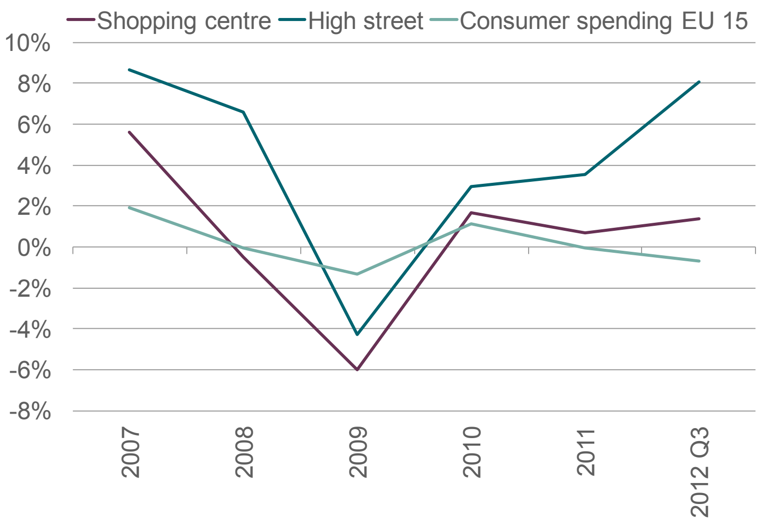
Market report
European retail

Autumn 2012

GRAPH 1

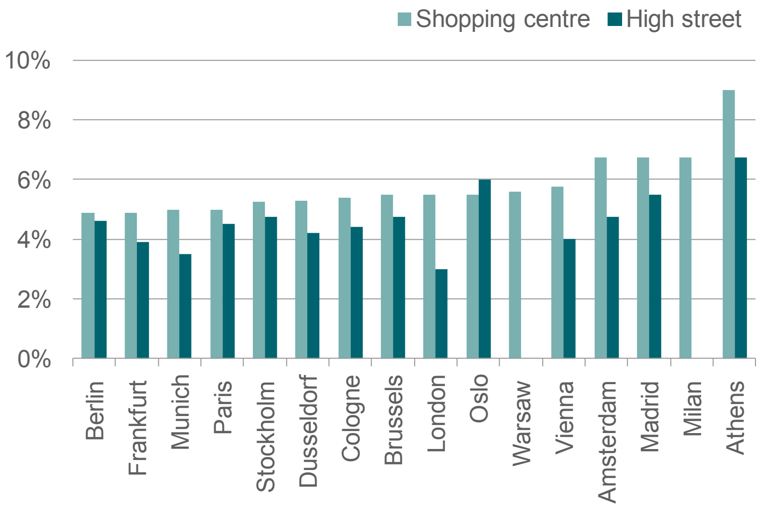
Average European prime rental growth



Graph source: Savills, Oxford Economics

GRAPH 2

Prime achievable market yields Q3 2012



Graph source: Savills

SUMMARY

Demand for prime drives values

■ Sustained retailer demand for prime units, low availability ratios and rising rents in the prime shopping centres and high streets are the key characteristics of the retail segment across most European markets. Annual prime rental growth does not seem to follow the slowdown in consumption rates, as the best high streets and retail schemes remain the key magnets of shoppers. Rents for prime units have increased by 1.4% pa in the best shopping centres and by 8.1% pa in the busiest high streets on average.

■ Rising cashflows and capital preservation/appreciation are attracting investor attention, which last year translated into the highest number of deals since 2007. So far in 2012 the market has been slower, due to less availability of prime product and the renewed worries about the European economy and consumer strength. Average achievable prime yields are edging inward and they are at about 5.6% for shopping centres and 4.3% for the high street.

■ Financing constraints and the prognoses of an overall anaemic consumer spending growth in the European Union, holds back any major development plans. Nevertheless, we witness some more activity with specific focus on extensions and redevelopments, especially in the stronger markets.

"The prime retail segment is investors' favourite, with rising rents and hardening yields" Eri Mitsostergiou, Savills European Research

The changing focus of retail investors: 2007-2012 analysis of retail deals

Over the past five years investor appetite for retail assets has been broadly following consumer propensity for spending with the number of deals fluctuating in line with the European consumer spending growth. 2010 and 2011 were exceptional years, with an outstanding number of retail investment deals, despite the first signs of the risks of a double dip recession emerging. Additionally investor appetite has been focused on countries, which are providing healthy and stable fundamentals rather than high growth prospects and has been impacted by the lack of financing shifting from large transactions to smaller investment deals. Overall investor confidence in the prime segment of the retail sector remains positive, particularly for premium units in the busy prime streets of the major European capitals and the best performing shopping centres.

Volume vs value: More, smaller deals

Since the beginning of 2012, about €9.5m worth of retail deals above €10m (excluding high street) were signed in the nine* European markets that we monitor. Although, we have got one more quarter to go until the end of the year, our prognosis is that the total number and value of deals will remain below the amount reported in 2011, due to weak economic performance across Europe and lack of prime product on the market.

Both during 2010 and 2011 investor activity in the retail sector in our survey area was particularly strong as economic and consumer sentiment recovered temporarily, with the total annual volume of retail investment at comparable levels with 2007. In 2011 the total volume of retail investments was close to €20.5m, compared to about €19.5m in 2007. On the other hand the increase of the total number of retail transactions in 2011 was much more significant, one third higher compared to 2007. This was driven by a larger number of deals in the markets of Germany and France in particular, due to the perceived lower country risk and better market fundamentals.

The average deal size has decreased over the past five years, as financing for large-scale single asset deals has become more difficult to obtain. Between 2007 and Q3 2012 the average deal size has dropped by 35% from about €85m to about €56m.

In terms of portfolio deals, there were 38 deals reported in 2007 compared to 54 in 2011 and 27 since the beginning of 2012. The significant number of portfolio deals in 2011 and 2012 is predominantly the result of an active market in Germany, while elsewhere in Europe since 2007 the trend has been negative or static.

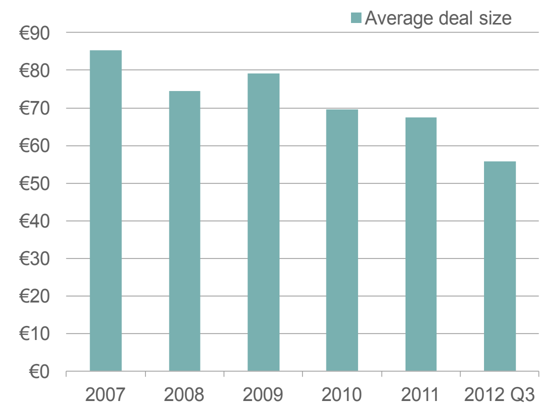
Deals by country: 63% in UK, DE, FR

In terms of market preference we have already mentioned the rising concentration of capital in Germany, which has increased its share in the total retail investment activity from 11% in 2007 to 38% in 2012 (up to Q3). UK continues to account for a significant one fifth of the total number of deals, compared to 25% in 2007, while France represents about 10% of the total compared to 8% five years ago. On the other hand Spain and Sweden have lost market share, with a drop from 9% to 1% over the same period for Spain and from 18% to 12% for Sweden. Whilst investors are becoming more cautious about Spain, due to the national sovereign debt crisis and the negative impact on employment and consumer spending, the drop of market share for Sweden is more likely to be related to the lack of suitable product.

*Belgium, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, UK

GRAPH 5

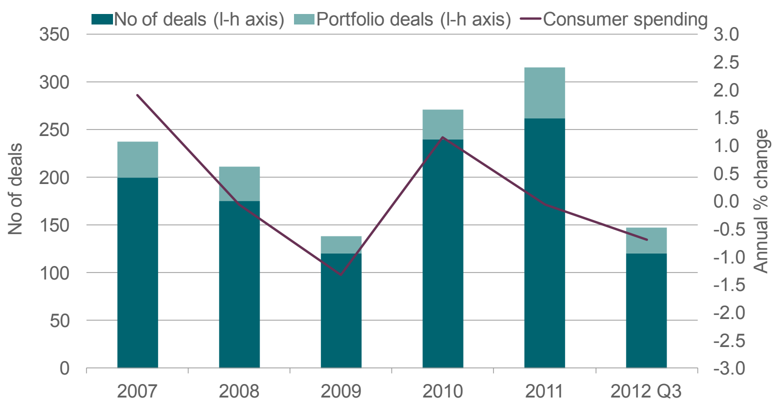
Average deal size falls as access to financing becomes more limited



Graph source: Savills

GRAPH 3

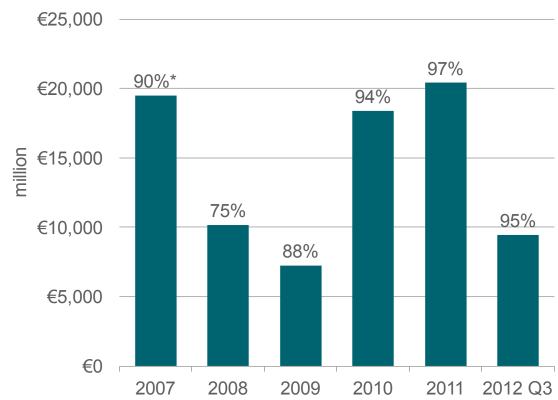
Number of retail deals vs economic trends Investor activity in the retail segment particularly strong in 2010-11



Graph source: Savills, Oxford Economics / retail deals exclude high street

GRAPH 4

Total retail investment volume Smaller deals translate into lower volumes



Graph source: Savills / *% of deals (excluding high street) with pricing information

Deals by type: Shopping centres prevail

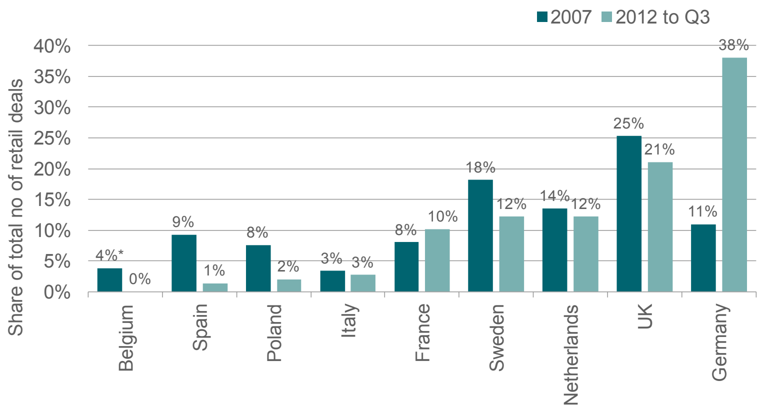
When we analyse the number of large-scale retail deals by type we notice that shopping centres (SC) maintain their popularity accounting for 60% of the number of deals in the first three quarters of 2012, followed by portfolio transactions at 21% and retail parks/retail warehouses at 16%. These compare to 63%, 21% and 12% respectively in 2007. It is also worth mentioning the emergence of department store sales particularly in Germany as the sector is going through a restructuring phase. The sector accounted for 3% of the total number retail deals in the first three quarters of the year.

Yields compressing again

With regards to achieved yields, the average yield of all the number of deals per year has moved out from almost 6% in 2007 to slightly above 7% in Q3 2012 (110 bp), after having peaked to 7.3% in 2010. The popularity of the retail sector with investors has led to a renewed yield compression over the past two years. Achievable prime shopping centre yields in the regions of the capitals of the countries we survey followed a similar but softer trend as they did not experience as significant price correction during the downturn. The average prime shopping centre yield for the capital cities of the same markets is currently (Q3 2012) at 5.6% compared to 4.9% in 2007 after peaking to 6.15% in 2009.

GRAPH 6

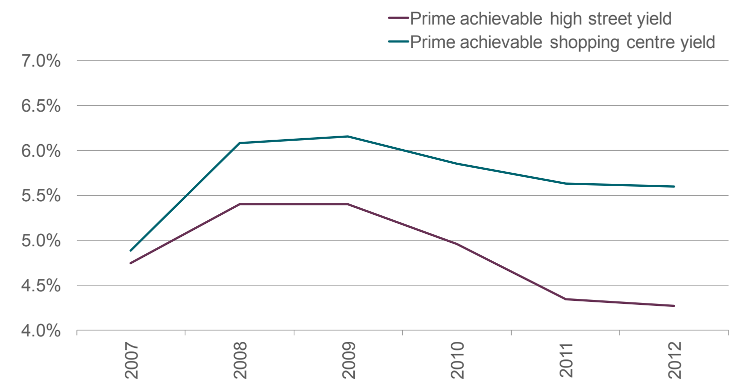
Number of deals by country 2007-2012 Winners and loosers



Graph source: Savills

GRAPH 7

Average European prime retail yields Investor confidence in prime retail leads renewed yield compression



Graph source: Savills / *average of capital cities of nine countries surveyed

High street

Rising interest from investors

The above analysis excludes the share of high street (HS) deals (above €10m) in the total. If we include those, they account for 37% of the total number of deals until the third quarter of 2012, compared to less than 5% in 2007. There has been a dramatic increase in high street investments especially post 2009 in particular in France and Germany, which account for 90% of the high street deals above €10m since 2007 in our survey area*.

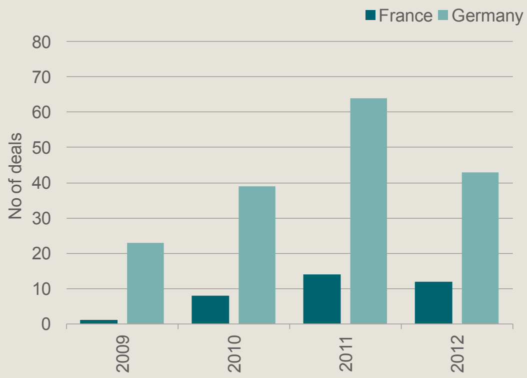
The rising interest in this segment has been underpinned by private, equity driven investors, who perceive investing in prime high streets a safe, inflation and capital proof long term investment option. It is also no coincidence that the lion's share of these deals are concentrated in France and Germany, which are preferred by investors with core investment strategies, due to healthier national public finances and consumer sentiment. In addition to this, cities and high streets with high tourist flow, such as Paris, Berlin and Munich offer an additional factor of attractiveness to investors.

Although yield information can be confidential in most cases, we have witnessed yields of up to 4.0%-4.25% in both countries in 2012. If we compare the European average of prime achievable high street yields in the key high streets of the capital cities of the countries that we analyse, we notice that it currently stands at 4.27%, which is the lowest since 2007 and reflects investor confidence in the resilience of this segment of the market and also steady retailer demand for best located high street units.

*please note that London and other UK high streets are excluded from this analysis

GRAPH 8

Number of high street deals dramatic increase in Germany and France



Graph source: Savills

European country review

Austria

Retail Trends

Similar to London and Paris, Vienna continues to attract strong interest from luxury retailers for prime locations in the "Golden U". In the first half of 2012 this prime segment has seen rents increase by almost 14% compared to the end of 2011, making the Vienna high street, for the first time in history, one of the most expensive rental markets in the world. The extremely limited space for these "super prime" locations allows landlords to expect even higher rents and substantial key investments to be made by interested tenants from around the world.

The opening of Hollister in SCS in September followed by the first Pull & Bear store in Austria in October and crowned with the opening of PRIMARK in Vienna in "G3" in October prove the continued interest of international retailers in the Vienna market.

Therefore the recently announced 16th opening of an Abercrombie & Fitch store out of the US in the inner city of Vienna is just an additional tombstone proofing this trend.

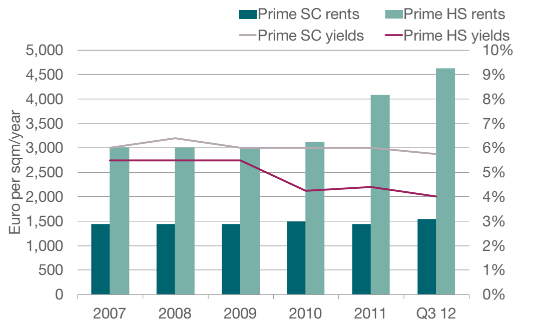
Investment and Development

The retail investment market in Vienna has only shown a limited amount of transactions. Apart from a few high street transactions the recent sale of the IKEA Center in Haid and the IKEA Center in Graz to German ECE and Linz based Kaufmann Group have marked the largest retail investment transaction in 2012 so far.

A number of large scale retail developments have or will open before the end of the year. The 70,000 sq m "G3" in Gerasdorf (North Vienna) and the 20,000 sq m extension of the "Auhof Center" in west Vienna will open at the end of October. This series of openings will be completed by the first part of "Wien MITTE" in November (28,000 sq m). On the high street the "Golden U" will see its first opening with Emporio Armani also in November 2012.

GRAPH 9

Vienna SC* rents and yields



Graph source: EHL / *shopping centre

Values

Prime yields have reached a level of 4% and have a tendency to decrease further. At the same time prime high street rents continue to increase, currently standing slightly below €400 per sq m/month. Due to its limited space in prime locations the Vienna retail market is still a very strong landowner market.

Belgium

Retail Trends

The Belgian government is expected to meet its budget-deficit target by the end of the year despite domestic demand being affected by knock on effects of slower growth in neighbouring countries such as Germany. GDP growth is expected to be flat in 2012 but the unemployment rate is still one of the lowest in Europe (7.1% in H1 2012). Overall the Belgian retail market has been resilient since 2009 with retail sales growth remaining stable despite the euro crisis.

Although retailers are still cautious in their decision-making process, the majority is optimistic and keeps on looking for expansion possibilities. The international appeal has continued to grow with newcomers entering the market.

Investment and Development

Belgium is one of the countries with the lowest shopping centre GLA density in Europe. Many projects are expected to be developed from 2014 on, but developers have not yet received all the necessary permits, which are increasingly difficult to obtain. The current development pipeline amounts to approximately 500,000 sq m but it is likely that some projects won't be developed. At the same time several existing shopping centres are expected to pursue refurbishment or extension plans. In the retail park market, several developments are expected to be delivered by the end of the year including T-Forum in Tongeren (32,000 sq m) and the second phase of the Shopping Park Olen (30,000 sq m). The retail investment market has been dynamic and a volume of €527m has been recorded since the beginning of 2012, a fourfold increase compared to the same period last year. Moreover the retail activity unusually represented the largest proportion of the investment volume with 36%.

Values

Prime shopping centre rents increased by 4% compared to 2011, while prime high street rents remained stable.

As risk-averse behaviour prevailed, investor demand remained focused on prime and well located assets, generating secured cash flows.

The scarcity of these assets and competition between investors has an impact on pricing: prime yields now stand at 4.75% for high street assets, and 5.5% for shopping centres.

GRAPH 10

Brussels SC rents and yields

Graph source: Savills

France

Retail Trends

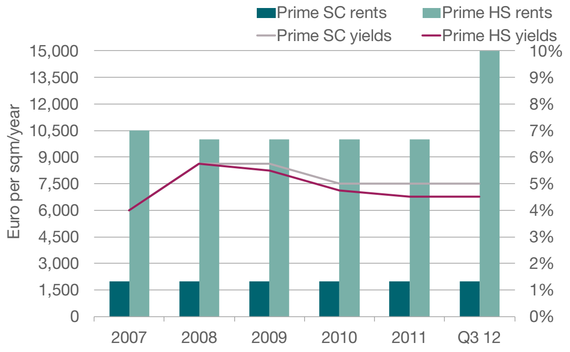
GDP growth has been flat in 2012 so far, and a mere growth of 0.4% is expected for 2013. The general economic situation, relatively high unemployment of 10% and public austerity measures are seriously dragging on consumer spending. Forecast for retail sales at year-end is 0.3% against 2.7% last year, with the health & beauty and food weathering the storm better than other sectors. From next year retail sales should progressively recover (+1.6% in 2013) on the back of household consumer savings. Although spending less, French consumers remain increasingly demanding in terms of quantity and quality of services required. Competitive pricing, visibility, accessibility and fast & free delivery are becoming mandatory services to catch consumers' attention. Such operating investments are challenging in the current economic situation, which only strong retailer brands can afford to undertake.

Investment and Development

Between January and August 2.5m sq m of retail development started, a similar level to the one recorded during the same period last year. However, retail development is moving towards extension of existing units rather than new developments. Some 1,252 projects have been submitted to the planning consent in 2011 (CDAC) totalling 3.3m sqm, of which 60% are extension plans. More than ever, a focus on prime locations is given for both new developments and extensions.
Landmark investment transactions such as the acquisition of the 52 avenue des Champs Elysées sold by Groupama Immobilier to Qatar Investment Authority for €515m have boosted the retail investment market, which totalled €1.9bn since the beginning of the year, against €1.5bn during the same period last year. Prime assets remain the most sought after product constraining the market to fierce competition and tight price negotiations.

GRAPH 11

Paris SC rents and yields



Graph source: Savills

Values

Overall prime retail values remained stable during the past year. However, the top rent achieved on the Champs Elysées is now at €15,000 per sq m/ year, which is an increase of 50% on last year reflecting the strong retailer interest for the best locations. Prime yields have remained stable but given the strong demand for prime assets we believe they could continue to harden.

Germany

Retail Trends

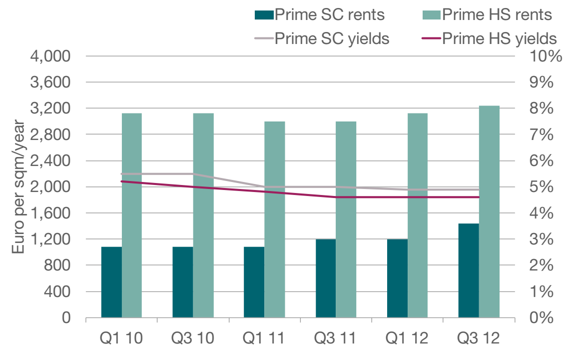
During the last year, private consumption has been a stabilising element for the German economy. Compared to the previous year, inflation-adjusted private consumption and retail expenditure have picked up and increased by 1.5% each in 2011. For the next five years, the private consumption is expected to increase at an average rate of some 1.2% pa. Also, the consumer climate has developed positively on the whole for the past four years. Although minor drawbacks had to be accepted towards the end of 2011, the index has shown signs of recovery in the first half of 2012 and even a slight upward trend in June. Against the background of the healthy consumer sentiment, the increasing demand for shops in inner-city locations, especially high streets, has continued and is estimated to remain on such a level. International retail chains, attracted by the high purchasing power in Germany, are looking for such prestigious locations in order to expand further.

Investment and Development

With 122.4m sq m of retail space, Germany has the fourth largest per capita retail space in Europe. The stock of retail space has increased moderately but steadily at an average rate of approx. 1m sq m pa. over the last decade meaning an increase of 9.5% between 2001 and 2011. Currently, one of the largest developments is a shopping centre in Berlin, which will add approx. 80,000 sq m of retail space to the market at the end of 2013.
Since the beginning of 2011, the retail sector has been the most favoured asset class in the German investment market whereas in prior years the activity was dominated by office properties. While in 2011 almost half of the transaction volume or €11.5bn was invested in retail properties, the share decreased to 40% or €5.7bn in the first nine months of 2012 which is not least due to a lack of supply of appropriate properties.

GRAPH 12

Berlin SC rents and yields



Graph source: Savills

Values

On average, the prime high street rents in the top markets have increased by 4% since the end of 2010 to the current level of approx. €220 per sq m/ month. Since 2009, prime net initial yields for high street properties decreased by 70 basis points to currently 4.2%. Due to the already achieved low level, a further hardening of yields is rather unlikely.

Greece

Retail Trends

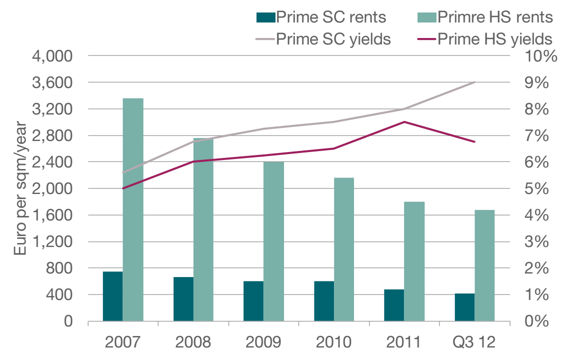
Since the beginning of 2010 the total volume of retail sales has shrunk by about 25%, reflecting the escalating deterioration of domestic demand and the negative impact of rising unemployment on disposable incomes and consumer sentiment. Over the same period unemployment has climbed up from 12.6% in 2010 to 23.6% in Q2 2012. In July 2012, Clothes and Footwear recorded the highest drop of retail sales (-19.6% pa), while sales in large-scale non-food shops recorded a slight increase (1.0% pa). These results are reflected in retailer behaviour, with closures in the small/medium segment of the market and rationalisation from the part of national and international chains. Prime retail streets and shopping centres with good footfall are the main focus of retailers, who withdraw from secondary locations thus redefining the retail map of the major cities. Survival is the key objective at the moment, as the market share for the surviving retailers is larger.

Investment and Development

New development activity has stagnated and the projects scheduled for 2012 and beyond have been put on hold. Last year two major projects that have been in the pipeline were delivered in the Athens region. Currently the overall density of large-scale retail space in the country is just above 100 sq m/1,000 inhabitants. More than half of the stock is concentrated in the Athens region, where the density is closer to 145 sq m. Although retailer turnover has dropped by about 25% overall over the past three years, prime shopping centres are experiencing a decrease of up to 15%. The schemes that are accessible by public transport in particular achieve high levels of footfall. Investment activity is limited to the opportunities that emerge from the public sector privatisation programme, namely the sale of the remaining stake of the Olympic Broadcasting Centre to Lamda Development for 90 years at the price of €81m.

GRAPH 13

Athens SC rents and yields



Graph source: Savills

Values

Prime retail rents have lost 45% to 50% of their value since the middle of 2008 and they continue to fall. Prime yields have moved out to about 9%-9.5% for the best schemes compared to sub 6% at the peak of the market. The very best high street units, have experienced a mild yield compression from 7.5% in Q2 to 6.75% in Q3.

Italy

Retail Trends

The retail sales index after increasing slightly in 2010 has decreased marginally through 2011 and over the the first half of 2012. Since then a turning point in consumer confidence has demonstrated an almost consistent rise from a cyclical low point in June 2012 and now stands at 86.4 (2005=100). This is expected to lead to a return to an increase in consumption by 2014. Retailers still actively seek out units in prime shopping centres with a proven track record and whilst they are instinctively cautious almost all new shopping centres that opened in 2012 have exceed occupancy targets.

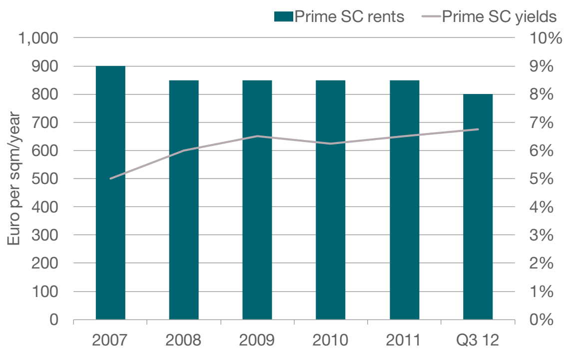
Investment and Development

During the first three quarters of 2012 the level of shopping centre development activity has slowed. In 2012 a lack of debt in the market has led to some planned shopping centre developments being put on hold; however, approximately 249,000 sq m of new retail space was delivered to market in 2012. Year on year this equates to a decrease of 27% over the first three quarters compared to the same period in 2011. Total shopping centre stock currently stands at approximately 15,000,000 sqm. Despite the negative sentiment affecting the Eurozone, new projects are in the pipeline for 2013/2014 with a focus on prime locations in Northern Italy.

In terms of volume H1 2012 saw a reduction in investment activity compared with H2 2011. In the first three quarters of 2012 a total of approximately €240m was invested in the retail sector. The quoted level of investment does not take into account Immochan's purchase of Simon Group's 49% share in GCI. Investor interest has been and will remain focused on key markets in Northern Italy.

GRAPH 14

Milan SC rents and yields



Graph source: Savills

Values

Keeping generally in line with 2011, prime retail rents on the whole remained stable for the first half of 2012 with a slight reduction recorded in certain cases in Q3. The forecast is for further stability or slight reduction in prime rental values over the next quarter. Prime yields for shopping centres have edged slightly out to 6.75% gross.

Netherlands

Retail Trends

With consumer confidence at low levels for a long time now, traditional in-store retail sales have shown mainly negative growth over the past three years. The major exceptions are the supermarkets, likely profiting from less spending in restaurants, and of course the internet sales. Since 2005 internet sales of goods have on average increase by €500m per year and will exceed €5m for the full year 2012, increasing their market share to around 6.0%. The general expectations for economic growth, unemployment, spending power and for thus for consumer confidence are very moderate and a positive turnaround of in-store spending is not to be expected soon.

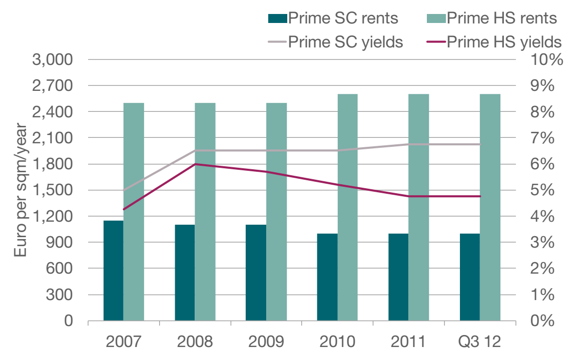
Retail take-up in Q1-Q3 2012 reached 285,000 sqm, being slightly higher than the same period last year (255,000 sqm). Vacancy within major high streets remains very low, since retailer demand is increasingly focused towards the best performing streets, with the highest footfall. At secondary locations though retailers have paid the toll. However, vacancy in 2012 has increased just slightly and currently 6.4% of the retail stores are empty, or around 6.8% of the total retail floor space, according to retail data specialist Locatus.

Investment and Development

The first three quarters of 2011 totaled €625, significantly lower than the €860 of Q1-Q3 2011. Focus of investors is still on solitary stores, especially at the high streets of major shopping destinations and on the larger supporting shopping centres. Largest 2012 transaction concerned the €91 million sale of The Wall XL retail park in Utrecht. Despite overall new development activity being slow, in 2012 around 400,000 sq m will be added to the stock, which is a higher figure than in previous years. This has mainly to do with the long planning processes of new developments and 60% of these developments have been in preparation even before 2007.

GRAPH 15

Amsterdam SC rents and yields



Graph source: Savills

Values

Over the past year rents at the major high streets increased further and for Amsterdam-Kalverstraat they now stand at €2,600 per sqm/year. At secondary locations, the increasing vacancy keeps the pressure on both rents and incentives. Gross yields for shopping centre retail remains stable at 6.5% and for major high streets prime yields decreased to 4.0%.

Norway

Retail Trends

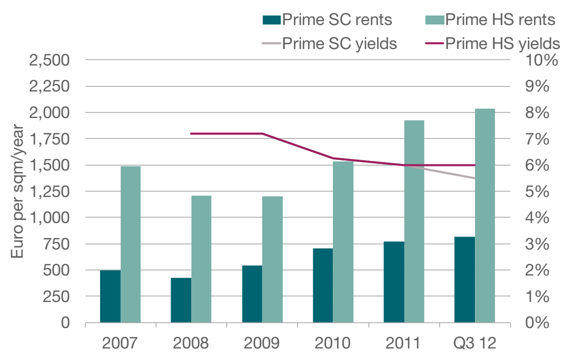
Norway is in a unique position in Europe with a buoyant domestic economy and strong exports. The GDP growth prognosis for 2012 has been raised to 3.3% by Oxford Economics, nevertheless a slowdown to 2.0% is expected next year due to weak external conditions and tighter government policies to slow down wage and house price inflation. Strong consumer confidence and a low unemployment rate have resulted in a rising retail consumption. Increase in private consumption is by far the highest in Scandinavia and predicted at 3.3% by year-end. Retailers remain confident and new openings in high streets and retail parks continue. There is a growing focus from high-end luxury international brands on Oslo, and stores by Louis Vuitton and Hermes are established and doing well. The availability of space is low and new supply is limited, which should maintain the current rental stability.

Investment and Development

Total investment volume in H1 2012 reached NOK23bn (€3.15bn) and retail investment volume amounted to 15%. In the third quarter an additional NOK1.1bn (€150m) of retail investment transactions took place. Prime shopping centre yields are in the region of 5.25% – 5.5%, however the supply of prime investment product in the market is scarce as these assets are owned by few and major players and therefore seldom for sale. This scarcity of prime assets for sales also explains the hardening of prime shopping centre yields. Prime retail warehousing yields are about 100-150 basis points higher at 6.5%– 7% while prime achievable high street yields are in the region of 6%. In both cases prime yields have been stable since the beginning of 2011. Retail units like 1,500-2,500 sq m grocery stores with long rental contracts (10-15 years) are popular investments among domestic players. These properties are often sold in portfolios of 5-10 units.

GRAPH 16

Oslo SC rents and yields



Graph source: Heilo

Values

Prime high-street rents in Oslo can reach up to NOK15-20,000 per sq m/ year (€2,000-2,700), which is about 25% higher than 2007 levels. Prime shopping centre rents have been rising steadily by more than 10% pa on average before stabilising at around NOK5,000-6,000 per sqm/ year (€685-820) for small units in 2011.

Poland

Retail Trends

The pace of retail sales growth in Poland, although slower than in 2011, is still positive. In August 2012 retail sales grew by 5.8% year-on-year but compared to the previous month the growth was minimal at 0.1%. Cumulative date from January to August 2012 shows an increase of 8.5% year-on-year. The poorer rate of growth is a consequence of lower economic growth in Poland at 2.4% in Q2 2012. In August 2012 the sale of TVs and other household appliances recorded the highest increase of sale at 19.7% year-on-year. The growth of Newspapers & Books sales was negative at -13.9%.

With some fall in retail sales and GDP growth an increase in unemployment rate was observed. At the end of August 2012 the number of unemployed people was almost 2m, which equals to the unemployment rate of 12.4%, up by 0.8 percentage points year-on-year.

Investment and Development

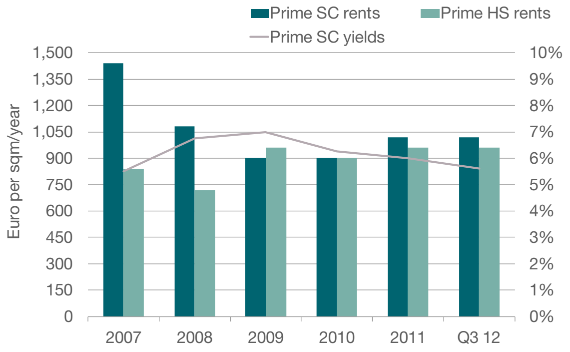
Developer activity remains high in Poland. During the first three quarters of 2012 over 263,000 sq m was delivered in Poland of which two thirds was in cities of below 200,000 inhabitants. However we expect a further 240,000 sq m of new openings in the last quarter.

Currently the overall density of shopping centres in Poland equals to 208 sq m/1,000 inhabitants. Approximately 36% of the shopping centre stock is located in five cities with over 500,000 inhabitants and another 13% is in five cities between 300,000 and 500,000 inhabitants.

Poland is still an attractive market for international brands with American Eagle Outfitters, Bath&Body Works, Victoria's Secret Beauty & Accessories, LC Waikiki, Centro, Kari, COS or Maxi Zoo opening their first stores in 2012.

GRAPH 17

Warsaw SC rents and yields



Graph source: Savills

Values

Prime shopping centre rents remained stable during 2012 standing at €80-90 per sq m/month in Warsaw and at €40-50 per sqm/month in other major cities. Prime shopping centre yields moved in to 5.6% for the best projects and to 7% for secondary assets.

Spain

Retail Trends

The deterioration of the financial crisis continues to affect the Spanish economy on all levels: The disposable income at Spanish homes fell by 3.2% in Q2 2012 while the fall in real earnings has brought the purchasing power down to the lowest level in 27 years. The ever increasing rate of unemployment together with very low consumer confidence have reinforced the situation of decreasing activity, which has reverberated directly in the fall of retail sales.

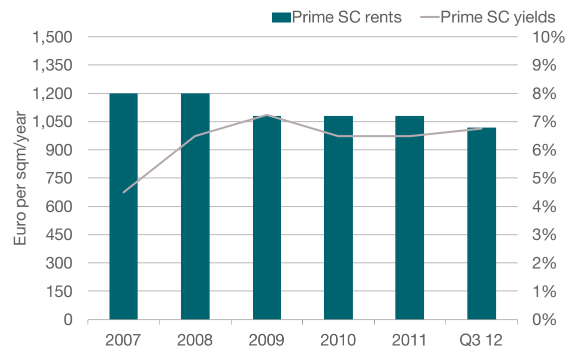
In this environment the retailers continue their expansion plans with an extreme prudence to optimise the investment and to guarantee their success. The big brands in all sectors did bet on the big complexes, which have opened throughout the year (all over 50,000 sq m). The high occupancy rate registered in these new openings, reaching nearly 100% but in all cases above 95%, confirms the excellent adaptability on side of the operators.

Investment and Development

Spain currently has a commercial density of 315 sq m per 1,000 inhabitants. The development completions for 2012 were initially estimated at about 700,000 sq m, however only around 475,000 sq m have been delivered given the economic circumstances and financing problems. 90% of the GLA is concentrated in six big developments, the biggest being the second phase of Puerto Venecia with 118,000 sq m. Together with the retail park of 83,000 sq m, this will be the largest retail complex in Europe. In October the investment volume had reached €150m, which is slightly less than 25% of the annual average volume of the past three years. The market is dominated by domestic investors who are less dependent on financing while the risk-averse traditional players have retreated. High street assets and supermarkets, by unit or by portfolio, have been the 'best seller' products, concentrating 92% of the achieved investment volume until Q3 2012.

GRAPH 18

Madrid SC rents and yields



Graph source: Savills

Values

Due to the lack of transactions it is difficult to determine yield levels. Achievable prime yields for shopping centers would reach 6.75% (+25 bp yoy) and 7.5% (+50 bp yoy) for prime retail parks. Prime shopping centre rents have been stable though the decrease of sales has led to rental adjustments.

Sweden

Retail Trends

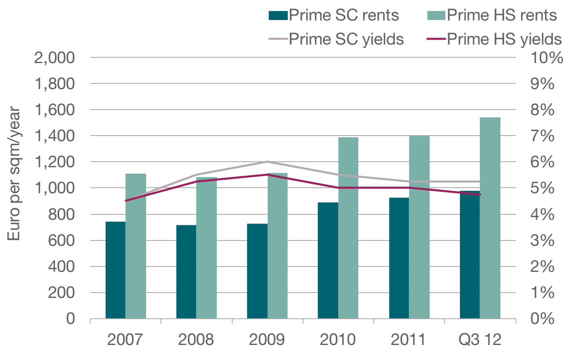
Consumer confidence has weakened in the last few months and a slowdown of the economy has become more likely. This has led to a continued high savings ratio among consumers. In spite of this retail sales have remained stable and growth is expected to remain positive. However there is a significant difference between the individual sectors within retail with consumable goods performing well and capital goods performing poorly. Competition among retailers is fierce and within the home electronics segment two national retailers have gone out of business since the summer. The rapid expansion and aggressive pricing by new sports retailers could lead to companies going out of business within this segment as well. Most national retailers are hesitant with their expansion plans, but foreign retailers new to the market have made their entry and are expanding, such as Hornbach, Sephora, Decathlon to name a few.

Investment and Development

A fair share of the planned developments put on hold following the financial crisis in 2008 are yet to resume. Most of the projects currently underway are extensions of existing shopping centres or retail areas and very few developments are being built on a speculative basis. Two large scale projects are underway with Emporia in Malmö and Mall of Scandinavia in Stockholm.
The investment market for retail properties remained sluggish after the financial crisis and volumes did not pick up until 2011 where a large increase was noted with a total volume of SEK 19bn (€2.2bn) but the renewed market uncertainties has resulted in a slower pace in 2012 where SEK6.5 bn (€0.75bn) of retail assets were sold in the first three quarters. Retail is one of the few segments where international buyers have been successful in competing against domestic investors.

GRAPH 19

Stockholm SC rents and yields



Graph source: Savills

Values

Prime yields have been stable throughout the crisis and should stay firm in the near future due to the amount of capital targeting prime assets. However, for the secondary and tertiary segments the outlook is more negative with an increasing yield gap to prime, partly due to the difficulties in securing financing for assets within this category.

UK

Retail Trends

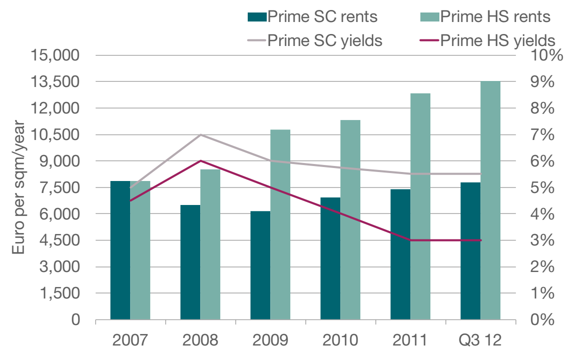
Our downbeat forecasts for the impact of the Olympics on retail spending from earlier this year proved correct. UK retail sales in August were only 0.2% up on the long term average, while the pre and post Olympic months have reportedly been better. One interesting trend was the relatively large fall in internet sales, from their peak of over 10% of retail sales to around 8% in August. In the UK economy, rising utility bills, oil prices and food costs will delay the expected fall in inflation. We expect real earnings to rise again in 2013, which will be the spur for the beginnings of a selective consumer recovery. The big challenge for retail landlords will continue to be the fact that the majority of retailers have too many stores. The positive news is that an increasing number or retailers do not want to damage their brands by going down the CVA route, but in the medium term there will be a steady downsizing of store portfolios, through lease expiries and break notices. Quality retailers with strong brand allegiances, who are expanding or at least looking to do so, are facing a shortage of suitable units in markets where they want to be located. This polarisation of demand and supply between the strong and weak towns is another major theme for UK retailing over the next five years.

Investment and Development

Q3 2012 finally saw a pick up in the number and volume of shopping centres traded. 11 centres were transacted accounting for £634m (€792m) bringing the total traded for the year to £1.5bn (€1.9bn). Outside of super prime, prime and town centre dominant assets investor demand remains thin. Whilst the market believes there is institutional demand for the sector in the £40-80m (€50-100m) bracket, we are yet to be convinced at the present time. The development pipeline remains very restrained across the UK, with only 215,000 sqm of new or extended shopping centres due for completion in 2013-2016.

GRAPH 20

London SC rents and yields



Graph source: Savills

Values

The average capital value of shopping centre assets traded increased in Q3 2012, to £57.68m (€72m), up from £46.9m (€58.6) in Q2. The quality of the assets traded in Q3 is reflected in the average yield statistics, down from 8.7% in Q2 to 6.1% (skewed by Hammerson's acquisition of Royal London's Whitgift Croydon stake).

Key retail indicators

Rents[1] and yields for prime shopping centre[2] (SC) and prime high street (HS) units[3]

City	GDP growth 2012*	Consumer spending growth 2012*	Prime rent Q3 2012 (standard unit SC)	Prime rental growth[4] Q3 11-12 (SC)	Prime yield Q3 2012 (SC)	Prime rent Q3 2012 (HS)	Prime rental growth Q3 11-12 (HS)	Prime yield Q3 2012 (HS)
Amsterdam	0.4%	-1.2%	1,000	0%	6.75%	2,600	0%	4.75%
Athens	-6.0%	-7.8%	420	-22.2%	9.0%	1,680	-30.0%	6.75%
Berlin	0.8%	0.9%	1,440	33.3%	4.9%	3,240	8.0%	4.6%
Brussels	-0.3%	-0.3%	1,400	3.7%	5.5%	1,800	0%	4.75%
London	-0.3%	-0.2%	7,775	0%	5.5%	13,523	2.0%	3.0%
Madrid	-1.5%	-2.0%	1,020	-5.6%	6.75%	NA	NA	5.5%
Milan	-2.3%	-3.2%	800	-5.9%	6.75%	NA	NA	NA
Oslo	3.3%	3.3%	815	5.0%	5.5%	2,037	0%	6.0%
Paris	0.0%	-0.1%	2,000	0%	5.0%	15,000	50.0%	4.5%
Stockholm	4.1%	1.7%	977	3.1%	5,3%	1,540	4.0%	4.75%
Vienna	0.9%	0.5%	1,550	7.64%	5.8%	4,620	48.0%	4.0%
Warsaw	2.5%	1.8%	960	0%	5.6%	1,020	6.3%	NA

Source: Savills / *Oxford Economics national forecast / **Abacus / ***EHL

Note 1: All costs are in Euros per sq m/year

Note 2: Prime regional shopping centre min 40,000 sq m

Note 3: At least 100 sq m

Note 4: Rental growth is annual and calculated in local currencies

OUTLOOK

Retail property is adapting to changing consumer demand

■ The economic prognosis for the end of 2012 is rather gloomy with Oxford Economics predicting a 0.3% contraction of EU27 GDP this year. Pick up in growth in 2013 is likely to be slow and uncertain. Labour market is likely to deteriorate, and households' purchasing power will continue to suffer from tighter austerity measures. Some of the core Eurozone and CEE economies, such as Sweden, Germany and Austria are set to enjoy better conditions than the peripheral countries that will remain in recession.

■ The retail property sector is going overall through a period of change, with consumers that are reluctant to spend and with rising competition from online sales. Shopping centre owners and retailers are cautiously adjusting, but so far it is proven that particularly in this environment the survivors will be the ones that focus on quality and adapt to changing consumer needs (value for money, multi-channeling, finest/luxury, convenience).

■ For the remaining of the year and moving onto 2013, we expect prime high streets to remain the star performers in terms of rental growth and investment attractiveness and prime, innovative, well managed regional and urban shopping centres to maintain their high footfalls and occupancy rates, therefore preserving their top position in investors' target list.

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