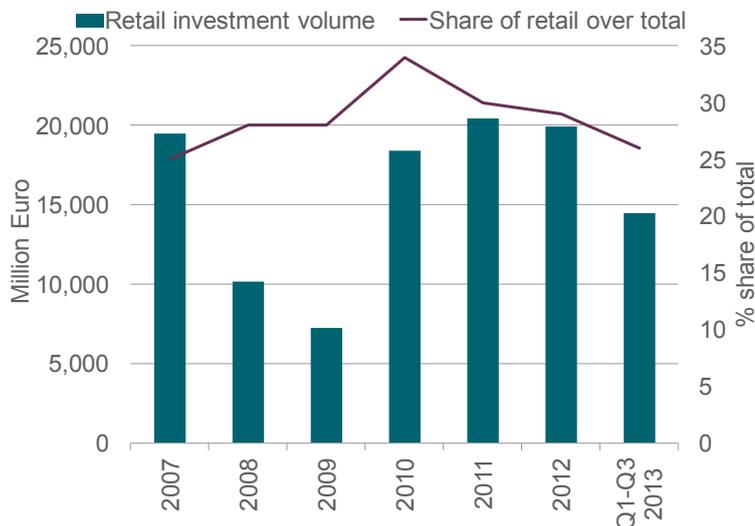


# Market report European retail

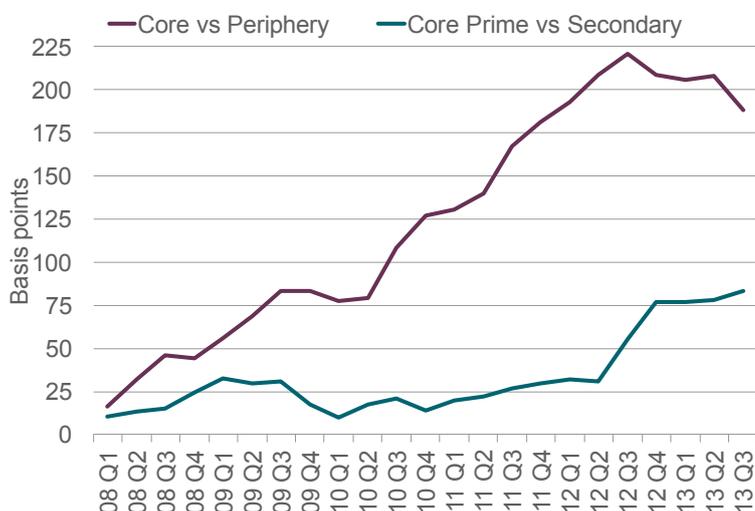
November 2013

GRAPH 1  
**Retail\* investment is rising**



Graph source: Savills / \*Retail deals in our survey area

GRAPH 2  
**Core-periphery\* prime yield gap is narrowing**



Graph source: Savills / \*Core: AU, BE, DE, FR, NL, NO, SW, PL, UK - Periphery: ES, IT, PT, IR, GR

## SUMMARY

### Investor interest is diversifying

■ Retail investment continues to rise in Europe. In the period Q1-Q3 2013 it increased by 6.8%. Significant increases have been recorded in Italy (36%) and Spain (35%). Although core markets continue to dominate activity accounting for 89% of total, the peripheral markets have doubled their share to 10% compared to last year.

■ Confidence in the prime retail segment is supported by healthy retailer demand for the best performing high streets and shopping centres in Europe and the positive performance of prime rents.

■ The average yield gap between prime core and prime peripheral retail product reached a historic high in 2012 (200 bps). As economic prospects and market perception improves for peripheral markets, investors are gradually developing an appetite for risk. This yield gap is gradually narrowing (188 bps) and the average deal yield has moved out from 6.4% in Q1-Q3 2012 to 6.7% in the same period this year.

■ Limited supply of prime investment opportunities in core markets is likely to maintain competition and keen yield levels. We expect investors to seek for better returns in prime segments of peripheral markets and secondary segments of core markets, with a positive impact on yields.



“The attractive yield gap between core and peripheral markets offers investors better return prospects” Eri Mitsostergiou, Savills European Research

### Consumer economics improving ahead of festive season

In October consumer confidence improved slightly (0.4 qoq) continuing the upward trend since December 2012. The indicator is now above the long-term average because of improving consumer expectations about the outlook for the economy and their personal financial situation, according to the survey. Economic activity in the Euro area has picked up (0.3% in Q2) and unemployment stabilised to 12.2% in September. In particular, positive developments in the peripheral countries are supporting the improvement of sentiment. In Spain GDP growth turned positive in the third quarter for the first time in two years, and Ireland is moving towards exiting its bailout program by the end of 2013. Nevertheless the road to recovery remains challenging.

In September retail sales in the non-food sector rose by 2.3% yoy in the EU28. The highest increases were observed in Luxembourg (19.9%), Poland (6.5%) and Bulgaria (6.2%), and the largest decreases in Slovenia (-6.0%), Belgium (-2.8%) and Portugal (-2.2%).

This slight improvement has also been reflected in the ICSC's\* Shopping Centre executive opinion survey. The Euro-Shop Index, the result of this survey, has increased for four consecutive months, with executives forecasting strong sales performance for the imminent festive shopping season as consumer confidence and shopping centre footfall improves.

### Retail demand is polarising the market

Retailer demand is predominantly focused on the best performing high streets and shopping centres, creating a two-tier market. On the one hand retailers are positioning themselves in the markets with the most stable consumer economy and tourist demand (London, Vienna, Brussels, Paris, top six German centres). On the other hand they remain cautious with regards to non-prime, peripheral retail locations, as consumer spending and retail sales are subdued and only slowly improving. As a result secondary retail locations are experiencing higher vacancies under the impact of retailer downsizing and the rationalisation of their sales points.

Good quality shopping centres offer a safer environment for retailers in terms of footfall, sales, exposure and multichannel retailing. According to the ICSC October survey, occupancy in the European Shopping centres has improved, this is probably due to a number of short-term lettings to pop-up tenants or retailers opening new stores in time to take advantage of the seasonal footfall rise.

US/North American retailers, such as Forever 21, Hollister and Tom Ford have been the most expansive over the past two years, using primarily London and Paris as gateways to mainland Europe. Our analysis of new store openings across London, Paris and Berlin shows that 78% of all new entrants over the past two years have been international of which about 20% were US/North Americans. Paris has

seen an increase in new international entrants in 2013, with twice as many new international retailers opening their first stores in the city compared to 2012. Berlin is increasingly attracting new entrants in the German market due to availability and rental pressures in the traditional gateways and the more affluent cities of Dusseldorf, Hamburg and Munich. Besides the city's sizeable tourist market and reputation as a 'cool, young' city has also helped to attract an increasing number of new retailers - for example, for 50% of the new entrants to Berlin in 2013 it was their first German store vs 35% in 2012.

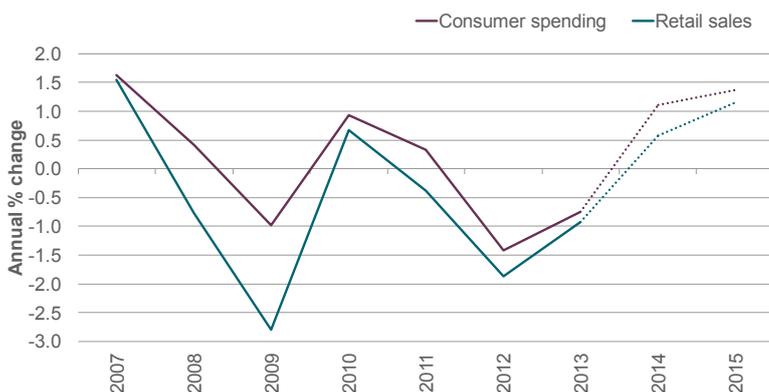
Finally, retailers continue to adapt to new channels of retailing, as in countries with high internet penetration such as the UK, The Netherlands and Norway e-sales and the impact on retailer decisions and consumer behaviour is rising. Electrical, household, music and book retailers have experienced the highest impact with closures on the high street, while fashion brands are incorporating multichannel retailing in their expansion strategies and some online retailers are seeking to open brick and mortar stores as well.

### Supply remains constrained

New supply remains constrained in most places in Europe, although in the markets where the consumer economy is improving there are some new schemes being developed. Many of these are extensions or refurbishments of existing schemes. Overall, in our survey area the rate of completions

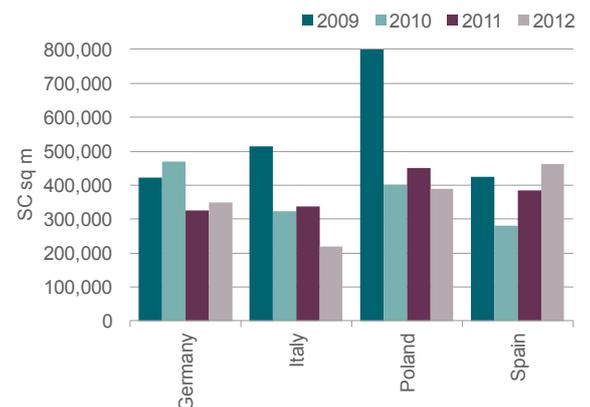
\* International Council of Shopping Centres

GRAPH 3 Consumer spending and retail sales annual growth Consumer economics slowly improving (Eurozone)



Graph source: Oxford Economics

GRAPH 4 Shopping centre completions Rate of completions down from 11% to 4% in 2013



Graph source: Savills (Spain includes SC and RP)

as a proportion of stock (shopping centres) has dropped from 11% in 2008 to about 4% in 2012 on average.

New project starts were down by 17% in France and by 57% in The Netherlands (2009-2013). Development completions have dropped by 35% yoy in Italy (2012) and are expected to drop by 62% yoy in 2013 in Spain. The highest pipeline is to be found in Poland where the average density is 211 sq m/1,000 inhabitants compared to about 240 sq m on average in our European markets. Activity is driven by retailer demand to enter the market and high occupancy rates for the best schemes.

### Investors are looking beyond core

A number of very large transactions have taken place in Europe this year as the global equity seeks rarely available prime retail assets at historically high yields. In the period Q1-Q3 2013 the retail investment volume increased by 6.8% yoy.

Core markets continue to dominate the investment activity, particularly Germany and the UK, as well as Poland. Core countries accounted for 89% of the investment volume in Q1-Q3 2013 versus 95% last year, while the peripheral markets have doubled their share to over 10% this year. Investors are looking more actively in the peripheral markets, as economic conditions stabilise, the pricing gap between buyers and sellers is converging and financing conditions improve. Moreover, investors achieve better value in the peripheral markets

as yields in prime come in. Significant increases over this period were noted in Italy (36%) and Spain (35%), with France (16%), the UK (13.4%) and Germany (10%) also growing.

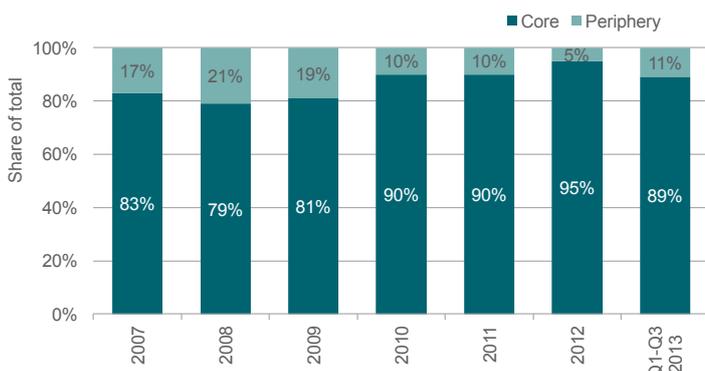
Based on yield evidence that we have (about 30% of deals), the average yield achieved in Q1-Q3 2013 was at 6.7% vs 6.4% over the same period in 2012. This could be an indication of the lack of prime assets on the market, but also suggests that investors are beginning to develop an appetite for risk.

High street investment volumes have fallen by 18% this year, although in terms of number of deals they rose by 46%. This means that the average size of high street investment deal has dropped to €28 from €53.

Shopping centre transaction volumes fell by 3.1% as this is the segment that is harder to find prime product. As a result the prime retail park segment has benefited, as it has been seen as an alternative to prime shopping centres in the largest markets. For example retail warehousing share of the total retail investment market in Germany and France has increased to 14% and 19% respectively. Overall, in the markets we cover, retail park/warehousing volume increased by 51%, accounting for 15% of the activity compared to 11% last year. Shopping centre share dropped from 45% to 38% over the same period.

Over the past six years the average lot size has been decreasing in line with the falling number of portfolio deals and the rising share of high street

GRAPH 5 **Retail investment volume by region** Peripheral markets have doubled their share of retail transaction activity



Graph source: Savills, RCA / \*Retail deals in our survey area

## Debt markets

### Improvement for tier 2 markets

The debt markets across Europe remain challenging but are showing clear signs of improvement. Lending against prime property in the strongest markets of Germany and UK is extremely competitive with noticeable tightening of margins and an increasing number of lenders willing to do deals. LTVs are still below those available during the 2006 – 2007 boom but are stable and typically in the 55 – 70% range. In these markets, all lenders are chasing the same product, and the lack of such product to be financed is intensifying competition further.

A key development of the market over the past six months has been the return of International lending to the second tier / peripheral markets such as Italy and Spain. These lenders are those who are unwilling to compete with the pricing on offer in the competitive markets like Germany and the UK, but would prefer to lend against prime product, backed by a strong sponsor, in those markets deemed to be more 'risky' in order to meet their return expectations.

As a general rule, there has yet to be a return to lending against secondary and tertiary product. However, of the loan books which have been brought to market in 2013, the majority are secured against a wide range of asset types and qualities (including secondary and tertiary), and interest, particularly from the US private equity houses, has been very strong.

.....  
**“Prime product in markets offering higher returns becomes appealing for some lenders”** Nick Harris, Savills

European Valuations

### Outlook

According to the German Debt Project study\*, supra-regional institutions in Germany do not show an intention to adopt a broader strategic posture towards secondary quality assets. Given the limited number of prime properties requiring debt, the largely rigid focus on prime may lead to further increase in competition and margin pressure for banks. We are of the view that, into 2014, the availability of debt finance will improve further but it will be the same markets and strong sponsors who will be the beneficiaries. The traditional debt-backed investor and particularly those seeking to finance secondary/tertiary or short-leased assets will continue to struggle to borrow money.

\* The study is an analysis of data collected on the structure of the German commercial real estate lending market. It was initiated by RCA and conducted by International Real Estate Business School (IREBS) in Germany and was supported by a number of industry specialists including Savills.

“Global equity seeks prime retail assets at historically high yields. Investors are now seeking better returns in more peripheral markets” Nick Hart, Savills European Shopping centre Investment

deals, which are characterised by smaller lot sizes. The average deal size in 2007 was €85m and now it is about half at €41m. Although not enough to counterbalance the drop of portfolio deals, the number of single mega deals (>€100m) has gone up over the past two years, the result of high activity in Germany, UK and Poland. So far this year Germany accounted for 46% of the total volume of mega deals, UK for 21% and Poland for 15%. The majority of deals regard mega shopping malls and some department stores in Germany.

**Prime rents stable**

As demand for prime retail units remains healthy and occupancy rates in strong shopping centres remain high, prime retail rents are stabilising or still modestly rising in some markets (Vienna, Berlin, Warsaw, Stockholm). Overall, prime shopping centre rents as well as prime high street rents have been resilient to falling consumer spending, maintaining some stability with modest increases along with inflation, as in many cases they are index-linked.

Prime high street rents for 100 sq m in London and Paris can be as high as €15,000-16,000 per sq m/year, nevertheless this has not deterred new

entrants from these markets. However, in London we have seen new entrants increasingly look to new emerging retail pitches typically in the vicinity of the prime enclaves due to greater availability of units and their lower rents allowing new entrants a more cost effective alternative in which to test the UK market.

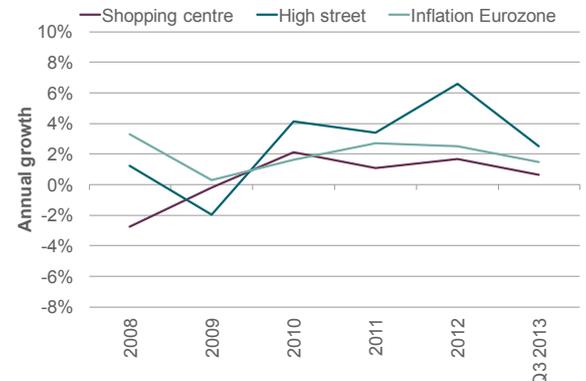
In Q3 2013 the highest annual increases for prime high street units were noted in Frankfurt (11.5%), London (10.0%), Dusseldorf (8.3%) and Paris (6.7%).

**Core-periphery yield gap is closing**

Strong demand and limited supply of prime assets has led to stable or falling prime yields in most markets. On an annual basis prime achievable shopping centre yields have hardened by 18 bps on average, with the highest compression noted in Dublin (-200 bps), UK (-50 bps) and Greece (-50bps). The pan-European average prime achievable yield is now 6%, ranging from 4.9% Berlin and Munich to over 8% in Athens.

Following the rising investment activity in the retail warehousing/park, prime achievable retail warehousing yields have moved in by 14 bps on average

GRAPH 6 **Retail rental growth vs inflation** Overall prime retail rents grow in line with inflation



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

and have dropped below 7% to 6.8%, for the first time after six quarters of softening trend. Once again regional disparities are observed with prime retail warehousing yield ranging from 5.25% in London region to over 9% in Athens.

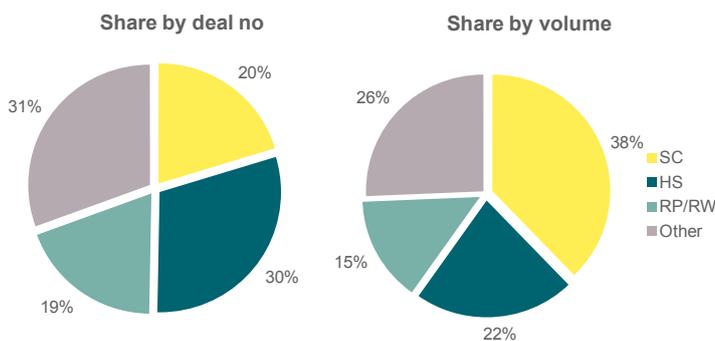
Prime high street yields continue to harden, as a result of sustained investor demand and they have moved in by 17 bps yoy on average in Q3 2013. The average prime high street yield in Q3 was at 4.5%.

Although prime shopping centre yields have been hardening since 2009, it is only since the end of 2012 that this trend has expanded to the peripheral markets as well. This is due to the gradual recovery of investor demand as described earlier.

With the long term average yield

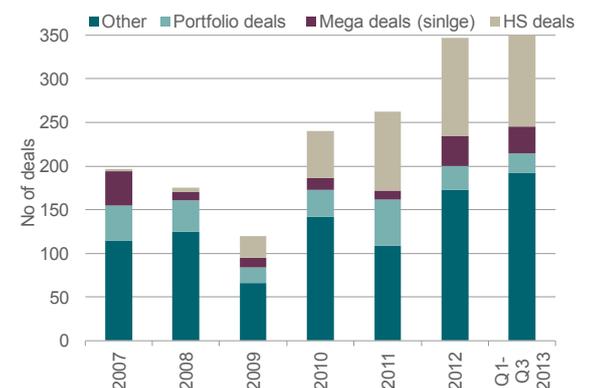
\*Note: Our survey area includes the core markets of Austria, Belgium, France, Germany, Netherlands, Norway, Poland, Sweden, UK, and the peripheral markets of Ireland, Italy, Greece and Spain

GRAPH 7 **Retail\* investment by sector** Retail warehouse/park deals have increased their share from 12% to 19% in 2013



Graph source: Savills / \*Retail deals in our survey area

GRAPH 8 **Retail\* deals by type** High street deals accounted for one third of total this year



Graph source: Savills / \*Retail deals in our survey area

“The historically high yield gap between core and peripheral markets and the improvement in investor sentiment has underpinned retail transaction activity this year” Danny Kinnoch,

Savills Cross Border Investment

gap between prime core\* and prime peripheral shopping centre markets at about 105 bps, the widening of this gap to over 200 basis points by the end of 2012 has presented investors with an interesting investment opportunity. Although consumer spending in these markets remains constrained by negative sentiment due to high unemployment and austerity, the latest positive economic developments and the good performance of the best retail schemes has attracted investor attention. There is already an indication of a new trend towards the closing of this gap, as in Q3 2013 it has already dropped by 20 bps to 188 bps.

In a similar manner, investors are also observing the widening yield gap between prime and secondary retail assets in the core markets of Europe. Although secondary product in most markets is facing not only cyclical but also structural challenges with changing consumer behaviour and the penetration of e-tailing, some secondary retail assets can improve their performance if managed more effectively or being redeveloped.

In Germany and the UK we have noticed a shift of investor focus to

non-core products in the regional markets, which has been supported by the closing pricing gap between buyer and seller expectations, nevertheless financing for this type of product remains challenging.

The historic yield gap for prime-secondary shopping centre assets in the core markets has been at 34 bps, and in Q3 2013 has exceeded 83 bps. There is no indication yet of a reversion of this trend. ■

## Outlook

### Rising interest from investors

As the Eurozone economy emerges from recession and sentiment improves, our economists (Oxford Economics) have raised their forecasts for Europe with the Eurozone GDP expected to fall by 0.4% in 2013 and to increase by 0.9% in 2014. Weak employment creation, the restructuring of the banking sector, private sector de-leveraging and further fiscal tightening are expected to keep the recovery relatively weak. As a result overall consumer spending and retail sales are expected to start recovering only modestly in 2014 at 1.1% and 0.6% respectively. The medium term outlook is for the European Union GDP growth to average 1.4% per year. Strongest performances are expected from the UK, Scandinavia and central Europe, while Spain, Italy and the Netherlands are expected to post little growth.

We believe that the polarisation of demand between strong and weak retail locations will continue, as retailers focus their expansion in the strongest markets, while they are closing down stores in poor-performing locations. This is likely to maintain prime retail rents stable or rising, while we may see some stronger rental growth in the busiest high streets of London, Paris and some of the German cities.

Investment activity volumes will be determined by the supply of investment stock and the conditions of the debt market. We expect the supply of prime opportunities in the core markets to become more scarce. The yields on these assets is rapidly tightening forcing investors to seek better returns in more peripheral markets. We expect the prime segment in Spain and Italy to attract higher investment volumes next year, as well as some off-prime assets in the UK and Germany.

The limited number of prime investment opportunities in the core markets that may emerge next year, are likely to attract a lot of competition and close at keen yield levels. Therefore, we may see some further hardening of prime shopping centre yields in the core markets in particular. Secondary yields are expected to gradually stabilise, as investors start looking for opportunities in this segment too. Already in some locations we have noted an inward shift in Q3 2013 compared to last year ie Dublin (-25 bps) and Madrid (-25 bps). The prime retail park segment will probably continue to benefit from the lack of supply in the shopping centre segment; therefore, some further yield compression is likely to be noted over the next few quarters. The prime high street segment should also continue to attract interest, particularly for investors that target smaller lot sizes and are looking for long-term capital preservation.

TABLE 1 **Largest deals in Q3 2013** A number of large transactions underpinned by global equity in Europe

| Date  | Country / City          | Name                       | Buyer                       | Seller                         | Price in million |
|-------|-------------------------|----------------------------|-----------------------------|--------------------------------|------------------|
| Q3 13 | Poland / Katowice       | Silesia City Center        | Allianz                     | Immofinanz                     | €412             |
| Q3 13 | Germany / Munich        | Hofstatt                   | Quantum Immobilien AG       | LBBW Immobilien                | €400             |
| Q3 13 | UK / Aberdeen, Scotland | Bon Accord and St Nicholas | F&C REIT                    | Land Securities / British Land | €227             |
| Q3 13 | UK / Glasgow, Scotland  | St Enoch Centre            | Blackstone / Sovereign Land | Ivanhoe Cambridge              | €218             |
| Q3 13 | Spain / Zaragoza        | Puerto Venecia             | Orion Capital Managers      | British Land                   | €145             |

Graph source: RCA

# European country review

## Austria

### Retail Trends

Most retailers, in spite of or in line with their prevailing multichannel approach continue their expansion in Austria with an increased focus on the Viennese market. Not only have brands like SUPERDRY or Bershka either announced new locations or just recently opened their first new stores on the Austrian market, but others like Hunkemöller or CCC shoes continue to execute their dynamic expansion plans. The Regiodata shopping center climate index (SCI) in Austria, which still managed to register a value of 101.3 in the first quarter of the year, has now dropped (-3.4) below 100 for the first time since 2009. Nevertheless, especially in the prime segment demand for space clearly outweighs availability, thus keeping rents stable both in the shopping center and high street segments of the market. This is especially interesting, since the delivery of several new shopping center schemes over the past 18 months (Gerasdorf, The Mall,

Goldenes Quartier, Auhof extension, et.al.) on the Viennese and surrounding market have been absorbed by retailer demand rather easily. Partially this is explained by the constant increase of tourist numbers in Vienna, which are especially attracted by the expanding pedestrian zone around the luxury shops of the “Golden Quarter”.

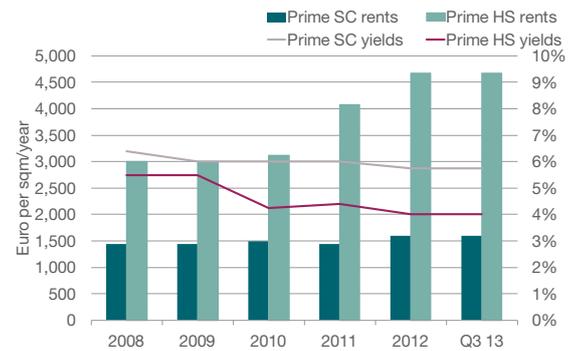
### Investment and Development

The speed of new projects coming to market, however will substantially slow down over the next couple of months. Primarily a refurbishment of some 10,000 sq m of retail space on Mariahilfer Strasse, the leasing of the areas around the new Central station in Vienna and the Citygate project in Vienna with its announced 50 retail locations are the main expected newcomers for 2014 and 2015 and are reported to be largely let already.

### Values

Rents, especially in the prime and core segment, in line with the steady

GRAPH 9 Vienna retail rents and yields



Graph source: EHL / \*shopping centre

demand of retailers have remained stable or grown in line with inflation over the past 12 months. Investment activity remains subdued currently in the retail sector with only very limited product available on the market for prime or core plus investment. We therefore estimate yields to be stable with a slight downward trend in the prime segment of the market.

## Belgium

### Retail Trends

With the improving economic outlook, recovery seems to be slowly taking place in Belgium. GDP growth projection for 2013 remains above the Eurozone average at 0.1% and the unemployment rate is one of the lowest in Europe at 8.5%. Consumer and business confidence indicators improved and are reaching levels not seen for more than two years. This had a positive impact on private consumption growth that became slightly positive in 2013 (0.3% vs. -0.3% in 2012) and that is expected to increase at an average rate of 1.3% pa as from 2014. The retail market has been resilient since 2009 with retail sales growth remaining positive and take-up figures stable. Retailers remain focused on prime locations leading to low vacancy rate and stable or increasing rents. The most active retailers in the past few months were Hunkemöller, Rituals, Veritas and Desigual pursuing their expansion strategies.

### Investment and Development

The retail investment market has slowed down in 2013 compared to 2012. During the first nine months of the year, €353m has been invested (vs. €552m last year). Retail investment represents the second largest proportion of the total volume in 2013, at 23%. Shopping centres in Belgium are rare assets. Their good performance and resilience during the crisis have made them appear as low risk investments compared to other asset classes. This explains the increasing expansion of existing schemes and new developments, principally in Brussels. The design pipeline stands at approx. 450,000 sq m but not all projects are expected to be launched. On the retail warehouse market, the total pipeline under design is estimated at 210,000 sq m.

### Values

Overall prime retail values remained relatively stable during the past year. Shopping centre prime rents stood

GRAPH 10 Brussels retail rents and yields



Graph source: Savills

at €1,400 per sq m/year and are still expected to increase. High street prime rents increased by 3% and stood at €1,850 per sq m/year. The scarcity of prime assets and the competition between investors had a positive impact on prime yields, which stand at 4.5% for high-street assets, 5.4% for shopping centers and 6% for the best located retail warehouse units.

## France

### Retail Trends

In the second quarter of 2013 the economy expanded by 0.5%, creating some optimism for the remainder of the year. Unemployment is expected to stabilize at 11% and consumer confidence has also been improving since July, nevertheless retail sales are stable as taxes have a negative impact on household purchasing power. Despite this economic context many international brands still seek to establish in France, especially on the most dynamic and famous streets of Paris. Paris has seen an increase in new international entrants in 2013 with twice as many new international retailers opening their first stores in the city compared to 2012, including & Other Storie, Stella Luna, Breitling, Topshop, Viktor & Rolf. However, secondary streets and regional areas suffer. Besides, retailers continue to adapt to the new channels of retailing. Electrical, Household, Music and Books sectors in particular continue to suffer from changing consumer habits, with the examples of the closures of

Virgin and Surcouf standing out.

### Investment and Development

The investment market is boosted by French and European investors. The market is becoming more liquid due to the closing gap between buyer and seller expectations. The retail investment market has grown by 16.5% in the first three quarters of 2013 with a total volume of €2.3bn invested in the retail sector. Shopping centres accounted for more than half of the investment activity (52%) underpinned by some mega deals above €100m. High street investment follows captured 28% of the market activity driven by investor demand for units in the city core retail streets. Retail parks represent 19% of the invested amount. They represent an alternative to the lack of core shopping centre assets. Development activity of retail schemes has slowed down with both the number of new planning permissions and the number of development starts down by about 17% yoy. In the first

GRAPH 11 Paris retail rents and yields



Graph source: Savills

half of the year about 2.2m sq m of new developments have commenced.

### Values

Yields rates are stable at 5% for shopping centres, 4.5% for high street units and 5.75% for retail parks. Prime rents have increased on the high street by 6.7% yoy in Q3 2013. They have remained stable for the other retail types.

## Germany

### Retail Trends

The GfK consumer confidence indicator inched up to 7.1 points in October – its highest level since September 2007. Private consumption is expected to increase by 1.0% this year and 1.3% in 2014. A number of new players seek to benefit from the healthy environment. Several international chains entered the market recently or are going to enter it soon (e.g. Kingfisher, The Kooples, Tory Burch, Undiz), leading to increased competition. There are market segments which are saturated, such as the DIY and drugstore sectors where major players became insolvent (Praktiker, Schlecker).

### Investment and Development

As a consequence, the retail stock decreased by 0.25% to 122.1m sq m in 2012. This was the first year with a shrinking stock since reunification and could also mark a turning point in stock development. However, the market is still highly attractive and investment

activity remained high. In Q1-Q3 2013 some €6.2bn (+9% yoy) was invested in retail, representing 33% of the total transaction volume. The increase was relatively low compared to the overall development of commercial investment volume (+32% y-o-y), which is not due to a diminishing demand but a consequence of a lack of prime products and prime shopping centres in particular. Consequently, the share of retail parks and retail warehouses increased to some 14% of retail transaction volume in 2013 (2012: 10%). With regard to shopping centres, investor focus has cautiously shifted to non-core products. Most of the 15 centres acquired in the first three quarters (€1.5bn) are located outside the major markets, provide only short remaining lease terms or are partly vacant. We expect the investors to further widen their scope.

### Values

Over the past 12 months, prime yields slightly hardened further for all types of retail properties. They decreased by about 10 basis points to 4.1% for

GRAPH 12 Frankfurt retail rents and yields



Graph source: Savills

prime high street properties, to 5% for shopping centres and to 6.4% for retail parks on average of the top 6 markets. The latter is the only segment where we expect a further yield compression over the next months. Regarding rents, the divergent development of prime rents on the one hand and secondary / tertiary rents on the other hand is expected to continue.

## Greece

### Retail Trends

The total volume of retail sales has dropped by another 7.8% yoy in August as consumers are under the pressure of austerity and rising unemployment. Sales drops have been steeper for the central high streets of Athens, which have been affected by protests, while established shopping centres experience more modest losses. Most retailers are cautious and are rationalising their operations with a focus to the best performing areas and schemes. Falling sales have forced some international retailers such as La Fnac, Carrefour and Aldi to exit the market and has deterred others from entering it. Availability on the high streets has increased to above 15% depending on the location, while occupancy in the best retail schemes remains healthy at over 90%. As retailers are facing serious liquidity problems they try to renegotiate their leases achieving significant discounts, while high street landlords are facing rising vacancies and competition from shopping malls. In an effort to

boost the market the government has introduced Sunday trading (seven times a year), which is currently tested in the market.

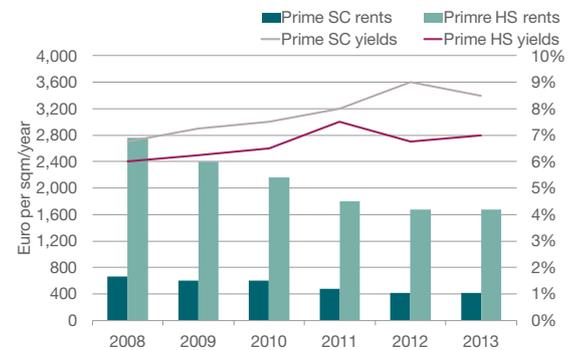
### Investment and Development

The total stock of modern retail formats in Greece has increased by 70% over the past five years. In terms of density Greece continues to lag the European average at about 100 sq m/1,000 inhabitants compared to about 240 sq m in Europe. The density of supply in Athens region is higher at 143 sq m/1,000 inhabitants. The current economic and financing situation has put a halt on any plans for new shopping schemes, and recently proposed ones have been put on hold.

### Values

Rental values for shopping centres and prime retail units have stabilised in 2013 after having experienced 25%-30% yoy losses last year. In Athens, the achievable yield for well-let and well-located retail schemes is about 8.5%, although yields can increase to

GRAPH 13 Athens SC rents and yields



Graph source: Savills

over 10% for out-of-town locations or decrease to 6.5%-7% for prime high street retail properties for which there are limited investment opportunities and higher demand. Overall, we believe that prime achievable yields have moved in compared to last year as there is increasing evidence of investor interest in the prime segment of the market and an improvement of economic confidence.

## Italy

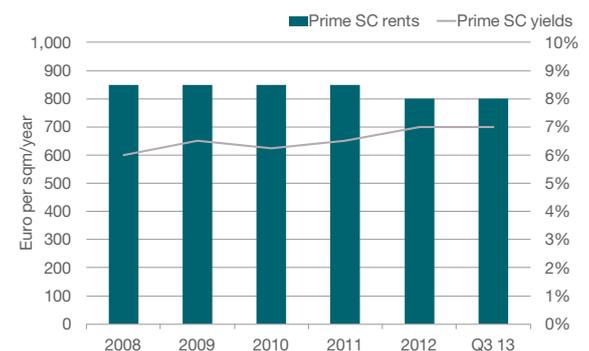
### Retail Trends

The retail trade index increased by 0.2% year on year (August 2013), this came as a result of a combination of an increase of 1% in food sales and a decrease of 0.4% for non-food products. The rise registered in consumer confidence in the second half of 2012 has continued and now stands at 97.3, compared to 85.7 in December 2012 (2005=100). The increase in consumer confidence is expected to have a positive effect on retail sales going into 2014. Brands continue to seek prime locations within proven retail formats, modern format shopping centres with large catchment areas are keenly sought after by retailers in active expansion. Pipeline schemes with planned openings in 2014/2015 are attracting new tenants on a pre-let basis.

### Investment and Development

A total of approximately €500m was invested in the retail market by Q3 2013 registering a notable increase in investment volume with respect to the same period for 2012. The increased activity is as a result of a number of important transactions such as the purchase of the Franciacorta Outlet Village, located in northern Italy, by Blackstone and the Market Central Da Vinci Retail Park in Rome, purchased by GWM AM. These transactions confirm the return of foreign interest in the Italian market and specifically the retail sector. Although not closed in Q3, Morgan Stanley purchased a portfolio of 13 retail galleries and a retail park from GCI for €635m. In addition we expect a number of further retail transactions to close by year end. In terms of development there have been no significant changes in the supply of large retail structures and the shopping centre stock stood at approximately 15,000,000 sq m in Q3 2013.

GRAPH 14 Milan SC rents and yields



Graph source: Savills

### Values

Prime retail rents remained stable on the whole on a year on year basis. Prime gross yields for shopping centres remained stable while retail warehouses edged out to 8% in Q3 2013 from 7.75% in the first half of 2013.

## Netherlands

### Retail Trends

Over the past years consumer confidence has been extremely low reaching an all-time low in February 2013 (-44). This is also reflected in decreasing in-store retail sales and only supermarkets were able to grow in turnover. Over the past months however, consumer confidence is steadily showing better figures and it reached -27 in October 2013, higher than in the past 26 months. Another positive sign is the ongoing growth in e-commerce and total sales will pass the €10bn threshold. In order to increase their market presence and their credibility, a number of e-tailers, both large and small, are now opening brick-and-mortar stores. Retailer demand so far in 2013 reached 240,000 sqm, being in line with take-up in the same period last year. With three transactions in the top five Primark is showing largest occupier demand. Other retailers in the top 50 are, like Primark, generally value-retailers and include Mediamarkt, Zara,

and a number of supermarket chains, a.o. Jumbo and Ahold. Vacancy continued to rise to 3.2m sq m in September 2013, or +5.5% yoy, according to retail data specialist Locatus.

### Investment and Development

The first three quarters of 2013 totaled €425m, significantly lower than the €625m of Q1-Q3 2012. Compared to last year the dominance of shopping centre transactions remained high at 50.4% of total volume. Supermarkets became much more sought-after and increased their share to 15.2% from just 3.7% last year. High street retailing did see a drop in volume and is now responsible for 21.5% of investor demand, down from 27.2%. New developments are getting scarce and in 2013 around 75 projects started, compared to around 175 in 2009. The share of inner-city redevelopments has increased substantially and is currently around 50% of the total number of projects, although in share it is significantly less.

GRAPH 15 Amsterdam retail rents and yields



Graph source: Savills

### Values

Prime high street rents remained stable at €2,600 per sq m/year for Amsterdam-Kalverstraat. At secondary and tertiary locations there is downward pressure due to increasing supply. The same goes for peripheral retail warehouses. Gross yields remained stable for shopping centres and retail warehouses but moved in slightly for high streets to 4.25%.

## Norway

### Retail Trends

The Norwegian economy is still healthy but not as strong as it was in 2012. Employment growth has stagnated and we see first signs of stagnating housing prices. Retail sales increased by 3.3% last year and we expect a similar trend for 2013. Shopping centers have a strong grip on the market but sales have increased even more outside shopping centers within segments like low price stores, sports stores and e-stores. Sales through e-tailing is increasing stronger year by year and now amounts to 4% of total retail sales.

€755m, which was 35% higher compared to the same period last year, while the total investment volume has dropped by 20% over the same period. Retail investments accounted for one third of the investment activity compared to about 20% last year. Yield levels for large shopping center deals are in the range of 5.5-6%, stable compared to a year ago. Smaller low risk retail transactions are concluded at yield levels of around 7-8%.

### Values

Prime high street rents in Oslo are still at high levels and have remained stable compared to last year. International high-end brands entering the Oslo market are one of the contributors to preserving high rents. Well known shopping streets like Bogstadveien and Hegdehaugsveien have rent levels in the range of NOK 4,000-14,000 (€487-1,705) per sq m/year depending on size and location. Another high-end area around Karl Johansgate has rent levels up to NOK 20,000-25,000 (€2,437-3,046) per sq m/year.

GRAPH 16 Oslo retail rents and yields



Graph source: Heilo

Average rents at large shopping centers are in the range of NOK 1,500-1,800 (€183-219) per sq m/year. In prime regional shopping centres, anchor units pay NOK 2,500-3,000 (€305-365) per sq m/year. Rents at stand alone grocery stores in the major cities stand on average at a minimum of NOK 1,300-2,000 (€158-244) per sq m/year, depending on the location.

### Investment and Development

Some major transactions have been completed during 2013. Storebrand sold shopping centers totaling NOK 3.5bn (€426m) and a consortium of major Norwegian players bought four shopping centers at a total value of NOK1.75bn (€213m). According to RCA the total volume of retail investment in Q1-Q3 2013 exceeded

## Poland

### Retail Trends

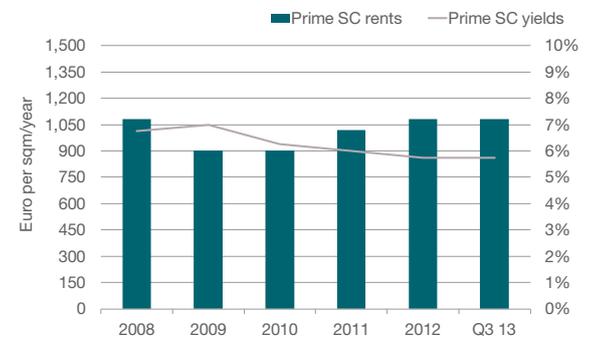
Retail sales in constant prices grew by 2.3% yoy in 2012, slowing down from 7.3% yoy growth in 2012. The growth between January and September 2013 was 1.9%, although Oxford Economics forecasts only 0.6% growth for the whole year. Over the long term the outlook is more positive with the 10-year forecast of 33.5%, the highest growth rate amongst all major European economies and well above the EU-27 and Eurozone averages of 16.1% and 14.5% respectively.

### Investment and Development

Retail stock in Poland has now exceeded 10.5m sq m and approximately 856,700 sq m of modern retail space with delivery dates by 2015 is currently constructed. Development activity is concentrated in major agglomerations with ca. 44% of new space located in cities with a population of more than 300,000 including Atrium Felicity by

Atrium Real Estate in Lublin planned for Q1 2014 (74,000 sq m); Galeria Bronowice developed by Immochan in Kraków (60,000 sq m) to be opened in November 2013; Forum Radunia developed by Blackstone (previously Multi Development) in Gdansk (50,000 sq m) which will be ready in 2015 and Sukcesja by Fabryka Biznesu (42,500 sq m) due in September 2014. Strong demand for retail space is proven not only by a low vacancy rate but also by a number of new brands and new concepts that have entered the market in 2013. New brands usually choose the best and most popular retail schemes to open their first store: Samsung and Bering opened their stores in Akradia, Hollister in Galeria Mokotów, Louis Vuitton in vitKac, and E-Go' and Armani Jeans in Plac Unii City Shopping. Retail transactions in Q1-Q3 2013 accounted for 41% of the total investment volume. Activity was dominated by five transactions accounting for more than 96% of the retail volume, topped up with a series of tiny transactions in smaller cities.

GRAPH 17 Warsaw SC rents and yields



Graph source: Savills

### Values

In the best shopping centres in Warsaw headline rents stand at €80–100 per sq m/month, but reach only half those values in the regional cities. Prime shopping centre yields are ca. 5.75% in Warsaw, ca. 6% for dominant shopping centres in major regional cities and ca. 7.5–8% for leading shopping centres in secondary cities.

## Spain

### Retail Trends

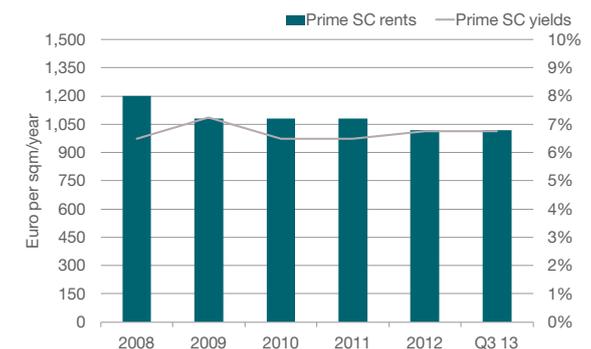
The latest data of the Consumer Confidence Index reconfirmed the growth trend which had started in May. It is a small symptom of improvement that reflects the deceleration in the decrease of domestic consumption (-3.2% in Q2 against -4.3% in Q1) and earnings (-5% in Q2 against -5.9% in Q1). The retail sales index is still falling, particularly in larger cities, that registered -10% yoy variation in August against -4.9% yoy variation in July. The Footfall Index published by Experian supports this sentiment of weak demand. The yoy variation of the accumulative data (from Jan to Sept) is -3.3% and there has been negative growth every month.

### Investment and Development

In this environment, retailers are focussing on consolidating their presence in stronger markets and focusing their growth in assets that target best their consumer base. Fashion was the most active sector,

accounting for 49% of all new stores or extensions, followed by cosmetics and personal care, with 10% of the total. The current retail stock reaches 14.7m sq m and brings commercial density to 315 sq m per 1,000 inhabitants. Almost 180,000 sq m are expected to come onto the market in 2013, a decrease of 62% compared to 2012. For the next 24 months almost 600,000 sq m of new space are expected, including a 70,000 sq m retail park in Torrecárdenas (Almería), and a shopping centre developed by Unibail-Rodamco in Valencia, Oceanic (97,000 sq m). The retail investment volume reached €441m in October, which is already higher than the annual figure for 2012 (€320m). The high street segment concentrated the major share of activity (64%) and is favoured by domestic private investors and to some extent institutional investors. Trading volumes in the other retail segments have started to slowly come back and some deals by opportunistic investors have been registered.

GRAPH 18 Madrid SC rents and yields



Graph source: Savills

### Values

The lack of transactions makes it difficult to establish yield levels but we expect them to be stable for prime retail product (Shopping Centres 6.75%, Retail Parks 7.5%). The decrease in sales has resulted in new rent adjustments mainly through reviews and temporary discounts. Rents in prime shopping centres and retail parks remain stable, however.

## Sweden

### Retail Trends

Based on September figures, the estimated yearly growth for retail spending amounts to approximately 1.5%, which is slightly lower than most estimates which usually are around 2%. The lack of seasonal changes in the weather during the first half of 2013 along with good summer weather led to weaker sales figures in a number of segments. Savings ratios remain on historically high levels, but consumer confidence has been positive since March, which could indicate that retail sales might pick up as consumers ease on savings. In spite of the relatively stable retail market a number of new retailers have entered Sweden, primarily within the prime segment. Retailers tend to target prime locations, whether it is shopping centres, high street or retail warehousing.

### Investment and Development

Following the financial crisis in 2008, the pace of new developments

dropped significantly and many planned projects were either cancelled or put on hold. New developments and extension projects started picking up after 2010, albeit at a much slower pace comparing to the year leading up to the financial crisis. Most of the on-going and recently completed projects have been developed in prime locations. The investment turnover regarding retail assets amounts to SEK 8bn so far in 2013, representing 10% of the total volume. In 2012 13% of the volume was retail assets amounting to just over SEK 14bn. We expect investment volumes to pick up for the remainder of 2013 and 2014, especially for retail warehousing, as a lot of funds are closing in on their holding periods. The retail segment is also one of the segments where foreign buyers have been able to compete with domestic buyers.

### Values

Retail rents have historically been resilient to downturns and the last year's turmoil is no exception, where

GRAPH 19 Stockholm retail rents and yields



Graph source: Savills

rents have remained firm in spite of the economic downturn. Prime yields have remained stable across all retail segments during the year and are expected to remain so in the near future. Yields on the best secondary assets could harden due to the shortage of prime properties on the market.

## UK

### Retail Trends

The third quarter of 2013 has seen the strongest positive correction in consumer confidence since 2009. The GfK index has now moved from -21 at the end of June, to -10 at the end of September. While this indicates a mildly pessimistic view of the future amongst British shoppers, it is almost exactly in line with the long-run average for this series. The problem for those retailers who are looking to expand or upsize is that most of them are focusing on the same prime units, on the same prime pitches in the same prime towns! This is good news for the landlords in these locations, but we would caution that some landlords are beginning to be over-confident on the recovery in retailer demand, and are looking to achieve higher than market rents slightly ahead of the curve. The strongest demand for upsized stores is coming from the fashion retailers, such as River Island, H&M and Top Shop. Generally the feedback that we are getting from retailers for Christmas and New Year 2013/14 is positive, with

most expecting trading and margins to improve on last year. The prospects for 2014 remain mixed with Tier 1 and 2 locations looking likely to benefit from improving retailer demand, while Tier 3 markets will continue to be affected by both structural and cyclical change in the UK retail scene.

### Investment and Development

Investment demand remains across the spectrum – with new entrants on a daily basis. Shopping Centre transactions in Q3 2013 have totaled £1.019bn in 14 sales, bringing shopping centre transactions in 2013 thus far to over £3.1bn in 58 transactions. Average lot size in Q3 totaled £48m, with an average yield in Q3 of 8.3%, down from 8.77% in Q2.

### Values

As we had predicted the strong town centre dominant centres are attracting significant interest and as a consequence the sheer weight of money is driving yields lower. In some cases as much as 100 bps in

GRAPH 20 London retail rents and yields



Graph source: Savills

six months. We believe that this trend will continue in the short to medium term as the global wall of equity seeks large quality dominant assets. Banks are showing extremely positive signs of putting money into the market to the right investor and the right asset. As a consequence of strong investor demand yields will harden across the range with now perhaps a hardening in the stronger secondary asset class.

## Ireland

### Retail Trends

Ireland's retail economy is now showing signs of improvement. During the economic crisis, retail sales were depressed by three factors; falling household disposable incomes, a sharp rise in the savings ratio, and a squeeze on consumer credit. While credit remains tight, employment has increased by 1.8% in the last year and wages are beginning to edge up. This has led to a stabilisation in disposable incomes. Buoyed by this, and by a recovery in the housing market, consumer sentiment has been trending up since April. This has fed through to a gradual improvement in retail sales, with the broader measure of personal consumption expenditure also improving modestly in the latest national accounts. The rescheduling of this year's budget from December to October was strongly welcomed by retailers who argue that the traditional December timing undermined sentiment during the critical pre-Christmas season. While this year's budget remained deflationary, it contained less austerity than originally

planned, with tax increases and spending cuts of just €2.5bn compared with the €3.1bn originally planned.

Taxes on savings interest and investment fund returns were sharply increased in the budget and it remains to be seen whether this contributes to improved retail sales by further driving down the savings ratio.

### Investment and Development

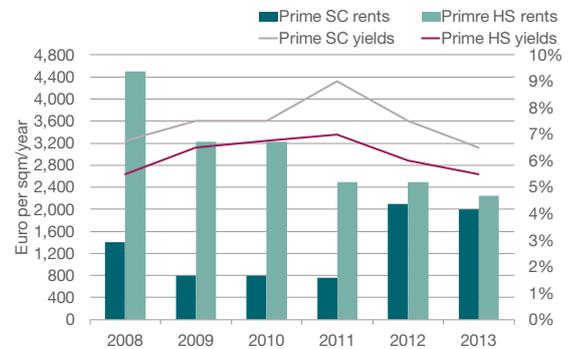
While there has been very little new retail development activity, there is strong appetite for Irish commercial property and there has been a big surge in commercial investment – including retail investments. This is being driven by the fact that retail rents are beginning to stabilise and by a perception of value based on the fact that capital values in the retail sector have fallen by 72% from their peak at the end of 2007. Total commercial property investment in Q3 2013 was €495m, with 31% of this accounted for by retail investments.

### Values

Prime shopping centre rents edged

GRAPH 21

### Dublin retail rents and yields



Graph source: Savills

back by around 4.8% over the year to September and now stand at approximately €2,000 per sq m/year. Prime high street rents have fallen slightly more, and currently stand at around €2,250 per sq m/year. Yields have hardened for both types of property with prime shopping centre yields now at around 6.5% and prime yields in the high street down to 5.5%.

## Key retail indicators

### Rents<sup>1</sup> and yields for prime shopping centre<sup>2</sup> (SC) and prime high street (HS) units<sup>3</sup>

| City      | GDP growth 2013* | Consumer spending growth 2013* | Prime rent Q3 2013 (standard unit SC) | Prime rental growth <sup>4</sup> Q3 12-13 (SC) | Prime yield Q3 2013 (SC) | Prime rent Q3 2013 (HS) | Prime rental growth Q3 12-13 (HS) | Prime yield Q3 2013 (HS) |
|-----------|------------------|--------------------------------|---------------------------------------|--|--------------------------|-------------------------|-----------------------------------|--------------------------|
| Amsterdam | 0.4%             | -1.9%                          | 1,000                                 | 0%   | 6.5%                     | 2,600                   | 0%                                | 4.5%                     |
| Athens    | -3.9%            | -7.0%                          | 420                                   | 0%   | 8.5%                     | 1,680                   | 0%                                | 7.0%                     |
| Berlin    | 0.6%             | 1.0%                           | 1,440                                 | 0%   | 4.9%                     | 3,240                   | 0%                                | 4.5%                     |
| Brussels  | 0.1%             | -2.6%                          | 1,400                                 | 3.7%   | 5.4%                     | 1,850                   | 2.8%                              | 4.5%                     |
| Dublin    | 0.1%             | -2.2%                          | 2,000                                 | -4.8%  | 6.5%                     | 2,500                   | -10%                              | 5.5%                     |
| London    | 1.4%             | 1.5%                           | 7,510                                 | 1.8%   | 5.0%                     | 14,122                  | 10%                               | 3%                       |
| Madrid    | -1.3%            | -2.6%                          | 1,020                                 | 0%   | 6.75%                    | NA                      | NA                                | 4.75%                    |
| Milan     | -1.8%            | -2.5%                          | 800                                   | 0%   | 7.0%                     | NA                      | NA                                | NA                       |
| Oslo**    | 0.7%             | 2.4%                           | 738                                   | -9.4%  | 5.5%                     | 1,845                   | 0%                                | 6.0%                     |
| Paris     | 0.3%             | 0.4%                           | 2,000                                 | 0%   | 4.75%                    | 16,000                  | 6.7%                              | 4.25%                    |
| Stockholm | 1.1%             | 2.3%                           | 946                                   | 0.6%   | 5.25%                    | 1,510                   | 1.9%                              | 4.5%                     |
| Vienna*** | 0.4%             | -0.3%                          | 1,600                                 | 3.2%   | 5.75%                    | 4,680                   | 1.3%                              | 4.0%                     |
| Warsaw    | 1.1%             | 0.3%                           | 1,080                                 | 12.5%  | 5.75%                    | NA                      | NA                                | NA                       |

**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

Source: Savills / \*Oxford Economics national forecast / \*\*Heilo/ \*\*\*EHL

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