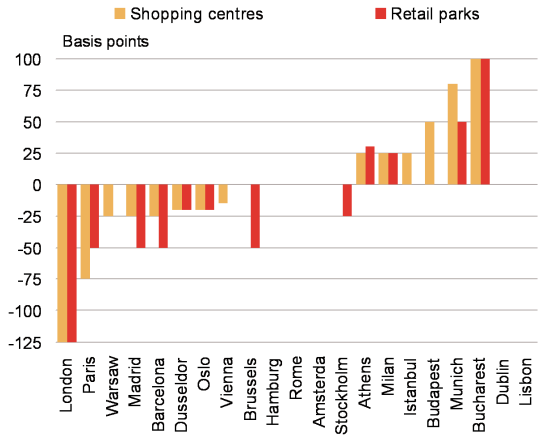
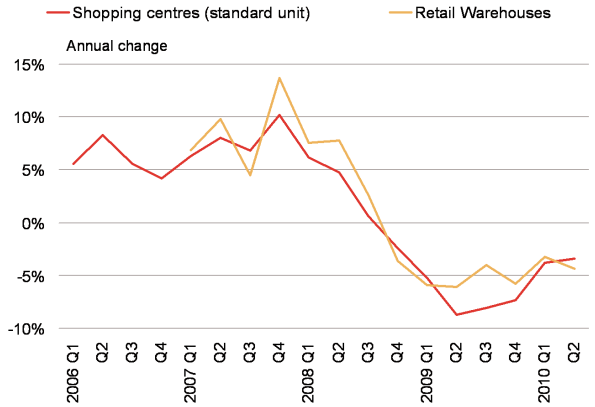
European retail markets

Autumn 2010

Q2 2009 - Q2 2010 prime yield shift



Average prime rental growth



"The impact of the negative economic sentiment is easing and retail activity is finding its equilibrium at new levels of demand and supply. The prime segment is broadly balanced, thus rents are stabilising in most locations. Prime retail assets are becoming the preferred investor target in the larger markets, and prime yields are hardening once again. "

Eri Mitsostergiou - European Research

- Although consumer confidence remains negative in Europe, it has improved significantly compared to the historic low of March 2009. The volume of retail trade increased by 0.1% in July 2010 and the index of retail sales gained 1.0% yoy in the EU27.
- Branch network optimisation is the focus of the majority retailers at the moment, with only a limited number looking into expansion opportunities, especially in vacated units in prime locations. Top quality retail centres continue to let well.
- Overall, the development pipeline for new shopping centre schemes is constrained by the lack of available financing and weaker retailer demand. Going forward new completions will be limited, therefore we expect the demand and supply situation in the prime segment of the market to remain balanced.
- Shopping centre and retail warehousing rents have stabilised in about 75% of the locations that we monitor, while in the remaining 25% they continue to fall. On average the annual rental growth is close to -3.2% for good quality shopping centres.
- Although the total retail investment volume remains significantly lower compared to the peak of the market, the large-scale, prime deals that were completed in the first half of the year in different European markets reflect investor confidence in the sector.
- More vivid investor demand in 2010 has translated into a slight hardening of prime yields. In Q2 2010 prime shopping centre yields were on average 13bp lower compared to Q2 2009, driven by yield compression in France, Germany, Spain, Poland and the UK.

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Austria

Economy

The Austrian economy stagnated in Q1, as rises in both private and public consumption and a fall in imports were offset by declines in fixed investment and exports. Growth this year will be driven by stronger demand for exports, underpinned by higher demand from Germany. However, not all of Austria's export partners are growing strongly. We therefore forecast growth of just 1.2%.

Demand

Consumer demand

Private consumption growth has remained positive throughout the crisis, despite an increase in unemployment and a drop in consumer confidence to historic lows, although it benefited from income tax reforms implemented in 2009. For the first quarter of 2010 preliminary turnover results of retail trade increased by 4.1% in nominal and by 3.0% in real terms compared to the first quarter of 2009.

Retailer demand

In the current economic environment most retailers have no major expansion plans and market activity is driven by their plans to improve their performance by replacing weaker outlets with those in better locations. On the other hand, a small number of retailers are testing the market for new shopping concepts. For example, several chains are exploring the chances for medium-sized convenience stores to complement the ever-growing traditional retail outlets.

Supply

With 172sqm/'000 inhabitants Austria has become one of the most competitive retail markets in Europe. As currently the development of new retail space has declined sharply the market remains in balance and no substantial rise in vacancy was monitored. Nevertheless, demand for better quality units and the critical evaluation of outlet networks puts additional pressure on existing shopping centers and retail parks: modernization, refurbishment and redesign to achieve a better environment for quality brands have become a must. Also efforts to optimize tenant mix have gained importance. In contrast, development plans are mostly put on hold due to a lack of demand for new space and rising difficulties to get building permits in peripheral locations. Investments in greenfield peripheral locations have become virtually impossible due to regional planning restrictions.

Rents

Prime rents in high street shopping locations have declined in 2009 and 2010 and stand now at €320/sqm/month, almost 20% below the peak in early 2008. Most new leases in Vienna's "Golden U" are agreed at rates between €180 and €250/sqm/month. However, average rents have remained widely stable in both shopping centers and high streets.

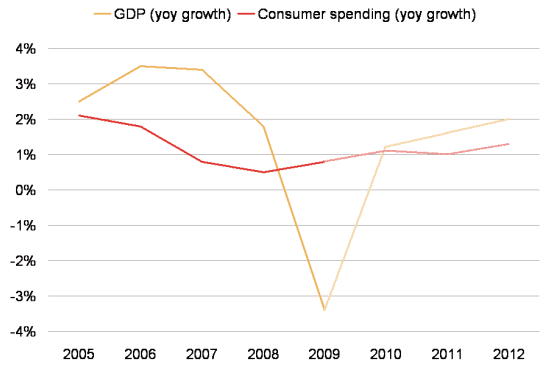
Investment market

The retail investment market has been in a standstill since last year. Due to the overall lack of transactions there are no reliable comparables and consequently large discrepancies between buyer and seller expectations. A sustainable revival of the market is not anticipated for 2010, though there are some transactions in the pipeline scheduled for completion in the second half of 2010. Commercial buildings in Vienna’s major shopping streets are regarded as a significantly more stable investment. Buildings with a potential for increasing rent are being sought-after.

Outlook

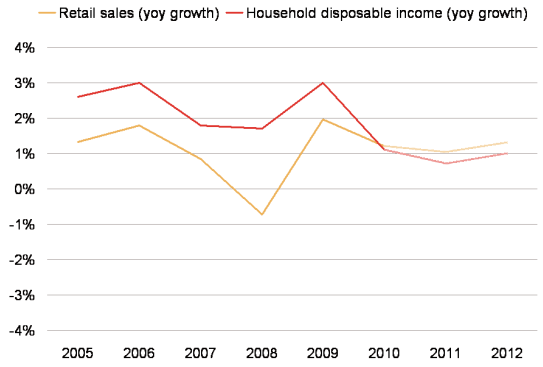
Additional income tax measures implemented at the start of this year, combined with a rise in consumer confidence, will help household spending to rise by 1.1% this year. Oxford Economics predicts a modest rise of retail sales of 1.2% this year and 1.0% next year. Overall new supply of retail space will be limited in 2010 and 2011. The main projects underway are the three railway station shopping centres in Vienna, which will total 65,000 sqm. Pre-letting for the centers is very successful indicating a shift of purchase power back from the peripheral centers to inner-city locations.

National GDP and consumer spending



Source: Oxford Economics

Retail sales and disposable income



Source: Oxford Economics

Belgium

Economy

In Q1 GDP rose just 0.1% due to the contraction in investment amid adverse weather conditions. Consumer spending remained relatively healthy with 0.6% expansion on the quarter. Oxford Economics forecasts that GDP will grow by 1.4% this year under the impact of fiscal consolidation domestically and abroad. Growth should then pick up to 2.0% in 2011 as domestic demand strengthens. The most significant risk to the outlook is the potential for the recent political crisis to harm the fiscal adjustment process, leading to a damaging shift in investor sentiment.

Demand

Consumer demand

In line with overall economic indicators, consumer and business confidence, which announced a promising beginning to the year, started falling in Q2 2010. This combined with the current negative employment and economic forecasts could lead to reductions in consumer spending.

Retailer demand

The retail sector remained relatively resilient to the economic slowdown, with sustained demand from retailers, especially for prime high street locations. Due to higher risk perception the wide majority of retailers are becoming more cautious reviewing their expansion plans and stretching their decision making process. Thus, space turnover has decreased more notably in shopping centres and retail warehouses.

Supply

The first part of the year was marked with the re-opening of the Galeries de la Toison d'or in Brussels, however supply will return to a stable mode with only few developments in the pipeline for 2010 in contrast to the buoyant activity in 2009 when major shopping centres were completed such as K in Kortrijk, Mediacite in Liege, Galeries Anspach in Brussels as well as a number of retail warehouse schemes across the country.

Rents

Rents have remained stable in most prime retail submarkets but secondary locations have seen the highest corrections. Prime high street rent levels remained similar to those experienced in 2009 with €1,700/sqm/year on the Meir in Antwerp and €1,600 in Rue Neuve in Brussels. Shopping centre rents remained at €1,250/sqm/year although take-up declined severely in the first part of the year. Prime retail warehouses rents remained stable within the range of €150/sqm/year and €170/sqm/year in the best locations of the largest cities.

Investment market

Retail investment volume reached €122m during the first half of 2010. Although the first quarter only recorded €21m of transactions the second quarter saw a number of retail high street investments and the sale of the Group GL retail warehouse portfolio to a private syndicate for €60m. Prime investment yields remain low at 5.0% for high street retail, 6.0% for shopping centres and 6.5% for retail warehouses.

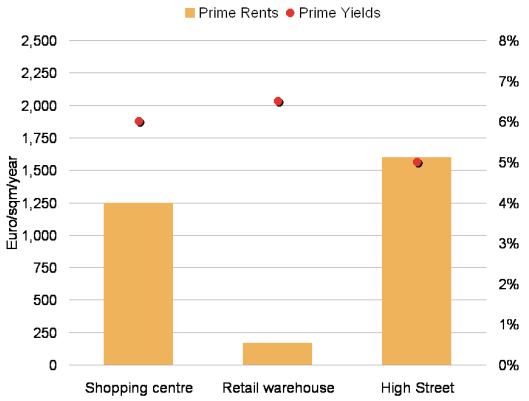
Outlook

Consumer demand is expected to remain low but to slowly improve through the year and throughout 2011 along with the economy. Oxford Economics forecasts 1.1% annual growth this year and 1.8% next year. Retail sales however, are forecast to drop by 2.5% in 2010. Demand for retail space should remain focused in prime locations with void levels possibly rising in secondary shopping areas and centres. This may pressure secondary rents downwards. Investment activity will remain subdued as investors will essentially be limiting their exposure to risk and concentrate on the best locations in prime cities.

National GDP and consumer spending

Sources: Oxford Economics

Brussels prime rents and yields



Source: Savills Research

Czech Republic

Economy

The Czech economy has already come out of recession, with economic activity recovering since the third quarter of 2009. Recovery nevertheless is still fragile and future development encumbered with many risks. Domestic demand remains subdued as a result of high unemployment and fiscal tightening. A gradual recovery is projected by Oxford Economics in 2010 and 2011 with GDP growth of 1.7% and 3.2% respectively. Household consumption dropped by 0.2% in 2009 and is forecasted to fall by further 0.5% in 2010.

Demand

Consumer demand

Latest data show that seasonally non-adjusted figures for retail sales decreased by 1.0% yoy, of which retail sales of automotive by -3.9%, food, beverages and tobacco by -1.0% and sales of non-food goods by -0.1%. However sales via mail order houses or via Internet grew by 10.8%, retail sales grew for information and communication equipment by +9.3%, clothing and footwear by +2.4% and second-hand goods in stores by +1.6%.

Retailer demand

Retailers have adopted a cautious approach due to the consequences of the economic crisis. However several ones such as KIKA, KappAhl, Lindex, Tesco, KIK, KFC, Burger King, Kaufland, Zabka, CCC, Takko and Decathlon have announced expansion plans. Retailers are in a stronger negotiation position when renting vacant space or committing to new developments. Demand is strongest in established and prime shopping centers and vacancy rates have increased in less established shopping centers in secondary locations.

Supply

Nationwide new supply fell to only 150,000 sqm in 2009 and will even drop below 100,000 sqm in 2010.

Shopping centre stock density is just above 200sqm/'000 population, with about 2.1m sqm of space, while retail warehouses/parks account for an additional 1.2m sqm. The most significant completions in 2009 were Forum Liberec (38,000 sqm), Forum Usti nad Labem (26,400 sqm) and Liberec Plaza (19,000 sqm). One of the shopping centers under construction is Galerie Hafra, a 42,000 sqm scheme in Prague 9 developed by Lighthouse Group.

Rents

Rental levels in shopping centres and high street locations are still under pressure. Since their peak in 2007, the average decline of rents have ranged between 5%-10% in prime locations, and 10%-15% in average locations. Retail parks have maintained widely stable rental levels, as their main group of tenants, retail chains in the low or medium price segment, are suffering less of an impact from the economic crisis than other retailers.

Investment market

Retail investment activity has been at low levels with the only remarkable transaction being the purchase of the Betonstav's retail warehouse portfolio by the Czech investor CPI for €23m. It is expected that more activity will take place in retail sector during the second half of 2010. The prime yield for shopping center would be in the region of 7.0%. The prime yield for the very best high street location is lower than 7.0%. Prime yields for retail warehouses are at the level of 8.0%-8.5%.

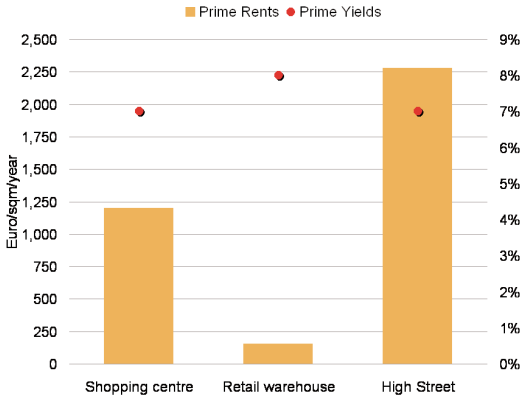
Outlook

Once the economy starts growing again, it will have a positive influence to the retail sector; most likely the first positive signs will be seen in the beginning of 2011. The current active trend in the market has been the development of inner city shopping centers and the extension/diversification of existing large shopping centers in the regional cities. Retail parks are currently planned mainly in small towns with a population of more than 15,000 and can provide an alternative when the catchment is too small for a standard shopping center.

National GDP and consumer spending

Source: Oxford Economics

Prague prime rents and yields



Source: Savills Research

France

Economy

The French economy is on track for solid but unspectacular growth in 2010 Q2. Despite the problems in the Eurozone, Oxford Economics forecasts that GDP growth this year and next will reach 1.2% and 1.7% respectively. This forecast includes a negative impact on trade from lower demand in southern Eurozone countries.

Demand

Consumer demand

Real disposable income growth remained positive and close to 2.0% in 2009 notably thanks to the increase in public transfers, the decrease in taxes, the stimulus measures together with and drop in inflation. As a result private consumption during the recession posted positive growth of around 1.0% in 2009.

Retailer demand

In a context of prolonged stagnation of the private consumption and by extension of retail trade turnover, retailers privilege the consolidation of existing units. Nevertheless, hard-discounters and popular fashion retailers including notably Kiabi played well the game and accelerated their development activity by 10%. Demand from retailers was nearly exclusively concentrated in prime locations.

Supply

Retail projects submitted to the CDAC (French planning consents for retail projects) decreased both in number and in volume. Between January and May 2010, 498 retail projects were submitted to the CDAC totalling 1.3m sqm against 511 projects or 1.6m sqm during the same period in 2009. The most significant drops are recorded in house equipment (46%), sportswear (70%) and DIY (20%).

Rents

The vacancy remains low and even if renegotiations of leases are sometimes tempted, distributors often prefer a temporary increase of their affordability rate instead of moving. The prime rent for large regional shopping centres remain at €2,000/sqm/year (for units below 50sqm). Prime rents for major retail parks range from €185/sqm/year for units of approx. 1,000sqm to above €220/sqm/year for units from 300-400 sqm, which is the most popular size. In secondary locations where retailers' demand is weakening, rents are declining.

Investment market

Some large prime deals have brought the retail investment volume up to €2.1bn in the first half of 2010 - including the Simon Ivanhoe portfolio (circa. €476m for the French assets), Cap 3000 (€450m) in St-Laurent du Var and Espace St-Quentin (€176m) in St-Quentin en Yvelines - a volume to be compared with €529m during the same period in 2009. This trend seems to continue in the second half of 2010 as some major assets are currently under negotiation, including St-Martial in Limoges for €100m and l'Heure tranquille in Tours for €80m. This could bring the annual retail turnover to more than €3.0bn. The competition between investors and the lack of prime investment opportunities led to a compression of yields. The prime yield for regional shopping centres is 5.50% (50bp yoy) and this of the major retail parks is 6.75% (25bp yoy). The secondary rates are stable ranging between 6.75% for shopping centres and 8.00% for retail warehouses.

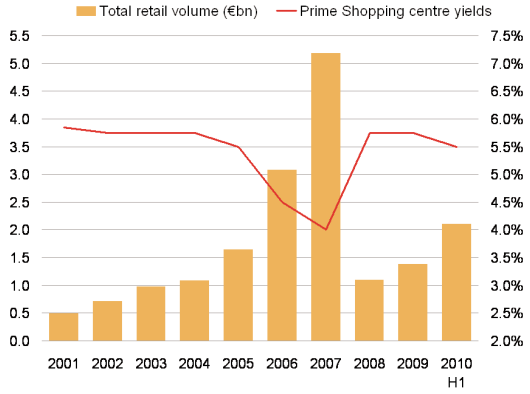
Outlook

All government temporary measures will gradually disappear in the course of 2010. Purchasing power growth is likely to drop compared to 2009. As private consumption is expected to remain subdued until the end of the year and in 2011, we believe vacancies may slightly increase. Demand for the best located assets will strengthen whereas interest for secondary locations will weaken. An overall downward correction of rental values is likely, predominantly affecting secondary rents. Weaker demand for secondary retail assets should push secondary yields up by 150 to 250 basis points.

National GDP and consumer spending

Source: Oxford Economics

Retail investment France



Source: Savills Research

Germany

Economy

GDP growth in Q1 at 0.2% revealed the expected drop in consumption but also showed that companies started to increase investment again. So far, Germany has not suffered from the Eurozone sovereign debt crisis. In some ways, it has benefited from the side effects of the debt crisis, such as the weaker euro and lower bond yields. However, these effects can be offset by a reversal in business confidence as the outlook for the Eurozone becomes cloudier.

Demand

Consumer demand

Lower consumption has translated in decreasing retail turnover. So far the overall development of consumption was mainly owed to low inflation. The reduction of income tax and increase of governmental children's allowance and child benefits since the beginning of 2010 is anticipated to further fuel private consumption.

Retailer demand

2009 was expected to be a difficult year but fluctuation or vacancy did not increase as much as feared at the beginning of the past year. Despite the financial crisis and the slump in consumer demand there are several retail chains, particularly from abroad, which look for adequate retail space.

Supply

Currently, Germany has a total stock of around 121m sqm retail space. During the past few years, growth of total retail space has levelled down at around 1.0m sqm per annum. This mainly comprised by new shopping centre space, food and fashion discounters as well as retail warehouses. Altogether, the total retail area has grown steadily during the last decade which provides Germany with one of the highest space stocks in Europe. This upward trend has eventually slowed down, also due to the strong regulative influence by local governments.

Rents

Rents remained rather stable during the past months with only secondary rents showing a slight downward tendency. This development is expected to continue in the coming months.

Investment market

Retail properties replaced office properties in investor preference and were the most demanded property type in the first half of 2010. About €4.0bn were invested in the retail segment. In 2009, the investment volume totaled only €3.1bn. This marked increase is mainly due to shopping centre acquisitions which accounted for approximately two thirds of the investment volume in 2010 H1. Generally, the focus is still on core properties. Concerning the types of demanded retail investment opportunities, good quality hypermarkets, shopping centres, retail warehouses or retail agglomerations/parks, typically situated in areas with good traffic connections, have been very popular.

Outlook

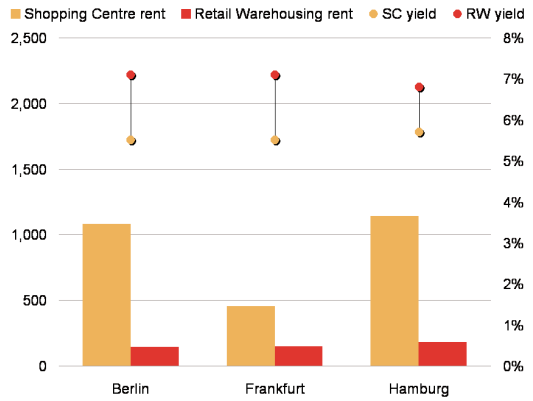
The government has announced a package of measures combining expenditure cuts and tax increases, which represent a tightening of 0.75% of GDP a year. Oxford Economics consider possible falls in business confidence that could impact investment and employment decisions and forecast 1.5% GDP growth and a negative 0.9% private consumption growth for the year.

We expect retailers as well as investors to maintain their interest but merely for selected, high quality retail locations and properties. New supply will grow only slightly as developers are focusing on relatively undersupplied but highly demanded types of retail locations. These are, in particular, shopping centres in medium-sized cities, retail warehousing developments in selected areas and factory outlet centres. Regarding the latter, Germany still exhibits a very scarce supply compared to other European countries.

National GDP and consumer spending

Source: Oxford Economics

Prime rents and yields



Source: Savills Research

Greece

Economy

The immediate risk of a Greek default has been avoided, with the support of the EU/IMF/ECB rescue package. However this has translated to a strict programme of fiscal austerity to reduce the deficit. The country faces a long period of falling output and a steep rise in unemployment and Oxford Economics forecast that GDP will contract for three years from 2010-2012.

Demand

Consumer demand

The volume of retail sales dropped by 5.6% yoy in April with the highest drops at more than -20% in the fashion and large-scale store segments. Consumer confidence is at low levels, under the impact of the negative news about the economy and the employment prospects.

Retailer demand

The drop of retail sales is more significant on the high street, while trading volumes in the best shopping centres are 5.0%-8.0% lower compared to last year. A number of smaller retailers have been forced to administration and larger retail chains to rationalisation. Some international brands are exiting the country under the pressure of falling turnovers and high competition for a market share but also due to low penetration to the local consumer base (eg Fnac, Aldi). The number of vacant units on the high street is rising, and only units in the best schemes and locations can re-let to retailers with healthy balance sheets.

Supply

The total stock of large-scale retail formats (including shopping centres, retail parks, hypermarkets and leisure centres) in Greece will exceed 1.0m sqm in 2010, after the completion of around 120,000 sqm of new space. This marks a rise of about 13% in the stock, and is effectively the result of the expansion of some international big-box retailers that had already been planned prior to the crisis. More than half of this stock accounts for shopping centres translating into a density of just over 50sqm/'000 inhabitants. Some 90% of the retail stock is concentrated in and around the major conurbations of Athens (51%), Thessaloniki (28%) and Larissa (13%). Although there is more than 0.5m sqm in the pipeline for the years to come, including schemes that have been around for a while, facing planning and other bureaucratic delays, we do not expect any significant developments to commence in the short to medium term, due to weak consumer demand and lack of funding. Some developments already in the pipeline could delay their opening.

Rents

Rental values are adapting downwards, as landlords are competing to attract and retain occupiers. Rental falls of about -10% are observed in shopping centres and up to -20% on average for retail warehouses. The best high street in Athens has lost around 30% of its rental value and key money is also becoming more scarce.

Investment market

The economic turbulence, the rising number of insolvencies and the recent tenancy law reform is causing temporary hesitance to investors, especially to the anyway few international ones in the market. Local, private mainly investors are anticipating distressed opportunities, which have not yet reached the market. Achievable yields are hard to determine but we believe that they should be at least 140-150 bps above the peak of the market three years ago.

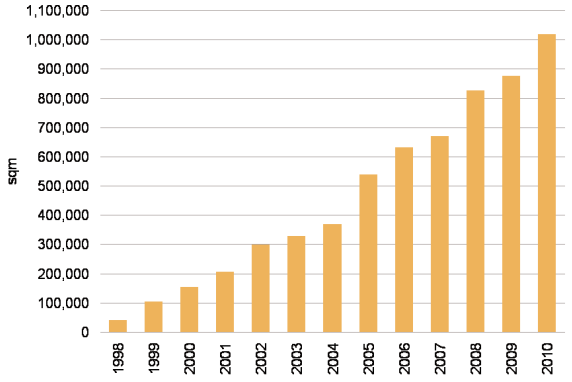
Outlook

All components of domestic demand will see a deterioration in the years ahead. Household disposable income will shrink due to cuts to public employment and wages, as well as higher taxes. Consumer spending is forecast to drop by 2.0% this year and 6.3% next year according to Oxford Economics. In this environment we expect to see more retailer defaults in the next twelve months and further consolidation in the market involving mergers, acquisitions and rationalisation of property stock.

National GDP and consumer spending

Source: Oxford Economics

Stock of large-scale retail formats



Source: Savills Research

Hungary

Economy

Fears that the Hungarian economy may experience the 'Greek situation' were calmed by a set of fiscal reforms designed and released to achieve this year's budget deficit target of 3.8% of GDP, as agreed with the IMF and the EU. Despite the Q1 growth of GDP by 0.9% qoq, which was led by continued recovery in world trade, domestic demand remained weak, with further falls in both consumption and investment. Nevertheless the declines were significantly smaller than in previous quarters.

Demand

Consumer demand

Weak consumer demand was reflected in the drop of the volume of retail sales (calendar-adjusted), which decreased by 4.7% both in the first five months of 2010 and in May compared to the same period of the previous year, while compared to the previous month, they decreased by 0.5%.

Retailer demand

The situation in the Hungarian retail property market has remained difficult in 2010, but the downward trend has slowed significantly, as the economic situation stabilises. High unemployment is a burden for retailers as is weak private consumption, however the improvement of consumer confidence is somewhat easing the situation. International retailers remain loyal to the market but they work intensively on the optimization of their branch networks, through closures of outlets in weaker locations. On the other hand, vacancies that emerge in existing shopping centres, largely due to difficulties experienced by domestic retailers, offer the opportunity to international fascias to establish themselves in new locations.

Supply

Overall, figures for demand and vacancy rates are weak, but there were several success stories in recent months. For example, ALLEE Shopping Center in Budapest opened in Q4 2009 with a 100% occupancy rate and was able to attract numerous high-profile retailers. This has sparked optimism for the few centres set to hit the market in 2010 and in 2011. All centres are well located with good access to public transportation, giving them an important competitive edge over many existing shopping centres.

Rents

Rents remain under pressure, with prime shopping centre rents in Budapest at approximately €65.00/sqm/month and from €20.00-25.00/sqm/month in regional cities. Retail park rents are more stable at €8.00-11.00/sqm/month.

Investment market

During the first part of 2010 the Hungarian investment market has started to recover. Investor confidence has returned, however, the investment volume has not reached the level of recent years. The sale of a 50% stake in the Allee Shopping Center by ING Development was one of the largest investment transactions in 2010. Prime retail yields have stabilized at 7.5%. More international investors are expected to return in 2010. Institutional buyers from Germany, France, the UK and Spain are exploring investment opportunities. Prices may soar in selected top locations, but will remain depressed in medium- and low-quality sub-markets.

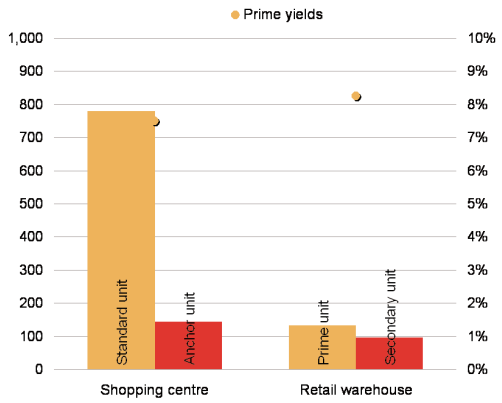
Outlook

Given the recent events and risks Oxford Economics expects consumer spending to remain very muted in the near term, held back by high unemployment and further fiscal tightening. Some international retailers are searching for opportunities to enter the Hungarian market on favourable terms, providing some relief for prime shopping centres. We believe that the overall vacancy rate of shopping centres will be largely stable in 2010 as supply will be lower than 2009. Provided the economy continues to recover, yields will tend towards the (lower) levels of Hungary's neighbouring CEE countries in the longer run.

National GDP and consumer spending

Source: Oxford Economics

Prime Budapest rents and yields



Source: Savills Research

Ireland

Economy

Last year GDP contracted by 7.1%, while in Q1 2010 GDP increased by 2.7% compared to Q4 2009 and the economy is expected to expand by 1.0% in 2010. Supporting this short-term optimism are the positive figures for retail sales, business and consumer confidence indicators and industrial output.

Demand

Consumer demand

The volume of retail sales increased by 1% yoy in June 2010, having increased by 6% yoy in April of this year. The value of sales lags behind, still declining at a rate of 2.8% year on year, reflecting strong price competition and a deflationary environment. Retail sales figures have improved significantly in the last 18 months, considering that in January 2009 both retail sales volume and values were declining at a year on year rate of 27%.

Estimates for the first half of 2010 show that the overall volume of retail sales increased by 3.3% year on year in Q2 and that there was a quarterly increase of 6.9%. If motor trades are excluded, the volume of retail sales decreased by 0.2% yoy in Q2 and ther was a quarterly increase of 1.1%. A number of sectors show the most significant increases - motor trades, clothing, footwear & textiles and non-specialised stores. The significant increase in the volume increase in Motor Trades can be explained by the introduction of the government backed car scrappage scheme.

Retailer demand

A number of high profile deals have been completed in the first half of the year in a both shopping centres and retail parks. Retailers are still looking to locate in prime centres and are being attracted by the incentives being offered by landlords in the current climate.

Supply

There have been no new shopping centre openings in 2010 following the inauguration of two new shopping centres in 2009, with no new openings scheduled for the remainder of 2010. The two openings in the latter part of 2009 were both outside Dublin with 12,000 sqm of retail space in Clonmel and over 15,000 sqm opened in Cork city centre. This is in stark contrast to the height of the retail market when there was a doubling in size in shopping centre stock (2001-2009) in Ireland.

Rents

Prime rents for the first half of 2010 have remained stable with prime shopping centres and retail parks still attracting retailers, especially where landlords are offering attractive incentives – such as extended rent free periods. Retailers are increasingly becoming focused on prime locations, resulting in secondary location rents dropping further. Downward movements in service charges have further helped to improve competitiveness in terms of total occupancy costs.

Investment market

In line with the rising rents and the peak of the boom in 2006/2007, yields fell to as low as 2.25% during the boom and have since then have begun to be pushed out. Yields are currently in the region of 6.00% - 6.50% for Grafton Street, the main city centre shopping street. In relation to shopping centres there have been no recent investment transactions for this type of property. The retail deals that have been completed in 2010 to date have involved retail bank premises. However, the completion of a major shopping centre deal is expected to come through later in 2010.

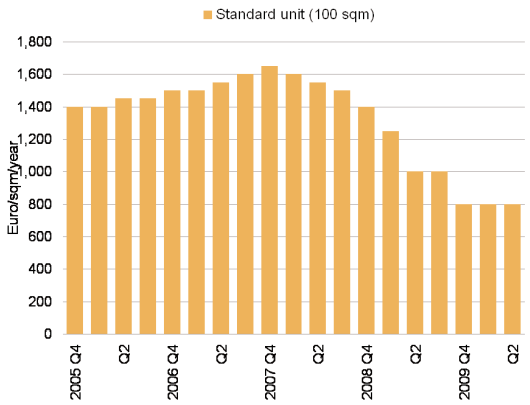
Outlook

Although consumer sentiment and retail sales have shown some improvement in recent months, consumers in general are still cautious about the future. Unemployment has not yet stabilised and further budget cuts coupled with possible tax increases is likely to affect consumer spending in the future.

National GDP and consumer spending

Source: Oxford Economics

Dublin prime shopping centre rents



Source: Savills Research

Italy

Economy

GDP growth surprised on the upside in Q1 reaching 0.4%. However the forecast for the year as a whole is just 0.5% and 0.7% for 2011. Domestic demand remains subdued and rising unemployment is sapping consumer morale. Private consumption is forecast to rise just 0.4% this year.

Demand

Consumer demand

In May 2010 the retail trade index (unadjusted) fell by 1.9% with respect to May 2009. The highest drops were noted in the Small and medium scale distribution sector (-2.9% yoy), while the Large-scale distribution sector has even posted a positive change over the first five months of the year (0.4% yoy unadjusted).

Retailer demand

By and large, tenants now adopt a more cautious development strategy, with only a few retailers having maintained an active expansion strategy during 2009 and the first half of 2010. Thus retailers tend to focus mainly on prime, low-risk shopping centres, with a solid track record and high footfall levels, while some retailers have started an intense reorganisation of their network of stores.

Supply

In the first half of 2010 the total GLA of retail schemes reached 12.8m sqm. Shopping centres accounted for 86.5%, followed by retail parks (8.1%), and by factory outlet centres (3.8%). Distribution by territory is not homogeneous. More than half of the existing GLA is located in Northern Italy. Although Italy remains one of the most interesting markets in Europe, with an average national density of large-scale retail space of 214sqm/'000 population, over the last year development activity registered a decrease. The economic crisis has caused a slow-down in new developments. The opening of many schemes whose completion was expected for 2010 has been postponed. On a regional basis, the most intensive building activity will concern the regions of Lombardy, Latium (and the city of Rome in particular), and Emilia-Romagna, even though the density of the latter ones is higher than the Italian average.

Rents

After the decrease registered during 2009, during the first half of 2010, rents in prime locations seem to have stabilised, while rents in secondary schemes remain weak. Centres that opened recently in secondary locations opened with many vacant units and with the let units negotiated at lower levels than originally expected.

Investment market

As in other global markets, the volume of investment transactions in Italy has been decreasing since the second half of 2007. Thus, during the first half of 2010, investment activity has remained limited, even though two significant deals were closed, which showed foreign investors' renewed interest in the Italian market and in prime products. Generally speaking, even though investors appear more optimistic than last year, they continue to be very selective and more cautious in their investment choices, looking mainly at prime products, which offer better covenant and lower risks.

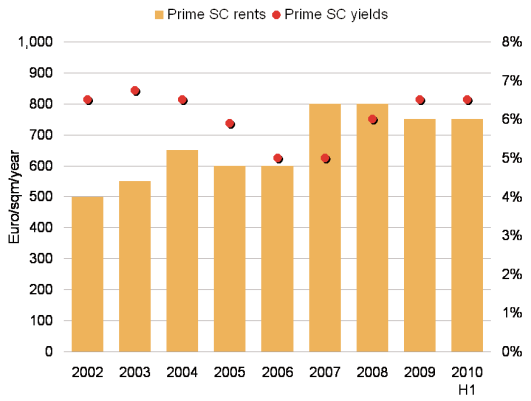
Outlook

Italy continues to be one of Europe's biggest retail markets with an average undersupply of shopping centre space and a changing retail structure. The increasing density of shopping centres in the north, due to extensions and refurbishments of existing shopping centres, will result in more moderate but continued supply in strategic locations, while the development of new retail schemes will predominantly focus on central and southern Italy. Shopping centres are popular with foreign retail chains and will continue to be a popular entry point into the fragmented Italian market. In the current market, however, this trend is focused on prime locations.

National GDP and consumer spending

Sources: Oxford Economics

Prime Milan shopping centre rents and yields



Source: Savills Research

The Netherlands

Economy

Quarterly GDP showed an increase of 0.6% in Q1 2010 after a full year of economic decline. This economic growth has mainly been driven by a strong increase in export: +8.2% in Q1 2010. Consumer spending remained subdued, with a decline of -0,4% in Q1 2010, which is in line with the general decrease in consumer trust, from -10 in January to -18 in June. Positive development is the significant decrease of unemployment: from 6.1% in February to 5.5% in May.

Demand

Consumer demand

Retail sales reflected an annual decrease in household consumption both in Q1 (-1.7%) and in May (-0.9%). Especially the non-food sector is under serious strain with May sales dropping by 3.5%. At the same time supermarkets still manage to keep their ground with an increase of 0.4% in May.

Retailer demand

Retailer demand remains limited and take-up in Q1 was about 70,000 sqm, around 10% lower than that of last year. Although there is no vacancy present at the prime high streets, the number of vacant stores at secondary locations is increasing significantly. A period such as this provides opportunities for expanding chains, illustrated by the entrance to the Dutch market of retailers such as New Look, Primark, Saint Tropez, Massimo Dutti, Stradivarius and Hollister.

Supply

Due to tight planning control the structure of the Dutch retail market is characterised by a focus on high street retail and in-town shopping centres. The total amount of shopping centre space is over 3.9m sqm, of which 56% represents prime city centre schemes. Retail warehouse agglomerations, mainly reserved for the sale of bulky goods such as furniture, DIY and garden centres, amount to about 1.9m sqm. Next to that three factory outlet centres are operating. Plans for a 100,000 sqm out-of-town retail centre next to Tilburg have been cancelled due to opposition from public bodies, local retailers and part of population.

Rents

In-town rental values have been growing by a steady 3.0-4.0% per annum up to two years ago. Since then prime rents have stabilised and rents at secondary locations has been under downward pressure. This pressure is also evident in the rise of premiums paid for taking-over existing stores. Out-of-town retail warehousing rents have remained stable for a number of years and vary between €75.00/sqm/year and €140.00/sqm/year.

Investment market

In Q1 2010 the retail investment volume reached €480m, an enormous increase compared to the €144m of the same quarter in 2009. The acquisition by Wereldhave of a shopping centre portfolio from Unibail-Rodamco for €207m was the largest retail investments since Q1 2008. The large retail investment volume clearly indicates that retail is much sought-after by investors. This goes especially for prime property. Overall the supply of (new) large-scale schemes is generally small. This limits the potential of the Dutch retail market for foreign investors. Gross yields for shopping center retail remain stable at 6.50%. Gross yields for high street retail stand at 5.70% and for retail warehouses at 8.00%.

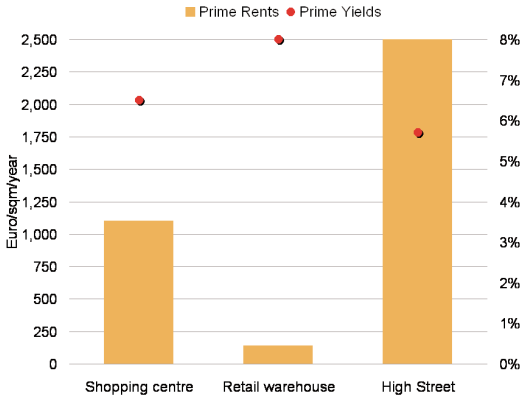
Outlook

The Netherlands are currently at the bottom of the economic downswing and although recovery is imminent this will remain a slow and long process. Oxford Economics forecast 1.2% GDP growth and 1.4% consumer spending growth for 2010. Take-up levels in the retail sector for the remainder of 2010 and 2011 will remain subdued, with a potential recovery expected in 2012.

National GDP and consumer spending

Source: Oxford Economics

Amsterdam prime rents and yields



Source: Savills Research

Norway

Economy

Mainland GDP, which excludes the volatile petroleum sector, grew 0.1% on the quarter in Q1. But including the oil sector, GDP fell by 0.1%. According to Oxford Economics GDP is set to make a gradual recovery during the rest of the year. Household spending will be the main driver of growth. Private consumption contracted at the end of 2008 and early 2009 as uncertainty about the economy weighed heavily on consumer confidence. But real disposable income growth remained robust in 2009 and, as a result, private consumption grew strongly in H2 last year. Consumer confidence improved to a two-year high in Q1 this year, the result of both a more optimistic view of the current economic situation and a more favourable outlook for the economy.

Demand

Consumer demand

After three months with falls in the index of household consumption of goods, the index. Car purchases and use as well as books and leisure article purchases contributed towards the growth. Clothes and shoes purchases on the other hand reduced it. Compared to the same month in 2009 the index remained unchanged. Over the same 12-month period the volume index of retail sales dropped by 3.2% and the value by 1.6%, while on a monthly basis there was a rise of 0.2%.

Retailer demand

The retail letting market is changing as many retailers and new international chains in particular are favouring shopping centre units in the expense of high street ones. There are now more vacancies in prestigious shopping streets as a result of retailers that are struggling with falling sales and high rents.

Supply

Shopping centres continue to increase their market share in the retail sector. An analysis of the main 190 shopping centre index shows an increase of 4.5% to a total sales volume of NOK 111bn (€13.9bn). Half of this rise was due to expansions. Centres in the north and south of Norway are showing the strongest growth, whereas the Oslo region growth is diluted from the leakage to the Swedish shopping centres located near the border. The biggest shopping centre owners and developers in the country are the norwegian companies Olav Thon, Steen & Strøm (SS), Amfi and Sektor. Last year international investors penetrated the market through the acquisition of SS by French and Dutch investors and recently the sale of Sektor to a Swedish fund (NIAM).

Rents

Prime retail rents remain broadly stable for both high street and large scale retail format units. However shopping centre units are more than 50% cheaper compared to the high street. A standard unit (100sqm) in a prime shopping mall costs about NOK4,000/sqm/year (€440) compared to NOK10,000/sqsm/year (€1,110) on the high street.

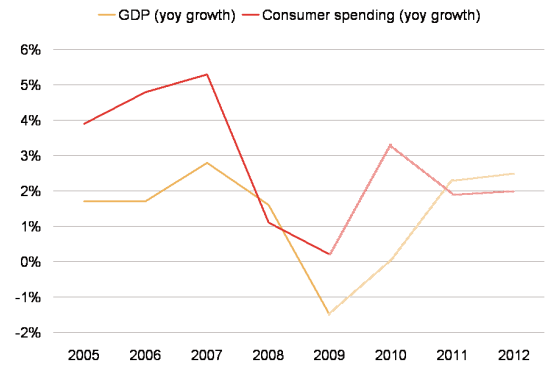
Investment market

Shopping centers and retail parks are in demand among Norwegian investors. The sales volume of such properties amounted to NOK2.4bn (€0.3bn) last year (18% of total investment volume). International buyers have also noticed healthy private consumption figures and consequently show more interest. Although there are few transactions of large shopping centers, prime yields are similar to top CBD office assets at 6.00%-7.00%.

Outlook

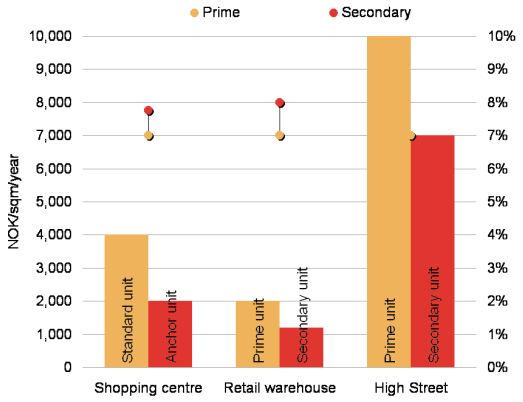
GDP is forecast to expand by just 0.7% in 2010 and to accelerate to 2.3% in 2011. Higher confidence, combined with continued growth in incomes, will translate into an increase in private spending of 3.4% this year. But real disposable income growth will moderate over the next few years, so private consumption growth is expected to decelerate after 2010. We forecast that spending growth will slow to 2.2% in 2011.

National GDP and consumer spending



Source: Oxford Economics

Retail rents and yields



Source: Savills Research

Poland

Economy

GDP rose by 0.5% on the quarter in Q1, resulting in year-on-year growth of 2.8%. Private consumption continued to be characterised by a lacklustre rate of expansion, held back by the continued deterioration in the labour market. Although the April data suggest that the jobless rate may have peaked, Oxford Economics expect any recovery in the labour market to be subdued, meaning that growth in consumer spending will remain anaemic for the rest of 2010 amounting to 2.0% for the year.

Demand

Consumer demand

From February 2006 to July 2008 the monthly yoy growth rate of consumer spending ranged between 10.1%-23.8%. As a result of the economic slowdown the pace of growth of consumer spending slowed down significantly with a record low level in March 2009 (-0.8%). Since April 2009 the monthly yoy growth rates of consumer spending ranged between 0.9-8.7%.

Retailer demand

Since the second half of 2008 most retailers are much more cautious with their expansion plans. Many retailers have reviewed their existing chains and decided to withdraw from the locations that are not profitable. The situation is now improving and in the first half of 2010 we observe significant recovery in demand. In prime shopping centres demand remains stable and best developments are usually mostly commercialized prior to completion. In case of the existing prime shopping centres landlords still have some waiting lists of tenants interested in leasing units. The situation is worse in less popular locations.

Supply

At the end of 2009 the stock of shopping centres in Poland amounted to about 7.7m sqm. Majority of this has been concentrated within eight largest regional cities (Warsaw, Lodz, Krakow, Poznan, Wroclaw, Katowice, TriCity and Szczecin). In 2009 new developments were in the region of 750,000 sqm of GLA. This relatively high level resulted from the large volume of developments that had started before the financial crisis (mainly in the first half of 2008). Although there are more than 200 shopping centres planned for 2010–2013, we anticipate that the level of completions in 2010 will not exceed 400,000sqm. The new supply will be probably much higher in 2011–2012 as more financing becomes available for new developments.

Rents

Headline rents decreased over the past 18 months by about 20-25%. Prime rents for units of about 100sqm amount currently to €60.00/sqm/month in Warsaw and €40-55.00/sqm/month in other major regional Polish cities. Rents for the largest units in retail parks remain stable and range between €9-12.00/sqm/month. High street rents decreased slightly in Warsaw and more significantly in other regional cities.

Investment market

Following the very low investment activity in 2009 we now see that the demand for investment properties is recovering. Savills anticipates that the retail sector will increase it's domination of investment activity in 2010. There is a greater volume of retail properties for sale at over €2.0bn, which will be the base for new deals. Prime retail yields amount to 7.00-7.50% There is, however, a wider gap for yields for assets in the less targeted regional and second-tier cities.

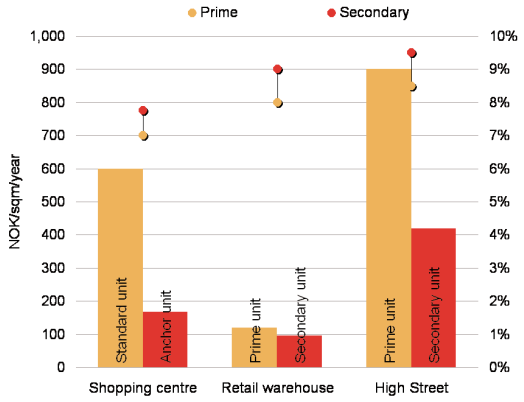
Outlook

The average ratio of shopping centre floorspace remains relatively low for Poland (about 220sqm/1,000 population), which indicates further future development potential. We expect the developers to be active in both regional and secondary and tertiary cities. For the regional markets we anticipate that developers will focus on large multi-functional projects as well as on much smaller convenience centres intended to serve local neighbourhood communities. We also expect that modern new supply will be further replacing older stock that does not meet current market requirements.

National GDP and consumer spending

Source: Oxford Economics

Retail rents and yields



Source: Savills Research

Portugal

Economy

Although an increase in domestic demand driven by private consumption and a less severe fall in investment resulted in GDP rising 1.1% on the quarter in Q1 2010, this surprising bounce will almost certainly prove to be short lived as the country now faces even tougher austerity measures. Domestic demand is forecast to remain weak, exacerbating the delay in economic recovery. Oxford Economics now forecasts a fall of 1.1% in GDP this year and 1.5% in 2011, meaning that Portugal will be one of the last Eurozone countries to come out of recession.

Demand

Consumer demand

Households' rapidly declining confidence has seen the savings rate rise from negative levels in 2007-08 to 1.0% in 2009. Retail sales dropped a seasonally adjusted 1.6% year-on-year in June, compared to a 0.8% growth in the previous month. Month-on-month, retail sales decreased 1.1% in June, following a 1.0% fall in the previous month. In the second quarter, retail sales dropped 0.3% on an annual basis, compared to a 0.8% growth in the first quarter.

Retailer demand

In this environment retailers have become more cautious, delaying their expansion plans and renegotiating their current positions. Only certain mass market and value retailers are still considering new locations, but only in the best shopping centres.

Supply

Negative economic fundamentals and the restrictions in lending have put a halt on the development of new retail schemes. Nevertheless, 2009 was still a productive year, in terms of retail development completions, which had started prior to the crisis. Despite the fact that numerous projects had been proposed for the years to come, only a few of them will commence construction with the majority being postponed. Still we anticipate the completions this year to be in the region of 280,000 sqm including shopping centres and specialised formats.

Rents

Lower retailer demand is having a negative impact on average rental levels. Over the past 6-9 months all but the very best shopping centres have been forced to offer an increasing volume of temporary rental discounts to enable retailers to keep costs at an affordable level and to avoid increasing tenant "churn" and higher vacancy rates.

Investment market

Despite the fact that a number of retail investment deals have been under negotiation in the first half of 2010, some of them failed to complete, keeping the volume of transactions at low levels. A number of supermarket sale-and-leaseback operations should improve this low volume by the year-end. Prime achievable shopping centre yields are in the region of 7.0%, 50 bp lower compared to 12 months ago, while prime retail parks could currently achieve about 7.5%.

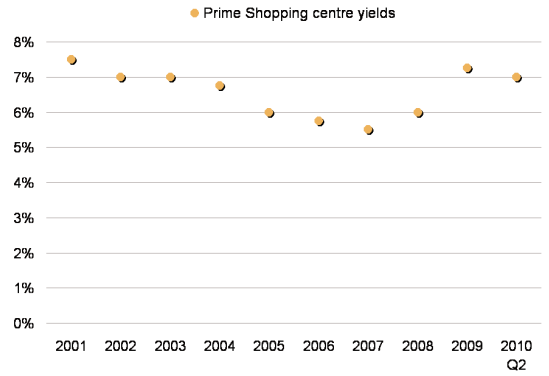
Outlook

Given the Eurozone debt crisis and the need for a faster pace of public finance restructuring, initial expectations of a mild recovery in 2010 have been postponed. A freeze in public sector employment and the need for private companies to cut staff levels to align costs with domestic demand will lead to a further rise in unemployment, which is expected to peak at 11.8% in 2011. This will weigh heavily on consumption. With an expected drop of 1.2% in disposable income, Oxford Econonomics now forecasts a small 0.2% increase in private consumption this year but followed by a decline of 2.2% in 2011. As this is likely to translate to lower retail volumes, retailers and developers should remain cautious focusing on the efficient operation of their current assets.

National GDP and consumer spending

Source: Oxford Economics

Lisbon prime shopping centre yields



Source: Abacus Property and Savills Research

Romania

Economy

Q1 GDP data show that Romania remained in recession and as a result it seems likely that GDP will contract by 1.8% in 2010. But risks remain weighted to the downside. Consumer and business confidence are still weak, especially after the 25% public sector salary cuts and the VAT increase from 19% to 24%. IMF sees an unemployment rate of 10.0% for this year in Romania and in Q1 was reported 8.1%.

Demand

Consumer demand

According to the latest data, the retail trade turnover index dropped by 8.1% yoy in 2009. However, minimarkets, supermarkets, hypermarkets and discounters (food, beverage, tobacco) reported a positive rate of 3.7%. The estimates for 2010 are pessimistic due to the latest measures that will have a negative effect on purchasing power.

Retailer demand

The majority of retailers are currently restructuring, even through closures, while developers and owners continue to adjust the tenant mix and to provide concessions in order to keep high occupancy rates. On the other hand food discounters (Kaufland, Minimax, Penny Market, Plus) are their expansion plans, and some international retailers seize the opportunity to secure better locations or enter the market directly (Zara, Mango, Promod).

Supply

At the end of 2009 the country retail stock reached 2.0m sqm. Since the beginning of 2010 two major projects have been delivered; the Sun Plaza (80,000 sqm) in Bucharest and the Atrium Center (30,000 sqm) in Arad. By the end of this year there will be delivered another 70,000 sqm, including the Cocor Shopping Center and the Estrada Retail Project in Bucharest and the Gold Plaza in Baia Mare. Projected pipeline is larger, potentially reaching 350,000 sqm in Bucharest and nine secondary cities, but their precise delivery dates are uncertain.

Rents

In 2009 the overall rent decrease was in the range of 25% to 50% based on the performance of the shopping centers and the landlords' interest to maintain the occupancy rate. This year the rental level remained stable. For prime units in the best performing shopping centers in Bucharest the rent range is €70.00-80.00/sqm/month while prime high street units achieve rents around the same level of €75.00/sqm/month. In order to secure new lettings, incentives such as tenant-friendly lease structures are offered by landlords.

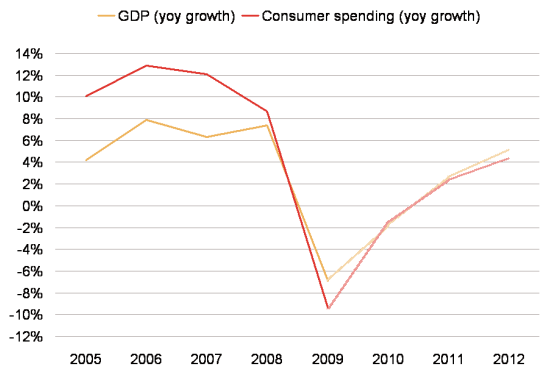
Investment market

The volume of investment transactions in the first half of this year was about €200m, almost three times higher compared to the first half of 2009 and retail accounts for 85% of the total. For the first time in the market a distressed asset was sold through a public auction. It was the sale of Tiago Mall Oradea shopping centre, which had never opened and the construction company that developed it is facing insolvency. Prime yields have slightly increased and are in the range of 9.00% – 9.50%, but we do not expect them to change until the end of the year.

Outlook

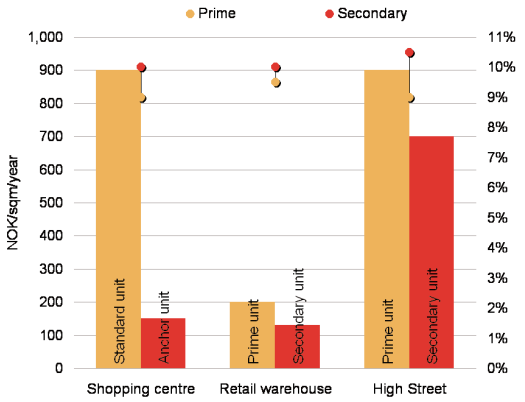
Households are expected to remain cautious this year in their spending habits, given the threat of significant public sector job cuts under the IMF programme. Therefore consumer spending is forecasted to contract by 1.6% this year. Nevertheless recovery momentum is expected to build into next year, lifting GDP growth to 2.7% in 2011 and 5.2% in 2012. Financing for new retail developments has dried out over the past 12-18 months, therefore new deliveries are expected to be insignificant until the end of 2012. Existing malls delivered less than 2-3 years ago will continue to struggle for stability, while good property management will become more important than ever.

National GDP and consumer spending



Source: Oxford Economics

Prime Bucharest rents and yields



Source: Savills Research

Spain

Economy

Following seven quarters of recession, the Spanish economy finally returned to growth in the first quarter of 2010 having registered an increase in GDP of 0.1% qoq. Nevertheless, the annual variation remained negative at 1.3%. Oxford Economics sees GDP growth contracting by 0.6% this year with the downside risk being the fragility of the banking sector.

Demand

Consumer demand

The accumulated footfall index up to May portrays a scene of stability with regards to the same period in 2009, while sales have grown between 5% and 6%, according to AECC (Spanish Shopping Centre Association). Consumer spending in the first quarter dropped by a mere 0.6%, far from the -3.5% in the end of 2009 and the -5.5% in the first quarter of 2009.

Retailer demand

In spite of the good results on turnover during the first months of the year, the consumer confidence index published by the ICO in May continues to be perceived unfavourably, which leads to retailers being cautious in their expansion plans and very selective at the moment of choosing suitable locations.

Supply

2008 was a record year in new completions with more than 1m sqm constructed. In the middle of year it was expected that 2009's figures would be even higher, but the economic situation and the difficulty in obtaining finance resulted in a final 2009 volume of approximately 400,000 sqm. The forecasts for 2010 are a little more than 455,000 sqm. Notably, the surface area that will be opens in Catalonia, will comprise almost 25% of the total, because, until now, many administrative requests impeded the opening of big surfaces in the community. During the first half of the year, 126,000 sqm of shopping centre and retail park space has opened, close to 30% of the forecast total. Nowadays the stock of commercial surface is close to 13.5m sqm and the commercial density is 289sqm/'000 inhabitants. Madrid stays on the top of the ranking with 473 sqm and Extremadura closes the list with 111 sqm.

Rents

The trend over recent months has been the decrease of rental levels to compensate the increase in the distress rate. The discreet levels of sales have forced the retailers to request temporary rent reductions to be able to support its activity. The discounts can reach between 20% and 25% during a period between three and twelve months, after which the economic situation of the business is verified and the rental situation is decided. But in the event of renovations or renegotations in certain centers it is possible to find stability or even little increases, especially in prime assets.

Investment market

The total investment volume on the market retail during 2009 was close to €700m, a similar figure to the results obtained in the years 2000, 2001 and 2002. Between January and June 2010 a little more than €465m has already been registered. The shopping centres have become a focus of attention with these assets comprising 43% of the total, followed very closely by the high street portfolios. All the buyers have been foreign funds; the domestic buyers prefer other types of product, high street units and retail warehouse units. Since the end of the year 2009 prime shopping centre yields remain at 7.00% and the secondary centers at 8.50% (gross yields).

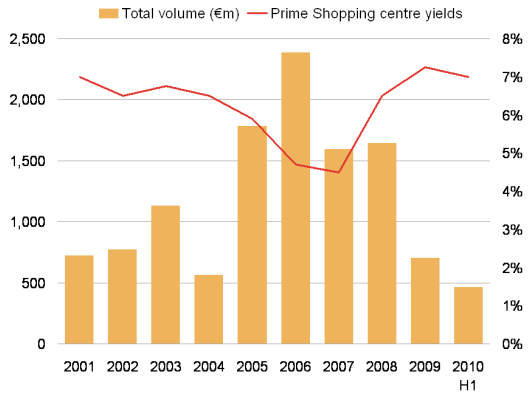
Outlook

Consumption, which fell by nearly 5% last year, will contract by a further 0.7% in 2010, with deterioration of the labour market the key driver. The harmonized unemployment rate has continued to rise, reaching 19.7% in April. Oxford Economics forecast 21% unemployment rate by mid 2011. This will depress wages considerably, with potential adverse effects on retail spending.

National GDP and consumer spending

Source: Oxford Economics

Spain retail investment and yields



Source: Savills Research

Sweden

Economy

GDP accelerated by 1.4% in the first quarter of 2010, raising the GDP forecast for the year to 2.8% (Oxford Economics). The labour market has also shown some signs of improvement, which should in turn help underpin consumer spending.

Demand

Consumer demand

The consumer confidence indicator has improved rapidly since it bottomed out in late 2008 and is now indicating strong consumer confidence. Retail trade has remained fairly strong throughout the economic downturn, in spite of the consumers increasing savings ratios. Retail turnover indicated an increase of 1.6% percent in nominal prices from April 2009 to April 2010.

Retailer demand

The economic downturn led to weaker demand as many retailers put expansion plans on hold and instead focus on their current units often closing down less profitable ones The sentiment among the retailers has however improved significantly in recent months and the hesitant attitude has in many cases shifted towards a renewed positive attitude towards growth. A number of big-box retailers have announced new stores being opened or expansion plans for growth. Bankruptcies among smaller non-chain retailers are still on elevated levels.

Supply

The total retail stock in Sweden amounts to approximately 18m sqm, including high street retail units, shopping centres and retail parks. Stockholm accounts for an estimated quarter of the total stock. Before the economic downturn the retail sector grew rapidly, mainly due to large extensions of existing shopping centres and the development of new retail parks. The downturn caused many development projects to be put on hold or cancelled. In recent months a few new projects have been announced.

Rents

Rents for shopping centres have remained stable throughout the economic downturn. Demand for shopping centre space is, with a few exceptions, still strong and the majority of the larger centres are fully let. Bankruptcies among smaller non-chain tenants have increased, but the units are usually let with minor losses due to short void periods. Rents for retail warehousing have also remained stable, but demand for new space is relatively weak.

Investment market

Investment volumes within the retail segment dropped sharply in mid-2008 and have remained at low levels ever since. The retail share during 2009 amounted to just under SEK4.0bn (€430m), which represents approximately 8% of the total investment volume and is below the normal share of about 10-15%. The retail investment volume for the first half of 2010 amounted about SEK3.3bn (€350m), which is in line with the previous year. Investor appetite for retail is clearly picking up as investors have seen that the retail segment has fared relatively well during the recession. There is a definite increase of product on the market and we expect investment volumes to pick up during the second half of 2010. We have yet to see any transactions regarding prime shopping centres and we estimate that the prime yield is around 6.00%. Recent retail warehouse transactions indicate that prime yields are hardening and have moved down about 50 bps from 7.00% to around 6.50%.

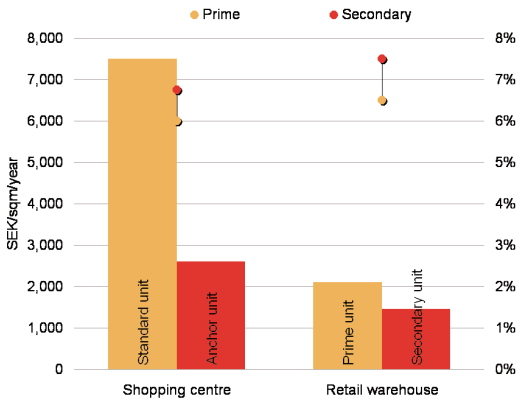
Outlook

Retail rents have proved to be resilient to the economic downswings and vacancies have remained at modest levels. However, there is still uncertainty regarding how rising lending rates are going to affect the consumption pattern and how long the savings ratios are going to be at high levels. Developers are still cautious about starting new projects without significant pre-lets, which we expect will continue throughout the year. We expect continued high interest for prime products and spreads to remain high between prime and secondary assets.

National GDP and consumer spending

Source: Oxford Economics

Stockholm retail rents and yields



Source: Savills Research

Turkey

Economy

The Turkish economy is recovering strongly after severely contracting in 2009. GDP dropped by 4.75% last year, a sharp contrast to the 6.0% average annual growth rate in 2004-08. The global financial crisis hit the economy hard, thereby reducing fixed investment and external demand dramatically. The European Commission expects a gradual recovery in consumption in 2010 supported by labour market developments, credit growth, and consumer and business confidence.

Demand

Consumer demand

Compared to last year, consumer confidence has increased. According to latest available data, consumer confidence index in May 2010 was 3.8% higher compared to the same period in 2009. This increase originated from the improvements in consumers' assessments, their purchasing power, and general economic improvement.

Retailer demand

Turkish Retail Market maintains its attractiveness. Retailer demand has increased since Q4 2009. During 2009 and 2010 international brands such as Brioni, Chanel, Vilebrequin, Hermes, Prada, Mont Blanc, Kenneth Cole, Miu Miu, Uterqüe, Rossmann, Decathlon, Best Buy, Leroy Merlin, Basler, Catimini, Aftershock, Bijou Brigette, Tartine et Chocolat and Paris Hilton entered the market. Demand from anchor tenants such as DIY, Hypermarket, electronics market towards primary projects is very strong. Tesco, Darty, Electroworld, Best Buy, Mediamarkt, Leroy Merlin, IKEA and Baumax plan to expand their operations in the Turkish Market. Retailer demand is also strong for outlet concepts due to price sensitive consumer attitude.

Supply

As of the Q2 2010 total GLA in the country is 6,155,37 sqm representing an increase of 21% compared to 2008. The national average density is 84sqm/'000 inhabitants. The highest retail space densities are in Ankara, İstanbul, Eskişehir and Denizli. The vacancy rate in shopping centers didn't change compared to previous year. Due to the international financial crisis, some of the projects under construction or in the pipeline have been delayed. Shopping centers are mostly designed as lifestyle centres and become places for social interaction, as many people visit the centers to spend their spare time.

Rents

Shopping center rents largely went down during 2008-2009 because of the oversupply situation in some areas and the economic crisis. This decrease was realized as temporary rent reduction and it was not reflected in lease agreements. Temporary reductions in some centers are still continuing. The shopping centre prime rent is at USD960/sqm/year for units 150 sqm and USD420/sqm/year for units with a GLA of 1,000 and 1,500 sqm.

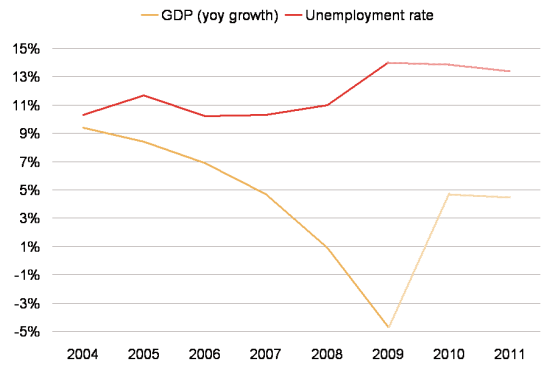
Investment market

There is no serious investment realized since the beginning of the year, with the exception of the transaction between Union Investment and Multi Corporation Union Investment, which bought the remaining 35% of the shares owned by Multi Corporation at USD68m and became the 100% owner of the Forum Mersin shopping center in the South East of Turkey. International players that are interested in entering the market need to set up joint ventures with successful and experienced local developers. Prime retail yields haven't changed compared to previous year as 8.00% and to 9.00% for secondary products.

Outlook

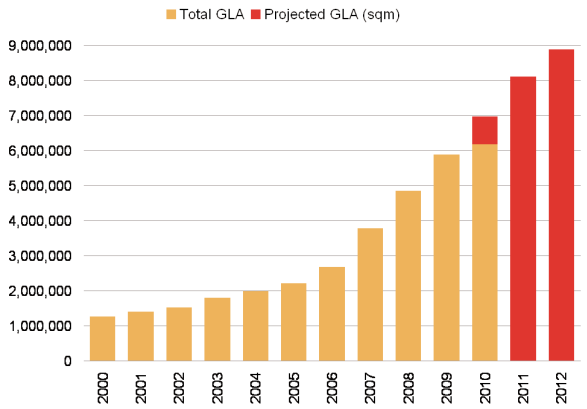
Decreasing rents, rising population and competition will increase the attraction of the market. The impact of the crisis is relatively less severe compared to the European Countries. Austin Reed, Houblot, Terranova, Lanvin, Sfera, Zippy, Sportzone Hollister, Cortefie, H&M and Austrian furniture Kika are expected to entry the market within the next two years.

National GDP and unemployment rate



Source: European Commission

Turkey shopping centre supply



Source: Kuzey Bati - Savills Research

UK

Economy

Latest data still point to a steady but unspectacular pace of recovery. GDP growth for Q1 was revised up to 0.3%, slightly slower than the outturn for 2009 Q4. Oxford Economics expect a gradual upturn led by exports and in the short term, restocking. Consumer upturn will continue to lag given the weak prospects for household incomes.

Demand

Consumer demand

The retail market in the UK is beginning to recover from recession, though consumers continue to remain cautious and are saving a higher proportion of their income than they have done for several years. Retail sales have been broadly flat since early autumn and private consumption growth for the year is forecast to remain almost flat at 0.5%.

Retailer demand

In the occupational market pockets of undersupply are beginning to emerge in prime locations due to the shortage of new developments over the last three years. Some retailers continue to expand, though they are highly selective on location and focusing only on strong catchments where they can deliver above average profits per square foot.

Supply

Vacancy rates peaked at about 14% and now stand at an average of 12% across the UK. However, this average hides a long list of secondary and tertiary retail locations where vacancy rates are in excess of 20% and retailer demand is non-existent. Looking beyond the prospects for the next 18 months the UK retail market is facing a significantly restrained development pipeline, with virtually no new retail stock to be delivered anywhere in the UK over the next five years.

Rents

Headline rents remain under downward pressure, though there is evidence that in the most sought-after markets net-effective rents have begun to rise.

Investment market

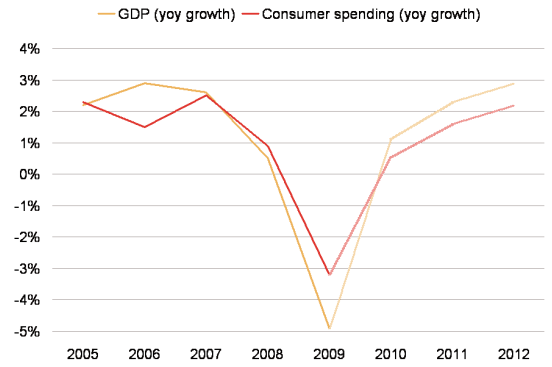
A return to risk aversion in investor's minds has heightened the imbalance between the demand and supply of prime retail investments across the UK. Prime retail yields have stabilised over the last three months, following their dramatic falls last year. We estimate that typical prime yields on standard shops stand at 4.75%, on shopping centres at 6.00%, and on fashion-orientated retail warehouse parks at 5.25%.

Outlook

Looking ahead the big news of recent weeks has been the emergency budget initiated by the new government. In common with many European countries a huge package of austerity measures has been initiated, which include a rise in the standard rate of VAT to 20%. This will undoubtedly impact on shopper behaviour and retailer's margins, and we expect that it will slow down some retailer's expansion plans over the next year. However, the lack of new developments should result on falling vacancy rates and rising rents as the economy and consumer confidence begin to recover firmly from 2012. In prime locations we already expect that the shortage of large well-configured units will start putting upward pressure on headline rents next year. On the other hand, in markets with high voids and low retailer demand we remain pessimistic on rental growth prospects.

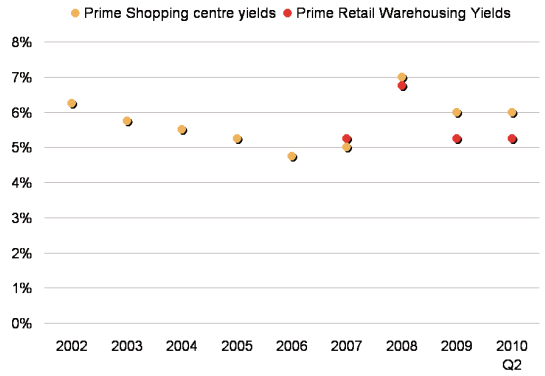
Investor demand for prime product should result in further prime yield hardening, albeit at a slower rate than we saw last year. Secondary locations will be questioned as to their ability to deliver rental growth over the next five years, and where the answer is negative we expect that capital values will fall and yields will rise.

National GDP and consumer spending



Source: Oxford Economics

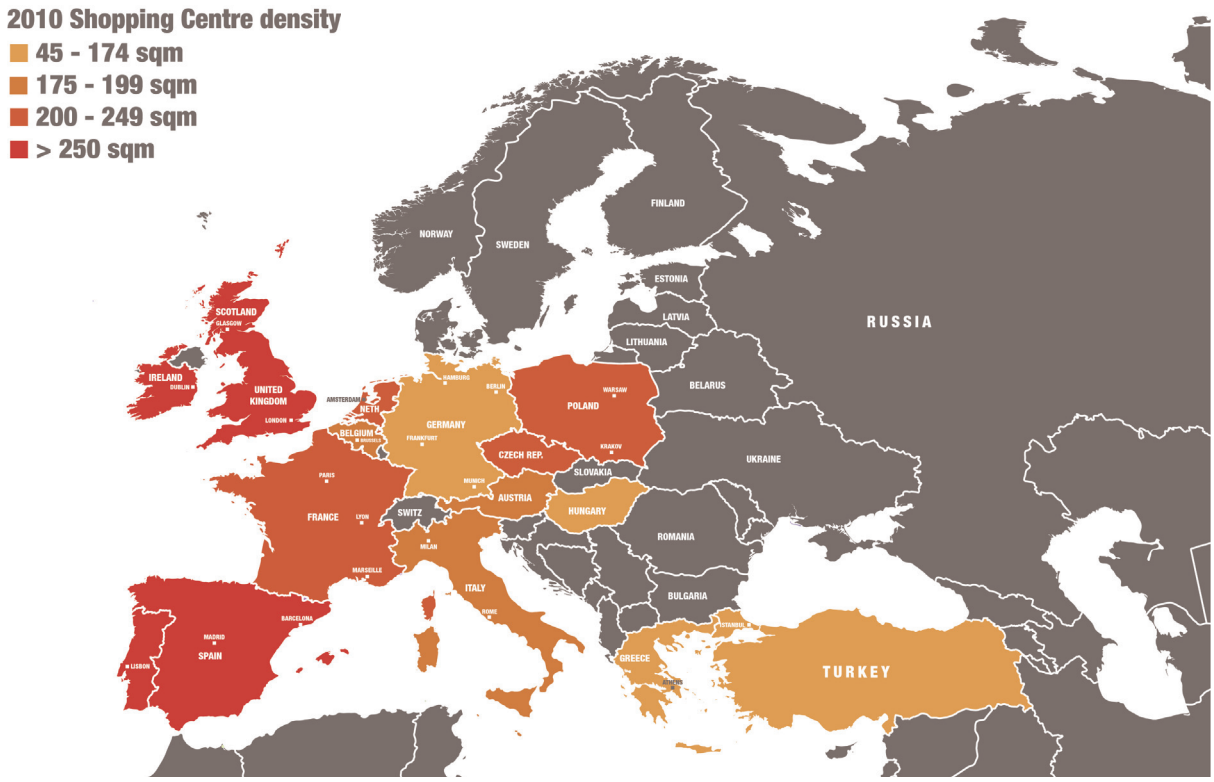
Prime London retail yields



Source: Savills Research

Map and contacts

Shopping centre density map



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