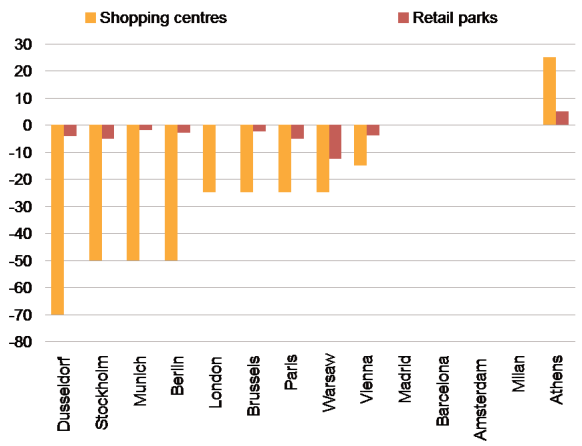
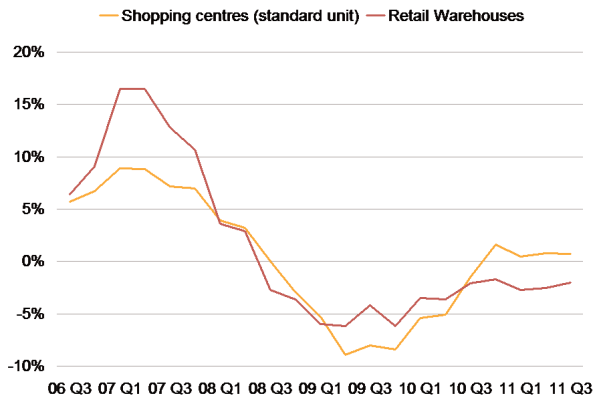
European Retail Markets

Autumn 2011

Q3 2010 - Q3 2011 prime yield shift



Average prime rental growth stabilising



"Retailers and investors will continue to primarily target prime properties where levels of footfall are high. The continually declining development pipeline should keep prime rental values steady and fuel competition amongst investors for prime assets, leading to further compression of yields."

Lydia Brissy - Director European Research

- In the current distressed economic climate, consumer confidence continues to deteriorate. The European index was at -20.2 in October from -11.6 a year ago. According to Focus Economics, consumer spending in the Euro area should remain steady next year: +0.5% yoy expected in 2012, in line with the figure expected by year-end.
- Few retailers are looking into expansion but with cautious approaches targeting mainly prime locations with high level of footfall. Network optimisation remains the predominant strategy.
- Development activity remains constrained by tight financing conditions and the economic uncertainty. Between 2011 and 2013 the annual supply of shopping centres is expected to drop by 12.5% pa on average, compared to an average annual growth of 22.4% pa since 2004.
- In most locations retail rents remained stable over the past year. In Istanbul, London and Stockholm, shopping centre rents increased by 13%, 10% and 7% yoy respectively. On average the annual rental growth is close to 0.7% for prime shopping centres against -1.5% a year ago.
- The amounts invested in retail properties across Europe decreased compared to last year. On average, the share of retail investments went down from 34% last year to 25% recorded in Q3. This rather reflects the lack of prime opportunities than a loss of interest from investors.
- The lack of prime available retail properties results in strong hardening of yields. Over the past 12 month, the average yields compression was -22 bps for shopping centres and -2 for retail warehouses.

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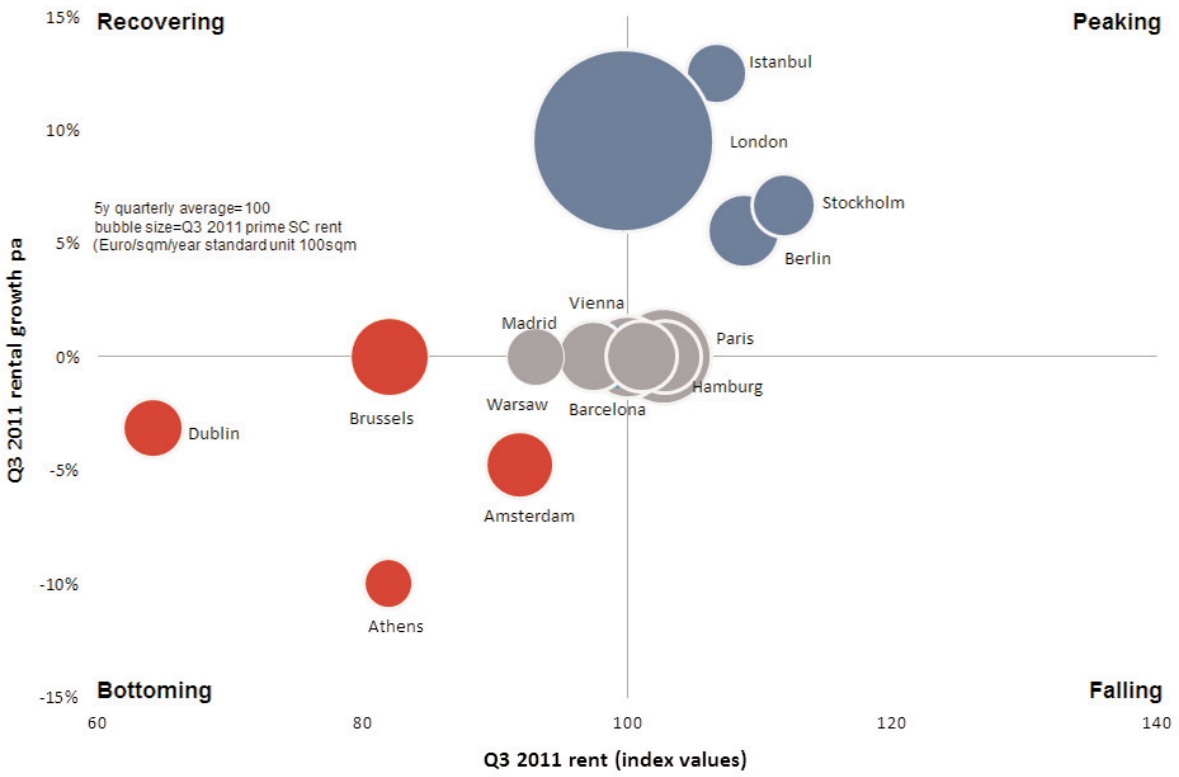
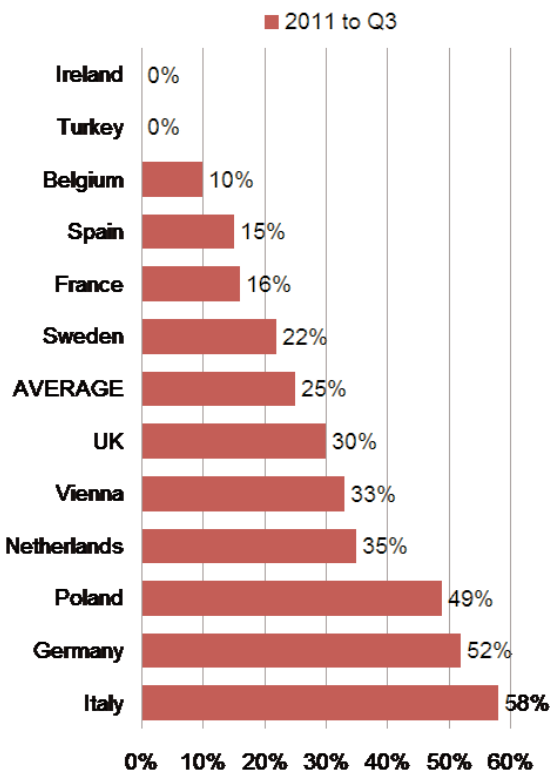
European retail trends

Savills shopping center rental matrix



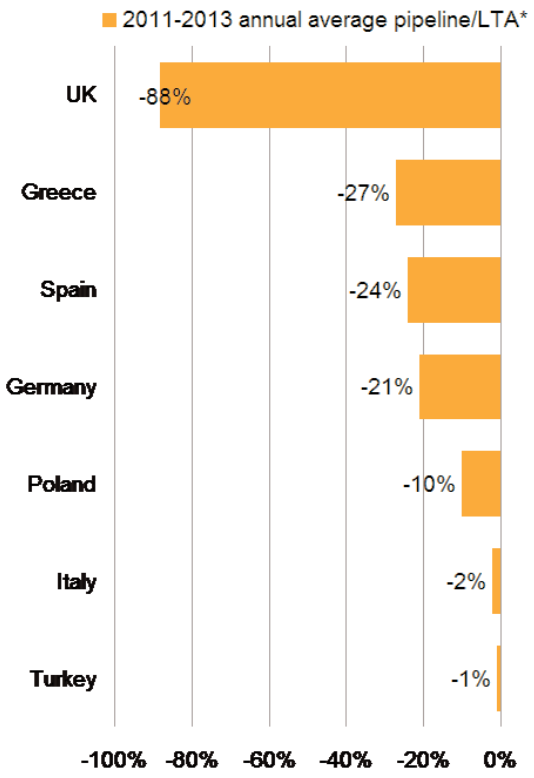
Source: Savills Research

Share of retail investment



Source: Savills Research

Shopping centers (SC) pipeline



Source: Savills Research / *Long term average

Austria

Economy

The positive domestic development is overshadowed by the Euro and debt crisis, which is increasingly affecting Austrian financial institutions and threatens to become a burden for Austrian taxpayers too. Growth in 2011 is estimated to reach 2.9% by year-end. As the economy is strongly dependent on Germany and CEE, the overall development in these markets will be decisive for Austria.

Demand

Consumer demand

Good economic growth in 2010 and during the first half of 2011 did not have a positive knock-on effect on private spending and there is no sign of improvement in the near future. Figures for Q1 and Q2 this year grew by 1.2% but as insecurity is increasingly hanging over the financial system and the economic situation, we expect consumer spending growth rates to decline.

Retailer demand

Demand for inner-city locations has increased as discounters and other tenants traditionally located in retail parks expand into urban areas. Demand from the food sector has become surprisingly strong, food chains expand with smaller shops focussing on convenience food and basics. Demand from clothes and footwear companies are slightly up as well, but only in above-average locations. There is some demand from drugstores too, as they need more space for their outlets to implement additional service areas, especially for hairdressing and beauty services.

Supply

The most important retail projects are linked to the reorganisation of the railway system in Vienna. At the railway station Westbahnhof, a 17,000 sqm shopping centre will be opened in late 2011 and at railway station Wien Mitte in the city centre, a 28,000 sqm scheme will be opened next year. Both centres are virtually fully let, sparking optimism for the next big development at the new Central Railway Station. These new centres are not expected to compete with Viennese high streets, but to strengthen inner city retail activity and to bring shopping centres at the periphery under increasing pressure. However, besides these three large-scale schemes, development activity is weak. There are building permits for 85 major and medium-sized projects, but most of them will not be realised in the foreseeable future due to a lack of pre-lettings.

Rents

Rents are virtually unchanged since 2009 when the financial crises sparked a significant decline in prime values. In Q3 2011 highest rents are paid at Kohlmarkt in Vienna's "Golden U" with approx. €320 /sqm/year, but most new leases in the Golden U are between €180/sqm/year and €250/sqm/year. There is little change in shopping centre rents as well. The new schemes at Westbahnhof and Wien Mitte railway station recorded top rents.

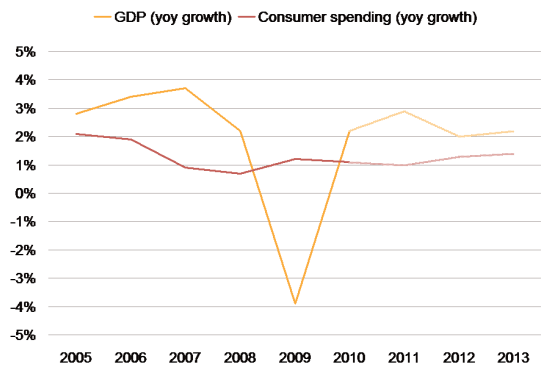
Investment market

The investment market for retail property was sluggish for another year as there is hardly any offer of prime investment products. Several larger deals in the office and hotel sector as well as numerous medium- and small-sized residential deals demonstrate that there is considerable interest from international and domestic investors, but they simply do not find anything appreciate to buy in the retail sector. Due to the total lack of transactions no evidence on yields is available.

Outlook

Given the relatively solid public debts situation there is some hope that Austria will be a bit better off than other European markets. However, growth estimations have been drastically cut for 2012 and considerations on higher taxation of real estate is another negative factor. However, the retail will be a stable segment of the overall real estate market with only limited pressure on rents and low vacancy rates. Developers will focus on the expansion of existing shopping centres and retail parks, but only in quality locations.

National GDP and consumer spending



Source: Oxford Economics

Vienna - Prime rents and yields

Source: EHL

Belgium

Economy

The strong start to the year means that we have raised our forecast for GDP growth in 2011. However, the strong upturn in activity seen in Q1 is unlikely to be sustained in the remainder of the year, when growth is expected to fall back as a number of temporary factors fade. Thereafter, growth should be close to its trend rate, with domestic demand becoming the main driver of the expansion. Overall, GDP is forecast to rise by 1.7% in 2012.

Demand

Consumer demand

Retail trade grew by 1.0% during H1 2011 and by 1.3% as per the end of August. Despite European macro-environment, which has deteriorated during the summer months, employment growth has continued in Belgium. On a Belgian level, retail trade is expected to continue showing signs of strength in a tough European macro-environment, though at a more moderate pace than previously recorded.

Retailer demand

Demand from retailers remains strong and the levels of take-up are higher than the previous years thanks to some letting transactions above 4,000 sqm in the periphery of main cities, pre-letting transactions in future shopping centers, expansions, and arrival of new retailers. The retail warehouse market is the only retail sub-sector in which the demand has remained stable since the beginning of the year. The level of demand in prime high street locations and shopping centers is strong but suffers from a shortage of space. In spite of the high demand, retailers generally remain cautious in the decision making process, which has lengthened.

Supply

Although low level of supply is expected in 2011 130 projects are currently in the pipeline and represent 1.6 million sqm. By the end of 2013 the Belgian stock should increase by 5% with 1 million sqm delivered. Two third of these projects are located in peripheral markets. In 2012 the 35,000 sqm of the shopping park in Olen should be delivered and another 200,000 sqm including 10 sites of Redevco and the Ikea shop in Wilrijk should be renovated. According to the current planning several shopping centers should be delivered in the next 3 years: Rive Gauche in Charleroi, Dok-Noord in Ghent, ex-Bosh in La Louvière, Just under the Sky in Brussels, City Mall in Verviers, Uplace in Machelen.

Rents

Since the increase over the second half of 2010, prime high street rents have remained stable at €1,800/sqm/year on the Meir in Antwerp and in Rue Neuve in Brussels. Prime shopping centers rents stand stable at €1,250/sqm/year. Prime rents in the retail warehouse sector have remained stable within the range of €150/sqm/annum and €170/sqm/annum in the best locations in the largest cities.

Investment market

Retail investment volume reached €85 million during the first half of 2011. The second semester is expected to outperform the first one, notably thanks to the closing of two major deals (Galleries St Lambert and Toison d'or). Most transactions were middle-sized such as the purchase of Jardin d'Harscamp in Namur by Intervest for €10 million. After a slight compression at the beginning of the year, prime retail yields have remained stable over the semester: 5.00% for high streets, 6.25% for retail warehouses, and 5.50% for shopping centers.

Outlook

The overall good Belgian economy figures and the likely resolution of the Belgian political deadlock are positive signs in the national retail market. Take-up figures should stay at high levels until the end of the year. However the current European sovereign debt crisis may lower investors' confidence, and as a consequence the retail market dynamism, and investment volumes.

National GDP and consumer spending

Sources: Oxford Economics

Belgium retail investment and SC yields

Source: Savills Research

France

Economy

The latest economic indicators point to a deceleration in the last quarter of the year, with business confidence dropping in October amid concerns that the European debt crisis and slower global growth will crimp demand. That said, industrial production rose unexpectedly in August and consumer confidence inched up in October on the back of a stable labour market.

Demand

Consumer demand

In this economic climate French consumers are cautious and more inclined toward saving instead of spending, as witnessed by the historically high level of the saving rate reached this year (17%). The impact was felt on the retail trade activity which slowed down during the last months. According to the CNCC, the shopping centre footfall kept a bearish annual trend and, in spite of a short-lived improvement in June (4.2 %), the shopping centre performance index declined by 7%. If types of spending did not change much, consumer behaviour is. Spending must be useful, thoughtful and effective. As consumer's demand is becoming more complex retailers are obliged to diversify their sales concepts and to multiply their services (small city supermarkets, on-line sale, drive-in concept, hard discount, factory outlet).

Retailer demand

In spite of the worsening economic context, the retail market fundamentals remain relatively secured and retailer demand continues although mainly focusing on prime locations. France is still attracting international retailers and new stores including Apple, Republic, Abercrombie, Zara and Marks and Spencer were opened this year. Some 1,277 retail projects have been submitted to the panning consents in 2010 (CDAC) of which 89% were approved.

Supply

Development of some 2,308,000 GLA were started in the first half of the year 2011, this is 61% of the total of 2010, which demonstrates positive retailers development policy. Nevertheless, the symptoms of the crisis still weigh on retail projects, notably the difficult and expensive financial terms and conditions. Retailers are seeking secured investment, consequently openings and extensions concentrate on well-known dynamic locations.

Rents

Prime rents remained stable over the course of the past twelve months, at €185/sqm/year for the best retail parks and at €2,000/sqm/year for the best located shopping centres. The length of negotiations remained overall unchanged although prime locations, which are rare, can be let extremely quickly.

Investment market

After two years of outbreak, marked by some big portfolio transactions, the retail investment market is weakening with only €1.3 billion invested between January and October this year. This is due to the combined effect of the lack of prime opportunities, the gap between buyer and seller price expectations and the unforeseeable economy. Insufficiently liquid to meet investor's demands, the core market is henceforth curbed. Negotiations are fierce and often end in highly competitive bids for assets. Additionally, there are some difficulties in obtaining loans exceeding €50 million. The bulk of investment deals this year was for an amount ranging from €5 to €20 million.

Prime yields hardened and standd at 5.00% for prime shopping centres and at 5.75% for retail parks. Secondary yields moved down by 25-30 basis points.

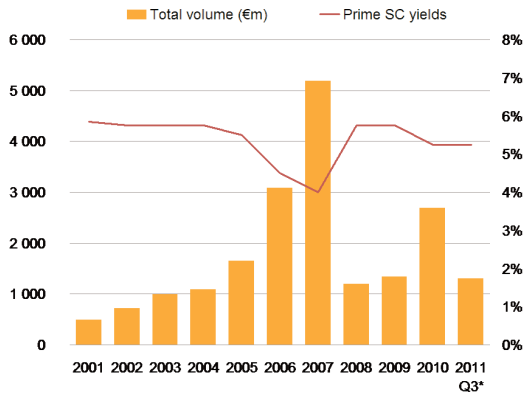
Outlook

Consumer demand is expected to remain stable in 2012. Private demand should reach 0.9% next year from 0.8% expected at the end of the year. Retailer demand will continue, predominantly concentrated on dynamic locations. The investment market is likely to become tighter in 2012 with the new fiscal and accounting reforms (tax on capital gains, end of the fiscally advantageous SIIC entity).

National GDP and consumer spending

Source: Oxford Economics

France retail investment and SC yields



Source: Savills Research

Germany

Economy

In Q2 2011, the German GDP increased by some 0.1%, which marks the ninth consecutive quarter of growth. For the next months, a moderation of growth is expected. Although the labour market is still developing positively, the business and consumer confidence is weakening. Against the backdrop of the upcoming financial crisis it remains unclear how strongly this will affect the German economy and consumer behaviour. Nevertheless, the German economy remains one of the healthiest in Europe.

Demand

Consumer demand

The feared range of impacts of the economic crisis on the labour market and private consumption has not affected consumer demand as much as it was expected at first. Contrary, inflation-adjusted retail expenditure outperformed the overall consumption by far as it grew by 1.8% in 2010 and showed the highest growth since 2006. For 2011, further growth of private consumption is expected.

Retailer demand

In 2010, the trend of increased demand for inner-city retail space continued. For instance, retail chains from abroad are seeking for appropriate space. Due to the lack of adequate space, most inner-city locations are forecast to remain landlord-lead markets with excess demand.

Supply

Currently, Germany has a total stock of around 122 million sqm of retail space. After decades of expansion, growth of total retail space has levelled off at around 1 million sqm per annum during the past few years. This is especially due to the strong regulative influence by local governments. However, slight further growth of retail space is forecast for the near future - but only for selected, yet relatively undersupplied but highly demanded types of retail locations. These are, in particular, prime high street locations in smaller cities, as well as retail warehousing development and shopping centre space in selected areas.

Rents

Rents remained relatively stable on average in spite of the economic environment and have again turned out to be most stable among all commercial types of real estate. For 2011, we expect prime rents to remain stable on average with some upside potential in selected retail locations.

Investment market

Since 2010, retail properties are dominating the German investment market. In the first three quarters of 2011, more than 50% or €8.88 billion were invested, 90% up on the same period of last year. Shopping centres have been the most popular asset class with a share of 36% of the total retail volume invested so far in 2011, followed by prime high street properties accounting for 27%. Generally, the investment focus is still on core properties.

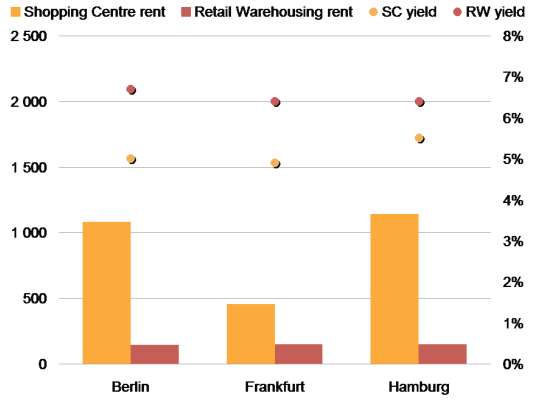
Outlook

The German retail sector experiences a comparatively strong period, especially against the backdrop of an uncertain time, where developments in the financial sector are becoming more and more unpredictable. Due to the current positive situation in the German economy and in the labour market, retailers as well as investors see the German market as a safe haven in uncertain times. Hence, 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.

National GDP and consumer spending

Source: Oxford Economics

Germany - Prime rents and yields



Source: Savills Research

Greece

Economy

GDP contracted by 7.3% yoy in the second quarter of 2011, and the consensus is that the economy will contract overall by 5.3% for the year. Public and private consumption are falling, with 6.9% and 7.9% annual declines respectively in Q2. The sharp contraction of domestic demand is partially offset by a positive contribution from the external sector. Inflation decelerated in July and it is expected to average at 2.8% this year.

Demand

Consumer demand

Tough austerity measures are impacting household budgets, while unemployment is expected to exceed 16%. The uncertainty about the future of the economy and personal income security is holding back spending significantly. After the severe retail sales volume declines over the past two years, the index dropped by 1.5% pa in August, with the worst performing sectors being fashion and household goods.

Retailer demand

Decreasing disposable income and negative consumer sentiment have translated into dipping turnovers for retailers, who are in their majority freezing any expansion plans in the country, or downsizing their operations. Over the past 12-18 months a significant number of small-medium retail companies failed to survive the economic crisis, leaving several high street units vacant across the major cities. Despite larger retail chain interest in prime empty space, negotiation periods are longer and the leasing turnover slow.

Supply

By the end of 2011, the total stock of modern shopping centres in Greece will be in the region of 1.2 million sqm, after the completion of four retail projects that had commenced development prior to the crisis. The total shopping centre supply corresponds to somewhat more than 100 sqm per 1,000 inhabitants. Due to the relatively low density of shopping centre space per capita, retailer interest in well located shopping centres is sustained and availability in the most successful schemes remains low. The lack of either equity or debt in the market means that it may take a few years before a new large-scale retail development commences.

Rents

High street rents are currently suffering the most as it is hard to find replacements for void properties. Top rents for prime units in the best locations and schemes are stabilising at levels which are about 10-15% lower compared to 12 months ago.

Investment market

The lack of liquidity and the overall economic uncertainty do not allow for any transaction activity and products that may come onto the market cannot find easily investors that are willing or able to buy. After almost a decade of price increases prime yields have started softening since 2008 and they are now back to their 2003 levels. We believe that achievable yield rates for the best product in the market should be in the region of 7.75%-8.25% regarding shopping centres and about 25-50 basis points higher for retail parks. Prime retail units at the very top high streets in Athens could achieve around 7.5%; however since most of the owners are usually high net worth individuals or family owned retail companies they try to avoid disposing assets in the current conditions since they believe that property may remain a more secured asset class.

Outlook

The consensus for 2012 GDP is negative at -2.0%. From 2013 onwards some anaemic positive growth is anticipated, which should also stabilise private consumption. We expect to see further consolidation in the retail market, with retailers rationalising their operations and focusing on their best performing stores. Main players will be medium to large retail chains, while smaller retailers would need to become specialised. we believe that prime costs are bottoming out.

National GDP and consumer spending

Source: Oxford Economics

Athens - Prime rents and yields

Source: Savills Research

Ireland

Economy

The Irish economy is out of recession with GDP and GNP increasing by 1.6% and 1.1% respectively in Q2 2011 compared to Q1 2011, with GDP recording the greatest quarterly increase since 2007. GDP is expected be in the region of 1.0% in 2011 and 1.8% in 2012. Growth is being driven by the export market, with net exports increasing by 24% between Q2 2010 and Q2 2011. However, domestic demand continues to remain subdued.

Demand

Consumer demand

Retail sales have remained weak in 2011 as consumers are concerned about high levels of personal debt, the erosion of disposable income from taxation, weak labour market conditions as well as inflationary pressures. The volume of retail sales decreased by 3.6% in August, recording the second highest decrease in retail sales so far after a decrease of 3.9% in April 2011. Consumer confidence is fragile, the consumer confidence index fell in September to 53.3 down from 55.8 in August. Looking forward consumers are concerned about the upcoming 2012 budget, which is expected to put additional pressure on disposable incomes.

Retailer demand

Retailer demand has remained relatively strong in 2011 with a number of UK and international retailers either entering the Irish market or expanding further. Retailers such as Disney, Pandora, Abercrombie & Fitch, Kiehl's and Hollister have taken units in the prime high street and shopping centres of for example Grafton Street and the Dundrum shopping centre. UK retailers expanding their operations in Ireland include TK Maxx and Next.There has been an increased gap in the demand between prime and secondary space – with prime shopping streets and centres remaining effectively fully occupied. Occupier demand for secondary space is much more uncertain and depends more and more on the exact location and detail of the overall retail offering.

Supply

There has only been one shopping centre opened in Ireland in 2011 - a 17,000 sqm neighbourhood shopping centre at Balbriggan in north county Dublin. The supply pipeline of new shopping centres and retail parks has come almost to a standstill, with construction commencing on the expansion of Parkway Valley Shopping centre in Limerick, following a period of 'moth-balling' due to financial constraints. Currently this is the only retail development in construction.

Rents

Rents for the first half of 2011 have remained under pressure, with prime rents at very competitive levels. Landlords now fully acknowledge that in order to keep existing tenants they need to offer lower rents and more attractive terms. New entrants that are doing deals are negotiating attractive incentives – such as extended rent free periods. Occupier demand is expected to continue to focus on prime locations, but some further downward pressure on prime rents is possible despite this, given the weakness of consumer demand. Continued downward pressure is expected for secondary space.

Investment market

There have been no retail investment deals completed in 2011. Two main issues are acting as a drag on market activity. The first and most significant is the rent review issue and the second is lack of funding. Despite consistent evidence of investor demand, the lack of clarity regarding rent review has prevented deals from completing. We believe this issue will be clarified in the short term, allowing investment deals to complete in 2012.

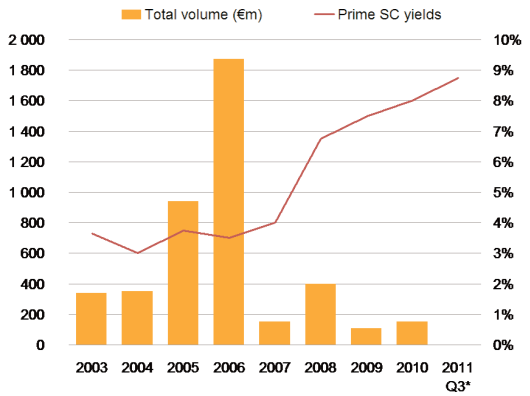
Outlook

The outlook remains positive for prime space as occupiers continue to avail of competitive market conditions. Demand and rents for secondary space will remain under pressure. Consumers are expected to remain cautious and this will result in little recovery in retail sales for the rest of 2011.

National GDP and consumer spending

Source: Oxford Economics

Ireland retail investment and SC yields



Source: Savills Research

Italy

Economy

In the second quarter of 2011, GDP grew by 0.3% over the previous quarter after 0.1% in Q1 according to the first estimates released by the National Statistics Office (ISTAT). The national growth is expected to reach 0.8% by year end and in 2012.

Demand

Consumer demand

The consumer confidence indicator fell slightly to 101.0, despite negative short term expectations. Expectations regarding the general economic situation have worsened, as the international debt crisis looms over the country's growth prospects. Households remain cautious regarding their personal finances as prospects for purchases of durable goods dropped.

Retailer demand

During the last two years, few retailers have maintained an active expansion strategy. However, generally, tenants have continued to adopt a cautious strategy, especially in consideration of the fluctuating trends registered in consumption throughout 2010 and the first half of 2011. The main focus has been on prime, low-risk shopping centres, with solid track records and high footfall levels, while some retailers have started an intense reorganisation of their network of stores. Retailers continue to pay particular attention to occupancy costs and are adopting a prudential approach.

Supply

As at the end of Q3 2011, shopping centres accounted for ca 85% of the total GLA of retail schemes, followed by retail parks (approx. 10%), and by factory outlet centres (ca 4%). Family entertainment centres represented the remaining portion of total GLA. With reference to shopping centres in particular, at the end of Q3 2011, total Italian stock comprised more than 1,000 schemes, of which distribution throughout the territory is not homogeneous. Development activity in Italy registered a decrease over the past years.

Rents

The trends in rental levels during the first half of 2011 varied greatly depending on the quality of the schemes and of their catchments. In fact, despite the economic situation, rental levels in prime shopping centres, as well as in secondary but well-established shopping centres with good catchment areas, have remained stable. This is thanks, in particular, to the limited supply of good quality schemes, a feature characterising the Italian retail market.

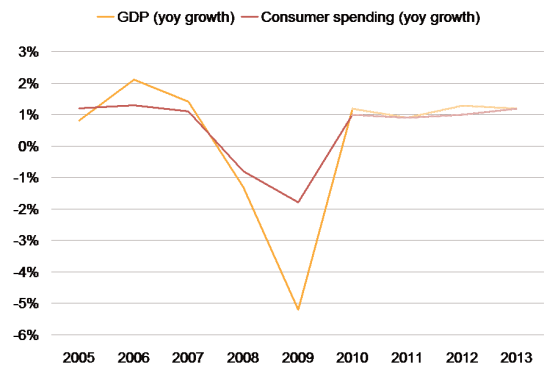
Investment market

The investment volume in retail premises in the first three quarters of 2011 stood at ca €1.45 billion. With respect to 2010 (€595 million at the end of Q3 2010, €845 million at year end) this is a very significant increase of ca 70% on a year-on-year basis. This was in part due to an overall growth in investment volume in the first 3 quarters of 2011 and in part thanks to the growing interest demonstrated in the retail sector. Of total retail investment volume, the majority was registered in the north of Italy, of which about half related to assets in the Milan area. Prime shopping centre and retail park yields remain constant, in line with the last two year period.

Outlook

We do not foresee the closing of any significant transactions over the next months. In this context, we do not expect there to be evidence of any yield shifts, and, therefore, we expect prime yields to remain stable over the short term. This situation could be impacted if the international community continues to perceive that political instability is hampering much needed structural reform, required to alleviate the budget deficit and commitments to reduce the public debt. This could in turn have negative consequences on international efforts to support the Euro which is intrinsically linked to the ability of Italy to refinance its public debt.

National GDP and consumer spending



Sources: Oxford Economics

Milan shopping centre rents and yields

Source: Savills Research

The Netherlands

Economy

Quarterly GDP showed growth in the first two quarters of 2011, 2.8% and 1.6% respectively and is again driven by exports. Consumer spending is decreasing, with spending in August 1.0% lower than last year. This follows the severe decrease in consumer confidence in the course of this year; from -8 in January to -33 in October. Albeit still relatively low unemployment is rising: from 5.1% in January to 5.6% in September.

Demand

Consumer demand

Recent figures show a general decline in retail sales and it seems that only supermarkets are able to hold their ground. In the non-food sector rising commodity prices are now slowly transferred towards the consumer and show in higher price levels. Online consumer spending remains a major source of sales growth for retailers. Total online spending in 2011 is expected to reach €4.25 billion, up from €1.4 billion in 2006. Despite an overall still modest market share of 5%, online sales are seen as a major reason for increased retail vacancy.

Retailer demand

Take-up in Q1-Q3 2011 reached 255,000 sqm, slightly lower than in the same period last year (275,000 sqm). In the course of the year demand did decline and take-up only totalled 52,000 sqm in Q3 2011. Vacancy is virtually non-existent within major high streets since retailer demand is increasingly focused towards the best performing streets. There footfall remains high and retailers focus on converting this footfall into sales. In secondary locations retailers are paying the toll for the lower consumer spending with an increasing vacancy.

Supply

Retail developments are slowing down: from 380,000 sqm in 2008 to less than 300,000 sqm in 2010. Within these new developments 25% are in-town redevelopment schemes and this share is on the rise. Vacancy in October 2011 was 6.5% (source: Locatus) on a total retail stock (including high street) of 27.7 million sqm. Vacancy is higher in the peripheral locations of the Netherlands.

Rents

During 2011 the remaining pressure on prime high street retail caused rents to gradually increase to currently €2,550/sqm/year. At secondary and tertiary locations, however, the increasing vacancy keeps pressure on both rents and incentives. The same goes for peripheral retail warehouses.

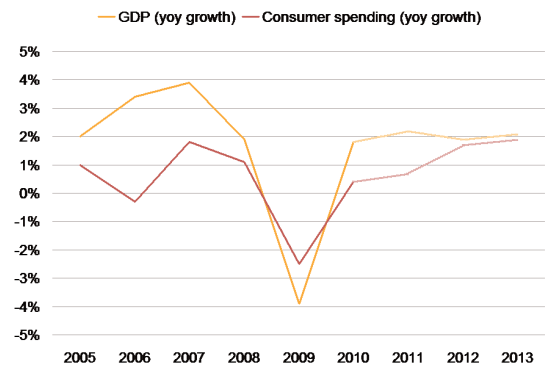
Investment market

Retail investments in the first three quarters of 2011 totalled €860 million. Medium-sized shopping centres accounted for two-third of total investment volume. The largest acquisition was the 23,000 sqm Piazza shopping centre in the heart of Eindhoven, sold by Unibail-Rodamco for €110 million to a joint venture. High street retail remains very sought after and one of the most noticeable deals was the purchase of a portfolio of five retail units at the PC Hooftstraat by a private investor for a gross yield of 4.75%. Gross yields for shopping centre retail remained stable at 6.50% and for retail warehouses at 8.00%.

Outlook

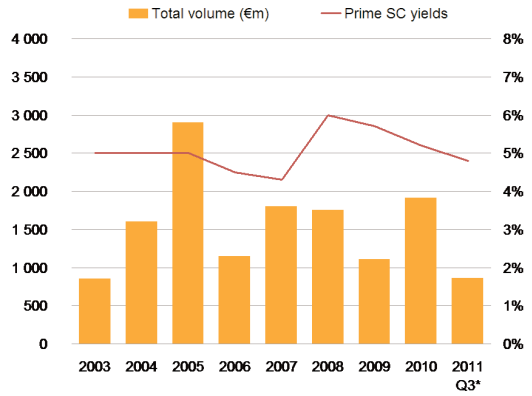
In the course of 2011 the economic situation deteriorated again increasing the uncertainty hanging over consumers, retailers and investors. It is therefore likely that consumer spending will not increase shortly and might even fall further. Retailers will focus on the best performing locations, increasing the gap between prime and secondary properties. Investors will follow this trend and focus on the best performing shopping centres and prime high street retail units.

National GDP and consumer spending



Source: Oxford Economics

Netherlands retail investment and SC yields



Source: Savills Research

Poland

Economy

The overall annual GDP growth in 2010 was at the level of 3.8%. Notwithstanding the uneven times of South European economies, as well as current depreciation of PLN, the economic outlook for Poland remains positive. GDP growth in Q1 and Q2 this year was at 4.4% and 4.3% respectively. The National Bank of Poland expects annual GDP to grow by about 4.0% in 2011 and 3.2% in 2012, which places Poland among the fastest growing economies in Europe. The employment is growing at ca. 1.0% per annum whereas the average salaries grew in 2011 H1 by 5.8%.

Demand

Consumer demand

The growth in retail sales was much higher in 2011 H1 than in the corresponding period a year ago and reached the average quarterly growth rate of 6.0% y-o-y in Q1 2011 and 8.8% y-o-y in 2011 Q2.

Retailer demand

Demand for retail units situated in well established shopping centres and new shopping galleries is relatively strong. There is a number of domestic and international retail chains that are widely expanding and this includes such retailers as: Inditex (Zara, Massimo Dutti, Stradivarius, Pull & Bear, Bershka), H&M, Reserved, Cropp Town, Rossmann, CCC, Deichmann, Coffee Heaven, Starbucks and many more. Among the new comers there are: Jula, Hebe, Dorothy Perkins, GAP.

Supply

The current stock of modern retail space in Poland is estimated at 10 million sqm. Shopping centres constitute almost 75% of the total stock whereas the remaining 25% stands for retail warehousing, retail parks and factory outlets. The new supply is now estimated at 0.5-0.6 million sqm per annum. The development activity is now mostly concentrated in medium size and smaller cities. The largest completions in 2011 include Millenium Hall in Rzeszów (56,000 sqm), Galeria Kaskada (43,000 sqm) in Szczecin and Galeria Słoneczna in Radom (42,000 sqm). The largest projects under construction are: Galeria Katowicka in Katowice (50,000 sqm), Europa Centralna in Gliwice (67,000 sqm) and Felicity in Lublin (73,000 sqm).

Rents

Prime shopping centre rents are stable and for a standard unit of 100 sqm are in the range of €70 – 90 /sqm / month in Warsaw, €45 – 70 /sqm/month in major regional cities, €25 – 40 in medium size cities and €20 – 30 in smaller cities. Rents in retail parks and outlet centres are significantly lower.

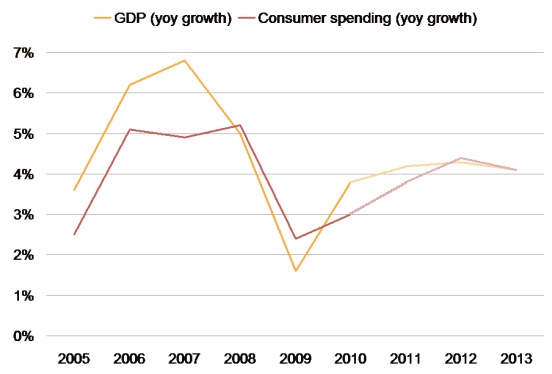
Investment market

Prime shopping centres located in major regional cities are among the most targeted investment properties in Poland. In 2011 Q1 – Q3 almost 50% of the investment volume (over €900 million) has been recorded in the retail sector. Some further transactions are pending. The largest transactions included the sale of Promenada S.C. in Warsaw for over €170 million, Magnolia S.C. in Wrocław for over €220 million and 50% stake in Galeria Mokotów in Warsaw for €237.50 million. A few smaller transactions took place in medium size and smaller cities

Outlook

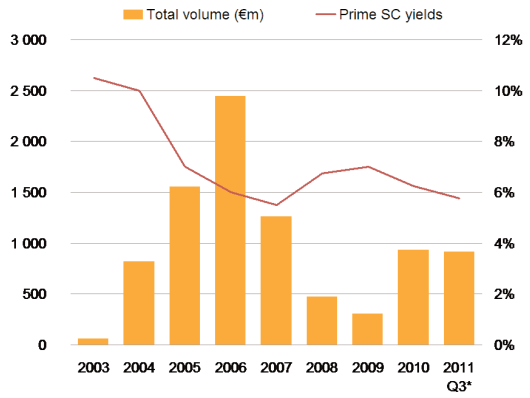
We anticipate that the Polish retail market will grow further, in particular in medium size and smaller cities. There is still a significant development potential in some cities as well as a huge potential in developing new retail formats, mainly convenience shopping centres and outlet centres. A few larger developments will also take place in major regional cities incl. Warsaw, Łódź, Poznan, Kraków and Upper Silesia.

National GDP and consumer spending



Source: Oxford Economics

Poland retail investment and SC yields



Source: Savills Research

Spain

Economy

The economic landscape remains fragile with a rapid turnaround unlikely. Domestic demand will contract this year under the burden of the fiscal squeeze and the on-going weakness of the labour market, leaving net trade as the main driver of the recovery. GDP growth is forecasted to be 0.7% in 2011, picking up only modestly to 1.2% next year as domestic demand begins to recover.

Demand

Consumer demand

The accumulated Experian footfall index until September shows stability compared to the same period last year, decreasing only by 0.38%. For the second consecutive month, consumer confidence moved back in August, which will have a negative knock on effect on retail sales.

Retailer demand

Main retailers are still expanding. However in order to optimise their investments they are choosing the best locations for their new stores and are studying the best marketing mix to support the success of the complex and encourage the participation of other local firms. During the past months, major brands have all ensured their presence in the main projects without distinction of sector.

Supply

In October, the Spanish retail market stock stood at little more than 14 million sqm, reflecting a commercial density of 297 sqm per 1,000 inhabitants. We anticipate the amount of retail completion will be at 400,000 sqm by year-end (including openings and extensions). This would be an increase of 18% compared to last year but still far below the record of 1.1 million sqm reached in 2008.The major development of the year, which is also the biggest ever built in Spain, is Marineda City totalling 170,000 sqm GLA and including a 30,000 sqm Ikea store, 45,000sqm in El Corte Inglés, a shopping centre of 44,000 sqm, a retail park of 29,500sqm and 21,500sqm dedicated to leisure and restaurants. This complex opened in April and the occupancy rate was close to 100%. Between 2012 and 2013, some 900,000 sqm GLA are scheduled.

Rents

Rents for new leases in prime centres remained stable at around €90/sqm/month. Temporary rent reductions to support retailers' activity are still common use. Although it is difficult to work out how much these discounts can represent, we estimate it represents around 25% on average of the rental level indicated in the lease

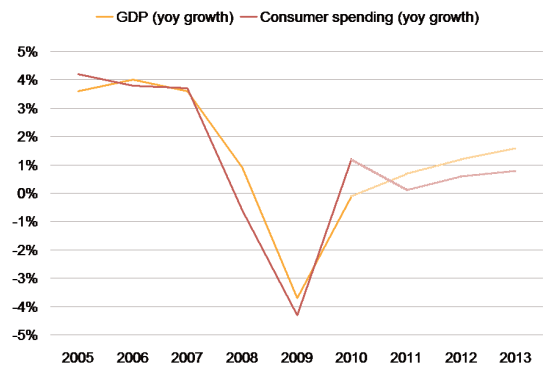
Investment market

Retail investment volume in 2010 was close to €700 million, a similar level to the previous year. The market activity was mainly fuelled by Eroski's disinvestment plan, representing 33% of the annual volume, including the sale to European Property Investors Special Opportunities (Episo) of 12 Eroski hypermarkets for €150 million and the sale to Deka of the shopping centre Ballonti for €115 million. Investor's interest is mainly concentrated in shopping centres that accounted for 46% of all retail deals last year. Since the beginning of 2011, retail investments slowed down. The turnover reached until October is €390 million, of which 48% accounts for the acquisition by Unibail-Rodamco of of the shopping centre Splau!. The other important deal includes the purchase by Doughty Hanson of the portfolio of two shopping centres, previously owned by Sonae Sierra. Yields remained stable compared to 2010. The gross yield for a prime shopping centre is around 6.5%. Yields for prime retail parks are close to 7.0%. For secondary centres or parks yields start at around 7.5%.

Outlook

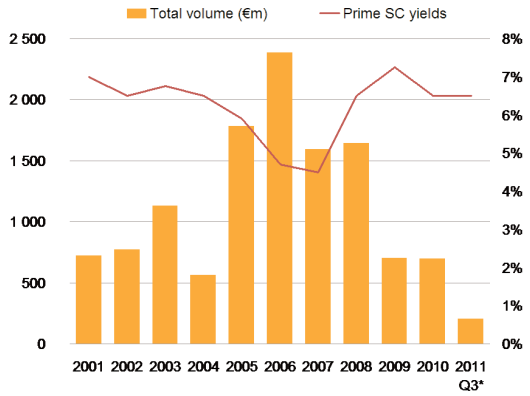
We anticipate that 2011 will record the lowest investment volume of the decade and 2012 could continue on the same path as vendor's and purchaser's expectations are still far off. We expect yields to remain stable.

National GDP and consumer spending



Source: Oxford Economics

Spain retail investment and SC 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 index fell significantly in September and displays negative figures (-5.8) for the first time since mid-2009. It is most likely caused by the fear of a recession due to the financial turmoil in the Euro zone. The retail trade index also weakened in recent months and retail turnovers indicate a slightly weaker market. However, low interest rates have allowed retail trade to remain strong throughout the recession and at the same time allowed consumers to increase their savings ratio. Unemployment figures have dropped during 2011 and the high number of job vacancies reported to the unemployment agency indicates a strong recovery since 2009.

Retailer demand

Most retailers have released profit warnings during the summer and autumn and very few showed results matching analysts' expectations. The increasing competition in some segments has also led to weaker margins. This summer witnesses the first major retailer to go under; electronics company OnOff, which total 67 stores across the country. Retailer demand for new space is weaker compared to the first half of the ear. However there is still an appetite for new premises from domestic and foreign retailers in prime locations.

Supply

The total retail stock in Sweden amounts to approximately 18 million sqm, including high street retail units, shopping centres and retail parks. Stockholm region accounts for an estimated quarter of the total stock. The recession in 2008/2009 caused many development projects to be put on hold or cancelled, but the strong recovery during 2010 and the first half of 2011 led to a positive attitude towards new development. A number of new projects have been announced, albeit at a much more modest pace than compared to years prior to the recession.

Rents

Rents have remained fairly stable throughout the economic downturn, for shopping centres as well as for retail parks. 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 limited compared to the pre-recession years.

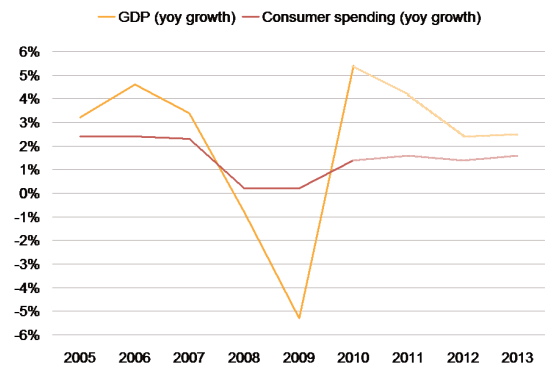
Investment market

Investors' appetite has gradually improved since 2008. Retail account for just below 20% of the volume invested during Q1-Q3 2011. The transaction volume of the aforementioned period amounts to just under SEK 13 billion compared to SEK 9.3 billion for the full year of 2010. Demand for prime retail is very strong from both domestic and international investors and a significant portion of the transaction volume has been prime/core properties. Retail yields rose rapidly following the start of the recession, but have hardened throughout 2010 and 2011 with prime shopping centre yields standing at 5.0 – 6.0% depending on location and retail warehouse yields at 5.5 – 6.5%.

Outlook

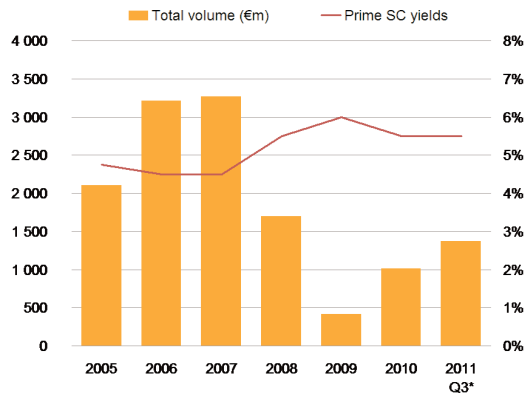
Retailers will become increasingly cautious in taking on new premises and there is a risk that they start closing stores where sales are weak. Due to fierce competition in some segments downsizing or bankruptcies are likely. Developers will remain cautious privileging pre-let projects. We expect rents to remain stable as they already proved to be resilient in economic downturns, notably in 2008-2009. We expect continued high interest for prime products and spreads to remain high between prime and secondary properties.

National GDP and consumer spending



Source: Oxford Economics

Sweden retail investment and SC yields



Source: Savills Research

Turkey

Economy

Turkey's economy beat expectations in the first quarter of 2011 with 11% growth, thanks to special consumption expenses and investments, according to the Turkish Statistics Institute. Nevertheless, the economic and financial turmoil during the summer appears to have hit Turkey. As imports are increasingly out-beating exports, growth expectations for 2012 have been revised down, ranging from 2.5% to 4.5% depending on the source (IMF-TurkStat).

Demand

Consumer demand

In spite of the deteriorating European economic climate, the consumer confidence index is still improving, by 3.7% on last year and by 2.2% on last month and stood at 93.7 in September 2011.

Retailer demand

The attractiveness of the Turkish retail market has been increasing in recent years. Since last year international brands such as Michael Kors, Baby Boom, Payless, Hush Puppies, Zippy, Majorica, Moe's have entered the market. German furniture retailers Porta Möbel and Victoria's Secret are also planning to enter Turkey. Furthermore, brands including Decathlon, Guess, Louis Vuitton and Prada are expanding their exposure. New stores are mostly concentrated in Istanbul and in prime shopping centers. First Virgin Megastore was opened this year in Istanbul in Beyoğlu Demirören SC. The vacancy rate in the best shopping centers decreased compared to last year. Demand from anchor tenants such as DIY, hypermarkets and electronics towards primary projects remains very strong. Demand for prime high street locations, notably Beyoğlu, Nişantaşı and Bağdat also remain strong.

Supply

As of Q3 2011 the total GLA is 7,192,356 sqm representing an increase of 11% compared to the same period in 2010. The national average density is still low at 96 sqm per 1,000 inhabitants although it is much higher in Istanbul (228 sqm per 1,000 inhabitants). Ankara, Denizli, Trabzon and Antalya are following this figure. The number of shopping center developments increased to 309 at the end of September 2011, of which 97 are located in Istanbul, 37 in Ankara and 17 Izmir.

Rents

Prime shopping center rents are at USD1,080/sqm/year for units below 150 sqm and USD/480/sqm/year for units with ranging from 1,000 and 1,500 sqm. In the best high streets prime rents range from USD1,400/sqm/year to USD345/sqm/year. Exchange rate fluctuations in recent months have been an issue; while retailers wish to pay the rent in Turkish Liras, in shopping centers landlords insist in getting paid in foreign currency.

Investment market

The total retail investment volume in 2010 was €377 million, it was mainly fuelled by shopping center deals in Istanbul, İzmir, Trabzon and Bursa. Since the beginning of the year, no investment deal was signed. Interest from international investors remains strong though, notably in small scale shopping center portfolios. But, the need to set up a joint venture with experienced local developers is still a decisive factor for a successful investment. Prime shopping center yields are estimated at 7.75% from 8.25% last year. Prime high street yields remained stable at 7.50%

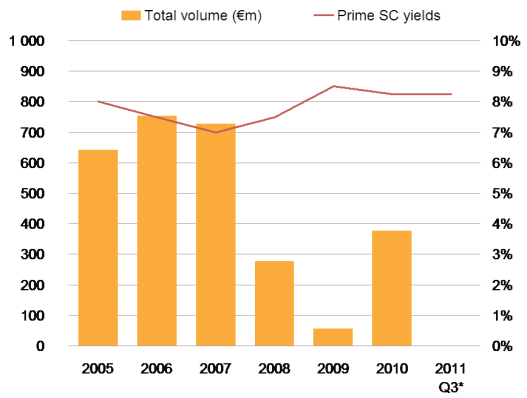
Outlook

We believe the Turkish retail market will continue to attract new international retailers notably thanks to the resilient economy. In addition, the retail investment activity is expected to start again in the months to come. Due to the strong demand for the best properties and the shortage of equivalent supply, we believe prime rents will continue to move upward.

National GDP and unemployment rate

Source: European Commission

Turkey retail investment and SC yields



Source: Kuzey Bati - Savills Research

UK

Economy

The economy continues to struggle, with the provisional GDP growth figure for Q3 only 0.5%. The housing market remains in the doldrums due to fragile demand, which partially results from weak labour market conditions. Moreover, consumer confidence in October 2011 fell to its lowest level since February 2009, which suggests that private consumption will remain weak in the months ahead.

Demand

Consumer demand

The retail market in the UK remains highly polarized between strong affluent areas and the weaker catchments where the recession is still lingering. Consumer confidence remains weak, with high inflation leading to negative real earnings growth this year for the first time in 30 years.

Retailer demand

Retailer demand also remains polarised, with luxury, budget and food retailers continuing to trade well and expand. Tenant demand from mid-market retailers remains patchy. Vacancy rates in the best locations and schemes continue to fall, though tertiary markets are bucking this trend. The central London retail market remains the most sought-after retail market in the country, with vacancy rates on the main streets of virtually zero, and retailers being forced to pay significant premia to get into these markets.

Supply

Outside London there is virtually no shopping centre development underway, with only one significant new scheme due for delivery in the next five years. This will mean that the vacancy rate in prime markets will fall fairly quickly once retailer demand in that location begins to recover. We estimate that there is over 30 million sq ft of planned shopping centre developments that are unlikely to start until debt availability improves.

Rents

Rents outside the prime central London retail market are broadly stable in the good locations, and still falling in the weak markets.

Investment market

Investor demand for shopping centres and retail warehouse parks remains strong, with turnover almost back to boom levels. Investors are increasingly attracted to these markets because of the higher yields, better asset management opportunities, and income security that comes with a multi-tenanted asset like a mall or retail warehouse park. Prime shopping centre yields in the UK now stand at 5.5%, and prime retail warehouse yields at 5.25%. High street shop yields are now as low as 4.75% outside London, and around 3% in the prime central London market.

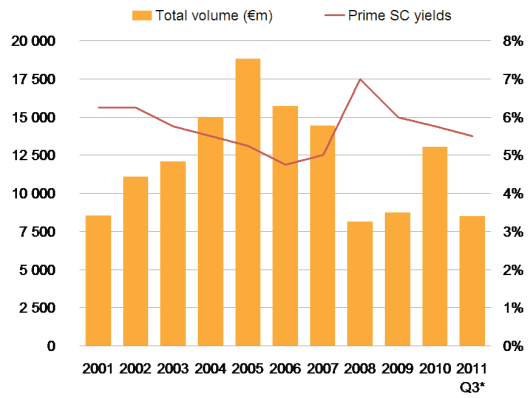
Outlook

Looking ahead, the speed and timing of the recovery in the retail property market in the UK will be entirely down the strength or otherwise of the national economic recovery. Concerns about impending Eurozone collapse and its effects on the UK are the latest factor to negatively affect consumer confidence. Assuming that Greece does not drag other peripheral countries down with it, then we expect to see the beginnings of a recovery in consumer confidence and demand from Q1 2012. While inflation will not have fallen back to its target level by that stage, we expect that it will have begun to fall by then, and this will have a positive effect on consumer confidence. Investor demand for the best retail locations will continue to be strong, and this will be sustained as rental growth begins to emerge in these locations. However, the big challenge for investors in UK retailing over the next five years will be the spread of performance between the prime and tertiary markets, with the latter unlikely to see any recovery in the next five years.

National GDP and consumer spending

Source: Oxford Economics

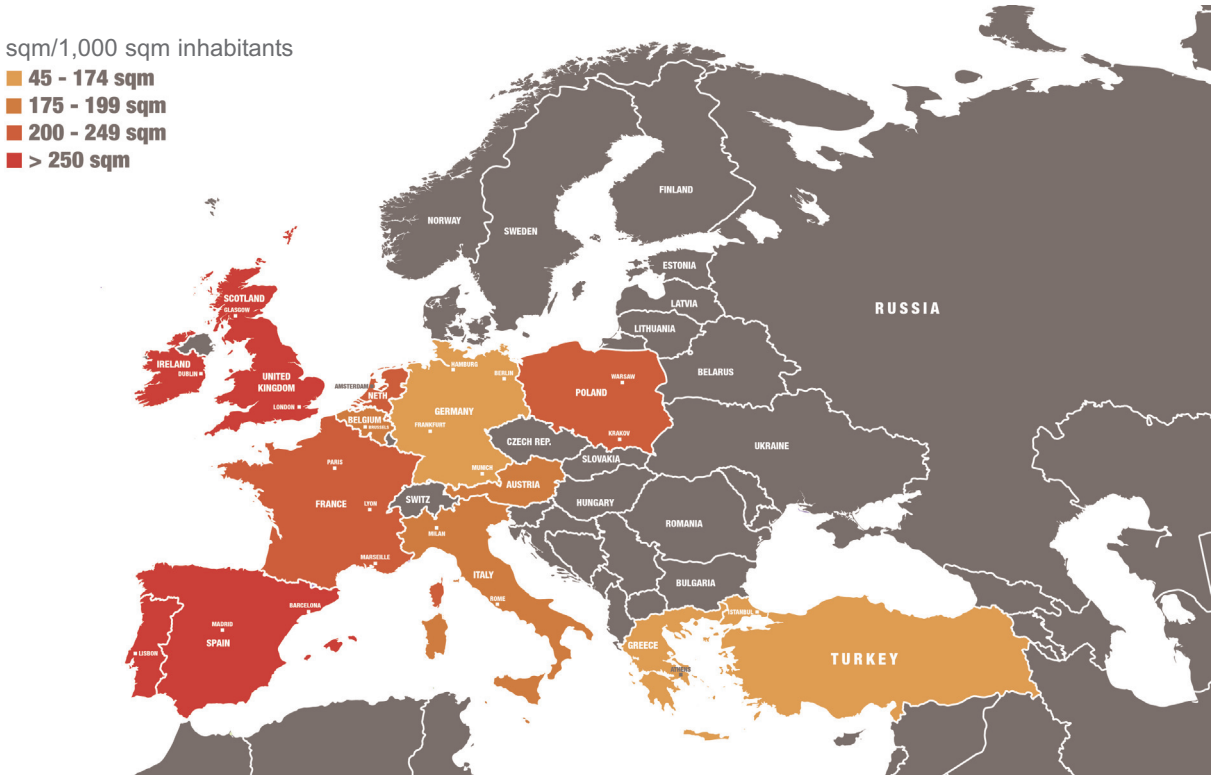
UK retail investment and SC yields



Source: Savills Research

European Retail Markets

Shopping centre density map



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