

Market in Minutes

Prime retail investment rising despite lower consumption

May 2013

Challenging retail conditions

Recent indicators point to weak economic conditions in Europe and a bleak outlook, as most economists are revising their predictions downwards. The volume of retail trade is in decline in most European countries, as consumer sentiment is weakening under the impact of rising unemployment and economic uncertainty.

The latest ICSC Pan-European Shopping Centre Executive Opinion Survey, which illustrates the European shopping-centre business conditions on a monthly basis, also reflects the challenges that the retail market is facing. Conditions have worsened overall, with the exception of footfall, which experienced an upturn as the milder weather encouraged more consumers to go shopping. Sentiment for the next six months weakened as economic instability persists.

Investing in retail properties is up

Despite the challenging retail conditions, investor appetite for good quality retail assets and attractive retail opportunities is evident, particularly in mature markets where retail trade is not in decline or even growing. However, attractively priced opportunities in riskier markets are also on some investor's radar, as prime opportunities are hard to find in many markets.

In Q1 13 the volume of retail deals (>€10m) in our survey area was in the region of €4.7bn, 25% up compared to the same quarter in 2012. Once again the UK (37%), Germany (40%) and France (11%) captured the dominant shares of the activity in terms of volume.

The average size of retail transaction, has dropped slightly from €48m to €42m reflecting the rising importance of local private investors, who tend to show a preference for income generating, prime high street units, which generally comprise smaller lot sizes. This trend has been enhanced this year as the share of high street deals has increased from 14% in Q1 12 to 20% in Q1 13.

At the same time, portfolio deal share has also increased from 18% to 21% driven by opportunistic investors that are active in this segment of the market.

Finally, shopping centre investment activity has been significantly higher in the UK this quarter, with twice as many deals compared to the same period last year, due to strong institutional demand for prime product and improved financing conditions.

Markets moving in opposite directions

Over the past six quarters the average prime shopping centre yield in our survey area has remained quite stable, in the region of 6.0%. Overall most markets experienced a correction during 2008 and 2009 but ever since two opposite trends have been observed: Since Q1 10 prime shopping centre yields have hardened by 50 bp to 150 bp in most core markets, while yields have softened by between 25 and 175 bp in the peripheral markets.

The 'flight to prime' that we have seen over this period has benefited the best shopping centres with the strongest catchment areas and the top end of the high streets, which attract luxury brands and successful retailers. Markets with a higher perception of risk, and weaker consumer demand have generally been

TABLE 1 Prime achievable shopping centre and high street yields Q1 2013

City	Prime high street yield	Prime Shopping centre yield	2010-2013* yield shift (SC)
Amsterdam	4.25%	6.75%	25
Athens	7.00%	9.00%	175
Berlin	4.60%	4.90%	-60
Brussels	4.50%	5.50%	-50
Dublin	6.00%	7.50%	0
Frankfurt	3.80%	4.80%	-10
Hamburg	4.50%	N/A	N/A
Lisbon	7.50%	7.75%	75
London	3.00%	5.00%	-100
Madrid	5.25%	6.75%	-50
Milan	N/A	7.00%	75
Munich	3.50%	5.00%	-50
Oslo	6.00%	5.50%	-150
Paris	4.50%	5.00%	-50
Stockholm	4.75%	5.25%	-75
Vienna	4.00%	5.75%	-50
Warsaw	N/A	5.75%	-125

Table source: Savills, EHL, Abacus / * Q1

→ avoided by investors. Some deviations from this norm include:

Dublin where the significant drop in capital values till the end of 2012 has now been reversed following a gradual improvement in confidence around the economic recovery of the country and the reduction of sovereign risk. As a result we are witnessing a gradual recovery of yields.

Madrid, where yields appear to have hardened for prime product, rents and capital values have experienced significant corrections (up to -30%) and investor interest for prime has returned. However, a softening trend is being observed in the last quarters as a result of the record high unemployment that is weighing upon consumer spending.

Amsterdam, where negative consumer confidence has also affected investor confidence in the retail sector, pushing prime yields out.

In Q1 13 yields were more aggressive compared to last year in Vienna (-25 bp) Brussels (-10 bp), Frankfurt (-10 bp), Munich (-20 bp), Dublin (-150 bp), Warsaw (-50 bp) and London (-50 bp), while they continued to soften in Athens (100 bp), Milan (25 bp), Lisbon (75 bp) and Madrid (25 bp). This confirms that investor aversion to risk continues to polarise market pricing.

Prime high street yields harden

The rising importance of prime high street as a retail investment choice has pushed down achievable yields for almost all the best high streets in Europe that we monitor. Since Q1 10 prime high street yields have dropped by 77 bp and they are now about 15 bp above 2007 levels at 4.8%. The lowest achievable yield can be expected in London (3.0%) and Munich (3.5%) and the highest in Athens (6.75%) and Lisbon (7.5%).

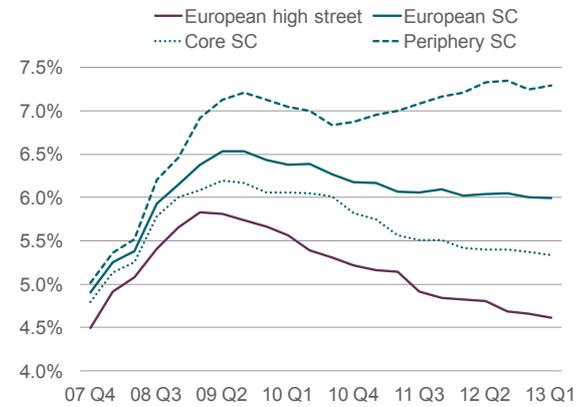
Pre and post crisis high street rents

The high street rental map of Europe has changed since the credit crunch. Except for Paris and London that continue to head the league as first and second most expensive cities respectively, Dublin, Milan and Athens, which followed in the third, fourth and fifth place in 2007, now have dropped to seventh, eighth and 11th place respectively.

Over the past five years all the markets have experienced high rental growth changes, which have exceeded significantly retail sales changes over the same period. On the one hand prime high street rents in London and Vienna have increased by more than 12% pa on average over the past five years, while on the other hand rents have dropped by more than 11% pa in Athens and Dublin over the same period. ■

GRAPH 1

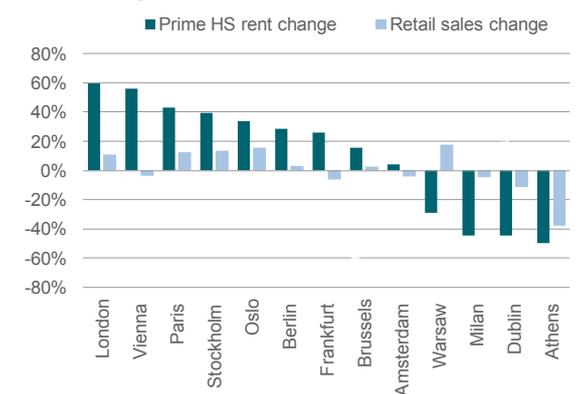
Prime retail yields* polarisation for shopping centres - recovery in high street



Graph source: Savills/ *survey area average

GRAPH 2

Prime high street rent pre and post crisis* significantly outperforms retail sales



Graph source: Savills, Oxford Economics / * Q4 07 to Q1 13

Savills team

Please contact us for further information



Nick Hart
European Shopping Centres
+44 (0) 7970 275 123
nhart@savills.com



Danny Kinnoch
European Investment
+44 (0) 207 409 8864
dkinnoch@savills.com



Eri Mitsostergiou
European Research
+31 (0) 20 301 2087
emitso@savills.com

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.