

# MARKETBEAT

## SHOPPING CENTRE DEVELOPMENT REPORT EUROPE

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



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### OVERVIEW

Whilst the full impact of the economic downturn has not yet been fully felt, European shopping centre development has already slowed considerably. Indeed, 2009 experienced the sharpest decrease in new shopping centre space in almost 15 years. In total, around 7.4 million sq.m of GLA was completed in 2009, approximately 19% less than in 2008. In total, 256 new shopping centres opened, representing around 89% of total new space, with refurbishments and extensions accounting for the remainder. Total shopping centre GLA now stands at just under 128.3 million sq.m for the whole of Europe.

The slowdown in development activity is expected to continue in the short term. Around 6.1 and 5.0 million sq.m GLA is anticipated to be delivered in 2010 and 2011 respectively, with the latter being the lowest annual level in seven years. However, in most European countries, there is a large number of shelved shopping centre projects with all the necessary planning permits in place. Whilst much will depend on the pace of the economic recovery, some of these projects may be revived quickly, boosting the pipeline. However, some projects may need to re-apply for planning consents, depending on local legislation.

### MARKET SIZE

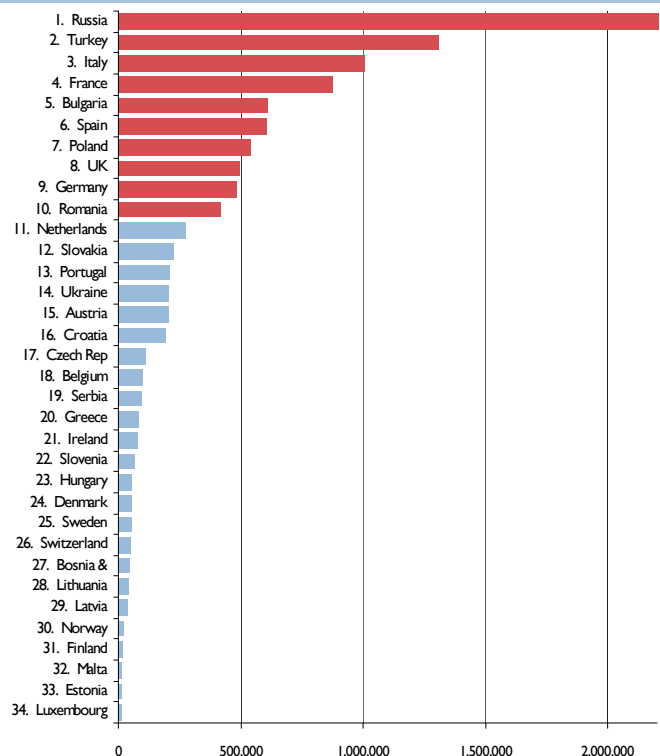
Continuing the recent trend, development activity is strongest in its two largest markets, Russia and Turkey. After losing the number one position in the pipeline 'league table' to Turkey in 2009, Russia has regained the top position as there is now a clearer understanding of which schemes may or may not be completed. Furthermore, in 2009 some projects which were postponed mid-construction due to the economic crisis, have re-started. Whilst this only concerns a handful of schemes, there is evidence of more developers looking at re-starting delayed projects.

Romania has seen most of its development pipeline dry up and virtually no new shopping centres have started construction over the last 18 months. Indeed, development is expected to slow to around 130,000sq.m in 2011, compared with the peak of around 750,000sq.m in 2008.

In Western Europe, Italy, France and Spain lead the development pipeline table. Whilst Italy has seen completion levels decline considerably from their 2007 high, the short term pipeline has proved resilient, with most schemes being delivered on time and few being shelved. Indeed, the number of projects which have been mothballed in Italy is relatively limited in a European perspective, with around 20% of the 2010 – 2015 pipeline so far being put on hold.

Development activity has increased significantly in France. As at January 2010 there was around 880,000sq.m of shopping centre space under construction, with completion dates in 2010-11. Considering the recent development boom and the short/ medium term pipeline, there is a risk that the carrying capacity may be exceeded in some areas. However, this is also the case in a number of regions across Europe. The completion of more new schemes will create an increasingly competitive shopping centre sector, particularly as the economic recovery remains fragile in most parts of Europe.

European Shopping Centre Pipeline



Major Schemes in the Pipeline

Country	City	Scheme name	GLA	Year
UK	London	Stratford City	186,500	2011
Turkey	Istanbul	Forum Marmara	160,000	2011
Turkey	Ankara	Kentpark	136,000	2010
Russia	Moscow	VEGAS -	130,000	2010
Spain	Zaragoza	Puerto Venecia	123,475	2011
Russia	Samara	MEGA - Samara	103,000	2010
Russia	Moscow	Mall of Russia	101,000	2010
Italy	Villesse	Villesse	95,000	2011
Italy	Misterbianco	Centro Sicilia	90,000	2011
Turkey	Bursa	Anatolium	84,165	2010
Russia	St. Petersburg	Leto	81,544	2010
Romania	Bucharest	Sun Plaza	80,000	2010

Shopping Centre Definition

Cushman & Wakefield define a shopping centre as a centrally managed, purpose built facility with a Gross Lettable Area of over 5,000m<sup>2</sup> and comprising 10+ retail units. Factory Outlets and Retail Parks are excluded. All tables are based on information from Cushman & Wakefield's in-house European Shopping Centre Database.

**OVERVIEW OF DEVELOPMENT IN 2009**

A strong second half of the year pushed total completed shopping centre space in 2009 to around 7.4 million sq.m, representing a 6.1% rise in provision. In line with recent years, central and eastern Europe accounted for the majority of new space at just under 57%. Average shopping centre provision per 1,000 inhabitants across the EU-27 now stands at 225.6sq.m.

Bulgaria and Croatia top the chart in terms of percentage growth in floor space. Whilst a number of shopping centre openings were again delayed in Bulgaria, the three schemes which opened during 2009 represented an increase in stock of around 40%. Croatia recorded roughly the same percentage increase in stock due to the completion of four new schemes. The opening of a 100,000sq.m shopping centre in Zagreb accounted for the majority of new space.

The Forum Istanbul shopping centre in Turkey was by far the largest shopping centre completion in 2009. The 178,000sq.m scheme, developed by Multi Turkmall, officially opened in November and is the largest shopping centre in Turkey.

**KEY TRENDS ACROSS EUROPE**

During 2009, most central and eastern European countries saw a fall in the number of shopping centre completions, with only Poland and Slovakia recording an increase on 2008. Romania experienced the largest percentage decrease in completions of -57%. Furthermore, some recently completed shopping centres have had to close or “re-brand” due to a lack of interest from retailers.

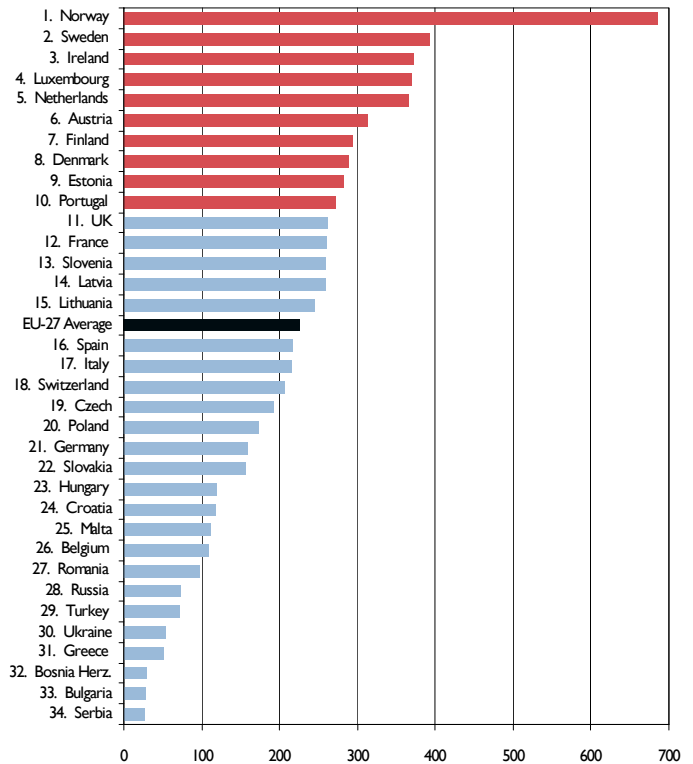
Development also continues to slow in Russia, with around 1.6 million sq.m of shopping centre space added to the market in 2009, compared with 1.7 million sq.m in 2008. Whilst this is the third consecutive year of decline, it nevertheless equates to a 18% increase in stock on 2008. Furthermore, Russia still accounts for more than 21% of total shopping centre completions in Europe. Meanwhile the focus of development remains on Moscow with around 45% of the 2010 pipeline located in the Capital.

In Western Europe the picture is a familiar one, with Italy continuing to lead the way. France and the Netherlands also experienced strong activity in 2009. Whilst in Italy there is a trend away from large-scale shopping centre developments, which have boosted development levels in recent years, the opening of a large number of small to medium sized schemes in secondary cities has pushed completion levels to approximately 630,000sq.m. Out-of-town shopping centres with leisure elements and food courts remain popular with developers.

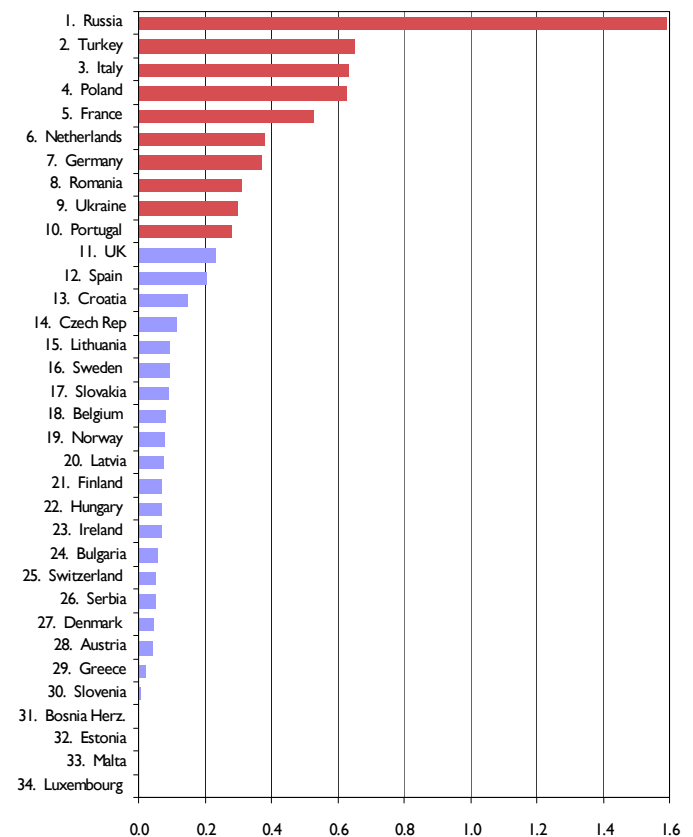
France moved into the top five of the completions table for the first time in almost 15 years. There has been a significant increase in both the development of new regional shopping centres, as well as the number of extensions/ redevelopments to existing schemes. Local authorities are keen on improving the overall quality of retail provision and many proposed shopping centres have received the necessary planning permits as a result of this, with a strong focus on high quality architectural design and the environmental friendliness of new schemes. The tenant mix has also broadened to incorporate more leisure and service retailers.

The Netherlands experienced a high level of development activity in 2009. Indeed, the total space added to the market is more than double the 10-year average annual completion level. However, construction for virtually all of the recently completed schemes started before the economic downturn impacted on development. A very limited number of new schemes have since been initiated and therefore the development pipeline for 2010/11 is likely to be well below the levels seen in 2009.

Shopping Centre GLA (sq.m) per 1,000 Population



New Shopping Centre GLA 2009 (million sq.m)



### EUROPEAN SHOPPING CENTRE GROWTH

The next two years will see annual shopping centre completions move back to “pre-boom” levels. The increase in central and eastern Europe’s share of total development has also tapered off somewhat. Whereas a year ago this region was forecast to account for over 70% of total development, this is now expected to remain fairly stable at around the current 60% mark.

Forecasting completion levels for 2012 and beyond is difficult given the uncertain market conditions, but annual development levels are not expected to pick up significantly any time soon and should stabilise around the 5 million sq.m mark. Whilst there are a number of European markets which can still be defined as “undersupplied”, these are mainly located in the more emerging central and eastern European regions which have been hit hard by the recession. Furthermore, most of the countries have seen a significant amount of shopping centre space added to the market in the last five years and it may take some time before shopping centre supply and demand return to equilibrium.

### SHOPPING CENTRE INVESTMENT

Property investment activity continued to slow across all sectors in Europe in 2009. The volume of retail investment transactions amounted to just €22.4bn for the whole of Europe, a 33% decline on 2008. Retail’s share of total commercial property investment moved to approximately 30%, up from 27% in 2009, indicating its continuing popularity as an asset class within the overall property sector.

Retail transaction volumes reached their low point in the first quarter of 2009 in most markets across Europe. However, investment activity has subsequently increased across most markets, with total Q4 2009 retail investment volumes being the highest in almost one and a half years at around €7 bn.

The shortage of debt finance meant that the large equity players were among the most active in 2009, targeting core markets such as the UK, Germany, France, the Netherlands and Italy. Investment activity in Eastern Europe came to a virtual standstill in the first half of 2009, but the second half of the year recorded a handful of shopping centre deals in Poland, Romania and Russia.

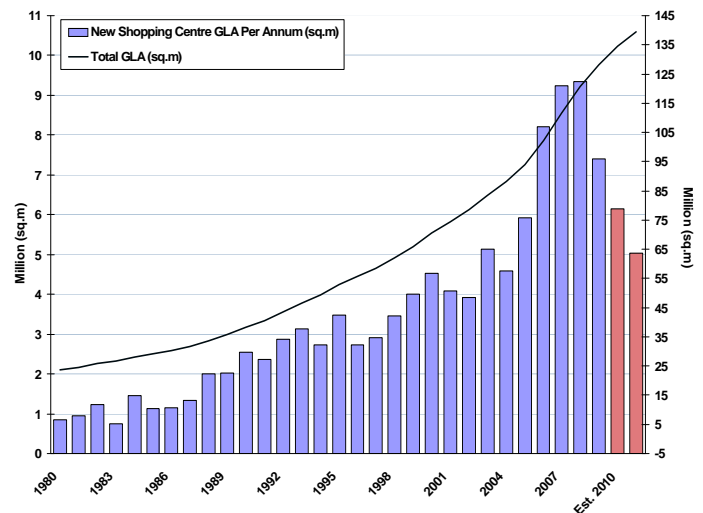
Following a significant degree of outward yield shift in 2008/9, the second half of 2009 saw yields stabilise across most European countries. The average European prime shopping centre yield reached its peak in September, standing at 7.54%, compared with 5.47% at the peak of the market in September 2007. After eight consecutive quarters of upwards yield movement, the average European prime shopping centre yield hardened marginally in Q4 2009, although this was mainly due to the sharp yield compression in the UK. Indeed, after some marginal downward movement in the three months to September, UK Yields hardened sharply in the last quarter across all shopping centre categories, with the prime regional shopping centre yield ending the year at 6.25%.

Whilst 2010 is likely to remain challenging with a shortage of affordable finance and the ongoing risk from the occupier market, a higher level of investment activity is expected. With investors demand for prime space running ahead of supply, yield falls are expected in some markets. Whilst the downward readjustment in rents has largely run its course, more falls cannot be ruled out which may impact further on capital values.

### Retail Market Indicators EU-27 Av.

	2009	2008
GDP Per Head (€)	23,790	25,184
Private Consumption Per Head (€)	13,956	14,497
Private Consumption (% real change pa)	-1.7%	0.7%
Average Consumer Prices (% change pa)	0.8%	3.6%

### European Shopping Centre Growth



### Shopping Centre Rents & Yields

Country	Prime Rent (€/sq.m/year)	Prime Yield (%)	Short Term Yield Outlook
Austria	700 – 1,000	6.10 – 6.80	→
Belgium	800 – 1,400	5.50 – 6.50	→
Czech Rep.	700 – 1,100	7.00 – 8.00	↘
Denmark	450 – 600	6.00 – 6.50	→
Finland	800 – 1,100	6.25 – 7.00	→
France	1,400 – 2,000	5.50 – 5.75	↘
Germany	1,300 – 1,800	5.50 – 6.50	→
Hungary	600 – 1,200	7.25 – 8.50	→
Ireland	1,700 – 2,100	7.00 – 7.50	→
Italy	600 – 750	6.50 – 7.00	→
Netherlands	650 – 850	7.50 – 8.25	↘
Norway	700 – 1,000	6.50 – 7.50	↘
Poland	650 – 950	7.75 – 8.50	↘
Portugal	700 – 1,000	6.50 – 7.50	↘
Romania	500 – 750	9.00 – 10.00	→
Russia	1,200 – 1,800	12.00 – 14.00	↘
Slovakia	650 – 950	7.50 – 7.50	→
Spain	700 – 1,000	6.50 – 6.75	→
Sweden	500 – 700	6.00 – 7.00	↘
Turkey	600 – 900	8.00 – 10.00	↘
United Kingdom	1,600 – 2,000	6.25 – 7.25	↘

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

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