



Bringing you the Power of One™

European Retail Guide Shopping Centres

March 2012



// Introduction

These challenging markets for retail property present a special opportunity to be well positioned for the recovery that will come. We at DTZ are now well placed to help our clients throughout Europe and the rest of the world.

We see huge potential to invest in quality retail property, for retailers to expand in new markets and for preparation for new development. Good asset management, including selective refurbishment and redevelopment, a deep understanding of markets backed by high quality research and access to the best opportunities are our commitment to our clients.

DTZ and our clients are involved in all aspects of retail property, but we have a special passion for shopping centres: we are advising on over 500 throughout Europe. Shopping centres offer a special place to do business and are a great opportunity to add value. We think it is timely to prepare this guide and hope it will encourage all those involved in shopping centres to think about their next initiative to take advantage of a unique market opportunity in 2012.

Martyn Chase
*European Retail
Sector Head*



Welcome to our first edition of 'European Retail Guide - Shopping Centres'. This guide provides high-level data on the European shopping centre industry. It is designed as a reference document for comparing shopping centre provision across major cities and identifying hotspots for future areas of development. The information provided is similar for all cities in order to facilitate comparison.

The guide includes:

- » statistics on the major cities and their respective national economies, including GDP growth, earnings and retail sales figures
- » information on shopping centre provision, including number of existing schemes, as well as those in the pipeline
- » information on rents, lease structures and legal aspects
- » a list of the five largest schemes in operation in each city, as well as a map locating them

The uncertain economic climate of recent months has led to muted consumer spending in many European markets. This economic slowdown, as well as growing difficulties in securing financing and governmental permits in many countries is limiting new shopping centre development. Consequently, demand for shopping centres is focused mainly on established schemes where retailers are still seeing opportunities, despite the challenging conditions. In this new guide we assess socio-economic trends, as well as trends in the retail market in order to provide our view on the adequacy of current levels of shopping centre provision and identify main hotspots for future opportunities.

We hope you enjoy this publication!



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DTZ Retail EMEA key statistics 2011

500

We are involved in some 500 shopping centres advising 150 owners in EMEA.

10m

The total floor area is over 10m sq m (107m sq ft).

"High street shops"

We are involved in many more high street shops and retail warehouse projects.

"Key clients"

Our key clients include Unibail Rodamco, ING, Henderson, La Salle, Hammerson, Westfield, Klepierre and Corio.

"Best in class"

Our shopping centres are best in class: Westfield London, Westfield Stratford City, Bullring Birmingham, Zlote Tarasy Warsaw and MyZeil Frankfurt are examples.

"Market leader"

We are market leader in UK, Netherlands and Poland.

200

We are market leader for shopping centre management: over 200 shopping centres in EMEA.

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A testing market but opportunities remain

- » The European economy is still struggling. The ongoing sovereign debt crisis has brought about strict austerity measures, low wage growth and rising unemployment across most of Europe. This is feeding through to lower confidence levels for both consumers and retailers, which in turn is impacting on overall spending levels.
- » Despite a weakening outlook, demand for shopping centre space is holding up, particularly in prime schemes where opportunities remain for retailers wanting to expand. Secondary centres, on the other hand, are bearing the brunt of the downturn, with falling demand and increasing vacancy. This is reinforcing polarisation in many markets.
- » Shopping centre development and supply per capita vary greatly by country and city. Compared to the European average of 382 sq m, Stockholm has the largest stock per inhabitant in Europe, whilst Vilnius has the lowest. The lack of shopping centre development in some markets can be due to a cultural preference for other retail formats (i.e. Vilnius) or to difficulties in obtaining government permits (i.e. Brussels, Milan).
- » As a result of the economic slowdown, development activity is declining and the number of openings is expected to be below average in the coming years. The most dramatic increases in modern shopping centre space will take place in the less developed CEE cities and Istanbul, where the relative undersupply of space is being addressed. Whilst in more mature markets, the focus will be on extensions, upgrades and regenerations rather than on new developments (i.e. Copenhagen, Prague).
- » Our new European retail guide on shopping centres assesses the socio-economic dynamics, as well as the strength of current shopping centre provision across 40 cities in order to form a view on future growth prospects both for existing schemes, as well as potential new developments.
- » We have identified the future hotspots as being those cities which offer strong economic growth and which are currently undersupplied in shopping centre stock. These include Vilnius, London, Hamburg, Birmingham and Manchester.



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ECONOMY

Despite a weakening short-term economic outlook in the euro-zone, retail sales are forecast to rise in the medium to longer term - although there are considerable differences between cities.

- » The European economy is weakening. The ongoing sovereign debt crisis has brought about higher unemployment, low wage growth and generally diminished growth prospects for 2012 across Europe. This is feeding through to lower confidence levels for both consumers and retailers, which in turn is impacting on overall spending levels.
- » Despite this, GDP growth is forecast to be positive for the medium to longer term. Marked differences between cities exist with only modest growth forecast in most markets.
- » Central & Eastern European (CEE) cities, the Baltic capitals and Istanbul are forecast to show the strongest GDP growth over the next five years. Vilnius is forecast to show growth of 6.7%pa, followed by Kyiv, where growth of 5.5%pa is forecast. The Nordic cities of Helsinki and Stockholm are forecast to show slightly above average growth over the same time period, of 3.3%pa and 3.1%pa respectively (Figure 1).

- » On the other hand, the southern European cities of Milan, Lisbon and Rome, as well as Lille in France are forecast to significantly underperform the European average over the next five years, with growth below 1%pa forecast.
- » Whilst retail sales growth is expected to be more positive for the medium to longer term, it is still modest and big differences between regions are apparent (Figure 2). The European average for retail sales growth forecasts for 2012-2016 is 2%pa. Higher than average growth is expected in the Nordics, as well as the CEE countries. The strongest growth is forecast in Vilnius at 7.3%pa, following by Riga at 6.4%pa (Figure 2).
- » Vilnius, Riga, Warsaw, Istanbul and Tallin display the strongest economic performance over the forecast period. Unsurprisingly, the cities with lowest growth are all located in peripheral euro-zone economies. In Lisbon, retail sales are forecast to fall by 1.2%pa, while in Milan they are forecast to drop by 0.3%pa.

Figure 1
GDP growth forecasts in selected European cities (2012-16)

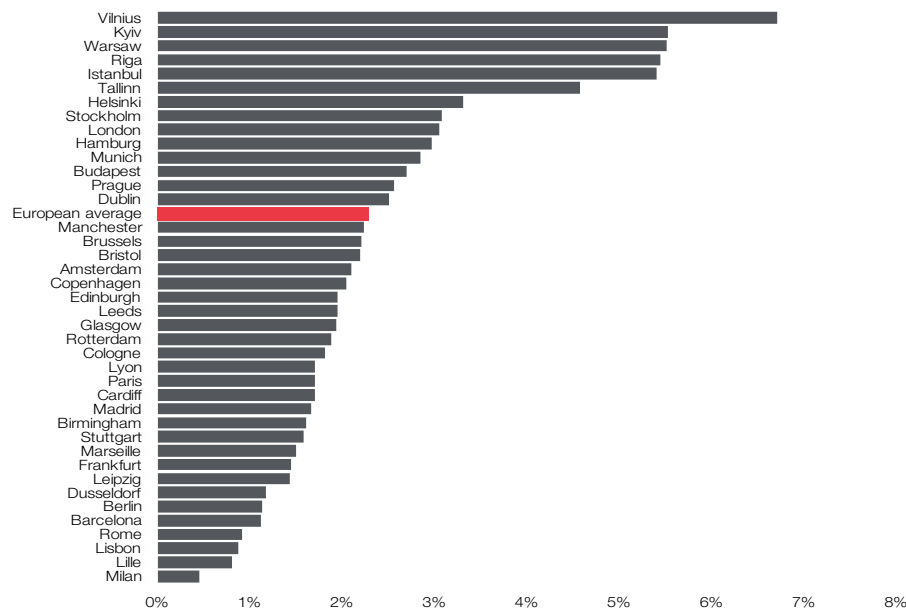
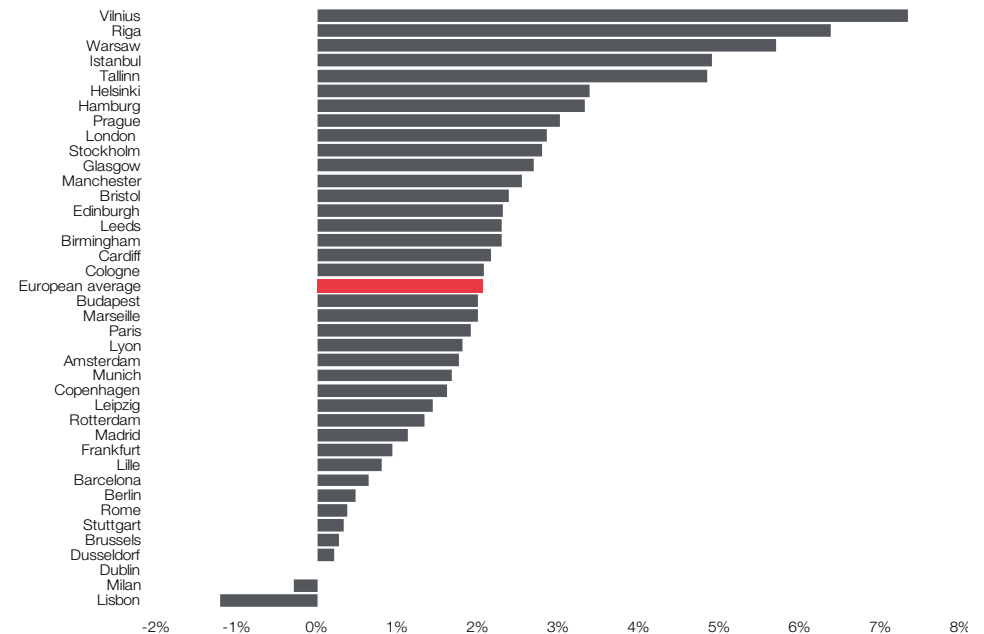


Figure 2
Retail sales growth forecasts in selected European cities (growth 2012-16)



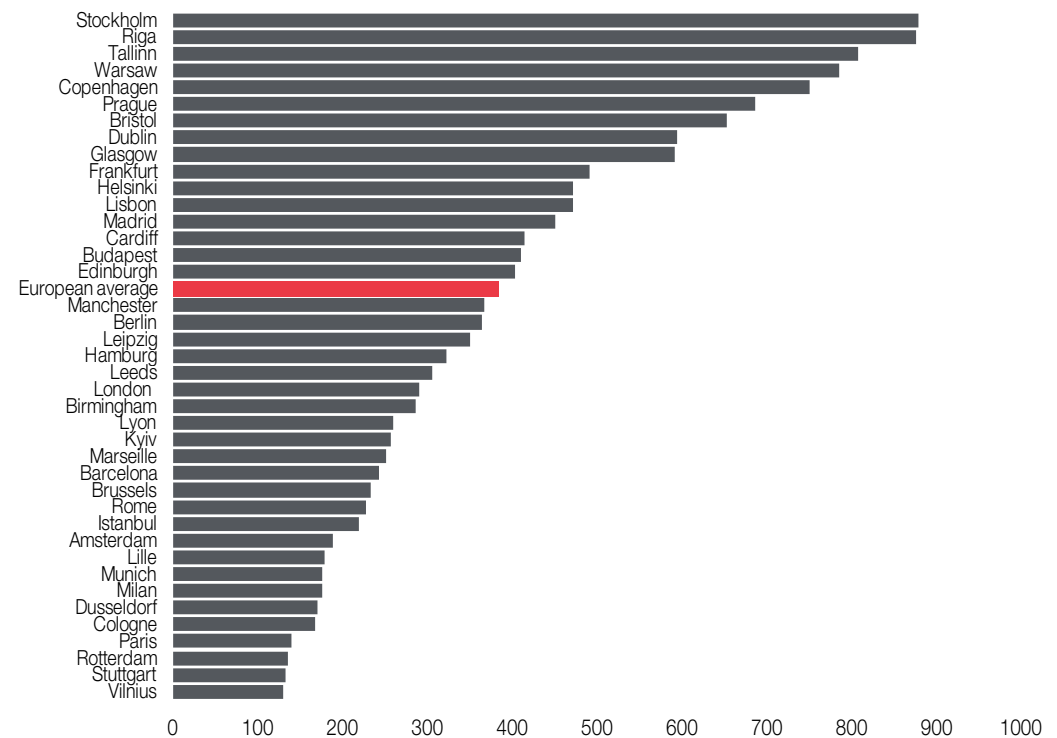
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SHOPPING CENTRE PROVISION

Uncertain market conditions are creating subdued and highly selective occupier demand, reinforcing polarisation between prime and secondary schemes in a number of cities.

- » Despite the weakening economic conditions across the region, demand for shopping centre space is holding up. However, retailers remain cautious, favouring prime space in prime schemes. As a result, secondary shopping centres are lagging behind with increasing vacancy rates. This reinforces the polarisation between prime and secondary centres, a trend which is apparent throughout much of the region.
- » As at the beginning of 2012, total shopping centre stock across Europe approached 150 million sq m. The UK, France, Italy, Germany and Spain have the largest shopping centre stock, accounting for 60% of the overall European provision. Although Western Europe accounts for the largest share of existing stock, development activity has been largely concentrated in the CEE countries and Turkey in recent years.
- » There are marked differences in provision at city level. Compared to the European average of 382 sq m, Stockholm and the Baltic cities of Riga and Tallinn seem largely over-supplied with stock in excess of 800 sq m. At the other end of the scale, Vilnius, Stuttgart, Cologne and Dusseldorf, as well as Rotterdam all have underdeveloped markets.
- » There are a number of reasons why cities may be undersupplied. In some markets, high street retail is still the favoured format (i.e. Vilnius), whilst in others the difficulty in obtaining building permits severely restricts development. It is worth noting also that in some cities all of the shopping centre provision is found in out of town locations rather than in the city itself (i.e. Paris).
- » CEE cities account for the largest share of the European pipeline. Turkey is also witnessing strong growth, with most of the activity focused in Istanbul, where 28 schemes are planned. The largest of these is Marmara Park, a 100,000 sq m scheme scheduled for completion later this year. Other cities to have large pipelines are Kyiv, Warsaw and Budapest. Interestingly, whilst Stockholm is already relatively oversupplied, there are a further 15 schemes planned to come on stream. In the more mature markets, the focus will be on extensions and upgrades rather than expansions, as investors refocus on maintaining and strengthening existing assets in the current weak economic environment.

Figure 3
Total shopping centre* stock per ' 000 population in selected European cities (2012)



Source DTZ Research

*Shopping centre: Defined as a grouping of shops and services with a minimum GLA of 5,000 sq m, conceived, built and managed as one entity.

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Figure 4 - Shopping Centre Statistics in selected European cities (as at Feb 2012)

Country	City	Total SC floorspace (sq m)	Total SCs per '000 population	Number of schemes in the pipeline	Country	City	Total SC floorspace (sq m)	Total SCs per '000 population	Number of schemes in the pipeline
Belgium	Brussels	255 316	233	1	Lithuania	Vilnius	429 000	130	2
Czech Republic	Prague	854 535	687	1	Netherlands	Amsterdam	237 441	189	2
Denmark	Copenhagen	500 867	750	0		Rotterdam	185 800	136	1
Estonia	Tallinn	426 460	808	3	Poland	Warsaw	1 350 000	785	15
Finland	Helsinki	680 000	472	2	Portugal	Lisbon	960 000	472	n/a
France	Lille	460 500	179	3	Spain	Barcelona	1 319 286	243	2
	Lyon	447 764	260	4		Madrid	2 884 338	451	4
	Marseille	507 832	252	6	Sweden	Stockholm	1 805 000	879	15
	Paris	316 240	141	10	Turkey	Istanbul	2 982 284	220	28
Germany	Berlin	1 276 000	369	4	United Kingdom	Birmingham	298 000	286	0
	Cologne	157 300	157	0		Bristol	291 000	653	2
	Dusseldorf	80 900	138	0		Cardiff	195 000	415	0
	Frankfurt	326 602	491	2		Edinburgh	198 000	404	1
	Hamburg	587 790	327	2		Glasgow	352 000	591	0
	Leipzig	182 329	351	1		Leeds	247 000	306	1
	Munich	236 900	174	0		London	904 000	291	2
	Stuttgart	80 000	133	1		Manchester	536 000	367	1
Hungary	Budapest	700 000	410	12	Ukraine	Kyiv	720 800	257	16
Ireland	Dublin	703 290	595	0					
Italy	Milan	695 000	176	4					
	Rome	947 921	228	4					
Latvia	Riga	615 000	876	0					
European City figures							26 933 495	382	152

Source : DTZ Research

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SHOPPING CENTRE FUTURE HOTSPOTS

We define those cities which offer the greatest potential for future growth as our future hotspots. These include Vilnius, London and Hamburg.

- » The chart across gives an indication of how developed European cities are in terms of shopping centre development, as well as how dynamic their economies are. Plotted together this allows us to identify cities which offer good future growth prospects both for existing schemes and new developments.
- » In the **'stable'** category we have markets which have above average shopping centre provision and above average forecast retail sales growth. These are stable markets; whilst existing provision will benefit from strong retail sales growth over the forecast period, these cities are displaying signs of market saturation. This could potentially limit future development. Cities in this category include Stockholm and Warsaw.
- » The **'stagnant'** markets are cities which display high shopping centre provision but below average retail sales growth forecasts. The performance of existing schemes or future growth prospects will be hampered by stalling economies. These include Dublin, Frankfurt and Madrid, with the worst case being Lisbon.
- » **'Emerging'** markets, whilst offering potential as they are under-supplied in terms of shopping centre provision, display weak retail sales growth forecast figures. The short to medium term outlook is one of muted growth. Cities in this category include those in the Benelux, France and Germany.
- » The **future HOTSPOTS** (i.e. cities which offer the greatest potential for future growth) are those situated in the **'strong'** category. These are currently undersupplied but offer strong economic growth in the medium term, which will boost retail sales. This will benefit existing schemes and also provide considerable opportunity for new development. In this category we have Vilnius, London, Hamburg and Birmingham.

Figure 5: Current shopping centre floorspace per '000 population and retail sales growth (2012-2016) in major European cities

