EMEA

RETAIL REPORT

Colliers INTERNATIONAL

SELECTED NEW MARKET ENTRIES Q4 2011 – Q1 2012			
Brand	Profile	Market	Location
Bimba and Lola	Fashion	London, UK	Westfield Shopping Centre
Horiyoshi the Third	Luxury brand	London, UK	Connaught Street
Toys R Us	Toys	Warsaw, Poland	Blue City
Banana Republic	Fashion	Paris, France	Avenue des Champs Élysées
Gucci	Luxury brand	Lisbon, Portugal	Avenida da Liberdade
Starbucks	Food service	Oslo, Norway	Oslo Airport
Aldo	Footwear	Vilnius, Lithuania	Akropolis Shopping Centre
Omega	Luxury brand	Vienna, Austria	Stock-im-Eisen-Platz
Reiss	Fashion	Riyadh, Saudi Arabia	Panorama Mall
Muji	Fashion	Warsaw, Poland	Arkadia Shopping Centre
Burberry	Luxury brand	Bucharest, Romania	Radisson Blu Hotel

Source: Colliers International Research

OCCUPATIONAL OVERVIEW

Retailers

The European retail market remains in stagnation, with only a slight 0.3% quarter on quarter increase in retail sales recorded in the EU in Q1 2012. Although this represents a minor improvement in comparison with Q4 2011 results, when a 0.4% decline was reported, no recovery is expected in 2012.

With economic confidence fragile and weak consumer demand, the past six months turned out to be challenging for many retailers. Several companies went into administration, mainly in the UK, including well known brands such as Peacocks and La Senza. However, it is worth emphasising that most of these retailers are still operating, after a tough restructuring process involving the closure of a number of stores and staff redundancies.

Facing difficult market conditions retailers are implementing well thought-out strategies, focusing on closing down unprofitable units, opening fewer stores (but in prime locations) and developing new concepts that provide customers with a more memorable shopping experience. The retailers are also broadening their sales channels. The last few months have seen a large number of online stores open, e.g. Parfois in 16 new European markets, Zara and Massimo Dutti in Poland, Ralph Lauren in Germany and M&S Outlet in the UK, a popular M&S's outlet format offering clothing products at affordable prices.

Major international fashion retailers continued their strong expansion, in particular in Central and Eastern Europe, where we have seen an increasing number of retail developments suitable for international occupiers. The demand from the majority of retailers already present in the CEE markets as well as from the new tenants is directed mainly towards shopping centres. Luxury brands still prefer high street locations, as well as top department stores and hotels. The trend to open stores in retail premises of luxury hotels has been especially visible in Bucharest.

The split between luxury and mid-market retailers has become more defined, with the high end market brands reporting strong results and expanding not only in top retail destinations such as London, Milan, Moscow and Paris, but also in other cities.

New openings in Bucharest, which has been enjoying high interest of such brands in recent years, came as no surprise. Burberry, La Perla, Valentino and Ermanno Scervino opened new stores there. In Warsaw, where the presence of luxury brands has been limited so far, Bottega Veneta, Gucci, Yves Saint Laurent and Lanvin have launched their first stores.

Rents

During the six month period to Q1 2012 most prime high streets rents across the key EMEA centres experienced no changes or just minor shifts. Significant increases in prime rental rates took place in London (11%), Hamburg (12%) and Vienna (14%), as well as in Manchester (11%) and Edinburgh (9%).

The Baltic cities of Riga and Tallinn also recorded notable increases, 23% and 16% respectively. However, the rental rates in those markets still remain very low in comparison with the majority of the EMEA centres.

The biggest drops were recorded in Athens (-12%) and Sofia (-20%). Both these markets are struggling with a difficult economic situation, decline of consumer demand and increasing vacancy rate. A decrease in prime rents also took place in Tirana (-10%); the delivery of the largest shopping centre (TEG) in Albania in the city outskirts drew tenants' demand out of the city centre.

Shopping centre prime rents in the majority of monitored markets remained flat. Notable increases in terms of both six and twelve month periods were recorded in Glasgow (11% and 18%), Moscow (8% and 23%) and Belgrade (8% and 17%).

Meanwhile Cairo's rents went down by 23.5%, a result of a still very uncertain political and economic situation in Egypt.

COUNTRY	CITY	LOCAL MEASURES	PRIME HIGH STREET RENT	SIX MONTH CHANGE%	PRIME SHOPPING CENTRE RENT	SIX MONTH CHANGE%	PRIME HIGH STREET YIELD (%)	PRIME SHOPPING CENTRE YIELD (%)
Albania	Tirana	eur/sq m/month	45.0	-10.0	33.0	0.0	10.00	10.00
Austria	Vienna	eur/sq m/month	400.0	14.3	80.0	0.0	4.25	6.00
Belarus	Minsk	eur/sq m/month	42.0	-6.7	n/a	n/a	n/a	14.50
Belgium	Antwerp	eur/sq m/month	140.0	0.0	110.0	0.0	5.50	6.00
Bulgaria	Sofia	eur/sq m/month	40.0	-20.0	32.0	-8.6	9.00	9.50
Croatia	Zagreb	eur/sq m/month	75.0	0.0	25.0	0.0	8.00	8.00
Czech Republic	Prague	eur/sq m/month	200.0	0.0	90.0	0.0	6.25	6.50
Denmark	Copenhagen	dkk/sq m/year	18,000.0	0.0	9,500.0	0.0	4.75	5.50
Egypt	Cairo	usd/sq m/month	49.0	0.0	65.0	-23.5	10.00	17.00
Estonia	Tallinn	eur/sq m/month	29.0	16.0	44.0	2.8	n/a	7.50
Finland	Helsinki	eur/sq m/month	170.0	-2.9	140.0	-3.4	5.40	5.25
France	Paris*	eur/sq m/month	833.0	0.0	117.0	0.0	4.50	4.75
Germany	Berlin	eur/sq m/month	220.0	0.0	180.0	0.0	5.00	6.50
Germany	Düsseldorf	eur/sq m/month	240.0	0.0	185.0	0.0	4.25	6.00
Germany	Frankfurt	eur/sq m/month	290.0	7.4	290.0	7.4	4.40	5.75
Germany	Hamburg	eur/sq m/month	280.0	12.0	180.0	0.0	4.70	6.00
Germany	Munich	eur/sq m/month	330.0	0.0	90.0	0.0	3.75	5.75
Germany	Stuttgart	eur/sq m/month	320.0	0.0	100.0	0.0	4.40	5.50
Greece	Athens	eur/sq m/month	150.0	-11.8	45.0	0.0	8.00	8.00
Hungary	Budapest	eur/sq m/month	110.0	0.0	65.0	0.0	7.50	7.50
Ireland	Dublin*	eur/sq ft/year	450.0	0.0	340.0	0.0	7.50	8.00
Italy	Milan	eur/sq m/month	595.0	0.8	50.0	0.0	4.90	6.80
Italy	Rome	eur/sq m/month	440.0	-2.2	60.0	-4.8	6.00	7.00
Latvia	Riga	eur/sq m/month	27.0	22.7	37.0	5.7	9.00	8.25
Lithuania	Vilnius	eur/sq m/month	32.0	0.0	35.0	0.0	n/a	8.00
Netherlands	Amsterdam	eur/sq m/month	200.0	2.6	133.0	0.0	4.41	5.55
Netherlands	Eindhoven	eur/sq m/month	113.0	-0.9	105.0	0.0	5.00	6.00
Netherlands	Rotterdam	eur/sq m/month	145.0	1.0	60.0	1.0	5.10	6.00
Netherlands	The Hague	eur/sq m/month	120.0	1.0	37.5	1.0	5.00	6.00
Netherlands	Utrecht	eur/sq m/month	108.0	2.9	101.0	0.0	5.00	6.00
Norway	Oslo	nok/sq m/year	14,000.0	-6.7	10,000.0	-4.8	5.50	5.25
Poland	Warsaw	eur/sq m/month	90.0	0.0	79.0	0.0	7.50	6.50
Portugal	Lisbon	eur/sq m/month	72.5	-3.3	55.0	-8.3	7.50	7.50
Romania	Bucharest	eur/sq m/month	75.0	0.0	65.0	0.0	9.00	8.50
Russia	Moscow	usd/sq m/month	608.0	1.3	316.0	7.8	n/a	10.00
Russia	St Petersburg	usd/sq m/month	286.0	0.0	140.0	0.0	13.00	12.00
Saudi Arabia	Riyadh	sar/sq m/year	3,000.0	0.0	3,700.0	0.0	9.50	11.00
Serbia	Belgrade	eur/sq m/month	110.0	0.0	70.0	7.7	8.00	9.00
Slovakia	Bratislava	eur/sq m/month	40.0	0.0	38.0	0.0	8.00	7.25
Spain	Madrid	eur/sq m/month	200.0	0.0	50.0	-5.7	5.50	6.50
Sweden	Stockholm	sek/sq m/year	16,000.0	0.0	15,500.0	0.0	4.75	5.00
Switzerland	Geneva	chf/sq m/year	1,200.0	-4.0	7,400.0	-1.3	5.60	4.60
Switzerland	Zurich	chf/sq m/year	800.0	0.0	9,475.0	0.0	4.50	3.50
Turkey	Istanbul	usd/sq m/month	300.0	0.0	193.0	0.0	6.50	6.50
UAE	Abu Dhabi	usd/sq m/month	45.0	n/a	85.0	-7.6	n/a	n/a
UAE	Dubai	usd/sq m/month	85.0	1.2	35.0	n/a	n/a	n/a
UK	Birmingham*	gbp/sq ft/year	210.0	0.0	285.0	0.0	5.50	5.75
UK	Bristol*	gbp/sq ft/year	120.0	-4.0	195.0	0.0	6.50	6.00
UK	Edinburgh*	gbp/sq ft/year	180.0	9.1	130.0	0.0	5.50	5.75
UK	Glasgow*	gbp/sq ft/year	250.0	0.0	200.0	11.1	5.00	5.75
UK	Leeds*	gbp/sq ft/year	185.0	0.0	200.0	0.0	5.50	5.75
UK	London*	gbp/sq ft/year	1,000.0	11.1	450.0	0.0	3.75	5.00
UK	Manchester*	gbp/sq ft/year	250.0	11.1	250.0	0.0	5.25	5.75
Ukraine	Kyiv	usd/sq m/month	300.0	0.0	130.0	0.0	11.00	11.00

*Zone A Rents

RENTS OUTLOOK

London
Frankfurt
Hamburg
Moscow
St Petersburg

Budapest
Geneva
Oslo
Tirana

YIELDS OUTLOOK

London
St Petersburg
Zagreb

Vienna
Milan
Geneva

GLOSSARY

Prime High Street Rent
Top open market rent that could be expected for a unit of standard size within the market - typically 100 to 200 sq m. The figure does not include service charges and taxes, and does not reflect tenant incentives.

Prime High Street Yield
The net yield an investor is prepared to pay for a prime retail asset, fully-let to high quality tenants at an open market rent in a prime high street location. Net yield = net income/gross purchase cost.

Prime Shopping Centre Rent
Top open market rent that could be expected for an in-line unit of standard size within a prime centre. The figure does not include service charges and taxes, and does not reflect tenant incentives.

Prime Shopping Centre Yield
The net yield an investor is prepared to pay for a prime shopping centre asset, fully-let to high quality tenants at open market rents. Net yield = net income/gross purchase cost.

INVESTMENT OVERVIEW

The vast majority of high street prime yields remained stable. Mild compression (between -10 and -25 bps) took place in the German cities of Dusseldorf, Frankfurt and Stuttgart as demand for retail properties in these markets remains strong. In Helsinki yields dropped by 35 bps to 6% and in Riga further compression was recorded with prime yields standing at 9% in Q1 2012, a -50 bps shift. A significant upward shift of 50 bps took place in Athens, with investor confidence going backwards.

Most of the monitored markets reported flat shopping centre yields over the six month period.

Some yield compression was recorded in the Eastern European cities of Riga (-25 bps) and Vilnius (-50 bps), as well as in Bratislava (-25 bps). A number of regional British markets recorded a slight upward shift (25 bps). While a sharp increase of prime yields (100 bps) took place in Cairo which is still struggling with a difficult political situation and dearth of investors.

Investors' interest continued to be focused on the core European markets of the UK, Germany and France. However, the top Eastern European markets, Russia and Poland, drew attention and recorded exceptionally high retail investment volumes.

While in Russia demand is focused mainly on the major markets of Moscow and St Petersburg, Poland is characterised by strong demand for retail properties outside of the capital.

The largest single transaction was the purchase of the Galeria shopping and entertainment centre in St Petersburg by the US Morgan Stanley Real Estate Fund from Meridian Capital. The transaction amounted to ca. €824 million, with a yield estimated at ca. 9%.

One of the main transactions in Western Europe was the purchase of the PEP shopping centre in Munich for approximately €410 million and a cap rate of 4.6% by TIAA-CREF from RREEF, acting on behalf of Grundbesitz Europa real estate fund.

OUTLOOK

With economic outlook foggy at best and no sign of improvement in consumer spending, retailers' strategies will continue to follow current trends: closing down unprofitable units, expansion in prime retail locations and searching for new sales channels such as online sales and mobile phone-based solutions. Continued expansion of e-commerce is anticipated, whatever the wider trends.

Further development of the strong international brands is expected, as well as expansion of luxury retailers.

Worth mentioning are the entries of Victoria's Secret to British and Polish markets, Dolce & Gabbana's first store in Kyiv, Debenhams' first store in Moscow and Tiffany & Co. in Prague.

A further increase of prime rents can be expected in the strongest markets' high streets – London, Frankfurt, Hamburg, Moscow and St Petersburg.

Yields are expected to remain flat in the vast majority of the monitored markets, with compression forecast for London and St Petersburg. Investors' interest will remain focused on the best performing locations. No fast recovery should be expected for the weakest markets.

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