

Quick Stats

	Change from	
	Q4 10	Q3 11
Rents	↑	↑
Yields	↓	↓

Hot Topics

- In spite of a challenging economic environment and subdued retail sales, occupier demand for prime space is holding up well
- Prime rents are stable in most European locations as retailers compete for the limited amount of suitable prime space

Rents - Quarterly Change

EU27 Index		
EU 27 Index	↑	0.5%

Number of markets		
Risers	↑	5
Stable	←	44
Fallers	↓	1

Yields - Quarterly Change

EU 27 Index		
EU 27 Index	↓	-2 bps

Number of markets		
Risers	↑	1
Stable	←	46
Fallers	↓	3



OVERVIEW

• Consumer confidence falls sharply

European consumer sentiment has continued to weaken and is now well below the long term average level. Concerns about the ongoing eurozone crisis, with the potential for further job losses and reductions in disposable income has had a major impact on consumer confidence throughout Europe but mostly in the eurozone countries. Over the last quarter, sentiment in Netherlands and Denmark weakened significantly but the most dramatic decline was seen in Italy.

• Retail sales growth is flat across Europe

Given weakening consumer sentiment, it was not surprising that retail sales growth stalled over the important Christmas period. Across Europe (EU-27) retail sales were flat in December, growing by only 0.1% compared with same period in 2010. In the eurozone area retail sales actually fell by 1.6% reflecting the added pressure on consumers in these markets, particularly in southern Europe. In contrast, retail sales grew strongly in Poland and Russia.

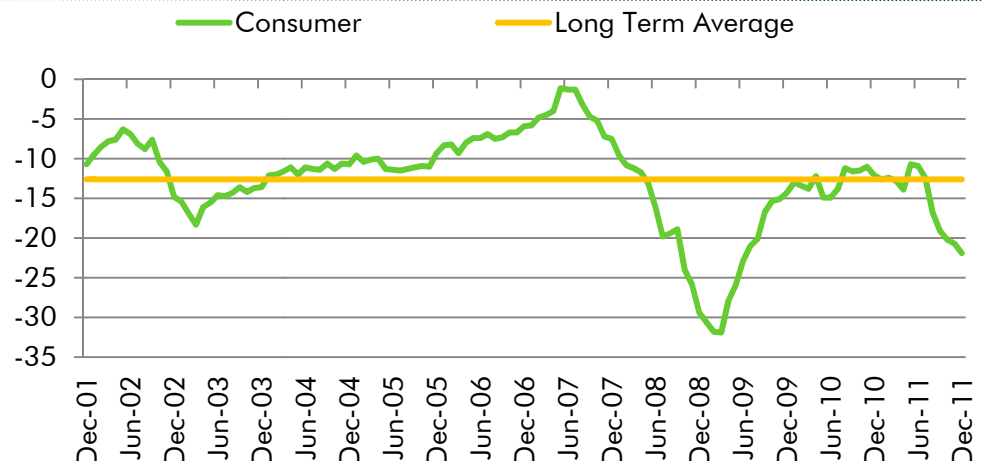
• Prime rental levels are stable

Rental levels have been largely stable across the majority of European markets with only a few high street locations experiencing significant growth in Q4, including Berlin, Manchester and most notably Lille. The overall growth in CBRE's Prime High Street Rent Index was just 0.5% over the quarter. Over the full year rents have risen 3.4%, indicating a slow down in rental growth in the second half of the year.

• Retailers are firmly focused on prime locations

Occupier demand is still heavily focused in the prime areas of the major cities, although retailers are finding it increasingly difficult to access suitable space there. In spite of this, in some cases tenants continue to push for more favourable lease terms and negotiate incentives including significant fit out contributions, which in some cases are increasing the time it takes to complete deals.

European Consumer Confidence



Source: Macrobond

ECONOMIC OVERVIEW

After a positive start to 2011 Europe's economy is slipping back towards a possible recession. Quarter-on-quarter growth was recorded in the early part of 2011, however initial Eurostat estimates for GDP growth in Q4 for EU-27 point to a -0.3% contraction. There are of course huge variations. Whilst Latvia and Slovakia both saw positive q-on-q growth of 0.8%, at the other end of the scale, the economies of Italy and The Netherlands shrunk by 0.7% and Portugal saw a decline of 1.3%. A similar diversity was apparent in the region's major economies, with the UK and Germany contracting by 0.2%, whilst France grew by 0.2% in Q4.

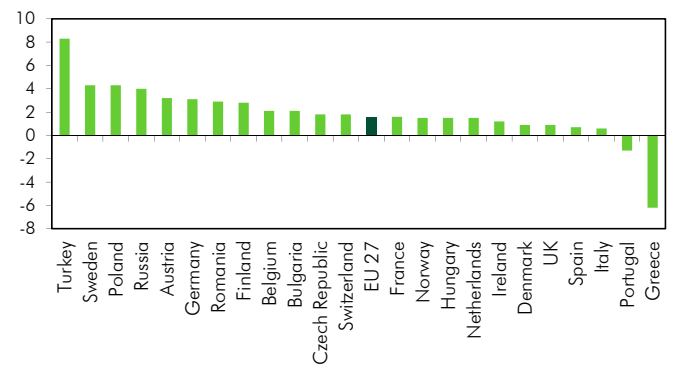
The latest Oxford Economics forecasts suggest that most economies will show growth for 2011 with the exception of Portugal and Greece which are not expected to see a return to growth until 2013 and 2015 respectively. It is estimated that the EU-27 grew by 1.6% in 2011 but the outlook for 2012 is less encouraging. Most economies are expected to see negligible growth, with overall growth in the region of just 0.2%.

Unemployment has continued to increase with further job losses still expected. Spain still has the highest unemployment rate in Europe which is now at 22.9%. Germany's short term work program has successfully reduced unemployment from 6.3% at the beginning of the year to 5.5% in December.

Consumer confidence had been hovering around the long term average for the first half of 2011, but subsequently fell with the trajectory still downwards. Sentiment levels in Netherlands and Denmark weakened significantly over the last quarter, but fell most dramatically in Italy with a decline of 12.6 points in the second half of the year. Retailer confidence has followed a similar pattern. In the UK retailers' confidence fell significantly in early 2011 but improved towards the end of the year.

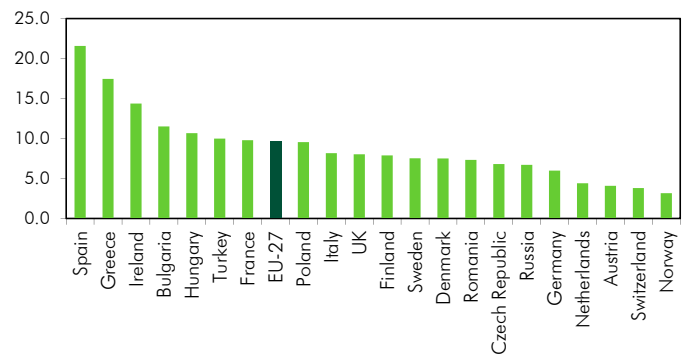
Given this uncertainty it is unsurprising that retail sales remained relatively subdued in most markets during the Christmas period. Retail sales in EU-27 were flat (0.1%) in December on the same period in 2010, but actually fell by 1.6% in the eurozone area. The ongoing eurozone crisis has clearly knocked consumer confidence in these markets the most with France and Germany posting disappointing sales over the Christmas period whilst in Spain, Portugal and Italy spending levels were significantly down. In contrast, Russia and Poland saw a major uplift in spending in December, with retail sales growing by 9.5% and 8.6% respectively. Trading was better than expected in the UK (+2.6%), although it was from a low base. Overall, consumers are expected to remain cautious in their spending habits in 2012.

GDP Growth 2011 - Q4 2011 Forecasts



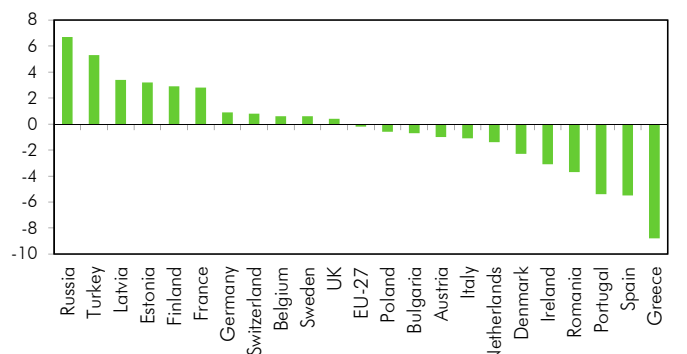
Source: Oxford Economics

European Unemployment Rates - 2011 (%)



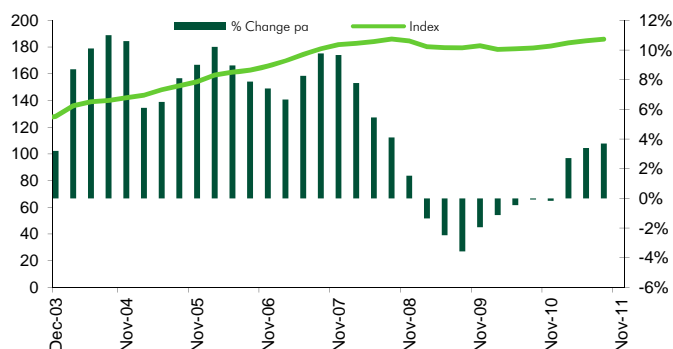
Source: Oxford Economics

Retail Sales Growth Forecast 2011 - y-on-y (%)



Source: Oxford Economics

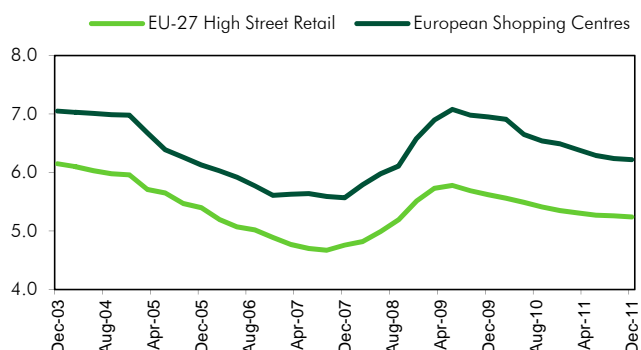
EU-27 Prime High Street Retail Rent Index – Q4 2011



EU-27 Prime High Street Retail Rent Index

	Q2 2011	Q3 2011	Q4 2011
Index (Q1 2000 = 100)	185	186	187
Quarter-on-Quarter (% Change)	0.9%	0.6%	0.5%
Year-on-Year (% Change)	3.4%	3.7%	3.4%

Average Prime Yield (%) – Q4 2011



Average Prime Yield Indices - Q4 2011

	Q2 2011	Q3 2011	Q4 2011
EU-27 Average Prime High Street Yield(%)	5.27	5.26	5.24
Quarter-on-quarter Shift (bp)	-5	-1	-2
Year-on-year Shift (bp)	-22	-15	-12
European SC Average Prime Yield	6.29%	6.26%	6.22%
Quarter-on-quarter Shift (bp)	-1	-3	-5
Year-on-year Shift (bp)	-36	-27	-27

RETAILER ACTIVITY

Although 2011 was a tough year for many retailers as consumers reigned back on their spending, many continued to expand their store networks, and some grew aggressively, including the Inditex brands and H&M. At the same time, a number of new American brands including Forever 21, Abercrombie and Fitch and Banana Republic made further in-roads into Europe. Retailers are continuing to focus on the prime locations in the major cities.

The Christmas trading period produced mixed results for retailers. The value and luxury retailers generally performed well, as did some of the major department stores in the UK and France. On the other hand UK retailers La Senza, Blacks and Peacocks went into administration whilst others including Dixons and Argos have announced plans for store closures in coming years, and Best Buy exited the UK market altogether.

RENTS

The CBRE EU-27 Prime High Street Retail Rent Index barely moved during the final quarter of 2011. Rents were stable in the majority of markets in the quarter. Only three markets saw an increase, with rents increasing by 4% in Berlin and Manchester and by 22% in Lille, on the back of a number of major lettings in the much sought after prime area. The overall index grew by 0.5%.

Occupier demand remains strong in most prime high streets and availability is low, but with retailers struggling to increase their turnover levels, there is little upwards pressure on rents. In some cases tenants continue to push for more favourable lease terms and negotiate incentives including significant fit out contributions which in some cases are increasing the time it takes to complete deals.

YIELDS

Prime, good quality retail continues to attract strong investor interest, with demand tightly focussed on core markets and those with a more stable economic outlook.

The CBRE EU-27 Average Prime High Street Yield Index moved marginally to 5.24% at the end of Q4 2011. Prime London high streets saw the largest movement with a 25 bps fall. There was also a slight fall in the European Shopping Centre Yield Index to 6.22%. Yields continue to harden in some CEE locations, including Russia where high street and shopping centre yields fell by 25 bps and Poland and Romania which both recorded a 25 bps fall in shopping centre yields. Elsewhere, shopping centre yields fell by 25 bps in Sweden and by 10bps in Germany and Austria.

In **Austria**, international retailers continued to show a strong interest for prime high streets in Q4, but availability remains limited. Bahnhof City Wien West, Austria's first railway station shopping centre, opened in the final quarter, and traded well in the run up to Christmas. The first phase of the luxury shopping area in Vienna's Tuchlauben will open in early 2012 with retailers such as Louis Vuitton, Miu Miu and Emporio Armani already signed up. This is expected to put upward pressure on rents in this area. In general, however, occupier demand, vacancy levels and rents are expected remain stable.

Retailers' activity was very mixed in **France** in 2011. According to the November Chamber of Commerce and Industry survey only 25% of retailers reported an increase in their turnover, while 42% reported a decrease. There is strong demand among international brands for scarce prime locations, which is underpinning rental levels in the best locations. Secondary locations, on the other, are attracting few retailers. In the first 10 months of 2011, turnover levels in shopping centres (on a like for like basis) fell by 0.8%. Likewise, footfall has generally been lower in 2011 compared with the previous year. Retailer interest continues to focus on the most important shopping centres and as a consequence rents are holding up there.

Italy remains a major target for international retailers with demand focused on prime high streets, although some retailers are choosing to trial their brands in department stores first, before committing to a standalone store. Demand for secondary space is stable but much lower than for prime locations. Milan Corso Matteotti, which was previously considered a secondary location, is now regarded as more prime since the opening of Abercrombie & Fitch. To combat the economic crisis, a new law has been passed that extends trading hours and the number of days on which a retailer can trade. While this could be beneficial for large retailers, smaller shops might suffer from the increased competition.

Germany saw a relatively strong leasing market in the last quarter of 2011, similar to the year as a whole. Christmas sales fell slightly (0.9%) in December but rose by 0.9% for the year. Demand for prime high street is still strong, and in Berlin, because there is still a lack of appropriate prime high street space, units in shopping centres are increasingly being considered as an alternative. The outlook for the retail sector in the major destinations and especially in prime areas is stable on the back of high levels of employment and rising household incomes.

In **The Netherlands** rental levels remained stable in the final quarter of 2011 as international retailers sought space in prime areas. Nevertheless, with consumers continuing to exercise caution, many retailers are becoming concerned about future trading prospects, especially small speciality retailers which are struggling to compete with major supermarkets. In spite of this independent Turkish, Moroccan and Eastern European butchers and green groceries are growing and proving to be successful. In terms of new development, the focus is very much on redevelopment, restructuring and adding quality; there are very few new schemes are in the pipeline. In secondary locations, vacancy rates are expected to rise, leading to a downward pressure on rents.

Nearly 300,000 sq m of new retail space came onto the market in **Poland** in Q4 2011. Although most stock is in the large cities, the balance is shifting in favour of small and medium-sized urban hubs, which dominate the pipeline. Confidence has returned to the development market and the pipeline of new projects is growing again, with the focus on small, convenience-based centres, which are considered the safest long term assets. High streets in Warsaw are benefitting from an upturn in occupier demand due to the lack of available space in shopping centres.

Retail Sales in **Spain** have been sluggish compared to the previous year, which was to be expected given the rising level of unemployment and resulting fall in purchasing power. The scarcity of supply of prime properties continues, whilst the opposite is true of secondary locations where vacancy is higher and tenants have more opportunities. Madrid is likely to see legislative changes to retailer opening hours in the first half of 2012 with the aim of reviving consumer spending. Retailers will be able to operate for 24 hour periods including Sundays if they so wish.

A better than expected Christmas trading period in the **UK** did not prevent a number of retailers going into administration. Most of these retailers have subsequently been bought by other companies and will continue to trade but typically from fewer stores than previously. Consumers once again turned to the internet over Christmas with non-store retailing (including online) growing by 10.1%, a considerably higher growth rate than overall retail sales (2.6%). This trend was also evident in Germany and France. Clothing retailers were the best performers in the UK over Christmas, although John Lewis, Boots, Asda and Sainsbury's also saw a significant uplift in sales. Electrical retailers Comet, Dixons and GAME all posted a decline in like-for-like sales over Christmas, as did music and DVD retailer HMV.

		RENTS						YIELDS			
Country	City	Local rent currency and measurement	Prime Rent (Local currency and measurement)	Prime Rent (€ per sq m pa)	Percentage change on quarter	Percentage change on year	Percentage change from trough**	Prime Yield	Basis point change on quarter	Basis point change on year	Basis point change from trough**
EU27 Rent and Yield Indices					0.5	3.4		5.23	-3	-12	
Austria	Vienna	€ per sq m pm	229.00	2,748.00	0.44	2.23	4.09	4.40	-5	-10	-30
Belgium	Brussels	€ per sq m pa	1,700.00	1,700.00	0.00	6.25	6.25	4.50	0	0	-75
Bulgaria	Sofia*	€ per sq m pm	25.00	300.00	0.00	0.00	0.00	9.00	0	0	0
Croatia	Zagreb*	€ per sq m pm	23.50	282.00	0.00	2.17	2.17	8.25	0	-5	-25
Czech Republic	Prague*	€ per sq m pm	85.00	1,020.00	0.00	0.00	0.00	6.25	0	-50	-75
Denmark	Copenhagen	DKK per sq m pa	14,500.00	1,950.81	0.00	0.00	0.00	5.00	0	0	0
Finland	Helsinki	€ per sq m pa	1,731.00	1,731.00	0.06	16.57	25.98	5.30	0	-10	-50
France	Lille	€ per ITZA pa	2,200.00	1,386.00	22.22	22.22	22.22	5.25	0	0	-75
France	Lyon	€ per ITZA pa	2,600.00	1,638.00	0.00	13.04	13.04	5.25	0	0	-75
France	Marseille	€ per ITZA pa	1,800.00	1,134.00	0.00	5.88	5.88	5.25	0	0	-75
France	Paris	€ per ITZA pa	10,000.00	6,300.00	0.00	0.00	0.00	4.50	0	0	-125
Germany	Berlin	€ per sq m pm	260.00	3,120.00	4.00	4.00	10.64	4.75	0	0	-15
Germany	Dusseldorf	€ per sq m pm	230.00	2,760.00	0.00	4.55	4.55	4.50	0	-10	-10
Germany	Frankfurt	€ per sq m pm	300.00	3,600.00	0.00	7.14	20.00	4.50	0	-10	-10
Germany	Hamburg	€ per sq m pm	250.00	3,000.00	0.00	13.64	13.64	4.40	0	-10	-10
Germany	Munich	€ per sq m pm	310.00	3,720.00	0.00	0.00	3.33	4.40	0	-10	-10
Hungary	Budapest*	€ per sq m pm	100.00	1,200.00	0.00	0.00	0.00	7.00	0	0	-75
Ireland	Dublin	€ per ITZA pa	5,000.00	2,350.00	0.00	-4.76	0.00	6.50	0	25	0
Israel	Tel Aviv	\$ per sq m pm	110.00	1,015.38	0.00	10.00	22.22	8.00	0	-50	-50
Italy	Milan	€ per sq m pa	4,000.00	4,000.00	0.00	5.26	8.11	5.25	0	-25	-25
Italy	Rome	€ per sq m pa	3,500.00	3,500.00	0.00	0.00	0.00	5.50	0	-25	-40
Netherlands	Amsterdam	€ per sq m pa	2,800.00	2,800.00	0.00	3.70	3.70	4.05	0	0	-60
Netherlands	Rotterdam	€ per sq m pa	1,800.00	1,800.00	0.00	2.86	2.86	4.10	0	-5	-65
Netherlands	The Hague	€ per sq m pa	1,400.00	1,400.00	0.00	12.00	12.00	4.10	0	-5	-65
Netherlands	Utrecht	€ per sq m pa	1,800.00	1,800.00	0.00	2.86	2.86	4.05	0	0	-65
Norway	Oslo	NOK per sq m pa	15,000.00	1,936.13	0.00	7.14	7.14	5.00	0	-50	-175
Poland	Warsaw*	€ per sq m pm	90.00	1,080.00	0.00	12.50	12.50	6.25	0	-25	-75
Portugal	Lisbon	€ per sq m pm	80.00	960.00	0.00	0.00	0.00	7.50	0	0	0
Portugal	Oporto	€ per sq m pm	30.00	360.00	0.00	-14.29	0.00	8.75	0	25	0
Romania	Bucharest*	€ per sq m pm	50.00	600.00	0.00	0.00	0.00	8.75	-25	-40	-75
Russian Federation	St Petersburg*	\$ per sq m pa	1,550.00	1,192.31	0.00	0.00	3.33	12.00	0	-100	-500
Serbia	Belgrade*	€ per sq m pm	35.00	420.00	0.00	0.00	0.00	8.50	0	0	0
Slovak Republic	Bratislava*	€ per sq m pm	85.00	1,020.00	0.00	0.00	13.33	7.00	0	0	-25
South Africa	Cape Town*	ZAR per sq m pm	330.00	377.92	0.00	11.86	11.86	8.00	0	0	-50
South Africa	Durban*	ZAR per sq m pm	350.00	400.83	-6.67	-11.39	-11.39	9.00	0	0	-50
South Africa	Johannesburg*	ZAR per sq m pm	405.00	463.82	0.00	6.58	9.46	8.00	0	0	-50
Spain	Barcelona	€ per sq m pa	2,200.00	2,200.00	0.00	4.76	4.76	5.50	0	-25	-25
Spain	Madrid	€ per sq m pa	2,500.00	2,500.00	0.00	4.17	4.17	5.50	0	0	-25
Sweden	Stockholm	SEK per sq m pa	13,000.00	1,410.69	0.00	8.33	13.04	4.75	0	-25	-125
Switzerland	Geneva	CHF per sq m pa	4,200.00	3,460.78	0.00	10.53	20.00	4.75	0	-25	-25
Switzerland	Zurich	CHF per sq m pa	8,300.00	6,839.16	0.00	3.75	10.67	4.20	0	-30	-50
Turkey	Istanbul*	\$ per sq m pm	130.00	1,200.00	0.00	30.00	44.44	8.00	0	-50	-100
Ukraine	Kyiv*	\$ per sq m pm	148.00	1,366.15	0.00	5.71	13.85	13.00	0	-100	-300
United Arab Emirates	Dubai*	AED per sq ft pa	400.00	902.92	0.00	0.00	0.00	8.50	25	0	-25
United Kingdom	London - City	£ per ITZA pa	175.00	1,420.54	0.00	0.00	0.00	5.25	0	-25	-75
United Kingdom	London - West End	£ per ITZA pa	950.00	7,711.51	0.00	5.56	26.67	3.25	-25	-50	-125
United Kingdom	Birmingham	£ per ITZA pa	300.00	1,816.75	0.00	0.00	7.14	5.15	0	0	-160
United Kingdom	Edinburgh	£ per ITZA pa	200.00	1,623.48	0.00	-3.61	14.29	5.25	0	0	-175
United Kingdom	Glasgow	£ per ITZA pa	260.00	2,110.52	0.00	0.00	8.33	5.00	0	25	-150
United Kingdom	Manchester	£ per ITZA pa	240.00	1,948.17	4.35	2.13	11.63	5.15	0	0	-160

** Figures indicate change between the lowest rent or highest yield recorded in or since 2009 and the current level.

* Data is for shopping centres. Data for the remainder of the locations is for high street retail.

CBRE employs over 300 retail consultants in 36 countries across the EMEA (Europe, Middle East and Africa) region. The team provides expert, practical advice on all types of retail environment – from high street, to shopping centres, to out of town. Working with our network of research analysts, we are able to provide insight into retail market trends and consumer behaviour, as well as more conventional property market analysis.

Many retailers are pursuing strategies that are global, rather than focused on EMEA. Our worldwide retail team of 950 property professionals has significant experience in delivering projects spanning all continents. These global capabilities, combined with our local market presence, enable us to offer comprehensive tactical and strategic support to retailers and investors as they expand into new markets.

At local, regional and global levels our retail specialists are supported by the CBRE Global Research and Consulting team. With over 400 research analysts around the world, and liaising closely with transaction and other professionals, the team is able to provide reports, analysis, publications and consultancy advice on markets and property types across the globe.

CBRE GLOBAL RESEARCH AND CONSULTING

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