EUROPEAN SHOPPING CENTRE DEVELOPMENT REPORT

A Cushman & Wakefield Research Publication

CUSHMAN & WAKEFIELD®

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INTRODUCTION

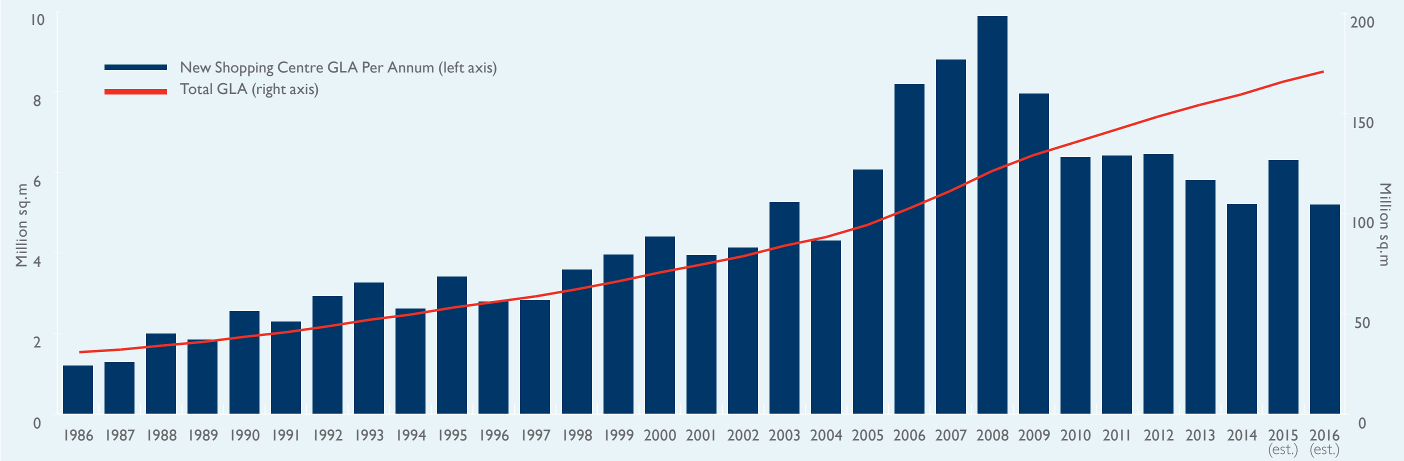
Total shopping centre floorspace in Europe increased by 3.3% over the twelve months to the end of 2014 totalling 152.3 million sq.m. Although Western Europe currently accounts for 69% of total built GLA, development activity in Central and Eastern Europe (CEE) surged ahead in H2 2014, with 2.2 million sq.m of space delivered to the market compared to 981,000 sq.m in Western Europe. Russia – responsible for nearly half of all shopping centre space added in the last six months of 2014 (1.6 million sq.m) – has now become the largest market in Europe, with total floorspace at over 17.7 million sq.m and overtaking France with 17.66 million sq.m of built shopping centre space. The UK takes the third position with 17.1 million sq.m of built space.

Russia has now become the largest market in Europe

Development activity throughout Europe has been motivated by the need to meet consumer demand for larger centres offering a greater diversity of retailers, an array of leisure activities and a wider choice of food and drink offerings. Western Europe's biggest markets have seen an increasing number of extensions and refurbishments as developers seek to 'future proof' small or outdated centres, while CEE is still dominated by the creation of new, dominant regional centres that serve a wide catchment area. These trends will continue over 2015 and 2016, with Russia and Turkey continuing to dominate the development pipeline as overall density in these countries remain low – albeit the completion of projects in Russia will be subject to financing conditions, which are now more limited than they were 12 months ago. In Western Europe, development activity in markets with lower densities, such as Italy and Spain, are also gaining momentum; indeed, Italy's pipeline is expected to more than double that of the UK over the next two years.

Shopping centre investment in 2014 reached €21.1 billion, with a strong performance from the UK as it again accounted for almost a third of all transactional activity across Europe, alongside standout performances by Spain, France and the Netherlands. In Western Europe, a shortage of prime stock in many countries is leading investors to seek the best opportunities in secondary markets in their search of higher yields. As investor search areas expand, Central Europe is back on the agenda for many, with strengthening economic fundamentals boosting the Czech Republic in particular – a new hotspot for international investors. In Eastern Europe, there has been a significant dip in trading volumes due to falling activity levels, seen particularly in Russia as investors act with caution and remain hesitant over geopolitical tensions at play and sanctions that are currently in place.

HISTORIC SC DEVELOPMENT



Source: Cushman & Wakefield

WESTERN EUROPE

Construction activity accelerated in the final six months of 2014, as developers continued to adapt to consumer demand for greater retailer diversity alongside more sophisticated leisure and f&b (food and beverage) components. The most established markets, in particular France and the UK, witnessed more centre expansions to accommodate this consumer shift than they did new schemes coming onto market in H2, as developers seek to 'future proof' centres. This has also resulted in smaller or more outdated centres coming under increased pressure to react, particularly those lacking a supermarket or leisure anchor tenant that provide a boost to footfall.

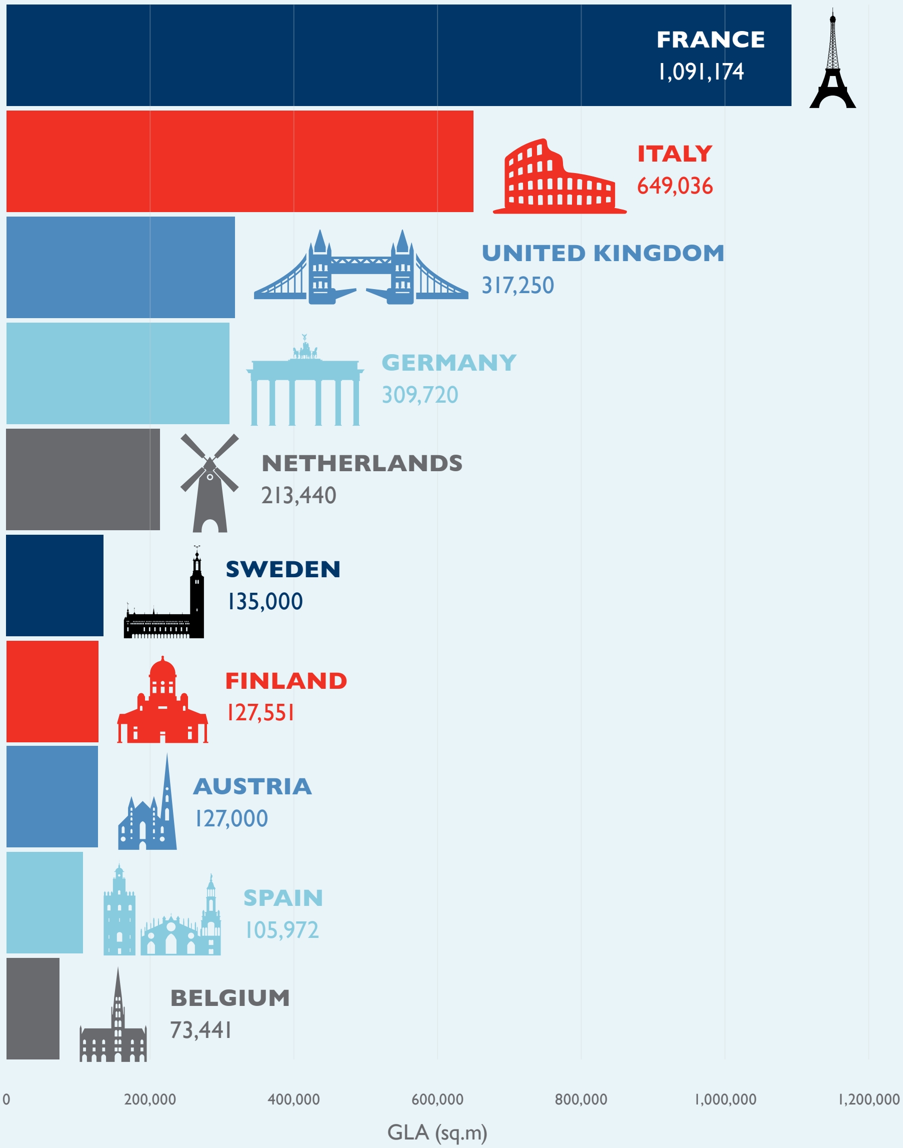
MARKET SIZE

In Western Europe, shopping centre floorspace totaled 104.9 million sq.m at the close of 2014, with France retaining the top spot as the largest market in the region at just under 17.7 million sq.m, closely followed by the UK with 17.1 million sq.m and Germany in third – albeit some way behind with 14.4 million sq.m. The construction pipeline for 2015-2016 is again dominated by France, where 1.2 million sq.m of shopping centre floorspace is expected to be delivered. Italy and the UK are second and third, trailing behind with 649,000 sq.m and 317,000 sq.m, respectively.

Shopping centre development surged ahead in H2 2014, with 981,000 sq.m of space being delivered across 46 new schemes and 35 extensions: a 59% increase in activity compared with H1. Germany was the most active Western European country in terms of development activity, with over 294,000 sq.m of shopping centre space added to the market in H2 2014, bolstered by major projects such as the 76,000 sq.m Mall of Berlin. This was closely followed by Norway, where just over 283,000 sq.m was delivered to the market across seven new centres and twelve extensions.

Completions in 2015 are expected to remain at a similar level to 2014, dipping slightly to 1.44 million sq.m of which 77% will be new schemes. Development is then set to escalate in 2016 by approximately 20%, with a further 1.74 million sq.m currently under construction for completion across 51 new schemes and 37 extensions.

TOP 10 COUNTRIES FOR PIPELINE DEVELOPMENT 2015-2016



Source: Cushman & Wakefield

UP-SIZING AND UP-SCALING

One new large-scale shopping centre opened its doors in the latter half of 2014 in Western Europe: the 76,000 sq.m Mall of Berlin, anchored by popular international retailers Zara and H&M. Nevertheless, the bulk of activity focused on extending small centres or those in need of updating and would benefit from active management, including the addition of 8,500 sq.m of retail GLA to the Cora shopping center in greater Strasbourg (originally built in 1970) and the 7,000 sq.m extension of Alegro Sebutal in Portugal, which was greatly welcomed by the local community with over 41,000 customers attending its opening.

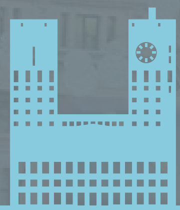
The development pipeline for 2015-2016 should also welcome the delivery of some significant extension projects in Western Europe, most notably the 11,400 sq.m expansion of Forum des Halles in Paris (2015), the 20,000 sq.m extension of Italy's Città Fiera – which will see the addition of a new hotel (2015-2016) – and the 20,000 WestQuay Watermark in Southampton that will provide a ten-screen multiplex cinema alongside numerous food and beverage offerings.

France, Italy and the UK will also see the arrival of several large new schemes over the next year, with a clear focus on upmarket architecture and high-quality facilities – an example of this includes the Polygone Riviera scheme in Nice, which is expected to open in October 2015. The 70,000 sq.m scheme will be the first 'lifestyle mall' in France, divided into four quarters that will take consumers on a journey through art, shopping and leisure. The 90,000 sq.m Arese shopping centre in Milan, also due to open in 2015, will follow suit, with a mix of indoor and outdoor plazas, each with their own unique identity, alongside a rich leisure and f&b offering. Westfield's new 53,000 sq.m Broadway scheme in Bradford is also due to complete on target this year as part of a wider regeneration project in the area and will be connected to Bradford's highly successful City Park and Cathedral Quarter.

Shopping Centre Density
Western Europe
(GLA/1,000 population)

The Nordics on Top: Highest Density in Western Europe

1st **Norway** 906.5 sq.m



3rd **Sweden** 420.0 sq.m

4th Finland 390.9 sq.m

A MIXED BAG

Elsewhere in Western Europe, shopping centre development has been somewhat more varied. The Nordics have seen healthy activity overall, with Norway and Finland adding 283,000 sq.m and 102,000 sq.m of shopping centre floorspace to their respective markets in H2 2014, despite both having well-above-average shopping centre density levels (per 1,000 inhabitants) compared with Western Europe as a whole. Nevertheless, while Finland has a further 127,600 sq.m currently under construction for delivery between 2015-2016 across five new schemes and four extensions, there is nothing set for completion in Norway over the next two years. However, the opening of the Mall of Scandinavia in Sweden later this year will provide 100,000 sq.m of new shopping centre space, and it has already secured major leasing deals from top international brands such as Superdry and Michael Kors.

Development activity in Spain was dormant in 2014 with no new openings, although activity is set to rise over the next two years with the planned delivery of three new shopping centres: Abella in Lugo (28,000 sq,m), La Fira in Reus (33,000 sq.m) and S'Estada in Palma de Mallorca (44,700 sq.m). In the longer term, Intu and Eurofund will be adding significantly to the development pipeline in key markets including Malaga, Valencia and Vigo.

Similarly, the Netherlands saw limited activity in 2014, with just 31,000 sq.m brought to the market. However, this is expected to improve over the next couple of years, with 86,000 sq.m planned in extensions alone over 2015-2016 as developers look to enhance their digital strategy and increase their share of f&b operators. A further 127,500 sq.m of new shopping centre space is currently under construction and due for completion in 2015-2016, although this consists of primarily small neighbourhood schemes anchored by supermarkets, which have proved successful in the past due to increased footfall as consumers shop for daily goods.

Shopping Centre Density
Western Europe (GLA/1,000 population)

Opportunity markets: Large populations with density below the Western Europe average:

Germany
175.1 sq.m

Italy
229.7 sq.m

Spain
234.7 sq.m

UK INVESTMENT SOARS

Shopping centre investment volumes in Western Europe climbed to €9.9 billion in H2 2014, leading to a grand total of €19.6 billion for 2014. The UK was again the dominant performer, accounting for over a third of the total investment volume for 2014. This high figure was underpinned by some significant deals in the second half of 2014, including AXA Real Estate and Gingko Tree Investment's acquisition of Bristol's Cabot Circus for €676.5 million, Land Securities' €352 million purchase of the Buchanan Galleries in Glasgow and HSBC Alternative Investment's transaction of €284.4 million for The Centre in Livingston. While prime, centrally located centres captured a significant share of investment in 2014, tight supply has led investors to widen their search area and more are ready to seek out higher yields in secondary or even tertiary stock.

Spain is now one of the hottest markets in Europe and continued to see rapid investment growth in 2014, with year-on-year volumes increasing by approximately 264% to €2.1 billion. Investment activity in H2 amounted to €1.5 billion, with investment demand strong across prime and secondary schemes but the sale of some prominent large, prime regional centres causing particular excitement – including the Puerto Venecia scheme, which was purchased by Intu Properties from Orion Capital Managers for €451 million in December. This trend is expected to carry on into 2015, confirmed by Klepierre's recent €375 million acquisition of Centro Comercial Pleniluonio in Madrid, which is deemed to be one of the fastest growing locations in Europe.

France also put in a very strong performance in 2014, with activity totaling €2.8 billion and volumes in H2 (€1.1 billion) boosted by two major portfolio deals by Carmila and Wereldhave, both generated by Unibail Rodamco's shedding of small to mid-sized schemes in regional locations to focus on larger schemes. Carmila purchased six centres across France for €931 million and each anchored by a Carrefour hypermarket – a model which is performing well in cities due to increased urbanisation. Netherlands-based European mall owner Wereldhave, a specialist in medium-sized shopping centres, acquired a further six centres for €850 million in locations such as Strasbourg, Bordeaux, Rouen and Le Havre.

Shopping Centre Density
Western Europe
(GLA/1,000 population)

Lowest Density in Western Europe

Greece
55.4 sq.m

CENTRAL & EASTERN EUROPE

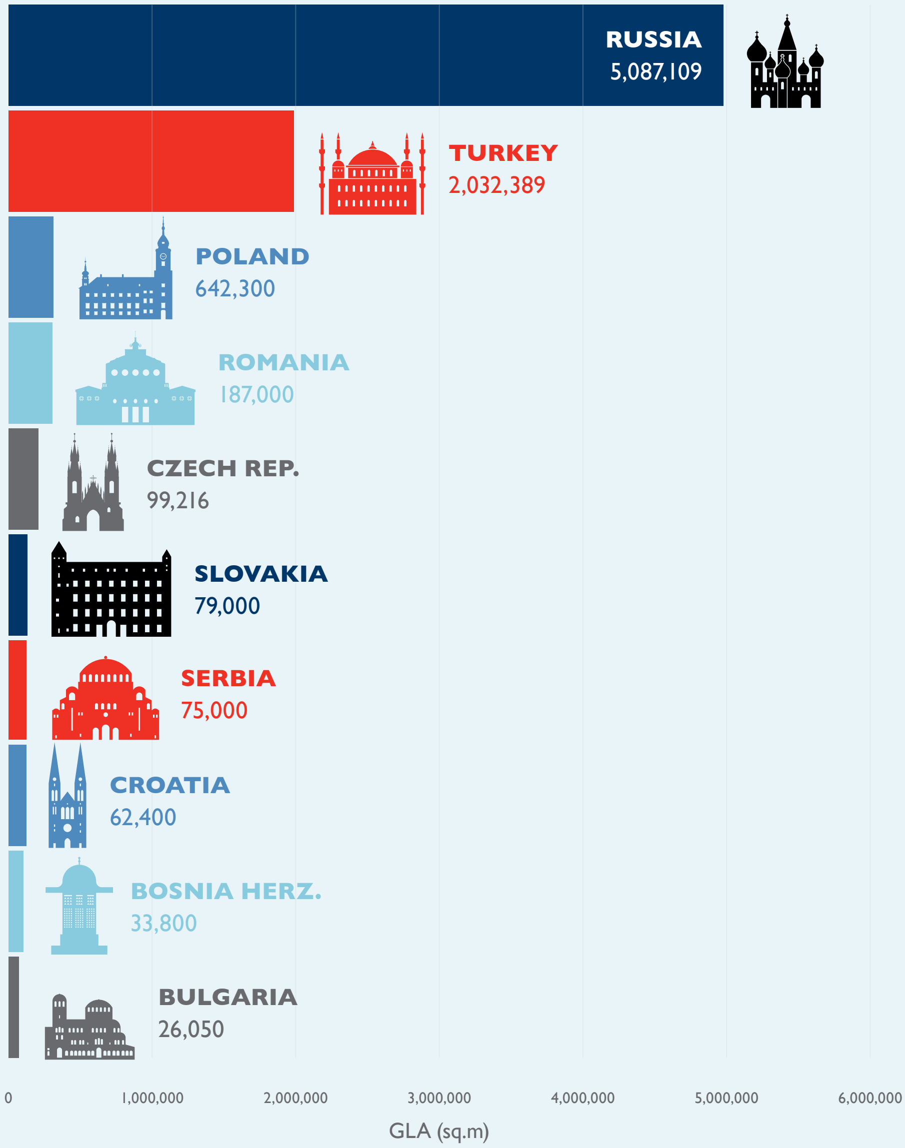
With 17.7 million sq.m of shopping centre stock, Russia is now the largest the shopping centre market in Europe and remains at the forefront of development activity alongside Turkey and Poland. The region continued to dominate shopping centre development in the second half of 2014, accounting for nearly 70% of new shopping centre space. Demand from international retailers is a key trigger in supporting increased levels of development, alongside increasing urbanisation and higher consumer spending.

MARKET SIZE

Shopping centre floorspace amounted to 47.4 million sq.m at the end of 2014, with Russia, Poland and Turkey accounting for 74% of total stock in Central and Eastern Europe. Russia is now the largest shopping centre market in Europe at 17.7 million sq.m, followed by Poland with 9.2 million sq.m and then Turkey, with 8.3 million sq.m. With 5.1 million sq.m estimated to be delivered in 2015-2016, Russia maintains its top position for space in the development pipeline, although this is highly subject to financing conditions and it is anticipated that some of the planned schemes will see their delivery dates pushed back until wider economic conditions improve. Activity in Turkey is set to keep momentum, with two million sq.m currently under construction and set for delivery over the next two years, followed by Poland with 642,000 sq.m.

Development activity across the region rose by 53% in H2 2014 compared with the first half of the year, with 2.2 million sq.m added to the CEE market across 59 new schemes and 19 extensions. Development activity is expected to surge ahead this year with 4.9 million sq.m currently under construction and scheduled for delivery in 2015, accounting for 77% of all activity in Europe. However, this is followed by a slowdown in 2016, with 3.5 million sq.m expected to arrive on the market, although CEE still accounts for 61% of the total pipeline throughout Europe.

TOP 10 COUNTRIES FOR PIPELINE DEVELOPMENT 2015-2016



Source: Cushman & Wakefield

THE "BIG 3 IN CEE" DOMINATE IN CENTRAL & EASTERN EUROPE

The arrival of some sizeable schemes in Russia – including the 230,000 sq.m Avia Park and the 113,000 sq.m Vegas Crosu City in Moscow – have pushed Russia into poll position as the largest shopping centre market in Europe, overtaking France. Russia and Turkey continued to lead shopping centre development in CEE in H2 2014, with the delivery of large centres in Moscow and several mid-sized schemes in Turkey including the Metrogarden Centre (42,000 sq.m) and the Özdilek Centre (40,000 sq.m) in Istanbul. The construction of outsized schemes in major cities will endure throughout 2015 and 2016 as shopping centre density remains at a low level and demand from international brands such as H&M, Zara and Debenhams look to increase their presence across the region. 2015 should see the arrival of 1.2 million sq.m of shopping centre space in Moscow alone, and 2016 will see the completion of over 910,000 sq.m in Istanbul, most notably the 150,000 sq.m Emaar Square and 100,000 sq.m Akasya Park.

On the other hand, development in Poland in 2014 occurred mostly in smaller, regional cities with less than 100,000 inhabitants, including the opening of the Galardia Centre in Starachowice (18,750 sq.m) and Brama Mazur in Ełk (16,250 sq.m). However, development activity is expected to intensify over the next two years: projects such as the 50,000 sq.m Zielone Arkady scheme in Bydgoszcz opening at the end of 2015 and the 100,000 sq.m Posnania in Poznań opening in 2016 demonstrate the rising demand in Poland's larger cities for large, modern centres. Warsaw remains one of the most under-saturated cities in the country with density at 434.6 sq.m/1,000 population and is likely to remain so in the short-to-medium term, with just 51,000 sq.m currently under construction for delivery in 2015-2016.

Russia has moved into poll position as the largest shopping centre market in Europe, overtaking France.

ROMANIA DRIVES AHEAD

Outside of the principal three markets, Romania is seeing healthy levels of activity, with 52,600 sq.m added to the market in H2 2014 across two medium-sized schemes: the 26,800 sq.m Shopping City in Targu Jiu and Auchan Drumul Taberei in Bucharest measuring 21,700 sq.m. A further 187,000 sq.m is currently under construction, 142,000 sq.m of which is in Bucharest across the 72,000 sq.m Mega Mall scheme expected to open this year and the 70,000 sq.m ParkLake Plaza, due to complete in 2016. Development continues to focus on medium-to-large centres in major metropolitan areas that are able to secure both a hypermarket and international anchors, although further construction is expected in county capitals that are lacking a dominant regional scheme.

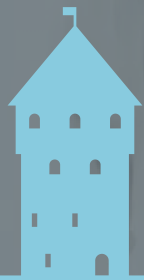
Bulgaria also experienced further expansion, with the completion of the 69,000 sq.m South Ring Mall in Sofia, although occupier demand has now softened, resulting in the delay of Plaza West also in Sofia – the only project currently under construction. This has had a knock-on effect on Bulgaria's overall shopping centre pipeline, with no major projects planned to open over the next two years, although mixed-use developments in under-saturated retail areas may tentatively add to overall stock in the long term.

Other markets, such as the Baltics, have witnessed more subdued activity. Indeed, Estonia only saw 25,000 sq.m added to the market via the extension of the Ülemiste Shopping Centre, and Lithuania added just 21,000 sq.m across three new schemes while Latvia saw no development activity. Nevertheless, momentum is anticipated to pick-up over the next few years after all three nations joined the eurozone, rendering the region as a whole more accessible for international retailers and foreign investors. While a single extension of 6,600 sq.m is currently under construction for delivery this year, there a several schemes currently being planned including the 18,000 sq.m Nordika centre in Vilnius with a second phase development planned for 20,000 sq.m.

Shopping Centre Density
Central & Eastern Europe (GLA/1,000 population)

The Baltics dominate CEE Density:

1st For CEE — Estonia 494.9 sq.m



3rd For CEE — Lithuania 316.1 sq.m

5th For CEE — Latvia 285.2 sq.m

INVESTORS MOVE UP THE RISK CURVE

Shopping centre investment in the CEE region fell by approximately 46% year-on-year to the end of 2014, with H2 recording just €726.6 million in transactional activity. However, volumes were severely impacted by limited activity in Eastern Europe as investor remain cautious over geo-political tensions, particularly in Russia where activity has seen a significant decline. Central Europe on the other hand has seen renewed interest from investors on the back of strengthening economic fundamentals.

The Czech Republic in particular has seen investor interest intensify due to relatively low unemployment alongside a rise in consumer spending and retail sales. Total investment volumes climbed to 273.3 million at the end of 2014 – more than four times the annual total for 2013 – with some sizeable deals in H2 including a €90 million deal by FID Group for Slovansky Dum in Prague and Atrium Europe Real Estate's purchase of AFI Palace in Pardubice for €81.5 million. Going forward, 2015 is also anticipated to be a positive year for investment in the Czech Republic as investors target Prague, with Union Investment's acquisition of a majority stake in the Palladium Centre for just about €417.7 million and a pending deal for the Arkady Pankrac by Atrium Europe Real Estate for €216.1 million.

Poland took the top spot for investor interest in 2014, buoyed by deals such as Atrium Europe Real Estate's €122 million acquisition of Focus Park in Bydgoszcz and CBRE Global Investors' purchase of Galeria Mazovia in Plock. This activity is indicative of a growing appetite for dominant regional schemes in both large and small cities as investors recognise their burgeoning potential.

"As investor search areas expand, Central Europe is back on the agenda for many, with strengthening economic fundamentals boosting the Czech Republic in particular – a new hotspot for international investors."

Shopping Centre Density
Central & Eastern Europe (GLA/1,000 population)

Turkey and Russia have some of the lowest density in CEE

Turkey
109.4 sq.m

Russia
124.4 sq.m

CONCLUSION

With the continual rise of online sales in an increasingly-digital world, the ability for customers to be able to interact with their favourite brands in a well-designed, exciting and culturally-rich environment has never been so important. Other trends notably shaping the future of shopping centre development include expenditure polarisation, spatial decentralisation and structural concentration. Throughout Europe, many developers have opted to build increasingly large-scale schemes with significant proportions dedicated to leisure actives and an increasing share of f&b operators in order to give centres a unique identity and an established destination for consumers. In Western Europe's biggest markets, this is being achieved through the extension and refurbishment of existing stock, particularly in France where an increasing share of pipeline development is represented by the expansion of small and medium sized centres. On the other hand, the CEE market is seeing the arrival of new, dominant regional schemes, particularly in under-saturated markets like Russia and Turkey whose 2015-2016 pipeline for new centres alone (excluding extensions) currently stands at 6.4 million sq.m across 156 schemes. Markets with lower density in Western Europe are following suit, with 100% of Spain's 106,000 sq.m 2015-2016 pipeline and 90% of Italy's dedicated entirely to new schemes.

> "The ability for customers to be able to interact with their favourite brands in a well-designed, exciting and culturally-rich environment has never been so important."

However, size is not everything – room can be made for more diverse, small-scale centres as long as they can clearly differentiate themselves from their super regional counterparts. One popular alternative to large centres is a smaller scheme anchored by a supermarket tenant, offering customers a convenient way to shop within their local neighbourhood. The success of these centres can be seen in both Western Europe and CEE, with Carrefour expanding their presence in the French shopping centre market and Poland witnessing a solid amount of development for food operator-anchored schemes in smaller cities. Alternatively, small and medium sized urban centres are also performing well, often incorporating more diverse fashion retailers, unique layouts or digital strategies to set themselves apart from the competition.

CAVEATS

Shopping Centre Definition: Cushman & Wakefield defines a shopping centre as a centrally managed purpose-built retail facility, comprising units and communal areas, with a Gross Lettable area over 5,000 sq.m. Factory Outlets and Retail parks are excluded. All graphs and tables are based on information from Cushman & Wakefield's in-house European Shopping Centre Database. All figures are as of 1 January 2015.

Other caveats to note:

- All figures represent retail GLA as far as possible – some might include total GLA if retail GLA is not available.
- Pipeline figures for Russia are estimated (on what is most likely to complete).
- Excluding investment figures, all stock and pipeline figures are sourced from C&W.
- All investment volume data is provided by Real Capital Analytics (RCA) and Cushman & Wakefield (C&W).
- Shopping Centre data from the Ukraine has not been included in this report given the political situation in the country.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield advises and represents clients on all aspects of property occupancy and investment. Founded in 1917, it has 259 offices in 60 countries, employing more than 16,000 professionals. It offers a complete range of services to its occupier and investor clients for all property types, including leasing, sales and acquisitions, equity, debt and structured finance, corporate finance and investment banking, appraisal, consulting, corporate services, and property, facilities, project and risk management. A recognized leader in local and global real estate research, the firm publishes its market information and studies online at cushmanwakefield.com/researchand-insight.

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