Investment Market Update
Europe Retail & Shopping Centre Q4 2013
Record Q4 retail investment boosts annual volume

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Contents

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- Europe is now emerging from the economic crisis and main economic indicators (GDP, retail sales and consumer spending) are now forecast to return to positive territory over the next five years. The speed and size of the recovery will be different across European countries. The UK, CEE and Nordics are leading the economic recovery while Germany and France are expected to under-perform the European average. Southern Europe is returning to growth, however, high unemployment rates will remain a concern.

- Investment volumes grew by 18% in 2013 to EUR139bn of which EUR34bn was in the retail sector. Investors demonstrated strong appetite for retail assets especially in the UK (EUR11.1bn) and Germany (EUR9.3bn) which accounted for 33% and 27% of this volume respectively. Southern Europe posted the biggest increase in volume over the year with EUR3bn of acquisitions recorded in 2013, up from EUR0.7bn in 2012.

- Market players have continued to favour shopping centre assets which accounted for 61% of retail investment volumes recorded in 2013. Thus, shopping centre investment rebounded sharply in 2013 with volumes standing at EUR17bn, up from EUR13.7bn recorded in 2012. The UK shopping centre market was extremely buoyant, accounting for 31% of the European volume. Outside the core markets, Southern Europe recorded strong levels of activity with a total volume close to EUR1.7bn in 2013.

- Domestic investors were dominant in the shopping centre market and accounted for 54% of the acquisitions recorded in 2013. On the cross-border side, non-European investors, accounting for 27% of the total volume, have favoured a wide range of countries across the region including the core markets, the CEE and Southern Europe.

- Funds remained the most dominant player in the retail and shopping centre investment markets, covering all lot sizes. On a net basis they have increased their exposure by EUR3.6bn in the European shopping centre market. Listed property companies have been mainly focused on assets priced between EUR100m and EUR500m but have remained net sellers in 2013.

- Going forward, we expect the current momentum in the market to continue over the next two years with investment volumes expected to reach EUR150bn in 2014 and EUR160bn in 2015. The retail sector and specifically shopping centre market should continue to welcome growing capital flows. Investors are expected to be active in a wider range of countries and to move up the risk curve in order to capture value-added or opportunistic market opportunities.

Europe Retail & Shopping Centre Q4 2013

Economic context

CEE and UK leading the recovery in Europe

The European economy reached a turning point in 2013 as GDP grew at a minimal rate after a 0.3% decline in 2012. Prospects are brighter going forward with a reversal of the downward trend and a 1.7% increase per annum now anticipated for the five next years in the Eurozone. The greatest performances across Europe are expected in the CEE (2.7% increase on average from 2014 to 2018), followed by the UK (2.6% increase on average from 2014 to 2018) (Figure 1).

Southern Europe will see GDP growth return to positive territory (+1.3% on average over the 5 next years) with Spain leading this trend (+1.5%).

Nordics will also benefit from better economic prospects (+2.1% annual growth from 2014 to 2018), lead by Sweden where GDP is forecast to rise by 2.4% per annum on average over the same period.

Rebound of retail sales growth from -0.5% to 1.7% over the next five years in Europe

Recovery of the economy will positively impact retail sales across Europe, with 1.7% forecast growth per annum from 2014 to 2018, up from -0.5% recorded over the last five years. The rebound will be more pronounced in the CEE countries and in the UK, with growth double the regional average (Figure 2).

The largest forecast increase in growth is expected in Southern Europe; retail sales will reverse their declining trend to stand at 1.3% increase on average from 2014 to 2018.

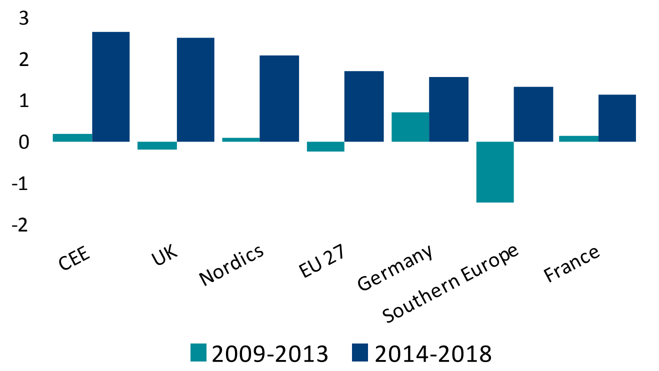
Growth of consumer spending, with outperformance in CEE, UK and Nordics

Consumer spending forecasts reflect the economic recovery anticipated in Europe and therefore improvement of consumer confidence. In this context, consumer spending is forecast to grow by 1.6% per annum from 2014 to 2018, reversing the -0.2% decline recorded between 2009 and 2013. CEE countries, the UK and the Nordics are forecast to outperform the regional average over the same period (Figure 3).

Economic indicators will also improve in Southern Europe where consumer spending is expected to post a 1.2% increase over the five next years, reversing the 1.7% decline recorded from 2009 to 2013.

Figure 1

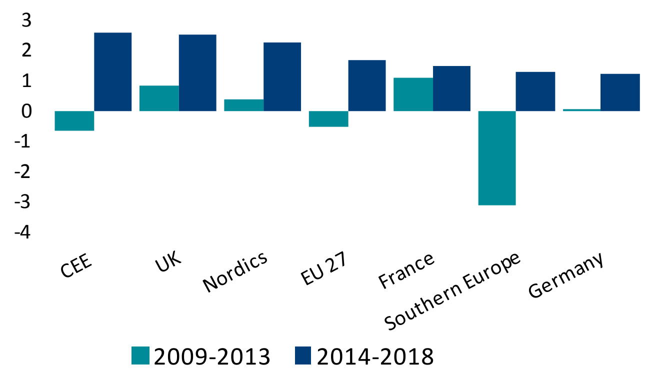
GDP forecast annual growth (%)



Source: Oxford Economics – December 2013

Figure 2

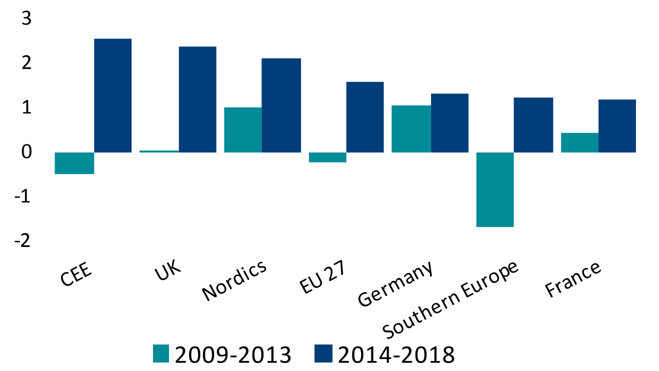
Retail sales forecast annual growth (%)



Source: Oxford Economics – December 2013

Figure 3

Consumer spending forecast annual growth (%)



Source: Oxford Economics – December 2013

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Retail investment volume

Retail sector picking up in Q1-Q3 2013

Investment volumes in Europe stand at EUR139bn in 2013, up from EUR118bn recorded in 2012. Investor sentiment has improved markedly over the course of the year reflecting gradual economic recovery in Europe and the improving outlook for 2014 and beyond, helping to push volumes higher in many European markets (Figure 4).

In this context, the retail sector accounts for a volume of EUR34bn in 2013, up from EUR29Bn registered in 2012. The performance achieved in 2013 is far above the long term historical average standing at EUR28bn from 1999 to 2012.

Record level in Q4 2013

The fourth quarter of 2013 recorded very strong activity reaching a record level of EUR46bn out of which EUR12.3bn was invested in the retail sector. Retail assets accounted for 26% of the total investment volume, returning to the record levels registered in Q1 (Figure 5).

UK and Germany on top, strong rebound in Southern Europe

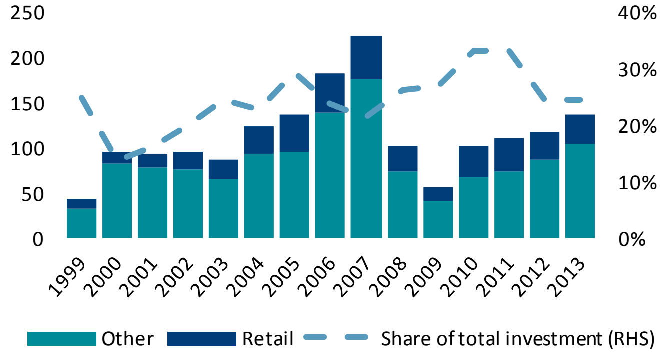
The UK and German markets had the greatest volume of investment in the retail sector in 2013, with 33% and 27% of market share respectively. Combined together these two countries account for 60% with EUR11.1bn and EUR 9.3bn of acquisitions registered over the year (Figure 6).

Market activity has slowed down both in the Nordics region (from EUR4.7bn in 2012 to 3.5bn in 2013) and in France (from EUR3.3bn in 2012 to 2.9bn in 2013). By contrast, the acceleration of the market in Q4 mainly benefited Southern Europe where retail investment volume reached EUR3bn in 2013, up from 0.7bn in 2012. This sub-region is finally coming back to investors' agendas, targeting the best quality assets.

The CEE market did not see an increase in retail investment volumes in 2013. However investment volume reached EUR1.5bn of retail assets acquisitions over the year, out of which EUR1.2bn invested in Poland.

Figure 4

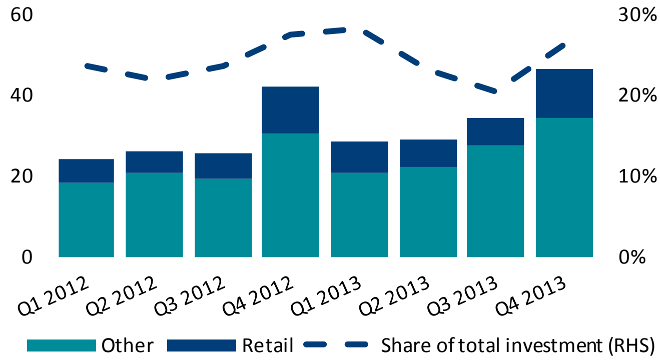
European investment volume, EURbn



Source: DTZ Research

Figure 5

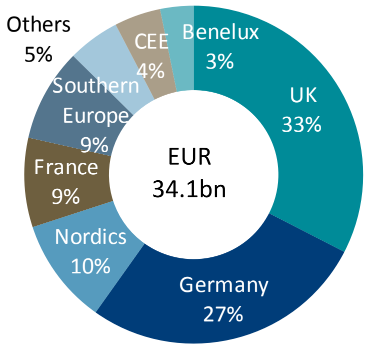
European investment volume, EURbn



Source: DTZ Research

Figure 6

European investment volume in retail, 2013



Source: DTZ Research

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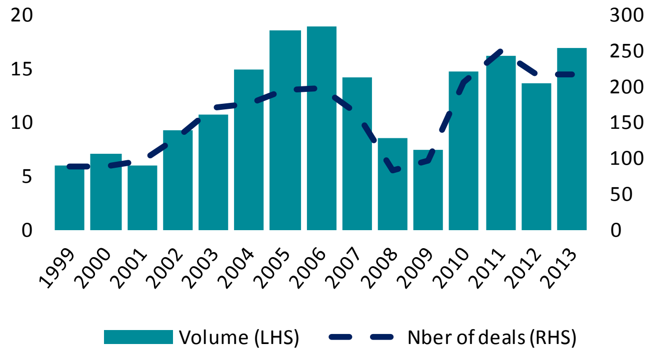
European investment volume in shopping centres

Highest volume since 2007

Across the retail sector, shopping centres have been the most favoured sub-sector for investors' purchases. Shopping centre sales totalled EUR17bn in 2013, equivalent to half of total retail investment volumes recorded (Figure 7). Shopping centre transaction volumes posted the best performance since 2006 (EUR19bn).This performance demonstrated the strong appetite from investors for this asset class.

Figure 7

European investment volume in shopping centres, EURbn



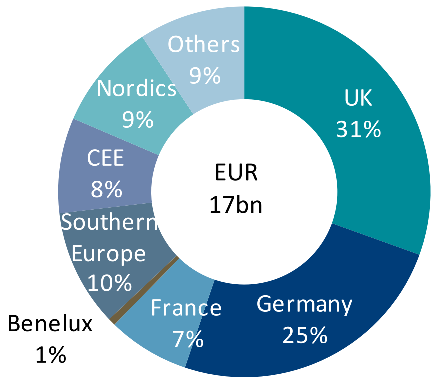
Source: DTZ Research

UK still ahead but sharp rebound of activity in Southern Europe

Sales of shopping centres across Europe have traditionally been dominated by the UK. In 2013, UK shopping centre investment totalled more than EUR5.2bn thanks to very strong activity in Q4. Germany ranks second, with EUR4.2bn of investment over the same period. Southern Europe occupies 3rd position with EUR1.7bn of transactions recorded over the year. Investment activity was driven by numerous sales of shopping centre priced over EUR100m and drove Southern European volumes to greater levels than in France, CEE or Nordics regions (Figure 8).

Figure 8

European investment volume in shopping centres, 2013



Source: DTZ Research

In the CEE, investment volumes doubled in 2013 to EUR1.4bn, thanks to the sales of a number of major shopping centres in Poland. After the Manufaktura sold in Lodz in 2012 the Silesia City Centre (more than EUR500m) located in Katowice has been the biggest shopping centre acquisition in 2013.

By contrast, shopping centre sales have been less numerous (16 deals recorded in 2013) across the Nordic countries and volumes shrunk to EUR1.6bn in 2013 from EUR3bn recorded in 2012. However, some deals with unit prices above EUR200m demonstrated the appeal of the region for investors looking for large lot sizes in a region benefitting from a positive economic outlook.

Even after recording an increase in volume from EUR0.7bn in 2012 to EUR1.2bn in 2013, the French market only recorded a 7% market share in Europe. Market opportunities remain scarce but 2014 should see the sale of trophy assets such as Beaugrenelle in Paris.

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Investor type

Strong position of domestic investors on the buy side

Changing their 2012 position, domestic capital has made a strong comeback on the buy side in 2013 with acquisitions totalling EUR21bn in retail i.e. 61% of the total volume. However, the situation is more balanced if we consider shopping centre sales only. There, domestic investors account for 54% and cross-border investors for the remaining 46% (Figure 9).

Looking more closely to the cross-border investment activity, some major changes have to be mentioned. European investors have been less active on the shopping centres segment in 2013, whilst non-European have increased their acquisitions to EUR4.6bn in 2013 from EUR2.8bn in 2012.
Non-European investors' purchases have been located in a wide range of countries across Europe, from UK and Germany to the recovering markets in Southern Europe more recently.

Unlisted funds dominant

Unsurprisingly, unlisted funds have been dominant investors across the European market with EUR8.8bn of acquisitions recorded in 2013 i.e. 52% of the total volume. They have invested across a broad spectrum of lot sizes, although there has been a greater concentration towards assets above EUR100m. On a net basis they have increased their exposure by EUR3.6bn to the European shopping centre market over the year.
Morgan Stanley, Starwood Capital Group, Tristan Capital Partners, Orion Capital Partners have been ones of the most active funds on the buy side this year.

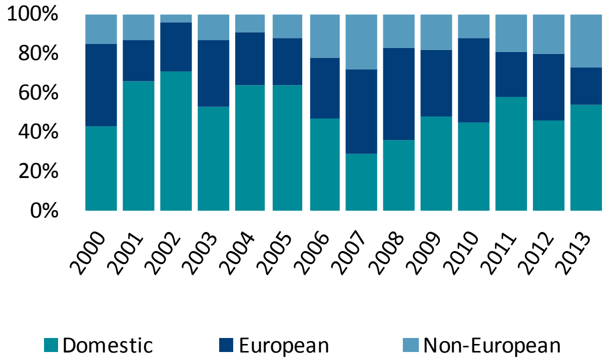
Quoted sector and institutions on deals above EUR100m

Listed property companies have been mainly focused on assets of between EUR100m and EUR 500m, accounting for more than EUR2.2bn of transactions in 2013. Their investments have been balanced between domestic acquisitions and purchases outside their home market (Unibail-Rodamco, Intu Properties and Eurocommercial Properties). They are still net sellers but to a lesser extent than in the past.

Institutions were equally active on mid-ranged lot sizes with acquisitions in the EUR 100-500m segment. Interestingly some of their main acquisitions have been done in joint-venture with pure players (Figure 10 and 11).

Figure 9

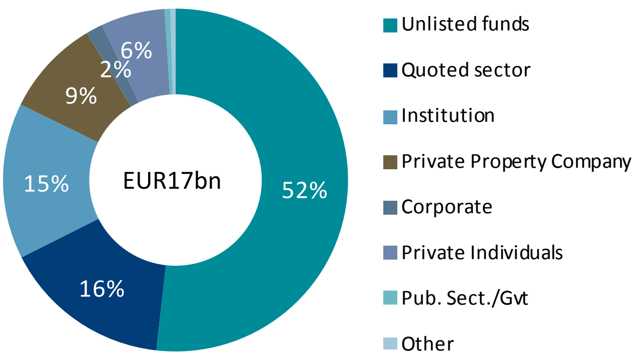
Investment in shopping centres by source of capital (buy side), EURbn



Source: DTZ Research

Figure 10

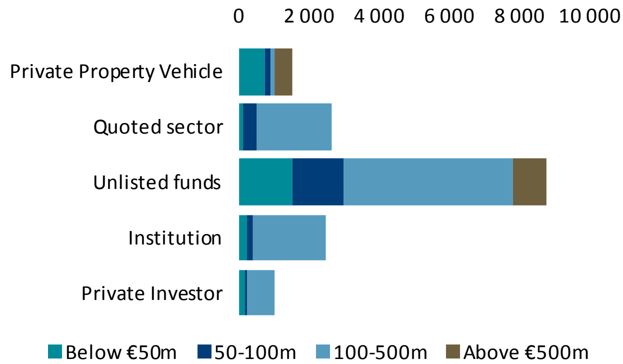
Investment volume in shopping centre by investor type, 2013



Source: DTZ Research

Figure 11

Investment volume in shopping centre by lot size in 2013, EURm



Source: DTZ Research

Europe Retail & Shopping Centre Q4 2013

Outlook

Growth in activity in 2014

Going forward, the retail segment is likely to continue to benefit from strong investor interest. Based on our recent research (see DTZ Insight, The Great Wall of Money – Growth in capital reflecting good relative value, 9 October 2013) – we see strong interest from single property type funds to invest in the retail sector (30% of single asset type capital).

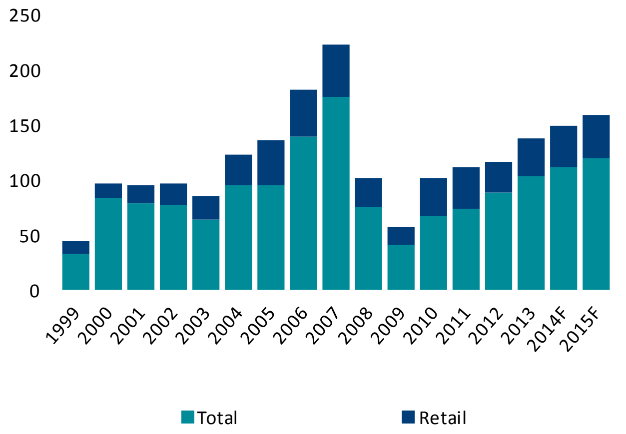
Investors focussing on the prime segment will also benefit from a rebound of shopping centre development across the region. Based on our latest estimates, shopping centre supply will increase by over 12 million sq m over 2013 and 2014. Turkey, CEE and France are the most dynamic markets in terms of shopping centres development over this period.

In this context, we expect retail investment to reach EUR38bn in 2014 out of which EUR17bn-EUR18bn to be invested in shopping centres. The market will continue to be led by strong activity in the core markets of the UK and Germany. Additionally, renewed interest from value added and opportunist investors (close to 60% of newly raised capital), will lead to increasing investment volumes in peripheral markets with already increasing activity noticed in Spain and Italy.

We therefore see further growth in activity in 2014, with volumes expected to top EUR17-EUR18bn, taking them back to 2004 levels (Figure 12).

Figure 12

European investment volume forecast, EURbn



Source: DTZ Research

Europe Retail & Shopping Centre Q4 2013

Definitions

This report presents data from the DTZ Research Investment Transactions Database (ITD). The ITD is based on commercial property investment deals reported in the press (both property and general), company and fund reports, information supplied by external data providers and by DTZ local offices around the world.

Transactions

Commercial transactions refer only to direct property. However, entity level transactions where real estate is substantial proportion of assets are treated as purchases of direct property. Development transactions are included if the purchase of commercial real estate occurs during the development / construction / comprehensive refurbishment phase and when the completion date is known. Transactions that involve more than one purchaser or vendor are classified as Joint Venture with appropriate weighting allocated to the transaction. Transactions cover European deals in excess of EUR1 million

Property type

DTZ tracks commercial property transactions made primarily in the office, retail, industrial and mixed use sectors. Land sales are not recorded unless the land is purchased in the development phase or is acquired specifically to construct a building or complex of buildings.

Purchaser / vendor type

Classification of purchasers and vendors by type enables us to track trends in transactions and also to assess the type of capital committed to property investments. Purchaser/Vendor Type and subtype definitions are as follows:

- Institution: financial institutions/banks, pension funds and insurance companies.
- Private Property Company: companies and developers, whose principal activities involve the development, buying and selling of commercial real estate but which do not have a stock exchange listing.
- Private Property Vehicle: non-listed investment vehicles whose principal activities involve the development, buying and selling of commercial real estate.
- Private investor: private individuals.
- Quoted property company: companies and developers, whose main activities involve the development, buying and selling of commercial real estate that is listed under Real Estate on a stock exchange.
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