CUSHMAN & WAKEFIELD

EUROPEAN RETAIL PARK DEVELOPMENT REPORT

AUGUST 2016

A Cushman & Wakefield Research Publication

INTRODUCTION

WHAT'S DRIVING THE GROWTH OF RETAIL PARKS ACROSS EUROPE?

Retail parks stand out as locations of choice for many retailers and the nature of those retailers is changing. There are a number of traditional high street and shopping centre retailers who are testing the waters, trying to understand if retail parks are a viable option in their portfolios, alongside the traditional locations they have occupied in the past (e.g. H&M, Zara, Célio, C&A, CCC, Vision Express).

Relatively low costs, flexible floor layouts, better logistical structure for supplying the stores, click and collect services, the opportunity to test new formats and concepts are the key drivers of growing occupier demand reflected in the generally high occupancy levels in retail parks. One stop shopping, easy access, free parking and wide range of retailers are key factors attracting customers to this retail format. Moreover, recent trends are indicating that experience is just as important as convenience. Improved designs and style and the presence of leisure and entertainment operators are having a positive impact on footfall.

2015 saw 863,000 sq.m of new retail park space complete, increasing the total European stock by 2.4% to 37.3 million sq.m as compared to 36.4 million sq.m at the end of 2014. Development activity was highest in France, Belgium and the UK which accounted for more than 60% of all retail park space added in 2015. Activity is expected to surge ahead in 2016 and 2017 with 2.4 million sq.m currently in the pipeline and expected to be completed.

"2015 saw 863,000 sq.m of new retail park space complete"

TRENDS

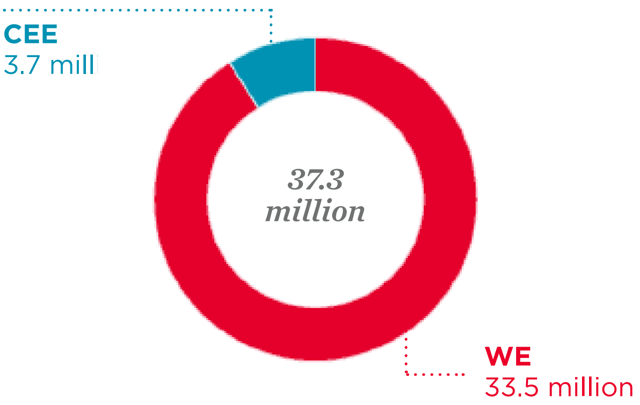
- The quality of the offer is improving with redevelopments and refurbishments paving the way
- Growing consumer and retailer demand for well located and accessible retail
- Expanding retail range, leisure and entertainment mix are key success factors for a scheme
- Increasing levels of smaller scale schemes servicing more local catchment areas
- Reorientation of tenant mix with a growing proportion of newcomers to the retail park market that previously only took space in high street locations or shopping centres
- Addition of upmarket food operators
- Growing franchising in several sub-sectors, including fashion, white good retailers, leisure and entertainment operators in order to limit new format risk
- Increasing footfalls and decreasing vacancy rates

ECONOMIC BACKGROUND

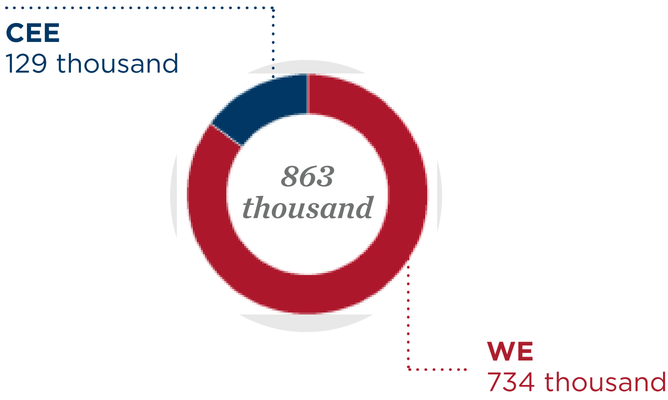
The European economic recovery has continued at a slow pace across a number of countries, despite a growing number of uncertainties at a global level. As economic growth has improved so has the labour market, although unemployment rates still vary widely from country-to-country. For example Spain is still above 20% while Germany is lower than 5%. When combined with low oil and food prices we are seeing a widespread pick-up in real wage growth which is putting more money in consumers' pockets helping to drive household consumption and retail spending. This trend has been beneficial for the retail segment over the last 12 months and is expected to continue as 2016 progresses.

KEY HIGHLIGTS

Stock of Retail Park space in Europe: Retail park floorspace in Europe totalled 37.3 million sq.m as of 1st Jan 2016



How much space was added in 2015: In 2015, 863,000 sq.m of new retail park space was delivered, 12% less than it was opened in 2014



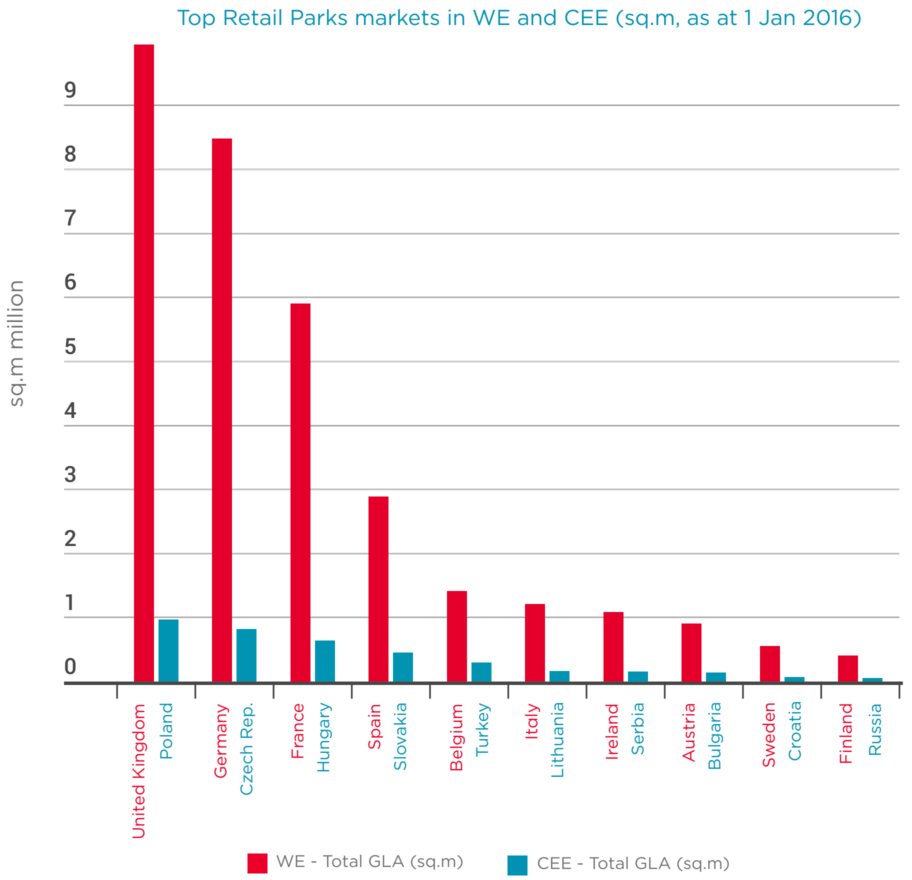
Top 3 most active countries for Retail Park development (2015)	
Country	Space added in 2015 (sq.m)
France	393,000
Belgium	102,000
United Kingdom	66,000

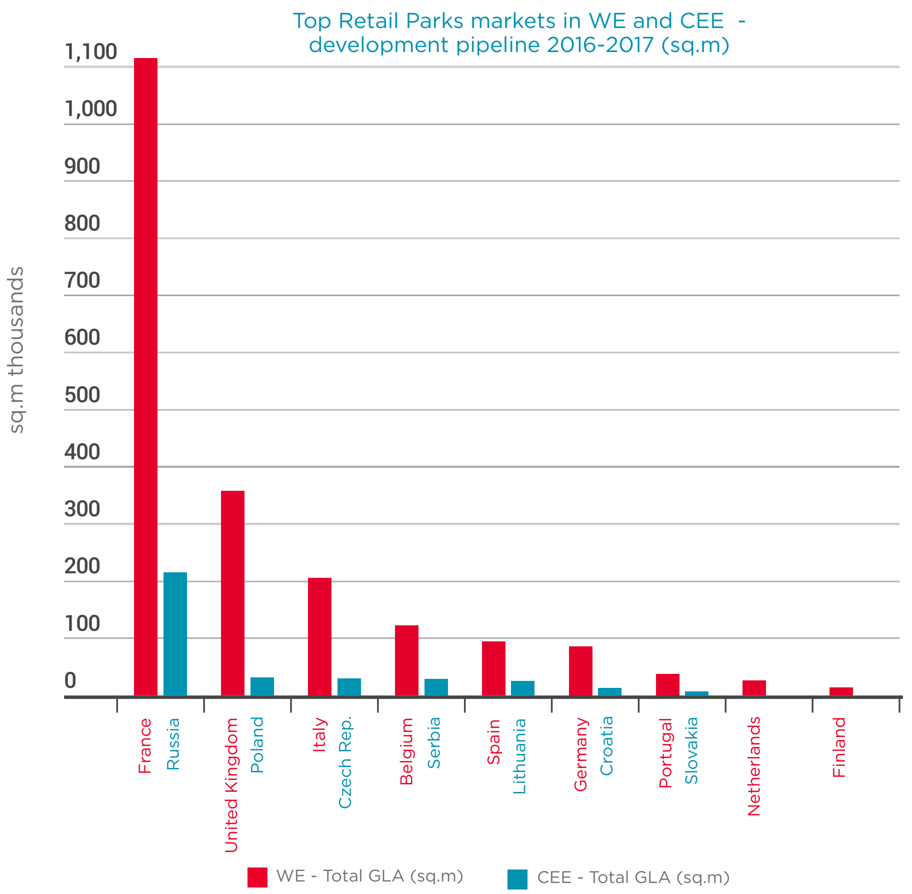
How much space will be added in 2016-2017: Development activity is expected to increase significantly in the future with 1.3 million sq.m and 1.1 million sq.m of new space expected to be added to the market in 2016 and 2017

Europe

WE
2.06 million

CEE
0.35 million


Top Retail Parks markets in WE and CEE (sq.m, as at 1 Jan 2016)
sq.m million
9
8
7
6
5
4
3
2
1
0
United Kingdom
Poland
Germany
Czech Rep.
France
Hungary
Spain
Slovakia
Belgium
Turkey
Italy
Lithuania
Ireland
Serbia
Austria
Bulgaria
Sweden
Croatia
Finland
Russia
WE - Total GLA (sq.m)
CEE - Total GLA (sq.m)


Top Retail Parks markets in WE and CEE -
development pipeline 2016-2017 (sq.m)
sq.m thousands
1,100
1,000
900
800
700
600
500
400
300
200
100
0
France
Russia
United Kingdom
Poland
Italy
Czech Rep.
Belgium
Serbia
Spain
Lithuania
Germany
Croatia
Portugal
Slovakia
Netherlands
Finland
WE - Total GLA (sq.m)
CEE - Total GLA (sq.m)

WESTERN EUROPE

THE NUMBERS

- Retail park floorspace in Western Europe totalled 33.5 million sq.m as of 1st Jan 2016. UK, Germany and France are the largest markets in the region, accounting for more than 70% of total retail park space in Western Europe.
- In 2015, 734,000 sq.m of new retail park space was added, some 2% above the level of annual completions in 2014.
- Development activity in 2015 was strongest in France with 393,000 sq.m of new retail park space completed, Belgium took the second spot and the UK rounded out the top three. While the majority of countries in Western Europe saw higher volumes of completions in 2015 than 2014, a notable exception to this was Germany where development activity showed a significant 71% y-o-y drop, with only 65,000 sq.m delivered in 2015 and largely focused on small sized schemes below 5,000 sq.m and no large projects opening.
- The development pipeline of 2.1 million sq.m of new retail park space is expected to open during 2016 - 2017. Over this period France will retain the top spot in terms of development activity accounting for 54% of total new retail park space in Western Europe, followed by the UK with 17% and Italy with 10% of the development pipeline.
- Some key openings include the 60,000 sq.m Promenade de Flandre in Roncq, France, the 45,000 sq.m Cruce de Caminos in Sagunto, Spain, the, 43,200 sq.m Rushden Lakes in the UK, the 30,000 sq.m Matosinhos retail park in Portugal, the 20,100 sq.m Rubattino in Milan, Italy and the 26,000 sq.m Fachmarktzentrum Am Sandloch in Rheingönheim, Germany.

ECONOMIC BACKGROUND

In the UK, the recent referendum decision to leave the EU has created much economic uncertainty. However, looking forward, although growth is forecast to slow it should remain positive. Despite the uncertainty generated before the referendum, the UK economy grew 2.3% in 2015. Low inflation, combined with low interest rates and an improving labour market have had a positive impact on purchasing power resulting in 2.8% growth of household consumption, the strongest annual performance since 2007.

In Southern Europe, supportive monetary policy played a major role in boosting domestic demand in Spain in particular. As employment is increasing and disposable incomes improving there was a positive knock-on effect on consumer confidence is rising. All these factors combined resulted in a 3.1% growth in consumer spending and 3.2% GDP growth making Spain one of Europe's best performing economies in 2015. In Italy, similar factors had a positive effect on the gradual recovery of the economy, albeit from a low base, which economic growth of 0.6%, the first positive annual growth for three years. Portugal saw the strongest growth of 1.5% since 2010. Rising levels of disposable income had a positive impact on consumer spending and retail sales. Nevertheless, although consumer spending grew by 2.6% in 2015, households are still facing a number of challenges. A stagnating labor market at the end of the year and high levels of domestic debt are expected to limit consumers' ability to spend.

Disappointing contribution from net trade, declining export volumes in Germany, and the last year's terror attacks in France had a negative impact on the core Eurozone markets, Germany and France, which are lagging behind with only 1.2% GDP growth in France and 1.5% GDP growth in Germany. On the other hand, low inflation, supportive monetary policy, the modest employment growth are supporting real household incomes, create a positive environment for private consumption and leading to gradually rising consumer spending with 1.9% annual growth in Germany and 1.4% growth in France.

TRENDS

Geographic expansion of major Western European cities with strong population growth in out-of-town locations, creates retail park development opportunities. In France, several retailers are expanding through the development of smaller formats which have adapted to smaller catchment areas in out-of-town locations (e.g. Maisons du Monde, Alinea, King Jouet or Black store – Intersport Group). In Italy, Germany and the UK the proportion of small sized schemes is growing in previously unserved, new residential areas on the edge of towns, with lower populations. These smaller schemes are usually anchored by a smaller supermarket and discount retailers, for example Aldi/Lidl, Home Bargains/B&M in the UK.

The importance of creating an attractive environment for customers when developing new stock is increasing. While development activity of retail park space in 2015 was on a par with that of 2014, activity was largely focused on refurbishments, the redevelopment of existing space and/or upgrading its style and architecture (Fischa Park – Austria, St-Max Avenue in the Oise, France). Indeed, the modern retail park is now far from being simply the bulky goods offer of the past. Large units are being reconfigured to create space for new occupiers – good examples of this are B&Q and Homebase in the UK or Metro in Germany.

There are also a growing number of new entrants to the retail park market - fashion retail operators such as H&M, Zara, C&A and Célio are taking space. Leisure and entertainment operators are also becoming more important helping to increase customer footfall and dwell time on parks. While retail parks and retail warehouses used to be occupied mainly by discount retailers, both Germany and France are seeing a rise in the number of upmarket food operators and bio supermarkets opening new stores in out-of-town locations aiming to capture consumers choosing to shop in retail parks.

While the retail market in Western Europe has been largely positive over the last 18 months, the out-of-town retail format has been less successful in Portugal and the Netherlands where the concept has not managed to attract the right brands. Consumers continue to show a preference for high street shopping or schemes closer to town centres.

OUTLOOK

The resurgence in both new and the redevelopment of retail parks is expected to continue in the medium term. Rising levels of omnichannel shopping, which works well with the retail park format as its scale and flexibility allow retailers to operate click and collect services, and the ability of landlords to respond to changing consumer habits is likely to result in more retailers turning their attention to the retail park format as they look to capitalise on the rising footfall numbers. However, traditional high street and shopping centre retailers are reacting to the rise of the retail park format by broadening the breadth of product on offer such as homeware and furniture products.

In addition, traditional retail warehouse operators such as IKEA are testing the appetite for smaller urban formats carrying less product in-store but upping their online offering to compensate. An example of this is their Citystore in Hamburg. Also, the 'rise' in internet sales has had an impact on big box retailers in France, who are less dependent on having large stock adjacent to their sales area. An example is Decathlon's new store concept which opened on the outskirts of Lille. The store does not hold the stock and it represents a large show-room, where clients can test the product and then order it.

There are currently no significant planning restrictions in the southern European countries or the Nordic region. In France, local authorities are keen on granting permits for new quality formats as the inward investment is helping to support the regeneration of deteriorating locations and outdated schemes. On the other hand the German, Belgian and Dutch authorities are less enthusiastic as the planning regime becomes even more stringent with regards to out-of-town development.

CENTRAL AND EASTERN EUROPE

THE NUMBERS

- Retail park floorspace in CEE totalled 3.7 million sq.m as of 1st Jan 2016 with Poland, the Czech Republic and Hungary representing the largest retail park markets in the region, accounting for nearly 65% of total existing stock across CEE.
- In 2015, 129,000 sq.m of new retail park space was delivered – this is a 51% drop on the space added in 2014. Serbia, Poland and Hungary were the most active countries accounting for 75% of new space added.
- Main openings included the 22,000 sq.m Aviv Park Zrenjanin in Serbia developed by Israel's Aviv Arlo and the 11,500 sq.m Family Center in Tata, Hungary developed by Magnum Hungaria.

"Retail park floorspace in CEE totalled 3.7 million sq.m as of 1st Jan 2016 with Poland, the Czech Republic and Hungary representing the largest retail park markets in the region"

- Development activity is expected to rise further in the future with 251,000 sq.m and 99,600 sq.m of new retail park space proposed in 2016 and 2017, respectively.
- One of the key projects in the development pipeline is the 70,000 sq.m Vidnoe Park developed by Trinity Rus in Russia.

ECONOMIC BACKGROUND

Central European countries were more economically resilient in 2015 than they were in 2014. Healthy labour markets with strong real wage growth, supportive monetary policies, low oil prices and lack of inflationary pressures had a positive impact on domestic demand, which was the main driver of economic growth. In 2015, the Czech Republic, with 4.3% GDP growth, a low unemployment rate of 5.1% and high consumer confidence, was one of the fastest growing economies in Europe. In Poland, the size of the economy and strong economic performance resulted in solid investment growth, which had a positive impact on the economy with 3.6% GDP growth in 2015. In Romania, favourable fiscal and monetary policies and deflation boosted consumer spending with 6% y-o-y growth in 2015, resulting in double digit retail sales growth in H2 2015.

Despite the rising geopolitical tensions in Turkey and strong depreciation of Turkish lira, consumer demand remained strong and it was one of the major components of 4.0% GDP growth in 2015. On the other hand, low oil prices, international trade sanctions, sharply depreciating ruble and structural weakness had a significant impact on the economy of Russia, which contracted by -3.7% in 2015. This resulted in a strong drop in retail sales, rising unemployment, high inflation and falling real wages.

In 2015, high degree of financial and economic stability in the Baltic region was impacted by a severe contraction of exports to Russia and lower purchasing power in the region resulting in decreased economic growth, especially in Lithuania (1.6%) and Estonia (1.1%). However, weaker development did not have an impact on domestic demand, the main driver of economic growth. Moreover, reorientation of the exports towards more reliable EU market will set a solid base for growth of the Baltic economies in the future.

TRENDS

In CEE, rather than building standard retail parks, there is a growing trend for hybrid formats which combine big-box retail warehouses with traditional retailers, usually found on high streets or shopping centres. For example H&M, CCC and Vision Express.

The quality gap between traditional shopping centres and out of town retail is narrowing. In the past, retail parks were seen as a convenient shopping format with an underlying functional element to them. Now however, the enjoyable and engaging shopping experience is just as important and many scheme owners are looking closely at their tenant mix and leisure offering available. Leisure now forms an important aspect of all modern retail parks.

In the Baltics there has been more limited retail park development as the small city sizes and the well established and accessible shopping centre market are not conducive to any large scale development in the out of town retail sector. The typical layout seen in the Baltics is for the 'standard' retail park retailers, such as furniture and DIY operators, located adjacent to existing shopping centres.

In Russia the retail park concept is still in its infancy and has yet to prove its benefits to the market with consumer behavior typically preferring either high street or shopping centre retail space. However, with more than 215,000 sq.m of new retail park space in the development pipeline operators are watching the success of these schemes with interest.

OUTLOOK

Although the development pipeline is more limited, the improving economic climate, rising levels of shopping centre saturation in larger cities and improving demand from value retailers for units in retail parks are factors that will contribute to the growth of retail park development in Central Europe.

Moreover, the Sunday closure regulation in Hungary that was abolished in April 2016 held back new development in the retail park sector, reflected by the limited development pipeline for 2016-2017 with no new retail parks expected to be delivered. However, going forward, developers will reassess opportunities in the market post the regulation being removed.

However, despite the positive economic outlook for retail park development, the success will depend on the ability of landlords to be more innovative and create a more consumer friendly environment with a strong diversity of retail offering.

"The quality gap between traditional shopping centres and out of town retail is narrowing"

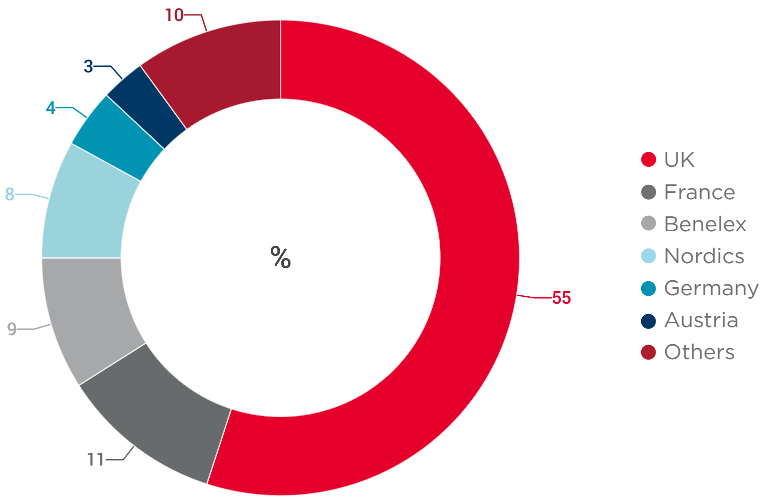
INVESTMENT MARKET

2015 was a record year of investment into the retail sector in Europe, with a growth in investment experienced across all subsectors of the retail sector. Retail warehouses were a major beneficiary of the increased activity in the sector's investment market, with a total of €9.0bn invested throughout the year, 39% up on 2014 investment volumes, and the strongest year of investment into retail warehouses since 2006.

Given the advanced nature and size of the Western European investment market in comparison to CEE and the more emerging markets, it is no surprise that the vast increase of activity in retail warehouse investment in 2015 was in Western Europe. In fact, retail warehouse investment in the UK alone, made up 55% of Europe's total for the year. A number of large portfolio deals were concluded in the latter half of the year which helped to drive volumes. US based Ares management's capture of the Elmo portfolio and the acquisition of the Birstall Retail Park in Leeds by L&G both in the UK, were the standout deals throughout Europe in the year.

The high level of activity in the UK market could be attributed to a number of different factors, most notably strong growth of the retail sector after a period of robust economic growth and low inflation drive continued increases to consumer confidence in the country. Funds were particularly active in the market accounting for 65% of all investment into the sector in the UK. France was the second most active country in Europe regarding retail warehouse investment volumes with just under €1bn invested throughout 2015. Investment into retail warehousing in France was 69% up on the previous year. Next was Sweden, where the €594m invested represented Sweden's strongest year of retail warehouse investment on record. Austria also enjoyed a strong year of investment with the deal that saw Supernova Holding GmbH purchase the Baumax Portfolio making up a large part of the €438m invested. Belgium saw a marked improvement over the course of 2014, with 116% y-o-y growth resulting in €393m. One of the most notable transactions was the sale of retail warehousing portfolio by Rockspring to Retail Estates for €130m, which is the second-largest retail park transaction ever in Belgium.

European Retail Warehouse and Retail Park
Investment volumes - 2015



As has been eluded to, investment into the retail warehouse markets in CEE and the more emerging markets is miniscule in comparison to Western Europe. Where there was a substantial €5.0bn invested in the UK, the strongest market by volume in CEE was Czech Republic where only €119m was invested. The biggest factor contributing to the lack of deals is the lack of available stock, particularly in many of the smaller and less developed markets such as those in the Baltic region. In a few markets we also see owners, predominantly private individuals and developers, hold assets due to the stable and continuous income they provide. There was however activity across Bulgaria, Czech Republic and Poland, and although 2015 was a quiet year for retail warehouse investment in Eastern Europe, there appear to be deals to be concluded in 2016 and further ongoing discussions in the pipeline in these countries as investors look to explore opportunities in these markets.

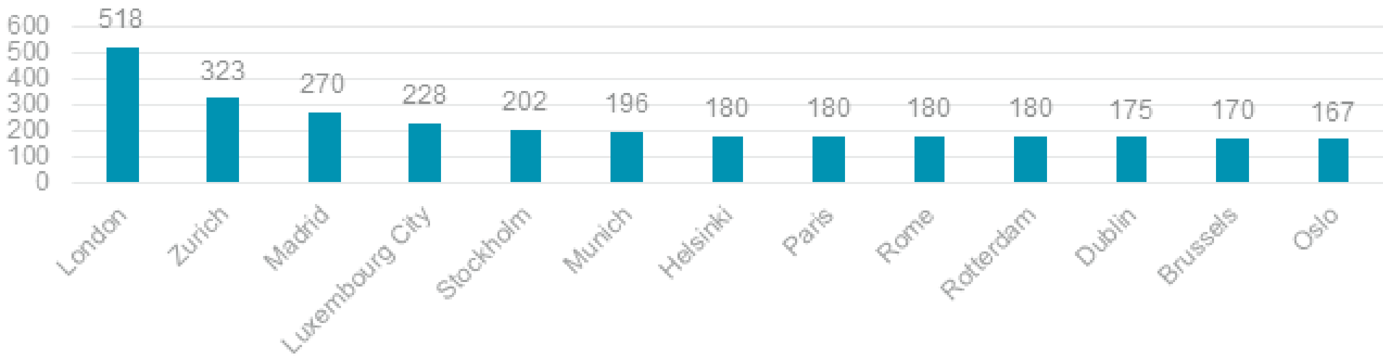
2016 Investment headlines

European commercial real estate investment activity took a pause for breath in Q1 2016 with retail investment most hit by the pause in the market, falling more than 40% after a very strong 2015. As such, retail warehouse investment has suffered with less than €2bn invested into the subsector in the quarter. Retail warehouse investment thus far in 2016 has been limited primarily to smaller deals in several Western European countries, with the bulk of this investment located in France where retail parks remain a highly sought after asset type. Interestingly, investors from the UK have been the most active investors into retail warehouses both domestically and across the continent in the early stages of the year.

"Belgium saw a marked improvement over the course of 2014, with 116% y-o-y growth resulting in €393m"

RENTS and YIELDS TABLE – Country prime retail warehousing					
	COUNTRY PRIME RW	YIELDS		CONVERTED RENTS (€/SQ.M/YR)	RENTAL GROWTH Y-O-Y
		Jun-15	Jun-16	Jun-16	Jun-16
1	Austria	6.25%	5.85%	156	0.00%
2	Belgium	5.65%	5.35%	170	3.00%
3	Bulgaria	n/a	n/a	60	0.00%
4	Channel Islands	7.75%	7.75%	233	-10.00%
5	Croatia	9.00%	9.00%	114	0.00%
6	Czech Republic	8.00%	8.00%	117	5.40%
7	Denmark	7.00%	7.00%	134	0.00%
8	Estonia	8.00%	8.00%	96	0.00%
9	Finland	6.75%	6.50%	180	0.00%
10	France	5.50%	5.00%	180	0.00%
11	Germany	5.40%	5.10%	196	0.00%
12	Greece	8.50%	8.50%	114	0.00%
13	Hungary	8.25%	7.50%	90	0.00%
14	Ireland	5.60%	5.50%	175	0.00%
15	Italy	7.00%	6.00%	180	0.00%
16	Latvia	7.50%	7.50%	96	0.00%
17	Lithuania	n/a	n/a	n/a	n/a
18	Luxembourg	6.15%	6.15%	228	0.00%
19	Macedonia	10.25%	10.25%	60	0.00%
20	Netherlands	7.60%	7.60%	180	2.90%
21	Norway	6.25%	5.75%	167	0.00%
22	Poland	7.50%	6.75%	114	2.70%
23	Portugal	7.50%	7.25%	114	11.80%
24	Romania	8.75%	8.75%	93	3.30%
25	Russia	13.50%	13.25%	70	-3.20%
26	Serbia	10.00%	10.00%	100	0.00%
27	Slovakia	8.25%	8.00%	114	0.00%
28	Slovenia	9.00%	9.00%	144	0.00%
29	Spain	6.00%	5.50%	270	0.00%
30	Sweden	6.00%	6.00%	212	0.00%
31	Switzerland	4.15%	4.15%	323	0.00%
32	Turkey	9.00%	9.00%	124	0.00%
33	United Kingdom	4.25%	4.25%	518	0.00%
34	Ukraine	n/a	13.75%	43	n/a

Prime Rental level (€/sq.m/yr)

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Caveats

Definition: Retail Park is defined as a scheme with at least 5,000 sq.m, mainly comprised of retail warehouse units, with traditional high street goods retailers occupying minority of the units.

- Stock and pipeline figures are sourced from Cushman & Wakefield. All figures are as of 1 January 2016.
- Stock figures in Finland include estimated data. Stock figures for Germany are sourced from Bulwiengesa and C&W in Germany.
- Development pipeline figures (2016-2017) include only currently under construction schemes.
- UK Retail Park stock figures are provided by Trevor Wood Associates.
- All figures represent retail GLA as far as possible – some might include total GLA if retail GLA is not available.
- All graphs and tables are based on information from Cushman & Wakefield's in-house European Retail Park Database.
- European Retail park stock and pipeline summary includes data from: Austria, Belgium, Bulgaria, Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, The Netherlands, Poland, Portugal, Russia, Serbia, Slovakia, Spain, Sweden, Turkey and United Kingdom.
- Investment Retail Park & Retail Warehouse volume data is provided by Cushman & Wakefield.
- Prime rents and yields are dated June 2016. UK and Ireland include provisional figures.

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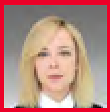

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About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. Our 43,000 employees in more than 60 countries help investors and occupiers optimize the value of their real estate by combining our global perspective and deep local knowledge with an impressive platform of real estate solutions. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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