March 2016

CAPITAL VIEWS

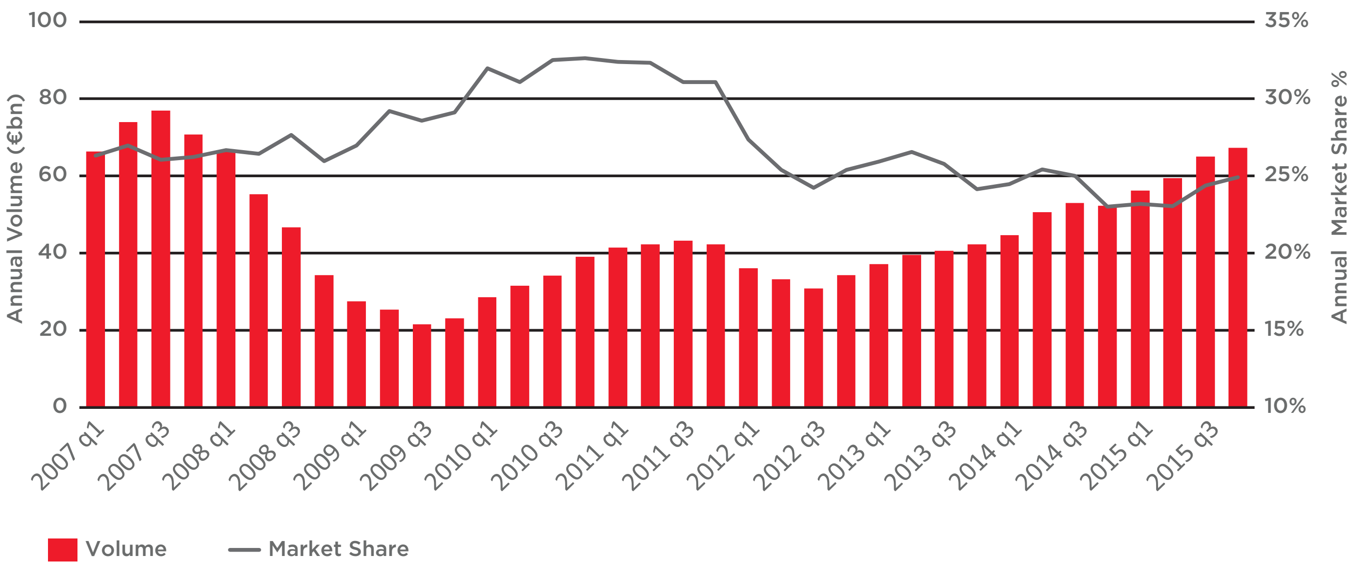
EMEA RETAIL INVESTMENT TRENDS

MARCH 2016

Buoyant year-end for retail driven by Germany and the Nordics

- Retail was the fastest growing sector of the commercial property market in Europe last year, with volumes rising to a total of €67.3bn, the second largest annual total on record.
- A spreading of demand to new markets was a major feature of the year but the strongest driver was actually Germany, which saw a doubling in trading volumes to move past the UK to become the busiest retail investment market in Europe.
- Within the retail market, larger assets and portfolios have driven volumes higher, aided by a stronger finance market, with shopping centres the key contributor but interest in retail warehousing and high street shops also strong.
- Levels of investment supply are now improving but shortages of quality space will continue to drive pricing and encourage further diversification into new markets led by southern and central Europe.
- Core markets however will remain in highest demand in what looks set to be an uncertain and volatile global economy, with Germany and the Nordics set to post a new high, underpinning a 5% growth forecast for retail volumes across the region overall in 2016.

Fig: Retail Property Investment in EMEA



Source: Cushman & Wakefield, KTI, RCA, and Property Data

European overview

Retail property markets clearly enjoyed a buoyant 2015, with volumes ahead 28% and values leaping 8% thanks to strong growth in yields but also in prime rents in the region's top cities, schemes and parks.

However, pricing is still some way short of its record levels back in 2007 and the majority of countries are yet to see a full recovery in values. As a result, there is still plenty of headroom for the sector to grow further, both in volume and value terms, before it looks expensive or overbought.

With domestic buying falling 16% while international activity rose 54%, the share of cross border investors rose from 43% to 59%, overtaking offices to become the second most international sector after hotels.

The largest international buyers were from the USA, France, the UK, Canada and Germany, with the fastest growing being Canadian, French, Swiss, Finnish and South African. Asian investment has been less notable than in other sectors but led by China and Thailand, they are now becoming more significant.

The quality end of the retail market is frequently blighted by a lack of depth of supply and this held the market back a little late last year. However profit taking, fund sales and a change in strategy for some, will release more opportunities and trends in the early months of this year certainly point to a better level of investment supply ahead. Nonetheless, some investors will still need to flex their ideas on strategy if they want access enough stock and opportunities.

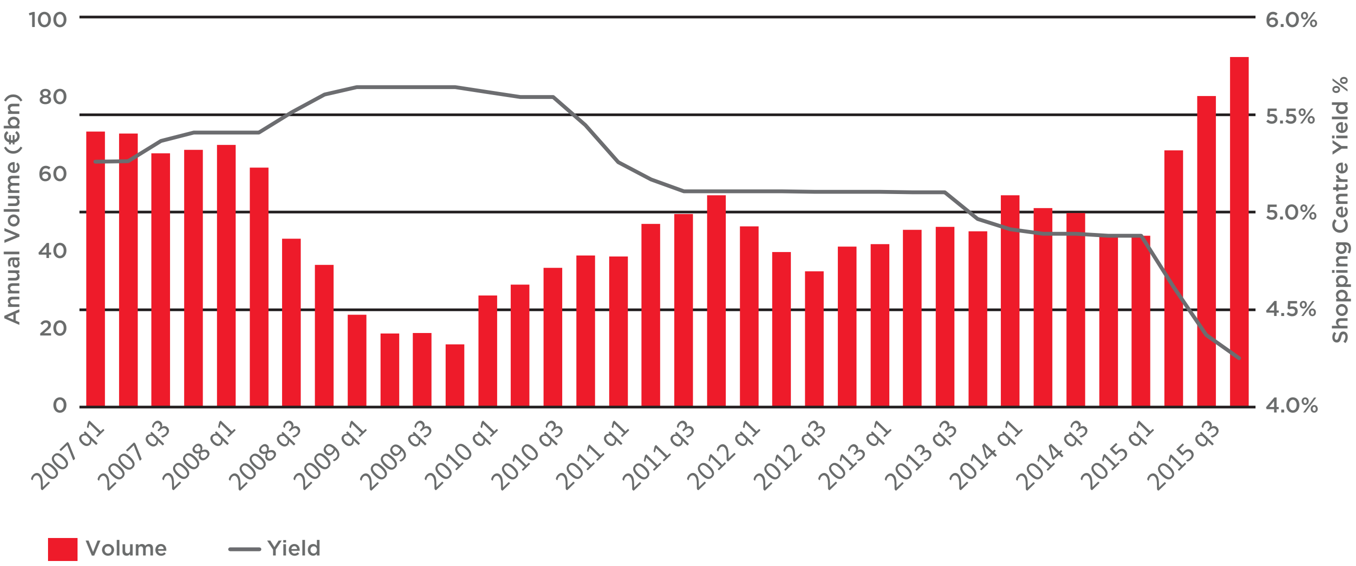
Germany leads the way

Germany enjoyed a record year in 2016 with its appeal to risk averse buyers combining with a more optimistic view on the potential for growth and, critically, an improved supply of larger assets and portfolios.

This confluence of better supply and demand drove a 103% increase in trading to €17.95bn, lifting Germany above the UK as the largest retail investment market in Europe for the year.

While London may be the leading city for cross border investors, Germany offers greater depth, with 7 cities in the top 20 for cross border buyers in 2015. Supported by an increasing supply of low cost debt, a string of large deals were pivotal to this as demand increased from foreign buyers, notably from North America but increasingly from Asia as well. Domestic activity in the retail sector rose 7.6% (in USD terms) while global investors increased their activity 3 fold – taking a 40% market share.

Fig: Retail Property Investment in Germany



Source: Cushman & Wakefield, RCA

The German consumer is set to remain on the front foot in 2016 and retail sales are expected to steadily edge ahead. However, the translation of this into rental growth may prove slow, given the cost sensitivity of retailers, and there is a clear need to focus on quality retail locations and areas where income gains can be secured via active management.

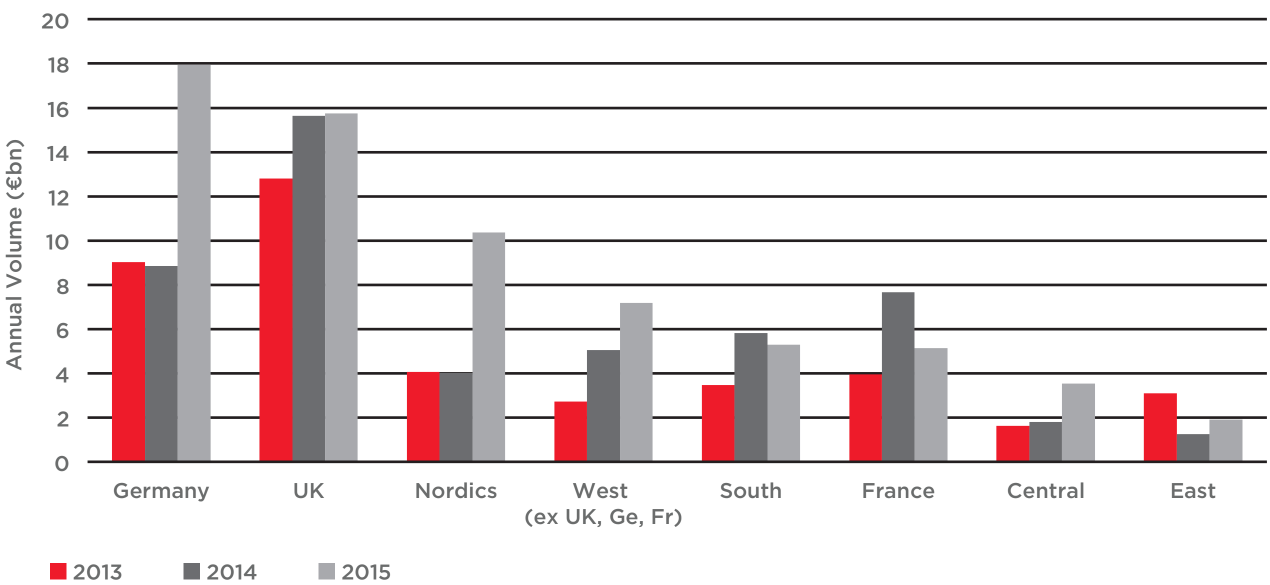
Demand for large lots will continue to boost the market, and supply could be the main constraint on activity, with mega deals such as Corio and Kaufhof perhaps not being repeated. Investors have already moved up the risk curve to find opportunities, bringing yields down across the board and with vendors taking advantage of this to restructure portfolios and demand also spreading towards the retail park market, overall retail volumes should edge ahead by around 5% this year. Will this be enough for Germany to retain its new crown as Europe's number one retail market? With the UK potentially distracted by its referendum on EU exit, there is every chance that it will.

Targets in Europe

The strong demand for core retail was underlined by increased activity in the Nordics, with volumes rising 158%, due to growth in Norway in particular. Recovery markets remain in high demand meanwhile but failed overall to register the levels of growth seen in Germany and the north. Retail markets in Spain and Italy paused for breath after the hectic pace set in 2014 and were in fact somewhat overshadowed by increased interest in their office sectors. Nonetheless, with Portugal back in the game with volumes rising 194%, demand in the region is still clearly very strong.

Benelux and Central Europe were also strongly on the buyer radar, with volumes rising 237% in Belgium, 244% in Poland and 103% in the Czech Republic.

Fig: Retail Investment by Market



Source: Cushman & Wakefield, KTI, RCA, and Property Data

Market Performance Ahead

Economic trends have been more favourable for the retail sector due to a return of modest but real income growth as well as an improving labour market. Despite the headwinds facing the global market, this is likely to continue to benefit the sector in 2016.

In terms of performance, high streets continue to lead but growth has become more diverse across other retail formats as retailers have reacted to supply, operating costs and the impact of e-tailing and click and collect.

Thanks to supply shortages and cross border retailer demand, prime shop rents rose 4.4% last year, led by the usual suspects London and Paris, but also with new recovery stories such as Lisbon, Milan, regional UK cities, Dublin and Brussels.

Shopping centre growth was more lackluster by contrast but is now positive, at around 1% for the region, helped by increases in CEE markets. Retail warehouses meanwhile have started a more robust recovery, with rents up 4% and growth quite broadly spread, with the leading markets being France, the UK, Italy, Ireland, Spain, Portugal, Czech Republic and Belgium.

Against a backdrop of a healthy occupier market but a focus on the best space and cities, pricing will polarize this year, with prime yields having further to fall but weaker tiers of the market remaining out of favour. Markets such as Italy and Poland look set for a strong year but core markets will remain in highest demand in what looks set to be an uncertain and volatile global economy.

With increasing levels of Asian capital looking towards the retail sector, prime retail units and centres in the best cities will see further strong demand, with Germany and the Nordics set to post a new high, underpinning the 5% growth forecast for the region overall, with turnover in 2016 set to hit €70.5bn.

MONIKA SUJKOWSKA
Senior Analyst, EMEA Investment Strategy
+44 20 7152 5062
monika.sujkowska@cushwake.com

MICHAEL RODDA
Head of European Retail Investment
+44 20 7152 5661
Michael.rodda@cushwake.com

DAVID HUTCHINGS
Head of EMEA Investment Strategy
+44 20 7152 5029
david.hutchings@cushwake.com

Cushman & Wakefield
43-45 Portman Square,
London W1A 3BG

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THE REPORT

This report has been prepared by David Hutchings, Head of EMEA Investment Strategy in Cushman & Wakefield's EMEA Capital Markets group, based on desk research together with input from Cushman & Wakefield LLP professionals in the Capital Markets teams across Europe.

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