CUSHMAN & WAKEFIELD

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# CAPITAL VIEWS

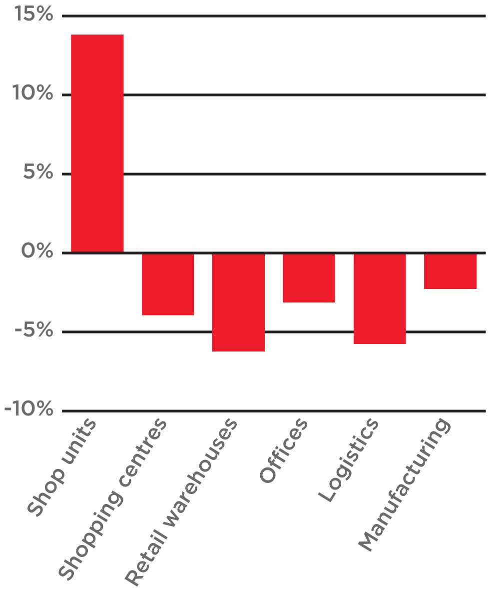
## HIGH STREET RENAISSANCE IN EUROPE

Europe's most luxurious high streets recorded another year of robust rental growth in 2015.

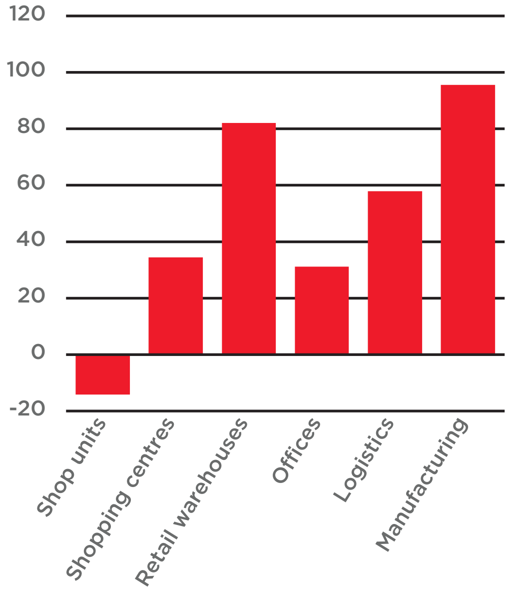
Rents on Via Montenapoleone in Milan expanded by 41.2% in a single year, making it the fastest growing high street rental market in Europe in Q4 2015, ahead of Rome's Via Condotti (37.5% growth) and Barcelona's Diagonal (33.3%).

Smaller but also sharp increases have been seen in Paris, London, Dublin, Venice, Lisbon and Madrid. As a result of this extraordinary growth, high street retail is now the only commercial real estate sector in Europe where rents on weighted average basis are above their previous peaks and yields are below pre-recession levels. Paris's Avenue Montagne and Rue du Faubourg St Honore are particularly advanced in their recovery, with rents doubling since 2011 but London's Bond Street and Covent Garden are not far behind, with rents up 90%. The most upmarket streets in Milan and Rome are 70% ahead of 2011 while selected thoroughfares in Madrid and Barcelona are up 30-40%.

**Rents versus previous peak**

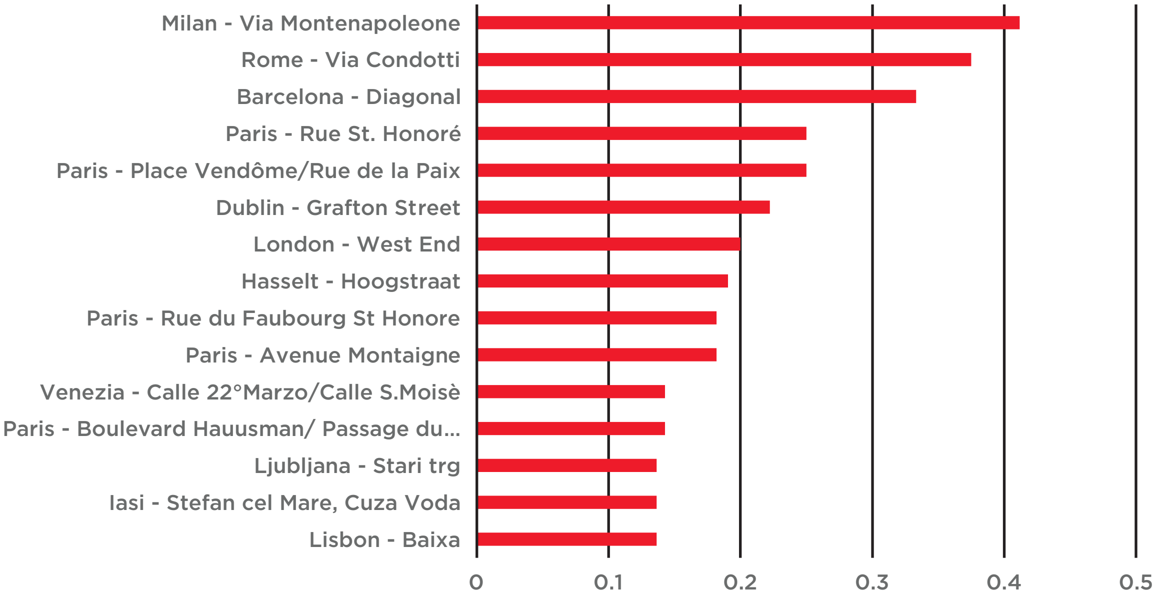



**Yields versus previous peak (bps)**




Source: Cushman & Wakefield

Top high streets in terms of rental growth – Q4 2015 (y/y)




Source: Cushman & Wakefield

Retailers' focus on key city locations is a response to the growing significance of urban living, driven by changes in lifestyles and demographics as well as city tourism.

The result of this re-urbanisation trend is more densification but also a strive for smarter, more creative urban designs and more effective transportation, allowing for healthier, less stressful environments as well as better accessibility and proximity at an affordable cost. From the retail perspective, mixed-use, centrally located schemes and high street shops in close proximity to culture, business, education, restaurant and/or tourism hubs appear to be ideal solutions to these challenges as they allow residents to not just shop but also work, relax and socialise – all in the same place - while granting retailers the benefits of high natural footfall.

It's not just a matter of footfall and turnover, however. In a multi-channel world, the impact of physical property and its location on product image and brand has become more important, with the right property moving up the retailers' value chain. By extension, the brand of the retail submarket and the city is of greater significance and greater potential value. This explains the trend towards large statement outlets in city centres but also a parallel trend towards establishing presence in emerging shopping districts and the best streets in second-tier cities, in an attempt to spread and strengthen brand awareness.

Growth in demand for centrally located retail space has been extraordinary but has not been geographically even. As retailers seek new expansion opportunities, this growth will spread further from established shopping destinations such as the key luxury high streets in Paris, London, Rome, Milan, Barcelona, Madrid and Milan to second-tier cities and smaller countries in 2016. Retailers are likely to target the streets that are best placed to reap the benefits of increasing economic power and wealth growth in their local markets. Prime locations in major Central & Eastern European and Swedish cities as well as second tier cities and selected secondary locations in Germany, Spain and Portugal are expected to see particularly marked increases in demand.

## Central and Eastern Europe

Urban renaissance is underway in leading cities in CEE, led by major Polish cities and Prague. This marks another stage in the development of the local retail market and follows two decades of shopping centre dominance. Growing and increasingly wealthy middle classes are seeking a more exciting way to shop, driving a transformation of the city centre. Urban planners and developers have already woken up to the potential from this trend as they incorporated attractive retail and restaurant space into modern blocks and revitalised centrally located urban structures such as 19th and early 20th century tenement houses, old market halls and factories. Indeed, high quality, mixed-use schemes appear to be particularly suitable for unlocking the region's high street potential given the communist legacy of fragmented and complicated ownership structures of traditional high street shops.

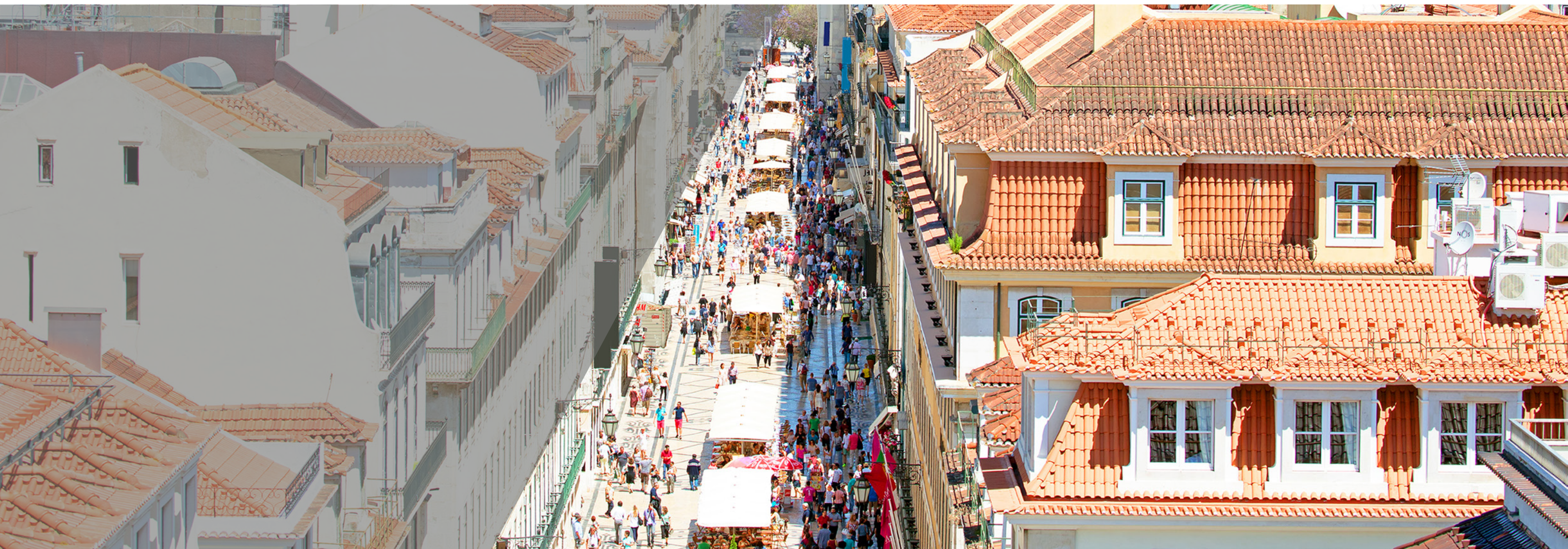
Most CEE markets until recently suffered from a development-driven supply overhang but brighter economic fundamentals have helped to absorb excess space and generate rental growth on key high streets in 2015. Cushman & Wakefield believe this is just the beginning of the upswing and anticipate a pick-up in rental growth in the region's major cities. Even more importantly, yields in CEE are highly attractive – compared to bonds and the rest of Europe – which is expected to attract investors and lead to a sharp compression in the next 1-2 years.

## Spain

The extraordinary rebound in prime retail property in Spain's major cities is anticipated to spread to regional cities and select secondary locations in Madrid and Barcelona as competition for prime assets and streets intensifies and rental growth re-emerges across the board. The success of Calle Orense in Madrid is an example of a revival in secondary high streets. In the regions, robust rental growth has been seen in prime streets of Palma de Mallorca (18% in the last 18 months) and Puerto Banus on the back of booming tourism. Rental growth also re-emerged in Seville, Valencia and Malaga where it is expected to strengthen. Spain is also leading the shift towards mega flagships, which are particularly popular among fast fashion brands such as Zara and Primark. The latter opened its second largest store in the world on Madrid's Gran Via in October 2015.

## Portugal

In Portugal, retailer expansion plans are widening from traditionally dominant shopping malls to urban centres thanks in large part to the booming tourism industry. A number of retailers unveiled their plans to enter Portugal's high street retail market and, unlike in 2014, they are keen to secure space outside Lisbon's most established streets and locate on secondary streets in the capital and other cities nationwide. Indeed, the country's smaller cities with low international brand penetration have seen the strongest increases in occupier demand in recent quarters. In addition, recent relaxation of planning laws and tax incentives for building renovation as well as the new, less tenant-friendly lease laws are bound to accelerate improvements in retail stock on the most attractive streets in Portugal's historical city centres.



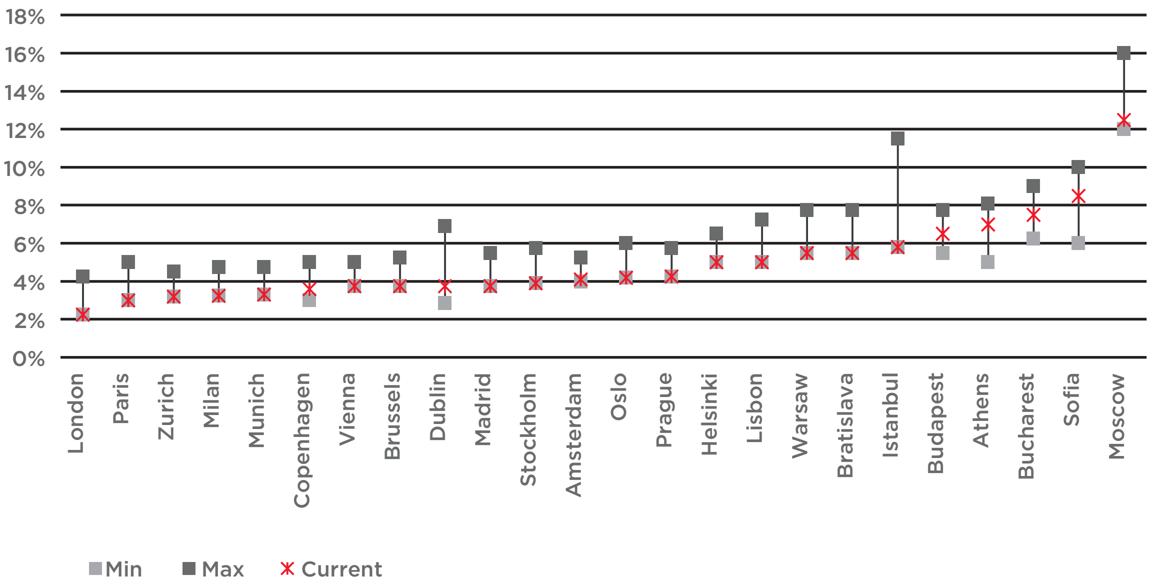
## Germany

Despite healthy fundamentals in the consumer sector, retail rental growth in Germany has been uneven, with retailers focusing on the very best high streets in major cities to ensure high turnover and protect themselves from the impact of the ongoing rise of etailing. Prime high streets are anticipated to strengthen further, driven by the expansion of foreign brands into Germany. However, a parallel trend has been evident in recent quarters – an urban revival in tier-2 and tier-3 cities and a resulting rebound in occupier demand in these locations. We anticipate these rising city centres to see rental growth going forward, with fuller potential upside likely to be seen in the long term in those centres attracting most immigration as they are likely to increase their market size and productive capacity. As a result, high street retail in selected urban centres in Germany could prove to be a good counter-cyclical investment helped by its relatively limited exposure to fluctuations in the economy. This defensive element of German high street is particularly important given the country's advanced position in its property investment cycle.

## Sweden

Changing shopping habits, tight supply and modest rental growth over the last few years combined with a number of mixed-use regeneration projects in the pipeline in the city centres of Stockholm, Gothenburg and Malmö indicates high potential for growth in high street retail in Sweden's major cities. The store mix in prime locations has improved markedly already, with a number of international brands like Ralph Lauren, Chanel, Prada, Michael Kors, Sephora and Burberry opening their first Swedish or even first Nordic stores recently. This trend is anticipated to continue given ongoing additions of retail, restaurant, residential and hotel space in previously office-dominated locations such as Stockholm's Bibliotekstan and the streets surrounding shopping gallerias Mood and Gallerian.

**Yield range, prime city centre retail, 10-year range***




Source: Cushman & Wakefield

* Prime city centre yield data is for high street retail for all locations except for Bucharest, Bratislava and Warsaw where in-town mall yields are quoted

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## CUSHMAN & WAKEFIELD

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## THE REPORT

This report has been prepared by Monika Sujkowska, Senior Analyst, EMEA Investment Strategy team 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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