



A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION
**EUROPEAN SHOPPING CENTRE
THE DEVELOPMENT STORY**

APRIL 2017





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EXECUTIVE SUMMARY

Approximately 2.9 million sq.m of new shopping centre space was delivered to the European market in H2 2016. This took the total volume of completions for 2016 to 4.5 million sq.m, 6% lower than in 2015.

Western Europe recorded 15% growth in new shopping centre completions in 2016. France was again the most active country in this region in terms of development and strong activity is expected to continue in the future, with consumer confidence improving, demand for new retail destinations strengthening and the number of international brands entering the market steadily growing. Italy and Spain recorded a strong year-on-year increase in completions in 2016, while development activity in the Benelux region was robust, with key projects such as Docks Bruxsel being completed. Development activity in the UK declined 17% year-on-year in 2016, with no new openings being recorded in H1.

In Central and Eastern Europe (CEE), annual shopping centre completions declined by 17% in 2016, following an 11% drop in 2015. The ongoing geopolitical risks and rising shopping centre saturation levels in many large cities are the main reasons for this decline in activity across the region. Russia is still the largest shopping centre development market in CEE, despite annual completions falling to 1.2 million sq.m in 2016, which is the lowest level since 2005.

Both regions are expected to see a further decline in shopping centre completions in 2017 – 18, with 6.8 million sq.m of space currently under construction and expected to be completed in this period. This represents a 26% drop when compared to the amount of space that was forecast to be completed during this period 12 months ago.



Future development activity is expected to be focused on locations with a good balance of low shopping centre density, high consumer spending, low risk and where the existing stock is ageing and in need of refurbishment or redevelopment. In Western Europe, London and Edinburgh have strong potential for future growth, driven mainly by extensions and redevelopments of existing centres. Cologne, Hamburg and Lyon are other locations that offer good development potential.

In the CEE region, strong development activity in the last ten years has led to significant growth in shopping centre density in many of the region's capital cities. Prague, Bucharest and Budapest are the exceptions, as shopping centre density is below the CEE city average, while consumer spending is forecast to average 3.2%, 3.2% and 2.2% p.a. respectively over the next 5 years. Developers are also increasingly targeting opportunities in fast growing second-tier cities such as Krakow and Wroclaw in Poland, while the main Turkish cities of Ankara and Istanbul remain potential future hotspots for development, despite the current economic and political uncertainty.

In recent years, the growing competition from other retail segments for shopper footfall and changing consumer behaviours have forced shopping centre landlords to look for unique ways to differentiate their offering. The growth of online shopping and technological progress create challenges, as well as opportunities, for shopping centre owners as shoppers look to augment their physical shopping experience with a social/leisure experience. Development activity is increasingly focusing on new formats, with a stronger presence of food and beverage, leisure and entertainment operators to increase footfall and dwell time and to capture more leisure spend.

“ Western Europe recorded 15% growth in new shopping centre completions in 2016. ”

KEY HIGHLIGHTS



Total shopping centre floorspace in Europe was **159.4 MILLION SQ.M** as of 1st January 2017

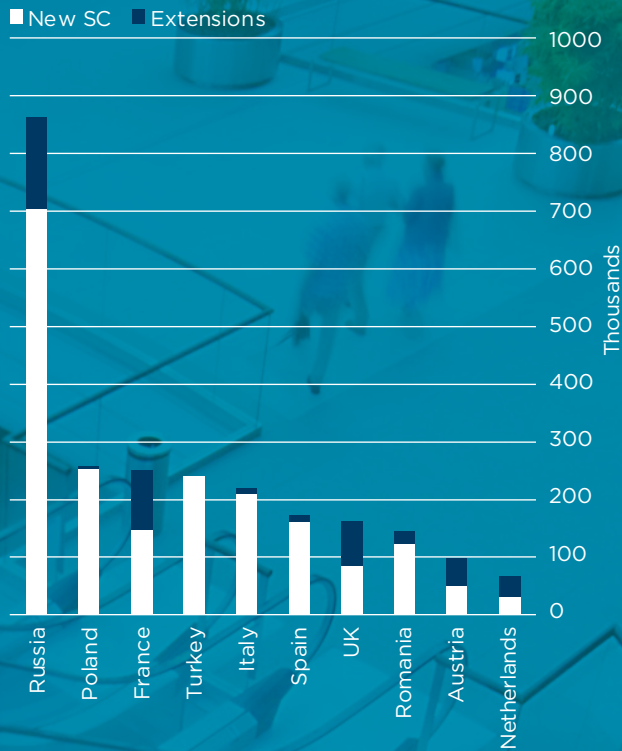
2.9 MILLION SQ.M of new shopping centre space was delivered to the market in **H2 2016, 11.8% less** than in H2 2015

	Europe	WE	CEE
Stock of sc space in Europe (million sq.m)	159.4	108.6	50.8
Y-Y growth	2.90%	1.70%	5.50%

	Europe	WE	CEE
New sc space added in H2 2016 (million sq.m)	2.9	1.2	1.7
Y-Y growth	-11.8%	+3.7%	-20.5%

Source: Cushman & Wakefield.

Top 10 countries – development activity in H2 2016 (sq.m)



Approximately,

4.5 MILLION SQ.M
of new shopping centre space
is expected to be delivered to
the market in 2017, while a further
2.3 MILLION SQ.M
is due to be **completed in 2018**

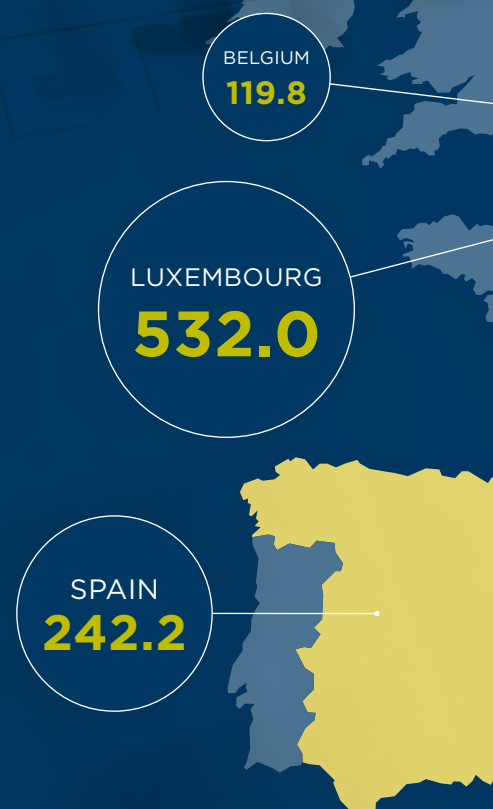
New shopping centre projects
(82) represented **79%**
of the new space delivered in H2 2016, while
extension projects
(56) accounted for **21%**

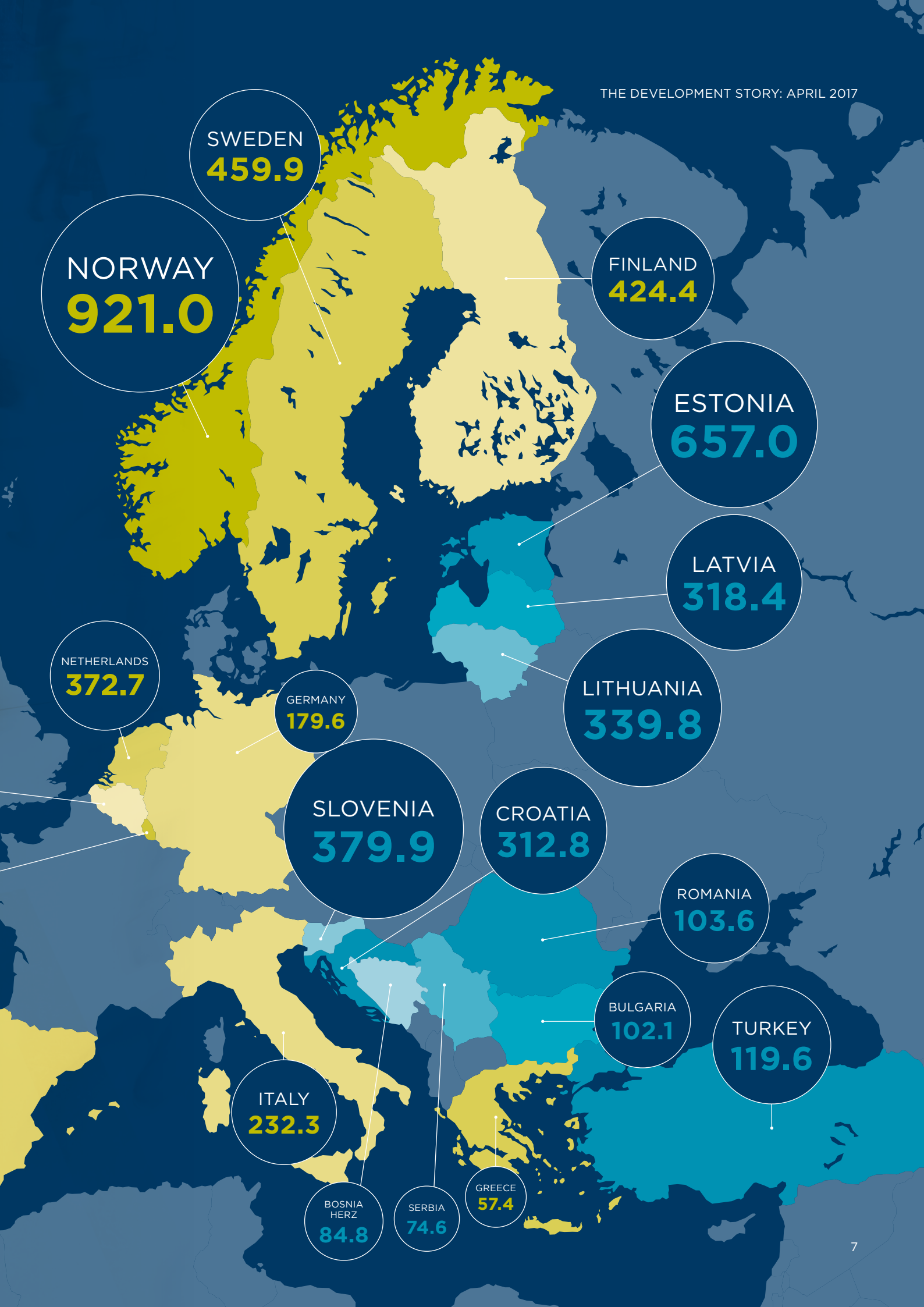
	Europe	WE	CEE
New sc space to be delivered in 2017-2018 (million sq.m)	6.8	2.9	3.9
Y-Y growth	-25.9%	-24.8%	-26.7%

SHOPPING CENTRE DENSITY

(GLA sq.m/1,000 population)
5 HIGHEST AND LOWEST

- Western Europe
- Central and Eastern Europe





EUROPEAN SHOPPING CENTRE DEVELOPMENT

Shopping centre development activity increased by an average of 6% per year from 1997 - 2005. A large proportion of this growth was recorded in Western Europe, with more limited development activity being recorded in the CEE region.

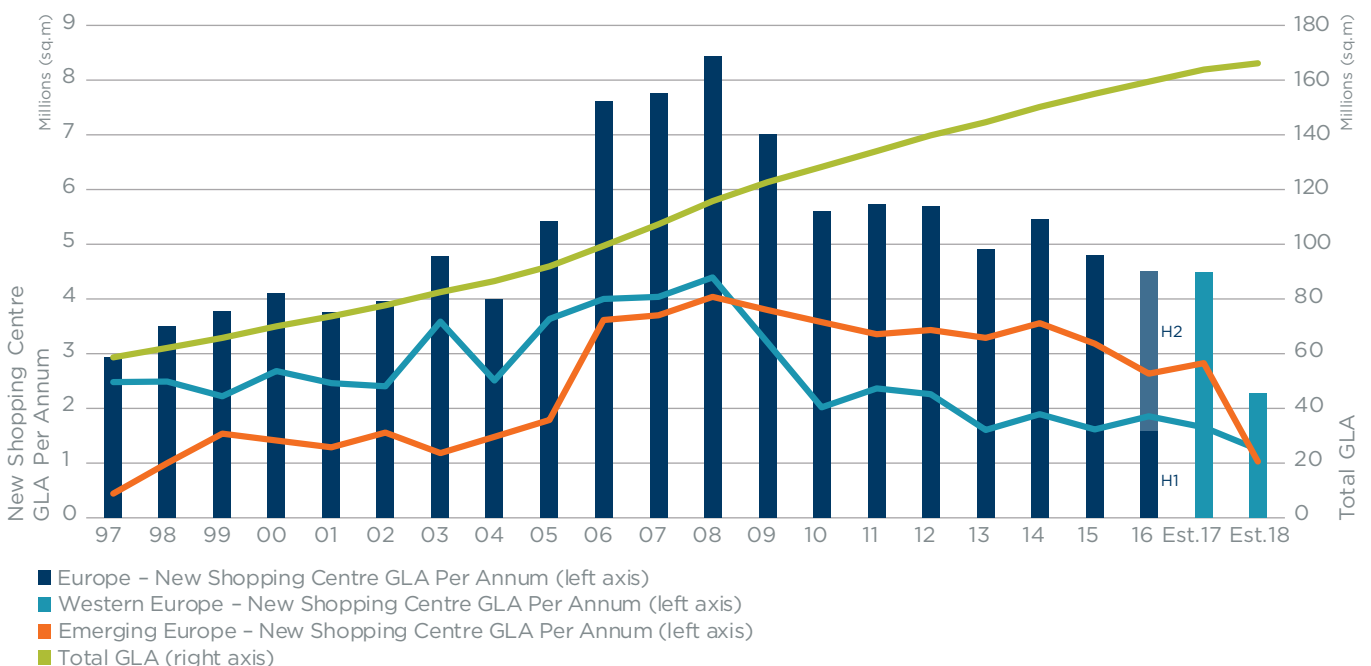
In 2006, there was a notable increase in the volume of annual completions across all regions. Western Europe recorded a 10% increase in completions year-on-year, while the CEE region saw robust growth of 102% year-on-year - admittedly off a low base - with developers buoyed by the improving economic environment and the strong growth in retail sales.

The onset of the financial crisis in 2008 had a severe impact on development activity across Europe. In Western Europe, annual completions dropped by 27% in 2009 and by a further 37% in 2010, with the UK (-620,000 sq.m) Spain (-524,000 sq.m) and Italy (-239,000 sq.m) experiencing the strongest decrease in annual volumes in this two year period. Development activity was also impacted in CEE markets, albeit to a lesser extent, with annual completions falling by 6% in 2009 and 6% in 2010.

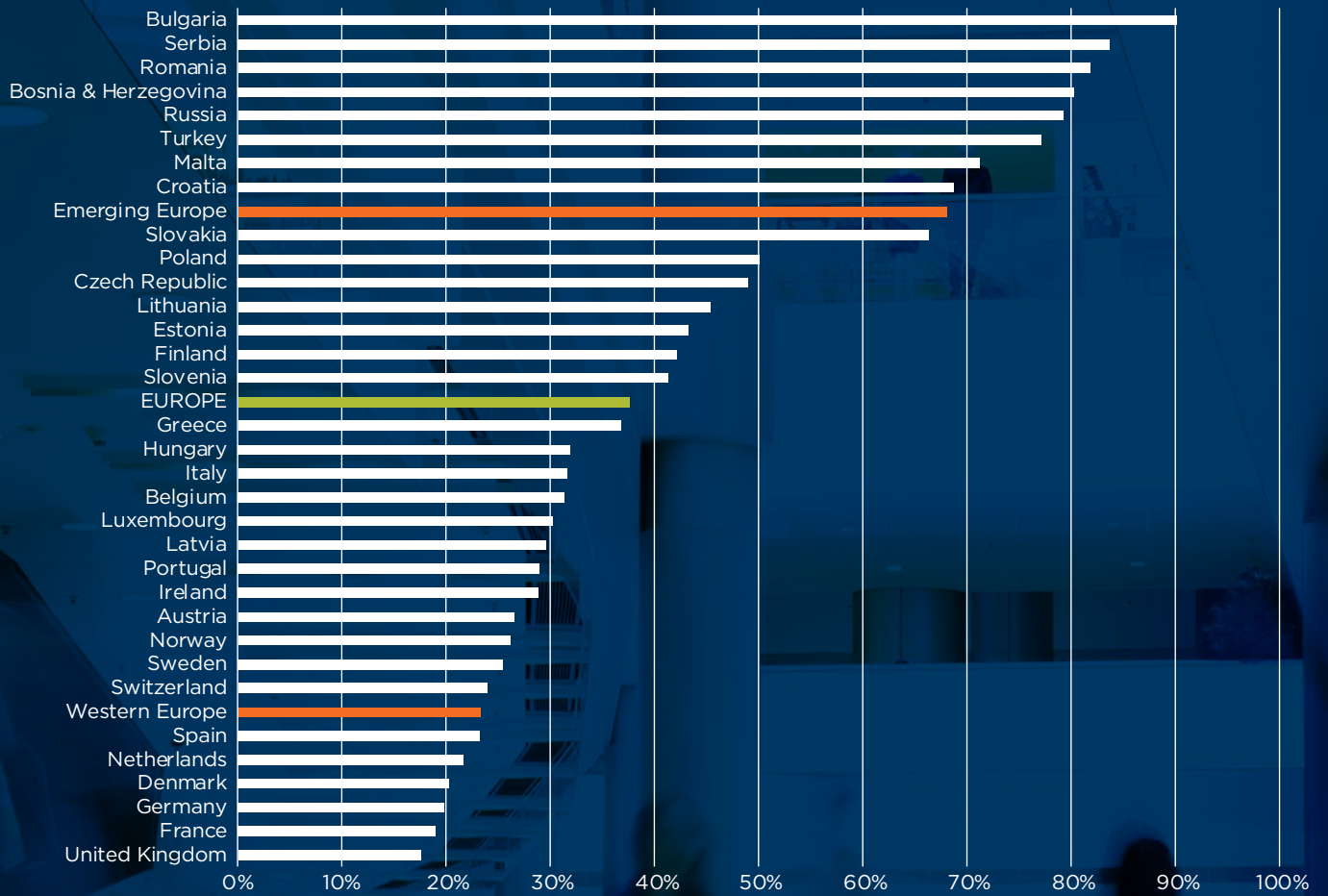
Since then, the CEE region has seen strong development activity in Russia, Poland and Turkey and the total shopping centre stock has grown by 35 million sq.m over the last 10 years. By comparison, Western Europe has increased its shopping centre stock by 25 million sq.m during this period.

More recently, development activity has been slowly improving in many Western European economies and some are seeing annual completions returning to pre-crisis levels. In CEE, the main cities are gradually reaching saturation levels, while increased geopolitical risks in Russia and Turkey have slowed development and many projects have been postponed or put on hold. In 2018, Western Europe is expected to overtake CEE as the best performing region for shopping centre development.

“ Western Europe is expected to overtake CEE as the best performing region for shopping centre development. ”

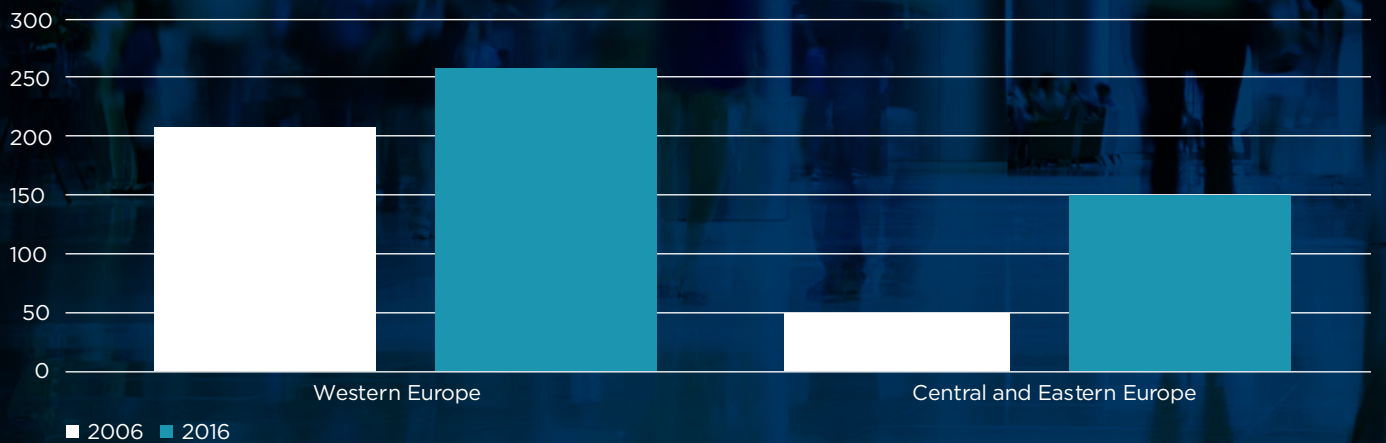


PROPORTION OF THE LAST 10 YEAR COMPLETIONS OF TOTAL EXISTING STOCK (1 JAN, 2017)



Source: Cushman & Wakefield

DEVELOPMENT OF SC DENSITY (SQ.M/1,000 POP)



Source: Cushman & Wakefield

“ France, the UK and Germany are still the largest markets and account for 47% of total shopping centre space in Western Europe. ”



WESTERN EUROPE MARKET SIZE

France maintains its regional dominance with steady growth in 2016

Consumer confidence in France has reached pre-crisis levels, with the unemployment rate gradually decreasing and households becoming more positive about their future financial situation. Given the steady flow of new international brands entering the market, well established retailers are being forced to reposition their existing portfolios, by reconsidering their concepts and modifying their store formats in order to maintain existing market share.

Strengthening consumer demand for new retail destinations and growing interest from retailers to expand their portfolios in regional markets across France is boosting development activity and France maintained its position as the most active shopping centre development market in Western Europe in 2016. Approximately 251,000 sq.m of new shopping centre space was completed in H2 2016, bringing annual volumes to 408,000 sq.m. This was an 8% uplift on 2015 and was the highest annual total since 2009. One key project that was completed was the 76,000 sq.m Ametzondo in Saint-Pierre-d'Irube, which is the first shopping centre in France anchored by an integrated IKEA retail warehouse.

Development activity is expected to rise further, with more than 931,000 sq.m of new space expected to be delivered to the market in 2017 - 2018. This is the strongest development pipeline in Western Europe, with approximately 56% of this new space being delivered in the key regional cities of Paris, Marseille, Lille and Lyon.

Strong recovery in development activity in peripheral Western European markets

The economic downturn had a negative impact on shopping centre development in Italy in 2015, but activity was noticeably stronger in 2016. The second half of 2016 saw more than 220,000 sq.m of new space added to the market through five new developments and one extension project. This brought the annual completions for 2016 to 300,000 sq.m, which is more than triple the amount of new space delivered in 2015. One of the most eagerly awaited openings was the 88,000 sq.m Elnòs Shopping in Roncadelle. This is the largest shopping centre in the province of Brescia and the second mall developed by IKEA Centres in Italy.

Spain also recorded a strong increase in completions in H2 2016, with approximately 173,000 sq.m of new shopping centre space delivered to the market, taking the full year total for 2016 to 181,000 sq.m. This included the opening of two large schemes - the 85,000 sq.m Parque Nevada in Granada and the 66,000 sq.m Fan Mallorca in Palma de Mallorca.

Despite the relatively weak economic backdrop in Portugal in 2016, consumer confidence has been rising and the retail sector has also seen an improvement in conditions. Total completions in 2016 were 69,000 sq.m, despite there being no new shopping centre openings in H2 2016. This was the highest annual total since 2009 and just over triple the amount of space that was opened in 2015.

Extension projects and small and medium sized schemes are driving development in the Benelux region

In 2016, more than 235,000 sq.m of new shopping centre space was opened in the Benelux region, with the Netherlands accounting for close to 75% of this. This is almost 4 times the volume of space that was delivered in this region in 2015. Development activity is primarily focused on small and medium sized schemes, with the exception of the 45,000 sq.m Docks Brussel scheme, which was opened in H2 2016. The average size of a newly opened scheme in H2 2016 was less than 14,000 sq.m and this trend is expected to continue in the future. The development pipeline for 2017-18 is 336,000 sq.m and 67% of new space will be newly built shopping centre schemes, while 33% will be extension and redevelopment projects.

Development activity in the UK drops by 17% year-on-year in 2016

Approximately 166,000 sq.m of new shopping centre space was delivered in the UK in H2 2016, spread across four new schemes and six extension projects. While this is on a par with H2 2015, there were no new openings recorded in the first half of 2016 and, consequently, total annual completions were down 17% year-on-year, when compared to 198,000 sq.m of new space that was completed in 2015. Subsequently, the UK dropped from third position in 2015 to fifth position in 2016, in terms of annual completions in Western Europe.

Brexit, rising inflation, limited wage growth and still relatively high household debt are all expected to weigh on consumer confidence and retail sales growth in the short term, although the development pipeline for 2017 - 18 is still strong reflecting earlier commitments by developers. A total of 438,000 sq.m of new space is currently under construction and due to be delivered in this period. This is the second strongest development pipeline in 2017 - 18 after France in Western Europe.

Beyond 2017 - 18, the UK development pipeline will be helped by supportive measures from local authorities, who are becoming more proactive and enabling the development of new shopping centres, including the acquisition of assets.

C&W also expect to see continued growth in leisure extensions of shopping centres, together with a growing mix of other uses, such as offices and residential. Some older shopping centres in prime and secondary locations are expected to be redeveloped or replaced with residential leisure schemes.



Shopping centre floorspace in Western Europe totalled 108.6 million sq.m as of 1st January 2017. France, the UK and Germany are still the largest markets and account for 47% of total shopping centre space in the region.



In H2 2016, 1.2 million sq.m of new shopping centre space was delivered to the market, a 3.7% increase on the volumes delivered in H2 2015.

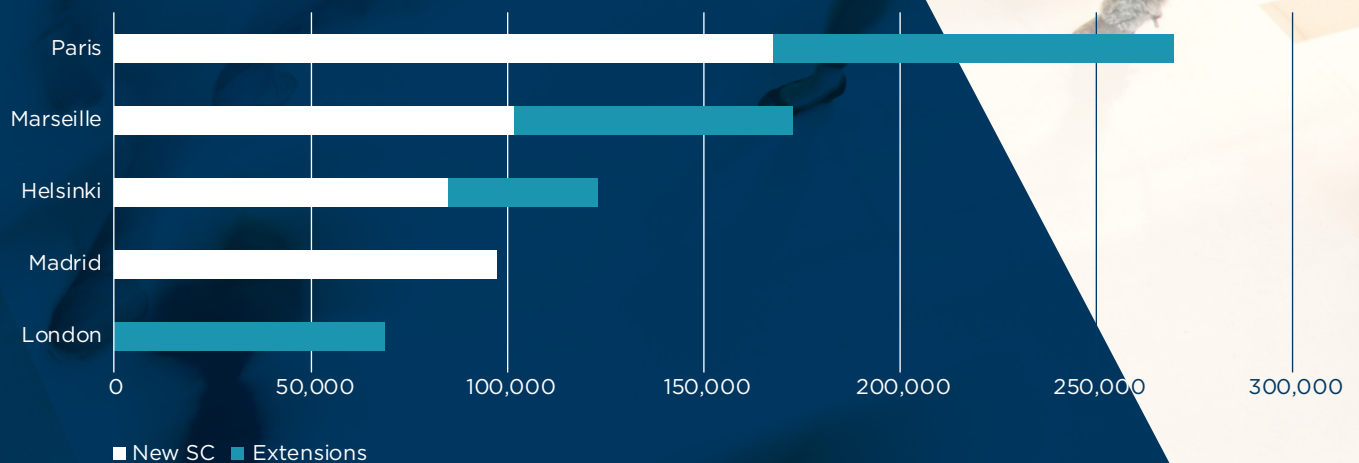


In total, 1.9 million sq.m of shopping centre space was delivered in the region in 2016, a 15% increase on 2015.



Approximately 2.9 million sq.m of new shopping centre space is expected to be completed in 2017 - 18. This is a 25% drop on amount of space that was forecast to be delivered in this period 12 months ago.

TOP 5 WE CITIES - DEVELOPMENT PIPELINE 2017 - 2018 (SQ.M)



TOP NEW SC OPENINGS 2017/2018



FINLAND - HELSINKI
60,000 sq.m Redi

2018



FRANCE - FARÉBERSVILLER
52,000 sq.m B'est

2018



SPAIN - LAS PALMAS
60,000 sq.m Centro
Comercial de Tamaraceite

2017



ITALY - VERONA
47,000 sq.m Adigeo

2017



**UNITED KINGDOM -
BRACKNELL**
54,000 sq.m Bracknell
Town Centre

2017

Source: Cushman & Wakefield



SWITZERLAND -
EBIKON (LUZERN)
46,000 sq.m Mall
of Switzerland

2017



BELGIUM - CHARLEROI
39,000 sq.m Rive Gauche

2017



PORTUGAL - LOULÉ
42,000 sq.m Mar
Shopping Algarve*
*(Mixed use scheme with
total GLA 83,000 sq.m)

2017



GERMANY - BERLIN
30,000 sq.m
Schultheiss Quartier

2018

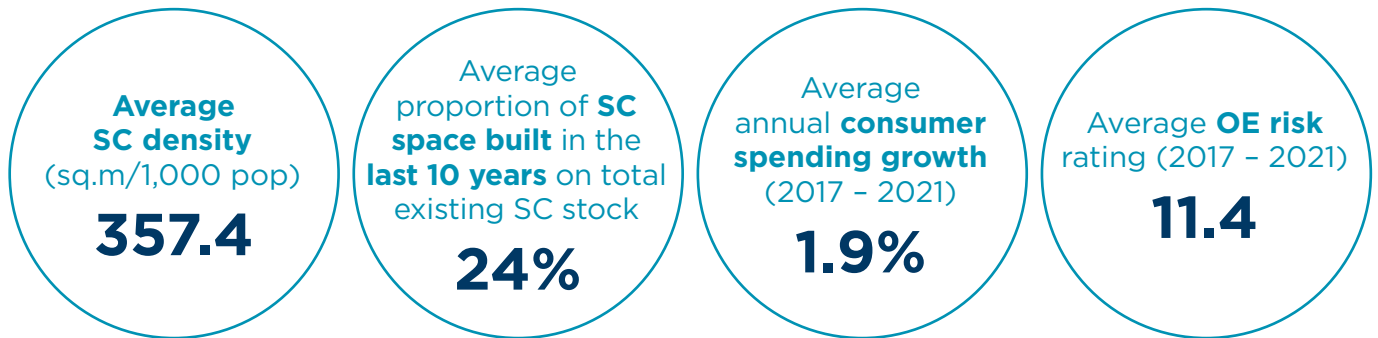


SWEDEN - MÖLNDAL
24,000 sq.m
Mölndal centrum

2018

FOCUS ON THE FUTURE CITY HOTSPOTS

KEY indicators - main WE cities



London and Edinburgh both offer good potential for shopping centre development in the future. Shopping centre density is relatively low at 227 sq.m/1,000 pop in London and at 310 sq.m/1,000 pop in Edinburgh, while strong consumer spending growth of 2.9% and 2.5% is forecast over the medium term. Furthermore, development activity in these locations has been modest over the last ten years.

Other core UK cities, such as Bristol, Manchester and Birmingham, are also forecast to see strong growth in consumer spending going forward and are considered to be cities with good future development potential. When compared with London and Edinburgh, development activity has been higher in these locations over the last 10 years, however. Shopping centre density levels are currently 370 sq.m/1,000 pop in Manchester and 412 sq.m/1,000 pop in Birmingham. In Leeds, Bristol and Cardiff, a large proportion of existing shopping centre stock is relatively new and modern, with limited need for refurbishment or redevelopment. Approximately 28% of existing stock in Bristol and its region (Bath, Yate) was also built in the last ten years, mostly thorough extensions and revitalisation projects.

In Geneva, shopping centre density is 372 sq.m/1,000 pop, while average annual consumer spending growth is forecast to be 1.8% over the next five years. Both these measures are in line with the Western European average. Geneva is the oldest shopping centre market among all Western European cities. Only 25,000 sq.m of new shopping centre space - 5% of total existing stock - was built in the last 10 years. This is generating several opportunities for redevelopment and refurbishment projects. Moreover, Switzerland has one of the lowest risk levels in Europe and, despite the challenges posed by the strength of the Swiss Franc (CHF), the economic outlook is positive with domestic and external demand expected to strengthen.

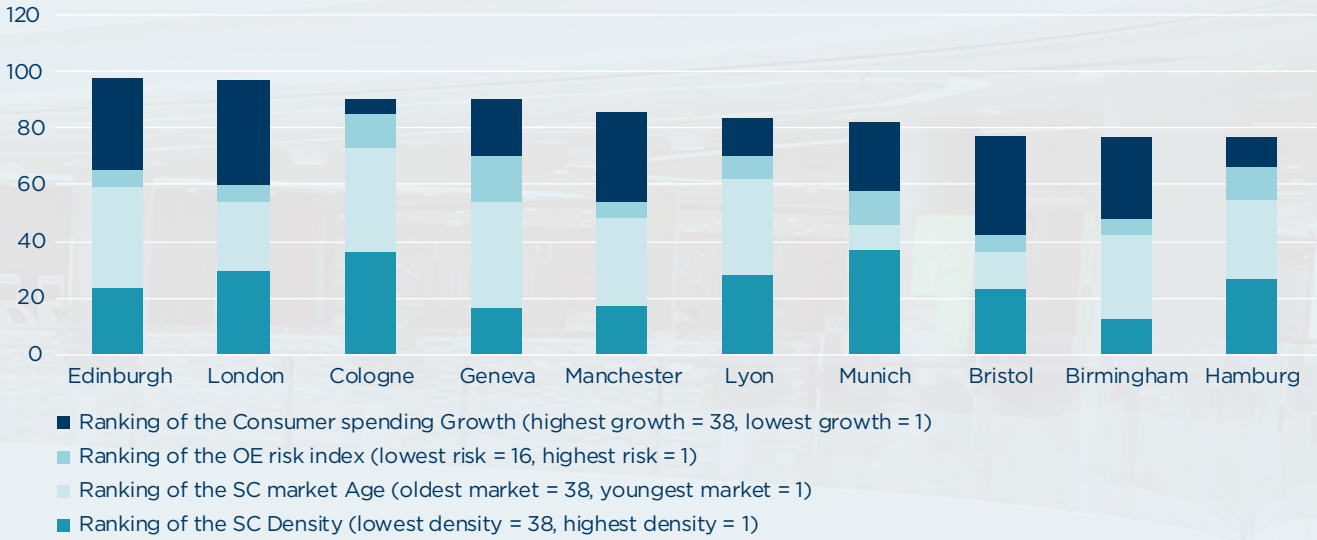
“London and Edinburgh both offer good potential for shopping centre development in the future.”

In Germany, Munich, Cologne and Hamburg have a low risk outlook, while shopping centre saturation levels are below the Western European average (357 sq.m/1,000 pop), indicating new development potential in these locations. The volume of shopping centre space built in the last 10 years as a proportion of total stock is also below the Western European average of 24%, with the exception of Munich, where almost a third (120,000 sq.m) of the existing shopping centre stock was opened in the last ten years.

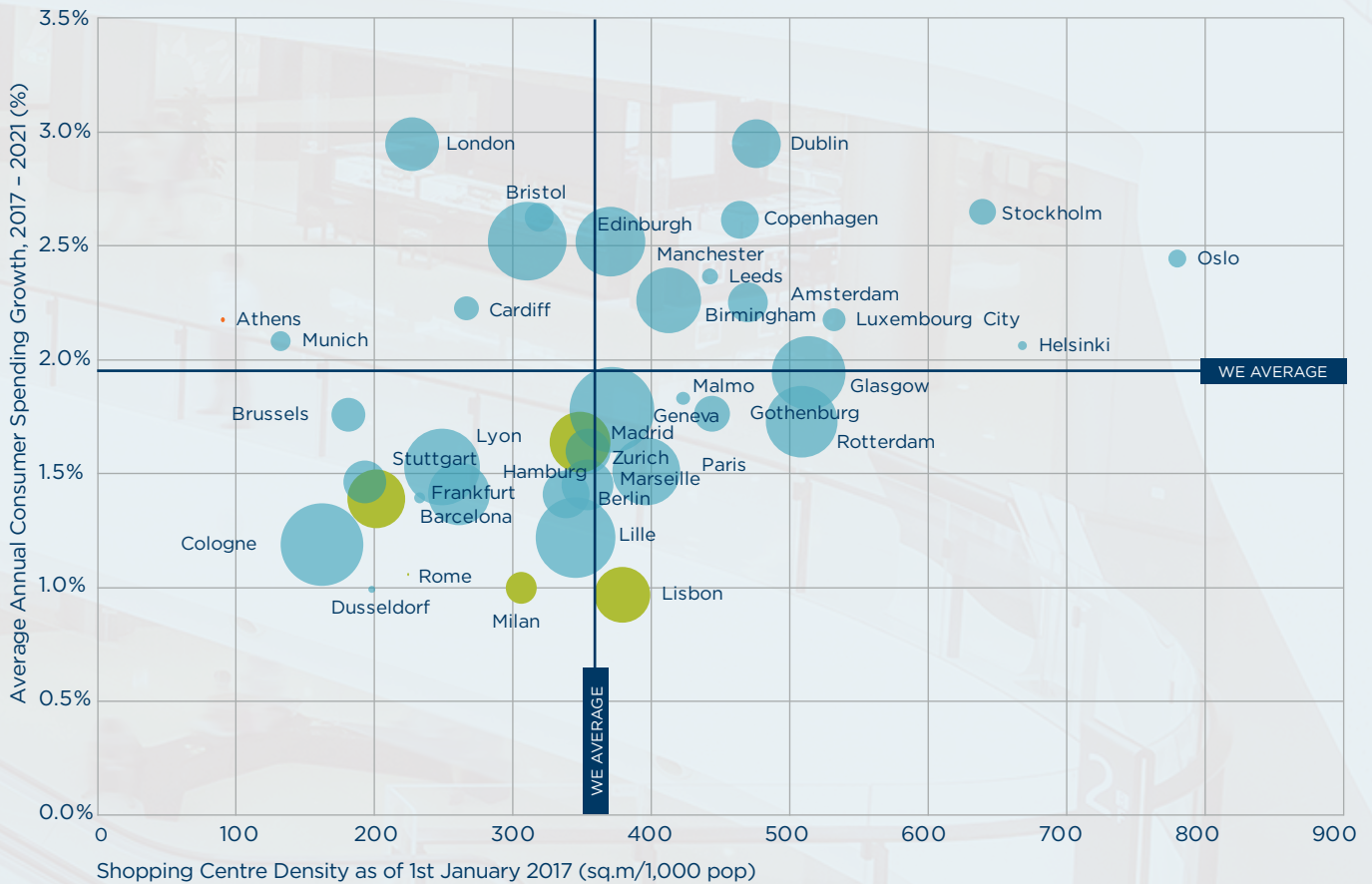
Consumer spending growth forecasts vary among the German cities, with Munich expected to see average annual growth of 2.1% over the next five years, while consumer spending growth in Cologne and Hamburg is forecast to be slightly below the Western European average of 1.9%.

Lyon is the 3rd largest city in France but shopping centre development activity has lagged behind Paris and Marseille. Shopping centre density of 249 sq.m/1,000 pop - which is well below the Western European average - and limited development activity in the last 10 years, combined with Lyon's low risk profile indicates that it should be a potential future hotspot for development. Furthermore, while average consumer spending growth of 1.5% per annum is lower than the Western European average over the next five years, it is on par with the levels of consumer spending growth expected in Paris and Marseille.

BENCHMARK OF POTENTIAL HOTSPOTS - WESTERN EUROPE



HOTSPOT ANALYSIS - WESTERN EUROPE



- Very High Risk (80 - 100)
- High Risk (60 - 80)
- Moderate Risk (40 - 60)
- Low Risk (20 - 40)
- Very Low Risk (0 - 20)

* Size of the bubble is growing with the increasing age of the Shopping Centre Market (Based on the proportion of stock built in the last 10 years on total existing stock) ** The colour of the bubble - represents ranking of the risk (Based on Average OE Risk Index for 2017 - 2021)

Source: Cushman & Wakefield, Oxford Economics.

INVESTMENT IN WESTERN EUROPE

The Western European shopping centre investment market recorded a significant drop in volumes in H1 2016, with just €9.3 billion transacted, a 40% year-on-year decrease. Investment activity improved in H2 2016, with trading volumes reaching €11.1 billion, although this was still an 8.9% year-on-year decline on H2 2015. In total, €20.4 billion was transacted in the shopping centre market in Western Europe in 2016.

The lack of supply has had a notable impact on investment activity in Germany, where annual volumes were €4.1 in 2016, a 28% drop on 2015. Total volumes were €3.0 billion in the second half of the year, with Germany the top target for investors in the region during this period. With demand for prime product increasing, the downward pressure on prime yields is expected to continue in 2017.

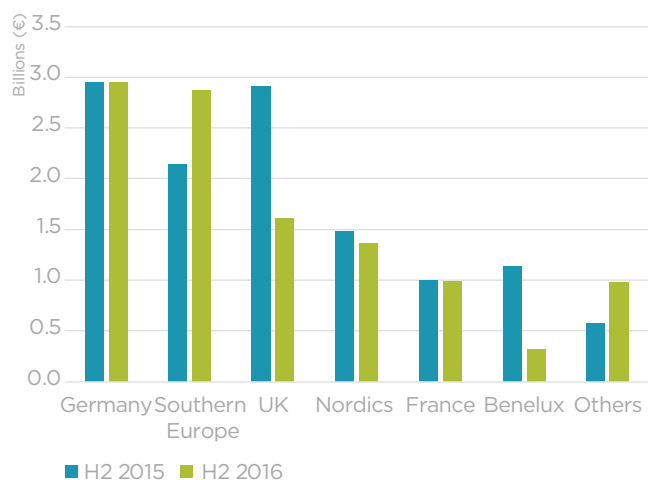
The UK is the second largest shopping centre investment market in Western Europe. There was a sharp drop in volumes in 2016, however, with only €3.5 billion transacted – a 42% year-on-year decline. There was a notable absence of larger lot size deals throughout the year, which was mainly due to some investors being reluctant to deploy capital, due to the uncertainty around Brexit and the increased volatility in global financial markets. The largest shopping centre transaction in 2016 was TH Real Estate’s sale of a 75% stake in Edinburgh St James to Dutch Pension Fund, APG Group, for €442 million. This shopping centre is currently being reconstructed and redeveloped, with the retail and leisure sections expected to be completed by 2020.

Ireland’s shopping centre market recorded a very strong performance in 2016 and volumes reached €3.4 billion, with a broad range of investors targeting the sector. Investment volumes were boosted by Blackstone’s purchase of the Blanchardstown Centre in Dublin for €950 million in H1 2016, while the sale of the Liffey Valley Shopping Centre for €620 million to German pension fund, BVK, in Q4 was the largest shopping centre transaction in Europe in H2 2016.

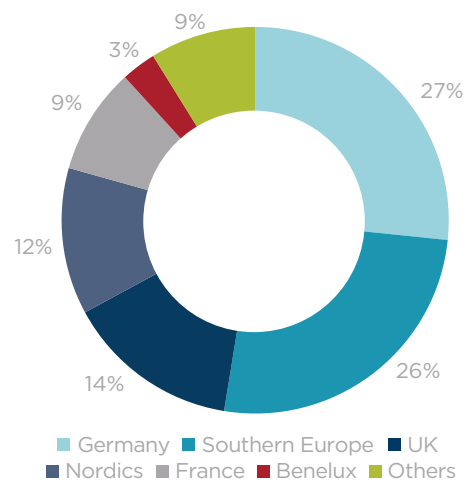
In Southern Europe, shopping centre investment volumes reached €2.9 billion in H2 2016, bringing the total annual volumes to €4.8 billion. Spain saw a 10% increase in annual volumes in 2016 and accounted for 60% of the total volumes across the region. Deutsche Bank’s acquisition of the Diagonal Mar shopping centre in Barcelona for €493 million was the second largest shopping centre transaction in Europe in H2 2016.

The Nordic region saw approximately €2.5 billion transacted in the shopping centre market in 2016, with Sweden and Finland accounting for more than 86% of volumes. Sweden recorded 48% growth in volumes in H2 2016, with a growing number of portfolio and joint venture deals being completed as investors collaborated with local buyers and operating partners. A key transaction was Eurocommercial’s purchase of the C4 shopping centre in Sweden for €174 million.

WE - SC INVESTMENT VOLUME
(H2 2015 VS. H2 2016)



WE - SC INVESTMENT VOLUME
H2 2016





“ Russia maintains its position as the largest shopping centre market with 37% of total space in the CEE region. ”



CENTRAL & EASTERN EUROPE MARKET SIZE

Annual completions in Russia at the lowest level since 2005

Relatively high inflation, falling real disposable incomes, weak consumer spending and economic uncertainty had a negative impact on shopping centre development in Russia in 2016. Several planned shopping centre projects were put on hold or postponed and, consequently, the volume of annual completions decreased from 1.7 million sq.m in 2015 to 1.2 million sq.m in 2016. This was the lowest annual completions since 2005.

Despite this drop, Russia retained its position as the most active development market in Europe in 2016. New developments included large schemes such as the 80,000 sq.m Riga Mall in Krasnogorsk and the 78,000 sq.m Okhta Mall in St. Petersburg. While the recession appears to have bottomed out and the economy is now recovering, no significant improvement is expected in the shopping centre development market in 2017 – 18.

Development in Turkey is resilient, despite the challenging economic and geopolitical environment

2016 was a challenging year for Turkey. Ongoing geopolitical tensions and fragile economic conditions have weakened consumer and retail sector confidence. Many retailers are still focusing on cost control and consolidation, with some international retailers exiting the market completely. Some of the bigger brands are still following aggressive expansion strategies, however.

Despite this uncertainty, the shopping centre market still managed to grow by 6%, adding 560,000 sq.m of new space in 2016. 40% of this new space was in Ankara and Istanbul. The development pipeline for 2017 – 18 remains strong, with 1.5 million sq.m due to be completed. This is the strongest development pipeline in Europe, in spite of the expected increase in projects being put on hold, due to the increased geopolitical and economic risks.

Development activity improving in Poland and Romania

Poland added 380,000 sq.m and Romania added 229,000 sq.m of new shopping centre space in 2016, ranking them in 4th and 6th position in terms of new shopping centre development across Europe. Macroeconomic fundamentals are positive in both countries, with GDP growth forecast to be 3.1% in Poland and 3.3% in Romania in 2017. While shopping centre density is increasing in Warsaw and Bucharest, several larger regional and second tier cities are well positioned for increased shopping centre development, given the favourable economic environment and consumer profile.

Bucharest has a shopping centre density of 298 sq.m/1,000 pop and accounted for approximately 40% of the total new space opened in Romania in 2016. Warsaw has a shopping centre density of 458 sq.m/1,000 pop and accounted for just 3% of total new space opened in Poland in 2016.

Poland is expected to add 546,000 sq.m of new shopping centre space in 2017 – 18, which will be the third largest development pipeline in CEE. Examples of large schemes currently under construction include the 67,000 sq.m. Galeria Młociny and the 64,000 sq.m Galeria Północna in Warsaw, the 64,000 sq.m Wroclavia in Wrocław and the 42,000 sq.m Serenada in Kraków.

Positive development trends in the Czech Republic

Retail sales growth in the Czech Republic accelerated from 3.8% in 2015 to 5.5% in 2016. This, together with falling unemployment, rising household disposable incomes and healthy consumer spending growth forecasts are underpinning positive developer and investor sentiment.

In 2016, HB Reavis opened its first shopping centre in the Czech Republic – the 20,000 sq.m Aupark Hradec Kralove. However, development activity was focused on facelifts and extensions of existing shopping centres, while one newly refurbished scheme – the 14,000 sq.m Galerie Přerov was also completed. This trend is expected to continue in the future, with 57,000 sq.m of new space in the development pipeline. More than 78% of this new space will be delivered through extension projects.



Shopping centre floorspace in Central and Eastern Europe (CEE) totalled 50.8 million sq.m as of 1st January 2017. Russia maintains its position as the largest shopping centre market with 37% of total space in the region.

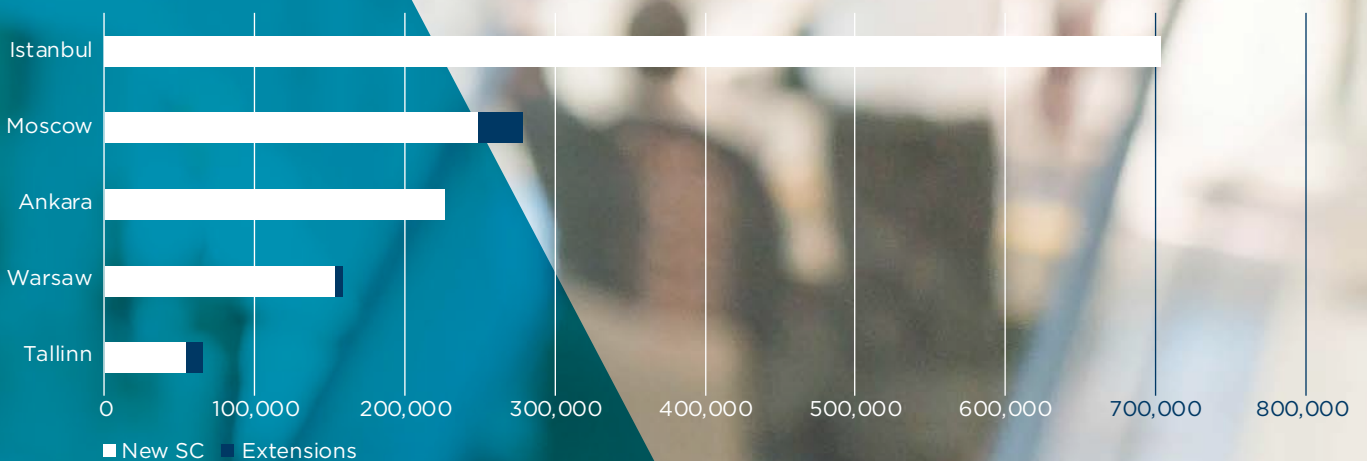


A total of 2.6 million sq.m of shopping centre space was delivered in 2016, a 17% decrease on 2015. This drop was mainly caused by the cancellation of several projects in Russia.



Regional shopping centre development activity is expected to improve by 7% in 2017, with 3.9 million sq.m of space expected to be completed in 2017 - 18 in total. This represents a 27% drop on the amount of space that was under construction as of 1 January 2016.

TOP 5 CEE CITIES - DEVELOPMENT PIPELINE 2017 - 2018 (SQ.M)



TOP NEW SC OPENINGS 2017/2018



TURKEY - ISTANBUL PROVINCE
150,000 sq.m Emaar Square shopping centre

2017



ESTONIA - TALLINN
55,000 sq.m T1 shopping centre

2018



RUSSIA - MOSCOW
119,467 sq.m Vegas III

2017



BOSNIA HERZEGOVINA - BANJA LUKA
54,600 sq.m City Mall

2018



POLAND - WARSAW
64,000 sq.m Galeria Północna

2017



SERBIA - BELGRADE
32,500 sq.m Plaza Belgrade (Plaza Visnjicka)

2017



SLOVAKIA - PRESOV
22,000 sq.m
Eperia Presov

2017



CROATIA - IMOTSKI
6,900 sq.m Imotski
Shopping Centre

2017

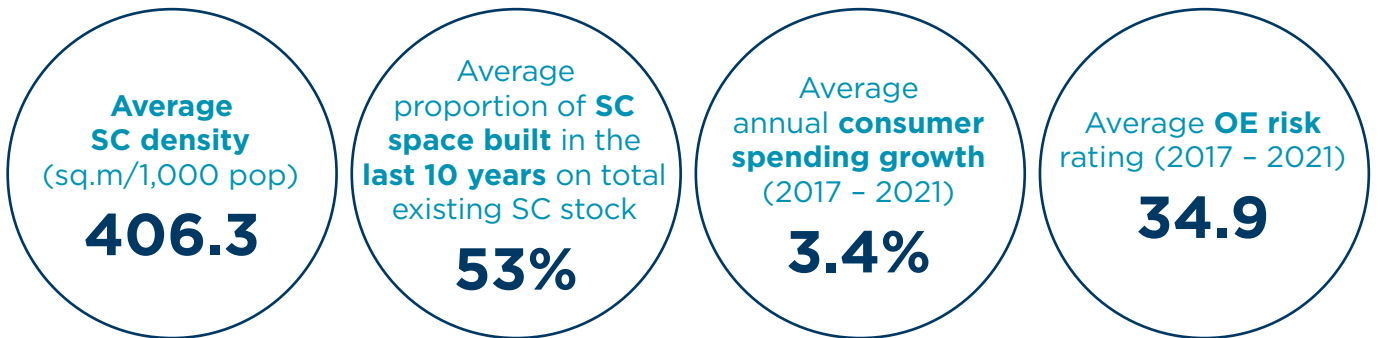


**CZECH REPUBLIC -
JABLONEC NAD NISOU**
12,400 sq.m Central
Jablonec

2017

FOCUS ON THE FUTURE CITY HOTSPOTS

KEY indicators - main CEE cities



Shopping centre density levels have steadily increased across most major CEE capital cities over the last 10 years, amid limited population growth and strong development activity. The average shopping centre density in the region was 228 sq.m/1,000 pop in 2006 but this had increased to 406 sq.m/1,000 pop by 2016. Several main cities have quickly become saturated and developers are increasingly being forced to look at the best performing regional and secondary locations for new opportunities.

In Eastern Europe, geopolitical uncertainty in Russia and Turkey remains the biggest downside risk, but the relatively low saturation levels in these markets do offer opportunities for new development. Ljubljana is expecting the strongest average annual growth in consumer spending (4.6%) over the next five years, while it also has a low risk level and this makes it an interesting proposition for future shopping centre development. Shopping centre density levels are high at 437 sq.m/1,000 pop, however, and therefore the main opportunities are likely to be for small scale projects and retail parks.

The situation is similar in the Baltic region, where low risk levels and strong consumer growth forecasts are attractive to developers, but high shopping centre density levels will limit the potential for future expansion and activity to smaller schemes.

The shopping centre market in Warsaw has become saturated, with density level now at 458 sq.m/1,000 pop. Just 19% of the shopping centre space in Warsaw has been delivered over the last 10 years and a good proportion of the existing stock in this location will require upgrading or redevelopment, which is likely to be the main driver of activity going forward. With economic fundamentals positive and the geopolitical environment stable, some of the best opportunities for new development going forward will be in the fast growing regional cities across the country.

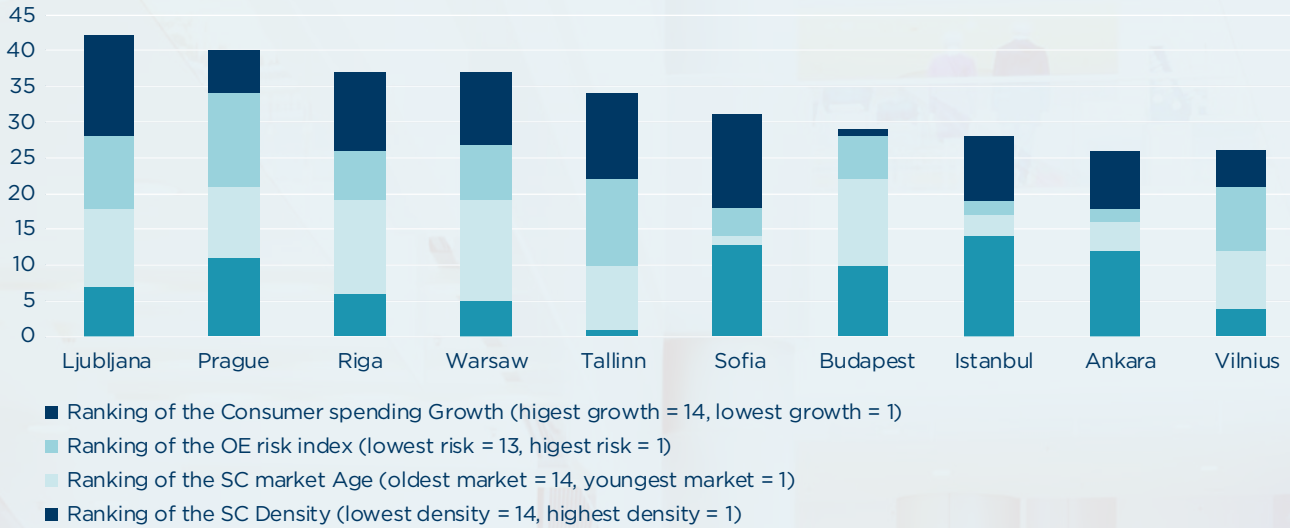
“The best opportunities for new development going forward will be in the fast growing regional cities.”

Prague is ranked as having the lowest risk of all the main CEE cities and has strong development potential. Shopping centre density is 258 sq.m/1,000 pop, well below the CEE city average of 406 sq.m/1,000 pop, while consumer spending growth is forecast to average 3.2% a year over the next 5 years. Approximately 39% of total existing stock in Prague was built in the last 10 years, and some of these schemes now offer potential for redevelopment, revitalisation or extension projects.

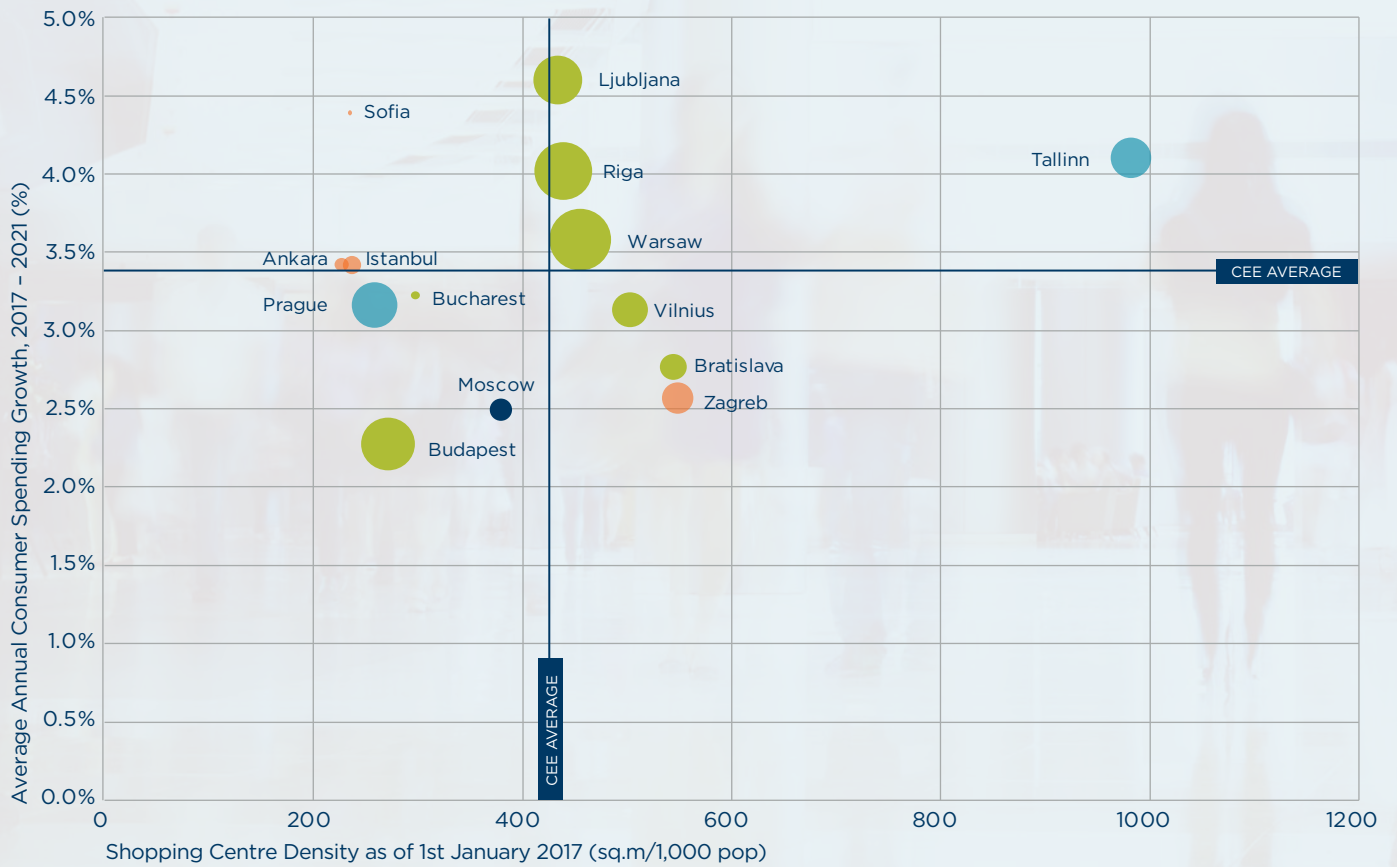
Budapest has a shopping centre density of 272 sq.m/1,000 pop, low risk and has had one of the lowest development pipelines over the last ten years in the CEE region. This makes it an attractive location for new development, despite consumer spending growth averaging 2.2% a year over the next five years, which will be among the lowest across all the CEE capitals.

Turkey is facing some economic and political challenges, which is expected to weigh on investor and developer confidence. Nevertheless, shopping centre density in the main Turkish cities of Ankara and Istanbul is still low at 226 sq.m/1,000 pop and 237 sq.m/1,000 pop respectively, while annual consumer spending growth is forecast to average a healthy 3.4% over next five years. This indicates that these cities are potential future hotspots for development and this is also reflected in the development pipeline for 2017 - 18, with 900,000 sq.m of new space expected to be completed.

BENCHMARK OF POTENTIAL HOTSPOTS - CENTRAL AND EAST. EUROPE



HOTSPOT ANALYSIS - CENTRAL AND EAST. EUROPE



- Very High Risk (80 - 100)
- High Risk (60 - 80)
- Moderate Risk (40 - 60)
- Low Risk (20 - 40)
- Very Low Risk (0 - 20)

* Size of the bubble is growing with the increasing age of the Shopping Centre Market (Based on the proportion of stock built in the last 10 years on total existing stock)

** The color of the bubble - represents ranking of the risk (Based on Average OE Risk Index for 2017 - 2021)

Source: Cushman & Wakefield, Oxford Economics.

INVESTMENT IN CENTRAL & EASTERN EUROPE

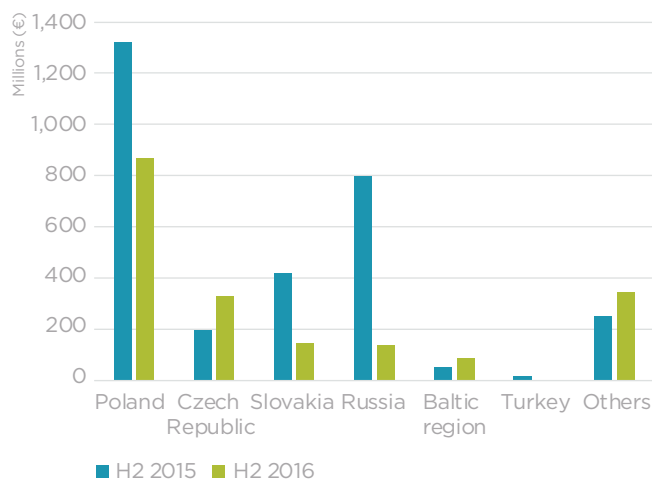
Shopping centre investment volumes in the CEE region fell by more than 30% year-on-year to € 3.8 billion in 2016, with €1.9 billion in H2 2016. Investment volumes in the largest shopping centre markets in Eastern Europe – Russia and Turkey – continued to decline in H2 2016, with investors still wary of the ongoing economic and geopolitical risks in the region. Russia recorded only €134 million in volumes across six deals in H2 2016, while there were no shopping centres deals in Turkey during this period.

Poland was the dominant performer in the region in H2 2016, accounting for over 46% of the total investment volumes. Overseas investors were particularly active in the second half of 2016, with the majority of deals completed by foreign buyers. Rockcastle was the most active investor in H2, acquiring Bonarka City Centre in Krakow, Galeria Warminska in Olsztyn and the Focus Mall centres in Zielona Góra and Piotrków Trybunalski. The limited supply of investment grade product in core markets is forcing investors to look for opportunities in smaller second-tier cities.

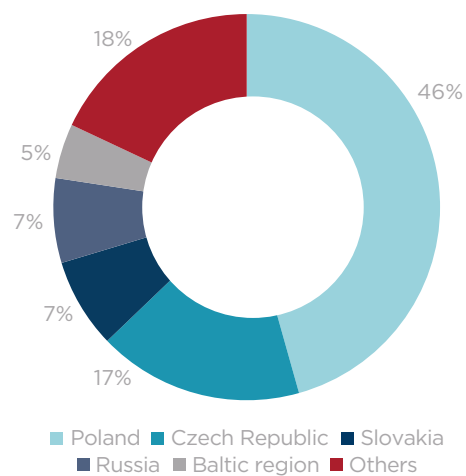
“Poland was the dominant performer in the region in H2 2016.”

The Czech Republic was the second best performing market in H2 2016, with €326 million transacted across three deals. The purchase of the Galerie Harfa shopping centre in Prague by Wood & Company for €223 million was the main deal in the second half of 2016. Demand for regionally dominant shopping centres is expected to strengthen further, but the limited availability of such schemes may force investors to look at other retail opportunities, such as mixed retail portfolios, repositioning opportunities and retail parks. Investment demand for shopping centres in Croatia has been steadily growing over the last three years. H2 2016 saw almost triple the number of investment volumes, when compared with H2 2015, with the purchase of Arena Centar in Zagreb for €219 million by NEPI representing the largest deal in the second half of the year.

CEE - SC INVESTMENT VOLUME
(H2 2015 VS. H2 2016)



CEE - SC INVESTMENT VOLUME
H2 2016





TRENDS

The following points highlight the recent trends observed in the European shopping centre market and which are expected to have a strong impact on shaping the development market in the future.



1. Importance of extension projects in shopping centre development

Extensions represent a significant part of new shopping centre space in Europe. In H2 2016, extension projects accounted for 32% of the total added space in Western Europe and 13% in the CEE region. The trend of extending existing successful shopping centres is expected to continue in 2017 – 18. Key projects include the 107,000 sq.m extension of the Evropa shopping centre in Kursk (Russia) or the 69,000 sq.m extension of Westfield London (UK). The main benefits of extensions are the shorter planning process, existing public transport solutions and the established shopping centre history and customer base. Larger schemes can attract more visitors and become regional destinations, which can bring additional benefits for the city/town and the wider region.



2. Transformation of shopping centres into multifunctional social spaces

In recent years, shopping centres have evolved from pure retail properties into multifunctional centres, with increased dining, leisure and entertainment offerings and public services. The aim is to create centres that become more integrated within the local community. In Finland, Lappeenranta City Theatre has been located in the 34,000 sq.m Iso Kristiina shopping centre. A public library and some health care units have been positioned in Iso Omena Service Centre, which is part of the 76,300 sq.m Iso Omena shopping centre in Espoo. It also includes other public services, such as youth services and a social insurance office. Switzerland has seen more medical centres relocating their units into regional shopping centres, while in Russia, shopping centers have introduced new social and educational experiences through thematic lectures, discussion sessions and fashion shows in an attempt to attract more footfall.



3. Growing importance of food and beverage offering

The importance of the food and beverage offer in shopping centres has been increasing across Europe. Traditional food courts are evolving to meet the requirements of modern consumers seeking unique dining experiences and developers are looking for new concepts that meet these demands. An example of this is the 44,000 sq.m MyZeil shopping centre in Frankfurt, which is planning to introduce a new, high quality gastronomy concept called 'Foodtopia'. This will create a new range of gastronomy, with a varied mix of local and international restaurants and bars, as well as entertainment features and a premium cinema. Another example is the 70,000 sq.m Stanica Nivy shopping centre in Bratislava, which is expected to open in 2020. Besides the traditional retail and food areas, the centre will also have a 3,000 sq.m food market, which will focus on fresh produce, seasonal offering, wine and other culinary specialties.



4. Divergence of shopping centres: regional vs. local schemes

The growing influence of millennials, who look for experiences in leisure, entertainment and dining, has resulted in the development of large regional shopping centres, with a high proportion of total space dedicated to non-retail operators. On the flip side, changing lifestyles with consumers increasingly time-poor supports the development of convenient local shopping malls, with good accessibility, easy parking and long opening hours anchored by a grocery retailer. By the end of 2018, 186 new shopping malls will be constructed across the European market and 80 of them will be smaller shopping centres, ranging in size between 5,000 sq.m and 20,000 sq.m.



5. Convergence of omnichannel elements

Omnichannel retailing is becoming increasingly important. A growing number of online retailers in Europe are now trialling physical stores as a way to complement their existing omnichannel or multichannel strategy and shopping centres are a key part of this. Some supermarkets in Italy (Carrefour, Coop) are creating collection points in shopping centres, including designated parking for shoppers who have made online purchases. Book store, Giunti al Punto, has included Amazon collection points in its premises.



6. Growth of new shopping centre formats and concepts

Shopping Resorts: In Spain and Portugal, there is a growing trend of creating theme-oriented shopping centres, which have a commercial and leisure mix that is focused on a specific element, such as water activities or children's leisure. The largest shopping centre in Portugal, the 122,000 sq.m Dolce Vita Tejo, is currently investing in becoming a shopping resort.

Anchorless Shopping Centres: In Italy, there has been a focus on increasing the size of units and having a plentiful and varied mix of brands. There are also examples of new concepts, such as the 30,000 sq.m Scalo Milano, which opened in 2016. This is a shopping centre divided into three main areas – Fashion Food and Design – without a specific tenant anchoring it. In Ireland, anchor occupiers are limited and there may be a shift towards more anchorless schemes, with landlords opting for a larger number of small and medium sized retail units as an alternative.



7. The introduction of other property use classes in new development, particularly in the UK

There has been an increase in the number of mixed-use shopping centres, which incorporate residential and office space. In the UK, it is expected that older centres, especially those in more secondary locations, will be redeveloped or replaced with residential leisure schemes. Westgate shopping centre in Oxford in the UK is an existing shopping centre built in 1972, which has been demolished and is being redeveloped into a retail-led mixed use scheme. The new 74,000 sq.m scheme is due to open on 24th October 2017 and it will include retail, cafes and restaurants, leisure and residential units. It will be anchored by a 13,000 sq.m John Lewis department store and a luxury Curzon cinema.

Another example is Newgate Centre in Newcastle upon Tyne. It is a shopping centre built in the 1960's, which is being redeveloped into a mixed use centre. The new proposed scheme will comprise student accommodation, a business hotel and ground level large format retail/leisure and restaurants.



8. Technology

Consumers' growing appetite for convenience and new experiences is forcing shopping centre owners to embrace new digital tools. Apps, Click and Collect services, free Wi-Fi, car finder, ticketless parking, 3D way finder, charging stations/docks, photo boxes and higher audio visual complementation of events are being used to attract visitors and make their shopping experience more convenient and entertaining.

ECE – one of the largest developers, operators and portfolio holders of shopping centres in Europe – is working on the development of a “digital mall”. This is a product search tool on the website of the Alstertal shopping centre in Hamburg, which informs customers about the availability of goods in several shops within the centre. It also allows users to reserve products and to pick them up later.

“ The importance of the food and beverage offer in shopping centre has been increasing. ”





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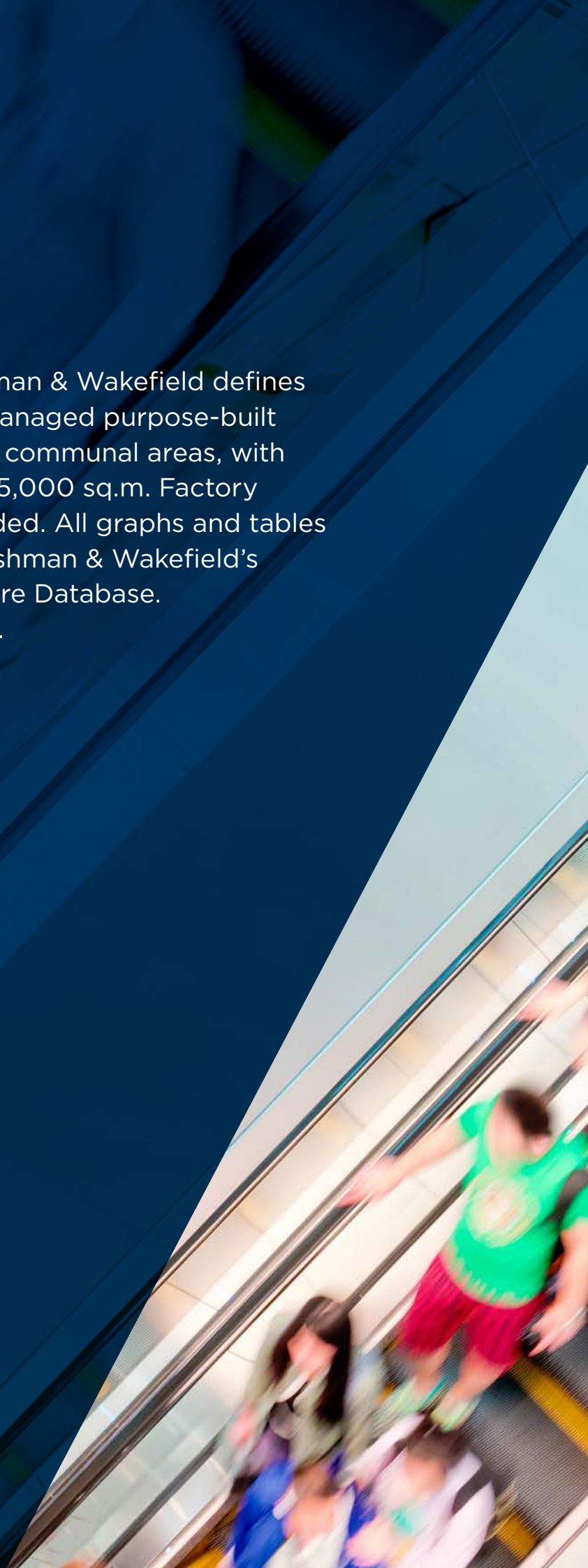
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CAVEATS

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 (GLA) 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 2017.

OTHER CAVEATS TO NOTE:

- All figures represent retail GLA as far as possible – some might include total GLA if retail GLA is not available
- Consumer spending growth forecast figures represent the average of annual consumer spending growth rates between 2016 and 2021
- City market boundaries: the figures in this report refer to the larger areas around the core city that gives the market its name; that is, each market consists of a bundle of NUTS III areas
- Shopping centre figures for Russia include only quality schemes
- Figures for Sweden also include Factory Outlets and Retail Parks
- All stock and pipeline figures are sourced from Cushman & Wakefield
- All investment volume data is provided by Real Capital Analytics
- Population, risk index and location based consumer spending growth forecast data is provided by Oxford Economics





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