



RETAIL MARKET SNAPSHOT

Year-end 2016

Research & Forecast Snapshot

EMEA | Retail
Q1 2017

Colliers
INTERNATIONAL

SUMMARY

- » 2016 was the third year of consecutive growth in consumer and retail spending in Europe. This growth was driven by low inflation; an increase in employment levels and wages and due to people having higher disposable income.
- » Shopping centre rental growth, however, was uneven. Although a number of markets recorded growth in prime rents, a similar number witnessed rental declines. Equally, while the highest rental increase was seen in Munich and Vienna, rental growth was more widespread in non-core markets, such as Bratislava and Lisbon.
- » The prime high-street market demonstrated more stability. Solid rental growth was led by London with a 48% increase year-on-year. Double-digit growth was also recorded in Moscow, Edinburgh, Stockholm and Dublin.
- » High occupancy costs did not discourage luxury retailers from expanding in the top markets, as numerous new openings and re-launches of refurbished stores took place in London, Paris and Moscow.
- » Technology strengthened its role in the retail sector, with mobile devices acting as the primary tools of change. The expansion of mobile payments will continue to reinforce the role of mobile and handheld devices for the 21st Century retail consumer in Europe. A trend which retailers must continue to embrace to drive sales.
- » Ethically motivated shopping is another increasingly important growth market. We anticipate it will become a major retailing trend in mature markets in the near future as consumers choose ethical quality over mass consumption.
- » Overall, while private consumption levels are expected to grow further in 2017, this will be curbed by increasing inflation, slower wage growth and political uncertainty. That said, retail spending in the EU is forecast to increase by 2.2% compared to 2016, which is good news for retailers.

ECONOMIC OVERVIEW

Private consumption remains the main growth driver for European retailers. The improving situation of households, underpinned by employment and wage growth, helped to drive retail spending across the continent. In both the EU (2.8%) and the euro area (1.8%), a year-on-year increase in retail sales was recorded in 2016, representing the third year of consecutive growth.

The highest growth was recorded in Luxembourg (14.0%), Romania (13.3%), Lithuania (6.7%), Poland (6.4%) and the UK (5.5%). Outside the EU, Serbia (7.1%) and Turkey saw solid growth (4.4%), while Russia recorded a further decline (-4.6%). Retail spending is expected to moderate slightly next year, with Luxembourg, Hungary and Poland forecast to see the most robust growth.

The European consumer confidence index slumped in July following the UK leave vote, but it has since picked up. The sharpest decline was seen in the UK and Ireland. While confidence in Ireland is still relatively high compared to many other European states, it remains at its lowest level for the last two years. In the UK, the index has improved since July, but remains negative.

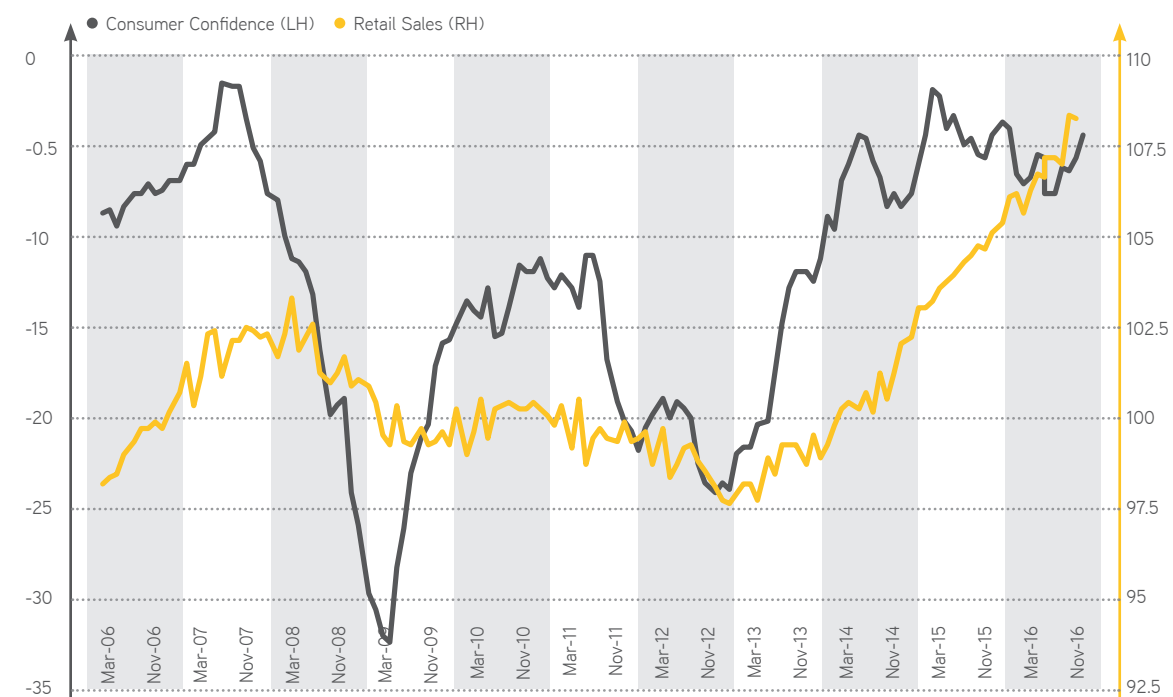
In the coming year, consumer spending is expected to expand further, but at a slower pace as employment and wage growth decelerate. Spending might be limited by increasing inflation, in particular in the UK.

Key EMEA Retail Market Metrics [H2 2016]

City	Prime SC Rent €/sq m/month (12m change, %)	Outlook Prime SC Rent (12m)	Prime HS Rent €/sq m/month (12m change, %)	Outlook Prime HS Rent (12m)	Annual Retail Spending Growth (%)	E-buyers share (country level)	Purchasing Power per inhabitant (2015)
Amsterdam	133 (no change)	◀▶	221 (+1%)	▲	1.4%	74%	€18,181
Berlin	180 (no change)	◀▶	340 (+3%)	◀▶	1.7%	74%	€19,649
Dublin	170 (-4%)	◀▶	251 (+12%)	◀▶	4.6%	59%	n/a
Istanbul	100 (-25%)	▼	133 (-22%)	▼	5.2%	17%	n/a
London	316 (+2%)	◀▶	1,562 (+48%)	◀▶	4.4%	83%	€28,314
Madrid	45 (+18%)	◀▶	240 (+9%)	◀▶	4.4%	44%	€16,369
Milan	51 (-10%)	◀▶	1,042 (+10%)	◀▶	1.1%	29%	€21,877
Moscow	119 (-9%)	▲	357 (+32%)	▲	-4.2%	21%*	n/a
Munich	120 (+33%)	◀▶	380 (+6%)	▲	1.5%	74%	€29,085
Paris	208 (no change)	◀▶	1,250 (no change)	◀▶	2.7%	66%	€22,726
Prague	110 (+10%)	▲	195 (+3%)	◀▶	4.9%	47%	€9,598
Stockholm	135 (+3%)	◀▶	144 (+14%)	▲	3.2%	76%	€24,908
Warsaw	117 (+9%)	▲	90 (no change)	◀▶	6.9%	42%	€11,751

*2015
Source: Colliers International, Oxford Economics, Eurostat, GfK

EU Consumer Confidence & Retail Trade [2006 - 2016, monthly]



Source: European Commission, Eurostat, Colliers International



RETAILER TRENDS

The grocery sector remains highly competitive, and major grocery retailers are trying to strengthen their position through M&A transactions. In July, Ahold Delhaize successfully completed its merger, forming one of the world's largest food retail groups. In January, Tesco agreed a £3.7bn deal to buy Booker, a wholesale retailer. If cleared by the competition authorities, the deal will add another 2% of UK grocery sales to Tesco, which already have almost 30% of the market share.

Not all well-established companies are succeeding in a more competitive trading environment. Carrefour, for example, was forced to close its stores in Bulgaria, and the franchise operator had to file for bankruptcy in June. In Poland, upmarket grocery retailer, Alma, filed for full bankruptcy in October.

In the fashion world, Inditex and H&M lead the market in terms of revenue and physical presence, and continue their expansion. However, the competition is catching up and is absorbing greater market share of sales revenue. Online retailer, Zalando, reported 23% annual growth in revenue in 2016, while UK-based ASOS recorded 26% revenue growth. In the first nine months of 2016, Polish clothing retailer, LPP, saw its revenue increase by 17% year-on-year. LPP's key brand, Reserved, generated a higher income from its non-Polish stores for the first time in its trading history. The company plans to increase its footprint by 11% in 2017, with a key opening planned in London.

In contrast, in an attempt to turn around its business, M&S announced plans to close about 60 UK clothing and home stores over the next five years. It will also decrease its international footprint by closing over 50 stores in 10 countries.

Technology continues to play a significant role in the retail sector, not only in terms of sales channels and supply chain management, but increasingly in terms of the way customers pay for their shopping. Mobile payments are being gradually introduced across Europe. In 2016, Samsung Pay commenced its European expansion in Spain. Android Pay chose to start its European activity from the UK and Poland - in November, the app became available in major grocery stores in Poland, including Carrefour, Lidl, Netto and Piotr i Paweł. Polish mobile payment app, Blik, has also been expanding at a fast pace.

While this payment revolution is still in its infancy, in some countries, it has already become one of the main payment methods; the number of Swish app users in Sweden reached 5 million in December 2016.

“2016 also saw a clear rise in “conscious consumption”. While price remains the key driver of purchase decisions for the majority of consumers, ethically motivated shopping is becoming a major trend. Issues such as fair pay, good working conditions, a lower carbon footprint, the recycling of materials and responsibly sourced products are increasingly important to consumers.”

Companies such as MUD Jeans and Nudie Jeans have built their brand on this premise, and we expect this trend to intensify as more customers choose ethical quality over mass consumption.

AROUND THE MARKETS

LONDON remains the retail market leader in the EMEA region. The number of new high street store openings is hard to compare to any other EMEA market, and 2016 saw double-digit rental growth for the Central London retail market. Significant increases in occupational costs in 2017, as a result of the rating revaluation and an anticipated rise in inflation, are likely to curb any further rental growth over the coming year. Nevertheless, with considerable demand for space from both domestic and international brands and high overseas visitor spending, the outlook for Central London retail remains positive.

Retail spending growth in **DUBLIN** was one of the highest among European cities. This resulted in strong occupier activity with domestic and international retailers actively looking for premises. Occupancy rates improved on many high streets in the past few months. Prime rents on Dublin's Grafton Street recorded 12% annual growth, while rents on Henry Street increased by 29% year-on-year.

The closure of several retail chains in **THE NETHERLANDS** over the last two years has contributed to structural vacancy across the country. This, combined with a rather slow recovery in retail sales, is putting downward pressure on rents. That said, although prime rents in regional Dutch markets decreased or remained flat in 2016, **AMSTERDAM** high-street rents recorded a minor increase and are expected to see further growth in 2017.

Retailers are still focusing on cost reduction and turnover is still under pressure. It is expected that short-term and more flexible agreements (for example leases based on turnover rent) will become more popular.

General conditions for retailers in **GERMANY** were stable in 2016. In the five years leading up to 2015, strong prime high street rental growth was recorded in key German cities, ranging from 15% in Munich and Dusseldorf to 36% in Berlin. In 2016, most of the markets cooled off, with the exception of **BERLIN** and **MUNICH**, which saw further rental growth on the back of strong retailer demand.

The decline in international visitors to **PARIS** had a negative impact on both tourism and retail, but demand improvements in Q4 2016 point to a more favourable outlook for 2017. The increasing number of tourists from China and the Middle East, who are the biggest international spenders, bodes well for Paris. The city remains one of the top luxury locations in the world, resulting in the opening of more luxury shops, including the first Vivienne Westwood store.

Five of the CEE-6 capital cities recorded annual growth in prime shopping centre rents for the third consecutive year. **BRATISLAVA** (18.5%) and **PRAGUE** (10%) recorded the highest increases in 2016, but **WARSAW** has lead the pack since 2013, having seen a 30% increase in rents over the full period in the region. **BUCHAREST** is the only market yet to witness rental growth. Warsaw, Prague and Budapest are expected to see further growth this year.

AROUND THE MARKETS

Although **RUSSIA** has seen a decline in new supply volumes compared to previous years, it continues to have the highest volume of retail space under construction in Europe. Retailers continue their expansion, but remain cautious and tend to focus on prime locations. Leasing terms are typically bespoke, with turnover widely used as a basis for rental calculations. Uncertain economic conditions have not scared off luxury retailers who keep flocking into **MOSCOW**. Last year we saw numerous new openings, including Europe's largest flagship store of Christian Louboutin, which opened on Bolshaya Dmitrovka.

In **SCANDINAVIA**, **STOCKHOLM** led the region on retail spending growth, at 3.2% year-on-year. Such high levels of spending continue to attract international retailers, reflected in strong prime high-street rental growth (13.8%). The wealth of the Nordics is increasingly attracting luxury brands. Chanel opened a store in Stockholm in June, its first in Scandinavia. In November, Prada opened a store in **COPENHAGEN**'s Illum department store and in 2017, Hermes is also to open in the Danish capital at Højbro Plads.

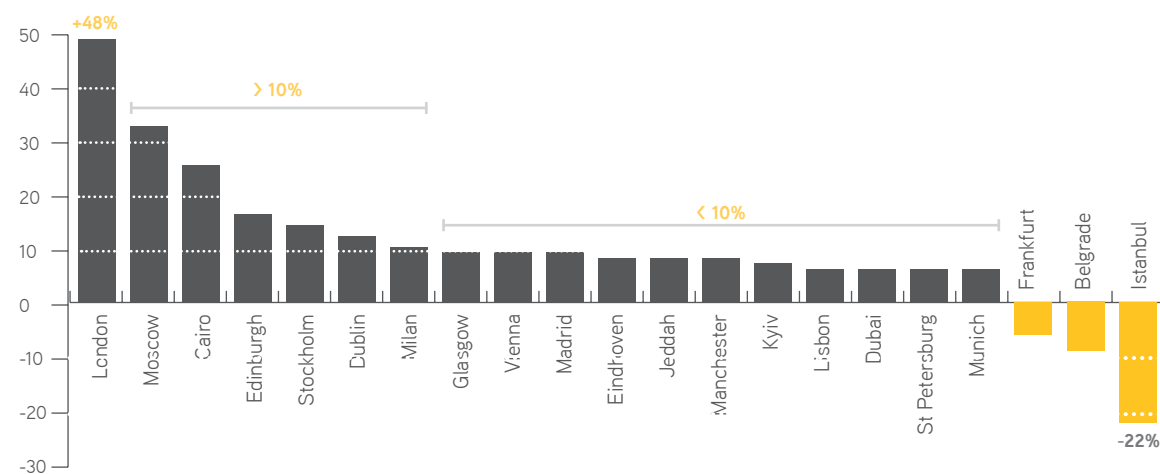
The economic recovery in **SOUTHERN EUROPE** is visible in the retail sector, in both the occupier and investor market. While the luxury segment in **LISBON** seems to have cooled, the overall market performance shows no sign of decline in prime or secondary locations. Prime shopping and high street

rents recorded solid year-on-year increases of 14% and 6%, respectively. In Spain, rental levels in **MADRID** also increased significantly. **BARCELONA** continues to be one of the most desired retail destinations in Europe. One third of brands entering the Spanish market in 2016 chose this city for their first store. Porta d'Angel and Paseo de Gracia are performing well in terms of demand and experienced upward pressure on rents in 2016.

In the **MIDDLE EAST**, key markets are characterised by a large volume of shopping centre space under construction. Despite the considerable increase in shopping centre stock in recent years, the retail market in **SAUDI ARABIA** has been performing robustly. The growing population, in particular the young generation, and urbanisation, make the country an attractive retail market. The amount of space under construction in **RIYADH** is over 1 million sq m. As a result, we might see some downward pressure on rents.

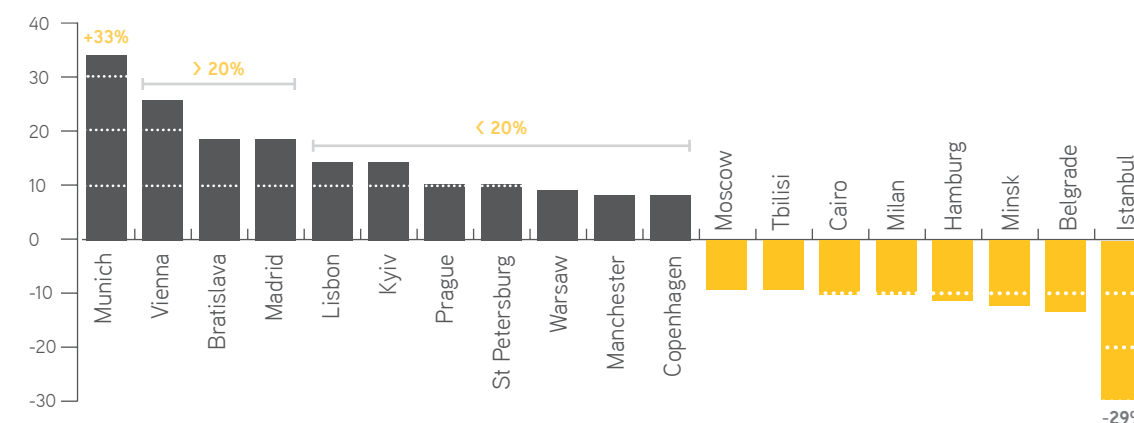
In Turkey, high new supply, combined with the depreciation of the Lira, continued to drive down rents in **ISTANBUL**. This has yet to discourage developers, with a further 670,000 sq m of new shopping centre space currently under construction.

Most significant prime high street rent changes [year-on-year, %]



Source: Colliers International

Most significant prime shopping centre rent changes [year-on-year, %]



Source: Colliers International



OUTLOOK

The outlook for European retail markets continues to be very mixed. Despite Brexit, the retail market in the UK performed exceptionally well last year, but the outlook for 2017 is less positive. An increase in inflation and deteriorating labour market conditions are expected to limit consumer spending. Retailers are also expected to pass rising costs onto consumers, as a result of a depreciation in Sterling. This depreciation should, however, encourage higher spending from international tourists supporting prime locations such as London. In addition, UK-based retailers selling abroad should benefit from overseas sales, especially through their e-retailing platforms.

To date, the UK leave vote and US elections have had a limited impact on the continental European retail market. Private consumption is expected to remain a key growth driver of the market in 2017, and EU retail spending is forecast to increase by 2.2% year-on-year in 2017.

However, continued political uncertainty, especially around elections in the Netherlands, France and Germany, might well dent consumer and business confidence across the region.

Additionally, the impact of e-retailing continues to take its toll on markets, and other countries may follow the evolution of the Dutch market. The Netherlands continues to grapple with structural vacancy across regional markets. Further rental declines are expected, despite strong demand growth for the key destination city of Amsterdam which bucks the national trend.

The key CEE markets are expected to see further prime shopping rental growth driven by strong demand from international retailers, and strong growth in consumer spending.

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