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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. ”

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

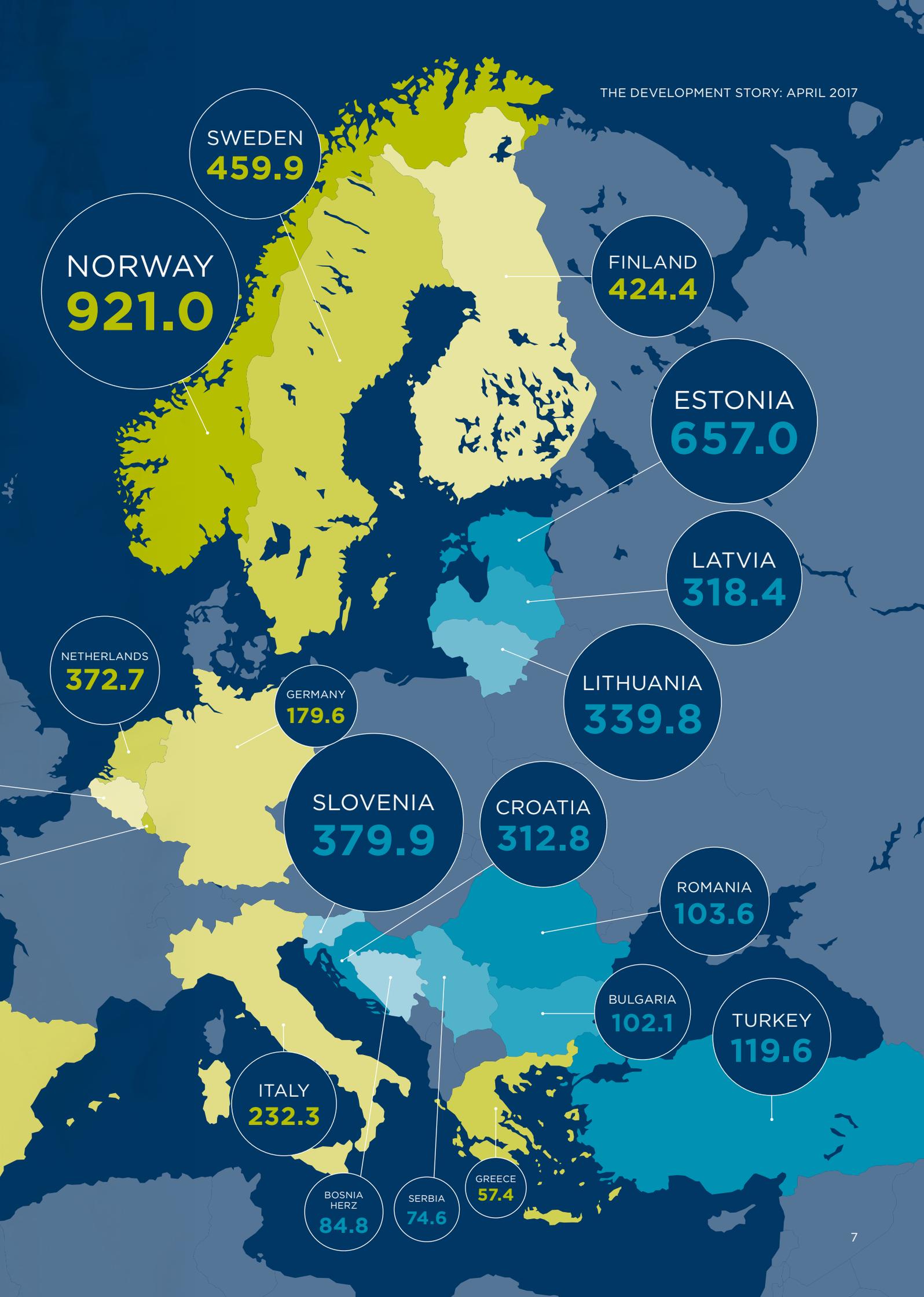


Approximately,

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%



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.

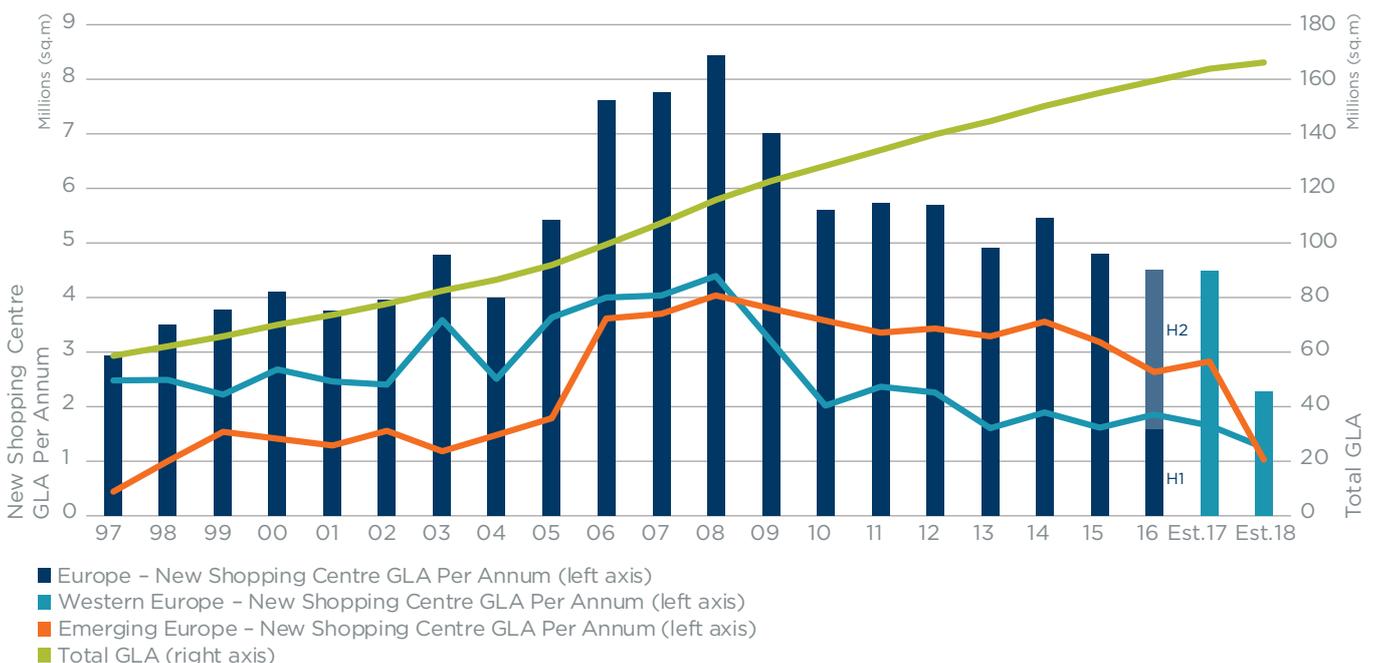
In 2006, there was a notable increase in the volume of annual completions across all regions. Western Europe recorded a 10% increase in completions year-on-year, while the CEE region saw robust growth of 102% year-on-year - admittedly off a low base - with developers buoyed by the improving economic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

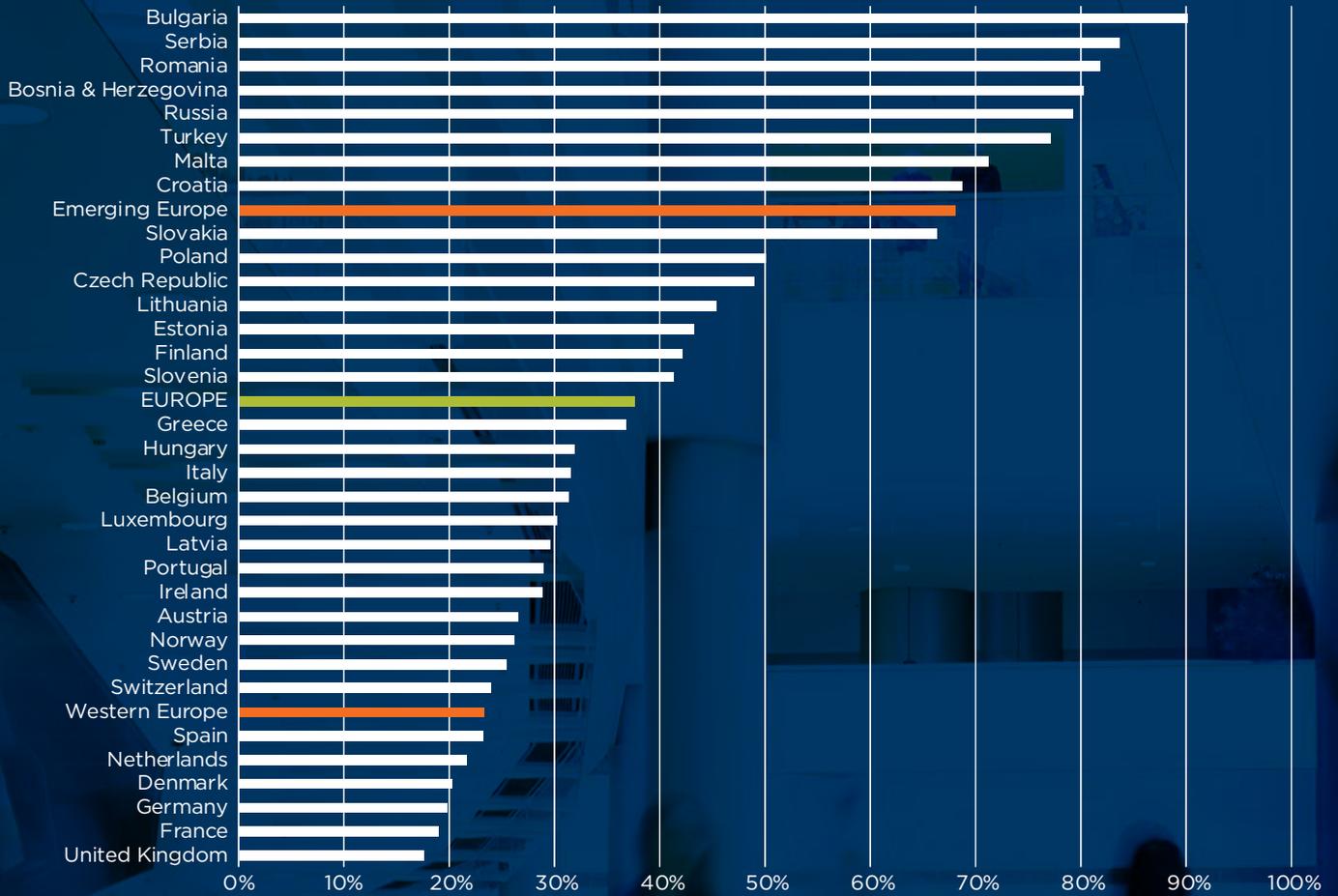
Since then, the CEE region has seen strong development activity in Russia, Poland and Turkey and the total shopping centre stock has grown by 35 million sq.m over the last 10 years. By comparison, Western Europe has increased its shopping centre stock by 25 million sq.m during this period.

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. ”

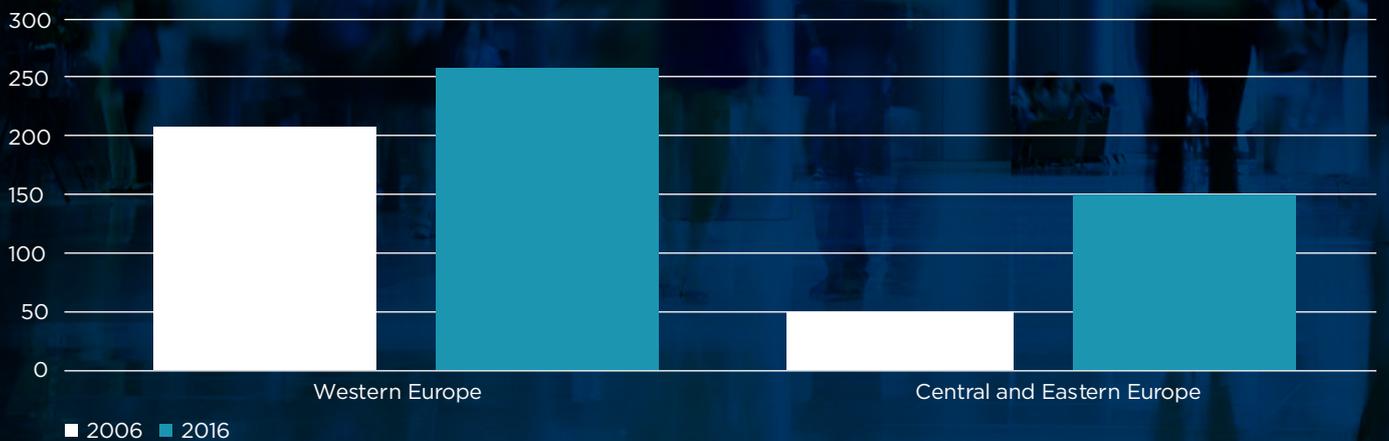


PROPORTION OF THE LAST 10 YEAR COMPLETIONS OF TOTAL EXISTING STOCK (1 JAN, 2017)



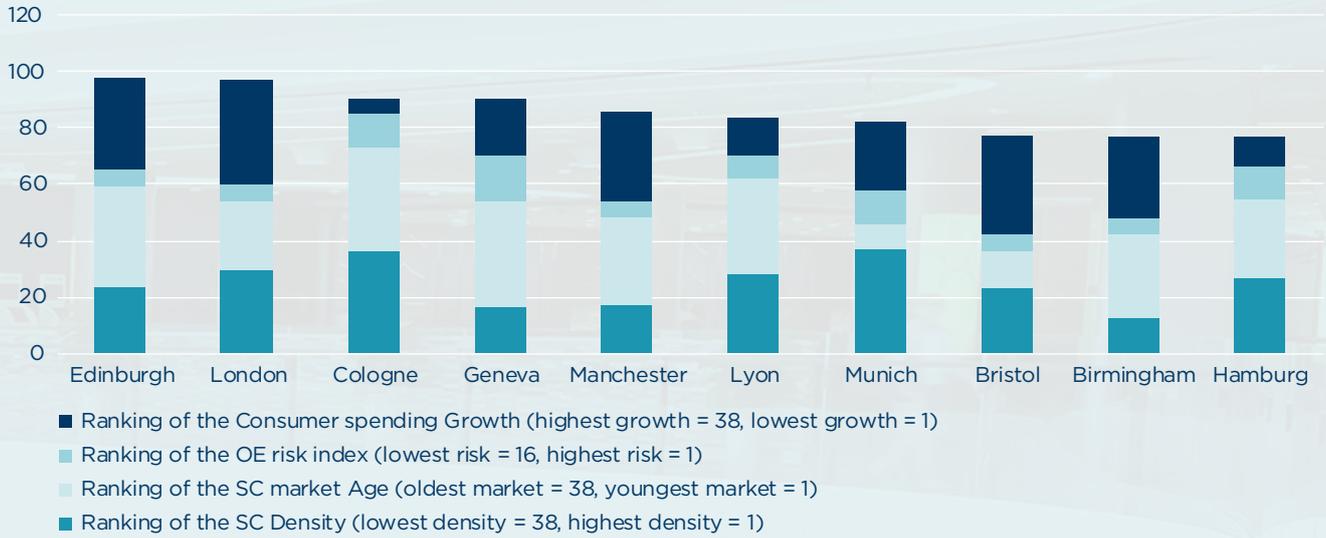
Source: Cushman & Wakefield

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

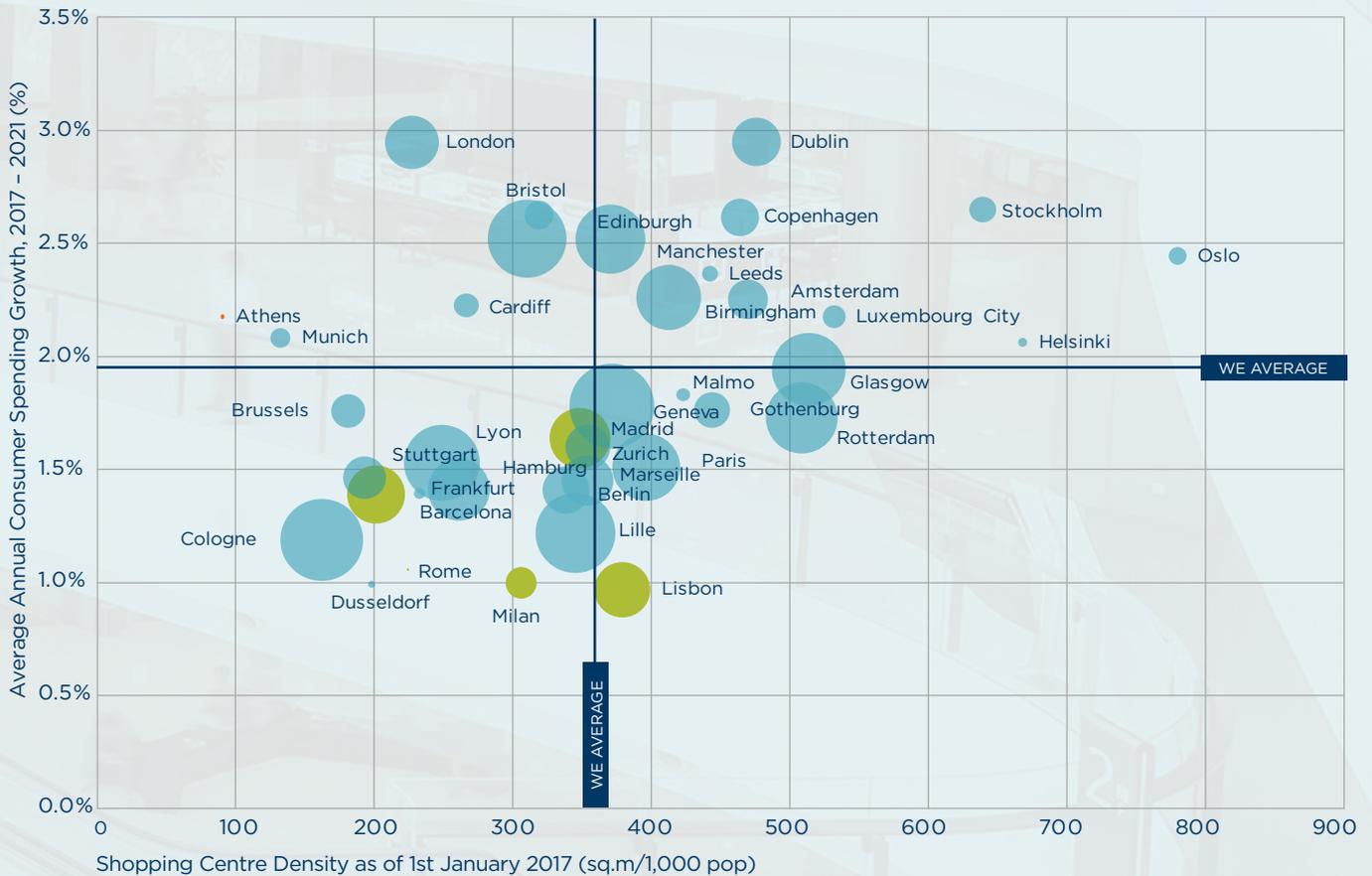


Source: Cushman & Wakefield

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.

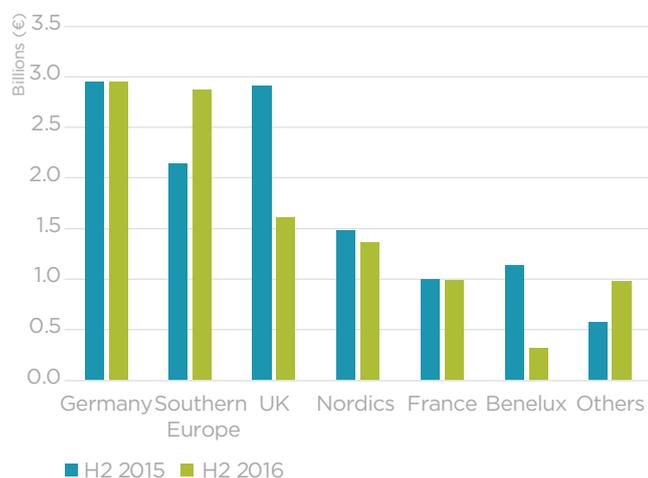
The UK is the second largest shopping centre investment market in Western Europe. There was a sharp drop in volumes in 2016, however, with only €3.5 billion transacted – a 42% year-on-year decline. There was a notable absence of larger lot size deals throughout the year, which was mainly due to some 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.

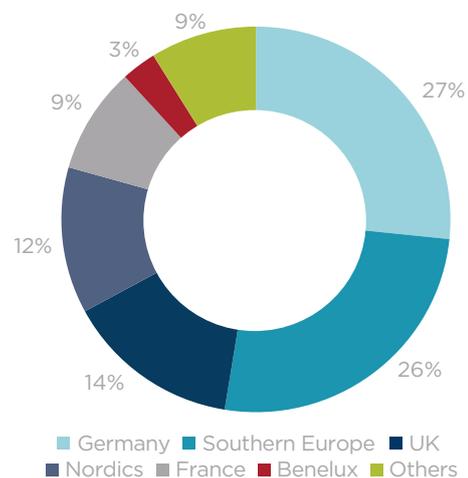
In Southern Europe, shopping centre investment volumes reached €2.9 billion in H2 2016, bringing the total annual volumes to €4.8 billion. Spain saw a 10% increase in annual volumes in 2016 and accounted for 60% of the total volumes across the region. Deutsche Bank’s acquisition of the Diagonal Mar shopping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





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 hypermarkets 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.



OUR RESEARCH SERVICES

Cushman & Wakefield (C&W) is known the world-over as an industry knowledge leader. Through the delivery of timely, accurate, high-quality research reports on the leading trends, markets around the world and business issues of the day, we aim to assist our clients in making property decisions that meet their objectives and enhance their competitive position. In addition to producing regular reports such as global rankings and local quarterly updates available on a regular basis, C&W also provides customized studies to meet specific information needs of owners, occupiers and investors.