

CBRE SHOPPING CENTRE INDEX

Shopping Centre Performance Analysis

Analysis done on regional shopping centres in the Czech Republic

CBRE Research Czech Republic | Autumn 2013

CBRE



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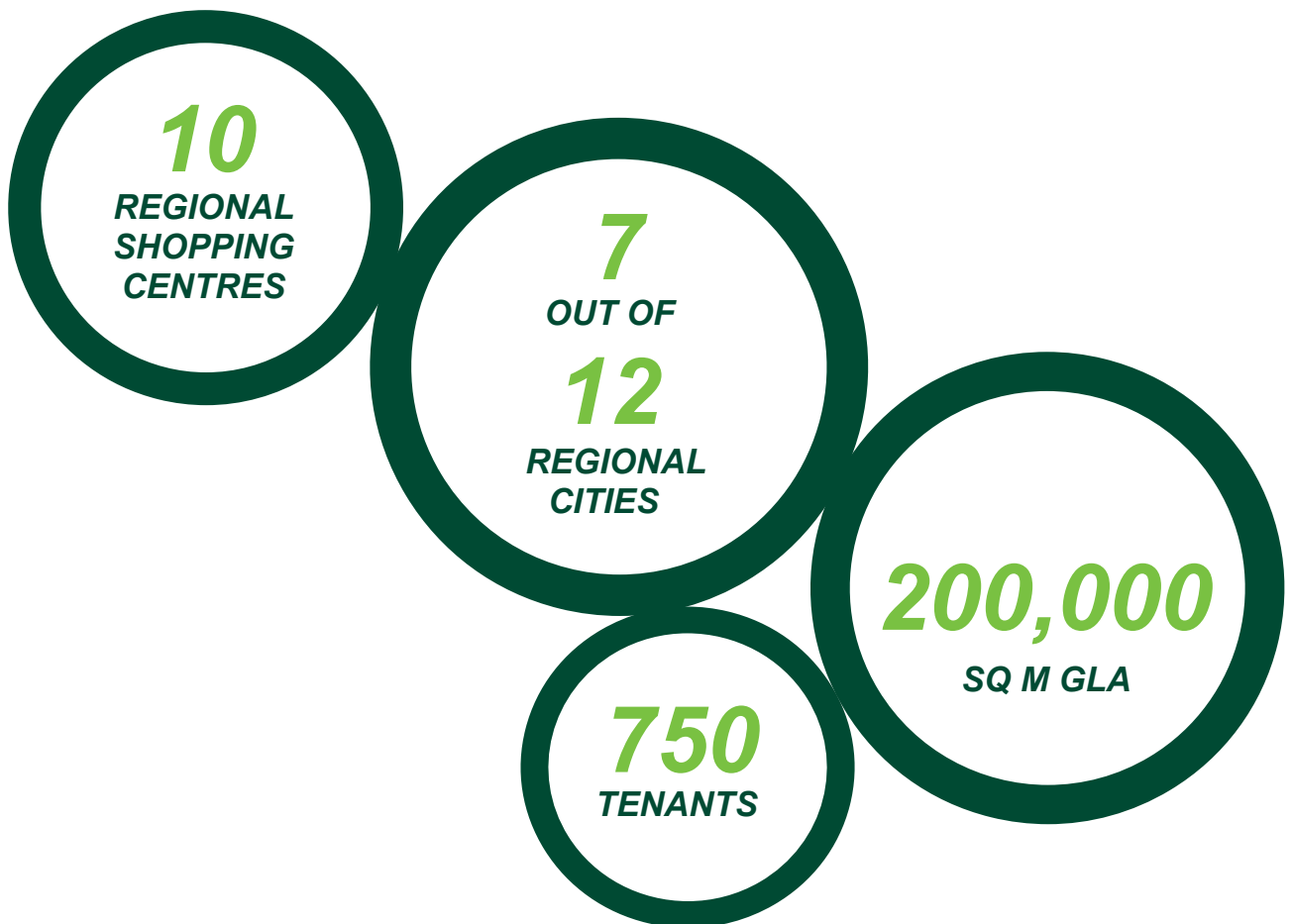
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INTRODUCTION

Understanding our portfolio fundamentals is essential to the real estate advice we provide to clients

- During **Summer 2013** we analysed the **CBRE** managed property portfolio of shopping centres in the **Czech Republic** to discover how trading and performance data developed over the last two years. We reviewed almost **1,050** lease agreements in eighteen shopping centres and retail parks across the country.
- This report is the first edition of the **CBRE Shopping Centre Index** and aims to answer the question “**How does a typical regional shopping centre in the Czech Republic perform?**”.
- The **CBRE Shopping Centre Index** covers **10 regional shopping centres** with a total portfolio size of **200,000** sq m GLA through which **39.5** million customers passed in 2012. With coverage of **20%** of the overall Czech regional shopping centre market we believe that the **CBRE Shopping Centre Index** will provide all players involved in the Czech retail market with real transparency on the indicators that really count.

“We would like to thank our clients for allowing us to use the actual performance data on their schemes and sincerely hope you will all benefit from this newly introduced tool.”



WHAT MAKES THE CBRE INDEX VALUABLE?

CBRE's market leading retail experience has been used in order to create a market leading benchmarking tool to measure individual shopping centres' performance compared to the overall market performance

- **The Shopping Centre Index** analyses rental levels, turnovers, vacancies and average baskets typical for regional shopping centre portfolios in **the Czech Republic**.
- Almost **750** different tenants agreements and reports were analysed in order to create the index.
- Due to the limited availability of continuous turnover and rental evidence from **supermarkets, hypermarkets, bowling and cinemas** we excluded these operators from our calculations. The **CBRE** Shopping Centre Index reflects shopping galleries only.
- **We monitor** average figures at the portfolio level, as well as rents and turnovers for different unit sizes and tenant categories.
- Average rents are based on the amounts actually **invoiced including all incentives**, hence reflecting effective rather than just headline rents.

TYPICAL REGIONAL SHOPPING CENTRE

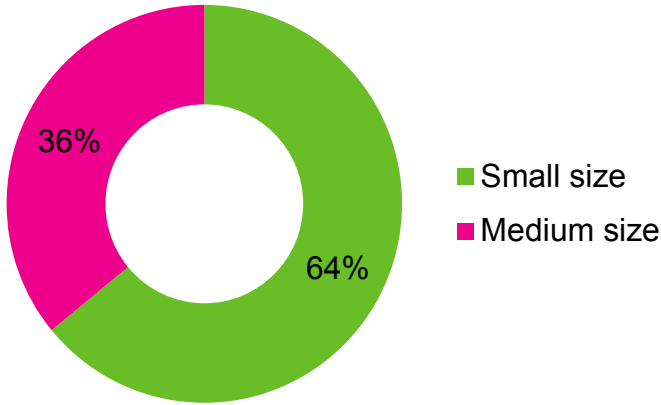
Size **20,000** sq m
Located in city **50,000 – 300,000**
inhabitants

More than half of the premises are leased
to fashion retailers

The **CBRE Shopping Centre Index** reflects the shopping
gallery space only

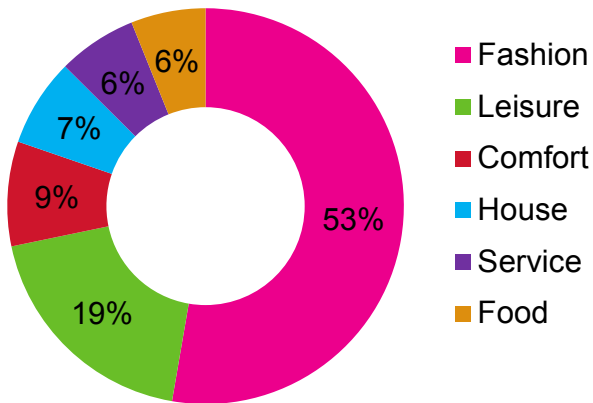


**FIGURE 1: INDEX BY SCHEME SIZE CATEGORY
(AS % OF TOTAL SQ M)**

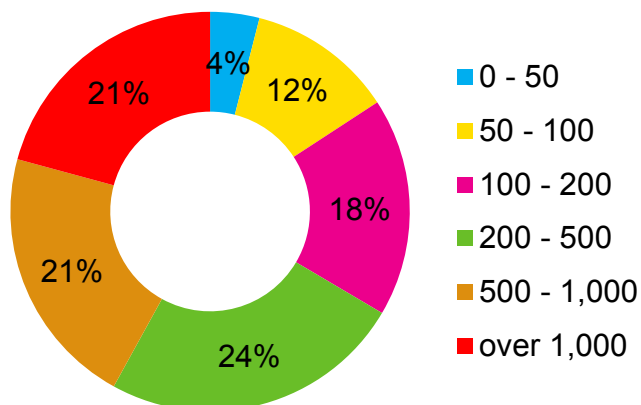


Note: Size division according to ISCS definition; Small Traditional SC (5,000 – 19,999 sq m Gross Leasable Area (GLA)), Medium Traditional SC (20,000 – 39,999 sq m of GLA)

**FIGURE 2: INDEX BY TENANTS CATEGORIES
(AS % OF TOTAL SQ M)**



**FIGURE 3: INDEX BY SIZE BRACKETS
(AS % OF TOTAL SQ M)**



WHERE DO WE SEE RENTAL LEVELS ARE MOVING?

We are experiencing a natural correction of rental levels

- Rental levels in the **CBRE Shopping Centre Index** on average slightly decreased from **19 EUR/ sq m/ month** as of 2011 year end to **18.8 EUR/ sq m/ month** as of H1 2013 end, however we monitor considerable differences scheme by scheme.
- We feel that we are currently facing a correction of rental levels which are **returning to long-term** sustainable levels.
- However, quarterly rental changes on **the Index level** are not so visible as only a limited number of lease agreements in our portfolio are able to be renegotiated.
- Rental levels are in many cases influenced by annual indexation, especially longer leases. Where a long term **lease has been subject** to indexation a decrease in rental levels doesn't always mean a drop in performance, but may **show a natural rental correction**.
- In the given period, rents slightly increased for all types of retailers, with the exception of **fashion operators**. The fashion sector recorded drop in rental levels from **18.9 EUR/ sq m/ month** to **17.8 EUR/ sq m/ month**.
- There is strong correlation between the highest rental levels for comfort and services and the high rental levels units of **0-50 sq m** and **50-100 sq m**, in which they are often located. These sectors are growing due to change of customers attitudes in the Czech Republic. However, these two sectors cover only **14%** of the total **CBRE Shopping Centre Index space**.
- Another strong correlation can be found between a decrease of rental levels for fashion retailers and the decrease of rental levels in units above **1,000 sq m**. There is a limited number of fashion operators on the **Czech market**, which means less demand and therefore more pressure on rents in these types of units. A further reason for the drop in rental levels is a decrease in customer spending on fashion. The average **Czech customer** has a lower focus on fashion, when compared to other markets, and this sector has been greatly affected by the current economic environment.



FIGURE 4: CBRE SHOPPING CENTRE INDEX – AVERAGE RENTAL LEVELS

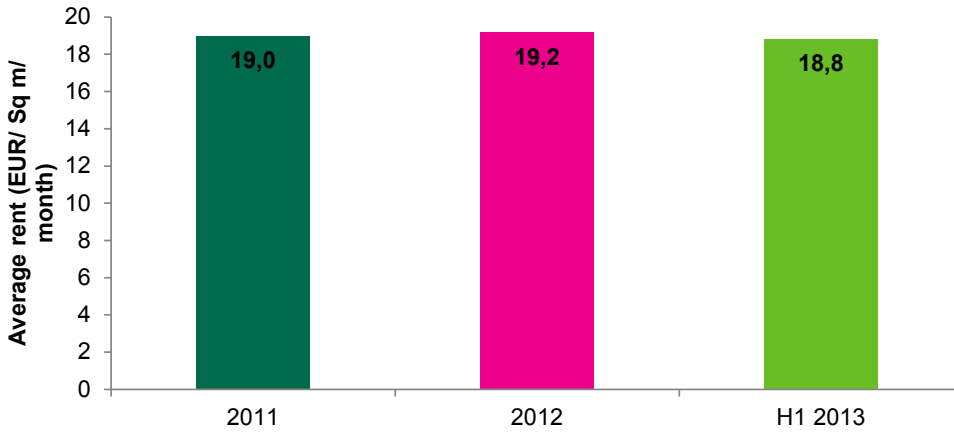


FIGURE 5: CBRE SHOPPING CENTRE INDEX – AVERAGE RENTAL LEVELS ACCORDING TO TENANTS CATEGORIES

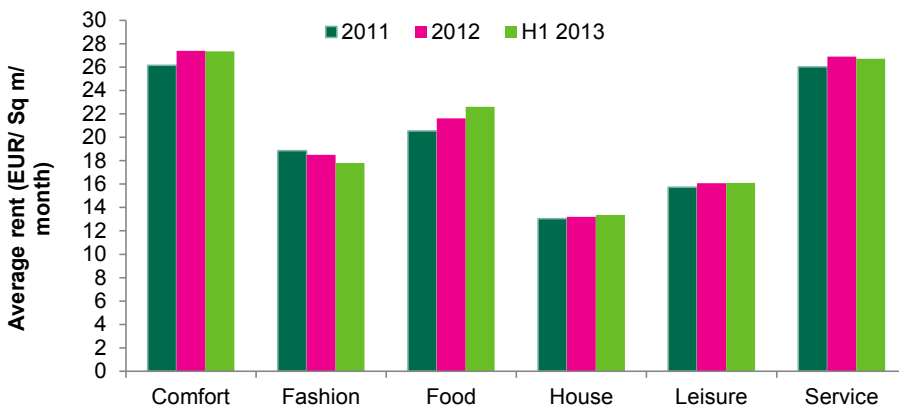


FIGURE 6: CBRE SHOPPING CENTRE INDEX – AVERAGE RENTAL LEVELS ACCORDING TO UNITS' SIZE



HOW IS TENANTS' PERFORMANCE CHANGING?

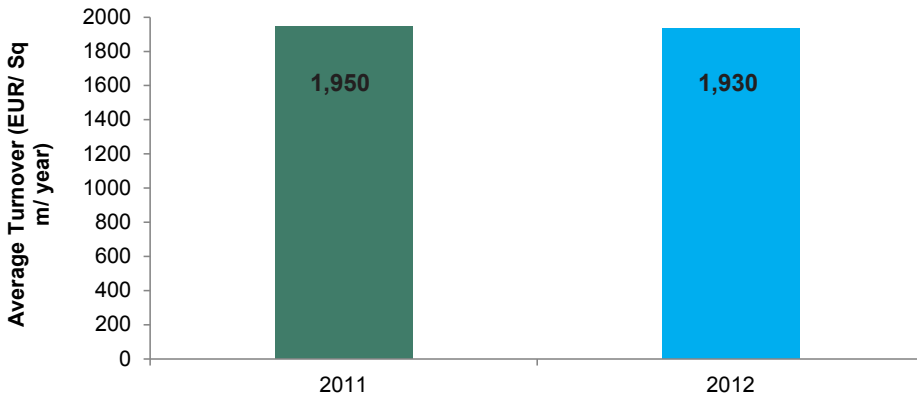
Despite the economic downturn average turnover levels were stable y-o-y in 2012

- The average Retail Index turnover reached **1,930 EUR/ sq m/ year** in 2012 and was stable y-o-y.
- Despite the unfavourable economic conditions and decreasing overall retail sales, retailers within **CBRE Shopping Centre Index** were, on average, able to achieve turnovers similar to the previous year. It proves that shopping centres included in the Index are stabilized and have stable customer bases.
- Comfort and services sectors are paying the highest rents, however they are also achieving the highest turnovers of **3,100** and **4,500 EUR/ sq m/ year**, respectively.
- All other sectors saw slight decrease in turnovers.
- The food and house sectors faced the **highest downward pressures** on turnover levels due to the strong competition in these sectors.
- The drop in turnovers in many sectors is the result of pressure on prices rather than drop in the **number of people shopping**.
- Units above **1,000 sq m** experienced the highest drop in turnovers per sq m of more than **11% y-o-y**. Contrary to that, retailers in units of **100 – 500 sq m** saw a slight increase in turnovers y-o-y.

The **vacancy rate** is hovering around **5 - 6%** which is a healthy level giving the opportunity for natural tenant replacement.

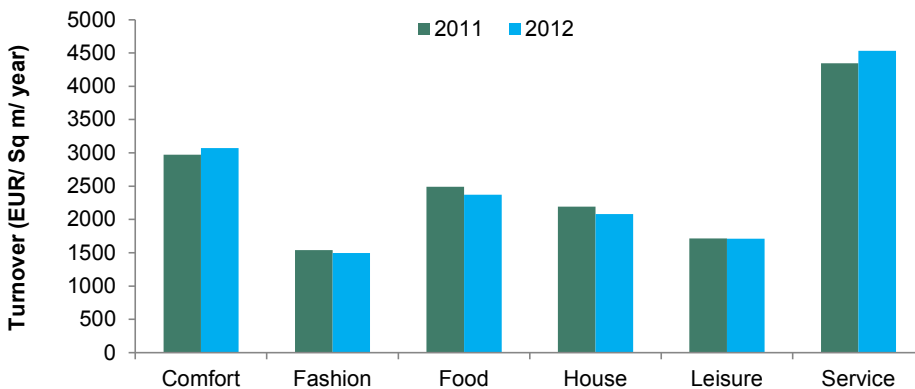


FIGURE 7: CBRE SHOPPING CENTRE INDEX – AVERAGE TURNOVERS



Note: Exchange rate 1 EUR = 25 CZK

FIGURE 8: CBRE SHOPPING CENTRE INDEX – AVERAGE TURNOVERS ACCORDING TO TENANTS CATEGORIES



Note: Exchange rate 1 EUR = 25 CZK

FIGURE 9: CBRE SHOPPING CENTRE INDEX – AVERAGE TURNOVERS ACCORDING TO UNITS' SIZE



Note: Exchange rate 1 EUR = 25 CZK

HOW IS CUSTOMER BEHAVIOUR CHANGING?

Turnovers are under pressure but the average basket is improving

- Despite the continuing decrease in **GDP** growth and the y-o-y drop in retail sales by **1.1%**, average shopping basket per customer in the **CBRE Shopping Centre Index** actually increased by **6.5%** y-o-y in 2012.
- However, this increase was driven by **refurbishments, extensions and reconfigurations**.
- In **June 2013**, the properties included in the **CBRE Shopping Centre Index** were visited by more than 3 million customers. We see repeating peaks in **December** (Christmas shopping) and **March** (spring shopping).
- **Customers** rationalize their **shopping centre visits**, however the spending rate of actual visitors is an increasing trend which we **address** in our **marketing campaigns**.
- Due to the growing market saturation, there is a very limited room for footfall growth. **Marketing strategy** and **constant customer care** are becoming more important and it is crucial to focus on customer' loyalty.



FIGURE 10: CBRE SHOPPING CENTRE INDEX - CUSTOMERS FLOW

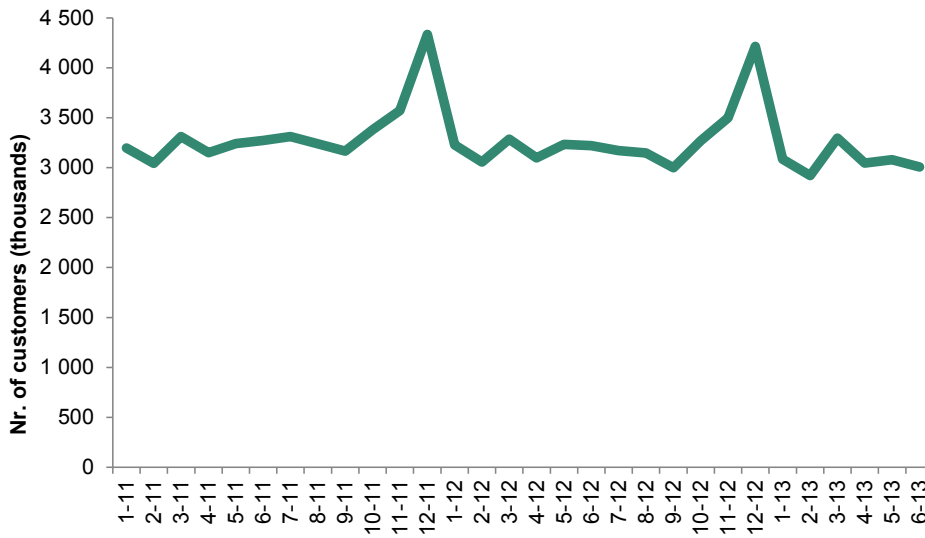


FIGURE 11: CBRE SHOPPING CENTRE INDEX - AVERAGE BASKET IN 2012

+6.5% Y-O-Y



DEFINITIONS

CBRE tenant categories

- **Comfort** Perfumery, jewelry, tobacconist, pet shops, flower shop
- **Fashion** Various fashion brands and shoe stores
- **Food** Various food-court operators, cafes, ice cream and juice stands
- **House** Consumer electronics, home appliances, kitchen specialists, home fabrics
- **Leisure** Toy shops, book stores, sports specialists
- **Service** Pharmacy, travel agency, dry cleaners, opticians

Benchmark biases and shortcomings:

- Tenant replacement. The area denominator in turnover per **sq m calculation** may be overstated (double counted) in cases where tenants change during the calendar year and report turnovers for a shorter time period. The estimated resulting benchmark bias lies between **1 – 3%**.
- **Reportable turnovers.** Not all tenants report turnovers contractually or their sales are not classified as turnovers but rather margins. **The area denominator** for such tenants are excluded from the analysis, however missing evidence can lead to a bias from the true **retail performance**.
- Indexation of rents. Rental benchmark is based on actual invoiced rent, not new **leasing deals**. Hence, the benchmark does not differentiate on sources of **rental growth** and is **representative** of nominal rental increases.
- **Adding / deleting centres.** Going forward, a change in benchmark constituents (adding or deleting centres from analysed portfolio) may have an impact on the **structure of income** and turnover per tenant categories and size brackets.
- **Hypermarket and Cineplex** performance excluded. Benchmark excludes **hypermarkets** and **Cineplex** performance due to the **limited availability** of continuous turnover and rental evidence from these operators.
- Variation in vacancy. **Vacancy is presented** quarterly based on the **area-weighted vacancy** of the month ending the particular quarter. Hence, variations of vacancy in the first two months of **each quarter** are not captured by the benchmark.
- Average basket. The **average basket** measure does not capture real average spending volume per actual transaction. It is inflicted by **footfall** not related to **spending** (centre walk-throughs etc.). Hence, we monitor changes in trends rather than **actual spending levels**.

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