European Retail Investment
MarketView

H1 2014

CBRE Global Research and Consulting

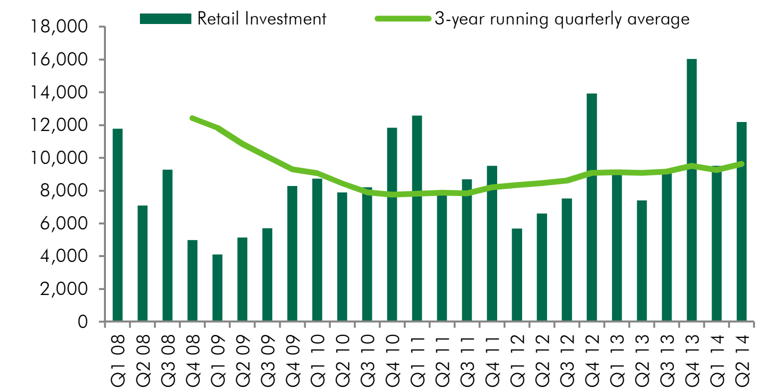
H1 14 TURNOVER ON H1 13 +30%	CROSS-BORDER ACTIVITY (% OF THE MARKET) 38% IN H1 14, DOWN ON 40% IN 2013	HIGH STREET AND SHOPPING CENTRE YIELDS Q/Q -11 BPS AND -16 BPS RESPECTIVELY

EUROPEAN RETAIL INVESTMENT UP 65% COMPARED TO Q2 2013

Hot Topics

- Investment in retail property in Europe in Q2 2014 rose to €12.2 billion up by 65% on the same quarter last year.
- France made the biggest contribution to this increase, recording nearly €3 billion over the quarter.
- The euro recovery markets have also seen high levels of investment in the retail sector over the last year. In Q2 this was dominated by Spain and Italy, which between them recorded investment of €1.45 billion compared to just €371 million in Q2 2013.
- The strong quarter took the H1 total to €21.7 billion, up by 30% on H1 2013. This increase compares to increases of 23% for industrial and 18% for offices over the same period.
- Direct institutional investment fell away in H1 2014, with REITs and listed property companies coming to the fore as buyers.

Chart 1: European Retail Investment Turnover (€ million)



Source: CBRE

Retail investment sharply higher

European retail investment jumped to over €12 billion in Q2 2014, the highest Q2 total since 2007 and 65% higher than Q2 2013.

France made by far the biggest contribution to the growth in investment activity, boosted by the sale of a large number of shopping centres by Klepierre, many of which were in France. The next biggest contributions were made by the UK and Spain.

The CEE market has been particularly quiet in 2014 with its lowest half year investment total since H1 2009. Particularly notable has been the lack of transactions in Russia, which had gained the largest share (38%) of CEE retail investment over the previous five years, but made up just 7% of turnover in H1 2014.

Property Companies Active

The shift in the type of buyers active in the retail market between 2013 and H1 2014 was very marked. Institutional buyers were much less active and instead the REITs and listed property companies buying activity has picked up strongly as a share of the market.

Direct institutional buying has fallen sharply in the rest of the commercial market as well, but outside the retail sector it is property funds and other collective investment vehicles that have increased their activity.

The other trend in the buyers active in the market was the fall in cross-border investment. In particular investors from the USA, whose acquisitions have picked up strongly in the CRE market as a whole, were responsible for a much smaller proportion of the retail market than was the case in 2013.

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GEOGRAPHICAL TRENDS IN EUROPEAN RETAIL INVESTMENT

Retail investment in Europe was again dominated by core Western European markets. In H1 2014 the UK, Germany and France attracted 71% of European retail investment – a level which has not been seen since 2003. France in particular contributed to this increase in market share, with €3.5 billion of transactions in H1 2014, and the strongest quarterly total ever recorded in Q2 2014.

Southern Europe recorded 134% increase on Q1 and a 269% increase on Q2 2013, led by improvements in both Spain and Italy. After a very strong start to the year, retail investment in Benelux dropped to its lowest quarterly total since Q2 2009. The Nordics showed a strong second quarter, but its H1 total was its lowest since H1 2009. The CEE continued with a weak 2014, recording only €483 in the first half of the year. The biggest CEE markets of Russia, Poland and the Czech Republic all had very limited retail investment.

The UK and Germany between them made up more than 50% of the retail investment in H1 2014. The UK recorded a strong Q2 2014, with €3.8 billion of transactions. Apart from Q4 2013, this is the UK's largest retail investment total in over three years. Germany started 2014 off strongly with €4.8 billion of retail transactions, beating the €4.7 billion recorded in H2 2013.

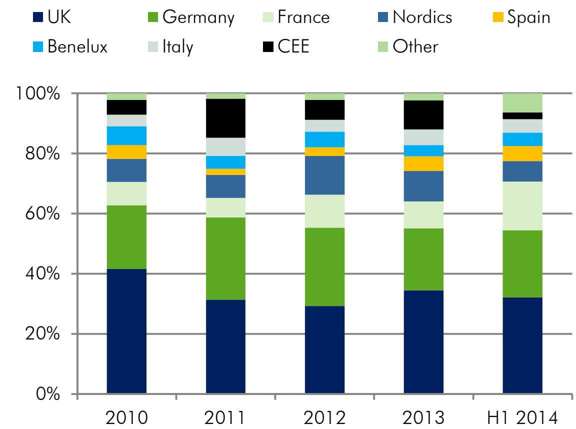
France saw a big uptick in activity in Q2 2014, attracting nearly a quarter of total European retail investment market, with €3.0 billion. A big proportion of this can be attributed to the Klépierre disposal of 57 retail galleries across Europe to a consortium led by Carrefour (most of which occurred in France), but a couple of other large shopping centre transactions also contributed.

Southern Europe had a strong Q2 2014, led by €812 million of retail investment transactions in Spain alone. Spain more than trebled the level of investment in the previous quarter and managed to capture 7% of the total European retail investment market. Italy also posted a strong Q2 2014, more than doubling its level in the previous quarter.

Retail investment in the Nordics picked up in Q2 2014, up on both the previous quarter and the same quarter last year. Half of this investment took place in Sweden, which recorded its highest quarterly total for retail investment since 2011.

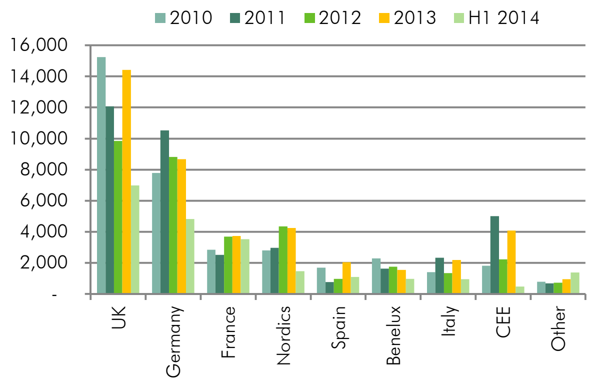
CEE lost any market share it had gained at the end of 2013, with just €229 million recorded in Q2 2014. Political instability and an expected economic slowdown are the leading causes of subdued investment in Russia, while the other big markets also lagged. Hungary was the anomaly in Q2 2014,with the highest quarterly total since 2009 and an increase of 157% on the quarter.

Chart 2: Retail Investment by Country, 2010-H1 2014



Source: CBRE

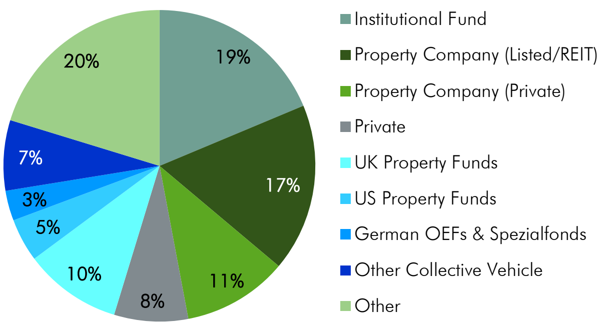
Chart 3: European Retail Investment over time, by market / region (€m)



Source: CBRE

SOURCES OF INVESTMENT – BUYER AND VENDOR MIX

Chart 4: Buyer Mix by Value (%), H1 2014



Source: CBRE

The most prominent transactions in H1 2014 were those which set up Carmila a JV between the property arm of retailer Carrefour (42%) and a number of, mostly French, institutional investors. These accounted for 11% of the retail investment activity in H1 2014 in Europe and therefore has a significant affect on the statistics for the period.

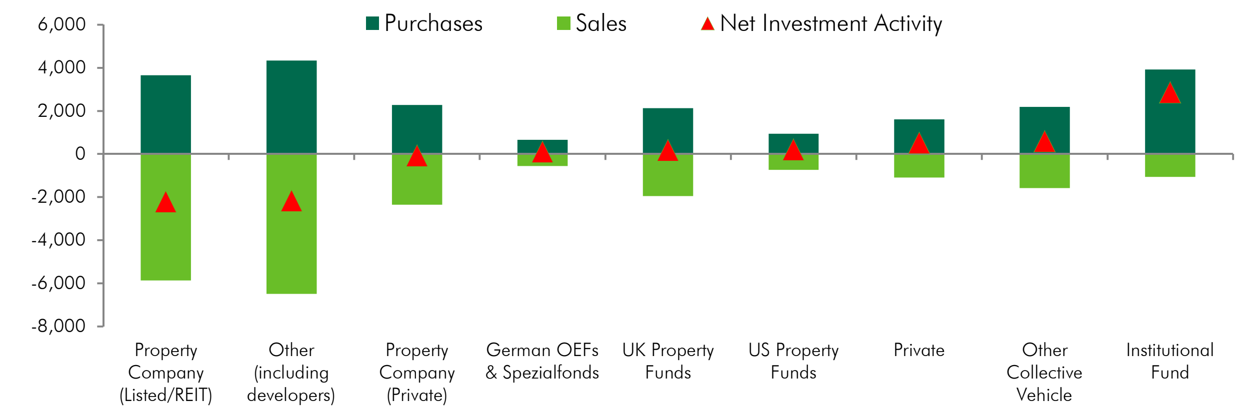
In fact, one of the things that stands out from the results is that, even including their share of that transaction, the amount of direct institutional investment in retail property in H1 2014 was low relative to recent years. The 19% of the market that they made up in H1 2014 compares to the 23% recorded in 2013 and 27% in 2012. This is a trend that was even more marked in the market as a whole, as transactions moved up the risk curve and different players became more prominent. Similarly institutional investors were almost absent on the sell-side accounting for just 5% of disposals.

REITs and other listed property companies were significantly more active in H1 2014 recording over €3.6 billion of purchases. However, they were also much more active on the sell-side with nearly €6 billion in disposals over the same period, which included most of the property in the Carmila transactions.

This greater activity by property companies differentiates the retail sector from the rest of the property market where it has been collective investment vehicles (mostly property funds) that have been expanding their share of the market.

In the retail sector collective investment vehicles share of purchases has fallen back from a high point in H2 2013. The share of purchases made up by US collective vehicles fell particularly sharply, with acquisitions falling from €2.9 billion in H2 2013 to €935 million in H1 2014. This contrasts with the rest of the real estate market, where the level of activity by US vehicles rose by nearly 50% over the same period.

Chart 5: Net Investment in European Retail by Investor Type, H1 2014 (€ million)



Source: CBRE

INVESTOR ACTIVITY AND DEMAND BY DOMICILE AND LOT SIZE

Cross-border investors' share of the retail property market fell slightly in H1 2014 compared to 2013, but as with many of the other statistics for the period, this was largely as a result of the Carmila transactions and without that one deal the proportion of cross-border investment would have remained at 40% of the total.

A more significant trend was the sharp fall in the proportion of cross-regional investment (purchases by investors from outside Europe). This had seen a big increase in 2013, when non-European buyers accounted for €9 billion in acquisitions, some 22% of total activity, with the vast majority of that coming from the USA. In H1 2014 cross-regional investment fell back to just €2.4 billion, just 11% of total activity.

The retail sector continues to attract little of the investment that is coming into Europe from Asia and the Middle East. In H1 2014 just 10% of the investment from these two regions was directed to retail property even though retail made up 26% of total commercial real estate investment. Remarkably this actually represented an increase of retail's share of Asian and Middle Eastern investment, comparing with the 5.6% share it recorded in 2013.

This under-representation of Asian and Middle Eastern investors in the European retail sector is a long standing trend. Over the last decade retail has attracted just 14% of their acquisitions even though the sector has made up 27% of the market over that time.

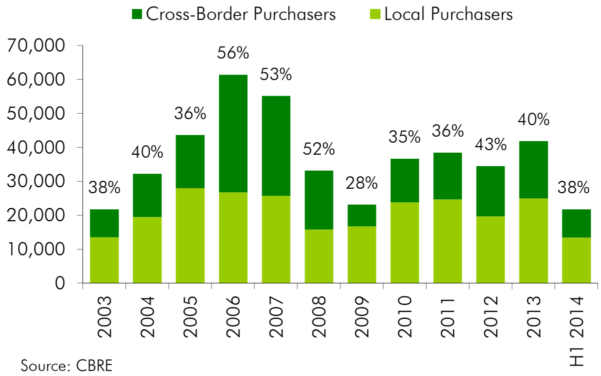
Cross-border investors from within Europe have been much more prominent in 2014, with buyers from France and the UK particularly active:

A significant proportion of the investment by French buyers in the rest of Europe is accounted for by the Spanish and Italian parts of the Carmila transaction. However, there were also some significant acquisitions by Unibail-Rodamco in Germany and the Netherlands and AEW in the UK.

Cross-border purchases by UK investors were more diverse in terms of location; Germany attracted the largest share, followed by France and Denmark. A significant majority of the investment was by collective investment vehicles.

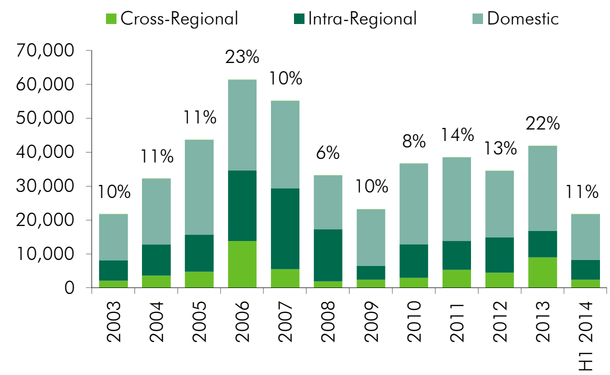
The average lot size of retail investments remained largely unchanged compared to 2013 at €26 million despite the small increase in the proportion of the market made up of shopping centre transactions. The significant difference between the lot size for local and cross-border investors also remained essentially unchanged. This reflects the sub-sector breakdown of what appeals to the different types of investor. A disproportionate amount of local buyers transactions are in High Street Retail, whereas both cross-regional and intra-regional investors are much more likely to be purchasing shopping centres or factory outlet centres (which tend to be in large lot sizes).

Chart 6: Cross-Border Investment in European Retail (€m)



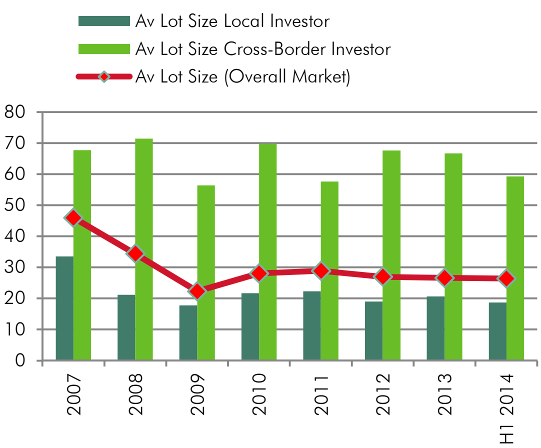
Source: CBRE

Chart 7: Cross-Regional Investment in European Retail (€m)



Source: CBRE Research

Chart 8: Average Retail Deal Size (€m)



Source: CBRE

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YIELDS AND CAPITAL VALUES

Chart 9: European Retail Investment by sub-sector (€m)

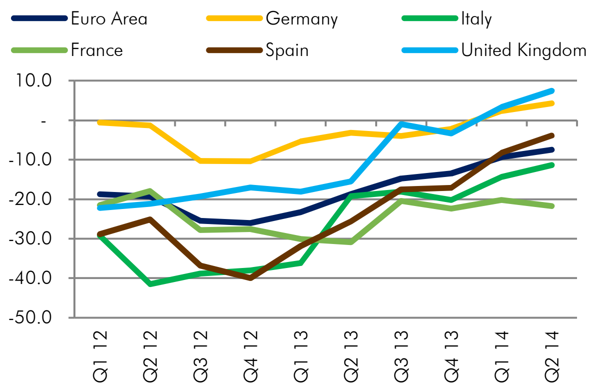
Source: CBRE

Table 1: Average Prime Yield Indices

	Q3 2013	Q4 2013	Q1 2014	Q2 2014
EMEA Average Prime High Street Yield(%)	5.17	5.07	5.02	4.92
Quarter-on-quarter Shift (bp)	-4	-10	-5	-11
Year-on-year Shift (bp)	-16	-22	-22	-29
European SC Average Prime Yield (%)	6.01	5.95	5.88	5.73
Quarter-on-quarter Shift (bp)	0	-7	-6	-16
Year-on-year Shift (bp)	-16	-14	-20	-29

Source: CBRE

Chart 10: Consumer Confidence, Balance, SA



Source: Macrobond

H1 2014 was quite a strong period for shopping centre transactions, which made up a higher proportion of total retail investment transactions than has been the case for several years. In absolute terms, €9.9 billion of European shopping centres changed hands in the first half of the year.

There was a noticeable fall back in the value of high street retail units traded. The total for the half year came to just under €4 billion compared to €5.8 billion in H2 2013. However, this segment has proved volatile in terms of investment volume in the past and the 19% of the market that high street units made up is not far short of the long term average for this segment.

Prime yields for all types of retail continue to fall across Europe and in fact the rate of decline in yields accelerated in Q2:

On average the prime high street retail (HSR) yield in EMEA cities fell by 11 bps in Q2 to 4.92% - its lowest value since Q3 2007. In fact the average prime HSR yield is now only 3 bps higher that all time low for our index, which runs since the start of 1986. In a significant proportion of cities (40%) prime HSR yields are at the lowest value seen over the history of the index. This seems particularly true of the largest cities, with London, Paris and Berlin all now at historic lows in terms of HSR yield.

The fall in prime shopping centre yields also accelerated in Q2 2014, with the weighted average dropping by 16 bps over the quarter to 5.73%. Shopping centres are still showing a greater gap with the previous low – 5.1% in Q3 2007. It is also the case that there are far fewer markets where the current prime yield represents an historic low, although they do include London and the major German markets.

Looking ahead, despite the relatively weak economic data in some European countries, consumer confidence is generally continuing to improve. The exception to this is France, where the persistent failure of GDP growth to meet expectations seems to have caused the improvement in consumer confidence to stall. Generally, therefore, this suggests that conditions for retailers should get better over the near term.

However, an emerging issue, particularly in the euro area, is the threat of deflation. Inflation in the euro area has fallen steadily over the last three years and was just 0.4% in the year to July 2014. As well as a number of negative effects on the general economy deflation can be particularly negative for retail sales due to the double effect of making borrowing unattractive (as the real value of debts rises over time) and encouraging consumers to delay purchases (as there is a possibility that prices will be lower at some point in the future).

MARKET ANALYSIS

Retail investment activity in **Austria** continued to pick up throughout 2013 and into the first quarter of 2014. The retail investment of €747 million in H1 2014 was the highest level that we have recorded since H2 2003. International investors made up nearly two thirds of the total, with investors from Germany, the UK and Italy active, buying both shopping centres and high street retail units.

There was relatively little retail investment in **Belgium** in H1 2014, with only €117 million of transactions recorded. Nearly all of this was high street retail units, although a number of retail warehouse transactions were also seen. As might be expected given the assets that were traded, the vast majority of buyers were Belgian and about 50% of the total was bought by private investors.

France saw its biggest retail investment turnover for more than a decade in Q2 2014, with nearly €3 billion of turnover recorded. A substantial proportion of this was the sale of Klepierre owned centres to a consortium led by Carrefour. However, even without this the Q2 volume was high by recent standards. The vast majority of purchases were by French investors, with only around €280 million of foreign investment in retail over the quarter.

Retail investment in **Germany** in Q2 2014 was above €2 billion for the fifth successive quarter. There was a significant number of large transactions, including four for in excess of €100 million. Shopping centres actually made up less than a quarter of the retail transactions in Germany. Foreign buyers accounted for only around a third of the transactions in Q2 in contrast to the previous quarter when the reverse was true and cross-border buyers made up two thirds of the total.

The retail market in **Ireland** has been relatively quiet in recent years. Although overall investment activity has grown rapidly, it has been offices and mixed-use properties that have accounted for the majority of the increase. The exception was Q1 2014, when the €250 million sale of the Liffey Valley shopping centre boosted investment. Total retail investment in H1 2014 was €333 million and with the exception of Liffey Valley has been almost exclusively dominated by local investors.

Table 2: Retail Investment Activity by Country

Market Turnover (€m)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Change on Q2 2013
UK	3,700	2,638	3,074	4,997	3,208	3,768	43%
France	529	582	838	1,789	546	2,974	411%
Germany	1,919	2,081	2,018	2,647	2,762	2,070	-1%
Spain	129	118	560	1,238	286	812	587%
Italy	93	253	611	1,224	313	646	155%
Sweden	260	287	84	538	118	552	93%
CEE*	1,094	899	1,046	1,039	254	229	-75%
Netherlands	126	150	177	349	631	150	0%
Norway	515	57	90	507	126	114	100%
Belgium	170	67	154	229	57	60	-11%
Other Western Europe*	749	264	486	1,469	1,205	813	208%
Total Europe	9,285	7,397	9,137	16,028	9,507	12,189	65%

Source: CBRE Research, Property Data

* Includes Bulgaria, Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Serbia, Slovakia and the Ukraine.

** Includes Austria, Denmark, Finland, Ireland, Luxembourg, Portugal, Switzerland.

MARKET ANALYSIS

The retail sector was by far the most active in **Italy** in Q2 2014 accounting for nearly two thirds of all investment at €646 million. The largest single transaction was the Italian part of the Carmila deal, but there were also several other large shopping centre transactions . Shopping centres made up nearly 75% of all the retail investment in Italy last quarter and it is also notable that nearly all of the investment activity in Italy attracted foreign buyers.

The second quarter was relatively weak in the **Netherlands**, but followed a very strong Q1 and so overall first half activity came to €782 million. This weak quarter for retail contrasts with the market as a whole in the Netherlands, which has been very active as a result retail made up only 6% of the market. Almost all of the activity recorded in Q1 was by local buyers.

Turnover of the **Portuguese** retail investment market continues to be very subdued, with only a handful of transactions in the first half of the year. Total retail investment over the first half of the year came to just €31 million.

The retail investment market in **Spain** continues to be active with over €800 million of transactions recorded in Q2 2014. It is foreign investment that is driving the market, with over 90% of activity attracting foreign buyers. The majority of this came from within Europe, but Spanish retail also attracted buyers from the USA and Brazil as well.

Retail investment turnover in the **UK** has been running at a little over €3 billion per quarter and Q2 2014 was no exception, with €3.8 billion of transactions recorded. The UK market remains an essentially local one, with over 75% of the market accounted for by UK buyers. The largest transaction in the UK in Q2 was the 30% stake in Bluewater bought by Land Securities for just under £700 million.

So far 2014 has been quiet for retail investment in **Denmark**. The lack of activity is due to no shopping centre transactions having been recorded yet. The total value of transactions has been €248 million in H1 2014 nearly all of which has been high street retail properties attracting a mix of local and foreign buyers.

After a quiet Q1 retail investment picked up somewhat in **Finland** in Q2 2014, with €240 million of transactions recorded. The two largest transactions in Q2 both went to foreign buyers (both Swedish), with the remainder of the market going to local buyers. Historically the Finnish retail market has attracted mainly Finnish and Swedish capital, the main recent exception being Allianz purchase of a 50% share of the Kamppi shopping centre at the end of last year.

The **Norwegian** market has not managed to repeat the strong performance recorded in the final quarter of 2013 so far this year. In total €240 million of retail transactions were completed in the first half of the year. Retail investments have been split 50:50 between local and foreign buyers, with some German and US capital being invested.

Relatively little retail investment completed in **Sweden** in the first quarter, but the market picked up again in Q2 with €552 million. The quarter was boosted by the €350 million purchase by the Norwegian Olaf Thon Group of a portfolio from Steen & Ström. Other than that transaction Swedish buyers accounted for most of the rest of the transactions recorded.

The **CEE** market continues to underperform as far as the retail sector is concerned, reporting another quiet quarter in Q2, following the low turnover recorded in Q1. In H1 2014 the CEE retail market generated a total of €483 million split roughly 50:50 between Q1 and Q2. Historically retail has made up nearly 40% of the CEE market. However, so far in 2014 that percentage has been just 12%.

The **Hungarian** market was the single largest concentration of retail investment in the CEE in Q2 mainly due to the sale of the Allee Shopping Centre in central Budapest for €95 million. After a long period in which the Hungarian retail market has been very quiet this is a particularly notable transaction attracting a Dutch institutional buyer.

Poland & Romania accounted for most of the remaining retail investment in the CEE in Q2, most of that being shopping centres. As has typically been the case, foreign investors accounted for the majority of this investment activity. Unlike Hungary it was not direct institutional investment, with UK based funds to the fore in Q2.

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