

Property Times

European Shopping Centres Q3 2014

10 million sq m in shopping centre pipeline



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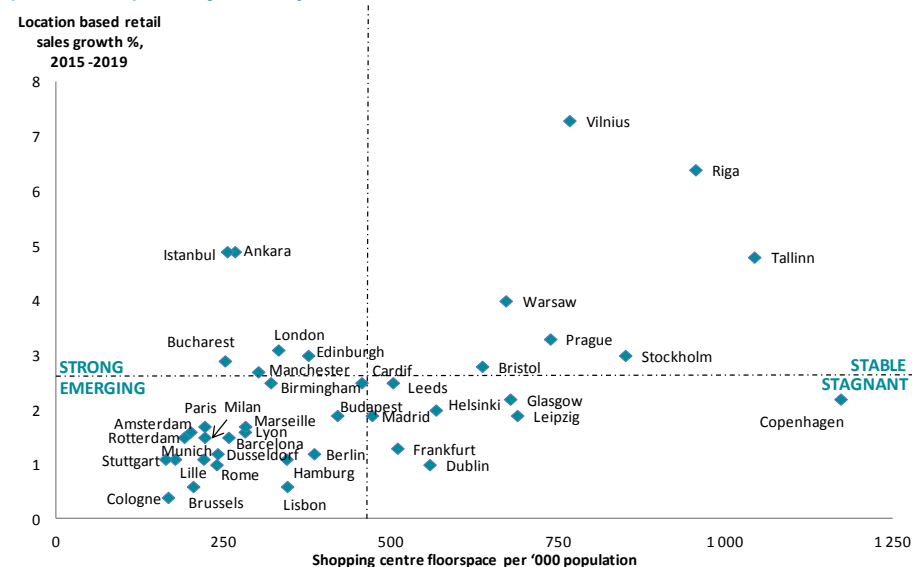
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- There will be 123 million sq m of shopping centre GLA in existing shopping centres in Europe at the end of 2014 across approximately 4,800 shopping centres. The 2008 financial crisis led to a sharp decline in construction activity reaching its lowest level in 2011 (3.5 million sq m). Since then a brighter economy outlook has accelerated shopping centre development and is expected to rebound to 9.9 million sq m to be delivered in 2015 and 2016.
- Turkey, CEE and France remain the most dynamic markets in terms of shopping centre development over the two next years. Combined together, these three countries account for more than 60% of the projects planned to be delivered over the same period in Europe. However, the European market will continue to show a wide range of shopping centre provision with a high density of shopping centre provision in the Nordics and lowest supply in countries such as Romania and Turkey.
- Retailers operate at a city level to identify the most promising location for opening or extending shops. Our analysis shows that only 40% of the shopping centre pipeline will take place in major European cities. Amongst them, we have identified a wide range of hot spots which include London and a couple of UK regional markets (Manchester, Edinburgh or Birmingham), Bucharest and, still on top, Ankara and Istanbul. Developers and retailers should also keep an eye on a growing number of selected emerging markets in Benelux and selected cities in France and Germany. Shopping centre provision in those locations is below the European average and retail sales are just starting to recover.

Figure 1

Shopping centre floorspace per '000 population in 2014 and retail sales growth (2015-2019) in major European cities



For Ankara, Istanbul, Riga, Vilnius, Tallinn and Bucharest, retail sales growth is at country level.

Source: DTZ Research, Oxford Economics

European Shopping centres Q3 2014

Country analysis

Baltic, CEE and UK will record highest increases in retail sales

Gradual recovery of the European economy will positively impact retail sales across Europe, with 1.8% forecast growth per annum from 2014 to 2018, up from -0.8% recorded over the last five years (Figure 2). The highest growth rates going forward are expected in the Baltic States (+4.4% pa on average) and in the CEE region (+3.1%). Among the three core markets, the UK will benefit from a strong rebound of retail sales as annual growth is anticipated to stand at +2.9% from 2014 to 2018. This contrasts sharply with Germany and France, where retail sales are forecast to underperform with 1.4% pa of growth over the same period.

Shopping centre pipeline dominated by Turkey

Close to 10 million sq m of shopping centre space is expected to be delivered in Europe in 2015 and 2016. This will bring the total shopping centre stock to 133 million sq m in Europe.

Turkey accounts for the largest share (35%) of the European pipeline with more than 3.5 million sq m of new shopping centre space expected to be completed by 2016. CEE is behind Turkey with 1.6 million sq m of new shopping centres and 16% of the European pipeline. In this region, Poland has the highest volume of new shopping centre space with 1.1 million sq m of shopping centre space to be delivered in the next two years. France completes the top three with 1.3 million sq m while new supply will be smaller in Germany (857,000 sq m) and in the UK (420,000 sq m).

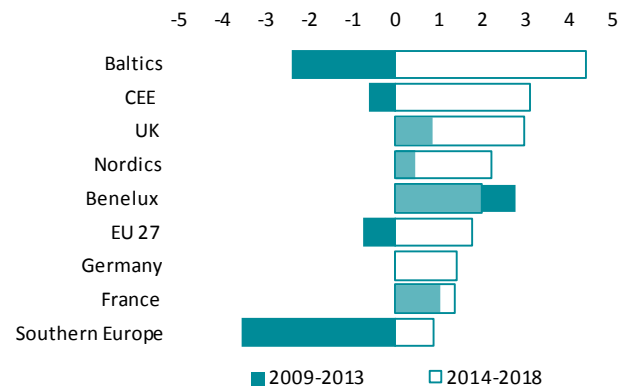
Wide range of shopping centre provision in Europe

There are marked differences in shopping centre provision at country level in Europe. Compared to the European average of 244 sq m of shopping centre floorspace per '000 inhabitants, the Nordics, Netherlands and Lithuania appear oversupplied with stock in excess of 370 sq m per '000 inhabitants. At the other end of the scale, Romania and Turkey have underdeveloped shopping centre markets with stock per '000 inhabitants at 84 and 124 sq m respectively. This suggests there is room for further shopping centre development as the gap with the European average is still quite significant.

Interestingly, Poland is now approaching the European average thanks to a strong development pipeline recorded in the recent period. Going forward, new development may have been decided on a selective basis to avoid any oversupply.

Figure 2

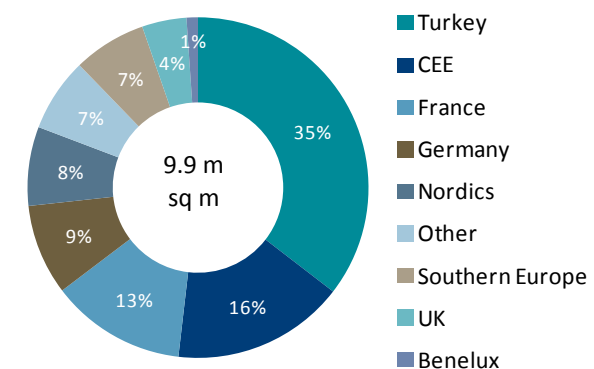
Retail sales in Europe (annual growth %)



Source: Oxford Economics – July 2014

Figure 3

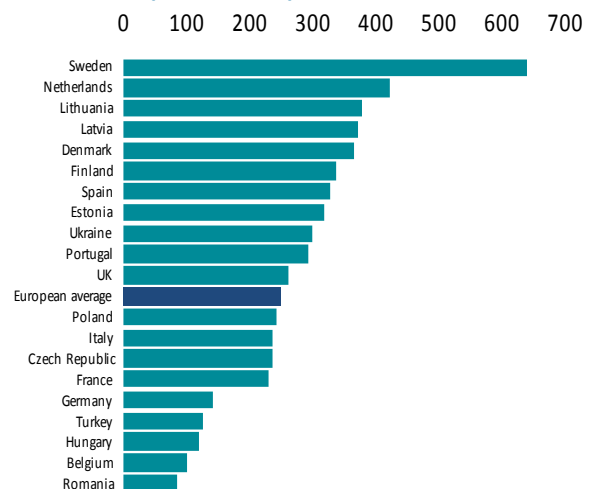
Shopping centre pipeline 2015-2016, sq m



Source: DTZ Research

Figure 4

Total shopping centre stock per '000 population in selected countries (end of 2014)



Source: DTZ Research

European Shopping centres Q3 2014

City analysis

City level forecasts contrasts with national figures:

Economic forecasts and retail sales in particular could vary significantly depending if we consider the country or the main cities performance going forward. This is the case for Europe as a whole and more specifically in the Southern countries where the rebound of the economy is expected to be stronger in major cities (2.3% pa for retail sales between 2015 and 2019) than at this country level with 0.9% of growth expected over the same period (Figure 5). By contrast, major cities are expected to underperform the national trend in CEE, Benelux or Germany.

Developers and investors will consider new openings or refurbishment of shopping centres on a city basis rather than on a country level in order to take advantage of the first sign of economy revival across the region.

40% of the shopping centre pipeline in the main European cities

Development of new shopping centres or refurbishment of existing ones over the next two years will take place mainly outside the main cities. The capitals or main cities in Europe will only concentrate 40% of new shopping centre space to be delivered in 2015 and 2016 (Figure 6).

This trend is particularly strong in France, Germany and Southern Europe where less than 15% of new retail space will be delivered in the main cities. In the CEE, new supply of shopping centres is also expected mainly outside the tier 1 cities, which account for only 27% of the total development pipeline. In Poland, new shopping centre projects identified in Warsaw account for only 18% of the future supply to be delivered in the next two years across the country.

By contrast, Turkey will continue to record a high level of new shopping centre completions over the next two years in Istanbul and Ankara, these two main cities concentrating 65% of the total expected deliveries.

The shopping centre pipeline is now much stronger outside than inside the main cities. This trend contrasts sharply with most retailers' polarization on the prime location.

Figure 5

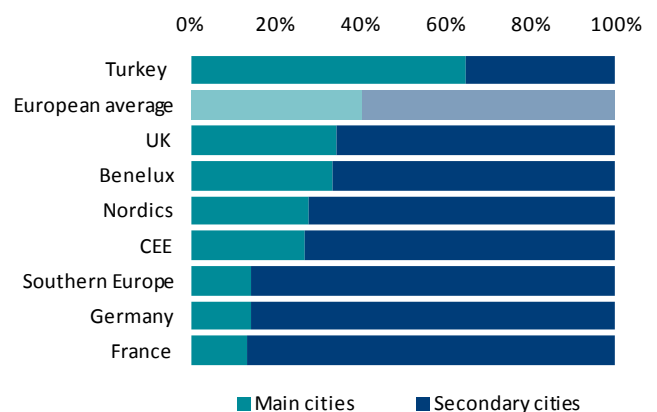
Retail sales in Europe (annual growth %) per location



Source: Oxford Economics – July 2014

Figure 6

Shopping centre pipeline 2015-2016 by location, sq m



Source: DTZ Research

European Shopping centres Q3 2014

We define those cities which offer the greatest potential for future growth as our future hotspots. These include Istanbul, Ankara, Bucharest but also London and Manchester.

» Figure 7 gives an indication of how developed European cities are in terms of shopping centre development, as well as how dynamic their economies are. Plotted together this allows us to identify cities which offer good future growth prospects both for existing schemes and new developments.

» In the **‘stable’** category we have markets which have above average shopping centre provision and above average forecast retail sales growth. These are stable markets; whilst existing provision will benefit from strong retail sales growth over the forecast period, these cities are displaying signs of market saturation. This could potentially limit future development. Cities in this category include the Baltic cities, Warsaw, Prague and Stockholm.

» The **‘stagnant’** markets are cities which display high shopping centre provision per capita but below average retail

sales growth forecasts. The performance of existing schemes or future growth prospects will be hampered by stalling economies. These include Copenhagen, Helsinki, Dublin and some German markets such as Leipzig or Frankfurt.

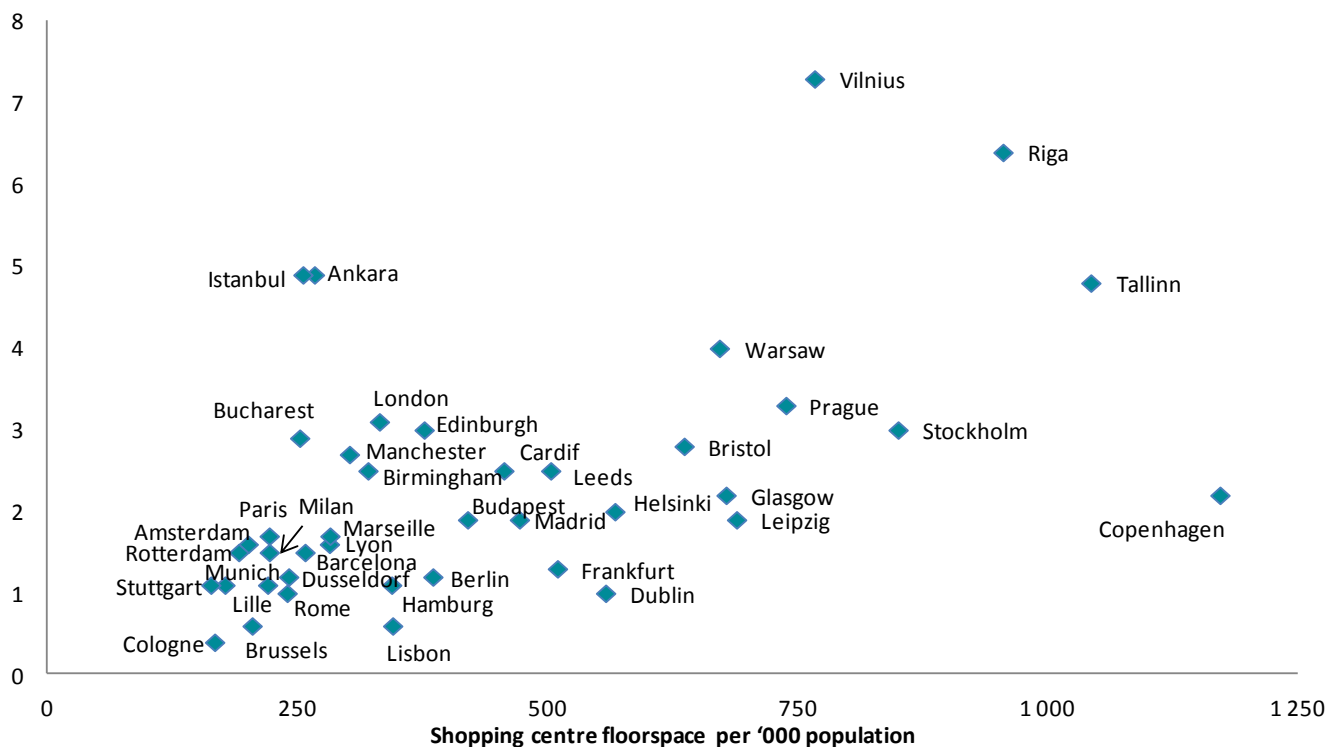
» **‘Emerging’** markets, whilst offering potential as they are under-supplied in terms of shopping centre provision, display weak retail sales growth forecast figures. The short to medium term outlook is one of muted growth. Cities in this category are the most numerous and include those in the Benelux, France, some cities in Germany (Berlin, Dusseldorf), Barcelona and Madrid.

» The **future HOTSPOTS** (i.e. cities which offer the greatest potential for future growth) are those situated in the **‘strong’** category. These are currently undersupplied but offer strong economic growth in the medium term, which will boost retail sales. This will benefit existing schemes and also provide considerable opportunity for new development. In this category we have Ankara, Istanbul, Bucharest but also London, Manchester and Edinburgh.

Figure 7

Shopping centre floorspace per '000 population in 2014 and retail sales % growth (2015-2019) in major European cities

Location based retail
sales growth %, 2015-2019



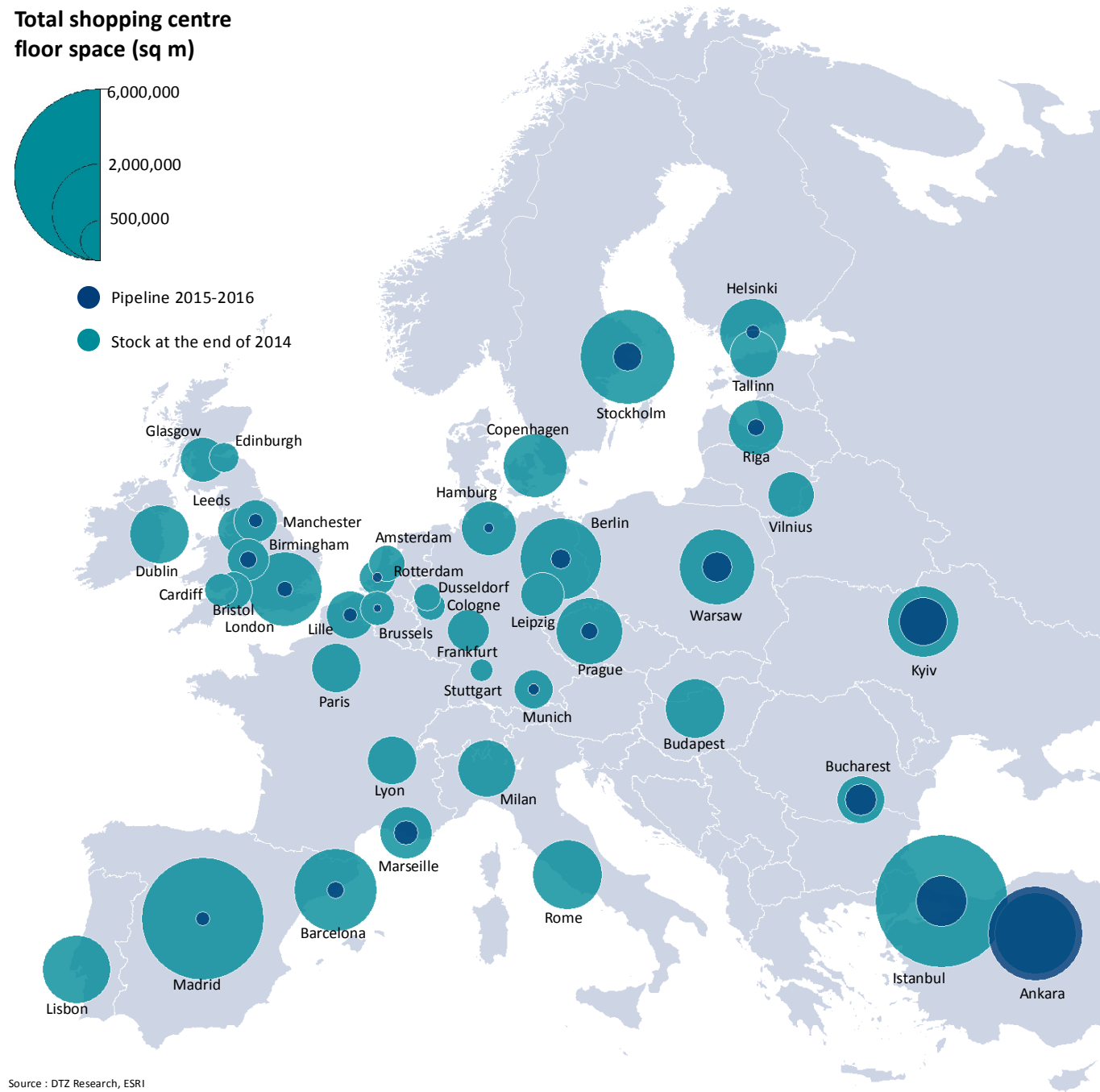
For Ankara, Istanbul, Riga, Vilnius, Tallinn and Bucharest, retail sales growth is at country level.

European Shopping centres Q3 2014

Source: DTZ Research, Oxford Economics

Map 1

Total shopping centre floor space as at end of 2014, stock and pipeline 2015-2016



European Shopping centres Q3 2014

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