

Quick Stats

	Change from	
	H1 08	H2 07
Total Turnover	↓	↓
Cross Border (%)	↓	↓
Yields	↑	↑
Capital Values	↓	↓

Hot Topics

- Retail investment market turnover fell by 45% year-on-year. Activity was lower nearly everywhere, although Russia, Netherlands and Denmark did see increased turnover.
- Average deal size fell to €31 million and almost 87% of all deals in 2008 were for less than €50 million. However, the retail sector did see two of the largest deals in Europe in 2008.
- Cross-border investment fell to 51% of the market. However, the proportion of cross-border activity in the shopping centre sector stayed at 66%.

OVERVIEW/OUTLOOK

In common with all areas of the commercial real estate market, the retail sector saw a marked decline in transaction activity in 2008. In fact the slowdown in the retail sector was slightly less than that in the market as a whole, but the difference was insignificant.

One of the key drivers of this trend was the fall in the number of large deals being agreed, due to the difficulty in financing transactions for more than €100 million. The average deal size in the retail sector fell from €42 million in 2007 to €31 million in 2008.

This difficulty in financing large deals has had a particular effect on the shopping centre sector, where the transaction volume has fallen more steeply. Despite this, there were a number of large shopping centre transactions during the year. This showed that for the right asset buyers were prepared to enter the market and financing was available.

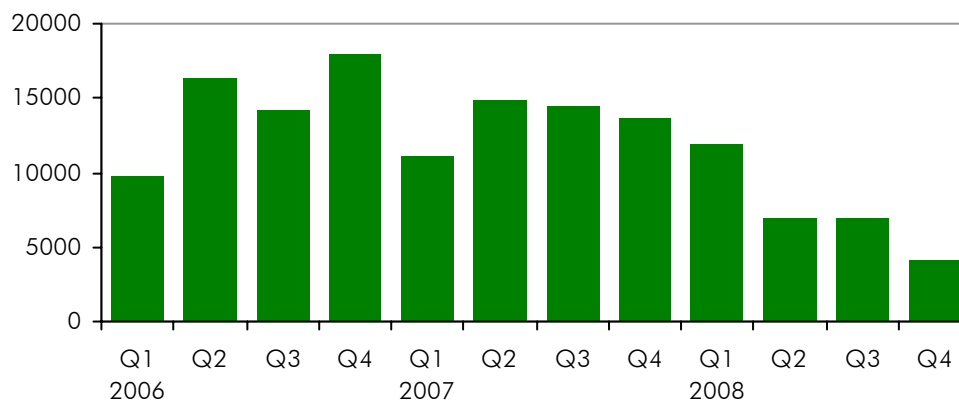
The other obvious trend in 2008 was the lower proportion of cross-border buyers. To a great extent this was also a result of the smaller number of large

deals, which normally are dominated by international investors. This is reinforced by evidence from the shopping centre sector. Although the overall proportion of cross-border buyers declined from 56 to 51% of all retail transactions, the shopping centre sector maintained its international nature with 66% foreign buyers.

Looking ahead, the retail sector is likely to experience further declines in value over the first half of 2009. The further weakening of the European economy will have a knock on effect on retail spending and therefore rental growth. In addition, until financing conditions for larger deals ease up, the turnover of shopping centre investments will remain muted.

So far the capital value shift in the retail sector has been in line with that in other property sectors. However, retail (particularly prime retail) has historically seen lower vacancy rates during economic downturns than the office and industrial sectors. This should make it a defensive option in the current recession.

Total Retail Investment Turnover in Europe (€ million)



Source: CB Richard Ellis

INVESTMENT BY COUNTRY

Despite the sharp fall in the total value of retail property traded across Europe in 2008, there was remarkably little change in the distribution from country to country. As was the case in 2007, between them Germany and the UK comprised slightly more than 50% of the market and CEE made up a further 10%.

There was a small number of countries where the total value of retail investment grew year-on-year. Most notable of these were Russia, Netherlands and Denmark, all of which saw activity increase by over 70%. In each case, however, this increase was accounted for by just one major transaction completed during the year – either a shopping centre or a retail portfolio.

The UK has dominated the European retail investment market for many years. In fact as recently as 2005, turnover in the UK market made up 58% of European activity. The German share has increased markedly over the last few years, mainly as the result of a number of large sale and leaseback transactions by German retailers. A notable anomaly is the low level of turnover in France.

RETAIL INVESTMENT IN FRANCE

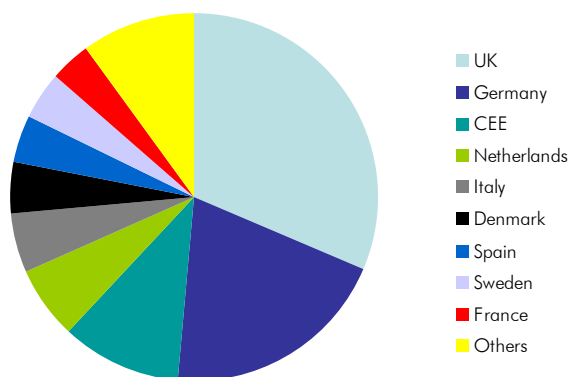
The low level of retail investment activity in France has been a feature of the European market for some years. France typically makes up around 10% of the European investment market generally each year, but over the last five years the retail sector has averaged only 4.3%.

There are a number of potential reasons for this: A significant proportion of the retail stock in France comprises high street retail space. Such units tend to be in the hands of small, local investors who do not actively manage their portfolios and therefore trade very infrequently.

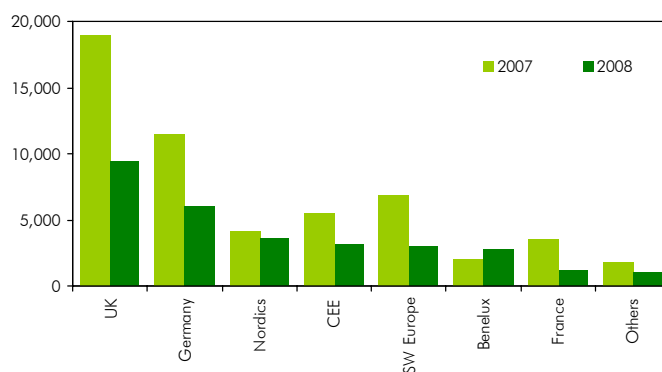
Much of the out-of-town retail stock is also in the hands of owners who trade it infrequently. A significant proportion is still in the hands of food retailers – such as Carrefour – who have developed galleries to operate alongside their food stores. Much of the rest is owned by listed property companies such as Klepierre, Hammerson and Unibail-Rodamco. They too have tended not to trade their retail property holdings frequently.

There are some signs that liquidity in the French market will improve over the next few years, with more product starting to come to market. After so many years of low turnover many major investors are underweight in French retail and so the potential for the market to grow is substantial.

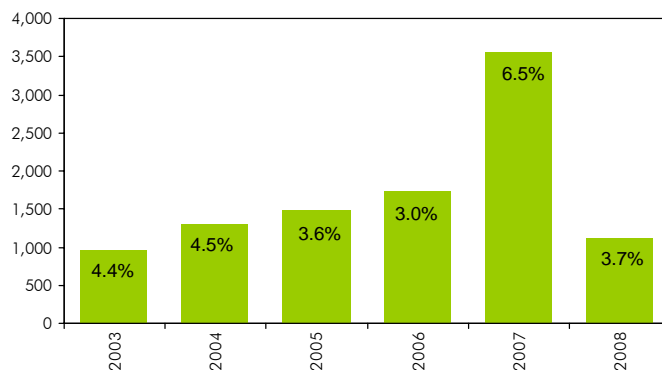
Retail Investment by Country, 2008



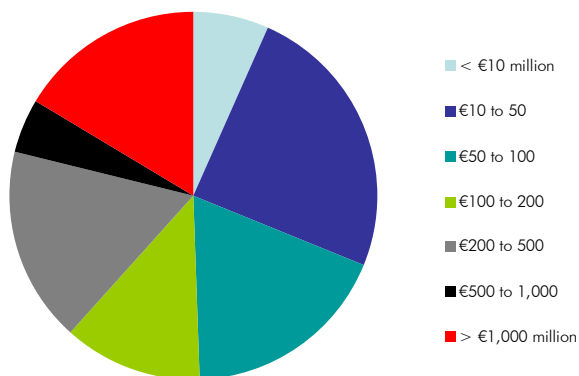
Retail Investment by Region (€ million)



Retail Investment in France (€ million and percentage of European total)



Turnover By Deal Size



Largest Retail Investment Deals in Europe 2008

Market/Sector	Buyer	Price, € million
Nordics, Steen & Stróm SC Portfolio	Klépierre & ABP	2,700
Germany, Karstadt Portfolio	RREEF/Pirelli/Generali	2,300
Netherlands, Retail Portfolio	Bouwfonds	775
Austria, Shopping Centre	Unibail Rodamco	607
UK, Project Swan SC Portfolio	Henderson Investors	459
Finland, Kamppi SC	Protego, Nordic Fund	452
UK, Mall Fund Centres Portfolio	Carlyle EREP	363
Spain, Portfolio Eroski	Topland	361
Russia, Vremena Goda SC	Ivanhoe Cambridge	352
Spain, SC Metrovacesa	Unibail Rodamco	350

DEAL SIZE/ACTIVITY BY SUB-SECTOR

The credit crunch had a significant impact on investor ability to buy large lot sizes, with availability of debt diminishing and generally less capital in the market. The average size of retail deals completed fell to €31 million in 2008, compared with €42 million in 2007.

Of the 1,000 retail deals recorded in 2008, only 13% were for over €50 million. Coincidentally this is exactly in-line with the property market as a whole where the same proportion of deals was over €50 million.

Despite this, the retail sector featured strongly amongst Europe’s largest transactions in 2008. Across all commercial sectors only four deals over €1 billion were completed last year and two of these were in the retail sector: the €2.7 billion Steen & Stróm portfolio in the Nordics region and the €2.3 billion Karstadt Portfolio across Germany. However, the completion of large transactions such as these, and indeed any deal above €100 million, is extremely difficult in the current market and recent trends already reflect that.

Last year saw a notable fall in shopping centre investment activity, from €27 billion in 2007 to only €11.5 billion in 2008. This fall is steeper than that for the retail sector as a whole. In recent years the shopping centre sector has averaged around half of all retail investment, whilst in 2008 this shrank to 38%.

The main reason for this slowdown is the typically larger lot size of shopping centre deals. Interestingly, while the average deal size in the market as a whole (and in the retail sector) fell sharply from 2007 to 2008, this was not the case for shopping centres. The average shopping centre deal in 2008 was for €89 million, actually higher than the €88 million average in 2007.

The nature of shopping centres means that the lot sizes will always be larger than for other types of retail property. While financing larger deals remains difficult activity in the shopping centre sector will remain muted. Nonetheless, there was evidence that when a major shopping centre became available investors did find a way of executing such deals. This is particularly evident in the schedule of 2008’s top retail transactions, which include three major shopping centres, as well as four shopping centre portfolios.

Shopping Centre v All Other Retail Investment (€ million)



BUYER/SELLER TYPE AND NATIONALITY

The fall in cross-border activity in the European investment market was one of the key changes in 2008. However, in contrast to the market as a whole, cross-border buyers were more than half the retail sector last year. At a sub-sector level shopping centres remained highly international with a 66% share last year, almost unchanged compared to 64% in 2007.

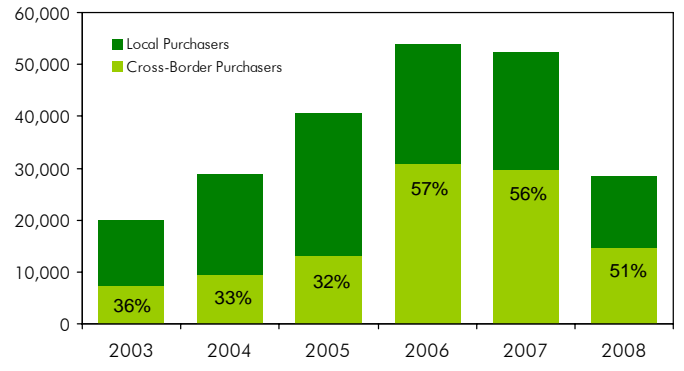
The majority of investor demand in 2008 came from Property Companies and Other Collective Vehicles, which between them accounted for 70% of all retail activity. The retail sector is one that is dominated by specialist investors, especially when it comes to shopping centres. This remained the case in 2008, with buyers such as Henderson Global Investors, Klépierre and Unibail-Rodamco active. A significant proportion of retail specialists are listed property companies and in 2008 they spent €3.4 billion on retail property.

Cross-border investment held up well in the retail sector compared to the market as a whole. Across the 25 markets covered by these data, only five saw foreign investment fall to less than half of the total. Of these the trend in the Netherlands was particularly interesting. The €2 billion invested in retail last year was markedly higher than in the last few years. However, this increase in activity was driven by local investors, with only 6% of it being cross-border.

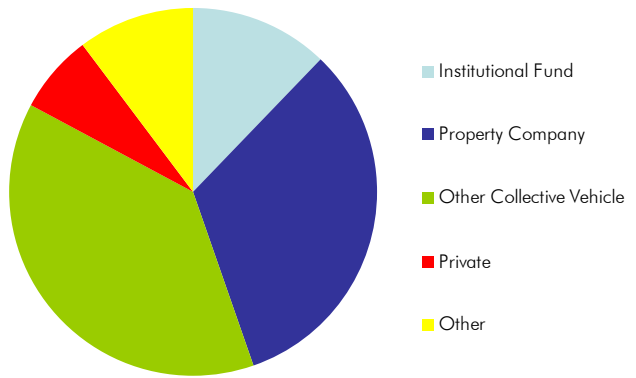
In terms of buyer nationality UK, French, Dutch and American investors were the most significant, making-up 56% of all cross-border retail deals. The only change in the top four international buyers between 2007 and 2008 was the fall away in the activity of Irish investors, who were active in 2007, but who were replaced by the French in 2008. The typically highly geared model that Irish investors have used in previous years is no longer viable.

The growth in international activity by French investors was substantial, expanding from €1.2 billion in 2007 to €2.7 billion last year. Interestingly, German investors, who were the top cross-border buyers in the European market as a whole, were only the fifth largest buyers of retail last year. The German Open-ended Funds who made up the majority of German cross-border investment are traditionally heavy investors in the office sector, especially in their foreign investment. They are starting to look at other sectors, and at retail in particular, but offices still make up almost 80% of their acquisitions abroad.

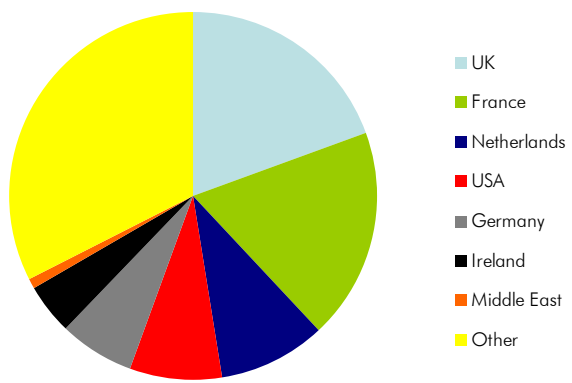
Investment Activity in Europe (€million)



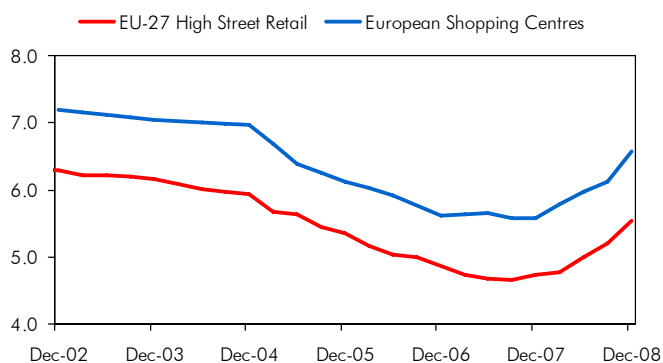
Retail Investment By Buyer Type, 2008



Cross-Border Investment by Buyer Nationality



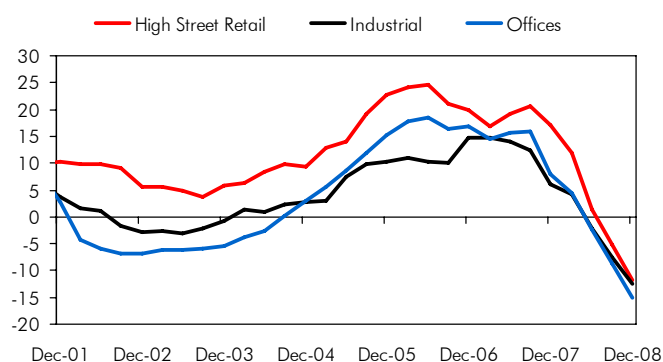
Average Prime Yields (%)



Average Prime Yield Index

	Q1 2008	Q2 2008	Q3 2008	Q4 2008
EU-27 Average Prime Yield (%)	4.77	5.00	5.21	5.54
Quarter-on-quarter Shift (bps)	4	23	21	33
Year-on-year Shift (bps)	4	33	56	81
European S/C Average Prime Yield (%)	5.79	5.98	6.11	6.58
Quarter-on-quarter Shift (bps)	22	19	13	46
Year-on-year Shift (bps)	17	34	53	101

Annual Change in EU-27 Average Prime Capital Value (% pa)



YIELDS

In common with other sectors of the real estate market, retail property across Europe has been experiencing a sharp increase in yields over the last year or so. This trend accelerated in the final quarter of 2008, although to an extent this can be put down to a 'year-end' effect, with market indices catching up with where the transactions are already happening.

The yield shift in both the high street retail sector and for shopping centres is much the same – an increase of around 16% from the peak of the market. However, there are some variations at a country level. The smallest yield shifts (at least so far) have been for prime product in Germany at only around 25-40 basis points for the major cities. This contrasts with the UK and Ireland where yields have increased by between 175 and 285 basis points. UK provincial cities in particular have seen very sharp increases in yield for high street retail units. The exception within these countries is Central London, where continued strong demand from international retailers has limited the increase in prime yields.

At the start of the current cycle there also appeared to be something of an East-West split in the yield shift. Yields in the CEE were still falling at the end of 2007 when it appeared that economies in Eastern Europe were riding out the downturn better than those of Western Europe. This has changed over the last nine months as the economic downturn has spread eastwards. By the end of 2008 the yield shifts in both Western Europe and the CEE had moved back in line.

Although the economic downturn has had an impact on retailer demand, that impact has generally been less marked in Europe's prime locations. In these the need for international retailers to maintain a presence has kept demand relatively high. Nonetheless rental value growth has slowed sharply and in some instances turned negative.

This rental trend, combined with the rise in yields has had a significant impact on capital values. However, the decline in capital values in the retail sector has been smaller than both the industrial and office sectors. The office sector in particular is already experiencing negative rental growth, which is combining with rising yields to produce a more rapid decline in capital values.

The difference in the extent of the fall in the three main property sectors is interesting in that it mirrors research from previous downturns into the effect on vacancy. This suggests that retail tends to see the smallest rise in vacancy and offices the largest increase during an economic downturn.

MARKET ANALYSIS



In contrast to most of the European markets, retail investment held up well in **Austria**. The €800 million of retail transactions reported last year was heavily influenced by Rodamco's purchase of a regional shopping centre for over €600 million.

Although the **Belgian** investment market slowed substantially in 2008, activity in the retail sector remained robust, accounting for over a third of the 2008 total. Notably the retail deals completed last year were very small in size – at under €9 million on average, well below the €16 million average lot size in 2007.

The **French** market made up only 4% of all retail investments in Europe last year. At €1.1 billion in total, retail activity shrank to just a third of that reported in 2007. The difficult financial market conditions meant that the average lot size traded fell to €13 million last year, as opposed to €43 million in 2007.

The **German** market too saw a rapid decline in retail investment in 2008, falling by 47% year-on-year. In total over €6 billion worth of retail product changed hands last year, including Europe's second largest retail deal – the €2.3 billion Karstadt Portfolio. Although less than the 72% reported in 2007, cross-border buyers dominated retail investment in 2008 with 60% of the German market.

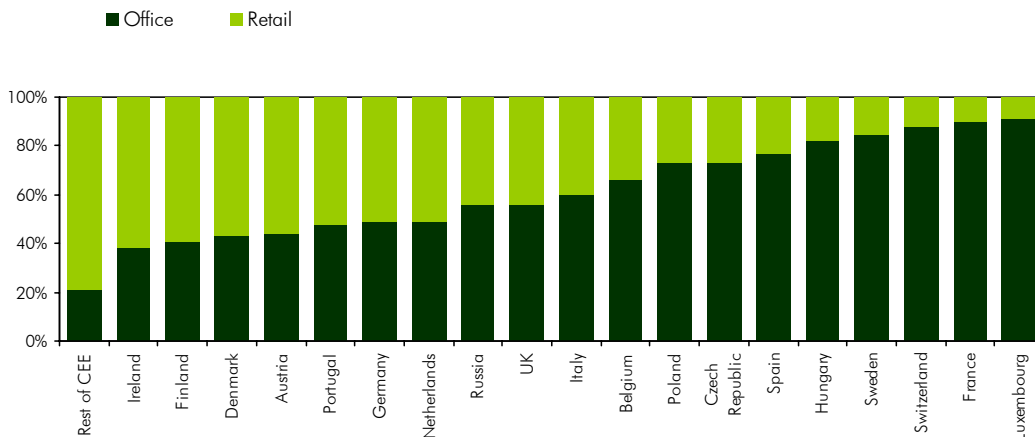
The **Irish** investment market dried up towards late 2008 and there was hardly any activity in the last six months of the year. Thus, only a handful of retail deals were completed there in 2008. Whilst this was the case in the local markets, the Irish were still relatively active cross-border buyers, spending close to €1.8 billion outside of Ireland in 2008, almost €700 million of which was in the retail sector.

As in 2007 the retail sector accounted for 40% of total investment in **Italy** last year. Of the €1.5 billion transacted almost €1 billion was in shopping centres, making the average retail deal in Italy, at €48 million, well above the European average of €29 million.

Commercial investment in **Portugal** reached only €700 million in 2008, a 50% fall year-on-year. The retail sector saw less than €200 million worth of activity. Only one deal over €50 million was reported to have completed last year – the 50% purchase of Portimão shopping centre by Klepierre.

The **UK** market accounted for just over 30% of all European retail investment activity in 2008. In absolute terms, however, the €9.4 billion of UK retail investment was only half last year's total. As was expected, shopping centre activity was impacted most, with its share falling to only 32% of the retail total, compared to the 60% share reported in 2007. As across most of the European markets the average deal size completed fell markedly. The average in the UK for 2008 was €25 million, below the €29 million average for Europe as a whole.

Retail v Office Investment in 2008





The **Nordic** region reported a relatively small decline in investment activity last year, with the overall market turnover reaching €22.9 billion in 2008. As was the case across the market as a whole, the retail sector also

saw a number of highlights last year.

Two of the top largest retail deals in Europe took place in the Nordic region. The Steen & Strom shopping centre portfolio was by far the largest retail deal at €2.7 billion. The other notable deal was the €452 million Kamppi shopping centre in Finland, it was the sixth largest retail transaction in Europe in 2008.

In-line with the last couple of years the four Nordic markets saw little change in terms of buyer nationality active. **Finland** and **Sweden** stayed very international, with the majority of retail investments going to a cross-border buyers, whilst **Denmark** and **Norway** remained mainly local. British, French, Dutch and German buyers were the most active cross-border investors, accounting for over three quarters of all international retail activity in the Nordic region.



At €3.1 billion the retail sector made up a third of the total commercial investment in **CEE** last year. General uncertainty and rapid re-pricing meant that the last six months of the year were particularly slow, with only €830 million invested, compared to €2.3 billion in H1 2008.

Unlike most of the Western European markets where retail makes up less than a quarter of total investment, this proportion would typically be 40% in the CEE region. However, as economic fundamentals weakened rapidly towards the end of the year, retail investment slowed.

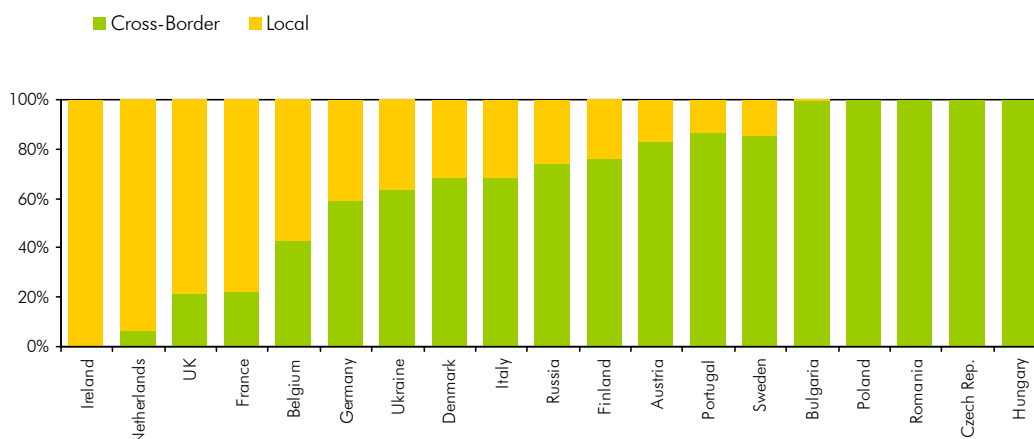
Of the core CEE markets of **Czech Republic**, **Hungary** and **Poland**, the latter was affected the most. In recent years over half of all investments in Poland have been in the retail sector, reflecting the rapidly evolving market and new development completions. In 2008, however, only €461 million worth of retail changed hands in Poland, only a quarter of the 2007 level.

The slowdown in retail activity was also in part a function of the difficult financing environment in the CEE, where the vast majority of retail investments are in the shopping centre sub-sector and tend to be of a large lot size. In 2008 the average retail deal in CEE fell to €55 million, compared to €68 million a year before.

Russia was one of the few markets where retail investment activity actually increased year-on-year. At €1.2 billion the retail sector totalled 36% of the market, as quite a few shopping centres changed hands in 2008. Amongst them the €352 million Vremena Goda shopping centre, purchased by Ivanhoe Cambridge, was the largest retail deal in Russia and made Europe's top ten retail transactions last year.

Most of the rest of the CEE markets, such as the Balkans and those further East, have reported weakening in investor demand towards the end of the year. However, retail investment activity was strong for the year as whole and €1.1 billion was transacted, with **Bulgaria** and **Romania** making-up almost 90% of this.

Proportion of Investment Activity by Cross-Border Buyers in the Retail Sector in 2008



CB Richard Ellis employs over 300 retail consultants in 36 countries across the EMEA (Europe, Middle East and Africa) region. The team provides expert, practical advice on all types of retail environment – from high street, to shopping centres, to out of town. Working with our network of research analysts, we are able to provide insight into retail investment market trends as well as more conventional property market analysis.

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