

Quick Stats

	Change from	
	Q2 08	Q1 09
Rent	↓	↓
Yield	↑	↑

Rents - Quarterly Change

EU27 Index

EU - 27 Index	↓	-0.6%
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Number of markets

Risers	↑	2
Stable	↔	27
Fallers	↓	14

Yields - Quarterly Change

EU 27 Index

EU -27 Index	↑	+4 bps
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Number of markets

Risers	↑	11
Stable	↔	32
Fallers	↓	0

OVERVIEW

• European economies still contracting

Most European countries are expected to see a contraction of between 2% and 5% over 2009 as a whole as they fall further into recession. The European Union is expected to see a contraction of around 4% in 2009 compared to the 2.6% expected by the US.

• Consumers opt to save instead of spend

Consumer and retailer confidence indicators are rising and have been doing so for the past few months, but confidence levels are still weak. Deteriorating economic conditions and fears of increasing unemployment levels are driving consumers to save instead of spend and as a result retail sales are suffering.

• Gap between prime and secondary market widening

Demand for prime high street locations is stable this quarter and holding up well, but the prospects for secondary locations are deteriorating further and the rent differential between prime and secondary locations is increasing.

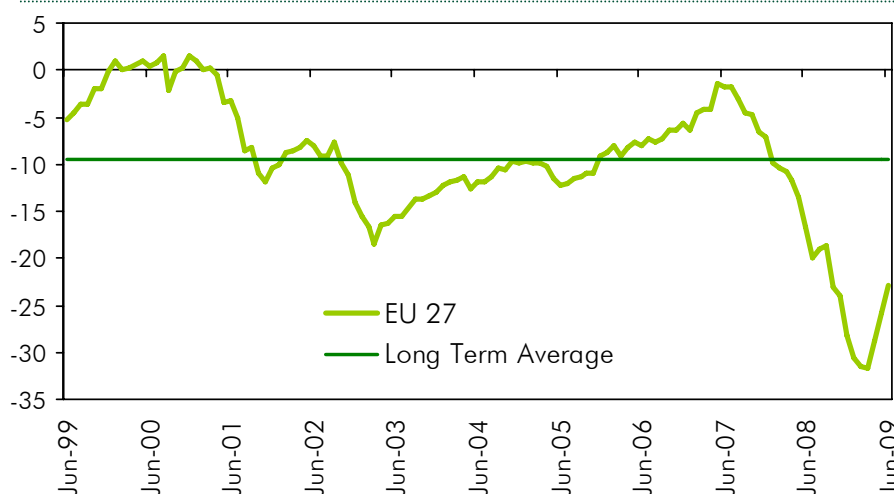
• Developers put plans on hold

Developments across many European locations have been put on hold for the time being as developers are struggling to secure the finance needed to continue with their existing plans. This could put a strain on future supply levels across many markets.

• Lease negotiation periods increasing

Negotiation periods are increasing as retailers try and secure more favourable lease terms, demanding longer rent free periods and more incentives such as fit-outs in order to sign leases. Landlords are also willing to consider negotiations on existing leases in order to secure longer term commitment in some markets.

European Consumer Confidence Index, June 2009



Source: Ecowin

RETAIL ECONOMICS

The European economy remains in recession, with most countries expected to see contraction of between 2% and 5% over 2009 as a whole. The first quarter of the year saw some very steep year-on-year output falls in many of the major European economies (notably Germany and Italy). Short-term expectations for economic performance weakened in the second quarter, in contrast to those for the US. The EU as a whole is expected to see a contraction of over 4% this year, with export-driven Germany seeing an even sharper decline of close to 6%.

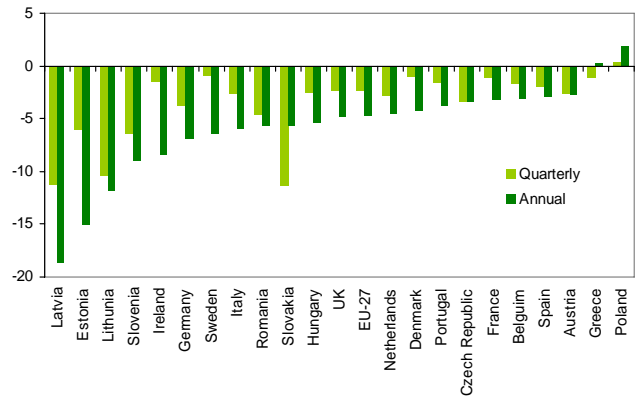
Unemployment levels are still increasing although at a slower rate than in recent quarters, and certainly slower than was previously expected. According to Eurostat, the latest EU-27 unemployment rate rose only marginally, from 8.8% in May to 8.9% in June. Spanish unemployment, at over 18%, is the most concerning although the labour market has improved modestly in recent months. However, this could be due to a combination of summer employment on short term contracts, and short term effects arising from government expenditure on local government projects throughout the country.

Some retail indicators are painting a fairly stable picture for the time being at least. Consumer confidence is rising, and has improved markedly during the second quarter and now significantly better than at the end of last year, although it still remains very much below the long term average. Retailer confidence seems to be trending along the same path: better than it was, but still weak. There are significant differences between retail sectors, however, with budget retailers and food stores reporting healthy or even improved trading performance whilst others fare less well.

Although confidence levels amongst European consumers and retailers seem to be picking up and even with heavy discounting taking place in many sectors, this is not feeding through into retail sales. Official sales data has actually held up surprisingly well in some of the major markets, including the UK. This has led some commentators to question the reliability of the data, as it seems to contradict the significant retailer stress becoming evident on the high street. Elsewhere in Europe (notably in Spain, Ireland and most of CEE), the picture remains bleak.

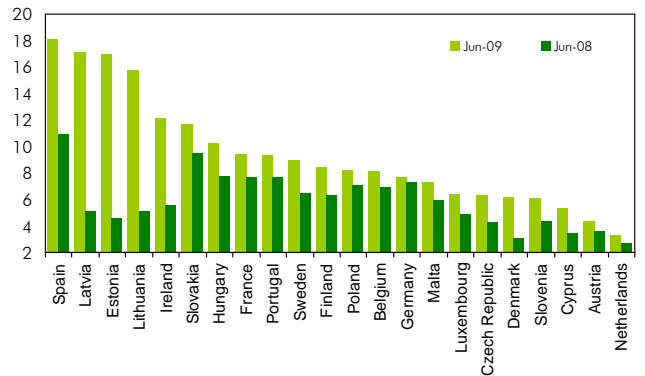
However, in addition to improving consumer and business sentiment, a number of indicators are beginning to show signs of improvement. The rate of GDP decline appears to be easing and the banking sector is slowly returning to profitability. At this stage, these are more an indication that the rate of decline is slowing, rather than firm evidence of improvement – but at least it is now possible to identify some positive signs, something that was very difficult in the previous few quarters.

GDP Percentage change Q1 2009 (annual and quarterly)



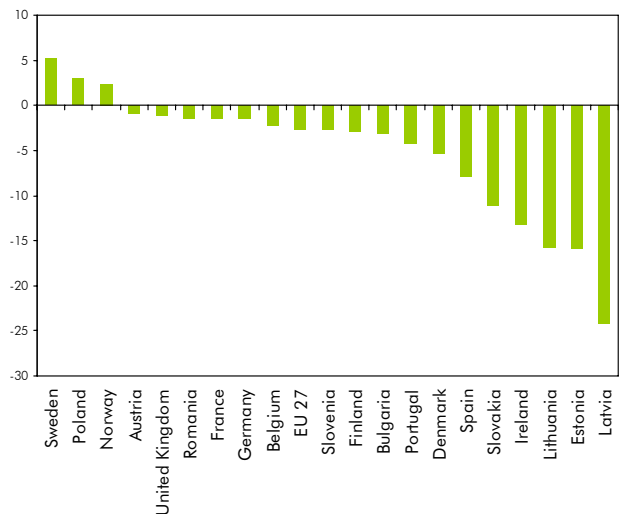
Source: Eurostat

European Unemployment Rates (%)



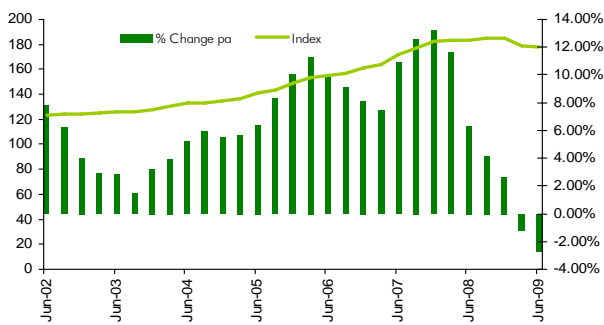
Source: Eurostat

Retail Trade Growth Y-o-Y – May 2009 (%)



Source: Eurostat

EU-27 Retail Rent Index, Q2 2009

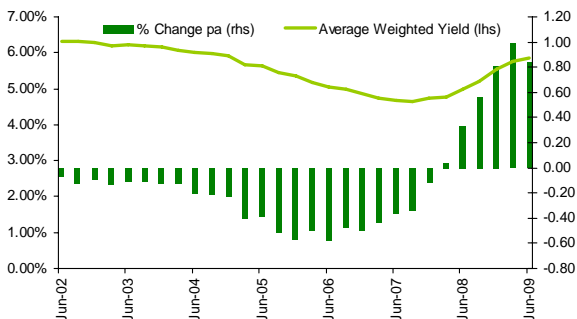


Source: CB Richard Ellis

EU-27 Retail Rent Index

	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Index (Q1 2000 = 100)	186	187	179	178
Quarter-on-Quarter (% Change)	0.9%	0.2%	-3.1%	-0.6%
Year-on-Year (% Change)	5.2%	2.7%	-1.2%	-2.7%

EU-27 Retail Yield Index, Q2 2009



Source: CB Richard Ellis

EU-27 Retail Yield Index

	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Average Weighted Yield	5.21%	5.54%	5.76%	5.81%
Quarter-on-Quarter (bp Change)	21	33	22	4
Year-on-Year (bp Change)	56	81	99	81

RENTS

Occupier demand across Europe seems to be fairly stable, particularly in prime locations. Some retailers remain able to take advantage of market conditions to secure top quality units should they become available, and key money is still being paid in a number of key strategic locations across Europe, including London, Paris and Munich. However, in general levels of key money have decreased and tenant incentives are increasing. Rent free periods and fit-out contributions are rising, and negotiations have become more complex such that new lettings are taking longer to agree.

The CBRE EU-27 Retail Rent Index, which reflects the rental value of prime retail units, has seen a second quarter of negative annual growth of -2.7%, although the quarterly change was much smaller at -0.6%. The majority of markets remained stable this quarter seeing no growth, and Frankfurt saw an increase of 8% due to high demand and no vacant space in major high street locations.

Vacancy levels in the top locations are low, with very little new space being developed, which is helping to support prime rents in the core markets. In contrast to the more significant decline being seen across the EU-27 as a whole, the CBRE EU-15 Retail Rent Index is down only -0.8% year-on year, having only just slipped into negative territory and with the majority of markets still seeing stable rents. However, the situation is rather different in many secondary locations, where demand is far weaker and rents have fallen more sharply.

YIELDS

The CBRE EU-27 Retail Yield Index has seen further rises in the second quarter of 2009 as a result of continued weak sentiment in the investment market and deteriorating rental growth prospects. The average weighted yield has increased 116 basis points since its lowest point in Q3 2007, and the CB Richard Ellis EU-27 high street retail yield index currently stands at 5.81%. However, many of the major markets are now showing some signs of emerging yield stability, with only a handful of markets seeing outward movements – and most of these being in Central and Eastern Europe.

Demand for investments in the prime retail sector is still relatively active with foreign investors still seeking out opportunity purchases. In France those selling small to medium sized portfolios are seeing healthy interest. However, larger lot sizes remain difficult to finance and as a result the majority of the investment activity that has been seen this quarter has been smaller deals. This is particularly relevant for the shopping centre sector, as the best centres have high price tags. However, even here, some specialist investors are actively looking to take advantage of market conditions to make strategic acquisitions when the opportunity arises.

COUNTRY OVERVIEW

The demand for premises in prime high street locations in **Austria** is high due to the continuing demand from international retailers. However, secondary locations are suffering as retailers are only seeking out prime pitches. As a result, in Vienna prime rents are expected to stay stable, whereas secondary locations will see decreasing rents and increasing vacancies due to the lack of demand. Developers are facing problems with financing projects and this will restrain the supply pipeline.

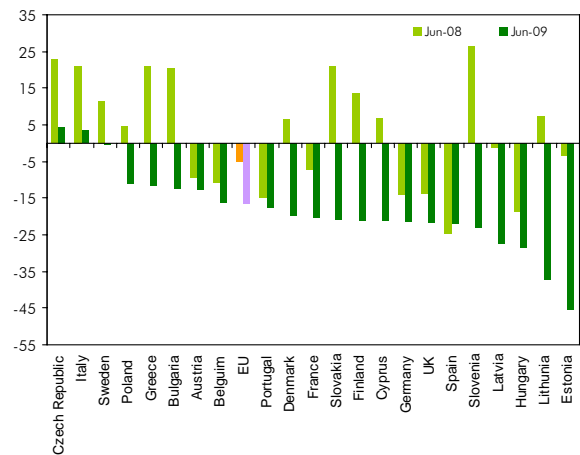
Activity in the **CEE** markets has slowed considerably this quarter; it now takes a longer period of time and considerably more effort to complete a transaction. Tenants are agreeing shorter lease periods and demanding more favourable terms before agreeing deals. Around 50% of the development pipeline has been put on hold, mainly due to a lack of funding. In order to gain finance for projects developers are having to provide a higher level of equity and secure a higher percentage of pre-lets. There is still an appetite for new developments where possible.

Retail sales in **Denmark** continue to decline and are back at levels seen in 2005. Household behaviour has shifted significantly towards saving rather than spending, and retailers are forced to offer large discounts. Consumer confidence and business expectations remain in negative territory, but have improved since March. The reduced inventories suggest that production may rebound rapidly after a pick up in demand, raising hope that growth will turn positive in H2 2009. However, any recovery will depend on improvements in the global economy and an increase in Danish households consumption.

Retailers in **France** are continuing to consolidate their networks. In particular, national retailers are taking the opportunity to review their position and dispose of underperforming stores. They are still open to opportunistic expansion but are less aggressive than before, adopting a "wait and see" attitude. France is still a key target location for international retailers but mainly within prime locations of Paris, Lyon, Nice and Lille. International clothing and footwear brands are performing well and demand seems to be mostly from the young consumer group as they appear to be the group with the most disposable income there.

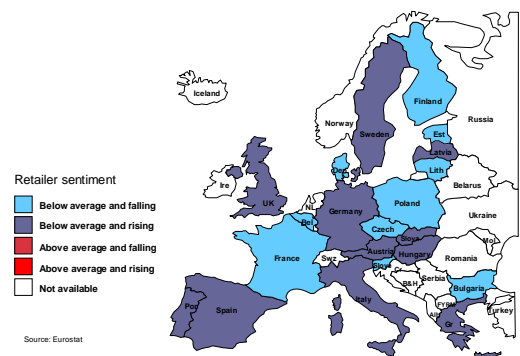
Germany has seen a significant number of major brands expanding into the market over the last quarter. On the whole retailers remain cautious, although demand for the prime high street spots is still high, particularly from luxury retailers in Dusseldorf. This is not expected to ease in the near future. Demand and vacancy levels are expected to remain stable across Germany and most development schemes in Frankfurt remain on schedule. Although retail sales across Germany are down on the same period last year, the decline in exports has started to ease.

Retailer Confidence Indicator, Year on Year



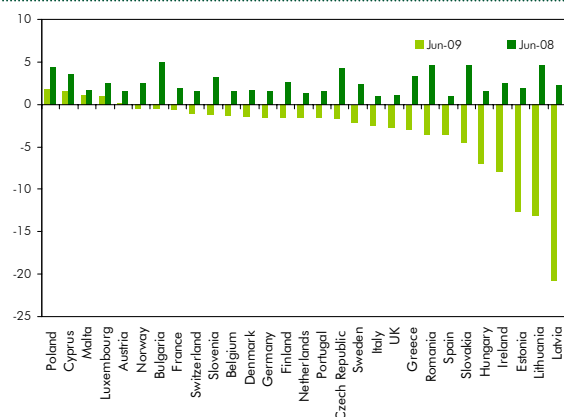
Source: Ecwin

Retailer Sentiment June 2009



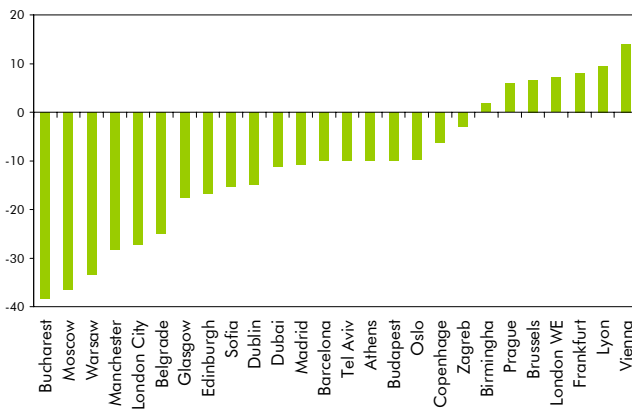
Source: Eurostat

Consumer Spending Growth (annual average % change)



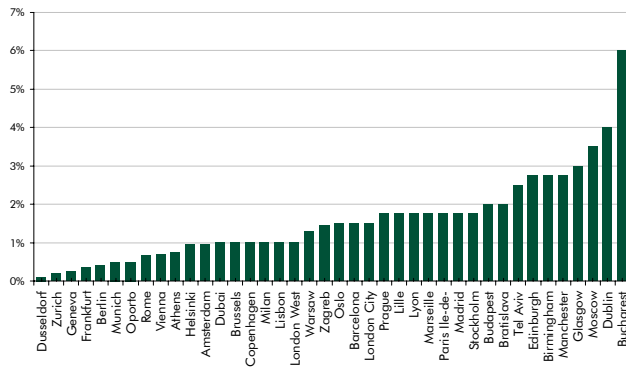
Source : Experian Business Strategies 2009

European Rental Growth Y-o-Y



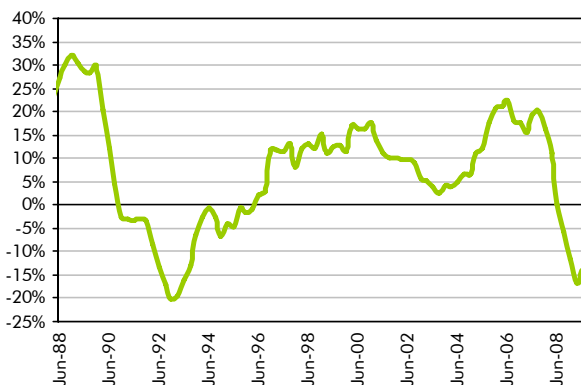
Source: CB Richard Ellis

European Yield Shift – percentage point change on peak



Source: CB Richard Ellis

EU-27 Retail Capital Value Index Annual Change



Source: CB Richard Ellis

The retail sector in **Ireland** continues to face huge challenges with consumer spending compromised by difficult economic conditions. A number of retailers have ceased trading or gone into administration in recent weeks a trend that has been apparent since the beginning of 2009 and one which is likely to continue over the coming months. Unfortunately the Government’s announcement that it plans to ban upward only rent reviews will do nothing to alleviate existing pressures for occupiers as the proposed legislation will only apply to new lettings. However, with more competitive deals on offer, transactions continue and there has been a notable increase in international interest for retail opportunities in the Irish market.

Factory outlet centres in **Italy** have shown a particularly strong performance so far this year. The development of new large shopping centres in regional cities is also increasing, due to a relatively low provision of existing shopping centre stock. However this is not expected to cause any significant threat of over supply in the short term. Fashion is traditionally the most important sector in the high street segment of the retail market and as a result the vacancy rate for prime high street locations in both Milan and Rome is low. Therefore, high street occupier markets and rents have been stable, despite the current economic situation.

Although the **Spanish** retail market is still experiencing weak levels of demand and increasing levels of vacant space, international brands are still interested in the prime locations of Madrid and Barcelona where demand for space remains stable this quarter. There seems to be a higher turnover of occupiers in prime shopping centres and other prime cities within Spain that are not coping as well within the current situation. As a result retailers are able to trade up into these locations as and when space becomes available. In some secondary development locations, retailers looking to acquire shopping centre space are currently driving a hard bargain and not willing to pay a minimum guaranteed rent and negotiating turnover rents for 2/3 years in order to protect themselves from possible exposure to volatile market conditions.

With many retailers in the **UK** going into administration in 2009 the appetite for retailer expansion has reduced. Locations outside the major towns and cities are suffering greatly with rising vacancy and little or no demand. This is impacting negatively on rents, although the West End of London has held up well since retail sales picked up in June. This was in part due to retailer discounting and a warmer than usual post-Easter period. Food and clothing sectors did particularly well and retailers such as River Island, Sainsbury and Tesco have recently reported healthy sales figures. However sale of bigger ticket household items are still down and the recovery of this sector would be a more telling sign of improvement in the wider economy.

EMEA RETAIL RENTS AND YIELDS

		RENTS						YIELDS				
Country	City	Local rent currency and measurement	Prime Rent (Local currency and measurement)	Prime Rent (€ per sq m pd)	Percentage change on quarter	Percentage change on year	Percentage change from peak *	Prime Yield	Basis point change on quarter	Basis point change on year	Basis point change from peak *	
EU27 Rent and Yield Indices						-0.6	-2.7		4	81		
Austria	Vienna	€ per sq m pm	220.00	2,640.00	0.00	13.99	0.00	4.70	20			
Belgium	Brussels	€ per sq m pa	1,600.00	1,600.00	0.00	6.67	0.00	5.25	0			
Croatia	Zagreb	€ per sq m pm	82.50	990.00	-2.94	-2.94	-2.94	7.40	0			
Czech Republic	Prague	€ per sq m pm	180.00	2,160.00	0.00	5.88	0.00	6.75	25	175	175	
Denmark	Copenhagen	DKK per sq m pa	15,000.00	2,014.17	0.00	-6.25	-6.25	5.00	0	75	100	
Finland	Helsinki	€ per sq m pa	1,380.00	1,380.00	0.00	-0.36	-0.36	5.75	25	65	95	
France	Lille	€ per sq m pa	2,200.00	2,200.00	0.00	0.00	0.00	6.00	0	100	175	
France	Lyon	€ per sq m pa	2,300.00	2,300.00	-8.00	9.52	-8.00	6.00	0	100	175	
France	Marseille	€ per sq m pa	1,700.00	1,700.00	0.00	0.00	0.00	6.00	0	100	175	
France	Paris Ile-de-France	€ per ITZA pa	10,000.00	6,300.00	0.00	0.00	0.00	5.75	0	125	175	
Germany	Berlin	€ per sq m pm	235.00	2,820.00	0.00	0.00	0.00	4.90	0	15	40	
Germany	Dusseldorf1	€ per sq m pm	220.00	2,640.00	0.00	0.00	0.00	4.60	0	10	10	
Germany	Frankfurt	€ per sq m pm	270.00	3,240.00	8.00	8.00	0.00	4.60	0	10	35	
Germany	Hamburg	€ per sq m pm	220.00	2,640.00	0.00	0.00	0.00	4.50	0	0	0	
Germany	Munich	€ per sq m pm	300.00	3,600.00	0.00	0.00	0.00	4.50	0	25	50	
Greece	Athens	€ per ITZA pm	360.00	4,320.00	-5.26	-10.00	-10.00	5.75	0	75	75	
Hungary	Budapest	€ per sq m pm	90.00	1,080.00	-10.00	-10.00	-10.00	7.75	100	175	200	
Ireland	Dublin	€ per ITZA pa	8,500.00	3,995.00	-5.56	-15.00	-15.00	6.50	0	375	400	
Israel	Tel Aviv	\$ per sq m pm	90.00	827.01	-0.00	-10.00	-10.00	9.50	0	150	250	
Italy	Milan	€ per sq m pa	3,700.00	3,700.00	0.00	0.00	0.00	5.50	0	90	100	
Italy	Rome	€ per sq m pa	3,500.00	3,500.00	0.00	0.00	0.00	5.90	0	40	65	
Netherlands	Amsterdam	€ per sq m pa	2,700.00	2,700.00	0.00	8.00	0.00	4.50	0	75	95	
Norway	Oslo	NOK per sq m pa	14,000.00	1,570.09	0.00	-9.68	-12.50	6.75	0	75	150	
Poland	Warsaw	€ per sq m pm	80.00	960.00	0.00	-33.33	-33.33	7.00	15	125	130	
Portugal	Lisbon	€ per sq m pm	80.00	960.00	0.00	0.00	0.00	7.50	0	75	100	
Portugal	Oporto	€ per sq m pm	35.00	420.00	-12.50	0.00	-12.50	8.50	0	50	50	
Romania	Bucharest	€ per sq m pm	80.00	960.00	-11.11	-38.36	-42.86	12.00	50	450	600	
Russian Federation	Moscow	\$ per sq m pa	8,000.00	6,037.74	-5.88	-36.50	-36.72	12.00	50	350	350	
Serbia	Belgrade	€ per sq m pm	90.00	1,080.00	-10.00	-25.00	-25.00	8.00	0	0	0	
Slovak Republic	Bratislava	€ per sq m pm	60.00	720.00	0.00	0.00	0.00	8.50	50	200	200	
Spain	Barcelona	€ per sq m pa	2,397.00	2,397.00	0.00	-10.02	-10.02	6.00	0	75	150	
Spain	Madrid	€ per sq m pa	2,800.00	2,800.00	0.00	-10.94	-10.94	6.00	0	75	175	
Sweden	Stockholm	SEK per sq m pa	11,500.00	1,052.87	0.00	0.00	0.00	6.00	0	100	175	
Switzerland	Geneva	CHF per sq m pa	3,500.00	2,337.39	0.00	0.00	0.00	5.00	0	25	25	
Switzerland	Zurich	CHF per sq m pa	7,500.00	4,968.20	0.00	0.00	0.00	4.70	0	0	20	
United Arab Emirates	Dubai	AED per sq ft pa	400.00	884.72	0.00	-11.11	-20.00	9.00	25	100	100	
United Kingdom	London – City	£ per ITZA pa	200.00	1,466.85	-20.00	-27.27	-27.27	6.00	0	100	150	
United Kingdom	London – West End	£ per ITZA pa	750.00	5,594.95	0.00	7.14	0.00	4.50	0	35	100	
United Kingdom	Birmingham	£ per ITZA pa	280.00	1,532.05	-6.67	1.82	0.00	6.75	0	150	275	
United Kingdom	Edinburgh	£ per ITZA pa	175.00	1,283.50	-5.41	-16.67	-16.67	7.00	25	150	275	
United Kingdom	Glasgow	£ per ITZA pa	140.00	1,026.80	-9.68	-17.65	-17.65	7.25	0	175	300	
United Kingdom	Manchester	£ per ITZA pa	215.00	1,576.87	-14.00	-28.33	-28.33	6.75	0	125	275	

* Figures indicate degree of change from the highest rent or lowest yield recorded in the previous three years, and current level

Data is for Retail High Street, except Poland, Warsaw which relates to Shopping Centre

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 market trends and consumer behaviour, as well as more conventional property market analysis.

Many retailers are pursuing strategies that are global, rather than focused on EMEA. Our worldwide retail team of 950 property professionals has significant experience in delivering projects spanning all continents. These global capabilities, combined with our local market presence, enable us to offer comprehensive tactical and strategic support to retailers and investors as they expand into new markets.

At local, regional and global levels our retail specialists are supported by the CBRE Global Research and Consulting team. With over 400 research analysts around the world, and liaising closely with transaction and other professionals, the team is able to provide reports, analysis, publications and consultancy advice on markets and property types across the globe.

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