

European Retail Investment

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Q4 2009

Quick Stats

	Change from	
	H1 09	H2 08
Total Turnover	↑	↑
Cross-Border (%)	↑	↓
Yields	↓	↑
Capital Values	↑	↓

Hot Topics

- Retail investment increased to over €8 billion in Q4 2009, with a further increase expected in 2010
- The UK is by far the most active retail market in Europe at the moment, accounting for 43% of all transactions (by value) in H2 2009.
- Large transactions are still limited in number, accounting for the relatively small proportion of shopping centres in the total.

OVERVIEW

• Steady increase in activity towards year-end

European retail investment activity grew steadily throughout 2009, from a low of under €4 billion in the first quarter to over €8 billion in Q4. Despite this doubling of activity during the year, the investment level remains low by recent standards and is roughly in-line with that in 2004. The pick-up in activity has also had an impact on pricing, with prime yields starting to fall in the second half of the year.

• UK market dominates

The UK has seen the strongest growth and accounted for nearly 43% of total retail investment turnover in H2 2009. There was also a high rate of increase in the CEE and Nordic regions, but in both cases from a very low base. The growth in activity has been recorded despite the fact that large deals were still few and far between. However, since the end of 2009 there have been several large transactions concluded that suggest a further increase in activity is likely in 2010.

• Prime retail holds up well

The strong growth in retail investment activity over the year has been driven by a number of factors, but probably the most significant has been the security of income offered by prime property. Supply of new retail stock is constrained more than in any other property sector. As a result vacancy rates remain low and falls in rental value have been limited for prime locations. For secondary property the picture is very different. Investor demand is very weak (not just in the retail sector) and the growth in activity has been much more limited.

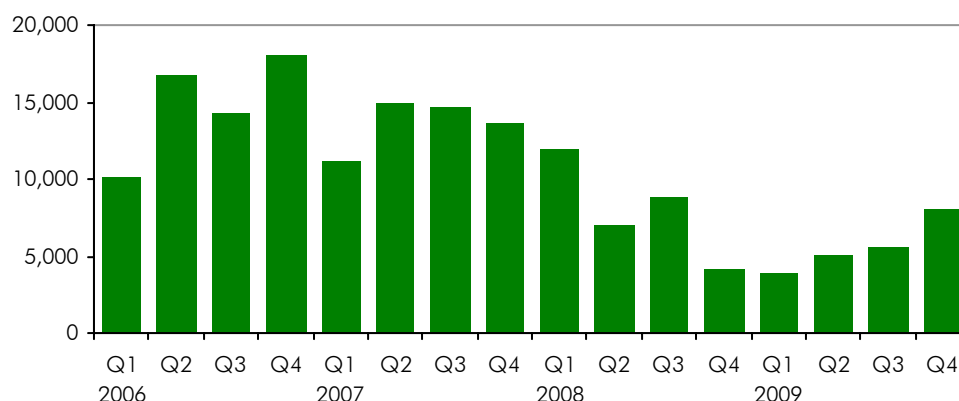
• Domestic investors dominate

In common with other property sectors, the level of cross-border investment activity in retail property fell sharply in 2009. The second half of the year saw a slight improvement, but the retail investment market remains dominated by domestic investors.

• Owner-occupier sales

One of the most interesting trends has been the growth in sales of retail property by owner-occupiers. These have become a significant proportion of total transactions due to the combination of food retailers selling supermarkets and hypermarkets and banks selling their high street branch networks. Retail property accounted for 44% of all owner-occupier sales in 2009, a significant change from earlier years.

Total Retail Investment Turnover in Europe (€ million)



Source: CB Richard Ellis

INVESTMENT BY COUNTRY

The European retail investment market in the second half of 2009 was dominated by the turnover growth in the UK. Already the biggest market in Europe, strong growth in the UK took its share of total market activity to nearly 43%, a long way ahead of Germany with a 16% market share.

A few substantial portfolios certainly helped to boost the UK's share. However, the largest of these was less than €500 million and so this growth in turnover reflects a genuinely more active market. An interesting aspect to the UK market in the last six months of the year is that it was split quite evenly between different types of retail property. Shopping centres, retail warehousing and high street retail were all well represented in the total, reinforcing the view of a broad recovery in market activity.

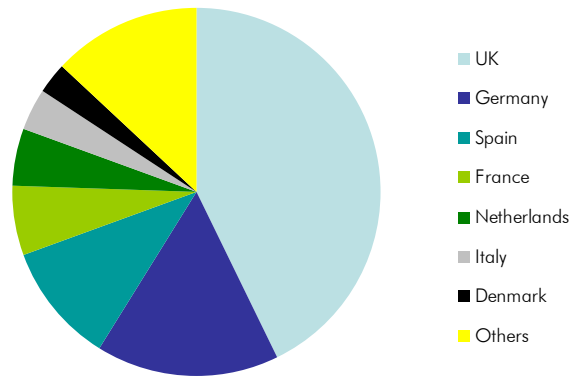
The strongest growth from H1 2009 to H2 2009 was actually seen in the CEE, where the total value of transactions completed jumped by 480%! However, this is more a reflection of the very low level of investment in the first half of the year. Despite the spectacular growth recorded, the second half remained weak, heavily concentrated in a number of shopping centre deals in Poland and Hungary.

The Nordics region also recorded strong growth, although again from a low base. Year-on-year comparisons for the Nordic region are misleading because of the Steen & Strøm portfolio transacted at the end of 2008. However, the €880 million invested in H2 2009 does bring activity level close to 2003-2005 levels.

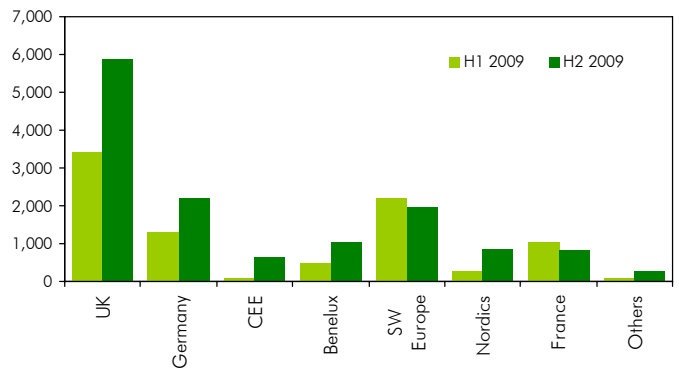
Germany was the second largest retail investment market in Europe in H2 2009 at around €2.2 billion. Most notable were the transactions involving major shopping centres in Berlin, Hamburg and Dortmund. Nevertheless, in common with the UK, the German market activity was spread across all sectors, with substantial amounts of both high street and out-of-town retail warehousing also changing hands.

France actually saw a slight fall in the total value of retail investment in the second half of the year. H1 saw a very high level of shopping centre activity, with over €0.5 billion invested in the sector. In H2 the level of shopping centre investment fell back, although to levels that are still relatively high for France.

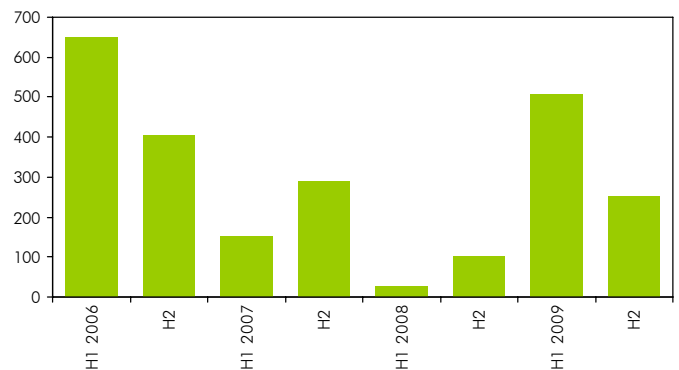
Retail Investment by Country, H2 2009



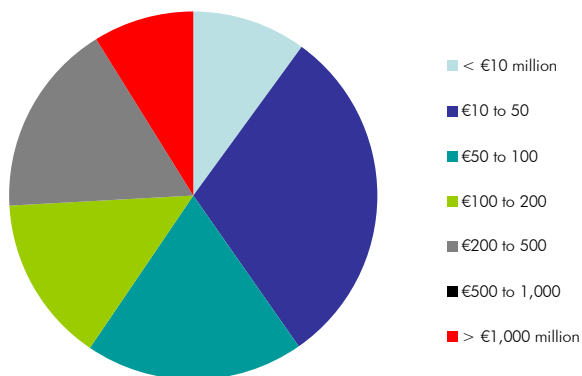
Retail Investment by Region (€ million)



Shopping Centre Investment in France (€ million)



Turnover By Deal Size, H2 2009



Largest Retail Investment Deals in Europe, H2 2009

Market/Sector	Buyer	Price, € million
Spain/Bank Branches	RREEF/AREA/Europa	1,150
UK/Supermarkets	Unidentified UK Pension Fund	429
UK/Shopping Centre	Hammerson Plc /Canada PPBI	331
UK/Retail Warehouse	SWIP Property Trust	289
Denmark/Shopping Centre	Dades	282
UK/Shopping Centre	Future Fund	238
Poland/Shopping Centre	Macquarie Global	236
Belgium/Shopping Centre	Unilmmo: Europa	200
Finland/Mixed Retail	Varma Mutual	confidential

DEAL SIZE/ACTIVITY BY SUB-SECTOR

In the retail sector, as in all other parts of the real estate investment market, large transactions have been few and far between over the last two years.

This is the result of a number of factors connected with the credit crunch, recession and crash in property values. However, the most significant factor appears to be the absence of a functioning debt securitisation market. This has severely restricted the market's ability to support the large portfolio transactions that made up so much of the turnover in 2005/07.

The second half of 2009 saw only one transaction for more than €500 million, the sale-and-leaseback of a large portfolio of bank branches by BBVA for €1.2 billion. In fact the transaction in many ways mirrored those that were seen at the top of the market, with a high proportion of debt, provided by a consortium of banks. However, the margins demanded by the banks were substantially higher than would have been the case two or three years ago.

In contrast, the second half of 2009 saw a sharp jump in the number and value of transactions in the €200 to €500 million category. Totalling nearly €2 billion, there were seven €200 million plus deals reported in in the final quarter of the year, having averaged only one or two transactions in each of the previous four quarters. Of particular note were the number of large shopping centres traded, with deals recorded in the UK, Poland, Denmark and Belgium.

The buyers active in this segment are indicative of those that are driving the market generally. Institutional capital features strongly, although it is also interesting to note the presence of Union Investment. Germany open-ended funds have been building up their activity outside the office sector over the last few years and 2009 was notable for the number of transactions in the retail and industrial sectors.

Despite this, shopping centre transactions have fallen as a proportion of total retail investment activity over the last couple of years. In 2009, shopping centres made up just a third of total activity, by value.

An important driver of this has been the relatively high number of sale-and-leaseback transactions involving more unusual segments of the retail sector. As discussed later in the report, bank branch outlets have been a significant feature of the market. In addition, there have also been a large number of deals involving supermarkets and hypermarkets.

Shopping Centre v All Other Retail Investment (€ million)



OWNER-OCCUPIER SALES

The last year has continued to see a significant number of corporate disposals, with occupier and public sector real estate sales making up almost a fifth of the total European commercial real estate market. Corporate property disposals as a way of raising equity is not news, but the prominence of the retail sector within this segment is a relatively new phenomenon.

Over the previous five years the retail sector has, on average, accounted for 29% of corporate real estate disposals in Europe. In 2009, however, this share increased significantly to 44%.

There are two main reasons for this: Firstly – investor interest is concentrated on assets secured against long leases to good covenants. In a post-Lehmans world retailers, and supermarket chains in particular, are perceived as some of the most secure occupiers, making now an attractive time for them to sell their real estate.

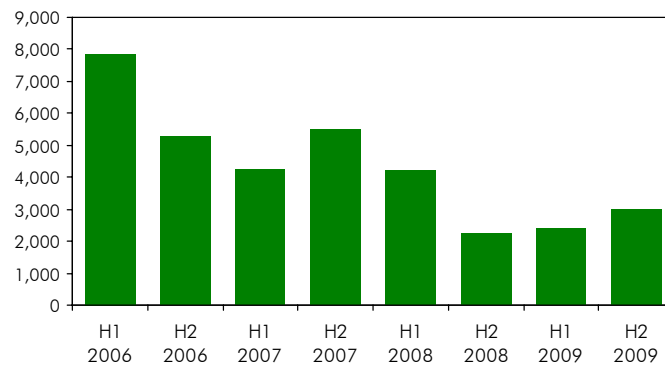
The UK, France and Finland saw a number of these transactions in 2009. Tesco, Sainsburys, Casino and Kesko all executed sale-and-leaseback transactions of substantial retail portfolios during the year.

The second major driver of retail sale-and-leaseback transactions has been the behaviour of the banks. As part of their strategy to increase the equity on their balance sheets, financial institutions have been particularly active vendors of their owned/occupied real estate. Disposals of high street bank branches were a prominent feature of 2009, boosting the retail share of corporate sales significantly.

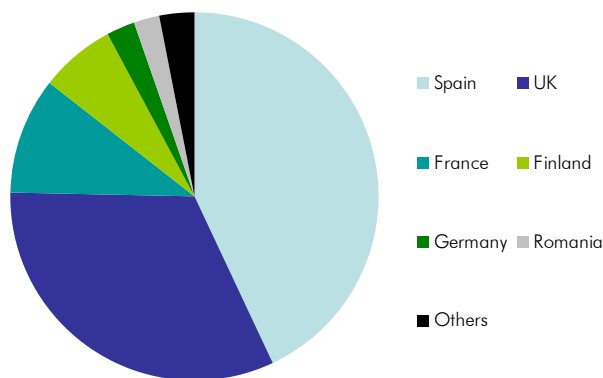
The buyer profile of retail sale-and-leasebacks in H2 2009 was particularly notable. Institutional investors dominated, accounting for over 70% of the total. This is not surprising, in today's difficult financing conditions there are few non-institutional buyers with the amount of equity needed to compete in the larger corporate sales. Institutions are particularly attracted to the long leases and secure covenants that sale-and-leaseback transactions offer. UK pension funds have been particularly active, although typically only in the UK.

This dominance by institutional buyers is not as evident in the market as a whole. They accounted for 26% of non-retail corporate sales in H2 2009 and their share of the market if corporate sales are excluded is just 18%.

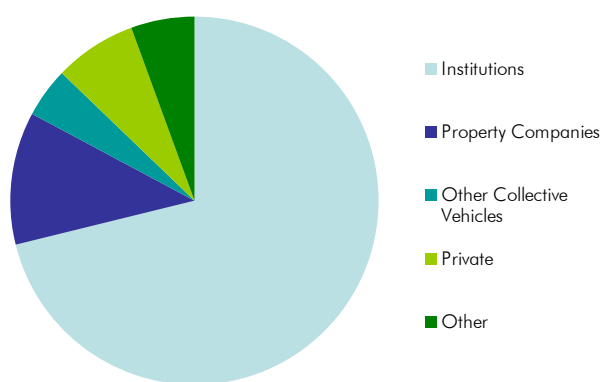
Total Value of Retail Sales by Owner-Occupiers (€ million)



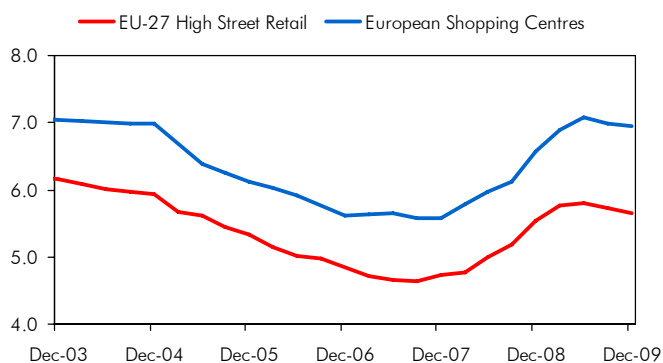
Retail Sales by Owner-Occupiers by Country, H2 2009



Investors in Retail Owner-Occupier Sales, H2 2009



Average Prime Yields (%)



YIELDS

Prime retail yields in Europe started to trend downwards again in the second half of 2009, although the movement was fairly small. The average retail prime yield for the EU-27 fell by 16 bps in H2, reaching 5.66%.

The trend has been fairly stable across all major property sectors, with office, industrial and shopping centre yields also seeing a fall in the second half of the year.

So far, the number of locations where prime yields are on the decline has been fairly limited. The UK and France have accounted for the vast majority of the decline in the index, although prime yields in Vienna, Rome and Utrecht also fell in the second half of 2009.

In common with other property sectors, investor interest in retail property is quite concentrated at the prime end of the market. Therefore although yields are starting to fall quite sharply for prime property, the yields on secondary retail are generally stable at best.

CAPITAL VALUES

Falling yields have almost completely turned around the trend in prime capital values. Based on prime rents and yields, the value of high street retail property fell by over 18% in the year to March 2009. By the end of 2009, the rate of year-on-year decline had fallen to just over 7% and there were quarter-on-quarter increases in both Q3 and Q4.

Slight falls in rental values have contributed to the decline in capital values during the year. However, at the prime end of the market, retail rents have been much more resilient than those in the office and industrial sectors. In fact, unlike the other sectors, the prime retail rent index showed an increase (albeit a small one) in the final quarter of 2009.

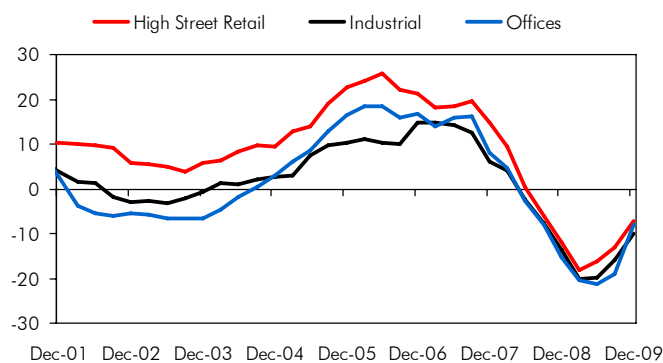
As with yields, the capital value picture is less positive for secondary property than for prime. Although retail sales have held up relatively well in Europe through the recession, secondary retail is under pressure from a variety of effects that have a lesser impact on prime, but which are suppressing growth for secondary retail.

Looking ahead, given the substantial yield gap between property and the risk free rate, prime yields are expected to continue to fall in the first half of 2010. However, the divide between prime and secondary looks set to continue.

Average Prime Yield Index

	Q1 2009	Q2 2009	Q3 2009	Q4 2009
EU-27 Average Prime Yield (%)	5.77	5.81	5.72	5.66
Quarter-on-quarter Shift (bps)	23	4	-9	-7
Year-on-year Shift (bps)	100	82	53	12
European S/C Average Prime Yield (%)	6.90	7.08	6.98	6.95
Quarter-on-quarter Shift (bps)	32	18	-10	-3
Year-on-year Shift (bps)	90	75	54	24

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



CROSS-BORDER INVESTMENT

Over the last two years the proportion of cross-border investment in the market as a whole has experienced a sharp decline. In a more risk-averse world, investors have been more focussed on their home markets than before.

The same effect has been seen in the retail sector, where the percentage of transactions involving a foreign buyer has fallen from above the average for the market as a whole in 2006/07 to below average in 2009. There was a slight pick up from H1 2009 (28%) to H2 2009 (33%), but this is still well below the proportion that was seen in earlier years.

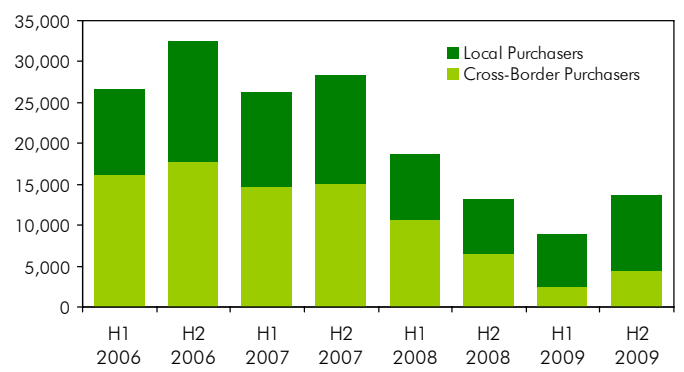
This absence of foreign buyers is not seen as a long-term trend, and once attitudes to risk normalise the proportion of the market taken by foreign buyers is expected to increase.

American investors topped the list of cross-border investors in retail for the second half of 2009, and indeed for 2009 as a whole. However, this mainly reflects their involvement in the biggest retail deal of the year. Generally US investors are not very active in the European markets at the moment and there is no sign of an imminent increase in their activity.

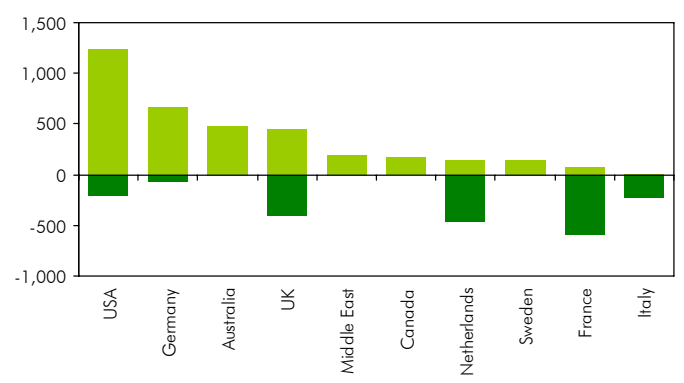
The increased interest that the open-ended funds are taking in the retail sector has also made German investors key players in the cross-border market, executing several major shopping centre transactions. Spezial Fonds were also notable cross-border investors in European retail in 2009.

From the chart below, it can be seen that cross-border investment was limited to a relatively small number of countries in H2 2009. The CEE region continues to see high levels of foreign investment, but even here there is a much stronger proportion of domestic demand underpinning the market.

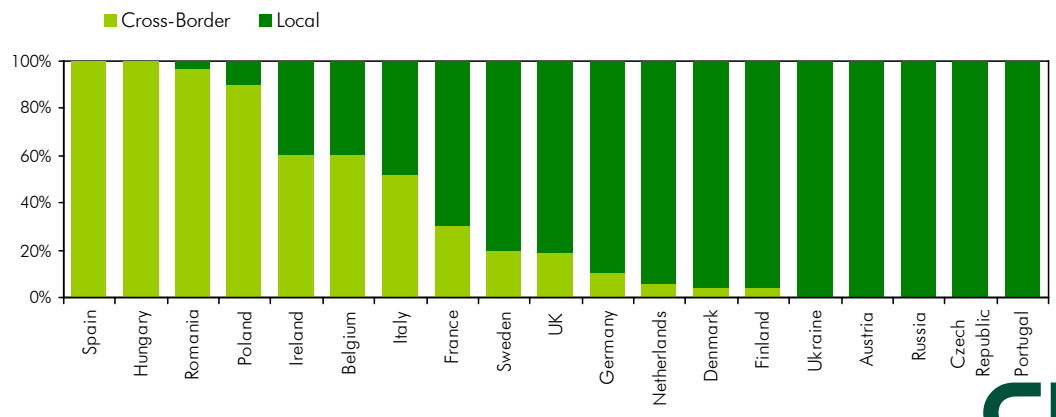
Retail Investment Activity in Europe (€million)



Cross-Border Purchases and Sales (€ million), H2 2009



Proportion of Investment Activity by Cross-Border Buyers in the Retail Sector in H2 2009



MARKET ANALYSIS



In contrast to the previous couple of years there was hardly any retail investment activity in **Austria** in 2009. Retail accounted for only 15% of the investment total last year, with no prominent shopping centre acquisition on record.

At almost €500 million, **Belgian** retail investment activity was fairly robust, accounting for close to 40% of the overall market activity in 2009. However, this was heavily influenced by a small number of larger acquisitions. Concluded towards the year end, the €200 million acquisition by German open-ended fund Unilmmo: Europa of K in Kortrijk shopping centre in Brussels was the most prominent deal.

French retail investment was particularly strong in 2009, accounting for a quarter of the overall total, having increased from a five-year average of only 10%. Whilst the overall investment activity fell by 40% year-on-year, retail acquisitions increased by 67%. This up-tick was partially influenced by a number of large transactions – such as the Mercalys purchasing a portfolio of Casino supermarkets and the €160 million purchase of LE 31 shopping centre in Lille by TMW for two of its Spezial Fonds: EuRetail and BTI.

The **German** investment market saw a year of two halves, with activity picking up significantly in the last six months of 2009. At €3.5 billion, retail investments accounted for a third of the overall annual total, with activity spread across the board in terms of both type of retail property traded and locations.

The **Irish** investment market is one of Europe's most affected by the downturn, with very limited activity so far. Last year saw less than €100 million worth of property change hands, with mainly private investors buying small lot sizes. One most prominent and much discussed prime transaction has been that by one of Deka's Spezial Fonds of the Tommy Hilfiger store on Dublin's Grafton Street.

At €1.8 billion, the **Italian** retail investment market was heavily influenced by the €530 million sale by UniCredit of retail bank branches. In addition, seven €50+ million shopping centres changed hands last year. The largest were the €152 million Antegnate shopping centre and the €143 million Auchan Monza shopping centre. Both were purchased by German open-ended funds – AXA Immoselect and Unilmmo: Deutschland respectively.

Retail investment in the **Netherlands** reached over €1 billion in 2009, a significant fall on the €2 billion transacted in 2008. In contrast to most European markets, there were no significant large deals, with most retail investments being in the €10 to €50 million category.

Spain was amongst the very few European markets to see retail investment activity in 2009 outpace that reported in 2008. This was heavily influenced by the €1.15 billion portfolio sale of BBVA's high street bank branches, out of the €2.3 billion market total. In addition, there were five more retail transactions over €100 million reported in 2009, inflating the average retail deal size to €104 million.

In-line with the historic trend the **UK** was the largest retail investment market in Europe in 2009, accounting for over 40% of the total. In absolute terms 2009 activity was only slightly below the €9.4 billion reported in 2008. Although the high number of smaller transactions means that the average deal size was down to only €20 million, there were 13 retail transactions for over €100 million. Of these, two were in the €500+ million category: the British Land sale of a 50% stake in Meadowhall shopping centre for €655 million and the €525 million sale of a Tesco supermarket portfolio.



The **Nordic** region saw very little activity in 2009, with retail investment totalling €1.2 billion, a sharp fall compared to €5.0 billion a year before. The decline is in-line with the Nordic investment market as a

whole, which shrank by 67% over the last year. On a positive note, there was a marked contrast in trends between the first and the second half of 2009, with activity levels rising toward the year-end – a sentiment which is expected to continue into 2010.



In-line with the weak sentiment in the overall **CEE** investment market, retail activity was also weak. Retail investment reached €760 million in 2009, heavily concentrating on Poland and Hungary.

Activity levels picked up towards the year-end, with ten out of the 25 deals in 2009 taking place in Q4. The average size of the retail transactions also increased, from €12 million in H1 2009 to €45 million in the last six months of the year.

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 environments – 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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