BNP PARIBAS REAL ESTATE

RESEARCH

PROPERTY REPORT
RETAIL MARKETS IN WESTERN EUROPE
Q1 2012

CONTACTS

BUSINESS

FRANCE
Thierry Bonniol
Head of Retail Letting & Sales
thierry.bonniol@bnpparibas.com
Tel.: +33(0)1 47 59 24 19

GERMANY
Christoph Scharf
Head of Retail Letting
christoph.scharf@bnpparibas.com
Tel.: +49-30-884 65-228

Frank Loeblein
Head of Retail Investment
frank.loeblein@bnpparibas.com
Tel.: +49-69-298 99-111

ITALY
Marco Pellizzari
Head of Letting & Sales
marco.pellizzari@bnpparibas.com
Tel.: +39 02 3211 5342

SPAIN
Marcos Diéguez Jiménez de la Espada
Director Retail Investment/Letting & Sales
marcos.dieguez@bnpparibas.com
Tel.: +34 91 454 99 55

UNITED KINGDOM
Ian Parish
Head of Letting & Sales
Ian.parish@bnpparibas.com
Tel.: +44(0)207 338 4327

RESEARCH

Christophe Pineau
Head of International Research
christophe.pineau@bnpparibas.com

Zsolt Nenkov
Research analyst
zsolt.nenkov@bnpparibas.com

EXECUTIVE SUMMARY

Prime high-streets defy austerity's impact

Prime high-street retail markets enjoyed strong demand in Q1 2012 with significant expansion activity from international retailers. Prime rents remain at high levels and are even still increasing in many places. Despite the attractiveness of retail assets, investment recorded a weaker start of the year as larger deals were absent.

Fiscal austerity measures in Europe are impacting retail market outlook

- The Euro area avoided recession in Q1 2012 but growth is to remain weak
- Retail sales and consumer spending will continue to weaken in 2012

In a challenging context high-street prime retail is set to perform well

- Occupier demand remains resilient in key prime locations where supply is very low
- Although prime rents stabilised since H2 2011, there is room for further rental growth in Germany

Retail investment is currently slowing down in Western Europe

- Fewer large deals were recorded since the start of the year
- Germany still outperforming whilst Italy and Spain are lagging behind
- Almost no prime yield movement was recorded since H2 2011

June 2012

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RETAIL SALES GROWTH EXPECTED IN CORE ECONOMIES

Negative economic activity characterised Western Europe in Q4 2011. France was the only major economy to have recorded a positive GDP growth (0.2%, q/q). Despite this the Euro zone economy achieved a 1.7% GDP growth in 2011 overall, driven by the strong growth seen in the early part of the year. Recently released data has shown that 2012 started in the same vein as late 2011 with most economies seeing weak activity.

At the heart of this is a sharp fall in sentiment arising from continuing uncertainty about the public finance stability of many European economies. While the recent liquidity programmes by the ECB managed to sooth concerns in the financial markets albeit temporarily, concerns among businesses and consumers remain deeper rooted. As such consumer confidence has continued to fall, particularly in the Southern European countries.

Divergence in national economic performance will remain an ongoing theme in 2012, inside and outside the Euro zone. In Germany the economic picture continues to strengthen, with rising consumer confidence, a historic low unemployment rate and consumer spending that is making increasing contribution to GDP growth. Despite rising unemployment and falling confidence, consumer spending in France remains stable. In contrast in the UK, Italy and Spain, consumer spending remains under pressure. We expect this to continue through 2012, on the back of a continued fall in consumer and business confidence, rising unemployment and weak real wage growth.

The outlook for the European economies over the next three quarters remains fragile. Even though we anticipate flat growth in the Euro zone (0.0%) and weak growth in the UK (1.0%) in 2012, the risks to these outlooks are very much on the downside.

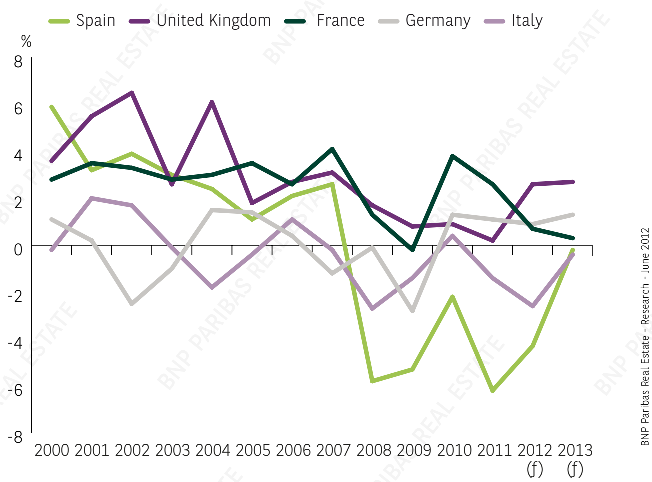
Despite the uncertain economic context, prime high-street retail markets remained resilient recording growing prime rents in 7 of the 9 major Western European markets on a yearly basis. Indeed, supply is limited in prime areas, not matching the buoyant demand for best locations. For instance, strong interest, especially from international retailers, pushed up London and Paris prime rents by 7% and 10% respectively during 2011. In the four largest German cities, high-street prime rents increased by 6% in 2011, accelerating on 2010.

The significant upward trend for investment was the major development in retail markets in 2011. In Q1 2012 however, retail investment lost some of its momentum. Despite the weak start, on a rolling year basis between Q1 2011 and Q1 2012 the increase in the 9 major cities was still significant (+23%). Germany maintained its leading position ahead of the UK, remaining buoyant thanks to its positive economic outlook. Only activity in Milan and Madrid dropped significantly, in line with the overall contraction in real estate markets.

GDP Growth in Western Europe

Source: Oxford Economics, BNP Paribas forecast (April 2012)

Retail Sales Growth in Western Europe



Source: Oxford Economics, BNP Paribas forecast (April 2012)

PRIME RENTS ARE STILL RISING IN GERMANY

Even though the perspective for retail sales point to a sharp slowdown in Western Europe in 2012, globally prime retail is expected to perform well. Indeed, demand is maintained at strong levels, especially from international retailers who are opening flagship stores in most sought after high-streets, where supply is already very limited.

The **UK** retail market was significantly impacted in 2011 by private sector deleveraging. Annual retail sales growth fell to just 0.3% whilst overall vacancy rate is at high levels. Nevertheless, the national picture for rental growth is more mixed. In Central London, retail sales may be boosted in 2012 due to the Olympic Games, occupier demand remains strong and the prime rent managed to increase by 7% since Q4 2010. On the other hand, in regional cities, where the outlook for retailers is less bright, prime rents have been stable since late 2010 but incentives are thought to be extensive.

In **Germany**, despite the expected economic slowdown the outlook for the national retail market remains very positive, making it attractive for new retailers the majority of which are foreign. Take-up of retail space increased by 15% in 2011 in the Big Six, the most dynamic segment being that of fashion retailers. Rents in the prime streets of the Big Six rose by 5% during 2011 with additional growth recorded in Cologne, Munich and Berlin in early 2012. Given the good health of occupier demand the increase in rents still has the momentum to continue.

In **France**, although household consumption weakened and retail sales were impacted, prime retail rents fared well. Foreign retailers keep increasing their presence and willing to pay the highest rent for the best spots in Central Paris where prime rents reached a record-high € 11,000/m² in 2011. On the Champs-Elysées, new openings dominated the last quarter of 2011 (Marks & Spencer, Banana Republic) and early 2012 (Levi's) and the anticipated opening of M.A.C. (Estée Lauder) by the end of the year. In regional cities, prime rents were either stable or rose in some cases like Bordeaux and Marseille enjoying particular interest from both national and international retailers.

In **Spain**, no improvement in the retail outlook has been recorded recently. Indeed, fiscal measures are to drag down consumer spending for the next couple of years. The drop in retail sales even accelerated in April confirming the pessimism surrounding the economy. But demand for prime locations was quite resilient keeping prime rent in Madrid at € 1,920 in the second half of last year and the same trend is expected for the rest of 2012.

High street prime rents in major European markets (€/m²/year)

City	Area	Q4 2011	Q2 2011	Q4 2010
Central Paris	Avenue des Champs-Elysées	11,000	11,000	10,000
Central London	Oxford Street - West	9,353	9,353	8,708
Munich	Kaufinger Straße	3,960	3,840	3,780
Frankfurt	Zeil	3,600	3,420	3,240
Glasgow	Buchanan Street	3,483	3,483	3,483
Cologne	Schildergasse	3,240	3,180	3,120
Leeds	Briggate Street	3,225	3,225	3,225
Berlin	Tauentzienstraße	3,120	3,120	3,000
Hamburg	Spitaler Straße	3,120	3,060	2,940
Cardiff	Queen Street	2,903	2,903	2,903
Düsseldorf	Königsallee	2,880	2,880	2,760
Manchester	Market Street	2,838	2,838	2,838
Edinburgh	Princes Street	2,709	2,709	2,709
Lyon	Rue de la République	2,600	2,600	2,900
Marseille	Rue Saint-Ferréol	2,300	2,300	2,000
Lille	Rue de Béthune	2,220	2,220	n.a.
Madrid	Calle Serrano	1,920	2,155	2,280
Bordeaux	Rue Sainte-Catherine	1,800	1,700	1,600
Nice	Avenue Jean Médecin	1,800	1,800	1,800
Toulouse	Rue Alsace-Lorraine	1,600	1,500	1,600
Brussels	Rue Neuve	1,600	1,600	1,600

Constant Exchange Rate for UK cities: £/€ 1.1985 (Q1 2012 average)

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MORE FOCUS ON SHOPPING CENTRE RENOVATIONS AND EXTENSIONS

Despite several projects in the start of the year, current shopping centre completions in Western Europe are significantly lower compared to before 2008. The current pipeline is mostly about the extensions and renovations of existing centres as developers remain cautious and are adapting to market conditions. Indeed, large projects are still difficult to finance in the current economic context, especially since retail sales are not expected to pick up significantly until at least two years time.

In **Germany**, shopping centre space under construction increased during 2011 driven by Germany's buoyant retail market and ongoing positive sentiment about the economy. Modern shopping centre stock rose by more than 200,000 m² in 2011, rising by 50% over the previous year when the low point was reached following the outbreak of the crisis. The most significant scheme for this year is the 76,000 m² "Boulevard Berlin" completed in April 2012. Several other projects are expected to be completed this year even though they are mainly refurbishments of older centres.

In the **UK**, current shopping centre space under construction remains weak. The development pipeline has been reduced by almost 2/3 since the peak recorded in 2007. If last year was dominated by the opening of "Westfield Stratford", Europe's largest shopping mall, in 2012 new supply will consist of mostly extensions and renovations. The next large project is the "Trinity Leeds" shopping-centre due to be completed in 2013.

In **France**, in a context of slowing down in retail sales, well established shopping centres are more resilient in their turnover and footfall. The start of the year saw the openings of two large projects: "Lyon Confluence" (53,000 m²) and "Atoll" (71,000 m²) in April 2012. Several large projects are expected for 2013-2014 as well. Construction activity will be also boosted in the near future as part of stadium building projects in preparation for the Euro 2016.

In **Spain**, with obvious financing difficulties shopping centre development activity is lagging behind other Western European countries. Following the recent delivery of the 60,000 m² "Gran Plaza 2" in Madrid, which counts with the support of international brands like Zara, Primark and H&M, no significant new supply should arrive onto the market in the next couple of years.

Recent major shopping centre completions

Country	City	Property Name	Surface (m²)	Date
Germany	Berlin	Boulevard Berlin	76,000	April 2012
France	Angers	Atoll	71,000	April 2012
Spain	Madrid	CC Gran Plaza 2	60,000	May 2012
France	Lyon	Confluence	53,000	April 2012
UK	Newbury	Parkway	40,500	Q4 2011
Germany	Hildesheim	Arneken Galerie	28,000	Q1 2012
Germany	Duisburg	Königsgalerie	20,000	Q4 2011

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Major shopping centres in the pipeline

Country	City	Property Name	Surface (m²)	Delivery Date
UK	Leeds	Trinity Leeds	93,000	2013
France	Greater Paris	Aéroville	80,000	2013
Germany	Berlin	Leipziger Platz No.12	80,000	2013
France	Marseille	Les Terrasses du Port	54,000	2014
Germany	Frankfurt	Skyline Plaza	45,600	2013
France	Marseille	Bleu Capelette	42,000	2014
Germany	Leipzig	Höfe am Brühl	30,000	Q4 2012

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Westfield Stratford Shopping Centre (Greater London)

WEAKER START FOR RETAIL INVESTMENT IN 2012

Investment activity in Europe was clearly impacted by weaker economic performance, difficult access to financing and increasing tensions in financial markets at the start of 2012. On a rolling year basis between Q1 2011 and Q1 2012, retail investment dropped by 26% in the 5 major countries but still increased by 23% in the 9 major Western European cities. The current slowdown is mainly due to the lack of large transactions that boosted volumes last year and particularly during Q1 2011. Nevertheless, prime retail remains attractive thanks to the absence of risk as it is offering the best perspectives in terms of footfall and turnover.

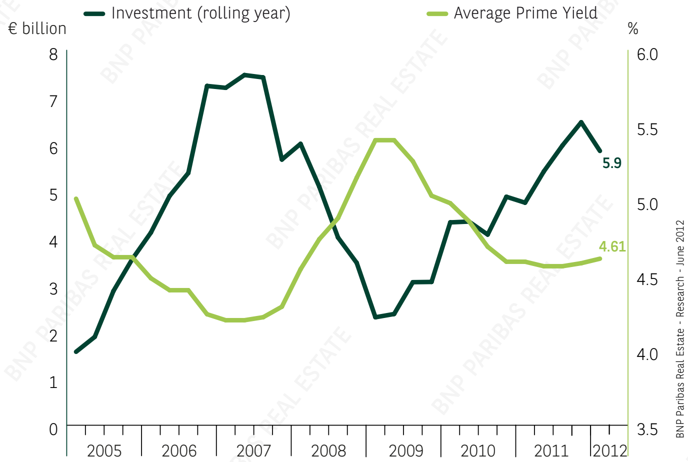
In 2011, real estate investment in **Germany** was driven by the retail segment. Indeed, retail investment in the Big Six markets rose by 30% on a rolling year basis between Q1 2011 and Q1 2012. Retail's attractiveness is largely due to solid economic performance in 2011 and positive developments in the occupier market (low vacancy, prime rents still increasing).

In the **UK**, the retail investment volume in Q1 2012 fell to a three-year low. The numbers are lower partly because, unlike in Q1 2011, no deal like Trafford Park (at over €1 billion the largest UK deal in 2011) took place. The more fundamental structural reason is that slowdown is related to the rise in risk. Investors are more cautious about the state of the retail occupier market, especially outside London where the vacancy rate is likely to stay high.

The **French** retail investment market, driven by outsourcing and thanks to a particularly strong final quarter, almost matched the prior-year result in 2011 and remained at very high levels compared the long term average. Given the strength of retail sales in both 2010 and 2011 (+3.2% on average) retail remained attractive.

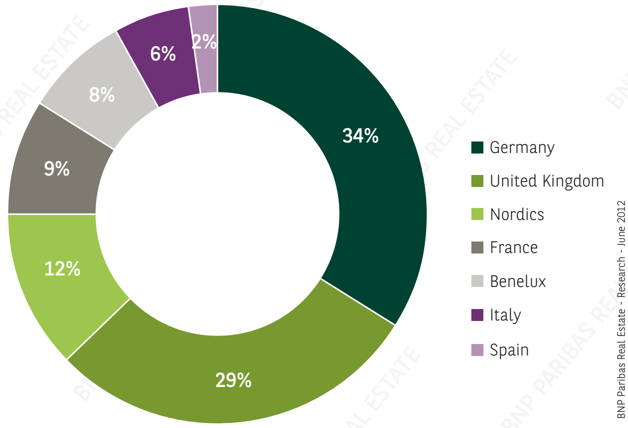
In **Italy**, 2011 was characterised by a very high level of retail property investments since it has been considered a refuge asset in a highly uncertain time such as the present. In 2012, investments in commercial real estate in general were quite poor since given the current market conditions, investors are expecting yields rising and thus adopting a wait and see attitude. Risk aversion increased considerably in **Spain** over the recent period due to the return of economic recession.

European Retail Investment & Prime Yield
9 main cities in Western Europe



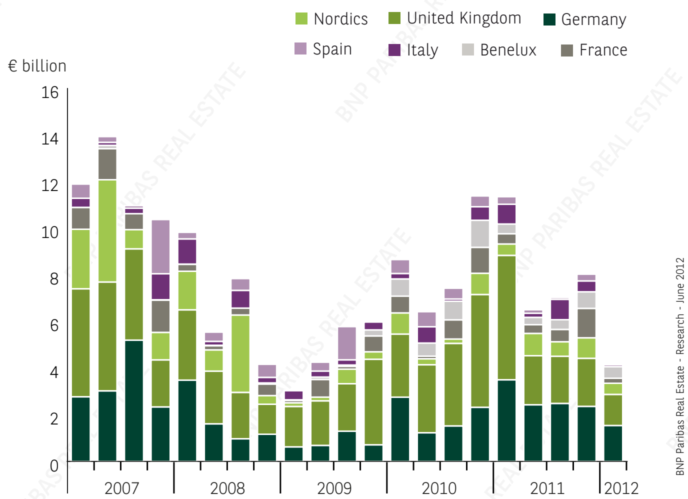
Source: BNP Paribas Real Estate

Retail Investment by Country in Q1 2012
rolling year



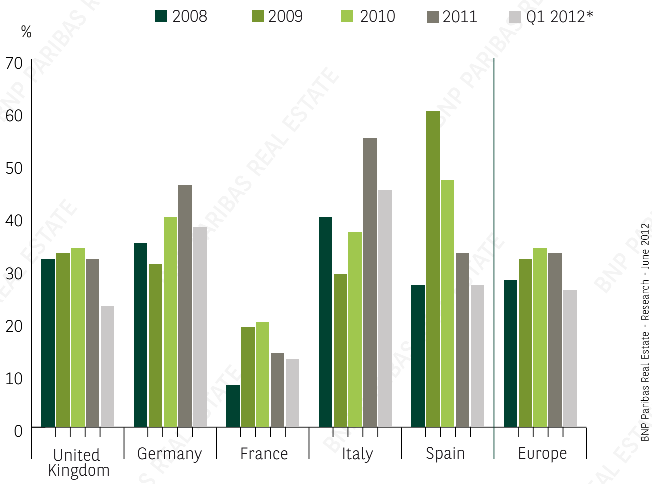
Source: BNP Paribas Real Estate

Retail Investment in Western Europe



Source: BNP Paribas Real Estate

Retail's Share of Total Investment



Source: BNP Paribas Real Estate

* rolling year

STABILITY IN PRIME RETAIL YIELDS SINCE H2 2011

In the second half of 2011, few yield movements were recorded across Western European retail markets. Prime retail yields seem to have stabilised for all retail categories and given the expected weakening activity in retail investment in 2012, any yield drop is highly unlikely. Yields could even move out for secondary assets as investors focus on core areas in these uncertain times.

In the **UK**, retail yields increased slightly for high-street shops reflecting the current difficulties in the occupier market. Shopping centres continued to enjoy strong demand and recorded stable yields at 5.75% in Q1 2012.

In **Germany**, high-street prime yields were unchanged for the past 4 quarters in the Big Six markets and the same trend characterised retail warehousing yields. However, shopping centres as the most popular retail product recorded a 40bp drop to 5% in 2011.

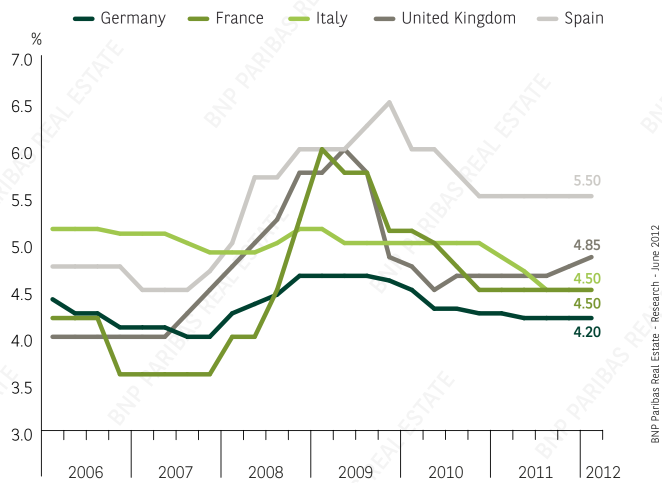
In **France**, since the outbreak of the crisis, high-street retail remained particularly attractive to investors as rents resisted well thus helping to reduce yields. Investors were also actively competing for the few quality shopping centres in the market leading to sharp yield drop in 2011. The same downward yield movement was noticed for retail warehouses that enjoyed growing interest in the past couple of years. Currently, prime yields are between 4.38% for high-street retail, 4.88% for shopping centres and 6.25% for retail parks.

In **Italy**, the prime retail yield dropped by 35bp to 4.50% during 2011, reflecting the increased interest from investors for core high-street areas. In the meantime, shopping centre yields moved out by 10bp to reach 6.50% and came close to the high-point recorded in 2009. In **Spain**, prime retail yields remained stable at 5.50% at the end of 2011 and in Q1 2012 as well. The owners' unwillingness to sell property at higher yield levels requested by investors explains the current stability.

Average Prime Yield in Europe

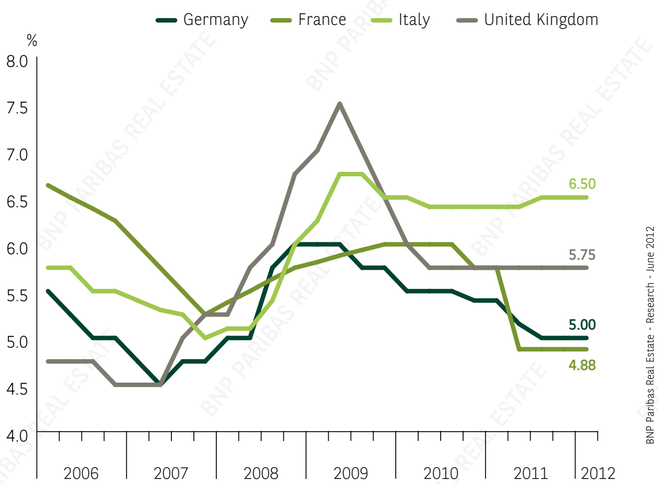
Source: BNP Paribas Real Estate

High Street Prime Yields in Europe



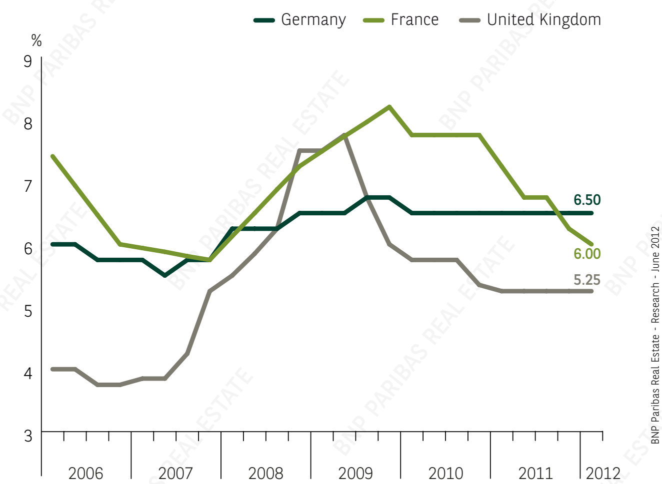
Source: BNP Paribas Real Estate

Shopping Centre Prime Yields in Europe



Source: BNP Paribas Real Estate

Out-of-town Prime Yields in Europe



Source: BNP Paribas Real Estate

GLOSSARY

BNP Paribas Real Estate is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have highlighted those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.

Furthermore we have decided to adopt the PEPCIG[1] definitions, on which most of the following indicators published by BNP Paribas Real Estate are based. Other indicators are from INREV[2] and from BNP Paribas Real Estate .

Asset categories:

High-street retail: The high street denotes where 'core' retail activity resides. In this definition 'High Street' includes prime, as well as secondary retail locations. It includes street-level stores and mixed-use buildings, but excludes stores located in shopping centres.

Shopping centre: A shopping centre is a purpose-built complex of shops, restaurants, etc, which can be located in either in-town or out of town locations.

Supermarkets, Hypermarkets and Discount stores (SHD):

- ***Supermarket:*** are stores which predominately sell grocery. Supermarkets can be located either in-town or out-of-town. Supermarkets are retail establishments which generate over two thirds of its sales from food and measuring 400-2,500 m²
- ***Hypermarket:*** is a large retail store which sells a variety of products such as appliances, clothing and groceries.
- ***Discount stores:*** tend to offer a wide array of products, but they compete mainly on price and offer merchandise at affordable and cut-rate prices. Discount retailers normally sell less fashion-oriented brands.

Out-of-town retail: This includes Retail Warehouses (Retail Parks), Fashion Parks, Designer Outlet Centres and Factory Outlet Centres

- ***Retail Warehouse:*** are big sheds that offer retailers space to adapt (occasionally with a mezzanine level where permitted) and generally cheap rents. They first started out mainly as solus (single) units but are usually found these days as part of larger agglomerations located in Retail Parks.
- ***Fashion Parks:*** tend to be outdoor centres offering a distinct retail mix dominated by fashion brands. Fashion Parks predominately sell clothing and footwear merchandise.
- ***Designer Outlet Centres:*** tend to be outdoor centres which predominately sell designer and luxury goods at discount prices.
- ***Factory Outlet Centres:*** offer a distinct retail mix, focused on providing branded goods at discounted prices. Factory Outlet centres tend to be located in out-of-town locations.

Department store: is a retail establishment which sells a diverse range of goods from a number of different brands. Department stores tend to offer a range of concession brands under one roof, as well as 'own brand' goods.

Retailer Definitions

Flagship store: A "flagship" store is often considered to be a retailers 'showcase' store. It is usually in a primary and prominent location. It tends to be a chain's largest store and generally the store that holds or sells the highest volume of merchandise.

Property Definitions

Prime Pitch: Prime Pitch is the best and most sought after retail location. Generally prime pitch is the location with the greatest footfall, the best quality of retail brands, and the highest rental values.

Prime rental value: Prime rental value is the highest meaningful rental value for a top trading location.

GLA: Gross Letting Area: total area let to merchants, including all sales and additional space.

Selling area: The selling area is divided into three subcategories: sales area, storage and staff areas. Deduction is then made of pillars, outside walls and vertical circulation.

Leasing rights: The tenant owns the renewal rights to the lease, expressed as a commercial ownership. It may sell its rights to another merchant. The payment for this sale is made to the selling tenant.

Right of entry: The right of entry or premium for goodwill is the sum paid by the tenant to the owner on signing the lease for a vacant unit. It is considered as a supplement to rent for the owner.

Investment Definitions

Initial prime net yield: Net income over purchase price plus all other costs of acquisition.

Investment volume: All retail properties BNP Paribas Real Estate is aware of, whose owner has changed during the analysed period, whatever the purchasing price is.

[1] Pan-European Property Common Interest Group. This group assembles a wide range of European advisors and investors and major agents.

[2] European Association for Investors in Non-listed Real Estate Vehicles.

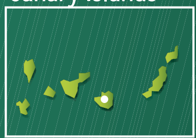
INTERNATIONAL COVERAGE FOR LOCAL SOLUTIONS

USA

India

Japan

Canary Islands



Cyprus

- Our locations
- Our alliances

SERVICES OFFERS

Property development
Barbara Koreniouguine
Tel.: +33 (0)1 55 65 27 78
barbara.koreniouguine@bnpparibas.com

International Investment Group
Peter Roesler
Tel.: +49 69 298 99 940
peter.roesler@bnpparibas.com

Consulting
Sylvain Hasse
Tel.: +33 (0)1 47 59 23 57
sylvain.hasse@bnpparibas.com

Valuation
Jean-Claude Dubois
Tel.: +33 (0)1 47 59 18 10
jean-claude.j.dubois@bnpparibas.com

Property Management
Lauric Leclerc
Tel.: +33 (0)1 55 65 29 29
lauric.leclerc@bnpparibas.com

Investment Management
David Aubin
Tel.: +33(0)1 55 65 26 06
david.aubin@bnpparibas.com

CLIENT SOLUTIONS

Guillaume Delattre
Tel.: +33 (0)1 55 65 24 31
guillaume.delattre@bnpparibas.com

RESEARCH

Christophe Pineau
Tel.: +33 (0)1 47 59 24 77
christophe.pineau@bnpparibas.com

MAIN LOCATIONS

ABU DHABI
Al Bateen Area
Plot n° 144, W-11
New Al Bateen Municipality
Street n° 32
P.O. Box 2742 Abu Dhabi
Tel.: +971 44 248 277
Fax: +971 44 257 817

BELGIUM
Boulevard Louis
Schmidtlaan 2 B3
1040 Brussels
Tel.: +32 2 290 59 59
Fax: +32 2 290 59 69

CZECH REPUBLIC
Pobřežní 3
186 00 Prague 8
Tel.: +420 224 835 000
Fax: +420 222 323 723

DUBAI
Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubaï
Tel.: +971 44 248 277
Fax: +971 44 257 817

FRANCE
167, Quai de la Bataille
de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04
Fax: +33 1 55 65 20 00

GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0
Fax: +49 69 2 92 91 4

HUNGARY
Alkotás u. 53.
H-1123 Budapest,
Tel.: +36 1 487 5501
Fax: +36 1 487 5542

INDIA
21, 2nd Floor, 1 North Avenue,
Maker Maxity, Bandra (E),
Mumbai-400051
Tel.: +91 22 3370 4162
Fax.: +91 22 3370 4166

IRELAND
20 Merrion Road,
Dublin 4
Tel.: +353 1 66 11 233
Fax: +353 1 67 89 981

ITALY
Corso Italia, 15/A
20122 Milan
Tel.: +39 02 58 33 141
Fax: +39 02 58 33 14 25

JERSEY
3 Floor, Dialogue House
2 - 6 Anley Street
St Helier, Jersey JE4 8RD
Tel.: +44 (0)1 534 629 001
Fax: +44 (0)1 534 629 011

LUXEMBOURG
Axento Building
Avenue J.F. Kennedy 44
1855 Luxembourg
Tel.: +352 34 94 84
Fax: +352 34 94 73

POLAND
Al. Jana Pawła II 25
00-854 Warsaw
Tel.: +48 22 653 44 00
Fax: +48 22 653 44 01

ROMANIA
Union International Center
11 Ion Campineanu Street
6th floor, 1st district
Bucharest 010031
Tel.: +40 21 312 7000
Fax: +40 21 312 7001

SPAIN
María de Molina, 54
28006 Madrid
Tel.: +34 91 454 96 00
Fax: +34 91 454 97 65

UNITED KINGDOM
5 Aldermanbury Square
London EC2V 8HR
Tel.: +44 20 7338 4000
Fax: +44 20 7430 2628

OTHER LOCATIONS

ALBANIA
AUSTRIA
BULGARIA
CYPRUS
GREECE
JAPAN
NETHERLANDS
NORTHERN IRELAND
RUSSIA
SERBIA
SLOVAKIA
SWITZERLAND
TURKEY
UKRAINE
USA

Please contact
Bernard Blanco
Tel.: +33 (0)1 47 59 20 84
bernard.blanco@bnpparibas.com

Greg Cooke
Tel.: +44 (0) 20 7338 4201
greg.cooke@bnpparibas.com

Nicolas Barbey
Tel.: +33 (0)1 47 59 20 29
nicolas.barbey@bnpparibas.com

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Headquarters: 167, Quai de la Bataille de Stalingrad - 92867 Issy Les Moulineaux Cedex - BNP Paribas Real Estate is part of the BN P Paribas Banking Group