UP! united partners United Partners Newsletter
Issue 5
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United Partners discuss client strategies

Tactics to help clients in the current economic climate were high on the agenda for discussion at The United Partners meeting in Lisbon last month (June).

Some of the conclusions drawn from these deliberations can be found on pages 2 & 3 of this newsletter, in a review of the Partners' thoughts on the state of Europe's property markets.

While in Lisbon, the Partners – which represent top property consultancies from Italy, France, UK, Spain and Portugal – visited the Dolce Vita Tejo shopping centre.

The scheme, which comprises 122,000 sq m of retail and leisure space, was 99% let when it opened in May. Developed by ING Real Estate Development and Chamartin Imobiliaria, it features over 300 shops, an 11-screen UCI a food-court with 30 restaurants, public space and parking for 9,000 cars. Anchor tenants include hypermarket Jumbo and El Corte Inglés.

Dolce Vita Tejo is also home to Kidzania, Europe's first kids theme park, a new family entertainment or "edu-tainment" concept. A 6,500 sq m, child-sized replica or a real city – complete with offices, factories, shops and sports facilities – where children can try out 60 different professions in 50 different pavilions.

Each pavilion is a kid-size replica of a real establishment (and sponsored by its grown-up counterpart). At Dolce Vita Tejo, pavilions include a Continente supermarket, Caixa Geral bank, Galp petrol station, a cereal factory from Nestlé and a CTT post office.

Build costs are relatively high, but sponsorship, admission fees and retail associated to KidZania all help to ensure a steady income. Just as importantly, the management of Dolce Vita Tejo view KidZania as an important anchor for the centre, drawing in customers and helping to shape the scheme's family-friendly profile.

Having viewed this exciting concept, the United Partners felt sure that KidZania will soon find its way into other European countries and will help to reinvent shopping centres as contemporary family leisure- and activity-destinations.

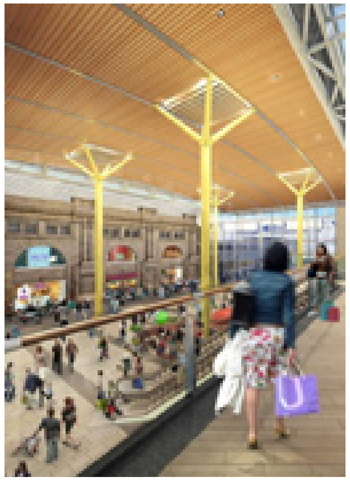
Lunson Mitchenall - UK

Union Square to open in October

In Aberdeen, where Lunson Mitchenall is acting on behalf of Hammerson, the 46,451 sq m Union Square is scheduled to open this October.

Despite the tough leasing conditions across the UK, Union Square's retail line up continues to get stronger. Recent signings include Marks & Spencer, Zara, Bestseller, Next, H&M and New Look.

Union Square comprises an internal mall, an external retail terrace, a multi-screen cinema and a Jury's Inn Hotel. The scheme will also feature a large, covered public square, with a range of restaurants at the upper level including Nandos, Ask, Chiquitos and Frankie & Bennys.



Union Square, a new retail destination for Aberdeen

RCG France

New instructions for RCG

RCG's new shopping centre asset management consulting & leasing department - created in 2008 - continues to gain market share and new clients.

La Prefecture, Sarcelles

Among a number of new instructions, the team has been appointed to work on the Auchan shopping gallery La Préfecture in Sarcelles (6,000 sq m) and on the relatively new la Vache Noire shopping centre in Arcueil, Ile-de France (51,500 sq m). In addition, the department has won the instruction to identify potential purchasers for some of the units previously occupied by top French footwear and apparel retailer Vivarte and also secured a management consulting mandate for a shopping centre in the Provence.

Meanwhile, RCG's Investment team has been commissioned by several prestigious new clients - such as Altarea CBRE Investors, Grosvenor, Klépierre and Compagnie de Phalsbourg - to sell a number of retail properties with a total value of approximately €400 million. The department has also been newly appointed by several investment companies to find prime shopping centre opportunities in the Paris region.

Larry Smith Italia LaSBA LUNSONMITCHENALL RCG

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Members of United Partners give a flavour of what is happening in each of their markets

UK – the view from Lunson Mitchenall

According to IPD, UK shopping centre values have fallen by 40% - 50% from their peak two years ago, as the financial crisis has hit the UK investment market hard – arguably harder than any other European country. Less than 10 shopping centre deals have been completed this year (2009) so far, in a market that typically sees as many as 80 transactions per annum, as financial institutions rein in lending and investor concern fights to overcome occupier uncertainty.

The shopping centre development pipeline has also effectively dried up. Less than 280,000 sq m of new space will be developed this year and only two major schemes are scheduled to open in 2009 in Aberdeen and Cardiff. By comparison, over 700,000 sq m of new retail space came on stream in 2008.

However, there is hope for owners of existing retail property. Successful retailers, faced the prospect of seeing their expansion plans stymied by the lack of new floorspace, are considering existing schemes, giving asset management opportunities for proactive landlords. As a result, more than half of the 2.2 million sq m that has become available as a result of the recent spate of retailer administrations has already been let to new tenants or reoccupied by phoenix companies.

There are some signs of yield stabilisation at the prime end of the market, particularly where income is well secured. National and international players are beginning to return to the UK investment market, some banks are cautiously starting to lend again on much lower loan to value ratios: and an increasing number of cash-rich opportunity funds are raising their heads above the parapet. Today there are 8 shopping centres under offer, suggesting more confidence in the UK investment market.

Despite this, there is still a long road to recovery and issues for banks to address in terms of their loan books. While some of the most recently released economic indicators are more positive than they have been, it is still too early to talk about green shoots or a recovery.

ITALY – the view from Larry Smith

Italy's economy has been badly affected by the global recession and the shopping centre sector is no exception. After a long period of steady and strong growth, the financial crisis precipitated a sudden collapse in Italian shopping centre investment.

Several shopping centre developers and investors have responded by adjusting their strategies, demonstrating dynamism and adaptability in the face of project postponements, a dramatic fall in consumer demand, a slowdown in leasing and the quietest commercial property market in decades.

Shopping centre developers have had to become much more amenable to retailers' requirements in terms of lease structure and rents. This shift in approach has been driven by the consolidation of large-scale chains (eg Coin with Mela Blu and Leroy Merlin with Castorama Italia), increased competition from new factory outlet centres and retail parks, as well as the need to contain management costs and the introduction of new leasing strategies.

Seven new centres opened during the first quarter of 2009 (total of 180.000 sq m GLA and 450 shops) and a further 27 schemes (including 4 factory outlets) are currently under construction. While these figures are down significantly on previous years and vacancy rates at opening are above average, they offer tangible evidence that developers are adopting a more confident outlook for the market in the long-term.

A shift towards fewer larger projects is evident in southern Italy, while smaller scale centres are being built in the north of the country. In total, as much 700.000 sq m GLA could come on stream in the next 12 to18 months.

There is an emerging consensus that the Italian shopping centre sector is showing some signs of stabilization and the investment market is expected to pick up again later in the year.

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Highcross, Leicester


La Mistica


Vado Ligure

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FRANCE – the view from RCG

The French retail sector and shopping centre market is performing much better in the global economic crisis than one might expect.

Vacancy rates are below 5% and sales are holding around average without any major retailers going into administration.

This is largely the result of strong Government regulation of a mature market, which is mainly focused on city centre regeneration together with the expansion and refurbishment of existing schemes, rather than out-of-town developments and large new schemes.

Shopping centre investment deals are at an all time low with only two major transactions completed in 2009 so far, as values have gone down while yields are up. However, compared to the economic crisis in the early 1990s, when French shopping centres lost up to 48% of value, the current situation is far less critical as with only an 8.4% decrease in value after a huge increase of up to 86% between 2003 and 2008 (figures from IPD). As a result, none of the deals done this year so far have seen centres sold at a discount on the valuation price and most have been considerably higher.

To keep this relatively stable market outlook, it is vital that French consumer consumption holds up. At the moment economic growth of just 0.1% is forecasted for 2009, but increasing unemployment rates and a 4.5% decrease in sales could be the forerunners of a trend which could have a negative impact on retailers and consequently affect the overall value of shopping centres.

In summary, in the words of Franklin D. Roosevelt: "*the only thing we have to fear is fear itself*", as consumer confidence is what the market relies on most in these difficult times.

Redeveco Bordeaux is due to open 2012

SPAIN – the view from LaSBA

Although the Spanish economy is struggling and unemployment has risen to more than 3.6 million (nearly 16% of the active population), it appears that things have begun to stabilise.

In the shopping centre development sector, market forces are driving a "flight to quality" with a shift to a more selective screening process that will result in only the very best projects proceeding in the next 2 to 3 years.

This trend is already apparent in the reduction in new space coming onto the market, just 200,000 sq m the first six months of the year, compared to 500,000 sq m in the same period in 2008.

In existing schemes, landlords are negotiating rental discounts of 15% - 30% depending on retailer type and centre location. The long period of continued rental growth has certainly come to an end and it is likely this marks the start of a permanent rental adjustment.

The investment market seems to be consolidating, with the yields sought by vendors beginning to be more realistic. Deals such as the sale of Madrid's 70,000 sq m Plenilunio Centre (sold for €262.5 million by Banif Santander to Orion) or the 32,500 sq m Principe Pío in Madrid (sold for €126.5 million by Colonial-Riofisa to Corio) representing the first signs of movement following a 9 month standstill. Hopefully this trend will continue.

PORTUGAL

The Portuguese shopping centre sector is going through a period of uncertainty as a direct result of the global economic situation. Retailers have largely suspended expansion plans as a result of the fall in consumption and, as a consequence, in turnover. Discount and hard discount stores are the only sectors currently experiencing an increase in turnover and market share.

The other key feature of the market is the difficulty in securing finance, which is having a negative impact on both developer and investor resulting in substantial delays in the development of new projects. More than 30 new shopping centres were planned for 2009 and yet only four have opened so far this year and it seems unlikely that many more will follow.

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Principe Pio Shopping Centre

Plenilunio

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Larry Smith - Italy

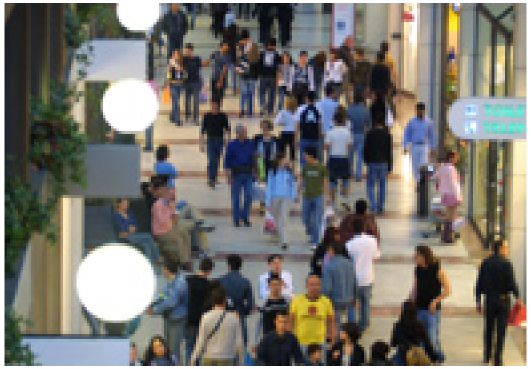
First signs of recovery in Italy

During the first quarter of 2009, shopping centres managed by Larry Smith showed the first signs of recovery.

Turnover and visitor figures were up on the last quarter of 2008 in all eight of the centres in Larry Smith's management portfolio, which is spread throughout Italy and includes the country's most visited shopping centre "I Gigli". Visitor numbers increased by 3.03% overall, reaching a peak of 9% in some cases, while the daily average grew by 4.02%. Turnover increased by 2.71%*, with particularly strong growth in January compared to the same period last year.

One of the main reasons for this market trend seems to be the "sales effect", as in recessionary times retailers' sales periods prove to be more profitable when compared to non-sale periods. Taking into consideration that the first four months of 2008 were less badly affected by the financial crisis than the same period in 2009, a slight recovery of the Italian shopping centre sector is clearly identifiable.

*excludes hypermarkets



Il Gigli

www.larrysmith.it

RCG France

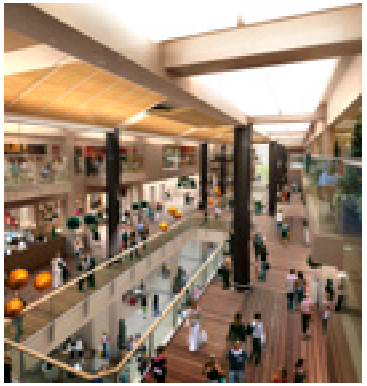
RCG helps clients through new planning process

With the introduction of the CDAC, the new French planning regulation, RCG's research team has adapted its methodology in order to help its clients through the authorisation process. As a result the department has been appointed by several developers to carry out CDAC reports for regional schemes.

www.rcgfrance.com

Lunson Mitchenall - UK

All on schedule at St David's 2



St David's 2, Cardiff will open later this year

Cardiff's St David's 2, the 89,881 sq m extension to the existing St David's Centre, will open in October 2009 – completing the city's renaissance with the arrival of John Lewis' first store in Wales. Once finished, the combined St David's centre will comprise approximately 130,064 sq m.

The large extension to the city's prime retail core has attracted a number of new retailers to the Welsh capital including Reiss, Hugo Boss and a major Urban Outfitters store. Restaurants feature strongly throughout the scheme with family dining in a new civic quarter that will boast a range of outlets including Wagamama, Gourmet Burger Kitchen and Jamie Oliver's Italian.

Hammerson appoints Lunson Mitchenall on Highcross

Lunson Mitchenall has been appointed by Hammerson on Highcross Leicester

The spectacular scheme, which has transformed Leicester's retail offer, has successfully integrated a major new award-winning extension with an exciting refurbishment of the existing centre to create a new shopping destination of 102,193 sq m. It includes a 23,225 sq m John Lewis department store.

Since opening last year (2008), the scheme has exceeded retailers' trading performance expectations and recent lettings include the international retailer Aldo and Bestseller.

Elifar Challenge

Lunson Mitchenall entered a team in the 2009 Elifar Challenge, finishing a respectable 4th out of 12 teams, which included representatives from property agents, architects, retailers and landlords.

The annual event raises money for the Elifar Foundation, a charity providing equipment and therapy for children and young adults with severe learning and physical disabilities. This year's event is estimated to have raised approximately £30,000. The challenge included beach volley ball, water polo, rowing and a general knowledge quiz along with other team building exercises.

www.lunson-mitchenall.co.uk

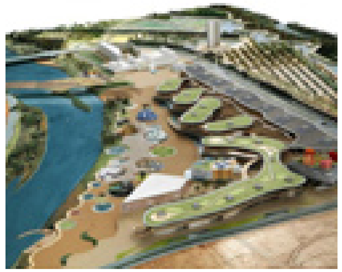
LaSBA - Spain/Portugal

200 GAME shops across Spain

Just 4 years after GAME appointed LaSBA to find new stores, Europe's leading specialist retailer of pc and video game products has become the Spanish market leader.

In total LaSBA has negotiated leases on more than 200 new shops across the country and another 30 are planned. And, in the last year, the new "Gamestation" store concept - already a success in the UK – has been introduced to Spain driving further demand.

Retail and leisure on former Expo Zaragoza site



Universal Expo of Zaragoza was the major summer event of 2008 in Spain.

More than 5.63 million people from more than 100 different countries visited the fair during the three months it was open. Now, Expo Zaragoza (the public sector organiser of the event) is investigating the redevelopment and reuse of the site including a 150,000 sq m business park with 2.000 parking spaces. LaSBA is advising Expo Zaragoza on the conception, design and promotion of a complementary retail and leisure area in some of former pavilions.

Eiffage buys new retail hybrid concept

LaSBA advised Eiffage on its recent acquisition of the Barreiro Retail Planet.

The complex, which combines an enclosed shopping mall and an outdoor retail park, is currently under construction to the south of the Tejo river on the outskirts of Lisbon. The 33,000 sq m scheme will include an 11,000 sq m Jumbo superstore together with operators such as Decathlon and AKI.

www.lasba.com