

Quick Stats

Change From
Now Towards
2010

Total CEE SC Stock	(+54%)	↑
Total CE SC Stock	(+23%)	↑
Total EE SC Stock	(+83%)	↑
Total SEE SC Stock	(+132%)	↑

Hot Topics

- Footprint of international retailers to increase across CEE
- Institutional investors' focus should be on prime assets in core CEE in the short- to medium-term
- The days of uncontrolled development are over with new opportunities arising

OVERVIEW

Central and Eastern Europe (CEE) has experienced a shopping centre (SC) boom in recent years that has transformed retail markets across the region. Most CEE cities, both large and small, have welcomed substantial amounts of shopping centre space to their markets. The size of the region's shopping centre pipeline suggests this trend is not likely to abate in the near future, even as economic uncertainty increases worldwide. Stated simply, by the end of 2010, there will be shopping centre space in nearly every CEE city, and many CEE cities will have a significantly higher amount of shopping centre space than today.

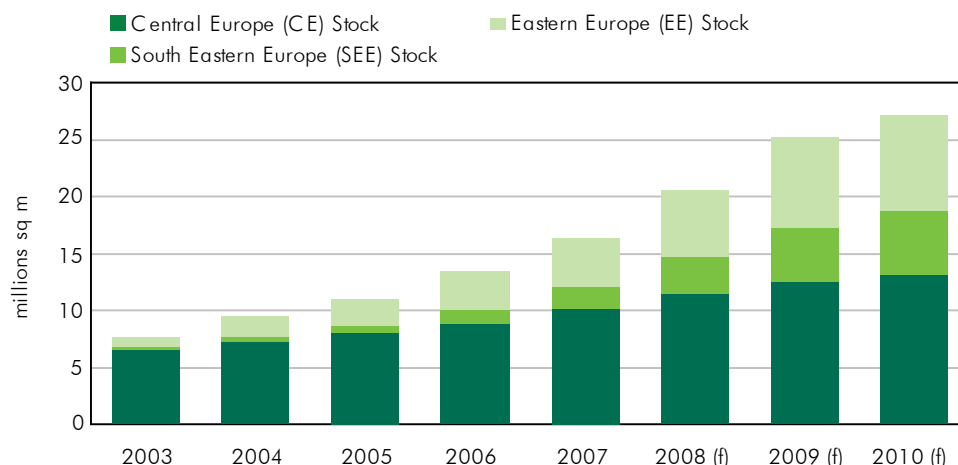
This rapid growth in shopping centre space in CEE has consequences for retailers, developers and investors and has raised questions about saturation of markets. Competition between shopping centres has increased and will intensify in many markets. This means that players in CEE retail markets will have to be more selective in choosing their markets and projects going forward.

In today's market environment it is too easy to be swayed by day-to-day changes and sentiment. CEE is unlikely to escape the increasing pressures applied by the changing world economy, but these need to be viewed in the context of longer-term structural changes affecting these markets. The focus in this analysis is therefore on the medium- to long-term development of retail markets in CEE.

The report details the strengths and weaknesses of CEE's sub-regions and countries with regard to their economic and retail market fundamentals. It highlights countries or regions with opportunities – but also challenges – for retailers, developers or investors in the future.

With the CEE retail market evolving, retailers, developers and investors will need to have a thorough understanding of the rapidly changing local markets they are considering entering. This understanding should be based both on knowledge about local property markets and the economic drivers of these markets.

Total CEE Shopping Centre Stock (GLA)



CEE RETAIL MARKETS: KEY TRENDS

Strong real economic growth across CEE has driven the expansion of shopping centre space that has taken place in the region. Higher standards of living and associated higher consumer spending have provided the foundations for this growth of shopping centre space. Worldwide economic uncertainty is presenting challenges to continued economic growth in CEE, but the region is expected to continue to record stronger real economic growth than the EU-15.

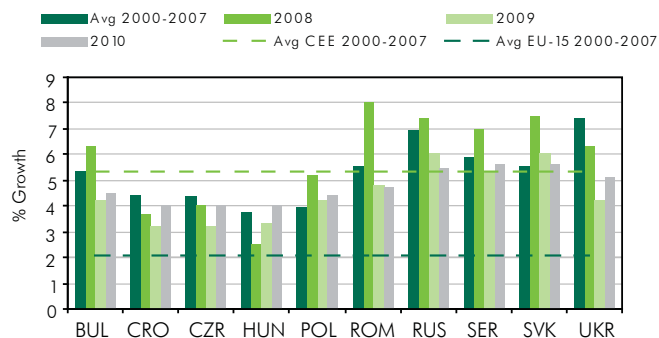
Shopping centre growth in CEE has fundamentally changed the nature of retail in the region. Soon, there will be few parts of CEE with minimal or no modern shopping centre stock. One of the most recent examples of this trend will be the completion of the first modern shopping centre in Sarajevo, expected to open in 2009.

Per capita shopping centre provision rates in countries that currently have lower provision rates (Bulgaria, Croatia, Romania and Slovakia) will rapidly increase by the end of 2010. As a result, shopping centre provision will be more evenly spread across the region by the end of 2010.

At an individual city level, CEE markets display significant variation in supportable levels of retail stock per capita. Wealth in CEE is highly concentrated in capital cities. These cities are much wealthier and have larger catchment areas than even large regional cities in the same country. Accordingly, CEE capital cities can support higher shopping centre provision rates.

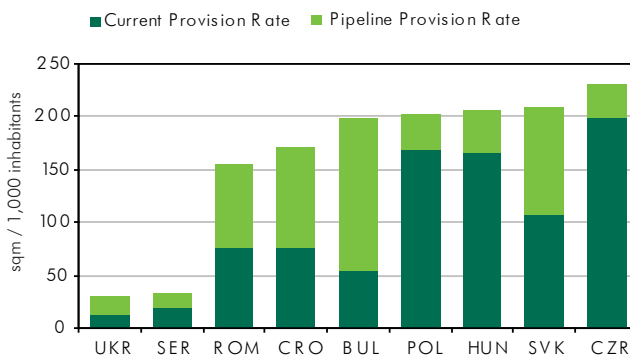
CE countries generally have stocks and pipelines that are in line with their levels of economic development. CE's experience teaches that some schemes will come under pressure as a result of increased competition. This is also likely to occur in SEE and EE in markets where competition is increasing in an uncontrolled way. SEE's ability to support so much new shopping centre space will be tested – although fears of oversupply and increasing caution by developers will probably temper the amounts somewhat. As can be seen in the country breakdown of stock provision, it is Ukraine and Serbia that remain relatively under-supplied given the size of their economies and populations.

Real GDP Growth Rates (%) - 2000 to 2010



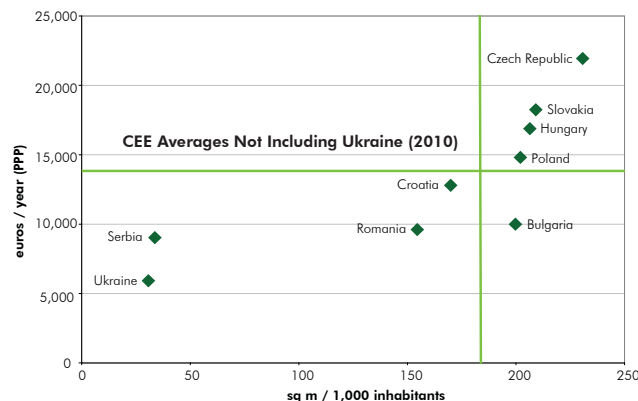
Sources: UniCredit Group, CEE Quarterly Reports, 2002-2008; Eurostat. Average CEE, EU growth rates are not weighted for country populations.

CEE SC Provision - Current vs Pipeline



Sources: CB Richard Ellis; Experian; CIA World Factbook (Russia, Ukraine, Croatia populations). Continued lack of transparency in the Bulgarian retail market means that determining which shopping centre projects are currently under active construction is more difficult than in other CEE markets.

Per Capita Stock vs GDP Per Capita (PPP) in 2010



OPPORTUNITIES & CHALLENGES

RETAILERS

Market penetration by international retailers in CEE has been limited thus far. In the short-term, some listed retailers are facing expansion issues that could open up opportunities for others. Markets in SEE and EE have had a very low presence of international retailers up to now – but even CE countries remain significantly behind Western European markets.

DEVELOPERS

The rate of shopping centre development is likely to slow across the region. Opportunities still exist for traditional shopping centre developments, but more growth is expected from theme-oriented shopping centres in the future. In general, Russia, Serbia and Ukraine will offer the most opportunities, even though recent currency fluctuations have shown that risk/return profiles for some of these markets will probably be a point of vulnerability for international developers.

INVESTORS

Even though competition is increasing in CE, this part of the CEE region has performed most consistently. No large fluctuations are expected over the next years. Medium- to long-term investors are expected to see relatively sound returns as long as they stick to prime shopping centres.

Asset management will become key to optimizing the return from a shopping centre. The link between retailers and investors will become much more important and trust between the two will result in higher gains for both parties.

RECOMMENDATIONS

Based on the conclusions reached in this report, we believe that the CEE shopping centre market is still a sector with opportunity for retailers, developers and investors. Notwithstanding these opportunities, parties involved need to be aware of regional market characteristics. We have therefore listed five recommendations below for retailers, developers and investors active in CEE to increase their chances of success.

1. LOCATION, LOCATION, LOCATION!

The era of excessive development is probably over. Not all projects will be automatic successes going forward. Consumers are becoming more selective and demanding and, as a result, location will matter more than ever.

2. KNOW THE MARKET YOU WANT TO ENTER!

It takes little depth of knowledge to know that a city of 250,000 inhabitants that has no modern shopping centre stock can support a shopping centre of modest size. Trying to choose between three cities of similar size and stock provision rates is an entirely different matter, though. Making such a decision requires a thorough understanding of the markets under consideration and a depth of knowledge about the markets that has not always been necessary up until now. A full understanding of the local property market as well as a precise understanding of the economic drivers will be key from this time.

3. QUALITY WILL MATTER MORE THAN EVER!

As consumers have ever increasing choices of where to spend their money, they will demand the best quality from shopping centres. "Quality" will not be a uniform and unchanging concept. For a developer this means that the best and most modern materials will be needed. Investors will have to actively manage their properties and developers and investors will need an integrated approach towards environmentally friendly projects.

4. LOOK FOR OPPORTUNITIES INSTEAD OF PITFALLS!

Developers and investors need to be focused on consumer demands instead of deciding what is good for a market. Changing consumer profiles in CEE are creating opportunities. Not all consumers are looking for the same types of stores and shopping experience. Until recently most shopping centres in CEE were developed in a relatively identical way. Developers and investors who focus on this are likely to be more successful than others in the future.

5. CEE WILL BE A LONG-TERM WINNER!

Even though short-term economic sentiment is changing, CEE is most likely to be a long-term winner. Long-term investors will remain interested in these markets. The integration of CEE and Western Europe will continue and will change patterns across Europe and indirectly in other parts of the world. Long-term knowledge-based investors with dedication to the region will continue to reap the rewards of remaining in the region.

FULL VERSION OF THE REPORT

This Executive Summary is excerpted from the comprehensive CEE Retail Market View, a yearly publication that covers a broad range of topics on retail markets across Central & Eastern Europe. The full report provides in depth analysis of ten countries and their standing in the European retail market. This is the first edition of the CEE Retail Market View.

The report combines the expertise and experience of local and regional CB Richard Ellis research teams within Europe. For further information on this publication and its content, please contact Jos Tromp.

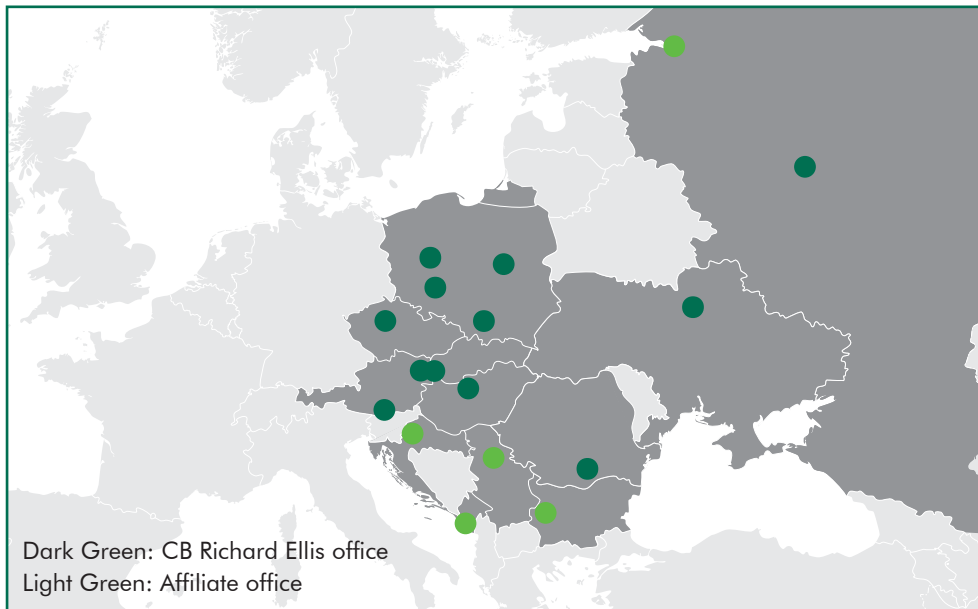
METHODOLOGY/DEFINITIONS

For purposes of this market view, a shopping centre is a retail property that is planned, built and managed as a single entity, comprising units and "communal" areas, with a minimum GLA of 5,000 sq m. This market view uses the working definition of the International Council of Shopping Centres, available at <http://www.icsc.org>. A shopping centre's size is measured in terms of gross lettable area (GLA), which is the amount of retail space in a shopping centre that is available for lease.

Shopping centre pipeline includes only shopping centre space that was under active construction at the time this report was written.

Central and Eastern Europe (CEE) is made up of the following countries for purposes of this market view: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia and Ukraine. Central Europe (CE) consists of Czech Republic, Hungary, Poland and Slovakia. South Eastern Europe (SEE) includes Bulgaria, Croatia, Romania and Serbia. Eastern Europe (EE) consists of Russia (Moscow and St. Petersburg) and Ukraine.

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