

Quick Stats

	Change from	
	H1 07	H2 07
Total Turnover (€)	↓	↓
Cross-Border (%)	↑	↑

Hot Topics

- Retail investment turnover fell by 32% compared to H1 2007, with markets such as UK, Spain and Sweden losing market share.
- On a market-by-market basis the results were mixed. Many markets registered rapid decline in turnover compared with H1 2007, whilst eleven saw an increase.
- There were only 13 deals larger than €200 million in lot size. The average deal size for retail in Europe fell to €33 million.

OVERVIEW

Retail investment activity in Europe slowed in H1 2008 as the market continued to battle the effects of the credit crunch. Turnover reached €18.1 billion, which is on a par with the H1 2005 level, but well below the last two years' six-monthly average of €28.5 billion.

The change in the level of retail investment activity varied greatly between markets. There has been a clear divide between those European markets where the H1 2008 investment level exceeded that in H1 2007 and those countries where it did not.

The traditionally larger retail markets, such as the UK, Spain and Sweden, saw activity levels fall rapidly – a more than 45% decline on H1 2007. However, activity in as many as eleven (out of 26 in total) mostly smaller and emerging markets registered an increase on the same period last year.

This big change in the balance of activity was mainly due to a number of large retail portfolios and shopping centres that changed hands in the first six months of the year. Overall, however, only 2% (by number) of all H1 2008 retail deals had a lot size of over €200 million. As a result of this the average deal size fell to €33 million.

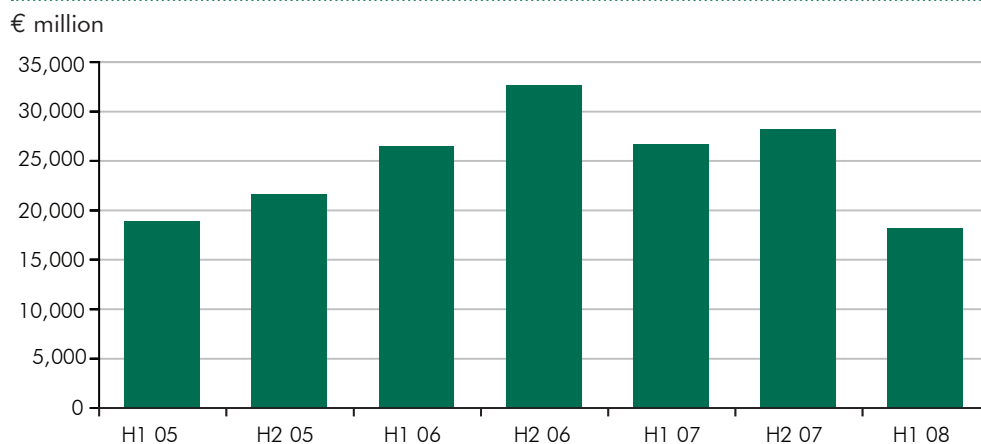
As has been the case in the investment market as a whole, financing larger retail transactions has become more difficult. Deals below €50 million are easier to finance and, indeed, 85% of all retail transactions this year have been for less than €50 million. Deals of this size only accounted for 28% of the market by value, however.

One trend that remained unchanged is cross-border activity. In the first six months of the year international buyers accounted for 58% of European retail activity. Intra-European investment increased further, with most demand coming from countries rich in retail specialists such as the UK, Netherlands and France. The list of non-European buyers has shrunk significantly, with only US investors still playing a substantial role in the European market.

As consumer and financial markets were hit again in the third quarter of the year, investor sentiment weakened noticeably. Further economic weakening and an increase in market and property-specific risk has led many investors to put acquisitions on hold in anticipation of another wave of re-pricing.

However, in the medium term, retail investors will benefit from the defensive qualities of the sector.

Retail Investment Turnover In Europe



ACTIVITY BY MARKET

There have been some big changes in the distribution of retail investment activity in Europe over the last couple of years, beyond those caused by changes in overall market size.

Most notably, the UK share of retail investment activity has fallen sharply. Although the UK still accounted for 30% of transactions in H1 2008, this was down from 45% in H1 2007 and appears to be due to a sharp fall off in the number of shopping centres being traded. The biggest increase in market share has been Germany (which has grown to 23% of the total) where activity has been supported by a high level of owner-occupier sales.

The other 'surprise' in the data is France, which despite the size of both the country and its retail stock, represented just 2.4% of total retail investment activity. This is mainly because of the concentration of shopping centre ownership in the hands of specialists that rarely trade their stock.

ACTIVITY BY SUB-SECTOR

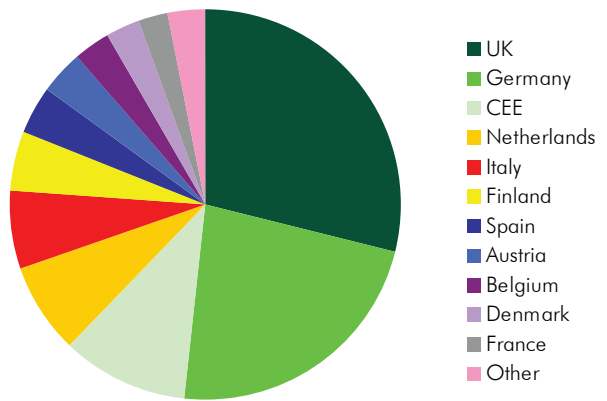
An important trend at the European level has been the relatively steep fall in the total value of shopping centres being traded in the investment market. Historically shopping centres have made up around 50% of all transactions (by value) and although they remained the largest retail sub-sector in H1 2008, the share of the market fell to 36%.

It is easy to speculate that in market conditions where large deals are hard to finance, it is shopping centre transactions that would feel the greatest impact and this seems to be supported by the facts. Smaller lot-size product, such as high street retail has actually seen an increase in the level of investment activity despite the fall in the market as a whole.

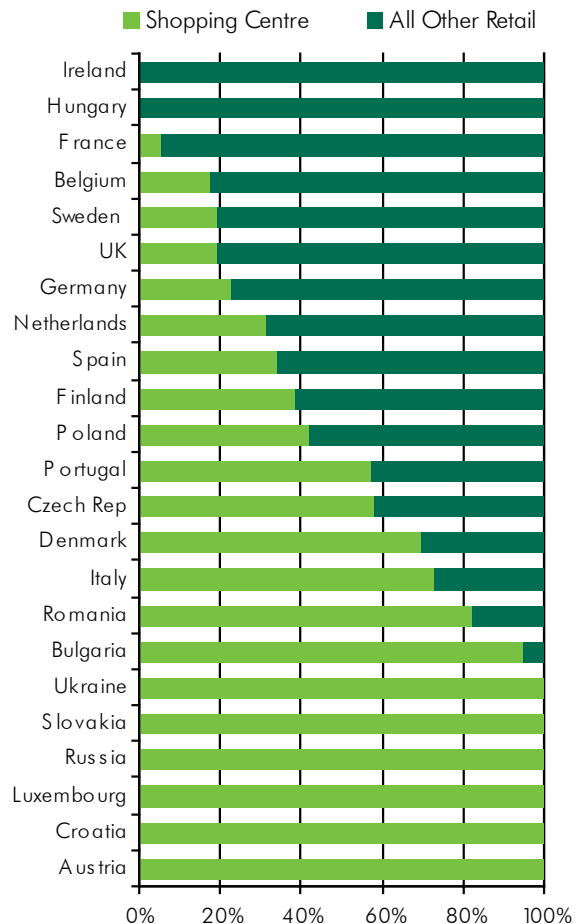
The fall off in shopping centre transactions has been concentrated in the larger, Western European markets. The UK, Germany, Spain, Italy, Netherlands and Sweden have all seen a sharp decline in activity in H1 2008. By contrast most CEE markets continue to see high levels of activity in the sector.

Retail Investment Turnover by Market, H1 2008

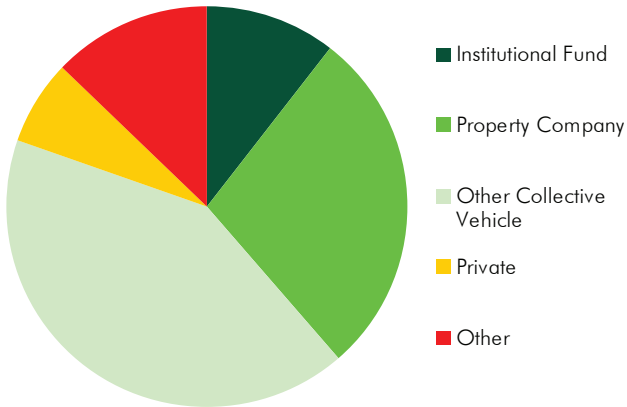
Total Size: €18.1 million



Shopping Centre v All Other Retail, H1 2008



Retail Investment Deals By Buyer Type, H1 2008



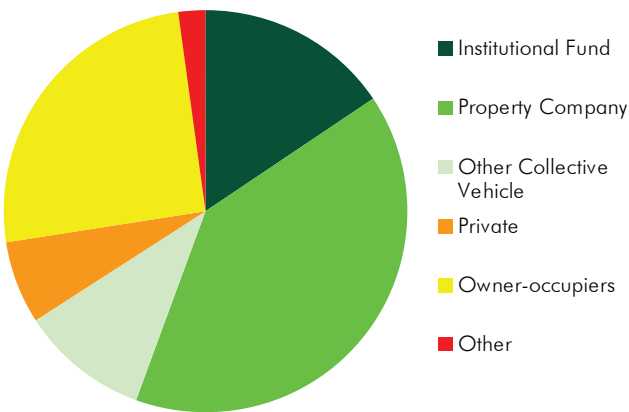
DISTRIBUTION OF DEAL BY BUYER/SELLER TYPE

Retail is a sector which has traditionally been dominated by specialist investors, be they listed property companies (such as Klepierre or Unibail-Rodamco) or fund managers (such as ING). This has remained the case in 2008, despite the turn around in the overall real estate market that has generally seen the profile of investors change markedly.

There has been something of a shift in favour of the Other Collective Vehicles category (which includes the specialist retail funds). Its share of the market over the first six months of the year grew to 40% of all European retail investments by value, compared to only 26% of the market in 2007.

There are a number of possible reasons for this change. Firstly, this is a part of much wider trend in commercial real estate market. Many institutional investors, including Sovereign Wealth Funds, choose this indirect route into the market. Secondly, the re-emergence of the German Open-ended Funds (GOEFs) and Special Funds as active buyers witnessed in the market in late 2007 and H1 2008 has also played a substantial role. Their combined investment activity over the first six months of the year was over €1.0 billion in the European retail sector alone. The GOEFs are predominantly interested in prime shopping centres, and continue to look for the right quality retail product to diversify their generally office-dominated portfolios.

Retail Investment Deals By Seller Type, H1 2008



On the seller side, Property Companies have accounted for 40% of total disposals in H1 2008. This is not surprising as the substantial discount to NAV at which listed property company shares are currently trading means that most are focussed on deleveraging. The UK property companies were particularly active sellers in both domestic and continental markets.

The other notable trend is the increase in owner-occupier sales, albeit boosted by a few large deals in Germany and the UK. In H1 2008 almost €4.2 billion of owner-occupier sales were completed. With the economic outlook weakening and retailers likely to see further pressure on margins, it is likely that this trend will continue as a way of raising capital.

DISTRIBUTION OF DEALS BY SIZE

As has been commented already, the global financial crisis has made the financing of real estate transactions much more difficult (and expensive). This is particularly the case for large deals where the 'closing' of the debt securitisation market means that there are few banks that are able to get involved.

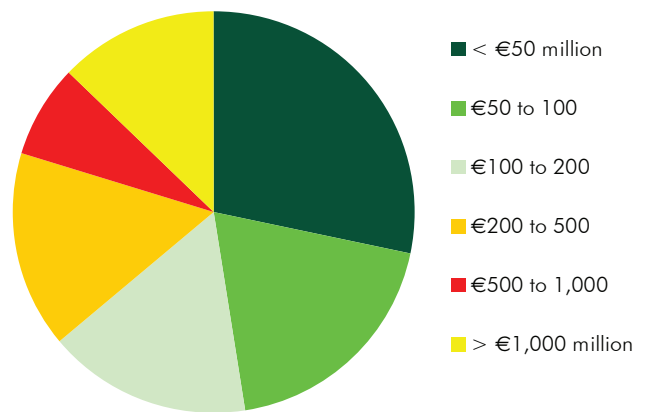
This shows through very strongly in the distribution of retail transactions by value. The share of the retail market made up of transactions with a value in excess of €500 million has fallen sharply and in H1 2008 accounted for only 20% of the total. In fact this was just three deals (as shown in the table below), most notably the €2.3 billion Karstadt portfolio, which was purchased by a syndicate of investors. This transaction was also the largest commercial real estate deal in H1 2008, with only two other deals – one offices and the other industrial – with a value of over €1 billion changing hands.

By contrast the credit crunch has had a much more limited affect on the smallest transactions. In total some 543 retail deals were completed in Europe in H1 2008 and of these the vast majority – 459 – were for less than €50 million. In fact, the average retail deal size in Europe in H1 2008 was at around €33 million, which further highlights just how concentrated the market has become in the smaller lot sizes.

Where large transactions are taking place in Europe one of the common factors is the quality of the assets involved. It would appear that when the best retail assets come to the market, buyers can still raise the capital to complete the acquisition. Presumably they are taking into account the fact that while values may fall further in the near future, there is also a strong probability that if they do not take the opportunity to purchase these prime assets now, they will not get the opportunity later in the cycle.

Retail Investment Turnover by Deal Size, H1 2008

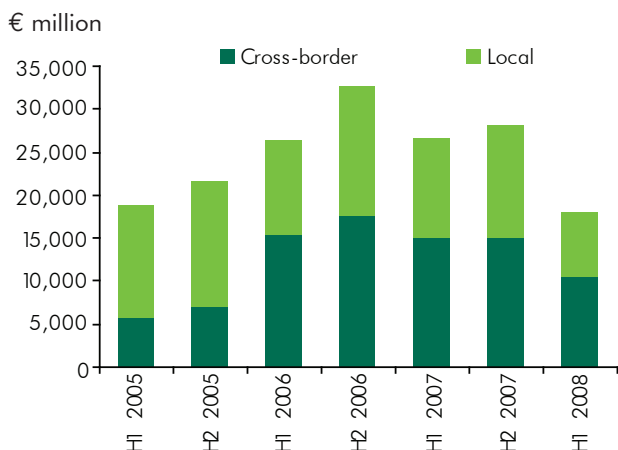
Total Size: €18.1 million



Ten Largest Retail Investment Deals, H1 2008

Market/Property	Buyer	Price € Million
Germany, Karstadt Retail Portfolio	RREEF/Pirelli/ Generali	2,300
Netherlands, Unibail-Rodamco Retail Portfolio	Bouwfonds	775
Austria, Süd Shopping City	Unibail-Rodamco	607
Finland, Kamppi Shopping Centre	Protego	453
UK, The Mall Fund Shopping Centres Portfolio	Carlyle EREP	364
Russia, Na Bagrationovskom	Orco Property Group	298
UK, Tesco Stores Portfolio	Prudential	269
Italy, Flumara Shopping Centre	ING	220
Denmark, Roskilde Shopping Centre	DADES	219
Germany, Rhein-Galerie Centre	Union Investment	215

Investment Turnover by Nationality, H1 2008



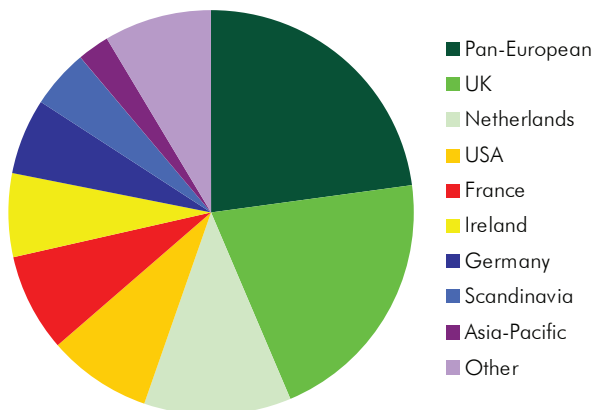
NATIONALITY OF CROSS-BORDER BUYERS/SELLERS

Despite the changes in the financial environment, cross-border buyers continued to make up a majority of purchasers in the European retail market. In H1 2008 58% of the total retail investment came from international purchasers, an increase compared to the previous two-year average of around 56%. The shopping centre sector is particularly international, with 68% of shopping centres traded having cross-border buyers.

The key difference in H1 2008 was in where these international buyers came from. The share of intra-regional investment activity has increased markedly. European buyers accounted for 84% of all cross-border deals in H1 2008, compared to 77% in 2007. This trend is not specific to the retail sector and was also seen in the wider commercial real estate market.

Cross-Border Retail Deals By Buyer Nationality, H1 2008

Total Size: €10.3 billion

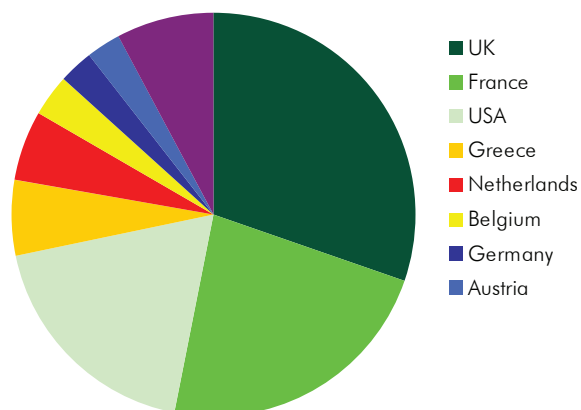


Investors from the UK were still active, buying €2.1 billion worth of assets outside of their home market. Nevertheless this is a substantial fall compared to the €8.6 billion they bought in 2007. On the other hand, Dutch and French investors remained very active, even by 2007 standards. Traditionally rich in retail specialist property companies and funds, investors from those markets continued to pursue their long-term strategies and are on a look out for high quality assets.

Interestingly the US buying activity held at 11%, making them the fourth largest cross-border buyer in European retail. This is despite much lower investment levels in absolute terms.

Cross-Border Retail Deals By Seller Nationality, H1 2008

Total Size: €4.7 billion



In contrast to diverse universe of buyers, the cross-border sellers of European retail were much more concentrated (and were much fewer in number). Sales by British, French and American investors were particularly high. Combined, they accounted for 70% of all H1 2008 cross-border disposals. Sales by the British were particularly strong at €1.4 billion, spread across many European markets (especially Spain, Finland and Italy).

COUNTRY BY COUNTRY ANALYSIS

Retail investment turnover in **Austria** for H1 2008, at €607 million, surpassed that seen in the whole of 2007. However, this is mainly due to Shopping City Süd, in Vosendorf, which was the biggest Austrian deal in any property sector. This transaction also set a record yield for Austria (albeit right at the start of the year), showing that there is still strong demand for the right sort of product.

Belgium was one of the handful of retail investment markets which saw growth in activity relative to H1 2007, with turnover increasing by 57%. Retail Warehouses were the most active sub-sector with around €239 million transacted in the first half of the year, including a few large portfolios. High Street shops also saw an increase. The sale by Rodamco of a portfolio of prime stores across Belgium for €85 million enhanced this growth, and alone accounted for 15% of the retail market turnover in Belgium during H1.

The Retail investment market in **France** fell sharply in H1 2008, with only €441 million traded during the period, a fall of close to 70% from H1 2007. Activity was focused on smaller lot sizes, with only two deals of more than €50 million. Historically Shopping Centres in France have been some of the least frequently traded in the whole of Europe, and this continued in H1, accounting for only 6% of retail turnover.

Despite the sharp fall in overall investment in **Germany**, the retail sector held up well, with over €4.1 billion of retail property traded in H1 2008. The sale of large retail portfolios by owner-occupiers in recent years is becoming a clear trend within the German market and this year has been no exception. The sale of the Kardstat portfolio for €2.3 billion was not only the largest retail deal in H1, but also the biggest of any type.

The **Irish** retail investment market saw a quiet H1 with turnover reaching only €109 million. Activity was focused in Dublin, where prime High Street product continues to attract attention. Yields have moved out sharply over the year so far, reflecting the need for a correction in pricing as the economy weakens.

Retail investment turnover remained stable in **Italy** in H1 2008, compared with H1 2007. With a slight increase of 4%, the €1.17 billion transacted was the highest level of H1 turnover since 2005. Sellers are mainly local developers or owner-occupiers, while purchasers remain dominated by property funds. International collective vehicles accounted for 70% of all purchases in H1 08, with the UK, Dutch and German being the most active. Interest was predominantly in the Shopping Centre segment of the market, with 15 centres traded in H1, accounting for over 70% of the total turnover.

Significant growth in the **Netherlands** retail market in H1 2008 increased its share of the European retail market turnover to 7.6%, the third largest market across Europe. One large transaction between Bouwfonds and Unibail-Rodamco did account for over 50% of the total. However, even without this there would have been a significant increase in turnover. The purchaser split remains highly biased towards local investors, not unexpected as the Netherlands is home to some of Europe's largest retail specialists.

Retail investment turnover in **Portugal** totaled just €87 million in H1 2008, a fall of over 50% from H1 2007. The most significant retail transaction was the purchase by Klepierre of a 50% share of the Portimão Shopping Centre for €50 million. While local investors remain active buyers in the market, they do so for smaller lot sizes and so do not represent a significant percentage of the total by value.

Activity in **Spain** during the first half of 2008 slowed significantly, especially compared with the levels seen since 2004. Although retail turnover fell to just under €700 million, investment into Shopping Centres actually matched that of H2 2007, at just over €230 million. Foreign buyers accounted for 95% of the market and, on the vendor side, there was a significant increase in the disposal of retail assets by foreign investors. UK sellers accounted for over 65% of all seller activity.

COUNTRY BY COUNTRY ANALYSIS

The **UK** retail investment market continued to slow over the first half of 2008. Nevertheless, the €5.25 billion transacted still accounted for 30% of European retail investment turnover. Shopping Centre investment fell particularly sharply with only €1 billion worth traded, compared to €4.7 billion in H1 2007. However, other areas of retail held up fairly well, especially at the prime end of the market. Local investors dominated, with almost 70% of the market, but of the foreign buyers American 'Collective Vehicles' were the most prominent at around €500 million.

Retail turnover in the **CEE** fell by only around 8% in H1 2008 compared to the same period last year, with just under €1.9 billion traded. One noticeable trend beginning to emerge is investment in retail sub-sectors other than Shopping Centres. Retail investment in CEE was almost exclusively by cross-border buyers. French, UK and Italian property companies were particularly active, as well as German and UK funds. Romania, Russia and Poland were the most active markets, all seeing turnover of over €300 million and together accounting for 65% of the region.

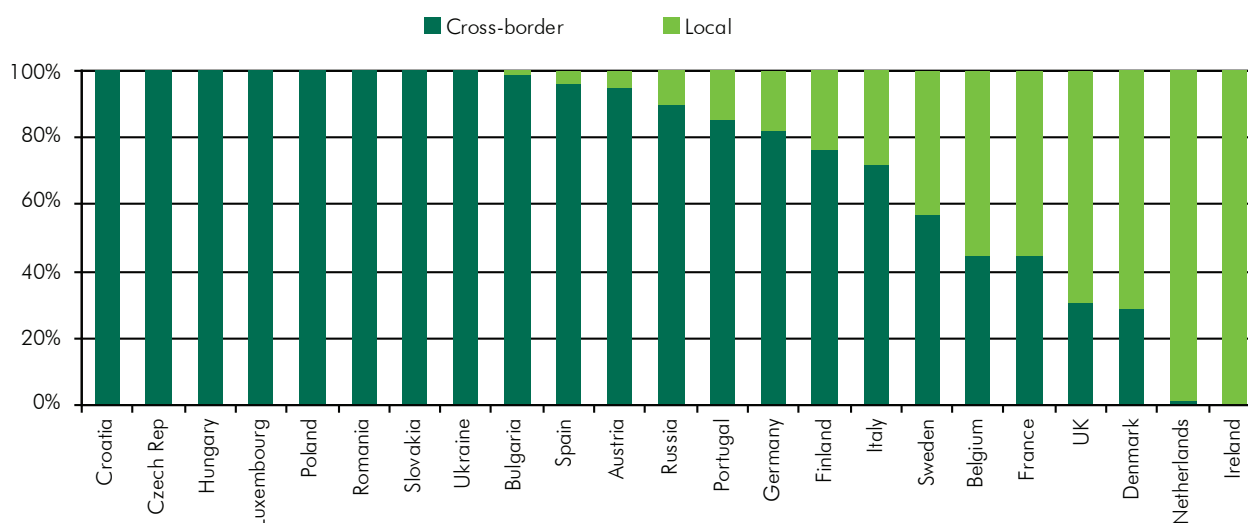
The highest turnover in the CEE region was in **Romania**, which saw a 5% increase in activity from H1 2007. The €516 million transacted accounted for 27% of turnover in the region as a whole.

Russia saw one of the strongest increases in turnover in the whole of Europe, up over 200% to €408 million for H1 2008. The sale of the Na Bagrationovskom centre in Moscow at close to €300 million was one of the largest transactions not only in the region but in the whole of Europe during H1 2008, significantly boosting Russian turnover.

Poland saw turnover fall over 50% from H1 2007 to just €309 million in H1 2008. This knocked it from its position as the largest CEE retail investment market in terms of turnover, a position Poland has held since H2 2004. This was mainly due to the lack of Shopping Centre transactions. However, activity has begun to diversify into other retail formats such as Retail Parks and Factory Outlet Centres, which accounted for 60% of deals in H1 2008, compared with 10% for the whole of 2007.

Bulgaria, Hungary and the **Czech Republic** all saw turnover decline compared to the same period last year. However, in comparison with elsewhere in Europe, these were not significant falls. Activity remains focused around larger lot sizes, and therefore a smaller number of deals.

Retail Investment By Country: Proportion Of Local And Cross-border Purchasers, H1 2008



OUTLOOK

A year after the credit crunch began, investors are still asking the same questions: How far will property values fall and what is the immediate outlook for the market? Both of these are difficult to answer with any precision, but what is clear is that sentiment regarding capital values has continued to weaken.

With the credit crunch lasting much longer than originally anticipated, lack of confidence and the freeze in financial activity have become more widespread. Asia is no longer seen as immune to its effects and some European countries that had previously seemed protected have started to experience problems in their financial sectors. In addition, a broader economic slowdown is starting to affect occupier demand, with GDP growth outlooks worsening further and recession forecast in most Western economies. This economic slowdown has already been reflected in retail property values. By the end of the second quarter, annual rental growth had halved as quarterly growth stalled in many markets. Capital value growth fell to zero, as rental increases in the annual index were offset by rising yields.

Although the negative affects are being felt across the board, different types of retail product have been affected to different degrees. In an economic downturn, it is consumers regular spending that tends to be squeezed, with shoppers becoming more price-sensitive. Thus, budget stores and low cost retailers can actually see an increase in their turnover as their lower prices attract customers from mid-range outlets. Spending at the top end of the market also tends to hold up well, either because their customers are sufficiently well off to be unaffected by the downturn, or they maintain their spending on 'feel good' products, whilst cutting back elsewhere. Conventionally, therefore, it is mid-market retailers that generally see the greatest impact of an economic slowdown as consumers switch to cheaper alternatives, or decide to restrict spending within this category.

In the same way that retailers can be affected differently, so the impact on types of location and retail format can vary significantly. The most substantial difference is that between prime and secondary property. Key retail locations with the highest footfalls are likely to see much less negative impact in terms of consumer expenditure, and therefore less impact on retailer and investor demand. When retailers look to cut back on their portfolio of shops it is the smaller units in poorer quality locations that tend to be closed first. For similar reasons the bigger towns or cities and major shopping centres and retail parks will also tend to out-perform.

The bottom line is that despite weakening economic and investment market conditions, prime retail investments, especially in the best locations, should continue to be in demand. Such retail property is viewed as a defensive investment in an economic downturn. In addition, specialist retail investors may use this as an opportunity to further establish their positions, acquiring properties that in buoyant market conditions would be too expensive or would not become available at all. Their search for particular investment opportunities to complement their long-term portfolios will be key to future levels of investment activity.

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