

## Quick Stats

	Change from	
	H1 09	H2 09
Investment Turnover	↑	↑
Prime SC Rents	↑	↑
Yields	↓	↓
Capital Values	↑	↑
SC Pipeline	↓	↓

## Hot Topics

- Most CEE economies are out of recession but economic growth is triggered by export growth and not by growing consumption.
- Volume of shopping centres under construction in CEE has decreased but remains high in SEE.
- Prime rents in SE and SEE have remained rather stable while prime rents in EE have increased three quarters in a row now.
- Prime yield compression started again across the region.
- Retail investment turnover reached €633 million in H1 2010 expressing an increase of 190% compared to H1 2009.

## OVERVIEW

### • Technical recession over but retail sales still negative despite improving trend

Based on economic performance in the first quarter (Q1) of 2010, most Central & Eastern European (CEE) countries are out of recession, however, growth rates remain low. Economic performance is improving - on the back of rapidly increasing exports - but so far consumption has failed to regain positive growth in most countries. Poland, and due to the low basis Hungary and Romania have been the only countries showing positive retail sales growth in recent months. Announced austerity packages in several countries may result in slowly recovering consumer markets in major parts of the region.

### • Consumer confidence in CE improving while confidence in SEE deteriorates

In line with economic performance, consumer confidence in Central Europe (CE) is on the rise as unemployment has started declining and economic growth rates have turned positive. Consumer confidence in South-Eastern Europe (SEE) has significantly deteriorated due to a much more challenging economic outlook.

### • Shopping centre (SC) pipeline reduced but still considerable mainly in SEE countries

Overall development pipelines in CEE have decreased compared to the end of 2009. SEE countries, however, still await significant new supply coming to the market by the end of 2011. In line with this trend, the general level of completions in H1 2010 has already moderated, while the addition to stock in SEE markets, especially in Bulgaria, was considerable.

### • Prime rents CE stable; significant prime rental growth visible in Eastern Europe

Most CE and SEE markets saw stable prime rents reflecting the fact that retail consumption has not picked up yet. Prime rents in Eastern Europe (EE), however, have shown significant increases in the last three quarters. After dramatic declines when the crisis kicked in, these markets have been seeing a rapid increase of prime rental values.

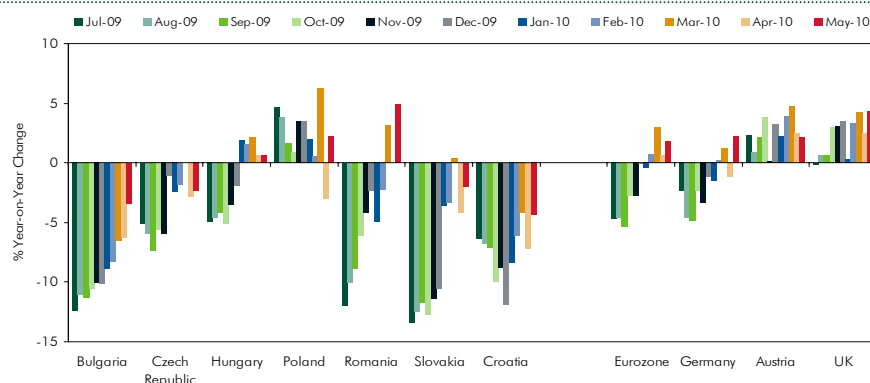
### • Prime capital value growth does not reflect overall state of the market conditions

The prime weighted average CEE SC yield compressed to 10.1% by the end of H1 2010. The spread between the sub-regions narrowed only slightly. The weighted average prime SC yield in CE currently stands at 6.9%. For the first time since H2 2008 prime capital values increased year-on-year (y-o-y) based on prime yields compressing and prime rents increasing. Increasing prime capital values and challenging conditions outside the prime segment are indications of the diverging directions that the prime and secondary markets are trending towards.

### • CEE retail investment turnover up significantly on H1 2009

Retail investment totalled around €630 million in H1 2010, showing an increase of 190% on the same period last year when the market hit the bottom. Unlike office investment retail investment took place in a wide range of countries. Still, most institutional transactions were closed in CE countries, while the Romanian and Russian markets were primarily driven by properties trading outside of the prime segment.

## Retail Sales in CEE and Selected Western European Countries



Source: Eurostat

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**RETAIL ECONOMICS**

Most of CEE's markets came out of recession in Q1 2010, recording two quarters of positive growth in a row. After some periods of diverging performance, trends in CE are now more or less aligned since Hungary has picked up on growth as well. Generally speaking, CE is outperforming Eurozone economic growth again, as was continuously the case before the crisis set in. Despite still being negative, economic growth in Romania has shown a modest improvement recently. Significant risks remain, however, as austerity packages - including tax reforms - have already decreased expected growth rates for the rest of the year.

A strong rebound of the German economy is supporting CE's industrial output growth. The drivers behind this demand remain thin, however, as most of the demand results from Chinese growth. Unemployment has started to react positively and has begun declining in CE. Nevertheless, recovery remains fragile and has had a limited positive impact on consumer spending so far. In general, austerity measures remain a risk to recently improved confidence.

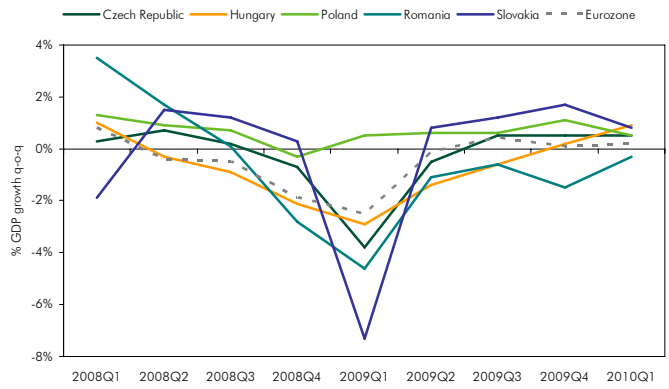
In line with the Eurozone, CE's consumer confidence hit the bottom a year ago and has since been improving. The Greek debt crisis temporarily hampered a rise in the index but markets recovered relatively quickly from this change in sentiment. In SEE the trend is clearly different. Confidence has deteriorated significantly in recent months. The Greek debt crisis combined with an austerity package announced in Romania have pushed the index down further.

**RETAIL STOCK**

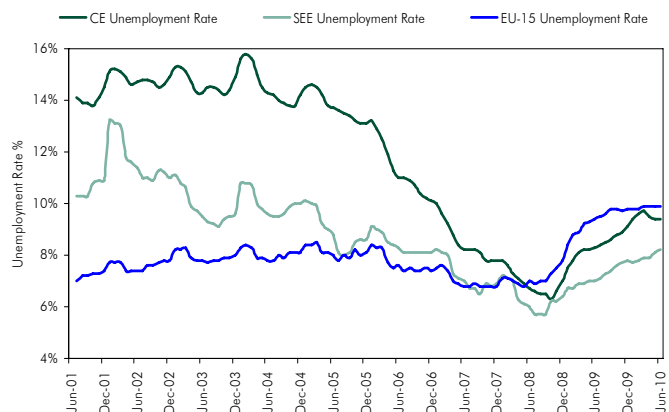
Modern shopping centre stock in CEE (excluding EE) amounted to approximately 17.5 million sq m at the end of H1 2010, with another 2.4 million sq m of shopping centre space under construction. This stock translates to an average SC provision rate of around 170 sq m / 1000 inhabitants. The Czech Republic has the highest SC provision (250) in CEE. This relatively high provision is causing increased competition, which is visible in schemes not favourably located. If we take the Czech Republic as a benchmark for CEE, the growth of the retail market should be much more focused on quality rather than quantity in the years to come.

Some markets are facing the risk of oversupply as development pipelines are still considerable in some of the countries, especially in SEE. Bulgaria, Serbia and Croatia are some two years behind the developer curve of the more emerged CEE retail markets and are as a result still in the middle of extensive supply growth. Despite the crisis construction is still moving ahead in many of the capital and regional cities across these countries. As a result SC provision rates are likely to increase significantly here. This is happening in a period with increasing pressure on consumers and limited retailer demand, which is likely to result in increased pressure on the retail structure in these markets.

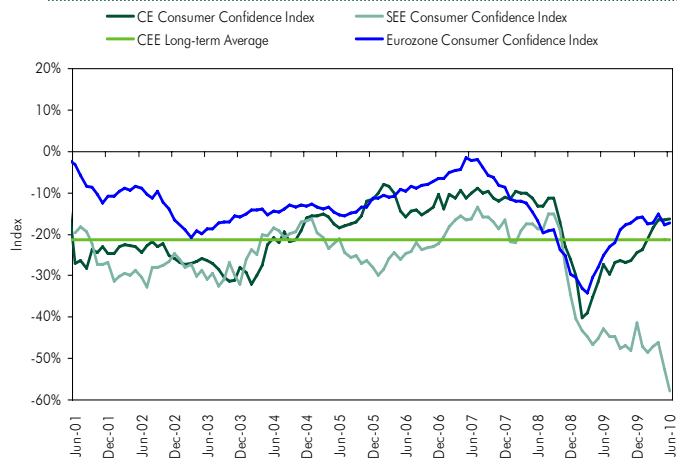
**Economic Growth (q-o-q)**



**Unemployment**

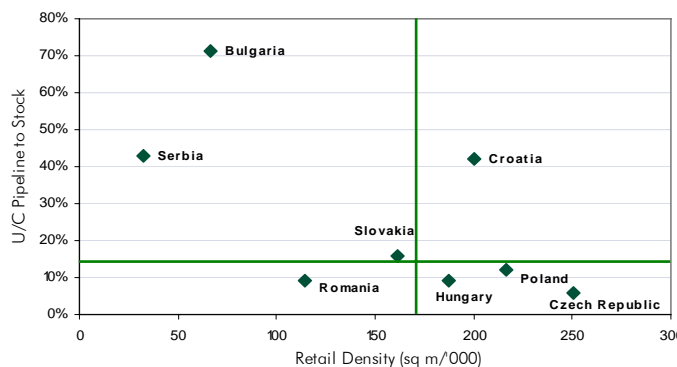


**CEE Consumer Confidence**



Source for all economic data: Eurostat (July 2010)

**Retail Density and Relative Pipeline**



Source: CB Richard Ellis

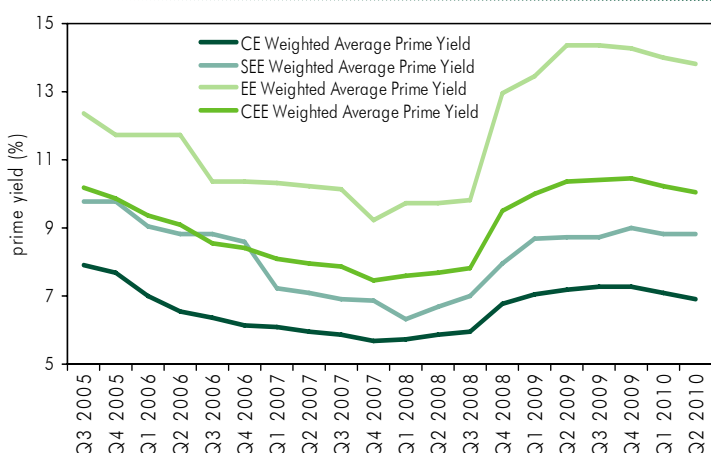
CEE Prime Shopping Centre Rents & Yields

Market	Prime rent €/sq m/year	q-o-q change	y-o-y change	Prime yield (%)
Sofia	€ 336	-7%	-7%	9.00
Prague	€ 1,080	0%	-18%	6.85
Budapest	€ 1,200	0%	0%	7.25
Warsaw	€ 960	0%	0%	6.50
Bucharest	€ 600	0%	-9%	9.25
Belgrade	€ 420	0%	-13%	8.50
Bratislava	€ 900	0%	-17%	7.25
Zagreb	€ 313	0%	-8%	8.30
Moscow*	€ 1,431	10%	12%	13.00
Kyiv*	€ 1,373	19%	15%	15.00
CEE	n/a	5%	6%	10.06
CE	n/a	0%	-6%	6.91

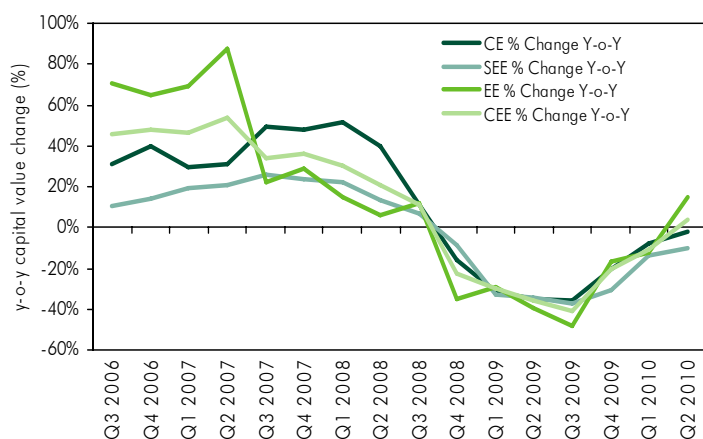
Shopping centre prime rents measure base rents only and do not take into account turnover rents.

\* Changes in rents in Moscow and Kyiv measured in changes to USD rents because rents are denominated in USD in these markets.

Weighted Average Prime SC Yields (%)



Annual Change in CEE Average Prime SC Capital Value (% pa)



RENTS, YIELDS & CAPITAL VALUES

Prime shopping centre rents remained mostly stable in CE and SEE in H1 2010. Prime rents in EE capitals have, however, increased considerably. Rents increased for the third quarter in a row in EE and are 10-15% above the level they were at compared to H1 2009. The significant changes in EE can be explained by a better economic outlook combined with the more volatile character of these markets. Weighted average prime rents in CEE are up by 6% y-o-y as a result.

After some quarters with stable prime yields in 2009, H1 2010 showed some renewed prime yield compression. The weighted average prime SC yield stood at 10.1% in CEE and at 6.9% in CE. The limited amount of prime product, combined with a growing group of investors willing to buy quality retail especially in CE is putting upward pressure on prices for prime retail schemes.

The majority of CE capitals witnessed prime yield compression of 10-25 basis points (bps) while prime yields in Kyiv and St. Petersburg dropped by 100-200 bps after a dramatic softening during the crisis.

Prime capital values have increased in H1 2010. In Q1 prime yield compression had already started supporting prime capital values and in Q2 prime rental growth turned positive as well. Compared to the level a year ago, CEE property values were up by 4% at the end of H1 2010. Value growth was obviously the most dynamic in EE with 15% y-o-y.

After significant depreciation, most local currencies appreciated against the Euro in Q1 2010. Uncertainty resulting from the Greek debt crisis, however, reversed this trend. Although most currencies have gained against the Euro again in recent weeks, only the Russian Rouble proved to be significantly stronger compared to Q4 2009.

Pricing outside of the prime segment is still compromised. Rents remain under pressure and the level of yields is not always clear due to the lack of benchmarks. Increasing competition, limited retailer demand, low consumer spending and volatile FX-rates all support the view that the retail sector in general is still relatively weak outside of the prime segment.

It was therefore highly interesting to see that the largest retail investment transaction in CEE was closed in Hungary where Allianz Real Estate bought 50% of Allee SC from ING Development. Although the state of the Hungarian economy has clearly improved, it is still in a challenging situation. This transaction proves that the perception of prime retail assets can be more positive than the sentiment about the general state of an economy as such. This is not only applicable to Hungary, but also to retail markets in SEE where we may see the best assets trading despite the challenging market situation.

## INVESTMENT ACTIVITY

After reaching the bottom in H1 2009 the retail investment market is showing some signs of recovery. In H1 2010 the region attracted €633 million of investment in retail assets compared to €217 million (+190%) and €601 million (+5%) in H1 and H2 2009 respectively. Retail investment activity was more diversified in geographical terms than has been the case in the office investment market. Hungary, Poland, Romania and Russia accounted for the large majority of the retail investment turnover taking place in CEE in H1 2010. Reflecting CEE's retail structure, SC's have remained the point of focus for retail investors in CEE.

Distress is increasingly visible in parts of SEE and EE. In Romania and Russia, in particular, investment turnover figures were pushed up by this trend. In several cases debt transfers took place with limited cash contributions involved. Nearly all of these types of transactions took place in regional cities, indicating that regional markets are seeing more challenging market conditions than the capital cities. Distressed transactions in CE remain rare on the open market.

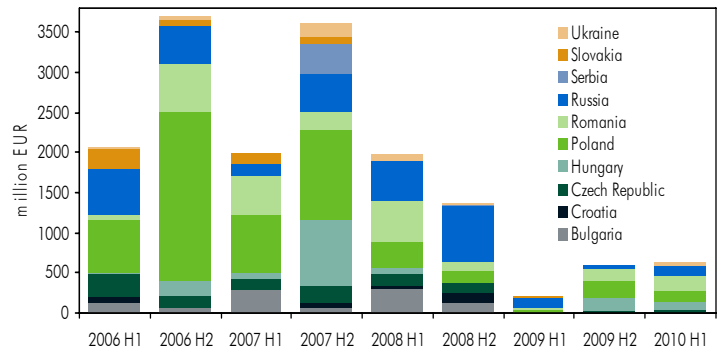
In line with the divergence of the performance of the retail market, investors who purchased prime schemes in recent years are faring much better than others. The outperformance of some of the CE's retail markets – especially Poland – has caused renewed interest from specialised shopping centre investors seeking to expand their property portfolios in these markets. These prime shopping centres have a unique position in their market place and are as a result able to maintain footfall and trade volumes that provide a sound basis for decent returns in times of economic turbulence. Unibail-Rodamco's announcement of the purchase of a shopping centre portfolio in Poland (subject to the customary closing conditions and antitrust approval) is an example of this trend. Non-hypermarket led schemes are less attractive in economically more challenging times and may not perform as well.

Despite increased activity on the retail investment market, liquidity in the shopping centre segment remained low. This low liquidity can be explained by the fact that an increasing part of the prime stock is owned by specialist retail investors that are building up their portfolios. Added to this - especially outside of the prime segment - a mismatch in pricing expectations from buyers and sellers is also not helping to improve liquidity either.

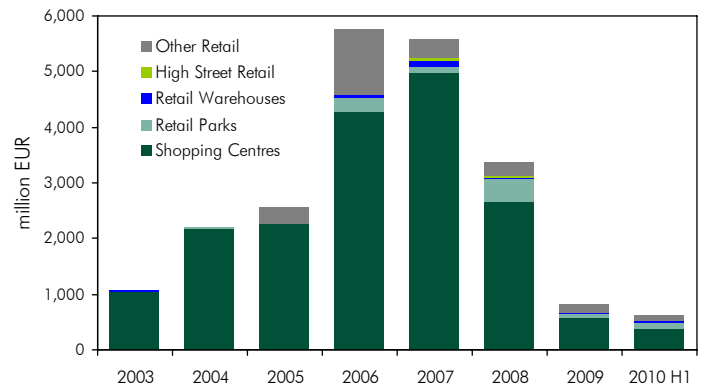
### Top-5 Largest CEE Retail Transactions in 2010 H1

Country	City	Name	Q	Size (sq m)	Purchaser	Price (€ in million)
Hungary	Budapest	Allee SC (50% share)	1	47,000	Allianz Real Estate	100
Russia	More cities	Alpi Portfolio	1	340,000	AMK-Pharma	84
Poland	Bydgoszcz	Galeria Pomorska	2	20,000	Resolution Property	51
Russia	Moscow	Europark Trade Center	1	86,000	Tashir	42
Romania	Constanta	Polus Center Constanta	2	50,000	Immofinanz	40

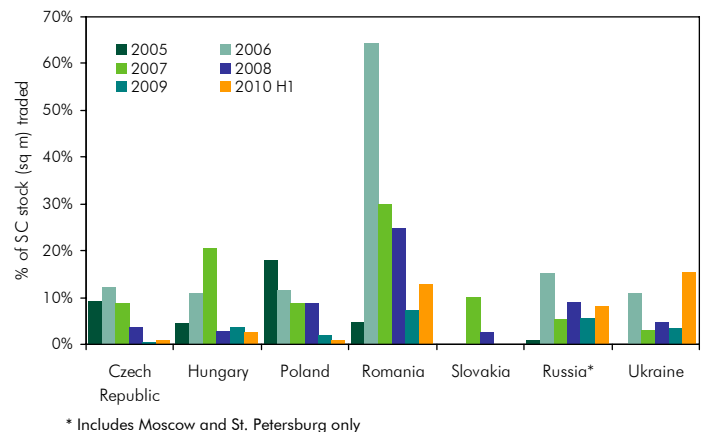
### Retail Investment Turnover in CEE (€ million)



### Retail Investment Turnover by Countries



### CEE Shopping Centre Liquidity



## CEE MARKET ANALYSES

In **Bulgaria** three new shopping centres opened in Sofia and two in regional cities during the first half of the year, significantly increasing the retail density in the country. The vacancy rate in shopping centres increased to about 18% in regional towns whereas in Sofia it remains around 6%. In some of the regional cities delivered schemes have remained closed due to low occupancy rates. Another thirteen shopping centres with in total 320,000 sq m (GLA) are under construction throughout the country.

The supply pipeline in **Croatia** is significant in volume. Ten large schemes are under active construction throughout the country. Retailers are taking increasing advantage of the extensive pipeline which is putting pressure on rental levels. Incentives such as fit out contributions, traditionally only provided to large anchor tenants, are now being requested by medium-sized and smaller tenants as well.

The **Czech** retail market is expected to face another challenging year in 2010. The decline in retail sales has caused a slowdown of construction activity and increased the gap in performance between prime and secondary shopping centres. Some retailers are in the process of consolidation of their property portfolios while others decided to leave the Czech market (Lifestyle Sports, Halfords). However, strong tenants took advantage of the current market situation and have announced expansion plans (IKEA, Lindex, DM or Amrest). There were new retailers entering the Czech market in H1 2010 (Hooters) while other retailers (Desigual and Decathlon) have the intention to enter the Czech market in the short to medium term future.

**Hungarian** retail stock did not grow significantly in H1 2010. Some medium-sized strip-malls opened in smaller regional cities, mostly anchored by a large food retailer and some smaller fashion retailers. The pipeline under construction has been reduced to two schemes in large regional cities and three projects in Budapest. Current developments are focused on traditional shopping centres at key central locations while strip-mall developments in suburbs or in small regional cities have completely stopped. The fluctuation of tenants remains high with only a few new brands entering the market. Starbucks was amongst them.

In **Poland** the development pipeline has eased considerably in 2010. Some 550,000 sq m are expected to be completed this year, lower by a third compared to 2009. Recently a number of new projects have started as several developers have managed to secure financing despite tight lending criteria. Instead of tertiary locations, medium and large cities are priority for investors once again. In particular Warsaw still offers some prime opportunities for diverse types of retail facilities. Generally, the Polish retail market has outperformed the rest of CEE's retail markets.

In **Romania** Sun Plaza (80,000 sq m) and the first phase of a retail park, Estrada Shopping Center (28,000 sq m), were opened in Bucharest during H1 2010. Modern shopping centre stock in Bucharest currently totals 788,000 sq m. Large, dominant centres tend to outperform the smaller, convenience-based, schemes. Bucharest continues to attract the major interest both from international retailers as well as from investors. An example of planned international retailer expansion is H&M, entering Romania (Bucharest) in spring 2011.

The **Moscow** retail market saw the opening of six new shopping centres during the first half this year totalling around 260,000 sq m. Amongst others, Vegas SC opened (130,000 sq m GLA), one of the largest shopping centres in Moscow. By the end of the year another 300,000 sq m of new shopping centre space is expected to be delivered in Moscow. In **St. Petersburg** four shopping malls with a total area of 89,000 sq m were delivered in H1 2010. Half of them actually opened with the other two postponing openings as pre-leasing has not been successful enough so far. Further development is expected to result from the introduction of new formats such as outlet centres, as well as the redevelopment of outdated projects.

The **Serbian** retail market has not witnessed any major shopping centre openings during H1 2010. What certainly marked the first half of the year is the fluctuation in tenants, combined with the reduction of the size of units currently held by tenants. Apart from projects under construction, significant further increases to modern shopping centre stock are unlikely, since many planned developments have been postponed.

Due to the opening of the largest retail scheme in Bratislava (Eurovea on 60,000 sq m), **Slovakia** welcomed several new retailers in H1 2010 (Debenhams, Desigual). Slovakia's SC provision rate remains to be lower than its neighbours at around 135 sq m per 1,000 inhabitants. However, this is expected to increase as a result of its significant confirmed shopping centre pipeline. Six projects are currently under active construction countrywide comprised of two regional Aupark shopping centres, developed by HB Reavis, two multifunctional projects in Bratislava and two smaller shopping centres in regional cities.

The situation on the **Ukrainian** retail market has stabilized on the back of the first signs of economic recovery. Consumer demand has started to pick up with retail sales showing a 2.3% increase y-o-y. Supply growth is lagging. Around 45,000 sq m entered the market in H1 2010. A significant part of the additional 100,000 sq m pipeline is more likely to be delivered in 2011. Average retail rents were stable throughout the first six months of 2010, trending upward in prime properties.

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 environment – 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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**Methodology Definitions**

**Shopping Centre** – a retail property that is planned, built and managed as a single entity, comprising units and “communal” areas, with a minimum Gross Lettable Area (GLA) of 5,000 sq m. The standards used in this MarketView are according to the definition of the International Council of Shopping Centres (ICSC).

**Central and Eastern Europe (CEE)**, which includes the following countries: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia and Ukraine. **Central Europe (CE)** includes Czech Republic, Hungary, Poland and Slovakia. **South Eastern Europe (SEE)** includes Bulgaria, Croatia, Romania and Serbia. **Eastern Europe (EE)** includes Russia and Ukraine.

**Currency effects**, the rents and capital values in Russia and Ukraine are based on indices denominated in US Dollars (USD) and are therefore influenced by exchange rate effects.

**Prime Rent** – Represents the top open-market tier of rent that could be expected for a unit of standard size commensurate with demand in each location, of the highest quality and specification and in the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time, but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on expert opinion of market conditions.

**Prime Yield** - represents the yield that an investor would receive when acquiring a grade/class A building in a prime location (for offices in the CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply.

**Prime Capital Values** represent the hypothetical value of a square meter of prime space that is let at its full rental value. It is calculated directly from the (annual) prime rent and the prime yield.

**Distressed Sale** – a(n) (urgent) sale of a property at a deeply discounted price.

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