Main trends in Western European retail markets

- The recession in the euro area and the negative effects of austerity measures are having a significant impact on retail markets in Western Europe
- The prime retail segment is in good shape and remains undersupplied in view of the strong demand
- Rents increased in the most sought after locations where competition between international retailers is strong
- Investment volumes are globally less dynamic especially because of the limited supply of prime assets

United Kingdom: the rent in London reaches a new record-high
In the UK, prospects for retail occupiers have improved slightly since the second half of 2012 and this was confirmed in Q1 2013 showing an increase in retail sales (+0.4% on Q4). International and national retail brands remain very active in Central London and most have an expansion strategy to add new outlets or opening flagships. The prime rent stabilised in Q1 2013 at record-high levels; in regional cities rents are slow to reach levels recorded before the crisis. As regards shopping centres, we can mention the opening of “Trinity Leeds” (93,000 m² of GLA) which will be the largest mall delivered in Western Europe this year. With €8.5 billion invested in retail in the past 4 quarters, the UK passed Germany again as the biggest retail investment market in Western Europe. Following a relatively poor first half year, investment activity picked up in Q4 2012 and remained strong in Q1 driven by stronger performance recorded in the UK regions.

Germany: retail enjoys solid fundamentals
Despite its slowdown on the back of weaker economic activity, consumer spending has remained one of the most resilient in Western Europe. The competition between retailers for prime locations supported the growth in rents which managed to increase by 5% on average in the Big Six cities in 2012 and the rising trend even continued in Cologne in Q1 2013. As the economy is still out-performing the rest of the Euro area and the retail occupier market in good shape, the construction of shopping centres in Germany has been increasing since 2011. Therefore, in 2013 several projects of significant size will be achieved including “Leipziger Platz 12” (Berlin) and “Skyline Plaza” (Frankfurt). Whilst Germany maintains better economic fundamentals compared to the rest of Western Europe, the lack of shopping centre deals clearly impacted investment volume in 2012 and early 2013. In the Big Six, the contraction in retail investment even reached 40% to €3.5 billion on a rolling year basis in Q1 2013 compared to the same period the year before.

France: retailers are very active in Paris and regional cities
In France, the overall resilience of retail sales is attractive for international retailers entering the market or expanding within. This is especially true for beauty and healthcare brands as well as luxury fashion retailers that are aggressively competing for locations in the best spots. The prime rent in Paris remains at record high levels and rents continue to rise in main regional cities. Despite several delayed projects, shopping centre construction remains dynamic in France with most future supply concentrated in the Greater Paris area (“Aéroville”, “Beaugrenelle”). Some very large transactions, especially in the high-street segment in Paris, contributed to the significant increase in retail investment on a rolling
year basis in Q1 2013 compared to Q1 2012. However, the level of investment remains limited by the reduced availability of prime products.

**Spain and Italy: two markets strongly impacted by austerity measures**
Economic context significantly worsened in 2012 in Italy and in Spain as austerity measures strongly impacted household consumption. Retail sales dropped sharply over a year. In occupier markets, the prime rent in Madrid is at its lowest level since 2008. Financing problems keep impacting shopping centre construction activity; few significant projects arrive in the market and completions are delayed. Fiscal austerity and political instability strongly affected investment volume in Italy (-70% in Q1 2013 on a rolling year), whilst in Spain the volume remains very weak compared to the long term average. The increased risk aversion keeps asking yields at very high levels.

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