



JONES LANG
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Shopping Centre Development – Boom or Bust?

Over 7.9 million sq m of new shopping centre space was completed in 2008, making it a third consecutive record year for growth which was largely driven by developments in Russia, Turkey and the UK

More than 23 million sq m of new shopping centre space is in the pipeline for 2009 & 2010 – 15% down on the June 2008 forecast for the same period. And it is expected that a significant proportion of this revised pipeline will be delayed as economic prospects deteriorate



2008 – A record level of new space delivered

In 2008, over 7.9 million sq m of new Shopping Centre space was completed across Europe making it a third consecutive record year of development growth. However, with the gloom currently shrouding the commercial property market, it is inevitable that the pace of development will slow during 2009 and 2010 - but the question is by how much?

The story of 2008

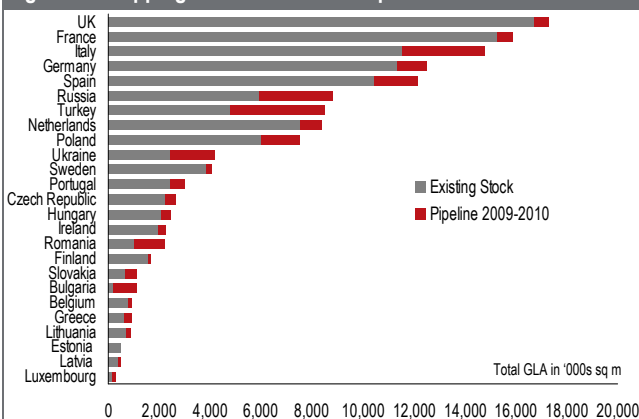
Over 300 new shopping centres were completed in 2008 and as with previous years, Russia was the most active market seeing close to 1.1 million sq m of new space open across 34 schemes, representing some 13% of the total increase in European stock. Turkey experienced another boom year with newly opened space falling just short of the 1 million sq m mark, whilst completion levels in the UK climbed above 700,000 sq m. Elsewhere Germany, Spain and the Ukraine all registered stock increases of over 600,000 sq m and Poland and Romania also enjoyed an active 12 months.

thoughts of developers. The use of retail within mixed-use projects is also a trend gaining momentum across all markets.



Mar Shopping Centre in Matosinhos, Portugal was one of the largest schemes to open in Europe in 2008, with a GLA of 103,500 sq m

Figure 1: Shopping Centre Stock and Pipeline December 2008

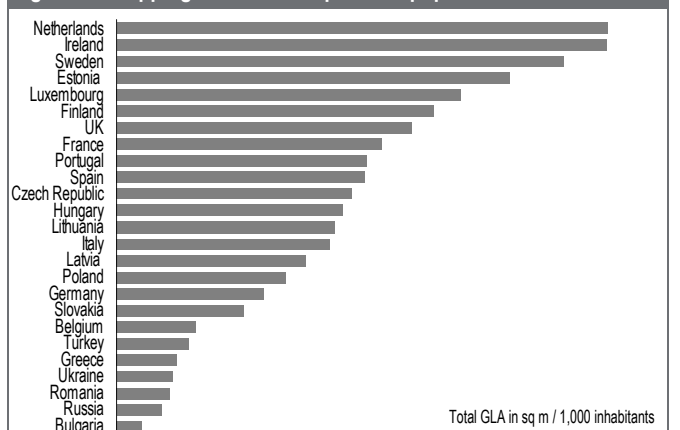


Source: Jones Lang LaSalle

As in 2007, development was weighted towards Central & Eastern Europe (CEE) with 55% of total European completions occurring here in 2008. New shopping centres still represent the majority of development in this region, and there are still many large schemes under construction, though as the market matures extensions are becoming more prevalent. Western Europe development was by contrast dominated by extensions and smaller schemes, often as part of wider town centre regeneration or redevelopment projects. An increased sophistication in shopping centre design traversed both Western and CEE regions in 2008, with sympathetic integration to the environment and innovative appearance amongst the fore

Medium-sized schemes in secondary towns & cities were the focus of development in 2008 with the average GLA of new completions being 19,900 sq m, which was slightly higher than in 2007. There were also a higher number of Regional shopping centres completed compared to the previous 12 months, three of which covered a retail area of over 100,000 sq m (Westfield London, Antares in Ankara and Mar Shopping Centre in Matosinhos, Portugal). Spain's development market in particular was buoyed by several 50,000 sq m + scheme openings including Islazul in Madrid (90,000 sq m) and Dolce Vita Coruna in La Coruna (62,000 sq m).

Figure 2: Shopping Centre Stock per 1000 population December 2008



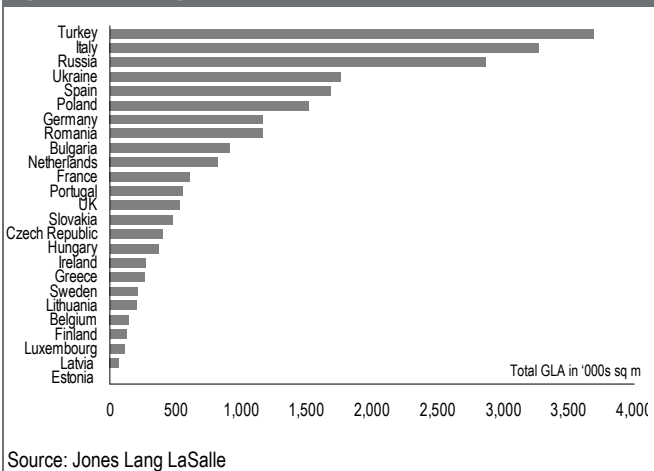
Source: Jones Lang LaSalle

In CEE, Poland and Romania witnessed some notable scheme openings including Multi Developments 55,000 sq m Forum Koszalin (incl. 12,000 sq m retail park), which is now the largest shopping destination in the Koszalin region and opened 100% let. The opening of Baneasa Shopping City in Bucharest has provided the first significant concentration of upmarket brands to the city, whilst in Germany, the 57,000 sq m Forum Duisburg achieved the first BREEAM Environmental Assessment Award Certificate for a retail project in mainland Europe for its impressive sustainability features. And in the UK Grosvenor's Liverpool-One scheme, which opened in two phases, added 150,000 sq m of retail to the city as part of the on-going town centre regeneration.

Development in 2009 & 2010 still strong - but expect caution

Despite the worsening economic outlook, shopping centre development in 2009 & 2010 is still set to be strong with the overall increase to European stock projected at around 23 million sq m (11.9 million sq m in 2009 & 11.3 million sq m in 2010). The majority of this development is planned to occur in a just handful of markets, with Turkey (3.7 million sq m), Italy (3.3 million sq m) and Russia (2.9 million sq m) leading the way. Six countries including Romania, Germany and Poland also have pipelines greater than 1 million sq m.

Figure 3: Shopping Centre Pipeline 2009-2010 at December 2008



A significant proportion of the planned space is however likely to be delayed. This is not unusual - looking back to the end of 2007, some 13.7 million sq m of space was planned to open in 2008 whereas the actual figure came in at almost 5.5 million sq m lower. In the current climate however it would be expected that the difference between advertised and achieved new openings will be much greater as investors demonstrate increased caution and developers struggle to raise finance. Nevertheless, much of the space due to open in 2009 is already under construction and it is unlikely that these developments will stall. But 2010 is likely to be less active and

a significant proportion of the advertised 11.3 million sq m pipeline will most likely be put on hold or even cancelled as economic prospects deteriorate.

This comes as investor and developer sentiment to the development market has already experienced a dip, with 2.2 million sq m less space now planned for 2009 than was due to open back in June 2008 and a further 2 million sq m less space planned for 2010 than was projected 6 months previous.

Figure 4: Pipeline Change since June 2008

	Pipeline Estimated at June 2008 (Million Sq M)	Pipeline Estimated at Dec 2008 (Million Sq M)	% Change
2009	14.1	11.9	-15.6%
2010	13.3	11.3	-15.0%
Total	27.4	23.2	-15.3%

Certain markets are likely to absorb more of the reduction than others, with Russia for instance now looking less attractive to investors, which is affecting developments away from Moscow and St Petersburg in particular. Turkey, which has the largest pipeline in Europe, will also most likely see a significant correction to the advertised pipeline, especially if the volume of schemes whose opening dates slipped from 2008 to 2009 is a precedent that is continued. The pipeline for the UK in 2009 & 2010 has shrunk quite dramatically from 1.5 million sq m as at June last year to 530,000 sq m in December 2008 with delays to town centre regenerations such as in Chester and Sheffield a key driver of the change. Poland has also seen its pipeline reduce significantly, partly as reaction to a slowdown in retail sales growth.



MultiTurkmall's Forum Istanbul will be one of the larger schemes to open in Europe this year, with a GLA of 150,000 sq m (plus 30,000 sq m IKEA)

Retailer demand will no doubt have increased significance in the next two years, as focus will fall on regional towns and prime schemes only. In CEE a number of schemes have already opened with high vacancy rates, particularly in secondary towns. It is becoming harder for lease contracts to be agreed given certain retailers are looking for the most favourable deals to minimise their risk. Even if advanced negotiations have been carried out there is no guarantee the space will be taken, and in Bulgaria, Czech Republic and Hungary there is evidence of mid to up-market retailers withdrawing from projects, delaying market entry or reducing expansion plans. At the same time however, lower cost brands are actively looking for opportunities across the region. In fast-developing markets such as Romania or Ukraine, more targeted expansion plans by retailers should help bring a sense of reality to the, market and rein back development to a more sustainable pace.

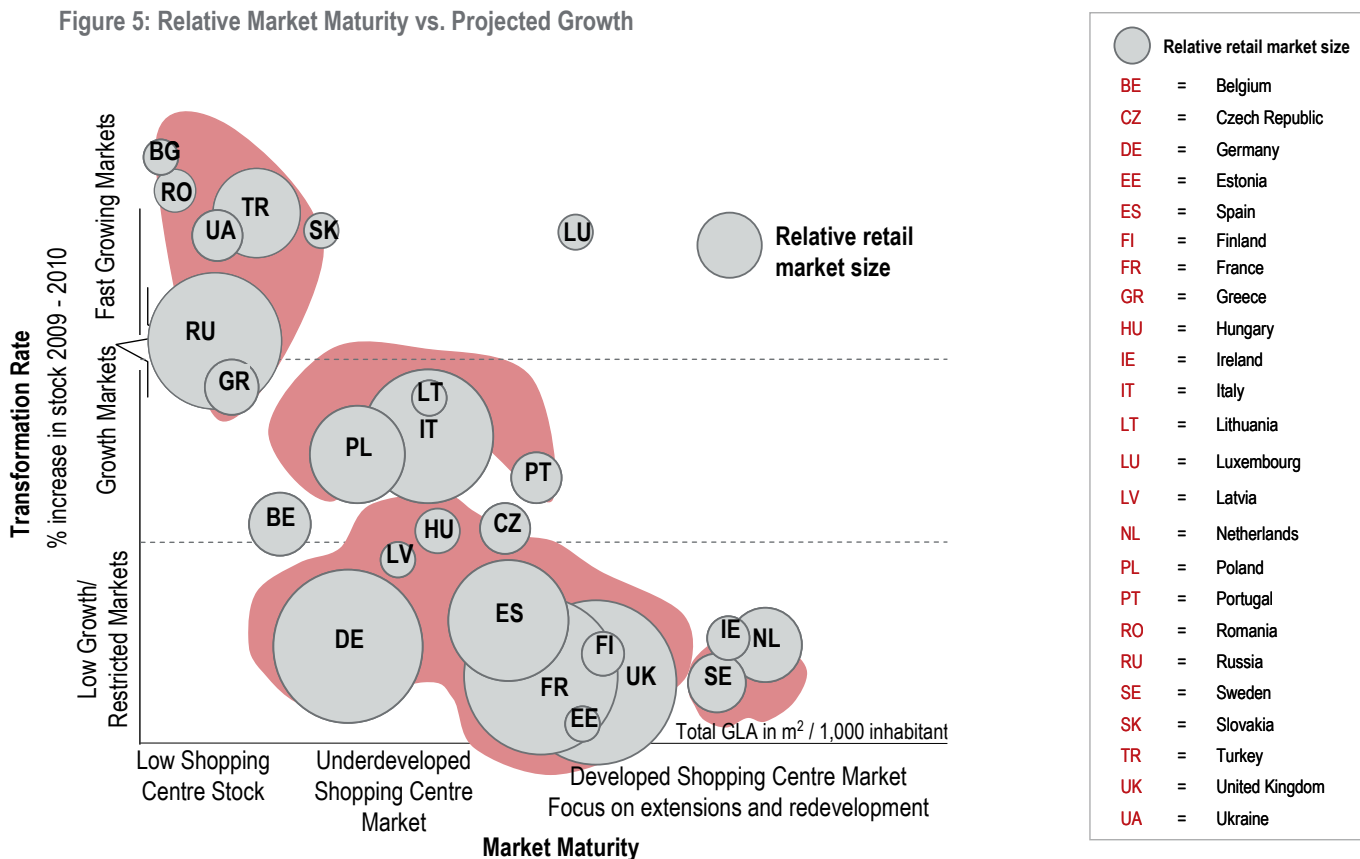
Opportunities still exist

Fig. 5 below depicts the provision of shopping centres across Europe and the relationship between market maturity and current growth rates. The size of each circle indicates the size of the market in terms of retail sales.

Take Bulgaria and Romania for instance. Here they are shown to have a relatively low retail market size and shopping centre stock, but that their markets are set to grow rapidly. Italy has a relatively large market size and is still seeing growth to its slightly under-developed prime shopping centre market, which when realised will move the country further right along the development axis. The Netherlands, Sweden and Ireland all have developed shopping centre markets with low levels of growth planned over the next two years, as development focuses primarily on extensions or upgrades.

In spite of the number of openings last year, what this graph identifies is that there is still a huge diversity in terms of stock and potential across the continent, which evidently provides opportunities for investors and developers. Many developers are still planning on opening new schemes in 2009 & 2010 but they will be keeping a watchful eye on consumer & retailer demand before making a decision as to whether a scheme is delayed or construction starts, if they haven't already broken ground on the scheme that is.

Figure 5: Relative Market Maturity vs. Projected Growth





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A shopping centre (or shopping mall) is defined as a central location where shops, restaurants as well as service companies leisure operators are grouped together to serve a local or wider population whose conception and management have the following characteristics:

- The building/s is/are created and managed as a single entity
- The entity is managed by a single authority whose responsibility is to control the commercial mix and its implementation.
- Retail associations often support the SC management function by coordinating the views of the retail/leisure operators, which are then fed into the marketing and promotional activities organised by the management team.

The minimum gross lettable area of a shopping centre included within the JLL database should be 5,000 m². Retail Warehouse Parks/Solus Units and Factory Outlet Centres have not been included in any part of the analysis.

Shopping Centre Development – March 2009

OnPoint reports from Jones Lang LaSalle include quarterly and annual highlights of real estate activity, performance and specialised surveys and forecasts that uncover emerging trends.

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