



A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

EUROPEAN SHOPPING CENTRES THE DEVELOPMENT STORY

NOVEMBER 2017



CONTENTS

EXECUTIVE SUMMARY	02
KEY HIGHLIGHTS	04
SHOPPING CENTRE DENSITY	06
EUROPEAN SHOPPING CENTRE DEVELOPMENT	08
WESTERN EUROPE	10
TOP NEW SHOPPING CENTRE OPENINGS H2 2017/2018	12
CENTRAL & EASTERN EUROPE	16
TOP NEW SHOPPING CENTRE OPENINGS - H2 2017/2018	18
TRENDS	20
CAVEATS	22
OUR RESEARCH SERVICES	24

EXECUTIVE SUMMARY

Total shopping centre floorspace in Europe increased by 2.9% over the twelve months to June 2017, reaching 160.8 million sq.m. Western Europe currently accounts for 68% of total built shopping centre space, although Central and Eastern Europe dominated development activity in H1 2017, with 825,000 sq.m delivered to the market, compared with 344,000 sq.m in Western Europe.

Overall 1.2 million sq.m of new shopping centre space was delivered in H1 2017, 11% less than in H1 2016. Turkey was the most active country in H1 2017 and accounted for 48% (566,000 sq.m) of all new European shopping centre space, while Russia took the second position with 186,000 sq.m, followed by Italy with 107,000 sq.m of new space.

Development activity has been affected by growing competition, changing consumer behaviour, and, of course, the growth of online retailing. However, shopping centres are not disappearing from the retail landscape. They are merely going through a period of significant transition as retail evolves to focus more on creating an appealing, inspiring and experiential environment for the customer, which cannot be wholly replicated online.

Shopping centre landlords are responding to these changes by extending and redeveloping existing schemes and creating diverse tenant mixes based on the needs of local communities. From a convenience perspective, many schemes have introduced more socially-focused services and new technologies, while occupiers continue to test new concepts and formats.

Nevertheless, a further decline in shopping centre completions is expected in H2 2017 and 2018, with 6.8 million sq.m of space currently under construction and expected to be completed in this period. This represents a 16% decline compared with the forecasts made 12 months ago.



KEY HIGHLIGHTS



Total shopping centre
floorspace in Europe was
160.8 MILLION SQ.M
as of 1st July 2017

	Europe	WE	CEE
Stock of SC space in Europe (million sq.m)	160.8	109.1	51.7
Y-Y growth	+2.9%	+1.4%	+6.0%

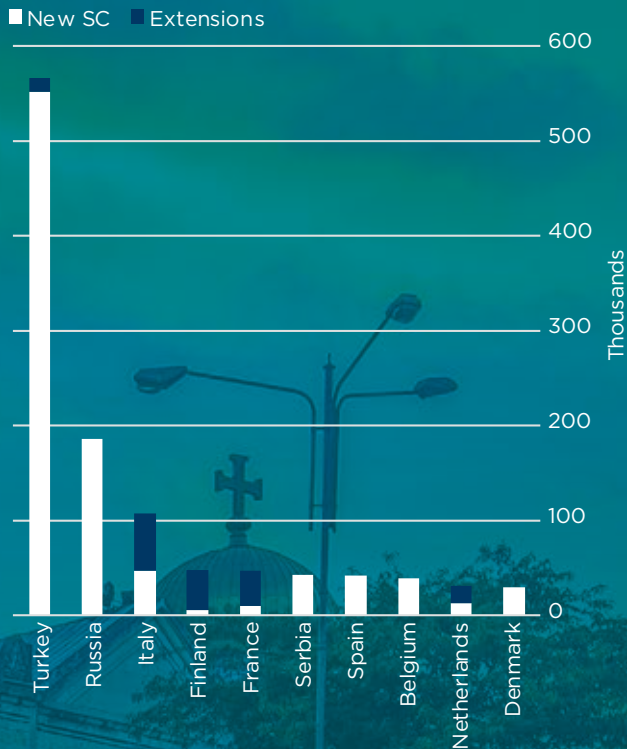
Source: Cushman & Wakefield.



1.2 MILLION SQ.M
of new shopping centre space
was delivered to the market in
H1 2017, **11.4% less** than in H1 2016

	Europe	WE	CEE
New SC space added in H1 2017 ('000 sq.m)	1,169	344	825
Y-Y growth	-11.4%	-34.1%	+3.6%

Top 10 countries - development activity in H1 2017 (sq.m)



New shopping centre projects (34) represented **84%** of the new space delivered in H1 2017, while extension projects (21) accounted for **16%**



Approximately,

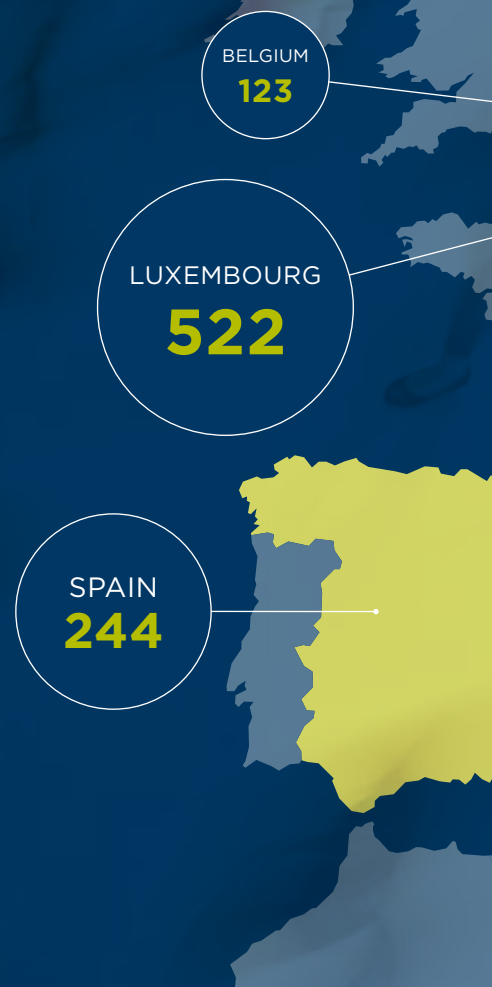
3.4 MILLION SQ.M of new shopping centre space is expected to be delivered in H2 2017, while a further **3.5 MILLION SQ.M** is due to be completed in 2018

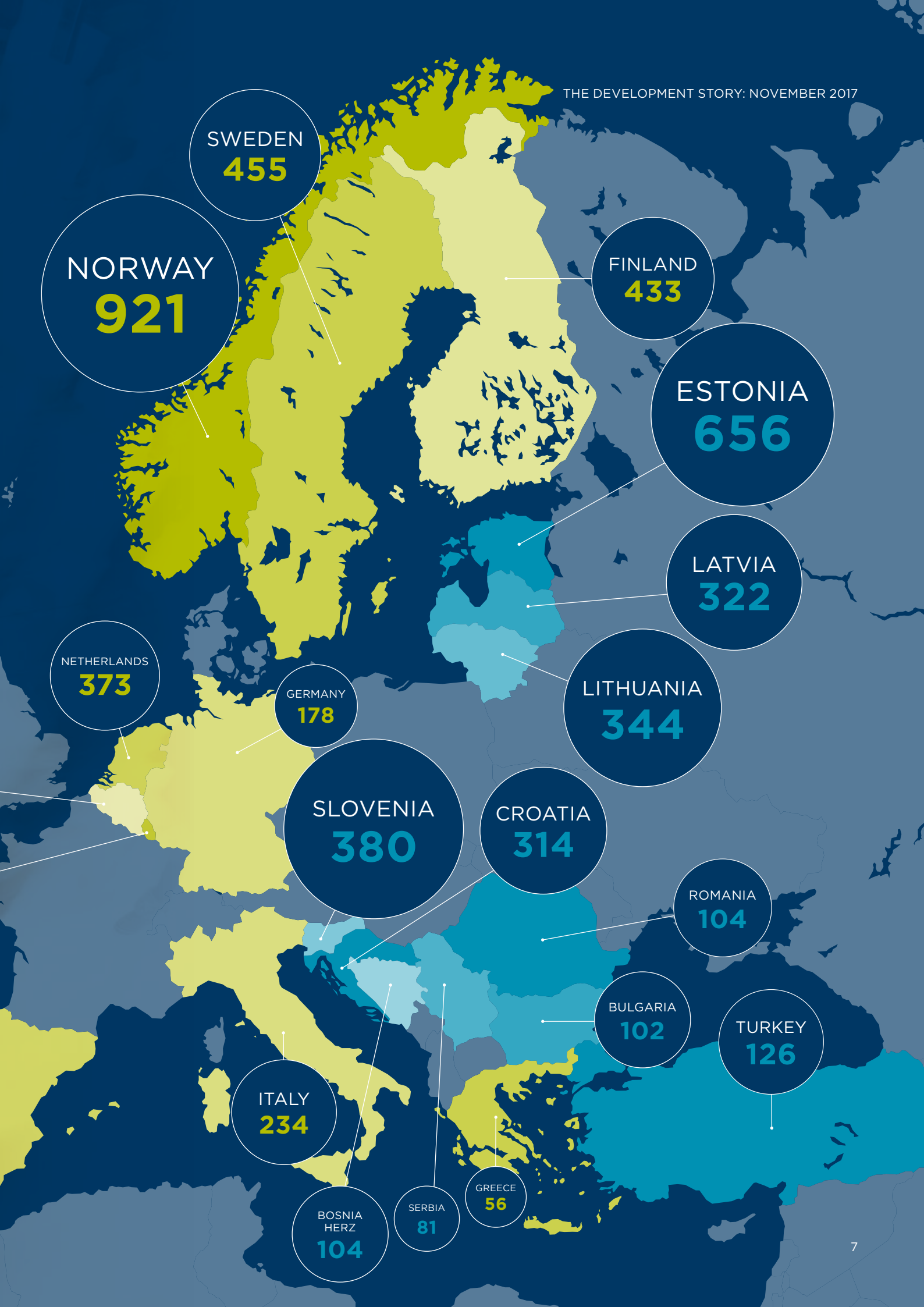
	Europe	WE	CEE
New SC space to be delivered in H2 2017 - 2018 (million sq.m)	6.8	2.8	4.1
Y-Y growth	-15.8%	-9.5%	-19.7%

SHOPPING CENTRE DENSITY

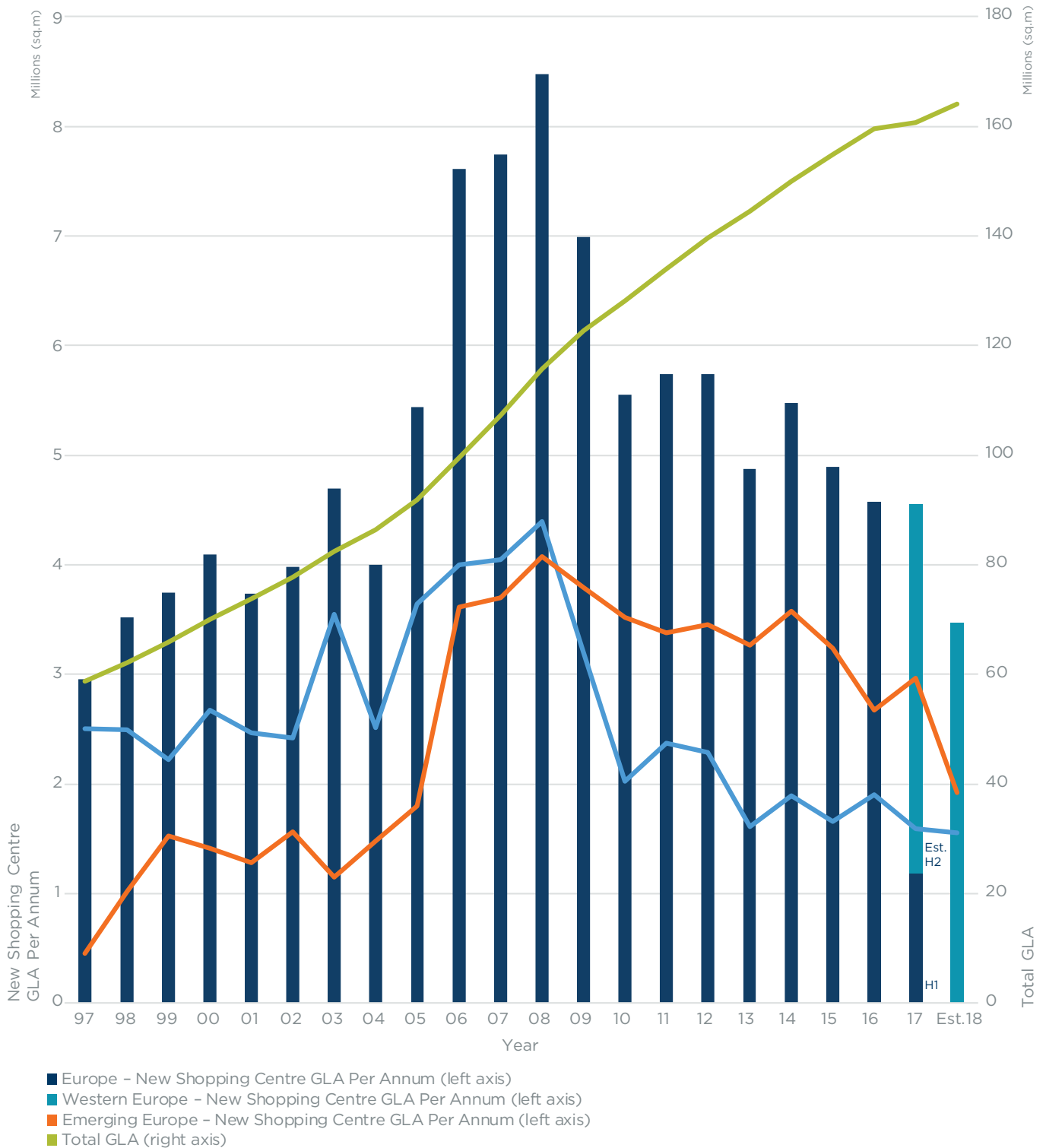
(GLA sq.m/1,000 population)
5 HIGHEST AND LOWEST

- Western Europe
- Central and Eastern Europe





EUROPEAN SHOPPING CENTRE DEVELOPMENT





WESTERN EUROPE MARKET SIZE

Limited development activity in the three largest shopping centre markets

The presidential and parliamentary elections served to dampen leasing and investment activity in France in H1 2017. The volume of new shopping centre openings slowed dramatically, with only one small shopping centre and five extensions being completed, amounting to less than 50,000 sq.m of new space. However, as the French economy strengthens, development activity is expected to improve in H2 2017 and 2018. In fact, France has the strongest development pipeline in Western Europe. Nearly 800,000 sq.m of space is currently under construction and scheduled for completion in H2 2017 and 2018, with extensions accounting for 45% of this total. In addition, retail parks are experiencing strong demand as an alternative for retailers and some 1.2 million sq.m of big box space is currently under construction, with more than 80% of this space in new locations.

The size of the UK and German shopping centre markets remained unchanged in H1 2017, with no new openings. However, development is expected to improve in H2 2017 and 2018, when a number of medium and large schemes will be completed.

Southern European markets have remained buoyant, with Italy being the most active development market in H1 2017

In Italy, following the economic recovery and the acceleration in development activity in 2016, the positive trend continued in H1 2017, supported by improving consumer and business confidence. Italy was the most active country in terms of new openings, adding more than 100,000 sq.m of new space, representing 30% of new space in Western Europe. ECE's 47,000 sq.m Adigeo Centre in Verona was the most significant opening in H1 2017.

In Spain and Portugal, development activity was muted in H1 2017. However, four new schemes scheduled to open in H2 2017 are currently under construction in Spain, which will result in over 30% more space being delivered than in 2016. In Portugal meanwhile, there is a growing trend towards new formats which combine the features of retail parks and shopping centres. While development activity is focused on the expansion and remodeling of existing schemes, there will be two new centres in 2017, namely the 16,200 sq.m Évora Shopping and the 41,000 sq.m Mar Shopping Algarve (82,000 sq.m total size).

“Italy was the most active country in terms of new openings”

Despite the high shopping centre density, strong population growth and improved consumer spending support the further development in the Nordic region

Strong population growth in the metropolitan areas has boosted demand for shopping centre space in the Nordic capitals (Copenhagen, Helsinki, Oslo and Stockholm), despite an already high level of provision, which averages 639 sq.m per 1,000 people across the four cities. Development is expected to continue in H2 2017 – 2018, with 523,000 sq.m of new space currently under construction and scheduled to be completed, which represents a 30% increase on the amount of space under construction as at 1st July 2016. Approximately 40% of this space will be located in the capital cities.



Total shopping centre floorspace in Western Europe was 109.1 million sq.m as at 1st July 2017.



In H1 2017, 344,000 sq.m of new shopping centre space was completed, a 34.1% decline on the amount delivered in H1 2016.

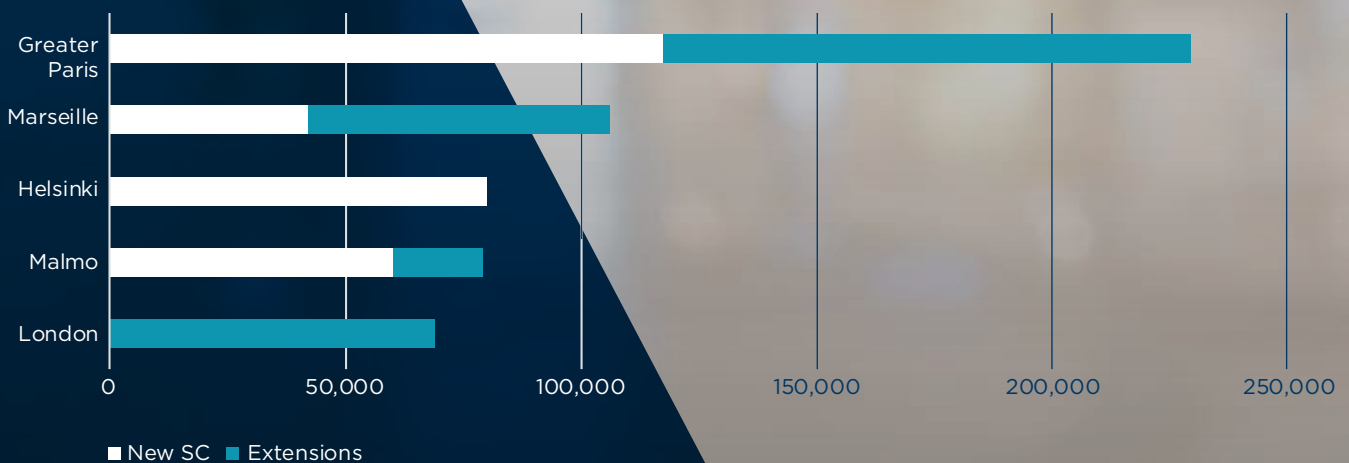


Approximately 1.2 million sq.m of space is currently under construction and due to open in H2 2017. In total, 1.6 million sq.m of new shopping centre space will be delivered in 2017, a 17% fall on 2016.



A further 1.6 million sq.m of new space should be completed in 2018.

TOP 5 WE CITIES - DEVELOPMENT PIPELINE H2 2017 - 2018 (SQ.M)



TOP NEW SHOPPING CENTRE OPENINGS H2 2017/2018



UNITED KINGDOM - OXFORD

74,300 sq.m
Westgate Oxford

2017



FRANCE - FARÉBERSVILLER

52,000 sq.m B'est

2018



FINLAND - HELSINKI

60,000 sq.m Redi

2018



SWITZERLAND - EBIKON (LUZERN)

46,000 sq.m Mall
of Switzerland

*(Mixed use scheme with
total GLA 65,000 sq.m)

2017



SPAIN - LAS PALMAS

60,000 sq.m Centro
Comercial de Tamaraceite

2017

PORTUGAL - LOULÉ

41,000 sq.m Mar Shopping Algarve*

*(Mixed use scheme with total GLA 82,000 sq.m)

2017

LUXEMBOURG - DIFFERDANGE

33,000 sq.m Opkorn Arboria

2017

ITALY - NICHELINO (TURIN)

40,000 sq.m Mondojuve

2017

GERMANY - BERLIN

31,000 sq.m East Side Mall

2018

THE NETHERLANDS - UTRECHT

22,400 sq.m Leidsche Rijn Centrum

2017

“ Strong population growth in the metropolitan areas has boosted demand for shopping centre space in the Nordic capitals ”



CENTRAL & EASTERN EUROPE MARKET SIZE

Increasing shopping centre supply despite decreasing occupational demand in Turkey

The first quarter of 2017 was challenging for the Turkish retail industry. Retailers and investors were in “wait-and-see” mode before the April 16th referendum, with many taking a pessimistic view on the economic outlook given the weaker consumer backdrop, a falling currency and high interest rates. However, sentiment in the second quarter was more positive.

“Turkey holds the top position for development activity in H1 2017.”

Similarly, while the number of completions fell slightly in Q1 2017, development activity accelerated in Q2, with the number of completions increasing significantly. Overall, with more than 566,000 sq.m of new space, Turkey holds the top position for development activity in H1 2017. More than 35% of the new space was in Istanbul which has the highest levels of development activity in Europe. One of the key openings in H1 2017 was the 150,000 sq.m Emaar Square Mall in Istanbul, which houses the first Galleries Lafayette store in Turkey. Development activity is expected to remain buoyant, with 1.2 million sq.m of new shopping centre space in the pipeline for H2 2017 and 2018. However, while shopping centre supply continues to increase, occupational demand is softening and a number of new schemes have opened with just 40–50% occupancy rates. The main reasons for this are the competitive environment, a volatile currency which impacts on rents payable and the reluctance of the retailers to join unproven schemes.

Strengthening development in the remote Russian regions

In Russia, H1 2017 saw 186,000 sq.m delivered to the shopping centre market which reflects the slow and gradual recovery from recession. While real incomes and retail sales are still in negative territory, consumer sentiment is improving which has generated some optimism in the sector. A stronger pick up is expected in H2 2017 and 2018, with 1.7 million sq.m of space in the pipeline. This is the strongest pipeline in Europe and represents almost a quarter of the total pipeline in Europe for in H2 2017 and 2018. Only 13% of this space will be located in Moscow as developers continue to broaden their geographical coverage and construction is starting in the more remote regions such as Vladivostok (Far East, the 46,300 sq.m Kalina Mall), Khabarovsk (Far East, the 37,000 sq.m Brosko Mall) and Grozny (Caucasian District, the 59,000 sq.m Grozny Mall). Similarly, on the occupier side, both large and small retailers continue to announce development plans in their traditional markets as well as new regions.

Higher than average levels of provision have not discouraged further development in Warsaw

While development activity in Poland was limited in H1 2017, a significant improvement is expected in H2 2017 and 2018. Poland has the third largest development pipeline in the CEE region, with more than 600,000 sq.m currently under construction. It includes a number of medium and large projects, namely the 42,000 sq.m Serenada in Kraków, the 36,000 sq.m Gemini Park Tychy or the 64,000 sq.m Galeria Północna in Warsaw (opened in September 2017) and the 64,000 sq.m Wroclavia in Wrocław (opened in October 2017). Nearly one third of the development pipeline is in Warsaw, despite the already high density (456 sq.m per 1,000 population) against the average of (376 per 1,000 population) in the Central European capitals. However, Warsaw has the most mature shopping centre market of capital cities in CEE. Approximately 80% of shopping centre space is over ten years old, which creates significant opportunities for the redevelopment, extension and re-positioning of schemes.



Shopping centre floorspace in Central and Eastern Europe (CEE) totalled 51.7 million sq.m as of 1st July 2017.



In H1 2017, 825,000 sq.m of new shopping centre space was delivered, a 3.6% increase on H1 2016.

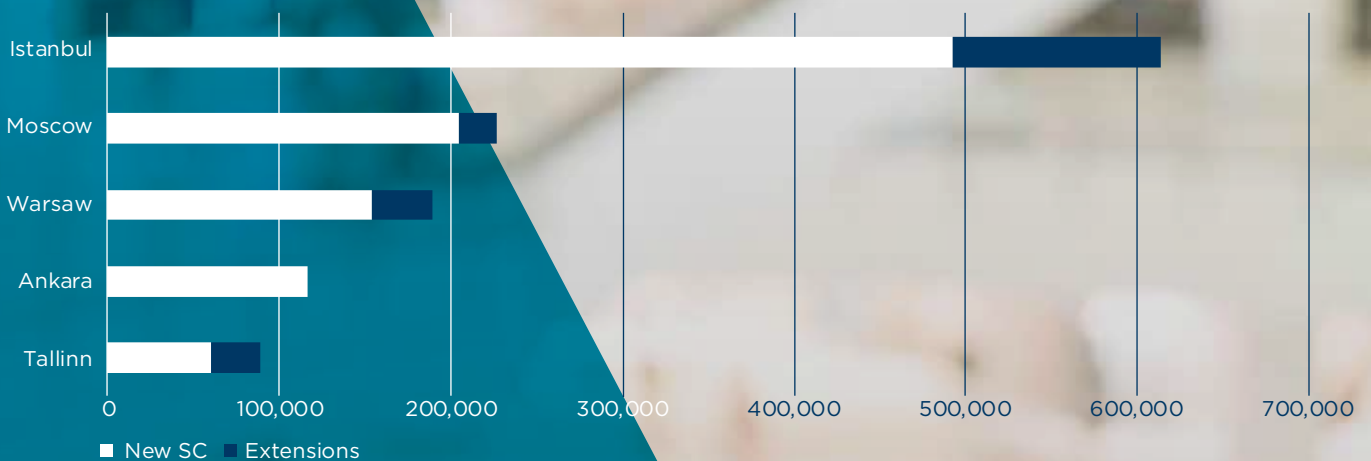


Development activity is expected to grow further in H2 2017, with 2.1 million sq.m of new space anticipated, taking the full year total to 3 million sq.m – an 11% increase on 2016.



Overall, 4.1 million sq.m of new shopping centre space is expected in H2 2017 and 2018. This represents a 20% fall on the amount of space that was under construction as at 1st July 2016.

TOP 5 CENTRAL & EASTERN EUROPEAN CITIES - DEVELOPMENT PIPELINE H2 2017 – 2018



TOP NEW SHOPPING CENTRE OPENINGS – H2 2017/2018



RUSSIA – MOSCOW
119,467 sq.m Vegas III

2017



BOSNIA HERZEGOVINA –
BANJA LUKA
60,000 sq.m Delta City

2018



TURKEY – ISTANBUL
PROVINCE
83,000 sq.m
Metropol Istanbul

2018



ESTONIA – TALLINN
55,000 sq.m
T1 shopping centre

2018



POLAND – WARSAW
64,000 sq.m
Galeria Północna

2017



ROMANIA – BRASOV
45,000 AFI Palace
Brasov

2018

Source: Cushman & Wakefield



BULGARIA - VARNA
40,000 sq.m
Delta Planet

2018



SLOVAKIA - PRESOV
22,000 sq.m
Eperia Presov

2017



SERBIA - BELGRADE
34,000 sq.m Ada Mall

2018



CROATIA - POREČ
10,000 sq.m
Histria Mall Porec

2017

TRENDS

The retail environment is undergoing major disruption and shopping centre landlords and tenants need to understand the changing role of retail, which will no longer focus solely on selling products and services. The following section describes recent trends which are expected to impact on shopping centre development.



1. Extensions are becoming the norm in shopping centre development

The shopping centre market is maturing, especially in Western Europe, where more than 75% of shopping centre space is more than ten years old. Shoppers are becoming more demanding and their needs are more complex, as they seek out more appealing and diverse environments where they can shop, eat and enjoy their free time. This has led to the growing need for more modern and fresher space. However, the lack of space for new development and the risks involved in new construction have encouraged developers to extend existing schemes rather than initiate new projects. In H2 2017 and 2018, more than 6.8 million sq.m of new shopping centre space is expected to open in Europe. However, extensions will account for 39% of this space in Western Europe and 19% in CEE.



2. The dividing line between the shopping centre and out-of-town retail segments is becoming blurred

Historically, shopping centres and retail parks/out-of-town retail were separate formats, operating in different types of location and serving a different purpose. However, the dividing line between these two formats is blurring. The growth of e-commerce and the increasing importance of the customer experience has had an impact on out-of-town retail parks, which have tried to attract a more diverse type of tenant such as food and beverage (F&B), leisure and entertainment operators. Conversely, retailers which used to trade predominantly in retail parks are expanding and opening units in shopping malls. A good example is London's Westfield White City which now has five car manufacturers with showrooms. New retail formats, which combine various retail types, have also emerged. In Portugal, Inter IKEA is

developing the 82,000 sq.m Mar Shopping Algarve, a scheme which will consist of a 41,000 sq.m shopping centre, a 24,000 sq.m IKEA store contained within the shopping centre and a 13,000 sq.m designer outlet. In the second phase of the project, 4,000 sq.m of new space will be added to the designer outlet. The project will also include a 5,000 sq.m leisure area.



3. Polarisation and more mixed use schemes – community centre versus high end mixed-use property

In recent years, shopping centres have featured increasingly as part of mixed-use development. This has been driven in large part by a growing number of people seeking a 'live-work-play' lifestyle within close proximity and has resulted in the development of multifunctional centres – hubs of the community or high-end luxury mixed-use developments. One noteworthy example is the 314,000 sq.m City Life project in Milan, which has a cutting edge architecture and design. It includes office space, 530 luxury residential units and a 32,000 sq.m shopping mall. In terms of community centres, Oslo's 87,000 sq.m Stovner Senter, which was originally built in 1975, is being redeveloped into a mixed-use scheme. On completion, the Stovner Senter will be one of the largest centres in Norway, housing 145 retail stores, restaurants, a centre for the elderly, a library and municipal services.



4. Strong growth of online shopping and social media commerce does not stop expansion of retailers with a vision

Despite the continuous growth of online retail sales, there are a number of bricks and mortar retailers, particularly clothing brands, which continue to look for new store locations and expand their business.

In France, while online sales grew by 14% year-on-year in Q1 2017, international brands such as Primark and Uniqlo continue to expand. In Sweden, consumer electronics chains such as Elgiganten, NetonNet and Webhallen have expanded aggressively in the last 12 months and have plans for new stores. In Slovenia, Ikea is planning to open its first store. In Italy, Primark is continuing to go forward with expansion plans, and food operator Wagamama opened its first branch in the new food court in the Orio Centre.



5. Retailers and food operators exploring new store formats

In shopping centres, space dedicated to temporary kiosks is continuously increasing and the pop up store market is now firmly established. A growing number of retailers are using pop ups as a low cost way to start a business, test new markets or products, or to do additional marketing. Changing consumer behaviour is forcing retailers to rethink their business models and to come up with new formats and product offerings. Sweden's largest sport goods and apparel retailer, Stadium, has developed three store concepts for different retail formats: Stadium, which operates different sized stores in retail parks and mass market streets; Stadium Outlet, which trades in retail parks/big box schemes; Stadium Pulse, which operates from high end stores in high street locations.

In Russia, new and existing retailers such as All Foods, Fresh Market 77, Ugliche Pole and AB Daily are expanding with a new mini-market (convenient store) format, which is increasingly popular. Similarly, in the F&B market, the mid and upper-mid-market restaurants are launching low budget chains to cater for the increasing trend for healthy eating on a limited budget. An example includes Kofemania café which opened Vietnamese food Fo Fa chain.



6. Experimental tenant mixes

In the majority of European countries, shopping centres are applying a more experimental approach to selecting the optimal tenant mix. While maximizing the use of the space, landlords are selecting tenants which will create an environment where shoppers feel entertained.

In Norway, most shopping centres are seeking to increase and improve their F&B offer in order to create more meeting points, largely on the back of increasing

urbanization and the aging population. In Germany meanwhile, the new 3,000 sq.m FoodSky area has opened over the entire top floor of Europa Passage in Hamburg. In Finland, there has been a significant increase in the number of entertainment operators such as the climbing wall in REDI and the activity park in Iso Omena. Family oriented entertainment facilities are also becoming more popular, notably in family centric regions. In Norway, the Sirkus Shopping Centre in Trondheim has opened a 750 sq.m playroom for children and their families. Mall of Switzerland is expected to open the 1,500 sq.m Kinderland, which will become the largest children playroom located in the shopping mall on the Swiss shopping centre market. It is clear that F&B, leisure and entertainment are now integral components in shopping centres in Western Europe. New trends are also emerging in Central & Eastern Europe, with Russia seeing an increasing number of food halls for example. Traditionally, food halls were built on former farmers' markets, but now the format is moving to shopping centres, with Ginza expected to open a food hall in the 5th Avenue shopping centre in Moscow.



7. Technological innovation will benefit retailers, landlords and shoppers

While the development of technology has created a number of challenges, there are also opportunities which will benefit retailers, landlords and shoppers. In particular, technology can be used to enhance the customer's shopping experience. Two such technologies are Augmented Reality (AR) and Virtual Reality (VR), which have existed for some time, although their impact to-date has been limited. However, this is beginning to change, with Apple recently announcing their entry into the Augmented Reality (AR) arena. This means that every Apple device could soon be an AR enabled device which could lead to a wave of new AR applications in retail, enabling customers to experience and picture products in real life settings.

Shopping centre landlords will increasingly use technology to collect and analyse shopper data to facilitate more tailored marketing campaigns. An increasing number of malls use automatized footfall counters, which track the number of vehicles and visitors by counting their mobile phone numbers. The Intu Victoria Centre in Nottingham has installed a giant digital screen with a recognition camera on the front part of the building which is used to analyse visitors' age, gender and mood in order to produce more tailored advertisements.

CAVEATS

Shopping Centre Definition: Cushman & Wakefield defines a shopping centre as a centrally managed purpose-built retail facility, comprising at least ten units and communal areas, with a Gross Lettable Area (GLA) over 5,000 sq.m. Factory Outlets and Retail parks are excluded. All graphs and tables are based on information from Cushman & Wakefield's in-house European Shopping Centre Database. All figures are as of 1 July 2017.

OTHER CAVEATS TO NOTE:

- All figures represent retail GLA as far as possible – some might include total GLA if retail GLA is not available.
- City market boundaries: the figures in this report refer to the larger areas around the core city that gives the market its name; that is, each market consists of a bundle of NUTS III areas.
- Shopping centre figures for Russia include only quality schemes.
- Figures for Sweden also include Factory Outlets and Retail Parks.
- All stock and pipeline figures are sourced from Cushman & Wakefield.
- Population data is provided by Oxford Economics.



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