pulse

JONES LANG LASALLE®

Shopping Centre Development:

Eastern Europe Leads the Boom, March 2008

Over 6 million m² of new shopping centre space completed in Europe in 2007

Russia to account for one quarter of all new space in 2008-2009

2007 – Another Record Year for New Shopping Centre Space

New shopping centre development continues apace with over 6 million m² of new space opened in 2007. This is another record high and compares with the 5 million m² opened in 2006.

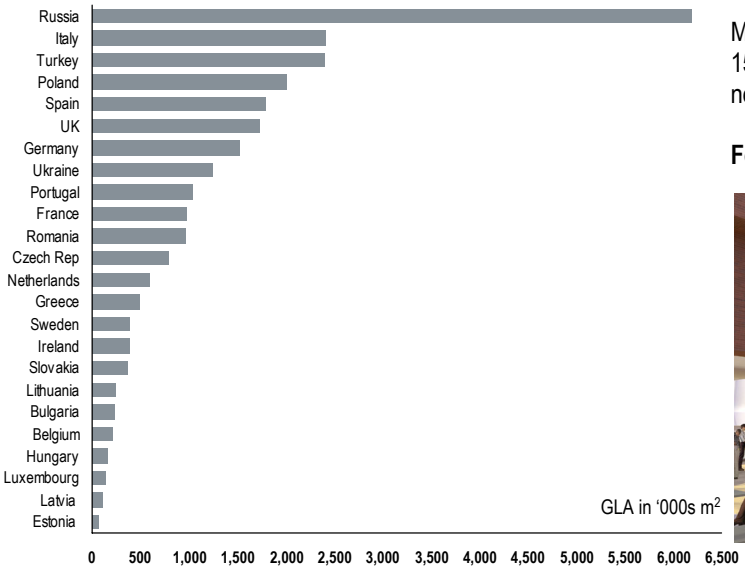
Once again Russia was the most active market, with 1 million m² opened in 40 schemes. Italy was just behind with 0.8 million m², followed by Poland with 0.7 million m². Germany, Turkey and Spain remained highly active, although completion levels in Spain have moderated from the previous year.

The focus for new development in 2007 was the emerging markets of Eastern Europe, but Central Europe remains a development hotspot with southern Europe not far behind. As expected, Western Europe was relatively muted, although new development is taking place with the emphasis on redevelopment and extensions.

More of the Same in 2008/2009

The next two years promises more of the same. Russia's pipeline is phenomenal (over 6 million m²) and accounts for almost a quarter of the planned new space in Europe in 2008-2009 (see Fig 1). In Italy, Turkey and Poland over 2 million m² of new space is forecast over the same period. More than 1.5 million m² is due in the UK, Germany and Spain, and over 1 million m² is due in Portugal and the fast developing Ukraine.

Figure 1: Shopping Centre Pipeline 2008-2009



In **Russia**, Moscow and St Petersburg are still the most active development markets. In spite of the rapid growth of new space, retailer demand for new space is more than keeping pace, and vacancy levels are less than 1%. This level of growth is expected to continue for another three to four years.

New schemes are becoming more sophisticated and typically include an entertainment component. They also tend to be large. In Moscow alone three schemes over 100,000 m² are due to open by the end of 2009: Karshirskiy Mall (120,000 m²), Auchan Novokossinno (152,000 m²) and Central Core (180,000 m²). Another five very large schemes (over 80,000 m²) will also open, including the more upmarket Metropolis. In Moscow some 1.5 million m² is due for completion in 2008 and 2009. Very large schemes are also common in the Russian regions, which continue to grow in importance. The 90,000 m² Planeta in Krasnoyarsk, due in 2008, is an example of this. In Russia overall, around 6.5 million m² is scheduled to open by 2009.

Planeta (Krasnoyarsk), Russia

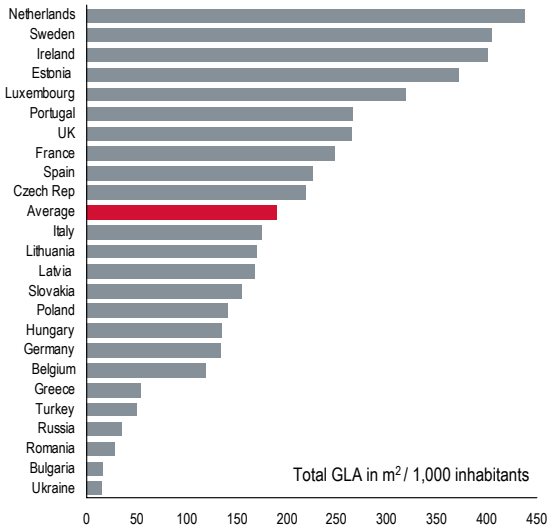
Turkey is still booming, with 33 new shopping centres completed in 2007. Among these were two high-end schemes: City`s opened in January 2008 in Istanbul's high end shopping street, Nisantasi. Totalling 19,300 m², it has 129 stores including international luxury brands such as Versace Jeans, Jean Paul Gaultier, Cavalli, Trussardi and Cerutti. Also the 300 store, 87,000 m² Istinye Park opened in September 2007, with luxury brands such as Dolce Gabbana, Jimmy Choo, Bottega Veneta, and Moschino.

MultiTurkmall`s Forum Istanbul in Bayrampasa, Istanbul, at 150,000 m² (including a 30,000 m² IKEA), will be the largest new scheme to open in Turkey this year.

Forum Istanbul, Turkey

Turkey's pipeline is significant with 70 new centres planned for 2008-2009, but the country is still well under the European average in terms of shopping centre Stock per Capita (see Fig 2) and strong demand from domestic as well as a growing number of international tenants is expected to drive rental growth in prime schemes.

Figure 2: Existing Shopping Centre Space per Capita



The **Italian** shopping centre market is also highly active with a number of very large schemes completed since 2005, including the 96,400 m² Porta di Roma and the 93,000 m² Roma Est which both opened in Rome in 2007. Also completed last year was the 93,800 m² Centro Commercial Campania, Marcianise developed by Corio. Although it is difficult to quantify the pipeline accurately, with a number of the planned schemes unlikely to be completed within the advertised time frame, it is clear that the market will remain buoyant for the foreseeable future.

Rome and southern Italy are the main focus for new schemes, whereas in northern Italy, where there are many older centres, redevelopment is more common. An emerging trend is the focus on new locations such as stadiums, marinas and train stations.

Shopping centre supply in **Spain** is growing more slowly than before as the market matures and the focus moves to the second tier cities. Around 65% of new space in 2007 was opened in cities with less than 100,000 inhabitants. Spain will remain one of the most active markets in Europe with some 68 schemes scheduled for completion before 2010. Notable openings scheduled for 2008 are Islazul in Madrid (88,800 m²), Dolce Vita Coruña (63,000 m²), Ballonti in Portugalete, close to Bilbao totalling 51,500 m² and the spectacularly designed Espacio Buenavista in Oviedo (40,000 m²).

The **Polish** market grew by 14% in 2007 and is one of the most vibrant in Europe. Notable openings in 2007 include the 65,500 m² Magnolia Park in Wrocław, the 63,500 m² Zlote Tarasy in Warsaw, Magnolia Park (65,500 m²) in Wrocław and the 50,000 m² Pasaż Grunwaldzki in Wrocław.

Over 70 shopping centres are due to open in 2008-2009, making Poland by far the most active development market in Central Europe. The rate of development may slow however due to a very tight construction market characterized by rising costs and a lack of labour.

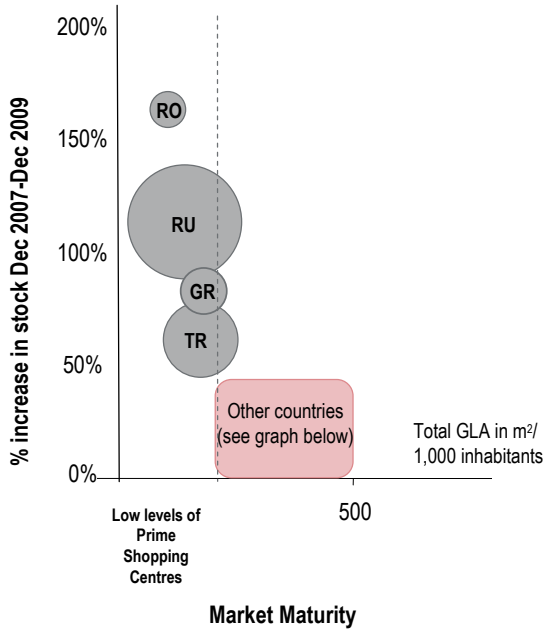
Romania has the largest pipeline relative to its existing stock. Over 200,000 m² was completed last year bringing the total stock to almost 600,000 m² with over 900,000 m² scheduled for completion before 2010.

The speed at which development activity has moved to the regions is very different to the evolution of shopping centre development in Central Europe, where it took much longer for developers to explore the opportunities outside the capital city. The reason for this is twofold: firstly, developers have learnt from their experience in Central Europe that although regional and secondary cites may have lower spending potential, consumer expenditure growth can still be significant and provide sustainable developments in the long term. Secondly, in the highly active development market of CEE, development opportunities are becoming more scarce and developers have realised that they will have to look long term in order to realise opportunities.

Baneasa Shopping City, Romania

Shopping Centre Supply across Europe

Most active development markets



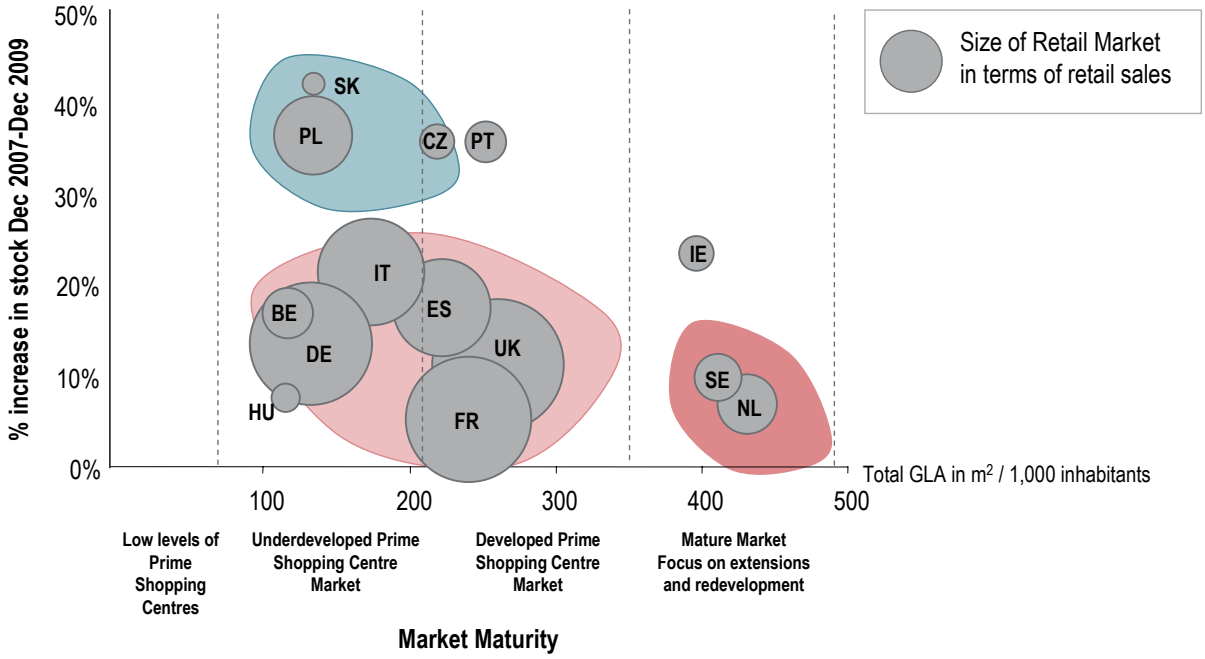
The two graphs show market maturity by country and the projected growth in shopping centre space relative to existing stock. The size of circle indicates the size of the retail market in terms of retail sales.

The huge scale of projected growth in the countries with a low level of prime shopping centres (Romania, Greece, Russia and Turkey) is clear, particularly in Russia and Romania where stock is scheduled to more than double over the next two years (see graph to left).

The graph below shows the wide range of market sizes and market maturity in those countries where prime shopping centre development is mature or still emerging. One of the most interesting observations is that The Netherlands, one of the most mature markets, still has an active development market, with an 8% increase in stock scheduled by the end of 2009. Extensions to existing schemes account for much of this new space.

In the same region, Belgium stands out as a market with a relatively low level of prime shopping centres, due primarily to a restrictive planning regime. In spite of this, a plan to develop the country's first regional out of town scheme in the Brussels area (80,000 m²) is gaining widespread support.

Europe has a mixed picture of mature, emerging, small and large markets



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Note: 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 centres included for the purpose of the JLL database should be 5,000 m² (exception Germany: minimum GLA 10,000 m²).