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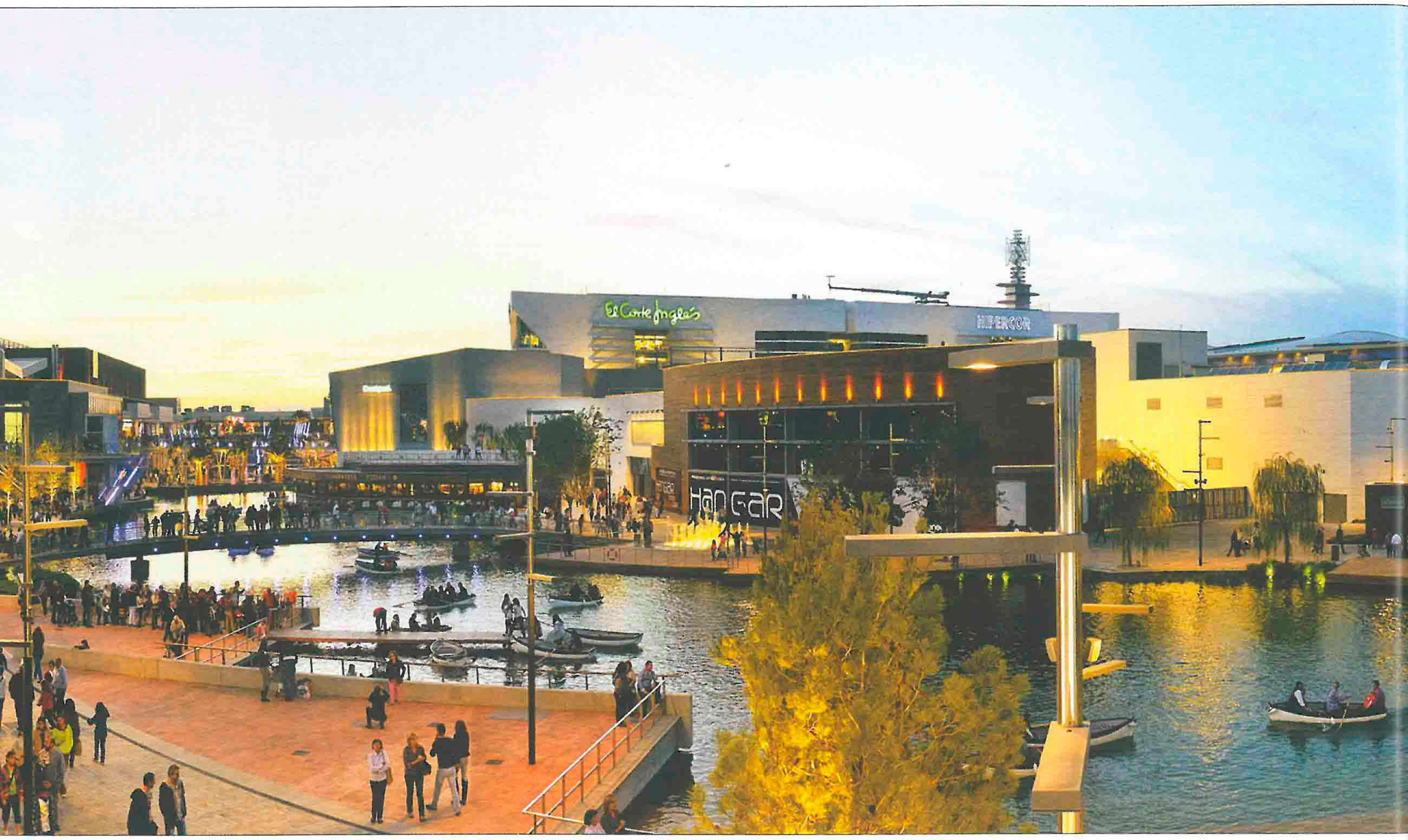

SOUTHERN EUROPE

The rebound gathers pace

Europe's south was hit hard by the downturn, but the markets of Spain, Italy, Portugal and Greece are experiencing some of Europe's strongest bounce-backs. Sarah Morris and Mark Faithfull report

IN LESS than a year, the perception of southern Europe for many investors has switched from 'risky' to 'desirable'. Borrowing costs on periphery sovereign debt has dropped, Spain and Portugal have exited bailouts and even Greece — which triggered the eurozone debt crisis — is showing tentative signs of recovery.

Spanish retail sales have become more consistently positive since April, after a three-and-a-half year struggle. The country is now seeing the strongest turnaround, attracting €985m of retail investment in the first half of 2014, according to JLL. The real estate company forecasts €2bn of investment by the end of this year — the highest level of transactions since 2006.

"The Spain country-risk debate is off the table and it's seen as a core market again," says David Brown, JLL's associate director of retail capital markets in Spain. "In many prime and dominant shopping centres, we have seen sales begin to rise again."

About €380m came from Klepierre's acquisition in February of 63 Carrefour-owned shopping centres in Spain as part of a European portfolio it bought for €2bn.

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Puerto Venecia will form the model for more Spanish mixed schemes

Then in July, Spanish real estate investment trust (REIT) Merlin Properties bought the Marineda City shopping centre in La Coruna, Galicia, for €260m. The deal for Spain's second largest shopping and leisure complex of 200,000 sq m is the largest to have taken place in the country since 2008. On the same day, REIT Lar Espana said it had paid Igipt Spain One €80m for the 28,863 sq m AnecBlau centre in the tourist heartland of Castelldefells near Barcelona.

JLL's Brown expects more deals by Spanish REITs, known as SOCIMI, as these vehicles spend the considerable capital they have raised this year. As investors have plucked prime or dominant shopping centres, yields have dropped from the 7.2% at which Intu Properties and the Canada Pension Plan Investment Board (CPPIB) purchased Parque Principado in the northern Spanish city of Oviedo last year.

This year is likely to see investors looking at secondary shopping centres and away from Spain's top five cities, Brown says. Private equity may have to consider centres with higher vacancies that need repositioning to maintain returns of 18%-20% geared IRR, he adds.

Eurofund and Intu will jointly develop Intu Costa del Sol in Malaga, while Intu and CPPIB paid €162m for Parque Principado. David Fischel, chief executive of Intu, says: "The opportunity to acquire Parque Principado, a top-10 centre in Spain, on attractive and earnings-accretive terms firmly establishes our presence on the ground in a country where we see considerable growth opportunities in the regional shopping-centre industry."

Meanwhile, Graeme Eadie, senior managing director and global head of real estate investments at CPPIB, called the development an "attractive entry point to the Spanish retail market".

European Real Estate III CV — a fund managed by Orion Capital Managers — bought the 50% that it did not already own in the Puerto Venecia regional shopping centre and retail park in Zaragoza from British Land for €144.5m. Puerto Venecia comprises an 82,600 sq m retail park, which opened in 2008, and a 130,000 sq m fashion and leisure destination, which opened in October 2012.

Aref Lahham, founding partner and managing director of Orion Capital Managers, is also bullish about Spain: "Puerto Venecia has traded incredibly well since it opened, with more than 16 million shoppers passing

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>
> **David Brown**
> JLL

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through its doors in its first year. We firmly believe that consolidation of the retail property market is under way in Spain and that the major regional centres will continue to perform and improve as the country comes out of recession."

Neinver, the second-largest operator of outlet centres in Europe, has joined the three outlet centres it manages in Madrid to The Style Outlets European platform, after the incorporation of Seville in 2011 and the opening of Coruna The Style Outlets in 2011.

Eduardo Ceballos, Neinver's southern Europe director, says: "Almost two decades ago, we were pioneers in the introduction of the outlet concept in Spain through the Factory brand. Nowadays, this outlet concept has evolved towards a high-quality, smart shopping experience. The Style Outlets is an innovative concept that responds to these new consumer demands and tendencies through a transversal commercial offer with added-value services."

Some fund managers prefer other southern European markets. "Spain might be a little bit overpriced, whereas Portugal and Italy are not," says Florencio Beccar, head of CBRE Global Investors' retail platform and fund manager of its European Shopping Centre Fund. With strong tourism numbers and the economy growing in Portugal in the second quarter, demand is picking up, particularly on the high street in Lisbon and Porto.

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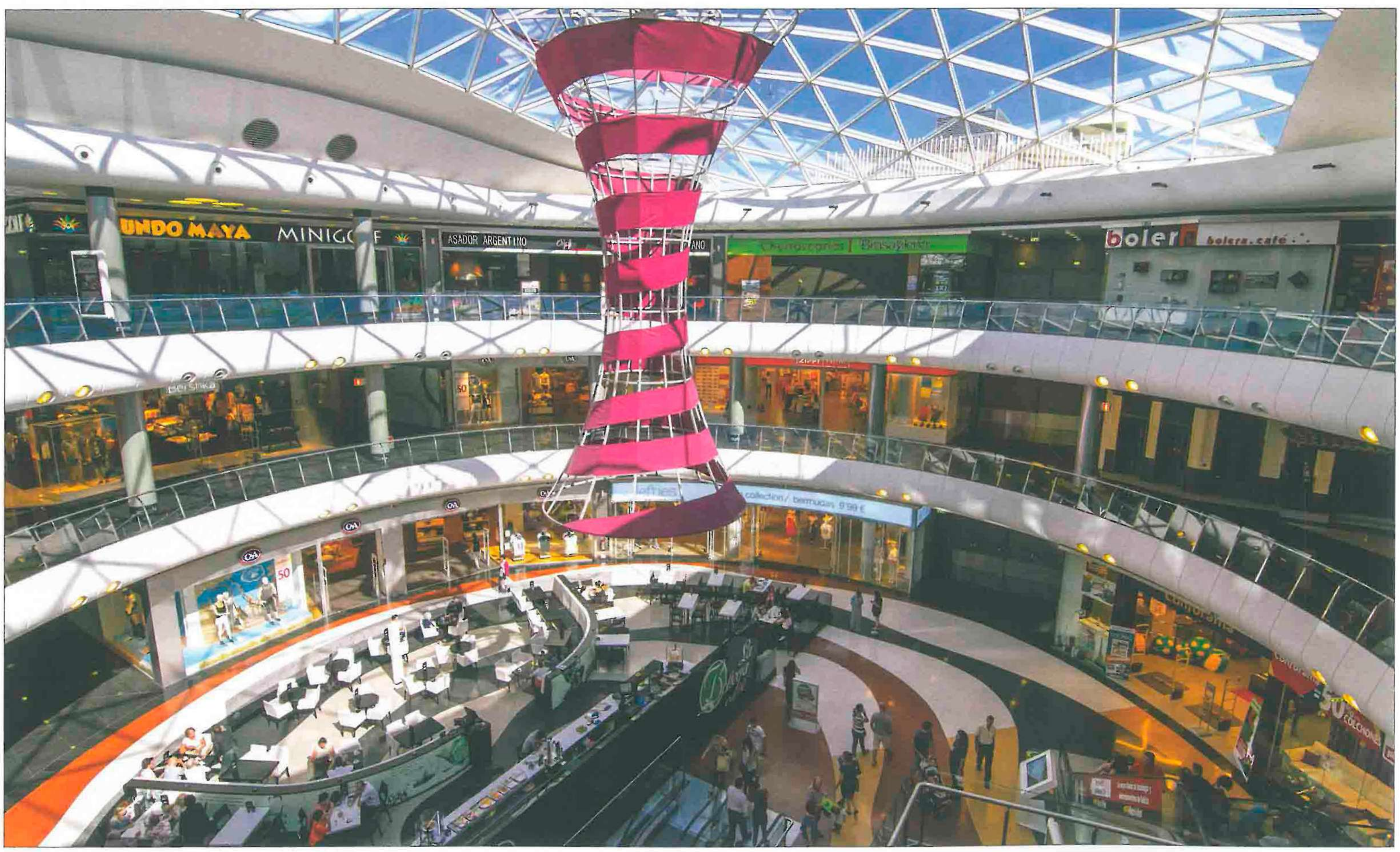
>
> **Aref Lahham**
> Orion Capital Managers

The majority of Portuguese retailers have moved into a new cycle, less concerned with cost reductions and focusing instead on reinventing or introducing new concepts, according to Cushman & Wakefield.

Beccar thinks Portugal is at the point where it will attract capital. "Some of its characteristics are great — very good managers, very good schemes," he says. "It's a transparent market with good information on how tenants are doing."

In Italy, retail investment is already strong, up 389% in the first half to €837m. And in contrast to its southern European neighbours, there is more development under way, although financing is still tough. This year's openings include Corio's Nave de Vero near Venice. Anchored by 5,500 sq m hypermarket Coop&Coop, six of Zara owner Inditex's brands also helped to ensure that 98% of the centre was pre-let on its opening in April.

Australia's Westfield is also planning to develop a 60 ha site in Milan with joint-venture partner Italian real estate developer Gruppo Stilo. Westfield believes the low penetration of shopping centre space in Milan and



The Marineda City shopping centre in La Coruna, Spain

Feature

an above-average demographic will help the 175,000 sq m centre to generate annual sales of more than €1bn.

The scheme, located next to Linate airport, will include an 18,000 sq m flagship Galeries Lafayette. This builds on the French retailer's openings outside of its home market including in Morocco, Beijing and Jakarta.

The €1.3bn Westfield Milan development will feature over 300 stores, a luxury village, cinemas, leisure and entertainment facilities, 50 restaurants, parking for 10,000 cars, the latest in digital technology, and signature shopping and tourism services.

Michael Gutman, Westfield's managing director of UK/Europe, says: "Westfield's global strategy is to develop iconic centres in key world cities and the inclusion of Italy's first full-line Galeries Lafayette department store in this location will be a key attraction for consumers seeking a real point of difference."

Sonae Sierra and ING recently sold 90% of Le Terrazze shopping centre, located on the northern coast of Italy, to Union Investment. Sonae Sierra will continue to hold a 10% share of Le Terrazze and will be responsible for the management of the centre.

Fernando Guedes de Oliveira, Sonae Sierra's CEO, says of the deal: "We will continue to look for growth opportunities in Italy by actively looking for new development opportunities and the acquisition of existing shopping centres."

Many of Italy's retail developers and managers have taken their expertise abroad during the downturn. Arcoretail is working on ambitious projects with joint-venture partner Jihua Group in China to create fashion and luxury outlets that also offer sports facilities, hotels and spa centres. In Finland, at the border with Russia, Arcoretail is also working on the Vaalimaa Luxury Outlet, which will include the first 'border-crossing' casino.

Designer outlet specialist Neinver is bringing its schemes under one brand

"Some of Portugal's characteristics are great — very good managers, very good schemes. It's a transparent market with good information on how tenants are doing"

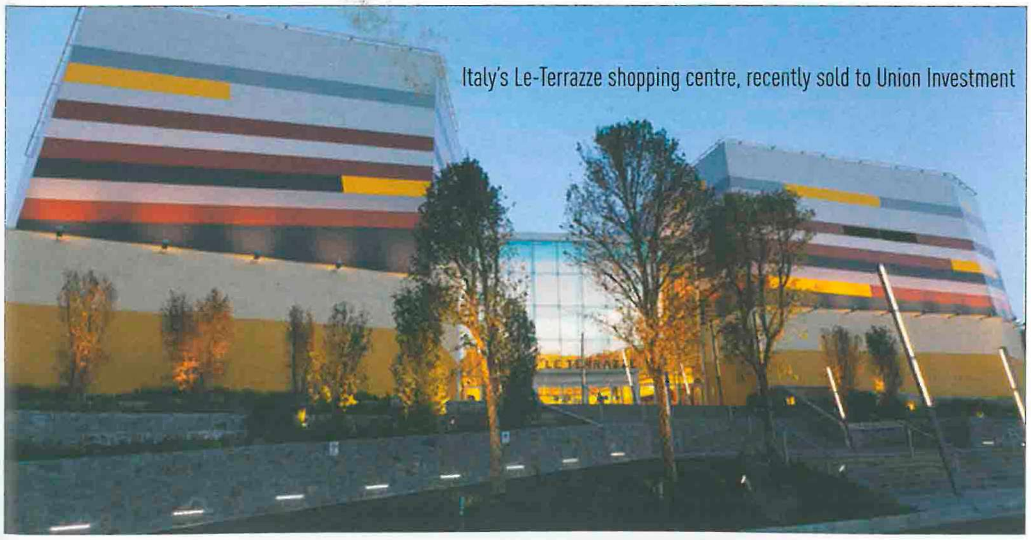
Florencio Beccar
CBRE Global Investors

Back home, Italian companies are squaring up to the competition by honing their retail-management strategies and improving their formats. Arcoretail is working on the relaunch of Fashion Valley in Reggello, Florence while Promos, the Italian developer headed by entrepreneur Carlo Maffioli, has developed a 60,000 sq m GLA project in Milan, Scalo Milano, where many Italian manufacturers and SMEs sell the best of their country's design, food and fashion directly to shoppers.

"Next year, we will see these markets working at improved speed," CBRE Global Investors' Beccar predicts. "Tenants are starting to think about expansion again and want to increase space. It's incipient but it's starting, and it will gather pace next year."

In Greece, where economists think the country could emerge from its six-year slump this year or next, retail sales grew 7.3% year on year in April — the strongest performance in more than two years, with double-digit increases in clothes and shoes.

That improvement, albeit from a low level, is driving demand for smaller retail units. Retail investment in Greece remains "moribund", says Cushman & Wakefield in its latest snapshot, though it adds: "Although high unemployment, fragile business confidence, austerity, weak wage growth and consumer spending will continue to weigh negatively in the short term, the outlook is generally more upbeat."



Italy's Le-Terrazze shopping centre, recently sold to Union Investment