



EUROPEAN SHOPPING CENTRES

THE DEVELOPMENT
STORY

MAY 2018

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EXECUTIVE SUMMARY

In the second half of 2017, the total amount of shopping centre floorspace in Europe increased by 2.4 million sq m. This took the volume of completions for 2017 to 3.8 million sq m, 23% lower than in 2016, which is an even sharper fall than that recorded in 2010.

Western Europe recorded a 23% decrease in new shopping centre completions in 2017. While France was the most active country in terms of development, the volume of completions declined by 28% due to the electoral uncertainties at the start of the year (presidential and then legislative), growing pressure from the local authorities to limit out-of-town development and increasing investor and developer interest in retail parks and new hybrid formats. A similar development trend has been seen in the majority of Western European countries. Increased activity was recorded in only a handful of markets (Spain, Portugal, Finland and Denmark), supported by an improved economic backdrop, urbanisation and growing tourism.

Shopping centre development also slowed in Central and Eastern Europe, where annual completions declined by 23%. Despite exchange rate volatility, weaker occupier demand and falling rents, Turkey was the most active country and accounted for 47% of total completions in the CEE region. Russia was the second most active country in terms of development, although annual completions declined from 1.6 million sq m in 2016 to just 0.6 million sq m in 2017.

Following the fall in development in 2017, the level of completions is expected to remain unchanged in 2018 and the 2018/19 development pipeline with 6.6 million sq m currently under construction is in line with the two years forecast, 12 months ago.

The development of technology, changing consumer behaviour and the growth of e-commerce have created a challenging environment but also opportunities for shopping centre owners and retailers. Today's shopping centres are very different from those which emerged twenty years ago and they will need to continue evolving in order to stay relevant to the increasingly savvy and discerning consumer.

KEY HIGHLIGHTS



TOTAL SHOPPING CENTRE FLOORSPACE IN EUROPE WAS

166.5
MILLION SQ M

AS OF 1 JANUARY 2018

	EUROPE	WE	CEE
STOCK OF SHOPPING CENTRE SPACE (MILLION SQ M)	166.5	109.7	56.8
Y-Y GROWTH	+2.3%	+1.4%	+4.2%

IN H2 2017

2.4
MILLION SQ M

OF NEW SHOPPING CENTRE SPACE WAS DELIVERED TO THE MARKET



17% LESS THAN IN H2 2016

	EUROPE	WE	CEE
NEW SHOPPING CENTRE SPACE ADDED IN H2 2017 ('000 SQ M)	2,417	1,068	1,349
Y-Y GROWTH	-17.0%	-13.7%	-19.4%

IN 2017

3.8
MILLION SQ M

OF NEW SHOPPING CENTRE SPACE WAS COMPLETED



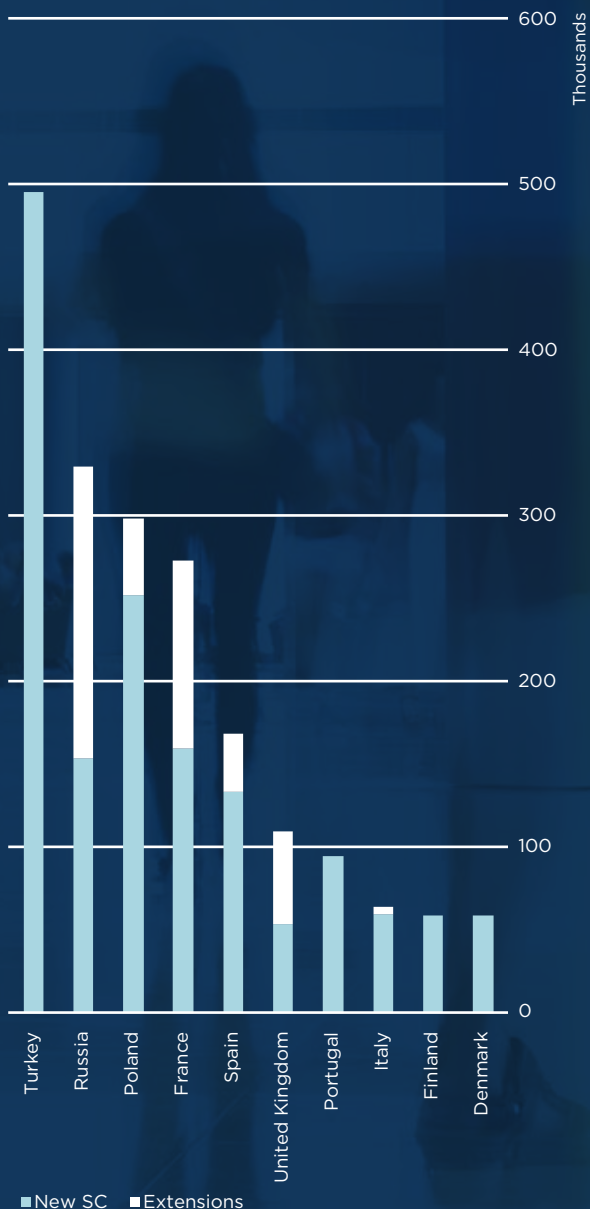
LESS THAN IN 2016

23%



	EUROPE	WE	CEE
NEW SHOPPING CENTRE SPACE ADDED IN 2017 ('000 SQ M)	3,791	1,497	2,294
Y-Y GROWTH	-23.0%	-22.7%	-23.3%

TOP 10 COUNTRIES FOR SHOPPING CENTRE SPACE ADDED IN H2 2017 (SQ M)



NEW SHOPPING CENTRE PROJECTS (60) REPRESENTED

75%

OF THE NEW SPACE DELIVERED IN H2 2017

WHILE EXTENSION PROJECTS (54) ACCOUNTED FOR

25%



APPROXIMATELY

3.8
MILLION SQ M

OF NEW SHOPPING CENTRE SPACE IS EXPECTED TO BE DELIVERED IN 2018

WHILE A FURTHER

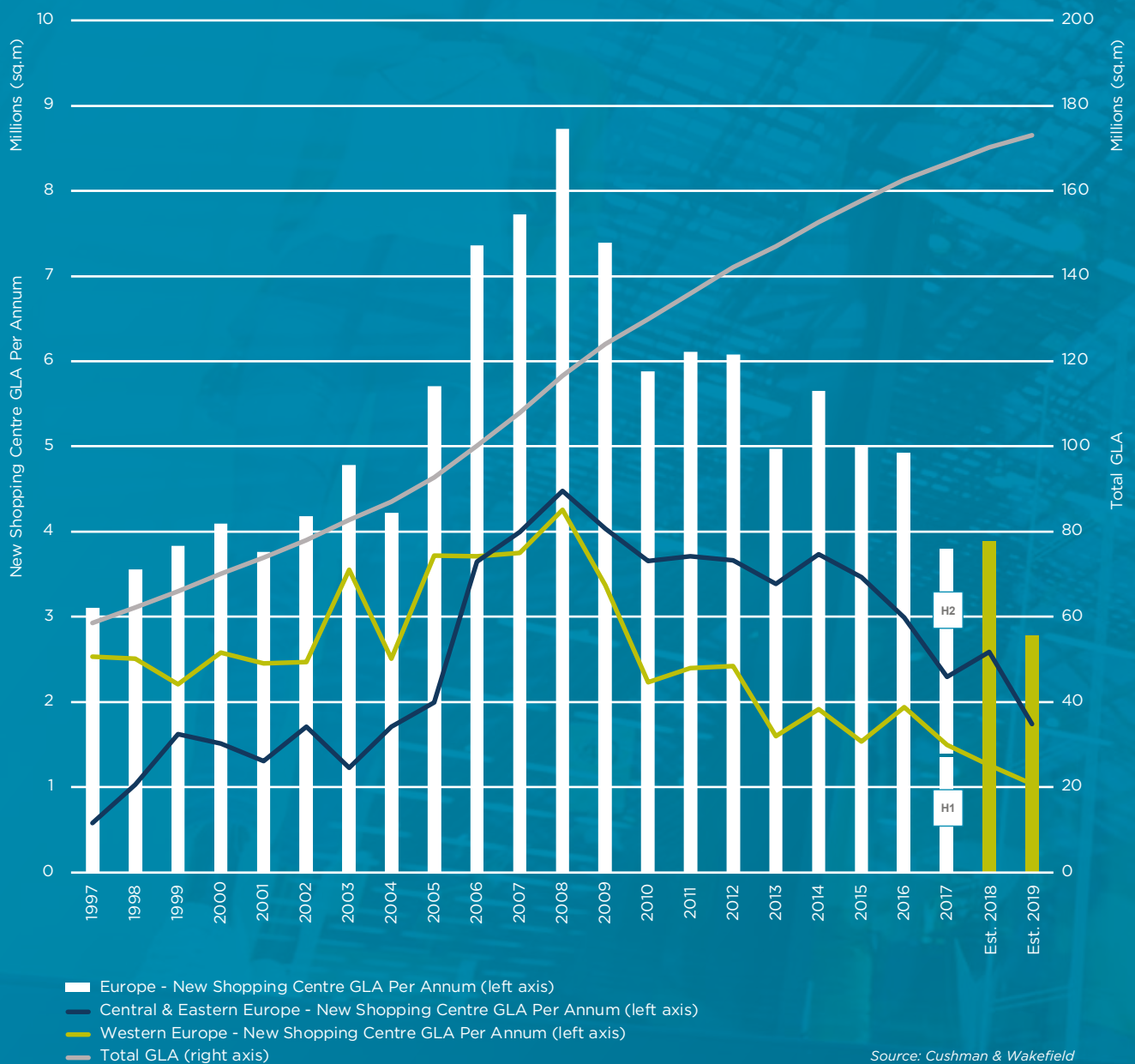
2.8
MILLION SQ M

IS DUE TO BE COMPLETED IN 2019

	EUROPE	WE	CEE
NEW SHOPPING CENTRE SPACE TO BE DELIVERED IN 2018 - 2019 (MILLION SQ M)	6.6	2.3	4.3
Y-Y GROWTH	-2.2%	-21.3%	+12.3%

KEY HIGHLIGHTS

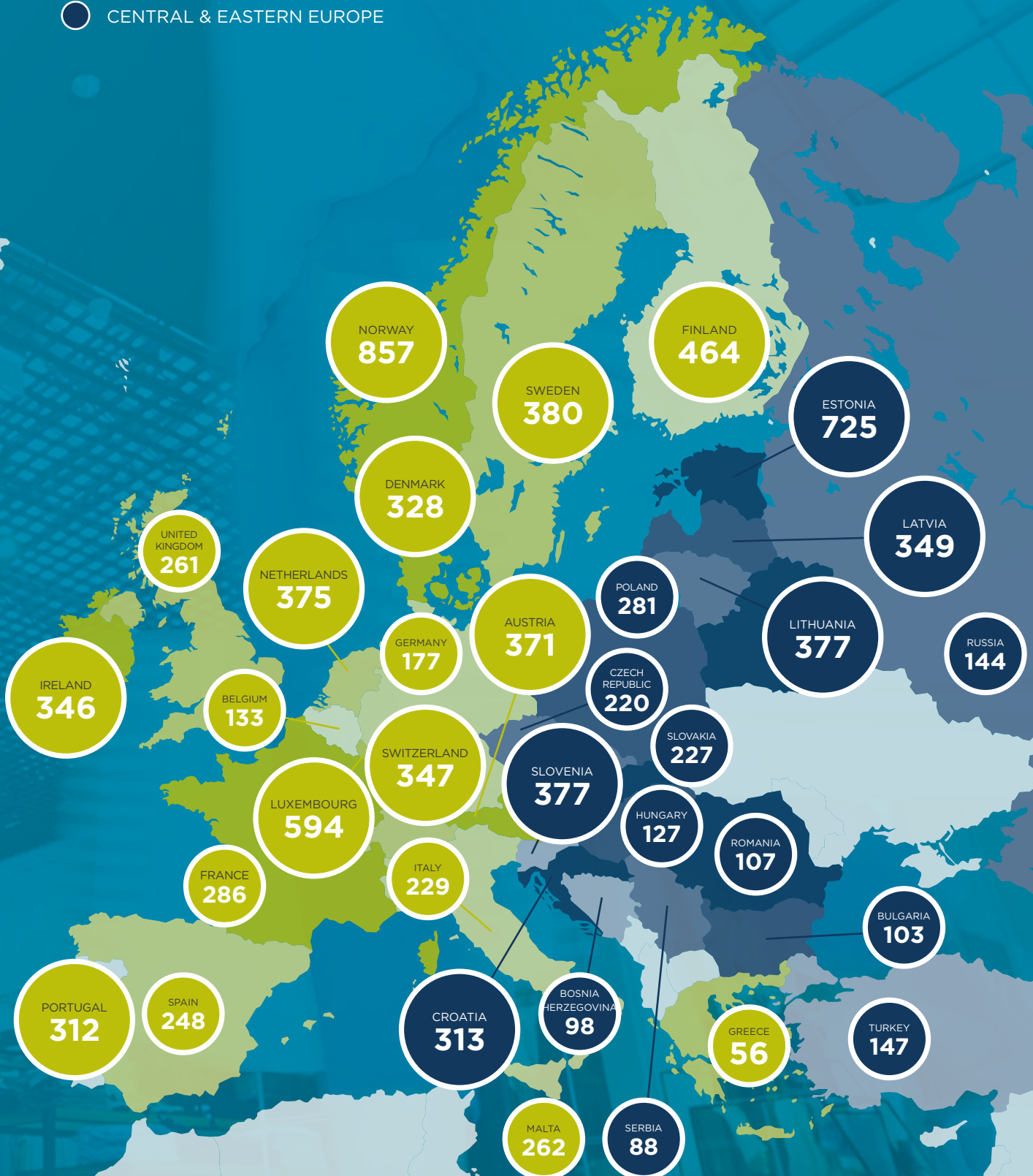
EUROPEAN SHOPPING CENTRE DEVELOPMENT



Source: Cushman & Wakefield

SHOPPING CENTRE DENSITY (GLA SQ M/1,000 POPULATION)

- WESTERN EUROPE
- CENTRAL & EASTERN EUROPE



KEY HIGHLIGHTS

EUROPEAN SHOPPING CENTRE MARKET WAVE BASED ON ANNUAL RENTAL GROWTH AS AT Q4 2017

○ **SLOWDOWN**
Growth Decreasing & Above Trend

● **EXPANSION**
Growth Increasing & Above Trend



● **DOWNTURN**
Growth Decreasing & Below Trend

● **RECOVERY**
Growth Increasing & Below Trend

Source: Cushman & Wakefield



EXPANSION

DENMARK, CZECH REPUBLIC, POLAND, SWEDEN, RUSSIA AND ITALY.

Annual rental growth in Q4 2017 in the leading shopping centre is accelerating and is above the five-year average.



DOWNTURN

UNITED KINGDOM, TURKEY, ROMANIA, LATVIA, LUXEMBOURG, IRELAND, ESTONIA, AUSTRIA AND GERMANY.

Annual rental growth Q4 2017 in the leading shopping centre is decreasing and is below the five-year average.



RECOVERY

NETHERLANDS AND SWITZERLAND.

Annual rental growth in Q4 2017 in the leading shopping centre is increasing but is below the five-year average.



SLOWDOWN

SLOVAKIA, HUNGARY, GREECE, PORTUGAL, BULGARIA, FINLAND, SPAIN, SLOVENIA, SERBIA, NORWAY, FRANCE AND BELGIUM.

Annual rental growth Q4 2017 in the leading shopping centre is slowing and is above the five-year average.

WESTERN EUROPE



Shopping centre floorspace in Western Europe totalled **109.7 million sq m** as of 1 January 2018.



In H2 2017, 1.1 million sq m of new shopping centre space was delivered to the market, a **13.7% decline** on H2 2016.



In total, 1.5 million sq m of new shopping centre space was delivered in 2017, a **22.7% decrease** on 2016.



Overall, **2.3 million sq m** of new shopping centre space is expected in 2018 and 2019. This represents a 21.3% drop on the amount of space that was under construction as at 1 January 2017.

Market Size

SHRINKING DEVELOPMENT ACTIVITY IN THE LARGEST SC MARKETS

France was the most active country in terms of new openings, adding more than 326,000 sq m of new space in 2017. Nevertheless, the maturity of the market and significant existing provision resulted in a 28% drop in newly built space on 2016. Furthermore, due to increasing vacancy rates in town centres, there is growing pressure from local authorities to limit planning consent for new out-of-town schemes. On the other hand, fragile consumer spending has led to caution among investors and developers who are focusing increasingly on refurbishment of existing schemes, new generation of retail parks and hybrid formats. The pace of development is expected to remain unchanged, with nearly 676,000 sq m of space currently under construction and scheduled for completion in 2018/19.

Weaker retailer demand outside of prime locations and an oversupply of retail space in the UK have led to a 23% decrease in shopping centre development activity, with just 120,000 sq m being completed in 2017.

In Germany, restrictive planning legislation has curtailed the development of new out-of-town shopping centres. In 2017, only 18,500 sq m of new space was added to the market, with two new schemes, two extension projects and two schemes which ceased trading. This represents a 82% decline on 2016.

DIVERSE DEVELOPMENT TRENDS IN THE NORDIC REGION

In Sweden, retail sales data indicate that online sales account for 80% of retail sales growth (excluding groceries (or non-durable goods)). Shopping centre visits are declining and this is reflected in lower levels of development. In 2017, only 15,000 sq m of new space was added to the market through extensions and refurbishment projects. A similar trend is being seen in Norway, where only one extension project was completed in 2017 and the development pipeline remains unchanged, with only 27,000 sq m across three extensions expected to complete in 2018/19. Shopping centre owners are adding more F&B operators to their schemes, which are being repositioned from shopping centres towards more F&B-led destinations.

Conversely, the high level of shopping centre provision (464 sq m/1,000 population) has not led to a slowdown in shopping centre development in Finland. Improving purchasing power and growing urbanisation have created opportunities for further development. In 2017, 112,000 sq m of space was completed, a positive trend which will continue in 2018/19, with 304,000 sq m scheduled to open and 90% of this space being located in the Helsinki Metropolitan area and Tampere. In Denmark, after several years of muted development activity, the 30,000 sq m Broen shopping centre in Esbjerg and the 59,000 sq m Kronen shopping centre in Vanløse opened in 2017. However, future supply will remain limited, with no schemes expected to open in the short term.

RETAIL SALES GROWTH AND GROWING TOURISM HAVE BOOSTED DEVELOPMENT IN SPAIN AND PORTUGAL

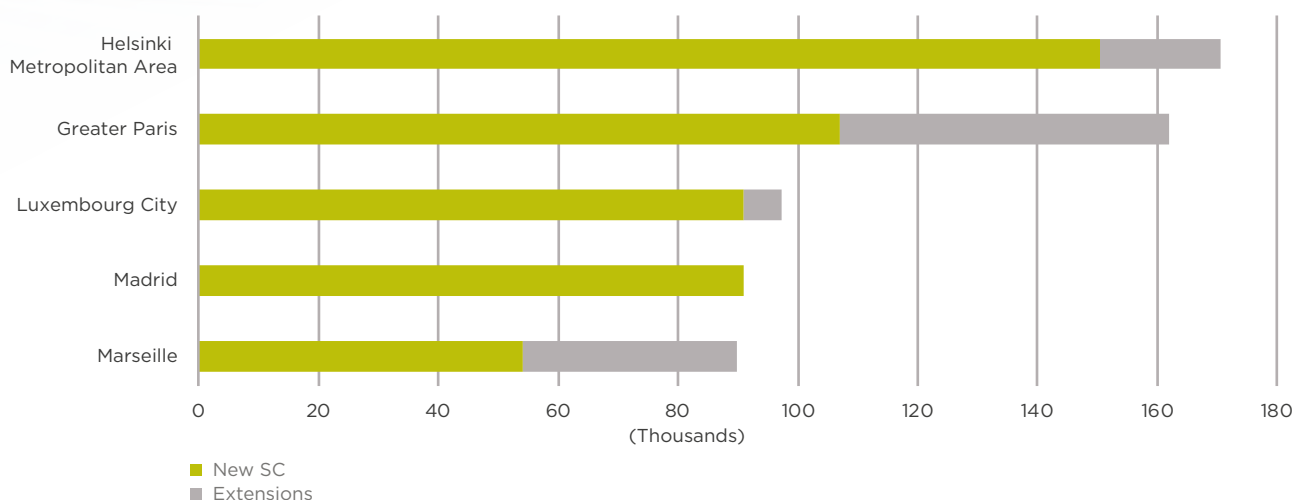
In Spain, the recent strong retail sales growth is expected to continue over the next 2-3 years. Spain also received a record number of tourist visitors (82.4 million in 2017) and became the second tourist destination worldwide. Both figures have had a positive impact on shopping centre development, as demand from retailers and investors has increased. This demand has not been limited to prime locations and major cities and extends to near-prime and secondary retail locations. Spain holds the second position in terms of development activity in 2017, with 210,000 sq m of new space and has the second largest development pipeline for 2018/19. More than 370,000 sq m of new space is scheduled to be completed, with 35% of this space in Madrid and Barcelona.

Similarly, a 9% rise in tourism with 20.6 million visitors in 2017 has had a positive impact on the shopping centre market in Portugal, even with growing competition from the high street. In 2017, 96,000 sq m of shopping centre space was added to the market. While this represents a 40% annual growth, compared to the amount of space that was delivered in 2016, the pipeline remains limited and development will focus mainly on extensions and the remodelling of existing shopping centres to align with new trends.

DRIVE FOR INNOVATION IS SUSTAINING DEVELOPMENT PIPELINE IN ITALY

The recovery of the Italian economy slowly gained pace throughout the year, supported by the ongoing strength of the Eurozone. The shopping centre market has been active with almost 200,000 sq m completed in 2017, including both new schemes and extensions, such as: the 47,000 sq m Adigeo, developed by ECE in Verona; Mondojuve Shopping Centre in Nichelino in Turin, the first part of a 80,000 sq m innovative and eco-sustainable project; the 32,000 sq m Citylife Shopping District in Milan and the extension of Orio Centre in Bergamo, for a total GLA of 105,000 sq m, making it one of the largest in the northern regions. Main projects expected in the next years include two very large schemes: the 185,000 sq m Westfield Milano and the 113,000 sq m COM - Caselle Open Mall near Turin.

TOP 5 WESTERN EUROPEAN CITIES FOR DEVELOPMENT PIPELINE 2018 - 2019 (SQ M)



Source: Cushman & Wakefield

CENTRAL & EASTERN EUROPE



Total shopping centre floorspace in Central and Eastern Europe was **56.8 million sq m** as of 1 January 2018.



In H2 2017, 1.3 million sq m of new shopping centre space was completed, a **19.4% decline** on H2 2016.



A total of 2.3 million sq m of shopping centre space was delivered in 2017, a **23.3% decrease** on 2016.



Regional shopping centre development activity is expected to improve, with approximately **4.3 million sq m** of new shopping centres currently under construction and expected to be completed in 2018/19. This is a 12.3% increase on the amount of space that was under construction as at 1 January 2017.

Market Size

RUSSIA: ACTIVE GROWTH PHASE NOW OVER

In 2016, with 1.6 million sq m of newly built shopping centre space, Russia became the largest shopping centre market in Europe. However, the retail real estate market has passed through its active growth phase very quickly and new development fell to just 0.6 million sq m in 2017. The main reason for this was the economic downturn in 2014 when the number of new projects starting construction decreased significantly. Additionally, by 2017 the market has gained maturity and supply and demand are now in relative equilibrium. The structure of the pipeline for 2018 shows that developers have shifted their focus from large-scale projects to smaller schemes. Developers are focused on their existing portfolios and ways of increasing footfall, promoting formats and searching for new approaches to business operations. Re-positioning and refurbishment activity remains a key priority,

with – the PIK, Akadem Park, Atlantik City and Kontinent shopping centres in St. Petersburg currently being re-positioned. Additionally, Golden Babylon Otradnoe and Golden Babylon Rostokino in Moscow will also be re-positioned and refurbished.

DECREASING RENTS, WEAK OCCUPATIONAL DEMAND AND, YET, THE STRONGEST DEVELOPMENT ACTIVITY?

In Turkey, currency volatility has had a negative impact on the expansion plans of many international retailers and, despite falling rents, occupier demand has remained weak. Nevertheless, shopping centre supply rose significantly, with 1.1 million sq m of new space, making Turkey the most active country in terms of development in 2017. Shopping centre landlords are attracting new occupiers by offering pure turnover rents for a limited time of up to one year. However, development is set to slow given

the relatively weak trading environment and near saturation levels in parts of the market. Indeed, this is reflected in the development pipeline, which includes 1.4 million sq m of new space which will be delivered in 2018/19. Approximately 70% of this new space will be in Ankara or Istanbul and will include some sizeable projects, namely the 110,000 sq m Akpınar Mixx in Ankara and the 83,000 sq m Metropol Istanbul.

POSITIVE ECONOMIC FUNDAMENTALS DRIVING SHOPPING CENTRE GROWTH

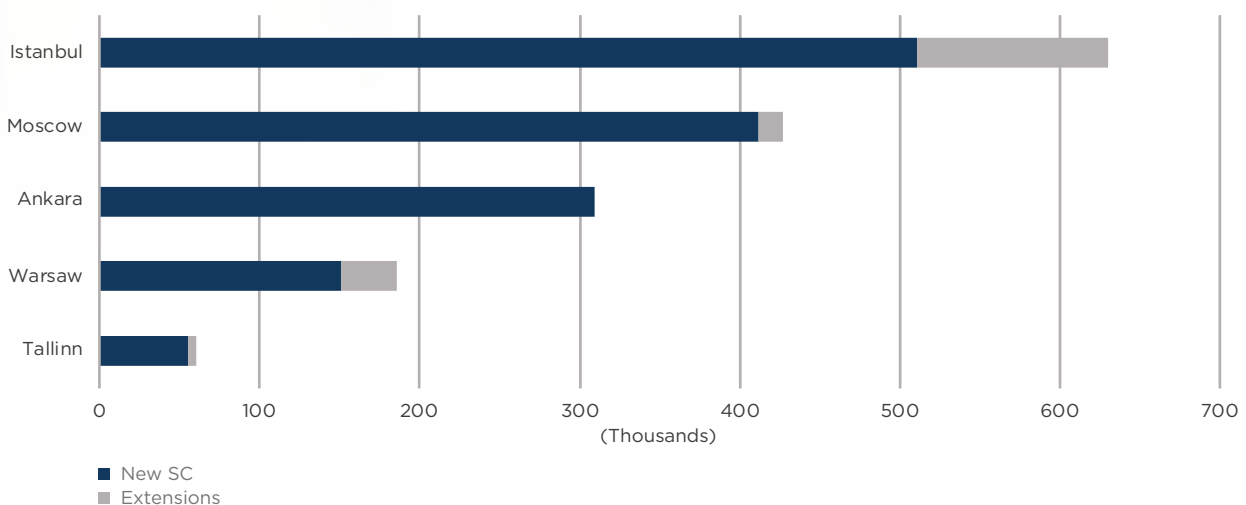
In Central Europe, 2017 saw a near 20% fall in the amount of newly opened shopping centre space. However, the improving economic environment has led to higher wages and retail sales growth in the region. This has maintained interest from international retailers and supported retail development in Poland, Czech Republic and Slovakia.

Poland saw more than 300,000 sq m of new space in 2016 and 2017 and a similar level of delivery is expected in 2018. Warsaw and major regional cities remain the target for the largest schemes, while other cities with populations below 100,000 continue to attract convenience centres and retail parks. In a response to visitor demand, more F&B and leisure space is being added to these schemes

(up to 20% of total GLA in prime modern shopping centre schemes). Except for the major brands, hypermarkets are reducing their sales areas as discount sector continues to grow. While there has been an increasing number of showroom type stores, mostly in the consumer electronics and household goods sectors, the number of newcomers to the shopping centre market is also increasing. This includes a number of brands which were previously trading only online.

Development activity in the region accelerated in 2017, with the completion of one new and two extension/redevelopment projects in the Czech Republic and three new schemes and one extension in Slovakia. The pipeline includes several projects where former department stores in city centres are being converted into new modern schemes. A key trend involves the transformation of schemes into 'places', which promote people's health, happiness and wellbeing. In the Czech Republic, all new developments will be transformed into exceptional mixed-use city centre projects, combining great architecture, retail, public space, offices, hotels, residential, leisure and community activities (Prague, Pilsen and Brno). Similarly, in Romania and Hungary, redevelopment and cosmetic refurbishment are currently a major focus.

TOP 5 CENTRAL & EASTERN EUROPEAN CITIES FOR DEVELOPMENT PIPELINE 2018 - 2019 (SQ M)



Source: Cushman & Wakefield

TOP NEW SHOPPING CENTRE OPENINGS 2018/2019

Western Europe



2019
FINLAND - HELSINKI
85,000 SQ M
MALL OF TRIPLA



2018
GERMANY - BERLIN
30,000 SQ M
SCHULTHEISS-QUARTIER



2019
LUXEMBOURG - GASPERICH
75,000 SQ M
LA CLOCHE D'OR



2018
SWEDEN - MÖLNDAL
24,000 SQ M
MÖLNDAL CENTRUM



2019
SPAIN - TORREJÓN DE ARDOZ
75,000 SQ M
OPEN SKY



2018
THE NETHERLANDS - UTRECHT
22,800 SQ M
LEIDSCHE RIJN CENTRUM



2019
ITALY - ROME
60,000 SQ M
MAXIMO SHOP & FUN



2018
BELGIUM - HASSELT
21,000 SQ M
QUARTIER BLEU
(KANAALKOM)



2018
FRANCE - FARÉBOISVILLER
55,000 SQ M
B'EST



2019
UNITED KINGDOM - LEWISHAM
17,500 SQ M
LEWISHAM GATEWAY



Central & Eastern Europe



2019

RUSSIA - MYTISCHI
144,000 SQ M
GARDEN MALL



2018

ESTONIA - TALLINN
55,000 SQ M
T1 MALL OF TALLINN



2018

TURKEY - ANKARA
110,000 SQ M
AKPINAR MIXX



2019

ROMANIA - BRASOV
45,000 SQ M
AFI PALACE BRASOV



2019

SERBIA - VIDIKOVAC
70,000 SQ M
BIG FASHION VIDIKOVAC



2018

BULGARIA - VARNA
40,000 SQ M
DELTA PLANET MALL



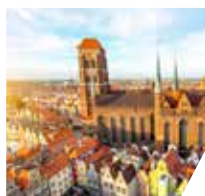
2018

BOSNIA HERZEGOVINA - BANJA LUKA
62,500 SQ M
DELTA CITY



2019

HUNGARY - BUDAPEST
40,000 SQ M
ETELE CITY CENTER



2018

POLAND - GDAŃSK
62,000 SQ M
FORUM GDAŃSK



2019

SLOVENIA - LJUBLJANA
32,000 SQ M
INTERSPAR ŠIŠKA

THE FUTURE OF SHOPPING CENTRES



PLACEMAKING

With all the convenience that online shopping can offer, shopping centre owners will have to look for other ways to attract shoppers and increase customer footfall and dwell time. There will be a strong focus on placemaking, allocating more space to community uses, with carefully curated tenants (retailers, services providers, leisure and entertainment operators) and event space. In the future, placemaking will be a critical component of a successful shopping centre.



MULTIGENERATIONAL APPROACH

Today, consumers are represented by six different generations, characterised by different behaviour, preferences and attitudes to trends and technology. Retailers and shopping centre owners will therefore need to clearly understand their target customer base. Additionally, they will need to develop multiple strategies and apply a multigenerational approach when attracting and engaging with shoppers.



SMALLER SCHEMES

Growing shopping centre provision and polarisation within the sector (convenience centres/need versus super-regional centres/desire) will lead to smaller new schemes. Improved technology and the increasing amount of available information will allow even small retailers and shopping centre owners to understand and engage with shoppers more successfully.



NEW TENANTS

New non-traditional tenants will also emerge. With the direct-to-consumer model set to grow, we expect more manufacturers to showcase their offerings. Start-ups and smaller producers will be able to use the opportunity to interact with customers and test their products or services. To attract millennials, new experiential F&B, health and beauty operators will take space in shopping centres.



PHYSICAL VERSUS DIGITAL RETAIL

Shopping centre customers will not differentiate between online and offline retail. Their shopping journey may start with showrooming, but may end up with ordering the goods online and vice versa. Customers might search for products online but will complete the shopping in a store. The various omnichannel elements will become ever more closely intertwined and a new hybrid format of commerce will emerge.



INTEGRATION OF DISTRIBUTION CENTRES

According to the UK's Local Government Association, the growth of online shopping and number of deliveries have led to increased traffic and congestion, which has contributed to wear and tear on the road network. A partial solution to the problem could be the use of shopping centres as parcel collection points, effectively turning them into retail and logistics platforms. While this may fulfil both offline and online orders, it could also generate additional business for the retail outlets.



TECHNOLOGY AND USE OF DATA

Smartphones and the significantly growing number of mobile apps will provide shopping centre landlords and retailers with unlimited opportunities to connect with shoppers. The data assembled on shoppers and their movements will be used to improve scheme performance through improvements to layout, amenities, and marketing, with the aim of more targeted advertising and enhancing the shopping experience.

However, with the commencement of GDPR (General Data Protection Regulation), shopping centre landlords must ensure they adhere to the regulations and that they use clear and transparent systems for handling customer data.



NEW RENTAL MODEL

In recent years, shopping centres have undergone a significant transition. Retailers and shopping centre landlords have been developing multiple online and physical touchpoints to engage with shoppers. This has made the path to purchase more convenient for shoppers, although processes for retailers have become much more complex. While the store remains at the centre of the omni-channel world, the growth of online and product returns in-store have made it more difficult to evaluate the role and contribution of the physical shop. To-date, lease structures have remained relatively unchanged. However, future rental models will need to try and take into account store performance using different metrics, potentially based around the number of visitors rather than pure turnover which can be difficult to measure.



RETAIL AUTOMATION

The amount of data and products that retailers work with across all channels is expected to increase and operational management will become more challenging while customer expectations will continue to grow. Artificial Intelligence (AI) and Robotic Process Automation (RPA) will help to provide solutions which will benefit logistics, marketing and customer service, helping to save resources, costs and time. They will become a prevalent part of retail operations.



GREATER EMPHASIS ON SUSTAINABILITY AND ENVIRONMENTALLY FRIENDLY PRODUCTS AND SERVICES

Developers and landlords will place a greater emphasis on shopping centre sustainability. They will become increasingly mindful about environmental targets, such as green energy sources, water efficiency and environmentally friendly construction and management practices. Similarly, consumers will become more sensitive as to how products have been sourced and transported.



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 January 2018.

OTHER CAVEATS TO NOTE:

- All figures represent retail GLA as far as possible – some might include total GLA if retail GLA is not available
- Mixed use properties have been included
- 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
- All stock and pipeline figures are sourced from Cushman & Wakefield
- Population data is provided by Oxford Economics

European shopping centre market wave uses historic quarterly data only. No forecast inputs.

Markets classified into four categories of the cycle, comparing:

- 1.** The current annual rental growth
- 2.** Annual rental growth for the same period last year
- 3.** Five-year average annual growth including most recent quarter.

Markets are plotted on the curve based on the categories and the value of their y-o-y rental growth:

Slowdown – if 1<2 and 1>3

Downturn – if 1<2 and 1<3

Recovery – if 1>2 and 1<3

Expansion – if 1>2 and 1>3



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