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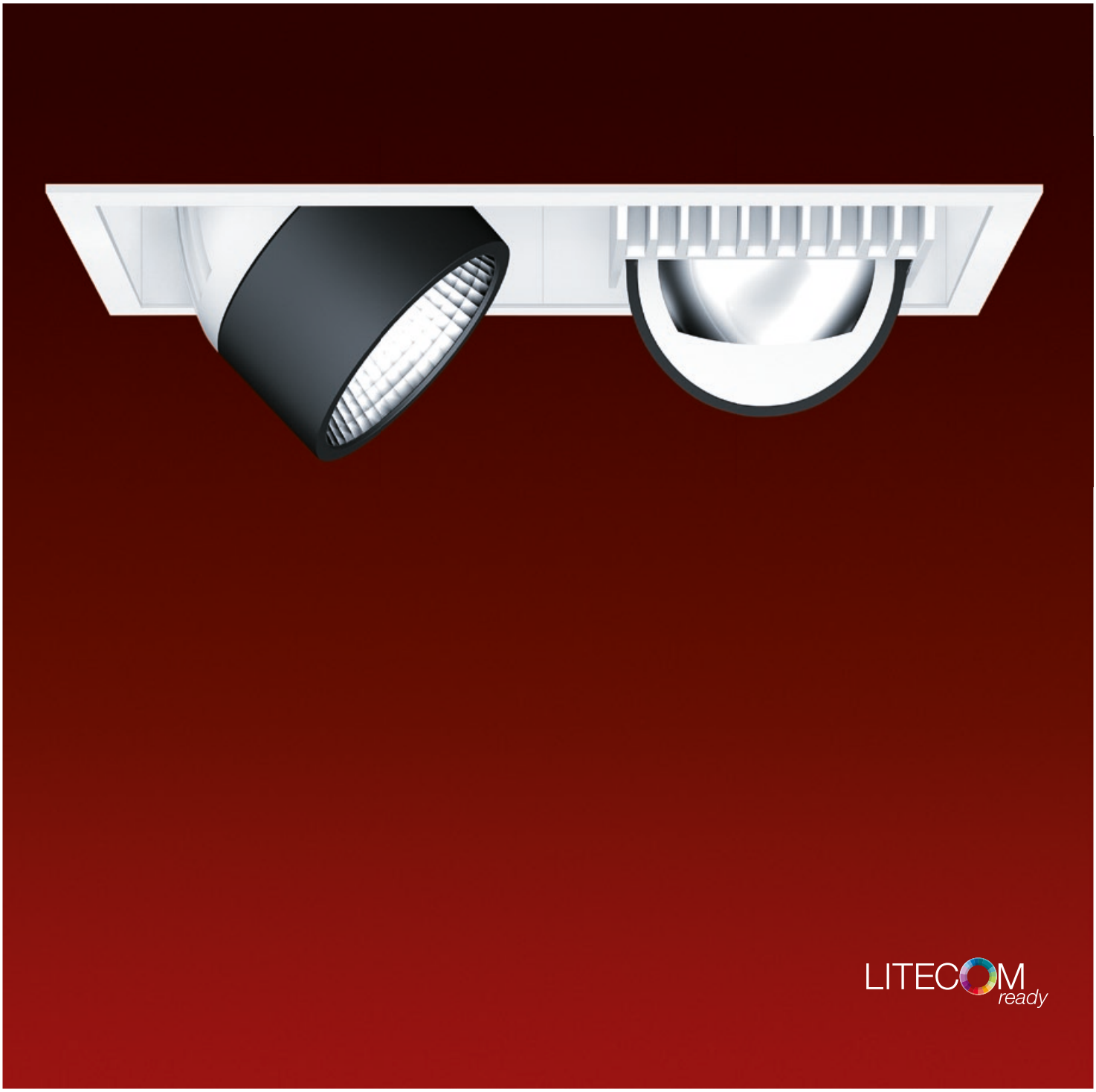
THE EUROPEAN RETAIL REAL ESTATE MAGAZINE

GfK

EUROPEAN RETAIL IN 2015

GfK study on key retail indicators: 2014 review and 2015 forecast



ZUMTOBEL

Quick-Change artist.

INTRO – the right light for every area. The INTRO modular lighting system is a comprehensive product range that allows lighting solutions for retail environments and other applications to be completely customised. The system is based on the use of various spotlight modules with different light colours and beam angles. By developing liteCarve® reflector technology for INTRO, Zumtobel has for the first time managed to achieve balanced rectangular light distribution: a spotlight for vertical surfaces.

EDITORIAL

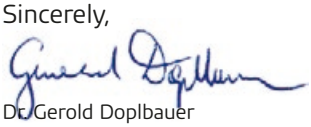
Dear reader,

The European economy is gaining traction again. Particularly in several of the economically weakened countries, increased domestic demand and external competitiveness should foster growth. This in turn will benefit retail.

While this overarching assessment is positive, the situation varies starkly at the regional level.

This study delivers insights into these regional differences that help readers make more informed retail decisions.

Sincerely,



Dr. Gerold Doplbauer
Team Leader Retail Real Estate Advice, GfK

Content overview

PURCHASING POWER EUROPE, 2014

Europeans' level of disposable income is largely a factor of where they live.

A total of approximately €7.75 trillion was available to consumers in the EU-28 countries in 2014 for spending and saving. This corresponds to a per-capita purchasing power of €15,360 as well as a nominal increase of approximately 2.5% compared to 2013.

This also equates to a slight increase in real values for consumers in many countries, because the rate of inflation was approximately 0.6% according to the European Commission.

2.5%

more purchasing power

There are considerable differences among the European countries in terms of the amount available for private consumption, including retail. As was previously the case, a very noticeable prosperity gap exists between Western and Northern Europe on the one hand, and Central, Eastern and Southern Europe on the other.

While Norway has a disposable per-capita income of €30,560, Bulgaria has just €3,097, which is around one-tenth of the Norwegian figure.

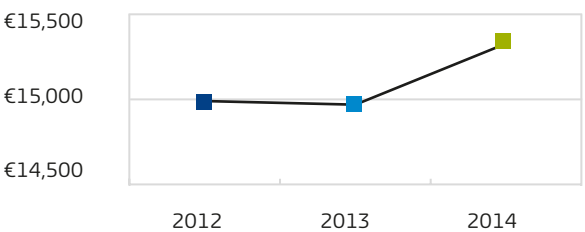
The countries with low purchasing power have slowly been catching up in recent years. But they suffered some significant setbacks due to the financial crisis.

Purchasing power also varies significantly within the individual countries under review. The purchasing power divide in Poland is particularly high: Warsaw had an average per-capita purchasing power of €11,222 in 2014. This figure is 82% higher than the national average and 2.7 times as high as Poland's district with the lowest purchasing power, Lubaczowski (€4,091 per person, national index: 66.3).

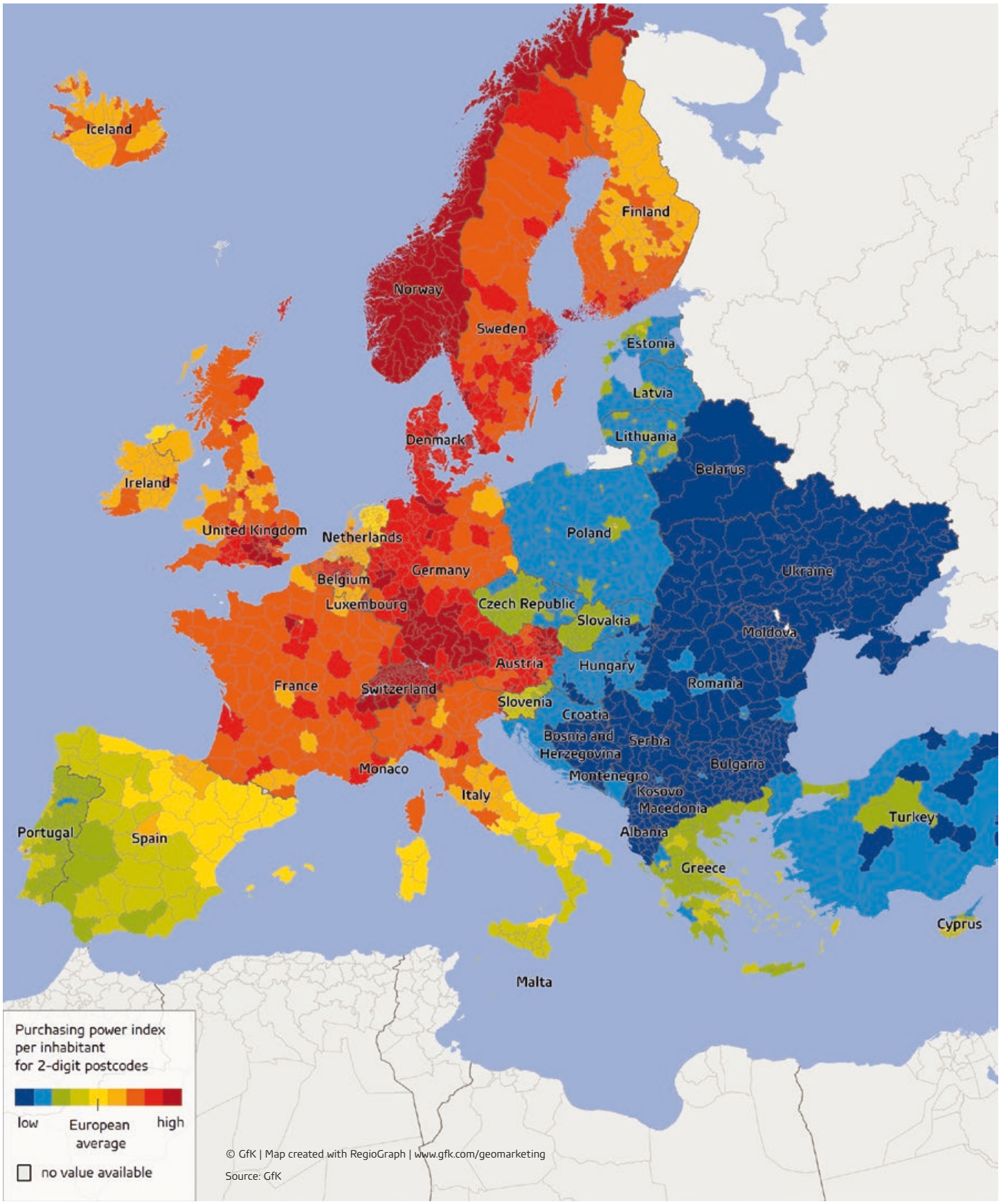
The ranking of the individual European countries has changed compared to last year: In most cases this is due to losses related to fluctuating exchange rates between the euro and the local currency in question. GfK Purchasing Power is calculated in euros to allow Europe-wide comparisons of the data.

Purchasing power measures the population's disposable net income, including government subsidies such as pension payments, unemployment assistance and child benefit. Expenditures related to food, accommodation, services, vacations, insurance, private pension plans and retail purchases have to be covered by this sum. Purchasing power is a prognosis and provided in nominal euro values.

Per-capita purchasing power (EU-28)



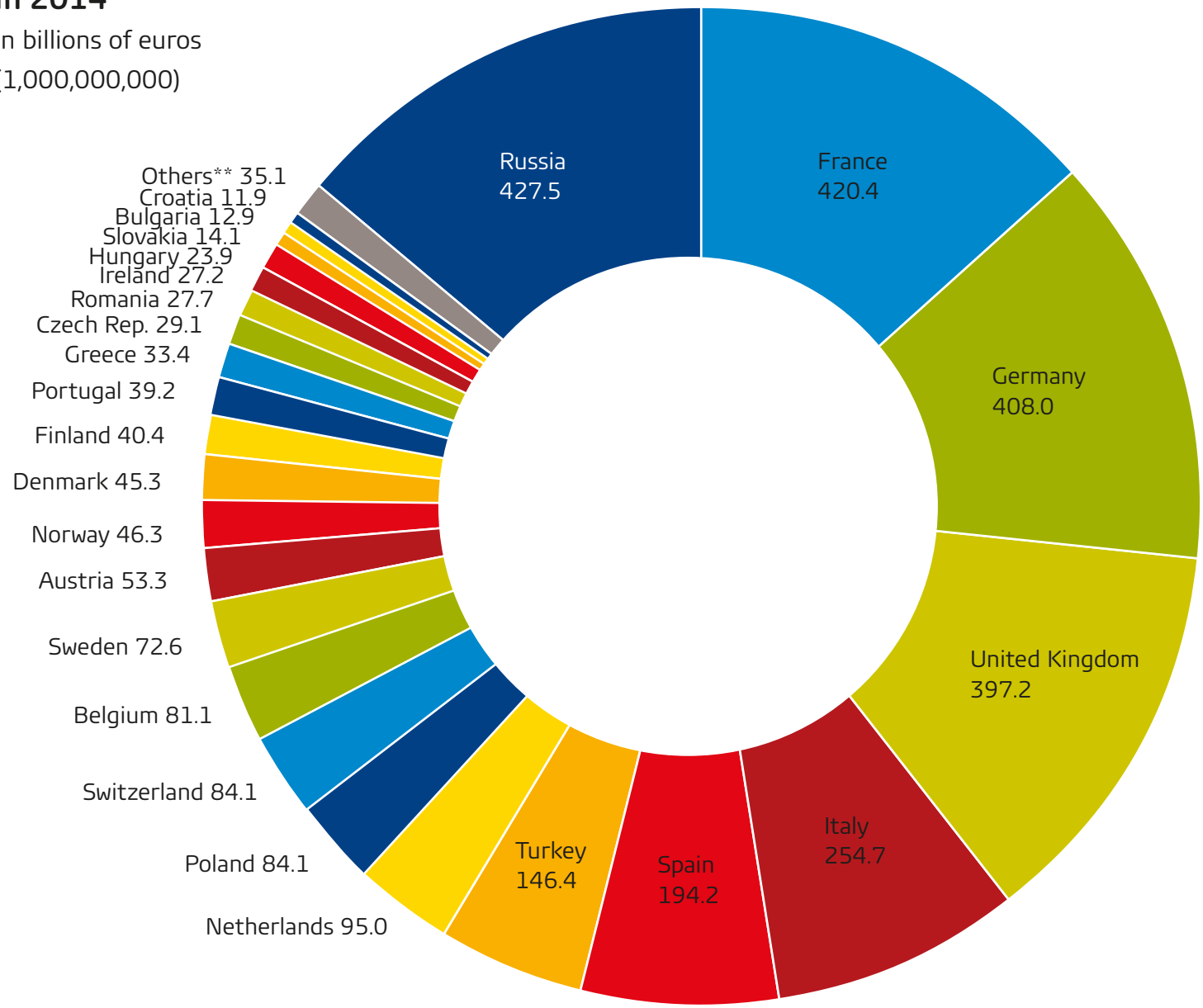
GfK Purchasing Power Europe, 2014



Total retail turnover in 2014*

in billions of euros

(1,000,000,000)



Source: GfK

* Excludes automobile- and fuel-related purchases and mail orders

** Others: Slovenia, Lithuania, Luxembourg, Estonia, Cyprus, Latvia & Malta (listed in descending order according to turnover volume)

STATIONARY RETAIL TURNOVER, 2014

Turnover continued to shift from stationary retail to online, but the extent varied by country. In some countries, exchange rate losses marred the positive picture.

While store-related retail was already stagnating in 2013 in the 32 countries considered by the study, a total of €3.1 trillion of store-related retail was generated in 2014, which is around 0.5% less than in the previous year.* By contrast, stationary retail in the EU-28 countries increased nominally by 1.0%. This difference is due to the depreciation of the currencies of the non-EU countries, which despite positive economic results ended up with negative euro-based values (Russia -8.4%, Turkey -2.1% and Norway -3.1%).

There were also significant variations within the EU-28 countries. Among the winners was Romania (+7.2%), which returned to a growth path after years of stagnation. Store-related retail also continued to grow in the Baltic states, although at different rates (Estonia +7.3%, Lithuania +5.4%, Latvia +3.0%). Great Britain featured a substantial gain as well (+8.1%), most of which however was caused by currency effects against the euro. Austria also enjoyed a +1.3% growth in store-related retail, defying the trend of losses to online retail.

While Slovakia managed a turnaround (+4.1% in 2014 vs. -5.4% in 2013) in addition to Spain (+0.8% in 2014 vs. -2.2% in 2013), the Netherlands were able to check the ongoing decline in stationary retail (+0.1% in 2014 vs. -2.2% in 2013). The recession continued in 2014 in Italy (-0.4% in 2014 vs. -0.9% in 2013), the Czech Republic (-2.6% in 2014 vs. -4.0% in 2013) and Greece (-1.0% in 2014 vs. -8.1% in 2013), albeit to a milder degree.

Poland's stationary retail stagnated due to the establishing of eCommerce (+0.2%), while this same factor (among others) led to an actual decline in Portugal's store-related retail (-1.1%).

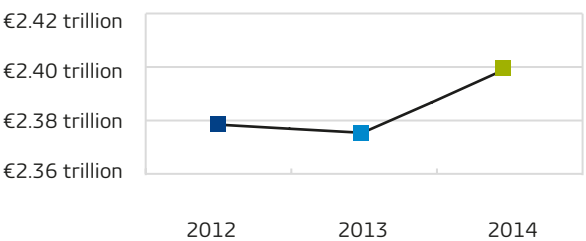
1.0%

growth in stationary retail in the EU-28

In Germany, the eCommerce trend is, after Great Britain, most developed, due in large part to the strong mail-order tradition. Together with sinking prices in fashion and Consumer Electronics, this led to a stationary retail result of -1.0% in 2014.

The rankings of Europe's largest retail markets remained unaffected by this and are still led by Russia, followed by France and Germany.

Stationary retail turnover (EU-28)



* All rates are based on nominal values, meaning they have not been adjusted for inflation.

FORECASTED STATIONARY RETAIL TURNOVER, 2015

Growth in eCommerce is placing increasing pressure on stationary retail throughout Europe. We consequently predict only moderate stationary retail growth for 2015.

We forecast a stationary retail growth of 0.5% in the EU-28 countries for 2015; this amounts to an average growth of 0.8% when all 32 evaluated countries are taken into account.*

Notable frontrunners again include Romania (+5.1%) as well as the Baltic States (+4.0% to +5.0%). The strong nominal growth in Turkey (+9.2%) is counterbalanced by the continuing high inflation.

Southern Europe
In 2014, the retail situation began to stabilize in the southern European countries strongly impacted by the economic crisis.

0.5%

growth in the EU-28 in 2015

Greece's further development is currently unclear and heavily dependent upon the economic repercussions of political decisions. We anticipate that Greece will again experience a decline in retail turnover. On the basis of the currently available data for 2015 and assuming Greece does not leave the euro currency, this decline should remain modest at around -1.0%. The Greek population has on the whole been limiting purchases to the essentials since the beginning of the crisis in 2010. This means that further saving is not really feasible, which stabilizes retail turnover.

Stationary retail in Italy, Slovenia and Portugal will also suffer further loses. By contrast, Spain was able to achieve a retail turnover growth of +0.8% in 2014, and we anticipate +0.3% for 2015.

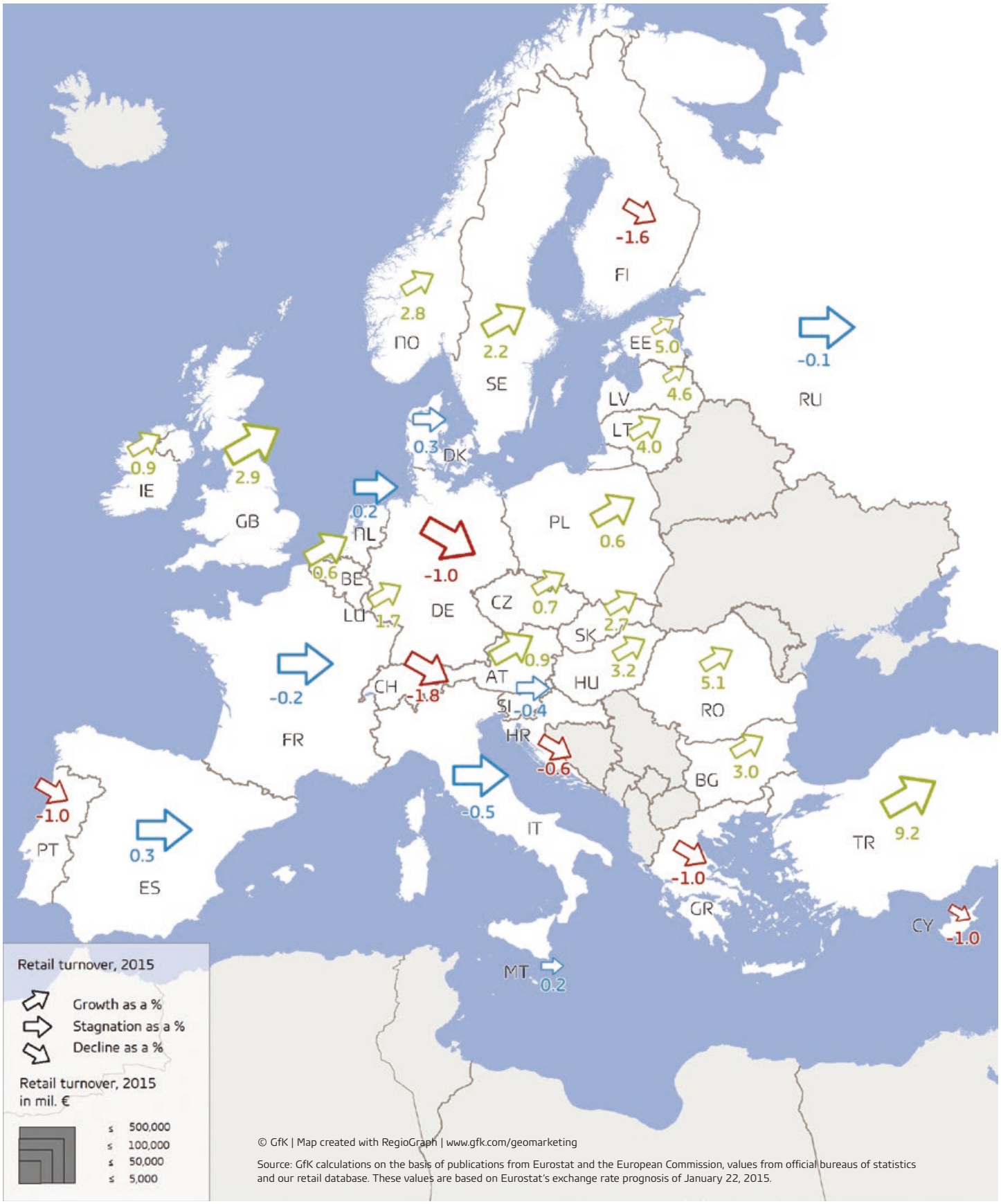
Netherlands
In comparison to the other European countries, the Netherlands are strongly impacted by the consequences of the financial and economic crisis. The unemployment rate reached a high point of 7.8% at the beginning of 2014. The economic situation has more recently improved somewhat. Economic gains were realized in the second half of 2014 thanks to a slight lifting of the consumer mood.

In 2013, stationary retail turnover fell by around 2.2% to approximately €94.9 bil., but then stabilized again in 2014. Despite the increasing momentum of the online segment, store-related retail should continue this upward trend in 2015 (+0.2%) thanks to a substantial increase in private consumer spending (+2.4%).

Germany
We anticipate a continuation of Germany's current market position in 2015: Online retail will continue to grow, and this will impact stationary retail (-1.0%). The extent of the impact will however vary according to branch.

* All rates are based on nominal values, meaning they have not been adjusted for inflation.

Forecasted stationary retail turnover, 2015



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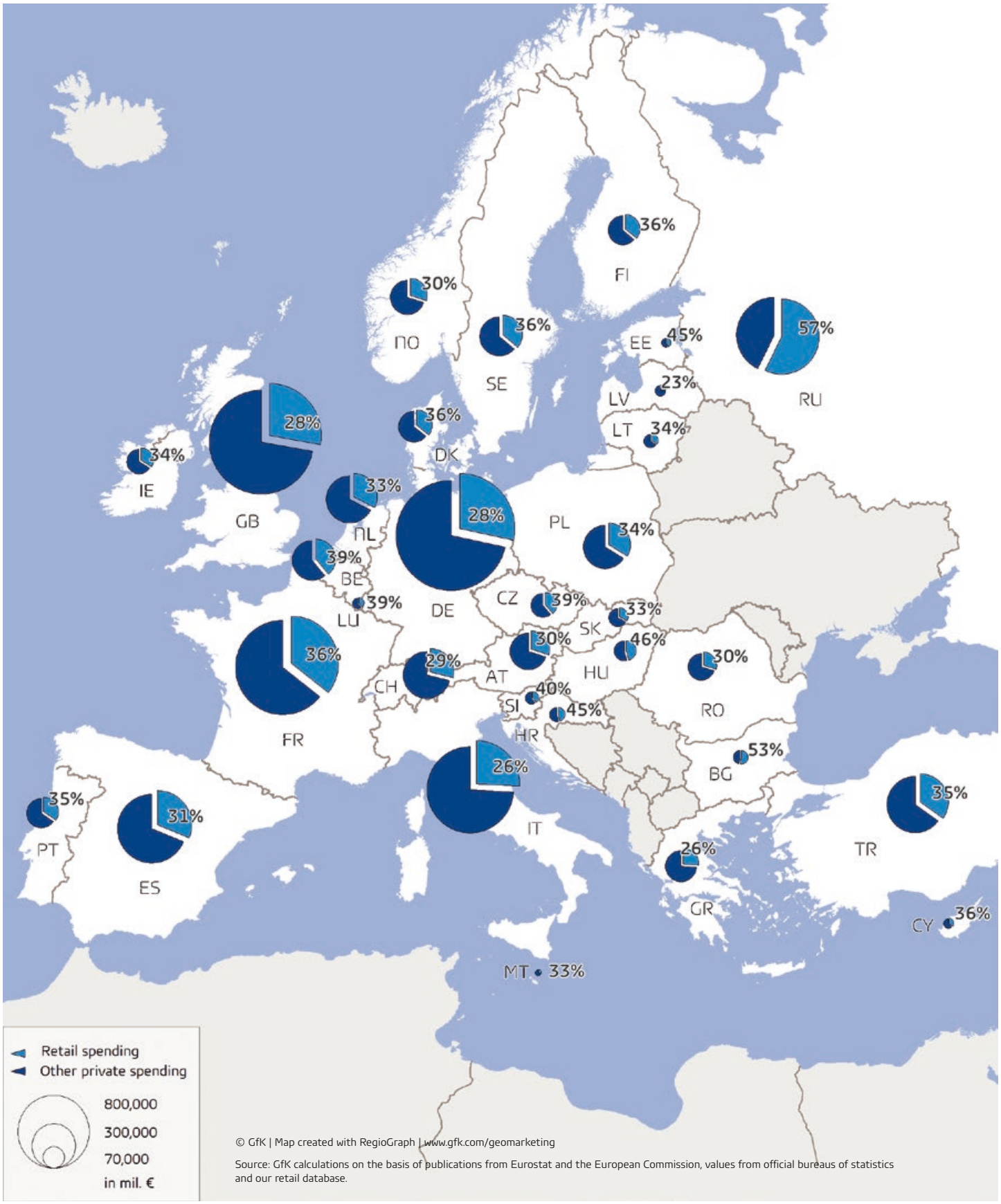
Source: GfK calculations on the basis of publications from Eurostat and the European Commission, values from official bureaus of statistics and our retail database. These values are based on Eurostat's exchange rate prognosis of January 22, 2015.

Retail share of private consumption, 2014



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Source: GfK calculations on the basis of publications from Eurostat and the European Commission, values from official bureaus of statistics and our retail database.

RETAIL SHARE OF PRIVATE CONSUMPTION, 2014

Retail benefits from higher income levels only to a certain extent. Due to differing shopping cultures, lifestyles and consumer spending habits, consumers' funds are used in varying ways.

Retail share of private consumption declined again in 2014 among the EU-28 countries; the quota is now at 30.9% (2013: 31.2%; 2012: 31.4%).

This development was influenced by two key factors with conflicting effects: first, the fall of oil prices in mid-2014, which resulted in decreasing costs for energy and fuel; and second, the long-term trend toward ever higher spending on accommodation, health and recreation. These expenses translate to less money available for retail consumption. This trend ultimately superseded the short-term effect of falling oil prices.

A dampened consumer mood was also apparent in several countries in the second half of 2014: Reasons for this included the war in the Ukraine as well as the conflicts in the Middle East. The economic conditions had also worsened. Several national economies were on the brink of a recession. But most European countries again generated a clear plus in terms of the gross domestic product in the third quarter. This led to a corresponding increase in income expectations and the propensity to spend.

The retail share of spending varies among the countries under review due to differing shopping cultures, lifestyles and consumer behavior.

As a general rule, inhabitants in regions with low per-capita income must spend a greater proportion of their income on retail purchases related to basic needs (e.g., in Hungary, Bulgaria and Croatia).

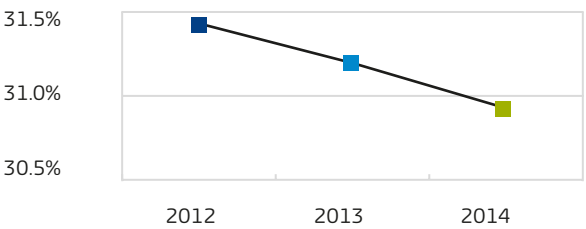
30.9%

retail share of private consumption

The retail share is notably low in Italy (25.9%) and Greece (26.1%) as a result of the economic crisis.

These countries are followed by the strong economies of Germany, Great Britain, Norway, Austria and Switzerland. A key reason for this are these countries' higher incomes, of which a comparatively smaller portion suffices to cover basic needs.

Retail share of private consumption as a % (EU-28)



CONSUMER PRICE TRENDS, 2014-2015

Due to low inflation in the EU-28 countries, retail turnover is anticipated to remain stable in 2015 in real values.

Consumer prices rose only moderately in 2014 (+0.6%), and inflation rates will be as low as 0.2% in 2015. This means that the average rate of inflation in the EU-28 has been declining continuously (2013: +1.5%).

For 2015, the European Commission expects deflationary tendencies in some countries. Spain and Switzerland are expected to have the highest deflation (-1.0% price reductions apiece). Greece is expected to curtail its deflationary trend, moving from -1.4% in 2014 to -0.3% in 2015. The highest rates of inflation will again be in Turkey (+6.3%) and Russia (+6.0%).

0.2%

inflation in 2015 (EU-28)

Because stationary retail in the EU-28 countries grew nominally by around 1.0% in 2014, there was a slight real increase in turnover.*

We anticipate a nominal growth of 0.5% for stationary retail turnover in 2015, which in real values is a slight plus due to low inflation.

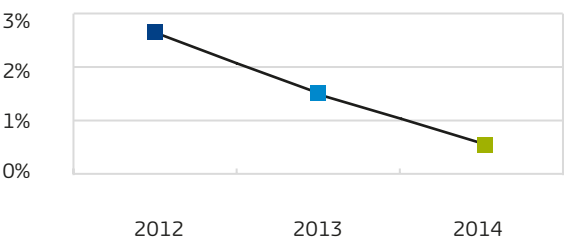
According to the European Commission, inflation in the eurozone will increase over the course of the coming years. An average increase of 1.4% is predicted in 2016 for the EU-28 countries. Reasons for this include the reflationary fiscal policies of the ECB as well as the anticipated economic stimulation, accompanied by stable or even rising oil prices.

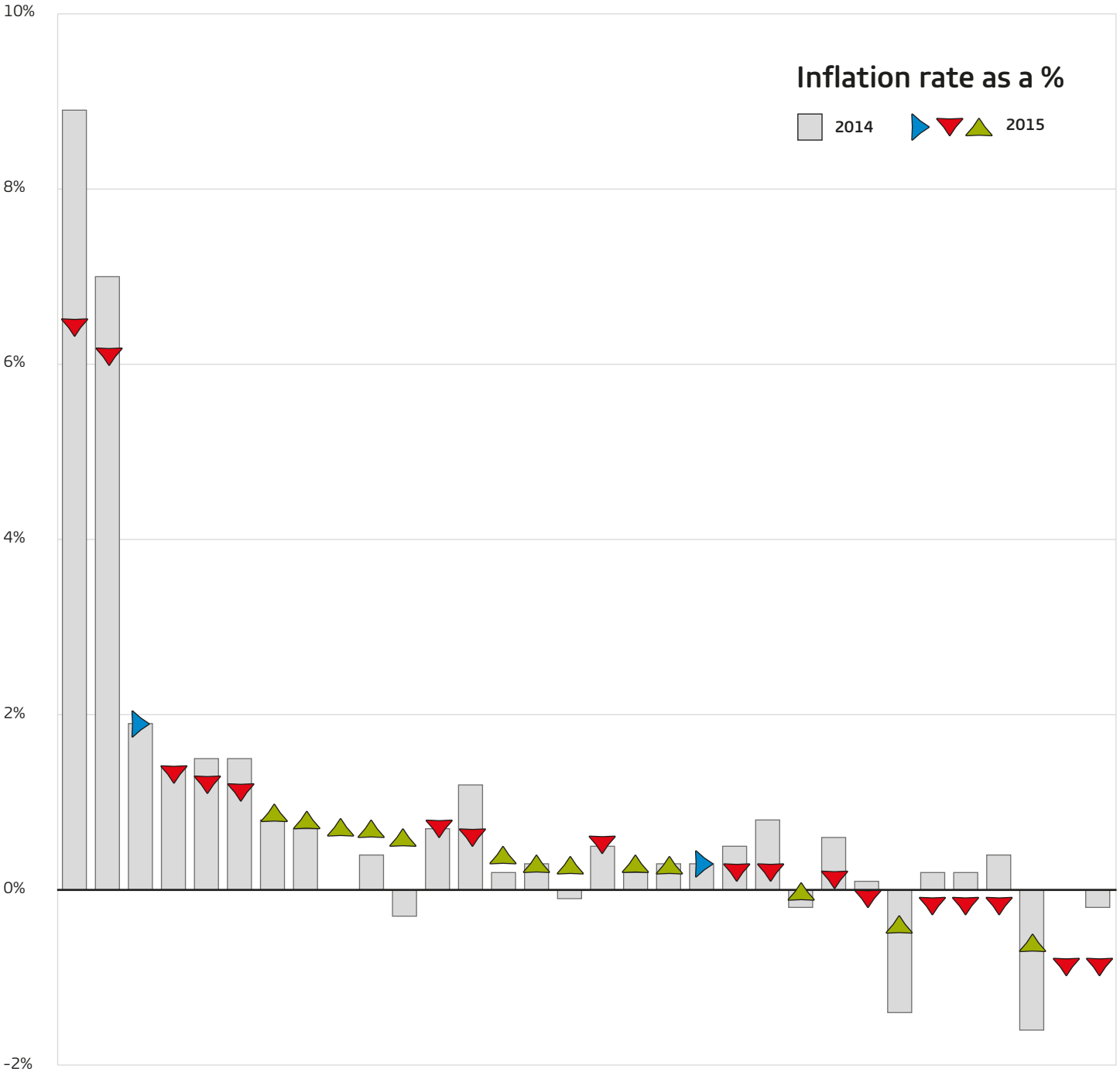
Varying price pressure among product lines
The rate of inflation varies not just from country to country, but also from product group to product group: The clothing and consumer electronics segments face the fiercest price pressure, especially from eCommerce.

In Germany, every fourth euro spent on clothing is transacted online. The average for clothing prices among the EU-28 countries in 2014 has fallen for the first time since 2009. Prices for consumer electronics have been decreasing since 2013. The increase for groceries has been a modest 0.5%.

* To ensure comparability between the countries under review, these figures refer to general inflation (including services, transport, etc.).

Inflation rate as a % (EU-28)





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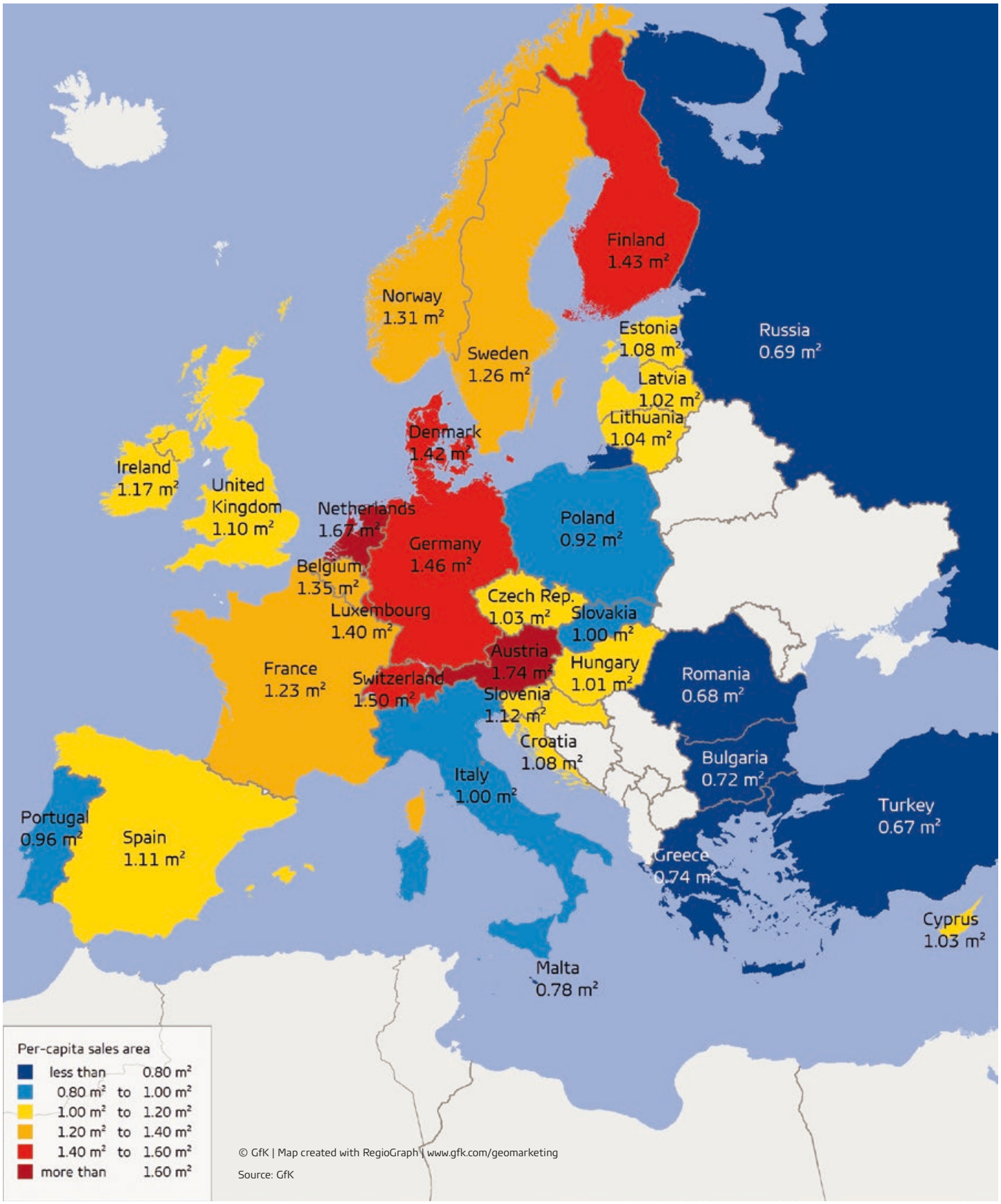
2014	8.9	7.0	1.9	1.4	1.5	1.5	0.8	0.7	0	0.4	-0.3	0.7	1.2	0.2	0.3	-0.1	0.5	0.2	0.3	0.3	0.5	0.8	-0.2	0.6	0.1	-1.4	0.2	0.2	0.4	-1.6	0	-0.2
2015	6.3	6.0	1.9	1.2	1.1	1.0	1.0	0.9	0.8	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.1	0.1	0.1	0	-0.2	-0.3	-0.3	-0.3	-0.3	-0.5	-1.0	-1.0

Source: European Commission and International Monetary Fund

Sales area provision, 2014



SALES AREA PROVISION, 2014

The 32 evaluated countries have a per-capita sales area of 1.02 m². This is a 0.5% increase over the 2013 value.

Per-capita sales area is an important gauge of a market's maturity and competitiveness.

The 32 evaluated countries had a per-capita sales area of 1.02 m² in 2014, which is a 0.5% increase over the 2013 value.

Countries with lower sales area provisions have higher rates of increase. This is true for the eastern European countries of Bulgaria, Romania, Estonia, Latvia and Lithuania. By contrast, slight declines and higher vacancy rates were apparent in more mature markets such as Austria, the Netherlands, and Germany. The cause for this is the concentration of activity in prime locations accompanied by the simultaneous dissolution of secondary locations, particularly in rural areas.

While the consolidation process continued in Greece, retail space in Finland again declined after a phase of more robust expansion.

In some countries, a decline in the number of inhabitants resulted in a disproportionate growth in sales area provision despite unchanged or only slightly increased sales area. A case in point is Spain, where sales area increased by only 0.4% on the whole, but by 1.2% per inhabitant.

1.5 m²

and higher in Switzerland, the Netherlands & Austria

Germany as special case
Germany lost sales area in 2014 as a result of the closing of numerous home improvement stores (Praktiker). Thanks to the re-leasing of Praktiker shop spaces, Germany's 2015 per-capita sales area should again climb modestly.

SALES AREA PRODUCTIVITY, 2014

Luxembourg, Switzerland and the Scandinavian countries again top the list of countries in 2014 with the highest sales area productivity.

There is a correlation between the level of purchasing power, competitor density and average sales area productivity. Sales area productivity (gross turnover per m² of sales area) is an important reference point for evaluating location-related turnover potential.

Sales area productivity in the EU-28 increased by 0.6% to around €4,100 per m². Luxembourg, Switzerland and the Scandinavian countries again top the list of countries in 2014 with the highest sales area productivity.

0.6%

more sales area productivity in the EU-28

The countries with the lowest sales area productivity are located in Eastern and Southeastern Europe. But thanks to the good turnover development in the majority of these countries, sales area productivity increased there in 2014.

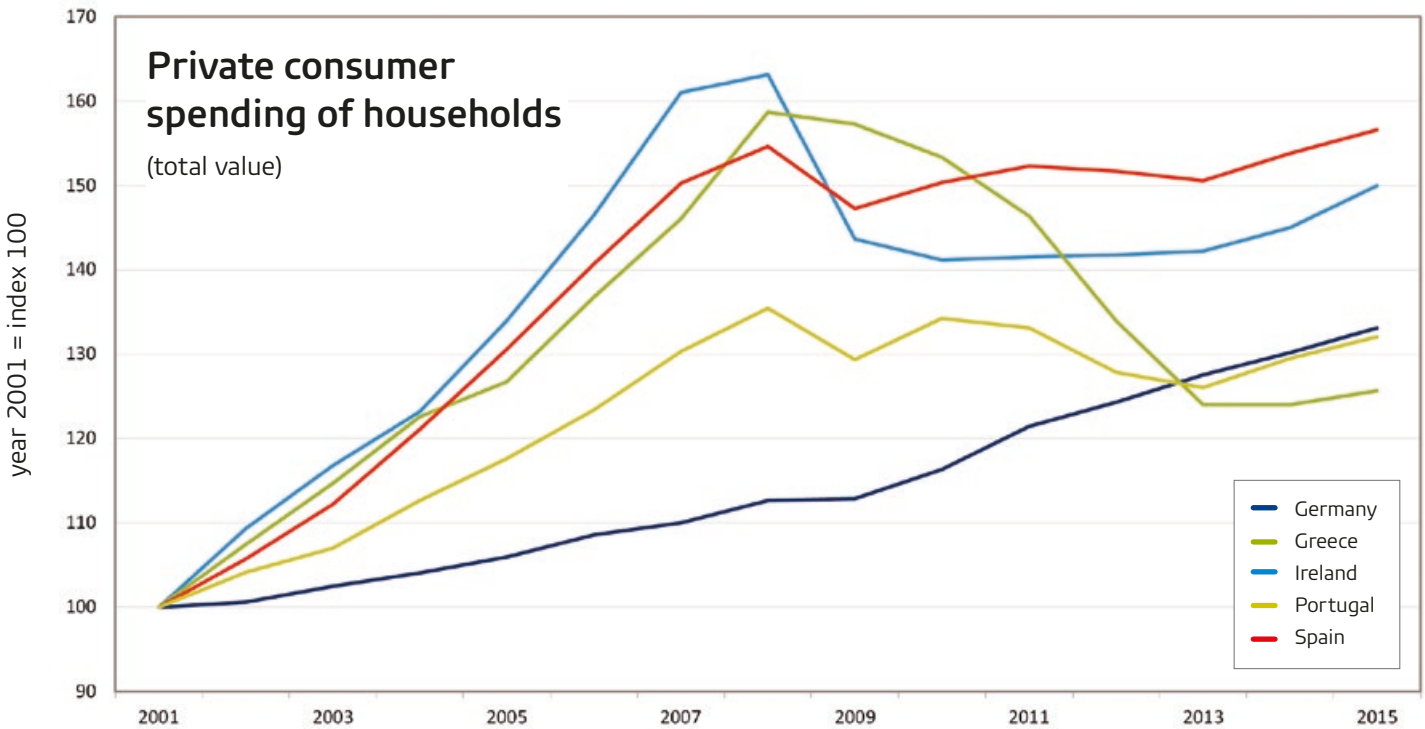
Changes caused by eCommerce

We observe that sales area productivity is increasingly under pressure in Northern and Southern Europe, particularly in Germany, France and Great Britain. A major reason for this is the redirection of turnover to online retail among many product lines. Although eCommerce has significant momentum in some Eastern European countries, e.g., Poland, the felt effects are still weak, because the absolute volumes being transacted over the Internet are comparatively small.

By contrast, in mature markets such as Germany, segments such as clothing retail are no longer as expansive as they were several years ago. At the same time, the number of planned and currently under construction shopping centers is decreasing, which is both a cause and effect of the changed market dynamic.

In a market characterized by omni-channel strategies, sales area productivity alone is no longer a sufficient indicator for assessing a retail company's overall performance. It's now important to take into account the impact of a flagship store on brand image as well as positive spill-over effects on other turnover channels. While these indicators are difficult to measure, their high importance is continually affirmed by market research.

Sales area productivity, 2014



Source: Eurostat. The values from 2001 were set as the index (=100) in order to illuminate the changes up to 2015 on a yearly basis and as a whole.

Spain gains momentum

A comparison of private consumer spending in the GIPS countries (Greece, Ireland, Portugal, Spain) and Germany shows that an overall positive trend characterizes the situation in Spain: Between 2001 and 2015, private consumer spending has the highest growth rate of all countries under review. The slump occasioned by the financial crisis crisis between 2007 and 2013 also had less impact in Spain than in Ireland and Greece. In contrast to Ireland, which, like Spain, achieved a turnaround, Greece has lost around 25 index points and now finds itself at the same level as in 2005.

Germany has proven to be a robust economic engine for Europe and has achieved stable growth rates even during the crisis years. The greater volatility in the GIPS countries has been evident not only in times of growth, but also during periods of recession.

The high unemployment rate in countries such as Spain, Portugal and Greece restricted the population's consumer purchases to the bare minimum.

But since 2009, Spain has improved its competitiveness and boosted its exports. Private spending has increased nominally by around 57 percent compared to 2001. But the high unemployment remains a limiting factor.

SPAIN IN FOCUS: DROUGHT NOW OVER

Retailer expansion and investor interest in Spain are again on the rise. But careful discernment is required to determine where it's actually worth investing.

Spain was haunted by the crisis for several years, but its economic outlook lately has noticeably improved. In 2014, Spain stabilized its economy and external competitiveness by reducing labor costs and thereby also improving the employment situation. We forecast a slight retail growth of 0.3% thanks to Spain's strong domestic demand and improved situation.

Consumer confidence and household spending are also again climbing, as confirmed by the GfK study on the European consumer climate. After years of decline, the turnover for the largest shopping centers climbed again in the first half of 2014.

As a result, retail expansion endeavors on the Iberian peninsula are again on the rise: National and international retailers are opening stores in many shopping centers, putting an end to their previous consolidation strategies.

This has led to increased investor interest in Spain's retail real estate market.

The European Union's fifth-largest economy woos investors with shopping center return rates that are currently not feasible in highly sought after markets such as Germany, Poland, Great Britain and the Scandinavian countries.

In the current market phase, almost all investors are seeking favorable entry-level costs, which leaves high expectations for future growth. Whether that actually will occur depends largely on the location and competitor situation, object positioning and conception as well as consumers' preferences.

0.3%

retail growth in Spain

GfK's location experts have inspected shopping centers and retail parks throughout Spain. Size alone is no guaranty of success.

Our on-site observations reveal that there's a strong polarization between well functioning shopping centers on the one hand and problematic locations on the other. This observation is further accentuated by the significant regional differences in economic conditions, as demonstrated in the GfK purchasing power study for clothing product lines and consumer electronics.

40

shopping centers were evaluated on site by GfK experts

While top shopping centers such as La Maquinista (Barcelona), La Gavia (Madrid) and Parqesur (Leganes) fared the crisis comparatively well thanks to their market-dominating position, size alone is no guaranty of stable rental income over the long term. Proof of this are the centers Plaza Norte 2 (Madrid) and Gran Via 2 (Barcelona), both of which still have significant vacancies following the crisis and have not yet been able to regain their former strength.

Scrutiny is also warranted when selecting a high-street location, such as along the Calle Serrano: There are numerous new openings of luxury brand label stores (including Louis Vuitton) along the upmarket promenades in the capital. But the more consumer-oriented Calle Goya has lost some of its appeal. In Barcelona, we observed that the preeminent boulevard of the Catalonian capital – the Passeig de Gràcia – is currently in high demand.

Precise knowledge of competition is vital

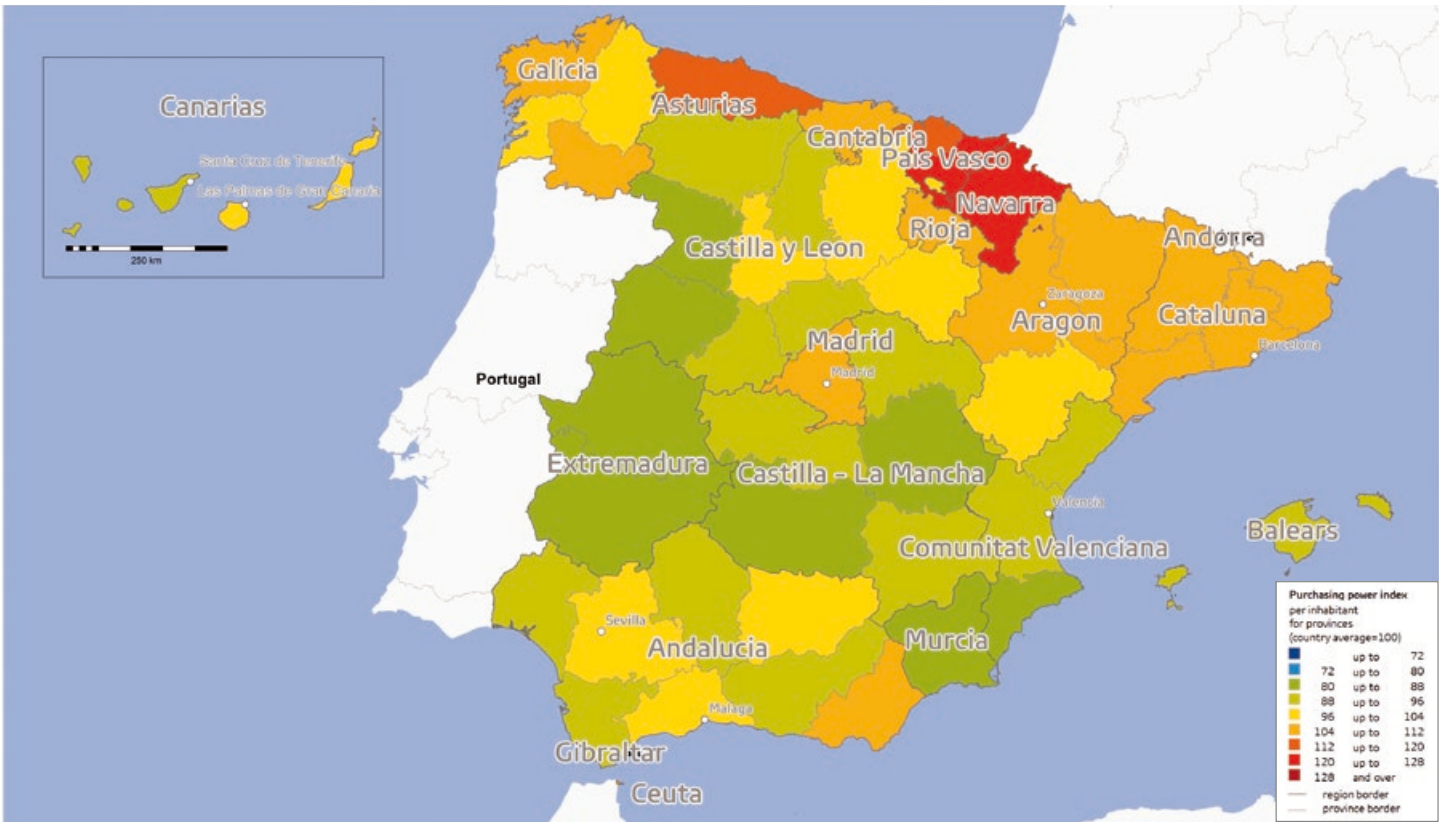
A lack of this has been the downfall of the Gran Casa (Zaragossa): As a result of the opening of the Puerto Venecia in 2012, Gran Casa has been struggling with high vacancy rates. The anchor tenant Media Markt halved its sales area, and many tenants have relocated. Large areas in many shopping centers are still vacant (e.g., Plaza Imperial, Saragossa) and several malls (Modoo, Oviedo, among others) are saddled with failed usage concepts.

But other retail objects offer good upside potential, such as Barcelona's Glories, which enjoys a very favorable location.

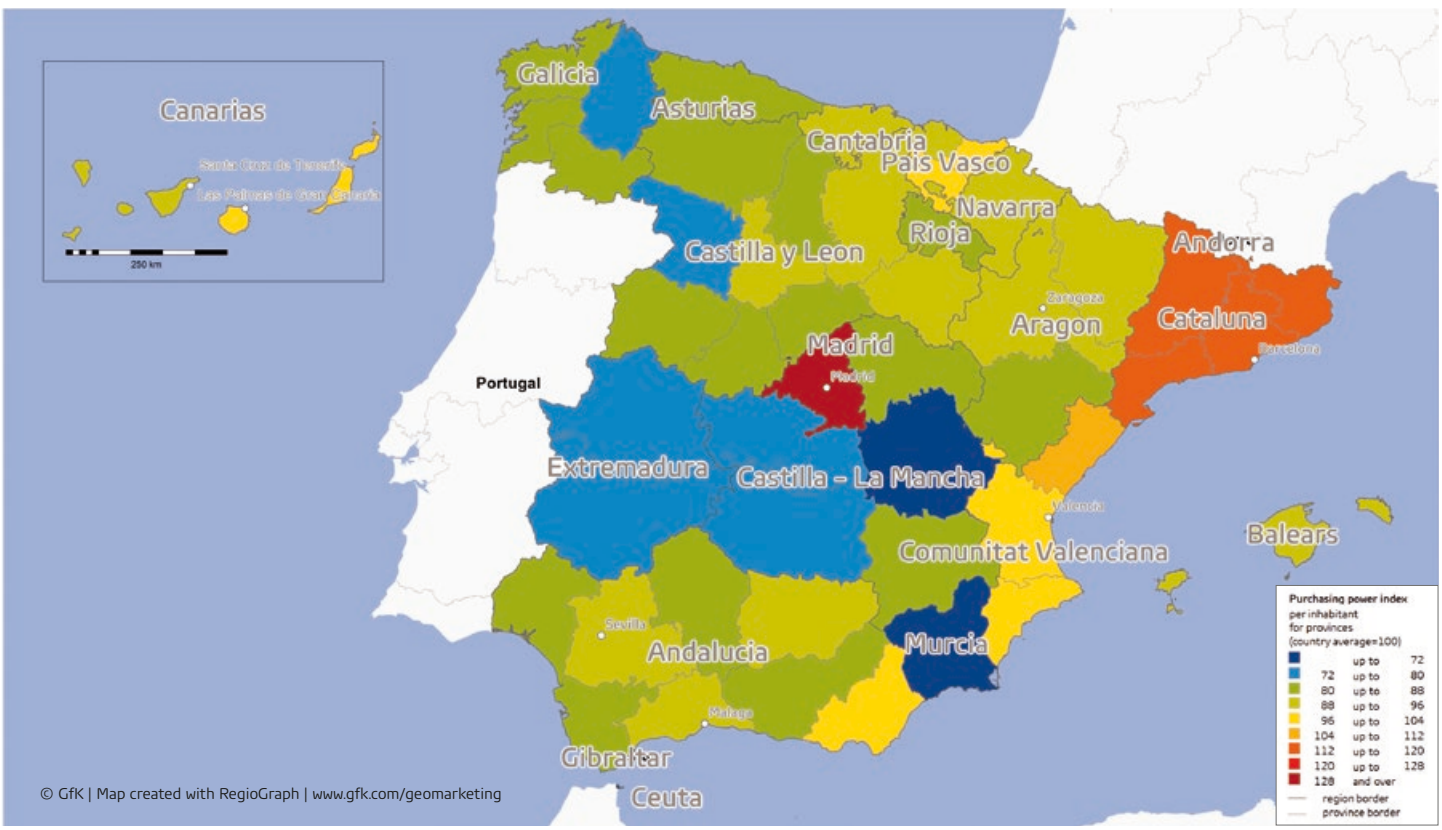
Summary

Spain is a very heterogeneous market that offers discerning investors opportunities with favorable risk-benefit profiles. Still, it's crucial to critically evaluate a prospective investment object to protect investors and retailers from overly hasty and misguided investments.

Spain – 2014 purchasing power for clothing



Spain – 2014 purchasing power for consumer electronics, information & communication technology, photography



ABOUT...

ACROSS – The European Retail Real Estate Magazine

ACROSS is the international and independent trade medium for retail real estate in Europe. The magazine covers topics through the entire value chain of modern retail properties. The coverage focuses on interviews and expert opinions. The latest retail and development trends and news about the different markets round out the magazine's content.

ACROSS is published six times a year entirely in English with an exclusive circulation of 18,000 copies. The magazine is distributed in 42 countries all over Europe. ACROSS's community of readers have access to a website adapted for all mobile devices, news, ACROSS TV, an extensive human resource platform, and numerous extra features.

Contact us with any questions:
T + 43 1 533 32 60-80 l office@across-magazine.com
www.across-magazine.com

GfK Retail & Real Estate Consulting

Our retail, real estate and location experts determine the strengths and weaknesses of individual objects and entire portfolios.

We deliver impartial advice about the risks and opportunities associated with retail real estate and the surrounding market environment.

Contact us with any questions:
T +49 40 5701 325 20 l geomarketing@gfk.com

Impressum

Responsible for publication:
GfK GeoMarketing GmbH
Werner-von-Siemens-Str. 9
Gebäude 6508
76646 Bruchsal
T +49 7251 9295 100
F +49 7251 9295 290
www.gfk-geomarketing.com
geomarketing@gfk.com

Management board:
Friedrich Fleischmann
Hans-Peter Klotzbücher

Study lead: Dr. Gerold Doplbauer
Contributors: Dr. Robert Orlowski, Wilfried Reinhardt, Dominique Thiel

Responsible for content:
Cornelia Lichtner, Public Relations

Layout: Nathalie Adlung
Translation: Dr. Christopher Guider

Note:
Copy status: April 2015
Data status: March 2015
Data from the European Commission is from February 2015; in some cases, trend analyses from Eurostat are retrospectively adjusted.

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