Geomarketing

ESCT European Shopping Centre Trust

GfK

KEY EUROPEAN RETAIL DATA

2012 review and 2013 forecast

INTRODUCTION

Dear reader,

GfK GeoMarketing is a Europe-wide market research company with expertise in retail and retail real estate. This study is a result of a commission by the European Shopping Center Trust (ESCT) to analyze the 2012 retail scene in 30 European countries in addition to Russia and Turkey and provide a forecast for turnover and inflation in 2013. These findings are to be presented at the ICSC European Conference in April 2013 in Stockholm.

Last year's retail scene in Europe was once again enormously eventful: The propensity to spend varied widely across Europe amidst the continuing national debt crisis in many countries and still lingering funding shortfalls. The differences among the countries under review were more pronounced last year than in previous years. Particularly in countries affected by austerity measures, consumers' low expectations for economic development and salary increases led to lower consumption, which in turn resulted in declining retail turnover. The gap between prospering and struggling European nations continues to grow. While Scandinavia, the Baltic and Germany in particular continue to move in a positive direction, a clear turnaround for the southern European nations is not yet in sight.

Thanks to robust growth, Russia's retail scene has achieved the highest retail turnover in Europe for the first time.

The facts, analyses and prognoses presented here provide insight into Europe's multifaceted and dynamic retail sector and thus offer a reliable basis of planning. We're happy to provide further assistance to guide your investment endeavors.

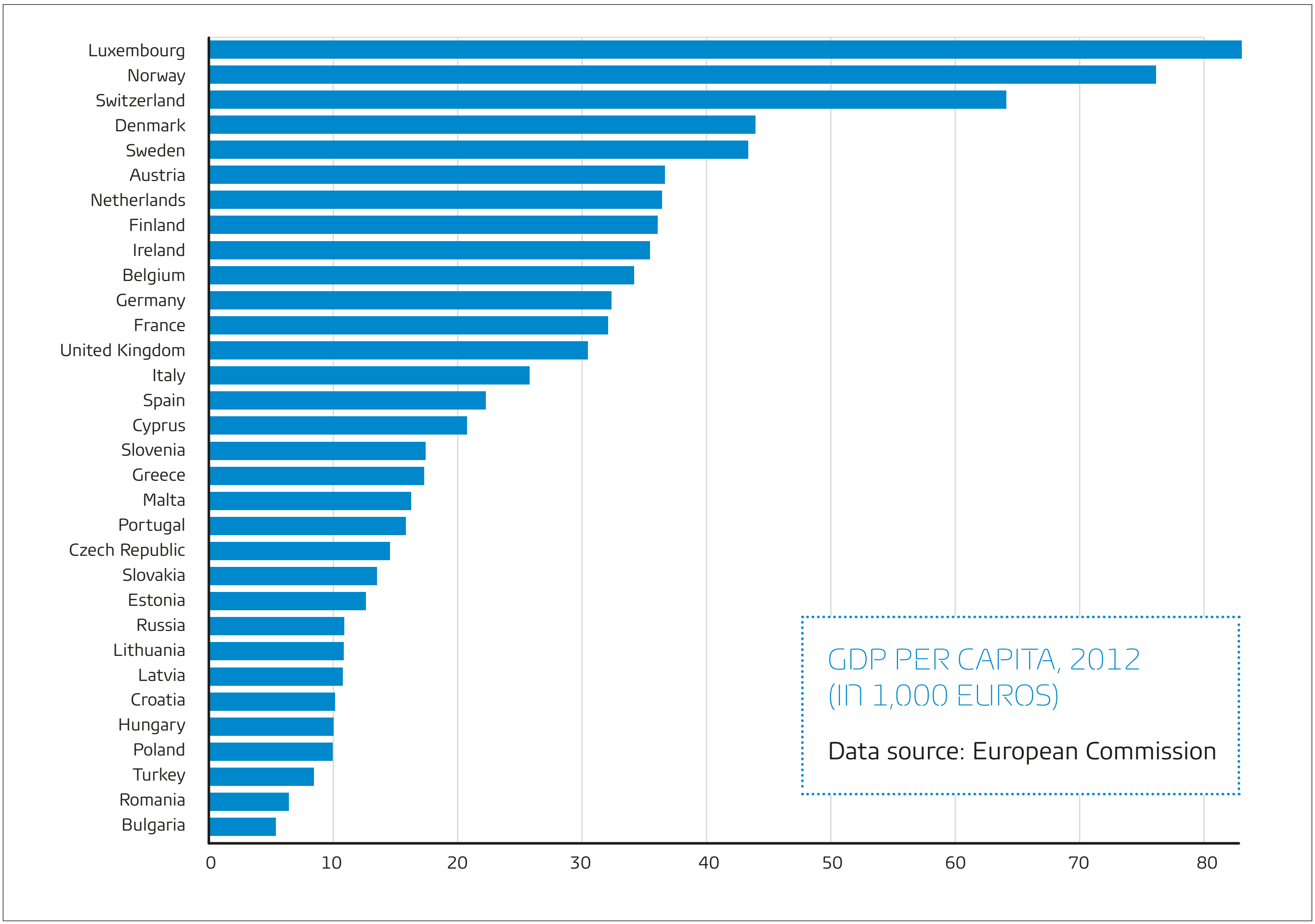
Sincerely,

Sebastian Müller
Head of Real Estate Consulting
GfK GeoMarketing

Manuel Jahn
Head of Real Estate Consulting
GfK GeoMarketing

<u>Comments on methodology:</u>

Values on retail turnover refer to stationary retail excluding online, unless otherwise indicated. Calculations of the GDP, turnover and purchasing power data are carried out in euros according to the average 2012 exchange rates for the respective national currencies in accordance with values provided by the European Central Bank. The information and data are accurate as of the end of February 2013. Much of the regional data calculated by GfK GeoMarketing is based on values from Eurostat as well as the "European Economic Forecast Winter 2013" of the EU Commission. The charts illustrating the trends may depart from the values in the previous year's report, due to revisions by the official bureaus of statistics.



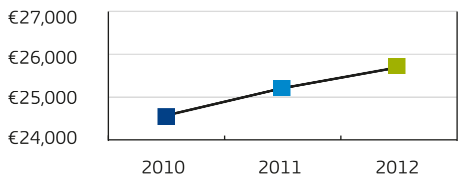
GDP PER CAPITA, 2012

GDP values are a key indicator of a country's economic strength. Europe continued on a positive trajectory in 2012 thanks to the central and northern European economies. Even so, the pace of growth has noticeably slackened. Compared to 2011, the GDP in the EU-27 grew by just under 2.3%, which corresponds to €25,738 per capita, per year.

Austria and Germany moved ahead in the rankings, as did Russia thanks to its outstanding economic growth (+15.9%).

Note that these trends are in part due to exchange rate disparities. For example, Poland fell three places in the rankings despite above-average economic growth (+3.15%). Conversely, the impressive performances of Switzerland (+7.1%) and Great Britain (+9.6%) are largely due to the positive revaluation of their currencies. With regard to Great Britain, the Bank of England is attempting to once again lower the external value of the pound against the euro.

GDP PER CAPITA (EU-27)



PURCHASING POWER, 2012/2013

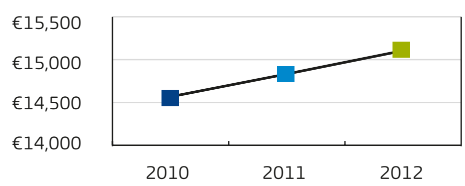
Purchasing power is the disposable income available to the population at a particular time. As such, this value is the most important benchmark of consumer potential.
A total of approximately €9.2 trillion was available to European consumers in 2012 for consumption-related expenditures. For the EU-27, the figure was €7.56 trillion, which corresponds to a per-capita purchasing power of €15,103. Eurostat's retroactive upward adjustment of the 2011 numbers for many countries yields growth rates of +1.5% for the sum of all reviewed countries. Growth of +0.9% is achievable for the EU-27 countries in 2012.

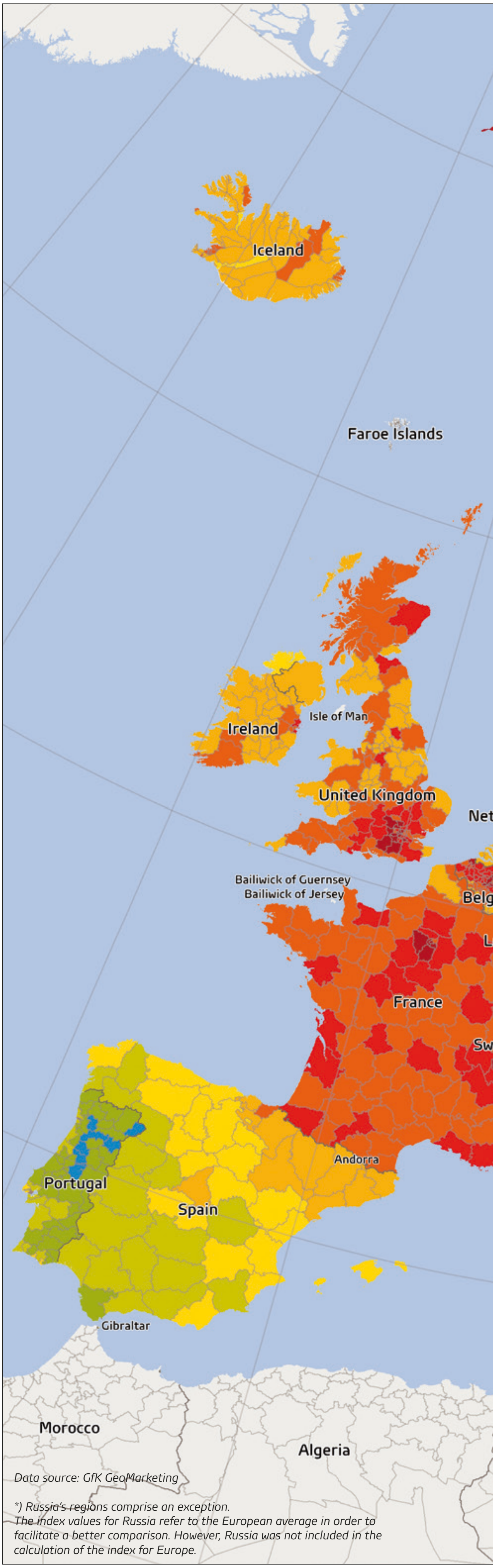
Purchasing power trends vary widely across Europe. The greatest increases in purchasing power occurred in Russia, Norway, Great Britain, Scandinavia and the Baltic. While Russia and the Baltic have achieved a genuine economic recovery, the situation is more complicated for Great Britain: The positive numbers are partly a result of exchange rate effects and also do not reflect the disparity between London and the rest of the country.

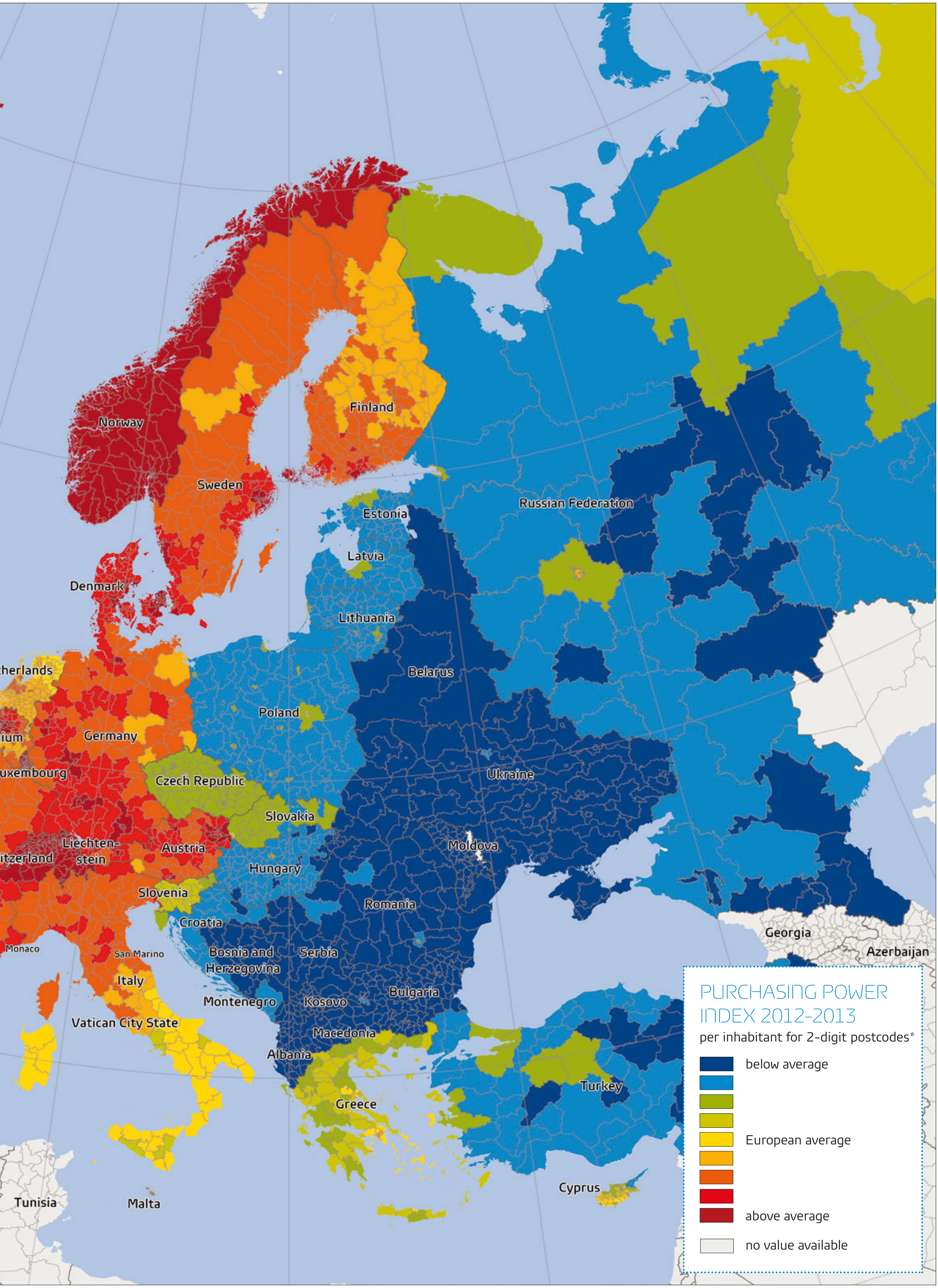
The greatest decreases in purchasing power occurred in Greece (-13.1%), Hungary (-11.1%) and Ireland (-8.7%).

<u>Note:</u> Purchasing power is calculated at consumers' places of residence and is provided in nominal values that have not been adjusted for inflation.

PURCHASING POWER PER CAPITA (EU-27)






Norway
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Monaco
San Marino
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Bulgaria
Vatican City State
Macedonia
Albania
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PURCHASING POWER
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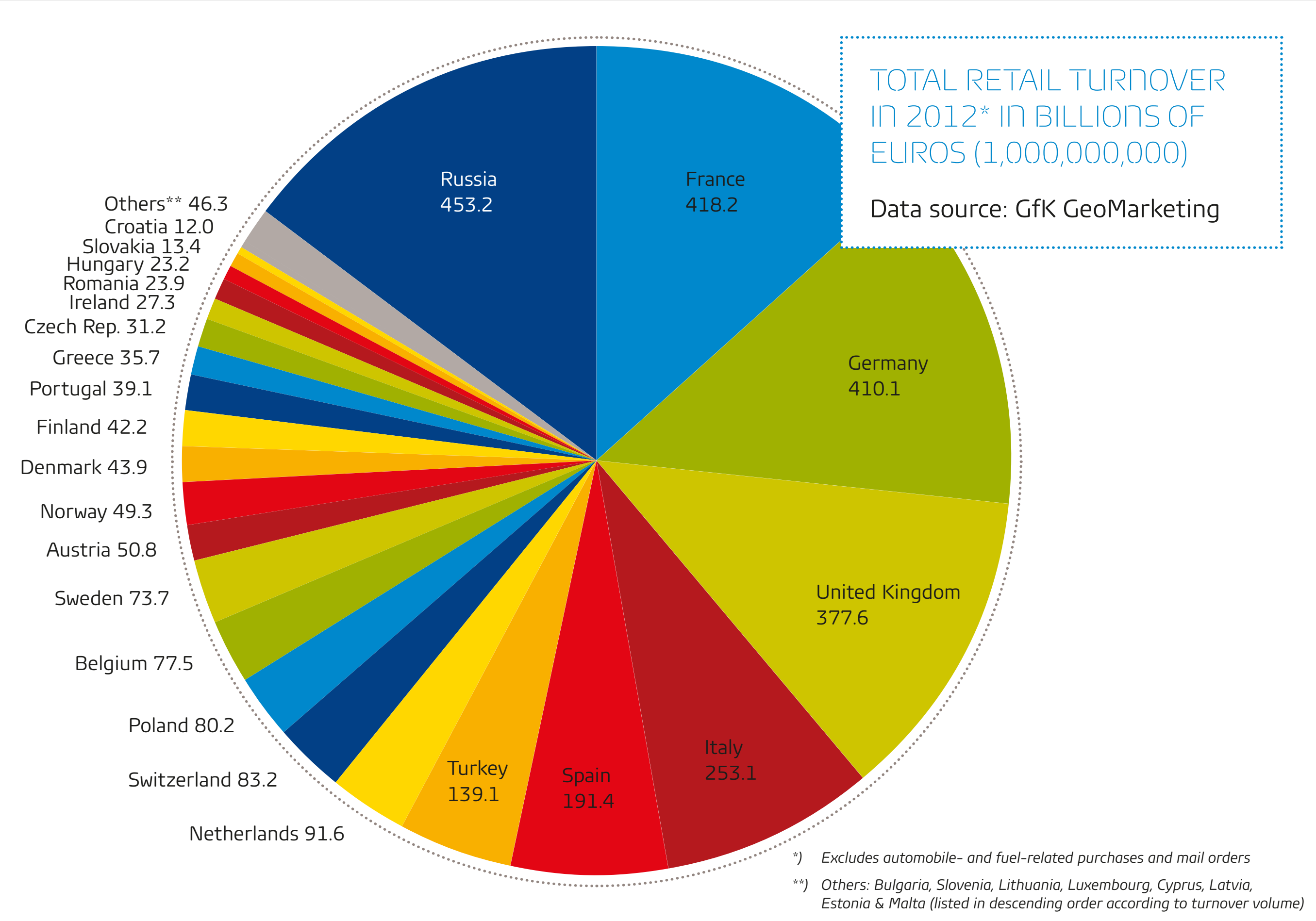


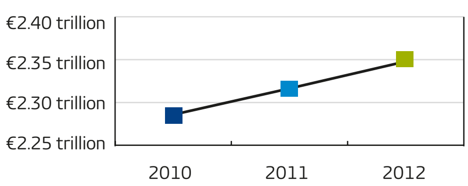
RETAIL TURNOVER, 2012*

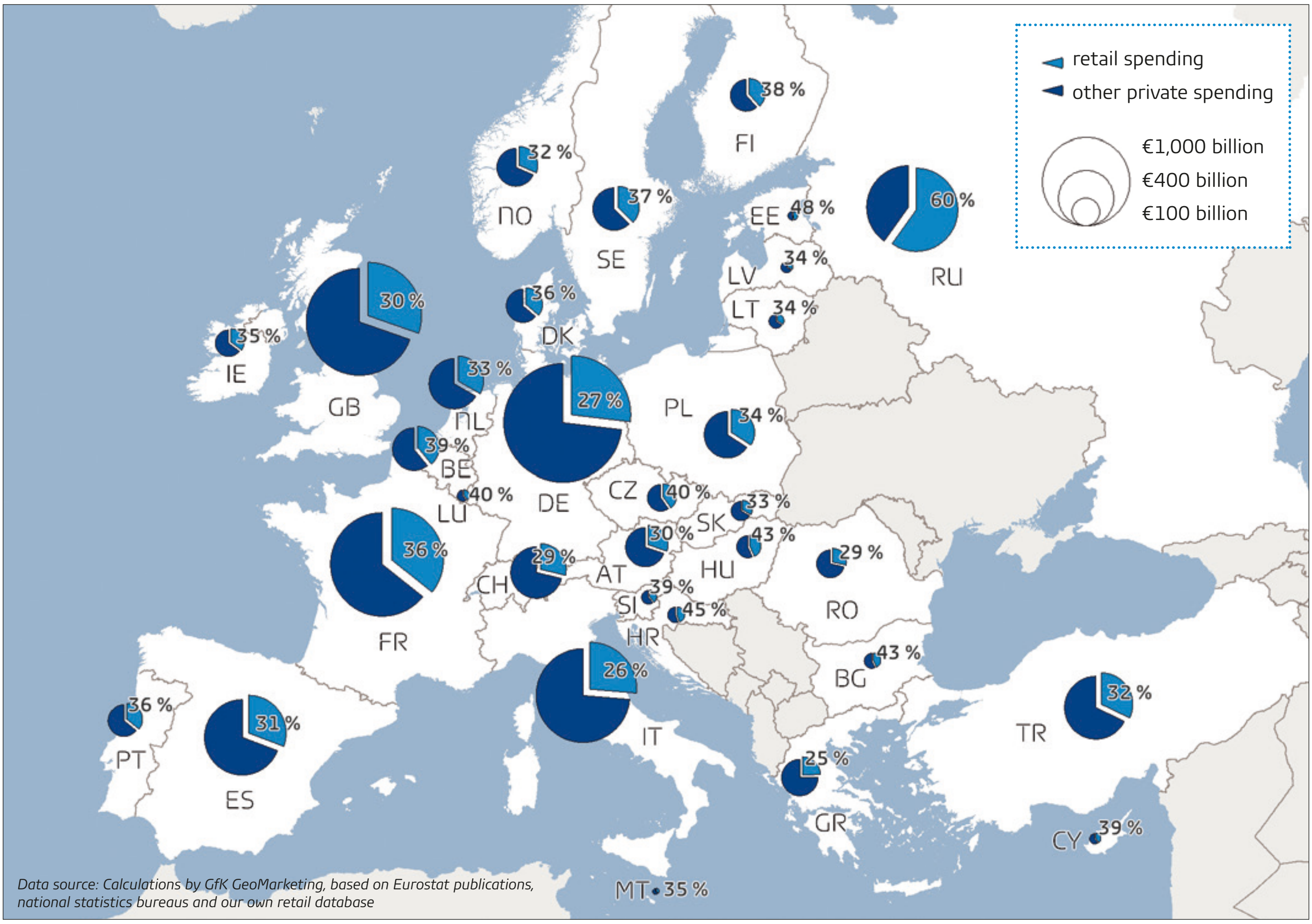
In 2012, retailers in the 32 evaluated countries generated an approximate retail turnover of €3.09 trillion (EU-27 = €2.35 trillion), an increase of approximately +3.7% over the 2011 value (revised values). This continues the positive trend in recent years, although growth has slackened due to poor retail performance in some crisis-ridden countries.

Of greatest note in this regard among the EU-27 are Greece (-11.8%), Portugal (-5.6%), Spain (-4.4%), Slovenia (-2.4%) and Italy (-1.8%). The Netherlands (-1.7%) also makes this list due to the dampened consumer mood in the country.

For the first time, Russia leads the EU-27 pack in absolute turnover volume thanks to its enormous growth as well as the sheer size of its economy. Despite substantial growth in online turnover, the top two countries in the EU – France and Germany – were still able to generate moderate retail turnover growth last year (France: +1.7%, Germany: +1.0%).

RETAIL TURNOVER (EU-27)





Data source: Calculations by GfK GeoMarketing, based on Eurostat publications, national statistics bureaus and our own retail database

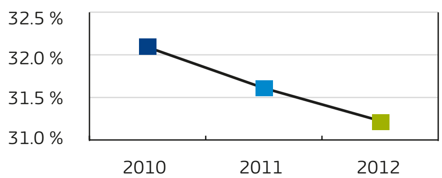
RETAIL SPENDING AS A SHARE OF TOTAL PRIVATE SPENDING

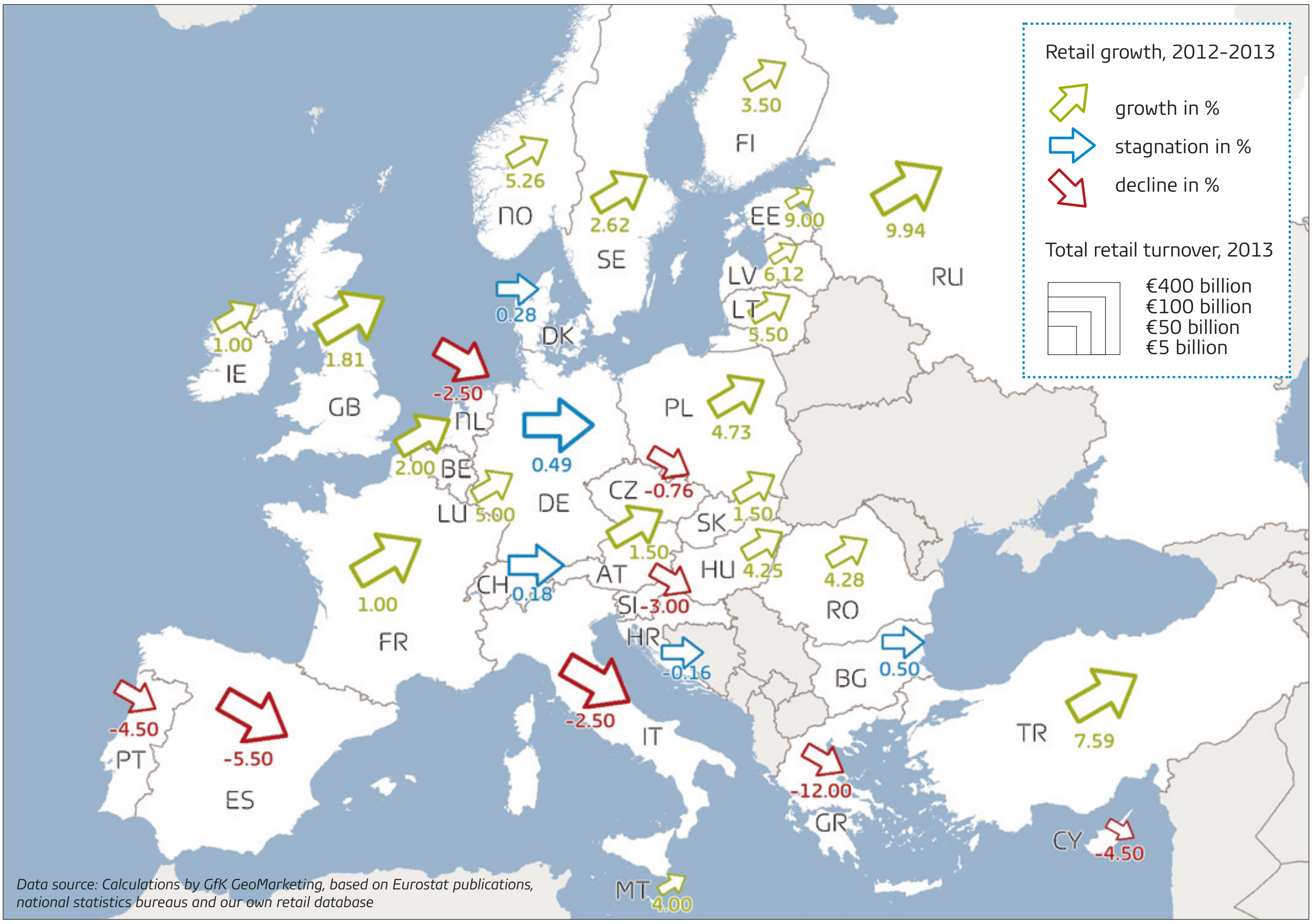
Retail spending as a proportion of private consumption expenditures decreased slightly in 2012 among the EU-27 (31.2% compared to 31.3% in the previous year). This figure is somewhat higher (33.6%) when all European countries under review are taken into account.

Reasons for this ongoing decline include continuing increases in energy and living costs as well as greater spending on recreational activities. Economic uncertainties in some countries are also dampening consumers' willingness to spend.

A Europe-wide comparison shows that inhabitants of countries with low per-capita income must spend a greater proportion of their retail income on meeting basic needs (e.g., inhabitants of Hungary, Bulgaria and Croatia). In addition to these economic considerations, there are also widely varying shopping cultures, lifestyles and consumer behaviors in the countries under review.

RETAIL SPENDING (EU-27)





Data source: Calculations by GfK GeoMarketing, based on Eurostat publications, national statistics bureaus and our own retail database

RETAIL TURNOVER FORECAST FOR 2013

We forecast nominal growth of approximately 1.9% in retail turnover (as measured in €) in 2013 among the 32 countries under review. We expect stagnation in the EU-27 on par with the 2012 level, with positive turnover growth in northeastern Europe offset by negative growth in southern Europe.

We anticipate a reduced latitude for retail spending in countries hit by austerity measures (e.g., Greece, Spain and Portugal).

The Scandinavian and Baltic states should be able to continue their positive 2012 turnover trend in 2013 thanks to good economic and job market development. Russia also has a very good chance of sustaining its growth trajectory. Turkey will also experience growth, primarily due to economic development and inflation-driven price increases.

Given current economic conditions, stationary retail will face increasing pressure from the rapidly growing online retail sector. However, the level of pressure varies remarkably from country to country. Even with increases in purchasing power, stationary retail must develop multichannel strategies in order to profit from this growth. Trailblazers in this regard are the UK, Germany, France and Scandinavia.

INFLATION TREND FOR 2012-2013

The average inflation rate in 2012 (approximately 2.7%) has fallen slightly in the EU-27 countries compared to 2011 (approximately 3.0%). A further decrease in the rate of inflation would be a welcomed relief to Europe's crisis-ridden countries and would also benefit retail. However, the announced increases in taxes and social contributions in some countries will act as a barrier to this.

Even so, almost all European countries currently have quite modest inflation rates ranging from 1.0% to 4.3%. Much higher values are however discernible in Turkey (8.0%), Russia (6.0%), Hungary (5.6%) and Estonia (4.3%).

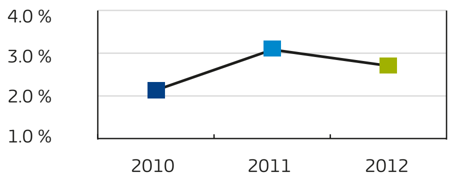
The EU-27 countries experienced a nominal retail turnover growth of approximately 1.4% in 2012. Adjusting these figures by the average inflation of 2.7%, it's clear that actual retail turnover has declined somewhat, a trend that is likely to continue in 2013.

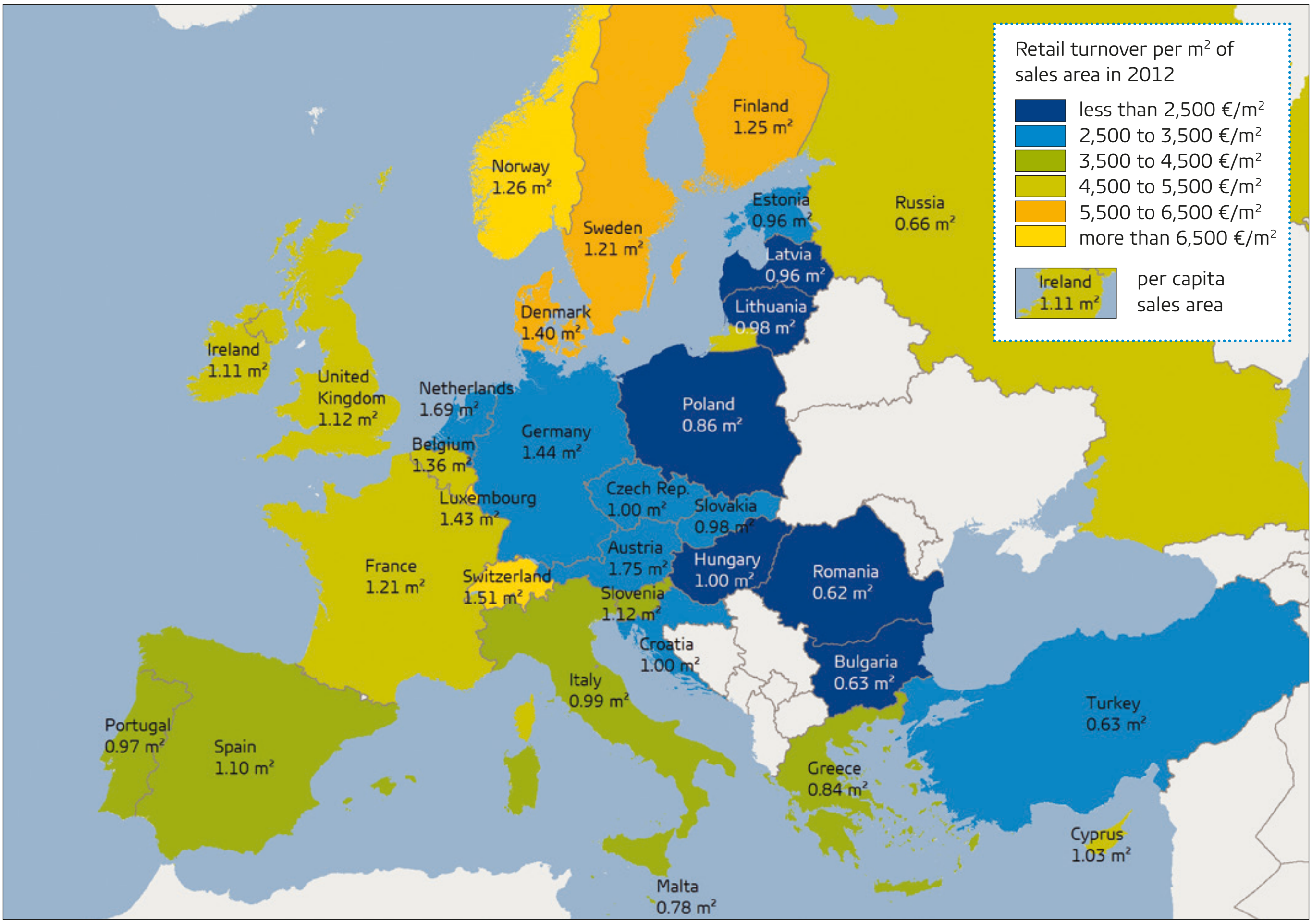
In 2013, we anticipate a further decline in the already low rate of inflation; with some exceptions, the inflation rate should therefore be lower in 2013 than it was in 2012.

However, over the mid- to long term, the expansionary fiscal policies of almost all central banks as well as wage increases in the core EU countries could together drive up the inflation rate.

COUNTRY	Inflation rate as a %	
	2012	2013 (exp.)
Greece	1.1	-0.8
Switzerland	-0.9	0.3
Portugal	2.9	0.9
Czech Republic	3.6	1.1
Sweden	1.0	1.3
Ireland	2.0	1.3
Cyprus	3.2	1.5
Norway	1.0	1.5
France	2.3	1.7
Belgium	2.6	1.8
Austria	2.4	1.8
Germany	2.1	1.9
Luxembourg	2.9	1.9
Slovakia	3.7	1.9
Denmark	2.4	2.0
Italy	3.3	2.0
Spain	2.5	2.1
United Kingdom	2.7	2.1
Latvia	2.4	2.1
Slovenia	2.8	2.2
Malta	2.9	2.2
Netherlands	2.8	2.4
Finland	3.0	2.5
Bulgaria	2.5	2.6
Poland	3.8	2.6
Lithuania	3.4	3.1
Croatia	3.4	3.2
Estonia	4.3	4.1
Romania	3.5	4.9
Russia	6.0	5.0
Hungary	5.6	5.3
Turkey	8.0	7.8

INFLATION TREND (EU-27)





PER CAPITA SALES AREA AND SALES PRODUCTIVITY, 2012

Per-capita sales area provision is an important gauge of market development and maturity among the individual European countries.

Per-capita sales area in the 32 European countries under review increased by a total of approximately 2.8% in 2012 compared to 2011, with an increase of approximately 1.6% among the EU-27 countries.

As in 2011, the sales area growth rate in 2012 was below the turnover growth rate (+3.7%). As turnover growth is partly driven by inflation, the modestly increasing sales area productivity values will not translate into any meaningful relief for retailers.

Among the EU-27 countries, sales area growth approximates turnover growth, meaning that sales area productivity remains largely stable.

Outside of the EU-27, Turkey and Russia have the highest growth rates (7% and 8%, respectively), although this is to some degree a matter of these countries catching back up. Despite this growth, these two countries also currently have the lowest sales area coverage.

Trends within the EU-27 vary widely from country to country. While the amount of actively operated sales area was significantly down in Greece and Portugal, the Scandinavian and Baltic countries had above-average sales area growth.

RETAIL SALES PRODUCTIVITY, 2012

Sales area productivity – i.e., turnover per m^2 of sales area per year – is the hard currency for assessing the turnover potential of retail locations. There is a close association between levels of purchasing power, retail turnover and average sales area productivity in the countries under review. As in 2011, Luxembourg, Switzerland and the Scandinavian countries top the list of countries in 2012 with the highest sales area productivity. Sales area growth increased in many countries again after delays in project developments occasioned by the financial crisis, resulting in a decrease in sales area productivity.

The countries with the lowest sales area productivity are located in southeastern Europe and the Baltic (Romania, Bulgaria, Latvia, Lithuania), although there was a significant increase in sales area productivity in the Baltic States in 2012.

It is unadvisable to compare sales area productivity with the values of the previous year, because retail turnover, sales area and exchange rates develop very differently in the various countries under review. Also, the official bureau of statistics regularly carries out retroactive adjustments to the turnover figures for the preceding three years.

COUNTRY	per capita sales area (m^2)	retail sales productivity (€ / m^2)
Norway	1.26	7,832
Luxembourg	1.43	7,406
Switzerland	1.51	6,936
Sweden	1.21	6,411
Finland	1.25	6,246
Denmark	1.40	5,630
France	1.21	5,432
United Kingdom	1.12	5,356
Ireland	1.11	5,352
Cyprus	1.03	5,227
Belgium	1.36	5,167
Russia	0.66	4,771
Malta	0.78	4,395
Italy	0.99	4,218
Portugal	0.97	3,834
Greece	0.84	3,759
Spain	1.10	3,682
Slovenia	1.12	3,554
Germany	1.44	3,470
Austria	1.75	3,433
Estonia	0.96	3,264
Netherlands	1.69	3,238
Czech Republic	1.00	2,969
Turkey	0.63	2,960
Croatia	1.00	2,736
Slovakia	0.98	2,520
Poland	0.86	2,416
Lithuania	0.98	2,399
Latvia	0.96	2,344
Hungary	1.00	2,335
Bulgaria	0.63	2,313
Romania	0.62	1,814

EUROPEAN SHOPPING CENTRE TRUST

The ESCT European Shopping Centre Trust was formed when ICSC Europe became part of ICSC America and the monies within ICSC Europe were transferred to the Trust to provide financial assistance to educational initiatives within the shopping centre industry in Europe.

Since that time it has provided financial support for various research projects as joint promoters and financiers.

Additionally and indeed principally, the aim of the Trust is to support students and young professionals within the industry to increase their knowledge and professionalism.

For a number of years now it has been sponsoring students to attend the ICSC European Retail Property Summer School.

To date the Shopping Centre Trust has not sought new funds to replenish the cash that was initially donated to the Trust.

The Trust is now seeking more ore less modest donations from industry leaders and corporations now that we believe we have proved to the industry that our efforts are indeed improving the education of people in our industry. The challenging times, particularly for the younger professionals in the shopping centre business, remain with us and are likely to continue for quite some time to come. We are convinced that National Councils, shopping centre owners and developers and professional consultants have a common interest in ensuring the continued high quality of professionals in the industry and with reasonable certainty and quite soon we will be able to announce considerable, additional funds have been provided to the Trust.

The trustees would particularly like to thank **Land Securities Plc, Redevco, Haskoll and Lunson Mitchenall** who have become our first donors and who I feel sure will be followed by many others during the course of 2013.

Dr. Wolfgang R. Bays
Chairman of the Trustees

ESCT European Shopping Centre Trust

QUESTIONS?

Don't hesitate to contact us at **+49 7251 9295 200**
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