

# Forecast for retail space: “slightly positive”

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An exception in this regard is not this year's January report of the largest commercial property services company in the world Cushman & Wakefield called “Main factors of retail development in 2010”. It evaluates impacts of the 12 main factors influencing the retail property market in the 25 European countries.

## **Weakening of Central-European currencies to EURO**

The mentioned report expects “relatively positive 12 months in most European countries both in the rent area and in the area of investments in retail spaces”. Good news for the tenants: the rent should not reach its bottom before half of 2010. Bad news for the landlords: its steadier growth will not start before in 2011. The Scandinavian countries are on the best way to “recovery of prices” (it is hard to tell whether this means their stabilization - or stopping of the fall - or a new growth). The environment supporting “a slight optimism” in this regard is also expected in Slovakia, the Czech Republic and also in Poland.

“It is appropriate to speak about a gradual slowdown of market fall in the entire European scale. Prices of properties are constituted by the investors' ideas of return on investments but also on the rent rate. The key to the possible price growth of the projects are not only in the hands of investors but the consumers have it indirectly in their wallets too,” thinks Alexander Rafajlovič, head of Market Research Department at Cushman & Wakefield in the Czech Republic and Slovakia. He also claims that the decreased index is also influenced by weakening of the exchange rate of Central European currencies to EURO, which is the usual currency of the shopping centres rent. Slovakia is not included in this situation, on the other hand the strong currency has led to a boom in cross-border shopping tourism which led to a sharper fall in retail sales.

## **A fall in construction and a higher demand are stabilizing the rent rates**

Thanks to a large volume of new retail construction the rent rates fell in most European countries in the last two years. In this regard the situation in Poland or in Slovakia (remember for example finalization of HB Reavis preparations for construction of Aupark in Košice) are different from that in the Czech Republic where not so many projects are under construction which could bring pressure on decreasing the rent. Cushman & Wakefield expects one of the key factors to support the growth of retail space market price will be the gradual relative inaccessibility of retail spaces. The fall of further construction and an increasing demand of international chains for the most attractive areas in prestigious locations at today's relatively good prices should accelerate stabilization of rents, says the report.

“One of the most important factors for the tenant staying in the shopping centre is the ratio of rent to sales, so called accessibility or sustainability rate. A fall in sales brings the risk of retailers having difficulties in paying a fixed rent. The professional managers of course follow this indicator and they are able to tell which of their tenants are doing well or whether their requests to lower the rent are justified or whether it is time to change the tenant. The situation of owners is however weakened in case they have no replacement, or new potential tenants in the freed units,” Alexander Rafajlovič explains the complexity of the problem.

## **Recovery of investment market will lead to a price increase**

Differences in year-on-year comparison of yield (in basis points) and rent (in percent) of retail, industrial

and office property are nearly invisible (see graphs). Prices in the fourth quarter jumped nearly in the entire Europe. The fact that this applies only to office spaces is extraordinary mainly because it was in this sector where the highest fall of rent was recorded. Also yields in the office property sector fell in the fourth quarter on most markets, in the retail sector the fall occurred in 11 of the analyzed 39 markets (8 of which were in France and Great Britain).

Andreas Ridder, General Manager of CB Richard Ellis in Austria said: “The increasing demand for centrally located premium property at the end of last year led to an increase in prices on many markets, this applies especially to Great Britain. More significant shifts were seen here. However, an increase in prices in the top segment can be traced also in continental Europe centres such as Paris, Milan and Madrid as well as in German top areas. Due to the fact that the interest of investors currently focuses on these markets, the biggest changes in prices is also recorded there.”

Illustration photo - author

Graphs - CBRE (retail, industrial and administration development in the former European “fifteen”)

1 - Yield index: year-on-year changes (in basis points)

2 - Index of rents: year-on-year changes (in percent)

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02.02.2010 10:09, SF / Juraj Pokorný