Political and economic uncertainty in Greece and Egypt impacts retail market

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London, 15th June, 2012. According to the latest research from Colliers International, prime retail rents and yields in EMEA have remained stable since Q3 2011.

Rents
Over the six months to Q1 2012 most of the key high streets across the EMEA region recorded no changes or only minor shifts in prime rental levels. Notable exceptions saw some core markets record an increase in prime rents, namely Vienna (14%), Hamburg (12%) and London (11%), as well as in the Baltic cities of Riga and Tallinn. In the UK it wasn't only London which bucked the trend, Manchester (11%) and Edinburgh (9%) also saw rental growth. At the opposite end of the scale, Greece and Bulgaria saw the biggest falls, with prime rents in Athens and Sofia dropping 12% and 20% respectively. For these markets it has been a story of continuous decline since Q3 2010.

Shopping centre prime rents in the majority of monitored markets also remained stable. The most significant increases in terms of both six and twelve month periods were recorded in Glasgow (11% and 18%), Moscow (8% and 23%) and Belgrade (8% and 17%). Meanwhile Cairo's rents went down a dramatic 24% - no doubt due to the uncertainty surrounding Egypt's political and economic situation, with both occupiers and investors awaiting June's election results before committing to the market.

Despite the fact that recent months have seen a large number of online stores open, major international fashion retailers, particularly in Central and Eastern Europe, continued strong expansion with an increasing number of retail developments suitable for international occupiers. The demand from the majority of retailers already present in the CEE markets as well as from the new tenants is directed mainly towards shopping centres while luxury brands still prefer high street locations, as well as top department stores and hotels. The trend to open stores in retail premises of luxury hotels has been especially visible in Bucharest. In the Czech Republic, Hungary, Poland, and Slovakia, both prime high street and prime shopping centre rental rates have shown remarkable stability over the last 6 months.

Rent levels in the CEE region are following:

Prague
Prime high street rent 200 Euro/sqm/month
Prime shopping centre rent 90 Euro/sqm/month

Warsaw Prime high street rent 90 Euro/sqm/month
Prime shopping centre rent 79 Euro/sqm/month

Budapest
Prime high street rent 110 Euro/sqm/month
Prime shopping centre rent 65 Euro/sqm/month

Bratislava
Prime high street rent 40 Euro/sqm/month
Prime shopping centre rent 38 Euro/sqm/month

Yields

Continuing the trend for stability in core real estate across much of the EMEA region, the vast majority of high street prime yields remained unchanged. Mild compression (between -10 and -25 bps) took place in the German cities of Stuttgart, Frankfurt and Dusseldorf. In Helsinki yields dropped by 35 bps to 6% and in Riga further compression was recorded with prime yields standing at 9% in Q1 2012, a -50 bps shift. A significant upward shift of 50 bps took place in Athens as the Greek economy remains in recession with poor retail sales and faint interest from investors.

A similar situation was observed in the case of prime shopping centre yields, with most of the markets reporting flat yields over the six month period. Yield compression took place in the Eastern European markets of Bratislava (-25 bps), Riga (-25 bps) and Vilnius (-50 bps). A minor upward shift (25 bps) was recorded across a number of British regional centres where investors' activity has weakened. But it was Cairo which saw the biggest change, with a massive increase of prime yields (100 bps) highlighting faltering investor sentiment towards Egyptian retail as outlined above.

Prime high street yields for the Czech Republic are 6.25%, while prime shopping centre yields come in at 6.50%. For Hungary both prime high street and shopping centre yields are at 7.50%; Poland's prime high street yield is the same, but its shopping centre yields are lower at 6.50%. Slovakia maintains the highest prime high street yield in the region at 8.00%, while its shopping centre yields come in at 7.25%.

Stuart La Frenais, Head of EMEA Retail, commented:

"Unsurprisingly, the occupier market remains key to rental growth and yield compression. Economic uncertainty across the EMEA region means consumers have grown more cautious about their spending. The expenditure that we are seeing is increasingly being spent online, as well as in prime retail locations, where greater choice is available and a more fulfilling shopping experience can be provided.

"High end fashion brands which have been recording increasing interest from customers can expect continued growth. Further increases in prime high street rents are anticipated in the strong retail markets of London, Frankfurt, Hamburg, Moscow and St Petersburg.

"Yields are expected to remain flat in the vast majority of the monitored markets, with compression forecast for London and St Petersburg. Prime retail locations which continue to draw international retailers will remain within the sphere of investor's interest. No fast recovery should be expected for the weakest markets.

"In summary, the region's prime markets are expected to remain stable despite economic uncertainty. Greece and Egypt, which prove the exception to the rule, have been impacted heavily by their own economic and political situations."

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