



EUROPEAN RETAIL IN 2017

**GfK study on key retail indicators:
2016 review and 2017 forecast**

EDITORIAL

Dear reader,

Europe currently faces troubled waters. The cohesion of the European Union was put to the test multiple times in 2016. Along with perennial issues such as refugees and terrorism, new challenges were posed by the Brexit vote, a rise in nationalist tendencies in almost all members states and increased political tensions in Turkey.

Despite these developments, the European economy had a decent year. Europe-wide private consumption continues to support economic development. Retail profited from this, although actual growth rates fluctuate substantially within the European countries under review.

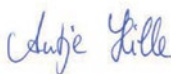
The European Union entered new terrain when Great Britain officially applied to leave the EU in March 2017. The upcoming elections in France and Germany are also being awaited with great anticipation. European retail continues to face an unsettled political climate.

But the economic outlook and repercussions for the European job market are sufficient cause for confidence with respect to 2017. This is also true of France, which is an especial focus of this year's study. At €438 bil. (2016), France is the European Union's largest stationary retail market. The presidential and parliamentary elections are thus being followed very closely by investors and financial stakeholders.

Our study offers an overview of the most important indicators for European retail in 2017. This includes an analysis of purchasing power and store-based turnover as well as their respective shares of private consumption. The study additionally illuminates trends in consumer prices and sales area provision.

We encourage you to use this study as support for your strategic retail decisions, whether you're an investor, retailer or project developer. Don't hesitate to contact us to find out more about our real estate consultancy services.

Best wishes,



Antje Hille
study lead
Geomarketing, GfK



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PURCHASING POWER IN 2016

Central and Eastern Europe gain ground with highest growth rates

+0.7%

more purchasing power

Europe's stability was put to the test multiple times in 2016: Among the challenges and uncertainties affecting Europe's political and social climate were the Brexit vote from Great Britain, political tensions with Turkey and Russia as well as ongoing issues related to refugees and terrorism.

Despite these challenges, Europe's economy and private consumption in particular proved robust.

In many areas, falling unemployment rates and a slight increase in income levels had a positive impact on consumers' wealth. In 2016, citizens of the EU-28 had an average of €16,153 available per person, which is a nominal purchasing power increase of +0.7% compared to the previous year. However, it's important to note this increase is distorted by exchange rate disparities, such as that caused by the devaluation of the British pound.

Central and eastern European nations had the highest per-capita purchasing power increases. But inhabitants of Spain and Portugal also benefited from a noticeable increase in disposable income.

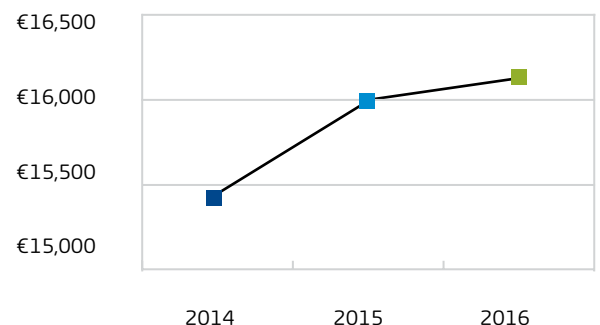
Measured in euros, six of the 32 European countries evaluated by the study experienced decreases in purchasing power, although in most cases this was due to exchange rate devaluations. This was the case for Switzerland, the United Kingdom and Norway, whose respective inhabitants actually had more money available in their national currencies than in 2015.

As was previously the case, there are substantial regional variations in Europe's purchasing power levels. While the less affluent economies continue to catch up, purchasing power is still far from being equally distributed. Inhabitants of first-ranked Luxembourg have 8.8 times the per-capita income of inhabitants of Bulgaria.

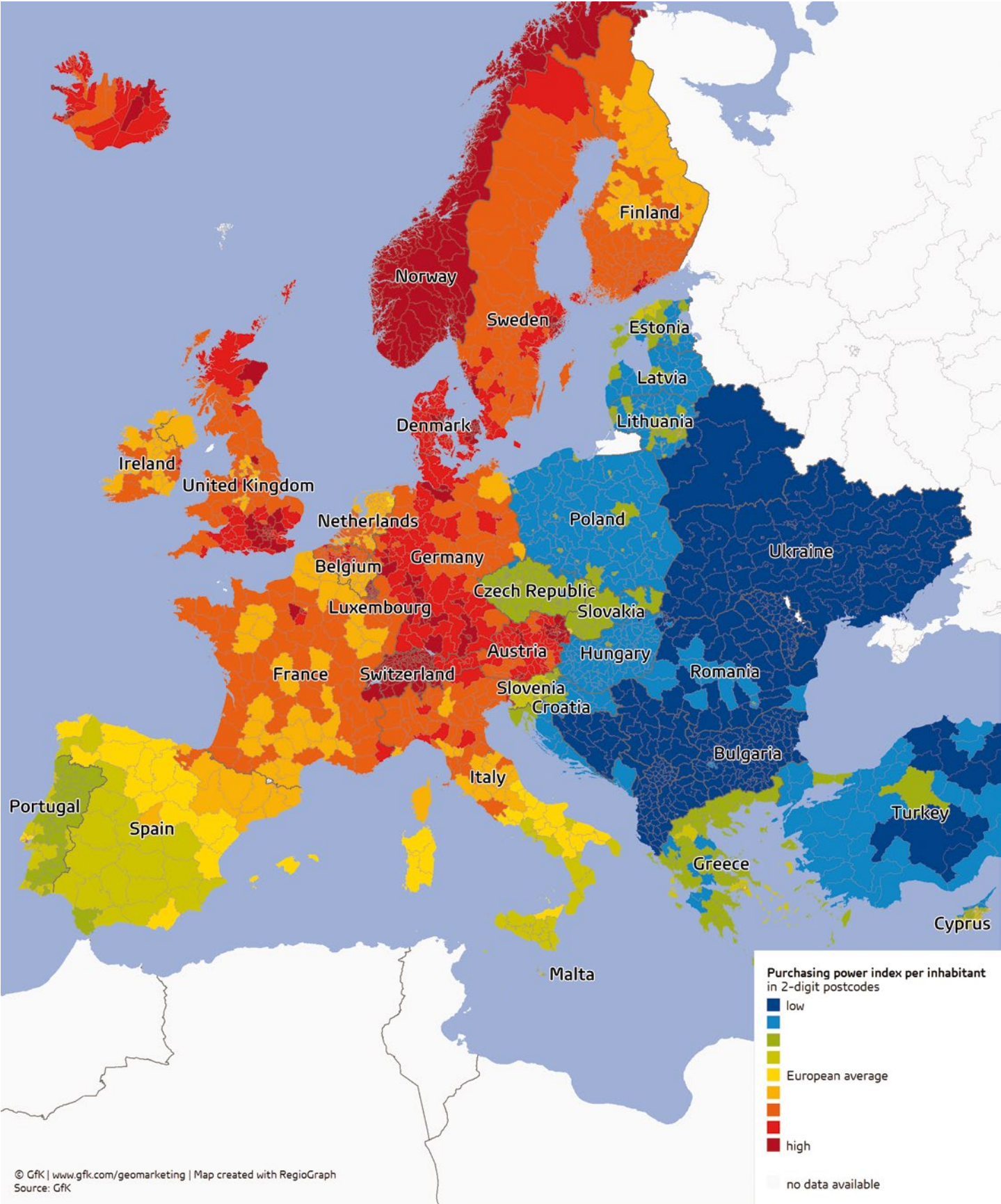
Psychological factors strongly influence consumers' willingness to spend. At the year's end, GfK's consumer climate index for the EU-28 reached its highest value in nine years. Thanks to good economic conditions, European consumers showed confidence for the most part, even in the face of uncertainties such as the repercussions of the Brexit vote and the rise of nationalist or in the very least populist tendencies in almost all European countries.

As the year progressed, consumers' propensity to spend especially increased in Central and Eastern Europe. The population's confidence in covering more than their basic needs increased as purchasing power increased.

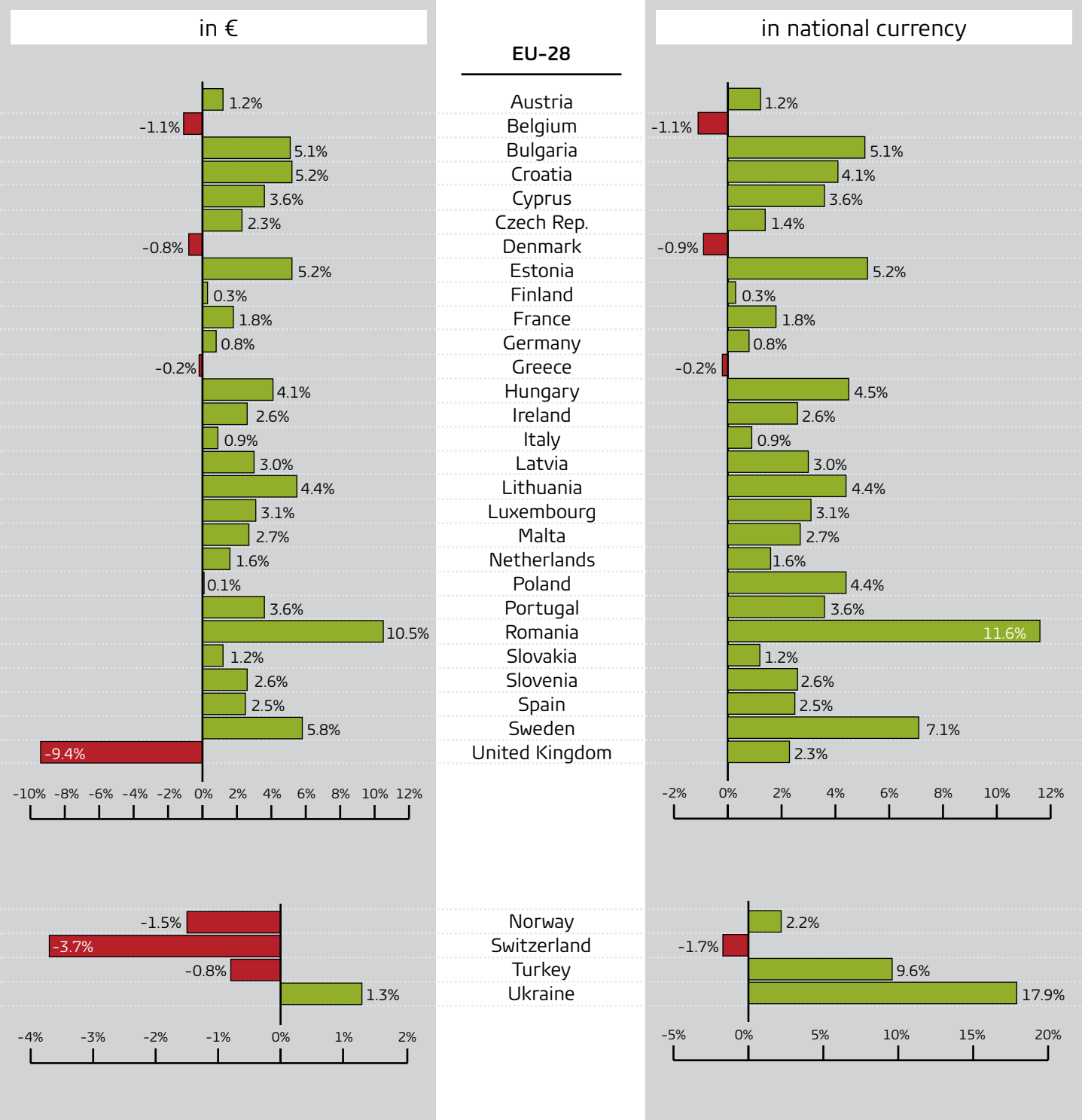
Per-capita purchasing power (EU-28)



* Purchasing power corresponds to the population's disposable net income, including government subsidies such as pension payments, unemployment assistance and child benefit. The population must use its purchasing power to cover expenses related to food, accommodation, services, vacations, insurance, private pension plans and retail purchases. Purchasing power is a prognosis and is provided in nominal euro values. Comparison figures from previous years are based on revised values.



2016 turnover growth in stationary retail compared to previous year



source: GfK

STATIONARY RETAIL TURNOVER IN 2016

Negative result for Great Britain in euros, but positive result in pounds

Thanks to strong consumer confidence, Europe's economy successfully navigated politically unstable waters in 2016. Even so, the data on store retail turnover does not appear to bear this out at first glance. To some extent, this is explained by online trade, whose significance in Europe continues to grow, although the momentum has already slowed compared to previous years in more mature markets such as Germany.

Despite a 2016 turnover increase in almost all countries of the EU-28, stationary retail declined (as calculated in euros). Store retail ended the year with a nominal turnover decline of -0.4%.* But if Great Britain is excluded, store turnover grew by +1.7% in euros.

While Belgium, Denmark and Greece had to endure actual losses, Great Britain's stationary retail did not have a bad year. Although the Brexit vote impacted consumer mood, Britain's 2016 retail turnover grew by +2.3% in the national currency (-9.4% when calculated in euros).

As in the past, many eastern European countries and the three Baltic states were among the winners with respect to 2016 euro-based retail turnover, with Romania leading the way with an increase of +10.5%. Bulgaria's stationary retailers also had a good year, with a turnover increase of +5.1%. The consumer climate also improved, in part due to declining unemployment and rising tourism revenue.

Growth rates in stationary retail were on the whole lower in Western and Southern Europe. The growth in Spain (+2.5%) and Portugal (+3.6%) demonstrate that the economic recovery is increasingly impacting consumers' wallets.

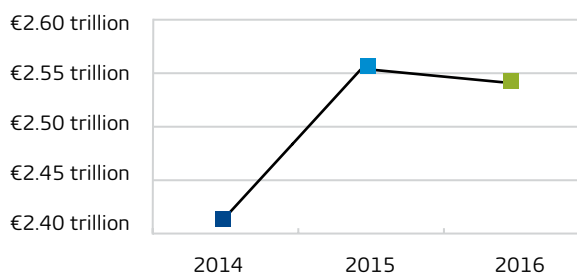
Stationary retailers enjoyed satisfactory gains in 2016 in France (+1.8%) and the Netherlands (+1.6%).

A mixed picture characterizes the northern European countries: Sweden's store retail had above-average gains at +5.8%, which reflect the country's impressive economic development. By contrast, Danish retail declined (-0.8%) partly due to zero inflation and an above-average rise in the savings rate. After turnover declines in 2015, Finland's store retail stabilized and achieved a modest gain of +0.3% in 2016.

Switzerland's store retail did not fare as well in 2016 (-3.7% in euros, -1.7% in the national currency). The strong Swiss franc hindered retail gains, particularly in border regions. Domestic retail was not able to compensate for the outflow of purchasing power due to shopping tourism in neighboring countries.

-0.4%
growth in stationary retail in the EU-28 (excluding UK: +1.7%)

Stationary retail turnover (EU-28)



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

PROGNOSIS OF STATIONARY RETAIL IN 2017

Robust growth forecasted for the EU-28

+1.4%

growth in the
EU-28 in 2016
(excluding UK: +2.2%)

The European Commission anticipates further declines in unemployment rates and increases in net incomes for many European countries in 2017. This will benefit stationary retail, even in these times of omni-channel retailing. We forecast a solid turnover growth of +1.4% (nominal) for the EU-28 countries in 2017.* If Great Britain is excluded, retail turnover will grow by +2.2 %.

Uncertainty surrounds our prognosis for the United Kingdom due to the EU exit negotiations taking place over the course of the year. The effect of this on Britain's consumer mood as well as reactions from businesses and financial markets are difficult to predict. Even so, we expect retail turnover growth of +2.5% in the national currency. But measured in euros, we anticipate another decline (-2.6%) due to the predicted further devaluation of the British pound.

The previous year's growth regions are also among the winners in 2017. Romania (+9.8%) and Hungary (+5.7%) have especially dynamic growth rates. For Croatia and Bulgaria as well as the Baltic states, we expect turnover increases in stationary retail between 4.0% and 5.5%. Turnover growth of 5.3% is also anticipated for Poland due to the appreciation of the zloty as well as income and price increases.

Stationary retailers in the western and southern EU-28 nations have been facing significant pressure for years now from online retail growth. But promising economic data among other factors

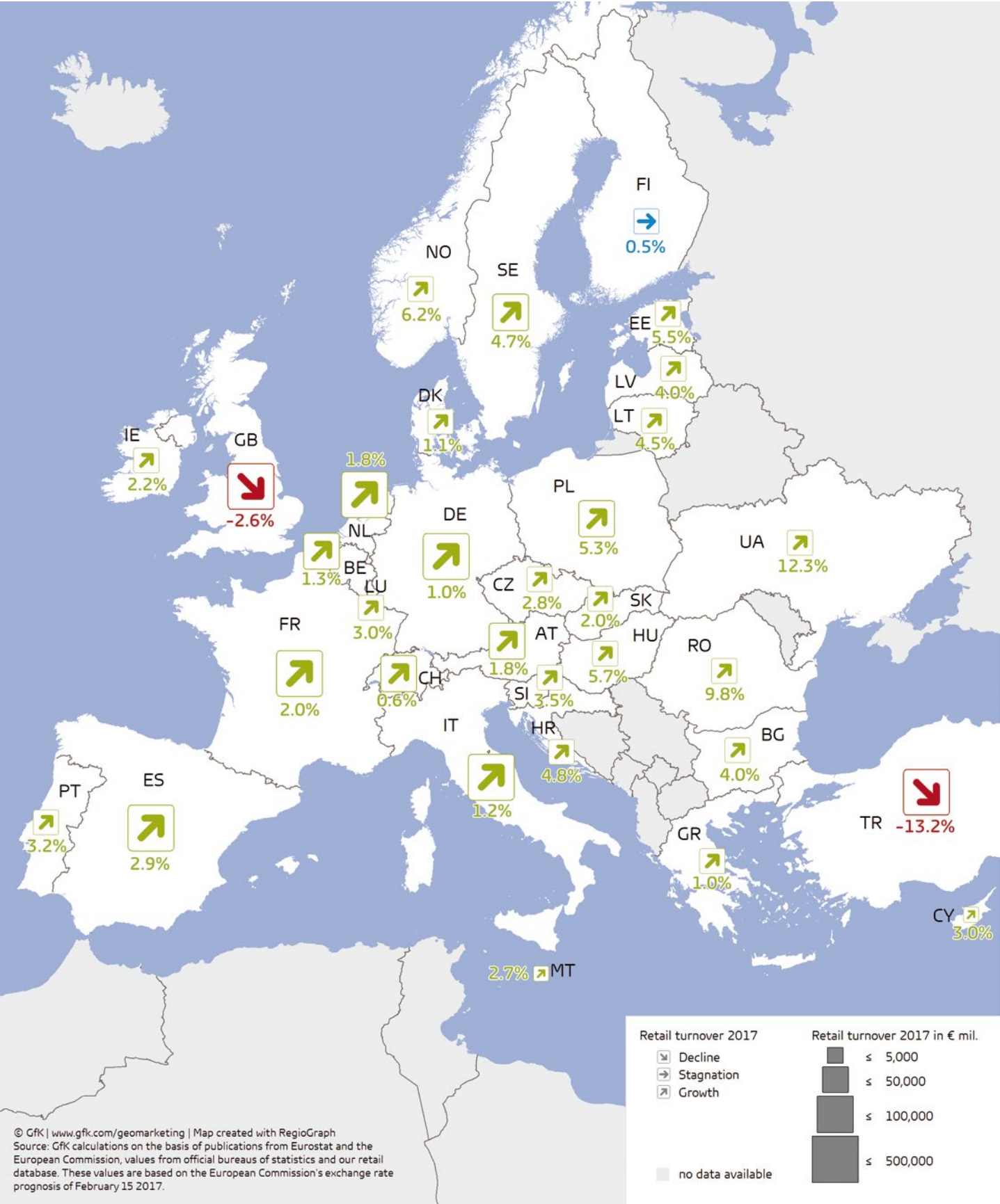
support a prognosis for increasing growth rates in stationary retail, albeit at a significantly reduced level. Examples include the populous economies of Germany (+1.0%), France (+2.0%) and Spain (+2.9%).

After two years of declining turnover, stationary retailers in Greece can again breathe more easily. We anticipate a slight increase of 1.0% for 2017. But consumers are uneasy due to the high unemployment as well as the country's financial dependence on its creditors. As a result, consumers' income expectations and propensity to spend were low at the year's end. Purchases in excess of basic needs continue to be difficult for the majority of Greece's population.

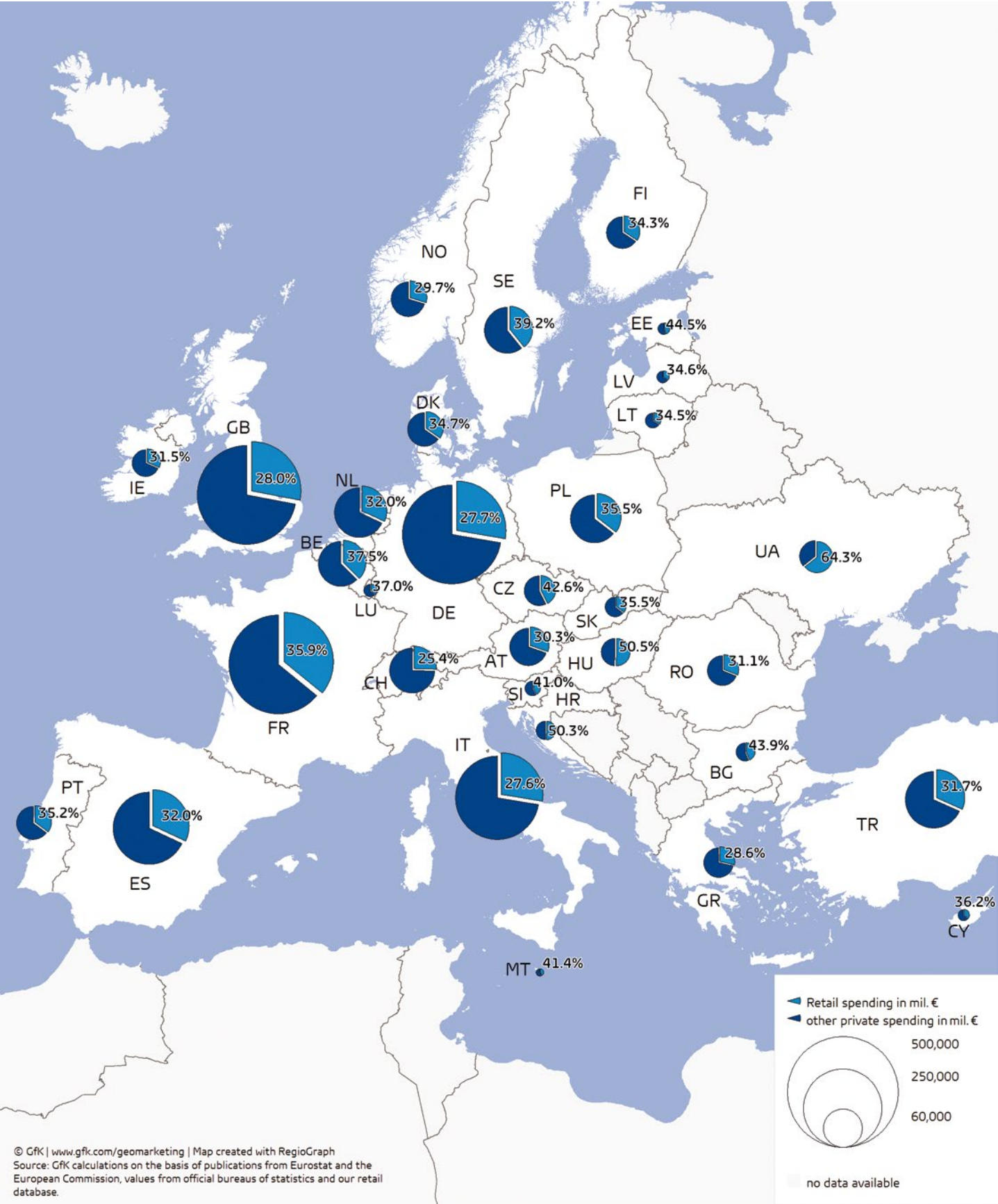
Store retailers in Turkey are struggling due to the political tensions, the referendum on constitutional change, increasing unemployment and declining foreign investment and tourism. Even so, we expect a 2017 turnover increase of 5.5% in the national currency, driven by a forecasted inflation rate of 8%. But we forecast a decline of -13.2% in euros due to the substantial devaluation of the Turkish lira.

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

Forecasted stationary retail turnover, 2017



Retail share of private consumption, 2016



RETAIL SHARE OF PRIVATE CONSUMPTION IN 2016

Purchasing power growth only partially benefits European retail

Stationary retailers in Europe are not only in direct competition with one another. In addition to robust online retail competition that has been growing for years now, European retailers also face competition for consumers' disposable income from gastronomy outlets, the housing market, the insurance industry and consumers' propensity to save.

The long-term trend of stationary retail's declining share of European consumer spending continued in 2016. Using revised figures, this share for the EU-28 was 31.3% in 2016 (compared to 31.4% in the previous year). The revised figures for 2015 actually show a slightly increased share for retail expenditures.

Europeans increasingly spend their spare cash in the health and gastronomy sectors, but also for online shopping purchases and living expenses. The low interest rates enticed many Europeans to purchase their own property. Rising rent levels in many areas also contribute to the fact that stationary retail in Europe is not growing to the same degree as consumer expenditures.

In this regard, the extent of the retail share of private consumption is related to the degree of market maturity in the various countries considered by the study. As a general rule, the maturer the economy, the lower the retail share of private consumption. But the retail share of private spending is also influenced by regional price differences in living, accommodation, lifestyles and consumer behavior.

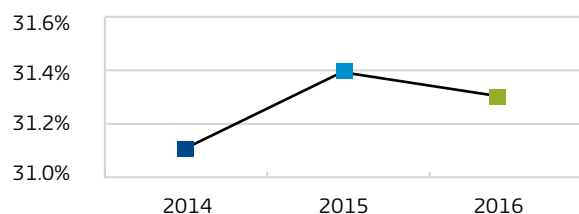
In 2016, the stationary retail share in the less affluent countries was again significantly above the European average. Among others, this ap-

plied to Hungary (50.5%), Croatia (50.3%) and Bulgaria (43.9%), where inhabitants had to spend a substantially higher share of their income to cover basic needs.

By contrast, the retail share of private consumption is under 30% in many wealthier nations. In addition to Switzerland and Norway, this includes the EU member states of Germany, Italy and the United Kingdom. In these areas, retail benefited from income increases only under certain conditions, because consumers were more apt to spend this money on recreation, living expenses and other segments.

31.3%
retail share of private consumption

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



CONSUMER PRICE TRENDS FROM 2016 TO 2017

Prices on the increase throughout Europe

Consumer price trends significantly influence both the strategic decisions of retailers and investors as well as the purchasing behavior of consumers. Increasing prices can detract from purchasing power if income trends don't keep pace.

In 2016, the rate of inflation in the EU-28 countries was +0.3%, which was just barely above the zero inflation of the previous year. Eleven European nations even experienced deflation in 2016. This was this case primarily for eastern and southeastern countries such as Bulgaria (-1.3%), Romania (-1.1%), Croatia (-0.6%), Slovakia (-0.5%), Slovenia (-0.2%) and Poland (-0.2%).

The European Commission forecasts an inflation rate of 1.8% in the EU-28 countries for 2017. Reasons for this include the cost of energy as well as rising work and production costs, which are being passed on to consumers in the form of higher prices.

Within the European Union, Estonian consumers (2017: +2.8%) and British consumers must adjust to getting less for their money in the future (2017: +2.5%). The first effects of the Brexit vote are reaching British households in the form of the devaluation of the British pound and associated price increases for imported goods.

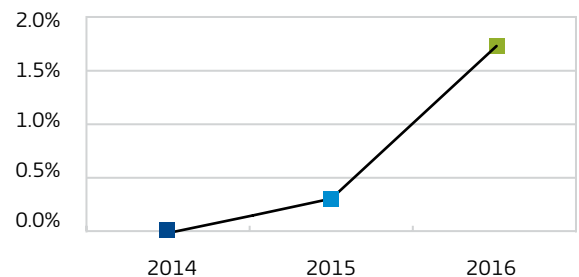
By contrast, a marginal 2017 price increase of only +0.1% is predicted for Switzerland, which is the lowest value among the countries under review. This comes on the heels of two years of deflation for the Swiss economy. But the strong Swiss franc continues to negatively affect both the export economy and retail.

For European retailers, the rate of inflation is what tips the scales with respect to how much remains available in the cash register. Excluding Great Britain due to the exchange rate disparity, retail growth in the EU in 2016 (+1.7%) exceeded the price rate increase and thus resulted in a real turnover increase. This should also be achievable in 2017 thanks to the continued moderate rate of inflation.

+1.8%

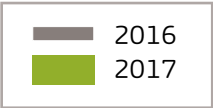
inflation in 2017
(EU-28)

Inflation rate as a % (EU-28)

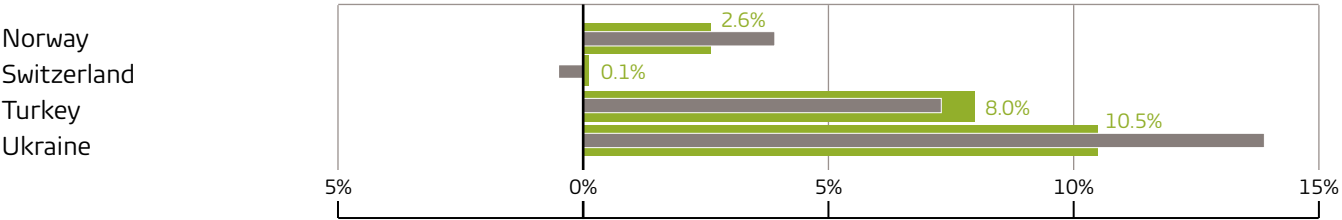
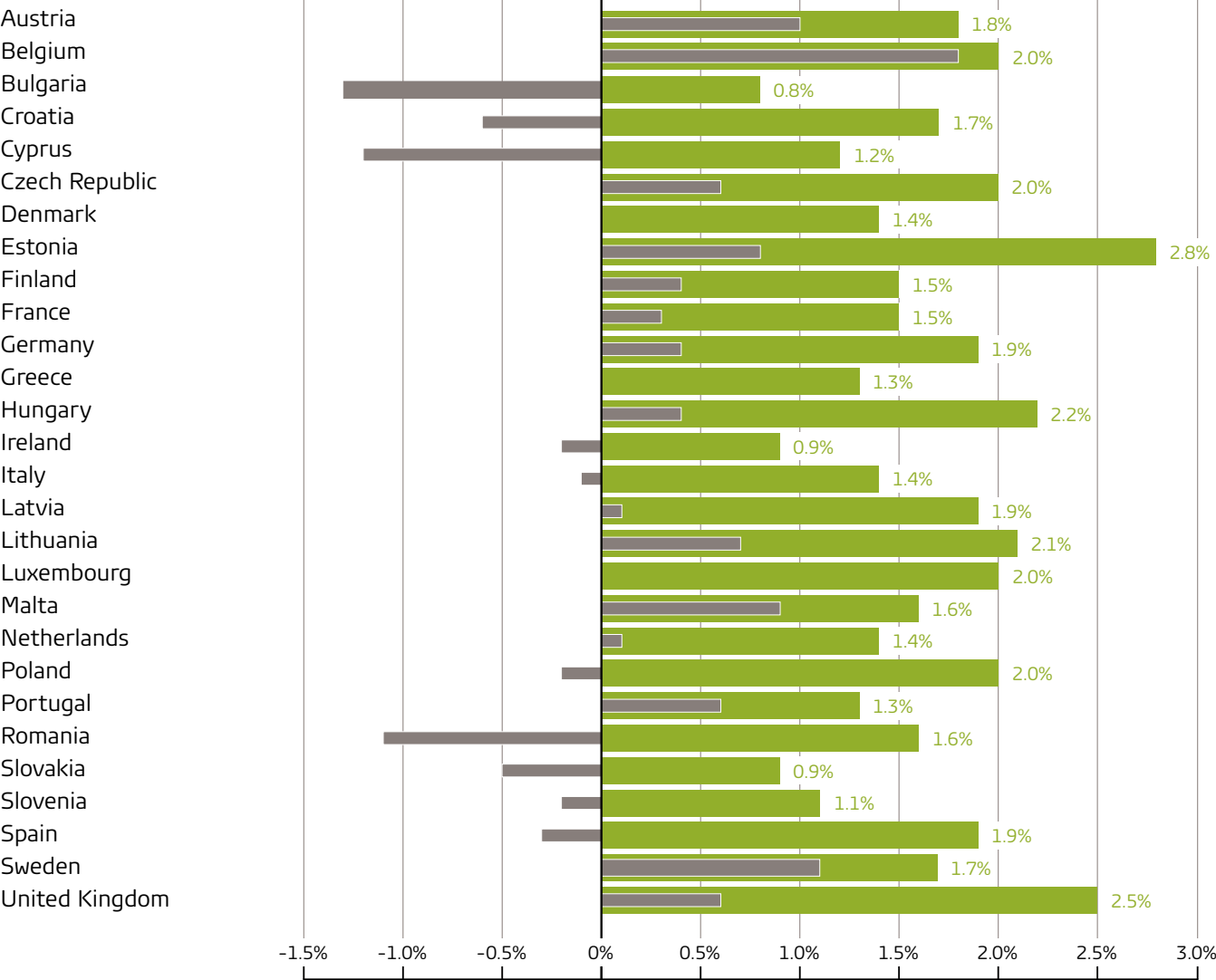


* To ensure comparability between the countries under review, these figures refer to general inflation (including services, transport, etc.).

Inflation rate as a %

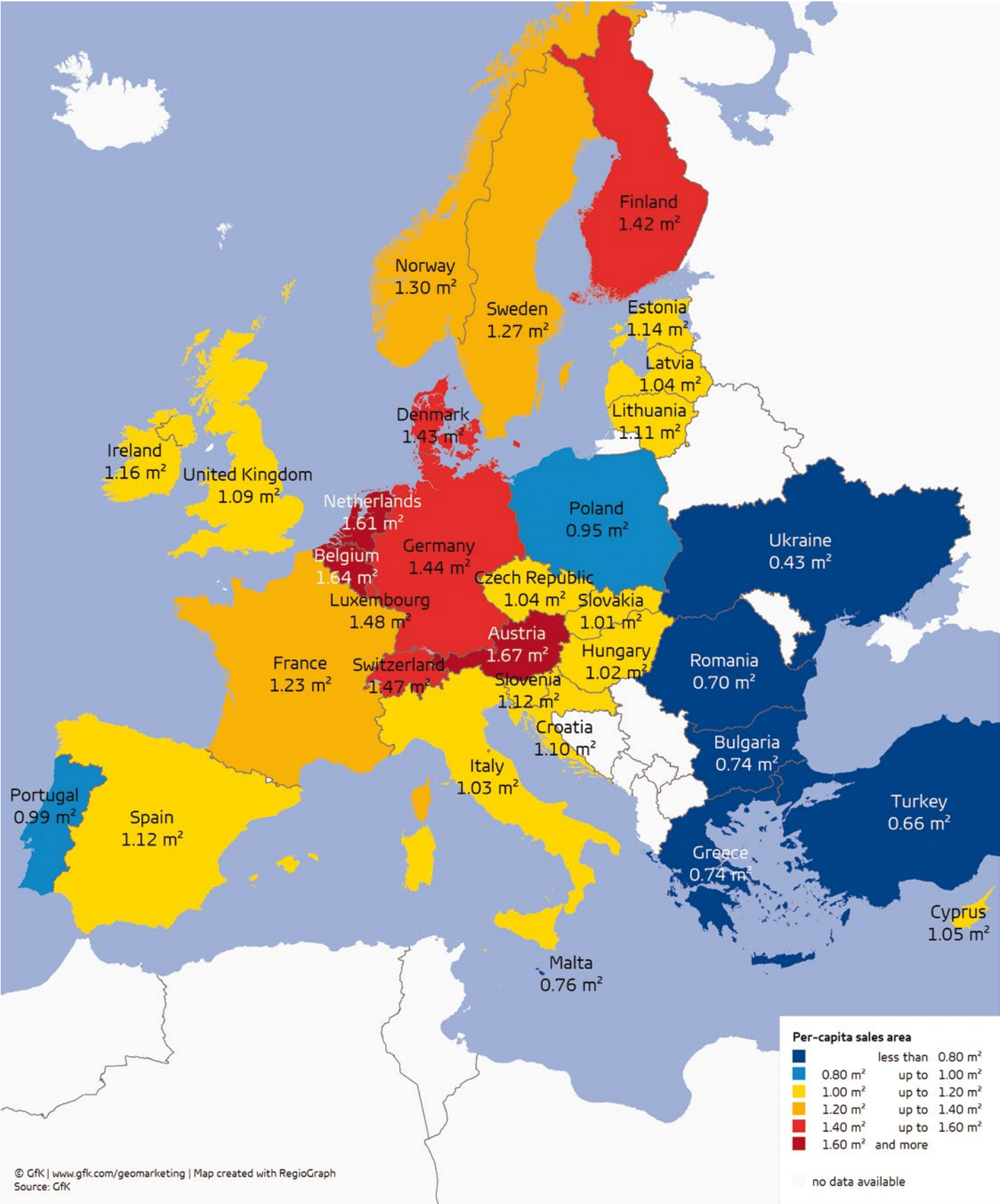


EU-28



source: European Commission and International Monetary Fund

Sales area provision, 2016



SALES AREA PROVISION IN 2016

Uneven development of sales area within Europe

Consolidations and branch network optimizations characterized the 2016 European retail landscape, along with large-scale expansions of international retailers. Retailers of periodic needs, home improvement stores and furniture chains in particular pursued expansion-oriented strategies. Examples include Bauhaus AG and the Swedish IKEA Group, which expanded their branch network in 2016, particularly in Western Europe. Compared to previous years, shopping center development slightly increased in 2016 in the countries considered by the study. But both the number and sales area of the implemented new constructions lagged significantly behind values from the building boom of 2000 to 2012.

Per-capita sales area provision is an important indicator of the level of saturation in a given retail market. This figure generally increases as a market matures and then stagnates once the market hits the saturation point. On the whole, sales area in the EU-28 countries grew by +0.7% in 2016. Because the number of inhabitants grew more during this period, the per-capita sales area provision was 1.17 m², an increase of 0.4%. But this development played out very differently depending on the region in question.

In the highly saturated markets of Northern and Western Europe, per-capita sales area provision stagnated or grew only marginally. The 2016 abso-

lute and per-capita sales area provision in both Austria and the Netherlands could not match the previous year's level. Even so, these two countries along with Belgium have the highest per-capita sales area provision in the EU. Nevertheless, consolidation processes interfered with new openings and growth in online retail made vacancies more common in areas outside of the top locations.

Sales area increased in Central and Eastern Europe against the backdrop of consumer confidence and mostly above-average retail growth rates. Examples include the Baltic states, Croatia and Poland, where investors and retailers were able to take advantage of these conditions.

Spain and Italy also increased their sales area provision through expansions and new openings, although the 2016 consumer mood and income expectations in Italy remained low.

+0.4%

more per-capita sales area in the EU-28

SALES AREA PRODUCTIVITY IN 2016

Positive trend continues

Sales area productivity (gross turnover per m² of sales area) is an important gauge of the turnover potential of retail locations. This value is influenced both by internal, retailer-specific factors such as retail format and brand strength as well as external factors such as location quality, competitor intensity, and purchasing power in the catchment area.

+0.9%

more sales area
productivity
in the EU-28
(excluding UK)

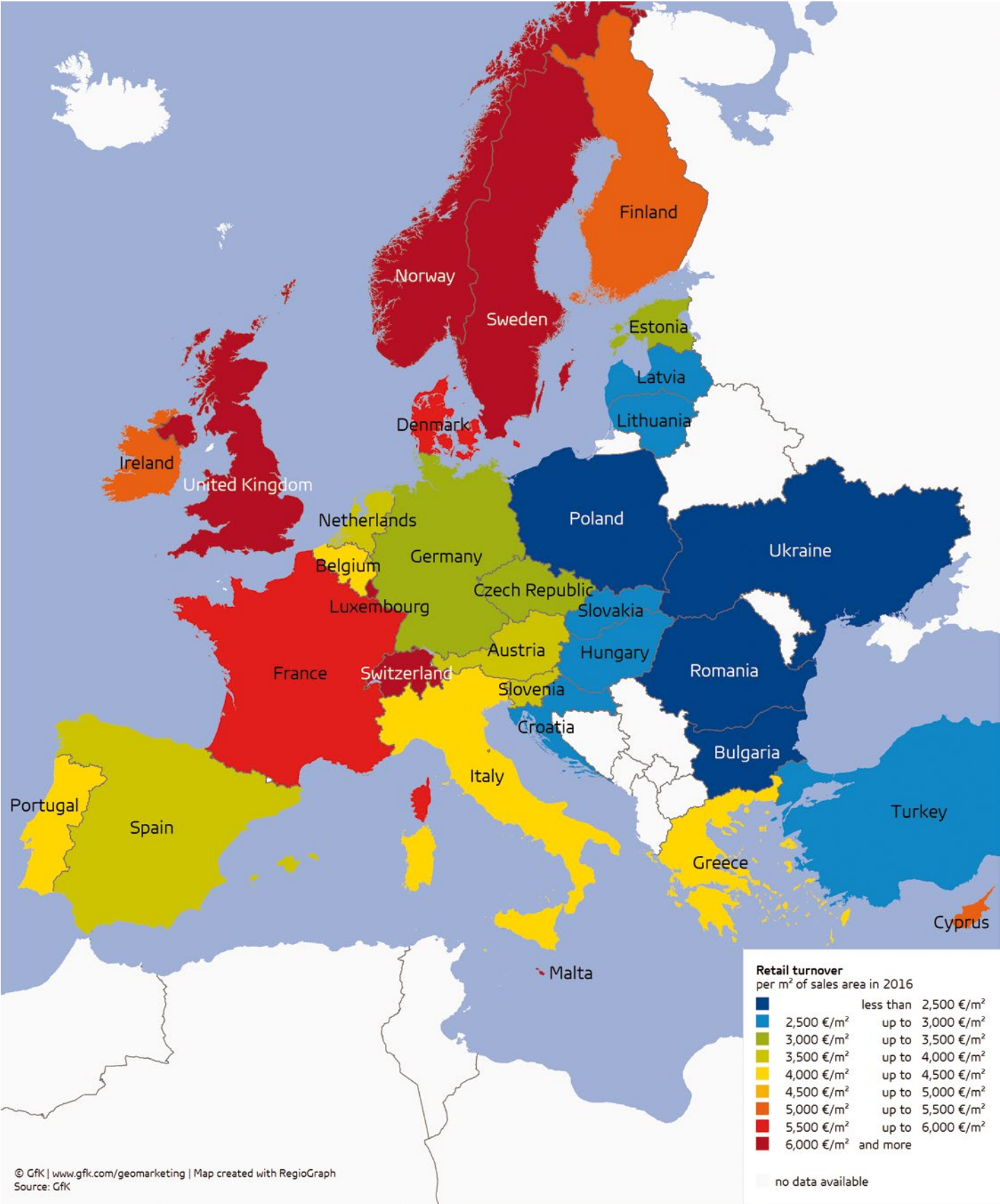
Due to the growth of online retail and other factors, many chains were forced to consolidate their store networks in recent years. For example, in Germany this applies to clothing retailers such as Esprit, Gerry Weber and Tom Tailor. Even so, online growth is already slowing in the mature markets of Western Europe depending on the degree of product group saturation. For example, online turnover from books and e-books even declined slightly throughout Germany in 2016. Growth in the toy segment also slowed significantly. Both

consolidations and decreased growth in online retail positively impact sales area productivity for stationary retail.

If Great Britain is excluded due to the exchange rate disparity, sales area productivity increased by +0.9% in the EU-27, which, in many cases and in grocery retail in particular, is also associated with proactive and ambitious attempts to attract consumers through improved offerings.

As in previous years, the highest sales area productivity was achieved in Luxembourg, Switzerland, Norway and Sweden. By contrast, last-ranked Ukraine had less than 27% of the sales area productivity of Luxembourg.

Sales area productivity, 2016



FRANCE IN FOCUS

Good economic conditions at outset of election year

2017 is an unusual year for France: The presidential election is scheduled for the end of April/ beginning of May, which has already strongly impacted daily political life in the early months of the year. The French population will also elect a new parliament in June.

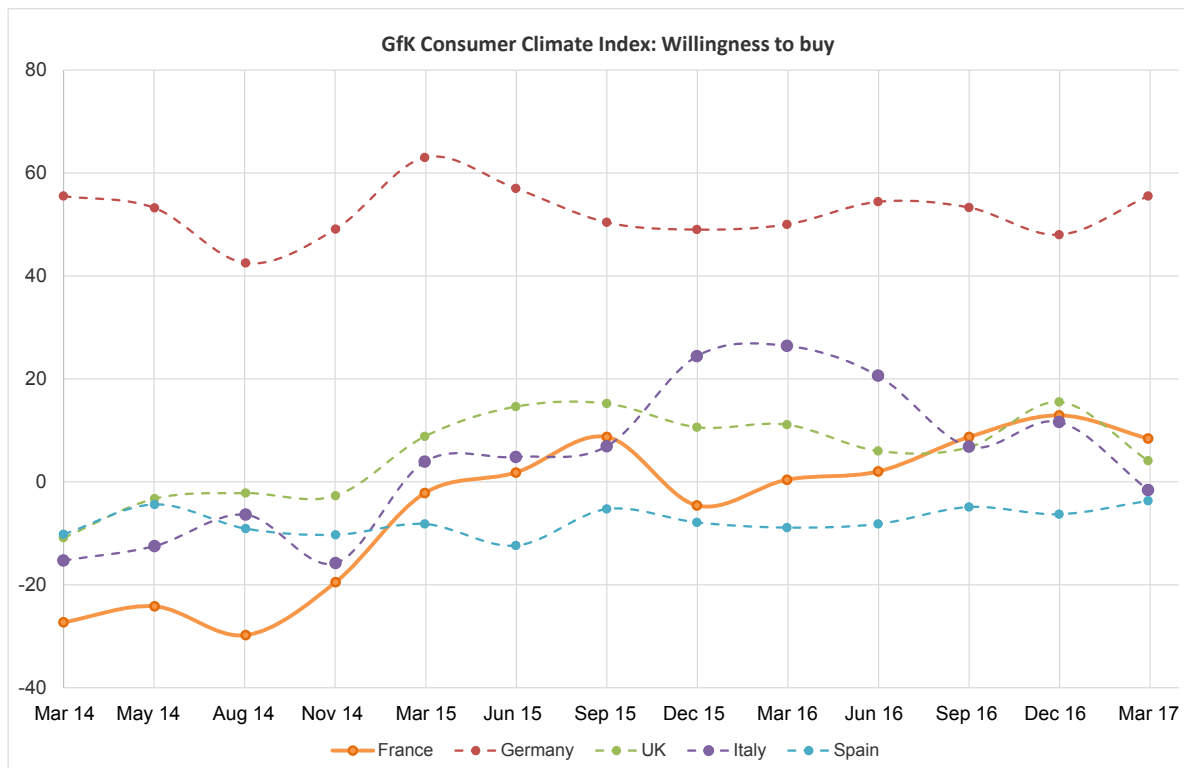
As of the press deadline for this study (beginning of April), the economic situation in France looks promising. After a weakening economy in the preceding years and a national budget deficit that exceeded the criteria of the European fiscal pact, the European Commission forecasts a slight recovery for 2017. Contributing factors for this include the predicted growth in the GDP (+2.3% nominal) and private consumption (+2.6% nominal) as well as an improvement in the job market. It's anticipated

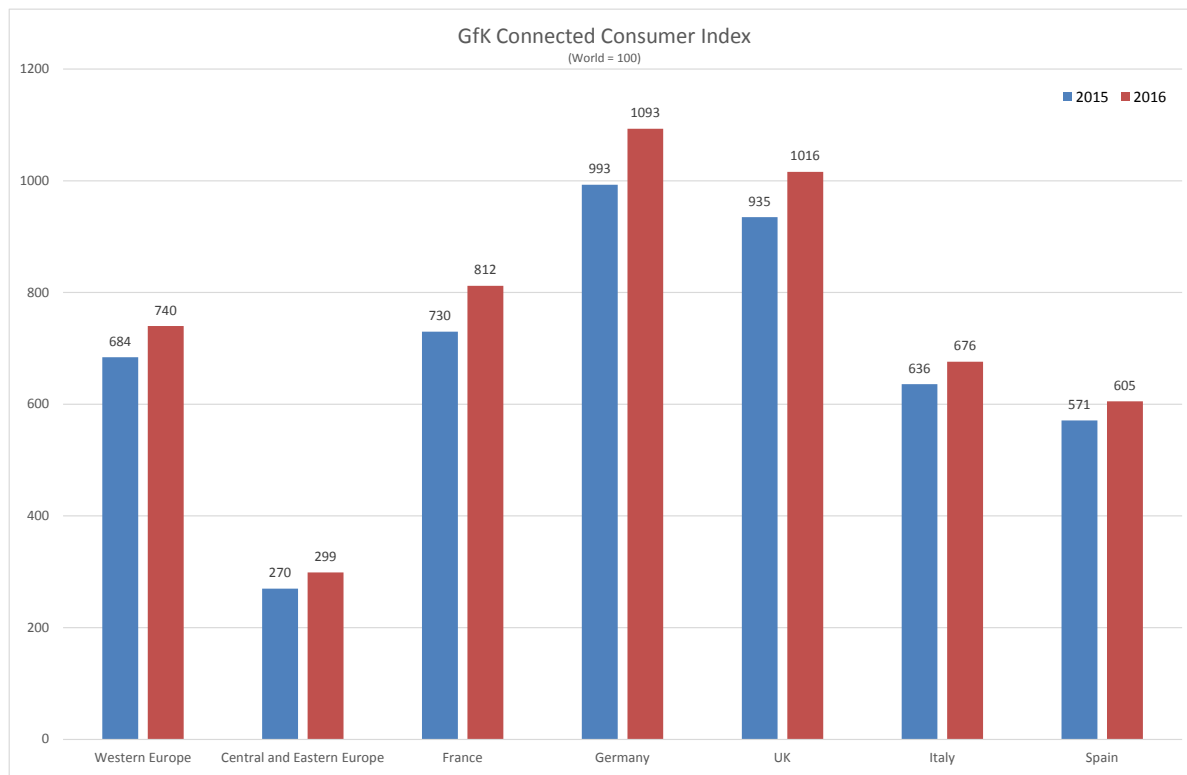
that the unemployment rate (as per the ILO definition) will again fall below the 10% threshold (by way of comparison, 11.6% and 17.7% are expected in 2017 for Italy and Spain, respectively).

+2.0%
growth in stationary
retail in 2017

Tentative improvement in France's consumer mood

Despite these conditions, nationwide elections represent a point of uncertainty, because consumer mood and behavior are strongly influenced by a country's degree of political stability and general social atmosphere. The French were unsettled by





the economic weaknesses and job market stagnation from 2012 to 2015. GfK's monthly study of the consumer climate assesses indicators such as economic and income expectations as well as consumers' propensity to buy, which on the whole fluctuated at a low level between 2014 and 2016. But a steady upward trend is apparent when comparing the data over three years. This is a sign that the French population's trust in the economic strength of their country is again increasing, even though consumer uncertainty regarding the summer elections was apparent in early 2017.

Retail profits from improved economic conditions

Compared to the previous years, 2017 offers more favorable conditions for retail in France. On this basis, we forecast a nominal increase of +2.0% in store retail in 2017 compared to the previous year. France's total stationary retail volume was around €438 bil. in 2016, which was the largest among the EU-28 countries, ahead of the UK (€431 bil.) and Germany (€411 bil.). For France, this equates

to a per-capita retail turnover of €6,811. As such, France leads the five most populous nations in the EU-28, surpassing Great Britain, Germany, Italy and Spain.

But these figures don't reflect online retail turnover, which has grown very dynamically in France in recent years. With respect to turnover from online retail, France is in third place behind Great Britain and Germany. This same ranking is reflected in GfK's Connected Consumer Index, which shows the degree to which consumers in a given country digitally interact with one another and with digital content.

France among the top in online purchases in the food sector

Online retail in France trumps most of its European neighbors in the fast moving consumer goods sector, lagging behind only Great Britain among the EU-28. The so-called click & drive concept has gained especial popularity among French con-

* Shopping centers and retail parks with more than 15,000 m² of rental space.

sumers. For example, Leclerc and Carrefour offer this service at more than 600 and 500 locations in France, respectively.

Expansions and refurbishments planned for France's shopping centers

With more than 430 locations and approximately 2.10 m² of sales area per inhabitant*, France's shopping center scene is among Europe's most mature markets. This is also apparent in the growing significance of expansions and refurbishments of existing shopping centers. According to a calculation by the real estate broker CBRE, 32% of the newly created shopping center spaces in 2016 were expanded, while the figure for 2017 is predicted to be even higher at 44%. Alongside this development, the number of new shopping center openings has continued to fall since 2012. Shopping centers are responding to the ever increasing competition in France's retail scene by aligning themselves with current customer and tenant needs. Digitization at the point of sale is also a hot topic. What's true elsewhere in this regard is also true in France: Retailers, project developers and shopping center managers who develop a presence on all retail and communication channels and view a partnership between stationary retail and online retail as an opportunity can tap demand potential over the long term.

Widely varying regional potential for outlet centers in France

France's factory outlet centers (FOC) promise as of yet untapped growth potential. With 5.4 m² sales area per 1,000 inhabitants as of April 2017, France's FOC provision is significantly below that of more developed FOC markets such as Great Britain (8.0 m² per 1,000 inhabitants) and Italy (8.1 m² per 1,000 inhabitants). France has unique requirements for FOC developers, operators and potential tenants due to a high number of overnight stays in the tourist destinations along the coast, and especially along the Mediterranean.

An analysis of retail purchasing power density in France illuminates the regions of especial interest.

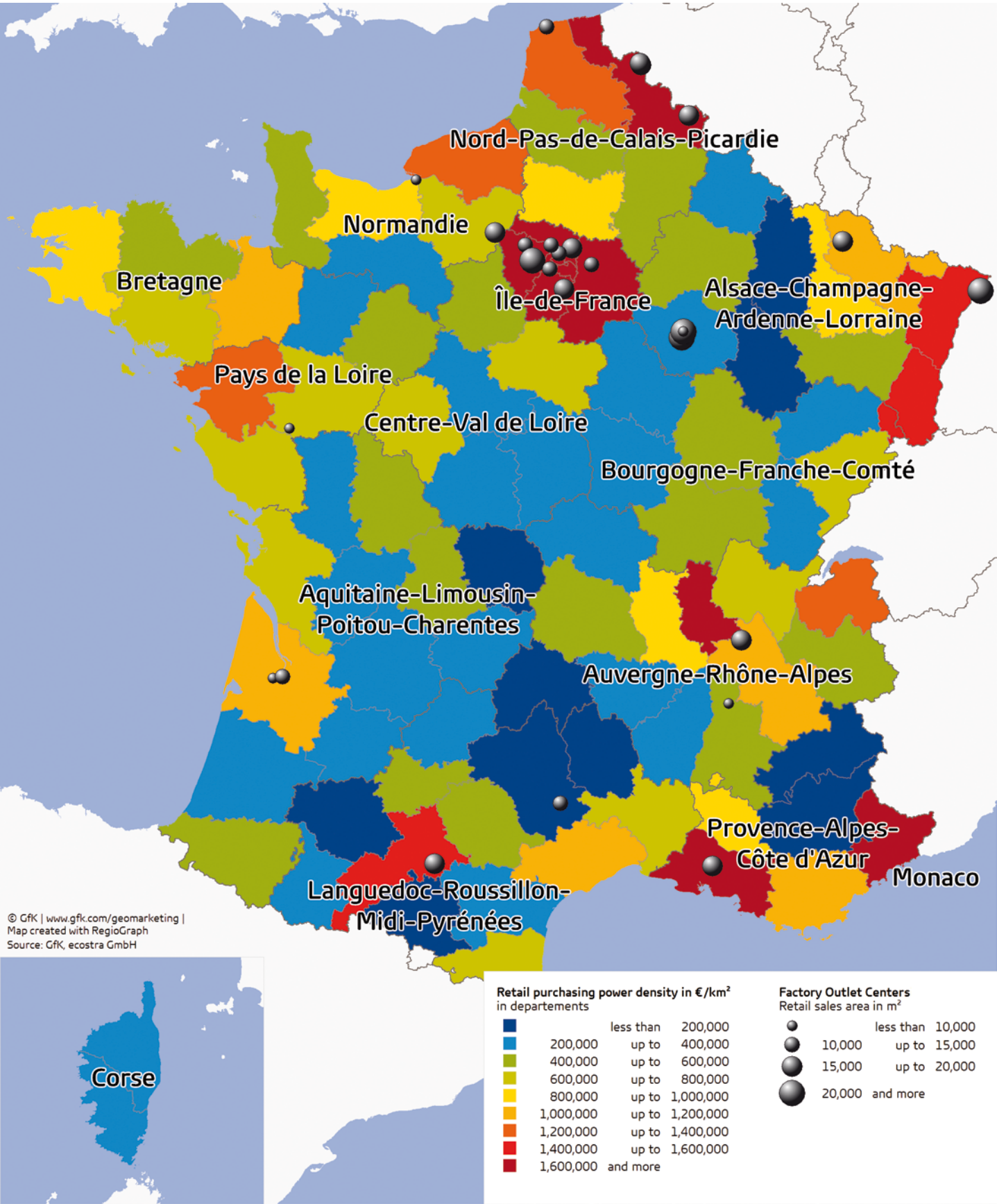
As would be expected, the concentrated metropolitan area of Île-de-France has above-average purchasing power. But the metropolitan regions of Marseille and Lyon are notable as attractive target regions. Up to now, outlet center developers have focused on the greater metropolitan area of Paris and northern France. There is already good market coverage in these areas, particularly in the Île-de-France. Now FOC developers are increasingly focusing on southern France: For example, the "Designer Outlet Provence" from McArthurGlen opened in April 2017 between Marseille and Montpellier.

Outlook

France achieved the highest 2016 turnover volume in stationary retail among the EU-28 nations. But this is not the only reason that France is one of Europe's most desirable retail destinations. In this era of omni-channeling, France's store retail has proven itself capable of adapting and is introducing innovations in grocery retail in addition to other segments. The drugstore chain Sephora is among the trailblazers and is meeting the needs of today's connected consumers through its first Sephora Flash Store in Paris.

But not all retailers in France have been able to successfully bridge online and offline retail. Moreover, the expansion of international chains is increasing the intensity of local competition. Some retailers, particularly in the hotly contested clothing and shoe segments, are falling by the wayside and having to deal with the consequences. Among these is the Vivarte Group, which has announced numerous store closures of the brand "La Halle aux chaussures".

French retailers and all those involved with retail real estate must keep a close eye on ever-evolving market requirements. Expansions and refurbishments of shopping centers are moving forward and will boost the attractiveness of the French market for retailers as well as investors and project developers. It's clear that the market still offers untapped potential, as evidenced by France's factory outlet scene, which is still in its infancy, particularly in the southern part of the country.



ABOUT

GfK Retail & Real Estate Consulting

Making the right decisions for the future is challenging amidst constant change in the retail sector. Project developers, investors and retailers must continually respond to consumers' evolving needs and expectations.

We offer expert consultancy for future-proofing new locations, optimizing existing branch networks and minimizing investment risks. Our retail and real estate experts comprehensively evaluate the conditions and market potential associated with your existing or prospective retail locations.

This quickly reveals your portfolio's strengths and weaknesses and provides concrete recommendations along with all relevant market data and reliable benchmarks to support your strategic and operational decisions.

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