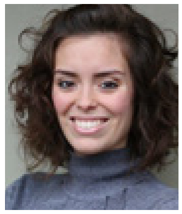
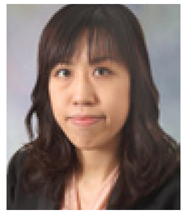
Global Shopping Centre Development

CBRE

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Following CBRE's latest survey of global shopping centre development, this report provides a snapshot of the world's most active shopping centre markets and identifies the key development trends in those locations.[1]

- Globally, 12.5 million sq. m. of shopping centre space was added in 2016, with most coming to market in Asia.
- Completions were up 11.4% on 2015 levels, despite their having slowed over the past few years.
- The Americas registered the strongest growth, with completion levels up 43.6%, fueled by construction growth in Mexico.
- The pace of development continues to slow with level of shopping centres under construction down 22%.
- At the end of 2016, 33.5 million sq. m. of space was under construction around the world. Asia Pacific's share totalled 26.6 million sq. m., with construction activity in more than 90% of the Asian cities surveyed.
- In comparison 14% of EMEA cities have centres under construction totalling 4.49 million sq. m. and 56% of Americas cities with 2.46 million sq. m. under construction.
- Caution among investors and occupiers and significant market saturation in many markets have slowed shopping centre construction.
- Strong competition among landlords and the increasing impact of e-commerce have led to delayed centre openings, or centres opening without being fully occupied.

1. CBRE's latest global survey of shopping centre development included 168 cities and focused on centres of at least 20,000 sq. m., excluding retail warehousing and factory outlet centres. The definition used in this analysis is set out in full at the end of this report.

INTRODUCTION

CBRE has once again measured the level of shopping centre development in major cities across the world. The survey was based on 168 cities globally and focused on centres of over 20,000 sq. m. and excludes retail warehousing and factory outlet centres. The definition used in this analysis is set out in full in the back of this report. The ViewPoint provides a snapshot of the most active shopping centre markets globally and identifies the key development trends in these locations.

AMERICAS: COMPLETIONS PICK UP DRIVEN IN MEXICO

In 2016, more than 12.5 million sq. m. of space came to market around the world—up 11.4% on 2015. While Asia Pacific remained most active—with 8.3 million sq. m. completed—the most significant increase was seen in the Americas, where shopping centre completions rose by 43.6%. Mexico, with 1.3 million sq. m. added in 65 centres across 3 cities, was the driving force behind the region's increase.

The majority of this space came to market in Mexico City, where development has been targeting the growing population—fueled by Central Mexico's current automotive boom—of the Bajio region. Mexico's retail sector is maturing and in full expansion. Competition among retailers both established and new is ever increasing, and investment in the development of new commercial projects is growing, driven by the rise of the middle class and a growing wave of mergers and acquisitions among retail groups. This, however, has led to a decline in average rents toward the end of 2016.

In the U.S., completions levels were down slightly in 2016, and remain well below pre-recession levels in both volume and sq. m. New supply was greatest in the Houston, New York and Honolulu metro areas, which received large mixed-use projects of which significant portions were retail.

The slowing growth in shopping centre supply means retailers continue to pursue expansion strategies that focus on the best locations, which has raised demand for these assets. In these prime "A" locations, vacancy levels are therefore falling, and rents increasing.

To attract demand and gain competitive advantage and market share, owners are increasingly driven to differentiate their assets through redevelopment, extension and repositioning.

In Canada, 2016's completion total was similar to the previous year's, though its pipeline continues to decline. As the recent surge of regional mall expansions—including 2016's 27,700 sq. m. expansion at Toronto's Yorkdale Shopping Centre—has reached completion, attention has moved toward urban intensification, primarily through mixed-use developments.

EMEA: COMPLETIONS VOLUME INCREASES

EMEA shopping centre completions accounted for 16% of the global total, having increased 18%, year-on-year. Russia saw more than 690,000 sq. m. of new space added in 2016.

In Turkey, there was a slight increase in the volume of space added, though this was due to centres under construction finally coming to market. Politically and economically, Turkey had a difficult year in 2016, and although a growing middle class consumer market is drawing investors in, investors and developers are taking a very cautious approach to the market.

Two new centres were added in South Africa, totalling 153,000 sq. m. One of them—the Mall of Africa in Midrand Johannesburg—is Africa's largest single phase retail development, measuring 130,000 sq. m. It is home to a number of international retailers, some of which are new to the South African retail market, including Zara Home, Elle Women, Nike Golf, The Kooples, H&M and Under Armour.

In Ukraine, Kyiv saw the largest volume of new completions, with the opening of Lavina Mall adding 127,500 sq. m. of new space. This is the largest shopping centre in the city, incorporating an 18,000 sq. m. amusement park, a water park, a kids entertainment park, a cinema and more. 2016 saw Kyiv's total retail stock reach just over 1 million sq. m., with year-over-year growth of 16.6%.

In Italy, only one new centre was completed in a major city (Milan), although new space came to market in smaller cities. 2016 marked the first year of recovery in shopping centre development activity in Italy, after the declining trend begun in 2006 reached its lowest point in 2015. Development activity is showing signs of strengthening over the coming years, and some of the schemes put on hold during the crisis are back on developers' agendas and attracting the interest of new international specialist players. Retail market fundamentals have been gradually improving since 2014, with consumer confidence strengthening, retail sales improving and retailer demand increasing. These trends are expected to continue and strengthen in 2017.

ASIA PACIFIC: AN AUSTRALIAN BOOM, AS CHINESE COMPLETIONS SLOW

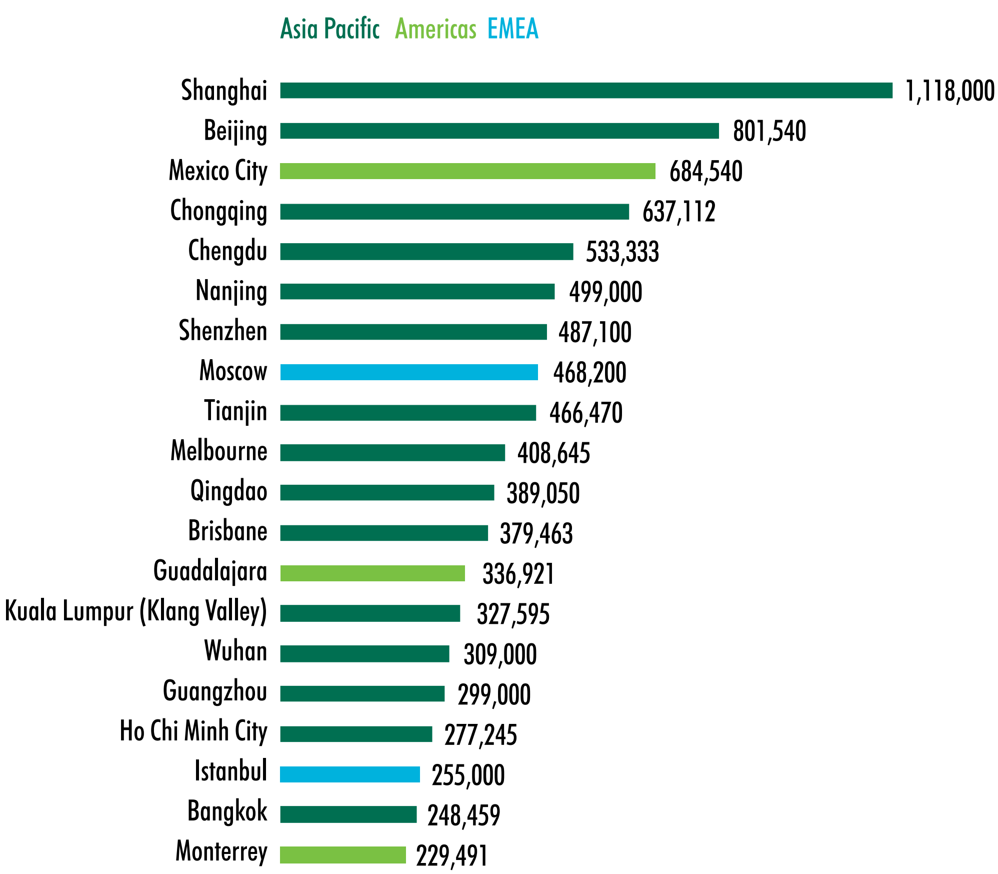
China once again registered the globe's highest annual completions total (5.75 million sq. m.), although this figure was down 5% on 2015. Of the 13 Tier I and II Chinese cities surveyed, nine are classified as being at medium or high risk of oversupply. The vacancy rate in Tianjin rose to 17.8% in Q4 2016, for example. With leasing activity slow, extensions of pre-leasing periods and delayed openings are common across the country. In fact, 50% of the new malls completed in China last year delayed their completion dates by at least six months, due to poor pre-leasing.

Australia's retail market is undergoing redevelopment with a construction boom that boosted total completions to about 680,000 sq. m. in 2016. Many regional centre owners, particularly domestic owners, have capitalized on favorable market conditions, including a low cost of borrowing and strong demand from expanding retailers. Landlords have placed significant emphasis on food and leisure offerings in order to draw and retain foot traffic.

Melbourne ranked number ten globally for shopping centre completions in 2016; it is the only non-Chinese city in Asia Pacific to have made the top 10. Notably, the redevelopment of Melbourne's Chadstone Shopping Centre introduced many new retailers to the city—half of the city's new retail entrants in 2016.

In emerging Southeast Asia, retail completions were similar to 2015 levels, with most projects located in suburban areas. Increased competition and ample pipelines have put rents in these areas under pressure.

Figure 1: Top markets for shopping centre completions in 2016 (sq.m.)



Source: CBRE Research, Q4 2016.

SLOWING PIPELINES

IN ASIA PACIFIC, SPACE UNDER CONSTRUCTION DECLINES DRAMATICALLY

Asia Pacific accounts for 79% of the space under construction globally, though the region's total declined by 24% in 2016. China still has a whopping 19.7 million sq. m. of space under construction, and pervasive oversupply risk in this market has investors increasingly concerned about competition from online retail growth.

Given the stiff competition and huge pipeline, developers are being more cautious. Nevertheless, rental growth momentum is not expected to pick up in China in 2017. CBRE forecasts that ground floor shopping mall rents will increase by around 2%, while some markets may record corrections.

China's largest volumes of retail space under construction are in Shenzhen and Shanghai, which together account for about 40% of China's pipeline. With Shenzhen's pipeline concentrated in just a few submarkets, the city has the riskiest leasing conditions among China's four Tier I cities. In contrast, the retail pipeline in Shanghai is well-distributed across several submarkets, with good residential catchments. The 2017 rental outlook for the two cities reflects their differing supply conditions—Shenzhen is expected to see a mild rental decline this year while Shanghai will see stable rental growth.

Retail construction remained relatively limited in India—especially in Tier I cities like New Delhi and Mumbai. Still, Hyderabad has 640,000 sq. m. in the pipeline, including a 180,000 sq. m. shopping mall, City Capital, currently India's largest retail construction project. The project is expected to facilitate the entry and expansion of international brands across India, especially as the government relaxed FDI requirements for single-brand retail in mid-2016.

Major retail markets in Asia, Tokyo, Hong Kong and Seoul are all anticipating mix-used development in their CBD locations. Ginza Six mall in Tokyo is slated to open in April 2017 and, at 150,000 sq. m., will be the largest shopping centre in Ginza district. In Hong Kong's Tsim Sha Tsui district, the redevelopment of New World Centre is to be completed in the next year. The retail portion will comprise about 100,000 sq. m. and will be one of the largest new retail completions in core shopping districts in recent years. In Seoul, both major upcoming supply additions are located in Yeouido-dong, one of the major office locations there. In 2018, a 180,000 sq. m. Life Style Mall is to be completed, followed in 2020 by Hyundai Department Store Yeouido at Parc 1. The whole development of Parc 1 includes two office towers, a hotel and an 89,100 sq. m. retail complex that will include the largest department store in Seoul.

IN EMEA AND THE AMERICAS, CONSTRUCTION SLOWS, WITH POCKETS OF INCREASED ACTIVITY

As they did last year, Russia, the UAE, Turkey and Ukraine account for the majority of EMEA's pipeline. Individually, retail space under construction has decreased in Russia and Ukraine but increased in the UAE and Turkey.

In Turkey, there is significant space under construction—1.2 million sq. m. in 17 centres across Ankara and Istanbul. Leasing has been somewhat difficult, however. The 17 shopping centres that were completed in Turkey in 2016 are currently less than 75% occupied; this appears to be a trend that will persist into 2017. Some particularly noteworthy centres are under construction in Istanbul, however: Anatolium Marmara, Emaar Square, Maslak 1453, Optimum Kucukyali, Metropol Istanbul, Piazza Maltepe, Istmarina and Oasis Designer Outlet. These shopping centres are almost fully let, with a current minimum occupancy rate of 80%.

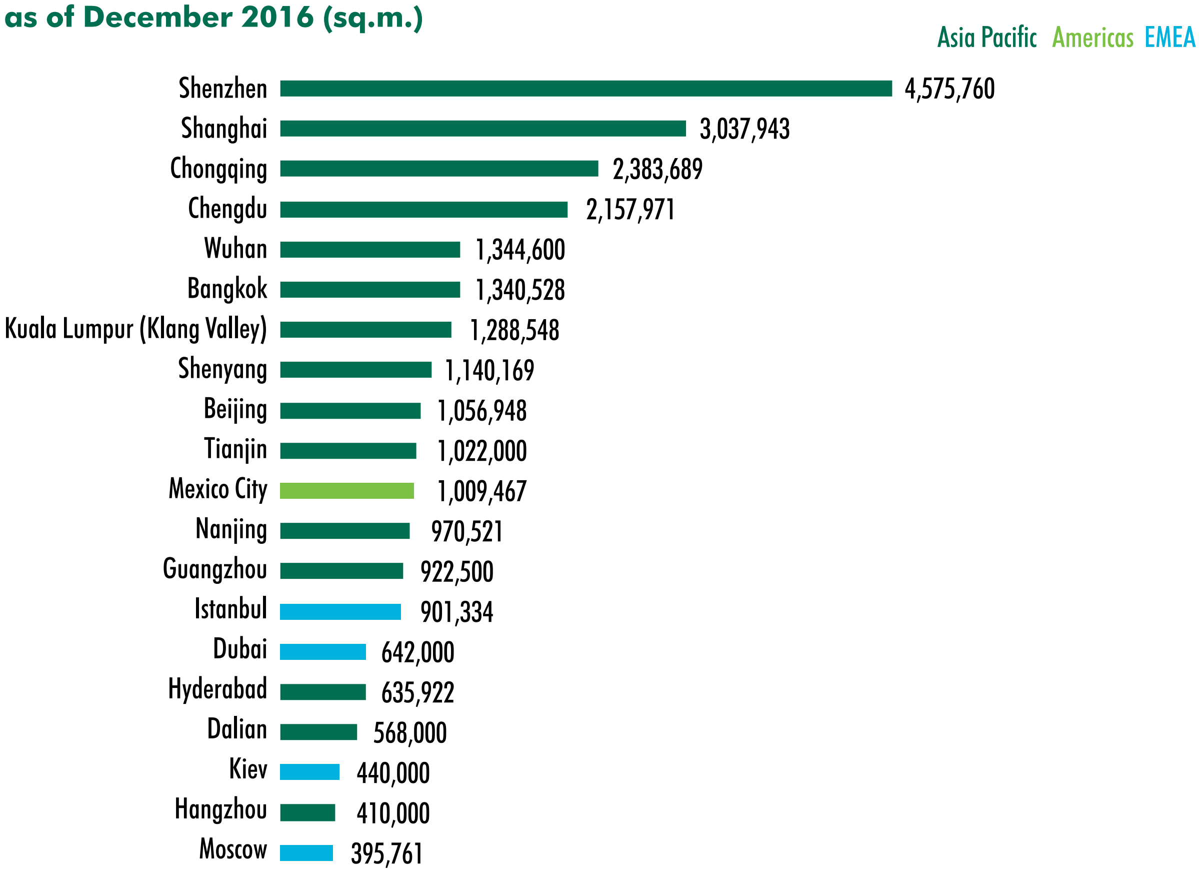
The UAE has been at the forefront of the Middle East's retail revolution over the past two decades, effectively championing the drive toward mega destination malls, and away from more traditional forms of retail. In 2016, no major retail facility was actually delivered in the UAE; new retail space was predominately added within mixed-use developments. In the medium term, a number of major new regional malls are set to be completed, including Maryah Central and Reem Mall. By 2020, Abu Dhabi's retail market could see the addition of more than 650,000 sq. m. of organized retail supply, notably increasing the GLA of retail space per capita.

After a number of major malls were delivered over 2008-2010, Dubai has seen a slight lull in such activity. Over the next three years, however, the market is set to see a massive increase in supply—and transformation of market dynamics—as nearly 900,000 sq. m. of new retail space is completed. This includes under-construction facilities such as Nakheel Mall on the Palm Jumeirah and Circle Mall in JVC, and ongoing expansion projects in existing centres, such as Dubai Mall. However, the real game-changers for Dubai lie in the longer-term pipeline, with sizable retail components planned for large-scale masterplans, including Dubai Creek Harbour, Meydan, Dubai Hills, and Jumeirah Central, among others—all with the potential to significantly disrupt market fundamentals upon delivery.

In the Americas, development activity is largely concentrated in Mexico, where more than 1.3 million sq. m. of space is under construction. More than 1 million of this in Mexico City, spread across 29 centres. Despite a highly competitive shopping centre density, investors and developers see the market's maturity and an expanding middle class as drivers for growth in the shopping centre market.

In Canada, large-format shopping centre development will largely be limited to metropolitan centres' outer regions, where land is available. Notably, Winnipeg will see the completion of the Outlet Collection of Winnipeg, the Manitoba capital's first pure outlet shopping destination.

Figure 2: Top markets for shopping centre pipeline under construction as of December 2016 (sq.m.)



Source: CBRE Research, Q4 2016.

CONCLUSION

Shopping centre completions rose by 11.4% in 2016, as many projects finally completed and came to market. In many markets, leasing activity has proved challenging. Many centres have delayed opening or have opened with some vacant space, due to cautious retailer expansion activity and some degree of saturation in many markets. Investor appetite for further construction has reflected caution as a result, which is evident in the current pipeline of space under construction. With the pace of retailer globalization slowing, and amid global economic and political uncertainty, the shrinking amount of space going under construction is no surprise. Some markets still have room for growth, with shopping centre density still fairly low; however, a significant number of markets are fairly saturated. In these markets, the focus will be on redeveloping and repositioning existing centres, rather than adding new ones.

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SHOPPING CENTRE DEFINITION

For the purposes of this analysis, shopping centres have been defined as purpose-built and centrally managed schemes with gross lettable areas of more than 20,000 sq. m. Our analysis includes only new centres and major extensions (of 20,000 sq. m. or more) to existing schemes. Retail warehousing and factory outlet centres have been excluded. For Asia, our analysis includes retail shopping malls and standalone department stores of at least 20,000 sq. m. It excludes department stores that lease space as tenants within larger shopping centres. For North America, our analysis includes regional malls, community centres, lifestyle centres and power centres, and also includes all extensions to existing schemes (though there was very little new space under construction). While every effort was made to provide data on a consistent basis, there were some unavoidable differences by country and region.

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