

# Retail in Europe: great demands on returnability, little willingness to take risks

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Whereas purchases of residential buildings fall significantly compared to the values from 2008, a series of markets report a renaissance of interest in some properties from individuals, families and local institutions. Many are investors who have not been seen in the market for years due to competition of foreign buyers with secured financing, but now smelled new attractive investment opportunities - informs C & W. established in 1917, operating 230 offices in 58 countries (Bratislava since January 2008), employing 15 thousands of people and representing various clientele - from small to the companies from the Fortune 500 Society.

## At the forefront of market rents decline is the Eastern Europe

In the first quarter of 2009 there was a flat-rate decline of rentals in all areas. Such a trend was observed in 24 of 32 countries where it related totally to 14.5 percent (the movement in the 1st quarter converted to annual rates). Leases in the lucrative properties fell by an average of 4.1%, semi-yearly till the end of March, what is the first annual decline since 2003.

Under the biggest pressure remain office spaces, where the decrease of the lease achieved 19.3% p.a. in the 1st quarter, whereas in retail 12% and in industry 9.5%. At the forefront of this decline stayed the developing Eastern European countries (by 52% p.a.), followed by the Great Britain (15.2%), the Central Europe (14.4%) and the rest of the Western Europe (6.2%), added C & W.

Revenues in the region developed quite rapidly, but the change did not come as fast as in the last quarter of 2008. The Western European revenues increased by 18 basis points - compared with 30 at late last year for what certainly was signed the stabilization of the British market. The Central and the Eastern Europe once again showed a much sharper increase when tolerance of investors to the risk was reduced and narrowing finances forced to further price corrections. However, there are signs that some investors are ready to negotiate - the interest in the investment awakens in the Great Britain.

## Interest in Slovakia "slightly damped"

Slovakia was a witness of the increase in domestic sales, respectively volumes of executed real estate transactions as a result of the growth in local retail real estate funds, in size and volume of transactions. We were also witnesses of increased interest in the purchase of properties by individual persons, but which have specific requirements for it, "said Andrew Thompson, managing Partner C & W in Slovakia.

"In connection with specific real estates in Bratislava, it is clear that the differences between required (the seller) and offered (the buyer) price achieve in some cases the gaps in the interval from 150 to 200 basis points. Best properties in a good location and a good portfolio of tenants with long-term leases will attract the interest of investors and also have a better opportunity to be financed by banks. Even those, however, must adapt to the current market decline in property prices, because otherwise will fail in the transaction," commented Thompson.

„The interest of foreign investors to invest in Slovakia remains slightly damped, because for them are now more interesting properties for example in Spain, Italy and the Great Britain,“ said Andrew Thompson. But he added that a lot of real estate funds would be interested in investing in Slovakia, whereas some

property has introduced a bid for their purchase.

**The main strike for the lower quality** A significant decrease in activity and values with respect to the current fall in the economy is not a surprise, notes the report of C & W. However, it is not faster than in the previous quarter, in addition current values supposedly begins to show a slight rise in an interest of buyers.

"If we look at the capital markets from a broader perspective, we find that among investors is increasing tolerance of risk, what together with other manifestations is confirming we could have the worst behind us soon. The market in the coming months also shows increased activity in the property market, as well as the growing incomes in lucrative properties in the second half of the year, "does not hide an optimism the head of the European market survey department of C& W Company David Hutchings. According to him, there are some indications that availability of funding could increase in the near future.

„Real estates will have to struggle hard to get new buyers. Therefore, for any early signs of stabilization of revenues should be viewed with caution until it is certain that the leases pushed off the bottom, „warns Hutchings. He suppose the decline from the peak to the lowest point of around 15 to 20% in all sectors in leases of lucrative property, whereas the market will not reach the bottom earlier than in 2010. However, most of this is already discounted in the so-called prime yield (= maximum yields of lucrative real estates), which grew by 28 basis points to 7.5%, what is the highest level for the past nearly five years and by 139 more than in 2007. The main strike of slowdown will fall on the lower-quality properties, assumes Hutchings.

### **Improving the balance between buyers and sellers**

Foresight value of some findings regarding further development of the decline is however usually minimal; it rather reminds the type of meteorological forecasts, „With keeping cold front over all our territory, the weather improving in the foreseeable future can not be counted.“ Remarkably similar in style we can read in the report of C & W, that „even if in the coming months may lead to stabilization of the volume, the higher return of activities we will have to wait.“ The chairman of the European capital markets of C & W Company, Roger Cooke, thinks that some people overvalue the availability of own sources in real estates, rather wait, but the majority is associated with their high demands regarding the return, and there is little willingness to take risks.

In the coming months is by C & W likely to expect a gradual improvement of the balance between buyers and sellers, which in addition to the permanent improvement of the economy paves the way for more significant turnover in an investment activity. Some bigger institutions will have, despite the eventual pressure on the price of the shares, sold to compensate their portfolio. Along with this the new financial resources run into the economy, whether from funds that have a lower burden or were some time outside the market, or from individuals and longer-term players who see the value in the lucrative real estate markets - thus perceives the next trend the recognized leader in global surveys in the field of commercial real estates.

Illustration photo - Europe Passage Hamburg  
Graf - Source: Cushman & Wakefield

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