Zagreb Shopping Centres – An Uncertain Future?

Poseidon Research Report 7/2009

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Zagreb Overview

The political, cultural and economic hub of Croatia, Zagreb sits on the banks of the River Sava, which flows gently east to join the Danube in Belgrade. According to the 2008 Government Census, Zagreb has a population of 804,200, increasing to 1.2 million in the wider metropolitan area. The city provides the starting point for 5 of Croatia's major highways and European transport corridors 10 (Austria to Greece) and 10a (Zagreb to Graz (Austria)). Additionally the highways connect Zagreb, and wider Croatia, to Serbia (A3), Slovenia and Hungary (A2).

The booming property development witnessed in the nineties and first half of the decade has stalled. No new shopping centres have been realised in the last two years. Whilst we will continue to see a lot of false starts and over-enthusiastic press releases, it is our opinion that serious retail development will only start in earnest with a return to confidence by international retailers and the renewed appetite for financing by the banks; neither of which will happen in early 2010.

Supply Overview

Zagreb remains under-supplied for retail. Following the transition from centrally planned to market economy in the early 1990s the development boom experienced in neighbouring CEE was prevented by the regional conflict. Zagreb entered the new millennium with just two first generation shopping centres (Importanne Galleria and Centar Kaptol). By the middle of the noughties a number of second generation centres opened, bringing modern retail to the west, east and south of the city (Kings Cross & City Center One, Mandi and Avenue Mall respectively). Despite Mandi's presence in Eastern Zagreb, this remains the area most in need of new retail space.

To date GTC's Avenue Mall provides the most sophisticated offer, with City Centre One a close second but there are two openings in the coming year that will challenge their dominance; Westgate and Dubrava.

Poseidon Comment

This report specifically does not comment on the economic downturn, or its effects on the retail environment, other than to say that Croatia and Zagreb have been hit significantly by the downturn. Decreased consumer spending has affected the existing schemes and caused downwards pressure on rents. The lack of finance has hammered developer's plans and aspirations. Retailers have aligned their operations to the prevailing economic conditions and have drastically down scaled their expansion plans.

As such we predict that most of Zagreb's twenty-odd pipeline schemes will not be realised in the forthcoming years; indeed a large proportion will never leave the architect's boards.

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Now?

- City Centre One has successfully leased the majority of their 36,000 m^2 extension and will challenge Avenue Mall as the premier shopping location. Westgate will open late in 2009, Dubrava in 2009/10. Looking further into the future Ikea will develop their huge third generation scheme off the A3 near Rugvica (Zagreb East), which will extend to approximately 140,000 m^2 GLA comprising more than 320 stores. Watch Trigranit's Arena scheme in Lanište carefully; too big, wrong location?

And the rest of the schemes?

- Mothballed until the economic conditions improve, or scrapped as unfeasible in the brave new world of post-crash Croatia.

The future?

- Changes in consumer habits are only slowly filtering into Croatian retail landscape. The most noticeable is the resurgence of the daily shop over the weekly bulk shop that has dominated consumer's food purchasing habits in the first half of the decade. Even the more aggressive hypermarket operators are looking for smaller, more local units and as such the concept of the neighbourhood centre is becoming increasingly fashionable. Having bought out Ipercoop's operations last year, Interspar is starting a 9 month programme to reduce the size of the units by half. The 8,500 m^2 unit taken by Mercator in Westgate will be the last of such size the Slovenian operator will commit to and we predict that the 8,000 m^2 unit pre-leased to Konzum on the Spansko 3D scheme will decrease dramatically.

- In line with the rest of Europe, discretionary retail has been hammered, with fashion and electronics retailers seemingly hardest pressed. Rents have been reduced almost across the board; some local retailers have gone bust and some regional operators have fought very seriously to survive. But on the whole the existing schemes have weathered the storm, due mainly to the current retail undersupply in the city.

New entry retailers?

- C&A opened their first store in the City Centre One expansion and H&M will open in the Westgate Centre, Zapresic.

- Danish home design firm Jysk has opened in Zadar, Varazdin and Slavonski Brod.

- Bulgarian electronics firm Technomarket will open their first units in Rijeka (Plodine) and Westgate and are negotiating on units across the country.

- Big box retailers Takko, Jello and Deichmann make their first appearance in the Supernova scheme in Varazdin

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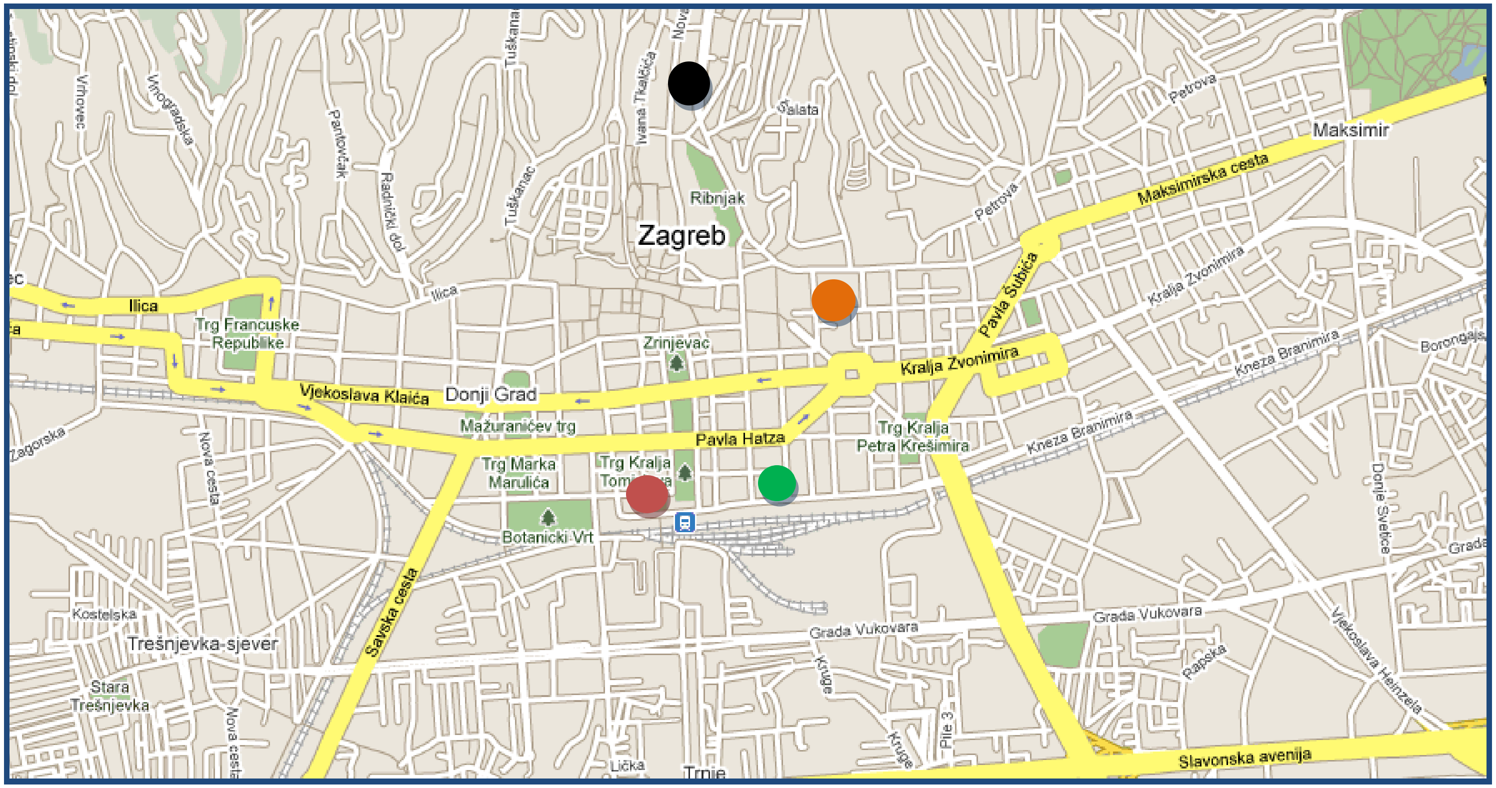
Existing Schemes - Central Zagreb

Scheme	Map	Location	GLA	Opened	Rent Range	Remarks
Importanne Centar	**Red**	Trg Ante Starčevića b	31,000	1994	30 to 50	Underground, dated SC
Importanne Galleria	**Orange**	Iblerov trg 10	15,000	1999	35 to 65	
Kaptol Centar	**Black**	Nova Ves 17	12,000	2000	30 to 45	
Branimir Centar	**Green**	Branimirova 29	14,000	2003	30 to 45	



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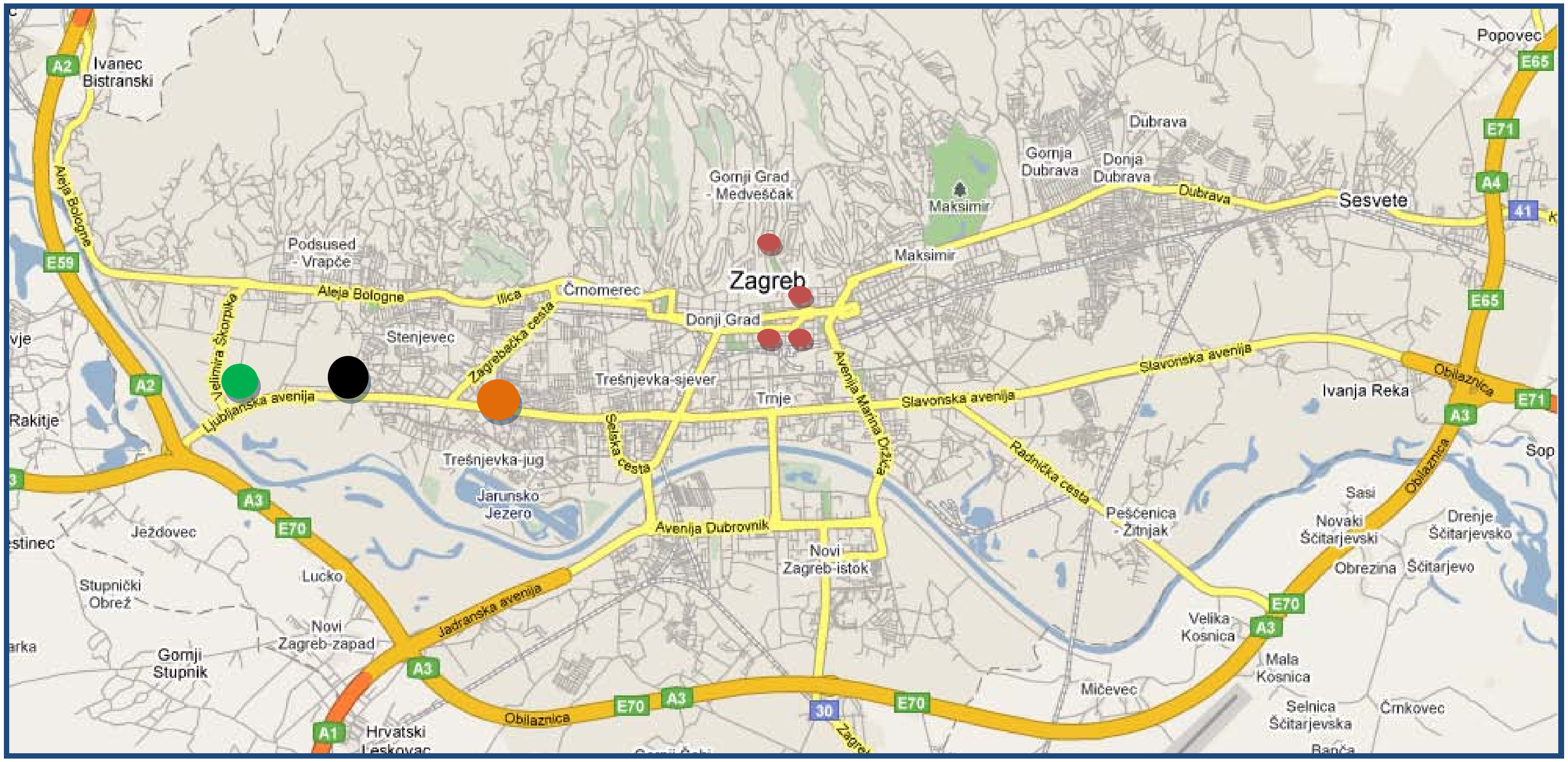
Existing Schemes - Western Zagreb

Scheme	Map	Location	GLA	Opened	Rent Range	Remarks
Central Zagreb SCs	**Red**					
Mercator Centar	**Orange**	Zagrebačka avenija 94				
City Center One	**Black**	Jankomir/Spankso	82,000	2006	25 to 60	
King's Cross	**Green**	Jankomir	35,000	2002	25 to 60	



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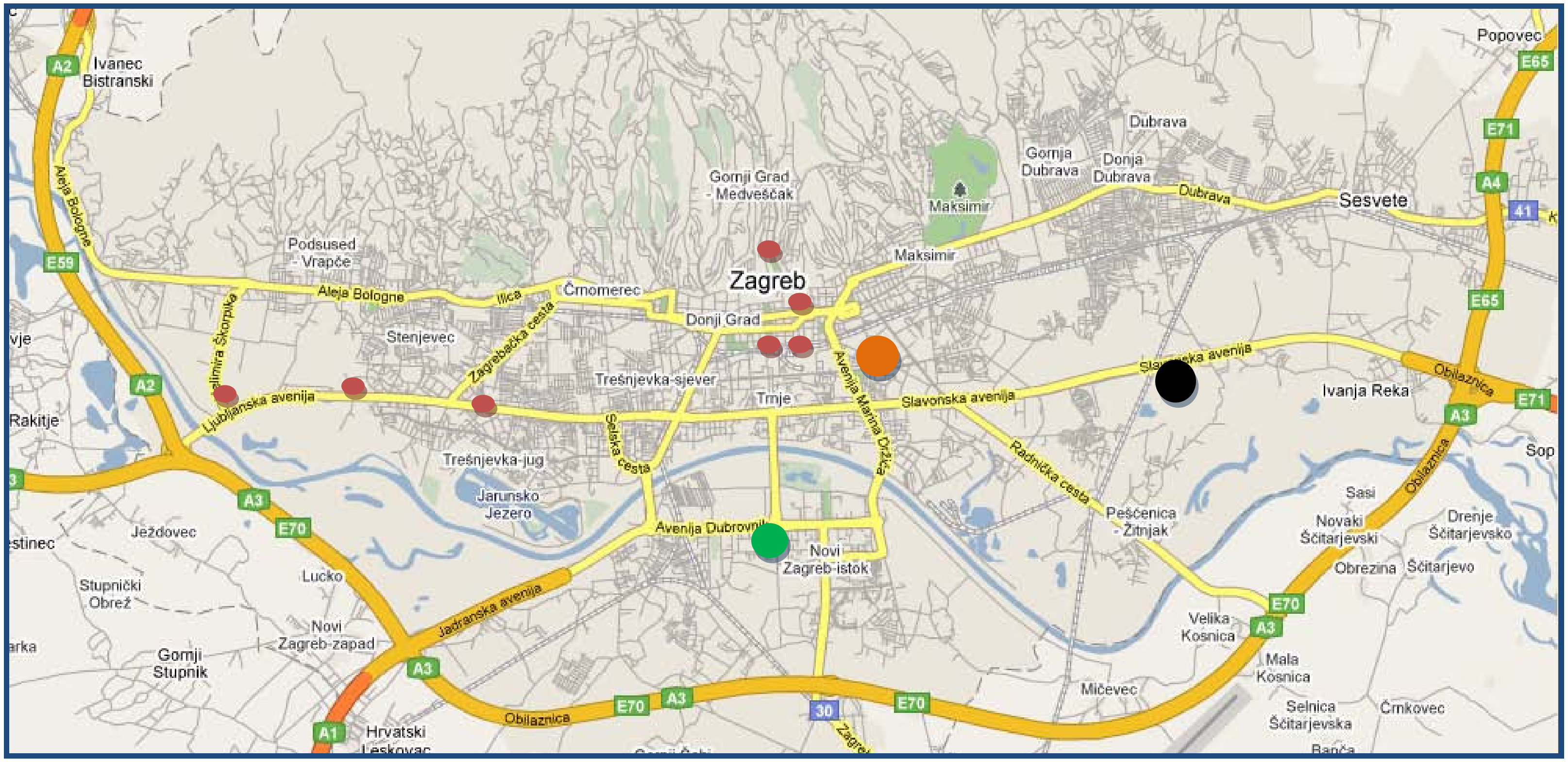
Existing Schemes - Eastern & Southern Zagreb

Scheme	Map	Location	GLA	Opened	Rent Range	Remarks
Central & Eastern SCs	**Red**					
Mercator Centar	**Orange**	Ulica grada Vukovara 269b				
Mandi Centar	**Black**	Zitnak	28,000	2007	15 to 50	
Avenue Mall	**Green**	Novi Zagreb	36,000	2007	20 to 80	



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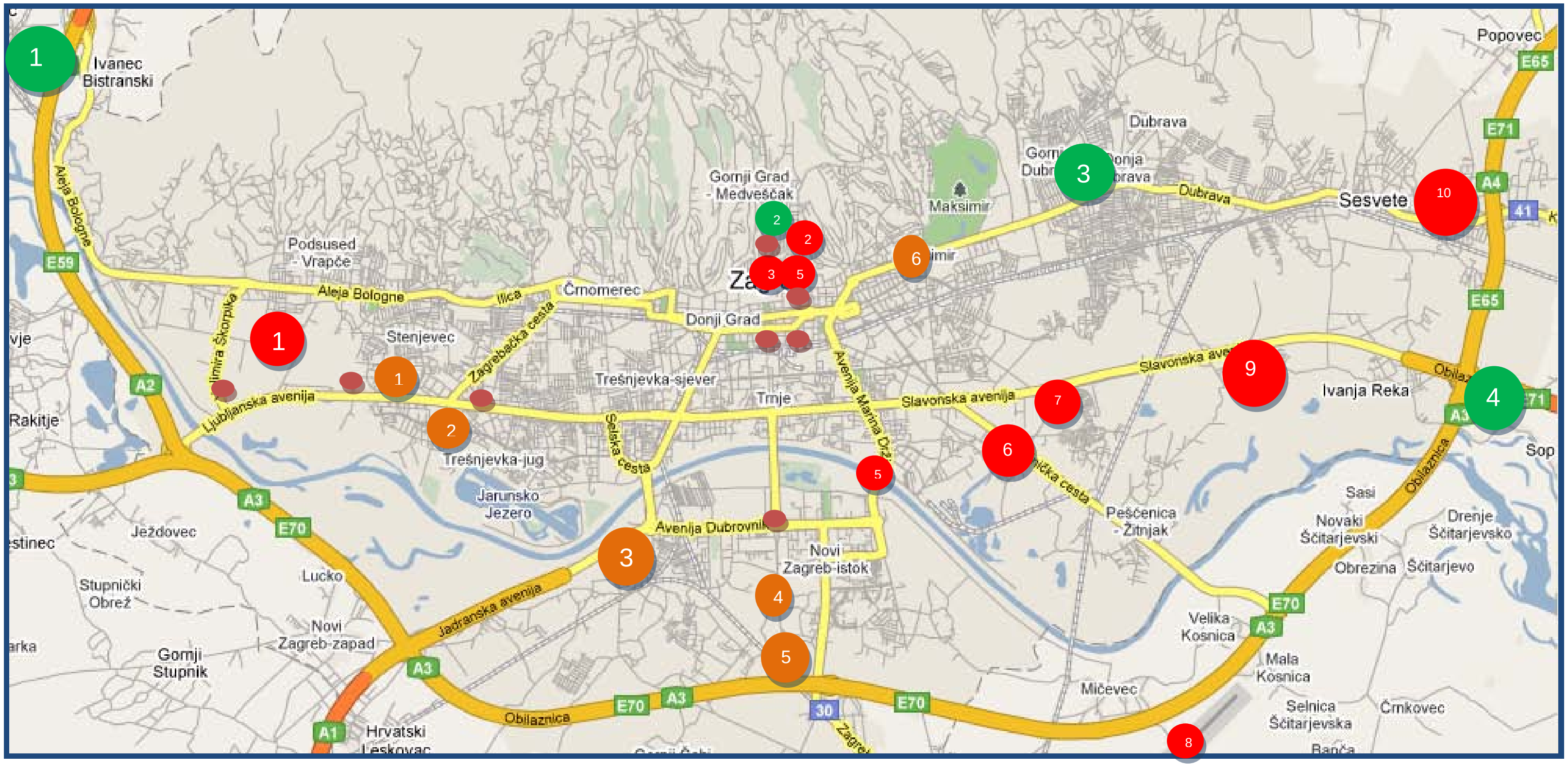
Pipeline

There are over 20 reported pipeline developments in Zagreb, with the improbable pipeline GLA figure of over a million square metres. The twenty most discussed schemes are identified below. Using a traffic light system we have tried to identify which schemes are;

Green Under construction or of sufficient covenant to be assessed as credible

Amber International developer/finance arranged

Red Insufficient reports available or expected to be delayed/shelved



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Scheme	Map	Location	GLA [1]	Opening [1]	Developer/Investor	Website	Remarks
Central & Eastern SCs							
Westgate Shopping Center	1	Zaprešić, west Zagreb	106,000	Oct 09	Redserve	Westgate	Mercator
Prebendarski Vrtovi	2	Tkalciceva	8,000		Spiller Farmer	Prebendarski Vrtovi	Retail Units
Dubrava Shopping Center	3	Dubrava, east Zagreb	25,890	Q4 09	MID	Dubrava	Interspar
Zagreb East (Ikea)	4	East Zagreb	140,000	2011	Inter Ikea/Ikea Services	Zagreb East	
3D	1	Spansko, west Zagreb	80,000	Q4 2010	BOP Immoholding	Spansko	Konzum
Lagoon Plaza	2	Vrbani, west Zagreb	20,000		Bluehouse Capital	Lagoon Plaza	
Arena Centar	3	Novi Zagreb	175,000	Q4 2010	Trigranit	Arena Centar	
Mercator Podbrezje	4	Novi Zagreb	Not Known		Mercator		
Buzin Supernova	5	Buzin	110,000		M2 Gruppe	Buzin	
Kvaternik Plaza	6	Maksimir	~4,000	2009		Kvaternik Plaza	Retail Units
Metropolis	1	Jankomir					Shelved?
Gradski Podrum	2						Retail Units
Cvjetni Trg	3	Cvjetni Trg Square	6,000	2010	Spiller Farmer	Cvjetni Trg	Retail Units
Ibler Passage	4	Iblerov Prolaz	4,300		Braxae	Ibler Passage	Retail Units
Moto	5						
Zagreb Mall	6	Radnicka Cesta	50,000		LS Property/Bridgemere	Zagreb Mall	Shelved?
Zig-Zag	7						
Airport SC	8						
Shopping Centre East	9	Resnik	114,000		Manta (RIMC)	RIMC	
Phoenix Park	10	Sesvete	60,000		Phoenix Group	Phoenix Park	

1 – As reported by either the developer or in the real estate press.

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Summary

- The super-inflated soft pipeline will burst this autumn/winter. Only the schemes planned by the biggest developers, with finance arranged and the means to attract the ever-important anchor will succeed. Speculative projects; those without finance and anchors will soon drop by the wayside – bar the odd over-enthusiastic internet news release.

- In 2009 Westgate and Dubrava will open (Westgate's advertised opening of 22 October has been shifted to 12 November).

- Zagreb East will, in 2011, provide a further 140,000 m^2 GLA and it is our assessment that this will provide nearly full shopping centre coverage:

    - Central Zagreb – Importanne, Kaptol and Branimir centres. Complemented by 1/2 modern boutique fashion shopping centres (<5,000 m^2)

    - Southern/Novi Zagreb – GTC's Avenue Mall

    - Western – Westgate, City Center One & Jankomir cluster

    - Eastern – Mandi, Dubrava and Ikea's Zagreb East

- Aligning to consumer demand smaller, neighbourhood centres, anchored by food hypermarket operators will be built in the districts of the city without immediate access to one of the larger shopping centres.

- Whilst we predict that Zagreb's first wave of shopping centre developments will be complete in 2011, we do not believe that the market will stagnate. Expect to see renovation of the dated first generation schemes and a significant increase in retail warehouse development (particularly in the East and South of the city).

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