

Major European Retail *Lease* Terms 2009



Head of Retail Agency Contacts in Europe


James Dolphin *Pan Europe*
+44 20 7852 4623 | james.dolphin@eu.jll.com

 **Walter Goossens** *Belgium*
+32 2 550 25 47 | walter.goossens@eu.jll.com


 **Beatrice Mouton** *Czech Republic & Slovakia*
+420 724 914 159 | beatrice.mouton@eu.jll.com

 **Helena Kangas** *Finland*
+358 400 717 698 | helena.kangas@eu.jll.com


 **Nathalie Razafine** *France*
+33 1 40 55 15 66 | nathalie.razafine@eu.jll.com

 **Marc Alfken** *Germany*
+49 69 200323 22 | marc.alfken@kempers-jll.net


Doris von Muschwitz *Germany*
+49 69 20031079 | doris.vonmuschwitz@jll.com

 **Erika Pal** *Hungary*
+36 1 489 0202 | erika.pal@eu.jll.com

 **Stephen Murray** *Ireland*
+353 1 6731 679 | stephen.murray@eu.jll.com

 **Simone Bursanis** *Italy*
+39 02 85868630 | simone.bursanis@eu.jll.com

 **Anna Savenko** *Kazakhstan*
+7 727 261 9026 | anna.savenko@eu.jll.com

 **Romain Muller** *Luxembourg*
+352 46 45 40 22 | romain.muller@eu.jll.com


Beatrice Mouton *CEE*
+420 724 914 159 | beatrice.mouton@eu.jll.com


 **Richard Dallinga** *Netherlands*
+31 20 5407907 | richard.dallinga@eu.jll.com

 **Anna Wysocka** *Poland*
+48 22 318 00 16 | anna.wysocka@eu.jll.com


 **Manuel Puig** *Portugal*
+351 21 35832 22 | manuel.puig@eu.jll.com


 **Jibril Semour** *Romania*
+40 213 109 380 | jibril.semour@eu.jll.com

 **Maxim Karbasnikoff** *Russia*
+7 495 737 8000 | maxim.karbasnikoff@eu.jll.com

 **Luis Iñiguez** *Spain*
+34 91 789 11 00 | luis.iniguez@eu.jll.com

 **Caroline Jones** *Sweden*
+46 8 453 50 32 | caroline.jones@eu.jll.com

 **Nilgun Dil Erman** *Turkey*
+90 212 350 08 12 | nilgun.dil@eu.jll.com

 **Daniil Vladov** *Ukraine*
+380 44 496 08 12 | daniil.vladov@eu.jll.com

 **Guy Grainger** *UK*
+44 20 7318 7824 | guy.grainger@eu.jll.com

Retailer conditions in a changing world

The balance of power has been shifting from the landlord to the tenant over the past two years with conditions in the occupier market now putting retailers in a stronger position to negotiate rents and incentives before renewing leases and entering new units. The economic downturn has contributed to a weakening in demand for space and a reining back of expansion plans which, in the UK & Ireland in particular has led to some significant changes in lease structures. Even in the best locations, retailers are asking for shorter lease terms, monthly rent payments and indexation based on annual RPI or capped increases for rent reviews. Turnover rent clauses are now commonplace and key money is becoming increasingly rare as retailers scale down their expansion plans.

The mature Continental European retail markets have seen fewer changes in lease structures, suggesting that the more flexible nature of these leases are more sustainable during a downturn. However, it may also be the case that further weakening of the occupier market is still to come in Continental Europe, as these countries are also slightly behind in the cycle compared to the UK.

In Italy and Spain retailers are benefitting from the change in demand for units with additional break options featuring strongly in lease agreements and extra options for rent reviews also stipulated. In contrast to this, there is greater call for longer lease periods in Turkey and Russia (but with additional break options) due to strong demand from international retailers who require a longer payback period and lease agreement stability. In addition the relatively high pre-crisis rents in Russia are being discounted for a set period and currency denominated rents are increasingly being fixed to the exchange rate of the Russian Ruble.

Retailer Continue to Seek New Markets

In the recent Jones Lang LaSalle Retailer Cross Border study, Central & Eastern Europe dominated the most popular retail locations, accounting for the top 5 destinations. Although the current economic slowdown has impacted upon demand, retailers are still showing an interest to enter Central & Eastern Europe, although many are now only considering franchise partners to minimise risk. 2007 & 2008 saw the emergence of Turkey and Russia as the key target destinations for retailers expanding internationally. In 2008, Romania was the most popular destination for those brands entering a new market, following a year of significant shopping centre development.

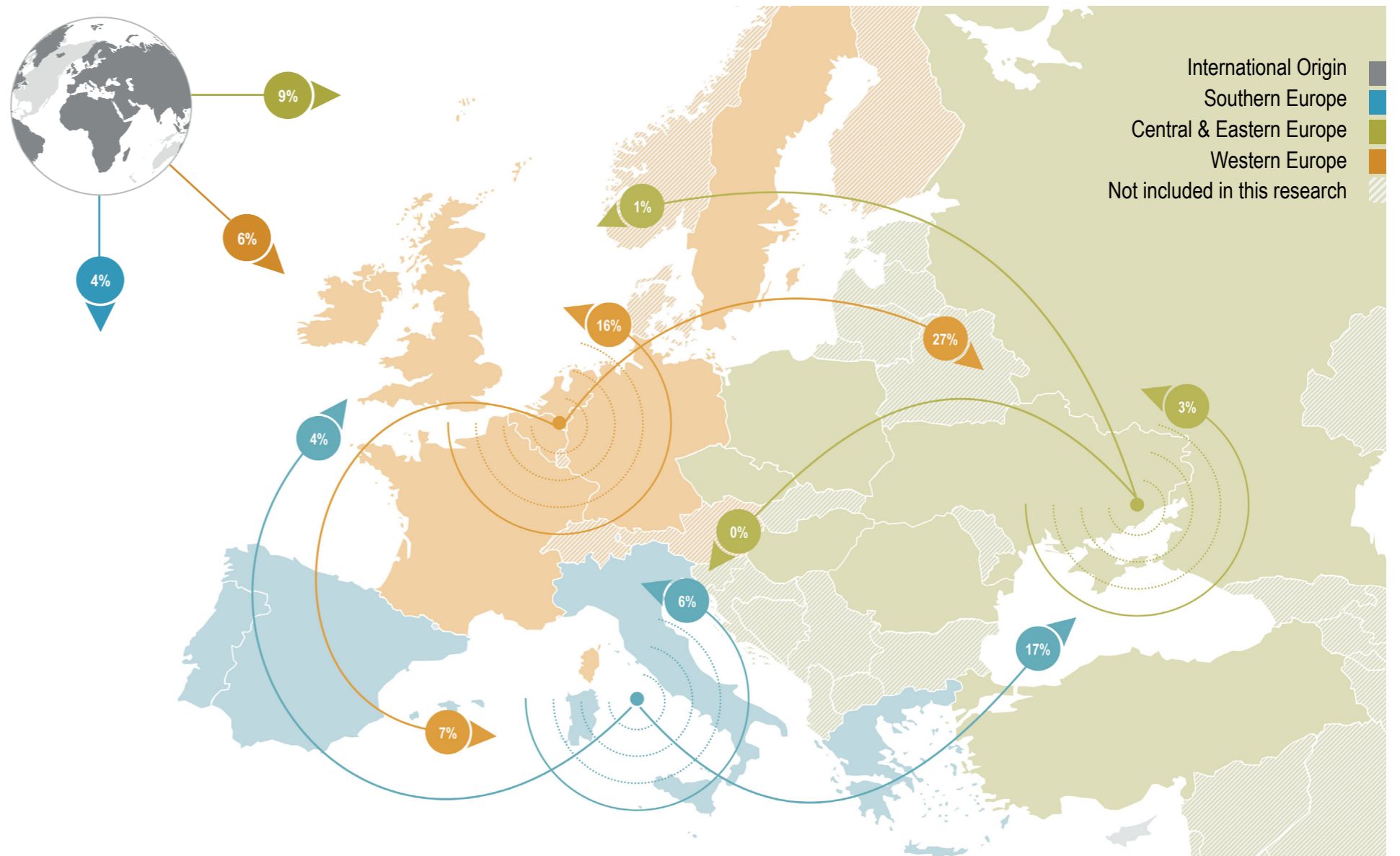
In Western Europe, Westfield London accounted for almost half of new entrants to the UK retail market, with Ugg (Australia), Hue (USA) and David Mayer (France) amongst the retailers seizing an opportunity for representation in the capital without committing to the high rents and key money needed to locate in the West End. In Southern Europe, Portugal remains an important target for international retailers, offering competitive rental levels and a modern shopping centre stock.

Cross Border Retailing Movements by Country

Rank	Country	% Share of Total Cross-Border Movements in Europe 2007-2008
1	Turkey	11.3%
2	Russia	10.6%
3	Poland	8.9%
4	Romania	7.5%
5	Czech Republic	7.5%
6	Portugal	6.9%
7	UK	6.6%
8	Belgium	5.3%
9	Hungary	5.3%
10	Greece	5.1%

Cross Border Retailing Movements by Region

This map details the origin and destination of those retailers entering a new market for the first time during 2007 & 2008, building a picture of inter-regional cross border movement across Europe. For example, of all cross border movements tracked across Europe, 17% of retailers originated from a Southern European country and moved to a Central & Eastern European destination, whilst 16% of retailers originated from a Western European market and moved cross border whilst staying within the same region.



Prime High Street Rents in Europe

Country	Q1 2009 Prime High Street Rent (€/sq m pa)	Country	Q1 2009 Prime High Street Rent (€/sq m pa)	Country	Q1 2009 Prime High Street Rent (€/sq m pa)			
1	France	7,500	11	Netherlands	2,265	21	Finland	1,236
2	Italy	6,800	12	Turkey	2,220	22	Sweden	1,230
3	UK	6,440	13	Denmark	2,000	23	Romania	1,200
4	Switzerland	4,970	14	Norway	1,952	24	Portugal	1,080
5	Ireland	4,456	15	Czech Republic	1,800	25	Poland	1,020
6	Germany	3,720	16	Hungary	1,800	26	Kazakhstan	1,000
7	Austria	3,000	17	Ukraine	1,800	27	Slovakia	840
8	Russia	2,900	18	Belgium	1,800	28	Latvia	600
9	Spain	2,640	19	Luxembourg	1,700	29	Lithuania	420
10	Greece	2,400	20	Bulgaria	1,440			

COUNTRY	POPULATION (in millions) ¹	TYPICAL LEASE LENGTH	RIGHT TO RENEW	RENT REVIEWS	PREMIUMS	REPAIRING OBLIGATIONS	TAX
 Austria	8.3	Unlimited lease with various restrictions for either or both parties to terminate the lease or a fixed term of 5-10 years.	Option in case of fixed lease term possible, normally 5-10 years.	Rent connected to CPI, terms negotiable. Adjustment either annually or after reaching a CPI change of e.g. 5% or 10% (or index points), adjustment of rent between 75%-100% of CPI change. In good shopping centres annual/100%.	Key money common.	For shopping centres, retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 20% of annual rent. Minimal local property taxes.
 Belgium	10.6	Minimum of 9 years. Tenant break option every 3 years.	Statutory right to renew 9, 18 and 27 years.	Annually indexed to the health index and can be reviewed every 3 years if the market rent moves up or down by more than 15% due to major environmental changes, eg large infrastructural changes.	Key money in prime retail locations.	Retailer is responsible for internal repairing (including some light external repairing) and insuring.	No VAT. Local property tax – "Precompte immobilier" depending on building use, size and situation.
 Bulgaria	7.6	5-10 years	Possible to extend the lease for another 5 years.	Annually indexed according to HCPI published in Eurostat.	Key money may be payable in prime locations, depending on rental level and demand.	Retailer is responsible for internal repairing and insuring.	VAT: 20%. Local property taxes are included in the service charge.
 Czech Republic	10.5	5-10 years	Possible to extend the lease for another 5 years.	Annually indexed according to HICP by Eurostat. Turnover or step rents can be negotiated as an option.	Key money may be payable in prime locations, depending on rental level and demand.	Retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 20%
 Denmark*	5.5	5-10 years	Lease contracts do not expire until terminated by either of the parties. Usually the parties agree a period where neither can terminate - usually 5-10 years. Landlord can in general not terminate the lease.	Rent reviews possible every 4 years, increases must be spread over 4 years. Rent is indexed annually (NPI is common or min 2% max 5%).	Key money common	Retailer is responsible for fully repairing and insuring. However, landlord is responsible to maintain the shell but includes the cost in the service charge.	VAT: 25% Property taxes are included in the service charge.
 Estonia ²	1.3	3-5 years. 10-15 for anchors.	No automatic renewal. The right to refuse refuse is generally included in the agreement.	Annually indexed either to CPI, or to fixed percentage, generally capped at 3-5%.	Security deposit of 1-3 months rent is generally required in all locations.	Retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 18%. No property taxes.
 Finland	5.3	3-5-10 years	Negotiable.	Annually indexed to Finnish cost of living or to fixed percentage.	Security deposit of 3 months rent, is generally required in all locations.	Retailer is to remove its equipment and fittings.	VAT: 22%
 France	62.3	Traditionally 9 years in accordance with the 1953 decree. Tenant break options every 3 years. New leases for shopping centres tend to be for 10 years and 12 years for prime high street locations, with 3 yearly tenant break options.	Tenants benefits from security of tenure. Lease renewal for the same duration as original lease.	Rent reviewed to market levels on renewal if lease for more than 9 years otherwise rent indexation (up or down) in accordance with INSEE cost of construction or the new commercial rent index every 3 years (1953 decree), although general market practice is for annual indexation. Most shopping centres and some prime high street locations have minimum guaranteed rent plus turnover rent.	Key money likely in some prime locations.	Negotiable, but retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 19.6% of annual rent in building under VAT regime otherwise 2.5% registration tax. Property taxes recoverable from tenant if lease allows.
 Germany	82.1	5 or 10 years (downtown a-locations), 10 (good shopping centres), 15 (supermarkets, discounters, department stores)	1, 2 or 3 times 5 years, total not longer than 30 years	Connected to CPI. Term and amount are negotiable. Term can be annual, when CPI 5% increase, 10% increase and amount varies from 75%-100%. In good Shopping centres annual/100%.	Key money may be payable in prime locations, depending on demand.	Retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 19% of annual net rent (recoverable). Local property taxes payable (recoverable).
 Greece ³	11.2	6-12 years	Optional / negotiable	Annual rent increases are foreseen in leases and are invariably equal to CPI plus 1-2 percentage points.	Key money is usually paid in top locations/high streets and can be as high as €4,000/sq m. In shopping centres there is no key money but certain fixed initial charges, eg, entry fees and pilotage.	Negotiable, but it is common that the retailer is responsible for internal repairing and insuring.	VAT (19%) applies for shopping centres no smaller than 4,000 sq m; stamp duty (3.6%) applies in all other cases.
 Hungary	10.0	Normally 3-5 years on the high street. 5 + 5 years in shopping centres.	Option for further 5-10 years possible.	Annually indexed according to HICP by Eurostat. Turnover rents becoming more common.	Key money is common in prime shopping centres and high streets.	Retailer is responsible for internal repairing and insurance. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 25% of annual net rent (recoverable). Local property taxes vary between different cities and districts.
 Ireland	4.4	15-20 years, break at year 10 is becoming more common.	New lease from 5-35 years, tenant nominates length.	Every 5 years upwards only to market rental value on leases commencing prior to March 2010. New leases from March 2010 reviews either up or downwards to market rental value.	May be payable by landlord or tenant depending on demand and strength of retail covenant.	Retailer is responsible for fully repairing and insuring.	VAT: 21.5% charged quarterly on net rent (recoverable). Local property taxes payable at around 20% of current open market net rental values.
 Italy	59.9	6 years	Tenant has right to renew for another 6 years.	Indexed annually to a maximum of 75% of CPI. Now it's possible to extend the lease length to 7 years and use 100% of cost of living.	Key money common and substantial in prime locations and also in shopping centres. (base+turnover rent)	Retailer is responsible for repairing and insuring of equipments installed by them and for ordinary repairs of the equipments installed by landlords. The landlord is responsible for extraordinary repairs and insuring of the unit.	VAT: 20% of annual rent (recoverable). For 2 years tenants have had to pay a 1% of register tax on annual rent.
 Kazakhstan	15.7	5-10 years	Optional/ negotiable	Annual indexation of 3-5%, but could be higher depends on the difference in the local CPI.	1-3 months security deposit and 1-3 months advance rent payment; key money possible in prime locations.	Retailer is responsible for internal repairing and insurance, in shopping centres the retailers is paying for the total insurance which is included in the service charge.	VAT: 12% of annual rent (recoverable)
 Latvia*	2.3	1-3 years, 3-5 years for anchor tenants.	No automatic right to renew. Contract may include automatic renewal clause or right of first refusal clause. Need to be agreed by both parties.	No indexation currently is made (due to fall of retail trade turnovers), only in some exceptions. However, indexation conditions, linked to the Latvian CPI, are still present in agreements.	Key money common in shopping centres, except for anchor tenants. 1-3 months security deposit or bank guarantee for the same amount. Currently the deposit may not be applied to the tenants.	Retailer is responsible for internal repairing. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition. The landlord is responsible for the insurance of the unit.	VAT: 21% of annual gross rent (recoverable). Local property taxes included in service charge.
 Lithuania*	3.4	Usually step rent model is applied (for example 3+7 years). In general, 5-10 year contracts prevail, however 5-10 year fixed rentals are not common.	No automatic right to renew, commercial part of the lease agreement. Both parties initiate to extend the agreement.	Annually indexed according to Euro zone CPI published by Eurostat, sometimes according to CPI published by Statistics Department of the Republic of Lithuania. Possible to cap.	Key money very common for high street locations. Usually it comprises 1 month security deposit. In shopping centres bank guarantees are more common.	Negotiable, but it is common that the retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 19% of annual net rent. PIT: 15% of annual net rent applies to a tenant in case an owner of a property is a natural person.
 Luxembourg	0.5	3-6-9 years, preference 9 years for new buildings.	Negotiable.	Annual indexation according to CPI	Key money uncommon. Bank guaranty between 3-6 months.	Retailer is responsible for internal repairing and insurance. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 15%. Property tax is included in the common charges.
 Netherlands	16.5	5-10 years	On 5 year leases the option of a further 5 years and possible revision of rent. Landlord cannot terminate contract except under certain circumstances.	Annual indexation according to CPI	Key money is not common. However existing retailers can be bought out by the landlord with cost being paid by the landlord or forwarded to the retailer.	Retailer is responsible for internal repairing and insurance. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 19% of annual net rent (recoverable). Local property taxes vary between different cities.
 Norway ⁴	4.7	5-10 years	Tenants often have the right to renew, either on same terms or on market terms.	Annual indexation according to CPI	Key money common	Retailer is responsible for internal repairing and insurance. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT 25 %. Property tax varies by municipalities.
 Poland	38.1	5-10 years, but can have an option to extend.	From January 1st 2009 maximum possible lease length is 30 years (previously 10 years). Usually contracts are signed for up to 10 years with possible right to renew regulated by contract. No automatic right to renew.	Annually indexed according to HCPI published in Eurostat.	Common in High Street. Increasingly common in prime shopping centres	Retailer is responsible for internal repairing only. In high street units the retailer is responsible for the internal insurance, and in shopping centres the retailers is paying for the total insurance which is included in the service charge.	VAT: 22% of annual rent (recoverable). Local property taxes are included in the service charge.
 Portugal	10.6	3-10 years	Application of agreement for the use of a shop in a shopping centre with no automatic right to renew.	Annual indexation according to CPI	Key money between 0-12 months according to area GLA, except for anchor stores.	Negotiable, but it is common that the retailer only as to remove its equipment and fittings.	VAT: 20% of annual rent (recoverable). There are no local property taxes.
 Romania	21.3	5-10 years	Tenant has right to extend for a further 5 years in case of 5+5 agreement. If not stipulated in the contract, no right to renew.	Annually indexed according to MUICP published by Eurostat.	Not existing anymore.	Retailer is responsible for fully repairing and insuring.	VAT: 19% of annual rent (recoverable). Local property taxes are included in the service charge.
 Russia	141.8	5-7 years. 10-20 years for anchor tenants.	Tenant has right to renew leasing contract.	If rent is fixed in either US\$ or €, the minimum increase is CPI. If rent is fixed in RUB, the minimum rent increase is the inflation rate of RF.	Typical payment conditions include 2 months security deposit and 1 month advance rent payable at contract signature.	Retailer is responsible for internal repairing and insurance. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 18% of annual gross rent including operating expenses (recoverable). Fit-out non-recoverable. Property tax included in service charge.
 Slovakia	5.4	5-10 years	Possible to extend the lease for another 5 years.	Annually indexed according to the HCPI published in Eurostat.	Key money may be payable in prime locations, depending on rental level and demand.	Retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 19%
 Spain	45.7	High Street: 12-15 years is common. For Shopping Centres, 5-10 year. Lately both in HS and SC break options for tenant at year 2 or 3 are common. For retail warehousing or anchors (retail and leisure) the lease length could be 3 to 15 or sometimes 20 years.	High Street: Automatic right to renew year by year with a fixed period to preadvise. Shopping Centres: no automatic right to renew.	Annual indexation to CPI and to market value on renewal. High Street usually market rent reviews with a limit (cap) at year 10 approx. Mid-lease open market reviews are rare in SC.	Key money was common, but not any more due to the economic situation. Not usual for shopping centres.	Retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 16% of annual net rent (recoverable). Local property taxes (IBI) vary between locations, but minimal.
 Sweden	9.2	3-5 years	Right to renew every 3-5 years, notice from either party 9-12 months ahead.	Annual indexation according to CPI	Key money uncommon.	Retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 25% of annual rent (recoverable). Local property taxes are not included in rent, but recoverable from the tenant.
 Switzerland ⁵	7.6	5-10 years	Tenant has right to extend for 5 or 10 years.	Annual indexation according to CPI	Depending on the landlord it can range between 3 month and 12 month. 6 months is common.	Retailer is responsible for internal repairing and insuring. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 7.6%
 Turkey	75.8	5 years. 10 years for anchor tenants. Some international tenants start to request 15 years. High street locations can be shorter.	Tenants have right to renew leasing contract. Early exit clauses after 2 years is in practice for strong tenants in shopping centres.	Fixed annual increase of 3% per annum or indexed. to EU CPI. Rents are in € or in US\$. Percentage of rents applies commonly in shopping centres and can be stepped.	Key money used to be common, nowadays less for new shopping centres, depending on retailer strength. Security deposit is 1-3 months.	Negotiable, but is common that the retailer is responsible for fully repairing and insuring.	VAT: 18% (recoverable) on each invoice usually monthly if issued by a corporation, if landlord is a person 22% income tax is withheld. Property tax paid by landlord, municipal taxes by tenants.
 UK	61.4	10 years is now common, often with a tenant's option to break in year 5.	Tenant has right to renew for up to 14 years.	Every 5 years to open market value. Sometimes linked to Retail Price Index or Turnover percentage.	It depends on demand and strength of retail covenant, but due to current oversupply landlords are granting incentives to tenants.	Retailer is responsible for fully repairing and insuring.	VAT: 17.5% of annual net rent (recoverable). Local property taxes are around 40% of annual rent.
 Ukraine	46.1	3-5 years. 10 years for anchor tenants.	Tenant has right to renew leasing contract.	Rare rent increases by indexation to an average of 2% per annum are rare. Rent is fixed either US\$ or euro.	Annual typical payment conditions include 1-2 months security deposit and 1-2 months advance rent payable when adaptation works starts.	Retailer is responsible for internal repairing and insurance. When the lease expires, retailer is obliged to reinstate the unit back to the lettable condition.	VAT: 20% of annual gross rent including operating expenses. Fit-out non-recoverable. Property tax not always included included in service charge.

¹ Source Global Insight, June 2009, ² Only shopping centre, ³ Information supplied by Athens Economics for Greece, ⁴ Akershus for Norway, ⁵ Kuoni Mueller & Partner Investment AG for Switzerland, strategic alliance partners of Jones Lang LaSalle, 2009

⁶ Information supplied by Re&Solutions for the Baltics and Denmark