LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

OCTOBER 2003 - volume V-N°46

Summary :

. Eastern Europe P.1
. W. Europe P.3
. North America P.8
. Asia/Pacific P.9

special studies :
.Wal-Mart continues expanding all ways P.11
.Metro's focus on fresh food in Russia P.13
.Investments in real estate : retail is a safe product P.14

INTERNATIONAL

✓**Top 25 international retailers in 2002.**

companies	countries	activity	02 sales (mio US$)	02 profits (mio US$)
1 Wal-Mart	USA	Discount/ food	246,525	8,039
2 Carrefour	France	Food	72,035	1,440
3 Ahold*	Netherlands	Food	66,500	N.A
4 Home Depot	USA	DIY	58,247	3,664
5 Metro	Germany	Food	54,004	464
6 Kroger	USA	Food	51,760	1,205
7 Target	USA	Discount	43,917	1,654
8 Sears	USA	General m.	41,366	1,376
9 Costco	USA	Food	37,993	700
10 Albertson's	USA	Food	35,626	485
11 Rewe	Germany	Food	35,350	N.A
12 Tesco	U.K	Food	33,575	1,178
13 Aldi	Germany	Food	33,100	N.A
14 Intermarché	France	Food	33,100	N.A
15 Safeway	USA	food	32,399	(821)
16 J.C.Penney	USA	Dept.stores	32,347	405
17 Kmart	USA	discount	30,762	(3,219)
18 Edeka	Germany	Food	30,477	N.A
19 Sainsbury	U.K	food	29,159	760
20 PPR	France	General m.	28,692	1,665
21 Ito Yokado	Japan	Convenience stores.	28,355	178
22 Casino	France	Food	26,928	525
23 Walgreen	USA	Drugstores	26,681	1,029
24 Lowe's	USA	DIY	26,491	1,471
25 Leclerc	France	food	25,466	N.A

*Source :company reports, DSN Retailing Today ( ) loss * to be restated*

While **Wal-Mart** is continuing expanding worldwide in China, Japan, South American and Western Europe, the French **Carrefour** reached its target in 2002 : sales excluding VAT grew by 4.6% to € 68.729 billion and EBIT by 7.1% to € 3.025 billion. In 2002, it added more than 250 new stores outside France.

Ahold is divesting its operations in South America, Malaysia and Indonesia. In Japan alone, Carrefour, Costco, Tesco, Metro and Wal-Mart opened stores last year either through organic expansion or acquisitions. After China entered the World Trade Organization at the end of 2001, the foreign retail firms entering the market has jumped. Carrefour and Wal-Mart are expanding there.

CENTRAL & EASTERN EUROPE : HUNGARY

✓**Tesco Global Aruhazak, a subsidiary of the British Tesco, has announced it was to open 4 hypermarkets before the end of 2003 and expects to open nine more in 2004.**

Tesco intends to build a warehouse (US$ 34.4 million investment) next year which will supply fruit and vegetables to its hypermarkets announced the Hungarian News Digest. As for now, Tesco Global has opened 29 hypermarkets in Hungary with ∊ 1.059 billion in sales and a 13% market share.

Hungarian hypermarkets accounted for 20% of the consumer-goods market between January and June 2003 from 18% in the same period one year earlier and 16% in 2001 according to the GfK Piachkutato Institute.

Discount chains have also increased their position to 16% and could grow rapidly to 20% mainly through the merger between the Profi discount food chain with the Match supermarket division of the French Cora.

ROMANIA

✓Orhideea shopping center was opened on September 24th in the near proximity of Bucharest downtown.

This center, built by the French Vinci group, was inaugurated by the Mayor of Bucharest, Mr Basescu, on September 22. It is anchored by a Carrefour hypermarket (8,000 sq.m of selling space), the second Carrefour of the French franchise Hyparlo, and 65 shops (8,120 sq.m), completely leased, in the shopping gallery.

The center is very well served by common transportation means (tramway, metro, bus and train). The mall and the internal fitting-up, the quality of the signs reach the best Western standards. Studies have been made by Chabot & Associates.

On the opening day, as soon as 8.00 am, there was such a crowd that customers had to wait until one hour and half to shop and the center gates to be closed during thirty minutes to avoid parking congestion (more than 60,000 visitors). In five working days Carrefour sold 90,000 oil liters, 46 sugar tons, 12 rice tons, 700 TVs…

According to our information, the first day Orhideea Carrefour sales were 10% above first day sales at Carrefour Chiajna opened in 2001.

A new Carrefour hypermarket in Romania will be completed in the first quarter of 2004 in Colentina, east of the capital. Globally, Hyparlo expects to open 20 hypermarkets in 10 years in province cities of 150,000 to 300,000 inhabitants. Thanks to its demerger from its operations in Italy, the French group realized a capital gain of ∊ 19.3 million which makes it able to enlarge its stores in France and develop in Romania (+14,500 new sq.m).

It is the first year that Hyparlo first half is positive : operating income was up 20% to ∊ 6.42 million. Net profit jumped to ∊ 19.7 million on consolidated sales excluding VAT at ∊ 436.53 million. Like-for-like sales were up 3.2%

RUSSIA

✓Muscovites are getting richer according to a recent survey by UBS which made a list of 70 cities worldwide in the first quarter 2003.

Since 2000, salaries in Moscow have nearly tripled while the price of a basic basket grew by 12.7% only which ranks Moscow as the 46th most expensive city in the world compared to its 44th position in the previous survey. However Moscow is less expensive than Istanbul but more than Warsaw, Tallinn, Vilnius, Riga and Kiev of the Eastern bloc. According to UBS calculations, Moscow obtained 53.6 points against a baseline of 100 assigned by the bank to its headquarters of Zurich (Switzerland).

In each city, UBS studied 13 professions, their salaries, working hours and the price of 111 goods and services. In this ranking, Oslo was the most expensive city in 2003 and took the place of Tokyo who fell to the third position.

As for gross wages, Moscow came in the 52nd position and in terms of net salaries, it comes ahead of all other Eastern Europe capitals except Ljubljana (Slovenia) and Budapest (Hungary) because of low taxation and social security contributions. In 2000, a Muscovite had to work 25 minutes to buy one kilo of bread and 74 minutes to buy a Big Mac. Today, he needs respectively 123 and 30 minutes.

In 2000, the average Muscovite earned 90 cents per hour and now US$ 2.60 or three times more. In the same time, merchandise and service costs increased by 12.7% only in the capital. In Budapest, the average person earns a slightly more (US$ 3 per hour) but prices are also higher. In Warsaw it is the contrary : the average hourly wages of a Polish is 40 cents less but he pays US$ 61 less for things than a Muscovite. In fact, this huge difference is due to the fact that Russians began from a very low starting position.

As concern working time, Muscovites are almost as productive as their European peers with 1,784 hours per year or approximately as much as in London and Madrid. But they work 30% less than in Hong Kong or in Seoul.

Moscow is also one of the dearest cities in the world as for apparel and electronics. A complete women's wardrobe in the high range price is about US$ 1,270 according to UBS. The same costs 7% less in Paris, 40% less in Helsinki and 57% in Prague.

In the same time, the standard cost of household appliances is US$ 2,980 in Moscow, 35% more than in New York and 56% more than in Budapest.

As concern food prices, Moscow is not expensive : 39 basic items cost approximately US$ 232 compared to 453 in Paris and 612 in New York.

Cost of living : a baseline of 100 has been assigned to Zurich (UBS headquarters)

rank	cities	score
1	Oslo	117.8
2	Hong Kong	108.1
3	Tokyo	106.1
4	New York	104.5
5	Zurich	100.0
6	Copenhagen	98.9
7	London	97.6
8	Basel	97.5
9	Chicago	97.2
10	Geneva	95.6
13	Paris	89.3
15	Los Angeles	84.3
23	Berlin	75.4
43	Budapest	55.9
46	Moscow	53.6
48	Warsaw	50.7
50	Tallinn	50.0
51	Vilnius	48.8
56	Riga	43.4
60	Prague	40.5
68	Kiev	32.5

Source : UBS

WESTERN EUROPE

FRANCE

✓Starbucks to enter France.

The first French cafeteria will be opened early 2004 in Paris, in the Opera district, following a joint venture agreement signed with Grupo Vips. The American firm expects to have approximately one hundred outlets in France over 2007/2008.

Grupo Vips is its partner in Spain where it operates 16 units in Madrid and Barcelona. It has been running several restaurant and store chains under the Vips, Ginos and Laena banners as well as international brands such as T.G.I Friday's, Bice (Madrid) and Starbucks since 2002.

Starbucks, created by an American who was inspired by the European-style coffee houses, became the largest American firm of its type in three decades, growing from a small « corner » in the Seattle market (Washington State) to an international chain.

Today it is one of the fastest-growing worldwide brands through associations with local partners in Southern China, Middle East and Europe. It just finalized a license agreement with its Taiwanese partner with the idea to expand in the region around Shanghai. In fact, facing a rapidly saturation of the American market, Starbucks is expanding worldwide. But this global expansion generates risks as it earns less money on each new outlet as most are operated by local partners.

Starbucks Coffee purchases and roasts high-quality whole bean coffees and sells them with a variety of coffee beverages, pastries and coffee-related accessories and equipment, primarily through company-operated retail stores and coffee shops : 7,225 stores in North and Latin America, Europe, in Middle-East and in the Pacific zone. Sales growth followed international expansion, increasing an average of 20% per year to US$ 4 billion in 2002/3 *(cf.Starbucks study in LLDI October 2002).*

✓Galeries Lafayette : the department store subsidiary has reported a net decline of its operating income (down € 8.9 million) in the first half ended June 30, 2003.

Sales excluding VAT grew by 1.5% only to € 2.62 billion. This marginal growth was attributed to a positive first quarter (up 4.8%) followed by a negative second quarter (-1.9%) due to a decline in tourism in the Paris downtown flagship store tied to the Iraqi war, the SARS, the increase of the euro currency, public transportation strikes in May and June and a sluggish economic context in France…

Group's net income group share grew by 1% only to € 22 million because department stores weighed on the 100%-activities held by the mother company. However, net profit grew by 12.6% to € 42.5 million thanks to Cofinoga, a 56% controlled consumer credit branch, and to Monoprix variety stores.

Group operating income grew by 5% to € 78.7 million : Galeries Lafayette and Nouvelles Galeries department stores have reported a € 8.9 million loss compared to a € 0.3 million profit in 2002 on sales dropping 3.7% to € 862 million ; BHV department store loss was still more important at € 4.5 million compared to 2.6 million one year earlier. However, Monoprix sales, 50% consolidated, grew to € 36.6 million from 31.1 million (up 17.4%) and LaSer to € 63.9 million from € 52.5 million in 2002.

✓Vivarte on sale following the decision taken by the main shareholders.

The former André Group, controlled by Jean-Louis Descours (23.43%) and the Anglo-Saxons Nathaniel Rothschild (30.1%) and Guy-Wyser Pratte (8.4%) since 2002, has reported yearly sales of approximately ∊ 2 billion.

In the half to February 28, the shoe (André, Minelli, San Marina, La Halle aux Chaussures brands) and apparel (Caroll, Kookai, Creeks, Liberto…) group improved its performance and profitability. If sales fell 1.2% to ∊ 938 million, EBITDA grew by 10.9% to ∊ 98.6 million and EBIT by 10.5%. Net income group share jumped 15% to ∊ 36.9 million accounting for 3.9% of sales. Operating margin increased by 0.8% to 7.1%. Operating profit amounted to ∊ 66.2 million. Savings in purchases allowed a 49.1% gross margin.

The sale transaction is managed by the Goldman Sachs bank.

✓Carrefour just signed a franchise agreement with Norges Gruppen, Norwegian's retail leader (∊ 4.6 billion, 34% share of the market).

137 Meny and Ultra Norwegian supermarkets will adopt the Champion sign in 2004. But "this agreement does not involve any alteration to the ownership structure of the two groups."

✓Go Sport has reported a good performance in the first half.

Consolidated sales before tax increased by 3.7% to ∊ 300.7 million mainly driven by Go Sport while the sport market grew by 2.5% to ∊ 8.35 billion.

In fact, Go Sport sales were up 7.3% and the sporting goods chain is gaining market share thanks to its store renovation program. But sales of Courir and Moviesport fell 8.9% compared to a 15.7% growth in the same period in 2002. Controlling operating costs boosted operating income to ∊ 5.8 million from 2.8 million in 2002. Group sales breakdown is : 38% textile, 34% shoes and 28% equipment.

In the first half, Go Sport added 10 stores and revamped 27. In the second half, it expects to open ten new and revamp ten.

✓Conforama ″new look″.

The largest French home equipment chain and second worldwide is launching a new store concept and a new catalog. Since October 1, all French outlets have adopted a brighter and more modern visual identity and before year's end all foreign units. All stores will be totally revamped according to the concept evolution within the next five years.

This evolution of the store format includes a new layout, a product presentation by « universe », a promotional alley and new seasonal sectors. In addition, a new furniture and decoration catalog has been published in 10 million issues.

In the first half, this subsidiary of the Pinault Printemps Redoute Group has reported sales growing by 2.7% to ∊ 1.3 billion in a market that decreased 5%. Operating profit fell 3.4% to ∊ 88 million. The new IHTM international central buying group with offices in Switzerland, China, France, Italy and Poland would be the main reason of that decline.

In 2004, Conforama expects to open 4 stores including 3 in the Paris area and 1 in Spain (Seville).

Conforama in Europe according to sales in 2002 (in ∊ million) : France with ∊ 2,200 accounts for 68% of the activity (including 47% in furniture), Italy ∊ 570, Switzerland ∊ 230, Spain ∊ 70, Portugal ∊ 39, Poland ∊ 7.6, a total of ∊ 2,900 million and 231 stores

Source : Conforama

✓Ikea France : same-store sales were up 2.3% to ∊ 964.5 million in the exercise 2002/2003 ended August 31 while the furniture market fell 5.3%.

This small sales growth has been driven by several events : between September and December 2002, sales grew by 6% compared to the same period one year earlier; from January to April, sales have been stagnant during the Iraqi war and the SARS phenomenon and from April to August, the activity fell 5% during the public transportation strikes and the hot period.

During this period, Ikea invested ∊ 80 million in 4 store extensions in France and projects for 2004 include the Paris area, Marseilles and Montpellier. In the long term, 30 new units could be opened in the French market.

The French subsidiary of the Swedish giant, the world's third largest furniture retailer with a 8.1% market share and 13 stores, is ranked behind Conforama (173 stores, 18.4% market share) and But (230 stores and 9.0%) according to the IPEA figures.

The Swedish group that operates 164 units worldwide has generated ∊ 11.3 billion in sales broken as follows : 82% in Europe, 15% in North America and 3% in the Asia-Pacific zone. During the period, United Kingdom operated at loss. Germany-Austria-Switzerland-Holland suffered, Sweden, Italy and Spain grew their activity. France is its fourth largest market. In the 2003/2004 exercise, the Group will add 15 new stores (cf.LLDI September) including 3 in Russia (St Petersburg, Kazan and Moscow) and in 2005 it will enter Japan.

GERMANY

✓**Kaufland, the hypermarket branch of the Lidl & Schwarz group, is expanding all ways through acquisitions.**

Kaufland's competitors are astonished as it is very quick to take over retail companies. It recently bought 7 Hela hypermarkets, based in Saarland, before its competitors knew they were on sale. Totally, Kaufland (∊ 10 billion in sales) operates approximately 400 stores including one hundred in foreign countries : 50 in the Czech Republic, 25 in Poland, 16 in Slovakia, 10 in Croatia and 1 in Romania. It is a leading company in eastern Germany expanding in Eastern Europe.

Its talent is lying on an efficient merchandise management system and a capacity to operate stores ranging from 2,500 sq.m to 15,000 sq.m. It has the possibility to cut prices highly immediately after it has taken a new group over and then to increase them again slowly according to its maxim : « If you don't get them at the beginning, you'll never get them. »

Kaufland is also combining all these talents with sophisticated internal market research tools that make the company able to know any time how it is close to its customers in order to react immediately when necessary.

Small independent food retailers begin to understand the real threat as the only regions where Kaufland is not present are north and West Germany.

Source : Lebensmittel Zeitung

NETHERLANDS

✓**Ahold has released its 2002 accounts : net loss amounts to ∊ 1.2 billion compared to a ∊ 750 million income in 2001.**

After a seven-month external and internal audit to correct the accounting irregularities and errors for 2001 and 2000 exercises of the world's third largest food retailer, and especially of the American US Foodservice subsidiary, profits have been revised downwards. Group net sales in 2002 amounted henceforth to ∊ 62.6 billion compared to ∊ 72.7 previously announced in January 2003 and to 54.2 billion in 2001. Net income in 2000 and 2001 decreased respectively ∊ 196 and 363 million.

US Foodservice, the American foodservice activity, has been depreciated by ∊ 2.7 billion bringing the total asset depreciation to ∊ 3.2 billion and net loss of the American operations amounted to ∊ 4.5 billion. However, operating income excluding exceptional items grew by 4% to ∊ 2.1 billion and the net debt decreased ∊ 800 million to ∊ 11.59 billion at the end of 2002.

All non-strategic assets were sold : first, its operations in Indonesia and Malaysia and recently 10 supermarkets in Paraguay, operated by Supermercados Stock, were bought by A.J.Vierci. Anders Moberg, the new CEO, should announce its new refinancing plan over the next weeks.

SPAIN

✓**Inditex : a 21% profit rise in the first half.**

The Spanish textile retailer has reported a 20.9% profit rise in the first semester. He revealed that sales in the first seven weeks of the third quarter were lower than expected. He also announced that pricing homogenization across Europe and the negative currency impact, especially in Mexico, should weigh on profits in the rest of the year.

Net income in the six months to July 31 increased from ∊ 120.8 million to ∊ 146.1 million. Boosted by 137 new stores, sales grew by 19.2% to ∊ 1.98 billion from 1.66 billion. Same-store sales were up 6.5%.

In fact, Inditex has been hurt by a particularly hot season in Europe and if the number of items sold had increased, sales were down as they were low-ticket items such as T-shirts.

At **Zara**, which accounts for 71.1% of the group's sales from 74.2% in the same period in 2002, revenues increased 14.2% to ∊ 1.41 billion thanks to 30 new stores bringing the total to 561. At **Bershka**, the fashion junior chain (225 units), sales were up 53.6% to ∊ 168.5 million and at the lingerie **Oysho** chain up 132.6% to ∊ 20 million. Other chains are Pull & Bear, Massimo Dutti, Kiddy's Class and Stradivarius.

UNITED KINGDOM

✓**Bullring, one of the largest inner city shopping centers, opened on September 4th in Birmingham.**

Built in several phases, this center includes :
- 11,0,000 sq.m space, 3 levels,
- 143 specialty stores including 57 new to the City,
- 2 department stores Debenham's (19,230 sq.m) and Selfridge's (23,225 sq.m, ∈ 58 million investment),
- approximately 10 restaurants,
- sales target : ∈ 570 million,
- 3,100 parking spaces,
- trading area : with 4.3 million inhabitants, it is the second largest zone after London.

Bullring was 96% leased when opening. Free six-month rents have been offered to retailers and fifteen-year leases,
- investment ∈ 1.420 billion including 710 supplied by the municipality.

The first phase of Bullring opened in 1964 in a 35,000 sq. space. It included a supermarket, a market and stores which made it the biggest shopping mall in the world outside of North America. Thirty-six years later, it took 8 months to demolish it and built it totally. A new phase, opened in September 2000, including a 5,500 sq.m covered market and 90 retailers. It was followed by the Martineau Place phase (∈ 142 million, 17,000 sq.m) in November 2001.

The New Bullring, one of Europe's largest urban renewals, is the work of Birmingham Alliance, a partnership between property firms, Hammerson plc, Henderson Global Investors and Land Securities Group, three investors who carried out this 16 hectare scheme. It was a real challenge as it is built on a complicated road, railway and canal network.

The last phase, Martineau Galleries, will develop a 5.5-hectare site with stores, offices and lodgings.

Land Securities and Hammerson have already teamed up to build the Broadmead zone in Bristol (∈ 750 million investment) and LandSec with Capital Shopping Centres to develop Cardiff city center (∈ 455 million).

✓WM Morrison, fifth British food retailer (6.1% share of the market, 123 stores) has obtained the permission from the Minister of Commerce and Trade after consulting the Office of Fair Trading for its bid on Safeway (480 stores).

It still has 21 days to present a new bid, the former valuing Safeway at £ 2.9 billion (∈ 4.12 billion). The transaction will cost it £ 65 million (∈ 92.33 million) to buy Safeway. In case it is successful, it becomes the 4th largest food retailer in U.K.

The other three candidates, Tesco, Sainsbury and Asda/Wal Mart have been eliminated from this battle. However they will be allowed to buy the 53 stores, which Morrison will be obliged to sell in case its final offer is accepted. Tesco would buy 21, Sainsbury 20 and Asda 12.

Wal-Mart/Asda will continue trying to buy a small British food retailer, the only way to expand in this country. In fact, United Kingdom through Asda accounted for 43% of its international sales in 2002 but 7.5% only of the total.

Wm Morrison total revenues grew by 13.7% to £ 2.48 billion (∈ 3.55 billion) excluding petrol in the first half. Profits before tax were up 10.2% to £ 126.2 million (∈ 180 million). However, during the period gross margin slightly declined because costs increased quicker than sales and the family group opened 5 new stores and renovated 3 others.

✓Tesco : U.K's largest food retailer has released good figures in the first half to August 9.

During the period to August 9, sales jumped 17% to £ 14.9 billion (∈ 21.16 billion), operating income grew by 16.9% to £ 692 million (∈ 982 million) and net income by 15.5% to £ 431 million (∈ 612 million). Sales in U.K amounted to £ 12 billion (∈ 17.04 billion, up 14.2%) including 6.3% from existing stores and 7.9% from new stores as the convenience store chain T&S bought in 2002 contributed to boost it. Thus Tesco market share grew from 26% to 27.7% in one year.

Tesco Internet sales jumped 32% and generated £ 11 million (∈ 15.62 million) profits. The international division, which accounted for 20% of total sales and operates stores in ten countries of Eastern Europe and Asia, had sales growing by 30% to £ 3 billion (∈ 4.26 billion). Operating margin grew from 2.9% to 3.7%. According to Planet Retail, Tesco will launch two new international formats, a small Super Express supermarket, larger than a traditional Tesco Express, in Korea in 2004 and one « compact » hypermarket in Korea and in Slovakia.

The retailer announced it was continuing its expansion in non-food sectors such as apparel whose volume grew by 37% in the semester.

✔Sainsbury, whose market share is falling behind Tesco and Asda, is expanding in non-food enlarging its home offer.

The supermarket chain will introduce 2,500 new products, including fabrics, cookware and bath accessories into half of its stores by the end of October while increasing its health and beauty range by 1,500 new items. Cutlery, crockery, toys, books, DVD and TV sets will be offered in approximately 300 supermarkets by Christmas.

Sainsbury's chief executive, Sir Peter Davis, declared : «Customers increasingly want supermarkets to offer other ranges and services in addition to their core food offer and we have developed products to satisfy this need and complement our focus on quality and value." This strategy is part of a program, launched by Sainsbury in 2001, which includes a major store renovation increasing the number of stores above 4,000 sq.m to 152 in order to offer general merchandise.

Until recently, Sainsbury was U.K's second largest food retailer behind Tesco (27% share of the market). It just fell behind Asda (17%, 260 stores) with a 16.2% market share and 500 stores.

✔The New Kingfisher : sales up 15% and profits before tax up 24% in the first half.

Total sales of the DIY activity grew by 15.3% to £ 3.9 billion (€ 5.53 billion) and retail profit by 29% to £ 335 million (€ 475.85 million). In U.K, B&Q and Screwfix cumulated sales were up 11.5% and retail profit up 16.3%. In France, Castorama and Brico Dépôt total sales grew by 10.7% in euro and profit by 31.1%.

Activities in Poland, Italy, China and Taiwan grew strongly again. Total sales of the international division were up 36.3% and profit up 67.4% in local currency. Sales and share of the market growth in the leading countries have been driven mainly by new stores.

Pro forma key figures (in million £) excluding Kesa (during 5 months) and Promarkt in 2002.

	2003	2002	variation
Retail sales	3,944	3,422	+15%
EBITDA (1)	335	259	+29%
EBIT	231	245	-6%
Net result	135	97	+39%

Source : Kingfisher *(1) before exceptional items*

Kingfisher international division (£ million) : 1st half.

	2003 sales	2002 sales	variation local currency	03 operating income	02 operating income	variation local currency
Poland	133.9	109.3	27.4%	17.4	12.8	41.4%
Italy	83.6	60.3	25.2	6.1	4.3	28.0
China	49.7	28.5	94.0	(2.6)	(3.2)	9.5
Taiwan	NA	NA	NA	2.3	2.4	6.8
other	NA	NA	NA	1.8	(1.7)	NA
total	**267.2**	**198.1**	**36.3**	**25.0**	**14.6**	**67.4**

As Kingfisher completed its transformation to the single sector of home improvement, it sold the non core DIY subsidiaries such as Dubois Matériaux (France), Castorama in Belgium, Réno Dépôt (Canada) and recently Nomi in Poland (39 stores), the last remaining subsidiary is Brazil (3 stores).

During the same period, **Kesa,** which gathers Darty and But in France plus Comet in U.K, has reported sales up 2.3% to £ 1.595 billion (€ 2.2 billion) in local currency. Like-for-like sales declined 0.8% and operating profit 7.9% to £ 52.8 million (€ 88.74 million) and 17.4% in local currency.

In France, in a sluggish electronic market, total sales of Darty grew by 1.4% in local currency but like-for-like sales fell 0.7%. As But suffered from the erosion in the French furniture market like-for-like sales declined 3% and operating profit 5.0%.

NORTH AMERICA
UNITED STATES

✓ Home improvement and DIY market : the two giants follow two different strategies.

While **The Home Depot** is trying to expand in highly-populated areas, Lowe's is now interesting in smaller markets. Thus, Home Depot will open a first store in Manhattan in a 10,000 sq.m of space in 2004, not far from ABC Carpet, the largest American floor covering specialty retailer. It will include a showroom at the street level, a retail sales area and a mezzanine. It will have more room for decoration and showroom for kitchen and bath products as well as for carpets, cleaning products, etc… As The Home Depot is negotiating for other sites in Manhattan, it will have to solve delivery problems that are legions in the region because of the traffic and to offer parking spaces.

Home Depot has been interesting in inner-city sites for a little more than one yea. It has opened its first unit in Brooklyn (New York) in April 2002 followed by others in Staten Island (New York) and Chicago.

Lowe's has no project in Manhattan because of the logistics problems and real estate costs. It is now interesting in smaller markets, those of less than 30,000 households. It opens two types of stores, those of 11,000 sq.m and 9,000 sq.m for smaller markets. "Our smaller store is the size of the basic Home Depot," Bob Tillman ceo, said, while precising that inventory is not as wide and deep in some lines. It expects to open 25 units of this smaller size which will bring to 130 the total of those units in 2003 including half of them in rural markets.

✓Nike, an international brand.

Nike has generated a greater share of its sales overseas (US$ 5.1 billion) than in the U.S. (US$ 4.6 billion) in the exercise ended June 30. They were mainly driven by record sales of athletic shoes, apparel and football equipment in Europe, Asia and Latin America. In order to boost its American activity, Nike bought the Converse brand for US$ 305 million.

In the quarter to August 31, it reported a net profit of US$ 261.2 million vs. a US$ 48.9 million loss in the same period one year earlier. Total sales grew by 8.2% to US$ 3.02 billion from US$ 2.8 billion. Gross margin jumped from 41.4% of sales to 43% and selling, administrative and general expenses fell 10 points to 28.7%. Another good news, global orders forecasted for the September-January period have increased by 10.5% to US$ 3.7 billion.

Overseas sales gains offset declining sales in the U.S.A where apparel only has been growing by 5% to US$ 346.5 million while shoes fell 5% to US$ 822.4 million and equipment 4% to US$ 85 million. Totally, domestic sales declined 2% to US$ 1.25 billion while Europe, Middle East and Africa sales increased by 17% to US$ 1.01 billion. In the Asia-Pacific area, apparel was particularly performing (US$ 113.3 million). In the Americas, excluding USA, this category grew by 2% to US$ 39.4 million.

Nike international division has duplicated its American marketing strategy including the signature with famous athletes to sell shoes and apparel. Moreover, its partnership with Manchester United was also paying off. In the last exercise, its football activity generated US$ 720 million sales compared to 500 million one year earlier. Its Cool Motion and Sphere lines contributed to increase its textile sales in Europe by 16% to US$ 1.1 billion and by 24% to US$ 500 million in Asia.

In the U.S.A, its basketball franchise is a mature activity and it is difficult to grow in a market that has been stagnant for ten years. Even if its controversy with Foot Locker is solved, it has to understand that it does not fit the American taste any longer as, since the end of the Nineties, consumer tastes changed from athletic sneakers to sandals and retro runners.

✓Saks, a department store chain that is becoming more international.

Saks announced it will open four department outlets in the United Arab Emirates (Dubai) early 2004 and Qatar (Doha) in fall 2004 through license agreements with a group of established firms, including Al Mana Group, which will own and operate the stores and Saks will get fees based on sales performance.

In addition, the chain is considering other sites such Bahrain and Beirut in 2005 or 2006 and is interesting in Latin America. The chain is now capitalizing on its worldwide brand recognition after decades of indecision over international expansion.

Saks will enter Japan while opening a 5,000 sq.m department store in Tokyo at the end of 2005 and it will be its first presence in the Asia market. This operation will be done through a joint venture and franchise agreement with SFA Japan. It is a consortium which gathers 5 Japanese and American firms (including Saks) already operating 62 Saks Fifth Avenue department stores and 53 Saks Off 5th in the U.S.A. 10 units are scheduled in the main cities of the archipelago. Saks is also considering the South Korean and Chinese markets.

The prestigious chain of 242 outlets under various signs including Parisian and Proffitt has reported a US$ 25.8 million growing loss from US$ 20.4 million one year earlier in the second quarter to August 2 because of high markdowns due to a low demand. For the first half, Saks announced a net loss of US$ 11.3 million versus US$ 45.8 million in 2002 and same-store-sales decreased 2.1% to US$ 2.61 billion from US$ 2.66 billion.

Source : Women's Wear Daily

✓Retail trade in 2002 : total sales in 2002 amounted to US$ 1,236,236,120,000 broken down as follows according to various categories :

categories	share	categories	share
Supermarkets	20.3%	International	4.1%
Discount stores	11.8	Apparel stores	3.8
Hardline stores	10.8	Sears, Penney	3.2
Supercenters	9.5	Electronic retailers	3.0
Drugstores	8.4	Mail order catalogs	2.1
Home centers	7.5	Convenience stores	2.1
Warehouse wholesale clubs	6.5	Shoes	0.9
Department.stores	5.4	Military exchanges	0.6

Top ten American Retailers according to sales in US$

companies	2002 sales (000)	2001 sales (000)	2002 profits (000)	2001 profits (000)	Stores 2002
1 Wal-Mart	246,525,000	219,812,000	8,093,000	6,671,000	4,688
2 The Home Depot	58,247,000	53,553,000	3,664,000	3,044,000	1,532
3 The Kroger	51,760,000	50,098,000	1,205,000	1,043,000	4,089
4 Target	43,917,000	39,826,000	1,654,000	1,368,000	1,475
5 Sears, Roebuck	41,366,000	40,990,000	1,376,000	735,000	2,192
6 Costco	38,762,499	34,797,037	699,983	602,089	374
7 Albertson's	35,626,000	36,605,000	485,000	501,000	2,287
8 Dell Computer	35,404,000	31,168,000	2,122,000	1,246,000	N.A
9 Safeway	32,399,200	31,797,000	(828,100)	1,253,900	1,695
10 JCPenney	32,347,000	32,004,000	405, 000	98,000	3,789

Sources : company reports, Chain Store Age Research

ASIA

✓Dairy Farm seeks to triple its Giant hypermarket number in south East Asia to bring their number to 40-45 over 2005.

Now Dairy Farm operates 8 hypermarkets in Malaysia, 3 in Singapore and the same number in Indonesia. Its budget amounts to US$ 50 million to open 10 new hypermarkets in 2004 and 2005 in Malaysia. As concern Indonesia, Dairy Farm is concentrating on three cities : Jakarta, Bandung and Surabaya where 5 hypermarkets will be added each year from 2004.

If its plans are successful, Dairy Farm will register a two-digit growth in its sales with these new units.

✓Burberry's expanding worldwide.

Two weeks after it opened its first Italian store in September in Milan, the British luxury fashion chain, has announced new outlets in Kuala Lumpur (Malaysia), Melbourne (Australia), Hong Kong and Singapore before year's end and an additional store in Tokyo (600 sq.m) in April 2004 to offer accessories, perfumes and home accessories.

The company does not break its sales per country but in the 2002/2003 exercise, total revenues amounted to US$ 943.4 million. In the first quarter 2003 to June 30, retail sales were up 33% thanks to several store openings and the acquisition of its distributor in Korea. →→→

According to its chief operating officer, Mike Metcalf, the company is in line with its full-year projections, analysts expecting EBITDA around US$ 250 million from US$ 192 million in 2002. North America and Hong Kong markets have begun to soften while the U.S. was the best performer, Europe remained stagnant. Sales began improving in Hong Kong and Singapore. « Confidence is returning to the consumer and we are seeing the beginnings of recovery in the travel business. The mainland Chinese are back shopping in Hong Kong and that's important for us. » he added.

CHINA

✓**Retail outlets are expanding rapidly.**

Store number has been increasing so quickly since those past years that sales per unit are low according to a recent survey by AC Nielsen. Supermarkets and convenience stores grew by 35% per year to 25,000 units. Meanwhile same-store sales fell and sales of quick-selling consumer goods fell above 20% from 2001. Moreover, competition is very fierce pushing prices to decline and generating lower profitability.

Facing such a context, retailers try to react. They rethink their expansion programs, improve service, product range and prices in order to better attract shoppers and launch their home brands.

China has promised to liberalize its retail trade by the end of 2004. As it anticipates a much greater competition, the municipality of Shanghai merged mother companies of 4 large retailers in the beginning of this year including those of Lianhua Supermarket Holdings, Hualian Supermarket, Shanghai N°1 Department Store and Shanghai Material Trading Centre Co.

✓**DECATHLON will open its first sporting goods big-box store in November 2003 in Shanghai.**

The French company has successfully tested the Chinese market since 1998 while opening three small outlet units (1,000 sq.m) in Shanghai, Guanghzhou and Shenzhen. The first big-box store in a 3,000 sq.m of space will be opened in November in the Pudong business district of Shanghai. Decathlon China and Asia headquarters will be located in the store.

After one year of operation, the development program of Decathlon could expand in Shanghai area and main cities such as Beijing could be next targets.

Decathlon is at 44% controlled by the Mulliez family (founder of Auchan) and 43% by the Leclerc family and 13% of the capital are in the hands of the employees. It will operate 310 outlets in 12 countries by year's end including 38 in Spain and 26 in Italy and their sales amounted to € 2.8 billion excluding tax in 2002.

In 2003, the international division is expanding while opening 12 new stores including the first one in Poland. Decathlon entered the U.S. market in 1999 when it bought the MVP 18-store chain. Its investments are concentrated in the four best sites and the other 14 will be closed before year's end.

✓**Department store activity.**

Some eminent department store chains from **Taiwan** are ready to enter and expand in the Chinese continent :

- **Pacific Department store** of Far Eastern Group operates 9 stores in joint-venture with Chinese who own 35% of the capital,
- **Core Pacific** has already heavily invested in shopping centers and is in discussion with the « Cheng Ta » shopping center in Shanghai for a potential technical cooperation,
- **Far Eastern**, which bought the Sogo Pacific department stores early 2003, has planned to open two new units before the end of this year,
- **Testrite,** owner of B&Q in Taiwan, is in discussion with the British Debenham's department store chain in order to launch this sign in Taiwan. It shows its desire to expand in this sector dominated in Taiwan by Japanese (Sogo, Mitsukoshi and Takashimaya) and the local Far Eastern.

Testrite has interests in building, retailing and import-export. It launched B&Q in Taiwan in 1997 and then two further signs : Hola (home-improvement and decoration) and Homy (bedding).

Source : Veille Internationale

JAPAN

✓**Summer sales show signs of recovery at Fast Retailing, Isetan and Daimaru.**

For the first time in two years, sales at **Fast Retailing**, the mother company of Uniqlo, the casual clothing firm, grew in August thanks to a specially cold summer which boosted sales of women's trousers and hot apparel. Like-for-like sales at 420 units open at least a year grew by 6.7% from the same month one year earlier. However, they declined 2.7% per customer.

At **Isetan,** Japan's fifth largest department store group, sales increased also thanks to the specially cold summer.

Daimaru, Japan's fourth biggest department store chain, profit fell but less than forecast in the first half due to a cost-cutting program and a gain from the sale of real estate. Net income group share fell from Y 3 billion (∊ 232 million) to 2.5 billion (∊ 192 million) compared to 1.5 billion (∊ 115 million) initially estimated.

Takashimaya, Japan's largest department store chain, reported sales falling 0.4% in August compared to the same period one year earlier partly due to a typhoon which kept shoppers at home.

AUSTRALIA

✔**Aldi and competition.**

Aldi, which has been present in the Australian market since January 2001, has met the competition from eminent and well established chains such as Woolworths and Coles Myer and also from smaller competitors hence its difficulty to find good sites.

However, the German hard discount chain has expanded greatly in this market and will operate approximately one hundred units by the end of this year. According to industry observers, the group has shaken local habits while focusing on home brands, a tight control of costs and the management of its supply chain. Its success pushed local retailers to rethink their own brands which are generally snubbed by consumers. Thus, Coles Myer and Foodland Associated, even Woolworth, decided to increase their offering.

While Coles Myer and Woolworth carry about 20,000 items in their stores, Aldi only has 650 in stock and 95% of it is composed of home brands sold at very low prices pushing one hundred Woolworth's stores to offer the same pricing. As Aldi runs a limited number of lines its replenishment system can be managed manually. Hence low labour costs which would be at 2% only compared to 9% at its two competitors. Its gross margin would also be tight, about 11.5%. Moreover, Aldi obtained that its suppliers do the packaging according to its own desire which makes it save time and money.

Under these conditions, Aldi, which now has a 1% market share could grow to 4% according to observers.

Source : The Australian

♦ ♦ ♦ ♦

Wal-Mart continues expanding all ways. Its size is its greatest challenge.

The world's retail giant plans to add 5 million sq.m of retail space in 2004, approximately an 8% increase over this year. For the present exercise, beginning February 1, it had announced it planned to open 335 new stores in the U.S.A including 50 to 55 discounts, 220 to 230 supercenters (140 will be relocated or expanded units and the others new ones).

It plans also 25 to 30 new Neighborhood Markets and 35 to 40 Sam's Clubs. Internationally, 130 to 140 units will be opened in existing markets including about 30 will be enlarged and relocated units. As of August 31, it operated 1,494 Wal-Mart Stores, 1,386 supercenters, 56 Neighborhood Markets, 532 Sam's clubs in the U.S.A and 1,309 units in 10 countries. If it persists in its 15% expansion rate, it will double its sales over the next five years to reach about US$ 600 billion in 2011.

To support such a network, WM will build three regional warehouses for general merchandise and two for food or a total of above 500,000 sq.m of new space.

It is as huge as the need to find employees becomes crucial. According to estimates, 44% of its 1.4 million employees will leave the company in 2003 which means it will have to hire 616,000 new « associates » to stay at the same level. In addition, between 2004 and 2008, it intends to create 800,000 new jobs including 47,000 at the management level.

This dominance of the most powerful company in the world is creating difficulties for buyers, employees, communities and even the American culture.

Its strength is lying on :

- **the economy level** : it is the largest company in the world with US$ 245 billion in sales in 2002. According to McKinsey, the eighth of its productivity gains came from its efficiency efforts at the end of the Nineties.

Moreover, it has partly contributed to the very low inflation rate of those past years. Its imports for US$ 12 billion merchandise from China which accounted for the tenth of total American imports from this country in 2002.

- **low wages** : with a total of 1.4 million employees, WM plays a great role in working conditions and wages worldwide. It forced many factories to leave the country and its labor force costs are 20% below those at unionized supermarkets.
- **as for the communities,** it offers important advantages in buying power but its efficiency forces many local competitors to close down. Each new supercenter might push two supermarkets to close in the next five years.
- **its culture** : in the name of the consumer protection, it has forced magazines to hide some covers because it considered that they were racy and took them off its departments. It does not sell the morning-after pill and record companies sell it sanitized CD versions.
- **relationships with suppliers** : as it is relentless pushing prices downwards, it wants that all savings be passed on to consumers.

Wal-Mart is three times Carrefour. Each week, 138 million customers shop at its 4,750 stores. In 2002, 82% of the American households have purchased at least once. Over the past years, it saved billions of US$ in cost efficiency out of its supply chain which enabled it to pass them to its customers. According to Deloitte Research, it saved US$ 20 billion in 2002 only which approaches US$ 100 billion in total annual savings while considering it forces its competitors to cut prices.

But all is not simple. As the largest private anti union employer, it is very criticized for its wages level in America. On average, its employees who are called « associates » earned US$ 13,861 per year in 2001 while the federal poverty level is US$ 14,630 for a family of thee persons. WM retorts that its pays wages equivalent or superior to those of its competitors in fifty American markets basing its arguments on a survey it commissioned.

However, it is clear that the company is facing several oppositions as it can be seen in the nearly 40 current lawsuits against employees forced to work overtime without being paid and one sex-discrimination case…

In fact, Wal-Mart would be the most admired and the most hated company in the U.S as it accounts for 30% of the American market of household staples such as toothpaste or shampoo, a share which might grow to 50% before the end of the decade according to analysts; WM is also accounting for 15% to 20% of all US CDs, videos and DVDs sales and for 15% of all magazines sold in the U.S, an activity new to the retailer since the Mid-Nineties. WM has become such a dominant retailer, « They pile up best-sellers like toothpaste.» said the chief executive officer of Barnes & Noble, the world's largest bookseller.

WM controls a growing share of the activity of the large US consumer-goods companies such as 23% of the total sales of Revlon, 24% of Del Monte Foods… consequently, it is more and more an essential issue for manufacturers but also for the American economy.

As for competition, WM is not is not affected by the Robinson Patman Act, which dates back to 1936 to protect the traditional retail trade from the Great Atlantic & Pacific Tea Co, the Wal-Mart of the time. This law condemned low prices granted to large companies and not to small retailers. But WM will not face any problem as long as it delivers low prices to consumers.

However, it is more and more in opposition with its roots. For, according to its expansion plans, it expects continuing to open stores out of rural southern and Middlewest America and more and more into urban centers, its low prices and offer attracting residents as well as rural people.

As concern community, it faces an opposition from the anti Wal-Mart move which gathers groups opposed to its new stores and protesting that its each new big-box store does not boost either employment or sales or property-tax-receipts.

Impact on competition.

For local unions, who represent food retail employees, there is no issue than survival. Each new supercenter, Wal-Mart's main expansion vehicle, would have forced almost 13,000 traditional US supermarkets to close since 1992. Copied from the European hypermarket, WM did not introduce the format to the U.S but, since 1988 it has launched into food and drug retailing it accounts henceforth for 79% of the category with 1,386 units and has become this way America's largest grocer with a 19% share of the market and also the third largest pharmacy with 16%.

In the next five years, WM intends to open approximately one thousand new supercenters in the U.S. According to some consultants, this wave will boost its food sales and related items to US$ 162 billion versus US$ 82 billion today that accounts for 35% of its total US food sales and 25% of drugstore sales. It is clear that it will be at the expense of well-established competitors mainly the unionized ones who pay their employees on average 30% more than WM does. According to Retail Forward, every new WM supercenter will force two supermarkets to close or 2,000 units totally.

It is clear that customers can make huge savings thanks to American supercenters. On average, its prices are 14% below its competitors according to UBS Warburg. However, it is possible at a cost. Because as the supermarket number shrinks more shoppers will have to drive farther to find one of its stores and they will progressively limit their purchases to merchandise WM has chosen to sell, or an increasing percentage of home-brands which account for approximately 20% of its sales.

It suppliers also suffer from the permanent pricing pressure by Wal-Mart as it does not only impose delivery plannings and inventory levels but it also has a weighing influence on the product specifications. In the end, industrials have to choose between making goods their way or the WM's way. For clear reasons, it reduces its focus on the « Made in America » campaign, launched in the Mid-Eighties by its fonder, Sam Walton. In such conditions, it has recently tried to cut its costs by ordering finished goods and raw materials from foreign suppliers. While working directly with a few denim manufacturers in Southeast Asia it has succeeded in cutting the retail price of its George brand jeans in United Kingdom and Germany from US$ 26.67 to 7.85…

Wal-Mart in Europe.

It entered Germany in 1997 when it bought Werkauf and Interspar for US$ 1.6 billion. In this country, WM is limited by strict laws on discount. In fact, prices are tightly controlled, labor laws rigid and local discounters such as Aldi and Lidl well established. Furthermore it is forbidden to sell merchandise below cost so that the giant cannot use its everyday low price method to attract shoppers. In 2000, it was ordered to pay a fine before the German court for having sold milk and other items below cost.

When it entered Germany, it was handicapped because both chains were not profitable (in 2002, its local 92 stores still lost US$ 10 million according to estimates) and accounted for less than a 3% market share. In addition, when it changed signs to Wal-Mart, which most German had never heard of, it did not contribute to make the situation easy. Then there were cultural mistakes. Germans do not like to be welcomed when they enter stores. However, WM does not give its German experience up as it is building a hypermarket in Berlin and introduces its George apparel line into all its German stores.

In United Kingdom, Asda accounted for 8.4% of the market when it was acquired in 1999 for US$ 10 billion and both cultures mixed without problem. Asda's name has been kept. Then it overtook Sainsbury as U.K's second largest food retailer and its 262 stores have reported a US$ 1 billion profit in 2002 and sales are growing by 10% a year.■

Sources : Business Week, Women's Wear Daily

♦ ♦ ♦ ♦

Metro's focus on fresh food in Russia.

Since 2001, Germany's largest retailer has built 5 cash & carry units in Russia (three in Moscow and two in St Petersburg). It plans several more having understood that needs in the big cities of this country are huge. In fact, while the government pushes towards higher quality standards and fights against counterfeit of branded products, it did not succeed yet in making easier the situation for professional food buyers : the offer of consistent availability, stable pricing and good service to its wholesale customers.

Metro investments in Russia are part of a program led by the group of 440 stores in 25 countries which enabled it to make approximately half of its sales outside Germany in 2002.

Food stores.

In the key cities of Russia, a few large retailers opened self-service stores : among them in Moscow, Auchan from France and Ava, a subsidiary of the German Edeka, that has just built a Martkauf hypermarket in a 23,500 sq.m of space offering 400,000 products, and Ramstore supermarkets, operated by the Ramenka Turkish Group. Around St Petersburg, there are several Lenta food warehouse-stores. Lenta operates as both a retailer and a wholesaler.

Each of its cash & carry stocks a total of 20,000 lines including 9,000 food and drink and 11,000-non food. Compared to its West European units, focus is on fresh produce, mainly dairy, vegetables, fish and meat. Quality standards are also very high as Metro is paying an independent veterinary team who reports to a government department.

Metro limits its customers to members identified by the Chamber of Commerce. They are regular shoppers whose average purchases are two to three times higher than in the retail stores. Russian restaurant, hotel and catering operators are not very different from their counterparts in the West. They cook every day, look for fresh products and propose new menus relative to the seasons. They buy every day and are very interested in the seafood department because more than 50% is fresh and deliveries are every week from countries as far Norway and North Africa.

The fresh meat department is also very successful but the best net margins are generated with dry goods. The liquor department is a high volume department mainly because of vodka but margins are not very high and products easy to be stolen. A separate shop has been set up for Russian and foreign wines. Bottled water is so important in the Russian market that Metro hopes to have its own private label brand. In the non-food sector, customers find bulk quantities and individual items such as cleaning products and toilet paper, a large choice of electronics, cameras, office supplies and toys. The target customer of this department is the specialty retailer. It is also possible to find small cooking equipment limited to coffee machines or fryers.

Metro is 60% supplied by local producers because it is important to carry to its customers and the public that it signed agreements with Russians.

Deliveries.

Its present platform now has 120 suppliers who are not accustomed to logistics and, some days, there are more than 200 lorries delivering to a store, which creates congestion and traffic problems. Other concerns are generated by the transaction treatments, a somewhat complicated process in Russia because of the need for an invoice. It is why Metro is in discussion with the tax ministers and other governmental departments in order to find an acceptable means for both parties and make the transactions easier all the more as inaccurate bar-coding does not help much either.■

Source : Lebensmittel Zeitung.

♦ ♦ ♦ ♦

Investments in real estate : retail is a safe and stable product.

Capital continues to be injected in retail real estate because investors remain suspicious about other investment in a low economic recovery. The total asset value in real investment trusts grew by more than US$ 5.5 billion in the first half of 2003 and the wave of new funds accounted for more than one third according to Lend Lease Real Estate Investments.

More and more institutional and private investors estimate that retail is a safe value. Annual yields over the next four to six years will be, still according to Lend Lease, approximately at 7% to 8%. This sector is superior to other property types as it can be seen in the relative stability of rents and the low vacancy rate. In the top fourty U.S markets, the average vacancy rate in the retail trade is about at 10.5% up from 8.5% two years ago according to a survey by Marcus & Millichap and, on their side, rents did not increase more than 0.6% to US$ 181.74 per sq.m in the second quarter.

The majority of the surveyed persons, who are private investors, forecast a pattern of stability in 2004 similar to 2003, more than half of them anticipating that property rents and property values will remain at the same level.

A major concern is caused by the outbid of prices led by shopping centers anchored by a grocery store hence an overheated market. Prices are very high and reach historic levels hence a drop of 200 basis points of the capitalization rate in the past two years. Some experts estimate that their valuation should be cut as food retailers are facing risks caused by the growing competition including from Wal-Mart supercenters.

As for rent forecasts, investors estimate that they will increase in shopping centers anchored by a food and drug store more than for any other retail property type. Approximately 28% of the surveyed respondents indicate that rents in this type of centers will grow over the next year compared to 20% that estimate that they will grow in regional malls.

Moreover, 32% of these persons declare that it is the time to buy now centers anchored by grocer and drug stores compared to 26% who think that it is time to sell. And 13% only believe now the time has come to buy regional malls versus 41% who say it is time to sell.

Competition from neighborhood centers anchored by a food grocer remains intense. « We're seeing shopping centers that might have been built for US$ 1,000 to 1,100 per sq.m. now selling for US$ 2,600 per sq.m, » says Jay Brown, a private investor based in Illinois who intends to invest between US$ 8 to 12 million over the next 18 months to increase its retail portfolio from 10,000 to 22,000 sq.m.

The study conclusions indicate that investors did not fear the weakening property fundamentals. They think that the market has reached the bottom and that better days are ahead. « The major theme is that real estate remains a solid investment that will stay intact. Even with higher interest rates and more competition from other forms of investments such as stocks, » says Green from Marcus and Millichap.

Top ten property managers.

This survey is based on the total amount of space under management globally to December 31, 2002. This total was obtained by adding together the space managed for outside clients and the space managed for the property managers' own portfolios.■

Top 10 Property Managers (in million sq.m)

company	total space managed	company	total space managed
Jones Lang LaSalle	66.15	Insignia	22.60
CB Richard Ellis	63.51	NAI	21.15
Trammell Crow	46.36	Prologis	18.95
Colliers International	29.93	Simon Property	17.17
Cushman & Wakefield	28.81	Lincoln Property	16.56

sources : National Real Estate Investor, Retail Traffic

♦ ♦ ♦ ♦

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE,

a monthly newsletter, 11 issues a year,

every month informs all decision makers
concerned by retail globalization
on new markets, new competitors, real estate...

Publisher **: Patrice de Chabot,**
e-mail : pdechabot@chabot-associates.com

Chief editor **: Brigitte Guillot,**
e-mail : bguillot@chabot-associates.com

LLDI
7 rue Fould, 78600 Le Mesnil le Roi,
France
Tel/fax 33 (0) 1 39 12 17 93

www.chabot-associates.com

●●●

subscription form to :
LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

.Last name... First Name ....
.Function ....
.Company ....
.Address ....
.Tel.. Fax ....
.e-mail address... Mobile ....

● **I subscribe to LLDI (paper edition), in English by regular mail** O

● **I subscribe to LLDI in English by e-mail** O

● **I subscribe to LLDI (paper edition), in French by regular mail** O

● **I subscribe to LLDI in French by e-mail** O

at € 510

payment by cheque payable to Chabot & Associates/LLDI or by bank transfer

⇒ Please return this formula by e-mail or regular mail to :
Brigitte GUILLOT,
Chabot & Associates/LLDI,
7 rue Fould-78600 Le Mesnil Le Roi-France,tel/Fax 33.(0)1.39.12.17.93,
e-mail : bguillot@chabot-associates.com