

# GLOBAL RETAIL NEWS LETTER

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*If you want to read one of the hereunder articles in full, do not hesitate to contact us...*

JUNE 2008

## **INTERNATIONAL**

United Kingdom has the highest percentage of foreign retailers in its market

## **EUROPE**

- . Property return in Europe in 2007
- . European organic market

## **BELGIUM**

. Delhaize Group : the U.S. where the retailer makes 80% of its revenue is weighing on Q1 figures due to a weak dollar and the economic environment

## **DENMARK**

. Abercrombie & Fitch will open a second European store in Copenhagen late 2009

## **FRANCE**

- . Carrefour : solid sales in South America, Eastern Europe and China offset a slower growth in France in Q1
- . French consumers back in food discount stores in 2007
- . Kiabi has ambitious projects

## **GERMANY**

. Metro : sales are still driven by the international division, which now accounts for 59.8% of the total in Q1, 2008. The German Group just announced it will open a 1<sup>st</sup> cash & carry in Egypt (Cairo) by end 2009

## **ITALY**

. The New Benetton confirms its objectives

## **NETHERLANDS**

. Ahold : sales dipped 1.3% in Q1 impacted by a weak dollar

## **RUSSIAN FEDERATION**

- . Foreign Direct Investments collapsed in Q1

## **UNITED KINGDOM**

- . UK's Competition Commission has taken some measures to limit the power of the largest supermarket chains and improve customer's choice : Tesco, Sainsbury's, Asda and Morrison's were all under scrutiny in the study
- . Commercial property owners in U.K are impacted by a tax on empty buildings
- . Marks & Spencer : after a difficult April, May marked improvement. British retailer remains cautious for the coming months
- . Sainsbury confirms it is now back on the right way
- . British retailers have agreed to sign an eco-friendly pact according to an initiative launched by the British Retail Consortium

## **AMERICAS**

### **UNITED STATES**

- . The Home Depot is reconsidering its expansion projects downwards
- . Wal-Mart : in fiscal first-quarter net profit jumped 6.9% helped mainly by solid sales in emerging markets
- . Macy's department stores chain maintains full-year earning forecast in spite of losses
- . Yum Brands continues expanding mainly through franchising. Franchising is prosperous in the U.S.
- . Organic apparel, a market sector set to explode

### **MEXICO**

- . Kimco is building more shopping centers in Mexico to answer to the demand of an emerging middle class

## **ASIA/PACIFIC**

### **CHINA**

- . Young Chinese consumers consider 10 criteria when they purchase merchandise
- . Cosmetics in China are the most aggressive sector of consumer goods

### **INDONESIA**

- . Retailing could contribute to improve the economic situation while the manufacturing sector is facing difficulties amid global economic slowdown according to the local association of retailers

### **SOUTH KOREA**

- . Tesco agreed to acquire Korean Homever from E-Land for a total amount of \$ 1.9 billion, debt included

## **AUSTRALIA**

. Credit crisis pushes Australians to sell portfolios

## **NEAR/MIDDLE EAST**

### **TURKEY**

. Foreigners are no longer authorized to own property

## **UNITED ARAB EMIRATES**

. Massive retail growth in Dubai : more than 2 million sq.m will be completed in 2009

**You can also read the following studies :**

- ✓ In Ukraine, foreign investments are pumped into the immature retail market
- ✓ Kazakhstan. The republic, highly hurt by the global credit crisis, has suspended or gave up many projects until new financing ways are found
- ✓ Franchising in Mexico

## **A few lines from our articles in GLOBAL RETAIL NEWSLETTER JUNE 2008**

### **■ AUSTRALIA**

#### **Credit crisis pushes Australians to sell portfolios.**

In the past three years, Australians invested € 7.9 billion in European real estate according to Jones Lang LaSalle. Volume topped at € 5 billion in 2006 to slow down in 2007 as the market was weakened by the credit crunch.

In January 2008, Centro Properties Group, an Australian property investment trust, owner of 682 shopping centers in the U.S. and 130 in Australia, was struggling and compelled to sell assets to raise cash as it could not repay its short-term debt of \$ 4.9 billion at the end of 2007. Early 2008 it was an isolated case but this has now changed.

In May, it asked its banks to extend for the 4<sup>th</sup> time the deadline of its repayment until December 15 as it tries to pay off debt while selling assets in which it owns majority stakes and by soliciting high capital influx in return for equity. Now, the problem is it only has only minority stakes in many of its shopping centers.

Centro is a commercial property giant with \$ 24 billion in assets last year, managed by chief executive Scott since 1997, whose strategy was to create dozens of investment funds to buy property and recruit outside investors into these funds.

## ■ TURKEY

### **Foreigners are no longer authorized to own property.**

It is the new decision taken by the Turkish constitutional court. While the Finance minister admits that this will likely discourage foreign investors meanwhile the head of the Urban Land Institute Turkish office believe that many projects that might top \$ 4 billion this year will be cancelled. Investors can act in the frame of the current law until October and operations already finalized will not be affected. Transactions in the pipeline could meet complications if they are not rapidly closed.

According to Europroperty, such a situation pushed ING Real Estate to drop its bidding on 50% in Russian Renaissance Construction's \$ 1 billion Turkish commercial portfolio. Since February, this Russian developer was looking for a partner to establish a joint venture. The sale of Ankamall, the second largest Turkish mall in Ankara by its two owners, Migros and Gedimat, is slowly progressing (*cf. GRN April 2008*)...

Other investors are less worrying such as Pradera, which does not believe that this justice decision will survive and will buy the MI retail portfolio of Metro Group for € 100 million.

Pramerica, which is persuaded that investors who "buy property in cities with urban planning and zoning systems won't be affected," accelerates its expansion in Turkey. The German fund is raising capital for a new fund to invest up to € 1 billion in Turkey and Russia. It will be fed by the purchase of a land in Istanbul for € 120 million on which a mixed-use complex of € 300 million will be developed.

## ■ UKRAINE

### **Foreign investments are pouring down into an immature retail market.**

Thanks to a relative political stability and a solid economic growth, this country has a lot of opportunities to offer to developers, retailers and investors. On the demography level, it is the region's second country after Russia by inhabitant terms with a population of 47 million. Five cities exceed one million inhabitants (Kiev, Dnipropetrovsk, Odessa Kharkiv and Donetsk) and two have more than 700,000 (Lvov and Zaporizhzhya).

GDP gained 7.1% in 2006 and 7.3% in 2007 according to the Russian investment bank Renaissance Capital. This growth was mainly fed by the retail and construction sectors up respectively +16.6% and +14.3% to September 2007.

Investments grew by 32.2% on an annual basis in the 1<sup>st</sup> half 2007. Meanwhile private consumption jumped 31.9%. The retail market, fueled by a decreasing unemployment and rising wages -between 2004 and 2006, average wages have more than doubled- has substantially grown those past years. According to DTZ, in the past nine months of 2007, retail was up 28.2% on year-to-year compared with 26.5% in 2006 and 22.4% in 2005 respectively.

Russian bank Renaissance Capital expects a strong economic growth in 2008 as in the previous years and a fast acceleration of investments to reach 30% of GDP compared

with 24% in 2006. These statistics are however tempered with inflation and a widening account deficit. The country is not hurt by the global credit crisis and its economy is protected as it is not exposed to credit in general.

Ukraine has stagnated during many years but it has now found its identity and its way. The confidence index of businessmen and consumers is high. Now, the country is clearly under supplied by modern retail stores so that developers are rushing into it to answer to demand. According to DTZ, the stock of modern retail stores grew in Kiev from zero in 2000 to 485,00 sq.m today. It corresponds to 173 sq.m per 1,000 inhabitants. Among projects completed in the capital in 2007, there were the Sky Mall shopping and leisure shopping center (18,000 sq.m) anchored by a Russian O'Key hypermarket. Others included Bilshovyk, Komod and Materyk as well as the second phase of Promenada.

In 2008, 130,000 sq.m will be added including Kvadrat-Aurora and Materyk-Osokorky as well as the second phase of Sky Mall. All are located in various places in the eastern coast of Dnepr River. Modern retail stores are expected to reach 800,000 sq.m at the end of 2009 with projects such as Esplanada (18,000 sq.m), Obolonsky (123,000 sq.m) and many others under construction such as Gorky Park, a mixed-use complex including 160,000 sq.m of office space, a shopping and leisure center (65,000 sq.m), which is due to be completed by 2012.

### **Developers compete to build shopping centers in cities exceeding one million inhabitants.**

Many foreign developers enter this market while joining their forces with local firms accustomed to regulations and complications of the local planning, particularly in Kiev, through the establishment of joint ventures. It is the case of Apollo Real Advisors, an American property fund, which works in collaboration with the local firm 1849 for projects in regional cities.

This market is not easy to understand, as it is not transparent according to Jones Lang LaSalle Ukraine. Now, while excluding this, foreign developers are active in the regional cities of Odessa and Dnipropetrovsk....

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