GLOBAL RETAIL NEWSLETTER

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SUMMARY

DECEMBER 2011

INTERNATIONAL
. It is difficult to find the right employees to lead a global expansion
. Levis, Adidas and H&M for a more sustainable use of cotton
. *In short*: Big C Thailand has announced the temporary postponement of the capital increase due to the floods in this country… Abercrombie & Fitch enters Spain… Westfield: London may have a 3rd shopping center built by the Australian developer… Sainsbury: sales up 4.3% to £ 12.8 billion excluding fuel and including VAT and up 1.9% on a comparable basis in H1… Starbucks Coffee is venturing into fruit juice bars… Neinver is to enter Brazil: Sao Paulo, Rio de Janeiro and Brasilia are targeted for its outlet center concept. It will be the 7th country in which it will have a presence… Marionnaud and its new concept…

EUROPE
. Korean NPS raised its stake to 75% in Paris shopping center O'Parinor

BELGIUM
. Delhaize Group: net income fall and higher revenue in the 3rd quarter

FRANCE
. Klépierre: the shopping center in the Paris-Saint-Lazare retail space of the railway station will open on March 21, 2012
. Leclerc and "responsible consumption"
. PPR Group: the luxury division posted sales up 8% despite the lagging consumer market in the 3rd quarter. The Group is reinforcing its luxury division as it signed an agreement with the shareholders of the Italian high-end men's wear Brioni to acquire 100% of the capital. PPR has just committed through PPR Home a sustainability initiative
. Altarea Cogedim submitted a bid over RueDuCommerce via its subsidiary Altacom

GERMANY
. Metro Group is leading talks with potential partners over the acquisition of the Kaufhof department stores
. Investments in European retail real estate are expected to decline in the 4th quarter. But buyers would continue investing in Germany in the last 3 months of 2011 and in 2012

NETHERLANDS
. Dutch retailer Ahold announced its strategy in 6 directions to accelerate growth

UNITED KINGDOM
. Foreign investors purchase assets in London
. Kesa Electricals: Comet disposal
. Marks & Spencer remains cautious about its forecasts

NORTH AMERICA/UNITED STATES
. Higher rents and occupation rates in Simon Group's malls
. Syms and Filene's Basement, liquidation of two pioneers of the off-price segment
. Wal-Mart closed its apparel office in New York end of October. It reflects its comeback to basic products after a failure in the fashion segment
. Best Buy reconsiders its projects
. McDonald's will increase its investments

ASIA
CHINA
. Toys R Us acquires the majority stake of its stores in Southeast Asia and Greater China

INDIA
. India is on the way to be the world's 3rd largest Internet market after China and the U.S.

JAPAN
. Fast Retailing maintains its target to make Uniqlo the world's largest apparel chain and is interested in takeovers in the U.S.

MIDDLE EAST/AFRICA
. Morocco Mall is opening December 5 in Casablanca along the Atlantic Ocean on the Corniche Coast, west part of the city
. The GCC countries expect retail sectors to grow by 8.3% to reach $ 240 billion in sales by 2015
. Rental growth forces some retailers to close stores and retire from the Emirates

You can also read the following studies:

✓Chinese consumers are confident in their income growth
✓ Franchising in Macau

A few lines from our articles in
GLOBAL RETAIL NEWSLETTER
DECEMBER 2011

■ GERMANY

Investments in European retail real estate are expected to decline in the 4th quarter. But buyers would continue investing in Germany in the last 3 months of 2011 and in 2012.

Cities including Frankfurt, Munich, Hamburg, Dusseldorf and Berlin are less impacted by economic uncertainties and speculation over the euro zone future than other European markets. "Germany is the preferred choice for investors because of the size of its economy and property markets as well its geographic structure, with a fragmented market through five top cities and business centers so there is a distributed risk profile" according to CB Richard Ellis Germany.

Investments in Europe retail real estate rose 13% to € 77 billion in the first nine months of the year 2011 compared with the same period one year earlier according to BNP Real Estate. In Germany, € 12.62 billion were spent during this period up from 10.8 billion in the whole year 2010 according to the same source.

German cities registered the strongest growth of the sector so far this year as demand from international retailers pushed rents upwards offering fair returns to investors. Consequently, the country overtook United Kingdom in the third quarter for the first time as Europe's largest market for commercial real estate investments.

The office sector was also very active as the rental space rose 18% to 2.45 million sq.m in the main 8 cities. The vacancy rate continues declining.

Cash-rich funds that are looking for defensive assets will continue acquiring shops and offices in Germany as this market is resisting remarkably despite the crisis.

Real estate investment in the first nine months of 2011 (in € bil)

Europe : **2010** : 67.82 **2011** : 76.62

including in **Germany** respectively**,** 9.6 and 12.62

according to BNP Paribas Real Estate

■ UNITED STATES

Higher rents and occupation rates in Simon Group's malls.

Simon Property Group enjoys a growing demand for premium malls while demand for less interesting malls is falling. Owner of stakes in more than 300 assets, including some of the best ones in the United States, it was able to boost its occupation rate and ask for higher rents despite the current context and its retailers expect 2 to 3%-growth for the holiday period. It then reported a profit up to $ 274 millions from 230.6 million one year earlier in the 3rd quarter. Its competitor Taubman Centers has seen a similar situation.

Best malls register solid performance in the current context. The vacancy rate in U.S. malls reached records in Q3 (*cf.GRN-Nov 2011)* as some retailers leased less space or reduced their new store openings according to Reis. At Simon, the occupation rate at its premium regional malls in the U.S was up from 93.8% to 93.9% from the same period last year and vs. 93.5% at the end of the previous quarter. Average rents rose 3.4% in one year as sales per sq.m rose 9.3% a year earlier.

For some time, centers are looking for remedies to prevent store closures: here, Simon Property opened an aquarium and looking for restaurants, there Jones Lang LaSalle put a theater in a former Boscov store… Aqua Tots Holdings teaches young children to swim in former retail stores and expanded by 14 new sites and has 10 more in the pipeline. Jumpstree is buying or leasing former grocery stores and covers walls with trampolines… The most astonishing is William James's Arms Roo, which opened a gun shop and shooting range in a former Circuit City in Houston and offers training courses in a popular shopping center anchored by Target and Home Depot.

The proliferation of non-retail tenants is tied to the fact that traditional stores are leaving shopping centers due to the slowing consumer spending and decades of retail over equipment in the United States.

The research bureau CoStar Group studied a sample of 83 million sq.m of retail space, or 6.8% of the U.S total, and found that tenants of leisure activities such as movie theaters expanded their collective presence by 2.25% since 2009 while service-activity tenants such as health clubs and schools grew by 2.65%. Meanwhile, retailers and restaurants have each their collective space by almost 1% in the same period.

Non-traditional retailers in many cases do not pay as high rents as big chains. More, they often do not pay any percentage rents.

■ CHINA

Chinese consumers are confident in their income growth.

They are more confident this year than in 2010 over their financial prospects despite the rocketing inflation according to the recent survey by McKinsey on this country’s consumers.

Growth new frontier.

In 2020, real consumption will have doubled to $ 4,8 trillion and China will be the world’s second largest consumer market after the United States. However, it remains rather weak under some aspects. Chinese will save more than one third of their incomes on average up from 4.4% in the U.S. In percentage of GDP, private consumption is much lower than other countries with 33% in 2010 compared with 71% in the U.S.A and 65% in United Kingdom. In fact, the share of the domestic consumption in GDP has fallen for the past decade as the perception of investment increased.

The government, concerned by the economy balance, put domestic consumption in the heart of priorities in its last five-year plan. This survey shows first the current consumer’s feelings and the spending diagrams and finds he or she is quite resilient in face of inflation. Then, the survey studies where are the future growth markets and shows their variations by category and region at the same time. It underlines also the evolution and needs of current consumers and how they are influenced. Beyond financial prospects, some key-findings are the following :

- how consumers offset higher spending in some categories while spending less in others,
- “first-time buyers” create a solid growing category. However, among the urban population, 5% only of consumers who spent more did it because they were first-time buyers compared with 20% in 2010,
- local consumers may be quick in adopting products with which they were not very familiar so far: 66% said they had bought chocolate this year up from 46% two years earlier,
- if the brand knowledge grows, there are few signs of brand loyalty. In fact, a growing number of Chinese choose among a growing number of favorite brands,
- if almost 60% of the population has Internet access today as means to obtain product information, its range remains relatively limited. In short, Internet did not took the place of other media channels as a source of important information,

- the popularity of social networks grows at a variable pace. In the middle of 2011, 195 million of Chinese had adopted Weibo, the equivalent of the Chinese Twitter, or three times the number of the service users 6 months earlier. If some use social networks to share product information with other Chinese, or 20% of the Internet population compared with 37% in the U.S., there is a strong growth of the number of those who find information credible on these sites.
- emotional considerations, which rarely emerged 2 years ago play a more important role in the choice of brands especially among the wealthy population.

To succeed in such an environment, leaders have to understand where the growth prospects are, both in the category level and in various geographic zones. It is then possible to rank resources according to priority and adapt strategy correctly, to create a balance between the mass appeal and to answer to specific groups of consumers, to focus on the perceived value rather than on the absolute price, to modernize marketing tools for Internet and to venture rapidly online. Firms must have the flexibility of adaptation and the innovation skill to follow step by step the astonishing development of the Chinese market with the hope to maintain there.

Consumers and inflation.

At the end of 2010, annual inflation was 4.6% in China. At the end of August 2011, it had reached 6.2% or its highest level in 3 years, impacting inevitably the real growth of consumption, which slowed down to +8.5% in 2010 from 9.4% in 2009. However, according McKinsey, consumers are more confident than in 2010, which will weigh on their purchasing attitude. 58%of respondents declared they expected their incomes to rise in 2011 vs.39% in 2010.

Confidence increase : % of respondent who said they expected their household income to grow in the coming year.

China in 2009	27%
China in 2010	39%
Chine en 2011	58%
United States 2011	33%
United Kingdom 2011	22%
Taiwan in 2011	43%
France in 2011	24%

Source: McKinsey Insights China – Annual Chinese Consumer Studies (2009-2011); Online Benchmark Survey (2011)

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