

MARKETVIEW

A GLOBAL PERSPECTIVE ON RETAIL REVIVAL



A Cushman & Wakefield Research Publication

MAY 2012



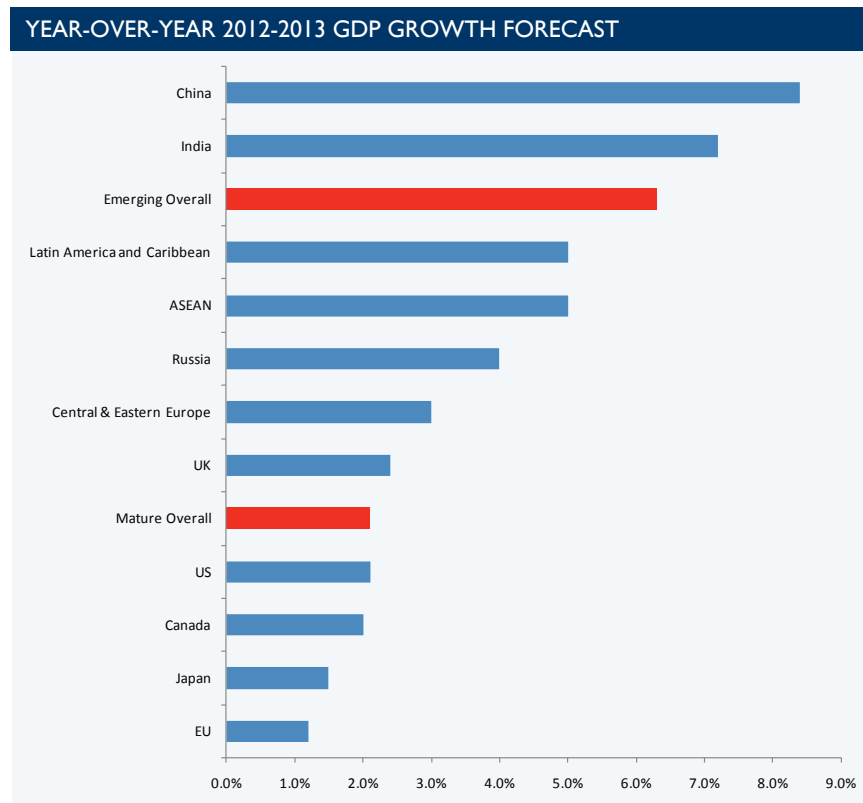
INTRODUCTION

A Global Perspective on Retail Revival

The world is becoming a borderless global marketplace. Mature retail and gateway cities of North America and Europe serve as the foundation while emerging markets including China, India and Brazil are the primary drivers of growth. Examining economic conditions, shopping trends, investment opportunities and leasing strategies on a global basis provides us with a critical understanding of how the mature and emerging markets are affecting the retail revival currently underway.

GLOBAL ECONOMY

Global markets are bifurcated into two general categories, mature markets like Europe and North America and emerging markets like China, India and Brazil. Year-over-year GDP growth has slowed in all markets, but less so in the emerging ones. Sovereign fiscal debt and deficits have weighed heavily on all global economies, constraining growth and undermining the momentum of the nascent economic recovery. GDP growth forecasts for 2013 tell the tale, with mature economies facing an average modest growth rate of 2.1% and emerging countries expected to slow to a still healthy rate of 6.3% (see chart below).



Source: IMF, World Economic Outlook

Private consumption in mature markets as a share of GDP is on average about 65%, much higher than in emerging markets like China (22%) and India (41%). These markets represent trillions of dollars of untapped private spending; presenting a tremendous opportunity for growth. Additionally, per-capita income in emerging markets is expected to increase significantly between 2010 and 2020. India's per-capita income is projected to expand by a staggering 200% and China's by 125%. Comparatively, per-capita income in the UK and United States is projected to grow about 20% over the same period (see chart on next page). Economic growth and the expansion of a middle class will drive private spending growth in emerging markets.

GDP growth has slowed around the world, but emerging markets are still expanding at a healthy rate



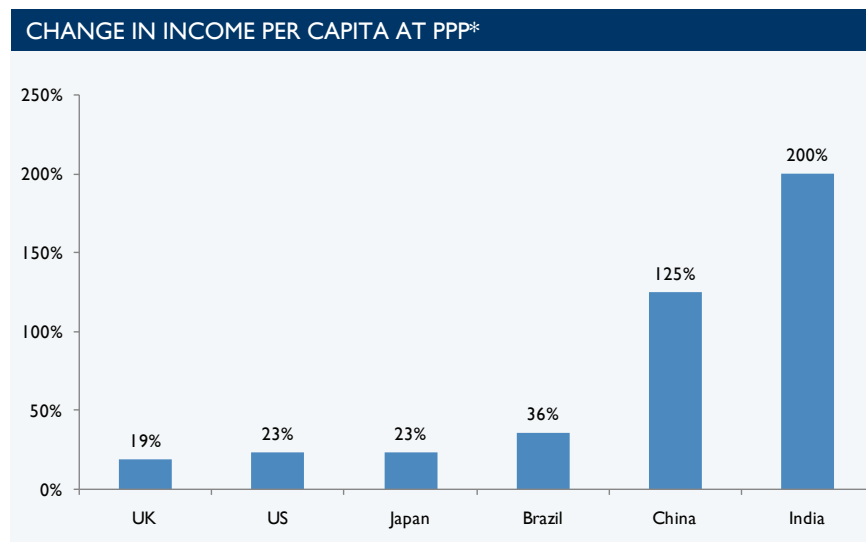
2.1%

Average 2013 GDP growth forecast for mature markets

6.3%

Average 2013 GDP growth forecast for emerging markets





Source: Cushman & Wakefield Research, World Bank

*PPP = Purchasing Price Parity

Cushman & Wakefield (C&W) will continue gauging the impacts of events in Europe as its financial challenges unfold and in the United States as the economic recovery takes hold. At the same time, we are actively monitoring emerging economies around the world including Brazil, as it strives to become a major economic player, and China and India, as they continue taking measures to improve the overall standard of living in their respective countries.

RETAILING TRENDS

Mirroring the performance of retail in mature and emerging markets, retail sales growth over the last year was also bifurcated, creating a “barbell of prosperity” with high-performing retailers servicing two ends of the demand spectrum. Luxury retailers like LVMH and Nordstrom as well as discount retailers like Costco and Target are showing strong revenue growth and outperforming their more “middle-market” peers. To enter the next phase of recovery, we need to see growth in the middle of the barbell, which has been lean or negative. This trend is likely to gain traction as consumer confidence improves and middle-market retailers like GAP enter emerging markets with expanding population bases and growing economies.

In general, consumer confidence is considerably lower in Europe than in the Americas and Asia. This negative sentiment is attributed to the unsettled economic climate and also to the greater number of mature economies in Europe, which are experiencing low population and slow income growth. Asia, on the other hand, with its fast growing economies, has a much higher rate of consumer confidence. In addition, between 2010 and 2020, it is projected that 1.3 billion more people in the world will have disposable incomes of greater than US\$5,000, which will introduce an entirely new population base that will contribute significantly to consumer spending. Nearly 66.5% of those new consumers will live in India and China.

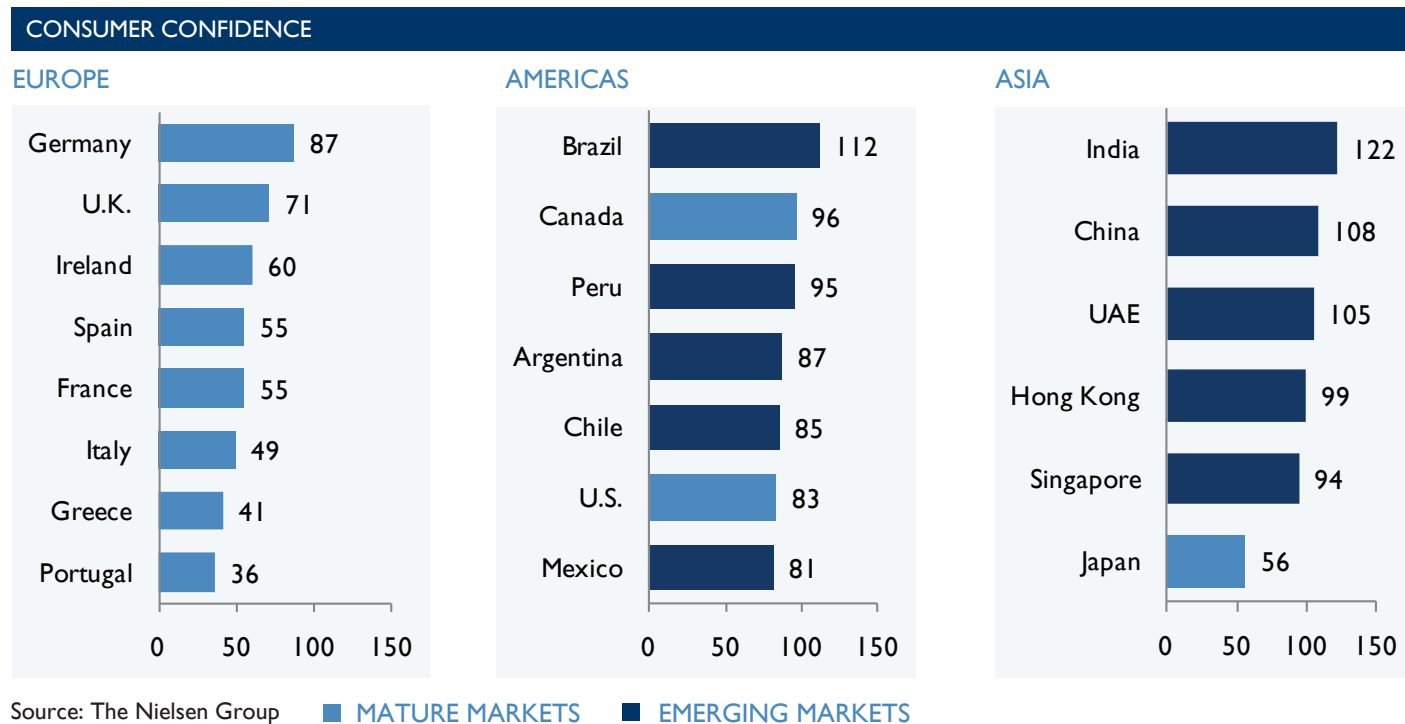
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1.3 billion

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The massive developing middle class in emerging markets often does not have easy access to stores that carry the products seen on TV and the Internet. Shopping online opens the door to the world of products regardless of where consumers live. This fact, and the lack of landline infrastructure, is driving the strong growth of e-commerce in markets like India where it is projected to grow 57.3% between 2011 and 2016. By comparison, online shopping in the United States is expected to grow by only 11.2% during the same period.

The challenge for retailers is to stay current with new technology...creating new and interesting shopping experiences for customers

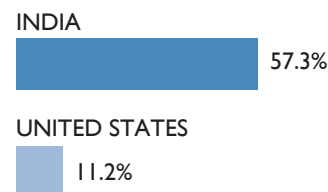
CHANGING RETAIL STRATEGIES

To both capture new customers and retain those they have many retailers are faced with changing their strategies and operating models. Bricks-and-mortar retailers, for example, are embracing the high-technology shopper by combining the in-store experience with the convenience of online and mobile shopping. Across the board, retailers are experimenting with new technology and formats by developing joint online and physical store marketing campaigns with omnichannel retailing, and increasing excitement with pop-up stores and social media.

In the face of slow economic recovery and increased competition from online shopping, retailers are evolving their physical store formats to survive. Some see the role of physical space shifting from a transaction model to an experiential one. In many cases, retailers are shrinking real estate footprints to improve operating efficiencies, and also using the smaller formats to enter urban markets.

Going forward, retailers will be challenged to stay current with new technology, incorporating it into their own formats, and creating new and interesting shopping experiences for customers.

PROJECTED GROWTH IN ONLINE SHOPPING BETWEEN 2011 AND 2016



RETAIL INVESTMENT

Retail investment has recovered since reaching the bottom of the trough in 2009. Globally, the Americas remains the most attractive retail investment region, with a 37% increase in dollars invested in retail properties and a 53% increase in the number of properties sold year-over-year in 2011. Investment volume growth in Europe was much slower in 2011, increasing only 14%, and at the same time the number of properties traded declined by 26%.

Global cross border activity where an investor from one region purchases property in another region increased 25% year-over-year in 2011 to US\$134 billion for all property types. While spread across all continents, the highest share of buyers was in EMEA with 53% (US\$72 billion) followed by APAC with 33% (US\$44 billion). The Americas were only 14% of the total volume. The Americas, however, saw the greatest percentage increase in cross border investment volume with investment activity up \$9 billion (87%) from 2010 to 2011. Retail investment continues to focus on “gateway cities” like Hong Kong, London, New York City and Tokyo. In emerging markets, cities such as Sao Paulo, Beijing and Moscow are of strong interest to luxury retailers looking to capitalize on the spending habits of the growing number of upper income earners.

A number of North American and Asian cities have already recovered and are experiencing rapid price appreciation and cap rate compression. Although select cities may still be seeing price appreciation, Europe is at the bottom of the recovery valley, and it may remain there for a while. South America, meanwhile, is experiencing rapid expansion in primary markets and is working its way up the slope with a gradual recovery in property values in secondary locations.

The rapidly changing dynamics in the global economy encourage divergent cross-border strategies that coincide with emerging markets. In developing regions like South America and Asia, it appears the markets will continue to expand with additional investment of both domestic and cross border capital. In the future, C&W will be watching the European investment volumes to see if they decline due to economic turmoil and whether buyers turn their retail investment focus to the United States, resulting in it continuing to outpace other countries.

INCREASE IN RETAIL INVESTMENT VOLUME*

EMEA

14% TO \$50.9 BILLION

AMERICAS

37% TO \$31.9 BILLION

ASIA PACIFIC

3% TO \$22.7 BILLION

TOTAL

17% TO \$105.6 BILLION

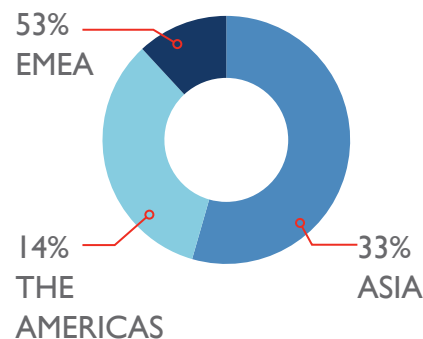
*YEAR-OVER-YEAR IN 2011



25%

Total increase in cross border activity year-over-year in 2011

CROSS BORDER ACTIVITY (% OF TOTAL VOLUME)



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RETAIL LEASING

Globally, retail rents increased from 2010 to 2011. The rate of those increases reflects the overall fortunes of the regional economies. Strong demand in Asia has allowed its overall rental rates to grow at 12.2% in 2011. South America saw similar double-digit growth of 10.6% from 2010 to 2011, double the rate in North America, which only grew 5.1% during the same period. Europe's rent growth in 2011 was 1.9% reflecting the caution of retailers in the region due to its economic uncertainty. Gateway cities of New York, Hong Kong, Tokyo, Sydney, Paris and London commanded the highest rental rates. In Europe, the strongest rent growth was in the emerging markets of Helsinki, Moscow, Tampere, St. Petersburg and Istanbul. In the Americas, South America led retail rent growth. Rio de Janeiro's Garcia D'Avilla, for example, saw rents increase 52.2% year-over-year. Other markets with strong rent growth were Rio de Janeiro's Visconde de Piraja, Santiago, as well as more mature markets like downtown San Diego and New York's 5th Avenue.

In Asia, not surprisingly, the highest rent growth was found in Beijing at an incredible 109.5% followed by Hong Kong at 48.8%. During the coming year, C&W will continue to track the tremendous rent growth in the region's hottest cities. As we move forward, the question will remain; will the rate of growth in emerging markets around the world be sustained by an expanding middle class, economic recovery and the demand from retailers who are seeking new consumers for their products?

CONCLUSION

While economic expansion slowed slightly over the past year, C&W sees the global outlook for retail real estate being influenced by both macro trends such as evolving technologies and omnichannel retailing as well as by regional issues such as population growth and legacy financial issues. As a result, C&W expects that property markets will over the long term increasingly reflect the divergent economic fortunes in mature and emerging economies.



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