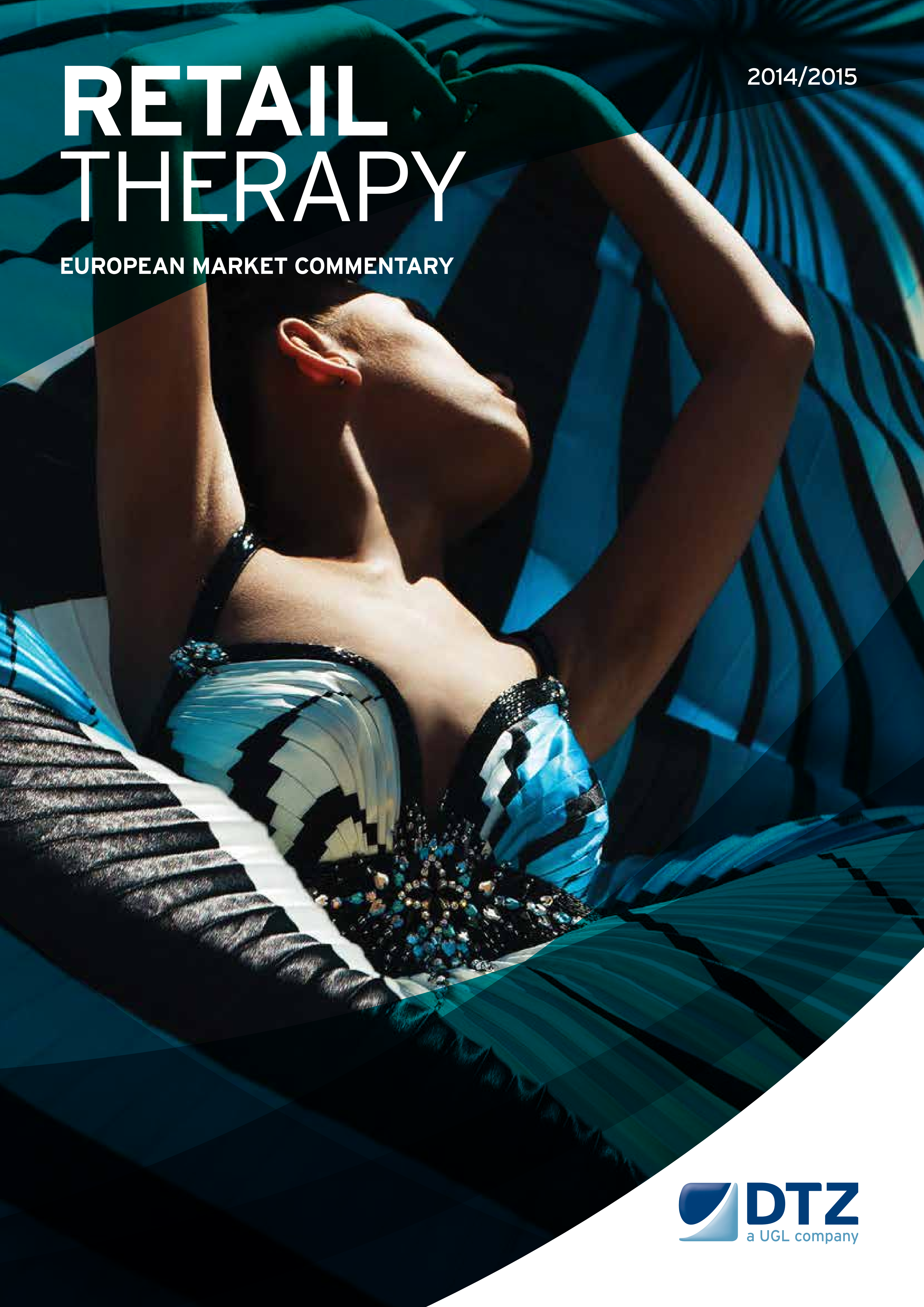
RETAIL THERAPY

2014/2015

EUROPEAN MARKET COMMENTARY



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Contents

It is interesting to see how parts of the European Retail Market are emerging from recession. With the reawakening of Investment Markets in Southern Europe and continued economic growth in Central and Eastern Europe we are also noticing a selective return of retail occupier demand.

This new wave of investment is encouraging asset managers to reposition their schemes in the best possible light. This often involves attracting international and particularly luxury brands. We decided to have a particular focus on luxury brands in this version of Retail Therapy with articles from Turkey, Malaysia and Poland are related to our experience of this in **'The Village'** at **Westfield London**. Often the perception of a mall being prime is the proportion of international retailers that make up the tenant list and whilst most customers will only occasionally purchase from luxury brands their presence nevertheless increases the customer perception of quality and the 'likes' in a digital world.

We also have articles commenting on tourism which is a key driver to luxury sales and luxury brand location strategies, I hope you find at least one article interesting or stimulating and worthy of a further conversation with us.

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France

Retail investment in France

On track for a record-level in 2014

In line with the ten year average, the French investment market recorded an annual volume of €15bn in 2013. Investor focus remained largely on office assets with €11bn in acquisitions representing 71% of investment volume. But the appeal of the retail sector was also strong with €3.1bn in investments and a market share of 21%. Following a decline in volume in 2012, shopping centre investment bounced back with almost €1.1bn in investments or a third of investments in retail assets. Buoyant market conditions recorded since the beginning of the year suggest that 2014 could see a record level of retail acquisitions with investment volume already reaching €2.8bn in H1 2014.

Early in the year, there was some interesting news about the sale of one of the most recently opened shopping centres – **Beaugrenelle**, located in Paris 15th district. The developer-investor Apsys joined forces with private firms Groupe Madar and Financiere Saint-James to buy SCI Beaugrenelle, the company that owns the 45,000 GLA sq m shopping centre, for an estimated price of €700m. This joint-venture competed with Union Investment and a Chinese fund at the very final stage of the selling process.

At the same time, Hammerson, the UK Retail REIT that has operated in the French market for a long time, acquired a majority stake (75%) in **Saint Sébastien shopping centre** in Nancy, North-East France, from AXA Real Estate for €132m. Meanwhile, Orion Capital Managers bought the **Domus Shopping Centre** (63,000 sq m of GLA sq m) in Rosny-sous-Bois on the eastern outskirts of Paris from KP Investments, a subsidiary of Rabo Real Estate Group, for an estimated price of €70m.

Having recently entered into the French market, KKR acquired a portfolio of four French shopping centres owned by Dutch listed Corio, in one of their first steps towards building up a retail portfolio in the country. KKR and its French asset manager partner, Seefar, agreed to pay €104m for **Les Quais d'Ivry** in Ivry-sur-Seine, **La Grande Porte** in Montreuil, **L'espace du Palais** in Rouen, and **La Mayenne** in Laval.

All these acquisitions, made with UK and US capital, are clear demonstrations of the current attractiveness of the French retail sector and its shopping centre industry. The selling process of **Beaugrenelle** has drawn a lot of interest from both established and newly operating funds willing to invest in the French retail market and able to aggressively price the targeted assets. On the other side, secondary, non-dominant or under-performing assets are more liquid but have significantly higher yields.

Pipeline

Despite the falling turnover in many European shopping centres, construction pipelines for new shopping centres remains very high across Europe with more than 1m sq m of shopping centre floor space delivered in 2013 and 2014. But retail space density in France (228 sq m per thousand inhabitants) still falls below the European average (260 sq m per thousand inhabitants), which implies that there are further opportunities for new development.

With France's stabilising economy and 1.3% in retail sales annual growth anticipated for France from 2014 to 2018, the French retail sector should benefit from a strong interest from both domestic and international investors. A huge pipeline of projects will hopefully provide the potential purchasers with new schemes to acquire, while secondary market opportunities will likely be found in the owner rotation of the existing retail stock.

The French market is definitely returning to investors' buying lists. The availability of opportunities remain the key question as candidates on the buy-side are still more numerous than potential sellers.

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Pipeline of shopping centers in France

	2008	2009	2010	2011	2012	2013	2014	2015
Greenfield projects	113 996	208 491	105 582	183 923	146 708	121 670	233 470	500 900
Extension/Renovation	215 900	91 784	53 300	136 805	161 313	265 095	270 325	32 050

Investment volume

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	H1 2014
Retail investments	583 583	1 009 183	1 644 576	1 831 501	4 530 147	962 585	1 917 887	3 110 458	2 947 640	3 386 903	3 078 252	2 833 652
Retail's share	7%	7%	10%	7%	16%	7%	23%	26%	17%	21%	20%	27%

UK Retail Property Health Index

UK retail overview

UK Retail Overview

The UK economic recovery appears to be well entrenched and we are now starting to see consistent positive retail sales data coming from the Office of National Statistics (ONS) and British Retail Consortium (BRC). According to GfK, a market research company, consumer confidence is at its highest level since March 2005.

Retail and service vacancy rates fell to 11.7% on a unit basis in June 2014 from 12% in January 2014 (Experian GOAD). When looking at vacant floorspace, the vacancy rate is 9.4%. This signifies that it is a higher proportion of smaller shop unit sizes that are vacant. Increasingly retailers are keeping or taking on new larger units to show more stock with the ability to create an experience.

The Retail Property Health Index

The DTZ Retail Property Health Index (RPHI) is a new tool developed by DTZ to identify and assess the most and least 'healthy' retail locations. The weighted index utilises economic data, socio-demographic characteristics and retail property information to enable comparisons to be made between geographic areas and retail centres across Great Britain.

The Nomenclature of Units for Territorial Statistics (NUTS) is a European Union standard of dividing countries for statistical purposes. Great Britain (GB) is divided into 12 NUTS 1 regions, 36 NUTS 2 regions (generally equivalent to counties) which are further divided into 128 NUTS 3 regions (broadly equivalent to Unitary Authorities).

The top five NUTS 3 regions according to the RPHI are Surrey, Oxfordshire, Brighton and Hove, York, Inner London – West. All these areas benefit from strong economic and socio-demographic drivers and powerful retail attractors which capture high levels of available spending.

The bottom five NUTS 3 regions include: Blackpool, Kingston upon Hull, Angus and Dundee City and Dumfries and Galloway.

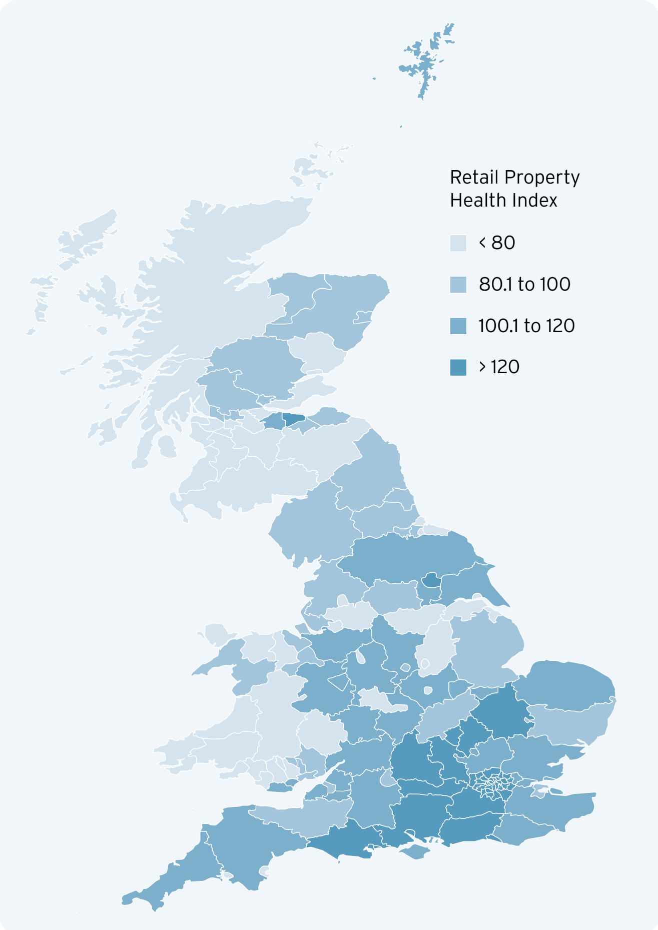
RPHI Outlook

In order to assess the likely outlook for retail locations, we have utilised economic forecasts for the period 2014-19. These forecasts have been used to generate an 'outlook' index. Significantly the UK Index moves from 100 to 114 reflecting a generally improving economic environment. For example, unemployment is expected to fall from 6.9% to 5.9%. Similarly, population, real consumer spending and real retail sales are forecast to accelerate.

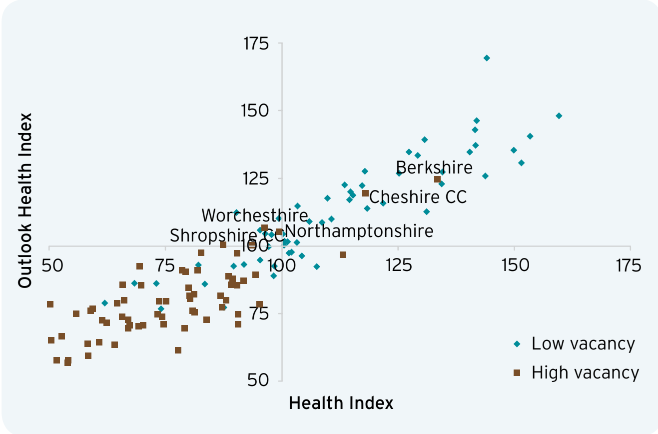
At a regional level, London is forecast to outperform the rest of the UK. This is followed by the South East, the East of England and South West – all outperforming the UK average. The degree of variance between the regions, however, is less in the outlook index than the current index, reflecting our expectation that the economic recovery will broaden. The East and West Midlands and Yorkshire and the Humber are expected to see improved economic performance, for example.

The RPHI identifies the likely five most healthy retail locations in five years time. These are expected to be (1) Inner London (West), (2) Surrey, (3) Solihull, (4) Outer London (West and North West) and (5) Oxfordshire. The strong economic outlook, along with high proportions of affluent residents, will underpin retail spending in selected retail centres. Vacancy rates in these places are already below average, and we expect rates to fall further as new occupiers arrive and some existing occupiers expand. This is likely to result in relatively strong rental growth over the next few years.

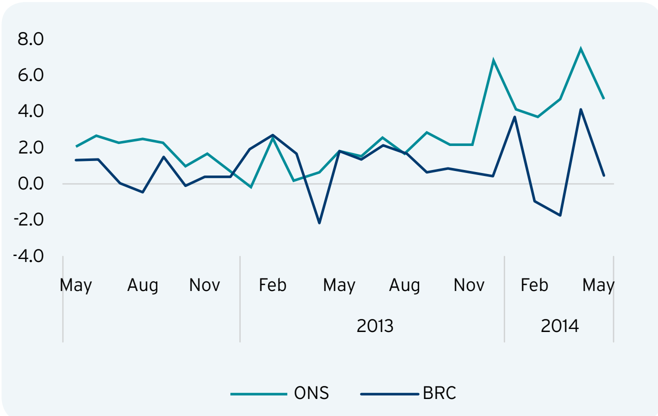
NUTS 3 Regions/Unitary Authority Analysis – RPHI



NUTS 3 Regions/Unitary Authority Analysis – RPHI



ONS and BRC Retail Sales Growth (y-o-y)



The RPHI also identifies Berkshire, Cheshire, Worcestershire, Northamptonshire and Shropshire as retail 'hotspots' to watch. These are places currently experiencing higher than average vacancy rates, but forecast to experience above average economic growth. Stronger than average economic growth is likely to erode vacancy rates relatively quickly and underpin subsequent rental growth. Retail centres within these areas include Reading, Chester, Worcester, Northampton and Shrewsbury. We would expect landlords and retailers to closely assess these centres given their potential.

NUTS 3 Ranking	NUTS 3 Region	Economic Index Current	Economic Index Outlook	Demographic Index	Vacancy Rate Index	RPHI	Outlook RPHI
1	Surrey	148	114	193	138	160	148
2	Oxfordshire	152	113	160	148	153	141
3	Brighton and Hove	161	98	174	120	152	131
4	York	169	125	134	147	150	135
5	Inner London – West	59	135	236	138	144	170
124	Dumfries and Galloway	-5	58	37	114	49	70
125	Angus and Dundee City	9	69	53	83	48	68
126	Kingston upon Hull, City of	49	65	20	74	48	53
127	Eilean Siar (Western Isles)	-21	76	66	78	41	74
128	Blackpool	24	59	26	64	38	50

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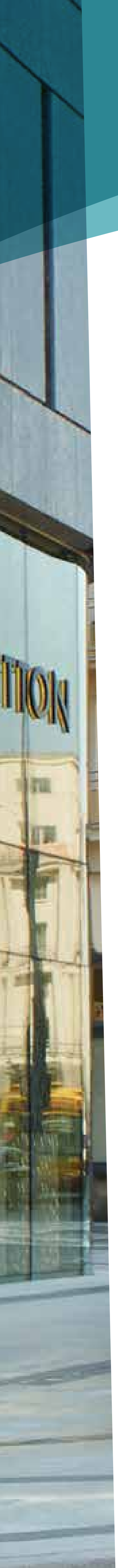
Luxury goods gain ground in Poland



Fuelled by the steady growth of GDP and the increased purchasing power of consumers (up by approximately 60% since EU accession), Poland's retail market has been prospering despite global economic turbulence.

A burgeoning middle class and a widening pool of consumers with growing aspirations have nourished the luxury goods segment, although this specific sector has been developing at a much slower pace than others.

The premium segment, which is represented to a great extent by reputed Italian brands such as **MaxMara**, **Weekend by Max Mara**, **Marella**, **Penny Black**, **iBlues**, **Pollini**, **Baldinini**, **Furla**, and **Coccinelle**, has over the last couple of years been gaining ground in the retail market.

Significantly, many luxury brands have chosen to enter the Polish market through franchised ventures in order to mitigate risk. Usually, expansion starts from Warsaw, the city with the most stable economy and the most fashion-conscious consumers.

Here, luxury brands concentrate around **Three Crosses Square** (Plac Trzech Krzyży) and **Nowy Świat Street**, which are surrounded by elegant buildings that offer the best opportunities for high-end brands. With old tenements that can be re-furbished into modern and cozy spaces for demanding premium retailers, the area has attracted names such as **Burberry**, **E.Zegna** and **Carolina Herrera**, among others.

Mokotowska Street, a street off **Three Crosses Square**, has just seen the opening of multi-brand store, **Mokotowska 63**, which features a number of premium Italian fashion designers, including **Serapian Milano**, **Boglioli**, **Seventy**, **Circolo**, **Eleventy**, **L.Borelli**, and **Marina Yachting**. Nearby, **Mysia3** is a small shopping gallery that houses brands such as **COS** and **Muji**.

The influx of high-end brands is restricted by a shortage of appropriate retail space. Iconic designer names prefer high street locations for their flagship stores, but even in Warsaw and Kraków the availability of such quality units is limited.

As a result of the scarcity of adequate space in the high street, **Louis Vuitton**, **YSL**, **Bottega Veneta**, and **Gucci** opted for the **vitkAc** shopping mall. Numerous other tenants have also chosen shopping malls, such as **Warsaw Klif**, **Atrium Promenada**, **Galeria Mokotów** in Warsaw, **Galeria Krakowska** in Kraków, **Stary Browar** in Pozna, **Klif** in Gdynia.

The demand from aspirational Polish consumers has created a promising niche for its national designers. Over the last two years, Warsaw has seen the rising importance of young home-grown craftsmen and designers of clothing, footwear, accessories and jewellery. These include **Zień**, **Bohoboco**, **LaMania**, and **T.Ośsolinski**. Warsaw's **Mokotowska Street** has become a magnet for these fast-growing brands.

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Prague's street of luxury

The luxury goods market in the Czech Republic is concentrated in Prague, which in a recent survey was named the ninth most attractive city for international retail brands in Europe, ahead of Berlin and Vienna. This is largely due to the purchasing power of the local population, as Prague ranks among the top cities in Europe in terms of GDP per capita.

But the city's retail potential is significantly enhanced by the millions of tourists attracted to Prague by the city's monuments, stylish restaurants and shopping opportunities. Visitors from China, Russia and the former Soviet republics are especially important for luxury boutiques. Luxury goods are less expensive in Europe than in Asia, where they are subject to higher taxes, and the Chinese in particular enjoy the certainty that they are buying authentic products rather than counterfeits.

To find genuine Prada apparel, **Jimmy Choo** shoes, **Hermes** scarves, **Louis Vuitton** bags, **Rolex** watches and **Cartier** or **Tiffany** jewellery, tourists and locals need go no further than Pařížská Street, which has become a synonym for luxury in Prague. After the Velvet Revolution, this once ordinary Prague street began to be radically transformed into a shopping haven of prestigious, world-class brands. The street's Secession buildings have gradually undergone extensive renovations and the originally multi-brand stores are giving way to individual luxury goods companies that are opening mono-brand shops. Brands such as **Dior**, **Fendi**, **Gucci**, **Burberry** and **LoroPiana** have already come to Prague and specifically to Pařížská Street.

Paradoxically, the greatest obstacle to these luxury brands' entry is not fear of an economic debacle, but rather the lack of available space in Prague's street of luxury. Whilst some brands are resolving this situation by opening shops in the general vicinity, Pařížská remains the only acceptable choice for the most prestigious brands. Even then, there is a hierarchy of desirable locations within Pařížská Street itself. The strongest demand is for corner retail premises, which offer both greater visibility and the possibility of using multiple display spaces.

The desirability of Pařížská Street has helped to keep Prague's luxury fashion and accessories market relatively small. Although there is still potential here, brands such as **Chanel** and **Ralph Lauren** are not present in Prague because of the lack of appropriate spaces in their chosen locations.

If Pařížská Street is the centre of luxury retail, Na Příkopě Street and the lower half of Wenceslas Square are Prague's main shopping avenues, where the mass market is concentrated. In terms of rent, Na Příkopě is the most expensive street in Prague and Central Europe generally, with tenants paying up to €180 sq m per month.

For less expensive brands, representing the so-called affordable luxury segment, an exclusive address is not a necessity and these brands can be found in the slightly less exclusive areas of 28. Října or Haviřska Street and in Prague's best shopping malls, such as **Palladium** and **Chodov**. Brands including **MaxMara**, **Michael Kors**, **Barker** shoes and **Harmont & Blaine**, have become a symbol of smart shopping behaviour, where customers can get good value with the mark of luxury for an acceptable price.

Luxury is admired and criticised, concealed and flaunted, but one thing is certain: all of us have some kind of relationship to it.

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CITY TOURS
BUS
Cartier

Germans embrace luxury

Historically, luxury goods have not sold as well in Germany as elsewhere in Europe. The main reason for this is that German consumers have tended to shun the flaunting of wealth. But times have changed, and these same consumers are now much more likely to display their luxury goods openly.

Added to this new acceptability of luxury brands, two factors are predicted to drive significant growth in this retail sector: the country's consistently strong economic performance in Europe, and its increasing importance as a travel destination.

In recent years, Germany has become more popular amongst tourists from Russia, the Middle East and China, who can regularly be seen strolling along the Königsallee in Düsseldorf, the Maximilianstraβe in Munich and the Goethestraβe in Frankfurt. Besides the mild climate, they are drawn by relatively low prices in comparison to their home countries, where they usually have to pay higher luxury taxes.

Bolstered by this influx of tourists, together with high levels of disposable income and the German people's newly acquired appetite for luxury goods, the sector expects to double revenues over the next two years. In anticipation of this growth, many brands are upgrading their stores in the country's best-known luxury shopping districts.

The LVMH group is leading the way. In 2013, the group opened a new store in Munich. This is the third largest **Louis Vuitton** store in Europe, and is considered to be one of the most exclusive flagship stores of the Parisian luxury brand with 1,500 sq m of space for permanent art exhibitions and an exclusive showroom. The group's second largest store has just opened in the newly built **Goethe Plaza** at Frankfurt **Goetheplatz and Goethestrasse** with 1,000 sq m on three floors.

DTZ have recently leased space at the **Fünf Höfe** in Munich to luxury brands such as Bogner, **7 For All Mankind**, **René Lezard**, **Strenesse switched into Twin Set**, **Guess**, **Boggi**, **Baldesarini**, and **Lagerfeld**.

Such new temples of luxury are in high demand in the investment market. The **Kö-Galerie** at Königsallee in Düsseldorf, which is one of the few high-end department stores in Germany, was sold to Allianz for approximately €300m, whilst the developer FREO sold **Goethe Plaza** to German pension fund IVG before it had even opened.

Clearly, luxury goods in Germany are booming on all fronts.

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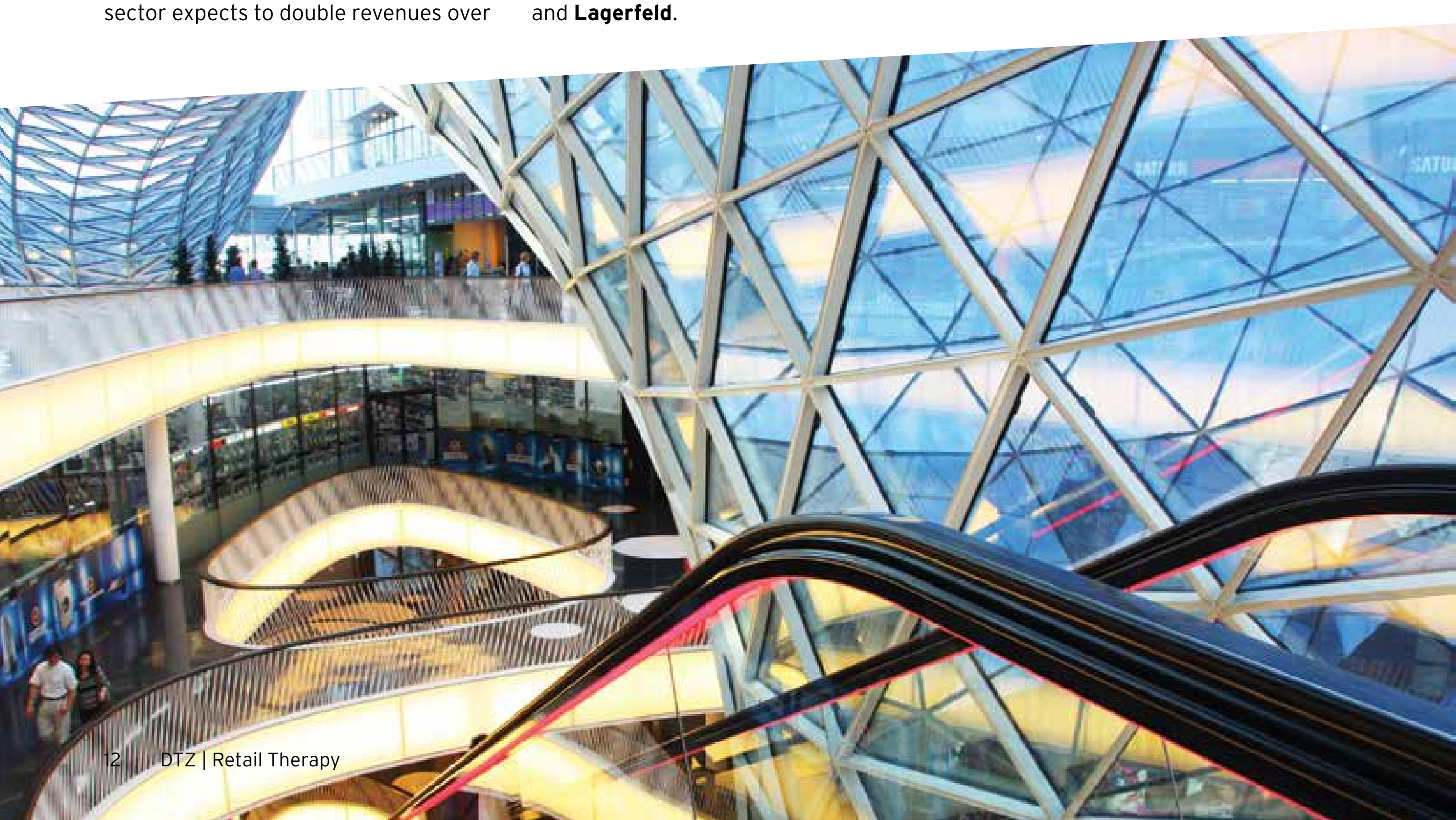

United Kingdom

A luxury retail phenomenon

The likes of **John Lewis**, **M&S**, **Debenhams** and **House of Fraser** form the basis of all UK shopping centres, and until fairly recently most people would have been happy to find their usual anchor tenants in their local shopping centre.

But then along came the Westfield team and the rules were re-written by the creation of the Westfield shopping centre model. The original tenant mix plans called for the inclusion of a luxury brand mall and The Village concept was set to become the ‘must have’ element of a successful new style shopping centre.

The individual design of The Village was created by the renowned minimalist architect Michael Gabellini, who was instructed to create a unique and luxurious mall totally different to the main scheme, and to include a Swarovski chandelier and faceted shop fronts. This luxury concept is now being considered by other Shopping Centre owners and developers because it has been such a resounding success at Westfield London.

The demographic advantages that Westfield considered when designing The Village concept into their Westfield London scheme include:

- Only two miles west of Marble Arch/Oxford Street and a 10 minute journey on the underground
- The catchment area is above the average UK percentage of Affluent Achievers at 14.4%, Rising Prosperity at 41.3% and Comfortable Communities at 14.2%
- 55.7% of the catchment population is in the top five Acorn groups, and the total expenditure potential for the catchment is £27.4bn
- There is also a very high male group gender profile with a 43% male representation.

The growth of the Village over the past five years has been a retail phenomenon with a 77% growth since opening. In 2013, **Westfield London** was the number one CACI shopping centre in the UK, with 28m footfall per annum and close to £1bn worth of sales. 130m customers have generated more than £4bn in retail sales since opening in 2008 and helped to create 8,000 new jobs in London. Tourism visits have grown 28% since opening, with Westfield London becoming one of London’s top five tourist shopping destinations.

The Village, which houses over 40 luxury brands, has sold over 140,000 handbags since its launch in 2008. Luxury brands include **Louis Vuitton**, **Prada**, **Miu Miu**, **Gucci**, **Burberry**, **Tiffany**, **De Beers**, **Mulberry**, **Jo Malone**, **Jimmy Choo**, and **Searcy’s Champagne Bar**. The main scheme has five anchor stores, 315 retailers, 60 restaurants and **Vue’s** number one UK cinema. Shoppers have found that the environment of The Village is less intimidating than in Bond or Sloane Streets with more discreet in-house security rather than at the entrance to each store. Visitors can also benefit from the luxury of hands-free shopping and valet parking, which adds to the shopping experience.

Since it opened on 30 October 2008, **Westfield London** has won 39 industry awards, including the ICSC Best of the Best Award for two consecutive years. The Village is seen as the jewel in the crown at **Westfield London**, giving the scheme an outstanding point of difference and creating a destination location.

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The evolution of luxury brands in Turkey

The emergence of luxury goods in Istanbul began with the introduction of international brands by local department stores, such as **Beymen and Vakko**, which have a deep understanding of the local market. **Beymen and Vakko** have always been luxury brands that appealed to high income groups in Turkey, and have played an active role in establishing international luxury brands such as **Dior**, **Saint Laurent**, **Valentino**, and **Dolce & Gabbana**.

Luxury brands have since chosen locations around high income group residential districts such as Nişantaşı (Abdi İpekçi and Teşvikiye Avenues) on the Europe Side and Bağdat Avenue on the Asian Side. **Louis Vuitton**, which was one of the first luxury brands to arrive, entered the market from Nişantaşı, and then opened their second store in Bağdat Street. **Doğuş Group**, a well-known conglomerate, opened a franchise of **Emporio Armani** and **Gucci** in Nişantaşı, whilst **Burberry** chose Bağdat and Abdi İpekçi Avenues. In addition to these locations, İstiklal Street hosts a broad range of international brands.

Following the shopping centre developments in Turkey in the 1990s, both local and international brands have tended to locate within these malls, where they could take advantage of services such as security, cleaning, marketing activities and more professional lease contracts for the tenants. The most popular locations for luxury brands have been within luxury mixed-use projects or at stand-alone shopping centres situated in the vicinity of luxury housing projects or higher income groups.

One of the first examples of shopping centres that hosted luxury brands was Akmerkez, which opened in 1993 in the high-income neighborhood of Etiler-Levent. At this time, most international brands were perceived as luxury items due to scarcity, but international luxury brands have since separated themselves with the introduction of new local and international brands. The demand for luxury goods has risen with the increasing purchasing power of Turkish consumers, which has fuelled the expansion plans of both domestic and international retailers. International fashion brands are now present in İstanbul via department store concessions and mono-brand boutiques, much as they are in most European capitals.

After establishing a presence with a local retailer partner in 2008, **Ralph Lauren** decided to go it alone in 2012. **Louis Vuitton** and **Ermenegildo Zegna** jumped a step by entering the market with their own stores in **İstinye Park**, Nişantaşı and Istanbul airport. **Hermes**, **Gucci**, **Burberry**, **Armani**, **Christian Louboutin**, and **Tod's** all operate mono-brand stores in İstanbul.

In 2006, Kanyon SC opened in the heart of İstanbul CBD with a new kind of design scheme that included open-air shops and featured the first time entry of **Harvey Nichols** luxury department store. Another shopping centre, **İstinye Park**, opened in 2007 in Maslak with both indoor and outdoor spaces, establishing a trend found in most new developments since. Unlike other shopping centres, **İstinye Park** has an exclusive street dedicated solely to the stores of luxury brands such as **Armani**, **Burberry**, **Dior**, **Chloe**, and **Gucci**.

Six years after **İstinye Park**, **Zorlu Center** opened in 2013 with a similar open-air design concept and the first Apple Store in Turkey. This year, **Akasya Acıbadem** has opened on the Asian side close to the metrobus line and metro station with luxury brands such as **Brooks Brothers**, **Burberry** and **Façonabble**.

Whilst the percentage of luxury brands located within shopping centres represents no more than 15% of total stores, **İstinye Park** still leads the luxury brand agglomeration, and is followed by **Zorlu Center**, **Kanyon** and **Akasya Acıbadem** in that order.

With the development of new forms of lifestyle and entertainment centres emphasizing open-air design and the incorporation of sustainable technology, the Turkish market is likely to see the further entrance of luxury and international brands without the accompaniment of a local retailer partner.

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Shopping Center	Opening Year	GLA (sq m)	No. of Stores	No. of Luxury Brands	Luxury Brand Examples
Kanyon	2006	39,000	150	7	Harvey Nichols, Swarovski, Gant
Istinye Park	2007	87,000	280	39	Armani, Brunello Cucinelli, Burberry, Chanel, Dolce & Gabbana
Zorlu Center	2013	66,000	180	18	Bvlgari, Christian Dior, Brooks Brothers, Louis Vuitton, Mont Blanc, Tom's Kitchen
Akasya Acibadem	2014	76,738	256	11	Brooks Brothers, Burberry, Façonnable
Emaar Square	2015	150,000	300	N/A	Galaries Lafayette

Trendsetting Amsterdam

This year, the department store **De Bijenkorf** shocked both friend and foe by announcing the closure of five of its twelve stores, despite the fact that all of them were profitable. In an interview, CEO Giovanni Colauto explained that he wished to copy the success story of his flagship store in Amsterdam throughout the Netherlands, and that the five branches to be closed did not adequately meet the conditions of premium excellence. The focus will therefore be on seven flagship stores and a web shop of international top quality.

As this example shows, the trendsetting character of Amsterdam is crucial for the strategy retailers pursue when opening stores. This is particularly the case for international retail chains. If a retail chain decides to enter the Dutch market, the first store will be opened in Amsterdam, and only then will attention be turned to other cities. For example, in 2001 the Spanish group **Inditex** opened its first **Zara** store on Kalverstraat in Amsterdam. Since then the chain has opened 25 shops in 22 Dutch cities.

Retailers now only select cities with a large potential reach and with a growing catchment area. They also want cities where visitors will be able to enjoy an extended visit. The aim is to find the ideal combination of a pleasant living and working environment with a varied shopping experience. Joel Kotkin, professor of urban development at Chapman University in Orange, California, uses the term Boutique City to describe this combination.

At the same time, demand has fallen in the retail market, which means the best locations are more important than ever. According to figures published by Locatus, footfall declined by an average of 10% between 2005 and 2012. The recession has hit consumer spending and increased internet sales have also contributed to a structural reduction in footfall. Retailers are anticipating this fall by wanting to occupy premises only in the very best shopping streets in a city, intensifying pressure on prime locations in Boutique Cities. This rising demand for the best retail space has resulted in stable or even rising retail rents at these locations.

As retailers in general, and the clothing sector in particular, have to respond more quickly to the trends of the moment, they focus on new production concepts such as Fast Fashion, where a product gets from the drawing board to the stores ever faster. This shorter turnaround time for collections means that retailers must have a presence at the best prime locations to ensure sufficient footfall. As a result, they are willing to pay the higher rents mentioned above.

The Amsterdam core retail area (A1 plus surrounding area) is the most important retail concentration in the Netherlands. Of all the cities, the catchment area here is the largest, and is bolstered by the fact that Amsterdam has a huge magnetic attraction for people throughout the Netherlands and parts of Germany and Belgium who want to enjoy a day's shopping in the Dutch capital as well as tourists. For these reasons, the battle to secure the best locations is most obvious in Amsterdam.

The trend for concentration will mean that in the four major cities in particular (Amsterdam, The Hague, Utrecht and Rotterdam) together with Maastricht, shopping will form part of a day out in the city. Visitors will travel from further afield and will spend more on higher-end products. The combination of the experience and a varied range of shops will be at the expense of existing shopping towns in the provinces. The closure of **De Bijenkorf** branches is the first concrete indication of this trend.

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A significant year for Irish shopping centre transactions

Following a considerable absence, it looks as if 2014 will be the year that sees the return of the shopping centre investment market in Ireland.

With the office sector being very much the focus of activity over the last few years, this year began with one of the most significant shopping centre deals for a long time: Aviva Investors sold their 72.8% stake in **Liffey Valley Shopping Centre** in West Dublin for more than €250m (advised by DTZ). The sale also included a 17.3-acre adjacent parcel of development land. The stake was acquired by HSBC Alternative Investment (HAIL) and included a rent roll of approximately €28m from around 70 shops, with an occupancy rate in excess of 98%.

This substantial transaction was followed by a decision from NAMA in May to bring to the market a portfolio of three shopping centres at Blackpool in Cork, Balbriggan in Co. Dublin and Clonmel in Co. Tipperary at a combined guide price of more than €130m, valuing the portfolio at an initial yield of approximately 9.5%. The entire portfolio is currently producing a rent roll of close to €13m.

It is expected that there will be strong interest from a range of overseas private equity firms, pension funds and some of the REITS that have been particularly acquisitive of late.

When these centres transact, they will provide the first clear indication of pricing for such assets outside Dublin and will be a very telling indicator of where the Irish regional market is compared to the Dublin market.

As well as asset sales, there have been a significant number of loan sale transactions with a heavy retail weighting, and these are expected to evolve into some asset sales in the future. Examples of this include Patron Capital Partners recent loan purchase which included **Northside Shopping Centre** for €50m.

It is expected that the strong start to the year will continue with further asset disposals to occur in the third quarter of 2014.

Already this looks to be a significant year in terms of transactions in the overall Investment market. With more than €1bn in sales already reached, there is some reason to think this year could even surpass the best year in Irish sales of €3.5bn. Certainly, it is going to be one of the most significant years for shopping centre transactions in Ireland.

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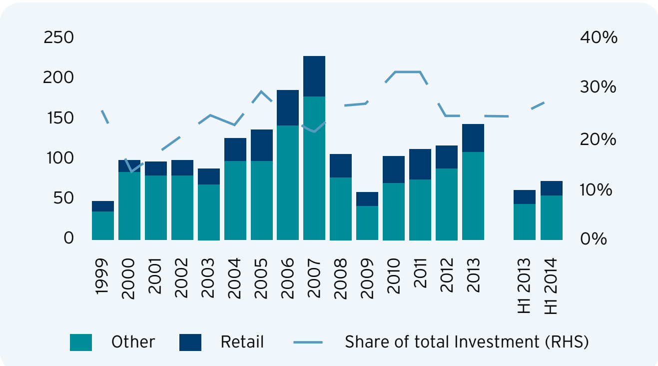
UK and European Shopping Centre Investment Market Overview

The increase in wide spread capital markets investment volumes across Europe is attracting comment, particularly the increased activity in Southern Europe. Barry O'Donnell reviews the latest data.

When comparing the first half of 2014 with the previous year commercial investment volumes in Europe increased from €58.5bn to €72bn, an increase of 23%. The retail sector accounts for €19.7bn, an increase of 33% over the same period. Retail has outperformed the total volume rise of 23% indicating the interest in the sector.

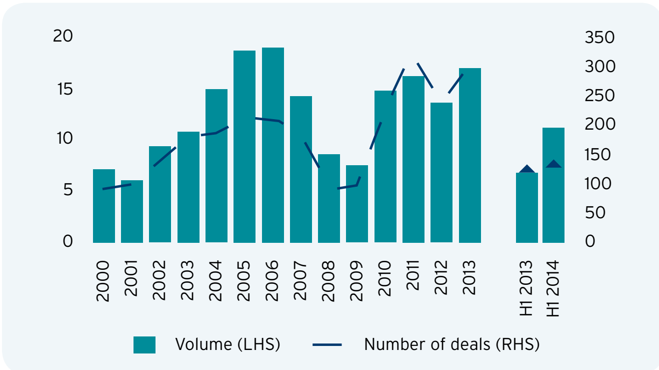
European investment volume, €bn



UK and Germany accounted for 57% of market share in retail transactions with the UK marginally ahead with 30% and Germany 27%, totalling €11.2bn for the first half of 2014.

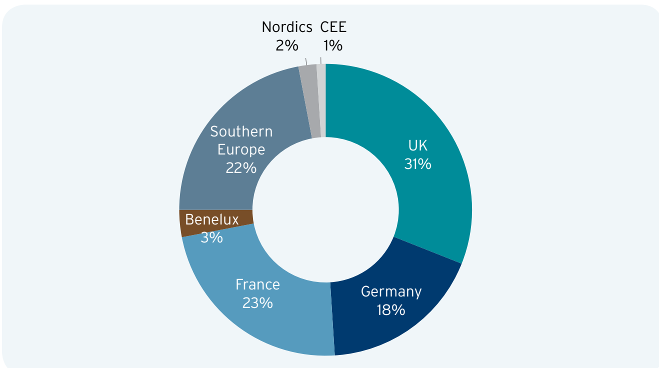
Shopping Centres have been the favoured sub sector within retail for investors and shopping centre transactions reached €11.1bn in H1 2014, representing over half of total retail investment volumes, and the best first half performance since 2000. The increased availability of shopping centres and portfolios coming to the market and the willingness of investors to reconsider countries such as Spain and Italy has helped volumes. Attractive pricing in Southern Europe remains while elsewhere increasing competition in core markets has continued to increase prices, notably in the recent marketing of **Bluewater** in the UK.

European investment volume in shopping centres, €bn

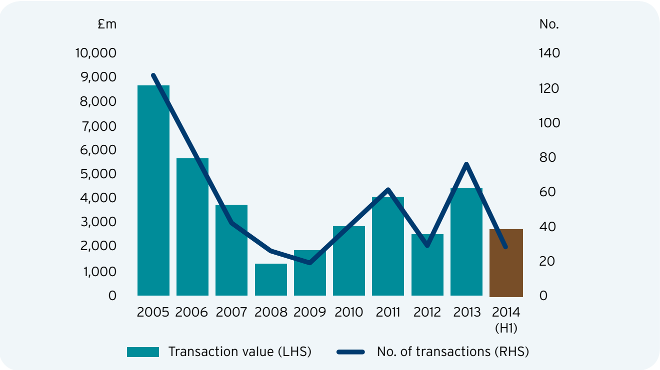


31% of shopping centre transactions in Europe have been in the UK, maintaining the UK's dominance in the trading stock with Germany loosing its second position to France and Southern Europe. In the UK, shopping centre investment volumes reached €3.4bn in the first half of 2014 up from €2.4bn over the same period in 2013.

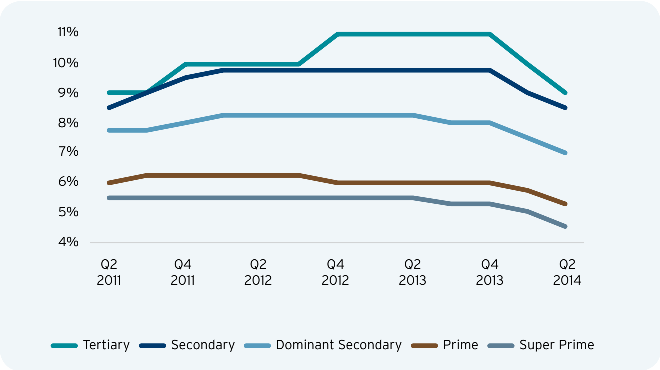
European investment volume in shopping centres, H1 2014



Annual investment income UK 2005-2014



UK Shopping Centre Yields



UK Pricing

Due to the weight of money chasing stock in core markets yields hardened for all UK shopping centre sub sectors and are continuing to trend inwards. Super prime equivalent yields have trended to 4.5%, supported by the pricing of the 30% interest in **Bluewater**. This transaction is a benchmark for the super prime market, although it is worth noting that a premium applies to this unique asset due to its strength and appeal to international retailers. Prime yields are at 5.25% while dominant secondary yields have also come in over the year, as exemplified by **Golden Square Shopping Centre**, Warrington which recently sold at circa 6.75%. Secondary shopping centres are continuing to trend in as a result of greater availability of debt. Tertiary shopping centres are at 9%.

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Outlook

The UK has proven to be one of the leaders in the economic recovery amongst European nations with a strong annual growth rate of 2.9% when compared to the European average 1.8%. Shopping centres have accounted for the largest volume of acquisitions within retail and we expect shopping centres in core markets to continue to attract considerable interest for the foreseeable future.

Across Europe we expect retail investment volumes to reach €39bn in 2014 of which €19bn to be invested in shopping centres. The market will continue to be led by strong activities in the core markets of UK, Germany and France and we anticipate further growth and investment activity in 2015 with volumes expected to exceed €41bn for the retail sector as a whole which would take volumes back to 2005 levels.

Investor interest in Ireland, Southern Europe and CEE countries is expected to increase as evidenced by our recent sale of **Liffey Valley** shopping centre in Dublin; we therefore expect yields to continue to trend in and for the next few years to be those of improving shopping centre investment volumes.

Romania becomes increasingly attractive to international retailers and investors

Romania had the highest GDP growth rate in the European Union in 2013 and is the second largest country in the CEE region by population. With a booming economy, low public debt, low unemployment rates, attractive corporate income tax rates and the most competitive wage levels in the EU, Romania is becoming increasingly attractive to international retailers investors.

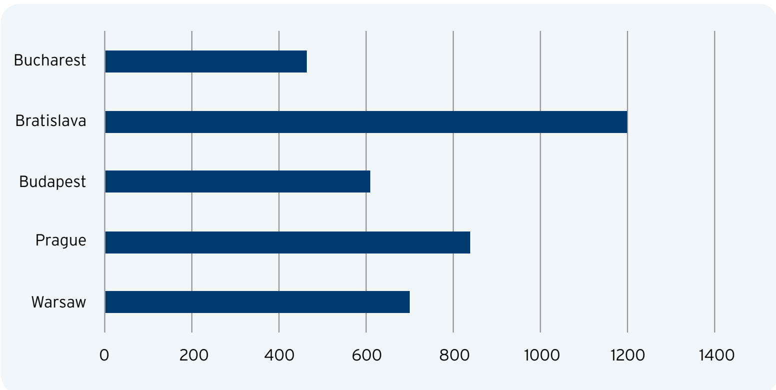
The country's capital city, Bucharest, is the sixth most populous city in the European Union and the largest capital in the CEE region. It is the most developed city in the country and one of the main industrial centres and transportation hubs of Eastern Europe. Bucharest's contribution to Romanian GDP last year was 23%.

In terms of modern retail stock density per 1,000 inhabitants, Bucharest remains behind CEE's main capital average, but with a total retail stock of 875,000 sq m and another 189,000 sq m under construction, the city's modern retail stock will equal that of Budapest by the end of 2016.

Four major shopping centres dominate Bucharest's retail sector. **Baneasa Shopping Center** covers the north, **AFI Palace Cotroceni** covers the west, and **Sun Plaza** covers the south. **Promenada Mall** is the fourth and most recent modern retail scheme in the city. Developed by Raiffeisen Evolution and opened in October 2013, **Promenada Mall** is located in the central north of Bucharest, an area that has become a key location for multinationals such as Oracle, Alianz, Orange, Raiffeisen, Vodafone and Schnider Electric. **Promenada** serves more than 70,000 employees who work nearby and in the central business district of the city.

With the Eastern part of Bucharest lacking a modern shopping center, active developers such as NEPI (New Europe Property Investments) seized the opportunity to start the construction of **Mega Mall**, a scheme that has 72,000 sq m GLA and is planned for delivery in April 2015. Also targeting eastern Bucharest, Sonae Sierra, in partnership with Caelum Development, are currently developing **Park Lake Plaza**, which has a similar GLA to **Mega Mall** and is scheduled for delivery in 2016.

Retail stock density (sq m/1,000 inhabitans)



> Currently, H&M has a network of 33 stores spread across 21 cities, with the last five opened this year

Retail sales and investment

The Romanian subsidiary of Swedish fashion retailer **Hennes & Mauritz (H&M)** reported €101m in sales in 2013, which represented a 41% increase on 2012. Although **H&M** entered Romania only three years ago, the retailer swiftly covered the local market and by the end of 2013 was operating 28 stores all over Romania. Currently, **H&M** has a network of 33 stores spread across 21 cities, with the last five opened this year.

The biggest fashion group in the world, **Inditex**, has 98 stores in Romania and reported a turnover of €175m in 2013. The Spanish retailer entered the local market in 2004, choosing Bucharest as the location for its first **Zara** and **Pull & Bear** stores.

The Romanian sales of French group **Carrefour** reached €1bn last year following the expansion of its network of Express convenience store with 38 new units. The company also opened a new hypermarket, 13 supermarkets and an online shop. **Carrefour** currently operates four store formats in Romania with a total of 165 units – 25 hypermarkets **Carrefour**, 78 Market supermarkets, 61 Express convenience stores and one online store.

The British company Kingfisher, the largest DIY retailer in Europe, entered the Romanian market in 2013 by acquiring **Bricostore** Romania, a retailer that operated a local network of 15 stores. At the end of the year, **Kingfisher** reported Romanian sales of €85m.

In 2013, total investment volume in Romania reached €318m, with the retail sector accounting for €201m or 63%. By comparison, the office sector attracted around €102m, and the remaining €15m was invested in land plots and unfinished buildings.

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Switzerland's
very first skyscraper undergoes renovation

Built between 1929 and 1932 and typical of the art-deco period, Switzerland's first ever skyscraper is undergoing a complete renovation. Known as the Tour de Bel-Air, the project had been in the planning stage for four years, with works finally starting on the main tower in early 2014. The total investment cost is more than CHF 50m (€40.94m at today's date) and the project completion date will be end of 2015.

The Tour de Bel-Air is a 16 storey building, situated in the centre of Lausanne on the shores of Lake Geneva. During its construction, the tower was criticised by the Protestant Church over fears that it would be taller than the cathedral. Swiss Architect Alphonse had been inspired by the buildings on Wall Street, overlooking the financial crash that had occurred there two years earlier. The local press called the tower 'an affront to reason and good taste'. But times change, and the property is now registered as a 'cultural building of Swiss national importance'.

The tower's revolutionary design included not only apartments and offices but also shops, a restaurant and a theatre. The most advanced technology would be used – the apartments would be 'equipped with electricity, refrigerators, showers, and telephones'.

In the 1950s, the theatre was transformed into a cinema called Le Métropole, which eventually closed in 1988. Now it is host to ballet and orchestral music.

The building overlooks and dominates Le Flon, Lausanne's trendy new district. During the 19th century, Le Flon was an industrial zone filled with mills, tanneries and fullers. As the 20th century progressed, industry was replaced with local crafts and workshops. The area never enjoyed a particularly good reputation, but over the last fifteen years its central location has helped it to evolve into an area housing more than 55,000 sq m of different types of retail stores, conceptual restaurants, bars, clubs, gyms, galleries, offices, schools, parking and a multiplex cinema.

With more than 5,400 sq m of retail and office space for rent, the Tour de Bel Air has the capacity to develop the district's atmosphere and bring new concept stores and restaurants that would further enrich the local environment. Retail space (4,053 sq m) and office accommodation (1,347 sq m) is spread over six floors in the main base of the tower, overlooking the Place de Bel-Air, Le Flon or the Rue des Terreaux. The retail space is split into units of varying sizes and different levels, ranging from 15 sq m to 3,185 sq m. All are easily accessible and ideal for boutique retail stores, urban fashion, multimedia concept stores, and restaurants, even a department store. DTZ Geneva are leasing advisors.

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Photographer: Samuel Gachet/Architects: CCHE

The return of Spain

Three years ago, there was a rising reservoir of global capital and an insatiable appetite amongst investors for core investment stock in Europe's primary markets. At that time, the fringe markets provided by the Nordics and CEE were the most attractive alternatives, whilst for the vast majority of investors Spain was considered a categorical 'no go' area.

Now Spain has just seen its highest first quarter of investment activity since 2010. At just short of €1bn, this represents an increase of over 200% on the same period in 2013. Fuelled by increasing foreign investor interest, retail has captured more than half of this activity. Recent international investors recognising the current opportunity offered by Spanish retail include Alpha Real Capital, GreenOak Real Estate, KKR, Northwood Investors, Orion Capital Managers, and UBS.

Whilst yields remain stable, we continue to see strong opportunity within the Spanish investment markets, supported by long awaited improvements in the country's macro-economic profile. As confidence has returned, 10 year bond yields have fallen to almost 3%, the lowest since before the financial crisis. It is startling to recall that these yields peaked at over 7% almost two years ago. This growing confidence is underpinned by consistent improvements in manufacturing activity, falling unemployment and the country's exit from EU-IMF imposed austerity measures early this year. Even so, the road to recovery remains a long one.

Barring any unforeseen upsets, we anticipate the positive trend will continue, and we therefore expect to see investment volumes reach €4bn by the end 2014. Holders of Spanish stock are expected to exploit the long awaited improvement in liquidity to pursue exit strategies put on hold since the financial crisis. Good quality high street and shopping centre assets, well positioned to benefit from an anticipated up-tick in consumer expenditure, should attract the lion's share of investor interest. Inevitably, initial yields in core locations will fall, reducing the currently attractive returns that are potentially available to those who are prepared to make the leap today.

Although the statistics make for eye-catching headlines, it is worth remembering that Spain is growing from a low base. Despite the recent falls, unemployment still exceeds a staggering 20%, representing a significant brake on domestic consumption and state finances. House prices are still falling and the national level of private debt remains high. With headline inflation at close to zero, the spectre of deflation cannot be ignored by investors.

Whilst there is undoubted opportunity within the Spanish retail market, it is localised. For this reason, we are working hard to ensure that clients are fully apprised of the traditional investment fundamentals, including micro demographics, competition pipeline, occupier appetite and effort analysis. As we all know, the devil is in the detail.

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Are you giving your customers an attractive experience?

With the growth of internet sales, owners of retail destinations must give their customers an attractive experience if they are to maintain and grow footfall and sales. Excellent customer service is a key differentiator for any business, and is crucial to its success.

Delivering superior customer service builds a positive brand that attracts loyal customers who become ambassadors for the brand and do your marketing for you. Word of mouth from happy customers has been proven to be the most effective marketing for any organisation, especially in today's social media environment.

DTZ has always prided itself on the service it provides to its customers, be they owners, occupiers or visitors to our managed properties. Uniquely amongst UK managing agents, we have undertaken customer service surveys in-house for over three years. In order to improve our performance and raise standards even higher, we have identified and invested in the Customer Services Training Package from World Host, who rose to prominence when they delivered the very successful training to the UK 'Games Makers' for the 2012 London Olympics.

DTZ are the only managing agent to be World Host accredited, which we achieved by training over 50% of our front line staff in our shopping centres and multi-occupied buildings. We have now trained 90% of our staff, including directors, surveyors, and facilities managers, as well as our front line staff.

High quality, focused customer service training:

- Ensures the values of customer service for the client organisations are clear
- Provides the skills required to be excellent customer service professionals
- Differentiates the building or centre from its competitors
- Makes customers brand ambassadors
- Increases profit
- Improves reputation for the building, location or owning company
- Reduces conflict between owners, occupiers and customers.

All of these benefits have an effect on value. If it is delivered well, customer service can have major impact on a business' level of profitability. DTZ has already seen improvements in customer service delivery that have improved staff morale and team work and have resulted in DTZ winning several awards.

"The World Host training was excellent. It helped us appreciate we can improve the overall customer experience and help our retail tenants increase sale."

Simon Pullen, General Manager, **Southgate Bath** (a DTZ managed centre)

"We pride ourselves on our customer service, and the World Host training has certainly raised our own internal standards."

John O'Shea, DTZ's General Manager, **Grand Arcade**, Cambridge

DTZ is in the process of achieving destination status within some of our managed Centres. This involves delivering customer service training direct to retailers, which has been proven to increase cross selling and up selling by staff, growing profitability for the retailer and reputation for the retailer and the centre.

We have long recognised the need for excellent customer service and quality customer service training. It is at the heart of everything we do, and will continue to be a major area of focus for us in the years ahead to improve both service standards, investor and retailer performance.

Customer service has had lip service until now but results indicate there is a clear and identifiable link between service improvements and financial performance.

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India's luxury retail set for rapid growth

Until about five years ago, most luxury retailers in India were located only in the retail zones of 5 star hotels, since their customer base was restricted to the rich and famous. But following the recent rise in disposable incomes and an increasing style consciousness, luxury brands are now attracting not only the rich but also buyers from middle income groups as well as the youth of India. As a result, many retailers have moved to high streets, malls and multi-brand stores. The rise in demand has also created a market for specialty malls, such as **Palladium** in Mumbai, **UB City Mall** in Bengaluru and **DLF Emporio** in Delhi NCR, which are specifically designed for the luxury segment.

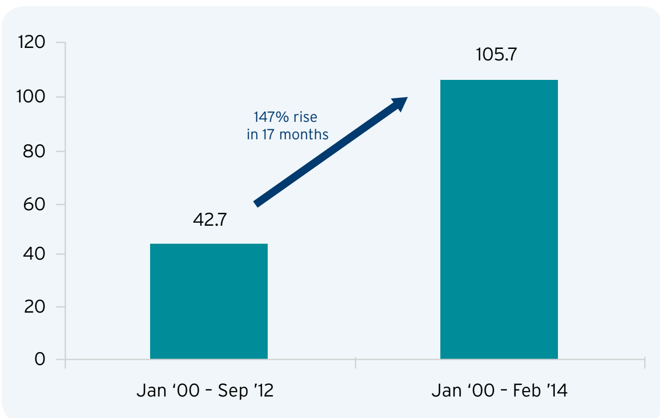
According to government estimates:

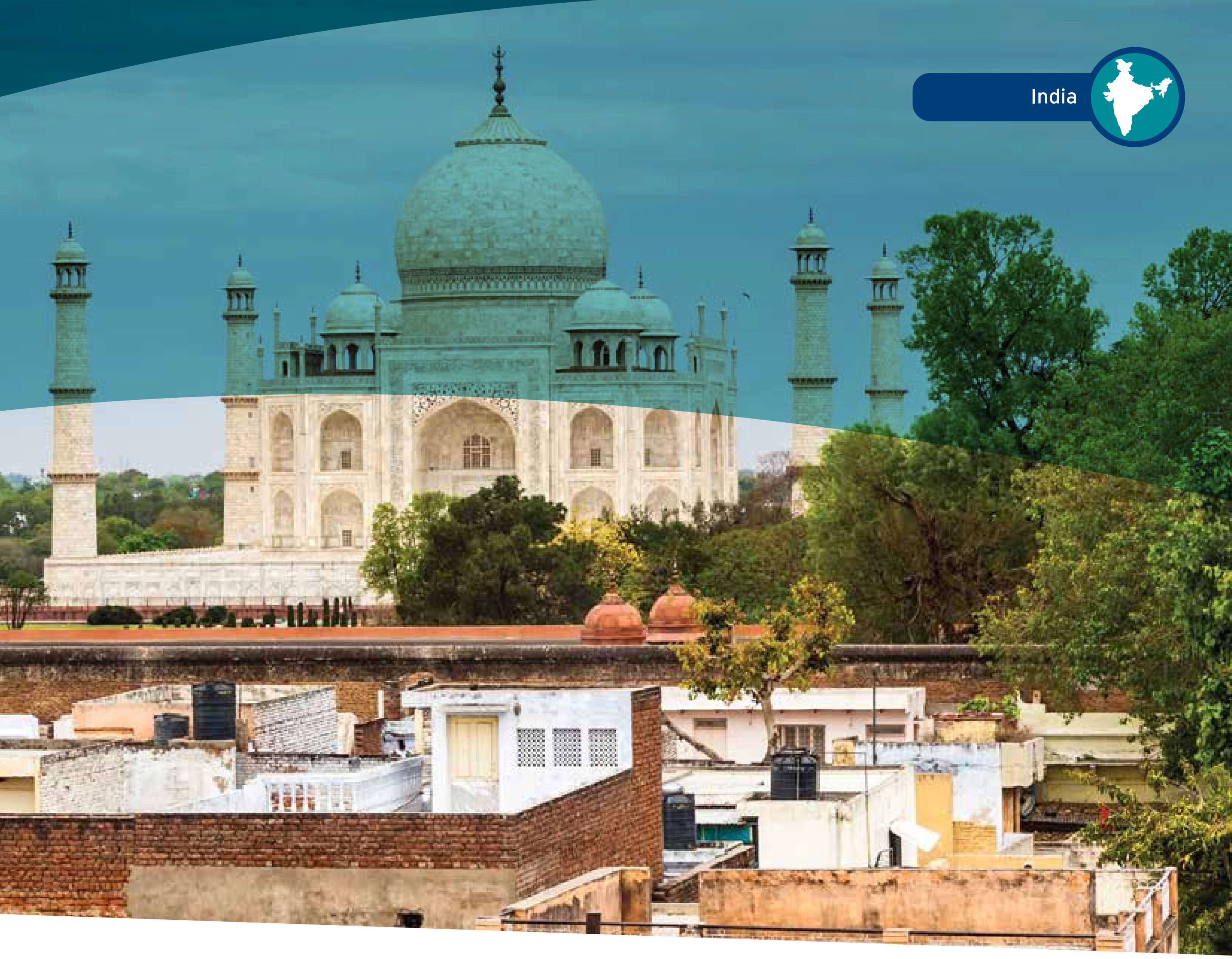
- Total Foreign Direct Investment (FDI) in single brand retail from January 2000 to September 2012 was US$42.7m
- Following post relaxation of FDI norms in January 2012 and September 2012, FDI in single brand retail increased to US$105.7m by February 2014
- A large proportion of the increase in single brand retail FDI can be attributed to the luxury segment.

Three factors will further contribute to driving rapid growth within the luxury retail segment: 66% of India's population is aged between 15 and 64 years, disposable income is growing at 15% CAGR and consumer spending is estimated to grow at a 7% CAGR.

Luxury brands have already entered India in segments such as apparel, cosmetics, electronics, home décor and furniture. In the last two years, new entries have included **Boffi SpA**, **Michael Kors**, **Emilio Pucci**, **Roche Bobois**, **Roberto Cavalli**, **Christopher Guy**, and **Sealy Posturepedic**. So far, most of these brands have retail presence only in the large cities, primarily Delhi NCR, Mumbai and Bengaluru.

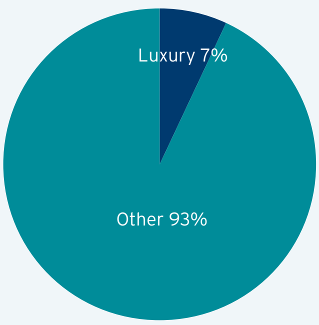
Growth in FDI, million USD



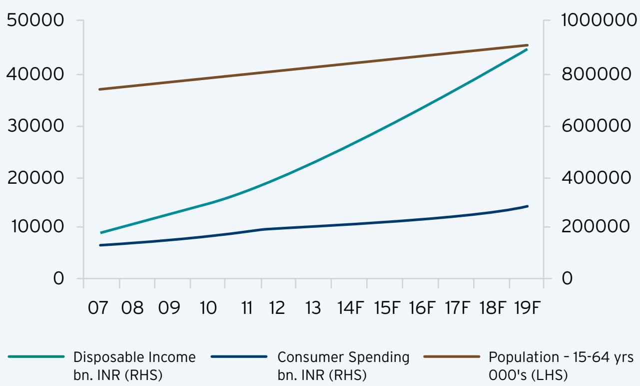


India

Retail space occupancy



Disposable income, Consumer spending & population



The luxury segment currently occupies about 7% of grade A retail space within the top seven cities. The cumulative stock of grade A retail space in these cities amounts to about 56m sq ft. But this figure is expected to increase to 75m sq ft. by the end of 2015, and consequently the market share of the luxury segment is likely to grow rapidly over the next two to three years.

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The traveling luxury consumer

The growing number of tourists has been reported as a major contributor to the growth of the luxury retail market in emerging countries. International Tourist Arrivals (ITA) in emerging destinations is expected to increase at 4.4% per annum, compared to 2.2% in advanced economies. The market share of ITA has continued to grow from 30% in 1980 to 47% in 2012, and this number is expected to increase to 57% with over 1bn ITA by 2030.

Within Asia, South East Asia (SEA) posted the highest growth due to continued strong intra-regional travels. In 2012, growth in ITA in SEA was led by Cambodia, Thailand and Vietnam, which grew by 24%, 16% and 14% respectively. In line with the growth of ITA, global International Tourism Receipts (ITR) also rose. The market share of Asia and the Pacific region was 30% in 2012 at US$324bn.

Chinese travelers are significant contributors to ITA and ITR, and are ranked as the third highest in global ITA and forth in ITR (UNTWO, 2013 Edition). The Chinese reportedly spent US$102bn in 2012, reflecting a 37% increase from 2011. Among the reasons cited for their high spending were an increase in disposable income, a relaxation of restrictions on foreign travel and an appreciating currency.

As one of the top international tourism destinations, Malaysia was ranked in 10th place by UNWTO in 2012 with a total ITA of 25m, generating Tourist Receipts of US$20.2bn. Under the Malaysian government's Economic Transformation Programme (ETP), the number of tourist arrivals is expected to increase to 36m per annum by 2020. Several initiatives have been introduced by the Tourism Ministry to increase visitor yield (receipts per arrival) from US$729 in 2009 to US$1,508 by 2020.

One of these initiatives, under the ETP 'Luxury Malaysia', is the first formal retail development strategy for the local luxury segment, which indicates a clear commitment to support the rapid expansion of the country's retail sector. It is primarily targeted at the high-income markets around the world with the goal of doubling tourism yield without doubling the total number of visitors by providing a more affordable option for luxury items compared to other countries in the SEA region.

Malaysia has been a major market for many luxury products for years, but the government's initiative to give duty free status to more than 300 categories of goods, including apparel, shoes, jewellery and handbags, has resulted in a steady stream of new entrants.

This is why Malaysia's retailers are generally able to offer fashion at more competitive prices than their counterparts in neighbouring countries around SEA, and hence over 80% of Malaysia's tourists come from Singapore, Indonesia, Thailand, Brunei, the Philippines and Australia.

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Rising demand for luxury goods in South East Asia

The South East Asian (SEA) economies GDP are expected to rise by 4% to 7% per annum during 2012-2016. With the exception of China and India, this is far more promising than the projected GDP growth for the rest of the Asia Pacific Region.

Singapore has long been a leading retail destination with a matured market and a 100% urbanized population. Measured by GDP per capita, it outstrips all the other economies in SEA. But it is the emerging markets of Indonesia, Malaysia, Thailand, Vietnam and Philippines that have been driving economic growth in the region. An expanding middle and upper middle-class, improved per capita disposable income, changing lifestyles, urbanization and global awareness have fuelled the demand for luxury goods in these countries. As a result, SEA is now seeing an increasing growth of shopping centres that cater to the luxury market.

Kuala Lumpar has four luxury malls – **Suria KLCC**, **Pavilion KL**, **Starhill Gallery** and **The Gardens** – with more expected to be completed in the next three to five years. But Malaysia's luxury shopping centres have now expanded beyond Kuala Lumpur city centre into suburban areas and other regions. An example of the increasing sophistication and brand-consciousness in the Malaysian market is the country's first international outlet mall, **Johor Premium Outlet**, which is located in the Iskandar Region in the southern part of the country. This is a joint venture between Malaysia's Genting Plantations Sdn Bhd and US-based Simon Property Group. Following the success of the first phase, the outlet has now expanded into the second phase with a total NLA of 275,000 sq ft and 120 shops. Five more outlet shopping centres are planned outside Kuala Lumpur.

A similar trend can be seen in Indonesia, where luxury malls in Jakarta offer the latest fashions from Milan, London, Paris and New York. **Plaza Indonesia**, **Grand Indonesia**, **Senayan City**, **Pacific Mall**, **Mall of Indonesia** and **Pondok Indah** are reported to account for 90% of Indonesia's luxury good sales. The demand from emerging middle and upper-classes for international-branded goods has been strong and is expected to grow stronger as wealth in Indonesia is on the rise. Ranked as the 5th fastest growing G20 countries in 2010, Indonesia is now one of the fastest growing economies in the world with GDP growth of 6.2% in 2012, compared to Malaysia's 5.6% and Singapore's 1.3% during the same period.

The luxury retail market in Thailand is also expanding significantly. Positioned as an 'ultra-luxury shopping mall', **Central Embassy** is a new addition to Bangkok's existing luxury malls, such as **Gaysorn**, **Siam Paragon** and **The Emporium**. Located opposite **The Emporium**, **The EmQuartier** and **The EmSphere** will host more than 1,000 local and international brands once completed by end of this year and 2016 respectively. With more than 40m tourists per annum expected within the next five years, these luxury shopping malls are expected to become a key tourists destination in Bangkok. Several more luxury malls are expected in the next few years.

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The ups and downs of the Chinese luxury goods market

In 1992, **Louis Vuitton** opened a store at the Peninsula Hotel in Beijing and established the first luxury outlet in China.

At that time, upscale hotels were seen as the exclusive domain of wealthy shoppers. More luxury brands followed, and these also chose to open stores in the most famous hotels, where rich clientele were assured of a comfortable experience in a private shopping environment that affirmed their status.

It took nearly 20 years for luxury stores to move from hotels into department stores and shopping malls. After China joined WTO, luxury brands sought space in high-end department stores. With the rapid growth of China's domestic economy, demand was rising and luxury could now be found in malls such as **Fuxingmen Parkson** in Beijing, **Hangzhou Tower** and **Tianjin Friendship Shopping Center**. The country's luxury consumers had expanded to include the employees of government and state-owned enterprises.

With the significant growth of the Chinese luxury market in recent years, shopping centres have become the first choice for luxury brands. This is especially true for affordable luxury goods brands, which draw middle class shoppers and young fashionistas from nearby fast fashion outlets.

Whilst China is now one of the largest consumers of luxury goods in the world, the growth of the sector is actually slowing down dramatically. In 2011, total annual consumption of luxury goods in China reached $12.6bn (excluding private jets, yachts and luxury cars), representing 28% of global markets and a growth ratio of 30%, but in 2012, that figure plummeted to 7%.

With the negative effects of online retail, this decline is set to continue. As a consequence, most luxury brands have stopped opening new stores in China and have instead turned to refurbishing their existing stores.

Louis Vuitton upgraded their store in Shanghai Plaza 66 into **Louis Vuitton Home**, and **Louis Vuitton** in Beijing Peninsula extended the floor space from one floor to three floors with GFA over 1100 sq m.

With the increasing development and integration of markets, luxury brands need to provide superior shopping experiences for Chinese consumers in order to compete with online shopping.

DTZ predicts that the Chinese luxury retail market will become 'offline-online-offline', combining superior experiences and services for customers in stores, and convenience and cheaper prices online.

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Hong Kong
the world's shopping capital

Over the past 25 years, the seemingly unstoppable steam train that is China's economy has helped Hong Kong to become the world's foremost luxury retail destination.

The proliferation of high-end shops reflects the voracious demand of Chinese mainlanders and Hong Kong locals for luxury goods. But is there room for more, and will there be a sustainable appetite for further expansion and retailer investment?

A leading market research company, IPSOS Group, suggests that luxury goods consumption will stabilise during 2014. Their report, The 2014 China Luxury Forecast, agrees with the widely held view that the Chinese luxury goods palette is becoming more refined. Increasingly, the visiting Chinese and Hong Kong locals are seeking goods beyond the traditionally garish monograms associated with fashion houses such as **Louis Vuitton**, **Gucci** and **Fendi**.

Whilst Hong Kong shopping centre developers expect rents across their portfolio to increase between 8% and 18%, many landlords recognise the importance of a varied tenant mix and the role this has to play in increasing retailer performance and rents. For example, **The Landmark**, owned by Hong Kong Land, have sacrificed space in their traditionally luxury-only mall to food and beverage operators. Nearly two years ago the leasing team here changed the basement floor into **Landmark Men**, a 60,000 sq ft addition to **Landmark**, bunching an eclectic mix of high end or bespoke boutiques, similar to what one would find on Jermyn Street, London.

IFC Mall, widely respected in Hong Kong as pioneering and successful at drawing in market entrants, has been edging away from a luxury focus for some time. Numerous international brands find their feet in this mall before spreading out across Hong Kong. Although the usual suspects within luxury retail can be found here, **IFC** continues to open itself to a diverse range of occupiers.

Hong Kong's retail market is tremendously sensitive to, and even dependent on, China's purchasing power. According to the consulting firm Brian & Co, spending on luxury goods increased by about 2% in 2013, some distance from the 7% rise in 2012. It is expected that 2014 will increase at the same rate as 2013. Coinciding with this, the Chinese economy is expected to grow by 7.5%, a figure that would be welcomed by most of the world's economies today, but one that according to a Bloomberg survey in February represents China's slowest economic growth since 1990.

With over 2bn sq ft of retail space, Hong Kong remains the world's capital for shopping, and it seems likely that it is destined for further growth. The region's already impressive transport infrastructure is set to gain a 50km bridge linking Hong Kong with Macau and the southern Chinese city of Zhuhai with a completion date set for 2016. In addition, a high speed rail line directly linking Hong Kong with various parts of China is set to open during 2018.

Although there are hints of uncertainty in the air, we believe Hong Kong's retail economy has a very stable future. Aside from the ever improving infrastructure and pioneering landlord/developer approach to retail real estate, this Special Administrative Region of China has two final but closely related benefits: consumer confidence in authentic products and its advantageous tax situation.

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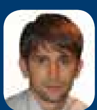

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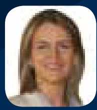

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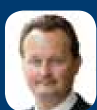

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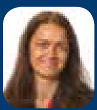

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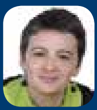

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Global reach

DTZ's global retail business provides clients with world class service combining international expertise and local knowledge.

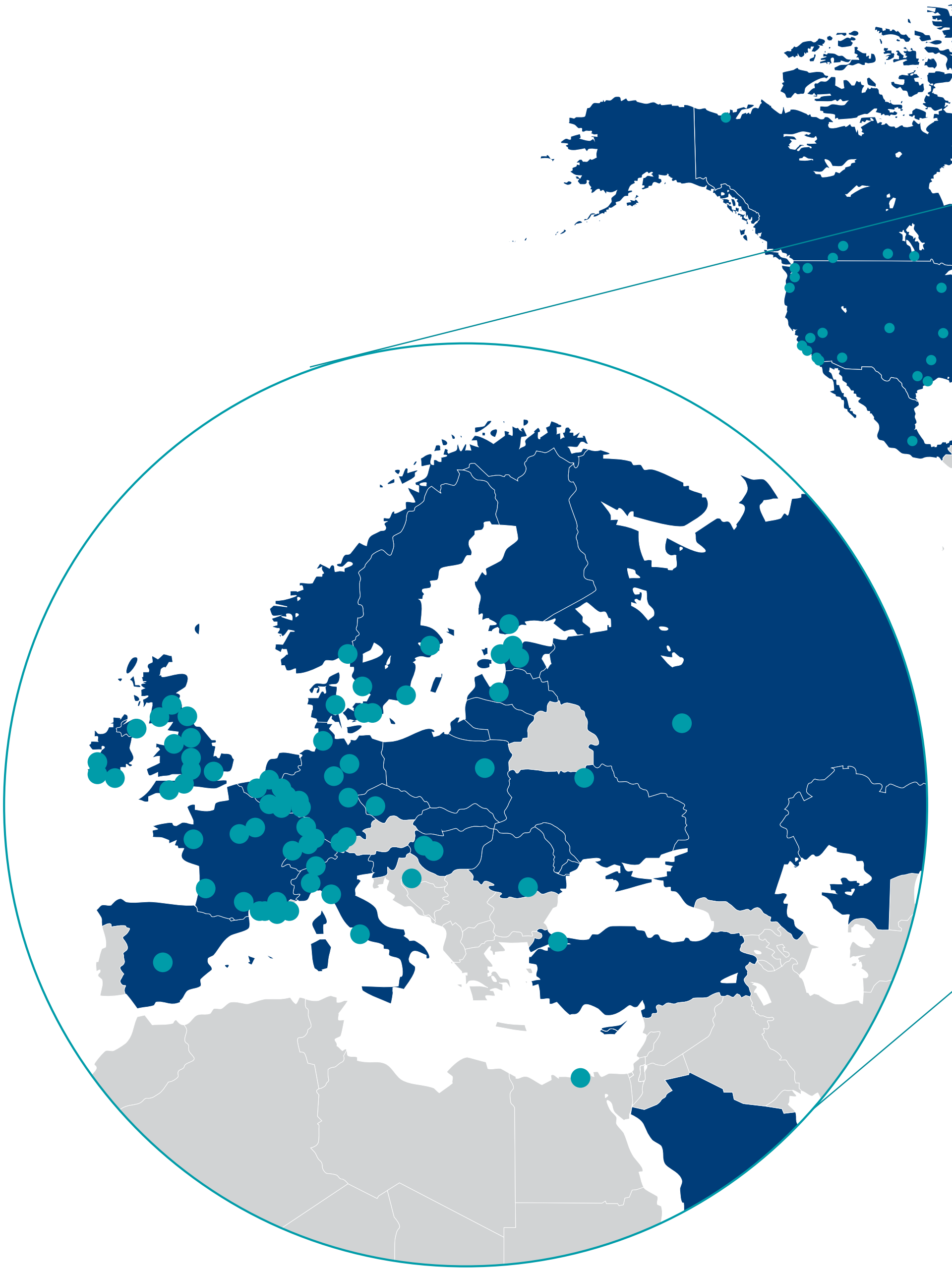
Around the globe, DTZ holds top ranking positions for specialist and general retail advisory services, according to independent surveys and industry rankings.

As an industry leader, with experienced retail advisers, DTZ is well placed to provide clients with solutions to complex retail issues. Our skilled teams operate in mature and emerging markets providing specialist retail advice and solutions for retail tenants and landlords.

As retail increasingly acts globally as a catalyst for regeneration, economic growth and employment, our network of offices enables us to provide the best team to meet client needs, applying local, international and cross border experience.

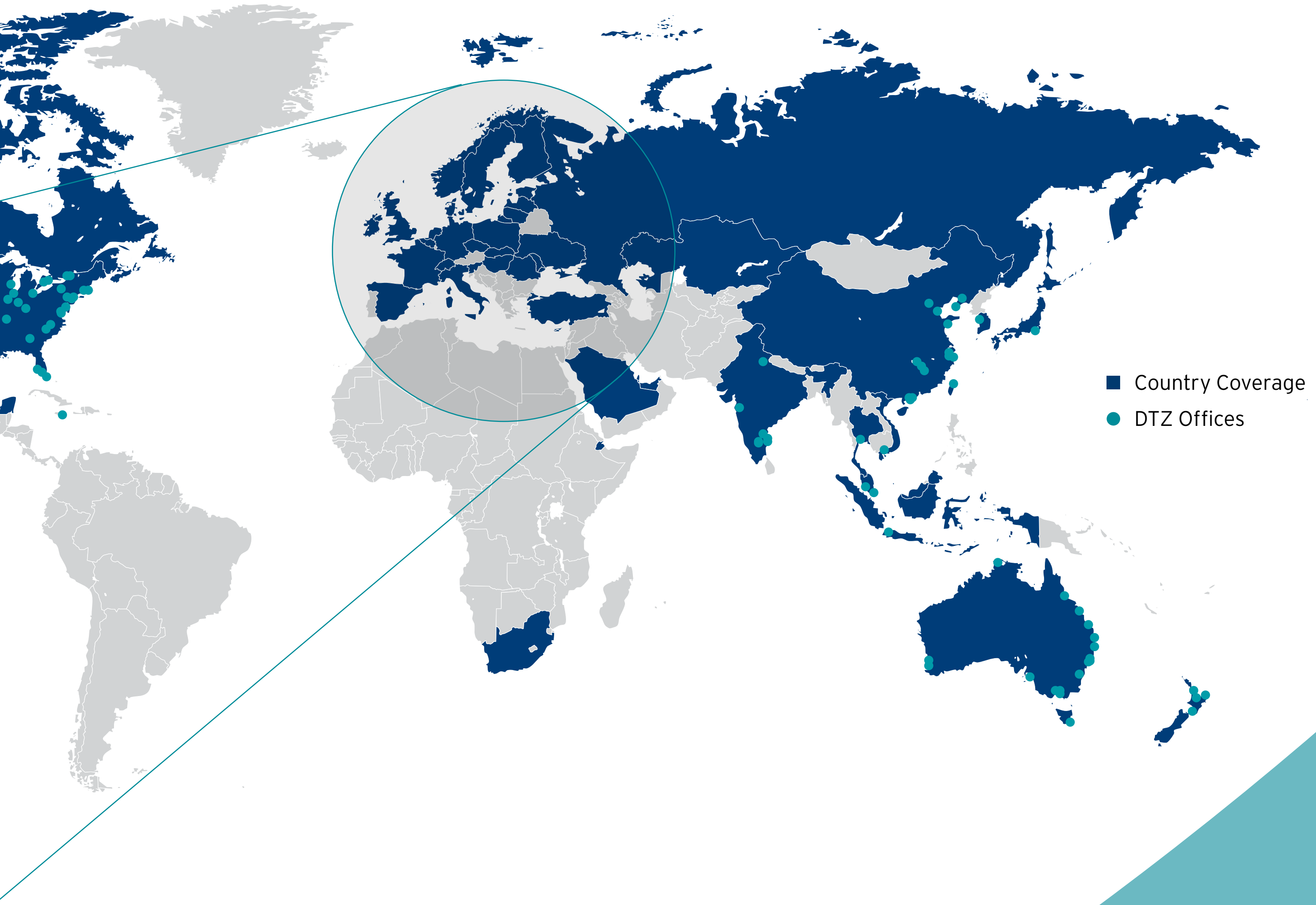
Committed to fostering long-term client relationships, our retail teams deliver solutions to maximise income and capital returns on clients' retail properties.

The international investment network identifies and advises global capital. The UK, especially London, has benefited from this in recent years. Our team is leading the next wave of international investment looking to invest in the wider EMEA Region.



GLOBAL COVERAGE

- 24,200 employees
- 52 countries
- 209 office locations
- 194 cities
- 3.2B sq ft management portfolio
- US $2.0B revenue
- Chicago, CA, USA global headquarters



COUNTRY COVERAGE

Argentina
Australia
Bahrain
Belgium
Canada
China (including Hong Kong, Taiwan)
Croatia
Czech Republic
Denmark
Estonia
Fiji
Finland
France
Germany
Hungary
India
Indonesia
Ireland
Italy
Japan
Jordan
Kazakhstan
Kenya
Korea
Latvia
Lithuania
Luxembourg
Malaysia
Mexico
Netherlands
New Zealand
Norway
Pakistan
PNG
Poland
Qatar
Romania
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Spain
Sweden
Switzerland
Thailand
Turkey
United Kingdom
Ukraine
United Arab Emirates
United States of America
Vietnam

DTZ
a UGL company

DTZ is a global leader in property services. We provide occupiers and investors around the world with industry leading, end-to-end property solutions comprised of leasing agency and brokerage, integrated property and facilities management, capital markets, project management, investment and asset management and valuation services. In addition, our award winning research and consulting services provide our clients with global and local market knowledge, forecasting and trend analysis to make the best long-term decisions for their continuous success far into the future. DTZ has 24,200 employees operating across 209 offices in 52 countries.

For further information, visit: www.dtz.com