



HOW ACTIVE ARE RETAILERS GLOBALLY?

GLOBAL RESEARCH AND CONSULTING

2014 EDITION

CBRE

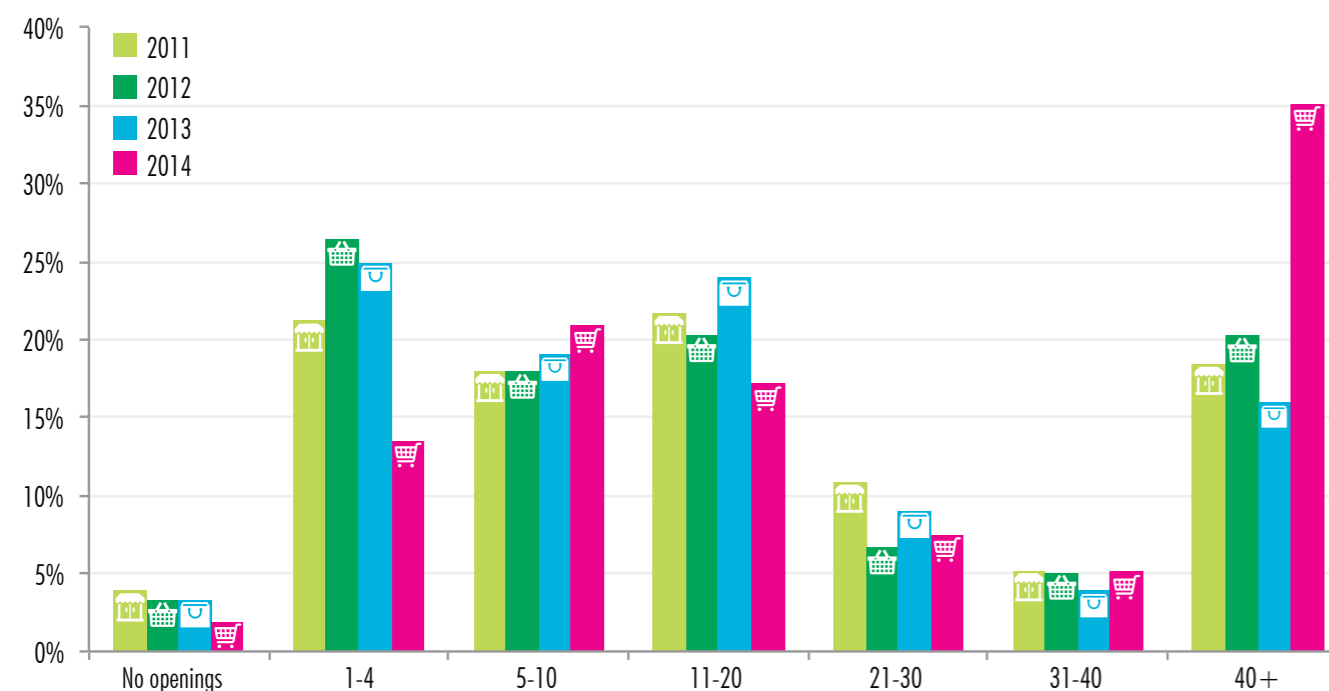


LARGE SCALE EXPANSION IS BACK ON THE AGENDA

While the pace of international growth has slowed over the last few years, retailers continue to expand their networks internationally highlighting the importance of cross-border growth in 2013. Retailers such as Michael Kors, VF Corporation and Nike among others, continued to expand their global networks in 2013 and this trend is set to continue in 2014. CBRE has once again examined the store expansion plans of international retailers. In this – the fifth edition – we have extended the scope of the survey to address retailers' global expansion strategies. More than 130 retailers, based in Europe, the Americas and Asia Pacific were surveyed to explore the number of stores they are looking to open and the markets being targeted in 2014. We also asked retailers about their plans to enhance their online transactional capabilities.

RETAILERS SHOW RENEWED CONFIDENCE IN EXPANSION

FIGURE 1: Number of stores retailers are planning to open in 2014



The retailer responses revealed a renewed confidence in the global retail market with large scale expansion plans firmly back on the agenda. Over a third of the retailers surveyed were looking to open more than 40 stores. In contrast, just 13% of retailers have modest expansion plans - looking to open between 1-4 stores this year.

Of the retailers looking to open more than 40 stores in 2014, Mid-Range Fashion and Value Fashion are the most active sectors, accounting for one third (17% each). Coffee & Restaurants retailers (13%) and Health & Beauty retailers (13%) also have ambitious expansion plans.

The projected increase in store expansion activity reflects an upturn in consumer confidence at a global level. According to Nielsen, global consumer confidence improved by 3% in 2013, with growth of 3% in Europe, 4% in Asia Pacific and 6% in North America.

DIFFERENCES BY REGION OF ORIGIN

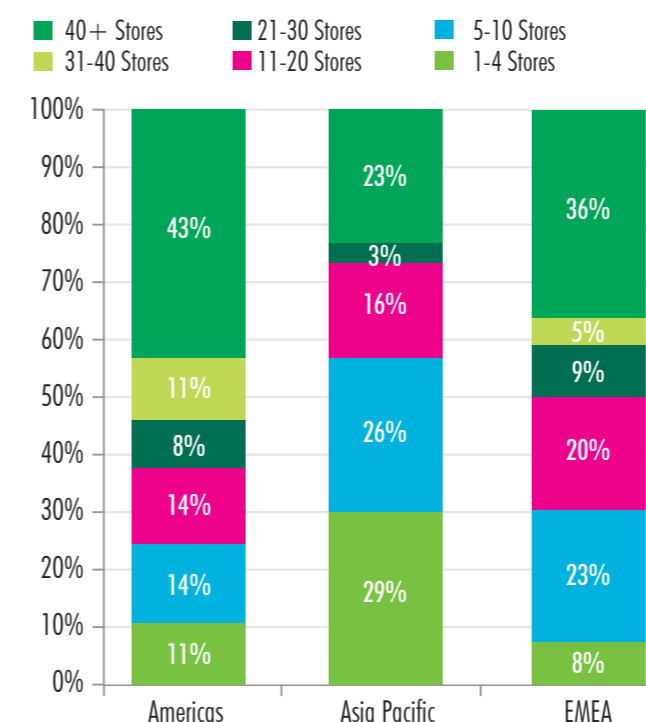
Retailers originating from the Americas have large scale expansion plans (see Figure 2) – almost half are looking to open more than 40 stores and another 11% are planning to open between 31-40 stores. Due to the maturity and saturation of their domestic markets, many

retailers originating from the Americas, particularly those based in the U.S., are seeking to grow their businesses in markets outside of their own region, providing the opportunity to expand on a large scale. Equally however, improving consumer sentiment in the U.S. is also creating opportunities for retailers to grow store networks in their home market. Retailers from Asia Pacific, on the other hand, have more modest expansion plans - 29% plan to open less than five stores and a further 26% are looking to open between 5-10 stores.

Lacking the same scale and supply network as other international retailers, retailers from Asia Pacific have generally been more cautious in broadening their presence outside of their home markets. Most retailers active within the region tend to focus operations within a few countries, and locations are generally limited to the key or top tier cities where quality retail space is accessible. High rental levels, rising labour costs, decelerating economic growth and slowing retail sales growth in most markets has dampened retailers' ambition for expansion in the near future.

AMERICAN RETAILERS PLAN BIG

FIGURE 2: Expansion Ambitions by Region of Origin



TARGET MARKETS FOR 2014

Retailers are targeting a wide range of markets in 2014 - close to 60 markets globally - however only a fifth of these markets are being targeted by 15% or more of retailers.

Germany is by far the most sought after market - 40% of retailers are looking to open stores there in 2014. Among European based retailers, this figure is high at 70%. It is also notable that Germany is the second most important target for American retailers in 2014. Germany's growing appeal to international retailers reflects the strength of its consumer economy; the relative under representation of international retailers compared with similar sized cities elsewhere in Europe; and the opportunity for retailers to target 20 large cities, including five tier 1 cities, in one market.

France is the next most sought after market with 26% of the survey retailers looking to open stores there in 2014. A number of international brands opened in France for the first time in 2013, including Monki and Primark, with Primark now planning to expand further throughout France. The UK, Austria and China make up the remainder of the 'top five' target markets.

In Austria unemployment levels are low and GDP per capita high, making it an attractive location for expanding retailers, particularly for those already looking at Germany as Austria is considered to be the next logical step – half (49%) of the retailers targeting Germany are also targeting Austria. Luxury brands have been particularly active in recent years with a comprehensive luxury offer now present in Vienna.

The U.S. is the top target for retailers in The Americas, but it is ranked down in 13th place in the global ranking with just 14% of the survey retailers looking to expand there. The U.S. remains a challenging proposition for many European and Asian retailers, many of whom are put off by the perception of a highly mature market with strong domestic competition. As a consequence, these retailers are prioritising markets in Europe and Asia over the U.S. Despite this, a number of retailers still have the U.S. in their sights for 2014 and will be encouraged by the in-roads made by brands such as Zadig & Voltaire, UNIQLO and TopShop in recent years.

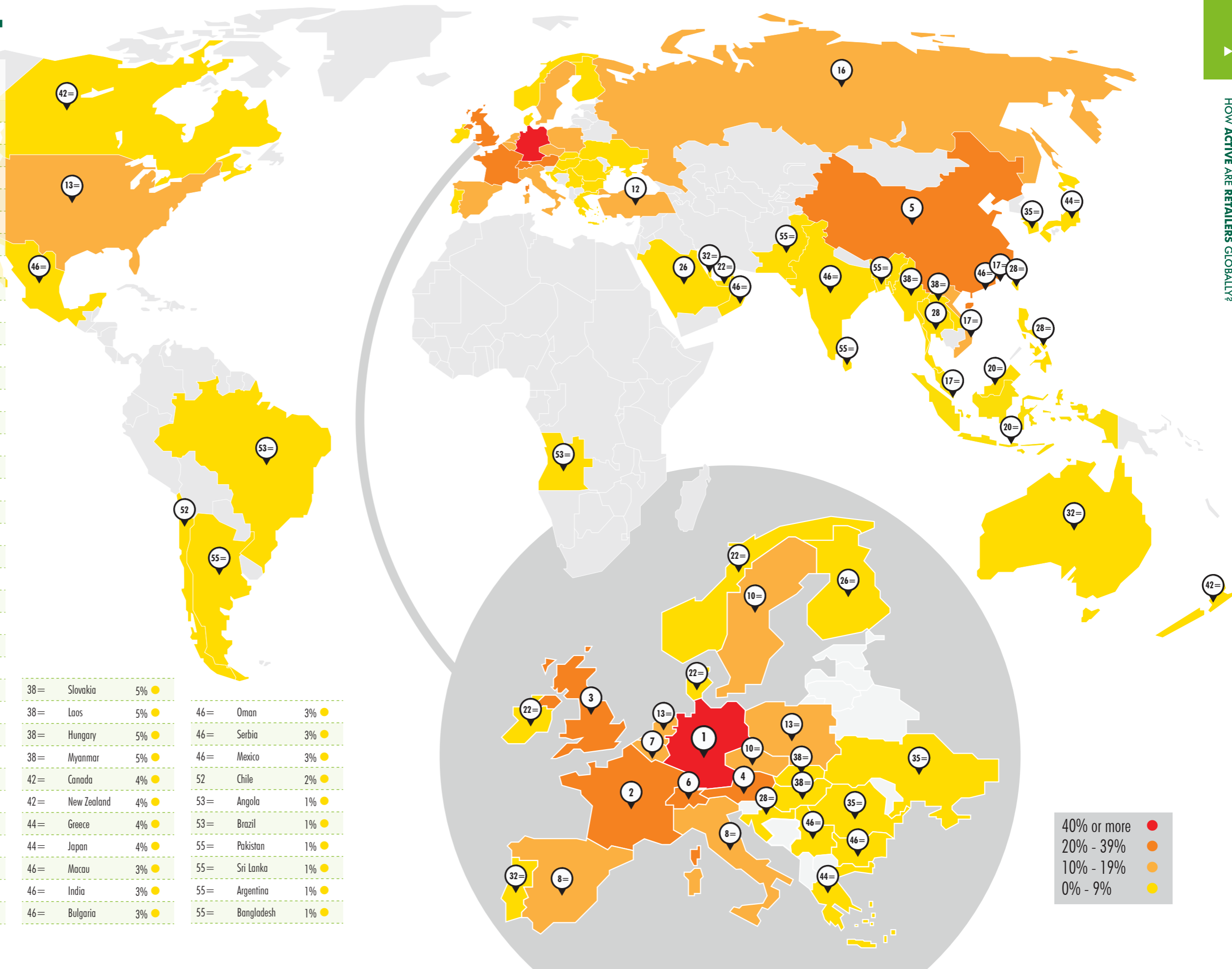
While the target market ranking for 2014 is dominated by countries with mature retail sectors, a number of emerging markets also feature strongly. China leads the way (a target for 22% of the survey retailers), with 10% or more looking at Turkey, Russia, Vietnam, Singapore and Malaysia.

TARGET MARKETS FOR 2014

RANK	COUNTRY	% OF RETAILERS TARGETING THE COUNTRY IN 2014
1	Germany	40% ●
2	France	26% ●
3	United Kingdom	25% ●
4	Austria	22% ●
5	China	22% ●
6	Switzerland	20% ●
7	Belgium	18% ●
8=	Spain	17% ●
8=	Italy	17% ●
10=	Czech Republic	16% ●
10=	Sweden	16% ●
12	Turkey	15% ●
13=	Poland	14% ●
13=	United States of America	14% ●
13=	The Netherlands	14% ●
16	Russian Federation	13% ●
17=	Singapore	11% ●
17=	Hong Kong	11% ●
17=	Vietnam	11% ●
20=	Indonesia	10% ●
20=	Malaysia	10% ●
22=	Norway	10% ●
22=	Denmark	10% ●
22=	United Arab Emirates	10% ●
22=	Ireland	10% ●
26=	Finland	8% ●
26=	Saudi Arabia	8% ●
28=	Philippines	7% ●
28=	Thailand	7% ●
28=	Taiwan	7% ●
28=	Croatia	7% ●
32=	Qatar	7% ●
32=	Australia	7% ●
32=	Portugal	7% ●
35=	Ukraine	6% ●
35=	Romania	6% ●
35=	South Korea	6% ●

38=	Slovakia	5% ●
38=	Laos	5% ●
38=	Hungary	5% ●
38=	Myanmar	5% ●
42=	Canada	4% ●
42=	New Zealand	4% ●
44=	Greece	4% ●
44=	Japan	4% ●
46=	Macau	3% ●
46=	India	3% ●
46=	Bulgaria	3% ●

46=	Oman	3% ●
46=	Serbia	3% ●
46=	Mexico	3% ●
52	Chile	2% ●
53=	Angola	1% ●
53=	Brazil	1% ●
55=	Pakistan	1% ●
55=	Sri Lanka	1% ●
55=	Argentina	1% ●
55=	Bangladesh	1% ●



TARGET MARKETS BY RETAILERS' REGION OF ORIGIN

Retailers originating from Europe (Figure 3) are targeting a total of 49 markets. There is strong bias towards expansion in their own region with less than 15% of the retailers looking at markets outside Europe. The most sought after markets for these retailers outside of Europe are the United Arab Emirates, China and Saudi Arabia which are being targeted by 15%, 12% and 12% of retailers respectively.

Asia Pacific based retailers (Figure 4) are also largely focused on their own region with 20 of their 25 target markets in their own region. China (a target for 58% of Asia based retailers) is the most sought after market, followed by Vietnam (48%), Malaysia (42%), Indonesia (39%) and Singapore (35%). The lack of interest by Asia Pacific retailers in American and European markets reflects the still huge potential to grow store portfolios in their own region, but also as previously mentioned the general lack of scale and supply networks of many international brands.

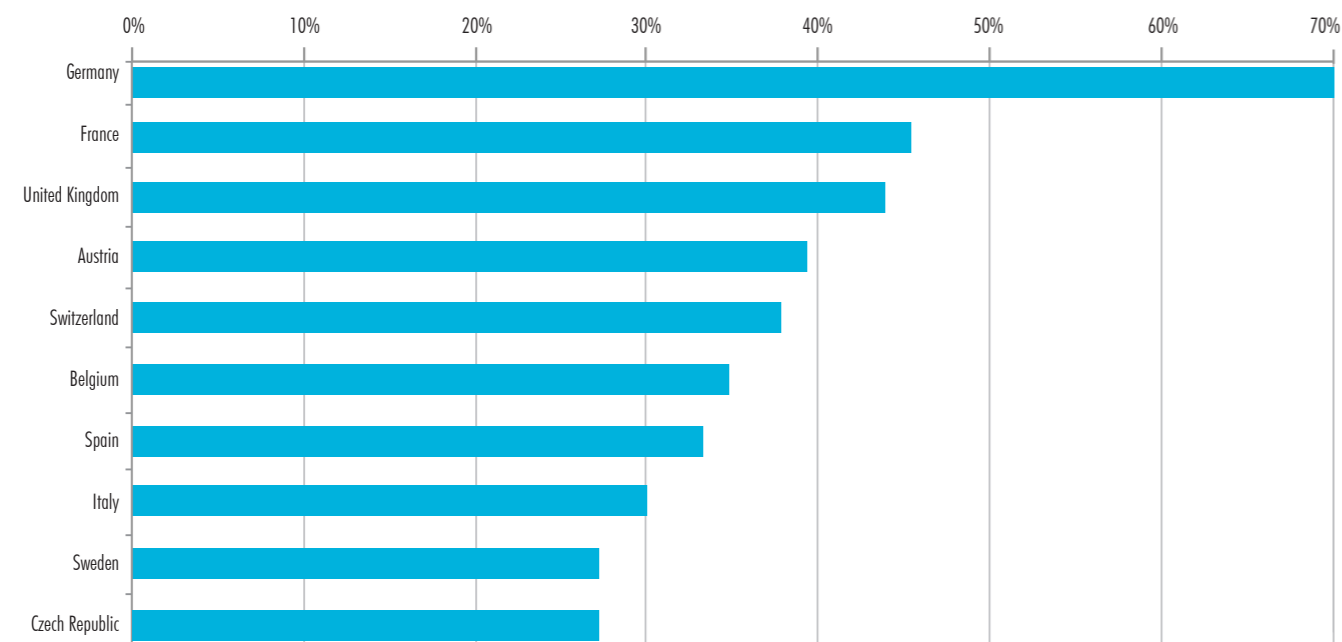
In Vietnam middle class consumers with rising incomes and a hunger for style continue to draw retailers' interest. Ho Chi Minh City and Hanoi were both ranked in the top 10 cities of most new retailer entrants in 2012 and 2013, according to *CBRE's Retail Hotspots in Asia Pacific* report. The liberalization of Foreign Direct Investment (FDI) on wholly-owned retail businesses from 2015 is expected to further stimulate this trend.

The economies of Malaysia and Singapore are strengthening and as a result consumer sentiment is expected to improve in both markets. In Malaysia an influx of new supply is due over the next few years. The resulting lower rental levels should provide an added incentive for international retailers wanting to expand there. In Singapore, stability in the economy and employment market has laid a sound foundation for domestic consumption. Retail spending has also been boosted by the growth in international tourists, especially affluent ones, following the opening of major new visitor attractions. Singapore has since become one of the gateway cities for brands new to Asia.

Retailer appetite has also increased for Indonesia after the recent arrival of major international brands such as UNIQLO and H&M. The Indonesia Shopping Centres Association expects retail sales to grow by 15% in 2014.

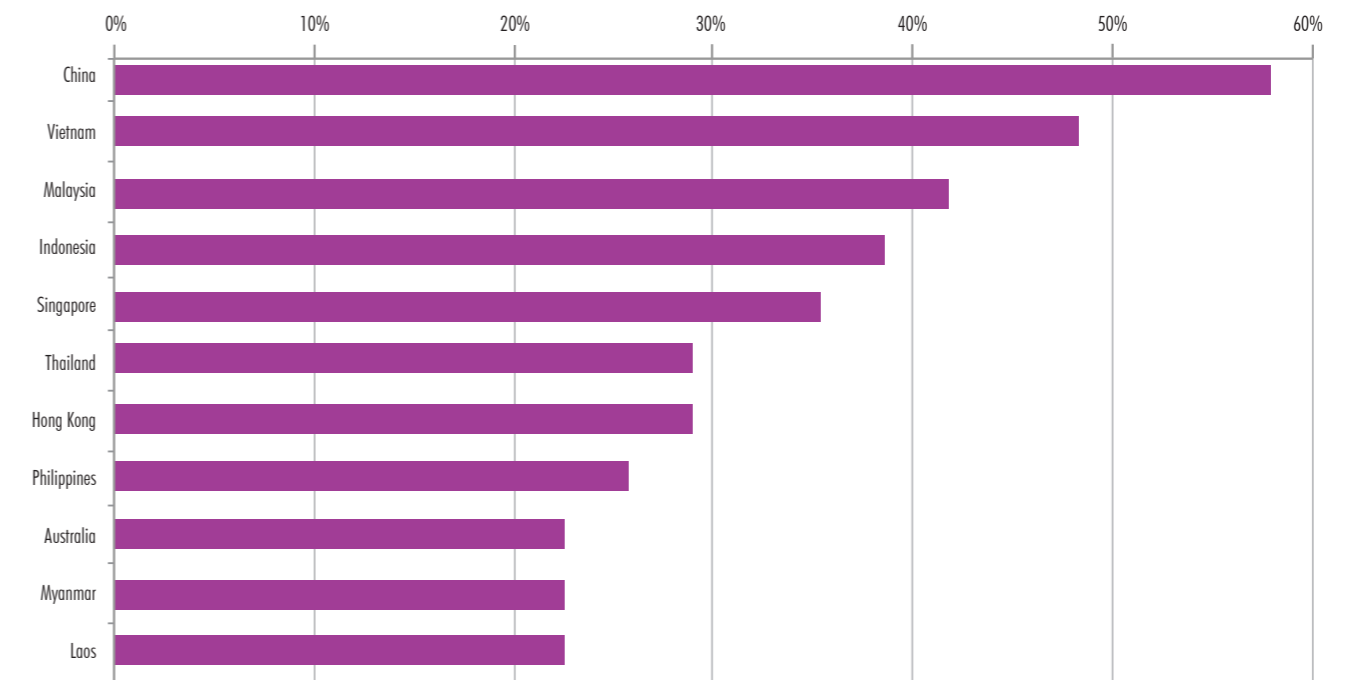
EUROPEAN RETAILERS ARE TARGETING 50 MARKETS IN 2014

FIGURE 3: Top 10 Target Markets for European Retailers in 2014



ASIAN RETAILERS STILL SEE SIGNIFICANT POTENTIAL IN THEIR OWN REGION

FIGURE 4: Top 10 Target Markets for Asian Retailers in 2014

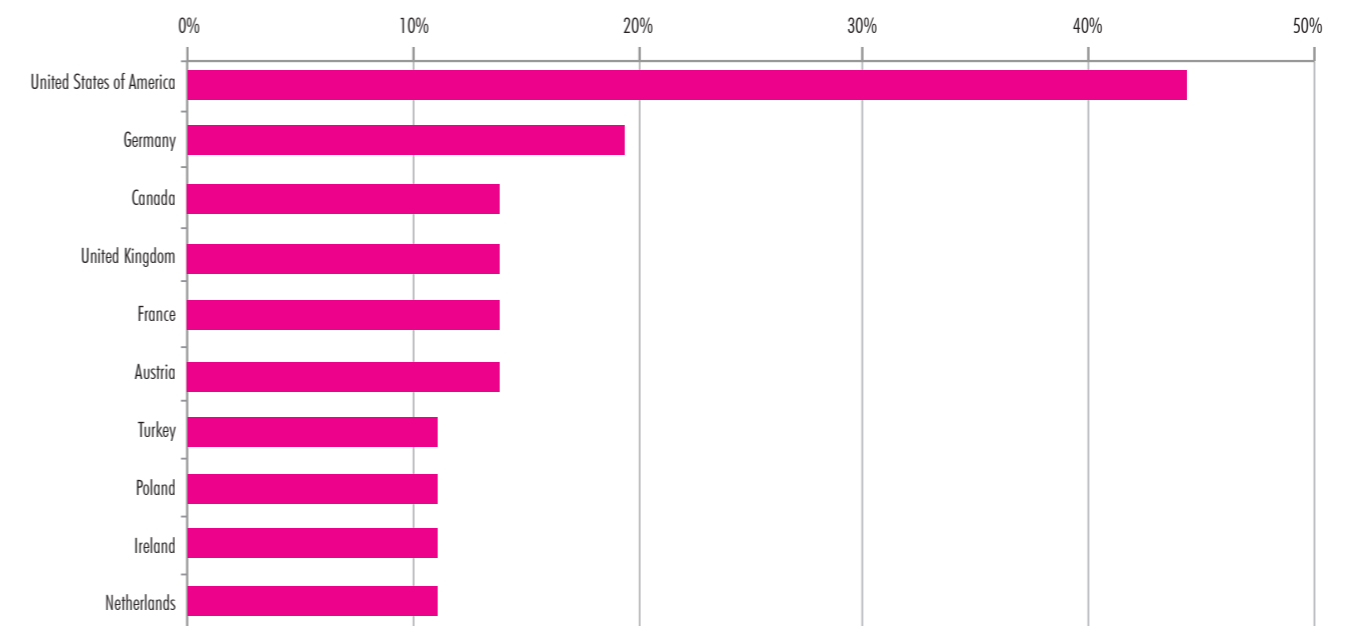


Among the retailers originating from The Americas there is a bias towards expansion in the U.S. (see Figure 5). The U.S. is the largest retail market in the region and unsurprisingly the most important target market for retailers based in the Americas - almost half (43%) are aiming to expand there in 2014. Nevertheless, retailers based in the Americas are

also targeting Europe. Following the path taken by brands such as Apple, Michael Kors, and Abercrombie & Fitch to name a few, 19% of American based retailers are looking to open stores in Germany this year and 14% have plans to open in the UK, Canada, France and Austria.

GERMANY A TOP TARGET FOR AMERICAN RETAILERS

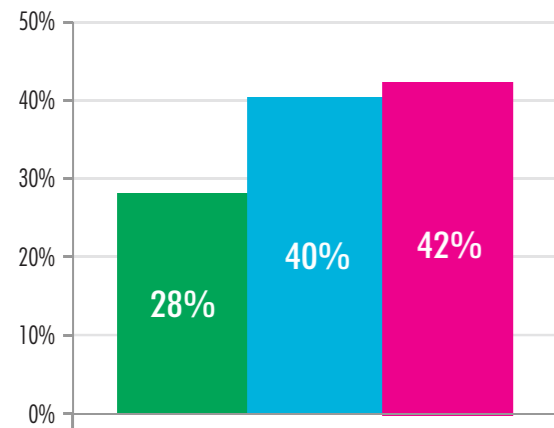
FIGURE 5: Top 10 Target Markets for American Retailers in 2014



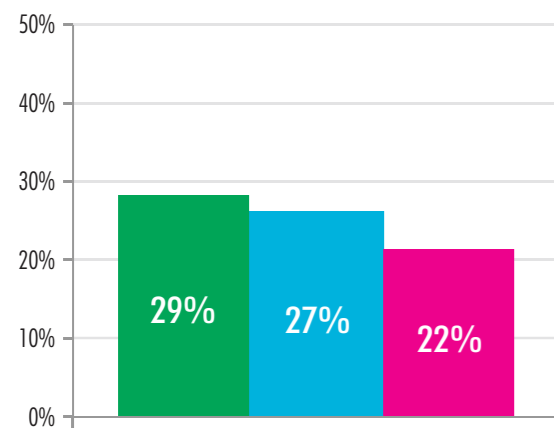
RETAILERS ARE STILL LOOKING TO GROW THEIR ONLINE FOOTPRINT

Figure 6: Changes In Online Transactional Capability

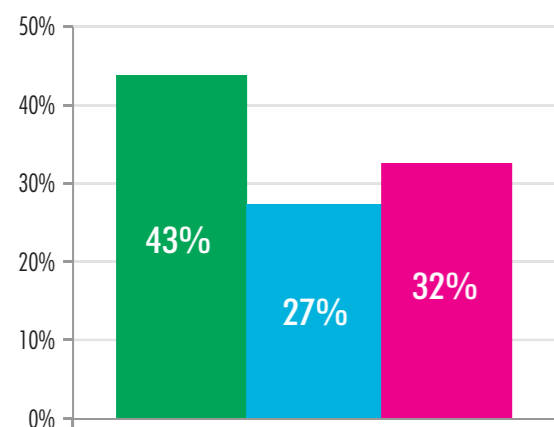
Looking to significantly expand geographical coverage of transactional capability



Looking to significantly expand product coverage of transactional capability



No plans to significantly change transactional capability



2012 2013 2014

Almost all retailers now operate a transactional website, indicating that multichannel retailing is the way forward. However, the importance of online varies significantly by retailer. For many retailers, their online operation accounts for only 1-2% of their total turnover¹, while for others, it already amounts to 25%¹ of their business. The survey shows that almost half of retailers (42%) are looking to significantly expand the geographical coverage of their transactional capability compared with just 27% in 2012. However, a third (32%) of retailers have no plans to change their transactional capability, of which most (89%) do not operate a transactional platform at all. A large majority of these are from Asia Pacific where retailers tend to be more cost-conscious and many lack the resources or the experience to internally develop an e-commerce platform. Low internet penetration, and the unsophisticated nature of the retail sector and logistics systems in most of the region makes it difficult to support financially viable online businesses. However, the rise of third party online retail platforms in the region is expected to change the landscape. For example, the most popular online marketplace in China, Taobao, recorded US\$5.71 billion sales during the site's Singles Day promotion on November 11. The development of the online marketplaces provide retailers from Asia Pacific access to e-commerce at a lower cost and an established user base, especially in testing new markets.

A recent survey² of retailers by CBRE showed that while investment in multichannel was important, investment in new and existing stores remains the number one priority for retailers. While online shopping continues to gather pace globally, it is clear that some retailers - mostly those from the Asia Pacific region - do not feel the need to join the multichannel revolution, at least not yet.

Footnote:

¹ The Physical Store in the Digital World, CBRE

² The Role of Real Estate in the Multichannel World, CBRE

SPOTLIGHTS

USA

2014 is projected to be a year of improvement in the ongoing recovery of the retail industry. Retailer demand is expected to accelerate compared to 2013 as economic conditions and consumer sentiment continues to improve. Due to the lack of new supply coming on stream in 2014 in the U.S., expanding retailers may need to work with existing retail space, which could prove challenging. This coupled with a competitive domestic environment may be a deterrent to some retailers looking at the U.S., but clearly not to others, as the U.S. is still the 13th most sought after market globally. Limited vacant space, due to supply growth at historic lows in 2014, is projected to lead to rental growth across most retail centres in 2014, and while rent rises will be muted, it will mark the first full year of growth since the recent recession.

U.S. consumers continue to be willing to spend in both physical stores as well as online. The omni-channel environment has helped consumers to become more savvy and has given retailers exposure to a wider range of consumers. Despite online sales representing less than 5%

of all retail sales currently in the U.S., e-commerce sales are growing and this is affecting retailer expansion plans and also how their stores will be constructed, as increasingly retailers are considering the way in which they use their stores.

International retailers looking at the U.S. tend to focus on a limited number of high profile openings and use this as a platform to build their store networks instead of looking at large scale expansion. With this in mind cities such as New York, L.A, San Francisco and Miami are expected to be targets in 2014. Retailers such as Muji, Havanas, Lidl and UNIQLO have all stated their desire to expand in the U.S.



Anthony Buono

t: +1 619 696 8302

e: anthony.buono@cbre.com

FRANCE

France's ranking as the 2nd most targeted market for 2014 may come as a surprise to some due to its seemingly impenetrable nature. However we should bear in mind that France has a very developed and sophisticated market; franchise businesses are very strong and continue to thrive and real estate is challenging to secure.

The need to pay key money, a part of the real estate mechanics, is seen less and less as a limitation. There are numerous examples of international retailers realising that paying key money cannot be circumvented and so long as they secure 100% prime locations, in a high street or a shopping centre, their asset retains its value. Today, the timing is probably perfect for international retailers – not only because prime real estate is hard to find and therefore worth looking at, but also because landlords and investors community are keen to sign new concepts hence creating new opportunities in their portfolio. This means more of a dialogue between retailer and landlord, as they seek to differentiate their projects and centres.

It should be noted that vacancy rates are low, which is a testimony to the fact that retailers trade successfully in France even in these challenged times.

France has a good stable of fashion retailers including, of course, many high-end to luxury brands. In essence, from food retailers to a fashion offer, France has a strong history in organised retail. Although Paris is the capital, retailers are as successful in Paris as they are in other major cities around

France as the fashion-aware consumer is found throughout France.

Another important component is the role of shopping centres. With more than 900 shopping centres and galleries in France both a high street as well as a shopping centre strategy is recommended.

In a CBRE study³ we found that over 60% of retailers indicated that France was one of their most successful markets, with sales densities and profitability above or well above average. Retailers such as Tesla, Costco and Inglot have all indicated their desire to expand in France.

There is also a strong pipeline of new development as well as restructuring of shopping centres enabling new retailers to enter the market in a phased manner.

France is a market that has all the attractiveness it deserves, but one important thing to bear in mind is not to try and change the market, but to evolve with it, first by seeking to properly understand how it works and then adapting to it.



Chris Igwe

t: +33 1 53 64 33 94

e: chris.igwe@cbre.fr

³ How Attractive is France, CBRE

CHINA

China is currently a very exciting place to be as a retailer so it comes as no surprise that China is ranked 5th in retailer's target markets for 2014. Globally speaking, the Chinese consumer accounts for a significant proportion of many retailers' sales, whether they are registered through their stores in China or London, New York, Paris etc. Having a strong presence in China is an important strategy to drive sales across a brands global locations, not just within China itself.

Consumer sentiment is among the highest in the world and the retail sales market is expected to expand in 2014 on top of the RMB 23.4 trillion achieved in 2013. The Government has decided to set a target to double household income by 2020; this only adds to the attractiveness of a market that is seeing significant interest from international brands.

However, retailers have to keep alert with the pace of change in China. The consumer in 'tier one' cities has reached a level of sophistication and knowledge of fashion that compares to many of their peers in global markets. The super-rich no longer want overly 'logofied' product; they are more discerning in their product choice, and feeling confident with the knowledge they have, which is now on a par with their peers across the world. A growing number of consumers are now confident enough to adventure away from the 'typical' core luxury brands, and we are seeing a great deal of interest in niche luxury product and bridge brands that make more of an individual, unique statement about the person. However, it is not just a story of premium and luxury; the same excitement runs across many product categories and price points, such as value and fast fashion, lifestyle, and home.

From the landlord's perspective, shopping centres have to differentiate and retain customers via better tenant mix and marketing campaigns. More lifestyle and experience-oriented elements are being added to shopping centres, such as specialty restaurants, leisure concepts, cinemas etc. These are now taking up larger part in tenant mix. Many developers are also concerned over issues and the effects of e-commerce, and are now embracing fundamental design and functionality changes for their venues as they try better to create more reasons for customers to visit.

With the solid fundamentals and landlords' welcoming attitude, we still see a strong market for retailers to debut and expand in China with the likes of Apple expanding and New Look aiming to enter China in 2014. In 2013, Beijing and Shanghai each welcomed nearly 30 new retailers respectively and were in the top five retail markets in Asia, according to our *Retail Hotspots in Asia Pacific*, 2013 edition. The wide range of new entrants included Agent Provocateur, Stella McCartney, Ted Baker, Orotan, CH Carolina Herrera, and Old Navy, which is set to open in 2014. This trend is expected to continue through 2014 and in the years ahead.



Sebastian Skiff

t: +852 2820 1578

e: sebastian.skiff@cbre.com.cn

CONTACTS

For more information regarding this report please contact:

EMEA RESEARCH AND CONSULTING

Natasha Patel

Associate Director, EMEA

t: +44 20 7182 3166

e: natasha.patel@cbre.com

For more information about CBRE activities in the retail sector please contact:

GLOBAL RETAIL

Anthony Buono

The Americas

t: +1 619 696 8302

e: anthony.buono@cbre.com

Peter Gold

Europe, Middle East and Africa (EMEA)

t: +44 20 7182 2969

e: peter.gold@cbre.com

Sebastian Skiff

Asia

t: +852 2820 1578

e: sebastian.skiff@cbre.com.cn

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