INDEX OF RETAILERS

THE RETAILERS BELOW ARE COVERED IN SHOPFRONT 2014/2015. PLEASE REFER TO THE LIST OF COUNTRIES ON THE LEFT.

A WORLD OF AMBITION

WELCOME TO THE SIXTH EDITION OF SHOPFRONT, CBRE'S ANNUAL REVIEW OF GLOBAL RETAIL MARKETS.

It is always interesting to cast an eye over our index of active retailers (see page 2) in each issue of *ShopFront*. What the list demonstrates is the sheer scale of global ambition among retail groups. We also saw this in our 2014 report, *How Active are Retailers Globally?*, for which we surveyed 130 retailers about their intentions in terms of new markets and store openings. We found retailers were at their most ambitious for five years, with large scale expansion back on the agenda.

The contribution to this trend by the two most globally ambitious groups, H&M and Inditex, cannot be overstated. They have been responsible for preparing the ground in markets as diverse as India and Australia, increasingly playing the anchor role in new retail developments and unleashing a host of subsidiary brands that enable them to reach different consumer groups as well as testing new fashion concepts that can eventually be adopted by the 'parent' brands.

The luxury segment has also provided a great deal of impetus to retail real estate, not least through pioneering new markets and destinations. Though progress may have slowed in some South East Asian markets, both 'pure' luxury shopping and its 'affordable luxury/aspirational' sibling are making strong headway in cities like London, Paris and Munich.

Retailers operating in all segments are becoming the new chameleons of the corporate world, such is their aptitude for innovation as they seek to stay ahead of a constantly evolving consumer base. If you read our report on Japan you'll find several fascinating examples of new sales approaches. Such innovation should not be seen as a purely defensive measure, either. Even a brand at the top of its game, namely Selfridges in the UK, is continuing to create and implement new ideas and concepts to meet – and indeed beat – consumer expectations.

The final point to note from an innovation perspective is the growth of retail concepts from FMCG (fast moving consumer goods) brands, whether they're of a more temporary, pop-up nature or fully-fledged stores.

We see a number of drivers for this, perhaps the key one being the desire among manufacturers to take more control over the way the consumer experiences their products. Probably the most developed of all these approaches is Nestlé's rollout of Nespresso boutiques, but elsewhere in this issue of *ShopFront* you will read about retail formats for Magnum ice creams, M&Ms sweets and Lexus cars, each of which has at its heart the goal of using retail to forge a stronger bond between brand and consumer.

OWNERS AND DEVELOPERS' CONFIDENCE GROWS

Reading the contributions from our market specialists this year, what has struck me is the sense of greater optimism that is beginning to become tangible in the investment and development community. Even in some of the markets worst affected by the global downturn we can see genuine signs of renewal. The development pipeline in Greece is coming to life, for example, while real estate investment capital is flooding into markets like Ireland and Spain. In many countries developers have been emboldened to restart projects that were mothballed during the years of bleaker economic prognosis; projects which will deliver the sort of high quality space that retailers still require.

At the same time, several of the boom markets from recent years continue to surge ahead. Dubai is perhaps the most striking case in point, with its vast array of new shopping mall construction projects seeking to establish fresh benchmarks for size and opulence.

TRAVEL BROADENS THE MIND... AND THE OPPORTUNITIES

As I sat preparing this piece in my Munich hotel room, it struck me that we should never underestimate the power of the traveller to influence the retail sector. Tourism continues to play a vital and very welcome role in underpinning sales turnover in countless retail markets – it's no surprise that global tourism hot-spots such as London, New York, Paris, Tokyo, Hong Kong and Dubai all feature towards the top of the charts of international retailer activity.

Governments have woken up to this fact too – witness the easing of visa restrictions for tourists visiting Japan from China and other South East Asian countries – while the award of global sporting events, and particularly the international Expos, is becoming a catalyst to build and improve tourism infrastructure, as we are seeing in Dubai, Qatar and Kazakhstan.

Travel also opens the mind to new possibilities. I saw this for myself during my first visit to South Africa earlier this year. The conference I attended focused on several markets across that continent, with a particular emphasis on sub-Saharan Africa. I very quickly became aware of the material opportunities that exist within this region, and I am certain that as those opportunities are seized we will begin to devote more and more pages of *ShopFront* to retail development in Africa.

WHAT NEXT FOR SHOPPING CENTRES?

The concept of a shopping trip as a leisure activity underpins the success of many schemes across the world. With consumers becoming ever more demanding, owners are increasingly investing in making their centres more 'experiential' to boost footfall as well as the all-important dwell time. High quality dining options, entertainment, special events and play areas for kids and grown-ups are all becoming more commonplace.

As my colleague Albert Hoogland argues on page 20, the desire to innovate around entertainment and experience should be accompanied by efforts to keep the basics – cleanliness, security, etc. – in good order. Shoppers quite rightly place high emphasis on these attributes, as our survey of 21,000 Europeans and South Africans, *How Consumers Shop 2014*, reveals.

All these themes and more were discussed at CBRE's 2014 *Shopping Centre Forum*, held in Berlin in June. You will find a special report on that event inside this edition of *ShopFront*.

HOW MUCH SPACE WILL YOU NEED?

Lastly, I want to touch on what is probably the question we are most asked at CBRE, namely how much space will retailers need in future?

The conclusive answer is something we will be striving to find in the coming months, through a major research project that will bring together our analysts and other specialists from across the CBRE global network. We will be finding out from retailers how they intend to present themselves to the consumer in future, what sizes and formats this will take and where these stores will be located.

We look forward to presenting some answers to you in 2015. In the meantime, I hope you will find plenty to interest you in this edition of *ShopFront*. And if you would like to find out more about any of the markets covered, please get in touch with the country experts whose contact details are included within each feature and also compiled on our map page.

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UNITED KINGDOM

THE SCOTTISH MAY HAVE VOTED TO KEEP THE UNITED KINGDOM UNITED, BUT FROM A RETAIL MARKET PERSPECTIVE THERE'S LONG BEEN A DEEP DIVIDE BETWEEN THE BEST, EMBODIED PRIMARILY BY CENTRAL LONDON, AND THE REST.

This dichotomy has become even more apparent during 2014, as Central London experiences unprecedented demand from international retailers, notably in the luxury and premium sectors but also from the value end of the spectrum. The capital's economy and its retail sales have continued to grow exceptionally strongly, boosted by substantial overseas visitor spending and soaring house prices. From a national perspective, however, wage growth is still crucial if we are to achieve a broad-based and sustained economic recovery.

While London fulfils the role of gateway to global retailers, its entry points have become more diverse since the emergence of a further two world-class shopping malls developed by Westfield. Now retailers can choose the more established settings of Oxford Street and Regent Street (or for luxury brands Bond, Sloane or Mount Street); while those that prefer a mall environment can opt to take their first space in Westfield London, Westfield Stratford City or the prominent regional centre Bluewater.

Examples of the latter include the Inditex Group, which has chosen Stratford City to launch its Stradivarius brand in the UK, together with carmaker Tesla (Westfield London) and American Eagle Outfitters (both Westfield schemes as well as Bluewater).

Brands opting for a high street launch in the past 12 months include J. Crew, a much-anticipated arrival in the market which is testing the water with two quite different formats – a 17,000 sq ft flagship on Regent Street and a 3,000 sq ft boutique on Lamb's Conduit Street in the city's trendy Bloomsbury neighbourhood. Another recent arrival from the US is Club Monaco, the sub-brand of Polo Ralph Lauren, which has opened in three locations including a womenswear flagship in Sloane Square.

CENTRAL LONDON EXPERIENCED UNPRECEDENTED DEMAND FROM INTERNATIONAL RETAILERS

It would be wrong to think of UK retail as just a London story. However larger towns and cities, plus top tier regional shopping malls, are invariably also doing well. This is partly because the evolution of the market means a store estate of fewer than 90 units in prominent locations is now sufficient to reach 50% of the UK consumer base, whereas a generation ago that figure would have been closer to 200.

As such, many mainstream brands are using lease expiries to rationalise into a smaller number of bigger, bolder spaces in key locations – stores that act as both turnover generators and brand promoters that will help to secure a share of online sales.

Among the most active brands throughout 2014 have been Primark and Holland & Barrett, while River Island and H&M have both been looking to upgrade their spaces in shopping centres. The jewellery segment, led by the premium watch brands, has been strong, and as in previous years the discount chains, especially Poundland, continue to thrive.

AWAY FROM THE TOP TABLE, IT'S A DIET OF CRUMBS

As well as winners outside of London, there are, unfortunately, also losers: the UK's struggling secondary and tertiary retail towns have arguably never had it so bad. The major chain retailers are simply not interested in these places, preferring to retrench into the largest markets. Many towns are awash with surplus units of a traditional variety that have not been viable for mainstream shopping purposes for decades, while at the same time being chronically undersupplied with modern retail space that is a minimum requirement to tempt the chains.

In some particularly forlorn cases, the only practical solution is finding alternative uses (notably residential) for ex-retail stock. Elsewhere, the situation is not beyond rescue but it will require a bold and visionary asset management approach to each town centre; something that may sadly be beyond most, given the numerous vested interests ranged against each other.

Tesla recently opened in Westfield London

CLICK AND COLLECT WINNING OUT

When it comes to online retail, the market appears to be tilting towards click and collect as the pre-eminent fulfilment option. The 'final mile' of delivery has become an expensive burden for retailers, in particular due to failed deliveries and the high proportion of returns (from 20% to 40% depending on retailer) that are generated by online sales.

In this regard, national retailers with large store portfolios have a distinct advantage. For example, John Lewis has emerged as one of the clear winners in the development of omnichannel retailing, but much of this success can be attributed to its ability to call upon the vast Waitrose grocery store network to be its click and collect points.

Argos also deserves recognition for its initiatives in this area. It is trialling a new concept that is a hybrid between traditional store and click and collect points, with speedy fulfilment being the primary objective. The retailer has also announced a tie-up with the online auction site eBay to offer collection of eBay purchases at its 650-store estate. By 2015, an estimated 80,000 eBay sellers are expected to offer this fulfilment option.

Other entrepreneurs have spotted a gap in the market and are working to introduce click and collect lockers in high-footfall areas such as town centres or transport hubs. For retailers, the attractions are clear: multiple locker drops can increase the efficiency of a courier by as much as 95% compared with home delivery.

RETAIL INNOVATION FOCUSES ON CUSTOMER INTERACTION

With very few retail goods not available online, retailers are rising to the challenge of tempting consumers away from their homes or offices and into stores. Among the most spectacular innovators is Selfridges, which is focused on building dwell time in its Oxford Street global flagship, a store that opens until 10pm every day except Sunday (a rarity in UK retailing). The store now boasts its own cinema, having previously wowed shoppers with a spectacular, three-floor 'Townhouse' store-within-a-store, created in association with Louis Vuitton.

Selfridges was also the venue for an innovative pop-up store dedicated to the UK's number one ice cream brand, Magnum. This is the part of a growing trend for FMCG (fast moving consumer goods) manufacturers to take their key brands directly into a retail setting as part of their overall marketing strategy. Others to have taken this step so far include M&Ms (confectionary) and Maille (premium mustard).

Several retailers are seeking to change the way people interact with their stores. For example, The North Face is attempting to refashion its stores as community hubs, financing local projects through its Explore Fund. Reebok, meanwhile, stages workouts in designated areas of its stores – again with a view to making the store more of a public meeting place.

Interaction is also the key to a new initiative by ambitious kitchen equipment retailer Steamer Trading. Formerly a high street operator, it has begun to take units in larger shopping centres, exploiting the UK public's passion for coffee by employing baristas to teach customers how to make the most of the coffee machines they are buying.

THE MARKET APPEARS TO BE TILTING TOWARDS CLICK AND COLLECT

Within the m-commerce world, we expect the future focus to be on greater personalisation of offers and location-specific content. For example, developer Hammerson is trialling a mobile customer loyalty app called Kudos, which tracks the stores a shopper visits once inside its Leicester and Reading shopping centres. These retailers can often deliver targeted messages with relevant offers. This 'surgical' approach is surely essential given the overload of updates and messages that active social media users experience on a daily basis.

DEVELOPMENT PIPELINE PICKING UP

Though 2014 has proven a quiet year in terms of new shopping space offered to the market, a glance at the development pipeline reveals a number of sizeable projects now under way or in the planning phase. England's second city, Birmingham, will be the location for two of 2015's biggest openings: the 400,000 sq ft Grand Central scheme situated above the city's main railway station and featuring John Lewis as its anchor; plus Resorts World Birmingham, a 538,000 sq ft mixed use project that also incorporates a hotel, cinema and casino. This is located within the grounds of the UK's premier exhibition centre, the NEC, adjacent to the city's airport.

Westfield's next UK scheme, the 570,000 sq ft Broadway in Bradford, is also set to open in 2015, while Newport's 300,000 sq ft Friar's Walk and the ambitious mixed-use regeneration project at King's Cross in London (totalling 500,000 sq ft) are among the prominent schemes set for delivery in 2016.

Looking further ahead, we expect a slew of significant extensions and redevelopments to get underway at top shopping centres across the country. There are also significant volumes of retail space promised as part of several high profile residential-led projects in and around London; not just the King's Cross scheme already mentioned but others in Battersea, Earl's Court, Wood Wharf and Royal Docks, to name a few. Much of this retail will be focused on 'placemaking' – adding shops that enhance the liveability of these new residential enclaves.

The major hurdle for developers in future is likely to come from the inflation in construction costs due to the take-up of space capacity among contractors. Higher build costs will make the economics of projects harder to stack up, particularly when the construction period is greater than two years.

Finally, we turn to the investment markets, which, as last year, have been performing strongly. Overseas capital has been a major factor in the recent prime yield compression, with Chinese, Canadian, US and Australian investors all chasing good quality product. At the secondary level, yields are being driven down by UK institutions, which are having no problems attracting cash inflows and are using this firepower to acquire secondary assets in good south east England locations.

In addition, debt is becoming more readily available again, something that wasn't the case outside of relationship banking even two years ago. As a consequence of all these factors, we expect yield compression to continue in the short to medium term, particularly in the secondary asset sphere, with London remaining a top target for global capital and intense competition for any 'trophy' assets that come to market.

KEY TRENDS IDENTIFIED:
UK retail sector sharply divided between strong and weak performers; Central London maintains its position as global retail powerhouse; lively investment market spurred by international capital and the return of debt financing

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FRANCE

IT SEEMS 2014 IS NOT A YEAR THAT WILL LINGER LONG IN THE FRENCH COLLECTIVE MEMORY, AS THE ECONOMY TREADS WATER AMID A CLIMATE OF POLITICAL TURMOIL AND SOMEWHAT MOROSE CONSUMER SENTIMENT.

For many retailers, the challenge has been to tempt a French consumer increasingly obsessed with value. The four week summer sales period underlined the scale of this challenge: it kicked off amid unseasonably poor weather in many parts of the country, with consumers holding out for better discounts than those initially offered. Only towards the end of the period did stock overhangs start to clear amid discounts of anything up to 70%.

The news is by no means all bad, however. Today France is still considered a very attractive market for retailers, with Paris particularly alluring, having topped the global list with 56 new market entrants in the past 12 months. We expect this trend to continue.

Looking more deeply into the market, the mid-market/aspirational fashion segment continues to prosper, with brands such as Sandro, The Kooples and Zadig & Voltaire still in expansion mode amid reportedly strong trading performances. In the value segment we've seen huge excitement around the arrival of Primark, which opened a first store in Marseille in December 2013 and swiftly followed up with others in the Paris area and Dijon. Primark has more stores in the pipeline, including a high street unit in Toulouse that marks a shift away from its stated aim to concentrate on shopping centres, though this could prove challenging due to size constraints and store delivery logistics in city centres.

Primark seems certain to disrupt this segment of the market, although one domestic value fashion player that appears to have less to fear than most from Primark is La Halle, a multi-brand concept by the Vivarte Group which promises the latest styles at affordable prices. It has some 1,300 boutiques across France and is a strong performer that has also built considerable customer loyalty through its e-commerce strategy.

> FRANCE IS STILL CONSIDERED A VERY ATTRACTIVE MARKET FOR RETAILERS

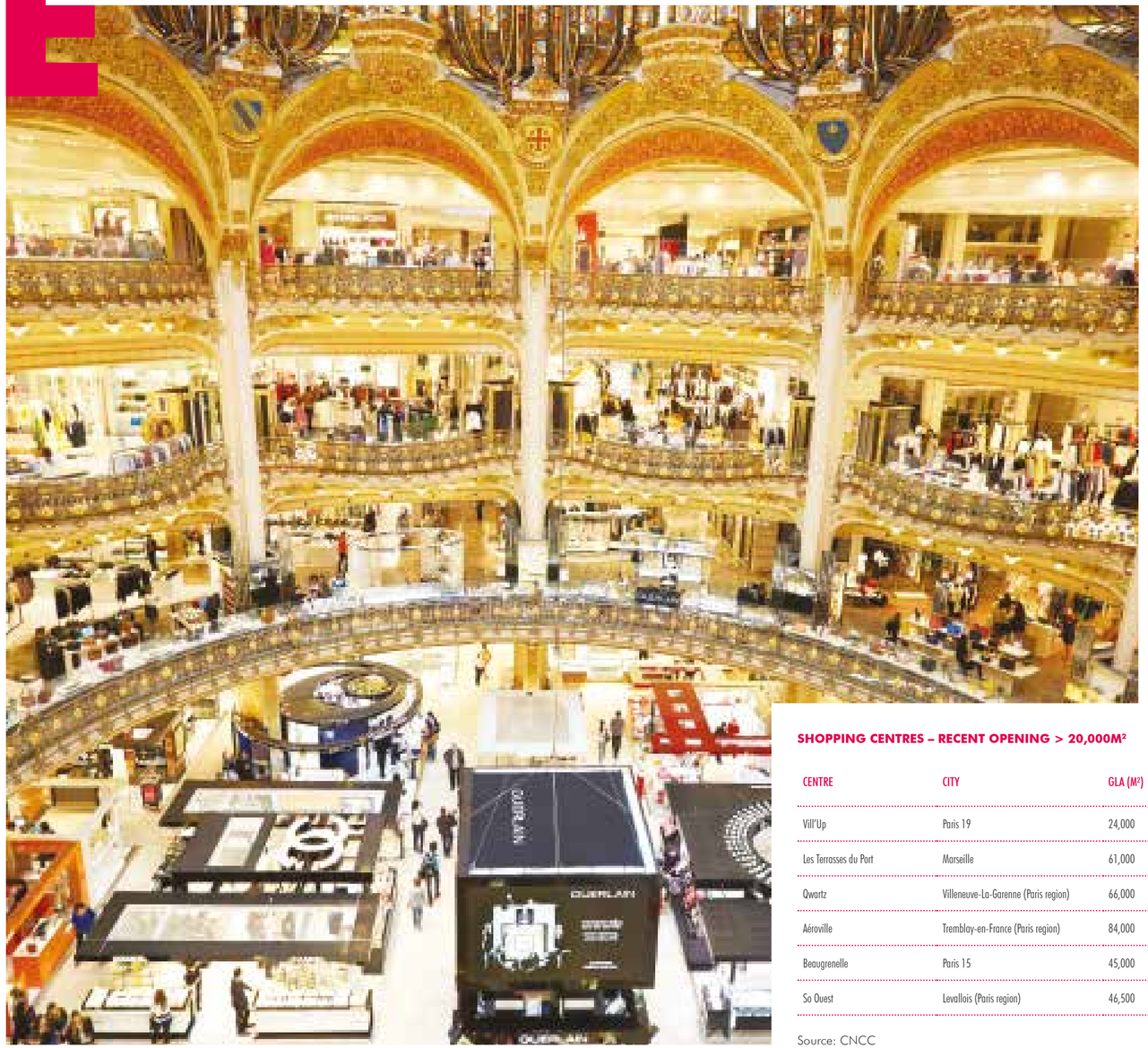
REGULATORY DEVELOPMENTS COULD USHER IN STRUCTURAL MARKET CHANGES

There are currently three big stories within retail's legislative environment, the outcomes of which could bring about fundamental changes to the marketplace. The first surrounds Sunday trading – this is a very hot potato in French politics, which perhaps explains the glacial progress towards reform of what are considered some of Europe's most restrictive Sunday opening regulations.

Frustrated with the lack of action, several key players in the DIY segment have taken matters into their own hands, lobbying hard for more liberalised Sunday trading as well as opening some stores in direct contravention of the regulations, their argument being that home furnishing stores with which they compete already enjoy this privilege. It is a very complicated issue and it would be unwise to expect a swift or clear-cut resolution any time soon.

A second regulatory initiative concerns plans to reduce the excessive paperwork involved with the real estate planning process. In France this is known as mille feuille, or thousand pages, an indication of the scale of the problem. A successful outcome here could see the time taken to complete real estate planning approvals and permitting cut dramatically, as well as making the process less complex.

The final initiative of note is the so-called 'Pinel Law'. This is named after the French government minister, Sylvia Pinel, and is designed to give smaller retailers added protection during the lease negotiation process. Among its features are an increase in the short-term lease period from two to three years and a removal of the rent cap with accompanying restriction on rent increases to no more than 10% of the previous year's rent. The full effects of the law are yet to be seen, but it is sure to present a challenge to landlords.



LUXURY THE STANDOUT PERFORMER

High spending tourists are flooding to Paris and so too are luxury retail brands seeking to capitalise. Indeed this is one of the factors in the city taking first place in the rankings for international retailer arrivals in the 2014 edition of CBRE's report *How Global is the Business of Retail?*

Paris continues to work hard to attract the high end tourist, with a series of ultra-luxurious hotels in the pipeline. The latest to open is the opulent Peninsula, located on Avenue Kléber, a stone's throw from the Arc de Triomphe. It will be joined shortly by the new incarnations of two established 'palaces', the Hotel de Crillon and The Ritz, both of which are undergoing extensive renovation at present.

Needless to say, the combination of booming sales and high demand means retail rents in and around the prestigious Champs Elysées are spiralling ever upwards. Most retailers are naturally sitting tight, so the only transaction of note on the Champs Elysées in 2014 thus far is the acquisition by luxury accessories brand Longchamp of a 500 sq m store that will be its biggest in Europe when it opens in November 2014.

SHOPPING CENTRES – RECENT OPENING > 20,000M²

CENTRE	CITY	GLA (M²)	NUMBER OF UNITS	OPENING DATE
Vill'Up	Paris 19	24,000	35	2015
Les Terrasses du Port	Marseille	61,000	160	May 2014
Qwartz	Villeneuve-La-Garenne (Paris region)	66,000	166	April 2014
Aéroville	Tremblay-en-France (Paris region)	84,000	205	2013
Beaugrenelle	Paris 15	45,000	120	2013
So Ouest	Levallois (Paris region)	46,500	99	2012

Source: CNCC

Elsewhere in Paris, The Marais neighbourhood continues to see high demand and few vacancies. Uniqlo opened a 1,560 sq m store this year, securing one of the few large spaces. International brands target this area but rental and key money levels continue to increase dramatically. New openings include Michael Kors and Casio G-Shock (first standalone in France), among others. A large redevelopment around the BHV department store is currently underway, which will extend the retail offer further.

French retail sectors performing well include sportswear, in which brands such as Nike are taking a quality-driven approach based around high profile kit sponsorship deals. Nike has opened a large store in La Défense shopping centre near Paris. Food and beverage, where UK chains Pret a Manger and Costa Coffee are both making inroads into the market, is also a good performer. Meanwhile, it is understood that aspirational US fashion brand J. Crew is making an entrance, as it is close to finalising a transaction.

Another international name to keep an eye on is Poland's LPP Group, which has a number of different fashion fascias and could make quite a splash in the market given its strong distribution channels.

HIGH SPENDING TOURISTS ARE FLOODING TO PARIS

KEY TRENDS IDENTIFIED:
Quite a difficult year for French retail but the right concepts still performing well; Paris luxury market booming; liquidity starting to return to investment market

SHOPPING CENTRES – MAJOR PROJECTS

PROJECT	CITY	TOTAL SIZE GLA (M²)	NUMBER OF UNITS	PLANNED OPENING DATE	LANDLORD
Nice One	Nice	27,000	25	2015	Vinci
Polygone Riviera	Cagnes-sur-Mer	75,000	180	2015	Unibail - Rodamco
Les Allees Shopping	Ondres	100,000	160	2015	Sodec
Les Saisons De Meaux	Meaux	30,000	100	2015	Immochan
Macdonald	Paris 19	32,000	30	2015	Altarea
Val Tolosa	Plaisance-du-Touch	60,000	150	2016	Unibail - Rodamco
Bayonne	St Pierre d'Irube	76,000	80	2016	Inter Ikea Centre France
Toulon La Valette	La Valette du Var	51,000	70	2016	Altarea
Bleu Capelette	Marseille	42,500	65	2017	Icade
Best	Farebersviller	48,000	70	2017	Codic
Grand Nord	Dunkerque	43,347	56	2017	Beci Vicity Oxial
Les Promenades	Champigny-sur-Marne	34,000	80	2017	Apsys
Calvados	Caen	45,000	NC	2018	Inter Ikea Centre France

Source: CNCC

DEVELOPERS SEEK A QUALITY DIFFERENTIATOR

One of the most interesting trends in shopping centre development has been an increasing focus on good design and high quality consumer ambience as drivers of success. This approach can be clearly seen in one of the larger openings of 2014, the 60,000 sq m Terrasses Du Port in Marseille, as well as in two schemes that launched last year, namely Aéroville and Beaugrenelle.

While such trends may be well-established in markets like the US and UK, it should be noted that they represent a fairly innovative development in France. Unibail-Rodamco/Socri's impressive looking Polygone Riviera scheme in Cagnes-sur-Mer looks set to lead the next wave of architecturally-pleasing developments when it is completed in 2015.

From an investment perspective, we predict a growing appetite for well-located secondary schemes that have the potential for redevelopment into dominant shopping destinations within their immediate catchment areas. This plays to a natural tendency among French consumers not to venture too far to fulfil their shopping requirements if they can help it, thus if their neighbourhood centre is improved architecturally and its tenant mix enhanced it will win back customers. Such moves require sufficient levels, of capital availability and are not without risk of course, so investors are likely to remain highly selective as to which centres offer such potential.

The investment market as a whole is finally showing signs of liquidity returning, the highlight being the €700 million sale of the aforementioned Beaugrenelle mall to a consortium of investors. Other important transactions include the sale by Unibail-Rodamco of a portfolio of six non-core shopping centres to Carmila, which is a property vehicle of Carrefour, for a total consideration of €931million. Meanwhile, shopping centre specialist Klépierre has sold a portfolio of local shopping centres and hypermarkets, the buyer in this case also being Carmila. There are also several

high street investment transactions either completed or on their way, with examples being the Benetton building in Paris' Boulevard Haussmann and Thor Equities' purchase of 65-67 Champs Elysées, with Nike and Tommy Hilfiger as tenants.

In the out-of-town/retail park environment things are currently pretty buoyant, with big box retailers well positioned to take advantage of the French consumer's present desire for value. Retailers seeking large store footprints of between 500 sq m and 2,000 sq m find such spaces much more readily available in retail parks compared with primary high streets and shopping centres. And there's the added benefit of no key money requirement as well as 'affordable' rents, which provide greater financial capacity.

Certain specialist players, such as Compagnie de Phalsbourg and Immobilier Frey, continue to develop retail parks, albeit reasonably cautiously. All are considered to do a pretty good job in creating attractive schemes.

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MOST POPULAR SHOPPING CENTRES FRANCE

CENTRE	CITY	LANDLORD	OPENING DATE	GLA (M²)	NUMBER OF UNITS	NUMBER OF CAR PARKING SPACES	ANCHOR STORE(S)	NUMBER OF VISITORS PER YEAR
Forum des Halles	Paris	Unibail - Rodamco	1979	57,000	180	2,100	Fnac	41 M
Les 4 Temps	La Défense	Unibail - Rodamco	1981	108,000	200	6,500	Auchan	42,3 M
Parly 2	Le Chesnay	Unibail - Rodamco	1964	110,000	202	5,000	BHV, Printemps	13,4 M
Vélizy 2	Vélizy Villacoublay	Unibail - Rodamco	1972	102,000	150	7,200	Auchan, Printemps	15,5 M
Belle Epine	Thiais	Klépierre	1971	135,000	220	6,050	Carrefour, BHV	18 M
Val d'Europe	Marne La Vallée	Klépierre	2000	63,500	133	5,500	Auchan	15,9 M
Creteil Soleil	Créteil	Klépierre	1974	121,600	193	6,000	Carrefour, BHV	18 M
Rosny 2	Rosny s/Bois	Unibail - Rodamco	1973	106,000	190	7,000	Carrefour, BHV	14,7 M
Carré Senart	Melun	Unibail - Rodamco	2002	95,900	135	5,260	Carrefour	13,9 M
O'Parinor	Parinor	Hammerson	1974	84,100	150	4,900	Carrefour	NA
Cap 3000	Nice	Altarea	1969	40,000	138	3,250	G.Lafayette	10 M
La Part Dieu	Lyon	Unibail - Rodamco	1975	110,000	260	4,200	Carrefour, G.Lafayette	31,9 M
Nice Etoile	Nice	Unibail - Rodamco	1982	18,900	88	1,200	-	11,9 M
Merignac Soleil	Bordeaux	Klépierre	1987	51,800	87	2,800	Carrefour	5,6 M
Portet s/Garonne	Toulouse	Klépierre	1972	70,000	110	4,100	Carrefour	5,9 M
Labège 2	Toulouse	Unibail - Rodamco	1983	44,600	90	2,850	Carrefour	6,3 M
Place des Halles	Strasbourg	Hammerson	1979	39,800	128	2,500	BHV	NA
Polygone	Montpellier	Socri	1975	45,000	120	2,000	G.Lafayette	NA
Le Pontet	Avignon	Immochan	1974	45,000	95	5,000	Auchan	NA
Trois Fontaines	Cergy Pontoise	Hammerson	1972	64,000	140	3,300	Auchan	NA
Odysseum	Montpellier	Klépierre	2009	45,000	98	2,050y	Géant Casino	NA

Source: CBRE

GERMANY

AS A NATION OF CONFIDENT, RELATIVELY FREE-SPENDING CONSUMERS, IT IS OF LITTLE SURPRISE THAT GERMANY REMAINS A BUOYANT RETAIL MARKET AND A KEY TARGET FOR INTERNATIONAL BRANDS.

Even the dark clouds gathering over Ukraine and the Middle East have yet to seriously impact the stability of the national economy, with full-year GDP growth predicted to be around 1.5% (slightly down on earlier forecasts).

Behind the headlines, the German retail environment is evolving in a number of interesting ways. One of these is the continued fragmentation of the market, as retailers launch new concepts targeting ever-smaller and more select consumer segments. More than 50 new concepts reached the market in both 2012 and 2013, with similar numbers expected in 2014 and 2015.

As part of this trend we are seeing retailers accelerate the time it takes them to get innovative formats fitted out and into the market. Technology is also becoming critically important in this regard – as the retail industry gets faster and faster we believe it will soon become impossible for groups to compete without access to high quality enterprise resource planning (ERP) systems that can enable their stock sourcing to stay ahead of customer demand.

Another key trend concerns a further shift in the balance of power between high streets and shopping centres. High streets have long been the dominant retail environment in Germany, but their position appears to be further solidifying in many markets. This in turn is putting pressure on shopping centres, particularly those at the lower end of the quality scale.

Even some of the newer, high quality and well-leased malls have been struggling to gain a strong position in their markets, with consumers proving unwilling to be tempted away from their established hunting grounds.

These market forces exacerbate long-standing difficulties in securing permission to build shopping centres, with permits often given only to schemes close to prime pitch where land is consequently very expensive. Such factors serve to explain why the development pipeline for major schemes has been almost completely choked off. At present, only a handful of secondary centres are under construction for delivery in 2015 and beyond, examples being the 29,200 sq m Aquis Plaza in Aachen and the 20,900 sq m Forum Hanau in Hanau.

At the time of going to press some of the last major shopping centres under development were about to open their doors, including Berlin's largest inner-city scheme, the 76,000 sq m Mall of Berlin, plus Stuttgart's 43,000 sq m Milaneo.

By contrast, the retail park/big box environment sees a constant pipeline of new development. Very often such schemes represent the only opportunities to create new retail space, due to the physical constraints of historic city centres. Even so, achieving planning permission remains dependent on the local political will, with the retail offer frequently constrained to avoid cannibalisation of inner-city spending.

We are seeing some retailers establishing out-of-town concepts within their store portfolios, with these mostly centred on discounted or outlet-style offers. Some of the newer big box parks are also borrowing elements from shopping centres, such as offering a good selection of catering outlets, as well as incorporating small malls with selected shops to create a cosier shopping atmosphere.

THE GERMAN RETAIL ENVIRONMENT IS EVOLVING IN A NUMBER OF INTERESTING WAYS

Investor demand for retail park assets is growing, as these schemes offer significantly higher yields than shopping centres at moderate to low risk levels. Indeed, such is their current popularity that big box centres can now be considered a distinct asset class within retail real estate.

INFLUX OF NEW BRANDS KEEPS LANDLORDS IN THE ASCENDANCY

The continuing surge of new international brands into Germany, coupled with a lack of new shopping centre space, seems certain to place upwards pressure on demand for prime high street units. In fact, during the first half of 2014 we saw the highest levels of activity in prime high street locations for many years, though of course this wouldn't be possible without a significant number of retailers willing either to relocate or withdraw.

Among the notable new arrivals has been the Polish fast fashion brand Reserved, which has opened its first store in a shopping centre and has already secured more stores both on high streets and shopping centres; meanwhile the Swedish sports department store Stadium has located its first German flagship in Hamburg's prime Moenkebergstraße. Other names to reach the German market include Screwfix, Paul Smith, Aesop, Twin Set, Undiz, Denim & Supply and Tesla.

Looking ahead, one of the more exciting brands set to launch in Germany is Lululemon, which specialises in yoga and fitness apparel. It has already established showrooms in key markets and should have its first standalone stores open by early 2015. Meanwhile, the fashion community still eagerly awaits the first standalone Topshop store, after the brand's successful trial in selected Karstadt department stores.

Karstadt itself has consistently been in the headlines, though not always for the right reasons. The ongoing struggles of one of Germany's 'big two' department store operators (the other being Kaufhof) came to a head in August 2014 when it was sold for a single euro to Signa Holding, the property vehicle of Austrian investor Rene Benko. This is the second time in four years that the group has changed hands for a symbolic one euro and while the market will be watching Signa's turnaround attempts closely, perhaps more interesting are the possibilities of freeing up good quality retail space that could come with any closures of under-performing stores.

While Karstadt toils, plenty of other domestic groups are enjoying better fortunes. They include the leading drugstore players Rossmann and dm-drogerie markt, both of which continue to exploit opportunities created by the insolvency of rival Schenker Group. They are in fact the most active retailers in the market. We are also seeing Rewe and Edeka take the lead within the grocery segment, with Rewe particularly active in rolling out formats such as Temma and Rewe To Go, the latter being focused on high footfall high street and railway station locations. Meanwhile, in fashion the perennially active groups, such as C&A, Takko, Ernsting's Family, Gerry Weber and Betty Barclay, continue to lead the charge.

Among the international brands, two of the most active are both in the lingerie segment, namely the Netherlands' Hunkemöller and Italy's Calzedonia. Each has acquired more than 10 stores in the first part of 2014 and they are among a group of international brands (also including TK Maxx, CCC and Primark) that have gone on record about seeing huge potential for new stores in Germany.

INVESTOR DEMAND FOR RETAIL PARK ASSETS IS GROWING

One area where Germany has become globally important is luxury retailing. Unlike the UK, for example, where luxury shopping is concentrated in London, here there are five major retail centres boasting significant luxury offer: Berlin, Düsseldorf, Frankfurt, Hamburg and Munich. The big groups (Prada, Gucci, Louis Vuitton etc.) already have multiple representations in these markets, but we believe there is good potential for other brands to increase their store footprints, though the severe lack of available space in luxury-focused streets means patience is perhaps the most important requirement.

RETAIL INVESTMENT TURNOVER EXPECTED TO HIT €10 BILLION

Investment volumes in retail property are expected to top €10 billion by the end of 2014, comprising around a third of all commercial property transaction volumes for the year. An ongoing shortage of prime assets has resulted in investors becoming more willing to acquire stronger, well-positioned properties in secondary towns and cities, with a particular focus on assets offering the potential to add value through modernisation, expansion or repositioning.

The biggest growth in volumes was attributed to portfolio sales of retail warehouses and retail parks, as well as discounters and supermarkets, the combined volumes for which were up 120% year-on-year (as at H1, 2014) at a total of €2.2 billion. This is partly explained by low availability of high street and shopping centre assets, but also by the higher achievable yields they offer to investors with more opportunistic strategies.

HARNESSING THE POWER OF TECHNOLOGY

Germany's retailers and landlords continue to grapple with the challenges and opportunities provided by technology and e-commerce in particular. We've yet to see any retailer truly crack the multichannel conundrum – some are testing the water with smartphone apps, while others are focusing on building a high social media profile.

Kaufhof has been among the more innovative players in this regard; it has launched a dedicated online offer for Chinese customers, plus it is also trialling the use of tablet computers among its store staff, enabling them to work with customers to look instantly for product availability and fulfilment options.

Many shopping centre owners have also developed special smartphone apps, including 'virtual malls' to help launch new schemes in their portfolios. However, evidence from CBRE's pan-European consumer survey *How Consumers Shop 2014* indicates that consumers have yet to fully embrace such innovations.

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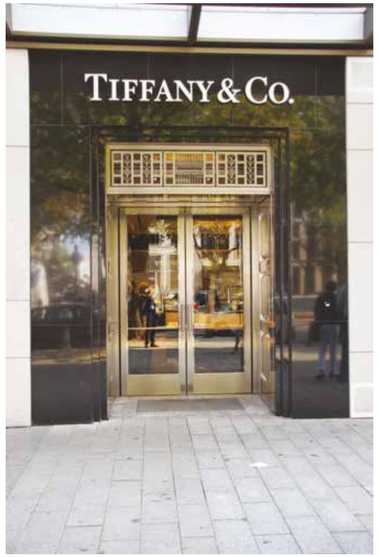
KEY TRENDS IDENTIFIED:
Strong and stable retail market that remains a magnet for international operators; high street growing in dominance while shopping centre development stalls outside of secondary locations; investment market still very active



CHINA

AFTER A LENGTHY BOOM IN SALES OF LUXURY GOODS, CHINA APPEARS POISED TO ENTER THE NEXT PHASE OF ITS SHOPPING REVOLUTION, ONE THAT BODES WELL FOR A BROADER BASE OF RETAIL OPERATORS.

It is easy to become dazzled by the jaw-dropping economic and demographic numbers that regularly emanate from China. The trick for retailers and investor/developers is to look behind these numbers to get to grips with the huge social changes that are currently taking place, many of which will have a profound impact on the consumer base.

Though the days of double-digit GDP growth are probably over, the Chinese economy is still poised to advance by around 6% to 8% on a consistent basis for the next few years, numbers that most countries would be ecstatic to achieve.

Moreover, future growth is set to be driven predominantly by domestic consumption, as the government strives to rebalance the economy away from export and investment-driven growth. The central government's 'New Urbanization Program' and its target to double household income by 2020 will certainly have a positive effect on both consumers' willingness to spend and their financial wherewithal to do so.

By 2022 consultants McKinsey predict China's urban upper middle class to number more than 193 million people, out of a total urban population of some 357 million. These brand-savvy

consumers offer vast potential to retailers, particularly those in the fashion segment which have an aspirational story to tell.

MEGA CITIES, MEGA OPPORTUNITIES

In many world retail markets, the drop below prime into tier 2 and tier 3 cities effectively signals the end of international retailer interest. China is different, simply because even these 'lesser' population centres are huge in their own right. Take Wuxi, a satellite of Shanghai that is considered outside the top tier of Chinese retail markets. Here the population has grown rapidly to now reach beyond 8 million citizens, giving a potential consumer base that would be the envy of many prime cities across the world.

Another market that's becoming increasingly important is Hangzhou. According to CBRE's publication *'How Global is the Business of Retail?'* this city now ranks in the global top 40 destinations for international retail entries, with 17 brands landing in 2013.

Large as these and other population centres are, several are struggling to digest a glut of retail development in recent years, which has left oversupply as the biggest risk facing the market. The scale of shopping centre construction is simply staggering: it's estimated that China accounts for around half of the world's current development pipeline, with cities such as Shanghai, Chengdu, Shenzhen and Tianjin sitting clear at the top of the global table.

In some markets the building boom has been exacerbated by a lack of urban planning rigour, which has left malls suffering poor footfall due to inadequate communication links. As a result, it is not uncommon for new retail projects to suffer initial vacancy rates of as much as 40%.

Delve even deeper into the Chinese land mass though and once again the picture changes. Across the country there are literally hundreds (up to 800 in fact) of tier 4/5/6 cities that still boast populations in excess of a million, but many of which have no modern retail stock of any description. Here the challenge is to provide citizens with a taste of shopping as a leisure pursuit before they are lost forever to the lure of online retail.

FAST FASHION: FAST GROWING

With luxury sales severely impacted by government crackdowns on gifting, it has been left to the fast fashion operators to make the retail running in 2014. Brands such as H&M, Zara, Uniqlo and Gap are all performing extremely well and are using their attractiveness to landlords to strike some very good bargains when seeking space in T2 and T3 markets. Fit-out contributions of up to 100% and substantial rent-free periods are not uncommon.

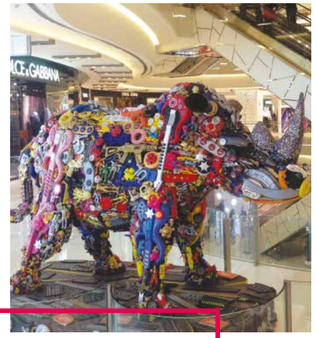
Though not classified as a fast fashion operator, one of the most successful foreign entrants is Muji of Japan. It seems to have been able to position itself into a more aspirational setting, enabling it to secure anchor positions in some smaller malls as well as negotiating very good terms from landlords that are keen to get it on board their schemes.

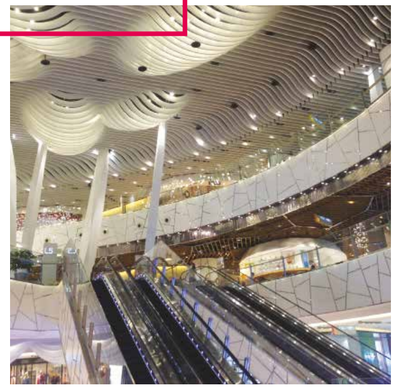
The luxury operators are responding to the tougher market conditions by adjusting their strategies; many are investing in their store estates to increase their competitiveness, a process we expect to continue into 2015.

Among China's domestic retailers, the fast fashion chain Asobio has become a force to be reckoned with in that segment. One of its strategies is to try to position its stores close to those of H&M, allowing some of that international retail lustre to affect it.

KEY TRENDS IDENTIFIED:
Jobs and income growth underpin retail sales; aspirational and 'experimental' brands come to the fore; boom times in New York and other top cities

THERE HAS BEEN A REINVIGORATION OF MANY URBAN AREAS





THE VALUE RETAIL SEGMENT IS EXTREMELY STRONG

The grocery operator RT Mart is also enjoying considerable success, in particular with its large format stores.

But think Chinese retailing and only one name is one everyone's lips: Alibaba. The e-commerce specialist has become a tech darling, listed in the Unites States and with a valuation that has soared into the hundreds of billions of dollars. It is estimated to account for around 80% of Chinese online sales.

One of Alibaba's key weapons is an escrow payments system that enables consumers to receive and check over goods before committing to pay for them. It is also making its first moves from clicks to bricks, having purchased a stake in the luxury-focused department store group Intime Retail for almost $700 million in the spring of 2014.

MALLS MUST DELIVER AN 'EXPERIENCE'

If everything we've said so far points to a crisis of overcapacity in the shopping mall sector, the truth is that there are still countless well located and well-appointed schemes that are trading very successfully. Many of these have made strides to offer shoppers experiential concepts that help to boost dwell times. One such trend involves partnering with entertainment groups, such as TV companies, to establish indoor theme parks inside the mall. Some examples of this are already in the initial design phase.

Of the new malls to open in 2014, probably the most significant is the 150,000 sq m International Finance Square (IFS) in Chengdu. This is a project by the experienced Hong Kong developer The Wharf Holdings and it brings some 300 luxury, jewellery and fashion labels to central Chengdu, including a massive anchor store for Lane Crawford. It is situated on a key city metro interchange and also boasts some 1,700 underground parking spaces.

In Wuxi, Inter IKEA Centre Group has completed a project of around 100,000 sq m that joins an existing IKEA store of some 50,000 sq m which opened in 2012. This scheme is well served with parking and is understood to have traded successfully since launch.

The investment market is focused on T1/T2 cities, with cap rates (the ratio between an asset's net operating income and its capital cost) for prime assets currently standing at between 4% and 5%, while those for T2 malls range from 6% to 8%.

This differential is mostly due to the continuing landlords' market for prime space, which sees many retail rents increase at lease renewal time, whereas rents in T2 markets – especially those in new malls – are much softer and subject to generous incentives that include rent free periods of up to two years.

Finally, we should also mention a peculiarly Chinese problem facing the out-of-town/retail park sector. Not so much a problem of trading, though, more one of definitions. Many out-of-town parks have become 'victims' of urban sprawl and now find themselves in-town less than five years from opening! With their newly-enlarged consumer catchments few are complaining, but this anecdote serves as a reminder that it's almost impossible to anticipate the extraordinary pace of change in China.

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CREATE YOUR EXPERIENCE... BUT DON'T FORGET THE BASICS

AS SHOPPING CENTRES STRIVE TO DEVELOP THEIR 'EXPERIENTIAL' OFFER, ALBERT HOOGLAND, EMEA HEAD OF SHOPPING CENTRE MANAGEMENT, ARGUES THAT EFFECTIVELY MANAGING 'BASICS' LIKE CLEANLINESS AND SAFETY IS STILL CRUCIAL TO SUCCESS.

Managing a shopping centre is a balancing act – I'm sure some would call it a high wire act. There's a need to balance the varied and often competing needs of tenants, as well as the different tastes and requirements of various consumer groups. More recently, shopping centre managers have also felt the need to strike a balance between getting the basics right and investing in ways to differentiate their schemes from both rival shopping destinations and the lure of the internet.

In doing so, is there a risk that attention paid to the basics is pushed aside in the headlong charge to provide new and better experiences? Any schemes tempted to let this happen would do well to read through a copy of CBRE's survey – *How Consumers Shop 2014* – which questioned 21,000 consumers across 21 countries and encompasses three million data points.

When these consumers were asked what motivates them to visit a shopping centre, it was the basics – price, convenience, cleanliness and security – that came out top; with the softer, more experiential elements further down the list.

This doesn't mean I'm suggesting that atmosphere, experience and entertainment should be ignored: once again it comes back to balance. In my view, if you can get your basics perfectly in order, in the most efficient and cost-effective way, you will have more resources (both time and financial) available to take your scheme to the next level in terms of creating consumer experience and connecting with your retailers in a more empathetic and cooperative way.

The challenge is how to go about doing that, and this starts with understanding the basics. For example, what is clean? More specifically, how do my customers and my retailers perceive clean? It's not rocket science to understand that customers' perceptions on cleanliness in a prime, luxury-oriented mall are different from those of a neighbourhood centre in a small town. There are plenty of points in between, though, and only by understanding where your scheme belongs on this spectrum and working closely with your cleaning contractor to fulfil these requirements economically will you be able to ensure you've got the balance right. The same goes for other elements such as security.

AN ANALYTICAL APPROACH TO SHOPPING CENTRE MANAGEMENT

With a portfolio of shopping centres under management that now numbers more than 230 schemes in 21 countries, CBRE's EMEA Shopping Centre Management team has plenty of experience in striking the right balance to get the best out of an asset.

More recently, we've begun to back that experience with a more analytical approach to the task. We've partnered with two specialist consultancies, Cyber and Locatus, to create the Shopping Centre Quality Monitor, a unique product for assessing and comparing the quality of individual shopping centres.

Quality is assessed on the basis of three key elements: Basics, Service and Experience. Each has 65 measurable and trackable components, providing a much more detailed picture of the strengths and weaknesses of a scheme than has hitherto been possible.

Working with our partners we deployed this methodology among a group of some 100 shopping centres in the Netherlands two years ago. We are now about to repeat the exercise, so we can track the progress made since that first assessment. We are also piloting the Quality Monitor in selected Central and Eastern European countries, with a view to eventually extending it across our entire European portfolio.

IMPROVING THE LANDLORD/TENANT RELATIONSHIP IS KEY

It's one thing to know where you need to improve, quite another to actually achieve those improvements. And here a lot of the challenge comes back to retailer relationships. Although things have improved in recent years, the landlord/tenant relationship can still be too adversarial at times. As managers, we must strive ever harder to convince retail groups about the mutual benefits that can be derived from working more closely together. It's easy to say 'but they just won't listen' – we must ask ourselves what we can change in our own attitudes to get the retailers' attention.

In this omnichannel world the big brands don't care what journey the consumer takes to get to them – via physical store, their laptop or their smartphone – but they do want that revenue. When cooperation between the shopping centre and retailer is good, the centre can play a role in that omnichannel customer journey, perhaps by installing click and collect points with adjoining changing rooms, for example?

This is something the shopping centre can offer which the high street retail environment can't – an advantage we should be careful not to neglect.

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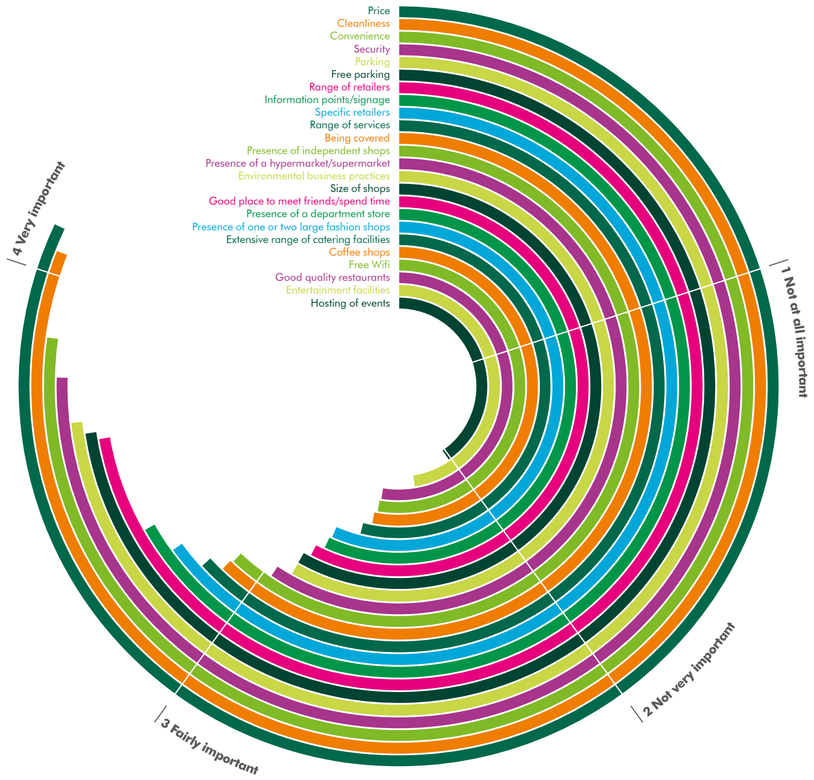
WE ASKED: "HOW IMPORTANT ARE THE FOLLOWING FACTORS IN A NON-FOOD SHOPPING TRIP?"

THEY SAID:



Note: Excludes 'don't know'

Source: How Consumers Shop 2014, CBRE

SPAIN

CONFIDENCE IS RETURNING TO THE SPANISH RETAIL MARKET AS INVESTORS SCRAMBLE FOR THE BEST ASSETS AMID RECORD TRANSACTION VOLUMES.

After three years of painful recession, the Spanish economy has finally returned to growth in 2014, with a similarly positive performance expected to continue into 2015. A feeling that there's now light at the end of the tunnel has truly taken hold, putting smiles back on the faces of many.

Even stubbornly high (above 20%) unemployment levels have failed to dampen consumer confidence, which is back to its pre-crisis levels after increasing substantially during the past 12 months. This is having its biggest effect in the wealthiest regions, where the money didn't really disappear but spending was held back by a lack of confidence. Elsewhere, though, it may still take some time before the macroeconomic improvements filter through to the retail market.

As a result, we are seeing an increasing polarisation of trading performance between the dominant regional shopping centres, where sales are growing by double-digits, and the rest, where sales are flat or falling.

INVESTORS FLOCK TO SPAIN

The most significant retail story of the year is undoubtedly the flood of investment capital into the Spanish shopping centre segment. At the time of going to press investment volumes had already reached €1.7 billion and by the end of 2014 that figure could well have climbed to between €2 and €2.5 billion. For comparison, the previous record volume was €2 billion achieved in 2007, on the eve of the financial crisis.

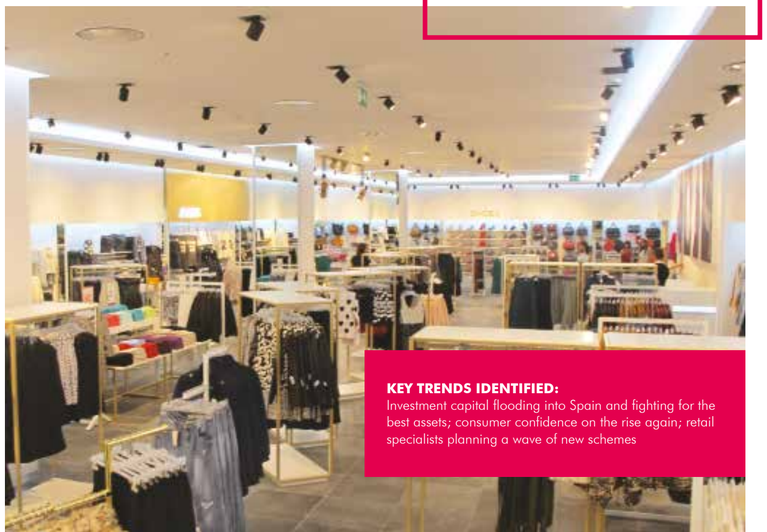
Among the principal buyers are the newly-created Socimis (equivalent to REITS) such as MERLIN and Lar, together with fund managers, notably CBRE Global Investors and TIAA Henderson, and private equity investors including Oaktree and Incus Capital among others.

Their enthusiasm for the best assets has seen yield compression of around 125-150 bps during the last 12 months, with prime shopping centres now being traded at net initial yields of around 5.5%-5.75%, while prime high street properties yield around 4.5%. Looking ahead, we predict that values of secondary high street assets will rise during the next couple of years, as investors switch their attention to this part of the market due to the total lack of investment opportunities on the prime streets.

The surging investment market is also having a major knock-on effect in the development area, in two distinct ways. The first is an upturn in refurbishments and extensions, as new owners free up funds to asset manage their new properties, many of which have been starved of investment in recent years due to the financial constraints in the market. The second is a new wave of greenfield developments by the retail specialists, who have been crowded out of the investment market by the pure financial players.

Notable pipeline schemes that underline this trend include Carrefour Property's 60,000 sq m S'Estada in Palma de Mallorca, General de Galerias Comerciales' c.90,000 sq m Parque Nevada in Granada, plus four projects by Intu in Malaga, Vigo, Valencia and Mallorca, each around 200,000 sq m Unibail-Rodamco, meanwhile, has two major extension/refurbishments projects in Barcelona.

2014 HAS SEEN A SIGNIFICANT UPTURN IN NEW BRANDS ARRIVING



KEY TRENDS IDENTIFIED:
Investment capital flooding into Spain and fighting for the best assets; consumer confidence on the rise again; retail specialists planning a wave of new schemes

RETAILERS ALSO FLOCKING IN

Spain never really went off the radars of the international retailers, but 2014 has seen a significant upturn in new brands arriving. This is particularly apparent in the aspirational/luxury segment, where sales are underpinned by the millions of tourists who flock to Madrid and Barcelona. New arrivals here include Longchamp, Canali, Brunello Cucinelli, Jo Malone, Dior, Twin-Set and Coach.

In another significant move, the Saudi Arabian franchise specialist Fawaz AlHokair has entered the Spanish market via a takeover of the domestic group Blanco. As well as promising to revitalise this brand, it seems likely that Fawaz AlHokair will bring some of the many other brands it controls to the market in the coming years.

Established retailers, particularly in the fashion segment, are seeking to rationalise their estates into fewer numbers of larger stores. Zara, for example is now looking for a minimum of 2,500 sq m, Mango is after flagships of around 2,000 sq m, while H&M seeks 3,000 sq m units in shopping centres and anything up to 7,000 sq m on high streets, the latter necessitating multiple floors. These groups are using their additional space to show off other lines within their portfolios, while also rolling out numerous sub-brands.

Such moves are again serving to consolidate performance around the best performing street and mall environments, while some poorer performing malls have been forced to close, further boosting the market share of the 'winners'.

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POLAND

A STABLE ECONOMIC OUTLOOK AND POSITIVE CONSUMER SENTIMENT PROVIDE A SOLID FOUNDATION TO A POLISH RETAIL SECTOR THAT NONETHELESS HAS SOME INTERESTING CHALLENGES TO LOOK FORWARD TO IN THE COMING YEARS.

One of these concerns a steady slide in consumer footfall, even though total retail turnover continues to grow. How to explain this seeming anomaly? Certainly the impact of e-commerce has to be a factor; but equally time-pressured Poles seem to be limiting the number of times they visit shopping centres compared with previously. The challenge for retailers and shopping centre managers is to provide renewed inspiration to go shopping, and fundamentally this means offering levels of customer service and overall experience that make a shopping trip special.

The need for innovative approaches is also beginning to have a rejuvenating effect on some of Poland's high street shopping areas. We are seeing historic buildings including old department stores gaining a new lease of life in key cities like Warsaw, Wrocław and Kraków, as popular fashion brands seek flagship locations outside of the overcrowded shopping centre environment. Notable among these are H&M, which has opened a major outlet on Warsaw's Nowy Swiat Street, while Zara has launched a flagship store in Kraków's Old Market area.

These are premium locations offering premium visibility (and premium rents) and there are plenty of other similar opportunities. However, further progress will be dependent on better collaboration between investors, retailers and local authorities.

SHOPPING CENTRE SATURATION?

Right now, with almost 450 shopping centres open and trading, it could be argued that many Polish cities are close to saturation point for modern retail space. With retailers becoming more cautious in their expansion plans, it has created a tenant's market everywhere outside Warsaw (where prime rents continue to increase).

This is causing real headaches for landlords of weaker schemes in highly competitive marketplaces, particularly when it comes to negotiating for anchor tenants. The strongest brands will not budge unless significant fit-out contributions and rent free periods are on the table, since they know that filling out a centre is impossible without their signatures in hand.

Most of the schemes that have launched in 2014 are in smaller markets where competition is less intensive. Examples include the 37,000 sq m Atrium Felicity in the city of Lublin and the 42,500 sq m Galeria Warminska in Olsztyn. Meanwhile the 34,000 sq m Galeria Siedlce in the eastern city of Siedlce is distinctive for being the first modern shopping space to open in that market.

POLISH RETAILERS ON THE MARCH

After a flood of high profile international entrants to Poland in recent years, the trend has somewhat reversed of late, with two highly successful domestic groups – CCC and LPP Group – ramping up their cross-border expansion activities.

CCC has gained an advantageous position over its German rival Deichmann at home; now it is forging into Germany and Austria alongside other key CEE markets. LPP Group, meanwhile, has launched in the UK, France and Germany, primarily with its top brand Reserved, but also with units for other house brands such as Cropp, House and Mohito.

Of the new arrivals from overseas in 2014, some of the more significant include adidas sub-brand Neo, Italian children and maternity specialist Bartolucci and French men's fashion house Devred 1902, all of which have landed in Warsaw. Outside the capital we have seen, among others, Spanish fashion brand Inside open in Katowice and Gdynia, Italian sport fashion retailer Eye Sport set up in Olsztyn and Greek women's fashion specialist Fullah Sugah open in Gliwice.

The gym/fitness market is being shaken up by a new arrival from the UK, City Fit, which offers cheaper and more flexible membership options that are proving attractive in smaller markets. This has been quite a dynamic segment in any case during the past five years, with a flow of new arrivals to the market including Fitness 24.

INVESTORS SEEK ALTERNATIVES TO PRIME

There is huge investor appetite for prime retail real estate in Poland, with yields stable at around 6%. The problem is a lack of availability, with all the 'trophy' properties having changed hands in recent years and none of the new owners willing to sell up. Investors are consequently turning their attention towards well-positioned secondary schemes, particularly those that offer potential value upside from extensions, revamps or refreshed tenant mixes.

It doesn't just take a new owner to bring these ambitions, however. In a mature and saturated market all shopping centre managers are striving to make their schemes a centre of social life, creating new sporting and entertainment zones while also catering for more practical needs, such as installing cycle stations. Use of social media as a key driver of the customer relationship is also becoming widespread, and is something that is sure to further develop in the years ahead.

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MANY POLISH CITIES ARE CLOSE TO SATURATION POINT FOR MODERN RETAIL SPACE

ITALY

AN EVENTFUL YEAR POLITICALLY LEAVES ITALY STILL AWAITING THE SPARK THAT WILL IGNITE A COMPREHENSIVE ECONOMIC RECOVERY.

Italy's economy has confounded onlookers in 2014, though not necessarily in the way we would have liked. The slight GDP growth seen towards the end of 2013 led analysts to assess that recovery was beginning, albeit slowly. Unfortunately a subsequent dip back into recession has weakened sentiment again, with forecasts for a full recovery pushed back to 2016.

Amid this background, the country's retail sector can be reasonably satisfied with its year to date. Consumer confidence has actually been on the up and sales have reversed their prolonged decline, although fresh recessionary and austerity headwinds could quickly curtail this.

Retail investment activity has continued to improve since the end of 2013, with transaction volumes reaching €1.5 billion in the first nine months of 2014, some 50% more than in the same period of 2013.

Caution and selectivity remain the watchwords among retailers. The active brands are seeking to reposition their stores to make them more modern and responsive to changing consumer desires. Inditex is one such example: it is opening new generation Zara stores of up to 5,000 sq m and investing in top retail locations for its brands, such as the new Bershka store in the prime Corso Vittorio Emanuele in Milan.

New arrivals to the market include Vans, which has signed five store leases in 2014, while striking new formats have been launched by Excelsior (one of the most active brands in this regard), also Replay with its new movie set style and the more contemporary evolution of Benetton's stores.

A number of other domestic operators are refreshing their sales networks, among them Calzedonia, Intimissimi, Tezenis, Terranova, OVS, KIKO Make Up, Alcott and Piazza Italia. At the heart of all these activities is a fundamental change to the mind-set of the modern Italian consumer. Thanks mainly to the internet, shoppers are now much better informed about the quality and price characteristics of products. Combine this with the ongoing effects of austerity and the result is a tendency to consume less and compare more thoroughly before buying.

CONSUMER CONFIDENCE HAS ACTUALLY BEEN ON THE UP

The new, bigger and more attractive stores are a key weapon in the retailers' efforts to inspire consumers and secure their business via both physical and online channels.

The choosiness of consumers is probably having its biggest effect in the grocery segment, where turnover is actually falling. On one hand this can be explained by hard-up customers seeking out the lowest prices; however, it's also the case that shoppers are taking more care over where the items have come from. We've witnessed the effect of this trend with the rise of alternative distribution channels such as buying groups and 'zero KM' food markets which promise only locally-sourced produce.

DEVELOPMENT ACTIVITY WILL BRING NEW SUPPLY TO THE MARKET

Future shopping centre supply is creating fresh opportunities for international retailers to enter the Italian market. The most striking case is Galeries Lafayette, which has signed an agreement to take an 18,000 sq m anchor unit in the new Westfield Milan shopping centre. This development, currently under construction for 2016 launch, boasts a GLA of more than 175,000 sq m, meaning it will become Italy's largest mall. It is a joint venture of Westfield and the Italian company Gruppo Stilo.

In the present day, however, the pipeline of new openings is fairly limited, with few if any developments having kicked off during the worst days of the financial crisis. The most significant new scheme to open in 2014 is Nave de Vero in Marghera, near Venice. It has 115 stores plus a number of large 'anchor' formats taken by Zara, Coop&Coop and Piazza Italia, among others.

Elsewhere, there is an increasing focus on refurbishment and/or expansion of existing malls, a trend we expect to strengthen further in the coming years, as owners, like retailers, adapt to changing consumer habits. Two extension projects to note are the 30,000 sq m addition to Oriocenter in Bergamo, which should be complete within the next 24 months and the 20,000 sq m extension to ESP Center in Ravenna, due for completion in 2016/17.

STREET RETAIL: MIND THE GAP

A significant gap has opened up between prime and secondary locations within Italy's high street retail environment. In the primary locations of Rome, Venice, Florence and Milan demand is high but availability is scarce, with rents soaring by up to 10% year-on-year and more still in Milan (12%) and Rome (14%). In Milan's case, a major element of this upswing can be attributed to the city's hosting of Expo 2015, which is expected to welcome more than 20 million visitors.

As a result, we are seeing a steady take-up of units in adjacent and/or secondary streets – in Milan, for instance, Corso Matteotti is increasingly becoming an extension of the 'fashion quadrilateral', while streets such as Corso Vercelli and Corso Garibaldi are also seeing vibrant activity.

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KEY TRENDS IDENTIFIED:
Full economic recovery still tantalisingly over the horizon; consumer confidence and retail sales picking up, however; Italian and international brands working hard to strengthen their physical store presence

USA

THOUGH THE WATERS HAVE OCCASIONALLY BEEN A LITTLE CHOPPY, THE UNITED STATES' ECONOMY – AND ITS RETAIL SECTOR – SHOULD BE ABLE TO LOOK BACK ON 2014 THROUGH POSITIVE EYES.

From a retail market perspective the two macroeconomic measures that have the biggest impact are jobs and income. We started the year with employment creation running below expectations, but as the year progressed the numbers of new jobs swelled to the 200,000 to 250,000 per month levels that kept consumer confidence ticking along. In fact, employment has now climbed past its pre-recession level, a symbolic milestone as well as a firm foundation for the future.

A similar story can be seen with incomes, where the end of 2013 saw pay levels heading in the wrong direction before this trend was reversed as we moved into 2014.

A degree of recovery in the housing market has also helped consumers to feel better, so it is no surprise that retail sales (for which we exclude gasoline and cars) are growing quite well, notwithstanding the disparity that exists between the best and worst performing markets. One negative factor that should be borne in mind is the likelihood of interest rates rising in the near-term. There's been much speculation on when the US Federal Reserve will raise rates, with current expectation being for the latter part of 2015.

The national retail real estate market has continued its steady, but fairly sluggish, improvement during 2014. Though the national vacancy rate has been trending downwards for three years since its peak in 2011, it has only fallen by a total of around 150 basis points, due mainly to the headwinds from e-commerce and technology.

THE VALUE RETAIL SEGMENT IS ALSO EXTREMELY STRONG

MAKING THE MOST OF THE PHYSICAL STORE

The hottest retail segments at present include grocery, food and beverage and home improvement/household items. The latter is a prime beneficiary of the housing market pick-up; it is also home to a number of exciting retail brands that are making the most of the 'physicality' of a store compared with online shopping.

One of the best examples of this is the fast-growing Pirch. Specialising in kitchen, bath and outdoor products, this San Diego-based company broke the mould by installing working models of their products i.e. shower heads that are fully plumbed in so customers can see exactly what they are getting before they buy and install them. Such innovative thinking has won the company a host of industry awards and is driving an expansion programme that should see at least four stores open each year for the foreseeable future.

Other 'homewares' operators making the most of this opportunity include TV broadcaster and catalogue retailer Home Shopping Network. It has launched a stable of physical retail brands, including Frontgate and Ballard Designs, to give customers the opportunity to try before they buy.

In the apparel segment, much of the running is being made by the aspirational/bridge brands that appear to have a perfect offer for current consumer tastes. Notably active names include Kate Spade, Tory Burch, Michael Kors, J. Crew and Anthropologie. Many of these retailers are seeking larger store spaces as they look to grow their footprints.

The value retail segment is also extremely strong at present. The 'dollar concepts' such as Family Dollar, 99 Cents Only and Dollar Tree, are all aggressively rolling out to new locations, while further up the value chain, Walmart, TJ Maxx and Marshalls have all been active. In addition, Primark is about to land in the United States, with a first store lease now signed in Boston.

IN-TOWN RETAIL IN THE SPOTLIGHT

Retail follows people, so it should be no surprise that demographic changes have a huge influence on the direction of the retail markets. Perhaps the most significant change of this kind in the United States. In recent years a return to inner-city living, led by the retiring Baby Boomers but also now encompassing young professionals who are happy to give up the big suburban house and garden for a more exciting urban lifestyle.

The result has been a reinvigoration of many urban areas, plus an explosion in construction of mixed-use developments where people can work, live and play with utmost convenience. The retail segments benefiting most from the trend are food and beverage, naturally, but also service-based outlets such as drugstores and places to relax, including spas and gyms.

A prime example of the urban regeneration trend in action is Third Street Promenade in Santa Monica, California. This upscale shopping, dining and entertainment complex in the downtown area has been a spectacular success, drawing customers from across the Greater Los Angeles area, as well as from tourists. Managed by a private, non-profit organisation, Third Street Promenade is a model of what can be achieved by far-sighted asset management.

Reinvigoration isn't just happening at street level, however. Landlords of so-called 'lifestyle centre' have been addressing the reasons why these formats have failed to thrive in some markets. One result has been the growth of the 'town centre' concept. An example would be the King of Prussia Town centre, a scheme in Pennsylvania that started life as a large scale lifestyle center but has since morphed into a much larger mixed use development featuring residential units, office buildings, a hotel and a hospital, as well as covered retail.

NEW YORK SPARKLES

No report on US retail would be complete without a special spotlight on New York. These are heady times for America's most

KEY TRENDS IDENTIFIED:
Job and income growth underpin retail sales; aspirational and 'experiential' brands come to the fore; boom times in new york and other top cities

SAN FRANCISCO'S POPULATION AND ECONOMY IS SURGING

dynamic city, with an economy as robust as we've seen it in more than a decade and just about every top global retailer keen to plant their flag or expand their activities.

New York is both the perfect entry point and a key learning ground for retailers wanting to 'break' America. H&M is a case in point: it arrived in 1999 and is using the experience gained in the intervening years to steer the way it is repositioning its stores today, notably adding vertical space through additional floors and incorporating homewares and kids' ranges. H&M is also actively rolling out sub-brands, including COS and '& Other Stories', again using past experience as its guide.

Many of the new brands setting up in New York in 2014 are from the luxury segment. They include the Qatar-backed QELA, also Anya Hindmarch, Belstaff and Kent & Curwen. One of the most interesting new luxury brands is the entrance of Lao Feng Xiang, which is one of the largest jewellers in China. It has gone straight to the top of the market by taking a 6,100 sq ft three-floor unit in super-prime Fifth Avenue, which should help it build brand awareness as well as having maximum exposure to tourist footfall.

This year saw brands open new flagships, putting big investment into taking additional space to offer lifestyle experiences that supplement their traditional retail environment. The goal is to maximise the amount of time consumers spend shopping and being exposed to the brand. Urban Outfitters opened a 57,000 sq ft Herald Square flagship and has enhanced its offering to include a hair salon, café and bike repair shop. The new Polo Ralph Lauren flagship on Fifth Avenue boasts its first coffee shop on the second floor, with a restaurant on its way in the lower level.

Looking ahead, the next hot retail spot looks set to be downtown Manhattan. After seemingly interminable build times, the mixed-use World Trade Center and Brookfield Place (formerly known as World Financial Center) developments are finally set to open in 2015, which should reinvigorate a market that has been relatively dormant for some years now.

Manhattan, it must not be forgotten, is a huge potential market in its own right – as big an economy as some major cities elsewhere. When the WTC/Brookfield Place projects come online it should create a perfect storm of improved retail, food and beverage, hotel and office accommodation that will attract large numbers of people downtown. And that's not the end of the story of reinvigorated Manhattan markets, because further out we will see the completion of the Hudson Yards scheme, which has already secured Neiman Marcus as anchor, plus the addition of more office and retail space close to Penn Station, which will tie in neatly with the hugely successful High Line urban park created on disused overhead train tracks.

The last stop in New York is an area that retailers and developers would be wise to earmark as 'one not to let get away'. This is Brooklyn, which has been bubbling under for a while but could now be said to be bubbling over, with a residential market that has caught fire and rents on par with some of the most popular Manhattan neighbourhoods as New Yorkers seek a place to live which is superbly connected but retains an 'edge'. Williamsburg is a particularly exciting marketplace, which has seen a slew of recent national entrants such as Urban Outfitters and J. Crew, another to watch is Park Slope.

OTHER HOT MARKETS

While it might be the biggest and brashest, New York is far from being the only active retail market in the United States at present. Many of the other important areas will be familiar to regular readers of *ShopFront*. They include the thriving Texan cities of Houston, Austin, Dallas and San Antonio, plus Los Angeles and San Francisco to the west, Miami to the southeast and Chicago to the north.

San Francisco in particular seems ripe for further development activity. The prime Union Square area is extremely tight for space and we also expect to see development in the financial district on the back of the booming office sector. San Francisco's population and economy is surging ahead on the coat-tails of the technology industries and this can only add to its retail pull.

Miami meanwhile is being propelled by an influx of capital from Latin America. Two high profile development projects: Brickell City Center in the heart of the financial district and Miami Design District in midtown, both look set to become real assets to the retail sector.

Finally, a word on the investment sector. Appetite for prime retail real estate has been strong in 2014 and we expect this to continue throughout 2015, putting yields and cap rates under continued pressure. High street units have been in particularly strong demand for the past two years, from private investors, REITS and institutions; this activity may be about to stabilise a little after such a good run. Among the shopping malls we will continue to see a divergence between the winners and losers, with anything up to 30% of the total stock potentially requiring abandonment and reconfiguration for other purposes, whereas the top tier assets will continue to forge ahead.

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TURKEY

While the currency has subsequently recovered some of its poise, a damaging drought across Turkey combined with regional conflict, local political unrest and unfavourable foreign financial policies have kept the lira weaker against the US dollar. This adversely impacted fuel imports and food prices, leading to a spike in overall inflation.

Consumer confidence is also down a little year-on-year, though it is to be hoped that the conclusion of the next general election in June 2015 (marking the end of a string of major polls at local and national level) will usher in a more stable, confidence-boosting period.

THOUGH 2014 GOT OFF TO A BUMPY START – BEST ILLUSTRATED BY A RAPID 25% DEPRECIATION OF THE LIRA AGAINST THE US DOLLAR AROUND THE TURN OF THE YEAR – TURKEY'S RETAIL AND RETAIL REAL ESTATE SECTORS HAVE BEEN QUITE RESILIENT AND WE'VE SEEN LITTLE LET-UP IN INVESTOR APPETITE FOR RETAIL ASSETS.

RETAILERS IN, RETAILERS OUT

Apple's successful launch in Turkey has been one of the biggest talking points in the market this year. The American technology brand opened a flagship unit in Zorlu Center in April, with a second store set to open in the new Akasya Shopping Centre in early 2015.

Other new arrivals to the market include Alexander McQueen, Karl Lagerfeld, H&M Home and Crate & Barrel, to name a few. As mentioned in *ShopFront 2013/14* the trend for incoming retailers is increasingly tilted towards direct entry rather than using a local franchise operator. This is particularly apparent in fashion retailing but is also seen across other sectors.

Looking ahead, the market is still anticipating the arrival of Walmart in Turkey, with the US retail giant known to be scouting appropriate locations. It will surely be hoping to emulate the success of the UK's Tesco, which has been in the market for more than a decade, having acquired the local player Kipa in 2003, and continues to go from strength to strength.

THE TREND FOR INCOMING RETAILERS IS INCREASINGLY TILTED TOWARDS DIRECT ENTRY

It's not all good news for international brands in Turkey, however. We've seen a real shake-out in the highly competitive DIY/home improvement segment, with relatively recent arrivals Conforama and Leroy Merlin (both France), bauMax (Austria) and Praktiker (Germany) all exiting the market, having been unable to develop sufficient critical mass to take on domestic favourite Koçtaş and established international players such as Bauhaus.

Several of Turkey's successful domestic retail brands are looking to overseas markets to sustain their future growth. One of the most expansive operators in recent times has been the bakery chain Simit Sarayı, which now has branches in 14 overseas markets. Meanwhile fashion brands LC Waikiki and Koton are both experienced hands when it comes to cross-border activity, with the former now boasting a presence in more than 20 markets and the latter having rolled out to 25 and counting.

DEVELOPERS FORCED TO SPREAD THE NET WIDER

The Istanbul shopping centre market has become saturated, with major oversupply in a number of key districts. Tenants have consequently struggled in new shopping centres that lack transport infrastructure, while oversupply in some highly concentrated locations is putting further pressure on schemes that were already under strain.

We have begun to see less successful malls converted to other uses, such as hospitals, schools and offices, especially in expansion areas of Istanbul's European side, namely Esenyurt, Beylikduzu and Başakşehir. Elsewhere, a good location has become of paramount importance, to the extent that many well-located but relatively staid schemes from the 1980s and 1990s are thriving while high quality but poorly located centres are struggling.

Future development activity is therefore starting to focus on secondary and tertiary sub-markets, particularly in the east of the country, where there are around 50 tertiary cities that contain no modern shopping centres at all.

GETTING CREATIVE IN ISTANBUL'S PRIME HIGH STREETS

The three prime shopping streets in Istanbul, İstiklal Caddesi, Abdi İpekci Caddesi, and Bagdat Caddesi, have long been protected by heritage listings that have kept redevelopment to a minimum. More recently though, landlords have succeeded in circumventing some of the restrictions to create larger retail spaces. This process started with the Demirören shopping centre in İstiklal and has now spread to both İpekci and Bagdat, with the latter seeing spaces that previously topped out at 80-100 sq m doubling in size, albeit still over multiple floors.

Retailers are also getting creative to save money while retaining a presence in these prime locations. Mango, for example, shifted its store on İstiklal to an area of the street that was formerly something of a cold zone, with accordingly lower rents. The brand's customers have duly followed it, revitalising that part of the street and changing the dynamic of the prime footprint. Once again, this trend is now spreading to İpekci and particularly Bagdat, impacting the overall rent tenor in the streets and giving a boost to landlords of previously non-prime units.

KEY TRENDS IDENTIFIED:
Retail market holding up during jittery times; international brands still keen on Turkey; shopping centre glut in Istanbul shaking out weaker players

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SWEDEN

WITH ITS ROBUST PUBLIC FINANCES, RELATIVELY LOW UNEMPLOYMENT AND GOOD TRACK RECORD OF RETAIL SALES GROWTH, SWEDEN IS A SOLID BET FOR INTERNATIONAL RETAILERS AND REAL ESTATE INVESTORS.

The market seems to have been untroubled by the political uncertainty that followed September 2014's general election, in which the ruling Alliance for Sweden coalition was swept from power. At the time of going to press a new government was in the process of being negotiated, although the divided nature of the parliament will leave whatever coalition is formed in a relatively weak position.

Some of the major challenges in the new government's in-tray include high levels of household debt, plus the related issue of an unsustainably hot housing market. When all assets including property are counted, Swedes have never been richer; however, the reality is that much of this is funded by cheap debt. Any downturn in the property market would of course have a major knock-on effect to retailing.

SECTORAL WINNERS AND LOSERS

The Swedish sportswear and sporting goods sectors have been among the most active for some while now. We've seen sportswear operators take market share from the mid-range fashion brands, a trend that H&M has countered by bringing sportswear ranges into its stores. In sporting goods the major battle is between the domestic Stadium brand and Norway's XXL. Stadium has launched a series of very big-box (c.4,000 sq m) concepts which it calls Stadium Plus, while XXL has gone in the other direction, opening its first high street store in central Stockholm, opposite the renowned NK department store.

If there is a loser among the sectors it is probably electronics, where e-commerce sales continue to bite into store turnover. We have seen Germany's MediaMarkt closing stores in selected locations, while rival brand El Giganten, owned by Dixons Carphone of the UK, has not yet rationalised its estate but its struggles are well-documented.

Among the international brands entering the market, some of the most interesting names are Victoria's Secret, which is opening its beauty concept format in central Stockholm (next to XXL, coincidentally), also Superdry, River Island and Hobbs.

There is also a new wave of food and beverage operators arriving, notably KFC, Dunkin' Donuts and Starbucks. The latter is expected to have a major impact on the market in the coming year, as it will need to work very fast to catch up with domestic rival Espresso House, which has expanded astonishingly quickly as of late, snapping up seemingly every available unit across Sweden.

A similar battle for supremacy continues between the two global giants of fast fashion, namely H&M and Inditex. The former is of course a Swedish company, so it should be no surprise that it's eponymous stores and those of house brands COS, '& Other Stories', Cheap Monday and H&M Home continue to proliferate. Inditex for its part is expanding its various concepts, all of which are now present in Sweden.

In *ShopFront* last year we spoke about the growing numbers of new luxury brands setting up in Sweden. In the past Swedes tended to reject the trappings of luxury, preferring a more understated style. This is no longer the case among wealthier consumers and, together with the impact of high spending tourists is underpinning the luxury boom.

MALL OF SCANDINAVIA: THE GAME CHANGER?

With around a year to go until it opens its doors, Unibail-Rodamco's Mall of Scandinavia project seems certain to have a major impact on the city's retail environment. At 100,000 sq m its sheer size will exert a gravitational pull on shoppers, as will the expected presence of all the major brands. That said, Stockholm ranks among the fastest-growing cities in Europe at present, so the mall's impact should ultimately be neutralised even if things are volatile to begin with.

Elsewhere, IKEA's development arm, IKANO, has opened a 20,000 sq m retail park to the south of Stockholm, representing the main project delivery of 2014. The retail park/big box sector in general is experiencing quite challenging times, with a number of tenants seeking to downsize their units, including hypermarkets and electricals specialists.

Sweden has only one truly prime retail park, Barkaby, which is located on the outskirts of Stockholm. Rents here are strong and growing, but they drop off quite considerably on the next rung of the ladder, Kungens Kurva (also in greater Stockholm). Elsewhere, rents are just half those seen in Kungens Kurva and vacant units are very hard to fill.

The investment sector seems to be awash with capital, with high demand from overseas institutional investors and funds. Both office and retail property is in the spotlight, with prime retail generally priced at around 100bp above prime office from a yield perspective. The top end of secondary, so-called core plus, is also in demand, but below that the market is weaker and mostly the preserve of opportunistic capital seeking turnaround potential.

THE RETAIL PARK/BIG-BOX SECTOR IN GENERAL IS EXPERIENCING QUITE CHALLENGING TIMES

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KEY TRENDS IDENTIFIED:
Economic fundamentals strong despite household debt overhang; good demand from domestic and international retailers; mall of Scandinavia the next potential game-changing development

JAPAN

JAPAN'S RETAIL INDUSTRY SEEMS TO HAVE SHRUGGED OFF A POTENTIALLY DAMAGING 3% RISE IN CONSUMPTION TAX, WITH A PRE-IMPOSITION SALES SPIKE NEUTRALISING THE SUBSEQUENT SLOWDOWN TO PRODUCE LITTLE OVERALL EFFECT.

The situation was eased by an increase in base salaries for the first time in 15 years, as large corporations heeded government encouragement to offer their employees pay rises in the 1% to 1.5% range. A continuing economic recovery is also helping to boost consumer confidence, the upturn of which seems to have survived the consumption tax challenge.

One of the retail segments to recover most quickly from the tax hike has been luxury goods, aided by a continuing influx of high spending tourists from Asia, in particular China and South East Asian countries. Visitor visa requirements have been relaxed to the point that tourists from places such as Thailand and Malaysia no longer need a visa for a short stay, a move that is proving a big success.

These twin developments in tax and tourism could also trigger an expansion of tax and duty free shopping in Japan. In September, the Korean department store group Lotte hit the headlines with the opening of a large outlet in Osaka's Kansai Airport, which sells predominantly Korean products and is only the second 'foreign' duty free operator to open a store in Japan.

RETAIL INNOVATIONS ACCELERATING

Japan has always been a fast-moving retail market, but recently the quest for innovative approaches seems to have reached new heights. For example, the mid to upper end car manufacturers are pushing city centre retail as never before. Mercedes-Benz is leading this charge, having struck a partnership with ultra-fashionable popcorn brand Garrett to set up a car showroom in the heart of Tokyo Midtown. Rival Lexus has opened a flagship store in fashionable Omotesando, where visitors can buy branded apparel or have a coffee in the Café or dinner in the Bistro. The concept is focused on creating a closer bond with the brand rather than direct vehicle sales.

Another interesting trend is the inclusion of additional services in the same tenancy to the traditional apparel retailer. This could be a café/restaurant, juice bar, homeware store, florist or cosmetics store. Such an approach fits well with the need to offer genuine differentiation in a crowded marketplace. We also see similar initiatives on a larger scale with the major shopping centre developments, which now tend to have a specific focus such as family, sport or entertainment.

At high street level, particularly in Tokyo, the store as a marketing tool is now a well-established strategy. Retailers are looking for larger spaces where customers can fully experience their brand concept close up, try things on, maybe stay for a coffee then make their transactions there and then in person or online.

One fast fashion brand in particular, G.U, takes the trying on concept a stage further, offering shoppers the opportunity to take clothes away and wear them around town at no charge (they just leave their name and mobile number), with the option either to buy them upon their return or simply hand them back to be sold on as ex-display stock. If nothing else this underlines the innate honesty of the Japanese consumer!

BRICKS TO CLICKS AND CLICKS TO BRICKS

The Japanese love of technology means multichannel strategies are essential to success. One successful exponent of the 'bricks to clicks' approach is the Parco shopping centre in Shibuya, Tokyo. It has launched an app in collaboration with popular online shopping website Zozotown, which enables shoppers to buy goods they see and try on in the mall. This shopping is then delivered to their home, so they are not weighed down by bags.

The scenario works both ways though. The market-leading online retail portal, Rakuten, opened its first physical environment in Shibuya, Tokyo, in May 2014. The so-called Rakuten CAFE offers food and beverages, complimentary eReaders plus online shopping via free Wi-Fi.

RETAILERS ARE LOOKING FOR LARGER SPACES

GAUGING THE RETAIL REAL ESTATE MARKET

The strong rental growth witnessed in recent quarters combined with upcoming supply pipeline has the market closely watching the leasing of new developments being readied in key Tokyo markets such as Ginza, Shibuya and Omotesando.

The biggest challenge facing developers right now though is a spike in construction costs, as labour and materials are soaked up by infrastructure projects relating to the 2020 Summer Olympic Games, as well as making good the remaining damage from the disastrous earthquake of 2011. Some shopping centre developments have stalled due to uneconomical construction prices, but this is expected to be a temporary phenomenon and in the long run we expect the Olympics to have a positive effect on the nation's mood.

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KEY TRENDS IDENTIFIED:
Consumption tax hike partially offset by rare wage rises; Tokyo still a hotbed of retail innovation; development pipeline hampered by high construction costs

HOW 'GREEN' IS YOUR LEASE?

REBECCA PEARCE, EMEA HEAD OF SUSTAINABILITY AT CBRE, INVESTIGATES THE POTENTIAL FOR ENVIRONMENTAL SUSTAINABILITY TO BE HARD-WIRED INTO THE RETAIL LEASING PROCESS.

Whatever one's views on the ultimate impacts of climate change, nobody can deny that our planet is using up its natural resources – and generating landfill waste – at far too rapid a rate. The dilemma at both governmental and corporate levels has been around working out the practical steps that can be taken to slow down this effect and make our lives more sustainable.

In retail real estate the solution could well come in the form of the green lease. This is an initiative that has been around for a while now, forming part of a growing movement to get landlords and tenants working closer together to reap the environmental and financial benefits from more sustainable behaviour.

So what is a green lease? It can take several forms, some involving binding obligations, others implemented on a voluntary basis. In the former case, green commitments are hard-wired into the lease agreement itself, with potential penalties for non-compliance. In the latter case, the commitments are often grouped into an annex to the lease or incorporated into a non-binding memorandum of understanding.

Typical elements within a green lease are targets around energy and water consumption, also generation of waste to landfill. Perhaps most significant, however, are the requirements for information sharing in these energy/waste matters, in order to set workable benchmarks that can drive improved performance. This requires quite a leap of faith given the traditionally stand-offish nature of the landlord/tenant relationship, where information has often been closely guarded.

Some landlords are already grasping the nettle, however. Redevco is one of the pioneers in this regard: for the past six years it has been collecting energy/water consumption data from some 1,100 tenants, which it makes public in the form of the Redevco Retailer Sustainability Benchmark. This is an online scorecard tool that any retailer can consult in order gain a better insight into their environmental performance versus their peers.
In Asia, the green lease has become a reality in several markets, notably Singapore and Malaysia. The developer making much of the running is Lend Lease, which has rolled out green leases in Singapore for the 313@somerset mall which it manages, and also at its Jem mixed use scheme, which includes an 818,000 sq ft shopping mall. The Lend Lease green lease encourages retailers to make use of highly efficient lighting systems, adopt recycling strategies and reduce overall tenancy waste.

DO TENANTS HOLD THE GREEN KEYS?

While landlords appear to be making the running with green leases, in many ways it's the tenants who hold the key to the concept's ultimate success. This works in two ways: accepting green lease clauses during the lease negotiation process; also taking a partnership approach to energy-saving investments.

As anyone who has taken part in a lease negotiation will know, achieving the former is not an easy task, particularly when it comes to the legal process. Easing this bottleneck is the aim behind a new campaign by the International Council of Shopping Centres, which is asking the chief executives of landlords, property managers and tenants to put their names to a sustainability declaration, with a view that this top-level endorsement can be used to punch through legal and other barriers.

So far a host of high profile names in the property industry have signed up. They include Redevco, Unibail-Rodamco, ECE, M&G Real Estate, TIAA Henderson Real Estate, BANEASA Developments SRL, Land Securities, Immochan and CBRE. At the time of going to press ICSC was reaching out to retailers also.

The second issue, around co-funding investment in green initiatives, is naturally a thorny topic. The industry has long suffered from the so-called split incentive dilemma, whereby investments made by landlords in areas such as energy efficiency are reflected in cheaper service charges for tenants but do not contribute to the landlord's bottom line until the next rent negotiation, if at all.
With this in mind, the announcement last year by Marks & Spencer that it was collaborating with the UK's Better Buildings Partnership on green clauses via memoranda of understanding, could prove telling.

Speaking at the time of the announcement, Clem Constantine, M&S' then Director of Property, commented: "Currently it can be difficult for landlords and tenants to work together when it comes to a building's environmental performance, particularly for older leases. There's often no real structure for measurement, incentives or sharing of goals. Green leasing changes this situation as it provides the framework within which both can work together. And both will benefit, a store with a reduced environmental impact and lower costs is more marketable for landlords and more cost effective for tenants to occupy – a genuine win, win."

Such moves towards greater collaboration can only be beneficial to the prospects for green leases. In many markets this forms the last real stumbling block, since the logical arguments for saving money through energy conservation have long since been won. It feels as though we are on the cusp of broader green lease adoption; it's up to everyone within the retail real estate sector to turn this promise into reality.

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AUSTRALIA'S RETAIL SECTOR IS BEING TRANSFORMED BY AN INFLUX OF INTERNATIONAL BRANDS, EACH ONE KEEN TO TAKE A SHARE OF A BUOYANT CONSUMER MARKET. THE CROSS-BORDER RETAILER TRAFFIC IS BY NO MEANS ALL ONE-WAY, HOWEVER…

Australia has had the nickname 'The Lucky Country' since the 1960s and it's easy to see why such a term has stuck within the national consciousness. Sporting an unbroken record of economic growth stretching back 22 years, GDP per capita that's the third highest in the world and blessed with vast natural resources, the country has punched above its weight for a long while.

Now the international retail world has finally woken up to the potential offered by Australia, bringing about a seismic shift in the fast fashion apparel segment. The past couple of years have seen the biggest ever influx of global brands into the Australian retail sector: the initial charge was led by Zara and Topshop, but others such as H&M, Uniqlo and Forever 21 are now fast catching up, with more top names, including River Island, searching for suitable entry points.

AUSTRALIA

The excitement this invasion has generated among consumers is palpable. For instance, H&M's first Australian store, a 5,000 sq m giant in Melbourne, achieved sales turnover in the region of A$21 million in its first eight weeks – an astonishing number for this market. H&M has now secured another 5,000 sq m flagship space, this time on Sydney's Pitt Street Mall, as the next stage of a rollout programme targeting more than 50 stores nationwide.

As mentioned, Zara is one of the furthest advanced, with around 13,500 sq m of trading space now open across nine stores. It is looking to establish a total estate of around 20 stores. Topshop, for its part, has quoted a figure of around 30 stores as its aim, with half a dozen of those already up and running.

With all this intense activity, the question to ask might be: why has it taken so long for Australia to be 'discovered' in this way? The answer has several elements. The first is that international brands have prioritised the establishment of store and distribution networks in key Asian markets, infrastructure they have subsequently been able to use to facilitate Australian market entry. It's also true to say that with its relatively small (22 million) population some brands were unconvinced of Australia's potential. It took Zara's hugely successful entry to pave the way for others.

The luxury segment is something of an exception in that it has been colonised successfully by international players for some time now – Tiffany's Sydney store, for example, is ranked number five globally, despite its relatively small floorplate. New brands continue to flood in, both from the pure luxury side (notably Tod's, Longchamp and Yves Saint Laurent) and the increasingly popular affordable luxury segment (Michael Kors and Kate Spade having opened this year, with Tory Burch actively seeking space).

THE RETAIL LEASING MARKET IS SET FOR A 'SPACE RACE'

Looking ahead, the retail leasing market is set for something of a 'space race' – both from international brands battling to acquire the best units and from developers bringing new retail space on-stream in the hope of attracting the hottest names.

All of the leading shopping malls have completed or are working on significant extensions. Sydney's Macquarie Centre is one example: its extension of 38,000 sq m contains some 130 new stores and takes it to 138,500 sq m, which is the largest in New South Wales. Another is Melbourne's Chadstone Shopping Centre, which is adding 34,000 sq m to what is already the country's top performing scheme in terms of sales turnover. The enlarged Chadstone will be 212,000 sq m – the biggest in Australia.

AUSSIE RETAIL EXPORTS JUST AS SIGNIFICANT

While none of the new brands arriving from abroad have reached the sort of critical mass that can truly hurt their domestic rivals, we are already seeing some local players being pushed out of prime positions in favour of international ones.

We are also witnessing a major push overseas by Australian retailers, as domestic brands recognise the challenges in their home market and seek new opportunities elsewhere. Such is the geographical diversity of this emigration it seems to have largely slipped under the radar, but it is arguably as significant a story as the foreign invasion.

Many of these brands have initially ventured to the English speaking markets of the UK and/or USA. They include Smiggle, T2, Lorna Jane, RM Williams and Industrie. Others have targeted Asia, including Kikki K, Seed and Sambag, while Cotton On is making great strides in South America. Almost all of these names are looking at additional markets beyond their initial ventures, plus there are others still waiting in the wings for the right opportunity. As a result, Australia has probably never been so prominently exposed on the global retail map.

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KEY TRENDS IDENTIFIED:
International fast fashion brands streaming into the market; Luxury retail segment persistently strong; Major outbound wave of Australian brands to Europe, Asia and the Americas

RUSSIA

RUSSIA'S ECONOMY AND ITS RETAIL MARKET ARE IN SOMETHING OF AN UNCERTAIN PLACE AT PRESENT, WITH ISSUES IN NEIGHBOURING UKRAINE UNDOUBTEDLY AFFECTING THE CONFIDENCE OF CONSUMERS, RETAILERS AND INVESTORS.

That said, while consumer demand is weakening, we still expect retail turnover growth of between 1.5% and 2% for full-year 2014. Equally, GDP growth remains in positive territory, although a worsening of the geopolitical situation – including additional sanctions – might well result in a dip into recession in 2015.

Retailers have played their part in supporting consumer demand, implementing extended sales periods (often featuring deep discounts) that have maintained turnover levels at the expense of margins. This is especially the case in the hard-pressed white and brown goods sectors, although others such as childrens' clothes have performed more strongly.

MOSCOW'S DEVELOPMENT SURGE GATHERS PACE

The uncertain conditions have done little to stem the tide of new shopping centre development in Moscow, a key feature of the Russian market we highlighted last year. By the end of 2014 we expect a total of 600,000 sq m of new space to have opened in the capital throughout the calendar year.

Key schemes to launch in 2014 include the 56,000 sq m Vesna and the 111,500 sq m Vegas Crocus City, both of which opened their doors in the second quarter. Other notable openings expected before the end of the year include Avia Park, Columbus and Mozaika, plus the second phase of the outlet village Belaya Dacha.

A similar volume of new space is in the pipeline for 2015, though we wouldn't be surprised if some of the developers of these schemes adopted more conservative approaches to timing, allowing them to get a clearer view of economic prospects as well as enabling demand and supply to rebalance after the 2014 surge. It's worth noting, however, that all this new development will merely bring the Moscow market up to Western European levels of retail density for its population.

The wave of new shopping centre construction is impacting vacancy rates in Moscow, which are expected to rise from 2.9% in Q2, 2014 to around 5%-6% by the end of the year. Some of the new schemes are going to open significantly under capacity – maybe as low as 65% leased – and target rents may well have to be revised before further tenants can be attracted.

Looking ahead, as the Moscow market becomes more saturated we expect developers to focus on smaller (around 15,000 sq m), neighbourhood schemes catering for specific gaps in the city's retail landscape. But with land availability at a premium they will need to work fast to secure appropriate positions to build.

Another area of opportunity relates to Moscow's intermodal public transportation hubs, of which there are some 15-20 with high potential dotted throughout the city. Plans are in place to commercialise these very high footfall spaces, with the prospect of retail galleries being added to entice the waves of city commuters and visiting tourists as they pass.

RETAILERS HAVE PLAYED THEIR PART IN SUPPORTING CONSUMER DEMAND

RETAILERS GAINING CONTROL

The issues around leasing new schemes mentioned above illustrate a distinct shift in negotiating power back in favour of tenants, a reversal of the trend towards a balanced situation that we noted last year. Prospective anchor tenants enjoy a particularly strong position, able to negotiate rental discounts of anything up to 15%.

International retailers remain keen on the Russian market as an avenue for expansion. For 2014 we expect the total number of new arrivals to match that of 2013, with some 35 brands setting up shop. They include Armani Jeans (first monobrand store), Deichmann, Moncler, Norma J. Baker and Lefties. Meanwhile the Chinese electronics brand Huawei has announced plans to launch more than 10 flagship stores in Moscow and other important Russian cities.

Among the established international brands, Spain's Mango generated considerable excitement with its announcement in May of a new 'megastore' concept bringing different collections under one roof. At the time of going to press the first of these concepts should be opened in St Petersburg, with more to follow.

Such sustained retailer interest should come as little surprise when you consider that the Moscow retail market alone is worth €100 billion a year; we are also seeing retailers being incentivised by landlords to venture further into the vast Russian land mass, with opportunities being promoted in smaller cities of between 100,000 and 500,000 inhabitants such as Sochi, Surgut, Petrozavodsk, as well as the greater Moscow region.

MOSCOW STREET RETAIL BLOSSOMING BUT OUT-OF-TOWN GROWTH STILL LIMITED

Last year we mentioned the public/private sector projects to pedestrianise some key Moscow thoroughfares. This is now well underway, with three streets already redeveloped into much more welcoming public spaces: Bolshaya Dmitrovka, Maroseyka and Pokrovka. Thus far the café/restaurant segment has benefited most from this initiative, with the appetite of other segments such as clothing and footwear tempered by the attractions of the new, modern shopping centres that are also competing for their presence.

The out-of-town/big box area of the market remains relatively small as a proportion of the whole, with most of the key schemes located on Moscow's main ring road. The main issue for retailers is that the nature of the retail park leads customers to expect highly competitive pricing, but rents do not tend to be correspondingly cheap. The tough Russian winters must also be factored into this equation, particularly in the more far-flung regions of the country.

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BRAZIL

BRAZIL'S ECONOMY HAS STRUGGLED TO MAKE HEADWAY IN 2014, WITH HIGH INFLATION AND INTEREST RATES BEING PARTICULARLY TROUBLESOME OBSTACLES TO PROGRESS.

At the time of going to press the latest round of national elections – including for president – were approaching their climax. Whoever wins the presidency will have a tough time jump starting the economy, which is set to grow by only 1% in the full year. It may be that some strong medicine is required so we can potentially expect things to get a little worse before they get better.

Within the retail business, perhaps the hardest-hit segment in 2014 has been car dealerships. We have seen a number of dealer groups handing back the keys to underperforming showrooms, which are difficult for landlords to re-let as they are often located away from major pedestrian flows.

By contrast, the ever-competitive grocery segment is still seeing good growth from Carrefour and Casino, notably through smaller format stores of around 300 sq m that work well in neighbourhood environments. Regular readers of *ShopFront* will know that these two groups have enjoyed an occasionally stormy relationship in the past; the intrigue could be set to continue, given the market speculation that Abílio Diniz, the billionaire former owner of Grupo Pão de Açúcar (now controlled by Casino) wishes to take a stake in Carrefour's business.

THE EVER-COMPETITIVE GROCERY SEGMENT IS STILL SEEING GOOD GROWTH

Meanwhile, the country's third major grocery player, Walmart appears to have concluded a recent period of retrenchment and is indicating a willingness to come back and start developing new sites in 2015.

Probably the most significant move into the Brazilian market in the past 12-18 months is by the Chilean retail group Falabella. It acquired a 51.1% stake in domestic home improvement chain Dicico in May 2013 and is now working to roll out its Sodimac home improvement brand as the first of a number of retail businesses (others include department stores and supermarkets) it plans to bring to the market.

Another cross-border acquisition has seen L'Oréal – through its subsidiary The Body Shop – take a controlling 51% interest in Emporio Body Store, which has around 130 outlets across the country and is, ironically, modelled on the successful Body Shop format. The transaction contains options for L'Oréal to increase its stake to 80% by 2019 if the company achieves its objectives. Finally, the German investor Alexander Otto and his associates have acquired US investor DDR's holding in Sonae Sierra Brasil (representing 50% of the capital stock) for US$344 million.

The segment that has seen some of the liveliest activity is food and beverage. This features global giants such as McDonald's and Burger King as well as Pizza Hut and KFC outlets, Starbucks and the leading Mexican operator Alsea, which has now opened its first P.F. Changs restaurant and is also seeking space for the first Cheesecake Factory to be launched within the next year. In addition, the development of retail in Brazil's two newly-privatised international airports – São Paulo and Rio de Janeiro – has got underway with the launch of the country's first branch of the popular US chain Red Lobster.

One domestic food and beverage player that is taking the fight to the international competitors quite successfully is Coco Bambu. It is building a national footprint in Brazil and is also planning its first overseas outlet in Miami.

STOCK OVERHANG KEEPS DEVELOPMENT SECTOR QUIET

After several years of intense development activity it could be argued that many Brazilian markets are now oversupplied with modern retail space. As well as the competitive pressure this brings, several new schemes have been located in 'greenfield' sites away from city centres, giving their owners added difficulties when it comes to securing tenants and local franchise operators. As such, vacancy levels are uncomfortably high and with the macroeconomic situation moving against them it may be some time before landlords can achieve good absorption of their stock.

There remain good opportunities for smaller, neighbourhood strip-mall style developments, particularly to developers prepared to invest the time, money and effort to create well-appointed schemes. The outlet market is also one that offers potential, particularly in and around São Paulo and Rio de Janeiro. The major player to date in this market is General Shopping, but more recently the shopping centre specialist Iguatemi has indicated its willingness to enter the fray. Iguatemi has acquired two sites for development, though construction has yet to get underway in either.

Looking further ahead, we should see some large mall developments taking shape in São Paulo in the coming years. One of these is the ill-starred Parque Global scheme at Avenue Marginal Pinheiros, which would have been Westfield's first foray into Brazil. This project has now been taken over by the leading specialist developer Multiplan, although regulatory issues have again seen it put on hold.

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KEY TRENDS IDENTIFIED:
Economic growth held back by high inflation and interest rates; grocery and food and beverage segments the most active; shopping centre development pipeline limited while stock overhang clears

VACANCY LEVELS ARE UNCOMFORTABLY HIGH

BELGIUM

ALTHOUGH BELGIAN RETAIL SALES HAVE GENERALLY BEEN NO WORSE THAN SLUGGISH, WE DO APPEAR TO BE SEEING A SHIFT IN ATTITUDES AMONG CONSUMERS, WHEREBY SHOPPING AS AN OUT-AND-OUT LEISURE PURSUIT HAS LOST POPULARITY IN FAVOUR OF A MORE NEEDS-BASED AND CONVENIENCE-DRIVEN APPROACH.

This can be partly evidenced by declining footfall reported by shopping centres over the past ttwo to three years. For 2014, footfall in some schemes is expected to be down 7% to 10% on a like-for-like basis, even though turnover appears to be holding up.

From a broader perspective, the business community is looking to Belgium's new government to take the lead in improving our international competitiveness, particularly when it comes to labour costs. However, the unbalanced nature of the coalition that is taking power after May's elections – it has three parties representing Flanders and just one from Wallonia – could leave it walking a tightrope when it comes to pushing through economically liberal but socially unpopular policies.

One of the first items sure to be on the government's agenda – as elsewhere in the Eurozone – is tackling the issue of deflation. Nobody wants the Eurozone to emulate Japan's deflationary 'lost years', and any measures taken in this respect are likely to have a positive knock-on effect to retailing since boosting consumption is a key weapon at the policymakers' disposal.

All this means we have experienced a significant shift in the negotiating balance of power from landlord to tenant. The only exceptions are the true AAA retail locations, where lack of available space mean rents are at least stable and in some cases still increasing. Even then, it's notable that the AAA footprint in several major high streets is shrinking. Secondary and tertiary locations are suffering quite badly, as retailers seek to improve their formats and reduce store densities by shedding units where they feel rents are unsustainable.

THE AAA FOOTPRINT IN SEVERAL MAJOR HIGH STREETS IS SHRINKING

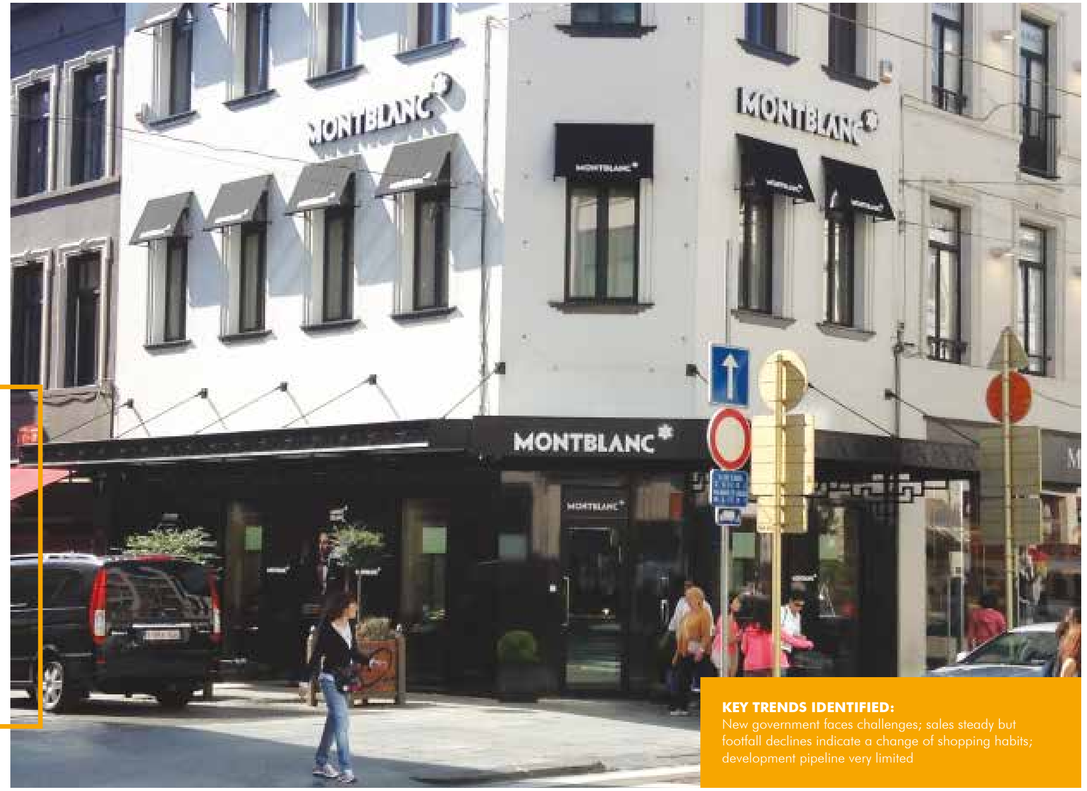
HOMEGROWN RETAIL SUCCESS STORIES

Previous *ShopFront* reports have mentioned the domestic fashion accessories retailer Veritas as one to watch. This very much remains the case, as the group goes from strength to strength, both in terms of its store footprint (it operates in high streets, shopping centres and retail parks) and through its carefully considered expansion into apparel. In addition, Veritas is seeking to export its successful model into neighbouring countries, including Germany, the Netherlands and France.

Two other domestic fashion players are also on the up. The first is retail park specialist Zeb, which is now supported by Belgium's number one food retailing group, Colruyt, giving it access to significant funds to aid its expansion plans into out-of-town markets. The second noteworthy performer is Lola & Lisa, which, like Veritas, operates successfully across all three of the principal retail environments. This brand has steadily extended its domestic network to around 70 stores while also looking across borders to the French and Dutch markets.

Of the international brands landing in Belgium, probably the most significant is UNIQLO, which has made an opportunistic move to secure a store in Antwerp's prime high street, the Meir. This opening gambit is very likely to be followed by a second store in Brussels, and already there is considerable buzz in the market about the brand. Other new arrivals include Danish homewares specialist Flying Tiger, plus fashion houses Karl Lagerfeld, Twin Set, Bache and Philippe Plein.

Looking ahead, the retailer set to make the most profound impact in Belgium could well be Primark, which is close to adding three more stores to its highly successful Belgian bridgehead in Liège. These new stores will be in Ghent, Brussels and Hasselt and they are unlikely to be the last.



KEY TRENDS IDENTIFIED:
New government faces challenges; sales steady but footfall declines indicate a change of shopping habits; development pipeline very limited

DEVELOPMENT PIPELINE STILL LIMITED

With nothing of any significance opening this year, shopping centre development watchers will have to wait until the completion of the 37,000 sq m Dockx scheme in northern Brussels for the next new opening (as opposed to extensions or redevelopments). Dockx was previewed in *ShopFront 2013/14*, although at that time it was known as 'Just Under the Sky'.

In the retail park environment, planning constraints are by far the biggest barrier to new development. The trading performance is strong and rents are increasing across the board, with prime schemes now commanding rents of up to €170/€175 per sq m/year. The combination of good retailer demand and restricted supply should see this area of the market continuing to be buoyant in the years ahead.

INVESTMENT DOWN YEAR-ON-YEAR BUT IS EXPECTED TO PICK UP

Over the course of 2013, €621 million was invested in retail compared with only €135 million during the first two quarters of 2014. However, high street retail investment is still booming in Belgium, spurred by historically low interest rates. A noteworthy feature of this asset class remains the strong participation of private investors in the overall investment volume. Up to transaction volumes of €25 million, buyers are almost solely wealthy private individuals, while investment yields can go below 4% on the best assets.

Larger investors have been mostly forced out of the high street retail segment and are now focusing on shopping centres and retail parks at more reasonable investment yields. Shopping centres are valued at yields of between 5.25% and 6% today, while out-of-town retail is acquired at yields of 5.75% to 6.25%. Although we have been short of large transactions so far in 2014, CBRE expects a very busy year-end and estimates there are some €550 million of shopping centre investments in marketing phase or due diligence.

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HIGH STREET RETAIL INVESTMENT IS STILL BOOMING

AFTER A TRICKY 2013, CIRCUMSTANCES HAVE BECOME MUCH MORE POSITIVE FOR INDIA IN 2014, MAINLY BECAUSE OVERSEAS INVESTORS HAVE LOOSENED THEIR PURSE STRINGS TO PUT NEW MONEY INTO THE ECONOMY.

One of the key triggers to this upswing has been the installation of the largest majority government formed in India since the elections of 1984. With this clear electoral mandate in his pocket, the BJP Prime Minister, Narendra Modi, has set about replicating the same business and investor-friendly environment that served him so well in Gujarat State, where he was First Minister from 2001 to 2014.

Modi has already visited the key investment markets of China, Japan and the United States, returning from the Asian leg with around $55 billion of new investment. Emphasising the collective responsibility for growth, he has also coined an alternative meaning for the acronym FDI, replacing Foreign Direct Investment with the slogan 'First Develop India'.

From a real estate perspective, another important development in the offing is the potential opening up of the market to REITS (real estate investment trusts). The Securities and Exchange Board of India (SEBI) is in the final process of drafting the laws that would allow REITS to be formed, a move that would be certain to encourage fresh investment in the real estate sector, including retail real estate.

RETAIL FDI COULD BE ABOUT TO GET EASIER

As reported in previous editions of *ShopFront*, international retailers have not been encouraged to try their luck in India due to restrictive legislation on FDI. However, the government is contemplating removing one of the norms seen as an impediment to entry, wherein a single brand international retailer entering the market needed to source 30% of its products locally.

Among the ambitious global brands, one of the most advanced in its plans for the Indian market is IKEA. The Swedish homewares specialist was one of the first retailers to secure agreement for 100% FDI in India and has now signed two memoranda of understanding with regional governments in Telangana and Karnataka. IKEA says it intends to open stores in Delhi NCR, Mumbai, Bangalore and Hyderabad, but has not set a timetable for these launches.

THE FOOD AND BEVERAGE SEGMENT HAS BEEN PARTICULARLY LIVELY IN INDIA

Another Swedish retail behemoth, H&M, is beefing up its Indian management team in readiness for a first store to open in 2015. It is scouting for top shopping mall locations in Delhi and Mumbai, with a stated intention to open around 50 stores across the country in the coming years.

Other active brands include Gap, which has entered via a franchise agreement with the local group Arvind Brands.

The food and beverage segment has been particularly lively in 2014, as shopping centre landlords look to catering as a key dwell time booster. Nando's, Burger King, Wendy's, Carl's Jr, Yauatcha and Jamie's Italian are just some of the brands seeking to build out their chains.

Not all international retailer activity is one-way traffic however. In the grocery business, we have seen something of a shakeout of overseas players, notably Carrefour and Auchan. Meanwhile, Walmart's joint venture with the domestic operator Bharti Enterprises has been dissolved, with Walmart retaining the cash & carry element and Bharti taking on the supermarket/hypermarket portion. An exception to this trend is Spar, which has returned to the market thanks to a franchise agreement with Max Hypermarket India, a move that sees Spar branding replace Auchan's on 13 existing stores, with 20 new ones also planned in the coming years.

E-COMMERCE COMES OF AGE

Over the past year perhaps the biggest change in Indian retail is the embedding of e-commerce as a significant portion of the market. The country has a number of successful online shopping portals and international retailers are increasingly using these to evaluate the potential for their brands among Indian consumers. Examples include River Island and Burton, which have exclusive tie-ups with Jabong.com, also Desigual, which is only available on the rival Myntra.com site.

In another significant move, several US retailers have recently begun fulfilling Indian orders from their websites. These include Neiman Marcus, Crate & Barrel and Saks Fifth Avenue, the latter having been consistently tipped as the first multi-brand retailer to establish a physical presence in India.

DEVELOPMENT SECTOR SLOWS

After a wave of development activity in 2013, the pipeline for 2014 has been a lot lighter, not least because a number of schemes have had their completion dates pushed back by anything between a year and 18 months.

An example would be Mall of India, a project of DLF which is billed as the country's largest shopping and entertainment centre, spread across 1.8 million sq ft. The project was supposed to open for business in 2013 but is now scheduled for spring 2015 launch.

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KEY TRENDS IDENTIFIED:
Indian economy and confidence picking up after decisive general election result; international retailers getting closer to store openings; shopping mall development slows after recent surge

NETHERLANDS

A LIKELY RETURN TO GDP GROWTH IN 2014 (AFTER TWO YEARS OF NEGATIVE NUMBERS) INDICATES THAT THE ECONOMIC CLOUDS OVER THE NETHERLANDS ARE FINALLY BEGINNING TO CLEAR. CONSUMER CONFIDENCE IS ALSO RISING AGAIN – ALBEIT FROM HISTORICALLY LOW LEVELS – AND THIS IS SURE TO PROVIDE A BOOST TO THE RETAIL SECTOR.

As we noted in *ShopFront 2013/14*, the bigger picture for retail is of a continuing divergence between Amsterdam and other primary cities, where trading conditions are favourable, and secondary locations where things are much tougher.

Amsterdam in particular is benefiting from a tourism boom. Crucially for retailers this growth is being driven not by those seeking out the city's more insalubrious pastimes but by 'regular' tourists visiting world renowned cultural attractions such as the Rijksmuseum and Stedelijk modern art museum. Both have reopened during the past couple of years after lengthy refurbishments. As well as sating their cultural appetites, such visitors are much more likely to go shopping, particularly in the buoyant luxury end of the market.

DESTINATION: BOHEMIA

Something of a retail revolution is going on away from the 'mainstream' high streets in Amsterdam and other major cities. These secondary, niche locations have growing appeal among more style-conscious and edgier consumers; as a result they've become a hotbed for retail startups catering for that market, a good example in Amsterdam being Toms Shoes from the US.

It hasn't taken the international fashion retailers long to pick up on this trend. For example in Amsterdam we've seen COS (Leidsestraat) and Scotch & Soda (Heiligeweg) opening stores in subprime retail streets, while new international arrivals opting for these locations in 2014 include El Ganso (Heiligeweg), Subdued (Van Baerlestraat and Leidsestraat) and Imperial (Utrechtsestraat). In each case, the choice seems to be motivated by the atmosphere of these locations, rather than by lower rents compared with prime sites.

PRIMARK CONTINUES TO BE THE BIGGEST SUCCESS STORY

Other new arrivals have opted for prime space to make their Dutch market debuts. They include Topshop on Amsterdam's Kalverstraat, while Marks & Spencer opened its first store in a prime setting in The Hague in February 2014 and will launch in Amsterdam in 2015.

Away from the cutting edge of fashion, another big retail story concerns a more traditional supermarket price war. The 'big two' in the grocery segment, Albert Heijn and Jumbo, are fighting hard among themselves as well as to stave off growing competition from discounters such as Lidl and Aldi. This is good news for Dutch consumers but bad news for margins, with the suffering especially apparent among smaller players who are caught in the crossfire.

Aside from the names mentioned earlier, the luxury segment has contributed most of the other notable new arrivals to the Dutch market in 2014, with Prada, Dior and Jaeger-LeCoultre all opening their first standalone stores on the high end P.C. Hooftstraat. The slowdown in activity elsewhere is perhaps understandable, given the wave of arrivals we saw in 2013. Of last year's incomers Urban Outfitters and Forever 21 have enjoyed good sales from their Amsterdam stores, with Urban Outfitters known to be seeking further opportunities in other cities.

Primark continues to be the biggest success story among the overseas newcomers of the past few years. By the end of 2014 it will have 12 stores up and running, including a flagship store in The Hague, which will have around 8,500 sq m retail space over three floors when it opens in December. Next year will see the opening of a 13,000 sq m flagship store that will anchor the Nowadays retail development in downtown Amsterdam.

INVESTMENT VOLUMES SOAR BUT DEVELOPMENT STALLS

Half-yearly investment volumes are up 283% during the same period in 2013 appear to indicate a major structural shift. The truth is that while we are seeing growing appetite among international investors for prime Dutch retail stock, the volumes seen thus far in 2014 have been skewed by the eventual completion of a handful of major transactions that originated the previous year. Notable among these are the €176 million portfolio of 11 Corio shopping centres, the €138.8 million De Ver Mieren/V&D schemes in Hoofddorp and the €115 million Bataviastad factory outlet centre in Lelystad.

As we predicted last year, the development sector has entered a quiet phase, with very little in the way of new shopping centre or retail park space planned or under construction. However, at the time of going to press the market was keenly awaiting the opening of a brand new concept for the Dutch market, in the form of Markthal Rotterdam. This spectacular, horseshoe-shaped building covers an indoor food market promising more than 100 fresh produce units, with the flanks occupied by restaurants, food shops and a cookery school. The 'canopy' itself contains 228 apartments and the site occupies a prominent location in the Netherlands' second city.

Elsewhere, much of the focus is on revitalising and extending existing assets. Notable among these projects is a major extension to the Netherlands' oldest shopping centre: The Passage, located in The Hague. The 'new' Haagse Passage has now opened and connects the 'old' Passage to de Grote Marktstraat. Anchor tenants are Mango and The Sting plus an Apple flagship.

AMSTERDAM IS BENEFITTING FROM A TOURISM BOOM

KEY TRENDS IDENTIFIED:
Economy and consumer confidence picking up, albeit relatively weakly. Investors showing appetite; retail market continues to diverge between big cities and smaller markets

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THE COLLABORATIVE APPROACH TO ADDING VALUE

JAMES DRUMMOND, MANAGING DIRECTOR EMEA BUILDING CONSULTANCY AT CBRE, DEMONSTRATES HOW WELL THOUGHT OUT CAPITAL PROJECTS CAN GREATLY IMPROVE THE CUSTOMER EXPERIENCE PROVIDED BY A SHOPPING MALL.

In CBRE's Building Consultancy team our constant focus is on how we can help shopping centre owners keep their customers coming through the door.

For us, this works by examining every step of the customer's journey through the scheme, which starts when they arrive by personal or public transport and only ends after they've left by the same means. We see our role as coming up with practical solutions to improve that journey, as well as finding ways to encourage shoppers to stay as long as possible while they are in the mall.

Technology is a key driver in this regard: consumers now frequently arrive armed with information gleaned online, but where the mall and its retailers have the unique advantage is in their ability to provide an exciting and fun experience, quality places to eat, drink and relax, as well as the opportunity to touch and feel products while receiving expert guidance from the retailer.

Centres that can offer a high quality customer experience through their ambiance and facilities have a natural advantage over rivals which can't. Devising and implementing the enhancements that will achieve this is both an art and a science: we work in a fully integrated way with other advisory service lines in CBRE's Shopping Centre Practice Group to bring such projects to life as efficiently and cost-effectively as possible.

To illustrate this process in action, we have chosen a project at Diagonal Mar shopping centre in Barcelona, Spain. This began in April 2013 and was completed in June 2014.

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IMPROVED TERRACE ADDS TO DIAGONAL MAR'S APPEAL

Diagonal Mar is Barcelona's second largest shopping centre, which benefits from a prime location overlooking the Mediterranean Sea. Its owner, Avestus Capital Partners/ Northwood, decided to create a contemporary open terrace for the uppermost of the scheme's three levels.

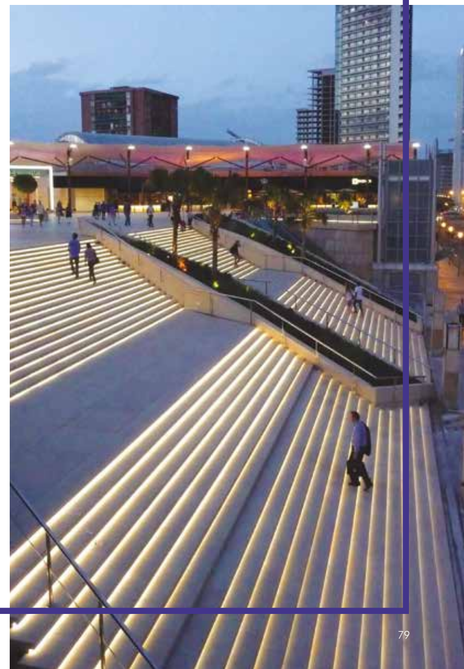
THE CONCEPT:

- To create a welcoming environment for customers, inviting them to spend time on the terrace; having lunch or dinner, playing with their children, sunbathing or just taking a break from their shopping
- To create a functional space for tenants, offering comfortable, flexible and modern facilities that allow them to most effectively display their offer, thus attracting more customers and improving their performance

THE RESULT:

"We wanted a contemporary terrace to introduce new life to this area of Diagonal Mar and to bring our customers an improved leisure experience complementing our location and premium shopping environment. This is the initial phase in our larger strategic plan for the centre and CBRE helped us to achieve our vision for the terrace through the delivery of their integrated retail development services"

- Fergus Farrell, Principal, Avestus Capital Partners



IRELAND

WE REPORTED THE FIRST STIRRINGS OF RECOVERY IN THE IRISH REAL ESTATE MARKET INVESTMENT IN THE LAST EDITION OF *SHOPFRONT*, BUT SINCE THE BEGINNING OF 2014 THE TRANSFORMATION HAS BEEN NOTHING SHORT OF STAGGERING, SURPASSING EVEN THE MOST OPTIMISTIC FORECASTS.

After an initial focus on the office market, retail assets have now had the investor spotlight swung upon them, with potential buyers looking to retail property to achieve strong rental growth over the medium term. The two most notable retail investment transactions in 2014 to date, one involving a portfolio of three shopping centres and the other a sale of a part interest in Liffey Valley Shopping Centre, both achieved excellent results after a highly competitive bidding process.

Underlying all of this is a significant improvement to consumer confidence, as unemployment falls and GDP growth surpasses that of any other Eurozone economy, at a forecast 4.5% for 2014. Even the previously moribund housing market is showing signs of revival, with new stock being planned for the first time since the financial crisis.

In addition, the banks are indicating a renewed appetite to lend into the retail sector, encouraged as they are by some positive trading performances. This again marks a huge change compared to 12 months ago.

GDP GROWTH SURPASSES THAT OF ANY OTHER EUROZONE ECONOMY

GRAFTON STREET THE STAR PERFORMER

It would be wrong to exaggerate the depth and breadth of the retail recovery, which is centred on Dublin and the other major cities, but where it is good it is very good. Nowhere is this truer than in the prime Grafton Street in Dublin, which had numerous vacancies some 18 moths previously but is now experiencing a major supply and demand crunch in the face of strong retailer interest.

At the time of going to press, a prime available property on the street looked to have been secured by H&M's sub-brand '& Other Stories' at a notable advance on the existing Zone A rental tenor. Perhaps more significant is the fact that eight other top quality retail brands lost out via a best bids process, all of whom we assume will contend for future opportunities and help to drive the leasing market forwards. One result of the space crunch in Grafton Street and its immediate vicinity is that retailers looking to enter the market are becoming increasingly prepared to look at other locations for their first stores.

Elsewhere, the most active retailers occupy the value end of the spectrum, notably Dealz, although all are looking at strategic moves rather than volume expansion.

There has also been some good news for the long troubled DIY/home improvement segment, which, together with white goods, is reaping the benefits of the housing market pick-up mentioned above. This in turn is providing impetus to Ireland's retail park/big-box sector, in which most schemes are still limited to bulky goods offer. One significant transaction in 2014 has seen the UK-based furniture retailer DFS take space in the country's premier retail park, The Park Carrickmines (located in the Dublin suburb of the same name), which leaves that scheme fully occupied and with rents coming closer to their pre-crisis highs.

IT WOULD BE WRONG TO EXAGGERATE THE RETAIL RECOVERY BUT WHERE IT IS GOOD IT IS VERY GOOD

COULD DUNDRUM BE A GAME-CHANGER?

Ireland's number one shopping mall, Dundrum, has hit the headlines lately, as news has emerged of a potential plan by NAMA (which is the government's work-out vehicle for distressed property loans), to place it on the market.

Such a blockbuster transaction – expected to top €1 billion – would be a game-changer for the Irish retail investment sector since it would surely attract the most powerful players in the world, including sovereign wealth funds boosting the profile of Irish retailing immeasurably.

Meanwhile the new investors brought into the market by the recent upswing are already making their presence felt by unleashing a wave of asset management initiatives within their newly-acquired schemes. Again, this can only be of benefit to the sector as a whole – Ireland is not in need of significant additional retail space but the new ways of thinking and efforts to maximise trading potential will give retailers an important boost as they look to consolidate their recovery and tackle challenges such as multichannel retailing in the years ahead.

KEY TRENDS IDENTIFIED:
Retail investment market transformed in the past 12 months; prime Grafton Street subject to intense retailer interest; potential Dundrum asset sale could be a game-changer

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MOROCCO

A GOOD YEAR ECONOMICALLY FOR MOROCCO HAS BEEN DRIVEN PRIMARILY BY THE AGRICULTURAL SECTOR, BUT WITH THE INDUSTRIAL AND SERVICES SECTORS STILL WAITING FOR AN UPTURN, THE GDP GROWTH HAS NOT REALLY TRANSLATED TO INCREASED CONSUMER CONFIDENCE.

Reports from the retail community indicate that sales turnover is set to decline slightly in 2014. However, the good news is that modern retail can now be said to have properly taken hold in Morocco, with shopping habits being influenced by the new malls that have been completed in the past few years.

Casablanca, the economic capital of the Kingdom, has gathered the most important supply of new malls to date, with both Morocco Mall and Anfaplace Shopping Center enjoying high occupancy rates.

One area that has still to settle down is retail leasing, and specifically retail rents. Experience has demonstrated that many of the rents negotiated for the initial wave of modern shopping centres are unsustainable for retailers. Many brands are now getting in touch with their landlords to renegotiate their rents.

The street retail environment is lacking the range of suitable premises for modern retail. The available spaces in prime locations are rented/sold at very high prices, making it more difficult for brands to develop in these areas.

KEY RETAIL GROUPS ADOPT DIVERGENT APPROACHES

Many retail brands use a franchise partner when considering the Moroccan market. The four most prominent groups in this field are Groupe Aksal, Fawaz AlHokair, Al Shaya and Label'Vie, and they have adopted very different strategies for the next stages of their development.

For example, Groupe Aksal has committed much of its resources in Morocco Mall, which is the largest shopping centre in Africa. This has resulted in it being less able to commit resources to the rest of the market, with some smaller development projects mothballed for the foreseeable future.

Label'Vie, by contrast, is looking at diversification rather than consolidation around a blockbuster scheme. Its brand portfolio includes Carrefour, Kiabi and Burger King and it is looking at smaller markets outside the main cities.

Among the other retail brands, we have seen Turkey's LC Waikiki consolidate its successful start to trading in Morocco by opening a second store in Marrakesh, with a third opening planned in Morocco Mall. The brand is also seeking to expand elsewhere in the country. Two new aspirational fashion arrivals from France are also noteworthy. Both The Kooples and Sandro have opted to enter the street retail environment in Casablanca.

Looking ahead, we will shortly see the first Body Shop store open in Anfaplace Shopping Center, with Lufian another retailer that has signalled its impending arrival in 2015.

The most significant new entrants to Morocco's retail sector from a longer term perspective are the big Middle Eastern retail groups Fawaz AlHokair and Al Shaya. Both have declared an ambition to develop store portfolios across the country, although space constraints have hampered their efforts to date.

ZENATA PROJECT SECURES FIRST IKEA IN MOROCCO

In *ShopFront 2013/14* we mentioned a new project to create a major mixed-use scheme in an undeveloped area of land between the cities of Casablanca and Rabat. The Zenata project has made good progress since, not least by signing up IKEA for its first Moroccan store.

Rabat itself is becoming a dynamic retail marketplace, with two significant malls currently under development: the 45,000 sq m Arribat Center and the 18,000 sq m Ryad Square. In Casablanca, the main pipeline scheme is the 41,000 sq m Casamarina, which is planned to have both a covered mall and uncovered retail element. Tanger, meanwhile, has the 25,000 sq m Socco Alto and the 30,000 sq m Tanger City Center in its pipeline.

Last but by no means least we can also report on a hugely significant investment transaction. In what is Morocco's first major retail asset sale, the South African investment group Delta Property Fund has purchased Anfaplace Shopping Center for its pan-African investment fund. We believe this landmark transaction will open the eyes of other international investors to the potential of prime retail real estate in Morocco, ultimately bringing more liquidity and transparency – as well as more experience and professionalism – to the market.

MANY BRANDS ARE CONTACTING THEIR LANDLORDS TO NEGOTIATE THEIR RENTS

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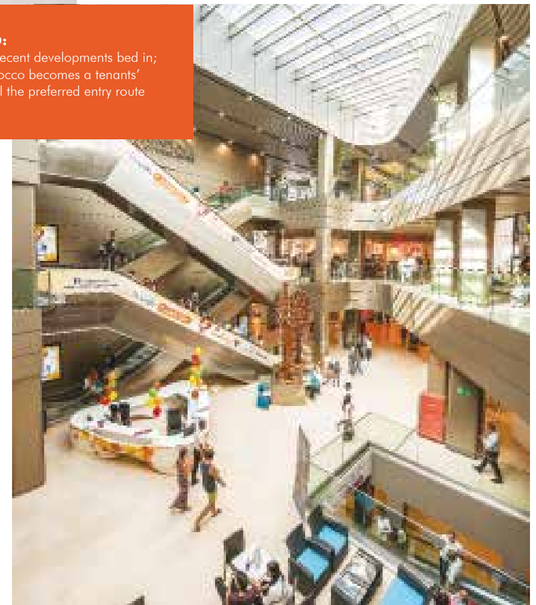
KEY TRENDS IDENTIFIED:
Modern retail takes hold as recent developments bed in; Rents under pressure as Morocco becomes a tenants' market; Franchise partner still the preferred entry route for retail brands



GREECE

KEY TRENDS IDENTIFIED:
Booming tourism partially offsets domestic difficulties; international investors make tentative return to real estate market; development pipeline sparking into life

THE WORDS 'BOOM' AND 'GREECE' HAVE NOT BEEN UTTERED TOGETHER FOR SOME TIME, BUT THE COUNTRY'S THRIVING TOURISM INDUSTRY IS CERTAINLY HELPING TO BRING BACK THE GOOD TIMES TO AREAS OF THE ECONOMY THAT BENEFIT MOST FROM FOREIGN VISITORS – INCLUDING RETAILERS.

While domestically unpopular, the Greek government's willingness to meet the requirements of its EU creditors has created an atmosphere of stability missing in other southern Mediterranean tourism hotspots. The result has been record numbers of international holidaymakers, including a growing number visiting from China, assisted by an easing of the visa process and the introduction of a direct flight from Beijing. Tourism growth is not just centred on traditional beach resorts, either: the capital, Athens, has recorded visitor numbers up 40% year-on-year and the city of Thessaloniki is also doing well.

We are seeing growing numbers of international investors returning to the real estate markets, notably REITS and private investors on the lookout for property portfolios at distressed prices. However, there are few real bargains about, since the banks remain wary of placing undue pressure on their borrowers and thus triggering auctions, with most assets being more classic recovery plays based on redevelopment or profiting from organic improvements.

DOMESTIC PAIN SHADOWS TOURISM GAIN

Amid all this good news it would be wrong to overlook the suffering among Greek households as they come to terms with the continuing austerity regime. In *ShopFront 2013/14* we mentioned the introduction of new taxation programmes; the property tax in particular has had a major impact on household budgets as it is not pegged to incomes and is thus something of a blunt instrument.

Changes to leasing market legislation, also trailed in *ShopFront* last year, have been received more positively, since they represent the undoing of several erroneous state interventions in the market. In fact, outside of a new minimum term period of three years the legislation puts lease negotiations back in the hands of landlords and tenants, a liberalised regime that is most welcome.

The development pipeline is finally coming to life, with two notable projects now underway. The first is a comprehensive redevelopment of the City Gate shopping centre in Thessaloniki, which is set to reopen in the first quarter of 2015 as One Salonika Designer Outlet. The second project is a retail park in the town of Korinthos, which does not yet have a name but is expected to be around 15,000 sq m in size.

Further ahead, we hope to see construction beginning on the site of Athens' former international airport. After a slightly disappointing international tender, a lack of serious overseas bids left the way clear for a local group to take the site; it hopes to build a mixed-use scheme including a shopping centre, hotel and residential units over a five to ten year timeframe.

Among the retailers, H&M remains the brand most committed to expansion, with plans for around 10 new store openings a year. Rival fashion brand Mango is understood to be looking for bigger and better spaces as it plans a significant store format upgrade, along with the rollout of sub-brands Violeta and Mango HE.

H&M REMAINS THE BRAND MOST COMMITTED TO EXPANSION

Elsewhere, Denmark's Tiger continues to build its presence in Greece, with the brand's local operator also having entered the Cypriot market. Nespresso has opened a flagship boutique in Athens' Kolonaki area, a hot retail market due to the presence of the city's principal Apple store. Looking ahead, the market eagerly awaits the outcome of an open tender for a flagship store space in Athens' prime high street location, Ermou. This could trigger a significant upscaling of a retailer's existing presence or even bring a new name into the market.

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AN INCREASE IN RETAIL SALES IN THE SECOND QUARTER OF 2014 MARKED A WELCOME STEP FORWARDS AFTER A YEAR IN THE DOLDRUMS; THE BROADER CZECH ECONOMY ALSO APPEARS TO BE REVIVING, WITH GDP GROWTH OF 2.8% EXPECTED IN 2015.

How much of this can be attributed to the government's decision to devalue the Czech crown by 10% (a plan executed by the central bank in November 2013) is open to question. The policy has a stated aim to stimulate inflation and retail spending, and the central bank has announced an intention to persist with it into 2015.

Overall, market sentiment seems more positive going into 2015, with the banks doing their bit by loosening the purse-strings for retail related projects. However, prudence is still the watchword given the recent instability in the central European region.

CZECH CONSUMERS SEEKING SOMETHING SPECIAL

One of the notable retail trends of the past year or so is the growing appetite among consumers for service-based and specialised retail concepts. Of the former, we would cite the increasing popularity of children's indoor play centres, complete with family restaurants and other facilities, which are cropping up in many locations. We have also seen an interesting 'wellness concept' open its doors in Prague: Saunia promises customers around 10 different kinds of sauna and its owner is already planning to open a second branch in 2015. In specialist retail the prime movers have been pop-up farmers' stores, offering organic foodstuffs to the more affluent shopper. Most are independent and localised but one brand – Grunt – is building a national presence.

Another intriguing trend is the establishment of physical store estates by previously online-only retailers. This has gathered momentum since we mentioned it in *ShopFront* last year; indeed the leading proponent, Alza.cz, can now boast around 40 brick and mortar stores.

From a real estate market perspective such expansion provides challenges as well as opportunities. The online groups – others include Mall.cz and Parfums.cz – have refused to incorporate any kind of turnover element into their store leases, arguing that such clauses are inappropriate to their business models. This has created a two-tier market, given that established 'physical' retailers incorporating click and collect operations are being required to include online sales in their turnover-based rent calculations. Rectifying this anomaly will ultimately require the development of new lease structures, the progress towards which will be keenly watched by all in the industry.

In terms of retailer activity, we can report a healthy flow of new international arrivals to the market in the form of Jimmy Choo, Tods, Michael Kors, French Connection, Pepco, Wojas, La Martina, Peak Performance and Sizeer. Two Polish retail groups, CCC and LPP Group, have been on the expansion trail, while Marks & Spencer expects to open more of its food-only stores, though not outside Prague.

MARKET SENTIMENT SEEMS MORE POSITIVE GOING INTO 2015

CZECH REPUBLIC

KEY TRENDS IDENTIFIED:
Optimism returning to retail market; consumers show growing appetite for specialised retail concepts; shopping centre owners focus on asset management

ASSET MANAGEMENT THE FOCUS FOR SHOPPING CENTRE OWNERS

The 50,000 sq m Galerie Šantovka in the city of Olomouc represents the most important new shopping centre to open in the past 12 months. Looking ahead, we see very limited potential for large-scale shopping centre development in the short to medium term, given the relatively high saturation of retail stock across the country. Instead, owners will continue to focus on getting the most from their existing schemes through extensions, revamps and repositionings.

Among them is Unibail-Rodamco, which is following up its successful project to revamp the Černý Most scheme with a new effort to extend and revitalise Centrum Chodov, also in Prague. This gets underway in 2015 and should be completed in 2017. Meanwhile, Klépierre has finished the refurbishment of its Nový Smíchov centre in Prague, which now offers a refreshed tenant mix and improved facilities.

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MEXICO

A SURGE IN CONSTRUCTION OF HIGH QUALITY SHOPPING MALLS AND NEW EMPLOYMENT OPPORTUNITIES FOR MEXICANS PROMISE HAPPY TIMES AHEAD FOR THE NATION'S RETAILERS.

KEY TRENDS IDENTIFIED:
Buoyant economic prospects boost retail sector; large pipeline of new shopping mall development; institutions taking control of retail assets

The Mexican economy is reaping the benefits of government initiatives to attract foreign investment. This has proven especially successful with regard to the car industry, where Mexico has become a key manufacturing site for numerous companies. Three more plants have been announced, for Kia, BMW and Audi, each bringing both their own job opportunities as well as further ones within the national supply chain.

Now the government is hoping to pull off a similar trick with the energy industry, opening up to foreign investment after 76 years of state monopoly control. The government hopes this move will boost oil output from the present 2.3 million barrels per day, and it is sure to provide significant commercial and employment opportunities in the regions around the Gulf of Mexico.

RETAIL REAL ESTATE BECOMES 'INSTITUTIONALISED'

If these economic developments are one source of good news for the retail industry, another positive trend is the evolution of the real estate sector towards more professional, institutional ownership.

In the 1980s and 1990s many of the retail schemes were developed and owned by private individuals and family groups. Now we are seeing the funds and institutions taking over a growing number of these assets, bringing with them larger capital bases and more cutting edge management strategies. For example, during the past 24 months Mexico's leading REIT, Fibra Uno, has purchased more than 100 shopping centres and retail portfolios.

Mexico City's top five malls are all undergoing redevelopments and extensions at present. This may at last unblock the bottleneck which has been holding back retailer entry and expansion programmes. Such is the demand for these malls they have had to operate waiting lists, particularly for space in the pivotal 500 sq m to 1,000 sq m range.

Across the country an even bigger story concerns the tidal wave of new mall construction, which between now and the end of 2015 should see around 1 million sq m of new space delivered.

A good proportion of this is in the Bajio region in the centre of Mexico, which is booming due to the growth of aerospace and car manufacturing industries. The three biggest projects under construction (each above 100,000 sq m GLA) are Parque Toreo to the north of Mexico City, Oasis Shopping Center in Coyoacan to the south of Mexico City, and Via Vallejo in the Azcapotzalco neighbourhood also to the north of the capital. Other hot areas besides Mexico City include Monterrey, Guadalajara and Puebla.

MEXICO CITY GOES BIKE-MAD

One of the more striking trends in Mexico's capital is the rapid growth of cycling. A government-backed cycle hire scheme in certain neighbourhoods has helped, but city residents are also keen to have their own bikes, so a number of specialist shops have sprung up to import the sleek Italian and American machines they desire.

In terms of other retail innovations, the US electronics brand Best Buy is currently rolling out small (100-200 sq m) 'Express' format stores in high footfall locations, with a view to facilitating collection of goods bought online as well as stocking a selection of the hottest current products for immediate purchase. We expect to see more brands launching similar small formats of this type, which could lead to intense competition for space in high footfall zones.

Elsewhere, some of the most active brands are the fast fashion champions such as H&M, Forever 21 and Mango, all of which are using their customer pull to secure larger units (c.1,500-3,000 sq m) in new and extending malls. The anchor department stores, in particular Liverpool and El Palacio de Hierro, are also opening in new cities as retail developments launch there.

MASARYK STILL THE MAGNET FOR LUXURY BRANDS

Mexico City's Avenida Presidente Masaryk is currently undergoing a makeover that should enhance its status as the country's dominant luxury shopping area. A host of new luxury brands – including Bally, Prada and Yves Saint Laurent – have arrived or are due to arrive by early 2015, further improving the tenant mixture.

With the two significant recent development projects on the street now completed and leased, Masaryk has returned to its more usual, space constrained state. In the medium term, however, it will be interesting to gauge the effect of El Palacio de Hierro's Molière 222 project (mentioned in *ShopFront* last year), and in particular whether it succeeds in luring brands from Masaryk into the flagship units it is creating. If nothing else, it seems certain to challenge Masaryk landlords to offer some better conditions to their tenants.

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MEXICO CITY'S TOP FIVE MALLS ARE UNDERGOING REDEVELOPMENT

CROATIA

ECONOMIC GROWTH MAY STILL BE FRUSTRATINGLY OUT OF REACH, BUT WITH FAVOURABLE LEASE TERMS READILY AVAILABLE, RETAILERS ARE STILL KEEN TO DO BUSINESS IN CROATIA.

With national elections looming, it would be unwise to expect the incumbent government to begin taking the necessary steps to set the economy back on the right track. As such, we expect 2015 to follow a similar pattern to the present year, with GDP still hovering in slightly negative territory and the retail leasing market tilted very firmly in favour of the tenants.

Among the international groups taking advantage of tenants' strong bargaining positions is Poland's ambitious LPP Group. It is rolling out its entire stable of house brands, securing concessions such as full fit-out contributions and turnover-only rents which have not hitherto been made available to new entrants with no track record in the country.

The year has also been notable for the opening of first stores for two big box specialists whose entry has been much anticipated: IKEA and Decathlon. The former's arrival in Zagreb's Ivanja Reka district became quite a big news story in its own right, with the country's President Ivo Josipović taking part in the launch event.

Elsewhere in the big box retail sector, things have not been quite so positive among the DIY/homewares operators. We've seen two brands, Bricostore and bauMax, exit the market altogether, while the Kika chain of furniture stores has been taken over by the South African Steinhoff Group, a move it hopes will give it the wherewithal to compete against IKEA.

AGROKOR TAKES CONTROL

Probably the biggest retail story of the year concerns the takeover by Croatia's biggest company, Agrokor, of the Slovenian supermarket chain Mercator. The transaction means Agrokor is now by far the largest supermarket operator in the region, given that it already owns the leading Konzum chain.

Other domestic groups making waves include Metropolitan Group, which has a number of retail and food and beverage interests across the country including the popular Leggeiro chain of coffee bars. It is looking to expand its successful chain of Galileo menswear shops, as well as a shopping centre-based 'show cooking' concept that features Asian, Italian and Tex-Mex cuisine.

Among the international brands, we have seen Mango take direct control of its Croatian operations (having formerly worked through a franchise partner) and begin rolling out larger store formats for Mango, Mango Kids and Mango HE. Meanwhile, the difficulties at franchise operator Sportina Group have resulted in several other brands switching to direct activity, among them Tom Taylor and Tally Weijl.

The final international names to note are toy company LEGO and adventure wear specialist Napapijri. Both have launched their first Croatian monobrand stores, which represent welcome additions to the retail landscape.

MALL OF SPLIT NEARING COMPLETION

A relatively thin development pipeline is dominated by the 60,000 sq m Mall of Split, due to open in Croatia's second city in April 2015. This scheme, developed by ECE of Germany and owned by a group of German investors, has attracted a host of major international brands, including what will be the first full Inditex Group concept (i.e. all brands together) in Split.

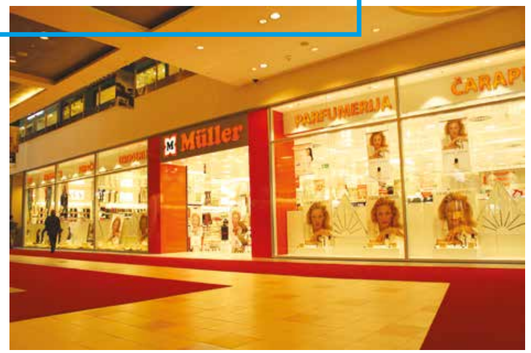
Looking back, spring 2014 saw the relaunch of the Lumini mall in Varaždin, to the south of Zagreb. This much-delayed project has seen 30,000 sq m of retail space added to the existing hypermarket and cinema. It represents the only noteworthy new opening this year.

The existing major malls are all working hard to keep themselves relevant in the eyes of consumers, particularly in the saturated market of Zagreb. Perhaps the most active is the city's biggest scheme, the 100,000 sq m Westgate Shopping City. It was one of the pioneers of offering free bus transportation to shoppers, has run a series of events including wedding fairs and motor shows, and boasts Croatia's largest indoor kids' playground, which can be accessed free of charge. We expect such initiatives to become increasingly common as malls fight the threat of online shopping.

In the high street environment, we've seen the previously vacant units in Ilica, Zagreb's main shopping street, snapped up as brands such as Intimissimi and Calzedonia seek to create a street-level presence. This important part of the city's retail landscape has also been improved by the revamp of the Terranova store, augmented by the opening of a new Swarovski Crystal store opposite, which has greatly enhanced the visual appeal of that busy corner.

KEY TRENDS IDENTIFIED:
Economy treading water but favourable leasing conditions tempt retailers; Long-awaited IKEA launch creates splash; Mall of Split set to be next major opening

MALLS ARE FIGHTING THE THREAT OF ONLINE SHOPPING



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CANADA

MANY OF THE SOUND ECONOMIC FUNDAMENTALS THAT HAVE UNDERPINNED CANADIAN RETAIL PERFORMANCE IN RECENT YEARS CAN STILL BE SEEN IN 2014, ALTHOUGH THE MARKET HAS BECOME A LITTLE MORE UNCERTAIN IN THE FACE OF LACKLUSTRE JOB GROWTH AND OTHER SOMEWHAT MIXED INDICATORS.

In the first half of 2014 retail (excluding cars, car parts and fuel) sales grew at their fastest pace since 2010, some 3.2% year-on-year. However, the increase is being driven predominantly outside of shopping centres. Canada's malls reported sales growth of 0.5% in the first half of 2014, something we believe is due in large part to the high volume of redevelopments currently taking place in the big regional malls. Consumers could be shunning these construction sites in favour of alternative channels, although there's no reason to doubt that shoppers will be lured back when the new and improved facilities open.

One alternative channel that is becoming ever more disruptive in Canada is online shopping, where sales volumes are predicted to reach C$34 billion per year by 2018, with internet shopping accounting for 10% of the total market by 2020. Amazon is expanding rapidly in this market while online retailer Warby Parker is busily adding a bricks and mortar channel to its online one, emphasising the importance of the omnichannel approach.

WE ARE WITNESSING A REVOLUTION IN 'MULTIMODAL' SHOPPING

At the same time, conventional bricks and mortar retailers are also adopting omnichannel business models to both secure online sales and drive physical store sales by adding depth and convenience to the customer relationship. An example of the latter is Walmart's deployment of Grab & Go pickup lockers in 10 supercentres across southern Ontario.

The online customer relationship is fast becoming a key differentiator for retailers. Nowhere is this truer than in the fashion segment, where the highly-developed online and social media strategies of brands from Europe and the United States have provided a jarring wake-up call to domestic players.

We are also witnessing a revolution in 'multimodal' shopping, whereby retailers are striving to eliminate the barriers between different platforms (i.e. phones, tablets, mobile wallets) to give consumers a seamless buying experience. This is especially important for retailers operating in the more youth-oriented segments – recent examples include the launch of Apple Pay and Twitter's 'buy button'.

US RETAIL GIANTS HEAD NORTH

The big news in Canada's retail market concerns the arrival – and imminent arrival – of two major department store players from the US. Fresh from shaking up its home market, Nordstrom opened its first Canadian store in Calgary's Chinook Centre in September 2014. Further stores in Ottawa and Vancouver are expected in 2015 and by Autumn 2016 it will have opened three more stores, all in Toronto and including a presence in the city's prime Yorkdale shopping centre.

KEY TRENDS IDENTIFIED:
Economic fundamentals remain sound; shopping mall sales temporarily impacted by wave of redevelopment; US department store giants take the plunge

Saks, meanwhile, is concentrating its efforts in Toronto to begin with, moving into a 150,000 sq ft space in the current Hudson's Bay store on Queen Street, while a second store will replace Sears at Sherway Gardens. Both should be open before the end of 2015.

The impact on the market can already be felt. We've seen direct competitors at the mid-to-high end, including Holts, The Bay and Simons, all stepping up their product offering, while the weaker players such as Sears and Jacob have struggled to keep up.

Another important international arrival is Uniqlo, which has concluded a transaction on a 30,000-35,000 sq ft two-level premises in Yorkdale while also agreeing to take space in Toronto's largest mall, Eaton Centre. We would expect other markets on Uniqlo's radar to include Vancouver, Montreal, Edmonton, Calgary, Ottawa and Winnipeg.

One hugely popular domestic brand which is little-known outside North America is Tim Hortons, the fast food chain founded by the successful ice hockey player of the same name. It has been the subject of a major corporate move in 2014, having been acquired by Burger King for US$11.4 billion. The chain has since announced a 500 store rollout plan and an upgraded menu, in a bid to compete head-on with rivals such as Starbucks and Aroma in suburban and rural markets.

The retailer most likely be in the spotlight in the coming year, however, is Target. The US group has been seen as something of a textbook case in how not to go about entering the Canadian market. Now its efforts to recover are being scrutinised very closely by Canadian and US retailers alike. The outcome is certain to have a significant influence on the cross-border ambitions of other US groups in the coming years.

SHOPPING CENTRE OWNERS SEEK RENEWAL

As mentioned, the redevelopment and extension of established shopping malls has taken precedence in the minds of owners and investors. With no new malls in the pipeline for the coming years and much of the existing inventory more than 20 years old, these are timely moves in the face of growing online competition.

Elsewhere, the development sector is focusing on power centres (unenclosed retail parks), of which there are currently 15 under construction, a few of these being extensions. Outlet centres are also gaining traction: construction in this area represents 9.3% of the total, with the recent opening of The Outlet Collection at Niagara and the impending completion of the Premium Outlets Montreal, means outlet-style shopping will be available in four of the six major Canadian markets from 2015.

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TIM HORTONS, A CHAIN LITTLE-KNOWN OUTSIDE OF NORTH AMERICA, HAS ANNOUNCED A 500 STORE ROLLOUT PLAN TO COMPETE WITH RIVALS LIKE STARBUCKS

ROMANIA

AFTER POSTING THE EASTERN EUROPEAN REGION'S HIGHEST GDP INCREASE IN 2013 (3.5%), ROMANIA'S ECONOMY HAS CONTINUED TO PERFORM SOLIDLY IN 2014, WITH FULL-YEAR GDP GROWTH FORECAST AT BETWEEN 2.5% AND 3%. THANKFULLY, THE DIFFICULT POST-FINANCIAL CRISIS YEARS FROM 2009-2012 ARE NOW FAST BECOMING FADING MEMORIES.

KEY TRENDS IDENTIFIED:
Improving consumer sentiment sees spike in sales of home improvement and electrical goods; anchor brands call the shots in leasing market; orime malls and neighbourhood retail parks set to be dominant retail environments

As consumer sentiment improves, Romanian shoppers finally feel emboldened to spend in areas such as home improvement, furniture and electrical goods, all of which suffered most during the downturn. As a result, these segments have all recorded double-digit sales growth during the past 12 months.

Among the prime beneficiaries is the domestic DIY market leader Dedeman, although the UK's Kingfisher Group looks to have timed its market intervention well. It's takeover of French retailer Group Bresson has given it ownership of 15 Bricostore DIY stores in Romania. These are currently being converted to the company's Brico Dépôt fascia.

Elsewhere, trading is a little tougher. For example, in the grocery segment consumers have become intensely value-conscious, selecting their supermarket or hypermarket destination first and foremost on the prices offered. In fashion, sales are roughly the same year-on-year, although this segment still accounts for some of the most strident retailer activity, especially among the ambitious fast fashion brands such as H&M, C&A and the Inditex Group.

New arrivals to the Romanian market in 2014 have included Brooks Brothers, Harmont & Blaine, plus additional fashion labels belonging to Poland's ambitious LPP Group, notably Mohito and Sinsay. The market also keenly anticipates the debuts of Primark and Topshop, both of whom are believed to be analysing the market's potential.

KEY TENANTS CALL THE SHOTS

Retail leasing is broadly a tenants' market, but as is often the case there are plenty of nuances. For example, the top shopping centres in Bucharest and other major cities have waiting lists of retailers seeking space, but nonetheless a key anchor brand can still more or less dictate its terms when it comes to aspects such as fit-out costs and rent-free periods. In some poorer secondary and tertiary areas we see a 50% differential in sales and rental performance compared with prime, a gap which landlords are having difficulty narrowing.

Looking ahead, we predict a polarisation in the retail sector, whereby the strongest performance will come from the modern, third generation shopping malls offering a rich mix of retail and entertainment, but also the mid-sized neighbourhood retail parks that offer a winning combination of value pricing and convenience. The latter additionally benefit from being relatively easy to finance and build, so longer term development activity seems certain to focus on this type of asset.

We do not further expect any major shopping centre openings in 2014; however, there are four important projects underway for delivery in 2015/16. Two of these are earmarked for Bucharest, namely the ParkLake (by Sonae Sierra) and Mega Mall (by NEPI). Both are expected to offer around 70,000 sq m of selling space within high specification buildings.

We expect the Coresi Shopping Resort project in the city of Brașov to be delivered in 2015. This scheme, by developer Immochan, is a hybrid shopping centre/retail park with a likely emphasis on good food and beverage offer. Finally, the 50,000 sq m Timisoara Shopping City represents another project conceived by the highly active South African investment fund NEPI.

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ROMANIAN SHOPPERS FINALLY FEEL EMBOLDENED TO SPEND

KAZAKHSTAN

MUCH OF THE REAL ESTATE ACTIVITY IN KAZAKHSTAN CONTINUES TO BE CENTRED ON ASTANA, AS INVESTORS SEEK TO DEVELOP INFRASTRUCTURE SUITED TO ITS ROLE AS NATIONAL CAPITAL AND IN PREPARATION FOR ITS HOSTING OF EXPO 2017.

KEY TRENDS IDENTIFIED:
Astana gears up for Expo 2017; major new mall opens in Almaty; no major international brands arriving in 2014

The Expo represents an important coup for Kazakhstan, as it is the first time a major international exhibition is coming to a country of the former Soviet Union. With its theme of 'Future Energy' we expect it to attract a good deal of overseas interest and investment.

One overseas investor that has already made an ambitious entry to Astana is the Vietnamese group Sovico Holding. It has acquired a centrally-located 86 hectare site on the left bank of the Ishim River, in which it plans to build a mixed use development incorporating residential and business space plus a range of community facilities including a school, three kindergartens and locally-focused retail. This major project is about to get under way and is scheduled for completion in 2016.

Though the former capital, Almaty, is unlikely to see anywhere near as much development activity in the coming years, it is home to the most important shopping centre opening of 2014. The 125,000 sq m Dostyk Plaza enjoys a good location and has started trading with few vacancies. It is a project of domestic group, TS Development.

WE EXPECT KAZAKHSTAN TO ATTRACT A GOOD DEAL OF OVERSEAS INVESTORS

INTERNATIONAL RETAILERS STILL TENTATIVE

As was the case in 2013, the Kazakh market has seen very little in the way of new retail brands from overseas arriving this year. Of those brands already in the market, among the more active has been M.A.C. Cosmetics, which has opened stores in Almaty's MEGA and Dostyk Plaza malls, with further units due to open in Astana by the end of this year.

In addition, LC Waikiki of Turkey has enjoyed a very strong start in Kazakhstan, which has prompted it to open a second floor to its store in Astana. And the Inditex Group continues to seek appropriate spaces for its range of brands, including Zara and Bershka.

In the future, we should see more opportunities for high end brands to land in Astana when a new luxury-focused mall by the country's top developer, Verny Capital, is completed. This is expected to become the first environmentally friendly building in the city.

The other significant pipeline developments are also in Astana. The first is the mixed-use Abu Dhabi Plaza project, which will be located in the centre of the city and will incorporate residential, business, hotel and shopping centre elements. It is expected to be delivered in late 2016 or early 2017. The second project does not yet have a working name but it is expected to be around 160,000 sq m in size and is located close to the area set aside for the Expo.

Outside the two biggest cities, only the third city of Shymkent to the south of the country (close to Almaty) offers a plausible opportunity for retail-related activity at present. This may change in future, but from now until Expo (and likely beyond) Astana is very much target in the sights of global investors.

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HUNGARY

FOR SO LONG SEEN AS THE POOR RELATION OF THE MORE VIBRANT CEE MARKETS SUCH AS POLAND AND THE CZECH REPUBLIC, HUNGARY IS NOW EMERGING FROM THE SHADOWS AND CONFOUNDING EXPECTATIONS ALONG THE WAY.

The Hungarian economy in fact ranks at the top of the list when it comes to actual economic performance in 2014 versus estimates made at the start of the year. We expect full-year GDP growth of some 3.5% (against predictions of 2.1%), while retail sales are also forecast to achieve a 5.2% increase this year.

One of the key contributors to these improved numbers is tourism, which continues to show strong growth (in the region of 10% per annum) as the rest of the world wakes up to the many attractions of Budapest as a destination.

The capital city is getting quite a makeover, with new green spaces and refurbished public squares all adding to the appeal. The new 'bohemian' quarter that has sprung up in District VII – which we highlighted in *ShopFront* last year – goes from strength to strength, with scores of young and trendy concepts in both retail and food and beverage being set up. Many of these are taking advantage of support from the city authority, which has launched a scheme offering a year's rent-free accommodation to retail startups.

THE CAPITAL CITY IS GETTING QUITE A MAKEOVER

SHOPPING CENTRES: TIME FOR ACTION

It's not just Budapest which is getting some much-needed investment. Hungary's shopping centre stock is being transformed, with investors returning to the market in droves and the concept of active asset management now becoming firmly embedded.

One of the principal reasons is an acute shortage of viable new developments in the pipeline. The years of recession had a profound impact on the retail leasing market, with the result that rents for key anchor brands are now so low (and inducements so costly) that securing necessary financing for a new project is extremely difficult.

This has created a huge opportunity for existing malls, many of which were built 10 years or more ago and are thus ripe for concerted refurbishment and asset management programmes.

We have already seen the impact of such initiatives in two of the country's leading malls. The market leader, Arena Plaza in Budapest, has actively managed both its tenant mix and the range of retail formats on offer, creating larger spaces on two levels for both Zara and H&M in a bid to revitalise its first floor. The rival West End City Center has maintained its strong position by reducing common areas, improving its public spaces and creating additional large format units, which were missing when the centre opened in 1999.

CBRE Hungary has also made strides into the shopping centre management sector by securing the contract to run two schemes: Pólus Center and Campora. Pólus in particular is already benefiting from a more creative asset management approach, with major refurbishment of the dated common areas and creating a strip mall with new mid-sized anchors in space taken from a downsized MediaMarkt store.

POLAND LEADS THE INTERNATIONAL RETAILER INFLUX

Though they are by no means the only new or active names in the market, Polish retailers have been investing in Hungary with relish in recent years. Probably the most striking example is shoe retailer CCC, which has opened some 80 stores over the past 24 months. We also expect to see a growing representation of LPP Group, which has one Mohito and five reserved stores established at present. Kazar Footwear is another Polish name expected to enter; while Pepco may well be the most active new brand in the coming year, as it expects to open around 20 stores in one swoop in a bid to create instant critical mass.

Luxury and aspirational brands continue to be attracted to the premier shopping street, Andràssy Avenue. An upscale Office Shoes opened this autumn, while Polo Ralph Lauren has agreed terms to establish its regional flagship there, while names such as Michael Kors, Agent Provocateur and Versace appear poised to land.

The final trend to note has been the decision of several retailers to cancel franchise agreements in favour of directly-operated stores. Among the brands treading this path are Helly Hansen, Lacoste and Samsonite.

HUNGARY'S SHOPPING CENTRE STOCK IS BEING TRANSFORMED

KEY TRENDS IDENTIFIED:
Hungarian economic performance confounds expectations; shopping centres receiving renewed investment; polish retailers the most active in the search for space

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KEY TRENDS IDENTIFIED:
Political turmoil hampers foreign investment; oversupply results in a clear tenants' market; international retail brands wait in the wings for stability to return

BULGARIA

A DIFFICULT YEAR POLITICALLY FOR BULGARIA CULMINATED IN THE SHOCK RESIGNATION OF THE GOVERNMENT IN JULY. THIS, COUPLED WITH A DOMESTIC BANKING CRISIS, HAS SERVED TO STIFLE OVERSEAS INVESTMENT IN ALL SECTORS, INCLUDING RETAIL.

With a fresh general election having taken place as *ShopFront* went to press, it is to be hoped that this results in a more settled and investor friendly environment in the years ahead. The same, of course, is also true from a purely domestic perspective, where we look forward to a pick-up in consumer confidence and retail spending which has been held back by negative sentiment.

The retail real estate market has thus become tilted very much in favour of tenants, particularly the strongest and most sought-after brands. Here it is not uncommon to see landlords committing to fit-out contributions of €400-€450 per sq m as well as turnover-only rents, while even some less attractive brands will often be able to secure initial rent-free periods.

SOFIA SCHEMES BATTLE FOR TENANTS

The somewhat saturated market – particularly in Sofia – is partly to blame. The capital's shopping centre environment is now highly competitive, with two further projects joining the fray in 2014. The first is the 25,000 sq m Megamall, which is owned by the Austrian developer Real 4 You but managed by German shopping centre specialist ECE. It is situated in the well-populated district of Lyulin and is sure to put pressure on its near neighbour, Mall of Sofia.

Elsewhere in the capital, the 68,000 sq m Sofia South Ring Mall is expected to be open before the end of 2014, containing the first Bulgarian store belonging to the Greek department store chain Notos Galleries.

The injection of new space will do little to bring down the retail vacancy rate in Sofia. Official reports put this at around 10% but the 'real' figure could be higher when 'shadow vacancy' is taken into account. This term incorporates premises occupied by 'zombie' retailers, which are retained on a rent-free basis to prevent them falling empty; also leases signed with shell companies that could be dissolved at any time.

As is common in the real estate sector, where some see difficulty, others see opportunity. An example is Bulgaria's first modern-era shopping centre, City Centre Sofia, which opened in 2006 but was recently repossessed by its banks. The scheme has since been picked up by a distressed real estate turnaround specialist, Revetas Capital, which is attracted by its ideal location and undaunted by the level of investment that will be required to bring it up to the latest standards.

BLACK FRIDAY COMES TO BULGARIA

Although not innovative in global terms, the Black Friday discount promotion introduced by Technomarket, one of Bulgaria's 'big two' electronics retailers, was both a first for this market and a massive success, with the shelves being cleared by eager bargain hunters. Technomarket followed up with another tactical promotion, offering 12% off everything in store for a week, and we expect more of these hard-sell promotions from other retailers in the future.

The owners of Technomarket's big rival, Technopolis, have been more active at corporate level, acquiring the Bulgarian DIY business of Germany's, now insolvent, Praktiker. Another international retailer to exit the market is Belgium's Delhaize – it has sold its operations, including the Piccadilly grocery chain, to a consortium of local investors. bauMax has also recently sold its store portfolio to a local businessman (the owner of Carpetmax stores).

It's not all one-way traffic, however. As well as the aforementioned Notos we have also seen the Italian lingerie brand Calzedonia open its first store in Paradise Centre. If a period of political and economic stability is on the cards these are far from the only international brands likely to touch down, as we are aware of others waiting in the wings.

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THOUGH NOT ALL OF SERBIA'S ECONOMIC INDICATORS ARE HEADING IN THE RIGHT DIRECTION, RETAIL SALES ARE CONTINUING TO GROW, WITH THE MARKET ATTRACTING INCREASING LEVELS OF OVERSEAS INTEREST AND INVESTMENT.

The new government installed in early 2014 is taking the first steps towards preparing the country for its eventual accession to the EU, something everyone hopes will be accomplished within the next decade. Measures aimed at improving the public finances – cutting public sector wages and pensions – are not popular but will smooth the EU accession process.

In the retail market the biggest headlines were generated by the acquisition of leading local franchisee operator Delta Fashion Serbia by the Saudi Arabian group Fawaz AlHokair. This transaction gives Fawaz AlHokair franchise control of brands including Costa Coffee, Aldo, Monsoon and Accessorize, plus access to neighbouring markets Macedonia, Montenegro and Bosnia as well as Serbia.

SOME BRANDS IN; OTHERS WAITING

A shortage of top quality space has forced a number of potential new entrants from overseas to remain on the side-lines. We know of a number of brands that have been facing real challenges in their searches for suitable new units or expansion options due to the very low vacancy rates in the most attractive retail spots. An example would be H&M, which has opened its first retail park outlet to test performance in this environment. The ambitious Swedish fast fashion chain has also been able to secure a flagship high street premises in Belgrade.

Looking ahead, some retailers interested in the Serbian market include LPP Group, LC Waikiki and Peek & Cloppenburg. We have also seen Croatia's Agrokor acquire a controlling interest in the Slovenian food retailer Mercator, which has extensive operations in Serbia. The newly-enlarged group plans to develop a number of supermarket-anchored neighbourhood retail schemes in Serbia.

Serbia's domestic retail groups are not standing still however. For instance, a few successful lingerie brands are looking at cross-border expansion, while in sporting goods the dominant local player, Sport Vision, has scored quite a coup (subject to regulatory clearance) by acquiring the distribution rights to Nike.

RETAIL PARKS CONTINUE TO LEAD DEVELOPMENT SECTOR

As we mentioned in *ShopFront* last year, the less capital intensive retail parks are often the preferred avenue for developers. In 2014 the new openings have been limited to quite small, neighbourhood style parks, such as the 9,700 sq m Capitol Park in the city of Sabac and the 10,000 sq m Vivo shopping park in Jagodina.

For 2015, highlight schemes include Retail Park One in the Belgrade district of Zemun, a 15,000 sq m project being developed by Israeli investor IBC. Another Israeli concern, Aviv Arion, is preparing its first park in the Belgrade area, in the form of an 11,000 sq m scheme in the Zvezdara municipality. This follows its successful retail park project in Pancevo.

The most ambitious project in Belgrade is the recently presented Belgrade Waterfront, which is a joint effort of the Serbian government and UAE company Eagle Hills. This large infrastructure project has a surface area of approx. 90 hectares, comprising residential buildings, offices, a large shopping mall, schools, parks and gardens and a luxury hotel, all topped by a tower standing 200 metres tall.

If this pipeline seems full, there is certainly scope for additional prime retail space in Serbia. The country's two dominant malls – Delta City and UŠĆE – have tenants queuing up to take any units that become available, enabling them to maintain rents at a €25-€29 per sq m/month level that is high by regional standards.

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KEY TRENDS IDENTIFIED:
Retail sales continue to trend upwards; international brands keen on the market but finding good space difficult to acquire; retail parks the less capital intensive choice for many developers

SERBIA

HOW UNDERSTANDING YOUR RETAILERS' BUSINESSES CAN DRIVE ASSET PERFORMANCE

WITH INVESTMENT TURNOVER PICKING UP ACROSS MANY EMEA MARKETS, SO TOO IS THE IMPETUS TO ADD VALUE TO SHOPPING CENTRE ASSETS. BUT HOW TO SPOT – AND THEN DELIVER – UNREALISED VALUE? CBRE'S HEAD OF INTERNATIONAL VALUATIONS TEAM GRAHAM HUGHES INVESTIGATES…

Whether it is a prime scheme with a net initial yield hovering above 4% or a 'sleeping' secondary asset offering unrealised potential, it should be possible to enhance the value of any shopping centre that falls into these categories through the application of active asset management.

Such techniques seemed to go a little out of fashion in the boom years leading up to the financial crisis, during which ever-appreciating asset prices tended to mask a lack of active management by owners, most notably in some areas of the secondary sector.

Now though, with investment capital more readily available, asset enhancement is firmly back on the agenda. And one of the major topics of conversation among the owner/investor community is how to drive value through a better understanding of affordability ratios among the tenant base – that is, the effort the retailers require to pay their rent, relative to their turnover.

It's not possible to generate these affordability numbers conclusively in every situation, with several countries/asset classes lacking ready availability of data. The most conducive asset types for this approach are where turnover typically forms part – or all – of the rental agreement.

In other cases, such as UK shopping centres, the rent has not traditionally been influenced by turnover, with many landlords preferring to secure guaranteed rents which (combined with typically long lease durations) leave them less dependent on how the tenant actually performs in that space. Equally, the tenants have tended to closely guard their trading performance. Even here, though, things are changing and affordability ratios are coming more into focus.

Ultimately, the more affordability data we can compile the easier it is for investors to benchmark their centres on a segment by segment, or retailer by retailer, basis. Already we can probably say this is allowing for a more thorough approach to rental analysis than has ever been undertaken in the past.

USING AFFORDABILITY RATIOS TO FACILITATE ASSET MANAGEMENT

Where we are able to build up a clear picture of affordability ratios it gives owners and prospective owners an ideal foundation from which to begin the active asset management process. Such activities are of course all-important when it comes to underperforming secondary centres, which by nature have neither the space nor the underlying revenues for the type of grand gestures within the public realm that are commonly found in prime assets.

Drilling down into the financial facts on the ground can also provide greater clues as to the sustainability of rents across the scheme. It can pinpoint the nuances between retail sectors, between floors and even between individual units, so that rental targeting and tenant mix optimisation can be attempted in a more scientific (and thus less 'hit-and-hope') fashion.

And it can help when formulating space revamps and extensions, which are among the key weapons in the armoury of any shopping centre owner seeking to add value. Knowing what some retail brands or segments can afford helps to determine whether to meet a request for an enlarged space or a move to a more prominent spot.

In addition, such transparency can only help to further thaw the working relationship between landlord and tenant, which has become less adversarial but – as my colleague Albert Hoogland argues elsewhere – still has further to go. Knowing how a retailer is performing against the rent they are paying can only help generate a more empathetic and open negotiating process, even though there will always – of course – be an element of horse-trading. This is business, after all.

CAN I AFFORD THAT FOUNTAIN?

It is harder to quantify the impact of the more 'experiential' innovations within a shopping centre. But it's important to try and do this in collaboration with tenants, because ultimately the investment made has to pay off on the bottom line. What will it achieve in dwell times, is it going to enhance your customers' experience, and will it result in more sales turnover in retailers' stores? And of course at what stage (if at all) will you be able to convert this enhanced turnover into additional rent you can get your hands on?

At the end of the day, there are few if any shopping centres that prosper while being good for only landlord or tenant. A successful scheme is good for both sides, and this should be the defining principle in the way these assets are valued, bought and managed now and in the future.

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VIETNAM

VISITING THE 63-STOREY LOTTE TOWER IN HANOI PROVIDES A GLIMPSE OF THE FUTURE

VIETNAMESE CONSUMERS MAY HAVE TIGHTENED THEIR BELTS IN 2014, BUT BY MOST OTHER MEASURES THE COUNTRY REMAINS A HIGHLY ATTRACTIVE PROPOSITION FOR INTERNATIONAL RETAILERS SEEKING TO EXPAND WITHIN SOUTH EAST ASIA.

With annual GDP growth in the region of 5.6% to 5.7% and still trending upwards, plus a stable exchange rate, foreign investors have been greatly encouraged. That said, of late funds have tended to be disbursed within the manufacturing sector rather than the real estate market.

Manufacturing strength is, though, a positive indicator for sustainable economic progress, a situation that is set to be further enhanced with the completion of several new bilateral trade agreements. The most notable among these is the Trans-Pacific Partnership, which involves 11 other countries including the United States.

RETAILING HEADS TO THE NEXT LEVEL

The next phase in the development of Vietnamese retail seems sure to be led by two of Asia's largest and most professional retailer/developers, namely Lotte of Korea and Aeon of Japan. Both have the capacity to become true game changers by introducing new levels of sophistication to a sector that is already unrecognisable from where it was a decade ago.

We have seen this effect in 2014 with the opening of both groups' first developments. The 50,000 sq m Aeon Mall in Ho Chi Min City's Tan Phu district has made a major splash, with Aeon currently progressing four follow-up projects. Meanwhile Lotte has opened a 63-storey tower in Hanoi, which includes its first department store in Vietnam together with a hotel, apartments and offices. Visiting that scheme provides a glimpse of the future for development in Vietnam's two leading cities.

Other international developers have also been active. Singapore's Mapletree has partnered with the domestic grocery retailer Co-op Mart to complete the 72,000 sq m SC Vivo City, which imports many of its characteristics from Mapletree's blockbuster Vivo City scheme in its home market. Meanwhile, a further Singaporean developer, Keppel Land, has secured the Japanese luxury department store brand Takashimaya to anchor the second phase of its Saigon Centre project in Ho Chi Min City.

FOOD & BEVERAGE RETAILERS POWER AHEAD

The boom segment in retail at present is undoubtedly food and beverage, in particular fast food. Top US operators McDonalds (three stores), Starbucks (11 stores) and Baskin-Robbins (20 stores) are expanding rapidly, as are several Korean coffee/bakery brands, including Caffe Bene and Tous Les Jours.

One of the strongest food and beverage players, however, is a domestic success story. It is the Golden Gate Group, which operates outlets specialising in food from Korea, Vietnam and Japan, as well as popular beer halls. Meanwhile, the domestic Trung Nguyen (pron: 'Chung Win') coffee shop chain has been making waves in several regional markets, trading off Vietnam's position as a key global coffee exporter.

Thinking of the longer term, both Hanoi and Ho Chi Min City are set to look quite different in the years to come, as both cities are getting metro systems that will transform their broader infrastructure. Ho Chi Min City in particular is riddled with construction work at present, not just the new metro lines/stations but also retail developments that will be connected to the network. Examples include the transformation of the historic Saigon Tax Trade Centre department store; also a mixed-use skyscraper project called The ONE which sits on top of the future metro's central station.

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KEY TRENDS IDENTIFIED:
Vietnam remains a priority for international retailers; food and beverage segment especially strong; modern retail development encouraged by transport infrastructure works

SWITZERLAND

WITH CONSUMER PURCHASING POWER THAT'S AMONG THE HIGHEST IN THE WORLD, SWITZERLAND REMAINS AN ATTRACTIVE MARKET FOR INTERNATIONAL RETAILERS, PARTICULARLY THOSE IN THE ASPIRATIONAL AND LUXURY SEGMENTS.

The market might be stronger still, were it not for the cross-border temptations facing consumers who make use of their strong currency to shop cheaply in neighbouring countries. Research conducted in 2013 revealed that the Swiss spend around CHF 4.5 billion on clothes and groceries purchased abroad, equivalent to around 5% of the domestic retail market.

We also expect e-commerce to have a growing impact on physical retailers in the years ahead. In 2013 the share of total retail turnover taken by e-commerce was 6.4% and this is still growing. From a macroeconomic point of view, it remains to be seen what impact the referendum vote on imposing quotes on migrants from EU countries will have. With Switzerland's immigrant population around 24% of the total, some commentators fear a negative impact of around 0.5% of GDP if the restrictions are duly imposed.

MAKE HAY WHILE THE SUN SHINES

The top retail destinations in Zurich and Geneva are certainly showing no signs of being held back by future concerns. In Zurich's super-prime Bahnhofstrasse, rents are stable or even ticking upwards, as further luxury retailers seek to gain a foothold in a street where wealthy tourists from China and the Middle East contribute as much as 30% of turnover – sometimes more – to jewellers and watch stores.

One new luxury arrival is Graff Diamonds from the UK, which is reported to be paying an annual rent of some CHF 1.2 million for a unit at the upper end of the street which formerly belonged to EFG Bank. This part of Bahnhofstrasse has seen a significant upgrade of its status in recent years, becoming the home of brands such as Rolex and Bally alongside established names including Tiffany, Loro Piana and Prada.

Elsewhere, the multibrand fashion store Burger is believed to have transferred its Bahnhofstrasse lease to Prada. If confirmed, this would accelerate the transformation of the middle section of the street into a focus of high end retailing, a process exemplified by the invasion of monobrand luxury watch stores for houses such as Hublot, Audemars Piguet and Jaeger-LeCoultre in recent years.

Bahnhofstrasse is not just about luxury, however. Another notable move in 2014 has seen fashion giant Zara open a five-floor Swiss flagship store, in the premises Bally exited to facilitate its move up the street.

KEY TRENDS IDENTIFIED:
Retail market strong despite cross-border sales drain; top high street destinations in Zurich and Geneva expensive and highly sought-after; mall of Switzerland construction now underway

RENTS ARE STABLE OR EVEN TICKING UPWARDS

In Geneva, the high end Rue Du Rhône has been further enhanced with the opening in May of a flagship store for Prada, representing the Italian luxury brand's first standalone outlet in the city. Meanwhile, the development at Rue Du Rhône 8, mentioned in *ShopFront* last year, has secured the number one Swiss bookseller Payot as one of the main retail tenants. International retailers are actively seeking units in the 40-80 sq m range on both Rue Du Rhône and the mid-market Rue Du Marché, but with supply very limited the price of entry creeps ever upwards.

Other international retailers making moves into Switzerland include COS, which has opened its second Swiss store in Zurich's Old Town (after a first in Geneva), while the French Furniture specialist Maison du Monde has picked an out-of-town location between Geneva and Lausanne for its first, 1,000 sq m Swiss outlet. Meanwhile, innovative carmaker Tesla is set to open its first showroom in the western part of Switzerland, having secured space in a building in Geneva's Cours de Rive.

In the development sector, the main headline is the commencement of construction on the 46,000 sq m Mall of Switzerland, located in Lucerne. This will become a national-scale retail destination when it opens in 2018. In Lausanne, the redevelopment of historic Bel-Air complex will bring new life to one of the city's major landmarks, creating commercial and office space including a significant portion of retail.

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LESS POSITIVE CONSUMER SENTIMENT AND ONGOING LABOUR SHORTAGES MAY HAVE DAMPENED RETAILERS' ENTHUSIASM SLIGHTLY, BUT SINGAPORE REMAINS ATTRACTIVE AS A KEY GATEWAY INTO OTHER SOUTH EAST ASIAN MARKETS.

In 2014 to date we have seen a steady flow of international retail brands from Europe, the United States and Asia, with many aspirational/mid-market players deeming this a good time to enter. These include Sandro and Vilebrequin from France, plus Suitsupply from the Netherlands. American entrants include Proenza Schouler, Bath & Body Works and Alice & Olivia. Another US entrant, Under Armour, is an interesting case study in its own right, having decided to create a physical presence in Singapore after enjoying strong online sales in the country. The final new brand to note is Tokyu Hands, the Japanese department store.

Elsewhere, mall owners are making strenuous efforts to provide entertainment and experience to their customers. Malls are no longer seen purely as points of transaction; instead they offer the chance to be entertained, get pampered and socialise over dinner or drinks. This is providing opportunities for international entertainment brands to land in Singapore, notably Korea's Trick Eye Museum and Alive Museum (both specialising in 3D optical illusions), also the UK's Madame Tussauds with its celebrated waxworks.

SINGAPORE

While these are all welcome additions to the Singaporean retail landscape, other brands have found market entry or expansion impeded by the government crackdown on use of foreign labour, something we reported in the last *ShopFront*. The measure has undoubtedly made it harder to find staff for shops and restaurants, particularly as unemployment is currently at very low levels so there is not a ready-made indigenous labour reserve. Though the exact impact is hard to measure, we have anecdotal evidence that it is forcing some retail groups to cut their target store numbers by half.

NEW OPPORTUNITIES ON ORCHARD ROAD

Though it's a long time since any greenfield plots have been available in the prime Orchard Road retail environment, developers are using the 'shape up or ship out' maxim to demolish and redevelop underperforming malls into more modern and attractive schemes.

Two projects currently under way illustrate this trend well: the largest is the 170,000 sq ft Orchard Gateway, which uniquely spans two buildings and features as its centrepiece, a glass-walled walkway between them which affords spectacular views of the streetscape. Slightly smaller at 150,000 sq ft is 268 Orchard Road, which is expected to be up and running by the end of 2014. To these can be added a comprehensive renovation of the Shaw Centre, which was originally built in 1958 and is home to one of Singapore's most renowned restaurants, Les Amis.

Singapore's central business district (CBD) has not hitherto been a magnet for retail and entertainment, but this is changing fast, exemplified by the refurbishment of the landmark One Raffles Place building. This is giving retailers an opportunity to make their first foray into this area, and with longer opening hours for retail and food and beverage now becoming the norm, the CBD is a livelier place outside of the working day, meeting the government's objective to engender a work, live and play scenario.

MALLS ARE NO LONGER SEEN PURELY AS POINTS OF TRANSACTION

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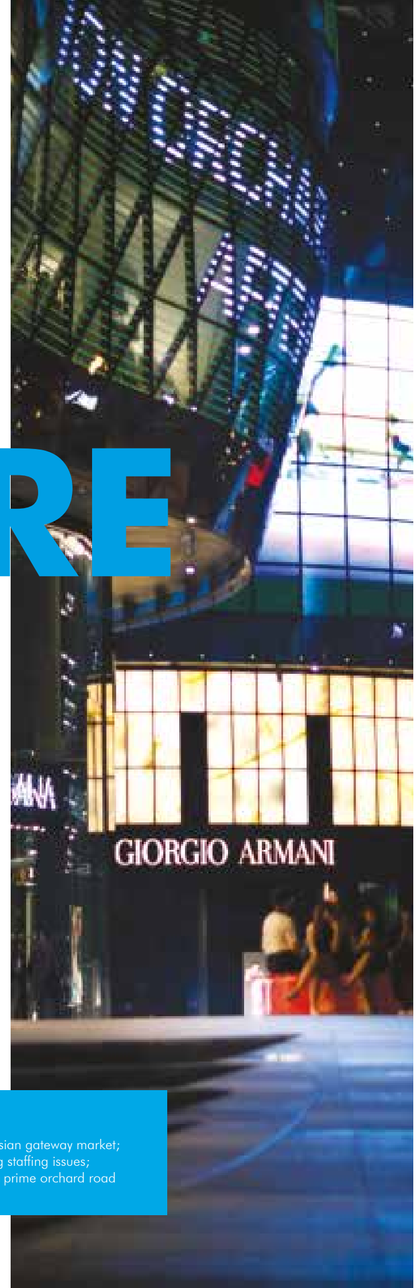
KEY TRENDS IDENTIFIED:
Singapore still a key South East Asian gateway market; foreign labour crackdown causing staffing issues; significant development activity in prime orchard road



KEY TRENDS IDENTIFIED:
Government planning action to stimulate real estate investment/development; Sweden's H&M and IKEA both making waves; big-box operators changing tack to maintain growth

KOREA

RECENT SLUGGISHNESS IN KOREA'S REAL ESTATE MARKETS COULD BE REPLACED BY AN INVESTMENT BOOM IF GOVERNMENT PLANS COME TO FRUITION.

The government is attempting to lighten the regulatory burden on real estate development, with a series of moves being discussed that include raising the banks' loan-to-value (LTV) threshold and cutting construction red tape. While this may not make a difference in Seoul, where space constraints mean there are limited development opportunities, if the plans become policy, the pipeline of large mixed-use malls, premium outlets and street-level retail in residential towers across the country may expand.

Returning to the present day, Korea's retail market has seen good performance from premium car showrooms, home interiors/homewares and 'specialty private label apparel' (SPA) segments in 2014. Less fortunate have been the mass-market cosmetics segment and some food and beverage franchisees, where saturated markets and increasingly sophisticated consumer habits are taking their toll.

In terms of retailer activity, the domestic SPA brands such as TOPTEN10, MIXXO and SPAO have been leading the charge, while furniture retailer Hanssem has been using the strength of that segment to increase its store estate.

The international names set to make the biggest splash in the market both happen to be Swedish. The ever-aggressive H&M is expected to open stores for its COS and H&M Home brands in both Lotte World Mall and Time Square Mall by the end of 2014/early 2015.

The other Swedish retail powerhouse, IKEA, has its first Korean opening scheduled for December 2014. This arrival is sure to have a major impact on the lifestyle goods and furnishing segments, threatening the local brands that operate nationwide chains of smaller-scale (approx 1,000 sq m) stores. Some have already begun enlarging the size of their formats in a bid to keep pace with IKEA.

BIG BOX OPERATORS TRY A 'NOT-SO-BIG-BOX' TACTIC

The hypermarket/category killer represents the pre-eminent out-of-town/big box retail format. Three major brands – E-mart, Lotte Mart and Homeplus dominate this market, but often find their expansion plans hampered by lack of suitable land for development coupled with regulations designed to protect local 'mom and pop' stores. Now these groups are changing tack, trying to target niche markets with a scaled-down store format as well as reducing their size of existing big boxes to allow other retailers to take space in 'mini-malls' akin to neighbourhood schemes.

In the shopping centre sector, the biggest opening planned for 2014 is the aforementioned Lotte World Mall, an 80,000 sq m retail complex that adjoins the highly popular Lotte World in Seoul. At the time of going to press the Seoul Metropolitan Government had given the go ahead to allow all the mall's low-rise buildings to be opened in October 2014, after delays over safety concerns at the construction site. Meanwhile, the high-rise Lotte World Tower is due to open by the end of 2016.

When Lotte World Mall opens, it will establish the southern part of Korea's capital as a key retail destination, given that the area also includes the newly-refurbished COEX Mall. This 85,000 sq m scheme is Asia's largest underground shopping centre and its extensive renovation has greatly strengthened its position in the market, notably offering new potential for luxury brands to enter the mall setting.

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HONG KONG

IT SEEMS 2014 MAY PROVE TO BE A WATERSHED YEAR FOR HONG KONG'S RETAIL SECTOR. AFTER AT LEAST HALF A DECADE OF HEADY GROWTH UNDERPINNED BY HIGH-SPENDING TOURISTS FROM MAINLAND CHINA, THE MARKET MUST ADAPT QUICKLY TO CHANGING TIMES.

The threats can be seen as both external and internal, but in both cases it's the luxury retailers most in the spotlight. From an external perspective, the Chinese government's highly publicised efforts to crack down on corruption and ostentatious wealth have resulted in a significant decline in gifting, directly impacting sales of luxury products such as watches and jewellery to visiting Chinese tourists.

Within Hong Kong we've also witnessed a groundswell of public anger at the way downtown retail areas have increasingly been given over to luxury stores at the expense of outlets catering to the daily needs of residents. Street protests – organised via social media – have resulted, prompting Hong Kong's Chief Executive, CY Leung, to seek public feedback on a proposed 20% reduction in total visitor numbers from the mainland.

LUXURY SUFFERS BUT MID-RANGE SET TO PROSPER

Needless to say, this uncertain climate has seen the luxury brands reassess their strategies for Hong Kong. However, the situation has been good news for the mid-range retail sector, particularly brands operating in the fashion and cosmetics segments, as tourists lower their sights and tighten their budgets.

Among the brands seen to have benefited most so far are global players such as Zara, H&M and Uniqlo, while recently-entered mid-range/aspirational retailers that appear to have timed their arrivals well include J.Crew, which has opened in IFC Mall and a high street location, also Michael Kors, which will open a flagship store in Causeway Bay.

In the cosmetics segment, domestic multi-brand operators such as Sasa and Bonjour are taking the fight to their international competitors, which are led by a group of Korean operators (including Innisfree, Nature Republic and Etude House) that have been aggressively acquiring space in key retail streets in recent years.

One of the most exciting segments at present is food and beverage. Two 'celebrity chef' led operators from the UK – Jamie's Italian (by Jamie Oliver) and Gordon Ramsay – have both opened their first restaurants, while Marks & Spencer has launched its first café at its branch in the City Plaza mall.

KEY TRENDS IDENTIFIED:
Luxury market at risk from internal and external pressures; mid-range fashion and cosmetics brands prospering; development pipeline highly constrained

SHOPPING CENTRES LOOK TO THE FUTURE

The crowded geography of Hong Kong means any future retail development pipeline is always likely to be limited. The largest project on the books at the moment is the redevelopment of the New World Centre in Kowloon, which is expected to be finished in 2017 and is thought to contain around 1 million sq ft of retail space.

More immediately, we are seeing some subtle asset management taking place within the luxury-focused zones that were established in key tourist districts during the height of the luxury shopping boom. Now the owners of these schemes are responding to the new climate by installing mid-range players such as Tommy Hilfiger, Topshop and American Eagle Outfitters in these zones, a trend that may well gather pace in the coming year.

A final point to note concerns the trend towards online shopping. While this has not so far exerted significant pressure on the physical retail sector, it has prompted the two leading entertainment retailers – HMV and Pageone – to convert their old shops into lifestyle megastores containing cafes and selling trendy gadgets, fashion, accessories, toys and small furniture alongside their core products. These mini department stores should be able to better cope with the e-shopping trend than stores selling only books, CDs and DVDs, all of which are particularly prone to online cannibalisation.

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THAILAND

DISAPPOINTING ECONOMIC FIGURES AND THE MILITARY COUP OF MAY 2014 HAVE GENERATED PLENTY OF INTERNATIONAL NEGATIVE HEADLINES ABOUT THAILAND. HOWEVER, AS IS OFTEN THE CASE WITH THIS RESILIENT COUNTRY, THE REALITY ON THE GROUND IS LESS GLOOMY THAN THE PERCEPTION.

Instead, the main impact on retail spending is a large overhang of personal debt, which has forced many Thai households to tighten their belts. Nowhere is this more apparent than in sales of big ticket items. For example, new car sales were down 33% year-on-year at the end of the second quarter. Even the convenience/grocery retailers are feeling the pinch, with Tesco Lotus reporting same store sales down 5.3% year-on-year and 7-Eleven, the market leader, noting same store sales down 1.1% year-on-year (both at H1 2014).

Tourism has also suffered somewhat, particularly in Bangkok, where retailers are heavily dependent on visitor spending. Airport arrivals in the capital are reported to be down by 15% compared with the same period in 2013, with tourist arrivals to the whole country decreased by approximately 10%. The crucial test for this important part of the economy will be during the peak winter months. With the streets peaceful today, the Thai market remains hopeful for a rise in tourism.

DEVELOPMENT SECTOR SPARKLES

The big news in the shopping centre environment was the opening of the 70,000 sq m Central Embassy luxury mall in May. The scheme began trading almost fully let, attracting new luxury brands to Thailand including Hublot, Isabel Marant, Jil Sander Navy, Michael Kors and Roberto Cavalli, along with additional Thai stores for established names such as Chanel, Gucci and Prada.

By the end of 2014 luxury shoppers will be further tempted by the 50,000 sq m EmQuartier. Its developer, Mall Group, has also announced plans for a more entertainment-focused sibling scheme, EmSphere, which will be delivered in 2016 and will join EmQuartier and the group's revamped Emporium mall in creating a shopping and entertainment hub in that corner of the prime Sukhumvit Road.

Elsewhere in the city, one of the most exciting schemes in the pipeline is Icon Siam, which is set to continue the regeneration of the banks of the Chao Phraya River that kicked off with the 'Asiatique The Riverfront' development in 2012. Icon Siam will incorporate a 25,000 sq m luxury mall, plus approximately 500,000 sq m of retail and leisure space and two major residential towers. It is a joint venture of local investors, Siam Piwat, Magnolia Quality Development and Charoen Pokphand (CP).

There is no doubt that this wave of new construction will increase competition for consumer footfall and spending, which will put pressure on some established schemes. It is worth noting that shopping centre occupancy rates in Bangkok remain strong – the 94% rate is reasonable in its own right, but this figure also includes voids that are due to refurbishment projects currently underway.

Once again, the situation is better than the headlines might indicate.

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KEY TRENDS IDENTIFIED:
Personal debt overhang and tourism decline hits retailers; luxury shopping developments power ahead

TAIWAN

TAIWANESE RETAILING RECEIVES A HUGE BOOST EACH YEAR FROM THE LARGE NUMBERS OF TOURISTS THAT VISIT FROM MAINLAND CHINA. THESE ARE EXPECTED TO TOTAL SOME NINE MILLION PEOPLE IN 2014, UP FROM EIGHT MILLION IN 2013.

Sadly, moves to allow goods and services to flow easily between Taiwan and China have been shelved after student-led resistance, something which is likely to prove detrimental to the country's overall economic performance.

Taiwan's retail sector, particularly in the more densely populated north area of the island, is performing strongly. In the capital, Taipei, we have seen retail rents posting year-on-year increases of approximately 3% to 5%, which compares to growth of well below 1% in the office sector, for example.

Examining the sector more closely, fast fashion is probably the most dynamic constituent, with established brands such as Uniqlo and Zara still in expansion mode, while Gap has become the latest arrival to the market in 2014. Other new brands set to arrive include H&M, which will launch its first store in Taiwan in Breeze SongGao during 2015. Forever 21 also aims to open two stores in the same year.

The difficulty these operators face is that the high street retail environment in Taipei does not contain much scope for large frontages, given the proliferation of smaller units all owned by different individuals. This makes redevelopment and reconfiguration difficult.

FAST FASHION IS PROBABLY THE MOST DYNAMIC CONSTITUENT

One brand that has found a solution to this challenge in quite spectacular fashion is Korean cosmetics specialist Innisfree. It has acquired a multi-floor flagship unit on the prime Zhongxiao East Road with the specific intention of using the upper floor to create a very eye-catching street frontage to advertise the brand (the floor is not otherwise occupied).

Looking ahead, we expect further activity within the food and beverage segment, as a number of Japanese brands are known to be looking closely at entering the market. Elsewhere, Starbucks is already established in the market and benefits from its partnership

with the local franchise holder for 7-Eleven convenience stores, although it also faces stiff competition from leading domestic brand, 85C.

NEW LIFE FOR OLD BUILDINGS

Taipei's cultural life has been improved immeasurably with the establishment of two creative concepts that have both made use of disused industrial facilities. Both Songshan Cultural & Creative Park, housed in a former tobacco factory, and Huashan Creative Park, located in a former brewery, have given opportunities for artists, craftsmen and designers to have an outlet in the capital, attracting locals and foreign visitors alike.

In the 'new build' development sector, the lower level retail space in Taipei's Breeze SongGao mixed use scheme should open shortly as a department store by leading domestic operator Breeze Center. Meanwhile, Breeze has another project due for delivery in 2015, the Breeze XinYi. Both of these schemes are located close to Taiwan's landmark skyscraper, Taipei 101.

Also in the pipeline are two outlet centres; one being developed by a joint venture of the domestic Farglory Group and Mitsui Fudosan Co of Japan, the other by Taiwan's largest life insurance company, Cathay Life. The former will comprise an outlet mall, cinema, food court and supermarket situated in a total space of approximately 66,000 sq m. The latter will have a floor space of approximately 55,000 sq m and is expected to house up to 260 international brands. The first phase is expected to launch in 2015.

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KEY TRENDS IDENTIFIED:
Retail sector continues to see good growth underpinned by tourism; fast fashion segment a notably strong performer; two outlet schemes lead the development pipeline

MALAYSIA

THOUGH THE ECONOMY SHOULD ULTIMATELY BENEFIT FROM ITS SIMPLICITY AND TRANSPARENCY, MALAYSIA'S SWITCH TO A GOODS AND SERVICES TAX (GST) SYSTEM FROM 1 APRIL 2015 IS CAUSING AN UNWELCOME DEGREE OF UNCERTAINTY IN A YEAR THAT HAS ALSO BEEN TOUCHED BY TRAGEDY.

KEY TRENDS IDENTIFIED:
Introduction of goods and Services tax system a big talking point; retail sales down thanks to inflation and fiscal tightening; ambitious retailers not holding back, however

The government has set the GST at an initial 6%, deliberately keeping it below the present 10% sales tax that it will replace with a view to easing the transition. The business community is broadly supportive of the change, not least because it will bring Malaysia into line with other regional economies such as Singapore. However, for retailers the up-front financial burden in terms of implementing systems and reporting structures is likely to be significant.

It is unclear how consumer sentiment will be affected in the run-up to the GST, although a rise in inflation throughout 2014 is already impacting spending patterns, as is a tightening of credit prompted by the central bank. The bank became worried as household debt climbed to 86.5% of GDP in 2013, among the highest in Asia.

Taking all this into account, retail sales are said to be 20% down year-on-year, despite a reasonably strong performance during the country's Hari Raya Puasa (New Year) holiday season.

RETAILERS ATTACK AND DEFEND

A tricky market usually provokes different reactions, and Malaysia's retail industry has proven no exception. On one side, the hyper-aggressive H&M and Uniqlo are forging ahead with their expansion plans, building national store portfolios that are now both into double figures (13 for H&M, 22 for Uniqlo). On the other side, certain brands – notably Zara and some of the Acacia group brands – are tightening their belts and for now are not seeking locations outside of the capital, Kuala Lumpur.

We have seen a steady flow of affordable luxury/bridge brand fashion retailers enter the market over the past 12 months. Notable among these are Kate Spade, Tory Burch and MCM, along with Dandelion in the childrenswear segment and Under Armour in the sports/fitness category (the latter facilitated by CBRE Malaysia).

BIG EXCITEMENT AROUND TRX PROJECT

In the development sector, the major news story in 2014 is the launch of a masterplan for Lifestyle Quarter at Tun Razak Exchange (TRX), in the heart of Kuala Lumpur. This project brings together local player 1MDB RE and the Australian group Lend Lease (after a tender process and sale led by CBRE Malaysia), with the intention of developing a key 70 acre plot into a mixed use scheme featuring three residential towers, a hotel, a city park and a 1.3 million sq ft shopping centre.

Given its prime location and excellent transportation links (it sits above a mass-transit station and offers access to substantial car parking) the centre should prove an attractive option to retailers either looking to enter or expand within Malaysia.

Elsewhere, the market has been somewhat surprised by the number of new outlet centre developments that have been signalled by developers. Five schemes are now either under construction or planned, with four of them located in and around Greater Kuala Lumpur. Thus location advantage is likely to prove significant for the Designer Village in Penang, which is the only project in the Northern part of Malaysia and is set to arrive at the end of 2016.

Of the others, it is hard to imagine all of them managing to successfully attract a good mix of retailers, given that taking a place in each would leave many brands possessing more outlet stores than they have 'standard' shopping centre units.

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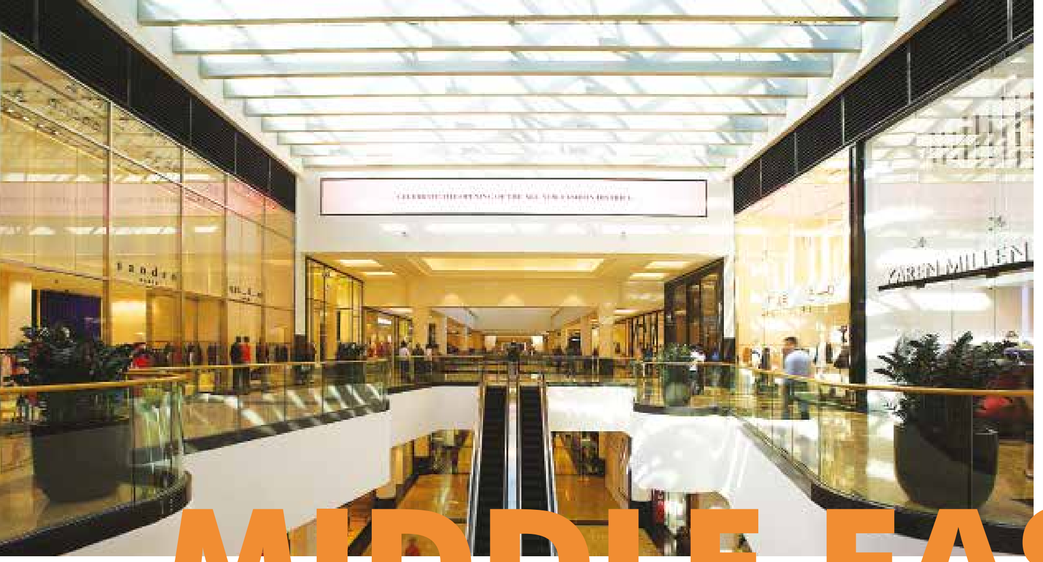

MIDDLE EAST

IT SEEMS THE SKYLINES OF MOST MIDDLE EASTERN COUNTRIES WILL CONTINUE TO BE FILLED BY CRANES FOR THE FORESEEABLE FUTURE, AS THE CONSTRUCTION BOOM IN THESE WEALTHY AND AMBITIOUS MARKETS SHOWS LITTLE SIGN OF SLOWING.

A SUCCESSFUL EXPO BID HAS UNLEASHED A FURTHER WAVE OF SHOPPING MALL CONSTRUCTION

International retailers – particularly those in the aspirational to luxury end of the spectrum – continue to display a real enthusiasm for the region, especially those countries where the underlying political climate is stable and economies are buoyant.

Arguably the most headline-grabbing new brand set to enter the region is Apple, which is expected to establish its presence in the coming months, with the first Middle East location likely to be in Dubai. This year has already seen the arrival of Hollister and sister brand Abercrombie & Fitch, which have both begun trading in Mall of the Emirates. Another notable new entrant is the fast-growing US accessories brand Charming Charlie, which has partnered with local franchise operator Al Tayer.

In the grocery segment, the major news has been the arrival of the UK's Tesco to the UAE, via a joint venture with the local operator Choithrams. The move sees Tesco-labelled food and non-food products carried in all 31 Choithrams outlets across the United Arab Emirates. Many in the market view this development as preparation for future standalone Tesco stores, a similar strategy to that used by UK retailer Waitrose and local player Spinneys.

NEW MALL DEVELOPMENT SURGES AHEAD IN UAE

Already the region's dominant retail market, the successful bid by Dubai to host the Expo 2020 world fair has provided a further stimulus, underlining the city-state's position as a leading global shopping destination.

More specifically, the successful Expo bid has unleashed a further wave of shopping mall construction, with a truly mind-boggling volume of new retail space set for completion by 2020. Foremost among this is a multi-billion dollar project by Dubai Holdings to create the world's biggest shopping mall, 'Mall of the World'. Current plans for the scheme include a retail area of around 700,000 sq m, placing it above Dubai Mall at the top of the global pecking order.

KEY TRENDS IDENTIFIED:
Dubai retail development set to reach unprecedented levels in run-up to Expo 2020; Retailers still displaying good appetite for Middle Eastern expansion; Egypt could be coming back into play

Dubai Mall's owner, Emaar Properties, is not standing still. It is adding some 100,000 sq m of new retail GLA to its luxury shopping offering, while also partnering with Dubai Holdings on yet another blockbuster mall in Dubai Creek Harbour, which is itself expected to rival or better Dubai Mall in scale.

Expansion programmes are also underway at Majid Al-Futtaim's Mall of the Emirates and Nakheel's Ibn Battuta Mall, while the latter has also started work on the Nakheel Mall and The Point and is close to completing the next phase of its Dragon Mart retail development.

Can the market sustain such a flood of new space? Potential cannibalisation of sales will be monitored closely, but what cannot be denied is the strength of Dubai's underlying economic performance, supplemented by a growing population and growing visitor numbers. This is even before considering the global spotlight sure to be enjoyed once Expo 2020 comes around.

Abu Dhabi, meanwhile, is also seeing rapid growth in retail space, with the main news being the impending opening of Yas Mall, while the successful high end mall on Al Maryah Island, The Galleria, is set to be joined by a sister scheme by the same developer that will cater more for the mid-range consumer.

HEADLINES FROM OTHER MAJOR MARKETS

As previously remarked in *ShopFront*, Saudi Arabia is the standard next step after a retailer has established its presence in the UAE. Though by no means as dynamic a market as Dubai, Saudi Arabia has a population of almost 29 million and a high GDP per capita, making it a potentially lucrative market for the right concepts.

Riyadh is the Kingdom's dominant retail market, with some 1.3 million sq m of existing space plus a further 500,000 sq m scheduled for delivery by the end of 2016. Rents are seeing slight upward pressure at present, but this should ease once the 'community retail' components of several mixed use projects, such as ITCC and Olaya Towers, are delivered in 2015. Jeddah continues to attract international retailers, helping to reduce vacancy rates to around 7% (against c.12% in Riyadh) and boosting rents by around 5% across the board. Strong regional brands, such as Centrepoint and Citymax, have continued their aggressive expansion into Jeddah during 2014.

Egypt is another sizeable market by population, but one whose troubles have been widely reported over the past few years. Indications are, however, that a degree of stability is returning. This is perhaps best exemplified by the news that Al-Futtaim Group hopes to finally launch its Cairo Festival City Mall, which should see more retail brands looking to penetrate the Egyptian market.

Qatar has been another global headline-grabber, though again not always for entirely positive reasons. Whatever the eventual format it takes, it seems highly unlikely that the country's showpiece, the 2022 FIFA World Cup, will be taken away, allowing for a continued build-up of infrastructure, including retail space, in anticipation. Doha currently has one of the largest development pipelines in the region, with close to 1 million sq m of new retail space due for delivery by the end of 2017.

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CAN THE MARKET SUSTAIN SUCH A FLOOD OF NEW SPACE?

DENMARK

WITH MOST ECONOMIC AND CONSUMER INDICATORS TICKING UP DURING 2014, DENMARK IS BACK ON THE AGENDA FOR RETAIL REAL ESTATE INVESTORS, PARTICULARLY THE COUNTRY'S PRIME HIGH STREET ASSETS.

The prime market on Strøget and Købmagergade has consequently seen yields compressed year-on-year, with transactions generally averaging around 4.25% and even one or two at 4%, against a typical yield of 4.5% in 2013. This means asset values have now essentially recovered to pre-financial crisis levels.

The issue for investors is that asset prices might get ahead of the rental curve; however, the evidence from recent rent review judgements supports our opinion that rents will continue to increase, albeit reasonably steadily. In addition, it must be borne in mind that many high street units have not had their rents adjusted to market rates for some years, offering landlords a further degree of comfort.

Looking ahead, we expect to see retail power further concentrated in the larger markets – particularly Copenhagen and Aarhus – while smaller markets continue to suffer. High street shopping environments also seem to be gaining precedence in the minds of retailers, whereas a number of weaker shopping centres are experiencing high vacancy levels. The onus is firmly on the management of these schemes to improve their attractiveness.

DOMESTIC RETAILERS EVOLVING

Change is afoot within several of Denmark's retailing groups. One example is fashion house IC Group (formerly IC Companys), which has been busily divesting mass-market focused brands from its portfolio to other retailers such as Coop and DK Company. IC Group has now consolidated its efforts around a core group of more upmarket brands including Tiger of Sweden, Peak Performance, By Malene Birger and Designers Remix (in which it has a 51% share).

In the grocery segment, Denmark's third largest player, Dagrofa, has consolidated some of its existing store formats into a new food market concept called MENY, in a move partly designed to overcome some recent brand reputational issues. Dagrofa has also joined forces with the online grocery store nemlig.com – a partnership both parties hope will enable them to compete more aggressively against rivals such as Dansk Supermarked and Coop.

From an international retailer perspective, most of the action appears to be linked to the refurbishment of the legendary Illum department store in Copenhagen, which is creating new luxury-focused 'stores-within-a-store' complete with street frontages and separate entrances. Market talk is of brands such as Prada, Valentino and Saint Laurent taking flagship units, although we await official confirmation at the time of going to press. Other luxury brands that have arrived or will arrive are Michael Kors, Isabel Marant, Balenciaga and Loewe; while elsewhere along the retail spectrum we have seen NN.07, Hästens, American Vintage, Desigual, Dr. Martens and Wayne's Coffee signing their first Danish store leases.

In the shopping centre environment, the most significant news concerns the acquisition of the well-established Rosegårdcentret in Odense by Germany's ECE. The new owner has plans to redevelop a former supermarket space in the scheme to provide a number of additional retail units, and given its strong position in its home market we can expect ECE to lure some interesting brands to Denmark's third city.

ASSET VALUES HAVE NOW ESSENTIALLY RECOVERED TO PRE-FINANCIAL CRISIS LEVELS

KEY TRENDS IDENTIFIED:
Danish retail real estate in demand; prime high streets continuing to do well; limited development pipeline for shopping centres or retail parks

Development activity in the retail park environment continues to be suppressed by the planning regime, in particular limitations on retail offer beyond bulky goods, something with which the country is already well served. The major scheme in the pipeline is an outlet centre, Copenhagen Designer Outlet, which is being built on the site of a former shopping mall around 20 minutes drive from the city centre. It benefits from having a number of important big box operators nearby, including the country's largest IKEA, but with Danes yet to show any serious appetite for outlet shopping, the market will watch its progress with interest.

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AUSTRIA

WITH ITS RELATIVELY COMPACT SIZE AND WEALTHY CONSUMER BASE, IT'S NO SURPRISE THAT AUSTRIA OFTEN FIGURES NEAR THE TOP OF INTERNATIONAL RETAILERS' TARGET LISTS.

The country's close proximity to Germany (and shared language) is a significant factor too, given the high levels of retailer activity in that market. It's a small step for a brand that is establishing itself in Germany to make the move over the border, something that should be particularly attractive to those operating in the fashion segment, where Austrians spend more per head than their German equivalents.

Once here, it is possible to cover the relevant parts of the market with an estate of around 10 to 20 stores. Then a brand can start to compete for the attention of consumers who among Europeans rank behind only the Swiss in terms of their purchasing power.

PRIME SPACE IN SHORT SUPPLY

High streets and shopping centres are both strong components of Austria's retail mix. Prime street positions in Vienna of around 2,000 sq m are in particularly high demand and key money is a factor in all transactions. A project to pedestrianise a prime section of the Mariahilfer Strasse is nearing readiness at the time of going to press – the completion of this programme in 2015 will boost footfall and should have a positive impact on retail turnover.

KEY TRENDS IDENTIFIED:
Austria a key target for international retailers; Still a landlords' market in prime areas; Ups and downs among the fashion brands

We are also seeing a more eclectic and arty collection of shops, cafes and bars starting to take shape in several side streets away from Vienna's key shopping thoroughfares. This is bringing a new sense of 'cool' to the capital and provides a potential landing place to some of the more cutting edge fashion players.

PRIMARK LEADS THE CHARGE

Fast fashion operator Primark has enjoyed a highly successful start in Austria and continues to look for more space. In spring of 2015 it will receive additional competition with the arrival into the market of TK Maxx, while Poland's LPP Group is also looking to land in Austria, either towards the end of 2015 or early 2016.

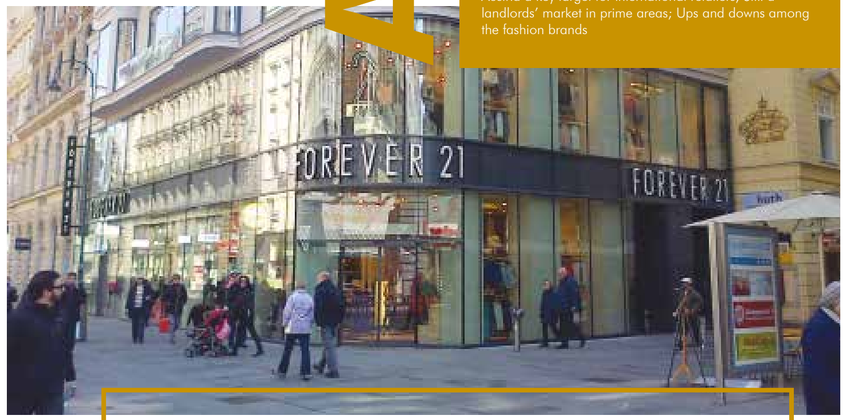
Elsewhere some fashion brands are among those curtailing their expansion plans, while others look set to trim back their store portfolios in the coming months, potentially releasing some much-needed flagship-style space into the market.

One innovative move worth noting is the rollout of small (300 sq m) units by sporting goods and electronics brands, several of which are better known for their big box formats. These new showroom-style stores are ideally suited to shopping centres, and should work well with established online retail channels.

STEADY PIPELINE OF NEW MALL SPACE

There are no major new schemes in the development pipeline, but the 15,000 sq m extension to Vienna's Auhofcenter, presently nearing completion, will position it as the second biggest within the city limits (behind Donauzentrum), at 58,000 sq m.

In terms of new projects, we have seen the completion of a mixed-use office/retail development at Vienna's main railway station which has delivered some 20,000 sq m of new retail GLA. In addition, spring 2015 will see the completion of the 25,000 sq m Citygate mall, also in Vienna. Outside the capital, the most significant project is the planned extension of the SCA shopping centre in Salzburg. There are also several refurbishments planned for the country's leading retail parks.



A MORE ECLECTIC COLLECTION OF SHOPS IN VIENNA MAY ATTRACT MORE OF THE CUTTING EDGE FASHION PLAYERS

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BALTIC STATES

POLAND'S LPP GROUP IS ALSO MAKING WAVES

KEY TRENDS IDENTIFIED:
Baltic States continue to look westwards amid regional tensions; street retailing beginning to take off in capital cities; developers seeking to extend and improve major shopping schemes

STEADY, EXPORT-LED ECONOMIC GROWTH, PLUS RISING WAGES AND CONSUMPTION HAVE ALL HELPED THE BALTIC STATES OF LITHUANIA, LATVIA AND ESTONIA PERFORM STRONGLY THROUGHOUT 2014.

The regional crisis centred on Ukraine has added a note of uncertainty, given the Baltic States' close proximity to Russia. It has also directly impacted the export sector, particularly in agriculture, where approximately one fifth of export sales to Russia have been suspended due to sanctions.

However, the States' relationship with the West is arguably stronger than it has ever been, characterised by the recent visit to Estonia by United States President Barack Obama, in which he reaffirmed the superpower's commitment to the security of the Baltics. Obama's clear message has given considerable confidence to investors and potential investors in the region. As a further sign of progress, the beginning of 2014 also saw Latvia become the second Baltic country to join the Euro, with Lithuania joining in January 2015.

LEASING MARKET IS FINELY BALANCED

With a limited supply of new retail stock and sales turnover growing by around 5% to 7% depending on the market, the negotiating power in prime retail areas could be assumed to belong to the landlords. The situation is kept in balance by the desire among landlords to 'future-proof' their assets by having the most dynamic tenant mix, allowing the strongest and most in-demand brands to secure attractive terms.

Many of the strongest operators come from the fast fashion arena. The most active is H&M, which landed in Riga in 2012 and now has some 17 stores spread fairly evenly between the three countries, with additional space still in its sights. Poland's LPP Group is also making waves. It has opened its first Sinsay store in Riga and earlier in 2014 it launched the largest Reserved store in the Baltics – a 1,700 sq m unit in Riga's Old Town.

Among the notable new arrivals to the market is Sports Direct, which opened its first store in Tallinn's Ülemiste shopping centre in late October; also Next, which, after expansion in Latvia and Lithuania, has now opened its first store in Estonia. Meanwhile, Europe's biggest grocery discounter, Lidl, has arrived in the Baltic States and is currently constructing three stores in Lithuania.

Elsewhere, local franchise operators have secured a number of mid-to-upper range brands to roll out in the Baltics, including Esprit, Camp David, Superdry, Calvin Klein, Wolford and Weekend Max Mara.

STREET RETAIL TAKES OFF

In *ShopFront 2013/14* we spoke about the potential for street retail in the Baltic States. This potential is now being realised, with a number of significant retail clusters now developing in the capital cities of Latvia and Lithuania.

The most advanced is Vilnius, where two distinct environments have emerged during the last year, the upmarket Didžioji and the mid-market Gedimino Avenue. Riga is a little less developed outside the historical Old Town, but a cluster in and around Elizabetes/Tžrbatas/Dzirnavu streets is now taking shape, with approximately 15 shop leases signed within the last 12 months. In addition, the local municipality is working to establish pedestrian-friendly zones downtown, where retailing can thrive more easily.

One of the biggest drivers for street retail development is the food and beverage segment. Fast food, coffee shops and various restaurant concepts taking inspiration from elsewhere in Europe are all major elements. Costa Coffee, Coffee Inn, Subway and Hesburger are actively adding outlets, while US group Yum! Brands has just begun rolling out its KFC and Pizza Hut restaurants. In addition, the German-owned chain of Italian-style restaurants, Vapiano, which is already established in Estonia and Lithuania, is now eagerly anticipated in Latvia.

DEVELOPMENT SECTOR FOCUSED ON RENEWAL

The vast majority of construction in the shopping centre environment is taking place in and around existing schemes, as their owners seek to refurbish and expand their assets to add value and stay ahead of the competition.

Some of the larger projects include a 20,000 sq m extension to the Ülemiste scheme in Tallinn, which will make it the biggest in Estonia at 58,000 sq m when complete. In Riga, work has begun on expanding two of the premier schemes, Alfa and Origo, while in Lithuania a 30,000 sq m extension to the 'Mega' shopping and leisure centre has been announced.

In terms of 'greenfield' development, we will have to look a little way over the horizon to see anything delivered, since most of the projects known to the market have yet to see construction starting. One exception is a 40,000 sq m retail park neighbouring the Baltics' first IKEA store (which opened in Vilnius in 2013), incorporating a RIMI hypermarket and other big box-type offers.

In Estonia, the most significant pipeline project is a 55,000 sq m regional shopping centre in a good location in Tallinn, anchored by a Selver hypermarket and containing large (12,000 sq m) area set aside for entertainment and leisure. This scheme, planned for launch by the end of 2015, is a project of the well-established Baltic developer Pro Kapital.

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SOUTH AFRICA

SOUTH AFRICAN CONSUMERS STILL LOVE TO SHOP, BUT MANY ARE PROVING MORE CAUTIOUS THAN IN THE PAST, WITH NATIONAL UNEMPLOYMENT STILL TOO HIGH FOR COMFORT AND ENERGY PRICE INCREASES SOAKING UP DISPOSABLE INCOME.

The retail market is currently divided in two from a performance perspective. On one side are the super-regional shopping centres, which are enjoying year-on-year turnover increases of around 10%, buoyed by strong sales of apparel and luxury goods. On the other are the smaller, community and neighbourhood schemes where turnover is up just 2% due to their typical customers' prioritisation of spending on food and necessities rather than discretionary items.

From a segment perspective, we have seen a particularly strong showing from the home improvement/builders' merchant retailers, driven by the buoyant construction industry and increased corporate spending on repairs and maintenance of properties. Among the retailers benefiting most from this trend is Massmart, with its brands such as Builders Warehouse and Builders Express.

The grocery segment is also highly active, as the various competing groups look to cover all the available channels. For example, Shoprite Checkers and other leading chains are all developing online portals and self-managed fulfilment networks. In addition, each of the top brands has struck partnerships with petrol forecourt operators (an example being Woolworths and Engen) that will see small (sub-40 sq m) convenience outlets added to filling stations across the country, thus greatly extending their retail footprints as well as their click and collect options.

New entrants to South Africa mainly do so via a local franchise partner. Two of the most successful players in this regard are the Edcon and Busby groups, which have been responsible for the launch of brands including TM Lewin, Mango, Inglot, La Senza, Accessorize, Salsa, Geox, Vince Camuto, Dr. Martens, River Island, Express US, Dune and Lipsy during the course of 2014. One important exception to the franchise model is H&M, which is making a direct entrance with a first store set to open in 2015, either in Cape Town or Johannesburg.

One trend to watch out for in future is the growth of the department store segment. The idea of multi-brand stores is a novel one for South African shoppers, but with Debenhams of the UK already having found an African franchise partner and several other European and US chains also lining up market entry, it seems only a matter of time before the department store becomes established.

BUILD IT AND THEY WILL COME

The shopping centre construction pipeline is currently very healthy. Among the notable schemes in the offing are Johannesburg's Mall of Africa (c124,000 sq m); Cape Town's Atlantic Mall (c.78,000 sq m); Port Elizabeth's Bay West City (c.88,000 sq m) and Umhlanga's (Durban) Cornubia (c.90,000 sq m).

As well as being built out, the sector has also become much more professional in recent years, with better transparency on trading data leading to a more symbiotic relationship between landlord and tenant. Schemes are also working hard to turn a visit into more of an occasion, maximising natural light to improve the overall ambience and offering additional services such as personal shoppers and valets. The 'family' aspect is also being worked on; not just straightforward touches like family-friendly toilets but also children's play areas, urban adventure zones and even crèches where parents can deposit their children while they shop.

This is all part of keeping the shopping centre relevant in an age where South Africans are becoming ever more aspirational and demanding, with their horizons and tastes broadened by travel and a new appreciation among many for the finer things in life.

KEY TRENDS IDENTIFIED:
Consumer sentiment hindered by various economic factors; Healthy construction pipeline of new retail space; Shopping malls working hard to offer better all round experience

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SLOVAKIA

THOUGH EVENTS IN NEIGHBOURING UKRAINE ARE A CAUSE FOR CONCERN, SLOVAKIA'S ECONOMY CONTINUES TO SHOW STEADY GROWTH AND THE NATIONAL MOOD IS POSITIVE.

The good mood has percolated to all parts of the retail market – developers, retailers and consumers – with sales turnover up by around 3% year-on-year even though shopper footfall has remained broadly unchanged. What might seem an anomaly in fact indicates that purpose-driven shopping trips are now becoming more prevalent – a trend that is not unique to Slovakia.

Within the leasing market, the balance of power appears to have shifted back towards the landlords, particularly in prime shopping centres. Such schemes are typically in the most convenient locations, giving them an additional advantage in an era where consumers are proving less willing to 'commute' for shopping.

PRIMARK AND DECATHLON READY TO TOUCH DOWN

The talk throughout the Slovak retail market in 2014 has been about the imminent arrivals of Decathlon and Primark. The French sporting goods operator has now announced that it will take a big box with around 1,500 sq m sales area in Bratislava's Bory Retail Zone, part of a development that also includes a new shopping mall.

Primark has yet to announce its first store locations, but wherever it goes the brand can always be guaranteed to make a huge impact on the market, given its extraordinarily large portfolio of fashionable merchandise at price points comparable to discount operators.

Among the existing international participants the aim is to acquire larger store formats. H&M and New Yorker started this trend, with brands such as Mango, Teranova, Tally Weijl and LPP Group all following. LPP has also introduced its Mohito concept to central Bratislava for the first time.

Elsewhere, we have seen a shifting balance of power in several retail sectors. These include grocery, where 'traditional' operators such as Tesco, Carrefour and Ahold Hypernova have been shaken by the successful entry of discount operators from Germany, notably Kaufland and Lidl. Electronics is another battleground, where traditional retail formats are struggling to combat new concepts such as e-shop pick up points.

CONSTRUCTION PICKS UP

The positive mood in the retail sector has resulted in some delayed construction projects getting back on track in several mid-sized towns and cities. They include the 22,500 sq m Forum in Poprad, which is a project of Multi Development; also the 23,660 sq m City Arena in Trnava, which is a unique combination of soccer stadium and shopping mall being developed by Euro Max Slovakia.

Autumn 2015 should see the launch of the 11,000 sq m Galéria Lučenec, a compact scheme located right in the heart of Lučenec town centre, which also incorporates a cinema.

More immediately, as *ShopFront* goes to press we will see the opening of the most significant development project of 2014, the 54,000 sq m Bory Mall located on the outskirts of Bratislava. This is a project of the Central European investor Penta, which already incorporates a big box retail park (the aforementioned Bory Retail Zone) and will eventually include office premises and residential complexes.

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KEY TRENDS IDENTIFIED:
Positive national mood boosts retail sector; Primark and Decathlon the big names set to land; Development pipeline gets back on track

UKRAINE

PEOPLE ARE ADJUSTING TO A NEW REALITY

KEY TRENDS IDENTIFIED:
Landlords and retailers work together to alleviate impact of crisis; degree of normality returns in areas not directly affected; development pipeline reduced but good quality space still coming on-stream

NO COUNTRY WANTS TO BE AT WAR, BUT THERE ARE A NUMBER OF REASONS FOR OPTIMISM

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ARMED CONFLICT WITHIN ITS BORDERS HAS BROUGHT FEAR AND MISERY TO MILLIONS OF UKRAINIANS, BUT THE COUNTRY AND ITS PEOPLE ARE NOT WITHOUT HOPE FOR THE FUTURE.

When reviewing the situation in Ukraine it must be borne in mind that the present conflict is localised to a number of areas in the east of the country. In cities such as Kyiv, Lviv and Kharkiv it's not quite business as usual, but people are adjusting to the new reality and the sense of panic has subsided.

As a result, the bars, cafes and shopping malls are beginning to see footfall picking up again, even though consumer spending remains weak. A sense of working together to make the best of the situation pervades the retail leasing market, where landlords and tenants have agreed temporary measures to alleviate the drop in turnover. These vary on a case-by-case basis, but on average we estimate that when the incentives are taken into account, rents in US dollar terms are down around 30% in prime areas.

Within the development sector, a good deal of the project pipeline has been put on hold, but there have been two sizeable openings in 2014, with further new space promised in 2015. This year we have seen the launch of the 41,000 sq m Prospect shopping and entertainment centre in Kyiv, which features no fewer than five stores for Poland's ambitious LPP Group plus an 11,000 sq m Auchan hypermarket. Also opening in Kyiv is the 30,000 sq m Atmosfera – this is part of a mixed-use scheme with retail, business and entertainment zones which are designed to cater for a medium to high income consumer.

2015 will see the delivery of the 36,000 sq m Forum Lviv, to the north of the UNESCO-listed city centre. This is a project of Multi Development in partnership with the local BudHouse Group and looks to offer a high quality environment for retailers and shoppers. Another scheme being readied in Lviv is the 44,500 sq m Leopolis. Both of these will provide serious competition to the city's top current mall, King Cross Leopolis, which opened in 2010.

BudHouse, meanwhile, is also behind a major regional mall under construction in Kharkiv, the 52,000 sq m Nikolsky shopping and leisure centre, which should be up and running in 2015.

REASONS FOR OPTIMISM

No country wants to be at war and no nation wants to lose territory. But as Ukraine builds towards the future there are a number of reasons for optimism. First, the country has lost economic input from the disputed areas, but this is more than compensated for by reduced government spending on them. The Donestsk and Luhansk regions, for example, used to soak up some 20% of the state budget by themselves.

In addition, relations with, and exports to, the EU are strengthening. At the same time the crisis has expedited the sweeping away of corrupt practices, to be replaced by more modern and transparent systems of governance which can only be beneficial to future economic performance. The contagion of conflict appears now to be contained; if this continues to be the case we believe that international investor interest will pick up significantly in the next 12-24 months.

DEMAND FOR HIGH END BRANDS CONTINUES TO GROW

INDONESIA

WITH A FAST-GROWING MIDDLE CLASS BRINGING SIGNIFICANT SPENDING POWER TO THE MARKET, INDONESIA OFFERS FERTILE GROUND FOR RETAILERS – PARTICULARLY IN THE CAPITAL JAKARTA.

As per capita income increases and social status improves, demand for high end brands continues to grow. It should be noted that the Indonesian consumer is something of a follower when it comes to accepting new concepts, especially in the luxury segment. Brands wishing to land successfully here must first have established a prominent presence in regional centres such as Hong Kong, Singapore or Tokyo, to give an appropriate level of visibility and credence. Retailers seeking to enter the market overwhelmingly favour partnerships with local franchisees.

Two of the most significant new arrivals over the past 12-18 months have been H&M and Uniqlo. Both created considerable buzz with their first stores opening in Jakarta, H&M's being a 2,400 sq m unit in Gandaria City mall in South Jakarta, while Uniqlo debuted in Lotte Shopping Avenue, Kuningan, South Jakarta. Both have also followed up with further store openings, notably H&M's new outlet in Bandung.

Among the most important openings of 2014 is the first IKEA store in Indonesia, located in Alam Sutera. At the time of going to press, this was scheduled for launch in late October/November. It will be operated under a franchise agreement by the domestic PT Hero Supermarket Group, one of Indonesia's biggest retailers by sales volume.

DEVELOPMENT MORATORIUM WILL LIMIT PRIME SPACE AVAILABILITY

From a retail real estate perspective, the most notable issue is the moratorium on developing new shopping malls in Jakarta, introduced by the government in a bid to ease chronic traffic congestion. Schemes that had gained permits before the moratorium are the only exceptions that are allowed to go ahead.

Elsewhere, though, the developers' focus has naturally switched to Jakarta's suburban locations as well as secondary or tertiary cities. This leaves landlords of the capital's most successful malls in a strong position, particularly as the city has little or nothing in the way of traditional street retail.

Ground floor mall units with street frontages are in extremely high demand, with most landlords using the five-year lease cycle to change some street-level tenants at each renewal time, in order to keep their schemes fresh and appealing to consumers. This process also means that the strongest and most in-demand brands can secure very favourable terms to 'anchor' street frontages.

The majority of high end malls all tend to offer a good proportion of social and leisure attractions, notably cinema complexes, food and beverage outlets and fitness clubs, as well as the shopping experience. The leisure-based approach chimes with consumers, who are far more likely to visit a mall at the weekend than during weekdays.

The retail real estate investment market is characterised by strong demand from Japanese, Chinese and Korean investors, which have lately been presented with opportunities predominantly in the secondary market. Generally, very rarely do primary properties come onto the market, since most major schemes are owned by conglomerates that have traditionally proven unwilling sellers, even when malls are seen to be underperforming and in need of fresh impetus.

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Burgeoning middle class boosts consumption levels; development moratorium in central Jakarta starts to bite; regional investors keen to gain a foothold in the real estate market

FEEDBACK

ON BEHALF OF THE RETAIL TEAM AT CBRE, WE HOPE YOU ENJOYED THE 6TH EDITION OF SHOPFRONT MAGAZINE.

We produce ShopFront to provide useful insight on the global retail market. We would love to receive your feedback.

Please send your comments to emea.retail@cbre.com

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