

# GLOBAL RETAIL NEWSLETTER

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### INTERNATIONAL

#### **Profitability : EBIT comparison between foreign retailers and French retailers shows that foreign retailers have higher margins.**

In France, the growth gap between industrials and retailers is to the profit of the industrials.

The FCD survey by Casas & Associés compares results of 25 food retailers (5 French, 13 Europeans excluding France and 7 North-Americans) with 25 worldwide industrials of consumer goods (9 French, 8 Europeans excluding France and 8 Americans).

From the comparison of 5 French surveyed retailers (Auchan, Carrefour, Casino, Guyenne & Gascogne and Sogara) and 9 French industrials (Bonduelle, Bongrain, Danone, Fleury Michon, Fromageries Bel, l'Oréal, Pernod, Rémy Cointreau and Seb),

it appears that following the Law of Economy Modernization in 2008, the EBIT gap between the two sectors grew to the profit of the industrials with 9.2 points in 2009 : 12.9% for the first category and 3.7% for the retailers. As for EBITDA, the gap is 9.6 points.

Between 2000 and 2009, EBIT margin of retailers grew from 3.5% to 3.7% and EBITDA from 6.0% to 6.1%. Meanwhile, EBIT of industrials rose from 8.6% to 12.9% and EBITDA from 12.1% to 15.7%.

More precisely, between 2008 and 2009, EBIT at retailers slid from 3.9% to 3.7% in 2009. On the other hand, EBIT at industrials rose from 12.1% to 12.9% last year. EBITDA fell from 6.2% to 6.1% for the first category and grew from 14.6% to 15.7% for the second category.

#### **EBIT comparison of foreign retailers vs. French retailers.**

Foreign retailers		French retailers	
Target, USA	7.4%	Casino	4.5%
Colruyt, Belgium	7.0%	Auchan	3.3%
Publix, USA	6.9%	Carrefour	3.2%
Tesco, U-K	6.0%	Sogara	2.7%
Wal-Mart, USA	5.9%	Guyenne et Gascogne	1.3%

Source : Casas & Associés/FCD

### EUROPE

#### **British Resolution Property acquired McArthurGlen in Troyes (France) for € 85.5 million.**

This outlet village, opened in 1995, covers 30,000 sq.m of commercial space at one hour and half from Paris. It has 118 units and attracts 3 million visitors per year. It was Continental Europe's first designer outlet village by McArthurGlen and Henderson Global Investors bought it in 2004. Henderson in its turn sold it to UK-based Resolution Property via its European Outlet Mall Fund.

Resolution Property was founded by Robert Laurence in March 1998 in view to invest in European commercial real estate offering high returns. Its investment capacity amounts to € 1.5 billion in Europe, United King-

dom included. It is the 1<sup>st</sup> transaction in France by the British fund for the account of Resolution Real Estate Fund III LP. The transaction was financed by the German bank Helaba.

Once the operation concluded, McArthur Glen remains a co-investor in the center and will be responsible for management and leasing.

### BELGIUM

#### **Delhaize Group : operating profit down in Q1.**

Net profit from continuing operation rose 2.6% to € 130 million (\$169 million) during the 3-month period. Operating profit was down 2.7% to € 241 million at actual exchange rates due to the weak dollar against

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the euro. It was up 1.7% at identical exchange rates. Revenues slid by 2.3% to € 4.97 billion.

The operation is still dependent from the competition official authorities approbation.

#### Sector information.

Q1, 2010 (in million)	Revenues	Operating margin	Operating profit (loss) 2010/2009
United States US\$	4,675 (-0.4%)	5.3%	248 (-6.9%)
United States €	3,381 (-6.2%)	5.3%	179 (-12.3%)
Belgium €	1,144 +5.2%	5.3%	61 +37.2%
Greece €	378 +9.2%	1.7%	6 +4.9%
Rest of the World € *	68 +28.3%	1.1%	1 +282.9%
Corporate €	-	NA	(6) +9.0%
Total €	4,971 (-2.3%)	4.8%	241 (-2.7%)

\* Rest of the World : Romania and Indonesia

source : Delhaize Group

In Belgium, same-store-sales grew significantly by 4.3% earning market shares since early 2009. Taking food price inflation into account, U.S. sales fell 0.4% to \$ 4.7 billion in line with expectations. Revenues were impacted by a negative comparable store sales evolution of 1.8%.

The Group confirms its forecast for the full year of an operating profit growth between 7 and 10% at identical exchange rates and reasserts that its growth this year will be mainly generated in the 2<sup>nd</sup> half. It plans to save € 300 million of cost saving in 2012 to lower prices and expand its fast-expanding low-price stores and develop in emerging markets.

## FRANCE

### Galleries Lafayette sold Cap 3000.

French real estate firm, Altarea, Predica, the person-insurance branch of Crédit Agricole and Dutch pension fund ABP, have acquired Cap 3000 shopping center from the Aldeta branch of the Galleries Lafayette Group. The transaction amount of € 450 million represents a net initial yield of 4.65%. It was done through Altablue, which is equally-owned by each partner.

Cap 3000 shopping center houses the Galleries Lafayette department store (29,000 sq.m), Lafayette Gourmet (8,900 sq.m), 126 shops and posted € 340 million in sales in 2009. It is located on the seaside of Saint-Laurent du Var (Côte d'Azur) and it is France's 1<sup>st</sup> shopping center, opened in 1969, covering 65,000 sq.m of space and 2 levels. It is the 8<sup>th</sup> most important shopping center of France with sales exceeding € 11,000 per sq.m per year. The Galleries Lafayette department store, anchoring the center, retains their "fonds de commerce."

### Kiabi, France's clothing leading retailer, is expanding in foreign countries aggressively.

The ready-to-wear brand, controlled by the Mulliez family (Auchan...) operates 377 stores, including 77 outside France. Last year, it posted pre-tax sales of € 1.05 billion, an increase of 16.6%, including 863.3 million in France (up 15%), which represents 82% of total sales : it added 35 new stores in France, (14 affiliates and 21 owned-units) and 22 in foreign countries :

- **in Spain**, 59 stores are in operation, 10 will be added this year and 10 in 2011. Their sales rose 18% to € 141 millions in 2009,

- **Italy** runs 16 stores, 6 will be opened in 2010 and 8 in 2011, bringing the total to 30 by this year's end. They posted sales of € 34 million in 2009, up 79%,

- **in Romania**, where Kiabi has a presence since 2009, 3 stores are in operation in Bucharest. Two more will be added in 2010 and 20 over 2015,

- **in Portugal**, 6 to 7 former Vêti will adopt the Kiabi banner from September 2010,

- **in Russia** where Kiabi stopped its partnership with a local retailer in 2009 and closed 4 units last year, the retailer expects to open 4 owned-units this year in Moscow and the regions.

- **in Morocco**, a franchise project is under consideration.

Kiabi is growingly integrating the 84 former Vêti stores of the Groupe ment des Mousquetaires : 72 adopted the Kiabi banner since early 2010 and 12 more will adopt it by the end of this year and the remaining in 2011. For 2010, Kiabi forecasts € 1.3 billion in sales, including 20% in foreign countries, and to add 440 new stores including 330 in France.

## In short...

### Turkish discount retailer BIM aims to invest \$ 82.6 million to open 300 stores in 2010.

Turkey's second largest retailer by sales (\$ 1.69 billion), often qualified as the Turkish Aldi, expects to grow its sales by 25% this year and a net profit from \$ 140 to 146 million up from 135 million in 2009. In the 1<sup>st</sup> quarter, sales rose 29% to \$ 1.0 billion and net profit to 35.0 million. It has entered Morocco where it is to open 40 new stores in 2010...

### Carrefour seeks to acquire Ipek supermarkets in Turkey for \$ 29.8 million.

Ipek operates 27 supermarkets in Istanbul and its suburbs with sales of € 41 million in 2009. Carrefour is already present in this country via the local partner, Sabanci and holding companies Carrefour-SA and DiaSA, in which Carrefour has holdings of around 60%.

Last year, Carrefour Turkey (26 hypermarkets, 165 supermarkets and 675 discount stores) posted sales to € 1.3 billion. Once the transaction approved by local authorities, the Ipek stores will be rebranded Carrefour Express and Carrefour Market...

### Unibail Rodamco : French Lyon La Part-Dieu shopping center expanded its space recently by 15,000 new sq.m. adding 25 new stores including Monoprix (2 levels), Saturn electronics retailer (3 levels)...

Opened in 1975, La Part-Dieu houses now 260 shops covering 125,000 sq.m of total space and a 14-screen theater. In 2009, it posted sales of € 725 million. Unibail Rodamco is the majority co owner and manager and Redevo co owner...

### Ikea has planned to open 12 stores in Spain.

Swedish retailer invested € 60 million to open a 1<sup>st</sup> store of 30,000 sq.m in the northern region of Galicia in July. 12 more are expected to open in this country over 2015 for an investment of € 2 billion, bringing the total store count to 25 in this country...

**Few new shopping centers in Poland over 2012.**

Shopping center development will scale back in 2010-2011 due to the cancellation and suspension of a certain number of projects. During the period, the construction of 539,000 new sq.m GLA is expected to start according to Cushman & Wakefield. After the 2009 record year with 900,000 sq.m GLA absorbed due to the real estate boom, the market will face a significant drop. However, a major number of postponed projects might be launched again depending the availability of their financing...

**Wal-Mart might build its own stores in Russia.**

To enter this country, the retail giant has been studying several ways since 2007 : beyond the purchase of an existing chain such as Lenta, it could also build its own stores, units of 1,300 sq.m, in sectors of high residential density...

**Majid Al Futtaim (MAF Properties) will invest \$ 3.5 billion over the next 5 years in 4 new shopping centers in Syria, Egypt, Lebanon and the Emirates.**

MAF Properties, the franchisee partner of Carrefour in Middle East, recently announced studying a shopping center and office project in Syria for an investment of \$ 817 million. It has ventured in an ambitious development program with the hope to double its portfolio by 2015 via 14 schemes in Saudi Arabia, Yemen, Qatar, Emirates, Egypt, Lebanon, Syria and Oman...

**Uniqlo has opened its largest flagship in Shanghai mid-May during the opening of the World Expo.** This shop of 3,000 sq.m will be Fast Retailing largest flagship in Asia and the world's 4th largest after New York, Paris and London. Present in China since 2002, Uniqlo will have henceforth 65 shops and expects to be soon present in Beijing.

In April, Uniqlo same-store-sales fell by 12.4% following a first drop of 16.4% in March. Reasons would be tied to bad climate conditions.

**Pinault Printemps Redoute : in the first quarter 2010 activity rebounded in the Group's 3 banners : Fnac, Conforama and Redcats.**

PPR retail and luxury conglomerate posted quarterly sales of € 4.13 billion, a 1.2% rise in sales from continuing operation compared with 4.08 billion a year earlier. It was up 1.3% on a like-for-like basis, driven by the luxury division of Gucci Group (€ 895 millions, +6.1%).

Sales at Fnac (books, consumer electronics) gained 1.6% on a comparable basis with a small drop in France (down 0.6%) but online sales up 15%. For Redcats, home to the clothing and homeware catalog La Redoute, comparable sales were down just 0.5% only to € 844 million (-2.6% in reported terms).

At Conforama, 1<sup>st</sup> quarter was the best one in 2 years as sales rose 2.6% to € 730.1 million and the branch earned market shares. The furniture retailer that became N°2 behind Ikea in 2009 has enforced a refurbishment program in 181 stores in France. It has introduced a new kitchen and decoration concept in 12 stores today and in 15 before by the end of 2010. A decoration department will be added this summer in 40 more. The Confo Déco new banner will be launched for stores of 500 to 700 sq.m in high-streets or shopping centers. 1<sup>st</sup> unit will be opened in the Lyon La Part Dieu mall in October and 3 to 5 will be added every year.

Sales at sportswear brand Puma fell 2.7% to € 683 million. Activity was impacted by store closures as part of the brand's network optimization plan. Shoes fell 5.1%, accessories 1.6% and clothing gained 1.2%. In the second quarter, new stores will be added in Asia, Latin America and probably in the U.S.

PPR aims to divest of 3 retail banners : Conforama, Fnac and Redcats and restructure the firm around luxury and sportswear brands.

**PPR : sales breakdown.**

(in € m)	Q1 2010	change reported	change comparable
Fnac	982	+2.4%	+1.6%
Redcats Group	844	-2.6	-0.5
Conforama	730	+2.9	+2.6
Puma	683	-2.1	-2.7
Gucci Group	895	+4.7	+6.1
Inter-company sales and other	-5	Ns	Ns
Continuing operations	4 129	+1.2	+1.3

Source : PPR

**Foreign fast food chains in France : KFC, McDonald's and the others...**

Kentucky Fried Chicken, one of Yum Brands banners, seeks to reinforce its presence in France where it is to open its 100<sup>th</sup> unit expecting to have 300 of them over 2015.

As France is one of the largest countries for restaurants in Europe, KFC generates average sales of \$ 4 million a year and competition is less fierce in this market dominated by McDonald's and Quick.

Its mother company, Yum Brands (more than 37,000 fast foods worldwide) considers France as an expansion ground for a wider development in Continental Europe where KFC operates 800 restaurants only far behind McDonald's (5,600). Present in the hexagon since 2001, Yum invested there an excess of \$ 300 million and is now profitable. Though the chain owns and operates most of its units, it plans to develop through franchise over 2015 and expects annual profits of \$ 100 million.

The U.S. being now a mature market, Yum is expanding worldwide. China is now its largest growth market and it expects a wide expansion in India with the aim to open 1,000 locations there.

McDonald's, which has a presence in France since 1979, has adapted its menu to the local tastes, sells beer and soft drinks and recently introduced a kind of macaroon. In 2009, the chain opened a fast food unit inside the Louvre Museum and has now 1,161 restaurants in France planning to add 30 more next year.

Today, McDo has launched a new formula. While passing through an automatic order machine, customers before paying have to precise their choice : if they want to be served or prefer to come to pick their order up at the check out. More than 500 restaurants are equipped this way and more than 800 will be before the end →

of this year. It is also testing a "salad bar" and an online pre-order service according to which customers have to go to pick up and pay their order at a special counter.

## GERMANY

### Metro, back on a profitable growth track.

In the 1<sup>st</sup> quarter, world's 4<sup>th</sup> largest retailer behind Wal-Mart, Carrefour and Tesco, posted EBIT before exceptional items up 55.9% to € 136 million (\$ 181.1 million) for the 1<sup>st</sup> time since 2008.

Sales, driven by international markets, rose 2.3% to € 15.5 billion exceeding projections. These figures benefited mainly from the Shape 2012 efficiency and value enhancement programme, into practice in January 2009 to fight the global crisis. They also enjoyed from the positive currency change effect and the earlier Easter business. Loss was cut from € 98 million to 16 million in one year. Net debt fell by 731 million to 7.1 billion to March 31. In all, the Group cut 8,600 jobs in 2009, which contributed to grow profit by 84 million in the 1<sup>st</sup> quarter.

In the Cash & Carry division, EBIT rose to € 25 million from 10 million a year earlier and sales declined by 1.9%. At Media Markt/Saturn, EBIT was up 2.5% and revenue excluding currency 4.9%. Real hypermarkets cut their operating loss by more than half to 24 million and sales climbed 4.4% to 2.7 billion. Kaufhof department stores, whose sales rose 3.4% to 0.8 billion (same-store-sales +2.9%) also cut their loss to € 19 million. They might be sold between € 2 to 3 billion, real estate included, in 2010. Several bidders are interested.

By region, revenue slid 0.7% in Germany (€ 6.2 billion), which represents more than 40% of sales. It grew by 4.3% in Western Europe (excluding Germany) to 4.9 billion, by 5% in Eastern Europe (€ 3.7 billion) and by 2% in the Asia-Africa region (0.7 billion). In short, international sales rose 4.4% to 9.3 billion. Excluding the currency change impact, they rose 2.2%. Consequently, they now account for 60.1% of total sales up from 58.9%.

As for 2010, the Group maintains

its sales growth forecasts below 6% and EBIT to exceed the € 2.02 billion of 2009. It plans to save € 1.5 billion over 2012 and add 95 new stores up from 80 in 2009 while focusing on Eastern Europe and Asia. According to its restructuring program, the international wholesale division will be divided into 2 units, one for Europe, Middle East and North Africa and one for Asia and new markets.

## ITALY

### Allianz Real Estate acquires Porta di Roma in partnership with Corio.

The real estate arm of Allianz Group has finalized the acquisition of this shopping center from Porta di Roma and Gallerie Commerciali Italia firms for € 440 million with a net initial yield of 6.4%.

In a second transaction, Allianz sold a 50%-stake to Corio, both partners becoming co owners this way. Corio Italy will be in charge of the real estate assets and portfolio, of the leasing and re leasing. Auchan hypermarket is not included in this transaction.

Porta di Roma, opened in July 2007, next to Rome, is Italy's largest shopping center covering 97,000 sq.m of total space. 73,500 sq.m are owned by the joint-venture firm and the rest by French Auchan. It includes 241 stores, a Auchan hypermarket (23,500 sq.m, 2 levels), a 14-screen-theater and 7,200 parking spaces. It is located in the 1<sup>st</sup> phase of an urban redevelopment project, which will include lodgings, hotels, offices, leisure activities, schools and parks.

The retail park including Leroy Merlin, Ikea... is not included in the transaction.

## NETHERLANDS

### Corio expects to invest € 4 billion in acquisitions over 2015.

In March, the Dutch real estate firm acquired the portfolio of European shopping centers valued € 1.3 billion from Multi Corp developer, the commercial shopping center and leisure park La Vele in Sardinia (Cagliari) for € 103 million and launched an offer on 600 million of shares. Henceforth, Corio will drive about 70% outside its home market, the Netherlands.

Early May, Corio acquired also 50% of the Porta di Roma shopping center in Italy for € 220 million in partnership with Allianz Real Estate, a branch of the German insurer Allianz SE.

In 2009, the net value of assets of its real estate portfolio had fallen by 15.1% and the firm unveiled a loss of € 131.9 million in the year. Then, it earned a profit in the second half and again a net profit of 43.2 million in Q1 2010 compared with a loss of 105.1 million one year earlier.

Excluding Porta di Roma, the portfolio value grew to € 6.5 billion to the end of March from 5.9 billion at the end of December. According to Gerard Groener, ceo, the total, including recent acquisitions and projects in the pipeline, is worth nearly € 10 billion and as the firm is profitable again, it is ready for new transactions.

A beachhead was opened in Germany and Corio expanded in the markets of South Europe as it seeks to still grow its real estate portfolio by € 3 to 5 new billion over 2015. As for now, it is the only most active investor in the European retail property. In the 1<sup>st</sup> quarter, investments in European commercial real estate to →

### Top Ten European retail developers by total area (built and in development).

firms	headquarters	surface in 2010 (sq.m)	surface in 2009 (sq.m)
Multi	Netherlands	1,292,000	2,680,000
Ece Projektmanagement	Germany	718,000	901,000
Trigranit Dev.Corp	Hungary	678,000	677,000
Net	Netherlands/Israel	579,000	308,000
ING Real Estate Dev	Netherlands	567,000	730,000
Apsys	France	460,000	394,000
MAB Development	Netherlands	398,000	267,000
Raiffeisen Evolution	France	344,000	-
Unibail Rodamco	France	344,000	413,000
Hammerson	United Kingdom	324,000	-

Source : Propertyeu

# THE MOST INTERNATIONAL RETAILERS IN 2009/10

## Most preferred destinations for retailers venturing outside their base

### Key factors.

According to the annual global retail report by CB Richard Ellis (CBRE) of 294 global retailers in 69 countries, it appears that retailers from all sectors continued their international expansion despite the global economic and financial crisis. They reinforced their presence outside their own country by 12% approximately in 2008 and slowed down this growth pace to 4% in 2009. In short, they not only went on internationalizing but globalizing as more than 40% of all new destinations in 2008 were outside their own base, a percentage that rose to 43% in 2009.

- 49% of all retailers, or almost half of them, were present in each of the 3 main regions of the world, but this presence has varied highly. The most international retailers were present in more than 60 countries and 170 cities. Others were present in the 3 regions, but only in 5 to 10 key markets and in 10 to 15 major cities.

- retailers from the luxury, value and denim sectors apparently have the largest networks, operating stores in about 25 countries and 5 to 55 cities. They also are the most international, 70 to 80% of them having expanded across the three global regions.

Supermarket chains are generally present in 10 countries and 30 cities. Department stores and home improvement specialized retailers have more limited networks and are expected to expand their presence outside their own base.

- North-American retailers are the most international, 70% of those who are analyzed in this report are present in the three major global regions. Their preferred destinations are London, Dubai, Tokyo, Sydney and Mexico City.

- Europeans are in priority present in the Middle East, a region accounting for one of their 6 preferred markets outside Europe. China is also a key target (Beijing, Hong Kong and Shanghai).

- Asian brands are expanding less and 60% of the surveyed retailers stay in their own country. When they decide to internationalize, their preferred cities are London, Dubai, New York and Paris.

**- United Kingdom remains the most important market for international retailers thanks to the power of London.** The country has attracted 58% of these surveyed retail brands or much more than any other country across the world and almost all of them are present in London despite the global economic crisis. Generally, Europe is the most international retail market. This region continued dominating the ranking of the Top 20 countries and the 5 largest economies are all sitting among the Top 8 international retail destinations.

- The Emirates are sitting in the second position of the

most preferred destinations of the international retailers, the United States in the 3<sup>rd</sup> and China in the 5<sup>th</sup>. It mirrors the manner in which they target emerging markets in addition to more retail established destinations.

### Top 15 global countries in 2010

Rank 2010	country	% of retailers present :	Rank 2009
1	United Kingdom	58	1
2	United Arab Emirates	54	3=
3	United States	51	2
4	France	50	3=
5	China	47	7
6	Spain	46	5
7	Germany	45	6
8	Italy	45	8
9	Saudi Arabia	43	10
10	Hong Kong	42	9
11	Kuwait	41	12=
12	Russia	41	11
13	Japan	39	12=
14	Singapore	38	14
15	Belgium	37	17=

Source : CBRE

- London is the world's most important city for retailers and 56% of them are present there, followed by Dubai with 55% and by Paris and New York, in the 3<sup>rd</sup> and 4<sup>th</sup> positions respectively. Retailers are also clearly attracted by Asia : Hong Kong, Beijing, Tokyo and Shanghai being in the 5<sup>th</sup> to 8<sup>th</sup> positions respectively. These cities dominate for luxury and the clothing/footwear sectors.

- Hong Kong is ranked 1<sup>st</sup> for the luxury and fashion markets attracting more than 90% of the sector's retailers. London is ranked next, Dubai 3<sup>rd</sup> followed by Taipei 4<sup>th</sup>. Asian cities attract a much more important percentage of luxury brands than any other retail segment,

- Middle East cities attract mid-range fashion retailers. Dubai, Kuwait City, Riyadh, Jeddah and Abu Dhabi are all sitting in the Top 10 positions. China and India attract the highest proportion of consumer electronics specialized retailers, their cities sitting among the top 4 positions of the 5 preferred cities.

- luxury and mid-range fashion retailers were the most active accounting for more than 40% of all new entrants on new markets. While value and denim retailers were the fastest, on average they settled in less than 2 new countries and 5 new cities last year, or more than double the average growth rate.

This ranking has become increasingly global in 2009 as retailers have targeted emerging key markets in addition to more established retail countries. China has emerged in the Top 5 positions for the 1<sup>st</sup> time with 47% of present retailers.

**Globalization by sectors : percentage of retailers present in all three global regions : 49%**

sectors	%
Luxury	81
Value/denim	67
Other	65
Clothing	58
Coffee/restaurants	44
Consumer electronics	43
Mid-range fashion	37
Supermarkets	25
Dept.stores/homeware	17

*Source : CBRE*

On the geographic level, the primary beneficiaries of this global expansion were, once more, emerging markets, Middle East, Asia and Eastern Europe dominating the list of the new openings.

Middle East saw a strong growth of retailers from the fashion sector but the majority of new entrants mainly came from the luxury sector. However, most of the new openings in Central and Eastern Europe emerged from the mid-range fashion and value segments.

Growth in Asia was particularly led by the luxury sector but cities registering most of the new entrants succeeded in attracting retailers from a wide sector panel. However, the majority of openings in Central and Eastern were by mid-range fashion and value retailers. Middle East markets also registered the highest growth from the luxury and fashion retailers.

Among the cities registering the highest number of new retailers, there is a strong proportion of smaller cities, which so far had attracted a relatively weak part of international retailers. Consequently, the Top 5 most international retail markets remained unchanged in 2009 compared with 2008. However, a certain number of countries down in the rankings have improved significantly among which Shanghai, which moved up from the 12<sup>th</sup> position to the 8<sup>th</sup>, Riyadh (from the 25<sup>th</sup> to the 14<sup>th</sup>), Jeddah (from the 26<sup>th</sup> to the 15<sup>th</sup>) and Kuwait City from the 28<sup>th</sup> to the 17<sup>th</sup>.

**Factors to attract retailers to emerging markets.**

Retailers continued being attracted by various factors in emerging markets including the inherent potential in the medium term. Finding suitable locations is often difficult even a barrier. The opening of a large number of new shopping centers often stimulates them to open a first store in a market. It is to be seen if the current slow-down of projects will limit opportunities for retailers in their future expansion. It is essential to make distinctions between short-term cyclical schemes and longer-term strategic trends. For many of them, the strategic imperative of their brand development in regional and international markets will remain essential. For some of them, the current environment continues offering opportunities to increase their market share through organic growth or acquisition of weaker competitors.■

**Top 15 global cities in 2010.**

Rank 2010	city	% of retailers in city :	Rank 2009
1	London	56	1
2	Dubai	55	2
3	Paris	46	3
4	New York	44	4
5	Hong Kong	43	5
6	Beijing	41	9
7	Tokyo	40	7
8	Shanghai	40	12
9	Moscow	40	10
10	Madrid	39	6
11	Milan	39	16
12	Los Angeles	39	10
13	Singapore	39	8
14	Riyadh	38	25
15	Jeddah	38	26

*Source : CBRE*

*Note : data not available for all retailers at city level*



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# EMERGENCE OF BIG MALLS IN BRAZILIAN AMAZON

Today, at least 5 cities of Brazilian Amazon have populations exceeding 300,000 inhabitants, a sufficient number to attract national retailers. By the end of 2010, 4 of the 5 largest will see the emergence of modern shopping malls and developers are studying projects for 3 more cities.

Shopping centers are emerging in the following cities of Brazilian Amazon :

- **Macapa** (366,000 inhabitants), a shopping center is being built and a second is being studied,
- **Manaus** (1.74 million), 2 big shopping centers, 2 neighborhood centers,
- **Santarém** (277,000), a developer bought a piece of land to build a mall,
- **Belém** (1.90 million), 3 big shopping centers in the suburbs,
- **Rio Branco** (306,000), a shopping center is being built,
- **Porto Velho** (383,000), a shopping center is opened and a second is in progress,
- **Maraba** (203,000), a developer bought a piece of land to build a mall.

Proliferation of these centers in the rain forest zones is a step for this region. In fact, a modern consumer economy is taking place there while most people considered it as a jungle. As a sign of change, the government of Brazil announced recently that retail sales in the State of Amazon Rondônia, home of the Porto Velho shopping center, had grown by 31.7% in the exercise closed in March. It is the country's second fastest rate and twice the rate of the national average. In the State of Acre, East of Peru where the construction of Rio Branco mall started in March, sales rose 31.5%, Brazil's 3<sup>rd</sup> fastest rate.

Amazon's consumer growth underlines the national economic boom. The standard of living of the poor and working classes was lifted, poor families received cash subsidies and firms got subsidized loans from the federal bank of Amazon. Hydroelectric dam projects create jobs and investments. The urban population is growing thanks to these jobs and government services. Consequently, it has now more power to ask for roads, factories, plants...

On the environment level, there is no opposition to mall construction in the deforested zone as the official goal is to channel the inevitable economic growth in activities that do not require cutting more trees. "The arrival of shopping centers is part of a global trend," said a former governor and leading environmentalist from Rio Branco, "Our biggest challenge is creating a model of sustainable economic development that includes the people who live in the forest."

The purchasing power is sufficient in this region to attract international investors now. Canada-based **Ivanhoe Cambridge** is a partner in the Porto Velho mall project. Pension funds invested in Rio Branco. In 2007, the Brazil-

ian real estate firm, **BRMall**, owned partly by the American businessman Sam Zell, took a stake in the region's oldest shopping center, Amazonas Shopping, located in the heart of Manaus.

In Porto Velho, the capital of a highly deforested State, business is now booming : the brand new air-conditioned shopping center has changed everything from the landscape to the economy and social habits of the border-city. The population grew with the arrival of thousands of settlers following the construction of new roads in the region in the Eighties. Building workers and engineers rushed there to build two hydroelectric projects accounting for several U.S. billion.

Changes are not only social. The mall put a huge pressure on the local retailers, pushing them to improve their service and lower their prices, changing their attitude this way. 50 national chains, including the Lojas Americanas (American Stores) department stores opened their first shops there. Competition pushed some retailers to close their doors and others to improve their business to survive.

Building shopping centers in Amazon is not a new idea. Already, under the military government between 1964 and 1985, roads were built and pioneers were subsidized to settle in new active cities. But it was a failure as the rain forest land was not fertile. Today, the economy of the region is changing. While experimenting fertilizers and some technologies, farmers and ranchers have learnt how to draw a better profit from the earth. New roads have linked cities that were formerly isolated, this way giving birth to local markets, and extend up to neighboring countries such as Peru, growing commercial links.

Brazilian Amazon's 1<sup>st</sup> shopping center was opened in Manaus in 1991, a city of 1.7 million inhabitants, whose prosperity was tied to its special status of free zone. In April 2009, the Manauara Shopping center of 227 shops opened in its vicinity with jungle trees in the fast food court, financed partly by the American developer **Developers Diversified Realty**. Since, at least 2 groups of developers are considering other projects in this same city.

These centers are opened also in secondary cities of Amazon such as Porto Velho and Rio Branco, in which investments seemed impossible ten years ago. In Macapa, a project is under way in this State capital in the north bank of the Amazon River, inaccessible from the rest of the country by the road. A second group of investors is considering a competing project. Developers bought pieces of land in the port city of Santarém (277,000 inhabitants) and in the mining city of Maraba.

In the Rio Branco region, consumption grew very rapidly. Data show the growing population and higher revenues. Parks, well-lit streets and a pedestrian bridge over the river were built, zoning laws voted and corrup-

tion swept out. Other encouraging signs : a road opened from Rio Branco leads across the Peru border, over the Andes to the ports of the Pacific coast that may soon become a major transit point for imports and exports to China.

LGR has acquired a piece of land at the intersection of the new road to Peru and near the highway linking Rio Branco to the rest of Brazil. The Via Verde Mall that houses 161 stores is due to be completed towards mid 2011. A hotel will also be built there. It is the State's largest private investment, attracting firms such as **Makro**, which opened a warehouse club nearby recently and

**Carrefour** has planned a store there.

Now, building a mall in a city of the Amazon region such as Rio Branco has several challenges : rains are strong during almost six months. In the dry season, workers have to hurry to build the structure and the roof to let people work inside during the rains. Now, in case the deadline is not respected, it could lead to the loss of an entire year. In addition, building materials cost more as they have to be carried during thousands of kilometers. The easiest job was to find retailers for this mall and its space was almost entirely let before its opening. ■

Source : *The Wall Street Journal*, John Lyons

STUDIES

## Boosted by consumers' changing attitude, an increasingly number of retailers are attracted by factory outlet centers.

Consumers spend with parsimony and nevertheless continue being interested in brands. Hence the permanent success of the outlet stores, which offer high rebates, and answer to their demand for outlet value, a combination of quality, price and brands.

The largest real estate acquisition, which is due to be closed this year, the most important since 2007, is led by Simon Property Group on the Prime Outlets portfolio of 22 centers from Lightstone Group and Lightstone Value Plus REIT for \$ 2.3 billion. In the 3<sup>rd</sup> quarter 2009, Simon Property Group unveiled that sales per sq.m at its outlet centers was on average \$ 5,300 per sq.m vs. 4,710 at its malls.

In addition, the comparable sales growth at its outlet centers outpaced growth at regional malls by 400 basis points on average per year since 2006 according to a report by Crédit Suisse. At Simon, for example, sales at outlet centers rose 7.0% in 2007 compared with 3.2% at regional malls. In 2008, they gained 1.8% while they were down 4.3% at regional malls. In 2009, while comparable sales at outlet centers decreased by 4.5%, it was still better than the 11.2%-decline at its regional malls. Meanwhile, the occupancy rate at the outlet centers was 97.5% up from 91.4% at its regional malls.

Outlet centers offer attractive prospects to expanding retailers since they propose more flexible leases. In fact, they are generally less expensive than regional malls. Still at Simon centers, leases were on average \$ 4,300 per sq.m at its regional malls vs. 3,500 at its outlets centers to the end of September 2009. In addition, rents at outlet centers are more tied to store sales performance and common area charges and build-out costs are much cheaper than at regional malls.

### Retail center occupancy costs

average sales/sq.m	occupancy costs
Less than \$ 2,690	9%-11%
\$ 2,690 -3,230	11%-13%
\$ 3,230- 3,765	13%-14%
Greater than \$ 3,765	14%-16%

Source : *Moody's*

According to Moody's, the occupation costs in mall can exceed 15% of sales. At outlet centers, at Tanger for

example, they are approximately 8.5% up from 8.2% in 2008, 7.7% in 2007 and 7.4% in 2006. If they exceed 10%, they will be much below the malls.

In the past, the retailers used outlet stores to get rid of their overruns and closeouts. They are now specialized retailers offering among the best brands and benefiting from low development, maintenance and rental costs. But, there are approximately 1,400 regional malls in operation in the U.S compared with only 150 upscale factory outlet centers according to Crédit Suisse.

### Comparison between regional malls and outlets.

	regional malls	upscale outlets
Sales/sq.m (1)	\$ 5,055	\$ 5,520
3-year comp.trend (1)	-4.1%	1.4%
Sq.m growth(3)	-1%	-2%
Rent+overage/sq.m (1)	\$ 742	\$ 463
4-wall margin	18%	24%
Store build cost/sq.m	\$ 6,725	\$ 1,614
ROIC (2)	15%	39%

Sources : *company data, estim.. Crédit Suisse*

(1) based on Simon portfolio data

(2) estim. Crédit Suisse

(3) forward estimate

In 2009, outlet centers grew significantly in the 4<sup>th</sup> quarter. According to the CoStar research bureau, specialized in commercial real estate, the occupancy rate of traditional centers fell from 92% in 2007 to 89% in 2009 compared with 95% in the outlet centers.

### 2011 will be the growth year.

Outlet centers are now planning to reinforce their expansion in 2011. Of 313 chains, operating 16,560 stores at the end of 2009, 189 declared they would expand more over the end of 2011. Of these 189, 25 only had precise projects for 2010 or 2011.

As for 2010, 24 chains, operating 1,299 stores, will open 115 new stores. 25 more chains (1,316 stores) declared they would open 173 new outlets in 2011. 18 had precise plans for both years.

In the previous years, chains had very precise expansion plans in the short term and were not so precise for their projects over 1 to 2 years. ■

Sources : *Retail Traffic/Value Retail News*

taled € 5.4 billion up from 2.3 billion one year earlier according to Jones Lang LaSalle and Corio accounted for 25% of the total transactions. The average yield of the best European commercial assets was 5.29% in the 1<sup>st</sup> quarter according to CBRE. In its transaction of Porta di Roma, Corio got 6.4%.

## **UNITED KINGDOM**

### **Harrods sold to Qatar Holding for \$ 2.22 billion.**

Egyptian billionaire Mohamed Al Fayed sold the famous luxury department store, founded in 1849. Located in the residential district of Knightsbridge, it covers 1.8 hectare, 54,000 sq.m of sales space and 7 levels and is synonymous with high quality and fair taste. It is a British institution, which even the Queen likes shopping. It is also one of the most visited tourist sites of London as 15 million persons push its doors annually. In the past exercise, ended August 31 2009, it posted sales of \$ 687 million and net profit fell 19.4% to \$ 40.6 million partly due to exceptional items such as repairs to the store's façade.

In 1985, Harrods, which was part of the House of Fraser department store Group, was sold by Lonrho to Mohamed Al Fayed and his brother for £ 615 million, the equivalent today of \$ 2.1 billion. At that time, Harrods reported sales of £ 70 million.

M.Al Fayed controls an empire of \$ 1 billion whose activities are ranging from oil to hotels (the Ritz Hotel bought in 1979), through maritime and helicopter transportation means, banks, real estate and sports (the Fulham football club in England). He settled down in London during the Seventies and kept tight relationships with the Gulf Countries mainly with the Sheikh of Dubai. During those years, he would have invested the equivalent of \$ 592 million to transform Harrods into a retail jewel. He lost his son Dodi in a car crash in Paris with Princess Diana in 1997. He will remain honorary chairman of Harrods and Michael Ward, ceo.

Qatar Holding is the investment arm of the Qatar government, an oil-rich emirate, which is interested in prestigious brands in the sectors of finance, retail and industry. It al-

ready invested in U.K grocer Sainsbury as well as in banks Barclays and Credit Suisse Group, in auto market Porsche, Lagardere SCA, sports... Qatar Holding would plan to open smaller versions of Harrods (40,000 to 50,000 sq.m) in the Gulf region, where luxury shops generate sales of \$ 14,000 to 23,000 per sq.m and 8 shopping centers are currently being built.

### **Wal-Mart appointed a new president and CEO at the head of Asda.**

World's largest retailer by sales has chosen Andy Clarke, currently Operating Officer. He started working for Asda in 1992 then joined the clothing and homeware Matalan and grocer Iceland retailers between 2001 and 2005 and returned to Asda in 2007. He will have to make Asda an "even better food retailer, a broader nonfood retailer and a leader in e-commerce" according to Wal-Mart statement.

To reach this goal, Asda recently wrote plans for a major expansion of its non-food stores. Asda Living is expected to grow from 25 stores to 150 over 2015. Launched in 2004, they are mainly focusing on the exclusive sale of general merchandise including clothing and homeware. Asda also plans to open one hundred of small supermarkets.

Andy Clarke is succeeding Andy Bond, who stayed 5 years at the helm of Asda and remains henceforth chairman of the executive board.

Asda not only seeks to consolidate its second position behind Tesco as a grocer retailer but it also aims to become the 1<sup>st</sup> nonfood retailer by market share over five years. Now, its sales fell those past months. In the 1<sup>st</sup> quarter, to April 18, its annual sales growth of 2.5% was behind William Morrison Supermarket (6.6%), J.Sainsbury (4.1%) and Tesco (3.7%) according to Kantar Worldpanel. In addition, its market share fell for the first time in four years from 17% to 16.9% while its 3 main competitors earned respectively 11.8%, 16.4% and 30.5% for Tesco. Sales at stores open at least a year fell 0.3% excluding petrol during the three-month period for the 1<sup>st</sup> time in 4 years, impacted by the lower inflation of food prices.

Asda just bought 193 Netto dis-

count stores in U.K from Danish Dansk Supermarked for \$ 1.12 billion.

### **Sainsbury doubled its profits in 2009/10.**

For the full year, 3<sup>rd</sup> British grocer, unveiled a profit before tax up 57.3% to £ 733 million (€ 843.70 million). Total sales excluding fuel "outperformed" the market and rose 6.7% to £ 21.42 billion and like-for-like sales 4.3%. Underlying operating profit gained 8.9% to £ 671 million and 17.5% before tax.

Ceo Justin King said that 32% of spending at its stores was on promotions compared with 37% at other retailers. In 2009, he launched a coupon program.

Sainsbury focused highly on e-commerce whose sales were up 20% and on non-food whose growth was 3 times faster than food sales. In the full exercise, the retailer opened 51 convenience stores and 38 supermarkets for a total of 100,000 new gross space and plans to add 250,000 sq.m, or 15% of new space growth to March 2011. Last year, it registered 19 million of weekly customer transactions, an increase of one million in one year. Its real estate assets totaled £ 9.8 billion from 7.5 billion a year earlier and net debt fell to £ 1,549 billion.

## **NORTH AMERICA**

### **UNITED STATES**

#### **Owners and managers of American shopping centers.**

According to Retail Traffic, for the second year in a row, portfolios of the largest owners and managers of American real estate did not change much. In fact, the total space controlled by the Top Ten owners fell slightly last year compared with 2008. Most of them gave the impression of seeking to maintain their level rather than seeking new acquisitions.

This ranking does not take into account the transaction made by Simon Property Group of the Prime Outlet portfolio as the operation is not closed and the situation of General Growth Properties is not yet solved and will change totally its composition. →

Westfield Group announced it is to restart developments. After having stopped every commercial project since early 2009, the world's largest owner of shopping centers by the market value is ready to restart its activity this year and invest US\$ 927 million in all including 200 million in the U.S and 700 million in Australia as conditions are beginning improving after the stability in the second half of 2009. It announced working on future developments of \$ 10 billion and expects to start by those of \$ 500 million to 1 billion as soon as 2011.

growth in the U.S would be driven by "new innovative formats". To reach this goal, it will be less focused on supercenters and more on smaller urban stores and zones where consumers can pick up their online orders.

Those past years, the retailer highly slowed down its openings of new hypermarkets (supercenters) in the U.S, from 132 in 2007 to 49 in 2009, bringing their total to 2,747. It operates also smaller formats : 152 Neighborhood Markets, focused on food and located in small cities and

range from 1,350 to 1,450 sq.m and by the American Aldi discount stores (1,500 sq.m of average space), which grew during the crisis. At Supervalu, managed by a former ceo of Wal-Mart Latin America, the aim is to double the Save-A-Lot store number from 1,197 to 2,400 by 2015. On its side, Aldi opened 83 discount units in one year and just entered Texas. It expects to add 72 new stores by the end of 2010 bringing its total to 1,084 in 31 States.

**Top Ten American shopping center owners in 2009 according to total retail GLA owned in and outside the U.S.**

developers	shopping center number	total GLA area (million sq.m)
1 Simon Property Group	382	23.05+1.5 *
2 General Growth Properties	246	16.43
3 Developers Diversified	665	12.47+0.750*
4 Kimco Realty Corp	951	10.30+0.200*
5 Centro Properties Group	719	8.8+0.194*
6 CBL & Associates Properties	135	7.4
7 Macerich Company		6.7
8 The Inland Real Estate Group	1,225	6.5
9 Westfield LLC	119	5.6+0.460*
10 Weingarten Realty	307	4.7

Source : Retail Traffic \* international GLA owned

As concern managers, Jones Lang LaSalle Americas grew its portfolio significantly in the U.S by almost 2 million sq.m, jumping up to N°8 from the 12<sup>th</sup> in the year before.

suburbs, are units of 3,600 sq.m of space. It tested Marketside, 4 units of 1,350 sq.m only with first disappointing performance and Supermercado de Wal-Mart catering to Hispanic

**Top Ten managers of US shopping centers in 2009 according to total retail GLA managed in and outside the U.S.**

managers	shopping center number	total GLA area (million sq.m)
1 Simon Property Group	387	21.51+1.4 *
2 General Growth Properties	-	18.00
3 Developers Diversified Realty	665	13.86+0.750*
4 Kimco Realty	13	10.5
5 Centro PropertiesGroup	719	8.85+1.9
6 CBL & Associates Properties	144	7.7
7 Jones Lang LaSalle Americas	9,517	7.18+15.4*
8 The Inland Real Estate Group	1,225	6.5
9 Macerich Company	-	6.3
10 CB Richard Ellis Group	-	6.2

Source : Retail Traffic \* international GLA managed

In all, the Top 100 owners of retail estate in the U.S control a little more than 200 million sq.m, including more than 50% concentrated in the hand of the Top Ten.

customers. In Mexico, where it is the retail leader, it operates 7 various formats for various customer segments and most of them are smaller than its American supercenters.

**Wal-Mart changes strategy : it explores new ways, seeking to open small stores to fight against food discount stores that nibble a part of its core customers.**

Wal-Mart announced that its

While it registered 3 consecutive quarters of slowing sales in the U.S. to which it answered by price cuts on many products in April, it faced a stronger competition. It is led by discount store chains such as Save-A-Lot of Supervalu, whose stores

**Wal-Mart : U.S. slow growth in the 1<sup>st</sup> quarter. At Home Depot, net income jumped significantly.**

In the three-month period at Wal-Mart, sales remained low in the U.S and sales-for-sales fell for the 4<sup>th</sup> quarter in a row. Consequently, for the next quarters, the retail giant is expecting an uncertain period. It may feel the impact of its aggressive low price policy launched early this year as its gross margin fell from 24.7% to 24.6%. International sales rose 21%.

Net income grew to \$ 3.32 billion from 3.02 billion one year earlier, an increase of 10% boosted by growth outside the U.S, mainly in Mexico, Canada and China. It reported sales to \$ 99.1 billion, up 5.9% and down 1.4% on a like-for-like basis. It seems that low-income consumers in the U.S are still under pressure.

In the end, Wal-Mart suffered from high unemployment, high gas prices and competition in the U.S. In addition, the firm made mistakes as it stopped selling some brands to streamline the aspect of its shelves. 300 grocery of them are already being reintegrated. Clothing sales were particularly weak pushing also results down.

For the second quarter, Wal-Mart is expecting same-store-sales improving from less 2% to +1% excluding oil.

On its side, Home Depot (2,200 stores in the U.S. and 300 in China, Mexico and Canada), the world's largest DIY and home improvement retailer, said that for the three months to May 2 it made a profit of \$ 725 million compared with 514 million one year earlier. Sales rose 4.3% to \$ 16.86 billion. Like-for-like sales rose 4.8% and 3.3% in the U.S., the first quarter of growth since the end

of 2005, compared with a 8.6%-drop one year earlier. Growth may be due to rising sales of seasonal merchandise such as fertilizers, lawn mowers, grills and landscaping tools. However, sales of high-priced discretionary items such as special-order kitchens were soft and while sales of goods to contactors and builders, improved, they remained weak.

For full year, Home Depot expects sales up 3.5%.

## ASIA

### CHINA

**Chinese consumers are brand loyal. Important potential for Chinese factory outlet centers.**

In China, these centers are developed under the form of big buildings broken into several small structures of 30 to 50 sq.m. Tenants are independent retailers whose assortment is made of merchandise bought at wholesale prices. There are also shops operated by local franchisees, which pay percentage rate only. There are exceptions such as Shanghai Outlets in Qingpu where tenants are only national franchisees of international brands such as Nike, Adidas, Esprit, Benetton...

Some American firms bring Chinese developers their experience and advice in the field of factory outlet centers. They are :

- **Horizon Group Properties**, operating 5 FOC in the U.S. initiated a partnership with a Chinese developer, specialized in commercial and residential developments, to study the development of 5 schemes.

- **Urban Retail Properties**, present in China for several years, is a partner of the Shanghai Textile Co. Their association will lead to the refurbishment of a century-old factory in the Shanghai Fashion Center. The complex is formed of 6 elements : the factory outlets, a theater, offices, a hotel, a VIP club and food stores.

- **Leto Consulting** is working since 2009 with the CRED Real Estate Group to develop the first suburban shopping centers such as the Trendworld Mall (65,000 sq.m). 55% of the surface will be occupied by traditional stores and the rest by outlet stores.

According to the International Outlet Journal, 27 FOC are currently in operation in China and 11 more will be added over the next two years.

A recent survey by KPMG and led by TNS in the last quarter 2009 unveils that Chinese are looking for luxury brands. It is based on 927 consumers of 15 cities, between the ages 20 and 44. 72% of them declared that the crisis had almost no impact or little impact on them and 62% wanted to maintain their luxury spending this year. 54% and 44% respectively indicated that self-reward and pampering were now motivating factors for expensive merchandise.

Consumers of less important cities such as Nanjing, Xi'an and Chongqing had monthly revenues of \$ 659 at current exchange and consumers of Beijing, Shanghai, Guangzhou and Shenzhen \$ 952.

This survey shows the high potential for a greater use of technology to reach consumers via mobile telephones and 3G. 57% of the surveyed persons said they were interested in receiving updates on new offers or merchandise in limited edition via SMS. This information would push luxury brands to revise their marketing strategy to better fight competition.

**New foreign entrants in China will reinforce competition in the electronics market.**

Japanese **Laox** and Germany-based **Media Markt** announced they would open stores reinforcing the already fierce competition in this field. 1<sup>st</sup> Laox unit will be opened in June and followed by two more this year in other cities.

Media Markt, a part of Metro Ag and Europe's largest consumer electronics retailer, will open its 1<sup>st</sup> unit in China, in Shanghai, next October thanks to a cooperation agreement with Foxconn Technology Group, the manufacturer of the Apple iPhone. Based in Shenzhen, it was chosen for its experience and knowledge of the Chinese market. This unit will rapidly be followed by 12 more and in the medium term by one hundred in major cities over 2015.

The battle will also be led with the U.S. giant **Best Buy**, present in Shanghai since 2000, that operates

a dozen units under its own banner plus 150 Five Star and plans to add 10 to 15 new in 2010.

**Suning**, China's largest electronics retailer by the market value, operates an excess of 900 stores and plans to open 520 this year.

**Gome Electrical Appliances**, China's largest electronics retailer by sales with a 12% market share, does not consider these two new entrants as a threat to local retailers. In 2009, Gome unveiled a net profit up 34% to \$ 205 million after closing unprofitable units and refurbishing others. It operates about 1,000 outlets of 3,700 sq.m average space.

This firm, founded in 1993 in Beijing, started by selling TV sets, air conditioners and refrigerators at low prices while cutting middlemen and buying directly from the manufacturers. Today, Gome ("beautiful nation" in Chinese) has modified its strategy and sells Dell computers, iPods and Motorola cellular phones as they are small-sized goods not taking too much space in shelves and whose margins can be still higher than the traditional electronics.

### INDIA

**Will Carrefour enter India soon?**

World's second largest retailer has been studying the Indian market for several years and led talks with 2 or 3 potential partners in order to open cash & carry that never materialized. In 2007, it organized 2 separate divisions in India, Carrefour WC and C India Ltd to operate fully-owned wholesale stores and Carrefour India Master Franchise Co.Pvt. Ltd to associate with a local partner and open stores under the Carrefour brand in India.

Carrefour may associate with Future Group (Pantaloon, 125 Big Bazaar hypermarkets...), led by Kishore Biyani, to open 150 to 300 hypermarkets in franchise under the Carrefour brand over 2015 and paid to it under the form of royalties. In fact, the 1<sup>st</sup> fully owned-cash & carry would be opened at the end of June on 6,000 sq.m of space in Seelampur in New Delhi without a partner.

On its side, **Wal-Mart** declared that it was ready to launch its various brands over one year in case the Indian government would take the

decision to open the retail market to Foreign Direct Investments in the retail trade. The giant has a presence in India through a partnership agreement with Bharti to open cash & carry stores, a sector in which 100% of FDI are allowed. For the time being, only 2 wholesale units are opened in Punjab. Their aim is to operate 15 of them over the next three years (cf. GRN May 2010) while new regulations just reinforced concerning FDI in the wholesale trade. But very recently, it seems the government changes its mind.

Germany-based **Metro** has 5 wholesale stores in Bangalore, Hyderabad, Kolkata and Mumbai. **Tesco**, also present in this market, has signed supplying partnership agreements with Tata.

**Reliance Retail is focusing on hypermarket development.**

Second largest Indian retailer by sales has decided to concentrate on hypermarkets in its five-year expansion phase and to refine a plan to be sure having found the right location, the right format, the right offering, the right support service and the right infrastructure (the right supply chain, training and communication) according to its ceo, Gwyn Sundhaqui.

Initially, Reliance Retail had set to open 1,000 stores in 86 cities over 3 years until it was slowed down by the economic and political crisis when it entered states such as Uttar Pradesh and West Bengal. However, it succeeded in opening 400 units.

Reliance Retail currently operates more than 750 stores under 9 formats including convenience stores (Reliance Fresh and Reliance Super), hypermarkets (Reliance Mart), electronics outlets (Reliance Digital), clothing (Reliance Trends) and shoe stores (Reliance Footprint), bookstores (Timeout), optical centers (Vision Express)... It has forged alliances with international retailers such as Marks & Spencer, Office Depot and Hamley's (toys).

Its planned new hypermarkets will cover at least 8,000 sq.m of floor space and 1<sup>st</sup> unit is set to open in Thane, in the suburbs of Mumbai.

Competition will be fierce in the hypermarket sector : Future Group operates Big Bazaar, Trent Star Ba-

zaar, Aditya Birla Retail (More), K Raheja-Shoppers Stop (HyperCity), Max... Now, partnership agreements between Indian retailers and global retailers do not bother Reliance Retail such as the probable Future Group link with Carrefour, Trent with Tesco and Bharti Retail with Wal-Mart as its hired its new management team from Tesco, Wal-Mart, Asda, etc...

However, the firm is facing a challenge as it is still in the red even if some of its stores are already profitable.

**Will Gap have a presence in India ?**

The world's largest fashion chain (3,100 stores across the world and revenues of \$ 14.2 billion) had first thought to enter the Indian subcontinent a few years ago but did not materialized its project. India is not a new market for it as it tied relationships with many eminent local exporters of local clothing including Bombay Rayon Fashions, Gokaldas Images and Orient Craft, which supply its American stores. It may revise its projects and contact again eminent local manufacturers such as Reliance Brands, Madura Garments and Future Group, without signing any agreement.

We note that Gap is again interested in this market while its Spanish competitor Inditex is ready to open Zara outlets through a partnership agreement with Trent, the retail arm of Tata : 5 to 6 shops would be added this year in New Delhi, Mumbai and other major cities.

Gap, whose main brand is very famous in India, might adopt a more premium strategy in this country above the positioning of some of its brands in the U.S (Banana Republic, Old Navy).

**VIETNAM**

**Retail demand growth.**

In the 1st quarter of 2010, demand grew and is expected to follow its upward curb over the coming months according to CBRE Vietnam. Despite a lack of new available stocks, the retail market remained very active as sales rose significantly by 26.5% in the three-month period. "Many established foreign retailers have had to expand their locations into renovated shop houses along high-traffic,

main roads across Ha Noi."

In CBD (Central business districts), due to a limited supply, rents may continue rising : they grew by 1.37% to \$ 55 per sq.m per month in the first quarter of 2010 compared with the last quarter of 2009.

Outside CBDs, rents fell 2.25% in the last three-month of 2009 to approximately \$ 35 per sq.m per month in the 1<sup>st</sup> quarter this year. Meanwhile, the vacancy rate in non-CBD districts decreased to 25% in the 1<sup>st</sup> quarter 2010 from 31% in the last quarter.

By end of 2010, many suburban retail projects are expected to emerge such as Bac Ha Plaza, Grand Plaza and Pico Mall shopping centers and over the next two years, major projects will be completed including Indochina Plaza Ha Noi, Savico Plaza...

**MIDDLE EAST**

**Korath Holding to invest \$ 272 million to expand in the retail market.**

One of the oldest business groups in the Emirates, present in the retail market for more than 4 decades, will invest \$ 272.5 million over the next 3 years. KM Retail new division will focus on the opening of innovative retail formats based on modern international norms. It will add approximately 30 units including convenience stores, supermarkets, department stores and hypermarkets under the KM Daily, KM Value, KM Experience and KM brands. It also plans to open specialty stores later, all this will cover a total retail space of 100,000 sq.m in 2010. First unit, planned in May in the Emirates, will be followed by more in the GCC and India.

KM will be able to optimize its costs in several sectors thanks to synergies and internal resources within the Group including logistics, internal decoration, manufacturing, construction... ■