

# Global Retail MarketView

## Rental Growth Stalled

Global Research and Consulting

Q3 2011

### Quick Stats

#### CBRE Global Retail Rents Index

Change from Q2 11 Q3 10

Region	Q2 11	Q3 10
AMERICAS	↓	↑
ASIA PACIFIC	→	↑
EMEA	→	↑
GLOBAL	→	↑

Note: Rents quoted in this publication are prime rents not average rents. Please refer to the definition on Page 6

### Hot Topics

- Emerging markets are growing much more strongly than mature ones
- Consumer spending is under pressure due to the uncertain economic climate
- Prime rents have stalled in all regions
- Retailers are expanding with caution, but are more active in Asia

### Key

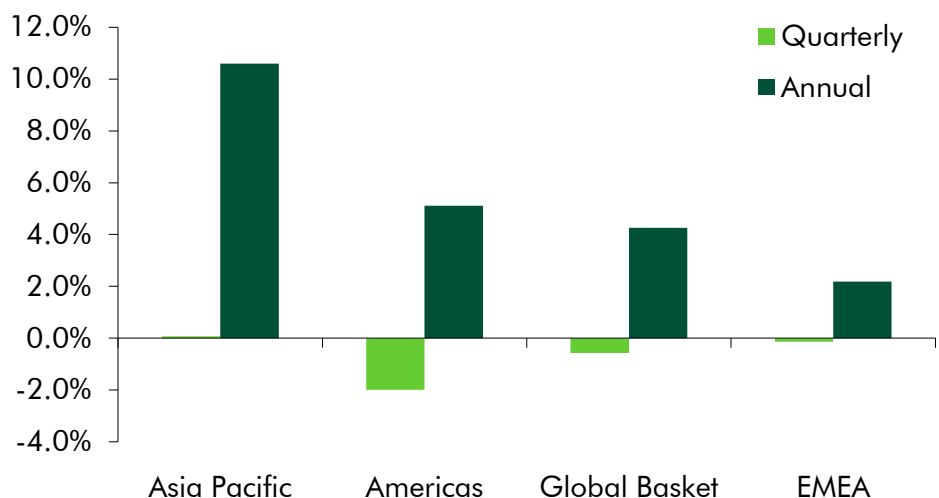
HS – High Street

SC – Shopping Centre

### OVERVIEW

- Rental growth for CBREs prime global basket of rents has been flat q-o-q in Q3 2011, with the Americas seeing a fall of 2.0% and Asia Pacific and EMEA seeing no growth. This represents a significant slowdown from earlier in the year as retailers take a more cautious approach to expansion. Nevertheless, there were major differences at city level, with rents rising by 52.8% in Hong Kong and falling by 25% in Santiago y-o-y.
- Emerging markets such as Brazil and Mexico in Latin America and China, Vietnam and Indonesia in the Asia Pacific region have seen the strongest growth in consumer spending. In contrast, in the mature markets of western Europe and North America the ongoing Eurozone crisis and a reduction in disposable income has seen consumers reign back on spending. As a consequence, retail sales have been flat in these markets in the first half of 2011.
- Despite the weakening consumer confidence levels seen in a wide range of global markets, retailers are still looking to expand their store networks. Asia in particular has seen significant levels of occupier demand in markets such as Singapore, China and India, whilst retailers in the US and Western Europe, in general, remain more cautious.
- A limited pipeline of new shopping centre space in Europe is making it difficult for some retailers to access the prime space they require. In contrast, a large quantity of new space will hit the Asian markets over the next two years, but mostly in fringe areas, so like Europe the supply of new space will remain limited in the most sought after locations. The US continues to be characterised by very low levels of retail centre development, with 2012 likely to see the lowest level on record.

### Annual and Quarterly Rental Change



Source: CBRE Research

### GLOBAL RETAIL RENTS

Overall rental growth globally has been flat q-o-q (-0.6%). The Americas saw negative growth of 2.0% with significant rental decreases in a number of markets including Vancouver, Santiago, Panama City and Buenos Aires; in contrast rental rises were seen in Montreal, Washington DC, Mexico City, and Dallas. The EMEA and Asia Pacific regions saw no growth on the quarter at -0.1% and 0.1% respectively. However, there were a range of rental movements seen in both regions ranging from growth of 5.6% in London and 2.0% in both Taipei and New Delhi to declines in Brisbane (-2.8%) and in Athens (-9.1%).

### GLOBAL ECONOMY

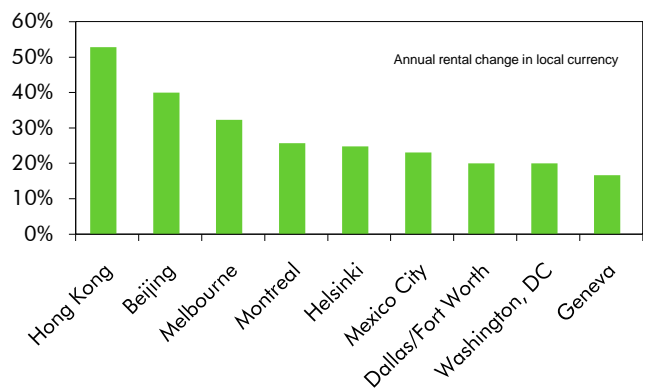
The global economy continues to underperform with recent forecasts from Oxford Economics predicting global GDP growth of just 2.8% in 2011. However, this hides wide disparities, with the US economy and the Eurozone, in particular, facing a real risk of falling back into recession whilst the Asian economies remain in relatively good health.

Economic growth in Asia Pacific began to moderate toward the end of the third quarter, although the region still managed to register a mild rebound from the dip in the previous quarter caused primarily by the March earthquake and tsunami in Japan.

GDP in Europe (EU27) grew by just 0.2% in Q2 compared with 0.8% in the previous quarter. The slow down in Germany's economy, which had been Europe's main engine for growth, played a significant role in this decline. The Eurozone debt crisis, which has seen a bailout for Greece and the growing threat of a default in Italy, continues to impact on consumer and business confidence and, at best, is likely to result in flat growth in the region for the remainder of the year, with substantial risk on the downside.

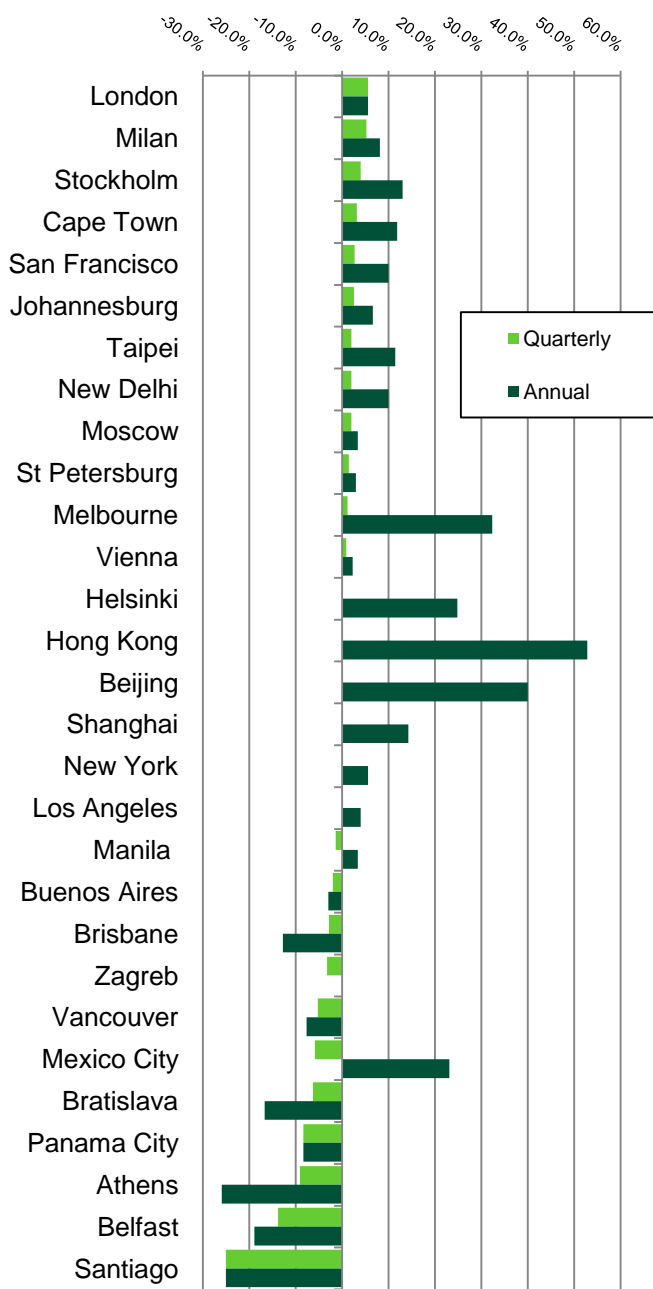
The US economy stalled in the first half of 2011, barely growing above 1.0%. Sovereign debt issues in Europe remain the biggest downside risk. Our outlook for US, however, calls for weak growth rather than another recession. Although consumer confidence is weak, spending is holding up better than sentiment would suggest. Moreover, the major business activity indexes in the US are far from recession levels. Third-quarter GDP came in at a stronger than expected 2.5% and Q4 2011 forecasts for US economic activity have been upwardly revised. The US economy is now expected to grow at a modest 1.7% this year and closer to 2.0% in 2012. US economic growth should gain traction after 2013 and the Federal Reserve will hold interest rates close to zero until then. Elsewhere in the Americas, the Canadian economy and Brazilian economy in particular are relatively stable.

### Fastest Growing Markets (Q3 2011)



Source: CBRE Research

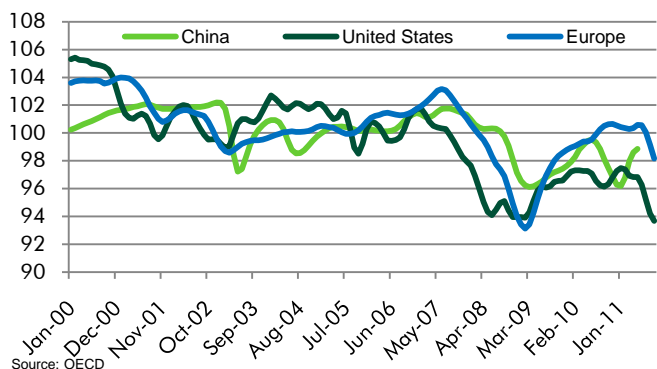
### Quarterly and Annual Rental Change



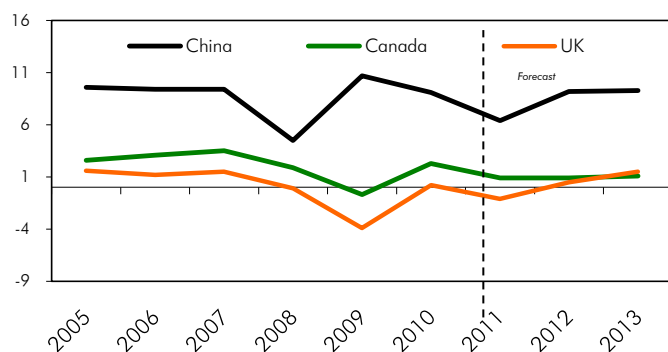
Source: CBRE Research



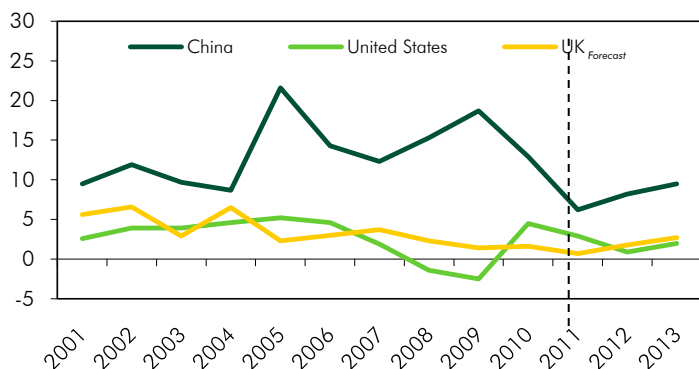
### Global Consumer Confidence Index



### Global Consumer Spending Per Capita (Year on Year % change)



### Global Retail Sales (Year on Year % change)



## CONSUMER SPENDING AND RETAIL SALES

Consumer confidence is a good indicator of the current health of the retail sector in different global markets. The latest surveys show that sentiment among consumers has been declining in North America and the mature European markets, but is holding up well in China and has actually improved slightly in Japan as the country recovers from the devastating Tsunami earlier in the year.

### High Growth Markets

The Asia Pacific region has seen the highest growth in consumer spending. Nominal retail sales continued to soar in a number of key markets including China, Hong Kong, Indonesia and Vietnam. However, consumers generally turned more cautious amid the gloomy economic outlook and persistent high inflation, a trend which resulted in the growth momentum of retail sales beginning to ease. Retail sales growth was also strong in Latin America. In Brazil, retail sales rose 6% y-o-y, led by a 11.8% y-o-y increase in sales of furniture and household appliances. In Mexico, retail sales rose almost 5% from 2010, aided by higher automobile and apparel sales, but renewed global economic concerns are likely to subdue spending growth in the coming months.

### Low Growth Markets

Consumer spending growth came to a halt in the US during the first half of this year, but retail sales have held up better than expected with household consumption continuing to grow at a modest pace. Retail sales jumped 1.1% in September, reflecting some measure of pent-up demand for automobiles. Despite a relatively stable economy in Canada retail sales fell 0.6% (m-o-m) in July as concerns about the stability of the global economic recovery undermined sales. In Europe, falling disposable incomes, high unemployment and the growing threat of unemployment together with the worsening Eurozone debt crisis has dented consumer confidence and has led to flat retail sales in the first half of the year. Spending on big ticket items has suffered the most, particularly in the electronics sector, with retailers under further pressure as more sales go online.

### Spending Growth Prospects

The faltering recovery in the United States together with the deepening Eurozone debt crisis continues to emerge as a real concern for consumers and businesses, and will affect retail growth prospects globally. Oxford Economics forecast that consumer spending growth per capita in 2012 will be highest in Asia, with growth in China predicted to be 8.2% in 2012 compared to 1.8% in the UK and 0.9% in the US. Spain is forecast to see negative growth of 0.3%.

## OCCUPIER DEMAND AND SUPPLY

Retailers continued to expand in most key regional markets in Asia, with international fast fashion and luxury goods retailers being the most aggressive. There was modest growth in occupier demand in Japan. In Australia the trend was more nuanced with global brands continuing to open new stores and many domestic retailers consolidating as shoppers flocked to the new foreign entrants in the market. Most markets in Asia will see the completion of a large quantum of new retail supply over the next couple of years, which is in contrast to the lean supply pipeline in the Pacific. However, the bulk of new stock across Asia will be situated in fringe areas, meaning that the availability of quality retail stock in prime areas will remain limited going forward.

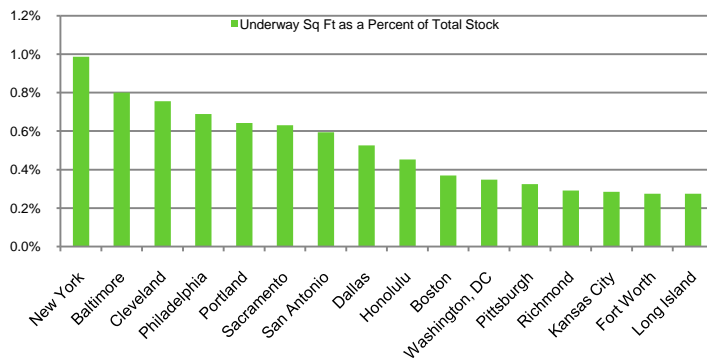
In the US, retailers remain cautious, looking to open fewer stores than before and closing underperforming ones. Value retailers are most active, and are looking beyond their traditional suburban heartlands and targeting prime urban locations. The best and dominant retail centres even if located in secondary and tertiary US markets will continue to attract both national and regional retailers. Retail centre development has been trending down since 2008 and remains at historically low levels. Steady consumer expenditure growth in Canada and Latin America over the past three years has attracted many new foreign retailers to these markets and has added to the demand for new product.

In Europe, falling consumer confidence and flat retail sales has resulted in more caution among retailers that are looking to expand. However, occupier demand for prime space remains strong. Retailers that survived the recent recession are now well placed to grow their store networks and are doing so in a wide variety of markets, although the focus is firmly on prime space in major cities. Vacancy rates in most of these locations are zero and with little new shopping centre development due over the next two years retailers' key challenge is accessing prime space.

### Conclusion

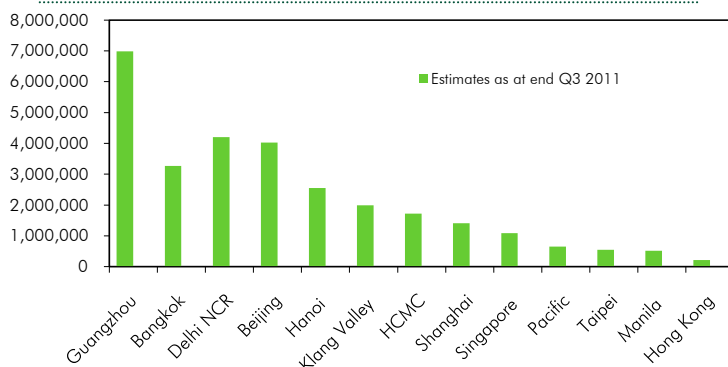
In spite of the weakening economic outlook, retailers continue to expand their store networks and cross borders to gain market share. The emerging markets, particularly Asia, still provide the best opportunities for growth, although occupier demand for the prime pitches in Europe's biggest cities is strong, as consumers increasingly target major destinations with the widest choice of retailers. Overall, however, retailers have been taking a more cautious approach to expansion, resulting in flat rental growth across the globe in Q3 - a significant slowdown from earlier in the year. A quick and satisfactory resolution to the Eurozone debt crisis will be key to a retail sector recovery in Europe and the US and also to sustained spending growth in Asia Pacific and other emerging markets.

## US Development Pipeline



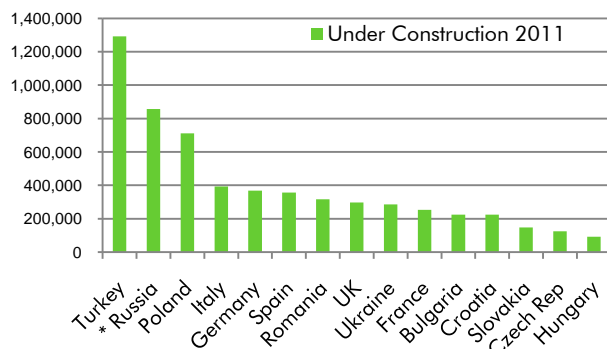
Source: CBRE Research

## Asia Pacific Development Pipeline (sq ft)



Source: CBRE Research

## EMEA Development Pipeline (sq m)



Source: CBRE Research

\* Only Moscow and St Petersburg



## CBRE PRIME GLOBAL RETAIL RENTS

Rank	City	Local Currency Rent	Rent Q3 2011 US\$ Sq Ft pa.	Rent Q3 2011 € Sq M pa.	Quarterly % change	Annual % change	Rank Q2 2011	Type*
1	New York	\$ 1,900 sqft.pa	1,900	15,244	0.0%	5.6%	1	HS
2	Hong Kong	HK\$ 1,100 sqft.pm	1,695	13,601	0.0%	52.8%	2	HS
3	Sydney	AU\$ 13,560 sqm.pa	1,224	9,823	0.0%	0.0%	3	HS
4	London	£950 ITZA pa	961	7,134	5.6%	5.6%	5	HS
5	Zurich	CHF 8,300 sqm.pa	916	6,799	0.0%	3.8%	4	HS
6	Tokyo	JPY 5,593 sqft.pm	871	6,985	0.0%	0.0%	8	HS
7	Paris	€10,000 ITZA pa	785	6,300	0.0%	0.0%	6	HS
8	Melbourne	AU\$ 8,600 sqm.pa	776	6,230	1.2%	32.3%	7	HS
9	Moscow	\$ 7,950 sqm.pa	739	5,926	2.0%	3.4%	9	HS
10	Brisbane	AU\$ 6,845 sqm.pa	618	4,958	-2.8%	-12.8%	10	HS
11	Guangzhou	RMB 314 sqft.pm	590	4,736	0.0%	0.0%	11	SC
12	Milan	€4,000 sqm.pa	539	4,000	5.3%	8.1%	13	HS
13	Los Angeles	\$ 520 sqft.pa	520	4,172	0.0%	4.0%	12	HS
14	Munich	€310 sqm.pm	501	3,720	0.0%	3.3%	14	HS
15	Beijing	RMB 264 sqft.pm	496	3,978	0.0%	40.0%	15	SC
16	Frankfurt	€300 sqm.pm	485	3,600	0.0%	11.1%	16	HS
17	Chicago	\$ 480 sqft.pa	480	3,851	0.0%	0.0%	18	HS
18	Rome	€3,500 sqm.pa	471	3,500	0.0%	0.0%	19	HS
19	Geneva	CHF 4,200 sqm.pa	463	3,440	0.0%	16.7%	20	HS
20	Singapore	S\$ 49 sqft.pm	455	3,650	0.0%	-4.6%	17	SC
21	Shanghai	RMB 226 sqft.pm	425	3,410	0.0%	14.3%	21	SC
=22	Hamburg	€250 sqm.pm	404	3,000	0.0%	13.6%	=22	HS
=22	Berlin	€250 sqm.pm	404	3,000	0.0%	2.0%	=22	HS
24	San Francisco	\$ 385 sqft.pa	385	3,089	2.7%	10.0%	25	HS
25	Amsterdam	€2,800 sqm.pa	377	2,800	0.0%	3.7%	24	HS
26	Dusseldorf	€230 sqm.pm	372	2,760	0.0%	4.6%	26	HS
27	Vienna	€228 sqm.pm	341	2,736	0.9%	2.2%	27	HS
28	Madrid	€2,500 sqm.pa	337	2,500	0.0%	4.2%	29	HS
29	St Petersburg	\$3,500 sqm.pa	325	2,414	1.5%	2.9%	30	HS
30	Dublin	€5,000 ITZA pa	316	2,350	0.0%	-4.8%	31	HS
31	Toronto	C\$ 325 sqft.pa	312	2,502	0.0%	8.3%	28	HS
32	Taipei	NT\$ 768 sqft.pm	302	2,424	2.0%	11.4%	32	HS
33	Barcelona	€2,200 sqm.pa	296	2,200	0.0%	7.8%	33	HS
34	Prague	€170 sqm.pm	275	2,040	0.0%	0.0%	34	HS
35	Glasgow	£260 ITZA pa	263	1,953	0.0%	0.0%	36	HS
36	Copenhagen	DKR14,500 sqm.pa	262	1,944	0.0%	0.0%	37	HS
37	Oslo	NOK 15,000 sqm.pa	260	1,928	0.0%	0.0%	38	HS
=38	Rotterdam	€1,800 sqm.pa	242	1,800	0.0%	2.9%	=40	HS
=38	Utrecht	€1,800 sqm.pa	242	1,800	0.0%	2.9%	=40	HS
40	Manchester	£230 ITZA pa	233	1,727	0.0%	0.0%	43	HS

## DEFINITIONS

The prime retail rents quoted in this publication represent the typical “achievable” open market headline rent which an international retail chain would be expected to pay for a ground floor retail unit (either high street or shopping centre depending on the market) of up to 200 sqm of the highest quality and specification and in the best location in a given market. The quoted rents reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. In these circumstances, the quoted figure will be more hypothetical, based on expert opinion of market conditions, but the same criteria on building size and specification apply. The figures exclude any leasing incentives or “key money” (premium, or initial payment, to secure the right to occupy the unit).

Local currency rents for certain markets are expressed in terms of Zone A (ITZA), an approach which places a higher value on certain parts of a shop more than others. The number reported is the value placed on the most expensive part of the shop and will therefore be much higher than the average per sq m value for the entire unit.

## CBRE GLOBAL RESEARCH AND CONSULTING

This report was prepared by CBRE’s EMEA Research and Consulting Team, which forms part of CBRE Global Research and Consulting — a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

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