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Cross Border Retailing in Europe - 2009

Retailers Continue to Seek New Markets

Turkey, Russia, Poland and Romania were the most popular destinations for retailers that entered new markets in 2007-2008. In total, over 55% of movements were to Central & Eastern Europe. Italy was the biggest exporter of retailers to new foreign markets

In 2009 the continued supply of new shopping centre space combined with tougher trading conditions will provide opportunities for financially strong retailers to enter new markets and gain market share on favourable lease terms. The preferred expansion route for many will be via franchising, as retailers look to reduce their risk

Whilst activity levels will be lower in 2009, retailers will continue to expand cross border with Russia, Romania and Turkey likely to be key targets

Cross Border Retailing in Europe

International expansion of retailers to new markets continued apace during 2007 & 2008, with over 500 movements tracked by Jones Lang LaSalle.

This report examines the continuing strength of cross border retailing in Europe and explores the reasons why we believe 2009 will still be a year of opportunity - despite the economic downturn!

Where is the Demand?

2007 & 2008 saw the emergence of Turkey and Russia as the key target destinations for retailers expanding internationally. Turkey accounted for 11.3% of the total movements, whilst 10.6% of retailers entered Russia. Central & Eastern Europe dominated the ranking of most popular locations, accounting for the top 5 destinations.

Figure 1: Top 10 Cross Border Retailer destinations 2007-2008

Rank	Country	% of Total Cross-Border Retailer Destinations
1	Turkey	11.3%
2	Russia	10.6%
3	Poland	8.9%
4	Romania	7.5%
5	Czech Republic	7.5%
6	Portugal	6.9%
7	UK	6.6%
8	Belgium	5.3%
9	Hungary	5.3%
10	Greece	5.1%
	Other	25.0%

In Turkey, some 1 million sq m of shopping centre space has opened since January 2007 (as at end 2008), helping fuel the rise in international retailer demand. The boom has helped to continue the modernisation of Turkish retail, with many brands now seeing the country as a perfect gateway for expansion into the Middle East and Caucasus region. Global retailers such as Gap, Muji and Banana Republic all made the move into Turkey during 2007/2008, as did luxury brands such as Calvin Klein, Chanel and YSL (although several of these were as concessions in Department stores).

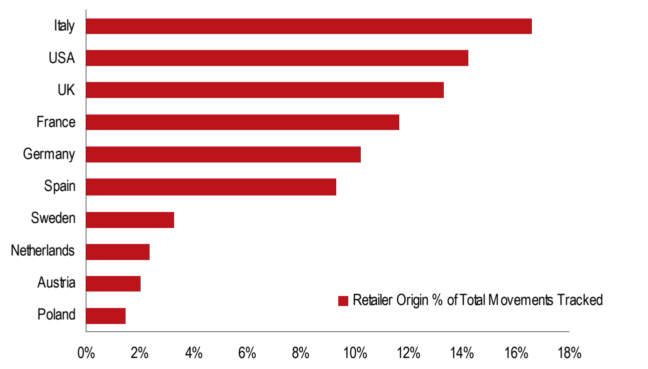
Retailers from all over Europe and beyond are expanding across the Central & Eastern European region. Romania now has the largest spectrum of brands in Central Europe and has attracted active retailers such as Peek & Cloppenburg, Karen Millen, Reserved and Hervis. Expansion via both direct and franchise routes are increasingly common, with Poland, Romania and Russia in particular seeing a notable increase in franchise businesses (for example Ultimate Fashion recently introduced Cortefiel to the Polish market). Over in Western Europe, Westfield London accounted for almost half of new entrants to the UK retail market, with Ugg (Australia), Hue (USA) and David Mayer (France) amongst the retailers seizing an opportunity for representation in the capital without committing to the high rents and key monies needed to locate in the West End. Three Turkish retailers also made their UK debut via Westfield – Desa, Ipekyol and Machka – although expansion to new markets of retailers originating from Central & Eastern Europe was on the whole limited.

In Southern Europe, Portugal remains an important target for international retailers, offering good rental values and a modern shopping centre stock. Due to a lower exposure to the credit crisis and a limited supply of home grown retail, the Belgian market is a high priority for retailers looking to move cross border.

Retailer Origins

In recent years, the USA has been the dominant origin of cross border retailers, though in 2007 & 2008 it is Italy that heads the list with 16.6% of all movements originating here. The USA drops to second with 14.2%, followed by the UK at 13.3%.

Figure 2: Top 10 Retailer Origins 2007-2008



Source: Jones Lang LaSalle

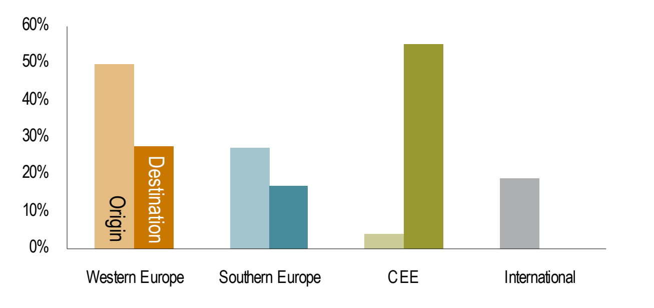
The number of retailers expanding out of Italy has been influenced by the growing appeal of Italian fashion in developing markets, as well as diminishing domestic opportunities. Given the great strength Italy has in its fashion brands, retailers such as Geox and Oviesse have capitalised on the demand for 'labels' in a consumer landscape increasingly polarised between brands and value, especially in those economies with a growing middle class such as the Ukraine. To date there have been very few movements into Russia from Italian based retailers, perhaps conveying their sense of market immaturity. However, given the volume of retail space set to open in 2009 & 2010, this is very likely to change.

France also featured highly with 11.7% of all cross border movements originating here, whilst in Sweden and the Netherlands, domestic retailers logically look abroad, often to larger nearby countries given the small size of the home markets.

Regional Trends

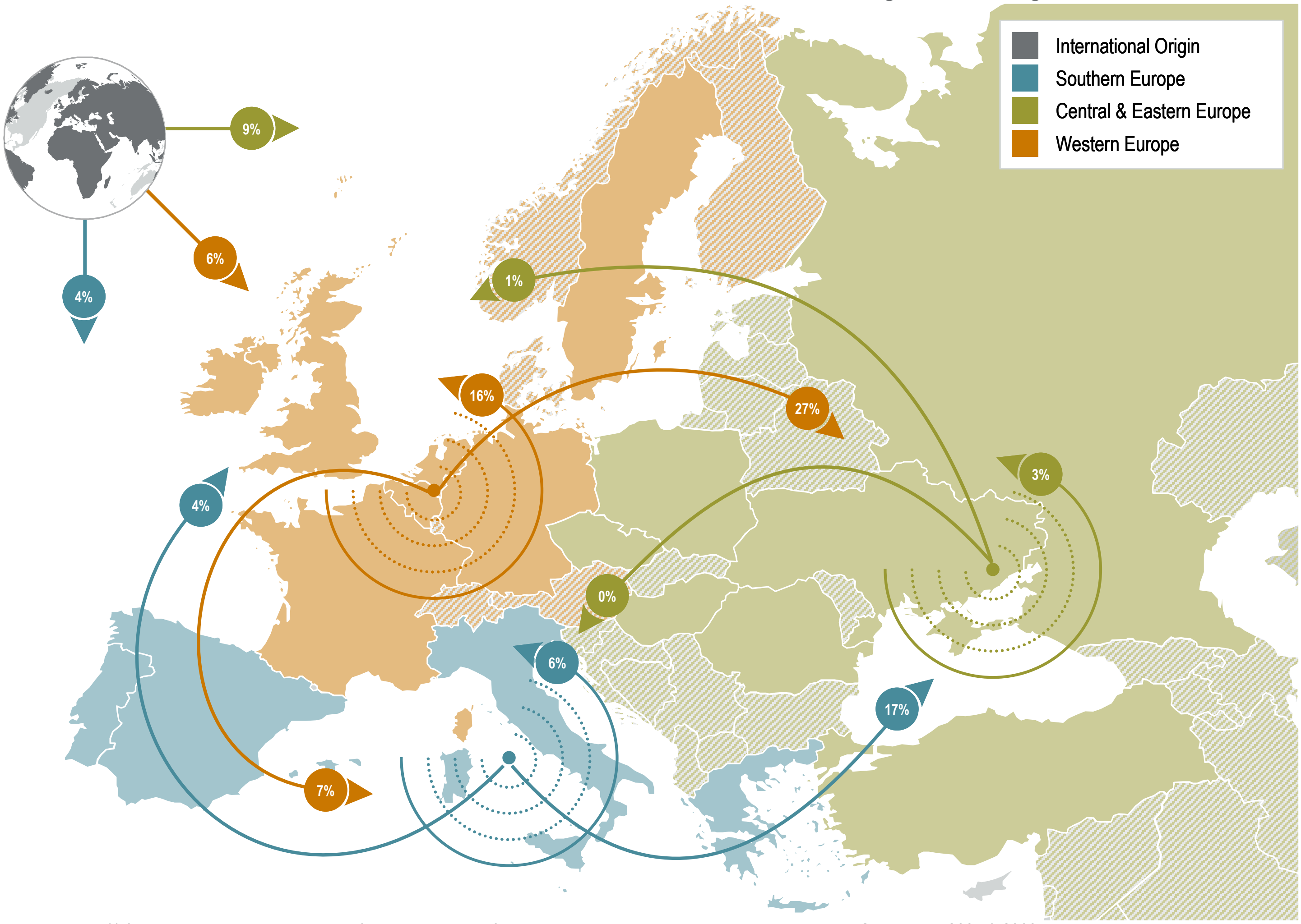
The prospect of high returns and organic growth inevitably led retailers to Central & Eastern Europe during 2007 & 2008. Over 55% of all cross-border movements tracked were to this region, with the remainder split between retailers entering Western (27%) and Southern Europe (17%).

Figure 3: % of Cross Border Movements: Regional Origins and Destinations



Source: Jones Lang LaSalle

Figure 4: Inter-Regional movement of retailers



Each % figure represents the proportion of the total sample of cross border movements tracked by Jones Lang LaSalle during 2007 & 2008

Although the current economic slowdown has impacted upon demand, retailers are still showing an interest to enter Central & Eastern Europe, although many are now only considering franchise partners to minimise risk. With market conditions as they are, this could be a difficult task, given the local entrepreneurs and other potential partners are having difficulty raising the finance to support the expansion of new brands and concepts.

Over half of all retailers that moved into new markets during the previous 2 years originated in Western Europe. 27% expanded from Southern Europe whilst 19% entered from a base outside of the continent. Retailers in Central & Eastern Europe have been growing stronger in recent years, but still accounted for only 4% of total cross-border retailer movements in 2007 & 2008. Retailers from this region are still keen to expand (LLP Group with its brands such as Cropp Town and House recently entered Bulgaria), though movement is obviously cautious in the current climate. Consolidation is increasing, particularly in the food sector, with for example the acquisition by Rewe of the Plus Discount stores in the Czech Republic and Carrefour of the Artima chain of supermarkets in Romania.

International retailers whose origins are outside of Europe targeted all three regions in relatively equal measure, although certain retailers such as Crocs and Fossil preferred to enter via Western & Southern Europe. In fact, almost two thirds of retailers from the USA preferred to enter the more mature and familiar markets of West & South Europe.

Active Brands

Mid-market fashion brands have been the most active cross border expanders, with Cos, Desigual and G-Star all featuring highly in our ranking. Expansion by the US footwear retailer Crocs is also notable, though it remains to be seen whether the obvious success of the brand can be sustained without further product diversification.

Figure 5: Ranking of Retailers by Number of New Markets Entered in 2007-2008

Retailer	Origin
Crocs	USA
Desigual	Spain
Cos	Sweden
Pull & Bear	Spain
Stradivarius	Spain
G-Star	Netherlands
Fred Perry	UK
Oysho	Spain
Tom Tailor	Germany
Clarks	UK
Top Shop	UK
Massimo Dutti	Spain
Deichmann	Germany
S.Oliver	Germany
Karen Millen	UK

All concepts of the Inditex Group are now contributing to their international expansion, with Pull & Bear, Massimo Dutti and Stradivarius all entering several new markets in 2007 & 2008. Cos performed a similar role for the H&M Group, given their flagship brand H&M is now established in most European markets.

There are limited examples of luxury brands expanding into multiple European markets during 2007 & 2008, though Chanel did enter Turkey and the Ukraine, whilst D&G also arrived in Turkey further to opening its first store in Portugal. It is important to note that any expansion at the luxury end is always cautious, as higher store numbers risks dilution of the brand and a loss of exclusivity.

Evolution of Cross Border Activity

A year-by-year assessment of cross border movements demonstrates the growing importance of Central & Eastern Europe as a destination, and also the strong impact that shopping centre development has in the attraction of foreign retailers.

In 2008, Romania was the most popular destination for those brands entering a new market. This followed a year of significant shopping centre development, providing opportunities to gain presence in principle cities such as Bucharest and Cluj whilst offering modern retail units to suit the requirements of international tenants.

In 2007, Turkey headed the list largely due to the completion of several regional schemes such as Istinye Park in Istanbul and Panora Shopping Centre in Ankara whilst Hungary and Czech Republic were also popular following the opening of Arena Plaza in Budapest and Palladium in Prague. Here brands such as Tchibo & Haagen Dazs (Arena Plaza) and Batika & Ann Christine (Palladium) entered the market for the first time.

Figure 6: Ranking of Most Popular Destinations for New Market Entrants 2004-2008

Country	2004 - 2005	2006	2007	2008
Romania	-	6	10	1
Russia	6	3	2	2
UK	2	10	12	3
Turkey	-	7	1	4
Poland	7	11	3	5
Greece	-	15	16	6
Czech Rep	13	17	6	7
Portugal	11	9	5	8
Germany	5	4	13	9
Italy	12	16	18	10
Ireland	3	5	8	11
Ukraine	-	2	9	12
Belgium	-	12	7	13
Hungary	8	18	4	14
Spain	1	1	15	15
France	4	13	17	16
Netherlands	-	8	14	17
Sweden	9	14	11	18

Spain and the Ukraine were the most popular destinations in 2006, though demand from international retailers has now somewhat reduced given the majority of brands that were seeking representation have already entered the market. Local expansion of these brands is now taking precedence here. In 2004 & 2005 the emphasis for cross border movement was on Western Europe with the UK, Ireland, France and Germany all offering retailers the potential for high turnovers. Germany in particular is still seen by many to have growth opportunities with its relative lack of international retailers.

2009: A Year of Opportunity?

- 2009 is set to be a year of opportunity. Deals are likely to be very favourable for tenants even in prime locations, with the best lease terms available for those with strong covenants.
- Financially strong brands such as Abercrombie & Fitch, Inditex and Nike are undoubtedly in the best position to take advantage, though there will also be a chance for smaller retailers with healthy balance sheets to gain international market share, as competitors rein back their expansion plans due to the tougher trading conditions and increased difficulty of attaining finance.
- Although retailers' confidence remains reasonably strong in the Central European markets, they will now be more selective in terms of prime high streets and projects in those countries with large development pipelines, prioritising quality in terms of location, concept and tenant mix.
- Western and Southern Europe will become more affordable to North American brands in 2009; we forecast a range of retailers such as Forever 21, Anthropologie and Crate & Barrel to take advantage of the favourable deals that will be available.
- The current trend of brands entering CEE via franchise partners is expected to continue as retailers seek to spread the risk.
- Russia, although looking less attractive to investors compared with 12 months ago, is still set to see huge volumes of shopping centre development come to market. This should provide an outlet for international players to establish market presence – especially when considering the difficulty local retailers are having in acquiring finance.
- Turkish and Greek retailers such as Sprider, Koton and Ipekyol will expand further into Central & Eastern Europe after their successful entry into Bulgaria and Romania – and this should also open up further opportunities in Western Europe.
- Romania's shopping centre development pipeline remains healthy for 2009 which should again place it highly as a target destination. However, given the current market conditions retailers are likely to focus on the best schemes in larger locations only, which should help bring a sense of reality to the market and rein back development to a more sustainable pace.

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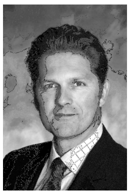

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OnPoint reports from Jones Lang LaSalle include quarterly and annual highlights of real estate activity, performance and specialised surveys and forecasts that uncover emerging trends. In the context of this report, the term 'cross border retailing' and any sub-term is defined as the expansion of a retailer into a new foreign market for the first time. All charts, tables and figures reflect this definition for the movements tracked by Jones Lang LaSalle only.

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