Jones Lang LaSalle®
Real value in a changing world

Redefining Retail Investment

Global Real Estate Futures

Executive Summary

The First Wave of Globalisation

This paper explores the changing patterns of investment into retail real estate around the world.

- Over the past decade more than one trillion US dollars of retail real estate has been traded across the globe, representing **nearly a quarter of total direct investment into commercial real estate**.
- **Institutional capital is seeking greater retail exposure** as it taps into favourable global demographics and growing 'consumer classes', and is attracted by the sector's defensive qualities during times of uncertainty. As a consequence, retail's contribution to total commercial real estate investment has risen from 19% in 2007 to nearly 30% by 2011.
- **Retail investment has been gaining momentum.** Last year, annual volumes totalled US$122.5 billion, up 53% on 2010 and well above the long-run average of just over US$100 billion a year. With US$50 billion already traded in the first half of 2012, and a healthy deals pipeline for the second half of the year, we are on track to match 2011 levels in 2012.
- **The retail investment market is globalising.** Cross-border activity, which accounted for less than one-quarter of volumes back in 2004, now accounts for nearly half of trade. Inter-regional activity has seen particularly strong growth in tandem with the rise of a number of global investors and shopping centre operators. 2011 and H1 2012 saw a record US$46 billion of inter-regional capital flows.

A Diverse Global Landscape

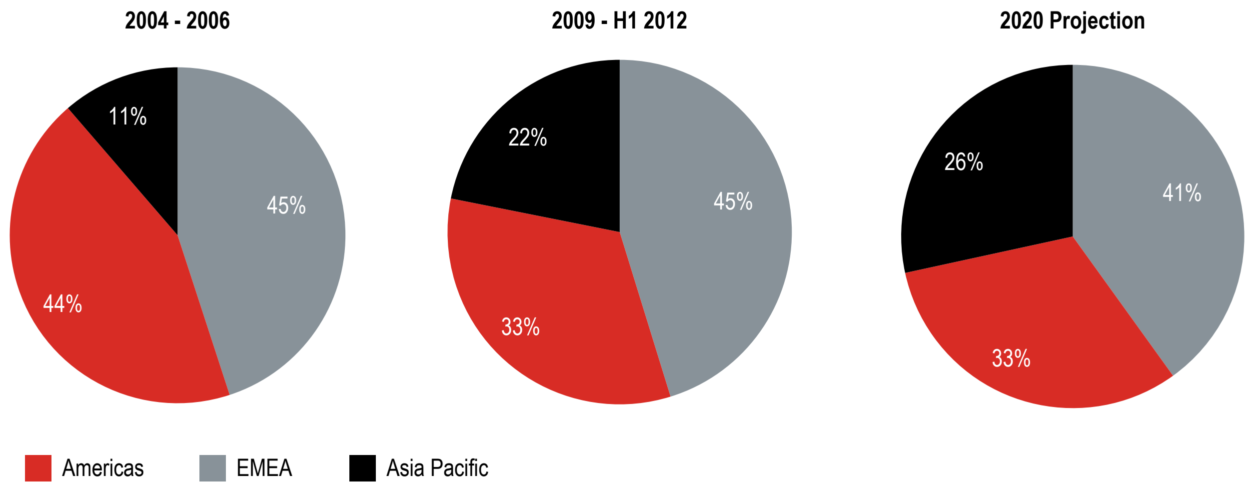
- The globalisation of retail investment is creating **a wide diversity of 'investible' geographies.** Our research identifies six categories of retail destination, from the well-established 'Advanced' and 'Mature' investment markets through to the rapidly evolving 'Transitional' and 'Growth' markets and on to the 'Emerging' and 'Frontier' markets.
- **The traditional investment locations - the 'Advanced' and 'Mature' markets - continue to dominate activity.** The markets of North America, Western Europe, Australia, Japan, Hong Kong and Singapore account for 83% of total global retail investment volumes (2009-H1 2012). Over half was in the three largest markets - the US, UK and Germany - with 29% accounted for by the US alone.
- Nonetheless, the range of 'investible' geographies is steadily expanding. Investor activity is increasing fastest in the 'Growth' markets - **China, Brazil, Russia and Turkey are attracting significant interest** from global players, encouraged through 'signpost' transactions which are alerting the world to opportunities in these markets.
- While Europe accounts for nearly half of global volumes, **the most rapid growth is in the Asia Pacific region.** Asia Pacific's contribution to global investment activity has risen from 11% in 2004-2006 to 22% since 2009. A record US$37 billion has been traded in the region over the past 18 months.

The Next Wave of Globalisation

- **The process of globalisation is expected to speed up over the remainder of the decade.** The inexorable growth of the urban middle classes and the continued internationalisation of retailer activity, combined with the rising quality of retail stock, the improving transparency of real estate markets and the sector's defensive characteristics, will continue to boost the attraction of retail assets.
- Based on current economic and shopping centre stock growth forecasts, annual investment volumes of retail property are expected to rise to **US$160-180 billion by 2020,** representing a 30-50% uplift on current levels. Cross-border activity is expected to account for half of this total, as global and regional players assert their dominance.
- **Institutional capital will increase its allocation to retail.** The retail sector's

Retail Real Estate Investment: Past, Present and Future

Asia Pacific's contribution continues to grow



Source: Jones Lang LaSalle, August 2012

contribution to total real estate investment will increase from an average of 24% over the past decade to close to 30% over the remainder of this decade.

- **Investors will focus on large dominant shopping centres in major cities** as the impact of the internet on physical space and concerns about the future of secondary and tertiary stock come to the fore.
- There will be a steady realignment in the geography of retail investment as **global and regional players rebalance their portfolios in favour of 'Growth' and 'Emerging' markets.** The key targets will be the large BRIC and MIST[1] markets, most notably China and Brazil.
- Our **Retail Real Estate Momentum Index** identifies 20 markets with the strongest retail real estate momentum. In top positions are **China, India, Indonesia, Turkey, Brazil** and **Vietnam.** The 'Emerging' markets of Peru and Kazakhstan also feature in the 'Top 10'.
- Today's **'Growth' and 'Emerging' markets are expected to account for about one-quarter of retail real estate investment by 2020,** compared to less than 10% currently.
- The contribution of the **'Advanced' and 'Mature' markets will decline from around 80% today to just above 60% by 2020**, although absolute volumes will continue to grow. However, the increasing concentration of ownership of the large dominant shopping centres with institutions and REITs on long-term 'hold' strategies will constrain strong growth in trading volumes in the more established markets.
- We will see a steady rebalancing of retail investment in favour of Asia Pacific. **By 2020 Asia Pacific is expected to account for 26% of activity** compared to 22% since 2009. **China** will be firmly established as the region's largest investment market.
- The structural shift in investment activity towards 'Growth' and 'Emerging' markets will, however, **'ebb and flow' with risk appetite**; it is also conditional on improvements in the operating environments in these markets. Accessing product and finding appropriate local partners will continue to be a challenge for international groups.

1 BRIC – Brazil, Russia, India, China
MIST – Mexico, Indonesia, South Korea, Turkey

Redefining Retail Investment, 2012

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Introduction

The First Wave of Globalisation

The retail real estate sector has a long track-record of cross-border investment, dating back as early as the 1970s when investors and developers started to look overseas for new growth opportunities. However, it was not until the 2000s that we witnessed the first substantial wave of cross-border activity, as American, Australian, British, Dutch and German capital moved across the globe in their pursuit of strategic diversification.

Over the past decade alone, in excess of one trillion US dollars of retail real estate has been traded, of which more than one-third has involved cross-border capital. Initially focused on the well-established investment markets of North America, Western Europe, Australia and 'developed' Asia, capital flows gradually spread during the mid-2000s to embrace retail markets in Central and Eastern Europe, Russia, China, Turkey and Brazil; and 'signpost' deals point to a further widening of activity into new markets in Latin America, North Africa and South East Asia.

The Drivers of Retail Investment

As we move into a second wave of globalisation, this paper explores the changing patterns of investment into significant retail schemes around the world. We identify five key forces that will further boost the globalisation of retail investment:

1. **The inexorable growth of the urban middle classes.** Investors, developers and shopping centre operators are seeking to tap into the favourable demographics of 'Growth' and 'Emerging' markets, where a combination of rapid urbanisation and expanding middle classes provide a compelling growth opportunity, particularly in the larger economies of the BRIC (Brazil, Russia, India and China) and MIST (Mexico, Indonesia, South Korea and Turkey) countries.
2. **The internationalisation of retailing.** International retailers are expanding aggressively. Many major cross-border retailers have ambitious global expansion plans, with the largest fast-fashion groups such as Inditex and H&M leading the way. Technological advancements are driving global brand recognition and facilitating expansion.

Olympia, Brno, Czech Republic

3. **The improving quality of retail assets.** As international developers extend deeper into new geographies and local developers adopt international best practice, the quality of shopping centre stock is steadily improving, providing potential new sources of investment product. The volume of suitable investment-grade stock is increasing as markets transition from more traditional forms of retailing to organised shopping centres.
4. **Improving real estate transparency.** Our latest 2012 Global Real Estate Transparency Index[2] highlights steady progress in transparency across the globe. More transparent operating conditions are facilitating cross-border activity.
5. **Retail's defensive characteristics.** Retail real estate sits at the top of many investors' shopping lists, with institutional capital targeting dominant shopping centres across the globe, driven by the defensive characteristics of retail assets in times of uncertainty. Investors are also attracted by income protection and opportunities for asset management.

These key drivers of change are converging at a time when the retail sector is going through a period of dramatic structural change, created by increasing consumer empowerment, technological innovation and the internet economy, which will all continue to shape the future retail investment landscape.

In the context of this structural change, this paper explores four key areas of retail real estate investment:

A Typology of Retail Investment Destination

- We develop a typology of retail investment destination and explore the different market characteristics in the 'life cycle' of an

2 Global Real Estate Transparency Index - Back on Track. Jones Lang LaSalle, 2012.

investment destination, from the 'Advanced' and 'Mature' markets of North America, Europe and Asia Pacific to the 'Frontier' markets of sub-Saharan Africa and Latin America.

Recent Patterns of Retail Investment

- We examine the current wave of globalisation and how the patterns and volumes are changing. Which countries are attracting most investment into retail schemes? How quickly is the map of retail investment truly globalising?
- We look at the key players in global retail investment and at the trends impacting on their investment decisions. Which players are already global and which are extending out from their traditional geographies?

Regional Trends in Retail Investment

- We compare regional patterns of retail investment markets in Asia Pacific, Europe, the Americas and the Middle East and Africa. We look specifically at the China retail sector, the world's fastest-growing investment market in volume terms.

The Future Retail Investment Landscape

- We assess the 'next wave of globalisation' and speculate on how the investment landscape may change over the remainder of the decade. How large will the global retail real estate investment market be by 2020? Which new locations will become 'hotspots' and is there evidence of a new wave of 'investible' geographies opening up?
- And finally, we introduce our **Retail Real Estate Momentum Index** which aims to identify those countries with the strongest momentum in retail real estate activity.

The Market Common, Myrtle Beach, South Carolina, USA

The Global Retail Investment Landscape

A Typology of Investment Destination

The globalisation of retail investment over the past decade has created a wide diversity of 'investible' geographies in terms of real estate market conditions, maturity and risk profiles. In order to provide the context to explore recent and future patterns of retail investment, we have developed a framework for clustering the different types of retail property environments across the globe.

Based on an analysis of investor activity, liquidity, shopping centre development, real estate transparency and international retailer presence, we have plotted 56 of the world's largest economies on a 'Retail Evolution Curve' (see Page 9). While recognising that each country's retail investment market is being shaped by a unique combination of factors and each country will take a different route to maturity, our evolution curve aims to provide a broad structure for understanding today's global retail real estate investment landscape.

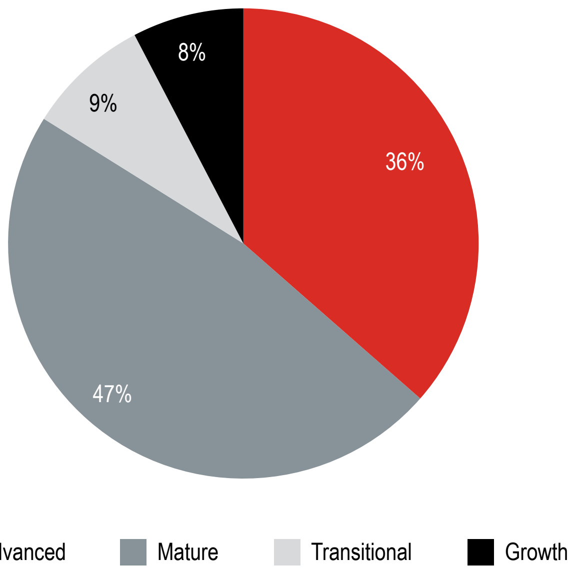
Six categories of retail investment destination have been identified, which range from the well-established **'Advanced'** and **'Mature'** investment markets of North America, Western Europe and 'developed' Asia Pacific; to the rapidly evolving **'Transitional'** and **'Growth'** markets of the BRIC and MIST countries; and through to the **'Emerging'** and new **'Frontier'** markets that characterise parts of Latin America, Asia and Africa. However, it should be emphasised that countries will not necessarily move through all these phases of the evolution curve and new categories are likely to emerge as markets adapt and evolve.

The markets of North America, Western Europe, Australia and 'developed' Asia are all characterised by sophisticated, transparent and liquid investment markets underpinned by highly-developed retail infrastructures. However, analysis of investment patterns and ownership structures points to a differentiation of these established investment destinations into two categories:

- the 'Advanced' markets of the **US, Canada** and **Australia** that have high shopping centre densities (i.e. floorspace per capita) but where investment trading velocity is relatively low (i.e. investment volumes as a ratio of stock) due to a concentration of ownership by domestic institutions;
- the 'Mature' markets, which include the **UK, Hong Kong, Germany** and the **Nordic** countries where, in general, shopping centre densities are lower (than in the 'Advanced' markets) but investment trading velocity is high.

Retail Investment by Destination, 2009 - H1 2012

83% of volumes are in 'Advanced' and 'Mature' markets

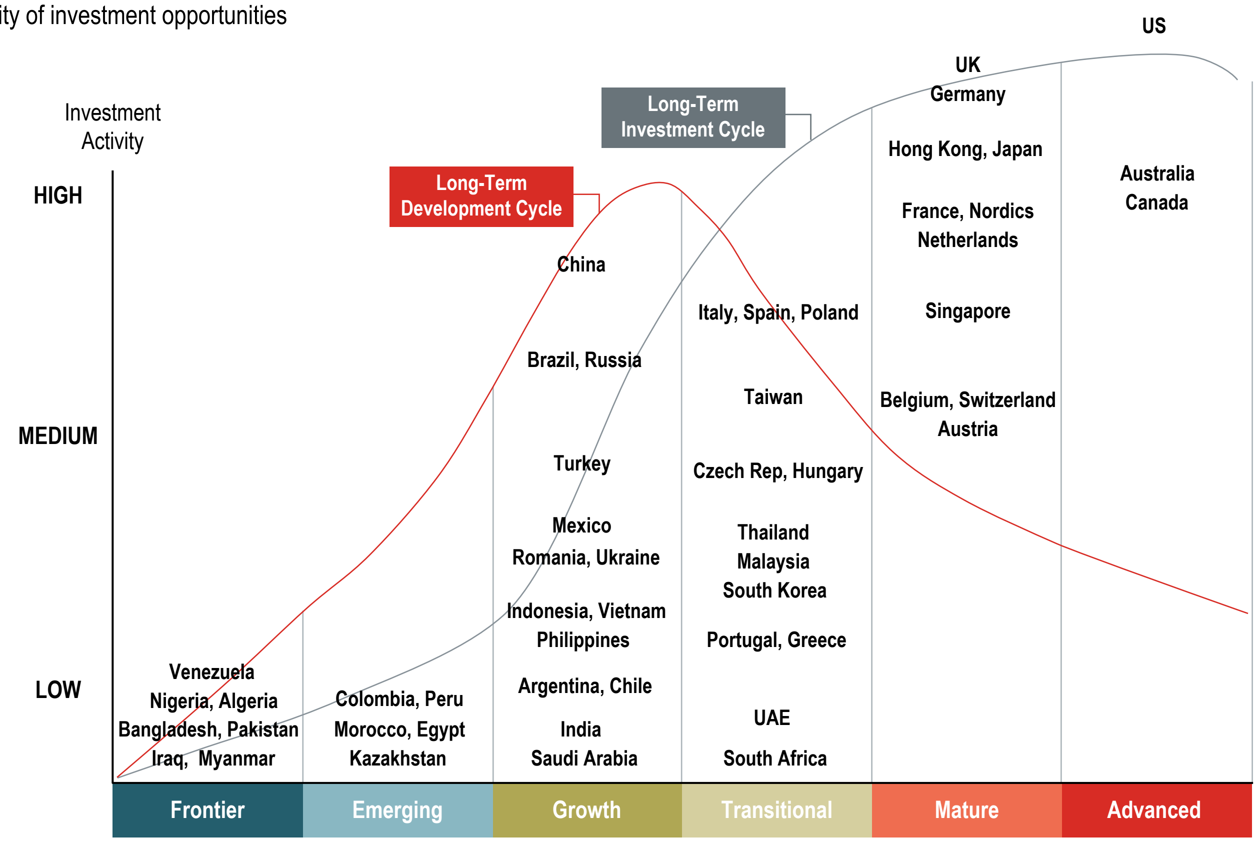


Advanced: Australia, Canada, US
Mature: Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Japan, Netherlands, Norway, Singapore, Sweden, Switzerland, UK
Transitional: Czech Republic, Greece, Hungary, Italy, Malaysia, Poland, Portugal, South Africa, South Korea, Spain, Taiwan, Thailand, UAE
Growth: Argentina, Brazil, Chile, China, India, Indonesia, Mexico, Philippines, Romania, Russia, Saudi Arabia, Turkey, Ukraine, Vietnam
Emerging: Colombia, Egypt, Kazakhstan, Morocco, Peru
Frontier: Algeria, Bangladesh, Iraq, Myanmar, Nigeria, Pakistan, Venezuela

Source: Jones Lang LaSalle, August 2012

Global Retail Investment Landscape

A diversity of investment opportunities



Market Characteristics

	Frontier	Emerging	Growth	Transitional	Mature	Advanced
Investment/ Development	Limited development. No standing investment.	Local developers. Limited standing investment.	Mainly development. Increasing investor interest. Limited liquidity.	Increasing trading. Liquid. High levels of cross-border interest.	High trading velocity. Highly liquid. Increasing concentration of ownership.	Lower trading velocity. Highly liquid. High levels of Institutional ownership.
Transparency	Opaque	Low Transparency	Semi-Transparent	Transparent / Semi-Transparent	Transparent / Highly Transparent	Highly Transparent
Stock	First modern shopping centre development.	Development moving into 'lift off' >20% pa.	Strong stock growth 10-20% pa.	Stock growth slowing <10% pa.	High per capita shopping centre density Low stock growth <5%pa. Shopping centre repositioning – from 'asset creation to asset management'.	
International Retailers	Markets accessed via distributors.	Growing activity. Focus on Tier 1 cities and resorts. Franchises.	Primary target. Expansion into Tier 2 and 3 cities. Franchises dominate, but some buy-backs.	Expanding footprints. Full ownership.	High penetration and extensive footprints. Focus on prime pitches / dominant shopping centres	

This is a general representation of each country's current position on the evolution curve as it relates to major shopping centres based on direct investment volumes, construction activity, transparency and international retailer activity.
The table presents the broad characteristics of each category. Not all characteristics will necessarily apply to all markets in the respective category.
Source: Jones Lang LaSalle, August 2012

nex, Singapore

Advanced Markets

The 'Advanced' markets of the **US, Canada** and **Australia** account for more than one-third of global retail investment activity.

- They have among the world's highest per capita densities of shopping centre stock, but ownership is concentrated in the hands of relatively few institutions that hold long-term positions. This constrains investment activity and, while absolute volumes are high, investment trading velocity is relatively low. In the US for example, public REITs enjoy a market-leading position in regional and super-regional shopping centres. While approximately half of the more than 1,400 such centres in the US are controlled by publicly-traded investment trusts, their ownership share is substantially greater for higher-quality centres.
- Domestic capital dominates in these markets, accounting for two-thirds of investment activity (2011-H1 2012) reflecting the strength of their domestic institutions. Domestic capital represents more than 90% of activity in Canada and over 80% in Australia. The US market is also primarily driven by domestic capital (60%+), although cross-border investors (notably from Canada and Germany) are also prominent.
- The 'Advanced' markets are home to a number of the most active international shopping centre operators, developers and institutional investors, such as Westfield, Simon Property Group and the Canada Pension Plan Investment Board (CPPIB).
- Investment activity has been boosted by several large portfolio transactions as investors rebalance their portfolios, dispose of 'non-core' property and focus on better-performing assets.
- Institutional money is focused on dominant and trophy shopping centres, but such assets are in limited supply and pipelines are low – this is acting as a further constraint on trading volumes.
- Asset management and 'value creation' is a key investment driver in these markets, with opportunities for shopping centre repositioning as new retail formats arrive and new catchments evolve. This is particularly evident in the US, where there is still a legacy of distressed assets from the Global Financial Crisis.

Mature Markets

The 'Mature' category includes most 'core' Western European retail markets – notably the **UK, Germany, France, Sweden** and the **Netherlands**, together with 'developed' Asia, i.e. **Japan, Hong Kong** and **Singapore**. This group accounts for nearly half of global retail investment activity.

- The maturity of the retail markets in some of these countries, notably the UK, would naturally suggest that they sit within the

'Advanced' markets. However, what distinguishes these markets from the 'Advanced' category is their high investment trading velocity (i.e. investment as a ratio of shopping centre stock).

- The UK, Germany, Hong Kong and Sweden have among the world's highest trading velocities. The large number of institutions, public and private property companies and high-net-worth individuals active in the UK market, for example, mean that assets are traded frequently. In Hong Kong and Japan, high transactions levels are primarily led by active 'high street' markets.
- Domestic capital typically accounts for just over half of total investment activity, with the markets dominated by institutions, large REITs and private investors. Cross-border capital is more important than in the 'Advanced' markets, particularly in the Asian markets where intra-regional capital is predominant.
- Limited new supply (i.e. rates of stock growth are typically less than 2% a year) and rising levels of institutional ownership are increasingly acting as a constraint on trading velocity.
- Asset management and 'value creation' is a key investment driver in these markets.

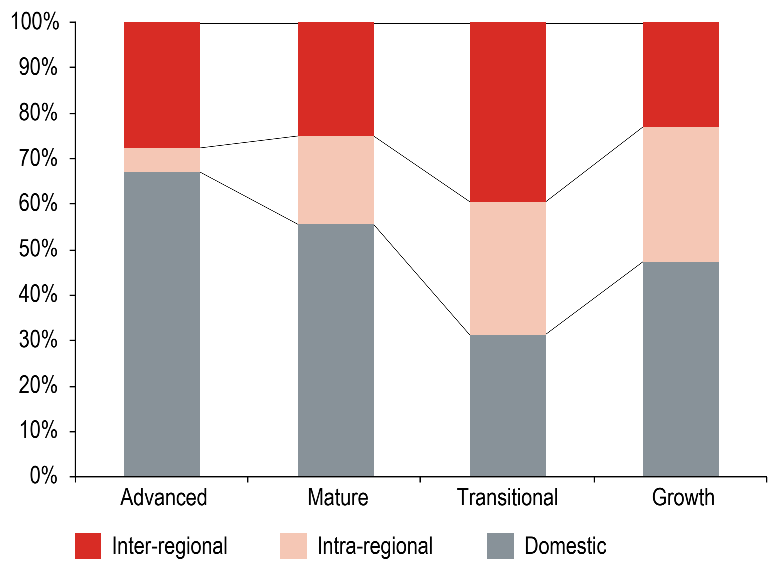
Transitional Markets

The 'Transitional' category contains a mixed group of markets – it includes the Southern European markets of **Spain** and **Italy**, 'core' CEE markets (e.g. **Poland**, the **Czech Republic**), several Asian markets such as **Taiwan, Thailand, Malaysia** and **South Korea**, as well as the **United Arab Emirates** and **South Africa**.

- The 'Transitional' markets account for less than 10% of global investment volumes (2011-H1 2012), but they punch above their weight on cross-border flows. Cross-border activity accounts for an average of nearly 70% of volumes; in Poland for example, over 90% of activity is cross-border. The exceptions are the South East Asian 'Transitional' countries like Thailand and Malaysia, where the prime shopping centre markets are dominated by domestic groups.
- Most 'Transitional' markets have seen high levels of shopping centre development in recent years, although rates of construction have slowed (i.e. well below 10% per year) as these markets move to maturity. As much of the shopping centre stock is relatively new and also high quality, these markets are particularly attractive for international investors.
- Liquidity is rising, with key investors being private equity, REITs and institutions. Investors are betting on yield compression in some 'Transitional' markets, but the emphasis is gradually shifting towards asset management, particularly where over-supply has become a concern.
- The markets of Southern Europe have seen a fall-off in volumes (notably Spain), but we expect to see equity-based opportunistic investors entering the markets when pricing hits an appropriate level.

Retail: Domestic v Cross-Border Investment, 2011 - H1 2012

Cross-border activity highest in 'Transitional' markets



Source: Jones Lang LaSalle, August 2012

Growth Markets

This category includes the four BRIC markets (**Brazil, Russia, India** and **China**) as well as three of the MIST markets - **Mexico**, **Indonesia** and **Turkey**. Other key markets in this group include **Vietnam**, the **Philippines** and **Argentina**.

- This is the most dynamic category with significant forward momentum underpinned by young populations, fast-track urbanisation, rapidly-rising middle classes and high retail sales growth.
- These markets are a key target for international retailers, who are now expanding their footprints beyond the familiar prime gateway cities into Tier 2 and Tier 3 cities.
- Levels of shopping centre development are high, typically over 10% of stock per year. For example, rates of retail floorspace expansion in China and India are around 15% per year, and 11% in Brazil.
- This category is attracting international capital, notably from private equity firms such as Blackstone and Morgan Stanley.
- Investors in 'Growth' markets are betting on the structural growth of the retail sector and are seeking strong returns by either accessing product at a development stage or anticipating yield shifts.
- China and Brazil are the most active 'Growth' markets, where international groups such as Simon Property Group and Westfield are building up platforms. In Russia and Turkey, several high-profile deals by international groups are signalling particularly healthy interest in these two markets.
- Domestic investors/developers are also prominent, particularly in Brazil, where 40% of the shopping centre market, for example, is controlled by Brazilian heavyweights, BR Malls, Savoy and Multiplan. This is also a theme in the South East Asian 'Growth' markets with both development and investment dominated by domestic groups.
- Investor interest in these markets does 'ebb and flow' with risk appetite and, during times of uncertainty, liquidity is compromised.

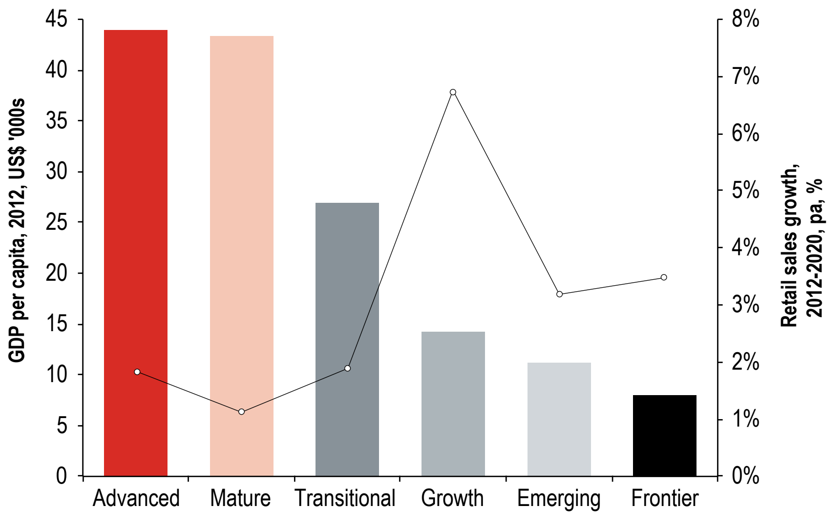
Emerging Markets

This group includes **Peru** and **Colombia** in Latin America as well as some North African markets, notably **Egypt** and **Morocco**.

- These markets are moving into 'lift-off' – they are 'building out' their retail infrastructures and are witnessing rising levels of activity from international retailers, developers and shopping centre operators. Rates of new shopping centre construction are often in excess of 20% per year, although from a low base. International retailers are targeting this group, focusing on its primary cities and resorts.
- Real estate transparency levels are low and the development markets are generally tightly controlled by domestic groups.

Retail Sales Growth and GDP/Capita

'Growth' markets show strongest momentum



Source: IHS Global Insight 2012, Jones Lang LaSalle 2012

The standout 'Emerging' markets, which all feature in the 'Top 20' of our Retail Real Estate Momentum Index (see Page 32), are:

- **Peru** – A high urban population, combined with a retail market concentrated in a handful of large domestic players, is facilitating the expansion of international developers and investors. The market is easier to understand than many other 'Emerging' markets and local partnership opportunities are more clear cut. US REIT Kimco Realty, for example, has been active in Peru for several years.
- **Colombia** – Significant mall development (2008-2011) has been witnessed in a market that has been dominated by private developers, both domestic and foreign, and which is focused on the largest cities of Bogota and Medellin.
- **Egypt** – Despite current political uncertainties, Egypt is starting to see healthy overseas interest. The Cairo retail market is attracting the attention of major regional development groups such as Emaar, Damac and MAF from Dubai, Al Hokair Group from Saudi Arabia and Qatari Diar.
- **Kazakhstan** – A market that is catching the attention of European retailers such as Inditex and Metro, due to its improving retail infrastructure and strong retail sales growth.

Frontier Markets

This is the 'next frontier' for retailers and shopping centre developers/operators.

- In most 'Frontier' markets, organised retailing is at an early stage of evolution and the retail infrastructure is still poorly developed. The number of modern shopping centres is very limited.

Retail Real Estate Transparency Index, 2012

United States, Netherlands, United Kingdom, Australia Finland, Canada, Switzerland, France	Highly Transparent
Hong Kong, Denmark, Sweden, Germany, Singapore Spain, Belgium, Italy, Poland, Norway	Transparent
South Africa, Austria, Malaysia, Czech Republic, Japan Hungary, Portugal, Turkey	
Brazil, Taiwan, China, Greece, Russia, Philippines Indonesia, Thailand, Romania	Semi-Transparent
South Korea, India, United Arab Emirates, Chile Mexico, Ukraine, Argentina, Saudi Arabia	
Vietnam, Egypt, Morocco, Peru, Kazakhstan, Colombia	Low Transparency
Venezuela, Iraq, Pakistan, Algeria Nigeria, Myanmar, Bangladesh	Opaque

Ordered by level of transparency
Derived from Global Real Estate Transparency Index, Jones Lang LaSalle, 2012

- Substantial market opportunities come in tandem with the major challenges that are associated with difficult operating environments, low real estate transparency and high political/economic risk.
- International and predominantly luxury retailers are establishing a presence but, with limited shopping centre development, they are often located in luxury hotels or small specialist agglomerations of luxury shops.
- This category includes many countries in sub-Saharan Africa - the large oil-rich markets, such as **Nigeria** and **Angola**, are at the forefront of retailer and developer interest. **Ghana**, as Africa's newest oil economy, is also seeing increased activity. South African investors/developers are leading the move into the region, often partnering with leading South African retailers to build shopping centres across the continent.

Recent Patterns of Retail Investment

Retail Investment gaining Momentum

Over the past decade, over US$1 trillion of retail real estate[3] has been traded across the globe, representing nearly a quarter of all direct commercial real estate investment. Since 2009, momentum has been building as the market globalises. Retail's contribution to overall real estate investment activity has been steadily rising, the profiles of the main players are changing and the direction of capital flows is shifting.

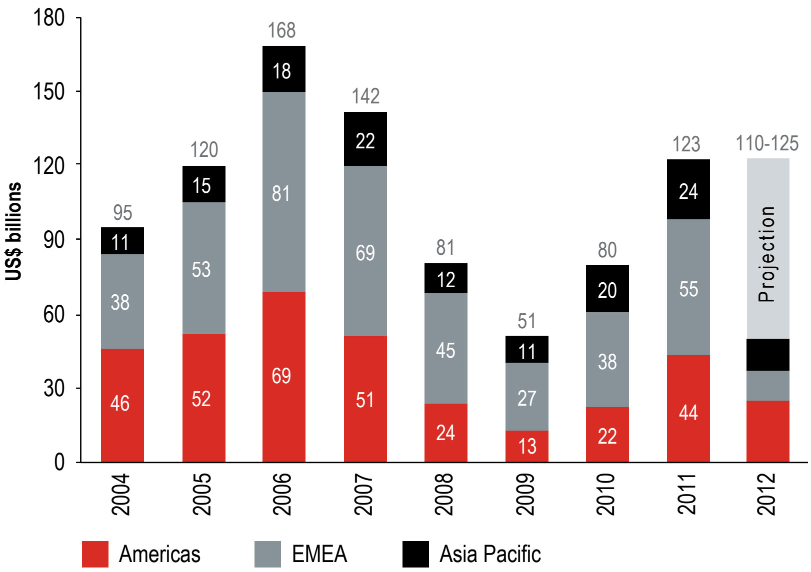
Investment volumes are back above trend

- Since 2004, global direct investment into retail real estate has averaged just over US$100 billion per year. By 2011, volumes had recovered to US$122.5 billion, the highest level since the peak years of 2006 and 2007, and an impressive 53% up on 2010 levels. 2011 was a year of mega-deals – among the largest were the purchase by Mapletree (with other institutional investors as capital partners) of Festival Walk in Hong Kong for US$2.4 billion; the acquisition of The Trafford Centre in Manchester by Capital Shopping Centres for US$2.5 billion; and APG and CPPIB's purchase of a 50% interest of Westfield Stratford City in London for US$1.4 billion.
- With US$50 billion already traded in the first half of 2012, and a healthy deals pipeline for the second half of the year, we are on track for this year's total to match 2011 levels at around US$110-125 billion. The Asia Pacific region has been particularly active in H1 2012, up 22% year-on-year as a result of several large transactions, including the Perron Group's acquisition of a 50% share in a portfolio of three of Centro's regional shopping centres in Australia for in excess of US$700 million. In the US, Starwood Capital Group completed the acquisition of a 90% interest in seven shopping centres from Westfield for over US$1 billion.

3 Includes the purchase of individual retail assets or portfolios of assets of over US$5 million for all types of retail property. The analysis excludes development deals and entity-level transactions.

Direct Retail Real Estate Investment, 2004 - 2012

Momentum builds



Source: Jones Lang LaSalle, August 2012

Investors seeking Greater Retail Exposure

Retail's contribution moves towards 30%

- The Global Financial Crisis and resulting economic uncertainly have certainly increased the demand for retail property, particularly prime shopping centres, with investors attracted by the sector's defensive characteristics and superior opportunities for proactive asset management.
- As a consequence, retail's contribution to total investment activity has been steadily increasing in recent years from only 19% in 2007 to nearly 30% by 2011.

Retail becoming a Global Playing Field

More cross-border and inter-regional activity

- During the past decade, over one-third (37%) of retail transactions has involved cross-border capital, and one-fifth has involved the movement of capital between regions.
- However, the contribution of cross-border activity to retail investment has been gradually increasing. In 2004 only 23% of activity was

cross-border; by 2011 this had risen to nearly half (48%).

- Inter-regional activity has seen particularly strong growth, up from 16% in 2004 to 32% by 2011. A record US$46 billion in inter-regional transactions has been registered over the past 18 months alone, with Global, US and Canadian capital leading the charge.

The Emergence of the Truly Global Player

The globalisation of retail investment and the steady rise of inter-regional capital flows are underpinned by the activities of a relatively small group of global players – investors and developers/operators – who are working to build global platforms across multiple continents.

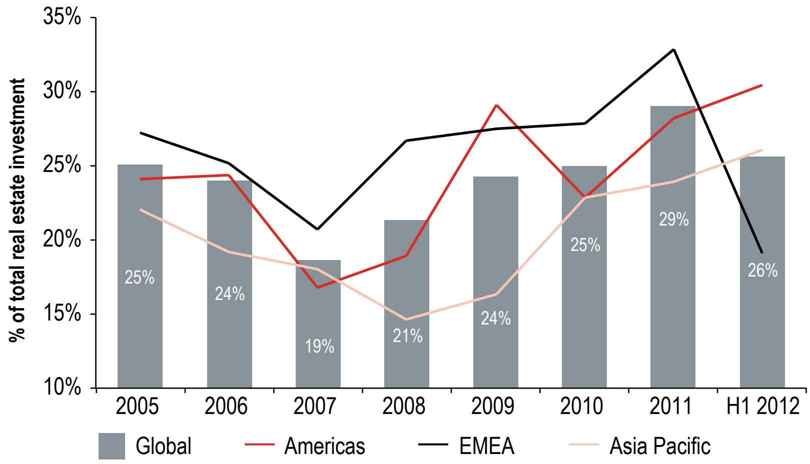
Sovereign wealth funds, institutions and private equity groups such as APG, Blackstone, Canada Pension Plan Investment Board (CPPIB), GIC, Ivanhoé Cambridge, Morgan Stanley, Qatar Holding, Pramerica Real Estate Investors and TIAA-CREF have all recently been growing their presence in the sector, targeting dominant shopping centres and portfolio opportunities.

- CPPIB is active across all global regions, having recently acquired interests in several dominant centres including Westfield Stratford City in London with APG, CentrO in Oberhausen (Germany) and Northland in Melbourne. It has also acquired a 45% stake in 12 Westfield shopping centres in the US for US$1.8 billion and committed US$180 million to the CapitaLand-sponsored Raffles City China Fund (RCCF), which is CPPIB's second China-focused real estate investment.

- A notable recent example of a cash-rich purchaser from the Americas acquiring assets in Europe has been TIAA-CREF, the US retirement plan manager, which has purchased the PEP Shopping Centre in Munich for over US$550 million from RREEF. It has also partnered with German shopping mall operator, mfi management für immobilien

Retail's Contribution to Total Real Estate Investment, 2005 - H1 2012

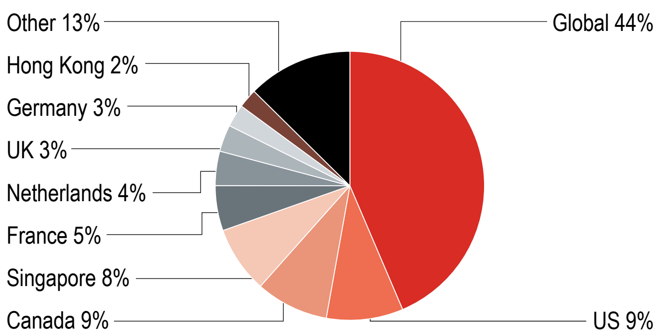
A high of nearly 30% in 2011



Source: Jones Lang LaSalle, August 2012

Sources of Cross-Border Retail Investment, 2011 - H1 2012

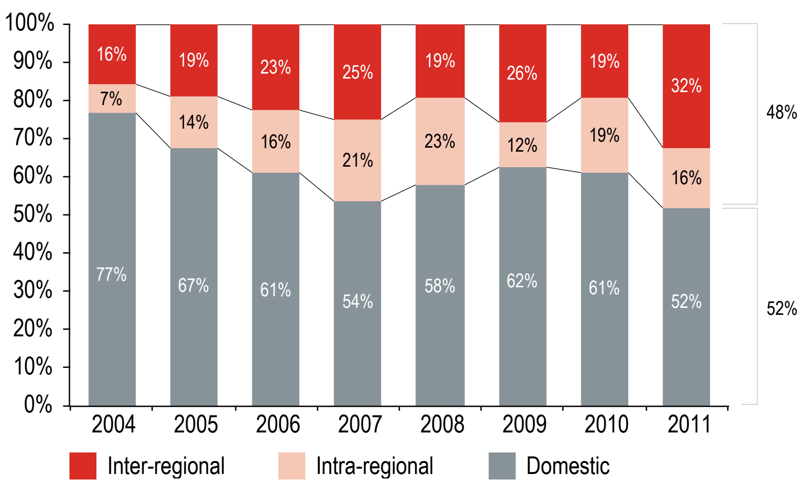
Dominated by Global and North American capital



Source: Jones Lang LaSalle, August 2012

Retail: Domestic v Cross-Border Investment, 2004 - 2011

Cross-border accounting for nearly half of activity



Source: Jones Lang LaSalle, August 2012

AG, to acquire Berlin's largest shopping centre, Gropius Passagen.

Meanwhile, leading retail developers/operators – such as Westfield, Simon Property Group, Lend Lease, Sonae Sierra and ECE – are deepening and extending their footprints across the globe, often led by or in tandem with their cross-border retailer tenants. Europe, China and Brazil have been at the forefront of this trend.

- Simon Property Group has formed a joint venture with BR Malls to develop outlet centres in Brazil. It is also back in China, developing an outlet centre in Shanghai with Bailian Group, one of China's leading retail property operators. Simon Property Group has also extended its platform in Europe, with the acquisition of nearly 30% of the publicly-traded French REIT Klépierre, which has a portfolio of some 270 shopping centres in 13 countries across the continent.
- Westfield is now a firmly-established player in Europe, announcing plans to open in Milan (with Gruppo Stilo), as well as exploring opportunities elsewhere across the continent. It has also moved into Brazil with a 50% stake in shopping centre owner Almeida Junior, adding five new shopping centres to Westfield's portfolio, mainly in the south of the country.

'Equity with Expertise' provides a Major Vehicle for Global Expansion

International money partnering with retail expertise is a major entry point for many international groups moving into new markets. It is a means for capital to benefit from expertise without building a large platform of retail specialists.

There are numerous examples of this trend over the past couple of years, notably in Europe:

- APG and CPPIB acquiring a 50% interest in Westfield Stratford City in London, Europe's largest urban shopping centre.
- Allianz and Dutch developer Corio acquiring Porta di Roma, Italy's largest shopping centre.
- Healthcare of Ontario Pension Plan (HOOPP) partnering with Meyer Bergman's specialist retail-focused fund to open a shopping centre in Ostrava in the Czech Republic – the centre is operated by Multi Development.

Avenue Montaigne, Paris, France

In Asia Pacific:

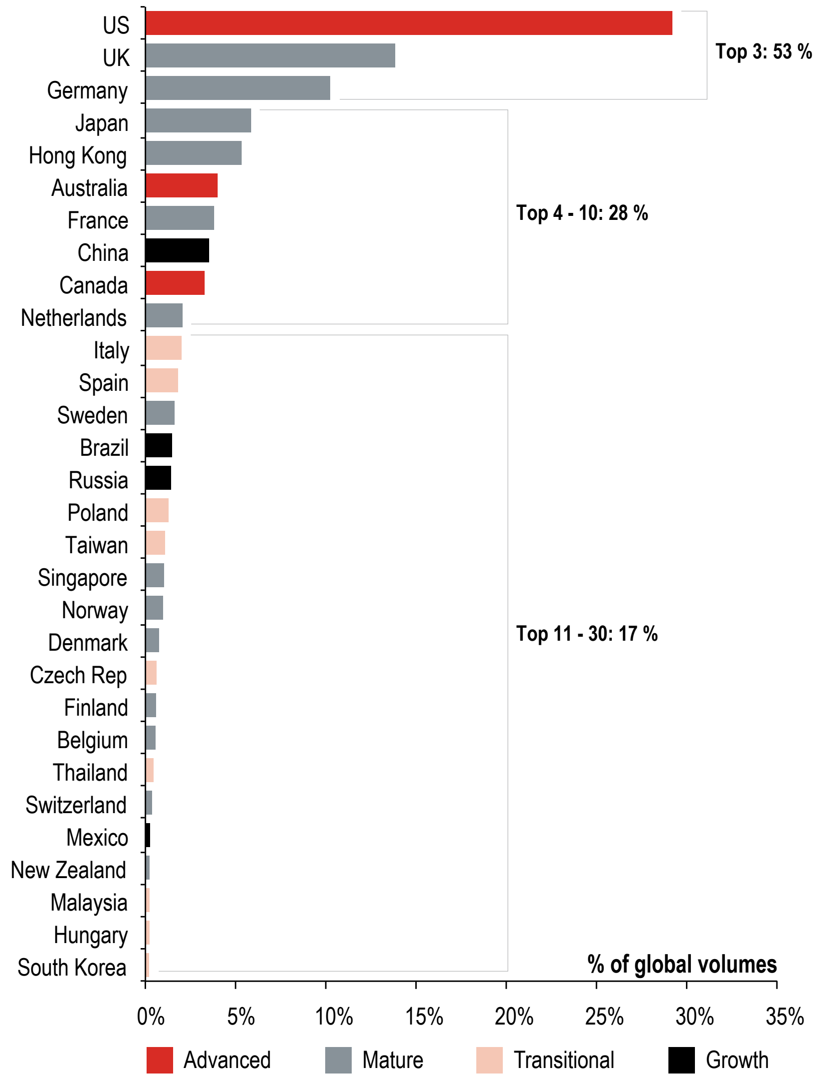
- Silk Road Holdings has been recently established as a joint venture - involving Henderson Global Investors as fund manager, Gaw Capital with US-backed equity, and RDM as outlet operator - targeting designer outlets in China.
- CPPIB has acquired 50% of Northland Shopping Centre in Australia alongside Colonial First State Global Asset Management.
- The likes of CIC, PGGM and APG are co-investing with Pramerica to target the retail sector in Singapore.

This trend has been evident in the US as well, with private equity funds moving into the retail sector partnering with well-established players:

- Blackstone joined with US REIT DDR Corp to acquire the EPN retail portfolio for US$1.4 billion.
- The first half of 2012 saw KKR enter the sector, partnering with YTC Pacific to purchase Yorktown Center, a super-regional mall in suburban Chicago.

Largest Retail Investment Markets, 2009 - H1 2012

Top three account for over half of activity



Source: Jones Lang LaSalle, August 2012

Established Investment Markets still dominate …

83% of global investment in well-established markets

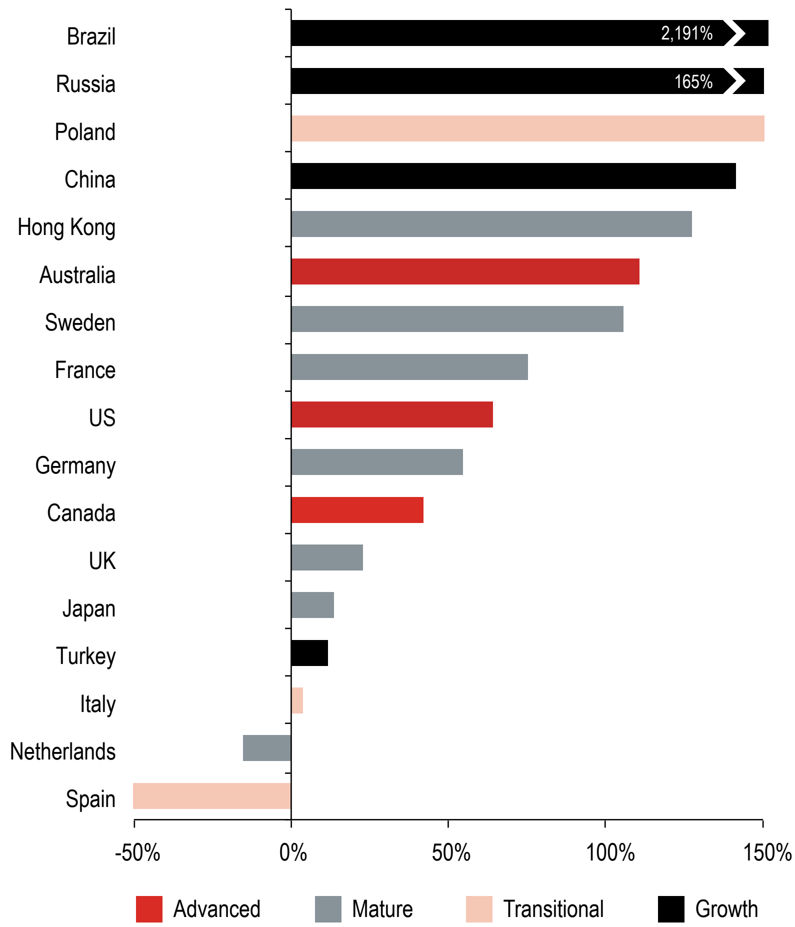
The well-established 'Advanced' and 'Mature' markets of North America, Western Europe, Australia, Japan, Hong Kong and Singapore have accounted for a significant 83% of global retail volumes since 2009. While their contribution to overall activity is gradually declining (it was 90% in 2005-2006), it appears, despite the attractions of 'Growth' and 'Emerging' markets, that there is still considerable inertia among global investors. For example, the three largest investment markets - the US, UK and Germany – have accounted for more than half of all global direct retail investment over the past 3½ years; and the US alone is responsible for 29%.

Investors target markets with robust retail fundamentals

Investors and operators are particularly targeting those locations underpinned by strong retail fundamentals. Among the established markets, **Hong Kong, Australia** and **Sweden**, with their favourable demographics and/or robust retail sales, have registered the most significant growth in investment volumes since the Global Financial Crisis. This focus on healthy market fundamentals is also translating into an increasing emphasis on particular cities and regions rather than countries, especially in the low growth environment of Europe.

Retail Investment Volumes, 2008 - 2009 v 2010 - H1 2012

BRICs show fastest growth



Source: Jones Lang LaSalle, August 2012

… but 'Investible' Geographies continue to expand …

Activity expanding fastest in 'Transitional' and 'Growth' markets

Nonetheless, strongest growth in retail investment since the Global Financial Crisis has been in a number of 'Transitional' and 'Growth' markets, where investors are looking to tap into long-term growth potential.

- Fastest growth over the last four years has been in the BRIC markets. **China** is the only 'Growth' market in the top destinations and sits comfortably above its peer group. By contrast, **India** is a notable absentee among the BRIC countries, where government policy regarding foreign direct investment into real estate, and particularly retail real estate, has stunted any potential investment market over the last few years.
- **China, Brazil, Turkey** and **Russia** are attracting greatest interest from global players, encouraged through 'signpost' transactions which are alerting the rest of the world to opportunities; these include the recent acquisition of a St Petersburg shopping centre by Morgan Stanley Real Estate Fund VII and Blackstone's purchase from Redevco of three Turkish shopping centres.

- 'Core' CEE markets, notably **Poland**, have also seen rapid growth and their retail markets are moving briskly towards maturity. Active investors including AXA, Blackstone, ECE, Unibail-Rodamco and Aviva.
- South East Asia is attracting growing investor interest, not only in the 'Transitional' markets of **Thailand** and **Malaysia**, where the quality of the retail stock is high, but more significantly in the 'Growth' markets of **Indonesia** and **Vietnam**.

In spite of this, many of these markets remain challenging for investors, particularly international groups, whether down to the lack of transparency, difficulty in accessing product that is generally tightly controlled by domestic groups, or the general challenges of operating in a foreign market.

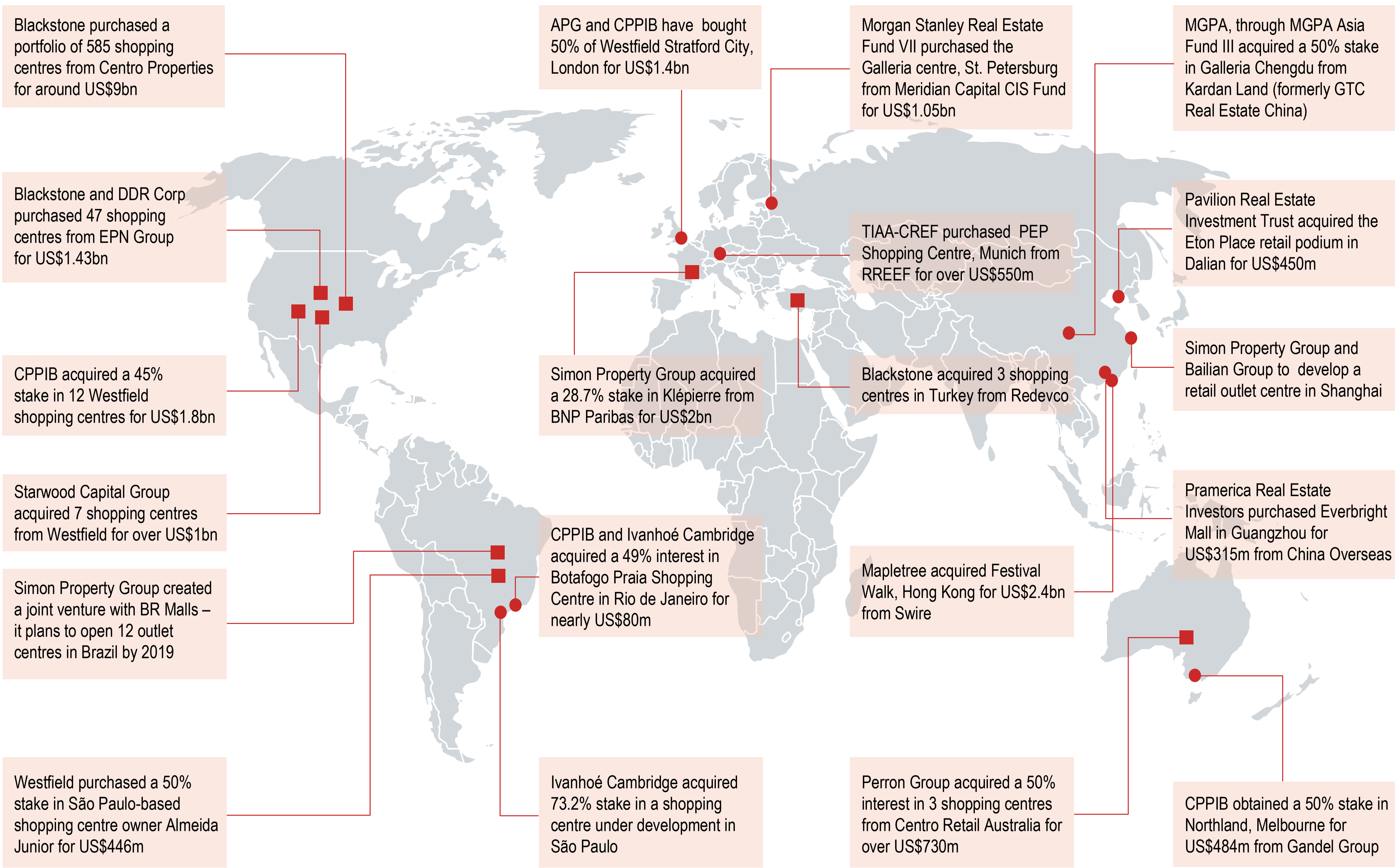
… and 'First Mover' Advantage continues to entice

Some international and regional investors/ developers and operators are expanding into 'Emerging' and 'Frontier' markets that have previously been 'off the radar' of international groups.

- International shopping centre specialist, Sonae Sierra, has reinforced its presence in Latin America through expansion in **Colombia**; it is also strengthening activities in **Morocco** and has recently entered **Algeria** as a service provider.
- Some of the dominant US retail REITs are growing their presence in Latin America. Kimco Realty has been actively investing in the region in recent years, and has followed many of its tenants across borders into markets such as Lima, **Peru**.
- A number of South African investors/ developers are moving into 'Frontier' markets in sub-Saharan Africa, often in partnership with the dominant South African retailers. For example, Resilient Property Income Fund and retailer Shoprite have plans to develop shopping centres in **Nigeria**. South Africa's Public Investment Corporation (PIC) is also partnering with South African retailers to develop shopping centres across the continent, while the Rebosis Property Fund is creating a US$2 billion private equity fund to build centres in **Ghana, Angola, Uganda, Tanzania, Kenya, Mozambique** and **Nigeria**.

Istinye Park, Istanbul, Turkey

Retail Investment: Signpost Activity 2011 - 2012



Source: Jones Lang LaSalle, August 2012

Regional Trends in Retail Investment

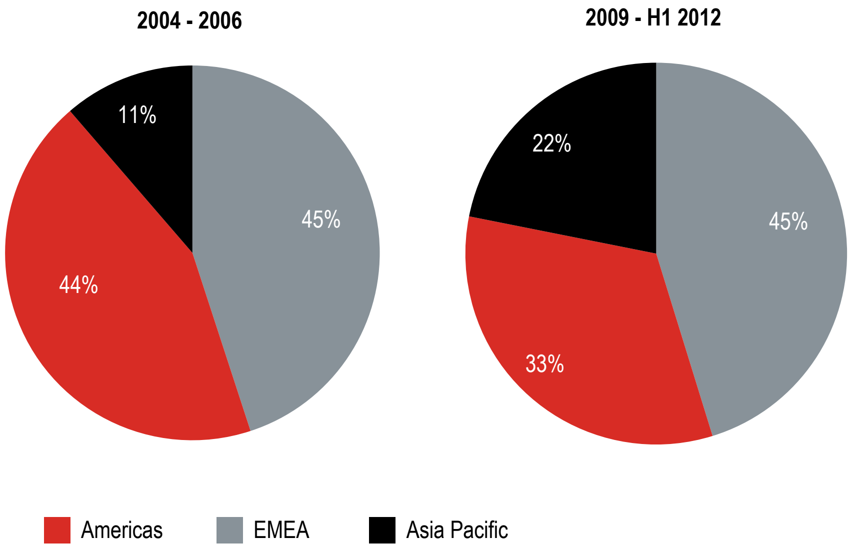
Asia Pacific becomes a Key Destination

Prior to the Global Financial Crisis, global retail investment volumes were split almost equally (44% and 45%) between the Americas (largely North America) and Europe, with the remaining 11% attributed to Asia Pacific.

- Since the mid-2000s however, we have seen a steady rise in **Asia Pacific**'s contribution, as domestic and intra-regional investors have targeted retail opportunities in the region. Since 2009, Asia Pacific has contributed 22% of global volumes.
- **Europe**'s contribution to global volumes has remained stable, as cross-border investors continue to focus on dominant shopping centres across the continent.
- By contrast, volumes for the **Americas** have dropped from 44% in 2004-2006 to 33% since 2009, with higher activity in Canada and Latin America not compensating for below-trend volumes in the US.

Retail Real Estate Investment, 2004 - 2006 v 2009 - H1 2012

Asia Pacific's contribution grows



Source: Jones Lang LaSalle, August 2012

Chunxi Road, Chengdu, China

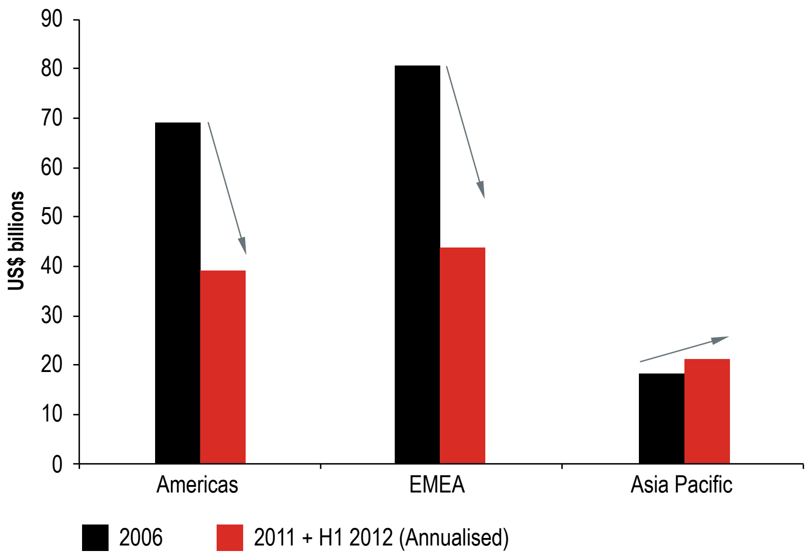
Asia Pacific

Volumes at record levels

- Retail investment volumes in Asia Pacific reached record levels at US$24.3 billion in 2011. Unlike Europe and the Americas, volumes are higher than the peak of 2006. H1 2012 continued these record levels with retail investment volumes of US$12.4 billion, an impressive 22% higher than H1 2011.

Retail Real Estate Investment

Asia Pacific volumes at record levels



Source: Jones Lang LaSalle, August 2012

Centro Galleria, Perth, Australia

Activity was bolstered by a number of large transactions, with 14 deals over US$200 million.

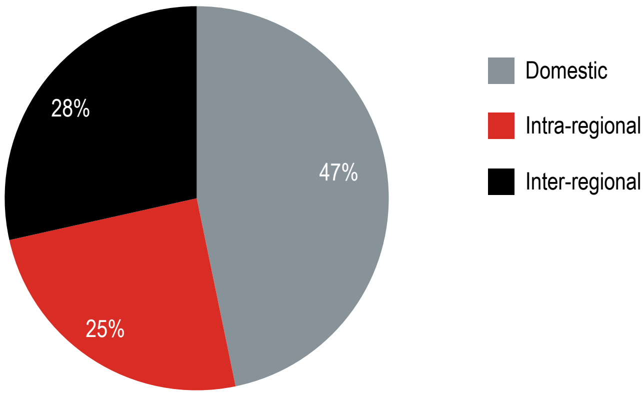
- **Japan** and **Australia** both saw strong volumes in H1 2012. Japan regained its 2010 spot as the most active retail investment market in Asia Pacific; however more than half of this volume was due to the US$1.4 billion portfolio sale from Tokyu Land to Activia Properties. With the US$730 million sale of a 50% interest in three Australian shopping centres by Centro Retail Australia to the Perron Group, Australia has followed one of the key global trends of major owners, namely the A-REITs, pursuing a 'capital recycling' strategy and selling down part or whole shares in 'core' regional assets. Australia is a consistently sought-after retail market in Asia Pacific - notably the only 'Advanced' market in the region, offering the stability of a mature economy with favourable retail fundamentals as well as comparatively high income returns and opportunities for growth driven by robust industry and population growth.
- The Asia Pacific market is dominated by inter-regional capital, notably Singapore, Hong Kong and Japan, although some Asia Pacific-based capital has globally diversified sources of capital. China, as one of the region's main retail markets currently being targeted, saw a relatively high number of deals completed by non-Asia Pacific capital in H1 2012, accounting for nearly a third of total volumes.
- Listed Vehicles continue to be a major buyer group, representing 24% of total retail transactions over the last 2½ years (compared to 20% in the Americas and 18% in Europe). This is largely dominated by groups in Hong Kong and Singapore, but Malaysia is notably gaining importance as a major IPO destination.

Omotesando Hills, Tokyo, Japan

- Sellers are a more diversified and less traditional group. Unlisted property companies and developers remain the largest seller group, followed by listed developers, private investors and corporates. In Asia Pacific, the corporate category largely comprises of major conglomerates (that have property arms), rather than corporate occupiers looking to release capital via their real estate platforms. Private investors are mainly major players in Hong Kong, Singapore and Japan, generally focused on the 'high street' market, although for the first time in Hong Kong there is evidence of some of the major developers bringing their retail podiums to the market.
- There continues to be strong interest in Asia Pacific retail from inter-regional investors and developers. Most major retail developers are actively expanding or targeting China, including Simon Property Group which is developing its first 'Premium Outlets' centre in Shanghai, and Taubman, which has announced that it is close to making its first acquisition in a China Tier 2 city.

Europe: Domestic v Cross-Border Investment, 2009 - H1 2012

Inter-regional capital accounts for 28% of volumes



Source: Jones Lang LaSalle, August 2012

Europe

Investors target 'core' Europe

- Retail investment volumes in Europe totalled US$55 billion in 2011, a 42% increase on 2010 and the highest level since 2007. This impressive volume was undoubtedly driven by the convergence of a significant weight of institutional capital targeting the sector with an unprecedented level of available investment product. The 'flight to quality' of investment capital was met with the requirement for recapitalisation by many of the industry's leading operators. In some cases this recapitalisation was led by balance sheet constraints and, in others, simply by the desire to capitalise on the market to grow their platforms.

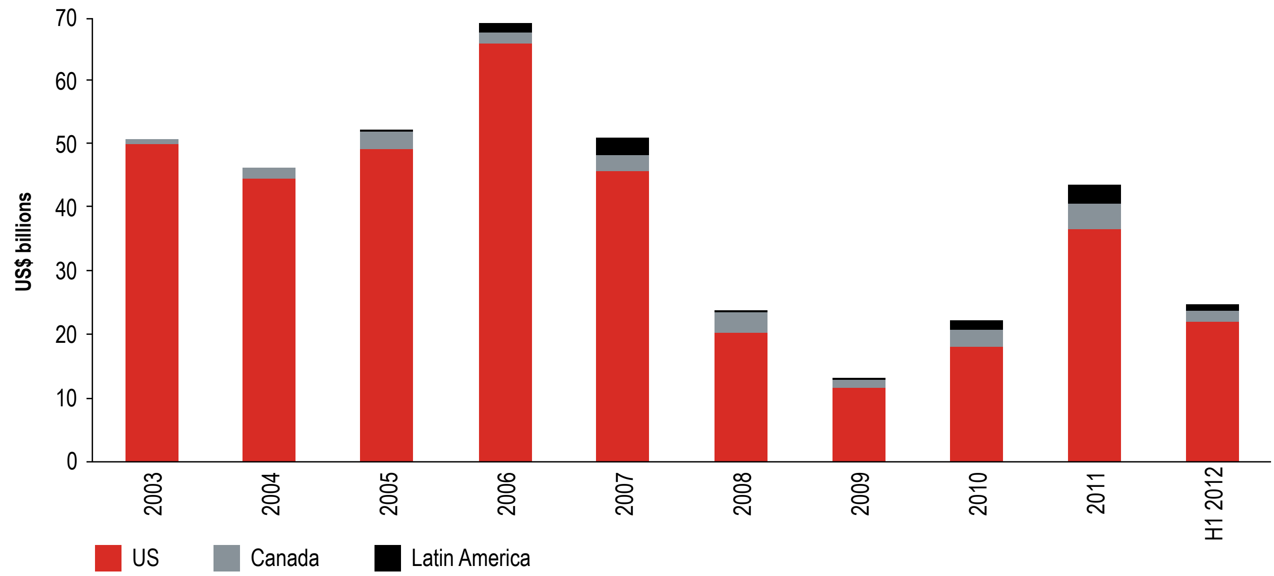
- Five 'core' markets, **UK, Germany, France, Sweden** and **Poland**, accounted for nearly three-quarters of regional volumes in 2011 - close to US$40 billion. So far in 2012, the UK and Germany are dominating transaction activity, with half of European volumes.

Europe's growth markets – Turkey and Russia

- Europe's growth markets are **Turkey** and **Russia**. Major contributors to the European markets in 2005-2007, both markets saw activity grind to a virtual standstill during 2008-2010 as the pricing expectations of capital-rich developers and operators did not match the inquisitive investment community. The end of 2011 saw a major 'signpost' deal in Russia with the acquisition of the Galleria shopping centre in St Petersburg by Morgan Stanley and we anticipate that more deals will follow in 2012. Demand for retail assets in Turkey from international equity investors is strong. Blackstone has just purchased a portfolio of three shopping centres from Redevco, which is the first of a number of expected deals.
- While relatively inactive, Southern Europe cannot be lumped into one basket. Demand remains for prime quality product in major cities from equity-rich sector specialists and opportunistic investors dependent upon asset performance and pricing expectations.
- North American capital played an important role in the region in 2011-2012, with a number of high-profile transactions involving either a Canadian or US investor, most notably CPPIB, TIAA-CREF and HOOPP.
- There is no doubt that the Global Financial Crisis has dramatically altered the retail investor landscape in Europe. As the traditional third-party fund model has struggled, the void has been filled with major global institutions either partnering directly with sector specialists or working with a fund manager via a separate account model.

Americas: Direct Retail Real Estate Investment, 2003 - H1 2012

US volumes still below trend



Source: Jones Lang LaSalle, August 2012

Branson Landing, Branson, Missouri, USA

North America

Volumes subdued in the United States

- The **US** has had several years of subdued investment activity, and there is still a hangover of distressed assets following the Global Financial Crisis. Retail investment volumes are running at an annualised level of US$37 billion (H2 2011-H1 2012), still well below the pre-Crisis average of US$51 billion per year (2003-2007).
- The recovery in US retail transaction volumes has been hindered by the slow recovery in many suburban and secondary market economies, where the vast bulk of the US institutional-quality retail product is found. However, there are now signs that the corner may be starting to turn, albeit slowly.
- Domestic capital dominates, accounting for two-thirds of volumes over the past 18 months. Dominant buyers of retail portfolios and large individual shopping centres include public REITs, institutional investors and private equity funds.
- Activity has been boosted by large portfolio transactions, such as Blackstone's purchase of a portfolio of 585 US shopping centres from Centro Properties; Starwood's acquisition of seven of Westfield's 'non-core' assets; and the sale by Westfield of a 45% stake in 12 shopping centres (mainly in California) to CPPIB. In addition, Dutch retailing group Ahold has acquired a portfolio of supermarkets (in the Philadelphia area) from Safeway, one of the largest US-based grocery operators.
- Investors have focused on five key metro markets – New York, Washington DC, Los Angeles, Chicago and San Francisco. However given difficulty in sourcing product, as well as fierce competition for those assets that are introduced to market, the list of target locations is now expanding to include many secondary markets.

- Institutional money is targeting trophy assets of which there is a limited supply, forcing investors to look at secondary space and markets, but only those with strong anchors (i.e. market leaders, groceries). Private investors are looking at opportunistic deals.
- New development will eventually resume (at first in urban and inner-suburban trade areas), some of which will be in mixed-use developments; this will open up new investment opportunities.

Activity at record levels in Canada

- **Canada**'s housing market and consumption boom, along with prized economic stability and grounded commercial property lending markets, have enhanced shopping centre desirability among investors. Retail investment volumes are running at record levels – US$4 billion in 2011 and close to US$2 billion in the first half of 2012. The focus is predominantly on Toronto, Vancouver and Calgary.
- The country's retail market is highly domestic in its investor landscape. Shortages of available product are a notable challenge for cross-border players, with competition particularly fierce when prime centres and grocery-anchored open-air centres are made available.

Latin America

Focus on new construction

- Latin America has accounted for barely 1% of global direct retail transactions over the past decade, although the region's contribution has been steadily rising, to close to 2.5% by 2011-H1 2012. Most capital directed at the region has been going primarily into new construction, as opposed to acquisitions of existing shopping centres, and this would not be included in our investment volume numbers.

Brazil, the main focus

- **Brazil** is the dominant market, and shopping centre portfolio investment was a major contributor to the country's commercial property investment boom of 2010-2011. Prices have been strongly 'bid up' and yields driven down, although there has been some cooling off over the last year. BR Malls has been among the most active market participants for both portfolio and single property investment. Several major construction companies are also moving to establish units to develop shopping centres across the country.
- A dominant trend that has evolved is that of investment funds acquiring stakes in several of Brazil's retail developers. Examples include Patria and Blackstone's purchase of 60% of Tenco; HSI's acquisition of 49% of Saphyr; Veremonte's 55% stake in Fitout; and Plural's acquisition of a majority interest in ABL.

Low liquidity across the region

- In **Mexico**, most capital directed towards retail product continues to go into new development, and is nearly all equity as debt financing for shopping centre development remains scarce to even non-existent in most cases. The majority of new construction is focused on mid to small-sized cities, with a dominant theme of supermarket-anchored centres. **Argentina** has seen strong growth in shopping centre development since 2003, and the number of major centres has grown by 70%, even if the pace has now slowed. Neighbouring **Chile** is in its second major shopping centre development expansion, with approximately 20% of the country's existing retail stock presently under construction. Liquidity in both Argentina and Chile is low however, as existing prime retail assets rarely change hands.

Middle East and North Africa

Developers expand across region

- There has been minimal trading of retail assets in the Middle East and North Africa region to date. Ownership is still dominated by major developers and family groups that have traditionally sought to 'build and hold' and, as such, very few high-quality shopping centres have come to the market. While some of these groups may create a clearer distinction between their development and asset management arms in the future, limited external sales are likely as most existing owners are looking to retain those retail assets that provide a strong long-term cash flow.
- The retail sector is becoming more international within the Middle East as major developers seek opportunities across the region. Dubai-based developers, MAF and Emaar, are expanding outside of their home market (which has become saturated with major shopping centres over the past five years). Both of these developers are looking to export their experience and expertise in the retail sector, by opening new centres in 'Growth' and 'Emerging' markets. Emaar has retail projects in Cairo and Istanbul, while MAF has a scheme in Beirut. Their ability to expand is assisted by their control of a number of major brands that they can use as anchor tenants for their new shopping centres.

A key source of capital

- The lack of opportunities within their own region has resulted in Middle Eastern investors seeking retail projects in overseas markets. St Martins (Kuwait), ADIA, ADIC (Abu Dhabi) and Qatar Holding have all made major retail purchases in the UK over the past few years, while Arab Investments (Saudi Arabia) has focused on Germany, purchasing several shopping centres over the past two years.

The Dubai Mall, UAE

China: a US$15 billion-a-year Investment Market by 2020

With double-digit annual retail sales growth since 2005 and a middle-class population that is projected to triple to over 300 million by 2020[4] (i.e. nearly as large as today's total population of the US), it is not difficult to understand why China has become the world's second largest luxury market and, according to China's Commerce Minister, will be the single largest consumer market in the world by 2015.

Besides these traditional retail fundamentals, many of which are shared characteristics of other 'Growth' markets, China's retail sector is set to benefit from a number of key factors that will continue to drive the country forward as one of the world's leading retail markets, including:

- A structural shift towards becoming a **consumption-driven economy** - Chinese economic planners have embarked on a comprehensive series of consumption-boosting measures that are expected to propel its retail sector for many years to come.
- An extended period of **intensive investment in transport infrastructure** - significantly improved accessibility and enlarged catchment areas have laid the foundation for rapid retail sector expansion.
- China has attracted **the attention of retailers** on an unparalleled scale.

Drawn by China's exceptional retail growth story, many developers and investors have been eager to deploy capital in its retail real estate sector, and the development of China's retail market has been equally impressive. In 2005, there were just 13.4 million square metres of shopping centres and department stores across China, largely focused in the major cities. However, the landscape of today's market is certainly a different picture, with 40 million square metres across a much more geographically diverse set of cities. Furthermore, the quality of retail supply is improving - particularly outside of the Tier 1 cities - moving away from the department-store dominated centres to modern, full-scale shopping centres.

This growth of modern retail space is projected to continue, with another 100 million square metres expected to come onto the market by 2020, representing an annual growth rate of close to 15% throughout the rest of this decade. Importantly, there has been a notable shift in retail real estate development towards the Tier 2 and Tier 3 cities. While these cities account for 60% of the total modern retail stock today, they are forecast to make up 80% of the total supply by 2020[5].

Despite China's demographic characteristics and significant retail development, its retail investment market remains at a relatively early stage and direct real estate investment activity has been constrained by both the limited availability of investment-grade assets and structural barriers to market entry.

2011 and H1 2012 experienced record volumes of investment into retail real estate, at US$3.9 billion and US$2.5 billion respectively, with H1 2012 figures up an impressive 68% year-on-year. However, it is clear that, for an economy of its size, China has significant room to grow its retail investment market, with retail volumes only 0.03% of GDP (PPP), compared to other 'Growth' markets such as Russia and Brazil, where direct retail investment is 0.1% of GDP (PPP). According to our Retail Real Estate Momentum Index (page 32), China is situated firmly at the top, and we project that the country's retail investment market has the potential to be the largest in Asia – a $US15 billion-a-year market by 2020.

Investment volumes aside, the investor profile is also expected to broaden significantly in the coming years. Although many non-Asian investors have signalled their intentions to target China's retail real estate market, only a small number have pulled the trigger so far and inter-regional

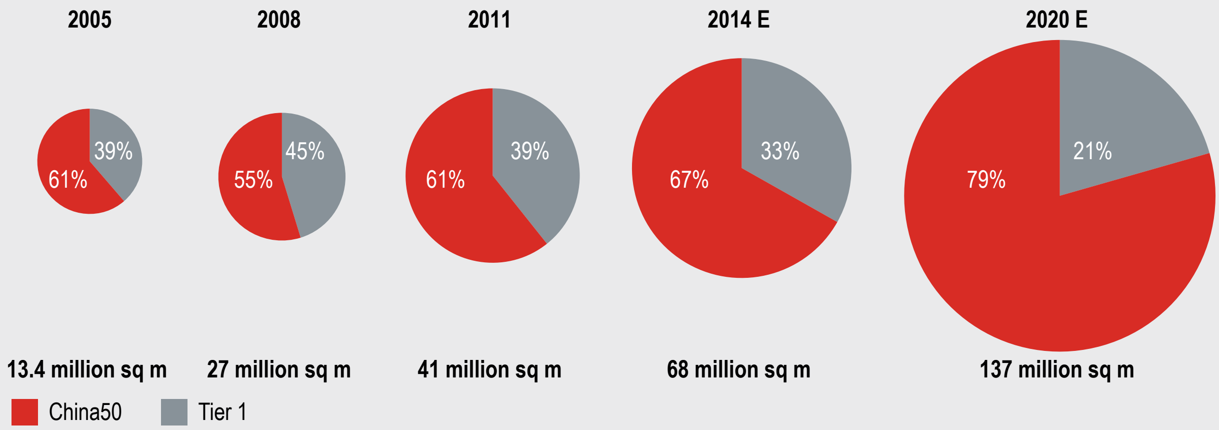
4 Population earning over RMB 30,000 (or around US$5,000 annually)
5 See China50: Fifty Real Estate Markets that Matter, Jones Lang LaSalle, 2012

capital only accounts for a small portion of total transactions. Given that the bulk of opportunities lie in development projects, there have been too many investors chasing a relatively small number of mature and stabilised projects that suit their risk-return profile. With the market deepening at such a rapid pace, one can expect China's retail investment landscape to become more globalised in the near future. However, the barriers to entry, particularly in terms of the regulatory, fiscal and financial environments cannot be ignored, and could certainly impact on China's ability to reach its potential.

One thing is clear – China is a market that major foreign players are seeing as too big an opportunity to ignore, and many have signalled their intentions to seriously target China's retail development and investment market. In H1 2012, China saw a record 26% of deals done by non-Asia Pacific capital. Therefore, consistent with our profiling and typology of the various markets, and assuming that an open and flexible investment environment that encourages domestic as well as foreign players continues to grow, China is poised to mature from a 'Growth' market into a 'Transitional' market where cross-border activity increases as global institutional capital is deployed on a more meaningful scale.

China's Modern Retail Stock Evolution, 2005 - 2020

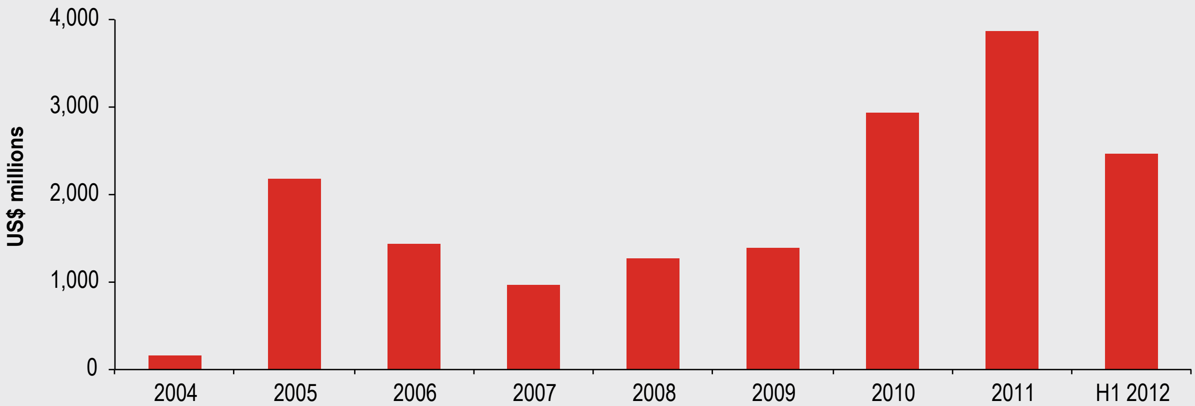
A further 100 million sqm of new stock expected by 2020



Source: China50: Fifty Real Estate Markets that Matter, Jones Lang LaSalle, 2012

Direct Investment into China Retail Real Estate

Over US$6 billion transacted 2011 - H1 2012



Includes purchases of individual retail assets or portfolios of assets over US$5 million. Includes forward funded deals. Excludes pure land deals and entity-level transactions.

Source: Jones Lang LaSalle, August 2012

The Future Retail Investment Landscape

The Next Wave of Globalisation

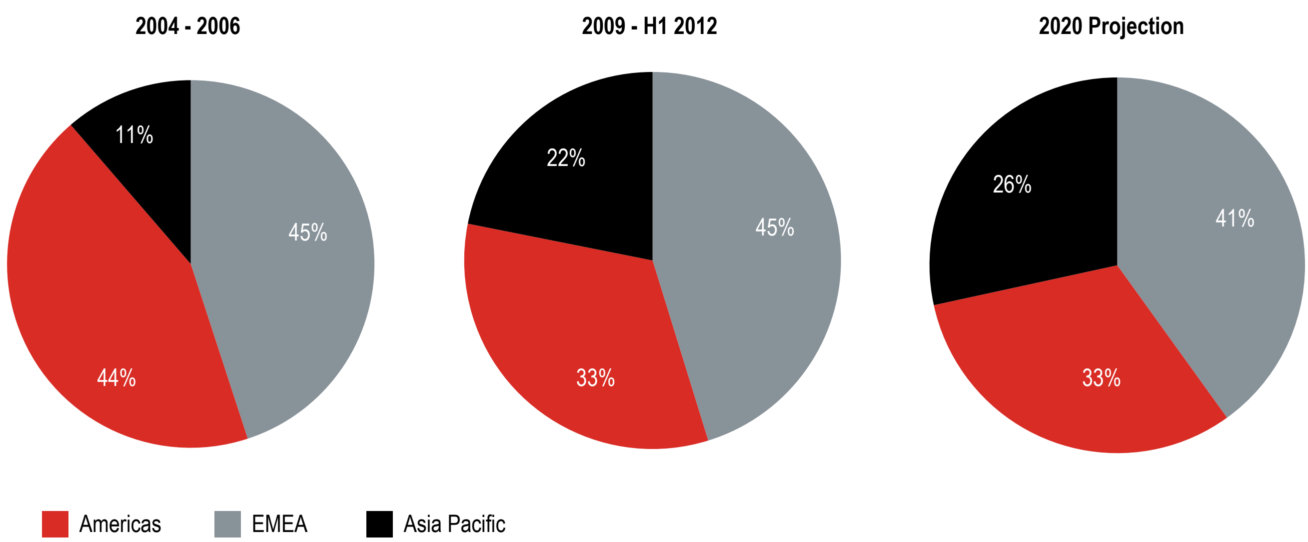
As we move into the next wave of retail investment, the process of globalisation is expected to speed up on the back of the acceleration of cross-border retailer expansion, an improvement in the quality and availability of retail assets, rising liquidity levels and further progress in real estate transparency.

- Based on current economic and shopping centre stock growth forecasts, we predict that global direct retail investment volumes will reach the **US$160-180 billion**[6] level by the end of the decade. This would represent an approximate 30-50% uplift on current (2011-2012) volumes to a level that would be significantly higher than the US$100 billion-a-year benchmark of the last decade.
- Retail's overall contribution to total real estate investment is projected to increase from an average of 24% over the past decade to a **proportion closer to 30%** over the remainder of this decade, as institutions and private investors seek to tap into the growth potential of expanding consumer markets.
- **Cross-border activity is expected to account for about half of retail investment** underpinned by the rise of global and regional groups. Inter-regional volumes will remain high as sovereign wealth funds, institutions and major operators target large dominant shopping centres across the globe. We will see more joint ventures, with sovereign wealth and equity-led investors looking to invest alongside partners that possess expertise.
- There will be a general **rebalancing in capital flows towards Asia Pacific**, due to favourable demographics and the growth of the middle classes. By 2020, Asia Pacific is forecast to account for 26% of global retail investment volumes, up from 22% currently and from only 11% in the mid-2000s. A significant improvement in both operating environments and transparency levels in Asia's larger markets, such as China and India, could push the region's contribution closer to 30%.

6 Projections of global volumes are derived from an aggregation of projections for 56 countries, based on consumption growth and shopping centre stock growth

Retail Real Estate Investment: Past, Present and Future

Asia Pacific's contribution continues to grow



Source: Jones Lang LaSalle, August 2012

A Shift towards Growth Markets

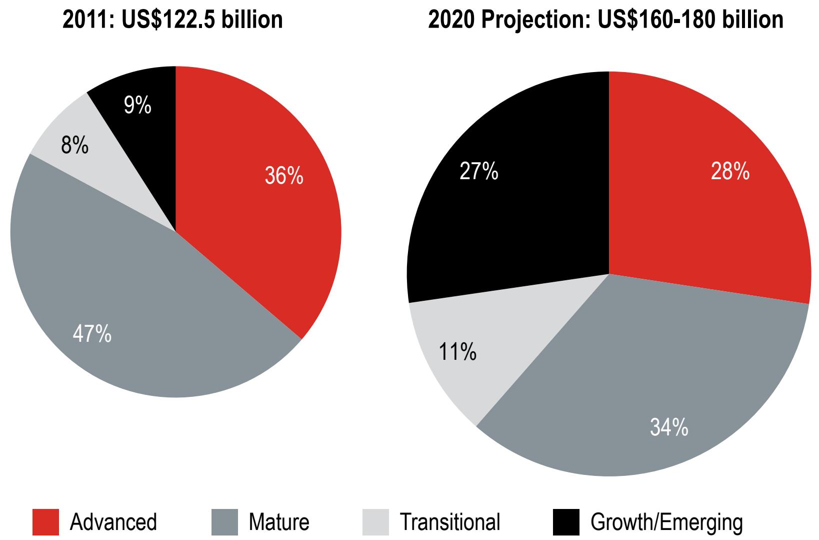
We anticipate a steady shift in the balance of investment activity towards today's 'Growth' and 'Emerging' markets by 2020.

- International groups will gradually rebalance their portfolios in favour of today's 'Growth' markets, building their platforms particularly in the main BRIC and MIST markets. The disconnect between the pioneering international developers and more conservative international capital is likely to narrow, facilitated by more partnerships between international capital and local expertise.
- Domestic capital will further boost volumes in 'Growth' and 'Emerging' markets, with improving liquidity and the increasing participation of domestic pension funds, insurance companies and REITs directing new capital towards retail stock.
- Today's 'Growth' and 'Emerging' markets are projected to account for around one-quarter of global retail investment by 2020, a significant increase on their less than 10% contribution today. Investor confidence in 'Growth' markets will rise with the improvement in stock quality as local developers adopt international best practice. Unencumbered by a legacy of old retail stock, these new retail markets have the potential to build retail infrastructures tailored to the requirements of the 21st century retailer and consumer.
- The contribution of today's 'Advanced' and 'Mature' markets to global retail investment will steadily decline from over 80% today to just above 60% by 2020, although absolute volumes will continue to grow. However, the increasing concentration of ownership by institutions on long-term holds, particularly of the large dominant shopping centres, will constrain strong growth in trading volumes in these markets.

While the attractions of 'Growth' and 'Emerging' markets for international groups are compelling, particularly as these countries move towards maturity, the persistent lack of transparency and overall challenges of operating in these markets will continue to act as a constraint. Moreover, difficulties in accessing product (as local developers retain their income-producing assets) and finding appropriate local partners could also hinder the expansion of international groups.

Retail Investment by Destination, 2011 v 2020

A shift towards 'Growth' and 'Emerging' markets



Source: Jones Lang LaSalle, August 2012

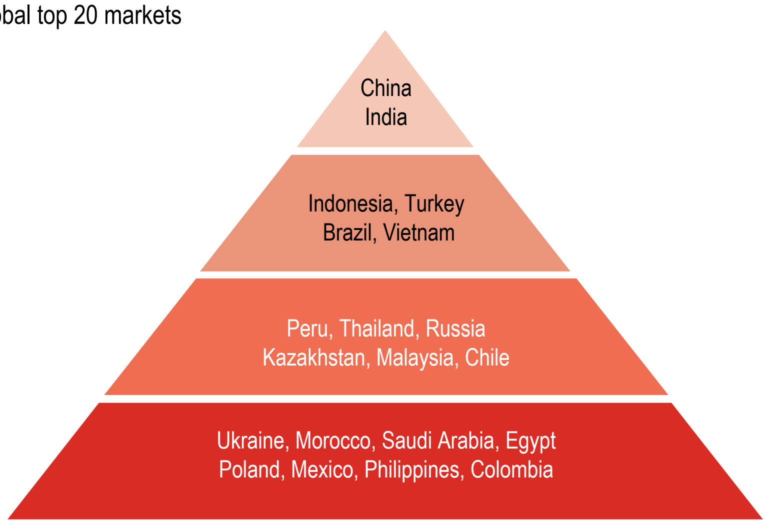
Siam Paragon, Bangkok, Thailand

Retail Real Estate Momentum Index – Picking the Winners

With 'Growth' and 'Emerging' markets offering significant long-term opportunities, we have created a Retail Real Estate **Momentum Index** which aims to identify those countries with the strongest momentum in terms of consumer, retailer, developer and investor activity. The chart below shows the Top 20 markets.

- **China** and **India**, unsurprisingly, top the Index, due to their favourable demographics, rapid urbanisation, strong consumption growth and significant expansion of modern retail infrastructures; their shopping centre stocks are projected to grow by around 15% per year through to the end of the decade. India falls short of China due to weaker real estate investment momentum and a smaller international retailer presence.
- South East Asia features highly, most notably the 'Growth' markets of **Indonesia** and **Vietnam** which are evolving rapidly, but also the 'Transitional' markets of **Thailand** and **Malaysia**.
- **Turkey** and **Russia** are the standout markets in Europe. The two countries will rank among Europe's largest in terms of modern shopping centre stock by 2020. **Kazakhstan** and the **Ukraine** also have good momentum, while **Poland** is the only 'Transitional' market to feature in the Global 'Top 20'.
- **Brazil** has the most powerful momentum in Latin America but, significantly, **Peru** comes a close second due to robust growth in retail sales and shopping centre development. **Chile, Mexico** and **Colombia** also appear in the 'Top 20'; **Argentina** sits just outside this top group.
- While the **United Arab Emirates** has the Middle East and North Africa's most developed retail market, it is the three heavyweights of **Morocco, Saudi Arabia** and **Egypt** that have the region's strongest momentum.

Retail Real Estate Momentum Index
Global top 20 markets



Based on growth projections of total population, urban population, GDP, GDP/capita, retail sales and modern shopping centre stock, combined with retail real estate investment and international retailer presence
Source: Jones Lang LaSalle, August 2012

Aura Mall, Novosibirsk, Russia

Regional Prospects

China becomes Asia's largest retail investment market

- **China** will become the region's largest retail market by 2020. It will continue to be the main entry point in Asia for European and North American investors and, following the expansion of major retailer groups, there will be an increasing shift of activity towards China's Tier 2 and 3 cities.

- **India** will remain a two-paced market. From a retailer perspective, the country is clearly a key destination and although the retail market is yet to open fully to international retailers, when it does, major international retail groups will expand rapidly across India; well-located, well-managed, prime shopping centres will be major beneficiaries of such expansion. However, from a retail investment point of view, it is still unlikely that India will see a boom in foreign investment in the short to medium term. Although the fundamentals are firmly in place, the regulations are such that both the entry and exit options are extremely limited. The lack of clarity around potential exit options also means that major foreign developers are hesitant to enter the market. While the government could eventually ease such restrictive policies, it is probable that foreign groups will continue to focus their emerging markets' strategies elsewhere in the short to medium term.

- We will witness growing investor activity in South East Asia. Although **Thailand** and **Malaysia** are ahead in terms of maturity, the stock is tightly controlled by major domestic groups who are long-term holders. **Indonesia** and **Vietnam**, on the other hand, are starting to experience the first signs of major foreign investment. We expect Indonesia to be one of, if not the standout market in South East Asia over the next 5-10 years, and Vietnam will not be far behind.

- The Asia Pacific retail investment market will continue to be dominated by regional players; however, we expect that capital from other regions will maintain its progressive moves into Asia Pacific, whether for the strong 'high streets' in 'Mature' markets like **Hong Kong** and **Japan** or the 'Growth' markets of China, Indonesia and Vietnam.

European investors focus on key cities

- The 'Growth' markets of **Turkey** and **Russia** will see an increase in the share of overall investment volumes, as economic growth remains relatively subdued in Europe's 'core' markets over the short to medium term, and retail demand continues to stimulate retail development. Turkey and Russia are expected to account for 10-15% of Europe's investment activity by 2020.

- Within the more established markets of Europe, investor strategy will move towards target cities and regions rather than countries. For example, the recovery of the Southern European markets is likely to be led by cities such as Madrid and Milan, which will see the first investor moves.

- Until such a time as there is significant expansion of the debt markets, we are unlikely to experience a shift from prime product dominating the market. Product will probably come from fund maturities and controlled release as investors seek to recoup equity.

- There will be further corporate M&A activity resulting in a fewer number of large players coupled with continuing specialisation towards dominant regional schemes.

- With the relaxing of the debt markets, we will probably witness a return of the 'fund model' as a greater weight of capital is deployed. However, investors will probably want to retain the control levels that they have enjoyed over the last few years.

Mall repositioning in North America

- In the **US**, while premier product in fortified, supply-constrained locations will remain highly sought after, increasing opportunities for 'higher return' strategies will materialise in secondary markets and in those assets continuing to struggle with debt problems. Major redevelopment programmes will also arise, with greater frequency, for those obsolescent centres that still enjoy a strong location and 'trade area' fundamentals; those that do not, may permanently exit the retail inventory.

- A major source of foreign capital in US retail will continue to be Canadian investors. Given a perception of a shortage of attractive domestic opportunities relative to the large amounts of raised capital currently awaiting placement, both pension fund investors as well as several Canadian REITs will continue to seek opportunities in the US retail market. Many US secondary markets and submarkets, as well as particular assets that require repositioning, are viewed by Canadian investors as holding greater 'upside potential' at this stage in the cycle.

Intra-Latin American flows to increase

- Intra-Latin American flows into retail investment will become an important feature of the landscape. We will witness more North American players - developers, institutions/ specialist retail REITs - entering the Latin American market. Although gravity will still favour **Brazil**, countries such as **Colombia** and **Peru** will see much greater cross-border capital flowing into retail development and operations. In particular, Brazilian investors have been turning attention to Colombia, as one of Latin America's most dynamic retail markets.
- In most major Latin American countries, secondary and tertiary cities will experience major new development and investment throughout the remainder of the decade. In a large number of such cities, retail amenities have not kept pace with steadily-growing middle classes.
- In Brazil, several new funds have been created that are dedicated exclusively to retail opportunities, including HSI, Patria Blackstone, a Walton Street Fund and Plural.
- New investment capital sources and opportunities will emerge as well, as pension funds in **Mexico** begin to direct new capital towards the country's growing neighbourhood and community centre stock.

Middle East and Africa slowly opening up

- In the Middle East and North Africa, we expect more sales of shopping centres, but activity will be constrained by developers looking to retain income-producing assets. The first wave of sales may therefore be between related parties, as the major owners in the region seek a greater distinction between their development and asset management divisions.
- With the exception of **Dubai**, the markets in the Middle East remain restricted to local investors, and shopping centres are largely owned by major local families. This situation will probably only change slowly over a number of years but, nonetheless, the markets are expected to become more open to overseas investors by 2020. In the meantime, the volume of retail transactions will almost certainly remain limited and dominated by a small number of major local players. Even so, there would be healthy demand from private investors and family groups for any well-performing retail assets offered to the market within the Middle East.
- In sub-Saharan Africa, South African investors/ developers in partnership with retailers are likely to accelerate their move across the continent. The focus will be on **Nigeria**, the region's largest consumer market, oil-rich **Angola, Ghana** and **Mozambique**, and some of the more stable markets in Southern and Eastern Africa such as **Zambia, Kenya, Tanzania** and **Uganda**.

Opportunities, but also Challenges Ahead

The retail sector is going through a period of dramatic structural change created by a major rebalancing in consumer activity between established and growth/emerging markets, increasing consumer empowerment, technological innovation and the growth of the internet economy. This will have major implications for the retail investment landscape:

A focus on large dominant prime centres

The question of the future of secondary and tertiary stock will become increasingly critical as the impact of the internet hits home. This will encourage even greater focus by investors, operators, retailers and consumers on the larger dominant prime shopping centres.

Asset management and value enhancement

We will also see a stronger emphasis on asset management with 'repositioning' of failing centres playing a major role in the established markets. Tertiary space will not survive.

Slow volume growth in established markets

While investors will target large dominant shopping centres, they will be in short supply, with ownership increasingly tied up by institutions and sector-specialists on long-term holds. This is a particular feature of North American markets, but there are signs that the 'Mature' markets in Europe may be going down the same route.

Supply-demand imbalances

Significant increases in stock in 'Growth' and 'Emerging' markets over the next few years will create supply-demand imbalances in some cities and will force investors (and retailers) to take a more research-based approach, as not all projects will ride the market.

From 'yield shift' to 'rental growth'

Investors will need to revise their return requirements for 'Growth' and 'Emerging' markets, as returns are increasingly driven by capital gain from rental growth, rather than yield shift.

Accessing product and partners

Difficulties in accessing product (as local developers retain their income-producing assets) and finding appropriate local partners could hinder the expansion of international groups.

Risk appetite will 'ebb and flow'

While structural shifts will favour 'Growth' and 'Emerging' markets, activity will 'ebb and flow', with a retreat from both higher-risk assets and markets during periods of uncertainty.

The Changing Retail Landscape

The statistics speak for themselves. Retail is becoming an increasingly important asset class and the number of 'investible' geographies is expanding rapidly. This trend will continue and by 2020 'Transitional', 'Growth' and 'Emerging' markets could attract nearly 40% of total retail investment. Truly global retail players are emerging, with the likes of CPPIB, Westfield and Simon Property Group gaining global exposure.

The race for retail exposure is undoubtedly driven in part by the sector's defensive characteristics, but the real attraction of retail assets is the underlying growth in the world's 'consumer classes'. As the major international retailers and best-in-class developers/operators seek to tap into this growth story, they are raising the profile and quality of 'bricks-and-mortar' retail and paving the way for investors to follow.

However, the future is not without its challenges. With the establishment of the internet as a serious competitor to more traditional shopping, retail is becoming more than simply a platform for buying goods. The winners among retailers and mall owners will be those that can proactively manage their way through these challenges. The varying consumer patterns across the globe will also be increasingly important with markets, such as China, finding their own route to maturity. It is clear that we are now entering the most exciting period in the evolution of the retail investment market as it becomes truly global and embraces some of the world's most diverse countries.

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