BUSINESS BRIEFING
12 TRENDS FOR 2012

A Cushman & Wakefield Research Publication

CUSHMAN & WAKEFIELD®

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12 TRENDS FOR 2012

12 Trends That Will Affect Retail Real Estate in 2012

The US economy continues its slow recovery. Gross Domestic Product grew at a 2.5% annual rate in third quarter 2011, bolstered by consumer spending, investment and exports. This helped to support a 1.1% year-over-year increase in non-farm payrolls, for a net gain of just under 1.5 million new positions over the past twelve months.

Despite a net gain in jobs, the slow economic recovery had a noticeable impact on US consumers. Consumer confidence, as measured by the Conference Board, declined sharply in August to its lowest level since April 2009 and posted only a marginal gain in September, resulting in a third quarter average that fell below the level posted a year earlier.

Slowing job growth during the summer, coupled with stubbornly high unemployment, the downgrading of US debt and intensifying talk of a double-dip recession eroded the modest gains posted in consumer confidence during late 2010 and early 2011, making both consumers and businesses more cautious in their spending.

By November, however, consumer confidence bounced back. After six months of steady declines, consumers' apprehension regarding the short-term economic outlook eased considerably and they now appear to be entering the holiday season in better spirits, though overall confidence readings remain historically weak.

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Despite their cautiousness, US consumers remain resilient. Although same-store retail sales increased by only 3.7% in October, its smallest increase since March, the recent back-to-school spending season was declared by some observers to be the strongest since 2006. And, the holiday season, which can account for as much as 20-40% of a retailer's total annual sales, is shaping up to be strong as well, as the "Black Friday" and "Cyber Monday" weekend set both traffic and sales records.

While the holiday season's heavy promotions, deep discounting, and expanded store hours will undoubtedly affect margins and average selling prices, it is yet unknown how impactful increased traffic and sales volumes will be on retailers' bottom line.

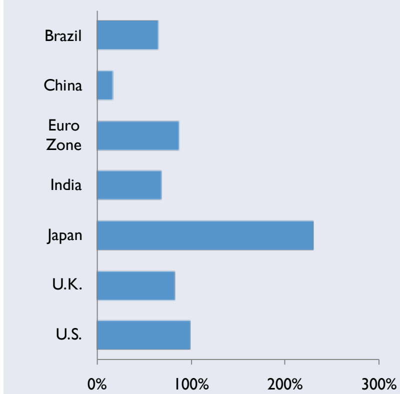
These questions, as well as expected volatility in consumer confidence and retail sales levels will shape the US retail real estate world in 2012. Here are 12 trends that we will be following throughout the year:

1. GLOBAL POLITICAL EVENTS MATTER

In 2011, we watched as nearly two-thirds of the advanced economies increased their sovereign debt obligations with the average breaching the 100% of GDP threshold. In 2012, this issue will continue to drive public policy as deficit spending remains well above levels that will stabilize debt ratios and technocrats take control of European governments. The congressional standoff from 2011 and the US apprehension about the debt ceiling will affect consumer spending patterns, interest rates and the availability of consumer and business credit. Household financial obligations as a percent of disposable income, which fell to 16.1% in the third quarter from its peak of nearly 18.9% in 2007, will continue to improve, allowing consumers to allocate a higher percentage of their disposable income to debt pay down. As a result of this focus by US consumers on their balance sheets, retail spending will be muted and retail real estate investment and leasing will continue to be focused on fortress locations.

GROSS DEBT AS % GDP

Global government financials could pose a significant headwind to economic recovery.



Source: IMF

2. U.S. PRESIDENTIAL ELECTION

Although it feels like Election year politics started last summer, the race for the White House is just beginning. Issues about US domestic policy and economic performance will dominate the conversation in 2012. The continued economic malaise and lack of a unified vision by the Republicans and Democrats will lead to increased focus on issues such as tax policy and job creation. Everything from flat tax to increased taxes on the wealthy will be discussed and rehashed until November. More importantly, this stagnation in Washington is expected to result in a consistent unemployment figure of +-9% throughout the year. All of these factors add up to slow growth and muted retail spending. In fact, retailers have already begun to examine their portfolios to look at store level performance. Overall, General Merchandise, Apparel, Furnishings and Other Merchandise ("GAFO")-type store closings have totaled 2,877 through the first three quarters of 2011. Although this represents a decline of nearly 38% from the same period in 2010, store closings and consolidations are expected to continue in 2012.

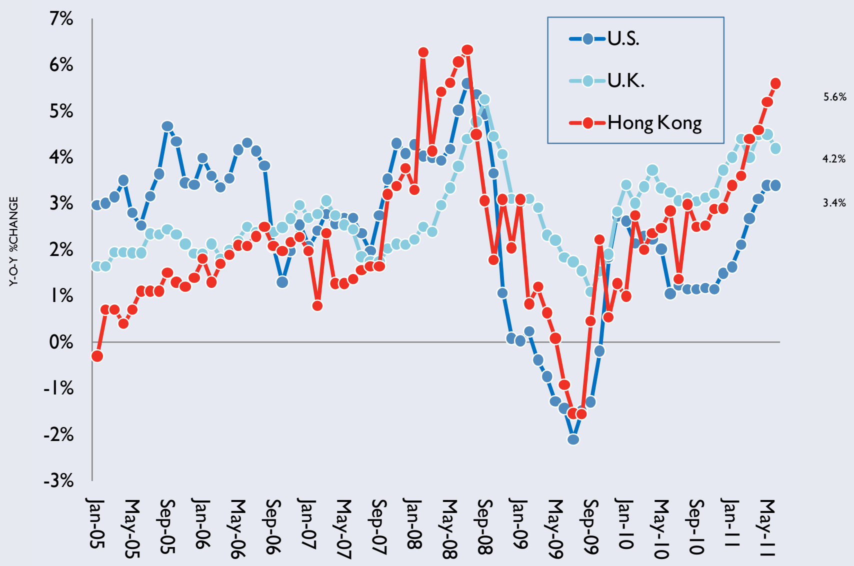
2,877

Number of "GAFO"-type store closings through the first three quarters of 2011.

3. INFLATION

Another cloud on the economic horizon is the rising cost of raw materials and consumer goods. From cotton to precious metals, the cost of manufacturing has increased across the retail sector. In addition, the continued rise in gasoline prices has more than offset any savings in labor due to the slow economy. Annualized CPI growth in the third quarter remained above the 3.0% mark as it has throughout 2011. As a result, retailer margins will continue to tighten while consumers cope with rising costs and stagnant incomes. Retailers will struggle on whether to pass these price increases onto consumers or to absorb those losses.

CONSUMER PRICES 2005-2011



Source: Cushman & Wakefield Research, U.S. Census Bureau

Sharply rising commodity prices are a risk to consumer demand across the world. Will retailers pass along costs to consumers?

4. DEMOGRAPHIC DIVERSITY

The US consumer base is quickly becoming more diverse. From 2000 to 2010, the composition of the US population changed appreciably. The changes included an aging population, as well as a 3.3 percentage point increase in the share of Hispanics/Latinos and a corresponding 2.8 percentage point decline in the share of Whites. These trends will continue to shape retailing, as the tastes of our increasingly diverse population become mainstream and influence where money is placed for real estate investment to capture the new demand created by these groups.

	2000		2010		PCT PT CHANGE
POPULATION BY SINGLE RACE CLASSIFICATION	281,421,906		309,038,974		
WHITE ALONE	211,460,626	75.14%	223,493,067	72.32%	-2.82%
BLACK OR AFRICAN AMERICAN ALONE	34,658,190	12.32%	38,292,279	12.39%	0.08%
AMERICAN INDIAN AND ALASKA NATIVE ALONE	2,475,956	0.88%	2,892,875	0.94%	0.06%
ASIAN ALONE	10,242,998	3.64%	13,589,995	4.40%	0.76%
NATIVE HAWAIIAN AND OTHER PACIFIC ISLANDER ALONE	398,835	0.14%	472,946	0.15%	0.01%
SOME OTHER RACE ALONE	15,359,073	5.46%	21,013,929	6.80%	1.34%
TWO OR MORE RACES	6,826,228	2.43%	9,283,883	3.00%	0.58%
POPULATION HISPANIC OR LATINO	281,421,906		309,038,974		
HISPANIC OR LATINO	35,305,818	12.55%	48,892,410	15.82%	3.28%
NOT HISPANIC OR LATINO	246,116,088	87.45%	260,146,564	84.18%	-3.28%

Sources: The Nielsen Company, Cushman & Wakefield Research

3.3%

Percentage point increase in the Hispanic/Latino population from 2000-2010.

5. RETURN TO URBAN CORES

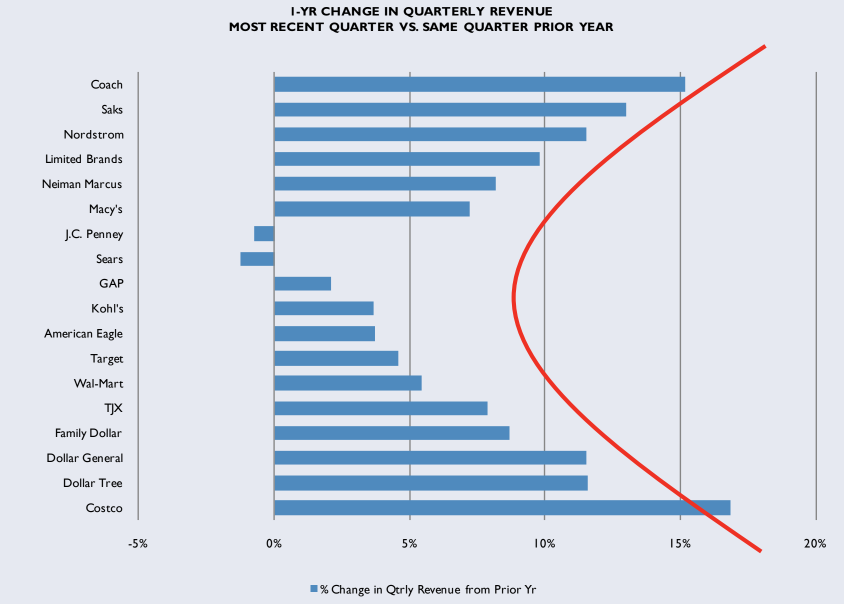
As the composition of our population changes and we age, real estate development patterns are changing. Demographic shifts will impact retailers' development strategies. People are downsizing and moving back to the urban core. The nation's "return to the city" trend will continue in 2012 and likely accelerate as the US economic recovery gains momentum. As a result, the first-tier suburbs undergo a period of change. This ongoing migration back to the urban cores will have a profound impact on the space requirements of retailers and the delivery of retail services to consumers. The retail supply pipeline is expected to remain at historic lows for the foreseeable future, which will continue to drive down vacancy rates. Urban in-fill development, targeting the growing residential base, will comprise a sizable portion of the new development pipeline.

6. THE "BARBELL OF PROSPERITY"

Retailing is in the midst of a generational shift. Economic headwinds continue to perpetuate the ongoing bifurcation of the retail market. The gap between high-income and low-income households in the US continues to grow while America's middle class contracts. According to recent findings, the Gini index, which measures income inequality on a scale from 0 (perfect income equality with everyone having exactly the same income) to 100 (perfect inequality with one person having all income), has never been higher. Among US households, the index has risen from 39.7 in 1967 to 46.9 in 2010. This "barbell of prosperity" has implications for all retail categories from apparel to consumer products as the high-end luxury and low-end discount segments continue to grow and thrive while the middle market segment shrinks.

In the US, the luxury segment of chain-store sales was up 8.5% year-over-year in August 2011, trailing only the wholesale-clubs segment in terms of overall performance. US luxury retailers are also the beneficiaries of a weak US Dollar that has attracted record numbers of foreign tourists. According to US trade statistics, an all-time high (since data exist in 1992) of $13.3 billion was spent by international visitors on travel and tourism-related activities in the US in July 2011. On a year-over-year basis, international visitor spending in 2011 has increased at an average level of more than $1 billion per month and has totaled $87 billion through the first half of 2011. This spending is driving increasingly strong retail sales in US gateway cities, with "high street" locations reaping the highest rewards. As a result, we expect to see continued rental increases along well-established urban retail corridors in New York, Washington, DC, San Francisco and other gateway cities.

RETAIL SALES FOR SEPTEMBER 2011



Sources: YCharts.com, Cushman & Wakefield Research

8.5%

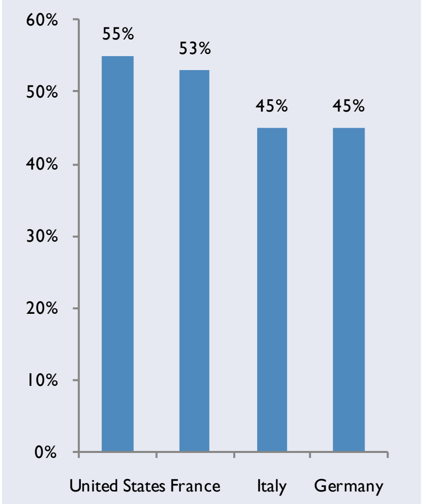
The percentage increase of luxury segment chain-store sales year-over-year in August 2011.

7. SPEND SHIFT AND THE RISE OF OUTLETS

Spend Shift is a Booz & Co. term for those consumers who are knowingly spending less on non-essential items and are buying lower priced brands. More than half of all Americans (55%) have identified themselves as "spend shifters" who are trading down according to a 2011 study by Booz & Co. This is a structural, not a cyclical, shift in consumers similar to the changes that occurred after the great depression. As evidence of this new frugality, REIT outlet sales productivity in the US reached record levels of $482 PSF in 2010 according to a C&W study completed by Rick Latella, Americas Practice Leader of Cushman & Wakefield's Valuation & Advisory Retail Industry Group. These aspirational shoppers are looking for values, a trend that will accelerate if the economy remains stagnant.

Shopping for "needs" not "wants" will dominate retailing going forward. Self-identified "spend shifters" cut across ages in mature markets.

"SPEND SHIFTERS" 2011



Source: Booze & Co. 2011

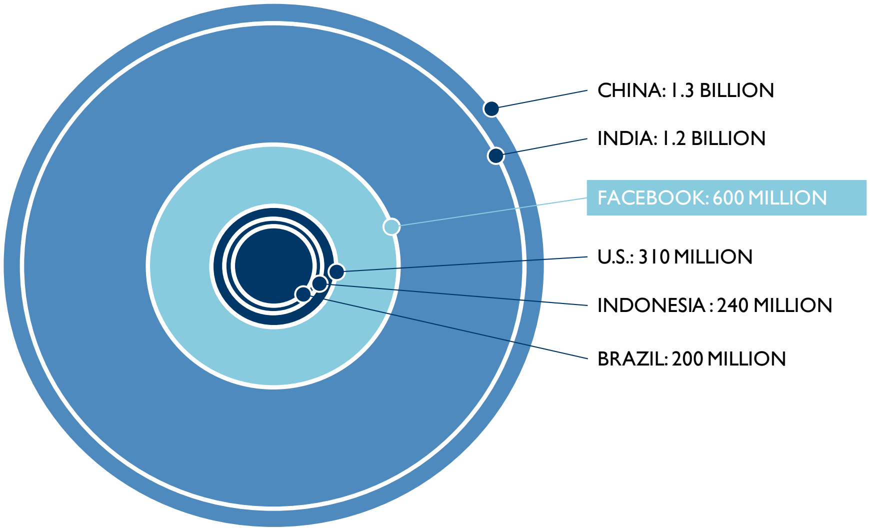
8. MOBILE COMMERCE, FACEBOOK AND TRANSPARENCY

Retail delivery strategies will continue to change as consumer purchasing habits evolve. Two trends that we are following address consumers taking control of their retail experience. By 2013, it is estimated that more than half of in store consumers will use Smartphones to assist with in store purchases. In addition, almost a quarter of all consumers have used their Smartphones to make a mobile purchase. According to Deloitte's 2011 Annual Holiday Survey, the top three reasons for Smartphone usage include: a) 67% search for store locations; b) 59% check and compare prices of products and services; and c) 51% search for product information.

As mobile technology and social media evolve, the way that brands position themselves will change, as consumers receive information immediately and from each other. This trend is not limited to one sector of retailers. NRF recently ran a study that concluded Gen Y would save luxury using social media. One example of brands using Facebook is Burberry, who gained 300,000 fans in the first quarter of this year; at that rate they will hit 10 million fans by early 2012. As a result of the growing influence, we believe that social media will accelerate other trends in bricks and mortar stores, including green initiatives and a return to customer service.

If Facebook were a country, it would be the third largest in the world

Social Media and Population 2011



9. POP-UP STORES

The maturity of the pop-up store is an interesting development in US retailing. For some concepts, such as Toys R Us, which is expected to add fewer pop ups during the 2011 holiday season than the 600 added in 2010, pop-up stores are a way to meet seasonal demand. Another type of pop-up store, however, serves a different purpose. The Pop-Tart Store in Times Square in NY was an example of a consumer product company searching for a new outlet to promote its merchandise. According to industry experts, it's a confluence of business, commerce, entertainment and traffic density, where the focus is often less about sales than marketing and visibility. These temporary branding practices are being adopted for new collections like the Missoni for Target store in Manhattan that allowed them to sell out in a matter of hours and capture enormous media attention. For owners that are looking for ways to generate traffic and compete for tenants, pop-up stores are expected to offer the publicity they need.

10. SHOPPING AS AN EVENT

The "third place," a term used in the concept of community building to refer to social surroundings separate from the two usual social environments of home and workplace, got its start with retailers like Starbucks. Now, traditional US wholesale brands such as Nike and Apple are combining wholesale distribution with retail stores to control their brand image. They are doing it with high-concept stores that make each trip an event. In addition, retailers like Abercrombie & Fitch are paying attention to every element of the environment and the shopping experience, whether it is the video wall on their Hollister stores or the perfume and models in the Abercrombie & Fitch stores. As retailers try to capture customers, these shopping events will become more and more important.

RETAIL FOOTPRINTS

Retailers are changing their footprint to drive profitability.

ILLUSTRATOR: TODD UMBARGER

"…roughly half of Office Depot's approximately 1,200 North American stores were operating under the M2 format, lowering by about $1 million the yearly sales volume per store needed to break even."
Shopping Centers Today - August 2007

11. SHRINKING FOOTPRINTS AND THE REUSE OF THE BIG BOX

Before the Great Recession, Wall Street was rewarding brands for opening stores to capture market share. But even before the recession, stores starting reducing size. According to the August 2007 ICSC article Big Box Shrinking in Order to Grow from Shopping Centers Today, "As late as 2004, Best Buy stores generally occupied 45,000-square-foot boxes. This year, however, two-thirds of the 90 stores the chain is opening will measure 30,000 square feet or smaller. In fact, 10 of these will cover just 20,000 square feet, says Justin Barber, a Best Buy spokesman.

"In 2004, Office Depot began rolling out its 17,500-square-foot M2 (Millennium2) prototype, which is down a third in size from its 26,000-square-foot standard. Since the spring, roughly half of Office Depot's approximately 1,200 North American stores were operating under the M2 format, lowering by about $1 million the yearly sales volume per store needed to break even." - *Shopping Centers Today*

Now, retailers are focused on four-wall profit, and we expect to see closures of additional stores. As mentioned earlier, store closings have totaled 2,877 through the first three quarters of 2011. This trend is expected to accelerate as e-commerce and reduced buying power of the middle class erode the market for mid-priced merchandise. The big box sector which has traditionally catered to these customers will be hardest hit by the changes in retailing.

12. FOCUS ON CORE MARKETS

Given current consumer demand and volatility in the capital markets, we expect there to be fierce competition for the best and most high-profile shopping locations among successful brands in the gateway cities and for grocery-anchored shopping centers. Strong tenant and consumer demand will continue to fuel cross-border leasing activity, contributing to higher rents along "high-street" shopping districts throughout gateway cities. According to Cushman & Wakefield's Main Streets Across The World 2011 report, prime rents along the world's most prominent high street corridors increased on average 4.8% year-over-year, representing a strong return to positive growth after two consecutive years of declines. Institutional investors in retail real estate will primarily focus their acquisition dollars on these gateway cities and mature markets where heightened competition from globally expanding retailers for a limited supply of quality retail space has continued to underpin a resurgence in rent growth. Investors and retailers alike will be focused on long-term profitability, and that will mean secondary and tertiary markets will continue to lag major cities.

TOP LOCATIONS IN THE AMERICAS

CITY	LOCATION	US/SF/YR
NEW YORK	5th Avenue	$2,250
NEW YORK	Times Square	$1,350
NEW YORK	East 57th Street	$1,200
NEW YORK	Madison Avenue	$847
SÃO PAULO	Iguatemi Shopping	$531
LOS ANGELES (BEVERLY HILLS)	Rodeo Drive	$500
CHICAGO	North Michigan Avenue	$450
SAN FRANCISCO	Union Square	$425
SÃO PAULO	Cidade Jardim	$402
SAN FRANCISCO	Post Street	$350
TORONTO	Bloor Street	$326
CHICAGO	East Oak Street	$300

Source: Cushman & Wakefield Research Main Streets Across the World 2011

CONCLUSION

Retail is evolving to meet the needs of an increasingly diverse population amid changing technology while attempting to capture consumer demand in a difficult economic environment. We expect many investors and retailers to continue to focus on core customers and provide them with a unique experience in their core markets.

Look for additional detail and analysis on these trends in Cushman & Wakefield's ongoing Retail TrendWatch series.

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