

Mace Retail Breakfast Briefing summary

18 September 2008



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Gordon Brown described it as the 'week the world was spun on its axis'. In the US Lehman Brothers filed for Chapter 11 bankruptcy protection, the US Government rescued AIG, Merrill Lynch was forced to sell, a stock-market run forced HBOS into the arms of Lloyds TSB.....

Mace Retail did not expect its first Business Breakfast Briefing on the state of the retail property market, held in London with over 40 property specialists from some of the top high street retailers, to be quite so topical.

Matt Turner, head of Mace Retail, who opened the presentation, recognised the current financial crisis was a focus for the whole audience. He reminded us that in every challenging market opportunities arise for organisations that can be flexible and restructure their offerings to meet the needs of the market and their clients. As one of the major specialists in the retail property market Mace Retail, which has handled rebranding and refurbishing projects for many of the major high-street banks, was itself looking to tailor its areas of expertise to ensure it sustained growth in the current climate.

The week the world changed

Guest speaker, John Forbes, PricewaterhouseCooper's Real Estate leader for EMEA, was planning to give an overview on emerging trends in retail real estate and with PWC having been appointed administrators for Lehman Brothers just a few days earlier he began his presentation with his view that 'the market changed fundamentally this week – the world has changed dramatically.'

The basis of his briefing was their annual report, Emerging Trends in Real Estate Europe, which brings together views of over 200 investors and developers. The report, finalised earlier in the year, identified there were two key fears for the UK: the fragility of the UK economy and the exposure of London to the financial services sector.

Even before the current turmoil in the financial markets, the UK was exposed

to global markets going into recession with the US shedding an average of 66,000 jobs per month in 2008 and Euroland confidence falling across the board, in the service sector, industry, retail and construction. With economic activity declining, consumer price inflation is rising across most economies.

Forbes outlined that all indications predicted a continuing failure of confidence and that until this is rectified we will not see a return to normal lending – a period of at least another 12 months. Individual wealth in the UK, he explained, is based on house prices and will have a direct and indirect impact on consumer spending with knock-on effects on retail sales and consequently, retail real estate.

The future of the high street – in the UK and the rest of the world

Even before the current crisis high street occupancy for 2009 was predicted to be down to 36%. The various mergers and acquisitions among the banks will put even more retail property onto the market.

In the rest of the world predictions see the top emerging cities with long-term (15 years) retail growth as being Moscow, driven by commodity prices and Istanbul, which is undergoing a demographic change towards a younger population and is experiencing a burgeoning middle class – described by Forbes as 'the India of Europe'.

Looking even further into the future Forbes explained that the global economic picture in 2050 will look very different from today. The established G7 economies are already seeing a shift of their traditional economic power to the emerging countries, the so-called E7 of China, India, Brazil, Russia, Indonesia, Mexico and Turkey. PWC has looked at just how big the emerging market economies will get, and the likely impact on the G7 countries.

The E7 is currently only around 20% of the size of the G7 at market exchange rates and around 75% of its size in Purchasing Power Parity (PPP) terms. By 2050 the E7 economies will be

around 25% larger than the current G7 when measured in dollar terms at market exchange rates (MER) and around 75% larger in PPP terms.

India has the potential to be the fastest growing large economy in world over the period to 2050, with a GDP at the end of this period of close to 60% of that of the US at market exchange rates, or of similar size to the US in PPP terms. China, despite a projected marked growth slowdown, is projected to be around 95% the size of the US at market exchange rates by 2050 or around 40% larger in PPP terms.

So, measured by both MER and PPP, in 2050:

- Russia will be the size of France
- Turkey will be the size of Italy
- Brazil will be the size of Japan

Indonesia and Mexico will both be larger than either Germany or the United Kingdom

So in summary, the statistics indicate that in the future the real growth will be in the emerging markets, not in the West - unless products and services are targeted specifically to its aging population.

But despite the talk of economic gloom, Forbes ended his presentation by reminding the audience that the indications are not cataclysmic that we are talking about a recovery in 2010. And echoing the remarks made by Matt Turner, for progressive, forward-thinking retailers there are always opportunities in challenging times.

Mace Retail's series of breakfast briefings will continue in early 2009. If you have any feedback on this event or any recommendations for future topics please do let us know.

ENQUIRIES:

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