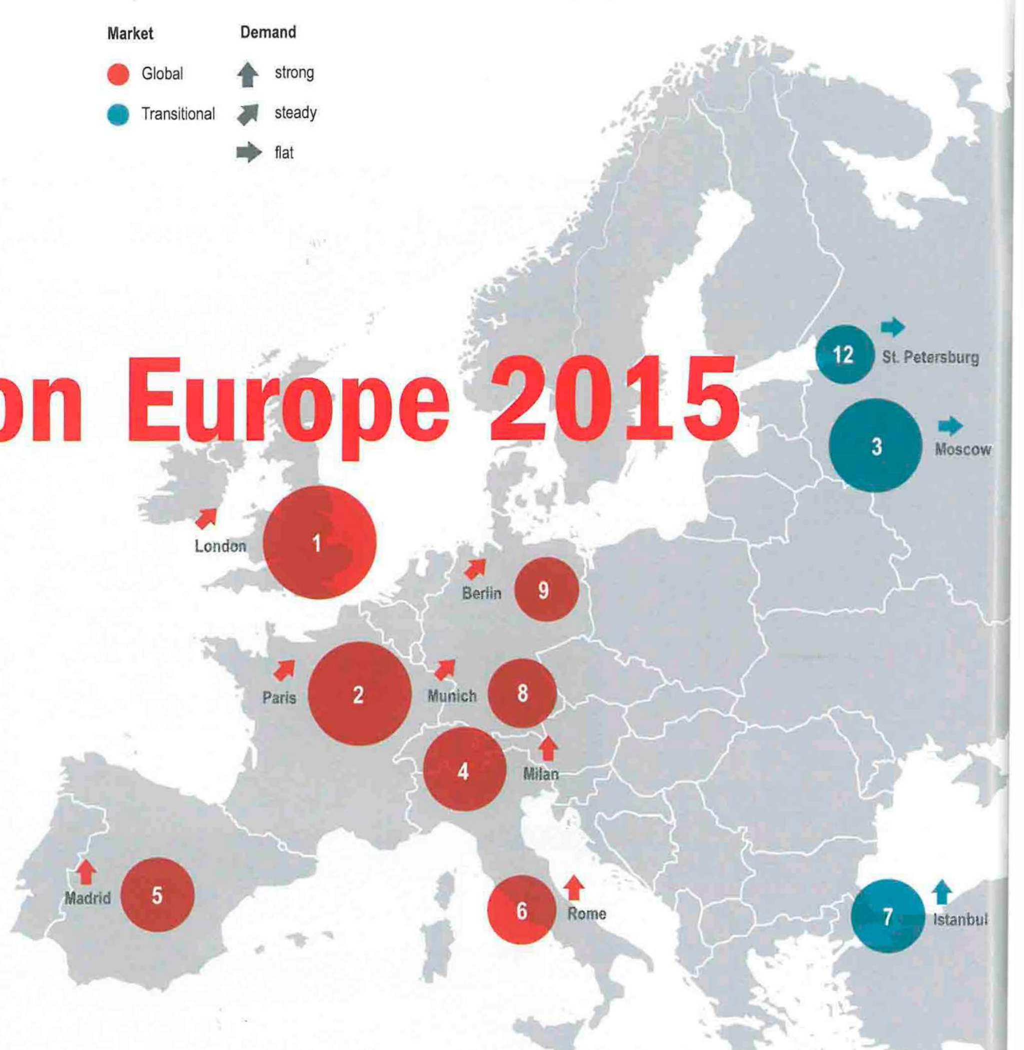
JLL tracks international retailer expansion strategies across Europe in the third edition (2015) of its Destination Europe report, which examines the expansion and presence of over 250 of the world's leading international retailers across 57 key European cities

Destination Europe 2015



There is little doubt that economic conditions across Europe have become more benign since the last edition of this report. The recovery is certainly multi-speed in nature, with confidence, GDP and retail sales in a much healthier state than they were two years ago, when headwinds showed little sign of abating. As a result, the stronger retailers are more positive about their expansion plans, fuelling selective retailer movements across the continent. Their 'road mapping' continues to focus on cities, driven, in part, by some of the macro forces reshaping the world as we know it, including population growth, in particular urbanisation. Over a million people move to cities every week worldwide so it's not surprising that retailers are increasingly targeting major cities. However, retailers need to remain careful, considered and selective about physical expansion, given the ongoing economic headwinds in some geographies and the structural changes sweeping the industry, mainly as a result of multi-channel retailing.

Major cities continue to demonstrate impressive resilience to cyclical and structural change, partly because of the macro forces mentioned above, but also because of the attributes large conurbations possess in abundance that are critical to the success of retail places. These attributes include positive market fundamentals (sheer market scale), great connectivity, unparalleled diversity and vitality, and world-class culture and heritage. All of these factors attract residents, workers and tourists, thereby contributing to the ongoing success of retail places in urban, big city environments.

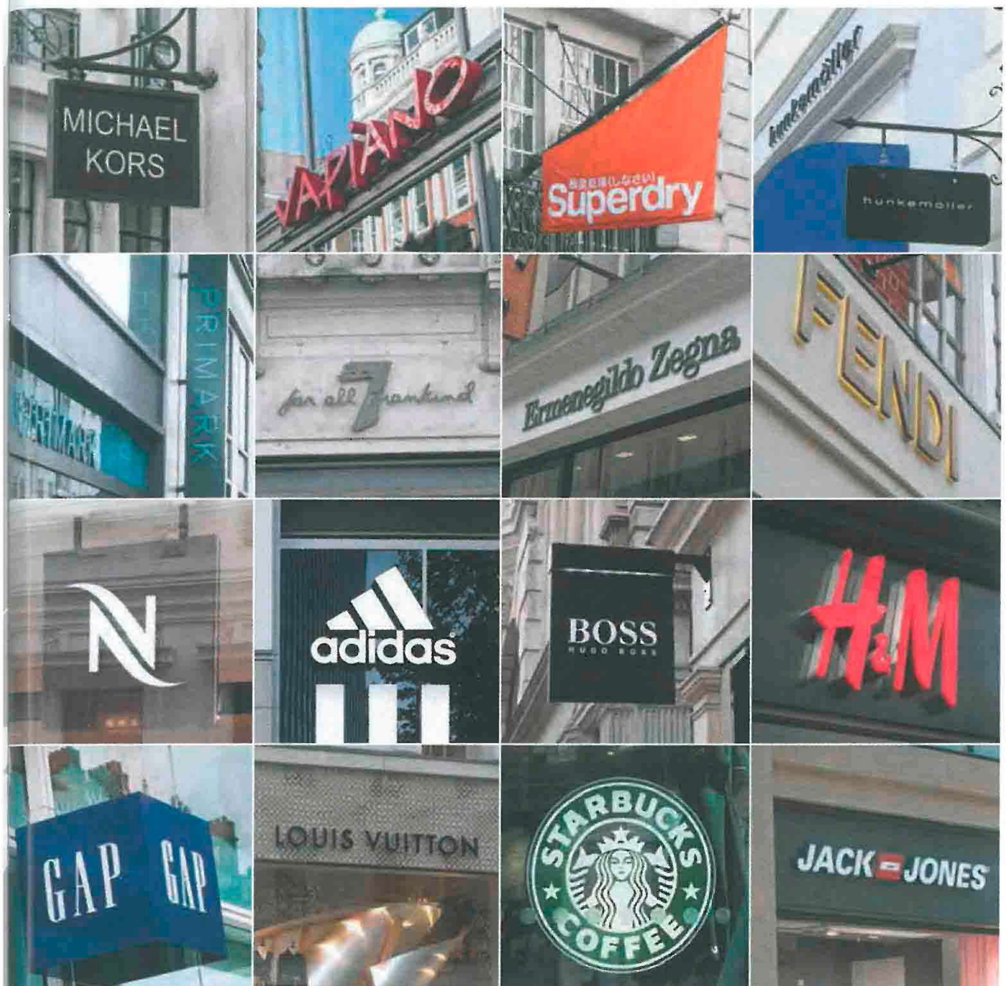
Retailer presence:

London remains Europe's top destination

JLL has revisited its city classifications in its latest report, introducing two new classifications – Global and Transitional cities – to the earlier Mature and Growth cities in order to better capture the complexity and constantly changing dynamics of Europe's major city retail markets.

Global retail cities are mature, established markets with the greatest appeal to international retailers and are generally the first port of call for retailers seeking international expansion. They stand out as top tier cities globally. The map on this page shows Europe's global retail cities (together with transitional markets). The number in each circle represents the cross border retailer index ranking for each city, while the arrow represents current strength of demand for retail space. A brief description of each of the global retail markets – London, Paris, Milan, Madrid, Rome, Munich and Berlin – is given in this report:

International retailer expansion across Europe has continued apace over the last two years, with major European cities being the first port of call. Leading the expansion sweepstakes as a springboard to Europe is London, a particularly retail friendly market that's a global retail powerhouse. The UK capital continues to be a magnet for international brands, thanks to its unique blend of retail market



size, maturity and high degree of market transparency, all of which contribute to a long history of success for international retailers. It retains its position as Europe's leading retail market, being home to more international retailers than any other city in Europe, some of the latest notable entrants including Tom Ford, J Crew, DSquared2, The Toy Store, John Varvatos, Karl Lagerfeld and West Elm.

Following London in successfully attracting new retail brands, despite recent headwinds that have plagued Europe's economy are Paris, Milan, Rome, Munich and Berlin, all cities with global appeal. A significant pick-up in retailer expansion has also been observed in the regional cities of the UK, France, Germany and the Scandinavian markets, as retailers focus on mature, stable markets with healthy fundamentals. After entering Europe's top tier retail markets, retailers are selectively expanding deeper into mature markets and then into growth markets. Borders have become less of a barrier, but retailers have become more diligent when considering new opportunities; rewards are plentiful, but the risks associated with getting expansion wrong are sizeable.

Moscow and Istanbul are Europe's latest success stories, with no other city attracting as many new entrants as these two markets over the past two years. Despite increased levels of geo-political risk, Moscow's retail market is thriving upon its sheer market size, rapidly rising levels of disposable incomes and fast growing shopping centre stock. Istanbul's retail market is revolutionising at great speed to become Europe's seventh most attractive location for international retailers. More significantly, an increasing number of retailers are considering Istanbul as a first point of entry to Europe, attracted by its modern shopping centre stock, landmark schemes and favourable demographics.

Europe's global retail cities

London (Rank 1):
London continues to rank as Europe's most attractive location for international retailers. The capital benefits from a strong international customer base with a considerable proportion of retail sales driven by tourists, as well as the size, maturity and transparency of the retail market. The West End retail area comprises Oxford Street, Regent Street, Bond Street and Covent Garden, forming the largest concentration of retail in Europe. Limited supply of stock, particularly on Bond Street, has driven rental growth throughout the last two years, and substantial premiums continue to be paid. A demand driven 'ripple effect' is driving the growth and success of many parts of London's retail scene, including Carnaby District, Seven Dials, Dover Street, Brompton Cross and Shoreditch. These areas are witnessing strong upward pressure on rents and an increasing demand from international brands. In addition, the two Westfield shopping centres have both become established premier shopping destinations. London continues to act as an entry point to Europe for international brands with J Crew, Tom Ford, DSquared2, The Toy Store, John Varvatos, Karl Lagerfeld and West Elm being some of the latest entrants.


Paris


Milan

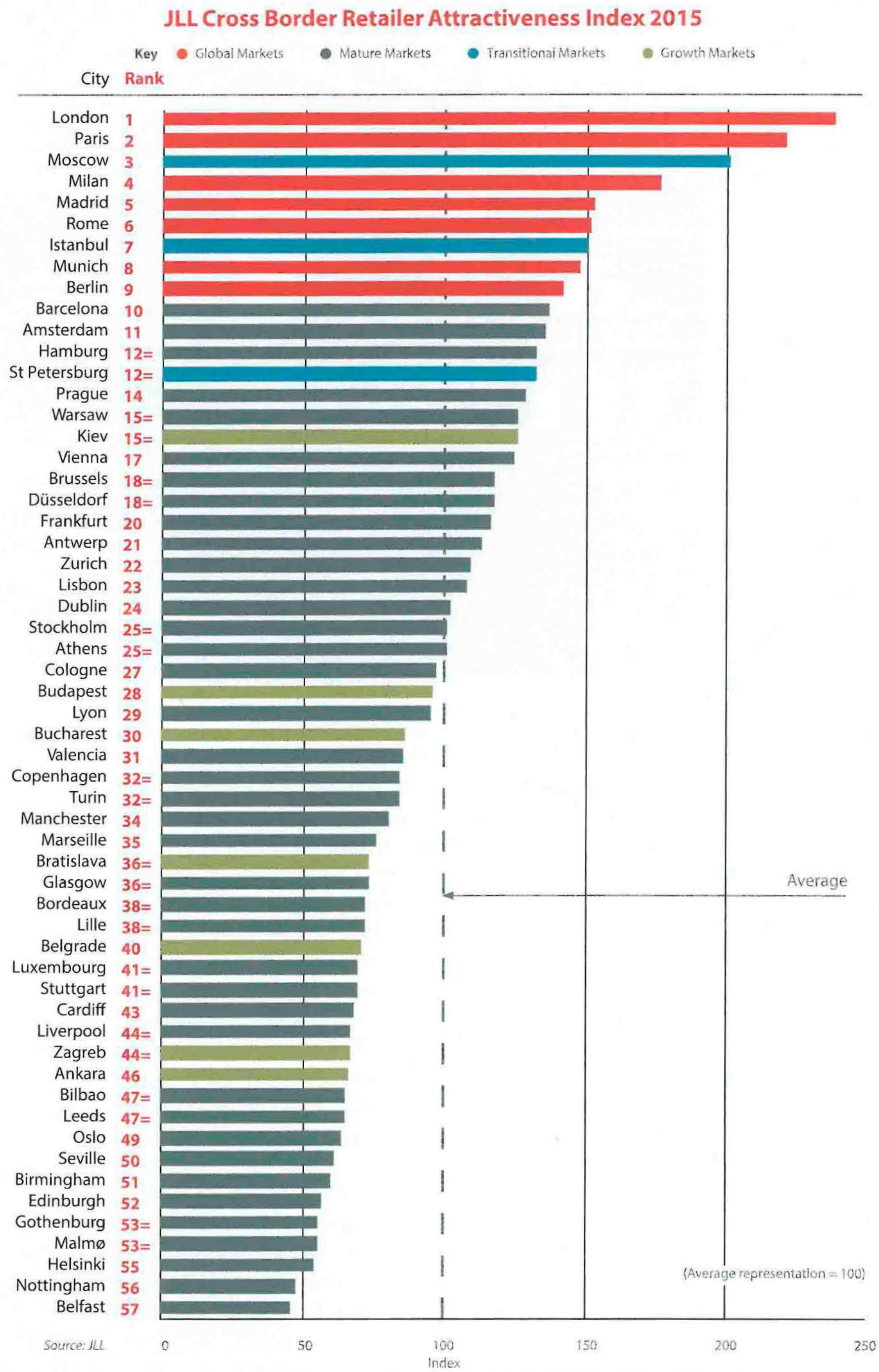

Madrid

Paris (Rank 2):

Paris remains Europe's second most attractive location for international retailers. As one of the world's leading retail and tourist destinations, it continues to attract the biggest, international and national, brands, many of which look to open flagship stores. High streets and shopping centres are equally attractive to city shoppers, with centrally-located Parisians preferring areas such as the Avenue des Champs-Élysées, Opera and Boulevard Haussmann. In recent years, rents at Avenue des Champs-Élysées have soared to record breaking levels as demand has far exceeded supply. Luxury retail is one of Paris' strongest growing sectors, driven by wealthy visitors from developing countries globally. The Golden Triangle in Paris, including Avenue Montaigne, remains the top destination for luxury retailers, along with Rue du Faubourg Saint-Honoré and Rue Saint-Honoré. Successful suburban shopping centres, which include Les Quatre Temps and Velizy 2, attract residents living on Paris' periphery. Among the latest entrants to the market are Primark, Rena Lange, Rituals and Burger King

Milan (Rank 4):

Milan, positioned as Italy's industrial, commercial and financial capital, is Europe's fourth most attractive location for international retailers. The city benefits from a broad consumer base and strong retailer demand. In particular, premium and luxury retailers are attracted to the city, thanks to its reputation as one of the world's most famous fashion centres. The city centre boasts a large retail floor space, although there are no traditional shopping centres there.
It comprises two distinct but very affluent shopping districts. The first is the upmarket area around Via Montenapoleone, which encompasses three further streets into the 'quadrilatero della moda' fashion district. The second is the more mainstream area around Piazza del Duomo and encompasses the pedestrianised Corso Vittorio Emanuele. Recent entrants to the market include the new Brian & Barry department store in Piazza



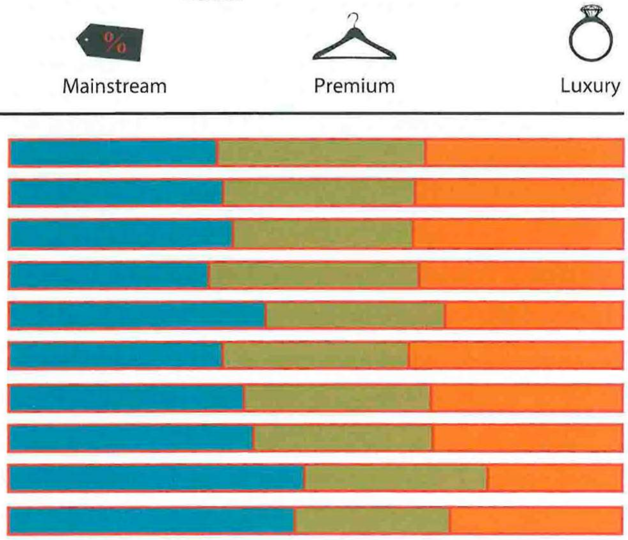
Rome

Munich

Berlin

San Babila, and Maison Martin Margiela and Loubutin in the Porta Nuova district.

Rank	City	Index
1	London	**234**
2	Paris	**218**
3	Moscow	**197**
4	Milan	**174**
5	Madrid	**150**
6	Rome	**149**
7	Istanbul	**148**
8	Munich	**145**
9	Berlin	**139**
10	Barcelona	**135**



Source: JLL

Madrid (Rank 5):

Europe's fifth most attractive location for international retailers is Madrid. The capital's large consumer base is among the most affluent in the country. As the central hub of the transport and communications network, Madrid attracts high volumes of business travellers, while the city's beautiful architecture and vibrant culture is a magnet for tourists. Despite recent headwinds, demand for high quality retail space has remained strong and vacancy is low in Madrid's prime pitches. Gran Via and Preciados form the city's most famous retail destination and house numerous flagship stores from top fashion brands. Ortega y Gasset, located between Serrano and Velazquez Street, is home to most luxury retailers in the city. Serrano, home to a mix of upmarket and international brands, is witnessing a significant uplift in the quality of its retail offer. Most of the international brands entering Madrid have opened here; Zara and Massimo Dutti have opened new flagship stores, while Mango is expected to follow soon. Shopping centre Gran Plaza 2 was completed in 2012 and is the first new opening for many years. 7 For All Mankind, Coach, Brooks Brothers, Stella McCartney, Michael Kors, Brandy Melville, Giorgio Armani and Franck Muller are some of the recent entrants to the retail market.

Madrid (Rank 6):

Rome is the sixth most attractive location for international retailers. Millions of domestic and international tourists visit the city every year to enjoy its rich historic and cultural offer, as well as its large number of international events and festivals. In recent years, the retail market has proven to be dynamic, fuelled by an increased demand from national retailers in response to rising interest from international retail brands. The areas around Piazza di Spagna and Piazza del Popolo in the old town are traditionally the most sought after locations by mainstream retailers, while luxury brands prefer the fashionable and busy Via Condotti and the last part of Via del Babuino. Porta di Roma (in the north) and Roma Est (in the east) remain the best performing schemes regionally and are among the top schemes nationally. They continue to attract strong retail brands aiming to open flagship stores. Recent entrants to the market include Jo Malone, Coin Excelsior, Desigual and Ash.

Munich (Rank 8):

Munich ranks as the eighth most attractive location for international retailers. The Bavarian capital is the third largest city in Germany and attracts a vast number of tourists every year, contributing to the flourishing local economy. The exceptionally affluent consumer base has led to high retail spend per capita. As a top retail destination, Munich outperforms many retail markets across Europe. The most sought after high street locations in the city are Kaufingerstrasse, Neuhauser Strasse and the area around Marienplatz, all of which benefit from high footfall. Maximilianstrasse and Maximilianhöfe are the prime areas for luxury brands. Due to severe shortage of supply, upmarket areas like Theatinerstrasse, Weinstrasse, Residenzstrasse and Dienerstrasse are experiencing an increase in demand for space. Fünf Höfe, located in the city centre, is Munich's best performing scheme. An important new addition to the city centre retail scene is Hofstatt Quartier, which opened in 2013, between Sendlinger Strasse and Färbergraben. Palais an der Oper (Residenzpost) is another significant addition and houses luxury brands such as Louis Vuitton and Bucherer. Recent market entrants include Jeep Store, Freeman T. Porter, Brandy Melville, Fendi, J. Lindberg, Iro and Hublot.

Berlin (Rank 9):

Europe's ninth most attractive location for international retailers is Berlin. Germany's capital attracts a large amount of tourists due to its rich cultural and political background. Retailer demand is boosted by a positive economic growth outlook, an attractive catchment area and high volume of tourist visits. Although there are a significant number of peripheral shopping centres available, Berlin's inner centre remains the prime retail destination. Its most sought after location for international and national retailers has been Kurfurstendamm, which forms a 'shopping mile' with Tauentzienstrasse, and houses the globally renowned KaDeWe department store. Friedrichsstrasse, located in the eastern area of the city centre, is undergoing a transformation of its retail offer with the arrival of new premium and international retail brands. Berlin's most vibrant retail destination is Hackescher Markt, which is equivalent to London's Covent Garden. The most prominent new scheme is Mall of Berlin (Leipziger Platz 12), encompassing 270 shops and 861,113 sqft of retail space, which opened in September 2014. In addition, Bikini Berlin, which opened in April 2014 with 50 shops, has added 182,986 sqft of vibrant retail space to Berlin's retail scene. Uniqlo, Eleven Paris, Denham, Blue Tomato, MyParfum, Parfois, Reisenthel, Premiata and El Ganso are some of the latest entrants to the retail market.

Europe's mature, transitional and growth retail cities

Retailer expansion into Europe's mature, transitional and growth retail cities continues. Attractive market sizes, demographics and strong growth prospects offer retailers great opportunities to capitalise on, as well as the potential to de-risk. For some retailers, operating in multiple markets reduces risk associated with being reliant on a small number of geographies, particularly as Europe is still in the early stages of economic recovery. So, expansion is about reducing the risk of over-reliance on a dominant domestic market for some, it is about growth for others, and for many it is a combination of the two.

Mature cities:

Beyond the global cities, established markets with a stable growth outlook and an affluent consumer base in particular have benefited from a healthy demand for high quality retail space. Regional cities in France, such as Lyon and Marseille, as well as the larger German cities, including Berlin, Cologne, Düsseldorf, Hamburg and Munich, have all been hugely successful in attracting international retailers from the first-stop global and transitional markets, on the next phase of their expansion.

In many instances, new high quality retail spaces have become the catalyst for attracting international retailers into Europe's key retail markets. This trend was particularly visible in UK regional cities, with St David's in Cardiff and Trinity Leeds both attracting a large number of new international brands into each respective city, creating relevant, modern retail and leisure space and pushing up prime rents to near record levels in the process.

JLL also witnessed the trend where new supply feeds latent demand from new entrants, including Vienna, where top brands such as 7 For All Mankind, Mulberry and Miu Miu entered the market via the newly developed Golden Quarter.

Beyond the top tier cities, there are numerous retail markets that remain relatively untapped from an international retailer perspective, but which are forecast to benefit from above average retail sales growth. The affluent Scandinavian markets of Stockholm, Malmø, Gothenburg, Olso and Helsinki, as well as the UK regional cities of Edinburgh, Nottingham, Belfast and Cardiff, will continue to be on the radar for international retailer expansion, benefitting as they do from affluent consumer bases, as well as above average retail sales growth outlooks over the short to medium term.

Warsaw and Prague, ranking 14th and 15th respectively, have transformed from growth retail markets into mature retail markets, thanks to their well-developed, stable economies as well as improved levels of market transparency.

Transitional cities:

Moscow, Istanbul and St Petersburg are Europe's transitional markets, having been on retailer expansion roadmaps for many years and having proven themselves as attractive retail markets (see their market profiles on page 20). Thanks to their large market size and strong long-term growth prospects, these markets have a great appeal to international retailers. In particular, Moscow and Istanbul are highly desirable markets, and no other European market has attracted more international retailers than these cities since the launch of JLL's Destination Europe 2013 report. While the transitional markets are catching-up fast on Europe's Global retail markets, they are not yet as established in terms of market transparency and relative levels of economic or geo-political risk.

Growth cities:

While there are clear growth markets beyond Europe, attractive opportunities for international expansion also exist close to home. Central and Eastern Europe (CEE), in particular, is growing in importance as a global retail destination, driven by rising levels of disposable incomes and a strong retail sales outlook. Kiev, Belgrade, Zagreb, Ankara, Bratislava, Bucharest and Budapest are all forecast to benefit from above average retail sales growth in the medium term. In addition, not only does CEE have more cities in the top 30 retail locations than Southern Europe, but international brand penetration grew 8% in the region in the last two years, against a broadly static Southern Europe. This is a function of relative market maturity and the relative appeal and growth prospects in CEE.

Moscow (Rank 3):

Moscow remains an attractive destination for international retailers and continues to rank third on JLL's Cross Border Retailer Attractiveness Index. Much of this is due to the strong economic growth over the last decade, which has resulted in disposable income and retail sales increasing markedly. However, Moscow has seen a recent increase in political risk and protracted downgrades in economic growth. While consumer demand remains relatively robust, there are clear downside risks for retailers as a result of a weaker local currency and rising inflation. Encouragingly, foreign and national retailers still continue to announce development plans and there are no signs of a decrease in the number of new brands coming to the market.

Fast facts

- International retailers continue to selectively expand across Europe; as a general rule, in the last two years, for every two stores opened, one store has closed down.
- London, the springboard to Europe, has the highest presence of international retailers compared to its European peers, followed by Paris, Moscow, Milan and Madrid.
- The US, driven by expanding premium retail brands, has overtaken Italy as the largest exporter of cross-border retail fascias across Europe's key retail cities.
- Zara, H&M and Mango continue to have the greatest retail coverage, while Michael Kors, Superdry, Cos and 7 For All Mankind have been the most expansive retailers across Europe's key cities.
- London again edges out Paris as Europe's most attractive city for luxury retailers, with Moscow, Milan and Rome next in the rankings behind these two luxury hotspots.
- Paris commands the highest rents for international retailers, followed by Zurich and London, although London tops the luxury rental table (Bond Street), followed by Paris and Zurich.

10 TRENDS | Reshaping Global Retail

1. Urbanisation and population growth: *unstoppable demographic forces*

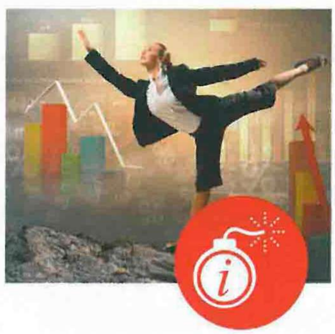
The staggering rate of global population growth and urbanisation is underpinning radical change: it is forcing us to be far more efficient and creative in how we use urban spaces, and is fundamentally changing retailer, investor and developer strategies across the world.

3. E-commerce = Everywhere commerce: *channels become irrelevant in a seamless world*

Consumers want to access products wherever, however and whenever they want; retailers must provide a seamless, integrated strategy, with real choice, convenience and ease of access, or consumers will go elsewhere.

2. Multi-speed economic growth: *opportunities with risks*

The multi-speed economic recovery is driving industry movements and strategies. It represents a big expansion opportunity for some retailers, enabled by Internet sales, which 'don't care about geography'; but 'chasing the spend' is not for all.

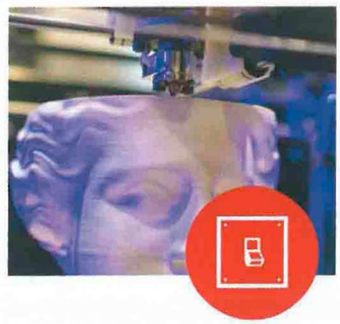


4. Information explosion: *ultimate knowledge and 'choice exhaustion'*

The amount of information available (and sought) is leading to super-informed, knowledgeable consumers, but also to 'choice exhaustion', clutter and iandecision; the big challenge for retailers is gaining consumer 'attention'.

5. Harnessing 'Big Data': *opportunity knocks for retailers*

Effective use of 'Big Data' will enable retailers to truly understand customers, what will attract them to a shop or retail place, and to respond quickly to their needs to entice them to purchase; huge opportunities exist, but getting it right is hard!



7. Power switch: *technology enables consumers to take control*

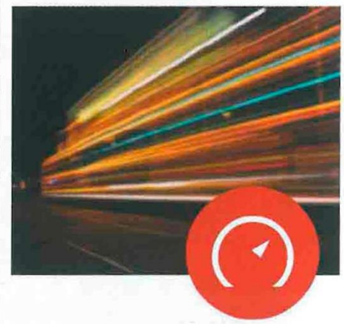
Propelled by technology and data, the super-informed consumer is increasingly taking control of the retailing process, demanding the best product, at the best price, efficiently delivered – until the day they can print their own!

9. Redefining space: *reshaping the role of the store*

The role of the store is fundamentally changing, and what happens in the virtual world is increasingly influencing how we use physical space. For retailers, the key to keeping the consumer entertained is to integrate physical and digital experiences to provide an interactive and all inclusive in-store experience, combined with excellent service.

6. Consumer ethics v. consumer desire: *balancing responsible retailing and consumption*

Consumers' ethical and environmental idealisms are seemingly at odds with the technology-driven desire to own the next 'best thing', and 'now'; how the retail industry responds is crucial.



8. Pace of change: *retailers need to innovate, create and exploit*

For retailers, the pace of competition and innovation has intensified, not just at a corporate level, where natural monopolies such as Amazon and eBay thrive, but also at a product level, where the length of time a retailer has to exploit sales from the development of new product is reducing rapidly (the temporary monopoly effect)

10. Time, the new commodity: *retailers and landlords competing for consumer time*

Time is the new commodity for consumers. Shopper expectations are now profoundly different from a few years ago; consumers expect retail venues to be 'destinations', to thrill and excite, to have the latest and greatest products, but also to enable them to 'escape and retrench.'

The majority of international retailers focus on the region's expanding prime shopping centre supply, as the city is increasingly catching up with European capitals in terms of market density. Moscow's prime high street is also maturing with each street creating its own 'identity'. Tretyakovskiy Passage and the areas around the city's leading department store, TsUM, are home to many luxury brands. Local and international mass market brands can be found on Tverskaya Street, Novy Arbat Street, Nikolskaya Street, Kuznetskiy and Most Street. Restaurants and cafes dominate Pyatnitskaya Street, Arbat Street, Myasnitskaya Street and Kamergerskiy Lane. Recent market entrants include Deichmann, Harmont&Blane, Moncler, Norma J Baker, Prenatal Milano, TwinSet and Crate and Barrel.

Istanbul (Rank 7):

Istanbul's retail market is revolutionising at a great speed, and has now moved into the top 10 most attractive location for international retailers in Europe. The city is ranked at number seven in the JLL index, driven by several new world-class retail destinations, which are attracting top international retailers on both the European and Asian sides of Istanbul. On the European side, the prominent scheme is the prestigious, mixed-use Zorlu Centre, which opened late 2013. On the Asian side, the Galeries Lafayette anchored Emaar Square development, is expected to create a new landmark retail destination. Despite the growing scale and quality of the shopping centre market, high streets dominate Istanbul's retail culture for many of the city's 13.5 million consumers. Istiklal Street is the dominant mass market location on the European side, along with Nişantaşi district, which houses luxury brands. On the Asian side, Bagdat Street is the most well-known and popular area, featuring a range of local and international brands. Apple, Carpisa, Fauchon, Hamley's, Crate and Barrel, Eataly, Jamie's Italian and Pandora are some of the latest entrants to the market.

St Petersburg (Rank 12):

St Petersburg remains an important transitional retail market for international retailers in Europe and now ranks twelfth on JLL's Cross Border Retailer Attractiveness Index. The city benefits from its status as a major financial and industrial centre and also has a mixed consumer base. The market is split between strong out-of-town regional shopping centres and the city centre. The city centre has a mass-market and premium retailer focus; the most popular high streets are Nevskiy Avenue, Sadovaya Street, Sredniy Avenue of Vasilievsky Island and Bolshoy Prospect on Petrogradsky Island. A significant amount of new shopping centre space has been completed in the last few years, resulting in growth of over 40% in the amount of high quality retail space. The current macroeconomic environment, currency instability and the uncertain political and economic situation have contributed to further polarisation and thus strengthened the existing prime centres. Recent entrants into the market include Starbucks, Hamleys, K-Ruoka, Agent Provocateur, Deichmann and Michael Kors.

Rental analysis

When analysing rents paid by retailers across the major European city markets, it is worth exploring the reasons behind a retailer's decision to take physical space in the first instance. For most retailers, retail sales generated from a unit is not the sole objective (albeit for some retailers it is). A store may support a wider wholesale, franchise or online business, or perhaps supports the wider brand awareness, but this will differ by retailer and retail location.

Continued polarisation and rising rents:

International retailers remain focused on Europe's best retail space. In particular, top-tier retailers have a strong appetite for flagship space in iconic locations (often in the form of brand pavilions, which are effectively showroom style stores that showcase the brand, in addition to acting as a channel for product distribution). Finding the right space, however, is becoming increasingly challenging, as Europe's top retail markets have reached high levels of saturation. Lack of supply and high retailer demand have pushed up prime rents to record levels in markets such as Paris, Istanbul and London in Q2 2014 (+20%, +37% and +42%, respectively, since Q2 2012). Upward rental pressure will remain, so long as optimum supply of retail and leisure space remains constrained, which will be the case for most developed European cities.

There is a clear correlation between the number of international retailers present in a market and the prime rents paid by international retailers, as highlighted opposite (luxury rents are explored later). International retailer appeal is driven by a multitude of macro level characteristics, including market size, consumer affluence, market maturity and transparency, as well as micro level variables such as supply and footfall. The search for retail sales growth and the economic headwinds across Europe have led to a significant increase in new store openings by international retailers in the larger regional cities of the UK, France and Germany, all stable mature markets. The lack of supply and high rents is leading retailers to 'work' their existing stores harder in the top retail markets. Creative solutions, such as new store concepts or innovative branding, are becoming increasingly crucial to success.

Paris commands top international retailer rents:

Driven by opportunity, demand and constrained supply, Europe's highest international retailer rents* are achieved in Paris, Zurich and London, on the Avenue des ChampsÉlysées, Bahnhofstrasse and Oxford Street respectively. These cities are followed in the rankings by Munich, Moscow, Milan and Frankfurt. *(*International retailer rents represent the top open-market rent that could be expected to be paid by international retailers for a notional unit of the highest quality and specification, in the most prime location in a market. They are distinct from luxury retailer rents, which are covered later.)*

Tourism is becoming an important driver for prime rental levels in Europe's top retail markets. Global tourism is set to grow by 75% from 1.0 billion arrivals in 2012 to 1.8 billion arrivals in 2030 (UNWTO), driven by strong economic growth and burgeoning of the mobile and increasingly global middle class. International retailers are developing strategies to 'tap into' this increasing tourism spend, as well as to increase their brand exposure in major hubs. This growth in tourism is partly responsible for the record breaking prime rent levels achieved on the Avenue des Champs-Élysées, and the increasing number of international brands expanding into Europe's busiest transport hubs.

In addition to market opportunity, the willingness or ability of a retailer to pay rent is also influenced by local market real estate characteristics such as lease terms, local tax, transparency and maturity. Unsurprisingly, this leads to regional clusters of cities, in terms of prime rent levels. Regional cities in the UK, Germany and France are generally grouped together. A similar trend can also be seen across the CEE and Nordic regions.

Europe's growth cities, which include Budapest, Bucharest, Bratislava, Belgrade and Ankara, command relatively low prime rental levels in relation to their international retailer presence.

These markets are also forecast to benefit from some of the strongest medium-term retail sales growth in Europe. As these markets mature, grow retail sales and attract new international retail brands, prime rental levels are likely to increase.

Retailer country of origin

US moves up to top the retailer exporter league:

The US is now the number one exporter to Europe's top retail destinations, having overtaken Italy in the last 24 months, as seen in the ranking of country of origin of international retailers operating across Europe's key retail cities. US retailers now account for over 18% of total international retailer presence in the 57 European markets covered. This was perhaps inevitable and not surprising when you consider the scale of the US retail market (c.€2,850bn in 2013 vs c.€290bn for Italy) that is nurturing new and growing retail concepts, and the need to chase growth beyond the US for some.

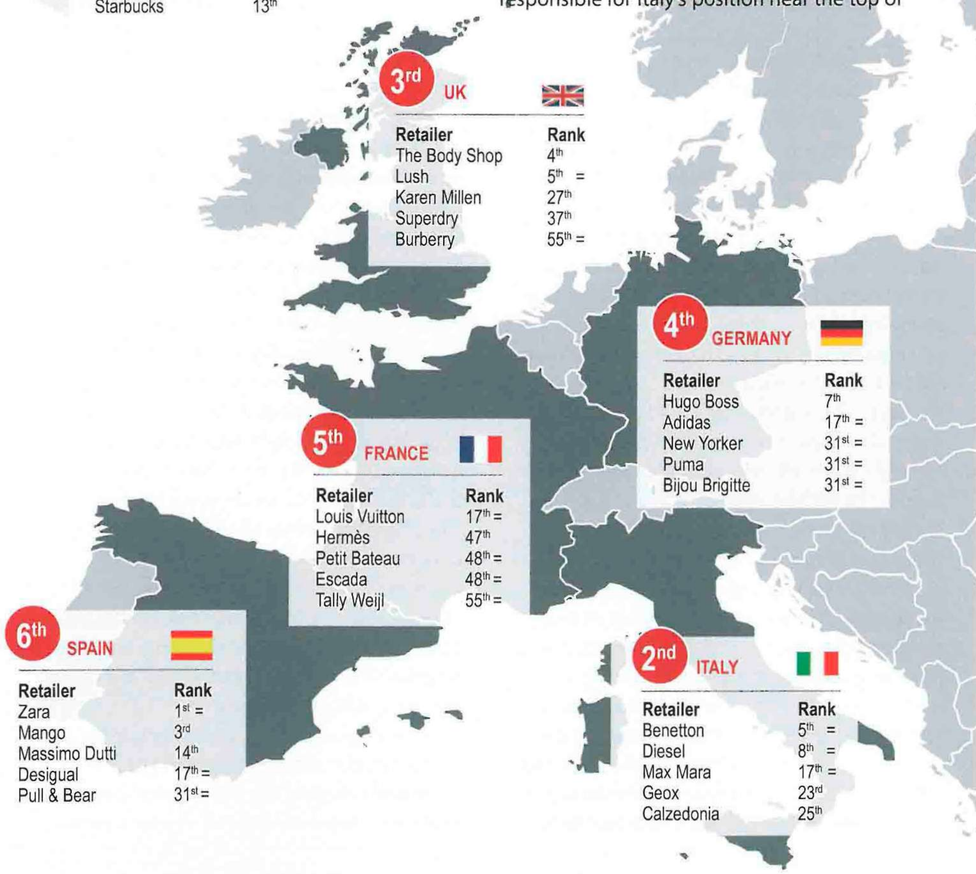
Although the top US retailers do not individually dominate the retailer presence rankings, weight of numbers within the sample has resulted in its top ranking, accounting as they do for nearly 20% of the total sample of retailers surveyed. While Tommy Hilfiger and Timberland remain the two highest placed US retailers (both with over 80% coverage across the 57 markets), there are in fact 12 US retailers with a presence in at least 50% of the top European retail markets. US retailers have expanded more aggressively in relative terms into the markets covered in the JLL report. This is partly a function of market maturity and saturation for some European brands but also the increasing appeal of European cities to US retailers.

Despite nearly 10% growth in retailer coverage, Italy now accounts for just under 18% of total international retailer presence. Italian luxury retailers remain the country's strength, and are responsible for Italy's position near the top of the rankings. Max Mara is the joint-top ranked luxury retailer in the JLL analysis, with a presence in nearly 75% of the markets covered. The UK ranks third in the list, with over 14% of total international retailer presence. While London retains its position as the largest importer of international retailers, the UK is also successfully exporting brands to Europe's leading retail cities. Since the first Destination Europe report (2013), UK retailers including The Body Shop, Lush, Karen Millen, Superdry, Burberry, Marks & Spencer, Topshop and Primark have collectively expanded into over 100 new European city markets.

The top three exporter countries are followed closely by the same three countries identified in the last JLL report, namely Germany, France and Spain. Germany, in fourth place on the list, accounts for just over 12% of the market, driven in particular by its strength and success in middle market retailing, through the likes of Adidas, Puma and New Yorker.

1st USA

Retailer	Rank
Tommy Hilfiger	8th =
Timberland	10th
Foot Locker	11th =
Claire's	11th =
Starbucks	13th



3rd UK

Retailer	Rank
The Body Shop	4th
Lush	5th =
Karen Millen	27th
Superdry	37th
Burberry	55th =

4th GERMANY

Retailer	Rank
Hugo Boss	7th
Adidas	17th =
New Yorker	31st =
Puma	31st =
Bijou Brigitte	31st =

5th FRANCE

Retailer	Rank
Louis Vuitton	17th =
Hermès	47th
Petit Bateau	48th =
Escada	48th =
Tally Weijl	55th =

6th SPAIN

Retailer	Rank
Zara	1st =
Mango	3rd
Massimo Dutti	14th
Desigual	17th =
Pull & Bear	31st =

2nd ITALY

Retailer	Rank
Benetton	5th =
Diesel	8th =
Max Mara	17th =
Geox	23rd
Calzedonia	25th

Extensive and expansive retailers

H&M joins Zara at the top of the coverage league:

Zara remains joint top of the retailer coverage league, with 100% presence across the 57 key European markets. Zara is owned by the Spanish retail group Inditex, which runs 6,390 stores globally following the opening of 331 stores in 2013. The premium fashion brand Massimo Dutti, which is also owned by Inditex, now ranks equal 14th, down from 11th in the previous report.

This is due to Massimo Dutti being leapfrogged by other fascias, rather than any scaling back. H&M now also has 100% coverage across the key retail cities covered in the JLL report, following the recent opening of a store in Kiev. The Swedish fashion retailer operates around 3,300 stores globally, and aims to increase its portfolio by 10-15% each year. As part of its global expansion, the latest store will open in India in 2015. The H&M group has also been investing in its multichannel offering, with H&M online currently covering 10 markets.

Spanish operator Mango, which ranks third, and Desigual, which ranks equal 17th, have both moved up the rankings. Mango operates 2,415 stores globally, while Desigual currently operates 330 own stores and 2,200 concessions. Whereas Mango is mainly expanding through a franchise concept, Desigual is expanding its own store network, concessions and its presence in multi-branded and department stores. Both strategies have allowed Mango and Desigual to expand rapidly, and with relatively lower risk, across many markets – a short-term benefit of franchising and retailing through concessions.

Nespresso has moved into the Top 25 coverage table, alongside Starbucks as the only F&B retailer in the Top 25. Both Starbucks and Nespresso have expanded during the past two years; Nespresso had 320 boutiques globally in 2013, whereas Starbucks currently has around 8,900 company owned stores globally.

Overall, the Top 25 table is dominated by mainstream brands, which make up 14 of the top 25 retailers by total coverage. Premium retailers account for the second largest group, with nine brands; Hugo Boss (7th) and Diesel (8th) rank the highest (up from equal 19th and equal 11th respectively) with 89% and 86% coverage. In comparison to Destination Europe 2013, a shift has occurred whereby mainstream and premium retailers have generally expanded at a faster rate than established, luxury retailers, and therefore have moved up the rankings.

The stronger European brands are increasingly looking beyond Europe's borders, and into the growth markets of Asia Pacific in particular. Spanish brands Zara and Mango have set up broad store networks that cover most markets, while Lush has joined H&M in announcing plans to enter the Indian market, encouraged by the strong growth prospects despite significant entry hurdles for foreign retailers.

Retailers show appetite for expansion

While the number of retailers with coverage of over 80% of the 57 markets has increased to 13, up from nine previously, considerable expansion opportunities remain for the majority of international retailers. The number of retailers with presence in under 20% of the markets covered has reduced to 35% of the research sample, down from 43% in 2012, demonstrating that retailers have taken the opportunity to expand across Europe over the past two years. At the same time, there is also portfolio optimisation taking place across Europe, as retailers adapt and right-size. Additional stores will also be sought by retailers with an existing presence in the larger markets; expansion will remain a theme for most.

For many retailers, the preferred route to expansion is through franchise partners, particularly in Growth and Transitional economies. Franchising represents a good way to de-risk portfolio expansion and is a relatively capital light route to the market for the parent company. It is, however, not without risks, which include finding the right franchise partner with aligned aspirations, and the potential to lose control of the brand and operations, if the correct guidelines are not in place.

The most expansive retailer in the JLL sample is the American premium retailer Michael Kors, followed by 7 For All Mankind. In addition, many European retailers have also shown impressive expansion in the past two years, including Superdry, Cos, Ecco and Hugo Boss.

Other retailers showing an appetite for expansion include: Coccinelle, looking to expand into the key European markets of London, Paris, Barcelona and Zurich; Uniqlo, as it accelerates expansion in Europe in a bid by its parent company Fast Retailing Co to become the world's top fashion retailer by 2020; Hamleys, expanding into Sweden, Istanbul and Moscow, and recently signing with a franchise partner to cover CEE and Austria; Primark, expanding rapidly in France, and entering the Netherlands and Italy, as well as the US; and TX Maxx, expanding in Germany and Poland, and now eyeing the Netherlands.

Notably, an influx of brands entering the European market from the Asia-Pacific region is expected. Australian stationary brand, Smiggle, is one of only a handful of retailers from the region to make a meaningful move in the last two years. Easing cyclical and economic headwinds could be the catalyst for further activity in the short to medium term, although operating in both hemispheres does present seasonal stock challenges for some.

F&B market: gaining momentum

With the recent rise in appeal for restaurants and coffee shops in retail places, the complementary nature of catering to retail and leisure and the resilience of this use to the effects of online, the F&B market warrants special focus. The importance of food service (and the amount of space dedicated to it) across Europe's retail landscape is certainly increasing each year, as the growth in online sales continues apace. Well configured and complementary F&B provision can add real diversity and vitality to Europe's major city markets, and can often boost consumers' shopping experience and dwell time.

The F&B market is less 'internationalised' than, for example, the fashion market. While no reliable pan European data is available, it is estimated that an average of 20% of F&B operators across Europe's big city markets are international, with the remainder of the market dominated by national and local operators.

There are great examples of truly international F&B operators with global reach and identity, such as Starbucks, McDonalds and Burger King. Expanding operators include Pizza Express, which is targeting the Asian market in particular. The group has just been bought by Chinese investment group, Hony Capital, which should accelerate its growth in the Chinese market. Vapiano is another operator with ambitious expansion plans; the fast-casual Italian chain is eyeing the UK market in particular, through the franchise partner route. In addition, the leading coffee chains generally remain acquisitive, and are eyeing new markets for growth, namely Costa (Spain and Asia), Starbucks (India) and Caffé Nero (US).

However, in general terms, the challenges around distribution and logistics, and in providing consistent, quality offerings to international store portfolios, have acted as a brake on international expansion for many F&B operators. It is for this reason that national and local operators tend to dominate. As logistics models improve and supply chains become more sophisticated, more international F&B operators are expected to emerge, and to establish truly international portfolios and brands. The growth in tourism is likely to be a driver of this trend, as tourists become accustomed to the quality provided by these strong brands, and are keen to see the same brands in their home markets.

Expansion for F&B operators will often be via the franchise route; Jamie's Italian, Wagamamas, Wasabi, Rosso Pomodoro and Costa are all looking for partners to grow their portfolios across Western Europe and CEE. With the exception of Italian operator, Rosso Pomodoro, this demonstrates the strong trend of UK operators expanding into and across Europe. The ongoing expansion of Jamie's Italian highlights the increasing power of celebrity chef branding, both in the premium and mass markets.

Several European F&B operators are also in expansion mode: Le Pain Quotidian is looking to expand across Europe, and in particular in the UK market outside London; The Eat Out Group is growing the Dehesa brand; 100 Montaditos is expanding across Europe; and last, but certainly not least, Eataly, which has opened in Milan and Istanbul recently, is reported to be close to a London opening.

Luxury market

Mature global luxury market shows resilience:

The global luxury goods market is maturing, stabilising and consolidating. It has been relatively resilient to economic crises, more responsive to the demanding, increasingly affluent and highly mobile global consumer, and less reliant on market booms for growth.

Overall performance of the luxury sector will depend not only on economic growth, but on factors such as volume of travel, protection of intellectual property, consumer propensity to save and changing income distribution.

Luxury goods sales growth will remain strong in emerging markets in Asia Pacific, Latin America, the Middle East and Africa. These markets accounted for under 20% of the luxury market in 2013, but are forecast to grow to 25% in the coming decade. A certain amount of short term volatility is being experienced in global luxury sales growth. For instance, sales have slowed in China recently, as a result of the Chinese government's austerity campaign. This slowdown has not been across the board; however, more 'affordable' luxury brands continue to perform well. In Europe, luxury markets in big Western European cities can expect continuing strong growth, led by tourist demand for luxury shopping, with a good influx of Chinese and Middle Eastern customers. Elsewhere, growth may be more muted, especially in Moscow and CEE, until the geo-political situation stabilises.

The point on tourism is a key one; tourism growth is having a growing impact on retailer expansion strategies, particularly within the luxury sector, and retailers are increasingly viewing tourism statistics as a key metric when assessing new markets. As previously mentioned, tourist arrivals are forecast to reach 1.8 billion globally by 2030, a 75% increase on 2012, with major European city markets set to benefit disproportionately from this tourist influx.

The luxury retail market remains buoyant in Europe's big cities, highlighted by several flagship store openings in the last 24 months. These include: Chanel and Belstaff on Bond Street, London; Chanel on St Honore, Paris; Tiffany & Co on Avenue des Champs-Élysées, Paris; Hugo Boss on Kuznetsky Most, Moscow; Prada on Bolshaya Konyushennaya Street, St Petersburg; and Louis Vuitton in One Goethe Plaza, Frankfurt.

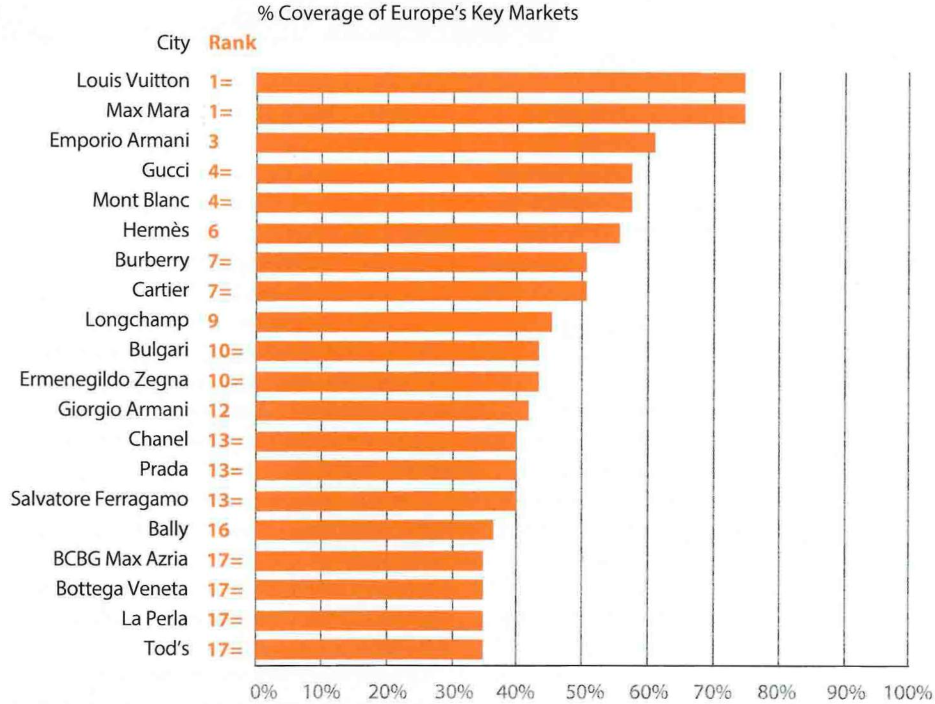
The leading luxury houses are generally eyeing expansion opportunities, with the likes of LVMH, Kering and, in particular, Richemont actively seeking space in the right locations.

London remains ahead of the pack:

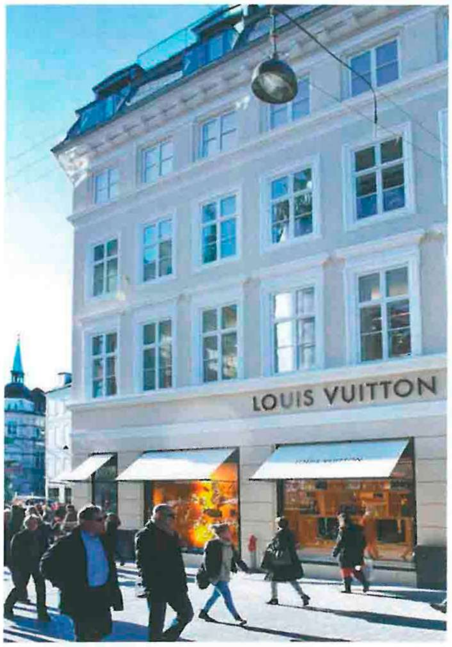
In 2012, London headed the luxury rankings, in terms of luxury brand presence, marginally ahead of Paris, with Moscow, Milan, and Rome next in line in the rankings. In JLL's updated Index, the order of the top five remains the same, albeit London has increased its lead at the top of the rankings marginally. Along with Munich and Madrid, these markets represent the mature

Top 20 Luxury Retailers

% Coverage of Europe's Key Markets



Source: JLL



luxury markets across Europe, each with a critical mass of international luxury retailers which attract both domestic and tourist consumers. London's edge may be due, among other things, to the stronger relative growth outlook over the short-medium term when compared to other major European cities.

The final member of the top eight markets (which stand apart from the remaining European city markets in the Luxury Index) is Istanbul. This is a power transitional market that, as mentioned previously, has benefitted from the Zorlu Centre impact, to take it above Munich in the rankings, on the basis of retail presence. With scope for further luxury retailer expansion, due to the sheer scale and improving retail stock, Istanbul could move further up the rankings in years to come. Other markets that demonstrated notable growth in luxury retailer presence since the 2012 report include Berlin and Amsterdam.

Bond Street and Avenue Montaigne set new rental records:

JLL has also analysed rents commanded by luxury retailers across the 57 markets covered. As in 2012, New Bond Street in London tops the rental league, with headline rents of €12,300 per sq m per year, an astonishing 42% growth on the levels achieved in 2012. This demonstrates the value to luxury retailers from having a presence in iconic retailing locations, which will likely maintain these super-premium rental levels. It is also a function of scarcity of supply.

Paris has also witnessed strong rental growth in the last two years in its luxury district, and now stands at €10,000 per sq m per year. There is 'clear water' between rental levels in these two world renowned retail locations and the rest of Europe, with rents in Zurich, the closest, at €7,600 per sq m per year, followed by the Italian cities of Milan and Rome. While rents and occupancy costs are important, in the context of operating a global luxury retail business, they are not the ultimate driving force in deciding where to take space. Rent sensitivity diminishes for global luxury brands, as they use their physical presence for reasons beyond traditional 'retail'.

Elsewhere, there remains a group of markets which are relatively established as luxury retail destinations where rents in the luxury districts remain relatively 'good value', including Madrid, Istanbul, Munich and Barcelona.

Louis Vuitton and Max Mara top the rankings:

Due to the mature, stable nature of the market, luxury brands tend to focus on building growth organically. French brand Louis Vuitton has joined Max Mara at the top of the rankings in terms of retailers with the highest presence in the JLL sample. Both these retailers have 75% coverage of the markets analysed, with Louis Vuitton having opened stores in Warsaw and Cardiff in the last two years.

Other expansive luxury retailers include UK brand Rolex, as well as two of the UK's most iconic designers, Stella McCartney and Vivienne Westwood. In addition, up and coming US ladies fashion retailer BCBG Max Azria moved into the top 20 luxury retailers, while established brands La Perla, Longchamp and Prada have been in expansive mode in the last two years.

At the opposite end of the spectrum, UK luxury operator Burberry reduced its presence across Europe, following a strategic decision to exit the Spanish market. Burberry has instead focused on creating iconic flagship retail destinations, and on setting standards in adopting digital technology to market its brand to a younger, tech-savvy customer base.

Constant evolution required in virtual world:

With the exception of pockets of luxury retail in tourist resorts and airports, the presence of luxury beyond the top 57 markets diminishes. While mainstream retailers regularly penetrate beyond the core markets, luxury retailers tend to prefer the larger conurbations benefiting from high tourism flows, and often congregate within defined luxury areas or streets. Their reach beyond these markets often relies on wholesale business, or online.

Although global luxury markets are growing steadily, luxury retailers have to adapt to structural change and the new virtual world in particular. Specifically, this means dealing with new levels of market complexity, accounting for new kinds of buying behaviour, pushing into new markets, evaluating different business models and doing more with digital technology. In particular, luxury retailers are increasingly focusing on city-level strategies, or at least on strategies that target a cluster of cities with similar market and consumer characteristics, rather than the traditional regional-level strategies.

Conclusion

Conditions in the European retail market have undoubtedly eased since the last edition of this report series in 2012. JLL has witnessed significant expansion by many international retailers, while others still search for the optimum portfolio size and shape.

While numerous challenges facing retailers operating internationally persist, in general terms, the strong retailers continue to expand, and to seek out growth opportunities in developed and developing markets. Cyclical headwinds are abating, so while major city representation is the focus for most international retailers, especially luxury operators, mainstream retailers are increasingly looking beyond the top 57 locations, where appropriate.

Looking forward, significant expansion opportunities undoubtedly remain across Europe's key city markets. In the larger, global retail markets, opportunities exist through the expansion of traditional city centre retail areas; new streets are emerging, occupied either by first-time brands, or by separate 'labels' of the major brands and designers. Opportunities also exist for luxury and premium brands to expand into select prime shopping centres, to sit sympathetically alongside more mass market offers. Whatever form the expansion takes, the key is still for retailers to fully understand and assess the detailed risks and benefits associated with domestic and international expansion.

What is certain is that most retailers are becoming more sophisticated at defining expansion strategies. They have become more strategic in their decision-making, are increasingly using e-commerce to test demand in new markets, while better identifying the unique local challenges presented by every market, and taking steps to overcome them. ■