C&P

Spring Retail Report 2015

CHASE & PARTNERS
Retail & Leisure Property Specialists
C&P

Spring
Retail Report
2015

Contents

"…it will be the politics which hold back the UK economy rather than the business of the UK."

Can Positive Signs Be Maintained?
Introduction by Graham Chase

C&P

Spring
Retail Report
2015

Introduction by Graham Chase

Can Positive Signs Be Maintained?

Markets hate uncertainty but of course the reason we have markets is because of uncertainty. As estate agents we are often accused of controlling markets, but if this were the case we can assure you the most perfect markets you could think of would exist. On 7th May, just a few days after the publication of this report, we face a General Election, with the outcome not having been so uncertain in a generation.

With Labour and Conservative polling a third of the electorate each and therefore by definition the rest also at a third, the permutations as to who will be running the UK are seemingly endless. Given that the policies for most of the major parties are very similar, all seeking to substantially reduce the national debt by 2019/20, the real problem comes from an election which fails to elect a majority Government or creates a weak coalition. Add to that the Scottish Referendum, simply as a pre-cursor for strife for the foreseeable future and it will be the politics which hold back the UK economy rather than the business of the UK.

The UK economy has been performing well and has shown notable signs of strength during 2014 and the first quarter of 2015. Quarter 4 of 2014 saw the UK economy grow by 0.6%, the eighth consecutive quarter of GDP growth, with the result that the government revised GDP growth for 2014 from 2.6% to 2.8%. It is set to grow by a further 1.8% in 2015 coupled with projected household spending growth of 3%. The FTSE 100 Index reached its highest point ever on Thursday 16th April at 7,119.40 despite the uncertainties of the General Election.

The UK economy has benefitted from the price of a barrel of oil halving from $119 at its height to $49 at its low point, which boosted the balance of payments into the positive, also assisted by an increase in exports of manufactured goods demonstrating an economy improving on all fronts.

The feel good factor has been aided by the Consumer Price Index falling to zero in February 2015 and the price of goods sold from shops at 3.3% lower in February 2015 than February 2014. Employment has been improving with unemployment now 1.8 million, a low figure not seen since 2006. Despite recent press comments, however, the statistics suggest that headline wage rates remain in decline which is a worrying point. Nevertheless, with interest rates still held at 0.5%, mortgage availability being maintained at low levels of interest rates and the Pound strengthening against the Euro, the only question is can these positive signs be maintained?

The potential for deflation contagion from Europe, where interest rates are 0.25% and Switzerland has gone into negative at 0.75%, remains a possibility. The pundits feel that any concerns in this direction are over-blown, but we will see.

The housing shortage and its pricing, particularly in London and the South East, is undoubtedly restraining expenditure and there is a general unhappiness about the opportunities for young people to secure a home of their own. Affordable housing policy has clearly failed to deliver under any test. Government and the opposition parties have failed to grasp that it is an increase in supply which is needed and that tariffs such as Affordable Housing, increased Stamp Duty and Community Infrastructure Levy are holding back development and the creation of a sufficient housing stock. Until such time as real and meaningful policies are adopted, which increase supply across the board, the economy will not reach its true potential and run the risk of overreaching itself. Meanwhile house prices continue to rise and indebtedness damages the confidence of the consumer.

Occupational demand from retailers remains muted but with some notable exceptions. The major retailers are now focusing on the top 75 retailing centres, reflecting the polarisation of consumers and their physical shopping habits. On the plus side, prime shopping centres are now seeing rental growth, but in secondary shopping centres and smaller towns growth is either static at best or more likely continuing to fall. Incentives, short leases, break clauses and low demand have become the profile of the market for most of the country outside of true prime.

Prime shopping centres are able to progress asset management activities given focussed demand but for secondary centres a re-think is required if improvements are to be seen. Failing secondary centres are a drag on the economy and represent a waste of resource. They should be seen as providing a supply of space capable of beneficial use across a wider user spectrum which may include a greater discount retail offer, leisure, restaurants, social facilities, business or residential. The recent relaxations to the use classes order to allow changes more easily has not addressed this need and if anything has confused matters as some local planning authorities have adopted the changes, whereas others have vetoed their use.

Smaller centres and market towns which will continue to lose multiple support will have to reinvent themselves. In some respects, if they can, this is where the greatest growth potential could be secured providing they can make themselves attractive again. A growing economy is likely to improve the options available to them and a shortage of housing stock of good quality, together with increased need for social services should be a focus for the future.

The rating scandal of the Government postponing the revaluation has brought about the failure of thousands of retail businesses, with a net increase in the number of closing of shops as demonstrated by statistics recently published by PricewaterhouseCoopers and the Local Data Company.

The ability of physical retailing to respond to both the recession and competition from internet sales has been unfairly penalised by uncaring and naive Government policy focussed on maintaining the tax take regardless of the cost and its disproportionate impact.

The imposition of a heavy rates tax burden has been especially unfair on businesses outside the South East prime shop pitches, and in many cases has subsidised central London retailing and record increases in rental levels to a reported £1,500 Zone A in Bond Street and £1,000 Zone A in Oxford Street. Had the rating revaluation taken place such disproportionate rental rises are unlikely to have been achieved. The result is a skewed and out-of-kilter cost base of retail property for occupiers. Further, with many investors in shop property being pension funds, it could be argued that the rates burden has also been a tax falling on the shoulders of pensioners, as rents fail to maintain the increasing and disprortionate rates burden.

On the investment side, the retail market has fully recovered with some £12.78bn of property investment purchased in 2014, up from £11.33bn spent in 2013. Already in 2015 property investment purchases were £235 million in January and £304 million in February. This is as a result of falling bond yields, stock market volatility and other investment options not delivering the expected returns. "Retail" investment is now at its highest level since 2007 and reflects a significant divergence between 10 year gilt yields currently at 2.8% and UK all property equivalent yields in the region of 6%, closely reflecting long term yields on property.

The weight of money for property investments is another factor in depressing property yields and with syndicated loans increasing, one wonders if the property melt down of 2008 is going to repeat itself? Probably not but the question does need to be asked. That said, where else can you get returns of 5% or more demonstrating the strength, security and potential returns that property still offers? No wonder the long term yield on retail property of 6% is currently 5%.

With interest rates likely to remain low until at least the autumn of this year

but probably well into next year, and shopping centre rental growth predicted by IPD and CBRE for 2015-2019 of 3.1% for prime, 1.8% for good secondary but -0.5% for poorer secondary, the fundamentals for investment in prime property remain strong and compelling.

In 2006 the development pipeline for retail property was about 80 million sq ft. Today it is approximately 5 million sq ft, although this is a significant improvement from just three years ago. There are clear signs of increasing support for town centre schemes, but viability remains a problem and it is only a few who seem able to drive forward development, taking long term views and guessing at the potential outcome, usually on a complete rebuild and ensuring there is critical mass which dwarfs anything else. That said the recent announcement for the redevelopment of Sheffield City centre following the failure of the Hammerson proposals has been to take a more sensitive and fragmented development approach. Will this curry favour and create value, given viability is often referred to but not easily demonstrated?

The discount retail profile has improved development potential on a smaller scale but with mainline supermarkets now virtually out of the frame, new retail development is likely to focus on a few regeneration locations and improving the format of existing space rather than net additional space which has been the case in the past. The development pipeline is therefore a very different animal to what it was and now reflects the net addition of reconfigured and upgraded space as the criteria, rather than simply new space as a total figure. This is just as well as the retail property sector continues to go through a structural change both in and out of town, with the impact of internet shopping seen as the greatest threat to existing centres having a significant effect on retailer demand and shop unit sizes and configurations.

There is however, a caution relating to internet sales currently running at about 14% of total retail expenditure and predicted by various research houses to reach between 18% and 25% for all retail expenditure between 2020-2025. Our own view is that internet retailing has its own problems with logistics, returns and other costs making internet sales an expensive business.

Retailing, as ever, is about demand directed by the consumer. The market has demonstrated that retailing in the high street is far from dead. John Lewis celebrates its 150th birthday with some 40 main line department stores employing 91,000 permanent staff as partners. This year has proved challenging but JLP still managed a 4.8% sales increase for the year to 31st January 2015, based not on the internet but “higher traffic and conversion on site” which has exploited multi channel sales trends.

Debenhams has seen a more mixed trading pattern with pretax profits falling 20.6% to £110.3 million, the result of deep discounting in the January sales following on from a difficult Christmas trading period. However, its revamped Oxford Street flagship coupled with two new store openings in 2013 and four in 2014 now feeding through, provided an increase in like-for-like sales of 1% and gross transactions up 1.7% to £2.82 billion. Further, online sales were up 17.6% representing 15.3% of group sales.

Next is now worth £10.7 billion with its latest results showing a 7.6pc rise in sales with pre-tax profits up 12.5% and has overtaken M&S. The share price has grown 250% in four years and £150 million is the annual interest collected from customers for credit linked to its Directory catalogue business, its fastest growing area of sales.

Dixons Carphone was the result of the merger in May 2014 of Carphone Warehouse and Dixons, with some 3,000 stores and sales topping £12 billion to produce a profit forecast at about £160 million. Indications from the first years trading suggest that two companies that were once lacklustre have caught a new tide and are sailing along well in calmer waters.

Similarly, Argos have seen a transformation through their sophisticated use of technology, with their customer and delivery focus streets ahead. They will require property as their principle point of sale, although the resultant rationalisation programme remains challenging

The use of Bricks and Clicks as demonstrated by John Lewis, who have been able to significantly increase sales from their main department stores through customers picking up goods ordered online, reflects the more likely line of travel for internet shopping in the future.

The continuing growth of Next through their Directory also shows how a heady mix of selling has proved successful rather than one dimensional sales through a computer screen. Further, the idea of a large number of delivery lorries turning up in the same street day after day coupled with returns running at about 40% on average is an inefficient and significant cost basis which will be a detractor. The internet is far from a panacea for retailing sales but it has its real areas of convenience as the working population works longer hours and is time poor. The increase in internet retailing will continue but the success will focus on the retailers who offer a comprehensive and integrated service, where property will remain a key element.

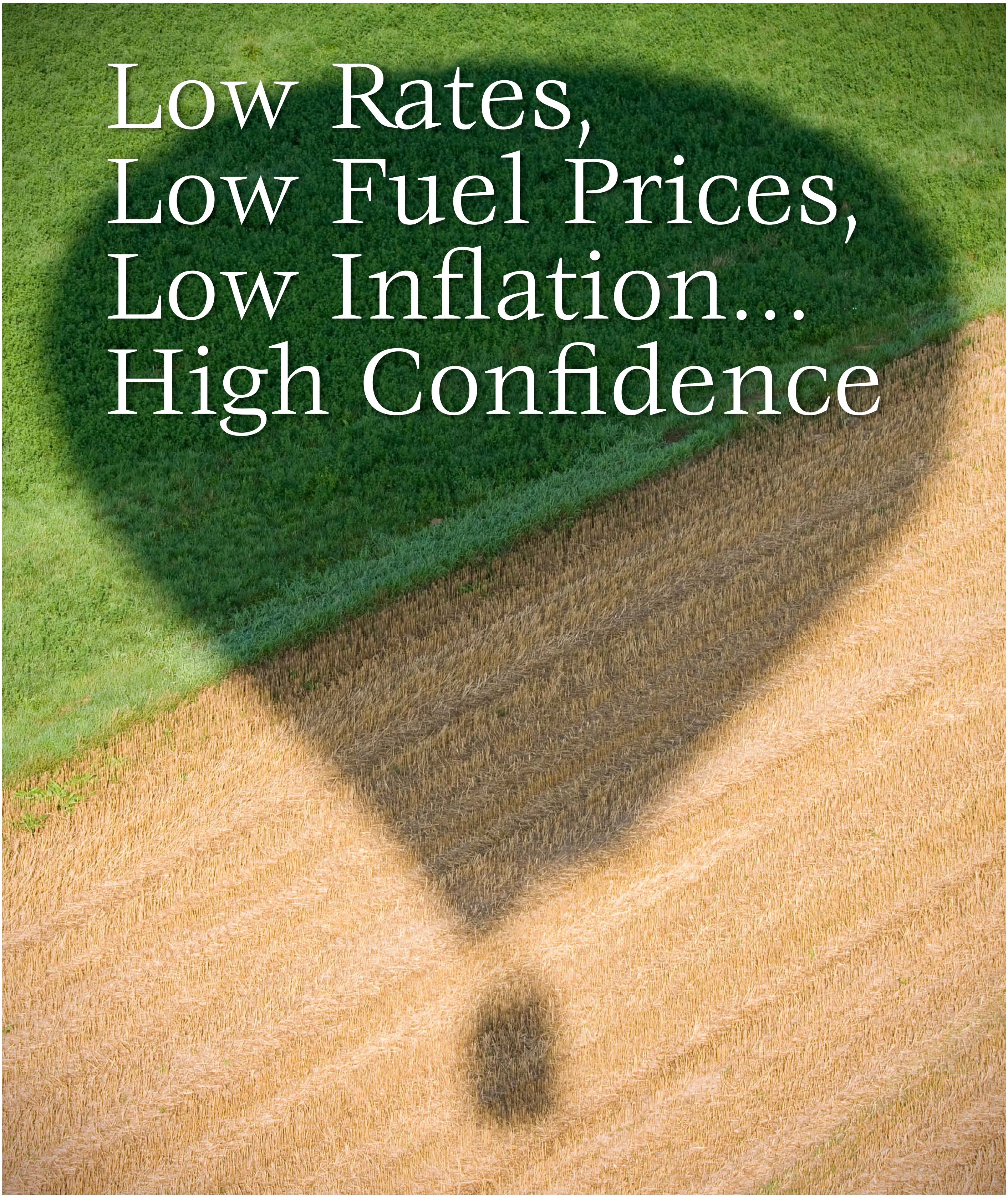
The improvement of centres as they offer a more balanced town centre facility with business, residential, community retail and leisure will continue to attract human beings. but as ever in a world of change it will be different tomorrow to that which it is today. On that point we wonder what the change of Government will bring, both in terms of who it will be and what they will do. No doubt the market will react and respond accordingly and one can only hope that whichever Government is in place, it is supportive of UK business and property which has demonstrated it is capable of driving forward the UK economy if given a fair chance.

C&P

Spring
Retail Report
2015

In-Town Agency by Ian Campbell

Low Rates, Low Fuel Prices, Low Inflation… High Confidence



The last 12 months has seen strengthening consumer confidence and retail sales, helped by continued low interest rates, lower fuel prices and low inflation. 2014 did not, however, see any great improvement in retail property vacancy levels, nor rental growth, at least not outside the South East.

We anticipate 2015 will be the turning point for the UK retail property market, with the first real signs of general rental recovery presaged by reducing incentive packages, although this is likely to be restricted to the most sought after locations. 2014 saw a rise in the demand for units in good secondary towns with the decline in rents finally halted, but demand is still relatively weak, driven mainly by value retailers and discounters.

Four new shopping centres are due to open in 2015 – Friars Walk Newport, Grand Central Birmingham, Westfield Bradford and Flemingate Beverley. This compared with only one, Old Market Hereford that opened in 2014, is the highest number to open since 2009.

There are a total of nine shopping centre schemes currently under way in the UK, with major developments in the pipeline including, Leeds, Croydon, and Battersea Power Station, with Bond Street, Chelmsford; Westgate Centre, Oxford; and Town Centre, Bracknell, all having been given the green light since October 2014. This should deliver circa 3 million sq ft of new space in 2017, the largest amount of new space since 2008, although viability remains a question over some of them or has been a restricting factor.

However, there is currently little in the pipeline for delivery post 2017 and while 2015 may see further recovery in development activity, it is more likely to be through the refurbishment and extension of existing schemes.

We anticipate that the majority of new developments will be on mixed used basis with residential, leisure, business and community components included in order to make the development feasible and more acceptable to local authorities.

Openings and Closures

The past year has seen the demise of many established names which have brought a number of units to the market. In addition many retailers have continued to rationalise their portfolios. While a large number of stores have come to the market, most have been well received, a change from previous years, with those units in the best locations being the quickest to go, the La Senza portfolio being a good example. Stock still remains from the Phones4U portfolio and the EE rationalisation, although this is still very much a two tier market, with towns within the M25 seeing almost full occupancy compared to towns in the Midlands and North which are still supporting high shop vacancy rates, currently at 13% according to the Local Data Company.

Retailer	Store Closures	Date
West Cornwall Pasty Co.	28	April 14
Jane Norman	24	June 14
La Senza	55	July 14
Phones 4 U	362	Sept 14
Austin Reed and Country Casuals	35	Jan 15
The Money Shop	200	Jan 15
Bank	20	Jan 15
Johnson Cleaners	109	Jan 15
Albemarle and Bond	3	Feb 15

Agency and asset management advice to Lords of Notting Hill

Despite the apparently benign economy, the net loss of high street shops has accelerated, epitomised by the insolvencies of multiples such as Phones4U and La Senza.

Traditional independent retailers and leisure operators have only marginally opened more stores than they closed in 2014 in Britain's town centres, while the chains continue their retreat. Contrary to popular belief, independent high street businesses have continued to grow every year since 2009, albeit in smaller numbers. In 2014 the net change of independents was +346 units, a growth of 0.33%. This is down from 0.69% in 2013. Key growth sectors have been barbers, beauty salons, tobacconists and mobile phone shops. Independents now account for 66% of all retail and leisure units in the UK. The age of the small shopkeeper is perhaps returning.

The net loss of stores tripled in 2014 with a net reduction of 987 shops compared to net closures of 371 in 2013. A crumb of comfort is that the rate of store closures appears to have stalled at an average of 16 a day with 6,033 stores closed in 2013, 194 more than in 2014. The closures are not sector specific but 765 of the stores closed in 2014 were fashion (including shoes) with a net decline of 237 stores contrasting sharply with discounters opening a net 51 extra stores.

Despite the continuing problem of closures, new sub-sectors are continuing to grow. Tobacconists showed the greatest net change with an increase of 42%, fuelled by the growth of the e-cigarettes market. Charity shops, coffee shops and pound shops have all shown healthy net changes. Leisure uses (food, beverage and entertainment) have also continued to thrive, albeit at a slower rate. There were an additional 233 stores of this type on the high street in 2014, compared with 311 in 2013.

The North East showed the greatest change in fortunes, reversing a net decline of -0.75% in 2013 to a positive growth of +0.5% in 2014. The South West showed the greatest increase of independents at +1%, while Central London showed the greatest decline at -0.6%.

Large Store Market

Following the acquisition of House of Fraser by the Chinese conglomerate Sanpower in April 2014, the new owners are set to invest £150 million over the next four years in store refurbishment and online retailing, however any acquisitions are likely to be restricted to the overseas market.

Whilst Debenhams have been focusing on their out-of-town format, John Lewis have recently satisfied a longstanding requirement for Brighton by acquiring a site on North Street and may continue to acquire on a selective basis, with new department stores planned for Birmingham in 2015, Victoria Gate in Leeds in 2016 and Westfield London and Oxford in 2017. A new flexible format is due to open in Chelmsford in 2016.

The headline deal in the last year has been the sale of BHS to Retail Acquisitions in March 2015 and the subsequent announcement of the closure of stores in Oxford and Fosse Park, together with an impending decision on the fate of a further 50 stores. Retail Acquisitions have subsequently paid £70m to a Jersey-based company controlled by the family of Sir Philip Green to buy 12 BHS properties in order to reduce rental costs.

T J Hughes have been earmarked as a potential bidder for the surplus BHS stores as they seek to regain their market share, having declined from 55 stores in their heyday to just 6 when bought out of administration in 2011 by The Benross Group, who currently oversee 13 branches.

Black Friday – Only One Cake

The Black Friday phenomenon continued its surge in popularity with a host of new retailers participating. November showed retail sales growth of 5.0%, followed by 5.5% growth in December, indicating a positive level of overall Christmas trading for London's West End retail. However the event appears to have skewed traditional trading patterns with the short lived boost to footfall serving to either underpin or dilute trading volumes, with profit margins sacrificed for record turnovers.

Mixed fortunes have resulted from this critical period, with fashion and apparel retailers in particular citing slower than expected discount trading and the mild winter for a fall in sales. John Lewis stated that it had not provided a significant boost in trade across the Christmas period, as underlying sales in the days before Christmas fell for what is thought to be the first time in its history. A clear example of there being only one cake, no matter how you slice it.

The Pariah Sector

Question – What do betting shops, charity shops and payday loans have in common?

Answer – The public despise them and think there are far too many and their advance must be halted.

Or so the Government are telling us. But is this true or just another case of the nanny state telling us what is good for us.

Despite the Communities Minister, Steven Williams, telling us that people are concerned about an "explosion" of betting shops across the country, the statistics tell a different story. In fact the number of betting shops on our high streets has been stable at about 8,700 for many years, a significant decrease from the 16,000 in the 1970's.

This has not prevented the Government from introducing measures to limit the "explosion" by bringing in a separate Use Class for betting shops and also payday loan shops. This will prevent any change of use from within Class A2 use without the need for planning consent. It has obviously passed the current legislators by, but betting shops were "sui generis" in terms of planning until the 1987 Use Classes Order brought them in to the new Use Class A2, an era when there may have been more justification for such control.

Despite this perceived "explosion" both William Hill and Ladbrokes have been divesting themselves of trading units, William Hill putting 70 on the market in August 2014 and Ladbrokes putting 27 on the market in January 2005, including central London flagship stores on Dover Street, Kingsway and Charing Cross Road.

A similar scenario exists for the payday loan shops where the Government feel restrictive action is required to stem their growth, despite The Money Shop putting 200 of their 500 shops on the market in January 2015 and the FCA clamping down on payday loan practices, surely a better regulatory method.

No such additional planning control is proposed for charity shops although they also bear the brunt of public opprobrium, where the common chorus of complaint is that there are "too many charity shops on the high street". Yet it is the public who support this sector through both custom and also as volunteer staff.

One would think that charity shops are elbowing out independent and multiple retailers across the country. The reality is that without the charity shop sector filling the voids, our high streets would be looking even more desolate. Arguably, their minimal rates liability, largely volunteer workforce and cheap supply chain gives them an advantage over normal retailers, but the filling of voids in the high street must be welcomed, not discouraged, particularly in the regions.

Central London Report

The Central London retail market continues to achieve record deals in the West End with a raft of new domestic and international retailers taking space. Zone A Rental levels grew by 7.2% over 2014, and are 20% above 2008 levels. The realisation of Crossrail's impact to customer traffic into the West End in 2018 is now being recognised and arguably is driving up rents on Oxford Street, Covent Garden and Bond Street. Central London vacancy rates have fallen by as much as 25% in the last year, and are now standing at only 2.8% coupled with the national average of 13%.

Competition for prime space is continuously rising, resulting in a 'trickle-down effect' of demand spreading to locations previously considered as peripheral. These include Conduit Street, Dover Street and Brook Street, all seeing marked improvements to tenant mix, resulting in significant rental growth.

Bond Street and the luxury fashion quarters

London's Bond Street continues to cement its position as a global luxury destination with a proposed £20 million makeover. This will be its first major public realm improvement

project in over 30 years. The plans include the redesign of the carriageway on Old and New Bond Street, which is estimated to increase pedestrian space by up to 50%, together with the introduction of a two-way traffic system on New Bond Street and Brook Street with only two lanes, rather than three.

Demand dynamics of the Street are continuously evolving with unprecedented interest in the northern end of New Bond Street, a block previously overlooked by some occupiers. This is partly in anticipation of Crossrail, which should help to transform the Street when it opens in 2018, particularly once the northern side has been redeveloped and relet to major stores. The spread north could also be attributed to the lower rents and greater availability compared to the southern section. Rents stood at £1,300 Zone A in Q4 of 2014, but only grew by 4% over 2014.

Of the transactions seen over the last year, Patek Phillipe reportedly paid a £10m premium last year for Watches of Switzerland's Old Bond Street shop, while La Perla, a few doors away, are stated to have paid £5m for 1000 sq ft at 9 Old Bond Street. In addition, the jewellery brand De Grisogono secured George Jensen's store in December, representing a record £1,500 Zone A for the jewellery sector.

The other luxury fashion quarters such as Dover Street, Conduit Street and Albemarle Street have continued to see rental growth, with Zone A rents rising from £135 in 2008 to their current £550 levels. Dover Street showed rental growth of 57.1% in 2014 alone, driven by the influx of luxury brands, including Victoria Beckham's first store. They are moving up the agenda for such brands due to the proximity to Bond Street, without the Bond Street price tag.

Oxford Street

Headline rents for Oxford Street increased to £950 Zone A in the final quarter, supported by the letting of 439/451 to Watches of Switzerland. West of Oxford Street remains the location of choice for occupiers, especially new international entrants, with Selfridges being the key driver. However, demand is increasing for opportunities towards the eastern end of the street. This refocusing is primarily driven by new development, such as the second phase of Land Securities' and Frogmore's Oriana scheme at 18-24 Oxford Street, due for completion in November 2016.

There are a total of 15 developments currently planned between Tottenham Court Road and Marble Arch. These will inevitably increase supply and further strengthen the

14 Leicester Square, London: Asset management, compensation and consulting advice

street's offer ahead of the new Crossrail station opening at Tottenham Court Road in 2018.

Significant market activity included flagship lettings to TM Lewin at 388 Oxford Street and Dr Martens in the adjacent unit. In September, Dubai's The Toystore acquired its first UK store, in the form of a 27,000 sq ft flagship in the West One shopping centre, next to Bond Street tube, at rent equating to £850 Zone A.

Kings Road and Marylebone – 'The Growth of Accessible Luxury'

Landlords are pursuing focussed tenant strategies in the push for new 'retail quarters' in order to drive value and desirability of their parades.

Such approaches have been effectively executed on Marylebone High Street and the Kings Road in recent years, with further clear examples on Westbourne Grove and Hampstead High Street. On Marylebone High Street we have seen record premiums over the last few quarters, with notable lettings to Anthropologie and J.Crew which have further enhanced the retail offer, the latter achieving a Zone A rate of £370. The street has experienced a drop in vacancy rates from 9% to 1% in the last year alone with Maje, Claudie Pierlot and Lloyds Bank also taking residence.

South Molton Street experienced this resurgence in demand in the past. However, as the rental market begins to find its equilibrium point with Zone A values hitting £400, premiums are starting to be offered for assignments.

The Kings Road's prime retail offering has also surged forward due to considered tenant strategies from Cadogan, with the openings of Links of London, Lululemon, Eileen Fisher, El Ganso and T2 Tea. Nike womenswear store is also due to open in May 2015, which will strengthen footfall towards the Kings Road's western end.

There has been a noticeable focus on attracting the 'accessible luxury fashion' brands, most notably of Parisian origin, in order to create these 'boutique' high streets. Retailers such as The Kooples, Comptoir des

	Marylebone High Street	Kings Road	South Molton Street	Westbourne Grove	Hampstead High Street
Claudie Pierlot	●	●	●	●	●
Comptoire des Cotonniers	●	●	●	●	●
Gerard Darel	●	●	●		
The Kooples	●	●	●	●	●
Maje	●	●	●	●	●
Sandro	●	●	●	●	
Zadig et Voltaire	●	●	●	●	●
Eileen Fisher	●	●			
Sweaty Betty	●	●		●	●

'Accessible Luxury' Location Analysis

Cotonniers and Claudie Pierlot gather along similar pitches, as demonstrated by the table above.

Has this drive to create the 'boutique' high street led to the loss of identity for individual parades?

The creation of these high-end parades, has led to very similar tenant mixes being seen on the above streets, at the expense of independent retailers.

A further trend can be found in the letting of larger units to American brands as seen with Anthropologie and J.Crew on Marylebone High Street, and Lululemon Athletica and Nike on the Kings Road.

Business Rates Revaluation – Impact on the West End

The announcement of a rating system review in this year's Budget is likely to have a noticeable impact on Central London rental growth. While the 2017 revaluation may see many companies outside of London expecting cuts of up to 40%, shops in prime West London pitches are likely to see their rates bills rise by more than 80%.

Bond Street has seen an influx of international luxury brands since the last revaluation in 2010, and will see rates bills more than double following the revaluation.

While these revaluations are likely to dampen rental growth within the Central London market, the impact may be blunted if the government opts to use 'transitional arrangements' in order to phase them in.

In a Nutshell

The ever increasing variety of luxury pitches within Central London has resulted in the growth of a series of luxury retail villages, each with their own distinctive character and brand profiles. These are further enhanced by high-end restaurant lettings, such as Alan Yau's £9m premium for 17 Berkeley Street and as a result Central London's retail landscape is becoming more closely aligned with that seen in New York. As these emerging destinations become more established, and therefore availability becomes more limited, retailers and restaurants will start to look to the next tranche of 'luxury quarter' opportunities. This is the cyclical and evolving nature of the Central London retail market which shows few signs of slowing down prior, perhaps, to the rating revaluations in 2017. We therefore look towards the next 12 months with anticipation, and hope that the results of the looming election will not influence London's position as a true global retail powerhouse.

C&P

Spring
Retail Report
2015

Out-of-Town Agency by Gregory Moore

Where Will the New Space Come From?

The lack of immediately available units puts the onus back on development. Business to Business discussions between retailers will lead to fascia changes, with asset management opportunities creep back on to the occupational and investment agents' strategy plans.

Money Money Money

Retailers taking advantage of their brand and growth status this year have followed in the wake of Pets at Home in March 2014 to raise money by Stock Exchange listings or IPO's. Notably, they included B&M Bargains, DFS and SCS.

This shows the strength of the market and sheer hard work of the management. Businesses have been turned around and then expanded during the recession. Takeovers included Poundland buying out competitor 99p Stores but they have to satisfy the Competition and Mergers Authority. The largest was the combining of Dixons Group with Carphone Warehouse to create a real powerhouse brand, Dixons Warehouse.

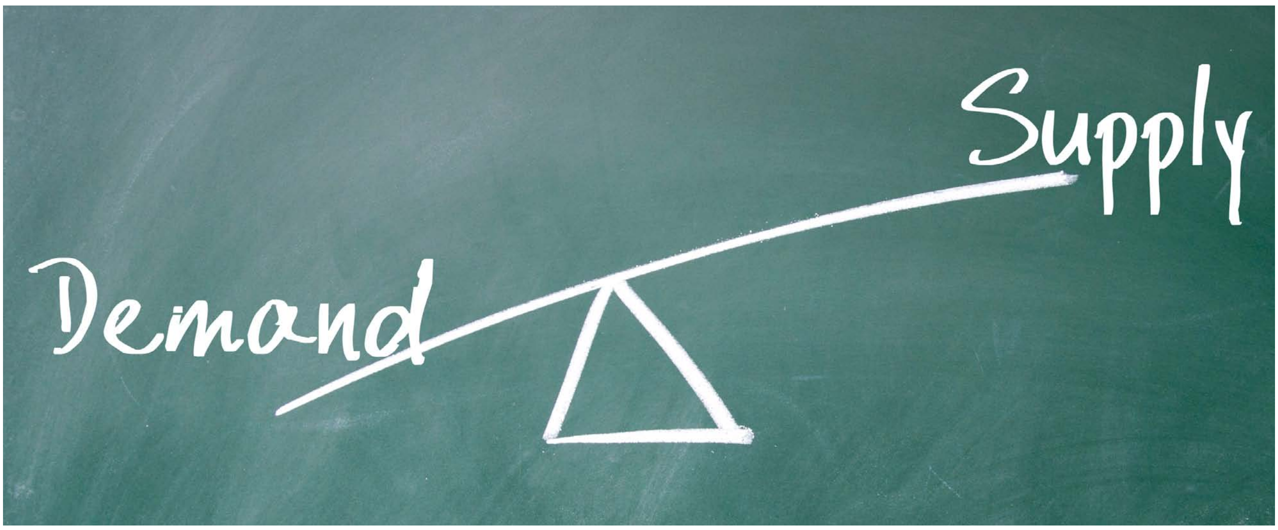
Next continue to lead the way in sales, profitability and innovation. The new solus stores out of town are raising the benchmark in design and create their own retail destination.

New Fascias and Lost Ones

As for last year, there are few new fascias and "the food WAREHOUSE" name is emerging under the Iceland umbrella after a successful trial. NCF (furniture) are now on four retail parks in the Midlands. JD Sports have launched the "Ultimate Outdoors" brand and will be opening the five former Kiddicare stores they bought over a period of time, starting with Merry Hill, Dudley.

The one fascia lost to the sector was Paul Simon but their store estate of circa 50 was eagerly picked up by acquisitive retailers. Staples completed a store disposal strategy before revealing some downsizes.

The saga of Kiddicare under Morrisons' ownership is now history but our previous Spring Reports featured the ups and downs of Best Buy before that. The mother and child business has been a tough sector. This year we have seen Mamas & Papas carry out a CVA, before finally reading some positive



comments from Mothercare as they re-launch their business. While the internet becomes the focus for Kiddicare, the positive results from Mothercare's re-fitting of their 30,000 sq ft store in Gateshead, Team Valley Shopping Park is encouraging, as is Mamas & Papas' return to profit.

This expansion has continued to reduce vacancy rates. Shortly before going to press, Trevor Wood Associates reported that at the end of 2014 the retail warehousing vacancy rate had dropped to 7.1% from 8.8% the preceeding year.

Part of this reduction has been due to the relatively swift take up of stores vacated following administrations and CVAs and this is set to continue in 2015. This is particularly true of the discount variety stores who have made such an impact in the market and will continue on their expansion.

Planning

Almost every new occupation needs a change in planning. It may be a change from a food store permission that has been dropped by the proposed occupier, or amending a restrictive trading clause on a permission from 1987. Our experience is generally positive on existing retail parks and we work closely with our planning department. Detailed knowledge is vital.

Occupiers and land owners want certainty on new development, something, that is in short supply in the planning world. As a result the risk that a land owner takes on when proposing a development becomes unmanageable for those without the deepest of pockets. With demand for new stores from retailers increasing, this is causing an unexpected delay in those expansion plans. This is not sour grapes from the coal face of the out-of-town occupational sector, but a real concern about the re-use of vacant buildings and sites.

It will be interesting to follow the fortunes of the sites which have been previously earmarked for foodstore development. Land owners who battled for years to obtain a permission found that just at the time that permission was granted the market changed and the occupiers were no longer there. Similarly the retailers who obtained such permissions have decided against building some of the stores. We think that the market will be positive in looking at such sites but the realistic evaluation of the prospects for obtaining planning permission, likely timescales and costs are much harder to assess today.

Inward Investment

We have always advised that owning retail parks is more than just collecting rents. The

Derby, Meteor Retail Park. Letting and asset management for Land Securities

Newcastle, St James Retail Park. Development and letting advice to Motcomb Estates.

successful parks are where the owner has made further investments in them and not expected every pound to be collected by way of a service charge. Many years ago Peter Harrison of Furniture Village lectured the market on the "retail environment". He was referring to matters outside the occupational leasehold contract. The park has to be "right" from the moment the shopper sees, hopefully, the new signage.

In previous reports we have applauded those investors who have refurbished facades. That continues, but as it becomes the norm the added extras of improved lighting, car park management/traffic flow, landscaping and turning desire lines into walkways is also important. British Land and other landlords have been measuring the improvements against the number and length of shopper visits. A before and after analysis underlines the strategy, just as retailers assess the trading uplift after a new fit-out.

Every occupation we advise on has an investment angle. The two are inextricably combined. Without occupation, property has no value. While a third party award can crystallise rental value in an existing lease, it is the newest letting that helps brand the scheme. Securing a new brand because of the improved retail environment should keep landlords investing in this way.

Landlords working with tenants and vice versa has always been the strategy we have supported and if that occasionally does go awry, we use our experience and contacts to improve landlord and tenant relationships.

Decline In Your DIY Skills

DIY has been a declining segment in the retail market for several years. The recession was blamed as spending power dropped, but recent analysis suggests that the young house buyers are not interested in doing it themselves. The increasing private rented sector rules out such individual investment in time and money. On the other hand, the boom in the building merchant sector is notable, fuelled by the increase in the number of contractor companies which grew by about 5,000 in 2014.

B&Q, Homebase and Wickes have tackled the changes within their group companies and the results are no surprise, although clarity is welcome. Travis Perkins have focused the Wickes brand on the tradesmen and those who can and want to DIY, while their other fascias become more established in the trade sector. New Wickes solus stores will be circa 20-25,000 sq ft plus external area and they plan to open 60 stores in the next five years. Homebase have not been shy in outlining the changes to their estate and are working one-to-one with landlords and other occupiers. Their direct

Newcastle, St James Retail Park. Asset management advice to Motcomb Estates.

deal with The Range for a number of stores will lead to other retailers knocking on their door.

B&Q have now revealed their strategy. The work on the B&Q store estate has been ongoing under Sir Ian Cheshire and his replacement CEO Veronique Laury had the task of revealing it at the end of March. It will mean circa 60 carefully chosen store closures and downsizes totalling 15% of the estate, while still allowing B&Q to meet local customer needs. The remaining 300 stores will be revitalised.

Knowing which stores "work" is a start for B&Q and the impairment charge has already been identified. Over the years we have referred to investors and developers "re-basing" their portfolios and values and it is no different when a retailer has to face the financial consequences of changing their real estate. Food retailers are doing it and it has become accepted. In the meantime, it will provide opportunities for retailers to expand and landlords to do it themselves.

House and Home

The forecast for 2015 is bright and the acquisition strategies for the likes of Wren Living and Oak Furniture Land over the last few years has given them critical mass and confidence to expand in new areas. For example they sit together alongside DFS, Harveys and Jysk at the newly extended Phase 1 Clifton Moor, York, now owned 100% by British Land. Sofaworks and ScS are also expanding and still want the best locations. Topps Tiles are improving their estate. Martin Harris will be launching the new Tapi fascia this year, and Benson for Beds will continue to fill in gaps as they compete with Dreams.

Leisure

The word Leisure is a catch-all when referred to in terms of retail parks. While some former retail warehouses may become gyms and trampoline centres in the future, the current focus is on cafes and restaurants. The brands are now confident about opening in out-of-town retail locations, even where there is no cinema, and that is encouraging. It is no longer all about fast food and drive-through's with American fascias but more about including the family diner that has proved it can draw custom itself and keep shoppers on site longer.

Food Store Sites

Last year we identified a few sites that were back on Chase & Partners' books but the market is now seeing more of these openly marketed. Philip Clarke of Tesco announced the end of the "space race" as part of his strategy in April 2014, and a year later his successor is using land sales to generate cash. We continue to work closely with our Planning and Investment departments to provide clients with strong advice as to alternative development potential.

Rugby Gateway - leasehold acquisition advice on behalf of H&M.

Development

Stronger occupation requirements automatically lead to development and while there have been few openings in the last 12 months, there has been plenty of work behind the scenes to bring forward opportunities. This will continue on the former food store sites, whether it is on a piecemeal basis determined by individual occupiers' requirements, or whether it is the opportunity of bringing forward a larger scheme, for example Peterborough, Maskew Avenue.

The Deal Today

There is little to report from last year in terms of the approach by both landlords and tenants, apart from there being "tenant tension" in some locations and higher rents achieved than originally thought by the landlord. With the strengthening in demand for particular units, it does provide opportunities for rental growth or longer term leases. Equally, on some of the poorer schemes, tenants are still seeking regular break clauses and in some instances turnover only rents. A few retailers are happy to purchase freeholds themselves and use their capital rather than pay rent.

Lease Re-Gearing and Expiry

Landlords have to know their property in detail and not follow the general market, or assume that retailers are going to automatically renew the lease. Homebase and B&Q were in the headlines recently and landlords will need strong agency advice to navigate the future for their investments. B&Q's retained agents will be busy but at least the list of stores to be closed is known and the canny investor can now take advice accordingly.

Click and Collect

Out-of-town properties provide an obvious location for "click and collect". A forecast four or five years ago about purpose-built buildings being used has not come to fruition, simply because of the logistical difficulties of such a business model. The retailers have got better at it themselves, shoppers have become used to it and out-of-town stores which are accessible and have free car parking provide the perfect collection point. Examples of group arrangements are between John Lewis/Waitrose, and Homebase/Argos, and more recent collaboration by Asda and Decathlon show how two brands can work together.

We were pleased to note that planning permission is no longer required by retailers to provide a click and collect facility, and we agree with those who forecast that this will potentially drive footfall to retail parks and that it should be encouraged.

2014 & 2015 Unfolds

QUARTER 2 - 2014

Market Comment

- **Trading figures and management changes expose the food sector to intense speculation amid widespread price reductions**
- **TWA reports vacancy rates on retail warehouses at 8.8%**
- **Company restructures puts emphasis on new leaders who understand the omni-channel world**
- **Businesses need to be distinct or risk becoming extinct**

- Kingfisher reports improved results after a good Easter trading period and further push into Europe after the proposed purchase of Mr Bricolage.
- Dixons opens a revamped mega-store in Thurrock, setting out a new approach to combining its Currys and PC World businesses in contrast to the quick stop convenience store at Canary Wharf. Shortly afterwards they announced a merger with Carphone Warehouse.
- Kiddicare's sale by Morrisons starts amid concerns over its store legacy liabilities.
- Tesco boss Philip Clarke under the spotlight on his "build a better Tesco" strategy as the FD leaves and end of the "space race" is announced.
- Paul Simon goes into administration in April and there is no buyer. 12 stores are bought by bulky goods retailers.
- Continued debate over effect of online business and store profitability as retailers struggle to manage both.
- JD Sports eyes overseas expansion while the fashion business struggles, and Barry Brown departs the business after 30 years.
- John Lewis celebrates its 150th anniversary.
- Home Retail Group looks for smaller stores as it changes its estate and focuses on a digital business, while introducing cafes into revamped Homebase stores.
- M&S reduced profits fall as it promotes its in-house website as its "flagship store".
- Asda announces middle management restructuring.
- Matalan profits slip and Mamas & Papas seek to sell a stake in the business.
- Carpetright appoints Wilf Walsh as Chief Executive, as Lord Harris and his son Martin prepare to leave. Small stores are being considered.
- Halfords is ahead of its three year turnaround strategy.
- B&M Bargains announces IPO and carried out a £2.8b stock market listing.
- New Look increases profits and continues to look for new shops to add to its 576 store estate.
- Pets at Home becomes the UK's largest vet practice and announces an increase in trading as part of its first results since its stock market listing in March 2014.
- Former Comet staff win £10m settlement as judgement is passed that "the liquidation of Comet may properly be described as one of the most regrettable episodes of British corporate history." A Government review continues.
- Hobbycraft look for high street stores in London.
- Farm Foods has performed well, but only opened a handful of stores.
- Carpetright appoint former Dreams boss Nick Worthington.
- Habitat turns 50 as it grows under The Home Retail Group umbrella.

QUARTER 3 - 2014

Market Comment

- **BRC calls for Business Rates change in its "The Road to Reform" publication**
- **The big grocers battle to win hearts and minds to maintain brand and corporate reputation**
- **Tesco replaces CEO Philip Clarke with Dave Lewis from Unilever amid speculation about the future of the business**
- **Online market marks 20th anniversary of the first transaction**
- **Sunday Trading laws set to be reviewed for first time in 20 years**

- B&Q announces subletting to Morrisons in Norwich as it pursues its strategy to downsize larger stores. Screwfix is one of the UK's fastest growing retailers having been under the ownership of Kingfisher since 2005. B&Q's Sir Ian Cheshire is standing down and handing over to Veronique Laury.
- Dixons and Carphone Warehouse both report increased sales ahead of the merger which completes in August with the new business called Dixons Carphone. The new company comments on their truly consumer-centric business.
- Kiddicare is bought by Endless with the 10 retail warehouses to close and Morrisons responsible for the rents after the business lost £157.8 million in the final year of its ownership. The Peterborough head office is retained.
- Marks & Spencer stores to report to Laura Wade-Gery – the first time that they will report to a multi-channel boss. Speculation on succession planning for Marc Bolland. M&S website sales fell in the first quarter as customers struggled to switch between the old Amazon platform to the new in-house one. New FD poached from Tesco.
- Mothercare rejects advances of Destination Maternity from the US and they eventually decide not to make an offer.
- Maplin is sold to Rutland Partners by Montagu Private Equity.
- BathStore.com is acquired by American billionaire, Warren Stephens. Endless had owned it for two years.
- Topps Tiles like-for-likes jump 6.3% in its third quarter.
- PoundWorld secures £26 million funding to assist UK and overseas expansion.
- Poundstretcher announces expansion and will take on the supermarkets. 200 stores are planned over the next few years as well as expanding its Pet Hut brand. 99p Stores announces business overhaul.
- Non-stop national press commentary on food stores concentrating on convenience, while Justin King steps down from Sainsbury's after 10 years.
- Mamas & Papas family owners sold a majority stake to Blue Gem days before a CVA is announced on its 60 UK stores which was approved in September.
- Sainsbury's picks first Netto sites, in Leeds and Heaton Park, Manchester.
- Tesco replaces Philip Clarke after stakeholders become frustrated by the lack of results from his turnaround strategy and appoint David Lewis from Unilever.
- SportsDirect set sights on further expansion within Europe.
- Next's profits climb after strong half. New solus store openings aim to transform the image of out of town shopping in a retail park environment.
- Wickes turns to branded products as it eyes store expansion with 25,000 sq ft stores.
- Wilko family members sell stake within the family as Lisa Wilkinson takes the helm as sole chairman and announces store expansion of 100 stores in the next five years.
- JD open Ultimate Outdoors at Preston in a new two storey format.
- IKEA opts to downsize planned store in Reading, their 19th UK store.
- Toys R Us reports another year of declining profits in the UK.
- TK Maxx and HomeSense reports store expansion as turnover increases.
- Furniture Village refreshes image after securing investment from Business Growth Fund. Stores will be revamped and expansion plans for three or four new shops each year.
- Co-op announce permanent CEO, Richard Pennycook, as he initiates restructuring plans with some store disposals.
- Halfords to roll-out specialist bike shops, Cycle Republic, a brand name they closed down in 2009.
- Dreams forecast return to profit and eyes new ranges as it emerges from the 2013 administration with 160 stores.

QUARTER 4 - 2014

Market Comment

• Tesco's statement that it had overstated profits by £250m, suspended eight executives and faced an FCA investigation shocks the market. The main concern is the worry about what else is to follow.

• More, better and faster technology while channels converge amid increasing shopper impatience drives continual change. Revolution is needed rather than evolution.

• The Supreme Court rejects Game's argument about rent due following administration and the judgement makes a clear statement on a "pay as you go" principle.

• Black Friday, 28 November, shakes the market up.

• B&Q aims to reinvent big box stores with a digital roll-out including same day click and collect over the next two years.

• Dixons Carphone plan to double the value of the business, including international expansion.

• Kiddicare sold by Endless to WorldStores two months after buying it from Morrisons. They will not open any stores, but will continue to operate as a stand-alone website. JD Sports acquires five former Kiddicare stores for its Ultimate Outdoors fascia.

• Morrisons step up their fight back against Aldi and Lidl.

• Tesco staff go back to the shop floor as FCA investigation starts.

• Warm September slows fashion sales.

• Aldi continue to change their business to suit the UK concentrating on fresh food and meat, as they end the joint Managing Director pairing.

• Home Bargains reports increased operating profit to £124 million.

• DFS to open its first overseas store in Holland.

• Home Retail Group announce closer business ties between Homebase and Argos, as Homebase is set to offload around 80 of its 325 stores over the next three years or so. Argos launches marketing campaign to reflect digital transition.

• Booths unveil expansion plan as full year profits rise. The 170 year old business plans to open five supermarkets in the next 18 months.

• A Waitrose study reveals changing shopping habits.

• Netto is back in the discount battle with Aldi and Lidl opening their first store in Leeds in November.

• Iceland has changed with the times to protect and grow its business, including "the food WAREHOUSE" fascia.

• Sainsbury's have opened less space than in previous years, concentrating on the C-store openings, closing some shops, not opening projected stores and writing down property prices by £628 million.

• The Range announces sales surge, profits increase as 16 new stores were opened during the year and will add to its portfolio with a number of acquisitions from Homebase.

• B&M Bargains continues to build its store portfolio and negotiates with retailers direct to maintain growth.

• SCS considers return to the stock market six years after administration.

• JD Sports offloads struggling fashion chain Bank to Hilco.

• Mothercare stores reborn as profits increase after refitting retail park stores.

• Edinburgh Woollen Mill profits increase as it plots 100 new stores for the Edinburgh Woollen Mill, Peacocks, Jane Norman and Ponden Mill fascias.

• Tesco's Dave Lewis takes the reins in the UK on a temporary basis. Some of the Tesco Homeplus retail warehouses are to close down.

• Mixed Christmas fortunes as shopping habits change. Black Friday changed established retail patterns and the winners were those with well-oiled logistics.

• Go Outdoors secures finance to back expansion of its 49 store estate as sales increase.

• Smyths Toys expansion continues as they fill a gap in the market.

• Countrywide look at targetted areas and are set to announce new openings.

• Furniture Barn open their seventh store.

QUARTER 1 - 2015

Market Comment

• The five days of Monday 12 to Friday 16 January needs a report on its own, even after a turbulent 12 months, as Tesco hires Matt Davies, Morrisons loses Dalton Phillips and Sainsbury's is to shed 500 roles. Three of the big four will have new leaders in 2015.

• Business Rates review announced in the Budget but there is no consensus in the industry. Regular valuations are critical but Government prevarication is embarrassing to those who understand the retail property market.

• TWA reports 2014 vacancy rates on retail warehouses down to 7.1%

• Sir Ian Cheshire steps down from leading Kingfisher and Veronique Laury reports on a trading downturn, failure to buy Mr Bricolage and plans to dispose of 60 stores.

• Dixons Carphone focus on the "connected customer" and warn the retail industry for those who fail to prepare for it.

• Former Kiddicare stores to be re-opened by Ultimate Outdoors, Next and B&M after Decathlon opened in Croydon. Only one of the ten remains available.

• Strong start for furniture sales supported by Oak Furniture Land and John Lewis as well as Dreams who return to profitability.

• DFS profits surge in a record 12 months, including their Sofa Workshop and Dwell brands. They celebrated the milestone of 100 DFS stores in the UK and Ireland.

• Alliance Boots completes merger with Walgreens to create a giant global business with 12,800 stores in 12 countries.

• Decathlon ups the pace after opening in Croydon for Christmas.

• Tesco announces Halfords Matt Davies to be the new UK boss, while at the same time closing 43 shops and scrapping 49 planned developments.

• Morrisons show the door to Dalton Phillips. This starts rumours about which other retailers will make top management changes. David Potts is appointed CEO after 15 years at Tesco.

• Halfords announces strong like-for-like sales increase.

• Primark sales climb as selling space rises, and retail park owners woo the high street retailer.

• Carpetright revamps its brand with new logo and store design as UK like-for-likes increase.

• The Range opens its 100th store in its home town of Plymouth.

• B&M reports post-Christmas sales rise boosted by 44 new stores opened by October 2014.

• BHS put on the market by Sir Phillip Green and sold for £1 to newco Retail Acquisitions Limited.

• Grocers continue non-food partnerships, with Argos to open digital stores in Sainsbury's and mini-Decathlons in Asda.

• Tesco sales return to growth after 12 months of turmoil.

• Asda eyes £170 million investment in its superstore estate following successful trials as space for non-food and electronic items are reduced.

• Poundland looks after the pennies with 99p Stores buy, assuming CMA approval. It would add some 250 stores to its existing estate of 500 at a cost of circa £55 million.

• Tesco appoint a new Chairman, John Allan, who oversaw the turnaround at Dixons and merger with Carphone Warehouse.

• Martin Harris launches a new nationwide flooring chain Tapi after 23 years working with his father, Lord Harris.

• Furniture retailers expected to benefit from improving economy as SCS returns to the stock market and DFS carries out an IPO.

• Dunelm reports continued good trading in its 144 stores and increased profits during the year soon after Will Adderley returns to the role of Chief Executive.

• Poundstretcher revamps stores and refreshes strategy. 300 of the 409 stores have been refitted. The Pet Hut concept has been a success. Floor sizes increase to between 12,000 and 20,000 sq ft with 100 stores proposed over the next 18 months.

• Marks & Spencer announce the end of 14 consecutive quarters of declining sales in general merchandise and M&S.com has returned to growth as planned. Simply Food's sales increase underlines its active store acquisition programme.

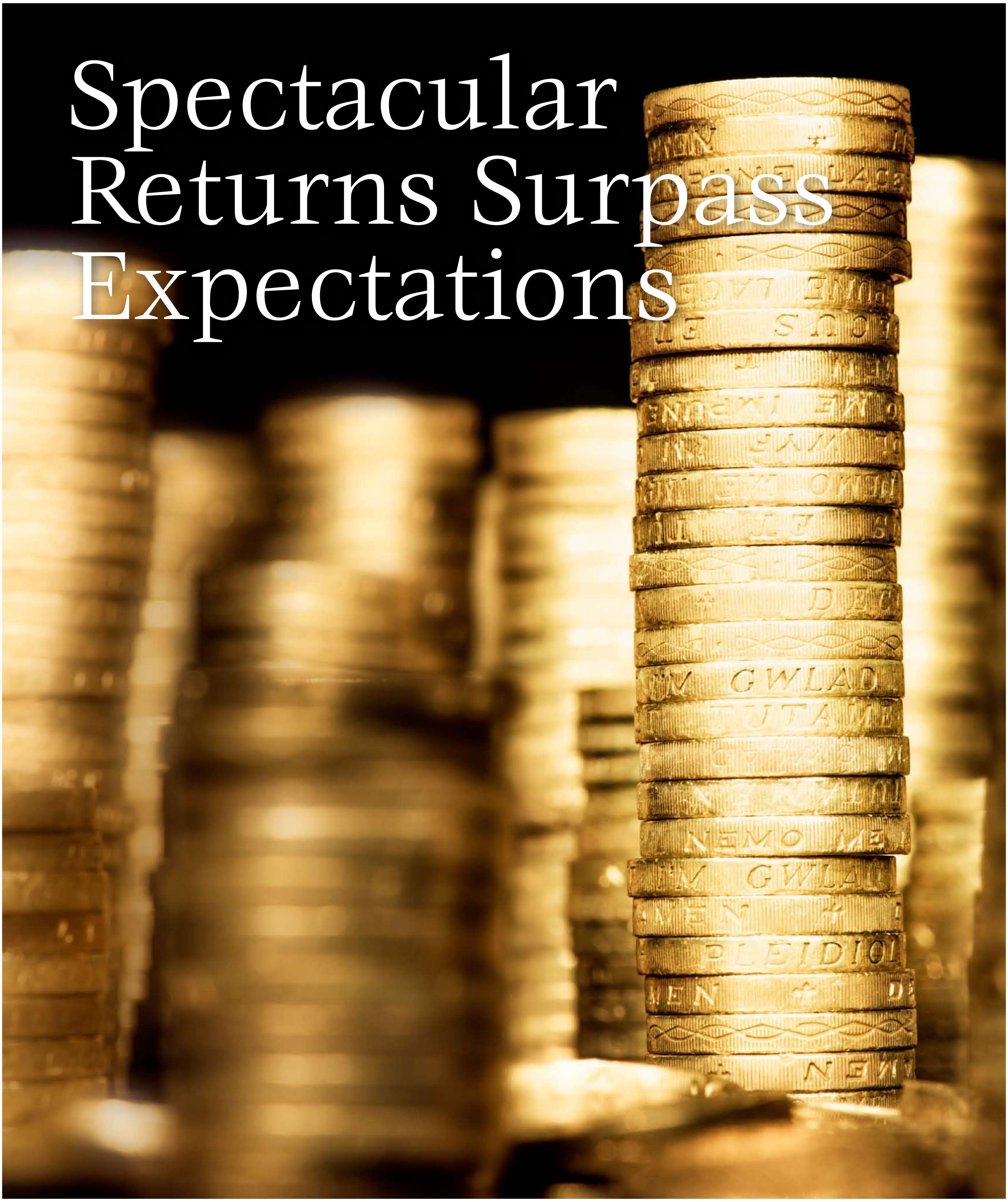
• Halfords announce new CEO Jill McDonald.

C&P

Spring
Retail Report
2015

Retail Investment by Charles Buckingham Smart

Spectacular Returns Surpass Expectations



The UK Commercial Real Estate investment market surpassed all expectations in 2014; its stellar performance was owed in no small part to increased consumer confidence as well as the lack of performance of alternative investment media.

Tumbling oil prices, deflation on goods sold and price wars in the food grocery sector have resulted in boosted confidence in the consumer markets. The knock-on effects are now being enjoyed with spectacular returns and investment volumes transacting in the UK CRE investment sector.

Commercial real estate is seen by many as an increasingly attractive asset class given its characteristics and long term performance. With the long term average yield at 6%, when benchmarked against equities, bonds or cash, commercial real estate continues to offer robust performance. Interest base rates are broadly expected to rise by a maximum of 25 basis points by the end of this calendar year, with further rises expected in spring 2016 and beyond. This, coupled with low inflation, is expected to be a further tonic to consumer confidence.

Transactions in the retail and leisure sector totalled some £16.07 in 2014 and Q1 in 2015 has provided a robust and encouraging start to the year.

The retail and leisure property sub-sectors continue to attract investors to an orgy of competitive bidding for marketed opportunities as well as off-market dealing. The rapid pace at which yields have been contracting has, however, started to moderate. We think that there is still some way to go in the cycle, although this is also likely to be sustained by the availability of cash and marginal rental growth starting to trickle through.

In the C&P Spring Retail Report 2014 we predicted that the secondary market would polarise and become a two tier market, with the good quality secondary assets, dominant within their catchment, experiencing the fastest rate of yield compression, reducing the arbitrage between the dominant secondary and prime. This is now a prevalent theme in the investment market for 2015 and we see no signs of this changing, as the weight of money chasing a scarcity of institutional investable stock continues its compound downward pressure on yields.

Shopping Centres

Institutions continue to dominate the sector, accounting for nearly 40% of transactions in 2014. The remainder of the market has comprised private equity, property companies and offer funds.

Outside of Central London, the shopping centre investment market is predominantly UK investor based but foreign investors are now players, contributing around 30% of the transaction volumes seen in 2014. A recent example has been Mauritian based investor New Frontier's entry to the shopping centre investment market.

As a result of fierce competition in the shopping centre investment market, yields have experienced continued downward pressure, with both prime and dominant secondary assets trading at around 100 basis points below their long term averages. True secondary assets continue to perform broadly in line with their long term averages, although for how long will remain to be seen.

Key Retail Investment Transactions

Shopping Centre Investment Transactions April 2014 – April 2015 >£100m

Dartford, Bluewater
Price: £656m /4.10%
Purchaser: Land Securities
Vendor: Lend Lease
Date: June 2014

London, Fulham Broadway Shopping Centre
Price: £270.5m /5.00%
Purchaser: Malaysian Employees PF
Vendor: William Ewart Properties
Date: January 2015

Bristol, Cabot Circus
Price: £267.8m /6.23%
Purchaser: AXA REIM (JV)
Vendor: Land Securities
Date: August 2014

Telford, Telford Shopping Centre
Price: £250m /6.50%
Purchaser: Orion Capital Managers
Vendor: Ares Management
Date: February 2015

Livingston, The Centre
Price: £224.07m /6.40%
Purchaser: HSBC (HAIL)/Hines UK
Vendor: Land Securities
Date: December 2014

East Kilbride Shopping Centre
Price: £178m
Purchaser: Orion Capital Managers
Vendor: RBS/Delancey
Date: September 2014

Uxbridge, Intu Uxbridge
Price: £174.8m /6.30%
Purchaser: KWAP
Vendor: Intu Properties Plc
Date: June 2014

Leicester, High Cross Shopping Centre
Price: £172m /5.50%
Purchaser: Hammerson Plc
Vendor: Royal Mail Pension Fund
Date: September 2014

Sunderland, The Bridges
Price: £152.7m /7.18%
Purchaser: AEW Europe
Vendor: Land Securities
Date: June 2014

Warrington, Golden Square
Price: £141.5m /6.75%
Purchaser: Alaska Permanent Fund
Vendor: LendLease
Date: July 2014

Glasgow, Buchannan Galleries
Price: £137.5m/5.20%
Purchaser: Land Securities
Vendor: TIAA Henderson RE
Date: October 2014

London, Brunswick Centre
Price: £135m/3.49%
Purchaser: Lazari Investments
Vendor: Royal Mail PF
Date: December 2014

Exeter, Princesshay
Price: £127.9m/5.60%
Purchaser: TIAA Henderson RE
Vendor: LandSecurities
Date: October 2014

Maidstone, Fremlin Walk
Price: £110.3m/6.00%
Purchaser: M&G
Vendor: Legal & General
Date: November 2014

Retail Warehouse Investment Transactions April 2014 – April 2015 >£50m

Leicester, Fosse Park
Price: £345.5m /5.1%
Purchaser: Crown Estate (JV)
Vendor: RBS
Date: August 2014

Llanelli, Parc Trostre
Price: £156m /6.07%
Purchaser: M&G
Vendor: Stadium Group
Date: August 2014

Rushden, Rushden Lakes
Price: £140m /4.65%
Purchaser: Crown Estate
Vendor: LXB Retail Properties
Date: April 2015 (forward funding)

Cambridge, Cambridge Retail Park
Price: £109m /5.10%
Purchaser: Standard Life
Vendor: DEKA Immobilien
Date: Jul 2014

Hull, St Andrews Quay Retail Park
Price: £95.6m /6.10%
Purchaser: Orchard Street IM
Vendor: Threadneedle
Date: September 2014

Biggleswade, Biggleswade Retail Park 1 + 2
Price: £80m /4.75% Phase 2 £58.5m
Purchaser: Aberdeen
Vendor: LXB Retail Properties
Date: April 2015 (forward funding)

Farnborough, Blackwater Shopping Park
Price: £78m /4.25%
Purchaser: Lothbury Property Trust
Vendor: Henderson
Date: July 2014

Wigan, Robin Retail Park
Price: £72.5m /5.49%
Purchaser: TIAA Henderson RE
Vendor: Scottish Amicable
Date: August 2014

Leamington Spa Shopping Park
Price: £72m /4.40%
Purchaser: Ignis UK Property Fund
Vendor: Hercules Unit Trust/ Crown Estate
Date: June 2014

Crayford, Tower Retail Park
Price: £66.6m /N/A
Purchaser: TIAA Henderson RE
Vendor: Aberdeen
Date: January 2015

Slough, Slough Retail Park
Price: £63.5m/5.25%
Purchaser: Standard Life
Vendor: Threadneedle
Date: September 2014

London, Staples Corner Retail Park
Price: £59.55m/5.87%
Purchaser: BlackRock UK Property
Vendor: Threadneedle
Date: January 2015

Hull, Kingswood Retail Park
Price: £58m/5.70%
Purchaser: Legal & General
Vendor: British Land
Date: December 2014

Sheffield Drakehouse Retail Park
Price: £61.7m/6.40%
Purchaser: 90 North
Vendor: Hammerson
Date: April 2015

Retail Led Portfolio Investment Transactions April 2014 – April 2015 >£50m

Moorfield Portfolio 1&2
Price: £1bn
Purchaser: Lone Star Ref III
Vendor: Moorfield REF

Aviva Portfolio
Price: £503m /6.90%
Purchaser: Kennedy Wilson Europe
Vendor: Aviva
Date: December 2014

Aqua Portfolio
Price: £352m /4.8%
Purchaser: Tesco
Vendor: British Land
Date: March 2015

Tiger Portfolio
Price: £265m/7.00%
Purchaser: Ellandi
Vendor: Rockspring
Date: December 2014

Project Tree
Price: £153.2m /10.70%
Purchaser: EPIS03 Luxembourg S.A.R.L
Vendor: KPMG (Receiver)
Date: July 2014

Swallowtail Portfolio
Price: £140.13m / 8.00%
Purchaser: New River Retail
Vendor: RBS
Date: August 2014

Project Leopard
Price: £81.5m /8.80%
Purchaser: Edinburgh House Estates
Vendor: Glanmore (Receiver)
Date: August 2014

Project Minard
Price: £80.1m /8.40%
Purchaser: Värde Partners
Vendor: Local Shopping REIT
Date: August 2014

The coming months are expected to see a number of further portfolio sales complete, including Aberdeen's £152m Amber Portfolio sale and TIAA Henderson RE's £35m Arcus Portfolio, among others.

Perhaps the most notable deal of 2014 in the shopping centre investment market was Land Securities' purchase of Lend Lease's 30% stake in Bluewater Shopping Centre in Kent. This was a significant transaction which they argued had enabled them to rebalance their portfolio. The £650 million price tag which reflected a low net initial yield of 4.1% sent shockwaves through the market.

Q1 2015 has seen a number of shopping centre investment opportunities coming to the market or being pursued off-market and we expect this sector to strengthen over the coming months. Prime shopping centres remain scarce in availability, although stagnation in the two tier secondary market is starting to ease, allowing the market to flow again as an incresing number of shopping centres come to market. A recent example of the weight of money chasing institutionally investable stock is the recent marketed Grafton Centre in Cambridge, where an asking price of £92.5m/6.25% was being sought. With at least 10 bids recieved ahead of the asking price at the time of going to print, Legal & General were selected as the successful bidder together with development partner Wrenbridge, although the price agreed has not yet been revealed.

Retail Warehousing

The retail warehouse investment market has seen increasing transaction volumes through 2014, with the vast majority of deals being transacted in Q4 2014. Q1 2015 has seen a flurry of retail warehouse investments coming to the market, with a reported £675m having transacted so far this year and approximately £2.35bn having transacted during 2014.

Demand continues to outstrip supply hardening yields, although with the recent increase in stock coming to the market the rate of yield compression is starting to slow as the market begins to moderate.

Institutional funds continue to dominate the sector accounting for approximately 65% of purchases with property companies and offer funds making up the majority of the remainder.

In the last 12 months, the largest deal in the retail warehouse market was the Crown Estate's purchase of Fosse Park, Leicester with Chinese investment JV partner Gingko Tree. The price paid was £345.5 million reflecting a net initial yield of 5.1%, reportedly ranking it as the second largest ever transaction in the retail warehouse investment market.

Stand-Out Deal: Farnborough

Property :	Blackwater Shopping Park
Purchaser:	Lothbury Property Trust
Price:	£78 million
NIY:	4.25%

Typical Market Requirements

Shopping Centre	Retail Warehouse	High Street Shops
£20m+ lot size	£5 - 50m lot size	Top cities or strong regional towns
Dominant within catchment	Dominant within catchment	Prime retailing pitch
Rebased rents	Rents below £20.00 per sq ft	Rebased reents
Good quality anchorage, plus leisure angles	Open A1 planning or potential to widen restrictions	Strong core catchment
Well let but with potential for asset management	Well let but with potential for asset management	Well let but with potential for asset management
Close to transport links	No tenant break clauses	Close to transport links

Shop Property Yields - Excluding Greater London

%	Dec 2006	Dec 2007	Dec 2008	Apr 2009	Sept 2009	Oct 2009	Feb 2010	Apr 2010	Apr 2011	Sept 2011	Mar 2012	Mar 2013	Apr 2014	Apr 2015
Prime High Street	3.75 - 4.25	4.75 - 5.50	6.00 - 6.50	5.25 - 6.00	5.50	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.25+	4.25+
Secondary High Street	5.00 - 5.75	6.00 - 7.00	8.00 +	8.00 +	10.00 +	10.00 +	10.00 +	9.00+	8.00+	8.00+	8.00+	9.00+	8.00+	7.00+
Prime Shopping Centre	4.00 - 5.00	5.00 - 6.00	6.50 - 7.50	7.00	7.00	6.00	6.00	6.00	5.50 - 6.50	5.50 - 6.50	5.50 - 6.50	5.25 - 6.25	5.25 - 6.00	4.25+
Secondary Shopping Centre	5.00 - 6.00	6.00 - 7.50	9.00+	9.00 +	7.50 +	9.00+	9.00+	9.00+	8.00 +	8.00 +	8.00 +	8.5 +	7.5 +	6.5 +

Prime Retail Warehouse Yields - Excluding Greater London

%	Dec 2006	Dec 2007	Dec 2008	Apr 2009	Sept 2009	Oct 2009	Feb 2010	Apr 2010	Apr 2011	Sept 2011	Mar 2012	May 2013	Mar 2014	Apr 2015
Shopping Parks	4.25 - 4.75	4.75 - 5.00	6.75 - 7.00	6.75 - 7.00	6.50 - 7.00	6.00	6.00	6.00	5.00 - 5.25	5.25	5.25 - 5.50	5.50 - 5.75	5.25 - 5.75	4.25+
Open A1 Retail Parks	4.25 - 5.00	5.25 - 5.50	7.00 - 7.50	7.00 - 7.50	7.00 - 7.25	5.75	5.50 - 5.75	5.00 - 5.50	5.25 - 6.00	5.25 - 6.00	5.50 - 6.50	6.00 - 6.50	5.75 - 6.25	5.25+
Bulky Goods Retail Parks	5.00 - 5.75	5.75 - 6.25	8.00 - 9.00	9.00	8.00 - 9.00	6.50 - 7.00	5.75 - 6.25	5.75 - 6.25	5.75 - 6.50	5.75 - 6.50	6.00 - 7.00	6.75 - 8.50	6.00 - 8.00	5.75+
Solus Stores	4.75 - 5.25	6.00 +	8.50+	8.75	8.50 - 9.00	7.00+	6.00 - 7.00	6.00 - 7.00	6.50 +	6.25 +	6.25 +	6.50 - 7.00	6.00 - 7.00	6.00+

We are seeing an increasing number of forward funding opportunities on-market and off-market, both for smaller lot sizes and for larger lot sizes, some examples of which are shown on the previous page. The yield differential often allows investors to take on additional risk in order to secure assets at a more affordable price. Long may this renewed activity in the development sector, which is ultimately the life blood of the investment market, continue.

Despite recent turmoil in the foodstore sector there is little evidence of yields moving out significantly, although perhaps starting to soften for those that do not fulfill the appropriate criteria. The nature of these movements will remain attractive, not only as secure income streams that are often resistant to inflation but, more importantly, where the core property fundamentals are sound. Investors and developers will continue to seek alternative opportunities within this sector and this has been illusrated by the British Land and Tesco Aqua Portfolio property swap. British Land sold Tesco its 50% stake in a portfolio of 21 standalone foodstores at a price of £352m reflecting a NIY of 4.8%. Tesco simultaneously sold British Land its 50% stake in a portfolio comprising three rental parks and three shopping centres and three stand-alone foodstores at a price of £381m reflecting a topped up NIY of 5.2%. The deal also included a cash payment to Tesco of £96m.

We have, however, seen a number of retail warehouse and foodstore opportunities where owners and their advisors are trying to second guess the market, pricing assets according to where they think pricing is heading rather than where pricing is. In a number of instances this has resulted in the investments not selling and either being withdrawn from the market or worse remarketed, but with the inherent stigma of having not sold the first time around. It is encouraging to see that while competition remains fierce, investors are still pricing within reason, even if some vendors and their advisors are trying to pump-prime.

On the High Street

Having seen a number of prime shop investments transact at sub 4.5% yields in the £5m+ category towards the end of 2013, the last 12 months have seen a number of deals outside of Greater London with few if any of the £5m+ category transacting at yields of sub 5%.

Private investors have been active in the regional markets and we expect to see increased activity from the institutional funds in this sector over the coming months.

We remain of the opinion that there will be some owners of property on the High Street who still have some pain to come, with the differential between good quality dominant secondary and poorer true secondary coming to the fore.

Foodstore investment acquisition on behalf of Limes Estates

Stand-Out Deal: Brighton

Property:	71-78 North Street/ 40-44 West Street
Purchaser:	Private investor
Price:	£8 million
NIY:	4.86%

New regional development on the high street has been scarce although a number of high street developments are now coming forward. Last year London Metric's development of the M&S Simply Food and Costa Coffee on Berkhamsted High Street attracted a price of £12.45 million reflecting a yield of 4.57%. The purchaser was Lothbury Property Trust.

Portfolios & Loan Sales

Portfolio sales have been a cross sub-sector theme in the investment market this year and more are expected to come to the market as conditions continue to improve. Perhaps the most notable deal during the period has been Kennedy Wilson Europe's purchase of a large mixed use portfolio from Aviva. NAMA and West Register are names that tend to dominate this arena with a myriad of cryptic project names being spoken about in the coffee shops of W1 by agents and their clients, as they get to grips with the true value of this often previously over-valued stock.

Also notable has been the return of the securitised portfolio purchasers, vehicles which gave rise to some of the more questionable transactions prior to the 2008 western economic crisis. Clearly this represents the strength of the recovery but also highlights a need for caution so that history does not repeat itself.

Interestingly in the retail warehouse sector, the Project Orange Portfolio brought to the market in February 2015 by British Land failed to sell as a whole and is being remarketed in its constituent parts.

Stand-Out Deal: Aviva Portfolio

Weighting:	62% retail / 14% leisure
Purchaser:	Kennedy Wilson Europe
Price:	£503 million
NIY:	6.9%

The Year Ahead

We expect the investment market across all sub-sectors to continue to strengthen throughout 2015, albeit at a more moderate rate to that seen in 2014 due to the increased number of opportunities coming to the market.

Institutions, property companies, offer funds and private investors will continue to seek opportunities that represent relative value. Overseas investors will continue to enter the market, often directly and through joint venture ownerships for the larger assets. Syndicated teams will also continue to factor increasingly in the market.

Yield compression in the regions is expected to be driven by foreign money pricing money out of the London market, increasing competition for regional prime and dominant secondary assets.

The market for true secondary and tertiary assets will remain difficult, but in some cases lucrative for those investors who are well advised with a strong skill and knowledge base, and most importantly with an appetite for risk.

The outcome of the general election in a few days' time will undoubtedly impact on investor sentiment but in any event property is likely to deliver attractive returns relative to other asset classes and remain high on the agenda for institutional investors.

Spring
Retail Report
2015

Professional by Ian Campbell

How Long is a Lease?

The issue of the appropriate length of term upon a commercial lease renewal, where the parties cannot agree, has long been a bone of contention. As more leases approach expiry and tenants require shorter terms, so has the divergence of opinion increased between landlord and tenant.

Section 33 of the Landlord & Tenant Act 1954 states that such term shall:

- **be such as may be determined by the Court to be reasonable in all the circumstances;**
- **not be more than 15 years;**
- **begin on the coming to the end of the current tenancy.**

So the courts must therefore determine a term of a maximum 15 years, but what exactly is ‘reasonable in all the circumstances’? The unreported case of Iceland Foods Ltd v Castlebrook Holdings Ltd (December 2013) dealt with this very issue.

In the past, landlords may have argued that because their shopping centre or retail parade had largely been let on terms of standard length, be it 15, or even 25 years in the pre-recession days, that they should have the right to renew leases on a similar basis. This landlord biased approach based on rigid letting policies was dismissed by the Court.

Protagonists have also sought to rely on what might be considered to be ‘market norms’, which obviously vary from time to time and within different markets. Perhaps unsurprisingly, given that the Landlord & Tenant Act 1954 is not based on market principles but to protect tenants’ security, this argument was also dismissed.

So what about the length of the previous term? Applying the O’May principle, whereby one needs good reason to alter the terms of the existing lease upon renewal, one might think that this could also apply to the issue of the length of term. Apparently not, said the Court.

Ocean Terminal: Expert Witness service relating to the impact of proposed competitors on behalf of Resolution Properties

Holland Park Avenue, London - Valuation on behalf of Lords of Notting Hill

So what we are left with, which is maybe not that surprising given the rationale behind the Landlord & Tenant Act, is the requirements of the tenant. If a tenant only wants a five year term then five years he shall have, although rather bizarrely in the Iceland case the Court ultimately awarded a ten year term despite Iceland wanting only five. It would appear that a little weight was given to the landlord's requirements to preserve their capital value.

It would also appear that some weight was placed on the fact that Iceland's previous lease had been 35 years and that they had been in occupation for 20 years. What seems clear, however, is the effect on the landlord's investment in granting shorter terms i.e. the diminution in value as a result of a less secure income stream is not really a factor taken into account by the Courts.

In another development in the world of lease renewal, the case of Hough v Greathall (2015) brought to the Court of Appeal concerned the issue of when a landlord opposing renewal of a lease is required to establish its intention to redevelop.

The tenant argued that the landlord needed to prove intention to redevelop at the date of service of the S.25 Notice terminating the lease. The landlord countered that it was only necessary to prove an intention to redevelop at the date of the court hearing. The Court of Appeal found for the landlord.

The law is now clear therefore that if a landlord has redevelopment rights it is only necessary for him to oppose renewal of a lease on the grounds of redevelopment in his S.25 Notice. He will have the intervening period before the hearing date to align his ducks, including design, planning and finance so as to satisfy the requirement of the court.

Competition Act and Property

Prior to 2011, leases and contracts had been excluded from the Chapter 1 Prohibition of the Competition Act 1998, designed to prevent anti-competitive agreements. Since 2011 all new and importantly all existing agreements in commercial property are now covered by Chapter 1. What practical effect does this have?

There are three areas where the Competition Act may apply. Firstly, in the area of tenant exclusivity provisions. Developers of shopping centres have historically granted exclusivity to anchor tenants, preventing the landlord from letting other units to direct competitors of the anchor. Strictly speaking, such provisions would infringe the Chapter 1 Prohibition but much will depend on the actual circumstances.

For instance, if it could be argued that without the grant of exclusivity the anchor tenant could not be secured, thereby making the development unfeasible, then it is likely that Chapter 1 Prohibition would not apply.

Similarly, if the anchor tenant faces competition within the town from another department store then the provision may not be considered anti-competitive.

One can also consider whether the exclusivity provision could be justified on the grounds of the overall benefits arising, such as securing a high quality anchor whose presence will attract high footfall and improve the retail profile of the town.

The duration of the exclusivity is also likely to be a factor. It may be reasonable to have a five year exclusivity to allow the anchor to become established without fear of competition but to extend this for any longer might well be deemed anti-competitive.

Expert Witness and consulting on viability of a proposed redevelopment in planning and compulsory purchase

It is more likely that Chapter 1 would be invoked in cases of exclusivity in favour of non-anchor traders, who are not critical to the development of a shopping centre and who do not act as major crowd pullers.

Some protagonists also hoped that the revocation of the Chapter 1 exclusion may render strict user clauses in leases unenforceable. However, OFT guidance suggests that this will not be the case and that such restrictions can be used legitimately to regulate tenant mix.

Such restricted user clauses could become problematic if the landlord is a competitor of the affected tenant and the purpose of the clause is to prevent the tenant undertaking activities which compete with the landlord. In such cases the landlord would need to demonstrate that any restricted user clause was in place as a result of objective criteria and not merely to keep competitors out.

There was also a school of thought which suggested that the revocation of the Chapter 1 exclusions may have allowed landlords to argue for no discount in rental at rent review for a strict user clause within a lease, as it would be unenforceable. However, as one can see from the above, this is unlikely to be the case and tenants should still be able to argue for reductions in rental for restricted user clauses at review.

The final area where Chapter 1 may apply is in relation to restrictive covenants. Where this relates to a covenant imposed to prevent activities which might deleteriously impinge on retained land, this is unlikely to incur the wrath of the OFT.

For example, an owner of land suitable for housing may well offer an adjoining plot subject to a covenant that it may not be used for industrial or office purposes.

Where restrictive covenants are imposed which are intended to specifically limit competition to the vendor's business, then this would probably fall foul.

The OFT give an example of an owner of the only two petrol filling stations (PFS) in a town who sells one off but with a covenant against its continued use as a PFS, therefore promoting his retained PFS to monopoly status.

In the view of the OFT, unless there were other suitable PFS sites in the town such action would restrict competition markedly and be unlikely to be exempt from action.

The potential consequences of breaching Chapter 1 prohibition include:

- **private actions and/or injunctions by affected third parties who may have suffered loss;**
- **investigation and fines by the OFT;**
- **unenforceability of the provision and possibly the whole agreement.**

In conclusion, the OFT expect relatively few land agreements will fall foul of the Chapter 1 prohibition. However, this does not mean those who deal in land and those who advise them should not be fully aware of its ramifications and must therefore take full account of competition law, in both drafting new agreements, and when examining those already in existence.

C&P

Spring
Retail Report
2015

Superstores and Supermarkets by Graham Chase

Convenience & Discount Dominate

Discount retailers continue to grow in strength and expand, with ongoing improvement in market share albeit from a low base. The impact on the major supermarket retailers' trading profile is noticeable but this is not the full picture.

Of significant note is the ongoing growth in the "convenient convenience" sector led by the majors themselves. The truth is, as has been over the past 40 years, that as shoppers' habits change the impact on the food property market reflects this change.

Daily food shopping trips, ready cooked meals, chilled food and convenience food has undermined the traditional family bulk food shop. Add to this the growth in takeaway food offers and, despite the recession, growth in restaurant visits, it is the pattern of food shopping that is changing. In turn this is impacting significantly on supply and demand in the property market as it attempts to accommodate these changing formats.

Two years ago, while in a discount food store measuring up, a lady shopper nearby answered her mobile phone and explained to her friend that she was shopping in "Waitrose". The barrier promoted in that approach to discount food shopping has now gone, with all sections of society comfortable and often proudly promoting that they shop at discount food stores.

Although not a property issue, the marketing war is also being won by the discounters, where television adverts are securing significant customer support. Brand loyalty of food stores has always been fickle but today's market demonstrates a very simple approach to value and convenience food shopping

Foodstore investment acquisition on behalf of Limes Estates which the discounters are well placed to take advantage of.

The discounters argue their pricing points are 20% below the majors which is a significant advantage, but how do they do it? The answer is simple - they do not have extensive costs for their food stores in the guise of Section 106 contributions, Section 278 highway works, public art, five year public transport subsidies and a whole host of other on costs. Further, the big majors may be powerful in buying terms but Aldi and Lidl cover vast swathes of Europe so we should not be surprised at their own buying power. In essence, they are the European equivalent of the USA's Wal-Mart in terms of size, representation, buying power and market influence with low requirements for margins and returns against increasing gross turnover. These are criteria our own home grown supermarkets, who perhaps are not as lean as they thought they were, are struggling to come to terms with.

Perhaps with Tesco selling its fleet of aircraft and Morrison announcing 720 head office redundancies, the search for lower costs will lead to even greater competition and keener pricing points.

The majors have attempted to promote convenience through online buying and deliveries; in many cases this has reduced the quality of both their services and the food supplied while at the same time increasing costs. It is now questionable that this service offer will ultimately increase market share or profitability.

Supermarket share

	12 weeks to 17 March 2013		12 weeks to 02 February 2014		Change	12 weeks to 31 March 2015		Change
	£000s	%	£000s	%	%	£000s	%	%
Total Till Roll	31,849.910		36,539.930		1.7	78,703.000		
Total Grocers	24,259,650	100.0	26,955,920	100.0	2.4	26,407,000	100.0	1.1
Total Multiples	23,726,910	97.8	26,433,660	98.1	2.4	25,890,000	98.0	1.2
Tesco	7,142,052	29.4	7,870,589	29.2	-0.4	7,591,000	28.7	1.1
Asda	4,347,203	17.9	4,670,696	17.3	0.5	-	-	-
Total Asda	4,347,203	17.9	4,670,696	17.3	0.5	4,477,000	17.0	-2.1
Sainsbury's	4,110,240	16.9	4,600,444	17.1	2.7	4,429,000	16.8	-0.5
Morrisons	2,834,969	11.7	3,036,262	11.3	-2.5	2,899,000	11.0	-0.4
Co-operative	1,508,230	6.2	1,645,214	6.1	0.9	1,555,000	5.9	-2.1
Waitrose	1,166,523	4.8	1,320,784	4.9	5.6	1,383,000	5.2	4.9
Iceland	506,668	2.1	606,884	2.3	3.1	574,000	2.2	-0.5
Aldi	795,821	3.3	1,108,450	4.1	32.0	1,327,000	5.0	19.3
Lidl	693,815	2.9	854,807	3.2	17.2	928,000	3.5	13.6
Other Multiples	488,462	2.0	538,021	2.0	9.2	726,000	2.8	-0.1
Symbols & Independants	532,743	2.2	522,258	1.9	1.5	517,000	2.0	-2.2

Source: Kantar Worldpanel March 2015

As we reported last year, this is not the beginning of the end for the majors nor is it the end of the beginning for discounters. The majors are willingly cannibalising their large stores by introducing smaller convenience store formats into the same catchment, fully aware that if they do not, their competitors will. In reality this simply represents a shift in customer attitudes as described earlier. Market change is not possible without genuine shifts in customer preferences and we do not see any major changes in the foreseeable future to current consumer habits which are set on a clear path.

In property terms, the net result has been a significant change in the demand profile in the sector. Every mainline operator has reviewed their existing portfolio and commitments and in some cases taken drastic action. As an example, Tesco have mothballed two stores despite practical completion and handover of the buildings and are closing 43 stores.

All mainline operators have reviewed or continue to review previous board and capital expenditure approvals and in many cases have reversed earlier decisions to do various deals. Where contracts are signed and the operations are committed there are a number of examples where the property acquisition team has been renamed the "wriggle team" as they attempt to renegotiate or break the contracts.

Consequently this is now a significant feature in the current property market for new schemes. Even where a contract cannot be broken there is no guarantee the supermarket will be built and opened. With Tesco (43) and Morrisons (33) having placed a total of 76 stores on the market over the past six months the reversal of fortunes in this market, following 40 years of continual growth, has been without precedent.

Not surprisingly, rental values continue to fall for large stores but by contrast have increased for discount stores and certain examples of convenience stores.

Supermarket Statistics

	No. UK Stores	Opened in the last 12 months	UK sales % increase	Profit % increase	The next 12 months
Tesco Preliminary Results (as of 22/04/15)	Tesco Extra – 248 Tesco Home Plus – 12 Tesco – 482 Tesco Metro – 194 Tesco Express - 1,709 One Stop – 748	37 opened during the previous 12 months	UK like-for-like sales down (3.6)% excluding fuel	Statutory Loss before tax of £6.376bn	43 unprofitable stores will close and 49 proposed stores dropped
Sainsbury's Quarter 4 - 10 weeks to 14/03/15	Convenience: 707 Supermarkets - 597	Supermarkets – 6 new, 2 replaced, 5 extensions, 13 refurbishments, 3 closures Convenience – 98 new, 2 closures, 43 refurbishments 17 new supermarkets opened.	Underlying Group sales (inc VAT) down 0.2 per cent Like-for-like sales (inc VAT, ex fuel) down 1.9 per cent	Underlying profit before tax down 6.3 per cent to £375 million (2013/14: £400 million)	By the end of 2015 customers will be able to Click and Collect their online grocery orders from 100 sites Plans to convert shop space equivalent to almost 40 supermarkets from selling food into non-food
Morrisons (as of 12/04/2015) Y/E 01/02/2015	Morrisons Local: 153 Total: over 400	Opened 11 new supermarkets (356,000 square feet) and 57 M locals (154,000 square feet) during the year Will close 10 loss making stores this year	Total turnover down 4.9% to £16.8bn (2013/14: £17.7bn) Like-for-like (LFL) sales (ex-fuel/ex-VAT) down 5.9% (2013/14: down 2.8%)	Underlying profit before tax down 52% to £345m (2013/14: £719m)	In 2015/16, expect to open three new supermarkets (106,000 square feet)
Asda (as of 01/03/15)	210 Supermarkets across the UK		Sales fell by 2.1% during 12 – week period to March 01 2015. Grocery Home Shopping continues to grow with market share now 18.4%	Difficult to obtain underlying and detailed information from this traditionally secretive USA based group.	Plans to invest £600m into a store expansion programme that includes 17 new shops. The focus will be on the London area In addition, 62 stores will undergo a major remodel 150 remote Click and Collect sites will be created
Co-Op (as of 09/05/2015) Y/E 3/01/2015	Almost 2,800 local, convenience and medium-sized stores.	Food business continued the implementation of the True North strategy, focused on the convenience market. Acquired 82 new convenience stores and refurbished more than 700 stores	Group revenue of £9.4bn (2013: £9.7bn) Core Food convenience business delivers like-for-like sales increase of 3.2%, with like-for-like sales up 0.4% overall for the Food business.	Group underlying operating profit £172m (2013: £177m) reflecting robust performances in Food and Funerals, offset by losses in General Insurance	Continue with the implementation of their True North strategy, aiming to acquire 100 new convenience stores and refit 255 stores
M&S Simply Food Quarter 4 – 13 weeks to 28/03/2015 (as of 02/04/2015)	M&S Simply Food (owned) – over 180 M&S Simply Food (franchised) – over 260	over 120 M&S Simply Food at BP Connect stores	Q4 strong outperformance of the market: sales +4.2% to £5.1bn Q4 like for like sales up 0.7%		150 new stores over the next three years M&S outperform 'big 4' during financial year
Waitrose (as of 12/03/2015) Y/E 31/01/2015	336 including 60 convenience branches, and another 29 shops at Welcome Break locations		Online grocery sales up by 31.2% Like-for-like sales up 1.4% Gross sales for the year grew by 6.5% to £6.51bn	Profit decline of £26m due to investment Operating profit was down by 23.4% to £237.4m	Won back 'Favourite Supermarket of the Year' award from Aldi
Aldi (as of 29/03/2015)	There are now over 500 stores in the UK and Ireland		Increased sales by 16.8% in the 12 weeks to 29 March 12 weeks to 29 March, Aldi had a 5.3% share of the grocery market, overtaking Waitrose		To open around 60 stores in 2015. Store size is increasing. The group will have around 560 stores in Britain and wants 1,000 by 2022. Aldi overtake Waitrose to become 6th largest supermarket
Lidl (as of 01/03/2015)	Over 600 stores		Lidl Market share at 3.7% Lidl's sales rose by 13.6% over the 12 weeks to 1 March 2015.		Lidl is aiming to open up to 50 new stores a year. Store size is increasing.
Booths (as of 15/04/2015)	31 stores	Booths 30th store opened in December 2014. They have since opened a store in Hale Barns		Their market focuses on the North West, their principle base, as well as the North East region	

Yields applied to large store income streams have held up well but reflect bond qualities of the tenants rather than any rental growth profile of the store itself. However, as we have always argued, with fixed upward increases either to RPI or other benchmarks, there comes a point in time when over-rented stores will have to be valued on the basis of a downward reversion. This is something this market sector has not had to consider in the past, although there are good examples in the retail warehouse sector of this phenomenon, especially with the larger DIY stores. Yields are therefore looking vulnerable at the top end and for some secondary property, although the bond qualities continue to maintain a 4% yield profile for the best examples.

An interesting side issue that has arisen is the approach of local authorities. Mainline food stores were often cast as the "baddies" with supermarket retailers eschewed by politicians and planners as the "Great Satan", expounding the danger they have posed for the future of retailing. The fact is that the large food store is often more effective, efficient and sustainable in out-of-town locations, "hugger mugger" with their local catchment, at the same time releasing town centre space for other more appropriate retail offers. How interesting, therefore, that with many new schemes being abandoned, suddenly local authorities are wooing the supermarket operators to reconsider their decision not to redevelop or abandon representation in a location.

The answer is of course supermarket operators will pursue representation where they see gaps in a catchment. Make no mistake, these gaps exist and as long as they do, competition will be strong as operators need locations which boost net additional trade and income rather than locations that simple cannibalise the area where they already have a store and a customer base. The battle is for turnover which can produce improved margins. The majors will recover, but in the forseeable future the food supermarket sector will continue to change and promote a very different landscape to that which was in full flight just a few years ago.

Rental Value

Town Type	Store Type	Rental Range 2013	2014	2015
Large towns	Large format stores	£15-£22.50 psf	£15-£22.50 psf	£14-£18 psf
Small towns	Large format stores	£12.50-£20 psf	£10-£18 psf	£8-£16 psf
Town centres	Large format stores	£15-£22.50 psf	£15-£20 psf	£14-£18 psf
Town centres	Small format stores	£12.50-£22.50 psf	£15-£22 psf	£15-£22 psf
London conurbation	Large format, limited competition	£30 psf +	£25-£35 psf	£25-£30 psf
London conurbation	Small format	£15-£20 psf	£20-£25 psf	£20-£25 psf
All centres	Discount	£8-£12 psf	£10-£16 psf	£12-£20 psf

Yield Profile - Limited change but fundamentals are different

Description	Store Type	Equivalent Yeild 2014	2015
Fixed or indexed uplifts at RR	Large format	4.25% - 4.75%	4.25% - 4.50%
Large centres (Standard RR to MR)	Large format	4.75% - 5.25%	4.50% - 5.00%
Small centres (Standard RR to MR)	Large format	5.00% - 5.50%	5.00% - 5.50%

C&P

Planning by Tom Graham

Regeneration Flexibility... Is There Still a Role for Planning?

In May 2013 the Government introduced new Permitted Development Rights to allow the change of use from offices (B1a) to residential (C3) without the need for full planning permission. The purpose was to increase housing supply, bring vacant buildings back into productive use and encourage the regeneration of office buildings. In addition, it was considered that these measures would help reverse the decline of town centres and high streets which has been witnessed since 2008.

To date there has been a mixed response. It is recognised that there is a need for a flexible approach as to how town centres are managed and what their position is within the retail hierarchy. In some town centres this will involve changing some commercial floorspace to other uses such as residential or employment. This will in turn bring people back into centres and help drive footfall.

Diluting the development control powers of Local Planning Authorities, however, comes with its risks. It has been suggested that a significant proportion of offices that have been converted to residential under these Permitted Development rights were occupied and were not vacant or underused stock. The effects of this are that the central business districts within towns and cities have the potential to be undermined. This will be of varying degrees nationally and arguably centres outside of London will be at greater risk if their prime office stock is converted where they do not have strong office markets.

Part of the problem to-date has been that it is unclear whether the measures have been successful or whether they are in fact harming town centres. The number of prior approval applications and the locations where they have been submitted are not indicators of whether the change in legislation has been successful. A high proportion of submission within an area does not necessarily mean that centres are improving. What is unclear is whether the properties involved are occupied, vacant or suitable for conversion.

It is clear, therefore, that while there is a need for flexibility in how floorspace is managed, there is a role for planning in how it is controlled. It is interesting to note that the Government has not extended permitted development rights for office to residential beyond 2016, as they have with some other rights, and this suggests that this is a decision to be left to the next Government. Is this an indication on how successful the legislation has been?

New changes to Permitted Development

In advance of the forthcoming election the Government has sought further measures that they consider will secure further housing provision and enhance the vitality and viability of our high streets. This year it has been announced that from 15 April 2015 there will be further, significant changes to the Town and Country Planning (General Permitted Development Order) 2015. The key amendments are as follows:

- For three years there will be a right to change from storage and distribution use (B8) to residential use (C3) subject to an application for prior approval. There is a floorspace limit of 500 sq m

- Amusement arcades and casinos (Sui Generis) can change to residential (C3) - up to 150 sq m

- An extension to the right for larger household rear extensions for a further three years to 2019

- Betting offices and pay day loan shops are to be removed from A2 and will be classified as Sui Generis

- The change of use from shops (A1), finance and leisure uses (A2), betting offices, casinos and pay day loan shops will be permitted to restaurants and cafes (A3), including limited rights to build extensions and extraction units, subject to prior approval

- New rights for temporary filming for commercial purposes including the construction and removal of film sets

- Limited rights for the change of use from A1 and A2 uses to assembly and leisure uses (D2), subject to detailed restrictions

- A new right for shops to erect click and collect facilities within their curtilage

- Rights for shops to modify the size of existing loading bays

- The installation of solar photovoltaic panels on non-domestic buildings

- The existing time limited rights to extend shops, offices, industrial and warehouse buildings are to become permanent

- New rights for the replacement of plant or machinery and buildings on Sui Generis waste management facilities

- New rights for sewerage undertakers.

There is clearly an emphasis on town centres and high streets in these measures. The new legislation puts an emphasis on supporting mixed and varied high streets by allowing changes of use between a range of uses. The emergence of betting offices (which historically had their own classification prior to their A2 use) and pay day loan shops within centres has been marked since the recession. It has been suggested that they have been symptomatic of declining centres. Their removal from the A2 use class and being categorised as Sui Generis will therefore allow for some regulation through the planning process.

A significant amendment to permitted development is storage and distribution use (B8) to residential use (C3). Subject to a prior approval process the right only applies to buildings that were last used or were in use as storage or distribution (B8) on or before 19th March 2014, and the building must have been in B8 use for a period of at least 4 years before the date the development begins. The measures exclude Listed Buildings.

It is unclear how the Government expects this will work in practice. Whilst prior approval would be required, which will assess issues such as the transport and highways impacts of the development, contamination risks on the site and flooding risks, these proposals would arguably conflict with the fundamental principle of the NPPF – sustainable development. Storage or distribution sites are often located within industrial and employment areas, which is not necessarily located close to public transport, local services and facilities. Their development would most likely have a reliance on the use of private transport. Whilst there is recognition that there is a shortfall in housing, does this outweigh the requirement that development should be in accordance with Paragraph 14 of the NPPF, which is the presumption in favour of sustainable development?

Retail Warehousing – Case Study

Since the recession, the face of retail warehousing has evolved and Chase & Partners has used this as a reasoned justification in a planning application to relax a planning condition controlling the range of goods on an East Midlands retail park.

The Local Planning Authority had previously refused planning permission for an identical request on the grounds that they considered that such a relaxation would result in the further dispersal of the retailing of household goods outside the town centre, which would represent an unsustainable pattern of development - an all too familiar response.

Following that refusal Chase & Partners were asked to review the case and subsequently met with officers to discuss the proposals. As part of those discussions, the case was made that the nature of retail parks had changed and that the number of traditional retail warehouse operators in the market had significantly diminished with the traditional model unlikely to return. The property had remained vacant following the former occupant having gone into receivership in 2008 despite active marketing. We explained that the proposed tenant was one of a few new entrants into the market in the discount sector who sell a range of comparison, seasonal and non perishable goods.

It was further argued that the NPPF recognises sustainable development as having three roles: economic, social and environmental. We argued that the occupation of a unit which has remained vacant for over six years would contribute to the economy of the town and it would generate new investment and employment. Further, it was stated that the operator would provide choice and competition in terms of the retail offer in the town's retail hierarchy. It was demonstrated that the town suffers from some of the highest deprivation within the County. In terms of the operator it was explained that their business model is based on buying clearance and end-of-line products. This keeps costs down and this is inturn passed onto the consumer. Consequently the introduction of this retailer would widen the retail offer in the town. For these reasons it was considered that, on balance, the proposals were in accordance with the definition of sustainable development in the NPPF. In this instance it was beneficial to be able to use a named operator which has influenced the outcome.

A thorough assessment of potentially sequential sites was undertaken as well as an assessment of the potential retail impacts. These were not challenged by the Council. The Council accepted the case that had been made that the retail warehousing landscape had changed and that allowing a variation of the condition to sell a wider range of goods would not cause harm to the town centre.

Chase & Partners continue to advise on a number of similar applications, working closely with our landlord clients and the occupier market.

Chase & Partners

Graham Chase - Senior Partner
gfc@chaseandpartners.co.uk

Gregory Moore - Partner
gjm@chaseandpartners.co.uk

John Shuttleworth - Partner
js@chaseandpartners.co.uk

Keith Nelson - Partner
kan@chaseandpartners.co.uk

Charles Buckingham Smart - Partner
cbs@chaseandpartners.co.uk

Ian Campbell - Partner
inc@chaseandpartners.co.uk

Tom Graham - Partner
tg@chaseandpartners.co.uk

Please see our website for all other personnel contact information

Further information...

If you wish to explore more detailed case studies or follow us on our Blog or on Twitter, please click on the links below:

CASE STUDIES C&P www.chaseandpartners.co.uk/case-studies

www.chaseandpartners.co.uk/blog

www.twitter.com/#/ChaseRetail

CHASE & PARTNERS
Retail & Leisure Property Specialists

Highlight House
57 Margaret Street
London
W1W 8SJ

Tel: 020 7462 1340

This report is also available on our website:

www.chaseandpartners.co.uk