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Spring
Retail Report
2016

The Only Certainty is Uncertainty
Introduction by Graham Chase

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"…in some towns' retail property rental and capital values have fallen by as much as 40% from their 2006 peak."

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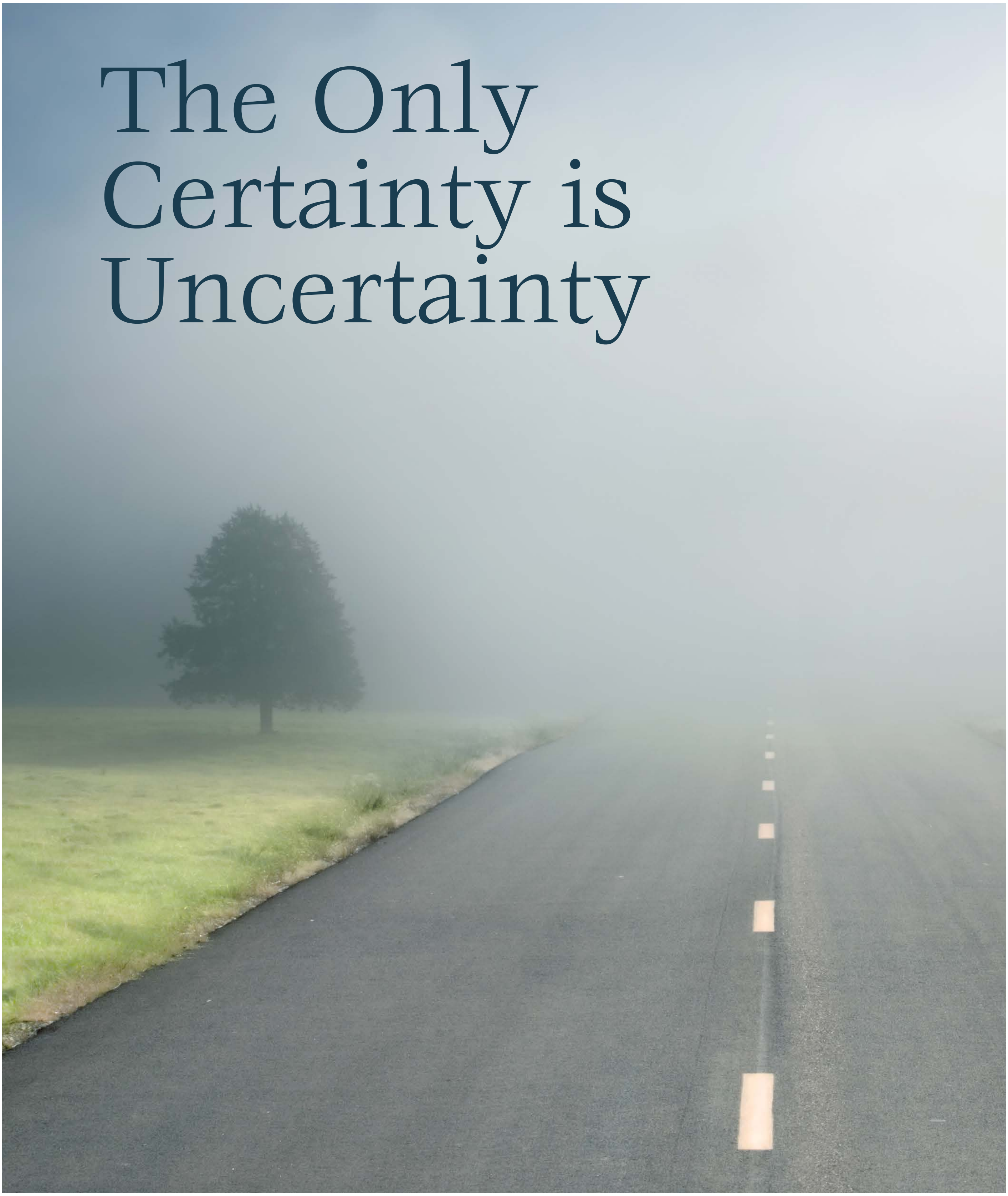
The Only Certainty is Uncertainty



Uncertainty is at the heart of the commercial property market as we go to press. The UK's future as part of the European Union will be settled on Thursday 23rd June and whichever way the vote goes we do not see the UKand perhaps Europe being the same after this event.

• The general UK economy has been showing signs of ongoing improvement and a degree of robustness especially when compared to deflationary pressures in mainland Europe and reducing GDP in the growth markets of China and India. Despite this background UK GDP growth has been halved and is anticipated to increase by only 1.2% in 2016 and 1% in 2017. Yet the current UK unemployment rate is remarkably low at 5%. The UK inflation rate at 0.3% (as at April 2016) is reflected by the maintenance of the base rate at 0.5% which has remained constant since March 2009. Despite strong employment, low inflation and low interest rates consumer confidence fell again in the first quarter of 2016 according to Governments statistics. We find this surprising.

• Volume of retail sales encouragingly grew by 4.3% in April 2016 compared to April 2015. In the same period on-line sales grew by 9.3% so double total sales. Overall sales for the 12 months to March 2016 are estimated to have increased by 1.3%. Therefore, expenditure on retail sales has been improving but a greater proportion of it has been moving to on-line sales.

• The internet continues to make significant inroads in to UK retail sales with customer footfall in town centres and in shopping centres falling steadily and the latest figures still showing a decline. Internet sales are currently estimated at 16.8% of all retail sales (9.4% in 2010) but some argue the true level is closer to 25%.

• In some cases, internet sales has destroyed sectors of the market such as videos, books and music but where retailers have been able to adopt "omni shopping" techniques such as "click and collect", sales and profitability have improved. The important point is that the growth of internet sales which are predicted to reach up to 25% between 2020 and 2025 have created considerable uncertainty in the physical retailing sector.

• In 2006 there was a retail development pipeline of some 8 million square metres but by 2009 this had been virtually extinguished with to date only a few notable retail developments having taken place. Viability has often been a significant hurdle to jump and consequently the pipeline today is not much greater than half a million square metres. Where redevelopment is an option it is usually the improvement and extension of existing centres.

• The promotion of new retail developments coming forward coupled with improved market values, reflects both an improvement in demand from occupiers and availability of finance from investors supported by an improving and strong investment market. The opening of Grand Central Birmingham (formerly the Pallasades shopping centre) above New Street Station is a significant addition to Birmingham's retail offer and represents the completion of retail regeneration in the City. Westfield Bradford has added some 28,000 square metres for this northern town which demonstrates that it is not just the Midlands and SE which can sport new sparkling centres.

• The proposed St James shopping centre Edinburgh redevelopment is a large and complex city centre development, including the remodelling of the existing John Lewis, where the developer, Henderson, claims both retailer and investor support for a relatively rare opportunity in a capital city. On the other hand, Henderson have encountered significant problems at Winchester where their proposals for retail development at Silverhill has fallen foul of EU rules for procurement according to the English Courts.

• Nevertheless, there is an appetite for more with good examples being the proposed redevelopment of Brent Cross Shopping Centre by Hammerson & Standard Life, Croydon town centre redevelopment by Westfield and Hammerson, Victoria Gate Leeds anchored by John Lewis, Bracknell town centre by Legal & General/Schroders and WestQuay Southampton by Hammerson.

• The financial benchmarks for most major retail projects are no longer based on developer's profit returns of between 10% and 25%. To be profitable, viability assessments and appraisals have to include future rental and income growth, perhaps over the first 20 years' life of the investment once created and based on Internal Rate of Return performance criteria hovering closer to a 5% figure.

• New retail development will therefore be focussed on locations of new population growth or where effective catchments can be improved to secure a greater market share of available consumer expenditure. The proposal to significantly improve ageing centres such as Brent Cross Shopping Centre and Whitgift Croydon provides the potential to maximise the retention of its existing catchment against newer competition but it will be the viability question that will have to be answered.

• At the present time there remain relatively high void rates in shop/retail property stock currently identified by LDC as 12.4% in April 2016 which is the lowest since December 2009. Although this is still a high vacancy rate it demonstrates an improvement in market conditions against the vacancy peak in September 2008 at 14.1%.

• Occupational demand is key to the growth of a centre. Over the past 30 years multiple retailers have been changing their requirements, reducing the number of centres they will consider for representation to about 75. Most market towns now rely on sporadic independent retailer demand, restaurants and coffee shops but when coupled with discount retailer expansion this does show a marked improvement.

• The Springboard Index for shopper footfall shows an annual decline in April 2016 of -3.4% across the weighted average of high street, shopping centres and retail parks indexes with the greatest fall experienced in the high street and the lowest in shopping centres. This is a worrying trend for both owners and occupiers of physical retailer accommodation and demonstrates the increasing strength of internet sales.

• The future of one of the UK's best known names, BhS lies in the balance with not much hope for its future as we see it potentially sparking an employee pension crisis in a repeat of the Allders failure with Minerva some 10 years ago. This is not going to be a pretty outcome and we anticipate much blood on the floor.

• The residential property market has always been an indicator of consumer confidence. The governments autumn budget with increased SDLT liabilities for second homes, loss of CGT relief for overseas investors and squeezes on buy to let mortgage tax relief has seen a different mood appear in this critical sector of the property market and its impact on the overall UK economy.

• With an estimated 40,000 units coming back onto the London residential market as overseas investors fail to take up their contracts having paid deposits the cycle is clearly on the downward slope. This is good news for a large section of the population who have been denied access to their local housing market on overheated prices but will be bad news for many developers who will find the strain tough on their balance sheets.

• We anticipate falling investment property prices against reduced demand as the cycle appears to have hit its peak during the third quarter of 2015.

• Up until September 2015 the retail property investment market had strengthened significantly over the previous three years for almost all types of stock with the exception of supermarkets. With low interest rates, poor Bond and Gilt returns and volatile stock markets, domestic and overseas investors had been attracted back by retail based investment property both in London and in the provinces. With the UK seen as a safe haven with a stable economy, increasing capital was earmarked for retail and other property stock with the consequence that yields paid were back to 2006 peak levels.

• The rational for this sentiment for greater investment and falling yields was perceived improved potential for rental growth and a lack of new space coming through the development pipeline coupled with a preference for steady income streams from real estate compared to the volatility and disappointing performance of world stock markets. The FTSE 100 having almost touched upon 7,200 went back to 5,800 and now is hovering around the 6,100 mark. However, with sentiment cooling since the fourth quarter of 2016 for commercial property the picture is now a very different one.

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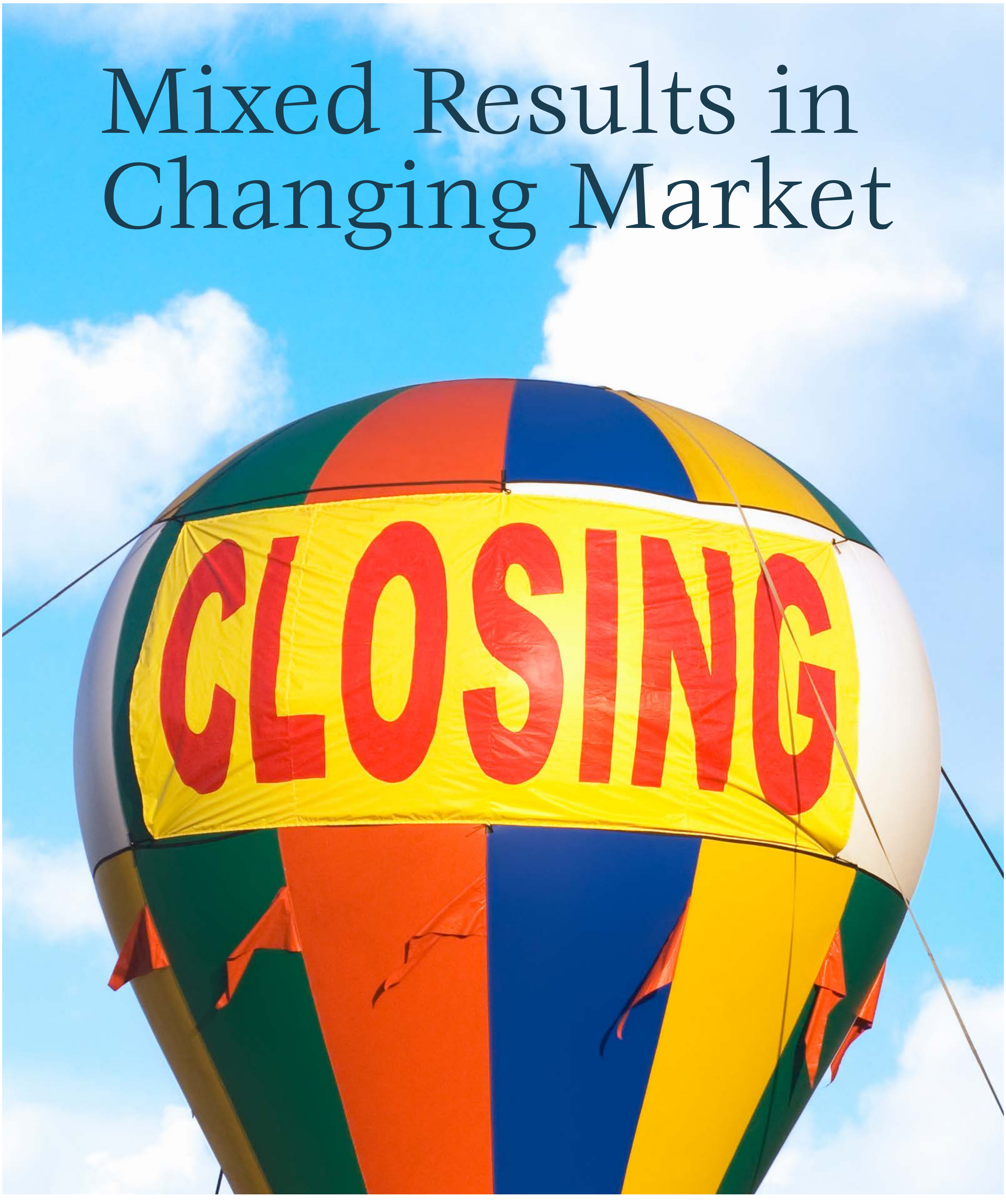
Mixed Results in Changing Market



The occupational retail market has become sufficiently stable to see an increase in new development. However, the emphasis is on new space as extensions to existing schemes or the substantial refurbishment and regeneration of older centres which need to upgrade so as to remain effective and competitive. With the lowest yields on record since 2006, good demand for the top 75 shopping centres in the UK, as well as some others, and rental stability, this is the time for projects of this nature.

One of the interesting but perhaps not surprising changes for retail extensions and regeneration is the focus on town centre schemes where the majority of the effort is being concentrated. Out of town development by contrast has much more limited scope for extensions and some of the older centres are now obsolete rather than in a position to be regenerated.

The South East has the biggest concentration of proposed extensions incorporating the massive redevelopment of Brent Cross which will add another 0.5 million sq ft and the Westfield London extension to incorporate a John Lewis department store. The weaker economic regions of Wales and the North East are at the bottom of the league table with the West Midlands, North West and Yorkshire and Humberside having significant potential with for example Hammersons new Victoria Gate development in Leeds anchored by John Lewis. With about 7 million sq ft of new retail space in the pipeline, some 80% of this is to be found in shopping centres with 20% in retail parks or out of centre locations.

In addition for the first time there are clear indications of an increase in independent retailers with many businesses and local authorities beginning to recognise the importance of diversity and the added strength that independent businesses bring to a centre.

One of the advantages with independent retailers has been the internet. Government statistics last year suggested that internet retailing will reach a figure of between 20-25% of all sales by the year 2020 and 2025. Although statistics vary, the feedback we have had from retailers suggest that this level of sales through the internet has already been achieved. The internet gives a significant advantage to independent retailers who with good websites and search engines coupled with strong logistics and delivery arrangements can emulate multiple retailers with same day delivery and competitive pricing points. We are of the opinion that independent retailers are set to grow over the next 10 years, in larger centres as well as the smaller market towns.

Rental levels remain challenging in growth terms although in Central London in the major shopping streets, Zone A rates have continued to rise despite reaching peaks which only a few years ago were thought to be unobtainable. Bond Street is now rumoured to have a new letting in place at over £2,000 per sq ft Zone A and where key money is now less of a feature than it was just two years ago.

In many parts of the country, rental levels although recovered from the 2008 world recession, in many cases are still 20% below peak levels and in some cases never recovered from the 40% fall which they encountered at the time. However, some relief may come from the rating revaluation when it kicks in in April 2017 when occupational costs in terms of the rates levy should fall if there is any justice. By contrast, in Central London, the significant rise in rental levels will see a significant jump in rateable values and it will be interesting to see how this impacts on rental growth which has taken place over the past five years. At the present time, occupiers are ignoring the inevitable rates bill increase and are certainly not factoring it into their rental bids.

Summary of Market Activity Q2 2015 - Q1 2016

QUARTER 2 - 2015

Market Comment

• Despite positive comments on trading by retailers underlying difficulties remain with unseasonal weather hitting fashion retailer sales and ongoing reduction in customer footfall in the high street

• First concerns emerge on health of BHS even though the ink on the contract to sell to Retail Acquisitions Group, the vehicle of former bankrupt Mr Greg Chappell, is dry

• Evidence that growth in the discount retail sector which has taken advantage of the downturn in the economy since 2008, is showing signs of maturity as demonstrated by Poundland's proposed acquisition of its rival 99p Stores

• Debenhams half-year profits rise by 4.3% to £88.9m as the department store group's refocused promotional strategy paid off.

• Primark reports half-year profits are up 11% despite flat like-for-likes.

• BHS's new owners' plan to widen their product categories to include electricals and building the overseas business.

• Health and beauty specialist Superdrug reveals plans to open 100 new UK stores over the next three years

• Homebase outpaces Argos' sales growth as Home Retail profits jump 14%.

• Next reports total sales were up 4.1% in the first 13 weeks of the year, driven by a longer sale period.

• Private equity firm Active sells Evans Cycles to another private equity business, ECI, for an undisclosed sum.

• Sports Direct looks for a 100,000 sq ft site in London to incorporate a new office, superstore and gym for customers.

• New Look sale to South African billionaire Christo Wiese in £1.9bn deal

• Marks & Spencer reports its first profit rise in four years with full-year underlying pre-tax profits up 6.1% to £661.2m

• BHS announces a pre-tax loss of £85.1m in the final year under Sir Philip Green's Arcadia, which sold the struggling chain to Retail Acquisitions in March.

• The John Lewis Partnership becomes the UK's best performing worker-owned business, after taking the top spot from the Co-operative Group.

• Marks & Spencer looks to shut nine stores as part of its drive to optimise space across its estate.

• According the retail intelligence unit Springboard, shopping footfall declines 4.7% over the Easter period compared with the Easter weekend last year.

• Poundland confirms it will push ahead with its bid to acquire 99p Stores, triggering a full 'phase II' probe by the Competition and Markets Authority (CMA).

• Privately owned Wilko reports earnings are down to £5.5m in the financial year to January from £27.5m the previous year.

• East slips into administration, forcing it to close 19 stores and 5 concessions. The per-pack deal saved 85 stores and 550 jobs.

QUARTER 3 - 2015

Market Comment

• High street shopper footfall reaches its lowest ebb as the weather and internet sales continue to dent physical trading revenues.

• Some argue that internet sales are already at 25% of total retail sales even though this was predicted as the maximum penetration which would be reached sometime between 2020 & 2025

• Most of the main line anchor type traders report brisk and improving turnover and profit returns reflecting strength of buying and "omni channel" formats to promote "bricks & clicks" in the best possible light.

• BHS trading continues to drag down the sector with signs of another Woolworths/Allders scenario emerging

• Value fashion giant Primark reports a strong sales rise but currency movements are expected to affect next year's results.

• Next is close to agreeing a deal to occupy a redevelopment of the Plaza Shopping Centre at 120 Oxford Street, ending years of doubt over the centre's future.

• Department store group John Lewis plans to spend £14m on creating an 'Ikea-style' layout for the home department in its Oxford Street, 94,000 sq ft, flagship.

• High streets suffered a bank holiday washout as heavy rain drove customers into shopping centres and retail parks during the extended weekend.

• August 2015 is the worst month on the British high street since the financial crisis, with sales falling 4.3 per cent compared with last year.

• Primark expects sales to jump 13% for the year after a significant store expansion.

• Cargo fascia to disappear from a number of its 42 high street stores to make way for Bensons for Beds during the first quarter of 2016.

• BHS secures a £65m loan from investment group Grovepoint Capital as its new owners seek to turnaround the business.

• Poundland acquisition of rival 99p Stores provisionally approved by CMA.

• Poundland's takeover of value retail rival 99p Stores is given full clearance by the Competition and Markets Authority (CMA).

• American Apparel file for bankruptcy

QUARTER 4 - 2015

Market Comment

• Generally, retailer sales are holding up well with many retailers increasing turnover even though margins remain under pressure.

• Despite falling footfall in the high street the shop vacancy rate declines to 12.9% but this is still over double the vacancy rate at the height of the boom in 2006 which averaged less than 6%.

• Retail rents show stability but some growth potential is apparent in certain trading areas such as the discount sector, the south east main centres such as Cambridge and Guildford as examples, London and in particular central London where zone A rates continue to increase at every deal done.

• High street is resurgent as shop vacancy rates fall to lowest level in five years to 12.9%. This is despite High street footfall drops 4% in December, marking the biggest decline in shopper numbers since November 2014.

• Sales at John Lewis rise after an "amazing first week of sales" at its new department store in Birmingham's Grand Central.

• John Lewis reveals plans for a new 115,000 sq ft department store in Cheltenham on top of a string of other openings.

• Whitbread, the parent company of Premier Inn and Costa, reports total revenue of £1.4bn for the first half of 2015/16 – an increase of 11% year on year.

• Debenhams boss Michael Sharp announces he will step down as full-year profits rise 7.3%

• Mothercare reports around 20% of its 173-store estate will be refurbished by Christmas.

• Chinese footwear business C.banner Holdings agrees to purchase toy retailer Hamleys from French owner Groupe Ludendo for £100m.

• Next sales edge up 0.4% during Christmas trading period whilst retail sales fall 0.5%, directory sales rise by a "disappointing" 2%.

• Poundland hires Hilco to renegotiate 99p Stores rents following acquisition.

• Fixed-price retailer Poundstretcher launches a bid to muscle in on rival Poundland's £55m takeover of 99p Stores.

QUARTER 1 - 2016

Market Comment

• BHS problems fully revealed and it is clear this retailer is a dead duck. It is not possible to say what the final outcome will be and if the group can be sold but the latter is unlikely. The main concern is with the underfunded pension scheme with the firms pensioners having to face a similar outcome to that experienced by Allders when its new owners Minerva failed to keep it trading.

• BHS problems put a cloud over the entire retail sector especially as the BREXIT referendum debate begins to gather pace.

• Footfall figures in the high street recover demonstrating a yoyo effect of customer habits.

• High street footfall soars on Boxing Day as shoppers shunned online and flocked to bricks-and-mortar stores in search of post-Christmas bargains. Shopper numbers increased 11.7% on Saturday compared with the same day in 2014.

• Blue Inc plans to shut 60 to 65 of its 232 shops resulting in the loss of up to 500 jobs.

• Debenhams like-for-likes rise 3.7% in seven weeks to January 9 and online sales advance 15.4% during the period as click-and-collect gains traction.

• Department store group BHS seeks rent reductions on more than half of its estate and has warned it will otherwise be unable to meet financial obligations.

• BHS tells its creditors they could lose up to £1.3bn if they do not agree to proposals to cut rents. It is later confirmed 95% of creditors vote in favour of pivotal BHS CVA but will it work?

• BHS agrees to lease its Oxford Street flagship to Polish giant Lubianiec Piechocki i Partnerzy (LPP).

• High streets report their first rise in footfall in two years last month but retail parks remained the strongest performer.

• Sales at value giant Primark are expected to be 7.5% up on last year in the first half, despite a challenging Christmas.

• John Lewis Partnership reports a 10.9% decline in full year pre-tax profits to £305.5m, in line with expectations.

• Government defeated by 317 votes to 286 over relaxation of Sunday trading.

• Next has posted a 5% uplift in full-year profits but CEO Lord Wolfson warned that this year could be the retailer's "toughest" since 2008.

• Poundland's full-year profits set to come in at the lower end of consensus after decreased high street footfall dampened its Christmas sales. It was first predicted pre-tax profits would come it at around £42.6m.

• Debenhams formerly appoints former Kingfisher boss Sir Ian Cheshire as non-executive chairman of the department store group.

• BHS owner Retail Acquisitions hires KPMG to plot store closures.

• Pre-tax losses at 99p Stores increased to more than £11m in its last full year of independence before being acquired by rival Poundland in September.

• The owner of Poundstretcher launches a new pound shop format with plans to have up to 50 stores by the end of the year.

• Beales department store has entered a company voluntary arrangement which KPMG will supervise.

• Poundworld seeks to purchase a third of footwear retailer Brantano's remaining stores.

• Card Factory reports a 2.8% rise in in-store sales and an 8% increase in revenue in the year to January.

• Although above expectation, sales of general merchandise a M&S fell by 1.9% and like-for-like sales were down 2.7% at Marks & Spencer in the 13 weeks to March 26

• JD Sports reported a 45% increase in profit to £132m last year, benefiting from increased demand for women's sports clothing due to the trend for athleisure clothing.

• Footfall in the UK falls by 2.7% in march, blamed on the colder weather.

• Sales at Primark fell 1% in the first half of their fiscal year, the company's first sales decline in over 10 years, while operating profit was down 3%.

• Consumer confidence falls in Q1 driven by concerns in health and wellbeing

STOP PRESS - APRIL 2016

Market Comment

• A bad month for the retail property occupational market.

• BHS end game arrives without surprise but impact on market is significant and coincides with all the uncertainties arising from the BREXIT referendum to be held on 23rd June. Significant questioning is likely to arise in respect of the actions taken by all the players in this debacle.

• BHS followed up closely by failure of Austin Reed and some evidence that the investment market which showed signs of stalling in September 2015 is showing signs of jittery nerves as yield levels peak and look unsustainable against rental growth potential benchmarks. However, security of retail property income streams continues to be highly rated but some question marks now emerging.

• Despite falling sales, BHS and Austin Reed failure the market shows it still has an appetite for strategic investment with Sainsbury's diversifying its supermarket business to buy into the highly rated Home Retail Group where the Argos subsidiary has a significant lead in "omni" shopping channel sales, ability and computer cutting edge technology.

• Retail sales fall by the most in more than four years in April, with shoppers put off by the cold weather, a report by the CBI reveals.

• Home Retail Group, which owns Argos, recommends acceptance of a £1.4bn cash-and-shares takeover by Sainsbury's.

• Card Factor announced an increase in underlying profit before tax of 25.2% and announces its intention to open a further 50 stores in the next 12 months.

• BHS collapses into administration, reporting £1.3bn of debt and a pension deficit of £57m. In light of this pension deficit, the UK pensions regulator launches an investigation.

• Duff & Phelps, the administrators appointed for BHS, confirm they will keep the retailer's stores open as they look for a buyer for the business.

• Two days after BHS's announcement, Austin Reed goes into administration, putting 1,200 jobs at risk. The 116-year-old retailer has 100 standalone stores and 50 concessions throughout the UK and Ireland.

• H&M pushes to meet its target of a 10%-15% annual increase in the number of stores.

• Mike Ashley's Sports Direct has bought the freehold of 161-167 Oxford Street and 36 Poland Street, W1, for £108m.

• Topland Group has puts a £500m portfolio of Marks & Spencer stores up for sale.

• Jack Wills announces it is to open its first outlet store in London at Quintain's London Designer Outlet in Wembley.

• Retail sales volumes fall by a larger-than-expected 1.3% in March as shoppers cut back on purchases of clothes and food amid concerns about the outlook for the economy.

• Almost 1,000 BHS suppliers face the possibility that the £52m they are owed may not be paid unless the retailer finds a buyer.

• BHS sells Oxford Street lease to Oxford & City Holdings as Polish fashion giant LPP signs a pre-let agreement.

• JD Sports celebrates 57% jump in profits as it targets further growth.

• Ikea names first city-centre location for small-format store in Aberdeen.

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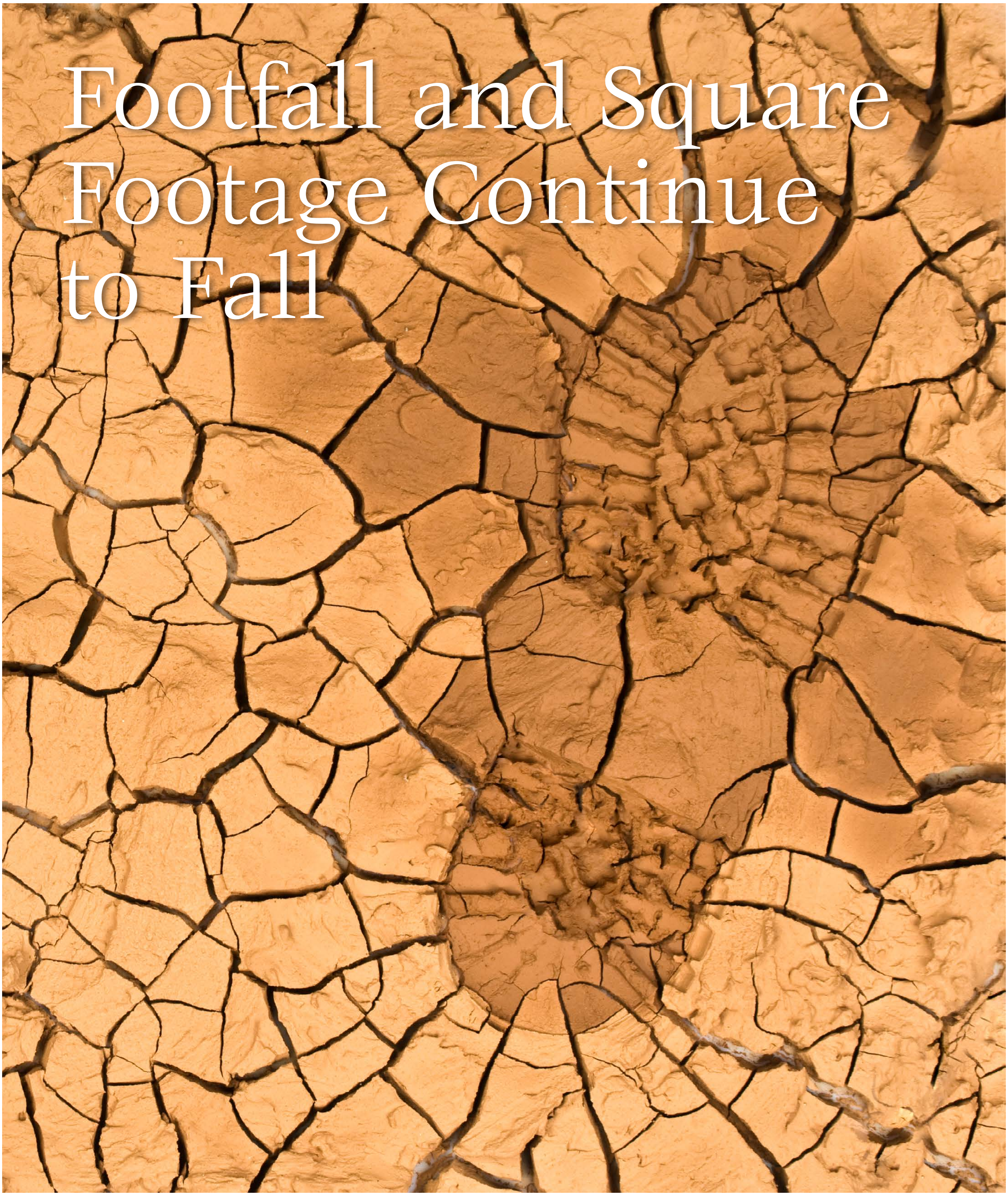

Bulky goods retail parks remain at the bottom of the pile in terms of opportunities and have not been helped by the ongoing difficulties in the traditional anchor DIY stores. However, with consumer confidence improving, big ticket item sales, particularly in furniture and electrical goods have improved confidence in this sector and we anticipate that it will continue to grow.

The furniture sector in particular is reaping the rewards of opportunities with more limited competition and it is not unusual to see entire retail parks now dominated by furniture retailers.

Of particular note are DFS who continue to find locations to expand into, Oak Furniture Land, Wren Living, Dunelm and Sofology. Consumer confidence improvement is effected in the function of large format stores and the furniture sector is leading in this area.

Shopping parks continue to dominate the market in terms of rental growth but the real question is now being raised about their impact on town centres and some of the formats are unashamedly high street offers even though there is an attempt to suggest that the type of retailing in the retail warehouse unit is not the same as in a high street shop. We have challenged that position for many years although there are genuine differences such as T K Maxx's Home Sense and Next at Home, both of which focus on bulky goods, furniture and homeware and leave the fashion behind in the high street.

With limited new store development promoted with about 1 million sq ft in the pipeline, the opportunities for existing schemes to be regenerated and improved rather than the adding of any new significant space. In short we see more of the same in the retail warehouse market which is stable but is not particularly exciting.

Summary of Market Activity Q2 2015 - Q1 2016

QUARTER 2 (April - June) - 2015

Market Comment

- Bulky goods sector continues to be under pressure
- DIY business continues to struggle reflecting changing consumer habits and structural change in the housing market with shift to buy to let ownership as trade switches to builder's merchants away from home enthusiasts
- Price deflation is notable across all sectors as competition increases from wider trader base including internet. A good example is IKEA as it moves towards greater market share strategy with impact on gross margins.
- Uncertainty from the general election appears to hit this sector harder than the high street.
- Discounters continue to expand in both solus stores and secondary parks or to the fringe of prime with solid performance and a growing customer base for the out of town centre stores.

Market Analysis

- DIY giant B&Q reveals the first six stores that it will close as part of its plans to shut a total of 60 stores.
- Mamas & Papas' boss Chris Yates steps down from his role as chief executive, as the retailer says it has returned to profitability.
- More than 200 shops and 7,500 jobs are said to be at risk at Britain's biggest out-of-town retailers as the dramatic change in shopping habits leads to widespread store closures.
- Poundland takeover of 99p Stores is set to undergo in-depth CMA investigation
- Pets at Home see like-for-like sales jump 4.2% in its first year since floating on the stock exchange, driven by a focus on health and wellbeing.
- Ikea's UK profits drops 10.5% for the year despite a jump in sales as the retailer seeks to pursue a strategy of "long-term profitability".
- Ikea completes a deal to open a small-format, 16,000 sq ft store in a retail park in Norwich as the Swedish furniture giant seeks to become more accessible to UK shoppers.
- ScS blames 15.9% sales drop in April on General Election uncertainty.
- Value retailer B&M returns to profit in its first year as a listed company as its "rapid" store expansion plan boosted sales by 30%.
- Sports Direct owner Mike Ashley launches a discount store named 'Mega Value' in Kidderminster.
- B&M enters FTSE 250 after private equity firm Clayton, Dubilier & Rice reduced its shareholding earlier in the year.
- Pets at Home's pre-tax profits rise by 40% and hit £87m as the retailer continues to develop its pet's services and merchandise model.
- Halfords reports a rise in pre-tax profits as group revenue topped £1bn for the first time, largely driven by online sales.
- DFS wins a legal dispute against rival furniture business Sofaworks that could force the latter into changing its brand name.
- Carpetright declares year of "significant progress" as underlying pre-tax profits jump 183% to £13m
- Pets at Home experience "weaker than expected" trading as like-for-likes edges up 1.8% in its first half of 2015.
- Argos like-for-likes fall 2.8% in the second quarter as demand for electricals fell amid "weaker overall market conditions".

QUARTER 3 (July - September) - 2015

Market Comment

• Argos sophisticated computer tracking and online sales system begins to pay dividends both in terms of sales growth and efficiencies, pointing the way for improvements across the board in omni shopping techniques. However profitability following such investment remains difficult to achieve.

• Electricals and mobile phone business pushes forward again

• Encouraging improvement in the "big ticket" bulky goods sector of furniture which indicates increasing consumer confidence

• Potential for rental increases emerging but the poor trading of the DIY retailers holds back the sector overall.

Market Analysis

• Argos becomes the first multichannel retailer in the UK to generate £1bn of m-commerce revenue in a year.

• The Original Factory Shop profits surge as it overcomes supply chain issues.

• Dixons Carphone delivers an "excellent" trading performance in its first full year as a merged business as sales and profits increased. Group pro forma headline pre-tax profit up 21% and groups like for likes jump 6%.

• Mobile phones and electricals powerhouse Dixons Carphone posts a strong first-quarter performance, driven by its core UK and Ireland arm. Group like for likes up 8%.

• Poundworld pre-tax profits rebound to £13.4m, following 'landmark year'.

• Kingfisher adjusts pre-tax profit fell from £393m to £384m as the DIY giant was hit by £29m of adverse foreign exchange movements.

• Dunelm posts a 4.7% rise in full-year profits after a strategic overhaul claims it is in "better shape than ever" to grow.

• Booker Group completes £40m acquisition of Londis and Budgens.

• Arts and crafts specialist Hobbycraft launches a new small, 6,000 sq ft store in Borehamwood as it seeks to accelerate the expansion of its store estate.

• After strong growth, Topps Tiles believes it is on course to grab a third of the market.

• Mike Ashley, announces launch of a property investment company with an initial £250m to spend rolling out Sports Direct's new fitness superstore brand across the UK.

QUARTER 4 (October - December) - 2015

Market Comment

• Despite continuing difficulties in the DIY sector there is real evidence on the ground that consumer confidence has returned sufficiently to boost the traditional retail warehouse market

• Improving profitability of many traders gives hope to investors of rental growth if this profile can be maintained.

• Increased activity in lettings and transactions as strong retailers see potential to grow their portfolios.

Market Analysis

• Dunelm reveals the acquisition of 200-year old linen brand Fogarty.

• Matalan expects its full-year profits to tumble after it suffered the "severe financial impact" of problems at its new distribution centre during its second quarter.

• Retail parks record their biggest increase in footfall for almost two years in September, increasing by 4%.

• TJ Morris, owner of Home Bargains, reveals a healthy jump in full-year profits of 17.9% after it opened stores and relocated existing shops.

• Brantano (100 shops) and Jones Bootmaker are sold to Alteri Investors for €17m (£12m) by Dutch parent company Macintosh.

• Toys R Us pre-tax profits soar 257.8% to £16.3m, with them declining to comment as to the reason for this rise after four years of UK decline.

• Go Outdoors doubles annual profits and recorded "significant growth" in home deliveries and in-store collections of online orders.

• JD Sports Fashion reports strong Christmas trading and upgrades profits forecast with like-for-likes in five weeks to January 2 up 10.6%

QUARTER 1 (January - March) - 2016

Market Comment

• Homecharm Group sale confirms improving confidence in the traditional retail warehouse sector with competition for the Argos subsidiary despite its poor profitability record.

• Like all markets there are winners and losers with Matalan experiencing difficult trading conditions as its customer base and market share shrinks and the sale of Brantano ends up on the rubbish heap as it goes into administration.

Quarterly Analysis

• Topps Tiles' like-for-likes climbs 4.4% in its first quarter in what the retailer described as an "encouraging" start to the financial year.

• Matalan suffers a sharp drop in online sales during the festive period and has been forced to revise its full-year profits forecast again.

• The Original Factory Shop online sales soar 226%, whilst like for like revenue rose by just 2.5%.

• Home Retail warns full-year profits will be at the lower end of its forecast as like-for-like sales fell 2.2% at Argos but reveals it is in "advanced discussions" to sell its Homebase business to Australian retailer Wesfarmers for £340m.

• Wesfarmers is set to invest £500m in rebranded Homebase and names UK boss.

• Value shoe retailer Brantano enters into administration, just four months after it was acquired by private equity firm Alteri Investors.

• Kingfisher unveils plan to boost profits by £500m a year.

• The global adviser's UK Retail Focus found retail parks were the most attractive sub-sector, accounting for 35% of total investment, compared with 23% in the same period in 2014, "in line with their resilience in the face of the rise of online retailing".

• Dunelm posts a 10.7% rise in half-year pre-tax profits, while sales were driven by a "strong" performance in curtains and bedding.

• Steinhoff joins battle with Sainsbury's for control of Argos with £1.4bn offer.

• Home Retail Group completes the £340m sale of Homebase to Australian group Wesfarmers after 99.3% of its shareholders backed the deal.

• DFS founder Lord Kirkham plans to launch a furniture chain that would potentially compete head to head with the retailer.

• More than half of shoppers say negative coverage of Sports Direct has not deterred them from visiting the retailer, a poll has found.

• Shop Direct's is propelled it into top position of the fastest growing retailers in the UK.

• Kingfisher reports a 20.5% fall in full-year pre-tax profits but boss Véronique Laury said its turnaround has made "solid progress".

• The owner of Carphone Warehouse, Currys and PC World has announced plans to close 139 stores as part of a property rationalisation programme.

STOP PRESS - APRIL 2016

Market Comment

• The hotly contested sale of Argos won by Sainsbury at a staggering top end price confirms the value of highly developed and sophisticated omni channel computer sales systems and the strong push by this supermarket retailer to diversify alongside food sales reflecting changes in this traditional market sector.

• Brexit referendum brings forward uncertainty but consumers continue to spend.

Activity

• UK retail warehouse investment volumes fall by 73% in Q1 2016, compared to the same period in 2015.

• Retail footfall suffers its sharpest decline in more than two years in March as the early Easter and cold weather dented traffic. However, Retail parks again provided the bright spark, enjoying a 1.6% increase in shopper numbers.

• Available square footage in retail parks fall to just 5.9% during 2015, the lowest level since 2002, according to a new report unveiled today.

• Pets Corner buys PamPurredPets for £6m, adding 51 stores to its portfolio.

• Argos future confirmed by sale to Sainsburys at a mouth-watering price of £1.4 billion

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Restaurant & Leisure

Eating Out Opportunities Continue to Expand

As the dominant centres organise themselves to increase their strength, the key concern is how smaller market towns should focus their town centres and improve their attractiveness.

It is estimated that the dining out market is worth £180 billion per annum. In the United States of America they have just reached the benchmark of 50% split between eating at home and dining out. If this trend is replicated in the UK, the eating out market has the ability to double to some £160 billion per annum. Smaller retail centres and market towns would find that there will be continued pressure to change A1 retail fascias to A3/A5. In many cases this could well be the saving of a town centre which otherwise would become redundant.

On the leisure side, multiplex cinemas still expand on a focused basis, fitting into locations which are much tighter but provide economic opportunities. Large footplate leisure space in the form of a shed with surface car parking is no longer at the forefront of requirements and in particular the race for space by the discount gyms such demonstrates that unusual space can be pressed into service and operated effectively with new and glitzy accommodation off the menu.

QUARTER 2 (April - June) - 2015

Market Comment

- Discount gyms continue to dominate and expand

Quarterly Analysis

- The Gym Group enjoys big increases in profit of 25% to £19m despite last year's failed merger with rival Pure Gym. The company expanded by opening 15 new stores last year.
- Expectation that trampoline parks are set to rapidly expand in the UK.

QUARTER 3 (July - September) - 2015

Market Comment

- Restaurants continue to show solid trading performance as consumers maintain spend in this sector
- Family restaurants show continuing strength as brand names emerge as leading the boom

Quarterly Analysis

- Tapas restaurant chain La Tasca has been bought by the Casual Dining Group, which owns Bella Italia, Café Rouge and Las Iguanas, for over £25m.
- BDO claim consumers are indulging in more selected spending, and that the restaurant and bars sector is continuing to win in the battle for the consumer's pound.

QUARTER 4 (October - December) - 2015

Market Comment

- Restaurant sector remains solid
- The leisure sector continues to focus on the discount gym sector with strong expansion.

Quarterly Analysis

- Urban Outfitters buys Vetri Family group of restaurants as it taps into casual dining.
- Budget gyms go from strength to strength, accounting for 10 per cent of the UK's £43bn gym market.
- Whitbread, the parent company of Premier Inn and Costa, reports total revenue of £1.4bn for the first half of 2015/16 – an increase of 11% year on year. Whitbread's hotels and restaurants businesses accounted for more than £249m of underlying operating profit.
- Whitbread announce a series of development deals and planning consents for new Premier Inn sites, which will add 1,100 bedrooms to the brand's UK total.sector is continuing to win in the battle for the consumer's pound.

QUARTER 1 (January - March) - 2016

Market Comment

- Profitability of coffee shop operators continues despite concerns over saturation

Quarterly Analysis

- Tesco is preparing to sell the loss-making restaurant chain, Giraffe.
- Pure Gym plans to float on the stock market at a valuation of £400m.
- Pret a Manger reports a 14.5% jump in earnings last year, to £84.3m, and a 13.9% increase in group sales to £676.2m.
- McDonald's new all-day breakfast helps the company see a 35% surge in profits in the first three month of the year.
- American burger chain Five Guys secures a store at Queen Square, Liverpool for its first restaurant in the city.
- New dining concept Salad Pride is launching its first stand-alone café at 2 Neal's Yard in Seven Dials.first half of 2015/16 – an increase of 11% year on year. Whitbread's hotels and restaurants businesses accounted for more than £249m of underlying operating profit.

STOP PRESS - APRIL 2016

Market Comment

- USA hits 50% balance on eating out and food purchase
- Estimated that UK restaurant and eating out spend profile is only half that of USA so strong opportunities for further restaurant expansion exist.
- Boutique and specialist cinemas continue to expand as consumers seek a more elite and specialised cinema viewing experience.

Activity

- Fitness chain Pure Gym confirm an 82% in revenues last year, as talk of a possible flotation increase.
- Premier Inn and Costa Coffee owner Whitbread is continuing to expand in the UK and abroad, despite like-for-like sales slowing from 6.5% to 3% in the past financial year.
- The Restaurant Group, which owns Chiquito and Frankie & Benny's, issues a profits warning after another sales slump.
- The boutique cinema operator, Everyman Cinema, has taken a 10,800 sq ft space at the site in Canary Wharf, where a Crossrail station is set to open in 2018.

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Retail Investment

Regional Variations Rule on Returns

The number of transactions in the retail property sector fell dramatically in September 2015 marking the high point in the market. Since this time, transactions have fallen by at least a third although there has been no notable increase in yields.

IPD identifies total returns for commercial property for UK direct real estate for 2015 at 13.1% made up of capital growth at 7.8% and income of 5%. This confirms that real estate has outperformed bonds and equities over the past 1, 3 and 5 years but over the longer term it has been outperformed by both equities and bonds.

Total returns for retail property is at 9% according to IPD but this reflects significant regional variations with standard retail property in the South East at 14.2% whereas standard retail in the rest of the UK is only at 6.3%.

The worst performer has been supermarkets at 2%, total returns reflecting the turmoil which now exists in that market with the mainline superstore operators struggling to maintain market share against the increasing expansion of the discounters of Lidl and Aldi.

Shopping centres are also towards the bottom end of the growth spectrum at 10% contrasting sharply with Central London retail which has shown returns at 24.1% overall, outperforming quite notably City offices at 19.7% and West End offices at 19.3%.

Retail warehouses, long the darling of the retail property market have fallen towards the bottom of the pile with total returns at 6.9% just above standard retail for the rest of the UK at 6.3% and supermarkets at 2%.

With the yields for Central London shops having been reported at 2% for Bond Street, it is anticipated that the market will look back and see September 2015 as the peak of the investment market. Investors struggle to see how rental growth can be maintained to support such low yields although the argument is usually promoted that investment in retail property shows much better returns in real terms than equities, bonds and gilts.

It is however clear that development of new retail property is towards the bottom end of the scale when compared to nearly all other forms of commercial property types. However, Central London continues to provide opportunities although putting together sites takes considerable time and arguably higher risk as markets move through their cycles. That said, Central London is able to offer mixed use development where the residential side has performed almost as strongly as retail and where the office market provides a ready alternative to residential and where capital values per sq ft in many locations in Central London are identical.

It is notable who the big sellers have been in the retail warehouse sector with Aviva and Land Securities divesting themselves of significant assets in this class as they focus on other areas. However, this, like most markets, tends to reflect cycles and attitudes towards particular property types at a moment in time and no doubt next year we will see a different position arising although it is unlikely to be as buoyant as the market has been over the last 3-4 years. There is undoubtedly a wind of change since September 2015 and it will be against the background that values have peaked and investor sentiment is on the wane.

Key Retail Investment Transactions

Shopping Centre Investment Transactions April 2015 – April 2016

Bexleyheath, Broadway Shopping Centre
Price: £120.30m/6.7%
Purchaser: New River Retail
Vendor: LaSalle Investment Management
Date: April 2016

Liverpool, Clayton Square Shopping Centre
Price: £38.49m/6.3%
Purchaser: Rockspring Property Investment Managers
Vendor: Infrared Capital Partners Limited
Date: March 2016

Colchester, Lion Walk Shopping Centre
Price: £75.60m/5.9%
Purchaser: CBRE Global Investors
Vendor: Ares Management Limited
Date: February 2016

Newton Abbot, Market Walk Shopping Centre
Price: £13m/8%
Purchaser: Teignbridge District Council
Vendor: LaSalle Investment Management
Date: February 2016

Birmingham, Chelmsley Wood Shopping Centre
Price: £31m/9.25%
Purchaser: Tristan Capital Partners Limited
Vendor: Chelmsley Wood Properties Limited
Date: January 2016

Birmingham, Grand Central Shopping Centre
Price: £335m/4%
Purchaser: Hammerson
Vendor: Birmingham City Council
Date: January 2016

Liverpool, Albert Dock
Price: £43m
Purchaser: Aberdeen Asset Management Plc
Vendor: Albert Dock Company
Date: January 2016

Liverpool, Liverpool One
Price: £0.30m
Purchaser: Abu Dhabi Investment Authority (The)
Vendor: Grosvenor Liverpool Fund
Date: January 2016

Liverpool, Metquarter
Price: £18m
Purchaser: Queensbury Real Estate
Vendor: Columbus UK Real Estate Fund
Date: January 2016

Walton on Thames, Hersham Green Shopping Centre
Price: £15.40m/5.35%
Purchaser: Aviva Investors Global Services Limited
Date: January 2016

Weston-Super-Mare, Dolphin Square Shopping Centre
Price: £18.50m/6.1%
Purchaser: Lancashire County Pension Fund
Vendor: McLaren Life Limited
Date: December 2015

Witham, Grove Shopping Centre
Price: £7m/8.41%
Purchaser: Global Mutual Properties Limited
Vendor: Charville Estates Limited
Date: December 2015

Newcastle Upon Tyne, Monument Mall
Price: £75m
Purchaser: Standard Life Investment Funds Limited
Vendor: Hammerson
Date: December 2015

Wakefield, The Ridings Shopping Centre
Price: £92.30m/8%
Purchaser: New River Retail
Vendor: Moorfield Real Estate Fund GP Limited
Date: December 2015

Newbury, Kennet Shopping
Price: £80m
Vendor: Deutsche Bank AG
Date: December 2015

Chelmsford, The Meadows Shopping Centre
Price: £132m
Purchaser: Benson Elliot Capital Management LLP
Vendor: Legal & General Property
Date: October 2015

Ashford, Park Mall Shopping Centre
Price: 0.82m
Purchaser: Ashford Borough Council
Date: October 2015

Newcastle Upon Tyne, Gosforth Shopping Centre
Price: £12.30m/7.5%
Purchaser: Drum Income-Plus REIT
Vendor: Aberdeen Asset Management
Date: October 2015

Kirkby, Kirkby Shopping Centre
Price: £35.80m/9%
Purchaser: St Modwen Developments
Vendor: Tesco Plc
Date: October 2015

Letchworth, Garden Square Shopping Centre
Price: £19.30m/8.6%
Purchaser: Valad Europe PLC
Vendor: Praxis (Holdings) Limited
Date: September 2015

Rugby, Clock Towers Shopping Centre
Price: £23m/9%
Purchaser: Seven Capital Plc
Vendor: CBRE Global Investors
Date: September 2015

Sutton, St Nicholas Shopping Centre
Price: £71.60m/6.5%
Purchaser: AEW Europe
Vendor: Criterion Capital Limited
Date: September 2015

Basingstoke, Hampshire
Price: £290m/6%
Purchaser: AEW Europe
Vendor: TH Real Estate
Date: September 2015

Blackpool, Houndshill Shopping Centre
Price: £105m/6.5%
Purchaser: New Frontier Properties Limited
Vendor: Catalyst Capital LLP
Date: September 2015

Hemel Hempstead, The Marlowes Shopping Centre
Price: £40m/8%
Purchaser: Capital & Regional Plc
Vendor: Standard Life Investments Limited
Date: September 2015

Chatham, Pentagon Centre
Price: £42m/7%
Purchaser: Ellandi LLP
Vendor: National Asset Management Agency
Date: September 2015

Ashton Under Lyne, Arcades Shopping Centre
Price: £25m/8.75%
Purchaser: Fairacre Properties Limited
Vendor: Allied Irish Banks Plc
Date: September 2015

Orpington, Walnuts Shopping Centre
Price: £45m/6%
Purchaser: Rockspring Property Investment Managers
Vendor: Miller Developments
Date: September 2015

Inverness, Eastgate Centre
Price: £116m/6.7%
Vendor: F&C REIT Asset Management LLP
Date: August 2015

Islington, Angel Central
Price: £170m/4%
Purchaser: CBRE Global Investors
Date: August 2015

Winchester, Brooks Shopping Centre
Price: £54m/8%
Purchaser: Catalyst Capital LLP
Vendor: Nationwide Building Society
Date: August 2015

Middlesbrough, Parkway Shopping Centre
Price: £12.20m/7.5%
Date: August 2015

Motherwell, Motherwell Shopping Centre
Price: £42m/7.35%
Purchaser: Cerberus Limited
Vendor: Chester Properties
Date: August 2015

Aylesbury, Friars Square Shopping Centre
Price: £46m/6.8%
Purchaser: Rockspring Property Investment Managers
Vendor: Royal Bank of Scotland Plc
Date: July 2015

Cambridge, Grafton Centre
Price: £99m/5.18%
Purchaser: Legal & General Property
Vendor: M&G Real Estate
Date: July 2015

Barnet, The Spires Shopping Centre
Price: £40m/6%
Purchaser: Hunter Real Estate Investment Managers
Date: July 2015

Fareham, Fareham Shopping Centre
Price: £54.50m/8%
Purchaser: Roubaix Group
Vendor: Coady Supple
Date: July 2015

Merseyside, Maghull Shopping Centre
Price: £12m/8.25%
Purchaser: Evolve Estates Limited
Date: July 2015

Birmingham, Acocks Green Shopping Centre
Price: £8m
Purchaser: Real Estate Investors Plc
Date: June 2015

Barking, Vicarage Field
Price: £35m/8.5%
Purchaser: Benson Elliot Capital Management LLP
Date: June 2015

Brighton, Dukes Lane
Price: £20m/5.1%
Purchaser: DTZ Investments Limited
Vendor: Helix Property Advisors
Date: June 2015

Kendal, K Village Outlet Centre
Price: £10.60m
Vendor: NAMA (Nation Asset Management Agency)
Date: June 2015

Nuneaton, Ropewalk Shopping Centre
Price: £24m/8.5%
Purchaser: M&M Asset Management
Vendor: NAMA
Date: June 2015

Leeds, St Johns Centre
Price: £37m
Purchaser: Valad Property Group
Date: June 2015

Dagenham, Heathway Shopping
Price: £131.10m/7.25%
Purchaser: Threadneedle Property Investments
Vendor: Westbrook Partners
Date: May 2015

Sutton Coldfield, Mulberry Walk
Price: £6.40m
Purchaser: Salmon Harvester Properties Limited
Vendor: PWC
Date: May 2015

Braintree, George Yard Shopping Centre
Price: £131.10m/7.25%
Purchaser: Threadneedle Property Investments
Vendor: Westbrook Partners
Date: May 2015

Reading, Broad Street Mall
Price: £62.25m/6.85%
Purchaser: Moorgarth Properties Limited
Vendor: Englander Company Limited
Date: May 2015

Chester, The Grosvenor Shopping Centre
Price: £65m
Vendor: Carlyle Group Limited
Date: May 2015

Reading, Broad Street Mall
Price: £62.25m/6.85%
Purchaser: Moorgarth Properties Limited
Vendor: Englander Company Limited
Date: May 2015

Wrexham, Eagles Meadow Shopping Centre
Price: £76m/7.5%
Vendor: LaSalle Investment Management
Date: May 2015

Shop Property Yields - Excluding Greater London

%	Apr 2006	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Apr 2010	Apr 2011	Apr 2012	Apr 2013	Apr 2014	Apr 2015	Apr 2016
Prime High Street	3.75 - 4.25	4.75 - 5.50	5.00 - 5.75	5.25 - 6.00	4.75	4.75	4.50	4.50	4.50	4.25+	4.25+	4.00
Secondary High Street	5.00 - 5.75	6.00 - 7.00	6.50 - 9.00	8.00 +	10.00 +	9.00+	8.00+	8.00+	9.00+	8.00+	7.00+	6.50
Prime Shopping Centre	4.00 - 5.00	5.00 - 6.00	5.50 - 6.50	7.00	6.00	6.00	5.50 - 6.50	5.50 - 6.50	5.25 - 6.25	5.25 - 6.00	4.25+	4.25
Secondary Shopping Centre	5.00 - 6.00	6.00 - 7.50	6.25 - 8.00	9.00 +	9.00+	9.00+	8.00 +	8.00 +	8.5 +	7.5 +	6.5 +	5.50

Retail Warehouse Investment Transactions April 2015 – April 2016

Luton, Hatters Way Retail Park
Price: £22.50m/7.2%
Purchaser: Tristan Capital Partners Limited
Vendor: Hercules Property UK Limited
Date: April 2016

Altrincham, Atlantic Street Retail Park
Price: £14m
Vendor: LaSalle Investment Management
Date: April 2016

Leeds, Armley Retail Park
Price: £8m
Purchaser: Palmer Capital Partners Limited
Vendor: Opus North
Date: March 2016

Bristol, Gallagher Retail Park
Price: £32.30m/5.9%
Purchaser: CCLA Investment Management Limited
Date: February 2016

Slough, Bath Road Retail Park
Price: £93.65m/5.5%
Purchaser: Royal London Asset Management Limited
Vendor: The Crown Estate
Date: January 2016

Cowley, Templars Retail Park
Price: £75.69m
Purchaser: Pramerica Real Estate Investors Limited
Vendor: Quadrant Estates
Date: January 2016

Cardiff, Avenue Retail Park
Price: £31m/5.95%
Purchaser: Altum Capital Partners
Vendor: M&M Asset Management
Date: December 2015

Wrexham, Plas Coch Retail Park
Price: £22.40m/7.35%
Purchaser: Ediston Property Investment Company
Vendor: Diageo Pension Trust Limited
Date: December 2015

Bromsgrove, Bromsgrove Retail Park
Price: £10.30m
Purchaser: IM Properties Plc
Vendor: Sainsbury's Supermarkets Limited
Date: December 2015

West Midlands, Merry Hill Retail Park
Price: £6.50m/6.63%
Purchaser: Fidelity
Date: December 2015

Dundee, Kingsway West Retail Park
Price: £260m/6%
Purchaser: Ares Management Limited
Vendor: Land Securities
Date: November 2015

Keighley, Alston Retail Park
Price: £13.23m/7.32%
Purchaser: CBRE Global Investors
Vendor: Aviva Investors Global Services Limited
Date: November 2015

Derby, Meteor Retail Park
Price: £260m/6%
Purchaser: Ares Management Limited
Vendor: Land Securities Group
Date: November 2015

Orpington, Spring Vale Retail Park
Price: £9.59m/6.2%
Purchaser: DTZ Investment Management Limited
Vendor: Aviva Investors UK Real Estate Recovery Fund Limited Partnership
Date: November 2015

Catford, Catford Island Retail Park
Price: £7.95m/4.55%
Purchaser: Church Commissioners for England
Vendor: Pluto Leisure Properties Limited
Date: November 2015

Glasgow, Forge Retail Park
Price: £83.60/7%
Purchaser: Tristan Capital Partners Limited
Date: October 2015

Milton Keynes
Price: £27.20m/5.7%
Vendor: LondonMetric Property Plc
Date: October 2015

Southampton, Mountbatten Retail Park
Price: £16.20m/5.7%
Purchaser: CBRE Global Investors
Vendor: LondonMetric Property Plc
Date: October 2015

Huntingdon, Huntingdon Retail Park
Price: £16.01m/6.16%
Purchaser: LaSalle Investment Management
Vendor: Churchmanor Estates Company Plc
Date: October 2015

Weston-Super-Mare, Gallagher Retail Park
Price: £20.40m/6.7%
Purchaser: IM Properties Plc
Vendor: M&G Real Estate
Date: October 2015

King's Lynn, St Nicholas Retail Park
Price: £8.37m/7.84%
Purchaser: Prestbury Investment Holdings Limited
Vendor; Evolve Fund Services
Date: September 2015

Sunderland, Hylton Riverside Retail Park
Price: £23.90m/0.9%
Purchaser: Tristan Capital Partners Limited
Date: September 2015

Banbury, Banbury Cross Retail Park
Price: £52.50m
Purchaser: Redefine International Plc
Vendor: Aegon UK
Date: September 2015

Bromsgrove, Bromsgrove Retail Park
Price: £39.50m
Purchaser: Legal & General Property
Vendor: Standard Life Investments UK Retail Park Trust
Date: September 2015

Pool, Tower Retail Park
Price: £12.70m/6.7%
Vendor: Cubemaker Partnership
Date: September 2015

Hertfordshire, Brookfield Retail Park
Price: £95m
Purchaser: JP Morgan Asset Management
Vendor: Standard Life Assurance Company
Date: August 2015

Wrexham, Border Retail Park
Price: £12.60m/7.53%
Purchaser: Mayfair Capital Investment Management Limited
Vendor: Aviva Investors Global Services Limited
Date: August 2015

Bradford, Enterprise 5ive Retail Park
Price: £69.10m/8%
Purchaser: New River Retail
Vendor: Morrisons
Date: July 2015

Stoke-on-Trent, Ravenside Retail Park
Price: £3.80m/10.5%
Date: July 2015

Chester, Flintshire
Price: £69.10m/8%
Purchaser: New River
Vendor: Morrisons
Date: July 2015

Kendal, South Lakeland Retail Park
Price: £69.10m/8%
Purchaser: New River Retail
Vendor: Morrisons
Date: July 2015

Bristol, Brislington Retail Park
Price: £47.35m/6.1%
Vendor: Aberdeen Asset Management
Date: July 2015

Ashton Under Lyne, Snipe Retail Park
Price: £60m/6.75%
Purchaser: Orchard Street Investment Management LLP
Vendor: LaSalle Investment Management
Date: July 2015

Walsall, Reedswood Retail Park
Price: £23.84m/6%
Purchaser: Ropemaker Properties Limited
Vendor: The Church Commissioners for England
Date: July 2015

Liverpool, Speke District Centre
Price: £69.10m/8%
Purchaser: New River Retail
Vendor: Morrisons
Date: July 2015

Barry, Waterfront Retail Park
Price: £69.10m/8%
Purchaser: New River Retail
Vendor: Morrisons
Date: July 2015

Daventry, Abbey Retail Park
Price: £12m/7.5%
Purchaser: Ediston Property Investment Company
Vendor: Threadneedle Property Investments
Date: June 2015

Grimsby, Victoria Retail Park
Price: £12.23m/7.37%
Purchaser: Kames Capital Plc
Date: June 2015

Rugby, Technology Retail Park
Price: £17.40m
Purchaser: Aberdeen Asset Management
Vendor: St Modwen Developments
Date: June 2015

Beckton, Gateway Retail Park
Price: £47.75m
Purchaser: Standard Life Investments Limited
Vendor: Aviva Investors Global Services Limited
Date: May 2015

Bedford, St John's Retail Park
Price: £31.80m/6.5%
Purchaser: Schroders Real Estate Investment Trust
Vendor: Howard Property Group
Date: May 2015

Salford, West One Shopping Park
Price: £17.80m
Purchaser: Frogmore
Vendor: Kilmona Property
Date: May 2015

Haverfordwest, Withybush Retail Park
Price: £31.20m/5.67%
Purchaser: British Steel Pension Fund
Vendor: M&G Real Estate
Date: May 2015

Aberystwyth, Ystwyth Retail Park
Price: £13m/6.3%
Purchaser: Kames Capital Plc
Vendor: Threadneedle
Date: May 2015

Prime Retail Warehouse Yields - Excluding Greater London

%	Apr 2006	Apr 2007	Apr 2008	Apr 2009	Apr 2010	Apr 2011	Apr 2012	Apr 2013	Apr 2014	Apr 2015	Apr 2016
Shopping Parks	4.25 - 4.75	4.75 - 5.00	5.00 - 5.25	6.75 - 7.00	6.00	5.00 - 5.25	5.25 - 5.50	5.50 - 5.75	5.25 - 5.75	4.25+	4.00
Open A1 Retail Parks	4.25 - 5.00	5.25 - 5.50	5.25 - 5.75	7.00 - 7.50	5.00 - 5.50	5.25 - 6.00	5.50 - 6.50	6.00 - 6.50	5.75 - 6.25	5.25+	4.50
Bulky Goods Retail Parks	5.00 - 5.75	5.75 - 6.25	5.75 - 6.75	9.00	5.75 - 6.25	5.75 - 6.50	6.00 - 7.00	6.75 - 8.50	6.00 - 8.00	5.75+	5.50
Solus Stores	4.75 - 5.25	6.00 +	6.00+	8.75	6.00 - 7.00	6.50 +	6.25 +	6.50 - 7.00	6.00 - 7.00	6.00+	5.50

C&P

Spring
Retail Report
2016

Superstores and Supermarkets

Rationalisation & Simplification - A New Era

The best that can be said for what use to be the strongest sector in the property market is that it is slightly more stable than it was a year ago.

Sainsbury's and Tesco have got to grips with their capital base and cash flow and Waitrose have maintained a loyal customer base which has allowed this retailer to be seemingly immune to the increasing competition from the discounters. The Waitrose point of difference has been its saviour.

Morrison's and Asda continue to disappoint and are perhaps more vulnerable to the onslaught of the discounters than Sainsbury's and Tesco. What is clear is that what used to be known as the big four is now added to by Waitrose, Aldi and Lidl so arguably it is now better referred to as the "Magnificent Seven"

As the market share table demonstrates apart from Sainsbury's and Waitrose all the majors are seeing negative growth but the real winners as for last year are Aldi who have increased their market share by over 15% and Lidl by nearly 19%

The CoOp have seen a worthy return to growth increasing their turnover by 1.9% but Iceland are struggling to keep up and not surprisingly independents are losing out to the major operator's expansion of their important "convenient convenience" portfolios comprising Sainsbury's Local, Tesco Express and Little Waitrose.

On the investment side IPD has the supermarket sector as the worst performer with a total growth at a paltry 2%. Reflecting the difficulties of this sector.

The dichotomy is the yield profile attached to large food superstores as these giants still supply the UK with nearly 60% of its food consumption. There is security in that figure and yields now range between 3.5% and 4% for index linked rent based leases showing the strength of their covenant.

There is no doubt that the discounters are continuing to expand and will take on locations perhaps they have steered away from in the past particularly the better heeled centres as more affluent customers now see discount shopping as a positive experience rather than an exercise to be undertaken in secret.

The competition between Lidl and Aldi has resulted in two changes. The first is that the gross internal area of their stores is increasing with Lidl prepared to take stores with a GIA of up to 28,000 sq ft, a far cry from the previous maximum of 12,000 sq ft just a few years ago.
The second change is increasing rental level growth. In London, in the right location and environment rents are as high as £26 per sq ft. Whether this is a one off or likely to become the norm is debatable but as our rent table suggests there is ongoing growth in this sector, whereas in the mainline food superstores arena, rental growth is negative in all locations.

Summary of Market Activity Q2 2015 - Q1 2016

QUARTER 2 (April - June) - 2015

Market Comment

- This is the darkest quarter in the supermarket sector in modern history as the shift in consumer habits and failure of the major operators to understand these changes early enough begins to bite hard.
- Expansion is at a standstill with capital availability almost nil even for store revamps. Such a contrast to just 3 years ago when this was the only sector with cash in the tills.
- The bright spot is the performance and activity of the discounters who have the appetite, cash and customer growth model all in hand.

Quarterly Analysis

- Aldi overtakes Waitrose to become the country's sixth largest supermarket with a market share of 5.3%.
- J Sainsbury plans to convert shop space equivalent to almost 40 supermarkets from selling food into non-food as it tries to fight back against a fall in grocery sales.
- Morrisons chief executive announced that 720 head office roles would be lost.
- Tesco will unveil £5bn loss as property write down hits home.
- Tesco plunges to worst-ever pre-tax loss of £6.38bn after 'difficult year'.
- Sainsbury's slumps to a £72m statutory loss, its first for a decade, as the supermarket giant's sales dropped amid a relentless price war.
- Tesco CEO, Dave Lewis, continues to review its non-core business and plans to close its last six Homeplus stores in the UK and as well as axing around 450 jobs as.
- Booker Group agrees a deal to buy Musgrave Retail Partners' GB business – which includes convenience retailers Londis and Budgens – for £40m.
- Research suggests Wm Morrisons is most exposed to the growth of discounters and bargain shops.
- Research suggests superstores and hypermarkets will suffer a 2.9% fall in sales between now and 2020, a stark contrast to the 82.2% increase in sales for discounters and 92.9% for online.
- Grocery giant Tesco begins to feel the benefits of its recovery programme despite a further sales fall in the first quarter.
- Local authorities say it likely that they will give Tesco bills for compensation, as the retailer abandons a number planned store openings.
- Tesco will have to meet a £3bn bill as a write down on the value of its stores.

QUARTER 3 (July - September) - 2015

Market Comment

• Despite continuing bad news there is some evidence that the bottom may be near or in the case of Sainsbury even reached and on the up.

• Morrison performance and ongoing difficulties is of concern

• Market gossip questions if all the majors can survive and if not which will be the failure.

Quarterly Analysis

• Tesco reveals plans to increase its minimum spend for deliveries on online orders from £25 to £40.

• The grocer looks to sell 140 M Local convenience stores for £25m in cash and will retain five, which are either on forecourts or will be converted to small Morrisons supermarkets. However, it will incur a loss on disposal of around £30m.

• Morrisons reveals a 35% drop in pre-tax profits over its first half and plans to close 11 more stores.

• Lidl plans to take on rival Tesco by opening dozens of stores in London's most desirable areas.

• Morrisons puts supply chain and projects director Mark Harrison in charge of property as it bids to rejuvenate its store estate.

• Tesco announces two of its Extra stores will stop their 24-hour trading operation.

• Figures for the 12 weeks to September 13 revealed that Sainsbury's was the only member of the big four to grow sales, which increased 0.9% during the period.

QUARTER 4 (October - December) - 2015

Market Comment

• "Bumping along the bottom" is the most optimistic profile which can be given to this property sector as the operators desperately fight to stem capital outflows and reign back unprofitable initiatives promoted in better times.

• Evidence towards the end of the quarter suggests the worst is over but the scars will take some time to heal.

• Diversity of offer and widening business sectors appears to be a general theme.

Quarterly Analysis

• Tesco reports a 55% slump in profit during its first half but has hailed "further improvement" in like-for-like sales during its second quarter.

• Tesco agrees to sell 14 Spenhill development sites for £250m as it seeks to strengthen its balance sheet.

• Asda poaches Sainsbury's Roger Burnley to be chief operating officer.

• Asda scraps investment in click-and-collect sites and slowing down its London expansion as it bids to rejuvenate existing stores.

• According to latest Kantar data, Sainsbury's was the only one of the big four chains to see its 12-week sales increase, for the third consecutive period, according to latest Kantar data.

• Report claims supermarkets are losing around £300m every year by running their online businesses unprofitably.

• Tesco strikes a partnership with Arcadia that will see the fashion group open shop-in-shops across five of the grocer's larger stores.

• Waitrose posts a jump in sales last week following a solid start from waitrosekitchen.com, a new website dedicated to kitchen products. Sales at the grocer increased 4.2% to £125.2m year-on-year for the week ending October 24.

• Morrisons agree sale-and-leaseback deals on a handful of assets with Palmer Capital and Opus North for £175m.

• Tesco delivers a better-than-expected Christmas as UK-like-for-likes increased 1.3% in the six weeks to January 9.

QUARTER 1 (January - March) - 2016

Market Comment

• The discounters turn up the heat as they see opportunities for greater market share growth

• Site acquisitions continue to grow for the discounters with larger stores now required and land prices and rental levels on the increase in sharp contrast to the significant falls in the values attributable to traditional supermarket formats.

• Rent reviews showing little signs of producing increases but dependent on current base of passing rents. Lower rental levels now a feature reflecting over rented supermarkets in some areas especially where supply is saturated.

• The big 5 of Sainsbury, Tesco, Morrison, ASDA and Waitrose show same improvement in confidence and activity suggesting the worst may now be behind them but the future holds uncertainty as to how some of the larger format stores will adapt especially where non food sales have been a significant proportion of overall sales.

• Sainsbury proposed purchase of Argos reflects significant shift in diversification and buying in of expertise in sophisticated omni shopping and computer sales techniques.

• Market gossip on which of the majors will survive and who may go, continues. ASDA replaces Morrison as the weaker brand in this context.

Quarterly Analysis

• Aldi plans to open 80 supermarkets in 2016, 23% more than it launched last year.

• Sainsbury's is looking to add a further 10-12 stores on top of the 15 Netto stores planned to open by the end of March.

• Morrisons' like-for-like sales edged up 0.2% during the crucial Christmas trading period amid plans to shutter a further seven supermarkets.

• J Sainsbury reaches a £1.3bn deal to buy Home Retail Group.

• Morrisons' like-for-like sales edge up 0.2% during the crucial Christmas trading period amid plans to shutter a further seven supermarkets.

• Tesco delivers a better-than-expected Christmas as UK-like-for-likes increased 1.3% in the six weeks to January 9.

• Tesco is found to breach the Groceries Code on payment delays and must introduce "significant changes" to its practices and systems. Tesco boss Dave Lewis insists the grocer has "drawn a line under the past" but admitted work is needed to repair supplier relationships.

• City speculation grows that grocery market leader Tesco could be considering buying out rival Morrisons.

• Asda posts a 5.8% drop in fourth-quarter like-for-likes as the Walmart-owned chain remains under pressure in the grocery price war.

• Asda extends Decathlon pilot as it targets better use of store space

• Tesco praises "renewed focus on price promotions" to help regain more customers and reduce the fall in sales in February.

• Morrisons full-year profits and sales decline but the grocer delivers an improving performance and will continue to invest in its turnaround.

• Asda unveils plans to cut around 750 jobs across its stores and head office.

• Sainsbury's online sales surged 14% in the 9 weeks to March 2012.

• Sainsbury's record a 1.2% increase in sales in the three months to the end of March

STOP PRESS - APRIL 2016

Market Comment

• Rationalisation and simplifying businesses appears to be the order of the day despite diversification by Sainsbury with its purchase of Argos.

Activity

• Sainsbury's ends its brand-match scheme, and instead will cut the prices of many basic products.

• Tesco announces plans to sell the Dobbies chain of garden centres and could also dispose of other loss-making and non-core businesses.

• The Co-op supermarket seeks to sell around 300 of its 700 non-convenience stores.

• Due to the sustained growth and strength of the discount supermarkets, Aldi and Lidl, experts are saying there is now a 'big six' rather than just the 'big four'.

Rental Value

Town Type	Store Type	Rental Range 2013	2014	2015	2016
Large towns	Large format stores	£15-22.50 psf	£15-22.50 psf	£14-18 psf	£14-18 psf
Small towns	Large format stores	£12.50-£20 psf	£10-£18 psf	£8-£116 psf	£8-£116 psf
Town centres	Large format stores	£15-£22.50 psf	£15-£20 psf	£14-£18 psf	£14-£18 psf
Town centres	Small format stores	£12.50-£22.50 psf	£15-£22 psf	£15-£22 psf	£14-£20 psf
London conurbation	Large format, limited competition	£30 psf +	£25-£35 psf	£25-£30 psf	£20-£27.50 psf
London conurbation	Small format	£15-£20 psf	£20-£25 psf	£20-£25 psf	£20-£25 psf
All centres	Discount	£8-£12 psf	£10-£16 psf	£12-£20 psf	£12-£23 psf

Yield Profile - Limited change but fundamentals are different

Description	Store Type	Equivalent Yeild 2014	2015	2016
Fixed or indexed uplifts at RR	Large format	4.25% - 4.75%	4.25% - 4.50%	3.50% - 4.00%
Large centres (Standard RR to MR)	Large format	4.75% - 5.25%	4.50% - 5.00%	3.70% - 4.00%
Small centres (Standard RR to MR)	Large format	5.00% - 5.50%	5.00% - 5.50%	4.50% - 5.00%

Supermarket share

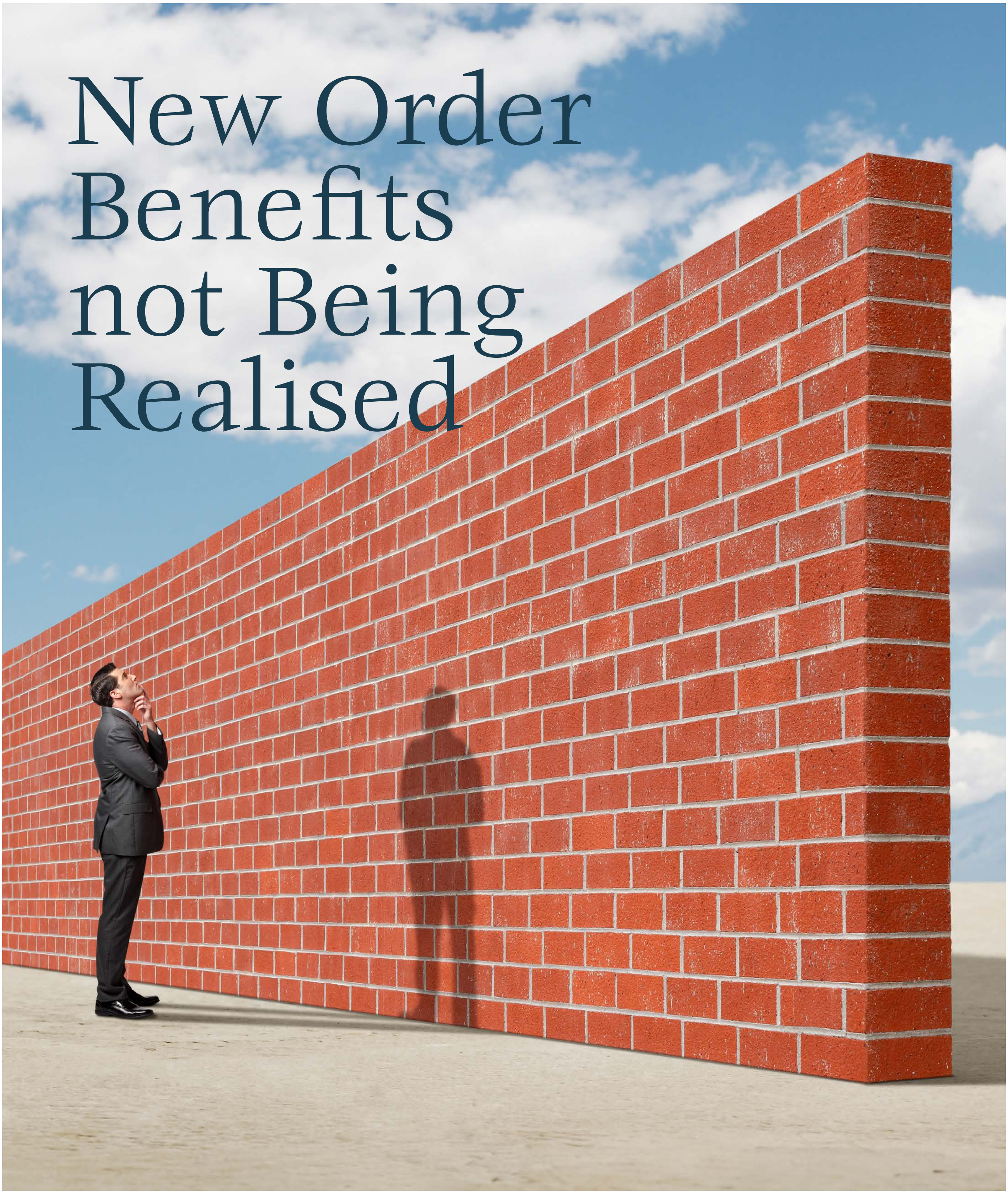
	12 weeks to 01 March 2015		12 weeks to 28 February 2016		Change
	£millions	%	£millions	%	%
Total Grocers	26,406,000	100.0	26,542,000	100.0	0.5
Total Multiples	25,889,000	98.0	26,036,000	98.1	0.6
Tesco	7,591,000	28.7	7,534,000	28.4	-0.8
Sainsbury's	4,429,000	16.8	4,453,000	16.8	0.5
Asda	4,477,000	17.0	4,298,000	16.2	-4.0
Morrisons	2,898,000	11.0	2,806,000	10.6	-3.2
Co-operative	1,555,000	5.9	1,585,000	6.0	1.9
Aldi	1,327,000	5.0	1,527,000	5.8	15.1
Waitrose	1,383,000	5.2	1,385,000	5.2	0.2
Lidl	928,000	3.5	1,103,000	4.2	18.9
Iceland	574,000	2.2	559,000	2.1	-2.6
Other Multiples	726,000	2.8	785,000	3.0	8.1
Symbols & Independants	517,000	2.0	507,000	1.9	-2.0

Source: Kantar Worldpanel March 2016

C&P

Planning

New Order Benefits not Being Realised



In order to encourage growth in the economy, the Government introduced a series of new permitted development rights in April 2015. These extended existing rights and allow certain types of work and changes of use to occur without the need to apply for planning permission. Nearly 18 months on Chase & Partners wonder what effect its provisions are having 'on the ground'...

The Town and Country Planning (General Permitted Development) (England) Order 2015 was introduced to help businesses adapt more quickly to market changes and support our high streets. It was generally welcomed by many landlords, retailers and developers who hoped that it would help them adapt more quickly to the challenges they face in difficult retail market where vacancies were increasing, particularly in secondary locations.

Amongst its array of provisions the new Order now allows:

- existing shops (Use Class A1) to change to premises providing financial and professional services (Use Class A2)
- existing shops (Use Class A1), financial and professional services (Use Class A2), betting offices, pay day loan shops and casinos up to 150 sq metres to change to restaurants and cafés (Use Class A3) in all but the most sensitive locations and for limited building works to allow the installation of extraction and ventilation units, and for waste storage and management; and
- existing shops (Use Class A1) and financial and professional services (Use Class A2) of up to 200 sq metres to change to assembly and leisure uses (Use Class D2)

Chase & Partners experience has suggested that the perceived benefits of the Order are not being realised in the way the government (and many others) would have hoped for.

We have found that, despite the provisions of the Order, many landlords and/or occupiers (and especially their respective legal advisors) have insisted on receiving formal confirmation that any change of use is lawful before entering into any contract or fitting out premises. We have advised that the submission of an application for a Certificate of Lawful Use to the relevant local planning authority should normally be the most straightforward and expeditious way of providing the comfort landlords or occupiers require and we have used this process for clients requiring confirmation that occupation under the provisions of the Order would be lawful.

The issue a certificate confirming the change of use depends entirely on factual evidence confirming the lawful use of the application site/premises and the correct interpretation of relevant planning law (including, of course, the provisions of the latest Order that allow changes), together with any other relevant judicial authority. The planning merits of the proposed use and its relationship with prevailing policies the Council may that may seek to control changes of use in town centres are not generally relevant to determination of the certificate application. It is only if the Council either has evidence, or reasonable grounds to believe, that the applicant's claim is incorrect, can it refuse an application for a certificate.

On the face of it obtaining a certificate for the change of use from a shop (Class A1) to a premises providing financial and professional services (Use Class A2) is straightforward. Providing the existing A1 use is lawful then, under Class D in Part 3 of Schedule 2 of the 2015 Order, the change of use is allowed without the need for planning consent. Furthermore, and in contrast to the conditions included on some of the other Classes permitted (se below), changes under Class D do not require prior approval of the planning authority before development can take place.

It all should be so simple. Unfortunately, in making certificate applications we have encountered the same sort of obstructive, and often unduly pedantic, registration process that has sadly become the norm submitting major planning applications. It is an administrative 'box ticking' process that with many authorities seems to be motivated with the aim of delaying registration of applications rather than a considered review of the submission that has been made. We have also encountered authorities insisting on the provision of information that is entirely irrelevant to the issue of a certificate and refusing to register any application until the information is provided.

We also believe some authorities, whose development plan policies may seek to regulate and control changes of uses in town centres, may be hostile to changes the Order now allows and do their best to frustrate the certificate process. Moroever, they see the need for 'prior approval' in the case of some of the new permitted development rights as a means to essentially subject the proposed change of use to comparable tests to those required by a normal planning application.

This is very frustrating for landlords, retailer and occupiers keen to make investment and provide jobs and, in many cases, occupy vacant or underused premises in town centres. Chase & Partners believe that many authorities attitudes and approach towards the new permitted development rights in town centres contained in the new Order are contrary to the government's aims and are doing little to assist the rapid adaptation of our town centres to the changing needs of consumers, users and occupiers.

If you have any queries concerning the provisions of the new Order, how it might affect existing property or your future development plans please contact Chase & Partners.

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