C&P

Spring Retail Report 2017

CHASE & PARTNERS C&P
Retail & Leisure Property Specialists

Spring
Retail Report
2017

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"...recent government statistics suggest that consumerism in the UK is running out of steam..."

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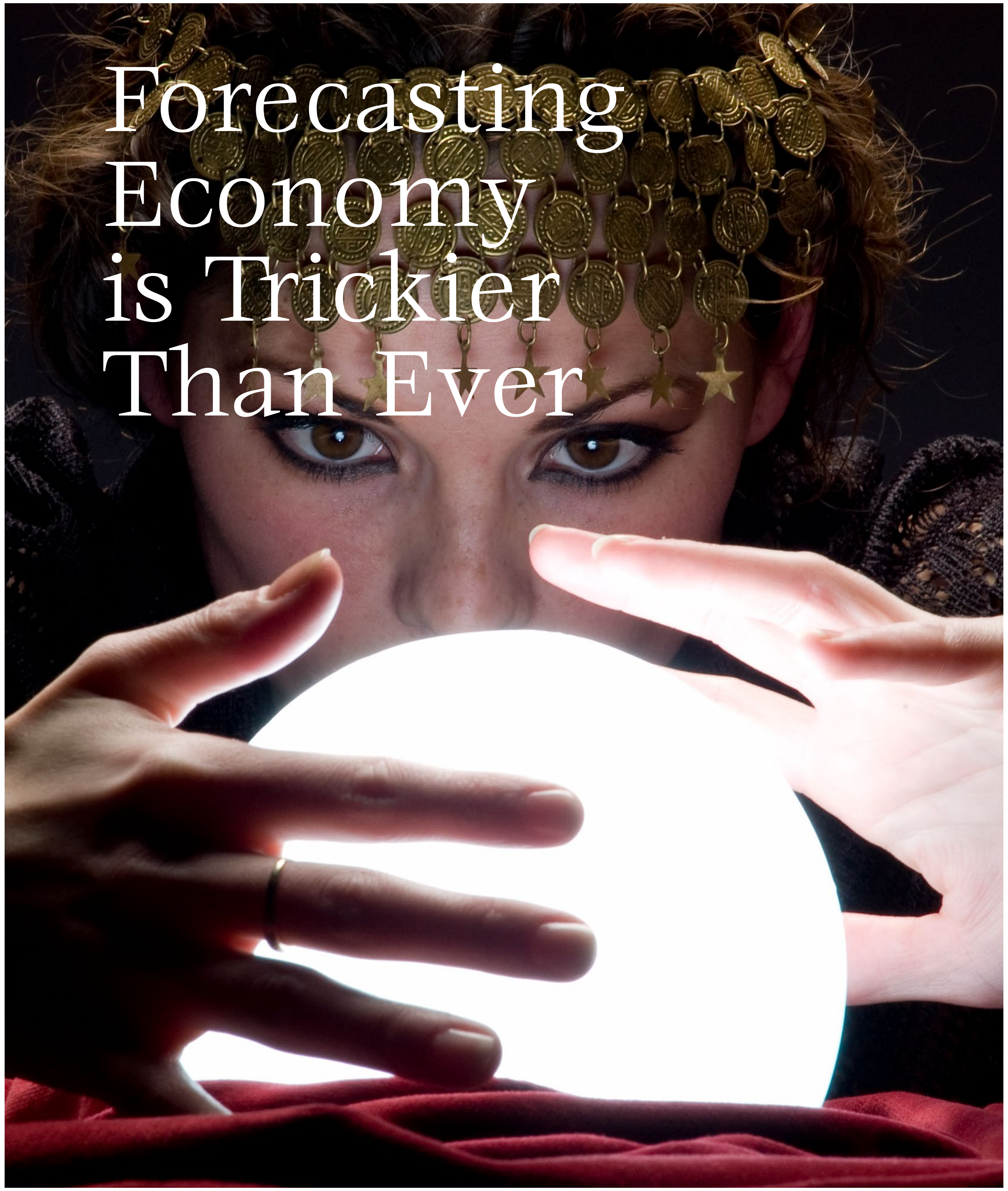
Forecasting Economy is Trickier Than Ever



Last year we led with the headline “the only certainty is uncertainty”. We anticipated that the problem with the European Referendum wasn’t so much the answer of “in” or “out” but the implications of the vote either way. It was always going to be a closely run contest although the smart money was on a “remain” victory so the BREXIT result was a shock and markets simply do not react well to such out turns.

It is confirmed we will leave Europe within two years of the Article 50 submission served by the UK Government on the EU as from Wednesday 29th March 2017. What Europe will look like post our departure is not easy to read and with the French elections in full flow it is now the EC as a political block that is facing their own uncertainty.

In this report, we do not wish to dwell on the issue of Brexit in its wider sense but welcome the improving clarity of the position coupled with a world that is also coming to terms with Donald Trump in the Whitehouse as President of the USA.

A view held by many was that the UK currency was overpriced, perhaps too strongly pegged to the Euro which is also seen by many as overvalued. The 20% devaluation which followed the referendum on 23rd June 2016 had an immediate impact on the Central London retail economy coinciding with the end of Ramadan. Retail sales leapt particularly in the luxury brand areas of Bond Street, Regent Street and Knightsbridge reflecting a bumper discount opportunity for overseas shoppers. It is perhaps not surprising that, discounting refurbishment and redevelopment, the vacancy rates for central London shops is officially 0.5% so virtually nil.

The position was not so encouraging for other parts of the UK as internet shopping continues to impact on physical retailing. Even retailers who have combined bricks and clicks well such as John Lewis are finding the retail climate hardening across the board. Retails sales volumes contracted for the first time in Q1 2017 since 2012 with consumers buying 1.5% less in March than February.

It is generally recognised that over the past two years it has been the consumer that has been leading the improving economy. However, Q1 2017 statistics suggest that consumerism in the UK is running out of steam. Therefore, in the future positive UK economic trends will have to look more towards manufacturing, business and service exports if GDP is to continue to grow at its current rate. Unfortunately, the balance of payments widened by £0.7 billion to £3.7bn in February 2017 on the background of imports increasing by £0.3bn to a record high and exports declining by £0.4bn. Not much comfort from that side of the coin at this stage although the overall figures confirm that the trade gap is showing signs of narrowing, so hope yet!

On the other hand in terms of the UK's trading relationship with Europe our exports have been declining since their peak in 1988 at some 60% but are now below 50% and the rate of growth continues to decline. However, whereas the trade balance with the EU on services has risen to over £20bn in 2016 the total goods balance with the EU is in negative territory at -£80bn with the UK relying on exports to the EU at a higher level than any other EU country.

UK GDP growth is relatively steady at 0.3% for Q1 2017. Although this is less than predicted at 0.4%. Nevertheless, a recent PwC report in February this year predicted that the UK is expected to grow faster than any other advanced major economy over the next three decades at an average annual growth rate of 1.9%

The decision on Tuesday 18th April to call for a snap general election for 8th June 2017 has created additional uncertainty in the short term but should lead to a stronger position during the BREXIT negotiations. Party politics may be abandoned to reflect "BREXIT" and the "Remain" factions but the £sterling has responded favourably rising against both the $ & €. The stock market is also close to record highs with business and investors bullish rather than bearish about the future and on the 1st March 2017 reached 7,382.9 pushing past the previous high of 7,337 reached on 13th January.

Consumer spending and wages growth both remain positive at about 2.3% each but as commented on above the economy cannot rely on being sustained by consumer spending alone. The weaker pound has increased manufacturing activity and boosted export volumes by some 15% over the past 12 months.

Unemployment is at its lowest level for very many years at 4.7% in the three months to January 2017 and has not been lower since June to August 1975. Yet wages are falling in real terms at 1.7% against inflation of 1.8% (measured against January 2016) which is a surprising result in a period of almost full employment.

This is despite the reported influx of immigrant labour yet emphasises how close to a knife-edge the economy is as central government debt remains high at £1.73 trillion, equivalent to over 80% of annual GDP. What is encouraging is that the UK economy outperforms the IMF assessment who downgraded UK GDP growth potential by 0.9% to 1.1% following the Brexit vote. The IMF have a history of getting their growth predictions embarrassingly wrong and this was no exception. Our only concern is that the IMF in accepting the UK economy will strengthen now predict GDP to rise to 1.5% pa. On this occasion, one hopes that the IMF have got it right for a change.

There is no clear position on interest rates levels with some observers suggesting that Europe will continue to suffer from deflation. By contrast the USA Fed rate in March 2017 increased its interest rate for the second time in three months from 0.75% to 1%. Most predictions do not see UK interest rate rises for the rest of 2017 and possibly 2018 but 2019 is suggested as the year when interest rates will begin to increase.

With internet sales continuing to increase, the unfairness of business rates in terms of application and transparency, potential wage deflation, increasing food and housing cost and likely hikes in taxation around the edges, the next 12 months for the retail and property sector is not encouraging.

However, there are always exceptions with the clear winners being the discount retailers especially in the food supermarket sector, services and the restaurant sector. A tough 12 months before us but no less interesting for that and the opportunity for counter cyclical investment comes to mind.

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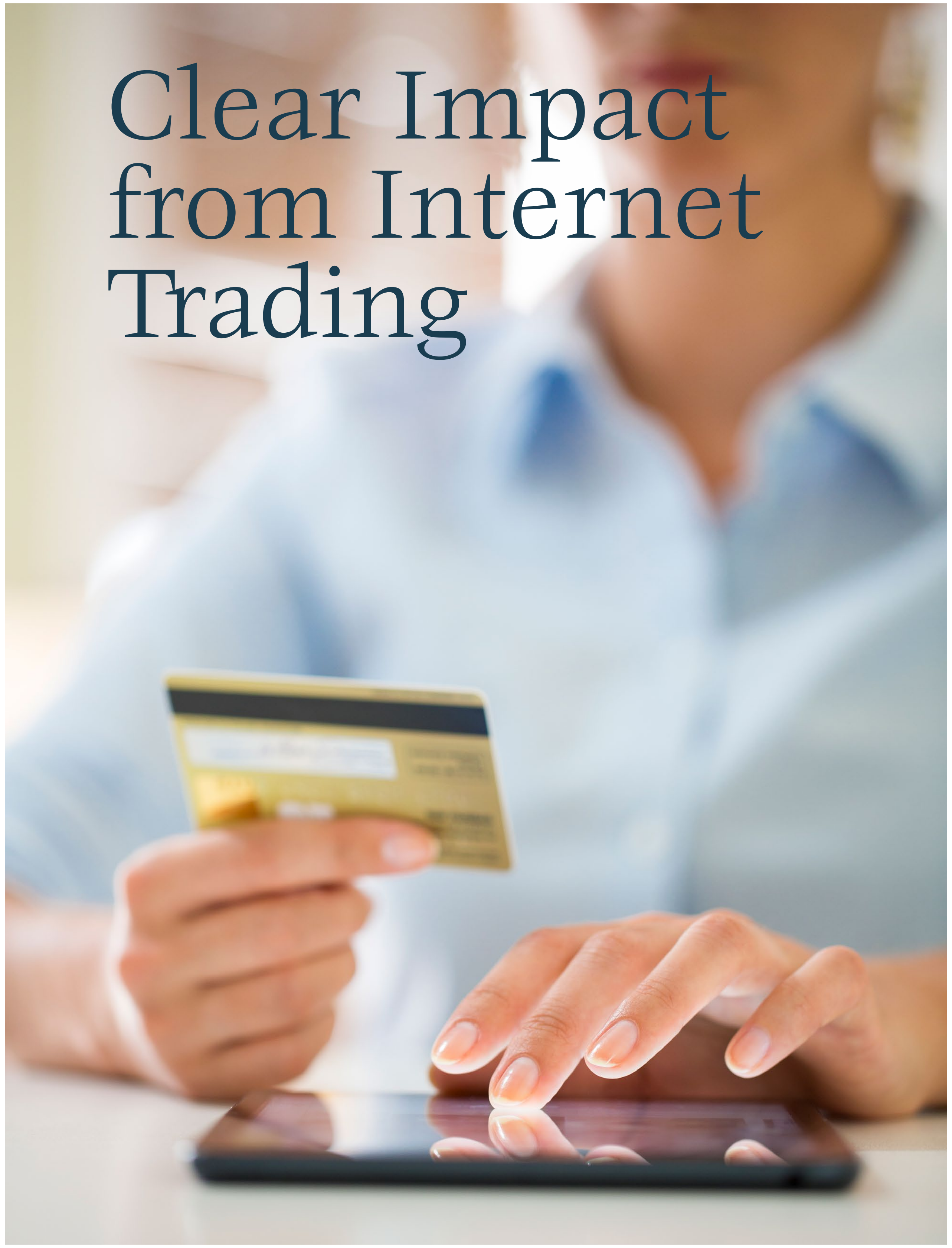
Clear Impact from Internet Trading



Even a cursory glance at the four quarters of activities promote a very clear pattern of depressing activity in the High Street with pedestrian footfall continuing to fall quite dramatically, fewer retailers in the market for new shops, a regular pattern of shop closures and vacancy rates remaining high at 11.5%.

The High Street is clearly under pressure in many locations and we do not foresee this being reversed in the near future.

The major regional centres are on the whole doing well but even they are not immune to current market conditions with Newcastle and Cardiff both suffering from notable falls in Zone A rates in anywhere but the absolute prime pitch.

By contrast, the far flung corner of the United Kingdom, Truro, is doing well despite the region's GDP being quoted at two-thirds of the European average. Retail requirements remain good, vacancy rates are relatively low and the city centre has a buzz reflecting both a vital and viable retailing profile supported by the recent extension of Lemon Quay.

Internet trading is having an impact on the volume of shoppers in the High Streets and as any good shopkeeper will explain, sales are directly proportional to the number of potential shoppers passing by the shop front. Shoppers' footfall on the 'High Street' has continued to fall throughout 2016 and in 2017. This is a significant trend which shows no sign of abating and where surprisingly the consumer attractors of shopping centres have seen the greatest fall in shopper visitations. By contrast, in Central London, the cheap Pound and increasing tourist visitations, coupled with high net worth individuals spending in the exclusive shopping thoroughfares, volumes of shoppers continue to rise.

It is no wonder that the long established household name Jaeger has failed. On the other hand, some retailers are demonstrating considerable strength with The White Company and Hotel Chocolat being able to buck the depression in the High Street with notable increases in both turnover and increasing profit margins.

The problem has been the lack of new entrants into the market and the ever dwindling supply of independent retailers, so important for many of the market towns. However, the UK continues to be of interest to overseas retailers and as we go to press, Canada Goose is rumoured to have secured its first UK store in London's Regent Street.

There are many anchors to the high street and shopping centres and their fortunes vary significantly but the barometer that counts for most tends to include the strategic retailers of John Lewis, Marks & Spencer, Next and Primark. This is for good reason as they were all able to demonstrate how to improve turnover and sales since the Leaman Brothers failure in September 2008 with the exception of M&S on its fashion side.

This year, Primark, the company which now anchors both ends of London's Oxford Street, despite being the darling of the High Street, and outperforming many of its competitors, in September 2016 experienced a 2% fall in annual sales, its first fall in 16 years. Encouragingly, M&S for the first time in a number of years has seen its fashion sales improve with its latest figures showing a 2.3% rise in like for like sales in the UK.

Worryingly, John Lewis has found trading conditions tougher, even though it retains a stronger profile both in physical and internet trading channels (bricks and clicks). Next, the leading retailer since 2008, has found life much more challenging over the last 18 months confirming that in the 54 days to 24th December 2017, full price sales were down 0.4%. In addition, the firm forecasts full year profits would be at the low end of expectations, at £792m, compared to the previous estimate of £785m-£825m. This had an adverse impact on Next shares, down 12% on 4th January 2017.

The debacle at BHS and its failure is now behind us to a greater extent with the best of the vacated space now finding tenants relatively quickly but there are notable gaps. In some respects, BHS, as Woolworths many years ago, had stopped acting as an attractor to the High Street and therefore its demise in terms of profile for town centres was almost welcomed but not where the accommodation remains unlet.

Also of significance was the failure of Austin Reed with 87 shops coming onto the market, but much of the space has been taken up quite quickly. Casualties continue to emerge with Jones Bootmakers under care and the integration of Argos into the Sainsbury's stable resulting in a number of High Street closure.

In many town centres including those that were traditionally strong have seen an increasing number of vacant units with little sign of the space being taken up. Centres such as Bath, Cardiff and Newcastle which we usually expect to hold their own, now simply find themselves with too much space. Changes to the GDO to allow for flexibility to transfer sues between A1 and A2 use has not helped in the bigger centres although in market towns the benefits are now beginning to be seen as service provides coupled with restaurants and more local traders begin to take up space as consumers look to these types of facilities.

Not surprisingly vacancy rates are high at 11.5%, the amount of shops being taken up continues to be outpaced by the number of shops coming onto the market particularly in fringe positions in major provincial towns and is a trend we do not see being reversed in the near future.

Whilst the High Street continues to struggle, hope still remains as the linkage between internet sales and 'high street' representation strengthens and the continued need for physical stores is clear to see, albeit in different formats. An example of this is Ikea's recent announcement to open new store formats, including city centre pick up points as well as 'smaller and greener' shops. This is in a push to double its 2013 revenues to €50bn in 2020 and demonstrates how a predominately online and out of town large store retailer is looking to acquire high street representation.

Vacancy rates in shops/retail property remain high as identified by LBC at 11.5% in April 2016 although this is the lowest it has been since the 2008 recession. It is an improvement from the vacancy peak in 2008 at 14.1% but given that before Lehman's crash on 16th September 2008 the average vacancy rate was in the region of 6% this only shows how tough the retail property market is particularly outside of central London.

The position has not been assisted by muted occupier demand although the trend continues to be for large units in all centres relative to standard unit sizes. In suburban shopping parades this may mean a combination of 2 to 3 shop units and in central London the redevelopment of the Plaza Shopping Centre has provided Next with a unit of almost 100,000 sq ft. It is all a matter of scale!

BHS did fail and it was not a happy sight with many towns still seeking to find occupiers for all or part of the redundant space this failure created. However, because of the much of the accommodation did comprise large retail space a number of location were taken up quickly sometimes for the whole building and others with a simple split of the property. Nevertheless, the poorer locations have failed to let creating significant oversupply and weakening the trading profile and environment where this vacant space has not been replaced.

To suggest that the shops market is dead would be to misunderstand its size, importance and ability to reinvent itself. The delay of the new rating list by 2 years has created the very uncertainty that the government stated it was avoiding and has held back parts of the country where rateable values have been too high and encouraged rapid growth in areas where they have been too low. Central London has been a net beneficiary of the rating list delay but has also been boosted by the growth in its population, the strength of the south east economy and the boom in tourism and overseas expenditure in the main shopping London shopping streets. Zone A rates in the prime part of Oxford Street are reported to exceed £1000 psf (30 ft zones) and prime Bond Street has now achieved the heady heights of £2,220 (30 ft zones).

Growth has not been restricted to central London with the booming economy of Cambridge coupled with increasing commuter train speeds on the east coast line improving the fortunes of this part of the UK dramatically over the past 5 years.

The restaurant market continues to grow at a rate of knots, with consumer spending reaching £81bn in 2015, forecast to exceed £85bn by 2020 and £91bn by 2026. However, growing competition is seeing many more traditional style restaurants struggling, with 'The Restaurant Group' announcing it would close 33 of its restaurants as consumers are now seeking newer and more exciting concepts. This is in contrast with new restaurant operators such as Franco Manca and Wahaca, who have experienced success with concepts targeting experience and atmosphere, often with simpler menus.

We reported last year that new development of shopping centres was muted and this continues to be the case. Viability has become more of an issue with developers/investors often forced to undertake development projects based on an estimated internal rate of return (IRR) in the region of 10% based on rental growth projections over 20 years, rather than a traditional positive return of profit on cost of between 15% and 25%. Often projects of a substantial nature are lucky to produce a financial appraisal in positive territory.

As an example, Hammerson and Westfield having secured planning permission and approval of the compulsory purchase order for central Croydon with the redevelopment of the old Whitgift Centre but have had to revise their proposals as market changes have impacted on their user mix strategy coupled with rising costs and tightening margins. The old 60's office blocks that dominate the Croydon skyline have proved a deterrent to growth in the town until recently but with the residential sector now bringing forward new development potential in the central area and Croydon reinventing itself as a CBD with Government departments such as the Government Digital Service taking new space in the town and a Chinese developer buying the old Nestlé office tower to convert to residential, it appears Croydon is on the verge of a renaissance.

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In Edinburgh, Hermes have secured a finance partner in APG for the £1bn redevelopment of the St James shopping centre where demolition work has commenced. Edinburgh's retail offer has been drifting with the failed Princes Street and Edinburgh Gardens proposals, coupled with the sorry story of delays and cost over runs of the Edinburgh tram. The strength of the new St James Centre anchored by a revitalised John Lewis can only be good for the capital of Scotland as a focus for retailing. The impact on the western end of Princes Street and George Street is difficult to forecast but there will be change and such change may see a different profile coming through to the fringe areas as shopping in Edinburgh is likely to strengthen.

After some 20 years of proposals and planning, the Westgate shopping centre in central Oxford will open for business on 24th October 2017. Anchored by a new 140,000 sq ft John Lewis department store and redeveloped by Land Securities this 800,000 sq ft centre it is claimed has achieved 70% pre-lettings. There are 100 stores and 25 shop units as well as a cinema and roof gardens demonstrating that destination centres which increase dwell times are critical to create long term growth prospects.

The Brent Cross redevelopment continues to smoulder with the CPO inquiry held in November last year. The Secretary of State is still to make the decision at the time of going to press but the promoters submitted their reserved matters application in April this year so arguably all set to go. Hammerson and Standard Life as promoters will have to come to grips with the difficult phasing arrangements to keep the centre trading. General design issues, transport integration and a new car park charging regime are not straightforward so we will wait to see the end result with interest.

The ability to change between use classes of A1 and A2 has been helpful but as we reported last year there is uncertainty as some local authorities are threatening to change their approach to the legality of such changes and other local authorities are evoking Article 4 Direction whereby they exclude themselves from the ability to change uses under the General Permitted Development Order 2015 (for a full expose of the arrangements see our report from last year).

There has been much publicity over the past 24 months over the closure of London's clubs and late night venues, most notably 'Fabric' was shut down in September 2016, with local authorities blaming a growing drug problem being the reason for them shutting the club. Whilst occupiers and authorities both face the challenge of tackling such an issue, nightclub 'Printworks' has entered into a 5 year lease in a former factory within British Land's Surrey Quays site, despite the challenges of growing planning complications and rapidly increasing rents faced by the nightlife sector. This is in the hope to capitalise on the £26.4bn London 24-hour economy, whilst also seeking to create income streams for vacant industrial properties, prior to the planned redevelopment of Canada Water.

Summary of Market Activity Q2 2016 - Q1 2017

QUARTER 2 - (April to June) 2016

Market Analysis

- Deflation stabilises as inflation on essential items moved out of negative territory for the first time in more than a year
- BHS sells its flagship store lease on Oxford Street as Polish giant Lubianiec Piechocki i Partnerzy (LPP) prepares to move into the unit
- WHSmith announces it will install digital screens in 100 stores, giving stores “advertising standout”
- John Lewis seeks start-ups with a health and convenience focus as it launches this year's JLab technology competition
- JD Sport preliminary profits rocket 57%
- Retail footfall suffers its sharpest decline in more than two years in March as the early Easter and cold weather dents traffic
- A new survey suggests a third of consumers don't use contactless payment when shopping because they don't trust the technology. The number of contactless transactions taking place in the UK has trebled since the limit was increased from £20 to £30 last September, but many shoppers still refuse to use the technology
- Westfield trials technology that allows shoppers to buy items from a personal stylist in their hotel room via an interactive mirror
- Sajid Javid orders inquiry into BHS by Insolvency Service
- Delay in business rates reform costs BHS £75m over a five-year period
- Monsoon's full-year EBITDA plunges 59% to £19.3m. Total sales fall 8.6% to £434m with Monsoon blaming weather and discounting
- High street footfall suffers its biggest decline since February 2014, according to figures from the British Retail Consortium and Springboard. High street shopper numbers fell 4.7% during April, while overall footfall was down 2.4% on 2015's figure. This is slightly ahead of the 2.7% decline for March 2016, compared with March 2015
- Mountain Warehouse pre-tax profits up 36% as like-for-likes rise 19.3%. Retailer rumoured to be eying Austin Reed stores
- Amazon boss Jeff Bezos insists the online giant will “definitely” open more stores as it plans an assault on bricks-and-mortar retailers
- Just 29% of major retail bosses are confident about the industry's prospects over the next six months, according to a survey by PwC
- Austin Reed announces it will shut 120 stores and make 1,000 employees redundant
- Shoe Zone see's profits fall as the retailer closed 23 loss-making and temporary stores during the period

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QUARTER 3 - (July to September) 2016

Market Analysis

- Superdrug reports a jump in full-year profits and sales as the health and beauty retailer benefits from upping its in-store services. Pre-tax profits in the year to December 26, 2015, rise 62% to £56.8m
- Sports Direct posts an 8.4% drop in annual pre-tax profits as boss Dave Forsey brands it a “disappointing” year
- Asos upgrads its fulfilment offer by launching a new service allowing customers to choose their own one-hour delivery slot. The new ‘Precise’ service, in conjunction with parcel delivery company DPD, means the etailer's customers can choose any available slot between 11am and 5pm in the seven days after they order
- Footfall in June fell 2.8% year-on-year, the sharpest decline since February 2014, as shoppers reacted to the EU referendum result
- Primark posts a rise a 7% rise in third-quarter sales after it benefited from opening 11 new stores in the period
- Ocado will open a 7,200 sq ft physical shop as part of the launch of its new health and beauty venture with Marie Claire
- Nine out of every 10 retail transactions in the UK “touch” a bricks-and-mortar shop, new research on consumer behaviour reveals
- My Local administrator KPMG confirms sale of 26 stores
- It is confirmed the remaining 114 BHS stores will ‘cease trading by August 20’
- Argos owner Home Retail Group's shareholders have unanimously voted in favour of the proposed £1.4bn acquisition by Sainsbury's
- Consumer confidence falls at sharpest rate in 26 years in July
- JD Sports announce they will open a second store on London's Oxford Street. The sportswear specialist has taken a 10-year lease on a 23,000 sq ft store in West One Shopping Centre, above Bond Street tube station, which was occupied by The Toy Store until earlier this year. Reports suggest they will pay an annual rent of £3.1m for the new 201-203 Oxford Street store
- London's Night Tube drives a 14% lift in footfall on London's Oxford Street on its opening weekend as shoppers opted to stay out late
- John Lewis Partnership posts a 14.7% drop in half-year pre-tax profits as the business “responds to the changes in the retail market.”
- Tourists boosts West End tax-free sales by 44% in August, but retailers in the district are set to be dented by business rates
- For the first time, Missguided customers are able to collect and return orders from more than 50 stores at shopping centres, train stations and universities. A number of Doddle stores also contain changing rooms

QUARTER 4 - (October to December) 2016

Market Analysis

• Next is doubling the size of its current store at Intu in Newcastle by taking on the vacated BHS shop. The refurbished site, which will open in early 2018, will be one of the biggest-ever stores for Next totalling 85,000 sq ft

• Majestic Wine rolls out click and collect and next day delivery propositions as it continues its multichannel drive. The retailer plans to offer its full range of Fawines through the new service, which is being rolled out quietly across its 210 UK stores

• Black Friday and Cyber Monday set to bring in £5bn online over a five-day period, with mobile comprising the majority of etail sales

• Retailers open the lowest number of new stores for five years in the first half of 2016, but shut 15 shops every day. During the first six months of the year, just 2,153 new stores opened in the UK – the lowest first-half total since 2011, when 1,809 shops launched

• Marks & Spencer set to close around 60 clothing and home stores over the next five years after its half-year profits tumbled. The retailer's interim pre-tax profits nosedive 88.4% to £25.1m

• The decline in retail footfall accelerates in November, despite shopping centres and high streets across the country slashing prices for Black Friday. Shopping centre footfall falls 2.3% in the four-week period

• Jack Wills sold to founder Peter Williams and Liberty owner BlueGem as full-year profits tumble 41.1%

• Holland & Barrett moves to strengthen its board with a string of promotions as it aims to hit £1bn sales by 2020

• Ted Baker has reports 20.5% rise in half-year profits and 14.4% rise in sales as it plans further international expansion despite "challenging trading conditions"

• Game's pre-tax profits plunge 84% in what boss Martyn Gibbs describes as an "undoubtedly tough" year

• Analysts warns retailers are preparing to raise prices by around 5% next year after the pound plummeted to a new low

• Hamleys pre-tax profits down to £761,000 over the 10 months to 31 December 2015. This compared with a profit of £1.7m in the previous year, which covered a 15-month trading period. The lower profits has been put down to the £1m cost during the C.banner's £100m acquisition

• Sir Philip Green hires a top human rights lawyer in a bid to clear his name following the inquiry into the collapse of BHS

• Hotel Chocolat sees full-year pre-tax profits jump 181% to £8.2m

• Research suggests consumers are more likely to shop in stores than online but are eager for new in-store technology

• Retail billionaire Philip Day confirms plans to open 50 Austin Reed stores by early 2018 as he seeks to capitalise on the collapsed retailer's heritage

• Luxury department store Fortnum & Mason says its British-made products were "at the heart of Fortnum's success" as net profit surge 27% to £6.2m in the year ending July 10

• McColl's takeover of over 298 Co-op's stores to bolster its convenience offer is signed off by the Competition and Markets Authority

• The White Company unveils surging profits up 50% in its full-year against strong comparables and despite a "difficult trading environment"

• Fat Face tests closing 10 stores on Boxing Day to give staff an extra day with their families at Christmas

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QUARTER 1 - (January to March) 2017

Market Analysis

• Footfall drops 16.1% during the New Year's weekend. Shopping centres suffer most as shopper numbers tumble 49.5% on January 1. In contrast, online sales climb 6.8% year-on-year across the two-day period

• New research suggests three-quarters of international retailers are opting to expand outside of the UK because of the onerous business rates system

• Troubled lingerie chain Agent Provocateur attracts more than a dozen bidders, according to reports

• It is announced that House of Fraser will anchor the new £300m retail complex, The Chester Northgate, which will open in 2021

• Jaeger seeks investors, engaging Alix Partners to examine interest from potential partners or to find a buyer

• Argos shells out £2.4m in wages after an HMRC investigation reveals it had underpaid more than 37,000 current and former staff

• Former BHS owner Sir Philip Green settles the collapsed retailer's pension scheme by agreeing to pay up
to £363m

• Canada Goose closes in on securing its first UK store on London's Regent Street

• Reports claim Store Twenty One enters into talks with its lender over its quarterly rent payments, which could push the retailer into administration if unpaid

• Overall footfall falls 1% year-on-year in December. Footfall at shopping centres dropped most at 2.6%, with footfall at retail parks falling 1.6% and high street footfall edging up 0.1%

• Value chain 99p Stores tumbles into administration less than two years after it was bought by Poundland

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Lethargy Rules

In 35 years of dealing with the retail warehouse market the past year has been the quietest. 2016/2017 will go down in our experience as the most lethargic and uninspiring 12 months of the past three and a half decades.

In a marketplace which has always been troubled by a relatively few number of potential tenants, there remains much confusion as to the different retailing models this sector offers. True shopping parks are nothing more than a conglomeration of large shop units and replicate a cluster of category killers designed to take on all competition and win. As shopping parks have grown, so has their draw and influence. Consequently, many market town centres have been left in their wake. They almost resemble something akin to the stereotype spaghetti western Wild West where tumbleweed blows down the High Street with the expectation that Clint Eastwood will emerge chewing a cheroot, dressed in a poncho and has his hand lazily covering the handle of his gun sheathed in its holster.

However, even in the shopping park sector, there is a limit to the amount of space that can be let with the result the super rental growth profiles of the past have been left way behind. In the south east and especially London, there are a number of circumstances where the prospects of residential development provide greater returns than retail warehouse development or even extensions to the top of the retail food chain, the shopping park.

In the traditional bulky goods sector of this market, trading is dull despite the excitement of Australian DIY leader Bunnings following B&Q in January 2016 As buy-to-let increases and the percentage of home ownership reduces, so the DIY fad has weakened as professional builders and contractors take up refurbishment and renovation utilising more traditional builders merchants and abandoning the DIY sector. However, even in the builder's merchants' arena the difficult trading conditions are not easy to hide as demonstrated by Travis Perkins which has fallen out of the top 100 UK companies suggesting that even the professionals are struggling. As they cover both the traditional DIY sector through their Wickes subsidiary as well as the builders merchant trade suggests the building boom of the past 7 years has probably peaked.

This is somewhat surprising given the number of cranes on the horizon and demand for new residential development. Presumably the scale of the residential schemes focused on centralised supply is taking away local business potential. It may also be the change in a market cycle as overseas investment in residential and home grown buy to let investors count the cost of changes in government taxation policy with capital gains tax hitting international investors and SDLT premium tax payments for 2nd properties beginning to bite. These factors are dramatically changing the return profile in the residential investment sector and will take a couple of years to feed through into the statistics reflecting the inertia that property markets inevitably suffer from.

The furniture sector has shown some resilience which is an interesting twist as it is usually this sector of the retail warehouse retailing fraternity that suffers the first and reacts the most violently. That said no two market cycles are ever the same and as consumer confidence was strong last year and spending increased in each quarter, up to Q4 2016, big ticket items which includes the furniture sector, have done well.

The asset management opportunities so much at the fore of the retail warehouse sector over the last 10 years, including right-sizing and obtaining more open planning consents seems to have come to the end of its natural cycle, coupled with muted rental growth and a degree of saturation in physical retail space in general terms. Nevertheless, the traditional bulky goods sector which created the original need for large showrooms still offers a solid trading profile which is attractive to the consumer and where footfall remains relatively high. Latest footfall figures show less of a fall in retail warehouse facilities than has been experienced in both the High Street and shopping centres. Retailers appear to have a trading strength greater than in the past with a stable platform for investment.

Summary of Market Activity Q2 2015 - Q1 2016

QUARTER 2 (April - June) - 2016

Market Analysis

- Pets Corner buy PamPurredPets for £6m
- The Range eyes German debut as it targets European expansion
- Dunelm total like-for-likes in third quarter up by 1.1% with total sales up 5.9% to £229m
- Report unveils the available square footage in retail parks fell to just 5.9% during 2015, the lowest level since 2002
- Amazon starts selling the first tranche of fresh groceries online following its link-up with the supermarket Morrisons
- Mothercare unveils a 51% surge in underlying group pre-tax profits to £19.6m but says the international business "remains challenging"
- B&M's full-year adjusted pre-tax profits jump 19.5% to £161.4m with total sales surging 23.6% to £2.04bn
- Pets at Home Full-year pre-tax profits up 3.7% to £92.1m with like-for-likes rising 2.1%. Pets at Home's total sales climb 6.7% to £793m
- Dixons Carphone pre-tax profits rise to £447m in the year to April 30 with total group sales up 3% to £9.7bn

QUARTER 3 (July - September) - 2016

Market Analysis

- Poundland and Steinhoff agrees terms on a recommended cash offer for the value retailer as a £597m takeover nears completion
- McColl's agrees a deal to acquire 298 convenience stores from the Co-operative Group for £117m in cash. Jonathan Miller, McColl's chief executive, branded the deal "transformational" for the group, which currently operates around 933 McColl's-branded convenience stores in the UK
- Steinhoff's offer of $2.4bn accepted to purchase Mattress Firm Holdings, under Sleepy's and Mattress Firm brands, adding 3,500 stores to its worldwide network
- DFS's full-year sales are up 7% on the previous year
- Value retailer Poundland agrees to a higher takeover offer of £610.4m from South African retail suitor Steinhoff

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QUARTER 4 (October - December) - 2016

Market Analysis

- Value retailer Matalan opens its first UK standalone homestore in Knaresborough, North Yorkshire, as it expands its furniture offer
- DFS's pre-tax profits rocket 93% to £64.5m in the sofa specialist's full-year to July 30 with total sales rising 7.4%
- B&Q rolls out its new design format to 10 stores and confirms it will launch a one hour click-and-collect service next year
- Sales growth at discount duo Aldi and Lidl hits its lowest level for five years as the big four fightback gathers momentum
- Home and furniture retailer Dunelm purchases struggling etailer Worldstores in a deal worth £8.5m
- Poundland confirms it is looking to sell up to 80 stores just over two months after it was acquired by South African retail giant Steinhoff
- DFS drops out of the FTSE 250 a month after a major shareholder slashed its stake in the retailer. Wickes owner Travis Perkins also falls out of the FTSE 100
- Staples confirm all 106 Staples stores UK will close following the acquisition of the UK arm by HMV-owner Hilco for a "nominal" sum

QUARTER 1 (January - March) - 2017

Quarterly Analysis

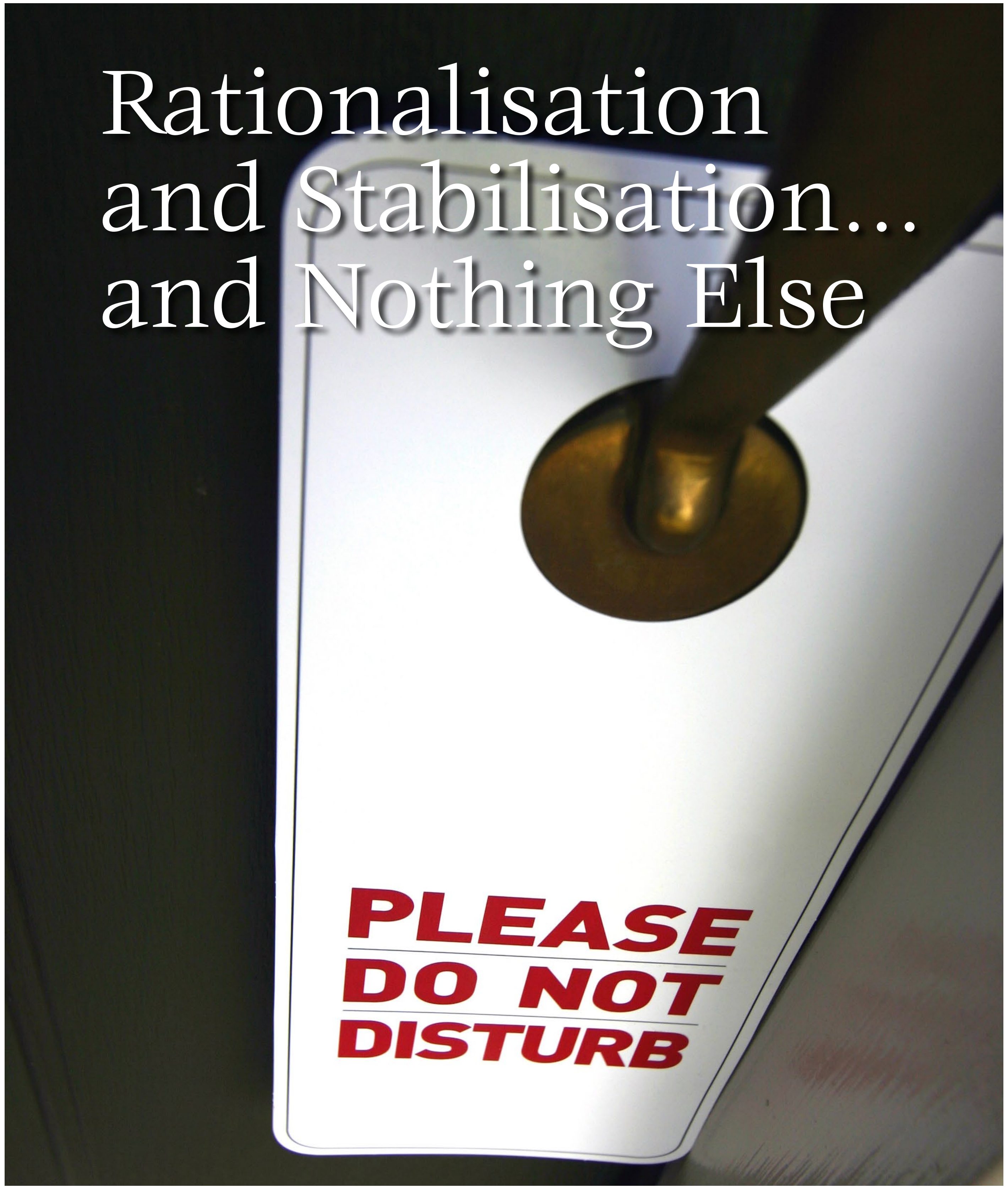
- Kingfisher's adjusted pre-tax profit rise 8.3% to £743m while underlying pre-tax profit rise 14.7% to £787m
- Private-equity company Advent sells remaining shares in DFS, which represent a 12.1% stake in the company
- Brantano follows sister retailer Jones Bootmaker by filing an intent to appoint an administrator. Brantano later tumbles into administration putting the future of its 73 stores and 64 concessions at risk
- Marks & Spencer Simply Food and Aldi both sign pre-let deals totalling over 30,000 sq ft between them on the new 180,000 sq ft retail and business park in Chelmsford. The scheme is due to be completed by November 2017

C&P

Spring
Retail Report
2017

Superstores and Supermarkets

Rationalisation and Stabilisation... and Nothing Else



In previous years we've reported on the "deal avoidance tag" applied to food superstore estates departments. Much lighter in terms of staffing than 5 years ago some observers now refer to them as the departments who like to say "no". With no new store development of any note, the focus for the mainline food retailers of Asda, Sainsbury's, Tesco, Waitrose and Morrisons has been to stabilise a trading platform which has found itself on the quicksand. However, it would be wrong for the market to criticise this approach as there is no doubt the major players do appear to have stabilised their trading profiles and rationalising their business to suit consumers need for convenience and discounted prices. Equally the discounters of Aldi, Lidl and Iceland continue to grow market share. We predict they will soon be at 10% each.

Over the past 40 years the maximum number of food trading lines in a food superstore has been in the region of 27,000 and for that the floorplate of no more than 65,000 sq ft GIA is required. Every additional sq ft has to be utilised for non food sales and with the discount traders such as B&M Bargains and Poundland being more affective in their trading style working on lower margins it is in this area that the major supermarket operators have been losing the battle in addition to the impact of Lidl and Aldi.

There is not much evidence of food store operators disposing of mature trading branches which can be compared to the sudden rejection of sites planned for new development. This implies that most operators have a portfolio of properties which satisfies their market penetration in terms of bulk food shopping. This is not to suggest there is an overprovision but that the market has recognised the point at which saturation has been achieved.

There will undoubtedly be some sell offs but on the whole, that has been restricted to stores where leases have come to an end and the owners have seen development potential. This is particularly the case in London where the capital value of a food store which occupies a large site at a low density ratio has a much higher residual value for residential use given the current demand for housing in London. Even the most valuable supermarkets can find that their end value is easily outstripped by a residential redevelopment opportunity. The same problem is occurring in the retail warehouse sector in London where the relationship between the capital value for the existing retail unit and the residual land value of the development potential makes the decision to redevelop an easy one.

There are still pockets where demand for a mainline bulky food supermarkets is outstanding and development is looking more likely but these examples are few and far between and will no longer drive the market as has been the case for the past 40 years. If there is a market to be driven it is in the discount sector led by Aldi and Lidl. Make no mistake, these two retailers continue to lead the revolution in food sales biting into the market share of everybody else. Their growth will continue for years to come but they are now a known quantum and no longer hold a mysterious profile in the sector.

The other conundrum faced by the mainline retailers is their recognition that consumer preference has moved away from bulk shopping to daily convenience shopping. The demographic profile and work life balance is changing shoppers habits coupled with growth in the eating out and takeaway sectors as prices fall and more options for not cooking as a family unit grows. This opportunity was spotted some time ago when the main food retailers realised that they had missed a trick by abandoning the high street corner shop. Growth continues in this area particularly by Sainsbury's, Tesco and Waitrose but the conflict is the cannibalisation that these stores create against their own mainline food superstores. On the other hand, had the major retailers not developed their convenient convenience stores others would have taken their business in any event. It really is a double sided coin of heads you win, and heads you lose.

On the professional side, picking up on the "no" position of the mainline food store operators the answer to most landlord's demand for rental increases at review is for the tenant to say we will see you in the dispute resolution process. That has resulted in some egg on the face for the tenants but equally some of the demands from landlords have not recognised the change in the market. A lot of costs have been expended defending the indefensible. Where both sides have failed to adjust is the need to focus on those positions where it is worth fighting the battle rather than taking a blanket approach and applying the same policy to every situation. There are battles to be won on both sides but the approach will have to be far more selective if unnecessary costs are to be avoided.

Even if the rents payable are in excess of current market levels the income streams are seen as certain and the covenant strength of the tenants is also strong. Consequently although many rental values on food super stores have fallen in real terms, yields remain low reflecting their security and in some cases the fact that these are low density properties with long term development potential. Although there has been some upward movement in yields in the last 12 months, in certain locations and in particular London, rental values have recovered reflecting the diminishing supply of land for large food stores as it is taken up for residential redevelopment. In addition, the uncertainty of trading patterns over the last 3 years has stabilised, with retailers feeling more confident.

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The point that must not be forgotten is that the portfolios retailers now trade reflect their true core establishment and a loss of any of these, apart from where there is surplus space because of size, is damaging for the bottom line and the overall profitability of the company. Retailers in this sector may not wish to expand in terms of their large store holdings but they can certainly not afford to see their estates diminish by very much. In that respect, there is still value in food superstores but with very little new development the question is: what is that value?

At rent review, this is the main point in which rental growth is now being established, which is hardly ideal. However, with no new development and new lettings, the food superstore market is becoming inward looking and rental value levels are relying entirely on independent expert determinations and arbitrator's awards. In theory, following the Westminster v Land Securities case in court proceedings arbitration awards are not inadmissible. Arguably, this follows through to arbitration and the big question is should arbitrators awards be admissible for the purpose the dispute resolver making a decision on the case before them. We feel that under these circumstance the Westminster v Land Securities admissibility rule is out of date and needs reviewing. However, even if arbitrators awards are technically admissible it does not overcome the self fulfilling issue of self perpetuating rental levels which are not informed by open market letting transactions.

Perhaps the best option is to ensure the dispute resolver is not an arbitrator but an independent expert as although arbitration awards and may not be admissible, the independent expert dispute dispute resolver still has to make a decision and it is difficult to see how they can be criticised where they can point to factual evidence even if it is not the evidence that in an open market we would all like to see.

Summary of Market Activity Q2 2015 - Q1 2016

QUARTER 2 (April - June) - 2015

Quarterly Analysis

- Sainsbury's acquisition of Argos inches closer after Home Retail's board "unanimously" recommended the grocer's offer
- Co-op earmarks 300 larger stores for closure as it streamlines its portfolio
- Convenience chain My Local is planning to sell around 10% of its estate to rivals, including Sainsbury's, according to reports. Around 25 of My Local's stores have been lined up for sale, with the Co-op also circling the sites
- Asda like-for-likes slump 5.7% in its first quarter, its seventh consecutive quarter of falling sales
- Waitrose suffers a 17% slip in full-year pre-tax profits, driven by rising pension costs across the John Lewis Partnership

QUARTER 3 (July - September) - 2015

Quarterly Analysis

- Morrison launches a partnership with fulfilment service Doddle as the grocer continues to add "useful services" to its larger stores
- Sainsbury's confirms it will end its joint venture with Netto following a "comprehensive review" of the business and will close all 16 stores
- Supermarket sales drop below £100bn, the first time grocery revenues have dipped below this figure since 2010
- Grocery giant Sainsbury's rebrands Home Retail Group to Sainsbury's Argos after officially completing the £1.4bn acquisition

QUARTER 4 (October - December) - 2015

Quarterly Analysis

- The big four grocers are set to receive a £173m tax reduction on their larger stores over the next five years following the business rates revaluation
- Tesco faces legal action from a group of 60 shareholders who claim to have lost £150m following the grocer's accounting scandal. Bentham Europe, the firm funding the claim, said the investors were "misled by information inaccurately provided to the market" when the supermarket giant overstated profits by £263m back in 2014
- Lidl UK chief operating officer Martin Bailie quits the discounter after 14 years to pursue "another opportunity"
- Tesco, which halted sales of goods such as Marmite and PG Tips amid a pricing row with Unilever, settles the dispute
- Lidl has opened a new 420,000 sq ft, £55m distribution centre as the German grocer continues its aggressive expansion in the UK

QUARTER 1 (January - March) - 2017

Quarterly Analysis

- Iceland outgrows the big four at Christmas as festive grocery sales climbed to their highest level for four years, according to the latest industry data. Sales at the frozen-food specialist jumped 4.7% in the 12 weeks to December 31, making it the fastest-growing grocer other than discount duo Aldi and Lidl, Nielsen figures revealed
- Tesco reports a 0.7% rise in Christmas UK like-for-likes after a strong performance in fresh food
- Morrisons' record a 2.9% leap in like-for-like sales year-on-year in the nine weeks to January 1, the grocer's strongest sales performance during the period for seven years
- Tesco and food wholesaler Booker unveils plans to merge in a deal that values the Londis and Budgens owner at £3.7bn
- Aldi and Lidl come under fire from lorry drivers who claim they are forced to do the jobs of warehouse staff so that the discounters can offer low prices

C&P Spring Retail Report 2017

Retail Investment

Brexit Blame Belies Longer Investment Decline

Many commentaries on the UK commercial property investment market have pointed to the EU referendum and the Brexit result as the watershed for a fall in investment activity. We disagree with this observation as it has been clear to those closely involved in the retail investment property market that the allocation of funds for investment property in this sector has been declining since Q4 2015.

Investment activity is patchy but there is a degree of consistency now emerging. The devaluation of the £ sterling, now at about 14%, has stimulated overseas investment in the central London market. Coupled with increased stamp duty and capital gains tax assessments in the residential market for the overseas investor commercial property has seen increasing activity and acquisitions by overseas byers. In particular, both Chinese and Middle Eastern corporates and private individuals have undertaken a number of transactions in the west end of London for retail property and in the city for large lot size offices. The currency arbitrage and domestic fiscal policy changes have done a lot to maintain London as the strongest area for investment now dominated by overseas funds.

It is also interesting to note that those, with longer term horizons for investment and returns also see London as a safe bet and the current market has a chance to take advantage of opportunities which otherwise would be taken up by more home grown investors. Examples are the Canadian and Norwegian pension funds with the Chinese state also adding to the scramble for secure prime central London property investments.

Nevertheless, the uncertainty of how the economy will perform has added to the profile of reduced activity with the result that yields has risen notably over the past 18 months but stabilised in the Q1 2017 with interest rates and inflation levels putting a break on the further outward movement of yield levels.

When looking at the detail of the domestic retail and leisure property market in their 2016 Q4 results, MSCI report falling total returns to property of 3.6%. Although rental growth remains positive at 2.1% but yield impact is down by -2.1% over the 12 months of 2016.

All property returns for the 12 months of 2016 were at 3.5% but retail was at the bottom of the pack with a total return of just 1.7%. By sector, MSCI identified total returns for the 12 months of 2016 in the retail and leisure property sub sectors, in order of performance, as follows;

Standard retail – central London – 7.8%
Leisure – 6.2%
Standard retail – south east – 5.7%
Standard retail – rest of UK – 1.4%
Shopping centres – 0.6%
Supermarkets – 0.2%
Retail warehouses – 0.1%

The above demonstrates the struggling nature of retail as an asset investment class and in particular the reversal of fortunes in subsectors which have provided strong growth since 2008 being retail warehouses, supermarkets and shopping centres. Most of this growth in the past was a result of yield falls if this trend is to be reversed, it will need improvements in rental growth performance.

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What is not so clear from the MSCI figures is the reversal of yield compression that has taken place between prime and secondary property investments since 2012. There was a time in the first three quarters of 2015 when it was difficult to identify any yield gap between prime and secondary retail investment property. With many investors being overseas, looking purely for prime property, the yield gap between prime and secondary is once again widening as our own yield tables demonstrates.

Many casual observers are surprised at the significant downward swing in the performance of retail property over the past 12 months but the serious and focused players in the market have noted for some time that the fall in yields between 2010 to 2016 reflected influence by other investment sectors rather than any inherent growth potential or increase in rental levels, especially outside of London. The result has been an adjustment to pricing levels as market reality is taking hold.

Key Retail Investment Transactions

Retail Warehouse Investment Transactions
1st April 2016 – 31st March 2017

Altrincham, Atlantic Street Retail Park
Price: £14.00m
Purchaser: -
Vendor: LaSalle Investment Management
Transaction: Freehold Date: April, 2016

Trowbridge, Innox Riverside
Price: -
Purchaser: Charles Dean Property Consultants
Vendor: Morrisons
Transaction: Freehold Date: May, 2016

Romford, Gallows Corner
Price: £55.30m/5.25%
Purchaser: Royal London Asset Management Limited
Vendor: Aberdeen Asset Management Plc
Transaction: Freehold Date: May, 2016

Croydon, Purley Way Retail Park
Price: £45.56m/4.59%
Purchaser: LaSalle Investment Management
Vendor: IM Properties Plc
Transaction: Freehold Date: May, 2016

Milton Keynes, Central Retail Park
Price: £34.90m/5.84%
Purchaser: CBRE Global Investors
Vendor: Rockspring Property Investment Managers
Transaction: Long Leasehold Date: June, 2016

Llanelli, Parc Pemberton
Price: £29.60m/7.01%
Purchaser: Fairacre
Vendor: DTZ Investment Management Limited
Transaction: Freehold Date: June, 2016

Dumfries, Cuckoo Bridge Retail Park
Price: £20.20m/7.05%
Purchaser: New River Retail
Vendor: British Land Plc
Transaction: Freehold Date: June, 2016

Clydebank, Clyde Retail Park
Price: £17.10m/7.3%
Purchaser: Valad Europe PLC
Vendor: Motherwell Investment LP
Transaction: Freehold Date: July, 2016

Enfield, De Mandeville Gate Retail Park
Price: £25.00m/5.7%
Purchaser: Sports Direct.com
Vendor: Standard Life Investments Limited
Transaction: Freehold Date: July, 2016

Huddersfield, Huddersfield Retail Park
Price: £18.40m
Purchaser: BP Pension Trust Limited
Vendor: Helical Bar Plc
Transaction: Long Leasehold Date: August, 2016

Chester, Greyhound Retail Park
Price: £34.40m/6.25%
Purchaser: -
Vendor: Standard Life Investments Limited
Transaction: Long Leasehold Date: August, 2016

Telford, Telford Bridge Retail Park
Price: £43.20m/6.75%
Purchaser: Private Investor
Vendor: -
Transaction: Freehold Date: August, 2016

Cheadle Hulme, Stanley Green Retail Park
Price: £42.60m/6.12%
Purchaser: NFU Mutual Insurance Society Limited
Vendor: -
Transaction: Freehold Date: August, 2016

Wakefield, Westgate Retail and Leisure Park
Price: £191m
Purchaser: BMO Real Estate Partners
Vendor: British Land Company
Transaction: Freehold Date: September, 2016

Newry, Damolly Retail Park
Price: £30.70m/7.4%
Purchaser: Private Investor
Vendor: LondonMetric Property PLC
Transaction: Freehold Date: October, 2016

King's Lynn, Pierpoint Retail Park
Price: £24.00m/5.77%
Purchaser: -
Vendor: LondonMetric Property PLC
Transaction: Freehold Date: October, 2016

Birmingham, Castle Vale Retail Park
Price: £58.40m/6.6%
Purchaser: Ares Management Limited
Vendor: M&G Real Estate
Transaction: Freehold Date: October, 2016

Slough, Slough Retail Park
Price: £53.00m/6.25%
Purchaser: Benson Elliot Capital Management LLP
Vendor: Standard Life Investments Limited
Transaction: Freehold Date: October, 2016

Cramlington, Westmorland Retail Park
Price: £36.00m/5.6%
Purchaser: Northumberland County Council
Vendor: Hammerson
Transaction: Freehold Date: November, 2016

Plymouth, Friary Retail Park
Price: £23.50m
Purchaser: Plymouth City Council
Vendor: AXA Properties Limited
Transaction: Freehold Date: November, 2016

Derby, Kingsway Retail Park
Price: £57.20m/5.75%
Purchaser: Orchard Street Investment Management LLP
Vendor: TH Real Estate
Transaction: Freehold Date: December, 2016

Portsmouth, Ocean Retail Park
Price: £5.20m/9.1%
Purchaser: -
Vendor: CBRE Investors Limited
Transaction: Freehold Date: December, 2016

Harlow, Princes Gate Retail Park
Price: £6.30m/6.97%
Purchaser: TFI Investra Property Income Fund
Vendor: Freehold
Transaction: Freehold Date: December, 2016

Hayes, Hayes Bridge Retail Park
Price: £39.00m/5.65%
Purchaser: British Airways Pension Fund
Vendor: TH Real Estate
Transaction: Freehold Date: December, 2016

Peterborough, Boulevard Retail Park
Price: £32.60m/8%
Purchaser: Infrared Capital Partners Limited
Vendor: Aviva Investors Global Services Limited
Transaction: Freehold Date: January, 2017

Trowbridge, Spitfire Retail Park
Price: £14.85m/6.72%
Purchaser: Columbia Threadneedle
Vendor: Standard Life Investments Limited
Transaction: Freehold Date: January, 2017

Letchworth, Plinston Retail Park
Price: £14.95m/5.78%
Purchaser: Mayfair Capital Investment Management Limited
Vendor: LaSalle Investment Management
Transaction: Long Leasehold Date: January, 2017

London, West Five Centre
Price: £40.00m/4.76%
Purchaser: DTZ Investors Limited
Vendor: M&G Real Estate
Transaction: Freehold Date: January, 2017

Harlow, Oaks Retail Park
Price: £31.10m/6.29%
Purchaser: -
Vendor: Aviva Investors Pension Limited
Transaction: Freehold Date: March, 2017

Christchurch, Christchurch Retail Park
Price: £34.50m/5.65%
Purchaser: Orchard Street Investment Management LLP
Vendor: LondonMetric Property PLC
Transaction: Freehold Date: March, 2017

Bedford, Alban Retail Park
Price: £14.40m/5.9%
Purchaser: -
Vendor: LondonMetric Property PLC
Transaction: Freehold Date: March, 2017

Bristol, Abbey Wood Shopping Park
Price: £53.00m/5.75%
Purchaser: Invesco Real Estate
Vendor: Hermes Real Estate Investment Management
Transaction: Long Leasehold Date: March, 2017

Wakefield, West Yorkshire Retail Park
Price: £19.43m
Purchaser: Eskmuir Properties
Vendor: Royal London Asset Management
Transaction: - Date: March, 2017

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	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	5.00
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	5.50
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	6.50+
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	6.50+

Shopping Centre Investment Transactions 1st April 2016 – 31st March 2017

Eastbourne, Langney Shopping Centre
Price: £19.25m
Purchaser: Vale Retail
Vendor: Columbus UK Real Estate Fund
Transaction: Freehold Date: April, 2016

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

Stockport, Merseyway Shopping Centre
Price: £80.00m
Purchaser: Stockport Metropolitan Borough Council
Vendor: GVA
Transaction: Freehold Date: April, 2016

Leatherhead, Swan Shopping Centre
Price: £8.00m
Purchaser: Mole Valley District Council
Vendor: LaSalle Investment Management
Transaction: Long leasehold Date: May, 2016

Beeston, The Square
Price: £7.57m
Purchaser: Broxtowe Borough Council
Vendor: Henry Boot Developments Limited
Transaction: Long leasehold Date: May, 2016

Dover, St James Site
Price: £53.30m
Purchaser: Legal & General
Vendor: Bond City Limited
Transaction: Freehold Date: May, 2016

Crewe, The Market Shopping Centre
Price: £20.00m/9%
Purchaser: Real Estate Investors Plc
Vendor: Scottish Widows Plc
Transaction: Freehold Date: June, 2016

Bedford, Harpur Centre
Price: £22.00m/7.35%
Purchaser: -
Vendor: Threadneedle Investments Limited
Transaction: Long leasehold Date: June, 2016

Canterbury, Whitefriars Quarter Shopping Centre
Price: £80.00m/6%
Purchaser: Canterbury City Council
Vendor: Canada Pension Plan Investment Board
Transaction: Freehold Date: June, 2016

Dudley, Intu Merry Hill
Price: £410.00m/5.2%
Purchaser: Intu Properties PLC
Vendor: Queensland Investment Corporation
Transaction: Freehold Date: June, 2016

Cramlington, Manor Walks Shopping Centre
Price: £78.00m/7%
Purchaser: Arch Commercial Enterprise
Vendor: Hammerson
Transaction: Freehold Date: July, 2016

Glasgow, Govan Cross Shopping Centre
Price: £5.00m
Purchaser: London & Cambridge Properties Limited
Vendor: -
Transaction: Feuhold Date: August, 2016

Londonderry, Lisnagelvin Shopping Centre
Price: £14.73m/7.9%
Purchaser: -
Vendor: British Land Company
Transaction: Freehold Date: August, 2016

Whitley, Park View Shopping Centre
Price: £7.50m
Purchaser: -
Vendor: Bow Street Mall Limited
Transaction: Freehold Date: August, 2016

Bromley, The Glades
Price: £238.10m/6%
Purchaser: LaSalle Investment Management
Vendor: London Borough of Bromley
Transaction: Freehold Date: August, 2016

Ballymene, The Tower Centre
Price: £6.00m
Purchaser: Private individual
Vendor: Private individual
Transaction: Freehold Date: September, 2016

Edinburgh, St James Centre
Price: -
Purchaser: APG
Vendor: TH Real Estate
Transaction: Freehold Date: October, 2016

Camberley, The Mall Camberley
Price: £86.00m/5.9%
Purchaser: Surrey Heath Borough Council
Vendor: Capital & Regional Plc
Transaction: Freehold Date: Month Year

Slough, Observatory Shopping Centre
Price: -
Purchaser: Abu Dhabi Investment Authority
Vendor: Criterion Capital Limited
Transaction: Freehold Date: November, 2016

Slough, Queensmere Shopping Centre
Price: £130.00m/5%
Purchaser: Abu Dhabi Investment Authority
Vendor: Criterion Capital Limited
Transaction: Freehold Date: November, 2016

Enfield, Palace Exchange
Price: £70.00m
Purchaser: Deutsche Asset Management
Vendor: Standard Life Investments Limited
Transaction: Freehold Date: November, 2016

Manchester, Royal Exchange Shopping Centre
Price: £85.00m
Purchaser: Hines
Vendor: Trinity Investments Limited
Transaction: Freehold Date: December, 2016

Birmingham, One Stop Shopping Centre
Price: £70.00m/7%
Purchaser: Europa Capital LLP
Vendor: Standard Life Investments Limited
Transaction: Freehold Date: December, 2016

Haywards Heath, The Orchards
Price: £23.00m
Purchaser: Mid Sussex District Council
Vendor: Friends Provident Assurance Limited
Transaction: Freehold Date: December, 2016

Edinburgh, Waverley Mall
Price: £23.00m/8%
Purchaser: Moorgarth Group Limited
Vendor: -
Transaction: Long leasehold Date: January, 2017

Redhill, The Belfry
Price: £40.75m/7.5%
Purchaser: Milestone Trust
Vendor: Bank of Ireland
Transaction: Freehold Date: February, 2017

London, Stratford Centre
Price: £141.50m
Purchaser: Frogmore Estates Limited
Vendor: Catalyst Capital LLP
Transaction: Long leasehold Date: February, 2017

Ipswich, Buttermarket Shopping Centre
Price: £54.70m/5.9%
Purchaser: -
Vendor: Drum Property Group Limited
Transaction: Freehold Date: February, 2017

Ilford, The Exchange Shopping Mall
Price: £78.00m/6.7%
Purchaser: Capital & Regional Plc
Vendor: Meyer Bergman
Transaction: - Date: March, 2017

Shop Property 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	Apr 2016
Prime High Street	3.75 - 4.25	4.75 - 5.50	5.00 - 5.75	5.25 - 6.00	4.75	4.50	4.50	4.50	4.25+	4.25+	4.00	5.00 - 5.50
Secondary High Street	5.00 - 5.75	6.00 - 7.00	6.50 - 9.00	8.00 +	9.00+	8.00+	8.00+	9.00+	8.00+	7.00+	6.50	7.00+
Prime Shopping Centre	4.00 - 5.00	5.00 - 6.00	5.50 - 6.50	7.00	6.00	5.50 - 6.50	5.50 - 6.50	5.25 - 6.25	5.25 - 6.00	4.25+	4.25	5.00
Secondary Shopping Centre	5.00 - 6.00	6.00 - 7.50	6.25 - 8.00	9.00 +	9.00+	8.00 +	8.00 +	8.5 +	7.5 +	6.5 +	5.50	7.50+

Supermarket Rental Value

Town Type	Store Type	Rental Range 2013	2014	2015	2016	2017
Large towns	Large format stores	£15-22.50 psf	£15-22.50 psf	£14-18 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	£8-£14 psf
Town centres	Large format stores	£15-£22.50 psf	£15-£20 psf	£14-£18 psf	£14-£18 psf	£12-£18 psf
Town centres	Small format stores	£12.50-£22.50 psf	£15-£22 psf	£15-£22 psf	£14-£20 psf	£12-£18 psf
London conurbation	Large format, limited competition	£30 psf +	£25-£35 psf	£25-£30 psf	£20-£27.50 psf	£25-£35 psf
London conurbation	Small format	£15-£20 psf	£20-£25 psf	£20-£25 psf	£20-£25 psf	£20-£30 psf
All centres	Discount	£8-£12 psf	£10-£16 psf	£12-£20 psf	£12-£23 psf	£12-£28 psf

Supermarket Yield Profile - Limited change but fundamentals are different

Description	Store Type	Equivalent Yeild 2014	2015	2016	2017
Fixed or indexed uplifts at RR	Large format	4.25% - 4.75%	4.25% - 4.50%	3.50% - 4.00%	3.75% - 4.50%
Large centres (Standard RR to MR)	Large format	4.75% - 5.25%	4.50% - 5.00%	3.70% - 4.00%	4.25% - 5.00%
Small centres (Standard RR to MR)	Large format	5.00% - 5.50%	5.00% - 5.50%	4.50% - 5.00%	4.50% - 6.00%

Supermarket share

	12 weeks to 01 March 2015		12 weeks to 28 February 2016			12 weeks to 28 February 2017	
	£millions	%	£millions	%	% Change	%	% Change
Total Grocers	26,406,000	100.0	26,542,000	100.0	0.5	100.0	-
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	27.9	-0.5
Sainsbury's	4,429,000	16.8	4,453,000	16.8	0.5	16.5	-0.3
Asda	4,477,000	17.0	4,298,000	16.2	-4.0	15.7	-0.5
Morrisons	2,898,000	11.0	2,806,000	10.6	-3.2	10.6	-0.1
Co-operative	1,555,000	5.9	1,585,000	6.0	1.9	5.9	-
Aldi	1,327,000	5.0	1,527,000	5.8	15.1	6.3	0.8
Waitrose	1,383,000	5.2	1,385,000	5.2	0.2	5.3	0.0
Lidl	928,000	3.5	1,103,000	4.2	18.9	4.6	0.5
Iceland	574,000	2.2	559,000	2.1	-2.6	2.2	0.2
Other Multiples	726,000	2.8	785,000	3.0	8.1	3.0	0.0
Symbols & Independants	517,000	2.0	507,000	1.9	-2.0	1.9	0.0

Source: Kantar Worldpanel March 2017

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