C&P

Spring
Retail Report
2018

Diversity First, Retail Second
Introduction by Graham Chase

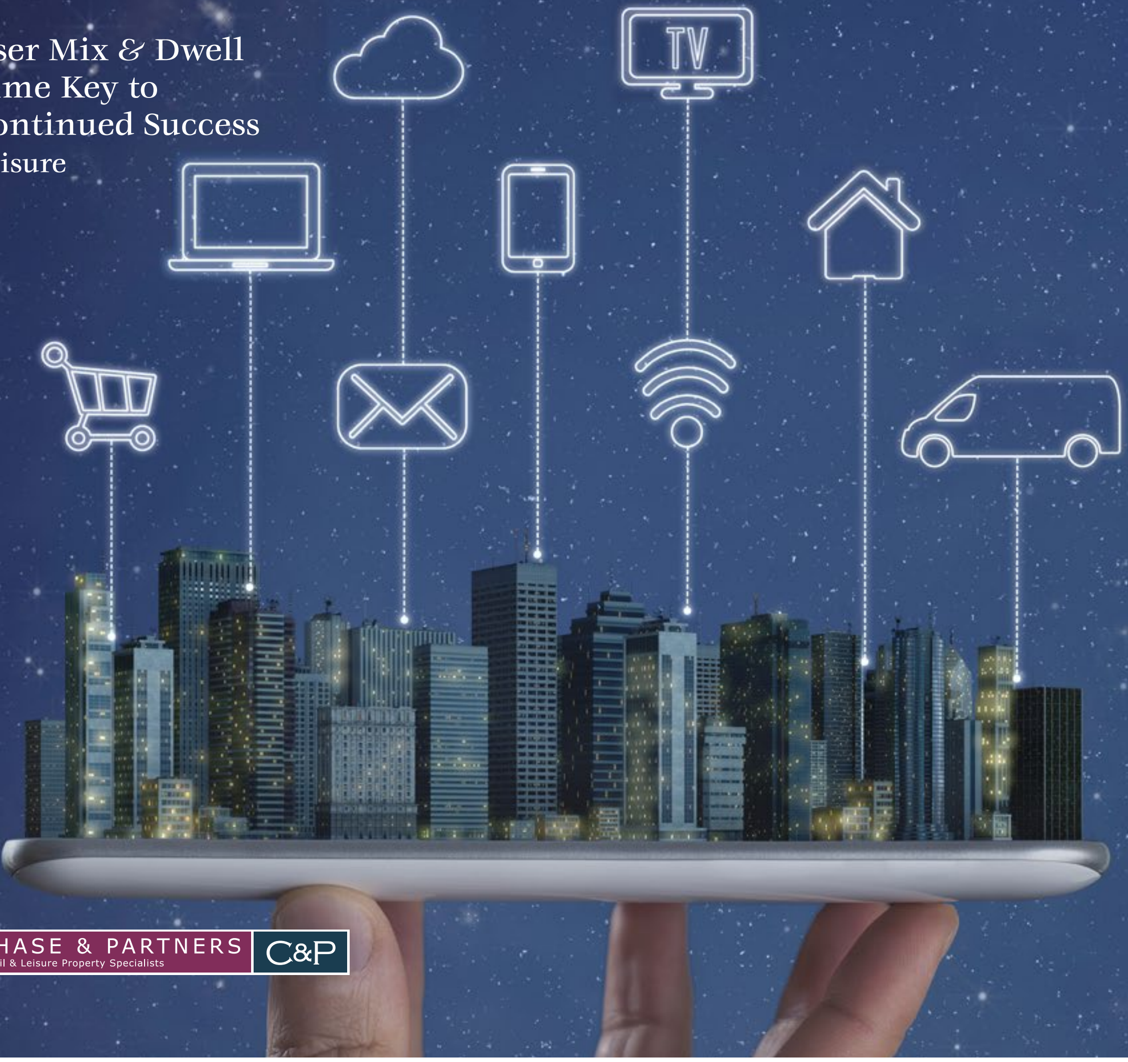
Right Space, Right Place
In-Town Agency

The Return of The Pod
Out-of-Town Agency

Small Gains, Mergers & Acquisitions
Superstores and Supermarkets

Retail & Logistics =
Rising Rents, Falling Yields
Retail & Shopping =
Falling Rents, Rising Yields
Retail Investment

User Mix & Dwell
Time Key to
Continued Success
Leisure



CHASE & PARTNERS
Retail & Leisure Property Specialists
C&P

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> "The right new retail accommodation in the right place which draws shoppers is an important ingredient if there is to be a balance to internet trading and the questionable sustainability of home deliveries."

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Introduction & history of retailing by Graham Chase

Diversity First, Retail Second

The Chase & Partners Spring Retail Report is produced annually on about 1st May each year and has been a feature of the market since C&P commenced trading in 1995. The reports cover both the retail and leisure sectors, both in town and out of town, although depending on activity the focus does vary. It is written as an independent commentary on both occupational and investment property market issues and does not seek to reflect on, or promote, any current instruction or aspirations of a client.

History records three periods of significant expansion of retail property. The first was the Georgian era in the late 18th century with the innovation of thinner and cheaper glass coupled with the development of mass production techniques. This encouraged market stall holders to give up their “stall risers” and take accommodation in the front parlours of the houses facing the market square with shop fronts of timber framed glass panes allowing the display of goods to entice the passing customer to enter and buy their wares. The shop had arrived.

The second period of retail property expansion came in the Victorian period when the UK dominated international trade. This golden era in the UK’s economic fortune, brought with it an array of luxury goods for the masses rather than just the elite, such as sugar, tea, coffee, chocolate, and spices together with an explosion of clothing and household goods manufactured in Britain’s mills and factories into the affordable pockets of the fast expanding middle classes.

With the UK and world economy recovering in the 1950’s from the aftermath of WWII, the development of the shopping centre in the USA travelled across the Atlantic to the UK and with growing consumerism and availability of credit saw the third period of retail property expansion. The first shopping centre in the UK was the “Arndale Centre” developed by Sam Chippendale (an estate agent) and Arnold Hagenbach (a baker and property investor) in Jarrow which opened in 1961. This was followed by 23 more “Arndales” including the massive Manchester Arndale development built in phases between 1972 and 1979 at the significant cost in those days of £100 million.

Some argue that the first true American style mega mall was the Bull Ring in Birmingham which opened in in 1964 but regardless of honours claimed nearly every major town in the UK had the potential for bigger and more opulent shopping malls so development continued. By 2006 the development pipeline for yet more new shopping centres had reached 80 million sq. ft.

It was not just the development of retail property in town centres that fuelled growing consumerism but the arrival of the "shopping experience". The first regional out of centre shopping mall, Brent Cross was built and opened for trading in 1976, although it had taken some 20 years to get the project completed. Since then, scores of regional and sub regional centres have been developed such as the Trafford centre, Meadowhall, Metro Centre, Bluewater and West Thurrock overlooking each other across the Thames to the east of London to name but a few. These purpose-built malls, all having floorspace between 1million and 1.5 million sq. ft. creating their own environment and have continued to evolve with the latest examples being the giant Westfield centres at Stratford and White City.

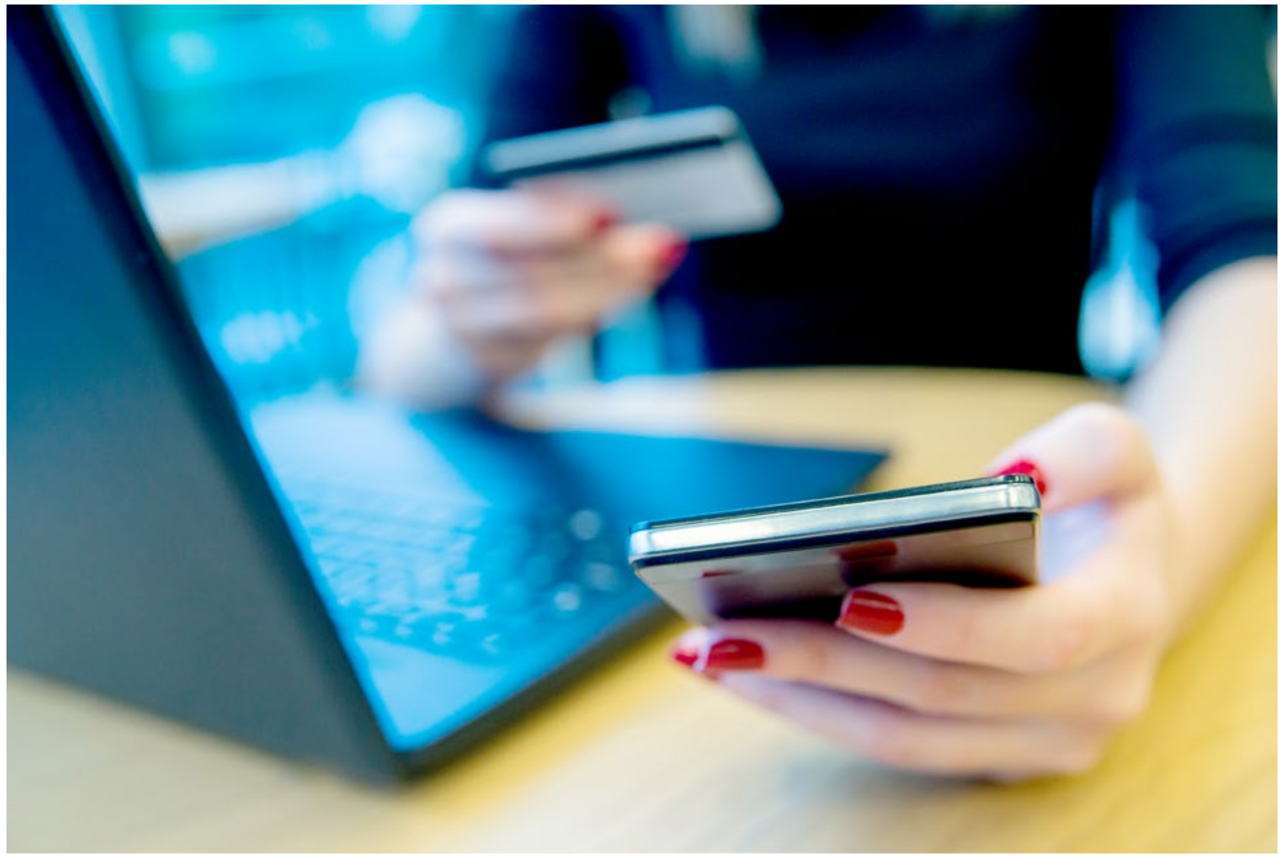
Close by at Blackbird Hill on the outskirts of Neasden and Wembley Safeway (a subsidiary of the American supermarket chain) opened their first “supermarket” in 1962. Presto, Tesco, Sainsbury’s, ASDA and Morrisons, together with others (with some names lost to history) all followed creating massive estates of superstores serving every town in the UK.

In 1969 a DIY company known as B&Q founded by Richard Block and David Quayle, based in Southampton, began taking over old cinemas and redundant warehouses with car parking and easy access ideal for bulky goods displays and sales. Rapid expansion followed in the late 70’s with a whole host of other bulky goods traders joining this popular trading format including Queensway, Brown Bear and Dodge City. In the early 80’s the market was strong enough to build purpose-built retail warehouse parks. The late 1980’s saw the creation of American style “Power centres” including category killer type retailers such as Currys and in turn these evolved in to shopping parks creating large stores for high centre retailers, such as Next, aided by loose planning policies and a lack of space in town centres.

The western world’s banking failure signalled by the collapse of Lehman brothers on 16th September 2008 marked the end of the availability of funding for major retail developments and by 2011 significant changes in the requirements of consumers and technology had checked the pattern of physical shopping growth which had been expanding for over 200 years.

The retail development pipeline is now down to less than 5 million sq. ft. Shopping centre development is only profitable based on long term IRR projections. Supermarket retailing has switched to the strength of the discounters and smaller convenience stores after years of dominance by the mainline superstore retailers. Retail warehousing is in the doldrums and even shopping parks are limited to only a few locations where they can compete and add value. However, the location where the retail property market has really felt the wind of change has been the high street with vacancy rates moving to over 15% in 2008 and back up to 13% having fallen for a brief period to 11.5%. This provides a visible record of what is happening to physical retail across the board.

The key to the change of retailing fortunes has been the use by consumers of the internet. Internet sales first emerged as long ago as 1994 but the real growth has come since 2008 when the western economies went into recession and consumers sought ways of sourcing purchases at a cheaper price and to accommodate longer working hours and more hectic lifestyles.



Today the UK has the third largest e-commerce market in the world with annual sales of at least £50 billion per annum representing an estimated 17.5% of all retail sales and projected to rise to between 21% and 25% between 2022 and 2025. With this background it is not surprising that physical retailing has seen a significant change. Yet there is often a misunderstanding of what this means and how it should be assessed, particularly in planning policy and the benchmarking of town centre performance.

Most vacancies in the high street, in reasonably strong trading towns, are to be found in secondary and tertiary locations. Prime retail frontages are often trading with only limited vacancies. There are several examples with no vacant prime property, as recorded in Oxford Street which has an official vacancy rate of 0% to its 1.8km long frontage. True central London is rather special but the same limited vacancy profile for “super prime” is to be found in Manchester, Birmingham, Cambridge and Milton Keynes and a number of other major centres in the UK. This is not surprising as although 50 years ago a multiple retailer would seek representation in 400 plus locations, today it is for the top 75 to 100 centres.

The definition of what is the best centre for trading is not easily assessed and many smaller market towns are finding they have strong demand from a more diversified tenant mix and trading offer.

What is clear is that after 200 years the fundamentals, of what makes a town centre work, are going back to their roots. Towns were defined by their commerce and residential occupation. Whether it was a centre for agriculture and livestock sales or business, commerce and industrial processes; it was never the case of retail first. On the contrary town centres were places where retailers sought representation because they were the source and focus of expenditure. The consumer/customer/people were already there and did not have to be "bused in" between 9:00am and 5:00pm.

Today we face the problem of town centres which over the past 70 years have simply become locations for people to visit because of the retail offer. These are the centres that are dying. Town centres, to "revive and thrive" in the future will be defined by their economic activity and residential strength as places where there is life and activity and not waiting for the shops to open before they are visited and then go to sleep when the shutters come down. For town centres to work again they will have to reinvent themselves as living and working environments with physical retailing successful because there are customers passing by the shop front who can be enticed in. Remote customers will use the internet and not town centres whereas town centres which recreate a natural customer base "on site" will see their physical retailing facilities come to life again.

What this means in very simple terms is that there is too much retail space in the wrong place. With a shrinking market and a continuing flight to prime, the expectation that redundant retail accommodation can magically secure occupiers is fanciful and dangerous as a concept in the extreme to the economic well-being of the UK. Unfortunately much of the UK's top line planning policies are based on this ludicrous approach.

How to reuse and bring back into economic use redundant retail property is the challenge we will face over the next decade and longer. Diversity, commerce and residential are the key options but not the hope that physical retailing will come back. Create busy town centres with people in situ and the right retail space will work well but this cycle is about diversity and mixed uses first and retail second. New retail space will continue to be built as property for the retail industry remains a factor of production. This does not mean that all retail space should be in town centres, there are many reasons why this is inappropriate if the facts and details are carefully considered. The horse bolted for out of town retailing over 30 years ago and now it is about identifying where out of town retailing best serves the community and retains expenditure in an area, so the local economy can benefit, including neighbouring town centres.

The right new retail accommodation in the right place which draws shoppers is an important ingredient if there is to be a balance to internet trading and the questionable sustainability of home deliveries. Retail property will have an important place in the future but both in town and out of town inclusive of shopping malls, shopping parks, retail warehouse parks and individual shops must be considered differently. We now have an established framework and to reinvent the wheel would be foolish, many locations still do not have the right retailing in the right place, but the problem lies with the planning system which is based on dogma, failure to modernise and lack of understanding of the market place. Well informed planning policies will be the only way to influence the market place. The balance in planning over nearly 70 years has never been achieved despite constant political intervention and policies promoted as the answer whether negative or positive.

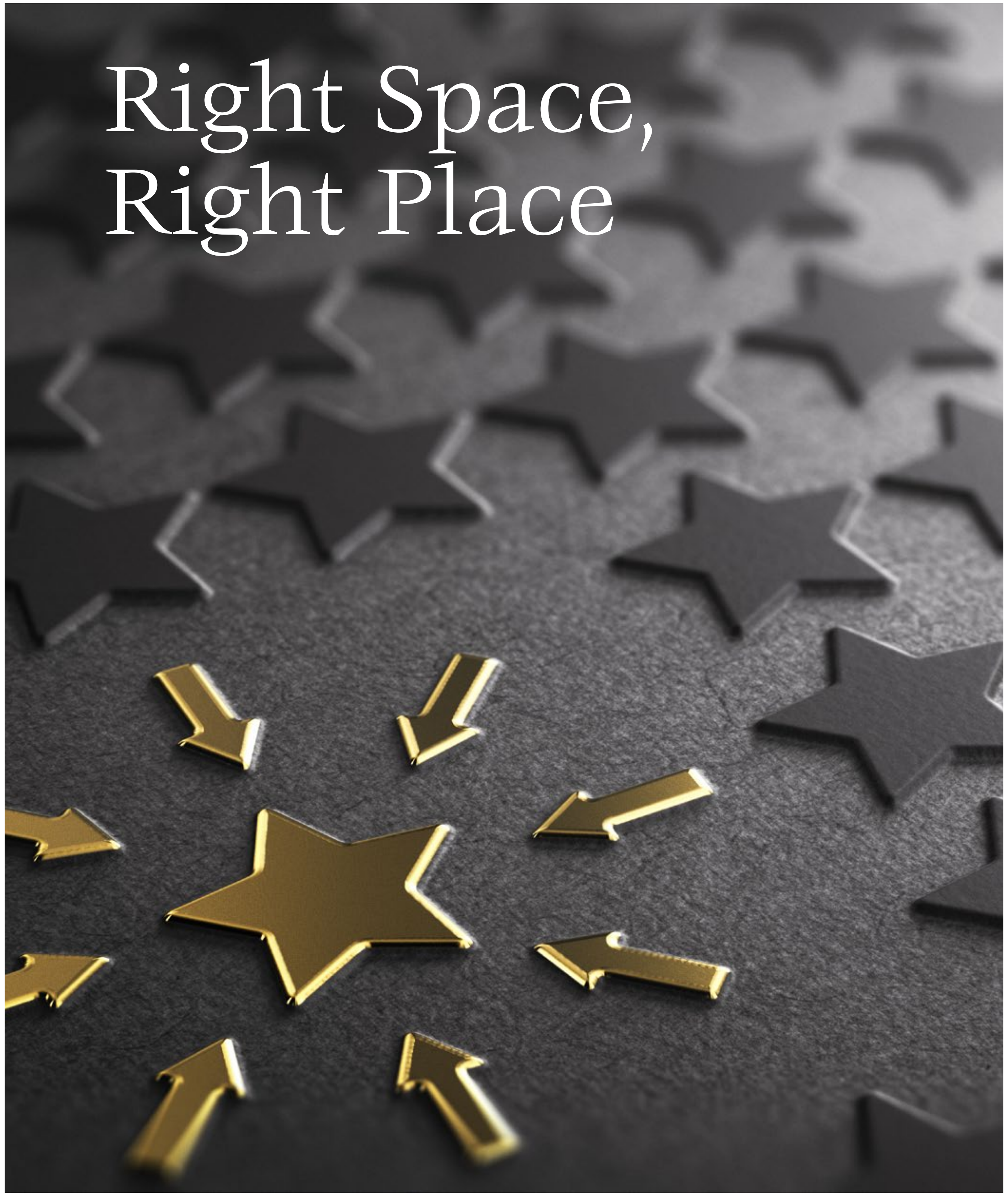
Policies which simply promote town centres first for retailing out of habit have missed the plot. It will be those towns which adopt business and commerce first coupled with a strong diversity of uses in the central areas that will be the winners. This will, require significant investment and a shift in confidence as to how town centres should work. It is pleasing there are many local authorities who have got the point and developing their visions for town centres on very different lines and backing this approach with substantial investment, in some cases of several hundreds of millions of pounds.

In twenty years' time we suspect the market will look back and see this period of change as fundamental as those of the Georgian, Victorian and post WWII eras that created such extensive retailing space but which now demands seismic change, a reduction in physical retail space in the redundant and abandoned areas and the development of vibrancy in town centres based on a very different model. You never know but we may even see the offices of local authorities, police stations and HQs, social services, small medical facilities and other community activities relocating from their self-selected out of town locations back into the town centre!!

C&P Spring Retail Report 2018

In-Town Agency

Right Space, Right Place



In our 2016 and 2017 Retail Reports we noted weakening consumer strength resulting in reducing GDP growth in the UK economy together with the adverse impact of internet sales on the retail property market. Shopper footfall continues to decline and is down by a staggering 7.5% as at March 2018 (year on year) from January 2014. Shop vacancy rates since 2014 have hovered at an average of approximately 11.5% being lower than the peak of 14.5% in 2011 but remaining significantly higher than the peak of the boom in 2006 at 6%. However, the vacancy rate in March 2018 soared back up to 13% which is where it was in 2010. Town centre retailing is going backwards on this measure but where are the vacancies occurring as the evidence suggests it is not in the prime pitch but in the secondary and fringe locations.

The failure of the 160 store BHS chain, placed into administration on 25th April 2016, resulted in the closure of its last store, after 88 years of trading, on 26th August 2016. This portfolio of accommodation continues to overhang the market and 18 months later, at the end of March 2018, some 102 stores remain vacant. The position is complicated as, although the poorer space has failed to secure occupiers, demand for the better units from large space occupiers has emerged for the prime locations. For the remaining space landlords have been looking at the best way of dealing with the properties. Unfortunately, many of them provide a warren of difficult space with significant ancillary accommodation and in many cases structural problems and defects including asbestos and other deleterious materials preventing easy solutions to refurbishment and reorganisation of the space, including subdivision.

The issue of market share, with customers and retailers focussing on the larger centres and development having to consider where the catchment will travel to, is a critical aspect of identifying new development opportunities. The High Street is seen as vulnerable with a highly competitive and difficult trading environment. On the other hand, the right property of the right size, in the right place is highly sought after by retailers wishing to maximise their market share and reduce occupational costs.

Rents continue to be under pressure and have fallen in many centres from the unsustainable levels achieved prior to the economic downturn in September 2008. However, lower rents do not mean a failure in the current market but a response to market conditions by a correction to appropriate pricing and the growth of retail sales through competing non-physical media.

During Q1 2018 there have been some high-level retail failures of Toys R Us and Matalan coupled with poor trading results from M&S PLC, Next and New Look demonstrating the difficult conditions of retailing from physical property. Next have announced a fall in annual sales of 8% in the year to January 2018. Despite an increase in business revenue of 9.2% to £1.9 million, this was not enough to shore up pre-tax profits which dropped by 8.1% to £726 million. Of interest, is that Next admit that part of the difficulty is of their own making with poor stock selection, product ranging errors and omissions. On the positive side Next shares have risen by 7.7% with the company expecting better times in the future.

February 2018 saw some improvement in retail sales volumes up by 0.8% over the month but this follows on from declines in the previous 3 months of 0.4%. There are concerns that the poor weather in March 2018 will send retail sales volumes back in decline increasing uncertainty and volatility in this sector of the UK economy.

Of note is the news emerging, on House of Fraser. The 59-chain group, who employ 17,500 staff and is owned by a Chinese based investor, is experiencing financial difficulties with £400 million of borrowings, their bankers baulking at extending loans and a number of financiers reluctant to add to the company's debt. There is now a suggestion that a "Company Voluntary Arrangement" may be pursued but no decision has yet been made. Similarly, Debenhams have reported financial difficulties rounding off a bad year for department store traders most of whom have very little capex available for expansion and new representation. With John Lewis having a poor Christmas, the sector looks decidedly under pressure.

The headlines have been dominated by retail failures but there is another side to physical retailing which seems to be ignored simply because it doesn't follow the downward trend. Yet there are several retailers who are taking advantage of the structural changes in the retail market, demonstrating considerable success and growth with plans to expand their physical presence in many centres where the opportunities arise. A small selection of currently successful retailers includes the following:

• Primark • Next • B&M Bargains • Missguided • Farfetch • Boux Avenue • Superdry • JD Sports • Lush • Screwfix • Matchesfashion • Made.com • Wren Kitchens • Oak Furnitureland • Harrods • Tapi Carpets • Sofology • Fabb furniture

These retailers, together with others, are expected to open some 1,700 new units throughout the UK in 2018. This is against a predicted 3,000 shops that will close but the majority of these will be in secondary or tertiary locations, whereas the new shops will be located in prime trading locations.

JD Sports has recorded record profits in the year ending April 2018 up by 24% to £294.5 million with sales up by a third to a significant £3.16 billion. Their progress included opening some 56 new stores across Europe with some £100 million of additional investment going into its existing store estate. Despite this JD Sports still ended up the year with net cash of £309.7 million up from £213.6 million last year.

Last year Amazon, the largest on-line retailer and now the second most valuable company in the world with a market cap of $768 billion (March 2018), saw its profits fall by a staggering 1/3rd, which raised many comments and observations in the financial press. The approach of Amazon is to constantly undercut its rivals on pricing but since its profits warning it has had to rethink its strategy. Interestingly this has included its decision to operate from physical retail property. Its purchase of the supermarket chain "Whole foods" for £10.7bn in August 2017 demonstrates its intent to enter the high street and which will significantly alter the strategy of other online only retailers.

It is also worth pointing out that with 50% of all fashion goods now being returned in online retail transactions, some of the cracks are beginning to appear on the true profitability and sustainability of online retailing without the annual growth rates and expansion over the past 10 years. Many pundits predict that a watershed in online retailing ether has or will very shortly be reached.

Primark have demonstrated they are not only a good retailer but understand markets and have a track record of exceptionally good vision. Now anchoring both ends of Oxford Street at Tottenham Court Road and Marble Arch. The Crossrail transport project, known as the Queen Elizabeth Line, with its new stations at Tottenham Court Road and Bond Street will deliver an even stronger customer base. Despite all the gloom in the retail market, Primark have continued to expand. They opened their first shop in Derby in 1973, are 182 stores further on and currently hold approximately 6.9% of the clothing market behind Next at 7.1% and M&S who hold 8.1% with the latter experiencing year on year decline as Next and Primark continue to grow. Further, Primark do not rely on the internet for their trade yet have become the leading fashion retailer in terms of growth over the past decade. They have offered significant competition to M&S who, on their own programme of closures by 2022 will have reduced their fashion stores representation from approximately 425 centres to just over 200 in the space of a decade.

Oxford Street, now boasting zone A rates of £1,000psf, technically has a zero-vacancy rate. There have been some difficult moments such as the failure of BHS but with its former Oxford Street store to be revamped for a retail and leisure concept by "Market Hall West End" creating a 36,000 sq ft market alongside similar revamps of space at Fulham and Victoria (reserved), together with two indoor golf courses, courtesy of Swingers golf. It will be interesting to see how this fits in to the Oxford Street frontage and retail mix. However, with Oxford Street stretching 1.8 kilometres from end to end, it will need diversity of offer as much as any other town centre facility.

Other examples of retailers who do not see Oxford Street as a dinosaur include Footlocker who recently took just under 14,000 sq ft on ground and basement levels at 544/554 Oxford Street close to Marble Arch station. Opposite is Almacantar's Marble Arch Place development comprising a mixed-use scheme of 54 apartments, 95,000 sq ft of offices and 30,000 sq ft of retail and leisure space. This will be complemented by the joint venture development at the Mount Royal site between Old Quebec Street and Portman Street by the Portman Estate and Great Portland Estates which will again be mixed use, but retail led. Portland Estate are also developing a 20,000 sq ft flagship retail store at 1-4 Marble Arch. The traditional weak areas of Oxford Street at the extremities at Tottenham Court Road and Marble Arch no longer fit the "poor end" profile.

The other central London streets remain strong, particularly Regent Street, now being extended by improvements to Haymarket and Piccadilly with the Crown Estates latest St. James's Market Place development in Lower Regent Street. Bond Street continues to surprise but there is a shift in the tenant mix with fashion growing and the jewellery quarter shrinking. Zone A rates are established at £2,225 psf for absolute prime and it will be interesting to see if these can be sustained as the UK international profile changes following its departure for the EU.

The bottom line is that central London is thriving and is a magnet for a range of traders and retailers competing for space against leisure and restaurant operators, business and residential occupiers. No wonder the London skyline is rising as building heights increase where allowed. The only blot in the landscape in central London is the restaurant sector where there have been some excesses and business is more patchy than a few years ago.

Continuing the subject of the growth of transport hubs such as Crossrail, these locations are offering up important physical retail opportunities – they are where a lot of people congregate – potential customers as some might call them. Kings Cross St Pancras with the Eurostar has seen the shopping malls both inside the stations strengthen and surrounding areas. Granary square just to the north of the Kings Cross/St Pancras station complex is anchored by the largest

Waitrose supermarket in London. With a diverse retail and leisure offer alongside the canal and overlooking Wharf Road Gardens, coupled with a growing business and residential community this area of regeneration demonstrates what makes transport hubs and a mix of uses work for physical retailing.

Cambridge in the immediate vicinity of the railway station, approximately 1 mile to the south of the city centre, the business district is being successfully regenerated and extended with the CB1 development comprising over ½ million sq ft and already employing some 2,500 office workers and 600 residents in new buildings as part of this substantial regeneration project.

The Grand Central shopping centre above New Street Station in Birmingham trades well anchored by John Lewis and offers effective competition to the Bull Ring as well as extending and transforming central Birmingham's physical retail offer and its environment. The proposal by Hammerson to extend retailing with offices and residential at Martineu Galleries will create a truly integrated city centre offer, not thought possible in Birmingham just 15 years ago. The collapse of the deal between Hammerson and Intu gives this scheme fresh hope bolstered by the proposed Curzon Street HS2 station close by and the strengthening of the Colmore Row business district.

The St James Centre, in Edinburgh, now nearing completion having built around the existing John Lewis, is a stone's throw from Waverley Station. The substantial mixed use development has shifted the entire retail focus to the eastern end of this world-famous shopping street and is likely to impact on rental values in George Street and Princes Street at the western extremities.

At Croydon, the position is still not clear on Westfield's 1.5million sq ft redevelopment of the old Whitgift Centre but if it is to be successful, they will need John Lewis to step up to the plate and for it to be viable, the offices and residential content will have to be increased coupled with a reduction in the extent of the retail facilities.

In conclusion, the UK high street is having to change its focus with the growth of internet sales and click and collect (omni shopping technology) which is creating a structural and permanent change in the way the consumer now shops for goods and services. Empty retail accommodation is appearing in secondary and fringe locations and it is inappropriate to apply the same criteria to all retail space as a single product – it is not. There is good demand for the right space in the right place coupled with diversity and a sense of place. The top 100 centres both in town and out of town are the focus but there are changes as to where these locations are, including the growth of transport hubs as they influence the dynamics of where we live and work.

Summary of Market Activity Q2 2017 - Q1 2018

QUARTER 2 - (April to June) 2017

Market Analysis

- Some 438,000 sq m of shopping centre space is under construction in the UK and due to be delivered over the next two years.
- Brexit, rising inflation, limited wage growth and relatively high household debt are all expected to weigh on consumer confidence and retail sales growth in the short term.
- Store Twenty-One has filed a notice of intention to appoint administrators after defaulting on rent payments.
- Mike Ashley has raised his interest in Debenhams once again and now holds 17% of the department store group.
- Gifting retailer Icandy has entered administration and shuttered four of its 14 outlets as it seeks a buyer.
- JD Sports' £112m acquisition of Go Outdoors has been given the green light by the competition watchdog.
- Good weather and Easter spending contributed to a rise in retail sales in April, following a short period of contraction in March.
- Joy has been bought out of administration by its owner Louche London in a pre-pack deal, saving 230 jobs.
- Jaeger has fallen into administration and swung the axe on 20 financially unviable stores.
- The revamp of London's Brent Cross Shopping Centre has moved a step closer after the mall's landlords submitted a planning application.
- Mountain Warehouse earnings soared last year as its chief executive Mark Neale hailed the "massive benefits" of its international stores and looked to future expansion. The outdoors specialist posted a 22% leap in pre-tax profits to £19.8m in the 12 months to the end of February, bolstered by a 16.5% rise in like-for-like sales.
- The Intu Watford extension should be opening in Autumn 2018, turning Watford in to a 1.4 million sq ft retail, catering and leisure destination. The £180 million-pound extension will see council-owned Charter Place Shopping Centre redeveloped and integrated with the existing refurbished Intu Watford shopping centre.
- Profits slide 16% to £211m at Topshop owner Arcadia
- UK retail like-for-like sales fell by 0.4% in May as consumers felt the strain from rising inflation.
- Shoe Zone blamed the devaluation of sterling against the dollar since last year's Brexit vote for a slump in half-year profits. Its pre-tax profits declined 23% to £1.3m, while sales slipped 2% to £72.9m.
- The online fashion business, Boohoo, has unveiled surging first-quarter sales and successfully raised £50m through the listing of new shares to help fund a new warehouse.
- Poor weather caused overall shopper numbers to fall 1% year-on-year in May – marking the first decline since February.
- John Lewis' sales jumped last week as price-matching promotions across clothing, cookware and dining products wooed shoppers. Total sales climbed 3.9% to £73.8m in the week ending June 10, as its 'never knowingly undersold' mantra drove revenues in stores and online.
- The Consumer Prices Index (CPI) rose to 2.9% last month, higher than the 2.7% recorded in April and well above the Bank of England's target rate of 2%.
- Ted Baker has fashioned a 14.2% group sales rise, despite an "uncertain macro environment", as it drives its ecommerce business and ploughs ahead with global expansion.
- UK retail sales grew at their slowest rate for more than four years in May as rising inflation following the Brexit vote dragged on spending.
- UK retailers are becoming concentrated in fewer, "prime" locations as online shopping saps demand for premises and the number of empty shops rises.
- The number of stores which have been empty for over two years has risen by a fifth as retailers focus on sites in central locations.
- Holland & Barrett has been sold to investor L1 Retail for £1.8bn.
- Debenhams has cautioned that full-year profits could be towards the lower end of market expectations as it grapples with turbulent trading conditions.
- Dixons Carphone pre-tax profits advanced 10% to £501m in the year to April 29, while headline EBIT jumped 8% to £517m.
- L'Oréal has agreed to sell The Body Shop to Brazilian cosmetics manufacturer Natura Cosméticos for £880m as it seeks to ramp up its international credentials.
- UK shopping centre investment for the first half of the year stood at £946.5m compared to £1.5bn in the first half of 2016.
- Game retailer issues profit warning as UK sales falter
- Consumer confidence fell across all measures in June as the result of the General Election dampened shoppers' inclination to make big-ticket purchases.

QUARTER 3 - (July to September) 2017

Market Analysis

- EE has announced it is increasing its fleet of stores by 116 through a partnership with Sainsbury's.
- ASOS reported a 32% boost in total retail sales year on year to £660.1m in the four months to June 30, driven by a 44% hike in international sales.
- Mike Ashley has added to the list of retailers he has invested in and swooped on a 25.75% stake in struggling retailer Game.
- Conviviality, the drinks specialist, has reported profit before tax up 147% to £22.5m.
- Fashion retailer Jack Wills has returned to profit after making efficiencies and cutting promotions.
- Shopper numbers increased 0.8% year on year in June, ahead of the three-month average of 0.5%.
- Retail sales recover as warm weather boosts fashion
- Quiz valued at over £200m as flotation on AIM nears completion
- Mothercare's total UK sales were lower in the fifteen weeks to July 8, year-on-year, reflecting its ongoing store closure programme. The retailer now has 147 UK stores.
- The Perfume Shop posted a decline in its full-year profits, which it attributed to increased competition from online shopping and rising costs.
- Overseas visitors could splash out as much as £2.4bn in the UK this summer as they take advantage of the slump in the value of the pound.
- Bathstore gross profit rose from £63.3m to £70.2m in the year to July 31, 2016, when revenues advanced from £124m to £139.2m.
- Graze, the retail snacks specialist, is being lined up for a £300m sale by its private-equity owner.
- Fashion catalogue retailer Boden has unveiled plans to open its first standalone bricks-and-mortar store later this year.
- Fashion brand Michael Kors is set to snap up Jimmy Choo with a bid valuing the luxury footwear retailer at 230p per share, an £896m offer.
- The proportion of vacant retail and leisure units in the UK has risen for the first time in two years, now at 11%.
- American Eagle Outfitters is pulling the plug on its UK business less than three years after arriving in the UK.
- Sports Direct has increased its stake in French Connection to 27% after snapping up shares from two of the fashion chain's activist investors.
- The number of full-time retail jobs has fallen 3.3% year-on-year for the three months to June 30th as the sector is squeezed by mounting cost pressures and transformed by technology.
- Australian homewares specialist House is plotting an assault on the UK market.
- Sportswear giant ASICS has opened the doors to its largest retail store in the world on London's world-famous Regent Street.
- Next has posted a 0.7% rise in full-price sales in the second quarter, helped by warm weather.
- DFS is to buy specialist sofa competitor Sofology in a deal valued at £25m.
- French fashion retailer Maje will open a Regent Street flagship next year, adding to its burgeoning UK presence.
- White Stuff's bottom line was hit after it ploughed investment into opening 32 new shops and concessions, 18 of which were in the UK.
- Fashion retailer New Look recorded a 4.4% drop in revenue to £338.7m in the 13 weeks to June 24, exacerbated by a 7.5% plummet in UK like-for-like sales.
- Card Factory has posted a jump of 3.1% in like-for-like sales during its first half as the business presses ahead with a drive to broaden its proposition.
- Wilko followed hot on the heels of Sainsbury's and Asda today as they revealed their plans to put 3,900 staff in redundancy consultation.
- The Hut Group snaps up Glossybox and hits £2.5bn valuation.
- Overall shopper numbers fell last month at the steepest level since January as consumers start to rein in spending on non-essential items.
- Walsall Council has bought The Saddlers shopping centre from Topland for £12.5m, becoming the latest local authority to take control of assets within its town centre in order to boost income.
- Laura Ashley profits and sales plummeted at the full-year mark, which the retailer attributed to challenging trading conditions and the weak pound.
- The Works are investing £5.3 m to open 60 new stores over the next year as it ramps up its ambitious expansion plans.
- Pep&Co has closed 20 of its standalone stores in favour of Poundland shop-in-shops as the value fashion retailer accelerates its bricks-and-mortar expansion.
- Most of the former BHS stores are still unoccupied a year after the department store group finally closed its doors. Out of 160 BHS branches that were shuttered in August 2016, 96 – 60% – are still empty.
- Deflation slowed last month to 0.3% in August marking the slowest rate of deflation since November 2013.

QUARTER 3 - (July to September) 2017 - Continued

- Consumer confidence has increased in all measures in August as shoppers respond to “some signs of stability” in the wider UK economy.
- BNP Paribas Real Estate today announces the acquisition of Strutt & Parker, one of the UK's largest independent property partnerships, creating a leading UK real estate player.
- Burberry is relocating its twin men's and women's shops on Brompton Road in Knightsbridge to launch a new flagship store on nearby Sloane Street.
- Reserved opened its doors to its first UK store taking 32,000 sq ft of space on the site of the former BHS on London's Oxford Street.
- The Hut Group has acquired luxury skincare brand Espa in a deal thought to be worth over £100m.
- The £240m redevelopment of Bracknell town centre has been unveiled following the completion of a five-year construction project. The new one million sq ft Lexicon centre includes 70 new shops, over 20 restaurants and a cinema.
- Lipsy is shutting down its website as the business focuses on selling through its own stores and via partnerships with Next and Asos.
- The UK's largest mutual life insurance, Royal London, has exchanged contracts to buy Hermes' 7.5% stake in Bluewater shopping centre in Kent for around £155m.
- Retailers across the UK are facing the prospect of a £280m hike in business rates next year, raising fears of “fewer shops and fewer jobs.”
- The number of shop openings tumbled in the second quarter of this year as economic uncertainty dampened retailers' appetite for bricks and mortar space. The slowdown resulted in a net loss of 207 shops in the quarter, compared to an increase of 1,284 shops during the first three months of 2017.
- Hotel Chocolat has posted a surge in profits as sales growth, new store openings and margin gains sweetened its bottom line. Pre-tax profits doubled to £11.2m in the year to July 2, 2017, up exactly 100% from £5.6m the previous year.
- Boxpark and property developer Quintain have partnered to open a ‘pop-up mall’ in Wembley in late 2018.

QUARTER 4 - (October to December) 2017

Market Analysis

- Australian retailer Colette by Colette Hayman is poised to make its UK debut with a 2325sq ft flagship at Westfield Stratford City shopping centre in east London and a second store in Manchester.
- Sports Direct has shuttered four out of nine of its concessions in Debenhams stores, two of which are in the department store's Oxford Street flagship.
- Travis Perkins-owned Toolstation is ramping up its property portfolio with ambitions to accelerate its number of store openings per year.
- New Look has axed nearly 400 store management roles following a redundancy consultation which affected 1,000 staff
- Shoe Zone's sales have shrunk as the impact of closing loss-making stores hit the retailer's bottom line. The retailer opened 21 stores and closed 35 during the year, leaving it with 496 in total.
- Sports Direct has snapped up triathlon specialist brand Tri UK and plans to roll out six new stores next year, including a Nottingham flagship.
- The £440m Westgate centre extension in Oxford has finally open delivering 800,000 sq ft of space for 100 shops, restaurants and a cinema.
- The Debenhams department store group reported a 44% slump in full-year pre-tax profit to £59m, while gross transaction value rose 2% to £2.95bn.
- More than 1,000 people are to exit variety store group Wilko following a redundancy consultation involving 3,712 staff, Retail Week can reveal.
- Jigsaw is on the hunt for a new owner as the high street chain grapples with an increasingly turbulent fashion market.
- Footasylum expected its market capitalisation to be £171.3m when it launched its IPO on AIM at the price of £1.64 per share however Footasylum shares soared on the retailer's stock market debut, valuing the business at close to £200m.
- The first time mobile ever overtook desktop traffic was on Black Friday. The first time it overtook desktop for conversion was on Black Friday too.
- Fenwick has suffered a slump in full-year profits as markdowns and investments in its digital capabilities dented its bottom line.
- Consumer confidence declined further in October as concern over the UK economy took its toll on shoppers' outlook.

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QUARTER 4 - (October to December) 2017 - Continued

- John Lewis sales fell 4% to £98.7m in the seven days to October 28, as fashion sales dropped 1.9% year-on-year as unseasonably warm weather dented fashion sales while also be impacted by competitor promotions
- Next website sales rose 13.2% in the three months to October, but in-store sales fell 7.7%. Overall, total sales rose 1.3%.
- Bank of England has increased interest rates for the first time in more than a decade from 0.25% to 0.5%
- Phase Eight and Whistles owner The Foschini Group (TFG) has acquired upmarket womenswear retailer Hobbs for an undisclosed sum. Hobbs was put up for sale in January for an asking price of £80m.
- Primark recorded healthy rises in its preliminary profits and sales bolstered by its UK division, which defied the wider fashion downturn.
- Canada Goose has flown into London to open its first European flagship store, the 5,000sq ft shop on 244 Regent Street.
- New Bond Street has been ranked as Europe's most expensive shopping street for retailers to have a store on costing (£1,307) per square foot per year to rent a store on. New York retains the top spot with an eye-watering rental costs of £2,279 per square foot per year.
- The redevelopment of the Whitgift Centre in Croydon, south London, took a step forward this week when the local council granted outline consent for the £1.4bn project.
- Mountain Warehouse recorded a rise in half-year profits and sales as it beefs up international expansion and rolls out activewear brand Zakti across its stores.
- Mothercare's losses widened during its half-year despite a healthy like-for-like rise at its UK business.
- The Government will base business rates increases on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from April 2018 – two years earlier than it had initially planned.
- Current living wage will raise from £7.50 to £7.83 in April. There are few retailers that would argue with paying their staff a living wage on paper, however, the harsh reality is that it could inadvertently lead to job cuts on shop floors and warehouses.
- Next has confirmed that it will participate in Black Friday for the first time this year with promotions online and in its stores.
- Harrods has started a £200m redesign to enhance its appeal to shoppers from overseas, especially those from Asia.
- Multiyork call in administrators putting 550 jobs at risk.
- The majority of furniture retailer Feather & Black has been rescued from collapse after administrators carried out a successful sale of the business after they went into administration just five days after Mutiyork collapse.
- John Lewis achieved a daily sales record on Black Friday as sales at the department store rose 7.2% in the week to 25th November compared with the same week last year to hit a weekly high of £214.3m.
- Thomas Cook has added to the troubles of the British high street in the run-up to the festive period by announcing the closure of 50 shops, affecting 400 staff.
- Six shops have disappeared from UK high streets every day during the past seven years.
- Mulberry's UK sales edged up 1% to £45m in its first half after an increase in tourist spend in London balanced out slowing domestic demand.
- The £60 million refurbishment of Sheffield's Meadowhall shopping centre has been completed following a two-year development programme.
- Black Friday reportedly saw 91% of brands in the UK participating in the crazed shopping event and saw a 12% increase in sales in the UK compared with last year.
- West Elm, New York-based purveyor of mid-century furniture, intends to open new stores in the UK next year.
- Inflation rose to 3.1% in November, the highest in nearly six years, as the squeeze on households continued but dropped back down to 3% in December.
- Retailers in London's West End are looking forward to one of the biggest transformations the district has ever seen as work starts on the new Elizabeth Line, due to open one year from now, Bond Street, Oxford Street and Regent Street are preparing to welcome an estimated 60 million new visits each year.
- Poundland, Bensons for Beds, Harveys and Pep & Co are all on the rack after their South African owner Steinhoff was gripped by a major crisis triggered by a probe into accounting irregularities.
- Westfield London's £600 million expansion is gearing up to launch in March, adding 740,000 sq ft of new space to the original shopping centre. The extension to the centre, which originally opened in 2008, will feature a 70,000 sq ft Primark store, while Chinese fast fashion brand Urban Revivo will be making its UK debut with a 22,000 sq ft shop. Additional retailers include lingerie brand Bravissimo and men's shirting brand Frencheye. The largest store within the new site will be John Lewis, which has signed for 230,000 sq ft.
- Shop price deflation accelerated in March, reaching its deepest level in more than a year. Prices decreased 1% in March, up from 0.8% in February. Prices have now decreased for 59 consecutive months.

QUARTER 1 - (January to March) 2018 - Continued

- London Bridge's major new development has opened today, offering travellers ten times the amount of retail space as Network Rail's retail income continues to balloon.
- 2017 saw the UK entertainment retail market saw sales hit record highs in 2017 outpacing the wider UK economy by more than four-fold.
- Next has released its financial figures for the Christmas period reporting "better than expected" full price sales raising its full-year profit forecast. was largely driven by online sales which saw a 13.6 per cent rise compared to a retail sales drop of 6.1 per cent.
- Westfield saw footfall peak over the Christmas period welcoming more than 14.1 million shoppers to both of its UK centres.
- Debenhams shares plunge 18% after disappointing Christmas prompts profit warning.
- Mountain Warehouse has posted record Christmas sales, driven by its most lucrative day of sales ever on Black Friday in the six weeks to December 31, total sales jumped 38.2 per cent while like-for-like sales rose 33.1 per cent.
- Steinhoff's UK brands which include Poundland, Harveys and Bensons for Beds have announced they have secured a new two-year independent loan which will relieve their reliance on their embattled parent company. Although Pepkor runs Poundland and falls under Steinhoff's umbrella, this loan will reportedly replace the planned investment from Steinhoff at Poundland, Harveys and Bensons for Beds in full.
- Jigsaw sales for the five weeks to December 31 were seven per cent up on last year, despite a challenging market and the brand choosing to ignore taking part in Black Friday promotions.
- The term 'restructuring' has become synonymous with struggling, underperforming brands, and the latest luxury company facing the predicament of store closures is Marc Jacobs.
- London mayor Sadiq Khan has given the nod for plans to redevelop the Whitgift Centre in Croydon by Westfield and Hammerson which will include nearly 1,000 rented homes alongside 500,000 sq m of shops and restaurants.
- Last year was the first annual decline in consumer spending since 2012, as December sales reported lower than expected.
- One hundred and eighteen retailers fell into administration last year, marking the first rise in casualties in five years as the sector struggles with rising inflation, wage costs and property taxes.
- Fat face has reported strong sales over the Christmas period, up 12 per cent to £120 million, compared to £107 million the year prior.
- Fashion retailer Joules enjoys strong Christmas period reporting a 19.2% year on year uptick in sales which it attributed to continued demand, growth in store and online.
- Ted Baker has seen pleasing growth in sales due to online sales.
- Superdry sales jump as online revenues surged 30.5% while brick and mortar sales grew 3.1% following an expansion programme, opening 50 new stores.
- Sales at John Lewis and Waitrose grew over Christmas, but it warned profits will take a hit as it tries to remain competitive.
- House of Fraser has revealed falling sales amid its Christmas trading update just days after calling for the support of landlords to reduce its rent prices which has been meet with strong resistance.
- Online retailer, Boohoo, posts record sales as revenues jump 100% across all its markets.
- A £55 million scheme to transform Wolverhampton city centre being delivered by Urban & Civic, which will see a new cinema and restaurants built, has been approved.
- Arcadia Group has dealt a significant hit to clothing suppliers by demanding a lower price for any orders made, showing signs the fashion giant could be struggling.
- Primark has celebrated record Christmas sales rising 7% year on year thanks to over 300,000sq ft of added retail space.
- The £600m extension of Westfield London, W12, will now open in three phases. The 1st phase opened on the 20th March at the request of the anchor tenant John Lewis, opening it doors to its new 230,000 sq ft store. Other stores which opened included Adidas, Boots, and H&M. The 2nd phase, due to open on the 23rd June, will include a new 70,000 sq ft Primark as well as a number of restaurant and leisure operators.
- Hotel Chocolat generated a 15% sales rise over the Christmas period.
- Shropshire Council has completed the acquisition of three shopping centres in Shrewsbury for a total sum of £51 million which include the Charles Darwin, Riverside and Pride Hill shopping centres, which together total 428,400sq ft of retail and leisure space.
- Zara is opening its first ever store in the world dedicated to click-and-collect orders at Westfield Stratford City in east London.
- Fashion retailer East has collapsed into administration for the third time in just four years.
- Amazon has enjoyed its best-ever financial year, with quarterly profits almost reaching the $2 billion mark for the first time.
- Warren Evans has collapsed into administration, plunging the future of 287 staff into uncertainty.
- 19% of fashion retailers displaying signs of financial distress as they face some of the most difficult trading conditions since the recession.
- Jones Bootmaker has changed hands less than a year after it was rescued from collapse, with competing footwear chain Pavers acquiring it through a pre-pack administration.
- Maplin has officially fallen into administration after talks with potential buyers collapsed at the eleventh hour.
- Sports Direct has increased its stake in Debenhams to just below the threshold that would trigger a formal takeover bid.

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QUARTER 1 - (January to March) 2018

- New Look has announced a company voluntary agreement (CVA) proposal that confirms plans to close up to 60 stores, reduce rental costs and potentially make up to 980 staff members redundant.
- French Connection has narrowed its full-year losses and pledged to close more outlets this year.
- Primark unveils details of its largest ever store in Birmingham totalling 160,000 sq ft of retail space.
- British Land has exchanged contracts to buy Royal Victoria Place in Tunbridge Wells from Hermes for £96m.
- Smiggle is preparing to open an Oxford Street flagship and has reported a surge in first-half sales outside of its Australian homeland.
- Poundstretcher has become the latest high street chain to have its credit insurance restricted, in further signs of trouble on the high street.
- Moss Bros stocks drop 30% amid second profit warning this year.
- Mothercare's share prices have seen a slight recovery after it drafted in accounting firm KPMG to help it avoid falling into liquidation.
- House of Fraser in talks over £30m emergency funding as it faces into difficult trading conditions.
- Fashion chain Select's owner is seeking a company voluntary arrangement (CVA) as it looks to cut rents across its 183 stores in England and Wales.
- Poundworld is preparing to launch a CVA, which could see it close up to a quarter of its store estate. As well as axing up to 100 of its 355 stores, Poundworld is likely to seek reduced rents on a host of other shops.
- Grosvenor is to invest more than £1bn in its West End estate in London as part of a 10-year strategy that will, it says, increase the landed estate's contribution to the UK economy by up to 30%.
- Hammerson has halted its proposed acquisition of rival Intu amid interest from French property giant Klépierre. Klépierre made a £5bn takeover approach for Hammerson last month, putting Hammerson's own bid for Intu under threat. Hammerson made its £3.4bn bid for Intu in December last year, in a move that would make it the owner of many of the UK's largest shopping centres including London's Brent Cross, Birmingham's Bullring, Bicester Village in Oxfordshire and Manchester's Trafford Centre.
- Conviviality has formally entered administration as the beleaguered business continues to seek buyers for its retail division.
- Since the start of 2016 through to the end of last year, 8.5m sq ft of space has been either closed or put at risk of closure due to company administrations.
- Mothercare is considering joining the likes of New Look and closing stores in an attempt to survive market pressures which could see a third of its 143 stores close.
- Game's largest shareholder has disposed of its entire holding in the business, leaving mogul Mike Ashley as the largest single influence on its board.
- The Company Voluntary Arrangement (CVA) for high street fashion chain Select, which has 183 stores in the UK, has been approved by 94% of its creditors.
- Brockton Capital has bought the Foyles bookshop in London and the Pinnacle building in Leeds for a combined £115m for its Brockton Capital Fund III.
- Vauxhall terminates ALL of its 326 UK dealerships amid falling sales in move affecting 3,700 British jobs. The drastic cuts come just three days after Jaguar Land Rover announced it was axing more than 1,000 jobs after seeing a fall in sales which it blamed on the crackdown on diesel engines.
- Klépierre does not intend to make a takeover offer for Hammerson after its latest offer was rejected.
- Hammerson is also withdrawing its recommendation for its proposed £3.4bn tie-up with rival shopping centre owner intu, saying the deal is "no longer in the best interests of shareholders".
- New Look has had its credit insurance cut just weeks after a company voluntary arrangement (CVA) aimed at improving its fortunes was voted through.
- Debenhams on Thursday announced pre-tax profits fell 84 per cent in the half year to March 3, after the Beast from the East forced around 100 stores to temporarily close.
- Amazon Prime membership swells to more than 100 million.
- The West End has seen 100 per cent boost in sportswear brands available in its key districts between 2016 and 2017, as the athleisure trend continues to explode.
- House of Fraser has appointed KPMG to advise on a restructuring strategy as it considers a company voluntary agreement.
- Boohoo is set to post skyrocketing sales in its full-year results and is predicted the fast fashion retailer will report 95 per cent sales growth topping £547.6 million, with pre-tax profits of £47 million.
- Womenswear brand East will stop trading on May 4th after administrators failed to find a buyer which will lead to 300 redundancies in the business.
- Hamleys' owner C Banner International Holdings (CBIH) has entered into discussions to purchase a stake in House of Fraser, as the struggling department store fights to stay afloat.
- Luxury pet lifestyle brand Love My Human is to make its UK debut on Chelsea's King's Road, which is part of the Sloane Stanley Estate.
- Demand for retail has fallen to its lowest level since 2009 while the industrial sector continues to attract more occupiers.
- Poundworld is preparing to launch a CVA, which could see it ax up to 100 of its 355 stores and ask for rent reductions on a host of others shops.
- Fashion brand Bench Limited, which has around 20 stores in the UK and an international online presence, has filed for administration.

C&P

Spring Retail Report 2018

Out-of-Town Agency

The Return of The Pod

To those who have been associated for many years in the retail warehouse property market, the current malaise in this sector feels strangely familiar. With approximately 80 multiple bulky good retailers who trade effectively from large space retail warehouse accommodation, this is a difficult time in the market. With fierce competition, rent rolls having reached a peak, there is little opportunity for established multiples to grow and perhaps hide some of the inherent problems now manifesting themselves.

The recent focus on the retail industry has been its trading failures as observed by the banking sector, government and the consumer as well as property professionals. At times it only appears to be bad news emphasised by the disappearance of some of the leading household names. Steinhoff, comprising Poundland, Harveys Furniture and Bensons for Bed, together with Toys R Us, Carpetright and Homebase are all under the microscope.

With Homebase and Toys R Us it is the size of stores they occupy and the anchor profile they give to many schemes that adds emphasis to the concerns of their trading problems. Unfortunately a lot of their difficulties are self inflicted. Toys R Us have simply failed to adapt their format, with store sizes in the region of 40,000 sq ft, to something more appropriate in the current market. They cannot hide behind and blame competition from the internet as their competitor Smyths Toys from Ireland, who were only founded in 1986, now have 110 stores, but in much smaller units of approximately 10,000 sq ft. This inflexibility made the failure of the Toys R Us CVA and subsequently being placed into administration on the 28th February 2018, with the closure of 105 properties, inevitable.

Homebase run by the Australian conglomerate, Wesfarmers, is expected to post losses of £100 million in the first 6 months of 2018 which to most observers, looks like an unsustainable cost, which will be difficult to turn around.

B&Q and Screwfix, both under the Kingfisher banner, have almost 40% share of the market and growing at the expense of Homebase. There is therefore an uneasy feeling that the Australian adventure into the UK DIY market will become an expensive ship wreck. Part of the problem is the demographic changes with an increasing percentage of the population renting and not owning their own property. Homebase are more geared to the domestic market whereas Wicks, who struggled a few years ago, have concentrated on the professional builder market with encouraging results.

More recently Carpetright has found it necessary to secure a shareholder loan to "assist with short-term capital requirements". At the beginning of April, Carpetright advised the market they would pursue a CVA, close 92 underperforming stores and raise £60 million in a restructuring plan. The question that arises is, will the CVA be successful for its significant 397 store portfolio comprising some 3.7 million sq ft and of which 60% are in out of town locations? Carpetright's worries are magnified by the rise of its main competitor, Tapi Carpets, led my Martin Harris whose family sold out of Carpetright in 2014.

Mothercare have half of their stores in retail parks of which some 45% are in the south east and London area. This reflects the changing product being sold by Mothercare stores with bulky equipment as well as the more traditional baby and toddler clothes and nursing lines. Demographic statistics also show a declining birth rate which can't help the fundamentals of this business which is likely to see things get worse, even if they can recover and hold on.

Not surprisingly, retail warehouse owners are spending most of their time on asset management by reorganising space as it becomes vacant through corporate failures. This is not a negative for those schemes of the right type in the right location. As demonstrated, some of the difficulties of the failing retailers come from more nimble and better researched competition who are ready to take up space where it becomes available.

The larger units often offer excellent sub division opportunities with good demand for the smaller space at higher rents. A cool nerve is required coupled with some luck which in the past has often turned a negative into a positive. The current market is no different even given the downbeat assessment of some observers who only scrape the surface to establish what the truth is. Retail warehouse vacancy rates are below 5% although it would be foolish to assume this will not increase. However, there are a number of retailers in the side-lines waiting for the right opportunity and these current and possible failures will create some new potential.

To assist asset management activities, discount food retailers have come to the rescue led by Aldi, Lidl, Iceland and Farmfoods. A number of retailers like to be associated with the food discounters including M&S, Next, B&M, Home Bargains and Matalan. These schemes tend to be smaller limiting the number of traders who can open up alongside them. Food superstores may have pulled customers away from retail traditional warehouse park schemes, but the discount food retailers are attracting them back giving them a new lease of life.

In the late 90's and early noughties, "Pod" development became fashionable but rarely took off. Today, café society coupled with mass market restaurants are creating a number of opportunities as investors find the creation of café and restaurant units to the front of their parks in units between 1,600 sq ft and 4,000 sq ft makes a great deal of sense, boosting income and customer visitation. The drawback can be the obscuring or the hiding of the retail frontage to those units located behind and the difficulties of changing car park cross rights and access within individual leases lacking flexibility and ability to adapt to these innovations.

The development of new retail warehouses is rarely an option for today's market, but strong asset management, the glut of corporate tenant failures releasing the right property where demand exists usually with smaller requirements, is still able to create fortunes.

Summary of Market Activity Q2 2017 - Q1 2018

QUARTER 2 (April - June) - 2017

Market Analysis

- Land Securities has acquired a portfolio of three outlet centres from Hermes Investment Management for £332.5m.
- Ikea will create 1,300 new jobs by the end of 2018 as it opens three new UK superstores in Sheffield, Exeter and Greenwich.
- The vacancy rate for retail warehousing has fallen to its lowest level for almost two decades with a rate of 5.3%.
- Bunnings looks to rival B&Q by ramping up its pilot store plans. The chain will now have 20 Bunnings Warehouses by the end of 2017, twice the number it had previously planned.
- DFS has said its full-year profits will be below market expectations as uncertainty triggered by the general election has hurt sales.

QUARTER 3 (July - September) - 2017

Market Analysis

- Retail parks were the biggest beneficiary during the four weeks to July 1, registering a 2.3% jump in footfall.
- Amazon's profits plunged 77% to £151m in its second quarter while sales rose 25% to £29.05bn, as the etail giant continued to sacrifice its bottom line in favour of rapid expansion.
- mazon has unveiled plans for a new warehouse near Bristol that is set to create over 1,000 jobs in a bid to meet growing customer demand.
- On 19th October 2017, 31 new stores will open up at Bicester Village, the designer outlet centre taking the total to over 160 stores.

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QUARTER 4 (October - December) - 2017

Market Analysis

- Amazon will open a new distribution hub in Bolton next year that will create 1,200 new full-time permanent jobs.
- GIC and Lendlease have formally launched the sale of their combined 42.5% share in Bluewater shopping centre in Kent for £870m, reflecting a c.4.5% yield or two smaller shares at 25% (£510m) and 17.5% (£360m) respectively
- Wholesaler Palmer & Harvey has collapsed into administration, causing 2,500 redundancies and leaving another 900 jobs at risk.
- Amazon has snapped up more than five times as much warehousing space as its nearest retail rival this year.
- Bunnings parent company Wesfarmers, which bought Homebase last year, said first-quarter sales slumped 13.8% to £276m at its fledgling UK and Ireland business.
- The developers behind Wolverhampton's Westside leisure scheme have unveiled a £160 million deal to build and run Cannock's new Mill Green designer outlet village.
- The retail warehousing market is set to record the highest overall volume of sales in the retail investment market in 2017.
- Go Outdoors, which was acquired by JD Sports this year, posted a healthy boost in full-year sales bolstered by new stores.
- Toys R Us creditors have voted with a 98% majority in favour of the planned CVA restructure, meaning the closure of 26 stores.
- Take-up of industrial & logistics space by online retailers has grown by 731% since 2008, as occupiers continue to build their supply chains to keep up with consumer demand.
- DFS has swooped on a number of collapsed rival Multiyork's stores and acquired the rights to its brand name and product designs.

QUARTER 1 (January - March) - 2018

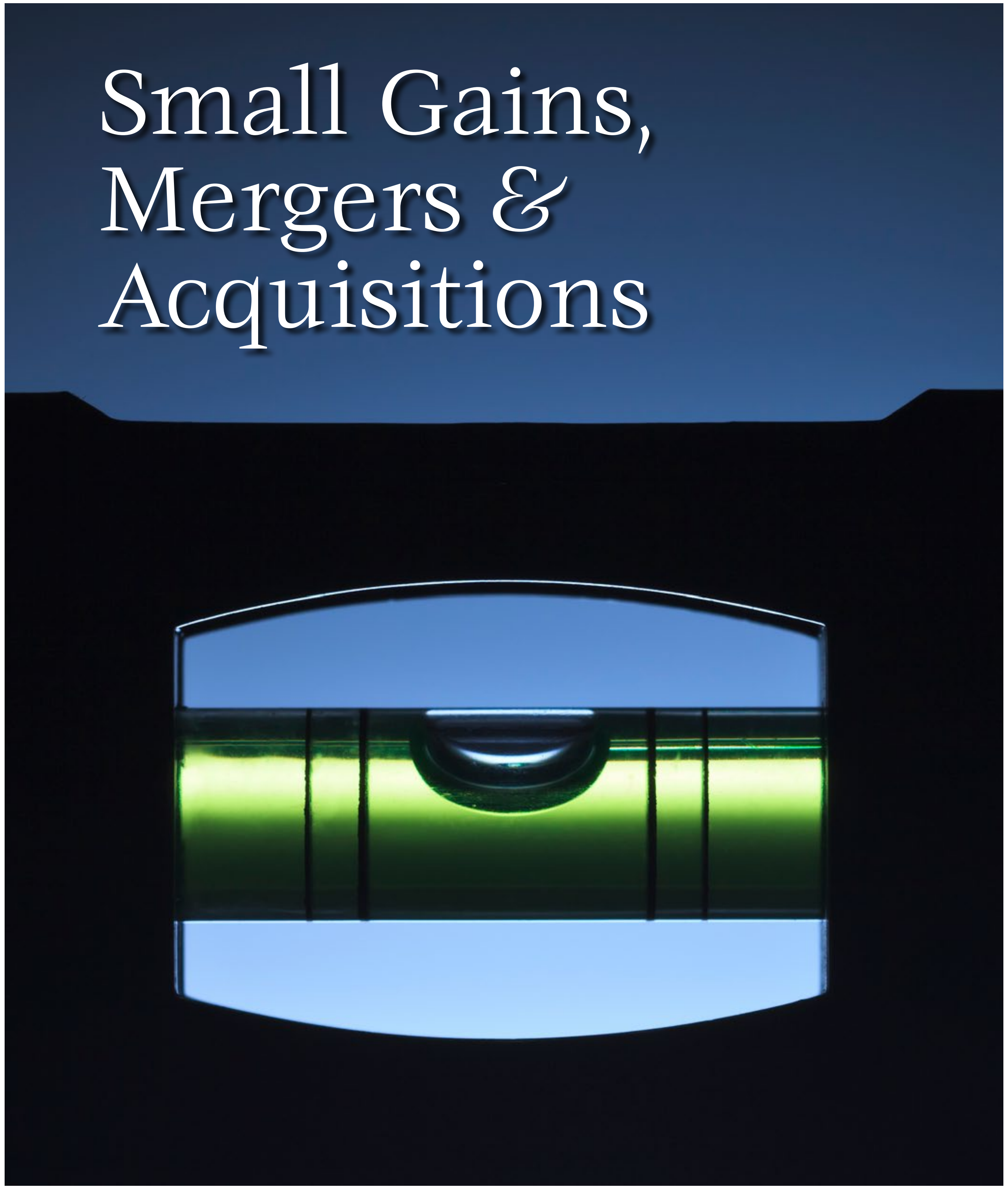
Market Analysis

- Orchard Street Investment Management has bought Hermiston Retail Park in Consett, County Durham, from Aviva Investors for £35.3m – a net initial yield of 6.25%.
- Lateral Property Group and investment firm Highgrove Group will develop the mall, named Axiom, a 600,000 sq ft scheme in Castleford, West Yorkshire which plans to open in 2021.
- Carpetright shares plunge 47% after another profit warning.
- Tellon Capital has bought Chineham Shopping Centre in Basingstoke, Hampshire, for around £60m from LGIM Real Assets.
- Quadrant Estates and KKR are selling the 230,000 sq ft Gallagher Retail Park, Junction 9, M6, Birmingham, for £180m – a 5.2% yield.
- Retail Parks bring up the overall footfall result through an uplift of 1.5% against last year, following on from an uncharacteristic drop of -0.8% in 2017.
- Toys R Us is to shut all 100 of its UK stores after administrators failed to find a buyer for the collapsed retailer, resulting in the loss of 3,000 jobs.
- Flooring retailer Carpetright has launched a rescue plan as it sells off equity and plans to launch a company voluntary agreement (CVA).
- Bunnings owner Wesfarmers mulls UK exit after revealing a AUS$1bn write-down relating to its Homebase acquisition.
- Bunnings owner Wesfarmers is scouting for potential buyers of its UK DIY chain and has drafted in Lazard to advise. The Australian retailer is also considering implementing a CVA at Bunnings, which employs about 12,000 people in the UK and has 250 shops.
- Smyths has pounced on Toys R Us' store network across central Europe, buying up 93 stores shops across Germany, Austria and Switzerland, absorbing all employees and management. It already has 90 stores across Britain and Northern Ireland, as well as 21 shops in the Republic of Ireland where it is based, but this will mark its first foray into mainland Europe.
- Carpetright has won approval from its creditors to go ahead with a CVA, which is expected to result in 92 store closures with rent on a further 113 stores expected to be reduced.

C&P

Spring
Retail Report
2018

Superstores and Supermarkets



Stability appears to be back in this sector of the retail property market, but this does not mean there is any less excitement. For the first time for the past 3 years there has been a net addition of food supermarkets with Asda adding 8 and Sainsbury 5 during the past 12 months. The net increase of large stores is 16, where as in the previous 3 years, the big four saw net reductions. This is in addition to growth in the convenience local store sector.

For the first time in over 10 years the discounters lead by Aldi and Lidl are showing signs of their programmes slowing reflecting both the success of previous years expansion programmes and the fight back of the big 4 superstores and convenience shops which are grabbing back market share.

Consumers choice for last minute shopping of food continues to drive the market with convenience stores increasing faster than any other format, by some 17% in the past 5 years. McColl's have purchase 298 stores from the Co-op and in turn, the Co-op was given the green light by the Competition and Markets Authority (CMA) to press ahead with its £137.5m purchase of symbol group Nisa. In addition, the Co-op, whose profits returned to the black this year, are expecting to invest in 100 new stores, mainly in London and Scotland.

The village shop "Spa" has been working quietly in the background and increased its estate by 97 stores in 2017. By contrast Sainsbury's local, Tesco Express/Metro, and Little Waitrose have slowed downed their convenience acquisition programmes.

Waitrose generally appear decidedly unsure about its future. In September 2017 it decided not to open 7 new stores resulting in a £25 million right down for the JLP Group and in February 2018 closed 6 of its stores at Hertford, Staines, Leek, Huntingdon, Cardiff and Palmers Green. Waitrose expansion now appears to be focused on its joint venture with Shell with a large number of its new outlets in petrol stations.

On the positive side the big news in December 2017 was the confirmation from the CMA that Tesco's £3.7 billion acquisition of Booker could proceed, and which is likely to alter the shape of the market going forwards.

M&S continue to suffer from indigestion closing 18 Simply Food Stores in the past 12 months although they have expanded by a net addition of 35 units overall and of the 37 openings, 20 were in retail parks. The M&S Simply Food portfolio is almost equally split between retail parks and town centre locations.

In June 2017 the internet retailer Amazon have put their toe into the water of physical retailing by the acquisition of Whole Foods Market at a price for the world-wide group of $13.7 billion. Their first action in the UK however, was to immediately reduce its presence from 9 to 7 stores and concentrating their efforts in the Greater London region.

The Aldi and Lidl slow down does not reflect any failure but simply fewer opportunities against increasing competition and the spector of cannibalisation now arising. Aldi now have more than 700 stores and are estimated to hold 7.3% market share. Lidl have just under 700 stores and hold 5.4% market share.

Perhaps the unsung heroes of the discount food market are Iceland with just over 800 stores and 2.1% of market share. Last year saw a slight reduction in the number of stores they operate but they have a strong costumer base and their 2017 profits rose by 6.3% to £160 million alongside a sales increase of 4.4% to £2.8 billion, the result of a revamp of its stores and product offerings. In market share terms, they are towards the bottom of the list but as they were founded in 1970 and therefore trading for some 48 years, they are a true survivor of the food sector.

Rental values for food superstores remain in the doldrums with few open market lettings available to establish new evidence. However, for the right property, trading opportunities exist and core portfolios for the big four remain critical for their profile and profitability. There is therefore considerable inherent value in core store portfolios.

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The big news as we went to press with the Chase & Partners 2018 Spring Retail Report is the proposed £10 billion merger between Sainsburys and Asda. Some pundits regard this as inevitable as there are too many store groups vying for trade. Whether that is correct or not, the fact is there are estimated to be 150 locations where Asda and Sainsbury are within a kilometre of each other. With low density coverage of the land, given the layout of a superstore with a big ground floor footprint and an even large site with surface car parking, the redevelopment potential is likely to be significant especially if there are housing supply shortages in the area.

In many cases rental growth for food superstores is restricted and will continue to be so for some time yet but the yield profiles remain low although there has been some slight upward movement over the past 3 years. Low inflation rates have played their part in this scenario especially when coupled with the strength of the supermarket operators and the stable position now achieved in the market after 5 years of uncertainty. Yields may even fall to reflect this more encouraging profile.

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Summary of Market Activity Q2 2017 - Q1 2018

QUARTER 2 (April - June) - 2017

Quarterly Analysis

- Sainsbury's has joined forces with healthy food and juice bar business Crussh as it looks to increase its concession partners.
- Amazon continues to confound the retail sector by snapping up upmarket grocer Whole Foods in a deal worth nearly £11bn.
- Online grocery sales are expected to hit £11.1bn in the UK this year as shoppers increasingly buy food online, up from 9.9 billion in 2016.
- The member-owned convenience store group, Nisa Retail, has drafted in bankers to advise over a potential sale of the business to Co-op.
- Aldi's continues to expand across the UK and looks to compete with Tesco's with the German cut-price supermarket looking to expand up to 2,600 UK stores.
- Sainsbury's is pushing on with plans to open 250 Argos outlets in its stores.

QUARTER 3 (July - September) - 2017

Quarterly Analysis

- Amazon's $13.7bn acquisition of Whole Foods has moved a step closer after the grocer's shareholders voted in favour of the deal and has unveiled plans to immediately slash prices at the upmarket grocer.
- Morrisons has penned a lucrative wholesale deal to supply McColl's convenience stores and newsagents across the UK.
- McColl's is looking to hit the acquisition trail again as it looks to grow its convenience store offering.
- B&M snaps up retailer Heron Foods in £152m deal.

QUARTER 4 (October - December) - 2017

Quarterly Analysis

- Tesco and the Co-op maintain the largest store networks, but discounters are showing the fastest growth such as Aldi and Lidl.
- Nisa members have voted in favour of the Co-op's £137.5m takeover bid following a crunch ballot today.
- The UK competition watchdog has provisionally cleared Tesco's £3.7bn takeover of food wholesaler Booker.
- Nisa's board has "unanimously" recommended the Co-op's offer worth up to £137.5m to its shareholders.
- Sainsbury's is slashing 2,000 jobs in an attempt to cut costs by £500m as the grocer struggles with the return of food inflation and rising wage bills.
- Aldi has unveiled plans to build a £75m distribution centre in Bedford to support its aggressive expansion in the Southeast of England.
- Marks and Spencer's are currently looking to reduce the overall size of its trading estate in the UK. Like many UK retailers, it simply has too many stores.
- Lidl see 16% sale rise in December amid its rapid expansion.

QUARTER 1 (January - March) - 2018

Quarterly Analysis

- Britain's second and third-largest supermarket, Sainsbury's and Asda are in negotiations over a £10 billion merger to create a grocery retail powerhouse which would create a business with a grocery market share of around 26%. It would edge out the current share of grocery market leader Tesco, although that does not take into account the impact of its £3.7bn acquisition of wholesale titan Booker earlier this year.
- It is not yet known how the potential Sainsbury's Asda deal would be structured, or how the CMA would view such a move. Should the merger go ahead, it would represent the biggest shake-up in UK grocery since Morrisons – the final member of the big four – bought Safeway back in 2004. Combined, the companies occupy more than 2,800 stores in the UK.
- The Co-op was given the green light by the Competition and Markets Authority (CMA) to press ahead with its £137.5m purchase of symbol group Nisa.
- Lidl has bought a 58-acre site in Luton to build its largest UK warehouse at about 1m sq ft.
- Tesco shareholders have approved its £3.7bn takeover bid of wholesaler Booker Group.
- Co-op is aiming to open 30 new food stores in London this year and revamp a further seven.
- Marks & Spencer has announced it is to close six stores by the end of April and has earmarked a further eight for closure as part of a transformation plan.
- Marks & Spencer has recorded a mixed bag of results during its Christmas quarter with a slowdown in trading in its food halls and yet another steep decline in sales in its embattled clothing arm.
- Sainsbury's has raised its profit guidance after robust sales during Christmas week. The supermarket said it now expected annual profits to be up to £85m, around £20m ahead of previous guidance.
- Tesco's, Morrisons and Sainsbury's are poised to axe thousands of shop floor jobs as they announce major shakeup of business.
- Morrisons continues turnaround with strong Christmas sales, in the 10 weeks to January 7, the company saw like-for-like sales jump 2.8 per cent, driven by a 2.1 per cent boost in its retail arm.
- Record sales over the Christmas period at Aldi have pushed its full year sales to £10 billion for the first time in the UK.
- 1600 jobs are set to be created as Co-op reveals ambitious plans to open 100 new food stores over the next year in an effort to recoup some market share.
- Discount duo Aldi and Lidl were the fastest-growing grocery retailers, recording sales gains of 10.7% and 10.3% respectively.
- The Co-op returned to profit in 2017 on the back of strong food sales and the growth of its wholesale business.
- Nisa's sales rose over its fourth quarter as the stores it supplies swelled by more than 1,000 thanks to the collapse of Palmer & Harvey. Sales grew 26.1% to £377m over the 13 weeks to April 1 but like-for-likes fell 1.1%, although they grew 0.5% in the latter six weeks of the period.
- Tesco has posted a rise in annual sales and earnings as it prepares for further growth following its takeover of Booker. Tesco's group operating profit rose 28.4% to £1.64bn last year, on sales 2.3% ahead at £51bn.
- Marks & Spencer is to shut its Hardwick distribution centre near Warrington, Cheshire, where consultations have begun with 450 affected workers.
- The price of an average basket of groceries has jumped five per cent since last year as food price inflation pulls ahead of other sectors.

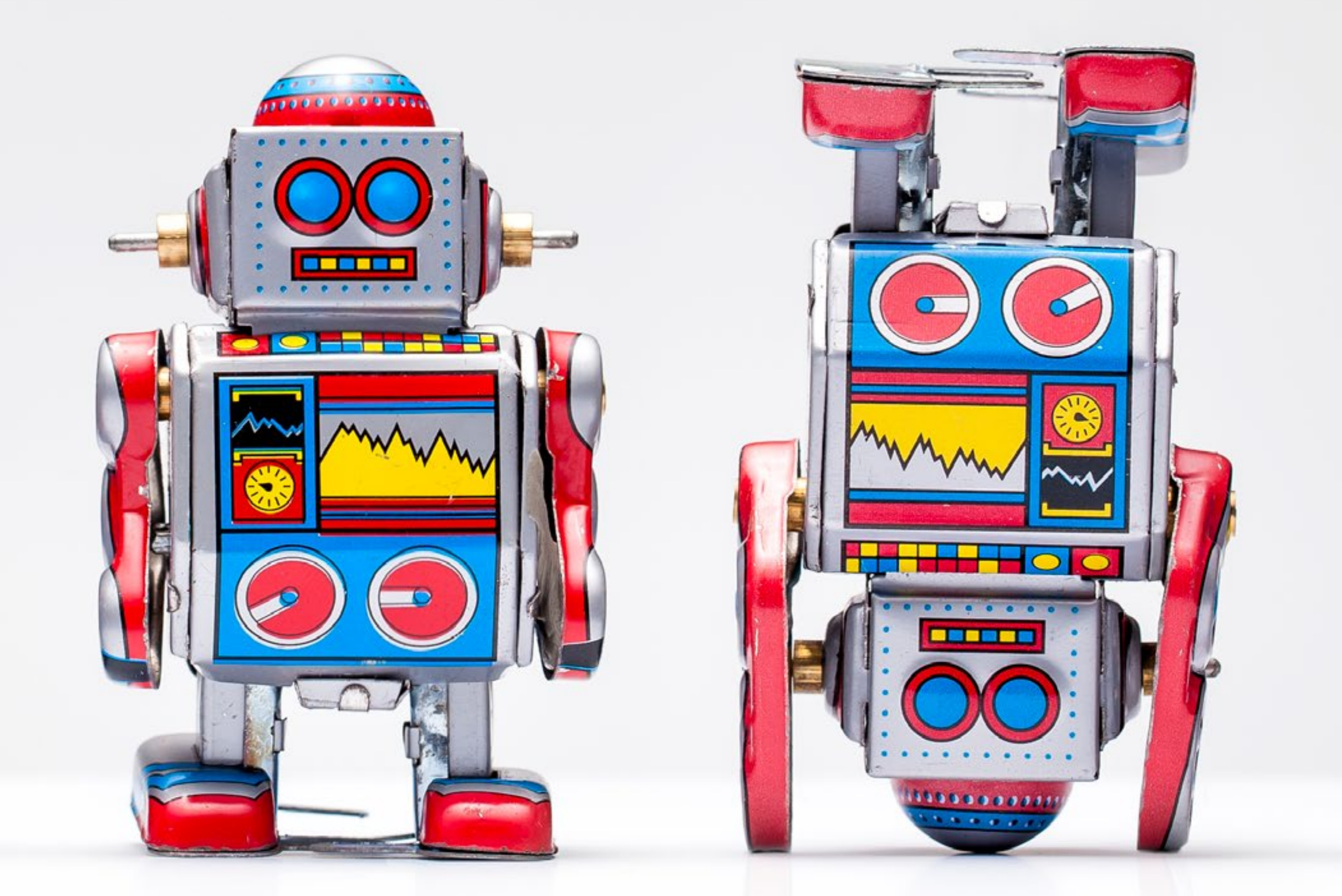
C&P

Spring
Retail Report
2018

Retail Investment

Retail & Logistics =
Rising Rents, Falling Yields

Retail & Shopping =
Falling Rents, Rising Yields



The growth of the logistics/warehouse property sector with falling yields and rising rents is mirrored by the retail sector with reducing activity, falling rents and rising yields. This is a generalisation, of course, but it reflects the changes in the declining fortunes of one area of the property industry: shops, with that of another: logistics and warehousing - which is growing exponentially. With physical shopping suffering from the consumer switching to screen-based purchases, white van driver deliveries are in the ascendancy as would be shoppers abandon their regular visit to the high street and retail park.

The truth lies between these two extremes but what is clear is no market likes failures or uncertainties relating to the fundamental requirement for property investment of secure income streams which have some potential for growth. The failure of so many retailers over the past two years has impacted significantly on investors thinking with secondary shopping centres and older generation retail parks, now the pariah of the investment property world.

2017 saw a steady decline in shopping centre investment activity but retail warehousing saw an 8.6% increase over 2016 with £2.67 billion of stock traded. However, with that good news, forward to 2018, and Q1 has seen a 52% drop in RW investment transactions, down from over £650 million in Q1 in 2017 to just over £300 million in Q1 2018. Consequently, on this evidence, valuers are downgrading stock in a way which, although may be realistic, is not helpful to corporate investors health, returns and balance sheets.

Shopping centres have not had a good year in investment terms but there is a huge divergence in performance and sentiment. In very simple terms, the top 100 centres including city centres, regional and sub regional shopping malls and dominant retail locations show a stable yield profile which during 2017 up to Q1 2018 have shown improvements of up to 50 basis points.

Dominant centres are not restricted to the south east but Manchester, Glasgow, Edinburgh, Cambridge, Milton Keynes, as examples faring well but the more secondary shopping centres such as Colchester, Eastbourne, Crawley and Worcester, finding the market is not so kind to them.

Despite the problems, it interesting to note that 50% of all UK commercial property investment transaction result in them ending up in overseas ownership although the City and West End of London act as the major magnet.

Perhaps the biggest news on this front is the purchase of one overseas investor, Westfield, by another, France's Unibail-Rodamco, to become the world's largest shopping centre investor. One questions the motivation of Westfield but there is a feeling they were running out of steam and finding returns in the UK tough to achieve. Despite the possibility of securing John Lewis as the anchor store trader for their £1 billon redevelopment of Croydon town centre, questions remain over its design and viability. To come forward, it probably needs to reassess the mix of uses, the retailing, leisure, offices and residential with an increase in the latter two areas offset by a reduction in retail accommodation.

Central London leads the way with eye watering low yields estimated at sub 2.5% for Bond Street and 4.0% for Oxford Street. Prime shops have moved in from last year but must be in dominate centres, usually cities, and shopping malls which will secure a range of yields between 4.5% to 5.5%.

Nearly all other retail is inherently unstable in the current market with specific factors considered carefully against each opportunity. Whereas a few years ago, the yield gap between primary and secondary had narrowed to between 100 and 150 basis points, the gulf today is significant, often with a range of difference between 300 and 500 basis points. Many shopping centres can now be purchased for less than it would cost to build.

Several transactions which started last year in a positive vein either saw negotiations collapse or a significant reduction in price achieved. This is demonstrated by the quoted sector with Hammerson's share price falling between the 9th and 12th April 2018 by 4.3% as it rejected the increased offer from Klepierre. On the other hand, Intu's share price at the same time rose by 2.8% almost celebrating the collapse of the Hammerson/Klepierre merger. Otherwise, listed property sector returns have underperformed the stock market by anywhere between 2.5% and 5%.

The top of the pile City centre and regional and sub regional free-standing shopping malls rarely come onto the market but if they did, demand would be strong and highly competitive bidding would be expected with resultant high prices achieved.

It would be wrong to think retail property investment is all bad news. Retail warehouse parks have usually, for the right price, found a buyer. Recent transactions include Eskmuir's purchase of Cathedral Retail Park in Wakefield and London Metric sales of 3 retail parks in Christchurch, Bedford and Maidstone for a price of just over £60million.

As examples, L&G acquired the Interchange Retail Park in Bedford at a reduced price in the region of £97 million to reflect a yield of 6.5%. Land Securities sold off over a £100 million of retail parks as it looked to refocus it portfolio but where yields are not expected to achieve better than 6.5%.

Another change has been the involvement in local authorities in purchasing their town centres as both investments and regeneration projects. Stockport Borough Council secured the Merseyway shopping centre from administrators in 2017 with other councils buying town centres at St Helens, Banbury and Shrewsbury to mention but a few.

At the Revo awards at Christmas 2017, over half of the recipients of the major awards were local authorities. They are either picking up bargains or are the last chance saloon - take your pick. At Bracknell the local authority's initiative in buying in half the town centre and funding a new shopping centre and leisure development has been successful – at least the scheme has been built, anchored by a Fenwick department store.

The merger of Standard Life and Aberdeen with a £40 billion property portfolio are bound to see some changes and the market will be watching their approach to the retail portfolio. Standard Life are major investors at Brent Cross where the momentum for the £1.4 billion redevelopment increasing the single mall 750,000 sq ft centre to 1.5 million sq ft with 3 malls, has slowed despite a third investors having been secured. However, with little sign of rental growth, construction costs rising, development profits often at zero and returns from growth on the secured income measured over 15 to 20 years on an IRR basis, the future looks uncertain.

In conclusion, dominant centres in the top 100 retailing locations will retain their profile and strengthen against the rest where on-going falls in rental values and pricing is likely to continue for the foreseeable future. To suggest physical retailing is a dinosaur is wrong, but it is choosing the investments that will not become extinct but will evolve into the next generation of shopping facilities that the consumer will support, which is the key. London, regional cities and regional and sub regional shopping malls are clear winners, it will be the rest where the battleground will lie and the returns will be made or lost.

Key Retail Investment Transactions

Shopping Centre Investment Transactions
1st April 2017 – 31st March 2018

Southside (50% stake), Wandsworth
Price: £150m / 4.40%
Purchaser: Invesco
Vendor: Delancey
Transaction: Freehold Date: April, 2017

Morgan Quarter, Cardiff
Price: £55m / 5.90%
Purchaser: LaSalle Investment Management
Vendor: Helical
Transaction: Freehold Date: May, 2017

Strand, Bootle
Price: £32.5m / 8.75%
Purchaser: Sefton Council
Vendor: Avenue Capital / Ellandi
Transaction: Freehold Date: May, 2017

Friars Walk, Newport
Price: £83.5m / 5.65%
Purchaser: Talisker
Vendor: Queensberry
Transaction: Freehold Date: June, 2017

Castlecourt, Belfast
Price: £123m / 6.50%
Purchaser: Wirefox
Vendor: Hermes Investment Management
Transaction: Freehold Date: July, 2017

Kings Walk, Gloucester
Price: £20.5m / 6.00%
Purchaser: Reef Estates
Vendor: Aviva Investors
Transaction: Freehold Date: July, 2017

Saddlers, Walsall
Price: £12.5m / 9.25%
Purchaser: Walsall Borough Council
Vendor: Topland
Transaction: Freehold Date: August, 2017

Bluewater (7.50% Stake), Dartford
Price: £155m / 4.40%
Purchaser: Royal London Asset Management
Vendor: Hermes Investment Management
Transaction: Freehold Date: September, 2017

Church Square, St Helens
Price: £26.6m /
Purchaser: St Helens Council
Vendor: LaSalle Investment Management
Transaction: Freehold Date: October, 2017

Chapelfield, Norwich (50% stake)
Price: £148m / 5.25%
Purchaser: LaSalle Investment Management
Vendor: Intu
Transaction: Freehold Date: November, 2017

The Grove, Witham
Price: £6m / 9.00%
Purchaser: Praxis
Vendor: Global Mutual /South African Capital
Transaction: Freehold Date: December, 2017

Castle Quay, Banbury
Price: £58m / 6.80%
Purchaser: Cherwell District Council
Vendor: Aberdeen Standard*
Transaction: Freehold Date: December, 2017

Palace Gardens, Enfield
Price: £51.50m / 6.50%
Purchaser: Deutsche AM
Vendor: Aberdeen Standard
Transaction: Freehold Date: January, 2018

Darwin / Pride Hill / Riverside Centre, Shrewsbury
Price: £50.75m / 6.00%
Purchaser: Shropshire CC
Vendor: Aberdeen Standard
Transaction: Freehold Date: January, 2018

Winsford Cross, Winsford
Price: £19.75m / 10.50%
Purchaser: Cheshire West & Chester Council
Vendor: Winsford Cross Developments
Transaction: Freehold Date: February, 2018

Whitefriars, Canterbury (50% Stake)
Price: £75.50m / 6.50%
Purchaser: Canterbury CC
Vendor: TH Real Estate
Transaction: Freehold Date: February, 18

Royal Victoria Place, Royal Tunbridge Wells
Price: £96m / 5.00%
Purchaser: British Land
Vendor: Hermes
Transaction: Freehold Date: March, 2018

Retail Warehouse Investment Transactions
1st April 2017 – 31st March 2018

Horizon ShoppingPark (Forward Funded), Famborough
Price: £38.8m / 5.25%
Purchaser: Royal London
Vendor: SteamrockCapital
Transaction: Freehold Date: April, 2017

Elgar Retail Park, Worcester
Price: £27.3m / 7.00%
Purchaser: Legal & General
Vendor: Hermes Real Estate Investment Management
Transaction: Freehold Date: May, 2017

Westwood & Westwood Gateway Retail Parks, Thanet
Price: £80m / 6.50%
Purchaser: BMO RealEstate
Vendor: Hammerson
Transaction: Freehold Date: May, 2017

Bedford Interchange Shopping Park Phase 1, Bedford
Price: £91.5 / 6.74%
Purchaser: Legal & General
Vendor: Standard Life Investments
Transaction: Freehold Date: June, 2017

Reading Gateway (Forward Funded), Reading
Price: £40m / 5.25
Purchaser: Aberdeen Asset Management
Vendor: Kier
Transaction: Freehold Date: July, 2018

Exebridges Retail Park, Exeter
Price: £30.65 / 6.24%
Purchaser: Legal & General
Vendor: LaSalle Investment Management
Transaction: Freehold Date: July, 2017

Burlington Retail Park, New Malden
Price: £28.3m / 3.55%
Purchaser: LondonMetric
Vendor: Aviva Investors
Transaction: Freehold Date: August, 2017

Riverside Retail Park, Chelmsford
Price: £53m / 5.50%
Purchaser: M&G Real Estate
Vendor: British Airways Pension Fund Trustees
Transaction: Freehold Date: August, 2017

Pipps Hill Retail Park, Basildon
Price: £86.6m / 5.65%
Purchaser: Royal London
Vendor: Hermes Real Estate Investment Management
Transaction: Freehold Date: September, 2017

Malvern Shopping Park, Malvem
Price: £74m / 5.25%
Purchaser: Surrey County Council
Vendor: Consolidated Property Group
Transaction: Freehold Date: September, 2017

Chineham Shopping Park, Basingstoke
Price: £59.00m / 5.85%
Purchaser: Tellon Capital
Vendor: LGIM
Transaction: Freehold Date: February, 2018

North Worle Distict Centre, WestonSuper-Mare
Price: £37.50m / 5.92%
Purchaser: North Somerset Council
Vendor: British Land Plc
Transaction: Freehold Date: March, 2018

Wrekin Retail Park, Telford
Price: £32.25 / 7.42%
Purchaser: Ediston RE
Vendor: Hammerson Plc
Transaction: Freehold Date: March, 2018

Wickes, Betts Way, Crawley
Price: £10.40m / 4.50%
Purchaser: Aberdeen Standard
Vendor: Travis Perkins Plc
Transaction: Freehold Date: March, 2018

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 2017	Apr 2018
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	4.75
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	5.75
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+	6.00 - 7.50
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+	5.00 - 7.00

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 2017	Apr 2018
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	4.00 - 5.00
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+	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	4.50 - 5.50
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+	9.00+

Supermarket Rental Value

Town Type	Store Type	Rental Range 2013	2014	2015	2016	2017	2018
Large towns	Large format stores	£15-£22.50 psf	£15-£22.50 psf	£14-£18 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	£8-£12 psf
Town centres	Large format stores	£15-£22.50 psf	£15-£20 psf	£14-£18 psf	£14-£18 psf	£12-£18 psf	£10-£16 psf
Town centres	Small format stores	£12.50-£22.50 psf	£15-£22 psf	£15-£22 psf	£14-£20 psf	£12-£18 psf	£10-£18 psf
London conurbation	Large format, limited competition	£30 psf +	£25-£35 psf	£25-£30 psf	£20-£27.50 psf	£25-£35 psf	£20-£30 psf
London conurbation	Small format	£15-£20 psf	£20-£25 psf	£20-£25 psf	£20-£25 psf	£20-£30 psf	£20-£30 psf
All centres	Discount	£8-£12 psf	£10-£16 psf	£12-£20 psf	£12-£23 psf	£12-£28 psf	£12-£28 psf

Supermarket Yield Profile - Limited change but fundamentals are different

Description	Store Type	Equivalent Yeild 2014	2015	2016	2017	2018
Fixed or indexed uplifts at RR	Large format	4.25% - 4.75%	4.25% - 4.50%	3.50% - 4.00%	3.75% - 4.50%	4.00% - 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%	4.50% - 5.50%
Small centres (Standard RR to MR)	Large format	5.00% - 5.50%	5.00% - 5.50%	4.50% - 5.00%	4.50% - 6.00%	5.00% - 6.50%

Supermarket share

	12 weeks to 23 April 2017		12 weeks to 22 April 2018		
	£millions	%	£millions	%	% Change
Total Grocers	26,301,000	100.0	26,830,000	100.0	2.0
Total Multiples	25,788,000	98.0	26,359,000	98.2	2.2
Tesco	7,257,000	27.6	7,406,000	27.6	2.1
Sainsbury's	4,252,000	16.2	4,258,000	15.9	0.2
Asda	4,103,000	15.6	4,161,000	15.5	1.4
Morrisons	2,749,000	10.5	2,810,000	10.5	2.2
Aldi	1,808,000	6.9	1,949,000	7.3	7.7
Co-operative	1,612,000	6.1	1,605,000	6.0	-0.4
Waitrose	1,363,000	5.2	1,366,000	5.1	0.2
Lidl	1,317,000	5.0	1,437,000	5.4	9.1
Ocado	295,000	1.1	332,000	1.2	12.7
Iceland	561,000	2.1	562,000	2.1	0.2
Other Multiples	471,000	1.8	473,000	1.8	0.5
Symbols & Independants	513,000	2.0	471,000	1.8	-8.3

Source: Kantar Worldpanel March 2017

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Spring
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2018

Leisure

User Mix & Dwell Time Key to Continued Success

The growth of the leisure sector has been maintained but at a lower level of activity and the mass market and high-end restaurant sector has suffered notable difficulties. The key for leisure remains the same in that it helps increase dwell times which improves the trading potential of a centre and in particular retailing and business uses.

The recent administrations and closures of restaurants so far this year will leave almost 500,000 sq ft of empty space across retail destinations in the UK, according to EG data.

More than 150 restaurant units are set to become vacant by the anticipated closures of Jamie's Italian, Byron Burger, Carluccio's, Prezzo, Chimichanga and Strada. Around 40% of that space, or 205,000 sq ft, is in the South East and London, representative of both population and destination density.

The appetite for consumers not to cook for themselves remains but eating out in restaurants is not the only option. Delivery to consumers homes is growing fast and is providing competition which is cost effective to customers who are having to cut budgets as wage increases fail to keep pace with the cost of living. Brands such as Deliveroo, UberEats and Just Eat provides restaurant quality meals in an industry estimated to be worth £3.6 billion in the UK as at March 2018. This sector is expected to grow at 10 times the rate than dining out. No wonder restaurants are under pressure having only recently seen a space race expansion.

However, the statistics are contradictory as although online and delivery spending is increasing, the pace of growth in this sector is also slowing from a peak of 16.5% between 2009 and 2010 down to 7.9% for 2017 to the year to date.

There are still strong areas of growth in the physical development of coffees shops and restaurants in out of town retail parks and alongside cinemas. Costa coffee and Starbucks are going head to head in developing drive thru coffee shops. Many retail park owners are taking the opportunity to develop these new "pods" to increase income and customer visitations so as to improve capital values and add life to their centres. This can be at the expense of car parking and visibility of the retail park traders in the terraced units at the rear of the site. There is also the complication of the impact of these developments can have on cross access and car parking rights which must be resolved before construction can take place.

On the out of town drive thru and restaurant side, several names are coming forward including the market leader of McDonalds. Unit sizes range between 1,800 sq ft and 4,000 sq ft with the bottom end of the spectrum comprising the coffee shop drive through's at about 2,000 sq ft. The large units being developed by the restaurant traders can also include two storeys as well as the drive thru. McDonalds have developed several layout options to reflect tailor made opportunities for each location.

Most operators are demonstrating flexibility in terms of size of units, but this is within limitations. What is not limited are the expansion programmes. KFC are seeking 400 new sites, Taco Bell require 50 new sites by 2021 with drive thru facilities, Tim Horton's want high traffic locations throughout the UK, Krispy Kreme opened over 20 new stores in the last 12 months and have further expansion plans for units as large as 4,700 sq ft including a drive thru and 60 car parking spaces. The coffee shop traders are looking for sites between 0.3 and 0.5 acres, again throughout the UK.

The extent of this demand has seen an increase in activity as well as pressure on rents which are rising in this sector ranging from £20psf to over £70psf although the latter is confined to principle arterial roads in London.

Turning to big box leisure and keeping fit, the market is polarising between the budget gyms and the premium end operators with the business model determining how much service customers should have. Pure Gym, since acquiring LA Fitness in 2015 is the largest gym operator in the UK with over 170 branches and 450,000 members, for a company which only commenced trading in 2009.

The range of floor sizes for gyms is wide, from under 3,000 sq ft to over 20,000 sq ft. The large gyms are the ones most likely to be exposed with more recent growth based on the smaller boutique gyms and studios with the offer of a range of activities but usually in small class sizes. The strength of gyms, particularly the smaller ones is that they are flexible as to where they can go but they do need to be in accessible locations with prominence either at their access or with suitable signage and hoardings to establish their existence.

Cinemas in the UK attract some 170 million admissions per annum. The UK has the biggest box office figures in Europe in the region of £1.7 billion with over 4,000 screens. Over 80% of the market is dominated by 4 operators, Odeon, Cineworld, Vue and Empire. There are still gaps in the market and operators are prepared to expand where there is room to do so. Technology is an important factor with IMAX and 4DX screens now a standard part of the offer.

Coupled with the technical offer is the customer experience and the services provided to the consumer as they settle down to their film. As with any property sector, refurbishment and upgrading is an important activity to remain competitive. VIP and food and drink in your seat facilities, are important drivers of sales and profitability requiring extensive capital investment from the cinema operators/tenant. However as the gaps in the market are being taken up, so the emphasis will be on upgrading the existing offer.

Linked trips between retail, business and leisure are key with the best cinemas linked to shopping centres, retail parks and strong business locations as well as good communication links. A strong supporting cast of restaurants coupled with other leisure is also a key characteristic if property performance in rent and value terms is to be achieved. Rental values vary depending on location and competition, but the headline rents are always impacted on by the incentives that are paid with higher premiums offered where competition is weaker.

We have also noted an increase interest in art cinemas comprising a smaller number of screens, usually 3, and catering for a specialist target audience and a wealthier clientele. The business model for this facility is very different to the mainstream multiplex cinemas but does give hope for our older cinema properties, often art deco 30's buildings, where new life can be given to a growing sector. The leading operator in this sector is the Picturehouse group.

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On the investment front, leisure is often seen as complimentary to part of mixed use schemes adding strength and an additional dimension to attract customers and increasing dwell times and expenditure. Property investors are acutely aware of the inherent risks of the leisure property sector and therefore often consider leisure use as part of the larger investment picture. The covenant strength of operators can be weaker than other sectors and business stability fickler. Consequently, investors will usually discount yields on the leisure elements to reflect both a greater nervousness about income security and the growth potential as leisure works though its fads and fashions.

In conclusion, food and beverage continues to go well with leisure and vice-versa, but it is the strength of the location, user mix and competition issues which are determining how leisure property fundamentals have to be assessed. Rental levels look stable in the general leisure area but have peaked in the mass market restaurant sector although growth for out of town restaurants and coffee shops looks to have returned.

Summary of Market Activity Q2 2017 - Q1 2018

QUARTER 2 (April - June) - 2017

Quarterly Analysis

- Australian-based fitness group, F45, is expanding its presence in the United Kingdom with 50 franchises sold and 15 studios expected to be up and running in the country by the end of year.

QUARTER 3 (July - September) - 2017

QUARTER 4 (October - December) - 2017

Quarterly Analysis

- The Gym Group posted a 24.3% jump in revenue for 2017 after expanding its empire to 128 sites.

QUARTER 1 (January - March) - 2018

Quarterly Analysis

- Burger chain Byron announces a restructuring plan which it hopes will save the business. As part of its CVA, 15 poorly performing stores are likely to close while seeking rent reductions in further stores.
- The former BHS Store on Oxford street is to be transformed into one of the UK's largest food halls called Market Hall occupying 36,000 sq ft. Due to open early 2019.
- The Jamie Oliver Group plans to close 12 Jamie's Italian restaurants and seek rent reductions on a further eight as part of a CVA.
- Fast-food chain KFC is looking to open around 60 new restaurants in London this year as part of a UK-wide expansion.
- Shipping container pop-up mall Boxpark and Quintain have secured planning permission to build the largest Boxpark to date in Wembley totalling 27 food and beverage operators and a 20,000 sq ft event space
- Prezzo restaurant chain edges closer to a restructuring that will see up to 100 of its 300 sites close.
- Italian food hall Eataly is to open its first UK marketplace taking 42,000 sq ft at 135 Bishopsgate, part of British Land's Broadgate, EC2, scheme.
- Franco Manca expansion to slow after profit warning.
- London restaurant group Balans Soho Society has agreed letting deals for two new restaurants in the capital later this year. It has secured a deal with Landsec for a new 4,000 sq ft rooftop restaurant at the Cardinal Place development in 12 Cardinal Walk, SW1. The second new restaurant totalling 3,800 sq ft, will open at St George's Dickens Yard development in Ealing, W5.

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