RETAIL PROPERTY BRIEFING PAPER 17

THE RETAIL PROPERTY MARKET END OF YEAR ROUND UP 2003

INDEX	PAGE

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MARKET OVERVIEW

This year's theme follows on from last year with a strong investment market attracting a large number of buyers across the spectrum against weak occupational demand particularly in the leisure, office and industrial sectors.

The decoupling of investor sentiment from occupational demand has raised a number of eyebrows from observers of the market including Government and The Bank of England.

Although both shops and retail warehouses continue to show steady rental growth and reasonable demand, nervousness about consumer credit and debt driven expenditure gives some concern. Total lending to individuals grew by £10.7 billion (1.2%) in September 2003 suggesting a 12 month growth rate of 14%. Gross advances on lending secured against private dwellings was increased to £17.7 billion compared to the average of £17.3 billion in the 3 months to August of 2003. Further, mortgage approvals in August 2003 were at their highest for a number of years at 114,000. On the commercial side, lending to UK residents on real estate was just under £96 billion in the second quarter of 2003 and facilities granted were just under £120 billion.

As most institutional investors seek to gear up their property holdings, coupled with the property companies ability to draw upon finance, it is not surprising that yields for commercial property are reaching record low levels. Capital values continue to grow without any real evidence of supporting rental growth. Is the price of commercial property investments simply being determined by the lack of supply against demand for the product?

In our opinion, it is wrong to paint too pessimistic a picture as there are some interesting indicators pointing to an improving occupational market. The recent RICS commercial market survey demonstrates quite clearly that the declining market is showing signs of bottoming out. In the offices sector the fall in demand has ended after 9 straight quarters of decline, and confidence turned positive for the first time in three years, coupled with the smallest increase in floor space availability since the second quarter of 2001. The only area where the decline is continuing is in the London region.

In the retail sector there is positive demand for shops and retail warehouses with confidence at its highest level for 5½ years, and the first positive expectations for rents to rise in two years, coupled with inducements levelling off although lease lengths continue to fall.

What is particularly interesting is the general strength of the north when compared to a much weaker southern half of the country, perhaps exaggerated by the greater weaknesses in the central London market.

Stamp Duty Land Tax (SDLT) is a major change in the market. Tenants in many cases could find their lease duty costs increased by over 600%. The question is whether to take a long lease or bear the impact of yet higher lease duty on the renewal in the future of short leases.

Many retailers worked overtime to get leases signed by the deadline of 1 December 2003. Thereafter, the market may be strangely quiet for a little while. The level of lease duty is a tax on the business occupation of property rather than a property transfer tax. It also demands payment of the total tax for the length of the lease, upfront. In the circumstances one could be forgiven for thinking this is more a tax on business cost rather than real estate which is bound to provoke a reaction.

SDLT example: Term 25 years
Rent £500,000
SDLT £80,908

Duty prior to change: £10,000

As we said last year, the fundamentals for both shops and retail warehouses look good, but let us hope that external factors do not undermine its underlying strength.

The devil as ever is in the detail with caution having to be exercised in terms of anticipated occupational demand, expected rental growth and the impact on yield levels of increasing interest rates.

We anticipate that the retail market will continue to show good returns from an investment point of view coupled with a reasonable occupational demand profile. Provided that rental levels stay in touch with tenants' business potential, the future is still bright in the retail property sector.

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IN-TOWN RETAIL

- Numerous retail companies being taken private with the influx of venture capital money as well as a number of purchases/takeovers e.g. Allders, Debenhams, TJ Hughes, Selfridges, Littlewoods, Halfords, Ottakar's/ Hammicks, Co-op/Balfour, QS/Bewise, Holland & Barratt/GNC, Tesco/T&S, Card Fair/Card Warehouse.

- Speculation on other MBO'S, takeovers – New Look, Austin Reed and Moss Bros. What will happen to Safeway?

- MBO's enable retailers to concentrate on retailing rather than coping with city pressures. Expansion and contraction might be dictated by immediate performance (or lack of it) rather than city business plans based on market share etc.

- Philip Green's success continues at Bhs and Arcadia, performance the direct result of reducing costs.

- Wide and diverse base of retailers are seeking to expand their portfolios, including Debenhams, Next, HMV/Music Zone/Fopp, Ottakar's, Sports Soccer, Ann Summers, TK Maxx, Monsoon, Savers, Peacocks, Primark, Jigsaw/Kew, George, Poundland, Poundstretcher, New Look, Home Bargains, Slaters, Argos, Select, Bon Marche, Holland & Barrett, The Entertainer, Greggs, Orange, Phones 4 U, card retailers, H&M, Zara, Caffe Nero, Done Brothers and Ethel Austin.

- On the disposals front a number of retailers off loading stock, although in some cases it follows takeovers or receiverships such as Box Clever, Ciro Citterio, JD Sports, Waterstones and QS/Bewise. Others have been as a result of rationalisation and upgrading of the portfolio such as Claire's Accessories and the coffee operators. Some seeking to dispose include Gap, Uniqlo, Benetton, McDonalds, Disney, Royal Doulton, O2 and Officers Club.

- Receiverships have been limited. Operators to hit problems included Ciro Citterio, Andy's Records, Wax Lyrical, Sports Connection, Powerhouse and Mister Minit.

- Receiverships have not been significant in that any units of quality were quickly absorbed by the market and re-let. The units which have failed to re-let have not been significant enough to create uncertainty.

Limited Stock

- There is a very clear lack of quality stock available. Not much different from 2001 and 2002.
- Requirements for large well configured units continues unabated and with major scheme openings restricted to e.g. The Bull Ring in Birmingham and Inverness there has been limited opportunity for retailers to acquire state of the art accommodation.
- The Bull Ring development demonstrates what can be achieved by joint ventures and also takes shopping centre design and quality of environment, as well as integration with the surrounding area, to a new height of achievement.
- Whilst there are large schemes on the horizon in Norwich, Bracknell, Cardiff, Bristol, Exeter, Sheffield, Liverpool, Nottingham and Derby a number of these will take many years to resolve and as a result the supply pipeline could be very patchy over the next few years. A case in point is our clients Kier and ING's PalaceXchange Scheme in Enfield, which is likely to be the only opening in 2005.
- Retailers under pressure to expand need to think carefully as to how they book their space for the future, particularly those that remain in the public arena.

Mixed Development

- More mixed use development continues to be promoted e.g. Aberdeen, Wolverhampton, Aylesbury and Walton-upon-Thames, whilst our clients Capital & Counties in partnership with Countryside Properties have recently been appointed in Ilford to undertake a retail, leisure and residential scheme of some 155,000 sq ft.
- On the development front the sale by Sainsbury's of JSD to Catalyst Capital offers a variety of in-town and out-of-town developments. However, the lead-in times and difficulties in bringing forward such mixed use developments should perhaps not be underestimated.
- Local Authorities are under increasing pressure from the Government to bring forward and promote town centre and edge of town development sites.

  The private sector can assist in providing advice on identifying those sites which will be most viable and secure the full support of the market within reasonable time scales.
- Local authority uncertainty on affordable housing requirements and allocations are hampering development.

- Due to the constraints and difficulties of developing at the heart of town centres, perhaps a stronger focus should be placed on edge of town schemes, which meet the appropriate PPG6 planning criteria.

- Kidderminster, already with two shopping centres supported a new edge of centre scheme of circa 400,000 sq ft. Our clients Centros Miller's scheme was 100% pre-let on opening with tenants including Marks & Spencer, Next, New Look, JJB, TK Maxx and Brantano. This demonstrates the potential available in market towns.

- Hybrid schemes with important town centre pedestrian links will become more common.

Out of Town Retailers Return to Town Centre

- Out-of-town retailers moving back in town or setting up in-town formats e.g. George, MFI, Matalan, Staples, Allied Carpets, and Halfords. Planning policy has constrained out-of-town development and with many out-of-town rents now well in excess of £20 per sq ft large discount space in-town at anywhere between £8 and £14 per sq ft starts to look relatively cheap.

- Anchorage for market town schemes already presents a challenge as the market for variety stores is not what it was and although Debenhams are seeking expansion in smaller centres the question of viability will inevitably occur. However, not all good quality schemes have to be achieved by the traditional department store format.

- The food retail sector has probably been one of the most active over the last 12 months. The focus of this activity however has been in-town with many operators expanding smaller formats.

- The sector is notable by the variety of size and type of formats even under the guise of a single operator. Those acquiring include Marks & Spencer Simply Food, Tesco, Sainsbury's, Aldi, Lidl and Budgens.

Market Towns

- The Government has stated its commitment to retail regeneration in market towns to try and encourage the recovery of expenditure lost to major centres over the last 10 years. This may help to provide opportunities for developers.
  The market noted this potential 3 to 4 years ago as previously reported by us.

Internet Retailing

- The boom and bust of the dot.com era has not resulted in the demise of the Internet. Last year the Internet overtook mail order to become the second biggest retail channel after shops. It is estimated that in 2003 Internet sales are projected to reach £15 billion, which represents about 6% of total retail sales. Some estimates now suggest that 28-30% of retail sales will go to the Internet with it influencing 70% of all sales.

Factory Outlets

- The factory outlet medium has seen a rapid rise over the last 10 years, however, it would now appear to be reaching saturation point.

SDLT

- Stamp Duty on leaseholds is an additional cost for occupiers both directly and indirectly in terms of additional solicitors and accountant's fees. Inevitably, the retailer will seek to pass on the additional cost to the consumer yet the Government is "banging the drum" for greater choice for consumers and lower prices.

- One major retailer suggested that this would effectively add 1% to their annual property costs in a market where retailers are fighting for margin - another tax on business.

Lease Code

- There has been little evidence of real landlord flexibility in the market although it is fair to say that lease lengths in general are reducing.

- On the other hand tenants are clearly opting for the cheapest option which normally includes upward only rent reviews. It would be perverse if Government legislated in such a way to both limit choice and exclude the very option that both sides in the market place are voting for with their feet.

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IN TOWN/SHOPPING CENTRE INVESTMENT MARKET

- **Heated Shopping Centre Market – Plateau reached?**
  Yields remain historically low, fuelled by cheap borrowing. However, swap rates have moved out over the last quarter to their current level of around 5.25% on the justified expectation of an interest rate rise. More base rate rises loom, although it is unlikely the Bank of England MPC can let them rise too high. However, predictions are for base rates to reach 4.0% to 4.5% this time next year.

- **Anomaly of Capital and Rental Performance**

  Yields low whilst rental growth stalling. On the other hand trading performances of retailers have been strong but concern is that this is on the back of unsustainable credit.

- **Narrow Yield Range**

  Historically narrow spread of yields between prime and secondary stock. Estimated today at approximately 2.5% against a more 'normal' spread of 4%-5%.

- **Yield Shift Trading**

  Profits still being taken as a result of the beneficial yield shift over the last 12 months but for how much longer?

- **Banking Influence**

  Low lending rates still fuelling performance and demand for the sector although renewed caution from the banks is a feature. Total bank lending as at the second quarter of 2003 on commercial property rose to £96 billion and facilities granted rose to £120 billion.

- **Competing Sectors**

  Value in the retail sector increasingly hard to find. Investors looking to alternative markets (office and industrial) to find yield.

- **Lack of Development Stock**

  Very limited supply of good quality development stock. Developers turning to existing stock for asset management.

- **Heated Small Lots Market**

  Finance rates still fuelling the auction markets; strong performance.

- **Robust Occupational Market**

  Historically low vacancies and relatively few business failures with the exception of the rationalising leisure market.

- **Influence of Stamp Duty Legislation**

  Largely flawed deprived area legislation provided 'performance on a plate' to existing investors. Influence of SDLT on investment performance awaited with some apprehension.

- **The Rise of The Specialists**

  Equity rich institutions increasingly channelling investment through small, equity poor specialist asset managers.

  Co investment by the institutional investors with fewer but larger pension funds, wishing to spread their risk with more money into property joint ventures, pooled funds, unit trusts, SPVs and other flexible vehicles increasingly popular. Trust and exit routes are the two important issues to get right.

- **Shop and Shopping Centre Yields (Equivalent)**

  Prime high street shops 5.0%-5.75%
  Secondary shops 6.0%-7.0%
  Prime city shopping centres 5.5%-6.5%
  Second tier shopping centres 6.5%-7.5%
  Auction market (small lot sizes) 5.0%

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LEISURE

- Consolidation continues throughout sector.
- First signs of market moving again in cinemas and health and fitness.
- Capital and Regional purchase MWB Portfolio – Xscape Brand.
- Numerous mergers, acquisitions and MBO's.

Health & Fitness

- Topnotch receivership.
- Reebok Club failure in Docklands.
- Holmes Place MBO.
- Cinven purchase Fitness First.
- First signs of recovery.
- Esporta plans racquet clubs expansion. Greens Fitness First, LA Fitness and JJB Sport all progressing limited expansion.

Public House

- S&N Sells its pub estate.
- SFI withdraws from Stock Exchange.
- Po Na Na Receivership.
- JD Wetherspoon slows expansion and limited number of disposals.
- Limited expansion due to previous high street saturation.
- Numerous mergers/takeovers.
- Venture capital backed operators still active.
- Punch Taverns take over of Pubmaster.

Cinemas

- Few new multiplexes opening.
- Easy Cinema opens in Milton Keynes.

- Odeon sold to consortium led by West LB and Rotch.
- SBC International Cinemas takeover of Warner Village Cinemas – group will trade as VUE.
- Ster Century purchased by Aurora Holdings.
- Attendances continue to grow – 177 million (2002).
- We predict further market consolidation.

Restaurants

- Eating out in UK continues to grow.
- Customers demand better variety, quality and service.
- Expanding brands include Harry Ramsdens, Zizzi, Wagamama, TGI Fridays, Prezzo, Dominos Pizza and Auberge.
- Continued drive thru expansion Pizza Hut, KFC, Burger King, McDonalds.
- City Centre in merger talks with ASK.

Ten Pin/Bingo/Casinos/Nightclubs

- Ten Pin limited new openings but reinvestment in existing bowls.
- Expansion in bingo and casinos with Rank to expand Mecca and Grosvenor Clubs.
- Possible conversion from bingo and DIY stores to casinos. Market will develop in the next 12 months as gaming rules are relaxed.
- Limited number of operators and limited prospects of rental growth.
- Luminar Leisure slows expansion.

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RETAIL WAREHOUSE SECTOR

DIY Sector

- B&Q
  - Expansion drive now including mini Warehouse requirements of 40-60,000 sq ft plus external areas.
  - Planning delays restricting growth plan.
  - B&Q study on disaggregation, using Reading High Street as an example, published in September.
  - Pushing for recognition of differences between the bulky goods retailing and softer trading outlets.

- Focus /Wickes
  - Wickes or Wickes "Extra" brand rollout planned.
  - Focus expansion in smaller towns.
  - High specification required.

- Homebase
  - Bought by GUS 12 months ago.
  - Mezzanines improving sales.
  - Looking in smaller towns.

Electrical Sector Switches Off

- Currys
  - Larger format reassessed during difficult year.
  - Smaller stores back on the requirement list.
  - PC World have acquired and are starting to look in London High Streets.

- Comet
  - Demerger from Kingfisher completed in July to form Kesa.
  - Expansion programme maintained.
  - Mezzanine trading to be trialled in Easter 2004.

- Powerhouse
  - Banks pulled the plug in August.
  - Pacific Retail Group bought 135 stores within 48 hours.
  - New company name is Pacific Retail Group Powerhouse Limited; same fascia.

- Northern Electric
  - New company only managed 12 months of trading before voluntary administration in October.

Other Areas of Activity

- Kingfisher
  - Now B&Q only.
  - Chartwell Land disposal hugely successful in early 2003.

- Furniture/Carpets/Home Furnishings
  - IKEA opened in Cardiff in November but have no other current planning permissions pending the outcome of planning inquiries.
  - MFI continue to benefit from rebranding, although profits have recently come under pressure following 2 years of strong recover.
  - Kingdom of Leather sale to Italian company, Natuzzi.
  - Marks & Spencer Lifestore opens in Spring 2004 in Gateshead.
  - Texstyle World administration in January but no sale of the company as a whole. However a number of packages have found buyers.
  - DFS actively pursuing solus stores to benefit from lower rentals and higher margin potential.
  - Competitors tracking DFS and are willing and able to pay high rents for small stores.
  - Furnitureland paying £35.75 per sq ft in Slough and Klaussner paying £31.00 per sq ft in Southampton.
  - Homestyle maintaining progress on sales but Harveys furniture division reduces profitability.
  - Courts opened 12,000 sq ft store in Norwich.
  - ScS pay £32.00 per sq ft in Solihull but expansion slowing.
  - Dreams accelerating expansion and looking to open 100th unit by year end.
- Clothing/Fashion/Footwear
  - Next still hungry for stores.
  - Matalan's trading concerns do not affect store expansion plans including in-town.
  - Brantano purchases 28 stores from Famous Brunswick 12 months ago and confirms store acquisition plans.
  - Uniqlo close stores outside M25 e.g. Speke, Liverpool.
  - TK Maxx footprint is expanding and relocations are being considered as their business grows. Also now considering relocations.

- Observations on other retailers.
    - Argos continues strong expansion programme including trial of "Extra" concept.
    - Borders strategy may focus on 10,000 sq ft units.
    - Office World set for expansion as competition with Staples continues.
    - Halfords emphasising smaller format – downsizing existing portfolio where possible or relocating.
    - Boots the Chemist makes a welcome return to the market after abortive discussions with Sainsbury's.
    - JJB Sports still acquiring stores above their own health clubs.
    - Poundstretcher repositions offer and tests new "instore branding".
    - Pets at Home grows profit and trials "local" stores.

Development and Asset Management

- Few new parks opening but major long awaited schemes including Castlepoint, Bournemouth and Gallions Reach, Barking.

- New parks built without 100% preletting e.g. Exeter, Digby Hospital site.

- Taunton, Priory Fields Retail Park – 100,000 sq ft demolished and five existing retailers rehoused in new scheme to match their current requirements.

- Market using up old consents or redeveloping obsolete first generation sites e.g. Greenwich Shopping Park.

- The cost of making an application is high enough but undertaking all the analysis required by Local Authorities, coupled with the prospects of having to go to appeal, are stifling opportunities.

- Owners continuing to seek opportunities to improve retail parks by rebranding, refurbishment and resigning e.g. The Junction Fund.

- A new retailer can make a difference e.g. Matalan relocating onto Alexandra Retail Park, Grimsby.

- Retailers continuing the search for the right size of store on each park.

- Retailers going into administration can create asset management opportunities for landlords and new tenants.

- Improving annual and quarterly valuations through macro market conditions make capital investment in asset management difficult to justify on occasions.

Lease Regearing

- Evidence of solus store retailers such as Focus Wickes accepting premiums to regear their lease.
- Landlords looking to improve capital value and are sharing it with the tenant.

Mezzanine Trading Floors

- Accepted part of the market place.
- Evidence of retailers being prepared to pay rent on the 'first floor' if provided by the landlord.
    - Rent reviews geared to ground floor value. Each case is different.
- New Planning Act may seek restriction on ability for existing retailers to expand by building a mezzanine.

Areas of Concern

- Rash of administrations e.g. Texstyle World, Famous Brunswick Shoe Factory, Powerhouse shows that retailing out-of-town is not a guaranteed recipe for success.
- Continued lack of new names, but newly established fascias are expanding e.g. Dunelm and The Range.
- Stock of vacant second hand space continues to increase.

Lease Code

- Retail warehousing one of the last property sectors to have leases averaging over ten years, but average new lease length now nearer 15 years as opposed to 25 years, particularly for the smaller and fashion type contracts.
- Not clear if Code is facilitating the change or whether this is market led and what the effect of SDLT will be.
- No sign that increased flexibility of occupational terms is being 'paid' for by a higher rent.
- Lease terms more likely to be affected by SDLT or by Government legislation if the market does not reform.

Issues in Retail Warehouse, Rent Reviews, Valuation and Lease Renewal

- Evidence
    - Limited open market evidence available.
    - Best evidence is 'on the park'.
    - Is a potential tenant's offer on a deal which falls through "evidence"?
- Analysis of Incentives
    - Continued arguments over amortisation period. 5 years, 10 years or the term of the lease?

- Onerous lease terms
    - Accepted that an Allied Dunbar/ Homebase subletting clause is onerous but such clauses not that common.
    - Deeming provisions. Courts taking harder line that time may be of the essence.
    - If SDLT reduces lease lengths to say an average of 10 years, does that mean an assumed lease length of 20 years is onerous? It probably will.

- Lease renewals
    - Most landlords and tenants have avoided them so far.
    - Early solus stores up for renewal in next five years.
    - Lease regearing rather than renewal the best option?
    - 54 Act reform expected next year.

- Independent surveyor appointments.
    - Continuing problem with limited pool of Independent Surveyors.
    - Too easy to establish potential conflicts of interest.

- Expert Witness or Advocate? The RICS Practice Statement and Guidance Note requirements are now being enforced.

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SUPERMARKET AND FOOD SUPERSTORES

- Food Superstores
    - Foodstores continue to expand their high street, edge of town and superstore offer.
    - More flexible approach considered due to planning guidance.
    - Smaller stores still target the "one stop shop".

- Safeway
    - Morrisons' planned merger on 9 Jan 03 has brought unprecedented Government interference.
    - Government ruled out sale to any other competitor than Morrisons, but terms not agreed at time of printing.
    - Result is to continue and strengthen the monopoly position of Tesco, Asda, J. Sainsbury and Morrisons.
    - 53 stores already marketed by Safeway but talk of Asda and Sainsbury buying more stores, diluting the portfolio left for Morrisons or any other purchaser.

- Tesco
    - UK's most successful retailer now expanding overseas.
    - Different formats in-town and out-of-town create a brand responsible for selling nearly £1 of every £8 spent in UK shops. (Equivalent to 12%)
    - Acquisition of 870 T&S stores in January 2003 recognises limitations of expanding the large food superstore formats.

- Asda
    - Continuing progress with non-food sales.
    - Overtook Sainsbury's to become Number 2.

- Sainsbury's
    - A big investment in the retail business underway in attempt to maintain its position. Appointment of new MD.
    - Selling off property development portfolio.

- Marks & Spencer
    - Aggressive acquisition on a number of fronts. The main focus is the 'Simply Foods' concept.

- Waitrose
    - The future is likely to see renewed activity from this trader who has tended to sit back on their existing portfolio.

- Somerfield
    - Continues to improve both its trading profile and covenant strength.

- Considerable uncertainty in this sector on the various proposals for takeover of Safeway.

- Morrisons were always the obvious bedfellow for Safeway.

  The real question is the depressing impact of regulatory controls on business where investigations and the decision making process run over a considerable period of time. This can only be to the detriment of the UK economy as a whole.

- Government policy against the development of out-of-centre food supermarkets and superstores has resulted in decision making 'on the hoof' by the Secretary of State, with a number of his inspectors' recommendations for the grant of planning permission being overturned for reasons which do not stand up to scrutiny.

- Edge of centre and town centre store development is the focus for the future but formats will have to be adapted.

- Greater emphasis is likely on the sale of fashion and non food items in the larger stores allowing margins to be improved.

- With limited opportunities for new development in this sector, demand is likely to remain relatively strong even with the potential merger of Morrisons and Safeway. For the best opportunities rental values are likely to see further strong growth.

- More secondary stores can be made to contribute effectively to company profits by improving the offer and profile which is possible providing that competition is not excessive. In certain areas smaller store formats are struggling to capture sufficient trade in the wake of stronger competition. In these situations rental growth will be limited.

- The discount food sector continues to grow but has a noticeably lower profile than in the past 5 years.

- The valuation of food superstores continues to encourage considerable debate.

- The analysis of premiums and true rental levels are the focus of attention between landlords and tenants. The recent Arbitrator's Award on the Sainsbury's at Coldhams Lane, Cambridge appealed to the High Court and then the Court of Appeal was upheld and confirms that each situation should be judged on its merits.

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RETAIL WAREHOUSE INVESTMENT MARKET

Overview

- Retail warehousing continues to be the strongest sub-sector within the UK property market with unsatisfied demand from major funds, property companies and private investors.
- Investment yields have continued to fall fuelled by the low cost of debt finance and under performance in other asset classes.
- Continuing strong demand from Danish and Irish money on small/medium lot sizes for good quality well let properties.
- Indirect investment is allowing smaller players to gain exposure to the large prime open A1 shopping parks e.g. Hercules Unit Trust (Pillar) The Junction Limited Partnership (Capital & Regional and Morley) and the Henderson Unit Trust. Investors include Local Authority and smaller Corporate Pension Funds.
- Private investors and debt-backed consortiums continue to covet retail warehousing, attracted by longer leases secured on good covenants.
- Smaller, secondary retail warehouse investments in strong demand and in yield terms have kept pace with pressure.

Outlook

- If swap rates continue to move out (5 year rates have moved from 4.50% to 5.25% since August), the funds and property companies should be more competitive on the small to medium lot sizes where the debt buyers were previously able to pay keener yields.
- Yields are likely to plateau on open A1 shopping parks although it will be interesting to see whether Pillar secure the price they are quoting for a 50% share in Gallions Reach Shopping Park, Beckton (4.54% initial and 5.25% equivalent yield).
- Yields on secondary bulky schemes may soften if occupational demand becomes weaker.

- We may see a flurry of demand for first generation schemes where leases will be 'falling-in' over the next five years, offering developers the chance to take advantage of less restrictive and ambiguous planning permissions.

Yields (Equivalent)

• Prime open A1 fashion parks	5.25 - 5.50%
• Open A1 non-food retail	5.75 – 6.00%
• Prime bulky goods parks	6.00 – 6.50%
• Prime standalone units	6.00 – 6.50%
• Secondary product	6.75 – 7.50%
• First generation schemes	7.50 – 9.00%
• Food supermarkets	5.00 – 6.25%

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PLANNING

- PPG6 review with new PPS6 published 15 December 2003 (see Retail Property Briefing Paper 16)

- Government clarification of the 1996 PPG6 issued in April. Did not air anything new other than to elevate quantitative considerations above qualitative matters in the consideration of 'need'.

- There is still no practical definition of the constituent elements of retail need. The so called "Macclesfield criteria" (actually promoted by Chase & Partners at a public inquiry in Macclesfield in 1997) is still felt by many practitioners to be the best working definition.

- Ongoing interference by central government in the local authority decision making process is rife. Call In's continue apace.

- The operation of the new planning system with the proposed new strategic and local development frameworks, remains something of a mystery to many planning authorities. Some authorities continue to finalise UDPs and old style local plans whilst others have placed this work on hold. Consequently the worst type of scenario is upon us where planning is in limbo.

- Those who dictate planning policy still appear to have very little real comprehension of the retail market place. Bulky goods cannot trade effectively from town centres and add nothing to customers by being forced into inappropriate space. Recent initiatives by B&Q to demonstrate the difference between bulky and non bulky traders is very welcome.

- Although Central Government has stated its intensions to focus on second tier towns in the future, the market has already focussed its attentions to these locations some three or four years ago as previously reported by us. What is required is better infrastructure support from Central Government and funding of scheme shortfalls where they are in the public interest.

- Few practitioners believe the review of the planning system will bring about improvements in the efficiency and effectiveness of decision making.

- Many local planning authorities remain sadly under funded and understaffed and with a lack of expertise. Yet they remain reluctant to buy in expertise when needed.

- There have been a few encouraging appeal/Call In inquiry decisions on retail matters (Gloucester, Aylesbury and Stafford). However the vast majority of such decisions have taken a very strong line on government policy with out of town retail developments being refused.

- Support for 'town centre' development from government has helped to focus activity on the central areas but it is generally market factors which have driven forward new development and investment in these locations.

- Mixed use development is often dressed up to represent a fully integrated approach but the reality is sometimes different, mixed use on its own is not a panacea for the regeneration of town centres. Infrastructure initiatives and improvements coupled with resolve of the local authority in true partnership with the private sector are the key. The Birmingham Alliance with the success of The Bull Ring shopping centre development is a role model, to be studied, improved upon and adopted wherever possible.

- Government view that developers are land banking rather than undertaking schemes is misguided. Delays in securing planning and uncertainty over affordable housing criteria and Section 106 requirements are forcing developers to hold land which otherwise they would be pressing to develop and sell on.

FURTHER INFORMATION

Further copies of this and previous briefing papers may be obtained from Graham Chase as may additional information or assistance on planning and development issues.

Chase & Partners provide comprehensive retail planning and development services to the private sector and Local Authorities, including 'health checks' and retail impact assessments, and the sequential approach. Graham Chase and Jim Morrissey, Directors of Chase & Partners, have advised over 100 private sector clients and 50 Local Authorities on retail planning matters in the past 4 years.

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