Retail Property Briefing 21

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Market Overview

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Last year, movement in the retail property market was difficult to predict. As we anticipated, this year has seen both fragility in the occupational market coming to the fore, and the continuing strength of the investment market that has seen yields make further falls.

This fragility in the occupational market can be attributed to a wide number of general economic factors. The housing market, for example, has weakened and indications are that consumers have begun to feel more cautious. Adverse media reports on domestic debt, now amounting to over £1 trillion, is perhaps causing consumers to think twice about further spending and start reducing household debt.

The retail warehouse market offers the greatest contradictions. During the year, falling consumer confidence and expenditure fed through into tangible failures. A number of furniture multiple retailers called in the administrators or were put into receivership. This wake up call was followed by falling sales volumes and profits in the DIY and electrical sectors at B&Q and Currys / PC World.

Despite difficult trading conditions for the occupiers, investors have continued to purchase retail warehouse investments with vigour, producing falling yields and a narrow yield gap between prime and secondary investments. Recent 'trophy' deals at the prime end of the market, together with some concerns over pricing in the secondary bulky goods sector, indicate that we may see a widening of the yield gap over the coming 12 months.

The high street has also seen its fair share of business failures. This market, however, has a much larger pool of potential occupiers and a greater diversity of demand (especially for prime space) than the retail warehouse sector. As such, it has held up remarkably well in the face of harsher trading conditions. Furthermore, recent rental growth in the high street has been more measured than for some parts of the retail warehouse sector. This makes market conditions in the high street somewhat less prone to volatility than for retail warehousing.

A note of caution when considering the true state of retail sales: some recent press comment has indicated dissatisfaction with the manner of calculation of sales figures. The current system is still based on an approach first adopted prior to the second world war, and may not be reflective of the true position.

After ten years, internet retailing is having an impact on high street sales - a trend that is likely to continue.

Recent concerns over the extent of new development appear over-emphasised. The flow of new space is at a steady pace and in most cases represents long awaited regeneration schemes or redevelopment of outdated and tired town centres.

In the retail warehouse market, new developments are a rare event indeed. This is the case even for bulky goods that require the type of space that only large space developments can offer.

If the government's proposals to tax development gain do make the statute books this will act as a brake on future development.

Although some observers of statistics suggest that institutional investors are buying less, our experience on the ground is the opposite. Requirements remain unsatisfied as higher weightings in property are maintained. In this respect, there has been a structural change in investment attitudes that are likely to be here for some time to come.

Retail property, according to the latest annual IPD Index has shown strong returns. At 16.6% for the past 3 years and 12.3% over the past 5 years, these outstrip all other property sectors. The latest monthly IPD Index, however, demonstrates the improving returns of equities against property (17.50% for property and 19.80% of the FTSE All Share Index). This perhaps represents a natural cycle. In any event, the importance of property as part of an institutional balanced investment policy is unlikely to be shaken off.

Property companies are not, however, being left behind. The likes of Land Securities, Hammersons and British Land are finding ever more innovative ways of expanding their portfolios. New debt driven vehicles and greater flexibility allow for joint ventures and large corporate acquisitions. The general focus for maximising returns is on having a smaller number of larger investments.

Bank of England figures show that lending on real estate now stands at £134.9bn. The annual growth rate of this debt is 19.1% - a very significant extension. Increases in property values, nevertheless, would appear to provide for a sustainable ratio of debt to value. It is quite clear, however, how important property is in supporting the UK economy. Debt in this sector is 2.5 times that to the manufacturing sector, and 40 times that to the UK service sector. Interestingly, the annual growth in debt to the construction industry at 19.5% is the same as for real estate, even though the total debt in this sector is £20.3bn.

The fortunes of the occupiers are of course the crucial element in retail property. There is no doubt that trading is going to be much tougher over the next 12 months with price deflation, squeezed margins and ever increasing competition from the internet. This will encourage more diverse and flexible letting strategies. The result will be that lease lengths will continue to reduce, incentives are likely to increase, and some age-old criteria such as upward-only rent reviews will be under increasing scrutiny and market pressure. Land Securities' flexible leasing approach will be worth watching closely over the next 12 months and beyond.

Palace Exchange Shopping Centre, Enfield. Lettings, development consultancy and investment sale for ING Developments.

Town planning

We are now several months into the new PPS6 era, and already difficulties are beginning to emerge in its interpretation. The draft version promised a host of "best practice guidelines", but these have yet to emerge, leaving practitioners to cope with a document that is increasingly viewed as lacking in substance.

'Need'
The new policy statement reiterates guidance contained in earlier ministerial "clarifications", that retail development in edge of centre or out of centre locations must be supported by evidence of 'need'. In this regard, quantitative need is deemed to be weightier than qualitative need. The former must be demonstrated, whereas the latter can be taken into account.

The retail industry is extremely dynamic and we can all identify different legitimate elements of it. In this way, purpose - built shopping malls have a different dynamic to the high street, which itself differs from retail warehouse parks, which themselves differ from food superstores, which differ from local and district centres, which are different to factory outlet centres, and so on.

Sadly, when practitioners are required to demonstrate a quantitative need for further provision, they are instructed to consider only expenditure within the broad categories of comparison and convenience goods. Certainly, this is the conclusion to be drawn from analysis of appeal precedent, despite the unclear wording of PPS6 (paragraph 2.34) which refers to ….*"forecast expenditure for specific classes of goods to be sold, within the broad categories of comparison and convenience goods…".*

From our experience, assessing the need for further retail floorspace on the basis of expenditure on all comparison goods is altogether inadequate. By way of example, consider the following: In most shopping hierarchies, smaller town centres are dominated by the sub-regional centre, and in this way, think of the likes of Thirsk and York or indeed, Droitwich and Worcester. In such smaller towns, it is natural for expenditure on certain comparison goods, such as fashion and luxury items, to flow to the larger centre. It does not follow, however, that expenditure on other comparison goods, such as DIY products, would flow to a higher order centre, providing there is an adequate level of local provision.

Traditionally, when examining the issue of need, practitioners would establish, through survey work, the extent to which expenditure flows to various centres according to the types of goods purchased, e.g. where shoppers go for clothing and fashion items, the main and top up food trips, for DIY goods, for electrical goods, for furniture and floor coverings, and so on. In this way, the adequacy of local provision will inevitably vary, according to the different trips planned and the types of goods to be purchased.


Planning Consultancy on Local Development Framework for Guildford Borough Council.


Georgina Zammit


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Returning to the example of Droitwich and Worcester, surveys show that the majority of expenditure on fashion items leaks from Droitwich to Worcester, but this is not the case with DIY spend. By analysing the spending habits of goods to be sold within the broad categories of comparison and convenience, the need for different types of provision locally can be evaluated.

If, however, we adhere to government guidance, the fact that expenditure on all comparison goods is leaking from Droitwich to Worcester provides the 'need justification' for further comparison goods floorspace, of any description, in Droitwich. What this means is that the leaking of expenditure on fashion goods to Worcester is used to justify the provision of further DIY floorspace! This cannot be right and it cannot lead us to a sensible shopping provision that reflects real local needs.

While we can understand the Minister's wish to avoid over-elaborate need calculations, bringing the matter down to such a simplistic level serves no public interest. Retailing is dynamic and varied and the proper retail needs of any town should be assessed at a level of sophistication beyond mere comparison and convenience goods shopping. Furthermore, many individual retailers sell both comparison and convenience goods and it is increasingly obvious to retail planning practitioners that the PPS6 guidance, in this regard, is inadequate for its intended purpose.

Criteria
We still have no comprehensive explanation of the concept of retail need. To our mind, criteria we put forward at a public inquiry at Macclesfield in 1999, and which has been adopted by many other practitioners as a sensible and comprehensive approach, is as good as anything that has been produced. On that occasion we set out that retail need will vary from place to place and from time to time, but its constituent elements were likely to be comprised of one or more of the following:-

- the quantitative capacity for the proposal;
- meeting a qualitative deficiency in existing provision (either in overall terms or spatially);
- a related absence of harm to interests of acknowledged importance;
- broad compliance with recognised planning objectives e.g. sustainability;
- meeting the requirements of the local community, and the need for any town to be competitive with alternative retail destinations.

Conclusion
National planning policy guidance on town centres and retailing has been a moveable feast for the past six years, requiring regular clarification. It was keenly hoped that the new PPS6 would put an end to this. That may not, however, now be the case. Further clarification is required.


Retail planning consultancy for Hermes. Crystal Peaks Shopping Centre, Sheffield.


Planning consultancy for British Steel Pension Fund. Prestige Retail Park, Burnley.

In-town retail agency

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Market Overview

For the first time in a decade we have seen a marked shift in occupier sentiment. Retailers are reporting much more difficult trading conditions with price deflation, falling like-for-like sales and increasing occupational costs. These are putting much greater pressure on profit margins than in previous years. Despite these tough conditions that have seen more withdrawals of well known high street names from the market place (notable examples in 2005 being Littlewoods and Etam) demand for prime space remains good, and few voids have resulted. The retail market's ability to evolve and reinvent itself is imbuing it with robustness in the face of harshening economic conditions along the high street.

As ever, the unpredictable British weather continues to compound the challenges of a difficult market for the high street, especially for the fashion retailers. Late summers, short winters and climate changes are challenging the traditional sales seasons. In particular, this year we have had an unseasonably warm autumn.

We have commented over the last 5 years on the strong pent up demand for large, efficient accommodation by the major fashion brands such as Next, Arcadia, River Island, Monsoon, H&M Hennes, Primark, Debenhams and New Look. 2005 can be seen as the year when "the hunters secured their quarry", with the majority of space resulting from the demise of the Littlewoods and Allders chains being quickly recycled.

The department and variety store sector continues to evolve and we have already touched upon the disappearance of the Allders and Littlewoods chains. Dickins & Jones on London's Regent Street and Barkers of Kensington are soon to follow suit. In their place retailers such as Next, TK Maxx and Primark are taking department store sized units. By way of a contrast, some of the department store operators are now looking at much smaller formats (for smaller towns), with House of Fraser and Debenhams now actively seeking 20,000 sq ft. 2005 was also the year that saw the welcome return to form of Marks & Spencer.

Some traditional 'out of town' retailers such as Ikea, frustrated in their expansion plans by the restrictive planning regime and shortage of new sites out of town, are now looking to the town centres such as Coventry to help them satisfy new space requirements.

Many former listed multiple retail companies are now back under private control with notable examples being Mosaic Fashion (Baugur) and Arcadia (the Green Family).

As harsher trading conditions take hold, we foresee the inevitable rise in third-party determinations, as tenants seek to put a cap on establishment costs and landlords strive to create rental growth in a weakening letting market.

Some landlords are appearing to be more flexible in leasing, with 10 or 15 year leases now the norm. High profile names such as Land Securities are introducing new innovative leasing packages ("Landflex"), and it is anticipated that others will follow. Is this the start of the end of upward only rent reviews after a century of leasing on this basis?

Portfolio acquisition and valuation for Prestbury.

Grays Shopping Centre, Grays. Letting and asset management for Halladale plc.

Acquisition and valuation of Iceland and Booker sale and leaseback portfolio for Prestbury.

Development Pipeline

As reported last year, 2005 saw only a limited number of major new shopping centre openings. While it is estimated that some 2 million sq ft of new centres will have opened during the year, only very few have been in excess of 200,000 sq ft. These have included Chapelfield in Norwich, Fremlin Walk in Maidstone and Westwood Cross in Thanet.

Looking to the next 3 years, 2006 is also likely to see few major new shopping centre openings. Notable exceptions will be Palace Exchange in Enfield, Ayr Central, Drakes Circus in Plymouth and the Heart Shopping Centre in Walton on Thames.

The picture from 2007 onwards, however, is very different. Some 4 million sq ft of new centres are planned to open in 2007 in places such as Derby, Belfast, Manchester and Camberley. 2008 will see a further acceleration in new scheme openings with some 7 million sq ft forecast in the likes of White City, High Wycombe, Leicester, Bristol and Pollock.

Concern has been expressed by some in the industry as to whether this level of development is sustainable given the softening of the retail market and weakening general economic conditions.

While the amount of new space in the development pipeline is considerable, it is notable that, unlike in the late 1980's, the schemes proposed are mainly on prime city centre sites. We see these new developments as merely responding to ever more discerning retailer and shopper requirements based around shopping as a leisure activity. The developments planned for Bristol and Belfast are good examples of this. They comprise the provision of the 'right' size of new accommodation in tired, older retailing centres and reflect a normal cycle of replacement and regeneration. We believe this to be a positive factor, not a negative one as some observers have been suggesting.

Given the scale of the proposed development pipeline, however, it is likely that key retailers will continue to negotiate softer terms on new lettings. With the demise of Littlewoods and Allders, anchor store traders (that now include the likes of Next, Primark and TK Maxx) enjoy a stronger negotiating position. This may result in the weaker schemes being delayed, redesigned or even mothballed, especially if the additional burden of a 'development gains tax' is enacted by this government.

Key Notes
Department/Variety Stores

• Allders went into receivership during 2005. Tellingly, all of the stores were acquired either by retailers seeking prime representation or landlords looking to redeveop;

• Littlewoods ceased trading with ABF taking over the chain and retaining 40 stores for Primark and selling 34 onto New Look;

• House of Fraser bought the Beatties department store chain, but announced the future closure of Dickins & Jones on Regent Street London W1, Barkers of Kensington and the Beatties store in Birmingham;

• On a positive note, the most active player in this market – Debenhams - opened smaller 'Desire' formats in Truro and South Shields to match smaller catchment populations. They also acquired 8 Allders stores and have plans to open a further 23 stores. They also continue to buck the trend, improving like for like sales;

• John Lewis plans to add an additional 10 outlets from 2007 onwards;

• As we commented last year, Stuart Rose's performance at Marks & Spencer has been closely monitored. With an innovative refurbishment programme and the assistance of Twiggy and a gooey chocolate pudding, Rose seems to have successfully brought Marks & Spencer back 'into fashion'. It will be interesting to see how Bhs and Next respond to Marks & Spencer's resurgence.

Expanding Retailers

• Vacancy rates throughout 2005 have remained low in prime locations despite reports of overall increases in town centre vacancies. Numerous retailers have taken the opportunity to expand into space left

In-town retail agency (contd)

by those withdrawing from the high street;

• Fashion retail has seen most brands 'upsize' on the traditional offer – Next has moved into department store format with its 80,000 sq ft offer in Manchester. Top Shop, New Look, H&M, River Island, Zara and Mango are all seeking units of 10,000 sq ft and over in major catchments;

• Philip Green purchased the 213 outlet Etam chain;

• Monsoon have continued to expand over the last 12 months and purchased 47 of the Etam stores from Philip Green;

• New Look purchased 34 of the former Littlewoods stores from ABF;

• Value retailers, TK Maxx, TJ Hughes and Wilkinsons have continued on their push for space. Their presence in good secondary locations in town centres taking large space units has been fundamentally important to the continuing prosperity of these locations;

• Coffee shops including Caffè Nero, Starbucks and Costa Coffee continue to expand;

• Sandwich bars such as Pret a Manger, Subway and Benjys are now expanding outside their original London base;

• Media stores continue to be acquisitive despite competition from the internet, with HMV and Virgin looking for larger outlets and Fopp and Music Zone continuing to expand. After its successful launch in Regent Street, Apple has also expanded into Bluewater, Brent Cross, Bull Ring and the Trafford Centre;

• The hairdressing sector, while remaining predominantly independent, is undergoing a period of consolidation with operators such as Toni & Guy, Regis and Nikita undertaking aggressive expansion plans. This is partially due to product sales, which are increasingly being undertaken within salons following the continental model;

• Other noteworthy acquisitive retailers for 2005 include Animal, Ottakars, Bank, Carphone Warehouse, O2, Game, Superdrug, Kipling, Qube, Phones 4U, Clintons, Peacocks, Greggs, Claire's Accessories, Faith, Schuh, La Senza, USC, Republic, Build a Bear, Early Learning, Jane Norman, Top Shop, Dorothy Perkins, Poundland, Orange, Flight Centre and Sportsworld.

Disposals

• Littlewoods and Etam came to the market but space vacated by both groups was quickly reabsorbed;

• Retailers who have been upsizing have strategically disposed of the smaller branches in their estate including Virgin, Clintons and Dixons;

• Sports fashion retailers who have been rapidly expanding over the last few years such as JJB and JD Sports have begun to rationalise their estates during the current phase of consolidation for this particular market;

Betfred Bookmakers. Retail acquisitions throughout London M25 area.

Nikita hair. Retained agents for programme of nationwide acquisitions.

Bligh's Meadow, Sevenoaks. Phase 2 lettings and asset managment

• Sainsburys are disposing of a number of their smaller format stores in prime and expensive locations, especially in London;

• The banking sector continues its gradual withdrawal from the high street with a number of portfolios coming onto the market from Birmingham Midshires, HSBC and Halifax. Further disposals are forecast over the next few years;

• Bennetton placed a number of their larger format stores on the market. Is this a warning to other retailers that big is not always beautiful?

• First Choice, Adams, Stead & Stimpson, Fat Face, Crew Clothing, Brighthouse, Shoefayre and Going Places have also been rationalising their estates.

Other Major News Stories from 2005

• Boots announced a merger with Alliance UniChem although this remains subject to an Office of Fair Trading enquiry;

• all:sports breached banking covenants and went into administration but was snapped up by JD Sports;

• Philip Green paid himself a £1.2billion dividend – does this mark the top of the market as Bhs sales begin to fall?

• Price deflation raises its head again during the course of the year, with Stuart Rose confirming that general ladies wear prices are falling at between 15% to 16% per annum. John Lewis's Sir Stuart Hampson comments that a dishwasher today costs the same as it did ten years ago;

• Chinese clothing imports stalled at port and quota realignment agreement reached in crisis talks, reflecting concerns of "dumping";

• Other retailers falling into administration included Allders, Pilot, Eisenegger, Gadget Shop, Ciro Citterio, Granville Technology (Time) and Elephant.

Additional Miscellaneous Issues

• Online shopping continues to have a growing effect on high street retailing. It is now estimated to account for 6% of all retail sales and this figure is forecast to increase to 10% over the next 3 years. As the BCSC conference in Belfast highlighted, customer service and the built environment is becoming even more important to counter this threat;

• Retailer Sony is endeavouring to force up on-line prices to encourage customers to return to the high street where they can showcase their goods and push sales. Will other retailers and manufacturers follow suit?

•The impact of the Disability Discrimination Act has not yet come to the fore, but a pending case against Debenhams may put it back on all retailers' and developers' agendas;

• 2005 was the year that marked the return of terrorism as a threat to major city centres. In Central London, and in particular Oxford Street, it has contributed to an already unique set of issues that pose threats to the long term prosperity of the shopping environment here;

• The impact of the congestion charge on shopper numbers and the future competition presented by the development of massive new shopping centres in the inner suburban London area (White City, Elephant & Castle and Stratford E15) combine to present a challenging picture for the future strength of Oxford Street;

• For Oxford Street and the country as a whole, Christmas appears to be even more crucial than ever before – will it prove to be a festive New Year? Probably not!

Crouch End, London N8. Lease assignment for Musgrave Budgens.

In-town/shopping centre investment

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The same message for the last three years? When will we change our record?

For the last 3 years we have been commenting on a bull run in the high street and shopping centre investment market, where many of the traditional market 'fundamentals' such as location and rental growth prospects seem to have been cast aside in the wake of the rush of money into the sector. There is no sign of any loss of appetite for retail property investments across the board, notwithstanding clear evidence of tenants struggling to maintain sales volumes and profit margins in a highly competitive environment:

• Yield compression continues to be driven by the cost and 'weight of' money rather than rental growth prospects;

• Weight of money: from institutions taking actuarial decisions to re-weight their asset portfolios (many in favour of property) and from property companies and private individuals who have access to cheap debt due to low interest rates. Bank lending to commercial property has risen to an all-time high of around £135 billion, over 10% of their total exposure;

• Cost of money: Continuing low interest rates contribute to further general yield compression throughout the year, especially at the secondary end of the market. The yield gap between prime and secondary is now too narrow in our opinion to reflect real risk profiles. Does this make prime (relatively speaking) cheap or secondary dangerously overpriced in the long term? We would argue the latter;

• Limited rental growth prospects due to harshening high street conditions caused by tightening consumer spending and decreasing retailer margins;

• Funding and forward-purchase yields now almost indistinguishable to those for income producing investments. Forward-purchase considered a good opportunity to secure prime new stock in often 'off market' situations;

• Little differentiation in prime shop yields for geographic location;

• Little or no differential between long (low or no gearing) leaseholds and freehold yields;

• When will the music stop? At what point will occupier difficulties start to impact on the seemingly insatiable appetite from most investor types for retail property investments? This year is likely to provide some answers;

The market is more complex than the above…

• The consensus is that we are in a 'low interest rate environment', and while quarter point cuts or rises cannot be ruled out, access to cheap debt should be sustained. Some pundits argue that the traditional additional yield factor to account for 'property risk' was too high;

• Stock market returns have improved but still the private investor seeks security in 'bricks and mortar' - hence record levels of receipts into institutions offering property backed returns;

• Supply is still shorter than demand. Deals are therefore becoming increasingly equity hungry as yields fall ever lower and 'self financing' deals become more of a rarity;

• Rental growth: high street trading is generally tough but this should not be confused with tenant demand. There is still strong tenant demand for large stores in 100% prime pitch, born out by the fact that most new, well-designed, schemes are virtually 100% let on opening. There is still rental growth at this end of the market but less so in the secondary sector;

• Institutions are still increasing their overall property holdings, but many large investors have reduced the number of assets they hold as the overall size of their funds increase. The average lot size held by the major investors has risen substantially – not so much a flight to quality as a drive for economies of scale from a fund management perspective. For example, Land Securities have increased their overall portfolio size to circa £11.5bn while decreasing their holdings from around 700 different properties to just over 200;

• Property companies with access to cheap debt are finding it increasingly hard to source undervalued/worked retail stock that they can 'sweat'. As a result, demand for such stock is well ahead of supply with corresponding yield compression at the secondary end of the market;

• Private UK based individuals, together with Irish and continental buyers being driven by large cash resources and low cost of debt. Cheap money, availability of SiPPs and tax breaks (especially for the Danes) are chasing yields down ever further;

• Full due-diligence websites permitting increased liquidity (ie speed) to property transactions, especially for larger and more complex lots. General recognition of the concept of the 'virtual data room';

• There has been a large amount of quick trading and profit taking as yields continue to fall;

• Despite the concern over the 'churn' in the shopping centre market, with many centres now coming to the market for the third time in as many years, there is still ready demand for stock;

• Record demand for 'super prime' and trophy assets in major city centres and smaller university towns and cathedral cities;

• Good demand for attractive market 'lifestyle' towns where rents still considered to be low in relation to the local spending power;

• Vulnerable assets (e.g. where there is a new scheme going into the town) are selling but generally take longer to sell. Sometimes difficult to sell the second scheme in the town where it is about to become the third;

• Overpriced, vulnerable assets are rarely sold at their asking price, if sold at all;

REITs
There is continued excitement over the introduction of legislation allowing for REITs (an announcement is expected in the Pre-budget report on 5th December), and many large property companies are positioning themselves and building portfolios to convert to and/or create such vehicles (note ING's conversion of the Abbey portfolio into a REIT labelled fund).

Concerns remain over the level of gearing (note British Land reducing their gearing) and the type of assets that can be held in such vehicles, as well as the cost of conversion and of course the treatment of such vehicles by the Inland Revenue. Other concerns include the permitted levels of reinvestment, profit distributions and restrictions against development.

Property Derivatives
The trial run earlier this year of a virtual Property Derivative market has whetted the appetite of the institutions and larger property companies for such a market. Despite initial (and, in our view, unfounded) fears that it may lead to less trading of direct assets, the consensus seems to be positive towards such a market.

There will be no escape from the lure of the potential super-profits from asset managing directly held property. Property derivatives, however, will make property as an asset class more liquid and therefore more appealing to the wider markets, as well as allowing institutions and property companies to hedge exposure to particular sectors.

Palace Exchange Shopping Centre, Enfield. Investment sale for ING Developments. £80m

Shop and Shopping Centre Equivalent Yields	2005	2004
Prime high street shops:	4.00% to 4.25%	4.50% to 5.25%
Secondary shops:	5.50% to 6.50%	6.00% to 7.00%
Prime shopping centres:	4.75% to 5.25%	5.00% to 6.00%
Second tier shopping centres:	5.75% to 6.75%	6.00% to 7.00%
Auction market (small lot sizes):	4.00% to 5.00%	5.00%

Going forward:
Rental growth starting to emerge in the office sector, combined with a flattening in retail returns as well as increased interest in overseas investment (especially Germany) may mean that yield compression starts to stabilise. We see little sign of an outward shift at present at the prime end of the market, although the yield compression at the secondary end of the market continues to raise our concern. While interest rates remain low, however, the narrow yeild gap between prime and secondary is likely to remain.

Grays Shopping Centre, Grays. Investment aquisition for Halladale plc and Citigroup. £32m

Whitgift shopping centre, Croydon. Investment purchase of 50% interest for Howard Holdings. £220m

Retail warehouse agency

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Overview

• A weakening retail climate in 2005 is leading to increased competition between retailers competing over a reduced pool of consumer expenditure. This has brought about a marked weakening of demand in the retail warehouse sector, particularly for bulky goods;

• 'Big ticket' items, often sold via the retail warehouse format, are some of the first consumer purchases to be 'put off';

• All retail parks are undergoing reassessment. Given the lack of new development, asset management has been the main source of new accommodation but void units from business failures are now providing opportunities for expanding retailers to fulfil new requirements;

• A clearly tiered retail park market has evolved, differentiating between parks, their planning use and the asset management opportunities they offer;

• Occasionally, for the best properties, landlords have been able to go to 'best bids' on new lettings although where voids are present, bids are often at less than book value;

• Generally, retail formats are shrinking as retailers continue to assess their optimum trading formats. Many retailers are downsizing and introducing mezzanine trading areas;

• The effects of the proposed planning restrictions on mezzanines are still not known. The current result is much uncertainty over the legality of pre-lettings (to tenants that require mezzanines) that are proposed 'post' the new legislation;

• Furniture, carpet, electrical and discount food retailers continue to be targeted by landlords to relocate off open A1 retail parks as they secure alternative lettings to open A1 retailers such as Next, TK Maxx, Sports World and Boots the Chemists;

• Retail parks continue to be attractive to restaurateurs such as Pizza Hut, McDonalds, Burger King and KFC;

• Some retailers remain acquisitive, but all are selective and increasingly prepared to wait for the right opportunity;

• As market conditions toughen, discussions between landlords and tenants are becoming more common as profits come under pressure (e.g. permitting rent to be paid monthly);

• The lack of new development pipeline out of town indicates the effectiveness of planning policy in favouring town centres;

• We perceive that in the long term the more tertiary retail parks and stores could be redeveloped for alternative uses due to their effective economic obsolescence for the existing use.

New Development

• New retail park openings in 2005 included Brent Cross Shopping Park, Colney Fields Shopping Park, Morfa Shopping Park in Swansea and Orpington Shopping Park. Each of these were either the result of the redevelopment or extension of existing properties, or were carried out in conjunction with related large scale development such as the construction of sports stadia. In

Stour Retail Park, cantebury. Asset management for prudential.

a similar way, The Junction are carrying out wholesale redevelopment at West Thurrock and Wembley;

• Glasgow Fort has moved the perception of a shopping park further towards that of a shopping centre, and has attracted new high street fashion retailers including Zara;

• Large, new, purely 'bulky goods' retail parks are very much a rarity in today's market place. Even Gloucester, Oswalds Retail Park includes non-bulky occupiers;

• Smaller towns are now being targeted for solus DIY development, or one or two unit developments, including operators such as Halfords and Pets at Home;

• Local Authorities are improving their understanding of the retail warehouse market and are looking to increase their influence over the form, look and layout of new developments for 'townscape planning' purposes.

Extension/Rebuilding/Refurbishment/ Asset Management

• Wherever possible, park owners are looking to extend existing properties. The perception is that the planning arguments may be a little easier than for entirely new schemes;

• Recent tenant failures will provide some opportunities for asset management on retail parks by handing back vacant possession to owners;

• Given the weaker occupational market, landlords have been keener throughout 2005 to ensure 'back-to-back' relettings when undertaking asset management initiatives;

• Multi-storey development remains an option in London and Home Counties or introducing mixed-use development including residential;

• Landlords are building mezzanines in vacant units to preserve the right to do so (in the face of proposed legislation) and also in occupied units with agreements from the tenants;

• Asset management becoming recognised as an expertise which is worth paying for: e.g. LxB Properties remaining involved on the portfolio of foodstores they sold to Land Securities.

• B&Q appointed Foinavon to manage changes to some of their Warehouse stores. Full details are yet to emerge;

Failures, Consolidation, Disposals and Cash Injections

• The following companies were placed in administration during the year: Allders, Time Computers, Texstyle World Home, Klaussner, all:sports, Furnitureland, Durham Pine;

• Part of the Klaussner portfolio was rescued by the former management trading from around 25 stores;

• Bhs Home took over majority of former Allders at Home stores;

• Land of Leather successfully floated in July for £100m;

• The volume of private equity deals in 2005 was much reduced from 2004 levels;

• Group store disposals marketed by B&Q;

• Harveys refinanced in May;

• Travis Perkins completed on their purchase of Wickes and separated it from Focus with independent management and property teams;

• The global ownership of Toys R Us has changed.

Evolving Deal Negotiations

• As the consumer downturn bites retailers are reassessing their opening programmes and the expense and timing of new store openings. The way that deals are being done is evolving:

• Some retailers who had board approval for new store acquisitions are either pulling out, putting them off into the following financial year or renegotiating terms;

Prestige Retail park, Burnley. Asset management and lettings for British Steel Pension Fund.

• As retailers' profits come under pressure, rent free periods are being renegotiated or capital contributions increased to cover part or all of fit-out costs;

• Where retailers have concerns about future rental increases, some are fixing rents at future rent review at between 2.5% and 3.0% per annum, asking for an element of turnover rent or linking deals with the same landlord to get a better overall deal;

• Tenants are negotiating surrender premiums to regear leases, downsize or move out;

• PC World are seeking to pay rent monthly in advance on new lettings and lease regears;

Retail warehouse agency (contd)

• Currys varied 12 leases with Morley in June to fixed uplifts at review as opposed to open market value;

• In the harshening climate of demand, some tenants are taking advantage of a number of landlords waiving their right to enforce a subletting at or above the passing rent;

• Freehold purchase is being considered by more retailers.

Misguided Mezzanine Meddling
• Hours of time during 2005 have been wasted by the industry in negotiating deals which may or may not be affected by Government led restrictions on the ability for a retailer 'as of right' to install a mezzanine trading floor;

• Landlord and tenant have had to second guess the form of the restrictions, present a logical argument against their drafting and create conditional deals pending their inception.

• Tenants have been encouraged to invest in the creation of additional mezzanine levels at a time when their profits are under pressure;

• Indecision and uncertain timing on the Government's part have exacerbated the climate of confusion;

• We would look for these flawed and confusing proposals to be abandoned.

THE OCCUPIERS

• Some of the weaker furniture retailers have succumbed to the current harsher retailing climate. The slowdown in the DIY Sector has been more rapid than expected. Expansion has not ceased. We expect this sector of the market to adapt well to the current conditions and be in good shape for the next economic upturn.

DIY SECTOR

B&Q
• Mini-Warehouse format of 45,000 sq ft to 65,000 sq ft is being targeted, particularly for smaller catchments outside the major conurbations. Fewer new Warehouses will open;

• New management has revealed a trading downturn; strategy to reduce costs by staff cuts, closing Supercentre stores near Warehouses (as cannibalisation impacts) and downsizing some Warehouses.

Homebase
• GUS changes show growth in the business despite consumer slowdown;

• Mezzanine expansion a key element of store sales;

• Looking for larger stores of up to 60,000 sq ft.

Wickes
• Wickes Extra opened their 7th store;

• New owner Travis Perkins continuing Wickes expansion plans under new property team despite reduced sales.

Focus
• Expansion in smaller towns strengthens under new financial management;
• Long term flotation target.

ELECTRICAL SECTOR

• A poor year dominated by changes in requirements for both size and lease terms.

Brook Retail park, Clacton. Development consultancy and funding for churchmanor estates.

Currys/PC World
• Footprint changes while assessing new opportunities slowly and reassessing old ones, a few of which were shelved;

• Seeking to change standard lease terms with shorter lease length and fixed rental uplifts;

• Continue to relocate off high rented parks.

Comet
• Comet parent, Kesa, want to reduce exposure to property costs by right sizing where appropriate;

• Looking at more mezzanine trading stores after successful trial in five stores.

Powerhouse
• Continued to sell valuable leases to landlords and sold 5 leases to Carpetright;

• Where assignments were not completed some 12 units have been handed back to the former liquidator.

Miller Brothers
• Space rationalisation completed and requirement list expected.

Maplin Electronics
• Acquisition plans slowed down.

FURNITURE/HOME FURNISHINGS & CARPETS

• A mixed year, again highlighted by the failure of Allders at Home, Furnitureland, Klaussner, Durham Pine and Texstyle World Home but ScS's and Land of Leather's results suggest that there is potential in this sector.

IKEA
• 13th store opened in Edmonton, London in February 2005. Milton Keynes will open in January 2006;

• Announced that edge-of-town multi-storey units will be looked at e.g. Coventry, where planning permission has been granted and similar sites are actively required.

ILVA
• 2005 store opening in Manchester of 120,000 sq ft on two floors delayed, but secured both Marks & Spencer Lifestore units in Gateshead and Thurrock. All three will open around Easter 2006.

• DFS continue to flourish as competition wanes and freeholds are sought. Heavy advertising increases their exposure as consumer expenditure falls.
• Courts administrators did not sell the business but SB Capital bought the stock and some leases for Furnitureland.

• Furnitureland 28 store business failed 18 months after purchase by SB Capital.

• Land of Leather successfully floated in July. Their November trading statement was upbeat and they will open 7 stores on Boxing Day with more to follow.

• MFI's well reported downturn in trade led to Managing Director John Hancock stepping down in October. Reducing property costs and raising money from property deals continues.

• ScS's profits improve and announce 17 new store openings in their current financial year to September 2006.

• Kingdom of Leather completed rebranding as Natuzzi. Store disposal programme is taking time.

• Bhs Home acquire some of the Allders at Home units and are assessing further stores for expansion having rebranded their Chichester store.

• Rosebys' Fabric Warehouse fascia expands slowly.

Harveys (Homestyle Group Plc)
• Refinancing in May by £100m new share issue to Steinoff;

• Subsequent board changes streamline the business;

• Bed division retained i.e. Benson for Beds, Bed Shed and Sleepmasters and expansion programme announced.

• Carpetright start to feel the consumer downturn, but are still one of the most successful retail warehouse traders.
• Allied Carpets continuing their portfolio realignment. Storey Carpets continue to expand.

Brantano Footwear Ltd.
Disposals and acquisitions.

• Dunelm opened 12 new stores in 2005 including Scotland and Northern Ireland. Three were former Courts stores and they continue to expand.

• Dreams and Paul Simon's continued expansion slows down and concessions are taken up.

• Furniture Village sign up at Solihull but are targeting fewer requirements in 2006.

• Chester gives opportunities for ELS (Exclusive Leather Sofas) and Aura.

• TK Maxx Home (no clothing) trial operation pilot in Coventry.

SPORTS/FASHION

• The last 12 months has seen increased pressure for high street retailers to expand their existing operation out-of-town and new ones to join it

Retail warehouse agency / Professional

- Next have been the market leaders opening more than 50 stores in 2005 and have around 30 planned to open in 2006 already;

- Dave Whelan, the founder of JJB, announces he will step down, but they continue the health club format with shop above in an increasingly competitive market;

- Sports World continues expansion both in-town and out-of-town and freehold purchases are being considered;

- Blacks opened its first out-of-town store in Northampton followed by three others trading in outdoor clothing and equipment;

- Decathlon opened its sixth and new 40,000 sq ft flagship store in Thurrock in November. Progress remains slow but focussed;

- Matalan's growth continues, often in a smaller trading format;

- TK Maxx expanding, looking at smaller formats with mezzanine trading;

- Arcadia's out-of-town expansion continues;

- George's first stand alone retail warehouses in Manchester and Swansea and on first floors of Asda Living stores suggests that the Living concept will be rolled out by Asda;

- Brantano's good profits back expansion plans;

- Marks & Spencer's results are improved and may continue to source occasional out-of-town stores;

- Clarks looking at non-Shopping Parks.

Commentary on other Retailers
Other active retailers include :

- Boots the Chemists pushes out some store openings as business continues to evolve;

- Halfords report successful trading and target smaller towns as well as quasi retail locations;

- Pets at Home keep improving and have an active requirement programme while competition from bulky goods retailers is reduced;

- Argos are no longer immune from the consumer slowdown but target out-of-town;

- Staples' rebranding of Office World portfolio completed as downsize programme becomes more important;

- Mothercare are back on the expansion trail and downsizing where appropriate;

- Hobbycraft sign up for 6 new stores;

- The Range take on larger units released by other retailers and show that a department store approach can work in the right location;

- Borders concept flourishes;

- Toys R Us target more stores in the UK following the opening of their largest unit in Milton Keynes.

NEW RETAILERS, NEW FORMATS AND CONCEPTS

- In September Tesco Home Plus opened a 20,000 sq ft non-food store on two floors in Denton Manchester, and strong initial trading fuels further expansion in 25,000 sq ft stores;

Meteor Retail Park, Christchurch.
Rent reviews for Brookhouse Group.

Pierpoint Retail Park, Kings Lynn. Asset management and rent reviews.

Northgate Retail Park, Newark. Asset management, lettings and rent reviews for Limes Development Ltd.

- 'New' retailers such as Hennes, Waterstones, Beaverbrooks, Virgin, H. Samuel, Monsoon etc will only consider 'shopping parks' like Glasgow Fort;

- New retailers are looking at existing stock vacated by furniture retailers and there are now real opportunities for them;

- Emergence of 'trade park' operators into secondary retail warehousing;

- Evolution of concepts and new fascias will keep changing the offer and look of retail parks.

PROFESSIONAL
Rent Reviews General

- Widening rental differential between the best open A1 park in a given town and its traditional bulky goods park;

- In some cases the gulf is so wide as to make the evidence from the open A1 park completely invalid as comparable evidence when valuing the units on the bulky goods park;

- Certain retailers e.g. Boots, Next and SportsWorld are capable of transforming a park, both in terms of its nature and rental profile;

- Knock on effect is the de-camping of traditional bulky goods retailers to other non-A1 parks, with potential rental uplift there also;

- Size is important – the recent demise of Allders, Courts and Furnitureland has both dramatically increased supply of large units and further reduced demand;
- This should manifest itself in a further increase in discount for quantum from the standard 10,000 sq ft range;

- Impact of B&Q's reduction of their Warehouse acquisition programme on rent reviews on circa 100,000 sq ft units – the hypothetical tenant may well be truly hypothetical;

- Tenants increasingly arguing for obsolescence of their buildings having an effect on value – in many cases obsolescence is merely lack of repair and failure to re-fit;

- Advantage of an existing mezzanine consent not yet an issue at review but will become so, particularly once legislation in place.

3rd Party References (Arbitration/ Independent Experts)

- Changes in RICS dispute resolution team procedures results in appointment delays;

- Delays exacerbated by applicants (and respondents) producing long lists of individuals who should not be considered but often with no reasons and no supporting evidence;

- Parties' tactical use of dispute resolution procedure tying up 3rd parties for as long as two or three years, which is unacceptable. Some 3rd party surveyors countering by introducing holding charges;

- Updated RICS Practice Statements and Guidance Notes for Expert Witnesses and Advocates urgently needed and for the market to adopt advocacy option as appropriate as well as expert witness;

Henblas Square, Wrexham. Rent reviews for Dawnay Day.

Lease Renewals

- Lease renewals on properties let in late 70's/early '80's not yet coming through in any volume;

- In advance re-gears have replaced many renewals;

- In any event, the number of retail warehouses let at that time were few relative to the market as a whole;

- In those limited cases where renewal takes place, will the standard 25 year term hold up? Unlikely!

Retail warehouse investment

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Overview

Retail warehousing remains one of the most sought after sub-sectors within the property market even though overall returns have been lower than in previous years. Total returns from retail warehousing have still outperformed the IPD All Property Average throughout 2005.

Yields have continued to harden for good quality investments with flexible planning consents. This is due to the weight of money, from institutions in particular, chasing a limited availability of good quality product and to the continuing restricted supply of new out of town retail development.

Recent examples of the strengthening of yields include Riverside Retail Park in Northampton (restricted non-food retail planning), purchased by BP Pension Fund at £110 million (estimated to be 4.35% equivalent), nearly £20 million above the asking price. Also HUT's purchase of Eastgate Retail Park, Bristol (part open A1 non-food) for an initial yield of around 3.30%, over £10 million above the asking price and Stadium's purchase of Ringwood Road Retail Park in Bournemouth (open A1 non-food) for a price equating to an equivalent yield of approximately 4.25% (assuming the vendors' ERVs). This last example demonstrates the willingness of property companies to adopt a bullish approach to investments with perceived future asset management opportunities.

There is still good demand for schemes with more restricted consents but purchaser's are assessing the opportunities carefully in terms of tenant demand, rental growth and asset management opportunities. Examples this year include the Orbital and Linkway Retail Parks in Cannock bought by Insight and Arlington respectively, Morley's purchase of Ryden Retail Park in Exeter and The Junction's purchase of Slough Retail Park.

Land Securities' purchase of most of LxB's retail assets early in 2005 and British Land's takeover of Pillar Property demonstrates that large scale corporate acquisitions are an attractive route for property companies to grow their asset base rather than relying on individual acquisitions in an increasingly competitive sector for the best properties. As well as acquiring LxB's food stores Land Securities gained two major retail parks in Bracknell and Chester and stakes in two others in Strood and Crayford. British Land acquired not only Pillar's stake in Hercules Unit Trust providing a share in many of the country's leading Shopping Parks, but also effectively became the asset managers of HUT.

Despite negative recent press coverage on some bulky goods retailers, yields are holding up for these covenants, for example the recent forward sale of the proposed Focus unit in Buckingham at a yield just below 5.00%. The market for this type of investment has, however, contracted with a more limited number of potential purchasers. Private buyers have tended to dominate this market and it remains to be seen whether they can continue to obtain competitive debt finance on this type of transaction. New development continues to be limited. Demand for first generation/ secondary retail parks remains strong as property companies seek opportunities for schemes with wholesale redevelopment or genuine asset management potential.

Outlook

There is potential for a further sharpening of yields on prime retail parks with flexible planning permissions as institutions, in particular, attempt to secure scarce product.

Investors are now appraising opportunities on the basis of limited rental growth and capital appreciation prospects. This means that the best properties with good prospects attract very strong demand. Riverside Retail Park at Northampton, for example, attracted at least 6 bids well over the asking price.

Asset management has been one of the major focuses of investment value growth but with retailer demand weakening the opportunities will become harder to progress particularly on bulky goods retail parks.

Alston Retail park, Keighley. Investment sale for Regional & City Plc. £18m (part of £32m portfolio).

Yeilds

Yields on some secondary schemes with restricted bulky goods planning permissions could soften as occupational demand from DIY and furniture retailers in particular remains weak. We are likely to see an increased supply of this type of stock coming to the market.

The yield gap between prime and secondary could widen following a period over the last two years when the gap has narrowed although continuing low interest rates are likely to mitigate the effect.

Retail Warehouse Sector Equivalent Yields

	2005	2004
Prime open A1 shopping parks	4.50% - 4.75%	4.75% - 5.00%
Prime open A1 non-food retail parks	4.25% - 5.00%	4.75% - 5.50%
Prime restricted non-food retail parks	4.50% - 5.25%	5.00% - 5.75%
Bulky goods retail parks	5.25% - 6.00%	5.25% - 6.00%
Prime standalone units	4.75% - 5.25%	5.50% - 6.00%
Secondary parks and standalone units	6.00% - 6.50%	6.50% - 7.25%
First generation schemes	6.75% - 7.50%	7.25% - 8.00%
Food superstores	4.50% - 5.00%	5.00% - 5.75%

Currys & Carpetright, Brentford. Investment sale. £16.8m

Prestige Retail Park, Burnley. Investment acquired for British Steel Pension Fund. £9.4m

Food Superstores

J Sainsbury, Rushmere Shopping Centre, Craigavon.
Rent review negotiations for Central Craigavon Limited (Stannifer).

Waitrose
While most attention has focussed on the difficulties of the Morrison group following their purchase of Safeway and the on-going strengthening of Tesco, it is perhaps Waitrose who have demonstrated the most impressive performance of all the major superstore traders during 2005.

Last year we reported on some increased activity from Waitrose after a number of years of consolidation, and the last 12 months has seen these green shoots flourish. In February Waitrose acquired 19 Safeway stores that the Government, through the Office of Fair Trading, had prevented Morrisons from trading due to competition fears.

The merits of that decision look obscure: the identities of the 19 stores do not suggest that the Government's competition fears were addressed. This assumes, of course, that such fears should have been raised in the first place which is questionable. Nevertheless, Waitrose have taken advantage of this position and have been re-branding and re-fitting their new acquisitions at a remarkable speed, demonstrating real commitment and flair in their project management.

This initial group has been followed up by a further 5 acquisitions from Morrison which, together with 6 new store developments, have brought Waitrose's total expansion this year to 30. The retailer now trades 176 stores with a turnover approaching £2 billion, exceeding that of their cousins in the non food sector, the John Lewis Department Stores. The new acquisitions have also increased the average Waitrose store size to 42,000 sq ft GIA with 25,000 sq ft of sales. Given the undoubted quality of the Waitrose offer and their UK coverage (with stores stretching from Devon to Northumberland) the future looks extremely bright for this revitalised, dynamic retail operation.

Tesco
Tesco continue to win the mass-market race and appear to be pulling ahead of their rivals in nearly all departments. The big news this year was that recent studies have suggested that Tesco hold 40% of all sites with food store development potential, assuming that planning permission was granted.

This assumption is of course highly speculative, but it nevertheless demonstrates that Tesco's competitors have failed to keep up with new store development. This would apply especially to Sainsburys, who have been turning their attentions inward to sort out their management and operational activities. Tesco, in contrast, have continued to work the market for new opportunities.

Furthermore, these new (potential) Tesco stores will, in nearly every case, provide organic growth from within their own resources. Relatively few sites are being provided by third parties. Tesco are acting as their own land purchaser, developer and ultimately owner occupier. This not only makes them a formidable retailer but a very significant property company with a remarkably diverse portfolio. This is evidenced in the fact that their freehold to leasehold balance throughout their portfolio is circa 80/20. This strength has enabled Tesco to enter into a number of joint ventures, including those with British Land and their first with an institution, Morley, where it has set up a 50% share in a Jersey Property Unit Trust for two of its retail park holdings in Coventry and Thanet. These will have an end value in the region of £260 million.

With over 1,780 stores in the UK, Tesco have exceptional coverage and market share. Although this is approximately 100 stores less than they had in 2004, they cover 5 different formats. This incorporates their recent acquisition of the Cullens, Harts and Europa chains that now gives them 527 stores under the "One Stop" fascia. They have over 500 stores under the "Express" banner that are the small local stores. The "Metro" concept in town and city centres has over 150 stores. Their traditional superstores now number circa 500 and the hypermarkets trading as "Tesco Extra" (their version of a one stop destination store) have over 100 outlets.

Morrisons
With Morrisons failing to reach their profit targets, investor and City of London patience is being tested. Anyone, however, who felt that the integration of a 300 strong chain of Safeway supermarkets would be easy in terms of re-branding and logistics has clearly failed to fully grasp how retailing works and what is involved.
Not surprisingly, organic growth at Morrisons has come to a virtual standstill, although 2 new stores in Scotland were opened at the beginning of 2005. Given the on-going growth of Tesco, the exciting improvements at Waitrose and strong competition from Asda, it is not surprising that Morrisons feel aggrieved about the forced divestment/sale of 52 stores that was required by the OFT. Additionally, 129 Safeway stores that did not fit the Morrisons concept had to be sold. It could be argued in their favour that Morrisons have had to play the market with one hand strapped behind their back. At the beginning of December, Morrisons announced the completion of the Safeway conversion project. Now will be the real test of Morrisons' bold bid to take a leap forward into the mainstream national food store market. The next twelve months will be crucial.

Sainsburys
Despite a rash of acquisitions in smaller groups and new stores between 2002-2004, Sainsburys will have only opened 4 new superstores in the 2005-2006 period and are expected to close 5, a net reduction of 1 store. Some 40 stores are, however, being refurbished with several of these involving extensions. Their focus is therefore firmly on working their existing portfolio. The smaller convenience stores are nevertheless likely to see further net additions of at least 50 stores to bring the total Sainsburys portfolio to 774 stores.

Asda
Asda's activity has been keenly observed due to them being owned by Wal-Mart of America, but since 1999 (when the acquisition was completed) there has been no exceptional news on the new store development front. The wheels, however, are now turning and in November this year they opened their largest store to date in Milton Keynes. The new store comprises 125,000 sq ft and includes an expanded non-food sector. The UK management has continued to focus on effective customer service with Asda being voted BBC Radio 4's Best National Retailer in its Food and Farming Awards and for the 8th year running being voted Britain's lowest price supermarket by "The Grocer".

Asda has provided the most supermarket activity in Northern Ireland with 6 of its 12 stores purchased from Safeway being reopened under the Asda banner at the end of October. The remaining 6 opened from the middle of November to beginning of December. This has injected new pace into the Northern Ireland supermarket sector as, since the original flurry of activity by Sainsburys and Tesco from 1998 to 2002, there has been little new development. The exception to this has been Tesco who have opened 2 new stores with a third planned for Derry subject to planning permission.

Rents and Yields
Given that so many freeholds are in the hands of the retailers and given the nature of their expansion programmes over the past 2 years, there is precious little evidence coming through of market rental levels. In London, however, ERV's are now pushing the £30 psf barrier and £20 psf has been established in the major provincial centres for the best examples of good quality food superstores.

The restrictive planning regime has reigned in the further expansion of the supermarket sector. In some respects, however, this has only added to the strength of the existing players with fewer opportunities for the growth of competition. Such restrictions have not held back the majors on their larger stores. With open A1 retail consents the potential to expand their non-food retail business has been immense, driven by the larger returns that this area of retailing offers.

The larger stores have quickly demonstrated that they are the new breed of department stores and reflect a closer attachment to the European hypermarket concept than we have seen for some time. Asda and Tesco are trialling wholly non-food retail stores that may introduce new competition in a sector which has seen some of the gloss wiped off of its profile over the past 12 months.

Where new lettings to food superstore operators have occurred, there has been a move towards ratcheted increases to the Retail Price Index with open market rents and 5 year upward-only rent reviews being abandoned. We suspect that this reflects a strategic approach to maximise the growth potential from the operational business, but equally it can improve investment yields.

Whereas prime food superstores let to undoubted covenants on institutional full repairing and insuring leases with 5 yearly upward-only rent reviews are capable of achieving sub 5.0% equivalent yields, those linked to RPI also achieve very strong prices given the guaranteed 'bond' characteristics of the investments.

In conclusion, both in occupational and investment terms, the food superstore market is the strongest in the commercial retail property sector with every reason to expect such strength to be maintained and probably improved upon further within the foreseeable future.

Leisure

Overview

Leisure has been at the forefront of the national news this year with the much-debated change in the Licensing laws in England and Wales. The jury is still out as to what impact these changes will have on the industry. Generally, this has been another reasonably quiet year for this sector in property terms but busy in the corporate world.

Prime leisure property continues to be attractive to investors, providing a good return with leases remaining relatively long and being supported by good covenants. In certain sectors, however, (including cinemas, ten-pin and nightclubs) there is little evidence of rental growth. Tenants are negotiating hard at rent review and landlords are being required to fall back on guaranteed uplifts where they exist.

Public Houses

• This sector has had to digest not only licensing and planning changes, but also consider the likely effects of a smoking ban in 2007;

• The Licensing Act 2003 came into effect on 24 November 2005. It transferred responsibility for licensing from the Local Magistrates Courts to Local Authorities. Previously, late night venues required a mix of licenses from both the Magistrates Court and the Local Authority. This has now been integrated into a single licensing jurisdiction;

• New applications require an operating schedule. This outlines the proposed hours of operation, with an assumption by the Local Authority that a grant will be given unless relevant representations opposing the application are made;

• Local Authorities can then curtail, through imposition of conditions, the type of activities proposed, or indeed they can refuse to grant the license. It is this element of discretion that is likely to prevent a proliferation of 24 hour drinking establishments throughout the United Kingdom;

• There is a right of appeal, which is heard at The Magistrates Court;

• The sector has shown some cautious expansion during the year. Barracuda Group Plc continues to open new sites following its sale by PPM Capital to Charterhouse Capital Partners;

• Tiger Tiger's owner, Urbium, rejected a £101m offer made by Regent Inns Plc and was then sold to a management buyout backed by Electra Partners for £113m. They are now seeking new sites. Subsequently, Urbium changed its name to Novus;

• In June, Laurel Pub Company (owners of Yates) acquired 101 outlets from SFI Group (in administration) leaving 49 outlets with the administrators;

• Herald Inns acquired the eight-strong Mood Bars chain;

• Ultimate Leisure reported a 6% fall in pre-tax profits. They tabled, however, a bid for rival operator Inventive Leisure who trade as 'Revolution';

• Luminar Plc continued to refocus its business with the sale of 49 non-core clubs in its 'Enterprise' division to a management buyout. Luminar reported flat trading figures;

• Clear Channel Entertainment purchased Vince Power's remaining stake in Mean Fiddler for £13 million. Power plans to open new music venues in London and Europe.

• Punch Taverns aquired Spirit Group for £2.7bn and is now faced with the task of assimilating Spirit's 1832 pubs into its own 8200 pub estate. Analysts suggest that Punch may be required to sell a significant proportion of the estate, with one broker putting the "sell on" figure at 43%.

Restaurants

• The Restaurant Group Plc sold Caffe Uno to Dawnay Day's Paramount Group who already operate Chez Gerard and Bertorelli's.

• Carluccios are due to float on the London Stock Exchange and are conducting an aggressive new site acquisition programme.

• Legal & General Ventures acquired Tragus Holdings for £107 million. The group plans to expand Café Rouge and Bella Italian.

• La Tasca announces its maiden year results, turning in a pre tax profit of £2.6million, and opening ten outlets with a further eight in the pipeline.

• AIM quoted Clapham House Group continues to expand their three main concepts: Bombay Bicycle, Gourmet Burger Kitchen and The Real Greek.

• Other operators who continue to expand include Strada, Fat Cat, Prezzo, Ma Potters, Charcoal Grill and Tootsies.

• Private Equity company, TDR Capital, (owners of Ask, Zizzi, and Pizza Express) continue to expand these brands.

• Dominos Pizza and Pizza Hut continue to go 'head-to-head' on key sites.

• Subway continue to expand aggressively.

• The numerous corporate transactions during the year are likely to translate into increased demand for sites in 2006.

Health and Fittness

• Another year of consolidation for most groups in this sector.

• Esporta sold thirteen non-core sites to Virgin Active to focus on the premium sector.

• Rumours continued about the possible sale by Whitbread of their health and fitness concept, David Lloyd Leisure.

• LA Fitness was sold to Mid Ocean Partners and plan to continue a more limited expansion of around twelve clubs a year.

• Fitness First, with over 160 UK clubs, was sold by Cinven to European private equity group, BC Partners, for £835 million. This was more than twice the figure it had paid two years previously.

Cinemas

• As we had predicted last year, 2005 again saw few new openings and this trend is unlikely to change in the next few years.

• Following its takeover of UGC in 2004, Cine UK began the re-branding of its former competitor's cinemas with one new opening in Bury St Edmunds.

• Vue (formerly Warner Village) purchased Ster Century's seven UK cinemas following its purchase of two from Cinemark.

• Irish group, Cinema Holdings, agreed to purchase eleven cinemas, including The Empire, Leicester Square, from Terra Firma, the owner of UCI/Odeon.

Bingo

• Gala Clubs purchased New Generation, Basingstoke, for £18 million as private equity company, Permira, took a 30% stake in Gala for £200 million.

• Top Ten Holdings, the third largest UK bingo group, acquired the thirteen strong Westvale Bingo for a reported £5.35 million.

Casinos

• The government initially proposed 40 new Las Vegas Style "super casinos" across the UK and the liberalization of the gaming rules to include: 24 hour opening for casinos, immediate access for the public, unlimited jackpots and gambling to be permitted on Good Friday and Christmas Day;

• After much controversy and lobbying, the openings were (for the time being) limited to 8 across the UK;

• American casino groups' interest in the UK is waning, although UK operators such as Aspinalls continue securing sites on a conditional basis;

• Stanley Leisure sold their bookmaking business to take advantage of the new casino opportunities in the UK and immediately instigated a search for 5 new sites to add to the existing portfolio of 41 casinos.

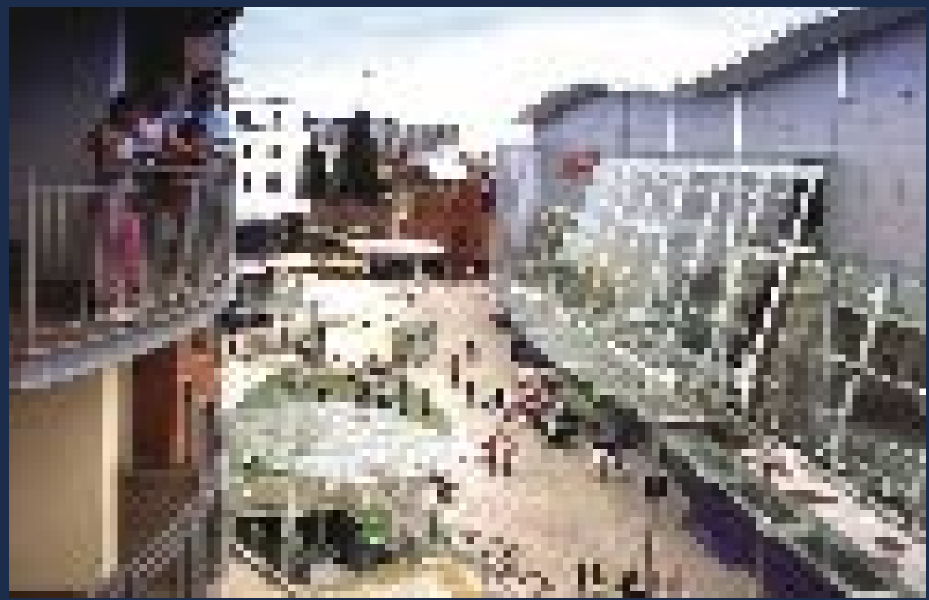
Bookmakers

• The 'fixed odd betting terminal' revolution (casino type games in betting shops) continues to fuel a general expansion in the sector across the UK;

• Stanley Bookmakers sold their 624 betting shop portfolio to William Hill for £504m taking William Hill to over 2,200 outlets;

• Hilton's gambling arm, Ladbrokes, are seeking to add an additional 200 sites to their 2,000 portfolio of shops;

• Bet Fred continue to expand, especially in the South East, taking their portfolio to more than 550 shops.



Broadway Plaza, Birmingham. Lettings for Skelton Group.

Further information and previous briefing papers

Further Information

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

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Previous Briefing Papers

Retail Property Briefing Paper 1- October 1996 PPG6 Retail Warehousing: towards consensus? Matter of Control!
Retail Property Briefing Paper 2- November 1996 The Sequential test: Opportunity or problem?
Retail Property Briefing Paper 3- December 1996 End of year Round up - developments in the retail property market
Retail Property Briefing Paper 4- December 1997 End of year Round up - The Retail & Leisure property market
Retail Property Briefing Paper 5- May 1998 rating of commercial property - Update 1998
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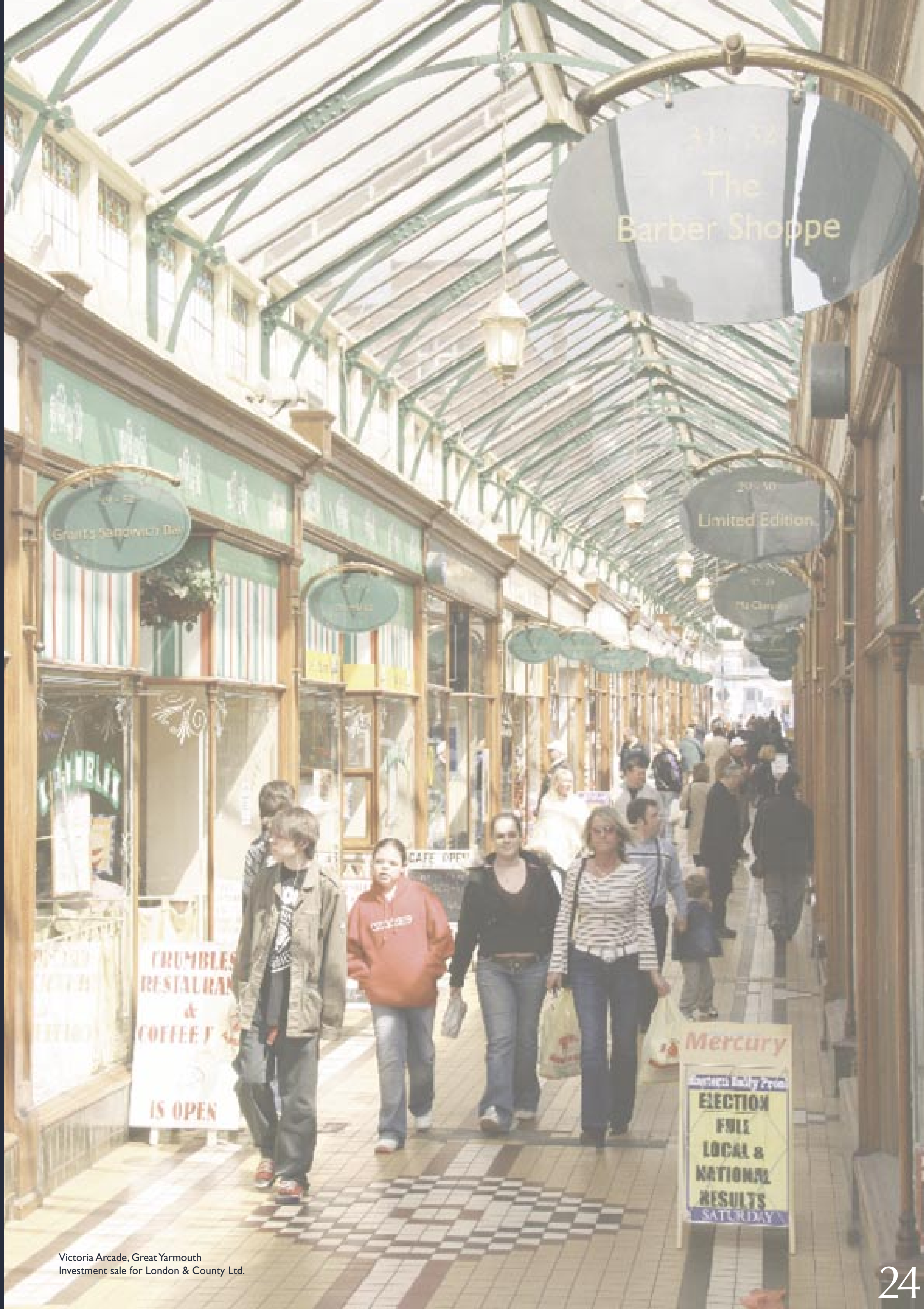

Victoria Arcade, Great Yarmouth
Investment sale for London & County Ltd.

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Front & Back Cover: Whitgift Shopping Centre, Croydon.
Investment purchase of 50% interest for Howard Holdings.