C&P

Spring
Retail Report
2011

In-Town Trends
Q&A on the State of the High Street

Short Term Testing
Out-of-Town Market Snapshot

Bursting Bubbles...
Yield compression but not growth potential

Powering Majors
Food property sector retains strength

Unearthing The Deal
Prime Wins Again - In-Town Investment

CHASE & PARTNERS C&P
Retail & Leisure Property Specialists

“So with no more ‘hedging’, the true impact of the financial failures of Q4 2008 are plain to see and it is not pretty.”

Changing Dynamics
Inroduction by Graham Chase

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Introduction by Graham Chase

Changing Dynamics

Our annual reports since Q4 2008 have been clear that the downturn in the economy and retail property sector will comprise two distinct phases.

The first phase was the failure and subsequent impact of the banking system on both world and domestic economies. Much of the UK banking market is on the road to recovery and in the USA bank debt levels have almost returned to normal. Stability has been achieved in this crucial business area, although not without considerable pain and notable exceptions. In smaller economies where domestic banks played in the wider global financing markets, their exposure has been too great and hence the emergence of the PIGS of Portugal, Italy, Ireland, Greece and Spain. In the UK this is manifesting itself in the problems of a number of Irish based investors who, fuelled by loans from their domestic banks in 2006 and 2007, were keen to dilute the extent of their exposure at home.

The second phase of the downturn follows on from the first but it is the squeeze on the consumer which has hit hard on the occupational retail market. This downturn in consumer confidence and expenditure will shape our economy for the foreseeable future. In addition, the quantitative easing that the Government used to finance and dilute the impact of the banking crisis between 2008 and 2010 has now ended. So with no more “hedging”, the true impact of the financial failures of Q4 2008 are plain to see and it is not pretty.

The banks are clearly still nervous about their loan books, and with good reason, as retail occupiers continue to weaken. Banks are requiring more regular formal valuations and with 70% of commercial property loans due for renewal in 2011 and 2012, it would not be surprising to see more aggressive action by the banks as they manage their debt customers with less latitude.

Unemployment reached its highest point since 1994 for the 3 months to January 2011 at 2.53 million. Inflation rose to CPI at 4.4% and RPI at 5.5% in January 2011, but fell back in February to 4.0% and 5.3% respectively. The bank rate remains at an historically low level of 0.5% but the fear is this is not for much longer. Retail sales were down 0.9% month-on-month in February 2011 and consumer expenditure contracted by 0.6% in the last quarter of 2010. In contrast and of potentially good news to consumers is the BRC Nielson shop price index which shows that overall shop price inflation slowed to 2.4% in March 2011, down from 2.7% in February. Further the ONS have advised that the volume of retail sales in March was up 1.3% compared with March 2010.

This suggests the worst is behind us but not over. With discounting by retailers going to even greater depths, the consumer will benefit, although probably at the expense of retailers' margins which will come under even more pressure.

However, these are not short term issues. The private sector is attempting to absorb public sector cuts but is not able to keep pace with redundancies, especially outside of the South East. We are returning to a two tier economy once more dominated by London and the South East. VAT has risen by a third from 15% to 20% and will not be reduced. Tax band changes have brought nearly 700,000 additional workers into the higher rate tax bracket. Disposable incomes fell by 0.8% in 2010, the first time since 1981 and are likely to fall further in 2011, accelerating the squeeze on consumer expenditure as living standards fall in real terms for the first time in generations. Frighteningly, despite the reduction in lending, household debt has increased in February of this year to a record level of 175% against income. This is higher than the peak of the market and consumer boom in 2007 when it stood at 173%. There is a long way to go to achieve a sustainable balance and the consumer is particularly weak.

We are therefore facing the dark days of the second phase in the downturn brought about by the excesses of the noughties. Gordon Brown's optimistic claim of having banished cycles only serves to demonstrate that markets cannot be controlled. Further, the High Street continues to face competition from internet sales which now comprise 9.8% of all non-food retail sales in the UK by value.

One thing which is clear is that it is not going to be the UK's consumer that, unlike past economic downturns, spends the economy back towards a brighter future. This time it will be the private sector corporates who will lead the charge. UK Plc is not over-geared and with three years of efficiency measures is likely to be the driver of better economic times rather than the consumer. Borrowing on commercial property as at February 2011 stands at a massive £193 billion, but shows a significant fall from £254 billion in January 2010, which is a surprisingly quick turnaround given the oil tanker characteristics of the UK property market. In addition the UK is seen as a stable environment and a good place to invest money in a volatile world, especially the West End and City of London markets.

The weakness of the pound sterling is helping manufacturing expand with exports performing well in relative terms. Tourism also likes the cheap pound and continues to provide a strong spending platform with no sign of a fall. Record retail property rents continue to be achieved in London's West End. With the 2012 Olympics around the corner, the timing perhaps could not be better. Again, London and the South East will benefit from these injections of expenditure.

Despite the gloom, mid-market established branded fashion retailers with good business models such as Primark and Next continue to dominate the market and show that returns can be increased, albeit at the cost of others' market share. Similarly, the food sector has continued to provide solid performances although margins are under pressure across the board. Marks & Spencer surprised The City with better than expected like-for-like sales for Q4 but only up 0.1%. Although retailer failures have not been as numerous as 2007/2008 the strain on the consumer is filtering through and this will continue to put most retailers under pressure for at least the next 12 to 18 months, as demonstrated by the second CVA undertaken by JJB Sports in March of this year and the sale of All Saints to a Lion Capital-led consortium.

Rental growth in all but a few locations, such as Central London and some other major provincial centres, remains static or continues to be negative.

The yield compression for prime property has peaked, reflecting a weight of money which chased cheap products after yields went into freefall in Quarter 4 2008. Profit taking by investors during the latter part of 2010 has given the impression that the market has recovered. However, this has focused on a narrowing category of prime and super prime property. In the future retail property will have to perform on a more realistic basis through income and rental growth rather than a simple appreciation of capital values through yield compression.

With rental growth unlikely to be a feature for many retail properties until at least 2013, the pressure today is for yields to rise rather than stay static or fall further. In the narrower prime retail property sector, yields are beginning to look expensive against rental growth potential, although income security is beneficial.

Despite high vacancy rates and weak tenant demand, good secondary property is beginning to look fairly valued, although risks remain high. However, as the economy recovers, this could be the right time to buy good secondary retail property if debt can be secured. Sensible loan to value ratios coupled with interest cover from rental income, assuming rising interest rates, is possible in this sector but the investor and borrower need to choose and budget wisely. In addition empty rates are a penalty. Vacant property is now at an average of nearly 14% in the High Street. This requires valuations based on a triple net basis, i.e. costs, voids and empty rate payments.

Development is showing signs of returning but on a cautious basis. The schemes are very different to the pre-Lehman Brothers' collapse, reflecting today's weaker tenant demand profile and more limited bank lending regime. Further lending on speculative development is not an option and only the larger corporates are able to dip their toe in the water where they can secure soft entry costs and reduced risks.

In-Town Trends...

Mark Paynter gives his thoughts on the state of the market and the prospects for future development schemes in town centres.

Q What are the regional differences you are seeing across the UK?

There are wide differentials in vacancy rates with London and the South East having the lowest levels in towns such as Salisbury, Guildford and Chelmsford, whilst 90% of the top 25 highest vacancy levels for the larger towns are in the Midlands or the North of England.

According to the Local Data Company, vacancy rates are currently dipping below trend, however that trend is still on an upward path.

Some centres saw vacancy increase by as much as 30% during 2010. Those few centres which did see a reduction were mainly in London and the South East and the level of change was relatively small, generally between 0% and 5%.

The level of public sector employment is higher in the regions outside of the South East. With the ongoing government cuts, vacancy rates in the regions are likely to worsen over the next 12 to 24 months.

By way of example, the recent second CVA of JJB dropped leases on some 89 stores, of which only 14 were in the South East including only 3 within the M25 area.

A mantra we continually hear is that the major catchments and bigger cities are attracting multiple retailer demand ahead of the smaller centres yet Sheffield, Birmingham, Nottingham, Stoke-on-Trent, Leeds, Liverpool, Bristol, Leicester and Manchester, all feature in the top 25 levels of vacancy for larger centres.

In a tight market with less opportunities for growth, retailers will target specific towns to secure best returns. That investment is likely to be in bigger, more efficient space in the larger centres with weaker mid-sized towns, or those overshadowed by stronger neighbours suffering. The knock-on effect of the regional differences in vacancy is that development is likely to come forward earlier in London and the South East compared to other parts of the country. Indeed, the progression of Westfield, Stratford and One New Change in the City of London, demonstrates the point.

Q Has retailing in London been immune from the recession?

The Central London retail market is currently set apart from the remainder of the UK. Its strength has been particularly highlighted over the past few years and there continues to be a shortage of quality stock to meet strong levels of retailer demand. Supply is confined to a limited number of streets and is therefore constrained.

With many buildings of mixed use there are few opportunities for development in the strongest locations. Two developments opened last year, Land Securities – One New Change in The City and Shaftesbury's, St. Martin's Courtyard.

Tenant mix and strong asset management have brought success for Howard de Walden along Marylebone High Street

Topshop - Salisbury

and The Crown Estate on Regent Street. Shaftesbury have achieved similar success in Carnaby Street and Covent Garden whilst Mount Street, controlled by Grosvenor, is unrecognisable from its offer of five years ago. The landed estates with management control have created shopper friendly environments and streets lined with interesting and exciting retail brands. This in turn has driven rents as tenant mix is continually improved and new opportunities created. One of the latest initiatives is along Regent Street with the relocation of Burberry into the former Habitat premises bringing forward the old Burberry block for redevelopment.

Record rents have been set on both Old Bond Street at £950 Zone A and Oxford Street, where Aldo in February 2011 paid a figure of £725 Zone A.

Securing premises in Central London is very much about placing and selling the brand and fascia to the big estate landlords. They control property in major locations, almost in the same way as a purpose built shopping centre, such as Sloane Street, Regent Street, Long Acre, Seven Dials etc. Contrast the intense scrutinising of the Central London landlords as to whether the retail offer is acceptable or not, with the majority of the UK market where landlords are just pleased to secure interest.

One effect of such strict tenant mix policies has been to drive high premium values where the assignment of an existing lease is unfettered by landlord control and approval. A recent example is the former Descamps unit on Marylebone High Street where a premium of £750,000 was secured on assignment. One of the most notable premium transactions was the reported £14 million paid for the benefit of the former HMV lease at 150 Oxford Street by Forever 21.

The scarcity value of A3 (restaurant and cafe) premises has also driven premiums. As a result, some businesses in this sector of the market have sought to adapt their concept and food model to suit an A1 planning consent in order to improve their chances of securing premises. Premiums are also seen by some non-UK retailers as a potential currency play, so that if they do assign their lease in the future they will not lose out.

The current weakness of the pound has also brought a wider mix of nationalities to the Capital, and a cultural break or holiday to London is now much more popular than 10 years ago. The continued strength of the top end London residential market has also produced a safe haven for foreign capital and those who shop in the premium locations. Whilst retail purchases offer value to our European neighbours demand is likely to remain strong. Foreign retailers continue to see London as one of the top global retail locations in which to position their brand. New entrants include Tory Burch, The Kooples and third wave coffee operator from Australia, St. Ali.

Not all locations within the London area are a guaranteed success as competition remains high and retailers are reappraising their priorities. By way of example, Richmond-upon-Thames has seen the pre-letting of a 20,000 sq ft development on George Street to Whole Foods Market, yet Next and Currys Digital have pulled out in the last 12 months and Ted Baker have recently placed their unit on the market. Potential reasons include high rents, the success of Kew Retail Park and the dominance of Kingston and now Westfield. Interestingly Next are represented in Kew Retail Park and have recently secured a 27,000 sq ft store in a relatively off-pitch position in 6/9 Market Place, Kingston.

Perhaps we are seeing some locations peaking, notably in London and the South East. Clearly retailers are only prepared to commit or continue occupation in those locations which offer the best chance of future returns.

The expansion of the convenience store sector has continued to dominate in the London suburbs. It is not uncommon to be less than a 10 minute walk from the same operator and we are seeing retailers willing to locate virtually next door to their competition. An example of this is in Fulham where Budgens, Co-op and Waitrose are all located within 50 yards of each other, and similarly in Clerkenwell where Tesco and Waitrose are next door to each other.

Elsewhere in London we have noted a change in that the return of office demand in some locations has trumped retail values at ground and first floor, and therefore led conversion to office rather than retail use. We have been used to this phenomenon with residential being a dominant driver but now there is yet another option to consider.

In conclusion, the outlook for Central London remains far more positive than most other parts of the UK and for occupiers seeking to get into the best locations. Competition will remain strong but with good advice essential as some locations appear to be showing signs of overheating.

Q What is the outlook for rents over the next two years?

A number of commentators are predicting that the days of retail businesses being judged on ever increasing like-for-like sales are over. The view is that the next few years will be dominated by retaining or taking market share from competitors. If correct, with the size of the cake now falling in such a scenario, rental growth will be difficult to achieve in all but the very best locations which some refer to as “super prime”. In such a market retailers will continue to attack their cost base for efficiencies

including property except where guaranteed returns, greater efficiency or increased market share can result i.e. big space in the bigger centres.

Market sentiment suggests we are at the end of a run of retail growth fuelled by increasing consumer expenditure which has been with us for the past 15 to 20 years.

One bright spot for landlords is the reduction in availability of quality space in the best locations. The lack of a development pipeline coming through will only exacerbate the situation. Retail may be under pressure at the present time, but it will not always be so. Those retailers who are able to position themselves for the recovery will have to decide - do they compete at sensible rental levels to secure the limited quality stock available or do they sit tight and hope that availability of space will improve in two years time, when shopping is back in vogue?

It is interesting to see retailers driving to maximise sales from the space that they do occupy. A recent announcement by Aurora Fashions confirms they are to consider placing Warehouse at first floor level above Oasis – a not dissimilar position that has existed for many years at Arcadia with their Dorothy Perkins and Burtons brands. If a retailer has to bite the bullet on rent to secure a prime location then they are driving maximum sales from the total space on which they pay rent and rates. Density of sales becomes even more important than has been the case in the past.

For investors, careful research will be required on levels of supply and vacancy, size of competing units, demand and just where true headline and net effective rents really lie.

Q Development – Who jumps first?

There might be some 2.7 million sq ft of new space opening this year including Westfield's, Stratford City (1.9 million sq ft), Standard Life / Shearer Property's Parkway in Newbury (300,000 sq ft) and Sovereign Land and Area Partners Trinity Walk in Wakefield (500,000 sq ft), but what of the future? The recent publication by BCSC and Lunson Mitchenall suggests there is no retail development of any substance coming through in 2012 with only 1 million sq ft potentially in 2013 and an optimistic outlook suggesting this could rise to 3.4 million sq ft in 2015.

According to the BCSC Report some 50 million sq ft of planned shopping centres, which includes a core of 17 major schemes ranging between 215,000 sq ft and 1.6 million sq ft, have been placed on hold as a result of the recession. Such are the complexities of in-town development including compulsory purchase, it will not be easy to bring these back on stream at a moment's notice. A number, such as Friar's Walk, Newport, Northern Quarter at Portsmouth and Northgate, Chester, have gone back to the drawing board to see whether they can be reduced in size to achieve viability.

Few developers are yet brave enough to take a forward view, although Land Securities have started on site at their Trinity development in Leeds with an opening programmed for 2013. The general scenario is that most developers will require in excess of 50% of income pre-let before starting on site, based on viable rent and incentive packages. Many major retailers are used to heavily incentivised packages with elements of turnover rent and are unlikely to be brimming with confidence about the immediate future based on the current economic background. Today, it is difficult to see how both developers and retailers will take a more forward and optimistic view if viability is to be achieved in the traditional town centre shopping centre model.

The other figure in the equation is land value but with many local authorities under financial constraint, they will be reluctant to make the substantial compromises required on their pre 2007 residual values in order to assist in kick-starting new developments sooner rather than later.

Travelodge - Chichester
Letting and Investment sold on behalf of Jansons Property

It has however been reported that Sheffield City Council have recently agreed to provide a £10 million loan for the compulsory purchase of 20 acres on Hammerson's Sevenstone scheme, with the Homes & Community Agency putting forward another £30 million towards enabling works and accepting a deferred payment. An encouraging sign but should the public purse be subsidising private development?

Due to the current poor prospects for new development in town, we have seen some of the larger store retailers such as Marks & Spencer committed to opening limited format stores out of town. John Lewis have introduced their new At Home format in order to secure new modern space on a business model that allows for viability by reducing incentive requirements and securing affordable out-of-town rents.

Finance continues to be an issue. Those that are currently building schemes include a leading property company, a private equity-backed vehicle, and a pension fund, with no apparent requirement for external finance. There are reports that mezzanine finance is capable of being secured but at levels of around 15% which is unlikely to assist viability.

Those that are struggling with finance for development, but with genuine prospects of pre-lets, will find that the best route is likely to be a joint venture partner. We have a list of parties wanting to place their money into genuine opportunities that reflect the new market conditions and are viable. So there are parties seeking to secure development positions but on the correct assumptions to reflect the occupational market likely to exist for the next 2 to 5 years.

The best format retail led development currently is a supermarket anchored scheme with a limited number of retail units alongside. Alternatively an extension of between 6 and 12 units alongside an established shopping centre which creates new modern large space catering for a strong catchment.

Although not an extension, Westfield and Hermes have recently reconfigured part of the existing scheme to create larger space at their Friary Shopping Centre in Guildford. Pre-lets have already been exchanged with Topshop, River Island, Republic, HMV. It will be interesting to see how they fare in securing lettings on the remaining units in one of the top towns in the South East.

Out-of-Town Retail Agency

Short Term Testing

Weak market conditions have provided an opportunity for a growing number of retailers to trial new locations. This does not just apply to regional retailers and local businesses. Household names such as Toys 'Я' Us and Sports Direct have also adopted this strategy.

This is through temporary occupation of properties that landlords have not been able to let, often on the basis of the tenant paying no rent. This is not always as one-sided as it sounds. It gives the landlord the opportunity of negotiating a longer term occupation should the premises prove to be a profitable trading location for the tenant, and in the interim, avoids empty rates liability.

Retailer Round Up

A noticeable number of retailers have cautiously returned to the market, some trialling a small number of acquisitions and others becoming more aggressive. This has been illustrated by vacancy rates in the out-of-town sector dropping from a reported 12% in 2009 to 10.5% recently (Trevor Wood Associates).

Marks & Spencer are expanding with their General Merchandise format and looking at a number of flagship store locations. Asda Living published requirements for a new 150 store roll-out in October 2010.

Acquisitions in the fashion/clothing sector have become more selective. Among others, Next, New Look, Arcadia, Matalan and Peacocks remain active and are able to secure deals on tenant friendly terms. There are also a number of acquisitive fashion retailers who have previously only traded on the high street. Primark are reportedly looking to acquire their first retail park unit in Milton Keynes and Republic are trialling three out-of-town stores.

There is a growing category of "value retailers" expanding out-of-town. They are seeking opportunities for growth at a low cost with restricted liability. B&M Home Stores and Home Bargains have widened their area of search. Other acquisitive retailers in this category include Poundstretcher, Poundworld (trading as Discount UK), Poundland and Family Bargains, who are the large format fascia of 99p Stores.

Pets at Home continue to open new stores but have altered their requirements to include smaller stores of 3,000 - 6,000 sq ft. This has recently been complimented by their requirement for a separate fascia, Companion Care Vets that has published requirements for units of 1,500 – 3,500 sq ft.

Meanwhile, Hobbycraft, who trade from 51 stores plan to open 15 new stores in 2011 having been brought by Bridgepoint Capital a year ago. The requirement is for stores of 7,500 – 10,000 sq ft with the ability to install trading mezzanines.

Other retailers such as Dunelm, Go Outdoors and The Range have continued to take larger units on tenant friendly deals where there is

relatively little competition. Go Outdoors who currently trade from 27 stores plan to open 40 new out-of-town stores following a recent £28m, cash injection by 3i.

While it remains a "tenant's market" the take up of space shows the strength of demand against restricted supply in the stronger trading centres. Consequently, some retailers are having to compromise their requirements in terms of size and location, providing that attractive deals remain available. Smyths Toys are bucking that trend by looking for high profile retail parks and opened on Team Valley Shopping Park, Gateshead, in summer 2010.

Next Home opened their largest store adjacent to the Metro Centre in October 2010.

In contrast, HomeSense have halted expansion as they absorb the latest units within their 24 store portfolio. Brantano will open their third store in 2011 in Scarborough and more are planned by the year end.

Having opened their first "at home" store in Poole in 2009, John Lewis opened a further three similar stores last year and will be opening more in the year ahead, including Greyhound Retail Park, Chester. They have also signed two High Street "at home" stores in Newbury and Exeter.

House of Fraser are rumoured to be considering out-of-town stores of about 50,000 sq ft split over two trading levels, while also planning to identify opportunities for Click & Collect outlets of circa 1,500 sq ft. This reflects the lack of opportunities in town centres with the cancellation of most development projects. Further, the incentives required for their in-town stores are very much higher than that required for the new out-of-town formats which will become increasingly important in driving business growth. The business model for their new formats is viable out-of-town whereas the traditional formats in-town are often not viable.

Newer format smaller unit bulky goods occupiers who are active in the market include Wickes Kitchens and Bathrooms, who are looking at the units of up to 5,000 sq ft. Wren Kitchens require units of 7,500 sq ft with the ability to install trading mezzanines. However, they will only deal with landlords who are able to accept tenant only break clauses in the fifth year, yet still offer an attractive incentive package. They are, however, reported to have signed 17 new deals since September 2010.

Other bulky goods requirements for smaller units include those from the tile retailers.

DIY

B&Q have made a cautious return to the market, seeking opportunities for their Mini-Warehouse format having recently exchanged contracts for new stores in Tamworth and Friern Barnet. Wickes are also considering opportunities, although both these retailers and Homebase will continue to concentrate on consolidation of their existing portfolios.

Gillingham Business Park - Advice to LPA Reciever on asset management and disposal

Newcastle – St James Retail Park – Asset management on behalf of Brookfield / Motcomb Estates. New letting of 20,000 sq ft to B&M

A number of the original B&Q leases nearing expiry have been regeared including a portfolio of seven stores with British Land in Spring 2010 but at rents discounted by 10%.

Focus had continued their Genesis format, having started the programme by downsizing to 15,000 sq ft in Congleton with the remaining space being let to M&S Simply Food. They had successfully completed their CVA period, and negotiated with most landlords to pay rent monthly thereafter. They sold a package of six stores to Asda earlier this year and continue to downsize larger stores but as we go to press the 178 store chain has fallen into administration.

Furniture and Carpets

The furniture sector has picked up as the strongest companies have survived. ScS, CSL and Steinhoff are looking to acquire in selected areas and DFS's stated expansion plans have been proved by recently buying six leases from Dixons totalling 120,400 sq ft. The carpet sector has been affected by the recession with Carpetright disposing of stores in Ireland and Hilco moving 26 Allied Carpets stores from administration to Savana. Dreams continue their expansion and are looking at new regions. The Easy Living group went into administration in March 2011. While no group purchaser has come forward, some of the properties have generated good interest.

Electricals

Having changed their name from DSGi back to Dixons, they are continuing to rebrand the portfolio, amalgamate stores by combining PC World and Currys as a dual-store format and marketing the disposals of the surplus stores. The Megastore format is one that they are still progressing in key locations. They are also trialling smaller dual-stores of 10,000 sq ft providing there is the ability to install a full cover mezzanine. This expansion will to some

2010 & 2011 Unfolds

QUARTER 2 - 2010	QUARTER 3 - 2010	QUARTER 4 - 2010	QUARTER 1 - 2011
• Wickes open two standalone kitchen and bathroom stores • Best Buy opens its first UK store and sells electric cars • Hobbycraft sold to Bridgepoint Capital for more than £100m • DFS sold to Advent for £500m • Asda acquires Netto UK for £717m subject to OFT approval, which was granted in Q1 2011 • JJB starts battling to turn around	• DSGi returns to original name of Dixons • Ocado floats on stock exchange • MFI name resurrected two years after its collapse with a website: www.mfi.co.uk • TK Maxx double investment in Christmas advertising to turn around disappointing sales • Comet unveil wide ranging rebranding.	• Best Buy stop selling electric cars and withdraw from opening in Gateshead • Waitrose opens food and home format concept store in Meanwood, Leeds • Halfords intends to reduce its property portfolio by 15% due to online success • Staples UK are back in the black • Pets at Home intend to open 100 smaller format stores	• Blacks fail to reach agreement over sale • Smyths Toys opens its first Scottish store • John Lewis announces new 'at home' stores • JJB agrees its second CVA in two years but Easy Living fails • Focus disposes of six stores to Asda to raise funds • TK Maxx slows its expansion programme • Series of profit warnings from retailers
"Corporative activity continues" "Noticeably more requirements"	"More retailers signing up deals" "Developers securing more sites to promote for pre-letting"	"Retailers worried about public sector job cuts." "Non-food sales in supermarkets keep increasing."	"Sir Terry Leahy leaves Tesco and Sir Stuart Rose retires from Marks & Spencer prompting Outstanding Achievement awards from Retail Week." "Retailers start to question how quickly there will be full recovery."

extent be counterbalanced by the disposal of surplus stores that are not a part of the rebranding or amalgamation programme.

Having opened nine stores since their first opening at Thurrock in April 2010, Best Buy will have opened their eleventh store by Christmas 2011. Questions have been asked about whether the UK electrical sector was ready for a new brand such as Best Buy or whether they have simply joined the established brands, struggling in a very competitive marketplace.

Comet have continued to right-size their portfolio and rebranded all stores with the new logo. Despite poor trading in the recession they are still acquiring or re-siting in selected towns.

Maplin have continued their aggressive store acquisition programme and having opened four stores since January 2011 are showing no signs of slowing down in the year ahead.

Development and Redevelopment

It has been reported that the amount of space being developed for out-of-town non-food retail is much reduced and this is noticeable in day-to-day dealings with existing stock. Developers are looking at more opportunities at the bottom of the cycle and consequently there are retail warehouse developments being promoted. These developments are edge-of-town or out-of-town and may include sites where there are existing retail warehouse facilities.

The key to such development is occupier demand, as speculative development has never been a feature of this sector. Viability and demand for the finished product are equally important, notwithstanding site ownership where there is a lack of bank finance required to fund the land purchase.

While the food store operators are well known for developing new opportunities themselves, there are a small number of other retailers, such as Marks & Spencer who will consider development and holding the completed investment where necessary e.g. their flagship store to open at Cheshire Oaks.

As a number of original leases are approaching expiry, adaptability/reusability of older stock for modern requirements will undoubtedly be called in to question and may fuel redevelopment.

While there are still a handful of larger space occupiers acquiring in the retail warehouse market, trends of larger stores in the late 1980s are now showing signs of shifting to smaller unit sizes.

Tenant Mix

Tenant mix on a number of prime and secondary parks has evolved through the recession, with changes to planning permissions being hard-fought on vacant units. Retailers are considering locations that might have previously been overlooked but where the financial deals have become attractive.

Gateshead - Team Valley Shopping Park – Asset management on behalf of Land Securities.

Stevenage - The Forum. – Asset Management on behalf of CBRE Investors. Amalgamation of units to facilitate new Letting to Next.

Where landlords have not been able to tempt national multiples on to retail parks in some cases, they are exploring deals with regional retailers who are opportunity led. An example is the expansion of "Frank's The Flooring Store" in the north east. An alternative is to allow retailers to test the location, as referred to earlier. Deals with such retailers are becoming increasingly attractive to landlords who cannot afford the incentive packages that some national retailers require for longer term occupancy.

Retail Park vs Roadside

Some retailers such as Halfords have sacrificed retail park anchorage for roadside prominence. This enables them to benefit from more affordable rents on solus stores in these locations. Halfords have also increased their roadside presence through a rebranding exercise following their acquisition of Nationwide Autocentres, which remains separate to the retail format.

Other retailers such as American Golf and Home Bargains have also adapted their traditional acquisition models to include roadside locations.

IN 'n' OUT have had new owners since August 2010 and hope to expand the 10 store car service, MOT and valet chain.

Leisure and Catering/Restaurant Uses

There are a number of properties that remain vacant following the demise of MFI, and Allied Carpets, among others, nevertheless it is still difficult for some landlords to accept leisure uses due to the inherent downward shift in rental profile and loss of the retail planning permission.

Retail park requirements from discount gym and cinema operators continue to be circulated and advertised in the property press.

The rapidly expanding budget hotel sector has been hailed by some as "the most dynamic segment of the UK hotel industry". These hotels enhance the viability of new development, by adding to the value that that might usually only be created at ground floor level (e.g. Halfords/Travel Lodge – Whetstone). In some instances, pre-letting upper levels to a hotel has enabled developers to build the ground floor retail/restaurant space speculatively although not always with the hoped for success. This sector has also looked at new development on "pod sites" within retail parks with a view to sitting above the proposed retail/restaurant unit and making use of the retail park car park after trading hours. Residual site values are, however, low but occupier and market interest for the completed product is good.

Loughborough – Asset management on behalf of Merseyside Pension Fund. Letting to Maplin in August 2010.

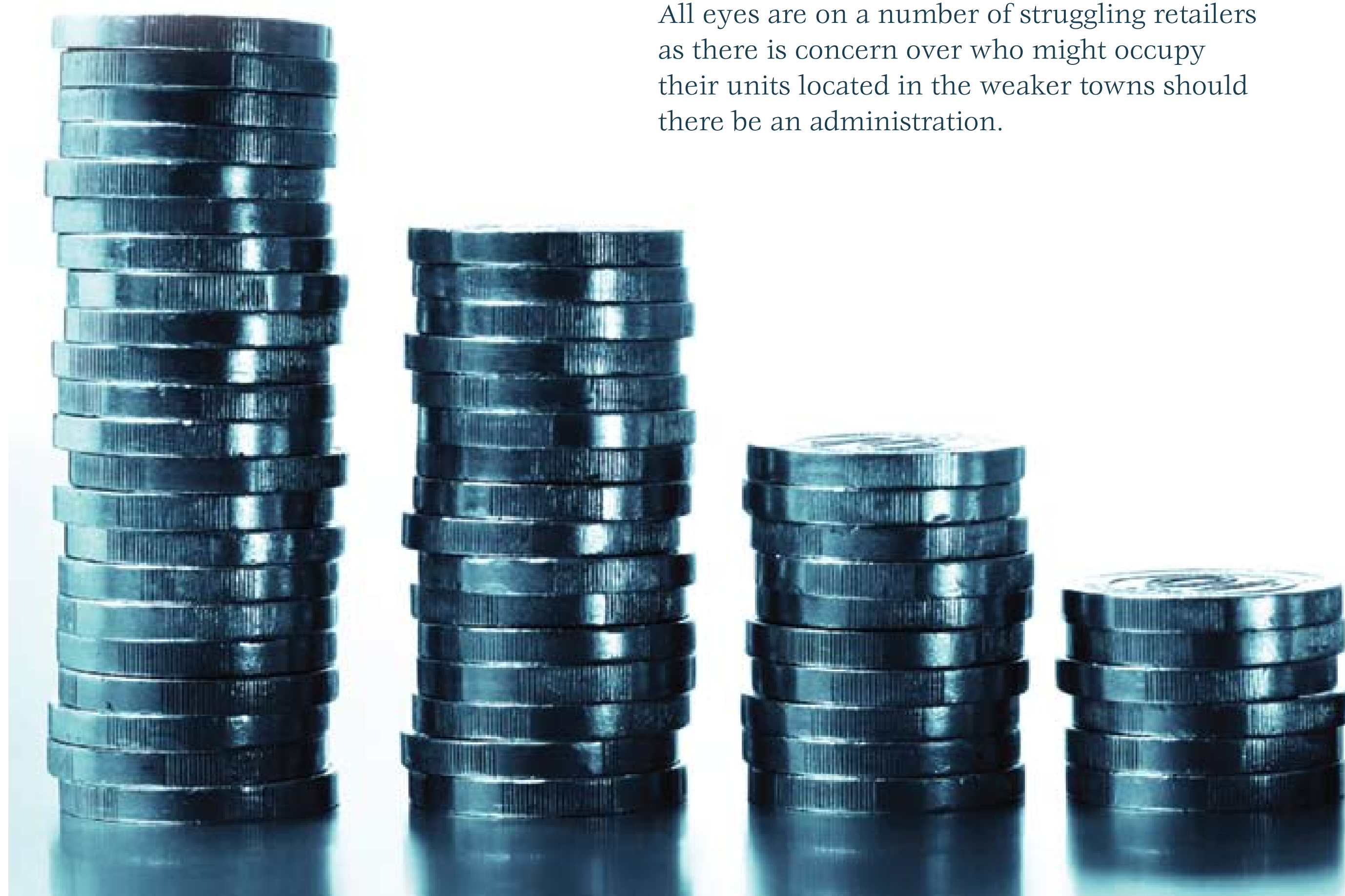
Occupational Marketplace

Realistic Expectations

Common themes in the Occupational Marketplace
both In-Town and Out-of-Town

Landlord Differences

The last few years have shown the different approaches that private property companies and institutional landlords have adopted. The requirements are either driven by absolute ownership or the type of debt structure, where income becomes crucial. Many landlords are waiting for the market to return to 'normal levels' (whatever that means) with rental growth off higher base rents, whereas tenants believe that the current market is now the realistic one. At present, top rents can only be secured and maintained with large incentive packages, other than in the South East and London areas for prime locations.



Long Term Voids

A significant number of former Woolworths and MFI's have remained vacant since early 2009 and are therefore still subject to marketing, downsizing or planning applications for a change of use. Given the length of time which has now elapsed, the question is, can this space still be re-let if and when the market improves significantly, or is an element now unlettable unless alternative uses can be found? Out-of-town, the majority of the Big W (Woolworths) units have secured occupiers through subdivision, for example Newark and Norwich. In town, many units have been taken by the value retailers. There are, however, in excess of 300 units still vacant. All eyes are on a number of struggling retailers as there is concern over who might occupy their units located in the weaker towns should there be an administration.

Lease Flexibility

Tenants continue to seek flexibility to end leases if trade does not support their business plans. Tenants with good covenants are more likely to be given break clauses because landlords assess the risk as being relatively low in terms of them failing. Landlords are fighting back by requesting mutual break clauses or a financial penalty if the break is operated, especially where locations have the potential to improve again quickly.

Covenant Strength

The last few years has concentrated all parties' minds on criteria for acceptable covenant strength due to current levels of retailer debt, the property and the terms of the lease. Assessment is not necessarily straight forward, based on historic trading and number of outlets. Where new businesses are looking to take on vacant retail units, landlords are seeking guarantees and rent deposits, however such financial instruments automatically create a cashflow problem for the tenant. The nature of these risks in terms of lettings may require revised benchmarks.

Alternative Uses

Not all retail space allows the alternative tenant to trade immediately without changing the planning permission, in fact it is almost invariably the case that a change is needed for retail warehouses. Negotiations are therefore "subject to planning" and we have noticed more and more public commentary about the difficulty in obtaining permissions where there is demonstrable demand from a particular occupier. This may be because of the recession but Lord Wolfson's comments to the British Chambers of Commerce in April 2011 reflect this frustration, as he called for the Government to overhaul the planning system which he argued had hampered "every single business in the land at some stage".

Requirements for mezzanine trading floors need careful planning applications. There are a number of local authorities throughout the UK who appear to be happy to have vacant retail warehouses, rather than widen planning permissions.

As we forecast, some retail parks are a target for redevelopment for foodstores, for example, Derby, Meteor Retail Park and Christchurch, Meteor Retail Park. At Ashford, Sainsbury's have demolished 35,000 sq ft of non-food retail to allow their extension to create a 140,000 sq ft store. The number of "budget gym" requirements has been noticeable during the year and there are a lot more enquiries for children's soft play areas. In some cases, hotels are eyeing up suitable sites that would normally have been the sole domain of retail warehouses.

The acquisition drive of non-A1 uses such as Metro Bank and Paddy Power has seen a more relaxed approach towards alternative uses in town centres. Whereas five years ago one would not envisage a bookmaker opening in pitches close to prime, we are now seeing this throughout the UK. Coral the bookmaker locating opposite Harrods in Knightsbridge is one example.

Physical Characteristics

Some of the physical attributes attached to older properties both in-town and out-of-town are receiving more attention as it is still difficult to justify demolition and redevelopment in the current market.

In the out-of-town market, some retail warehouses are more than 20 years old and therefore issues such as condition and physical dimensions no longer suit current requirements, or allow efficient sub-division. Haunch heights of less than 5.5 metres impair an ingoing tenant's ability to install a trading mezzanine.

One of the issues in-town, particularly in older secondary shopping centres, is the number of adjacent vacancies. Much of the space is unlettable in its current form and therefore valuers and landlords may need to make significant write-downs in value in order to create large space but at lower overall rental levels.

The combining of units in order to attract footfall drivers such as TK Maxx/Primark or a supermarket can have a detrimental effect on the rent but the knock-on effect could potentially fill the vacant units alongside.

It is in a landlord's interest to maximise the retained fit-out and condition of vacated units in order to make them more attractive to the increasing number of temporary occupiers.

Asset Management

We have alluded to yield stabilisation and therefore improvements to value will be driven through rental increases rather than yield shift. The days of owners being able to ride the yield market are well behind us and we believe that hard asset management skills will come to the fore over the next two years.

Since last summer, however, an increasing number of owners appear to have been taking a longer term view, as evidenced by CBRE Investors' investment in The Forum, Stevenage to facilitate a large unit for Next, creating real benefits and long term property performance in a South East town that many had written off because of poor demographics and a strong competing retail warehouse and food superstore out-of-town provision.

It is interesting to note that the out-of-town property market has generally sought to downsize units, whereas many in-town tenants are seeking to secure larger units.

CVAs, Pre-Packs and Administrations

The market remains divided about the morality and long term impact of pre-pack administrations and CVAs. Landlords are seeking greater control and it may become an area for legislation. The Miss Sixty CVA failed in the courts with its promoters criticised in its approach - the landlords won. JJB then caused a storm by suggesting that their second CVA was required before the March quarter day 2011. They successfully achieved this on 22 March, thanks to support from their shareholders and by providing landlords, whose properties would otherwise close, with acceptable terms. The vote by landlords stopped a 250 store chain from entering into administration as they were persuaded by a credible business plan. A number of landlords were not impressed and voted against. As we go to press it is unclear whether the Focus DIY fascia will be saved following administration.

If retail failures continue in the year ahead then it is possible that this will be compensated by the more successful retailers expanding into the better units. In that respect the market is usually better off when the weak are replaced by the strong. Artificial support for businesses past their sell-by date does not help these businesses and the towns they serve, nor does it allow for new ideas to come forward. Harsh but perhaps true.

Which retailers are up and down?

Some retailers are also altering their locational requirements, turning their attentions away from the High Street and shopping centres, towards retail parks. Mothercare are a prime example, having closed some 23 in-town stores yet acquiring 12 out-of-town stores in the last financial year despite the recently issued profit warning.

As was the case last year, there continues to be a hardcore of well established retailers, who seek to expand selectively on their terms; these include Next, Arcadia and H&M. Two user groups stand out as expanding across the board. Firstly the "budget gym" occupiers and secondly the discount retail sector. This is dominated by the pound shops, including Poundland, B&M Bargains, Home Bargains and 99p stores including their new out-of-town format, Family Bargains. It is possible that consolidation might take place in this sector over the next 12 months, as a number of operators are either based in the North or the South, with only Poundland represented across the UK.

Other retailers in expansion mode include Brighthouse, Costa Coffee, Urban Outfitters, Apple, Superdry, Subway, Mint Velvet, Lush, Store 21 and Superdrug. In the A3 sector, Mitchells and Butler, Prezzo, Frankie & Benny's, as well as Marstons are all in the market.

Those retailers disposing of a significant number of stores include HMV's reported 60 stores, Boots, JD Sports, Ann Summers and O2.

We have recently seen trading updates for reduced profits issued by retailers such as All Saints, American Apparel, White Stuff, Mothercare, Carpetright, Game and Comet. It is notable that some of the higher end fashion trends are now joining this list. Following some 26 retail failures in 2010, retailers who have recently fallen into administration include Officers Club, HPJ Jewellers, Bennetts, Easy Living, British Bookshop & Stationers, Alworths and Oddbins. JJB have previously been commented on but have just emerged from their second successful CVA.

TJ Hughes the Department Store are the latest in a long list of retailers to enter into negotiations with their landlords to secure rent concessions, including monthly rental payments and even reduced rents in certain locations.

Next, however, continue to be a strong performer with a 9% increase in full year pre-tax profits to £515 million with turnover ahead by 1% to £3.45 billion. It is worth noting that sales of Next Retail fell 2.3% whereas Directory Sales advanced by 7.1%. This perhaps demonstrates that catalogue and online retailing is still progressing strongly against physical retailing.

Empty Rates

As part of the coalition's "tax grab" the empty rates relief was downgraded from 1 April 2011. Previously relief was capped at £18,000 whereas occupiers will now have to pay rates on all vacant properties with a rateable value of more than £2,600. This has further increased the appeal of temporary occupation.

Store Portfolio Management

Both landlords and tenants are under intense pressure to review their portfolios in order to maximise their position. Invoking tenant break clauses, stepping away from lease renewals and entering into lease regearing negotiations is becoming the norm. Arcadia and Halfords have been high profile promoters of securing capital payments from landlords or new leases at reduced rentals with many other retailers attempting to adopt a similar strategy. Equally landlords are seeing how they can maintain their strongest occupiers while formulating strategies to cover weaker tenants and potential vacancies.

The Deal Today

Our discussions with landlords suggest that current lettings on existing shops are still seen as "tenant friendly" but tenants are often viewing these deals as the new future. There has been a noticeable change in the market over the last three years and there is a question mark as to whether the old style deals will come back. In our view this will be the case in the best shopping centres and retail parks but even now there will be careful negotiations over lease length, potential for turnover rents, capital incentives and whether rents are provided with a cap and collar at forthcoming reviews.

Our discussions with tenants suggest that some landlords are taking an inordinate amount of time to secure deals or document the contract after terms have been agreed. Some tenants question property investment managers as to why one of their investment funds deals with things simply and efficiently and others seek different lease covenants and take their time. Each landlord and tenant is benchmarking deals as they are done and there is inevitably comparison with their peers.

There has also been continued questioning as to whether rents will get back to where they were in 2006/2007. We think that the best advised landlords have already looked carefully at their investment, lowered rental expectations as appropriate and are now following strategies to enhance the value of the property from where it dropped to in Q4 2008. Alternatively, they will buy existing investments where there is asset management potential, rather than relying on rental growth as the driver given consumer and occupier sentiment.

In-Town Investment

Unearthing the Deal

Keith Nelson on the
In-Town Investment market

Last year we concluded that demand for prime investment properties would continue to remain strong and this proved to be the case. It remained difficult to obtain debt, as the banks' intransigence to lending on commercial property did not waiver. Nevertheless the number of investment transactions continued to increase throughout 2010 and we have seen this trend maintained in Q1 2011. Over 30 shopping transactions completed in the second half of 2010 and in Q1 of this year 14 shopping centre sales have completed.

One transaction that made national headlines was the sale of the Trafford Centre, Manchester, by The Peel Group to Capital Shopping Centres for some £1.6 billion. As part of the deal Peel did gain an estimated 19.6% stake in Capital Shopping Centres Plc.

Other notable shopping centres that have been traded include Legal & General's purchase of Fremlin Walk, Maidstone, for £92million at 7.8%; Overgate Shopping Centre, Dundee, was sold to Land Securities in December for £141million showing 6.85%; Wereldhave Property Corporation purchased The Dolphin Centre, Poole, for £82.24million, at 6.1%; British Land purchased Drake Circus, Plymouth for £235 million, at 6%. The other major deal of 2010 saw APG and Canada Pension Plan Investment Board buy a 50% stake in Stratford City Shopping Centre from Westfield reportedly for a price of £871.5million at 5.8%.

Prices paid for shopping centre assets reflect the continued strength of demand from both institutions and property companies, for the best centres. With a limited development pipeline, the dominant regional schemes and those in major city centres are likely to become even more sought after in the short term, impacting further on yields. This position is unlikely to change until the development of new schemes returns, but this will take many years and is linked with retailers feeling the need to trade in fewer locations. That said, some schemes that have been openly available have not sold as they have been overpriced, and others placed quietly on the market have just as quietly been withdrawn.

Some notable but more secondary shopping centre portfolio deals completed during the last 12 months, including Hammersons'

Sevenoaks – Blighs Meadow 2010 – Sale of shopping centre investment.

Shop Property % Yields

	Dec 2006	Dec 2007	April 2008	Dec 2008	Apr 2009	Sept 2009	Oct 2009	Feb 2010	Apr 2010	Apr 2011
Prime High Street	3.75 - 4.25	4.75 - 5.50	5.00 - 5.75	6.00 - 6.50	5.25 - 6.00	5.50	5.00	5.00	4.75	4.50
Secondary High Street	5.00 - 5.75	6.00 - 7.00	6.50 - 9.00	8.00 +	8.00 +	10.00 +	10.00 +	10.00 +	9.00+	8.00+
Prime Shopping Centre	4.00 - 5.00	5.00 - 6.00	5.50 - 6.50	6.50 - 7.50	7.00	7.00	6.00	6.00	6.00	5.50 - 6.50
Secondary Shopping Centre	5.00 - 6.00	6.00 - 7.50	6.25 - 8.00	9.00+	9.00 +	7.50 +	9.00+	9.00+	9.00+	8.00 +

purchase of the St Martin's Portfolio at a price of £208.41million that included Centrale, Croydon; Monument Mall, Newcastle; Cathedral Lanes, Coventry; Kings Mall, Hammersmith and The Spires, Lichfield. The Mall Corporation Portfolio which included Falkirk, Gloucester, Romford and Southampton was sold at an agreed price of £135.9 million in June 2010, representing a net initial yield of 7.5%. The CReAM Portfolio which included Bramley, Burgess Hill, Fareham, Erdington and Wallsend was sold at an agreed price of £53 million in November 2010 representing a net initial yield of 8.35%. The Sapphire Portfolio that included Burnley, Queen's Arcade, Cardiff and Harvey Centre, Harlow was sold by administrator Grant Thornton for £145 million at a yield of 7.75%.

Q1 of 2011 has seen more shopping centre stock come onto the market. Schemes currently being openly marketed include Perth (£30m at NIY of 8.5%), Kettering (£39.67m at NIY of 8.0%), Boscombe (£13m at NIY of 9.52%), Cumbernauld and Macclesfield (£24.5m at NIY of 8.23%), as well as Kandahar's shopping centre portfolio. However, the available stock is not of the highest quality and this is reflected in the higher yield profile of those centres being marketed, generally above 7.5%. As an example the St. Marks Place Shopping centre in Newark-on-Trent has just come onto the market at an asking price of £24million reflecting a Net Initial Yield of 7.264%.

Demand for prime High Street shop investment properties has also remained strong, especially from private investors. High Street shops and shopping parades can provide well secured income that offers the smaller investor a relatively safe place to deposit cash. We believe that we will continue to see healthy demand for these assets as returns from other investments remain poor. We do see the attractiveness of secondary shops as they continue to be cheap, however, in the current economic cycle this is high risk.

Location is all important and as the UK population starts to feel the effect of Government fiscal policy it is likely that the flight to the regional centres and the South East of England will continue. This does not augur well for property in the regions and we are likely to see some shopping centres fail completely as has already happened in the US.

The Government has stressed the importance of bank lending, however, credit within the property arena is still hard to come by. Only those well funded investors are able to enter the market. Some investors have questioned whether now is the right time to buy and whether the stock that has come onto the market is actually attractive. Many consider that there have been very few real opportunities and with income growth prospects being limited, other than in central London and some of the other major regional cities, many investors have remained on the touch line.

2010 did not see a deluge of stock coming onto the market as some had predicted given the pressures on the banks to raise finance. Some forced sales have taken place, but this has not happened to the extent that one may have expected. We have, however, seen a number of Irish investors bringing product to the market, which is undoubtedly as a result of banking pressures. We believe that the Irish Government distressed property fund, NAMA, will be forced to release more property onto the market this year. Whilst this may reduce some of the pressure on supply, it is unlikely to have much impact on pricing, especially for better quality assets. Furthermore, whilst rental growth prospects remain poor in most locations the attractiveness of well secured assets will remain.

There was some worry that with the introduction of the new accounting standards shorter lease lengths would reduce demand for property investments. Many retailers have been pressing for 5 year terms or break options and agreeing shorter commitments. Where single property investments have such short term leases, there is reluctance from investors. Investments that are secured for less than ten years, due to financing, either cannot sell or achieve high yields.

However, we believe that there will be increased pressure to accept shorter term tenancy arrangements, especially in shopping centres, whilst the tenant has the upper hand in negotiations. The shrewd investor is already taking a positive view on this issue relying on tenants to renew their leases in the stronger trading locations.

One area of concern for the future is the tendency to have agreed fixed rent increases or have benchmarks which are not property related. Such arrangements could produce over-renting and hit investors just at the time they wish to sell at some time in the future. Although a guaranteed rising income stream is not to be ignored, the potential downturn in value towards the end of the lease could be significant. Arguably, valuers should be amortising the over-rented element over the lease term but this exercise rarely seems to be undertaken at the current time.

Growth in Central London has continued unabated. Occupational demand has underpinned a stronger than ever investment market where equivalent yields close to 3% have been paid on Bond Street. This illustrates Central London's attraction to worldwide investors and re-affirms the Capital's place in the eyes of foreign investors as a safe place to invest during the worldwide economic crisis.

There are, however, two real concerns for investors in the retail property sector. The first is any significant increase in interest rates, which could undermine any hope of a return in confidence in the occupational market, although this threat has recently subsided.

Secondly, retailer's performance is now under severe pressure as the effect of government cutbacks and the squeeze on consumers begins to make itself felt in the High Street.

Consequently, covenant strength will be more important than ever as many investors could face increasing voids in their portfolios as more retail failures materialise. The empty rates regime will continue to drive demand in one direction – towards prime. Prime stock is therefore likely to retain its attraction whereas secondary will show further weakness widening the yield gap. However, this yield arbitrage could provide an area for real opportunities in secondary retail, notwithstanding the greater risks.

Out-of-Town Investment

Bursting Bubbles... Not Just Yet!

John Shuttleworth on the Out-of-Town Investment market

This time last year we reported on a very buoyant retail warehouse investment market. This had been driven by a number of factors including negligible returns on cash, poor returns on gilts and equities, a weak pound and high inflows of money to the pension funds. Strong demand, coupled with the limited availability of prime stock, had forced yields significantly downward.

There had been some striking examples of where investors had profited from significant yield compression. London & Stamford had purchased the Racecourse Retail Park, Aintree in June 2009 from Land Securities, for £60.92 million, a net initial yield of about 8.5%, and had brought this to the market in Spring last year seeking circa £100 million. We had doubts as to whether or not the market would support pricing at that level but in September 2010 it was announced that The Crown Estate had purchased this investment for £101.3 million, representing a 5.4% net initial yield and a £40 million return for London & Stamford.

So, in the previous 12 months, yields for prime retail warehouse parks had moved down from 8-9% to 5.3% at that point, but by the end of Q1 2010, an air of caution seemed to have returned. Investment activity was slightly reduced in Quarters 2 and 3 of 2010 albeit, demand appeared to remain strong and yields remained unchanged. There was the usual flurry of activity in Q4 2010, perhaps with pressure to spend allocations. This has been sustained in Q1 2011. It is clear however that yields have now levelled off despite the high levels of demand for this asset class and the lack of opportunities coming forward in the market.

The market has been active but it has been notable that the sector “giants”, namely British Land, Standard Life, Aviva, Prudential and Land Securities have all been relatively quiet. In contrast, the Crown Estate, although not new to the sector, have been particularly

Barrow in Furness – 2011 – Acquisition of a Retail and Leisure Development let to B&Q and DW Sports on behalf of PHF Investments Ltd.

active in the last 12 months, following a diversification strategy - investing in the sector through the purchase of Victoria Retail Park in Nottingham (£56.8 million/5.42% net initial yield), Racecourse Retail Park in Aintree (£101.3 million/5.4% net initial yield), Apsley Mill Retail Park in Hemel Hempstead (£35 million/5.75% net initial yield) and Ocean Retail Park in Portsmouth (£60.85 million/5.87% net initial yield). This represents a total investment in this sector in the last 12 months of over £250 million. Threadneedle have been the most active of the funds, while most others have ticked over with one or two smaller acquisitions. Perhaps the most acquisitive of all have been the sector specialists, particularly Metric Property Investments but also Pradera and LXB, all of whom have acquired a number of retail park investments and much of this having been sourced "off market".

The sector specialists have very clear criteria that suit the current market place, namely:

- A lot size of £15 million to £30 million
- Rents of up to £20 per sq ft
- Open A1 planning preferable but also bulky goods
- Identifiable and achievable asset management opportunities

The acquisition of retail park investments where rents are below £20 per sq ft is possibly the single most important factor. From this level, growth can be contemplated. Without further yield compression, rental growth through active asset management is the only way to achieve satisfactory returns.

Out-of-Town Retail % Yields

	Dec 2006	Dec 2007	April 2008	Dec 2008	Apr 2009	Sept 2009	Oct 2009	Feb 2010	Apr 2010	Apr 2011
Shopping Parks	4.25 - 4.75	4.75 - 5.00	5.00 - 5.25	6.75 - 7.00	6.75 - 7.00	6.50 - 7.00	6.00	6.00	6.00	5.00 - 5.25
Open A1 Retail Parks	4.25 - 5.00	5.25 - 5.50	5.25 - 5.75	7.00 - 7.50	7.00 - 7.50	7.00 - 7.25	5.75	5.50 - 5.75	5.00 - 5.50	5.25 - 6.00
Bulky Goods Retail Parks	5.00 - 5.75	5.75 - 6.25	5.75 - 6.75	8.00 - 9.00	9.00	8.00 - 9.00	6.50 - 7.00	5.75 - 6.25	5.75 - 6.25	5.75 - 6.50
Solus Stores	4.75 - 5.25	6.00 +	6.00 +	8.50+	8.75	8.50 - 9.00	7.00+	6.00 - 7.00	6.00 - 7.00	6.50 +

Marlow – 2010 – Acquisition of a Waitrose food store on behalf of a private investor.

Barrow in Furness – 2011 – Acquisition of a Retail and Leisure Development let to B&Q and DW Sports on behalf of PHF Investments Ltd.

In more general terms, the top prices are paid for prime/dominant retail parks with open A1 planning permission, a high street tenant line-up or the prospect of achieving such a profile and lot sizes of up to £30 million.

There remains demand for prime bulky goods retail parks at higher yields but tenant line-up is crucial, with covenant strength being looked at very carefully. Demand also remains strong for stand-alone retail warehouse units, particularly from private investors given the more manageable lot sizes of up to say £10 million, and particularly where the property is occupied by one of the stronger covenants on a long lease of 15 years plus and perhaps with indexed or fixed rental increases. The demand for and value of shopping parks has still not truly been tested in the market. These investments were once most sought after but are now viewed rather differently, given the lot size and the level of rents on schemes of this nature, at say £45 per sq ft plus, and where it is difficult to foresee significant rental growth from these levels for the foreseeable future. Although not a true shopping park, the closest example is Ignis's proposed acquisition of the Purley Way Centre in Croydon from AVIVA for around £35 million. This would reflect a net initial yield of around 5.3% and would represent one of the lowest yields paid post the economic recession. The 60,000 sq ft scheme is let to TK Maxx, Argos, Hobbycraft and Mamas & Papas at rents of £30-£40 per sq ft.

The retail warehouse investment market is strong at present. Keen prices are being paid, reflecting a high level of demand for this asset class and lack of opportunities in the market. With yields having levelled off leaving rental growth as the driver of performance, it is difficult to see how this can continue against a backdrop of the Government's austerity measures to repair public finances. This is bad news for the retailers and also the owners, in terms of their prospects for rental growth. To quote one fund manager recently "... you can't help but feel that we are currently living in a bubble and unfortunately we don't seem capable of realising or acknowledging this until it bursts".

Professional

Tenants on Top

Ian Campbell considers some current issues in the field of rent reviews and lease renewals.

2010 saw the number of applications to the Dispute Resolution Service of the RICS for commercial rent disputes decline from over 10,000 to its lowest level since the dark days of 1996, with only 4,442 applications being made.

This reflects not only the continuing lack of rental growth following the tumultuous events of late 2008 and the ensuing recession but also the growing acceptance by landlords of the inevitability of nil increases at review in many commercial markets. It also reflects an increase in the number of regearing and deal lead rent review negotiations to suit both sides in the current austere market conditions.

For those reviews which are being prosecuted the age old arguments of discounts for restricted user and alienation clauses still exist. As is always the case when markets become depressed, the inclination is for Arbitrators and Independent Experts to award greater discounts to take account of such perceived disadvantages. In addition greater attention is being paid to the issue of the hypothetical assumed term, particularly as the typical assumed term of 15 years falls out of sync with the shorter lease terms prevalent in the market.

The method of analysis of incentives granted in respect of comparable evidence, ever a source of disagreement between the parties, becomes increasingly important as the levels of such incentives in a depressed market have risen. This problem has been further compounded by the use of confidentiality clauses by landlords to conceal the exact level and nature of such incentives. Detailed forensic analysis of open market transactions is increasingly the order of the day but agreement between protagonists on correct analysis remains a rare beast.

The level of incentives is undoubtedly dependent upon the term that a tenant is willing to commit to. A landlord will obviously pay more to incentivise an occupier to sign up to a 15 year lease than he would for a 5 year term. Logic must dictate therefore that in the current market at least, devaluation of incentives over the minimum guaranteed term must be the correct approach.

The question that the property profession and valuation fraternity have to cope with is how to interpret this in arriving at the market rent without fine or premium.

As history tells us, markets do not support artificial constraints or profiles for long, and as King Canute demonstrated, the tide of the market cannot be stopped.

Incentives are inducements and skew market rents. Equally they are part of the market. Even with alternative methods of fixing future rents and analysing incentives, what is always required at any moment in time is the benchmark of what is the true market rental value. Everything else flows from that simple question but the methodology behind the answer becomes ever more complicated.

Lease renewals and early regears have also opened up the potential for tenants to negotiate rent free periods and other incentives which would have been unheard of in similar scenarios 5 or 10 years ago. Notwithstanding this tenant power, there is an attraction to landlords in securing continued occupation and rent on their

Stockton Heath - 2009 – Rent review on restaurant and shop - Victoria Square, Stockton Heath on behalf of Capital & Provincial.

properties following lease expiry, in conjunction with a reasonable length of term, reflected as it is in a compensatory yield shift.

So what lies ahead for the traditional rent review practitioner who had become accustomed to four reviews and a renewal within the traditional 25 year lease cycle.

Average lease lengths continue to fall in all markets. IPD calculate that the average 2009/2010 lease lengths are 7.7 years (high street retail), 8.1 years (shopping centres) and 11.5 years (retail warehousing). As a direct result the simple number of reviews to be prosecuted, whether there are increases or not, will continue to fall. In the in-town market, typical lease lengths over the last 10 years of 5 years, or 10 years with a break at 5 will mean very few reviews being negotiated, whilst the customary 25 year leases that were granted in the 1980's are now a thing of the past.

A similar situation is developing to a lesser extent in the out-of-town market with most recent leases having been granted for terms of 10 years only or 15 years but with a break at 10. This is except for the supermarket sector where it suits retailers to raise money on a bond type basis over longer terms in their sale and leasebacks deals. In addition the monopoly trading of a good site against competition is another reason why supermarket leases are usually for 25 years and can still be for as long as 35 years.

To compound this situation, on renewal in the current market, tenants are seeking to control their future rental outgoings by replacing reviews to open market rental value with RPI increases, subject to caps and collar, or simple percentage increases.

As to who is likely to benefit from this shift to indexation, we shall leave to the crystal ball gazers.

What is certain is that the number of traditional rent reviews to open market rental value will diminish over the next decade. Interestingly, with the likelihood of rising inflation and increasing interest rates, we are already noticing a number of retailers reviewing, and in some cases even abandoning, this type of fixed review. On the upside, the number of lease renewals to be negotiated will increase. However, the jury is out on whether the current court system is geared to deal with this potential upsurge in what is already a lengthy, convoluted and expensive process.

The PACT process was designed to provide a more user friendly, cheaper and quicker method of resolving impasses between the parties at lease renewal. Take up of the procedure has been relatively low. Unless the dispute can be limited to the level of rental on the basis of an agreed draft lease, the parties are continuing to favour the court process. This is notwithstanding the extra cost, delay and the greater possibility of an unsatisfactory decision from a judge not experienced in commercial property disputes.

Prescot – 2011 – Rent review on Tesco, Prescot on behalf of Brookhouse Properties Limited

PACT should be considered and promoted effectively as it is a much better and more efficient option for dispute resolution at lease renewal, but only when both parties are familiar with the process and trusting in it. At present a 'better the devil you know' sentiment prevails through the industry. However, as with rent reviews the dispute resolvers must play their part. Costs are usually appreciably lower than the court process but speed of decision making by Arbitrators and Independent Experts leaves room for improvement.

With lease renewals becoming far more prevalent, the opportunity for the tenant to take advantage of an upwards and downwards rental adjustment is now available every five years. Without the need for Government intervention which they had demanded, tenants are gradually removing themselves from the yoke of upward only rent reviews as a result of market forces.

However, there are unsurprisingly no indications of a willingness on the part of tenants to divest themselves of that other artificial barrier to true open market forces, the protected right of renewal under the 1954 Landlord and Tenant Act. By retaining the guarantee of security of tenure but effectively achieving upwards and downward rent reviews through 5 year terms, tenants are now benefitting from the best of both world's.

Woking Homebase - 2009 – Rent Review of Homebase, Woking on behalf of J Sainsbury

Southwark – 2010 – Rent review of Decathalon units, Canada Water, on behalf of Conrad Phoenix Properties

Food Superstores and Supermarkets

Powering Majors

As for last year, the food property market sector has continued to grow and strengthen with occupiers racing for space in stark contrast to the rest of the retail market. The majors have powered ahead by adding new floor space and growing sales despite planning uncertaintity and increased competition.

The efficiency and drive of the food store operators has to be admired despite the criticisms from some quarters on their dominance of the market and their sales of below-cost alcohol! Their successes are at levels which their non-food colleagues can only marvel at and dream of.

In property terms, the real opportunities come from several quarters. This includes convenience stores in local parades, in well visited community centres such as hospitals and petrol filling stations, extensions to existing stores, district centres and revised town centre schemes where shelved shopping centres, reflecting yesterdays bubble, can no longer be justified in viability and demand terms.

The severe economic downturn has perversely helped by redirecting the consumer from the restaurant to the home kitchen via the supermarkets who have been keen to accommodate this austerity factor.

Nevertheless, it is not all one-way traffic. As at the 12 weeks to March 20th 2011, growth rate on food sales slipped to 2.6% compared to 3.9% the previous month. With inflation at 4% during this period, it is the first time since July 2009 that market growth has fallen behind the inflation rate in the food sector. Of the big four, Morrisons was the only one to grow its share up marginally to 12.2%, Sainsbury's was static at 16.3% whilst Tesco and Asda were both fractionally down to 30.2% and 17% respectively.

Supermarket share

	12 weeks to 21 March 2010		12 weeks to 20 March 2011		Change
	£000s	%	£000s	%	%
Total Till Roll	28,802,090		30,504,610		2.4
Total Grocers	22,197,440	100	22,785,540	100	2.6
Total Multiples	21,670,590	97.6	22,255,110	97.7	2.7
Tesco	6,717,504	30.3	6,874,633	30.2	2.3
Asda	3,804,487	17.1	3,884,246	17.0	2.1
Sainsbury's	3,607,663	16.3	3,717,831	16.3	3.1
Morrisons	2,687,725	12.1	2,770,446	12.2	3.1
Co-operative	1,289,303	5.8	1,530,921	6.7	18.7
Somerfield*	370,668	1.7	12,489	0.1	-96.6
Waitrose	917,659	4.1	971,421	4.3	5.9
Iceland	405,620	1.8	422,648	1.9	4.2
Aldi	615,739	2.8	706,645	3.1	14.8
Lidl	506,003	2.3	567,121	2.5	12.1
Netto	154,327	0.7	149,758	0.7	-3.0
Farmfoods	126,164	0.6	140,888	0.6	11.7
Other Multiples	467,728	2.1	506,062	2.2	8.2
Symbols & Independants	526,851	2.4	530,435	2.3	0.7

Source: Kantar Worldpanel 2010
* Acquired by Co-operative

Tesco is poised to be fastest growing global retailer with compound annual growth rates of 7.5% between 2010 and 2015.

So for the future, more of the same but the existing traders are going to roll up their sleeves higher than they have before as the competition for market share intensifies.

Convenience

The ongoing direction of food retailers is to intercept the customer at source. Expansion has not focussed on new large store openings and existing store extensions. Much of the growth has been through smaller formats and convenience stores on the doorstep of the customer. The business model of just 5 years ago, when the customer was required to travel to a dominant area store, has been reversed.

A good example is Waitrose, who has launched its "Little Waitrose" fascia and is planning to build a 300 strong convenience store estate with this format over the next five years. Whereas Waitrose used to be a brand of rarity, this is now a name that pops up in places not considered two or three years ago. As an example, following on from Marks & Spencer's expansion into service stations, Waitrose are to build on their Welcome Break convenience store initiative.

Similarly, the Simply Food store format of Marks & Spencer is growing both through direct company efforts and also the franchise alternative which currently has 194 stores with this fascia.

The Co-op are firmly on the scene following their

Somerfield acquisition and its successful integration. They are a serious convenience store competitor and following the opening of their branch in the Strand, London, now boast a store in every UK postal district. They intend to open 300+ new shops in the next three years. This will be supported by a rationalisation of their head office and central stock management system which they claim will have the ability to scale up the business to some 4,000 stores.

Alternative Shopping

"Pick and Collect" is a phrase now entering the English language and in May 2010 Sainsbury's began trials of this facility in ten of its stores. Some would argue this is simply following the footsteps of Tesco with their dot.com "dark stores" which they currently operate in Croydon, Aylesford and Greenford.

There are also two drive-through services at Tesco Extra sites in Baldock and Romford where customers are able to order their produce online and drive to the store to the collect it.

Marks & Spencer is offering its "Shop Your Way" multi-channel offer in 144 Simply Food shops. Last year they signed a lease on their new dedicated e-commerce warehouse which will come on stream during the course of 2012.

Ocado recorded a gross sales uplift of 24.7% in the 12 weeks to February 20th and launched its first non-food lines at the end of 2008 with a range including table wear, toys and gifts, moving away from Waitrose as its sole provider. However, sustained profitability remains elusive.

No doubt technology will soon be improved sufficiently to allow whole shopping trolleys to be marked through an electronic cash point and deliver an instantaneous bill.

Competition and Planning

On the planning front, the abandonment of the "need test" will open up competition. Last year, Sainsbury's secured planning permission to develop a full sized store, immediately opposite an existing modern Tesco full sized store at Bognor Regis. Both sites were out of centre but consent was granted on the understanding that the real competition would be for food sales and would not have an impact on the town centre which has evolved into a strong non food-discount format.

By contrast, at Old Trafford, the White City Retail Park failed to secure a consent for the regeneration of the existing scheme for a food store. Instead Trafford Council granted planning permission to Tesco on land just down the road adjoining Lancashire County Cricket Club, who have agreed to pay the private members cricket club a substantial sum to upgrade their facilities in a bid to retain international cricket at Old Trafford.

Protection remains an important ingredient in the food property market, especially where Local Authorities have their own priorities. However, it is likely we will see more direct competition similar to that at Bognor Regis, which in turn may well alter the dynamics of the food superstore market and undermine the monopoly position that this sector has enjoyed for many years under the need test. Indeed, there are now at least 15 locations where full offer supermarkets exist alongside or opposite each other.

Expansion into non-food areas continues apace, often unchecked by the planning system coupled with some local authorities keen to maintain expenditure in their boundaries. In town centres this is not of concern but in out-of-town stores it can reflect the worst type of planning failure and damage to town centres.

There is still room for the upmarket food store retailer who offers service and quality. Waitrose and Marks & Spencer have always held such a tag. Another group familiar in the North but not in the South, is Booths. They continue to expand with recent acquisitions in Hale Barns and Media City, Salford, with their focus on service provision, ethics and level of customer care.

Discounters

The discounters' growth, which began rapid expansion as at three years ago, has been cooling off. Netto have withdrawn from the UK having sold its entire portfolio to Asda Wal-Mart of nearly 200 stores at a price of £778 million in May 2010. Even here, the Competition Commission recommended to the OFT that 47 of the newly acquired Netto stores should be disposed of. The majority have found new homes.

Aldi saw its 2008/9 £93million pre-tax profit reversed into a £50million loss in 2009/10 and Lidl have had 3 UK Managing Directors in the last 2 years. Nevertheless,

Supermarket Statistics

	No. UK Stores	Total sales area	Opened in the last 12 months	The next 12 months	UK sales % increase	Profit % increase
Tesco (as of 19/4/11)	2545				£44.57bn 5.5% increase	£3.7bn 7.8% increase
Sainsbury's (as of 27/2/10)	958		68 supermarkets and convenience stores, plus 24 extensions. 1.353m sq ft		4.7% increase	
Morrisons (as of 30/1/11)	439	12.267m sq ft	15 new stores. 400,000 sq ft	Intend to open 30 new stores. 600,000 sq ft	£16.5bn 7%	£874m 1.8% increase
Asda (Walmart) (as of 30/1/10)	371		Acquired Netto but to sell 47 of those stores. 1.2m sq ft new space	900,000 sq ft		
Co-Op (as of 2/1/10)	3000+		Now represented in every postal district in the UK following their opening in the Strand	300+ shops in the next 3 years.	£6.9371bn 8% increase	£81.6m
M&S (as of 28/3/10)	690 including 350 Simply Food stores.	15.4m sq ft			£9.536bn 5.2% increase	£702.7m 0.4% decrease
Waitrose (as of 29/1/11)	238		20 new stores including 3 relocations. Selling space increased by 5.7%		£4.97bn 9.8% increase	Operating Profit: £274.9m 3% increase

Marlow – 2010 – Acquisition of a Waitrose food store on behalf of a private investor.

performance has returned recently and the discounters are continuing to grab market share. Aldi and Lidl have achieved double digit growth, and Lidl reached an all time record market share of 2.5%.

Rental Values

Unfortunately, in such a controlled market, most rental evidence is restricted to Arbitration Awards, Independent Expert Determinations and sale and leasebacks. The highest rent yet to be achieved in the UK is for the Sainsbury's at Chiswick, where the arbitrator awarded £33 per sq ft. This is an increase from the previous Arbitration award at £30 per sq ft which some observers mistakenly felt was over-pitched. This demonstrates that where food retailers can monopolise their catchment with limited competition, the trading potential and hence property values remain strong.

The best food stores, in major conurbations with strong catchments, are securing in excess of £25 per sq ft. Elsewhere, £20 per sq ft plus is common. Even secondary stores are in the mid-teens, alongside the best discount stores at this level. However, on the concessions side, the pattern is varied. Rents can be as low as £5 per sq ft in local parades but in central London, overall rental rates from zoned agreements

Prescot – 2011 – Rent review on Tesco, Prescot on behalf of Brookhouse Properties Limited

break back to between £30 and £35 per sq ft for the very best examples.

Investment

Again, as we reported last year, the bond qualities of the food superstore market have proved an attractive magnet to investors. Fixed increases rather than open market rent reviews are now common or by reference to RPI/CPI benchmarks or percentage increases. In essence, this converts the transaction from a property deal to a corporate bond purchase with yields for the best in the region of 4.5%.

Pension funds, property companies and private trusts have been seeking supermarket investments with urgency. With interest rates at 0.5%, even a low yield of 4.5% shows a significant uplift in return from money being held on deposit at 1%-3%. The security offered at this stage in the market is the attraction, coupled with these returns.

With retailers still dominating the development market there appears to be an endless supply of properties coming into the investment market on sale and lease backs. Despite this activity, there still is not enough to satisfy demand for this type of product and hence yields have continued to fall despite the poor current economic market. Equally, rental values have continued to show growth.

Asset Management and Sustainability

Asset management is as much a focus as it is for other forms of retail investments, with extensions and lease regearings popular both with the tenants and landlords as there seems to be money to be made on both sides of the coin.

Sustainability is now moving to centre stage of many food retailers' agenda and coincides with increasing use of internet ordering and delivery techniques. Marks & Spencer are leading the environmental cause and as we go to press are opening in Sheffield a store of 12,400 sq ft which they claim is the most sustainable outlet they have ever built. This is with the aim of becoming the world's most sustainable major retailer by 2015.

Tesco are building carbon footprint neutral stores. Their first was in Ramsey and opened in December 2009 and their second opened in February this year in Bourne, Lincolnshire. Not to be outdone, Sainsbury's, in their Durham Store, have built an extension which they claim has reduced the total carbon footprint of the whole store. The race to be the most sustainable supermarket is on.

The extent to which asset management will be taken by the food store operators can be demonstrated by Tesco's redevelopment of the Ellesmere Centre, Walkden in Manchester, which opened in September 2010. This 180,000 sq ft behemoth has become the town centre. Raised on stilts above a car park which has 936 spaces, providing a relatively low parking ratio of 1:450, it also includes about 30 shop units in support comprising a further 250,000 sq ft. Putting large food stores on stilts above car parking is becoming more popular as retailers learn how to squeeze into restricted town centre sites. Non-conformity to achieve success is becoming almost as important as conformity to a standard store was 20 years ago. Flexibility is beginning to creep into the food superstore vocabulary.

Food Requirements in Size Terms*

	Location	Min Area (sq ft)	Max Area (sq ft)
Tesco Extra	Strategic	70,000	170,000
Tesco	Standard	25,000	70,000
Tesco metro	In Town	8,000	15,000
Teco Express	Convenience	1,000	4,500
Sainsbury's	Strategic / Standard	40,000	140,000
Sainsbury's Local	Convenience	1,000	4,500
Morrisons	Strategic	25,000	70,000
Morrisons Local	Convenience	1,000	3,000
Asda	Strategic / Standard	20,000	140,000
Co-Op	Convenience	2,000	18,000
M&S	Mainline	30,000	150,000
M&S Simply Food	Convenience	7,000	15,000
Waitrose	Mainline	15,000	40,000
Waitrose Convenience	Convenience	3,500	5,500
Waitrose Food & Home	Trials	25,000	35,000

* figures are correct as of 11 April 2011

Conclusion

Growth in the food retail property market not only reflects the security of this type of business in an economic downturn but also strong management and a significant ability which exists within all the companies which operate within the UK. However, on the food superstore side of life, much of their business is protected through the restrictive planning regime and, therefore, it will be interesting to see if the Competition Commission's quest to open up the market will have any impact on the much more restrictive practices promoted by the Government's PPS4 policy issued on 31 December 2009.

Whether yields have now fallen too low in the investment market is a question that will be asked, but the last 20 years of low yields for supermarket property have proven to be well rewarded, both in terms of security and rental growth, and we do not see this position changing in the foreseeable future for good quality prime property.

Town Planning

From Crisis to Turmoil

In last year's Spring Report we pointed to the clear and urgent need for radical changes to the planning system if it was to lend any support to the economic recovery.

The Big Society and Localism

Those of us who have to navigate the system have become rather tired of the last Government claiming all was well, when almost all active participants – be they applicants, planning authorities, consultees and most stakeholders - knew it was, and still is, collapsing under the weight of both policy guidance, the bureaucracy of plan-making and the administration of applications.

The Conservatives' pre-election Green Paper at least openly acknowledged that the planning system was "broken" and needed radical overhaul. However, and as we highlighted in last year's Spring Report, some of the ideas in this Paper were aimed more at winning votes in traditional Tory heartlands rather than necessarily promoting the sort of radical surgery the system needs.

The election of the Coalition Government in May 2010 saw the arrival of "The Big Society" and, of course, the concept of 'Localism'. In terms of the planning system, Localism takes forward some of the key elements of the Green Paper – particularly those that aim to reduce central government intervention as well as the need to promote greater community engagement and empowerment in planning. Thankfully, it also seems to have dropped some of the more radical ideas like third party rights of appeal.

Many in the development community are understandably concerned about the potential impact Localism may have on new development. Despite the assurances Ministers have endeavoured to give, the overwhelming majority of practitioners and commentators believe that Localism is inherently anti-development and has been described, by some, as "institutionalised NIMBYism.'

Saracens Rugby Club – Submission of planning application for refurbishment and development of existing Barnet Copthall Athletics Stadium to provide new 'Community Stadium' for both athletics and Saracens Rugby Club

Perhaps in response to this and in recognition of the simple fact that Localism is unlikely to fully recognise – and provide for - the wider development needs of communities, the past few months has seen the Government trying to reassure the development community that it is 'pro-growth'.

A pro-active planning system

Chancellor George Osborne's Budget Statement refers to the need for a more pro-active and pro-development planning system that should encourage rather than frustrate development. He has proposed a series of measures – including:

• 11 Enterprise Zones in areas where Local Enterprise Partnerships (LEP) are in place and plans for a competitive process for future Partnerships to bid for up to a further 10 EZ's. Although the concept of an EZ may well encourage investment in areas most in need of it, much will ultimately depend on the quality and skill of the LEP promoting the EZ. Ultimately, however, the success of these areas will depend on the willingness and ability of the private sector to invest in these areas at a time when development finance is tight. The risks are likely to be perceived to be relatively high, and there may be alternative more attractive investment opportunities available elsewhere.

If, or when, development were to occur in these Zones then due regard will need to be given to potential adverse effects that this might have on adjoining areas and town centres nearby.

• A presumption in favour of sustainable development – it is encouraging that the Government has explicitly stated that the default answer to growth and development should be 'yes'. However, until we know how 'sustainable development' is defined the presumption remains something of a hollow notion.

• A new streamlined pro-growth national planning policy statement - anything that slims down the welter of current national planning policy guidance has to be welcomed. We look forward to seeing how 'slimmed down' the final document is when it is published later this year and whether this well, in practice, simplify or streamline the process in the way the Government hope or whether its brevity will lead to further uncertainty.

• Business-promoted neighbourhood planning – in keeping with the proposals for neighbourhood planning in the Localism Bill, the Government are now proposing that businesses should be afforded powers to promote similar plans in business areas and thereby reduce the need for planning permission for certain activities and/or development. Like neighbourhood planning, the success of this initiative will ultimately rest on the commitment and drive of the businesses behind these plans.

Shepherds Bush – Ongoing advice for refurbishment and enhancement of centre – including change of use of existing offices to budget hotel

Motor Industry Benevolent Fund (BEN) – Lynwood, Sunningdale
Planning advice and planning application for redevelopment of existing care home to provide Continuing Care Retirement Community (CCRC) on Green Belt land.

• Speeding up applications and appeals – the Minister has promised a 12 month guarantee for the determination of applications and appeals. This is laudable - in theory. However, there is currently little detail on how this will be achieved and how any such initiative will not cause the sort of perverse behaviour by planning authorities that the previous Government's development control targets led to where decisions on some applications were being taken not on merit but purely to satisfy time.

• A pilot scheme for Land Auctions is also proposed. This will potentially allow local planning authorities to acquire land and grant consent and, in doing so capture the uplift in value. It is initially proposed with public sector land and could be extended to land in private ownership – although we are sceptical about landowners being willing to sell at a discounted price in the knowledge that consent could be granted in due course for a use generating a higher value.

• The Government is also to consult on changes to allow more flexibility in converting existing commercial premises to new homes. Although this might appear attractive, we remain sceptical about how attractive this might be to existing owners or prospective developers and believe that the initiative is unlikely to deliver the sort of 'windfall' gains in housing that ministers might hope for.

On the face of it, the Chancellor's Budget Statement offers some encouragement to those promoting development and now forms a material consideration in the determination of planning applications. However, it should be stressed that its provisions are not currently included in any statute, Regulation or formal planning policy guidance so can only be afforded limited weight by planning authorities, inspectors and even the Secretary of State in the determination of individual applications for new development.

In our view, the emphasis the Budget Statement places on Central Government-backed economic growth and development seems rather at odds with what appears to be the Localism agenda and its emphasis on more locally-based community decision making. Having said this, buried deep in the supporting material accompanying the Localism Bill one finds the following statement:

"One of the principal objectives of neighbourhood planning is to increase the rate of growth of housing and economic development in England"

This, we suspect, is not what many of the supporters of Localism expect and it will be interesting to see whether this provision remains one of the 'principle objectives' once the Act is in place and neighbourhood planning is underway. Chase & Partners certainly recognise the importance of consultation and community engagement in the planning process. However, we remain concerned about the adequacy of existing mechanisms (particularly taking into account funding has, or is being, withdrawn) to ensure that properly constituted communities groups can be constructively involved and properly advised when participating in neighbourhood planning and design exercises involving new development.

Furthermore, we are also concerned that the Coalition Government might not have the wherewithal to deliver the detail on some of these proposals and be willing to drive through the changes it is proposing against the forces of inertia both within and surrounding the planning process. Trying to reform or streamline the planning process is nothing new and experience shows that attempts by successive governments have generally failed. We fear that, despite the current rhetoric, meaningful reform of the system will prove to be an altogether more time-consuming and difficult process than Ministers envisage and one that, ultimately, may not necessarily deliver the results they expect or hope for.

Open Season on "Planner Bashing" ?

At the Conservative Party spring conference in early March, the Prime Minister singled out "the enemies of enterprise" and what he described as "town hall officials who take forever with those planning decisions that can be make or break for a business - and the investment and jobs that go with it". Since then we have seen senior Ministers, and particularly the Secretary of State, Eric Pickles, indulging in some serious "planner bashing" – describing the current planning system as a "drag anchor to growth" and pledging to "cut it down to size."

His comments have prompted a particularly stern response from the normally quite tacit Royal Town Planning Institute. It has described the Secretary of State's remarks as "ill-informed" and accused him of creating many of the problems when he decided to revoke Regional Spatial Strategies – a decision that was itself the subject of litigation.

Chase & Partners believe that some of the criticism of planners is justified – all too often they fail to recognize (or even acknowledge) the commercial impact their actions (or inaction) can have on development viability and its deliverability.

However, the Secretary of State's criticism also belies a lack of real understanding of the complexities planning authorities now face when preparing development plans and administering planning applications (particularly for major development). Authorities, in our experience, are now confronted with a bewildering array of Central Government planning policy guidance and detailed advice that they have to have regard to when preparing plans and determining applications. We now have what can only be described as a byzantine system for plan formulation that will not be easily simplified, reformed or dismantled in the way some might like.

This criticism of local authority planners, when taken with the impending cuts to public expenditure and its likely impact on planning positions across the Country is already starting to have an impact on staff morale. We believe that this, combined with the further changes that are now being proposed, will do little – certainly in the coming year - to deliver major change to the system governing the majority of applications. As a result, we believe applicants will continue to face uncertainty when making applications and may also encounter further delays in obtaining consent as resources in planning departments are reduced. The prognosis in the short term is not good.

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Further information

Previous Retail Property Briefing papers

1	October 1996	PPG6 Retail Warehousing: Towards Consesus? Matter of Control!
2	November 1996	The Sequential Test: Opportunity or Problem?
3	December 1996	End of Year Round up - Developments in the Retail Property Market
4	December 1997	End of Year Round up - The Retail & Leisure Property Market
5	May 1998	Rating of Commercial Property - Update 1998
6	December 1998	End of Year Round up - The Retail Property Market
7	July 1999	The 'Need' for Development
8	December 1999	End of Year Round up - The Retail Property Market
9	February 2000	Flexibility and the Sequential Approach
10	March 2000	The Need for the Sequential Approach
11	November 2000	Funding the improvement of Town Centre & Town Centre Management Schemes
12	December 2000	End of Year Round up - The Retail Property Market
13	December 2001	End of Year Round up - The Retail Property Market
14	December 2002	End of Year Round up - The Retail Property Market
15	November 2003	The Governments Response to the Proposed Changes to the Use Classes Order
16	December 2003	Draft Planning Policy Statement 6. Planning Town Centres
17	December 2003	End of Year Round up - The Retail Property Market
18	April 2004	Making Better Use of Supermarket Sites - The London Plan
19	April 2004	Mezzanines
20	December 2004	End of Year Round up - The Retail Property Market
21	December 2005	End of Year Round up - The Retail Property Market
22	December 2006	End of Year Round up - The Retail Property Market
23	May 2007	Planning for a Sustainable Future
24	August 2007	Planning Gain Support
25	December 2007	End of Year Round up - The Retail Property Market
26	March 2008	Competition Commision
27	July 2008	Proposed changes to PPS6: Planning for Town Centres - More Q's than A's
28	August 2008	LDF Allocations: Decision Time
29	August 2008	Community Infrastructure Levy
-	December 2008	Retail Property Review
30	August 2009	Retail Planning Policy: The End of the Need Test?
31	January 2010	Planning Policy Statement 4: Planning for Sustainable Economic Growth
32	April 2010	Spring Retail Report
33	April 2011	Spring Retail Report

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