

Retail Quarterly Bulletin

Q1 2016



Shopping Centres

Indicative Prime Yields (NIY)

25/03/2016	3 Months Ago	1 Year Ago
4.25%	4.25%	4.50%

- Q1 saw only 9 shopping centre transacted, totalling £772 million, 22% down on the same quarter last year. However, this figure was further skewed by the fact that two transactions (Grand Central, Birmingham and a 35% stake of Liverpool One) contributed to £635 million of this total.
- The lack of transactional activity has been mirrored by a limited supply of new centres being brought to market, although more sizeable shopping centres that have now been prepared for sale include Southside, Wandsworth (£300m), Intu Bromley (£250m), and Gyle, Edinburgh (£195m).
- The purchase of Grand Central by Hammerson / CPPIB at a 3.75% NIY was the notable transaction of the quarter and reflects the continuing appetite for the prime assets. Demand for less dominant centres remains much more patchy, with many centres remaining difficult to sell. Assets in and around London continue to prove popular.
- In common with other sectors, the uncertainty and caution over the forthcoming Brexit vote is likely to further dampen investor sentiment in Q2.



Grand Central, Birmingham

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Jan-16	Liverpool One, Liverpool (35% stake)	£300,000,000	-	ADIA	Grosvenor / Hermes / Redevco
	Marlowes, Hemel Hempstead	£35,525,000	7.00%	C&R	Standard Life
Feb-16	Grand Central, Birmingham	£335,000,000	3.75%	Hammerson / CPPIB	Birmingham City Council / Network Rail
	Clayton Square, Liverpool	£38,400,000	6.30%	Rockspring	InfraRed / Hark

High Street

Indicative Prime Yields (NIY) - Provincial

25/03/2016	3 Months Ago	1 Year Ago
4.00%	4.00%	4.35%

- The high street market saw a number of notable transactions conclude in Q1 that were agreed last year. However, as per the wider market, new supply was limited in the high street market amid wider economic uncertainty.
- The purchase of the Rose Portfolio was the most notable transaction of the quarter, with Tellon Capital paying 4.67% NIY to acquire the portfolio of four prime high street blocks in Chester, Kingston upon Thames, Oxford and York from Aviva Investors.
- Demand remains at the prime end of the market to continue to sustain current prime yields, although money for secondary shops remains thin.
- The high street market may be less affected by the run up to the European referendum as many of the key participants in this market are UK focussed, which may therefore see stock levels less affected in the coming months.



5-7 Cornmarket Street, Oxford
(part of the Rose Portfolio)

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Feb-16	Mint Velvet and Specsavers, Winchester	£5,400,000	4.70%	BMO RE Partners	Private Investor
Feb-16	Rose Portfolio	£24,000,000	4.67%	Tellon Capital	Aviva Investors
Feb-16	Waterstones, Piccadilly	£92,000,000	3.20%	CBRE GI	Meyer Bergman

Retail Warehousing

Indicative Prime Yields (NIY)

	25/03/2016	3 Months Ago	1 Year Ago
Open A1	4.50%	4.50%	4.50%
Bulky Goods	5.75%	5.75%	5.50%

- Overall transaction volumes for Q1 were only £164 million, down 73% from levels reached during the same quarter last year and the lowest since Q1 2013. Most of the deals completed in Q1 were carried over from those struck in Q4 2015.
- However, three prime retail parks have come to market in Croydon, Poole and Romford, with Gallows Corner, Romford rumoured to have recently gone under offer to a UK institution and competitive bidding anticipated on Purley Way, Croydon.
- As elsewhere, the referendum on Europe presents the greatest uncertainty for the year ahead, with many unwilling to risk entering the market pending the result. This may present an opportunity for investors looking to buy into a market with few active requirements, should suitable stock become available.



Gallagher Retail Park, Bristol

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Jan-16	Longwell Green Retail Park, Bristol	£12,600,000	5.40%	CBRE GI	London Metric
Feb-16	Gallagher Retail Park, Bristol	£33,325,000	5.90%	CCLA IM	Savills IM
Feb-16	Western Road, Bracknell	£14,935,000	5.73%	Portman Estate	IBUS Asset Management
Feb-16	St James Street, Dover	£35,000,000	6.25%	Legal & General	Private Investor

Foodstores

Indicative Prime Yields (NIY)

25/03/2016	3 Months Ago	1 Year Ago
4.75%	4.50%	4.25%

- The supermarket investment market is still effectively being repositioned following a shift in the structure and focus of the key operators in the foodstore market.
- However, there has been recent encouragement for the sector with improved trading figures and there are clear indications that the operators are beginning to gain momentum.
- The sale of Tesco, Portsmouth indicates that there is still demonstrable appetite from the institutions for prime assets. There is also demand for more secondary stock from private investors who are reassured by the long-dated, RPI-linked income streams and secure covenants.



Tesco, Fratton Way, Portsmouth

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Mar-16	Tesco, Portsmouth	£35,160,000	5.05%	TH Real Estate	Pears Property

Footfall

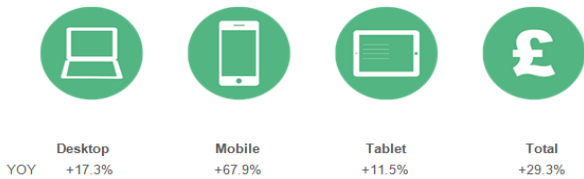
- Retail footfall increased in January, up 1.4% on the previous year. This was the first January increase for 3 years.
- February figures then fell 1.1%, driven by shopping centre footfall dipping 0.6% and high street footfall falling 2.9%. Retail parks however, saw an increase in footfall in February, up 2.5% year on year.
- The increase in out of town footfall is a continuing trend seen over the last 12 to 18 months at the expense of footfall to town centre locations.
- Analysis of night time hours demonstrate the “5pm to 8pm” period is becoming more of a focus for in town shopping visits. Footfall in February showed a 0.2% increase in the evening compared to a corresponding fall during daytime hours.

Retail Sales

- Retail sales jumped in January, following a relatively disappointing ‘physical’ Christmas for UK retailers, as the number of shoppers who took advantage of the January sales was reflected in the footfall figures.
- Sales then underwhelmed a little in February, still showing a minor increase on a like for like basis on last year, but marking a slowdown following the positive start to the New Year.

Dec - Feb: 3-month weighted average					
% change year on year					
Like for Like			Total		
Food	Non-Food	All Cat	Food	Non-Food	All Cat
-1.1%	2.5%	0.9%	0.2%	3.0%	1.8%

- Online transactions are still accounting for a large percentage of purchases in comparison to this month last year (+29.3%), with desktops accounting for 56% of total retail online transactions, mobile phones 32.7% and tablets 11.4%. However, as can be seen below, mobiles are showing the largest year on year growth, by some considerable margin.



Source: Springboard Index, March 2016

Retail News

- Casualties – BHS, Beales, Brantano, Blue Inc and ARK.
- Restructuring – Argos (following the purchase by Sainsbury’s) and Homebase (following the purchase by West Farmers).
- New Entrants – Sofab (Lork Kirkham’s new venture), Sostrene Grene, Lovisa, Decimas and GHM (Pep & Co’s new out of town concept).
- A3 continues to be very competitive, with restaurateurs looking for new opportunities throughout the UK.

- Supermarkets continue to focus on the convenience market as opposed to large format stores.
- The focus for many non-fashion retailers is right sizing stores and improving prominence.

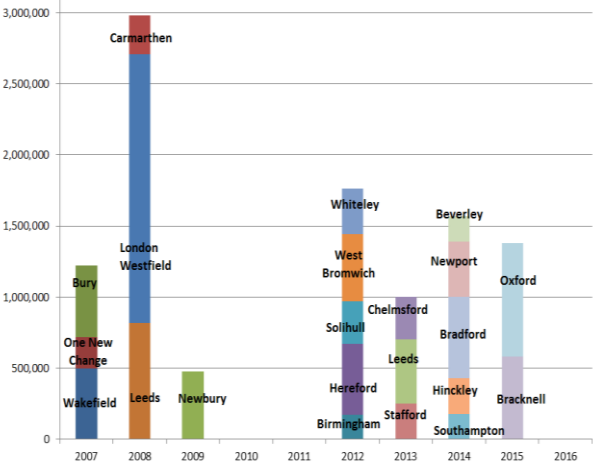
BHS – CVA

Summary of the BHS CVA's	
Category 1	77 stores will be retained at current rents, paid monthly as opposed to quarterly
Category 2A	21 stores will be retained at a reduced rent of 75%
Category 2B	26 stores will be retained at a reduced rent of 50%
Category 3	40 stores will see a rent of 25% paid for a minimum of 10 months

- Now that the CVA has been passed, 40 stores within Category 3 are therefore at risk of closure next January.
- Beales also filed for a CVA at the beginning of March, seeking a 70% rent reduction on 11 of its 29 stores for 10 months whilst it negotiates with landlords. The other 18 stores, including its flagship in Bournemouth, continue to trade unaffected.
- With the potential for stores to come back to the market over the coming months due to unsustainable leases, we could see rents fall for stores of 30,000 - 60,000 sq ft, as supply of large retail space increases in some towns. We saw this back in 2008 / 2009 following the demise of Woolworths and although it is unlikely to be on the same scale as before, it could still be significant in some cases.

Development

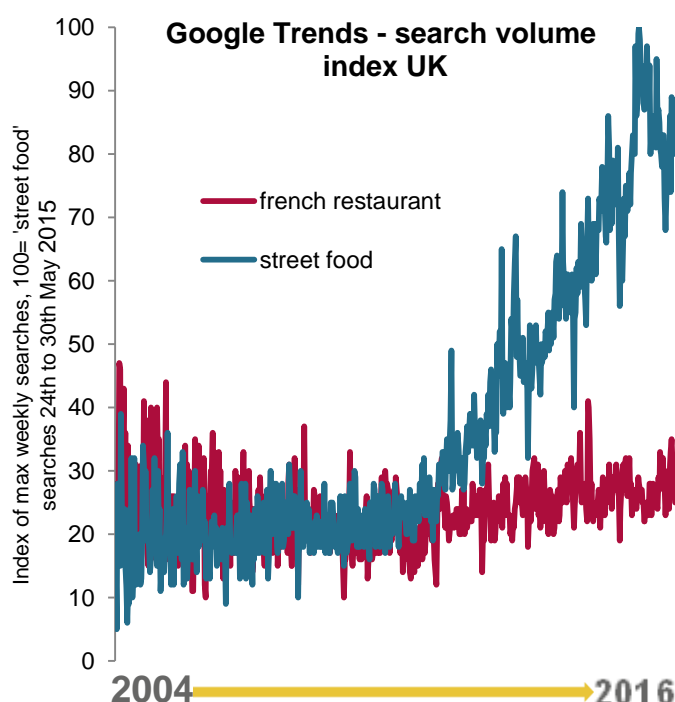
- This graph shows the construction start date of shopping centre developments since 2007 in the UK. Whilst development largely ceased between 2009 and 2011, there has been a positive uplift in the amount of space created since 2012, although nothing has started on site as yet in 2016.



Finance Rates

Date	Base Rate	3 Month LIBOR	5 Year Swap	5 Year Gilt
25/03/2016	0.50%	0.59%	0.93%	0.88%
3 Months Ago	0.50%	0.59%	1.42%	1.29%
1 Year Ago	0.50%	0.56%	1.55%	1.14%

- The final estimate for UK GDP in Q4 2015 revised quarterly growth up to 0.6%, with annual growth for 2015 now recorded as 2.3%. The service sector continues to drive growth, up 0.8% in the quarter; within which the accommodation and food services sector grew particularly strongly, up 2.3%. Manufacturing continues to stagnate, with output increasing just 0.1% in the last quarter, whilst construction did slightly better expanding 0.3%.
- Inflation (CPI) was 0.3% in the year to February 2016, with pricing pressures in the UK remaining subdued and expected to continue so for some time. Forecasters' projections for interest rate rises continue to overshoot, as they have done for a number of years now, with latest forecasts from most now expecting the interest rate environment in the UK to remain benign for this year.
- The latest employment statistics for the three months to January 2016 showed employment rose by 116,000 when compared against the three months to October 2015. Unemployment decreased by 28,000 to 1.68 million, resulting in a fall in the unemployment rate to 5.1%. The number of people in part-time work because they could not find a full-time job fell by 78,000.
- Despite steady advances in the employment market, wage inflation remains contained. Taking the three months to January 2016 versus the equivalent period a year ago, wages increased by 2.1% (including bonuses).
- Our chart for this quarter shows a comparison between the Google search volumes for 'French restaurants' and 'street food' since 2004. It shows, quite starkly, the extent to which the street food market has taken off since 2011, something exemplified by a new 'matchmaking' app being launched by Enterprise Inns and British Street Food, with the aim of connecting Enterprise licensees to street food vendors. With street food now so popular, we are seeing the retail and leisure market increasingly looking to tap into the consumer interest that it generates.



Bayhead Advisers – Corporate Finance & Debt

- Strutt & Parker has formed an alliance with Bayhead Advisers to provide clients with independent corporate finance advice and specialist debt and equity sourcing. The Bayhead Advisers team draws together a broad range of real estate banking, corporate / structured finance, principal investment and legal skills.
- The alliance focuses on:
 - Sourcing of competitive debt financing for real estate of all types and degrees of complexity (including distressed situations), together with deal closing assistance if required
 - Enhancing the sales processes by demonstrating the financing attributes of underlying real estate alongside Strutt & Parker's marketing materials
 - Providing Strutt & Parker's clients with access to equity capital providers of all types
- Bayhead Advisers' client base ranges from private and listed UK property companies to private equity funds, overseas investors and borrowers with non-performing loans.

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