Retail

Quarterly Bulletin

Q2 2016

Shopping Centres

Indicative Prime Yields (NIY)

24/06/2016	3 Months Ago	1 Year Ago
4.50%	4.25%	4.50%

- Q2 saw approximately £703 million of shopping centre transactions to add to the £779 million transacted in Q1. At £1.48 billion, volumes in H1 2016 are approximately 20% down on H1 2015 levels.
- Intu's purchase of the other 50% stake that they didn't already own in Merry Hill for £410 million dominated the Q2 figures, accounting for 58% of total sale values. The remaining 9 transactions together accounted for £293 million, with many being smaller more secondary centres.
- Whilst Q2 levels of activity was dampened by the Brexit vote, a number of large centres were brought to the market over the period, including Intu Bromley; Cwmbran Shopping Centre; Southside, Wandsworth; Exchange, Ilford; and The Rock, Bury. Competitive bidding was also seen at Manor Walks, Cramlington (Q £73.5m, 7.5% NIY), showing continuing investor interest in food anchored district centres with a robust tenant trading story.
- With continuing uncertainty following the leave vote, 2016 shopping centre volumes may well be under pressure to match the £3.9 billion transacted in 2015.

Merry Hill, Dudley

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
STRUTT & PARKER	Langley Shopping Centre, Eastbourne	£19,250,000	6.96%	Pramerica/Tyburn Lane/Vale Retail	Columbus Capital/LAP
Apr-16	Broadway, Bexleyheath	£120,300,000	6.70%	NewRiver Retail	LIM / CPP
Jun-16	Harpur Centre, Bedford	£22,000,000	7.35%	Tellon Capital	Threadneedle
Jun-16	Market Centre, Crewe	£20,300,000	8.80%	Real Estate Investors	Aberdeen Asset Management
Jun-16	Merry Hill, Dudley (50% stake)	£410,000,000	5.20%	Intu Properties	QIC

High Street

Indicative Prime Yields (NIY) - Provincial

24/06/2016	3 Months Ago	1 Year Ago
4.00%	4.00%	4.25%

- As predicted, the high street market was less affected by the run up to the EU referendum, with investment activity continuing in Q2, albeit with a brief pause prior to the vote.
- Stock continued to be marketed through the quarter and with the average lot size of high street assets smaller than in other sectors, it was largely private investors who have been driving pricing in the market, paying premium prices for assets in both Broad Street, Reading and Clarence Street, Kingston, as well as reported to be under offer on other properties.
- With the outcome to the referendum now determined, we envisage purchasers in Q3 to continue to be dominated by private investors, as well as overseas investors looking to benefit from the buying opportunity created by the devaluation to the pound.

40/40a Clarence Street, Kingston Upon Thames

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
May-16	EE and Northface, Kingston Upon Thames	£10,530,000	3.91%	Private Investor	CBRE GI
May-16	CEX and Cotsworld Outdoor, Bath	£4,660,000	4.60%	DTZ Investors	Schroder REIT
Jun-16	Lloyds Bank, Reading	£4,760,000	4.33%	Private Investor	APAM & Varde Partners

Retail Warehousing

Indicative Prime Yields (NIY)

	24/06/2016	3 Months Ago	1 Year Ago
Open A1	4.50%	4.50%	4.50%
Bulky Goods	5.75%	5.75%	5.75%

- Investment volumes were down by 5.25% in H1 2016, compared to H1 2015, although at £577 million these volumes were surprisingly robust given the volatility created by the EU referendum.
- LaSalle IM led the way this quarter acquiring Purley Way Retail Park, Croydon for £45.56m at 4.59% NIY, with the deal also including a 0.5 acre development site. UK domestic funds were also active elsewhere with the acquisition of parks in Milton Keynes, Romford and Thurrock. The Crown Estate also completed its acquisition of Rushden Lakes from LXB.
- Despite a slowdown in the last few weeks ahead of the vote, there has been a healthy amount of quality assets traded in the quarter, suggesting some degree of stability and normality in the sector, despite the overriding uncertainty caused by the referendum.
- With the impact of Brexit now in motion, we expect to see negative pressure on values, although smaller, more liquid lot sizes and lower risk, longer income opportunities are likely to remain more resilient.

Purley Way Retail Park, Croydon

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Apr-16	Central Retail Park, Milton Keynes	£34,970,000	5.84%	CBRE GI	First Alliance
Apr-16	Gallows Corner, Romford	£56,000,000	5.23%	Royal London	Aberdeen Asset Management
May-16	Rushden Lakes Shopping Park, Rushden	£70,000,000	4.65%	The Crown Estate	LXB Retail
May-16	Purley Way Retail Park, Croydon	£45,560,000	4.59%	LaSalle IM	IM Properties
Jun-16	Thurrock Shopping Park	£93,000,000	5.30%	TH Real Estate	Hammerson

Foodstores

Indicative Prime Yields (NIY)

24/06/2016	3 Months Ago	1 Year Ago
4.75%	4.75%	4.25%

- Trading volumes continue to be low in the supermarket sector at around £175 million for the quarter, with the majority of institutional investors remaining on the side-lines.
- We anticipate supermarket income to come back into focus on the back of improved sentiment towards the sector and increased investor demand for annuity style income post-Brexit.
- Assuming occupational demand remains resilient, recent currency movements may also attract further overseas investment to the sector.

Tesco, Farnworth

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Apr-16	Sainsbury's, Newquay	£10,260,000	4.94%	Private Investor	British Land
Apr-16	Tesco, Farnworth	£26,600,000	5.90%	Investra Capital	PACE Trustees
May-16	Morrisons, Harrow	£28,400,000	5.50%	Investra Capital	Standard Life

Consumer Confidence

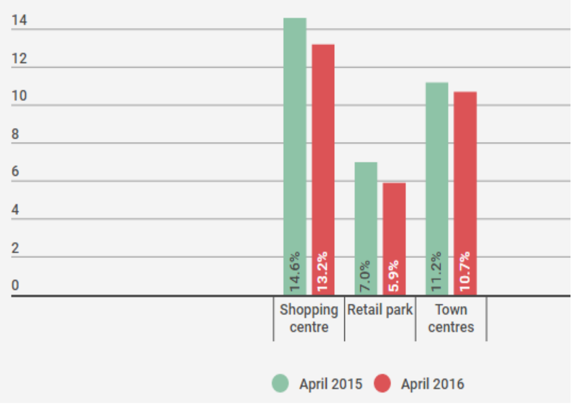
- The Consumer confidence index stayed at -1 in June, showing that confidence remained low in the run-up to the EU referendum (source: GfK).
- Despite the negative confidence index, it still remains well above the lows seen in the last financial crisis, although consumer confidence may well take a further short term hit on the back of the Brexit vote.
- The last reported UK retail footfall figures in May saw an increase of 0.3% year-on-year from a 2.4% decline in April. High street footfall rose by 1.2%, Retail park footfall also increased by 1.2%. May's results were the best high street footfall recorded since July 2013. (source: BCR & Springboard)

Retailer Struggles

- BHS finally succumbed to the administration widely anticipated. With all the stores now being brought to the market, this volume of vacant space is likely to have the effect of suppressing rents for larger space in all but the best locations in the short term, as seen with Woolworths administration in 2008. Qatari retail group, Al Mana has bought the international and online business of BHS.
- My Local, the convenience store chain acquired from Morrisons last year, has formally appointed KPMG as its administrators with 1,658 jobs at risk having already shut around 90 of the 125 stores.
- Store Twenty One, the discount fashion retailer with 221 stores across the UK, is looking to avoid administration by means of a company voluntary agreement. Under the terms of the proposed CVA the retailer is looking to exit its leases on almost half its stores, with rents cut by as much as 95% on the remaining.
- Having gone into administration in April, Austin Reed is to close all 120 of its stores in the near future and affecting approximately 1,000 staff after administrators said no viable offers were found for the business. Edinburgh Woollen Mill has bought the Austin Reed brand, but did not take the stores.

But its not all Doom & Gloom

- The demise of the named retailers over the past few months did not really come as any great surprise.
- Occupier appetite for the top 100 retail locations remains strong, with the top 50 towns/cities continuing to see rental growth and signs of such growth also filtering through to the next 50 centres.
- Demand for the more affluent market towns also remains robust, largely due to the relativity affordable occupational costs compared to the larger locations.
- Vacancy rates across all of the retail sectors continue to fall, as illustrated by the graph below.



Vacancy Rates by Location Type in April 2016 (Source LDC)

Brexit

- For retailers, perhaps the most concerning aspect of the uncertainty caused by Brexit is the extent to which it could affect consumer spending. As yet, this remains to be seen.
- However, with the value of sterling having fallen to a 30 year low against the dollar following the leave vote, this movement in sterling will affect the retailers, particularly the likes of Lidl and Aldi who import goods from abroad and whose parent companies report in Euros. On the other hand, for British retailers that sell products overseas or source goods locally, Brexit could throw up opportunities.
- The big four supermarkets have struggled with the unprecedented period of deflation over the past two years caused by industry price wars and the movement in commodity prices. In time, with Brexit seeing a rise in the price of goods and a return to price inflation in the stores, this may well bring a boost to like-for-like sales.
- We anticipate retailers in popular tourist destinations, such as the West End of London, to perform above expectations as movements in the currency market will encourage an increase in tourism.

Economic Overview

Finance Rates

Date	Base Rate	3 Month LIBOR	5 Year Swap	5 Year Gilt
24/06/2016	0.50%	0.56%	0.58%	0.57%
3 Months Ago	0.50%	0.59%	0.93%	0.88%
1 Year Ago	0.50%	0.58%	1.86%	1.66%

- The latest economic data releases relate to the pre-Brexit period, with the usual lag in official statistics. As such, the second estimate for UK GDP in Q1 2016 kept quarterly growth at 0.4%. Annual growth to Q1 2016 was 2.0%.The service sector continued to drive growth, up 0.6% in the quarter; helping to counteract weaker performance in the construction sector, which fell 1.0%, and in production where output declined by 0.4%.

- Clearly in the aftermath of the leave vote in the EU Referendum, the outlook will remain unclear for some time. However, it would be reasonable to expect GDP growth to be lower than expected in the second half of the year, with business investment and hiring decisions being put on hold and consumers unlikely to increase their expenditure. Longer-term forecasts will be dependent on what approach the UK takes to its exit negotiations. Given that Article 50 (which would begin the two-year negotiation process) has not yet been activated, and no plan currently exists regarding the UK strategy for these negotiations, there is really very little to base economic forecasts on.

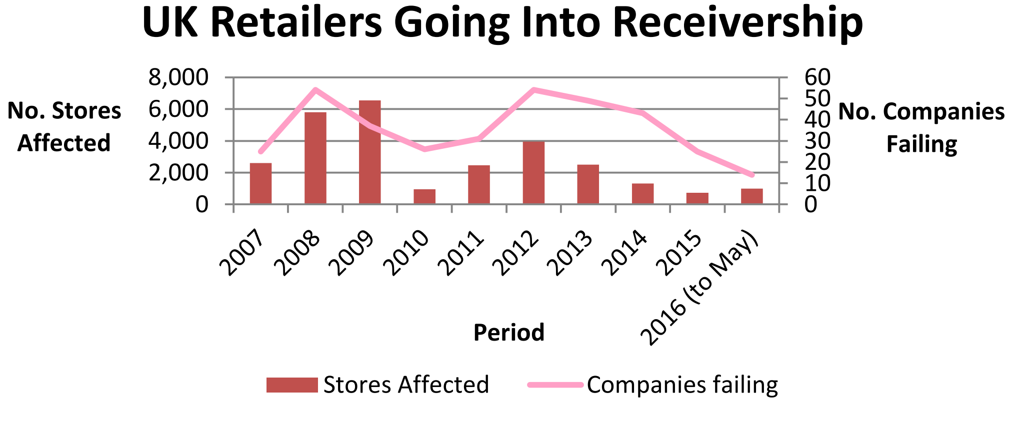
- Retail sales volumes (ONS) increased 0.9% between April and May, with the three months pattern to May seeing growth of 1.5% against the previous three-month period. On an annual basis, the three months to May saw 4.8% growth, with department stores recording the highest increase at 8.3%. The value of online sales increased by 21.5% in May 2016 compared with May 2015, and increased by 6.4% when compared with April 2016.

- Inflation (CPI) was 0.3% in the year to May 2016, with pricing pressures across most inputs into inflation remaining subdued. Assuming the pound remains at its currently depressed level in the medium term, we can expect a mild uptick in inflation in the coming months.

- Whilst Brexit has obviously become the big story in recent months, the reality is that the global economy also remains somewhat in the doldrums. Risks remain around a hard landing in China and the forthcoming US election will also increasingly figure on investors' list of worries. Although an interest rate rise therefore appeared unlikely before the Brexit vote, the financial markets are now expecting the Bank of England to cut interest rates in the near future in a drive to stimulate the economy, with base rates having now been at 0.5% since March 2009.

- The latest employment statistics for the three months to April 2016 showed employment rose by 55,000 when compared to the three months to January 2016. Unemployment decreased by 20,000 to 1.67 million, resulting in a fall in the unemployment rate to 5.0%, whilst the number of people in part-time work because they could not find a full-time job fell by 21,000.

- With the recently reported retailer failures, our chart for this quarter shows the level of retail failures across the UK since 2007. Not all of these administrations have resulted in the retailer ceasing to exist. Some have come out of administration whilst others have been sold as going concerns, alongside various other scenarios.



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