

# **Retail** Quarterly Bulletin

Q3 2016



## Shopping Centres

### Indicative Prime Yields (NIY)

| 29/09/2016 | 3 Months Ago | 1 Year Ago |
|------------|--------------|------------|
| 4.50%      | 4.50%        | 4.25%      |

- Compared to other sectors, the shopping centre investment market has been particularly affected by the uncertainty and volatility created by the decision to leave the EU.
- Q3 saw just five shopping centre transactions amounting to £192 million, the lowest quarterly volume since Q2 2009. The first three quarters have therefore delivered only £1.685 billion, with 2016 volumes now likely to fall well short of 2015 (£3.9 bn) and nearer levels last seen in 2012 (£2.45 bn).
- Continuing the trend for 2016, Councils have accounted for three of the five purchases in Q3, representing 87.5% of deals by volume. With the ability to raise capital at highly advantageous rates, coupled with the increasing importance of income generation, Councils are also recognising the role they can play in the regeneration of their city / town centres.
- The lack of activity post-referendum has started to pick up a little, with half a dozen or so centres being brought to the market in the last few weeks, although together only amounting to around £167 million.
- With a dearth of transactions to rely on, pricing has yet to be properly tested since the Brexit vote.



Whitefriars, Canterbury

| Date   | Property                               | Price       | Net Initial Yield | Purchaser                         | Vendor                |
|--------|--|-------------|-------------------|-----------------------------------|-----------------------|
| Jul-16 | Whitefriars, Canterbury (50% interest) | £79,120,000 | 6.00%             | Canterbury City Council           | CPP                   |
| Jul-16 | Manor Walks, Cramlington               | £78,200,000 | 7.05%             | Northumberland County Council     | Hammerson             |
| Jul-16 | Red Rose Centre, Sutton Coldfield      | £10.400,000 | 7.40%             | Birmingham City Council           | Greater Manchester PF |
| Jul-16 | Park View, Whitley Bay                 | £7,500,000  | 9.70%             | CBRE GI / Cordatus Property Trust | Bow Street Mall       |

## High Street

### Indicative Prime Yields (NIY) - Provincial

| 29/09/2016 | 3 Months Ago | 1 Year Ago |
|------------|--------------|------------|
| 4.00%      | 4.00%        | 4.25%      |

- The decision to leave the EU has affected the High Street market in varying ways for differing sub sectors.
- Smaller lot size assets on the High Street have been in high demand from private investors in a low interest rate environment, with strongly priced bonds and a turbulent equity market.
- In contrast, for assets of a larger lot size, which have previously attracted the interest of open ended funds, there is currently a very limited buyer pool at pricing that vendors are willing to entertain.
- In yield terms, the landmark deal this quarter has been the sale of the Oasis in Chichester by the Charities Property Fund to a private investor for a net initial yield reflecting 3.70%.



Oasis, Chichester

| Date   | Property                       | Price       | Net Initial Yield | Purchaser        | Vendor         |
|--------|--------------------------------|-------------|-------------------|------------------|----------------|
| Jul-16 | H&M & River Island, Nottingham | £23,200,000 | 6.70%             | Sports Direct    | Redevco        |
| Aug-16 | Barclays, Manchester           | £10,450,000 | 4.50%             | Private Investor | TH Real Estate |
| Aug-16 | Oasis, Chichester              | £2,700,000  | 3.70%             | Private Investor | Savills IM     |

Retail Warehousing


Indicative Prime Yields (NIY)

|             | 29/09/2016 | 3 Months Ago | 1 Year Ago |
|-------------|------------|--------------|------------|
| Open A1     | 4.50%      | 4.50%        | 4.50%      |
| Bulky Goods | 5.75%      | 5.75%        | 5.75%      |

- Transaction volumes for the sector were down in Q3, at £232 million, the lowest since Q1 2013 and down 82% year on year compared with 2015.
- There has been speculation as to involuntary sales from some of the larger open ended funds, although this has not materialised to any significant extent. With a number of these funds having now reopened following redemptions, we anticipate the re-emergence of the institutional buyer in the final quarter.
- With continuing positive occupational trends, a yield gap to prime pricing and an opportunity for more freely available debt, we expect retail warehousing to be one of the stronger performing asset classes over the coming months.



Telford Bridge Retail Park

| Date  | Property                             | Price       | Net Initial Yield | Purchaser             | Vendor                |
|---|--------------------------------------|-------------|-------------------|-----------------------|-----------------------|
|  Jul-16 | Telford Bridge Retail Park, Telford  | £43,000,000 | 6.75%             | Dimah Capital         | Aberdeen AM           |
| Jul-16  | Mandeville Gate Retail Park, Enfield | £24,600,000 | 5.80%             | Sports Direct Plc     | Standard Life         |
| Aug-16  | Greyhound Retail Park, Chester       | £36,000,000 | 6.65%             | Aprirose REIT         | Standard Life         |
| Sep-16  | B&Q, Bugsby's Way, London            | £43,320,000 | 5.85%             | Weybourne Investments | LXB Retail Properties |

Foodstores

Indicative Prime Yields (NIY)

| 29/09/2016 | 3 Months Ago | 1 Year Ago |
|------------|--------------|------------|
| 4.75%      | 4.75%        | 4.25%      |

- Over the last 18 months the “Big Four” food retailers have come under pressure. Customer shopping preferences have moved away from big box “Extra” formats and the discounters, particularly Aldi and Lidl, have made dramatic in-roads into their market share.
- Along with the fact that institutions are typically over exposed to the “Big Four” covenants, negative sentiment to the sector has resulted in a softening of yields. In the months following the EU referendum there has been scarce transactional evidence, but pricing is unlikely to have improved since.
- During the quarter, Tesco completed a number of buy-backs of stores they had previously sold by way of sale and leasebacks, with an option to break and buy-back the interest at market value after five years.



Sainsbury's, Bishop Auckland

| Date   | Property                     | Price       | Net Initial Yield | Purchaser   | Vendor     |
|--------|------------------------------|-------------|-------------------|-------------|------------|
| Aug-16 | Sainsbury's, Bishop Auckland | £29,900,000 | 6.50%             | Aubrey Weis | Aviva      |
| Aug-16 | Tesco, Nailsea               | £23,630,000 | 4.90%             | Tesco Plc   | Savills IM |
| Sep-16 | Tesco, Welling               | £28,000,000 | 6.00%             | Aubrey Weis | Aviva      |

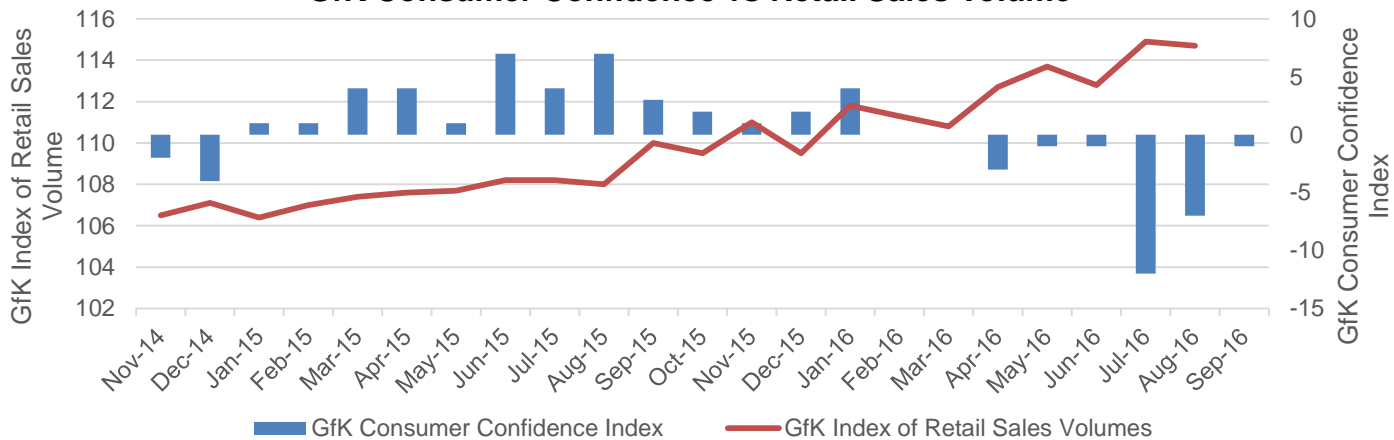
## Consumer Confidence

- The initial uncertainty caused by the vote to leave the EU seems to have been a slight 'knee jerk' reaction by consumers, as confidence rose in August at the fastest monthly rate for three and a half years.
- According to recent research by Lloyds Bank, 80% of consumers currently feel confident about job security, more than at any time in the past six and a half years.
- Following the EU referendum, the GfK Consumer Confidence Index saw a steep decline to -12 in July. However, confidence rose slightly in August to -7 and was back to pre-referendum levels in September (source: GfK). The chart below shows this rebound in consumer confidence against a background of steadily increasing retail sales over the last two years.

## Footfall & Sales

- Overall, footfall was up 0.1% in August, as rising high-street numbers offset a slump in shopping centre customers. August saw a return of the 'staycation' as many decided to stay in the UK over the bank holiday weekend.
- Shopping centre footfall specifically continued to decline, down 1.9% during August, following a 2.0% fall in July. Given more buoyant sales, this highlights the changing trend towards fewer shopping centre visits but increased basket size and dwell time (source: BRC / Springboard).
- Helping the overall rise is an increase in footfall post 5pm, which highlights the growing evening economy based on cinema and restaurant activity.

**GfK Consumer Confidence vs Retail Sales Volume**



## Retailer Demand

- For in town shopping centres, occupier appetite remains strong for the top 100 retail locations, with the top 50 continuing to see rental growth as vacancy rates remain low.
- Declining vacancy rates and rental growth is also expected to be seen in the towns ranked 50-100, as certain retailers start to move 'down the scale' to secure opportunities for expansion. However, despite the growth of the F&B sector, these operators remain unlikely to expand into this lower tranche as restricted trading hours do not assist dwell times in these locations.
- The out of town retail park vacancy rate is currently at its lowest level since 2006 (source: Trevor Wood), which has been a result of increased occupier demand and a lack of new development. The imbalance of supply and demand is starting to see rental growth and create downward pressure on incentives.
- There remains strong out of town demand, particularly in sectors such as discount food, bulky goods and fashion. The likes of Aldi, Lidl, Wilko, Poundworld, Oak Furnitureland, Tapi Carpets, Dunelm and TK Maxx are all actively seeking new space and in some instances paying increasingly competitive rents. Fatface has also recently acquired out of town units on shopping parks, including Banbury Shopping Park.

## Development

- New build shopping centres are becoming a rare breed due to their challenging financial viability, planning constraints and time lines. However, extensions and reconfigurations of existing centres now amount to at least the same level of new retail and leisure space as new builds.

### New Build

- No new shopping centres opened in the first half of 2016, but five were scheduled to open in the second half of this year (Chelmsford, Leeds, Northwich, Southampton and Stafford). Bond Street, Chelmsford has now opened and initial retailer feedback has been highly encouraging.
- In 2017, we anticipate that only two new major schemes will open, in Bracknell and Oxford.
- In 2018, there are not currently any significant schemes on site to open and unless this changes soon, 2018 like 2012 could see no new scheme openings.
- Larger schemes which are well established on the drawing board include Chester, Coventry, Guildford and Sheffield, with proposed opening dates of 2020 onwards.

### Refurbishments and Extensions

- Westfield London, Moor Sheffield, intu Watford and intu Broadmarsh Nottingham are all currently on site.
- Proposed extensions which have planning consent, but are not yet on site, include Brent Cross, Touchwood Solihull, Arndale Eastbourne, Princesshay Exeter and Drakes Circus Plymouth.

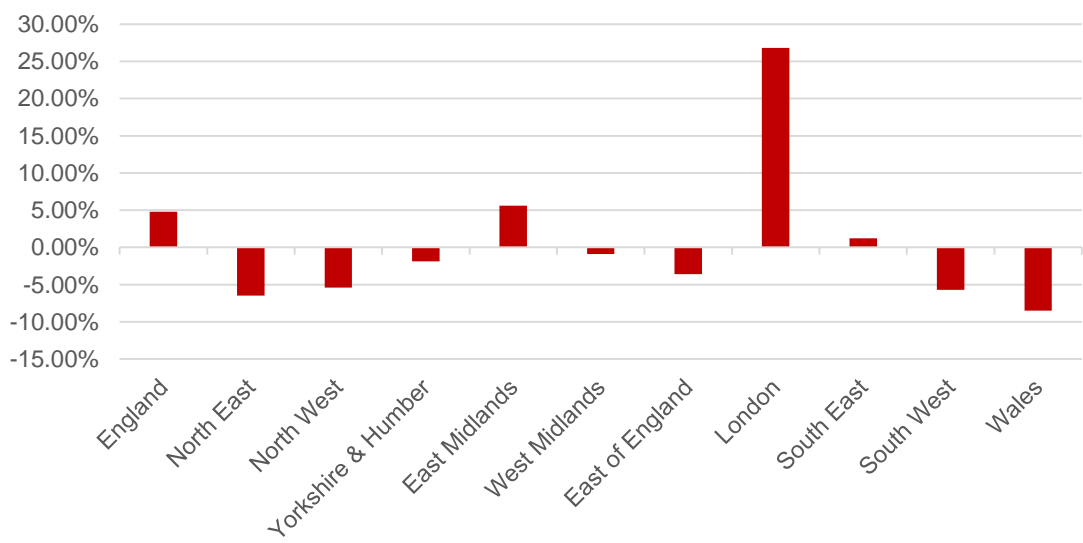


## Finance Rates

| Date         | Base Rate | 3 Month LIBOR | 5 Year Swap | 5 Year Gilt |
|--------------|-----------|---------------|-------------|-------------|
| 29/09/2016   | 0.25%     | 0.38%         | 0.49%       | 0.20%       |
| 3 Months Ago | 0.50%     | 0.56%         | 0.58%       | 0.57%       |
| 1 Year Ago   | 0.50%     | 0.48%         | 1.42%       | 1.19%       |

- The final estimate of GDP for the second quarter of the year came in at 0.7% growth, revised up from the previous estimate (0.6%). The main driver of growth was household consumption, which increased 0.9%, with real household disposable incomes a key component, growing by 0.6%. Despite the pre-referendum uncertainty, business investment increased 1.0% on the previous quarter, although, to give some perspective, this figure was down 0.8% on the same figure last year.
- Retail sales volumes (ONS) fell 0.2% between July and August, although the three months to August saw growth of 1.6% against the previous three-month period. On an annual basis, the three months to August saw 5.5% growth, with only clothing and footwear seeing negative growth on an annual basis.
- Inflation (CPI) was 0.6% in the year to August, unchanged from July and still well below the Bank of England's target. This suggests some mild upward pressure from a weaker pound, with retailers currency hedges, together with competitive pressures, helping to keep a lid on price rises.
- The latest employment statistics for the three months to July 2016 showed employment rose by 174,000 when compared to the three months to April 2016. Unemployment decreased by 39,000 to 1.63 million, resulting in a fall in the unemployment rate to 4.9%, whilst the number of people in part-time work because they could not find a full-time job fell by 36,000.
- Looking forward, it is clear that discounting the uncertainty surrounding the exact nature and timing of Brexit, the UK economy appears to be in a fairly strong position, with low inflation and a strong jobs market leading to real increases in household income. The data we have from the purchasing managers indices for the third quarter suggests that the UK is not likely to be entering recession imminently. What the third-quarter GDP data will tell us is the extent to which business investment and the construction sector have been affected by the Brexit uncertainty. On the flip-side, we are unlikely to see any notable slowdown in consumer spending as long as the jobs market continues on its current course.
- The Valuation Office Agency (VOA) recently published the 2017 draft valuation list for business rates, which will become effective from 1<sup>st</sup> April 2017. Whilst London's rateable values rose sharply, most other regions decreased. However, following transition relief and controls being given to local authorities from central government to set their own local business rates (to replace the current national uniform business rate multiplier), the actual impact of the revaluation on retail properties across the country is currently still largely yet to be determined.

Change in Rateable Value in England and Wales for the  
Retail Sector - 2017 Revaluation



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