Retail
Quarterly Bulletin

Q2 2017

Shopping Centres

Indicative Prime Yields (NIY)

24/06/2017	3 Months Ago	1 Year Ago
4.50%	4.50%	4.50%

- Shopping centre investment volumes remained subdued in Q2, with approximately £750m transacted and H1 sales therefore standing at £1.187bn, a little over 20% down on the equivalent period last year.
- Although Q2 was an improvement on the £438m of Q1 sales, the figures were distorted by Landsec's purchase of a portfolio of three outlet centres from Hermes for £332.5m.
- The polarisation between prime and more secondary centres remains, with no indication that the differential between vendor and purchaser pricing aspirations is narrowing at this stage, particularly with the continuing ability for many owners to refinance and thereby defer a sale.
- Sales are taking increasingly longer to transact and the majority of the centres that were brought to the market during Q1 remain on the market.
- On a more positive note, the most notable shopping centre transaction of the quarter saw Invesco complete the purchase of a 50% interest in Southside, Wandsworth from Delancey for a 4.5% net initial yield.

Southside, Wandsworth

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Apr-17	Southside, Wandsworth (50%)	£150,000,000	4.50%	Invesco	Delancey
May-17	The Strand, Bootle	£32,500,000	8.70%	Sefton Metropolitan Borough Council	Avenue Capital / Ellandi
May-17	Portfolio of three Outlet Centres (Braintree, Castleford and Street)	£332,500,000	6.40%	Landsec	Hermes IM
Jun-17	Friars Walk, Newport	£83,500,000	5.66%	Talisker Corporation	Newport City Council / Queensberry

High Street

Indicative Prime Yields (NIY) - Provincial

24/06/2017	3 Months Ago	1 Year Ago
4.00%	4.00%	4.00%

- The High Street investment market was starved of stock in the run up to the General Election, but there has since been a notable increase in activity, with new assets being brought to the market towards the end of the quarter.
- At the prime end of the market, there is still keen investor demand from both private investors and institutions for the best stock. However, for assets that do not fit in this category, demand is thin.
- Within the private investor market, there appears to be a divide between the more traditional view of the typically UK domiciled private investor, who is seeking assets of between £1m - £4m with more potential upside to come, and those high net worth investors (often from overseas) who are looking for prime assets preferably in excess of £10m, with the benefit of long secure income.

Debenhams, Eastbourne

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Apr-17	Debenhams, Winchester	£15,825,000	4.16%	Surrey County Council	Alterity Investments
STRUTT & PARKER	Debenhams, Eastbourne	£14,100,000	5.88%	Private Investor	LaSalle IM
May-17	35-38 George Street, Richmond	£21,340,000	3.65%	Knight Frank IM	LaSalle IM
STRUTT & PARKER	10-40 The Broadway, Ealing	£49,000,000	3.90%	British Land	Benson Elliot

Retail Warehousing

Indicative Prime Yields (NIY)

	24/06/2017	3 Months Ago	1 Year Ago
Open A1	5.00%	5.00%	4.50%
Bulky Goods	5.75%	5.75%	5.75%

- Investment volumes for Q2 stood at just £296m, compared to £753m for the same period in 2016, although this has largely been due to a lack of previous supply rather than a decline in investor appetite.
- However, Q2 has seen more marketing activity, most notably with the marketing of the White Admiral portfolio, consisting of Malvern Shopping Park (quoting £77m / 5.5% NIY), Eastgate Retail Park, Bristol (quoting £52m / 5.5% NIY) and Chester Retail Park (quoting £41m / 7.75% NIY). We understand that a number of bids were received for both the portfolio as a whole and for individual assets.
- Towards the end of the quarter we have also seen a number of other significant new sales coming to market, including British Land's Deepdale Retail Park, Preston (quoting £155m / 6.25% NIY), Landsec's Greyhound Retail Park – Phase 2, Chester (quoting £64m / 6.17% NIY) and Quadrant / KKR's Great Western Retail Park, Glasgow (quoting £54.42m / 6.5% NIY).

Westwood & Gateway Retail Park, Thanet

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
May-17	Westwood & Gateway Retail Park, Thanet	£80,000,000	6.50%	BMO Real Estate Partners	Hammerson Plc
May-17	Handforth Dean Retail Park, Handforth	£15,800,000	5.00%	Essex CC Superannuation	Consolidated Property Group
Jun-17	Pallion Retail Park, Sunderland	£25,600,000	6.74%	EPIC-REIT	Europa Capital Partners

Foodstores

Indicative Prime Yields (NIY)

24/06/2017	3 Months Ago	1 Year Ago
4.25%	4.75%	4.75%

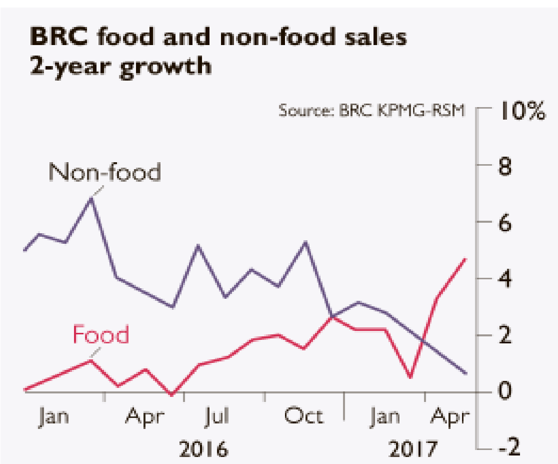
- There has been a marked turnaround in supermarket sales growth, with the 'Big 4' reporting increasingly healthy figures. This has translated into more positive sentiment once again towards investment in the food retail sector, with a number of new institutional requirements emerging for supermarket income.
- The most notable RPI-linked investment to transact in Q2 was London Metric's sale of the Morrisons In Loughborough, which exchanged at a price of £32,500,000, reflecting a net initial yield of 4.25%.
- British Land sold a portfolio of supermarkets out of their joint venture with Sainsbury's (stores in Kimberley, Swansea, Worcester and York), together with the Tesco in Maidstone out of its joint venture with Tesco. The sale at in excess of £110m, to a joint venture between Argo and Invesco, also demonstrates good appetite for OMV reviewed income.

Tesco, Ferndown

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
May-17	Morrisons, Loughborough	£32,500,000	4.25%	British Steel	London Metric
Jun-17	Tesco, Ferndown	£26,000,000	5.65%	Torbay Council	TH Real Estate

Consumer Confidence & Retail Sales

- In line with the underlying economic backdrop, consumer confidence has been on a downward trend since the second half of last year, with the recent political events only adding to the uncertainty. As a result, confidence is now at one of its lowest levels in four years, with the suggestion that consumer spending may struggle to re-enter growth territory in the near-term.
- As is well documented, a number of factors have contributed to the slow down in consumer spending, such as rising inflation, subdued wage growth and general uncertainties as to the direction of the UK economy.
- It is probably not therefore surprising that this combination of factors has seen non-food retail sales record a four-year low in May, only rising by 0.9%. However, at the same time, food sales have seen a marked turnaround, with annual growth accelerating to 5% (BRC KPMG).



Sector performance Total sales	Up/down May 2017 Like-for-like	Total
Jewellery and watches	▲	▲
Food	▲	▲
House textiles	▲	▲
Home accessories	▼	▲
Health and beauty	▼	▲
Furniture	▼	▼
Toys and baby equipment	▼	▼
Footwear	▼	▼
Clothing	▼	▼
Household appliances	▼	▼

- Looking at sector specifics, footwear has been hard hit, with total spend in this category falling by 2% in the year to May 2017 and sales in bricks and mortar stores falling by 5% (Kantar Worldpanel). Over this period, value footwear retailer Brantano went into administration and Jones Bootmaker was close to collapse, before being bought by Endless under a pre-pack administration, saving around three quarters of the stores from closure.
- As expected, even the seemingly ever buoyant experience sector, which the Visa Index has shown consistently outperforming in recent years, has not been immune and has now started to feel the impact. With consumers seemingly diverting their spending to more essential items, the resulting spend on recreation and culture has dropped for the first time in nearly four years. As explored later, this has hit the restaurant sector, amongst others, with some recent administrations.
- Recent June sales figures from BDO may have brought a bit of a false dawn, showing a rise of 1.3% in like for like sales and growth recorded across fashion, homeware and lifestyle. However, the corresponding year-earlier period had seen the worst June figures in a decade, with sales dropping 3.6% in response to the referendum result, so what may end up as a positive blip in the June figures was not totally unexpected.

Internet Sales

- Online overall sales grew at their slowest rate in almost two years, rising by 10.2% in May (IMRG Capgemini e-Retail Sales Index).
- Growth of 7.6% in clothing sales represented a record low for the month.
- Other online categories to see sales grow more slowly for May included the gifts sector (+5.5%), the lowest rate of growth since 2009, and electrical, where sales were 8.6% lower than a year ago. This was the only negative year-on-year change seen for the electrical sector since its records began in 2003. Conversely, Dixons Carphone has shown positive like for like sales growth of 4% over the last 12 months.

Footfall

- More encouragingly, after a considerable period of declining footfall, recent figures suggest a new equilibrium may have been established as levels appear to have stabilised.
- Whilst total retail footfall dropped by 1% in May, it follows on from an increase in April by 1.6%, the fastest growth since March 2014. The three-month average is 0.7%, which is the first positive three-month period for 3 years and the highest for over five years.
- High Street footfall grew 2.3% in April, the fastest growth since March 2014. This was ahead of the three-month average of 1.4%.
- Footfall to retail parks grew by 2.7%, the fastest growth since January 2016 and well ahead of the three-month average of 0.9%.
- Shopping Centre footfall remained in negative territory, falling by 0.6%, albeit representing a slower decline than the three-month average of -0.9%.

Vacancy Rates

- Positive polarisation towards Greater London and the South East continues to be seen in relation to vacancy rates.
- The national town centre vacancy rate was 9.3% in April 2017, down from 9.4% in January 2017. This was largely due to sharp declines in Greater London and the South East, whilst high street vacancy rates in most other regions rose over the same period.
- The number of shops that have now been empty for more than two years is estimated to have risen by 20%. The rise comes as UK retailers are putting prime locations first and online shopping continues to impact on demand for more secondary premises.
- The growth in demand for the prime end of the market is shown by rents in these locations estimated to have climbed by 1.8% in the year to April, the largest increase since 2008.
- 12 months on from the last of the BHS closures, there are still many unoccupied stores. Whilst around 85% of former BHS stores within the M25 have found new occupiers, this falls to roughly 30% in the rest of the country, again marking a clear divide between London and the South East, compared to the rest of the UK.
- In absolute terms, out of 164 former BHS stores, only 42 stores as yet have either been re-let or are being redeveloped. As stated above, the majority of these are in either London / South East or larger cities such as Manchester, Glasgow and Birmingham.
- A selection of the retailers who have taken former BHS stores to date are as follows:

Retailer	Stores
Primark	9
Sports Direct	6
Next	4
New Look	1
H&M	1
The Range	1
Zara	1

A3 - Restaurants & Cafés

- Operators are finding it increasing difficult to read trading patterns since the start of the year and this is making it difficult to form and adhere to expansion strategies.
- Handmade Burger has appointed administrators under CVA arrangements and immediately announced the closure of nine restaurants. Byron Hamburgers is also rumoured to be considering the closure of four underperforming restaurants.
- The pub sector is proving to be more resilient so far and breweries are continuing to show appetite for expansion, especially those who have strong family dining brands or formats that balance food and beverage sales.
- Smaller, more independent operators, who may not be as over exposed to inflated rents and the trading difficulties being seen in the wider market, are using this period of supressed demand to acquire new restaurants on a selective basis.
- Those national brands whose turnover is proving resilient to the challenging trading conditions are typically being very cautious and looking to de-risk new leases. As such, turnover based rents are becoming much more prevalent.

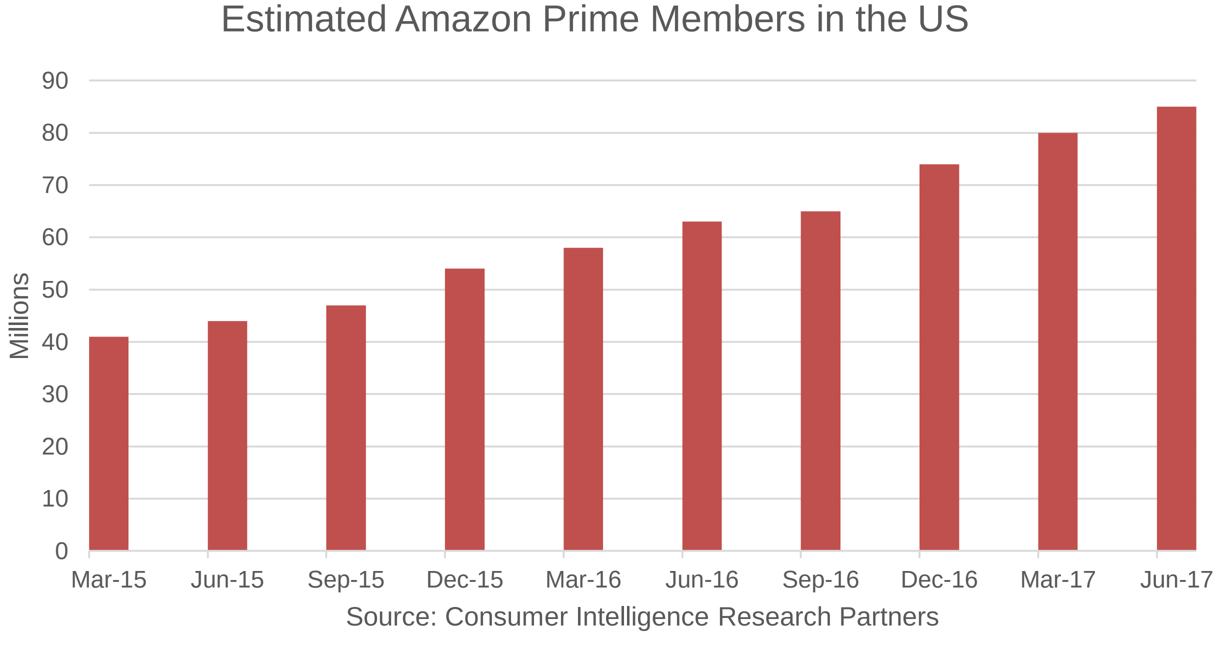
Pressures continue to mount for mid-market retailers

- As has been a continuing theme for some time now, recently posted retailer results continue to highlight the weaknesses in the mid-market fashion sector to the benefit of the premium and value sectors.
- Whilst the likes of Joules, Ted Baker and Mulberry have all had significant positive results, some of the more mass market retailers, such as New Look, Arcadia and M&S have had a tougher time of it.
- Looking forward, although Mintel estimate that fashion sales are set to rise by nearly 2% in 2017, this would be a continuation of the downward trend, with 2.4% growth last year and 5.6% in 2015.
- However, on a more encouraging note, recent trading updates from the likes of M&S and Matalan are showing that significantly less discounting is required, as full price sales are holding up well, providing growth in the retailers margins.

Finance Rates

Date	Base Rate	3 Month LIBOR	5 Year Swap	5 Year Gilt
24/06/2017	0.25%	0.30%	0.84%	0.66%
3 Months Ago	0.25%	0.34%	0.82%	0.62%
1 Year Ago	0.50%	0.56%	0.58%	0.57%

- The latest economic data that we have for 2017 continues to give out mixed messages on the state of the economy, albeit the aggregate picture has certainly weakened.
- The final estimate of GDP for the first quarter of 2017 confirmed growth of just 0.2%, the weakest performance since the first quarter of 2016, which also saw a similar rate of expansion. At the same time, household spending grew by 0.4% in the quarter, the lowest quarterly-increase since the final quarter of 2015, whilst the household saving ratio fell to just 1.7%, the lowest figure on record.
- Although retail sales volumes fell by 1.2% between April and May 2017 (ONS), the more stable three-month on three-month measure saw volumes increase 0.6% in the three months to May 2017. On an annual basis, retail sales saw 2.3% growth.
- Consumer price inflation increased by 2.9% in the year to May, up from 2.7% in April. According to the average of independent forecasters' views compiled by HM Treasury for June, UK CPI is expected to reach 3% by Q4 2017.
- On a more positive note, the latest employment statistics for the three months to April 2017 show a rise in employment of 109,000 when compared to the three months to January 2017. Unemployment fell by a further 50,000 and now stands at 1.5 million, an overall unemployment rate of 4.6%, whilst the number of people in part-time work because they could not find a full-time job fell by 39,000.
- Looking forward, PWC's nowcasting model (a machine learning-based model for forecasting current GDP growth) estimates that Q2 GDP growth is likely to be just 0.3%. With consumer spending fundamental to UK economic growth, and this spending being constrained by declines in real (inflation-adjusted) wages and UK households' limited capacity to further increase borrowing, growth is likely to remain at similarly subdued levels over the next few years.
- With the recent announcement that the online retail giant Amazon are buying Whole Foods, our chart for this quarter shows estimates published by Consumer Intelligence Research Partners on the number of Amazon Prime members in the United States. According to their findings, Amazon Prime had 85 million members in the US at the end of June 2017, up from around 44 million in June 2015. As a point of reference, there were approximately 126 million households in the US in 2016. It is estimated that Amazon Prime members spend $1,300 a year, compared to $700 for non-members.



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