STRUTT & PARKER

Retail

Quarterly Bulletin

Q1 2015

Shopping Centres

Indicative Prime Yields (NIY)

25/03/2015	3 Months Ago	1 Year Ago
4.50%	4.50%	5.00%

Market Overview

- After a slow start to Q1, the market has begun to pick up pace, with approximately £900m of deals transacting in the first quarter.
- By the end of Q1 activity in the sector has gathered momentum, with increasing levels of stock on the market or rumoured to be coming. Demand remains resilient for both single assets and also at a portfolio level.
- The weight of money continues to be the key driver of the market, with pressure to spend coming from both private equity investors and the UK institutions, as well as appetite from property companies and REITs.
- With assets expected to sell well throughout the year, it will be interesting to see how market pricing responds in Q2 to the available stock, and whether yield compression continues further throughout all sectors of the market.

Bentall Centre, Kingston-upon-Thames

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Jan-15	Bentall Centre, Kingston-upon-Thames (50%)	£190,000,000	4.70%	Gingko Tree	Meyer Bergman
Feb-15	Telford Shopping Centre	£250,000,000	6.50%	Orion	Ares
Mar-15	Nicholson's Walk, Maidenhead	£37,000,000	6.15%	Vixcroft / Cheyne Capital	Irish Life
Mar-15	St Georges, Preston	£75,000,000	6.35%	InfraRed / Hark	Aviva Investors
STRUTT & PARKER	Buttermarket Shopping Centre, Ipswich	£9,200,000	8.00%	Capital & Regional / Drum Property Group	UBS / Cornerstone

High Street

Indicative Prime Yields (NIY) - Provincial

25/03/2015	3 Months Ago	1 Year Ago
4.35%	4.50%	4.50%

Market Overview

- The High Street market continues to suffer a lack of institutional quality stock. Whilst there are many requirements for High Street assets, most are seeking fairly rented, strong covenants in prime pitches, the consequence of which has seen highly competitive bidding and further yield compression for prime stock.
- The focus on prime assets, particularly of larger lot sizes, has created a significant yield gap between prime and secondary asset, where properties are judged to be secondary in terms of location (either pitch or town), over rented or offering poor covenants. Although this pricing is likely to compress in time within the context of the wider market, currently this area offers investors more relative yield.
- The high street continues to be exposed to over rented properties and it will be interesting to see how the market reacts to the significant changes in the occupational market as 10 / 15 year leases from the early / mid 2000's now reach expiry.

129-137 & 151-161 Kensington High Street

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Jan-15	Debenhams, Canterbury	£22,350,000	5.63%	LaSalle IM	M&G
Jan-15	River Island, Windsor	£3,020,000	5.60%	CBRE GI	Private Investors
Mar-15	129-137 & 151-161 Kensington High Street	£55,400,000	4.00%	DTZ IM	Aviva Investors

Retail Warehousing

Indicative Prime Yields (NIY)

	25/03/2015	3 Months Ago	1 Year Ago
Open A1	4.50%	4.50%	5.00%
Bulky Goods	5.50%	5.75%	6.00%

Market Overview

- In line with the wider market, Q1 saw a slow start to the year in terms of overall retail warehousing investment volumes, with approximately £315m transacting.
- However, a significant number of high profile schemes are now currently being marketed, including: Morfa Shopping Park, Swansea; Brookfield Shopping Park, Chesunt; Central Six Retail Park, Coventry; and Withybush Retail Park, Haverfordwest.
- We envisage a larger transactional volume in Q2 as the weight of institutional money continues to seek prime stock in the market. In particular, we expect destination retail locations and convenience led retail to command the most interest.

Centrum Park, Cheltenham

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Jan-15	Staples Corner, London	£59,555,000	5.87%	BlackRock	Threadneedle
Jan-15	Tower Retail Park, Crayford	£66,000,000	5.00%	Henderson Investors	Aberdeen Asset Management
Mar-15	Euro Retail Park, Ipswich	£46,430,000	7.00%	Rockspring	Helix Property Advisors
STRUTT & PARKER	Centrum Park, Cheltenham	£33,100,000	6.40%	Royal London Asset Management	Threadneedle

Foodstores

Indicative Prime Yields (NIY)

25/03/2015	3 Months Ago	1 Year Ago
4.25%	4.25%	4.00%

Market Overview

- Q1 saw one of the sectors most significant recent transactions, with British Land selling its 50% interest in a joint venture portfolio of 21 standalone food stores to Tesco. The deal also saw British Land acquire Tesco's 50% interest in two joint venture portfolios, predominantly comprising Tesco anchored retail parks and shopping centres.
- Investor sentiment for food stores continues to weaken with concern centred on larger over rented stores in secondary locations. As a result we expect to see pricing for all but prime fairly rented foodstores continue to soften.
- Many of the institutional buyers of foodstores are standing back from the market, which is creating opportunity for some relatively new entrants to the sector who are taking advantage of softer pricing, including foreign institutional investors, privates and property companies.

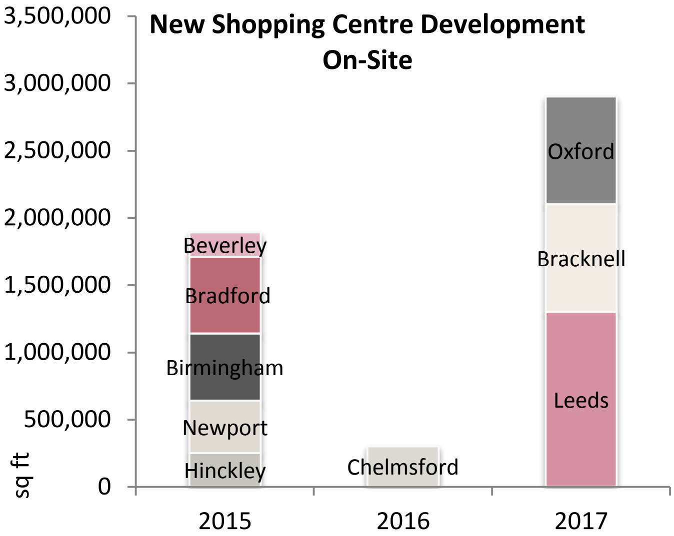
Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Jan-15	Morrisons, Morton Park, Darlington	£45,030,000	4.53%	Aberdeen Asset Management	WM Morrison Ltd
Feb-15	Waitrose, Uttoxeter	£12,529,000	4.75%	USS	CityCourt Developments
Mar-15	TBLH & TBLPP (50%)	£381,000,000	5.20%	Tesco Plc	British Land
Mar-15	Tesco Aqua LP (50% stake)	£352,000,000	4.80%	British Land	Tesco Plc

Agency & Development

In Town

- London retail continues to be the dominant force in UK retail with regards to retailer demand and rental growth.
- Retailer demand continues to improve across the UK, remaining particularly strong in the top 100 retail locations and best market towns.
- Lower ranking retail centres are selectively starting to see an improvement in retailer demand. Vacancy rates continue to decline across the UK, currently at their lowest level for 5 years.
- Bank and USC were the only notable administrations for Q1 2015, with Austin Reed announcing a CVA and store closures.
- Shopper sentiment and spending continues to improve with sales volumes up 5.7% in February and 3.2% in March, compared to the same months last year (ONS), helped by a corresponding fall in store prices of 3.6%, the biggest fall since comparable records began.
- The 'Big Four' grocers continue to struggle, although are mounting a slow but steady fight back. The discounters continue to grow, with Aldi recently taking 6th place from Waitrose in terms of market share.

Touchwood, Solihull



Out of Town

- Asda and Decathlon have announced a tie up, whereby Decathlon will trial a small format within Asda stores. A click and collect format will also be piloted with a view for further expansion if successful.
- New occupiers taking space include The Food Warehouse (Iceland) and The Original Factory Shop, with requirements of 10,000 sq ft and 6,000 - 8,000 sq ft respectively.
- There are reports that Martin Harris, son of Lord Harris, founder of Carpetright, is to launch a new carpet retailer with plans to acquire up to 200 stores in the next 5 years up to 10,000 sq ft in size.
- B&Q has announced that it is set to close 60 stores, but plans to grow it's Screwfix brand with up to 60 new openings.
- The discount food retailers continue to compete for space, with Aldi and Lidl being very competitive. Aldi are seeking units up to 25,000 sq ft and Lidl units up to 20,000 sq ft.

Development

- During Q1, three new retail developments in Oxford, Bracknell and Chelmsford have announced starts on-site, to add to the five others currently under construction (Newport, Bradford, Hinckley, Beverley and Leeds), which is a 70% increase in new development floorspace.
- There are also a number of major scheme reconfigurations on site, such as Grand Central and Mailbox, both in Birmingham and opening this year.
- Significant leisure developments such as Watermark in Southampton are also progressing.
- Build cost inflation, in the absence of any meaningful rental growth projections, remains problematical in ensuring project viability.
- A number of scheme extensions / reconfigurations continue to be worked up at different stages, such as Eastbourne (L&G), Nottingham (Intu) and Solihull (Lend Lease).

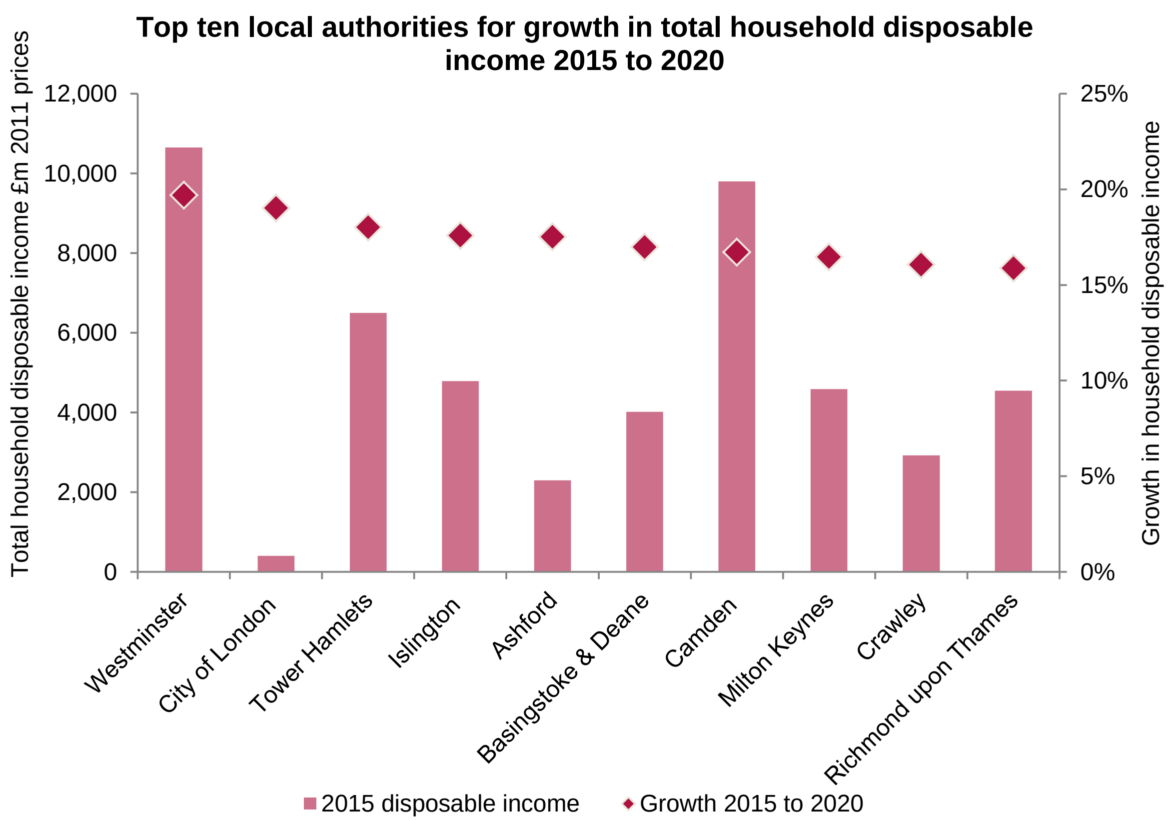
The Crescent, Hinckley

Economic Overview

Finance Rates

Date	Base Rate	3 Month LIBOR	5 Year Swap	5 Year Gilt
25/03/2015	0.50%	0.56%	1.55%	1.14%
3 Months Ago	0.50%	0.56%	1.88%	1.28%
1 Year Ago	0.50%	0.52%	2.03%	1.95%

- The final estimate for GDP growth in Q4 2014 came in at 0.6%, with year on year growth of 3%. Final quarter growth was supported by strong expansion in the services sector of 0.9%. However, business investment fell 0.9% in the final quarter, mainly owing to strong falls in investment in the oil and gas sector.
- Retail sales data from the ONS shows a continued robust growth in retail sales. Comparing the December-February period against the previous three month period, sales were up 2.0%. On an annual basis, the three month measure showed growth of 5.1%.
- The rate of inflation (CPI) fell to 0% in February and remained at this record low in March, the lowest level since comparable figures were compiled back in 1989. In general, analysts are interpreting this as 'good deflation.' as it is translating into higher disposable income, and hence growing consumer confidence and spending. This is in part because 'core inflation' (which strips out food, energy, alcohol and tobacco) rose by 1.2% in February and is seen as suggesting that any period of deflation will be temporary, with the strong oil price declines, for example, set to fall out of the annual inflation calculation later this year.
- The latest employment statistics for the three months to January 2015 compared to the previous three month period show an employment rise of 143,000, whilst on an annual basis the measure shows a 617,000 increase in employment. Annual weekly earnings increased by 1.8% compared to the previous year.
- Our chart for this quarter is based on forecasts from Experian for growth in total household disposable income by local authority. It shows the top ten local authorities in terms of expected growth in disposable income between 2015 and 2020.



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