MARKET IN MINUTES
*Savills Research*

UK Commercial – Q2 2019

# Central London Retail Market in Minutes

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## Vacancy rates improve in Q2

Prime West End vacancy reduced marginally to 3.0% in Q2 2019, driven by improvements on some key West End streets.

A spate of recent lease signings and subsequent store openings saw vacancy declines (based on store count) on Regent Street and the east side of Oxford Street. For example, visible vacancy on Regent Street fell 356bps in Q2 with H&M opening their new Home concept store and Pinko taking space at 100 Regent Street.

Similarly, vacancy rates on Oxford Street east (east of Oxford Circus) fell 96bps to 1.0% in Q2. In contrast the west side of the street saw vacancy climb 155bps to 3.1%.

While there are some unit and micro location specific issues facing some available units, the challenges facing the west side of Oxford Street have been exacerbated by its relatively higher rents and the availability of larger units. For example in Q2 vacant units average 17,744 sq ft in size whereas the average on the east side is 896 sq ft.

As a result we have already seen Prime ZA rents on Oxford Street west soften 9.3% over the first half of 2019, albeit Q2 rents held. This softening will provide an attractive opportunity to prospective occupiers subject to the right unit being available. Westminster's draft City Plan that calls for greater flexibility in regards to the use of retail space and their financial commitment to public realm improvements on Oxford Street should also aid a rejuvenation of Oxford Street west.

Bond Street also saw vacancy increase by 153bps to 3.1% in Q2 albeit some of this increase was driven by the sale of a previously owner-occupied building on the street. Considering the robust demand from luxury brands we expect vacancy on the street will move in again next quarter.

### Headline Central London Retail Indicators

| | Q2 2018 | Q1 2019 | Q2 2019 |
|---|---|---|---|
| West End Footfall weekly average year-on-year (13 weeks to w/c 24th June) | -1.3% | -1.6% | -2.4% |
| Prime West End vacancy rate (Oxford, Bond, Regent St)* | 2.9% | 3.2% | 3.0% |
| All Central London Prime ZA Rental Growth (year-on-year) | 0.5% | -5.1% | -3.4% |
| Oxford Street West Prime ZA Rent | £1,000 psf | £915 psf | £915 psf |
| Bond Street Prime ZA Rent | £2,500 psf | £2,500 psf | £2,500 psf |
| Central London investment volumes (Qtrly) | £553.2m | £681.8m | £146.8m |
| Prime Central London Yield (Bond Street) | 2.50% | 2.75% | 2.75% |
| New International Entrants** | N/A | 6 | 5 |

**Source** Savills Research; NWEC
*Note*: based on unit vacancy and not floorspace*
*Note**: new international entrants added retrospectively*

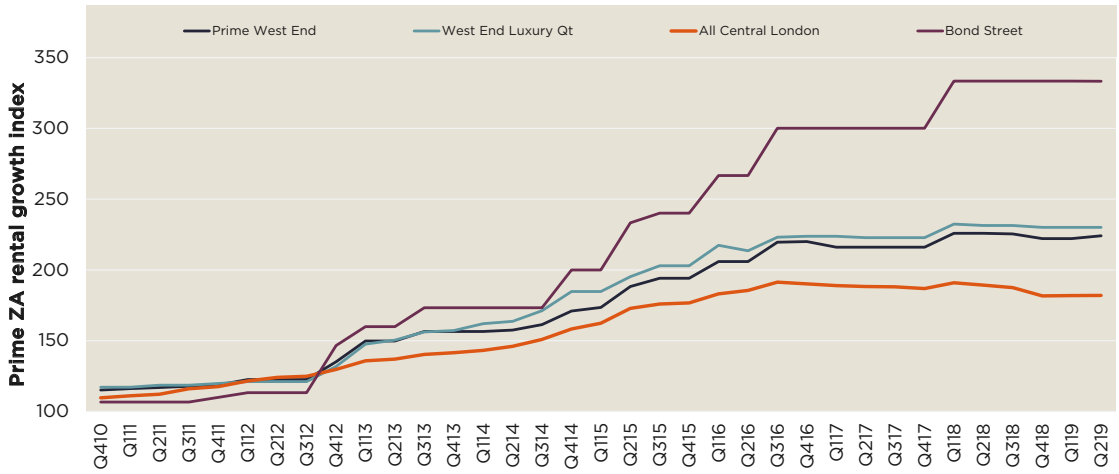
**3.2%**
Year-on-year increase in Central London retail investment volumes in H1 2019

**£40m**
Funding secured for Sloane Street public realm improvements, commencing autumn 2019.

**11.4%**
Average year-on-year footfall growth on Bond Street over the 13 weeks to w/c 24th June 2019

**26**
New international F&B entrants in 2019 (including committed pipeline), exceeding 2018's total by 23.8%.

**Prime ZA rental growth index** Central London prime ZA rents held quarter-on-quarter.




**Source** Savills Research

**CVA impacted stores** The proportion of closures by result of CVAs, administration or liquidation is far lower in Central London than regional UK.


**Source** Savills Research

## CENTRAL LONDON LESS VULNERABLE TO THE IMPACT OF CVAS

Central London appears to have remained relatively immune to the impact of CVAs, administrations and liquidation in comparison to many regional counterparts. The above chart highlights the share of units affected under the various CVA segments, administration and liquidation across Central and Greater London against the UK average.

Of affected stores in Central London, over half (53%) saw no change to rents, more than double the UK average of 25% emphasizing how much retailers are valuing their London assets despite it being one of the most expensive regions in which to operate a store. This is also reflected in CVA closures (Group 5), which accounts for only 1.0% of affected stores in Central London a fifth of that seen nationally.

Despite relatively little impact from CVAs there has been more exposure to closures from administrations and liquidations with these accounting for 22.0% of affected stores. This, however, is more a reflection of those retailers having store portfolios weighted more towards London rather than other parts of the country.

The real issue in Central London is more about individual store profitability, unit configuration and micro location features, particularly for those retailers more exposed to online migration. For example, in the case of Oxford Street there is a trend of CVA affected fashion retailers opting to close/seek a significant rent reduction on their store on the west side of the street while keeping their east stores with no change in rent bar a switch to monthly payment terms. This was seen with New Look and Monsoon-Accessorize. Again some of this is unit specific, but the relatively lower rental tone on the east side and the closer proximity to the upcoming Elizabeth line entrance at Tottenham Court Road station enjoyed by both retailers east stores no doubt aided the decision.

While store closures, either through administrations, CVA or store optimisation generates initial landlord challenges, for those in well located positions they are offering new opportunities. For example, the 28,232 sq ft ex-M&S store in Covent Garden has reopened as Boots' first interactive store of the future. Likewise, the vacant Maplin store on Great Portland Street will become Boohoo.com's first bricks and mortar store.

## WEST END FOOTFALL AND SALES PERFORMANCE REMAINS MIXED WITH BOND STREET CONTINUING TO BENEFIT FROM PUBLIC REALM IMPROVEMENT WORKS.

Downward pressure on sales and footfall in the West End has continued into 2019 albeit at a weaker pace according to data from the New West End Company. Year-to-date sales to May were down 0.7% year-on-year, an improvement on the -6.2% decline reported over the same period in 2018. A similar trend exists for footfall which declined 0.5% over the same period, an improvement of over 300bps on 2018. However, this is not reflective of the entire West End area. Bond Street continues to benefit from the public realm improvement works, marking a 21.4% uptick in footfall in the first five months of 2019 and reflected in the 4.1% growth in sales reported over the same period. Regent Street also saw a marginal 0.1% improvement in sales despite a 8.6% decline in footfall.

Oxford Street west remains the most challenged, we suspect due to a decline in domestic spend. This is likely to reverse once the Elizabeth line opens and once the public realm improvements are put in place.

## Savills team

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