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Spotlight
Central London Retail Outlook

February 2013

SUMMARY

■ We are expecting a quieter 2013 with fewer occupier requirements being pursued less aggressively, although a number of US brands continue to look at Central London.

■ Gentler occupational demand and a slight rise in voids, in light of the increasing number of lease expiries expected this year, could see growth in prime rents ease in 2013.

■ The relative expense of operating a retail unit in Central London's prime pitches, means that new entrants are likely to remain focused on a single flagship store.

■ Difficulties of sourcing retail sites in the West End has, and will, continue to open up new retail pitches as will the arrival of Crossrail. New pitches have been particularly attractive to new entrants to the UK, and existing brands, looking to test new concepts in relatively more 'affordable' locations.

■ Investor demand has remained strong, particularly for key units in prime locations. This is set to continue. As a result prime yields are to remain low and under downward pressure.

■ The Central London retail market to remain one of the most sought-after investment destinations globally. Void rates on the key streets remain exceptionally low making Central London retail a low risk investment.

"Occupational demand remains strong but we're likely to see fewer new international entrants. In response, we may see growth in prime rents ease this year"

The consumer economy

■ London continues to lead the UK regional economic recovery, with the improvement in labour market conditions being more evident in London than any other region of the UK.

■ GDP for 2012 is expected to have seen flat growth with a marginal 0.1% fall, with 2013 expected to see a more robust recovery in London's output to 1.0%.

■ The medium to long term will see London's economy return to its dominant position in the UK, as well as being one of the strongest regions in Europe with annual average output growth of 2.6% per annum over the next decade. This growth will be primarily driven by the professional and business services sectors.

■ The better than average economic growth projected, as well as London's continued attractiveness as a tourist destination, will support a steady out-performance by Central London retailing. West End sales recovered strongly from their slump during the Olympics, growing 6.8% year on year in October, compared to a national average of only -0.1%. The lead up to Christmas also saw strong trading with West End sales up 2.3% in November on the previous year, although this did not continue in to December with sales down 1%. In contrast December reported a year on year fall of 1% although Oxford Street saw sales increase by 4.1% with footfall for the wider West End up 5% compared to December 2011.

■ The importance of tourism to London retailing is often overlooked, but some recent data on luxury retailing puts this into context with estimates showing that 40% of luxury retailers derive between 10-20% of their UK sales from tourists. Thus the gentle recovery in the global economy forecast this year should be good for London retailing, particularly the luxury sector, with a rise in spending by American and Asia-Pacific shoppers in particular.

Occupational market

■ While the Central London retail market has undoubtedly been the strongest occupational market in the UK over the last few years, the second half of 2012 saw a slight softening of retailer sentiment.

■ The story of 2011 was very much one of record rents being paid for the best stores on the best pitches, as well as huge premiums being offered to retailers to leave such locations. 2012 was less frantic, at least onced you stepped away from Bond Street where a 550 sq ft letting to the Swiss luxury jeweller Boghossian set a new rental high of £1,050 per sq ft.

■ Looking ahead we are generally expecting a quieter year with fewer requirements being pursued less aggressively. This is, in part, in response to the high costs associated with a store on Central London's prime streets. Compared to other international locations London is expensive once you take into account rents, rates and other operational costs. As a result retailers are reluctant to increase their store portfolio in the Capital. For example, Kurt Geiger have stated that they are taking a cautious view of further expansion in UK/London as the high property costs and business rates means that it is not as attractive compared to expansion opportunities in other international markets.

■ Furthermore, the luxury sector which has been a major driver of demand and expansion in Mayfair is showing signs of slowing growth. A recent Drapers Luxury retailer report found that 61% of respondents would not increase number of stores.

■ This declining appetite for multiple stores in the West End, while not great news for landlords, is potentially beneficial in diversifying the retail landscape of Central London's retail streets and improving opportunities for new entrants.

■ For example, we expect to see further new international retailers come to London in 2013, particularly from the US, following the likes of Forever 21, Victoria's Secret and now J.Crew all opening stores in the Capital. The opening of China's Bosideng on South Molton Street last year could mean that we see other Chinese brands make a similar leap.

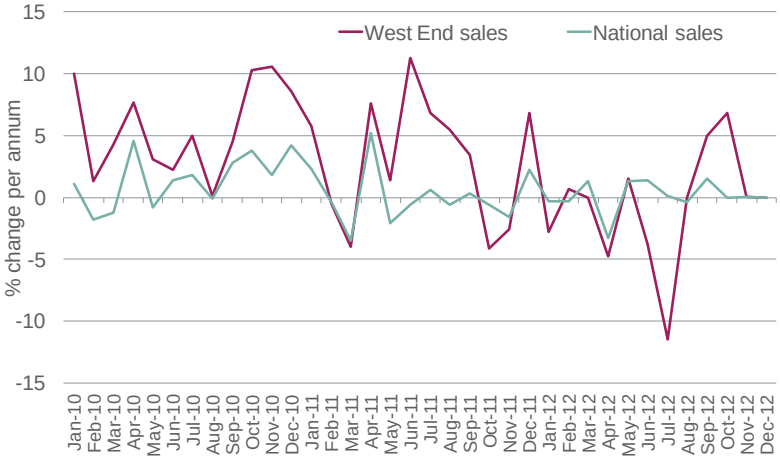
■ Bosideng's decision to establish a store in London was largely driven by a desire to reinforce the brand back home rather than increasing international sales. Bosideng's London store, with its UK designed and manufactured offer, is considered as one way of bolstering appeal back home in the face of increasing competition from international retailers.

■ We expect to see other Chinese brands make a similar leap and are aware of at least three retailers who hope to establish a London presence over the next few years. However, those that do make the leap are likely to restrict themselves to a statement flagship store.

■ Landlords may look to take a more holistic view of their retail portfolio this year and consider the existing tenant mix. The previous level of demand for prime pitches saw some landlords become too selective without considering how a new incumbent may sit within the wider retailer mix.

GRAPH 1

West End and national retail sales



Graph source: New West End Company, Office for National Statistics

■ As far as central London's prime retail pitches go, the building to watch in 2013 will be Park House. While almost all of the 18 new retail units have now been let, all to well-established brands, it will be interesting to see what rents have been paid, and how this new development will influence footfall and future rents on the west end of Oxford Street.

■ The combination of gentler retailer demand, and a slight rise in voids (primarily due to lease expiries), will mean that prime rental growth on Central London's prime shopping streets in 2013 will be lower than that seen previously. However, we believe that there will be a steady expansion of London's retail geography next year, and the best prospects for upward rental growth may well be in some of these new and evolving retail locations.

Future retail pitches

■ In our last Central London report we looked at those new retail pitches emerging on the periphery of the City such as Spitalfields, Shoreditch and London Bridge, amongst others. But, the East is not the sole home of 'new', with the West End also seeing new shopping destinations emerge.

■ Stock availability in the West End's prime shopping streets of Oxford Street, Regents Street and Bond Street is limited as the competition between retailers for space, particularly international brands, remains relatively fierce. It has been this competition that has helped to drive significant increases in Zone A rents. For example, in 2012 Footlocker agreed to pay £800 per sq ft Zone A at their new store at 283 Oxford Street, the highest achieved on the street.

■ This combination of lack of stock and high rents has led retailers to look to 'new' pitches in the West End. As a result a number of landlord/ developers are capitalising on this by bringing forward new projects in locations which may not have been on the horizon for retailers a few years ago. In particular, considering their consolidated holdings, it is the 'estates', such as The Crown Estate, Shaftesbury and The Wellcome Trust, that may be well placed to deliver 'new' pitches.

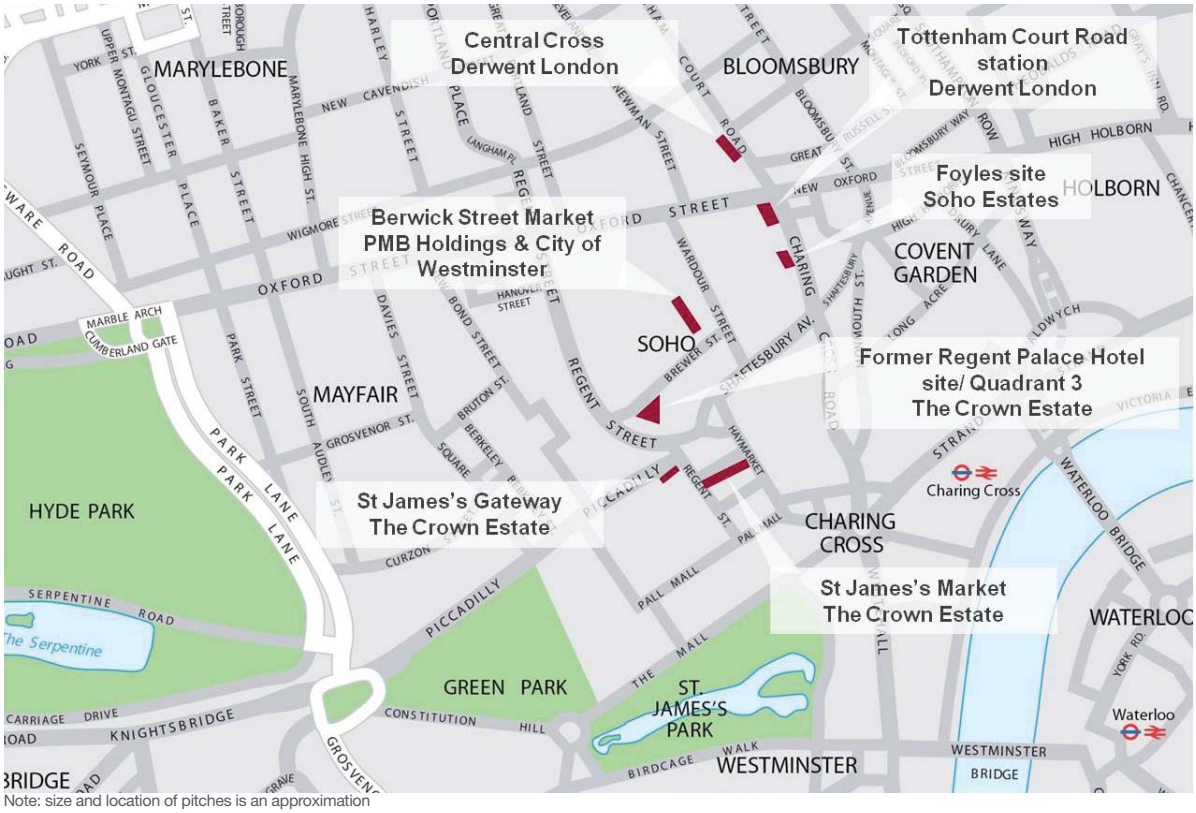
■ However, while these new retail destinations will be exciting additions to the West End it will be interesting to see how these develop and integrate with surrounding, more established, pitches ensuring they are sustainable over the longer term.

■ One such new retail pitch is that of the lower end of Regent Street, including St James's, which is being driven by the regeneration aspirations of The Crown Estate. The estate has already had significant success rejuvenating Regent Street, bringing with it new occupiers and increasing footfall and they are now looking to repeat this success at the lower end of the street.

■ The recent arrival of Burberry's flagship store has already helped to put this end of Regent Street on the retail map and further redevelopment projects in the area are expected to expand on this. The first of these has been the recently completed redevelopment of the former Regent Palace Hotel block known as Quadrant 3. This mixed use redevelopment project incorporated 65,000 sq ft of new retail and restaurant space with Whole Foods taking 17,000 sq ft, moving from its former home just round the corner on Brewer Street.

MAP 1

New retail pitches



Note: size and location of pitches is an approximation

■ The retail space has become home to a number of brands and niche offerings, some of which are totally new to the UK. Menswear brands Woolrich, Jack Spade and Wolsey all have their flagship stores on the scheme, for some this is their first store in the UK.

■ With Zone A rents c.£120 per sq ft, 40% of what they are directly on Regent Street (south), this pitch offers new entrants to the UK, and existing brands, a relatively affordable alternative in order to test new concepts.

■ The redevelopment planned for the other side of Regent Street and into St James's, is also expected to appeal to niche brands and new entrants. At present The Crown Estate is pursuing two redevelopment projects as part of their £500m investment strategy programme for the St James's estate.

■ The first, expected to complete next year, is the St James's Gateway. The mixed use scheme fronting Piccadilly close to Regent Street will bring 21,000 sq ft of new/refurbished retail space to the market and marks the start of the wider redevelopment of the St James's estate. This will continue with the proposed St James's Market development delivering 50,000 sq ft of retail combined with a traffic free public realm. Drawing on the history and existing tenant mix of St James's its likely to be menswear and heritage brands that are likely to find this rejuvenated pitch the most attractive rather than the multiple retailers.

■ Looking back to the other side of Regent Street, Soho is also slowly emerging as a retail destination. Indie fashion brands are increasingly seeing Soho as attractive, particularly from a brand perspective, and this has largely been built on the back of the success of Carnaby Street and its immediate surrounds.

■ To date the expansion of fashion brands beyond Carnaby Street into the rest of Soho has been relatively erratic due to stock issues in regards to size and quality. However, the recent awarding of the Berwick Street Market redevelopment project to PMB Holdings could change this.

■ At present no fixed plans have been drawn up, but whatever the outcome of the public consultation and design process the scheme will see the redevelopment/refurbishment of the 12 shops between 90 and 104 Berwick Street, along with the office space above. This refurbishment could see a concentration of grade A quality retail units come to the market, which may lure retailers into the heart of Soho who may not have previously considered it as an option. However, as seen in the early days of Carnaby Street, this is unlikely to be the multiple retailers.

■ Other parts of Soho that are expected to see similar rejuvenation is the area fronting Charing Cross Road. The redevelopment of Tottenham Court Road station as part of the arrival of Crossrail in 2017 will see approximately 500,000 sq ft of new retail, office and residential space delivered. Derwent London is expected to exercise its option to acquire part of the site (1 Oxford Street) once the station works are complete. The arrival of Crossrail will also prove beneficial to Soho Estates development plans for its one acre site, incorporating the Foyles site, fronting Charing Cross Road.

■ These two schemes could mean that big-box retail units will make an appearance on Charing Cross Road in the hope of attracting multiples. Confidence in this strategy has been recently buoyed by the arrival and success of Primark directly opposite Tottenham Court Road station.

■ Derwent London's Central Cross further north along Tottenham Court Road will also look to capitalise on the Crossrail effect. Derwent are pursuing a refurbishment strategy creating new double-height frontage as well as converting the basement car parking to retail.

■ Looking further West, Kensington High Street may see a resurgence if redevelopment plans for the arcade of the former Barkers department store goes ahead. A lack of large units on the street, combined with the competition from Westfield White City, means the area has struggled to attract new brands. However, plans to reconfigure the internal arcade from nine stores to four larger units ranging from 7,000 to 12,000 sq ft, could change this.

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Footlocker, 283 Oxford Street

■ 11,000 sq ft letting to Footlocker.

■ £800 Zone A - highest achieved on Oxford Street.

Christian Louboutin & Jimmy Choo, Dover Street

■ Record premium achieved on Dover Street on stores for Christian Louboutin and Jimmy Choo.

Belstaff, Bond Street

■ 20,000 sq ft letting to Belstaff.

■ £3m rent per annum.

527-533 Oxford Street

■ Acquired for an overseas investor for £38m reflecting an initial yield of 4.1%.

Investment market

■ 2012 saw a continuation of the investment trends of the previous three years with prime yields on Bond Street and Oxford Street standing at 3% and 4% respectively. Investor demand remained strong, particularly for well-let shops on prime pitches, and this continued to put downward pressure on yields in core Central London locations.

■ The most active investor grouping in the Central London retail market remains the non-domestic, equity-rich, often private investors. However, there was some activity in 2012 by UK Institutions, such as RLAM and CBREi, who successfully outbid overseas investors on prime investments.

■ Looking ahead to this year, while our view on the occupational market is fairly restrained, we still expect to see significant investor demand for key retail investments on London's prime pitches. Yet, the frustration for investors is that opportunities are likely to be limited.

■ Overseas investors have been particularly prevalent buyers over recent years and see prime Central London retail as a long term capital protection play. They will continue to compete for trophy retail investments in the West End with many commentators comparing Bond Street investments to being akin to investing in gold.

■ This year we expect reduced activity on London's prime retail pitches as those who needed to sell, such as the highly leveraged Irish investors, have largely traded. In saying that those who decide to sell in core locations will see interest and values exceed expectations.

■ Scarcity of prime product will result in an increasing number of overseas investors looking beyond the traditional prime retail pitches for opportunities. However, this interest is likely to remain focused on key units in established retail locations close to Central London such as Chelsea and Knightsbridge.

■ Overall, we remain of the view that the Central London retail market will remain one of the most sought-after investment destinations globally. While some of the heat has come out of the leasing market in recent months, the void rate on the key streets remains exceptionally low in comparison to other sectors making Central London retail investment a low risk investment.

OUTLOOK

2013 expected to see some of the 'heat' come out of the occupational market but not for investor demand for prime

■ Occupational demand expected to remain significant but there will be some softening with fewer requirements being pursued less aggressively.

■ Growth in prime rents likely to ease as occupational demand softens and increasing number of lease expiries come to the market.

■ The best prospects for rental growth is likely to be found in the new and emerging retail pitches in the West End, however, the long term sustainability of these areas will be key in delivering this.

■ Interest from international retailers to remain but the number of new entrants expected to slow. US retailers to remain particularly acquisitive.

■ The easing in prime rental growth and an increase in voids may tempt European retailers to reactivate expansion plans who have previously considered Central London relatively expensive.

■ Investor demand for key units on prime pitches to remain significant. This, combined with limited opportunities on Oxford, Bond and Regent streets, will be enough to sustain yields at their current low levels.

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