Central London Retail Briefing

Carnaby Street, Soho & Covent Garden

Autumn 2011

"Rents on the core streets will continue to be driven upwards by strong retailer demand and lack of availability."

Image: St Martin's Courtyard

- Central London remains a pocket of above average retail sales growth in an otherwise weak UK picture. Turbulence in the Eurozone is a concern, both in terms of its impact on UK GDP, and on tourism flows and spending in London.

- The occupational markets in Soho and Covent Garden have remained strong during 2011. A steady influx of new retailers, both in terms of boutique and global brands, combined with limited supply has delivered rental growth of more than 10% this year.

- Major landlords dominate these markets, and this makes for few investment opportunites. However, those assets that do come to the market will continue to be strongly contested.

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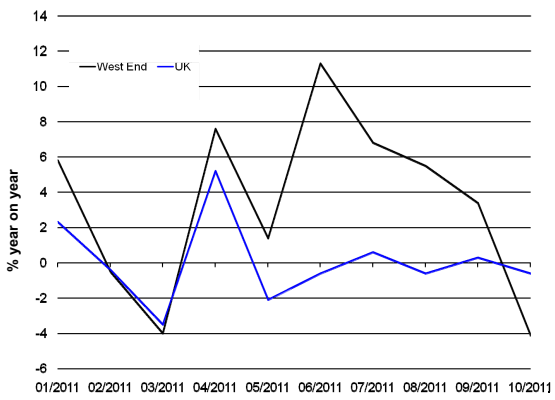
Consumers & Retailers

The consumer economy

The economic data on consumer confidence and behaviour remains highly volatile and firmly schizophrenic this quarter. Against a background of constant media debate over double-dips and disorderly defaults it is no surprise that consumer confidence has reversed direction and started to slide back towards its record lows of late 2008/early 2009. However, October's official data on UK retail sales showed that sales rose by 0.6% month-on-month, driven in particular by household goods and electricals. Clothing & footwear sales did dip, but clearly the UK consumer is still shopping despite what they tell the pollsters.

Central London remains a pocket of firm, steady growth in an otherwise confused picture. The combination of equity-rich residents and a steady flow of tourists capitalising on the weakness of sterling has continued to support retail sales in prime London. According to the New West End Company sales in the West End in September 2011 were 3.4% up on the previous year, with footfall up 0.3% on the same period last year. Middle Eastern and Chinese shoppers were the most significant group on non-domestic shoppers in September.

Central London retail sales have weathered the recession better than the rest of the UK



Source: New West End Company, ONS

Clearly the current turbulence in the Eurozone is not good for confidence, and the swifter the resolution to the Greek problem the better. However, we remain of the view that not only will the wider UK retail economy begin to see a recovery from Q2 2012, but the central London retail market remains one of the most resilient markets of its type in the face of this volatility.

Occupational market - Carnaby Street

Carnaby Street and its 11 linked streets have probably seen the most dramatic retail rejuvenation of any central London retail area in the last 20 years. The once tired and rather eclectic mix of retail has now evolved into the nearest thing that central London has to an uncovered fashion mall.

Shaftesbury's holdings in this area now run to 205 units, approximately 20% of which are in leisure usage. This fairly high proportion of leisure, as well as the serious focus on events and promotion (e.g. this month's shopping party in association with Grazia magazine) means that Carnaby Street has much more in common with a fashion-focused mall, than a collection of central London streets.

Clearly this offer is a popular one with retailers, and recent entrants range from global fashion brands Monki and Cheap Monday at 37 & 39 Carnaby Street and a new Spanish retailer at 42 Carnaby Street, to niche, celebrity-backed boutiques such as Lucy in Disguise and Pretty Green.

The rental tone in the area has moved up sharply over the last three years, and we estimate that in 2011 the prime Zone A rent in and around Carnaby Street has risen by around 12%.

The challenge for this area in 2012 will be satisfying incoming retailer demand, as the number of available units in and around Carnaby Street remains extremely low.

With Carnaby Street benefiting from its own brand, as well as the undersupply in the "luxury quarter" on the other side of Regent Street, the most logical prediction for 2012 is one of rising rents amid further rejuvenation of the Soho retail scene.

Occupational market - Soho

Soho's retail market has always been more focused on the local occupier and resident, than the neighbouring districts of Carnaby Street and Mayfair. As a result of this the area has lack a cohesive feel and focus, though we believe that this may be about to change.

The opportunity to work with Westminster Council on the redevelopment of Berwick Street market has been hotly contested, with PMB Holdings, Soho Estates, Henderson Global Investors and Shaftesbury all rumoured to have tendered. While the local concerns about over-sterilisation of the area are reasonable, we believe that a sympathetic tenant mix and organised promotion of the area (along the lines of that of the Newburgh Quarter) will deliver benefits to workers, residents, retailers and leisure operators throughout Soho.

While there has been relatively little evidence of upward rental growth in the area this year, it is clear that retailers remain keen to trade in Soho as recent lettings by Soho Estates on Old Compton Street to Sunspel and Hotel Chocolat show.

The other major opportunity for the future of retail in

Retailers & Investors

Soho remains the prospect of the rejuvenation of Leicester Square. While this has been something that the market has been waiting for for a long time, the success of the W Hotel, the opening of the M&M's World flagship store, and the expected 2012 opening of the Hippodrome Casino are all steps in the right direction.

The next big opportunity for the square will come from the sale by NAMA of the half acre Odeon West End site. The selling agents have have raised a number of mixed-use proposals for this site, which already has consent for a 277,000 sq ft hotel-led scheme.

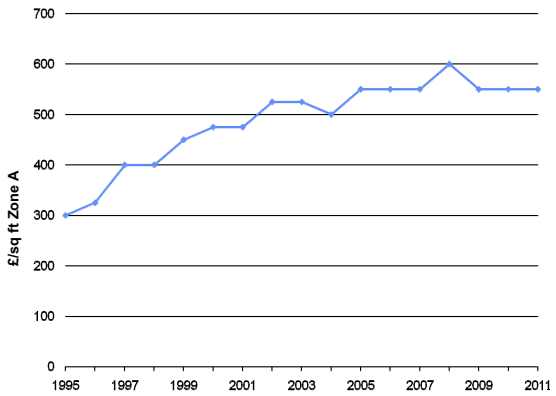
Occupational market - Covent Garden

The traditional view of Covent Garden's retail offer has focused on the Market and Piazza. However, in recent years this has expanded to include Seven Dial, Neal's Yard and St Martin's Courtyard.

While the growth of Seven Dials, Neal's Yard and St Martin's Courtyard has been spectacular, this has not held back the continuing evolution on the main retail area immediately around the Piazza. Recent in-movers include Apple, Ralph Lauren and Vilebrequin, all of which have continued Capital & Counties' transformation of their holdings in the area to a high end retail location to rival those to the west of Regent Street.

Covent Garden Zone A rents have fallen back from their peak of £600/sq ft to their current level of £550/sq ft Zone A on James Street. This appears high in comparison to some other central London submarkets, however it is important to note that Zone As are standard 20 foot zones as in Knightsbridge and Kings Road, not the 30 foot zones seen in nearby Oxford Street, Bond Street etc.

Covent Garden prime rents remain stable



The expansion of Covent Garden's retail offer has been driven by a variety of factors, including limited vacancy in the core, a more diverse spread of retailers who are keen to enter the area, and rents that are more affordable for some retailers away from the prime pitches of Long Acre and James Street.

Seven Dials is characterised by its increasing focus on independent boutique and larger "heritage" brands. The latter, typified by retailers such as Fred Perry, Baracuta and Adidas Originals fits very well with the historic street pattern and look of the area. Looking ahead we expect to see the creation of more medium to large size retail units around the Seven Dials area, to allow for in-migration by domestic and international flagship and concept stores.

St Martin's Courtyard is Covent Garden's newest retail destination, having completed at the end of 2010. This development by Shaftesbury of 70,000 sq ft of offices, 23 shops and eight restaurants, while it was delivered into one of the toughest retail markets of the last 30 years, has seen significant retailer interest. The offer splits between the larger international brands such as Jack Wills, LK Bennett, Kos, Barbour and Banana Republic on Long Acre and the smaller, more niche brands such as Eileen Fisher, Yotopia, Duo and Specialised Cycles on Mercer Street and in the Courtyard itself.

The open air mall / village feel of the area appears to have been particularly attractive with womanswear retailers, and we estimate that prime Zone A rents in this area have risen by 24% this year to £445/sq ft. There is only unit vacant in this area, and once that is let we expect to see retailer demand start to be deflected to other areas.

As we commented in our last central London retail bulletin, the strength of retailer demand in Covent Garden and the eastern end of Oxford Street should increase the perception of Charing Cross Road as the market that joins these retail locations.

Investment Market

The desire to invest in property in London either as a safe haven or for performance has created an environment of exceptional demand.

Whereas investors have multiple, albeit larger choices in the City of London, options reduce significantly as one moves west. The limited available stock has resulted in strong prices being continuously achieved. We are now seeing that areas such as Soho are starting to appeal to investors where historically they would not. This is as a result of the improving occupational markets together with the higher returns achievable compared to core Mayfair.

The Soho & Covent Garden areas are obviously dominated by some major landowners such as Shaftsbury and Capco who continuously look to increase the size of their holdings. Having said that

Investors & contacts

there is still a lot of activity outside these major land holdings. One of the biggest and most notable transactions in the West End in the later half of 2011 was the acquisition of the new W Hotel with M&M store in Leicester Square by a Qatari investor for £200m.

Savills recently marketed 141 Wardour Street and received exceptional interest from both domestic and international investors. The property was sold to an overseas investor for £30m which reflected an initial yield of 5.68%. Another recent acquisition in the immediate vicinity is the purchase of 76-88 Wardour Street by Legal & General from SWIP for £32.8m reflecting £684 per sq ft.

Where investors are buying into the regeneration story for Soho; Covent Garden offers an established destination for investors. The dominance of Capital & Counties has resulted in a number of purchases in and around the Covent Garden piazza. Recent purchases by Capco include 11-12 St James Street for £6m from AIBIM. The company also purchased 35 King Street for £12m, a VP building which looks set to become a new flagship retail unit to complimenting existing tenants on the street such as Apple and Ralph Lauren.

Long Acre remains the mainstream retail pitch in Covent Gadren, home to the majority of multiple retailers. Midtown and offers investors a yield discount to the likes of Bond Street and Oxford Street. 8-9 Long Acre was recently purchased by The OMCI Trust for £22.7m which reflected 4.2%. The charity beat off competition from a number of UK funds and private overseas investors to secure the investment which is let to Reiss.

Looking ahead to 2012 we expect that good investment opportunities will remain limited. Capital & Counties & Shaftsbury will continue to be competitive for opportunities which would expand their existing holdings. The emergence of new retailing streets such as Charing Cross Road & Wardour Street will attract investors looking for growth opportunities and it is in such locations where we expect to see increased investment appetite and activity.

Outlook

The success of the reinvention of core Covent Garden, Seven Dials, St Martins Courtyard and Carnaby Street are all in keeping with the strength and depth of demand for central London retail locations that we commented on in the last issue of this report. However, the one way in which Soho & Covent Garden differ from Regent Street and Bond Street is that there are still opportunities for retail regeneration and enhancement in this area.

Some areas will continue to move away from tourist-orientated retail towards a higher-end domestic shopper focus, and this will enable further rejuvenation of the less well retailed streets. The other big opportunities in the area are represented by the potential to move part of Soho's diverse retail offer to a more joined-up market that connects Carnaby Street to Covent Garden. Leicester Square also remains a major opportunity for retail enhancement, as does the redevelopment connected with Crossrail at Tottenham Court Road and along Dean Street.

Rents on the core streets will continue to be driven upwards by strong demand and lack of availability, and this will also be a driver for the rejuvenation and emergence of new retail streets and villages in the area. This means that our latest outlook for prime retail rental growth across central London remain firmly positive, with average annual growth of 10% per annum over the next five years in emergent locations such as Oxford Street East, and 5-6% per annum for the more well-established prime locations of Regent Street, Bond Street and James Street.

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