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Spotlight
Central London: A Global Retail Destination

February 2014

SUMMARY

■ London expected to top European city league table for overseas visitor spend for 2013.

■ Chinese are now the biggest spending travellers globally. However, London trails Paris in terms of Chinese spend. The proposed streamlining of the UK Visa system for Chinese visitors is expected to change this.

■ Total overseas visitor spend in London forecast to increase by 65% by 2020.

■ This is set to intensify occupational demand and rental pressures, primarily within the luxury enclaves.

■ With availability heavily constrained, particularly for large units on Bond Street, we may see an increasing number of luxury retailers look to new pitches in order secure stores.

■ Bond Street open market prime Zone A rents expected to hit £1,500 per sq ft over the next 12 months.

■ Brompton Road also forecast to see strong growth with an uplift of over 20% to £800 over the next 12 to 18 months. This will bring it more in line with those in the West End core.

"Competition between retail destinations means that understanding consumer trends, particularly for international visitors, will become increasingly important in differentiating the retail offer and in turn capture spend."

Anthony Selwyn, Head of Central London Retail

London top global destination for visitor spend in Europe...

■ London has bucked the trend that has faced previous Olympic hosts in that it saw an increase in visitors and spend in its post Olympic year. Estimates are that overseas numbers reached 17m by the year end in 2013 with spend of £11.4bn, 9.8% and 13.2% up, respectively, on 2012.

■ This increase in full year figures will maintain, or even improve, London's international visitor spending global ranking having come second to New York in MasterCard's latest Global Destination Cities Index (as of Q2 2013). It should also widen the spending gap that exists with third ranking Paris.

..but not for the Chinese

■ The Chinese are now the biggest spending travellers globally according to The United Nations World Tourism Organisation (UNWTO). Their international tourism expenditure hit US$102bn in 2012 with the The China Tourism Academy suggesting this increased to US$120bn in 2013. Expectations are that this will increase by a further 18% during 2014.

■ However, relatively few Chinese tourists come to the UK with London trailing Paris in terms of Chinese spend.

■ The UK welcomed an estimated 270,000 Chinese tourists spending approximately £550m last year according to official data from the Office of National Statistics (ONS). In contrast France received 1.4m Chinese visitors in 2012 with expectations that 2013 numbers will be in excess of this.

■ While Chinese tourists account for a small proportion of total overseas spend for both the UK and France, their appetite for shopping, particularly for luxury goods, means they are an attractive consumer group for retailers.

■ The fewer numbers of Chinese visitors coming to the UK is estimated to be costing the UK £1.2bn in lost retail sales annually, potentially rising to £3.1bn by 2020, according to the UK China Visa Alliance.

■ This disparity between the UK and France has been attributed to the UK's visa system.

■ France's participation in the Schengen agreement, which means Chinese visitors need only apply for a single visa that allows them to enter 22 out of the 28 EU member states, has helped boost visitor numbers.

■ Coming to the UK requires a separate visa which it has been suggested Chinese visitors have not been bothering to obtain.

■ France's extensive number of designer brands has also assisted in attracting visitors. As a result Paris has become one of top European destinations for Chinese visitors purchasing luxury items.

■ However, this may be about to change or at least the visitor gap narrow. George Osborne announced in October that Britain will make it easier for selected Chinese travel agents to apply for UK visas with the view that this will increase Chinese visitor numbers.

■ VisitBritain hopes that this streamlining of the visa system, and their marketing initiative, will attract 650,000 Chinese visitors to the UK by 2020, worth almost £1.1bn.

■ This target looks set to be easily achieved. Chinese visitors are one of the fastest growing visitor segments to the UK with numbers to London growing by an average of 34% per annum over the last three years. As a result we expect the 650,000 UK target will be exceeded ahead of 2020.

Why the fuss over Chinese visitors?

■ China is now the largest consumer market of luxury products globally. McKinsey state that they now account for approximately 29% of global luxury consumption, with an average growth of 27% per annum since 2008. However, two-thirds of this luxury spend takes place outside mainland China largely due to the tax placed on luxury items domestically meaning that the same item may be up to 60% cheaper elsewhere.

■ The recent crackdown on corruption by the Chinese government, which has impacted the tradition of 'gifting' that has been a key driver of luxury spend

TABLE 1

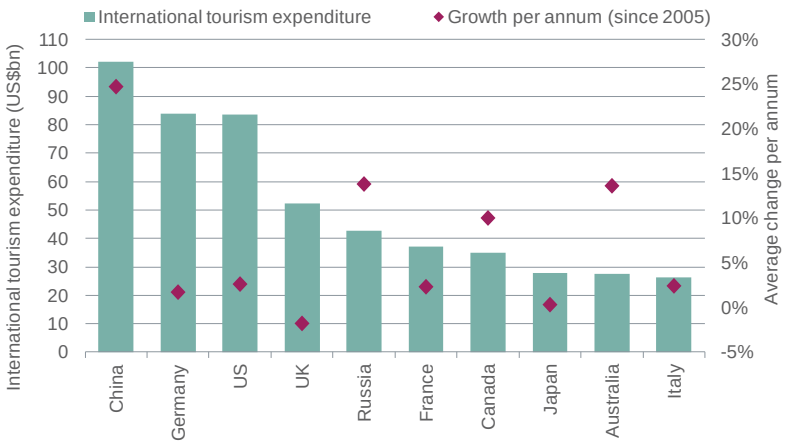
Global top 5 cities by international overnight annual visitor spend (Q213)

City	Spend (US$)	Visitors
New York	$18.6bn	11.52m
London	$16.3bn	15.96m
Paris	$14.6bn	13.92m
Bangkok	$14.3bn	15.98m
Singapore	$13.5bn	11.75m

Graph source: MasterCard Global Destination Cities Index Q213

GRAPH 1

Top 10 nations by international tourism expenditure



Graph source: UNWTO (2012)

domestically, has also helped to drive spend overseas.

■ As a result Morgan Stanley forecast that by 2015 Chinese tourists could be spending as much as £118bn (US$194bn) shopping overseas.

■ With an increasing number of Chinese travelling further afield, the attraction of British luxury brands and the proposed streamlining of the UK visa system London should be well placed to capture more of this overseas spend. Chinese consumer perceptions regarding better service, product choice and authenticity of luxury products in Europe will also be beneficial.

Current and future Chinese visitor spend

■ Typical transaction spend for Chinese visitors to London averaged £776 over the first half of 2013 (table 2) outstripping average transaction spend of those from Russia and the US.

■ In France the Chinese top the league table with an average transaction spend of £1,300 over the same period.

■ While they still lag visitors from the Middle East, with those from the UAE spending on average £1,800 per transaction last year (table 2), Chinese shoppers account for the largest share of total tax free purchases at 20%. They have also been leading in terms of sales growth.

■ Based on historical spend data from the Office of National Statistics (ONS) Chinese visitor expenditure in London alone could more than double by 2020 to close to £500m. Using analysis from the UK China Visa Alliance spend could even be in excess of £1bn. This would put them on a par with the current spending of French visitors.

Total overseas spend to increase by 65%...

■ While the growth in Chinese tourism will boost spend on the Capital's retail pitches, particularly for the luxury enclaves, it will be the continued appeal of London to a wide range of overseas visitors that will really drive spend.

■ Forecasts to 2020 suggest total spend by overseas visitors to London could reach £18.8bn, 65% up on 2013 estimates, driven by a growth in visitor numbers.

■ As overseas visitors typically allocate 25% of their budget to shopping this would equate to a retail spend of £4.7bn based on ONS data although in reality shopping spend would be far in excess of this.

■ European visitors will continue to dominate (38% of total overseas spend) followed by those from North America (14%) but some of the greatest increases will be in Chinese and Brazilian visitor spend.

...boosting occupational demand and rents

■ The migration and growth in Chinese retail spend overseas has resulted in a slowdown in store traffic and store openings in China.

■ This in turn has generated occupational demand pressures in key destination cities outside China.

■ Hong Kong, which captures the bulk of Chinese overseas spend, has seen prime retail rents increase by an average of 26% per annum since Q4 2009. The city now has some of the highest retail rents in the World although there were some downward shifts during the latter part of 2013. With increasing numbers of Chinese travelling further afield upward pressures on rents in other gateway cities is expected.

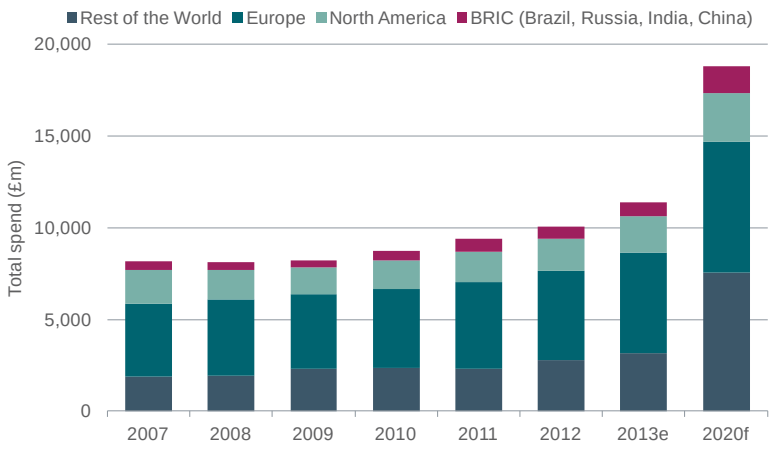
■ London's position as a key tourist destination, not just for Chinese travellers, has already attracted a number of international retailers. Over the last three years 55 international brands opened their first UK store in London.

■ The arrival of more Chinese tourists, including those from other markets, will no doubt exacerbate this demand from new entrants keen to get their brand in front of new consumers. For some it may provide a test bed before entering Asian markets.

■ Chinese retailers may also look to enter the London market, however, this is likely to be confined to a handful of luxury brands with concessions in department stores likely to be the initial route in.

GRAPH 2

Total overseas visitor spend in London



Graph source: Savills; ONS; Deloitte;

TABLE 2

Average tax free spend in London

1H2013	Average spend per transaction	Share of total in-store transactions
UAE	£1,804	6%
Qatar	£1,400	5%
Saudi	£932	5%
China	£776	20%
Thailand	£763	5%
Russia	£650	5%
Nigeria	£628	5%
Malaysia	£577	4%
US	£575	4%

Table source: Global Blue; New West End Company

■ With availability heavily constrained, particularly for large units on Bond Street, we may see an increasing number of luxury retailers look to new pitches in order secure larger stores as has been the case for Watches of Switzerland. The retailer announced at the end of last year that they would be moving from Bond Street to a new 17,000 sq ft store on Regent Street in mid 2014.

■ With demand from retailers showing no signs of abating further upward pressure on prime rents in Central London looks set to continue.

What key streets likely to see the greatest rental growth?

■ The luxury pitches of Central London are expected to see strong rental growth over the next 12 to 18 months (table 2).

■ Our projections for Bond Street are that prime open market Zone A rents will reach £1,500 per sq ft over the next 12 months, 15% up on current levels. Brompton Road is also expected to see strong uplift in the region of 20% over the next 12 to 18 months bringing rents more in line with those seen in the core West End.

■ Rents on the emerging luxury pitches in the wider Mayfair area are also expected to be significant. While any marked percentage increases will largely reflect growth of a lower base the continued availability constraints on Bond Street will intensify demand on nearby pitches.

■ Regent Street prime Zone A rents are expected to hit £725 per sq ft by Q2 2015. The Crown Estate's improvement programme and arrival of new retailers, including a number of luxury brands, will be instrumental in driving this growth. The larger units found on the street, relatively rare in the core West End, should also underpin strong levels of demand.

■ While rents on Oxford Street will also see upward movements this is likely to be focused on the western end of the street. However, the redevelopment projects currently underway and planned for the eastern end of the street, along with the arrival of Crossrail, will help Oxford Street East capture some of this growth.

■ The continued growth in rents may mean that we see an increasing number of retailers look to acquire their own stores in order to control property costs. This projected uplift should also support the low yields currently being achieved on prime assets on Bond Street.

■ However, as the number of visitors to Central London increases so to will the competition between the various retail pitches. For landlords, understanding wider consumer trends, including those of visiting consumers, and how the location compares to other pitches, will become increasingly important in differentiating the retail offer. Doing this will ultimately enhance spend and in turn occupier demand, driving rental growth.

OUTLOOK

Luxury pitches to see strong rental growth over the next 12 to 18 months

■ Total overseas visitor spend in London forecast to increase by 65% by 2020.

■ This is set to intensify occupational demand and rental pressures primarily within London's luxury enclaves.

■ Availability constraints, particularly for large units on Bond Street, may lead an increasing number of luxury retailers look to new pitches in order secure stores.

■ Bond Street open market prime Zone A rents expected to hit £1,500 per sq ft over the next 12 months. Brompton Road forecast to see uplift in rents of over 20% to £800 bringing them more in line with those on the prime pitches in the West End core.

TABLE 2

Rental projections

Prime Zone A £ per sq ft	Q4 2013	Next 12-18 months	% change
Bond Street	£1,300	£1,500	15%
Oxford Street	£800	£850	6%
James Street, Covent Garden	£700	£800	14%
Regent Street	£640	£725	13%
Brompton Road	£650	£800	23%
Westfield White City	£450	£500	11%
Tottenham Court Road	£275	£375	36%

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