Central London Retail Briefing

Oxford Street, Regent Street & Bond Street

Summer 2011

"Huge premium deals are highlighting the heightened desire by some brands to ensure that they acquire the best store, in the best location for their flagship."

Image: The newly opened Forever 21 store on Oxford Street where Savills acted for HMV in achieving a £14m premium.

- While the overall London economy was hit hard by the recession, it still has pockets of equity-rich consumers from home and abroad that have maintained sales on the three key shopping streets.
- Retailer demand for central London's prime retail streets is strong, and premiums and rising rents are becoming the norm as vacancies disappear.
- Investor demand is driving central London retail yields to record lows as non-domestic investors, retailers and UK institutions compete for all opportunities.

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Consumers & Retailers

The consumer economy

There are numerous misconceptions about London's economy, and the most often-heard is that "London didn't have a recession". Actually, not only did London's economy contract in 2009, it was one of the hardest hit regions in the UK by the credit crunch and the recession. So, why is central London's retail economy in such rude health?

The single most important driver of the strength of trading through the downturn, and the bounceback in sales since the downturn has been equity. The have's and have-not's in the UK economy are now defined by their access to equity (particularly equity that was created by the housing market). Furthermore, the London retail market does not depend solely on the UK consumer, but a steady stream of business and leisure tourists - many of which at present are from the more equity-rich parts of the world than the debt-saddled west.

The weak pound throughout the recent crisis has also stimulated tourist spend, and thus while the number of visitors has fallen by around 3% over the last year, the average spend per visitor has risen by 4%.

Is everything rosy ahead? Maybe, but the remainder of this year could still be uncertain, particularly outside London. While London's equity rich consumer will be buoyed up by continuing house price growth (Savills are forecasting that prime London house prices will rise by 8% in 2011, and 25-30% over the period 2012-2015), there are also some clouds gathering over confidence. The spectres of sovereign debt issues in both the Eurozone and the USA are likely to dampen tourist spend over the summer and early Autumn. Domestic shoppers' confidence is also likely to be damaged by the beginnings of public sector austerity cuts, and the knock-on effects of non-domestic political and economic factors.

However, a rise in tourist numbers from the Middle and Far East should compensate for any tightening in spend from the USA and Europe. As a result of this we expect that retail spend in central London will hold up over the summer, before gathering pace in the run-up to Christmas.

Looking to the medium-term we expect a more robust and steady recovery, with domestic real-earnings beginning to rise from 2012. The luxury end of the market will continue to trade well through this turbulence, but we expect times to remain tough for the mid-market until a real economic recovery begins in the UK.

Occupational market - Oxford Street

Oxford Street as well as being the core of London's mid-market retail offer, is currently on the verge of experiencing a long-awaited rejuvenation phase. With Crossrail delivering significant improvements to shopper access at Bond Street, Oxford Circus and Tottenham Court Road there is also an impending widening to the prime pitch on the street because of the new retail units at Park House on the west end of the street, and the Primark-anchored scheme at the east end.

Park House has 12 retail units, and we understand that half of these are already under offer. While names of incoming retailers are yet to be revealed, we would expect them to include some of the following retailers who have requirements for Oxford St West: Zara, Bershka, Uniqlo, Gap, Urban, Schuh, New Look.

The more significant rejuvenation is led by the Primark letting at the eastern end of Oxford Street. This area currently lacks an anchor retailer, and we believe that with Primark and the new Tottenham Court Road station we will see new rental levels being set at that end of the street.

Generally the tone of the rents that have been achieved over the first six months of this year is rising, with the new range of Zone A's being between £300 and £750. Aside from the two new schemes that we have already mentioned, void rates along the whole of Oxford Street remain very low. Retailer's hunger to be on the best pitches on Oxford Street has stimulated some extremely high premiums, including the £14m paid by Forever 21. The Aldo and Desigual lettings have demonstrated that £700+ Zone A needs to be paid for the best locations.

Looking ahead we believe that the next 18 months will see big changes on Oxford Street. The expansion of the street eastwards and westwards will not only raise the tone of rents in these locations that were previously thought of as fringe, but will begin to lead retailers and developers to look to where the next secondary pitches might be. Our best bets for the future would be for a spillover of retailers into the both the lower end of Tottenham Court Road, and the upper end of Charing Cross Road. Of course, this will depend on developers stepping up to deliver the size and quality of units that are now required in central London. It is no coincidence that some of London's most expert developers, including Great Portland Estates, Land Securities and Derwent, are already well-positioned to deliver new retail units along this street.

Occupational market - Regent Street

While retailers perceive Oxford Street as being all about footfall, Regent Street is now seen as the preferred location for quality fashion retailing - particularly for non-domestic brands who may be making their first foray into the UK.

The tone of rents along Regent Street is now in the £350-£500 Zone A range, with handsome premiums being the order of the day for retailers looking to get

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into the best stores on the street. Of the seven largest recent deals on Regent Street (Michael Kors, Gant, Austin Reed, Burberry, Superdry and Hollister), we understand that premiums of between £5m and £10m were paid on four of them.

We expect that the supply of units on Regent Street will remain extremely short for the foreseeable future, although there are a few opportunities remaining. Chief amongst these is the subdivision of the old Burberry store into two to three units. Looking ahead, we see no reason why Regent Street, with its high quality streetscape and dominant ownership, should not achieve rents at the same levels or higher than Oxford Street

We also expect that as the Regent Street market tightens even further, we will see retailers beginning to look at Lower Regent Street as an overspill location, though will most likely be precipitated by the Crown Estate raising the quality of the streetscape to the high standards that it has achieved on Regent Street.

Occupational market - Bond Street

As far as most retailers are concerned the words "Bond Street" are currently synomynous with undersupply. It almost goes without saying that the vacancy rate on Bond Street is effectively zero, but it remains the preferred location for domestic and non-domestic luxury retailers.

We have seen Chanel, Coach, Victoria's Secret, and most recently Fendi paying substantial premiums to unlock opportunities. Furthermore, Missoni, Piaget and Chanel have set new rental levels in their chosen locations, with Savills advising on four of these transactions.

Bond Street values remain difficult to understand without expert micro-market knowledge of the street, as rents vary from block to block. While the headlines always focus on the very highest rents that are achieved on Bond Street, the actual range is from £250 in the section north of Brook Street, to £1,000 Zone A in the jewellery pitch.

Why pay such high rents on Bond Street? The simple answer is that the stores trade extremely well. We know of retailers on Bond Street who are trading £20m-£30m out of unit shops.

With the world's three main luxury brands currently having multiple requirements for stores on Bond Street, we expect the market to remain tight. Indeed, we are only aware of one lease assignment currently on the market, and no new lease opportunities being openly marketed. Off-market deals will remain the tone for the future as retailers chase the few available units.

Strong demand and limited supply will continue to have knock-on effects on rent reviews and lease renewals. However, the lack of open market evidence makes it hard for both parties to agree on the "right" rent.

So, what is a retailer who is looking for a luxury pitch to do? Wait in line and pay ever higher rents, or look to other locations? The good news for luxury retailers is that some increasingly acceptable "other" locations are emerging, with Conduit Street, Bruton Street, Albermarle Street, Dover Street and Mount Street all rapidly evolving as acceptable locations for luxury retailing. For some retailers Bond Street will always be the destination of choice, but we expect the next few years to see the evolution of a wider 'luxury district' in the area.

Investment Market

Retail investment opportunities in London continue to attract investors looking for a safe haven investment in an otherwise unstable global economy. The buoyant occupational market has also given investors the confidence to settle for yields, which in most occasions would be lower than those seen before the credit crunch and subsequent recession.

Ultra high net worth private investors continue to dominate the market particularly on Bond Street where we have seen 16 properties traded in 12 transactions over the past fifteen months. What has become apparent is that in general the lot size will direct the marketing.

Savills recently marketed 138 New Bond Street, a shop let to Missoni on a new 15 year lease. The quoting price of £7 million pounds attracted substantial interest both domestically and internationally and resulted in a sale price of £9.5million (3.08% NIY), 35% more than the quoting price.

It was notable that in another recent Savills sale at 40-41 Old Bond St, a shop let to Cartier with a quoting price of £16.5 million that the quantity of interested parties had approximately halved compared to the above-mentioned Missoni sale. Nevertheless the level of interest in that property was sufficient enough to deliver an eye-catching sale price of £18.65 million reflecting an initial yield of 2.74%.

Other emerging trends, particularly on Bond Street is that of retailers strategically buying up freeholds. The likes of Chanel, LVMH, Etro and Max Mara have all purchased freehold investments on the street therefore giving them long term options for their multiple brands in the future.

Like Bond Street, Oxford Street has attracted investor interest due to exceptional rental growth experienced over the last 12 months in particular. The most high profile purchases have been by retailers or to be more precise the families behind them. At the beginning of 2011, The Best Seller Group purchased the freehold of 301-307 Oxford Street, let to River Island for a further

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10 years. Considered to be one of the best modern retail units on the west side of the street, the purchaser paid £94.5m reflecting a yield of 4%.

More recently the owner of Zara completed the purchase of the Jubilee House Island side just east of Oxford Circus Underground station. The site, which includes a Zara store was purchased for a combined price of £220 million representing a yield of 4.35%.

Not to be outshone, UK institutions have also been active on Oxford Street as Scottish Widows purchased the Russell & Bromley store at 192-194 Oxford Street directly opposite Jubilee House. The fund managed to fend off competition from a number of other institutions and private investors to purchase the property for £19.22million, reflecting a yield of 4.25%.

At the time of publication, Scottish Widows were also believed to be purchasing the Boots flagship store at Sedley Place, Oxford Street for £75 million, reflecting a yield in the region of 4.25%.

Regent Street offered one of the largest and most interesting deals. The Crown Estate's sale of a 25% stake in the Regent Street retail and office portfolio to Norges Bank Investment Management for £452 million reflects the quality of real estate and long term growth potential that was offered. Underbidders for the very unusual investment structure included Sovereign Wealth and State Pension Funds

Regent Street, with its increasingly high end line up of international fashion retailers, is one of the Central London retail streets that most investors would like to gain access to. However, investment opportunities are few and far between because of the dominance of the Crown Estate on the street.

Outlook

With record high rents and record low yields being set across the key central London retail streets over the last 12 months, we have to ask whether these trends can continue.

As far as the leasing market goes, the key driver for the future will be the low vacancy rate. Despite the wider domestic consumer recession there is still a long list of international and domestic retailers who want a store on one of the three key central London retail streets. With few new units being delivered over the next 12 months the path for rents and premiums will undoubtedly be upwards.

We will be watching the later lettings at Park House with interest, as we believe that these could deliver new high rents for the western end of Oxford Street.

In the investment market, at least on Bond Street, it is hard to argue that yields could go any lower. That having been said, a number of disappointed underbidders have retained their requirements and this alone could drive yields even lower. We believe that investor demand will remain strong, but that yields on Bond Street will remain broadly stable over the next 12 months. Oxford Street, particularly the eastern end will see some further yield hardening as the pitch and offer improves.

Overall, we believe that the central London retail market is on the cusp of another geographic expansion. As the prime pitches of Oxford Street, Regent Street and Bond Street stay fully let and high-rented, some retailers will begin to look for the next secondary pitch. This has already been seen with the new luxury quarter surrounding Bond Street, and over the next few years we expect to see a rejuvenation of Lower Regent Street and Charing Cross Road in particular.

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