savills

Spotlight
Central London Retail City and City fringes

Summer 2012

SUMMARY

■ While an Olympic bounce in spending is possible in London, we believe that the prospects for the rest of the year remains mixed. However, central London retail will continue to outperform the rest of the UK.

■ The City of London retail market has always been seen as a challenge by some comparison goods and fashion retailers due to its shorter trading patterns.

■ The rejuvenation of Cheapside and opening of One New Change has significantly improved the quality of the retail space in the City, and widened the tenant mix to be more comparable with other parts of London.

■ The City fringe retail markets offer retailers a mix of residential and commercial neighbourhoods that they don't get in the City core. Furthermore, the creative occupier base in these areas is proving an attractive target audience for retailers looking to test new concepts or promote new brands.

"Despite the growing retailer interest in the City fringes we do not expect to see a rush of major multiples into the area."

The consumer economy

■ Central London remains an island of comparatively strong sales and footfall in the otherwise lacklustre UK retail landscape. Retail sales in the West End in May were 1.5% up on the previous year, while the national number was only 1.3% up.

■ While the central London retail market's strength in the face of a domestic recession can be in part attributed to inbound tourists, this could also be its weakness. Continuing problems in the Eurozone could inhibit the number of tourists from that area over the remainder of this year.

■ Furthermore, the strengthening of the pound against both the Euro and the Dollar means that shopping and staying in London is no longer as cheap as it was.

■ However, London retailing will benefit from a special summer. The recent influx of several million people for the various jubilee events will have benefitted some retailers, and the prospects are that the Olympics will on balance be good for London.

■ Our analysis of retail trends during the Athens and Sydney Olympics show that in those cities there was an uplift in household goods sales just before the event (presumably flatscreen tv's!), and a significant uplift in food and beverage spending during the Olympics. However, overall the impact on comparison goods sales was marginally negative.

■ However, London is a very different retail market to Athens or Sydney. It is much bigger (so congestion is unlikely to put off as many normal shoppers), and it has a much more global and leisure/retail focused mix. We believe that many visitors and members of the "Olympic Family" will see their visit to London as an opportunity to indulge in some high-end retail gratification, and that this will compensate for those tourists who might choose to stay at home during the event.

■ The outlook for the rest of 2012 is undoubtedly mixed. The UK economic recovery is unlikely to gather pace until 2012, and the problems in the Eurozone will definitely drag on in-bound tourism from that area for the rest of the year. However, central London's retail market will remain comparatively insulated from domestic trends due to its comparatively equity-rich consumers, and its continuing attractions as a safe-haven for the world's UHNW consumers.

■ As a result of this we continue to forecast that London's retail market will outperform that of the UK. This will lead to real consumer spending growing by around 3% per annum over the next five years, well ahead of the national average of 2% per annum.

The City of London occupational market

■ While the City of London has always been popular with convenience goods retailers, its 'five lunchtimes a week' trading pattern has been a challenging sell to comparison good retailers.

■ The lack of resident population in the City is not compensated for by weekend flows of tourists which are primarily focused on the areas around St Pauls and the Tower of London. However, recent years have seen a steady rise in the number of comparison goods retailers into the area and this means that the City now has a higher PMA ranking than Bond Street, Oxford Street and Regent Street.

■ Cheapside has always been the City of London's main shopping street, though its offer ebbed during the last office development boom as much of the street's retail offer was affected by the construction of new office buildings. This construction is now complete, and virtually all the retail units on Cheapside have been replaced and re-let.

■ Cheapside has experienced a fairly significant re-rating of its Zone A rents in recent years, with the peak rent in the 1990s getting as high at £300-£320, subsequently falling to £150 in 2008. Rents have been rising since the rejuvenation of the street, and we estimate that the tone of top rents on the street this year has been in the £175-£200 Zone A range.

■ The biggest retail change in the City in recent years has been the opening of One New Change at the St Pauls end of Cheapside in October 2010. This 220,000 sq ft development has a fairly heavy food and beverage bias, but has also significantly improved the local fashion offer, with units occupied by Superdry, New Look, Reiss, Topshop and Karen Millen amongst others.

■ Open market rental evidence has been scarce at One New Change, but we would expect that the best units fronting onto Cheapside are achieving rents in excess of £200/sq ft Zone A. Given that the west end of Cheapside was traditionally the cheap end of the street, it is clear that the opening of One New Change has led to significant re-rating in rents. Furthermore, our visits to the area on several weekends indicate that the scheme has been successful in pulling tourists eastwards from St Pauls and Paternoster Square.

■ The rest of the City core's retail areas are markedly smaller and more focused on convenience than comparison goods. The Royal Exchange is relatively unique with its heavy bias towards luxury goods encompassing 30 small retail units let to retailers such as Agent Provocateur, Bulgari, Montblanc and Hermes. While rents in excess of £300/sq ft Zone A have been achieved in the Royal Exchange, more recent evidence points to a tone of around £210/sq ft.

■ The City's second largest retail area is in and around Broadgate, encompassing Moorgate and Bishopsgate. Top rents are broadly comparable with those on Cheapside, though the Moorgate area has lost some stock as part of the Crossrail development. We would expect to see good demand for the new units that will be delivered once the works have been completed.

■ Looking ahead, we expect retailer demand for the City of London to remain heavily convenience-biased, though the comparison offer will improve in line with the retail stock. A number of retailers have commented to us that the stock in the City is generally too small, and poorly configured and these comments are given credence by the strong demand for the newer units on Cheapside and at One New Change.

■ While no new solely retail developments are planned for the City of London, we estimate that nearly 500,000 sq ft of shops could be added or replaced as part of planned office developments over the next decade.

City fringe occupational market

■ To some retailers, while the City remains frontier territory, its fringe such as Spitalfields and Shoreditch are almost no-go areas. However, for some these areas are becoming increasingly attractive largely due to the associations they can imbue on a brand.

■ Over the last 20 years East London has established itself as a cutting edge, creative hub with artists such as Tracey Emin and Gilbert & George establishing studios in the area primarily attracted by its low rents. More recently, the area has become the epicentre of the start-up creative technology sector centred around Old Street and now dubbed Silicon Roundabout. All this has imbued the area with a creative and cutting edge spirit with some describing it as having a 'rebellious cool' vibe. While these areas may not attract the large multiples they are definitely on the map for some of the smaller, quirkier brands and those larger brands wanting to launch concept stores.

■ The most established of these frontier locations is Spitalfields Market. The market itself was purchased by Ballymore in 1999 (sublease) with its renovation recently completed, the market provides just under 42,000 sq ft of retail and A3 space. Occupiers include a number of boutiques and mid-market niche fashion retailers such as Barbour, Agnes B, Fred Perry, Wagamama, and Gourmet Burger Kitchen. Even those streets adjacent to the market have been attractive to a number of the larger multiple retailers such as Office Shoes and Whistles with Zone A rents in the region of £180-220 per sq ft.

■ Last year Topman, a well recognised high street resident, launched their first General Store concept, designed to resemble the independent boutiques already common in the area, on Commercial Street opposite Spitalfields Market.

■ The relative success of the market as a retail and food & drink destination has been driven by the high footfall the area enjoys. While its proximity to the City has supported weekday trading it is the weekend trade, swelled by the presence of the market, that has been the key attraction for retailers.

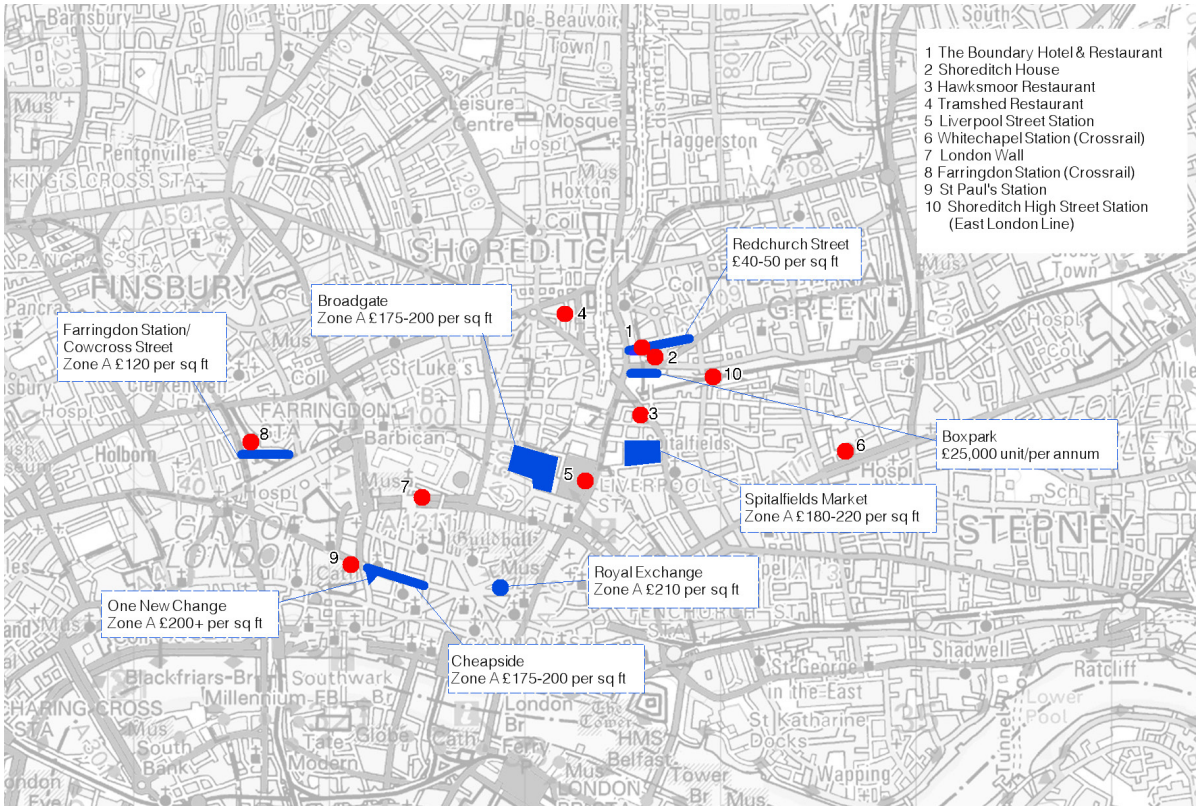
■ More recently Shoreditch focused on Redchurch Street just north of Bethnal Green Road, has been attracting the attention of a number of retail brands. The area has been likened to the Meatpacking District in New York, and as in New York it are the luxury brands that are being the inquisitive. Christian Louboutin, Paul Smith, Ralph Lauren, Vivienne Westwood and Nicole Farhi are all reportedly to be looking to take space in the vicinity, helping to establish Redchurch Street as a luxury enclave.

■ The rise of Redchurch Street is largely down to Derwent's redevelopment of the Tea Building on the junction of Bethnal Green Road and Shoreditch High Street. While the building is home to a number of creative and technology firms it was the opening of Shoreditch House in the building in 2007 (part of the private members group Soho House) followed by the opening of Terence Conran's The Boundary Hotel & Restaurant opposite in 2008 that really put Redchurch Street on the map.

■ A number of niche and boutique retailers took space on and in the vicinity of Redchurch Street following

MAP 1

City of London retail map



the opening of Shoreditch House and The Boundary. These included Aesop in 2009, and APC and Sunspel both in 2011. Earlier this year shoe designer Tracey Neuls took just under 800 sq ft at 73 Redchurch Street. Aubin & Wills, to date, have made the biggest commitment taking 8,275 sq ft in 2010, the lower ground floor of which houses a small cinema. The evolution of the area as a retail destination has seen average rents increase from £20 in 2006 to their current £40-50 per sq ft range.

■ The arrival of a number of luxury restaurants in the local area, such as the recently opened Hawksmoor on Commercial Street and Mark Hix's Tramshed on Rivington Street, could help to reinforce the area as a luxury retail destination.

■ However, despite luxury retailers interest in Redchurch Street there is concern that its a case of 'smoke and mirrors'. To date, retailers interest in the area is being driven by its potential brand associations and the 'edginess' it can infer. Yet, footfall and conversion rates on the street and therefore its strength as a retail destination is in doubt. Some retailers have noted that people tend to turn up in taxi's with activity focused around The Boundary with visitors rarely walking its full length. This is likely to change as the area develops and new retailers move in. The opening of Shoreditch High Street station as part of the East London line extension on Bethnal Green Road should help to drive footfall into the locale as the area develops.

■ The recent opening of Boxpark, the World's first pop-up mall, adjacent to Shoreditch High Street station will be an important draw increasing visitor numbers to the area.

■ Boxpark is the brainchild of Roger Wade the founder of the fashion brand Boxfresh. The mall consists of 60 stacked shipping containers, approximately 400 sq ft in size, on a former goods yard site. It is envisaged the mall will be in operation for five years after which Hammerson and Ballymore will then redevelop the site.

■ The mall is already 100% let after opening in December offering leases on a short term basis at £25,000 per annum (all in). Brands were carefully selected with some having their first UK store on the site. For example, Nike have two concept stores on the park, Nikefuel Station and Nikeid Studio, with the Urbanears outlet being their first ever retail endeavour globally.

■ The flexibility of tenure Boxpark offers is another key attraction. Leases are available for one, three and five year periods. For smaller brands this provides them the opportunity to test a new concept and/or new location without the larger financial costs normally associated with opening a store.

■ The park's uniqueness is also reflected in those brands featured. They are not typical high street occupiers, differentiating Boxpark from other retail destinations in the Capital. For some brands Boxpark offers a shop window, particularly those launching concept offerings, and is perhaps not necessarily about shifting stock as would be the case in traditional high street stores.

■ The popularity of Boxpark to certain brands could be linked to the growth in e-commerce. Increasing online retail spend has raised the question over the need to have large retail formats, rather focus has shifted to reinforcing and promoting the brand and not just through having more stores. Therefore formats and locations that assist this, such as Boxpark Shoreditch, may become increasingly common. There are already plans to open another Boxpark in London and launch the concept in Continental Europe following the tie up with Corio.

■ Despite the growing interest in these fringe locations from retail brands, for the time being a least, they are unlikely to attract the large multiples. The nature of the stock and fractional ownership common in these locations means that they are on the whole unsuitable for those retailers focused on large formats. Having said this, as has already been successfully achieved by Shaftesbury Estate in Carnaby Street, there may be opportunities to consolidate ownerships allowing for the redevelopment of larger stores. However, attention to management and brand selection will be key to ensuring success.

■ As Redchurch Street and Shoreditch become established retail locations new fringe locations are likely to appear attracting those brands looking for the 'next' thing. These potential new 'frontiers' could include the likes of Dalston and Whitechapel High Street, assisted by the East London line extension (Dalston) and Crossrail (Whitechapel).

■ Crossrail will also have important implications on the retail landscape in and around Farringdon. Farringdon will be the only station that will offer passengers a link between Thameslink, Crossrail and the Underground network and is expected to become one of Britain's busiest stations. Its emergence as a key transport interchange and its relative proximity to St Pauls and London Wall will no doubt drive increased levels of footfall through the area opening up new retail locations beyond those currently concentrated round the station at Cowcross Street.

■ Other transport interchanges that are expected to see a retail resurgence are London Bridge and Waterloo.

■ London Bridge station is currently going through an extensive redevelopment, which combined with the development of the Shard will no doubt rejuvenate the area's retail offer. The station works are expected to see passenger numbers swell from 55 million to 90 million. This increase in footfall combined with the redesign of the station that will result in new retail provision in the station at ground and lower ground levels plus along Tooley Street as part of the new entrance, will help to attract new retailers.

■ The area around Waterloo station is also set to undergo significant development enhancing the existing retail offer. Bourne Capital is currently drawing up mixed use development plans for the island site opposite the station. The redevelopment of Elizabeth House by Chelsfield and London & Regional including Songbird Estates and Qatari Diar's proposals for the Shell Centre opposite, will see new office, retail and residential delivered into the local market. This level of development is likely to see this area of the Southbank emerge as a distinct sub-market enhancing retailer demand.

City retail investment market

■ While the City of London does have some properties where retail is the predominant usage, they are very few and far between. Investors generally view the City as an investment market where retail is an add-on, either to offices uses in core, or residential uses in some fringe locations.

■ Larger scale retail investments come to the City market very occasionally, and Savills are currently marketing 68 King William Street where the retail element is the House of Fraser department store. At the smaller end of the market ownerships are dominated by private investors and the livery companies, with private buyers often put off back the lack of freehold.

■ There is also often a reluctance amongst owners of small City retail units to sell them, as there is always the hope that a major office developer might buy the small investment as part of a larger office redevelopment opportunity.

■ Achievable yields will continue to move in line with the majority asset type (whether it is office or residential). However, we expect to see more interest in the retail component of mixed-use investments as the retail offer in the City of London continue to evolve.

OUTLOOK

Rents expected to recover in line with the wider central London retail market

■ The reinvigoration of Cheapside, and the arrival of One New Change have caused some retailers to reassess their long held view that the City is a hard market in which to trade.

■ Over the next five years we expect to see a steady return of prime City of London retail rents back towards their previous peak of around £300/sq ft Zone A.

■ The next five years will be quieter than normal in the City office development market, and this will result in a period of underdelivery of new shops under these developments. We expect retailer's appetites for larger, better configured stores to not be met by supply and this will support the rental recovery.

■ We expect that City fringe retail markets like Shoreditch and Spitalfields will continue to evolve, though large multiples are likely to remain cautious but anything other than pop-ups and brand showcases for some time to come. However, the retail market will continue to mature as the office and residential offers expand in these areas, and a corresponding uplift in rents is inevitable.

Please contact us for further information

Peter Thomas
Leasing
+44 (0)20 7734 3443
pthomas@savills.com

Stephen Down
Investment
+44 (0)20 7409 8001
sdown@savills.com

Mat Oakley
Research
+44 (0)20 7409 8781
gchilds@savills.com

Marie Hickey
Research
+44 (0)20 3320 8288
mlhickey@savills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.