MARKET IN MINUTES
Savills Research

UK Commercial – Q2 2020

Central London Retail Market in Minutes

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Covid-19 continues to impact Central London retail

Despite the easing of lockdown and widespread reopening of retail from 15 June, the effects of the pandemic are having a lasting impact on Central London retail. The recovery process is somewhat delayed due to the absence of both local office workforce and international tourists, exacerbating the recent weakening in occupier confidence. This has resulted in tougher retailer-landlord negotiations, applying further downward pressure on rents, with some landlords looking at rent reductions or temporary turnover-based rents.

As a result, rental declines accelerated across Central London in Q2, with average prime Zone A rents falling by 12.9% year-on-year, representing the most pronounced shift in rents on Savills record. Prime West End hasn't been immune to the fall in rental levels but has experienced a relative degree of resilience, reporting a much more subtle rental softening of 3.8% year-on-year.

The staggered reopening of retail presents ongoing challenges with understanding the true vacancy tone across Central London, however we can expect a number of stores to remain shut permanently in light of the recent spate of administrations and retailers consolidating their store portfolios.

As a result, availability of well-located assets on key Central London streets is likely to increase, creating potential openings for opportunistic retailers seeking centrally-located units at relatively discounted rental tones compared to a year prior.

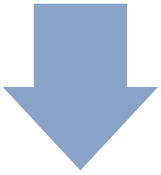
Despite the immediate challenges facing Central London during the recovery period, the longer-term fundamentals remain robust with government support and a number of infrastructure projects set to support the future of the city centre.

Headline Central London Retail Indicators

	Q2 2019	Q1 2020	Q2 2020
West End Footfall weekly average year-on-year (13 week period)	-2.3%	-17.0%	-87.4%
New International Entrants*	5	1	0
Prime West End vacancy rate**	3.0%	4.6%	N/A
All Central London Prime ZA Rental Growth (year-on-year)	-3.2%	-8.4%	-12.9%
Oxford Street West Prime ZA Rent	£915 psf	£850 psf	£800 psf
Bond Street Prime ZA Rent	£2,500 psf	£2,400 psf	£2,400 psf
Central London investment volumes (quarterly figure)	£164.6m	£332.0m	£45.6m
Prime Central London Yield (Bond Street)	2.75%	2.75%↑	2.75%↑

Source Savills Research; NWEC
Note: new international entrants added retrospectively*
*Note**: based on unit vacancy and not floorspace*

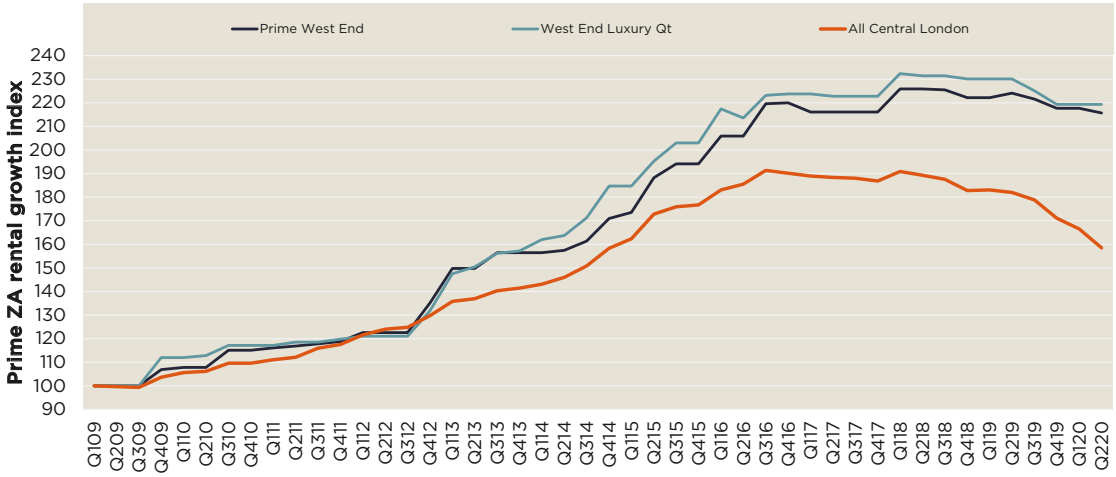
£377.6m
Central London investment volumes in H1 2020, a decrease of 56.0% year-on-year.



-12.9%
Year-on-year prime Zone A rental decline across Central London in Q2 2020.

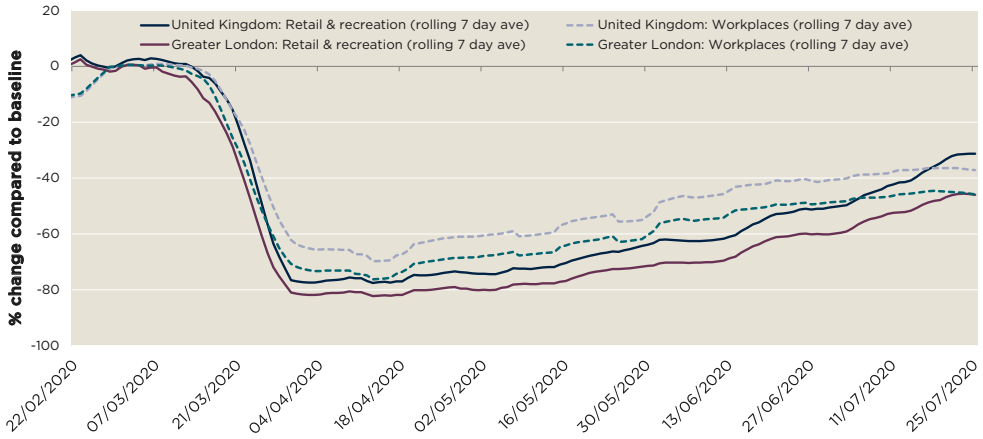
5.1 million people visited the West End in the month from 15 June, down 73% year-on-year, according to NWEC.

Prime ZA rental growth index rental decline across Central London as a whole accelerated despite some key West End prime streets holding in Q2.



Source Savills Research

Google mobility data highlights the weekly improvements to movement across retail and recreation locations since the height of the lockdown.



Source Savills Research; Google Covid-19 Community Mobility Report

EARLY SIGNS OF RECOVERY AS MOBILITY ACROSS LONDON CREEPS BACK

After almost three months of closure, June 15 marked the return to physical trading for many retailers across Central London, albeit under a vastly different trading environment compared to pre-Covid.

While the widespread reopening of retail has benefitted the recovery process across parts of the wider market, notably out-of-town retail and local neighbourhood high streets, the read through to larger city centres is somewhat delayed. Two key reasons prohibit the immediate bounceback in demand for Central London. Firstly, hesitancy over public transport usage and therefore the return to offices, with many employers delaying their return to office plans. This has had a notable impact on City locations whereby workforce populations ordinarily account for a great deal of weekday footfall.

The second limiting factor is the reduced presence of overseas visitors, who typically account for almost half of West End visitors, according to surveys by the New West End Company. At this time it's very difficult to ascertain when this might recover, with some sources projecting a boost in short-haul arrivals in 2021 but with pre-Covid levels of total arrivals not expected until at least 2023. However, this is likely to be determined by any further development of the virus and the timing of a vaccination.

As a result, footfall recovery in London continues to lag behind the UK average. The graph above presents Google mobility data, highlighting movement across retail and recreation locations as well as workplaces, benchmarked against a baseline average during a five week period pre-Covid. Greater London has experienced weekly improvements to retail and recreation mobility since its nadir of -82.3% during the height of the lockdown, to record -46.0% in the week to 25 July, slightly behind the UK average of -31.3% for the same week.

Government support and local initiatives have been introduced, relieving some of the immediate pressures facing Central London. A temporary relaxation of planning regulations to allow businesses to quickly attain permission to trade outdoors plus the pedestrianisation of locations like Seven Dials and Soho will no doubt encourage day visitors to the West End. The permanent adjustment of planning policy allowing more flexible change-in-use will also help ease headwinds regarding vacancy by opening opportunities for conversion to alternative uses.

The longer-term picture continues to strengthen Central London's position as a key global retail destination, with numerous infrastructure projects set to complete. Most notably the opening of Crossrail, which will significantly increase West End footfall upon completion. Fresh development plans continue to be announced, reinforcing the longer-term confidence in the market.

What's vital going forward is for retailers and landlords to continue enticing footfall through best practice in terms of cleanliness, space and environment to provide positive shopping experiences, while continued government support and new initiatives will help businesses to survive in the short-term and thrive again in the longer-term.

WEAK Q2 INVESTMENT VOLUMES AS LOCKDOWN DAMPENS ACTIVITY

Q2 2020 experienced a dramatic fall in investment volumes, as perhaps expected and in line with the wider sector. As a result, H1 2020 investment volumes declined by 56.0% year-on-year, totalling £377.6m. Despite low transaction volumes indicating investor hesitancy, we have experienced continued interest levels from private individuals and international buyers when observing well-located prime assets. An expected return to positive quarter-on-quarter UK economic output from Q3 and a shift to quality for investors seeking safer long-term investments could bolster interest levels for some prime West End pitches. An issue arises in terms of availability, with some landlords potentially unwilling to sell at discounted levels during this time.

In terms of pricing, while very little evidence makes it difficult to adjust prime yields, we can expect outward movement across most Central London pitches this year.

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