

Central London Retail Market in Minutes



Christmas trading hindered by further restrictions

The introduction of new tiered restrictions in London dampened footfall over the Christmas period, despite optimistic improvements in early December. Retail and recreation mobility across Westminster peaked at -58.3% in mid-December, compared to a pre-Covid baseline, matching the post-pandemic peak recorded during the height of the summer. Lockdown 3.0 has since resulted in the closure of non-essential stores, damaging West End footfall once again.

The third lockdown has made it very difficult to determine true vacancy in the West End, however the rise we saw through 2020 (from 4.6% pre-Covid to 6.1% in Q3 2020), coupled with the temporary closure of stores once more, points towards a further rise in vacancy likely in 2021. Once lockdown measures ease and retailers begin another reopening strategy in spring, true vacancy tone will become more evident.

Ongoing stress facing retailers has continued to apply downward pressure on prime Zone A rents, which decreased -8.9% year-on-year in Q4 2020. This represents a marked improvement compared to the double-digit declines recorded in Q3, albeit a severe lack of leasing activity means there is little evidence to rebase rents on some key streets. More activity through the year could therefore result in further

Headline Central London Retail Indicators

	Q4 2019	Q3 2020	Q4 2020
West End Footfall weekly average year-on-year (13 week period)	-3.3%	-59.9%	-66.8%
New International Entrants	8	2	8
Prime West End vacancy rate*	4.6%	6.1%	N/A
All Central London Prime ZA Rental Growth (year-on-year)	-5.8%	-12.7%	-8.9%
Oxford Street West Prime ZA Rent	£850 psf	£750 psf	£750 psf
Central London investment volumes (quarterly figure)	£257.2m	£21.0m	£412.7m
Prime Central London Yield (Bond Street)	2.75%	2.75%	2.75%

Source Savills Research; NWEA

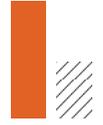
Note*: based on unit vacancy and not floorspace

Note: Bond Street prime ZA removed temporarily, due to lack of evidence

corrections in rental levels. Regardless, as it stands, prime Zone A rents on some key Central London streets are at levels not seen since 2011.

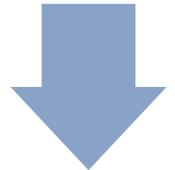
This has already opened attractive opportunities for new retailers seeking space. Despite what was otherwise a subdued year for new international entrants, Q4 reported a significant uptick in retailers opening their first

site in London. This has included key West End openings such as Moose Knuckles on Regent Street, Nanushka in Mayfair and Skin Laundry in Soho. As we come out of lockdown, availability on key West End streets is likely to continue opening more attractive opportunities for prime-located London sites.



£823.2m

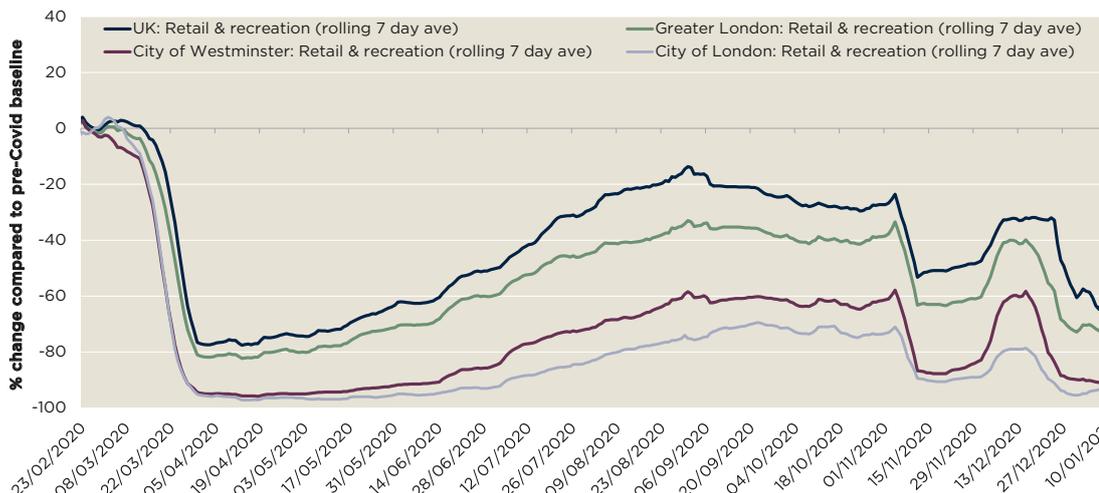
Central London investment volumes in 2020, a year-on-year decrease of -37.1%.



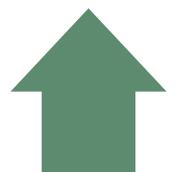
-8.9%

Year-on-year prime Zone A rental decline across Central London in Q4 2020.

Google Mobility Data - retail and recreation movement across London picked up in early December before the introduction of the new tiered system and third national lockdown.



Source Savills Research, Google Covid-19 Community Mobility Report



Despite a quiet year, 8 new international brands opened their first site in London during Q4 2020, matching Q4 2019.

REPURPOSING OPPORTUNITIES IN THE WEST END COULD HELP MITIGATE CHALLENGES WHILE OFFERING LONG-TERM RESILIENCE

The theme of repurposing has been very prominent in the retail sector in recent years, giving rise to more mixed-use redevelopment and breathing life back into redundant retail space. To some extent, this has been happening across London for a number of years. However, there are still further opportunities for conversion, repurposing and repositioning of existing challenged retail space across the capital.

Multiple lockdowns and periods of low footfall have resulted in increased insolvency activity as well as some retailers rationalising their physical store portfolios, impacting key shopping districts including London's West End. As a result, we've witnessed availability of units increase dramatically on certain streets over the last 12 months.

Repurposing underutilised retail assets to provide more mixed-use spaces could therefore provide a longer-term solution. There are a handful of great examples across London in which this has already taken place, including the former BHS Oxford Street store which was repositioned to include a smaller retail unit alongside an urban golf leisure concept and food and beverage (F&B) offer.

So, what are the options? Leisure, F&B and new entertainment concepts have, and will continue to provide obvious advantages through increased footfall hours, social benefits and supporting the night-time economy. New requirements in this segment continue to change the dynamic of traditional retail spaces to incorporate experience-led sites.

However, this isn't the only logical route. Office conversions have become more sought after. The size and configuration of some retail units across the West End bodes well for easy conversion, while often maintaining lower levels as retail usage. John Lewis, for example, announced in January that 45% of its Oxford Street flagship is due to be converted into office space, leaving the remaining four floors

as retail. Similarly, Westfield London has submitted plans to reposition part of the scheme, to include co-working office space. However, the recent climb in central London office vacancy presents a challenge to the viability of new retail to office conversions in the near-term.

The adjustment to the planning system as of September 2020, introducing Class-E and removing the need for planning permission for a switch between retail, F&B, offices/professional services, health centres, gyms and indoor recreation will undoubtedly ease any change in user class going forward.

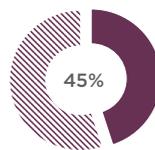
Of course, in many cases a complete user class shift isn't necessary and the preservation of select prime retail assets across the West End is somewhat pivotal in order to maintain its status as an international shopping destination. Ultimately, however, a more mixed retail tenant offer has provided schemes with an element of resilience during challenging times and has become increasingly the case for Central London. For example, the rise in demand from technology companies for prime retail space has increased dramatically, from Microsoft opening their first flagship on Oxford Street to Samsung opening an experience-led showroom in Coal Drops Yard. These sites in ordinarily high footfall locations can provide great exposure for technology companies to showcase new products.

A more flexible and mixed-use approach goes hand-in-hand to promote the local economy, whether that's through evening footfall generated from leisure concepts or heightened local workforce spend from the introduction of more office space.

For the case of key streets such as Oxford Street, a more flexible approach will undoubtedly open opportunities to cement longer-term social and economic resilience. Meanwhile, the scheduled infrastructural improvements, such as Westminster's £150m regeneration plan and the introduction of two new Crossrail stations, will no doubt strengthen the appeal of the iconic high street over the long-term.



Availability across the West End has increased since the onset of Covid-19, opening opportunities for conversion and repurposing.



45% of John Lewis Oxford Street earmarked for conversion to office space.

DESPITE A BOOST TO TRANSACTION VOLUMES IN Q4 2020, YEAR-END RETAIL INVESTMENT REMAINED SUBDUED ACROSS CENTRAL LONDON

A handful of deals in Q4 supported a stronger final quarter. However, year-end volumes remained 37.1% below 2019 levels, reaching £823.2 million. Q4 2020 volumes accounted for just over half the full-year figure,

largely influenced by the sale of the Chanel unit on New Bond Street for £310m in October. Despite this, the market remains relatively subdued, with many West End retail landlords under no

substantial pressure to sell within a slightly weaker market, meaning a lack of stock on the market remains a barrier to entry. The ongoing Covid restrictions are likely to result in low investment levels through Q1 2021.

However, the completion of Brexit might spark interest from overseas investors that have held off buying during periods of uncertainty. Nonetheless, this will still rely on more assets coming to the market.

Savills team

Please contact us for further information

Alan Spencer

Head of UK Retail
+44(0)20 7758 3876
aispencer@savills.com

Anthony Selwyn

Co-Head Global Retail
+44(0)20 7758 3880
aselwyn@savills.com

Sam Foyle

Co-Head Global Retail
+44(0)20 7409 8171
sfoyle@savills.com

James Purdon

Central London
Investment
+44(0)20 7409 5920
jpurdon@savills.com

Marie Hickey

Director
Commercial Research
+44(0)20 3320 8288
mlhickey@savills.com

Josh Arnold

Associate
Commercial Research
+44(0)20 7299 3043
josh.arnold@savills.com

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