MARKET IN MINUTES
Savills Research

Central London Retail Market in Minutes

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Rising availability despite new openings in the West End

Central London retail remains under significant pressure from the restrictions discouraging international visitors and office workers alike. A second national lockdown between November 5 and December 2 will undoubtedly undo recent footfall improvements whilst curtailing early in-store Christmas spend.

As a result, latest forecasts from the New West End Company suggest retailers in the West End could lose up to £2 billion over the eight-week Christmas period, representing an 80% year-on-year decline.

The added pressure facing retailers this year has already dampened occupier confidence, triggering a rise in vacancy rates across prime West End, to reach 6.1% in Q3, compared to 4.6% recorded pre-lockdown in February.

Rumours of other major retailers shutting UK stores, such as Gap and J.Crew, points towards further rise in availability across the West End. This, coupled with a correction in rental tone, has begun opening attractive opportunities for those retailers seeking well-located Central London stores.

This has already materialised to some extent, with Q3 witnessing a handful of new West End openings. Off-White opened its first UK standalone on Mount Street, along with a flurry of openings on Carnaby Street, including Adidas Originals, iets frans and the first flagship store from The Rolling Stones.

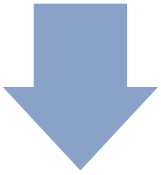
Latest Google Mobility Data suggests workplace footfall in City of Westminster plateaued at around -50% between late July and October, compared to pre-Covid levels (see below chart). Over the same period, most West End offices were restricted to 50% capacity, which suggests many reached the top end of what's possible with social distancing measures in place. While this will undoubtedly fall once again in light of the second lockdown, it does still point towards a positive outlook regarding appetite to return to Central London over the longer-term, once restrictions are lifted.

Headline Central London Retail Indicators

	Q3 2019	Q2 2020	Q3 2020
West End Footfall weekly average year-on-year (13 week period)	-0.1%	-87.4%	-59.9%
New International Entrants	14	0	2
Prime West End vacancy rate*	5.0%	N/A	6.1%
All Central London Prime ZA Rental Growth (year-on-year)	-4.0%	-12.9%	-12.7%
Oxford Street West Prime ZA Rent	£850 psf	£800 psf	£750 psf
Central London investment volumes (quarterly figure)	£193.0m	£57.5m	£21.0m
Prime Central London Yield (Bond Street)	2.75%	2.75%	2.75%

Source Savills Research; NWEC
Note: based on unit vacancy and not floorspace*

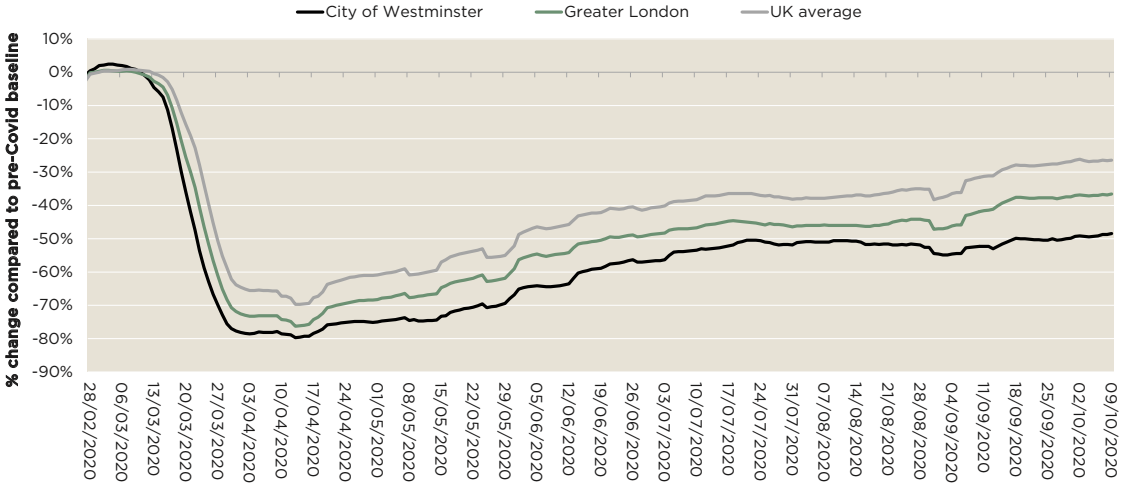
£410.5m
Central London investment volumes in 2020 YTD (Q3), a decrease of -61.0% year-on-year.



-12.7%
Year-on-year prime Zone A rental decline across Central London in Q3 2020.

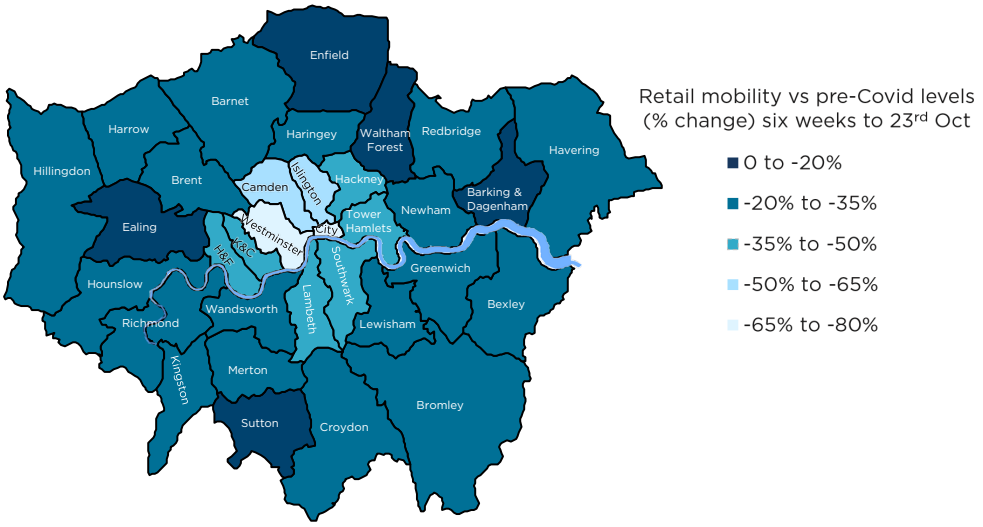
Vacancy rate across prime West End increased to 6.1% in Q3, up from 4.6% recorded pre-Covid, in February.

Google Mobility Data - return to workplaces highlights the plateau at around -50% compared to pre-Covid levels for workplaces in Westminster, in line with capacity restrictions.



Source Savills Research, Google Covid-19 Community Mobility Report

Retail and recreation mobility in Greater London demonstrates the 'doughnut' effect, supporting retail recovery across outer-London boroughs.



Source Savills Research; Google Covid-19 Community Mobility Reports

RETAIL OPPORTUNITIES OPEN IN OUTER LONDON BOROUGHS

For many, working from home has resulted in an increased utilisation of local high streets throughout 2020, resulting in a quicker recovery in terms of local footfall and spend. This is particularly the case in London due to the sizeable commuter belt and heavy reliance on public transport usage ordinarily.

The GLA suggest that 90% of London's population live within ten minutes of their local high street, boding well for local spend across outer London boroughs.

Looking at Google Mobility Data for the six weeks to October 23 (see map above), it's clear to see the relative recovery of outer London boroughs in terms of retail and recreation mobility. Central London boroughs such as Westminster and City of London were still significantly restrained at -66% and -72% respectively compared to pre-Covid levels, whereas the likes of Waltham Forest, Sutton and Ealing boasted recovery to -17%, -19% and -20%.

This trend is further reflected in the latest TfL data regarding London Underground journeys by station type. Since the height of lockdown there have been varying levels of recovery in regards to tube entries/exits depending on the location. In the week to October 17, journeys to the West End and City submarkets were down -67% and -76% respectively compared to pre-Covid levels, compared to -52% across outer London boroughs.

This shift towards local high streets influenced the initial reopening strategy of many retailers with London-wide store portfolios. Space NK, for example, opted to reopen their stores in affluent residential locations such as Wimbledon and Richmond ahead of those on Regent Street and Covent Garden.

So what's the impact been on levels of retail spend? The Centre for Economic and Business Research noted that working from home has resulted in a loss of £2.3 billion retail spend across Central London – a portion of which will undoubtedly be redirected to more local high streets within London's large commuter belt.

Analysis from Centre for London, using credit card data from MasterCard, suggests some outer London boroughs have demonstrated significant 'suburban recovery', noting that submarkets such as East Ham and Southall had already surpassed pre-Covid spending levels as of early Q3 2020, while Central London remained considerably lower.

While the second lockdown has undoubtedly hindered any further recovery to footfall and retail spend temporarily, it's likely that this shift to outer London spend will continue with Londoners taking to local high streets to visit essential shops and takeaways over the next month.

INVESTMENT VOLUMES REMAIN SUBDUED DESPITE ONGOING APPETITE FOR PRIME ASSETS

Deal activity remains particularly low across Central London retail, with year-to-date transaction volumes (as of Q3 2020) reaching £410.5 million, a decrease of -61.0% compared to the same period in 2019.

Interest levels for prime assets remains robust, however with little necessity for investors to sell within a weaker market, availability of assets becomes a barrier to entry for many potential buyers. The sale of the Chanel store on New Bond Street proves the heightened interest for prime assets, with Chanel acquiring the unit for £70 million above guide price at c.£310 million. The deal completed in October, therefore potentially boosting investment volumes in the final quarter of the year. Nonetheless, we can expect year-end transaction volumes to be significantly below levels recorded in 2018-19.

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