MARKET IN MINUTES

Savills Research

Central London Retail Market in Minutes

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Occupational headwinds continue despite strong reopening

Q1 2021 marked the build up to the promising 12 April reopening date, which saw footfall and spend figures exceed expectations in many cases.

However, the financial pressures facing some retailers following three months of non-essential retail closures has resulted in further CVAs and administration, adding pressure to UK retail vacancy levels. The West End hasn't been immune to this, with prime West End vacancy continuing its upwards trajectory, reaching 9.4% (vs 6.1% in Q3 2020), with notable gaps on the high street appearing following permanent closures such as Debenhams and Topshop in the opening quarter.

This has continued to apply pressure on prime Zone A rents, with rental decline accelerating in Q1 2021, reporting -13.8% on a year-on-year basis. Key streets such as Oxford Street West and Bond Street are amongst those impacted, experiencing -17.6% and -16.7% falls respectively. Prime West End prime Zone A rents currently average levels not seen since Q1 2015 (see below chart).

As rents continue to fall, unit availability picks up and operational recovery begins, there are increasing opportunities for new retailers seeking attractive West End sites. Towards the end of Q1, this began to materialise, with multiple store openings and a number of new leases signed.

For example, Mango signed a lease on the recently closed GAP store on Oxford Street, while Hugo Boss confirmed a 2022 opening within the redevelopment adjacent to Selfridges.

In fringe locations including Covent Garden and Mayfair, we've witnessed a number of new openings in time for the upcoming summer period.

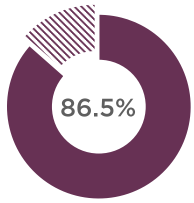
Headline Central London Retail Indicators

	Q1 2020	Q4 2020	Q1 2021
West End Footfall weekly average year-on-year (13 week period)	-17.0%	-66.8%	-33.3% -85.4%*
New International Entrants	1	10	1
Prime West End vacancy rate**	4.6%	N/A	9.4%
All Central London Prime ZA Rental Growth (year-on-year)	-8.4%	-8.9%	-13.8%
Oxford Street West Prime ZA Rent	£850 psf	£750 psf	£700 psf
Bond Street Prime ZA Rent	£2,400 psf	£2,400 psf	£2,000 psf
Central London investment volumes (quarterly figure)	£332.0m	£412.7m	£179.7m
Prime Central London Yield (Bond Street)	2.75%	2.75%	2.75%

Source Savills Research; NWEC

*Note: *footfall vs pre-Covid (2019) levels*

*** vacancy based on unit count, not floorspace*



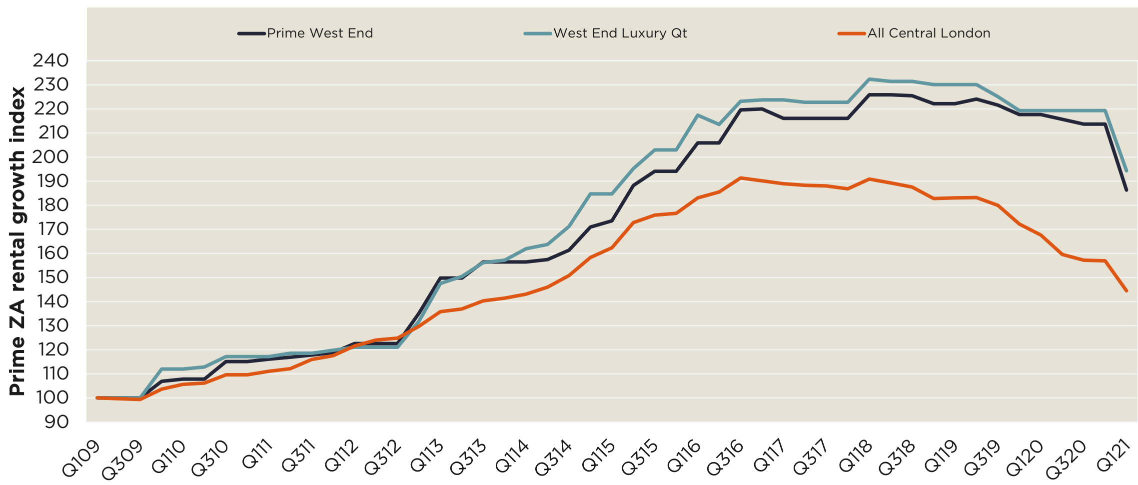
Bond Street deals accounted for an 86.5% share of total Central London retail investment volumes in Q1 2021

-13.8%

Year-on-year prime Zone A rental decline across Central London in Q1 2021.

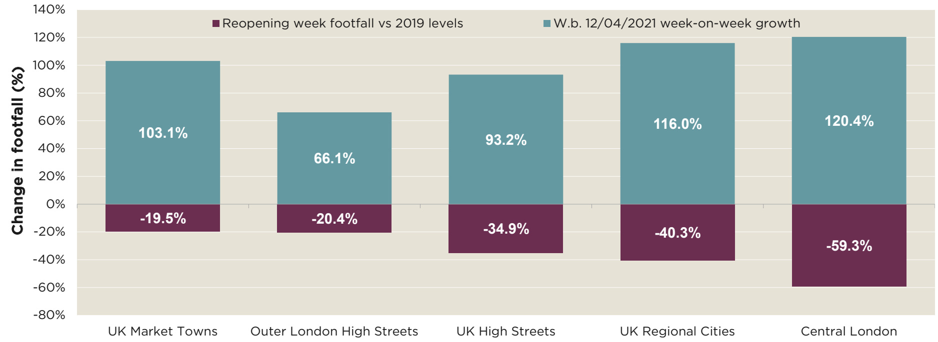
Central London footfall increased 120.4% on the week beginning 12 April, compared to the week before.

Central London prime Zone A rental growth index ongoing occupational headwinds and further leasing evidence has resulted in further rental declines in Q1 2021.



Source Savills Research

Footfall change during retail reopening week by high street subsector



Source Savills Research, Springboard

RETAIL REOPENING - CHALLENGES AND OPPORTUNITIES FACING THE WEST END

The reopening of non-essential retail on 12 April marked a significant step towards normalcy, with pent-up demand to spend, vaccine confidence and good weather supporting a stronger than expected reopening week in terms of spend and footfall.

Springboard announced that week-on-week footfall in Central London increased 120.4% in the week beginning 12 April, outperforming the UK high street average of 93.2% (see above chart). Regardless, this is off the back of a much stronger decline in the capital, driven primarily by a lack of international visitors, with the gap to 2019 levels remaining -59.3%, larger than the UK average of -34.9%. Nonetheless, this weekly improvement provides positivity in terms of the initial phase of recovery and consumer demand.

Across the West End, footfall during the reopening week reached 54% of usual April levels, outstripping the previously forecast 40%, according to NWEC. West End footfall was also 125% higher than the June 2020 reopening week, largely owed to the coinciding reopening of hospitality and non-essential retail.

Various initiatives have played a vital role in welcoming customers back to the West End. Pedestrianising key streets across Soho, Kensington and Chelsea, has allowed far greater outdoor dining capacity. West End landlord Shaftesbury, for instance, stated that relaxing the outdoor dining regulations has opened 3,000 covers across its estate.

Meanwhile, retailers have used this time to adjust their offer and align with current consumer demand. Both Selfridges and John Lewis has turned attention to athleisure and experience, with the former opening SoulCycle classes on the adjacent street and John Lewis opening the UK's first Peloton concession.

Multiple retailers have also signed new leases across Central London, capitalising on the uptick in footfall and return to in-store spending, while benefitting from increased unit availability alongside softening rents. This includes the aforementioned Mango and Hugo Boss Oxford Street deals as well as US retailer Free People opening a store on Regent Street in time for the 12 April reopening date.

In addition, there's been a number of new openings across fringe locations. Monsoon opened their first new store in nine years on Marylebone High Street, and Anya Hindmarch recently opened an innovative 'retail village' on Pont Street, consisting of five inter-connected units, ranging from a cafe to bespoke store. In Covent Garden, Bucherer opened a new boutique, whilst brands Scum and No Chaos both revealed new stores in Neal Street.

Leasing activity remains far from its usual levels, however this relative pickup in activity in the lead up to the reopening date does point towards improved operational demand across Central London.

The more problematic vacant units could be the larger sites left in the wake of department store closures. Nonetheless, these sites bear great opportunities for retailers (and landlords) willing to trial new ideas, whether through immersive space, creative repurposing or offering a more diverse tenant mix. Such changes coincide with plans to reimage parts of the wider area, as laid out in the new Oxford Street District Plan, taking a longer-term view on the sustainability and appeal of the area.

Meanwhile, the £150 million Westminster City Council Oxford Street improvements are taking shape, beginning with enhancing the public realm via wider pavements, pop-up parks and increasing opportunity for cultural and leisure activities. The Marble Arch "hill" and exhibition space will likely draw further visitors upon opening on June 21.

These changes, coupled with an expected return to pre-Covid spend levels of £10 billion by 2023, points to an inherently positive longer-term outlook for the West End.

DESPITE ONGOING DEMAND FOR PRIME UNITS, CENTRAL LONDON RETAIL INVESTMENT REMAINS SUBDUED IN Q1 2021

Central London retail investment in the first quarter of 2021 reached £179.7 million, representing a -45.9% fall compared with Q1 2020.

Investment volumes in Q1 2021 were dominated primarily by deals made on Bond Street, which accounted for an 86.5% share of total transaction volumes. This includes the Reuben brothers acquiring the New Bond Street Armani flagship store for £95.5 million from Aberdeen Standard in February, followed by the sale of the Wempe store to a private Asian investor in March.

This, off the back of three key Bond Street deals in 2020, highlights the relative resilience and demand for retail investment across the prime end of the market.

Investor confidence for the rest of the market is likely to remain tempered until significant operational recovery takes shape.

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