MARKET IN MINUTES

Savills Research

UK Commercial – Q2 2021

Central London Retail Market in Minutes

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Unit availability opens significant opportunities in the West End

The phased reopening across Q2 2021 has welcomed many domestic visitors back to the West End, with footfall rising dramatically compared to the opening quarter. Albeit the absence of international visitors in any meaningful way continues to dampen performance compared to 2019 levels. The recent lifting of quarantine requirements for fully vaccinated visitors from the US and some European countries however, could provide some boost to footfall and sales over the coming months.

The vacancy picture across prime West End has developed through Q2 2021, reaching 14.2% by the end of the quarter, up from 9.4% in Q1. Nonetheless, ongoing government support packages should mitigate any further significant hikes in vacancy, notably the extension of the commercial eviction moratorium until March 2022.

There are some tentative signs that occupier confidence in the West End is returning with a number of existing retailers maximising current opportunities to relocate to better locations and/or better configured stores in the West End.

This has been aided in part by availability but also by greater rental affordability (Central London average prime Zone A rents are currently at Q4 2012 levels) and attractive landlord incentives. As a result, we have seen deal activity across a number of large prime units in the West End. Mango have taken the former GAP store, next door to their previous store, on Oxford Street. The c.15,000 square foot space will be the UK debut of their new store concept and is slated to open in Q3 2021. Superdry is relocating to a 28,000 square foot store opposite Bond Street station on Oxford Street, with Uniqlo/Theory moving into their 57,000 square foot former store on Regent Street.

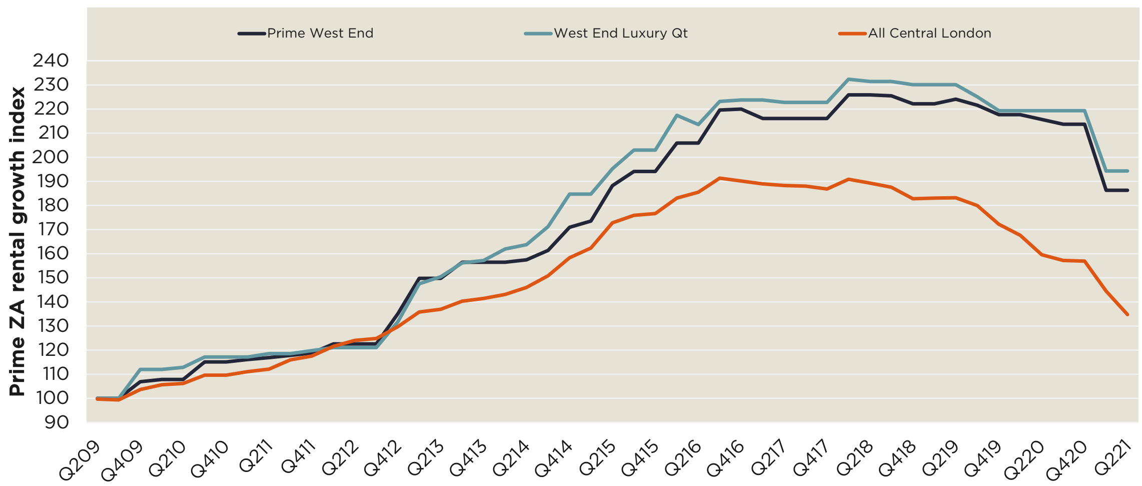
Headline Central London Retail Indicators

	Q2 2020	Q1 2021	Q2 2021
West End Footfall weekly average year-on-year (13 week period)	-87.4%	-33.3% -85.4% (vs 2019)	+340.1% -56.1% (vs 2019)
New International Entrants	0	1	5
Prime West End vacancy rate*	N/A	9.4%	14.2%
All Central London Prime ZA Rental Growth (year-on-year)	-12.9%	-13.8%	-15.5%
Oxford Street West Prime ZA Rent	£800 psf	£700 psf	£700 psf
Bond Street Prime ZA Rent	£2,400 psf	£2,000 psf	£2,000 psf
Central London investment volumes (quarterly figure)	£57.5m	£179.7m	£102.5m
Prime Central London Yield (Bond Street)	2.75%	2.75%	2.75%

Source Savills Research; NWEC

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

Central London prime Zone A rental growth index ongoing occupational headwinds and more leasing evidence has resulted in further rental declines in Q2 2021.

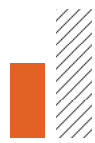


Source Savills Research

Central London footfall continues to improve, with the gap to 2019 equivalent levels averaging -56.1% in Q2 2021, up from -85.4% in Q1.

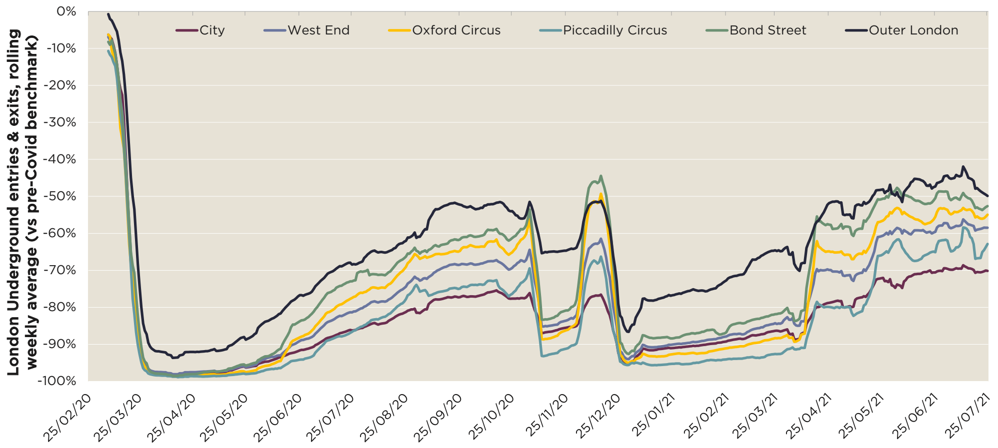
-15.5%

Year-on-year prime Zone A rental decline across Central London in Q2 2021.



Five new international entrants opened stores in Central London in Q2 2021, in line with the reopening of retail and hospitality.

TfL London Underground journeys by location highlights the gradual recovery since the reopening of retail on April 12.



Source Savills Research, TfL

MOBILITY CLIMBS GRADUALLY AFTER INITIAL REOPENING BOUNCE

Mobility across London reached its highest levels in Q2 2021 since the onset of the pandemic, in line with the easing of restrictions, vaccination confidence and an improved consumer environment. Nonetheless, footfall remains subdued compared to pre-Covid levels, owed to low overseas arrivals and continued homeworking.

As the chart above indicates, London Underground journeys recovered far quicker following the 2021 reopening date (April 12), compared to the equivalent reopening phase in 2020. Underground journeys made a second major jump following the reopening of indoor hospitality (May 17), due to strong footfall across leisure-orientated locations. Between late May and July, the ongoing limitations regarding social distancing and capacity restraints in workplaces and retailers has resulted in mobility recovery plateauing.

The week following Freedom Day (19 July) marked a marginal week-on-week uptick of 1.9% in journeys across the West End, albeit largely constrained by poor weather. In addition, many operators continue to apply safety measures i.e. capacity limits, distancing and mask-wearing. Hence, the effect of Freedom Day was somewhat underwhelming, with West End journeys still -58.5% below pre-pandemic levels in the week to 25 July.

The vast majority of demand is currently generated by domestic day-trippers, and so locations offering a blended retail and leisure mix are witnessing higher footfall recovery. Oxford Circus and Bond Street, with their proximity to Soho and Mayfair respectively, have therefore experienced journey recovery outpace the West End average. In the week to 25 July, Oxford Circus and Bond Street stations reported a -55.0% and -52.6% gap respectively compared to pre-Covid levels.

Additionally, visits have been supported by public realm improvements, such as Soho's pedestrianisation. The area has also experienced a pick-up in occupational demand, with multiple new openings including Hype and the NBA Store with their first UK flagships on Foubert Street, and Carnaby Street welcoming the world's first men's make-up store, War Paint for Men.

Meanwhile, a raft of restaurant lettings through Mayfair have been confirmed, including Plants by Deliciously Ella on Weighhouse Street, and both Bibi and The Ivy Asia on North Audley Street. This comes as occupiers attempt to capitalise on pent-up leisure demand amidst easing social restrictions.

This demand is accentuated through OpenTable's data on London restaurant covers, which, during weekends since indoor hospitality reopened, have averaged just -3.6% compared to 2019 levels. The lack of local workers/tourists continues to hinder weekday covers, averaging -31.5% over the same period.

As an attractive public realm remains crucial to generate footfall, it's therefore encouraging to see further Oxford Street improvements confirmed. The development of the Oxford Circus 'piazzas' will considerably improve the area for shoppers (and commuters alike) from November onwards. The new opening date for Crossrail (H1 2022) will also undoubtedly support further visitation.

However, as it stands footfall has potentially reached its peak under the current circumstances, dominated by domestic leisure visitation while largescale homeworking continues and international visitor numbers remain significantly limited.

CENTRAL LONDON RETAIL INVESTMENT REMAINS SUPPRESSED IN THE FIRST HALF OF 2021, DESPITE ONGOING DEMAND FOR PRIME WEST END UNITS.

Q2 2021 marked another relatively slow quarter in terms of central London retail investment, as a lack of units on the market continues to hinder deal count. H1 2021 volumes reached £282.2 million, down -27.6% year-on-year. Prime retail units on key streets such as Bond Street continue to account for the vast majority of transaction volumes, as investor demand for prime assets remains strong. Bond Street alone is accountable for 55.1% of H1 2021 investment volumes across central London and has already seen a major deal complete in H2 2021. As a result, prime yields on Bond Street have held at 2.75% since Q1 2019. Over the same period, prime yields across the wider market have experienced outward movement of between 50-100bps.

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