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UK Commercial Market in Minutes
Strengthening economy boosts confidence

August 2013

Wider market capital value growth returns

■ The downward pressure noted in last month's note continued to gather pace in July. Nine sectors have been tipped for further yield hardening, up from seven in June.

■ No doubt improving sentiment surrounding the strength of the UK economy, with Q2 GDP pointing to 1.4% growth year-on-year, has helped.

■ Further encouragement came from IPD's latest quarterly returns. All UK Retail and Industrial joined Offices in Q2 in reporting a growth in capital values, the first since Q3 2011. Much of this was driven by growth in the wider South East, however, those segments still experiencing value decline saw this slow in Q2.

■ This is good news for those looking at good quality secondary outside the South East, which is an ever increasing number, as scarcity of prime continues. This improving sentiment could see the definition of 'secondary' widen.

■ For the UK funds, who are back in the market, this may mean a move up the risk curve. For example, we have already seen interest in development opportunities in core regional markets such as Palmer Capital's purchase of the majority stake in the £100m debt secured against the mixed use Finzels Reach scheme in Bristol city centre.

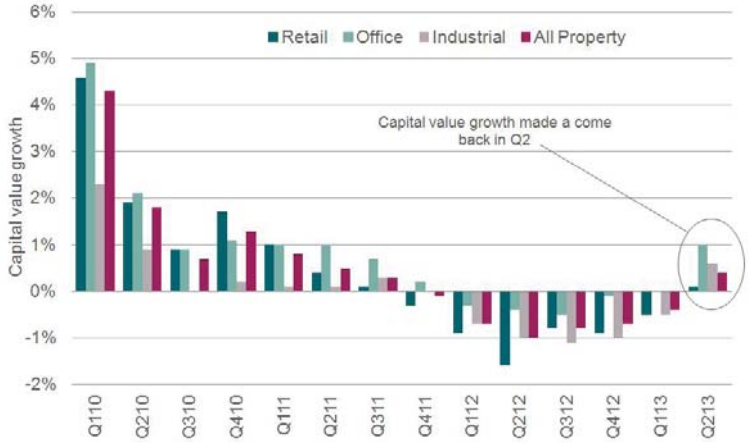
■ Despite the increasing interest in secondary, the appetite for prime remains unabated. But where is prime stock going to come from?

■ The yield improvements that had been restricted to prime properties is now being experienced across the quality and geographical spectrum.

■ Considering that the pressure on UK funds to buy is set to intensify as we head into the final quarter, combined with improving confidence, downward shifts in prime yields would appear inevitable if stock constraints continue.

GRAPH 1

Capital value performance (quarter on quarter)



Graph source: Investment Property Databank

TABLE 1

Prime equivalent yields

	Jul 12	Jun 13	Jul 13
West End Offices	3.75%	3.50%	3.50%
City Offices	5.25%↓	4.75%	4.75%
Offices M25	6.25%	6.00%	6.00%↓
Provincial Offices	6.25%	6.00%↓	6.00%↓
High Street Retail	4.75%	4.75%	4.75%
Shopping Centres	5.50%	5.00%↓	5.00%↓
Retail Warehouse (open A1)	5.25%↑	5.25%↓	5.25%↓
Retail Warehouse (restricted)	6.00%	6.00%↓	6.00%↓
Foodstores	4.50%	4.25%	4.25%
Industrial Distribution	6.25%↑	6.00%↓	6.00%↓
Industrial Multi-lets	6.00%	6.00%↓	6.00%↓
Leisure Parks	6.50%	6.25%	6.25%↓
Regional Hotels	7.00%	7.00%↓	7.00%↓

Table source: Savills

Impact of retailer adminsistrations

■ The UK's retail market was probably the hardest hit during the downturn as the high street and out of town markets saw the disappearance of a number of retailers, increasing voids. Savills have acted on 900 stores affected by administrations so far in 2013. Through this work we have carried out research on the impact of administrations and the success and ability to re-let vacated units.

■ It would appear that improving confidence in the strength of the UK economy is beginning to limit the impact these administrations are having on the retail landscape.

■ While there continues to be retailer failures, the more recent ones including Dwell and ModelZone, rescue deals are saving a higher proportion of stores than seen in previous years.

■ Two thousand shop units have been affected by administrations across the country to date this year. While significant it is considerably down on the 4,200 units hit by administration in 2012. More reassuring have been the number of these branded stores that have been saved by rescue deals. Whereas only 26% of stores affected by administrations in 2011 were rescued, this year we have seen 45% of the 2,000 units saved. For example, the recent rescue of Internacionale saw 86% of its portfolio retained with only 18 of its shops closing.

■ It is important to note that those retailers affected had already rationalised their portfolio by an average of 30% prior to entering administration. It was this rationalisation that contributed to the increased vacancies that have been widely reported on.

■ So what has happened to those units vacated? It has been a mixed bag with location and planning consent, namely in the out of town market, having a significant impact on the success of re-letting vacated units.

■ While town centre stores proved more attractive when it came to rescue deals with 45% of units being saved from administration over the last three years compared to 15% out-of-town, it has been the latter that have proven to have enhanced re-let potential. An estimated 5-10% of in-town units vacated through administrations have been re-let. For out-of-town units this increases to 30-40%. This difference in re-letting performance is most likely down to the greater availability of stores in-town as vacancy rates are higher than out-of-town. There also appears to be fewer acqusitive retailers on the high street as opposed to those for out-of-town units.

■ On the whole it has been the Southern regions that have been favoured in both rescue and re-letting deals on affected units. However, the Midlands, in particular East Midlands, Wales and the North West have also had considerable success in recovering from administrations (Map 1) proving there remains life in the regional retail markets.

MAP 1

Regional response to administrations

Map source: Savills

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