savills

Savills World Research
UK Commercial

Spotlight
Central London Retail Outlook

Q3 2013

SUMMARY

■ Retailer demand remains robust in the prime pitch, however, we have also seen ferocious rental bidding activity in some of the new emerging pitches in Mayfair.

■ Prime Zone A rents grew by an average of 3.1% over Q3.

■ Occupier demand for Bond and Regent streets remain strong suggesting prime rents will continue to see marked growth over the short-medium term.

■ 'True' vacancy across Oxford, Regent and Bond streets averages 0.7%. Bond and Regent streets have zero vacancy.

■ Investment volumes to date total £1.8bn, already exceeding 2012 levels. End year volumes are expected to be in line with the £2.3bn seen in 2011.

■ Overseas investors have dominated activity this year driven by increased spending by Asian investors.

■ We expect to see improved returns across the retail quality and geographical spectrum in Central London into 2014.

"New entrants are looking beyond Bond, Oxford and Regent streets but availability constraints and occupier preference for these locations continue to exert significant upward pressure on rents."

Anthony Selwyn, Head of Central London Retail

Consumer confidence returning

■ The return of sustained economic growth this year has helped to boost consumer confidence, most notable in West End sales growth.

■ Following a general slowdown in sales growth, 2013 has seen a bounce back. May and June reported annual growth in excess of 9%. On a rolling 12 month basis West End sales growth averaged 4% in July, four times the national average.

■ But it's the growing number of overseas visitors to the Capital and their increasing spending that is really helping to drive sales growth. Visitor numbers to London last year were back in line with their 2006 peak - expectations are that 2013 will see a new peak with visitors in excess of 15.9m.

■ This has also been accompanied by an improvement in spending. Since 2007 this has grown by an average of 4.2% per annum, and was up 11.5% year-on-year in Q1.

■ While the fall in Sterling has been an important driver for this, so to has the success of last year's Olympics. Going forward, we expect this trend to continue particularly if the visa requirements for Chinese tourists are relaxed.

■ France receives over one million Chinese visitors each year, the UK, only 200,000. Considering Chinese visitors spent, on average, £1,600 per trip in 2012, almost four times that spent by European visitors, their increasing numbers could provide an additional boost to West End sales.

International entrants shift to new pitches

■ The growing number of international visitors to London has been accompanied by an increasing number of international retailers entering the market. This is nothing new, what is new are the streets these new entrants are locating to.

■ Bond Street, primarily Old Bond Street, has historically had a strong international mix of retailers with 60% of stores in 2000 occupied by a non-domestic brand. By the second half of this year this had increased to 72%. New Bond Street has taken up some of this overspill of international retailer demand with over half of retail units now occupied by an international operator (Graph 2).

■ However, it is Regent Street that has seen the greatest transformation. The street has seen a doubling in international retailers from 24% in 2000 to 57% demonstrating the success of The Crown Estate's regeneration of the street and subsequent ability to attract new entrants, particularly those from the US. For example, in 2000 11 units were occupied by US retailers this now stands at 20 stores and will increase to 22 by the end of 2014 with the arrival of J Crew and Club Monaco.

■ Oxford Street east is the least international of these key streets with only 20% of units occupied by an international retailer.

■ While retailer demand remains robust, particularly in the prime pitch, there has been fewer requirements from new entrants. Last year saw 23 new retail entrants establish stores in London, 19 of which were international. By the end of this year there will be 13 new retailers with a further eight expected to open stores in 2014.

■ This has also been accompanied by a shift to new pitches. In 2011 70% of new retailers to London opened stores on London's principal shopping streets of either Bond Street, Oxford Street or Regent Street. This year these streets will account for 36% of new retail openings.

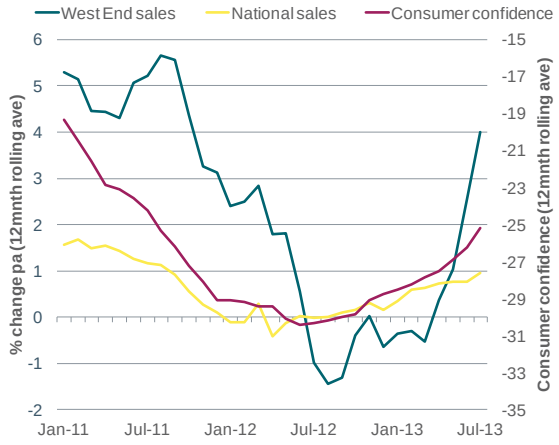
■ While these streets remain highly attractive, availability, rental pressures and the waning appetite from retailers to compete for units, have led some occupiers to look to new destinations.

■ Westfield has been increasingly successful at attracting new international entrants. Since 2011, four international brands have opened their first UK stores in either Westfield White City or Stratford with American Eagle set to open stores in both centres in 2014.

■ With Zone A rents in the region of £400 per sq ft, 38% lower than that seen on Regent Street and half of that seen on West Oxford Street, Westfield has offered new entrants a more cost

GRAPH 1

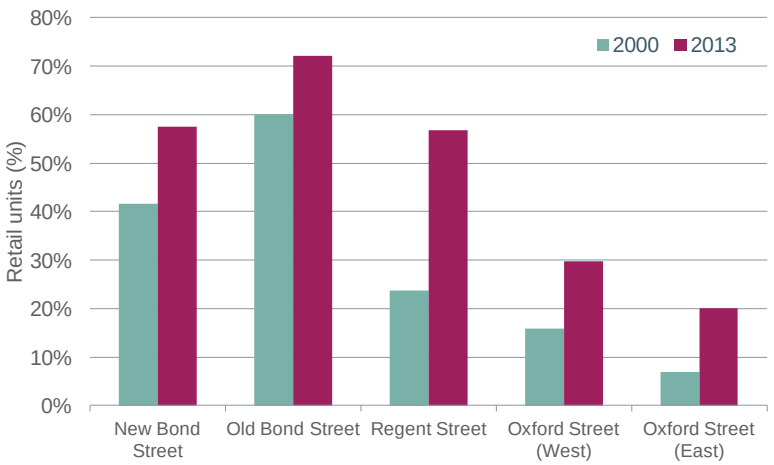
Improving consumer confidence helping to drive West End sales



Graph source: New West End Company, ONS; GfK NOP

GRAPH 2

Oxford Street - the least international



Graph source: Savills; Experien Goad

effective alternative in which to test the UK market.

■ For luxury brands it has been those streets close to the traditional luxury enclaves of Bond Street and Knightsbridge that are offering the most attractive alternatives. For some of these emerging pitches in Mayfair there has been ferocious rental bidding activity.

■ Since 2011, three new luxury brands have opened their first stores on either Dover Street, Mount Street or Pelham Street with a further two retailers opening their first stores on these streets next year (one of which being Roksanda Ilincic on Mount Street). These openings will rank these emerging luxury destinations as the third most popular location for new retailers in Central London.

Rental growth remains sustainable

■ Despite a marginal softening in occupational demand prime rents have continued to increase. Across the 14 retail pitches Savills monitors prime Zone A rents grew by an average of 3.1% over the last quarter. To date this year rents have risen 8%.

■ Bond Street continues to lead with Zone A rents in the region of £1,300 per sq ft, with New Bond Street seeing the greatest uplift over the last 12 months of 53%.

■ While these rents reflect best achievable, rent review settlements over the next six to twelve months will dictate whether these levels are sustainable. Our view is certainly that Bond and Regent streets attract the highest demand which suggests we will see these prime rents climb even higher in the short-medium term. However, for other locations there may be challenges ahead as certain streets vie for dominance.

Don't be fooled by 'empty' shops

■ There is the risk of assuming that if you see vacant shops the street is in 'trouble' and struggling to attract occupiers. On some streets this may be the case, on Central London's primary shopping streets this is very rarely the reality.

■ Both New and Old Bond Streets have, on the face of it, seen a number of units become available. However, in nearly all these cases units have been vacated on the back of huge premiums being paid to original tenants in order to relinquish their lease to new occupiers.

■ Across the prime pitches of Oxford, Regent and Bond streets 'true' vacancy averages 0.7%.

■ Old Bond Street has zero vacancy with all units assigned. Yet, 6% of units are non-operational as they wait/ undergo refurbishment (see Table 2).

■ New Bond Street has 8% of its units currently being updated for new occupiers, with 'true' vacancy standing at 1.8%. There is an additional 3.6% of units 'vacant' but only due to the Crossrail works taking place in the area.

■ Perceived vacancy on Regent Street and Oxford Street East is largely accounted for by redevelopment projects.

■ Regent Street has close to 11% of its units non-operational largely due to The Crown Estate's W4 and W5 redevelopment projects, with 1.9% of these already assigned and under refurbishment. For example, the US retailer J Crew has signed up to take 17,000 sq ft at W4 for their first UK store. 'True' vacancy on the street is zero.

Oxford Street - a tale of two streets

■ It's a similar picture on the eastern side of Oxford Street with 8.6% of units unavailable due to redevelopment, whereas 'true' vacancy stands at only 0.8% (Table 2).

■ The impending arrival of Crossrail at Tottenham Court Road station has resulted in the closure/redevelopment of a number of sites in order to accommodate new entrances and ticket halls. In addition to this a number of landlords/developers are realising opportunities in order to meet future demand that will arise off the back of Crossrail's arrival.

■ For example, 61-69 Oxford Street, currently on site, will deliver a new 35,000 sq ft flagship store, already prelet to Zara, to Oxford Street in 2014.

TABLE 1

Top rents

Zone A £ per sq ft	Q3 2013	Yr/yr % change
New Bond Street	£1,300	53%
Old Bond Street	£1,300	30%
Oxford Street (West)	£800	0%
Long Acre, Covent Garden	£700	0%
Brompton Road	£650	0%
Oxford Street (East)	£650	8%
Regent Street	£640	16%
Conduit Street	£350	17%
Kensington High Street	£250	14%

Table source: Savills

TABLE 2

Vacancy providing opportunities

% of stores (as at July 2013)	Vacant	Under refurbishment (retailer assigned)	Redevelopment site/ Cross Rail
New Bond Street	1.8%	8.0%	3.6%
Old Bond Street	0.0%	5.6%	0.0%
Regent Street	0.0%	1.9%	8.7%
Oxford Street (West)	0.8%	0.8%	0.8%
Oxford Street (East)	0.8%	1.6%	8.6%

Table source: Savills; Experien Goad

■ We estimate there is an additional 27% of existing units on the street earmarked for future redevelopment other than those linked to Crossrail.

■ These include the Sirosa & Arcadia JV redevelopment of The Plaza and the Oriana II JV between Land Securities & Frogmore on the parcel site adjacent to their existing Primark store opposite Tottenham Court Road station. The latter, which received planning approval in March, will include 76,500 sq ft of new retail space.

■ It is hoped that these projects will help Oxford Street, chiefly the eastern side, to correct its loss of appeal to new retailers, particularly international operators.

■ This part of the street's loss of competitive edge is also responsible for its recent rebranding initiative by the New West End Company.

■ Due to the scale of redevelopment planned for Oxford Street East, it will continue to be unsettled for the next five years. Yet, these schemes will provide opportunities for new entrants attracted by the potential upswing in footfall due to the arrival of Crossrail and its lower rents.

■ However, it will not be until 2018, once Crossrail is operational, that Oxford Street East can become a more established retail destination.

Overseas investment dominates but looks beyond the 'key' streets

■ Central London retail investment volumes to date total £1.8bn, already exceeding 2012 levels. Year end volumes are expected to be in line with the £2.3bn seen in 2011 as a number of significant transactions are expected to complete in the final quarter.

■ Overseas investment has seen a marked increase. Currently volumes total £1.3bn, accounting for 70% of total activity, its largest share to date and double what it was last year.

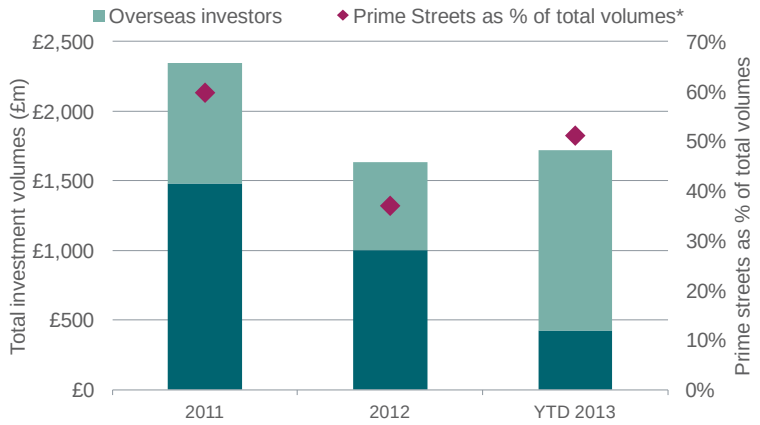
■ While the EU remains to be the primary source of this investment (53% of total overseas investment) it has been the increase in activity by Asian investors, principally private Hong Kong, that has been the most pronounced.

■ Asia Pacific investors have spent just under £400m this year, three times what they spent in 2012. Key deals include Peterson Group's £121m forward funding of Resolution Property's Ampersand scheme on the corner of Wardour Street and Oxford Street and the £76m purchase of 291 Oxford Street by a private Hong Kong investor on an equivalent yield of 4%.

■ Lack of 'prime' liquidity and low yields back home combined with the favourable exchange rate has helped attract an increasing number of Hong Kong investors to Central London retail.

GRAPH 3

Overseas investment dominates activity in 2013



Graph source: Savills; Proprty Data
Note*: Prime streets refer to Bond, Oxford and Regent Streets

Savills instructions

HMV, 363/367 Oxford Street

■ 20,000 sq ft letting to HMV previously occupied by Footlocker.

49/50 Conduit Street

■ Mixed use redevelopment of corner site by Terrace Hill and Ærium to provide a 7,500 sq ft flagship store.

Prada, 17/18 Old Bond Street

■ Sold to Prada for £87.5m reflecting a yield of 2.75%.

141/142 New Bond Street

■ Marketing of rare trophy asset.

■ Let to Fendi with lease expiry in 2027.

■ Initial annual rent of £2.1m reflecting Zone A of £836 per sq ft.

■ This year also saw the return of North American investors. Ashkenazy Acquisition Corp made their UK debut with their £105m purchase of Old Spitalfields market with Oxford Properties acquiring a 50% stake in the The Crown Estate's St James's market redevelopment.

■ Tribeca's recent acquisition of 431/451 Oxford Street for £127m, one of the largest deals to date this year, shows that Irish investors remain active in the Central London retail market.

■ Preference for assets on the 'prime' streets of Oxford, Bond and Regent street continues. Consequently capital value growth, according to IPD, has been more pronounced in the West End with values 15% above their last peak. City & Midtown values are still 8% off their peak.

■ Yet lack of stock and pricing pressures are leading some to look outside these prime enclaves helped by improving confidence in the wider Central London retail market.

■ This is demonstrated by the 176% increase in overseas investment in areas outside the 'prime' pitches. On these 'prime' streets investment is up 31%. However, while European and North American investors are becoming increasingly willing to look outside the prime core, namely for asset management opportunities, Asian investors remain focused on 'prime'.

■ With stock constraints set to continue and increasing demand from investors, including UK property companies, prime yields will be sustained at their current levels.

■ Prime indicative yields on Bond Street are now 2.5% to 3% with Oxford and Regent streets both in the region of 3.5% to 4%. Kensington High Street, which has seen a marked increase in activity this year, is currently seeing prime yields in the region of 4.75% to 5%.

■ However, the scale of demand for prime units, particularly from Asian investors, has seen yields below this. For example, the sale of 9 Old Bond Street, home to Gina shoes, saw a record yield of 1.42%. With a rent review later this year this could increase to 2.5% based on current market rents. It is this potential rental uplift that is supporting the low yields currently being seen on these key streets.

■ With the UK economy back in recovery, consumer confidence on the up as well as overseas visitor numbers to the Capital, we expect to see improved returns across the quality and geographical spectrum in Central London into 2014. However, the greatest downward pressures on yields will continue to be seen on those under-rented assets on Central London's key retail pitches.

OUTLOOK

Overseas investor activity will continue to dominate

■ Robust demand and availability constraints will continue to exert an upward pressure on rents. Bond and Regent streets attract the highest demand suggesting prime rents in these locations will continue to see strong growth over the short-medium term.

■ The eastern side of Oxford Street will remain unsettled for the next five years but the scale of redevelopment planned should correct its loss of appeal to new retailers, particularly international operators.

■ Average vacancy across the prime pitch is expected to stay below 1% in 2014 with Bond and Regent streets to remain at zero vacancy.

■ We expect to see continued demand from international investors, particularly from Asia, as lack of prime liquidity in their home markets continue.

■ An increased focus on the wider non-core Central London market, where value add opportunities are achievable, is set to pick up pace.

■ Investment volumes for the year end are expected to be in line with the £2.3bn seen in 2011.

■ With stock constraints set to continue and increasing demand from investors prime yields will be sustained at their current levels

Please contact us for further information

Anthony Selwyn
Leasing
+44 (0)20 7758 3838
aselwyn@savills.com

Paul Endicott
Professional
+44 (0)20 7758 3879
pendicott@savills.com

Jonathan O'Regan
Investment
+44 (0)20 7409 8179
joregan@savills.com

Marie Hickey
Research
+44 (0)20 3320 8288
mlhickey@savills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.