

RETAIL DEVELOPMENT PROPERTY BRIEFING PAPER 13

December 2000

CONTACTS

Graham Chase
FRICS, FCI Arb
Mark Paynter BSc ARICS
Jim Morrissey
BSc Econ(Hons) Dip TP MRTPI

Chase & Partners
Abbott House
1-2 Hanover Street
London W1R 9WB
Tel: 020 7331 6999
Fax: 020 7331 6900
www.chaseandpartners.co.uk
chase&partners@focusnet.co.uk



END OF YEAR ROUND-UP THE RETAIL PROPERTY MARKET

Following on from our successful end of year conference on "Changes in the Retail Market Place, we have taken the opportunity of setting out our observations and predictions.

Executive Summary

Last 12 months

- Old order retailers struggle.
- Large floor plates with sales at Basement/first floor levels.
- Middle market fashion under pressure.
- Growth of overseas retailers continues.
- Lease flexibility for both Landlords & Tenants.
- Matalan leads the way.
- Uncertainties in DIY sector.
- Asset management of Retail Warehouse parks.
- Investment yields soften for High Street.
- Retail Warehouse yields remain strong.
- Food superstore market stable.

Future Trends

- Growth of special purpose vehicles.
- Shorter more flexible leasing.
- Retail property managed as business rents.
- Institutional investors weaken grip.
- More dynamic property companies to emerge.
- Shopping experience to grow.
- E tailing will grow but position identified.
- Brokerage on line.
- Leisure asset management to fore.

Chase & Partners Retail & Leisure Property – Market Overview

In-town Retail and Development

Development Snapshot

- Retailers seeking larger, cheaper, more flexible accommodation.
- Pressure on margins and profitability leading to deflationary pricing.
- Drive towards larger floor plates away from the ground floor.
- Overall rents on a per sq ft basis to replace zoning.
- Non-competitive retailers surrendering large space.
- C & A closures, 109 stores up for grabs!
- Arcadia place 455 shops on the market.
- Next and others seeking larger stores in excess of 20,000 sq ft.

Occupational Overview

- New Look experimenting with larger stores in off-pitch locations.
- Arcadia re-working portfolio to create multi-fascia destination stores.
- Stronger retailers expanding breadth and range of offer – parallels with food?

- Value retailers strive for middle market share.
- Value retailers no longer paying discounted rents.
- Race for space continues in certain sectors but middle market struggles for breath.
- Lack of middle market fashion retailers for traditionally strong 2,500 – 3,000 sq ft units.
- Foreign entrants driving expansion forward, including Zara, Mango & Gap.
- UK at the forefront of retailing with cosmopolitan tenant mix.
- Catering of increasing importance. (A3 explosion has revamped secondary locations).
- New retail partnerships Peacock/Big W.
- Leisure increasing the use of other facilities, early hype of internet threat receding – Bricks and Clicks seeing to work in tandem.
- Fifteen year lease.
- Break clauses.
- Turnover leases.
- Shifting requirements need flexible layout.
- Disability Act, implications for viability.
- Broad band wiring, additional rental streams?
- Mixed developments.
- Pressure away from Greenfield/Out of town to town centre/Brownfield sites.
- Middle ranking towns find it difficult to secure traditional scheme formats.

Movers and Shakers

Disposing

- Arcadia, Boxclever (Radio Rentals/Granada), Whitbread, Stylo, Barrett, Alexon, Salisbury's, Clarks, Moss Bros, Dixons, C & A, Tesco, Marks & Spencer.

Acquiring

- Time, Bon Marché, Phones, Coffee, Claire's Accessories, Laura Ashley, Zara, Mango, Gap, Peacocks, Ethel Austin, Sports, Ann Summers, Jessops, H & M Hennes, T J Hughes, Wilkinsons, Gadget Shop, Sephora, Monsoon, Home Furnishings, JJB, Health & Fitness.

Mergers/Takeovers

- Radio Rentals/Granada
- Bensons Shoes/Olivers footwear
- Officers Club/Hamells
- British Telecom/Mobile Phone store.

Ressurrections

- Sports retailers, Ottakers, Laura Ashley.

Ones to Watch

- BHS to come back strongly under the leadership of Philip Green and Allan Leighton?
- Woolworths General stores have everything, pharmacy, drink, food, toys, records, childrenswear as well as the rest of the traditional Woolworths offer
- Ann Summers, now in prime pitches, they are now acceptable to institutional landlords ?
- Great Universal Stores ripe for the Bricks and Clicks age incorporating research, credit checks, nail order linking into strong distribution arm and retail expertise
- Combined JJB sports and Health & Fitness operation.

Retail Warehouses and Food Superstores

Successes

- Matalan open 1 million sq ft with 72% profit increase
- Focus takes over Wickes
- Currys open largest store @ J9 M6, Comet chasing hard
- Roseby's now called Homestyle expansion by takeover – FADS, Harveys/Kingsbury
- IKEA extended development programme
- Fashion retailers looking for opportunities

- Big W lifts off
- Monopolies and Mergers report on food sector
- Big 5 food traders maintaining market share with Morrisons joining the pack

Uncertainties and Failures

- Sale of Homebase by J Sainsbury still drifting
- Great Mills future yet to be determined
- Mothercare strategy review following split from Bhs
- Wal-Mart business plan objectives
- UNO and World of Leather receivership @ £21million

Market Matters

- Link with leisure difficult
- E-tailing now in perspective but does offer real competition
- Consolidation in bulk food market reducing competition
- Edge of town sites difficult to identify the link with High Street
- Bulky goods market reaching equilibrium but change in trading style, creating opportunities
- Main competition to R W parks and other R W parks
- Asset Management continues to be an important factor

Future Trends

- Fewer sites being brought forward for development reflecting both market position and planning restrictions
- Open planning permissions continue to be a key to regenerating old schemes
- New large formats give support to asset management
- Rationalisation in the sector will continue

Other Issues – Rent Reviews

- Rent review market is highly competitive
- Scarcity of market evidence
- Rental growth patchy reflecting local conditions, tenant mix and planning
- Discounted rent for quantum is a factor but not universal
- Food superstore/supermarket picture remains blurred
- Length of lease term debate continues
- Code of Practice for Commercial leases review by Government
 - Upward only rent reviews at stake
 - Security of Tenure considerations
 - Lack of suitable Third parties for appointments
 - Analysis of incentives still undefined
 - When is the effective date of a transaction ?
 -

Retail Investment Market

Market Matters

- Softening in yields for high street retail and shopping centre investment property as a result of downgraded rental growth forecasts
- For most of this year, town centre retail returns have been below those of industrial and office property although as an asset class property has performed well against both gilts and equities
- Difficult to verify, but much quoted '68' shopping centres on the market
- Sales reflect a general re-pricing of the sector rather than the genuine 'must sell' scenario
- Book value 'stickiness' has reduced market liquidity as OMV's start to fall below book values
- Strong demand from institutional investors has been maintained for prime retail parks with flexible planning permissions
- Although rental growth forecasts remain strong for retail warehouse parks, demand has weakened and therefore yields softened for more secondary retail warehousing which is less well located with restricted planning permissions. Innovative deal by Hercules (joint venture between Pillar Property and Equitable Life) – offshore institutional unit trust to invest in retail parks. (Abbey National and Mapeley deal)
- Merger/takeovers in the insurance/life markets have continued leading to expanded direct property funds e.g Scottish Widows (Abbey Life, Hill Samuel and Lloyds Bank) and Morley Fund Management (the merger between Norwich Union and CGU). This is leading to fewer 'market players'
- Continuing importance of overseas based financial institutions in Direct Property UK Investment, e.g Nomura (bid for Dome), G E Capital (Hermes, MEPC acquisition)
- Auction market still lively despite glitch in 3rd quarter 2000

Future Trends

- Increased funds into special purpose vehicles, limited partnerships, securitised vehicles and offshore institutional unit trusts e.g Bluewater/Touchwood Partnership, Whitgift Partnership, Hercules Retail Park Unit Trust.
- Shorter/more flexible leasing policies as a result of retailer pressure. Westfield picking up the gauntlet with reassessment of leasing policy throughout their MEPC shopping centre portfolio
- Shopping centres will be treated more as 'business' units, especially re:broadband internet connections etc.

Leisure Sector

- Shopping centres diverting from traditional ownership basis of financial institutions to modern developers/owners/facilities managers eg Landlease, Westfield
 - Long term view on management issues concentrating more on facility managing the whole 'shopping experience' (e.g Landsec purchase of Trillium)
 - More brokerage 'on line' e.g Primepitch.com especially for investment property in the £100,000 - £1m bracket
-
- Number of leisure schemes opening over next two years but reflects yesterdays occupational market
 - Cinema Sector quiet reflecting rationalisation or withdrawal
 - Health and Fitness sector growing and remains competitive
 - Hotel groups expanding selectively
 - Pass the parcel in the pub and bars market
 - Mixed in town leisure schemes with 24 hour trading have best potential
 - Asset management offers greatest growth potential in the future as more mergers and rationalisation programmes set to lead market activity

FURTHER INFORMATION

Further copies of this and previous briefing papers may be obtained from Graham Chase as may additional information or assistance on planning and development issues.

Chase & Partners provide comprehensive retail planning and development services to the private sector and Local Authorities, including 'health checks' and retail impact assessments, and the sequential approach. Graham Chase and Jim Morrissey, Directors of Chase & Partners, have advised over 100 private sector clients and 50 Local Authorities on retail planning matters in the past 4 years.

Prepared by

Chase & Partners, 20 Regent Street, St James's, London SW1Y 4PH

Tel: 020 7389 9494

Fax: 020 7389 9456

Other Papers available in this series: -

<i>Retail Development Property Briefing Paper 1</i> PPG6 Retail Warehousing: Towards Consensus? Matter of Control!	October 1996
<i>Retail Development Property Briefing Paper 2</i> The Sequential Test: Opportunity or Problem?	November 1996
<i>Retail Development Property Briefing Paper 3</i> End of Year Round Up - Developments in the Retail Property Market	December 1996
<i>Retail Development Property Briefing Paper 4</i> End of Year Round Up - The Retail & Leisure Property Market	December 1997
<i>Retail Development Property Briefing Paper 5</i> Rating of Commercial Property - Update 1998	May 1998
<i>Retail Development Property Briefing Paper 6</i> End of Year Round Up - The Retail Property Market	December 1998
<i>Retail Development Property Briefing Paper 7</i> End of Year Round Up - The Leisure Property Market	December 1998
<i>Retail Development Property Briefing Paper 8</i> The "Need" for Development	July 1999
<i>Retail Development Property Briefing Paper 9</i> End of Year Round-up – The Retail Property Market	December 1999
<i>Retail Development Property Briefing Paper 10</i> Flexibility and The Sequential Approach	February 2000
<i>Retail Development Property Briefing Paper 11</i> Need and the Sequential Approach	March 2000
<i>Retail Development Property Briefing Paper 12</i> Funding the Improvement of Town Centre & Town Centre Management Schemes	November 1999

