

# UK Shopping Centre and High Street Bulletin

Quarter 3 2013



Image: Wellington Square, Stockton

## SUMMARY

■ Consumer confidence has recovered strongly over the summer, and while it is not positive, it has almost reached its long term average. This bodes well for retailer's takings over Christmas and the New Year.

■ Summer 2013 has also seen a pickup in retailer confidence. However, there is a firm stratification of requirements emerging between differing towns and pitches.

■ Investor demand is also stratified, with a wide gap between demand for dominant town centre schemes and prime town at one end, and the rest of the country at the other end of the demand spectrum.

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"Most retailers are expecting good trading and margin improvement over the Christmas period."  
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## → The consumer economy

The third quarter of 2013 has seen the strongest positive correction in consumer confidence since 2009. The GfK index has now moved from -21 at the end of June, to -10 at the end of September. While this indicates a mildly pessimistic view of the future amongst British shoppers, it is almost exactly in line with the long-run average for this series.

The reasons for the sudden recovery in confidence are hard to divine, but this is no different to normal. Certainly the economic news in the newspapers improved over the summer, particularly around the housing market. Furthermore, there have been fewer mentions of disaster scenarios like Grexit and disorderly defaults - though the US shutdown and debt ceiling might have a drag on October's data.

Back at home there are the usual worries about inflation and base rates in the medium term, but we don't expect either to be a dragging factor on consumer spending in the next 12 months. As a result of this we predict that Christmas and New Year trading this year will be stronger than last year, and that consumer spending in 2014 will increase by 1.7% (its strongest growth since 2007).

## The retail occupational market

Summer 2013 has also seen a pickup in retailer confidence and requirements, albeit that tempered by a lack of suitable stock.

The problem for those retailers who are looking to expand or upsize is that most of them are focusing on the same prime units, on the same prime pitches in the same prime towns! This is obviously good news for the landlords in these locations, but we would caution that some landlords are beginning to be over-confident on the recovery in retailer demand, and are looking to achieve higher than market rents slightly ahead of the curve.

The strongest demand for upsized stores is coming from the fashion retailers, with River Island, H&M and Top Shop all looking for larger stores than their previous typical requirements. This trend is being delivered by a demand to offer

an "internet-style" experience to shoppers, with the full product line available in store in these main shopping destinations. 15-30,000 sq ft stores are in short supply across the UK's prime shopping destinations, even with the retailer's increasing acceptance of the practicality of trading over multiple floors. This is another area where we see imminent potential for undersupply and rising rents.

The c-store market continues to be expansionist, and although Tesco and Sainsburys remain active the strongest demand in this sector is currently coming from Morrisons and Coop and also Waitrose on a more selective basis.

Amongst the newer entrants in the UK, Victoria's Secret have strong aspirations to expand into the premier retailing destinations and along with Superdry, Cos and the Inditex brands they continue to drive the tenant mix in the main UK shopping centre's. The emergence of Jack Wills as a shopping centre tenant with new stores in Bluewater and Westfield London reinforces the strength of these destinations and the further polarization of the retail sector. We are also seeing a sharp uptick in demand from sports retailers with active requirements from Adidas, Reebok, Nike and more recently Sporting Pro.

Generally the feedback that we are getting from retailers for Christmas and New Year 2013/14 is positive, with most expecting trading and margins to improve on last year. The prospects for 2014 remain mixed with Tier 1 and 2 locations looking likely to benefit from improving retailer demand, while Tier 3 markets will continue to be affected by both structural and cyclical change in the UK retail scene.

Looking further ahead we do expect to see more service-orientated offers emerging on the better high streets, with this trend being led by the re-emergence of the banking hall on the high street. A3 uses will also continue to expand both on the high street and in shopping centres, but they should be considered as supporting a retail offer rather than replacing it.

## Shopping centre investment

Shopping Centre transactions in Q3 2013 have totalled £1.019bn in 14 sales, bringing shopping centre transactions in 2013 thus far to over £3.1bn in 58 transactions. Average lot size in Q3 totalled £48m. With an average yield in Q3 of 8.3%, down from 8.77% in Q2.

Notable deals in Q3 2013 included:

■ St Enoch's Glasgow was sold to Blackstone and Sovereign Land for £192.5m. This reflects an initial yield of 7.30%.

■ Southgate Shopping Centre in Bath was sold for £101m for an initial yield of 5.17%. The centre was purchased by British Land.

■ Kennedy Wilson purchased a portfolio of shopping centres in Bootle, Irvine, Leicester, Durham, Oldham, Wellingborough and Ashford for a combined price of £250m.

There are currently 25 shopping centres in the market, representing over £1.3bn (based on quoting price). These include:

■ Land Securities are marketing their half stake in Cabot Circus Bristol for £250m at an initial yield of 5.70%.

■ Intu are rumoured to be coming to the market with The Chimes, Uxbridge for £225m reflecting an initial yield of 5.75%.

There are 17 schemes under offer representing circa £874m.

We anticipate 24 shopping centres coming to the market in Q4, representing over £1.5bn (based on quoting capital value).

As we had predicted the strong town centre dominant centres are attracting significant interest and as a consequence the sheer weight of money is driving yields lower. In some cases as much as 100 bps in six months. We believe that this trend will continue in the short to medium term as the Global wall of equity seeks large quality dominant assets. St Enoch Glasgow attracted over £1bn of bids, with lending believed to be over 70% for this asset, the banks are showing

→ extremely positive signs of putting money into the market to the right investor and the right asset.

Investment demand remains across the spectrum – if anything there are new entrants on a daily basis. As a consequence yields will harden across the range with now perhaps a hardening in the stronger secondary asset class.

A note of caution – care must be taken when appraising assets to ensure that the individual fundamentals are strong and that acquisitions are not made irrespective of occupational demand. We are experiencing a structural not cyclical change to shopping/retailing patterns. Detailed occupational input/retail intelligence alongside investment advice is more critical now than at any other point in the last 20 years.

TABLE 1 **Shopping centre yields**

	Q2 2013	Q3 2013
<b>Super-Prime</b>	5.00%	5.00%
<b>Prime</b>	5.25%	5.25%
<b>Town Centre Dominant</b>	7.50%	7.25%
<b>Secondary</b>	9.00%	9.00%
<b>Tertiary</b>	16.00%	15.00%

Source: Savills

## High street investment

An uptick in sentiment over the summer has left investors wondering whether we could now be seeing a start to a general improvement in the market. Will sentiment translate into reality?

Over the last 12-18 months the high street investment market has been regarded as the less preferred market in which to buy. The combined impact of the recession and the much documented metamorphosis in how consumers now shop has left a cloud of uncertainty over how the sector will evolve in the short to medium term.

There is no doubt that the consumer is being squeezed from all sides. It may well be that improvement in trade is still coming out of savings and more likely cheap debt. As such with Christmas behind us 2014 could see retail spend fall away again. In short a false horizon. However one aspect that continually

assists consumer spending attitude is house price growth and whilst growth is not countrywide London and the South East is certainly seeing a return to growth even if it is still patchy outside the M25. Consumer spend levels naturally run through to retailers occupational requirements and whilst there may be a want by retailers to reposition themselves for any improvement in the economy, it is probably safe to say that caution still abounds. The imbalance in supply of space over demand is still clear to see in numerous town centres and not just in the north of the country. In fact many affluent towns where rental growth continued post 2008 are now beginning to stutter and are only now showing signs of rental decline whereas towns where rental values slumped almost immediately have now reached their rental nadir and are arguably set fair to now see positive rental growth. The irony here is that those towns, because of their nature, are also offering high yields and in many cases double digit returns.

The improvement in investment sentiment may therefore be running in advance of a still fragile occupational market. An increase in institutional capital inflows, into the retail funds in particular, is causing an increase in demand albeit with little expectation of real rental growth. Fund managers and their analysts are, as a priority, looking to spend their money in the office and industrial sectors but with lack of stock much of this new capital is overflowing into the retail sector. With an increase in institutional money and with institutions therefore reluctant to sell, except for the sake of rationalisation, little quality stock is emerging to satisfy demand. We anticipate therefore that pressure will come to bear on the funds to bid more aggressively than they have which in turn could see yields fall from the market accepted prime base of 4.75%. Indeed we have already seen one instance of this threshold being passed in Queen Street Oxford although the occupational story “behind the scenes” gave the fund the ammunition to ‘pioneer’ with the yield they paid.

So who are the winners from the increase in institutional demand? In many cases it will be those who have acquired the loan books from major banks and who within these huge

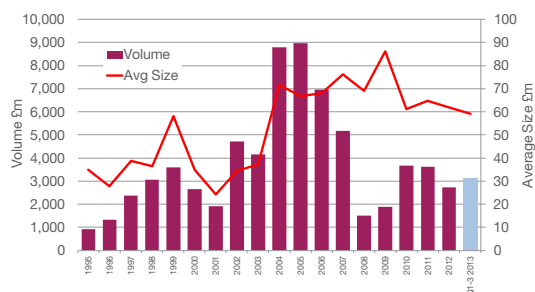
portfolios have also inherited good quality institutional stock.

At the property company and private investor end of the market we have yet to see sentiment translate into any real change either in terms of pricing or the number of investors re-entering the market. It seems that available debt for high street investments still seems to be still reducing rather than expanding.

When sentiment changes it is easy to kick yourself for not buying when everyone else was miserable. A wholesale improvement in the market has yet to arrive and until that happens there are still numerous recessionary opportunities there for the taking.

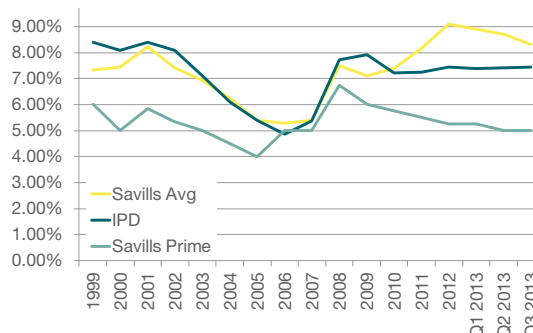


GRAPH 1  
**Shopping centre investment volume**



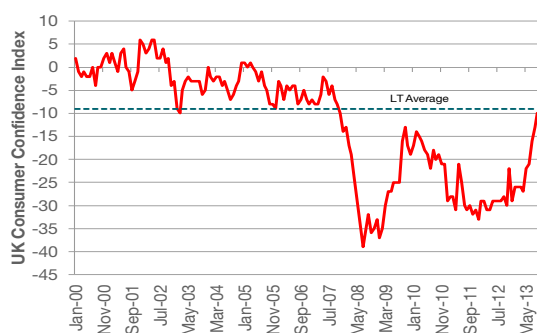
Source: Savills

GRAPH 2  
**Shopping centre yields**



Source: Savills

GRAPH 3  
**UK consumer confidence**



Source: GfK

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