



RESEARCH & FORECASTING UK

CENTRAL LONDON RETAIL HEALTH CHECK

Retail Vacancy Rate (Units)

Jan 2012	2.9%
Jul 2011	1.9%
↑	
Jan 2007	5.4%

Retail Vacancy Rate (Floorspace)

Jan 2012	1.3%
Jul 2011	0.9%
↑	
Jan 2007	4.9%

Length of Vacancy*

Jan 2012	23.5%
Jul 2011	54.5%
↑	
Jul 2008	44.0%

*% of vacant units unoccupied for six months or more

Retail Vacancy Edges Up, But No Cause For Concern

EXECUTIVE SUMMARY

- Central London's retail vacancy rate has edged upwards for the first time in almost three years, although it remains well below that of the UK.
- At January 2012, 2.9% of units across our sample of 10 Central London streets were empty, up from 1.9% in July last year.
- In terms of floorspace, vacancy has risen to 1.3%, a marginal increase on the 0.9% at July 2011.
- Retail vacancy in the West End is a little lower than for Central London as a whole, indicative of its role as the primary retail destination in the capital.
- With the average size of vacant units in Central London declining by 45% since 2007, it is clearly the smallest units that are coming onto the market or remaining empty.
- The number of retail outlets fronting Central London streets has fallen by more than 10% in five years as stock is temporarily removed from the market for redevelopment and landlords/developers amalgamate units to create larger floorplates to meet the needs of retailers.

INTRODUCTION

This is the ninth publication in the Colliers International Central London Retail Health Check series, which runs in parallel with our National Retail Barometer publication. It provides an overview of the current state of the retail market and assesses the extent to which these trends are impacting on the high street by using vacant units as a key indicator. Our Spring 2012 update incorporates the results of fieldwork carried out in January 2012.

The methodology behind our ongoing research is summarised on the back page. As far as we are aware, this is the only published data series that has monitored retail vacancy rates in Central London pre- and post-recession on a consistent basis. With the media debate surrounding the health of the high street gaining further momentum following the publication of The Portas Review in December 2011, our regular research on voids becomes even more relevant.

MARKET OVERVIEW

The UK economy is in a fragile state. GDP fell by 0.2% in Q4 11, unemployment is rising, wage growth is low and credit is tight. Household disposable incomes are therefore likely to remain under pressure for some time, although falling inflation through the course of this year is expected to offer some relief. Consumers are understandably cautious with their spending and many retailers have to offer big discounts to drive sales. With retailers continuing to experience high operating costs – business rates are due to increase by 5.6% in April – their profit margins are being squeezed. This is triggering branch rationalisation for many and administration for some.

In comparison, the Central London retail market has remained largely immune from the economic woes of the national economy over the past few years. The capital's role as an important retail destination for international high spending shoppers and tourists has been a major factor in underpinning healthy footfall levels and retail sales. However, over the past six months these two key indicators have taken a sharp dip in the West End, the principal retail area and location of choice for most overseas visitors to London, as illustrated in **Figure 1**.

Looking ahead, it is likely that the Queen's Diamond Jubilee and the Olympic Games, taking place this summer, will provide a substantial boost to the number of tourists visiting the capital, and footfall levels and sales should turn positive once more. A recent report published by The New West End Company/Springboard forecasts that these key events will drive a growth in retail sales of 3.5% in the West End, with the luxury retailers of Bond Street set to perform particularly well. Shoppers from the Middle East, Russia and China (the so-called MERC markets) currently account for more than 40% of all overseas transactions in the West End, and these countries will be the primary focus of marketing campaigns this year.



The Winter 2011/2012 edition of our National Retail Barometer publication is available for download at www.colliers.com/uk/research

SURVEY FINDINGS

The results from our latest survey reveal that retail vacancy rates in Central London, in terms of both units and floorspace, have risen slightly in the six months to January 2012. This is the first increase for almost three years, although void rates in the capital remain extremely low compared to those for the UK.

Figure 2 shows that 2.9% of units in Central London were vacant in January, up from 1.9% last July. Nevertheless, this is the second lowest vacancy rate since we began our monitoring in January 2007 and is not a cause for concern. For the first time, we have separated out the vacancy rate for the West End, which is defined as comprising Bond Street, Oxford Street (West and East) and Regent Street. The analysis shows that voids within this area of greatest retail concentration have been consistently lower than for Central London as a whole, indicative of a healthy demand from leading national and international retailers.

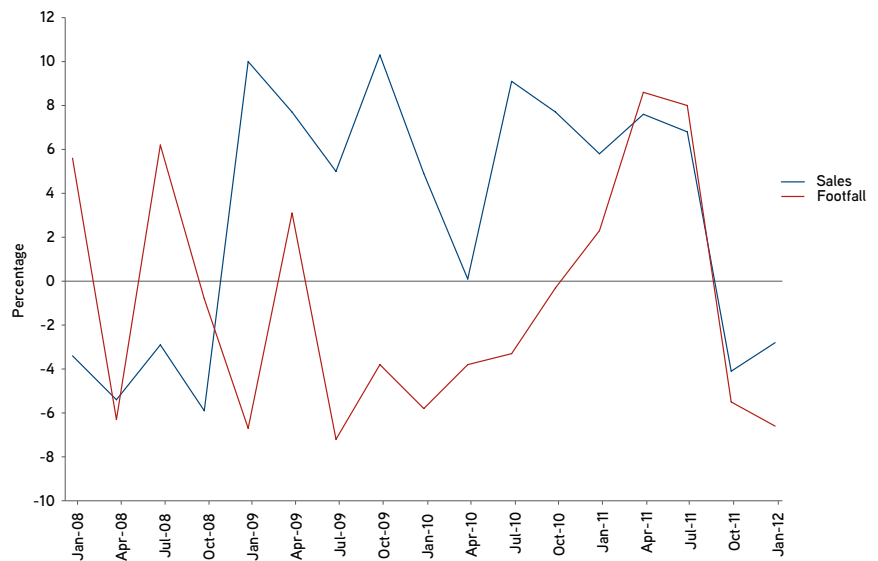
In terms of floorspace (see **Figure 3**), retail vacancy rates across Central London edged up to 1.3% in January from a low of 0.9% in July 2011. January's void rate for the West End was virtually identical at 1.2%, although it has generally been a little lower than that of Central London in recent years.

Vacancy rates for both Central London and the West End are lower when measured in terms of floorspace because of the decline in the size of unoccupied shops. This trend is illustrated in **Figure 4**, which shows that over the past five years vacant units in Central London have, on average, fallen in size from c.2,750 sq ft to 1,500 sq ft, whereas occupied shops have got a little bigger. With many retailers nowadays seeking modern, sizeable and well-configured stores, it is clearly the bigger units that are letting. In contrast, those units coming onto the market or remaining empty are getting smaller and may prove difficult to shift even when the demand for space is healthy. This puts the onus on landlords and developers to create larger floorplate stores. In practice, the fragmented ownerships which characterise many streets in Central London, combined with other limitations (e.g. listed buildings), often makes this a considerable challenge.

Between July 2011 and January this year, the number of vacant units across our sample of Central London streets rose from 22 to 34. This recent gain is reflected in our analysis of average length of vacancy (see **Figure 5**). As of January, more than three-quarters of vacant units had been empty for less than six months, compared to 45.5% last July. Conversely, the proportion of units that have been vacant for 12 months or more has fallen to just 14.7%.

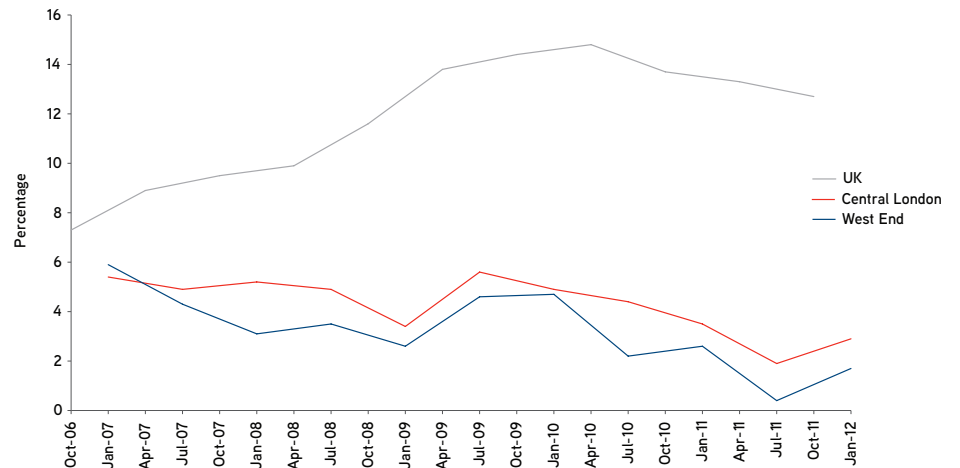
The trends in retail vacancy described above are based on changes in void rates across our sample of 10 Central London streets, as summarised in **Figure 6**. In January, four of the

FIGURE 1: WEST END: ANNUAL PERCENTAGE CHANGE IN RETAIL SALES AND FOOTFALL



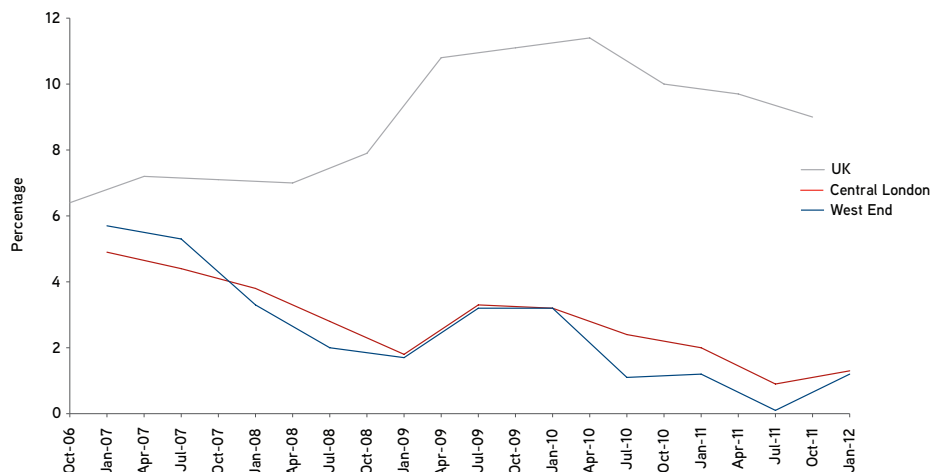
Source: The New West End Company/Springboard

FIGURE 2: NUMBER OF VACANT RETAIL UNITS AS A PROPORTION OF TOTAL RETAIL UNITS



Source: Colliers International

FIGURE 3: FLOORSPACE OF VACANT RETAIL UNITS AS A PROPORTION OF TOTAL RETAIL FLOORSPACE



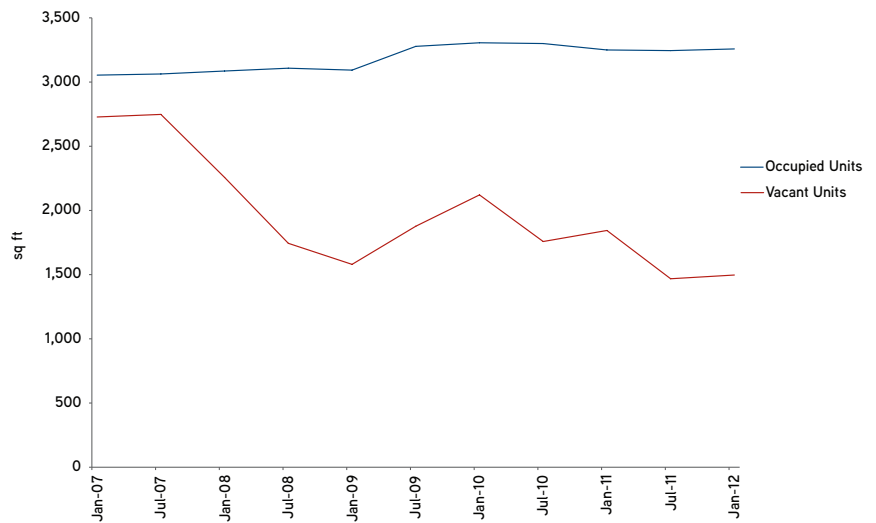
Source: Colliers International

10 streets which we monitor had no vacant units or floorspace, thereby confirming that the Central London retail economy remains in good health despite the small increase in vacancy rates since July of last year.

Over the past five years, Cheapside has generally exhibited the highest levels of retail vacancy having had the top unit void rate in Central London on seven of the 11 survey dates. However, this has been due primarily to the disruption caused by the construction of One New Change, rather than a lack of retailer demand. The most successful locations – as indicated by the lowest vacancy rates – have been Regent Street and Victoria Street (in terms of units) and Oxford Street West (floorspace).

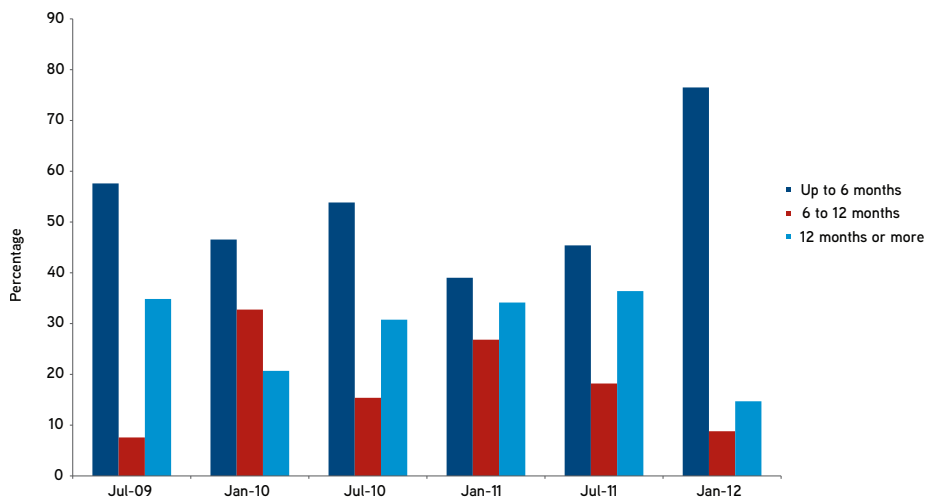
Over the past six months, Oxford Street East and the King's Road have been the worst performing locations in terms of vacancy, and account for most of the small rise in the overall vacancy rate for Central London. The former is suffering badly from the construction of Cross Rail and fluctuations in voids may therefore be expected. Of more interest is the King's Road. On 15 February the Evening Standard ran a feature 'Closing time in King's Road as shops fall prey to the slump'. Our data confirms that the vacancy rate along the King's Road almost doubled during the six months to January 2012, and in terms of units the street now has the highest void rate in Central London. However, the statistics also reveal that the street's vacancy rates were in fact much higher three years ago; at the height of the recession in July 2009, unit and floorspace void rates stood at 8.0% and 5.3% respectively. What appears to have drawn the focus on the King's Road is not that its current vacancy rate is particularly high, but rather it has increased sharply at a time when void rates at most other Central London streets have fallen or remain low.

FIGURE 4: AVERAGE SIZE OF OCCUPIED AND VACANT UNITS IN CENTRAL LONDON, JANUARY 2007-JANUARY 2012 (GROUND FLOOR ONLY)



Source: Colliers International

FIGURE 5: LENGTH OF VACANCY (% OF UNITS)



Source: Colliers International

FIGURE 6: VACANT RETAIL UNITS AND FLOORSPACE (%) BY STREET (GROUND FLOOR ONLY)

Location	Vacant units (%)												Vacant floorspace (%)											
	Jan 07	Jul 07	Jan 08	Jul 08	Jan 09	Jul 09	Jan 10	Jul 10	Jan 11	Jul 11	Jan 12	Jan 07	Jul 07	Jan 08	Jul 08	Jan 09	Jul 09	Jan 10	Jul 10	Jan 11	Jul 11	Jan 12		
Bond Street	6.5	3.9	3.2	5.2	3.4	7.3	8.7	4.9	4.8	0.0	0.0	4.7	3.2	3.5	4.9	2.2	5.4	7.4	4.0	3.9	0.0	0.0		
Brompton Road	7.2	4.0	2.4	1.6	0.8	0.9	3.5	4.4	4.3	4.3	0.0	2.5	2.8	1.4	0.9	0.4	0.1	0.9	2.2	3.4	2.8	0.0		
Cheapside	4.9	7.3	14.6	12.2	10.0	4.3	5.7	16.7	8.6	5.7	5.6	2.3	3.7	9.9	6.8	4.2	1.8	5.3	10.6	6.2	3.6	3.8		
Kensington High Street	3.5	4.7	7.0	2.9	2.3	10.1	7.2	6.0	3.5	2.1	2.7	8.7	4.6	4.3	2.9	0.8	5.6	4.4	2.2	1.3	0.8	0.9		
King's Road	6.0	5.9	7.7	8.7	6.2	8.0	5.4	4.9	4.2	3.4	6.3	3.7	3.5	5.6	5.7	3.3	5.3	4.1	3.9	3.4	1.6	3.1		
Long Acre	2.1	4.3	4.3	4.7	2.6	4.5	2.3	6.4	2.2	0.0	0.0	0.3	1.3	6.1	7.0	5.5	3.9	1.1	5.3	1.9	0.0	0.0		
Oxford Street East	8.8	5.4	2.7	2.7	0.7	2.9	3.9	1.6	0.8	0.0	4.7	5.5	4.8	2.2	1.7	0.2	1.8	4.5	1.2	0.3	0.0	4.3		
Oxford Street West	4.7	4.0	4.0	3.0	0.7	1.5	0.8	0.8	2.4	0.8	1.7	7.4	3.0	2.1	0.9	0.0	0.1	0.2	0.2	0.7	0.2	0.8		
Regent Street	2.9	3.8	1.9	2.9	6.9	6.9	4.9	1.0	2.0	0.0	0.0	2.7	13.5	7.5	1.8	6.5	9.2	3.9	0.2	0.5	0.0	0.0		
Victoria Street	1.8	5.5	5.5	3.6	0.0	2.1	2.0	2.0	0.0	0.0	2.0	0.7	3.1	2.6	1.6	0.0	0.7	3.1	1.6	0.0	0.0	0.4		
Average (all 10 locations)	5.4	4.9	5.2	4.9	3.4	5.6	4.9	4.4	3.5	1.9	2.9	4.9	4.4	3.8	2.8	1.8	3.3	3.2	2.4	2.0	0.9	1.3		

Source: Colliers International

Highest vacancy rate Lowest vacancy rate

FIVE YEAR PERSPECTIVE

We have now been monitoring voids across Central London for five years. This enables us to compare the pre-recession retail market (January 2007) against that of today (January 2012). Three key points emerge (see **Figure 7**).

First, unlike for the rest of the UK, the data confirms that the Central London retail economy has not only withstood the impact of the recession but has flourished; retail vacancy rates for units and floorspace are now 52.8% and 74.1% respectively lower than five years ago. Second, retailer demand for space has clearly remained buoyant, although the constraint on supply has also been a factor. In fact, total retail floorspace is now almost 6% less than in 2007. This is primarily due to a number of major redevelopment schemes temporarily removing stock from the market. Third, the number of retail units fronting Central London streets has fallen by more than 10% over the past five years, double the reduction in floorspace. This is indicative of the consolidation of space to create fewer but larger floorplate stores that better meet the requirements of today's retailer.

FIGURE 7: CENTRAL LONDON: KEY RETAIL STATISTICS, JANUARY 2007 VS JANUARY 2012

	January 2007	January 2012	Difference (%)
Total Units	1,326	1,184	-10.7
Vacant Units	72	34	-52.8
Occupied Units	1,254	1,150	-8.3
Total Floorspace (sq ft)	4,025,600	3,797,800	-5.7
Vacant Floorspace (sq ft)	196,400	50,900	-74.1
Occupied Floorspace (sq ft)	3,829,200	3,746,900	-2.1

Source: Colliers International (based on our sample of 10 streets, ground floor only)

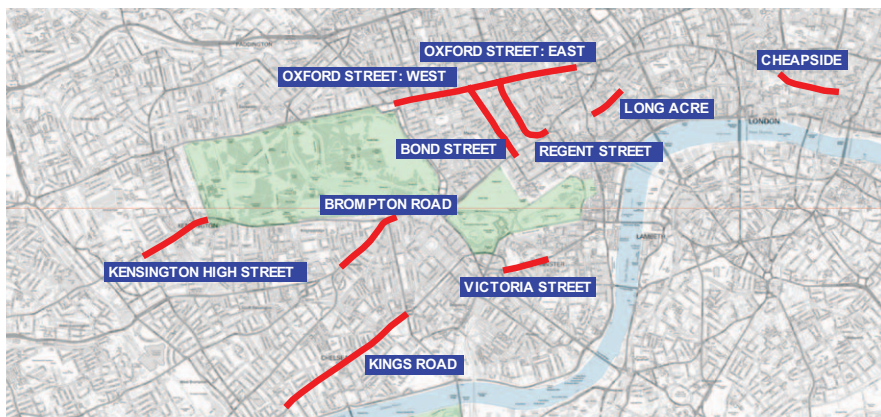
METHODOLOGY

The data presented in this report comes primarily from fieldwork Colliers International has undertaken on a six monthly basis since January 2007. In January and July each year we survey 10 leading streets in Central London to identify units that are empty and available for occupation. These streets are shown in **Figure 8**.

Therefore, unlike the statistics published on retail vacancy by other companies, our sample of locations has remained fixed over time, whilst all streets are surveyed at the same time for each update of this paper. This approach ensures absolute consistency in our data over time and between streets at any survey point.

The area surveyed for each location includes only the ground floor retail space for all units which have a frontage onto the main shopping area, as defined by the Colliers International Retail Agency team. Units that are part of a building that is under construction/refurbishment, or where an incoming retailer is identified, are not classified as vacant, since they are not available for occupation. Analysis of the retail vacancy data, in combination with other indicators, gives an insight into the current and changing health of the Central London retail economy.

FIGURE 8: LOCATION OF STREETS COVERED BY CENTRAL LONDON RETAIL HEALTH CHECK



512 offices in
61 countries on
6 continents

United States: 125
Canada: 38
Latin America: 18
Asia Pacific: 32
ANZ: 182
EMEA: 117

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