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MIDSUMMER RETAIL REPORT 2016
The retail property market will adjust to individual retailer failures but the long-term impact of a ‘Brexit’ is harder to evaluate at this stage.
EXECUTIVE SUMMARY

The retail sector has been experiencing a gradual return to health, but business rates threaten to seriously damage that recovery.

- The retail property market will adjust to individual retailer failures but the long-term impact of a ‘Brexit’ is harder to evaluate at this stage.
- The strong economic outperformance observed since mid-2013 looks to be giving way to a mid-cycle slowdown.
- Prime rents in 95% of the 421 locations monitored had either stabilised or grown by the end of April 2016.
- Prior to the referendum result, retail property investment transactions were already down 40% year-on-year.
- The resolution of the Brexit question may release pent-up demand and increased investment transaction volumes in the second half of the year.
- 2018 will see the delivery of around 2.5m sq ft of new retail space in London but the capital is well-placed to absorb this supply.
- London prime rents rose by an average of 7.8% in the year to the end of April 2016.
- When looking at restaurant provision which is aligned with demand, landlords and asset managers should first consider the format of a concept.
- There is more than 10m sq ft in the current shopping centre development pipeline but a substantial proportion of this will not be built.
- In the past year Birmingham has seen new retail development which equates to more than £1bn of investment.
- Prime space vacancy levels in Manchester are at a seven-year low.
- In the year to the end of April, average prime rents in the South West grew by 1%.
- Inditex has opened its first Massimo Dutti store outside London in Glasgow’s Buchanan Street.
- Northern Ireland’s investment market can offer an attractive yield gap when compared to the UK.
- The retail sector has been experiencing a gradual return to health, but business rates threaten to seriously damage that recovery.
- The current economic environment favours retail as a strong performer within the property investment market for the informed investor.
- Where town centres have become dysfunctional, local authorities must play a growing part in exerting the co-ordinated control that can bring change.
In 95% of the locations monitored, rents have either stabilised or grown during the past year.
Prior to these events, analysis of prevailing prime rents and vacancy levels had given cause for optimism. The Midsummer Retail Report tracks prime rental movements in 421 UK locations and also monitors vacancy across 15 representative shopping pitches. For the present, the rental picture for 2016 continues to be characterised by stability rather than growth and a slight tempering of the rapid increases in the Central London market. Across the 421 locations we track, 78% saw no change in Prime Zone A rents. This was an increase of 9% year-on-year.

To date, the number of centres with rising rents has fallen relative to 2015, with only 17% of centres up on last year. But, encouragingly, this means that in 95% of the locations monitored, rents have either stabilised or grown during the past year. A total of 23 locations across the sample recorded declining prime rents, but this is half the number compared to last year and is at the lowest level since 2007-2008.

A platform for progressive rental growth in more locations was gradually being created and it is very encouraging to note that the market outside the capital is also beginning to generate some rental growth. The improvement in the regions is being led by our largest regional cities, and notably the Northern Powerhouses of Manchester, Leeds and Sheffield.

Whilst it must be borne in mind that letting volumes remain thin so it is not wise to take one deal as a read-across, but a deal in the Manchester market had moved the top prime Zone A rental levels from £250 to £270 per sq ft – an uplift of 8%. Leeds and Sheffield had also seen activity which represented average uplifts of 4% and 6% respectively.

The collapse of BHS and the impact of the EU Referendum came at the end of a year which has seen the UK retail sector and the property market which serves it make positive progress. As it always has, the market will adjust to individual retailer failures but the long-term impact of a ‘Brexit’ is harder to evaluate at this stage.
**MARKET OVERVIEW AND OUTLOOK**

### Prime rents
Our overall weighted UK average prime rent has risen from £108 per sq ft to £109 per sq ft. When weighted to exclude London, this means that the sample of regional locations has recorded an uplift of just under 1%. This is not a dramatic increase but it is the first time that the monitored locations outside of London have shown positive growth since 2008.

### Vacancy rates
The overall vacancy rate across our sample of 15 key locations remained the same from October 2015 to April 2016 at 13.4% of units, though this masks variation across the centres.

During the past 12 months, the level of vacant prime units dipped to 6.6% last October but had risen again to 7.6% in April – which was the same level which prevailed when we reported at this time last year. Secondary unit vacancy came down in the year to the end of April from 16.9% to 15.4% but clearly both prime and secondary voids will be affected in due course by BHS, Austin Reed, M Local and any other retailer failures.

One notable trend over the past year is towards much more persistent vacancy profiles.

The proportion of units without a tenant for between one and two years has jumped from 15% to 24% while the proportion of units empty for more than two years has edged up from 21% to 23%. This increasing level of ‘persistent redundancy’ is a clear message to the market.

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**UK Net Effective Prime Zone A Rental Performance 2005-15**

![Graph showing rental performance from 2005 to 2015](graph.png)

Source: Colliers International

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**EXECUTIVE SUMMARY**
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Outlook
If we are to build the new retailing machine for the future, it would appear that a lot of shop space will not be part of the plan. In this respect, it will not just be redundant properties that need to be swept away.

Where town centres have become dysfunctional, local authorities must play a growing part of grasping the nettle and exerting co-ordinated control that can bring change.

Whether it is through formal structures such as the Town Centre Investment Zones being proposed by the British Property Federation or through pro-active management on a more piecemeal basis through planning and incentives, local authorities have a central role.

If property is to remain subject to the onerous burden of Business Rates, then some of this revenue must be re-directed in to breathing new life into our towns and cities. The market alone cannot sort out the legacy problems that we face. There must be a broader policy which brings vision and takes hard decisions.

For our part, the property sector must meet these challenges with imagination and an ability to move in-step with the retail sector.

Source: Colliers International
It seems likely that many UK commercial property 'late cycle risks' will be crystallised.
Following a positive change in trading conditions in 2014-2015, the retail market consolidated its gains this past year, albeit still weighed down by challenges and a few casualties. Austin Reed collapsed, followed by BHS, suggesting that there is still a fine line between success and failure for retailers unable to adapt to the new multi-channel world. Introduction of the living wage will not help retailers’ margins while the arrival of Amazon Fresh will increase pressure on food margins and supermarket profitability.

Despite challenges, retailers’ fortunes are generally improving, albeit at a measured pace.

Growth: drivers and obstacles
The strong economic outperformance observed since mid-2013 looks to be giving way to a mid-cycle slowdown with market uncertainty exacerbating a normal period of mid-cycle cooling.

Quarter-on-quarter growth in Q1 2016 fell to 0.4%, and weak PMI data suggests that will have been replicated in Q2.

For the retail sector, the main downside risks of a ‘Brexit’ are linked to sterling depreciation, inflation, increased import costs, an increase in interest rates and a reduction in domestic retail spending as consumers tighten their belts in anticipation of further economic weakening. Given the result of the vote, these risks are very much on the radar.

Accordingly, it seems likely that many UK commercial property ‘late cycle risks’ will be crystallised.

However, our institutions and banks are well capitalised as are several of the large REITs. Global investors continue to search for yield – and the depreciation of sterling will only add to the attractiveness of UK property to overseas capital.
THE RETAIL ECONOMY

Mid-cycle slowdown currently underway

Source: Office for National Statistics
**Purse power**
The UK economy still relies primarily on household spending, which accounts for over 60% of the economy. The consumer remains king – and is likely to remain so irrespective of the referendum result.

Exports and business investment continue to disappoint, although weaker sterling will provide some support to the export market going forwards.

Domestic drivers of retail performance are linked to low inflation and low interest rates.

These factors impact retail through key channels:

- Low inflation has supported real wage growth. Although limited, this has strengthened household confidence and disposable income.
- Low interest rates mean low mortgage rates, which mean more pocket money for home owners.
- Cheap mortgages support the housing market. House prices continue to rise and bring confidence to home owners through the 'wealth effect'.

Consumer sentiment had been strong in 2016, but recent evidence suggests that post-referendum sentiment could be significantly weaker. The 'wealth effect' is apparent UK-wide. Accommodative monetary and fiscal policies are supporting the housing market directly.

While double-digit house price growth has been seen in London and the South East, house prices in most other regions are either above pre-recession levels or within a few thousand pounds. This has, of course, resulted in issues related to affordability.

The house price to earnings ratio for the UK is now at a record level of just over six times average annual earnings. Household income has not kept pace with house price growth. In Greater London the ratio is over ten – a level considered by many to be unsustainable.

Not surprisingly, a correction in Central London is already apparent, prompted by regulatory changes and market uncertainty.

Demographic pressures persist, but affordability constraints, especially in the mass market, look likely to limit further house price growth. Hence, the 'wealth effect' may ease, confidence may wane and consumer spending may feel the effects.
House price to earnings ratios reaching new records.
Shop don’t save
There may also be a new fourth factor which supports the retail sector: consumers are not saving as much as before. The savings ratio – the percentage of disposable income that households save – fell to a record low of 3.8% in Q4 2015. This was its lowest level in more than 50 years.

Record low interest rates and poor pension returns may have encouraged consumers, especially the younger generation, to spend now rather than later. Increasingly, it looks as if low interest rates and poor returns are set to remain for some considerable period.

Sales volumes remain resilient, and positive annual growth rates remain uninterrupted for three consecutive years. Despite this resilience, retailers remain reliant on discounting to generate this steady turnover. Increasing online sales, the arrival of discounters and changes in consumer habits (perhaps a new value consciousness) are cited as reasons why retailers continue to cut prices at the expense of profit margins.

Annual online retail sales growth has consistently achieved double digit rates for the last three years.

As a percentage of total retail sales, online continues to take a greater share from physical stores. However, this vibrant growth does appear to be waning slightly and a slowing trend rate of growth is expected to continue in the future.

Source: Office for National Statistics
Retailers and landlords need to take a more forensic approach to the market. Jess Ford and Matthew Thompson explain how the use of integrated data can help.

DOWNLOAD TRANSCRIPT
...the current investment environment and the above average level of economic risk favour retail as a strong performer within the property investment market...
Given the disruption that the EU Referendum vote caused both before and after June 24th, our intention for this review of the retail property investment market is to look beyond the current market conditions and more to where we are headed.

Clearly there will be adjustments to sentiment and pricing in the investment market but at present it is still too early to be anything more than speculative as to how that will influence the various ‘buy’ and ‘sell’ players in the market.

Prior to the referendum result, retail investment transactions were already down 40% year-on-year as investors awaited the outcome of the vote. Correspondingly, yields for all but the best product had drifted due to a lack of demand. The only transactions partially immune from this indecision had been long-dated income sales to overseas purchasers, low capital value per sq ft deals and super prime.
Got a billion to spend?
However, in line with the theme of this year’s report, we thought it would be a useful exercise to look at the UK retail property sector in the context of what you might buy if you had a billion pounds to spend, and were entering the market today.

It’s a hypothetical exercise, but hopefully it will provoke some broader thoughts about where the various retail property classes are headed.

So, to get some momentum going in our ‘fantasy portfolio’, a prime dominant Greater London shopping centre would be a good place to start for our flagship asset.

London remains the entry point for retailers to the UK and shopping centres offer a strong diversified core income stream, rental growth prospects and international investor appeal which ensure future liquidity.

This purchase could be a whole asset or a slice of one with an established asset manager in tow. Let’s say we spend £300m at 4.25% – that would be a good start.

Appetite for foodstores
Our next segment of the portfolio is going to be some good quality foodstores, let on reasonable rents with RPI uplifts. This might raise a few eyebrows given what the supermarket

Source: Colliers International
operators have been through in the last couple of years, but the fact is that there are some very successful prime assets in this sector offering very strong covenants and indexed, bond-type income which can help power our new vehicle. The target assets would be surface stores of around 60,000 sq ft with petrol filling stations and manageable levels of competition as opposed to bigger stores in smaller catchments with poor demographics. For the purposes of the portfolio, we’ll buy £200m of prime stores at 4.75%.

So we’re already halfway to our £1bn target and it feels like we’ve got a good defensive base to our portfolio, but we need something which can offer a bit more yield to improve our return. Maybe we should consider a secondary shopping centre. There are plenty in the market but finding one today at the right price will be difficult. There are very compelling income returns to be had from this asset type but there are also big question marks over rent sustainability and future liquidity at any chosen exit date.

The case for retail warehousing
Instead let’s look at the case for retail warehousing. When the Midsummer report was published last year, they were a very popular investment. Investment into retail warehouse assets hit a nine-year high in 2015 but investor appetite for them has weakened this year, and yields have softened as supply has increased. However, we think the right retail warehouse assets are well positioned for long-term rental growth.

Source: Colliers International
There’s improving occupier demand particularly from bulky goods operators. They’re finding a way to co-exist with online competition, while retail parks are reinventing the ways in which they appeal to shoppers. We are even starting to see some rental uplifts at review. Negativity towards the sector has been overdone, and we are going to add £200m of retail warehouse assets to our portfolio at a blended yield of around 6%.

So just another £300m to go before we reach the £1bn mark.

A trip to the High Street
The capacity for us as a society to eat and drink does seem literally insatiable, so it makes sense to try and tap into that. Despite its many detractors, maybe the High Street is the place to do it. If anything the internet has increased our desire to socialise. So let’s consider three adjoining shops on our fantasy High Street. One is let to a UK-wide charity on a new 10-year lease at a re-based rent in line with today’s real rental values. The next is let to an independent bakery on a new five-year lease, and the final shop of our trio is let to a mainstream coffee chain that has three years left on its lease. The yield spread between the three is 5%-7%.

Which should we buy? Or should we buy all three and then replicate that in 20 locations across the UK until we have a High Street portfolio of £200m? We believe that there are plenty of High Streets in the UK that are supported by sustainable affluence and have reasonable growth prospects, so why not?

Time for leisure
There’s now just £100m left in our pot and I’m going to suggest we spend it on leisure-orientated assets. For years, people have been calling shopping a leisure pursuit but it’s only comparatively recently that we’ve seen the total integration of retail, leisure, food and drink.

There are a host of leisure concepts that are underpinning retail environments from trampolining and flight simulators, to boutique cinemas and casinos. The inherent attraction of leisure assets to investors are the long leases that the operators take to amortise their expensive fit-outs, together with robust covenants and an ability to drive footfall on a more 24/7 basis. So although we set out to build a retail property investment portfolio, it would not be coherent without a leisure component.
THE INVESTMENT MARKET

A £1bn well spent?
That is the final piece of our £1bn portfolio jigsaw so let's review its characteristics:

- The weighted average yield of the portfolio is 5.20%
- Average unexpired lease length is 10 years+
- Income from 100+ tenants

If we introduce some senior debt at 60% our return doubles to over 10%. So how does our hastily put together portfolio fare against other investment media?

Well, the FTSE 100 – has been showing dividend yield of around 4% this year, but, of course, there will be more volatility to come.

At the time of writing, UK 10-Year Gilts are only just above the negative territory of Germany and Switzerland.

As usual at a time of economic uncertainty, there has been increased buying of gold and the price was up 20% even before the vote result was announced but it provides no income. So none of these media are making that much of a compelling case to investors.

A game with a serious message
This ‘fantasy portfolio’ game does have a serious link to the real world. There are a number of investors sitting on a lot more than just our notional billion pounds. And they will be going through the same thought process and there is still a huge amount of international capital looking for a home.

Source: Colliers International
Outlook
Whilst the vote result is not the one that many of us anticipated, the resolution of the Brexit question may still release pent-up demand and increased transaction volumes in the second half of the year albeit in slightly more different directions than we had previously anticipated.

It should also be remembered that recent low levels of activity in the investment market cannot be attributed solely to EU uncertainty. Real estate investment volumes in the US are down 30% year-on-year. That’s a reflection of a wider global trend, and not just the future of the UK and its place within Europe. We also have a US election looming in November that will have additional significance for the UK’s capital markets.

There are still strong indications that the UK will continue to remain a favoured location for international capital. The lacklustre performance of government bonds has been deepened by the vote and – coupled with the unnerving volatility of equities – make a compelling case for buying “hard” assets such as retail property. However, stock selection is a challenging process and nowhere will this be more apparent than in the retail property sector.

We believe that the current investment environment and the above average level of economic risk favour retail as a strong performer within the property investment market for the informed investor.
Rupert Long and Laurence Edwards look at activity in the shopping centre and out-of-town sectors while Greg Styles considers how town centres may meet the challenge of successful development.
CENTRAL LONDON
RETAIL AND RESTAURANTS

"2018 will see the delivery of around 2.5m sq ft of new retail space in the capital."
Across London, a series of new retail ‘machines’ are already being built and are set to have a big impact on the market.

2018 will see the delivery of around 2.5m sq ft of new retail space in the capital through developments such as Coal Drops Yard at King’s Cross, Battersea Power Station and the 900,000 sq ft Westfield London extension which will create Europe’s largest shopping centre.

For some time, we’ve been talking about how new development will reshape London’s shopping scene and suddenly we’re now only 18 months away from seeing the reality being delivered.

While most analysis of new development in the capital tends to focus on the sheer amount of new space in the capital, I think it’s more pertinent to consider how it is creating the ‘right space’ for many occupiers.

For example, the Great Portland Estates project on the corner of Oxford Street and Dean Street is replacing the smaller traditional units in that location with larger scale flagship units. Not surprisingly, these were quickly snapped up by New Look and Benetton.

These new shop ‘machines’ not only give retailers what they need to trade from but also drive rents. Zone As at the eastern end of Oxford Street were historically half the level of those at the west end of the street. However, these lettings at the GPE scheme have significantly closed that gap.

Indeed the whole area through the eastern end of Oxford Street and around St Giles Circus is being transformed. Facebook will have their 230,000 sq ft HQ at Rathbone Square just to the north and half a dozen brands have taken shops around the giant Primark store in the shadow of Centre Point. It is definitely an area which is being transformed and offers great potential.

However, 2.5m sq ft is still a great deal of new space for London to absorb, and, of course, the question which is uppermost in everyone’s minds is: will there be enough retailer demand to fill these new shops?
Well, as we look at the market today, the indications are promising. For example, if you discount the new developments under construction at its eastern end, there are currently no vacant shops on Oxford Street.

On Kensington High Street – a pitch that had to come to terms with the advent of Westfield London and the effect of being inside the congestion charge zone – the vacancy rate is still only just over 3%.

Across London as a whole, prime rents rose by an average of 7.8% in the year to the end of April 2016.

However, the task of finding occupiers for an additional letting 2.5m sq ft of shopping space in the capital should not be underestimated.

Different schemes will target different occupier segments but there is cross-over and the reality is that when it comes to securing the best line-up for each particular environment there will be winners and losers.

Most crucially, these projects will have to tap into demand from international retailers. As we have seen first-hand through our work at Carnaby Village and throughout London it is the overseas brands who are powering the market and there are still many more ready to make their debut.

The result of the EU Referendum will most likely impact consumer confidence to some extent and retailers may be more cautious about their expansion plans.

However, retail is one of the most globalised of the business sectors and London is one of the most globalised cities. It is the most popular tourist destination in the world and generates around £15bn of visitor spend. So we should guard against selling ourselves short in the London retail market.

There has been a good deal of comment about the forthcoming Business Rates Revaluation and the increased financial burden it will place on London’s retailers.

This will indeed increase occupancy costs across the capital but the underlying strength of the market, the major infrastructure projects underway and planned and significant predicted population increase in London over the next 10 years will enable it to remain progressive.
Format and food
Our Head of Central London Restaurants, Josh Leon, looks at why the format of new restaurants is just as important as the cuisine.
REGIONAL UPDATES

London Suburbs & South East
Midlands
North West
South West & Wales
Scotland
Northern Ireland
The London Suburbs – and to a lesser extent the wider South East region – have enjoyed the benefits of the white hot Central London retail property market as a positive ‘ripple effect’ has flowed out from the capital with retailers looking for new catchments to exploit.

Also, the general affluence of London’s Suburbs and the South East as a whole, make new development viable when it would not ‘stack up’ in many other UK locations. As a consequence, these locations are generally progressing at a faster rate than the UK average NP. However, it should be borne in mind that there are still marked distinctions between both the capital’s suburbs and the South East. Accordingly, the average uplifts that we have seen in prime rents should not be applied as a benchmark across the region without looking at the specifics of each location.

Strength in the suburbs
In the 12 months to the end of April 2016, prime shops in the London Suburbs saw average rental growth of 5% with 16 of 50 centres monitored (32%) showing some rental growth. Average rents across this area are now 13% above 2008 rental levels, reflecting the positive recovery during that period.

Rents in locations as varied as Ealing, Lewisham, Wandsworth, Croydon and Hampstead all increased. Each of the key centres saw a significant amount of leasing activity. For example, new entrants to Bromley included Timberland, Skechers, Jo Malone, Kiko and Lovisa whilst Kingston welcomed retailers such as & Other Stories, T2, New Look Men, Zara Home and Itsu. Intu’s redevelopment of the Charter Place site adjacent to Intu Watford received a significant boost from the signing of Debenhams.

South East rents edging upwards
The story was a little more subdued for the South East, with rents increasing by 1%, driven by increases in nine (15%) of the 60 centres monitored across this area. The locations where rents increased are very much the core affluent South East locations where rents typically move fastest in better markets, such as Brighton, Winchester and Windsor. Whilst the overall picture looks positive for the South East, average rents are still 17% below their 2008 benchmark.
There was a great deal of activity on Queen Street in Oxford as retailers and financial institutions vied for space to position themselves ready to benefit from the opening of the new Westgate Centre in October of next year. New lettings to Holland & Barrett, Top Shop and Wasabi have helped drive Queen Street rents to £300 Zone A.

After an unusually quiet period in the previous 12 months, there were a number of new arrivals on Guildford High Street with notable deals completed by Massimo Dutti, Hotter Shoes, White Stuff and LK Bennett. Rents have risen above £300 Zone A for the first time since 2011. The growth of the leisure cluster on Friary Street also continued with Thaikhun, Franco Manca and Tortilla all opening.

The redevelopment of Bracknell town centre by Legal & General and Schroders is showing some positive signs of progress as retailers look to trade alongside Fenwick, Marks & Spencer and Primark together with a significant cinema anchored leisure quarter. This scheme is due to open after Easter 2017 and the take-up of space here will provide a good indicator of the appetite for new space in medium-sized South East towns.

Across East Anglia, rents increased on average by 1%, with 5% of 39 centres monitored recording an increase, the first positive overall performance for the region in nine years. However, rents in the region are still on average 20% below 2008 levels.

The main activity has been focussed on the biggest centres such as Cambridge, Norwich, Ipswich and Chelmsford. Aquila’s Bond Street development in Chelmsford, anchored by John Lewis, is due to open this Autumn and whilst the leasing market has been strong in this town for a number of years it looks like there may be a number of voids within this new development on opening.

The Buttermarket shopping centre in Ipswich is a good example of redeveloping secondary and redundant retail spaces for more appropriate uses – a number of the retail units here have been absorbed into a reconfiguration to accommodate a cinema, gym and restaurants such as Byron, Cosy Club & Prezzo.

**Outlook**

Whilst the protracted negotiation of the UK’s exit from the European Union will undoubtedly have some impact on consumer confidence and the expansionary plans of some retailers, the London Suburbs and the wider South East markets are underpinned by relative affluence and a growing population.

With new retail development coming forward at a sensible pace, the markets look set to remain progressive even in the face of this period of economic and political uncertainty.
In the past 12 months Birmingham has seen a new raft of retail development which has amounted to more than £1bn of investment.

The Grand Central centre which opened earlier this year is the biggest retail project in Birmingham for over a decade and has attracted over 30 new retailers into Birmingham such as Joules, The White Company, Kiehls, and Mint Velvet. The scheme has also quickly established itself as a new casual dining destination with operators including Leon, Giraffe and Tortilla.

The new Mailbox opened its doors late last year following a £50m transformation into an ‘urban room’. Harvey Nichols has relocated to the centre of the scheme with a new 45,000 sq ft flagship store – double the size of its previous trading space.

Across the city, demand from the food & beverage sector has kept vacancy levels down but there have been a number of notable retail deals including Apple’s decision to move to a new 20,000 sq ft store in New Street which is five times the size of their existing store.

New development
Other notable projects either underway or in the pipeline include:

- Primark has secured planning permission to redevelop the Pavilions shopping centre. The project will create 150,000 sq ft of retailing and a pedestrian walk through from the High Street to the anticipated HS2 rail station at Millennium Point. As a result, we expect to see the High Street revitalised in due course.

- Construction is underway on the Arena Central site which will deliver 1m sq ft of office-led, mixed-use development.
Colmore Row which also connects to the Paradise development situated between Broad Street and Victoria Square is currently being transformed into a vibrant mixed-use development which will provide 1.8m sq ft. The development will comprise commercial, civic, retail, leisure and hotel space, bringing more major improvements to pedestrian access and greatly enhanced public realm.

The £500m Smithfield regeneration project could see the indoor and outdoor markets transformed into a new shopping area with a central square, tramline and 1,000 new homes. The 14 hectare site is about twice the size of Brindleyplace, and will be based upon the same principles.

**Eating & Drinking**

Birmingham has seen a renaissance of new openings along New Street, Temple Street, Bennetts Hill, and Waterloo Street with recent openings by Cosy Club, The Botanist, and Viva Brazil. Byron is due to open at New Street later this year.

Adams, a Michelin starred restaurant relocated to larger premises on Waterloo Street – giving Birmingham its second starred restaurant alongside Carters in Moseley.

Gauchos is reported to have taken a unit on the ground floor of the 55 Colmore Row development by IM Properties.

**Beyond Birmingham**

Demand also remains for the strong Midlands towns with chains looking to grow in good footfall retail areas such as Solihull where Carluccio’s is taking a new unit.

In Worcester, lettings at Cathedral Square have been agreed with Mitchells & Butlers, All Bar One, Miller & Carter, Ask, Byron and Cosy Club along with the Gym operator Fitness4less.

The 18-unit £70m Riverside development in Stafford includes a new Marks & Spencer, Primark, H&M, River Island and Outfit. The development is providing over 190,000 sq ft of retail space to complement and strengthen the town. The neighbouring Waterfront carpark site provides ground floor restaurants facing the river including Chiquito, Nando’s, Prezzo and Coal Grill & Bar, and there will be a new six-screen Odeon cinema built on the riverside by Bridge Street.

In Wolverhampton, the £25m Mander Centre revitalisation programme has started and will create a new 93,000 sq ft Debenhams department store which is scheduled to open in Autumn of next year together with a further 10 new prime units. This is one of the most significant private sector investments in Wolverhampton over the last 20 years.
Stratford upon Avon is getting a £30m shopping centre redevelopment of Town Square, now referred to as Bell Court. Everyman cinema and Byron are the first two tenants announced for the scheme which is scheduled for opening early next year.

Outlook
The outlook is not positive for all Midlands retail locations. We are still seeing rental decline in locations such as Burton on Trent and Kidderminster. This is generally the result of an oversupply of space compounded by competition from other stronger retail and leisure destinations.

These factors combined with minimal investment and poor town centre management has led many to spiral into decline. Large scale redevelopment is needed – and proactive local authorities are fundamental to this process. A total realignment of these markets is required along with a reassessment of how consumers are attracted to these locations.

Birmingham has strengthened as a major retail location and is creating the space which works both for occupiers and shoppers.

Visitor numbers in the city hit 34m for the first time, and tourism revenue is expected to reach an all-time high of £6.2bn. Both the local population and visitors will be able to enjoy a shopping environment which is arguably the best outside of London.

Rents across the Midlands are now generally stabilising and once we have more economic clarity with regards to the prospect of an exit from the European Union we should see more progressive rents in selected locations.
During the past 12 months the retail property markets in regional cites such as Manchester have been gathering momentum with high levels of activity. There have been increased transaction volumes with even previously difficult space being let on improved terms.

Generally, lease lengths have stabilised and rent-free periods reduced. In some instances we have experienced a level of competition for prime space which has not been seen since before the recession.

For example, the former HMV unit on Market Street in Manchester proved difficult to re-let during 2014-15. However, once the space was reconfigured into two well-proportioned units, five retailers competed with best bids to secure the space. The successful parties were Skechers and New Look Men – both exciting new concepts in the UK and evidence of the improved market in the prime regional cities.

The increase in take-up and new lettings in prime cities have significantly reduced vacancy rates. In Liverpool, prime vacancy by floor space decreased 10.6% to 8.4% in the year to the end of April 2016. Voids in Manchester are at a seven-year low.

Occuier demand is spreading from London to the regions. New entrants such as Tiger and Sostrene Grene are leading the way in a new generation of retailing and finally the fashion occupiers are back demanding bigger and better space in the Top 50 centres. The food & beverage sector continues to flourish with operators such as Wasabi, Pret and ITSU are targeting multiple locations across the region.

This increased demand has resulted in a flurry of deals in prime locations such as Market Street in Manchester. At the beginning of 2015 there were several units available on the Street, but new lettings to H&M, & Other Stories, Nationwide and Size have left few options for a number of unsatisfied requirements.

The take-up in space and continued demand has resulted in a return to rental growth and we are now approaching the pre-recession tone of £300 Zone A.
Different pitches have recovered at different speeds in Manchester. King Street for example has improved significantly but rents are still at re-based levels of around £120 Zone A. There is a long way to go to reach the pre-recession rents. Despite a number of new lettings and the introduction of leisure uses to the street there are still several available units and relatively thin demand.

Across the region
This staggered recovery is true across different centres. Retailer demand is working off a hierarchy of locations. While Liverpool has low vacancy and the prime pitch of Church Street has recovered, the depth of demand is not quite at the same level as Manchester. Accordingly, rents in Liverpool have not grown at the same pace. These disparities are prevalent across the region.

There is a clear polarisation between prime and secondary. There is a positive story to tell on the prime pitch in the top cities but across the region there remain some challenges. Despite rental growth in prime locations there are towns across the North West which are still seeing rental decline. In the last 12 months, Southport and Bolton saw rents fall by 10% and 5% respectively.

Outlook
Many North West towns suffer from an over-supply of space the effect of which is compounded by out-of-town retail development. In some town centres, this situation combined with little or no investment and poor management has led to spiralling decline. Drastic action is needed with wholesale redevelopment. Stockport is a good example of a town where a pro-active council has taken control of a failing shopping centre and brought forward plans for a leisure and retail development which will better suit both consumer and occupier demand. More councils need to follow this lead.

A total realignment of the offer in these markets is required along with a reassessment of how consumers are attracted to these locations. The environment, ease of access, leisure activities and tenant line up are all key to their survival. Affordability for retailers is also directly linked and the forthcoming business rates revaluation should have a positive impact in many North West locations.
MORE STABILITY IN THE SOUTH WEST

The Midsummer research into prime rental levels encompasses 36 centres across the South West and Wales. In the year to the end of April, average prime rental levels moved up slightly to show positive growth of 1%.

To give a feeling of what is happening across the region, we have focused on four locations: Truro, Plymouth, Bristol and Cardiff.

In Truro we have seen a variety of new entrants wanting to take space in the affluent capital of Cornwall. Deichmann and Steamer have moved rents on to £122 Zone A in Pydar Street. The retail warehouse market around Truro is all about latent demand. There is potential for about 400,000 sq ft of retail warehousing development and currently about 150,000 sq ft of occupier requirements. The latest deal saw DFS pay £20 per sq ft at Threemilestone for a 16,000 sq ft unit on a 15-year lease. Developers will need to proceed carefully to keep the supply/demand equation positive.

Plymouth is a good example of how a ‘new retail machine’ can look in 2016. Rents in and around Drake Circus have increased whereas what was previously a good retail pitch along New George Street is now only achieving rents at 50% of prime. At either end of the main retail pitch are two mixed-use schemes: the new British Land bus station scheme with a cinema and 14 restaurants and the old Derry’s department store with 500 student rooms and a 100-bed hotel. We are acting for Thames Bank on the ground floor units which are attracting restaurant and gym operators.

SOUTH WEST & WALES

Nick Turk
Director
Retail Lease Advisory
The inferior or redundant retail space is being removed from the picture and replaced with mixed-use schemes responding to demand for centrally placed student living, budget hotels, gyms and the continuing demand in eating out.

In Bristol we have been advising on the disposal of BHS’s long leasehold interest on its store at Cribbs Causeway which will be recycled to a new brand in due course – a story which will be repeated across the UK.

The Hammerson/Ginko partnership has moved on its plans for the Cabot Circus centre and – just a year into their ownership – have shown real progress. They have created a stronger A3 core around Quakers Friar with L’Osteria the most recent addition.

Improving the food offer has happened at the same time that the landlords have started forming a stronger fashion element with Fred Perry, an upsized Hugo Boss and a Michael Kors all opening this year. In addition Victoria’s Secret has opened a new store but PC World has closed. There is market speculation that Zara Homes will also be moving to the centre soon.

Across over the Severn, Cardiff has had a positive retail year. In the St David’s Centre, H&M has increased its store to 45,000 sq ft, Victoria’s Secret has taken a 10,000 sq ft unit and we have acquired a unit for one of the new ‘three-brand’ Dixons Currys Carphone Warehouse stores. On Queen Street, Primark has moved and Matalan has taken its former store but rents are yet to reach their pre-recession peak of £300 Zone A. Top rents are currently around £220 Zone A.

Outside these cities, towns that are in the shadow of Cribbs Causeway or cities like Cardiff or Plymouth will struggle if all they can offer is ‘smaller’ than the competition. Newport has gone on the front foot and developed the Friars Walk centre, but other towns in the region which face fragmented ownership and lower business rates receipts do not have similar scope.
Whilst we have seen rental growth in only a few Scottish locations (notably Buchanan Street, Glasgow; George Street and Princes Street, Edinburgh and Perth), the retail marketplace does, however, continue to improve very gradually year-on-year.

This view is backed up by the recent BCSC footfall monitor which showed Scotland as the second top performer in the UK after the East of England, albeit only showing a 0.6% annual increase.

This does however, appear all the more significant when compared with a -2.8% drop recorded for South East England.

International brands
With the EU vote now out of the way, there will still continue to be opportunities for international retail brands in Scotland. It is significant that two of the world’s most successful and largest retailers, H&M and the Inditex group (Zara), have committed to upsizing considerably in Glasgow city centre. H&M has acquired the 65,000 sq ft Forever 21 store within the Buchanan Quarter, directly opposite their existing branch on the street with Zara reportedly being the underbidder.

Meanwhile, Inditex have opened their first Massimo Dutti store outside London in the former USC unit on Buchanan Street. This reflects Glasgow’s enduring appeal to some of the world’s largest brands.

In addition, in the last year or so we have seen other overseas retailers including Tesla, Michael Kors, David’s Bridal, Skechers, Kiko, and Foot Locker all continuing to grow their stores network in Scotland.

The BHS effect
On a more sombre note, the recent demise of BHS will clearly impact High Streets and shopping centres in the short-term. We believe the outcome for many former BHS locations will prove to be of greater and longer term economic benefit to the retail sector and the wider economy. In general, this should be viewed as a positive opportunity by landlords to reconfigure and enhance their assets.
It will create a catalyst to provide better floor plates and in turn attract better quality occupiers with the likes of Next, TK Maxx, Primark and other discount retailers all viewing the portfolio with interest. Alternative uses such as residential and gyms will need to be considered for the upper levels in many instances.

Retail development
Last year, we reported on the two main large shopping centre redevelopments in Scotland and during the last year, two very different pictures have now emerged for these assets.

Glasgow
In Glasgow, Land Securities’ planned redevelopment of Buchanan Galleries has reportedly ‘stalled’. A site start date was due in early 2016, this was apparently delayed due to essential tunnel repair and electrification works being carried out at Queen Street Railway Station. However, there is speculation now as to when the project will start on site. It will also be interesting to see what form the scheme ultimately takes as the retail and leisure dynamic continues to evolve at a dramatic rate.

Edinburgh
In Edinburgh, the St James Centre proposals are progressing as envisaged.

TH Real Estate Investors (Henderson) are in the process of entering into an agreement with two new joint venture partners. Most of the existing tenants have vacated and we anticipate construction will commence later this year on the 1.7m sq ft mixed-use scheme. With completion expected in 2020, it will provide 850,000 sq ft of retail, a multi-screen cinema with 30 restaurants, a luxury hotel and 250 apartments.

John Lewis will continue to trade throughout the construction period and the developers are currently negotiating with the other anchor tenants for the centre ahead of the wider pre-letting process. This scheme will undoubtedly transform the retail landscape in Edinburgh for the better.

Elsewhere, a small extension has been completed at Glasgow Fort for additional restaurants and multi-storey car parking. At Intu Braehead, the planning application for the proposed shopping centre extension is continuing its way through the planning process.

Aberdeen
Whilst consumer confidence remains fragile, the Aberdeen retail market has not been hit as adversely in comparison to the office and industrial sectors yet. Testimony to this is the recent entrants to the city including All Bar One, Barburrito, Michael Kors, North Face, Chaophraya and Oliver Bonas.

Plans have been lodged to extend Hammerson’s highly successful Union Square development by an additional 300,000 sq ft involving a redevelopment of the existing surface car park and retail warehousing with completion scheduled for 2019 at the earliest. We are also seeing BMO
Leisure market continues to thrive

Food store operators & out-of-town
Following the sea change in the food superstore market two years ago, Tesco sold 15 sites of varying sizes throughout Scotland for a rumoured £25m to London & Scottish Investments. About eight of these sites are earmarked for retail-led development schemes and are the subject of proposals to develop multi-let schemes with the principal occupiers including the likes of M&S Simply Food, Home Bargains, Aldi, B&M, Poundland, etc. In addition, there are drive-thru opportunities for KFC, McDonalds, Costa Coffee, Starbucks, Burger King, etc. and this mirrors an exercise which Colliers is currently undertaking elsewhere for oversized, underused car parks in the existing Asda foodstore estate.

In the out-of-town market, the two most notable deals to report are Next’s new 80,000 sq ft store at Straiton, Edinburgh and Sports Direct’s acquisition at Auchinlea next to Morrisons at Glasgow Fort for a 75,000 sq ft store.

Leisure
The leisure market continues to thrive and its importance cannot be underestimated as a contributor to retailer performance, given its ability to increase dwell time and in turn drive footfall and sales. A case in point is the recently completed 100,000 sq ft leisure extension at Silverburn which has seen retail sales increase by 8% and footfall rise by 9.7% year-on-year as a direct consequence of the additional leisure offer.

Other shopping destinations following this trend by creating a more significant restaurant offer include Eastgate Centre, Inverness; Bon Accord Centre, Aberdeen; St. Enoch Centre, Glasgow and the remodelled Soar at Braehead.

Turning our attention to Glasgow city centre, the city has seen the highest number of new restaurant openings in the UK, outside London. New operators to have opened or signed in the last 12 months include Miller & Carter, Byron, Cau, Smoke Barbecue, Red’s True BBQ and Smash Burger.

Restaurant supply is far more limited in Edinburgh with the most notable new scheme due for completion later this year being the joint venture between Standard Life and Peveril Securities at South St Andrews Square, which will see many new entrants to Scotland. Restaurateurs to have signed up include STK Rebel, Iberica, Big Easy, Drake & Morgan and Busaba Eathai.
Given the lack of availability within Edinburgh city centre, rents are rumoured to have reached as high as £70.00 psf in this particular scheme. This suggests further rental growth potential for prime Scottish leisure schemes – good news for developers and investors.

There is no sign of the demand weakening with the next wave of operators eyeing Scotland to be Wasabi, Itsu, Turtle Bay, Leon, Wildwood and Vapiano.

The gym market has also seen increased market activity dominated by the value discount operators, The Gym Group and Pure Gym. Both these operators have acquired additional sites in Glasgow city centre and Colliers has recently advised The Gym Group on a new 20,000 sq ft operation at Cameron Toll in Edinburgh. Other operators active in this market are Exercise 4 Less, Anytime Fitness and Sports Direct. As supply continues to thin in this market, competition will increase.

It is also worth noting the latest craze in this market is from trampolining operators with an array of new operators in the market including Airspace and Gravity.

Outlook
The Scottish retail landscape is fast moving and shifting to meet changing consumer needs. Whilst the importance of the internet and social media cannot be ignored, we are seeing a re-balancing in the market with the importance of ‘bricks and mortar’ returning.

The good news is Scotland is well placed to benefit with a strong development pipeline, world class retail streets and thriving leisure market. Combine this with the recent City Deals agreed in Scotland’s three main cities, and this will undoubtedly act as a catalyst for additional funding from the private sector, strengthening the retail and leisure offer.
The dynamics of the Northern Ireland retail property market have changed substantially in the past 12 months.

Last year saw a similar level of transactions to 2014 of around £500m but we expect that to be down this year as investors focus on asset management strategies and the ‘Brexit’ situation contributes to market uncertainty. However, there is still an attractive yield gap for proportionately less risk between the UK and Northern Ireland.

Notable deals in the last 12 months which have completed or are due to complete include:

- Tristan Capital with Ellandi as asset managers acquired Bloomfield shopping centre for £54.25m.
- A private investor acquired Marlborough Retail Park in Craigavon for £14.25m.
- Junction One, Antrim and The Outlet Banbridge were acquired by Tristan Capital with The Lotus Group as asset managers for a reported aggregate £30m.
- Valley Retail Park was acquired by AEW for £7.15m.

The leasing market has been driven by an increase in consumer confidence and has been also buoyed by the Business Rates revaluation which can substantially reduce total occupancy costs for retailers. The rates liability of all but two of the main shopping centres in Northern Ireland will fall.

The bulk of leasing activity has been focused around Belfast city centre with the main beneficiary being Donegall Place. Notable lettings include:

- Gap’s relocation from CastleCourt shopping centre to the former Easons unit on Donegall Place.
- DW Sports has acquired the former Internacionale property on Donegall Place.
Nationwide has acquired the former Karen Millen unit at the corner of Donegall Place and Donegall Square North.

The most recent Donegall Place letting is to Stradivarius, part of the Inditex Group, who, on the back of Zara’s out performance, have committed to their first store in Northern Ireland.

Greggs has acquired its first units in Northern Ireland on Royal Avenue and Boucher Square.

Skechers has taken the former Lipsy unit on Donegall Place.

The Entertainer and Yours Clothing both chose CastleCourt shopping centre for their first Northern Ireland stores.

Patisserie Valerie has opened on Donegall Square West and has a requirement for a further 6-8 units.

Sports Direct’s acquisition of a store in Donegall Arcade will perhaps surprisingly be its first city centre store. It has also agreed terms to acquire the former JJB retail unit at Drumkeen Retail Park.

Lifestyle Sports has opened its flagship store in Victoria Square.

Ground Espresso Bar has continued its expansion opening a further store in Queen Street and within Next at Bloomfield shopping centre, Bangor.

Development

Development has been largely focused on the food & beverage sector with landlords now looking at ways of increasing footfall and customer dwell time through improvements to their leisure offer. F&B is arguably the most active sector in the NI retail market and there are a number of examples where it is being targeted by new initiatives:

Hammerson is developing a food cluster at Abbey Retail Park.

Alterity is changing the use of what was their Open Class I retail terrace on Castle Lane to introduce at least two food & beverage offerings that will complement the existing and highly successful Starbucks unit.

Capital London is introducing a high calibre food & beverage cluster on the ground floor of the Soloist building. The first deal has been agreed with Caffe Nero who acquired four new sites in the last 12 months and are targeting at least another four before the calendar year end.
Costa Coffee remain extremely active and have completed deals on five new sites this year while KFC and McDonalds are back in the market with requirements for more provincial drive-thru sites.

The broader leisure sector is also flourishing and the Health & Fitness sector continues to see activity. For example, Pure Gym has now six outlets and will consider appropriate incremental infill sites.

Out-of-town
The 2016 Trevor Wood UK Retail Warehouse Report advises that the closure of four B&Q stores has propelled Northern Ireland to the top spot in the UK retail warehouse vacancy rates with 11.9% of space vacant at the end of 2015.

While this was higher than the previous half year’s rate (9.7%) it is still below the historic high of 14.6% in 2006. There is currently no new retail warehouse development planned for Northern Ireland. Accordingly, expanding retailers have to rely on a ‘second-hand’ supply of units. B&Q’s floorspace rationalisation has enabled retailers such as The Range to expand. However, the rental tone that this type of space is achieving can be as much as half of what B&Q was previously paying.

Foodstores
In our 2015 report, we commented on the repositioning being undertaken in the Northern Ireland grocery market.

Due to the significant changes in consumer spending habits the major supermarket chains continue to reduce their store sizes and have scaled back expansion plans with a focus on convenience and online business.

Tesco’s store closures in Northern Ireland have been widely publicised. However, as Home Bargains’ acquisition of the recently constructed Tesco store at Armagh demonstrates, this strategy is producing opportunities for other retailers.

We have yet to see any portfolio rationalisation following Sainsburys’ acquisition of Argos.

At the high-end of the food market, M&S Foodhall appear to be back in the market seeking well-located edge of High Street units of around 15,000 sq ft.

Lidl continue to seek opportunities for their new larger footprint of around 25,000-30,000 sq ft and favour freehold acquisitions.
“More than 80,000 shops face closure by 2017 unless the Government drastically overhauls the business rates tax system.”
The retail sector has been experiencing a gradual return to health, but business rates threaten to seriously damage that recovery.

A study by the British Retail Consortium has predicted that more than 80,000 shops face closure by 2017 unless the Government drastically overhauls the business rates tax system.

This is based upon the number of leases up for renewal over the next 18 months or so. Many of these are 25-year deals struck back in the 1990s. Even though prospects for retail as a whole are looking up, business rates could still be the straw that breaks the camel’s back. When it is time for renewal, business rates put undue influence on the decision, meaning retailers close (or downsize) rather than renew.

The negative effect of business rates has been thrown into even starker relief by the fact that in the past two years the retail sector has actually been moving into calmer waters with improved spending and more confidence among retailers.

The Government has promised reform and undertaken a Strategic Review with many in the property sector submitting well thought-out evidence based upon insightful work paid for by themselves. Unfortunately, the output of this consultation – in terms of reform – has not been impressive to date.

In various Budgets and statements, the Government has tinkered with the edges to the benefit of some small businesses. Meanwhile, the lumbering monster that is the 2017 revaluation continues to come ever closer. The Government’s unwillingness to do anything about reducing the 300,000 outstanding appeals or improving the transparency of the system suggests that they understand little about the burden that paying and ‘occasionally’ challenging business rates is for retailers.
Because retail is the most real estate intensive sector, it feels a disproportionate amount of the pain meted out to the property industry. Business rates for prime retail space in Dover Street in London’s West End, for example, are expected to rise by over 400% next year while the liability for retail space in Newport, South Wales is likely to fall by 79%. The widening gap between expensive business rates areas, on the one hand, and more economic regions can become a key part in the decision making process for whether to renew leases, open new stores and where to locate them. Vitally, this means business rates have a major impact on customer choice, geographic spread and retail jobs.

Business rates are increasingly having unintended consequences on the retail trading landscape.

For example, charity shops can get 80% relief from business rates. As a result, landlords will often charge them a higher rent than the prevailing tone because the overall occupancy costs for these occupiers are still lower. The unintended consequence is that landlords get higher rental income, charity shops pay an acceptable rent and mainstream shops (especially independent stores) can get priced out. It’s an example of how rating inequalities distort the market. Since retail is frequently the beating heart of healthy communities, the impact is most felt within the nearby society.

The Government’s much publicised ‘devolution revolution’ which will return more rating income to local authorities is also causing concern. Early trials have suggested that it could create another obstacle to investment in the High Street rather than having a positive effect as cash-strapped local authorities squeeze the pips of local businesses that are already running dry!

Despite positive words over the years from the Government, business rates remain a serious revenue generator and successive administrations have been reluctant to see that diminish. In 2014-15, they brought £22.9bn into the Government’s coffers.

Rates are calculated by multiplying the rateable value of a property by the Uniform Business Rate (called the rating multiplier; or poundage in Scotland).

Since retail is more dependent on places and spaces than other industries, a different multiplier in the pound (or differential poundage) for retail would help address unfairness, sustainability and help create healthier communities. The Government should consider this urgently before a sector that is coming out of the doldrums is seriously damaged, impacting even more on consumer choice and town centre vibrancy.
CONTACTS