



RESEARCH & FORECASTING UK

CENTRAL LONDON RETAIL HEALTH CHECK

Retail Vacancy Rate (Units)

Jan 2011	3.5%
Jul 2010	4.4%



Jan 2007	5.4%
----------	------

Retail Vacancy Rate (Floorspace)

Jan 2011	2.0%
Jul 2010	2.4%



Jan 2007	4.9%
----------	------

Vacancy Churn*

Jan 2011	8.4%
Jul 2010	9.6%

*% of all units vacant for all or part of previous 12 month period

Length of Vacancy*

Jan 2011	61.0%
Jul 2010	46.2%

*% vacant units unoccupied for six months or more

Central London Vacancy Rate – As Good as it Gets?

EXECUTIVE SUMMARY

- The proportion of vacant retail units in our sample of 10 Central London retail streets has continued to fall over the past six months, down from 4.4% in July 2010 to 3.5% in January 2011.
- The proportion of vacant floorspace also decreased over the same period from 2.4% to 2.0% – one fifth of the UK average of 10.0%.
- The proportion of vacant units that have been unoccupied for six months or more has risen to 61.0% in January – up from 46.2% in July last year. This suggests that, on the whole, when units become vacant they are having difficulty attracting new tenants, particularly if they are small and/or poorly located.
- The opening of One New Change in October 2010 has almost halved the proportion of vacant units on Cheapside from 16.7% in July 2010 to 8.6% in January 2011; however, it still has the highest vacancy rate of our 10 survey streets.
- The royal wedding in April 2011 will undoubtedly provide a boost to tourism in the capital, which looks set to benefit the Central London retail market in terms of footfall and sales.

INTRODUCTION

This is the seventh publication in the Colliers International Central London Retail Health Check series, which 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 March 2011 update incorporates the results of fieldwork carried out in January 2011. The methodology behind our on going research is outlined on the back page.

Colliers International also produces a National Retail Voids Barometer which analyses changing retail vacancy rates in a sample of 15 locations across the UK.

MARKET OVERVIEW

The recent announcement of a 0.6% fall in GDP in Q4 2010 (a further fall on the previous estimate of -0.5%) has sent shock waves throughout the UK and has raised concerns about the prospects for the economy in 2011. With the inflation rate running at twice the target level of 2%, the Bank of England is in a quandary over whether to raise interest rates when the economic recovery remains so fragile. This is of great concern to the UK retail industry as, according to the Office for National Statistics (ONS), average earnings growth currently stands at only 1.8% meaning disposable incomes are being squeezed and consumer confidence has fallen sharply, which will no doubt prompt spending to fall. This is compounded by the latest ONS unemployment figures which rose by 44,000 in the three months to December 2010 and stands at 2.5 million or 7.9%.

Despite these issues, the British Retail Consortium reports that UK retail sales grew in January by 2.3% on a like-for-like annual basis (see Figure 1) – although this is widely believed to be the result of an easy comparison with January 2010 when widespread snow brought the country to a grinding halt. Anecdotal evidence also suggests that sales were indeed strong in the opening weeks of the year but dropped off significantly in the latter part of January.

UK footfall was also up marginally in January at 0.8% (see Figure 2), but again this is against a weak comparison with January 2010 when the poor weather deterred shoppers from the high street.



The Winter 2010 edition of the National Retail Barometer is available for download from www.colliers.com/uk/research

Although the national picture is somewhat worrying, the Central London retail market continues to outperform the UK as a whole, with a marked polarisation developing between the two markets. The West End, in particular, is performing exceptionally well with annual sales growth of 5.8% in January 2011 and an annual rise in footfall of 2.3%.

SURVEY FINDINGS

Our six-monthly Central London Retail Health Check survey has shown that vacancy levels in the capital have been declining steadily since mid-2009 and our latest survey data from January 2011 shows that over the past six months the Central London retail vacancy rate has continued on the path of improvement.

The proportion of vacant retail units across our sample of 10 Central London streets has fallen from 4.4% in July 2010 to 3.5% in January 2011 (see **Figure 3**). This is only 0.1 percentage points higher than the lowest rate that we have recorded since we began monitoring vacancy rates in the capital in January 2007, which was achieved back in January 2009.

With regard to vacant retail floorspace, the signs are even more positive as **Figure 4** reveals that the proportion of vacant retail floorspace has also fallen over the six month period, moving from 2.4% in July last year to only 2.0% in January. Again, this is almost a return to the level recorded back in January 2009 (1.8%).

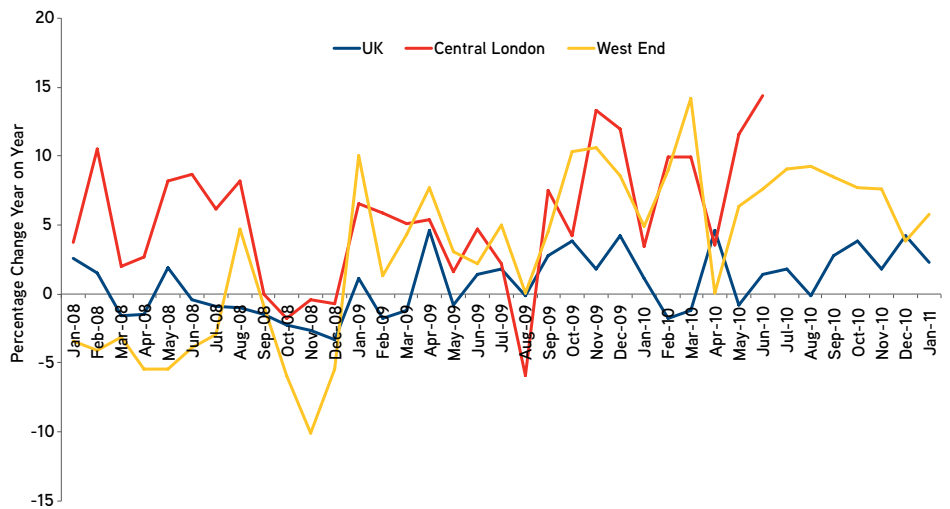
As highlighted in **Figures 3 and 4**, both the proportion of vacant units and floorspace in Central London compares very favourably with the national picture. The Colliers International UK retail voids survey recorded a national vacancy rate for units of 13.7% in October 2010. Likewise, the proportion of vacant retail floorspace was 10% in October – this is exactly five times higher than the latest Central London vacancy rate.

Although both the national and Central London vacancy levels are now following the same downward trend, the ‘gap’ between the two series doesn’t show any real sign of diminishing. In fact, given the historical trend, the latest fall in the national vacancy rate could well turn out to be a ‘blip’ in the data series, rather than a significant turning point, meaning the difference between the Central London and UK vacancy levels could begin to grow once more over the coming months.

Despite a fall in the proportion of vacant retail floorspace from July 2010 to January 2011, the average size of vacant units has risen by 4.9% from 1,758 sq ft to 1,844 sq ft (see **Figure 5**). This means that, although there are fewer vacant units, those that are empty are slightly larger than in previous surveys.

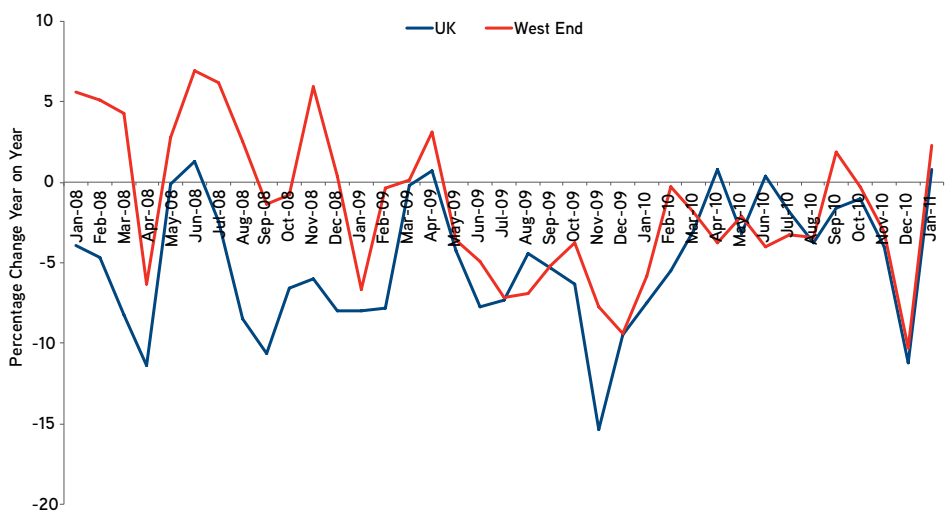
A closer look at the data for the individual survey streets reveals that Brompton Road is the main reason for this increase as Jaeger has moved

FIGURE 1: ANNUAL PERCENTAGE CHANGE IN RETAIL SALES - UK V CENTRAL LONDON V WEST END



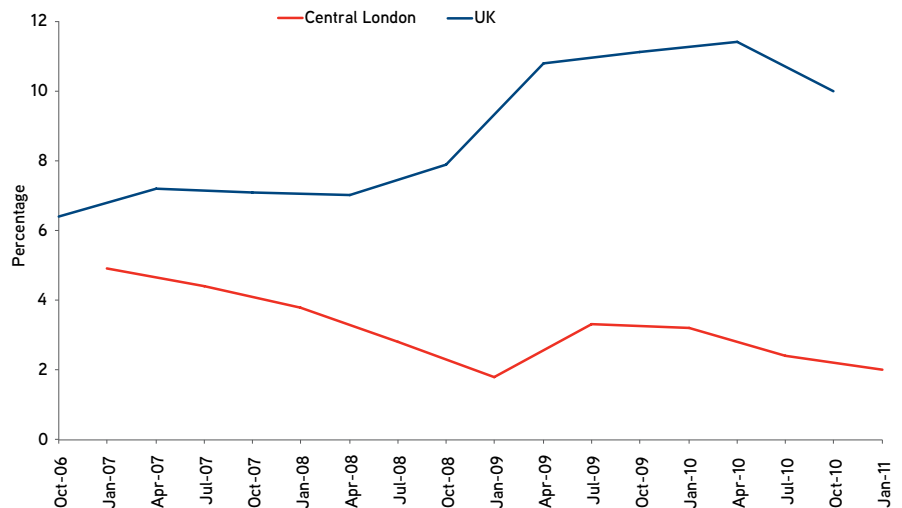
Source: British Retail Consortium, New West End Company

FIGURE 2: ANNUAL PERCENTAGE CHANGE IN FOOTFALL - UK V WEST END



Source: New West End Company, Springboard

FIGURE 3: NUMBER OF VACANT RETAIL UNITS AS A PROPORTION OF TOTAL RETAIL UNITS IN ALL SURVEY LOCATIONS



Source: Colliers International

out of its premises at 16-18 Brompton Road leaving the unit with a 7,200 sq ft empty footprint. This has caused the average size of vacant units on Brompton Road to escalate from 1,900 sq ft to 3,020 sq ft – a rise of 58.9%.

Jaeger’s closure of its standalone store on Brompton Road is hardly surprising given that the retailer already has numerous concessions in close proximity, such as Harrods, also located on Brompton Road, Harvey Nichols on Knightsbridge and Peter Jones in Sloane Square. Given the significant size of the unit and its favourable location next to Burberry and near Knightsbridge tube station, we would expect this unit to be re-let quickly to a high-end fashion retailer seeking to make its mark on this well-known luxury retail street.

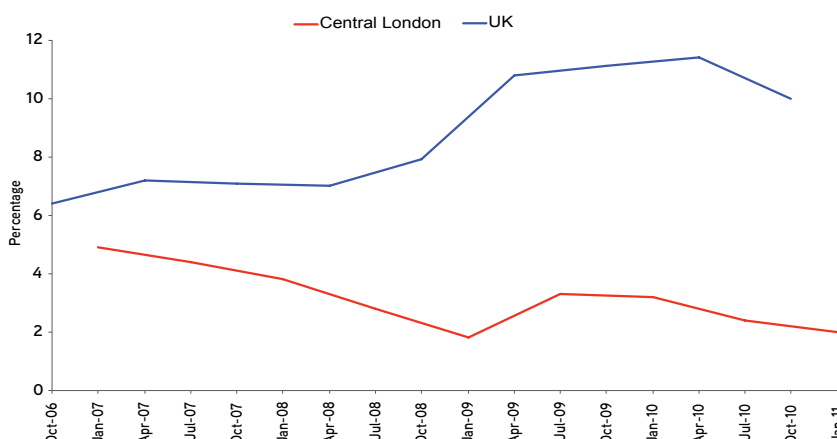
Although a positive change has been witnessed over the six months to January 2011 regarding the percentage of vacant units and floorspace, the proportion of vacant units that have been unoccupied for six months or more has risen to 61.0% in January – up from 46.2% in July last year. This suggests that, on the whole, when units become vacant they are having difficulty attracting new tenants. One of the fundamental issues on the high street at present is the lack of units that meet the occupational requirements of retailers, meaning that demand for large prime units is high but smaller and/or less well-located shops are often left empty for long periods of time or even indefinitely.

Kensington High Street is the worst offender in this context, with 80% of vacant units on the street having been unoccupied for over six months and 60% have been empty for over a year. Unsurprisingly, those that have been vacant for over 12 months are located at the far ends of the street on the periphery of the prime retail zone.

As shown in **Figure 6**, vacancy churn, which we define as the proportion of all existing units that have been vacant for all or part of the previous 12 months, has fallen to 8.4% in January 2011 – down from 9.6% six months previously. This reflects the on going decline in the Central London vacancy rate.

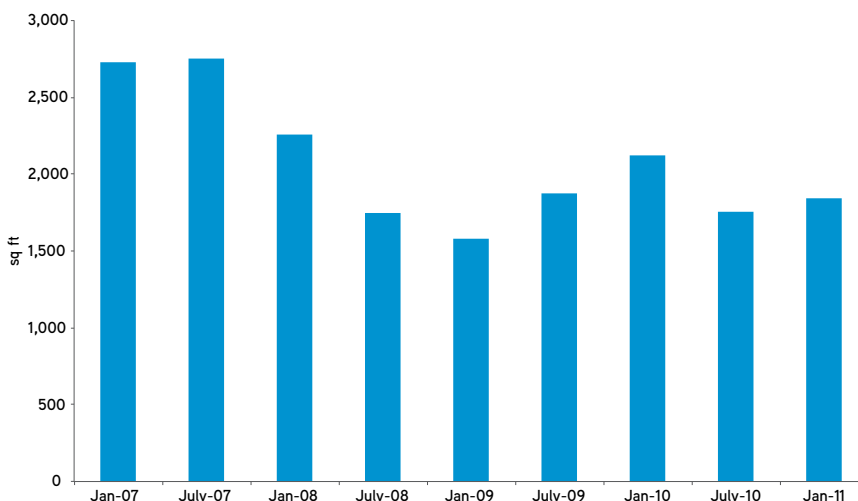
The location that has experienced the greatest amount of change in tenancy has been Cheapside at 18.6%. This is the result of the redevelopment work that has been taking place since 2007, which has led to many retailers moving out or relocating within the street. Cheapside also has the highest proportion of vacant units and floorspace at 8.6% and 6.2% respectively; however, following the opening of the Cheapside’s anchor scheme, One New Change, in October 2010, the location has seen a significant fall in its vacancy level, which was previously 16.7% for units and 10.6% for floorspace. We would expect this downward trend to continue over the coming months as the street becomes more established as the major shopping destination in the City.

FIGURE 4: FLOORSPACE OF VACANT RETAIL UNITS AS A PROPORTION OF TOTAL RETAIL FLOORSPACE IN ALL SURVEY LOCATIONS



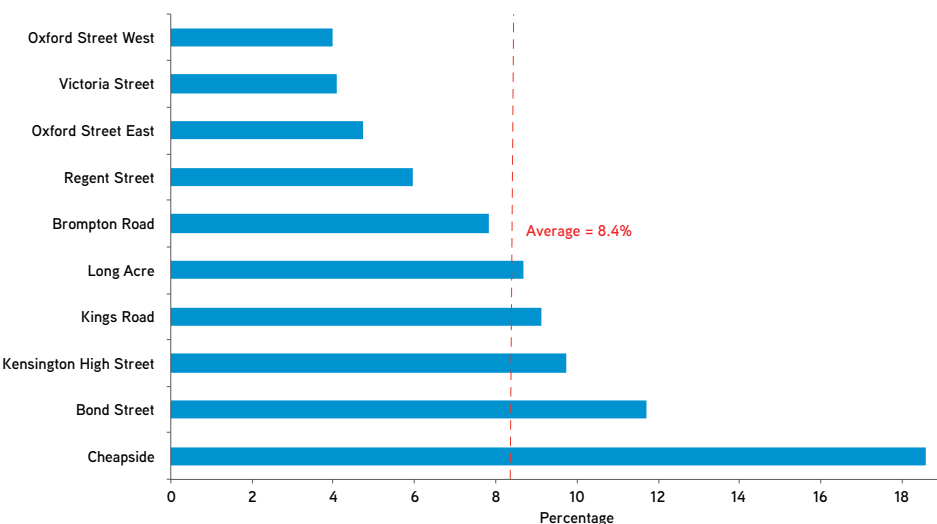
Source: Colliers International

FIGURE 5: AVERAGE SIZE OF VACANT UNITS IN ALL SURVEY LOCATIONS (GROUND FLOOR ONLY)



Source: Colliers International

FIGURE 6: NUMBER OF DIFFERENT VACANT UNITS SINCE JANUARY 2010 AS A PROPORTION OF TOTAL NUMBER OF RETAIL UNITS AS AT JANUARY 2011



Source: Colliers International

MARKET OUTLOOK

It is now widely acknowledged that the retail industry is in for another challenging year in 2011. High inflation, rising unemployment, limited earnings growth and falling consumer confidence will all combine to dampen household spending, particularly if the Monetary Policy Committee is obliged to increase interest rates sooner than was previously thought. This is likely to have a significant impact upon retail sales and, ultimately, retailers' profits.

As a result, we may well see the national vacancy rate begin to rise once more, although it is in landlords' interests to try and avoid this by employing increased rental and lease flexibility in order to minimise their liabilities with regard to empty property tax. From 1 April 2011 owners of empty properties with a rateable value between £2,600 and £18,000 will no longer receive a reduction in their rates bill if the property is empty for longer than six months – the rates will go up to 100%.

The Central London retail market should, however, continue to show greater resilience to the wider economic difficulties and the performance gap between the UK and the capital looks set to widen. One of London's greatest strengths is its reputation as a global shopping destination, which attracts millions of tourists every year, both internationally and domestically. This tourist expenditure has remained strong in recent years and has been a crucial factor in the capital's ability to outperform the wider UK market.

Central London retailers will be thrilled at the prospect of the upcoming royal wedding in April. It is seen as a major event of international interest and is likely to attract an influx of visitors over and above average levels – thus creating great potential for a significant boost to retail sales, particularly in the West End. We expect that this will translate into a further fall in vacancy rates in Central London when we next carry out our survey in July.

480 offices in 61 countries on 6 continents

United States: 135
Canada: 39
Latin America: 17
Asia Pacific: 26
ANZ: 168
EMEA: 95

LONDON - WEST END

9 Marylebone Lane
London
W1U 1HL
+44 20 7935 4499

RESEARCH & FORECASTING

Dr Richard Doidge
Director of Research Consultancy
+44 20 7344 6872
richard.doidge@colliers.com

Sarah Banfield
Associate Director
+44 20 7344 6513
sarah.banfield@colliers.com

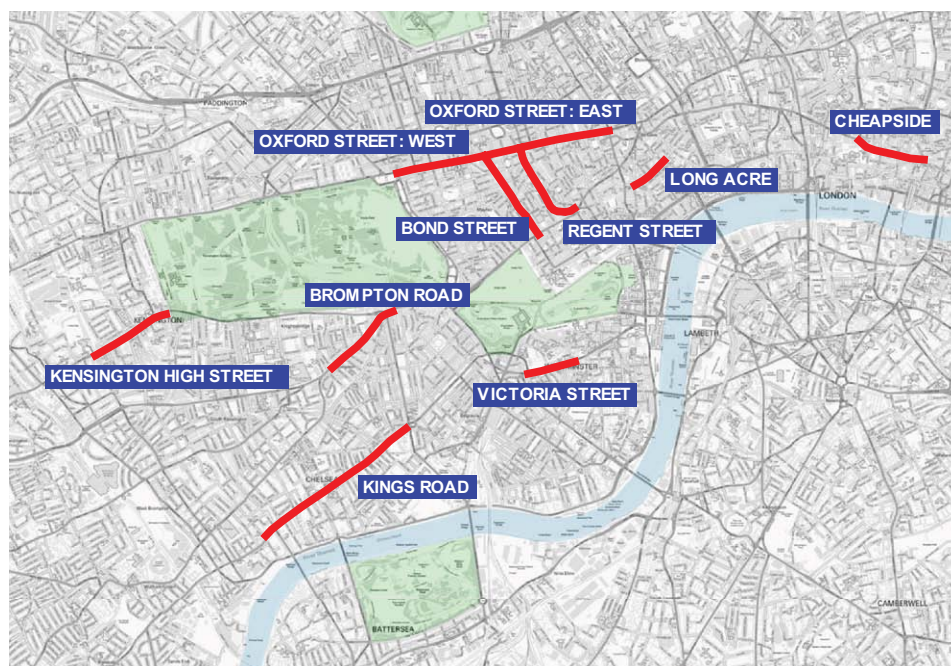
RETAIL AGENCY

Paul Moody
Director
+44 20 7487 1796
paul.moody@colliers.com

METHODOLOGY

The data presented in this report comes primarily from fieldwork we have undertaken on a six monthly basis since January 2007. In January and July each year we survey 10 streets in Central London, shown below in **Figure 7**, to identify units that are empty but available for occupation. The area surveyed for each location only includes the ground floor retail space for all those units which have a frontage onto the main shopping area, as defined by the Colliers International Retail Agency team. The analysis of this primary data, in combination with other indicators, gives us an insight into the current and changing 'health' of the Central London retail economy.

FIGURE 7: LOCATION OF RETAIL STREETS IN CENTRAL LONDON RETAIL HEALTH CHECK



Disclaimer: This report gives information based primarily on published data which may be helpful in anticipating trends in the property sector. However, no warranty is given as to the accuracy of, and no liability for negligence is accepted in relation to the forecasts, figures or conclusions contained in it and they must not be relied on for investment purposes. This report does not constitute and must not be treated as investment advice or an offer to buy or sell property. March 2011 11033

Colliers International is the licensed trading name of Colliers International UK plc. Company registered in England & Wales no. 4195561.

Registered office: 9 Marylebone Lane, London W1U 1HL.



Accelerating success.