



RESEARCH & FORECASTING UK
GREAT BRITAIN RETAIL



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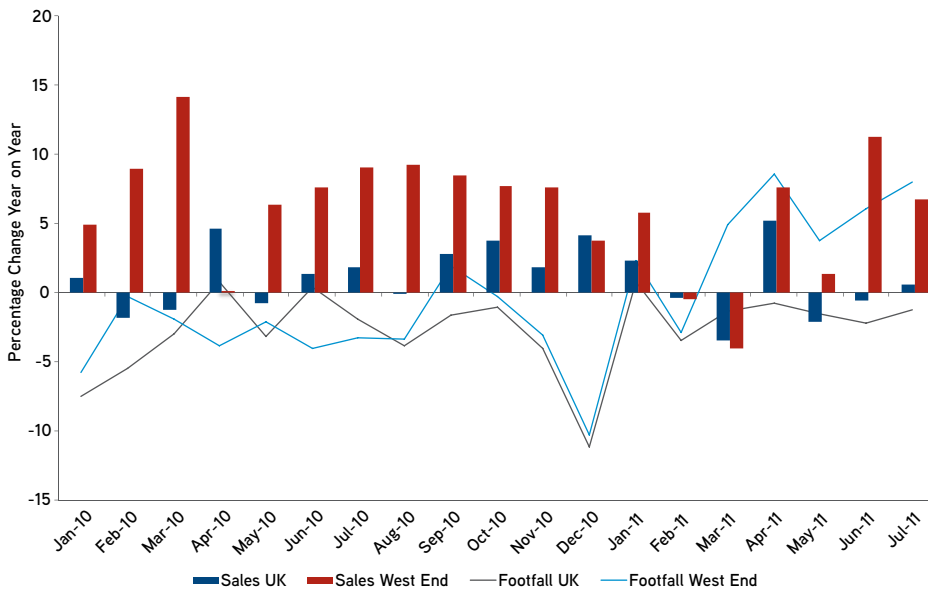
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Market Overview

Despite a positive start to the year in terms of sales volumes and footfall (albeit largely generated by the lure of heavy discounting), the fortunes of the UK retail market appear to have taken a turn for the worse in recent months (see **Figure 1**). The Royal Wedding, coupled with Easter and a spell of good weather, generated a 'feel good' factor, which provided temporary relief to the nation's retailers; however, negativity has since resumed and looks set to become commonplace for much of the remainder of 2011.

Whilst this is true of the UK as a whole, the Central London retail market remains a unique entity that has consistently proved to be resilient to the challenges facing the wider national market. The West End, in particular, has performed exceptionally well, with both sales and footfall regularly achieving year on year growth significantly above the UK average – albeit February and March were exceptions to the long term trend.

FIGURE 1: PERCENTAGE CHANGE IN RETAIL SALES & FOOTFALL: UK V WEST END



Source: British Retail Consortium/New West End Company/ATCM-Springboard High Street Index

Across the UK as a whole, however, the run up to quarterly rent day proved to be the last straw for a number of retailers with Habitat, TJ Hughes, Jane Norman, Homeform, Haldanes, and Life & Style all falling into administration in June. This comes after the Insolvency Service announced that retailer failures jumped 55% from 80 in Q4 2010 to 124 in Q1 2011 and the number of retail CVAs increased by 30% from 23 to 30 over the same period. Whilst Q2's figures weren't as dismal, retailers continue to come under pressure as a result of falling disposable incomes and high inflation.

On officially exiting the economic recession in Q4 2009, retailers could be forgiven for thinking that the worst was behind them; however, there have been anecdotal reports that some retailers believe conditions are now more troubling than they were in 2008. Indeed, household spending fell by 0.6% q/q in real terms in Q1 2011, continuing the negative trend reported in the final quarter of 2010. Although income growth is better than it was during the recession, inflation has risen to such a level that, according to Capital Economics, it is outpacing average earnings growth by about 2.5%. This squeeze on consumers' earnings, coupled with public sector job cuts due to the government's austerity measures, has had (and continues to have) a significant impact on the public's confidence and their propensity to spend.

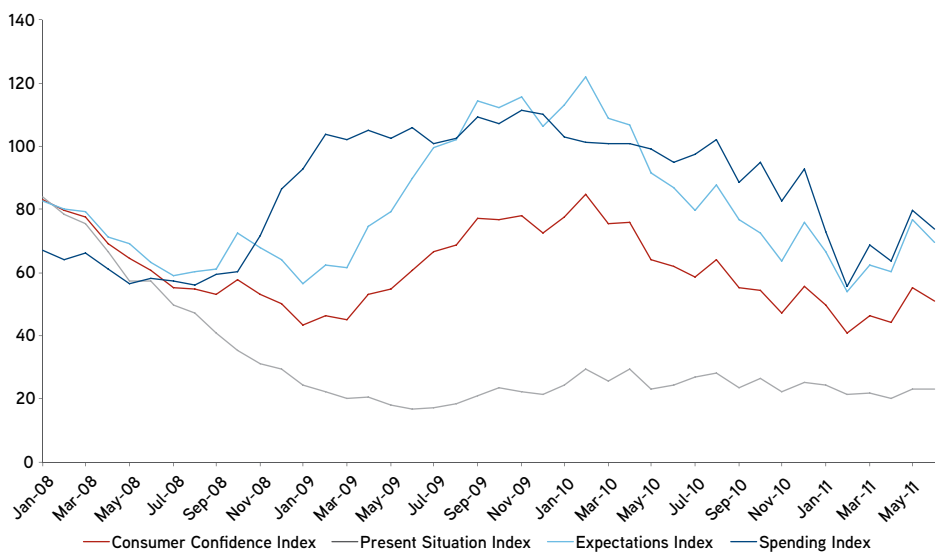
Nationwide's Consumer Confidence Index reveals that in June confidence fell to 51 points (see Figure 2) – 11 points lower than in the same month last year and 28 points below the long run average. Whilst the Present Situation Index – which reflects sentiment about the current economic and employment situation – remained stable in June, the Expectations and Spending Indices, which analyse views on the economy, labour market and household income over the next six months and attitudes regarding spending on household goods and major purchases, suffered a drop of seven points and six points respectively.

Given current consumer sentiment regarding the economy, labour market and household income for the next six months, as reflected in Figure 2, it is no surprise that many well-known high street retailers are showing signs of caution and are taking steps to secure their futures. Thorntons, for example, has announced its intention to halve its store numbers in the next three years, diversify its retail offer and focus on franchise stores in an attempt to 'de-risk' the business. Likewise, following two profit warnings, Mothercare announced the disposal of 121 branches, including 32 loss-making stores and a number of Early Learning shops. It cited the growth of out-of-town and internet shopping, as well as exorbitant high street rents, as its reasoning for streamlining its portfolio.

Market commentators have also observed an earlier than usual commencement of seasonal sales as retailers try to attract shoppers into their stores and boost sales volumes – a notable operator of this strategy has been Marks & Spencer which started its summer sale two weeks ahead of the typical annual schedule.

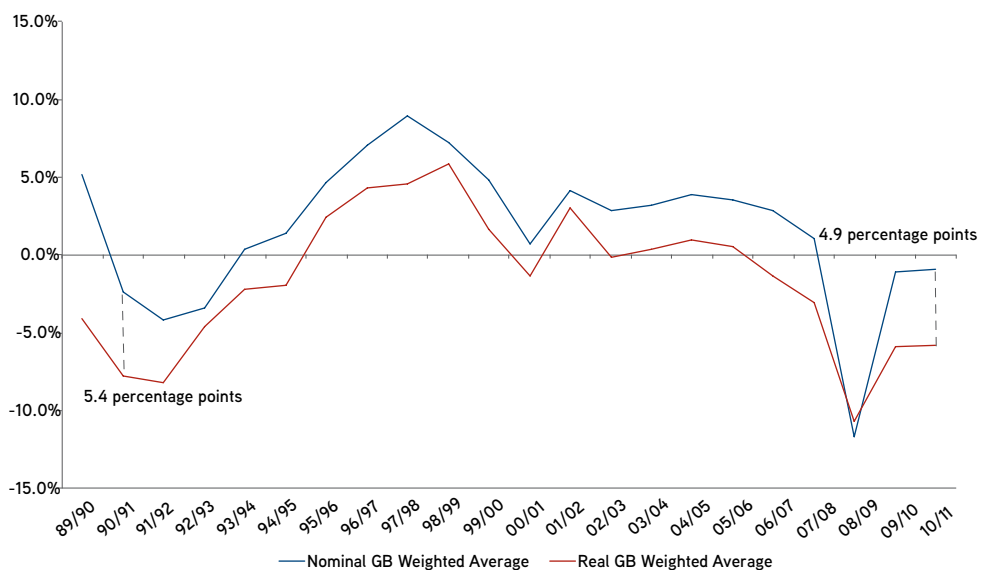
That is not to say, however, that all retailers are finding it tough and demand for well configured, prime units remains strong. Schuh recently announced its intention to accelerate expansion in the belief that the UK has the capacity for

FIGURE 2: NATIONWIDE BUILDING SOCIETY CONSUMER CONFIDENCE INDICATORS



Source: Colliers International

FIGURE 3: GREAT BRITAIN WEIGHTED AVERAGE ANNUAL RENTAL GROWTH, 1989/90-2010/11: NOMINAL V REAL



Source: Colliers International

another 40-50 stores and, in contrast to its rival maternity chain Mothercare, Mamas & Papas aims for 30 more UK shops in the next five years. New entrant, Forever 21, is also forging ahead with store openings following its UK debut in Birmingham last November; however, like many other retailers, it is focusing on the major cities and shopping centres, such as London's West End, Stratford City, Glasgow, Lakeside, Bluewater, Liverpool and Cardiff.

It is this divergence in retailer demand between primary and secondary locations that is creating a two-tier retail market, with Central London and the regional cities and shopping malls leading the way and small/medium sized towns lagging behind. So what impact is this, coupled with the ongoing economic woes and pressure on consumers, having on prime retail rents across Great Britain?

Prime In-Town Retail Rents

NATIONAL OVERVIEW

In June 2010 we reported that prime retail rents had fallen by an average of 1.1% year on year across Great Britain; however, 12 months on, and although remaining in negative territory, rental levels are showing signs of stabilisation having improved marginally to -0.9% y/y in June 2011. Whilst this does not represent a recovery, it is a small step in the right direction and, despite the ongoing challenges in the economy and national retail market, is an encouraging sign.

Indeed, in the aftermath of the previous recession in the early 1990s, rental growth in Great Britain remained negative for three consecutive years before seeing a slight upturn of 0.9% in 1994. If the same trend were applied to the recent economic recession then we should expect flat or marginal growth in the 12 months to June 2012.

However, inflation remains well above the Government target and when RPI is taken into account, in real terms prime retail rents in Great Britain fell by 5.8% on average (see **Figure 3**). This difference of 4.9 percentage points between nominal and real rental growth is the largest disparity between these two figures since 1990/1991, when there was a gap of 5.4 percentage points.

The average prime retail rent in Great Britain now stands at £111 psf Zone A – 13.5% lower than the peak of £128 psf recorded in 2008 and a return to the rental level seen in 2003. Unsurprisingly, the location with the highest Zone A rent remains Bond Street at £950 psf – rising 5.6% from £900 psf in June last year. This is the fifth consecutive year that the street has taken the title of most expensive location and is testament to its enduring appeal to international luxury retailers for their flagship stores. Demand is high, yet there is a lack of availability, which has served to significantly push up rents over the past few years. In fact, many retailers who would like to be on Bond Street are now having to consider nearby locations, such as Mount Street, Dover Street and Bruton Street.

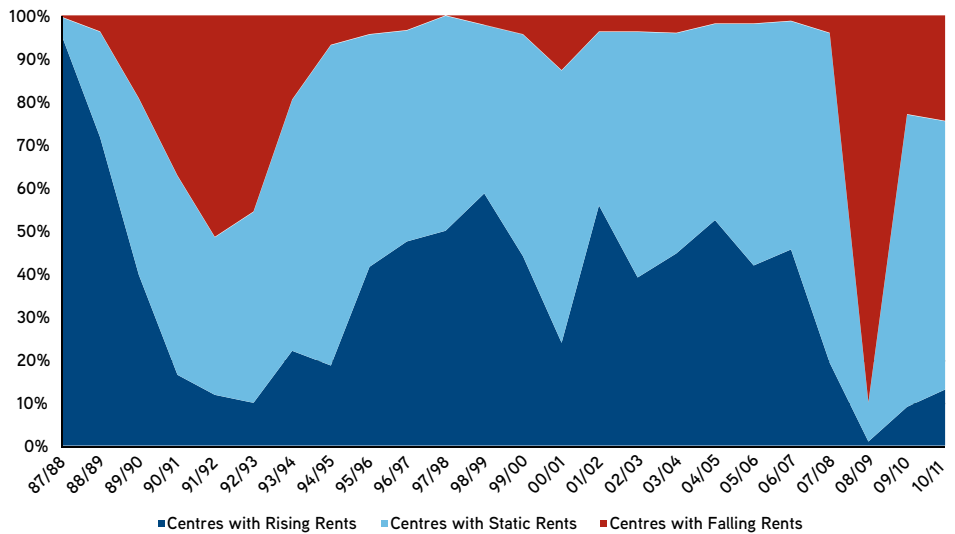
Of the 415 centres that we monitor, 13% (54 centres) experienced a rise in prime rental levels from June 2010 to June 2011 – slightly higher than the 9% recorded in the previous 12 month period (see **Figure 4**). However, the proportion of locations with falling rents also increased – moving from 23% (97 centres) last June to 25% (102 centres) in June 2011. Rental growth in the majority of locations (62% or 259 centres) was static.

REGIONAL OVERVIEW

Whilst average prime rents have fallen over the 12 months to June 2011, the national analysis conceals significant variations in performance in different parts of Great Britain, particularly regarding the strength of London in comparison to the other regions. As **Figure 5** shows, Central and Outer London were the only regions to achieve rental growth over the 12 months to June 2011 at 5.6% and 1.1% respectively. Thus, Central London is the only retail market that is keeping pace with, and indeed exceeding, RPI.

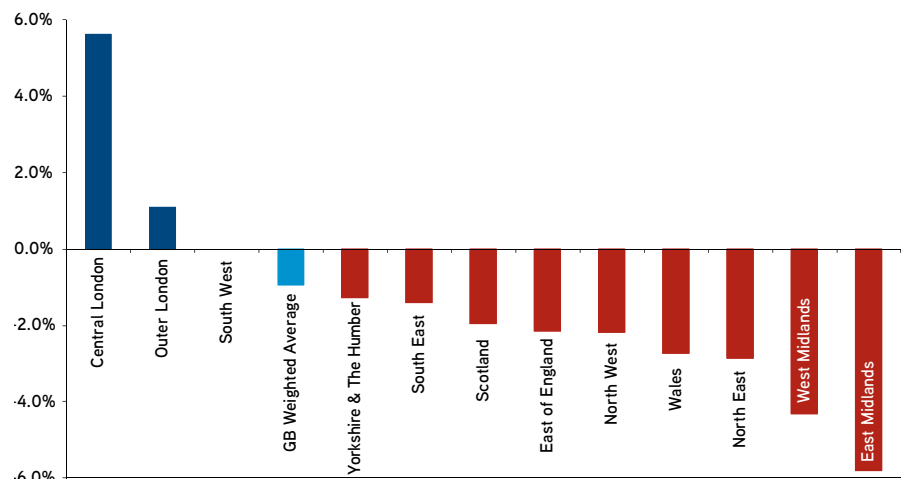
At the other end of the scale, the East Midlands was the worst performing region as 14 centres out of a total of 27 experienced a drop in prime retail rent, equating to 52%. Overall, average

FIGURE 4: ANNUAL PROPORTION OF CENTRES WITH RISING, STATIC AND FALLING PRIME RENTS IN GREAT BRITAIN (JUNE 1987 TO JUNE 2011)



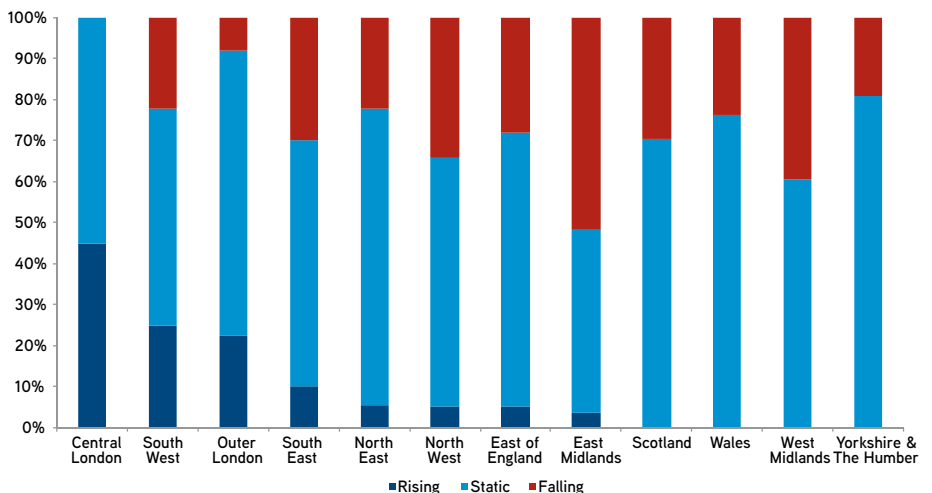
Source: Colliers International

FIGURE 5: CHANGE IN AVERAGE IN-TOWN PRIME RENT BY REGION FROM JUNE 2010 TO JUNE 2011



Source: Colliers International

FIGURE 6: ANNUAL PROPORTION OF CENTRES WITH RISING, STATIC AND FALLING PRIME RETAIL RENTS BY REGION, JUNE 2010/2011



Source: Colliers International

prime rents in the region fell by 5.8%, with the most pronounced declines being in Retford, Chesterfield and Northampton at 18.2%, 16.7% and 14.8% respectively.

Whilst a number of regions didn't experience rental growth in any locations (see **Figure 6**), there is a greater level of stability than in the previous two years. In Yorkshire & The Humber, for example, 81% of centres maintained their prime Zone A values from June 2010 and, outside of London, it was the region with the lowest proportion of centres with falling rents at 19%. This is an encouraging sign that is masked by the overall change in the regional average (-1.3%) as this figure is being dragged down by two centres in particular – these being Kingston Upon Hull and Rotherham at -14.3% and -10% respectively.

Wales and Scotland also failed to achieve rental growth in any of their retail locations; however, despite having the lowest average prime rent of the GB regions at £75 psf and £84 psf respectively, both maintained a good level of stability with over 70% of centres seeing static prime rents.

Unsurprisingly, Central London has the highest average prime rent of all GB regions at £311 psf (see **Figure 7**); however, prime rents range from £950 psf on Old Bond Street to £65 psf on Redchurch Street in Shoreditch, the latter of which has been improving rapidly in recent years and now houses trendy boutiques, independent stores and vintage shops.

TOP PERFORMERS

Figure 8 reveals that eight out of the top 12 performing GB retail centres are based in Central London. Oxford Street West was the best performing location in terms of rental growth, rising by 23.9% from £565 psf in June 2010 to £700 psf in June 2011. Despite the ongoing disruption on the street as a result of the Crossrail works, this part of the West End remains a haven for retailers and shoppers alike. Significant deals to the likes of Spanish fashion retailer, Desigual, in August 2010 and Californian fashion chain, Forever 21, in November have set record rental levels and the street is also in line for a boost when Land Securities' Park House scheme, the largest development on Oxford Street in 40 years, opens in November 2012 providing 87,660 sq ft of new retail space.

Interest in the area remains high, particularly from international brands, with one of China's largest retailers, Bosideng, having recently announced its intention to enter the UK market by developing the former Hog in the Pound pub just off Oxford Street on South Molton Street into a six story European headquarters in the form of New York's Flat Iron building, with a Bosideng Man store on the basement, ground and first floors.

With available space at a premium on Oxford Street, it is unsurprising that other adjoining locations have benefited from this overspill of demand and thus have also seen a rise in prime rents. In addition to South Molton Street, locations

such as St Christopher's Place, Regent Street and Carnaby Street have also experienced healthy rental growth over the 12 months to June 2011.

Regent Street, in particular, has improved its retail offer significantly over the past couple of years, with landlord, The Crown Estate, successfully repositioning the street as an international retail destination by attracting the likes of SuperGroup (owner of the SuperDry and Cult brands), which has exchanged contracts on the 55,000 sq ft former Austin Reed unit (which is relocating to Aquascutum's 26,600 sq ft shop). The new flagship store will comprise 38,000 sq ft of trading space over four floors and it is hoped that it will be open for the run up to Christmas. Furthermore, Burberry is relocating within the street and is taking over the LK Bennett unit and knocking through to the adjacent 20,000 sq ft former Habitat store.

A further boost will also come at the beginning of next year when the 1 million sq ft Regent's Quadrant scheme on the south-eastern end of the street is completed. Being developed by Stanhope, on behalf of The Crown Estate, it will comprise 70,000 sq ft of retail floorspace and a new five star hotel.

The South West was the only region outside of London to feature in the top rental growth rankings with two locations, St Austell and Exmouth, achieving a healthy rise in rental values – albeit the increase was from a low base which accentuated the percentage growth.

FIGURE 7: KEY RENTAL STATISTICS BY REGION

Region	Average Prime Rent June 2011 (£ psf)	Highest Prime Rent June 2011 (£ psf)	Top Performer June 2010/2011	Worst Performer June 2010/2011
Central London	311	Old Bond Street (950)	Oxford Street West (23.9%)	N/A
East Midlands	91	Nottingham (210)	Stamford (6.7%)	Retford (-18.2%)
East of England	89	Cambridge (240)	Loughton (9.1%)	Waltham Cross (-20.0%)
North East	89	Newcastle upon Tyne (260)*	Morpeth (9.1%)	Redcar (-12.5%)
North West	94	Liverpool (265)**	St Helens (5.9%)	St Annes-on-Sea (-11.1%)
Outer London	123	Brent Cross (450)	Greenwich (14.3%)	Barking (-15.4%)
Scotland	84	Braehead (235)	N/A	East Kilbride (-12.5%)
South East	104	Bluewater (400)	Guildford (7.1%)	Abingdon (-20.0%)
South West	100	Bath (200)	St Austell (12.5%)	Bridgwater (-12.5%)
Wales	75	Cardiff (250)	N/A	Bangor (-18.2%)
West Midlands	109	Birmingham (275)	N/A	West Bromwich (-28.6%)
Yorkshire & The Humber	130	Meadowhall (400)	N/A	Kingston Upon Hull (-14.8%)

Source: Colliers International (*MetroCentre not included in analysis **Trafford Centre not included in analysis)

FIGURE 8: TOP PERFORMING CENTRES IN GREAT BRITAIN OVER THE PAST 12 MONTHS
(% CHANGE IN PRIME RENT, JUNE 2010 TO JUNE 2011)

Rank	Centre	Region	2010 Rent (£ psf)	2011 Rent (£ psf)	Rental Growth 2010-2011
1	Oxford Street West	Central London	565	700	23.9%
2=	Neal Street	Central London	375	450	20.0%
2=	Portobello Road	Central London	125	150	20.0%
4	South Molton Street	Central London	300	355	18.3%
5=	Greenwich	Outer London	70	80	14.3%
5=	St Christopher's Place	Central London	140	160	14.3%
7	Regent Street	Central London	460	525	14.1%
8	St Austell	South West	40	45	12.5%
9=	Carnaby Street	Central London	360	400	11.1%
9=	Exmouth	South West	45	50	11.1%
9=	Peckham	Outer London	90	100	11.1%
9=	Westbourne Grove	Central London	270	300	11.1%

Source: Colliers International

FIGURE 9: WORST PERFORMING CENTRES IN GREAT BRITAIN OVER THE PAST 12 MONTHS
(% CHANGE IN PRIME RENT, JUNE 2010 TO JUNE 2011)

Rank	Centre	Region	2010 Rent (£ psf)	2011 Rent (£ psf)	Rental Growth 2010-2011
1	West Bromwich	West Midlands	70	50	-28.6%
2	Stafford	West Midlands	90	70	-22.2%
3	Wolverhampton	West Midlands	120	95	-20.8%
4=	Abingdon	South East	50	40	-20.0%
4=	Waltham Cross	East of England	50	40	-20.0%
6=	Bangor	Wales	55	45	-18.2%
6=	Retford	East Midlands	55	45	-18.2%
8=	Chesterfield	East Midlands	120	100	-16.7%
8=	Clacton-on-Sea	East of England	60	50	-16.7%
8=	Hastings	South East	90	75	-16.7%
8=	Maidenhead	South East	90	75	-16.7%
8=	w	East of England	60	50	-16.7%

Source: Colliers International

WORST PERFORMERS

Despite being the bottom performer of all Great Britain regions, the East Midlands was not, however, home to the worst performing location. This was the West Midlands, where in fact the three bottom performing towns in Great Britain are located – the worst being West Bromwich where the prime retail rent dropped by 28.6% to £50 psf. However, there are signs of optimism as in mid-2010 planning permission was granted for a £200 million, 540,000 sq ft Tesco-led development in the town centre. In addition to a new 140,000 sq ft Tesco Extra store and petrol station, the scheme will include a 70-bedroom hotel, a cinema, restaurants, bars and cafes and a 165,000 sq ft retail centre, plus integrated routes and public spaces to link the new development with the rest of the town. As a result, when the new scheme gets underway it is likely that prime rents will 'bounce back' as new retailers sign up for the modern retail floorspace.

In fact a number of towns featured in **Figure 9** are the subject of proposals to improve the retail offer. Chesterfield Borough Council is looking for a development partner for the redevelopment of the 11-acre Northern Gateway site, which is set to extend the town centre, attract new retailers and raise the quality of the shopping experience in the town so that it can compete with neighbouring cities such as Sheffield, Derby and Nottingham. If a suitable partner is found within the project timescale, a planning application could be submitted next summer with work on site beginning in 2013.

There are also plans underway to regenerate Maidenhead – a town with great potential, despite its falling rental values. Later this year, ING Real Estate Development proposes to submit a planning application for the redevelopment of Kings Triangle into a retail-led, mixed-use scheme comprising 226,000 sq ft of shops, a car park, residential and, potentially, office space. It is intended that this scheme will be open a couple of years before the arrival of Crossrail, which will provide a further boost to the town when services begin in 2018.

The third worst performing town in Great Britain, Wolverhampton, does not, however, have the benefit of forthcoming investment into the retail market as at the beginning of the year the Council terminated the development agreement with Multi Development to build 'Summer Row' – a 600,000 sq ft retail, leisure and residential scheme that was set to be anchored by Debenhams.

The development agreement was originally signed in 2005 but the plans stalled in 2008 when a consortium of Northern Irish investors withdrew funding. Keen to see the development progress, Wolverhampton City Council decided to invest directly into the scheme and the funds were

signed off in December 2010; however, only a few months later the Council withdrew its support stating that due to deep cuts in its spending plans it was no longer able to finance it.

Market Outlook

A key driver of the retail industry's woes is the continuing high level of inflation, which is squeezing disposable incomes and leading to faltering sales. CPI annual inflation rose to 4.4% in July and is forecast to reach the 5% mark in Q3 2011.

A key exercise for retailers is to control their costs by way of effective management of their portfolio. It comes as no surprise that many retailers are either renegotiating terms with landlords or are disposing of shops in less profitable locations, as well as turning their attention to online and mobile retail. A multi-channel approach has been shown to improve consumer loyalty since it allows them to access products from a variety of routes and facilitates higher levels of interaction with the customer. Furthermore, a relatively low investment is required to establish channels via the internet (company website, mobile app or social media sites) – far less than the overheads involved in a large bricks and mortar portfolio; however, the audience reach is just as wide, if not greater, than can be achieved by a physical store presence.

'Survival of the fittest' is the buzz phrase for the remainder of 2011. Those retailers with faltering business models, such as TJ Hughes which had been having difficulties for some time, and high debt levels – Jane Norman was reportedly £140 million in debt – will always be vulnerable to a dip in the market, with the current 'consumer recession' being the catalyst that pushed them over the edge, rather than the underlying reason for their failure. Retailers need to recognise the warning signs and act quickly to adjust their cost base, whilst listening to their customers and providing excellent customer service and convenience through a number of channels.

The Colliers International National Retail Barometer has recorded two consecutive six month periods of falling vacancy rates; however, given the latest spate of administrations, we would expect the number of vacant units across the UK to rise over the coming months. This will do little to help the vitality of the nation's high streets with some market commentators believing that it will get worse before it gets better.

Gone are the credit-fuelled days when retailers opened more and more shops in order to expand sales. Instead, retail businesses are focusing their approach on the high footfall large cities and towns and regional shopping centres. In these prime locations, we expect rental values to continue to rise as demand and competition for space heightens. With the development pipeline having stalled during the economic downturn, there is a lack of good quality, well configured prime retail space coming to market and in the next few years new schemes are likely to attract significant interest and, as such should support rental growth in these locations.

Secondary retail locations will, however, continue to suffer as a result of the growing consumer trend of fewer shopping trips and the focus on the large retail destinations and online. Furthermore, daily/weekly shopping that would once have taken place in the local town centre is increasingly shifting to supermarkets, which now provide a wide range of comparison goods and services alongside the traditional convenience offer. Put simply, many towns do not need the same number of shops that historic trends justified and, thus, unless this outdated retail stock is converted into another use, the vitality of these town centres will continue to diminish.



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