

RESEARCH & FORECASTING UK

UK SHOPPING CENTRE DEVELOPMENT PIPELINE



The main focus of development activity in 2011 has been in London and the South East with the former accounting for 66% of the total shopping centre floorspace completed this year, albeit this comprised just one new scheme – Westfield Stratford City.

Development pipeline full of hot air?

Only three shopping centres completed in 2011 – the lowest annual number of new developments seen in many years. On May 6, the 550,000 sq ft Trinity Walk scheme in Wakefield opened to the public, anchored by Debenhams (the city's first modern department store) and a 117,000 sq ft Sainsbury's foodstore. Despite becoming a victim of the economic recession in mid-2009 when the original developer, Modus Ventures, went into administration and work came to an abrupt halt less than a quarter of the way into the construction programme, the scheme was rescued by a consortium comprising AREA, Sovereign Land and Shepherd Construction and building work recommenced in February 2010. It was the only new shopping centre to open in the North this year and was 90% let on opening.

The main focus of development activity in 2011 has been in London and the South East with the former accounting for 66% of the total shopping centre floorspace completed this year, albeit this comprised just one new scheme – Westfield Stratford City. The 1.6 million sq ft megamall was completed in September and is Europe's largest urban shopping centre. It houses over 300 shops, 70 restaurants, a 14 screen cinema, three hotels, a bowling alley and the UK's largest casino and will provide the main access to the Olympic Park during the 2012 Games.

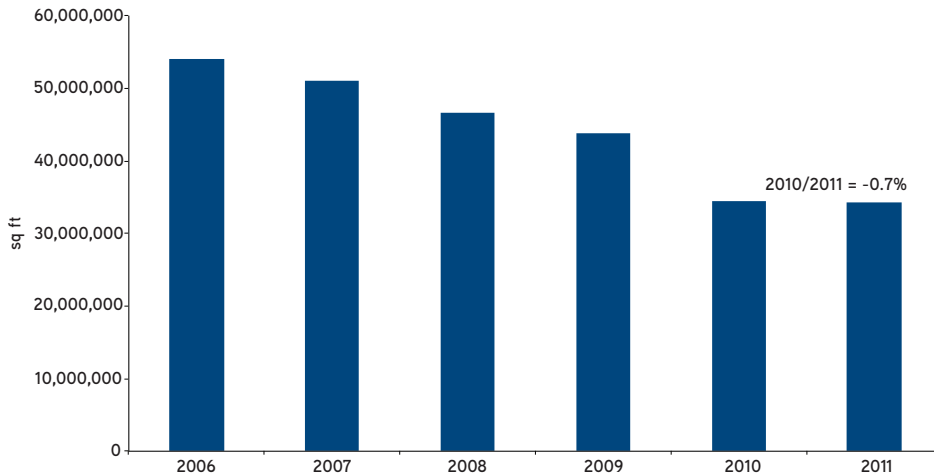
The most recent completion has been Standard Life Investments' 475,000 sq ft retail-led mixed-use Parkway development in Newbury, which opened on October 27. The 295,000 sq ft of retail accommodation is currently anchored by Debenhams and M&S and will be further boosted in spring 2012 with the opening of a 40,000 sq ft John Lewis at Home store. Although only 17 of the 40 units were trading on the opening day, closely followed a few days later by the opening of boutique-style fashion retailer 'Mint Velvet', negotiations are reportedly underway on a further 14 shops.

Despite there having been 2.45 million sq ft of shopping centre floorspace completed in 2011, the total development pipeline has fallen by only 256,200 sq ft since October 2010 and currently stands at just over 34.2 million sq ft (see **Figure 1**). This drop of 0.7% is the lowest annual decline in the total shopping centre development pipeline in over five years and indicates that there has been an increase in the amount of floorspace being added to the pipeline by way of new retail proposals or previously mothballed schemes re-entering the fray.



Parkway, Newbury

FIGURE 1: TOTAL AMOUNT OF FLOORSPACE IN THE UK SHOPPING CENTRE DEVELOPMENT PIPELINE AS ESTIMATED IN 2006 TO 2011



Source: Colliers International

Following the abrupt slowdown in the shopping centre development pipeline during the economic recession when a number of major schemes were put on hold or, in some cases, completely cancelled, it is positive news that many are now being dusted down and reviewed. Whilst this is a sign of renewed confidence in the sector's future performance, it is clear that it will be many years before these schemes actually come to fruition, if at all.

At present, there is only 1.4 million sq ft of new shopping centre floorspace under construction. Much of this comprises small scale in-fill developments, such as Land Securities' 155,000 sq ft Buchanan Quarter in Glasgow, due to open in spring 2013 (60,000 sq ft of which is let to Forever 21 for its first Scottish store and Gap has taken a 12,000 sq ft unit) and Park House on Oxford Street in Central London, also being developed by Land Securities, providing almost 90,000 sq ft of new retail accommodation when it opens in 2012.

There are also a number of supermarket-led district centre redevelopments underway, including the Swan Shopping Centre in Yardley, south Birmingham where the old 1960s centre has been demolished and is in the process of being replaced with 150,000 sq ft of retail floorspace – 80,000 sq ft of which will be a Tesco Extra store. Tesco's regeneration arm, Spenhill, is leading the project which will also include a new 718 space car park, alongside 18 retail units and it is scheduled to open early next year.

Tesco is also anchoring the redevelopment of Northcott Shopping Centre in Newtownabbey, Northern Ireland. To be renamed as Sandyknowes Shopping Centre, the new scheme being developed by Blanca Developments will comprise a new Tesco superstore that is double the size of the existing supermarket, 12 retail

units, 840 surface car parking spaces and a petrol filling station. The total floor area of the whole development is 360,000 sq ft, although the net gain in retail space is only 90,000 sq ft. It is anticipated that the new Tesco will be open in time for Christmas, followed by the rest of the retail in 2012.

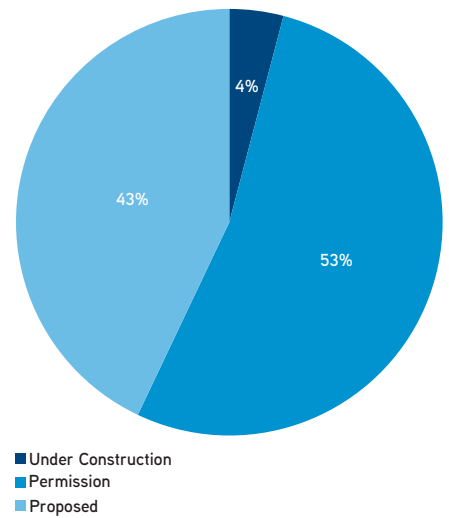
Elsewhere, Sainsbury's has recently opened a new 55,000 sq ft store at the first phase of the New Squares development in Penrith, which also comprised a new multi-storey car park. Phase II will include around 93,000 sq ft of retail floorspace, new town squares, improved pedestrian links to the rest of Penrith town centre and up to 156 new homes and is scheduled to be completed by October 2012.

The largest scheme under construction is Land Securities' £350 million Trinity Leeds development, providing 1 million sq ft of retail and leisure. Scheduled to open in spring 2013, the centre will comprise 120 retail units (including new flagship stores for TopShop/TopMan, H&M and Next) and a new casual dining and leisure quarter anchored by the North's first Everyman Cinema.

Despite work taking place on the centres described above, in total only 4% of the shopping centre pipeline is classified as 'under construction' (see **Figure 2**). The majority (53%) of new schemes are at the permission stage and a further 43% are yet to apply for or secure planning consent, meaning they are some way off execution.

In fact, as highlighted in **Figure 3**, the level of new shopping centre floorspace is set to remain subdued for the next three years as it will take time for developers to regroup and review the feasibility of existing plans before the diggers can go in and start the lengthy construction process. In addition to Trinity

FIGURE 2: UK SHOPPING CENTRE DEVELOPMENT PIPELINE BY STATUS, AS AT OCTOBER 2011



Source: Colliers International

Leeds, there is only one other scheme of any significance forecast to complete over the next two years – Westfield's £275 million shopping centre in Bradford. The development was mothballed in early 2009 as a result of the economic downturn, leaving a hole in the centre of the city having demolished surrounding buildings. However, in October 2011 the council approved new scaled back plans of 550,000 sq ft, cutting the number of shops from 100 down to 75. Dutch company Meyer Bergman is in advanced talks with Westfield regarding a 50:50 joint venture and a £120 million funding injection. In a bid to compete with the new development in nearby Leeds, Westfield has also targeted a 2013 opening date; although some commentators believe this is rather ambitious.

A reduction in the size of proposed schemes is very much a recent trend as developers review the feasibility of previous plans that were developed prior to the recession. For example, Hammerson's Sevenstone Quarter in Sheffield will now be 25% smaller than was originally planned, creating 650,000 sq ft of retail and leisure floorspace instead of 860,000 sq ft. Work was due to start in 2010 but was put on hold and, although progress is underway on securing full control of the land and the developer has applied for a time extension on the current permission, it is expected that the centre will not be open until 2016 at the earliest.

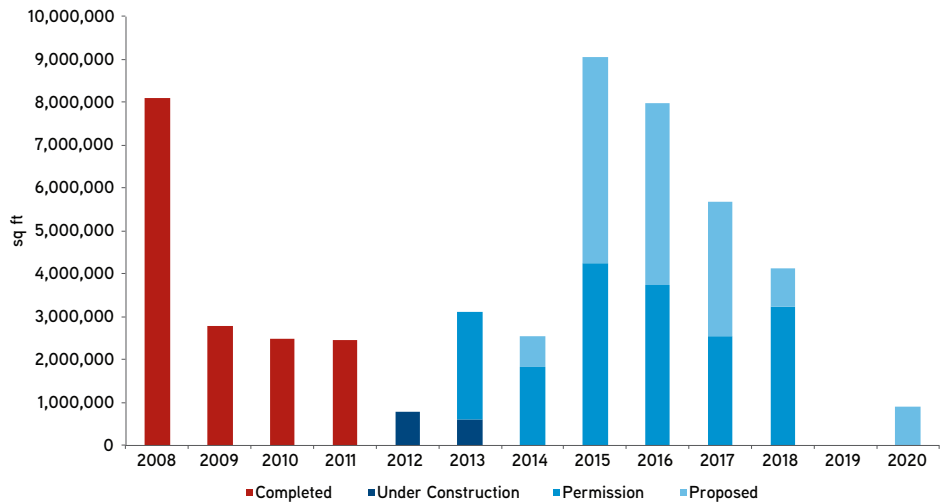
Elsewhere, a new smaller application is to be submitted early next year for the Station Hill development in Reading. The original 1.5 million sq ft mixed-use scheme is now being pared down to 1 million sq ft with Benson Elliot looking to supply development financing on a speculative basis, having bought Sackville out of the scheme last year.

Although **Figure 3** shows a peak in shopping centre completions in 2015 and 2016, in reality this amount of new floorspace is unlikely to be built and we expect completions to level out over the latter half of the decade as many of these schemes drop out of the pipeline or developers alter their building timescales and push back completion dates. There has been much press in recent months regarding the so-called 'resurrection' of previously mothballed centres as developers are keen to reiterate their commitment to schemes in a bid to attract funding and interest from retailers. Only time will tell whether these potential developments will be successful in securing their future and many may fall by the wayside once more in the continuing challenging retail market conditions.

With regard to the distribution of new shopping centre floorspace, the North West has the largest amount in the pipeline at over 5.3 million sq ft, equating to 16% of the total UK pipeline (see **Figure 4**). This is due to a number of potentially large developments such as Peel's Liverpool and Wirral Waters proposals, which collectively have been designated by the Government as an Enterprise Zone, and Lend Lease's Tithebarn scheme in Preston. The latter has, however, recently experienced a major setback as anchor tenant John Lewis has pulled out of the project, putting the scheme in some doubt. The scheme was approved by the secretary of state in November 2010 following a lengthy planning inquiry but Preston Council has now said that the plans will be revised as it is no longer financially viable in its current form.

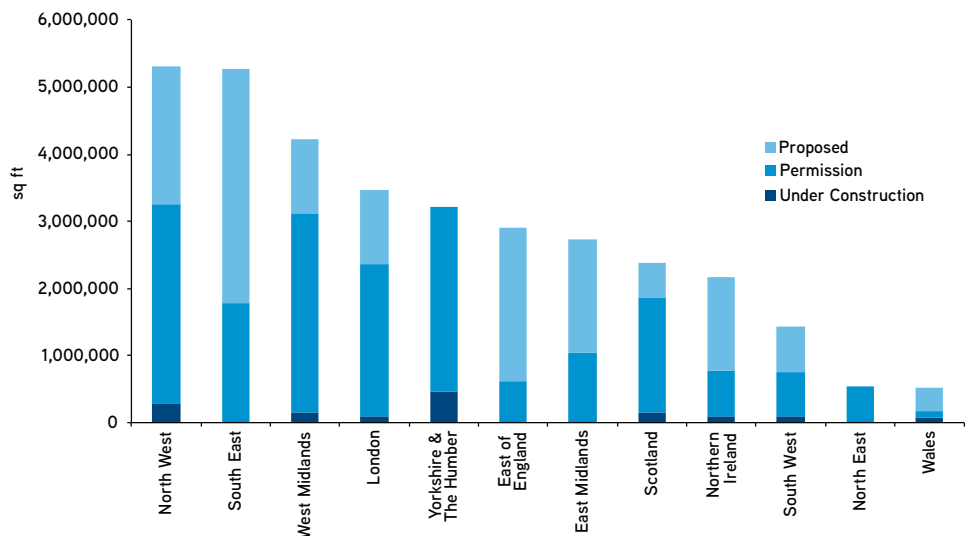
Although there is only 526,000 sq ft of new shopping centre floorspace in the pipeline in Wales, some progress is being made in bringing it to fruition. The majority of this floorspace is at Friars Walk in Newport, which is scheduled to provide 350,000 sq ft of retail accommodation. Following the original developer Modus falling into administration in June 2009, Queensberry Real Estate was selected as the Council's preferred developer in May 2011 and the development agreement has now been completed. Work is underway on securing an anchor tenant and a detailed planning application is expected to be submitted by the end of this year, with the two year construction programme anticipated to start on site in 2013. This theme of slow progress and a long term development schedule is the shared story for the majority of schemes in the pipeline. For example, Stanhope was appointed development partner earlier this year for the King's Quarter scheme in Gloucester and is now undertaking a full public consultation programme. Work is not expected to start on site until 2014 and the 200,000 sq ft scheme, comprising five large

FIGURE 3: UK SHOPPING CENTRE DEVELOPMENT PIPELINE BY YEAR OF OPENING & STATUS, AS AT OCTOBER 2011



Source: Colliers International

FIGURE 4: UK SHOPPING CENTRE DEVELOPMENT PIPELINE BY REGION & STATUS, AS AT OCTOBER 2011



Source: Colliers International

stores, 21 smaller shops and a bus station, could take two to three years to be completed. Some schemes are even being resurrected despite numerous previous attempts to bring the development forward. A prime example is Aylesbury Vale District Council, which is now looking for another development partner for its 360,000 sq ft Waterside shopping centre. The first development agreement was signed with Crest Nicholson in 2003, although the project failed to materialise and in August 2008 a new agreement was founded with Warner Estate. Warner's plans included an 80,000 sq ft Debenhams, 30 shops and restaurants and cafes linking into the developer's existing Hale Leys Shopping Centre; however, the agreement was terminated in February 2010 as a result of the

economic conditions which hindered the ability to progress the project to the detailed planning application stage.

Likewise, the redevelopment of Watford town centre is also on its third developer. Capital Shopping Centres was appointed in 2009 but later pulled out and was replaced by London & Regional in May 2010 before it also withdrew from the project. In June of this year, however, the scheme's future was revived by the appointment of Henry Boot Developments who will partner the Council in the 400,000 sq ft Charter Place development. The phrase 'flogging a dead horse' springs to mind; only time will tell whether it'll be third time lucky for these potential schemes.

Conclusion

Ongoing uncertainty in the economy, coupled with the eurozone crisis, is continuing to impact upon the fortunes of the UK retail market. Consumer confidence is low and expenditure is being squeezed by high inflation and low wage growth. As a result, UK retail sales are showing signs of weakness, having fallen 0.6% in October 2011 on a like-for-like basis (source: British Retail Consortium).

The run up to Christmas is usually one of the strongest trading periods; however, with consumers reluctant to spend, the outlook for the upcoming festive season is worrying and retailers will need to work hard to attract shoppers into their stores. This is evidenced by Debenhams' decision to launch its biggest ever Christmas Spectacular Sale offering price cuts of up to 40% in-store and online in a bid to attract 'early bird shoppers' who are wishing to spread the cost of Christmas. It is expected that other retailers will quickly jump on the bandwagon in order to compete for market share.

Given the economic backdrop, it is perhaps surprising that there has been much more 'noise' in the development market over the past six months and talk of schemes that had previously been put on hold now getting off the ground. In reality, however, many shopping centre developers continue to play the waiting game, looking for signs of an upturn in the economy before progressing with planned schemes. Others are moving ahead tentatively, albeit on a smaller scale than was previously proposed or using a phased approach.

Whilst developers continue to reiterate their commitment to planned developments, funding remains a key problem. Banks are still reluctant to lend to commercial property so developers are increasingly reliant on achieving near full pre-letting in order to secure development finance. Retailers hold the key to unblocking the development pipeline and it is their level of commitment to schemes that will drive the development market over the coming years, as evidenced by the impact of John Lewis's abrupt departure from Preston's Tithebarn development, which may now spell the end of the project.

In spite of the challenging nature of the retail market, there remains a good level of demand for new prime modern retail units. Although, there has been much press regarding high levels of vacancy in town centres, this generally refers to outdated secondary stock, which, in the main, is too small for retailers' modern day requirements and is no longer appropriate for retail use. Many retailers, international ones in particular, are still expanding and are looking for space and there is currently a lack of suitable accommodation that meets their needs. This has been a significant problem for the department stores sector which is reliant on the development pipeline for expansion, predominantly John Lewis and Debenhams, with the latter stated by Experian to be the worst hit by development delays.

As with all property development, location remains key. In recent years, the UK retail market has experienced a significant and permanent shift in the way in which consumers shop, generated by the growth of online and mobile commerce, the expansion of non-food in supermarkets and the rise in open A1 retail parks. Although there will always be a demand for traditional bricks and mortar retailing, this is now focused on the larger towns and cities and out-of-town regional shopping centres which offer the variety and experience that consumers desire.

Medium sized towns are the main victims of this changing paradigm and we expect that many proposals in such locations will fall out of the pipeline as developers recognise that they are no longer feasible. The development projects that are likely to remain deliverable are those situated in a prime location in major towns and cities that have an undersupply of quality floorspace, a sizable shopper population and where the land is in control of the developer, together with convenience food store anchored schemes in smaller towns. As such, we expect that the amount of shopping centre floorspace that will actually be built out will be much lower than the current total pipeline figure.

It is very much a 'chicken and egg' situation, whereby the developers need to generate interest with retailers and sign them up as pre-lets in order to get the development started; however, retailers are often reluctant to commit to a project that has no firm timescale and is years away from completion. Despite developers' insistence that schemes are going ahead, in reality much of this floorspace is effectively still on hold until the finances can be agreed and, even where funding is in place, in many instances there is now the issue of expired planning consents and CPOs to overcome and the need to redesign proposals before the scheme can get underway. Therefore we predict that there will be little new development of any great significance for at least four to five years.

512 offices in 61 countries on 6 continents

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

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

SHOPPING CENTRE DEVELOPMENT

Greg Styles
Head of Retail Development
+44 113 200 1818
greg.styles@colliers.com

SHOPPING CENTRE AGENCY

Stuart La Frenais
Head of Retail Division
+44 20 7487 1788
stuart.lafrenais@colliers.com

Nick Round
Head of Shopping Centre Leasing
+44 20 7487 1778
nick.round@colliers-uk.com

INVESTMENT

André James
Head of National Investment
+44 20 7344 6707
andre.james@colliers.com

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. November 2011 11270.3

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.