

Retail Quarterly Bulletin

Q4 2016



Shopping Centres

Indicative Prime Yields (NIY)

25/12/2016	3 Months Ago	1 Year Ago
4.50%	4.50%	4.25%

- Following the dearth of shopping centre deals in Q3 post Brexit vote (£175m in four transactions), transactional volumes in Q4 saw a marked recovery, with 12 centres transacted, amounting to £1.267bn.
- Despite this improvement (equivalent to 43% of the annual total), the resulting volume of transactions for the year stood at a four year low of £2.937bn, almost £1bn short of the equivalent 2015 annual figure of £3.9bn.
- Q4 transactions included confirmation of the funding of a 75% interest in TH Real Estate's St James Centre, Edinburgh development by APG for £570m, representing a 5.0% NIY. Work has now commenced on site, with the scheme due to open in 2020.
- Overseas investors remained the predominant purchaser, also acquiring Intu Bromley for £236m (Alaska Permanent Fund Corporation) and The Observatory & Queensmere, Slough for £130m (ADIA), amongst others.
- Councils continued their buying activity, with further acquisitions in Camberley and Haywards Heath. By the year end, Councils had acquired 10 shopping centres in 2016, amounting to almost £400m in total.



Intu Bromley, Bromley

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Oct-16	Intu Bromley, Bromley	£236,000,000	6.00%	Alaska Permanent Fund Corporation / LIM	Intu / Aviva
Oct-16	The Mall, Camberley	£86,000,000	5.90%	Surrey Heath Borough Council	Capital & Regional
Nov-16	The Observatory & Queensmere Shopping Centre, Slough	£130,000,000	5.00%	Catalyst / ADIA	Criterion Capital
Nov-16	Palace Exchange, Enfield	£70,000,000	5.40%	Deutsche AM	Standard Life
	One Stop Shopping, Perry Barr	£69,300,000	7.00%	Europa Capital / Sovereign Centros	Standard Life

High Street

Indicative Prime Yields (NIY) - Provincial

25/12/2016	3 Months Ago	1 Year Ago
4.00%	4.00%	4.00%

- The search for prime, well let, secure assets has led to significant demand from private investors for high street property providing robust income streams.
- Assets on the high street that have been in particular demand are those located in strong occupational markets, with the best growth prospects.
- Competitive bidding has now seen yields driven below 4% by private investors on a few occasions, although we wait to see whether pricing stabilises at this level in the longer term, with a wider group of investors willing to pay such prices.



Urban Outfitters, Manchester

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Oct-16	NatWest, Oxford	£10,000,000	4.36%	Private Investor	AXA Real Estate
Dec-16	WH Smith, Cambridge	£17,700,000	3.81%	Private Investor	LaSalle IM
Dec-16	Urban Outfitters, Manchester	£18,600,000	3.85%	Private Investor	Aberdeen AM

Retail Warehousing

Indicative Prime Yields (NIY)

	25/12/2016	3 Months Ago	1 Year Ago
Open A1	5.00%	4.50%	4.50%
Bulky Goods	5.75%	5.75%	5.75%

- Q4 saw increased sales volumes with transactions reaching around £715m against Q3 of circa £350m. Institutional funds accounted for approximately 30% of all acquisitions.
- Total transaction volumes for the year were approximately £2.5bn, on par with 2014 levels, but significantly lower than the £4bn transacted in 2015.
- Weakened investor demand following the Brexit vote led to a gradual softening in both prime and secondary yields. This yield correction has seen a number of core plus and opportunistic funds active in the sector.
- Looking ahead we see investor demand outstripping supply, with a hardening of yields for prime stock in the £15m to £50m range. We believe that larger lot sizes will continue to be attractive to private equity investors.



Willowbrook Retail Park, Loughborough

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Nov-16	Willowbrook Retail Park, Loughborough	£18,850,000	6.55%	Surrey County Council	CBRE GI
Nov-16	Slough Retail Park, Slough	£52,940,000	6.24%	Benson Elliot	Standard Life
Nov-16	Kingsway Retail Park, Derby	£57,300,000	5.75%	St James's Place PF	TH Real Estate
Nov-16	Friary Retail Park, Plymouth	£23,500,000	6.70%	Plymouth City Council	AXA REIM
Dec-16	Kingsgate Shopping Park, East Kilbride	£90,000,000	6.94%	Orion Capital Managers	Aviva Investors

Foodstores

Indicative Prime Yields (NIY)

25/12/2016	3 Months Ago	1 Year Ago
4.75%	4.75%	4.50%

- Transaction volumes for Q4 amounted to £330m. The resulting total volumes for the year lagged behind 2015 levels by approximately 27% at a figure of £1.21bn.
- A useful benchmark for the prime yield was set by CBRE Global Investors' purchase of the Sainsbury's store in Hythe for a price reflecting a 4.75% NIY.
- As trade at the Big Four continues to stabilise and is now starting to show signs of improvement, we anticipate the UK supermarket sector will attract improved investment sentiment as trading results from the major operators remains positive.
- Long dated RPI-linked leases based on fair rents will continue to appeal to institutional investors, but such stock will be in short supply.

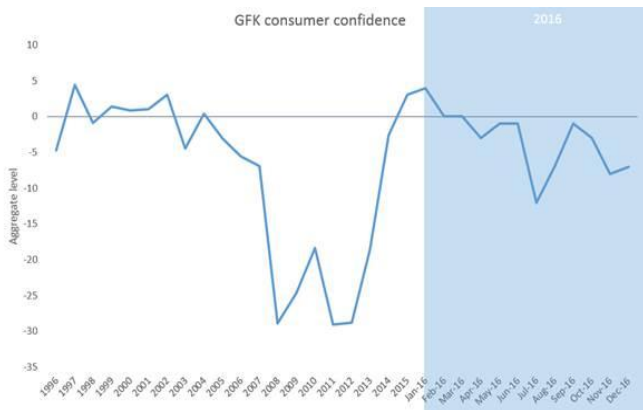


Sainsbury's, Hythe

Date	Property	Price	Net Initial Yield	Purchaser	Vendor
Oct-16	Sainsbury's, Croydon	£64,000,000	4.20%	Mutual Finance	British Land
Oct-16	Sainsbury's, Hythe	£23,630,000	4.75%	CBRE Global Investors	Standard Life

Consumer Confidence

- During Q4 retailers have been warning of challenging times ahead, with the effect of the weak pound on import costs, minimum wage increases and business rates impacting trade, alongside consumer confidence being hit by a climate of economic uncertainty as the UK embarks on its Brexit negotiations.
- GfK's consumer confidence index fell by six points to -7 during the quarter.
- Commentators and journalists alike continue to paint a gloomy picture for 2017 in terms of consumer confidence and retailer profitability, as they did after the Brexit vote six months ago!



Source: GfK

Footfall

- Overall footfall in December was 0.2% down on a year ago, making it the fourth consecutive month of decline, but a good recovery from the 2.2% drop in December 2015 (BRC / Springboard).
- However, last-minute Christmas shoppers helped the high street with a positive growth in footfall for the first time since 2011, up 0.8%.
- Retail parks and shopping centres were not as lucky as the high street as footfall fell by 0.7% and 1.9% year-on-year respectively. Shopping centre footfall fell for the 11th consecutive month.

Retail Sales

- Retail performance over the three months to December increased 1.1% on a like-for-like basis, which bucks the consumer confidence index decline.
- Despite a slow start to the Christmas trading period, the Christmas week itself exceeded expectations, proving bigger than the Black Friday period and a reverse of 2015.
- A separate report by Visa suggested that consumers were spending at their fastest rate for two years in Q4, with an average increase of 2.8% per month.

Online v's High Street

- Online continues to attract sales away from stores, however, after three months of double digit growth for online sales, December saw the third slowest growth rate of 2016 at 7.2%.
- The majority of high street sales appear to have been in the week leading up to Christmas as consumers shy away from online and deliveries, preferring the certainty of the high street and instant collection.
- Overall, the online channel now stands at nearly 25% of all purchases being made online, although the likes of Mothercare and Superdrug are in excess of 40%.
- The interrelationship between bricks & mortar and online is seen to be maturing in terms of 'working together' as opposed to being mutually exclusive.

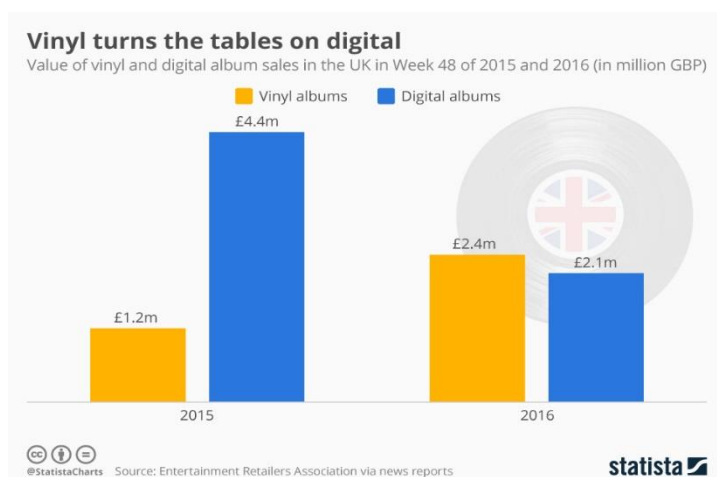
Christmas Sales Highlights (so far)

- Christmas trading has been much more positive than expected. As in the recent past, the way has been led by value and trend-led retailers, but this year, food stores and perhaps more surprisingly, department stores have also had more positive results.
- There was considerably less discounting in the run up to the Christmas period this year, compared to last, which appears to have paid dividends.
- Retailer trading figures have to be treated with a degree of caution, as the metrics retailers report are not always consistent, such as like-for-likes as opposed to total sales, how online sales are reported and constant currency.
- **Next**, typically the first retailer to report, and seen as the 'retail bellwether' for the past few years (taking over from M&S in this role), has at the time of writing, been the only major non-food retailer to publish negative trading results.
- One of the big surprises of the Christmas period has been department / variety stores figures: **Primark** (+22%), **Selfridges** (+18%), **Debenhams** (+5%), **M&S** (+3%), **House of Fraser** (+2.7%) and **John Lewis** (+2.7%).
- The 'Big Four' food stores fought back against both the premium and value offers, with the best comparative result of the four coming from **Morrisons** (+2.9%). This was similar to **Waitrose** (+2.7%) and **Co-op** (+3.5%), but still dwarfed by **Aldi** (+15%) and **Lidl** (+10%). **Tesco** (+0.7%) and **M&S** food (+0.5%) were both in positive territory, with **Sainsbury's** (-0.1%) relatively flat. **Asda** (-2.4%) fared the worst, albeit half the rate of decline of last year.
- Good mainstream fashion retailer performance came from the likes of **Joules** (+23%), **Quiz** (+20%), **Ted Baker** (+18%), **Boux Avenue** (+17%), **Superdry** (+15%), **JD Sports** (+10%) and **Fat Face** (+8%).

Finance Rates

Date	Base Rate	3 Month LIBOR	5 Year Swap	5 Year Gilt
25/12/2016	0.25%	0.37%	0.89%	0.55%
3 Months Ago	0.25%	0.38%	0.49%	0.20%
1 Year Ago	0.50%	0.59%	1.42%	1.29%

- The final estimate of GDP for the third quarter of 2016 came in at 0.6% growth, up 0.1% from the previous estimate. Service industry output growth was the main driver, revised up to 1% growth (from 0.8% in previous estimate). This marks the 15th consecutive quarter of growth. Business investment was up 0.4% in the quarter, although compared to Q3 2015 it was down 2.2%.
- Retail sales volumes (ONS) increased just 0.2% between October and November. However, the three months to November saw growth of 2.1% against the previous three-month period, the 35th consecutive period of growth on this measure. On an annual basis, the three months to November saw 5.6% growth, with Department Store sales seeing strong growth of 7%.
- Consumer price inflation rose to 1.6% in the year to December, up from 1.2% in November (ONS). Although this remains below the Bank of England target and is low by historical standards, this is the highest rate of inflation since July 2014 and suggests that the fall in the pound since the Brexit vote may well be starting to feed into the economy. According to the average of independent forecasters' views compiled by HM Treasury for November, UK CPI is expected to reach 2.7% in 2017.
- The latest employment statistics for the three months to October 2016 showed a fall in employment of 6,000 when compared to the three months to July 2016. Unemployment fell by 16,000 to 1.6 million, resulting in a fall in the unemployment rate to 4.8%, whilst the number of people in part-time work because they could not find a full-time job increased by 5,000.
- The latest data for 2016 tells us that although the economy continues to perform much better than expected in the aftermath of the vote to leave the European Union, a few key issues are bubbling under the surface. Notably rising, albeit marginal, inflation on the back of the significant decline in sterling, but also the latest set of employment figures, which suggest that we should expect muted jobs growth until the fog of uncertainty surrounding Brexit begins to clear.
- Our chart for this quarter looks at the resurgence in vinyl sales in the UK. According to data from the Entertainment Retailers Association (ERA), vinyl album sales outstripped those of digital with £2.4 million worth of sales to £2.1 million in week 48 of 2016. An impressive comeback given the format was close to extinction around 2006. From a retail perspective, many theories have been put forward regarding the reasons behind the revival. One that seems key is the desire to own something tangible and reconnect with music in a more physical way. Interestingly this chimes with data regarding physical book sales, which have also seen a recovery in sales.



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