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CHASE & PARTNERS
Retail & Leisure Property Specialists

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Spring Report 2011

PMA
PROPERTY MANAGERS
ASSOCIATION



Changing Dynamics

- Two phase economic impact
 1. Banking sector crisis
 2. Consumer squeeze
- Hedging is over – the real world
- Shrinking economy
 - Public sector cuts
 - Rising unemployment
 - Volatile sales – falling trend
 - Reducing disposable income (lowest since 1981)
- Bank lending £254billion down to £193billion
- 70% of commercial property loans renewal in 2011/12



Threats and Growth

- Further threats
 - Inflation
 - Increasing taxation – VAT and personal
 - Household debt at record level of 175% of income
 - South East and London v the rest
- Recovery will be very different to the past
 - 2013/14 popular prediction
 - Corporate not consumer led
 - Tourism
 - Cheap £sterling
 - Competitive global banking sector



In Town Agency

- Vacancy trend upwards
- Regional variations
- Central London record rents
- Tenants' market – winners and losers
- The cake is fixed – growth from market share
- Increasing like for like sales is the wrong measure
- Space requirements – each location/ opportunity judged on its merits
- Importance of control and asset management
- Development – who jumps first and how?
- Super prime and prime – reflects a narrowing of pitch
- Focus on dominant centres
- Mixed use is vulnerable



Occupational Issues

- Different Landlords require different terms
- Long term voids (e.g. MFI and Woolworths) concern Landlords with weak tenants
- Assessment of covenant strength more difficult
- Retailers need support from the planners
- Watch out for the cost of re-letting if the building needs to be refurbished
- Landlords need an asset management strategy
- Small retailers hit by empty rates policy
- Turnover rents – short term expediency or long term adjustment
- Fixed rent increases – out of sync??



Occupational Issues ... contd

- What is a “market norm” deal? – When does the cash and buying-in stop?
- Affect of European accountancy legislation on lease lengths
- The morality and effectiveness of CVAs and Pre-pack administrations
 - CVA “market” has been established but Miss Sixty failed
 - Not an “easy option” and not a long term solution, e.g. JJB Sports need for a second CVA and Focus DIY failure (Q2)



In Town Investment

- Strong shopping centre sales 2010 and Q1 2011
- Prime assets still in demand – wider range of yields reflects narrowing of prime
- Prime yields now stable
- Secondary investments remain high risk but could provide real opportunities
- Asset management strategies must be deliverable – the threat of voids
- Covenant strength with retailer performance
- Debt finance still not readily available
- Yield compression and future growth potential
- Fixed and indexed rent increases – timing is everything
- Interest rates v property investment yields

Shop Property Yields

Types of Shop Property	Dec 2006 yields %	Dec 2007 yields %	April 2008 yields %	Dec 2008 yields %	April 2009 yields %	Sept 2009 yields %	Oct 2009 yields %	Feb 2010 Yields %	April 2010 yields %	April 2011 yields %
Prime High Street	3.75 – 4.25	4.75 - 5.50	5.00 - 5.75	6.00 - 6.50	5.25 – 6.00	5.50	5.00	5.00	4.75	4.50
Secondary High Street	5.00 - 5.75	6.00 - 7.00	6.50 - 9.00	8.00 plus	8.00 plus	10.00 plus	10.00 plus	10.00 plus	9.00 plus	8.00 plus
Prime Shopping Centres	4.00 - 5.00	5.00 - 6.00	5.50 - 6.50	6.50 - 7.50	7.00	7.00	6.00	6.00	6.00	5.50 - 6.50
Secondary Shopping Centres	5.00 - 6.00	6.00 - 7.50	6.25 - 8.00	9.00 plus	9.00 plus	7.50 plus	9.00 plus	9.00 plus	9.00 plus	8.00 plus

Retail Warehouse Yields

Types of Out of Town Retail	Dec 2006 yields %	Dec 2007 yields %	April 2008 yields %	Dec 2008 yields %	April 2009 Yields %	Sept 2009 yields %	Oct 2009 yields %	Feb 2010 Yields %	April 2010 yields %	April 2011 yields %
Shopping Parks	4.25 - 4.75	4.75 - 5.00	5.00 - 5.25	6.75 - 7.00	6.75 - 7.00	6.50 - 7.00	6.00	6.00	6.00	5.00-5.25
Open A1 Retail Parks	4.25 - 5.00	5.25 - 5.50	5.25 - 5.75	7.00 - 7.50	7.00 - 7.50	7.00 - 7.25	5.75	5.50-5.75	5.00-5.50	5.25-6.00
Bulky Goods Retail Parks	5.00 - 5.75	5.75 - 6.25	5.75 - 6.75	8.00 - 9.00	9.00	8.00 - 9.00	6.50 - 7.00	5.75-6.25	5.75-6.25	5.75-6.50
Solus Stores	4.75 - 5.25	6.00 plus	6.00 plus	8.5 Plus	8.75	8.50 - 9.00	7.00 plus	6.00-7.00	6.00-7.00	6.50 plus



Food Stores – The Power and the Glory

- Efficiency and buying power of the sector
- Growth in several areas – intercepting the customer
 - Extensions
 - Town centre stores
 - Neighbourhood
 - Focus points
 - Non-food expansion
- Consumers – restaurant to kitchen
- However, market growth in real terms has fallen
- Rents continue to grow but little market evidence
- Yields based on covenant and bond qualities @ 4.5%
- Competition set to increase with passing of need test
- Technology is a focus for market share
- Discounters volatile but still growing

Supermarket Share

	Share % 2010	Share % 2011
Tesco	30.3	30.2
Asda	17.1	17.0
Sainsbury's	16.3	16.3
Morrisons	12.1	12.2
Co-operative	5.8	6.7
Somerfield	1.7	0.1
Waitrose	4.1	4.3
Iceland	1.8	1.9
Aldi	2.8	3.1
Lidl	2.3	2.5
Netto	0.7	0.7
Farm Foods	0.6	0.6

Figures from Kantar Worldpanel March 2011

Food Requirements in Size Terms

Fascia	Location	Min Area (sq ft)	Max Area (sq ft)
Tesco Extra	Strategic	70,000	170,000
Tesco	Standard	25,000	70,000
Tesco Metro	In Town	8,000	15,000
Tesco Express	Convenience	1,000	4,500
Sainsbury's	Strategic / Standard	40,000	140,000
Sainsbury's Local	Convenience	1,000	4,500
Morrisons	Strategic	25,000	70,000
Morrisons Local	Convenience	1,000	3,000
Asda	Strategic / Standard	20,000	140,000
Co-Op	Convenience	2,000	18,000
M&S	Mainline	30,000	150,000
M&S Simply Food	Convenience	7,000	15,000
Waitrose	Mainline	15,000	40,000
Waitrose Convenience	Convenience	3,500	5,500
Waitrose Food &Home	Trials	25,000	35,000

As at 11 April 2011



Valuation - Issues at Review

- Marked decline in applications to RICS DRS (down from @ 10,000 to under 5,000)
- Reflects lack of rental growth and Landlord's increased acceptance
- Traditional issues prevail
- The hypothetical term – what is the truth
- Analysis of incentives should be clear



Lease Renewal

- Regears prevalent as Landlords look for security
- Incentive packages part and parcel of renewal/regear negotiations
- Shift to indexation of rents at review
- RPI may mean higher than OMRV if inflation continues
- As term lengths continue to shorten, less reviews, more renewals
- Tenants effectively achieving upward/downward reviews via renewals
- Can the Court process cope with increased workload
- PACT needs to be used more but needs effective promotion



Planning – From Crisis to Turmoil

- Widely acknowledged the system is broken
-But is The Big Society and Localism the answer?
- Budget Statement appears to recognise concerns of development community
-but most see Localism as essentially anti-development

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