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UK RETAIL MARKET REVIEW

QUARTER THREE | 2020

UK RETAIL MARKET IN FIGURES

KEY TOWN CENTRES

AVAILABILITY
London up 12% to 1.14 m sq.ft.
SE up 10% to 1.18m sq.ft.
RoUK up 20% to 2.61m sq.ft.

TAKE-UP
London up 216% to 68k sq.ft.
SE up 586% to 68k sq.ft.
RoUK up 30.8% to 139,100 sq.ft.

INVESTMENT
Up 274% to £639.5 million from £170.9 million in Q2

YIELDS
Oxford St. up 25bps to 3.50%
Covent Garden up 25bps to 4.00%
Regional Cities up 25bps to 6.50%

SHOPPING CENTRES & RETAIL PARKS

AVAILABILITY
Shopping Centres down 2% to 7.0m sq.ft.
Retail Parks up 6% to 6.2m sq.ft.

TAKE-UP
Shopping Centres down 25% to 113k sq.ft.
Retail Parks up 2% to 343k sq.ft.

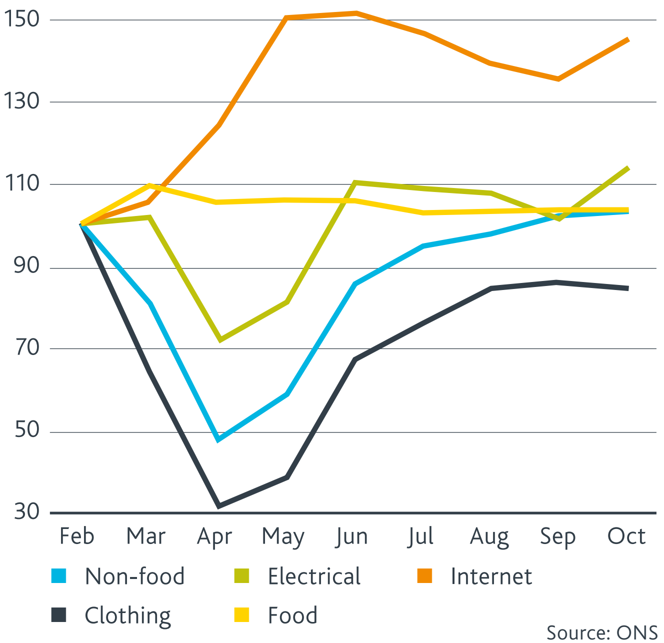
INVESTMENT
Shopping Centres up to £158m from £4m in Q2
Retail Parks up 203% to £419m

Note: % changes show movement in Q3 2020 vs Q2 2020

THE UK RETAIL MARKET

Most retail sectors have recovered from the damage created by the pandemic and Lockdown 1.0. Sales of clothing, however, remain 15% below their February level. After all, who needs a new outfit when bars, restaurants and gyms are closed. Sales of electrical goods have increased 15% since February as people urged to stay at home have turned to watching movies and TV series and gaming. But the clear winner has been online retailing, where sales have increased by 45% since February.

UK RETAIL SALES



Source: ONS

John Lewis reported online sales growth of 73% for the first half of 2020. Online now accounts for more than 60% of sales, from 40% before the pandemic. Before the crisis John Lewis's shops contributed around £6 of every £10 spent online. They now think that figure is, on average, around £3.

2020 has not been a good year for bricks and mortar retail and retail real estate assets. Intu owned or part-owned 17 shopping centres valued at £5.9 billion including Thurrock Lakeside, the Gateshead Metrocentre and Manchester's Trafford Centre and Arndale Centre. It collapsed into administration in June. Arcadia Group, with major brands including Topshop, Top Man, Dorothy Perkins, Burton and Miss Selfridge, and 444 stores across the UK, went into administration on 30 November joining Debenhams, Bonmarché, Peacocks, Jaeger, Edinburgh Woollen Mills and DW Sports to name but a few of the most recent retail administrations.

Reporting in June on performance in the six months to the end of March, Shaftesbury Plc noted that the collapse in West End footfall, evident from early February in Chinatown, and then widely across the West End from mid-March, had an immediate impact on the trading and cash flow of its 607 shops, restaurants, cafés, pubs and bars, materially reducing the collection of rents in advance due on the March quarter day.

It is a commonly repeated aphorism but nonetheless true that the pandemic together with Lockdown 1.0 and 2.0 have served to cram five or more years of anticipated changes to markets into the last 8 months. From 2008 until 2019 internet sales had been growing at 19% a year. Since the end of last year they have grown 49%.

Internet retailing already accounted for 19% of retail sales in February. Lockdown 1.0 and the closure of all non-essential retail premises caused internet sales to climb to 33% of total retail sales in May, although they have since fallen back to 28% at the end of October. It is this change in the pattern of consumer expenditure, and the associated collapse in footfall along UK high streets, that is behind traditional retail's current financial distress.

There has been a structural shift in the character of real estate markets across the developed world. The occupier and investor demand for logistics space required by internet retailers has been outstripping demand for traditional retail assets. In September 2013 retail assets in the form of shops, shopping centres and retail warehouses represented 49% of the MSCI All Property index. By September this year the retail weight had declined to 30%.

Retail business failures and reduced occupier demand for high street and retail property generally has effectively reduced achievable rents. Any adjustment is delayed and distorted by UK leasing structures which provide for upward only rents and a weighted average lease term between four years for Shopping Centres and seven years for Retail Parks.

Despite some distortion, valuations have been sharply reduced. Shopping Centre valuations have decreased by 47% since the end of 2015 and by 63% since the peak of the last cycle in June 2007. The consequences of this include the under-performance of both specialist retail funds and general investment funds having a traditional market weighted exposure to retail. Open-ended funds have been closed to redemptions. Fund managers have been unable to satisfy the demand for redemptions from cash holdings and unwilling to sell more liquid office and industrial assets and inadvertently increase their retail weight. Re-financing of expiring credit lines has proved extremely difficult if not impossible. Hence the failure earlier in the year of Intu where the loan to value had increased to 72% as reported in December 2019.

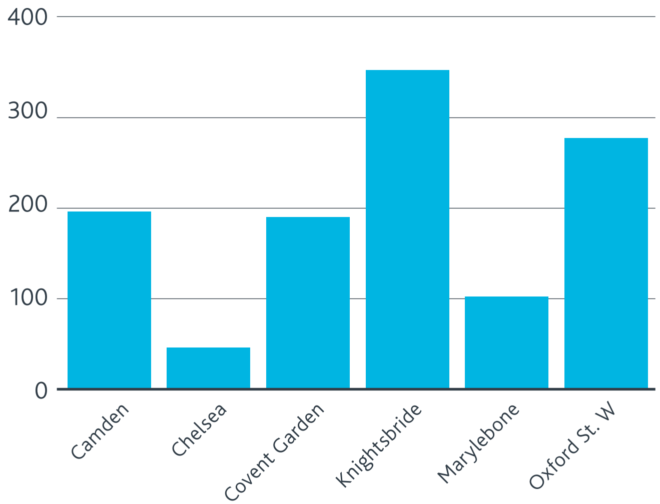
Finally, despite the uncertain and worrying times for retail real estate investors, it is worth pointing out that one of the best performing strategies across all market segments during 2020 has been long lease shops. Moreover, in Q3 prime Retail Parks matched the All Property Index total return of 0.1% for the first time in six years. Are Retail Parks about to stage a come-back because of customers preference during the pandemic to drive to out-of-town destinations; or is their ability to be re-purposed as last mile logistic space going to drive performance?

CENTRAL LONDON IN BRIEF

Q3 AVAILABILITY

CENTRAL LONDON – KEY OCCUPATIONAL MARKETS

Q3 AVAILABILITY	000 FT²
Camden	190
Chelsea	47
Covent Garden	189
Knightsbridge	343
Marylebone	100
Oxford St. W	272



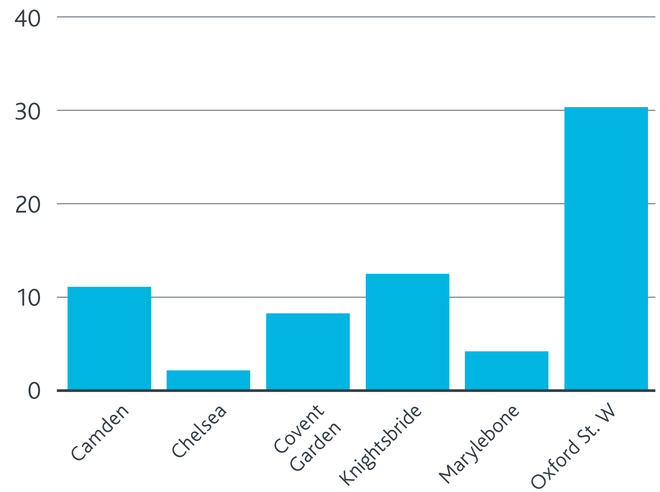
CENTRAL LONDON AVAILABILITY AND TAKE-UP

Q3 2020 availability increased by 12% to 1.14 million square feet (sq.ft.) from 1.02 million sq.ft. in Q2. In the 12 months to the end of September availability increased by 26%.

Q3 take-up increased by 216% to 68,000 sq.ft. from 21,000 sq.ft. in Q2. In the 12 months to the end of September take-up amounted to 289,000 sq.ft. and had decreased by 46% from 535,000 sq.ft. let in the year to September 2019.

Q3 TAKE-UP

Q3 TAKE-UP	000 FT²
Camden	11
Chelsea	2
Covent Garden	8
Knightsbridge	12
Marylebone	4
Oxford St. W	30



KEY TRANSACTIONS Q3

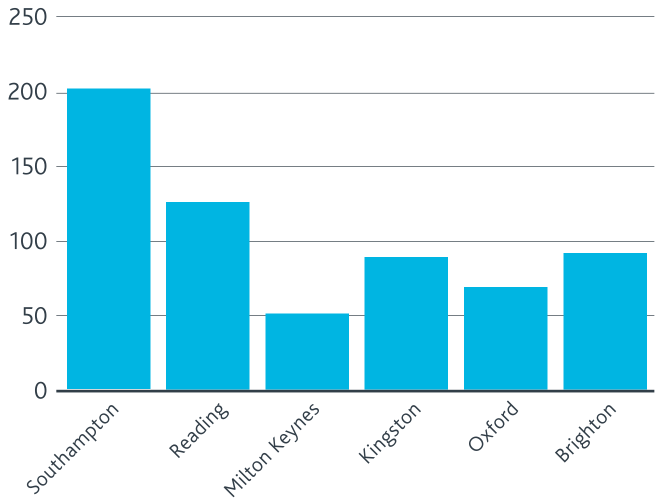
BUILDING	SIZE (SQ.FT.)	TENANT	RENT (PA)
49-63 Regent Street, W1 (assignment)	1,650	–	–
10 Argyll Street, W1	3,000	Ploom Lounge	£400k
215 Brompton Road, SW3	1,500	My & Sanne	£275k
244-248 Great Portland Street, W1	1,000	Itsu	£125k

SOUTH EAST IN BRIEF

Q3 AVAILABILITY

SOUTH EAST – SELECTED OCCUPATIONAL MARKETS

Q3 AVAILABILITY	000 FT²
Southampton	202
Reading	126
Milton Keynes	50
Kingston	88
Oxford	68
Brighton	93



SOUTH EAST AVAILABILITY AND TAKE-UP

Q3 2020 availability increased by 10% to 1.18 million sq.ft. from 1.07 million sq.ft. in Q2. In the 12 months to the end of September availability has also increased by 20%.

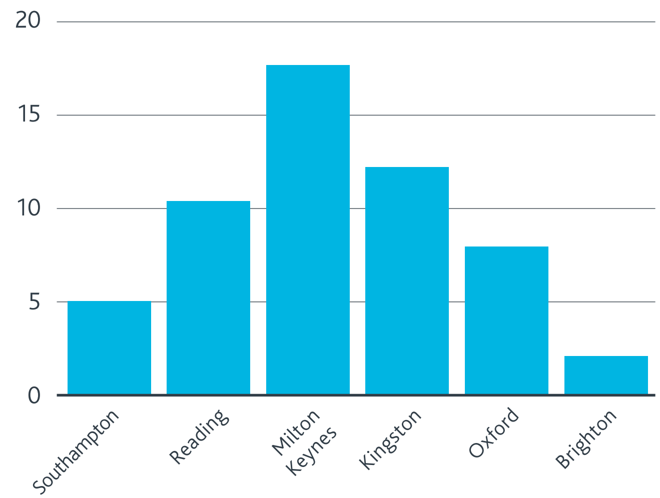
Q3 take-up increased by 586% to 67,800 sq.ft. from 9,900 sq.ft. in Q2. In the 12 months to the end of September take-up amounted to 285,000 sq.ft. and has decreased by 38% from 461,000 sq.ft. let in the year to September 2019.

Note: South East totals are compiled out of data from Brighton, Bromley, Kingston, Guildford, Milton Keynes, Oxford, Reading, Canterbury, Southampton and Chelmsford.

Q3 TAKE-UP

REST OF UK – SELECTED OCCUPATIONAL MARKETS

Q3 TAKE-UP	000 FT²
Southampton	5
Reading	10
Milton Keynes	18
Kingston	12
Oxford	8
Brighton	2



KEY TRANSACTIONS Q3

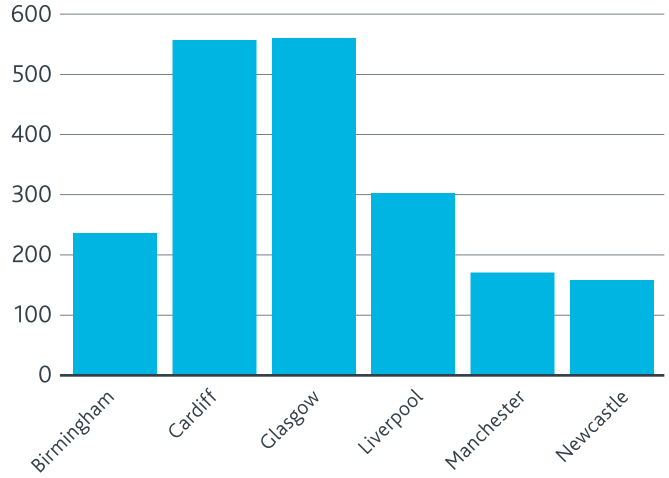
BUILDING	SIZE (SQ.FT.)	TENANT	RENT (PA)
255 High Street, Guildford	2,900	Co-Op Food	£200k
127-129 High Street, Guildofrd	1,800	Lululemon	£170k
96 Broad Street, Reading	1,500	Up & Running	£100k
92-94 London Road, Oxford	3,300	J Haas Retail	£75k

REST OF UK IN BRIEF

Q3 AVAILABILITY

REST OF UK – KEY OCCUPATIONAL MARKETS

Q3 AVAILABILITY	000 FT²
Birmingham	239
Cardiff	559
Glasgow	563
Liverpool	301
Manchester	174
Newcastle	160



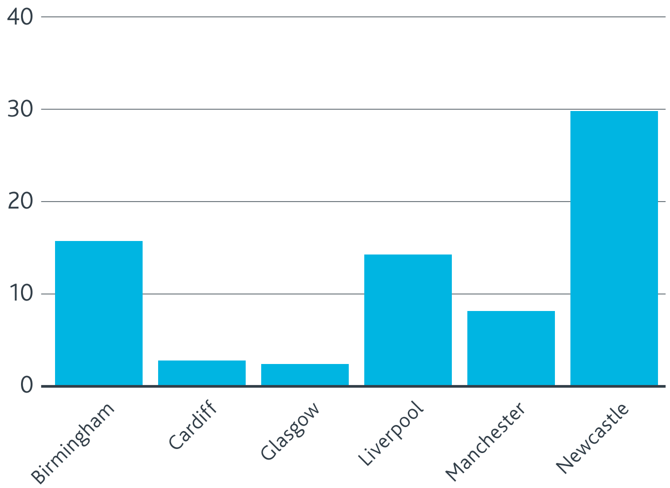
REST OF UK AVAILABILITY AND TAKE-UP

Q3 availability increased by 19.6% to 2.61 million sq.ft. from 2.17 million sq.ft. in Q2. In the 12 months to the end of September availability has increased by 28.8%.

Q3 take-up increased by 30.8% to 139,100 sq.ft. from 106,300 sq.ft. in Q2. In the 12 months to the end of September take-up amounted to 825,500 sq.ft. and has decreased by 12% from 937,600 sq.ft. let in the year to September 2019.

Q3 TAKE-UP

Q3 TAKE-UP	000 FT²
Birmingham	17
Cardiff	4
Glasgow	3
Liverpool	16
Manchester	9
Newcastle	33



KEY TRANSACTIONS Q3

BUILDING	SIZE (SQ. FT.)	TENANT	RENT (PA)
125 Deansgate, Manchester	3,800	Arc Inspirations	£227k
136-138 Grainger Street, Newcastle upon Tyne	1,500	–	£177k
14-16 Bold Street, Liverpool	3,200	Haute Dolci	£100k
1 Newhall Street, Birmingham	4,800	Co-Op Group	£85k

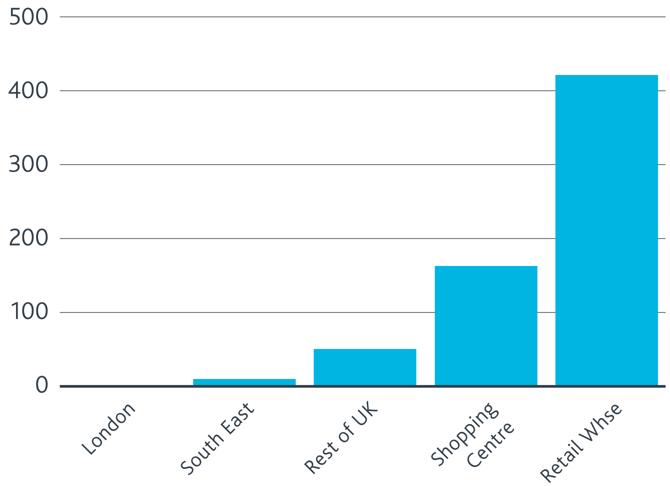
RETAIL INVESTMENT IN BRIEF

INVESTMENT VOLUMES

Q3 investment transactions increased by 274% to £639.5 million from £170.9 million in Q2. In the 12 months to the end of September investment amounted to £2.2 billion and had decreased 37% from £3.5 billion in the year to September 2019.

UK RETAIL INVESTMENT MARKETS

Q3 INVESTMENT	£m
London	0
South East	10.4
Rest of UK	52.3
Shopping Centre	158.3
Retail Warehouse	418.5

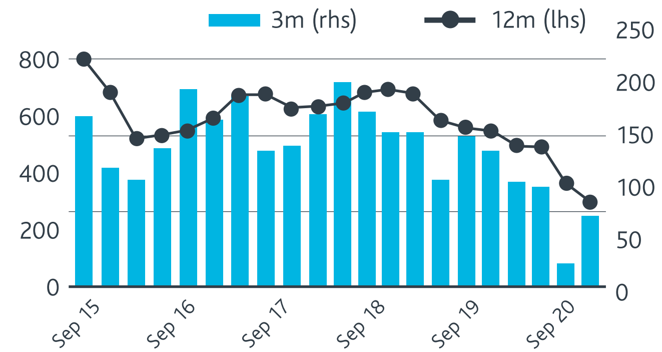


KEY TRANSACTIONS Q3

BUILDING	PURCHASER	PRICE	YIELD
158-159 New Bond Street, W1	Chanel	£310.0	2.5%
Portfolio of 6 Retail Parks	M7 Real Estate	£156.9	7.5%
Kings Mall, Hammersmith	Ingka Centres	£138.0	4.0%
Broadwalk Centre, Edgware	Ballymore Properties	£70.6	4.9%
1 Albert Street, Nottingham	Thackeray Estates	£16.4	7.5%

CENTRAL LONDON IN DETAIL

CENTRAL LONDON RETAIL TAKE-UP ('000 SQ.FT.)

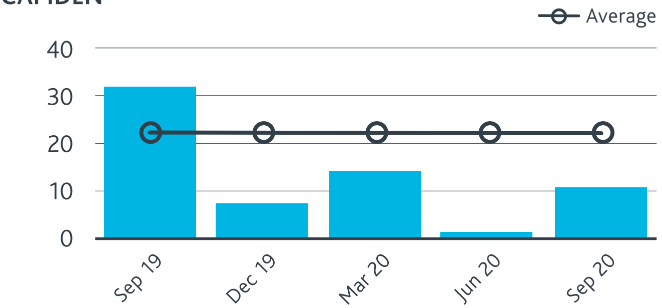


CENTRAL LONDON TAKE-UP AND RENTS

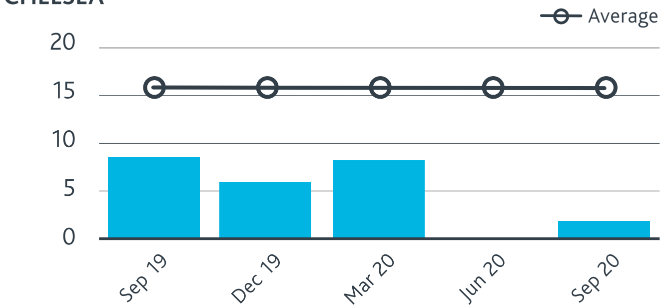
Across the six Central London retail sub-markets monitored in this report, take-up in Q3 represented a large increase on the levels of take-up in Q2. However, this should not obscure the trend of declining take-up that has been a feature of the market for much of the last 10 years despite London's position as a world city and its undoubted success in attracting overseas retail businesses and tourists.

Covid-19 and the two UK wide lockdowns have resulted in much reduced footfall. Tourist numbers have fallen sharply, and office workers have continued working from home. The demand for retail space is therefore weak. Central London take-up in Q2 and Q3 represents a substantial 72% decrease on the quarterly average rate of take-up over the last 10 years. This pattern was repeated across all the major London sub-markets including Oxford Street & Mayfair, Knightsbridge & Kensington, Covent Garden & Soho, Kings Road, Chelsea, Marylebone and Fitzrovia and Camden and Islington.

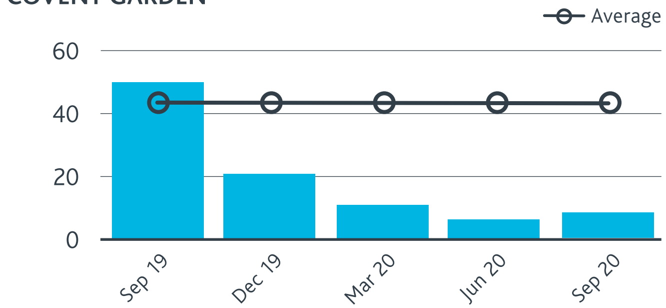
CAMDEN



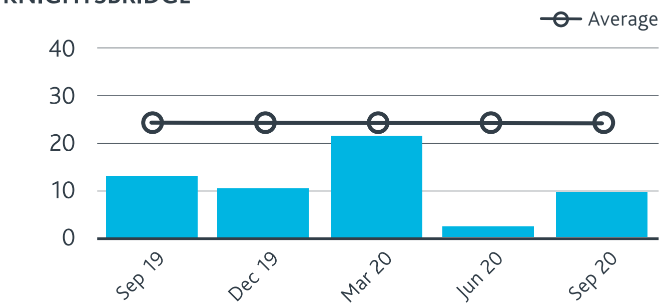
CHELSEA



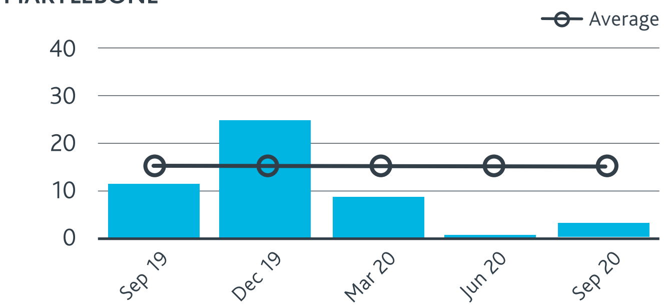
COVENT GARDEN



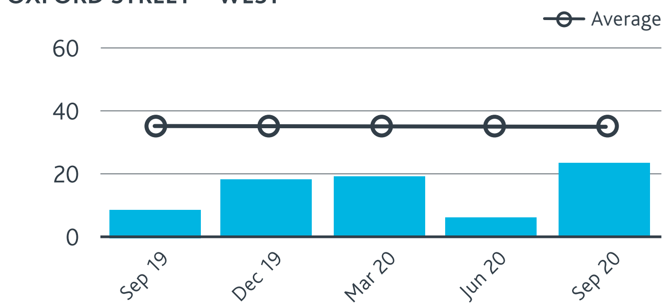
KNIGHTSBRIDGE



MARYLEBONE



OXFORD STREET – WEST



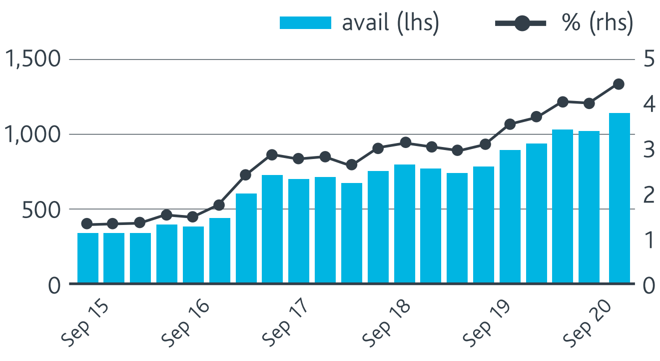
CENTRAL LONDON IN DETAIL

West End shops were the strongest segment of the UK real estate market both before and after the Global Financial Crisis (GFC). Year-on-year market rental value growth peaked at 11% in December 2007 and after a brief respite again recorded double digit annual rates of growth in 2011, 2014 and 2015. West End rental values grew 78% between December 2009 and December 2018.

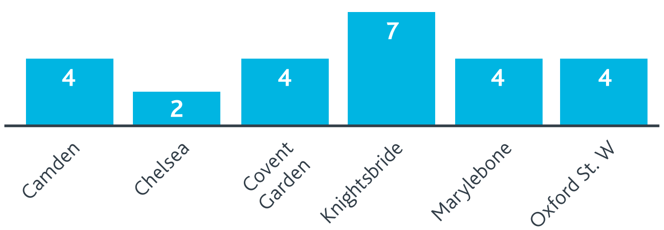
West End market rental values, however, have been in decline throughout 2019 and 2020. In the nine months to the end of September, Covent Garden rental values are down 7% and Mayfair rental values down 6%. Camden and Islington have fared slightly better with rental values only off 3% and 1% respectively.

CENTRAL LONDON IN DETAIL

CENTRAL LONDON RETAIL AVAILABILITY ('000 SQ.FT.)



Q3 AVAILABILITY RATE - SELECTED MARKETS (%)



CENTRAL LONDON AVAILABILITY AND CONSTRUCTION

The western end of Oxford Street, home of many large shops and department stores, has seen a wave of shop closures in recent months. Forever 21, HMV and H&M have all shuttered shops, while doubts linger over the future of the large Debenhams and House of Fraser department stores. The growing number of retail administrations will result in continued store closure programmes.

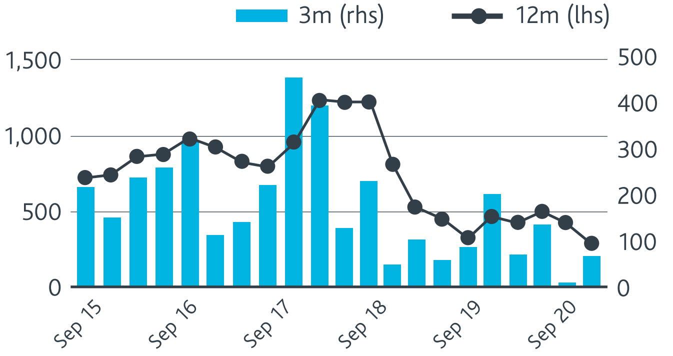
The availability rate in Westminster, defined as the total space available divided by the total stock of retail space, was up to 3.8% at the end of Q3 2020 from 2.7% at the end of 2019. In the last 10 years it has not been higher. Bond Street, Covent Garden and Regent Street have been more insulated due to their smaller average shop sizes and their popularity with international retailers. The availability rate in Kensington and Chelsea reached 4.5% in September 2020 and it too has not been higher in the last 10 years.

In the last decade little new retail space has been added to Central London's key submarkets. Westminster has actually lost space as the 300,000 sq.ft. Whiteleys Centre in Bayswater is subject to a residential led re-development.

There is currently 279,000 sq.ft. of new retail space under construction in Westminster and a further 114,000 sq.ft. in Kensington and Chelsea. The Whiteleys' scheme mentioned above will provide 75,000 sq.ft. of ground floor retail space in 2023. A further 86,000 sq.ft. is under construction at K1 Knightsbridge with a retail frontage to Sloane Street and Brompton Road. Completion of K1 is due early next year. Both schemes are 100% let. In fact, of the 393,000 sq.ft. of retail space currently under construction only 29,000 sq.ft. is still available to let.

SOUTH EAST IN DETAIL

SOUTH EAST RETAIL TAKE-UP ('000 SQ.FT.)



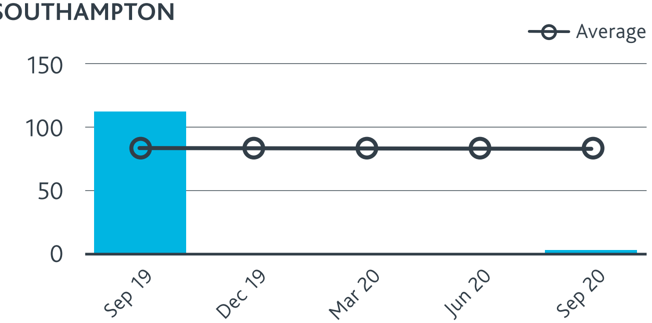
SOUTH EAST TAKE-UP AND RENTS

Across a variety of key South East retail centres, it appears as though retailers froze at the end of Q1. Take-up of new space in Q2 amounted to just 9,900 sq.ft.; the 10-year quarterly average is 214,000 sq.ft. No retail lettings were recorded in Milton Keynes, Oxford, or Chelmsford. No lettings have been achieved in Canterbury for the last three quarters; and in each of Q3 and Q4 2019 just 500 sq.ft. was let.

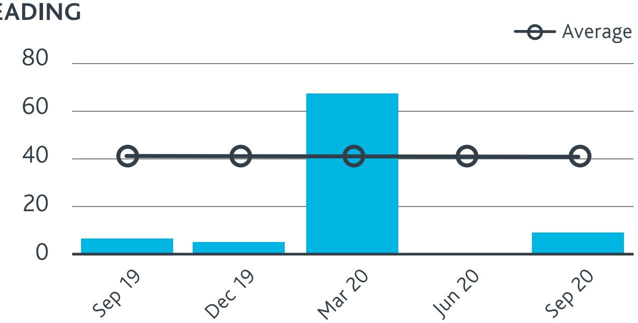
Consequently, take-up in Q3 of 68,000 sq.ft. represented a substantial five-fold increase on the levels of take-up in Q2. Again, however, this should not obscure the trend of declining take-up that has been a feature of the market for much of the last 10-years despite the South East's relatively prosperous economy and its proximity to London.

SOUTH EAST RETAIL TAKE-UP - SELECTED MARKETS ('000 SQ.FT.)

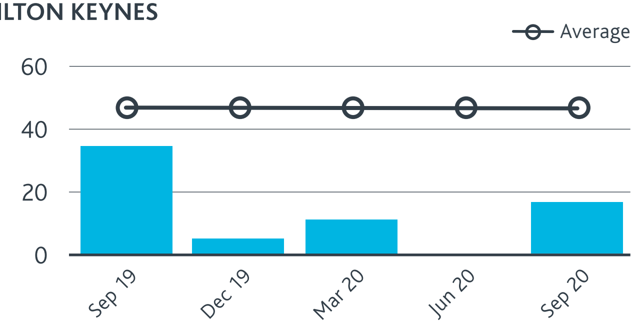
SOUTHAMPTON



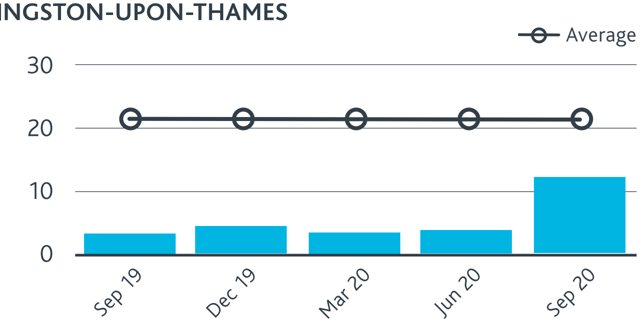
READING



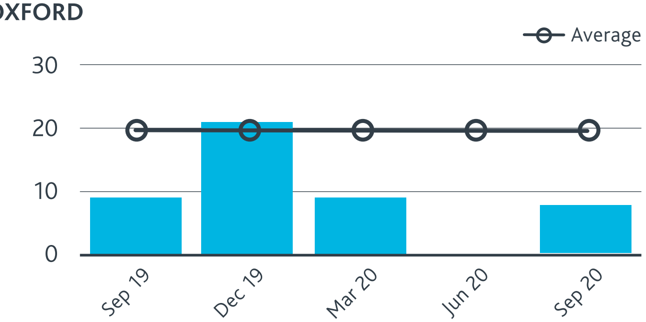
MILTON KEYNES



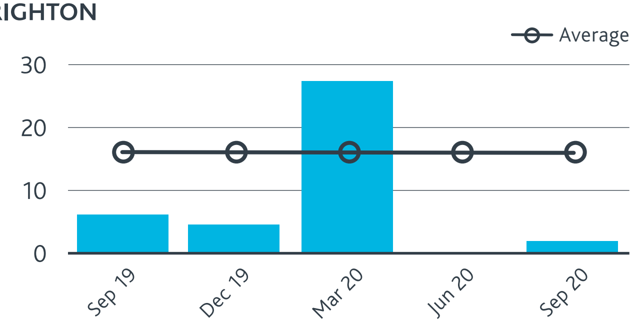
KINGSTON-UPON-THAMES



OXFORD



BRIGHTON



SOUTH EAST IN DETAIL

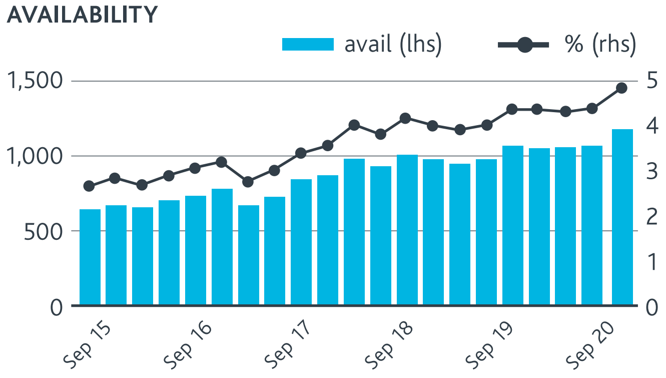
London retail is clearly a market set apart from the rest of the UK including the South East. While West End retail enjoyed extended periods of double-digit rental value growth following the GFC, South East retail markets did not return to positive year-on-year market rental value growth post-GFC until mid-2015.

Any recovery has been rather short lived. South East market rental values have been falling again since the end of 2018. South East rental values are down 13% since the end of 2018 and 7% since the start of 2020.

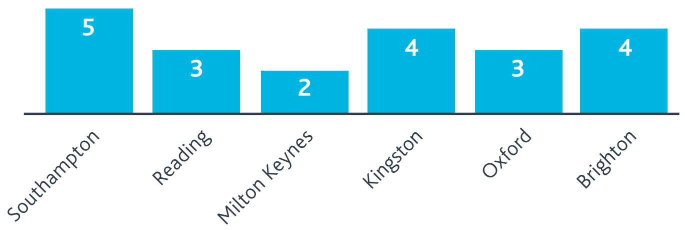
In the 9-months to the end of September, Brighton rental values were down 9%, Guildford rental values down 11% and Oxford rental values down 8%. MSCI data does not highlight any South East key centre that bucked this trend.

SOUTH EAST IN DETAIL

SOUTH EAST RETAIL AVAILABILITY ('000 SQ.FT.)



Q3 AVAILABILITY RATE - SELECTED MARKETS (%)



SOUTH EAST AVAILABILITY AND CONSTRUCTION

The growing number of retail administrations over the last few years has resulted in frequent store closure programmes. In aggregate, across 10 key south east retail centres, the amount of available space has increased by 10% in Q3 alone from 1.07 million sq.ft. to 1.18 million sq.ft.

Retail space available to let includes the House of Fraser store in Guildford. It was refurbished in 2000 and provides 117,000 sq.ft. The Marlands Shopping Centre is a district centre on the edge of the prime shopping centre in Southampton. Occupiers include Poundworld, Bonmarche, the Disney Store and Cards Direct. Available space at this shopping centre amounts to 51,000 sq.ft. out of a total 177,000 sq.ft.

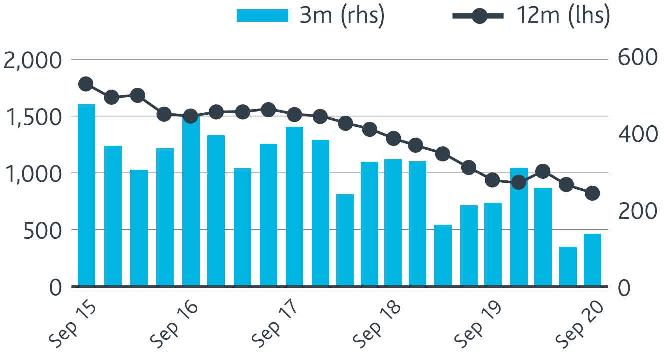
This increase is not, however, uniform across all retail centres. Milton Keynes availability has fallen 36% to 50,000 sq.ft. and is the tightest of the markets covered. The current level of availability is 65% below its 10-year market average. Oxford is another market where the supply of space is relatively limited. The university town has 68,000 sq.ft. of retail space available. This is an increase of just 2% in Q3 and is just 17% more than 10-year average availability of 58,000 sq.ft.

New supply is limited, and the development pipeline is largely supportive of rental values. Little new space has been added in the last 10 years. City centre construction completions have totalled 1 million sq.ft., representing 4% of the total stock, and averaged 25,000 sq.ft. per quarter compared with average quarterly take-up of 214,000 sq.ft.

Across all 10 south east centres monitored for this report, construction completions in 2020 have amounted to 12,000 sq.ft. in two schemes in Reading and Milton Keynes. In Reading 8,000 sq.ft. became available at the Jacksons Corner leisure development on King Street. Two units comprising 6,000 sq.ft. remain available. In Milton Keynes a further 4,000 sq.ft. is available in 2 ground floor units opposite John Lewis. Just one building remains under construction in Q3. Northgate House in Oxford's Cornmarket Street will provide new retail units on the basement, ground and first floors with student accommodation above.

REST OF UK IN DETAIL

REST OF UK RETAIL TAKE-UP ('000 SQ.FT.)



REST OF UK TAKE-UP AND RENTS

Unlike the South East, Rest of UK retail take-up, represented by 10 key centres, did not collapse following the announcement of Lockdown 1.0. Take-up of new space in Q2 and Q3 averaged 123,000 sq.ft. representing a 68% decrease compared to a 10-year quarterly average of 383,000 sq.ft.

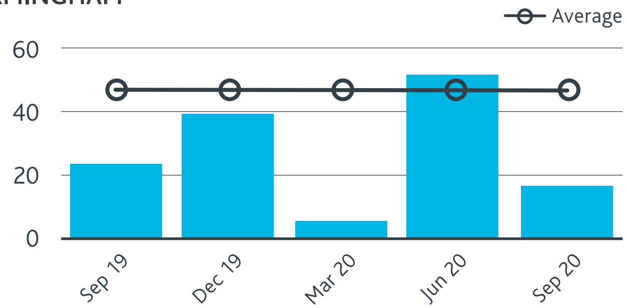
No retail lettings were recorded in Leeds in Q3 and Bristol in Q2. But retail lettings in Newcastle in Q3 mounted to 33,000 sq.ft. and were just 10% below the long run average take-up level.

Take-up in Q3 of 139,000 sq.ft. sq.ft. represented a 31% increase on take-up of 10,000 sq.ft. in Q2 but a 38% decrease on take-up of 225,000 sq.ft. in Q3 2019. And, once again declining take-up has been a feature of the market for much of the last 10-years.

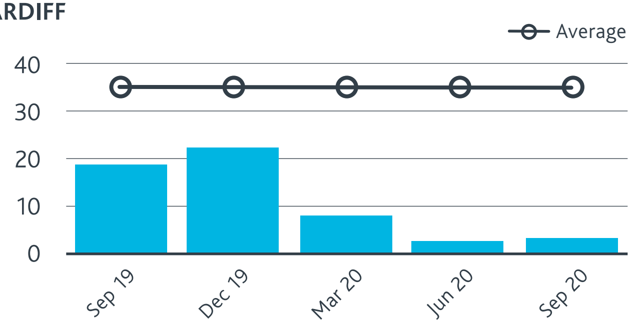
Rest of UK retail markets have never returned to positive market rental value growth post-GFC and since the end of 2017 the decline has accelerated. Rest of UK rental values are down 14% since the end of 2017 and 6% since the start of 2020.

SOUTH EAST RETAIL TAKE-UP - SELECTED MARKETS ('000 SQ.FT.)

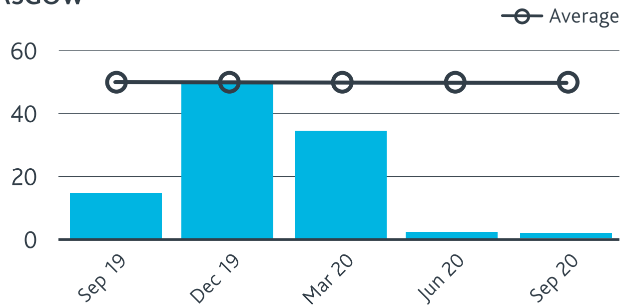
BIRMINGHAM



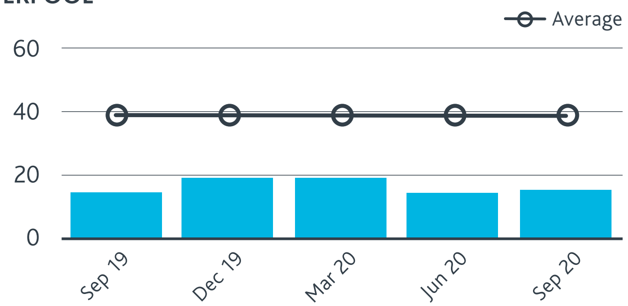
CARDIFF



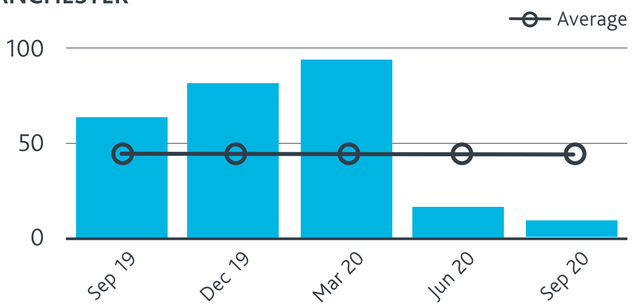
GLASGOW



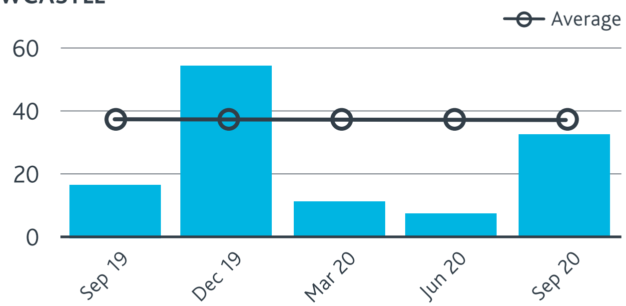
LIVERPOOL



MANCHESTER



NEWCASTLE

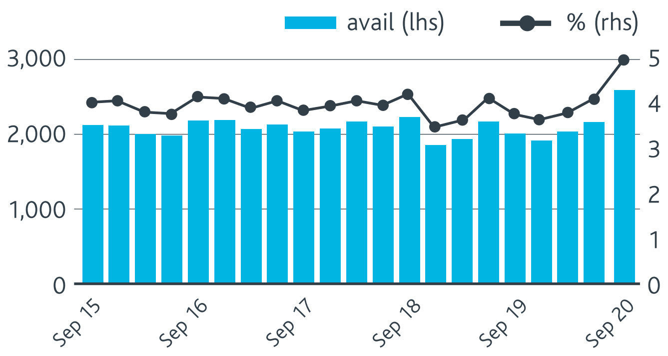


REST OF UK IN DETAIL

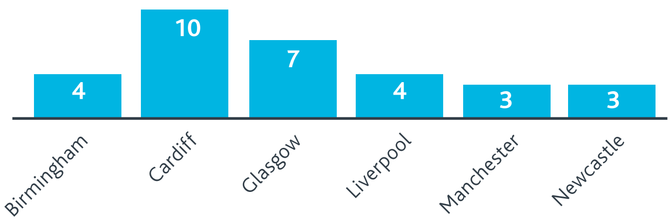
In the nine months to the end of September, Birmingham rental values were down 7%, Cardiff rental values down 5% and Glasgow rental values down 12%. MSCI data does not highlight any Rest of UK key centre that bucked this trend.

REST OF UK IN DETAIL

REST OF UK RETAIL AVAILABILITY ('000 SQ.FT.)



Q3 AVAILABILITY RATE - SELECTED MARKETS (%)



REST OF UK AVAILABILITY AND CONSTRUCTION

The growing number of retail administrations over the last few years has resulted in frequent store closure programmes. In aggregate across 10 key Rest of UK retail centres the amount of available space has increased by 20% in Q3 from 2.18 million sq.ft. to 2.61 million sq.ft.

Examples of retail space listed as available to let includes Andrews Buildings, Queen Street, Cardiff. A 2004 refurbishment providing 76,000 sq.ft. currently occupied by River Island, Zara and TopShop. In Edinburgh the Scottish Home Stores unit remains vacant and available to let. The store has 41,000 sq.ft. and a 123 ft frontage on Princes Street. BHS collapsed in 2016 with a portfolio of 163 stores. Four years later 26% of these still remain vacant.

Liverpool and Newcastle-upon-Tyne have tighter markets where the amount of available space declined between Q2 and Q3. Pâtissiers Haute Dolci signed a lease for 5,700 sq.ft. at 14-16 Bold Street, Liverpool in June; and Mac Cosmetics and Chopstix took space at Liverpool One. In Newcastle 81,000 sq.ft. has been let in 22 transactions over the course of the year including the former Cath Kidson store with 1,500 of sales space on Grainger Street. Cath Kidson had previously announced the closure of all its stores in April.

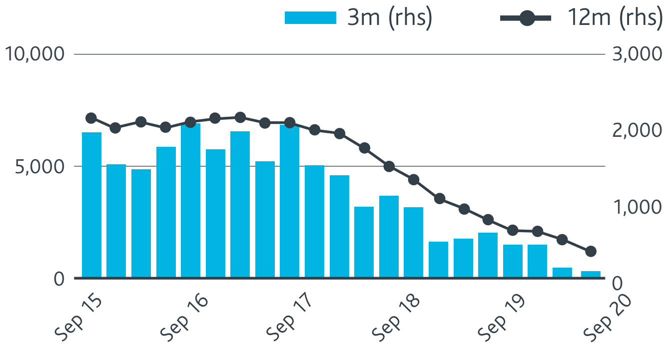
New supply is limited, and the development pipeline is largely supportive of rental values. Little new space has been added in the last 10 years. City centre construction completions have totalled 878,000 sq.ft., representing 1.5% of the total stock, and averaged 21,000 sq.ft. per quarter compared with average quarterly take-up of 383,000 sq.ft.

Across all ten regional centres monitored for this report, city centre construction completions in 2020 have amounted to just 9,000 sq.ft. in one scheme in Birmingham. True Student Accommodation in Dean Street, Birmingham completed in September of this year. The 10-storey block contains 4 ground floor retail units with student living on the upper floors. The retail units remain vacant and available to let.

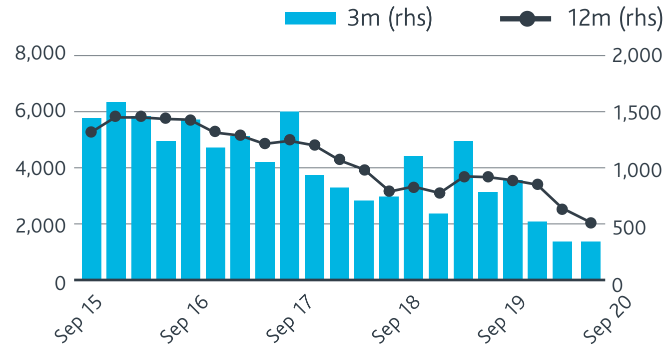
SHOPPING CENTRES AND RETAIL WAREHOUSES

SHOPPING CENTRE & RETAIL WAREHOUSE TAKE-UP ('000 SQ.FT.)

SHOPPING CENTRE TAKE-UP



RETAIL WAREHOUSE TAKE-UP



SHOPPING CENTRE AND RETAIL WAREHOUSE TAKE-UP & RENTS

Take-up of Retail Warehouse and Shopping Centre space has been on a declining trend for at least the last 5-years. UK wide take-up of Retail Warehouse space in Q2 and Q3 averaged 339,000 sq. ft. representing a 69% decrease compared to a 10-year quarterly average of 1.1 m sq. ft. Demand by occupiers for Shopping Centre space in Q2 and Q3 was even weaker. Take-up averaged 132,000 sq.ft. representing a 91% decrease compared to a 10-year quarterly average of 1.4 m sq. ft.

Land Securities have announced that they intend to sell their Retail Park Portfolio which represents 3% of an £11.8 billion portfolio. They are also re-evaluating their £2.1 billion portfolio of regional malls, shops and Outlet Centres.

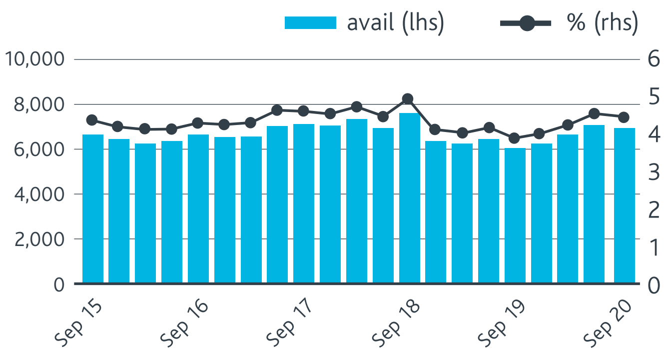
In town shopping centre rental values are 27% below their 2008 peak and the decline has accelerated in recent months. The decrease is 18% since the end of 2017 and 10% since the start of 2020. Out of town shopping centre rental values are down 21% from their peak, having fared slightly better post-GFC. However, the decline has been even steeper more recently. Since the end of 2017 the decrease has been 21% with a fall of 15% since the start of this year.

Retail Warehouse rental values have fared slightly better. They are down 17% post their GFC peak. Since the end of 2017 the decrease has been 14% with a fall of 7% since the start of 2020.

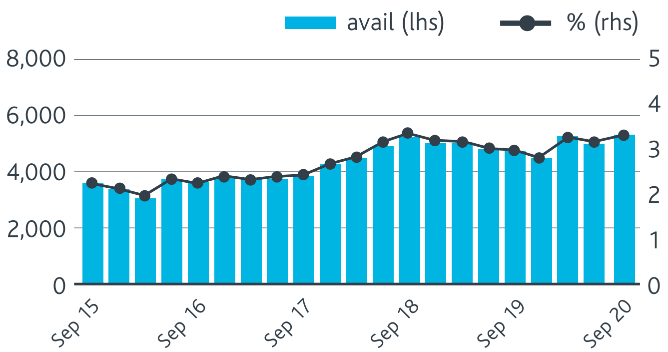
SHOPPING CENTRES AND RETAIL WAREHOUSES

SHOPPING CENTRE & RETAIL WAREHOUSE AVAILABILITY ('000 SQ.FT.)

SHOPPING CENTRE AVAILABILITY ('000 SQ.FT.)



RETAIL WAREHOUSE AVAILABILITY ('000 SQ.FT.)



SHOPPING CENTRE AND RETAIL WAREHOUSE AVAILABILITY & CONSTRUCTION

Retail Warehouses and Shopping Centres have not been immune from the growing number of retail administrations and store closure programmes over the last few years. The amount of available Shopping Centre space has remained remarkably consistent over the last 5-years. The availability rate has barely changed. It was 4.4% in September 2015 and was 4.5% at the end of September 2020. Over those 5-years availability in shopping centres has risen just 4% from 6.7m sq. ft. to 7.0m sq. ft. In the course of Q3 the amount of available space surprisingly fell 1.7%.

The amount of Retail Park space has been rising consistently for the last 5-years. The consensus view is that consumers have favoured town centre destinations offering a wider variety of stores and leisure and hospitality offers. Over the last 5-years, availability in Retail Parks has increased 53% from 4.0m sq. ft. to 6.2m sq. ft. In the course of Q3 the amount of available retail warehouse space increased by 5.5%.

It is possible that the pandemic may reverse a green preference from consumers for town centres served by public transport over the use of private cars. Fear of crowds and infection may drive consumers back into their cars and towards Retail Parks with wider open spaces and plentiful car parking. British Land recently said that their Retail Park portfolio had demonstrated resilience to Covid. Next said that, "Retail Parks where customers can park and walk straight into relatively spacious stores have performed much better."

The Retail Park development pipeline has been shrinking for the last 5-years. In the last 10-years 55 schemes have been delivered with construction completions averaging 182,000 sq. ft. per quarter. There have been only 8 completions so far in 2020 delivering just 32,000 sq. ft.

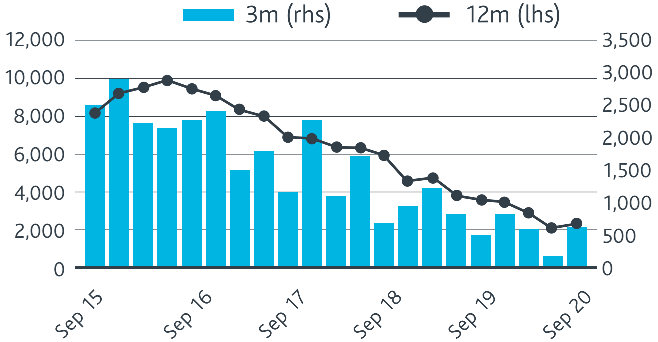
A further 12 Retail Parks are in the course of construction delivering 797,000 sq. ft. of new retail warehouse space. The pipeline includes McArthur Glen's West Midlands designer Outlet at Cannock. The 197,000 sq. ft. retail park will complete in April next year and is fully let.

The Shopping Centre development pipeline has been relatively stable for the last 5-years. In the last 10-years 480 schemes have been delivered with construction completions averaging 309,000 sq. ft. per quarter. However, there have been no completions of note so far in 2020.

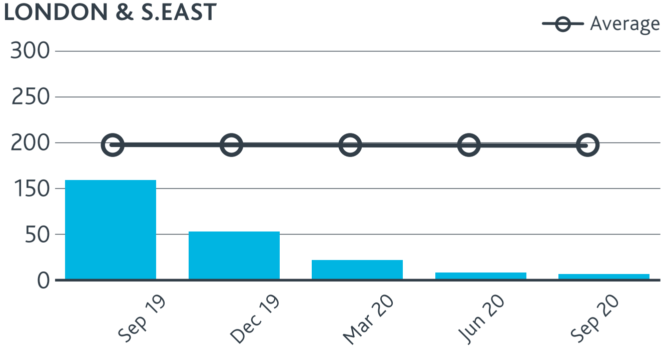
A further 7 Shopping Centres are in the course of construction delivering 1.55m sq. ft. of new space. The largest of these is Edinburgh's St James Quarter developed by Nuveen and Janus Henderson and delivering 850,000 sq. ft. of retail space in March 2021. It is fully let and occupiers include Next, Zara and H&M.

LONDON AND SOUTH EAST INVESTMENT

ALL UK RETAIL INVESTMENT (£m)



LONDON & S.EAST



CENTRAL LONDON INVESTMENT

Over the last 10 years, Central London retail investment volumes have averaged £154 million a quarter. In both Q2 and Q3 this year there were no transactions recorded presumably because investors decided the outlook for retail was too uncertain. This lack of transactional activity reinforces the material uncertainty that attaches to valuations at present.

CENTRAL LONDON INVESTOR TYPE

In the last 10 years, overseas investors have on average accounted for 62% of investment spending on Central London retail each quarter.

In October, after the end of Q3, Chanel acquired the freehold interest in its own flagship store on New Bond Street. The asking price was £240 million but keen interest in the asset and some competitive bidding drove the price up to £310 million off a yield of 2.5%. Quite obviously there remains an appetite for super-prime trophy assets which are only rarely available.

CENTRAL LONDON CAPITAL VALUES

As the UK economy emerged from the last crisis in 2009 a combination of occupier and investor demand for West End shops drove year-on-year capital growth to 24% in 2010 and, after a brief pause for breath, the market again reached those feverish levels in 2015.

Conditions have turned since the start of 2019. In the nine months to the end of September, retail capital values in Covent Garden have decreased by 12% and Mayfair capital values are down 10%. Retail capital values in the more edgy and eclectic districts of Islington and Camden fared little better and were down 6% and 15% respectively.

SOUTH EAST INVESTMENT

Over the last 10 years, South East shop investment volumes have averaged £136 million a quarter with a further £216 million per quarter spent on Shopping Centres and £127 million per quarter on retail warehousing.

In Q2 and Q3 this year investment in shops, shopping centres and retail warehouses averaged £125 million. Investor interest in shops was limited with transactions amounting to just £21 million in nine transactions. The largest single transaction was the Borough of Southwark's purchase of 711-717 Old Kent Road for £12.3 million. There was also a portfolio sale of various assets let to the Nationwide Building Society for £18.8 million off a yield of 10%.

SOUTH EAST INVESTOR TYPE

In the last 10-years, overseas investors have on average accounted for 21% of investment spending on South East retail each quarter.

In Q2 and Q3 the three largest South East retail transactions involved overseas investors. Kings Mall, Hammersmith was sold to Ingka Centres for £138 million; Boardwalk Shopping Centre was sold to Ballymore Properties for £70.6 million and Amazon acquired the Pentavia Retail Park for £65 million with plans to re-develop the site in Mill Hill as a last mile logistics hub.

SOUTH EAST CAPITAL VALUES

South East retail capital values rose 33% from the start of real estate's post-GFC recovery in June 2009 until the end of 2017. However, since 2017 capital values have fallen 32% to the end of Q3 2020 with half of that collapse coming in the first three quarters of 2020.

In the nine months to the end of September, Brighton capital values were down 22%, Guildford capital values down 23% and Oxford capital values down 9%. MSCI data does not highlight any South East key centre that bucked this trend.

REST OF UK INVESTMENT

REST OF UK INVESTMENT

Over the last 10 years, South East shop investment volumes have averaged £245 million a quarter with a further £384 million per quarter spent on Shopping Centres and £319 million per quarter on retail warehousing.

In Q2 and Q3 this year investment in regional shops, shopping centres and retail warehouses averaged £154 million. Investor interest in shops was limited with transactions amounting to just £52 million in nine transactions. Two of the largest single transactions were Thackeray Estates purchase of 1 Albert Street, Nottingham let to Marks and Spencer for £16.35 million; and Solihull Borough Council's purchase of 119-121 High Street, Solihull.

REST OF UK INVESTOR TYPE

In the last 10-years, overseas investors have on average accounted for 21% of investment spending in regional retail centres each quarter.

So far in 2020 the only city centre retail purchase by an overseas investor was JR Capital's acquisition of the Costa Coffee unit in Lands Lane, Leeds for £4.35 million off a yield of 6.9%. There was just a single shopping centre purchase by an overseas investor. Israeli investor MDSR Investments acquired three shopping centres in Northampton, Seaham and Warrington for £77.8 million off a yield of 11%.

Overseas retail warehouse purchases were more numerous. Patrizia Immobilien paid £34.5 million yielding 7.75% for the Newcastle Shopping Park whose occupants include Asda, TK Maxx and DW Sports; and Pimco's Bravo Fund acquired the Sprucefield Retail Park in Lisburn for £34.7 million off a yield of 9.0%.

REST OF UK CAPITAL VALUES

Rest of UK retail capital values fell 38% in the GFC and subsequently grew 16% in the subsequent two years. Since June 2011 Rest of UK capital values have been gradually eroded and fallen 28% to the end of Q3 2020; and by 11% in the first three quarters of 2020.

In the nine months to the end of September capital values in all regional key centres monitored by MSCI including Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle and Nottingham fell by between 15% and 20%.

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