BCSC

SHAPING RETAIL PROPERTY

New Generation Seminar
Positioning for the Recovery

Lawrence Graham LLP

9 September 2009

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BCSC

SHAPING RETAIL PROPERTY

Mike Sales

Head of Global Property Investment
Henderson Global Investors

Henderson Global Investors

“Positioning for the recovery”

Wednesday 9 September 2009

Who are we?

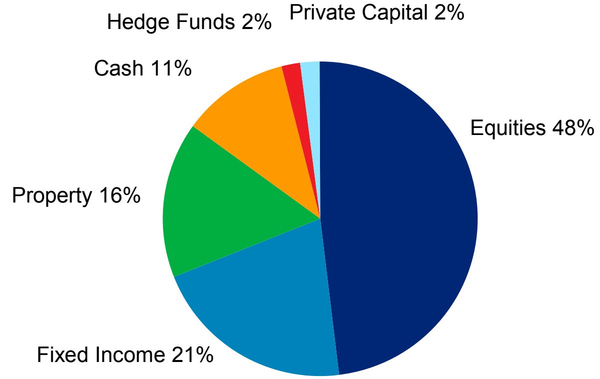
Who are we?

Capital markets context

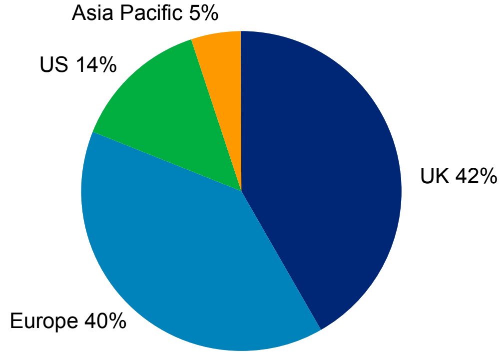
- Independent FTSE 250 listed fund management business
- £52.9bn* assets under management worldwide
- Managing investments - equities, bonds and property since 1934
- Over £10bn* in property assets globally
  - 16% of Henderson AUM
  - Over 190 property staff
- Managing property in all of its forms
  - Direct
  - Indirect
  - Listed
- European retail accounts for 40% of total AUM

* At 30 June 2009; does not include property securities

£52.9bn split by Asset Class*



Property funds by country (source of assets): £10.6bn*



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A core strength for Henderson

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Where are we now?

Where are we now?

Positioning for the recovery

- Green shoots, silver linings...
- How do we define recovery?
- Will we ever recover to mid-2007 levels?
- Shape of recovery
- Any recovery is likely to be highly polarised – less uniform than last bull run
- Positioning for recovery.... **You could be too late!**

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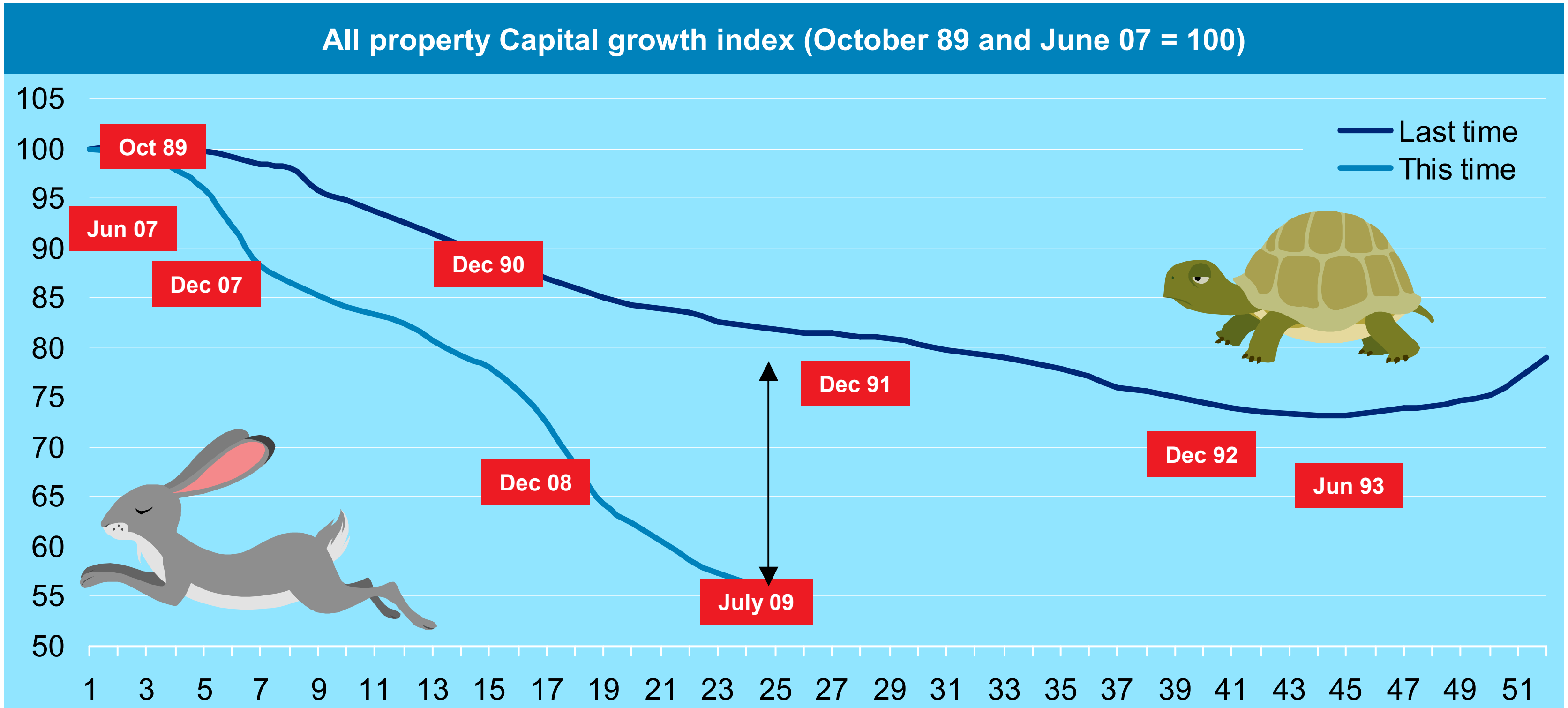
Where are we now?

Have values found their floor



Source: IPD Monthly Digest, July 2009

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Is recovery imminent?

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Where are we now?

The UK property market bubble

Early 2000s 2009?	Market simmering	Boiling point	Global recession 2008
• Modest appetite for risk among property investors • Property is recognised as a good diversifier • Retail sector is growing in popularity	• Increasing appetite and demand for property • Lowering interest rates • Slack lending • Property yields start to fall	• Increased appetite for risk • Competition among investors sees yields fall to historic lows • Secondary retail market goes crazy	• Harmonisation of prices • Recession • Bubble bursts • Zero liquidity • Zero appetite for risk

Back to the beginning and back to basics

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Where are we headed?

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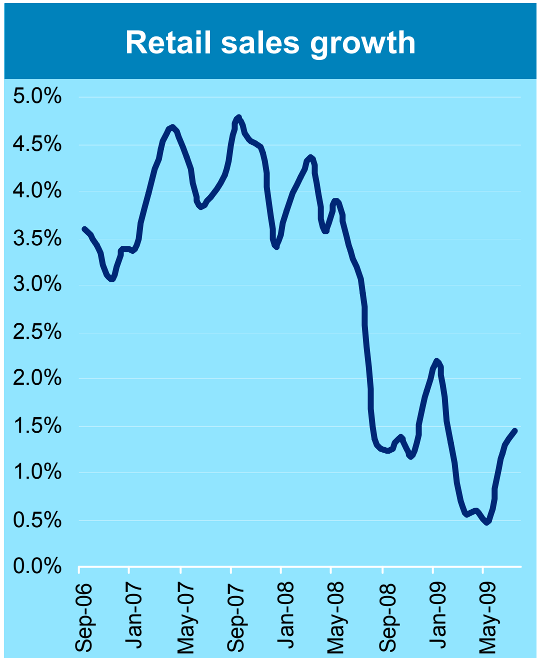
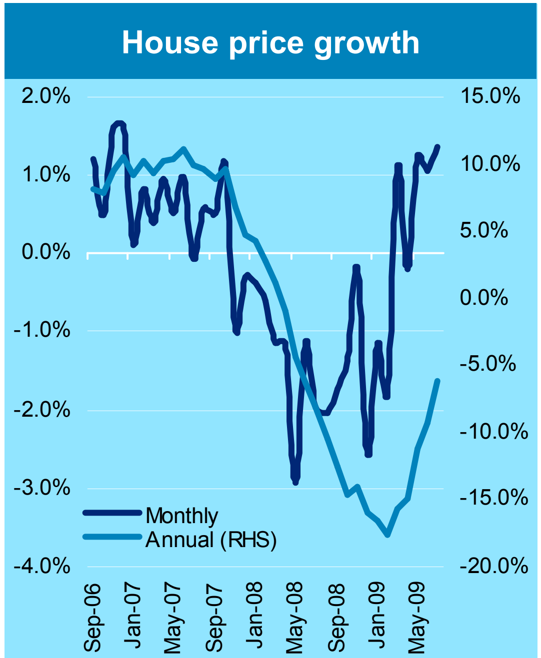
Where are we headed?

The consumer economy - heading in the right direction?





Source: Datastream

- Buoyant retail sales (compared to other European markets)
- Housing market looking stronger
- Consumer and business confidence picking up, but still weak
- Trending in the right direction

Indicators improving but we're not out of the woods yet

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Where are we headed?

Tenant failures and vacancies

"The high street retail vacancy rate will reach 15% by the end of 2009 – the equivalent of 135,000 retail outlets." (Source: Experian)

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- Recession served to sort the men from boys
- Weak concepts struggling and poor retailers failed to survive
- The UK retail market will emerge leaner and fitter
- Surviving retailers will thrive as they take greater market share

Lessons learned

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Where are we headed?

Landlord vs Retailer

- Is it round One to Retailer?
  - New Leases
    - Increased rent free packages 12 – 24 months
    - Increased Cap Ex to assist shop fits
    - Reduced net effective rents
    - Expansion funded by L/L or shared risk
  - Existing Leases
    - Deferred rent reviews
    - Monthly rent payments
  - An example of landlords and a retailer working together
    - JJB “benchmark” CVA agreement
    - Focus DIY – CVA Agreement

Balance of power certainly in retailers’ favour

Where are we headed?

Retail pricing - going for a song?

- Availability of “cheap” assets?
  - REIT’s have raised equity through right issues – no need to sell prime assets!
  - Volume of banks distressed selling was over estimated
  - Opportunities to access prime end of market remain scarce
  - Weight of money
    - Sovereign
    - Private
    - Opportunistic

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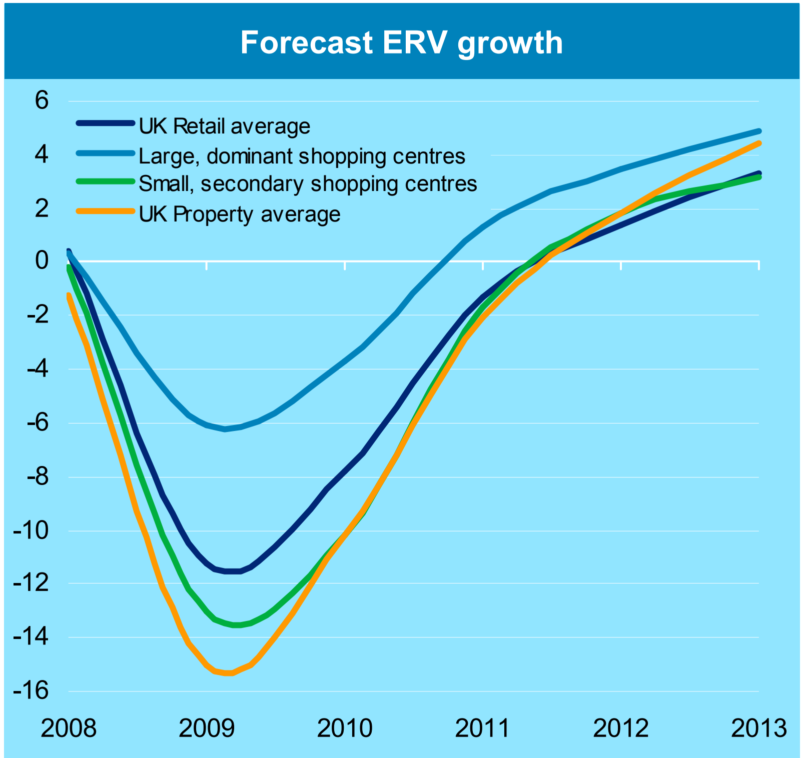
What are we doing?

What are we doing?

Typology forecasting

- Certain types of shopping centres will perform very differently
- The short term looks bleak for the UK occupier market
- Prime assets enjoy positive sales growth even in difficult times
- Return to positive growth post 2010
- With strong growth from large, dominant shopping centres
- The UK will continue to attract international retailers seeking representation in Europe



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Better than average growth from prime schemes

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