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SHAPING RETAIL PROPERTY

New Generation Seminar *Positioning for the Recovery*

Lawrence Graham LLP
9 September 2009



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POSITIONING FOR THE RECOVERY



A VIEW FROM THE OTHER SIDE



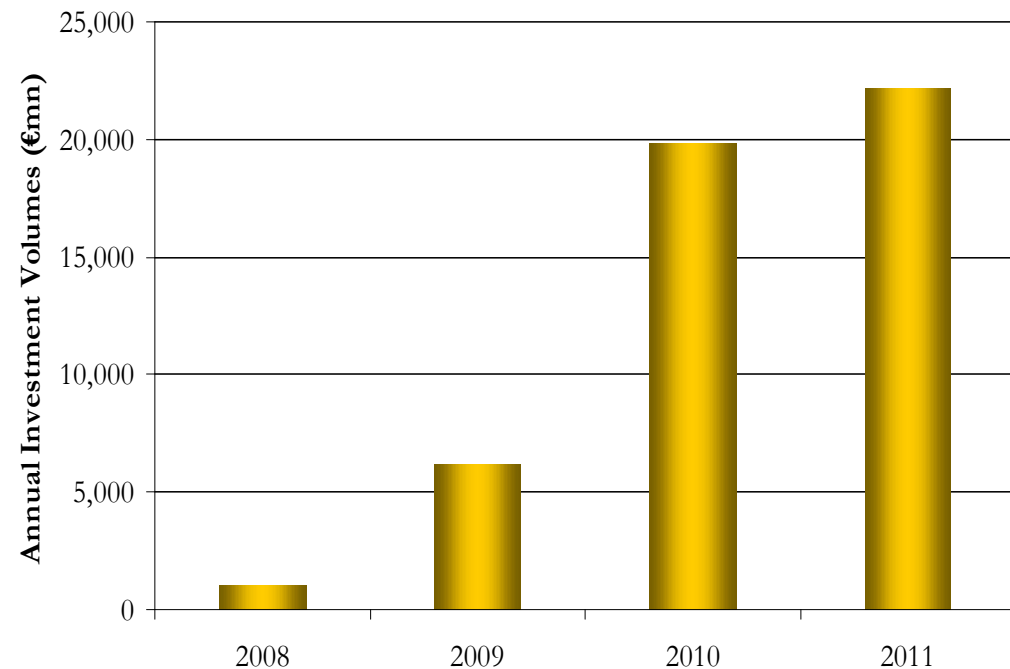
“Positioning for the Recovery” – A view from the other side

- ❖ Investor Sentiment – Where’s the money going?
- ❖ Market Pricing – How does it compare?
- ❖ Consumer Trends – Where are shoppers spending?
- ❖ Occupational Market – Who is out there?
- ❖ The Supply Side – Is there any?
- ❖ Looking Ahead – Who will make the money?



Investor Sentiment – A Global Perspective

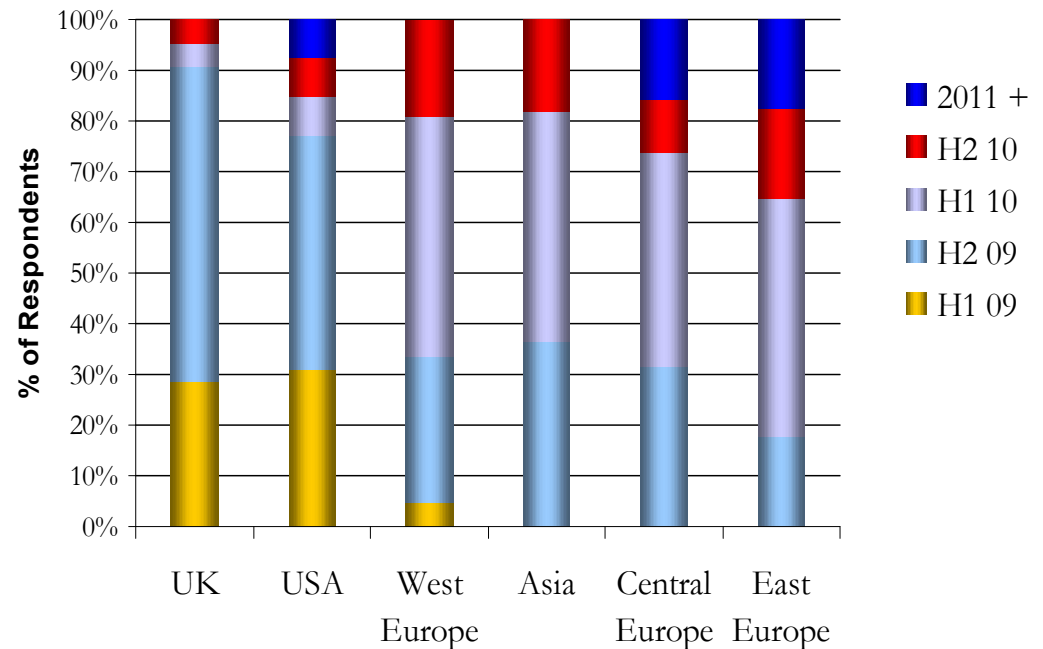
- ❖ C&W have undertaken a survey of international investors to understand their attitudes to towards the market going forward.
- ❖ The survey had 41 European based funds taking part, with funds under management of over €254bn.
- ❖ Investment in 2008 from this group totalled just over €1bn, with 36% of the sample out of the market or dis-investors.
- ❖ However a resumption in growth is expected in 2009/10, albeit with volumes low in 2009 at 2.4% of the existing asset capital base.
- ❖ Investment is expected to increase more notably in 2010/11.



Cushman & Wakefield Investor Survey, 2009

Investor Sentiment – When will activity restart?

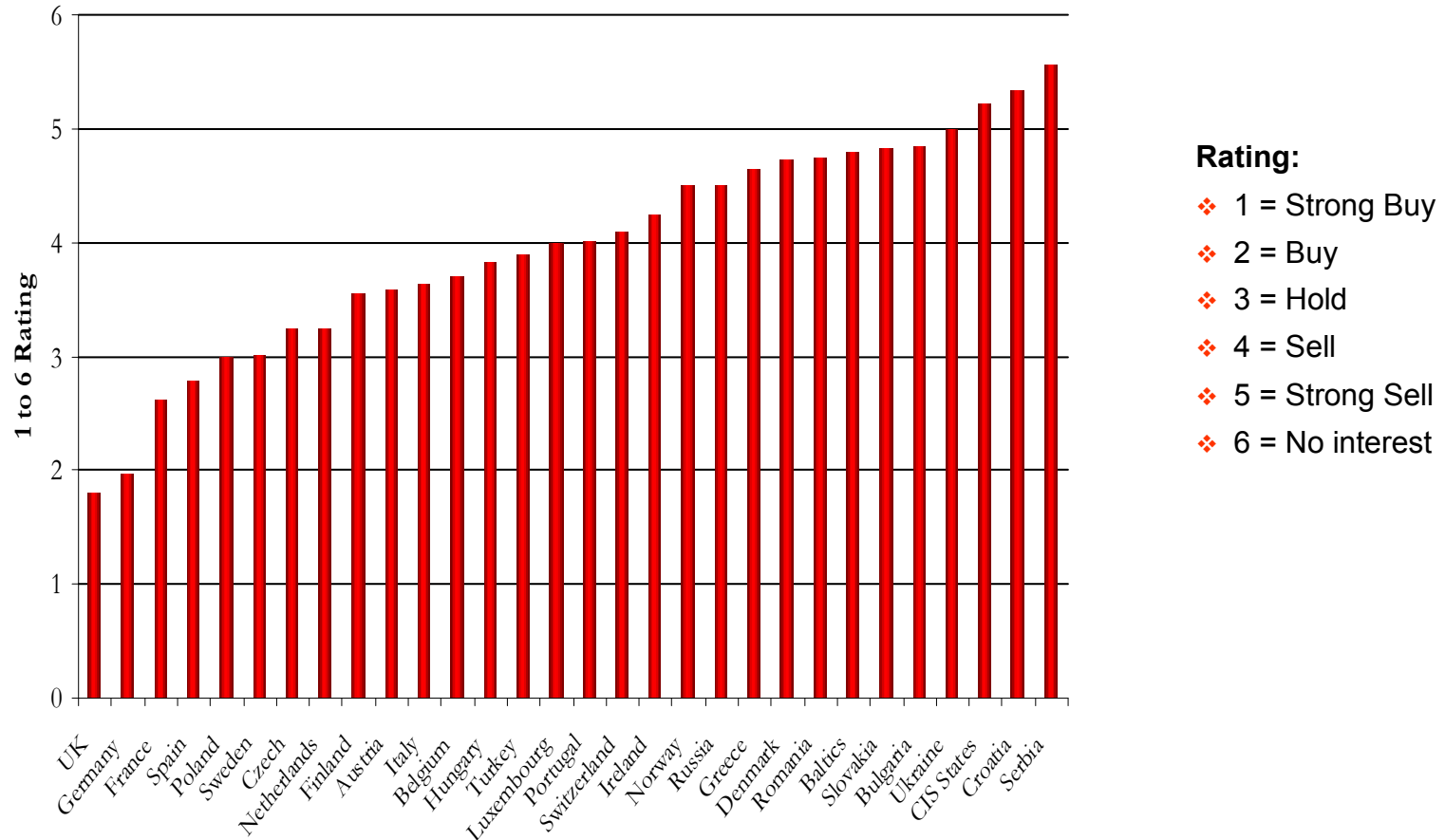
- ❖ The UK, followed by the US, are thought to be ahead of the curve – with activity to restart in 2009, albeit probably in the second half.
- ❖ For Western Europe, the majority view is that the recovery will take place in the first half of 2010.
- ❖ Asian recovery is expected to start later this year but stretch through 2010
- ❖ CEE markets are expected to pass their low point in the first half of 2010 but a significant number anticipate a later recovery – stretching into 2011.



Source: Cushman & Wakefield

Investor Sentiment - European Targets

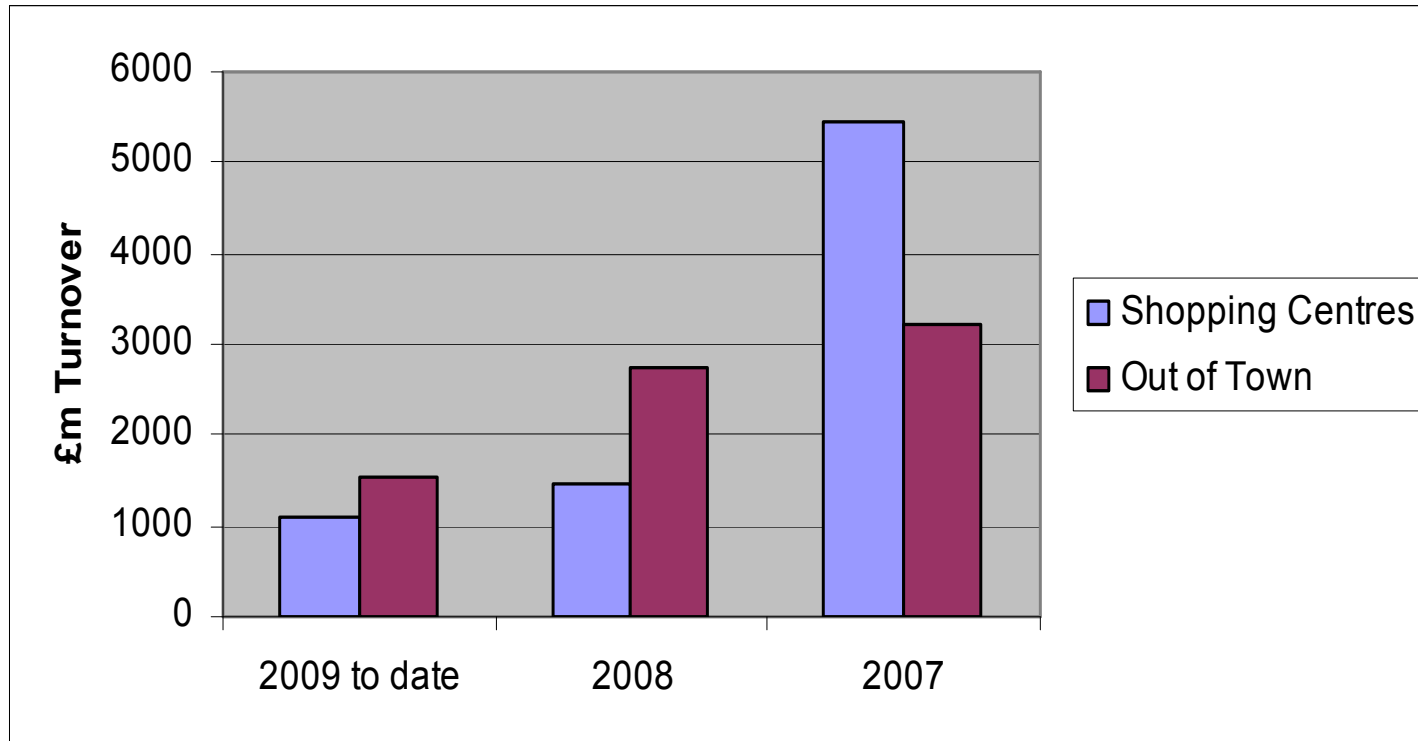
A Ranking of Investors Preferences



Source: Cushman & Wakefield, Investor Survey 2009

Investor Sentiment – Shopping Centre v Out of Town Turnover

Shopping Centres v Out of Town



- Shopping centre transactions fallen from £5.5bn to £1.5bn est.
- Out of town turnover down from £3.25bn to £2bn est.

Investor Sentiment – Why has Out of Town traded?

OUT OF TOWN

Demand **HIGH**

Lot sizes average £40m
Good unexpired lease terms
More transparency on tenant covenants
Vacancy costs lower
Less complicated / less drain on cap-ex
Institutional buyers

Supply **FALLING**

Retail Funds/REIT's – Pressure to sell
Narrower Institutional Ownership
Debt did not play a part at asset level



IN TOWN

Demand **LOW**

Large illiquid lot sizes
Very limited debt available
Void rates/costs alarming
Values still falling
Difficult to price optimistically

Supply **RISING**

Virtually all REIT/Specialist Fund to date
Banks 'in control' of a lot of stock
Buyer/sell aspirations apart



Investor Sentiment – Shopping Centre v Out of Town 2009 Figures

❖ Shopping Centre Deals – 11 schemes totalling £1.1bn

Meadowhall	£587m	London & Stamford
Maidstone	£85m	Europa
Durham	£59m	RREEF
Birmingham	c£200m	AFF



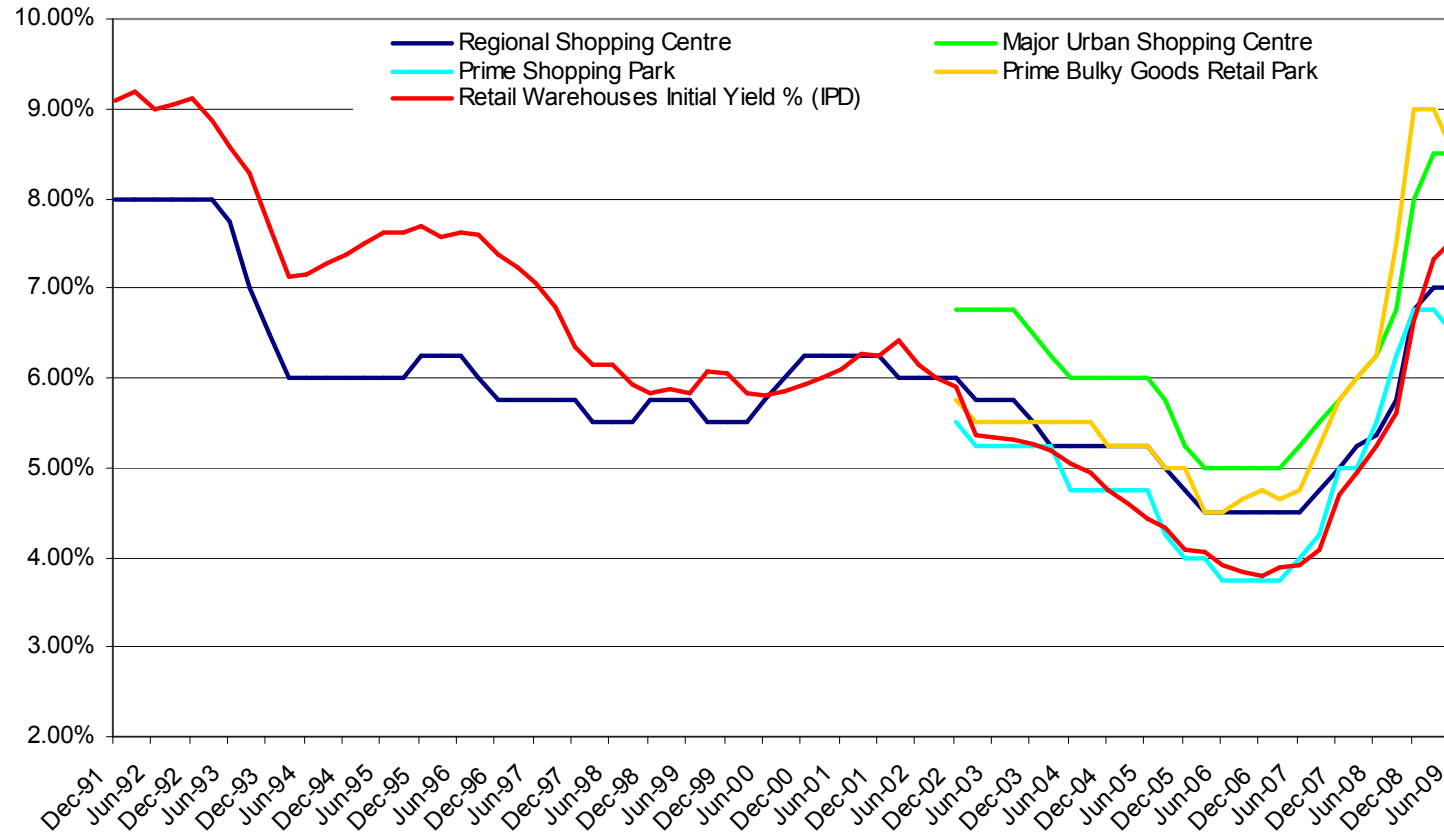
❖ Out of Town Deals - 30 Retail Parks totalling £1.12bn 12 Food Stores totalling £400m

Buyers:

**USS, London & Stamford,
Threadneedle, Henderson,
Scottish Widows, BAPF, IMPF,
BP Pensions, Prudential, BAE Pensions,
HSBC Pensions, NILGOSC.**



UK Retail Yields – 1991 to 2009



Source: C&W, IPD

Consumer Trends – Retailer Health – Spending has reshaped

OUT OF TOWN

IN TOWN

Losers

Furniture Retailers
Certain DIY Retailers
Home Furnishing/Carpets
Electricals

Mid Market Fashion
Regionals
Weaker brand names

Beneficiaries

Food Retailers
Discounters (Matalan/TK Maxx)
Specialists (Pets/Halfords/Mothercare)

Convenience Stores
Discount Fashion
'Poundshops'

MATALAN

halfords

TKmaxx

pets
at home

 CUSHMAN &
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Consumer Trends – Retail Centre Health

Beneficiaries (to date)

Prime Factory Outlets
Foodstores
Prime London
Convenience Retailing
Heritage Tourist Centres
Dominant Fashion Parks
Open A1 Retail Parks
Large Prime Shopping Centres
Dominant Bulky Parks



Losers (to date)

Mid tier towns
Secondary/non dominant Shopping Centres
Older generation Open and Bulky Retail Parks
Secondary Factory Outlets



Occupational Market – who's taking space?

ACQUIRING RETAILERS

In Town

All Saints
Apple
Banana Republic
Bank (JD)
Best Seller
Fat Face
Give (George Davis)
H&M
HMV
Holland and Barrett
Hollister
Mamas & Papas
New Look
New Look Footwear
Next
Orange
Poundland
Primark
Republic
Specsavers

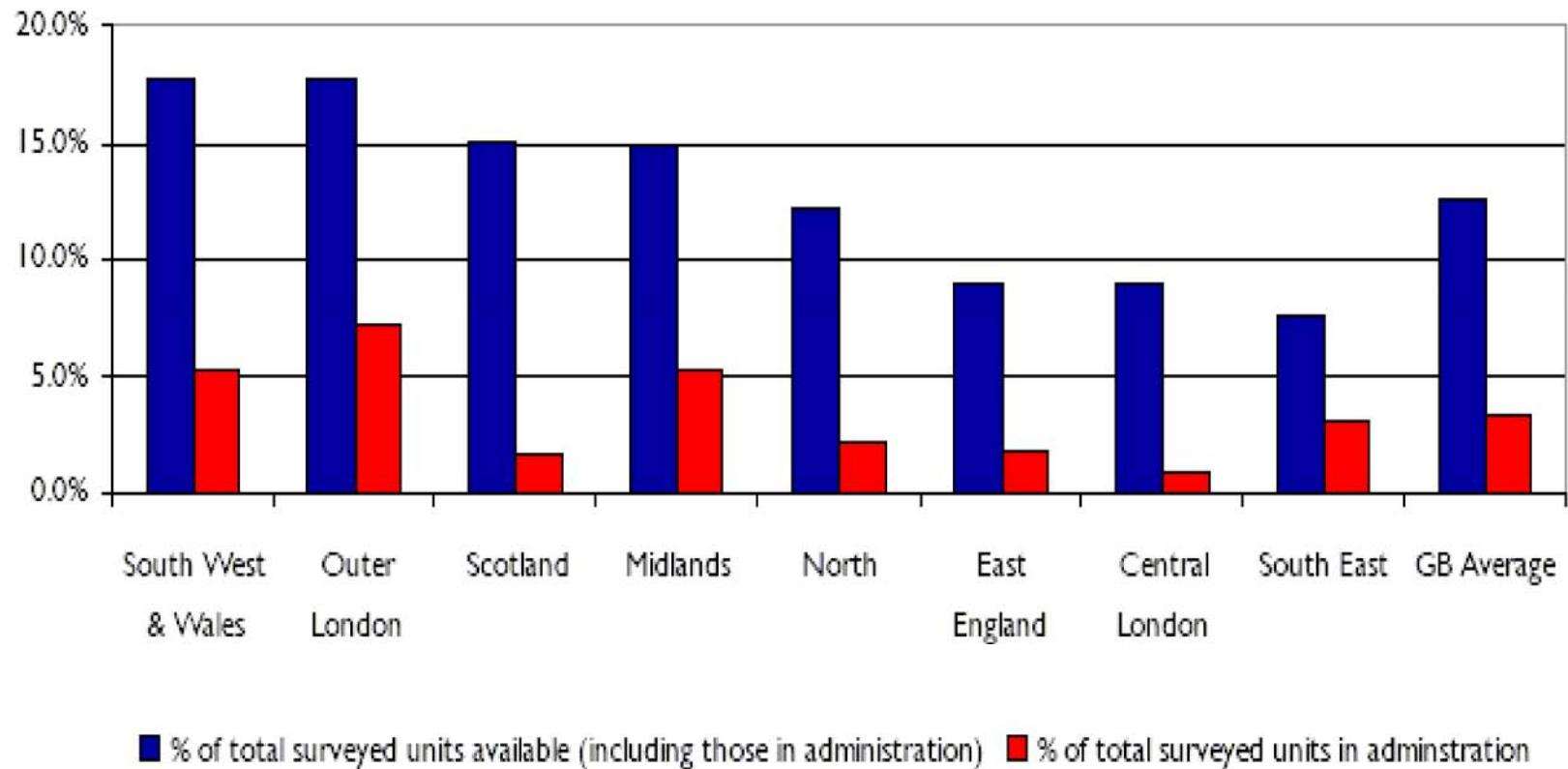
Bold – those
traditional in town
retailers still looking to
expand out of town.

Out of Town

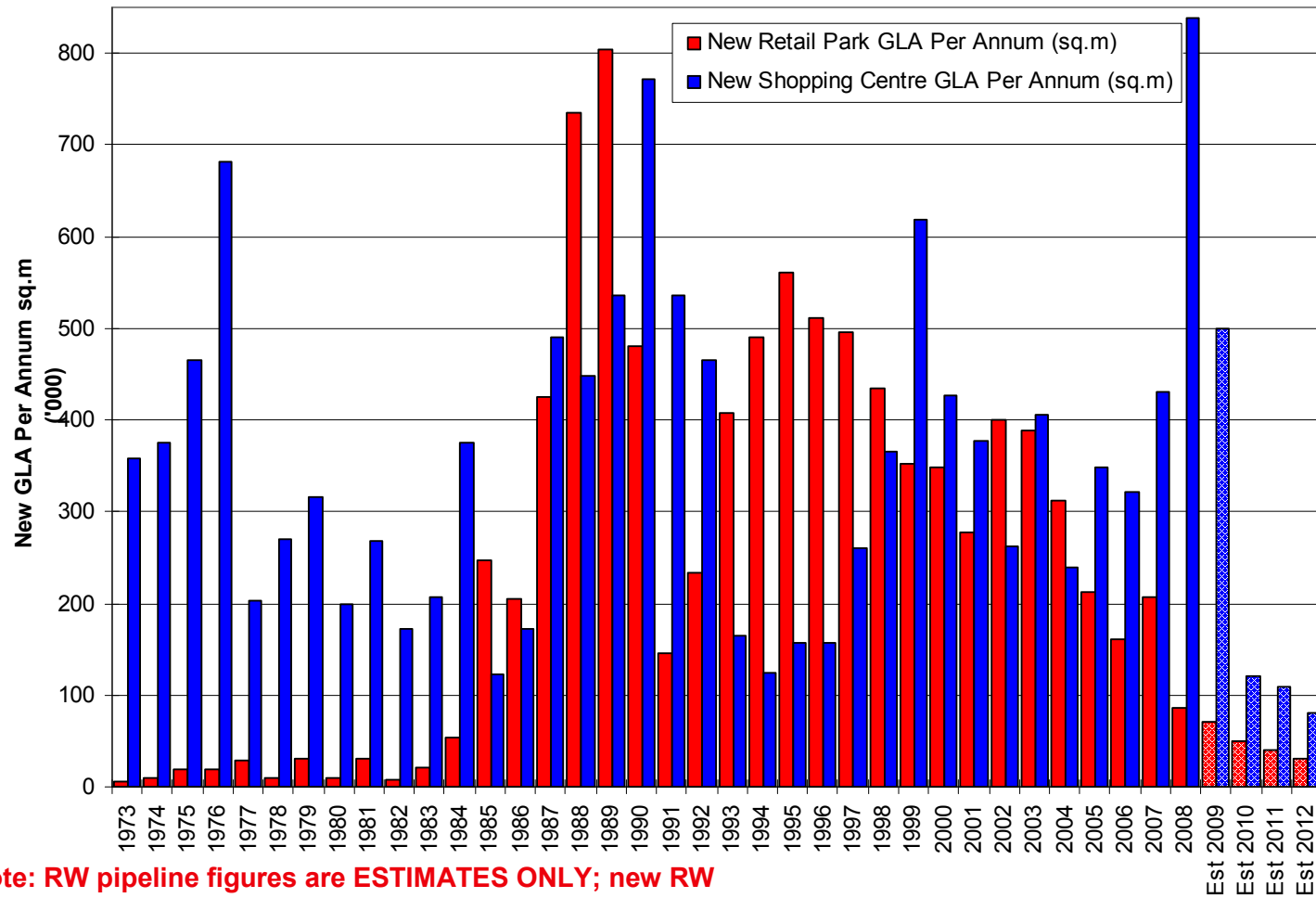
Bathstore
Best Buy
Boots
Dreams
Dunelm
Halfords
Hobbycraft
JD
JLP
Maplin
Morrisons
Mothercare
M&S
New Look
Next
Peacocks
Pets at Home
Wren Kitchens
Asda
Sainsburys
Tesco
Waitrose



Occupational Market – Supply side in town



New Retail Park v Shopping Centre Floorspace by Year ('000 sq.m)























Note: RW pipeline figures are ESTIMATES ONLY; new RW development set to average around 50,000sq.m per annum.

Source: TW Associates/ Cushman & Wakefield

Rental Growth Outlook – Out of Town v In Town

- Further rental falls are anticipated in 2009 across most parts of the retail market.
- Food stores should however continue to buck the wider negative trend, with most of the major operators continuing to trade well and demand for new stores being maintained.
- The bulky goods sector is highly dependent on a recovery in the housing market, which seems unlikely in the short term as house prices continue to fall and difficult trading conditions persist.
- The outlook for open consent schemes looks more optimistic, given the greater diversity of the tenant base and the probability that the general retail market will see a recovery before the bulky goods sector.

Sector	2008	2009	2010	2011
High Street				
Shopping Centres				
Open Consent RW				
Bulky Goods RW				
Foodstores				

Looking Ahead....

- ❖ **Retailer Stability**
 - ❖ Challenging, but stabilising
 - ❖ Further smaller casualties both in and out of town
 - ❖ Growth in some subsectors
- ❖ **Rents and voids**
 - ❖ Incentives at their largest across the board
 - ❖ Rents continue to soften
 - ❖ 2009/2010 the low point in both sectors
- ❖ **Pricing Changes**
 - ❖ Out of town yields hardening
 - ❖ Shopping centre clarity on pricing around the corner
 - ❖ Widening of the yield gap
- ❖ **Distressed Selling**
 - ❖ Banks and REITs recapitalised – what distressed selling
 - ❖ Covenant breach sales emerging
- ❖ **Buying Opportunities**
 - ❖ Out of Town very limited liquidity
 - ❖ Shopping centres – increasing liquidity

The Answer - Buy Out of Town	2009
Buy In Town	2010 onwards





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