TRENDS IN RETAIL PROPERTY

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Agenda

- **Prospects for 2011**
- 2010 performance
- Occupational and investment markets

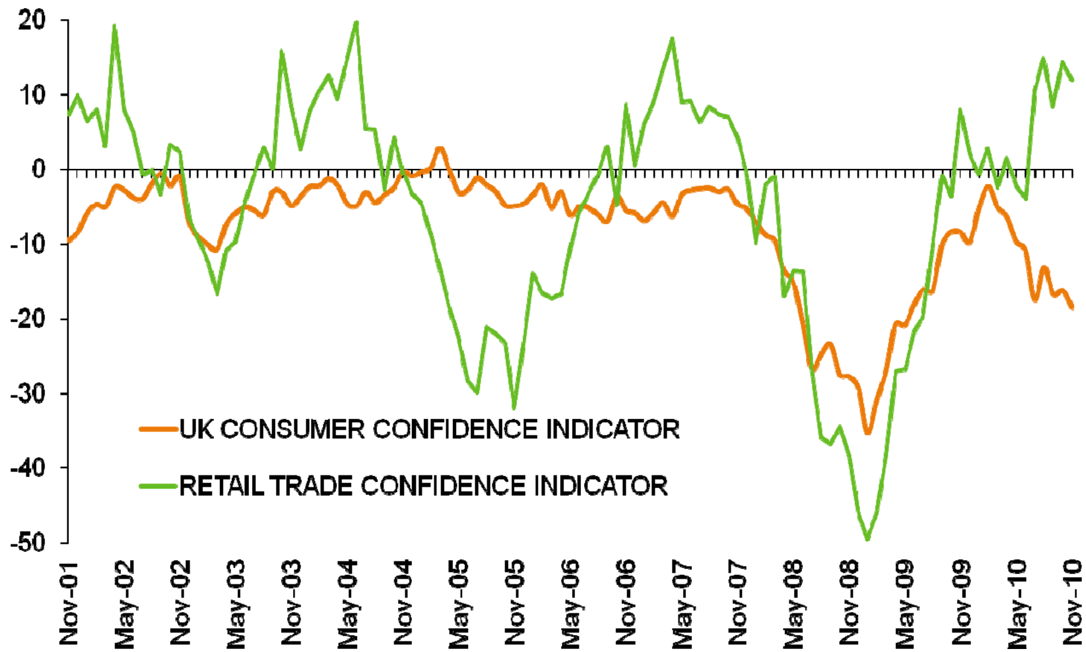
- **Shortening lease terms**
- A continuing trend

- **The rise of the turnover leases**
- Full spectrum of lease structures

- **What does this mean for asset valuations – premium or discount?**

Consumer and Retail Confidence

November 2010



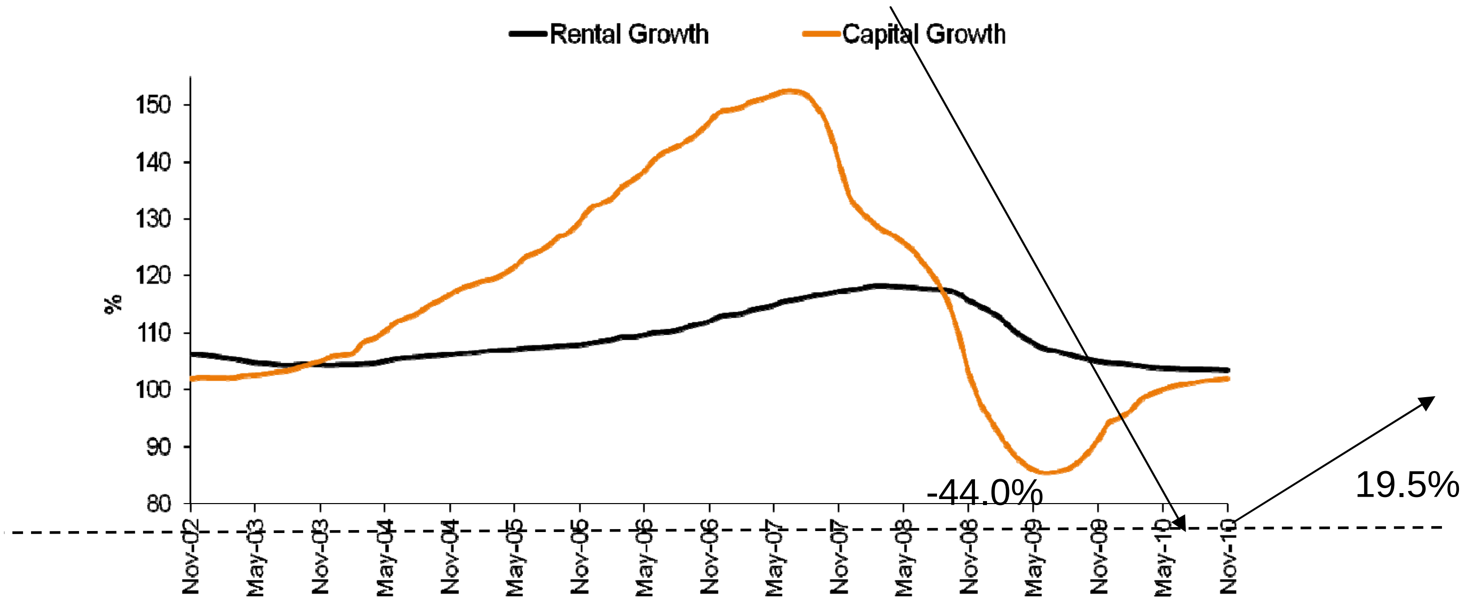
Source: EcoWin, DGECFIN

Occupational Market 2011 - Challenges

- VAT
- Fiscal Environment post CSR
- Commodity prices
- Emergence of a North South divide
- Power of the supermarkets
- But limited new supply pipeline…..

All Property Capital and Rental Growth

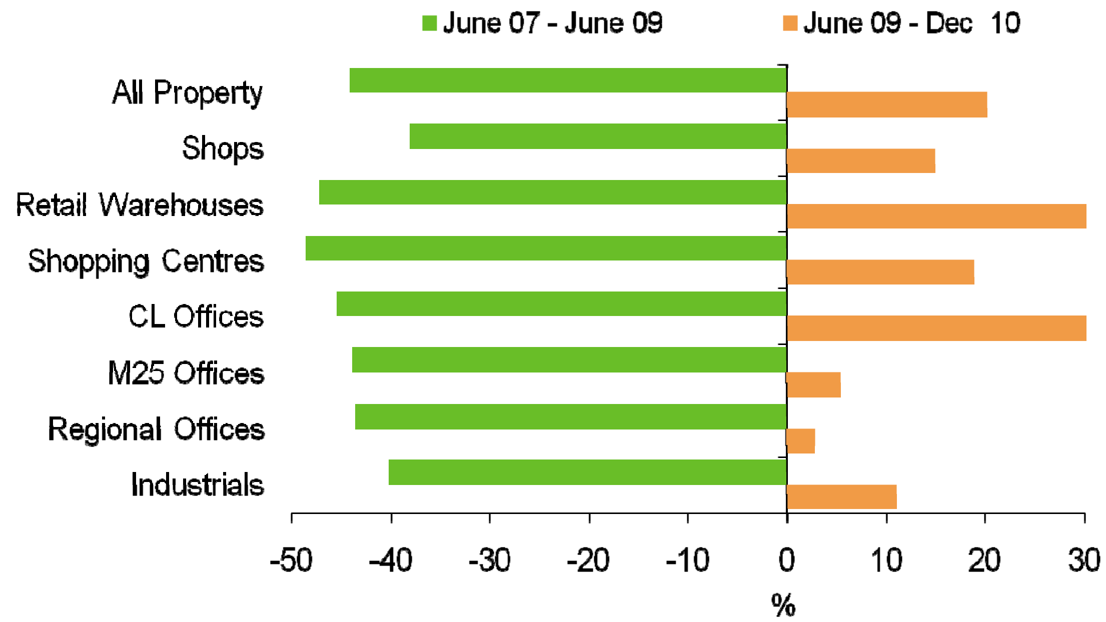
End November 2010



Source: CB Richard Ellis Monthly Index

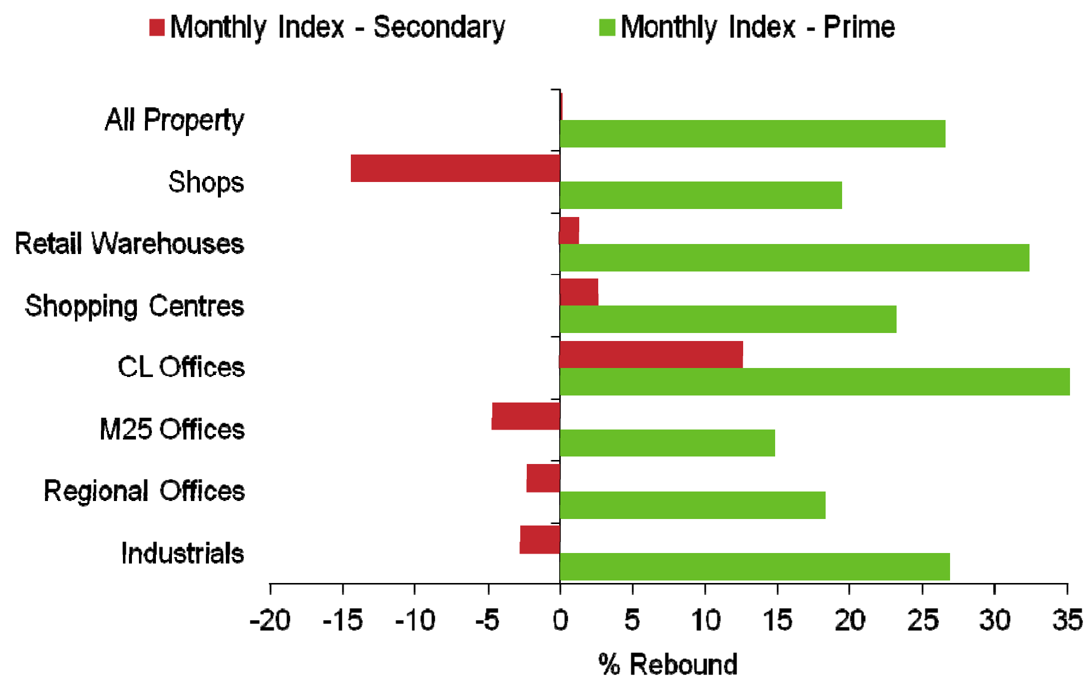
CBRE Monthly Index Value Rebound, %

Peak to trough and rebound



Source: CB Richard Ellis

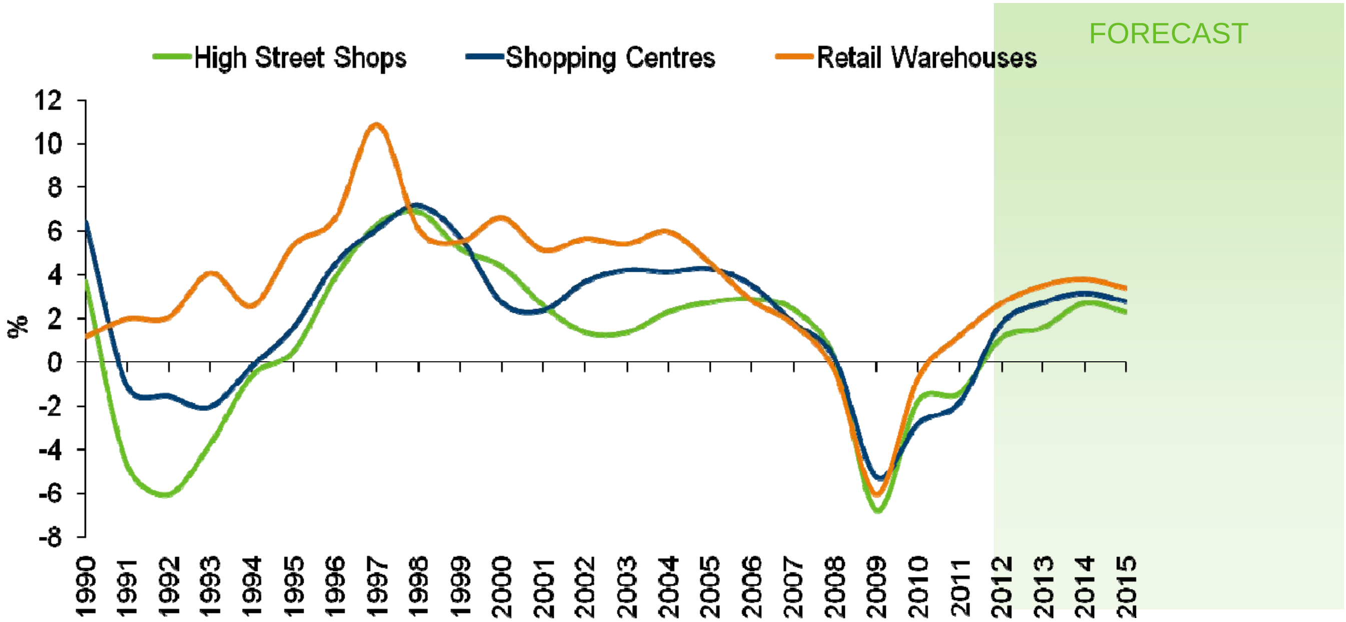
Capital Value Changes: Prime vs Secondary



Source: CB Richard Ellis Monthly Index

2011 Falling Rents..

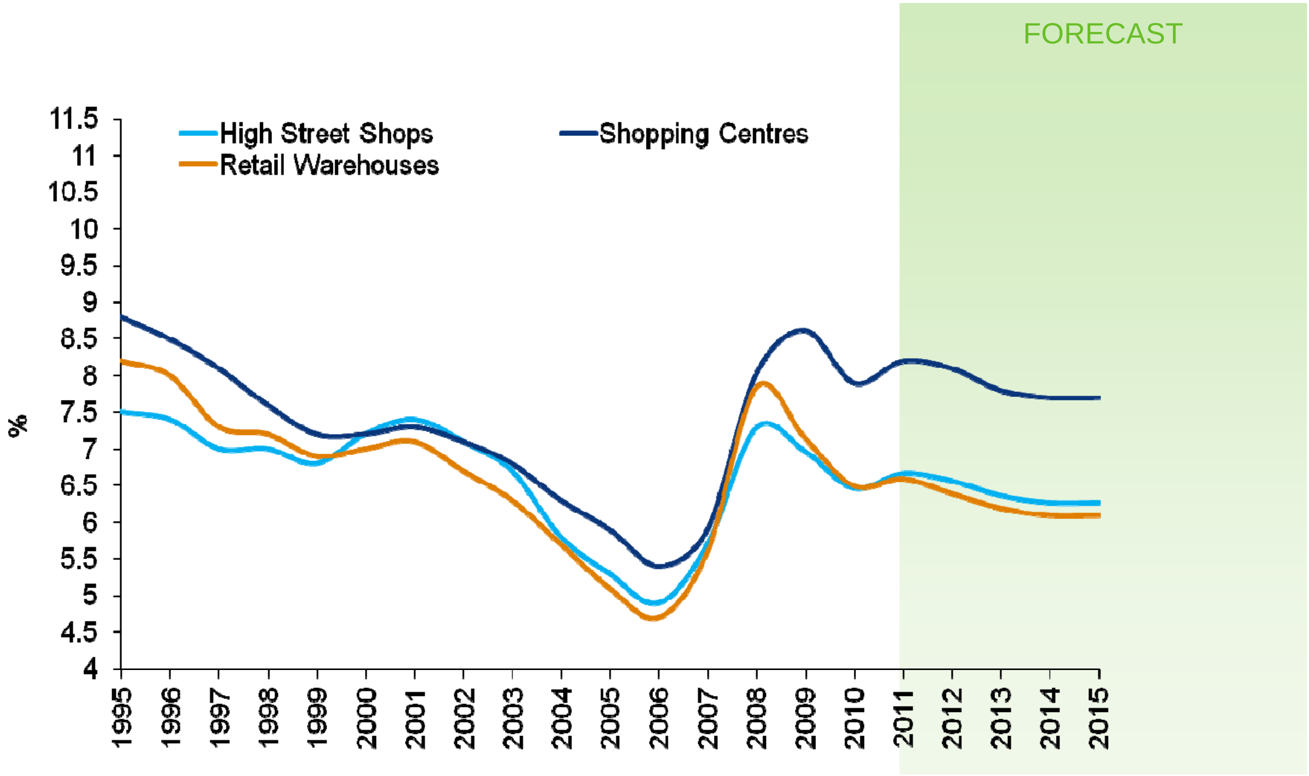
Q4 2010



Source: IPD, CB Richard Ellis

Retail Yields Flat?

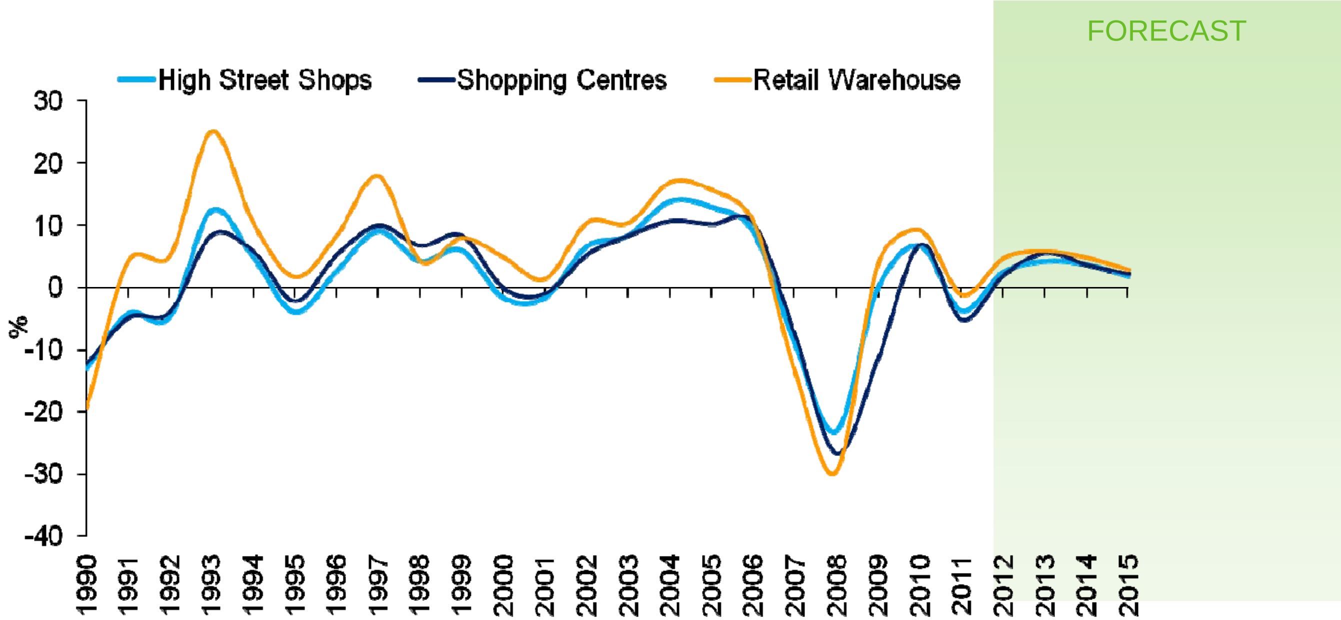
Q4 2010



Source: IPD, CB Richard Ellis

Retail Capital Growth Muted but positive

Q4 2010



Source: IPD, CB Richard Ellis

Shortening leases

BPF / IPD Annual Lease review

- 42,549 leases in sample
- 5,162 leases in year to March 2010

	Equally Weighted – lease length (years)		Weighted By Rent – lease length (years)	
	1999	2010	1999	2010
All Retail	10.5 years	6.0 years	14.3 years	8.6 years
Unit Shops	12.4 years	7.7 years	16.3 years	10.0 years
Shopping Centres	13.1 years	8.1 years	15.8 years	10.5 years

Rise of turnover leases

- Pure Turnover Rent
- OMV plus turnover rent
- Base Rent (70-90% ERV) plus turnover %
- Fixed %
- Stepped %
- Ratchets
- Rent Caps
- Provisions for review of base rent / turnover %

A result of tough times?

- Threats to consumer spending
- Squeeze on retailer margins
- Uncertainty of outlook
- Tenant’s market / lack of competition for units

Valuation – Traditional drivers of investment value

- **Long leases**
- **Upwards only**
- **Covenant**
- **Security and predictability of income**
- **Prospects for growth**
- **Turnover leases generally not viewed as value accretive…**

Challenges

- Funding / valuation
- Confidentiality / Trust / Reliability of data
- Initial bargain - understanding retailer profitability/ affordability
- Evidence issues with traditional rent review process
- Management Intensive
- Alienation / keep open

Advantages

- Alignment of Landlord and Tenant interests
- Responsiveness
- Asset management
- Tenant mix
- Reduction of voids
- Understood by international retailers
- Example of Outlet Centres

Conclusions

- Trend for shorter leases will continue
- Turnover element to rents has distinct advantages for both landlord and tenant
- As structures become more widespread, valuation uncertainty will erode
- Turnover elements and flexibility in leases provides an opportunity for closer landlord and tenant relationships
- Valuers must help not hinder

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