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EXECUTIVE SUMMARY

- The UK economy has witnessed considerable improvement with BNP Paribas forecasting GDP growth of 3.4% for 2014.
- Consumer confidence reaches positive territory for the first time since March 2005.
- Retail sales increased by 3.9% compared with May 2013. Online continues to outperform the market with 15.1% growth.
- Out of town retail take up dominated by the discounters for the past 12 months.
- Discount foodstores continue to outperform the market, with the sector forecast to double in the next 5 years.
- Out of town retail investment for the first half of 2014 up 35% compared to H1 2013. BNP Paribas Real Estate anticipating significant activity for the second half of the year
- BNP Paribas Real Estate forecasting out of town investment yields to move inwards by around 25-50 bp during the second half of 2014.
OVERVIEW

- The first half of 2014 has proven to be a very successful one for the out of town retail sector. Vacancies have fallen to pre-recession levels, footfall has shown positive growth for every month of the year, investment volumes have surpassed the long term average and many of the retailers in the sector have reported very encouraging sales figures.

ECONOMY

- The outlook for the first half of the 2014 has improved markedly, with BNP Paribas forecasting GDP growth of 3.4% for the year as a whole.
- This growth continues predominantly to be driven by consumer spending, but this will likely fall going into 2015 as interest rates increase.

![UK GDP Graph](image)

- Private consumption has continued to rise, with BNP Paribas forecasting that it will reach 2.7% for 2014 and will hit 2.8% in 2015.
- Optimism from UK consumers has remained healthy, with the GfK Consumer Confidence Index reaching positive territory for the first time since March 2005. In the past 6 months, the indicator has increased by 14 points to 1. At its lowest point in July 2008, the index reached −39.

![GfK Consumer Confidence Index Graph](image)

Source: BNP Paribas

Source: GfK
OCCUPIER MARKET

- According to the ONS, during May, retail sales within the UK increased by 3.9% compared with May 2013. The amount spent online for the same period increased by 15.1%.
- The BRC Springboard footfall monitor recorded a year on year increase of 3.3% for May 2014. This was said to be down to increased purchasing of big ticket items for inside the home and televisions for the World Cup.
- Unsurprisingly the DIY and home improvement sectors have been performing well in the past 6 months. With the UK housing market surpassing its 2007 peak, with annual price growth of 11.8% in June 2014, consumption has been focused on home improvement, with Dunelm and Homebase performing well.

Other retailers who have excelled so far in 2014 have been Mountain Warehouse, who took advantage of the very wet winter and Poundland, who have continued to reap the benefits of the British public’s love of discount stores.

The out of town market has witnessed considerable movement of retailers within the last year. Once again, the discounters have been the most acquisitive in the period, making the most of remaining vacant stock from the administrations which have blighted the out of town market for the past few years.

Other stand out retailers on the acquisition trail have been Pets at Home who added 30 new stores to their portfolio and Next who added 16 out of town stores within the past 12 months.
OCCUPIER TREND: Property Implications for the Supermarket Price Wars

The UK grocery market has continued to change radically in the first half of 2014. The most significant news for the sector came in March 2014, when the mainstream grocers announced the beginning of a price war in the face of competition from the discounters Aldi and Lidl, and from Waitrose at the premium end. Recent sales increases of 22.7% and 35.9% from Lidl and Aldi respectively, alongside increased market share at the expense of the ‘Big 4’, have shown that the discounters are here to stay. With Sainsbury’s recent tie up with Netto allowing them to enter the discount arena without sacrificing their own brand, the real focus will be on Morrisons, Tesco and Asda. With massive price cuts already announced by these retailers, the challenge will be how they can deal with the threat of the discounters with their property strategies.

Value of the Discount Food Sector

<table>
<thead>
<tr>
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<th>2014</th>
<th>2019</th>
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<tr>
<td></td>
<td>£10.8bn</td>
<td>£21.4bn</td>
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Source: IGD

The supermarket price wars of the 1980/90’s triggered a period of massive floorspace expansion for the mainstream supermarket operators within the UK. However, the popularity of the hypermarket format was short lived – the shift of consumer preferences (especially within urban areas) to top up shopping has seen the focus switch to smaller convenience format shops, which also act as a convenient network for click and collect. With the exception of the premium and discount grocers who will continue with their expansion, the space race for the mainstream operators will be for the most prime and accessible sites from which they can establish convenience format stores.

In Germany, convenience format stores for the discounters already exist, so it is likely that we will soon see this exported to the UK. With Sainsbury’s recently stating that fewer than 1 in 10 of the UK population lives within a 15 minute walk of a Sainsbury’s convenience store, there is clearly room for further expansion.

Source: Kantar, Exane BNP Paribas

The other focus for the mainstream grocers moving forwards will be bringing their store portfolios into the new age. Recent admissions that no amount of price cutting will beat the discounters at their own game means that the ‘Big 4’ must look to other approaches to bring customers into their bigger stores. Tesco has already begun this strategy, earmarking 600 stores for improvement. With the UK entering more prosperous times, creating a modern, experiential shopping environment by bringing in concessions such as cafés and restaurants, to the remodelling of space to accommodate other uses such as gyms and crèches, are all options which have been mooted.

Whether the current popularity of the discounters represents genuine change in preference, or if the improving economy will see consumers drifting back towards the ‘Big 4’, their arrival has delivered sufficient impetus for considerable change for the supermarket property sector.
**INVESTMENT MARKET**

- Investor sentiment for the out of town retail market has improved massively within the opening months of 2014.
- The market has continued to surge with £1.05bn invested in the first half of 2014, which represented a 35% increase compared to the same period in 2013, although 10% of this comprised portfolio transactions.
- Open A1 parks remained the most popular with £502.2m invested within the first 6 months of the year.
- BNP Paribas Real Estate are aware of in excess of £1bn either under offer, or on the market, which will deliver impressive H2 volumes.
- We anticipate that the total out of town retail investment volume for 2014 will be over the 5 year average. Indeed, we expect the total investment volume by the conclusion of Q3 to have matched or surpassed the volume for the entirety of 2013.

**Out of Town Investment Breakdown (H1 2014)**

![Circle chart showing investment breakdown]

- 28% Bulky Goods
- 10% Fashion Park
- 7% Open A1
- 7% Portfolio
- 48% Solus

£1.05 bn

35%

(Compared to same period 2013)

Source: Property Data, BNP Paribas Real Estate

**PRIME YIELDS**

- Prime out of town yields have remained stable throughout the past half year, with the exception of both Bulky and Open A1 solus units, which have both hardened by 25 bp.
- We expect this trend to continue over the next 6 months, with yields for Fashion and Bulky parks, alongside solus units coming in by around 25 to 50 bp.
- Notable transactions within the past 6 months were the purchase of Cambridge Retail Park for £110m, Leamington Spa Shopping Park for £72m and KKR’s £52m purchase of Gallagher Retail Park in Wednesbury, who we understand have taken up the option to purchase the second half of the park for a further £49m.

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<th>Address</th>
<th>Size (000's sq ft)</th>
<th>Purchaser</th>
<th>Vendor</th>
<th>Price (£m)</th>
<th>Yield (%)</th>
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<tbody>
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<td>220</td>
<td>Standard Life</td>
<td>Deka</td>
<td>110</td>
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<td>Hercules Unit Trust/ The Crown Estate</td>
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<td>LaSalle I.M.</td>
<td>Cornerstone Real Estate</td>
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<td>5.9</td>
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</tbody>
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Source: Property Data
INVESTMENT TREND: Retail Technology - Will Retail Parks remain relevant?

The out of town retail market in the UK has witnessed a revolution within the past decade. The sector has been reshaped by waves of new technology predominantly stemming from the internet and e-commerce. With the sector now mimicking the offer of the high street, often with fashion brands replacing bulky goods retailers, the sector has become increasingly modern and dynamic. Rather than being damaged by new technology and the internet, out of town retail has emerged as an integral part of an omnichannel retail environment and will continue to be.

What changes have we already witnessed?

- Click and Collect. The most significant innovation resulting from omnichannel retailing. Retail parks have been perfectly positioned to harness sales from the channel, with their convenient locations near to transport hubs and free parking. New research from Planet Retail has forecast that the proportion of people using the service will double to 76% within the next three years. We expect footfall and sales at retail parks to further benefit from this in the future.

- Customer Service. Sellers of homogenous products such as electricals and white goods are differentiating themselves from their online competitors by providing in-store sales advisors who are knowledgeable on the sector. Whereby consumers were previously sold merely on price, retailers have recognised that customers now want more, be it through in-store customer service or after-purchase care.

- Immersive Technology. Tools are being utilised by landlords and retailers throughout the UK which blur the lines between physical and digital. In-store technology has been used as a defensive strategy against 'showrooming', whereby retailers have brought virtual fitting rooms and iPads into stores, whilst landlords have installed Wi-Fi in order to create empathy with the brand. As out of town centres tend to be in single ownership, comprehensive experiential strategies have been easier to implement.

What does the future hold?

- Beacons. Geolocation technology (pictured below) will allow retailers to track consumers within their stores using Bluetooth on smartphones. This will also allow retailers to engage with consumers by using targeted marketing campaigns and offers. In turn, the technology will aid consumers searching for products online and then locating them in store.

- Near Field Communication (NFC). This has recently been trialled by retailers such as Argos and Carrefour. Its main use will be for contactless payment using a mobile phone – by linking a phone with a bank account, transactions in retail parks will be made quicker. NFC can also be used to allow consumers to scan shelf edge product labelling to access reviews, targeted marketing offers and vouchers.

- Electronic Shelf Pricing. Rolled out by Tesco in the UK in late 2013, the technology could soon be seen in UK retail parks. The technology enables prices to be controlled from a central system, meaning that they can be adapted to demand, local preference and the pricing activity of rivals.

New technologies are radically altering retail within the UK and, as shown, retail parks are among the best placed assets to capitalise on these changes.