At a glance
UK RETAIL FOCUS
Q2 2014

INTRODUCTION

GDP increased by 0.8% in Q2 2014. The economy is now 0.2% above its pre-recession peak in Q1 2008.

The momentum in consumer confidence has continued in Q2, with GfK’s Index scoring 1 - the first time the index has been in positive territory since March 2005.

- The improved economic outlook is creating conditions in which retailers are taking steps to recover their margins.
- Strong employment growth, particularly in full time jobs, will further bolster rising confidence levels.

THE OCCUPIER MARKET

- UK retail sales have continued to impress, with Q2 2014 figures from the ONS showing a 4.5% increase compared to Q2 2013. This robust growth was made up of a 2.5% increase in food sales and a 5.2% increase in non-food sales.
- According to the IMRG Capgemini e-Retail Sales Index, consumers spent £23.1 billion online in Q2 2014, representing a 14% increase compared to the same period in 2013.
- The BRC/Springboard June 2014 footfall monitor painted a mixed picture. Out of town locations continued to be popular with a 2.4% increase compared with June 2013, the format’s sixth consecutive monthly increase. However, for the same period, footfall on the high street declined by 1.7% and footfall in shopping centres dropped by 1.2%.
- Q2 data from the Local Data Company has shown that the UK retail vacancy rate has fallen further to 13.5%.
- The low level of retailer administrations has continued into Q2, with 3 major retailers being affected in the period—La Senza, Jane Norman and Paul Simon.
- We have witnessed several new arrivals in the UK retail market in Q2 – Danish discountor Netto announced plans to re-enter the UK market with a tie up with Sainsbury’s. US fashion retailer American Eagle Outfitters has taken units at Bluewater and at both Westfield London and Stratford. Dutch value retailer Hema has signed for new stores at Victoria, Bromley and Kingston, whilst luxury card and stationery retailer Jolie Papier has taken its first UK unit at Bluewater.
- In addition, out of town retailers Carpetright and Hobbycraft have begun to seek out smaller format, high street stores within the UK. Currently around 17% of the carpet seller’s stores are on the high street, whilst it will be Hobbycraft’s first foray into the high street market.

Source: Local Data Company, Regional Retail Vacancy

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THE INVESTMENT MARKET

Total Volumes*

- Total retail investment exceeded £3bn in Q2 2014. This represented a 51% increase compared to Q2 2013. Investment into retail represented 26% of total investment into commercial real estate in the UK.
- Shopping centres remained the most invested into sub-sector, though this was largely due to Land Securities’ £656m purchase of a 30% stake in Bluewater, Kent. Another key shopping centre transaction in Q2 was Capital & Regional’s purchase of a 62% stake in the Mall Fund for £213m.
- Positive market sentiment towards prime shopping centres has remained, with yields moving inwards by 25bp.
- Although prime yields have remained relatively stable through Q2, IPD recorded its highest level of retail capital growth since March 2010, suggesting that secondary yields have been hardening through the period.
- Other key transactions within Q2 include Threadneedle’s purchase of Kensington Arcade (125 Kensington High Street) for £125m and the sale of 15/16 New Bond Street to Meyer Bergman for £112m, reflecting an initial yield of 2.21%.

PRIME RETAIL YIELDS

<table>
<thead>
<tr>
<th>Year</th>
<th>Yields (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5.3</td>
</tr>
<tr>
<td>2008</td>
<td>5.4</td>
</tr>
<tr>
<td>2009</td>
<td>5.1</td>
</tr>
<tr>
<td>2010</td>
<td>5.7</td>
</tr>
<tr>
<td>2011</td>
<td>5.9</td>
</tr>
<tr>
<td>2012</td>
<td>5.7</td>
</tr>
<tr>
<td>2013</td>
<td>5.5</td>
</tr>
<tr>
<td>2014</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Q2 2014 TOP MARKET DEALS*

<table>
<thead>
<tr>
<th>Address</th>
<th>Type</th>
<th>Size (000's sq ft)</th>
<th>Purchaser</th>
<th>Vendor</th>
<th>Price (£m)</th>
<th>Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bluewater, Kent (30% Stake)</td>
<td>SC</td>
<td>1,800</td>
<td>Land Securities</td>
<td>Lend Lease</td>
<td>656</td>
<td>4.1</td>
</tr>
<tr>
<td>The Mall Fund (62% Stake)</td>
<td>SC</td>
<td>3,000</td>
<td>Capital &amp; Regional</td>
<td>Aviva Investors</td>
<td>213</td>
<td>6.7</td>
</tr>
<tr>
<td>Cambridge Retail Park</td>
<td>RP</td>
<td>220</td>
<td>Standard Life</td>
<td>Deka</td>
<td>110</td>
<td>5.4</td>
</tr>
<tr>
<td>Leamington Spa Shopping Park</td>
<td>RP</td>
<td>220</td>
<td>Ignis UK Property Fund</td>
<td>Hercules Unit Trust/ The Crown Estate</td>
<td>72</td>
<td>4.4</td>
</tr>
<tr>
<td>Sainsbury’s Portfolio</td>
<td>SUP</td>
<td></td>
<td>Scottish Widows</td>
<td>British Land Plc / Sainsbury’s Supermarkets</td>
<td>84.1</td>
<td>n/a</td>
</tr>
<tr>
<td>Sainsbury’s, East Dulwich</td>
<td>SUP</td>
<td>89</td>
<td>M&amp;G Real Estate</td>
<td>Hermes REIM</td>
<td>68</td>
<td>3.95</td>
</tr>
<tr>
<td>125 Kensington High Street</td>
<td>UNI</td>
<td>140</td>
<td>Threadneedle Property</td>
<td>Meadow Partners</td>
<td>125</td>
<td>5.25</td>
</tr>
<tr>
<td>15/16 New Bond Street</td>
<td>UNI</td>
<td>35</td>
<td>Meyer Bergman</td>
<td>BNP Paribas Real Estate I.M. Germany</td>
<td>112</td>
<td>2.21</td>
</tr>
</tbody>
</table>

Source: Property Data (*excludes mixed use portfolios)