Q3 2014

INTRODUCTION

Expectations that GDP will grow above the long-term trend rate for the next two years is giving retailers confidence to expand.

Consumer confidence fell marginally to -2 in Q3, according to GfK’s Index. This was potentially due to consumers not seeing any personal benefit from recent GDP good news stories.

Consumer spending continues to show signs of robust improvement, and has shown quarterly growth for nine consecutive quarters.

The Bank of England has indicated that it will support household spending by maintaining the interest rate of 0.5% until real wages begin to rise.

THE OCCUPIER MARKET

- UK retail sales slowed in Q3 according to the ONS, showing a 2.9% increase from Q3 2013. With non food sales growing at 8%, this cooling down was mainly due to a fall of 0.3% in food sales.
- Online sales grew by 7% according to the IMRG Capgemini e-Retail Sales Index. Although this represented the slowest monthly rate of growth since 2010, the good news for the high street was that multichannel retailers outperformed their pure play peers. Further research also showed that mobile commerce now accounts for 36% of UK e-retail sales.
- Q3 data from the Local Data Company painted a rosy picture with the UK Retail Vacancy Rate dropping by 0.2% to 13.3%, with only two regions seeing an increase in vacancy.
- An unseasonably warm September has led to footfall declining by 0.9% according to the BRC/Springboard footfall index. Once again, out of town was the best performer, recording its ninth consecutive month of footfall growth of 0.5%. High streets and shopping centres suffered again, with drops of 9.6% and 2.6% respectively.
- There were a mere two major administrations within Q3, flooring retailer Floors2Go and Phones 4 U. The latter resulted in the closure of 362 stores. However, 200 stores have since been snapped up by rivals Vodafone and EE.
- There have been several exciting new arrivals to the UK retail market – Ultimate Outdoors, the new JD Sports outdoor format, began their rollout at Deepdale Shopping Park, Preston Inditex brand Stradivarius and Swedish fashion brand Lindex both announced plans to open in Westfield Stratford in the coming months. In Shoreditch, Ralph Lauren sub brand Club Monaco opened their first store in August.
- Decathlon are to trial a new smaller format store which will open in and around city centres. They also announced plans to open 1,000 sq ft units within town centres in order to expand their click and collect network.
- 8 of the 10 out of town former Kiddicare stores were snapped up by Next, JD and Decathlon in the largest out of town agency deal of the year. BNP Paribas Real Estate acted jointly for Kiddicare.

Source: Local Data Company, Regional Retail Vacancy

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UK RETAIL FOCUS - Q3 2014

THE INVESTMENT MARKET

Retail investment in Q3 stood at £3.6bn - a 74% increase on the amount transacted for the same period in 2013.

Overseas investment represented 37% of all retail investment versus a long term quarterly average of 19%.

Overseas capital continued to pour into the shopping centre subsector, with the purchases of a 50% share of Cabot Circus for £268m, East Kilbride for £180m and Warrington for £141.5m all involving foreign buyers. Indeed, overseas investment represented 47% of all shopping investment in the quarter.

Looking into Q4, a number of shopping centre deals are close to completion including Livingston for £220m, Fulham and Hammersmith for £270m and Brunswick for £140m. This may well lead to shopping centre transaction volumes of close to £2bn for the quarter, the highest since 2010.

Investor appetite for both prime shopping centres and retail warehouse schemes have sharpened yields by 25 and 50 bps respectively.

PRIME RETAIL YIELDS

Source: Property Data (*excludes mixed use portfolios)

Q3 2014

<table>
<thead>
<tr>
<th>Subcategory</th>
<th>% of Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets</td>
<td>33%</td>
</tr>
<tr>
<td>Unit Shops</td>
<td>20%</td>
</tr>
<tr>
<td>Shopping Centres</td>
<td>37%</td>
</tr>
<tr>
<td>Retail Warehousing</td>
<td>10%</td>
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</table>

Q3 2013

<table>
<thead>
<tr>
<th>Subcategory</th>
<th>% of Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets</td>
<td>26%</td>
</tr>
<tr>
<td>Unit Shops</td>
<td>21%</td>
</tr>
<tr>
<td>Shopping Centres</td>
<td>13%</td>
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<tr>
<td>Retail Warehousing</td>
<td>40%</td>
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</tbody>
</table>

Q3 2014 TOP MARKET DEALS*

<table>
<thead>
<tr>
<th>Address</th>
<th>Type</th>
<th>Size (000's sq ft) Purchaser</th>
<th>Vendor</th>
<th>Price (£m)</th>
<th>Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabot Circus, Bristol (50% Stake)</td>
<td>SC</td>
<td>1,287</td>
<td>AXA REIM</td>
<td>Lend Lease</td>
<td>268</td>
</tr>
<tr>
<td>East Kilbride Shopping Centre</td>
<td>SC</td>
<td>1,315</td>
<td>Orion Capital Managers</td>
<td>Delancey Estates/ RBS</td>
<td>180</td>
</tr>
<tr>
<td>Fosse Park, Leicester</td>
<td>RP</td>
<td>417</td>
<td>The Crown Estate/ Sovereign Wealth Fund</td>
<td>Foyleside Group/ Abbey Group</td>
<td>347</td>
</tr>
<tr>
<td>Parc Trostre Retail Park, Llanelli</td>
<td>RP</td>
<td>381</td>
<td>M&amp;G Real Estate</td>
<td>Stadium Group</td>
<td>156</td>
</tr>
<tr>
<td>Sainsbury's, Rustington</td>
<td>SUP</td>
<td>125</td>
<td>Undisclosed</td>
<td>Undisclosed</td>
<td>65</td>
</tr>
<tr>
<td>Sainsbury’s, Gateway Middlehaven, Middlesborough</td>
<td>SUP</td>
<td>150</td>
<td>Osprey Equity Partners</td>
<td>Urban &amp; Civic Plc</td>
<td>48</td>
</tr>
<tr>
<td>130-137 New Bond Street, London</td>
<td>UNI</td>
<td>48</td>
<td>Richemont Group/ Oxford Properties</td>
<td>Private Investor</td>
<td>300</td>
</tr>
<tr>
<td>Project Minnard Portfolio</td>
<td>UNI</td>
<td>140</td>
<td>Värde Partners</td>
<td>The Local Shopping REIT</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: Property Data (*excludes mixed use portfolios)