At a glance

UK RETAIL FOCUS

Q4 2014

INTRODUCTION

During Q4 2014, the UK unemployment rate fell to 5.8%, its lowest rate for six years, boosting the potential for increased consumer spending in 2015.

Consumer confidence fell marginally by 2 points to -4 in Q4, according to GfK’s Index. Although this is the lowest point since March 2014, the Index is 9 points higher than it was at the same point in 2013.

According to the BRC - Nielson Shop Price Index, UK shop prices fell by 1.7% in December 2014— their 20th consecutive monthly drop.

There was further good news for consumers in the final quarter of 2014, as both measures of earnings growth exceeded the rate of inflation for the first time for six years.

THE OCCUPIER MARKET

- UK retail sales returned to robust growth in Q4 according to the ONS, increasing by 5.2% compared to Q4 2013. Non food sales were bolstered by November’s Black Friday, up by 8.1%. Increased Christmas consumption resulted in a 1.2% boost for UK food sales.
- The IMRG Capgemini e-Retail Sales Index found that online sales grew 5% in December—the lowest ever recorded increase on record. This was possibly due to the effect of ‘Black Friday’, shifting sales into November. Online retail sales are now believed to represent 24% of the total market.
- The UK Retail Vacancy rate fell further to 13.2% in Q4. With the exception of London, vacancies dropped in every UK region.
- The BRC/Springboard footfall index for December was down by 0.7% compared to 2013. Out of town retail again outperformed with growth of 1.3%. For the same period, footfall in shopping centres declined by 0.1% and on high streets by 1.9%.
- Testament to the current buoyant retail climate, there were no major administrations within Q4.
- New entrants continue to explore the UK retail market – Cycle Republic, the relaunched Halfords specialist bike fascia began their rollout at Euston Tower, London. Spanish footwear retailer The Seeker has signed its debut UK store at Seven Dials, London.
- There was notable news for the in town retail sector with the announcement from Pepkor, the South African retailer, who plan to launch a new discount clothing brand into the UK. Codenamed ‘Project 50’ the retailer plans to open 50 store within 6 weeks from mid-July and will be positioned to challenge other retailers in the discount sector such as Primark and Matalan.
- Instability within the UK supermarket industry continued into Q4. Recent research from Kantar has indicated that price cuts introduced by the ‘Big 4’ to rival Aldi and Lidl are yet to gain significant traction. Each of the major supermarkets lost market share to the discounters throughout the course of the year.

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Retail investment in Q4 stood at £2.5bn, bringing the annual volume of retail property transacted in 2014 to £11.8bn - the biggest yearly sum since 2007 and considerably above the 10 year average for the sector.

Shopping centres were the biggest winner of 2014 - £5.5bn was invested in the subsector, representing 47% of all retail investment. Whilst many of the UK regional and prime centres were traded, secondary centres have also been sought after. This increase in activity resulted in yields sharpening by 50bps for prime centres and 75bps for secondary assets.

Key shopping centre deals for Q4 included Rockspring selling the Tiger Portfolio to Ellandi and Lone Star for £265m at approximately 7% and HSBC and Hines UK purchasing The Centre in Livingston for £224m.

Further shopping centre sales are expected, as banks clear out their last remaining assets and major institutions continue to upgrade their portfolios.

The supermarket sub-sector lost out in the final quarter of 2014, with investors being spooked by uncertainty in the industry. Investment was down by 65% and yields softened by 10bps in Q4.

High demand for retail warehousing was consistent throughout the year. We expect this to continue in 2015 as retail funds opt for prime out of town retail parks to make up their retail weightings and expect further yield compression in the subsector.

### Q4 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>Tiger Portfolio</td>
<td>SC</td>
<td>n/a</td>
<td>Ellandi Property Ltd / Lone Star</td>
<td>Rockspring</td>
<td>265</td>
<td>7.00</td>
</tr>
<tr>
<td>The Centre, Livingston</td>
<td>SC</td>
<td>1,116</td>
<td>HSBC / Hines UK</td>
<td>Land Securities Plc</td>
<td>224.07</td>
<td>6.40</td>
</tr>
<tr>
<td>Kingswood Retail Park, Hull</td>
<td>RP</td>
<td>130</td>
<td>Legal &amp; General IM</td>
<td>British Land</td>
<td>58</td>
<td>5.70</td>
</tr>
<tr>
<td>Gallagher Retail Park, Dundee</td>
<td>RP</td>
<td>131</td>
<td>British Steel Pension Fund</td>
<td>JP Morgan</td>
<td>41.9</td>
<td>5.75</td>
</tr>
<tr>
<td>Sainsbury’s, Dunchurch Road, Rugby</td>
<td>SUP</td>
<td>104</td>
<td>Malaysian Employees Pension Fund</td>
<td>British Land</td>
<td>59.27</td>
<td>5.02</td>
</tr>
<tr>
<td>Sainsbury’s, Castle Bridge Road, Nottingham</td>
<td>SUP</td>
<td>84</td>
<td>Malaysian Employees Pension Fund</td>
<td>British Land</td>
<td>50.13</td>
<td>4.95</td>
</tr>
<tr>
<td>48-76 St Johns Road, SW11</td>
<td>UNI</td>
<td>31</td>
<td>DTZ Investors</td>
<td>Alterity Investments</td>
<td>41.52</td>
<td>3.50</td>
</tr>
<tr>
<td>181-183 Oxford Street, W1</td>
<td>UNI</td>
<td>12</td>
<td>Emperor International</td>
<td>Cew Capital LLP</td>
<td>35</td>
<td>2.36</td>
</tr>
</tbody>
</table>

Source: Property Data (*excludes mixed use portfolios)