At a glance

UK RETAIL FOCUS

Q1 2015

INTRODUCTION

UK unemployment fell to 5.6% - its lowest rate since July 2008. We anticipate that the level will fall below 5% before the end of 2015.

Consumer confidence increased by 3 points to -4 in Q1, according to GfK’s Index. This is the highest level the index has reached for the past 13 years.

UK inflation remained at 0% in March - its lowest level since levels began. BNP Paribas are forecasting CPI for the remainder of 2015 will stand at 0.4%.

Shop prices declined at their fastest rate since records began. The BRC/Nielsen Shop Price Index fell by 2.1% in March compared to a year earlier. This was triggered by a large drop in the prices of food, resulting from the supermarket price wars.

THE OCCUPIER MARKET

- UK retail sales continued to grow in Q1 according to the ONS, increasing by 5.2% compared to the first quarter of 2014. UK retail sales have grown for 24 consecutive months - the longest period of sustained growth since May 2008.
- The IMRG Capgemini e-Retail Sales Index found that online sales in Q1 2015 grew by only 7% compared to Q1 2014. This growth is being strongly driven by mobile sales - up by 38% on the same period last year.
- The UK Retail Vacancy rate fell further to 13% in Q1. Vacancies dropped in every region of the UK, with significant falls in the South East and the North West.
- The BRC/Springboard footfall index for March rose by 0.2% - the best performance in a year. An early Easter weekend boosted footfall at out of town locations by 3.8%, whilst shopping centres recorded a healthy 0.4% rise. For the same period, footfall on high streets declined by 1.4%.
- The UK grocery sector has begun to show the green shoots of recovery, with Tesco recording 0.3% sales growth, the retailers’ strongest performance in 18 months. However, in terms of expansion, the discounters will continue to outperform - Aldi are planning on opening more stores than Sainsbury’s, Tesco and Morrisons combined in 2015.
- Whilst the majority of the news has been positive, USC and Bank Fashion both fell into administration in Q1. USC were immediately purchased by Republic, whilst Bank are remaining a going concern until a purchaser is found.
- The big news on the High Street was the sale of BHS to Retail Acquisitions Ltd. The new owners are yet to reveal their new strategy, though it is expected that several underperforming stores will be disposed of.
- The Out of Town sector is due to see significant change in the coming months - B&Q’s strategic decision to close around 60 large floorplate stores will see potential for new opportunities within the sub-sector, though the full list of closures is yet to be announced.

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Source: Local Data Company, Regional Retail Vacancy
THE INVESTMENT MARKET

Total Volumes*

- Retail investment in Q1 stood at £2.29bn, slightly above Q1 2014, but fractionally below the long run average quarterly contribution for the sector.

- Whilst shopping centre purchases did decline relative to the first quarter of 2014, they still represented just under half of investment into the sector. American private equity buyers continue to see relative value in the sub sector and appear to be targeting off prime and secondary centres.

- Orion Capital’s purchase of Telford Shopping Centre was one of the key shopping centre deals for the first quarter, paying £250m at 6.5% net initial yield.

- The high street was a beneficiary of significant investment in Q1, up by 177% on Q1 2014. Interestingly, the biggest deals in the quarter were in the Regions as opposed to Central London. L&G purchased the House of Fraser unit on Corporation Street in Birmingham for £71.4m, reflecting an initial yield of 6.8%.

- Following the purchase of British Home Stores, Retail Acquisitions purchased 12 stores from Carmen Properties, a Phillip Green controlled company, for £70 million.

- Prime retail yields largely continued on trend from Q4 2014. Supermarket yields moved out by 10bps, whilst the weight of money chasimg prime shopping centre stock sharpened yields by 25bps to 4.75%.

Q1 2015 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>Fulham Broadway</td>
<td>SC</td>
<td>196</td>
<td>Malaysian Employees Pension Fund</td>
<td>William Ewart Properties</td>
<td>270.5</td>
<td>5.00</td>
</tr>
<tr>
<td>Telford Shopping Centre,</td>
<td>SC</td>
<td>999</td>
<td>Orion Capital</td>
<td>Ares Management LP</td>
<td>250</td>
<td>6.50</td>
</tr>
<tr>
<td>Rushden Lakes Shopping Park,</td>
<td>RP</td>
<td>350</td>
<td>The Crown Estate</td>
<td>LXB Retail Properties Plc</td>
<td>70</td>
<td>4.65</td>
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<tr>
<td>Rushey</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tower Retail Park, Crayford</td>
<td>RP</td>
<td>150</td>
<td>TIAA Henderson</td>
<td>Aberdeen Asset Mgmt</td>
<td>66</td>
<td>5.1</td>
</tr>
<tr>
<td>Morisons, Morton Park, Darlington</td>
<td>SUP</td>
<td>n/a</td>
<td>Aberdeen Asset Mgmt</td>
<td>Wm Morrisons Supermarkets</td>
<td>45.03</td>
<td>n/a</td>
</tr>
<tr>
<td>Morisons, Rose Kiln Lane, Reading</td>
<td>SUP</td>
<td>n/a</td>
<td>Aberdeen Asset Mgmt</td>
<td>Wm Morrisons Supermarkets</td>
<td>42.87</td>
<td>n/a</td>
</tr>
<tr>
<td>House of Fraser, Corporation Street, Birmingham</td>
<td>UNI</td>
<td>490</td>
<td>L&amp;G Property</td>
<td>British Land Plc</td>
<td>71.4</td>
<td>6.8</td>
</tr>
<tr>
<td>Carmen Properties Portfolio (12 BHS Stores)</td>
<td>UNI</td>
<td>n/a</td>
<td>Retail Acquisitions Ltd.</td>
<td>Carmen Properties Ltd.</td>
<td>70</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Property Data (*excludes mixed use portfolios)