



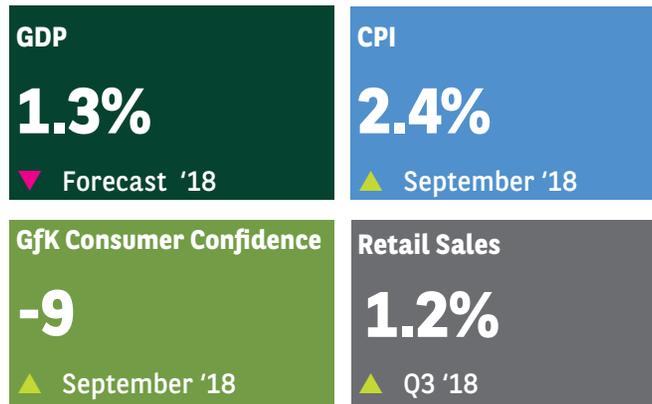
At a Glance

RETAIL FOCUS

Q3 2018

The Stats... At a Glance

RESEARCH



Source for all charts BNP Paribas Real Estate/Property Data/ BRC Nielsen/ ONS



The Retail Market

Retail continues to be the most talked about sector in the broader UK commercial markets in Q3 2018. Despite several of the broader macro indicators suggesting that the consumer sector is in a similar state of health to 2017, the media continue to highlight the negative stories.

Despite inflation hitting a six month high of 2.7% during Q3, the UK consumer has continued to shop and indeed to outperform forecasts. Retail sales grew by 1.2% in the third quarter. This figure was boosted by sales of jewellery, clothes and household goods. Retail sales were likely aided by rising wages, which increased by 3.1% in the three months to August, the strongest growth seen for a decade.

Consumer confidence has also remained fairly robust, albeit still in negative territory. In September 2018, the GfK Index decreased by 2 points to -9. Brexit was firmly back on the media agenda over the past quarter, with the deadline for the deal drawing ever nearer. This has dented consumers' expectations of the state of both the UK political and economic spheres for the coming year.

High street footfall saw further decline in September, with the number of shoppers dropping by 2.2%. Shopping centres were once again the weakest performing physical retail format, with numbers of shoppers falling by 2.4%.

House of Fraser was bought out of administration by Mike Ashley in August 2018 for £90m. Along with saving some of the stores which had been earmarked for closure, Mike Ashley also sacked the entire senior management team of House of Fraser as he looks to re-position House of Fraser on the UK high street.

The seemingly relentless growth of Amazon continued in Q3. Research from The Sunday Times found that Amazon were seeking stores for its automated, checkout free grocery concept, Amazon Go. The retail behemoth has already opened four Amazon Go stores in the US. The introduction of the concept to the UK would provide further competition to both grocery convenience formats and grab and go food operators.

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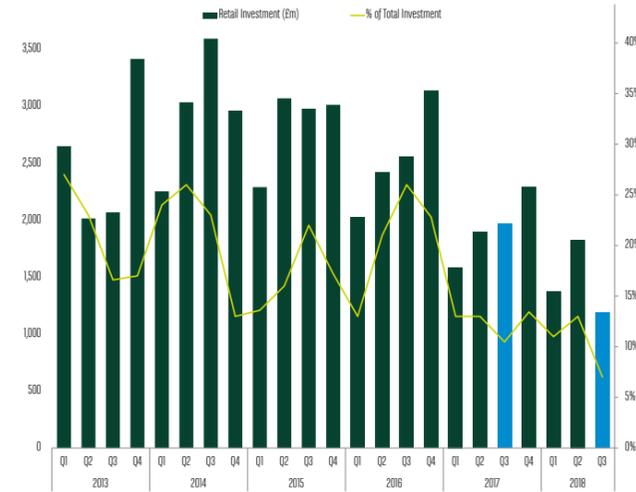


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The Investment Market



The lack of confidence in the wider retail market was realised in the third lowest quarterly investment volume since 2008. Whilst the retail warehousing segment largely held up, it is the decline in sentiment for shopping centres which has dented total investment volumes, with very little stock brought to market.

Until pricing softens sufficiently, it seems unlikely that volumes will pick up significantly, with acquisitive investors currently deploying capital in sectors which are perceived to be less risky.

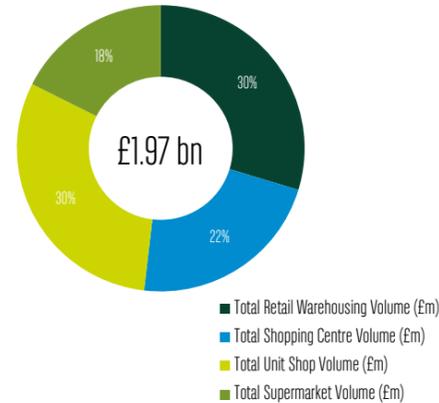
Retail Warehousing

Despite the overall retail climate, investment into the retail warehousing market picked up in Q3, with £660.2m invested, representing a 13.2% increase on Q3 2017. Retail warehousing has been less adversely affected by store closures and retailer administrations than the shopping centre sector.

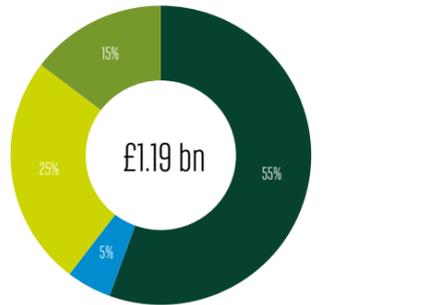
Two portfolios made up around a third of the volume in Q3. Private investor Capreon purchased two retail parks - Imperial Retail Park, Bristol and Fife Central Retail Park, Kirkcaldy from Hammerson for £164m, reflecting a NIY of 7.00%. After scrapping its plans to purchase Intu earlier in the year, Hammerson has been strategically disposing of retail warehousing and non-flagship retail assets over the course of 2018 - so far total sales stand just shy of £490m. This is expected to continue into 2019, with a disposal target of £1.1bn.

The September MSCI update painted a fairly poor picture of the out of town market, albeit slightly more rosy than the rest of the retail sector. Capital growth was negative for

Q3 2017



Q3 2018



Indicative Prime Yields (NIY)

	Q3 2017	Q2 2018	Q3 2018
Open A1	5.00	5.00	5.00
Bulky Goods	5.50	5.50	5.50

the second month in a row, with values dropping by 1.1%, compared to 1.9% in the wider sector.

Hana Financial Group's purchase of Gallagher Retail Park, Wednesbury was the largest transaction of the quarter. The deal represented the first time that a South Korean investor has bought into the UK retail sector. The 195,000 sq ft prime shopping park was purchased from KKR and Quadrant Estates who have repositioned the asset over the past 4 years.

Key Deals

Address	Price (£m)	Yield (%)	Purchaser	Vendor	Date
Gallagher Shopping Park, Wednesbury	175.00	5.25	Hana Financial Group	KKR Financial Holdings	Jul-18
Ilford Retail Park, Ilford	17.65	2.40	Montreaux Ltd	LaSalle Investment Management	Sep-18
Wickes, South Ealing Road, W5	14.50	3.99	CBRE Global Investors	LaSalle Investment Management	Aug-18

Shopping Centres

Q3 will be remembered for all the wrong reasons within the shopping centre investment market. The total volume of £62.5m in only three transactions represented the lowest quarterly investment into the shopping centre sector on record. Sentiment for the entire sector has weakened significantly over the past year.

The largest deal of the quarter was Talisker Realty Corporation's purchase of Wembley Central for £36.5m, which reflected a NIY of 6.00%. The mixed use scheme consists of 118,000 sq ft of retail, an 86 bedroom Travelodge and 273 residential units.

Encouragingly, the start of Q4 has seen increased activity, with Hammerson exchanging contracts on 50% of Highcross, Leicester to an Asian investor (fronted by M&G) for £236m, a 5.5% NIY. More stock has also been brought to the market, with around £400m of potential new sales in eight centres.

Key Deals

Address	Price (£m)	Yield (%)	Purchaser	Vendor	Date
Wembley Central, Wembley	36.50	6.00	Talisker Realty Corporation	St Modwen Plc	Aug -18
Sovereign Centre, Weston-Super-Mare	21.00	8.50	Legal & General / North Somerset Council	Cheyne Capital	Aug -18

High Street

Sentiment for high street retail remained polarised in Q3 2018. Demand for prominent units on prime pitch in major regional cities remains strong and as such pricing has stayed robust.

PonteGadea made its second foray into the regions in Q3, once again targeting Glasgow. The property investment company owned by Amancio Ortega purchased 78-90 Buchanan Street, Glasgow for £31m, reflecting a NIY of 3.99%. The level of pricing demonstrates the strong level of demand chasing this type of prime regional stock.

A private Hong Kong investor's purchase of 41 Old Bond Street, W1 was the second transaction on London's most exclusive retail pitch in 2018. The investor paid £62.5m at a NIY of 2.70% for the 4,671 sq ft unit which is let to Cartier.

The announcement that Debenhams would be looking to close up to 50 stores over the next 3-5 years has provided further concerns for the high street market. The huge amount of floorspace potentially released within

Key Deals

Address	Price (£m)	Yield (%)	Purchaser	Vendor	Date
41 Old Bond Street, W1	62.50	2.70	Private Hong Kong	Tribeca Holdings London	Aug-18
78-90 Buchanan Street, Glasgow	31.00	3.99	PonteGadea Inmobiliaria	Lothbury IM	Jul-18
48-49 George Street, Richmond-upon-Thames	8.47	4.20	Undisclosed	Private Investor	Sep-18

Indicative Prime Yields (NIY)

	Q3 2017	Q2 2018	Q3 2018
Prime	4.50	5.00	5.00

The proposed takeover of Intu was back in the news in Q3, following Hammerson's change of heart earlier in 2018. Unfortunately, with sentiment for the shopping centre sector deteriorating, Intu's valuation fell by 3% in Q3, despite the Intu portfolio containing some of the best prime and regional centres in the UK. Additionally, it also downgraded its rental income growth forecast for 2018.

However, this fall in value is seen by others as an opportunity and there is currently a renewed bidder for Intu - consisting of Peel Group, Olayan Group (both existing investors) and Brookfield Group.

Indicative Prime Yields (NIY)

	Q3 2017	Q2 2018	Q3 2018
Prime	4.00	4.25	4.25

town centres would inevitably cause problems for many landlords who are already attempting to deal with over spacing. On top of this, it has been estimated that up to 4,000 jobs would be at risk from the embattled department store downsizing the physical element of its business.

Supermarkets

Tesco unveiled its new discount format Jack's in September, which is named after Tesco's founder Jack Cohen. The chain will be positioned to take on the ever growing threat of the German discounters Aldi and Lidl, who now boast a 13.1% market share. Tesco plans to open around 10-15 Jack's stores during 2019.

Convenience stores performed particularly strongly in the 12 weeks to 9th September, benefitting from the UK's warm weather. Aldi was once again the best performing of the supermarket sector, with sales growing by 13.9%.

Supermarket investment volumes picked up slightly in Q3, with £174.5m placed into the sector, although this is still considerably below the long run quarterly average. It continues to be the case that volumes are being repressed by a lack of stock on the market as opposed to a lack of institutional demand.

Supermarket Income REIT were back on the acquisition trail in Q3 with the purchase of a Morrisons at Hillsborough Barracks, Sheffield. The 113,000 sq ft unit was purchased for £51.7m which reflected a NIY of 4.90%. The lease on the

Indicative Prime Yields (NIY)

	Q3 2017	Q2 2018	Q3 2018
Supermarket	4.25	4.25	4.25

unit expires in 2039, with 5-yearly RPI linked reviews.

Tesco's buyback programme continued in Q3, with two sizeable transactions. Tesco Extra, Cirencester was purchased for £57m, whilst a Tesco at Stratford Road, Stroud was bought for £35m. Tesco have been buying back stores since Dave Lewis changed tack in 2014, when he strove to reduce the grocer's significant rent roll.

Key Deals

Address	Price (£m)	Yield (%)	Purchaser	Vendor	Date
Tesco Extra, Cirencester	57.00		Tesco Plc	Aviva Investors	Sep-18
Morrisons, Hillsborough Barracks, Sheffield	51.70	4.90	Supermarket Income REIT	Palmer Capital Partners	Jul-18
Tesco, Stratford Road, Stroud	35.00		Tesco Plc	Bishopsgate LT PFUT	Jul-18

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