

COUNTRY

Retail Market Snapshot

Quarter | 2016



Overview

According to the Office for National Statistics (ONS), the volume of retail sales in the UK grew by 5.2% year-on-year in January 2016, representing the fastest growth in over two years. Trading conditions have been boosted by an improving labour market, resulting from an increase in real incomes and spending power. However, despite positive economic growth, concerns about Brexit and the ongoing Eurozone crisis have had a detrimental impact on consumer confidence, which stood at zero in February and March, the lowest level since December 2014, according to GfK.

Occupier focus

The retail occupational market remained strong in Q1 2016 and vacancy rates have started to fall as a result. Furthermore, the total UK retail footprint has been reduced. Although the quantity bought in textile, clothing and footwear stores decreased compared with February 2015, on the whole occupier demand rose, led primarily by food and clothing value retailers. On the supply side, 188,000 sq m of new shopping centre space was delivered onto the market in 2015 and we expect this trend to continue during 2016-2017, with 330,000 sq m of shopping centre space currently under construction.

Investment focus

UK funds and institutions, as well as overseas private equity investors continue to show strong appetite for shops in core locations, while there has also been greater interest for well-let units in certain second-tier markets. Demand for prime shopping centres is healthy, with several significant deals completed in Q4 2015. Investor appetite for secondary stock has waned, however, with some buyers now fully invested and others becoming increasingly sensitive to pricing and location. UK institutions and retail funds are dominating activity in the out-of-town sector, but more private equity buyers and opportunity funds have emerged and are mainly targeting attractively priced assets in second-tier and secondary locations. Prime yields are largely stable, but some high street locations may see further compression in 2016.

Outlook

Although demand for secondary locations is expected to remain selective, interest in prime space is likely to remain strong across 2016. Prime rents are forecast to remain stable, although we expect further rental growth in some of London's West End sites.

MARKET INDICATORS

Market Outlook

Prime Rents:	Stable, although further rental growth possible for the best retail assets and locations.	▼
Prime Yields:	Steady with some further downward pressure in certain parts of the market.	▲
Supply:	Sustained growth with steady development pipeline for 2016-2017.	▶
Demand:	Stronger occupier and investment demand expected.	▼

Prime Retail Rents - March 2016

HIGH STREET SHOPS	ZONE A £		€		US\$		GROWTH %	
	SQ.FT YR	SQ.M YR	SQ.FT YR	SQ.M YR	1YR	5YR CAGR		
London (City)	260	1,919	197	1,457	0.0	3.9		
London (West End)	1,500	13,027	1340	10,000	15.4	9.6		
Manchester	275	2,030	209	1,547	5.8	0.4		
Birmingham	190	1,402	144	1,080	2.7	-0.5		
Leeds	245	1,808	186	1,408	8.9	-0.4		
Cardiff	205	1,513	156	1,156	2.5	1.5		
Edinburgh	215	2,139	220	1,650	7.5	1.5		
Glasgow	280	2,786	287	2,180	7.7	2.3		

Prime Retail Yields - March 2016

HIGH STREET SHOPS (FIGURES ARE NET, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR	
				HIGH	LOW
London (City)	4.50	4.50	4.75	6.50	4.50
London (West End)	2.25	2.25	2.50	4.25	2.25
Manchester	4.25	4.50	5.25	6.75	4.25
Birmingham	4.75	4.75	5.50	6.75	4.25
Leeds	4.75	4.75	5.00	6.25	4.25
Cardiff	4.75	5.00	5.25	6.50	4.00
Edinburgh	4.75	4.75	5.00	7.00	4.00
Glasgow	4.50	4.50	4.75	6.75	4.00
RETAIL PARKS (FIGURES ARE NET, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR	
				HIGH	LOW
Park - Bulky goods	5.50	5.50	5.25	9.25	4.50
Park - Open consent	4.50	4.50	4.50	8.00	4.00
SHOPPING CENTRES (FIGURES ARE NET, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR	
				HIGH	LOW
Regional centre	4.25	4.50	4.50	7.00	4.25

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

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