



Economic Review of the Retail Warehouse and Parks Sector

June 2010

Planning policy views out-of-centre retailing as generally damaging to the success of town centres. The important role the sector plays within the economic life of the UK is subordinated to the perceived need to protect town centres. To try and ensure greater weight is given to the economic benefits provided by the sector, Accessible Retail has decided to survey annually key indicators of the growth in GDP, improvements in efficiency and competitiveness, growth in employment and investment secured by out-of-centre retailing. These data will be used in support of submissions to the Department of Communities and Local Government and the economic ministries on the direction planning policy should take.

The data included in this report have been collected by CB Richard Ellis, who have also provided the forecasts along with analysis of the interaction of trading dynamics between out-of-town and in-town retail centres, and the role out-of-town retail can play in meeting consumer demand.

For more information regarding this report, please contact:

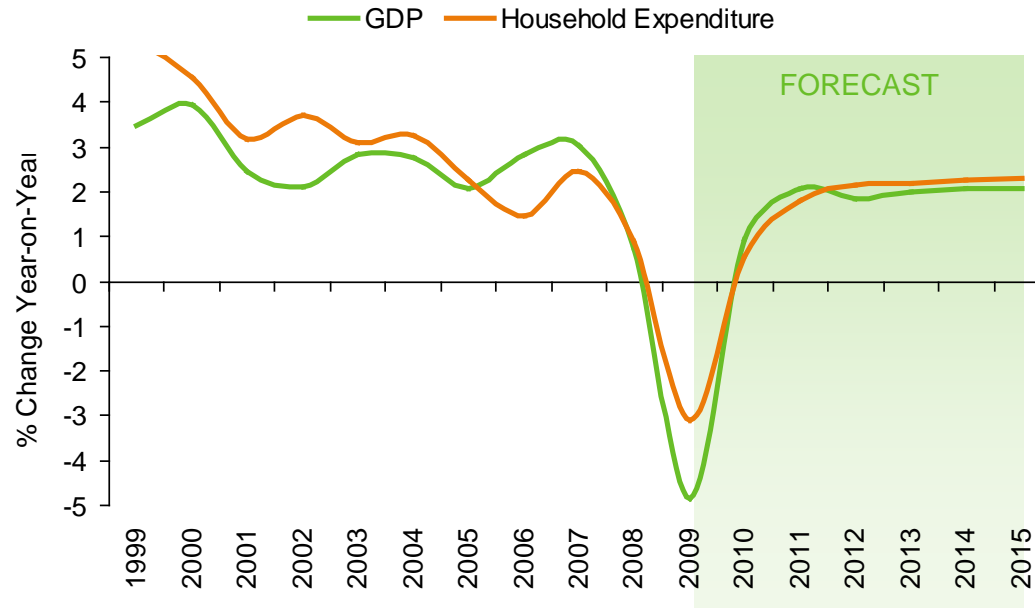
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Executive Summary

- The UK is gradually pulling out of recession, with GDP growth returning but at a far slower rate than seen previously.
- Trade confidence has returned more quickly than consumer confidence, with the latter still affected by the price of housing, low levels of mortgage approvals, potential inflation and high unemployment.
- UK consumer spending contracted sharply in 2009 but retail sales volumes held up remarkably well and have continued to show positive year-on-year growth over the early months of 2010, showing greater resilience than the recession of the 1990's.
- Spending on retail goods as a proportion of total consumer spending has trended down over the past decade in nominal terms as price inflation in services has been strong. But in real terms the reverse is true.
- Spending on bulky goods in volume terms increased more rapidly than on non-bulky goods but the housing crash will mean a sharper contraction in sales of bulky goods in the future.
- Retail productivity remains higher out-of-town compared with town centre locations, however the high productivity of supermarkets is a large contributor to this.
- Vacancies rose slightly in 2008, but the increase has accelerated sharply this year, with a 65% rise in town centre voids. Out-of-town vacancies have risen rather less sharply, by 53% and remain lower than in town centres.
- On the latest CB Richard Ellis forecasts, average rental values edge back into positive territory in 2011 across all three main retail property asset classes. Growth picks up modestly in 2012, but with relatively muted growth prospects for consumer spending and retail sales into the medium term, average rates of increase remain low.
- Out-of-town retail centres attract large proportions of shopper spend across the country, with 24.5% of spend going to these locations in total. The majority of this spend is taken by retail parks (15.8%), whilst malls (5.7%) and outlet centres (2.4%) also draw in significant levels of spend.
- Out-of-town retail centres will help meet future consumer demand due to the ease and cost-efficiency of construction. Leading retailers such as John Lewis are already taking advantage of this, developing new offers and investing in out-of-town units.

1 Economic Background

GDP Growth and Household Spending

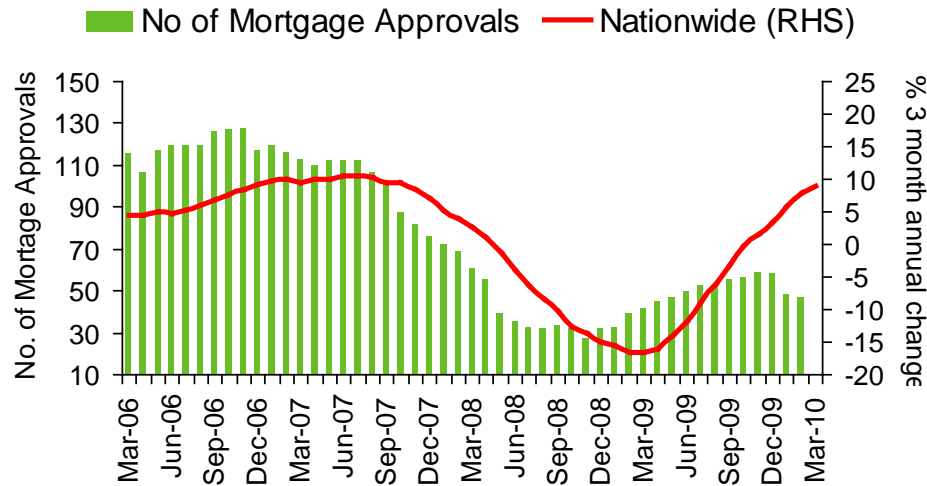


Source: Experian, CB Richard Ellis

- UK GDP was 0.2% for Q1, the 2nd consecutive quarter of positive growth. This meant that GDP has grown by 0.64% since the - 6.25% trough in Q3 2009. CB Richard Ellis forecast GDP to increase by 1.3% in 2010 and 2.4% in 2011, with an annualised forecast to 2014 of 2.4% per annum. Retail output, as a proportion of total GDP, remained flat at 5.4% in 2009.
- The headwinds now facing the consumer economy derive from the amount of debt accumulated by both public and private sectors. It must be expected that the coming fiscal squeeze, through tax rises, public sector pay freezes and job cuts, will impact on growth in consumer spending.

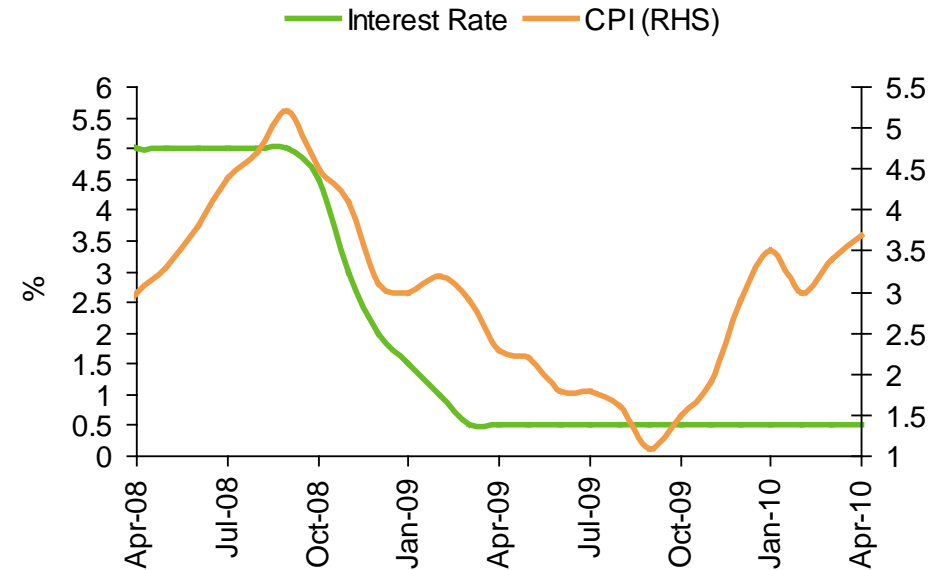
Economic Background

House Prices and Mortgage Approvals



Source: EcoWin, Bank of England, Nationwide, CB Richard Ellis

Inflation

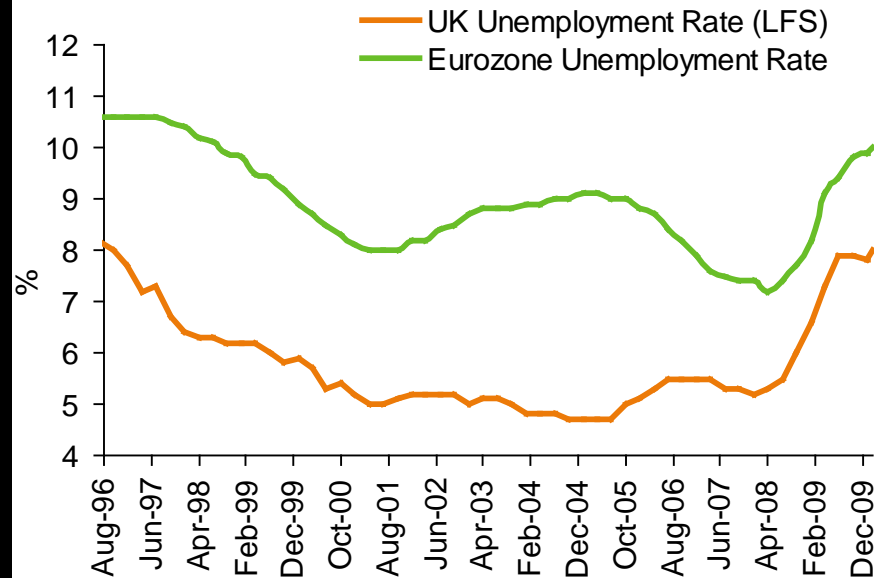


Source: Ecwin, CB Richard Ellis

- House prices have risen steadily since the start of 2009 and are now c.9% higher than the same time last year. The rise in prices being attributed, in part, to the lack of stock in the market. Activity remains low, with the level of mortgage approvals below the long term average.
- Inflation remains well above the Bank of England target rate of 2%. Significant contributors to the rise have been fuel prices (an increase of 25% over the 12 months to April), the rise in VAT, and the falling value of the pound.
- A potential positive of an effective fiscal contraction could be that any rises in interest rates will be contained and the UK can continue to benefit from historically low interest rates for an extended period. Coupled with a competitive exchange rate, this could help sustain a reasonable pick-up in economic growth over the medium term.

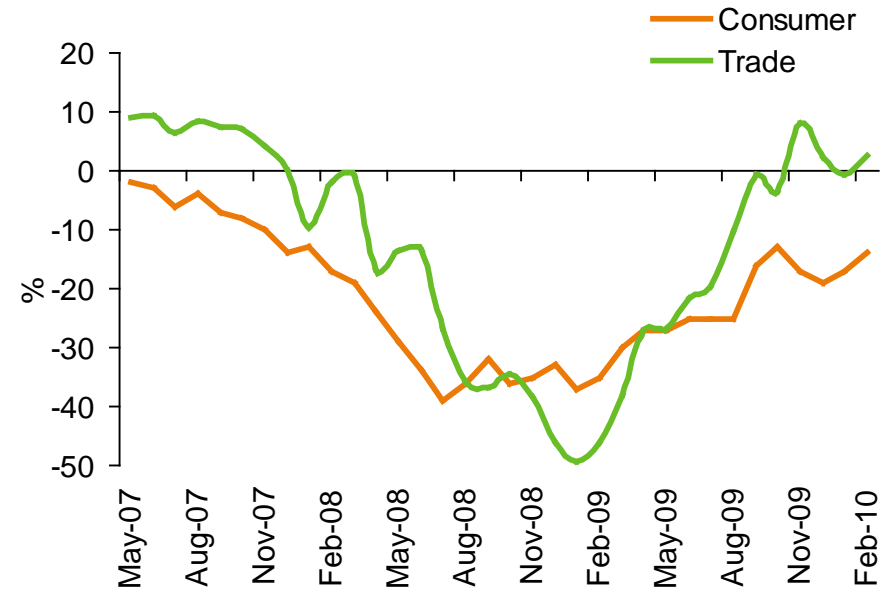
Economic Background

Unemployment



Source: Ecwin , CB Richard Ellis

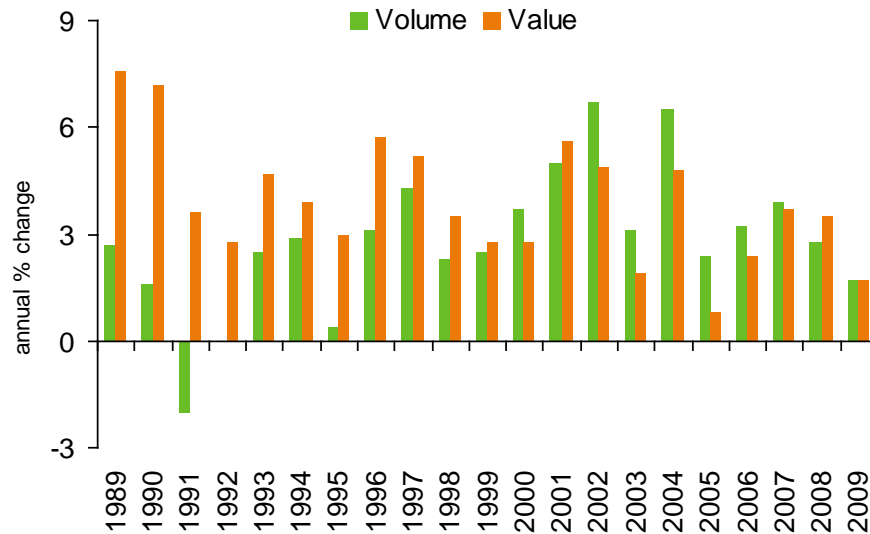
Consumer Confidence



Source: Ecwin, CB Richard Ellis

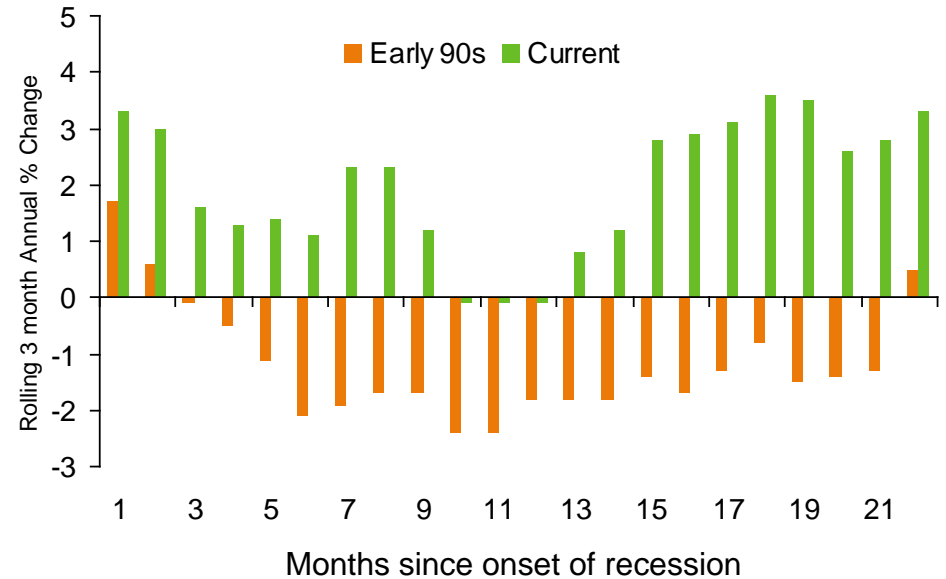
- Government spending during the recession, labour market flexibility, and avoidance of job reductions in the public sector have helped to contain the rise in unemployment. The current rate of 8% is below the level in both the Eurozone and US. So far the public sector has been shielded from significant cutbacks and redundancies, this will not be the case going forward.
- While trading conditions have been far from easy for many retailers, the UK retail sector overall might be said to have benefited from a “phoney recession” so far. While the economy as a whole is hesitantly emerging from recession, with positive output growth in Q4 2009 and Q1 2010, the resilience of the retail sector looks set to be seriously tested going forward.

Retail Sales: Annual Change



Source: ONS (excludes fuel sales) , CB Richard Ellis

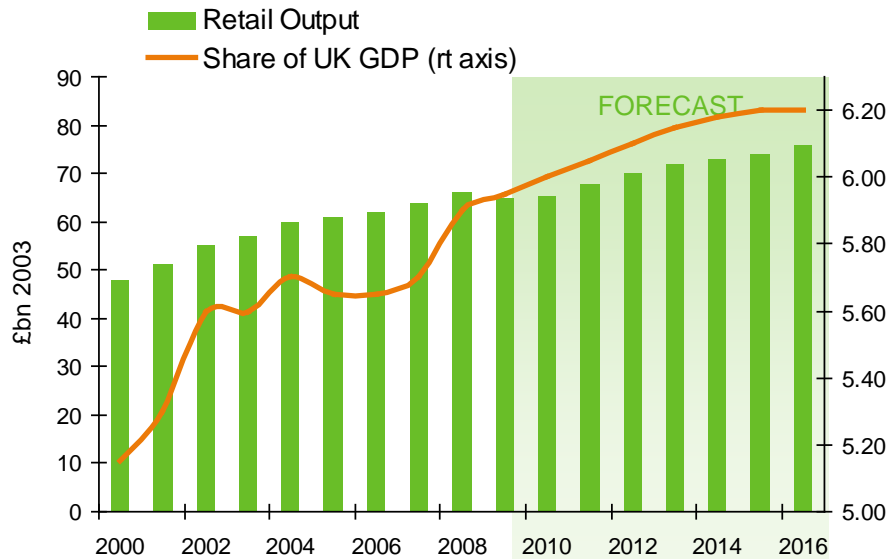
Comparison With Previous Recession



Source: ONS (Sales Volume, excludes fuel sales), CB Richard Ellis

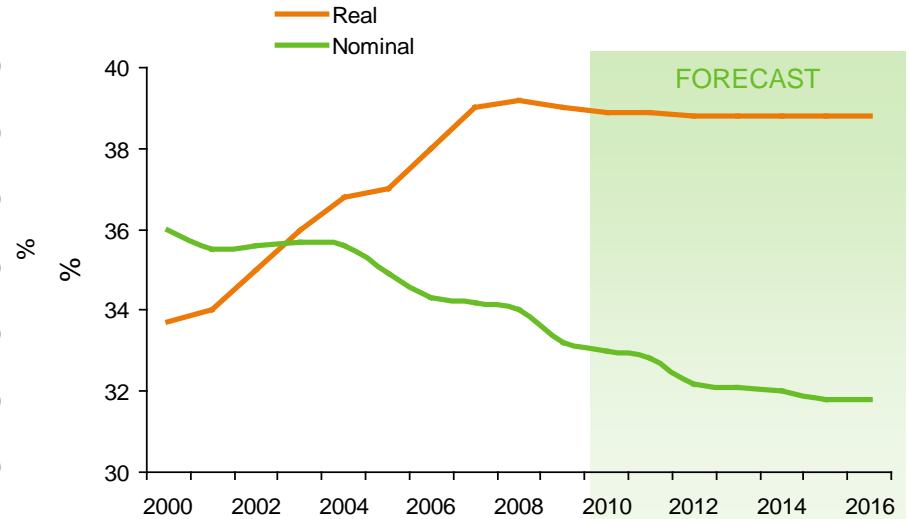
- UK consumer spending contracted sharply in 2009 but retail sales volumes held up remarkably well and have continued to show positive year-on-year growth over the early months of 2010.
- The comparative resilience of retail sales volumes in the recession of 2008/09 is in marked contrast to the experience in the early 1990s downturn. This could be explained by a number of factors: mortgage rates at record lows; the cut in VAT in 2009; 'quantitative easing'; a relatively contained rise in unemployment, helped by labour market flexibility, and avoidance of job reductions in the public sector.

Retail Output



Source: Experian, ONS

Spending on Retail Goods as a Proportion of Consumer Spending

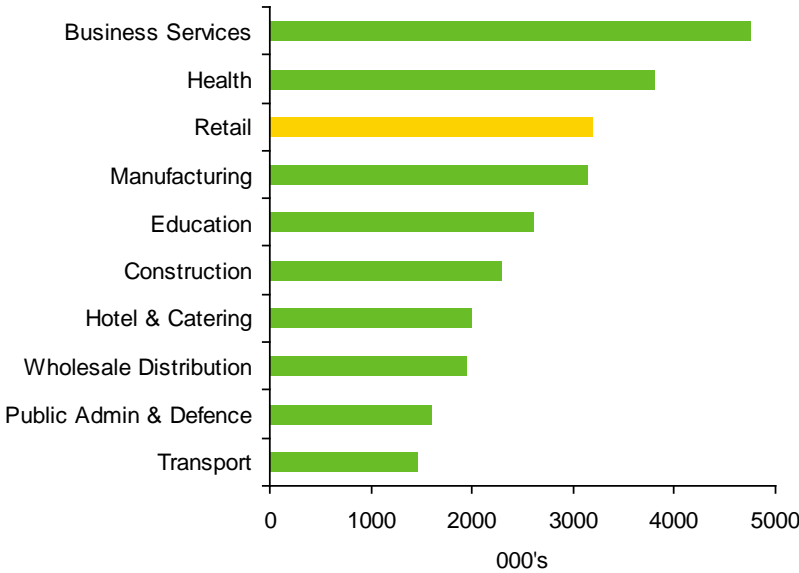


Source: Experian, ONS

- Retail output, boosted by the credit-fuelled boom, increased its share of UK GDP from 5.2% in 2000 to an estimated 6.0% in 2008. This buoyant phase has ended and pressures on consumer spending in the short to medium term are anticipated to subdue growth going forward.
- Spending on retail goods as a proportion of total consumer spending has trended down over the past decade in nominal terms. But in real terms, the reverse is true. We expect the declining share of retail spending in nominal terms to continue over the next few years but at more modest pace.
- The increasing share of retail within total spending in real terms is expected to level off as the credit-fuelled retail boom ends and retail expenditure grows at a more subdued pace.

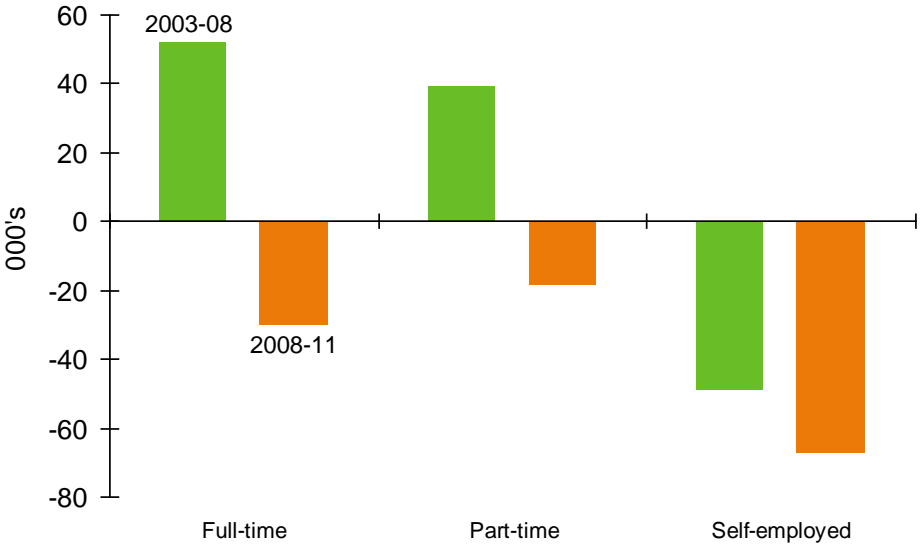
Retail Employment

Employment in Top 10 Sectors



Source: LFS

Employment Change in Retail



Source: Experian, ONS

- The retail sector accounts for 10% of the total UK employment, outranked only by business services and health. Part-time employment remains the largest component, accounting for 53% of the total retail workforce, up from 51% in 2000.
- The current recession will see numbers employed declining from their 2008 peak. The largest decline in employment in the sector will be among the self-employed, where the long-term contraction continues. Small retailers, with limited financial resources to withstand the recession, will see reductions in staffing levels
- Full-time job numbers will also shrink appreciably as employers focus on part-time staff with more flexible working terms..

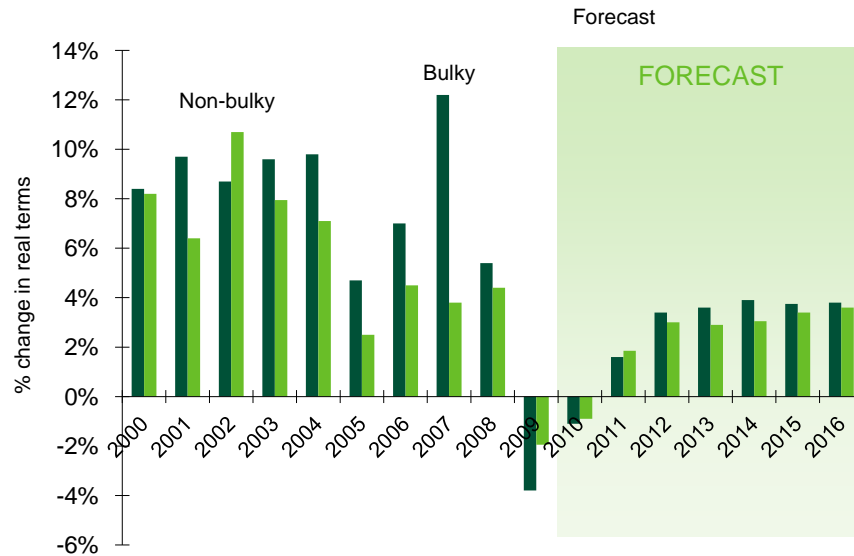
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Retail Trends

Bulky and Non-Bulky Goods

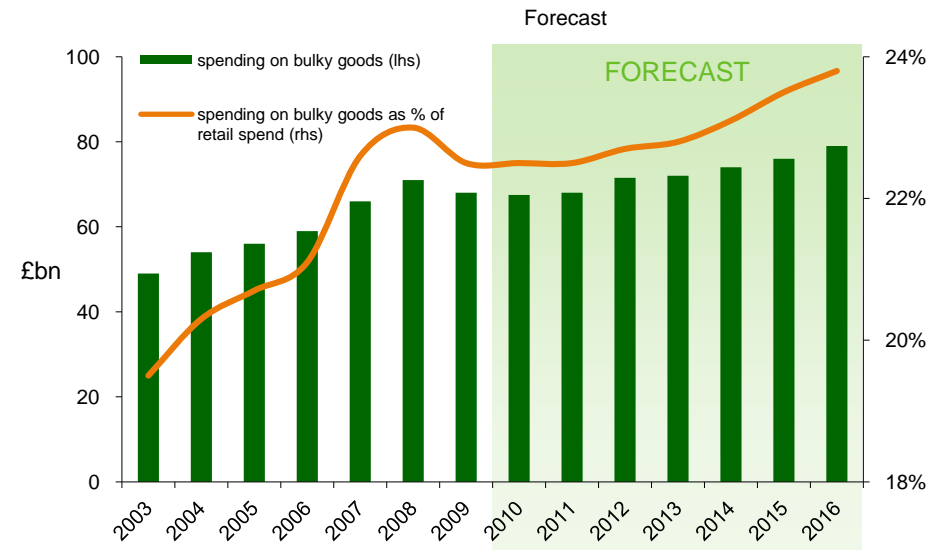
Spending on bulky and non-bulky

Spending on bulky and non-bulky goods (volume)



Source: ONS, Experian, CB Richard Ellis

Spending on bulky goods (2003 prices)

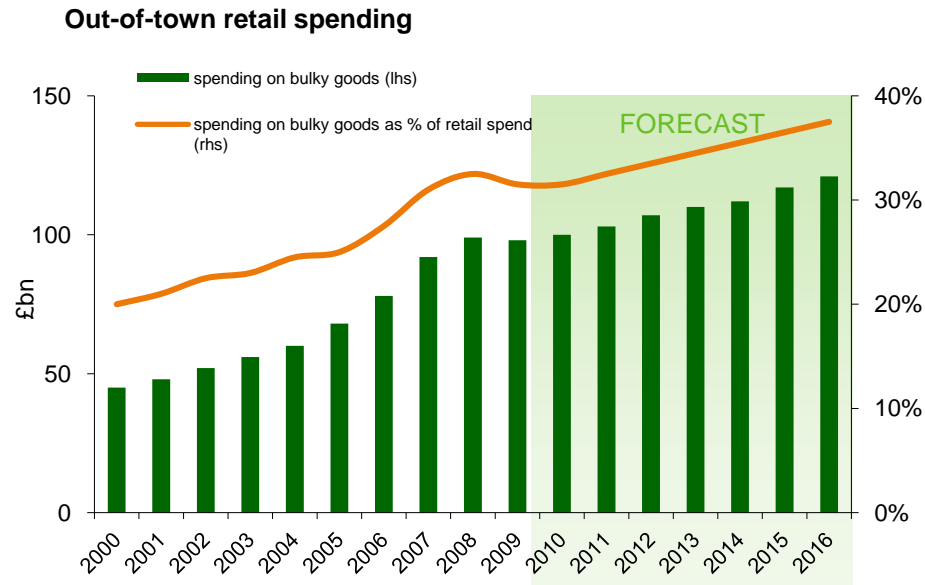


Source: ONS, Experian, CB Richard Ellis

- Spending on bulky goods in volume terms increased more rapidly than on non-bulky goods most years between 2000 and 2008, powered by the strong housing market. The housing and consumer spending crash since 2007 has meant a sharper contraction in sales of bulky goods than for non-bulky goods.
- Conditions for bulky goods will remain subdued in 2010, and 2011 sees only a mild upturn. Thereafter, we expect a gradual revival in the housing market to underpin slow growth in bulky items.
- Spending on bulky goods, typically sold through out-of-town town retailers, increased its share of total retail spending strongly in the five years to 2008. The slump in the housing market will reverse this trend in 2009, and there will be little change in 2010 and 2011. The revival in the housing market, assuming it is maintained, will result in a modest expansion in the proportion of spend accounted for by bulky goods.

Out-of-Town Spending & Supply

Share of out-of-town retail spending will fall, then rise modestly



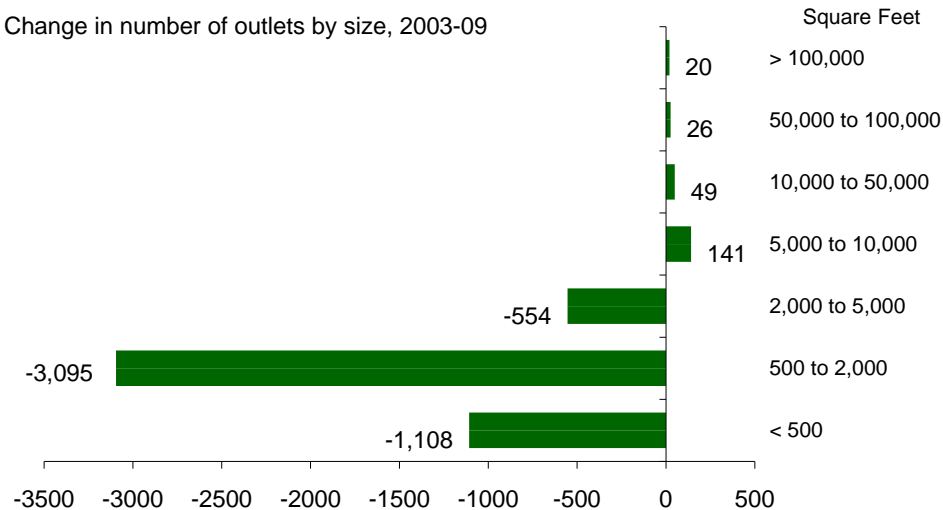
Source: ONS, Experian, CB Richard Ellis

- Out-of-town retail spending has risen strongly since 2000, with sales up from £43bn to over £100bn in 2009 (at 2003 prices).
- Prior to the recession town centre development dominated as cities increasingly sought to regenerate. Large amounts of new retail space in several major city centres – including Bristol, Cardiff and Liverpool – became operational.
- Since 2007 the shopping centre and retail warehouse pipelines have contracted markedly. However, the development time and cost of the latter could shift the balance of development back towards the retail warehouse sector.

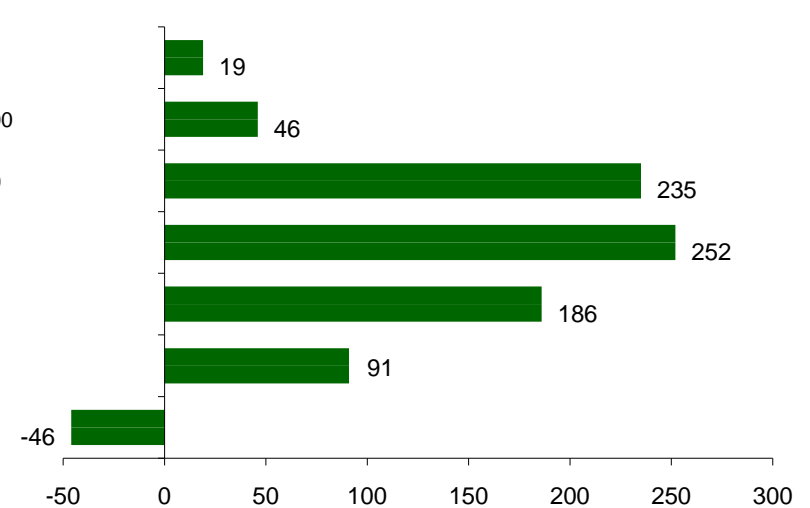
Number of outlets out-of-town has increased while in-town has seen a sharp decline in smaller units

In-town retail outlets

Change in number of outlets by size, 2003-09



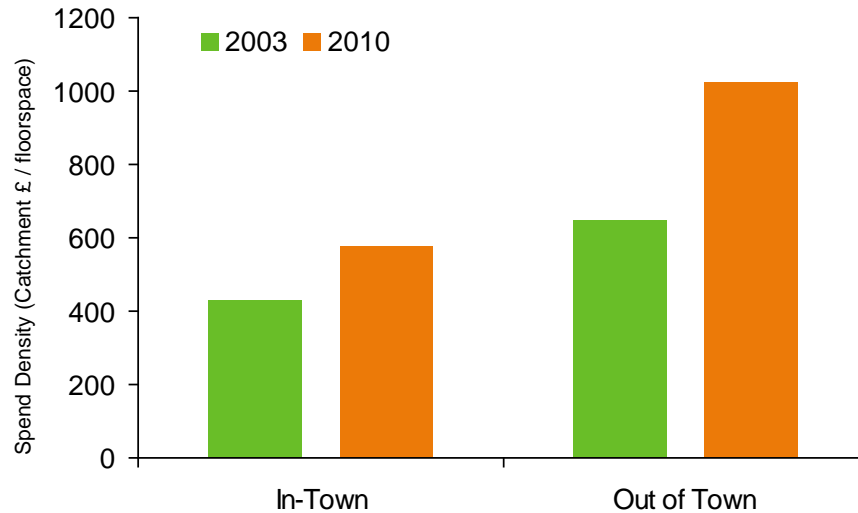
Out-of-town retail outlets



Source: Experian, CB Richard Ellis

- In town centres there has been a significant reduction in smaller units as many become obsolete for modern retailing purposes
- Out of town, total units numbers have increased with significant growth in larger unit sizes
- The need for larger units means that out-of-town schemes will thrive once consumer confidence and spending returns, as the access to cheaper space means that these locations will be able to provide retailers with the type of outlet they require.

Productivity In-Town vs Out-of-town



Source: CB Richard Ellis

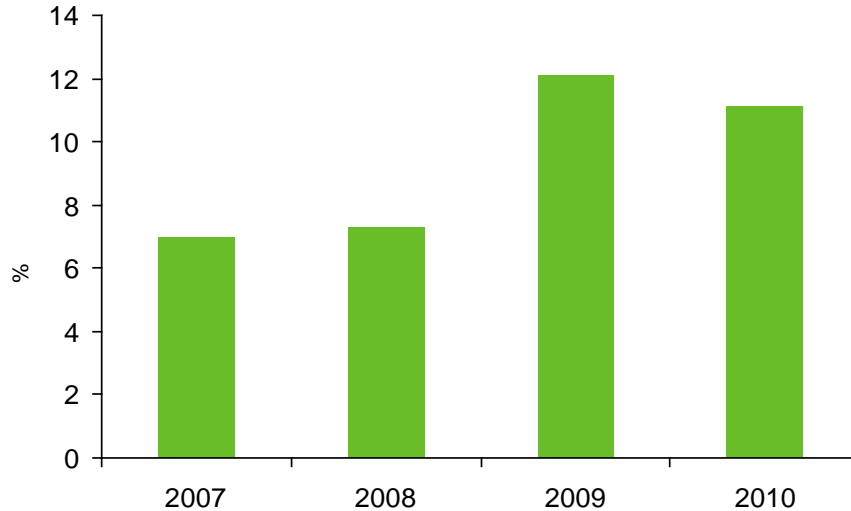
Retail Productivity



Source: Experian, ONS, CB Richard Ellis

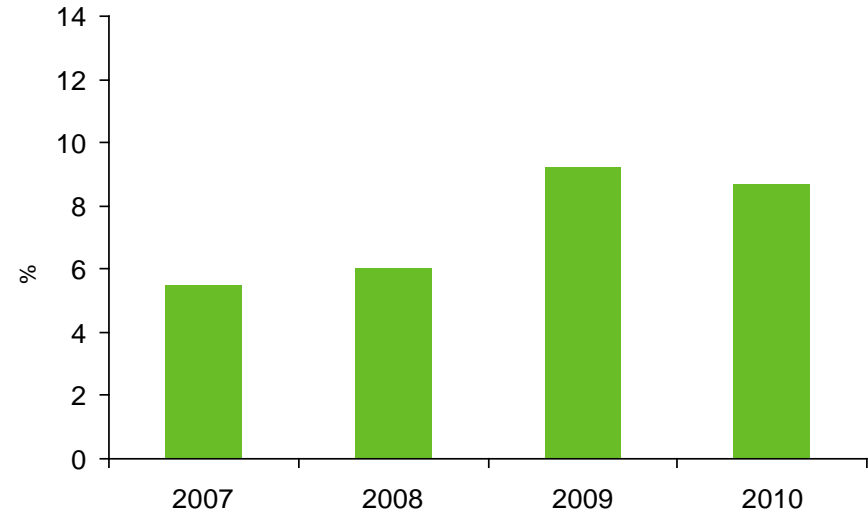
- Retail productivity remains higher out-of-town than town centre locations, however the high productivity of supermarkets is a large contributor to this.
- Productivity in out-of-town locations was 27% higher than in town centre locations in 2003. This will increase even further to 2010, despite the relative fall in non-bulky goods spending compared to bulky goods spending.

Vacancy Rate In-Town



Source: Experian, CB Richard Ellis

Vacancy Rate Out-of-Town

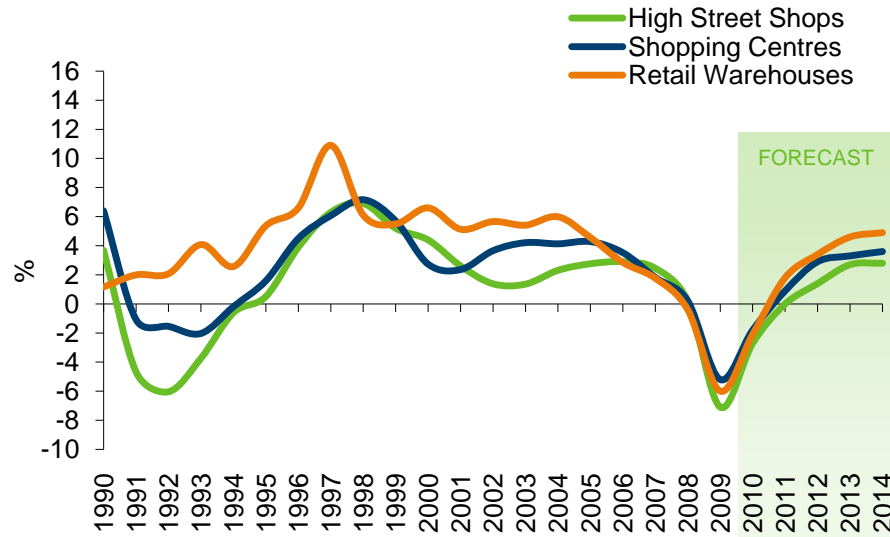


Source: Experian, CB Richard Ellis

- Vacancies rose slightly in 2008 and accelerated in 2009. It is forecast that vacancy rate will fall back in 2010, particularly in primary locations
- Out-of-town, vacancies have risen rather less sharply and remain lower than town centre locations
- Whilst rising vacancy rates remain a problem the majority of this stock is still in the secondary and tertiary trading locations.
- To illustrate; IPD record void levels as a % of total units and as a % of total rental value. The value of the voids by the rental value measure is well below total vacancy percentages, implying that the space affected is of lower than average quality.

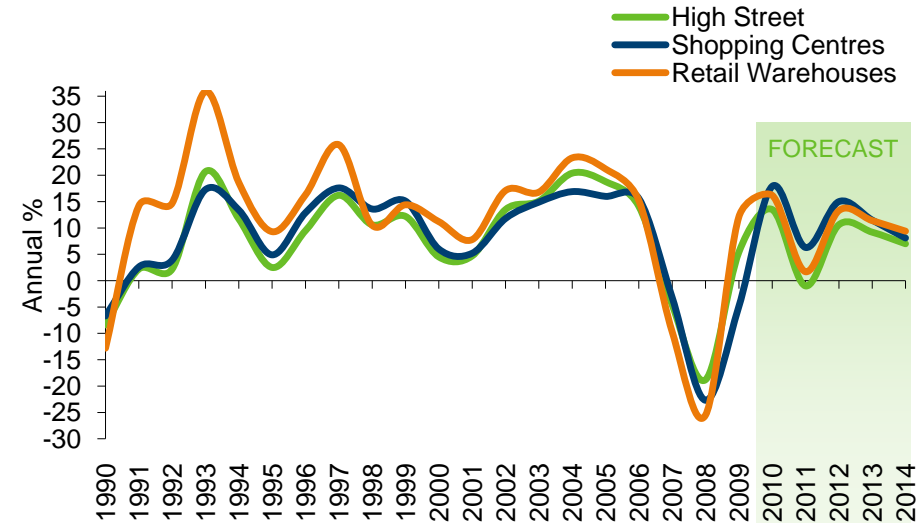
Property Performance

Rental Growth



Source: IPD, CB Richard Ellis

Total Return



Source: IPD, CB Richard Ellis

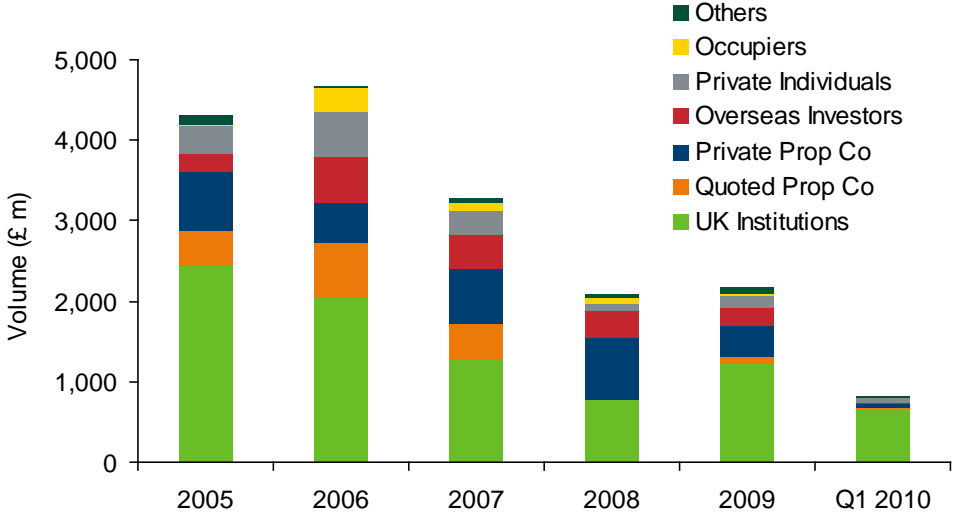
- As with the wider commercial property market, the retail sector witnessed a substantial and rapid re-pricing of assets. The pace of decline has been matched by the speed of the recovery. To date, retail warehouses have seen capital values rise by 28% since July 2009. Shopping centres and standard shops have risen by 16% and 12% respectively (CB Richard Ellis Monthly Index).
- On the latest CB Richard Ellis forecasts, average rental values edge back into positive territory in 2011 across all three main retail property asset classes. Growth picks up modestly in 2012, but with relatively muted growth prospects for consumer spending and retail sales into the medium term, average rates of increase remain in low single digits. Occupational demand pressures will vary significantly by location and asset type, with differential impacts on rental growth.

Investment by Sector



Source: Property Data, CB Richard Ellis

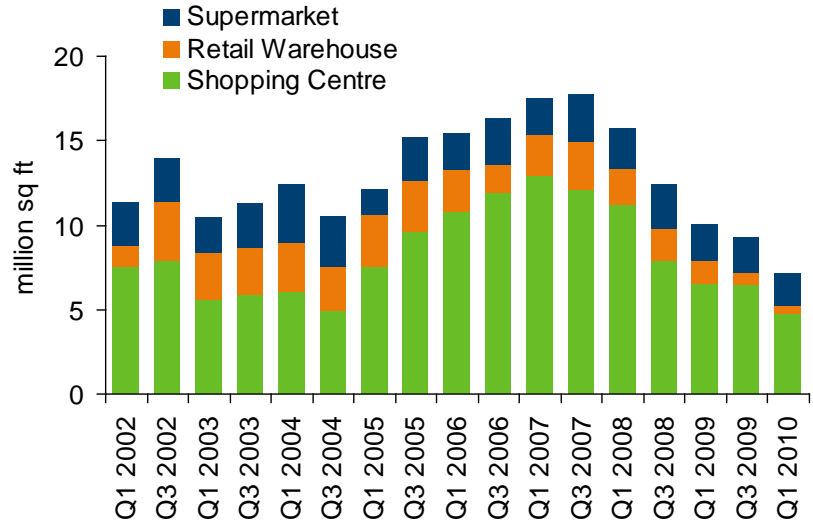
Retail Warehouse Investment



Source: Property Data, CB Richard Ellis

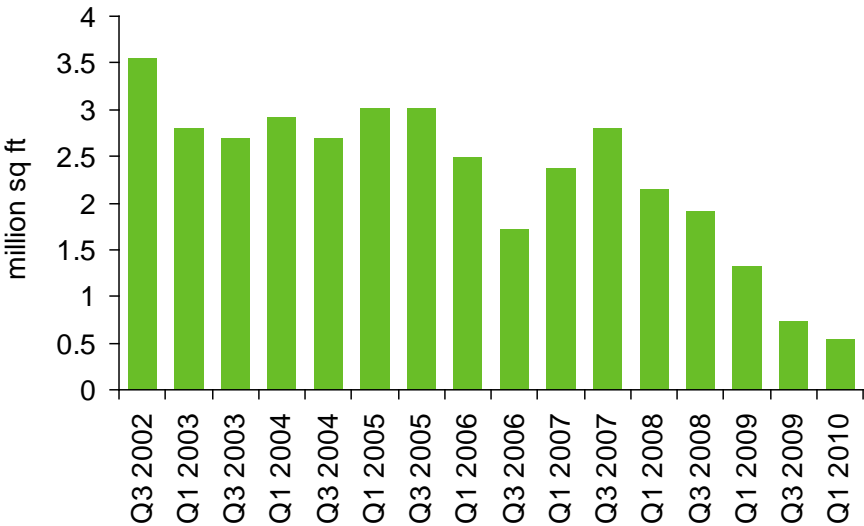
- Total transactional activity in 2009 in the retail investment market was marginally up on the previous year, at £8.2bn compared with £8.0bn, but this was almost wholly due to an unexpected and rapid return to positive sentiment in the second half of the year, particularly in the final quarter. Retail Warehouse investment accounted for £2.2bn of the total. To date, 2010 has been a little more subdued due to limited stock.
- In 2009 UK Institutions accounted for over 50% of the total investment in the Retail Warehouse market. Indeed UK Institutions and Private Property Companies combined accounted for 75% of the total. In 2010 UK Institutions have accounted for over 80% of the investment transactions in the Retail Warehouse sector

Pipeline –Total Under Construction



Source: PMA, CB Richard Ellis

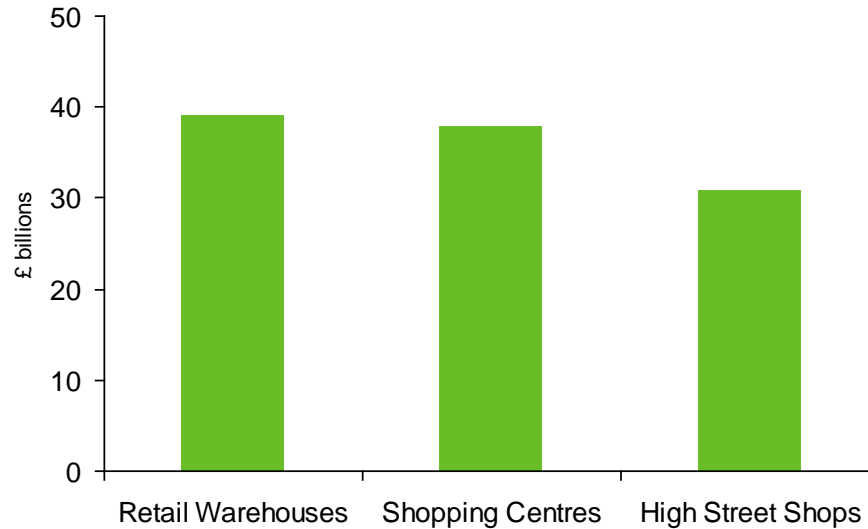
Retail Warehouse –Total Under Construction



Source: PMA, CB Richard Ellis

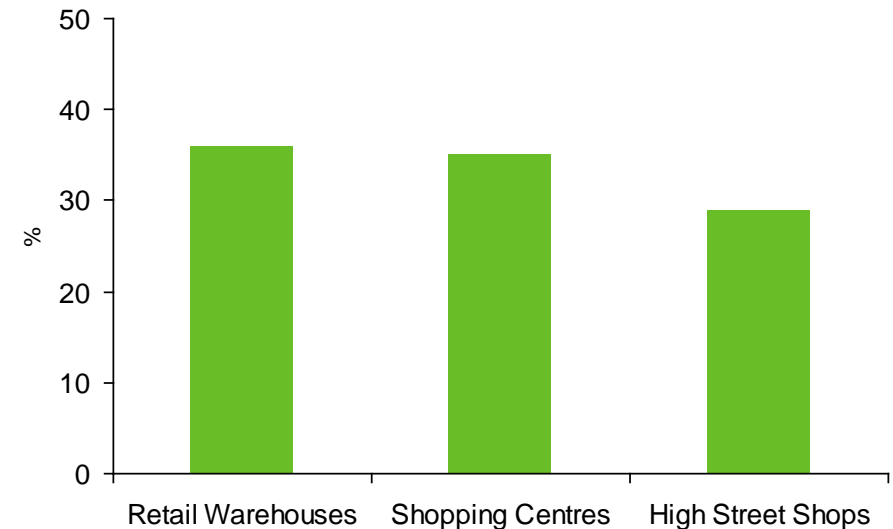
- Pipeline construction levels have reduced markedly since the onset of the recession. The total amount of floorspace currently under construction is well under half the 2007 level.
- The decline in development has been most severe in the retail warehouse sector with total construction levels currently running at only 0.5m sq ft, a fall of 80% on the 2007 level.
- The shopping centre pipeline has contracted by 60% since 2007. Westfield Stratford accounts for around 35% of the total shopping centre space currently under construction. Only the supermarket pipeline has remained relatively unscathed.

UK Retail Commercial Property – Total *



Source: IPD, CB Richard Ellis

UK Retail Commercial Property - % of Total



Source: IPD, CB Richard Ellis

* based on the assumption that IPD cover 54% of the total market at the total and sector level

- The total size of the UK retail commercial property market (investable quality only) is estimated to be c.£107.9 billion as of 2009 (IPD).
- Assuming that IPD cover an equal proportion of the market at the sector level:
 - Retail Warehouses account for the largest proportion of the total at c.£39.1 billion, or 36%
 - Shopping Centres account for c.£37.9bn, or 35%

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Focus on Retail Warehouses and Parks

Retail Rankings - Top 10 Out-of-Town Malls

- Gravity modelling has been used to create a rankings for over 3,000 centres in the UK, providing a definitive list of the best retail destinations in the country based on retail centre attractiveness, drivetimes and the level & quality of competition nearby.
- Out-of-town shopping malls feature heavily in the highest positions of the rankings with 6 free-standing centres in the top 30. These are very large retail destinations that have strong tenant line-ups and are located on the edge of the UK's largest cities, providing access to significant numbers of consumers.

Centre Name	Total Comparison Spend (£m)	2009 Rank	Region
Bluewater	£1,559	10	South East
Meadowhall Centre	£1,097	22	Yorkshire & Humberside
Westfield London	£1,078	23	Greater London
Trafford Centre	£1,014	26	North West
Metro Centre	£1,001	28	North East
Lakeside	£996	29	South East
Brent Cross	£967	31	Greater London
Merry Hill	£907	32	West Midlands
Cribbs Causeway	£584	72	South West
Leeds - White Rose	£534	80	Yorkshire & Humberside

Retail Rankings - Top 5 Retail Parks and Outlet Centres

- The retail centre rankings show that Fosse Park in Leicester is the best performing retail park in the 2009 Retail Centre Rankings, with Lakeside retail park and Castlepoint in Bournemouth both featuring in the top 200 centres. Hedge End Park in Eastleigh, which has been targeted by Best Buy for a new store, and the Gemini Retail Park in Warrington also perform well due to the amount of retail floorspace in the local area, which act together to create one large area of pitch.
- The top Factory Outlet centre in the country is Cheshire Oaks although in general despite these centres having a larger catchment area than retail parks, they have a smaller core customer base and less frequent visitors.

Retail Park Top 5

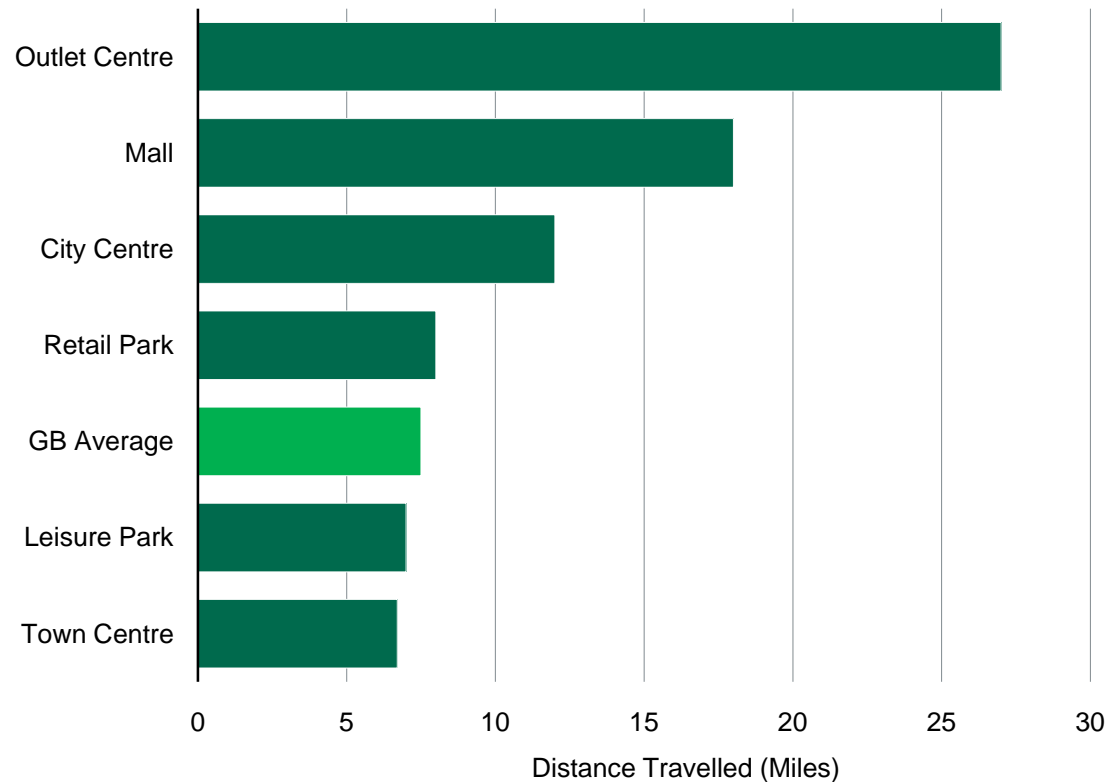
Centre Name	2009 Rank
Leicester Fosse Park	153
Lakeside Retail Park	161
Bournemouth - Castlepoint	170
Eastleigh - Hedge End Park	209
Warrington - Gemini Retail Park	227

Outlet Centre Top 5

Centre Name	2009 Rank
Cheshire Oaks	162
Bicester Village	301
Bridgend Designer Outlet Village	332
Portsmouth Gunwharf Quays	360
Ashford Designer Outlet Village	403

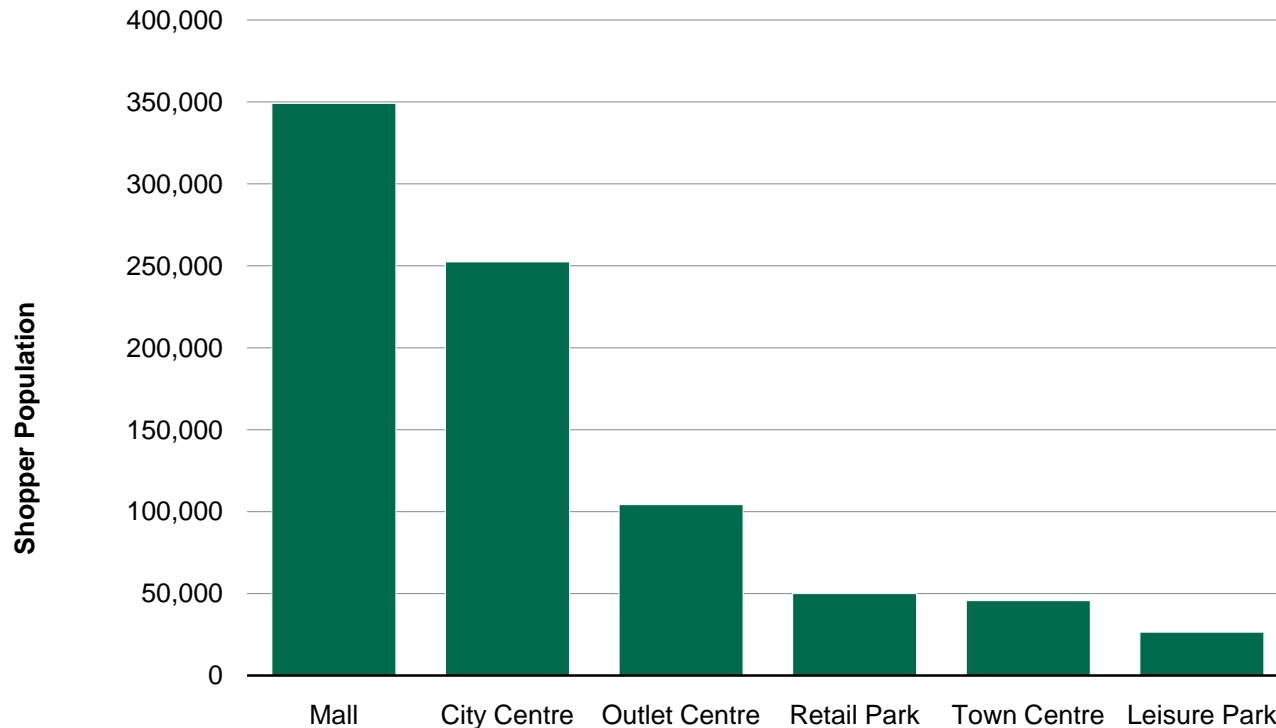
Travel Patterns to Different Centre Types

- Survey evidence suggests that consumers tend to travel variable distances to their shopping destination depending upon the type of centre they are visiting.
- Outlet Centres and large-scale Malls have the greatest pull, with shoppers typically travelling between 18 and 26 miles to reach them. This is in direct contrast to smaller town centres and leisure parks where consumers only tend to travel up to 6 miles.



Catchment Populations of Different Centre Types

- Large-scale regional malls such as Bluewater and MetroCentre have an average catchment reach of just under 350,000 people, which is significantly higher than the average shopper population for UK city centres. This highlights the considerable gravitational pull of these particular types of centre.
- The average catchment reach of traditional small-scale town centres within the UK is just over 41,000 people, which is broadly in line with the average catchment reach for retail parks.



Proportion of Shopper Spend Taken By Out-of-Town Locations

- Out-of-town retail centres attract large proportions of shopper spend across the country, with 24.5% of spend going to these locations in total.
- The majority of this spend is taken by retail parks (15.8%), whilst malls (5.7%) and outlet centres (2.4%) also draw in significant levels of spend.
- These out-of-town schemes meet the needs of the consumers that are not fully met in the city and town centres around the country. This maybe due to the lack of space available, transportation issues or the difficulties in building appropriate units that are needed for larger stores.

Region	Total In Town	Total Out of Town	Out of Town			
			Mall	Outlet Centre	Retail Park	Leisure Park
Grand Total	75.5%	24.5%	5.7%	2.4%	15.8%	0.6%

Regional Spend Taken By Out-of-Town Locations

- The proportion of spend that is attracted to retail parks, malls, outlet centres or leisure parks varies from region to region.
- Some regions do not have large malls with a fashion-led tenant mix, such as Meadowhall in Yorkshire & Humberside or MetroCentre in the Northern region, but many do have designer outlet centres such as the McArthurGlen schemes or Bicester Village.
- However the spend taken by retail parks is generally around 15% to 20% in each region, demonstrating that the benefit consumers receive from these centres is not a localised phenomenon and retail parks are an established way for retailers to meet consumers' demands.

Region	Total In Town	Total Out of Town	Out of Town			
			Mall	Outlet Centre	Retail Park	Leisure Park
East Anglia	83.9%	16.1%	0.0%	0.0%	15.0%	1.2%
East Midlands	75.0%	25.0%	0.0%	6.1%	18.3%	0.6%
Greater London	82.2%	17.8%	10.1%	0.0%	7.7%	0.0%
North West	78.3%	21.7%	3.1%	2.9%	15.1%	0.5%
North East	69.9%	30.1%	10.4%	2.3%	17.4%	0.0%
Scotland	74.5%	25.5%	10.7%	1.2%	13.2%	0.5%
South East	75.8%	24.2%	4.7%	1.8%	17.2%	0.4%
South West	74.5%	25.5%	2.8%	2.0%	18.3%	2.4%
Wales	73.0%	27.0%	0.0%	4.7%	22.2%	0.2%
West Midlands	79.1%	20.9%	6.2%	1.0%	13.4%	0.4%
Yorkshire & Humberside	61.5%	38.5%	9.7%	6.7%	21.3%	0.8%
Grand Total	75.5%	24.5%	5.7%	2.4%	15.8%	0.6%

Store Size By Type of Retail Centre

- Retail parks and malls are especially effective at meeting the demands on the consumers in their catchments due to the size of unit that can be delivered in these locations.
- As there is not such a constraint on development, which generally arise from the availability and cost of land, larger format stores can be built, and these are taken up by stores that range from the homewares and DIY brands in retail parks, to High Street staples and fashion leaders in malls and outlet centres.
- The previous lines between retail park and fashion centre are also blurring, with Next and Bhs amongst many of the strong in-town brands that have taken units on DIY-anchored retail parks.

Region	In Town	Out of Town		
		Mall	Outlet Centre	Retail Park
East Anglia	2,343	0	0	7,211
East Midlands	2,642	0	2,732	6,928
Greater London	2,824	5,688	0	14,077
North West	2,639	9,195	3,375	6,769
North East	2,668	5,197	3,451	4,569
Scotland	2,702	7,559	4,618	3,064
South East	2,608	5,357	3,132	8,317
South West	2,286	5,279	2,424	13,957
Wales	2,805	0	3,099	3,071
West Midlands	2,540	7,185	2,439	2,445
Yorkshire & Humberside	2,323	4,881	3,192	3,072
Grand Total	2,572	6,407	3,208	6,816

Out-of-Town Locations Will Help Meet Future Retail Requirements

- Future floorspace requirements have been assessed by region to 2020, through the calculation of the amount of spend there will be in each area and how much additional retail floorspace would be required to return spend densities to current levels.
- Shopper expenditure has been projected forward using spend growth to 2020, then adjusted to take into account increases in retailer productivity of 1.5% per annum (based on historic URPI estimates). This available spend per region has then been divided across current floorspace plus future pipeline development floorspace (either currently under construction or with planning consent) to calculate spend density in 2020. The current and future spend densities are then compared in order to show regions that will need additional retail floorspace, and the amount needed.
- Out-of-town retail parks and malls will be well placed to help meet this floorspace requirement, as in-town locations have limited space for development.

Region	Current Spend Density (£ per Sq Ft)	2020 Retail Floorspace (Incl Construction or Consented, Sq Ft)	2020 Spend Density (£ per Sq Ft)	Floorspace Requirements
East Anglia	586.46	57,484,025	617.85	3,076,814
East Midlands	588.03	41,261,076	615.90	1,955,845
Greater London	546.84	80,974,947	572.79	3,842,927
North West	504.52	75,707,954	513.23	1,306,718
North East	494.75	26,134,450	505.12	547,841
Scotland	474.95	63,144,730	470.49	-
South East	569.42	87,084,058	587.14	2,710,703
South West	536.16	54,998,820	562.65	2,717,402
Wales	479.83	33,099,500	475.43	-
West Midlands	496.02	58,903,290	491.45	-
Yorkshire & Humberside	535.99	54,982,469	519.89	-
Grand Total	532.47	633,775,319	543.44	13,066,724

