A **Bilfinger Real Estate** company

Retail Bulletin

Winter 2014

Jason Sibthorpe
Senior Director
Head of Retail
+44 (0) 20 7911 2740
jason.sibthorpe@gva.co.uk

Welcome to the bumper Christmas edition of the GVA Retail bulletin. With a very successful (and at times policed!) Black Friday and Cyber Monday behind us the run up to Christmas trade is looking positive, one could even say buoyant.

There will, of course, continue to be challenges and opportunities for the Retail sector as we head into 2015. The pressures within the grocery sector will be particularly fascinating to see unfold, as will the continuing swell of click and collect trade and an increased 360° shopping experience. Steve Jobs once said that leaders innovate and the rest follow. With the entrepreneurial nature of the Retail industry, innovation will be to the fore and will undoubtedly define the winners and losers.

In what has also been a defining year for GVA following the purchase of the business by Bilfinger, there is further exciting change to come. The GVA Retail team are joining with the GVA Hotels & Leisure team from 1 January 2015. The combined Retail, Hotels & Leisure team will provide a seamless consultancy and transactional offer to our clients, ensuring best in class advice with a breadth of expertise and national coverage that is second to none. We look forward to doing business with you.

Season's Greetings

Featured in this issue:

GVA retail and leisure news

F&C Reit

Acting on behalf of F&C Reit, we have completed a trio of transactions, two on the High Street in Orpington let to Acorn and Premier International Leisure and another on the High Street in Kings Lynn to PACT.

Bay House Hotel, Isle of Wight

Acting on behalf of the LPA Receivers, GVA sold The Bay House Hotel, Shanklin, Isle of Wight. The hotel, which features 20 bedrooms with a bar and restaurant, has an excellent cliff top location with sea views. Freehold acquired by occupying tenants.

The Chequers pub, Cambridgeshire

GVA has completed the sale of The Chequers pub in Folwmere, near Royston in Cambridgeshire. Acting on behalf of the LPA Receivers, we undertook a full and open marketing campaign with successful letting to tenant.

TfL/London Underground

We are currently marketing a shell unit at 276 Kentish Town Road, acting on behalf of TfL/ London Underground. The shop is currently under offer to a well known restaurant group.

Haché

We completed an off market sale to bring burgers to Balham securing a lease on a circa 1,200 sq ft restaurant on Bedford Hill. Haché is a family run business, selling burgers in Clapham since 2004. Since then, they have opened restaurants in Chelsea, Clapham and Shoreditch.

Burnside Hotel and Leisure complex, Windermere

On instructions from Joint Administrators at BDO, GVA recently sold, on a joint agency basis, this purpose built Best Western Burnside Hotel and leisure complex, in an outstanding elevated position overlooking Windermere. The freehold 57 bedroom hotel includes extensive function and leisure facilities and has a turnover of circa £1.75 million.

The Welbeck Hotel, Nottingham

GVA sold the freehold interest in this 96 bedroom purpose-built city centre hotel in Nottingham. The hotel is well located for all Nottingham city centre attractions, complete with a rooftop restaurant and a great view. After achieving a strong level of interest and bidding, GVA sold this property on behalf of Administrators Grant Thornton, with alternative use potential, subject to planning.

The Royal York Hotel, Brighton

The Royal York Hotel in Brighton was sold on behalf of Joint Administrators from Opus Restructuring to Development Securities for an undisclosed sum. The Grade II listed building comprises a 51 bed hotel, nine serviced apartments and 3,400 sq ft of retail and amenity space. Planning consent has been secured for a change of use with respect to the hotel space to create a 180 bed youth hostel with a long lease signed with the YHA.

Trespass

GVA has acquired further stores on behalf of Trespass. In Skipton, Trespass have taken the former Next unit at 36 High Street and in Darlington they have taken the former Semichem at 43 Northgate. Trespass has also taken the former Textiles Direct unit in the Airedale Shopping Centre in Keighley.

Carluccio's

GVA advised Carluccio's on the acquisition of the former American Bar and Grill at 6-10 Victoria Road, Hale.

Gregory Property Group

GVA advised Gregory Property Group on the acquisition of a development site at Great Eastern Way, Rotherham and also the subsequent pre-lets to Aldi, Iceland and Homebargains, who are to anchor the scheme.

Aviva Investors

GVA provided letting and asset management advice on Aviva's Queens House holding in the centre of Hull. Recent lettings secured include Jessops, at 43 Jameson Street, Hull on a new 5 year lease at £46,000 pax and a new letting to William Hill at 49 Jameson Street, Hull.

Watch Lab

GVA, on behalf of the Landlord, secured a new letting at 22 Coney Street in York to the Watch Lab, a quality watch repair chain, in the former Herbal Inn.

Lush

GVA has recently secured prominent lettings on behalf of Lush in Leeds city centre, at the former Clintons, a very high profile unit located on the corner of Lands Lane and Commercial Street fronting on the newly formed commercial street entrance into Trinity. As well as this, in order to further strengthen their representation in the city, Lush have also taken a prominent unit within the White Rose Shopping Centre, Leeds, as well as an international statement store on London's Oxford Street of 10,000 sq ft.

M&G Real Estate

Acting for M&G Real Estate, Intu and JT Baylis, GVA has secured lettings at the Mall, Cribbs Causeway, Bristol in the last few months to Jack Wills, Moss, Fat Face, Joules, Ernest Jones, Regis, Office, Pret a Manger and Krispy Kreme. John Lewis and Marks & Spencer anchor at this out-of-town centre, which consists of 135 shops and restaurants.

Living Ventures

GVA has secured a letting of Cheltenham House in the centre of Birmingham to Living Ventures - a new bar concept. Taking 4,000 sq ft on the ground floor with 1,850 sq ft basement, this bar is the first in Birmingham offering botanical cocktails, ales, champagne and wine together with food and live music every night.

GVA signs flanker Hyde

We have appointed retail specialist Dan Hyde to further our leading offering across the north of England. Dan, a former professional rugby union player, joins GVA from Knight Frank in Leeds. He will work with fellow retail director Richard Padley to offer retail services to the our extensive client base. His appointment demonstrates our strong retail capabilities in the north of England and a growing commitment to our retail offering in this area. Commenting on Dan's appointment Richard said:

> I am both pleased and excited that we have secured Dan's services. We have been looking to expand the northern team and feel Dan is the perfect fit and complements the team and our vision extremely well.

Dan was previously a flanker with Yorkshire Carnegie before his move into property in 2006 and has since become an expert on the retail sector, including out of town development. He will share his time between our offices in Leeds and Manchester. Commenting on his appointment Dan said:

> GVA is a leading company and I'm really excited to be on board and to help drive further growth for our already successful retail team.

Despite retiring from professional rugby union, Dan remains involved in the sport and is now player-coach at Leeds club Leodiensians and we hope he will take a prominent place in GVA's Rugby Sevens team!

National award for GVA graduate

We are pleased to announce that one of our Retail graduates in the Birmingham office, Sahar Rezazadeh, was crowned 'Best Commercial Agent' at the inaugural RICS Young Surveyor Awards Ceremony. The event, which was attended by 300 guests from the property industry, was held on Friday 14 November at the Marriot Grosvenor Hotel in London. These awards are designed to recognise inspirational young surveyors in the industry and also identify young professionals who are as ambassadors for the industry.

Sahar was acknowledged by the judges for her "rounded understanding of the industry, gained through working in locations such as Abu Dhabi, Cardiff, London and Birmingham." This category recognised those showing initiative in the process of buying, selling, valuing or leasing business properties. Alongside Sahar, four other young GVA surveyors made the awards shortlists, with two from our Property Management team being highly commended. Commenting on the award, Jennifer Davies, GVA's Graduate Programme Advisor, said:

> We are thrilled that Sahar has won this award and been able to represent GVA and the graduate programme that we run. This recognition is testament to the emphasis GVA places on recruiting and developing the best graduate talent, and we look forward to seeing many more of our young surveyors recognised in this way in the future.

James Burt
Director, Central London
Retail Agency
+44 (0) 20 7911 2268
james.burt@gva.co.uk

West End is still white hot!

The retail property market in the West End continues to race ahead with strong demand leading to continued upward pressure on rents in all of the major shopping streets.

The prevalent news recently was that the Middle Eastern retailer 'The Toy Store' has agreed terms with clients of Orchard Street Investment Management to take the store within the West One Shopping Centre, currently occupied by Burtons/Dorothy Perkins at 377 Oxford Street. This will be a flagship of 27,000 sq ft and will rival Hamley's as a children's destination. More interestingly from a property point of view is that it consolidates the headline Zone A for Oxford Street in excess of £900, a level already recently achieved by the deal on a neighbouring unit in West One to a Turkish food operator Simit Saray. It is worth noting that most of the demand for retail space is from international businesses and underlines London's continued attractiveness to foreign retailers. This is further exemplified by Tribeca's deals at 431-451 Oxford Street to Omega, Watches of Switzerland and Danish footwear firm Ecco at headline rents of £950 zone A.

Inditex brand, Bershka, is to take Aviva's 13,000 sq ft retail redevelopment at 287-291 Oxford Street. It is unclear whether they will continue trading their existing Bershka outlet which is a similar distance east of Oxford Circus, with their recently opened store in Park Place opposite Selfridges currently on the market.

Showing perhaps a more sanguine view of the frothy values being created in prime Oxford Street, some UK based retailers have taken space east of Oxford Circus, taking advantage of what is looking like increasingly good value for money compared to the west of Oxford Circus. Lush (represented by GVA) took an assignment of Bestseller's unit at 175-179 Oxford Street, whilst the dual branded Jacamo/ Simply Be (owned by the home shopping retailer N. Brown Group) took Esprit's old unit at 138-141 Oxford Street. Both had been on the market for quite some time, and are indicative of how steady demand for Oxford Street is leading to the continued improvement in the street as the traditional prime pitch between Selfridges and Oxford Circus starts to extend west (as evidenced by the recent additional letting in Park House to Links of London/Folli Follie) and to the east as outlined already. In addition, the domestic retailer Matalan has agreed terms to take an 18,500 sq ft store from AXA at 149-151 Oxford Street, which will be their West End debut and is due to open in spring 2015.

The Crown continues its impressive stewardship of Regent Street with the market eagerly anticipating the opening of the Ralph Lauren store slated for 2015. A lot of the Crown's energy is now looking further south at their St James' estate, with a vast empty tract being developed between the newly named Regent Street St James' and Haymarket, where GVA recently acquired a flagship branch for Virgin Money.

In similar fashion to the Crown, Capco continue to expand their sphere of influence in Covent Garden and, with the exception of the block owned by Lothbury, they have now acquired the rest of James Street, where Zone A rents now comfortably exceed £800 with a recent letting to The Cambridge Satchel Company. Ben Sherman have agreed to take a new lease from The Mercers Company on 119 Long Acre, at a rent believed to show close to £600 Zone A.

GVA has just published the latest edition of our annual **Retail Development map**, an indispensible tool in understanding the Central London retail market. It details where future developments with retail and/or leisure will take place within London's West End. The aim of the map is to help retailers, particularly foreign operators, to get a good overview of the different West End retail pitches.

Alastair Robertson-Dunn
Director, Midlands Retail Agency
+44 (0) 121 609 8106
alastair.robertson-dunn@gva.co.uk

GVA's continued work at The Mailbox

Earlier this year, GVA was appointed joint agents with Nash Bond on the leasing of the newly refurbished Mailbox in Birmingham.

This leading mixed-use leisure and retail destination is currently being remodeled with a new tenant mix and an £50 million extensive refurbishment.

As one of the highest profile mixed-use developments in the Midlands, GVA is delighted to provide our expertise and knowledge of the regional retail and leisure sectors. The refurbishment is scheduled to complete in spring 2015, and includes a new cinema and a 45,000 sq ft Harvey Nichols signature store.

The work will also see the retail mall at The Mailbox enclosed and sky-lit, to create an urban room with new facades, finishes and store frontages. In addition, there will be an improved way-finding throughout the mixed-use scheme. Harvey Nichols, Emporio Armani, Nicky Clarke, Toni and Guy and BBC Birmingham will stay open throughout the refurbishment, along with the scheme's bars, restaurants, hotels, commercial offices and car park.

GVA is currently working to attract some of the key high end retailers in the region and beyond. The strategy is to target high end international brands along with premium regional brands so that the Mailbox becomes a destination for independent boutique shopping too.

Pre-let agreements have been signed with leading fashion brands Jaeger, Gieves & Hawkes, LK Bennett, Daniel Footwear and Castle Fine Art will open a new gallery within the scheme. We also have some exciting new retailers that we cannot yet release.

For further details contact alastair.robertson-dunn@gva.co.uk in our Birmingham office.

Jo-Anne Jones
Director,
International Business and Operations
+44 20 7911 2528
jo-anne.jones@gva.co.uk

Expanding Horizons

Exciting times lie ahead within the international Retail sector following our recent merger with Bilfinger Real Estate (BRE).

In addition to our retail capabilities via our GVA Worldwide platform, BRE adds to our international offer: consulting, shopping centre management and lease management capabilities in Turkey, the Netherlands and Germany. GVA recently participated at BRE's annual shopping centre management conference in Rotterdam, where discussions took place to develop market opportunities. BRE currently has 2 million sq m of retail space under management. Clients served by BRE's shopping centre management group, headed by Volker Sonnenschein, include DEKA, Generali, Pramerica, ING and Commerz Real. In November, we came together to showcase to the market our latest projects at MAPIC 2014; it was the second year GVA Worldwide hosted an exhibitor stand at the event. Watch this space to see how our international retail story develops further!

MAPIC 2014

As confidence continues to build in the sector, GVA Worldwide raised its profile amongst international retailer, investor and developer clients at MAPIC. With an improved exhibition space and a broader country reach, MAPIC was a success in reaching a wider market. As retailers increasingly look to internationalise and occupy space in the best retail destinations, our evolving growth plans will ensure we have presence and expertise in all the key fashion capitals.

Click here for our retail contacts

Spain

After years of ongoing economic crisis, economic growth is expected to be between 1% and 1.3% this year in Spain. The High Street Retail sector has seen a flurry of activity in 2014, Aguirre Newman undertook letting deals for Mango, COS, Zara Home, Rituals and Sunglass Hut among others. Aguirre Newman's Retail Agency team was out in force at MAPIC. There is a big demand from high-end fashion and luxury goods to open flagship stores in prime locations in Madrid and Barcelona. Both national and international investors have placed once again their trust and confidence in the Spanish retail market with regard to acquiring retail units. Due to the scarcity of good retail investment units in prime location, investors are willing to purchase them at lower initial yields. Aguirre Newman predicts that this will continue in 2015. Aguirre Newman's new Head of Shopping Centre Management, Carolina Ramos adds 'The market of shopping centres in Spain is quite mature, therefore the aim in the shopping centres for the coming years would be to make them more attractive to the customers and to be stronger than their competitors. We believe the way to do so would be by updating their tenant mix with new retailers coming from other countries. It is our aim to attract these new brands to the shopping centres in our portfolio, to meet the costumer's expectations that are always high and growing.'

Germany

Germany has continued to show resilience throughout the Eurozone crisis and whilst current forecasts are being downgraded it is not deterring retailers from setting their sights on the country for the next stage of their international expansion. UK Brands focusing on Germany include SuperGroup, French Connection, Ao.com, New Look and Debenhams. Consumer spending continues to be strong with retail sales forecast to reach almost £400bn in 2018 compared to just over £350 billion in 2013. Germany has many cities that are attracting international retailers and with its strong infrastructure, supply chain, business environment and legal framework it is a relatively straightforward market to enter.

Netherlands

The Netherlands is a mature, tenant orientated retail market with stable rents in prime locations. In the Netherlands, BRE currently manage over 35 shopping centres and 700,000 sq m of retail space. One of those centres, The Beursplein Rotterdam shopping centre, has recently seen the opening of the largest H&M store at 6,000 sq m. The Dutch team are actively recruiting to expand their transaction capability to support their growing shopping centre management capability.

Turkey

Turkey's rising GDP between 2002 and 2014 has attracted a flow of foreign companies into the market and real estate is the fastest growing economic sector. Turkey is catching up fast to European levels on retail and shopping centres with 126 sq m of shopping centres per 1,000 population. With a total investment value of €60 millions, BRE will be responsible for developing the concept, including comprehensive environment and market analysis, leasing, as well as centre and property management for Metropol Istanbul, which includes a three-storey shopping mall with a 400-meter-long shopping street for international luxury brands, an entertainment area including a cinema complex, restaurants and cafés, to be built in 2016 on a site measuring 10 hectares in Istanbul's Ataşehir district. Bilfinger RE Turkey aim to invite new brands to Turkey, to open their "first" and "flagship" stores in Metropol, as well as new restaurant concepts from famous chefs.

Please click here to view our latest case studies

For further information on our international retail capability or regional projects and if we can help you with your expansion plans, please contact **Jo-Anne Jones** or **Jason Sibthorpe.**

Bilfinger RE Turkey opens Ceylan Karavil Park, the largest mixed-use shopping and hotel complex in the east of Turkey.

Jerry Burton
Head of Lease Consultancy
+44 (0) 117 988 5252
jerry.burton@gva.co.uk

Stephen Shapiro
Associate
Lease Consultancy
020 7911 2580
stephen.shapiro@gva.co.uk

Breaking Good or Breaking Bad?

At a lease renewal in England and Wales (excluding Scotland where different rules and legislation applies), what are the advantages and disadvantages of going for a ten year term with tenant break in year five, over taking a five year term certain? We examine the question from both a landlord and tenant perspective.

Over recent years, flexibility has become of greater importance to tenants and the majority of leases we deal with upon renewal are for ten years with a break in year five. There are a number of tenants in the market whose default position is a five year lease with a break at year three. There is often reluctance from landlords to grant the fifth year break, even for a penalty rent, but are there advantages for a landlord to agreeing to this over the possibility of the tenant demanding and securing a five year term should the matter go to the court?

Five year certain lease

The two principal benefits to a tenant of a five year term is that it provides them not only with flexibility going forward, but they will effectively have an upwards/downwards rent review by virtue of the lease renewal at the end of the lease. The rent is assessed to open market levels as they have the protection of the LTA. Therefore, should the market crash, as it did in the years immediately post 2008, the rent is rebased to a market level, or they can vacate, should the business not be viable.

Despite many misgivings, talk from the political chattering classes and the recession, upwards only rent reviews remain common and it is relatively rare to see a rent review to OMV. Tenants have been known to offer a 5% premium for such a benefit. However, where the market is consistently showing a five year term certain, this premium is often not payable.

For a landlord, the benefit of a five year term is that they would be able to bring any redevelopment plans forward. In addition, in weaker locations, landlords are 'taking a view' and prefer to retain a tenant on a shorter term lease rather than risk them relocating or even ceasing to trade. A further advantage is that, by using the LTA to their benefit, the renewal date is not fixed to the fifth year and can be extended by strategy of serving the requisite notices thereby benefiting from further growth in the market. In contrast, a rent review is at a fixed point in time and whilst subsequent evidence has an impact, it is less than it would be for a lease renewal.

Ten year lease with break

A ten year term with break in year five benefits the landlord by virtue of the fact that the rent review in year five is upwards only: the rent cannot fall and the landlord gains on the investment value through the longer guaranteed term reducing the yield. That reduction varies on location and covenant strength, but is often in excess of 50 basis points.

Although there's a break written in to the lease, time is of the essence and any notice to break must meet the requirements of the lease. Should the date or requirements not be met, it is probable that the notice is not valid and the break inoperable. The tenant has to plan to vacate earlier than with a lease renewal and can often be overlooked until it is too late.

The break can be subject to a penalty rent, and if this is three months it is equivalent to a 5% uplift, which reflects the additional flexibility of the break.

For a tenant, even if the break is mutual, a landlord cannot activate the break without an accompanying S.25 Notice with qualifying grounds for the break. Accordingly, this is not as flexible as the tenants break requirements.

So there are positives and negatives for both a landlord and tenant in having a five year term or ten year lease with break in year five. Both are for five years term certain and the best option can only be considered in line with the party's needs as well as the evidence in the local market.

Lease renewals have just become a lot more interesting as a result of the recent case County Court judgment in Iceland Foods Ltd vs Castlebrook Holdings Ltd (2014). Until recently, courts followed the lease renewal doctrine that the term awarded must be "reasonable in all the circumstances". In this case the landlord requested a 15 year term whilst the tenants sought five years. The judge tried to strike a fair balance between the landlord and tenant and decided that the correct lease term was ten years without a break option. Whilst only a County Court Judgement, the decision surprised the market and will have implications on future lease renewals as it will concern tenants and support many landlords. As is often the case, the devil is in the detail!.

Tim Yabsley
Associate
Shopping Centre Management
+44 (0) 20 7911 2395
tim.yabsley@gva.co.uk

Getting Engaged

It's December 2014. It's cold, wet and windy outside. The heating is on. I'm in the middle of doing my weekly supermarket shop - online. Whilst I'm at it, I'll make a start on my Christmas presents. Click, click, checkout. Done.

The rise of the internet has had an impact on every business, but as e-commerce matures, we observe how it now complements, as well as competes with, the physical shopping 'experience'. For all that the internet can offer, it is, for many, a convenience, or a necessity. There is still nothing quite like browsing, touching, feeling, tasting, even trying on before purchasing. Furthermore, for a long time, shopping has, quite rightly, been regarded as a leisure activity.

Below, GVA's Property Management team has identified five key elements for shopping centres to successfully engage with their occupiers. Done successfully, they will increase footfall and convert visitors into spend.

1. Ensure premises have a healthy mix of tenants

Shops which complement each other will attract like-minded customers and in this peak seasonal time, demand is often high for temporary tenants filling void units. However, we are mindful of letting units which do not 'fit' and would not add value. It's all about getting the mix right. Ultimately, customers will not come to browse empty units.

2. Marketing and promotion of the shopping centre as a brand

We know that most people will go online when first seeking a product or store. However, rather than make the purchase, they will link through to the location and often make the purchase at the shopping centre. Developing such attitudes is a critical strategy to work with occupiers, which often sits outside the normal marketing campaigns.

Strong clear central communication through marketing and promotion is essential, embraced using the full marketing mix including traditional channels, but more so now with the more measurable and cost effective social media, all the time utilising latest mobile and in-store technology.

One successful initiative is shared by GVA Facilities Manager, Claire Johnson, who manages Fishergate Shopping Centre in Preston.

"The initiative that's had the most success in recent months at Fishergate is our promotion of our brands across the social media platforms. We collaborate with our tenants and use Facebook, Twitter and Instagram to reach out to their shoppers. This has included sharing photos of latest offers, new arrivals and 'must have' products in stores.

"Social media is such a powerful tool, where a single photo can be targeted to a specific group of people and be seen by thousands."

"Our tenants have reported on a number of occasions that customers have visited their stores to buy the items that they have seen on our social media pages, proving that as well as serving to get people in to our stores and to increase brand awareness, more critically, it also encourages and contributes to sales."

3. Destination marketing

GVA's dedicated Destination Marketing team actively promotes the venue as a place to come. Events, competitions, exhibitions, information pods, and even special lighting all help to attract visitors. At this time of year, celebrities turn on the lights and Santa's grotto is doing a swift trade.

Catwalks and fashion shows help clothing shops, exposing a captive audience to multiple promotions from different stores.

Retail Merchandising Units (RMUs) are popular with small enterprises and local start-ups. They can add a varied tenant mix, although require appropriate management and rotation.

4. CSR strategy

GVA incorporates sustainability initiatives, including best practice and charity events. This helps the shopping centre generate long term good will and win recognition and awards, creating positive PR. The demonstration of responsible property management techniques is important.

5. Listening to and communicating with occupiers

The GVA Property Management team can only stay ahead if it seeks continuous improvement. This comes by understanding and acting on the needs and desires of occupiers, learning from mistakes and watching competitors. Good relationships help across all levels, including transparency with administrative issues such as rents, health and safety, parking and security.

All these factors go towards a successful, sustainable and vibrant shopping centre which gives confidence and creates momentum, future proofing for the occupiers and landlords alike.

Jess Stevens
Associate
Sustainability
+44 (0) 20 7911 2680
jess.stevens@gva.co.uk

What do we mean by sustainability?

Sustainability is becoming harder to define as the parameters by which we measure these issues are constantly evolving and broadening.

To date, we've focused much of our attention on environmental considerations, which should remain a critical concern for the building sector given the IPCC's (Intergovernmental Panel on Climate Change) recent publication on climate change.

However, as the World Green Building Council correctly points out in their 2014 paper on 'Health, Wellbeing and Productivity in Offices', the average organisation spends roughly 90% of their operating costs on staff in comparison to approximately 1% on energy and 9% on rent.

GVA recently released the fifth report in our Green to Gold series, a survey which investigates how UK fund managers and investors currently view and factor the risks attributable to rising sustainability regulation and market demands. Since our first report in 2007, we've witnessed a significant shift in attitude towards sustainability. The 2014 results highlight consistent trends of increasing consideration, incorporation and reporting of sustainability issues in investment decisions and activities.

However, the results also indicate that although the market has made considerable progress since sustainability first hit the business agenda, there is still a need for the wider industry to better understand and address these issues.

Redefining our definition

Part of the problem is our definition of sustainability, which is clearly evolving as we expand our research in this area and as we better understand that sustainability is about more than just saving the planet. This definition becomes even more blurry across different organisations and more specifically between landlords and tenants. For retail tenants in particular, sustainability is likely to be less of a real estate issue and more of a product and supply chain issue, making it increasingly difficult for landlords and tenants to find areas of mutual concern.

Although green leases or similar MoUs are reported as being used by 60% of UK fund managers and investors, they are still considered one of the least considered factors when assessing sustainability (according to GVA's Green to Gold 2014 results). For many leading landlords, green leases are often considered a barrier to genuine engagement with their tenants. Although they provide a good starting point for this discussion, many landlords want to add value for their client, which often requires additional ongoing dialogue and awareness of tenant diversity. We often talk about our mission to improve the sustainability credentials of our existing stock, but perhaps we should be prioritising our existing leases and understanding how we can improve engagement with our tenants, particularly in the retail sector where landlords and tenants will have different priorities.

In the past, we have focused more on strategies and improvements in the area of resource efficiency as we have more influence over these aspects than we do over the people who work, visit or live in these buildings. Ultimately, there shouldn't be a trade-off between a building which delivers a good ROI, which is capable of maximising the benefits for its users and which prevents degradation to the environment.

Understanding what it means to integrate

As a market, we've exhausted our research on finding the value differential between sustainable and less sustainable buildings. Being able to quantify this would undoubtedly accelerate the importance of sustainability considerations further up the business agenda, but thankfully the market is slowly starting to accept that this is an issue of best practice, regardless of any green alpha.

Our focus should be on understanding how to integrate sustainability into our investment and management decisions, where there remains much uncertainty around what this actually means. It is true that there are several industry leaders like The Crown Estate, Unileaver and Marks & Spencer (to name a few) setting excellent examples of how to do this, but for the majority of the market there is still a significant amount of educating and catching up to be done. It therefore remains imperative that we continue to share our experiences, demonstrate our commitment and report our achievements in this area.

In the meantime, let's celebrate

Although we still have work to do, it is important to celebrate the progress that has been made in this area since sustainability first hit the business agenda some years ago. GVA's 2014 Green to Gold results show that 58% of UK fund managers and investors believe the market no longer sees sustainability as just a 'nice to have', but rather that it is starting to be or is already being considered a key driver of investment performance.

It is becoming impossible to ignore the importance of sustainability due to increasing regulatory obligations, climate change risks and occupier demand. It would be naïve to think that it is no longer a tick-box exercise for all landlords and occupiers, but the progress that has been made very clearly outweighs any remaining scepticism, which is cause for celebration!

Retail statistics

Retail sales volume, October 2014

	3 months on previous 3 months	3 months on same 3 months a year ago
Total retail sales	0.5%	3.8%
Food stores	-0.3%	0.4%
Non-food stores	1.4%	6.0%
Non-store (pure internet/mail order/markets)	-0.7%	9.9%

Source: ONS (Excluding Automotive Fuel)

- Retail sales have been relatively healthy during 2014, although the pace of growth has now slowed compared with earlier this year. Sales in the three months to October were up 0.5% on the previous 3 months, and compared with the same period last year, were up 3.8% pa.
- Non-food stores have continued to perform strongly, with 6% pa growth in sales volumes over the period Aug-Oct. Food stores have seen a small improvement in sales, however growth is much weaker, just 0.4% pa over the same period. Non-store sales continue to slow, dropping to 9.9% pa in the three months to October.
- Internet sales (by value) accounted for 11% of total retail sales in October, with some £707.6 million transacted online.

Economic indicators, November 2014

	Consensus forecasts 2014	Consensus forecasts 2015
Inflation – CPI (% pa)	1.3% (Q4)	1.8% (Q4)
Inflation – RPI (% pa)	2.3% (Q4)	2.9% (Q4)
Unemployment rate (claimant count, millions)	0.93 (Q4)	0.88 (Q4)
Base rate	0.5% (Q4)	1.0% (Q4)
House prices (% pa)	9.3% (Q4)	5.8% (Q4)
GDP (% pa)	3.0%	2.5%

Source: Consensus compiled by Treasury, November 2014

- The economy continues to perform well, with economic growth above trend and GDP growth at 3% pa. Employment growth remains strong, however wage inflation is still a key issue. Inflation has fallen sharply and is well below the Bank of England's target of 2%. As a result forecasters have pushed back the first base rate rise to the second half of 2015 and rises will be very gradual.
- Moderate growth is forecast for the economy next year, with GDP growth slowing to 2.5% pa, close to trend, and much lower house price inflation. Wage inflation is expected to accelerate modestly next year and move ahead of inflation.

Retail property performance indicators, October 2014

	% year on year			Forecasts (2015)		
	Rental growth	Capital growth	Total return	Rental growth	Capital growth	Total return
Standard retail	0.4%	7.3%	13.8%	2.1%	5.2%	10.2%
Shopping centres	-0.8%	6.5%	14.7%	1.6%	4.3%	9.5%
Retail warehouses	0.1%	8.6%	15.5%	1.7%	4.3%	10.1%

Sources: IPD Monthly Index. Forecasts from REF/GVA (October figures)

- Capital growth and total returns have improved significantly over the year, with nearly 15% total returns across the retail sector. Rental growth remains weak, although year-on-year growth is now positive for both standard shops and retail warehouses.
- Average rents are forecast to rise steadily during 2015, with growth of 2.1% pa expected for standard shops by the end of the year, and 1.6%-1.7% pa for shopping centres and retail warehouses. Capital growth and total returns are forecast to ease during 2015 across the sector.

Retail yields (prime/secondary equivalent yields)

	Q3 2014	
	Prime	Secondary
Standard shops	4.3%	9.6%
Shopping centres	5.3%	12.6%
Retail warehouses	5.2%	8.2%

Sources: IPD Quarterly Index

- Strong UK and overseas investor demand for UK property has continued to push yields downwards across all sectors, including retail.
- Prime retail yields have moved downwards by around 60 basis points during the 12 months to Q3 2014, which compares with a 75 basis point reduction for all property. (IPD Quarterly Index, Q3, 2014).
- Secondary shopping centres recorded by far the biggest shift in yields over the last 12 months with a 210 basis point improvement since Q3 2013. Yields for secondary shops and retail warehouses improved by 60-70 basis points over the same period.

London West End
London City
Belfast
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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GVA Retail national contacts

Jason Sibthorpe
Senior Director
Head of Retail
Agency and Development
+44 (0) 20 7911 2740
jason.sibthorpe@gva.co.uk

Alastair Mant
Director
Sustainability
+44 (0) 20 7911 2940
alastair.mant@gva.co.uk

Tim Yabsley
Associate
Shopping Centre Management
+44 (0) 20 7911 2395
tim.yabsley@gva.co.uk

Matthew Morris
Director
Planning Consultancy
+44 (0) 117 988 5334
matthew.morris@gva.co.uk

Paul Taylor
Senior Director
Automotive and Roadside
+44 (0) 121 609 8455
paul.taylor@gva.co.uk

Jerry Burton
Senior Director
Head of Lease Consultancy
+44 (0) 117 988 5252
jerry.burton@gva.co.uk

Paul Hewitt
Director
Building Consultancy - Retail
+44 (0) 20 7911 2331
paul.hewitt@gva.co.uk

William Blockley
Associate
Business Rates
+44 (0) 20 7911 2343
william.blockley@gva.co.uk

Jonathan Cornwell
Director
Investment
+44 (0) 20 7911 2369
jonathan.cornwell@gva.co.uk

Ros Goode
Senior Director
Restructuring and Recovery
+44 (0) 20 7911 2840
ros.goode@gva.co.uk

Andrew Hart
Director
Retail Valuation
+44 (0) 20 7911 2833
andrew.hart@gva.co.uk

Hannah Baines
Principal Researcher
Retail Research
020 7911 2184
hannah.baines@gva.co.uk

Sam Vyas
Associate
Retail Distribution
+44 (0) 20 7911 2267
sam.vyas@gva.co.uk

Gavin Brent
Senior Director
Head of Hotels
and Leisure
+44 (0) 20 7911 2228
gavin.brent@gva.co.uk

Jo-Anne Jones
Director
International Business
and Operations
+44 (0) 20 7911 2528
jo-anne.jones@gva.co.uk

08449 02 03 04
gva.co.uk/retail

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