

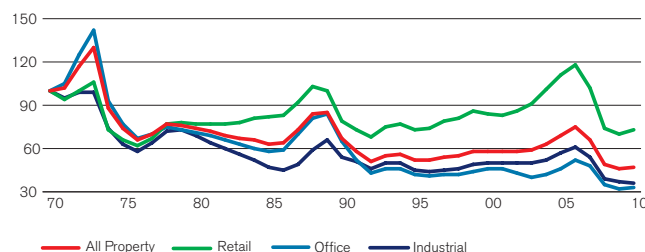
Think/Retail Typology

Thinking typology tactics

'Location, Location, Location' is a popular property idiom and one that rings true when applied to investment and choosing where best to locate your money. Here at Henderson, however, we also believe in 'Thinking Typology Tactics'. But what does this mean....?

In the UK property investment market, we have seen outperformance of the retail sector versus its office and industrial counterparts in terms of wealth preservation and real capital growth over a long term period, starting from 1970.

IPD Annual Index – Real capital growth (% pa)



Source: IPD

Further analysis highlights that volatility of retail sector total returns is historically lower than the office and industrial sectors, given the fact that retail was considered a less cyclical and therefore less volatile market, allowing it to become a good diversifier. However, the 'retail' property sector appears in many guises with retail shops, shopping centres and retail warehouse parks as the main constituents. Performance among these sub-sectors differs and as we delve deeper into the types of properties that make up the retail sector, the volatility of returns widens and the importance of understanding these retail typologies is key.

Thus, the importance of 'Thinking Typology Tactics' comes in to play...

The Henderson property research department has created a typology matrix which we believe creates suitable sub-sectors for the retail

market. We can monitor and better project future returns for the Shopping Centre and Retail Warehouse Index, as well as highlight the disparities between different types, thereby creating better investment decisions. The table below illustrates the sector typologies we have devised for the Shopping Centre and Retail Warehouse Index.

Henderson retail typologies

Shopping centre type	Proportion of IPD UK shopping centre*	Retail warehouse type	Proportion of IPD UK retail warehouse*
Regional shopping centres	23%	Fashion park	12%
Large prime shopping centres	20%	Prime A1 park	28%
Mid-large good standard shopping centres	28%	Prime bulky goods park	4%
Mid-large secondary shopping centres	4%	Standard A1 parks	14%
Small prime shopping centres	6%	Standard bulky goods park	11%
Small standard shopping centres	12%	Secondary parks	8%
Small secondary shopping centres	4%	Solus and pairs	17%
Other shopping centres	3%	Other retail warehouses	6%

Source: Henderson Global Investors, as at end 2010.
* sub-sector by capital value.

Shopping Centres – large versus small

The IPD Annual UK Shopping Centre Index dates back to 1981 when it comprised £1.6bn of shopping centres. Over the course of the last 30 years, the Index has significantly grown and, as at the end of 2010, recorded a capital value worth £22.8bn comprising 337 shopping centres. Clearly given such a large population, the Index consists of a wide range of properties which differ significantly in quality, size, age and location, all factors which create disparities in rental growth, yield profile and total return.

Taking the total return profiles for each typology over the last 6 years, it is no surprise that the results highlight that prime centres have significantly outperformed within the sector. It is the Small Prime centres, however, that are the front runner over the last six years. This is followed by Large Prime Centres and then Regional Shopping Centres in third place. The analysis highlights that the better quality shopping centres outperform, regardless of size.

Henderson Shopping Centre typologies have highlighted that historically Small Prime centres have reported strong returns of approximately 10% per annum over the last 16 years. Moving forward, we believe that this outperformance could well continue given the opportunity for rental growth afforded by smaller schemes with a constrained supply of units, provided they form the prime part of a wider retail offer such as a smaller town centre scheme in a top UK town.

The UK, however, has been moving into a retail environment dominated by large schemes. The latest development, Westfield Stratford, which opened on 13th September 2011, is being marketed as the largest urban shopping centre in Europe. Recent studies have shown that retailers can now trade from approximately 80 key centres and continue to capture the majority of UK retail spend. As a growing proportion of spend is also channelled into new forms of retailing, such as e-tail and m-tail (mobile phone applications), retailers will no

Think/Retail Typology

longer search for numerous locations within one town and will reduce the number of towns they wish to trade from. The importance of key retail locations is increasing; retailers will pay higher rents for centres which have large expansive catchments and continuous high levels of footfall.

Retail Warehouses – bulky vs open A1

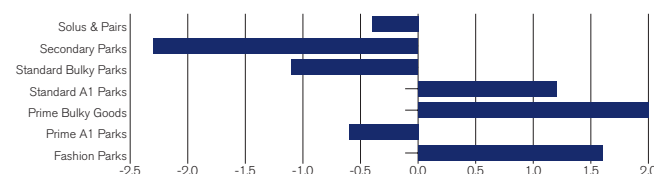
IPD's Retail Warehouse Index has also undergone significant growth over the last 30 years from a capital value worth £94m in 1981 to £24.7bn at the end of 2010. The sector has undergone fundamental changes as it has developed from traditional bulky good warehouse style units to sophisticated fashion parks housing department stores and well known clothes and footwear brands.

Using Henderson typologies, we have witnessed the outperformance of retail parks with open A1 consent vs bulky. Open A1 parks have benefited from good rental growth which has outperformed bulky goods parks over the last ten years by approximately 200 bps.

Given the recovery in capital values and compression of yields we have already experienced within the sector over the last two years, future performance will be attributed to those opportunities where rental value growth lies. The IPD Annual Property Index highlights that the retail index failed to return to positive rental growth in 2010 with All Retail showing a decline of -1.4%. This figure, however, masks the divergence of returns which is highlighted across the typologies work we have undertaken, particularly with the retail warehouse typology data.

The below graph highlights the spread of typology performance and shows where green shoots of rental growth recovery are starting to break through ahead of the general market. Positive rental value growth performance returned to Fashion Parks, Prime Bulky goods parks and Standard A1 parks in 2010.

Retail Warehouse 2010 Rental Value Growth (% pa)



Source: Henderson Global Investors, IPD

As we move forward within this rapidly evolving environment with both retailers and consumers embracing advances in technology to better distribute and obtain their goods, we believe that our analysis for Shopping Centre and Retail Warehouse Typologies effectively places us as a front runner to assess type and forecast future performance accordingly – in turn allowing us to make better investment decisions for our clients.

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