

High Street Retail – Where Next?

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My Experience

REAL ESTATE
FUND MANAGEMENT

- Investment Director responsible for high street and out of town retail for Prudential Life Fund – approx. £1.8bn.
- Bought over £1bn of supermarkets over the last five years for annuity funds therefore I have funded the death of the high street.



Part of the M&G Group

PRUPIM

What Is The Investment Market Doing ?

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- High street yields moving out on anything not super-prime.
- Retail warehouse yields also shifting but much more slowly
- Rents drifting down, but occupiers still available.

What Is The Investment Market Doing ?

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- West End has been going completely the other way, keener yields and rents, driven by international money.



Conflicting Evidence

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- Just pick and choose to suit my story like everybody else.

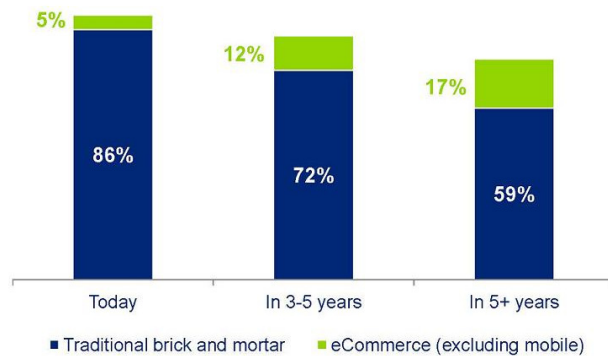


Conflicting Evidence

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■ Deloitte vs. CBRE

Shares of brick and mortar sales are expected to decline...



Source: Deloitte's Store 3.0 Global Survey: The Next Evolution, September 2011/August 2012



Conflicting Evidence

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“The challenge multi-channel retailing presents landlords is fairly clear cut. Quite simply, retailers need fewer stores.”



“60% of retailers say they will need more shop space as a result of their multichannell strategy in two years’ time”



“The watchword for many retailers will be fewer but better stores better located, better ranged and better supported by multi-channel capabilities. The net result will be a significant upheaval in chains’ estates over the coming 5-7 years.”



Conflicting Evidence

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LDC vacancy rates

vs.

Reality

IPD ERV decline

vs.

Reality

Amazon deliveries at the
office

vs.

Westfield Stratford

High street is dead

vs.

John Lewis record
results



The Problems

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- Supermarkets
 - The media like to spin a story, get Tesco results and the sector is doomed, meanwhile Asda and Sainsbury's have great results.
 - They are scaling back non-food – is this therefore good for the high street ?
- *“With a market share of more than 30% Tesco won the supermarket space race but that victory has looked increasingly hollow as recession accelerates changing shopping habits. Higher prices at the pumps have encouraged Britons to “top up” on groceries at local shops rather than drive to an out-of-town superstore filled with temptations like DVDs and clothing.” The Guardian 29 Sept 2012*



- Over Expansion
- Private Equity - pumping companies full of debt expanding portfolios, magnifying growth and losses.
- Too many planning consents as authorities granted new schemes and just moved pitch. Trophies for councils plus business rates and car park charge generation.

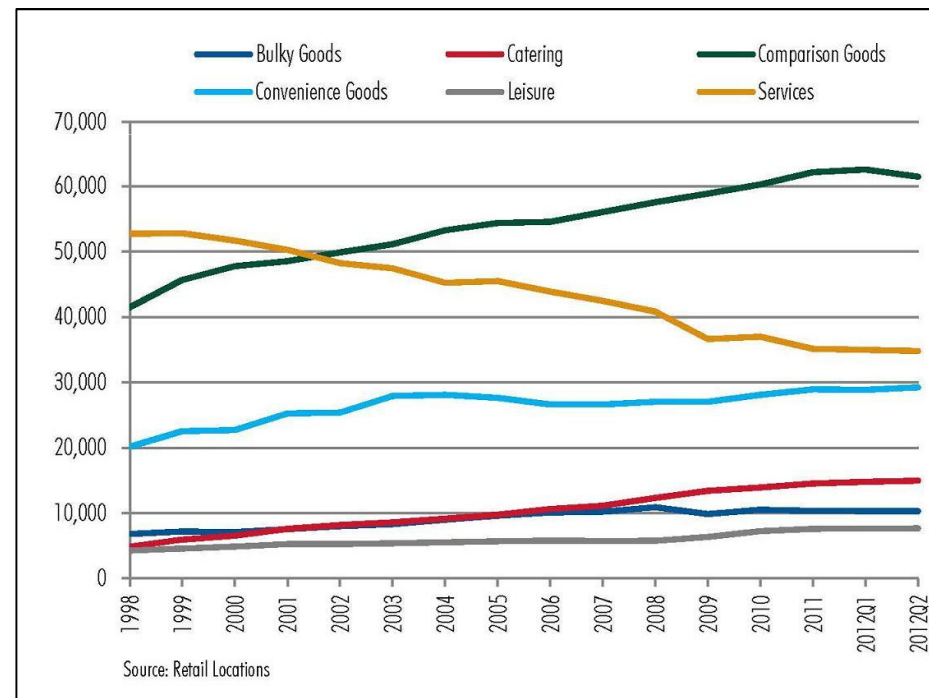
The Internet

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- Argos getting a negative press, but is second biggest internet retailer.



- The internet is impacting on different sectors differently



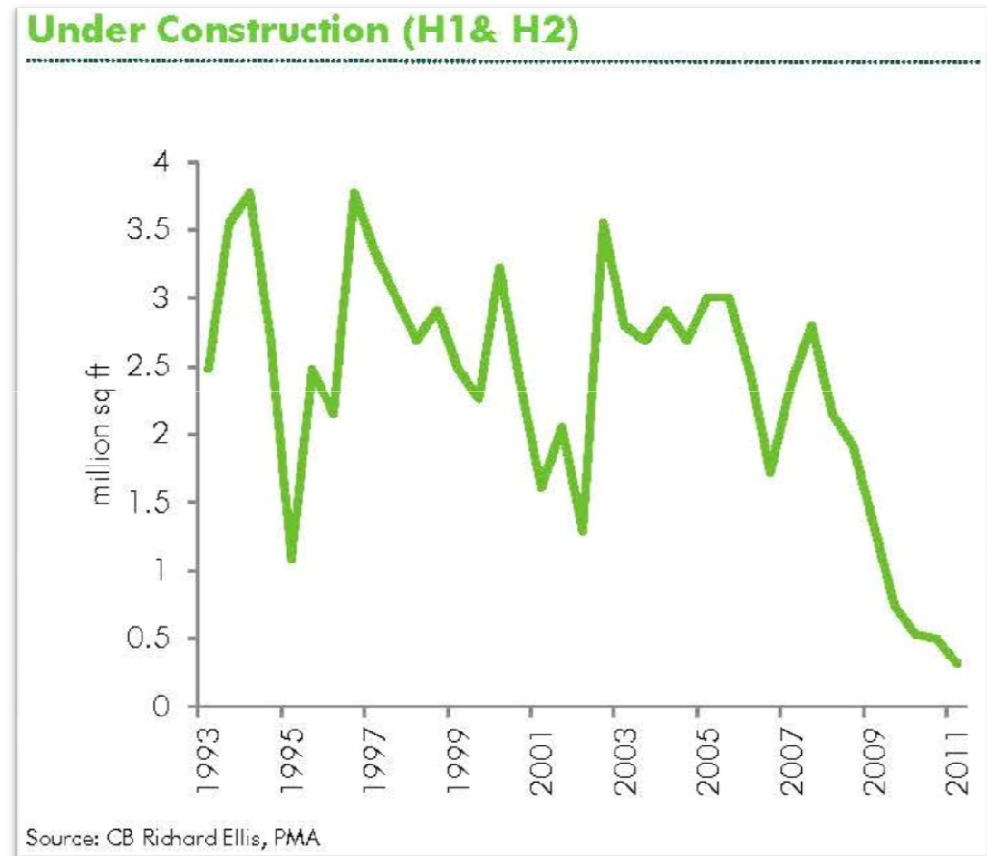
- Could click and collect be the answer ? Companies such as Bybox or Amazon installing lockers to pick up deliveries.
- “£3.3bn – *Amazon’s British sales 2011.*
£0 amount of British corporation tax paid.” The Metro
- How to solve delivery costs ?



The Future

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- The Supply Tap has been turned off and won't be on again for five years on shopping centres.
- Retail Warehouses turned off faster, but can start quickly.



- Change of use away from high street retail
- Mary Portas



Why would you go to the shops ?

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- Habit ?
- Leisure – a social experience vs. people clicking and never interacting.
- An enjoyable environment – Bath vs. Crawley
- Necessity ? Easier than the internet.
- Service – John Lewis or B&Q expertise.



Conclusion

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Retail is evolving, but that is why it is interesting.

