Financial Health Warning

– the current vulnerability of multiple retailers, and the geographical implications for specific towns and shopping centres

March 2009

- Introduction
- Monitoring Retailers
- Geographical Analysis
- Applications
- Conclusions
- The Hot Hundred

Introduction

Monitoring Retailers

- In order to help leasing agents and asset managers understand financial stability and ability to afford rents FSP monitors the financial accounts of over 1,500 occupiers

- FSP undertake detailed analysis of accounts to produce a series of consistent indicators including Operating Profit, Net Worth, Total Creditors, Return on Trading Assets and the DIUS P_2 Wealth Creation Efficiency Ratio

- DIUS P_2 Wealth Creation Efficiency Ratio is a good general indicator of a retailer's health. It is defined as;

  The value added by a company (sales less cost of bought-in goods and services) divided by its cost of resources used (labour and depreciation)

Monitoring Retailers

- DIUS categorise the P_2 Wealth Creation Efficiency Ratio to create a scale of financial performance:

Less than 100	*very worrying*
100-124	*head above water*
125-149	*fairly healthy*
150-174	*healthy*
Greater than 175	*very strong*

- FSP define the '*very worrying*' category as '*At Risk*'. For these companies, value added (sales less cost of bought-in goods and services) is less than the cost of resources used (labour and depreciation)

- Retailers in the '*head above water*' category are potentially '*At Risk*' from factors such as contracting sales, rising rents / labour costs and price deflation

Monitoring Retailers

DIUS Ratio: 43

DIUS Ratio: 89

DIUS Ratio: 73

DIUS Ratio: 11

DIUS Ratio: 11

DIUS Ratio: 98

Monitoring Retailers

DIUS Ratio: 81

DIUS Ratio: 93

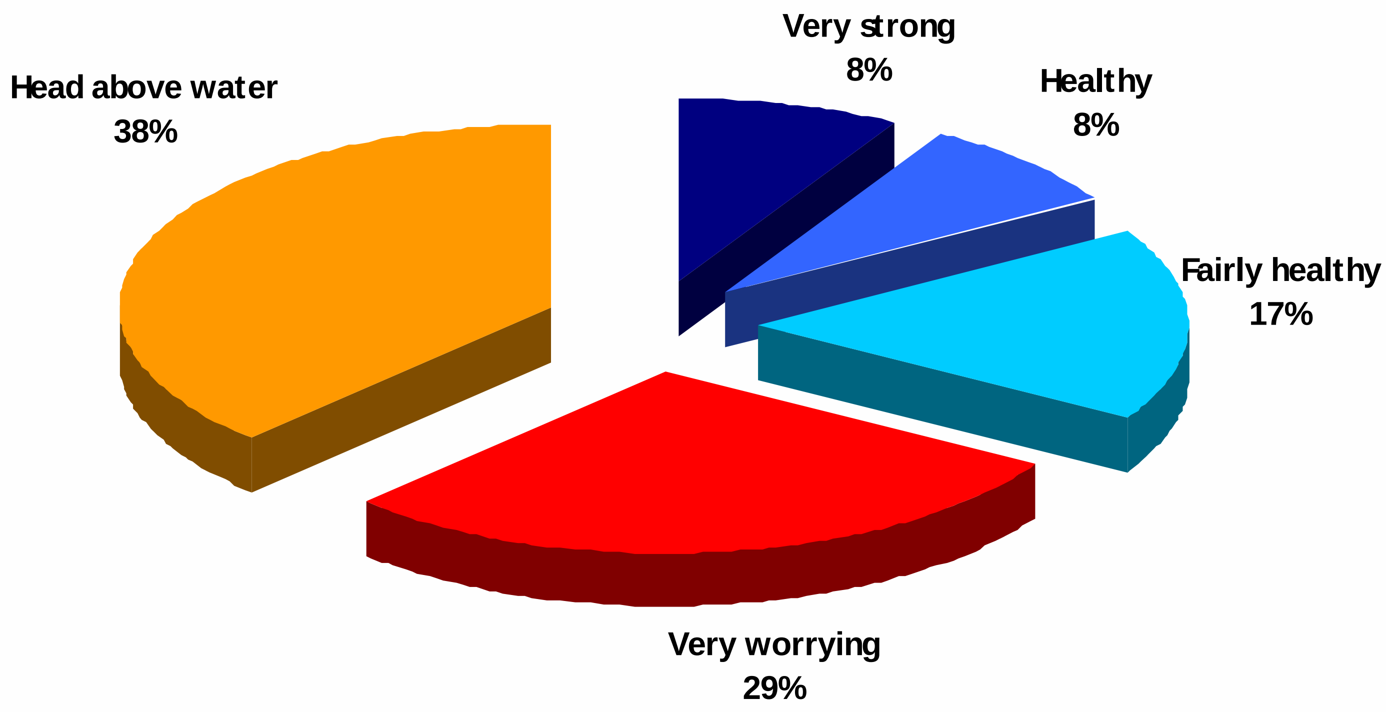
DIUS Ratio: 82

DIUS Ratio: 50

DIUS Ratio: 85

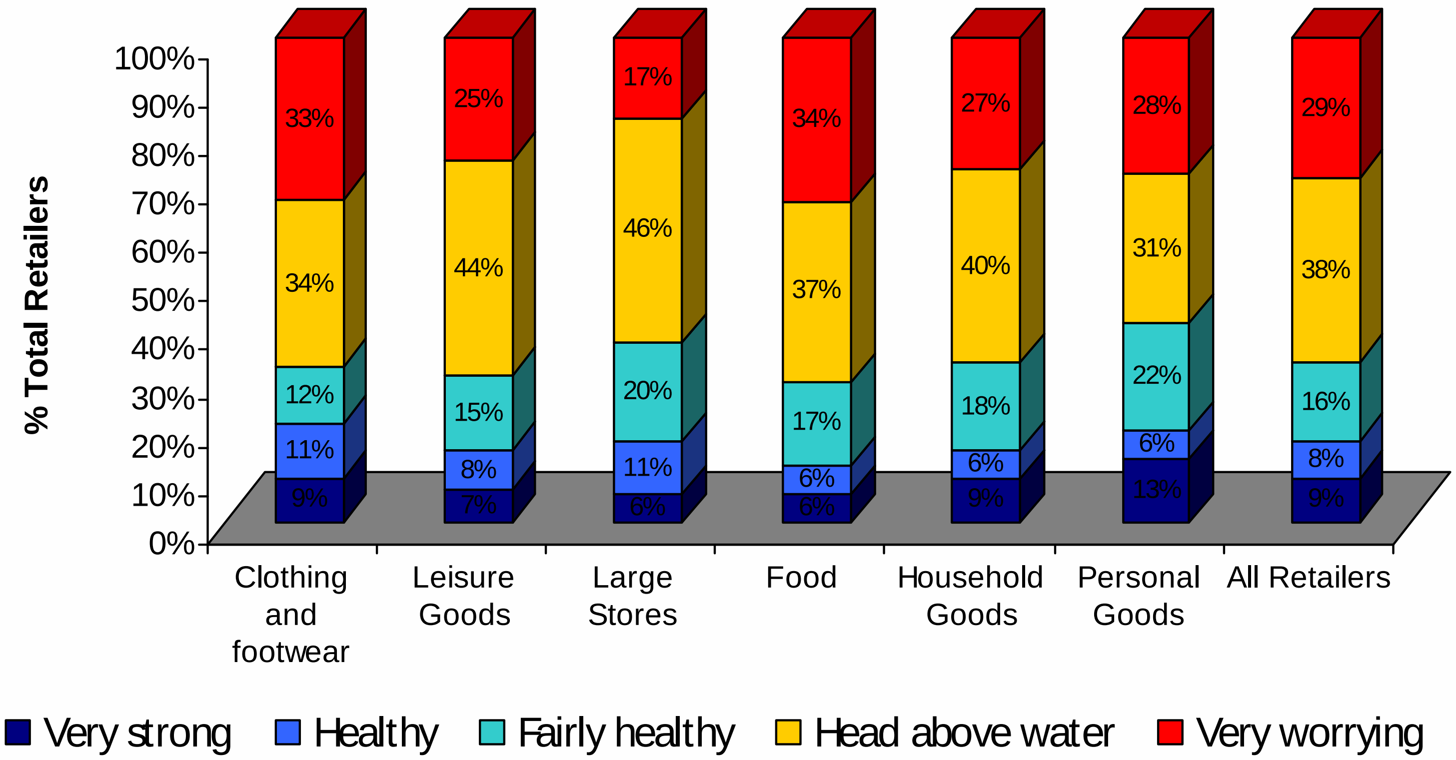
DIUS Ratio: 70

Monitoring Retailers



- Of 700 retailers monitored by FSP, nearly 30% are ‘At Risk’
- A further 38% are potentially ‘At Risk’
- Only 33% of retailers are in a healthy condition

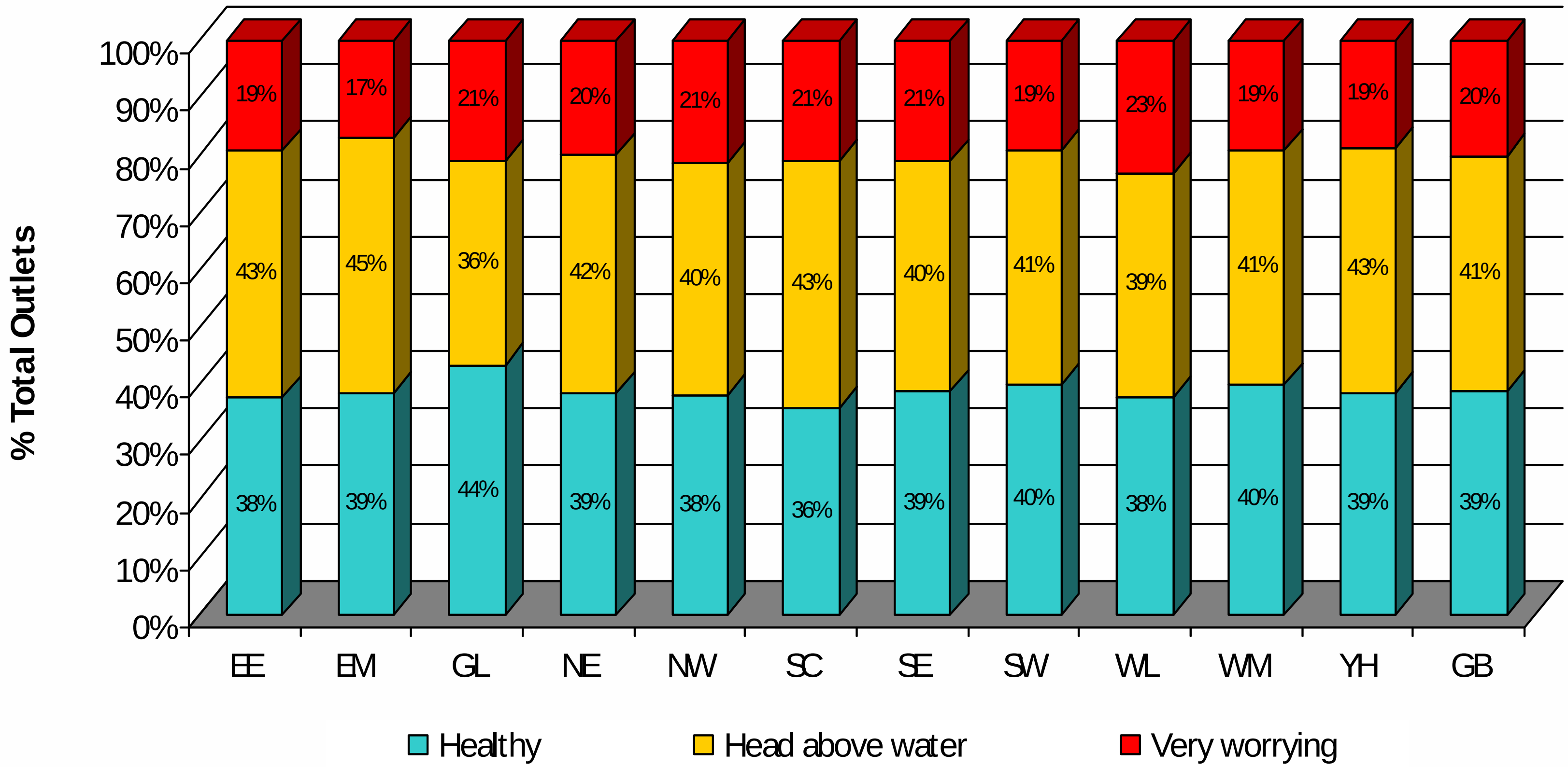
Monitoring Retailers



- There are stronger concentrations of ‘At Risk’ retailers in the Clothing & Footwear and Food categories
- There is less risk amongst Large Stores (department and variety stores) however, more retailers are ‘Head Above Water’

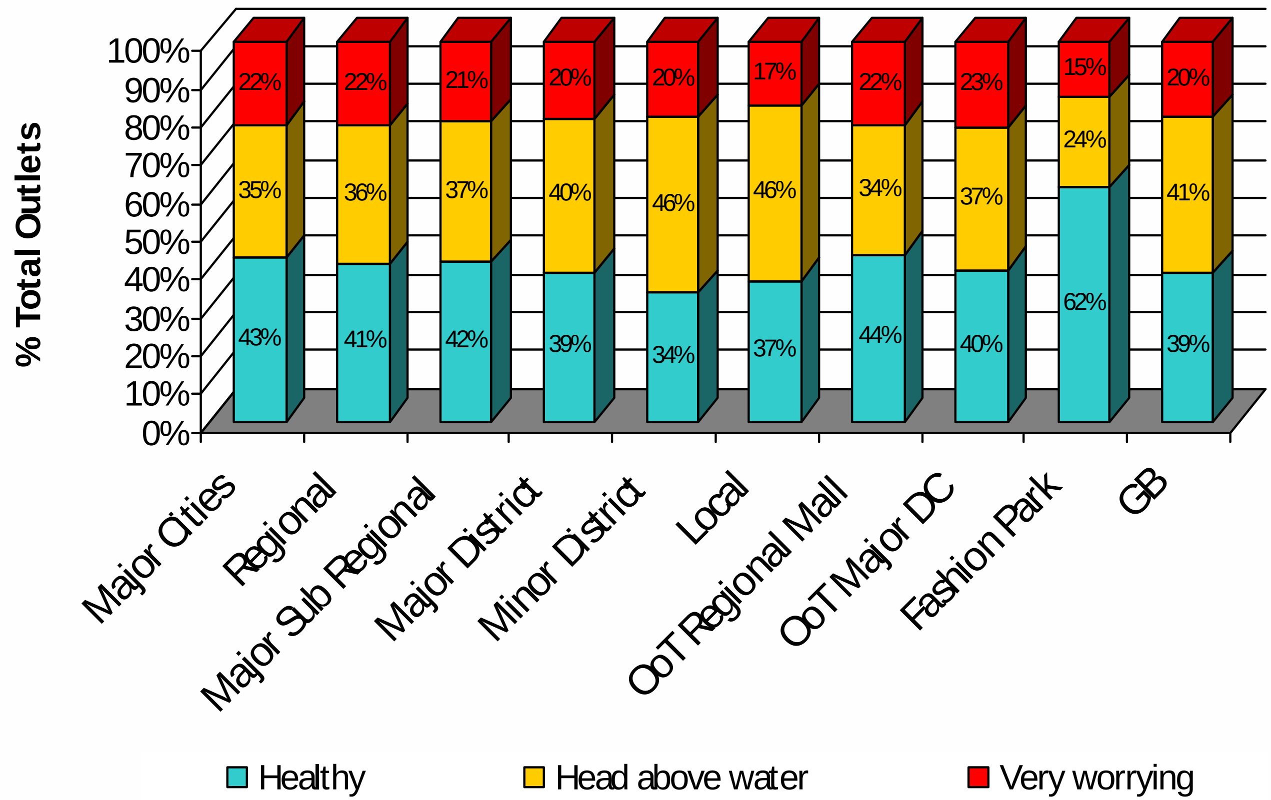
Monitoring Retailers

Geographical Analysis



- By linking the health of retailers to the locations of their stores, FSP has produced a geographical assessment of the impact of '*At Risk*' retailers
- There are above average concentrations of '*At Risk*' retailers in Wales, North West, South East, Scotland and London
- There are above average concentrations of '*Healthy*' retailers in London

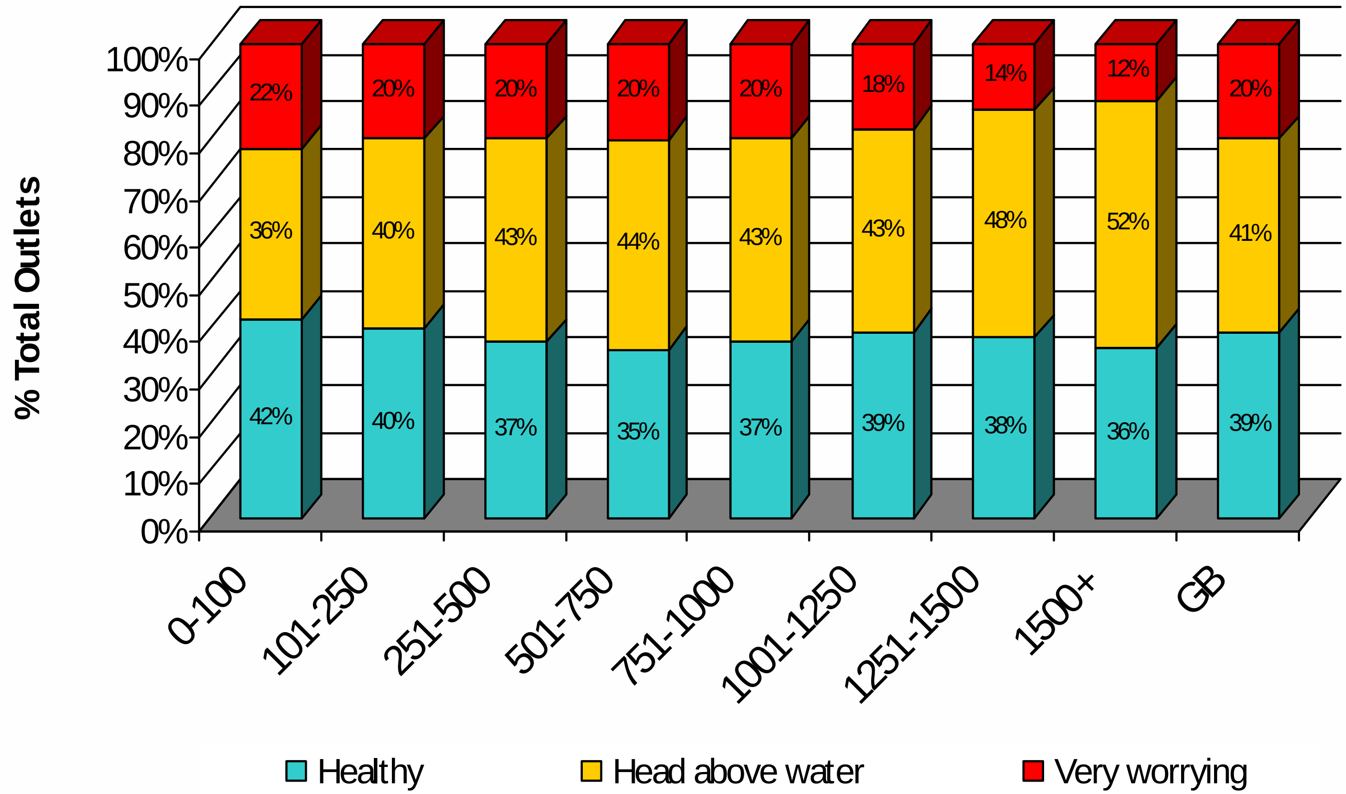
Geographical Analysis



Using CBRE's classification of NSLSP Centres:

- There is generally a similar level of risk across the major centre groups however, the larger town centres, regional malls and fashion parks contain more healthy retailers
- There are above average concentrations of '*At Risk*' retailers in major district centres e.g. Hempstead Valley, Serpentine Green, Parkhead Forge
- HAW Threat to Minor District Centres

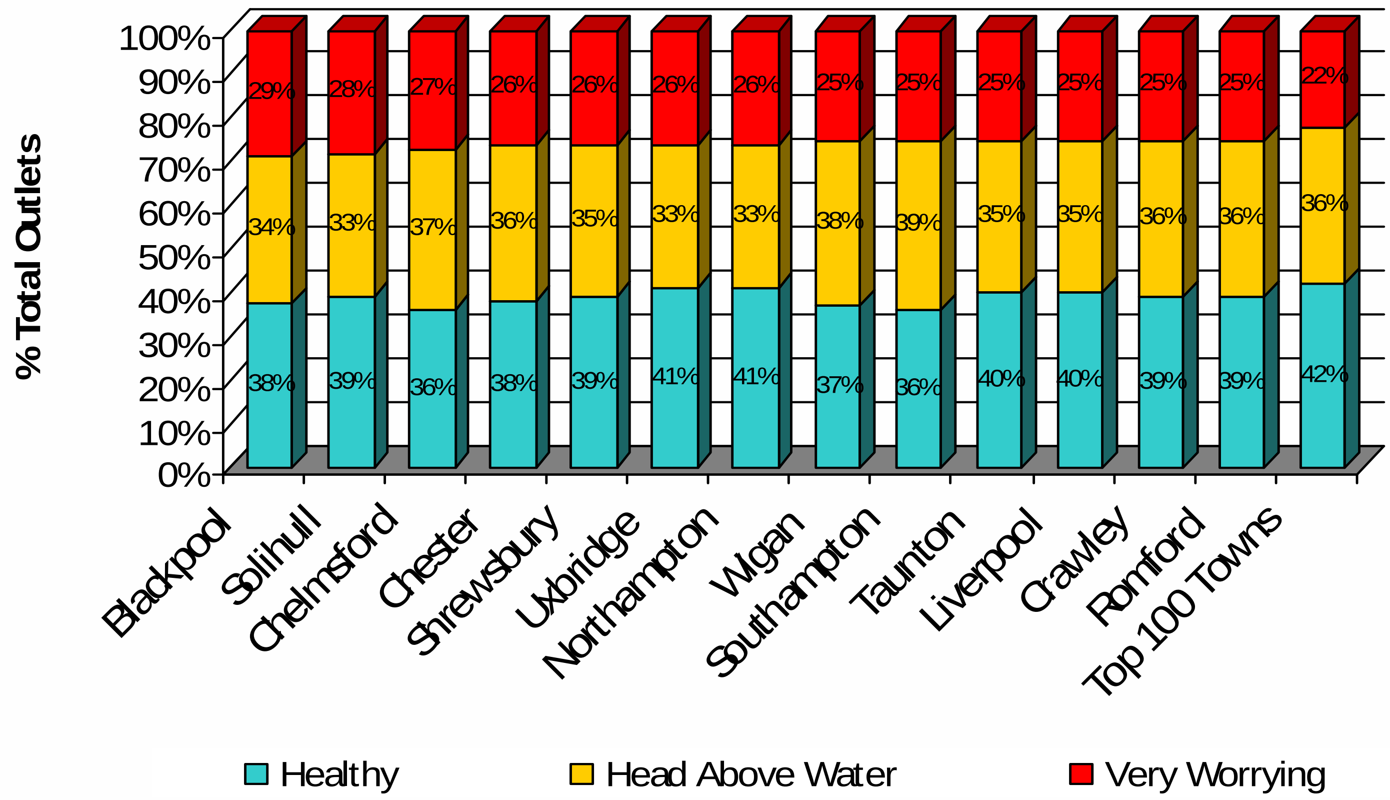
Geographical Analysis



Using position in CBRE's NSLSP national ranking of comparison goods centres:

- There is a slightly higher level of risk in the top 100 centres, although these also have a higher representation of healthy retailers
- Risk appears to diminish for smaller centres however this may be a function of the strength of those multiples who are capable of operating in smaller markets

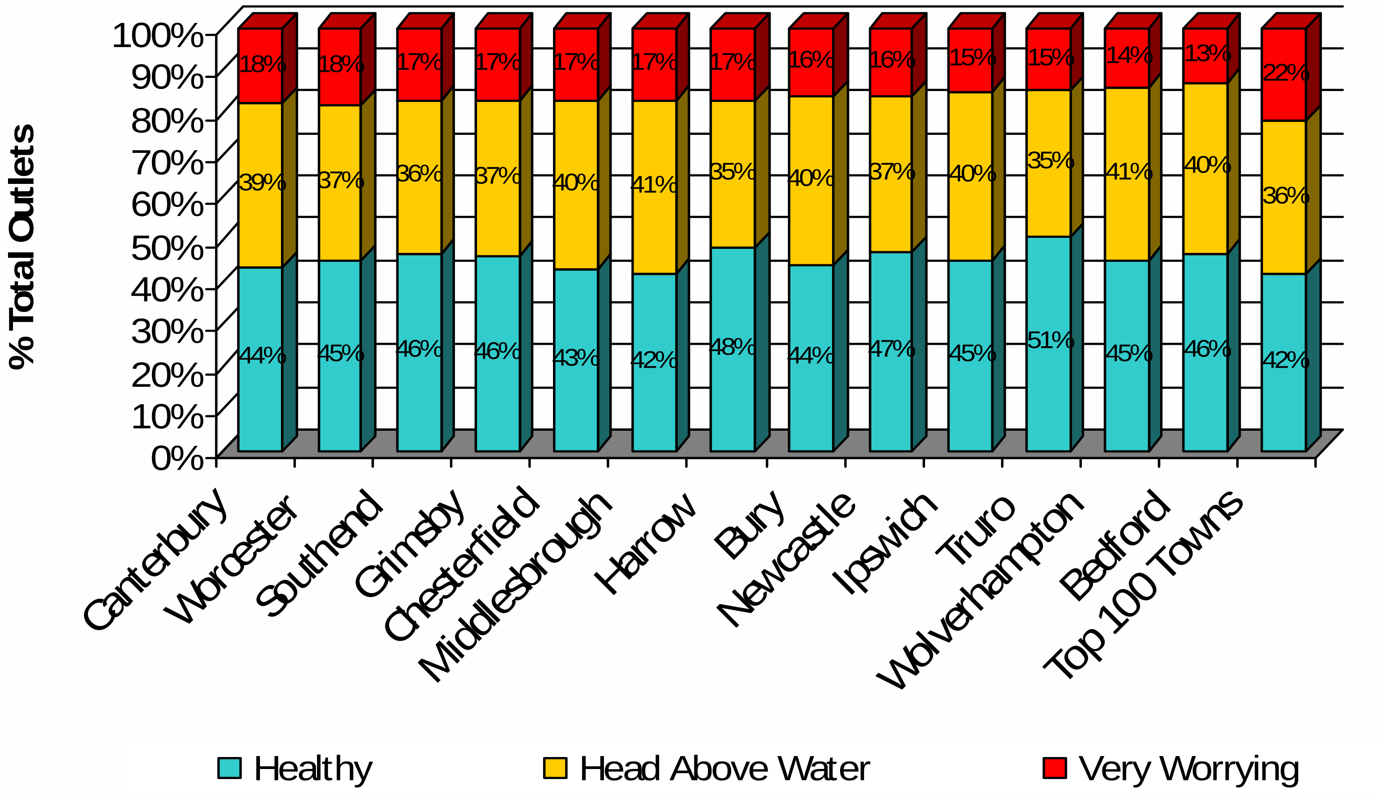
Geographical Analysis



FSP has produced an assessment of Retailer Risk at centre level:

- The chart above shows major towns with relatively high risk (above average % of *Very Worrying* and below average % of *Healthy* retailers)
- These include affluent towns such as Chester and Solihull and blue collar towns such as Crawley and Romford

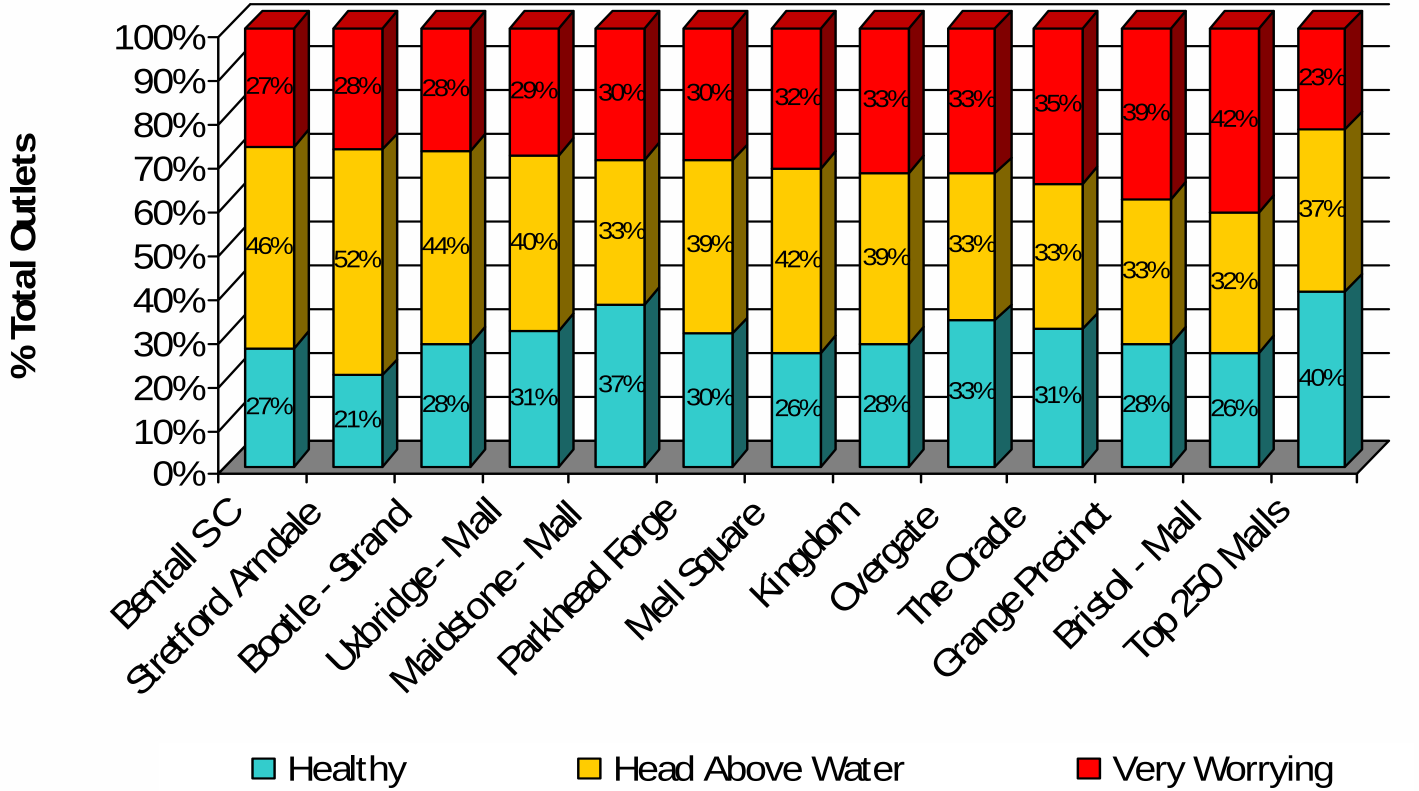
Geographical Analysis



FSP has produced an assessment of Retailer Risk at centre level:

- The chart above shows major towns with relatively low risk (below average % of *Very Worrying* and above average % of *Healthy* retailers)
- These include affluent towns such as Canterbury and Truro and blue collar towns such as Middlesbrough and Wolverhampton

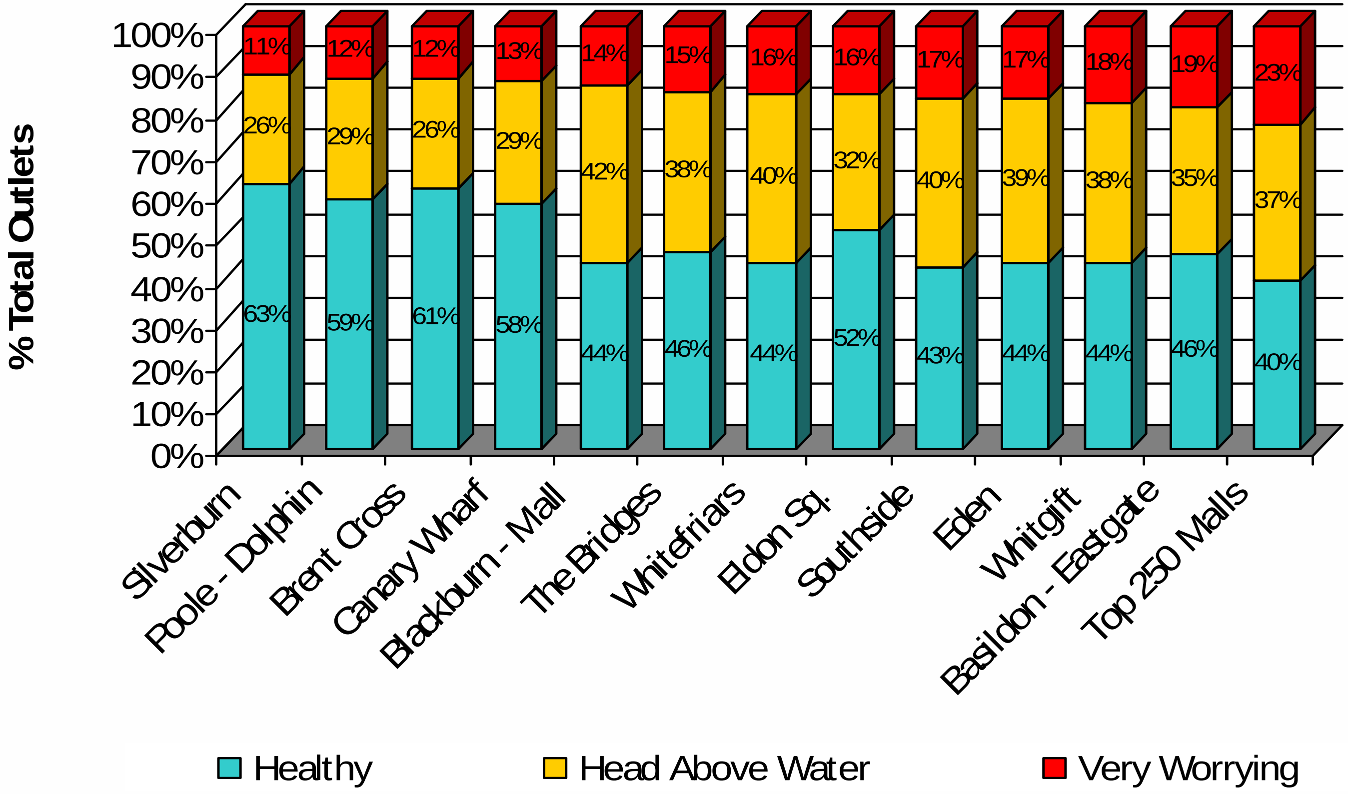
Geographical Analysis



FSP has produced an assessment of Retailer Risk at shopping centre level:

- The chart above shows major shopping centres with relatively high risk (above average % of *Very Worrying* and below average % of *Healthy* retailers)
- These include Uxbridge, Parkhead, Dundee and Birkenhead

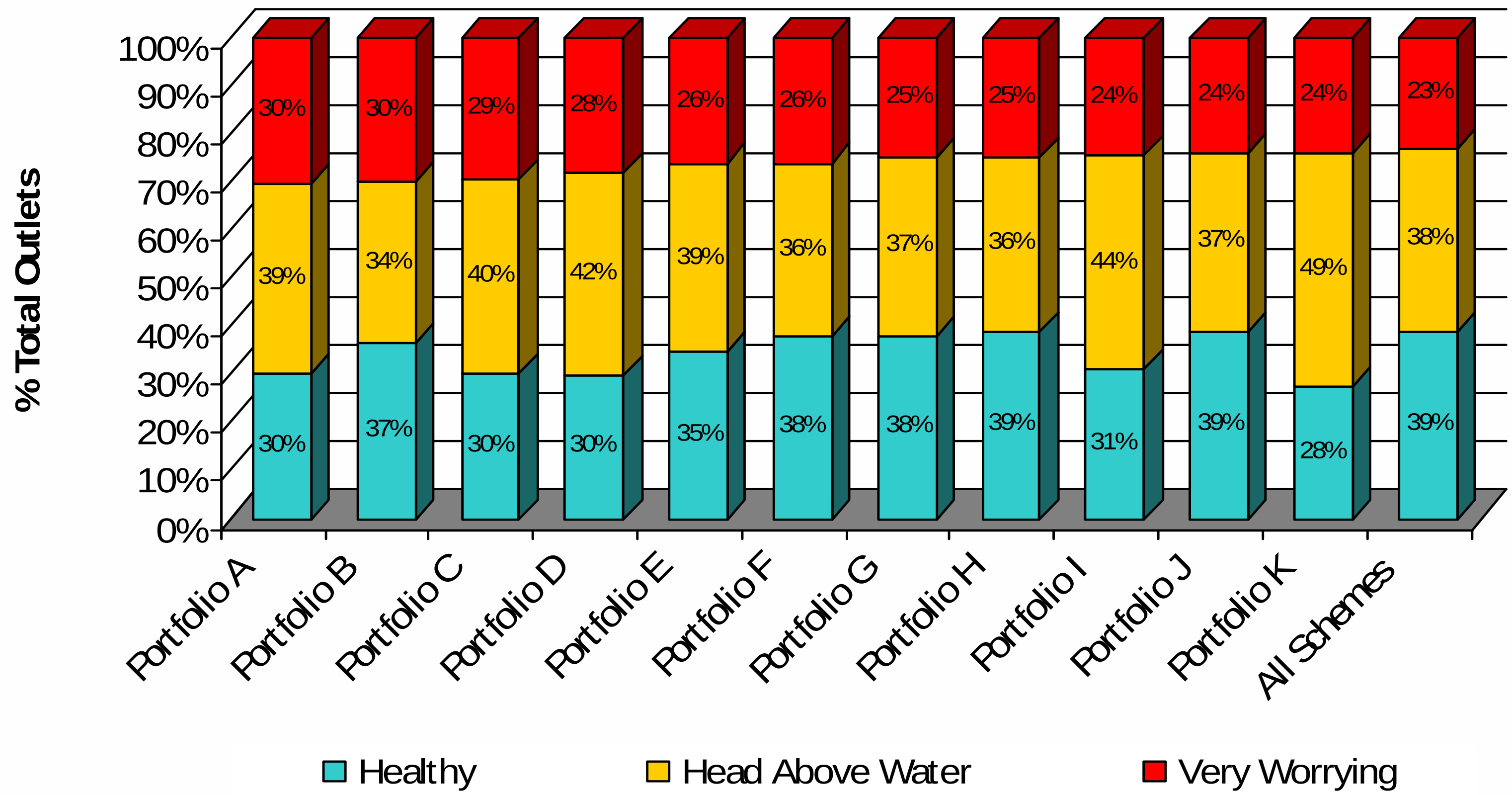
Geographical Analysis



FSP has produced an assessment of Retailer Risk at shopping centre level:

- The chart above shows major shopping centres with relatively low risk (below average % of *Very Worrying* and above average % of *Healthy* retailers)
- These include Brent Cross, The Bridges, Southside and Whitgift

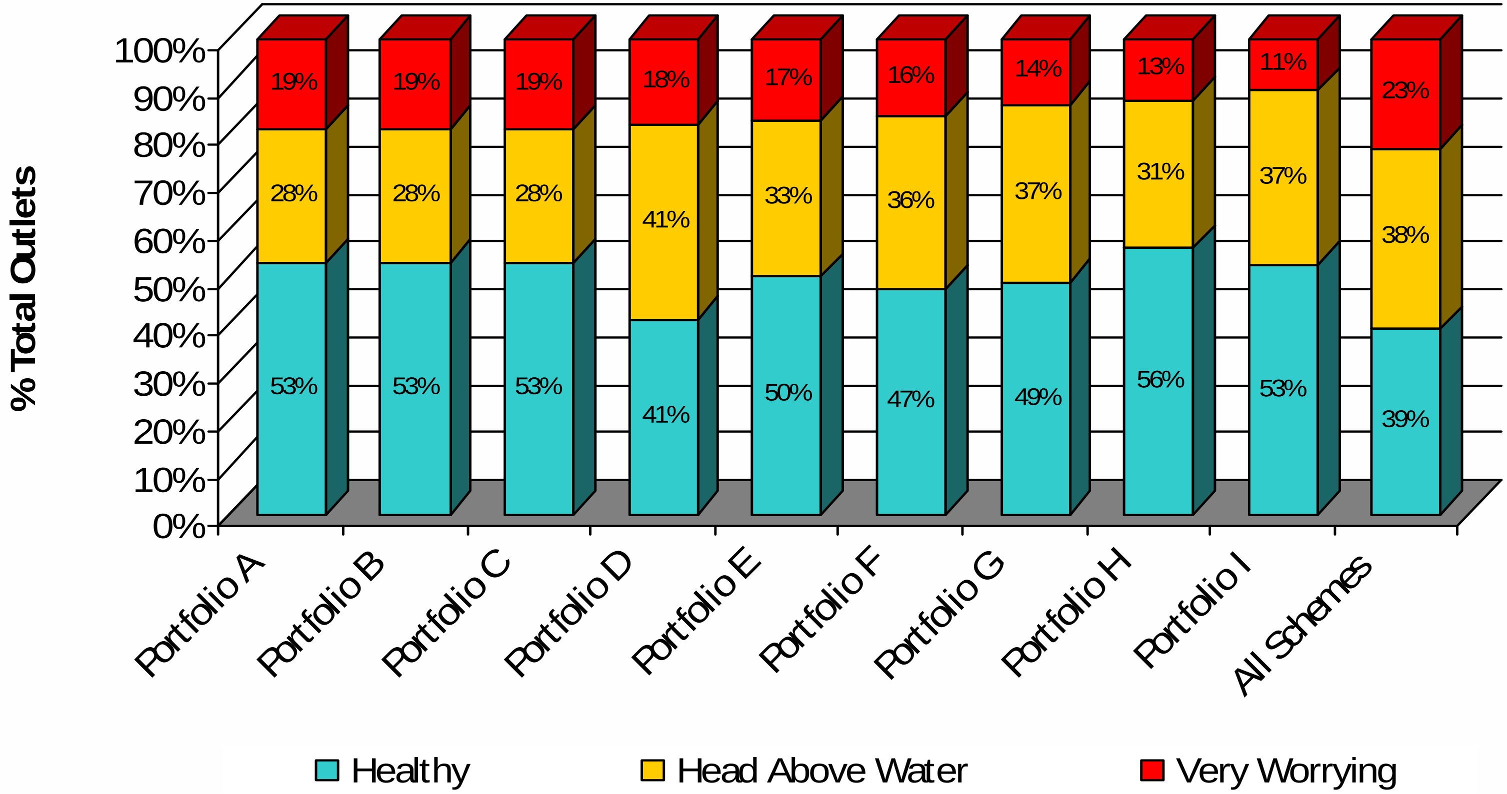
Geographical Analysis



FSP has produced an assessment of Retailer Risk at Portfolio level:

- The chart above shows major shopping centres with relatively high risk (above average % of *Very Worrying* and below average % of *Healthy* retailers)

Geographical Analysis



FSP has produced an assessment of Retailer Risk at Portfolio level:

- The chart above shows major shopping centres with relatively low risk (below average % of *Very Worrying* and above average % of *Healthy* retailers)

Geographical Analysis

- Pre-acquisition due diligence analysis of investment
- Assessment of development sustainability
- Selecting less risky assets for acquisition
- Identifying vulnerable assets (marginally viable retailers may depress sustainable rental growth or lead to undesirable voids)
- Identifying vulnerable retailers for remedial intervention
- Assessing the sustainability of potential new occupiers
- Targeting healthy retailers as scheme entrants
- Assessing town centre risk outside investment schemes
- As an indicator of potential for rental growth
- Reports of ‘At Risk’ retailers are available by town from FSP

Applications

- No type of centre, town, asset or portfolio or location is immune from the threat of ‘At Risk’ retailers
- The geography of risk is complex. It is not simply a good town – bad town thing.
- Clearly, some centres have greater risk while some have more healthy retailers
- This style of analysis is being increasingly used to evaluate assets
- It is therefore important that owners, managers and market analysts recognise where risk exists and develop remedial strategies for intervention
- Doing nothing is not an option. Empty units and unsustainable retailers will depress shopper spend, rental growth and property values.
- No single indicator is perfect but the approach is an important start and can be improved with complimentary analysis.

Conclusions

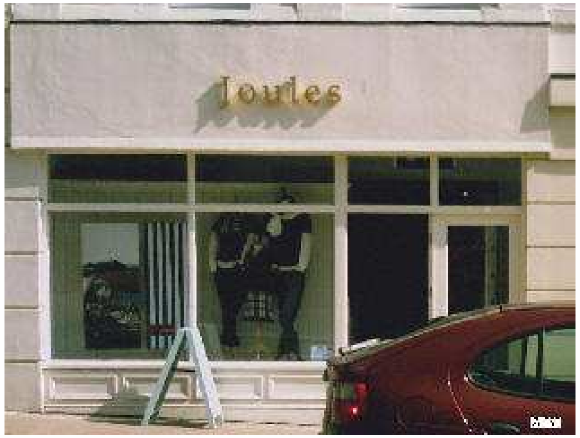
DIUS Ratio: 201

DIUS Ratio: 176

DIUS Ratio: 154

DIUS Ratio: 169

DIUS Ratio: 171



DIUS Ratio: 156

The Hot Hundred

Discussion