

The gap widens between winners and losers

Over the past month, over 50 retailers have announced their trading updates for Christmas; together they account for more than half the cash spent in the retail sector. The best performers on the high street were Oxfam and Mulberry – draw your own conclusions!

The two-way lurch between luxury and value at Christmas was also in evidence in strong figures from Ted Baker and Primark. Other top performers included John Lewis and House of Fraser, which boasted an 11% rise in sales.

Shoppers continued to spend more on the internet although 'click and collect' has been the biggest winner for retailers. About 80% of Sainsbury's non-food internet orders were picked up from a store.

Most retailers are realistic about the prospects for 2012. Lord Wolfson, the chief executive of Next, summed up the thoughts of many: "If you had asked me three months ago, I would have said 2012 would be better than 2011. Now we have moderated that to it being probably about the same."

Retailer	Trading Period	LFL Sales Growth	Total Sales Growth	General Comments (VAT / FUEL / MARGINS / ONLINE/PROFITS)
Select	6 wks to Jan 7	17.1%	40.2%	A result of store openings
The Fragrance Shop	5 wk Christmas period	13.2%	22.8%	Online sales up over 110.6%
Aurora Fashions	5 wks to Dec 31	13.0%	13.5%	
House of Fraser	5 wks to Dec 31	11.1%	-	Online up 124%
The Entertainer	5 wks to Dec 7	10.1%	28.8%	LFLs include online - split 4.7% in-store 36.7% online
Matalan	5 wks to Dec 31	9.9%	-	Achieved best weekly sales to date over period
Robert Dyas	4 wks to Dec 24	7.4%	-	Inc. VAT - online up 46.2%
Debenhams	5 wks to Dec 31	6.5%	-	Inc. VAT
John Lewis	5 wks to Dec 31	6.2%	9.3%	Online sales up 27.9%
Supergroup	9 wks to Jan 1	5.8%	28.0%	LFLs include online
QD Stores	5 wks to Dec 24	5.7%	-	
Blue Inc	December	5.5%	75.0%	Total sales boosted by acquisition of The Officers Club
Greggs	5 wks to Jan 7	5.10%	10.8%	
The Original Factory Shop	6 wks to Dec 26	5.0%	23.0%	
Lush	Dec-11	5.0%	13.8%	
JJB Sports	4 wks to Dec 26	5.0%	-	
Pets at Home	6 wks to Jan 12	4.9%	-	
The Perfume Shop	4 wks to Dec 24	4.5%	16.0%	Online up 42%
Boots	5 wks to Dec 31	4.1%	-	
Majestic Wine	9 wks to Jan 2	4.0%	8.4%	Ex. VAT
Waitrose	Dec-11	3.8%	9.5%	Online sales up 49%
New Look	5 wks to Dec 31	3.6%	5.4%	Inc. VAT
The Co-operative Food	4 wks to Dec 31	3.1%	-	Inc. VAT, ex. Fuel
Superdrug	5 wks to Dec 31	2.5%	-	Online up 94.9%
Sainsbury's	14 wks to Jan 8	2.1%	4.50%	Ex. Petrol, Non-food & Online particularly strong
JD Sport	5 wks to Jan 7	1.6%	-	Maintained margins
Maplin	4 wks to Dec 31	1.4%	6.0%	Online up 21%
Dunelm	26 wks to Dec 31	1.1%	8.8%	Profits to come in as expected
Morrisons	6 wks to Jan 1	0.7%	2.9%	Ex. Fuel
Marks & Spencer	13 wks to Dec 31	0.5%	1.8%	Ex. VAT, inc. GM & Food
Clinton Cards	5 wks to Jan 1	0.4%	-	Clintons LFLs up 0.8% Birthdays LFLs down -2.7%
Tesco	6 wks to Jan 7	-2.3%	-	Ex. VAT and Petrol, Online sales up 14%
Homebase	18 wks to Dec 31	-2.6%	-2.5%	
Mothercare	13 wks to Jan 5	-3%	-6.9%	Online down 2.2%
Thorntons	14 wks to Jan 7	-4.2%	0.6%	Online up 13%
Halfords	13 wks to Dec 30	-4.8%	-4.4%	Online down 3.6%
Dixons	12 wks to Jan 7	-7.0%	-6.0%	UK & Ireland
HMV	5 wks to Dec 31	-8.2%	-16.9%	
Argos	18 wks to Dec 31	-8.8%	-7.8%	Online sales up 38%
Comet	Nov - Jan 8	-14.5%	-	
Game	8 wks to Jan 7	-15.2%	-17.6%	UK & Ireland
Tiger	December	-	21.0%	
Foyles	December	-	20.0%	
Primark	16 wks to Jan 7	-	16.0%	A result of store openings
Ted Baker	8 wks to Jan 7	-	15.7%	Margins in line with expectations following little promotional activity
Asda	4 wks to Dec 24	-	10.7%	
Next	Aug 1st to Dec 24	-	3.1%	Driven by catalogue sales - up 16.9% compared to -2.7% in stores. Didn't discount so able to maintain margins

2012 Predictions

1.0 'Clicks' drive retail growth at the expense of 'bricks'

Online retail to strengthen during 2012...

Online retailing has been the clear winner throughout 2010 and 2011, against a backdrop of a weak economy, stubborn inflation, unemployment, falls in real retail sales, and general uncertainty. The benefit of a wholly integrated online offer as part of an optimum retail model is impacting on physical space and will begin to hit home during 2012.

Occupational requirements fundamentally change...

Occupier requirements have fundamentally changed. By targeting growth through online sales and through international expansion, most mature, domestic non-food retailers will be net reducers of space in the UK. For new expanding retailers it is simply a case of stores in fewer locations.

2.0 Imminent lease expiries – a catalyst for swift change...

50% of high street and shopping centre leases to expire by 2015...

In shopping centres and on the high street we are coming to the end of the 80s 25 year leases, the 90s 10 year leases and sub-10 year leases of the last decade. According to our latest research, up to 25% of existing high street and shopping centre leases are due to expire by 2013 or 50% by 2015 (versus approximately 5% and 15% for retail parks by 2013 and 2015 respectively).

We have not yet seen the true effect of the shift in demand on our retail landscape, but the next 24 months are likely to see a swift and dramatic 'playing out' of this polarisation as lease contracts expire.

3.0 Pockets of rental growth forecast for 2012...

Average retail rents are still below peak levels. As retailers look for good value rents, we will see some growth on retail parks offering space at £15-£35 per sq ft, often as a result of regeneration of DIY stores for value, food and non-food retailers.

Restaurant demand is similarly strong, both in and out of town, as the distinction between retail and leisure becomes blurred.

Regional high streets and secondary shopping centres are most susceptible to significant rental income erosion, although London will continue to be a robust market as demand simply outweighs supply.

4.0 Business rates – a significant headwind in non-prime

Whilst new deals will reflect market value, business rates remain the elephant in the room. Set at 2008 valuations, the 2010 rating revaluation is out-dated and needs attention prior to the next VOA revaluation date of 2015. Based upon average rental declines from 2008 to end 2011, a 45% business rate contribution calculated at 2008 valuation now equates to over 50% of rent today. In harder hit markets, business rates will equate to 90-100% of adjusted market rents in 2012.

5.0 Development to return, but not as we know it...

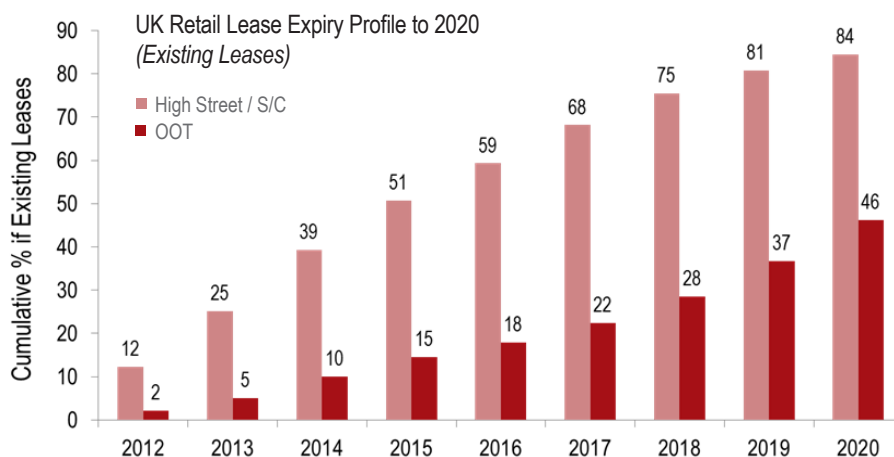
Whilst most commentary has focused on the lack of town centre regeneration, we are witnessing significant plans to redevelop older stock, particularly

in the out of town market. Many original 25 year leases from the late 80s / early 90s are coming to an end and this is coinciding with a change in planning landscape. Localism gives Local Authorities greater autonomy in determining how they generate new inward investment and income, which is being reflected in a more commercial approach to granting planning permissions for retail and leisure development, sometimes to the detriment of the traditional retail centre.

6.0 Conclusion – structural change about to play out...

So, quantitative easing and historically low interest rates in particular have provided a cushion for consumers and have softened the landing for UK Retail over the recent years since the global economic downturn. The structural changes in the retail market have not yet fully played out. 2012 will see more divergence between winners and losers and true values will be realised for secondary property.

Traditional and somewhat predictable retail real estate cycles are a thing of the past. 2012 will be a year of realisation and the first year of positioning for the new order.



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