



UK RETAIL CONSTRUCTION MARKET 2012-15



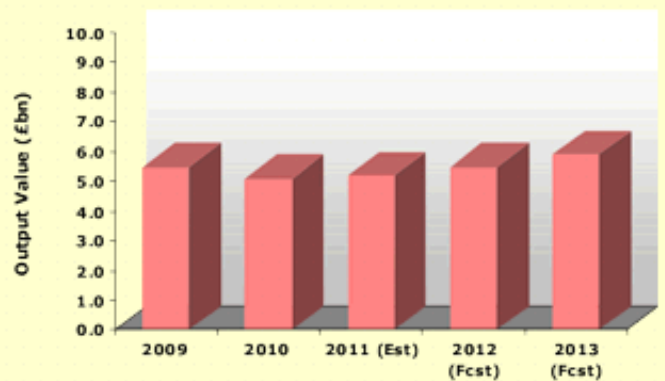
OVERALL MARKET

After losing 25% of its value in 2008 and 2009, the retail construction market is expected to grow by 3% in 2012 before stronger consumer confidence and stronger economic recovery lead to 5% growth per year between 2013 and 2015.

This is despite the extremely uncertain economic environment, poor consumer confidence and falling retail sales. The growth is principally through the expansion and major refurbishment programmes of the main supermarket chains, as well as the value-based supermarket (and other) chains. Given the current economic situation, it should be noted that in the short term, some projects may be put on hold until economic recovery is more certain.

SUMMARY

We have a cautiously optimistic view of the £5bn retail construction market going forward, with annual growth expected at 3-5% over the next few years, despite the ongoing problems with consumer confidence, the rise in online shopping and the very mixed financial results of retailers. This is largely due to the seemingly inexhaustible demand for floorspace from the supermarket groups, four of whom – Tesco, Asda, Sainsbury and Morrisons – control 75% of the grocery market between them. According to Glenigan, supermarkets account for 2 in every 3 projects in the sector, with an average value of £5-10 million. There are few new shopping centres being opened, although the ongoing competitive need to upgrade existing schemes (as well as regular shop-fits in the high street) will continue to generate work for the construction industry.



Source: "Opportunities in Retail Construction and Refurbishment Market UK 2011-2015", AMA Research

KEY SECTORS

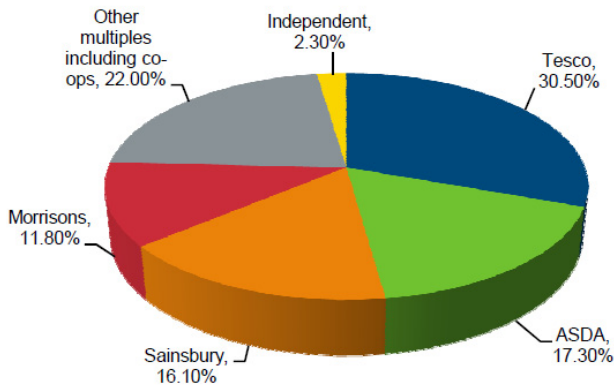
There are 3 main sectors involved in the retail market:

SUPERMARKETS

According to Retail Week in December 2011, "Supermarkets have added space at an exponential rate since the start of the credit crunch in 2007 and expansion continues unabated". The big four – Tesco, Asda, Sainsbury's and Morrisons – are winning planning permission for new outlets at a rate of one every working day.

As the illustration below shows, the top 4 groups enjoy a 75% market share of the UK grocery market between them.

Grocery Market Share: October 2011

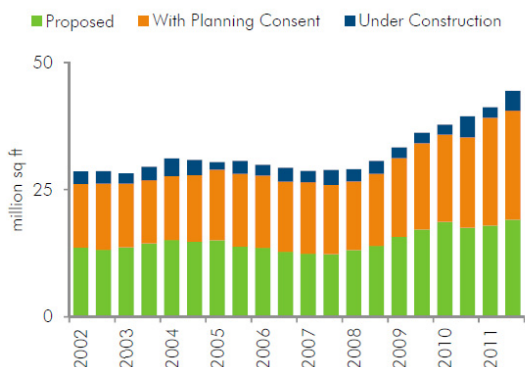


Source: Grocery Market Share – Kantar Worldpanel

According to a December 2011 report by CBRE:

- Overall, the grocery pipeline has grown by over 15.6m sq. ft. (54%) since the onset of the credit crisis in September 2007
- The amount of new grocery space under construction in September 2011 was 3.88m sq. ft., up from 2.08m sq. ft. in March
- At 44.4m sq. ft., the grocery pipeline now accounts for 36% of the all shops development pipeline, up from 25% four years ago

Total Pipeline (H1 & H2)



Source: CBRE, PMA

HIGH STREET



The High Street has generally been badly affected by the economic recession since 2008, with a number of retailers disappearing and empty units common, to be replaced often by charity shops and value chains. (According to the Local Data Company, town centre vacancy rates have surged, from just over 5% at the end of 2008 to 14.5% in September 2011 as one in seven shops pull down the shutters).

The government has invited Mary Portas to make recommendations to improve this situation, which have been welcomed by the British Property Federation. This includes permitting landlords to become high street investors by allowing them to contribute to Business Improvement Districts.

SHOPPING CENTRES

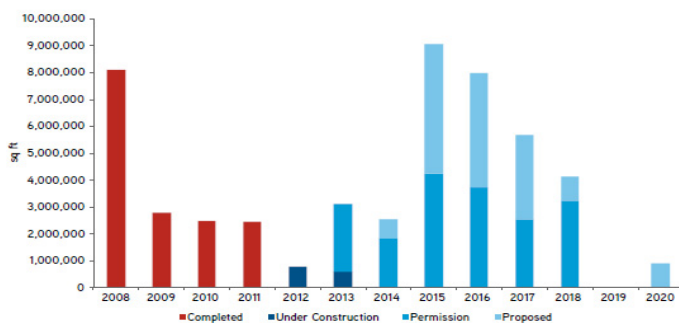


Only three shopping centres were completed in 2011 – the lowest annual number of new developments seen in many years: the 550,000 sq. ft. Trinity Walk scheme in Wakefield, the 1.6mn sq. ft. Westfield Stratford City (Europe’s largest urban shopping centre) and Standard Life Investments’ 475,000 sq. ft. retail-led mixed-use Parkway development in Newbury.

Developer Land Securities reflect the current situation: “There is very little large-scale retail development underway in the UK and, following the opening of Westfield, Stratford City, our Trinity Leeds scheme is now the only large retail development under construction”. At present, there is only 1.4 million sq. ft. of new shopping centre floorspace under construction. Much of this comprises small scale in-fill developments.

The table below from Colliers’ “UK Shopping Centre Development Pipeline, Autumn 2011” reflects the current dip in development.

UK Shopping Centre Development Pipeline - Autumn 2011



Source: Colliers International

KEY PLAYERS

Some of the main players in the retail construction industry include:

- Investors/Developers – British Land, Capital Shopping Centres, Hammerson, Land Securities, Lend Lease, Westfield
- Contractors – BAM, Barr, Bowmer & Kirkland, Interserve, ISG, Kier, Mace, McLaren, Midas, Simons, Styles & Wood, Wates



OPPORTUNITIES

We see a number of areas of opportunity for the construction industry, including:

- Supermarkets are still expanding with new-build and refurbishment/expansion, often as part of a mixed-use scheme for planning purposes
- Few new major shopping centre projects, but refurbishment of older schemes needed
- High street fit-outs by retailers to maintain competitive position

JLL has calculated that 30% of all retail stock is now redundant and needs to be recycled. They also forecast a surge in development activity as landlords redevelop second-generation retail parks built in the 1980s with new units to capitalise on strong demand from high street retailers like John Lewis, Marks & Spencer and Debenhams.