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Head of Retail



Retail sector

- £10.3 billion portfolio*
- total property under management £14.5 billion
- 80% out-of-town

Investment market

Demand for prime retail, in the right locations and providing well configured trading floorspace, continues to be healthy and market prices are robust. Superstores and Open A1 retail parks are experiencing particularly strong demand with limited supply. The majority of available supply is of secondary assets and there are initial signs of differentiation in yield levels between these and prime. We consider this differentiation should widen to reflect correctly their relative growth prospects.

Occupier market

While retail trading remains competitive and retailers' experience in the current market varies, with some affected by the impact of e-commerce, consumer spending is continuing to grow, albeit at a lower rate. Total retail sales are forecast to grow over the next five years, with out-of-town shopping locations maintaining the trend of taking an increasing share. Driven by factors including convenience and enhanced choice, out-of-town is expected to see sales growth of 18.5% to 2011 compared to in town at 5.8% (Verdict).

Retailers find the size and layout of out-of-town space advantageous, while the overall costs of occupation and servicing such locations are typically lower. Migration or expansion by tenants from the high street to out-of-town is continuing with several utilising new store formats. The UK food retail sector is also strong with operators stepping up expansion to provide increasing non-food sales capacity. All retailers require ongoing flexibility of unit use and configuration, with favourable car parking ratios. Accordingly, there is strong demand for the types of out-of-town retail parks and superstores in which we are invested, against an increasingly constrained supply. Conversely, the market development pipeline is expected to increase availability of in-town shopping centre space over the next five years. These features are producing higher than average rental growth for out-of-town retail.

*including completed value of committed developments

Strategy and positioning

British Land has a distinctive retail portfolio, being the **largest owner of UK out-of-town retail warehouses and superstores**. In retail warehouse parks we favour **open A1 planning** consents where supply is extremely restricted and customer demand remains high. Our **occupier led strategy**, understanding the customer and providing the preferred trading space, is focused on these assets – their popularity with both tenants and shoppers bring continuing prospects of superior returns. We also hold selected in-town assets where we see opportunities for adding value.

We pursue acquisitions and disposals which further strengthen the portfolio. Assets are subject to regular review as we recycle capital into those retail assets which offer best prospects for rental growth. **Sales in the year amounted to over £1 billion** (our share £755m) including: retail warehouses either primarily occupied by 'bulky goods' tenants where demand for space is lower, or open A1 schemes which are highly rented following our asset management and where advantageous market prices have been obtained; shopping centres which are similarly 'mature' or where our expectations of future growth is more limited; and in-town retail where we consider trading is likely to be weaker going forward. We have purchased new retail parks within our preferred sub-sectors, for example parks in the BL Davidson portfolio and at Oldham, where Centre Retail Park is dominant in its catchment area and offers good asset management opportunities for us to generate increased value.

Out-of-town: £8.2 billion portfolio*

- 208 retail schemes, including superstores
- providing 22 million sq ft
- arranged in 1,680 retail units
- let to over 590 tenants
- average lease length to first break of 15.6 years

Key features in the out-of-town portfolio are:

- open A1 use, applying to 85% of our retail park schemes (including 11% 'open restricted'), which can attract high street retailers
- larger schemes, usually over 100,000 sq ft, capable of dominating their catchment area
- flexibility of unit size and configuration, to ensure that we can offer retailers their preferred floorplate at both shopping parks (where trend is towards smaller units for efficient trading) and superstores
- schemes we can manage overall to improve the tenant mix and to provide better facilities (from cafes to cashpoints) in an environment which will increase shoppers' dwell time and improve sales densities for our retailers, while keeping occupational costs at a reasonable level in each case to benefit the retailers trading and our opportunities to generate rental growth.

We calculate that we are the largest owner of UK **superstores**, other than the occupiers themselves. The superstore operators are gaining an increasing share of consumer expenditure through broadening product ranges, especially non-food, while maintaining their

customer appeal of convenience and accessibility. In an increasingly restrictive planning environment which is limiting new supply of these assets, the retailers continue to require more and larger, flexible stores, and are prepared to commit to full lease lengths of over 20 years. The profile of rental growth with highly secure income is an attractive asset for British Land's portfolio. We have added to our portfolio in this sub-sector this year through the purchase of a 50% interest in 21 Tesco superstores – high quality assets in good locations let on 20 year leases to Tesco with RPI linked annual rent increases. The sale of New Cross Gate, with a Sainsbury's superstore, at a sub-4% yield and 20% above book value, provides further evidence of market demand and pricing, which should assist our superstore portfolio valuation going forward.

The **Meadowhall** Shopping Centre of 1.5 million sq ft is also an important component of our out-of-town portfolio and probably the best scheme of its kind in the UK, with exceptionally strong ongoing customer appeal. Our strategy is to capitalise on these strengths, positioning Meadowhall for attractive low risk growth through active management and ongoing refurbishment. This is expected to be complemented by the introduction of investment partners to the asset's ownership structure, and we have recently announced our plans to offer the market the opportunity to acquire such a stake in Meadowhall.

In-town: £2.1 billion portfolio

- 7 shopping centres – 3.7 million sq ft
- 38 department stores – 5.6 million sq ft
- 53 high street shops
- 11 supermarkets

Key features

- **shopping centres** £839m
Our focus for in-town shopping centres is on those which have specific asset management opportunities. The centres are typically:
 - located within large catchment populations
 - well anchored and the dominant retail scheme in the area
 - of sufficient size to enable future redevelopment to provide new sales space
 - where we believe income growth can be achieved through our proactive asset management, including introduction of additional customer facilities which will also be income generating, such as catering and leisure operations.
- **department stores** £945m
These stores are fully let to Debenhams and House of Fraser with a weighted average term of over 30 years. Income growth from these assets is underpinned by provisions in the leases for guaranteed increases in rent, such that gross rents will increase by some £5m (14%) over the next five years.
All the stores are located in town centre retailing locations and opportunities for adding value are under review, including sales and development.
- **high street shops** £348m
Disposals in the year of 27 high street shops, and two in-town supermarkets have been made, for a total of £146m, tightening our focus in the sector, and where particularly good market prices have been achieved. More such disposals are planned.



The Peacocks, Woking

Asset management and development

Initiatives continue apace, including the acquisitions and disposals, lettings, rent reviews, unit reconfigurations, refurbishments, developments and the major project at Meadowhall, all as set out earlier in this report. In summary across the retail portfolio, during this year:

- 214 rent reviews were concluded at £7.9m per annum (BL share) above the previous rent and overall 5.8% above ERV
- 226 lettings and renewals generated £15m per annum (BL share) of new rent
- implementation of 225,000 sq ft of additional space at mezzanine level in retail park units (part of the c 1 million sq ft of potential such projects within the portfolio)
- improving tenant mix and shoppers' choice at out-of-town retail parks by replacing catering units of c 4,000 sq ft with several smaller units of c 1,000 sq ft let to retailers including Costa and Subway
- amendment of the planning consent for the development of the retail park at Giltbrook, Nottingham has been achieved. Some 50% of the new floor area is under offer and we expect to generate premium rents at this attractive regional destination park.

The market is very competitive in the UK and retailers are focused on margins and selective on trading locations. As a result tenants are becoming more demanding and we are seeing an increase in market incentives for less than prime space. We expect modest rental growth rates for the sector overall, with increasing differentiation depending on location, planning, trading performance, tenant mix and unit flexibility. However, the diversity and quality of our portfolio enables us to respond positively to trends, deliver the required accommodation to our tenants and take advantage of new retailing concepts, such as Marks & Spencer Simply Food, Tesco Home Plus and Asda Living stores. We are also expanding in Europe, through PREF and our own investments and developments, as set out earlier in this review.