

BARGAIN HUNTING AT THE SHOPS

The August IPD figures reported 12 month total returns at a twenty five year high for offices, and a twenty year high for industrial. Retail in comparison fell just short of a four year high. The figures speak for themselves, in property retail is lagging the field.

The market in a minute

All property capital growth index rose 0.9% in August m-on-m, vs 1.1% in July*

Industrial saw the highest capital growth (1.3%), and retail the lowest (0.6%)*

12 month total return reaches 19.1%, the highest since 2010*

Investment volume for Q1-3 was £38.3 bn, vs £33.7 bn for same period of 2013**

* Based on IPD figures

** Based on Property Data figures

However, retail has now underperformed for so long one has to wonder whether it is now time for investors to consider that the underperformance, either through arbitrage or a shift in the cycle, points to an opportunity?

Certainly retail sales figures remain strong, the consumer is making a big impact on the GDP figures, while Local Data Company has been reporting falling vacancy rates for some time now, albeit a gradual reduction. On the other hand, we are still seeing insolvencies, most recently Phones 4u, as well as La Senza back in the summer.

Hanging a buy sign over the whole sector would unquestionably be rash. On a twelve month basis, the IPD all property rental value index is still negative. On a shorter term three month comparison it is rising, but only just about.

However, the pattern of recovery for offices and industrial was that first there were 'islands' of good news, and the effect gradually spread out. There are signs of the same for retail.

If we look at the 25 sub-sector indices that make up IPD's all retail rent index, on a twelve month basis, seven are now reporting positive rental growth. Critically, it is not just London and the South East, with the North East and West Midlands standard retail indices now in positive territory.

Turning to a three month comparison, fifteen of the rental sub-indices (the majority) are now in positive territory. Joining the list of locations seeing growth are standard shops in the North West, and retail warehouses in the North and Scotland.

Using broad brush strokes and based on IPD figures, standard shops are leading the recovery for retail, followed by retail warehouses (with the bias probably towards fashion parks). Shopping centres are the tail-end Charlie of the sector, at least for now, with a North/South divide firmly in evidence. One could wonder whether this may be partly a case of near-obsolete centres pulling down the whole sub-sector in the figures?



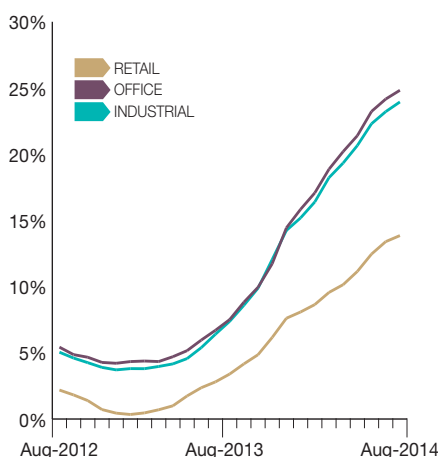
JAMES ROBERTS
Head of Commercial Research

"The pattern of recovery for offices and industrial was that first there were 'islands' of good news, and the effect gradually spread out. There are signs of the same for retail."

Follow James at @KF_JamesRoberts

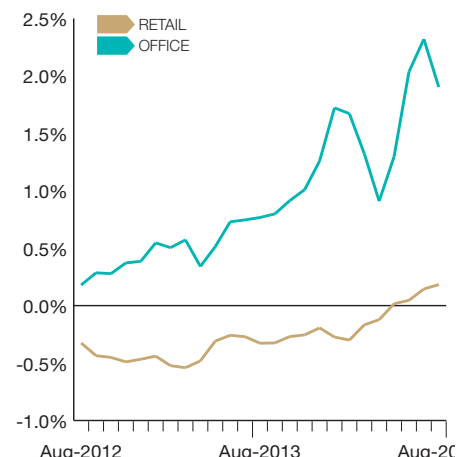
For the latest news, views and analysis on the world of prime property, visit [Commercial Briefing](#) or [@kf CommBrief](#)

FIGURE 1
12 month IPD total returns



Source: IPD

FIGURE 2
3 month IPD rental growth



Source: IPD

However, perhaps the biggest draw towards retail property is there is now an emerging picture of what the future of retail will look like. Previously, everyone knew that the internet was a threat, and spending patterns were changing. What was not apparent was the best strategy to adopt in order to match the changes in retail.

Today, a path forward for the sector is becoming easier to identify, and retailers are getting better at using physical shops and the internet to support each other, and indeed make online part of an overall retail strategy. The key features of the terrain ahead appear to be:

- **Destination.** Shopping is now part of a day out, sometimes with the shops themselves as 'showrooms' that tee-up a subsequent online purchase. Apple has been a pioneer of this approach. Destination and leisure are now integrated, and the only debate is whether the mall or park approach is best – probably, it depends where one is in the country.
- **Convenience.** The flood of supermarket convenience outlets is

now part of the infrastructure of their click-and-collect networks, which could be essential for future growth given the concerns surrounding the profitability of home delivery. It also matches changes in lifestyle among consumers, with single or two member households with busy lives resulting in more single hand-basket shopping trips. Nor must we forget the on-going invasion of coffee shops of anywhere you can set up a counter.

- **Multi-channel.** This not only crosses over the above but also links up with logistics property, which is today in vogue with investors due to the rise of online retail. We should adapt our thinking to include the idea that retail property is now an integral part of e-shopping just as much as sheds.

This is not to be complacent about the challenges facing retail property, and we need to see more change of use to axe redundant stock. However, there are now distinct areas of opportunity to enter a market that is through its darkest hour. Plus one final and important point: no one in this country is going to stop shopping.

“Retailers are getting better at using physical shops and the internet to support each other, and indeed make online part of an overall retail strategy.”



COMMERCIAL BRIEFING

For the latest news, views and analysis of the commercial property market, visit knightfrankblog.com/commercial-briefing/

COMMERCIAL RESEARCH

James Roberts

Head of Commercial Research

+44 20 7861 1239

james.roberts@knightfrank.com

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[Prime Global Cities
The 2015 Report](#)



[Madrid Office Market
Outlook Q3 2014](#)



[Warsaw Office Market
Outlook Q3 2014](#)



[Care Homes Trading
Performance 2014](#)

Knight Frank Research Reports are available at KnightFrank.com/Research



Newmark
Knight Frank
Global

© Knight Frank LLP 2014 - This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.