Chain Expansion Quarterly

Q1 2012 Change

Chain Branch Change

	Change %
Catering	1.78
Leisure	0.87
Retail	0.31
Services	-0.42
TOTAL	0.31

Key Drivers of Branch Loss

	%
Grocery Impact	7.40
Housing Related	22.21
Internet Impact	33.49
Other	36.90
TOTAL	100.00

Notes

- Chain Expansion Quarterly tracks the cumulative number of branches in chain networks nationally. The results are based on comprehensive branch listings supplied by Retail Locations, the leading industry database of UK chain operators.
- Retail Locations maintains a continuously updated database of UK chain branches. The database was originally established in 1983 and provides the only long-run record of chain expansion activity available in the industry. All chain operators in the following sectors are monitored: bulky goods, catering, comparison goods, convenience goods, hospitality, catering, leisure, motor and services.
- Chain Expansion Quarterly monitors the change in chain shop branches: i.e. the totals exclude hotels, motor show rooms, sports facilities etc that are not deemed shop uses (see page 7).

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BRANCH NUMBERS CONTINUE TO GROW

• Despite administrations, chain branch growth continues

The total number of shop chain branches in Great Britain grew by 0.31% in Q1. The number of catering, leisure and retail branches grew by 1.78%, 0.87% and 0.31% respectively. The number of branches in services occupation meanwhile fell by a further -0.42%, continuing the long-run decline in service branch numbers that began in the 1990s. Given the steady trickle of administrations and the major shakeout amongst independents, the continuing growth in retail branches implies that very major underlying market share changes are occurring.

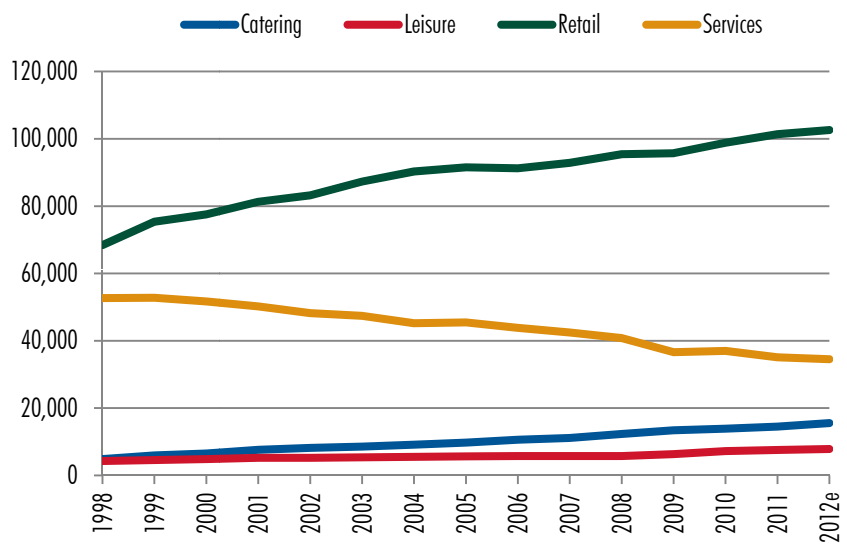
• Internet impact on retail remains modest

The (substantial) reduction in the number of services branches is largely due to the continuing transfer of electronically transferrable goods and services to the Internet. The impact of the Internet in tangible goods markets, for logistical reasons, is proving much more modest however. Apart from electronically transferrable goods (e-books, music, film, computer software etc), Internet trade diversion in retail markets has proved far too limited to impact significantly on retail expansion trends. The Internet is certainly having a very significant impact on shopping behaviour: but is not affecting space demand in the way widely predicted, in part because much Internet sales growth has so far been cannibalised from traditional non-store markets (mail order and traditional store ordering in particular) and because of the belated shift in industry focus from home delivery to 'click-and-collect' [*see 'Shop Expansion and the Internet', UK Retail Viewpoint, CBRE, May 2012*].

• Rate of branch growth slowing

Although, the net number of shops occupied by chain retailers continues to increase, the rate of increase is slowing. Currently it is running at circa +1% pa, down from the long-run rate of 2%-3%. Non-food merchandising by grocers and the entry of discounters has had a knock-on impact on niche-players, exacerbating the branch shakeout triggered by the private equity debt legacy and the shortening lease periods resulting in expiry clusters.

Chain Branch Change 1998-2012



Source: Retail Locations

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HEADING

The chart on the right (and the table below) shows branch change over the 1998-2012 period by broad retail goods type: bulky goods, comparison goods and convenience goods. It will be seen that the main growth area has been comparison goods.

Bulky goods branch numbers, following a shakeout over the 2008-2009 period remain flat. Catering continues to grow remarkably rapidly and is gradually taking on a core role in many shopping locations. Mixes without significant catering offers are now almost unthinkable. Leisure related branch numbers are also continuing to grow strongly, in part – as with catering – reflecting underlying changes in the nature of shopping activity generally.

On the clothing side, if concessions are included, almost 20% of the increase in chain clothing recorded since 2009 (562 extra units) have been accounted for by additional in-store clothing outlets introduced by the grocery majors. This non-food merchandising by grocers has inevitably impacted on certain niche traders, exacerbating the general pressures growing out of the now very long-run downturn. New entrants are meanwhile increasing the pressure on tired brands. The longer the downturn continues, the greater the attrition.

It is clear, from branch change at the individual network level, that a relatively small number of retail majors are now making most of the running in both branch expansion and Internet related investment. The strongest players continue to make very major market share gains (the reason underlying the very mixed trading results reported with some retailers performing well and others – in the same market – faltering). Although retail sales growth during the downturn has nominally remained in positive territory, Sterling values have fallen significantly: hence the obvious fragility of retail markets despite monthly announcements that sales are continuing to increase.

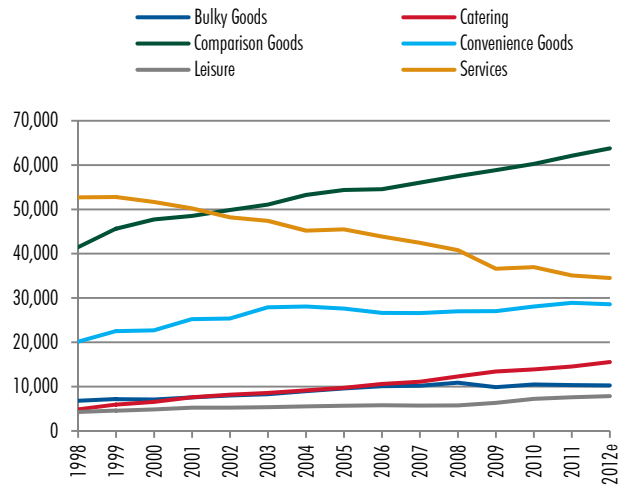
Branch Counts

The table below shows the total number of chain outlets by broad shop use category with and without concessions. Non-shop chain uses (hotels, car showrooms etc have been excluded).

Counts for three different years are shown: 1998, 2007 and 2012 (2012, as at end-April). The results for (October) 2007 are shown because it signalled the beginning of the credit crisis.

Concessions have been included as a separate category to isolate the number of additional 'bricks-and-mortar' branches. Although concessions currently account for only 6% of outlets, the number of concessions has grown by more than 50% since 2012.

Chain Branch Change 1998-2012



Source: Retail Locations

Category	Chain Branches 1998	Chain Branches 2007	Chain Branches 2012 (April)	Concessions 1998	Concessions 2007	Concessions 2012	Total Chain Outlets 1998	Total Chain Outlets 2007	Total Chain Outlets 2012	% Change 1998-2012	% Change 2007-2012
RETAIL	**62,627**	**85,086**	**93,230**	**5,777**	**7,763**	**8,446**	**68,404**	**92,849**	**101,676**	**48.64**	**9.51**
Bulky Goods	6,414	9,518	10,007	378	680	311	6,792	10,198	10,318	51.91	1.18
Comparison Goods	36,373	49,181	54,814	5,096	6,857	7,709	41,469	56,038	62,523	50.77	11.57
Convenience Goods	19,840	26,387	28,409	303	226	426	20,143	26,613	28,835	43.15	8.35
NON-RETAIL	**61,359**	**58,029**	**56,295**	**466**	**1,279**	**1,081**	**61,825**	**59,308**	**57,376**	**-7.75**	**-3.26**
Catering	4,762	10,346	14,010	107	771	769	4,869	11,117	14,779	203.53	32.94
Leisure	4,201	5,647	7,562	59	89	86	4,260	5,736	7,648	79.53	33.33
Services	52,396	42,036	34,723	300	419	226	52,696	42,455	34,949	-33.68	-17.68
TOTAL	**123,986**	**143,115**	**149,525**	**6,243**	**9,042**	**9,527**	**130,229**	**152,157**	**159,052**	**22.13**	**4.53**

Source: Retail Locations

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BRANCH LOSSES

The charts on page 5 and 6 show growth trends by category for two periods: 1998-2011 and 2007-2011 (the latter to allow branch change during the downturn to be compared against the long-run change). The charts on this page focus on the categories that sort branch losses over the two periods.

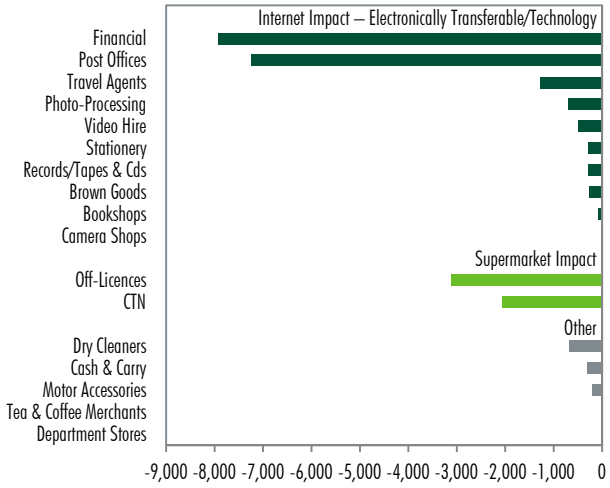
It is evident from the results that the bulk of the branch decline has been caused either by the Internet or by technology change. In the former case, the Internet has captured electronically transferrable goods and services (financial, postal, travel agency, video hire, music, books etc and in the latter, technology change has caused branch shakeouts (photo-processing, traditional camera shops etc). Brown goods (and certain white goods) have also been impacted by technology change and the cannibalisation of traditional store delivery by the Internet.

It will be seen that the general pattern of branch loss has continued post 2007, i.e. the branch losses are essentially due to structural change triggered by the Internet/technology advances, not exogenous economic factors. Off-licences and CTNs have declined due to market share losses to supermarkets. The remaining branch losses are due to various factors: housing market weakness (furnishings, furniture and carpets), the residential market turndown (estate agents), falling car sales (motor accessories), agglomeration (department stores), niche competition (tea & coffee merchants).

THE KEY DRIVERS

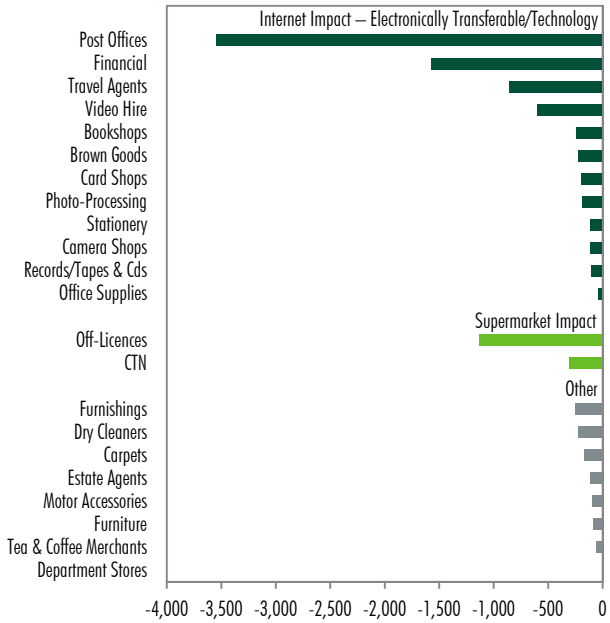
The chart at the bottom of this page shows the reasons underlying the chain branch change. The bulk of the losses are attributable to just four trends: the capture of electronically transferrable business by the Internet; supermarket impact; the cannibalisation of traditional non-store trade by the Internet and the technology driven decline in certain service areas (photo-processing, photo-copy shops etc). The bulk of the branch growth has meanwhile come in tangible retail goods areas. What little expansion of home delivery there has been, has not been sufficient to significantly reduce retail space demand overall. The figures shown in fact understate the relative strength of retail vs services because, in the former case, of the tendency in recent years for chain retailers to acquire larger and larger branches. The net increase in floorspace absorbed by the retail sector is much larger than simple branch counts suggest. The problem for many High Streets – and the reason underlying the proliferation of vacancies in small trading locations and in tertiary/poor secondary stock generally, is simply that the bulk of this space is no longer viable for chain trading. On the one hand there is a large

Branch Losses 1998-2011



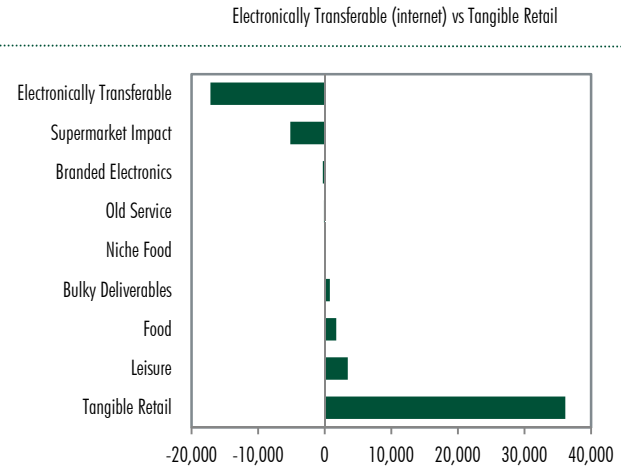
Source: Retail Locations

Branch Losses 2007-2011



Source: Retail Locations

Chain Branch Change 1998-2011



Source: Retail Locations

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SPACE SHORTAGES

surplus of shop units that nobody wants and on the other the usual chronic shortage of prime space that chain retailers require: the reason underlying the sustained eye-watering occupancy costs in Great Britain, come boom or bust. The flight to quality in recession exacerbates the problem, polarising the market even further.

INTERNET GROWTH: PROPERTY IMPACT

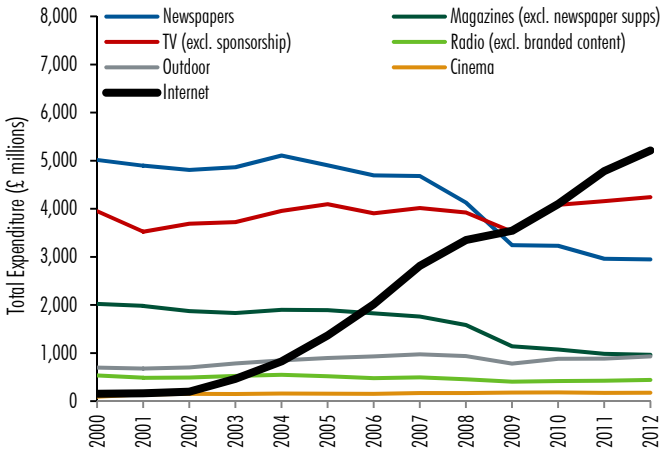
The Internet, commercially, is essentially a marketing vehicle. As a direct sales channel it is limited to downloadable products and services. The question, going forward, is what impact will the Internet have on space demand in tangible goods markets.

The rate of growth of the internet, in capturing advertising expenditure, has been startling. From almost nothing a decade ago, the Internet now captures more advertising expenditure than television. The Internet's penetration of non-store sales has meanwhile been startling too. The most recent ONS figures reveal that the Internet has cannibalised just under 60% of non-store retail sales: again, from almost nothing a decade ago.

Contrary to popular perception, Internet penetration of tangible goods markets is proving a much more difficult nut to crack. After more than a decade of investment in costly home delivery initiatives, food and groceries purchased via the Internet account for just 3.1% of total food and grocery sales. Clothing sales via the Internet, as a proportion of all clothing sales, are meanwhile at a lower level than they were at the peak of the mail order market in the late 1970s. The only retail areas to date where the Internet has achieved really major market share inroads are in electronically transferrable goods (music, video, computer software, e-books, etc) and traditional branded deliverables (electricals predominantly).

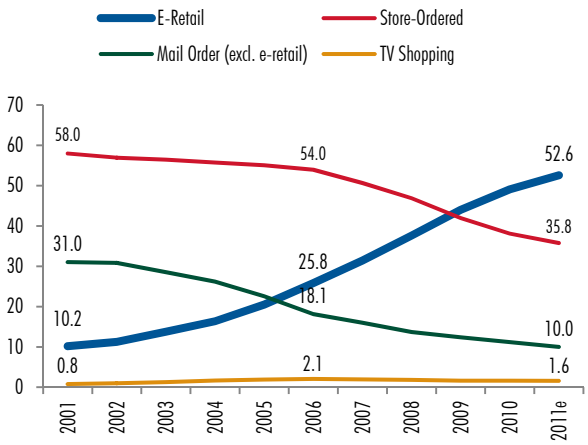
The reason underlying the very slow penetration of tangible goods markets is logistical. As the chart to the right shows, home delivery sales are in fact growing very slowly. High rates of Internet sales growth in the past was primarily contingent on capturing electronically transferrable trade and cannibalising traditional non-store sales. 'Click-and-collect', the main retail Internet growth area now, is – unlike home delivery – largely store dependent. It is home delivery, not 'click-and-collect' that a decade or so ago looked as though it was set to reduce space requirements. The situation with 'click and collect' is very different. As 'click-and-collect' is largely store embedded, investment in 'click-and-collect' is tending to re-inforce the same market concentration trends driving chain store location generally.

Advertising Expenditure 2000-2012



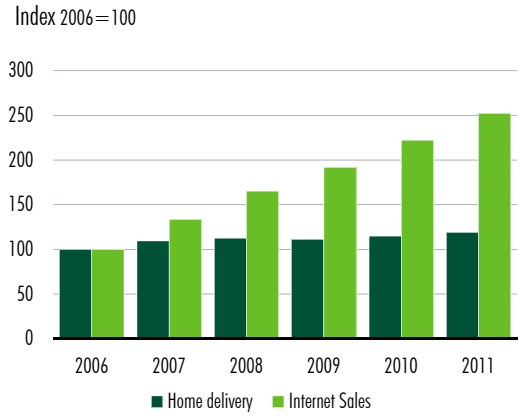
Source: Advertising Association/WARC Expenditure Report

Non-Store Sales Cannibalisation



Source: Verdict

Home Delivery Sales vs Internet Sales



Source: Verdict

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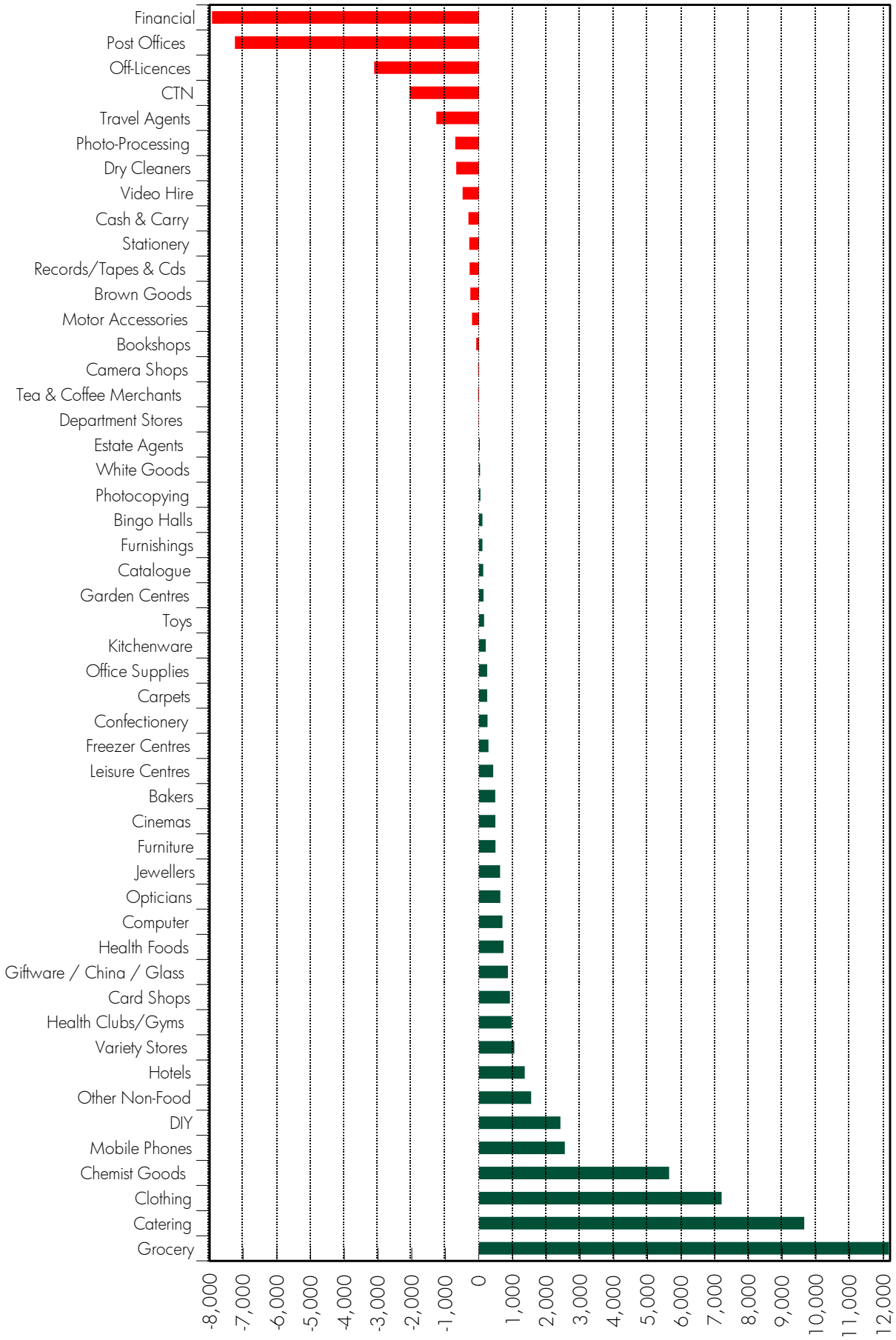
Branch Change 1998-2011 (All Categories)



Source: Retail Locations

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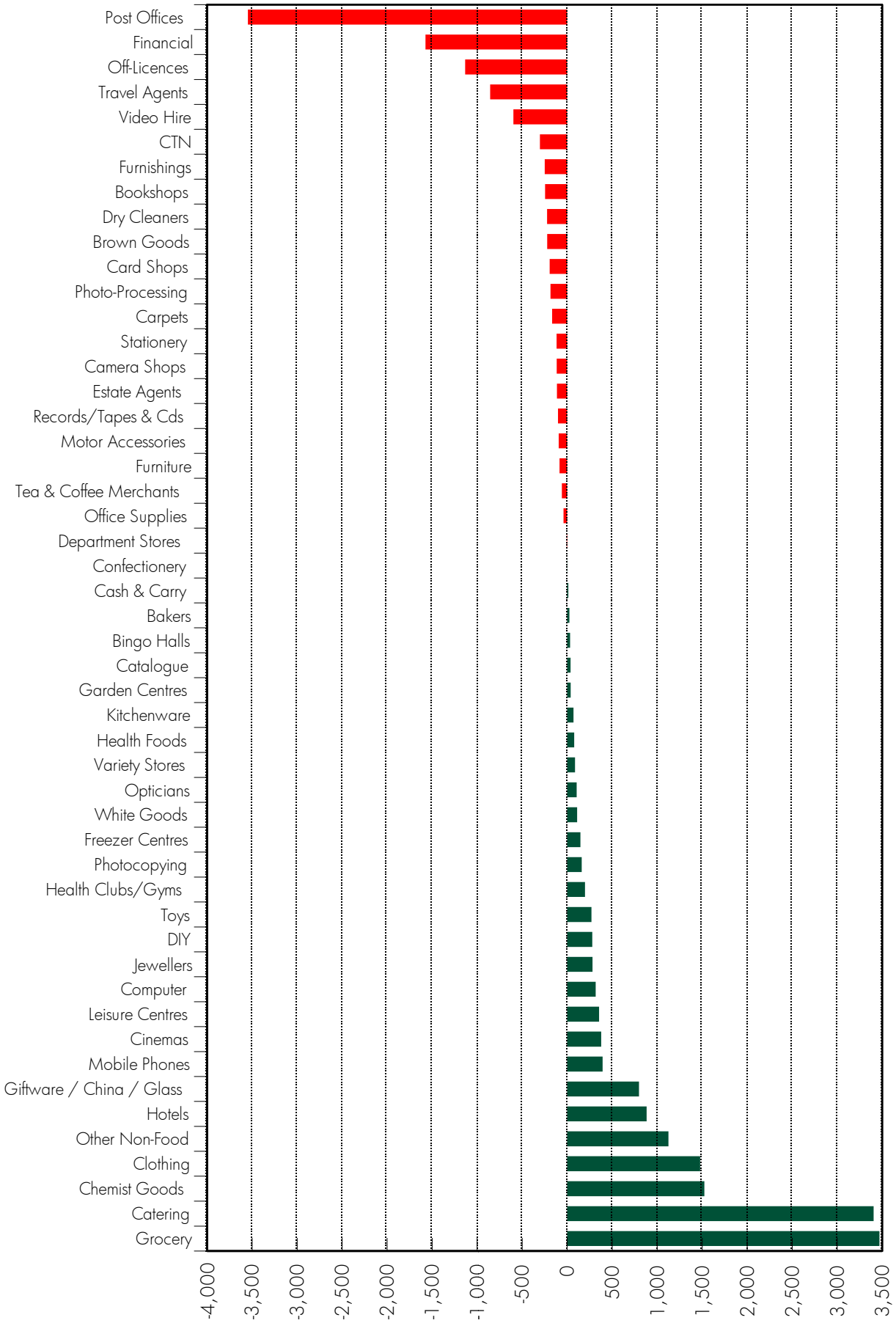
Branch Change 2007-2011 (All Categories)



Source: Retail Locations

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NOTES

1. Retail Locations

Retail Locations maintains a continuously updated database of UK multiple branches. The database was established in 1983. All multiples trading in the following sectors are monitored: bulky goods; catering; comparison goods; convenience goods; hospitality/catering; leisure; motor; service and finance. Multiples with chains of less than 10 branches and certain solus traders are included in the database for completeness. Concessions –- shops within shops -– particularly associated with big department stores are also collected and monitored. Multi-level ownership data is held on every retailer and every fascia a retailer owns is recorded. Address information includes street address or, and where appropriate, the shopping centre, retail park, shopping park or leisure park; post town, suburb or locality, postcode and grid references. Additional information is provided on sales area in square feet for most supermarkets, number of screens for cinemas and number of bedrooms for hotels. Each retailer is allocated to a main trading category, such as bookshops or ladieswear, that corresponds to the major trading activity. 91 different main trading categories are recorded

2. Shops vs Retail: definition

'Shop' units are used for many purposes other than retailing, for example: hairdressers, undertakers, travel and ticket agencies, post offices, hire shops, utility showrooms, dry cleaners, sandwich bars, internet cafes; banks, building societies, estate and employment agencies, betting offices etc; restaurants, cafes, snack bars; public houses and bars, takeaways and fast food premises, motor vehicle showrooms, taxi and vehicle hire, laundrettes, amusement arcades etc. Although 'multiples' are usually associated with shopping, there are a number of chain businesses – petrol stations (excluding C-Stores), sports facilities, hotels etc – that largely fall outside the shopping sphere altogether. The primary focus of the study is branch number changes in shop property markets.

CBRE GLOBAL RESEARCH AND CONSULTING

This report was prepared by the CBRE UK Retail Research team which forms part of CBRE Global Research and Consulting – a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

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