DOUG STEVENS SEMINAR

MONDAY 21st NOVEMBER 2016

08.00HRS TO 09.00HRS

VENUE : CBRE

`C-BAR`

Henrietta House

Henrietta Place

W1G 0NB

<u>SUBJECT</u>

1. VALUING LARGE STORES (SUPERMARKETS – DEPARTMENT STORES) 50 mins
2. OPEN QUESTIONS 10 mins

NEXT SEMINARS 19TH DECEMBER 2016 - 23RD JANUARY 2017

SEMINAR BY DOUG STEVENS TO 1st & 2nD YEAR GRADUATES

DELIVERED AS A POWERPOINT PRESENTATION

VALUING LARGE STORES (SUPERMARKETS – DEPARTMENT STORES)

- WHAT BASIS OF MEASUREMENT DO WE USE TO VALUE A SHOP ?
- NIA (NET INTERNAL AREA) RICS COMP (Code of Measuring Practice 6th Edition)
- WHAT BASIS OF MEASUREMENT DO WE USE TO VALUE LARGE STORES ?
- GIA (GROSS INTERNAL AREA) (Code of Measuring Practice 6th Editio)

  including internal walls, columns, stairs, lifts, escalators, wc`s, lift rooms, plant rooms, etc.
- (APP 5) GIA is a basis of measurement for the marketing and valuation of industrial buildings (including ancillary offices), warehouses, department stores, variety stores and food superstores.
- A SHOP IS ZONED AT GROUND FLOOR WITH SEPARATE RATES APPLIED TO ANCILLARY FLOORS

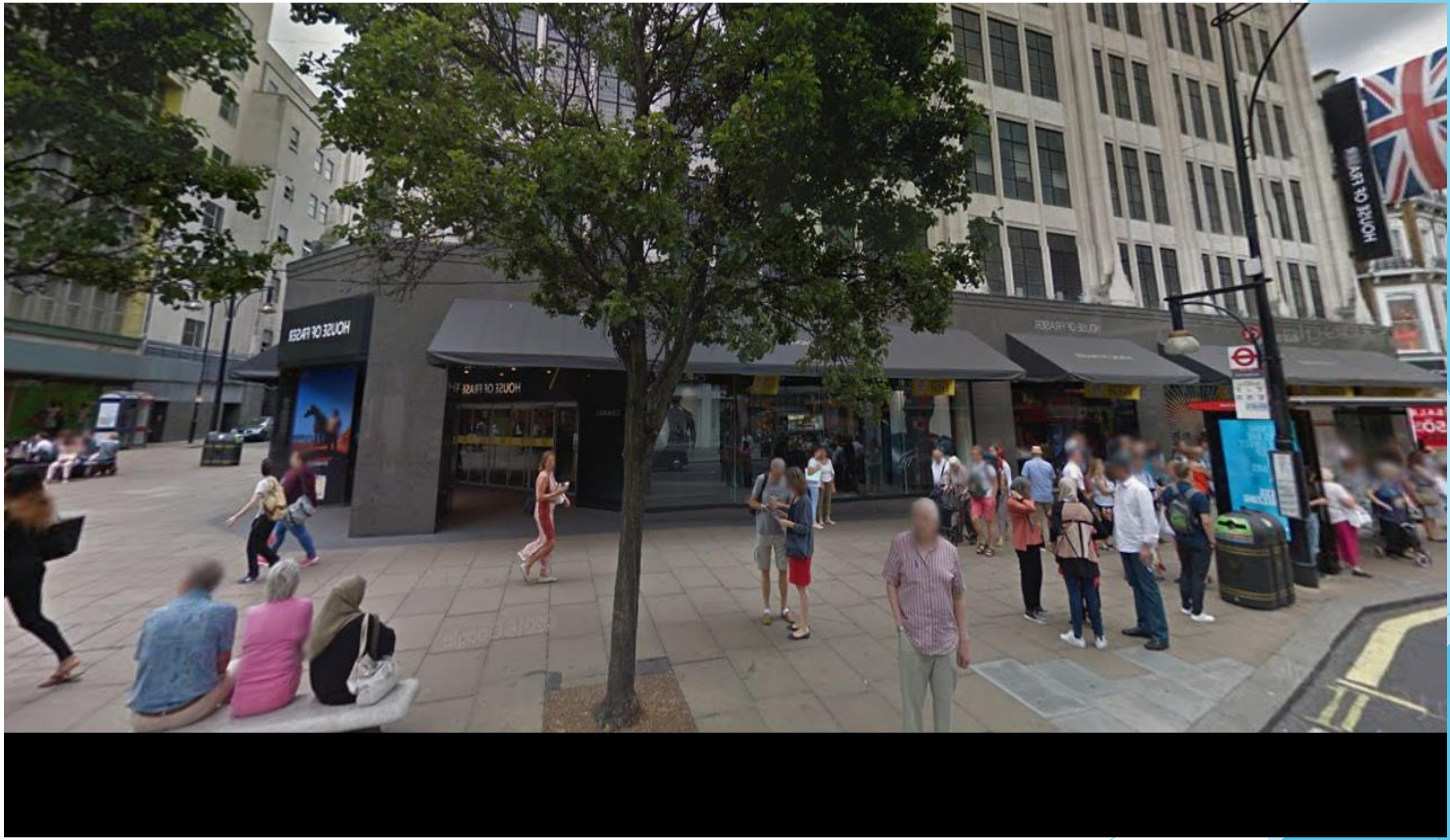
  ie, A ZONING BASIS OF VALUATION
- A LARGE STORE (NORMALLY) HAS A SINGLE RATE APPLIED TO THE WHOLE GIA (on all floors)

  ie, AN OVERALL BASIS OF VALUATION

WHEN VALUING A SHOP THE ZONING MEASUREMENTS WILL REFLECT THE ACTUAL SHAPE OF THE SHOP, ie, narrow or wide or deep, & THE RATES FOR THE ANCILLARY LEVELS, ie, basement, first floor, etc, WILL REFLECT THE VALUE OF THAT SPACE, ie, storage or sales.

WHEN VALUING A LARGE STORE THE OVERALL RATE IS (NORMALLY) APPLIED TO ALL FLOORS AND SO MUST REFLECT ANY FACTORS such as small footplates, multiple levels, etc IN ONE RATE

DEPARTMENT STORE HOUSE OF FRASER OXFORD STREET



DEPARTMENT STORE - FEATURES

- WHAT CAN YOU DESCRIBE ABOUT THE STORE FROM THIS PHOTO ?
- LOCATION – FACES MAIN RETAIL THOROUGHFARE (OXFORD STREET)

  - BUSY LOCATION – BUS STOP IN FRONT
- ACCOMMODATION - IT`S LARGE WITH EXTENSIVE FRONTAGE - PROMINENT.

  - IT`S MULTI-LEVEL
- APART FROM THE OBVIOUS DIFFERNCE IN SIZE HOW ELSE DOES THIS LARGE STORE DIFFER FROM A SHOP ON OXFORD STREET ?
- HOW MANY ZARA STORES IN OXFORD STREET ? ANSWER 4
- WOULD WE DIRECTLY COMPARE THE ZARA STORES WITH EACH OTHER ? NO

  WE COMPARE EACH ZARA STORE WITH EVIDENCE OF SIMILAR SIZED STORES

  CLOSEST TO OUR LOCATION
- HOW MANY HOUSE OF FRASER STORES (HoF) IN OXFORD STREET ? ANSWER 1
- WOULD WE DIRECTLY COMPARE THE HoF STORE WITH OTHER STORES ? YES
- IF THERE ARE NO OTHER SIMILAR SIZE STORES IN OXFORD STREET PROVIDING CONTEMPORARY EVIDENCE THEN WE LOOK AT STORES ELSEWHERE
- WE THEN HAVE TO MAKE MANY ADJUSTMENTS TO REFLECT THE MANY DIFFERENCES WHICH ARE

LOCATIONAL, SPATIAL,CONFIGURATION, CATCHMENT, DEMOGRAPHICS , COMPETITION, etc

SUPERMARKET – SAINSBURYS CROMWELL ROAD

SUPERMARKET – SAINSBURYS CROMWELL ROAD

SUPERMARKET FEATURES

- WHAT CAN YOU DESCRIBE ABOUT THE SUPERMARKET FROM THESE PHOTOS ?
- LOCATION – FACES MAIN ROAD (A4) AN OFFICE LOCATION
  - DUAL CARRIAGEWAY – RED ROUTE – NOT A BUSY RETAIL LOCATION
- ACCOMMODATION - IT'S LARGE – SET BACK FROM ROAD BUT QUITE PROMINENT.
  - ACCESS OFF A4 - SOME SURFACE CAR PARKING, SOME ROOFTOP CAR PARKING
- HOW MANY SUPERMARKETS IN CROMWELL ROAD ?
- NONE CLOSEBY - BUT - A WAITROSE AT GLOUCESTER ROAD & A TESCO AT WEST KENSINGTON (BOTH ON THIS SECTION OF A4)
- WE COMPARE OUR SUPERMARKET WITH EVIDENCE OF SIMILAR SIZED SUPERMARKETS

  CLOSEST TO OUR LOCATION
- IF THERE ARE NO OTHER SIMILAR SIZE SUPERMARKETS CLOSEBY PROVIDING CONTEMPORARY EVIDENCE THEN WE LOOK AT SUPERMARKETS ELSEWHERE - WE THEN HAVE TO MAKE MANY ADJUSTMENTS TO REFLECT THE MANY DIFFERENCES WHICH ARE LOCATIONAL, SPATIAL and CONFIGURATIONAL
- BUT THERE ARE OTHER IMPORTANT FACTORS TO CONSIDER
- SIZE & AFFLUENCE OF CATCHMENT, LEVEL OF SUPERMARKET COMPETITION, etc

PHYSICAL FACTORS AFFECTING VALUE - LARGE STORES DEPT/VARIETY

- TYPE OF STORE - IDEALLY COMPARE `LIKE WITH LIKE`
- HIGH STREET STORE - is it in a terrace of units or does it form an island block (more prominent)
- ANCHOR STORE IN SHOPPING CENTRE (TOWN CENTRE/CITY CENTRE/REGIONAL SHOPPING CENTRE)
- STORE IN OPEN A1 SHOPPING PARK ie Debenhams at RUGBY Elliots Field

- SIZE OF STORE - IDEALLY COMPARE STORES WITHIN THE SAME SIZE RANGE
- LARGE STORES ARE DEFINED AS STORES EXCEEDING 20,000 SQ FT UP TO 400,000 SQ FT

- MULTI-LEVEL - MOST STORES ARE ARRANGED ON 2- 6 LEVELS – FEWER LEVELS THE BETTER
- FOOTPLATES - OPTIMALLY THESE ARE RELATIVELY EQUAL FLOOR BY FLOOR - 20,000 SQ FT +
- TRADING FRONTAGES / ENTRANCES - does the store have -:

A SINGLE ENTRANCE IF ON HIGH STREET or additional rear or side entrances

TRADING FRONTAGES / ENTRANCES TO 2 OR MORE MALL LEVELS if in a shopping centre

PHYSICAL FACTORS AFFECTING VALUE - SUPERMARKET

- TYPE OF STORE - IDEALLY COMPARE `LIKE WITH LIKE`
- HIGH STREET STORE - is it in a terrace of units (ie, Waitrose Marylebone High Street) or edge of town
- ANCHOR STORE IN SHOPPING CENTRE (ie, Waitrose at Westfield) – access for late trading hours ?
- STORE IN RETAIL PARK ie Sainsburys at London Colney
- STAND ALONE ON MAJOR ARTERIAL ROUTE – ie, Tesco at Hoover Building Western Avenue

- SIZE OF STORE - IDEALLY COMPARE STORES WITHIN THE SAME SIZE RANGE
  SUPERMARKETS RANGE FROM 20,000 SQ FT UP TO `HYPERMARKETS` AT 150,000 SQ FT
- MULTI-LEVEL ? - MODERN STORES ON 1 X LEVEL ONLY (GROUND or first floor if store built on stilts above undercroft car parking. OLDER STORES ON 2 - 4 LEVELS – THE FEWER LEVELS THE BETTER
- ORIENTATION – Optimally store sits with car parking in front (better than at the side or rear)
- CAR PARK - Optimally car parking is a surface level, flat (not sloping) plentiful & demised.
  - Sub-optimally the car parking is decked, undercroft or multi-storey not plentiful, not demised – perhaps shared with town centre shoppers, retail park users, local authority pay & display
- ACCESSIBILITY - Is vehicle access to the store good – optimally traffic light controlled or separate slip road or single highway access or adjacent to congested junction is sub-optimal

WAITROSE – MARYLEBONE – High Street

TESCO – HOOVER BUILDING - Standalone

SAINSBURYS – COLCHESTER – Retail Park

TESCO – SURREY QUAYS – Shopping Centre

VALUATION FACTORS ON LARGE STORES – Legal & Demographic

- KEEP OPEN
- ALIENATION - UNDERLETTING
- STRUCTURAL ALTERATIONS
- LEASE LENGTH is it onerous ?
- ASSUMED SPECIFICATION – FITTED – PART FITTED or SHELL CONDITION
- SERVICE CHARGE - CAPPED or WEIGHTED or UNWEIGHTED

- AS EVIDENCE IS OFTEN DRAWN FROM DIFFERENT TOWNS/CITIES it is necessary to compare -:

- CATCHMENT POPULATION SIZE
- CATCHMENT POPULATION AFFLUENCE
- COMPETING STORES IN THE SAME TOWN/CITY
- WHICH STORE IS DOMINANT ie, has the strongest trading opportunity ?

KEEP OPEN CLAUSE

DEPARTMENT STORES (and sometimes supermarkets) ARE OFTEN THE ANCHOR TENANTS FOR SHOPPING CENTRES AND SO IF THEY CL;OSED THIS MIGHT DAMAGE THE IMAGE AND TRADING PERFORMANCE OF THE WHOLE CENTRE

LANDLORDS SEEK TO PROTECT AGAINST THIS BY PUTTING IN THE LEASE A KEEP OPEN CLAUSE.

THIS MAY BE IN AN ABSOLUTE OR QUALIFIED FORM - IT IS A COVENANT BY TENANT TO KEEP THE PROPERTY OPEN FOR TRADE

The tenant covenants *"to keep the demised premises open for trading at all usual times that retailers are open for trading in the locality save for when carrying out works to the Demised Premises and for reasonable periods immediately prior and subsequent to a permitted disposal of the property".*

In an absolute form NO closure is possible – the clause above is a qualified keep open clause – can close for refit or during a sale of the store but not otherwise - but it`s still onerous

Let`s look at example of a department store or foodstore held on a 25 year lease with a keep open clause

AT RENT REVIEW SHOULD TENANT GET A DISCOUNT FROM FULL MARKET RENT ?

YES. BECAUSE IF HE CAN`T DISPOSE OF THE STORE (WHICH MIGHT BE A LOSS MAKING STORE) HE MAY BE TRADING AT AN UNSUSTAINABLE LOSS

DOES THIS CLAUSE COMPEL THE TENANT TO REMAIN OPEN & TRADING ?

KEEP OPEN CLAUSE

- NO **in England**
- *Co-operative Insurance Society Limited v Argyll Stores (Holdings) Limited [1997] 3 All ER 297.*
- The House of Lords overturned an order requiring Safeway, the anchor tenant in a shopping centre, to carry on trading in terms of its lease.
- They held that a keep open clause was not, other than in exceptional circumstances, specifically enforceable, since it was the settled practice of the Court not to make an order requiring a person to carry on a business
- **YES in Scotland**
- *Highland & Universal Properties Limited v Safeway Properties Limited 2000 SLT 414* on the Scottish legal principle of specific implement
- WHAT FACTORS INFLUENCE THE LEVEL OF DISCOUNT FOR KEEP OPEN?
- LENGTH OF LEASE - IS IT A LONG LEASE? (MORE ONEROUS IF SO)
- ABILITY TO ALIENATE – CAN TENANT ASSIGN OR UNDERLET WHOLE OR PART(S)
- TENANT DEMAND FOR THE STORE – IS THERE ONE OR MORE TAKERS FOR THE STORE?
- TYPICAL ALLOWANCES 2.5%, 3.75% AND 5% DEPENDENT ON ABOVE 3 FACTORS

ALIENATION - UNDERLETTING WHOLE OR PART

- UNDERLETTING OF THE WHOLE OF A LARGE STORE IS INVARIABLY PERMITTED
- A LEASE PROHIBITING UNDERLETTING OF WHOLE IS RESTRICTIVE -5% DISCOUNT
- BUT UNDERLETTING OF PART OR PARTS IS SOMETIMES PROHIBITED – SO WHERE A LARGE STORE OPERATOR WISHES TO DOWNSIZE BY UNDERLETTING THEY CANNOT DO SO
- A RESTRICTION ON UNDERLETTING PART/PARTS OF LARGE STORE IS ONEROUS -5% DISCOUN

RESTRICTION ON STRUCTURAL ALTERATIONS

- MANY LEASES PERMIT TENANTS TO CARRY OUT INTERNAL ALTERATIONS WITH L/L`S CONSENT
- BUT SOME LEASES PROHIBIT TENANTS FROM CARRYING OUT STRUCTURAL ALTERATIONS
- ***"Not to make any structural alterations or additions whatsoever in or to the buildings nor to cut, maim or injure any of the roofs, walls, timbers of the demised premises ".***
- WHY IS THIS A PROBLEM FOR SOME TENANTS – ie, WHAT STRUCTURAL WORKS ARE THEY LIKELY TO DO ?
- TAKE THE EXAMPLE OF A LARGE STORE LIKE HAMLEYS – LONG LEASE WITH NO STRUCTURAL ALTERATIONS PERMITTED – OR A DEBENHAMS STORE
- THEY MAY WISH TO MOVE ESCALATORS OR LIFTS OR OPEN UP FLOOR SLABS
- ALL OF THOSE WORKS ARE STRUCTURAL – SO L/L CAN SAY **NO** – OR - YES FOR SOMETHING IN RETURN, ie, increased rent or regeared lease
- ON LARGER STORES A DISCOUNT OF 2.5% UP TO 10% MIGHT BE MADE DEPENDENAT ON LEASE LENGTH AND AGE OF BUILDING
- MOST LEASES (ESPECIALLY IN SHOPPING CENTRES) OR WHERE THERE ARE OFFICES OR RESIDENTIAL ABOVE PROHIBIT TENANT FROM CARRYING OUT STRUCTURAL ALTERATIONS – THIS IS TO PRESERVE THE STRUCTURAL INTEGRITY OF THE BUILDING – BUT IS STILL ONEROUS ON TENANT

LEASE LENGTH

- HISTORICALLY LEASES WERE FOR 99 YEARS AND MORE RECENTLY 25 YEARS
- CURRENT AVERAGE LEASE LENGTH IS 7 YEARS
- SO TENANTS SEEK A DISCOUNT IF THEY HAVE A LONG LEASE – DEFINED AS ONE WHICH IS LONGER THAN A LEASE WHICH MIGHT NOW BE GRANTED IN THE OPEN MARKET
- TO ASSESS IF THE LEASE IS LONG COMPARE IT WITH OTHER PROPERTIES OF A SIMILAR NATURE
- IT MIGHT DIFFER FROM THE UNEXPIRED TERM ie 10 YRS LEFT ON LEASE BUT REVIEW CLAUSE ASSUMES 20 YRS
- ON DEPARTMENT STORES, VARIETY STORES & FOOD STORES LEASE TERM / ASSUMED TERM MIGHT BE 25 – 99 YRS
- HOWEVER DEPT STORES NOW OFTEN TAKE 15 YR TERMS (but longer in major cities & Regional Shopping Centres)
- SUPERMARKETS TAKE 15-25 YR TERMS (sometimes with a tenant only break clause)- (but longer in London)
- LOOK FOR EVIDENCE OF DISCOUNT FOR LONG LEASE TERM IN THE SAME TOWN/CENTRE OF SIMILAR PROPERTY
- IF NOT THERE WILL BE AWARDS,DETERMINATIONS & SETTLEMENTS TO PROVIDE EVIDENCE FOR DISCOUNTS
- WHAT FACTORS ARE RELEVANT TO ASSESS LEVEL OF ALLOWANCE ?
- ACTUAL LENGTH OF LEASE COMPARED TO THE RELEVANT COMPARABLES – Larger discount if lease is longer, ie 80 v 30 yrs
- QUALITY OF LOCATION - PRIME OR SECONDARY - Larger discount for poorer location
- LEVEL OF POTENTIAL DEMAND – Larger discount if limited demand
- ALIENATION RIGHTS - CAN IT BE UNDER-LET AS WHOLE OR IN PART(S) – Larger discount if restrictive
- TYPICAL ALLOWANCES (DISCOUNTS) 2.5% UP TO 20% DEPENDENT ON ABOVE FACTORS
- EXAMPLE - Debenhams Bristol 5% - Debenhams Plymouth 10% - Debenhams Gloucester 20%

ASSUMED SPECIFICATION – FIXTURES & FITTINGS

- FITTED – PART FITTED or SHELL SPECIFICATION The lease and/or agreement for lease will specify what fixtures and fittings are within a store or assumed to be within a store and whether they can be taken account of at rent review
- FITTED - The store may be fitted because the lease was granted in a sale & leaseback – or because it was an anchor letting and the landlord paid for many of the fixtures & fittings – or because the parties agreed to an enhanced (fitted) specification. Up to 10% ADDITION to rent for a fully fitted store. (On sale & leasebacks and regears 10% often adopted for fitted)
- PART FITTED – For any of the above reasons the store has the benefit of some fixtures and fittings BUT not to the extent of full fixtures & fittings. 1.5% - 7.5% ADDITION
- SHELL CONDITION – The store is assumed to be in shell condition ready for the tenant to fit it out. There is no precise definition of Shell Condition – so there is room for argument if any fixtures or fittings were provided at the commencement of the lease. 0% ADDITION
- AGE OF FIXTURES & FITTINGS – If the existing F & F (say lifts & escalators) are 20 years old BUT the lease assumes a fully fitted store do we assume that the F & F are new – or – do we reflect their age but assume them to be in good repair ?
- SPECIFIC OR GENERIC F & F – If there is a list of F & F in the lease (or agreement for lease) do we place a value on the specific F & F items in the list (ie, OTIS Lift) or a generic F & F.
- EXAMPLE – Assume 2 x lifts attract an addition to market rent of say 2.5%. If a store is 50,000 sq ft and the rent is £10 psf the addition to the rent will be £12,500 per annum
BUT – if the rent is £20 psf the addition to rent for the same F & F is £25,000 per annum

RESTRICTIVE USER

- DEPARTMENT STORE The user clause may restrict the use to “ high class department store”
- SUPERMARKET The user clause may restrict the use to “ supermarket” only
- DEFINITIONS – Dept store is a large shop stocking many varieties of goods in different departments

  - Supermarket is a large self-service shop selling foods and household goods
- NAME THE MAIN DEPT STORE OPERATORS
- JOHN LEWIS, HOUSE OF FRASER, DEBENHAMS, HARVEY NICHOLS, HARRODS, SELFRIDGES
- WHAT ABOUT   PRIMARK M & S TK MAXX TJ HUGHES ? ARE THEY DEPT STORES
- NAME THE MAIN SUPERMARKET OPERATORS
- TESCO, ASDA, SAINSBURYS, MORRISONS, WAITROSE, COOP, ALDI, LIDL, BUDGENS,
- WHY WOULD A DISCOUNT FROM FULL MARKET RENT BE GIVEN FOR A RESTRICTIVE USER ?
- ANSWER – IT LIMITS THE USE OF THE PROPERTY AND THUS REDUCES THE OPEN MARKET DEMAND
- DISCOUNTS HAVE BEEN MADE FOR RESTRICTIVE USERS ON DEPT STORES AND ON SUPERMARKETS
- BUT IT IS NOT UNIVERSALLY ADOPTED – IF THERE IS A STRONG ENOUGH MARKET PLACE, ie, DEMAND
- DISCOUNTS RANGE FROM 5% - 10%

SERVICE CHARGE – TOO HIGH or TOO LOW

- AS ANCHOR TENANTS LARGE STORES SOMETIMES GET FAVOURABLE SERVICE CHARGE LEVELS
- THIS MAY BE DUE TO WEIGHTING (ie, a discount for size) or CAPPING (due to negotiating strength)
- IF SERVICE CHARGE IS LOW RELATIVE TO S/CHARGE ON COMPARABLES – AN ADJUSTMENT MAY BE MADE
- Ie, £3 psf payable but comps show average of £5 – then we may add on £1 psf (50% of the saving)
- IF S/CHARGE IS HIGH RELATIVE TO S/CHARGE ON COMPARABLES – AN ADJUSTMENT MAY BE MADE
- Ie, £5 psf payable but comps show avg £3 then we may take £1 psf off the rent
- THIS PRINCIPLE IS APPLIED TO DEPT STORES, VARIETY STORES & SUPERMARKETS
- THIS IS TO COMPARE \`LIKE WITH LIKE\`
- HOWEVER THE RANGE OF SERVICES PROVIDED MAY DIFFER GREATLY. THE LEVELS OF SERVICE CHARGE MAY VARY GREATLY THEY WILL BE MUCH HIGHER (generally) if centre is smaller or if there is a leisure offer (cinema & restaurants) £7 psf at Oracle Reading but £3.50 in Broad Street Mall Reading
- SO IT IS DIFFICULT TO COMPARE LIKE WITH LIKE

CATCHMENT POPULATION SIZE

- DATA ON CATCHMENT POPULATIONS AVAILABLE FROM CACI,EXPERIAN, ORC, etc BASED ON CENSUS –FOR NON-FOOD, ie Dept/variety stores the figures reflect the town or city – ie in a PROMIS REPORT
- FOR FOOD (SUPERMARKETS) THE DATA IS BASED ON ISOCHRONES USING OFF-PEAK DRIVE TIMES

- EXAMPLE – COMPARE CATCHMENT POPULATION FOR DEPT STORE IN READING v DEPT STORE IN UXBRIDGE
- The Reading catchment is much larger – competing centres at a further distance
- PRIMARY CATCHMENT – SECONDARY CATCHMENT –TERTIARY CATCHMENT - which is more relevant ?
- ANSWER - GENERALLY STORE WITH LARGEST PRIMARY CATCHMENT SHOULD BE STRONGER

- EXAMPLE – COMPARE 5min,10min & 15min CATCHMENTS FOR ONE SUPERMARKET v ANOTHER SUPERMARKET regrettably these figures often differ – sometimes dependent on datum point – ie, store or post code
- DECISION REQUIRED AS TO WHICH OF THE ISOCHRONE POPULATIONS IS MOST RELEVANT
- NB THE CATCHMENT FOR ONE AREA WILL INEVITABLY OVERLAP THE CATCHMENT FOR ANOTHER AREA
- SEE EXAMPLE OF POPULATION / CATCHMENT / SOCIAL GRADE / SPEND LEVELS FOR THE SAINSBIRYS CROMWELL ROAD STORE

CATCHMENT POPULATION AFFLUENCE

- GENERALLY A MORE AFFLUENT CATCHMENT IS MORE DESIRABLE – GREATER SPEND LEVELS
- CACI, EXPERIAN, ORC, PROMIS,etc ALL PRODUCE DEMOGRAPHIC STATISTICS ON SOCIAL GRADE – ie SOCIAL GRADES AB, C1, C2, DE – SPECIFYING TOTAL NUMBER and/or %age IN THE CATCHMENT AREA
- SOCIAL GRADES ARE COMPARED TO UK AVERAGE and/or REGIONAL AVERAGE – SO ASSESSMENT CAN BE MADE AS TO HOW AFFLUENT THE PRIMARY, SECONDARY & TERIARY CATCHMENTS ARE
- FOR A SUPERMARKET THE 5min, 10min & 15min ISOCHRONES ARE USED TO ASSESS AFFLUENCE

CATCHMENT POPULATION SPEND LEVELS

- THE SAME DATA BASES ALSO ESTIMATE THE TOTAL SPEND LEVEL (Comparison goods & convenience goods) FOR EACH CATCHMENT AREA – ANOTHER TOOL FOR DECIDENG WHICH DEPT STORE/VARIETY STORE or WHICH SUPERMARKET PROVIDES THE STRONGEST TRADING OPPORTUNITY BASED ON CATCHMENT
- NB NO 2 CATCHMENTS WILL BE IDENTICAL – SO THE VALUERS SKILL IS DECIDING HOW TO REFLECT THE DIFFERENCES IN AFFLUNCE / SPEND LEVELS / POPULATION IN THE OVERALL RATE TO APPLY TO THE STORE

Drivetime Report Sainsburys, Kensington And Chelsea, SW7 4EJ

StorePointGeo

Drivetime Boundaries And Competition 2016

Drivetime	Store Fascia	Street	Town	Postcode	GIA[1]	NSA[2]
Subject	Sainsburys	Cromwell Road	Kensington And Chelsea	SW7 4EJ	86027	53023

05 Minutes

Tesco Waitrose Waitrose
Marks & Spencer Foodhall

West Cromwell Road Kensington
High Street Gloucester Road
Kensington High Street

Kensington And Chelsea Kensington And
Chelsea Kensington And Chelsea
Kensington And Chelsea

W14 8PB W8
6SA SW7 4SF
W8 5SQ
Total

GIA[1]	NSA[2]
70524	43922
32522	18604
27189	15554
145,905	87482
15670	9402

510 Minutes

Whole Foods Market Morrisons
Waitrose Sainsburys Sainsburys
Waitrose
Tesco Metro
The CoOperative Food Marks & Spencer
Foodhall Iceland
Marks & Spencer Foodhall Tesco Metro

Kensington High Street The Links
Kings Road Kings Mall
Fulham Broadway Motcomb Street
Hammersmith Broadway North End
Road
King Street North End Road
Kings Road Notting Hill Gate

Kensington And Chelsea Hammersmith And
Fulham Kensington And Chelsea
Hammersmith And Fulham Hammersmith
And Fulham City Of Westminster
Hammersmith And Fulham Hammersmith
And Fulham Hammersmith And Fulham
Hammersmith And Fulham Kensington And
Chelsea Kensington And Chelsea

W8 5SE W12 8PP
SW3 5XP W6 0PZ
SW6 1BW SW1X
8GG W6 9YD
SW6 1NJ W6 9XW
SW6 1NQ SW3
4NX W11 3QE
Total

GIA[1]	NSA[2]
130049	84532
42216	23310
33507	19168
27437	16574
22331	13764
22410	12820
21371	12323
15796	9506
367,549	219972
15670	9402

1015 Minutes

Sainsburys Sainsburys
Sainsburys Sainsburys Tesco
Waitrose Waitrose
Marks & Spencer Simply Food Marks & Spencer
Foodhall Waitrose
Marks & Spencer Simply Food Whole Foods
Market
Tesco Metro Waitrose
Marks & Spencer Foodhall Tesco Metro
Sainsburys Local Tesco Metro
Marks & Spencer Simply Food Tesco Metro
Planet Organic Iceland

Townmead Road Ladbroke
Grove Essex Place Wilton Road
Shepherds Bush Road Porchester
Road Edgware Road Queensway
Ariel Way North End Road
Chiswick High Road Fulham
Broadway Portobello Road
Chiswick High Road Edgware
Road
The Vale Stratton Street
Battersea Park Road Jerdan Place
Edgware Road Westbourne Grove
Old Oak Common Lane

Hammersmith And Fulham Kensington And
Chelsea Greenford
City Of Westminster Hammersmith And
Fulham City Of Westminster
City Of Westminster City Of
Westminster
Hammersmith And Fulham Hammersmith
And Fulham Brentford
Hammersmith And Fulham Kensington And
Chelsea Brentford
City Of Westminster Greenford
City Of Westminster Wandsworth
Hammersmith And Fulham City Of
Westminster
City Of Westminster Greenford

SW6 2GD W10
5AA W4 5UT
SW1V 1DT W6
7NL W2 6ES W2
2DX W2 4YT W12
7GA SW6 1LU W4
1PJ SW6 1AA
W11 1LJ W4 5TA
W2 1DU W3 7RR
W1J 8LT SW11
4LU SW6 1BE W2
2EA W2 5SH W3
7DA
Total
Grand Total

GIA[1]	NSA[2]
13640	6826
10482	6289
12640	5464
139491	100945
93871	57857
74605	42941
53958	33257
48717	30078
45952	26287
41689	23848
35327	21961
36515	21909
36468	20862
20947	13022
19474	12658
20504	11823
19147	10953
15670	9402
16157	9317
17160	8640
14721	8489
12186	7576
14692	6423
10087	5047
10136	4080
788,474	**487375**
1,301,928	**794829**

Show/ Hide >15 mins Drivetime

1 Gross Internal Area
2 Net Sales Area
3 Oxford Retail Consultants estimate

SYMBOLS: 30,000 sq ft NSA >< 20,00030,000 sq ft NSA < 20,000 sq ft NSA

Competition & Population Ratios

	Cumulative Population	Cumulative Competing NSA (sq ft)	Competing NSA / Capita[1]	Population / Competing NSA[2]
05 Minutes	38,712	87,482	2.3	0.4
010 Minutes	178,040	307,454	1.7	0.6
015 Minutes	544,181	794,829	1.5	0.7

1 A low Competing NSA / Capita ratio is better than a high ratio
2 A high Population / Competing NSA ratio is better than a low ratio

Sainsburys, Kensington And Chelsea, SW7 4EJ

2011 Census Demographics

Show GB Average Show Regional Average

	0 5 MINUTES			0 10 MINUTES			0 15 MINUTES			GB Average
Population 2011	38,712			178,040			544,181			
Households 2011	19,733			86,429			253,651			
Age	Total	%	Ind vs ave	Total	%	Ind vs ave	Total	%	Ind vs ave	%
015	5,469	14.1	75	25,005	14.0	75	86,402	15.9	85	18.7
1624	4,619	11.9	100	22,328	12.5	106	62,522	11.5	97	11.9
2544	16,862	43.6	160	74,391	41.8	153	225,604	41.5	152	27.3
4564	7,961	20.6	80	36,981	20.8	81	112,759	20.7	81	25.6
65+	3,801	9.8	60	19,335	10.9	66	56,894	10.5	63	16.5

Econ. Activity (1674 yrs)	Active	21,898	69.2	99
	Inactive	9,760	30.8	**101**
Dwelling Type	Detached Semi	180	0.9	4
	Detached	516	2.6	9
	Terraced	1,728	8.8	36
	Flats Other	15,929	80.7	**366**
Household Tenure	**Owned**	7,579 5	38.4 0.0	61 4
	Owned Outright	4,818	24.4	80
	Buying **Shared**	2,762	14.0	43
	Ownership	123	0.6	86
	Rented Privately	11,386	57.7	**167**
	Rented Social Rented **Rent free**	9,172	46.5	**285**
Car Ownership	Car Owners No	8,284 / 2,214	42.0 / 11.2	55 / 62
	Cars One Car	11,449 / 645	58.0 / 3.3	**216** / **244**
	Two Cars	6,535	33.1	76
	Three or more cars	1,424	7.2	29
Social Class	AB	8,467 / 325	49.9 / 1.9	**224** / 22
	C1	5,937	35.0	**113**
	C2	827	4.9	23
	DE	1,730	10.2	39

102,321	70.8	**102**
42,231	29.2	96
1,036	1.2	5
2,770	3.2	10
11,997	13.9	58
66,879	77.4	**351**
74	0.1	13
31,969	37.0	58
19,168	22.2	73
12,802	14.8	45
575	0.7	91
51,235	59.3	**172**
34,033	39.4	**242**
17,203	19.9	**109**
2,649	3.1	**229**
37,566	43.5	57
48,863	56.5	**211**
29,577	34.2	79
6,479	7.5	30
1,510	1.7	23
32,697	45.1	**202**
24,914	34.4	**111**
5,045	7.0	33
9,772	13.5	52

311,302	71.9	**103**	69.6
121,503	28.1	92	30.4
3,800	1.5	7	22.6
12,866	5.1	17	30.5
38,522	15.2	63	24.1
191,108	75.3	**341**	22.1
91,071 / 178	35.9 / 0.1	**51** / 17	63.4 / 0.6
49,154	19.4	63	30.6
41,917	16.5	50	32.8
3,082	1.2	**166**	0.7
153,531	60.5	**175**	34.5
87,687	34.6	**212**	16.3
65,845 / 114,404	26.0 / 45.1	**143** / 59	18.2 / 76.0
139,248 / 5,967	54.9 / 2.4	**205** / **176**	26.8 / 1.3
90,394	35.6	82	43.4
19,911	7.8	31	25.2
87,930 / 4,099	41.4 / 1.6	**186** / 28	22.3 / 7.5
70,820	33.4	**108**	30.9
18,038	8.5	41	20.9
35,518	16.7	65	25.9

Show GB Average

Show Regional Average

Sainsburys, Kensington And Chelsea, SW7 4EJ

Lifestyle Data & Spend

Household Count

Lifestage:	05 Minutes: Income Quintiles High 1	2	Ave 3	4	Low 5	Total	010 Minutes: Income Quintiles High 1	2	Ave 3	4	Low 5	Total	015 Minutes: Income Quintiles High 1	2	Ave 3	4	Low 5	Total
A. Young singles/ couples, no kids	2,511	4,077	368	0	148	7,103	9,301	17,084	4,813	0	4,602	35,799	26,159	47,427	25,831	0	23,035	**122,453**
B. Families	117	39	0	0	0	156	752	234	19	0	27	1,033	3,048	1,599	292	734	61	5,733
C. Empty Nesters	**8,288**	0	2,612	0	0	**10,901**	**28,518**	0	12,036	0	0	**40,554**	**64,704**	80	35,033	0	0	99,816
D. Retired 65+	1,008	0	178	0	386	1,573	4,141	0	1,199	0	3,703	9,043	8,567	0	3,043	0	14,039	25,648
Total	**11,924**	4,116	3,159	0	534	19,733	**42,712**	17,318	18,067	0	8,332	86,429	**102,478**	49,105	64,198	734	37,136	253,651

Index / Bias vs GB Average

Lifestage:	05 Minutes: High 1	2	Ave 3	4	Low 5	Total	010 Minutes: High 1	2	Ave 3	4	Low 5	Total	015 Minutes: High 1	2	Ave 3	4	Low 5	Total
A. Young singles/ couples, no kids	795	689	33	0	16	214	673	659	98	0	116	**247**	645	623	179	0	197	**287**
B. Families	13	2	0	0	0	3	19	3	0	0	1	4	26	6	2	4	1	7
C. Empty Nesters	**1,273**	0	282	0	0	**266**	**1,000**	0	296	0	0	226	**773**	0	294	0	0	189
D. Retired 65+	176	0	11	0	14	26	165	0	17	0	31	34	116	0	15	0	40	32
Index vs GB ave	**483**	84	64	0	12		**395**	81	84	0	41		**323**	78	102	2	63	

Spend (£000) *

Lifestage:	05 Minutes: High 1	2	Ave 3	4	Low 5	Total	010 Minutes: High 1	2	Ave 3	4	Low 5	Total	015 Minutes: High 1	Ave 2	3	4	Low 5	Total
A. Young singles/ couples, no kids	21,043	21,068	1,434	0	284	43,829	77,929	88,290	18,755	0	8,845	193,819	219,189	245,100	100,665	0	44,273	609,228
B. Families	1,448	283	0	0	0	1,731	9,320	1,681	103	0	67	11,171	37,761	11,477	1,568	2,839	152	53,796
C. Empty Nesters	**88,263**	0	13,085	0	0	**101,348**	**303,690**	0	60,289	0	0	**363,979**	**689,029**	526	175,478	0	0	**865,034**
D. Retired 65+	6,238	0	518	0	559	7,315	25,630	0	3,482	0	5,362	34,475	53,028	0	8,835	0	20,328	82,192
Total	**116,992**	21,350	15,037	0	843	154,223	**416,569**	89,971	82,629	0	14,274	603,444	**999,008**	257,104	286,546	2,839	64,753	1,610,250

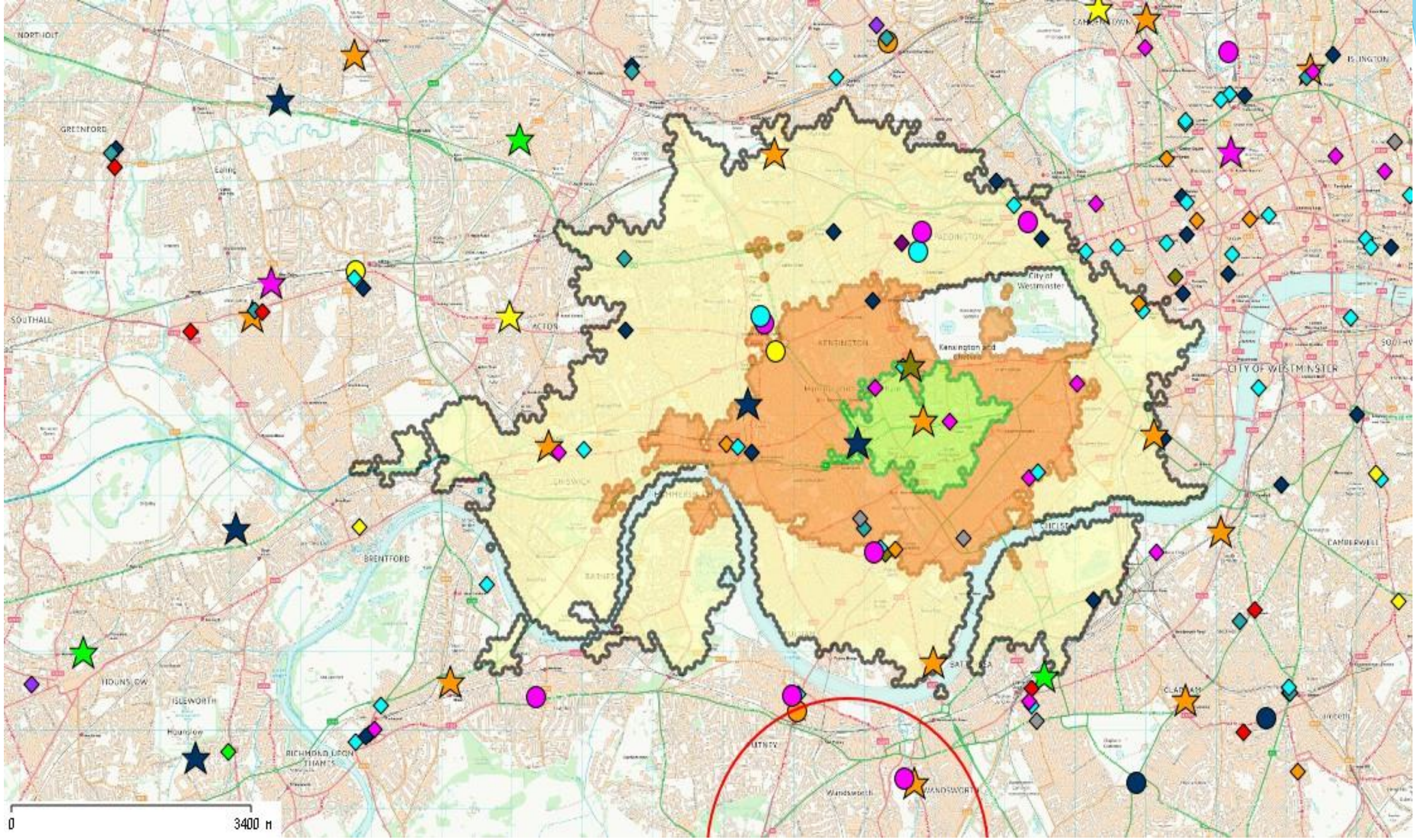
* Annual Convenience Goods Spend, source: Oxford Retail Consultants & ONS

COMPETITION FROM OTHER LARGE STORES

- HOW MANY OTHER LARGE STORES ARE COMPETING WITH YOUR STORE
- EXAMPLE – IN UXBRIDGE ONLY 1 X DEPT STORE – DEBENHAMS - BUT -

  IN READING JOHN LEWIS, HOUSE OF FRASER DEBENHAMS
- EXAMPLE - IN WOODLEY (near Reading) ONLY 1 X SUPERMARKET – WAITROSE – BUT –

  IN READING – TESCO X 2 , MORRISONS, SAINBURYS, ASDA, WAITROSE, LIDL, ALDI,
- WE TRY TO ASSESS STRENGTH OF TRADING OPPORTUNITY BASED ON DEGREE OF COMPETITION FOR BOTH NON-FOOD STORES & SUPERMARKETS – ie, what is the market share each store can command
- PROMIS & CACI REPORTS ARE USED FOR DEPT STORES
- CACI, EXPERIAN & ORC REPORTS ARE USED FOR SUPERMARKETS AGAIN USING 5min, 10min,& 15mins
- FOR A SUPERMARKET WE LOOK AT HOW MUCH NET SALES SPACE COMPETES WITH OUR STORE WITHIN THE 5/10/15mn OFF-PEAK DRIVETIMES – THEN WE RELATE THAT TO THE POPULATION LEVEL
- IS THERE AN OVER-PROVISION OF NET SALES SPACE PER CAPITA – or – AN UNDER-PROVISION
- THIS HELPS DECIDE IF THE SUBJECT STORE IS A STRONG OR WEAK TRADING OPPORTUNITY
- Ie, IS THE STORE DOMINANT OR SUBSERVIENT
- SEE OVERLEAF 5/10/15 MINJUTE ISOCHRONES FOR SAINSBURYS CROMWELL ROAD
- SAINSBURYS IS SHOWN AS THE CENTRALLY POSITIONED ★



Drivetimes

- 0 – 5 Minutes
- 5 -10 Minutes
- 10 -15 Minutes

Symbols

- >30,000 sq ft NSA
- ><20,000–30,000 sq ft NSA
- ><8,000–20,000 sq ft NSA

Colours

Tesco	Aldi	Budgens
Sainsbury's	Waitrose	Iceland
Asda	Co-op	Julians
Morrisons	M&S	Somerfield
Lidl	Booths	

DOMINANT STORE ?

- ONLY IN THE LARGE STORE SECTOR IS DOMINANCE A MATERIAL CONSIDERATION- does not feature for shops
- FOR A DEPT STORE A DOMINANT POSITION, ie, only store in the town/city MAY BE VERY RELEVANT – ie, Debenhams at Uxbridge
- HOWEVER at Reading THE FACT THAT THERE ARE 4 X STORE OPERATORS CREATES A MAJOR ATTRACTION TO SHOPPERS
- AND ALTHOUGH (for instance) NEITHER THE HOF OR DEBS STORES WILL BE DOMINANT THEY ARE NEVERTHELESS IN A VERY STRONG TRADING ENVIRONMENT (as Reading is much stronger than say Uxbridge)

- FOR A SUPERMARKET DOMINANCE IS VERY IMPORTANT.
- THE DOMINANT STORE MIGHT BE THE LARGEST STORE – OR THE BEST LOCATED STORE – OR THE ONE WITH THE BEST CAR PARKING AND PETROL FILLING STATION
- IF YOUR SUPERMARKET IS NOT THE DOMINANT STORE ie, it is subservient to another store, THE LEVEL OF DEMAND FOR IT AND THUS THE LEVEL OF RENT IT WILL COMMAND WILL BE LESS

D

RENTAL COMPRESSION – DOES SIZE MATTER ?

- WHY SHOULD LARGER STORE ATTRACT A LOWER RATE PER SQ FT THAN SMALLER STORES ? TAKE AS A
- ANSWER – IT IS A FUNCTION OF DEMAND. THERE WILL BE LESS POTENTIAL TENANTS FOR VERY LARGE STORES THAN THERE WILL BE FOR SMALLER STORES
- THIS LOWER LEVEL OF DEMAND (ie, less competitive bidding) SHOULD PROPERLY RESULT IN A LOWER RATE PER SQ FT BEING APPLIED TO THE LARGE STORES RELATIVE TO THE SMALLER STORES.
- NB THERE IS NO UNIVERSAL BASIS FOR ADJUSTING FOR SIZE IN THE LARGE STORE / SUPERMARKET SECTOR
- IN THE RETAIL PARKS SECTOR ADJUSTMENTS ARE MADE BY A %AGE FOR EACH 1,000 SQ FT DIFFERENCE – BUT THIS BASIS IS NOT ADOPTED ELSEWHERE
- THIS MEANS THAT once again A JUDGEMENT IS REQUIRED AS TO WHAT ADJUSTMENT TO MAKE FOR RENTAL COMPRESSION – UNLESS THERE IS A CLEAR EXAMPLE SHOWN IN THE COMPARABLE EVIDENCE

EXAMPLES OF VALUATIONS

- DEPARTMENT STORE HELD ON LONG LEASE WITH KEEP OPEN & PART FITTED SPECIFICATION

- GIA 132,000 sq ft @ £8.25 per sq ft £1,089,000

  Less: Keep Open Clause – 2.5%

  Add: For part fitted specification + 2.5%

  Less: 104 year old *assumed* lease term – 10.0% (£108,900)

  Total £ 980,100 per annum

SUPERMARKET HELD ON LONG LEASE

GIA	113,937 sq ft	@ £13.00	£1,481,181.00
Roof Plant	3,512 sq ft	@£6.50	£22,828.00
			£1,506,009.00
Less: 17.5% for 57 year lease term			(£263,201.57)

			£1,240,807.50
		But Say	£1,240,000 per annum

CONCLUSIONS

- VALUING LARGE STORES IS A SPECIALIST FIELD
- SO MANY FACTORS NEED TO BE REFLECTED IN A SINGLE RATE PER SQ FT
- THIS IS THE MOST INTERESTING AND MOST CHALLENGING RENT REVIEW SECTOR
- EACH LARGE STORE, EACH SUPERMARKET OFTEN VERY DIFFERENT IN NATURE
- THERE ARE NO UNIVERSALLY ADOPTED %AGE ADJUSTMENTS TO MAKE FOR TYPE, SIZE, CONFIGURATION, CATCHMENT, COMPETITION etc, IT IS ALL A QUESTION OF JUDGEMENT
- CONSEQUENTLY MANY LARGE STORE & SUPERMARKET RENT REVIEWS GO TO 3RD PARTY
- WE HAVE NOT TOUCHED UPON THE FOLLOWING MATERIAL FACTORS –
- STATE OF THE DEPT STORE / VARIETY STORE / SUPERMARKET MARKET
- LEVEL OF TENANT DEMAND FOR LARGE STORES & SUPERMARKETS
- THESE ISSUES WILL BE COVERED IN A SEPERATE SEMINAR