

Key Findings

- 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
- Although the speculative shopping centre and retail park pipeline cumulatively declined by just over 7m sq ft over the 2007-2011 period, the total shops pipeline – because of the grocery development upturn – has still grown by over 8m sq ft
- Construction activity levels over time, relative to pipeline totals, provide the best medium-term guide to the amount of space making its way through the pipeline. The average over the 2002-2007 period was 8.3%. The average since September 2007 has fallen to 7.3%, highlighting – regardless of economic conditions – the continuing fierce opposition in some local authorities to grocery development

OVERVIEW

The surge in grocery store development activity, which set in following the onset of the 2007 credit crisis, continues unabated. The grocery floorspace in the development pipeline in Great Britain has grown by a startling 54% since the collapse of bankers Lehman Brothers. Grocery is currently the only retail development sector to be seeing a sustained increase in development activity. The upturn in grocery store expansion activity is now very broadly based, taking in both High Street and out-of-town stock.

The scramble for grocery space looks set to run and run not least because current economic conditions – combined with a dearth of jobs in more deprived areas – is forcing local authorities in the worst affected areas to be much more supportive of commercial development activity generally (see table on page 3). With speculative development at a recessionary low, grocery development is often the only game left in town and could well remain so for a very lengthy period.

Aside from their local job-generating potential, an important attribute of grocers which is increasingly coming to the fore is their potent High Street anchoring characteristics. Non-food retailers and service related shop occupiers continue their retrenchment into larger trading locations, weakening shopping offers in many smaller High Streets. Grocers – because of the high levels of shopper footfall that they generate – are emerging as a potent anchoring alternative to revitalise dying pitches.

Interestingly, the grocery race for space is resulting in much more leasing activity by grocers in a market traditionally dominated by freehold transactions. The shift in emphasis is occurring because ‘town centre first’ planning policies continue to drive some large unit supermarket development into urban areas, requiring grocers to forge partnerships with developers: hence the leaseholds. Whatever the negative productivity impact of locating large grocery stores on town rather than out-of-town sites, leaseholds do provide an opportunity for physical expansion without as much upfront cost.

Total Pipeline (H1 & H2)



Source: CBRE, PMA

TRENDS

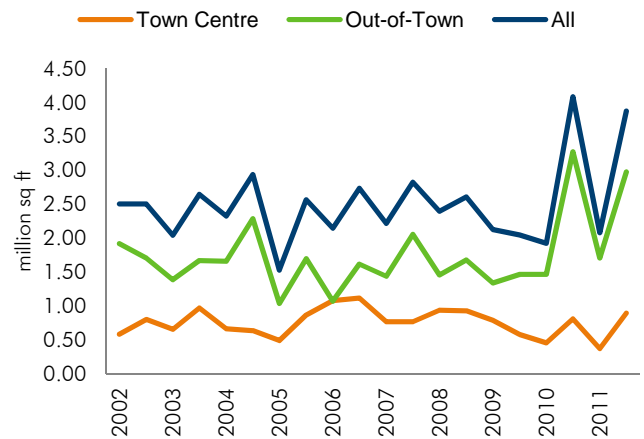
Retail Lease Consultancy Director, Christopher Keen comments: 'As supermarket lease-backs are now well trodden ground and are perceived to be one of the most secure property investment vehicles available, raising development capital is not a problem. The only real issue for investors is the potential dilution of existing portfolio value through competing supermarket development. Thankfully, as the existing distribution of the grocery store stock is known and the grocery pipeline is closely tracked, dilution problems can be predicted well in advance.'

Overall, the grocery pipeline has grown by over 15.6m sq ft since September 2007. At 44.4m sq ft, the grocery pipeline now accounts for 36% of the all shops development pipeline, up from 25% four years ago. The grocery pipeline is now more than double retail park pipeline levels. Although the speculative shopping centre and retail park pipeline has cumulatively declined by just over 7m sq ft over the same period, the total shops pipeline – because of the grocery development upturn – has still grown by over 8m sq ft.

Because of the much faster rate of grocery store construction, compared with shopping centres and retail parks, half-year-on-half-year construction activity levels are quite volatile. The Q1 2011 level recorded for grocery was just over 2m sq ft. The Q3 2011 was just under 4m sq ft. The volatility is exacerbated by the time it takes to get larger schemes through the planning process, resulting in traffic-light like surges in construction (a high proportion of the total footage under construction is always made up of a relatively small number of large stores).

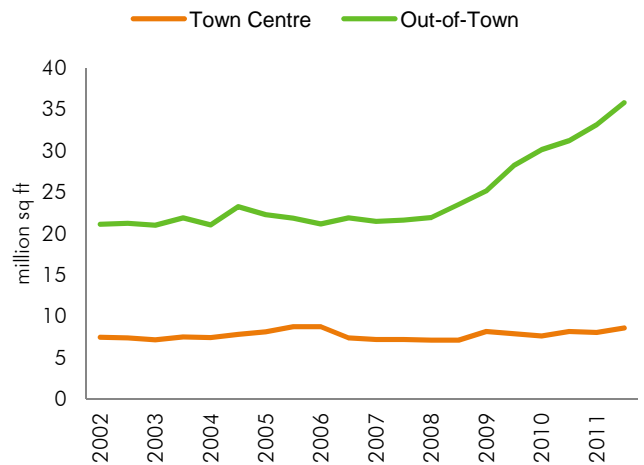
What proportion of the grocery pipeline increase will succeed in avoiding planning obstacles is unclear. The grocery pipeline (as with shops development pipelines generally) is effectively capped by planning controls. Pipeline levels can consequently rise dramatically without much additional shop space being delivered down the line. Construction activity levels over time relative to pipeline totals provide the best medium-term guide to the amount of space making its way through the pipeline. The average over the 2002-2007 period was 8.3%. The average since September 2007 has fallen to 7.3%, highlighting – regardless of economic conditions – the continuing fierce opposition in some local authorities to grocery development.

Under Construction Million Sq Ft Gross (H1 & H2)



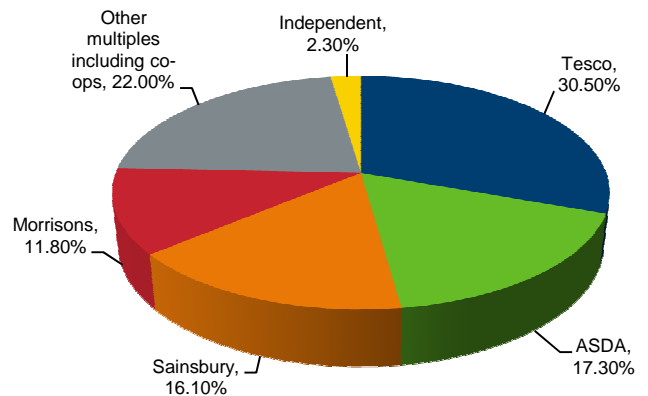
Source: CBRE, PMA

Total Pipeline (H1 & H2): Town-Centre and Out-of-Town



Source: CBRE, PMA

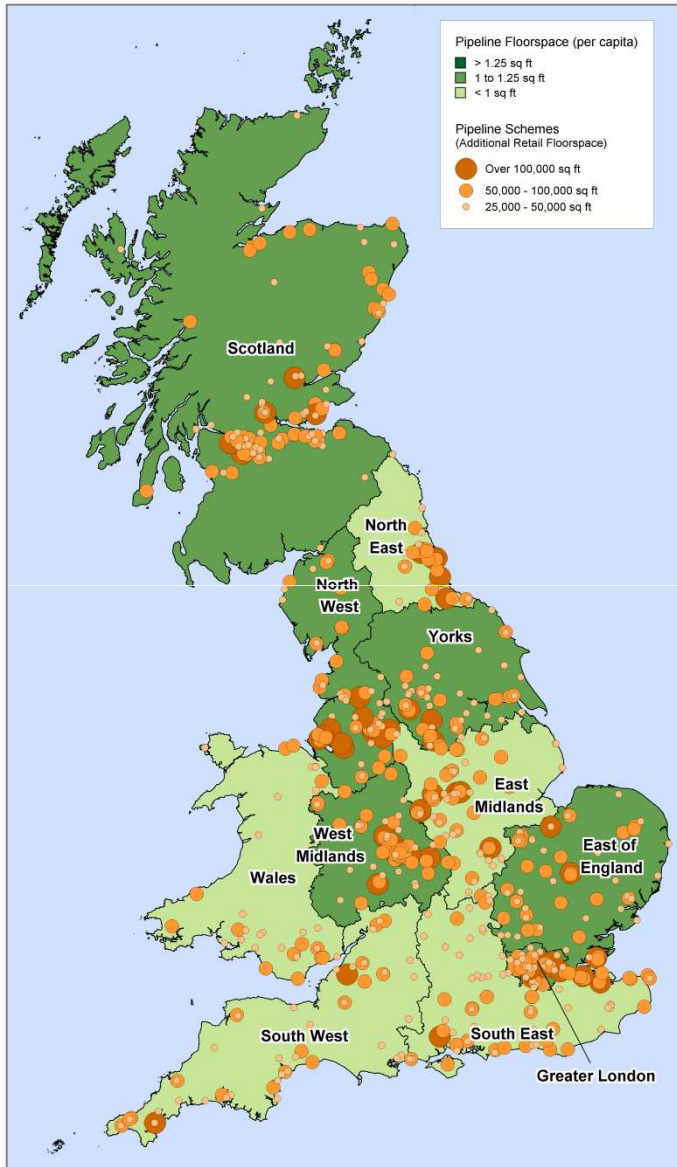
Grocery Market Shares: October 2011



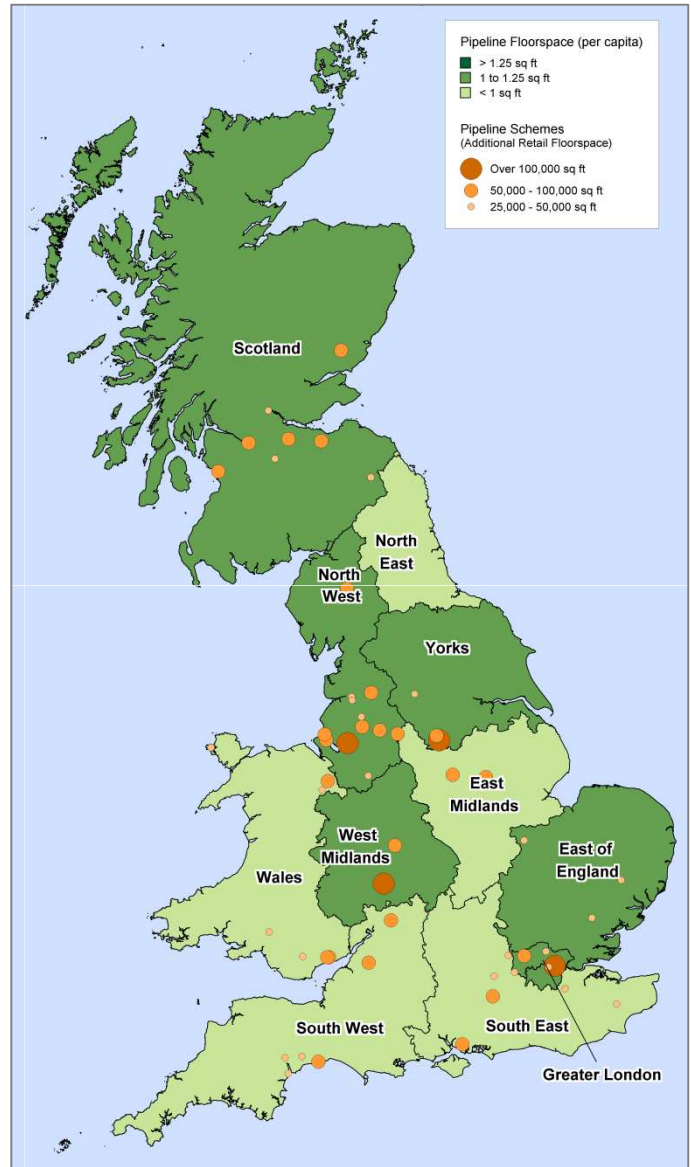
Source: Kantar Worldpanel

SCHEME SUPPLY

Grocery Outlets Pipeline – All Planning Stages



Grocery Outlets Pipeline – Under Construction



Region (GOR)	Total Pipeline Floorspace (m sq ft)	Total Pipeline Floorspace (%)	Pipeline Under Construction (m sq ft)	Pipeline Under Construction (%)	Pipeline Under Construction per capita (m sq ft)
East Midlands	3.97	8.95	0.21	5.40	0.05
East of England	3.89	8.75	0.13	3.35	0.02
Greater London	2.80	6.30	0.33	8.46	0.04
North East	2.18	4.91	0.08	1.93	0.03
North West	4.82	10.85	0.79	20.34	0.11
Scotland	7.42	16.71	0.53	13.56	0.10
South East	5.14	11.58	0.34	8.87	0.04
South West	3.81	8.57	0.55	14.12	0.10
Wales	2.24	5.05	0.34	8.87	0.11
West Midlands	4.75	10.69	0.32	8.27	0.06
Yorkshire & the Humber	3.39	7.64	0.27	6.83	0.05
TOTAL	44.41	100.00	3.88	100.00	0.06

GROCERY OUTLETS DEVELOPMENT PIPELINE (MILLION SQ FT)

Quarter		Town Centre			Out-of-Town			Town Centre and Out-of-Town			Total Pipeline
Qtr End	Year	Proposed	With Consent	Under Construction	Proposed	With Consent	Under Construction	Proposed	With Consent	Under Construction	
Mar	2002	3.38	3.51	0.59	10.19	9.02	1.92	13.57	12.52	2.51	28.60
Sep	2002	3.23	3.36	0.80	9.92	9.62	1.71	13.15	12.98	2.51	28.64
Mar	2003	3.19	3.31	0.66	10.45	9.17	1.39	13.64	12.48	2.05	28.17
Sep	2003	3.28	3.28	0.97	11.13	9.11	1.67	14.41	12.39	2.65	29.45
Mar	2004	3.34	3.42	0.67	10.35	9.04	1.66	13.69	12.45	2.33	28.48
Sep	2004	3.16	4.00	0.65	11.60	9.11	2.54	14.76	13.11	3.19	31.06
Mar	2005	3.05	4.60	0.50	11.99	9.25	1.04	15.04	13.85	1.53	30.42
Sep	2005	3.28	4.61	0.87	10.49	9.69	1.70	13.77	14.30	2.57	30.64
Mar	2006	3.08	4.57	1.09	10.46	9.62	1.07	13.55	14.19	2.16	29.90
Sep	2006	2.63	3.64	1.13	10.16	10.13	1.62	12.79	13.77	2.75	29.31
Mar	2007	2.68	3.74	0.77	9.72	10.33	1.44	12.40	14.07	2.22	28.69
Sep	2007	2.84	3.58	0.77	9.45	10.07	2.10	12.30	13.65	2.87	28.82
Mar	2008	2.80	3.38	0.94	10.34	10.09	1.50	13.14	13.47	2.44	29.05
Sep	2008	2.78	3.42	0.93	11.18	10.66	1.69	13.96	14.08	2.62	30.66
Mar	2009	3.35	4.04	0.79	12.38	11.41	1.34	15.72	15.45	2.13	33.30
Sep	2009	3.27	4.07	0.58	13.92	12.84	1.47	17.19	16.91	2.05	36.14
Mar	2010	3.40	3.78	0.46	15.25	13.40	1.47	18.65	17.18	1.93	37.75
Sep	2010	3.66	3.71	0.81	13.84	14.08	3.28	17.50	17.78	4.09	39.37
Mar	2011	3.37	4.32	0.37	14.58	16.86	1.71	17.95	21.18	2.08	41.22
Sep	2011	3.60	4.10	0.90	15.48	17.35	2.98	19.08	21.45	3.88	44.41

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For More information regarding this MarketView, please contact:

Christopher Keen
Director, Retail Lease Consultancy
CBRE
Henrietta House
Henrietta Place
London W1G 0NB
t: +44 20 7182 2798
e: christopher.keen@cbre.com

Steve Jones
Director, Retail Consultancy
CBRE
Henrietta House
Henrietta Place
London W1G 0NB
t: +44 20 7182 2645
e: steve.jones@cbre.com

Retail Research

Mark Teale
Head of Retail Research,
CBRE
Henrietta House
Henrietta Place
London W1G 0NB
t: +44 20 7182 3611
e: mark.teale@cbre.com

Robert Wilkinson
Associate Director, Retail Research
CBRE
Henrietta House
Henrietta Place
London W1G 0NB
t: +44 20 7182 3610
e: robert.wilkinson@cbre.com

Renu Shah
Senior Data Analyst, Retail Research
CBRE
Henrietta House
Henrietta Place
London W1G 0NB
t: +44 20 7182 3167
e: renu.shah@cbre.com