CBRE
MarketView

Retail Warehouse Parks in the Pipeline

December 2011

Key Findings

- The amount of retail warehouse park space under construction is currently just 15% of the level recorded in September 2007
- The retail warehouse park development pipeline has been in almost continuous decline since H2 2004
- Retail park development activity levels going forward will, to a significant extent, be determined by planning attitudes to A1 proliferation in the park stock, the primary high value demand area

Definition

The analysis in this publication relates to retail parks of at least 4,645 sq m (50,000 sq ft) gross.

OVERVIEW

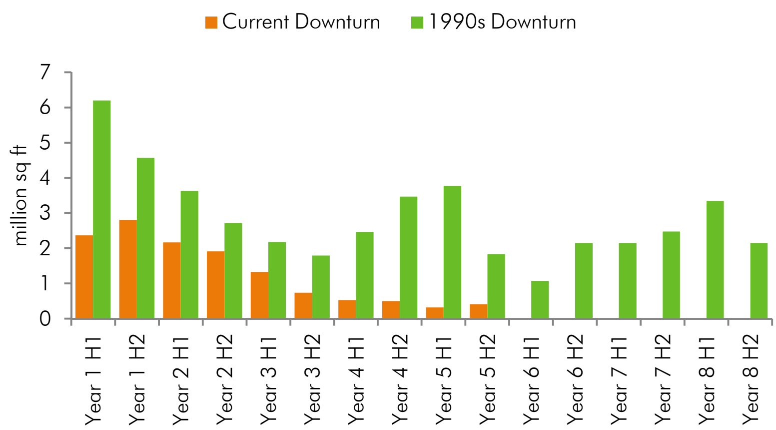
In common with shopping centres, speculative retail warehouse development has plummeted. The amount of grocery floorspace in the development pipeline is now more than twice retail park space pipeline levels. The amount of retail warehouse park space under construction is currently just 15% of the level recorded in September 2007, immediately prior to the onset of the credit crisis. The overall park pipeline has meanwhile contracted by a similar percentage.

As the chart at the bottom of this page shows, not only was the amount of retail park space under construction at the beginning of the 2007 downturn much lower than at the onset of the early 1990s recession, construction activity has continued to fall well after the year three recovery point in the 1990s development cycle. Retail warehouse park construction activity levels are now at the lowest level recorded since the series was started in the early 1980s.

From an investors' perspective (as also occurred coming out of the 1990s recession), retail park investment is increasingly looking like a one-way-bet. High levels of institutional investment results in very little quality stock coming onto the market. Debt levels are low. Vacancy levels (at least in the decent stock) are sharply down. Residual anxieties remain about the potential for tenant default in electrical markets but the tenant mix on parks has broadened so much in recent years, particularly in the A1 area, that the risks attached to single sectors – like electrical – is much lower than it used to be. The effective ban on out-of-town shopping centre development continues to result in A1 demand spilling into the retail park stock. The collapse in speculative park development activity has meanwhile re-focused demand on existing stock.

Head of Out-of-Town Agency Dominic Walton comments: *"The highly restricted pipeline is a major challenge for traditional shopping centre anchors resulting in many now looking at entirely new trading formats suitable for retail parks. The quality of park stock – and the suitability of the stock for A1 space, inevitably varies enormously but there are*

1990s VS CURRENT CONSTRUCTION ACTIVITY (SQ FT millions)



Source: CBRE, PMA

TRENDS

many parks and park clusters out there that have become very potent comparison goods shopping destinations in their own right: on a performance per sq ft basis, more so than many town centres"

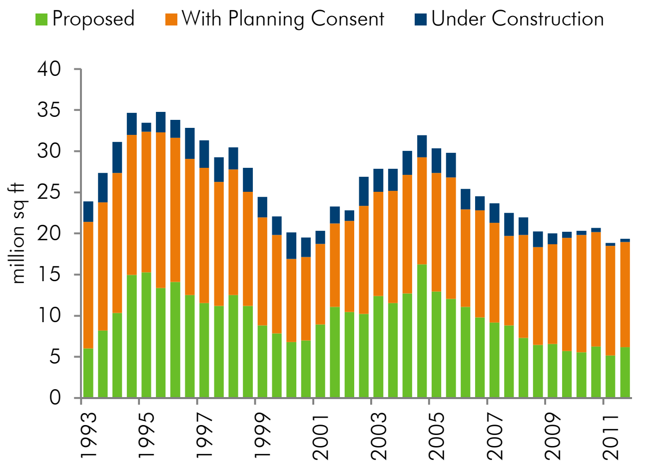
Unlike shopping centre and grocery development pipelines, the retail warehouse park pipeline has now been in almost continuous decline since 2004. Sluggish growth in bulky goods markets prior to the onset of recession played some part in the early decline but planning obstructions remain the primary reason for the contraction in retail park pipeline levels.

Finding sites that are viable for retail warehouse development, for which planning consents can be obtained (particularly A1 consents, let alone consents for full-blown fashion parks), remains exceedingly difficult.

Retail warehouse park pipeline levels overall effectively bottomed in H1 2009 at 20m sq ft. A further fall was recorded in Q1 2011. The movement of scheme proposals through into the planning stages has however so far kept planning consent levels for retail parks reasonably stable at circa 12m-14m sq ft. With construction activity levels at an all time low, consent levels – as they are time limited – now look set to begin contracting again, suggesting retail park pipeline levels still have further to fall.

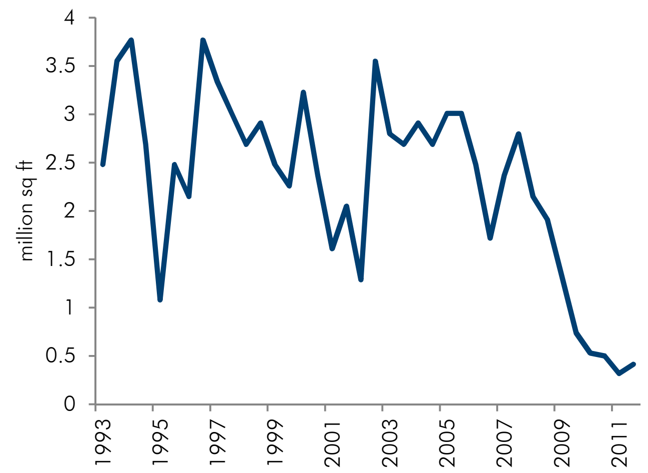
As the map on page three shows, only a handful of retail park schemes are currently under construction. Unlike shopping centres, which have lengthy development periods, retail parks are relatively quick to build. Most of the schemes currently under construction will be completed next year. We expect retail warehouse park construction activity levels to remain at sub-1m sq ft pa levels until consumer spending levels strengthen markedly. Retail park development activity levels going forward will, to a significant extent, be determined by planning attitudes to A1 proliferation in the park stock, the primary high value demand area. There is substantial pent-up demand for additional A1 space in parks. 'Town centre first' planning policies will however inevitably continue to suppress A1 park development activity.

Total Pipeline (H1& H2)



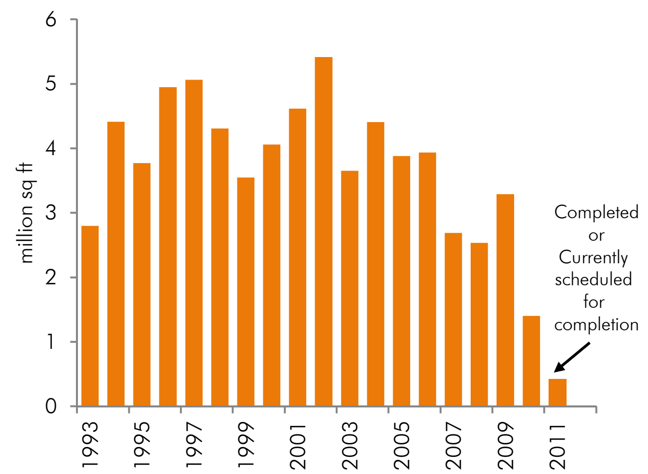
Source: CBRE, PMA

Under Construction (H1& H2)



Source: CBRE, PMA

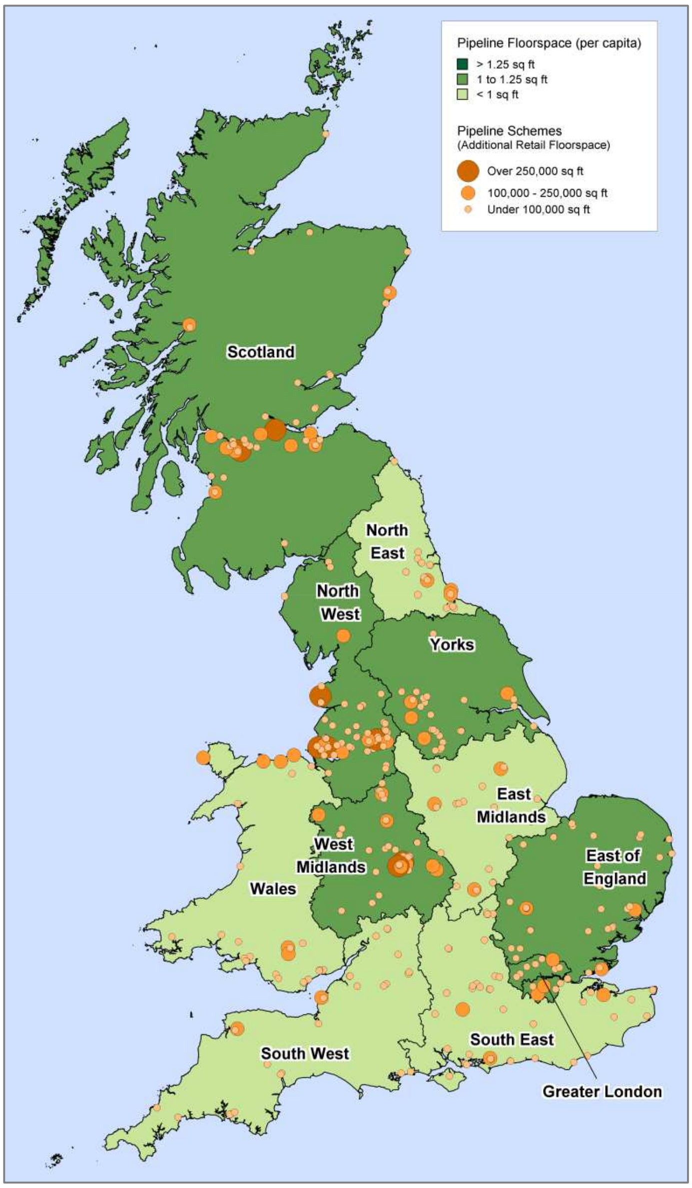
Completed (annual)



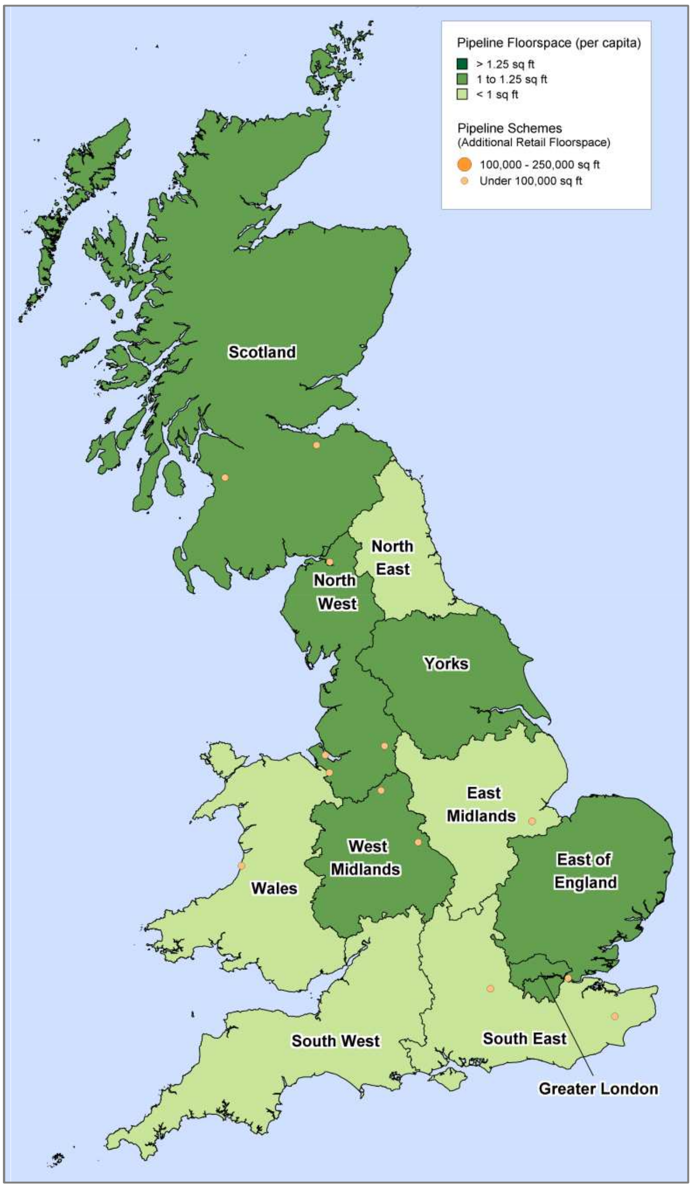
Source: CBRE, PMA

SCHEME SUPPLY

Retail Warehouse Parks Pipeline – All Planning Stages



Retail Warehouse Parks Pipeline – Under Construction



Region (GOR)	Total Pipeline Floorspace (m sq ft)	Total Pipeline Floorspace (%)	Total Floorspace per capita (sq ft)	Pipeline Under Construction (m sq ft)	Pipeline Under Construction (%)
East Midlands	1.06	5.47	0.23	0.02	5.32
East of England	2.03	10.49	0.34	0.03	6.04
London	0.47	2.44	0.06	-	-
North East	0.84	4.35	0.32	0.05	11.33
North West	3.91	20.22	0.56	0.07	15.95
Scotland	3.53	18.24	0.68	0.02	3.62
South East	1.41	7.29	0.16	0.06	15.46
South West	0.84	4.32	0.16	-	-
Wales	1.66	8.55	0.55	0.07	17.4
West Midlands	2.47	12.76	0.45	0.1	24.89
Yorkshire & the Humber	1.14	5.87	0.21	-	-
Total	19.36	100.00	0.32	0.41	100

RETAIL WAREHOUSE PARKS DEVELOPMENT PIPELINE (MILLION SQ FT)

Qtr End	Year	Proposed	With Consent	Under Construction	Total Pipeline
Mar	1991	22.90	16.82	3.63	43.80
Sep	1991	21.93	17.53	2.76	42.22
Mar	1992	16.02	16.75	2.18	34.95
Sep	1992	8.22	15.60	1.25	25.07
Mar	1993	6.03	15.39	2.48	23.90
Sep	1993	8.18	15.61	3.55	27.34
Mar	1994	10.33	17.01	3.77	31.11
Sep	1994	14.96	17.01	2.69	34.66
Mar	1995	15.28	17.11	1.08	33.47
Sep	1995	13.35	18.94	2.48	34.77
Mar	1996	14.10	17.55	2.15	33.80
Sep	1996	12.49	16.58	3.77	32.84
Mar	1997	11.52	16.47	3.34	31.33
Sep	1997	11.19	15.07	3.01	29.27
Mar	1998	12.49	15.28	2.69	30.46
Sep	1998	11.19	13.89	2.91	27.99
Mar	1999	8.83	13.13	2.48	24.44
Sep	1999	7.86	11.95	2.26	22.07
Mar	2000	6.78	10.12	3.23	20.13
Sep	2000	7.00	10.12	2.37	19.49
Mar	2001	8.93	9.80	1.61	20.34
Sep	2001	11.09	10.12	2.05	23.26
Mar	2002	10.44	11.09	1.29	22.82
Sep	2002	10.23	13.13	3.55	26.91
Mar	2003	12.38	12.70	2.80	27.88
Sep	2003	11.52	13.67	2.69	27.88
Mar	2004	12.70	14.42	2.91	30.03
Sep	2004	16.25	13.02	2.69	31.96
Mar	2005	12.92	14.42	3.01	30.35
Sep	2005	12.04	14.75	2.98	29.77
Mar	2006	11.09	11.84	2.48	25.41
Sep	2006	9.80	13.02	1.72	24.54
Mar	2007	9.15	12.16	2.37	23.68
Sep	2007	8.83	10.87	2.80	22.50
Mar	2008	7.31	12.45	2.17	21.93
Sep	2008	6.43	11.90	1.91	20.24
Mar	2009	6.55	12.15	1.33	20.03
Sep	2009	5.71	13.77	0.74	20.22
Mar	2010	5.57	14.24	0.53	20.35
Sep	2010	6.25	13.92	0.50	20.67
Mar	2011	5.17	13.34	0.32	18.83
Sep	2011	6.17	12.77	0.41	19.36

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