

GCW

BIG IN RETAIL



AUSTIN REED ADVICE DELIVERS RESULTS

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TK MAXX SIGNS TO STAY
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PRIVATE INVESTORS COMMIT TO RETAIL

GCW's investment
team explains why
retail opportunities
are in favour with
private investors **p4**



GCW takes on London mixed-use scheme

ROADSIDE

■ Housebuilder, Barratt London has appointed GCW to act as retail letting agent on its new mixed-use development on London's South Bank.

The development will include 336 apartments and penthouses and around 51,500 sq ft of commercial space of which 16,500 sq ft will be retail and restaurant units. The two and half acre site is prominently located on the corner of Blackfriars Road and Borough Road at St Giles Circus and is immediately adjacent to London South Bank's University Campus. It will be delivered in phases from July 2017 to mid-2018. GCW will let up to 10 retail and restaurant units from 700 to 4,200 sq ft with street frontages.

"This is an exciting opportunity for GCW and we look forward to working with Barratt London on this large, mixed-use regeneration project," says GCW director Simon Horner.

"Our focus will be on developing a strong return on capital for our client as well as creating the right tenant mix for such a substantial residential scheme," he adds.

The project is GCW's first letting appointment for Barratt London and follows on from its success on the Hadley Mace development in Greenwich Square.



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GCW brings expertise to Austin Reed administration

HIGH STREET

■ GCW has completed the latest in a series of high profile appointments on retailer administrations, acting for AlixPartners on the collapsed menswear chain Austin Reed.

GCW was appointed to review the property portfolios of the three brands operated by the 116-year old retailer in 150 stores, Austin Reed, Country Casuals and Viyella and establish the potential for raising capital through assignments and surrenders of leases. GCW marketed the opportunities and raised substantial sums for

creditors. It agreed a number of deals securing premiums from retailer occupiers or surrenders with landlords including the surrender of

"Austin Reed had an attractive portfolio and we were able to capitalise on this"

the lease to the landlord of Austin Reed's flagship store at 100 Regent Street for a substantial premium. The retailers who took on leases include White Stuff, EE and Fraser Hart.

"Austin Reed had an attractive portfolio and we were able to capitalise on this. We had two months from late April to market the properties and agree deals whilst working in tandem with AlixPartners who was trying to sell the business as a going concern," says GCW director Simon Morris.

GCW has established a strong reputation for acting on retailer administrations including shoe retailer, Brantano, Jessop Group and Fenn Wright Manson.

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EPSOM ENJOYS RETAILER CONFIDENCE

SHOPPING CENTRES

■ GCW's asset management and leasing work at Epsom's Ashley Centre continues to pay dividends as confidence in both the centre and the town continues to boom.

Planning has been secured, outside the centre, to remodel 93/95 High Street to create a new store with 1,900 sq ft on the ground floor and 700 sq ft on the first and three residential units. The retail unit was pre-let to Pret a Manger on a 10 year lease at £115,000 pa with six months rent free and will open in Autumn next year.

In a further show of confidence in the centre Waitrose has begun a £3 million refit of its 28,000 sq ft supermarket. Carphone



Warehouse is also relocating from the High Street into the scheme in a 1,000 sq ft store on a 10 year lease at £66,500 pa.

New Look has also agreed a deal to relocate to an expanded 8,000 sq ft store. The existing store will be sub-divided for a fashion and cosmetic retailer.

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LAP secures TK Maxx in Sheffield

SHOPPING CENTRES

■ TK Maxx has made a strong commitment to its future in Sheffield's Orchard Square shopping centre with a restructure and extension to its lease.

The retailer, who has occupied a key store at the shopping centre for 20 years, has agreed to remove a break clause exercisable in August 2018 and extend its lease to March 2026. The deal by GCW for owner London & Associated Properties (LAP) creates an almost 10-year unbroken term at a current rent of £475,000 pa.

"This re-geared lease

reinforces Orchard Square's position as one of Sheffield's pre-eminent retail locations and reflects our anchor tenant's commitment to the centre," says LAP chief executive, John Heller.

"Although TK Maxx has been a tenant for many years, the current 46,000 sq ft store was created in 2008 specifically to meet its needs, as part of our on-going asset management programme to improve and upgrade Orchard Square's retail offer," he adds.

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The Cornish Bakery wins design accolades

HIGH STREET

■ The Cornish Bakery's successful rebrand continues to win plaudits with a positive response from customers, landlords and recognition from an international design award.

The retailer rebranded earlier this year from Pasty Presto with improved facias and updated interiors rolled out across the UK. It has won an International Food and Beverage Excellence (FAB) Award for the interior design of a rebrand.

GCW is working with The Cornish Bakery to secure its continued expansion and is looking to add 10 more stores next year. The latest openings are a 1,500 sq ft store on Sidmouth High Street on a 10 year lease with a tenant break in year five at £44,000 pa; and a 900 sq ft unit on Institute Road, Swanage on an assignment of the existing lease expiring in 2026 at £19,000 pa.

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DEALS



GCW has agreed a deal to bring clothing retailer **Quiz** to **Portsmouth's** Cascades shopping centre. Quiz takes a five year lease at £95,000 pa with six month rent free on a shop with 1,990 sq ft on ground floor and 964 sq ft on first floor.

GCW has agreed two lettings for **Dunfermline's** Kingsgate centre. **Mountain Warehouse** takes a 2,000 sq ft unit on the High Street adjacent to the centre on a five year lease at £45,000 pa. Inside the centre, Vision Express has agreed a 10 year lease extension with a tenant break in the fifth year at £60,000 pa for its 1,500 sq ft store.

Independent coffee retailer, **Second Cup** moves to **Harrow's** St Anns shopping centre in a GCW deal for owner Orchard Street Investment Management. The retailer takes a 1,500 sq ft unit on a 10 year lease at £65,000 pa or 9% of turnover with 12 months rent free.

Stationery retailer, **Smiggle** is the latest letting at **Maidenhead's** Nicholsons Shopping Centre following the recent opening of H&M which is trading well above expectations. Smiggle takes a 1,200 sq ft unit on a 10 year lease at £32,000 pa with 18 months rent free.

The latest GCW deal at **Salisbury's** Old George Mall also involves **Smiggle** who takes a 883 sq ft ground sales unit to make the centre almost fully let. The unit is on a 10 year lease with a tenant break in the fifth year, at £78,000 pa with 9 months rent free.

Starbucks will open in a 1,100 sq ft unit in **Ealing's** Central Buildings, opposite Ealing Station on a 10 year lease at £107,500 pa with six months rent free. The GCW deal for Benson Elliot is part of a transformation of this block into travel convenience retailing to serve the new Crossrail station.

GCW has agreed a deal for **Superdrug** to take a store on **Nottingham's** Carrington Street, adjacent to the railway station, as part of its roll out into travel sites. The 3,100 sq ft unit is on a 10 year lease with a tenant only break in the fifth year at £40,000 pa with six months rent free.

GCW has concluded a deal to bring hamburger chain, **Byron** to **Birmingham** New Street in a 1,500 sq ft unit on behalf of the previous tenant Cashino.

OPINION

GCW's investment team expects the strong demand for retail property from private investors and family trusts to continue as uncertain financial markets encourage a flight to safety.

PRIVATE INVESTORS DISPLAY CONFIDENCE IN RETAIL

Prior to the EU referendum the demand from private investors and family trusts for good quality retail assets was helping GCW's investment team to secure strong levels of interest for client sales.

GCW secured the sale of four of the 14 properties across the Toucan and Peacock portfolios earlier this year for APAM and US-based Varde Partners. All of the properties sold to private investors at significant profits.

A private family trust purchased two of the well let assets on Culver Street West, Colchester occupied by Superdrug and Office Shoes with 9.5 years remaining on the lease; and Broad Street, Reading let to Lloyds Bank with 10 years and 5 months remaining, for £6.5 million and £4.76 million respectively, reflecting yields of 5.71% and 4.33%. The Lloyds Bank with 10 years 8 months unexpired on High Street, Lincoln was also sold to a private investor for £3.15 million showing an initial yield of 4.5%. In the third deal, a restaurant on Queen Street, Cardiff was sold to a property company for £2.16 million reflecting a net initial yield of 7.19%.

PROFITABLE DEAL

GCW had previously acted for Varde and APAM in a competitive bidding situation to acquire the portfolios for £51.3 million.

"These sales have produced a profitable exit over a short period of time and provide further evidence of the merit in investing in the UK retail sector," says Simon Cooke, director at APAM.

The trend for strong demand in the private investor sector of the market was also reflected in GCW's sale of the Costa Coffee on Canterbury's High Street which attracted 29 bids significantly better than the asking price of £1.4 million reflecting 5.75%. The property, which was just off prime pitch, occupied a

Below: GCW directors Fiona Nichols and James Pearson

corner trading position and was let on a new 10 year lease to Costa Coffee with a tenant break in the sixth year. The final sale price reflected a net initial yield of below 4% but is subject to confidentiality.

COMPETITIVE BIDDING

"Canterbury is an attractive cathedral city with a large catchment but this was a simple, straightforward freehold building in a normal town. The level of interest and competitive bidding is a clear illustration of the demand from private investors for well let assets in quality towns," says GCW director Fiona Nichols.

GCW also generated strong demand for a prime retail parade on Bancroft, Hitchin let

"The level of interest and competitive bidding is a clear illustration of the demand from private investors for well let assets in quality towns"



Sutton owner backs GCW experience

to Prezzo, White Stuff and Monsoon with a WAULT of 8.9 years. Initially marketed for £3.587 million reflecting an initial yield of 6%, it was sold to a family trust following two very competitive rounds of bids for £3.901 million reflecting a yield of 5.48%. GCW advised the sellers, Marlborough Properties, who acquired the block in 2012 for £3.2 million.

All of these deals were completed during the run up to the EU referendum and the Brexit result did hamper a number of other deals that were under offer at the time of the vote. However following initial uncertainty, GCW sees private investor confidence returning.

BUSINESS AS USUAL

“Like a large number of agencies we lost a couple of transactions with the increased uncertainty scaring off the buyer. However that initial reaction has now been tempered and it appears that in the private investor sector it will be business as usual through the rest of the year,” says GCW director James Pearson.

A cut to the base rate to 0.25% in early August alongside other easing measures in place should strengthen the demand for the 100% prime retail assets in strong towns, particularly those in the South East, that are well let and to solid covenants, and in the £1 million to £5 million lot range.

“These assets, whilst offering sharp returns compared to other commercial property are still favourable to the volatile stock market and historic low gilt yields. It is often commented that in these markets we see a flight to prime and that is happening now,” adds Pearson.

STRONGEST DEMAND

GCW sees the strongest demand from private investors in towns that have either been rebased and provide the possibility of rental growth or towns where rents were not affected by the downturn. Pearson points to competitive bidding situations in recent post-Brexit transactions such as a property let to Hobbs in Harrogate and another to Oasis in Chichester as good examples of this demand.

However whilst GCW expects demand from private investors to continue, the challenge for vendors is to get the best price.

“From our experience you can’t simply rely on the quality of the asset to generate the best sale figures. We believe that GCW’s focus on developing in-depth sales stories will be essential in continuing to attract high levels of interest,” says Pearson.

“Our thorough understanding of the retail market enables us to highlight selling points that others might not recognise and this will be essential over the next few months,” he adds.

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SHOPPING CENTRES

■ GCW has been retained to work with the new owner of Sutton’s St Nicholas shopping centre, AEW Europe, on a range of asset management initiatives.

New lettings include jewellery retailer, Pandora moving into the shopping centre in a 2,302 sq ft unit over ground and first floor on a 10 year lease at £50,000 pa. Existing tenant Toy Barnhaus has upsized to a new 3,471 sq ft ground floor and basement unit on a 10 year lease paying a stepped rent averaging £59,000 pa.

The next phase of development will be the



creation of three A3 units on the ground floor opposite the existing Empire Cinema, improving the linkage between the High Street and St Nicholas Way. The amalgamation of several units to create a large fashion anchor will follow.

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Shoppers give Sailmakers a thumbs up in Ipswich

SHOPPING CENTRES

■ Retailers in Ipswich’s refurbished Sailmakers shopping centre are enjoying increased sales as the centre enjoys a higher profile and increasing footfall.

Year on year increases in sales turnover include 2.8% at Poudland, 3% at Quiz and 4% at Top Shop. Other retailers such as coffee shop, BB’s who has moved back into the centre are enjoying sales above target for the year.

The improvements are

driving up rents with an increase from £35-40 to £45-£50 Zone A with scope to increase to £60 once the centre is near full occupancy.

The latest letting agreed by GCW sees plus-size ladies retailer Yours take a 2,000 sq ft store at £50,000 pa on a 10 year lease with a tenant break in the fifth year. The deal follows four key lettings earlier in the year.

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M&S purchase boosts Harlow tenant mix with new brands

SHOPPING CENTRES

■ Nine new retail units created from a vacated Marks & Spencer store adjacent to Harlow's Harvey Centre have provided a boost for the centre.

GCW agreed the purchase of the long leasehold of the store for £2.9 million late last year for the centre owners Addington Capital. It then worked with the owners to target retailers and establish a good tenant mix in the new development.

It has agreed deals to let

eight of the nine new units bringing a host of new brands into the centre.

The deals include:

- Exercise4less taking 30,000 sq ft across ground, first and second floor on a 15 year lease at £138,150 pa.
- Jeweller F Hinds opening in a 1,900 sq ft store on a 15 year lease at £40,000 pa with a turnover top-up.
- Food retailer Gyms Kitchen taking a 2,370 sq ft unit on a 10 year lease at £60,000 pa.
- Health and wellbeing retailer Holland and Barrett agreeing

a 2,400 sq ft store on a 10 year lease at £80,000 pa.

Four more units are under offer and one unit, a prominent 3,665 sq ft store, is still to let.

The redevelopment of the Marks & Spencer store creates an improved entrance mall for the Harvey Centre and also provides a direct link from the traditional prime shopping area on Harlow's Broad Walk into the centre.

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GCW delivers lease renewal briefing to clients

PROFESSIONAL

■ The latest GCW client seminar highlighted two recent legal rulings which may have a significant impact on future lease renewal negotiations.

The seminar focused on the likely implications from two reported cases, *Odey Asset Management v Telford Properties and Britel Fund Trustees Limited v B&Q*.

Reported cases from this field are relatively rare and both focused on the assumptions which should be made when valuing properties for a lease renewal. In both instances it was decided that the tenants should be allowed an appropriate rent free period for fitting out in the valuation approach adopted and that this should be reflected in the terms agreed.

"These judgements send a message to both retailers and landlords in lease renewal negotiations. They may well have an impact on the terms which can be agreed and are already influencing some negotiations," says GCW director, Clive Gillingwater.

The cases also highlight the importance of the evidence given by Expert Witnesses. In one ruling the

Judge was very critical of the quality and relevance of evidence offered, stressing the importance of securing well-qualified witnesses when going to Court.

GCW's regular seminar series focuses on updating clients on key retail trends and market developments.

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GCW SECURES OUTDOOR DEAL

■ GCW's high street team has secured its first two deals for retailer, Mountain Warehouse in Sherborne and Christchurch.

Mountain Warehouse will open on Cheap Street, Sherborne in a store with 1,438 sq ft sales space on ground floor and 426 sq ft on the first floor on a new 10 year lease at £55,000 pa. It also takes a store on Christchurch High Street with 2,073 sq ft of sales space on a new 10 year lease at an average rent of £52,500 pa.

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Castlecap buys in northern retail centres

INVESTMENT

■ GCW's investment team has secured two successful purchases for property company, Castlecap Investments in Oldham and Sunderland for £3.25 million, reflecting an initial yield of 12.84%.

The property in Oldham is made up of four retail units fronting onto the pedestrianised High Street close to Spindles Town Square shopping centre. The property is let to Heron Foods, Thomas Cook Travel and William Hill.

In Sunderland, Castlecap has purchased a property on the pedestrianised section of



High Street West opposite Primark which acts as an entrance to The Bridges shopping centre. The property is made up of eight retail units over 0.41 acres and tenants

include Shoe Zone and Toni & Guy alongside a number of independent retailers.

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GCW directors support property careers

CORPORATE

■ GCW is increasing its support for Reading Real Estate Foundation's innovative programme to widen access to the real estate profession. The programme, Pathways to Property, raises awareness of real estate as a subject of study to academically able pupils from disadvantaged and non-traditional backgrounds. The project targets 16-17 year olds through a series of summer schools, presentations and work experience opportunities.

GCW directors Simon Morris and Simon Horner have been involved in making presentations to schools to promote careers in the property industry and as a mentor on the degree programme at Reading University. Both took part in activities at this year's summer school alongside GCW surveyor Alex Ashe.

"The attendees were motivated, intelligent, engaging and seemed fearless in putting forward arguments

on a subject that they had no knowledge of three days earlier. We fully support the need to harness this passion and energy into the industry from a new wave of thinkers," says GCW director Simon Morris.

"There's a clear disconnect between the industry and consumers and Pathways

"We fully support the need to harness this passion and energy into the industry"

to Property seems the ideal vehicle to try and rebalance this," he adds.

GCW signed up to sponsor Pathways to Property for three years. It provides funding towards the programme, acts as an industry ambassador and hosts students for work experience in its London office. Pathways to Property is now in its fourth year.

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OPINION MARTYN PITT

Retailers – Beware of new accounting rules

Although not scheduled to come into force until 2019, a new leasing standard – IFRS 16 – is already starting to send tremors around the retail industry. Analysts calculate that companies such as Tesco and Greggs could have billions of debt added to their balance sheets, but it's not just the larger retailers that will be affected. Any business with a portfolio of short-leasehold property should start evaluating the impact of the new rules.

In simple terms, IFRS 16 will require the majority of operating leases to be brought onto the balance sheet. Currently, they are treated as off-balance sheet financing and rent is simply written off each year as a charge against profit. With effect from 1 January 2019, the net present value of all future rental payments will be capitalised as an asset on the balance sheet and an equal amount treated as a liability.

In the future, rental payments will no longer be treated as an expense against profit. Instead, a provision for depreciation on the value of the asset will be made as well as an interest charge on the deemed liability. In practical terms, the cost effect of this will be front-end loaded and will result in profits being hit most in the early years of any new lease. What's more, the liability will need to be reassessed every time there are updates during the lease term.

IFRS 16 is seen as being a way of creating a level playing field between those companies that borrow to buy an asset and those that finance their principal assets through lease agreements. It also attempts to bring transparency to a company's accounts by revealing its future financing obligations.

The standard could have significant consequences for many retailers. With rent being replaced by interest and depreciation, reported levels of EBIT and EBITDA will change dramatically. This could affect both banking covenants and any other items that are linked to these profitability measures. Similarly, accounting ratios – particularly relating to gearing and interest cover – will also be affected. Finally, the accounting benefits of improved equity and reduced debt currently brought about by sale and leaseback transactions will be negatively impacted, possibly bringing about a reduction in these transactions.

Whilst 2019 might seem a long way off, the potential impact of IFRS 16 means that the retail property industry needs to begin preparing for it now.

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Q&A

Oli Horton was promoted to director in GCW's specialist retail investment team earlier this summer. He talks about his role at GCW and what's behind his successful career to date.

How did you break into retail property?

■ I've followed a very conventional route and it's worked well – a degree in Real Estate Management at Nottingham Trent including an industry placement year at Churston Heard put me in a strong position to get my first full-time role.

How did you arrive at GCW?

■ Via a speculative email to partner Fiona Nichols when I graduated. I was lucky with timing as she had just made the decision to recruit someone in the investment team. I knew that I wanted to work in retail investment and was aware of GCW from my industry placement year. I did my homework and got the job.

Where did you learn your property skills?

■ After six years at GCW, I have to say I've learnt pretty much everything here. I joined as a graduate, passed my APC exams after the first year and then was promoted through surveyor, associate director and now director in the investment team.

What's the most satisfying deal you've done?

■ Buying the Toucan and Peacock retail portfolios for £51.3 million for Varde Partners and APAM. It wasn't just about the size of the deal. It created lots of knock-on work for GCW's high-street agency and professional teams as well as the investment team.

What's your favourite property on the Monopoly board?

■ Definitely Angel Islington. I lived there till I was 5 and never understood as a child why it was one of the cheapest properties. It definitely isn't now in the real London market so maybe I could spot value at an early age.

What can we see on your desk?

■ Some fruit, a broken iPhone charger and, in good GCW tradition, several completely unworn ties.

Tell us something people might not know?

■ As Hollywood Horton, I've fought and won two charity boxing matches. Each match involves three, two-minute rounds and it's gruelling so I have to train intensively for several months beforehand to be prepared for the fight.

Describe your favourite day at work?

■ GCW's 25th anniversary trip to the ski resort of Morzine is a definite highlight. The whole company of 28 surveyors and support staff enjoyed two days in the snow to mark the birthday.

And your favourite days away from work?

■ They are mostly about playing and watching sport, I play rugby, football and ski as much as I can as well as watching both my beloved Arsenal and Bath rugby teams continue to underperform.

What was the last book you read?

■ I was completely hooked on The Truth About the Harry Quebec Affair by Joel Dicker.

What's your favourite saying?

■ "It's nil nil." My fellow director James Pearson and I repeat this after every completed transaction. It reminds us of playing sport at school and that you are only as good as your next score.



GCW

BIG IN RETAIL

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