



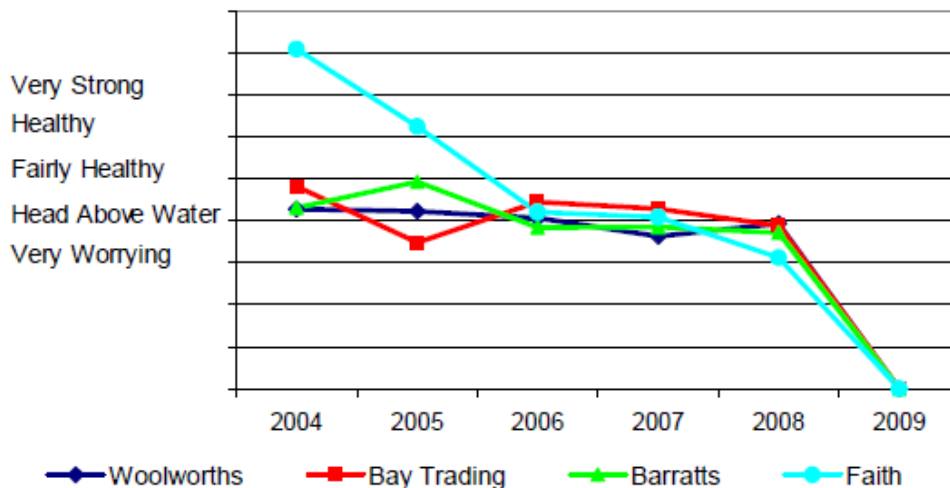
Sustainable Investment – Corporate Risk

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With schemes in the hands of administrators, debt driven ‘fire sales’, the high cost of filling voids, continuing deterioration in the financial health of occupiers and worries about the future of the UK economy, beleaguered investors can be forgiven for feeling unenthusiastic about retail property.

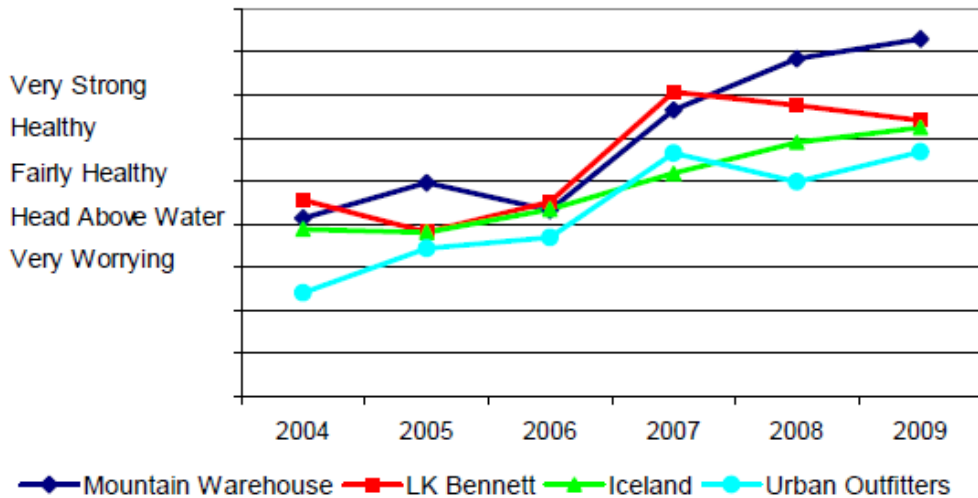
Given the right knowledge however, it is still very possible to acquire assets with growth potential and to create conditions which will stimulate sustainable income growth. This Product Focus is the first of a series of three, covering Corporate Risk, Trading Risk and Income Growth. These will illustrate how appropriate pre acquisition research and good asset management can have a positive influence on income growth and potential exit yields.

Path to Failure



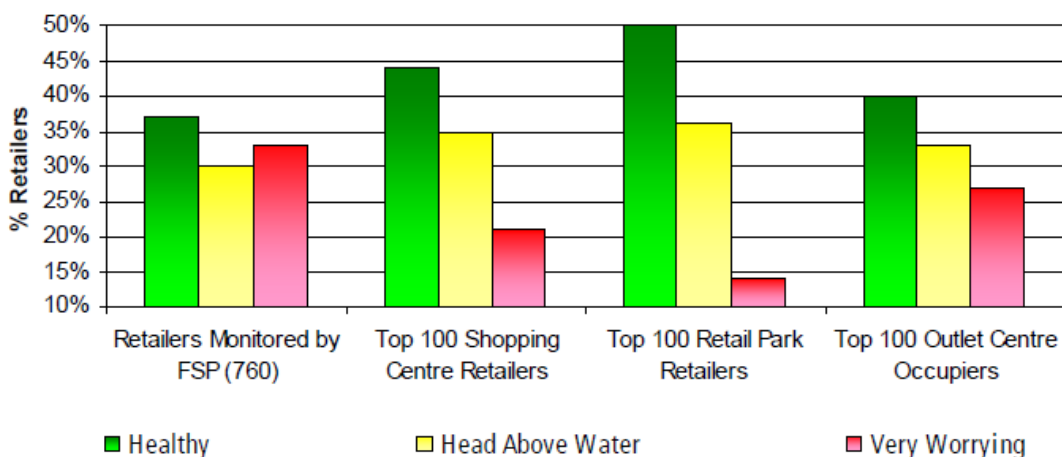
Corporate Risk is the risk to specific shops which arises through the overall financial performance of the retail chain. The spate of administrations between 2008 and 2010 saw a number of good performing local stores closed as a result of corporate failures such as Woolworths, Bay Trading, Barratts and Faith. However, as the chart above demonstrates, the financial trajectory of the majority of larger organisations is known and analysis can therefore be quickly undertaken by FSP to assess the threat of corporate risk to rental income for any retail asset.

Positive Stories



Although corporate failures have produced many headlines, the retail industry is not all doom and gloom. As well as those flat or downward financial health trajectories shown for Barratts, Faith etc., a significant number of retailers are healthy or have an upward trend. These include LK Bennett, Iceland and Urban Outfitters, shown by the above chart. Clearly, understanding where the balance falls between those stronger and weaker retailers is an essential step in assessing the financial position of individual assets. A key part of FSP's service is therefore to quickly link corporate health to passing rents in order to pinpoint potential income risks.

Stronger Assets



FSP has matched Corporate Health to key occupiers in order to illustrate the current position for major retail asset classes. The chart shows the financial health of the top 100 occupiers (by number of outlets), present in major shopping centres, retail parks and factory outlets. For all three classes, the proportion of Very Worrying retailers is below FSP's retailer average while the proportion of Healthy retailers is above average. Although the balance will be different according to the particular tenant line up in individual schemes (which must therefore be carefully scrutinised),

this indicates that there is less risk and stronger income growth prospects in these asset classes than elsewhere on the high street.

Although this is a relatively sunny picture, about one third of retailers currently fall into the Head Above Water category and higher concentrations can be seen for the three asset classes than for FSP's database of monitored retailers. It is therefore very important to understand direction of travel and assess the Trading Risk of specific stores. For example, amongst Retail Parks, Head Above Water occupiers tend to be traditional bulky goods occupiers whilst Healthier occupiers tend to serve the more profitable fashion, personal goods and grocery markets.

Where turnover supports a lower Sustainable Rent than Passing Rent, unprofitable stores may become targets for future closure, particularly where urgent corporate restructuring is required to alleviate Head Above Water health. To reduce this 'Trading Risk', turnover growth is essential and FSP will develop the concept of combining Corporate and Trading Risk with Asset Strategy in a following Focus review.

The classification of individual retailers by Corporate Risk is available through FSP's SnapShop online directory or through FSP consultancy projects.



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