



## DECEMBER 2008 UPDATE

### Geoff's View

#### Retail Rental Risk Management

Assessing the reliability of retail rental income, always important for asset managers and property investors, is now critical. FSP has developed a Rental Risk Index (RRI) that quantifies the quality of rental income and is using its RRI to reduce rental risk particularly in shopping centres. The premium attached to rents in a shopping centre lies in the centre's ability to control its environment and tenant adjacencies, unlike the situation in most high streets. The current pressure to take on any retailer without regard for tenant fit, simply to maintain the immediate income stream, will erode this premium. It is not true that any retailer who will pay the rent is good enough.

Within the context of plunging retail property values, rental income is naturally the metric of choice. With RICS and others predicting that capital values will drop a further 25% or more over the next two years, on top of a similar drop since 2007, income and its quality will remain the key consideration for a while.

Covenant strength alone is a crude measure of rental risk, totally inadequate for the current dynamic environment when some of the best retailers are relatively new and rapidly growing.

Retailers are burdened by:

- \* pressure on Gross Margin from widespread and indiscriminate discounting
- \* falling value of the pound leading to increased merchandise costs
- \* consumers postponing big purchases as they struggle with debt and the threat of unemployment
- \* the absence of debt facilities for those needing to roll over loans

It is widely expected that in January there will be a spate of national retailers joining Woolworth and MFI in the hands of administrators. In this context, FSP has developed a 5-point Rental Risk Index (RRI) to identify the degree of rental risk for any retailer. The index takes account of some items that can be found in retailer accounts, such as Return on Trading Assets and the rent burden, but also includes an FSP view of the competence of the retailer. Since shoppers determine the success of any retailer, it is extraordinary that their satisfaction is not normally a key constituent of retailer rental risk assessment.

If all this sounds heavy going, the FSP Team is happy to explain the Rental Risk management service in more detail. Alternatively, take comfort from the fact that next week is Christmas and an opportunity to take a different perspective on what is really important.

Wishing you a very Happy Christmas and New Year from the whole FSP Team

With kind regards



Geoff Nicholson



<b>New Retailers</b>	
<b>Games 4 U</b>	is a new website launched by Phones 4U devoted to games and consoles
<b>Insomnia</b>	was the favourite for 18% of consumers in a survey in Ireland to see which coffee shop they would most like to see open in their town
<b>Jfour</b>	is to launch in the UK with plans to open 24 stores over the next 12 months
<b>Kitchen Italia</b>	opened at Westfield London
<b>Lief!</b>	is planning to make its UK debut
<b>McGregor</b>	is on the brink of making its debut in the UK
<b>Tach</b>	is preparing to open its first worldwide standalone store in London's West End
<b>Store News</b>	
<b>Bolongaro Trevor</b>	& Religion have ended their retail partnership just 14 months after launching a joint venture
<b>Caffe Nero</b>	is slowing down expansion
<b>Carluccio's</b>	plans to make the most of rivals' misfortunes by buying cut-price properties from restaurants that fail
<b>Choice</b>	has opened its new £1.5 million concept store at Westfield London shopping centre
<b>Firebox</b>	has launched a new wrapping service this Christmas called Crapwrap. The service will wrap your gifts in the most haphazard and untidy way it can
<b>Floors 2 Go</b>	will have opened another 12 stores by Christmas, after being bought out of administration in July
<b>French Eye</b>	has taken two stores in the City of London
<b>Greggs</b>	has said that it plans to accelerate expansion of its 1,400 portfolio of outlets and is to convert its chain of 160 Bakers Oven shops to its main Greggs brand
<b>Halfords</b>	hopes to open 50 shops devoted solely to cycles. It is testing eight standalone outlets that trade as Cycle Republic and Bikehut
<b>Jack Wolfskin</b>	is about to embark on UK expansion as part of its global plans for the brand
<b>John Lewis</b>	will launch the blueprint for a more "fashion-centric" womenswear floor next autumn
<b>KFC</b>	is planning to expand its chain of 780 fast-food restaurants in the UK and Ireland with 45 new outlets in 2009, and its US parent company is considering the introduction of the Taco Bell brand to the UK
<b>Mills</b>	is planning to expand its chain of 75 convenience stores with six new outlets next year
<b>Onitsuka Tiger</b>	has opened a new store in the Liverpool One shopping development



<b>Peacocks</b>	has raised £20m from two US hedge funds to expand its chain of 460 discount fashion stores with up to 40 new outlets a year
<b>Republic</b>	is planning to expand its chain of 93 fashion stores with 100 new outlets over the next six years
<b>Shakeaholic</b>	is expanding its milk shake bars business in the North East from two outlets to five by January
<b>Tampopo</b>	has opened its sixth restaurant in Bristol as part of the brand's £2.2m expansion programme
<b>Tesco</b>	will make massive price reductions across its most fashionable lines next season and unveil a new high street-style shopfit to help it fight back against value retailers such as Primark
<b>Internal Restructuring</b>	
<b>Amazon</b>	has launched its long-awaited digital music download service, Amazon MP3
<b>ASOS</b>	is to launch a kidswear website called AsosKids in February, to capitalise on the booming kidswear market
<b>Burton</b>	has launched a new collection of dinner suits to coincide with the latest James Bond film "Quantum of Solace"
<b>Debenhams</b>	is to spark a final burst of discounting on the high street in the crucial week before Christmas, with discounts of up to 50 per cent over five days
<b>DFS</b>	has been rebuked by the Advertising Standards Authority (ASA) for misleading consumers about the size of its sofas
<b>Eastpak</b>	is launching a young fashion collection
<b>Figleaves</b>	is planning to trial mid-market womenswear brands on its site next year
<b>Foyles</b>	is to leave Selfridges, where it has operated concessions at Oxford Street and the Manchester Trafford Centre for two years
<b>Gap</b>	is joining the discounters, offering shoppers discounts of up to 50% in the run up to Christmas
<b>Home Retail Group</b>	is to launch a standalone clearance website offering "massive discounts" on sofas
<b>Ikea</b>	has begun advertising its winter Sale earlier than usual in order to raise awareness of its discounts
<b>Kingfisher</b>	is to close its chain of nine Trade Depot building supplies stores
<b>Lidl</b>	& Travelodge have announced another partnership...to open a joint hotel and supermarket site in Newcastle-Under-Lyme
<b>Marks &amp; Spencer</b>	is reviewing the future of up to nine stores to take advantage of demand from food retailers for new stores
<b>Marks &amp; Spencer</b>	has hired Sir Michael Parkinson as the latest celebrity to lend his voice to their Christmas food ads



<b>Matalan</b>	will trial its clothing offer online next month in a bid to expand its customer base, ahead of its launch of women's young fashion sub-brand Be Beau for spring 09
<b>Original Penguin</b>	is launching its first full womenswear collection for autumn 09
<b>Perfume Shop</b>	has launched its first TV campaign with a series of 10- and 20-second ads in the run-up to Christmas
<b>Pret a Manger</b>	is rolling out contactless payment to 171 stores, after an initial trail at seven sites proved a success
<b>Ralph Lauren</b>	is to launch its Lauren range exclusively in the UK at House of Fraser. The range was initially developed in 1997 but has previously only been sold in the US
<b>Sainsbury's</b>	has launched a podiatry service following the successful launch of its first supermarket GP surgery earlier this year in Manchester
<b>Selfridges</b>	virtually sold out of Victoria Beckham's debut womenswear range The Dress Collection in the first day
<b>Tesco Plc</b>	has begun testing its non-food Tesco Direct offer in its small-format city centre Tesco Metro stores
<b>Tesco plc</b>	has dealt another blow to the beleaguered sports retailers JJB and Sports Direct by launching a football shirt offer online - Tescofootballshirts.com
<b>Whistles</b>	was understood to be on the brink of completing a refinancing deal at the end of November
<b>Weyvale's</b>	biggest shareholder, Sir Tom Hunter, has insisted he is not about to lose the majority of his stake in the retailer
<b>Financial Restructuring</b>	
<b>Billabong</b>	has bought Midlands-based boardsports retailer Two Seasons for an undisclosed sum
<b>Card Factory</b>	has bought 76 stores from greetings card retailer Celebrations, which fell into administration in October
<b>Carpentryright</b>	has completed the purchase of Sleepright, one of the UK's leading bed retail specialists which currently operates from 93 outlets within Carpentryright stores
<b>Duffer of St George</b>	has been rescued from administration by the brand's management team
<b>Envy</b>	has been bought out of administration by new company Envy Retail
<b>H&amp;T Group</b>	has acquired James Hempseed & Son, the Glasgow-based second-hand goods and jewellery retailer, taking its total chain to 103 outlets
<b>Home Retail Group</b>	has acquired specified rights to the electricals brands Alba and Bush



<b>Jean-Charles de Castelbajac</b>	has been acquired by Swedish firm Atlas Design Group (ADG)
<b>JJB Fitness Clubs</b>	has hired Lazard to find a buyer
<b>MFI Retail</b>	has received approaches from "lots of interested parties" according to administrator MCR
<b>Mitchells &amp; Butlers</b>	would be interested in buying Punch Taverns' managed pub business, Spirit, should it come on the market
<b>Moss Bros</b>	28% stake held by Sir Philip Green has been sold to menswear supplier Simon Berwin and a consortium of investors
<b>Orchid Group</b>	has been part rescued in a pre-pack administration deal
<b>Revive Juice Bars</b>	has recently acquired the trading name and business assets of its main trade competitor LoveJuice to become the UK's largest shopping centre juice bar operator
<b>RoadChef</b>	has been put up for sale by owner Dalek Group
<b>Rosebys'</b>	name is to be abandoned by Edinburgh Woollen Mill, which this month bought 77 of the outlets out of administration
<b>Uniqlo</b>	is understood to be looking for acquisitions in the UK and the US
<b>Whittards</b>	has been put up for sale by its Icelandic owners Baugur
<b>Woolworths'</b>	retail division and its entertainment supply business EUK have been put into administration, no buyers have been found and all stores are preparing to close by January 5 <sup>th</sup>
<b>Administration</b>	news also surrounded the following retailers this month; Bowie Castlebank, Fads, Leveys and Textile Wolrd, Firkins Bakery, The Pier and Orchid Pubs. The Trade Depot chain will be closed but not through administration.
<b>General</b>	
<b>2009</b>	will prove to be one of the worst years on record for high street retailers, according to Verdict Research, with positive growth not set to return until 2014
<b>Argos</b>	has put the brakes on further international expansion and has reviewed its strategy in its overseas market, India, after the retailer failed to clock up the levels of sales it hoped for
<b>ASDA</b>	has won the UK Loo of the Year Award 2008. The competition rewards the very best "away from home" toilets in the UK
<b>Atlantic Fashions</b>	staff are facing Christmas without their wages after a merger between the chain and MK One failed to complete before administrators were appointed
<b>Best Buy</b>	launch in Europe will not be derailed by the potential demerger of Carphone Warehouse or stark warnings from Best Buy about the severity of the downturn in the US, the retailer has stated
<b>Burberry</b>	is eyeing growth in the Middle East through a new joint venture company set up to manage its retail and wholesale distribution in Dubai and Abu Dhabi, as well as Qatar, Oman and Kuwait



<b>Catwalk Genius</b>	is a new online retail concept that allows the public to invest in new designers
<b>Christmas Spending</b>	According to a new survey staying in will become the new 'going out' as people plan to spend an average of 12 per cent less on Christmas revelry this year
<b>Competition Law</b>	The Office of Fair Trading has written to leading fashion retailers warning them to be "mindful of competition law" after they co-operated with each other last month to issue a statement on how they planned to pass on the 2.5% VAT cut to consumers
<b>Debenhams</b>	is to open Iran's first ever department store in the country's capital, Tehran
<b>Fast Fashion</b>	retailers have been blamed for a massive rise in textile waste dumped in landfill sites
<b>Game</b>	intends to continue to beat the downturn by dramatically growing market share in France
<b>H&amp;M</b>	has agreed a franchise deal with Match Retail, a privately owned company founded by the Horesh family, for the exclusive purpose of handling H&M in Israel
<b>Hamley's</b>	is ramping up international plans with dates set for launches in China and Russia and plans to go into Singapore, Poland and the Czech Republic
<b>IMRG</b>	reported that Monday 1st December recorded the UK's largest ever online shopping volumes, but the anticipated VAT-driven spike failed to materialize, leaving sales values and traffic volumes flat
<b>Irish Pork</b>	was being cleared from supermarket shelves across the UK after a massive recall issued by the Food Safety Authority Ireland (FSAI) and the UK's FSA
<b>JD Sports Fashion</b>	has decided not to bid for JJB Sports' Qube and OSC
<b>Jobs</b>	The equivalent of 100,000 retail jobs have vanished in the past 12 months as dire trading conditions take their toll on store groups
<b>Key Staff Changes</b>	took place at the following retailers this month; Alexon, Argos, Phase Eight, Aquascutum, B&Q, Pets At Home, Carphone Warehouse, Full Circle, Gap, Hugo Boss, Kookai, Land of Leather, Marks & Spencer, Las Iguanas, Space NK, Store 21 (QS) and Urban Outfitters
<b>King Sturge's</b>	latest research predicts that prime retail rents will fall in western Europe but most emerging economies will still experience rises
<b>Ladybird's</b>	future is unclear, after Woolworths' administrator failed to find a buyer for the high street chain
<b>Marks &amp; Spencer</b>	Arcadia, Bhs, Next, New Look and Mosaic Fashions have jointly confirmed they will implement the 2.5 per cent cut in VAT
<b>Marks &amp; Spencer</b>	is being sued by Interflora for buying its brand name as a keyword on Google
<b>Monsoon</b>	has been surrounded by rumours that it will be split from the more profitable Accessorize chain
<b>Morrisons</b>	has bought 35 stores from the Co-op



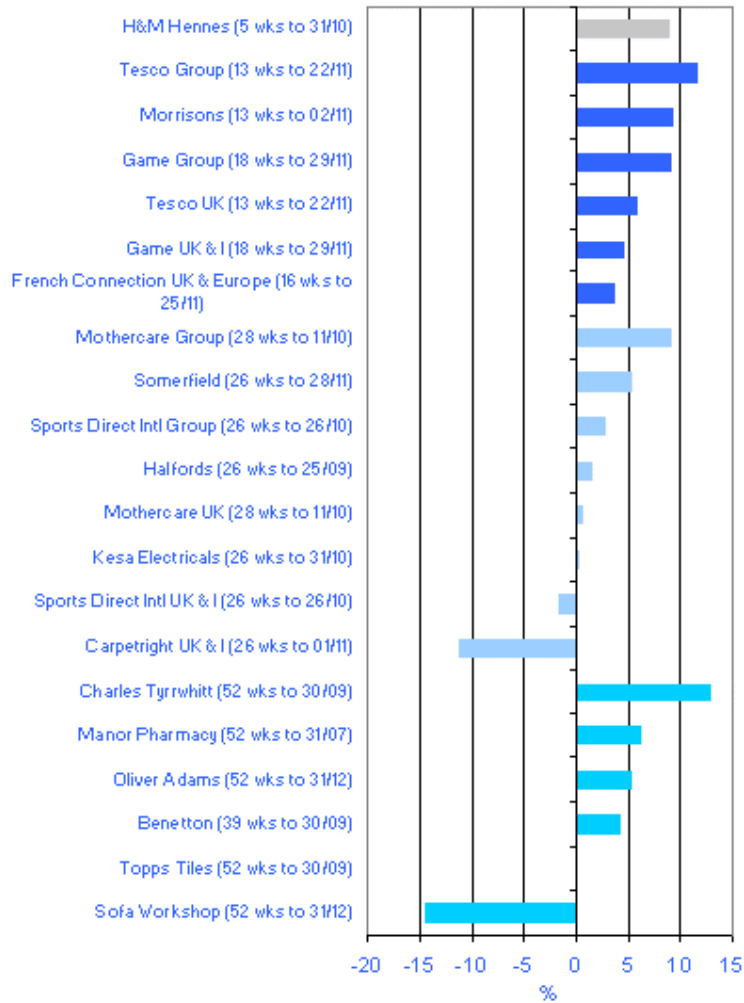
<b>Mosaic Fashions</b>	investors are understood to be split over the best way to extract value from the Baugur-backed fashion conglomerate which owns Oasis, Principles, Warehouse and Karen Millen
<b>Netto</b>	has joined the price war on Christmas dinners by offering shoppers a traditional dinner for just £4.50 a head
<b>New Look</b>	has axed its Shoe Heaven footwear brand to replace it with a Limited Edition range, after record sales of footwear and accessories over three weeks this autumn
<b>Primark</b>	is understood to have bust its record for one-day one-store sales last Saturday at its London Oxford Street branch
<b>Puma</b>	is understood to have stopped supplying its product to JJB Sports
<b>Restaurant Expansion</b>	Forty restaurants have opened in London since October, according to Harden's, despite the economic climate
<b>Suppliers</b>	Retailers have been scrambling to find new suppliers of CD's and DVD's in the run up to Christmas after Woolworths distribution arm, Entertainment UK went into administration
<b>Tchibo</b>	is mulling an exit from the UK market due to the drop in consumer confidence & slow demand at the chain
<b>Thomas Pink</b>	is poised to ramp up its international presence starting at the end of this year and continuing throughout 2009
<b>White City</b>	retailers are alleging that Westfield is unfairly withholding promised contributions to store fit-outs
<b>Property</b>	
<b>British Land</b>	is poised to sell a portfolio of high street shops at a yield of 8%
<b>King Sturge Espana</b>	the Spanish subsidiary of King Sturge, is to file for administration this week as a result of financial difficulties and the faltering Spanish property market
<b>Land of Leather</b>	has ditched talks with several putative bidders in favour of focusing on raising enough cash to pay an impending £6m rent bill
<b>Modus Corovest's</b>	regeneration plans for Newport have been dealt a serious blow as three key developments planned around the Ryder Cup 2010 have come unstuck
<b>Rochdale Council</b>	has gone back to the market for a developer for its £250m town centre regeneration scheme, after an EU ruling made its earlier choice of Wilson Bowden untenable
<b>Salmon Harvester</b>	is to make a speculative start on a £35 million retail scheme on Oxford Street after planning permission was secured for the redevelopment of numbers 175 to 195
<b>White City</b>	has had more than two million visits in just over three weeks

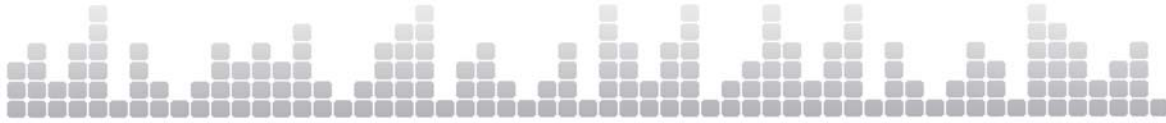


**Retailer Results**

**Total Sales Changes**

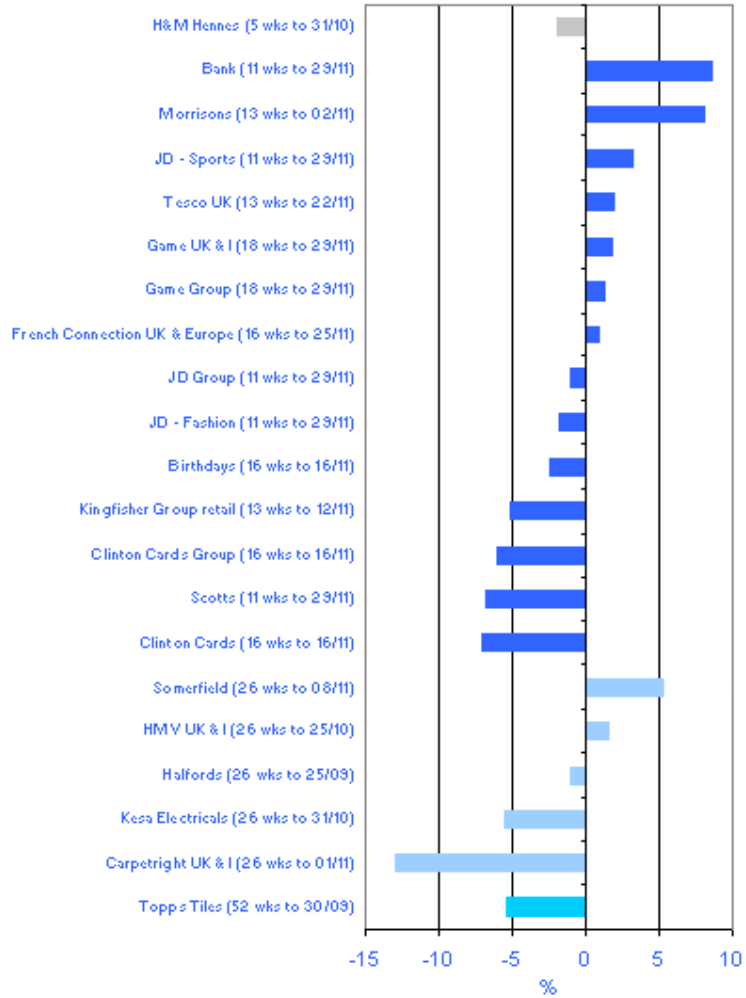
- Recent Weeks
- Recent Quarter
- Recent Half Year
- Recent Year





Like-for-Like Sales Changes

- Recent Weeks
- Recent Quarter
- Recent Half Year
- Recent Year

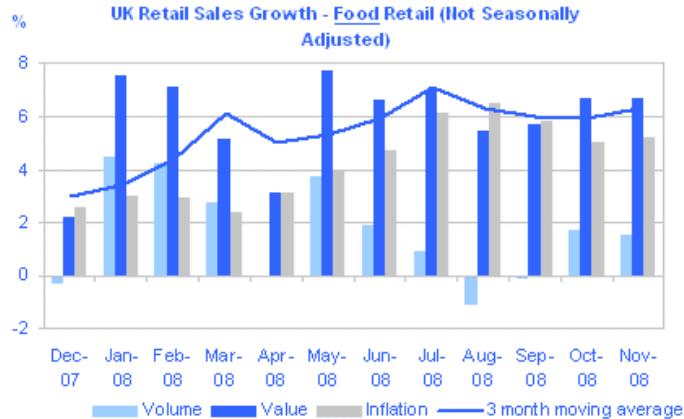
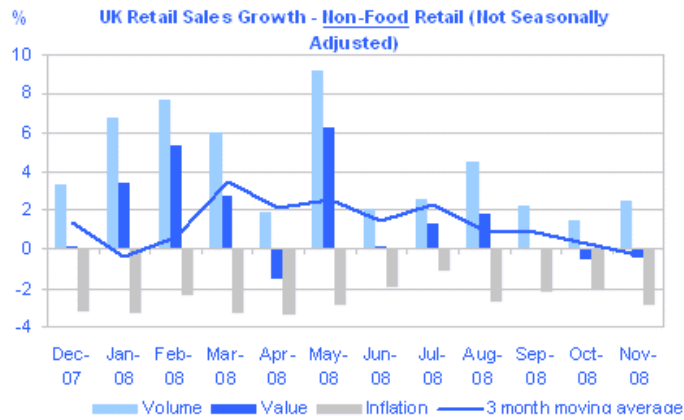




**UK Overview**

**ONS Retail Sales**

The value of retail sales in November at current prices not seasonally adjusted, was 2.9% higher YOY, thus reducing the moving YOY 3 month figure to 3.0% from 3.2% in October. Value of sales through food stores in the month increased 6.7% (volume up 1.5%) and for non-food, the decrease was 0.5% (volume up 2.4%). The worst performing sector was Household Goods, down 4.9% YOY. Not surprisingly, with the increasing popularity of e-tailing, Non-Store Retailing & Repair was the best performing sector, increasing 4.4% YOY.

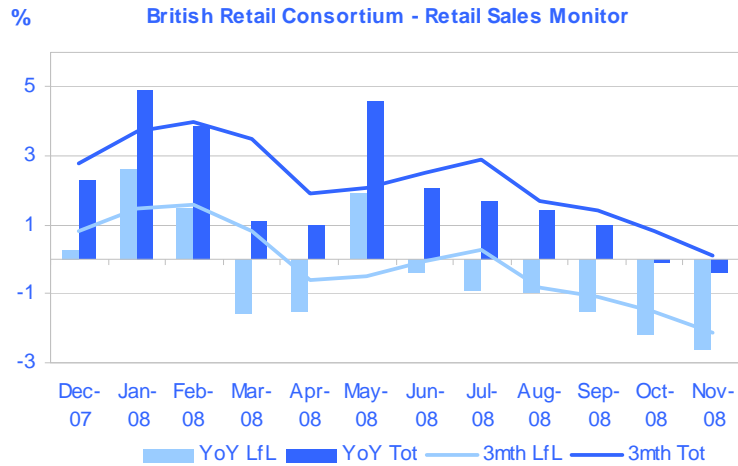


Please see the Retail & Economic Statistics page on SnapShop for more historical detail



**BRC  
Retail  
Sales**

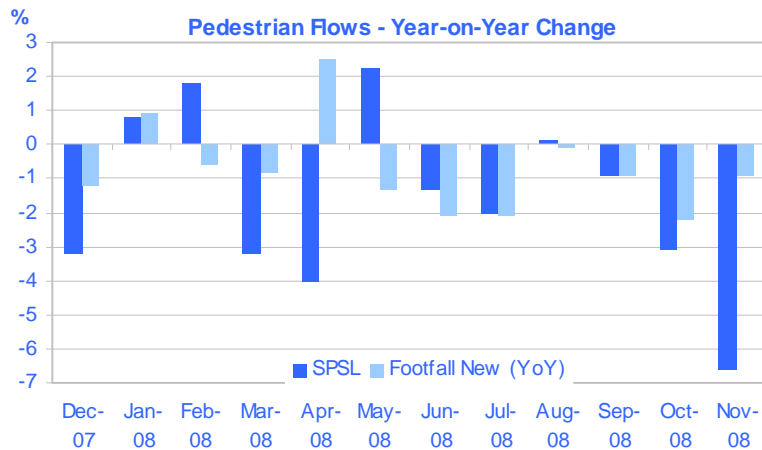
Year-on-Year (YoY) total UK retail sales values in November fell 0.4% while like-for-like (LFL) sales fell 2.6%. This is the first year since the survey began that sales declined for two consecutive months. The year-on-year moving 3-month total sales average increased in November 0.1%. The like-for-like equivalent was down 2.1%.



November like-for-like sales in Central London were down 0.4% YOY, stronger than the 2.6% decline across the UK generally.

**Pedestrian  
Flows**

FootFall reported a YoY decrease of 0.9% for November, while SPSSL's Retail Traffic Index™ for November decreased 6.6% YoY, but that figures were up 3.0% on October.



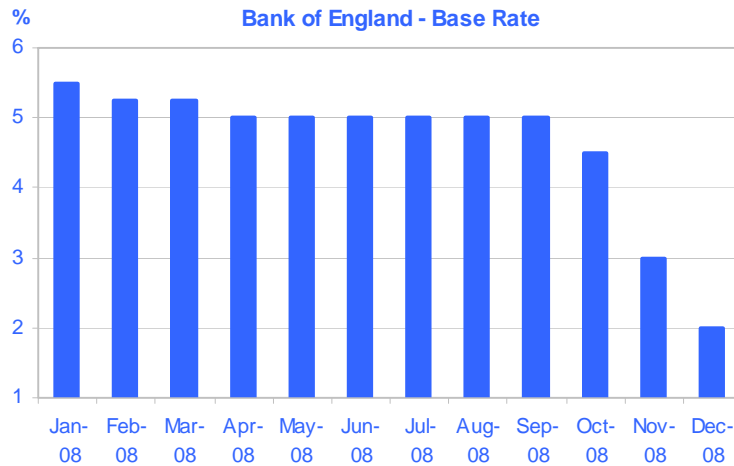
In November 2008, FootFall adjusted their benchmarking, and provided revised historical data, as included above.

Please see the Retail & Economic Statistics page on SnapShop for more historical detail



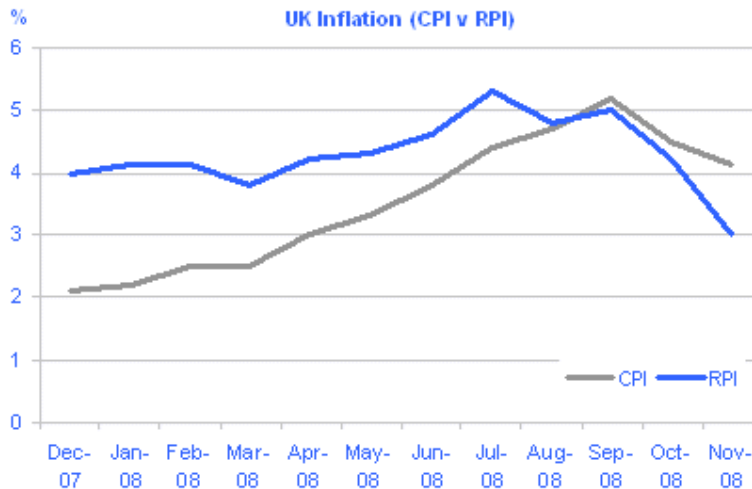
**Interest Rates**

Base rates were reduced a further 1.0% to 2.0% in December. Despite the actions taken to raise bank capital, ease funding and improve liquidity, conditions in money and credit markets remain extremely difficult. Although the temporary reduction in Value Added Tax will lead to some volatility in inflation over the next two years, the new fiscal plans are unlikely to have a significant effect on inflation beyond that horizon.



**Inflation**

Using CPI, overall inflation was 4.1% in November, down from 4.5% in October. The more familiar Retail Prices Index slowed to 3.0% in November, down from 4.2% in October. RPI includes housing factors. While September was the peak of inflation, figures are now expected to drop continuously, with a possibility of deflation in the future.

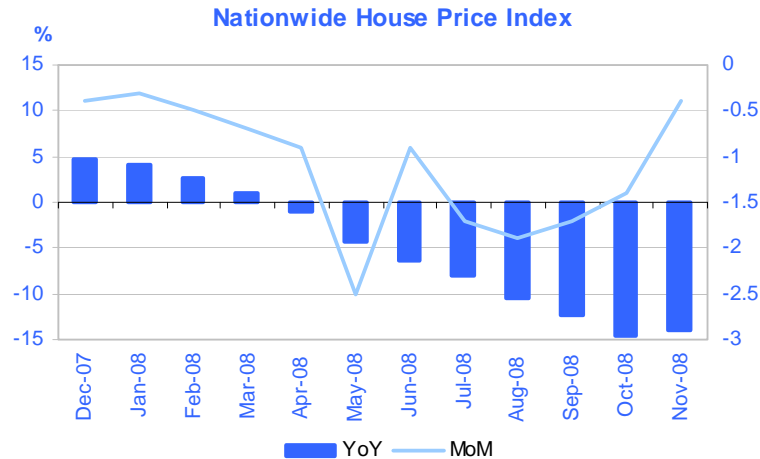


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**House Prices**

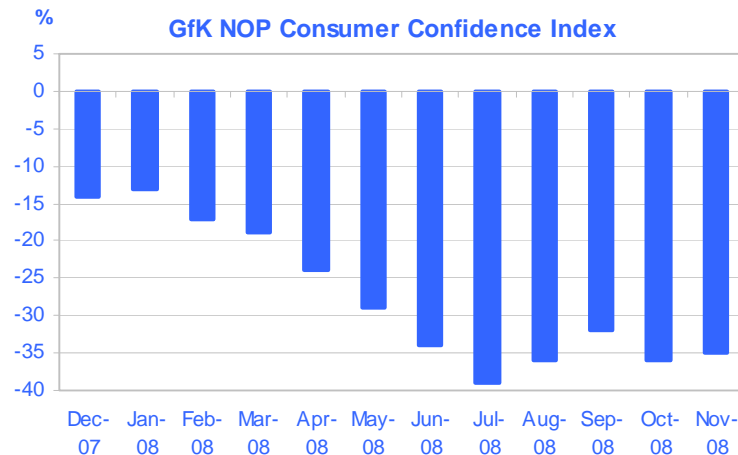
According to the Nationwide index, the price of a typical house fell by 0.4% in November, the thirteenth consecutive monthly decline. This means that house prices declined by 13.9% on a year-on-year basis to November. The price of a typical house is now £158,442, around £25,000 less than a year ago, but still approximately £25,000 higher than in November 2003.



**Note:** YoY figures refer to left hand scale (LHS), MoM statistics refer to right hand scale (RHS)

**Consumer Confidence**

The GfK NOP Confidence Index rose 1 point in November to -35, twenty-five points lower than this time last year. Confidence in the “personal financial situation over the next 12 months” and major purchases has improved, however consumers do not believe now is a good time to save.



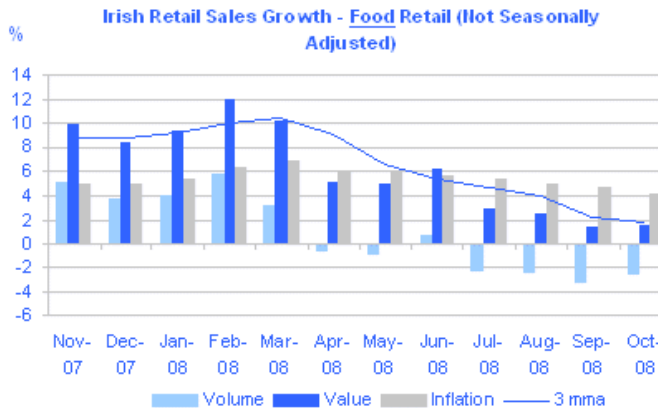
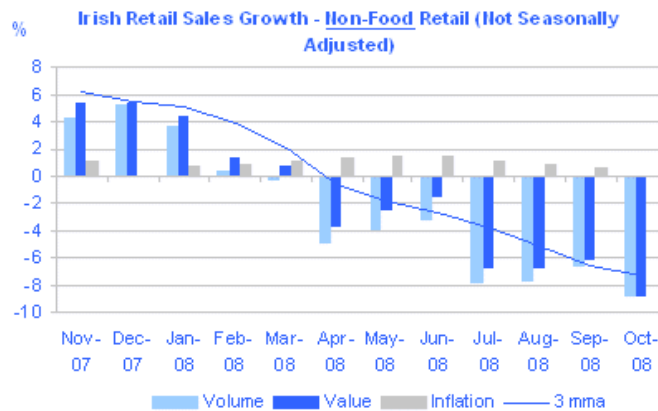
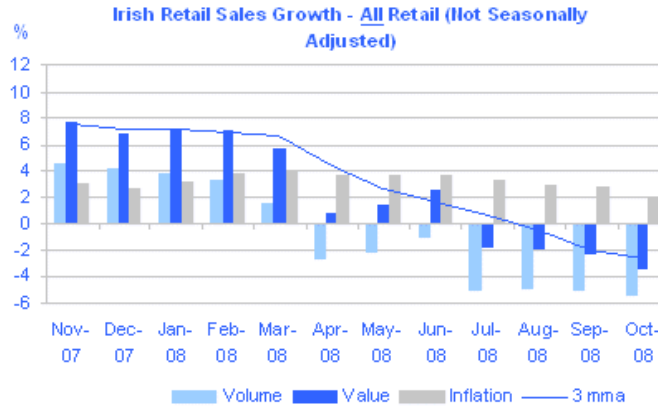
Please see the Retail & Economic Statistics page on SnapShop for more historical detail



**Ireland Overview**

**CSO Retail Sales**

At time of writing, the most recently published data were October when the value of retail sales in current prices, not seasonally adjusted, was 3.5% lower YOY, reducing the moving YOY 3 month figure to -2.6%. The value of Food sales in October increased to 1.5% YOY, and the value of Non-food sales decreased to -8.9%.

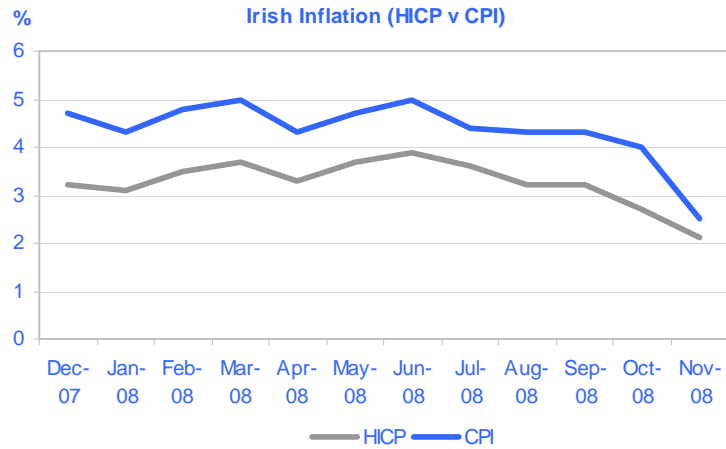


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***Inflation in Ireland***

In Ireland, HICP decreased 0.1% in the month, taking the annual rate to 2.1% in November. CPI also decreased 0.9% in the month, taking the annual rate to 2.5% in November compared to 4.0% in October.



Please see the Retail & Economic Statistics page on SnapShop for more historical detail.



**And Finally**

**Children of Wigan avert your eyes! Santa Claus has been spotted...in Tesco!**

A naked man found wedged in the chimney of a Tesco Express store in Pemberton, Wigan, has been arrested on suspicion of burglary.

In an embarrassing twist for the wannabe Father Christmas, firefighters had to be called to rescue the man, who became trapped as he struggled to escape.

It not entirely clear why the 22 year old was naked, but it's thought that his big white beard and red floppy...hat...preserved most of his modesty! Donner, Blitzen and the rest of the team are last reported looking very lonely and slightly confused.....

[www.fspretail.co.uk](http://www.fspretail.co.uk)    18/12/08

*FSP has gone to its best efforts to ensure this data is correct but the author reserves the right not to be responsible for the accuracy of information provided.*

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