

## London Portfolio's market in 2017

We buy, develop, manage and sell office, retail, leisure and residential space in central London.

### Dynamics

This year we moved from supply-constrained conditions into a market with more supply and weaker occupational demand. The UK's vote to leave the EU triggered a weakening in demand for London office space, stalling growth in rental values and asset prices. The market is also driven by the evolving needs and expectations of customers and communities.

### Enduring appeal

Central London has enduring appeal for investors and occupiers offering:

- Capabilities and opportunities of a global financial centre
- Deep and liquid property investment market
- International gateway
- Reasonable and relatively stable tax rates
- Strong business and transport infrastructure
- Diverse community and English-speaking population
- Access to top universities

London's strengths attract a large and diverse mix of property investors, many from overseas. This helps us when selling assets but increases competition when buying.

### Challenges

Challenges for London include:

- Uncertainty over the outcome of the Brexit negotiations
- Limitations on economic growth due to restrictions on immigration
- Lack of housing at affordable or attractive prices
- Pressure on an ageing infrastructure
- Continued lack of clarity around airport expansion
- High levels of stamp duty
- Demand for better/faster digital connectivity

### Outlook

We expect current uncertainty will continue to impact demand for space. Headline rents have started to fall and we expect incentives to increase and average lease terms to shorten further. London is an increasingly polycentric city and location is no longer the only consideration for occupiers. This may result in buying opportunities outside traditional core areas.

### Market during the year

# 11.7m sq ft

Take-up of office space in central London  
(2016: 14.7 million sq ft)

# 4.7%

Vacancy rate  
(2016: 2.7%)

# 8.3%

Decline of the prime headline office rents in the West End

Prime headline office rents in the City were flat

Source: CBRE

## Retail Portfolio's market in 2017

We buy, develop, manage and sell retail and leisure space in the best locations.

### Dynamics

We're continuing to see the market polarised between destination centres and convenience. The growth of online shopping is driving the rationalisation of store estates, with only the strongest locations holding ground. Some online brands are moving into physical stores as convergence drives efficiency and they see opportunities to create great brand experiences. Stores are the best place to see, touch, feel and buy and they remain at the heart of most transactions.

### Opportunities

The best destinations continue to drive above average performance for retailers and attract the greatest demand for space from the broadest range of retailers. A retreat from the UK by some international retailers has been balanced by the expansion plans of others. Successful shopping destinations deliver higher dwell time and average spend per visit by providing consumers with a great experience and an appropriate mix of retail, food and beverage and leisure.

### Challenges

An uncertain economic environment is putting pressure on discretionary spending. At the same time, retailer confidence is muted as they deal with the challenges of increased business rates, increases to the living wage and the requirement to continue investment in multi-channel offers and fulfilment.

### Outlook

We expect to see consumer caution led by concern about higher cost of living combined with lower wage growth. Destination and convenience centres will continue to outperform compared with those centres that fail to meet consumers' needs and respond to online retailing; and the gap in performance is likely to widen further.

### Market during the year

# -1.9%

Physical retail store sales<sup>1</sup>

# +0.3%

All retail sales  
(including online)<sup>1</sup>

# -2.5%

UK footfall<sup>2</sup>

Source:

1. British Retail Consortium  
2. ShopperTrak