

PRESS RELEASE – DECEMBER 2006

Major Report on the UK Retail Construction Market - 2006

AMA Research has recently published the 1st Edition of the Retail Construction Market in the United Kingdom report.

This report specifically reviews the capital expenditure and building programmes of the leading retailers in the UK and analyses the key drivers of investment, including retail consolidation and acquisition activity, which has seen many of the large grocery multiples undertaking significant expenditure on the conversion and re-branding of new stores. The report also reviews the capital investment and construction programmes of leading grocery and non-food retailers together with their preferred construction methods and procurement routes.

The Report also reviews the structure and size of both the grocery and non-food sectors, with a detailed analysis of the key grocery and non-food multiples and major department stores, together with current and projected store portfolios. There has also been a general shift in types of retailing with many of the major multiples now concentrating on convenience retailing and non-food sector items.

The recent shift in emphasis on development back into town centres from out of town locations is also explored, together with the growing trend towards regeneration and mixed use retail/residential developments, and the move of the larger retailers into the housing market through acquisition of development land for both residential and retail purposes. This report illustrates how recent changes to the planning system, through PPS6, have changed the nature of the retail construction market slowing out-of-town development and restricting store sizes.

The report comprises of **86** pages and **38** tables and charts and is available now, priced to give excellent value at **£565**.

Editors Note:

Enclosed is a summary of the report. Please use brief extracts if you wish, but we would request that references to company market share are not published with our prior permission. If you require further information please consult our website, or contact: -

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NB: It would be appreciated if a copy of the review could be forwarded to AMA Research. Thank you.

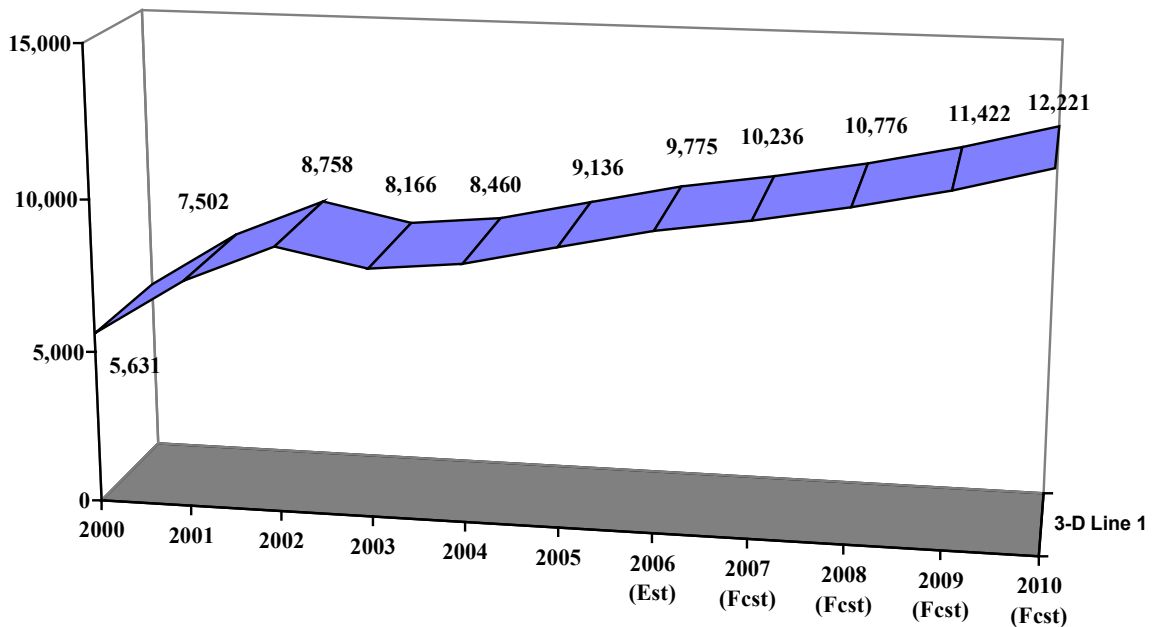
SUMMARY

2006 has been a good year for the retail sector in terms of **capital investment** on new buildings and refurbishments with the supermarkets in particular investing substantial sums on store improvements and extensions, driving growth in the sector.

Over the last five years, there has been an increase of over 76% or £4 billion in retail capital expenditure, which now stands at an estimated £9.1 billion. Of this figure, 51% of capital expenditure is in the grocery sector – mostly through the supermarket chains and variety stores – and the remaining 49% in the non-food sector, of which the majority investment is in the clothing, footwear and accessories sector – and is driven by the department store chains.

Levels of capital expenditure have been boosted by a number of expansion programmes in the grocery sector. For example, **WM Morrison** has undertaken significant expenditure on the conversion of **Safeway** stores following its acquisition of the company. Investment has also been made by **Waitrose** to purchase and refit Safeway stores being divested by WM Morrison and by **Marks and Spencer** following its purchase of a number of stores from **Iceland**.

Chart 1: Value of Retail Capital Expenditure 2000-2010 (£ billion)



Source: AMA Research/Trade Estimates

Going forward, capital expenditure levels are likely to remain steady over the next few years, albeit at lower rates of growth than seen in the previous few years. Growth is expected to remain at around 5-7% until 2010 when capital expenditure is forecast to reach £12.2 billion.

In 2005, **contractors' output** from new retail sector construction work reached £4.4 billion and accounted for around 8% of new work obtained by contractors in the UK. The immediate outlook for retail construction remains fair in 2006 with growth of around 2%, but a slowdown in output growth to around 1.5% is expected in 2007 and 2008 to reach an estimated output of around £4.7 billion, driven by falling consumer demand. Beyond 2008, the market is expected to improve, driven by the completion of a number of the 300 shopping centre schemes currently in the development pipeline. The majority of this floor space is expected to be completed between 2009 and 2010. By 2011 output in the retail sector is expected to reach around £5.2 billion.

Leading contractors undertaking work in the retail sector include **Carillion, Chard Construction, HBG Construction, Kier, Midas, Miller Construction, Pearce Group, PEL Group, Styles & Wood** and **Simons Construction**.

The way in which retail clients procure work for construction and refurbishment programmes varies, but is usually focused on either management contract or design and build, with both routes sufficiently flexible to accommodate change. Shopfitting and retail refurbishment is rapidly moving towards the design and build model, providing a complete package for retailers. Most national retailers with larger and more complex rollout refurbishment programmes tend to follow a design and build route.

Whilst capital building programmes in the grocery sector have been buoyant, there has been a general shift of development back into town and city centres from out-of-town locations, due to tighter planning controls. There is now more of an emphasis on mixed-use and regeneration projects on brown field sites and the conversion and remodelling of existing premises.

All of the major grocery multiples have annual programmes of expansion, conversion and refurbishment aimed at growing and maintaining share within the market. Increased competition and tighter profit margins in the food sector have facilitated a rapid expansion of the larger supermarkets into non-food areas, which increase consumer interest and boost footfall into stores. Non-grocery items now account for up to 10% of supermarket sales. At the same time, large multiple retailers have sought growth by moving into the fast-growing convenience sector, where planning consent for smaller stores is easier to obtain. Growing investment by the major multiples in the convenience sector has therefore increased the upward trend in smaller store sizes, with examples seen in Tesco 'Express' and Marks and Spencer 'Simply Food' formats.

The growing dominance of the 'Big Four' supermarkets in the UK retail market is indisputable, with the combined sales of Tesco, J. Sainsbury, ASDA and WM Morrison now accounting for around 75% of sales in the overall grocery market. Such has been the growth of the top four grocery retailers that, in 2006, the combined capital budgets of these retailers is expected to rise to £3.6 billion, which will account for around 73% of capital expenditure in the grocery sector.

Total UK **retail sales** were £260 billion in 2006, of which the grocery sector accounted for around 48% with the remaining 52% accounted for by the non-food sector. The increase of online sales is changing the way in which retailers collate and deliver their online goods, with the impact on retail construction being seen with the emergence of a number of large distribution depots specifically designed to satisfy internet orders. **Tesco**, for example has just completed its first dedicated home delivery unit in Croydon.

Underlying growth in retail sales remains strong compared with average sales growth in recent years. However, it is doubtful that retail sales can maintain their strength in the short to medium term, with consumers facing higher utility bills, possible further rises in interest rates and increasing debt levels. Forecasts for retail sales over the next two years are therefore expected to fall slightly to 2.8% in 2006 and 2.5% in 2007.

The UK **grocery market** was valued at around £124 billion in 2006, an increase of 3.4% on the previous year. The overall UK grocery retail sector is expected to experience steady growth over the next 5 years at a rate of around 3% per annum and will be worth around £137 billion by 2010. Growth is expected in all types of store portfolio including the **convenience retailing** sector, which is forecast to reach £32.3 billion by 2010 and £33.9 billion by 2011 and **hypermarkets**, forecast to increase numbers of stores by a third over the next five years from 660 to 880 outlets.

The UK **non-food retail market** was valued at an estimated £126 billion in 2005, a slight decline of around 5% on the previous year. The market is split into clothing sales, accounting for around 24% of non-food sales; household electrical goods 5%; DIY & hardware 12%; and furniture and furnishings around 7%. The remaining 52% is composed of other goods such as books, newspapers, stationery, records, cosmetic and pharmaceutical goods and motor vehicles.

About 60% of retail development currently takes place in **out-of-town** locations, with a rising percentage of “**edge-of-town**” locations. There are a total of 826 out-of-town retail parks currently operating in the UK. An estimated £85bn of sales is generated by retailers in out-of-town locations, which is set to increase to around £109bn by 2010. Traditional out-of-town retailers are, however, facing a threat from traditional high street retailers expanding into the out-of-town sector. A move by clothing and general merchandise retailers such as **Debenhams**, **Clarks** and **Next** to expand into out-of-town locations is transforming the market, increasing competition with traditional out-of-town operators.

Retail warehouse development has been declining over the past 3 years due, in part, to strict planning controls and, over the last year, there has been a reduction in all stages of the planning and construction process of out-of-town developments. At the beginning of 2006, planned retail park floor space had fallen to 23.60 million square metres, its lowest level in four years.

Shopping centre pipeline development has also declined over the last year to reach 31.20 million square metres at the beginning of 2006. Town centre development continues to account for the majority of development with around 80% of the total pipeline. Around 30% of total shopping centre development is currently new build, with the remaining 70% accounted for by additional phases of construction, extensions or redevelopments. There are currently more than 300 shopping centre schemes in the development pipeline due to be completed by 2015 totaling over 50 million square metres. The majority of this floor space is expected to be completed between 2007 and 2010. UK **town centre shopping centre** retail provision is expected to grow by 10%, with 2009-10 expected to be the peak year for openings.

The recent push towards **mixed-use development** has led to many major regeneration projects in UK towns and cities. Mixed-use schemes have proven to be a popular trend, co-locating residential, commercial, retail and leisure facilities, with retail being a big driver of these developments. The number of mixed-use schemes in the development pipeline has increased by 150% since 2003 and around 75% of schemes have a residential component, which increased significantly in 2005 driven by an increase in edge-of-town schemes.

Many supermarket chains are now actively branching out into housing and residential development and have succeeded in gaining an active role in regeneration partnerships with local authorities. **ASDA, Tesco, Marks and Spencer, J. Sainsbury** and **B&Q** all have combined residential and retail developments under construction or in the pipeline.

Retail construction in the UK is being increasingly affected by a number of issues including **planning laws**, restricting the amount of out-of-town development; the increasing dominance of the major supermarket chains and the issue of **undeveloped land banks**; Government and EU legislation concerning **environmental policy** changes; online retailing; and the increasing use of **modern methods of construction (MMC)** including lean construction, supply chain management and pre-fabricated building as a means of simplifying and speeding up the development process.