

Prime **Retail Investment** Opportunity

THE FIRST PURPOSE BUILT  
NEXT FASHION, HOME & GARDEN STORE

# NEXT GROUP PLC

CHARLES WATTS WAY HEDGE END **SOUTHAMPTON** SO30 4RT



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## Investment Summary

- A “Trophy” Retail Superstore opportunity located in Hedge End, Southampton.
- An affluent catchment with 745,237 persons living within a 20 minute drive time.
- Prominent position at the entrance/exit to Junction 7, M27, immediately adjacent to Hedge End Retail Park and opposite to the large M&S and Sainsbury’s superstores.
- Benefits from excellent critical mass being located at the heart of one of the South’s largest Retail Warehouse Shopping destinations (735,000 sq ft).
- Freehold.
- A new 86,523 sq ft (GIA) quality retail development built and warranted by Next to an extremely high specification.
- Open A1 non-food planning consent.
- The UK’s first purpose built Next “Fashion, Home and Garden” format store.
- A New 21 year 3 month lease, (20 years unexpired) to the undoubted covenant of Next Group Plc.
- A commencing rent of £1,454,313 pax with a fixed uplift at Year 5, measured by CPI with 1.5% and 3% collar and cap.
- Offers are invited in excess of **£28,940,000 (Twenty-Eight Million, Nine Hundred and Forty Thousand Pounds)**, which reflects a **Net Initial Yield of 4.75%**, assuming purchasers costs of 5.8%. Assuming an average CPI rate of 2.5%, there is a guaranteed Reversionary Yield (2019) of 5.37% and an Equivalent (Nominal) Yield of 5.23%.



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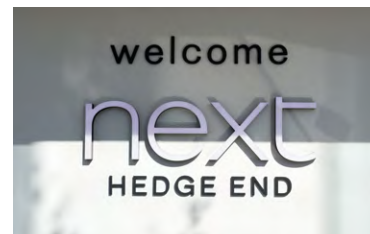
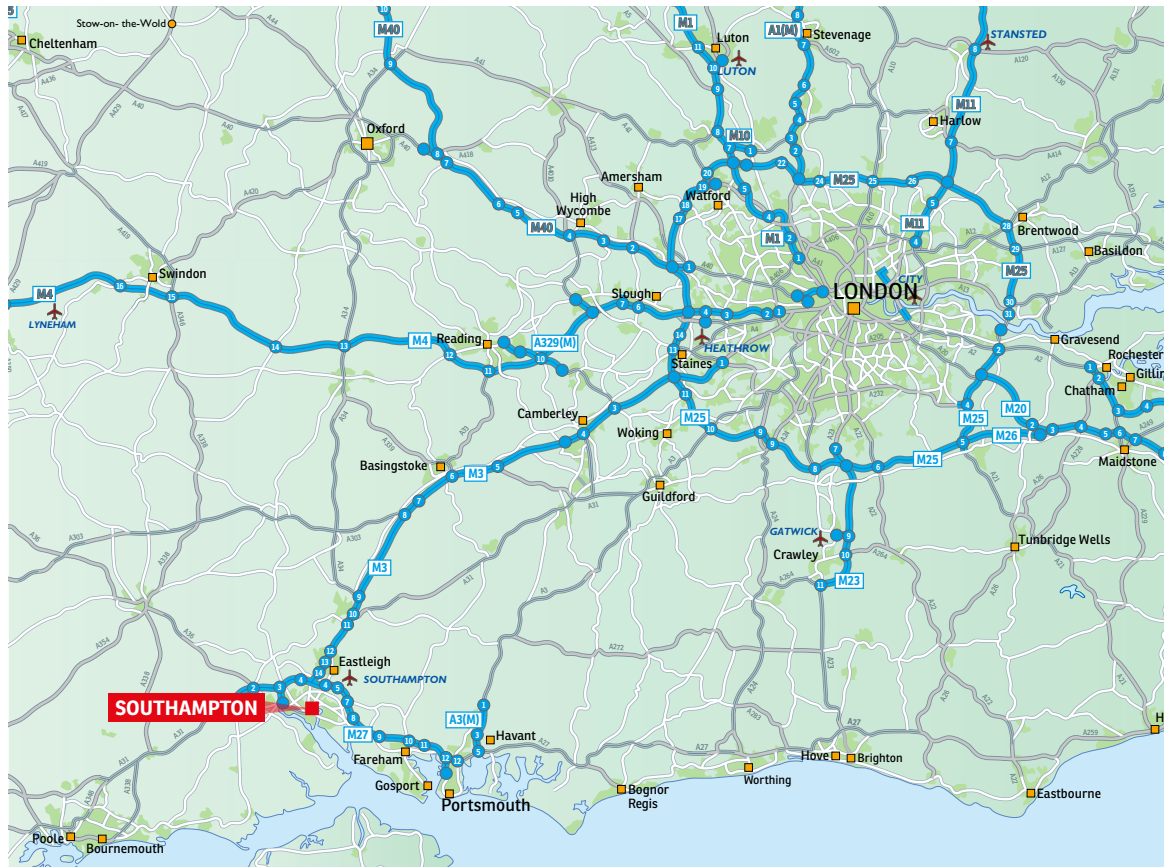
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## Location

Hedge End, 4.8 miles to the east of Southampton City Centre, is a major regional trading location on the South Coast and one of the most established retail warehousing locations in the South of England.

It is immediately located on the M27 Motorway at Junction 7, linking the area to Southampton, Portsmouth and the M3 motorway (5.5 miles north west). Hedge End services both the Southampton and Portsmouth catchments, as well as extending into Hampshire.

Southampton International Airport and Parkway railway station are located 5 miles to the north west of the property at Junction 5 of the M27.

The Airport serves 48 European destinations with annual passenger numbers approaching 2 million and the station provides a direct service to London Waterloo with a fastest journey time of 1 hour 11 minutes.



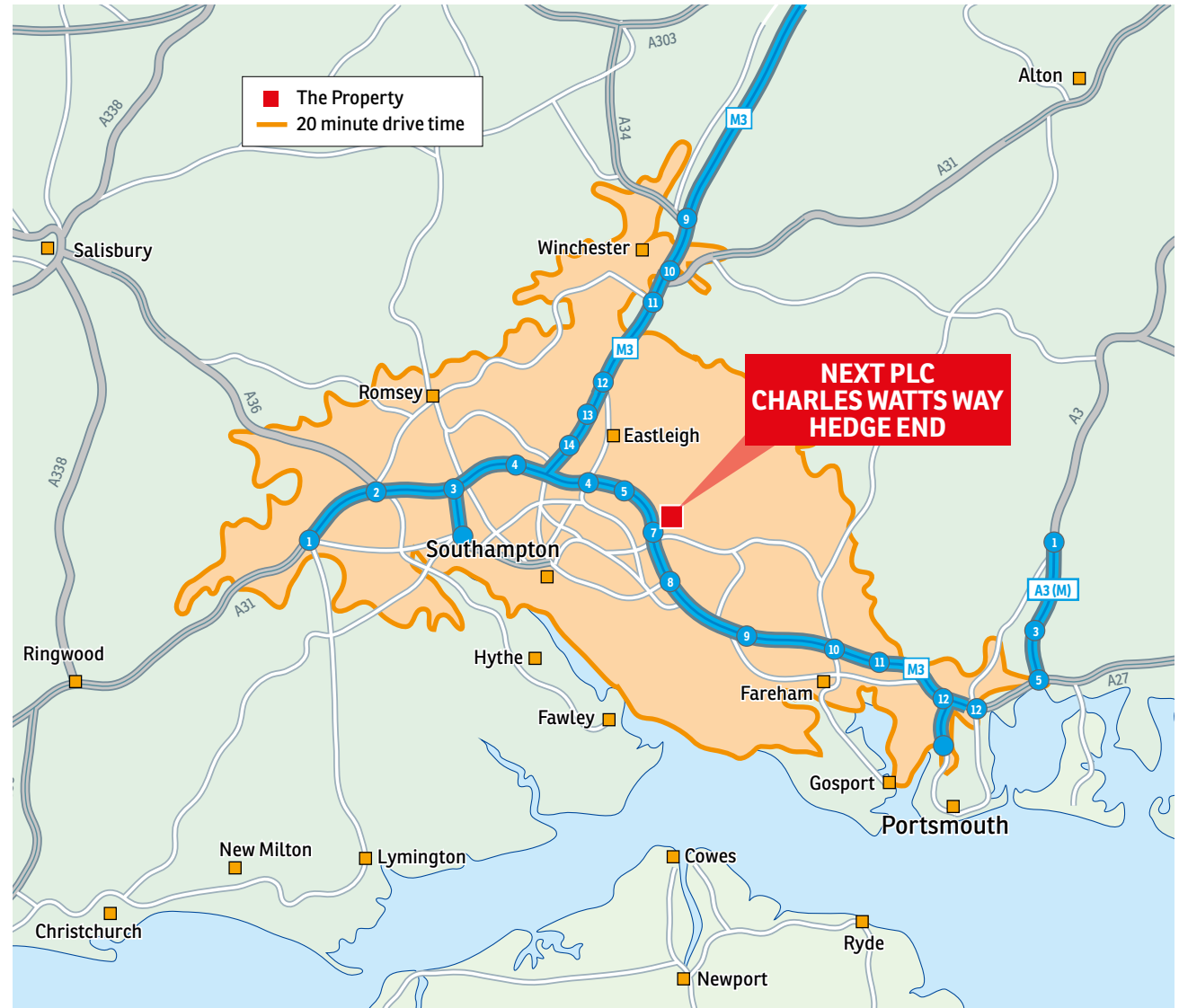
## Demographics

The retail catchment for Hedge End is extensive with 186,391 people living within a 10 minute drive time. Allowing for a drive time of 20 minutes, this catchment increases to 745,237 and draws from most of Southampton and key centres such as Winchester, Eastleigh, Romsey and Fareham, as well as parts of Portsmouth.

The Hedge End catchment population is affluent, with the two most represented social groups of AB and C1 accounting for circa 48% of adults of working age. The city of Southampton is the principal catchment for the scheme. Southampton ranks 19 in the UK in terms of the volume of comparison retail spend available in the catchment area and is forecast to see above average percentage growth in the available pool of comparison spending over the forecast period 2013–18.

The below table compares the demographics of other Next “Fashion, Home and Garden” stores in the South East and illustrates the dominance of Hedge End.

	20 minutes Drive Time	Social Groups AB/C1
<b>Hedge End</b>	<b>745,237</b>	<b>285,443</b>
Camberley	610,902	279,173
Maidstone	524,194	200,482
Shoreham	504,191	210,660
High Wycombe	369,112	213,749



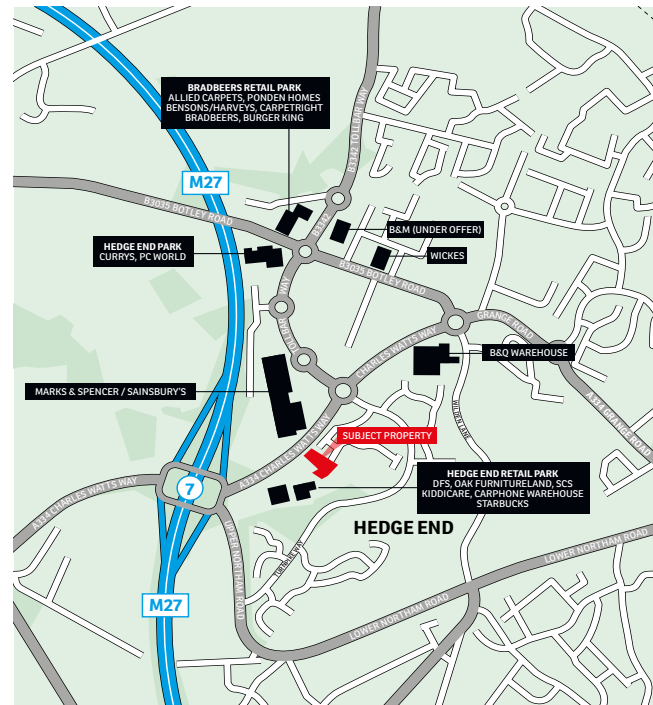
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## Situation

The subject property is situated in a prominent position on Charles Watts Way (A334), which directly links the Hedge End retail area onto Junction 7 of the M27 motorway, approximately 250m to the west of the egress to the site. Access to the scheme is shared with the entrance and exits of Hedge End Retail Park onto the westbound dual carriageway of Charles Watts Way.

Hedge End Retail Park is directly adjacent to the development. Occupiers on the park include DFS, Oak Furnitureland, ScS, Carphone Warehouse, Starbucks and Kiddicare. The M&S and Sainsbury's stores are located directly opposite on the north side of Charles Watts Way.



## Retail Warehousing in Hedge End

Hedge End is an established and substantial retail warehouse destination area comprising approximately 735,000 sq ft of retail space. It is anchored by the Marks and Spencer (137,000 sq ft) and Sainsbury's (105,000 sq ft) superstores, opposite the subject property.

Hedge End Retail Park, owned by M&G Real Estate, comprises 86,000 sq ft and benefits from a bulky goods planning consent, with the exception of the Kiddicare and Carphone Warehouse units which have Open A1 non-food consent. Kiddicare took the former Best Buy unit as part of a package of other former Best Buy stores. The other tenants include DFS, Oak Furnitureland, ScS, Carphone Warehouse and Starbucks. The tone of the park is circa £35 psf, the most recent letting being to Oak Furnitureland at a headline rent of £32.50 psf in 2012. The DFS 2013 review is currently at arbitration.

Other retail warehousing includes a Homebase (39,500 sq ft) and a PC World/Curry's Megastore (45,336 sq ft) adjacent to the M&S. The scheme has a bulky goods consent and is let at circa £22 psf. There is also the more secondary Bradbeers Retail Park, where tenants include Harveys, Carpetright, Bradbeers and Burger King. The park is 70,000 sq ft and benefits from a bulky goods planning consent. The park has two available units and the tone is circa £20 psf.

There is a large B&Q (105,000 sq ft), also on Charles Watts Way and a former Wickes (45,000 sq ft) opposite Centre 27 Retail Park, which is rumoured to be under offer to B&M Bargains. Wickes recently relocated to a 15,000 sq ft unit on Hamilton Trade Park at a rent of £16 psf.

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## Description

The property is of a striking design, comprising a modern quality purpose built three-storey retail store with external garden centre, entrance lobby and a café, which is occupied by Costa Coffee. The principal elevations are of full height frameless glazing, a design sought after by retailers. The building is clad with limestone and high quality decorative features. The high specification of the construction and tenant's fit out sets it apart from other Next Fashion, Home and Garden stores and is substantially superior to the traditional out of town retail warehousing formats. Next have invested large sums into the specification and design of Hedge End and view it as their flagship Fashion, Home and Garden store across the UK.

The principal customer access is from the car park into a large entrance lobby at the Lower Ground Floor. There are two glass customer lifts to one side of the prominently positioned up/down escalators to the ground floor. There is also an entrance on the west elevation for the benefit of customers entering from Hedge End Retail Park with access via stairs, escalators and lifts to the First Floor.

The shell has a BREEAM rating of "Very Good" with a score of 68%, ("Excellent" rating higher than 70%).

There are 211 designated car spaces all at ground level, providing a ratio of 1:174 sq ft, (over the 36,743 sq ft area). There are a further 330 spaces on Hedge End Retail Park. Servicing is at the rear of the southern elevation with an additional service tunnel, which is served by a lift, and was installed by the tenant.

The site area is approximately 3.2 acres (1.29 hectares).



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## Accommodation

The lease with Next stipulates that the hypothetical area for the store for the purposes of review and calculation of rent at years 10 and 15 is 36,743 sq ft.

The property however comprises the following Gross Internal Areas, in accordance with the RICS Code of Measuring Practice (6th Edition):

	GIA (sq ft)	GIA (sq m)
Ground Floor	33,605	3,122
First Floor (including Café)	25,909	2,407
Lower Ground Floor (including Service Tunnel)	19,733	1,837
<b>SUB-TOTAL</b>	<b>79,247</b>	<b>7,366</b>
Conservatory	3,358	312
Garden Centre	3,918	364
<b>TOTAL</b>	<b>86,523</b>	<b>8,042</b>

## Tenure

Freehold.

## Planning

The property benefits from an Open A1 non-food consent, which was received on 21st March 2013. It states:

“The retail store hereby approved shall be no greater than 8,310 sq m gross external area and shall incorporate the following floorspace restrictions: a. No more than 5,609 sq m of permitted floorspace shall be used for sales purposes (net sales area); and b. No more than 2,724 sq m of the permitted net sales floorspace shall be used for fashion items including, clothing, shoes, bags and jewellery.”

Further planning information is provided in the sale dataroom.





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## Tenancy

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An Agreement for Lease was completed with Next on 23rd February 2013, annexed to which is a lease for a term of 21 years and 3 months which commenced on 28th June 2013, when the vendor completed the enabling works. The lease is an institutional FR&I Lease with a commencing rent of £1,454,313 pax, paid quarterly in advance.

The lease benefits from five yearly upwards only rent reviews throughout the term. The first review (7th August 2019) is subject to a fixed uplift based on the Consumers Prices Index, (CPI), with a collar and cap of 1.5% and 3%.

The reviews in years 10 and 15 are Open Market and are to be based on a notional building. The hypothetical premises assume:

- **Same location on a level site,**
- **A ground floor GIA of 36,743 sq ft with the benefit of an 8,000 sq ft garden centre,**
- **206 car parking spaces,**
- **Same planning consent,**
- **A high quality shell constructed by the landlord,**
- **The tenant is permitted to install a mezzanine up to 85% of the ground floor GIA, and**
- **A hypothetical lease term of 10 years.**

Further information is provided in the sale dataroom.



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## Current income pax

£1,454,313 per annum exclusive.

The rent equates to a rate of £39.58 psf, assuming the area of 36,743 sq ft as stated in the rent review clause.

The letting reflects a clean transaction with the total incentive provided to the tenant totalling 4 months rent free

Further information is provided in the sale dataroom.

## Consumer Prices Index (CPI)

The first rent review in year 5 will be increased in accordance with the CPI, but subject to a collar of £1,566,707 pax (1.5%) and cap of £1,685,947 pax (3%).

The annual rates for CPI since 2008 have been:

Year	Annual CPI Rate
2008	3.6%
2009	2.2%
2010	3.3%
2011	4.5%
2012	2.8%
2013	2.6%

(ONS)

The average since 2008 is 3.17%.



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## Tenant Covenant

Next Plc is one of the UK's largest specialist clothing retailers, with 541 UK outlets totalling approximately 7,008,000 sq ft. Recent domestic expansion has primarily focused on the stand-alone "Fashion, Home and Garden" format. Next Plc has consistently achieved strong profitability despite the recent economic challenges. In January 2014 it reported that sales rose 5.4% to over £3.7bn, this consolidated on the increase reported in January 2013 of 3.1% to £3.5bn. In addition, underlying pre-tax profits were up 11.8% to £695m, again improving on January 2013, which reported an increase of 9% to £622m. Next Plc is listed on the London Stock Exchange and is a member of the FTSE 100 index, the only other outright retailers being J Sainsbury Plc, Tesco Plc, Kingfisher Plc (owner of B&Q), Marks and Spencer Group, Sports Direct International, Wm Morrison Supermarkets Plc and Burberry Group Plc. Next Plc is the most expensive share in the entire FTSE 100 at 7,175.00p (September 2014). Experian rate Next Plc. as "Very Low Risk" with a Delphi Score of 100 out of 100. Dun and Bradstreet give a rating of 5A1.

The lease is signed with Next Group Plc., a wholly owned subsidiary of Next Plc. Next Group Plc. has a Delphi Score of 100 out of 100 and a Dun and Bradstreet rating of 5A1. For the year ending 25th January 2014, they reported a turnover of £197,700,000; pre-tax profits of £53,000,000; a Tangible Net Worth of £1,296,600,000 and Net Current Assets of £1,267,600,000.

## NEXT PLC

	25/01/2014	26/01/2013
Turnover	£3,740,000,000	£3,562,800,000
Pre-tax Profits	£695,200,000	£666,500,000
Tangible Net Worth	£241,800,000	£240,900,000
Net Current Assets	£633,600,000	£391,800,000

## NEXT GROUP PLC

	2014	26/01/2013
Turnover	£197,700,000	£212,300,000
Pre-tax Profits	£53,000,000	£322,500,000
Tangible Net Worth	£1,296,600,000	£1,747,900,000
Net Current Assets	£1,267,600,000	£1,885,400,000

In 2014 Next are forecasted to produce higher profits than Marks and Spencer for the first time. Most recently Next has increased its full-year pre-tax profit growth forecasts by £25 million to £815 million after sales increased 10.7% in the second quarter.

The Dun & Bradstreet Reports for Next Plc and Next Group Plc can be found in the sale dataroom.





## Next “Fashion, Home and Garden”

Next have stated that their principal focus for expansion will be the Fashion, Home and Garden format, which was originally trialled in Shoreham and “comfortably beat their targets” (Next Half Year Report July 2012). It has identified 19 sites to bring the concept to in the next five years. Hedge End will be their first purpose built unit, with Shoreham, Camberley, Warrington, Solihull and Ipswich being conversions of existing retail warehouses. Other new stores due to open within the next 12 months are Maidstone, Sheffield, Wilmslow and High Wycombe.

Next’s preferred route is new bespoke units so they can tailor their specific needs. Due to the lengthy and uncertain nature of the planning procedures, Next have had to look at conversions of existing retail warehouses which are more deliverable. This makes Hedge End extremely unique, being Next’s first purpose built “Fashion, Home and Garden” store.

A list of the Next Fashion, Home and Garden stores include:

Town	Year Open	Approx. Size (GIA – sq ft)	Landlord
Shoreham	2011	60,000	Hampshire CC Pension Fund
Ipswich	2012	60,500	Standard Life
Camberley	2013	78,000	British Land
Warrington	2013	60,000	M&G Real Estate
Solihull	2014	61,000	F&C REIT
<b>Hedge End*</b>	<b>2014 (open)</b>	<b>87,000</b>	<b>Town Quay Developments</b>
Maidstone*	2014 (Q4)	62,000	Under offer
Sheffield*	2015 (Q2)	60,000	British Land
High Wycombe*	2015 (Q2)	72,000	Under offer
Handforth Green*	2015 (Q4)	80,000	Cheshire East Council

\*Purpose Built Stores



## The Development

The site formerly comprised a Halfords, latterly Interiors unit, and the old Wildern Mill. Planning for the development comprised a mix use scheme with a separate residential development comprising 41 homes. The commercial element is self-contained and completely divorced from the residential.

The Developer and Next entered into an Agreement For Lease to construct the retail store and car park.

The Developer provided the cleared site and Next constructed the building and car park, subject to the provisions set out in The Agreement For Lease.

## EPC

The property has an EPC rating of 26. A copy of the EPC is provided in the sale dataroom.

## VAT

The property has been elected for VAT which will therefore be chargeable on the sale price unless the transaction can be treated as a Transfer of Going Concern (TOGC).

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## Capital Allowances

The vendor is to retain the benefit of all Capital Allowances.

## Investment Rationale

The investment offers purchasers a unique opportunity to acquire a landmark retail property.

The purchaser will benefit from:

- A rare South East Open A1 (non-food) retail investment opportunity
- A large affluent catchment
- Located within an established retail warehouse destination
- Excellent accessibility linking directly with the M27 Motorway (Junction 7)
- Substantial critical mass with Hedge End Retail Park, Sainsbury's and M&S superstores within the immediate location
- A modern, quality bespoke retail store of 86,523 sq ft (GIA) built by Next
- The rent reflects a low overall rate of £16.81 psf
- UK's first purpose built Next "Fashion, Home and Garden" store
- 20 years unexpired to Next Group Plc (D&B rating of 5A1)
- A fixed increase at Year 5 (in accordance with CPI, collar & cap of 1.5% & 3%)

## Proposal

Our client is seeking offers in excess of **£28,940,000 (Twenty-Eight Million, Nine Hundred and Forty Thousand Pounds)**, subject to contract and exclusive of VAT.

A purchase at this level reflects a **Net Initial Yield** of **4.75%**, assuming purchasers costs of 5.8%.

Assuming an average CPI of 2.5% over the next 5 years, it will provide a Reversionary Yield of 5.37% and a Nominal Equivalent Yield of 5.23%.



## Further Information

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