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# CAPITAL MARKETS DAY

5 December 2017

# Agenda

Welcome	Lawrence Hutchings, Chief Executive
Introduction and retail sub-sector overview	
Defining the community shopping centre	
C&R Strategy	
Ilford Masterplan	Joe Swindells, Projects Director
Pilot Programme	Sara Jennings, Operations Director
Summary and Outlook	Lawrence Hutchings
Q&A	Charles Staveley, Group Finance Director James Ryman, Asset & Investment Director
Travel to Ilford	
Tour of The Exchange Ilford shopping centre	
Expected finish time	

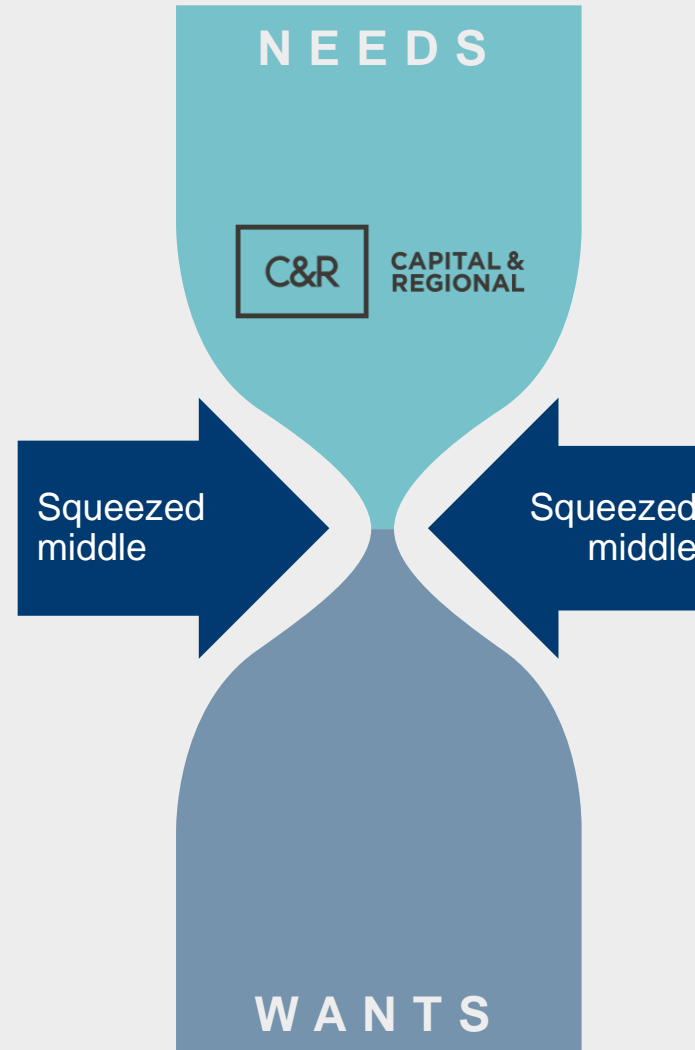


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# Introduction and market overview

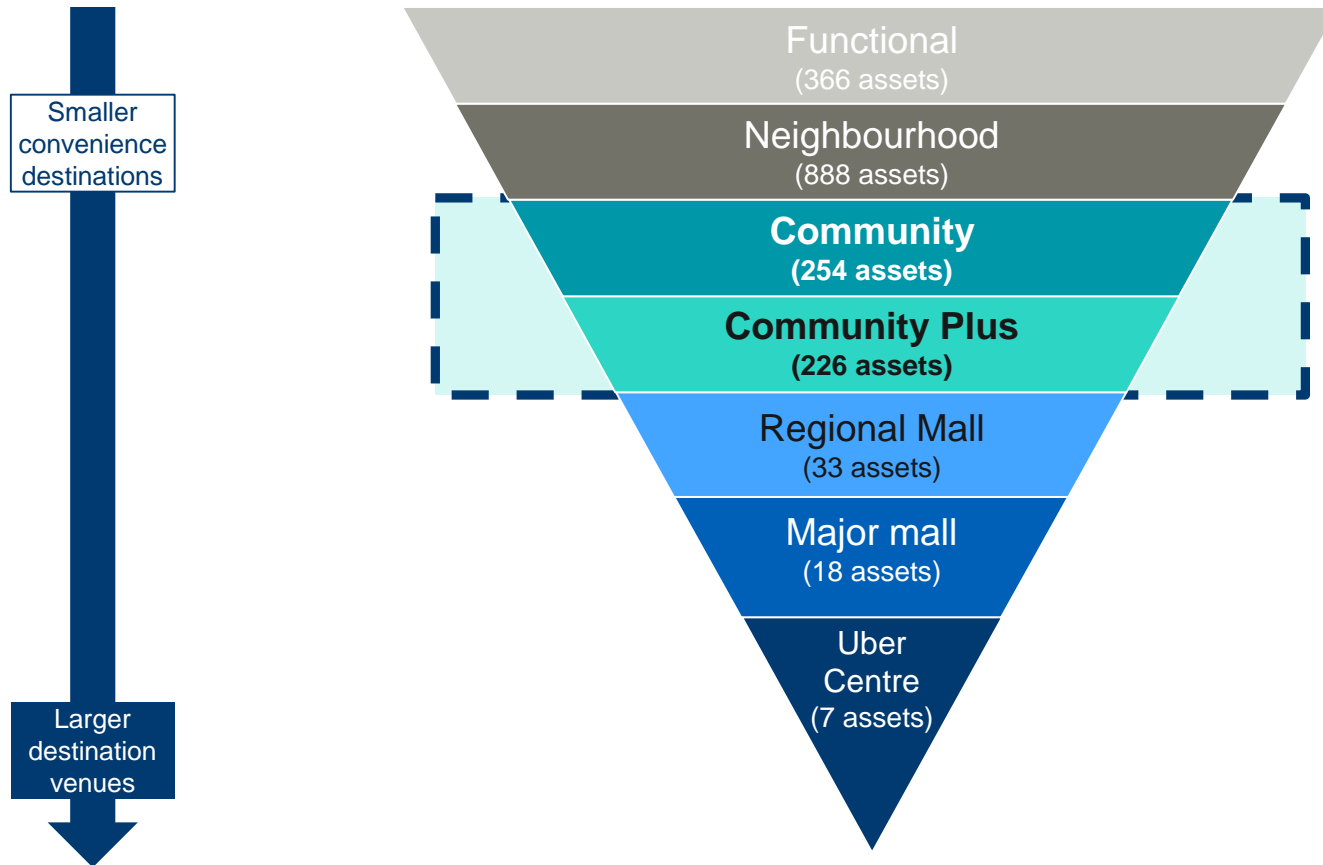
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# Polarisation of the retail sector



# UK shopping centre structure

Largest assets act as 'wants' destinations whilst community and neighbourhood venues are much more functional ('needs')



- Local functional venues
  - High frequency visits
  - High conversion
- Convenience/value goods focused
- Essential/non-discretionary spending

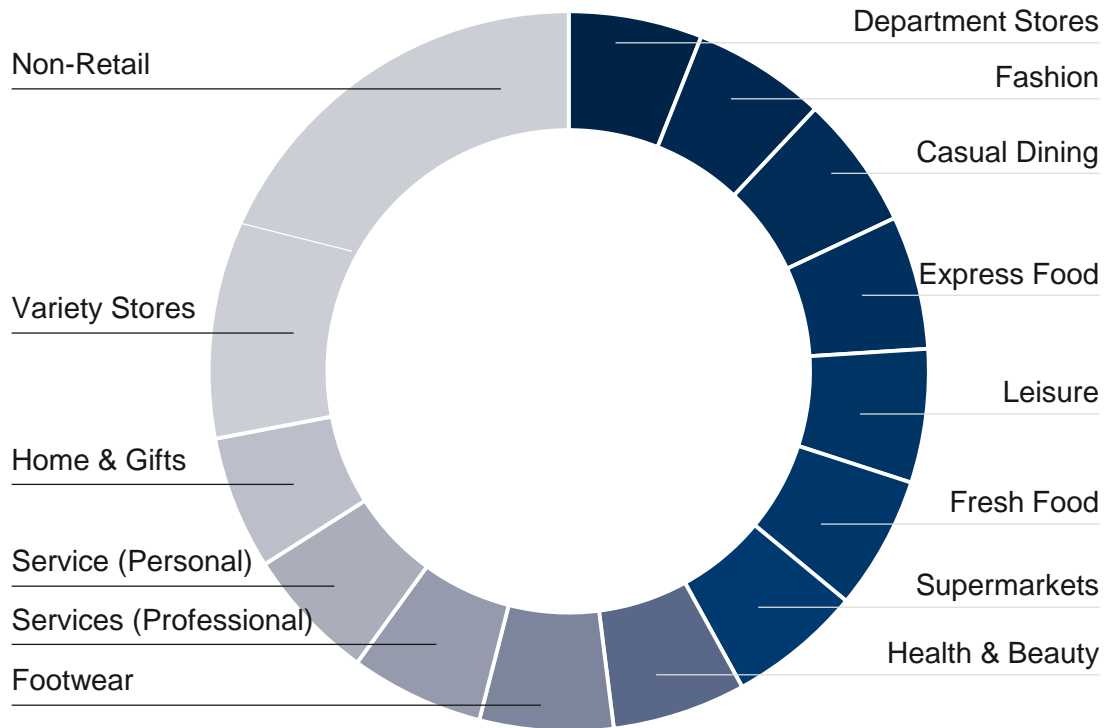
- Premium destination venues
- Lower frequency/occasional visits
- Comparison goods focused
  - Fashion
  - Entertainment
- Indulgent/discretionary spending

# Evolution of retail mix

Complement super regional malls with substantially differentiated proposition

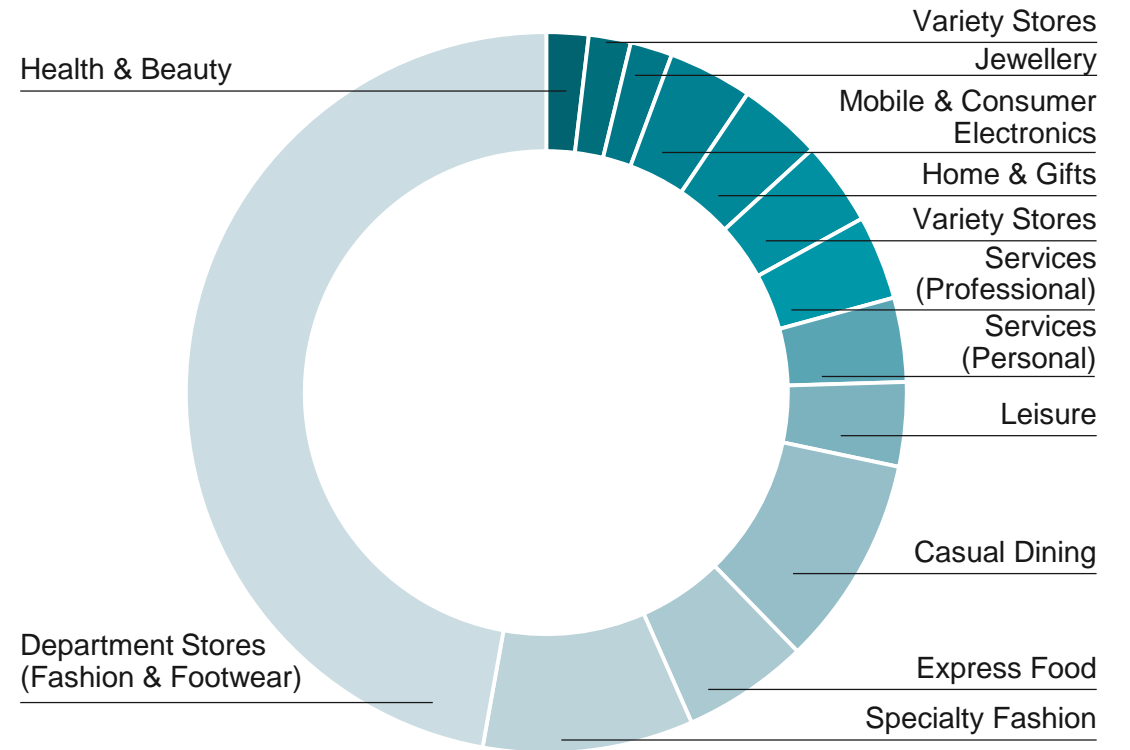
## NEEDS

### Community shopping centres



## WANTS

### Super regional malls

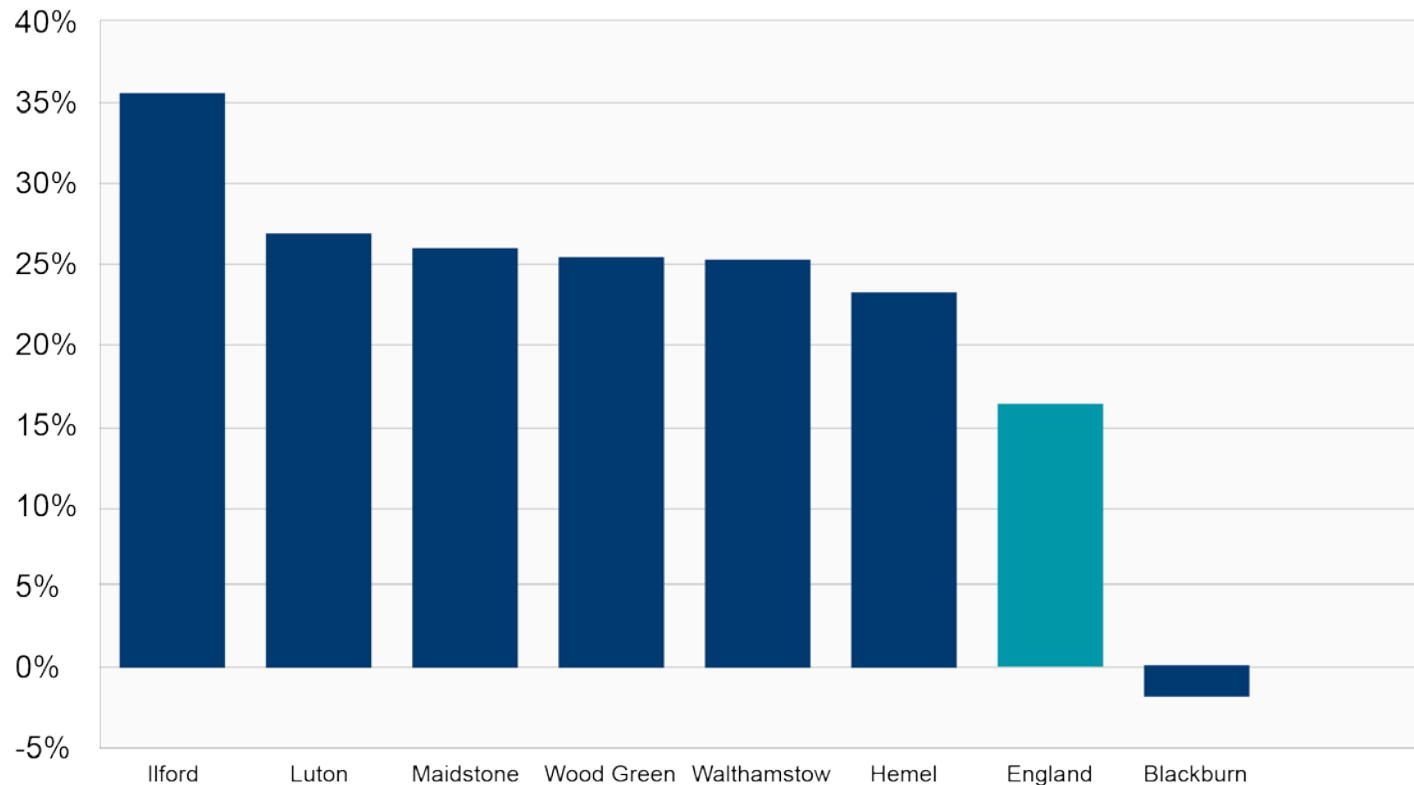




# Demographics shaping needs of retail

Our centres are a destination for community interaction

Local Authority projected population growth, 2014-2039



## Urbanisation

- Population growth concentrated on urban conurbations
- Increasingly family orientated

## Ageing population

- A group of major influence
- Access to essential local services and local amenities
- Social aspect - interaction is key

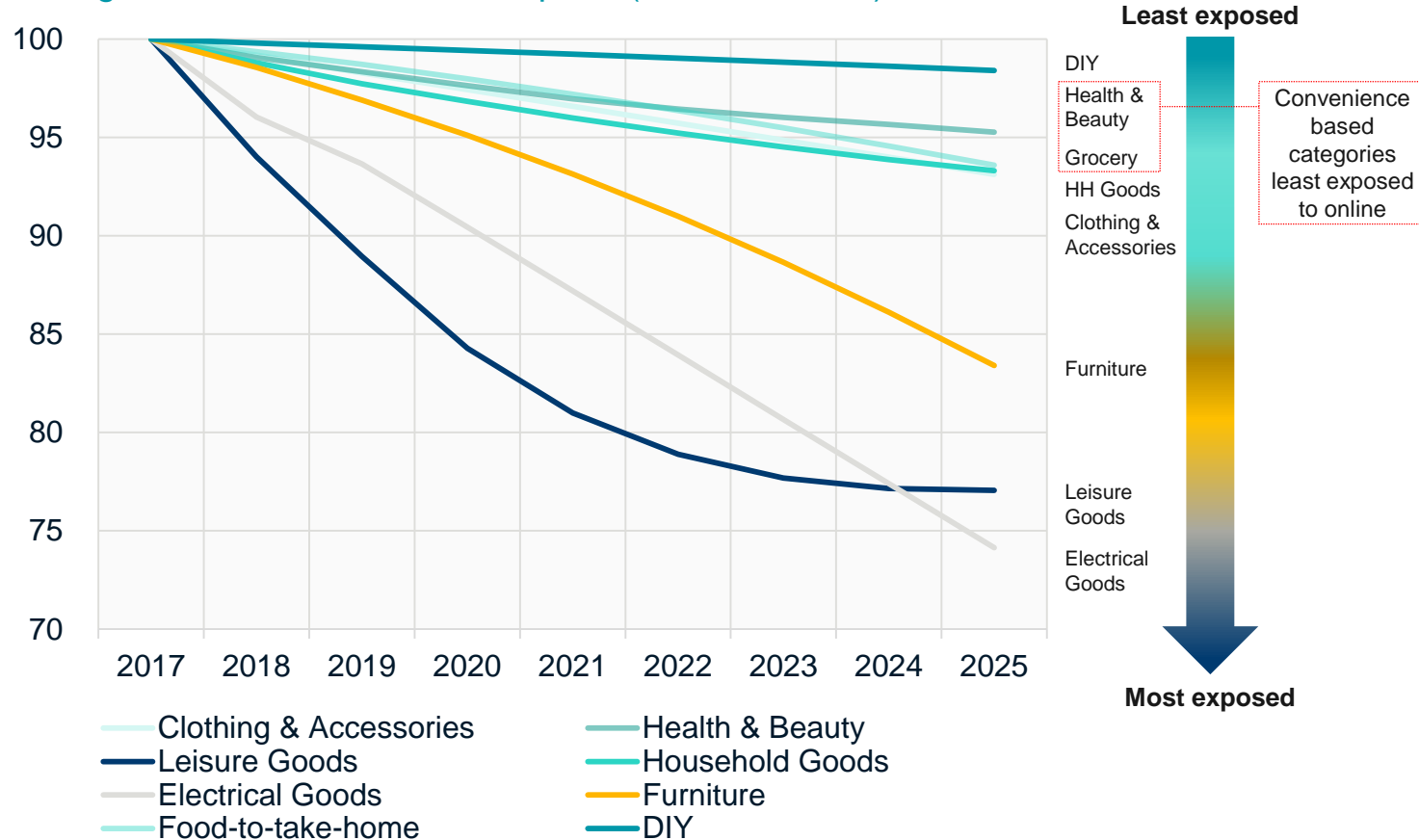
## Single living

- Smaller home environment
- Social interaction
- More frequent shopping due to limited storage

# Community shopping centres: Online impact

Key categories for community shopping centres least impacted by internet retail

Change in store based share of spend (Index vs. 2017): 2017 - 2025



Proportion of spend going through stores to decline

Greatest shift expected electrical and leisure goods

- Categories more likely purchased online and multiple channels

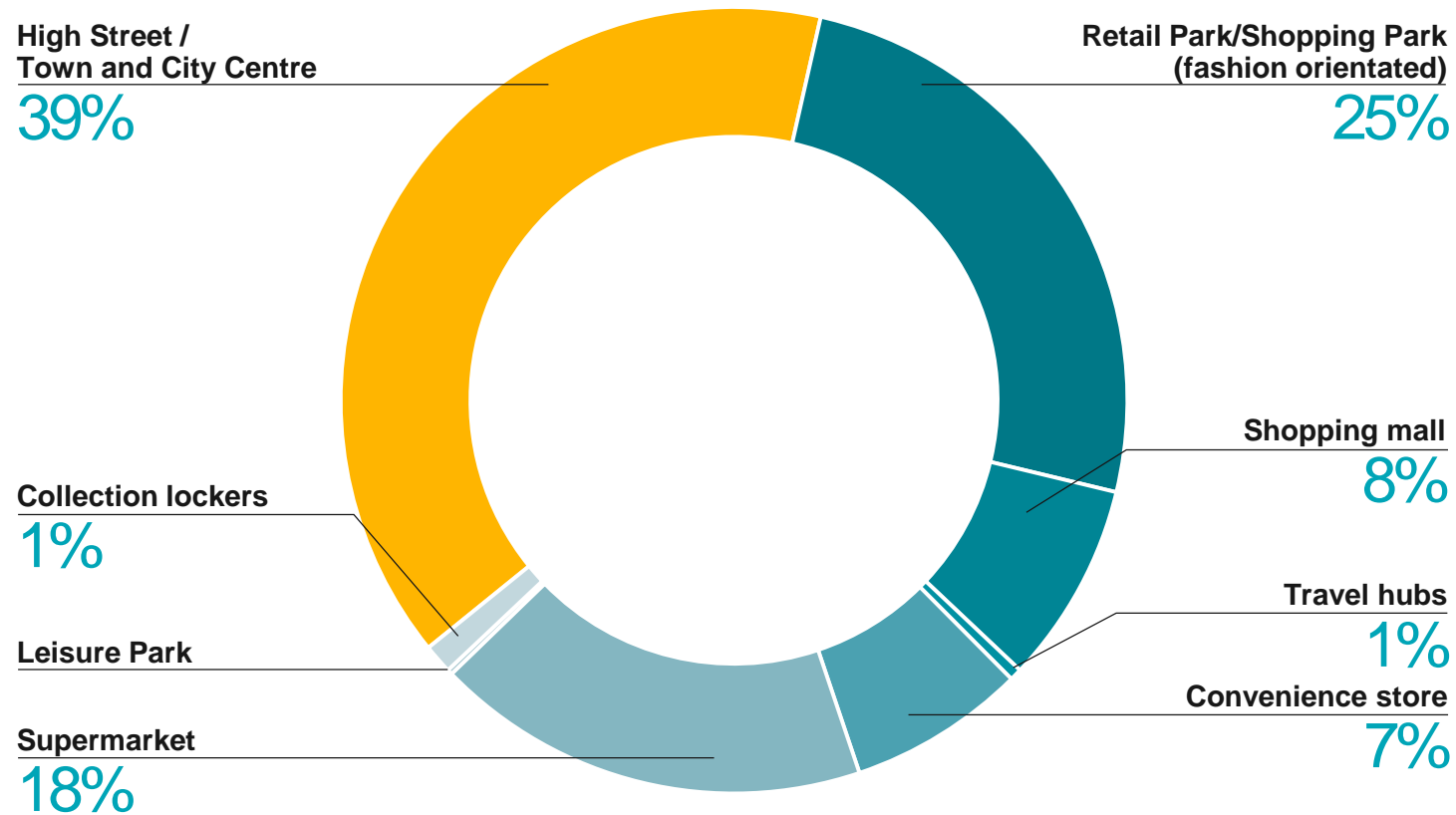
However macro-economic factors and population growth mean store based market size growth still projected

- Reflects impact of projected population growth, 'real' consumer spending growth, inflation and online spending habits



# Click & collect drives footfall to community malls

Click & pick up location

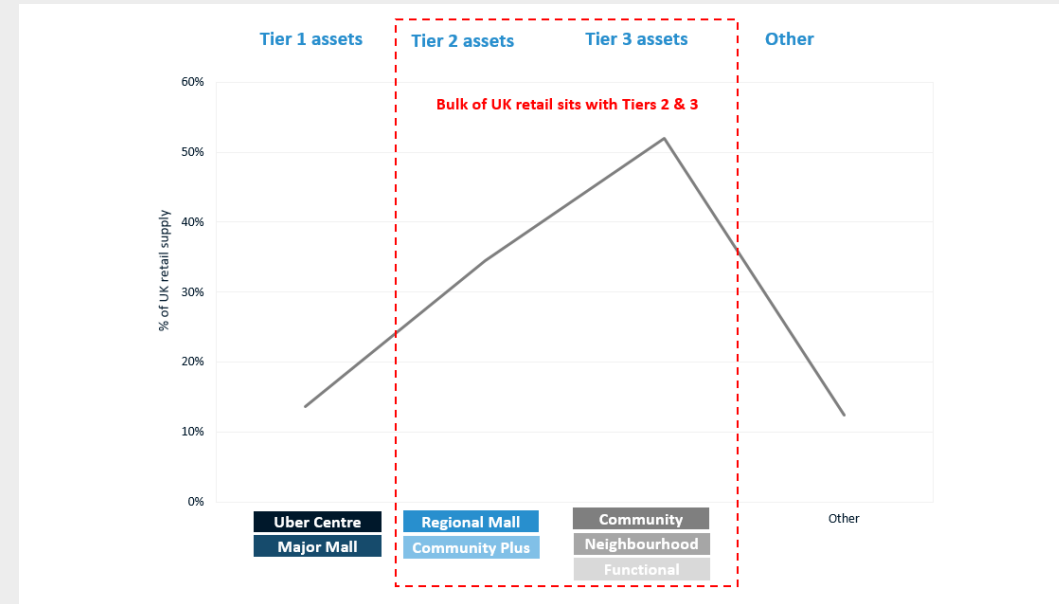
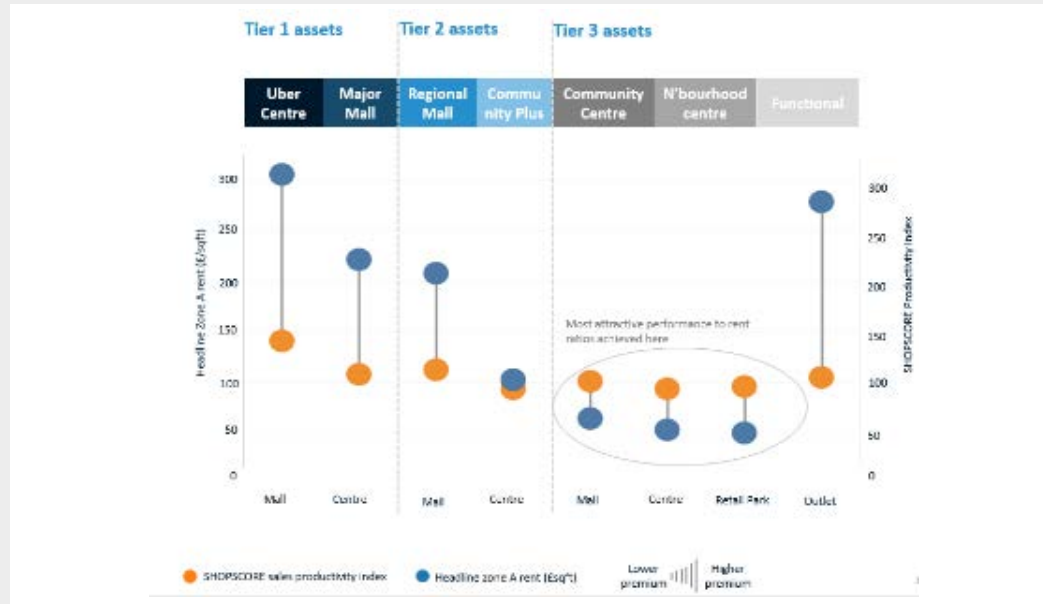


Typically, the majority of Click & Collect orders are picked up close to home

- The most popular location is the High Street / Town Centre / City Centre
- All C&R assets sit within these types of locations
- Highlighting the important role that these assets play in fulfilling online transactions

# Community malls – the “engine room” for UK retailers

These venues deliver high proportions of retailer total profits due to dynamic between rental levels & retailer performance



- Analysis shows most sustainable ‘affordability’ ratios in Tier 3 assets
- Retailer sales productivity performance typically higher in prime locations, however prevailing headline rents are disproportionately higher

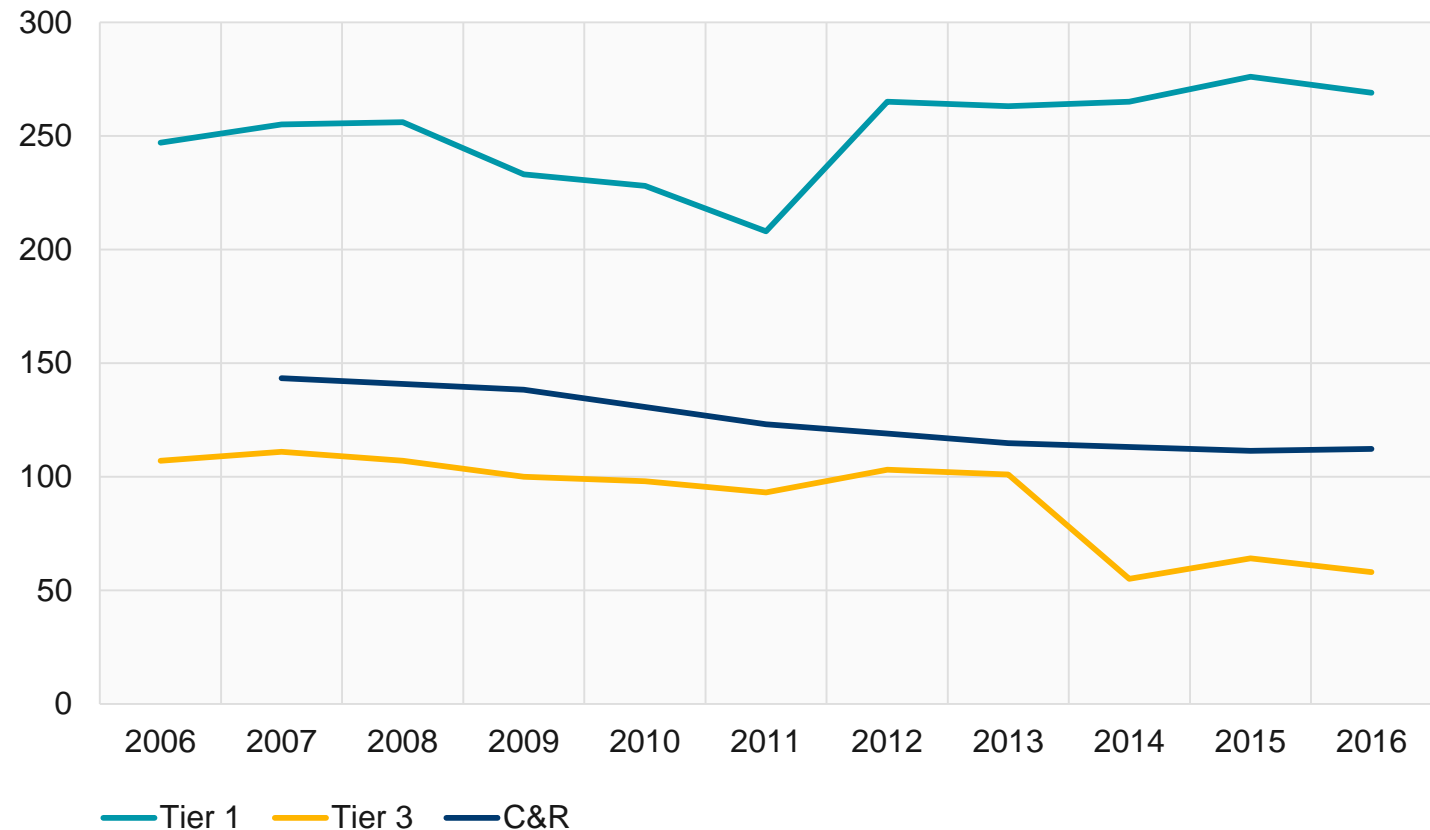


- Tier 2 & 3 venues deliver high proportions of retailer total profits due to dynamic between rental levels, retailer performance
- The majority of UK retail supply sits within Tiers 2 & 3
  - Chart opposite shows that whilst retailer performance is high in Tier 1, so is rent!
- The dynamic between rental levels and performance across Tier 2 & 3 venues means that these can be very profitable locations for retailers
- Given the number of stores in these locations, represents a high degree of total retailer profits

# Secondary rents have rebased and remain affordable

Rental reduction in Tier 3 venues have made these more viable and profitable locations of retailers

Headline Zone A Rent (£/sqft)



Rebasing of rents has occurred in all non-prime assets

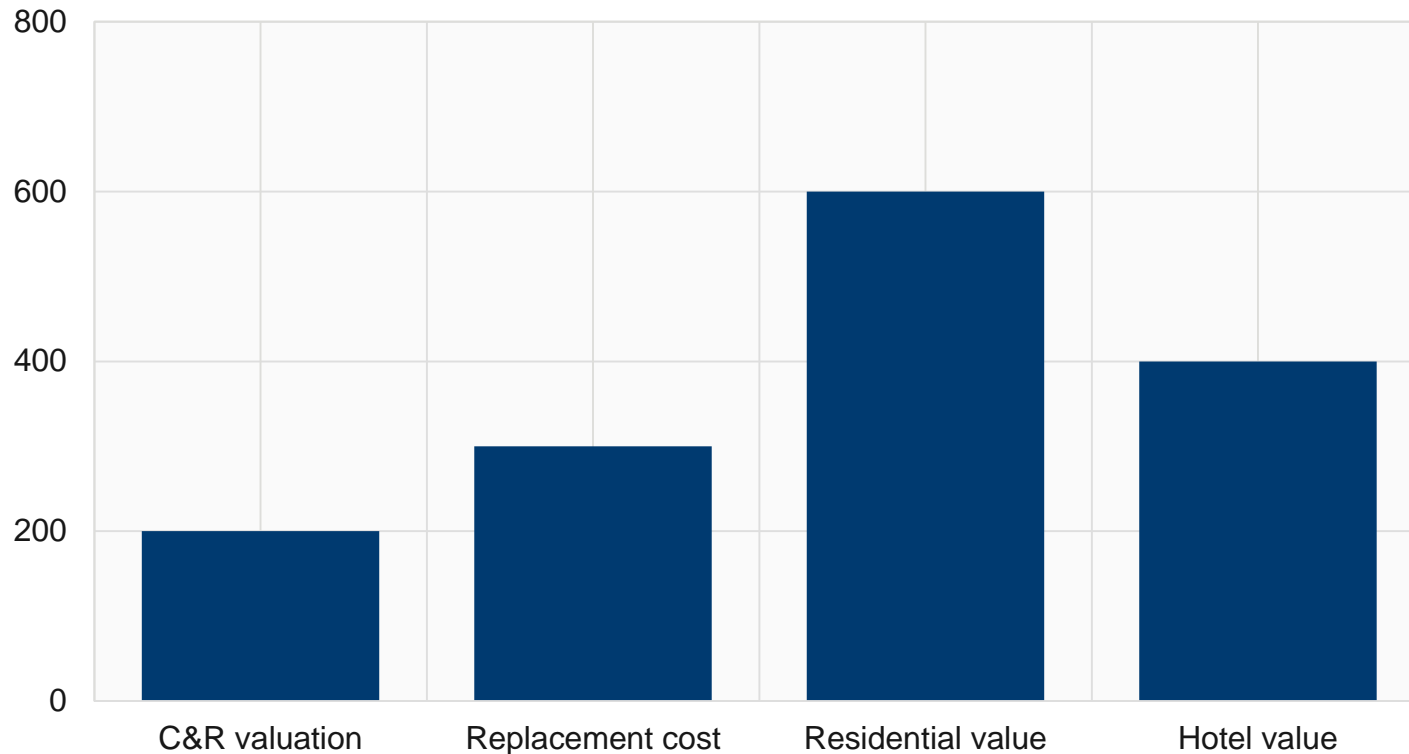
- Making these venue types attractive and profitable locations for retailers

Tier 1 venues continue to see rental increases

- Increasing rental levels contributing to pressures on retailer profits in the locations

# Capital values below replacement cost

Value psf (£)



Significant opportunity to increase value through floor space productivity

- Retail
- Car park
- Other uses

Provides barrier to competition

# Community shopping centres: what we believe

## Product desirability

Assets need to still deliver a quality product

Many centres have suffered from under-investment. Creativity is required to deliver superior experiences that consumers demand

## Scale

### Assets

Allows dominance of locality and breadth of retail offering

Scale provides greater flexibility to evolve and adapt

### Corporate

Enables management efficiencies and breadth of retailer relationships

## Management

Asset class requires specialised and intensive management

## Agility

Ability to renew, adapt, change quickly and succeed in a changing environment will be a key differentiator to leaders in this sector



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# C&R STRATEGY

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# Capital & Regional strategy

## Redefine –

community shopping  
centres

## Reposition –

assets and retail mix

## Refocus –

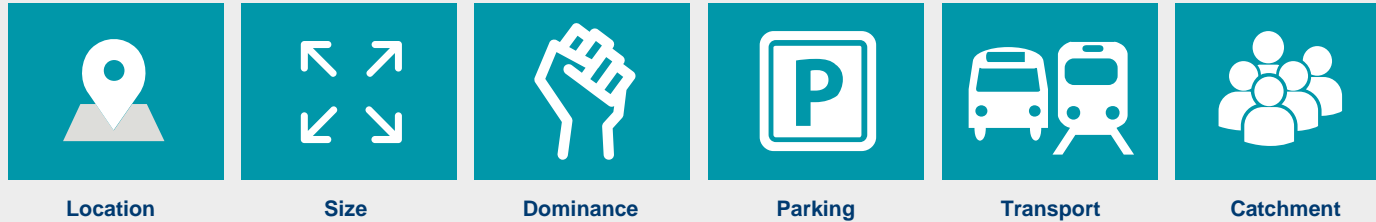
management team

## Enhance –

shareholder value

# Redefine – what we mean by community shopping centre

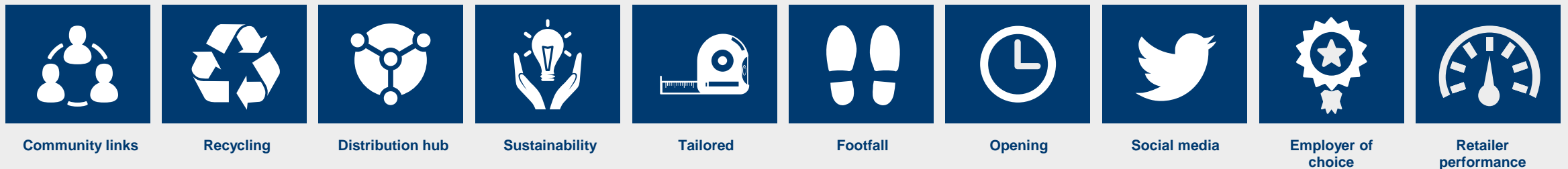
## Physical attributes



## Products and services



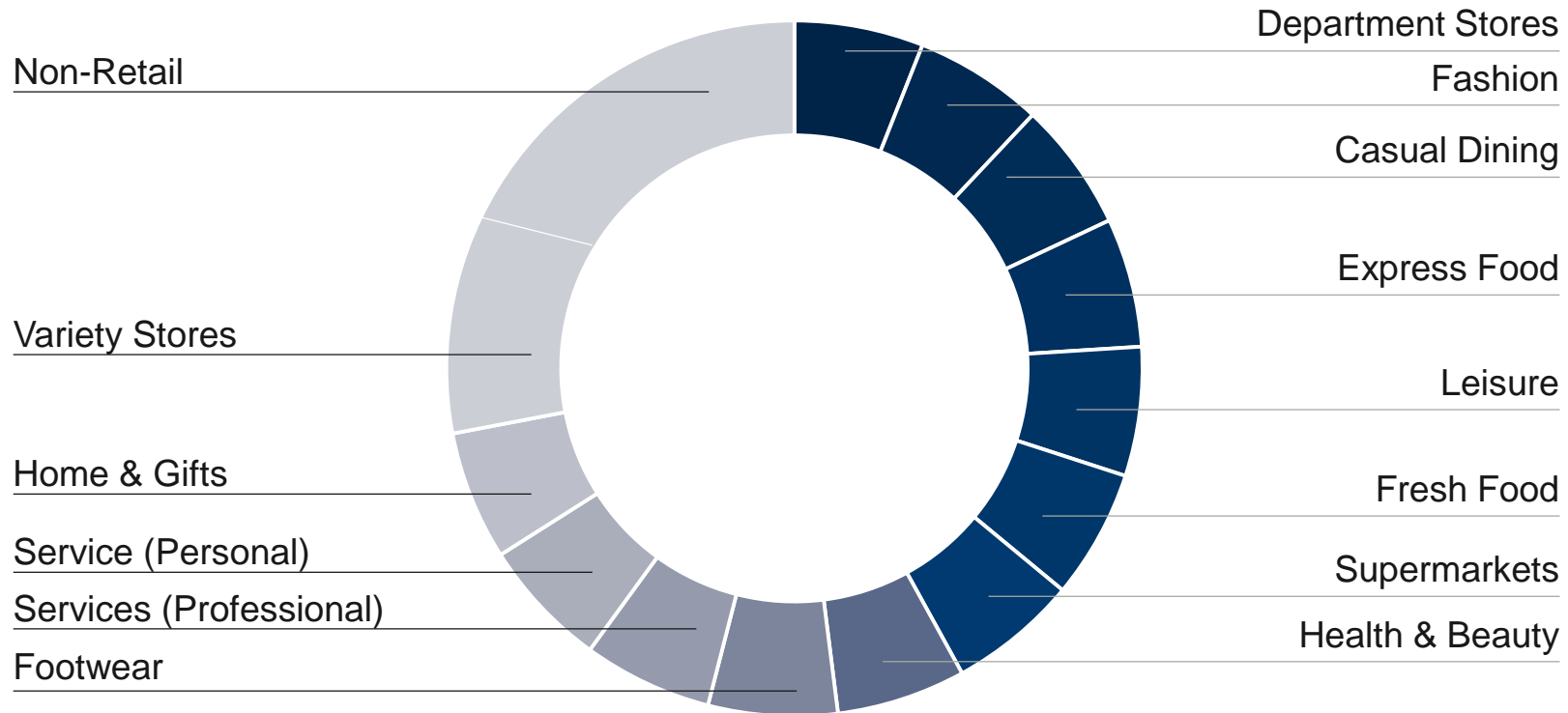
## Differentiation



# Reposition



## Our evolving retail proposition



Illustrative tenant mixes by GLA

# Complementary retail – Stratford and Ilford

Whilst trading in close proximity to one another, Westfield Stratford & The Exchange serve very different customer missions

## WESTFIELD STRATFORD

Destination shopping centre dominant across a very large catchment

86% of its retail offer is focused towards 'Wants' rather than 'Needs' – more luxury-orientated retailer offer

Strong leisure provision including: bowling, gym, cinema & casino



## ILFORD

Serves a local catchment with a very different mission type to that of Westfield Stratford

59% of its retail offer is focused towards 'Wants' – more of a mixed retail offer catering to both 'Wants' and 'Needs' (41%)

Strong service provision including: post office, dentist, travel agents



**Community and destination centres can thrive alongside each other**

# Our approach

Understand full catchment potential	<ul style="list-style-type: none"> <li>Research/benchmarking</li> <li>Centre teams/ local input</li> <li>Retailer &amp; community engagement</li> </ul>	<ul style="list-style-type: none"> <li>3 year strategic planning</li> <li>Yearly review</li> </ul>
Product offering in line with customers' needs & expectations	<ul style="list-style-type: none"> <li>Retail mix</li> <li>National v local chains</li> <li>Affinity programme</li> <li>Local feel and brand</li> </ul>	<ul style="list-style-type: none"> <li>3 year strategic planning</li> <li>Yearly review</li> </ul>
Map to existing centres - identify gap	<ul style="list-style-type: none"> <li>Sub standard amenities</li> <li>Under or over represented categories</li> <li>Missing services (personal &amp; professional)</li> <li>Balance local to national retailers</li> </ul>	<ul style="list-style-type: none"> <li>3 year view</li> <li>1 year strategic plan</li> </ul>
Establish strategic master plans	<ul style="list-style-type: none"> <li>Ensure centre meets the needs of the community</li> <li>Tailor the offering to the community</li> <li>Multiphase – distinct phases</li> </ul>	<ul style="list-style-type: none"> <li>3 year strategic view</li> <li>1 year strategic planning</li> <li>6 monthly reviews</li> </ul>
Execution	<ul style="list-style-type: none"> <li>Speed of delivery</li> <li>Specialist teams – best in class (leasing, development, finance)</li> <li>Central office as support infrastructure – tailoring to local environment</li> <li>Revenue oriented</li> </ul>	<ul style="list-style-type: none"> <li>1 year operational plan</li> <li>Quarterly reviews</li> </ul>
Review & refine	<ul style="list-style-type: none"> <li>Governance</li> <li>Post implementation reviews</li> <li>Incorporate into future phases and portfolio</li> <li>Respond quickly</li> </ul>	<ul style="list-style-type: none"> <li>Monthly monitoring</li> <li>Quarterly reviews</li> </ul>

# Refocus – putting community first

Community

Centre Team & Product

Capital & Regional Support

Operations

Finance

Development

Leasing

Investment





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# Repositioning Ilford to grow income and enhance value

Thomas Cook

Thomas Cook

supercuts

HÖDEL S

Donald

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# Management focus on delivery of master plan projects

Adopting sales mentality and behaviours to drive revenue

Analytical approach

New planning framework with stretch targets

Key focus areas:

- Remerchandising
- Occupancy (Temporary lets and vacancy)
- Commercialisation

Clear objective of growing underlying income at premium to RPI

# Asset repositioning at Ilford

Road map to holistic, accretive repositioning



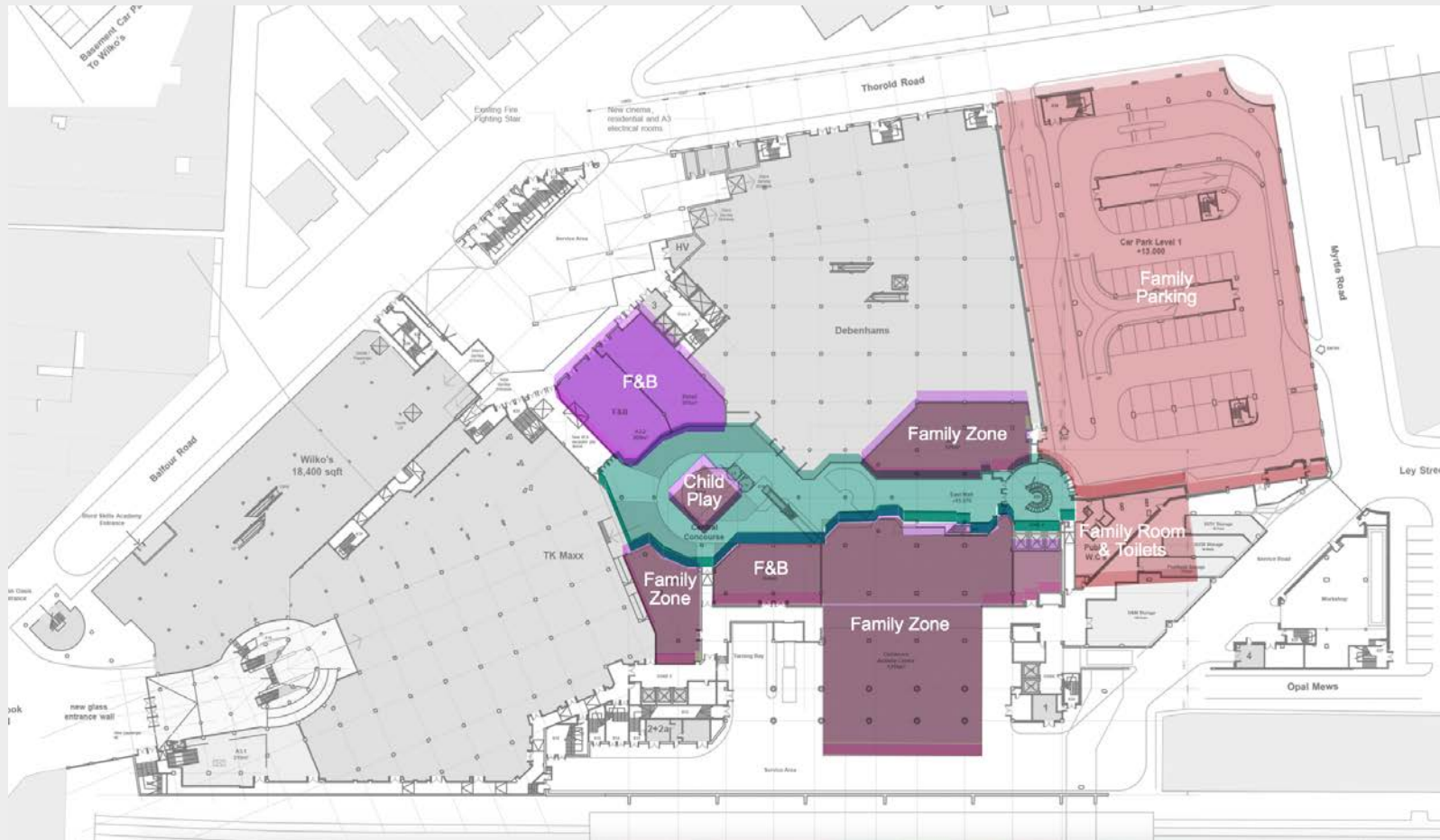


# Visualising transformation of Ilford



# Research led tailored zone driving footfall and income

## Ground floor family precinct



- Tailored for target shoppers
- Builds on success of pilot projects
- Delivers significant uplift in footfall and net rental income

# Flexible approach to asset repositioning

Phase	2017				2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Phase 1 – Pilot Projects			█													
Phase 2 – Family Zone			█	█	█	█	█	█								
Phase 3 – Street Eats				█	█	█	█									
Phase 4 – Cranbrook Road Entrance					█	█	█	█								
Phase 5 – Cinema & Dining					█	█	█	█	█	█	█	█				
Phase 6 – Mall Refresh					█	█	█	█	█	█	█	█				
Phase 7 – Remerchandising					█	█	█	█	█	█	█	█	█	█	█	█
Phase 8 – High Road Entrance									█	█	█	█				
Phase 9 – Resi					█	█	█	█	█	█	█	█	█	█	█	█





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# Pilot Projects – enhancing understanding of shoppers to drive footfall

# Pilot projects – validating repositioning

## Purpose

In short two month period research and identify the community's unique needs and deliver targeted projects to:

- Enhance services and experience to generate positive shopper and customer feedback
- Achieve C&R's new enhanced operational standards
- Increase footfall and dwell time
- Increase retail sales

Selection of Ilford and Maidstone to assess centres with different demographics

# Pilot projects – understanding our audiences

## Shoppers



Car Park



Threshold



Centre space  
& community



External



Facilities



Accessibility

## Customer



Support  
Services



Assurance



Relationship

## Shared



Community  
Marketing

# Pilot projects – before repositioning at Ilford

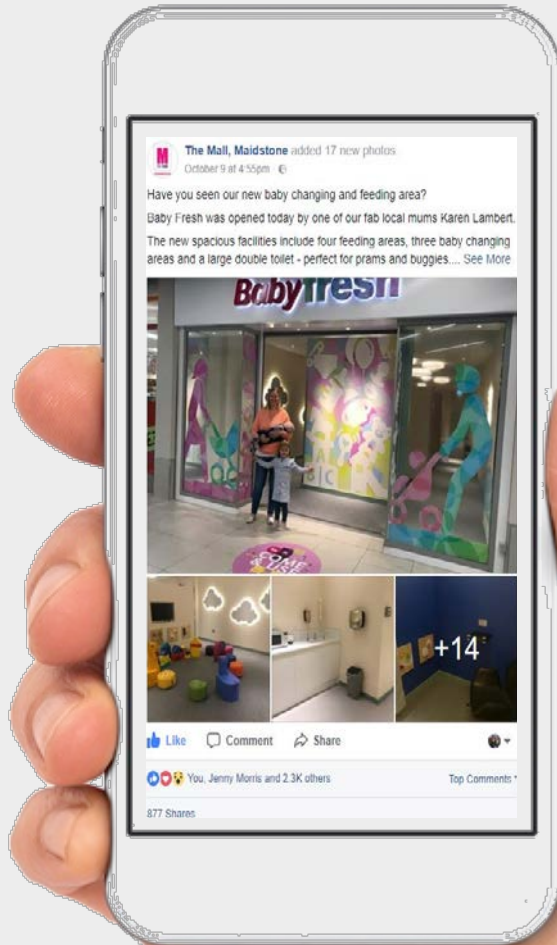




# Pilot projects – Ilford and Maidstone transformation



# Pilot projects – positive social media reaction



“Amazing!  
Great  
initiative!”

“This is amazing!  
Thank you so much  
on behalf of all mums,  
what a fantastic idea”

“An excellent well  
thought out  
facility...mums dads  
and siblings will  
breathe a sigh of  
relief”

“Omg this is brilliant as an  
expecting mummy for the  
second time this makes me  
feel a lot happier about  
coming into town and not  
stressing about feeding and  
changing. Well done such a  
great idea”

“That’s great,  
every  
shopping  
centre needs  
one of these”

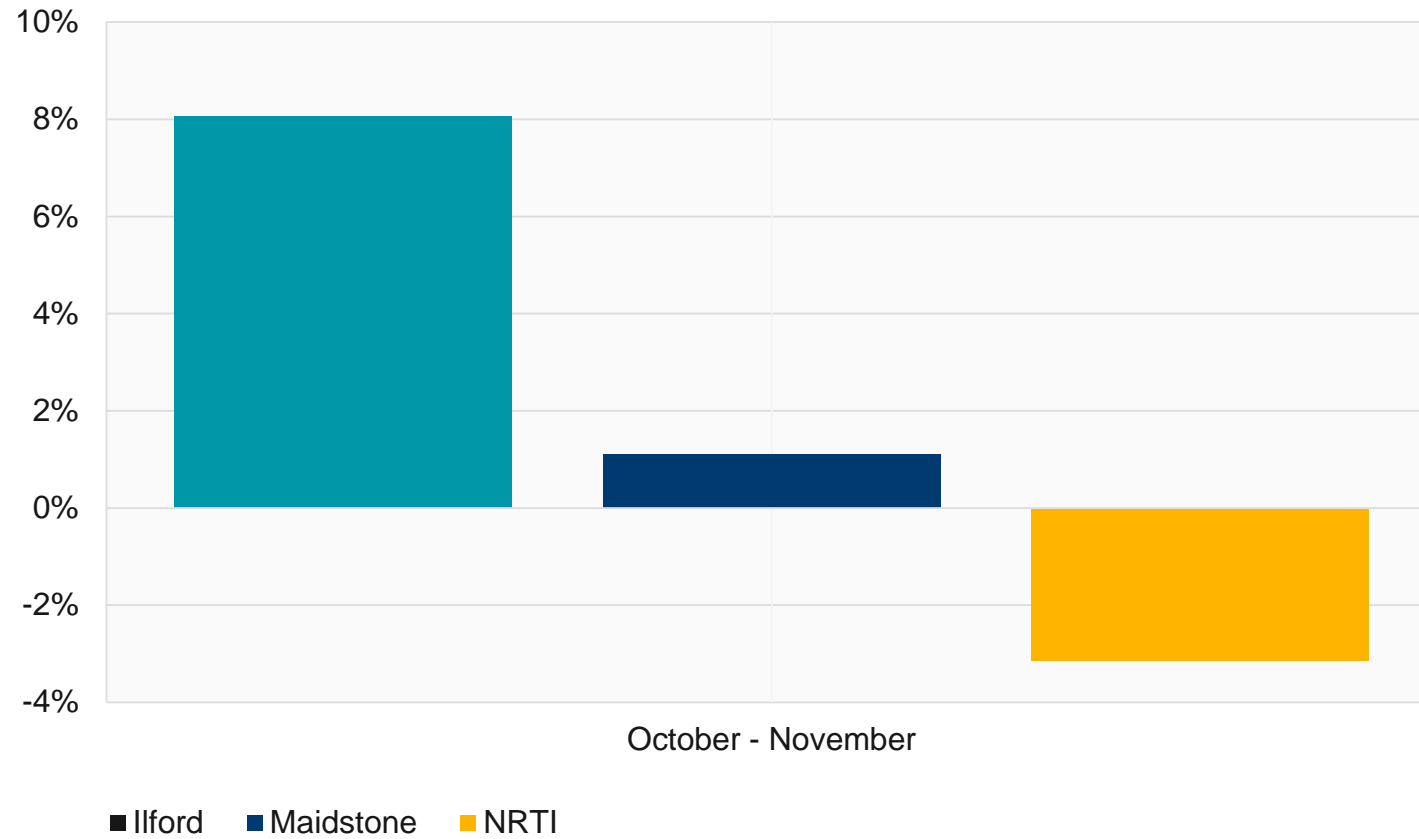
“Well done for trying to  
cater for everyone;  
babies, toddlers, mums,  
dads and other care  
givers. I do feel this is  
all a massive step in the  
right direction! Well  
done again, looking  
forward to my first visit”

“Will  
definitely  
make my  
trips into  
Maidstone  
easier!”



# Pilot projects – improving footfall

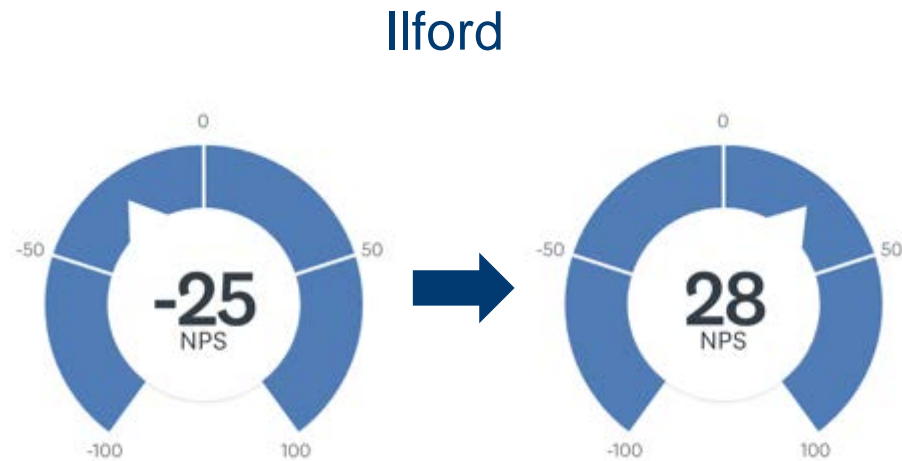
Year on Year % Change in Footfall 2017/16



NRTI = National Retail Trade Index

# Pilot projects – positive impact of repositioning

Net Promotor Scoring (NPS) - shoppers



UK Retail average: 14

# Pilot projects' success

Management, quality research and use of digital create swift change and impact

Focus on what the community wants and is asking for, drives remarkable results:

- Footfall growth
- Leasing demand

Key to success:

- A clear brief with objectives and accountability
- Local team leadership empowerment and capability
- Local involvement
- Tight adherence to best practice
- Social media drives today's communication



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# Summary

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# Summary

## Redefine –

community shopping  
centres

## Reposition –

assets and retail mix

## Refocus –

management team

## Enhance –

shareholder value





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# Q&A







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# Appendix



# Core attributes of shopping centres

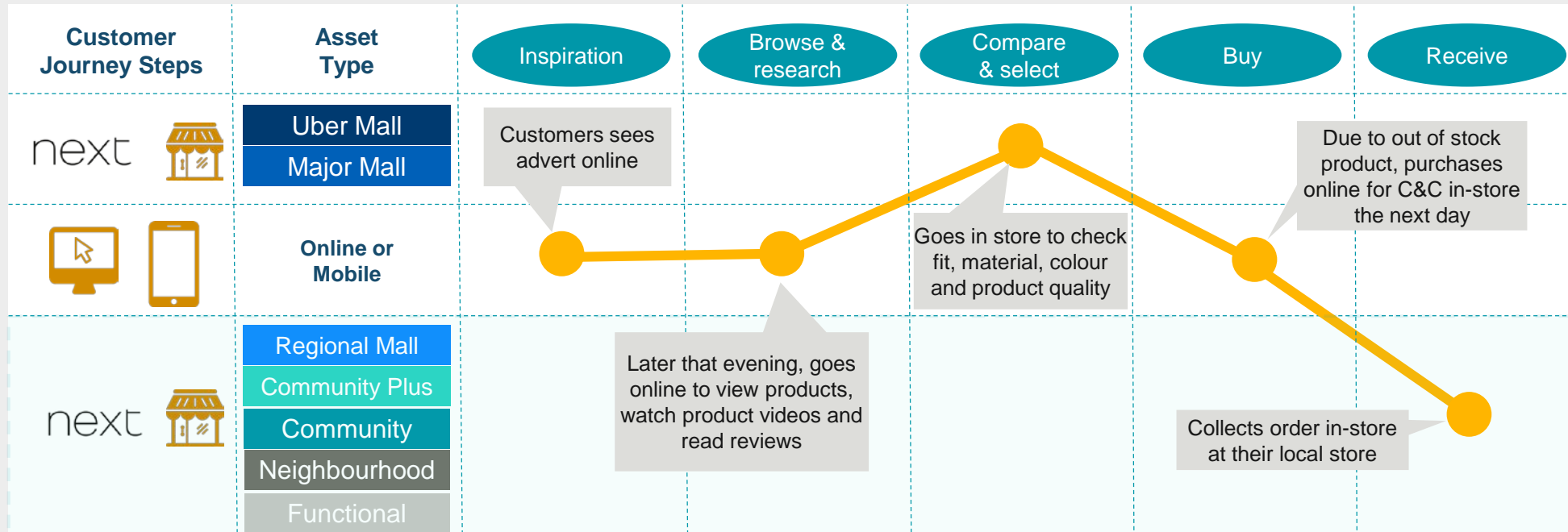
## Key characteristics

	Catchment		Asset		Retail Offer		Consumer Behaviour		Example assets
	Catchment Drivetime (mins)	Catchment Residents (000's)	Typical Size (Sqft)	Type	Avg. Market Position Index	Retail Offer	Illustrative dwell-time (mins)	Typical frequency (trips per annum)	
<b>Uber Centre</b>	37	2,500	1.5m to 2m	Standalone	>120	82% wants vs. 18% needs	160	38	Bluewater, Westfield Stratford & London
<b>Major Mall</b>	38	1,500	950k to 1.5m	Standalone & City Centre	115		80	49	Bullring Birmingham, Manchester Arndale
<b>Regional Mall</b>	34	1,400	550k to 950k	City / town centre mall	110	71% wants vs. 29% needs	75	65	WestQuay Southampton, Queensgate Peterborough
<b>Community Plus</b>	28	940	350k to 600k	City/town centre mall & standalone retail/ shopping parks	100		60	70	Forestside Belfast, Hempstead Valley Gillingham
<b>Community</b>	23	935	200k to 450k	City/town centre mall & standalone retail/ shopping parks	95	63% wants vs. 37% needs	50	70	Millgate Bury, Two Rivers Staines
<b>Neighbourhood</b>	24	768	150k to 370k	City/town centre mall & standalone retail/ shopping parks	95		45	70	Kingsland Dalston, George Yard Braintree
<b>Functional</b>	26	762	125k to 150k	City/town centre mall & standalone retail/ shopping parks	<95	69% wants vs. 31% needs	40	55	Richmond SC Londonderry

Source: Javelin Group

# Tier 2 & Tier 3 assets play an integral role in supporting retailers grow Click & Collect sales

Illustrative case study: Next – typical ‘click & collect’ customer journey



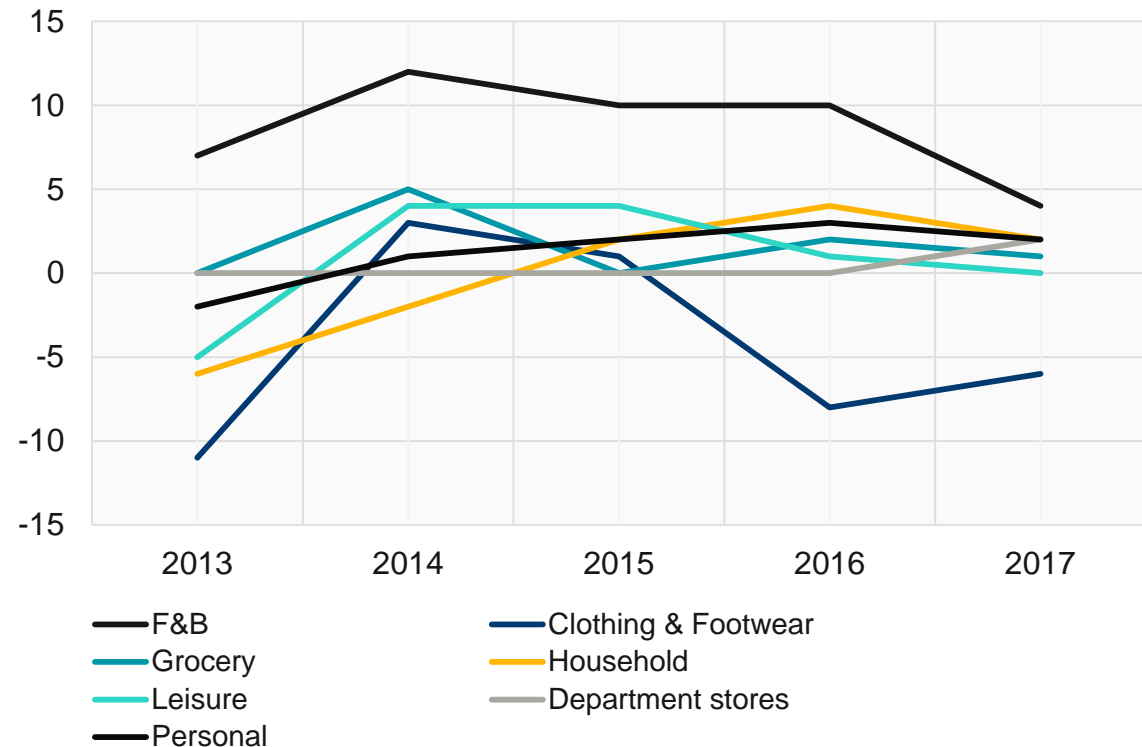
- Next store portfolio sits across all Tiers of venues
- However the role of a store can differ by Tier
- Tier 1 venue stores are much more about branding showcasing products and providing experience
- Tier 2 & 3 venue stores are much more functional and due to their convenient location for consumers have a strong role to play in the click & collect customer journey

# Not all merchandise groups are shrinking

Births	2013	2014	2015	2016	2017
F&B	10	13	10	12	7
Clothing & Footwear	10	12	6	7	5
Grocery	1	5	2	4	1
Household	2	1	2	6	2
Leisure	3	4	5	1	1
Department stores	0	0	0	0	2
Personal	1	4	2	3	3

Deaths	2013	2014	2015	2016	2017
F&B	3	1	0	2	3
Clothing & Footwear	21	9	5	15	11
Grocery	1	0	2	2	0
Household	8	3	0	2	0
Leisure	8	0	1	0	1
Department stores	0	0	0	0	0
Personal	3	3	0	0	1

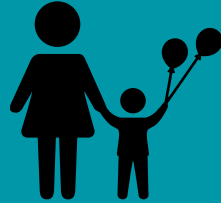
Net Births and deaths



Clothing and footwear is more dependent on discretionary spending and is more volatile

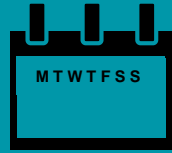
# Secure income attributes

Local and convenient assets delivering sustainable and resilient performance



**220k per week**

**Significant  
footfall**



**1.2 per week**

**High frequency  
of visits**



**59 min av. stay**

**Convenient ease  
of use**



**70%**

**Strong  
Conversion**



**63% non-car**

**Easy  
accessibility**



**Av. drive time**

**Local catchment**



**£42**

**Spend per visit**



**12.6% OCR**

**Affordable  
occupancy**

Averages for wholly-owned portfolio



# Top 10 retailers

A strong and diversified tenant mix

		% of rent	Stores
Debenhams	DEBENHAMS	5.66	6
Alliance Boots		3.92	6
Primark	PRIMARK®	2.97	5
AS Watson	  	2.84	19
Sports Direct	SPORTSDIRECT.com	2.64	9
New Look	NEW LOOK	2.60	5
H&M		2.59	5
TK Maxx		2.33	4
WH Smith	WHSmith	2.11	7
Wilko		2.07	8
TOTAL		29.73	74

**Over 400 different tenants – low concentration risk**



# Financial results

	H1 2017	H1 2016	Change
<b>Profitability</b>			
Net Rental Income <sup>1</sup> <i>like-for-like</i>	£21.2m	£21.1m	+0.5%
Adjusted Profit	£14.5m	£13.6m	+6.6%
Adjusted Earnings per share	2.06p	1.94p	+6.2%
<b>Dividend</b>			
Total dividend per share	1.73p	1.62p	+6.8%
Dividend payout	84.0%	83.5%	

	30 June 2017	30 December 2016	Change
<b>Net Asset Value</b>			
EPRA NAV	£482.9m	£481.5m	+£1.4m
NAV per share	68p	68p	-
EPRA NAV per share	67p	68p	-1p
<b>Group Debt<sup>2</sup></b>			
Net debt to property value	46%	46%	-
Average maturity	7.8 years	8.0 years	-0.2 years
Cost of debt <sup>3</sup>	3.25%	3.25%	-
Interest cover	3.4x	3.4x	-

1. Wholly-owned assets

2. 2017 adjusted for extension of RCF completed on 3 August 2017. 2016 adjusted for refinancing of Mall assets completed on 4 January 2017, disposal of Ipswich on 17 February 2017 and acquisition of Ilford on 8 March 2017.

3. Assuming RCF fully drawn.

# Group debt

Robust balance sheet underpinned by long-term low cost debt

	Debt	Cash	Net debt	Net debt to value	Average interest rate <sup>1</sup>	Fixed	Duration with extensions <sup>2</sup>
	£m	£m	£m	%	%	%	Years
Four Mall assets	<b>255.0</b>	(9.1)	<b>245.9</b>	46	3.36	100	9.1
Hemel Hempstead	<b>26.9</b>	(1.2)	<b>25.7</b>	48	3.32	100	5.5
Ilford	<b>39.0</b>	(3.6)	<b>35.4</b>	44	2.76	100	6.7
Luton	<b>107.5</b>	(8.6)	<b>98.9</b>	47	3.14	100	6.5
RCF	-	(2.8)	<b>(2.8)</b>	-	3.33	-	4.6
On balance sheet debt	<b>428.4</b>	(25.3)	<b>403.1</b>	46	3.25	94	7.8

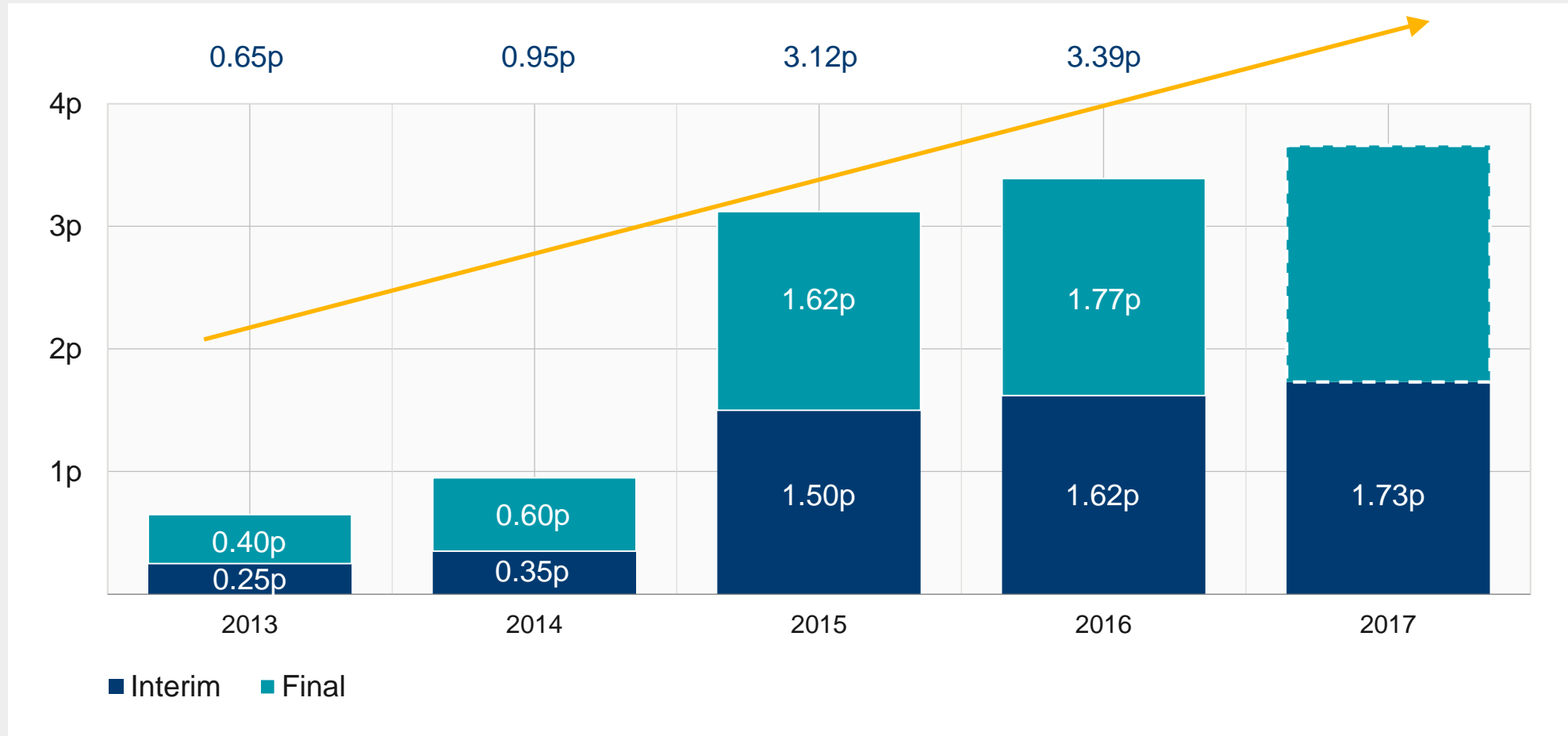
- £372.5m January refinancing has delivered annual interest saving of c £0.5m
- Targeting LTV at low end of 40%-50% range in medium term

1. Assuming RCF fully drawn.

2. Adjusted for extension of RCF completed on 3 August 2017

# Dividend

Targeting dividend growth of 5% to 8% pa over the medium term



**On track for fifth year of Dividend growth**

# Portfolio characteristics

Convenience with dominance

## High footfall

- c 1.7m shopper visits per week

Large centres, dominant locations

Locations with strong & improving demographics

Strong and diversified tenant mix

Provide a convenience, non-discretionary/value offer

London and South-East bias

Convenient town centre locations

## Affordable rent

- Average rent c. £15 psf
- Low occupancy costs of c. 12.6%<sup>1</sup>



1. Estimate based on Blackburn, Luton, Maidstone, Walthamstow and Wood Green

# Wholly-owned asset information

As at 30 June 2017

Number of properties	7
Properties at valuation	£879.8m
Initial yield	6.0%
Equivalent yield	6.3%
Reversion	13.0%
Weighted average lease length to break	6.4 years
Weighted average lease length to expiry	7.7 years
Contracted rent	£63.8m
Passing rent	£59.9m
ERV	£67.6m
Occupancy	95.5%



# Wholly-owned assets

Property	Description	Principal occupiers	Size (sq feet)	Number of lettable units	Annual footfall (m)	Car park spaces
The Mall, Blackburn	Leasehold partially covered shopping centre on three floors	Primark, Debenhams, H&M, Next, Wilko	600,000	127	12.0	1,304
The Marlowes, Hemel Hempstead	Freehold covered scheme on one principal trading level	Wilko, New Look, Sports Direct, River Island	350,000	110	6.6	1,200
The Exchange, Ilford	Predominantly freehold scheme over three trading levels	Debenhams, Next, H&M, TK Maxx, New Look, M&S	300,000	77	11.3	1,060
The Mall, Luton	Leasehold covered shopping centre on two floors, offices extending to over 65,000 sq ft	Debenhams, Primark, H&M, M&S, TK Maxx	900,000	166	20.7	1,706
The Mall, Maidstone	Freehold covered shopping centre on three floors with offices extending to 40,000 sq ft	TJ Hughes, Boots, New Look, Wilko, Next	500,000	104	9.0	1,050
The Mall, Walthamstow	Leasehold covered shopping centre on two floors	TK Maxx, Sports Direct, Lidl, Asda, Boots, New Look, River Island, The Gym	260,000	68	9.3	850
The Mall, Wood Green	Freehold, partially open shopping centre, on two floors	Primark, Wilko, H&M, Boots, TK Maxx, New Look	540,000	111	10.8	1,500