RETAIL ANALYSIS OF THE PROPOSED

EDEN QUARTER KINGSTON

TO

ROYAL BOROUGH OF KINGSTON COUNCIL

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EXECUTIVE SUMMARY

In accordance with your instructions, we are pleased to confirm herewith our report and comments on the proposals for a comprehensive redevelopment of Eden Quarter, Kingston by Kingston Borough Council in partnership with Hammerson.

The report provides a commentary on the following six key points:

1. A general critique of the scheme including scale, layout, size and shape of the units including a comment on the parking and servicing arrangements.

2. How the scheme is likely to change the shape and function of the existing town centre including connectivity and permeability between the existing shopping streets and the Eden Quarter proposals.

3. The likely effect on key anchor stores in the town particularly John Lewis Partnership, Bentalls and The Bentalls Centre.

4. Tenant demand and tenant relocations.

5. The potential impact on small independent retailers in Market Square and Fife Road.

6. Comment on Hammerson draft anchor store strategy and letting strategy documents.

Kingston is one of the most prominent shopping centres to the south west of London enjoying regional importance and is seen as a highly attractive shopping destination. However the stock of retail property is largely dated and with the exception of The Bentall Centre (which opened in 1992) there has been little meaningful retail development for some years. Hence the majority of retail stock in the town fails to meet modern retail requirements. As such the town is beginning to lag behind competing centres including Bluewater, Basingstoke, Reading and indeed central London. There is new competition with the construction of Westfield London (formerly known as White City) and major proposals at Bracknell, both of which threaten to penetrate Kingston's traditional catchment.

The Eden Quarter proposals seek to redress the above and we believe have the potential to reaffirm Kingston's regional domination and establish its long term success.

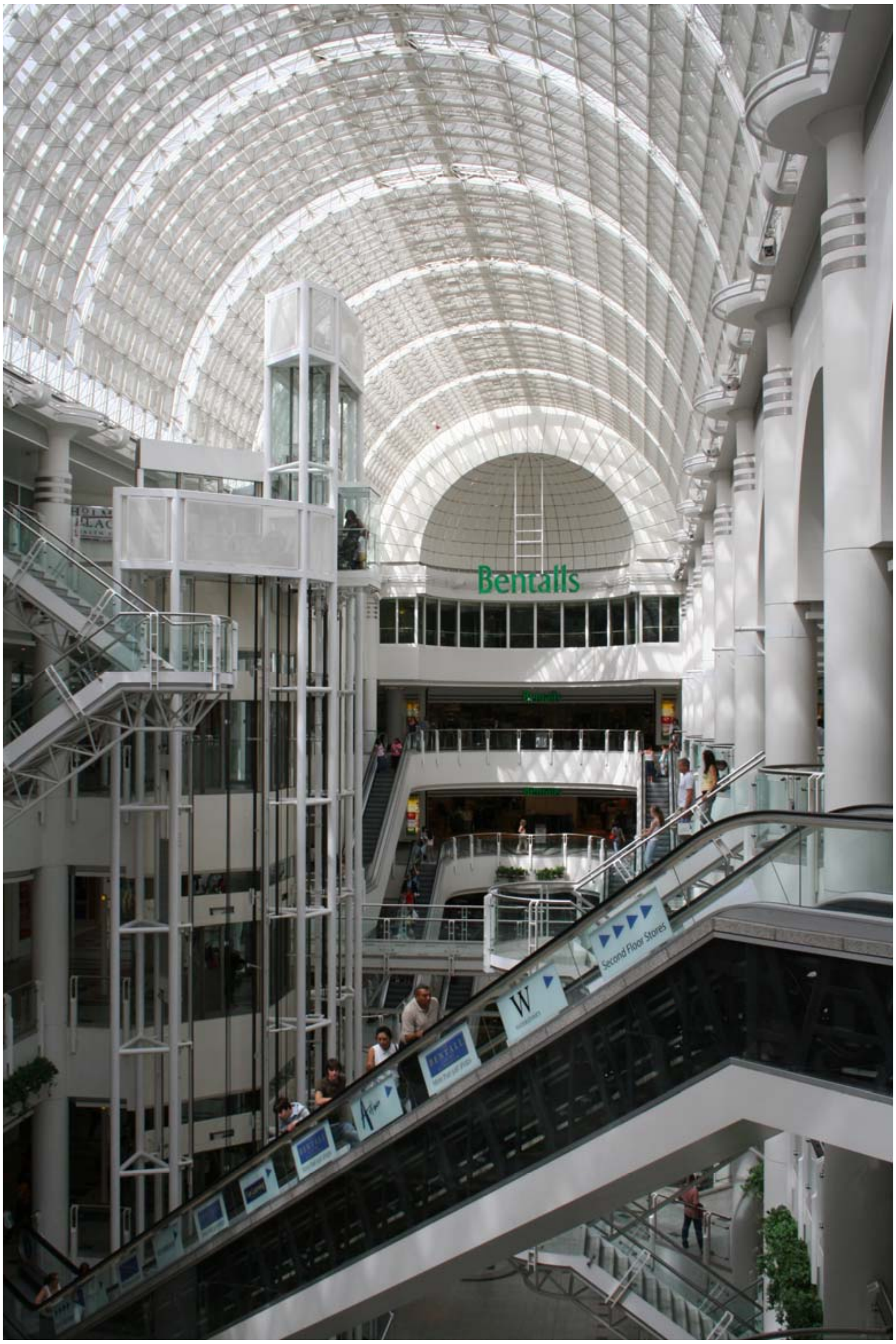
We believe an open air street scape matches not only modern planning directives but meets customers changing preferences for open air non enclosed retail environments. Moreover, if the proposals can bring a good mix of new users and a new Department Store into the town centre then it will create an active and vibrant commercial environment.

The layout of the scheme as proposed currently integrates well with existing streets and enhances additional patterns of pedestrian movement.

We do have some concerns over the reality of delivering a two level trading street but these are largely born out of the lack of comparables in a northern European climate.

We also have some concerns over the developers' choice of Department Store and in general terms we believe the Anchor Store and Letting Strategy reports need to be further developed.

The above issues are dealt with in more detail in this report.



BASIS OF REPORT

This report has been compiled on the basis of your instructions given in a number of emails exchanged between your office and CBRE and then a meeting at the Council Offices on 12 June 2006 with Roy Thompson and Pat Loxton of RBK.

We have further been provided with a copy of the Hammerson Stage Four Review Document draft May 2006 together with a copy of the BDP Revision E Drawings. We have also been provided with a floor area schedule and an indicative list of target tenants drawn up by Hammerson's advisers, Donaldson's.

We have had the opportunity to interview Hugh Radford, the partner at Donaldson's who is responsible for their shopping centre development and leasing team who has kindly talked us through the plans and has been able to answer specific questions on the Department Store negotiations, tenant mix aspirations and similar other relevant issues.

Finally we have recently been provided with a copy of Donaldson's anchor store strategy and letting strategy documents both dated 19th September 2006.

1. A CRITIQUE OF THE DEVELOPMENT PROPOSALS

Hammerson's proposals are for a new two level street leading south from the prime pitch on Clarence Street to a new Department Store with frontage to Wheatfield Way. They describe their proposals to create a vibrant new quarter for Kingston town centre which extends the qualities and strengths that already exist in old town Kingston and Clarence Street.

The new street includes some 70 unit shops, six large store opportunities of over 10,000 sq ft and a 3 level department store.

The lower street level shops are single story, albeit some with basement storage. 3 major store units trade at this level and at the street above. We agree with Hammerson's view that this will encourage customer movement between the two street levels.

At the upper street level it should be noted there are first floors across about half the units with additional second floors above some of the major store units and the Department Store.

At the southern end of the site is a new town square, which appears through the evolution of the plans we have seen, has been enlarged and enhanced. This has the potential to add a significant new civic space into the town centre and can in its own right act as a new focal point. We note that Hammerson's proposals envisage a range of uses around the square including retail and restaurants.

A new car park sits at the southern end of the development site providing a total of approximately 1,500 spaces of which 1,200 will be new to the town centre.

Kingston town centre is fairly flat and in order to develop the 2 level trading street, Hammerson propose that the lower street level will be below the grade of the land with principal access points being down steps and lifts. One would assume there may also be escalators and ramps designed into the plans in due course, although these are not shown in the current proposals.

The upper street level appears to link directly with the existing grade of the surrounding streets.

The concept of open air uncovered streets in the context of modern retail development is now well established in the UK. However, the uncovered developments that have opened in recent years have been single level streets for example Whitefield's, Canterbury. Whilst developments including two level uncovered streets are now underway, most notably at Liverpool and with others in the planning stage, there are no good examples for comparison. It is our recommendation therefore that RBK work closely with Hammerson to ensure a successful, robust and sustainable development is delivered.

For the avoidance of doubt our concern is born not on any belief that a two level trading street cannot be successfully delivered, but simply through a lack of comparables that can be seen to be successful examples. Open street developments will become increasingly common in the UK over the coming years with retail developments at Liverpool, Sheffield, Portsmouth and Bury amongst others all formatted around an open streetscape environment. There is currently a reasonable example that can be seen in Nijmegen, Holland (see photograph below), and it may well be appropriate that this development is visited. The fact that the climate is similar to the UK is of particular interest.

A key challenge for the scheme is the need to ensure that the street, which by virtue of having a lower level trading street below the existing grade of the town, and relatively high buildings on its fringes, does not become a "canyon". Careful consideration needs to be given to building height and massing to ensure the street is open, well lit and enjoys good sunlight penetration. Careful consideration needs to be given to vertical circulation to ensure strong integration between both levels and easy access particularly for DDA purposes. Technical consideration will need to be given to lighting, drainage, power supply and all the usual components of any commercial development, but we believe that these are outside the scope of this report for the moment.

The standard unit configuration within the development appears to be constructed on a 7.5 m (25 ft) grid in line with fairly standard practice for the retail development industry at the present time. This is a configuration that is widely accepted by retailers. An analysis of the floor space is as follows:

Unit Sizes (overall) sq ft	Lower Street	Upper Street	MSU's
Kiosks	4	2	
< 1000	1	3	
1000-2000	5	6	
2000-3000	9	12	
3000-4000	14	1	
4000-5000	6	13	
5000-6000	0	3	
6000-7000	0	3	
10,000 sq ft			1
20,000 sq ft		2	2
30,000 sq ft			2
60,000 sq ft			1

The range of unit sizes is broadly as we would expect to see in the current market with the larger number being in the range of 2,000 - 3,000 sq ft with ancillary storage space. This is the unit size where the weight of demand lies both presently and where we envisage it will be in the future.

At the same time there are a number of large stores provided to accommodate some of the major fashion and other store requirements which are outstanding for Kingston and where we would expect demand to be stimulated in the future. This includes the opportunity to accommodate Heals and Habitat who are displaced by the development.

The plans we have seen seem however, to provide only a limited number of major stores and the configuration of some of these appear a little awkward. We accept the plans are at a relatively early stage but believe that further alliterations of the drawings should seek to accommodate requirements from the major fashion store operators particularly including Next, H&M, New Look and Top Shop/Top Man, all of whom one would expect to have flagship stores of 30-40,000 sq ft in a town of Kingston's importance.

In relation to unit shops we feel that the space appears to be flexible allowing for integration both vertically and horizontally. This flexibility allows for changing requirements which will ensure that all retailers' expectations can be met.

In addition to retail, we assume the tenant mix will include a number of restaurants and cafes, which many customers now expect as shopping and leisure habits are combined.

We also understand a new public library is to be provided and that there will be some 250 residential units above the retail blocks.

The car park at the southern end of the development would appear to link directly into the Department Store, although we assume there will be other points of public access. Presumably one of these will be towards Eden Street to encourage pedestrian movement in this direction. At this stage no more detail of the car park was available given the early stage of the proposals. Therefore, as the scheme design progresses, there will be a need to ensure that adequate linkages are provided to create a permeable development.

As for servicing, we do not believe that Hammerson have fully rationalised their servicing strategy for the centre. We understand that the existing basement servicing of Eden Walk shopping centre is to be enlarged and improved but Hammerson indicate in the Stage Four Document that the plans drawn do not yet satisfy a full servicing regime for the whole centre. In particular, it is difficult to understand from the current plans how those units to the eastern side of the proposals might be serviced. The Department Store will almost certainly have substantial service access requirements and these do not yet appear to have been addressed in any detail.

2. HOW THE SCHEME IS LIKELY TO CHANGE THE SHAPE AND FUNCTION OF THE TOWN CENTRE

At the current time the retail offer in Kingston is very much focused on Clarence Street and the Bentall Centre, with speciality and better quality fashion represented in Market Place and the smaller streets surrounding. Recently Fife Road has seen an uplift in the quality of retailing. The streetscape improvements in this part of the town including Castle Street are likely to stimulate yet further improvement. It is likely this will be from speciality independent retailers.

Clearly the Eden Quarter proposals are going to reshape the town by creating a longer prime pitch forming an inverted 'S' shape from The Bentall Centre along Clarence Street and then down through the Eden Quarter development. Together with the development and improvement of Eden Street, anchored by the existing Primark store and the opening up of Adams Walk as a stronger pedestrian link, there is the potential for a substantially strengthened eastern end of Clarence Street, which is currently poor. This will further enhance the opportunity for Castle Street to improve its position in the hierarchy leading up to the railway station.

The above suggests the eastern fringes of the town namely the east end of Clarence Street, Eden Street and Castle Street will be strengthened and we see no reason to believe therefore that Fife Road should not enjoy a similar uplift.

We also note that the proposal for an arcade between Clarence Street and Fife Road through the Marks & Spencer satellite store now appears to be dropped. We believe this is good news as it ensures the aforementioned strengthening of the east of Clarence Street and Castle Street/Fife Road will be achieved.

Whilst the principal street axis is north/south, good east/west links are also encouraged via Eden Walk and Eden Street through the existing pedestrian routes across Union Street and into Market Place. Furthermore a new east/west route is being opened up broadly along the current line of Adams Walk through to the bus station.

All in all, it appears that whilst Eden Quarter will change shopping patterns, it allows for permeability north/south and east/west. We believe however it goes further in so far as it will encourage pedestrians a little further south of the existing retail in the town particularly by the location of the new Department Store and car park south of Eden Walk and which may therefore stimulate improvement to adjacent blocks. Similarly the Adams Walk link presents the potential for the bus station and the market to become far more integrated and accessible to the town centre.

3. LIKELY EFFECT ON EXISTING KEY RETAIL STAKEHOLDERS

We recognised that both John Lewis and Bentalls are key stakeholders in Kingston town centre and as such you would expect them to have a voice in any major retail proposals for the town centre. We suspect that their concerns however are likely to be as follows:

1. That any development is economically sustainable from the catchment, and that trade will not simply be diluted. We understand that this retail capacity work is being undertaken to satisfy you on this issue.

2. The identity of the new Department Store is going to be key. John Lewis really do not have a competitor but Bentalls for example would not like the introduction of House of Fraser as they would see them as head to head competition.

3. That there is sufficient retail demand to satisfy the new space proposed at Eden Quarter without causing substantial relocations by retailers from other parts of the town, particularly around their stores. They will be concerned that any vacancies could not be reoccupied by new requirements, or indeed they may be occupied by weaker traders which would see a down turn in their trading locations.

John Lewis are arguably the UKs strongest Department Store retailer and on the assumption the sustainability research is positive then we can not really see any circumstances under which their store might lose trade. The Eden Quarter proposals essentially add a development comprising unit shops and large fashion stores in the town as apposed to large home furnishing stores (excluding possible relocations for Heals and Habitat who are already represented) which may be the more natural competitors to John Lewis.

Bentalls, similarly are a strong trader and unless House of Fraser were to be the anchor Department Store, then we cannot imagine their trade would be substantially affected. For the record, we understand from Donaldson's that House of Fraser are not being targeted.

To the contrary, on the assumption the sustainability research is positive, we would expect trade in the town centre to improve and the strong Department Store anchor of the development should enjoy some of this uplift.

It goes without saying that the Department Stores' interests are entirely selfish but as key stakeholders within the town centre we assume you will be working with them and allied with the experience of a major developer such as Hammerson, we would expect their fears can be laid to rest.

The third key stakeholder in Kingston is Morley, owners of The Bentall centre. They will be primarily concerned at the effect of competition for their development which is currently seen as successful albeit at the date of this report there are a number of vacancies and units available. This we do see however as a short term reflection of the current retail market. We also understand this is a result of a longer term strategy in place by Morley.

It is in our view that it will be difficult to reach any kind of consensus with Morley that the introduction of a substantial amount of new retail space into Kingston town centre is going to be to their benefit. We believe therefore that RBK will have to accept there will be a period of tension with this particular stakeholder, although this can be minimised through close consultation throughout the development process.

4. TENANT DEMAND AND TENANT RELOCATIONS

From our earlier report we have identified some 1.5 million sq ft of likely demand from around 350 new retailers (excluding Department Stores) which we believe it is reasonable to expect to be attracted to Kingston with the Eden Quarter proposals. We do not propose to expand further on this issue in this report other than we have undertaken some analysis of likely relocations to understand what the effects might be on the existing shopping pitches within the town.

We have undertaken this analysis based on likely current floor space requirements and given our understanding of Hammerson's vision to achieve a mid to up-market fashion positioning for the centre.

The attached appendix is an extract from the street traders plan on which we have highlighted retailers that we think could well relocate primarily because they trade from small stores compared to their current requirements. You will see there are some 15 retailers we think might well relocate into the Eden Quarter. These are marked in red. In addition there are some 40 retailers who are displaced by the development. We assume most of this latter group will be accommodated in Eden Quarter or elsewhere in Kingston. These are marked in blue. In total this is quite a large number, but to some degree this reflects the latent demand inherent in Kingston already, leaving aside the demand from new retailers who will come to town.

We have also undertaken an exercise to identify retailers who might reoccupy these units from our list of 350 retailers if they were to become available and we are pleased to say that we have had no difficultly filling all of the potential voids.

It goes without saying that this is very much an indicative exercise. In practice, not all of the retailers we have identified will move and equally not all of the replacements we have identified will come to Kingston and indeed some might well find homes within Eden Quarter itself.

The summary of the exercise however is that we are very comfortable there is sufficient demand for the town centre that can only be satisfied by the new space provided by Eden Quarter. Also there is sufficient overspill demand to occupy any vacant space that might be created elsewhere in the town.

We should caution however that experience suggests that not withstanding any exercise of this nature, there will always be a short period when there may be one or two more vacancies than are usually experienced in any town post opening of a new development.

Marks and Spencer has historically been the favoured anchor to the scheme. We suspect partly due to the advantages perceived with Marks and Spencer cooperating in giving up part of their existing service yard to help ease the practicalities of the construction process. In our opinion however we do not believe this provides the best overall outcome to Kingston Town Centre, as it does not provide a new anchor to the centre. It also provides alternative opportunities for some key MSU operators to take better configured stores in the existing Marks and Spencer units.

Subsequent to our early investigations, we understand that Marks and Spencer may no longer be the favoured anchor store. Whilst one large store in the town will most likely be their preference, we believe they will continue trading from their existing two stores in the town which will solidify the existing prime pitch. We suspect that they would be quite happy keeping the status quo, since in our view their trading location will only be strengthened on the opening of the Eden Quarter. We believe a good target anchor store would be Debenhams, which is beneficial to Kingston as it is a new retailer and department store to Kingston town centre.

The preferred anchor needs to be agreed between all parties and this needs to be bottomed out in our view as a matter of urgency.

5. THE POTENTIAL IMPACT ON SMALL INDEPENDENT RETAILERS IN MARKET SQUARE AND FIFE ROAD

We have commented quite extensively above on our views particularly on connectivity, permeability and our optimistic expectations of the effects of the Eden Quarter on Fife Road and Castle Street.

Fife Road has seen an uplift in its retail offer quite noticeably in the last 4 or 5 years and the current street improvements to Castle Street stand to strengthen this precinct within the town centre.

The properties on these streets are in disparate and separate ownerships and will therefore be difficult to formulate a cohesive strategy to control tenant mix within this location. However, we believe that retailers will naturally seek out like-minded brands. The kind of smaller independent niche and perhaps cutting edge brands that are starting to find a home in this part of the town will continue to agglomerate there, particularly as rents remain competitive compared to the other central area retail streets. Moreover Eden Quarter really is not aimed at small independent brands and is to target some of the better known fashion labels.

As we have confirmed with our comments on connectivity and permeability above we believe the Eden Quarter proposals will encourage east/west permeability and that the lengthening of the retail pitch to the south could well stimulate improvements at the western end of Eden Street and thereby the southern end of Market Place. However our one reservation has to be that Market Place currently comprises a lot of units which are too small for today's modern retail requirements. Particularly at the top end of Market Place, there are a good handful of good quality fashion brands that we expect will seek relocation to Eden Quarter particularly if they can all find the right space on mass.

However, again we believe there is sufficient demand for these vacant units to be reoccupied. It would not be a surprise nonetheless if Market Place goes through a period of difficulty and we suggest that some kind of coordination amongst the various landowners is encouraged to ensure such a period is short-lived. This could include some assistance from Royal Borough of Kingston and a specific branding and marketing campaign for Market Place could be put in place. A good example of where this has been successful is St Christopher's Place, London which has a very identifiable 'personality' as a retail and eating destination.

6. COMMENT ON HAMMERSONS DRAFT ANCHOR STORE STRATEGY AND LETTING STRATEGY DOCUMENTS

We have had a copy of the draft anchor store strategy and letting strategy documents dated 19th September 2006 prepared by Donaldson's LLP. It appears that these are very early drafts but we comment upon each as follows:

1. Anchor store strategy

   The report confirms Marks and Spencer as the preferred anchor store although anecdotally we had understood that in fact this might have been Debenhams. This needs to be clarified.

   The report frankly sets out a very brief case for Marks and Spencer being the key anchor although provides very sanitary additional comments on the alternative options. We would expect this report to be developed to articulate a detailed critic on the merits or otherwise of examining the other Department Store options in order that Royal Borough of Kingston can enter into a meaningful debate on strategy.

   We leave it to the discretion of RBK as to how they wish to press this issue but at the moment the report we have seen does not in our view assist in any meaningful way in providing a considered conclusion as to the preferred anchor or anchor store options for Eden Quarter.

2. Letting strategy

   Again this is a very indicative document and it clearly needs to be built upon in far more detail particularly as we assume it is a document that will be attached to the Development Agreement in due course.

Given the very brief nature of the documents, it is difficult to pass any meaningful comment other than to say it presents a foundation for work in progress that needs to be developed in more detail.

7. FINAL SUMMARY

We believe that the Eden Quarter proposals present an outstanding opportunity to Kingston. We believe they will strengthen and substantially improve the existing retail offer, satisfy latent and stimulate new demand and with the introduction of a new Department Store to the town centre, Kingston will not only maintain but strengthen its position within the regional shopping hierarchy.

We do have a few concerns over an open air two level street but we believe a developer with the experience and integrity of Hammerson has the ability to overcome this challenge.

The space currently designed will no doubt improve with the development process but at the moment appears to be robust and has the potential to meet modern retail requirements and also seems flexible to accommodate future requirements.

- We believe the scheme integrates well with the town both east/west and north/south and presents the opportunity to strengthen the retail offer particularly to the south and to the east, which can be achieved without any detrimental effect particularly to Market Place, Fife Road, Clarence Street and the Bentall Centre.

- In an effort to be concise we in conclusion list here below a number of issues that we believe need to be addressed as the Eden Quarter proposals development:-

- Hammerson need to articulate in more detail the reality of how a two level open air street, one of which is below the existing grade of the town, is going to function in reality.

  It may help if visits could be arranged to suitable examples of successful two level environments elsewhere.

- Scale and massing needs to be considered carefully in the contexts of the environment that is created to ensure the Eden Quarter is not a "canyon" but is an attractive place to be and use.

- The inclusion of a sufficient number of major flagship store spaces needs to be further worked through on the plans. We are not yet convinced that the plans provide the flagship stores that are not currently present in Kingston town centre.

- We recommend that the Department Store becomes a point of focus as their identity influences so many factors including existing key stakeholders in the town, the shape and the alignment of the development, the market positioning, possibly timing and indeed commerciality of the development, although this is outside the scope of this report.

  CBRE remain to be convinced that Marks and Spencer are the best solution although naturally this is an issue that requires debate.

- The potential for short term detrimental impact upon Market Square and Fife Road should not be underestimated and we believe that it is essential that an action plan is put in place to ensure these streets are managed up to, through and for a period post the development of the Eden Quarter; this will ensure vacancy rates are kept to a minimum and each location remain attractive and vibrant retail destinations. We have suggested in the body of the report a management structure could easily be put in place.

- Relationships with key stakeholders must be maintained and in particularly RBK must not ignore Bentalls, John Lewis and Morley. We believe there is an inevitable level of tension that will arise with these groups but that they can be managed through consultation and cooperation.

We believe that all of the above can be overcome largely through debate but as we understand, the Developments Agreement negotiations are progressing quite quickly then it may well be good to organise a workshop with Hammerson to debate in an open forum these issues and reach some conclusions. The attendees should include the relevant personal for Hammerson, their architects and their retail/leasing advisors.

In so far as the key stakeholders are concerned, careful thought needs to be given to retaining their relationships and flow information and again it may well be appropriate to diarise say quarterly meetings over the next year to sit with them on probably an informal basis to keep them appraised of progress. We are inclined to suggest that these should not be formal minuted meetings.

We will need to consider further how a management structure for Fife Road, Market Place and other secondary areas in the town can be put in place but there are many examples of a strong town centre manager and we believe it should not be difficult to make such an appointment and put a team in place subject to available funding.

We trust the contents of this report are self explanatory but if you have any queries, require clarification or further explanation on any of the points raised herein then please do not hesitate to contact the writer.

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