RETAIL NEWS

AFFORDABILITY REDEFINING RETAIL

ISSUE 4

STATE OF UK RETAIL
A post-Brexit Brave New World?

BANG FOR YOUR BUCK
Strong locations, but affordable rents

LANDLORDS VS TENANTS
Never the twain shall meet

CATCHMENT MISMATCHES
Nice catchment, shame about the town

KEY TAKEAWAYS

- RETAIL TO OUT-PERFORM THE MACRO-ECONOMY POST-BREXIT
- TRADITIONAL ‘AFFORDABILITY’ METRICS INCREASINGLY CHALLENGED
- ZONE A’S AND ERV’S ARE MEANINGLESS FOR RETAILERS
- ‘BEST’ LOCATIONS FOR RETAILERS ARE THOSE WHERE THEY CAN TURN THE MOST PROFIT
- HIGH PROFILE AND PRIME LOCATIONS OFTEN OFFER POOR AFFORDABILITY
- OFTEN MORE OPPORTUNITY IN ‘UNDER THE RADAR’ TOWNS AND CENTRES
- MISSED UNTAPPED OPPORTUNITY IN TOWNS WITH STRONG CATCHMENTS BUT INADEQUATE RETAIL OFFER

IN SEARCH OF AFFORDABILITY - THE RETAILER PERSPECTIVE

Welcome to our Fourth Newsletter of 2016. In this post-Brexit era it is very easy to become concerned with the direction of the economy at large and retail in general. The press seem very keen to help with this view; the pantomime that has become of BHS, price wars in the supermarkets and the constant threat of the internet destroying High Street sales. However, at Knight Frank we are ever more convinced of the opportunity that presents itself within the retail arena. It is and always has been a resilient sector which adapts quickly to changing demographic profiles, technology and customer needs. The demise of Woolworths was a major fillip to the growth of the discounter. Similarly, there is no doubt that the disappearance of BHS will create opportunity for a variety of retail and leisure users leaving some landlords in a stronger position than they were before.

In this edition, we take a look at the landlord tenant relationship, recognising that the proactive landlord needs to feature on their retailer clients’ profitability rather than their ITZA’s which will increasingly become less relevant in an omni channel retailing world. We also focus on where you can get some ‘bang for your buck’ highlighting those locations where landlords have done very well and locations which offer plenty of value for retailers. We also consider a number of locations where perception can differ from reality. Again, providing opportunity for the savvy and well advised operator.

I hope you find this latest edition of interest and please do not hesitate to get in contact with any of the team if you require help or assistance.

ALEX MUNRO
Head of Retail

UK RETAIL – A BRAVE NEW WORLD POST-BREXIT?

WORDS: STEPHEN SPRINGHAM

Stephen Springham, Head of Retail Research at Knight Frank, cuts through all the Brexit noise to give a balanced view of UK Retail currently and in the immediate future.

'Uncertainty' has universally been adopted as the watchword post the EU Referendum on 23 June. Perhaps more so than most, retailers are no strangers to uncertainty even at the best of times, slave as they are to both the whims of the consumer and waverings of the weather. Uncertainty is a way of life for UK retailers, but this heightened level of unpredictability is somewhat more than a passing inconvenience.

The doom-mongers are already predicting huge belt-tightening on the part of consumers and consequent de-stabilisation of retail occupier markets. But their arguments tend to be very facile and based solely on conventional economic wisdom. UK retail has a history of defying economic logic and is actually far more resilient than it is usually given credit for. That is not to say the post Brexit world won't be highly challenging for UK retailers and a catalyst for considerable change. But this change may be more positive and less apocalyptic than others would have us believe.

2008 all over again?

Categorically, this is not 2008 all over again. There are some parallels admittedly – great uncertainty and the strong possibility that the UK macro-economy may enter a period of recession, but that is where most of the similarities end for UK retail. In 2008, we were coming off the back of retail boom. UK retailers had become far too complacent, many had over-expanded and some were severely over-geared. The credit crunch and subsequent recession were a very painful wakeup call that the worst offenders were unable to respond to and they inevitably ceased to exist. For those that did survive, the intervening years have been all about 'right-sizing', re-basing and repairing the balance sheet.

This correction process is still ongoing. Retailers are taking a far more pragmatic and rigorous approach to new store acquisitions and a much more proactive response to lease expiries – if an individual store is not delivering the required returns, retailers will have far fewer qualms about walking away. Although this has made retail occupier markets far less buoyant than they were, most retailers are in far better shape than they were and this is the key difference between 2016 and 2008. Most retailers have got their respective houses in order and are far better equipped to withstand the challenges that will inevitably come their way. In simple terms, complacency has given way to pragmatism.

The same reasoning applies to the UK consumer. As much a party to as a driver of the retail boom in the 1990s/early 2000s, 2008 naturally came as a massive shock to the system for many UK consumers. As we will go on to demonstrate, they did not stop spending altogether, but radically re-defined their spending propensities. In essence, they 'trained themselves in austerity' and could easily revert to these practices if required.

The fundamental difference between 2008 and the present scenario is that the two key constituents of UK retail – the consumer and the retailers themselves, are far more battle-hardened this time around. A repeat of the pain and widespread fall-out is therefore unlikely.

Consumer confidence – a poor indicator of behaviour

Consumer confidence is understandably held up as one of the key metrics of underlying health in the UK economy. However, rather than the water-tight measure it is purported to represent, it is actually a fairly weak indicator of something that is largely intangible. Logically, sentiment among UK consumers will filter through to their economic behaviour. However, all too often there is a disconnect between the way consumers think and the way they behave.

Consumer confidence inevitably nose-dived in the wake of the Referendum vote. Even the staunchest 'Leave' campaigner would have been hard-pressed to expect otherwise in the immediate aftermath of the vote itself. Even then, the early indicators were very mixed. A YouGov/Centre for Economic and Business Research survey suggested that consumer confidence has plummeted since the Referendum to its lowest level since July 2013, seemingly contradicting a similar report from Deloitte that found that consumer confidence was actually stable in Q2.

Even better-known providers such as GfK and Nielsen have offered little clarity. GfK reported a very sharp decline in July, but by September confidence had seemingly already recovered to pre-Brexit levels. Such inconclusive volatility underlines the limited value of consumer confidence in assessing the relative health of UK retail.

Retail sales – a dip but no collapse

Retail sales, the lifeblood of UK retailers, are a far more robust indicator of how the consumer is reacting and the degree to which they are still spending. Contrary to economic wisdom, retail sales seldom track GDP movements and if there is a trend, it is that retail outperforms the wider economy, particularly in a time of depression or crisis.

"if there is a trend, it is that retail outperforms the wider economy, particularly in a time of depression or crisis."

This was borne out in the last recession. The nadir for the UK economy was in 2009, when GDP contracted by -4.3%. In contrast, retail sales values increased by 1.7% the same year. Even in the worst case scenario that we again enter recession, we would expect retail sales to again hold up better than the wider economy, principally for the reasons we have already outlined. We expect retail sales to dip rather than collapse. Over the first six months of this year, retail sales volumes were roughly 4% ahead of last year and retail sales values were very broadly 2% ahead. These rates of growth are unlikely to be sustained at this level in the second half of the year, but will not fall dramatically.

The good news for UK retailers is that consumer demand will not simply evaporate as some are suggesting. Accordingly, retail sales will not plummet. However, as a highly volume sensitive sector, even a marginal dip will hit the retail industry hard and most are braced in anticipation.

The downside risks

There are two key downside risks for UK retail, namely the value of sterling and inflation. Both are complicated and, to a large degree, interlinked.

The pound has inevitably been devalued in the wake of the Referendum vote. This will potentially have a significant impact on overseas sourcing costs for many retailers. Some retailers may already trade in dollars, others may have currency hedges written into supplier contracts. The nature

“ ‘business as usual’. Rather than batten down the hatches in a frenzy of blind panic, retailers are carrying on as normal, albeit with a distinctly more cautious tone. ”

of these contracts is not transparent to the outside world, but the narrative from large retailers that have passed comment to date is that they are hedged for broadly the next 12 - 18 months. The risk is that sterling will not recover its lost value by this time and that existing hedges lapse. This worst case scenario would clearly leave retailers heavily exposed to substantial cost hikes and large gross margin erosion, with little room to manoeuvre. But this is very much the worst case scenario – there is both time for sterling to recover and a window for supplier contracts to be re-negotiated or re-hedged.

We have already highlighted some of the positive differences between now and 2008, but there is also a negative one. Going into the recession, UK retail was an inflationary environment, now it is deflationary. Inflation provided an invaluable cushion during the recession – indeed, in 2011, retail sales volumes actually declined by -0.5%, but inflation more than counterbalanced and retail sales values actually increased by 3.3%.

In 2016, that inflationary cushion is simply not there. In the event of retail sales volumes dropping substantially, there is no inflation to prop up the market as it did before. The so-called ‘Fear Campaign’ ahead of the Referendum drew heavily on the prospect of higher prices as an outcome of a ‘Leave’ vote. Never a positive message to convey to consumers, inflation could actually be a major blessing for the UK retail sector. Whether retailers actually have the courage to pass any price movements onto consumers is another matter.

‘Business as Usual’

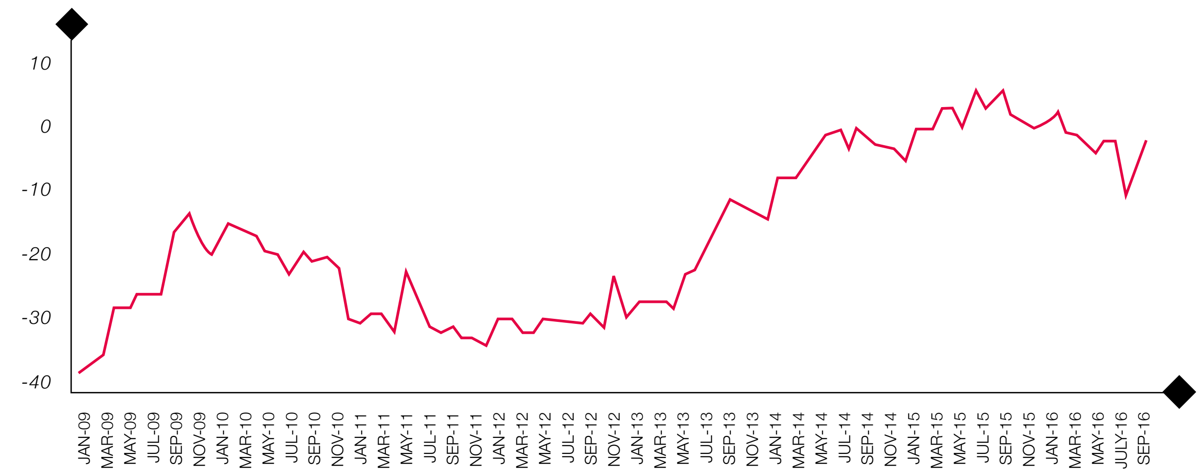
The mantra adopted by UK retailers since the Brexit vote has unsurprisingly been a pragmatic ‘business as usual’. Rather than batten down the hatches in a frenzy of blind panic, retailers are carrying on as normal, albeit with a distinctly more cautious tone. This caution is much more manifest as a ‘wait and see what transpires’ attitude than a radical departure in strategy.

Few, if any, retailers have dramatically altered their expansion and investment programmes post-Brexit. Unlike real estate investment markets, which are heavily entrenched in sentiment, retail occupier markets are based much more on fundamentals. If a retailer has done its homework on town X and established that it is a viable option for a new store, town X will still be an opportunity regardless of changes in the macro-economy. At worst, retailers will refine their expansion strategies, rather than rein them in completely. In practice, this may mean they are less willing to take a risk on more marginal locations. Expansion programmes are not simply being pulled.

If anything, this underlying caution will prompt retailers to be even more forensic in their location planning practices. Understanding the locations that are right for their business model and the towns that can generate the highest profit performance is of paramount importance in the best of times. These times of uncertainty only serve to focus the mind even more.

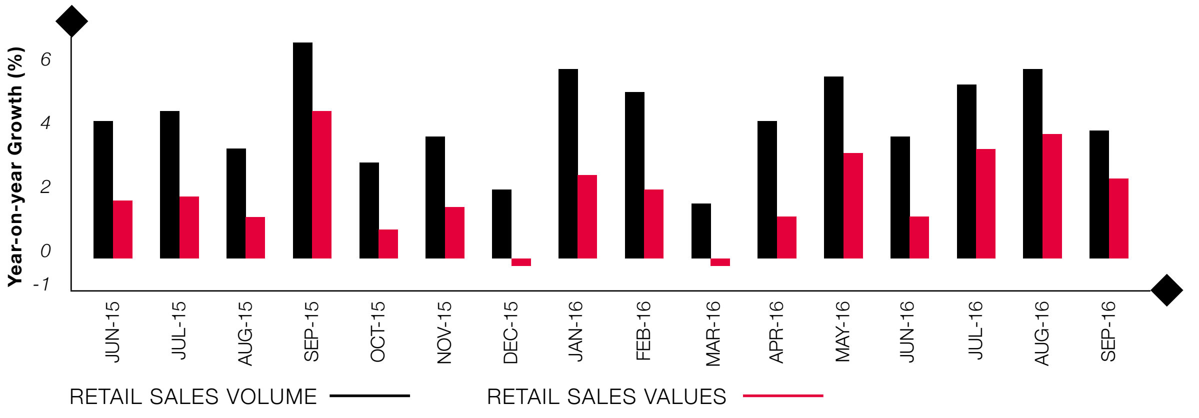
CONSUMER CONFIDENCE INDEX

Source: GFK



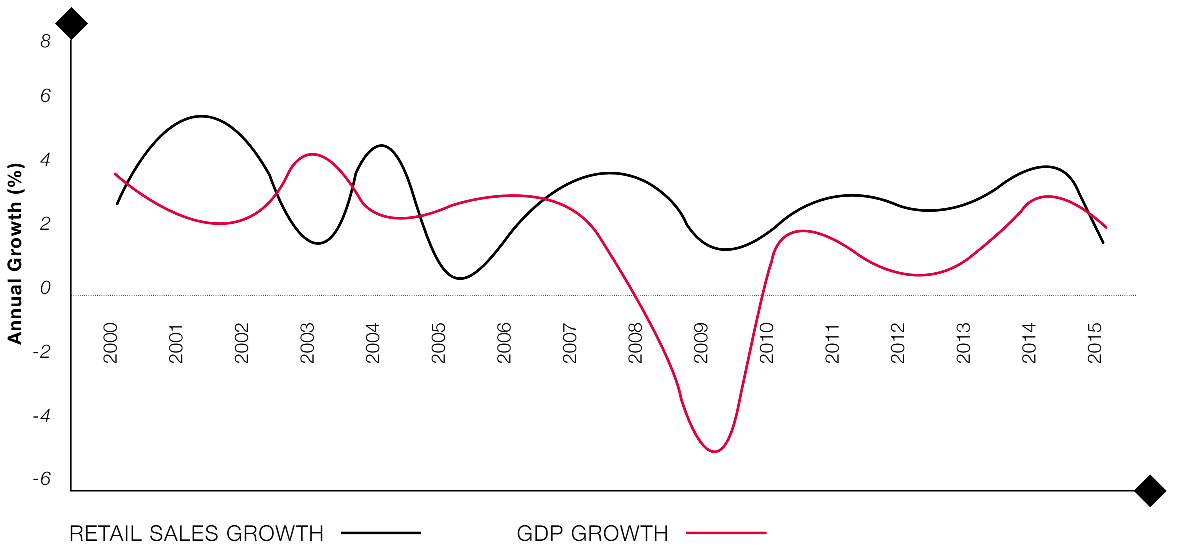
RETAIL SALES PERFORMANCE 2015 - 2016

Source: ONS, Knight Frank



RETAIL SALES GROWTH VERSUS GDP GROWTH 2000 - 2015

Source: ONS, Knight Frank



THE RETAILER VIEW VERSUS THE LANDLORD VIEW

WORDS: STEPHEN SPRINGHAM, MIKE WIMBLE

The time for talking at cross-purposes is over. Retailers and Landlords need to understand each other's agendas and collaborate.

Landlords and retailers – never the twain shall meet?
The relationship between retail landlords and tenants is a complicated one. On the one hand, the two are polar opposites, the former apparently wanting as much money as possible, the latter seemingly willing to pay as little as they can. On the other hand, they are also co-dependent – without tenants, landlords would have no income, without units to house them, retailers would have nowhere to trade. The landlord-tenant relationship can, on occasion, be a fractious one, although this is not universally the case. Some landlords have forged much closer relationships with retailers and are undoubtedly reaping the benefit of doing so.

Either way, more can still be done to bridge the gap of understanding between the two parties. Few landlords fully appreciate the dynamics and finances of retailing, how retailers' individual business models operate and what drives their location planning decisions. Above all, what may constitute an affordable rent in the landlord's view may be anything but in the eyes of the retailer.

History favoured the landlord…
Historically, the balance of power generally lay with the landlord. The old industry standard of 25 year leases provided very little flexibility for the retailer. Given the rate of change in retail, 25 years is almost an eternity. The centre of gravity in a town is likely to shift considerably over such a long time period as new schemes open and other operators come and go. In the worst case scenario, retailers were sometimes enduring irreversible sales declines in locations that were increasingly off-pitch, and paying ever more rent for the privilege.

The move towards more standard lease terms of 10 years (typically with break clauses at five years) has alleviated some of this pressure on retailers and introduced some measure of flexibility at least. However, the issue of upward-only rent reviews remains a thorny one for many retailers.

…the recession played into the hands of the tenant
The last recession significantly altered the status quo. Prompted in part by a large number of retailer failures, the balance of power swung much more towards those operators that were able to survive – from the late 2000s it became very much a tenants' market. As retail markets have since recovered, the pendulum has swung once again, although not back to where it was. Only in areas with huge occupier demand (e.g. Central London) do landlords wield the sort of power that they have historically.

The shift in the balance of power necessitates a shift in mindset. Essentially, if landlords are to prosper, they need to develop a far greater understanding of the modus operandi of the retailer. But this process isn't a one-way street, retailers too have an obligation to understand their landlords' positions.

The landlord view vs the retailer view
The landlord's position effectively boils down to three things. They want a tenant who is able to pay the rent, will commit to a long lease and will be there for the duration i.e. not default or go into administration. A retailer that agrees to the rental terms and has good covenant strength is all most landlords require.

The retailer's position is arguably far more complex, but essentially condenses into just one consideration – to occupy a store from where it can generate as high a profit as possible. Sales volumes are obviously a key mechanism of this, but profit is the end game.

Retailers usually run their stores as separate P&Ls – effectively, each and every store is a separate business unit and profit centre, albeit with recourse to a central function. As such, they are subject to rigorous financial scrutiny. Retailers don't acquire stores on a whim and fancy, they open stores on the basis of forensic location planning and financial modelling. There is no 'one size fits all' location planning strategy for retailers as each have different business models and requirements, but most adhere to generic principles of quantifying demographics, competition and spend. The level of sophistication of the process, and whether this is conducted in-house, in conjunction with agents or outsourced to 3rd party consultants, depends on the retailer.

The view on rent, and affordability thereof, can therefore differ radically between landlord and tenant. For landlords, rent is an absolute number, which can also be expressed ITZA. ITZA means nothing to most retailers. The rent is actually a figure that is plugged into a much broader financial model to determine whether a site is viable. In this respect, the retailer's view of whether a rent is 'affordable' is far more tangible than that of the landlord.

The future – mutual understanding and collaboration?
Landlords come in many guises, with funds, REITs, propcos, private investors (domestic and overseas) the most prevalent. These segments have distinct agendas and are indeed subject to different financial pressures. It is impossible to generalise across these segments, but undoubtedly some landlords are more forward-looking than others. Segmentation of landlords can actually be more generic – lazy, passive, active, progressive. Those at the wrong end of this spectrum are more likely to be scratching their heads in the longer term.

In today's highly competitive and over-shopped retail market, higher zone A's are in many ways subordinate to client contentment. A happy tenant is a good tenant and one that is far more likely to pay the rent for a sustained period.

ARTHUR MORRICE INTERVIEW

WORDS: NICK & ANITA DASGUPTA

Nicholas and Anita Dasgupta co-owners of Arthur Morrice. The sibling team behind the luxury Optician retailer in London, talk to Knight Frank about their continued growth in challenging and uncertain times.

Q What was your first job in retailing?
A Anita lasted 4 weeks at HMV before completing her law degree and Nicholas went straight into the family business after turning down an Aeronautical job.

Q What made you start Arthur Morrice?
A We took over in 2007 when the business was losing £150k a year. We worked Sundays to pay for extra stock, buying in 10 new frames at a time. Now we buy in 5000 new frames a year.

Q What sets Arthur Morrice apart from the competition?
A Quality of service and eyes tests as well as unique products and eye-wear only brands.

Q How many stores do you have in the UK?
A 5 stores: Hampstead, Chelsea, Knightsbridge, Marylebone and Mayfair.

Q How many stores are you planning in the UK over the next 5 years?
A Up to 10 new stores in areas such as Canary Wharf, the City, Westfield, Soho, Covent Garden and nationally/internationally.

Q Where does the business see growth going forward?
A Speak to our Knight Frank agents! Targeting specific areas of London, online and internationally.

Q Has the success of some new locations allowed the business to consider areas in London that were never previously suitable for a Luxury Optician?
A Mayfair shops were previously too big and expensive, but now we are there we are able to tap into new international clients.

Q What is the biggest hurdle in the UK to acquiring new stores?
A Finding new sites in the right location at the right price.

Q Is there a correlation between store performance and property costs? i.e. the bigger the rent the greater the consumer spend within a store?
A Yes 100% e.g. Mayfair: more rent = more turnover.

Q As becoming omni-channel becomes an increasingly key focus for retailers, what does the word mean to you and why is a seamless experience across stores so important?
A Social Media has been slow to date but we are now realising that is an essential tool to draw customers to certain locations.

Q Where do you see Arthur Morrice in 5 years?
A In a position of strength with 10+ stores and looking to expand internationally, either New York or Dubai.

Q Who are your customers?
A High net worth individuals in music/film/celebs/royal family – can't mention names as this is the reason they keep coming back! A premiership football club owner bought £40,000 worth of frames in the space of 3 months because they liked the 'hands on' style that Arthur Morrice provides and the customer care.

Q How much do your frames cost?
A Most expensive £25,000 and cheapest £150. Something special for everyone!

BANG FOR YOUR BUCK

WORDS: STEPHEN SPRINGHAM, ROWEN GRANDISON

Retailing in prime centres comes at a high price. Centres with equally strong fundamentals but maybe a lower profile represent more affordable options for retailers.

Regional variations – getting bang for your buck
To state the blindingly obvious: the better the town or centre, the higher the rent. It will cost much more for a retailer to trade in a large, well-heeled city than in a far smaller, less celebrated location. Equally, rents will vary according to the quality of the pitch within each centre. The logic is that retailers will generate far superior sales in higher quality locations and this will translate directly into healthy profits.

However, this logic is by no means bullet proof. It forms the basis of the somewhat hackneyed retail adage that a UK retailer needs only 90 stores to reach more than 50% of the population. What if the rents are too high in these locations for a particular retailer, such that it doesn't turn a profit in many of them? Reaching 50% of the population is a hollow achievement if this comes at the expense of the ultimate end game, generating a strong return on the bottom line.

Establishing a healthy equilibrium between high sales and manageable costs is one of the fundamentals of retailing – and rental affordability is a key facet in this equation. For many retailers, some towns are simply too expensive for the potential they offer. How many run-of-the-mill UK high street brands actually trade profitably amidst the bright lights of London's West End? By the same token, which other centres are too expensive in rental terms for what they deliver in customer traffic and sales? Conversely, which 'off radar' centres offer good value for retailers in rental terms and profit opportunities? In short, where do you get the best bang for your buck?

This is the conundrum faced by any retailer seeking to establish and maintain a profitable portfolio. There is no single answer or silver bullet, the nuances of where to trade will vary from one retailer to the next. For retailers, the 'best' towns or locations aren't necessarily the biggest and shiniest ones, they are invariably the ones where they make the most money.

Affordability - critical mass vs headline rents
There are any number of research-based and 'scientific' ways of analysing the relative affordability of centres. Most are indicative rather than a perfect science, but there is still considerable merit in cross-comparing a town's fundamentals (shopper population, quality of retail offer, spend, demographics) with the rental values they achieve.

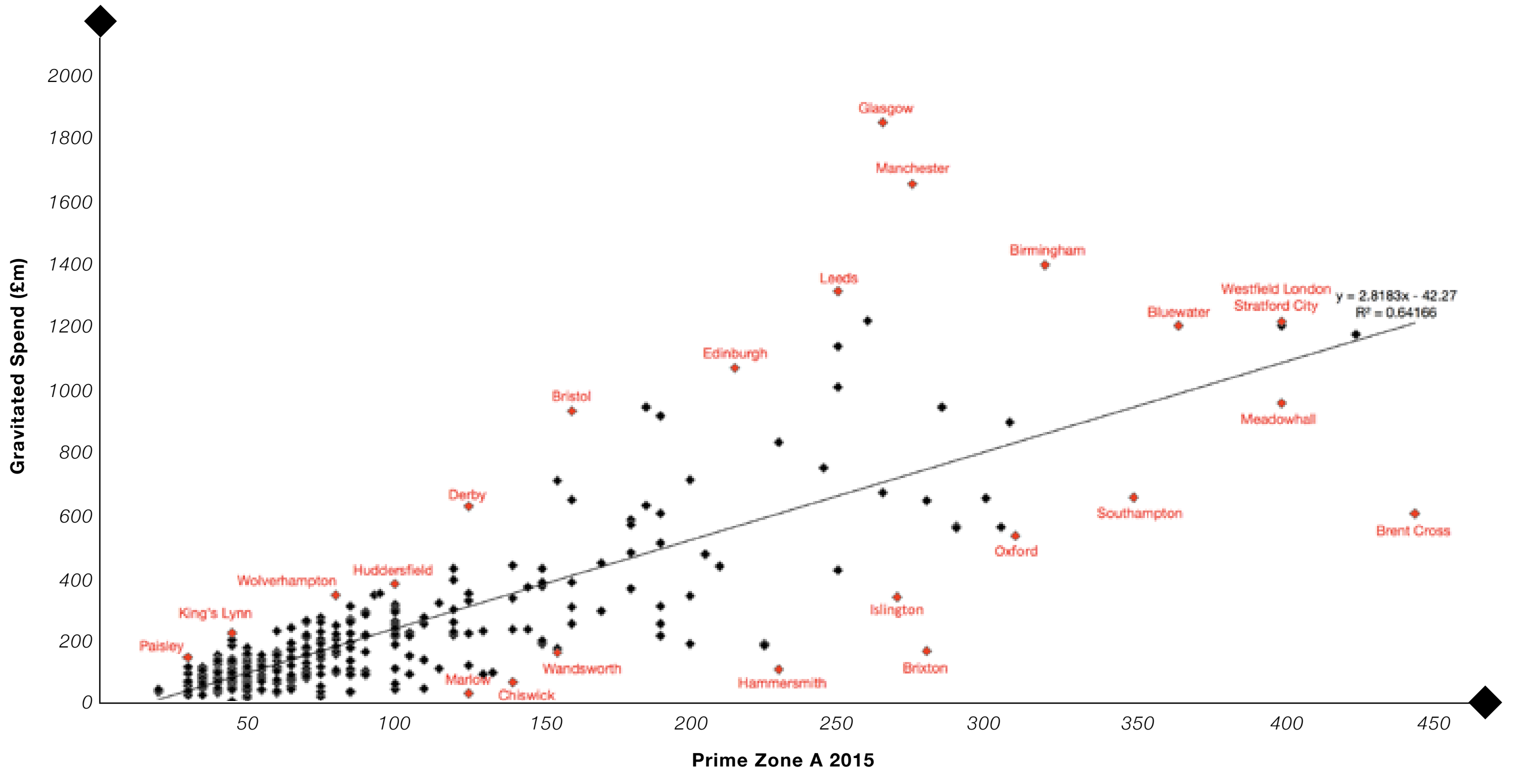
To examine the relationship between the relative draw or 'clout' of cities and towns and the rental values they achieve, we have used two key data sources, essentially playing them off against each other. The first dataset relates to gravitated spend and is derived from CACI's highly respected Retail Footprint catchment and gravity model. Note that the spend is an estimate of the total spend actually made in that centre (from residents, workers and tourists), as opposed to available spend within the catchment, which may gravitate elsewhere. The second dataset represents Prime Zone A retail rental data from PMA / Promis (ratified and amended in places to reflect Knight Frank's own view). Note that this is very much a headline view on prime rents, rather than necessarily a reflection of rental tones across every part of that centre.

The distribution of the 300+ centres covered is best illustrated as a dual-axis scatterchart (see opposite). Each dot represents one of the 300+ centres under review, with some of the towns/cities highlighted and labelled. In very broad terms:

- Centres which fall on or near the trendline broadly correlate (i.e. rents reflect the levels of spend that centre attracts)
- Centres above the trendline are largely more 'affordable' (or possibly under-performing in rental terms, depending on your point of view)
- Centres below the trendline are less 'affordable' (some may possibly even be over-rented, again depending on your point of view)

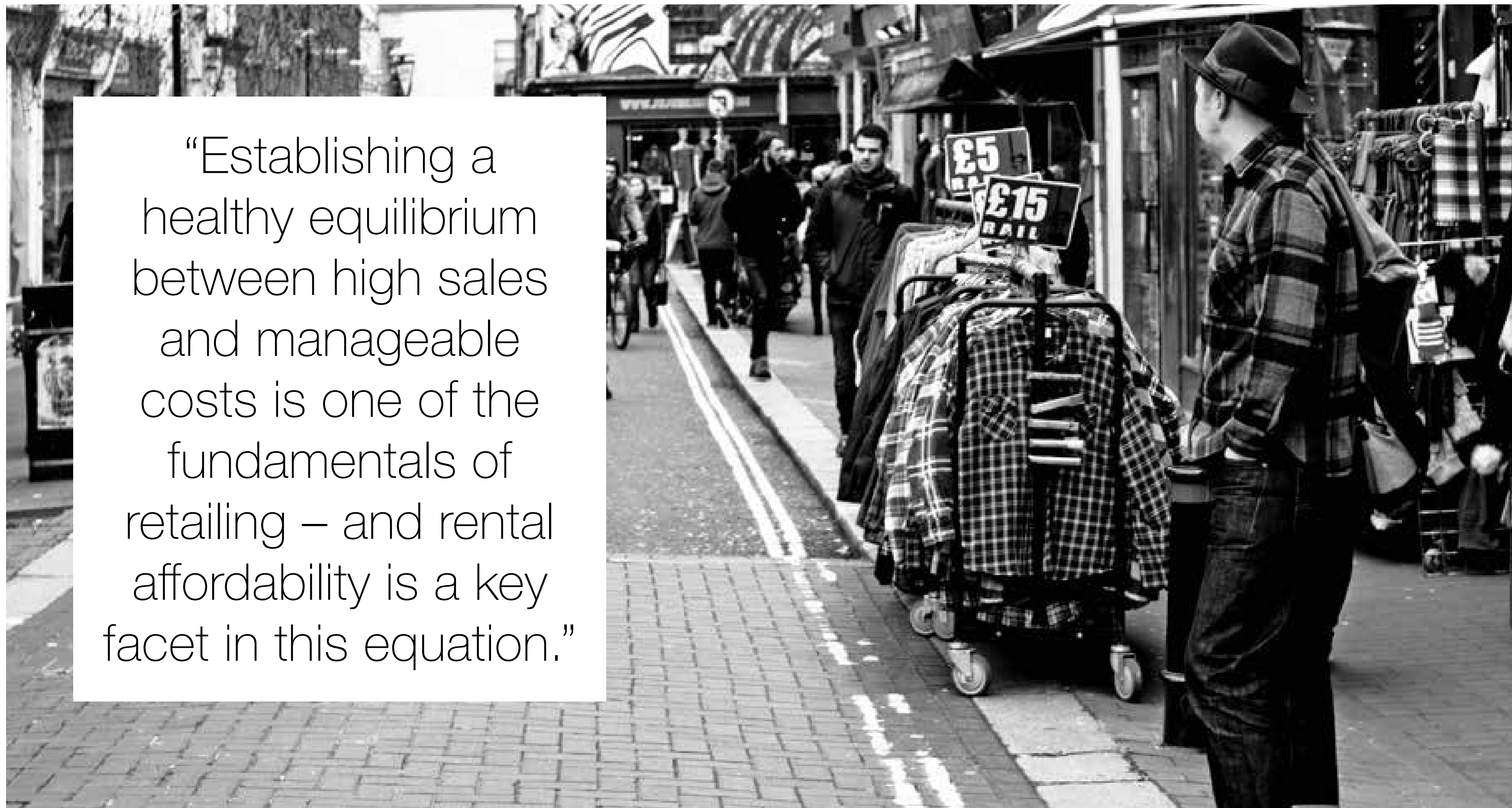
SPEND (£M) VERSUS PRIME ZONE AS (£/SQ FT)

Source: CACI, PMA, Knight Frank



Keeping the science to a minimum, comparing the two datasets across the 300+ centres yields a correlation index of 0.67 – in very crude terms, around seven in ten centres follow a distinct pattern, this being that the relative spend levels (and by implication, the strength of that centre as a draw) is reflected in rental values. More interesting than those that do follow the 'high clout = high rent' pattern are those that don't (referred to as 'outliers').

For the sake of clarity and presentation, the scatterchart excludes centres that achieve prime zone A's of more than £450/sq ft. This covers six centres, not surprisingly all prime locations in Central London (Bond Street - £2,000/sq ft, Oxford Street - £1,000/sq ft, Covent Garden - £1,400/sq ft, Knightsbridge - £850/sq ft, Regent Street - £675/sq ft, King's Road - £475/sq ft). To include these would both skew the analysis and distort the chart. But the fact that they are figuratively 'off the scale' still speaks volumes as to how much of a rental premium they command. Central London remains an almost parallel market to the rest of the UK, with flagship stores essentially marketing the brand as much as turning a profit.



"Establishing a healthy equilibrium between high sales and manageable costs is one of the fundamentals of retailing – and rental affordability is a key facet in this equation."

WHERE IS MORE AFFORDABLE?

WORDS: STEPHEN SPRINGHAM, DAVID LEGAT

Location planning – where to open and operate stores, is both a science and an art. It is also a minefield.

As a very general observation, most of the other major UK regional cities sit 'above the trendline' – this is especially true of Manchester and Glasgow, but also of Birmingham, Leeds and Bristol, to name but five. Most of the major UK regional cities have been subject to major regeneration over the last 10-15 years and many have benefited from new large-scale schemes (e.g. Grand Central, Trinity, Cabot Circus). This has undoubtedly improved the retail proposition in virtually all of them and rents may have moved accordingly. However, there is still arguably a large gap between headline prime zone A's in London, most of the regional shopping malls and affluent centres in the South East versus many of the large provincial cities. Whether this gap is justified is a moot point, but purely from a retailer perspective, many of the UK regional centres offer plenty of bang for their buck.

Which centres are the biggest 'outliers' – that is to say which centres deviate furthest from expected correlations? At the 'affordable' end of the spectrum, in addition to the major UK regional centres outlined above (plus the likes of Liverpool, Norwich, Leicester and Derby), there are also a large number of smaller centres that ostensibly punch below their weight in rental terms, including King's Lynn, Nuneaton, St Austell, Boston, Dover, Poole, Kidderminster and Worthing to single out but eight. These are not all necessarily glamorous, 'top of mind' locations, but are they fundamentally sound and do they offer good affordability for retailers?

> "there is still arguably a large gap between headline prime zone A's in London, most of the regional shopping malls and affluent centres in the South East versus many of the large provincial cities."

Outliers at the less 'affordable' end of the spectrum include a surprisingly large number of outer London centres, key ones amongst them being Brixton, Hammersmith, Chiswick, Richmond, Islington, Wandsworth and Camden. Some of these have historically been very down-at-heel locations and the fact that they have reached such high rental levels may surprise many. Rather than be beneficiaries of the halo effect of Central London, we would suggest that this rental growth has been driven by rapidly changing demographics in these areas ('gentrification' for want of a better word). As house prices in the capital have escalated, young professionals have gravitated to these locations in search of more affordable housing. This has driven positive change generally, but as the areas have improved, retail rents have become increasingly less affordable.

Outside of London, many of the 'less affordable' outliers are 'market towns' in the South East (eg Guildford, Winchester, Dorchester, Chicester, Sevenoaks), plus small affluent or tourist 'enclaves' such as Marlow, Henley-on-Thames, Marlborough and Stratford-upon-Avon. Perceived to be attractive locations in their own right, these towns continue to feature highly on many retailers' requirements lists, with good reason. However, taking space in many of these locations now comes at a considerable, and possibly onerous, cost.

Four key segments

Taking the analysis a stage further, it is possible to segment the 300+ in various ways, For the sake of simplicity, we will sub-divide them into four key segments (see accompanying infographic) based around the parameters of prime zone A rents greater or less than £100/sq ft and gravitated spend greater or less than £250m. These parameters are not altogether arbitrary in that the correlation model suggests that a centre generating spend of £250m will achieve a prime zone A rent of ca. £100/sq ft (£104/sq ft to be precise).

1 AFFORDABLE ROUGH DIAMONDS

Medium-large centres with low rents and high affordability

Spend > £250m,
Prime Zone As < £100/sq ft
20 centres / 7% of total
e.g. Huddersfield, Preston, Wolverhampton, Northampton, Hereford

2 BIG BANG FOR YOUR BIG BUCK

Large, high volume centres, with good affordability

Spend > £250m,
Prime Zone As > £100/sq ft,
67 centres / 22% of total
e.g. Manchester, Leeds, Birmingham, Derby, Milton Keynes

3 WEIGHT PUNCHERS

Small-medium centres with low rents; affordable but lack scale

Spend < £250m ,
Prime Zone As < £100/sq ft
192 centres / 62% of total
e.g. Rugby, Newbury, Dover, Wrexham, Hemel Hempstead, Banbury

4 GRAVITY DEFIERS

Medium-large centres with high rents; question marks over affordability

Spend < £250m,
Prime Zone As > £100/sq ft
28 centres / 9% of total
e.g. Brixton, Clapham Junction, Marlow, St Albans, Windsor, Luton

Surprising peer groups

Assessing affordability and benchmarking prime zone A rents throws up some interesting comparables and unlikely peers. Radically different centres with seemingly little in common sometimes defy the odds and achieve comparable levels of headline rent.

Revisiting the 'London versus the regions' theme, the ongoing revitalisation of Islington has seen headline rents climb as high as £270/sq ft, just a shade below Manchester (£275/sq ft). Manchester ranks third in the UK hierarchy, with annual gravitated spend of £1.65bn. Islington ranks a far more modest 69th, with annual spend levels (£340m) less than a quarter of those in Manchester. Both are very distinct centres, with very different dynamics, demographics and retail propositions. Similarly, a vastly and still improving Leeds is achieving prime rents of around £250/sq ft, on a par with High Street Kensington, supposedly in decline since the advent of Westfield London. The difference in national ranking? 5th versus 88th.

There are even more idiosyncratic comparables between other centres. Gritty, urban and supposedly unforgiving Brixton (£280/sq ft) if a far cry from the affluent and genteel suburbia of Guildford (£290/sq ft). Camden Town (£225/sq ft) plays in very different sphere to Brighton (£230/sq ft). Or does it? Given the demographic and edgy nature of each, the two could actually be outposts of each other.

This analysis on rental affordability doesn't pretend to provide all the answers, nor is our benchmarking model a panacea by any means. By extension, we are not favouring or recommending one town or city over another. As we have already stressed, each individual retailer has its own business model and unique set of requirements. One operator may generate a higher profit in Brixton than it does in Guildford, another may trade more favourably on Kensington High Street than it does amidst the hustle and bustle of Leeds city centre. Horses for courses, each to their own – that is what makes location planning inherently challenging and fascinating at the same time.

	BRIXTON	GUILDFORD
PRIME ZONE A	£280/sq ft	£280/sq ft
CACI RANK	177th	39th
GRAVITATED SPEND	£169m	£565m
SHOPPER POPULATION	75,986	207,771
FLOORSPACE	569,000 sq ft	1,028,000 sq ft
KEY ACORN GROUP	City Sophisticates	Lavish Lifestyles
	Struggling Estates	Career Climbers

	HIGH ST. KENSINGTON	LEEDS
PRIME ZONE A	£250/sq ft	£250/sq ft
CACI RANK	88th	5th
GRAVITATED SPEND	£281m	£1,313m
SHOPPER POPULATION	96,176	570,843
FLOORSPACE	746,000 sq ft	2,290,000 sq ft
KEY ACORN GROUP	City Sophisticates	Student Life
	Struggling Estates	Difficult Circumstances

" Radically different centres with seemingly little in common sometimes defy the odds and achieve comparable levels of headline rent. "

	ISLINGTON	MANCHESTER
PRIME ZONE A	£270/sq ft	£275/sq ft
CACI RANK	69th	3rd
GRAVITATED SPEND	£340m	£1,653m
SHOPPER POPULATION	96,176	570,843
FLOORSPACE	746,000 sq ft	2,290,000 sq ft
KEY ACORN GROUP	City Sophisticates	Difficult Circumstances
	Struggling Estates	Young Hardship

	CAMDEN	BRIGHTON
PRIME ZONE A	£225/sq ft	£230/sq ft
CACI RANK	155th	22nd
GRAVITATED SPEND	£191m	£832m
SHOPPER POPULATION	54,709	299,019
FLOORSPACE	566,000 sq ft	1,583,000 sq ft
KEY ACORN GROUP	City Sophisticates	City Sophisticates
	Struggling Estates	Starting Out

NICE CATCHMENT, SHAME ABOUT THE TOWN

WORDS: STEPHEN SPRINGHAM, RICHARD GRISTON

There are a surprising number of catchment-retail mix mismatches in towns across the UK. Where are these and what can be done to close the gap?

Nice catchment, shame about the town

As a nation, we are quick to judge a town on its aesthetics – if it presents well, includes something of a historic core, has a good retail and leisure proposition and exudes a generally positive vibe, it is regarded as a decent centre. Of course, many of these measures are subjective, but there is still an almost universal perception of towns that are decent (e.g. Bath, Oxford, Cambridge) and those that are less so (e.g. Slough).

However, taking a town at face value is effectively judging a book by its cover. The other side of the equation, certainly in retailer location planning terms, is the quality of the catchment area that centre serves. Often, the demographics of a town's catchment do correlate closely to the quality of the town itself and the retail offer fully reflects the needs and the aspirations of the populace in the surrounding area. Expressed another way, towns with an aspirational retail and leisure mix mirror an affluent, free-spending local customer base. More value-orientated centres cater for the more cash-constrained and less well-heeled local clientele.

Again, this logic does not ring true everywhere. There are a host of towns and centres in both Greater London and the regions where the catchment and retail offer simply do not match. In these instances of mismatch, it is usually (but not always) a case of the catchment being better than the town itself. The retail offer falls short of the potential that surrounds it and the town is simply not punching its weight. To put it bluntly, the town isn't what it should be.

> "in many locations the evolution of the retail proposition has failed to keep pace with that of demographics – the local population has changed dramatically, the retail offer hasn't."

Shopper profile versus town mix

To assess the equilibrium between the quality of the town and its catchment we have again fused two datasources, in this case both from CACI. To analyse demographics, we have used the Acorn consumer classification system, which sub-divides and segments the whole GB population into 62 Types (which aggregate up to 18 Groups and 6 Categories). These segments are derived through detailed analysis of all aspects of demography and lifestyle and reflect far more than basic affluence. To analyse the relative quality of the retail proposition, we have drawn on CACI's Town Mix data, which breaks down the offer in any town into 'Value' (eg Poundland, Primark), 'Mass' (eg Boots, Top Shop) and 'Premium' (eg House of Fraser, Paul Smith). The percentage breakdown provides a strong indicator of the relative retail mix and orientation of that centre.

For the purposes of simplicity, we have aggregated the two most upscale Acorn Categories ('Affluent Achievers' and 'Rising Prosperity') into one combined segment ('Upscale Shoppers') and calculated the percentage of each centre's shopper population that this represents. As a guide, these two Categories account for 31.8% of the overall GB population. These percentages are then compared to the 'Premium' percentage of the retail mix. The bigger the gap between the two percentages, the greater the mismatch in shopper profile and town mix.

Catchment mismatches

Selected mismatches are highlighted in the two accompanying tables, one featuring centres in Greater London, the other regional towns.

There are significant numbers of mismatches in Greater London (North, South, East and West), perhaps some more surprising than others. But there is a clear trend here. For better or worse, the demographics have changed substantially over time across most of the capital. For want of a better expression, many areas have been subject to gentrification – a burgeoning worker population and the ongoing quest for affordable housing has led many to settle in what were historically down-at-heel centres. However, in many locations the evolution of the retail proposition has failed to keep pace with that of demographics – the local population has changed dramatically, the retail offer hasn't. Arguably, if there has been progress towards greater parity, it has tended to be on the A3/Leisure side. Many of the mismatch London locations actually boast a thriving restaurant/café/drinking scene. However, this has often failed to filter through to the retail sector.

CATCHMENT VS RETAIL MIX - SELECTED LONDON CENTRES

CATCHMENT / OFFER MISMATCHES - SELECTED GREATER LONDON CENTRES

CENTRE NAME	UPSCALE SHOPPERS	VALUE OFFER (%)	MASS OFFER (%)	PREMIUM OFFER (%)	DIFFERENCE/ MISMATCH
South Kensington	**85.8%**	35.3%	64.7%	**0.0%**	**85.8%**
Fulham Broadway	**76.1%**	50.6%	46.6%	**2.9%**	**73.2%**
Hammersmith	**69.4%**	36.75	62.4%	**0.9%**	**68.6%**
Edgware Road	**70.4%**	30.0%	66.4%	**3.6%**	**66.8%**
Wandsworth	**72.5%**	29.1%	63.9%	**7.0%**	**65.5%**
Notting Hill Gate	**72.5%**	29.1%	63.9%	**7.0%**	**65.5%**
Putney	**75.1%**	17.2%	64.8%	**18.0%**	**57.1%**
Holloway	**57.1%**	45.0%	55.0%	**0.0%**	**57.1%**
Brixton	**55.8%**	31.1%	68.9%	**0.0%**	**55.8%**
Finchley Road	**74.0%**	20.9%	58.8%	**20.3%**	**53.8%**
Wimbledon	**65.1%**	12.3%	69.6%	**18.1%**	**47.0%**
High Holborn	**50.3%**	41.2%	53.5%	**5.3%**	**45.0%**
Ealing Broadway	**56.2%**	28.0%	59.8%	**12.3%**	**44.0%**
Surrey Quays	**46.9%**	45.5%	51.3%	**3.2%**	**43.8%**
Camden Town	**59.6%**	28.7%	51.4%	**19.9%**	**39.7%**
Walworth Road	**38.4%**	47.9%	52.1%	**0.0%**	**38.4%**
Clapham Junction	**72.0%**	14.3%	49.8%	**36.0%**	**36.0%**
Kensington	**73.0%**	10.3%	50.8%	**38.9%**	**34.2%**
Bayswater	**55.6%**	14.3%	63.9%	**21.8%**	**33.8%**
Bromley	**53.6%**	22.8%	51.6%	**25.5%**	**28.1%**

Source: CACI, Knight Frank

Extending the same analysis to the regions throws up some obvious examples and some markedly less so. Many of the mismatches are in the South East, reflecting far higher penetration of 'Affluent Achievers' and 'Rising Prosperity' in the region generally. However, there are also several examples elsewhere in the country, including Macclesfield, Altrincham, Northwich, Congleton, Stroud, Hexham, Huntingdon, Chippenham and Stratford-upon-Avon.

Although this analysis flags them as mismatches, a number of these centres do include a degree of 'Premium' retail within their respective offers – in Stratford-upon-Avon and Altrincham this is as high as 24% and 20% respectively. By extension, these are not necessarily failing centres per se. However, some (Uckfield, Aldershot, Northwich and Stroud) have zero representation from upscale retailers, whilst in others (Maidenhead, Macclesfield and Poole) it remains fairly minimal.

Some of the centres highlighted here are usually dismissed out-of-hand, almost to the point of derision. Again, this highlights a propensity to judge a location on its aesthetics rather than its catchment – all the centres listed have a demonstrably and quantifiably strong hinterland. However, this often isn't enough to conquer perceptions, and indeed deep-seated prejudices.

Changing perceptions

The implications of these mismatches can be severe. A strong audience living around a centre with limited appeal essentially gives rise to three scenarios, none of which are particularly positive. Either consumers simply make do with their local centre and continue to shop there regardless, treating it more as a location of function rather than one of choice or aspiration. Or they use it sparingly and out of pure necessity, thereby spending far less than they would if they had a decent centre on their doorstep. Or, most likely, they will shop elsewhere, even if it involves additional travel. Shoppers invariably gravitate to towns and centres that correspond to their own aspirations, regardless of distance. It is no coincidence that leakage in many mismatch centres is very high.

This viscous circle also extends to retailers and would-be

CATCHMENT VS RETAIL MIX - SELECTED REGIONAL CENTRES

CATCHMENT / OFFER MISMATCHES - SELECTED REGIONAL CENTRES

CENTRE NAME	UPSCALE SHOPPERS	VALUE OFFER (%)	MASS OFFER (%)	PREMIUM OFFER (%)	DIFFERENCE/ MISMATCH
Maidenhead	**59.3%**	42.7%	53.3%	**4.0%**	**55.3%**
East Grinstead	**58.9%**	45.7%	47.8%	**6.5%**	**52.4%**
Woking	**60.9%**	33.0%	56.0%	**11.0%**	**49.9%**
Uckfield	**49.6%**	45.4%	54.6%	**0.0%**	**49.6%**
Haywards Heath	**59.9%**	14.5%	74.4%	**11.2%**	**48.8%**
Dorking	**62.0%**	16.8%	69.0%	**14.2%**	**47.8%**
Aldershot	**47.1%**	39.1%	61.0%	**0.0%**	**47.1%**
Horsham	**59.2%**	25.0%	60.3%	**14.7%**	**44.5%**
Brentwood	**54.6%**	36.4%	52.3%	**11.3%**	**43.4%**
Macclesfield	**43.9%**	32.2%	65.0%	**2.8%**	**41.1%**
Altrincham	**60.9%**	26.4%	53.1%	**20.5%**	**40.4%**
Northwich	**40.1%**	36.0%	64.0%	**0.0%**	**40.1%**
High Wycombe	**56.0%**	37.4%	46.6%	**16.0%**	**40.1%**
Stroud	**40.0%**	63.2%	36.8%	**0.0%**	**40.0%**
Bishop's Stortford	**59.4%**	32.9%	47.4%	**19.7%**	**39.6%**
Camberley	**56.6%**	34.5%	47.8%	**17.8%**	**38.9%**
Stratford-upon-Avon	**60.6%**	13.7%	62.0%	**24.3%**	**36.4%**
Slough	**58.0%**	45.9%	52.4%	**1.7%**	**36.3%**
Poole	**58.9%**	43.5%	49.3%	**7.2%**	**31.8%**
Southport	**42.9%**	36.5%	52.8%	**10.7%**	**31.5%**

Source: CACI, Knight Frank

tenants. Most retailers undertake detailed location planning analysis in formulating their acquisition programmes and catchment / demographic appraisal is invariably a central plank in this process. While many of these mismatch locations may pass the desk-based research test, they are often over-ruled in the more subjective 'human' test, be this through an actual site visit or more usually, an outright dismissal based on perception or prejudice. Either way, the double whammy of retailers not wanting to open there and local residents not beating a path to shop there are hardly hallmarks of a thriving centre.

What is the solution? Clearly, this is a very difficult circle to break. On the one hand, many of these mismatch locations represent a huge opportunity for retailers, landlords and developers alike, in that there is massive upside potential. The 'right' sort of people live there, the issue is just encouraging them to shop there in equal measure. On the other hand, there is no easy way of unlocking this potential. Unless certain aspirational retailers break the mould and venture into these centres and others of a similar ilk follow in their wake, the change is unlikely to happen on its own. Usually, significant intervention is needed in some shape or form. What this intervention entails will vary by location, but in most cases it is likely to extend far beyond a few cosmetic improvements. Development of new schemes and extensive refurbishment of existing schemes are but two other key catalysts of change. In some cases, the whole town may be in need of fundamental masterplanning. Buy-in and commitment from both the private sector and the local authority are a pre-requisite for this to be effected in a positive way.

Perceptions can only change over time and whatever the remedy, heavy investment is likely to be necessary. In a digital and multi-channel age, high street retailing generally faces an ever increasing fight to remain relevant. If a town can't remain relevant even to the people that live there, what hope is there for a sustainable future?

OUR TEAM

CONNECT WITH US

www.knightfrank.co.uk/commercial/retail
@KFRetail