Knight Frank

2024 Retailer Watchlist

September 2024

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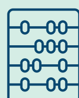

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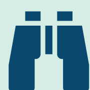

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Welcome

Retailer distress, CVAs, administrations and fall-out: a sensitive and emotive subject. But unfortunately also a damaging reality that we cannot be blind to.

Our Retailer Watchlist is less a labour of love, more an endeavour of necessity, providing early warning and enabling landlords, valuers and investors to build contingency and continuity.

We'd be delighted to discuss any issues raised in this report with you.

- Stephen Springham
Head of Retail Research

2024 Retailer Watchlist: the key takeaways

KF Watchlist identifies 31 'at risk' multi-channel retailers

This represents 10.3% of the base of 300 retailers appraised and classified. It marks an improvement on the last iteration of this exercise undertaken in 2022, which identified 36 (12.0%) operators as 'at risk'.

165 (55%) operators pose 'no immediate apparent risk'

Again, this is an improvement on 2022 (152 / 51%). On a turnover-adjusted basis, the proportion of 'safe' operators rises to 60.2%, highlighting distress may be more concentrated in smaller players.

27 (9%) online pure-players are identified as 'at risk'

This represents 45% of the 60 online pure-players that feature in the Top 300 ranking base and reflects structural change and increased financial constraint in the online retail market.

61 retailers 'failed' in 2023, but just 971 stores were affected

The former metric the highest since records began in 2007, the latter the lowest since 2015 and second lowest ever. This again reflects higher fall-out rates from online pure-players and small-scale operators.

Fashion (38.5%) accounts for the highest level of fall-out

Clothing & footwear made up the largest proportion of stores affected by distress between 2008-2019. Dept and variety stores, the 'poster child' of occupier distress, accounted for just 7.9% of stores affected.

Overall vacancy rates have stabilised at ca. 14%

However, this varies by channel (e.g, shopping centres 17.6%) and 'persistent' vacancy is increasing. Department store reabsorption remains problematic and may only be resolved through repurposing.

Why do retailers go bust?

An introduction

FOREWARNED IS FOREARMED
Knight Frank's Retailer Watchlist is designed to give markets early warning of potential retail occupier distress. It is not based on 'insider knowledge', rather our measured and subjective view of individual operators' likelihood of encountering financial or operating difficulty.

Having a perspective of potential occupier strife in advance of it fully materialising should enable landlords to build continuity plans, either through accepting lower rental income or seeking alternative occupiers. Similarly, valuers are able to build degrees of risk into the minutiae of their valuation processes. Would-be investors can likewise factor this risk into their pricing, as well as formulating asset management contingency post-acquisition.

Of course, retail distress is a highly emotive subject. So engrained is retail in the national psyche that any whiff of distress is greatly amplified in the press and consumers feel they are stakeholders in the high street more than any other aspect of the economy – as, indeed, they are.

The demise of a household name retailer inevitably prompts public outcry to a greater extent than virtually any other sector, even if the number of staff redundancies are not necessarily commensurate.

Retailer distress actually takes a number of different forms and degrees of severity. At the absolute extreme, there is total liquidation, where an operator well and truly goes bust, the whole business is closed down and that brand name is consigned to history forever. At the other end of the severity spectrum, a retailer may launch what it may term a 'light touch' Company Voluntary Agreement (CVA), effectively renegotiating terms with suppliers and asking landlords for rent reductions on a select number of sites.

And there are any number of shades of grey in between. Always damaging, the severity of CVAs can vary very dramatically in terms of the number of stores affected and the terms proposed (e.g. a shift to zero rent). Likewise, actual administrations can take many forms, with pre-packs becoming increasingly prevalent, whereby another company (or sometimes even the same company in a different guise) buys out the business the moment it fails. Distress effectively being used as an instrument for financial restructuring.

"Distress actually takes a number of different forms and degrees of severity"

Retail failure in all these shapes and forms does not necessarily result in full liquidation. That said, any respite afforded through a CVA or administration may be but temporary.

Indeed, there is a distinct pattern of retailers failing on multiple occasions (and this is one of the key feeds into our Watchlist formulation). There are varying degrees of retailer failure – many may not immediately result in full liquidation, but often it is a slippery slope.

A CVA or administration may not lead directly to the undertaker, but it may be little more than a stay of execution nonetheless.

WHY DO RETAILERS GO BUST?
Retailers fail for a host of reasons. Often, it is not one single factor in isolation, but rather a toxic combination of conspiring forces. Ironically, the real reason for a retailer's failure is usually shrouded behind somewhat lazy media narrative. Stock or standard explanations rarely shed light on the actual root causes.

The stock reasons tend not to extend beyond weak consumer demand, excessive competition and, most lazy of all, the rise of online. The last of these is a mere perpetuation of the urban myth that the high street is at the mercy of online and is powerless to compete against a supposed omnipotent force. The fact that the vast majority of retailers these days are multi-channel should dispel this myth outright. The reality is most failing retailers are actually already active in the online space, so cannot, by definition, be a victim of it.

Weak consumer demand and excessive competition are likewise somewhat dubious as to catalysts of failure, at least in the short term. The notion that a retailer will collapse simply on the back of a bad season or a poor Christmas is nonsensical. A tough patch may push it over the edge, but the actual undermining forces must have been many years in the brewing. A retailer must have been underperforming for a number of years before it ultimately fails.

The key point is that retailer failure is likely to be balance sheet, rather than P&L-based. Cumulative losses may percolate from the latter to the former, but balance sheets are much more likely to be destabilised by other forces.

Onerous debt, lack of liquidity, financial ticking time bombs or black holes in pension pots are examples of the most likely causes of retailer failure. These may be a product of an extended period of poor trading, but are more likely to be the result of external – dare I say sinister – factors. In generic terms, these are likely to have arisen through the company's ownership history, the negative legacy of M&A activity and corporate refinancing.

"Retailers fail for a host of reasons. Stock or standard explanations rarely shed light on the actual root causes"

It is difficult to not point the finger at private equity. Although not the sole cause of retail occupier failure, a cursory glance over a list of retailers that are no longer with us reveals an anything but coincidental common denominator of private equity or venture capital ownership, either recent or in the dim and distant past.

The fundamental private equity model of leveraged takeover, followed by asset stripping and subsequent exit has proved the undoing of many retailers, who have not been able to survive longer term without the due management and operational care they require, with a heavy debt burden to boot.

Consequently, while not a definitive measure, a history of PE-ownership is unquestionably a 'red flag' in our Retailer Watchlist appraisal. It is by no means the only factor in the mix – but it remains a very telling one.

Retail failure: facts & figures

Understanding the true extent and scale of operator failures and reality of distress.

Media headlines often give the impression retail failures are constant and widespread. But what do the actual facts and figures reveal about the true extent and scale of retail distress? We explore the numbers to uncover the real story.

COUNTING CASUALITIES

Since 2007, over 700 UK retailers have gone bust, according to data from The Centre for Retail Research. Over half of these failures have occurred since Brexit in 2016, with the number of operators going under each year slightly increasing to 45 on average over the past five years, up from 42 over the last decade. This average, of course, is inflated by the pandemic years, where the risk of failure was heightened by an unprecedented set of restrictions on retailers' ability to trade.

Interestingly, the pandemic year of 2020 didn't witness the highest level of retail distress in terms of stores affected. That dubious honour goes to 2009, in the aftermath of the global financial crisis, when 6,536 stores were impacted. In comparison, 2020 saw 5,214 stores affected, making it the third worst year on record.

THE SMALL PRINT

Before we dive deeper into the numbers, a few notes on methodology. The Centre for Retail Research focuses solely on 'pure' retail—excluding casual dining and leisure operators—and tracks medium and large retailers, typically those with five or more units. The data tracks two streams: a) the number of businesses failing and b) the number of stores affected.

Their definition of 'retail failure' covers operators that have "gone bust", entering into a legal process of insolvency or administration, such as a CVA or pre-pack. The data only tracks stores that have been affected by this formal process, so figures won't include closures related to other factors, such as relocation or consolidation.

It is vital to note that 'stores affected' doesn't necessarily mean 'stores closed.' Consider them "at risk". As discussed in our first report section ('Why Retailers Go Bust'), outcomes of administration vary. Not all businesses will survive, and entire store networks may close. However, some will revive and re-emerge, with operators retaining either all or part of their store estate.

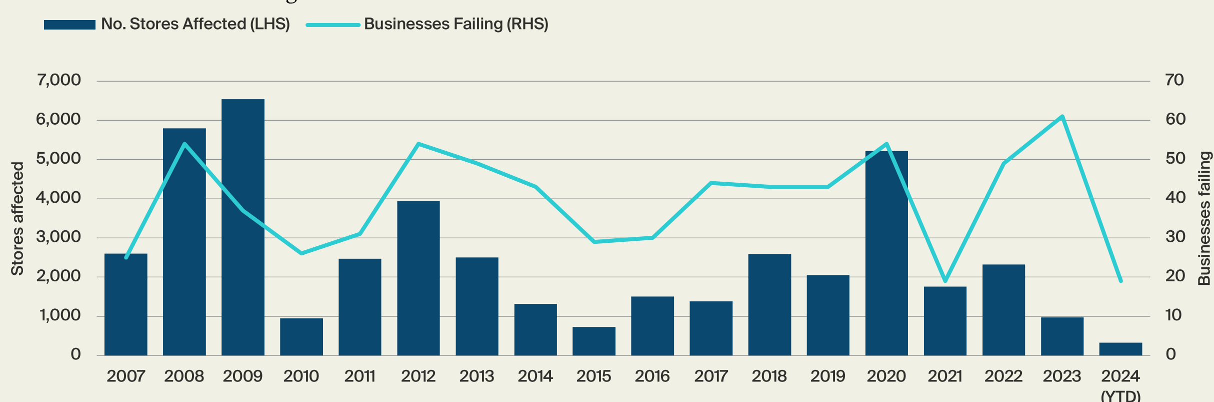
PEAKS AND TROUGHS

The level of retail distress fluctuates widely, despite the media narrative suggesting that physical retail failure has been on a one-way upward trajectory since the advent of online.

Intriguingly, the peak and trough years of retail distress (in terms of the number of operators going bust) have occurred in the years immediately following the pandemic. In 2021, just 19 businesses failed, reflecting the extent of protections afforded to operators by lenders and the government. However, these support measures arguably only delayed the inevitable, as by 2023, we saw 61 retailers fail—the highest number since records began in 2007.

Retail failures (2007 - 2024 YTD)

Number of businesses failing & stores affected



Source: Centre for Retail Research, Knight Frank Research

-9%

Improvement in average number of stores adversely affected p.a. by retail closures in last five years, versus pre-COVID.

But not every year has seen major levels of distress. In fact, more years have seen below-average levels of distress than above, indicating that the pattern of distress is more complex than it may initially appear.

On average, over the 17-year period from 2007 to 2023, approximately 2,600 retail stores have been impacted by distress annually. Out of these 17 years, only four saw ‘extreme’ levels of distress, surpassing the 3,000-store mark: 2008/2009 (GFC), 2012, and 2020 (COVID-19 pandemic). More years—six out of 17—saw substantially below-average levels of distress (i.e. fewer than 1,500 stores affected). The quietest year for distress in physical retail was 2015, with just 728 stores at risk.

HIGH BUSINESS FAILURE = HIGH STORE CLOSURES?

The correlation between the number of retail operators failing and the scale of stores at risk has actually been weakening, particularly with the growth of online retail—a trend most evident in the figures post-pandemic.

Between 2008 and 2019, the average number of retail business failures stood at 39 p.a., rising to 45 failures on average p.a between 2019 and 2023. However, the average number of stores affected has dropped significantly. Between 2008 and 2019, an average of 2,693 stores were impacted by retail failures annually vs. 2,462 stores affected between 2019 and 2023—a 9% decrease.

The rise of online retail is just one of many structural challenges reshaping the sector, as detailed in A Retail Renaissance – The Price of Change 2.0 report. The impact on the sector’s failure statistics is no exception. The long-held belief that weakness in the retail occupier landscape and subsequent business failures will result in mass store closures no longer holds true.

ONLINE PUREPLAYER PRESSURE

To illustrate, 2020 saw an extremely high level of retail failure, with 54 retailers going bust, putting approximately 5,214 stores at risk. But the expected ripple effects didn’t materialise in the same way they did post-GFC. While retail operator failure numbers remained elevated in 2022 and 2023 (at 49 and 61 respectively), the number of stores impacted was much lower, particularly in 2023, when just around 900 stores were affected—the third-lowest figure on record.

These figures highlight that a higher proportion of online-only retailers, with no physical store footprints, suffered elevated failure rates in these years against a more challenging business backdrop. The assumption that high rates of retail failure equate with high rates of store closures is increasingly outdated— with the landscape much more nuanced than it was 10 or 15 years ago when the online sector was less mature.

2024: FAILURE TO DATE

The 2024 year-to-date figures suggest that retail distress may be limited this year, with the occupier landscape remaining resilient despite signs of volatility in consumer demand (see our Retail Monitor for more). So far, just 19 retailers have entered administration, including high-profile brands The Body Shop,

Recent retail failures (2020 – 2024 YTD)

2020		2021	2022	2023	2024 YTD
Beales	Le Pain Quotidien	Paperchase	McColl's	Cath Kidston	The Body Shop
Bonmarché	Monsoon Accessorize	Jessops	TM Lewin	Paperchase	Carpetright
Age UK	Quiz	The Hummingbird Bakery	M&Co	Hunters	Ted Baker
Debenhams	Victorias Secret	Brooks Brothers	Joules	Wilko	Muji
Arcadia	Aldo	Dawsons Music	Sofa Workshop	Planet Organic	Tile Choice
Peacocks	Antler	JFT Mega Discount Warehouse	Shuropody	Scotch & Soda	Matchesfashion*
Jaeger	LK Bennet	Kent & Curwen	AMT	Le Pain Quotidien	Farfetch*
Edinburgh Woollen Mill	Oasis	Ralph & Russo	The Vegan Kind	Tea 2	
J Crew	Warehouse	Farmdrop*	Made.com*	Tile Giant	
M&Co	Cath Kidston	Loopster*	Eve Sleep*	Vashi	
DW Sports	Brighthouse		Missguided*	Ideal World*	
Soletrader	Laura Ashley		Studio Retail*	Totsbots*	
Bensons for Beds			Shabby Store*	Wiggle*	
Harvey's Furniture				Victoria Plumb*	
TM Lewin				UK Flooring Direct*	
Go Outdoors				The Meatless Farm Company*	
Oak Furnitureland				Party Pieces Holdings*	
Oddbins				Book Despository*	
Hawkins Bazaar				Snug*	

■ ‘Repeat’ offender
* Non-Store Retailing

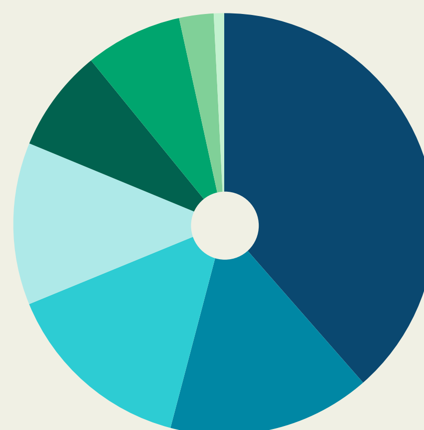
Source: Centre for Retail Research, Knight Frank Research

Ted Baker, and Carpetright. This compares to 61 businesses in 2023, and 49 in 2022. At the mid-year point, the number of stores at risk stands at a remarkably low 328. If distress levels persist at this rate, the impact on stores at risk could potentially result in the fourth-lowest year of distress on record.

Sectors responsible for largest failures

% of total stores affected (2008 - 2019)

Sector	%
Clothing & Footwear	38.5%
Off licences	15.5%
Other*	14.7%
Music, Video, DVDs	12.4%
Department stores & Variety Chains	7.9%
Electricals	7.4%
Discounters	2.6%
Toys & Games	0.8%



Source: Centre for Retail Research, Knight Frank Research

LOOKING BACK, MOVING FORWARD

'Those who fail to learn from history are doomed to repeat it'—so what lessons can we learn from studying the history of retail distress? And why bother in the first place? Well, it may confirm some biases and challenge others.

"Those who fail to learn from history are doomed to repeat it"

An analysis of retail categories between 2008 and 2019 reveals that department stores, contrary to popular belief, have not historically been the primary drivers of retail failure. Of the 13,248 store units affected by closures, only 1,044 were department and variety stores, accounting for just 7.9% of the total. This places the category as the fifth-largest contributor to retail failures. This might come as a surprise, given that variety stores like Woolworths (2008) and BHS (2016) and department stores House of Fraser (2018), and Debenhams (2019) are often at the forefront of the retail distress conversations. This is not to detract from the fact the category's void floorspace presents a significant headache for landlords.

So, who takes the top spot? Unsurprisingly, the fashion sector has historically seen the most distress. A significant 38.5% of stores (around 5,107) impacted by CVA or administration belonged to either clothing (25.5%) or footwear (13.0%) operators. Major fashion failures include value and discount operators like Select and Peacocks, which are still in existence, while others—JJB Sports, Brantano, Adams and Faith Shoes—no longer have a physical presence on UK high streets.

"Department stores, contrary to popular belief, have not historically been the primary drivers of retail failure"

Off-licences are the second-largest sector responsible for historic retail failures, accounting for 15.5% of stores at risk (around 2,000+). First Quench Retailing, once the largest independent off-licence retail chain in the UK, failed in 2009, impacting a substantial 1,300-store portfolio under various fascias (Wine Rack, Threshers, Bottoms Up, Victoria Wine). Wine Rack was successfully acquired by Conviviality Retailing, but administrators were appointed in 2018, affecting 760 stores, including the Bargain Booze brand.

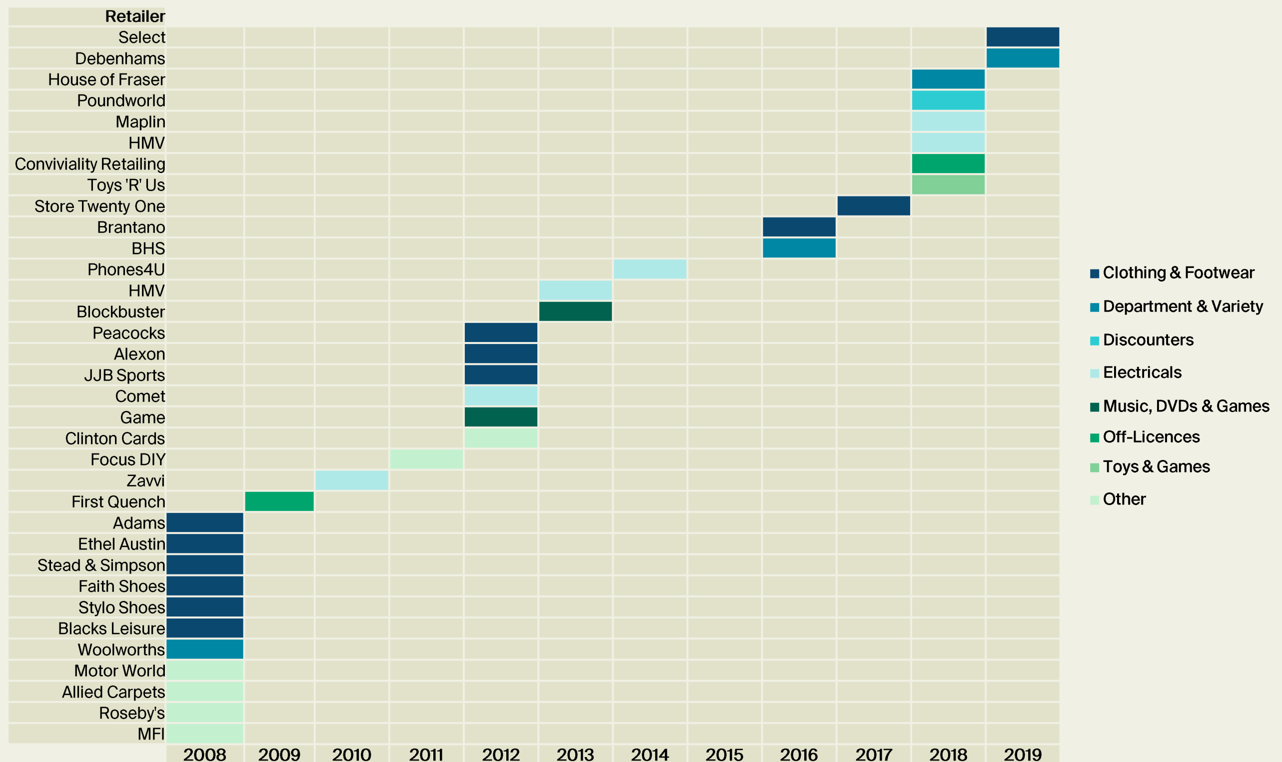
Music, Video & DVDs are the fourth-biggest single sector responsible for the largest historic failures, accounting for 12.4% (around 1,600+ stores)—with the fall of Game (2012), Blockbuster (2013), and HMV (2018). Electrical retailers take sixth place (7.4% of historic stores affected): Comet (2012), Phones4U (2014), and Maplin (2018). Discounters take seventh place, contributing just 2.6% (around 350 stores affected) with the demise of Poundworld in 2018. Toys & Games have been responsible for less than 1% of stores, equating to the 105-store estate of Toys 'R' Us.

'Other' sectors take third place—responsible for 14.7% of retail failures by store volume (around 1,947 stores)—and include a variety of (mostly) bulky goods operators across DIY (Focus DIY, 170 stores), floorcoverings (Allied Carpets, 273 stores) and furniture (MFI, 173 stores), as well as card/stationery operator Clinton Cards (767 stores affected).

For the real estate community, historic trends may help identify higher-risk sectors with greater susceptibility to failure. The fact that the lion's share of failures has been concentrated among fashion operators serves as a warning sign, prompting landlords and investors to conduct greater due diligence on operations to make more informed decisions. We've arguably already seen this in action, with retail park landlords favouring non-fashion operators.

For retailers themselves, historic case studies of sector competitors can provide valuable lessons and insights into common root causes of failure, hopefully helping them to avoid the pitfalls or weaknesses that others have faced in the past. Of course, this assumes that retailers aren't looking to leverage processes like CVAs purely for tactical purposes.

Historic retail failures (2008 – 2019) by category



Source: Centre for Retail Research, Knight Frank Research

2024 Retailer Watchlist

Ones to watch

METHODOLOGY

The Knight Frank Retailer Watchlist is our assessment of occupier health and likelihood of distress. The base data is Mintel's 2024 Retail Ranking, which is a listing of the UK's leading operators based upon annual turnover. Our Watchlist focusses on the Top 300 retailers in Mintel's ranking, all of which generate turnover of £60m or more. Note that the Watchlist focuses purely on retail operators, so does not include F&B, leisure nor retail service players (e.g. hairdressers, bookmakers etc).

Each operator is allocated one of six colour-coded classifications. Four of these apply to store-based and multi-channel operators, the other two to online pure-players.

Although the assessments are largely subjective, they are driven by a host of considerations and datapoints and are thoroughly sense-checked against our own retail intelligence and experience. Key factors that determine our ratings include the following:

- **Previous distress.** Experience shows that many CVA protagonists are effectively 'repeat offenders', previous restructurings having only bought that operator breathing space and time, rather than permanent salvation.
- **Ownership structure.** Publicly-listed PLCs or family-owned operators tend to be more transparent and robust than those under private equity ownership. Again, there is a strong historic correlation between retailer failures and private equity ownership (current and past) that is hard to ignore.
- **Trading performance.** Top level analysis of operators' profit and loss accounts to understand the robustness of current and historic trading, with a particular focus on operating profit (and margin). Loss-making companies, particularly over a long timeframe, are more likely to raise a red flag.
- **Balance sheet.** Top level analysis of operators' balance sheets to assess their financial strength. High levels of debt / gearing and creditors / liabilities far outweighing assets are more likely to downgrade an operator's overall rating.
- **Consumer demand.** The level of consumer demand always varies massively between retail sub-sectors. This will not always adhere to economic logic, which dictates that discretionary purchases will suffer in times of consumer hardship. Retail demand is far more erratic than that. Retailers in sectors where demand is very 'lumpy' (e.g. furniture and carpets) tend to be more exposed to cashflow risk.
- **Market rumour.** We would also factor in 'market talk', although we are by no means slave to rumour. There is a trade off behind the notion of 'no smoke without fire' and the dangers of Chinese whispers.

Retail operator watchlist classifications

Store-based / Multi-channel

Classification	Description
Red	Already in administration or currently/recently undertaken a CVA
Pink	Major risk: severely under-performing or CVA / administration rumoured
Orange	Moderate risk: some downsizing/store rationalisation likely, or already being implemented
Green	No immediate apparent risk

Online Pure-Play

Classification	Description
Brown	Major risk: severely under-performing or CVA / administration rumoured
Yellow	No immediate apparent risk

Source: Knight Frank Research

KF WATCH LIST – ANONYMISED OUTPUTS

The KF Retailer Watchlist is an internal resource used by our agency, capital markets and valuation teams to inform their respective advisory services. Although clients may have access to it through these channels, the information is highly sensitive and it is therefore not publicly available. For this reason, any public outputs or disclosures must be anonymised.

The charts below provide breakdowns of the Top 300 Retailers by classification.

We can be explicit on the ten (3.3%) that are classified as Red as these are already in the public domain. As Mintel's ranking is slightly lagging, the Reds include multi-channel operators Wilkos, Ted Baker, Supergroup, Body Shop, Lloyds Pharmacy and Thorntons.

Of these, Wilkos and Lloyds Pharmacy have been liquidated completely (although the former has been relaunched under new ownership), Thorntons and Ted Baker have or are closing their high street business to sell through alternative channels, while Supergroup and Body Shop will live on as high street brands following extensive restructuring.

The Reds also include four online pure-plays (Farfetch, Wiggle, Matches, Victoria Plum).

"The outputs of Knight Frank's Watchlist are not wholly negative by any means. Well over half of the Top 300 are rated Green ('No Immediate Apparent Risk')"

While there is always a tendency to focus on those at risk, the outputs of Knight Frank's Watchlist are not wholly negative by any means. Well over half of the Top 300 (165, 55%) are rated Green. Coupled with the online pure-play Yellows, a total of 198 (66%) of the Top 300 retailers present no immediate apparent risk of failure.

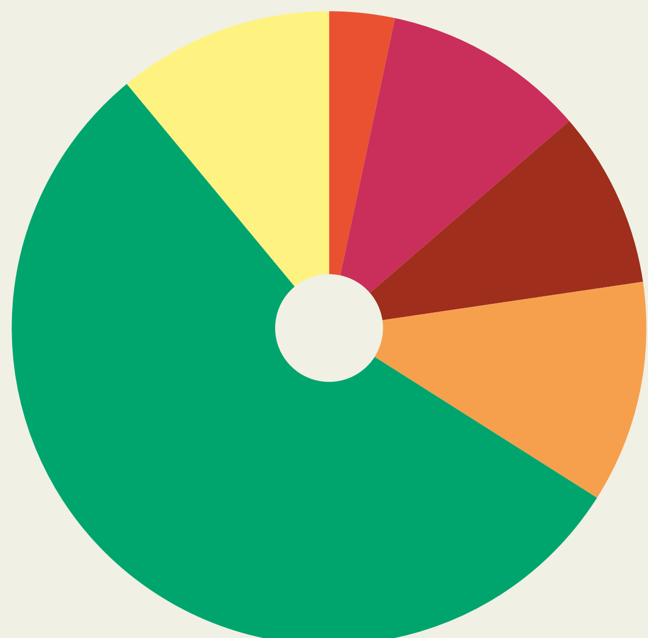
Our Watchlist currently identifies 58 operators 'at risk' (19.3%). Of these, 31 (10%) are multi-channel/store-based (Pink) and 27 (9%) are online-only (Brown).

Many of the former fall into the 'previous distress' camp, while the latter tend to tick the 'poor trading performance' or 'flaky balance sheet' boxes (usually both).

KF Rating of Top 300 Retailers

Count / %

Rating	%
In Administration	3.3%
Major Risk	10.3%
Online Pureplay: Major Risk	9.0%
Moderate Risk	11.3%
No Immediate Apparent Risk	55.0%
Online Pureplay: No Immediate Apparent Risk	11.0%



Source: Mintel, Knight Frank Research

TURNOVER-WEIGHTED AND 2022 COMPARISONS

Undertaking the same analysis on a turnover-weighted basis modifies these breakdowns slightly. On a weighted basis, the proportion of Green turnover rises from 55.0% to 60.2%, while the proportion of Pink turnover declines from 10.3% to 2.2%. The key takeaway from this is positive – that potential distress is more concentrated amongst smaller operators than larger ones, so if failure does materialise, it will have less of an impact on the high street.

But history has also taught us that no retail business is too big to fail (e.g. Woolworths, BHS, Debenhams, Arcadia, Wilkos) but any future casualties, certainly in the immediate term, are likely to be far smaller in scale than those aforementioned.

Comparisons with 2022 are not watertight as the Top 300 Retailers are not 100% the same – a number of operators may have entered or fallen outside the Top 300 Rankings over this period, some may have ceased to exist altogether. There are 44 different operators across the two iterations, leaving a consistent comparison base of 256 companies.

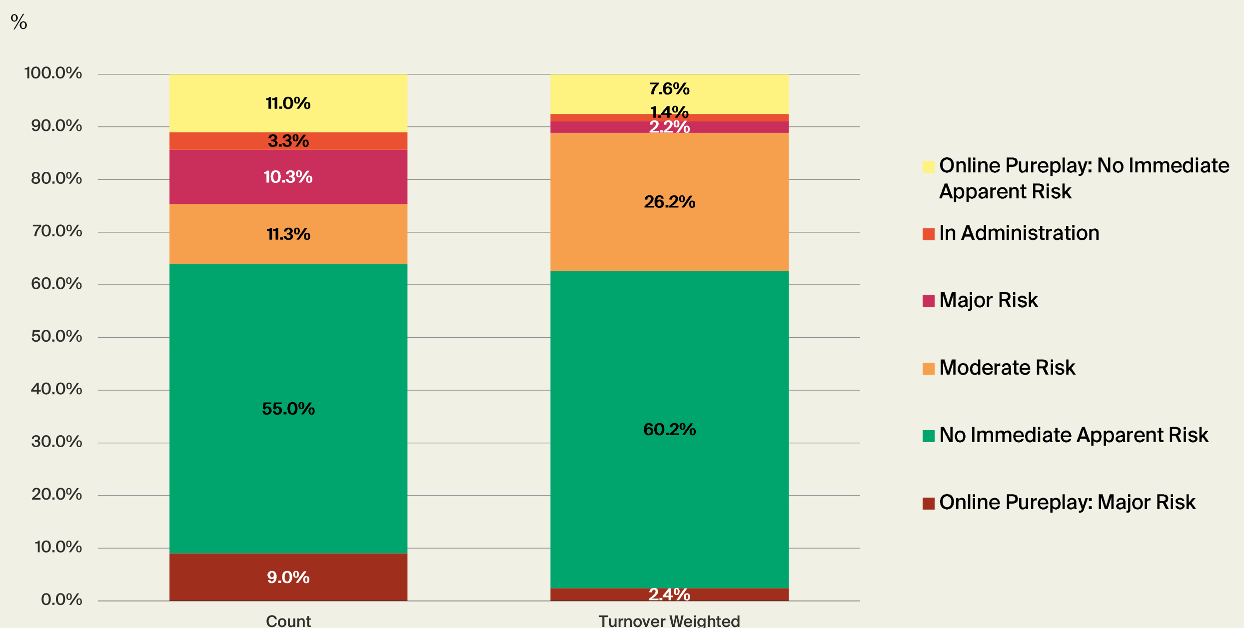
This mild caveat aside, the number of Pinks in the latest ranking is down slightly on last time (31 vs 36), and more positively still, the number of Greens has also risen (165 vs 152). This reflects a more stable occupier market generally, albeit one not entirely without risk.

Conversely, the number of Browns is up slightly (27 vs 22) while the number of Yellows has declined (39 vs 33). This underlines the fact that many online pure-plays are still in a precarious financial position, failing to achieve profitability many years after start up. A number will not go the distance.

As discussed in detail in our Thought Leadership Report: A Retail Renaissance – The Price of Change 2.0, we perceive the online market to be going through a period of structural change that is largely flying under the radar. Rather than being omnipotent, many online pure-plays are as vulnerable to failure as their physical store counterparts – our Watchlist bears this out.

> **"History has also taught us that no retail business is too big to fail but any future causalities are likely to be far smaller in scale"**

KF Rating of Top 300 Retailers - Counts vs Turnover Weighted



Source: Mintel, Knight Frank Research

Property implications

The consequences of retail distress on property

A distressed occupier market undoubtedly signals concern for any commercial real estate sector, with very real and tangible effects. It's important to remember that occupiers are the lifeblood of property—without them, the health of markets can quickly deteriorate.

Occupier distress brings disruption, with the potential for vacancy rates to rise, rental incomes to fall, and property values to decline. Landlords may have to accept reduced rents (under CVA-induced lease renegotiations) or face the challenge of finding new tenants. If they fail to secure new occupants, they may face prolonged, persistent vacancies, eventually forcing them to consider whether the asset should remain in its current guise, or be repurposed for another use.

There are broader implications too. Challenges in the occupier landscape can significantly undermine investor confidence, slowing down development and reducing investment. This can also trigger wider economic issues, leading to urban decay in communities hardest hit by retail distress.

Retail landlords are well acquainted with the consequences and complexities of a fragile occupier market, having navigated these impacts over the last decade or so.

While a distressed occupier market may seem like unequivocally bad news, the impact on the retail landscape is more nuanced. Though distress is challenging, it can drive change and evolution in the market, creating new opportunities rather than being purely a negative force.

RISING VACANCIES

The most obvious consequence of retail distress is the increase in vacancy rates as store portfolios are partially or fully exited. Retail unit vacancies have generally risen over the past few years, peaking at 14.5% during COVID, but have since stabilised at 14.0% over the last 12 months as units have been reoccupied.

However, this rise in vacancy rates hasn't been uniform across all retail sub-sectors. Shopping centres have been hit the hardest, with vacancy rates reaching 17.6%—a reflection of the fact that fashion operators, who have been particularly affected by retail distress, are often concentrated in these locations.

In contrast, vacancy rates are lower on (more mixed-use) high streets (14.0%) and in (bulky-goods and convenience-led) retail parks (7.1%). To illustrate a recent distress case – 69% of The Body Shop's portfolio is located in shopping centres, versus 30% on high streets and just 2% in out-of-town.

Given these trends, landlords will aim to curate a resilient occupier mix, focusing on sectors less likely to go bust. A vacant unit is bad news for any landlord or investor—it represents a loss of income and can have ripple effects on surrounding tenants. These effects can be both positive and negative. Negatively, vacancy can detract from the vibrancy of a scheme and potentially trigger a longer spiral of decline. Positively, nearby competitor brands might see a boost in sales, and it provides an opportunity to bring in a fresh, new tenant.

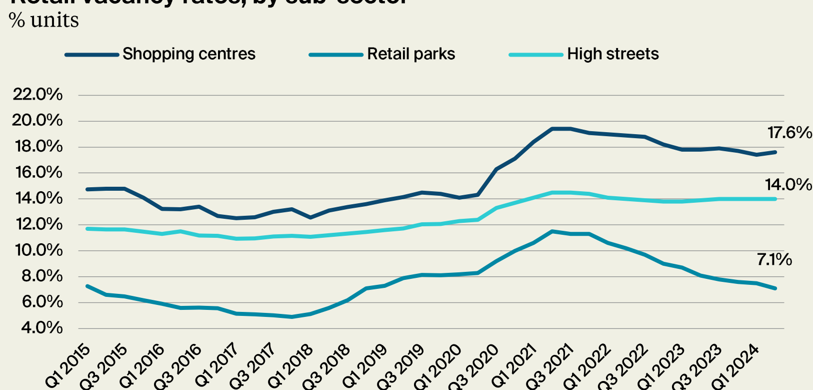
FINDING NEW TENANTS

Landlords will naturally seek a new retailer for a vacant space as the first port of call. Alternatively, they might seek out stronger operators on more favourable lease terms, especially if a distressed retailer is negotiating a reduced rent or rent-free period to aid their restructuring efforts.

Attracting new retailers will ultimately depend on the desirability of the unit—location is key—alongside strength of occupier demand for that destination. While retail has experienced a period of relatively

Retail vacancy rates, by sub-sector

% units



Source: LDC, Knight Frank Research

weak demand, with occupiers having their pick of available units, 'destination' locations with strong footfall have remained in shorter supply. This scarcity has led to a healthier level of market tension than we've seen in recent history.

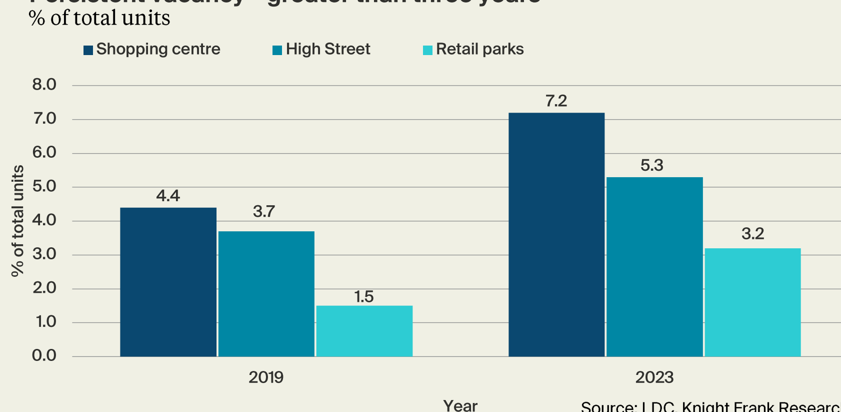
Analysis of distressed The Body Shop stores by LDC shows that 57% are in 'strong locations' that are more easily re-lettable, while only 11% of the portfolio is in more challenging areas. It identified sixteen potential target occupiers based on various criteria, including but not limited to: a) floorspace requirements, b) a history of positive net change in units, c) compatibility with the surrounding tenant mix, and d) the potential to enhance the asset's overall offering. Targets include Rituals, Hugo Boss, Carvela, Pandora, Miniso, The Fragrance Shop, Jo Malone London, and Astrid & Miyu, among others.

"Landlords will naturally seek a new retailer for a vacant space as the first port of call"

Such level of demand is often underestimated, but there is currently a healthy level of occupier activity. Major brands such as Crew Clothing, Mango, Superdrug, Sostrene Grene, and Greggs are actively seeking to selectively relocate or expand. On a broader scale, there were 9,139 retail openings recorded in 2023, compared to 14,081 closures. This marks a significant increase from 2022 levels (7,903 openings) and is comparable to 2019 levels (9,690 openings), with strong demand for

Persistent vacancy - greater than three years

% of total units



Source: LDC, Knight Frank Research

physical space in growth categories like Barbers, Beauty Salons, Fast Food Takeaway, and Convenience Stores.

WILKO: RETAIL BOOMERANG?

Reoccupation can be swift. When household goods retailer Wilko collapsed, various retailers quickly assessed its prime locations, anticipating their availability. Pepco, the owner of Poundland, acquired 71 stores, while B&M took over 51, reopening them under their respective brands. As of Q2 2024, only 6.6% of the total Wilko store portfolio has been re-occupied by retailers. The rest of the 400-store portfolio has now closed, leaving 91% lying vacant. Wilko is bracing to make a significant return, as new owner CDS Superstores plans to relaunch 300 stores across the UK, evaluating both new and former Wilko sites for its revival.

CARPETRIGHT: RENT RISES?

A similar story is unfolding for the distressed flooring retailer Carpetright. Competitor Tapi Carpets has stepped in to save 54 of the 200+ stores at risk as part of a broader deal for the brand. Additionally, furniture retailer Bensons for Beds swiftly acquired 19 units, aiming to expand its current footprint of 162 stores to 200. However, many stores still face an uncertain future. Interest, though, remains. Mountain Warehouse is reportedly eyeing some stores as it plans to open 50 new or relocated locations in FY25. Demand in the out-of-town sector, where most Carpetright stores are situated, is particularly strong, presenting an opportunity for landlords, especially those owning prime retail parks, to push for higher rents on reletting.

PERSISTENT PROBLEMS

Real issues begin when retail distress leads to vacancies that become more permanent, persisting for extended periods and leaving lasting scars on the retail landscape. LDC defines "persistent" vacancy as units that have been empty for more than three years and are unlikely to return to the market. These spaces are essentially the least desirable, often due to poor location, awkward unit configuration, or other reasons that make them unattractive to retailers.

This type of vacancy has become increasingly problematic, particularly in shopping centres,

where 7.2% of units have been vacant for more than three years, up from 4.3% in 2019. The issue is less severe on high streets (5.3% of units) and in retail parks (3.2%).

The longer a property remains vacant, the more problematic it becomes, especially since landlords are responsible for paying business rates after an initial three-month exemption period. Once this period ends, landlords are liable for full business rates, though advisors can often help identify legitimate ways to secure further exemptions, mitigation, or relief.

Recovering from major administration events can take a significant amount of time for landlords, and this timeframe seems to be increasing. Reoccupation of vacant spaces by another retailer is often slow and limited, with only a few stores being selected. Similarly, conversion to other uses is a painstakingly slow process, typically only affecting select sites in locations with clear demand for alternative uses.

DEPARTMENT STORES – THE PROBLEM CHILD?

Persistent vacancy is particularly problematic in former department store units. These "big-box" spaces struggle to attract demand in today's market, where interest in large retail spaces is limited. Knight Frank's analysis of some high-profile cases reveals that recovery for these distressed stores is far from straightforward, and that time is not the ultimate healer.

British Home Stores (BHS) went into administration in 2016, and while nearly 60% of its stores have been re-occupied by retailers like Primark, B&M, H&M, and Next, a significant 30% remain vacant, with only 13% repurposed for alternative uses.

House of Fraser (HoF), which entered administration in August 2018, still maintains a physical presence, proving not all distress results in the complete disappearance of a store network. HoF currently occupies just under half (47%) of its original store portfolio. However, 33% of its stores remain vacant, and only 12% have been re-occupied by other retailers, such as Harrods Beauty (Metrocentre in Gateshead and Centre in Milton Keynes) and Flannels (Meadowhall in Sheffield). A mere 8% have been repurposed for other uses.

The situation with Debenhams paints an even bleaker picture, though the administration is more recent, having occurred in 2019. A staggering 77% of Debenhams stores still lie vacant, with only 14% reoccupied by retailers like M&S, Dunelm, The Range, Flannels, Matalan, and TKMaxx.

This analysis provides a snapshot of the status of these units as of Q2 2024, so doesn't account for ongoing reoccupation efforts. Most recently, IKEA, after acquiring Churchill Square Shopping Centre (Brighton) in 2023, announced plans to open in the former department store space.

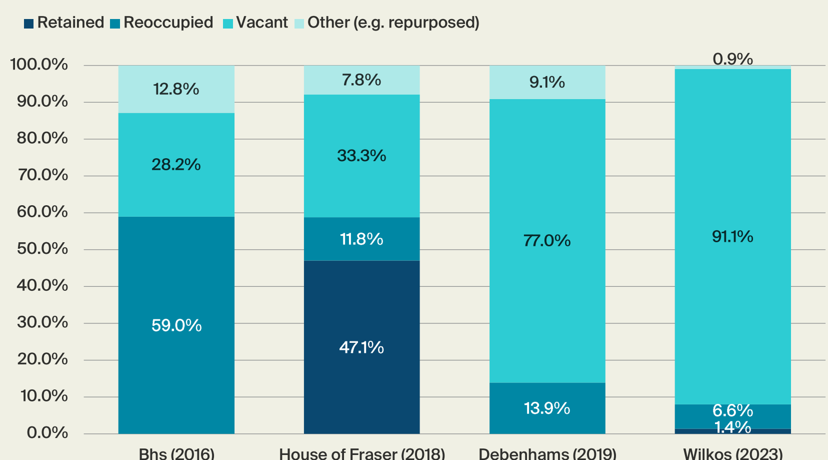
Meanwhile, Next has revealed plans to launch a new large-format store, offering clothing, home goods, and beauty products in the former Debenhams space in Eldon Square (Newcastle).

TO REPURPOSE, OR NOT TO REPURPOSE?

One of the most severe consequences of retail distress can be the realisation that a retail space is no longer viable and must therefore be repurposed for another use. Despite the enthusiasm for repurposing, it is essential to remember that this is only a drastic, last-resort measure. And certainly not for the faint-hearted, often being time-consuming, costly and extremely challenging to execute.

Reoccupation of major administrations (Q2 24)

% units



Source: LDC, Knight Frank Research

SOURCE: LANDSEC

£17M TRANSFORMATION
Landsec's investment in St David's Cardiff will remove 160,000 sq ft of vacant retail space, previously a former Debenhams store, creating a new city square and introducing 30,000 sq ft of new F&B and leisure offerings.

Repurposing is akin to administering CPR – every sign of life must be carefully assessed before proceeding. Repurposing proceeds if retail is truly lifeless, with occupier demand so weak that no retailer could be found to reoccupy the space. Additionally, it indicates that the capital value of the asset may have fallen so significantly, that conversion to another use is the only financially viable option to recover what has been lost.

The reality that repurposing is neither a quick (nor often desirable) fix is evident in the numbers: less than 10% of Debenhams and House of Fraser stores have been repurposed; 12% of Bhs stores, and fewer than 1% of Wilko stores. However, plans are increasingly being revealed across the UK as stakeholders navigate the complexities and bring these projects to fruition.

EXCITING TIMES AHEAD?
More recently, in August 2024, Landsec submitted plans to invest £17 million in transforming the former Debenhams at St David's Shopping Centre (Cardiff).

The project aims to create a 102,000 sq ft outdoor square featuring F&B, leisure, and 'kiosk-style' units. Earlier, in November 2023, Galliard Homes, the owner of Eastgate Shopping Centre in Essex, confirmed an agreement with Basildon Health Centre and the development team Fenton Whelan to repurpose the former Debenhams into a healthcare facility offering diagnostic and treatment services.

The fate of many long-term vacant retail spaces still hangs in the balance, as the repurposing pathway is yet to be fully explored by only the bravest. However, there is movement, and ambition is clearly present, though a clear execution plan in many cases may still be lacking.

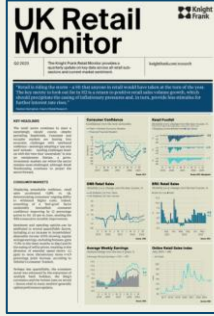
For instance, Bedford Borough Council has taken the first steps by acquiring its former Debenhams store to regain control of its city centre's future—a promising beginning in the long process of adapting our communities for the modern age.

FINAL THOUGHTS
Retail distress undoubtedly poses property challenges, but it can also be a catalyst for positive change, driving innovation and transformation.

Sook, a retail space innovator, and startup, was established to address rising retail vacancy. Though no longer operating due to challenges in capital-raising, its daring and bold approach to redefining landlord-occupier relationships by disrupting traditional leasing models leaves a lasting legacy and a blueprint for future solutions.

"Repurposing is akin to administering CPR – every sign of life must be carefully assessed before proceeding"

A selection of Knight Frank's market-leading retail & leisure research publications



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