

Lesson #4: Occupiers call the shots

Where occupier demand leads, real estate must follow.

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3 KEY LESSONS:

- Occupiers make the market, property is the supporting act. Buildings don't create value on their own, occupier demand does. Landlords who ignore this are playing a losing hand.
- Affordability is strategy, not charity. Chasing headline rents while squeezing tenants is short-term thinking. It undermines value and invites risk. Income only lasts if it's sustainable.
- Loyalty is dead. Occupiers are mobile, strategic and increasingly selective. If space doesn't serve their purpose, they'll move on.

Markets are shaped by demand, not design. The commercial property industry may spend most of its time focused on buildings, but the real power lies with the people using them. Retail, more than any other sector, has had to learn this the hard way. Others – particularly offices and industrial – might want to pay attention.

Strip everything back and one truth remains: occupiers are the market. A building only holds value if it serves a need. Retail's recent history offers no shortage of examples of what happens when that's overlooked – and how quickly fortunes can shift when occupiers are put back at the centre.

RETAIL'S CAUTIONARY TALE: OCCUPIERS ABOVE ALL

The property sector often sees itself as the main character in the story. In reality, it's a supporting act. There's a very clear pecking order with occupiers at the top, landlords beneath them, and – at least in retail – consumers above the lot.

Retail's most volatile moments have come when that hierarchy was flipped. The long stretch from the 1980s into the early 2000s was defined by expansion at all costs. Retailers, driven by aggressive growth targets, opened stores at a remarkable pace – 20, 30, sometimes 50 stores a year. Developers and landlords responded accordingly, delivering space at scale, with demand (at least for a time) seemingly insatiable.

By the 2010s, the cracks weren't just beginning to show but were widening. Retailers' portfolios had become unwieldy with too many stores, in the wrong places, on the wrong terms. Retailers responded by shedding stores, restructuring leases and, in many cases, using Company Voluntary Arrangements (CVAs) to reset their liabilities. Landlords found themselves exposed, and on the back foot.

For retail owners, it was a sobering realisation that the market doesn't revolve around the asset. It revolves around the occupier, who doesn't simply influence real estate value, but defines it.

WHEN THE OCCUPIER SUFFERS, SO DOES EVERYONE ELSE

Retail's effective rebirth – (*or renaissance, as we dub it*) – has hinged on a basic principle that space has to

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work. Not just aesthetically, and not just as a line on a lease schedule, but commercially. If it doesn't serve the occupier – operationally, strategically, or financially – it won't let. The result being vacancy and churn, all of which disrupt cash flow and dent asset performance.

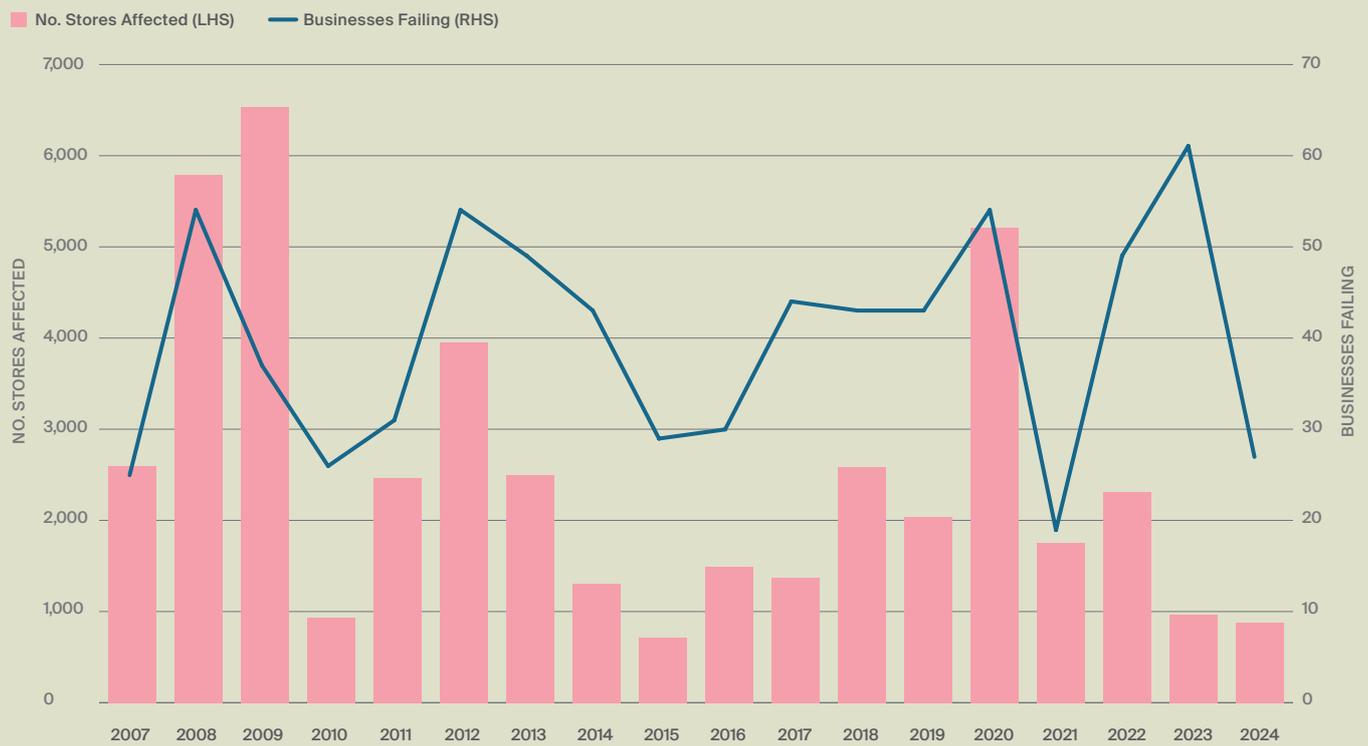
Too often, the property industry has approached things backwards. The default mode has been landlord-first. Long leases, rigid structures, valuation-led assumptions about growth and – particularly in the case of retail – a general underinvestment in genuine tenant engagement. The relationship was transactional, not strategic. And that, in the end, proved costly.

What emerged from the last decade's correction is a retail occupier base that is leaner, more focused, and arguably stronger than at any point in recent memory. The COVID shakeout cleared out weaker operators, leaving a leaner, more focused cohort with sharper strategies and better-aligned estates.

Investors, in turn, have adjusted their expectations, and retail is now

2024: the fourth quietest year for retail distress – a sign of a leaner, stronger occupier base

Retail failures: number of businesses failing vs. stores affected



Source: Centre for Retail Research, Knight Frank Insight

'back in the game'. Retail, once written off as too structurally challenged, is now forecast to deliver the highest income returns across all sectors, with projections of 5.7% per annum between 2024 and 2028, outperforming both offices (5.4%) and industrial (4.6%). This reflects renewed confidence in retail's occupier base. Investors are not backing the building – they're backing the tenant.

The same principle applies across the commercial spectrum, with confidence flowing from the bottom up. If the occupier holds firm, the rest will follow.

WHEN REAL ESTATE TRIES TO LEAD, IT LOSES ITS WAY

Retail's missteps haven't been hard to spot. They've typically come when real estate started believing its own hype – launching developments driven by design ambition rather than operational and occupational fit. These were the so-called 'vanity projects', many of which emerged during the mid-2000s

development boom. Often visually striking, but commercially fragile.

The flaw was always the same: occupiers were treated as an afterthought. Rents were set to satisfy funding models, not occupier balance sheets. Specifications prioritised aesthetic appeal over operational efficiency. The business case rested on the flawed assumption that "if you build it, they will come". Sometimes they did, temporarily. Sometimes they didn't come at all.

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By contrast, the shopping centre, retail park, and high street schemes that have stood the test of time best are those built through partnership. Landlords and retailers working together to create space aligned to how retailers actually trade. The emphasis is on collaboration, not prescription.

That thinking is now beginning to *filter through to the office sector*. Many landlords are still playing catch-up, while occupiers are deep into re-evaluating how much space they need, where they need it, and how it supports their people. The most forward-thinking landlords are engaging earlier – co-designing space with tenants, understanding that the office is no longer just a place of work, but part brand expression, part talent strategy, part cultural asset.

A QUESTION OF AFFORDABILITY

Perhaps the *most significant structural failing identified in retail* over the past decades was the growing disconnect between rental levels and sales

A widening affordability gap: retail sales versus retail rents

Index 100 = Year 1990



Source: ONS, MSCI, Knight Frank Insight

performance. As headline rents climbed, lease structures were increasingly propped up by generous incentives and cash contributions. Meanwhile, many occupiers were facing stagnant or declining trading conditions. The result was a widening affordability gap – papered over in the short term, but never properly addressed, until the numbers stopped stacking up and tenants pushed back.

Affordability became the priority. In many cases, this meant challenging leases head-on through negotiation, or in some cases, legal action. More fundamentally, leasing models shifted, with turnover-based structures gaining traction. All-inclusive packages bundling rent, service charges and rates provided simplicity and cost predictability, especially for operators managing tight margins.

Crucially, flexibility began to be seen by retail owners not as a concession, but as a form of defensive asset

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management. A lease that enables tenant profitability is more likely to be sustained. A tenant that trades well is more likely to renew. And an asset that adapts to demand is more likely to retain value. These are not just theoretical principles, but the foundations of sustainable income (see **Paper 6** of this series).

Both offices and industrial now find themselves at a similar crossroads – or will soon if they haven’t already. *A more cautious occupier mindset is forcing a reassessment of what constitutes value.* Headline rents may continue to rise in certain markets, but are increasingly being assessed through the lens of total cost with service charges, running costs, capex and lease flexibility all factored in.

Retail has learned, often the hard way, that rental growth is only meaningful if it’s truly affordable. If record rents are achieved by overextending the occupier or hiding true cost through incentives, do they really reflect value, or mask risk? The better question may not be “how much can we charge?” but “how long will they stay?”

SERVICE CHARGES: COST VERSUS VALUE

Perhaps one of the clearest examples of this value-for-money scrutiny is service charges. In retail, they were once passively absorbed as necessary,

if sometimes opaque. But that dynamic has shifted, with retailers now far more forensic in how they interrogate overall occupancy costs. They want transparency. They want justification. And above all, they want value.

A similar tension is now emerging in offices. Premium schemes with high service charges are under pressure – especially where amenities feel more like gimmicks than genuine productivity tools. Climbing walls, slides and ping-pong tables may have their place for some, but if they do not enhance operational performance, they are hard to justify for many.

Across sectors, the message is consistent. Every square foot must earn its keep and produce a clear return on investment, not just in terms of (retail sales) revenue, but through efficiency and brand alignment. Retail reached that conclusion some time ago. The rest of the market is now catching up.

DON'T ASSUME LOYALTY – EARN IT

If there’s one thing retail has made clear, it’s that occupiers are not passive. Retailers now manage space more deliberately, reviewing portfolios site by site, lease by lease. Performance matters. If a store is not delivering, it is closed, and if a lease does not work, it is renegotiated. The assumption that tenants will sit tight if unhappy simply no longer holds.

Few illustrate this better than Marks & Spencer: scaling back underperformers while doubling down on full-line stores and food halls that deliver. This is not exceptional, but indicative of a broader occupier mindset. The rise of CVAs within retail, controversial though they remain, reflects the same power shift – a tool not just to cut costs, but to reset terms with landlords and send a clear message. Even when challenged by the likes of British Land, M&G, and Hammerson, the courts have often sided with the occupier. *Lazari v New Look* stands as a clear test case: landlords no longer dictate the terms.

Loyalty, then, is no longer assumed – it must be earned. That means understanding what tenants value, what they're willing to pay for, and how physical space fits into their strategic priorities. Tenants have

choices. And increasingly, they're using them.

London's office market is perhaps the clearest parallel. Occupiers are rethinking not only how much space they need, but what they need to deliver. Our 2025 London Series reinforces this: *tenants will move, but only if there is a clear, demonstrable benefit*. If the offer doesn't improve on cost, quality, or fit, they won't move at all. The idea that tenants will compromise for average space, or overpay for the sake of postcode, is no longer valid. The scrutiny is too sharp, and the market too competitive.

THE RETAIL ROADMAP

The relationship between retail landlords and occupiers hasn't been easy, but it has been instructive. What has emerged is a sector that is more resilient, more pragmatic, and

far more aligned with the realities of demand. There may not be a perfect blueprint, but there is a roadmap.

At its heart lies a simple, enduring truth – occupiers make the market. Buildings don't create value in isolation. Ignore the occupier, and the numbers will catch up with you. But understand them, and value tends to follow.

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THE AGENT VIEW

“If the store doesn't perform, it doesn't stay”

David Legat – Partner, National Retail Agency



“Occupiers are calling the shots. And in 2025, they're doing it with more clarity, and less compromise, than ever. Retailers are still trading, consumers are still spending, but the playbook has changed. It's not about turnover, it's all about profit, and space that doesn't support that is being cut loose.

The real pressure isn't on the top line, but underneath it. The current operating environment is

forcing a sharper focus on costs. Wage increases, NIC changes, and looming business rates reform are all squeezing margins. Retailers aren't abandoning physical stores wholesale, but they are becoming more selective, doubling down on high-performing locations and rethinking the role of marginal stores. That doesn't necessarily equate to widespread closures, but it does mean landlords need to look harder at what makes each unit viable.

We're seeing investment flow into the core stores with high-profit, strategically important locations being refurbished, upsized, repositioned. This isn't just limited to the obvious 'prime' spots. But with capital tight, those plans increasingly come with a caveat: landlords need to have skin in the game. After years of pulling back on incentives, landlords are being asked to lean in, particularly where there's a clear

return in the form of longer leases or performance-linked rents.

Affordability has become a shared priority. For the tenant, it's about survival. For the landlord, it's about income resilience. That shift is prompting more open conversations about service charges, lease structures, and, in some cases, whether a store still justifies its place in the estate. This is particularly sharp in secondary locations, where fallback options are thinner.

The broad trend isn't one of retreat, but refinement. The tolerance for underperformance is low, and the assumption of loyalty is gone. Occupiers are making deliberate, often ruthless decisions about what space stays and what goes. For landlords, the message is clear: if you're not helping drive performance, you're holding it back.”

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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