Knight Frank

Retail Renaissance 2025

Lesson #5: Bigger = Better (possibly), Relevant = Best (definitely)

2025

The fifth of six papers exploring what other real estate sectors can learn from Retail's fall and unlikely rise again

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The Quest for Relevance.

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3 KEY LESSONS:

- There is some strength in large / prime – but this does not provide total protection from market forces and biggest isn't always best.
- It is dangerous to hide behind clichés and accepted definitions – generalisations rarely do justice to the complexities of the market.
- Understanding asset-specifics is paramount – and relevance trumps everything. Period.

"A flight to prime". Yawn. A strong contender for the most overused phrase in real estate, the most hackneyed cliché that, dare I say, you will find in virtually every report about offices. Effectively lazy shorthand for either "biggest / newest / shiniest / primest is best."

In fairness, retail could be guilty of this too, but maybe less so now than a cycle ago. The voyage of self-help that the retail market has been forced to undergo has led many supposedly property truisms to be called into question. Does prime really always reign supreme, is biggest always best?

SOME STRENGTH IN SCALE

There is definitely still a grain of truth in the theory. If not total, scale does offer at least some protection against market forces and challenges. This rings true across the three core retail sub-sectors: shopping centres, retail warehouses and high streets.

The most prime shopping centres are the 14 regional malls (e.g. the two Westfield schemes, Bluewater, Trafford Centre, Merry Hill etc), plus the pre-eminent schemes in the largest UK cities (e.g. Bullring in Birmingham, Arndale in Manchester, St James Quarter in Edinburgh etc). Although not totally immune to the challenges of retail generally, these have weathered the storm far better than many of their smaller counterparts. They still enjoy strong occupier demand and remain a massive consumer draw and while they too have rebased in value, they still command a significant investment premium (ca. 7.00% – 7.50% yield). Above all else, they are, and will always be, shopping centres, incubated totally from the whole repurposing debate.

It is a similar story in retail warehousing, where the largest shopping parks (e.g. Fosse Park, Castlepoint, Fort Kinnaird, Glasgow Fort, New Mersey etc) continue to enjoy a similarly virtuous circle of massive destination appeal and strong occupier demand. Rents are correspondingly high (Fosse Park £105/sq ft, Castlepoint £62.50/sq ft, Fort Kinnaird, Glasgow Fort, New Mersey all £55/sq ft), but sustainably so and investment yields are at a premium (5.25% - 5.50%). They remain unquestionably 'best in class'.

CENTRAL LONDON – THE ETERNAL OUTLIER

A slightly more nuanced picture on the high street itself – and this is where

> "The voyage of self-help that the retail market has been forced to undergo has led many supposedly property truisms to be called into question. Does prime really always reign supreme, is biggest always best?"

some of the lazy catch-all definitions of prime start to come up short. Prime Central London is in a class of itself, a unique market that warrants separate classification. Despite rebasing, rents and pricing are obviously at a massive premium to the rest of the market, underpinned by demand for trophy assets. Flagship stores in the West End do not necessarily adhere to the same P&L metrics as 'normal' retail outlets, demand tends to more whimsical, a desire to make a statement as much as to make money.

Away from Central London, it is very hard to generalise. Major cities do promise high levels of footfall and potential spend by virtue of their scale, but is that a guarantee that a retailer will make money there? It is a dangerous assumption to make, especially factoring in any number of moving parts, such as a multitude of pitch options and variable rental tones. High turnover potential is often matched by high occupational costs and this can be a massive drain on profitability. And as the saying goes, turnover is vanity, profits are sanity.

Does size equal strength? Vacancy Rates by Retail Centre Type

RETAIL CENTRE TYPE	NO. OF RETAIL CENTRES	AVERAGE VACANCY (%)
Regional Shopping Malls	**14**	**14.1%**
Major City	**9**	**18.2%**
Regional Centre	25	16.1%
Sub-regional Resilient Town	29	13.6%
Sub-regional Weak Town	37	20.9%
Average Resilient Town	29	16.2%
Average Weak Town	72	22.7%
Small Town	72	16.8%
Smaller London Centre	22	10.5%

Sources: PMA, LDC, Knight Frank Insight

Balancing this conundrum is one of the great challenges of retailing. It also brings the limitations of definitions of 'prime' into sharp focus. Is a pitch 'prime' just because it is in a major city? Can a small town, by definition, not have any 'prime' stock? Is a secondary/tertiary pitch in a 'prime' centre any more 'prime' than a 'prime' pitch in a secondary centre? This is where the phrase 'flight to prime' becomes not just lazy or questionable – but actually totally meaningless.

THE NEGATIVE FLIPSIDES

Bigger can be best, but it is not necessarily always the case. Larger centres also carry major inherent risks, the key ones being over-supply and over-rent. Over-supply is one of the key retail structural failings we identified in our *'Price of Change'* research report. It follows that the larger the centre, the greater the risk there is too much floorspace. This is borne out through empirical evidence, with the nine 'Major Cities' (as identified by PMA) having an average vacancy rate (18.2%) higher than both 'Regional Centres' (16.1%) and 'Small Towns' (16.8%). Three of the major cities have vacancy rates higher than 20% (Leeds 20.8%, Newcastle 22.3%, Cardiff 23.0%). Prime centres with high volumes of non-prime stock, the margin of error is very large.

The same downside risks apply to the regional shopping malls. According to LDC, the average vacancy rate across all 14 schemes is 14.1%. But Metrocentre (23.9%), Lakeside (19.3%) and, perhaps more surprisingly, Westfield London (24.0%) all significantly exceed this figure. Covering more than 2 million sq ft, it is difficult to argue that Metrocentre in particular is not over-spaced.

Similarly on occupational costs. Headline prime zone As are all £300+/sq ft at Bluewater, Meadowhall and Trafford Centre, £350/£400+ sq ft at the two Westfield schemes. Throw in hefty service charges and high business rates, it can be difficult for retailers to actually make money in the rarified 'prime' space of regional shopping malls. Maybe not over-rented by the letter of surveying law, but onerously high in the affordability stakes for many retailers. Above all, it is very dangerous to assume these are 'the best' stores for most retailers – and as we established in and as we establish in **Paper 4,** occupiers are king.

Rents provide a useful barometer as to resilience. But again, the evidence is totally inconclusive. Comparing prime zone As of the 300 PMA Centres on pre-COVID (2019) vs current levels, only 12 have not gone backwards.

Of these, only Edinburgh could lay claim to being a 'prime' centre. In contrast, the other end of resilience spectrum features large cities such as Birmingham and Newcastle, plus other major destinations such as Croydon, Kingston, Reading and Southampton.

Equally, the confines of London providing a defence? The cases of Chiswick and Clapham Junction totally contradicted by those of Brixton, Richmond, Islington and Camden Town. Meanwhile, the likes of Hitchin, Paisley, Bridlington, Redcar and Stamford hardly qualify as 'prime' in anyone's book, yet in terms of rental tones they have proved to be some of the most resilient centres in the UK.

Inconclusive does not come close – and this illustrates perfectly the limitations of many generalisations.

IN DEFENCE OF THE 'SUB-PRIME'

Does a 'flight to prime' completely preclude small centres? Absolutely not, on the contrary, many down-at-heel, demographically-challenged centres actually perform very well. They may not present nearly as well as 'prime' centres, but they tick the most vital box of all – they correspond to the needs of their catchment.

This may not be desperately aspirational, but it is functional and convenience-based. Less high end fashion, more everyday needs (food, health & beauty etc). Lower footfall overall but higher frequency/more regular footfall, lower disposable income but a higher propensity to spend, lower occupational costs and higher affordability for retail occupiers – the diametric opposite of more celebrated 'prime' centres.

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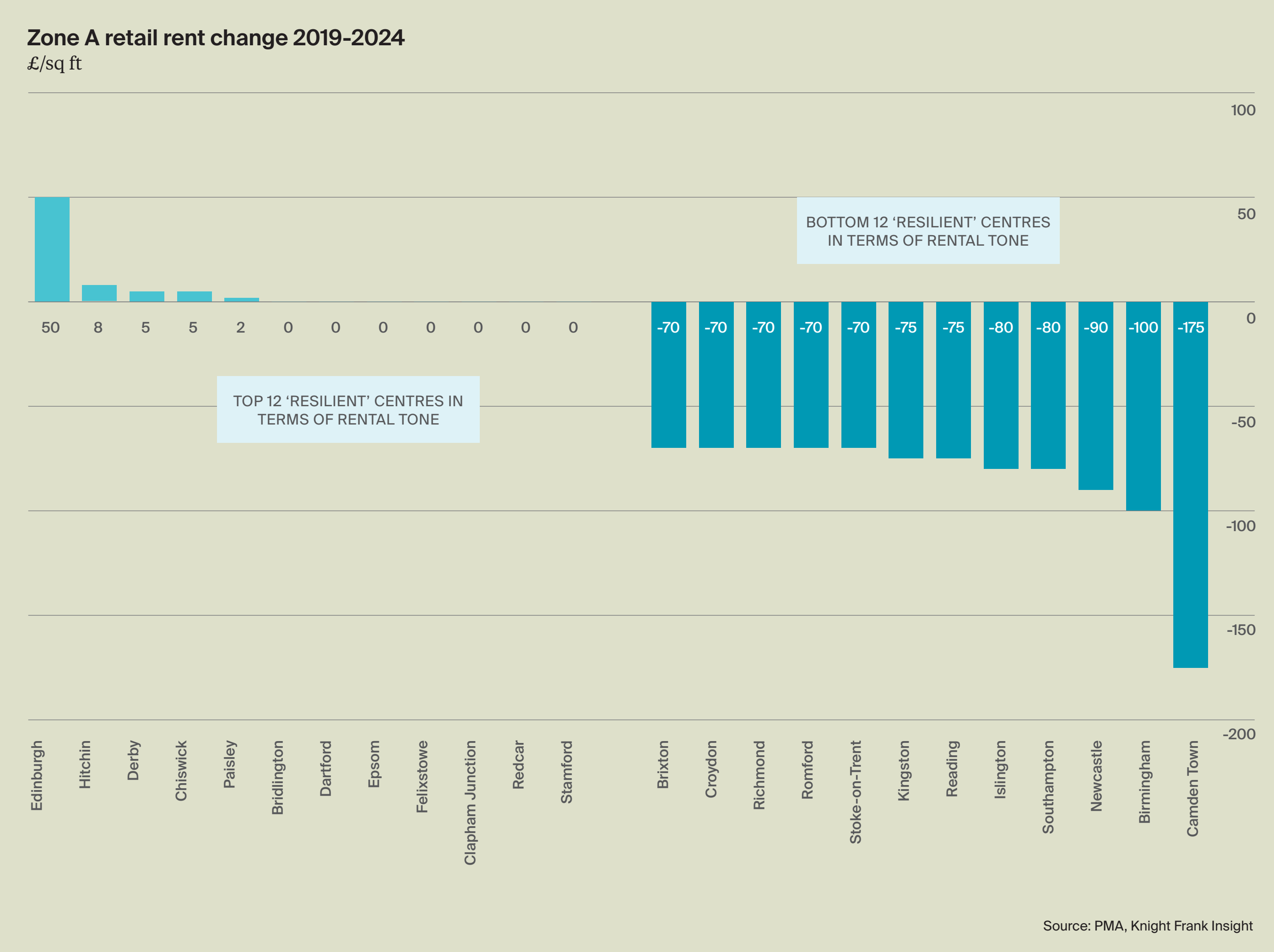

"So, big, small or inbetween – what is best? Experience has taught us that the answer to this will always be 'it completely depends'."

There is a tendency to over-polarise retail around these two extremes – 'Prime Destination Centres' and 'Convenience-based Rough Diamonds', if you will. But again this is a dangerous over-simplification, as it assumes that all those in the middle ground are squeezed – and this is probably the largest segment of the market. Many middle-ground towns and centres may indeed be highly challenged and at the sharpest end of years of neglect. But many aren't, and it would be woefully wrong to tar all with the same brush.

So, big, small or inbetween – what is best? Experience has taught us that the answer to this will always be 'it completely depends'. This 'it completely depends' should by no means be interpreted as a cop out or as an 'I don't know', it is acknowledgement of the limitations of convenient generalisations that fail to do justice to the complexities of comprehending and measuring retail performance. 'It completely depends' recognises the importance of understanding and being able to assess asset-specifics, chiefly the extent to which it corresponds to the needs and aspirations of the audience that it serves.

LIMITATIONS OF 'EXPERIENTIAL'

'Experiential' has become something of a buzzword in retail, the inference being that only 'experiential' retail can in any way prosper. The issue is that 'experiential' is a very vague term that defies any tangible definition. The common assumption is that 'experiential' has to incorporate massively high-tech retail stores alongside a multi-faceted leisure proposition, which spans F&B to include a plethora of competitive-socialising thrills and spills. All fine and good in the right location, but not a panacea nor a prerequisite for every retail centre.

There are far better yardsticks than 'experiential'. Less poetic maybe, but 'half decent' is not a bad starting point. The reality is that many towns and retail destinations have suffered from chronic neglect and under-investment for many years (again, please refer to our *'Price of Change' report*) and this has now come home to roost. Thankfully, many are now seeing this lack of investment redressed, but at the same time, many are not. Investment can take many forms, but need not necessarily extend as far as being anything approaching 'experiential'. For 'half decent' read 'well-maintained' or simply 'invested in', rather than necessarily all-singing, all-dancing.

THE RELEVANCE OF BEING RELEVANT

But 'relevant' is the best yardstick of all. Yes, 'relevant' is a generic and ambiguous term, but it is far more appropriate and meaningful than 'experiential'. 'Relevant' is all-encompassing and agnostic at the same time. 'Relevance' will mean very different things to different centre and asset types – the requirements for a regional shopping mall to be 'relevant' will be very different from those of a small, community-based centre.

Despite these shifting nuances, 'relevance' in retail does carry certain common denominators. As already alluded to, the hallmark of 'relevance' is meeting and exceeding the needs and expectations of the catchment and audience that centre or asset serves. Implicit in this is achieving the virtuous circle of attracting and curating the right tenant mix that will entice this audience to come and spend. Happy tenants, willing and able to pay a decent rent. Underpinned by a rolling investment programme to keep the wheels in motion and enable evolutionary change.

Biggest isn't necessarily best. 'Relevance' is best. And 'relevance' may be found in either big or small assets, or equally those inbetween. 'A flight to relevance' may not trip off the tongue in quite the same way as a 'flight to prime' or 'flight to quality'. But a quest for 'relevance' has totally redefined retail markets away from more established buzzwords.

Other property sectors may wish to take note...

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THE AGENT VIEW

"Prime is appealing, but not the only game in town"

Will Lund – Partner, Retail Capital Markets

"Sticking to what they know or just following the herd? It is perhaps easy to understand why many investors flock to "prime" assets in uncertain times, but to draw the line there, excluding investments in other equally relevant assets, would perhaps be naïve.

Typically larger, dominant, and able to draw from the widest of catchments, these prime assets often form part of a mix of uses. Owners have invested to develop distinct quarters within their assets, with leisure, activities, socialising, catering and retailing now essential parts of the occupier mix — sometimes alongside living and workspace uses.

That said, access to investments in the prime sphere is challenging at best. Very few of these opportunities see the light of day. A handful of shopping centre stakes have been sold (but all for ownership shares of 50% or less) and in previous years, none have traded at all. In the rare instances that minority shares of prime investments have reached the market, they have been readily acquired by existing stakeholders. That's clear evidence that owners believe in the future of these assets and are not willing to let go at today's discounted market pricing.

One exception which we expect to buck this trend in the years to come are assets from the former Intu portfolio – where the likes of Lakeside, Manchester Arndale and Derby would all be considered "prime" super regional centres. But the distressed days in the aftermath of COVID are behind us. All of these centres have been reinvested in, realigned to suit modern needs and restructured. If and when their owners decide to exit, they will be seeking premium pricing.

With many investors making their first retail acquisitions (and possibly first UK acquisitions) it's not surprising that their focus is on the "best of the best". But with a clearer understanding of how high-quality assets operate and should be managed, some are starting to venture into other areas of the market: targeting yield, purpose, or specific opportunities too good to turn down.

Smaller, convenience-led investments — particularly food-anchored assets — have their place. With more plentiful supply and consistently elevated yields, we expect buyers to remain active here too. Provided they are relevant, perhaps good things can indeed come in small packages?"

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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