The Show Must Go On
Retail Property Market Outlook 2021
Less, but better floorspace. Fewer, but fitter operators. Retail structural change accelerated by Covid-19 will continue to play out in 2021. Considerable but necessary short-term pain for a stable and sustainable retail market going forward.

Against a more benign backdrop generally, occupier markets will stage a slow recovery as the year unfolds. Levels of retail trade are likely to have returned to something like “normalised” levels by the end of 2021.

In defiance of all economic logic to the contrary, the UK consumer will spend relatively freely in 2021. Free from the constraint of lockdowns and with considerable pent up demand, retail sales are forecast to grow by ca. 5% in 2021.

2021 will be The Year of the Arrear – an estimated 50% of retail rents from this year remain unpaid going into the New Year. Resolution of this will be painful, with landlords either aggressively chasing what is due to them, or formally taking the pain themselves on their balance sheet.

Occupier markets face a potential meteorite crash at the end of March, with a risk of the moratorium on forfeiture and the business rates holiday being lifted almost simultaneously (exacerbated by Q1 rent day). A major pinchpoint with inevitable fall-out.

CVAs will sadly continue, particularly in the fashion sector which has been crippled by a toxic scenario of over-supply (too many operators, too many stores) and exceedingly soft consumer demand during 2020 (clothing sales down ca. -25%-30%).

Some CVA protagonists will graduate to full liquidation and the high street is likely to lose some well-established brands in 2021. But a “new breed” of operator will emerge to replace them over time as part of an evolutionary “changing of the guard”.

Flexibility and affordability will be the two defining forces of occupier markets in 2021. Manifestations of this will be shorter leases and a continued push towards turnover rents. But these need to be a two-way street to be effective, with retailers and landlords being transparent and collaborating.

Retail floorspace – increased separation between the wheat and the chaff in 2021 will drive both the investment market and potential development into alternative uses. Retail remains an investible property class, albeit one that now requires far greater discrimination than in the past.

Investors will continue to favour foodstores (-25bps to sub 4.00%) and retail warehousing (-50bps to 6.00%) and volumes will reflect that in 2021. OOT’s accessibility, flexibility and simplicity, plus perceived incubation from online, will continue to attract both institutional and PE investors.

Expect a flurry of retail repurposing exploration in 2021, although actual activity will not match the level of narrative as it is a more complicated play than many currently appreciate. Retail stock will be circled by a whole host of alternative uses, both commercial and residential, mainstream and specialist.

Many potential retail repurposings will not cross the “Four Great Divides” we identify, with value alignment invariably the most challenging. Those that do will largely be within Greater London and certain towns in the South East. Only in select locations will the stars fully align to make repurposing financially viable.
Covid-19: the ultimate stress-test that nobody wanted. Those that hitherto celebrated disruption and disruptors as forces for good must surely have reviewed their stance in the face of what this looks like in reality. The retail sector was already firmly in the throes of structural change and entered the pandemic with serious pre-existing conditions, rendering it highly vulnerable to everything that has ensued. Any lingering weakness in the retail industry has been cruelly exposed.

Irrespective of success of any vaccination programme, 2021 will be a far better year than the “annus horribilis” of 2020. But it won’t be a “Bobby Ewing in the Shower” scenario whereby we just erase what has happened under the pretext of it just being a bad dream. Beware the inevitable “return to pre-pandemic levels” headlines that will increasingly come to the fore as the year unfolds. If we were destined to just go back to where we were before, it would take several years. But the reality is that we are actually on a different trajectory, a “new norm” to use popular parlance.

What is the “new norm” for retail? Flexibility and affordability are the two key watchwords for retail occupiers and, by extension, the two challenges for retail landlords. In practical terms, this will mean shorter leases and a push towards turnover rents, but both will require proactive collaboration and both sides have to play ball if this is to prove a workable and sustainable solution.

2021 will not be without further pain. CVAs will still occur and could actually accelerate in Q2 unless the potential meteor collision of the business rate holiday and moratorium on forfeiture ending at the same time is averted. A number of former CVA candidates will sadly graduate to full liquidation and the high street will inevitably lose some well-established names. Harsh as it may sound, this is the natural order of retailing and is nothing new. Retail remains the survival of the fittest and some operators are tangibly fitter than others.

For many, optimism may be tempered by employment concerns. Conversely, many others may find that constraint and restraint this year has left them with a significant cash surplus and pent-up demand going into 2021 is considerable. And there is comfort that in past recessions and times of hardship, the UK consumer has usually defied gravity and continued to spend.

“The high street is dead. Long live alternative use”. The narrative on retail’s demise has amplified over the past year. But this narrative remains as premature as it is simplistic. The UK retail industry is still worth £390bn a year and is not simply going to disappear. Change and evolve, yes, vanish into the ether, no. Reducing overall retail footprint is a fundamental part of this evolutionary process, a necessary factor to address the key structural flaw of oversupply. But only a limited proportion of retail floorspace actually lends itself to viable repurposing to alternative uses and it is a far more complex play than many appreciate. It is a bespoke rather than turn-key process – and, needless to say, one that Knight Frank is uniquely positioned to advise on.

A consumer willing to spend, a changing of the guard amongst occupiers, the emergence of a new breed to take the market forward, fewer but fitter operators, less but better floorspace, a renewed sense of purpose within town centres that have been re-engineered to reflect the future rather than the past. Positive counterpoints to all the pain the retail sector has had to endure in recent years and a blueprint for retail’s future.

Retail in 2021. The Show Must Go On. Maybe not as rehearsed, unscripted to a point, and largely improvised. But Go On it shall. We would be delighted to discuss any issues raised in this body of work with you.
The Show Must Go On — Retail Property Market Outlook 2021

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Key Stakeholders - Short, Medium, Long-Term Agendas

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The show must go on


Why we expect the UK consumer to defy economic logic and spend freely in 2021, with the retail sector a key beneficiary.

Stephen Springham, Emma Barnstable


Infographics

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We use Harrogate’s town centre as an example.

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Key Stakeholders - Short, Medium, Long-Term Agendas

**CONSUMERS**

- **LOCKDOWN - PARTIAL FLIGHT TO E-COMMERCE**

**RETAILERS**

- **EXISTENTIAL CRISIS - FIGHT FOR SURVIVAL**

**LANDLORDS**

- **RENT COLLECTION AND CONTINUITY PLANNING**

**INVESTORS**

- **AVOID OR AMBULANCE CHASE DISTRESS**

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**SHORT TERM**

- **LOCKDOWN - PARTIAL FLIGHT TO E-COMMERCE**

**MEDIUM TERM**

- **REDEFINING SHOPPING HABITS AND PROPENSITIES**

- **SHORE UP BALANCE SHEET, MAINTAINING BRAND EQUITY**

- **EFFECTIVE ASSET MANAGEMENT, RE-PURPOSING, DISPOSALS**

**LONGER TERM**

- **GREATER APPRECIATION OF PHYSICAL RETAIL SPACE**

- **ENSURING BUSINESS IS FIT-FOR-PURPOSE, APPROPRIATE INVESTMENT**

- **CLOSER COLLABORATION / FLEXIBILITY WITH OCCUPIERS**

- **MORE FORENSIC / INFORMED APPROACH TO ASSET SELECTION**

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**NEXT 6 MONTHS**

**NEXT 2 YEARS**

**BEYOND 2 YEARS**
**The Show Must Go On**

**Dashboard**

- **Forecast Retail Sales Value Growth in 2021:** +5%
- **Projected FY 2020 Retail Sales Growth, Despite COVID-19:** -0.3%
- **Projected Decline in FY 2020 GDP Growth:** -11.3%
- **Retail Sales Average Annual Outperformance of GDP over Last 30 Years:** +170bps
- **Forecast Rate of Unemployment in 2021:** 8.0%

- **Estimated Proportion of Retail Rent Still Owed Going into 2021:** 50%
- **Number of Retailer Failures During 2020:** 52
- **Retail Vacancy Rate @ September 2020:** 14.4%
- **New High Street Openings During H1 2020:** 23,305
- **Total Number of New Barbers, Beauty and Nail Salons Opened H1 2020:** 867

- **Projected Total Retail Investment Volumes in 2020:** 3.6bn
- **2020 Volumes Versus Historic 10 Year Averages:** -57%
- **Proportion of 2020 Retail Investment Volumes Accounted for by Foodstores:** 42%
- **Yield Movement on Regional Shopping Centres During 2020:** +125bps
- **Foodstore Yields in Q4 2020 and Projected Value for 2021:** 4.00%

- **Number of “Great Retail Repurposing Divides”:** 4
- **No. of Retail Units Live + Vacant Converted to Other Uses H1 2020:** 1,285
- **Retail Floor Space Productivity: Oxford vs Runcorn:** £686 vs £11 per sq ft
- **Rental Performance 2010-20: Brixton vs Falkirk:** +68% vs -68%
- **Investment Deals in Maidenhead / Orpington by Areli As Part of Repurposing Plays:** £25m/£31m

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**Sources:** Knight Frank, ONS, Oxford Economics, Centre for Retail Research, Property Data, CACI, PMA, LDC.
The UK consumer moves in mysterious ways – to second-guess these movements is often a fool’s errand. Macro conditions supposedly dictate that the consumer reacts and behaves in a certain way, yet she/he regularly goes off at an unexpected tangent. That has been the lesson from both history and past recessions and is likely to be the case as we enter 2021. A Covid-19 pandemic is most certainly uncharted territory, but there is enough past evidence to support this view.

UK retail sales in 2021 are likely to confound a significant proportion of the economist community, certainly those wholly-wedded to their text books. The text book narrative is relatively simple: amidst unprecedented levels of political, economic and social uncertainty, consumer confidence is exceptionally low, unemployment is rising and inflation will outstrip wage growth. QED, consumers will be cash-strapped and will rein in spending. But the UK consumer tends to have scant regard for such logic and 2021 is likely to be far stronger for retail sales growth than these metrics suggest.

Consumer Confidence – a weak barometer of actual consumer behaviour

Consumer confidence is not necessarily the water-tight barometer of retail spending it purports to be. What a consumer feels and the way they behave are not wholly one and the same. Low confidence may not equate to low spending, it may actually prompt the converse, “retail therapy” (to use popular parlance) actually being an outlet for deeper disquiet. Reference to low consumer confidence can be something of a lazy catch-all or a throwaway comment, but it can also be a quantified measure. For example, GfK has been producing a Consumer Confidence Index since 1974, disaggregating a ‘Total’ figure into finer confidence indicators for ‘General Economic Situation’ and ‘Personal Financial Situation’ since 1996.

The UK consumer tends to have scant regard for such logic and 2021 is likely to be far stronger for retail sales growth than these metrics suggest.
How does Covid-19 compare with the annals of time? After a relatively stable period from 2017, Gfk’s Total Consumer Confidence Index plummeted to -14 in April 2020 as the full scale of the pandemic became apparent and the UK went into total lockdown. But this has been surpassed in history. During the Global Financial Crisis, the Index hit a low of -39 in July 2008 and during the early 1990s recession it was broadly comparable to this year, at -35. Covid-19 may be unprecedented, but confidence is not plumbing new depths.

The component parts of the Index are perhaps more revealing still as to how consumers’ actual behaviours. In April 2020, the ‘Personal Financial Situation’ indicator declined to -14 (versus a monthly average of ca. +3 the preceding 12 months), but this was a shallow fall relative to ‘General Economic Situation’ (-56 versus -51 previously). In general, consumers are far more confident in their own personal finance situation than they are in wider economy. And from a retail perspective this is crucial as their purse strings are far more attached to the former than they are the latter.

Retail sales tend to outperform the wider economy. In the 30 year historic timeseries produced by the ONS, annual retail sales have grown faster than comparable GDP on no less than 23 occasions.

Brexit is both a recent and classic case in point. In the wake of the Referendum vote in June 2016, overall Consumer Confidence slipped (-2) and virtually every economist and commentator in the land predicted that retail sales would slump in sympathy. They patently didn’t, growing by +3.1% in 2016 and +4.5% in 2017, largely because the main downward movement in confidence related to the general economic situation (-30) rather than their own personal one (-4). That Brexit destabilised retail sales remains, at best, a red herring, at worst a factual inaccuracy. Consumers felt that their personal finances were insulated from movements in the macro-economy and retail sales held up accordingly.

Retail sales vs GDP – previous recessions/crises

Consumer confidence is only a very loose indicator of retail sales. History has also proved that it is similarly wrong to simply assume that retail sales faithfully track wider GDP performance. If anything, retail sales tend to outperform the wider economy. In the

A similar story during the GFC. High profile retail failures such as Woolworths, MFI and Comet (amongst many more) are the enduring public perception of the retail sector in the wake of the collapse of Lehman Brothers and there is no denying that GFC marked a period of major pain and wider fall-out for the UK high street. But the actual retail sales figures paint a slightly more nuanced picture. Retail sales in both 2008 (+3.2%) and 2009 (+1.8%) outpaced GDP growth (+0.3% and -4.2%). A backdrop of wider distress

![Gfk Consumer Confidence Index - Total (1974-Present)](image)

![Gfk Consumer Confidence: 1996-present with component parts](image)

![Retail Sales vs GDP (2005-2020f)](image)
In times of past hardship, the consumer has time and time again defied gravity and retail sales have usually outperformed the wider economy. It is not unreasonable to surmise that 2021 will follow a similar pattern.

2020 – how bad was it?

Fast forward to the here and now. How have retail sales responded to Covid-19 and government-imposed restrictions throughout the year? We will not receive the official 2020 outturn figures from the ONS until mid-January, but we are in a position to analyse the vacillations in monthly trends over the course of the year, plus put forward our projections for Christmas and FY 2020 outturn.

Beyond any doubt, this has been the most challenging year for the retail sector, arguably since World War 2. This is only partially reflected in the actual retail sales numbers. The 1st national lockdown came into force from 23 March and was only lifted from 15 June. Retail sales inevitably fell off a cliff over this period. In March they were down by -4.5% y-o-y, reaching a nadir in April (-9.2%) and remaining heavily in negative territory in May (-9.8%). These were unequivocally the three worst monthly performances since data records began in the late 1980s and probably any time since the late 1940s (if that data existed). For context, the previous worst month on record was May 2009, when year-on-year retail sales were down by comparatively mild -1.7%. Retail sales 2020 YTD

These headline figures do not even tell the full story, nor reflect the actual scale of the pain on the high street. “Essential retailers” (including supermarkets) were able to trade during the 1st lockdown and actually saw an acceleration of growth (March +10.4%, April +6.5%, May -79%). Stripping these figures from total retail sales paints a very bleak picture for the rest of the retail market. Non-food retail sales slumped by -21.4% in March, -53.3% in April and -42.3% in May. Non-food only returned to positive growth in September (+0.4%), but with monthly average declines of -22% in the intervening period. Of all the non-food sub-sectors, fashion has definitely been the hardest hit, recording average monthly declines of ~57% between March and September and still in double digit negative growth with the end of year in sight.

Retail sales staged something of a rally between the 1st and 2nd lockdowns. Y-o-y retail sales growth averaged +5.3% between July and October, peaking at +7.7% before we entered 2nd lockdown on 5 November. This recovery confounded many economists, again exposing their tenous grasp of the vagaries of consumer behaviour and that propensity to spend trumps all other considerations. At the same time, widespread narrative of retail sales “returning to pre-pandemic levels” is both tenuous and disingenuous and gives a false sense of recovery. Retail sales in September may have been higher than February in absolute terms, but seasonally, February is the low point for retail sales in any “normal” calendar year and therefore a weak base for comparison. Higher sales values in September versus February also glosses over the huge volumes of trade that disappeared in between.

The 2nd lockdown destabilised what fragile recovery we were seeing. On the plus side, the second lockdown was shorter
than the first and having been there before, retailers were better-equipped to deal with some of the challenges that inevitably arise. But on the negative side, the timing could scarcely be worse, November being a key month in the build up to Christmas. Despite a smokescreen of “skyrocketing” online growth, the harsh reality is that overall retail sales again returned to negative territory in November.

At time of writing, Christmas 2020 is still playing out. With the 2nd lockdown lifted from 2 December, we expect retail sales to benefit from considerable pent up demand. Again, this is very hard to quantify at this stage, but we would tentatively estimate that Y-o-Y retail sales growth could comfortably surpass +5% in December.

Our projections for FY 2020 are as tentative as the shifting landscape allows. Assuming a full in demand in November, followed by a frantic December as pent up demand is released, overall retail sales could grow by +5% to +6% in Q4. This would suggest a broadly neutral FY outturn figure of between -1% and +3% (with +0.5% and +0.5% a more likely range). But with a big polarity between food (FY 2020 retail sales growth projection +5% to +7%) and non-food (FY 2020 retail sales growth projection -4% to -8%). A FY neutral outturn (-1% to +1%) is not exactly a triumph, but may actually be a decent return given the lows earlier in the year and the scale of the challenge Covid-19 has presented. One thing is certain – retail sales will again “out-perform” the wider economy this year, with consensus forecasts (in November 2020) suggesting that UK GDP will fall by ca. -10% to -11% this year.

But in many respects, it is less about the minutiae of the numbers, it is far more around the bigger picture. And the bigger picture here is of a consumer that is still willing to spend, as and when the high street is not subject to enforced closure.

Prospects for 2021

With so many moving parts both politically and socially and almost hourly newswall on the nature of further restrictions and the prospects of vaccinations (not to mention the final outcome of Brexit), making concrete forecasts for 2021 is nigh impossible. That said, we are confident that retail sales will stage a relatively strong recovery next year, the only major caveat being no further lockdowns or disruptions on a major scale. Successful roll-out of a Covid-19 vaccine will undoubtedly have a huge economic impact, but its influence on retail sales can only be on the upside.

The history of past recessions is likely to repeat in 2021, with retail sales outperforming both GDP (as already discussed) and wider consumer spending. Again, there is a tendency to confuse retail sales with consumer spending, or rather, to assume that the two are one and the same. In reality, there is surprisingly little correlation between the two. Retail sales actually represent only around one third of overall consumer spending, a pot that includes housing, transport, health, education, recreation, culture and communications, amongst many other categories.

In times of economic and social hardship, there is usually a flight to retail within consumer spending. In other words, consumers tend to redefine their spending priorities and money that would have been spent on other categories is actually spent in retail channels. Rather than buy a new car or go on an expensive holiday, some or all of that cash will be actually find a more immediate outlet in retail. To a degree, we have already seen this in 2020. Oxford Economics (OeF) are forecasting a degree, we have already seen this in 2020. Oxford Economics (OeF) are forecasting (at November 2020) that overall consumer spending for FY 2020 will be down -14.8%. Compare this with our own FY 2020 retail sales prediction of -4% to -6%.

Deciphering underlying performance as the year unfolds will be extremely difficult on account of a wildly fluctuating comp base. Basic mathematics will detract from what may be happening on the ground / on the high street. The monthly figures from March onwards will inevitably show huge demand spikes as they lap such weak comps in 2020. Taking the year as a whole, we would project that retail sales in 2021 are likely to grow in the order of +5% to +6%. Although in line with 2021 forecasts for consumer spending (e.g. OeF at +5.2%), retail sales growth will be leveraged off a more demanding base. And by the end of the year, we should be some way towards clawing back the trade that was lost in 2020 at the height of the pandemic.

Some perspective

Retail sales are the lifeblood of the high street, but the arteries to its vital organs are manifold. While strong retail sales are a prerequisite for a healthy retail industry, they cannot necessarily sustain a healthy market on their own. Sadly, strong retail sales do not necessarily correlate to a healthy high street if the latter has pre-existing conditions. Many of the UK retail sector’s issues are structural and will not simply be washed away by a tide of positive consumer demand.

If not full salvation, strong retail sales at least provide a platform upon which to build. Retailers still face a multitude of challenges and many remain ensconced in a battle for survival. But the likelihood of this being achieved and necessary rebasing / restructuring being implemented is infinitely higher if consumers continue to spend. As many aspects of the retail industry battle on, they can do so in the relative comfort of knowing that the UK consumer is likely to play their part, whatever the economic text book may say.

By the end of the year, we should be some way towards clawing back the trade that was lost in 2020 at the height of the pandemic.
COVID-19 VS PAST RECESSIONS AND CRISES

GfK Consumer Confidence Index
Total (1989-Present)

Early 1990s Recession
Y-o-Y Growth (%)

<table>
<thead>
<tr>
<th>1990</th>
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<tr>
<td>GDP</td>
<td>+0.7% -1.1%</td>
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<tr>
<td>Retail Sales Values</td>
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<td>CPI</td>
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<td>Unemployment</td>
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<tr>
<td>Retail Capital Values</td>
<td>+4.9% -1.9%</td>
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<tr>
<td>Retail Rental Values</td>
<td>+4.9% -1.9%</td>
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Dotcom Crash
Y-o-Y Growth (%)

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<tr>
<td>GDP</td>
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<tr>
<td>Retail Sales Values</td>
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<td>Retail Sales Volumes</td>
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<tr>
<td>Unemployment</td>
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<td>Retail Capital Values</td>
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<td>Retail Rental Values</td>
<td>+4.9% +3.3%</td>
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GFC
Y-o-Y Growth (%)

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<td>Retail Rental Values</td>
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Covid-19 Pandemic
Y-o-Y Growth (%)

<table>
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<th>2020p</th>
<th>2021f</th>
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<tbody>
<tr>
<td>GDP</td>
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<tr>
<td>Retail Sales Values</td>
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<td>Unemployment</td>
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<tr>
<td>Retail Rental Values</td>
<td>-10.0% -5.5%</td>
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Source: ONS, MSCI, IPD, Realfor, Oxford Economics
Covid-19 has accelerated and accentuated many trends we were already seeing in the retail market and turbo-boosted painful but necessary structural change. A popular (if slightly lazy) summation is that we have witnessed 5 years of change in as many months. That may be true up to a point, but the impact of Covid-19 has not been progressive on all counts.

Two aspects of retail have sadly regressed considerably over the past year, with little prospect of this changing in 2021 – retailer and landlord relations and narrative over online. Market conditions have brought tenants and landlords onto a collision course, the much vaunted “spirit of collaboration” of recent years often seeming little more than a myth. Similarly, a harsh dividing line has been reinstated between online and physical retail, a major setback in the journey towards understanding the multi-channel mechanics of modern-day retailing and reacting to what is an evolutionary process. On both these key issues, we have gone backwards rather than forwards.

### Year of the arrear

Quarterly rent days can be a pinch-point at the best of times. 2020 was clearly not the best of times and there were considerable stand-offs between landlords and occupiers, many of which are still ongoing.

The UK first went into lockdown on 23 March, a couple of days before quarterly rent day. A number of retailers (those that were able to stop standing orders from going through) withheld payment. With lockdown lasting almost until Q2 rent day, retailers were in a far worse cash position in June, having had zero trade through their stores and only compromised sales through their online divisions. Less than 20% of all retailers paid on time and in full in June, with a similar trend repeating in September.

As a very general rule, all the major grocers paid in full, but hardly any hospitality operators paid anything. Non-food retailers were somewhere in between these two extremes. Most controversial were non-food “essential” operators that were able to open during lockdown, yet still did not meet their quarterly rent obligations. Essentially, all operators fell into four broad camps – “the payers”, “the can’t pays”, “the won’t pays” and those that proactively sought to secure landlord concessions. With negotiations still ongoing, some rents were collected post quarterly payment days in some shape or form e.g. staggered monthly or at a reduced rate.

But there is still a cloud of unpaid rent hanging over the sector, with little indication as to how this will be resolved. In broad terms, Knight Frank estimates that around 50% of retail rent owed is still outstanding going into 2021 and

While 2021 will be the Year of the Arrear, what is going to happen to the money that is owed? Are landlords merely going to write it off, or aggressively try to recoup as and when they are able, or are mutually-beneficial compromises going to be struck? Compromise solutions include staggered repayments over a predetermined timeframe or possibly guaranteeing the lease. But the latter solution is only viable on three conditions:

- The landlord has faith in an occupier’s covenant
- The unexpired term permits
- The owner can afford short-term income loss.

Similarly, staggered repayments only work if the tenant stays in occupation.

In many cases, none of these issues are certain and many landlords have lost faith in occupiers’ longevity.

We believe the moratorium on forfeiture will be extended until March. This will buy further breathing space for occupiers, but will not resolve the issue of unpaid rent. But ultimately, if landlords are to write-off rent owed, then at some point they will be obliged to do so formally, actually recognising it on their balance sheets, rather than just notionally “somewhere in the ether”, as is currently the case. The stagnation we are currently seeing in rent arrears cannot carry on indefinitely and is a ticking time bomb.

### Two aspects of retail have sadly regressed considerably over the past year, with little prospect of this changing in 2021 – retailer and landlord relations and narrative over online.

The detonation of this time bomb is likely to be extended to March. Beyond that, it is impossible to speculate at time of writing (December 2020).

The other elephant in the room is the business rate holiday, which, as things stand is also scheduled to end in March. The holiday has undoubtedly temporally removed one major cost pressure for retailers. For the very largest retailers, rates relief was substantial (e.g. Tesco £586m, Sainsbury’s £498m, Asda £257m, Morrison’s £279m. Note: all since repeal), but even for a small retailer or independent operator, it could be the difference between survival and failure.

Few outside Central and Local government would argue that the current business rate system is equitable in today’s retail market (regardless of Covid-19). The fact that it is about the only thing that landlords and retailers wholesaleheartedly agree on speaks volumes. The introduction of the holiday last year raised hope of overdue reform but as yet, any detail or direction on this is not forthcoming. But simply lapsing back into the old regime would be not so much a missed opportunity as a disaster.

But how much appetite is there within Central Government to radically overhaul one of its largest and most stable tax streams? And one that is so efficient, in that it is both easy to administer and to collect? And, more obviously, how high up the agenda is it as Covid-19 still rages and Brexit nears the end-game? Re-balancing the nation’s tax books will dominate the political and economic landscape well beyond 2021 and business rates risks being a secondary consideration to much more profound financial restructuring.

But business rates remain a very real issue and burden for the retail sector.
What would perfect reform look like? How long will it take to come up with a new business rates system – and what is the interim solution? Aside from the bluest-of-blue sky scenarios of business rates being scrapped completely and the current holiday made permanent, the most equitable solution would still appear to lie in levelling the playing field between online and physical. On the one hand, ensuring that large pure-play online retailers pay 1% of turnover, not profits, which can so easily be downplayed or re-distributed across geographies, jurisdictions and subsidiaries. With ESIG supposedly so high on the agenda, it is staggering that this practice is still being so widely abused.

A levy on online orders would be more complex. A straight “online” tax would not necessarily level the playing field in that it would equally impinge upon those it is designed to help – multi-channel operators with both a physical and online presence (although it may prompt them to recognise store-based sales as such, to remain extremely well-capitalised. Our generic CVA watchlist is still determined by three key considerations:

- A track record of past CVA/administration/failure – history suggests that operators that have failed before are more than likely to do so again.
- Private Equity ownership, current or historic – PE-owned businesses have often been asset-stripped, under-invested, with high levels of debt and lack the balance sheet strength to withstand pressure.
- Exposure to the fashion sector – clothing is by far the most over-supplied retail sub-sector (too many stores, too many players) and consumer demand was soft even prior to Covid-19. Sales during the pandemic have been down by a monthly average of -37%.

A cross in any one of these boxes presents a risk. A cross in all three (e.g. Debenhams, House of Fraser, New Look, EWM) a much heightened one.

The “New Norm”

Flexibility and affordability – these are the two factors that will define the retail occupier landscape in 2021. And for many years to come, for that matter. The phrase “new normal” is vastly overused generally, but in a retail context, flexibility and affordability will be the predominant forces, in many respects, often going hand-in-hand.

The word “flexibility” recurs in retailer narrative with noticeable frequency. It encompasses a number of facets, including lease lengths, the type/nature/terms of leases and rent payable. But it also places “the new norm” in sharp conflict with many of the founding principles of retail real estate – long fixed terms and security of income. One of the fault lines running through the whole retail industry is a misalignment of agendas between a number of its key stakeholders. Ultimately, it will always be the consumer that defines any retail market. The consumer is evolving at a rate of knots and becoming ever more sophisticated and demanding in terms of what they expect. Retailers are frantically trying keep pace with this consumer change, some succeeding far better than others. By all accounts, the property market is the laggard in all this, failing to keep pace with a world that is shifting both constantly and rapidly.

A fresh wave of CVAs and administrations

CVAs will inevitably continue in 2021. A fresh trickle is likely in the New Year, with the further pinch point of another quarterly rent day in December exacerbated by possible pressure from banks and lenders. Giving way to a more of a flow as current relief packages (furlough schemes, moratorium on forfeiture, business rate holidays) unwind or expire as the year unfolds.

The CVA process will remain a source of unresolved controversy. Our views remain the same. We want retailers to succeed and viable operators to be given the necessary short-term support to not only survive, but to thrive in the longer term. But the CVA system should not be open to abuse, a mechanism for retailers to renego on legally-binding rent and lease obligations. Nor is it currently voting process sufficiently transparent or equitable, with landlords bearing a disproportionate burden of potential income loss relative to their share of the vote. In an ideal world, a much tighter and more transparent Code of Practice needs to be drawn up and enforced to prevent further abuse of the system. But
The push towards turnover rents speaks to both flexibility and affordability and will undoubtedly continue in 2021. On paper, turnover rents seem a no-brainer; in practice, they are anything but. To the uninformed, they seem a perfectly fair and equitable solution. The occupier de-risks a trading location and pays only a proportion of turnover that an individual store generates, therefore maintaining an equilibrium of affordability. The landlord has a happy tenant who will not default, helping cover any shortfall in performance, but also benefitting from any level of out-performance. If only it were that simple.

For a start, there is no “one size fits all” approach. The fact that retail is increasingly multi-channel muddies the waters even further. Historically, assessing a store’s turnover amounted to a transparency-dependent model is rising up the agenda at the same time as transparency itself is rapidly diminishing.

But total transparency is still a prerequisite for turnover rents to work and in many cases, this is still lacking. Retailers are understandably protective of their trading data and will always seek to limit its release into the public domain over concerns of mis-use (e.g. falling into the hands of competitors or negatively influencing future deals). But without it, landlords have no transparency. Not all landlords are averse to turnover rents, but most remain sceptical. Few believe that they will benefit from retailer outperformance, noting that retailers only seem to propose switching to turnover rents in times of crisis rather than prosperity. With some justification, others may point to the fact that in the base + top up model, hardly any top ups are actually triggered.

Residual mistrust on both sides (landlords and tenants) is still a major constraint on turnover rents becoming commonplace. These need to be more give and take on both sides. The current valuation and funding models also make turnover rents difficult to value and finance. At the same time, the retail market needs to evolve if it is to emerge from this crisis intact and the sector needs to embrace greater flexibility. On paper, a switch to turnover rents could be a positive catalyst to necessary change, but the whole model needs fundamental review to establish full transparency, including a Code of Conduct and a formal process of external audit.

No one is saying “the new retail norm” will be easy... The new breed
Some retailers will inevitably go further than CVA / pre-pack administration and succumb to full liquidation in 2021 – some of these may be long-established fixtures on the high street, well-known household names. Harsh as it sounds, losing high street names is all part of the evolution process. No one wants retailers to fail (with special consideration to their workforce in particular), but unsustainable businesses cannot be supported forever and the retail sector as a whole is probably better off without them.

Well-known retailers going bust and disappearing from the high street is not peculiar to Covid-19 and has been a feature of retail since time immemorial. Woolworths, Bhs, Comet, MFI, Do-it-All, Texas, Queenway, Courts, Virgin Megastore, Our Price, Freeman Hardy Willis, Dolcis, Athena, Foster Menwear, Olympus, JJB Sports, Toys R Us, Index, Staples, Eram, Alldres, Tesco Rack, Tandy. There’s a list of more than 20 retailers that are no longer with us purely off the top of my head, I could probably come up with 100+ more if I gave it serious consideration. Discussing former high street stalwarts prompts the same sort of misty-eyed reminiscing as TV programmes of childhood, but the simple fact is that however missed and lamented those brands are, the high street has survived and evolved without them.

By way of example / case study. The clothing sector has experienced staggered fall-out from a large scale operator at regular points in recent history. There was major consternation when C&A withdrew from the UK in 2000 and all 113 stores closed. Five years later, it was the turn of Littlewoods (120 closures). In more recent memory, BHS ceased trading in 2016, resulting in the closure of ca. 160 stores. Each was a major player in the UK clothing market, with respective shares of around 2%- 4%. Their departing freed up this capacity to be distributed across other players (Primark being the main beneficiary) and eased oversupply. With oversupply still an issue going into 2021, a similar pattern may well emerge.

Much of the retail narrative is currently about retrenchment, retailers closing stores and reducing their physical footprint, or disappearing altogether. But it is not purely a one way street, a fact borne out by recent research by Local Data Company (LDC). Many of the statistics and messages from their

Top 10 declining categories, H1 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Store closures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Phones</td>
<td>-586</td>
</tr>
<tr>
<td>Newsagents</td>
<td>-206</td>
</tr>
<tr>
<td>Electrical Goods</td>
<td>-322</td>
</tr>
<tr>
<td>Bikes</td>
<td>-232</td>
</tr>
<tr>
<td>Takeaway</td>
<td>-207</td>
</tr>
<tr>
<td>Books</td>
<td>-206</td>
</tr>
<tr>
<td>Fast Food</td>
<td>-232</td>
</tr>
<tr>
<td>Restaurants &amp; Bar</td>
<td>-371</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>-186</td>
</tr>
<tr>
<td>Haberdashers</td>
<td>-206</td>
</tr>
</tbody>
</table>

Top 10 growing categories, H1 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Store openings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Food</td>
<td>40</td>
</tr>
<tr>
<td>Electrical Goods</td>
<td>116</td>
</tr>
<tr>
<td>Beauty Salons</td>
<td>308</td>
</tr>
<tr>
<td>Fast Food</td>
<td>116</td>
</tr>
<tr>
<td>Takeaway</td>
<td>60</td>
</tr>
<tr>
<td>Pizza &amp; Burgers</td>
<td>48</td>
</tr>
<tr>
<td>Convenience Stores</td>
<td>51</td>
</tr>
<tr>
<td>Hardware</td>
<td>60</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>129</td>
</tr>
</tbody>
</table>
A “new breed” of occupier will emerge despite the pandemic. Even registering a net increase in units their multiple peers, in the Services sector Independents ‘outperformed’ Goods, Convenience Goods, Leisure, all four header categories (Comparison resilient than Multiple Operators. In Independent Operators proving more More revealingly, the report also shows Phone Shops -586, Fashion Shops -371). are receding (Bookmakers -867, Mobile Fast Food & Takeaways +116) and which are gaining presence (Barbers +430, Beauty Salons +368, Nail Salons +32, Fast Food & Takeaways +29) and which are regeding (Bookmakers +865, Mobile Phone Shops +568, Fashion Shops +37). More revealingly, the report also shows Independent Operators proving more resilient than Multiple Operators. In all four header categories (Comparison Goods, Convenience Goods, Leisure, Services) Independents ‘outperformed’ their multiple peers, in the Services sector even registering a net increase in units despite the pandemic. A “new breed” of “occupier” will emerge from this market. Independent and local operators now will evolve into national even international multiples of the future. Even the largest, longest-established multi-national retailer started from a single store somewhere. Walmart, a single discount store in Bentonville Arkansas, Tesco a war-surplus market stall in Hackney, Sainsbury’s a counter-based small grocery store on Drury Lane in London.

The “new breed” will be born of the “new norm” and will expect flexibility and affordability as standard. And where were some of today’s trailblazers and largest non-food space occupiers some 30 years ago? Primark had 28 stores and annual turnover of just £4.8m (versus ca. £3.5bn and 185 in the UK alone back then). Aldi only opened its very first store on Drury Lane in London. But, interestingly, there were also 23,935 new openings (+5% on H1 2019). Obviously, that leaves a net deficit of 7,834 (an inevitable by-product of Covid-19 conditions in an over-supplied market), but the number of new openings is still substantial. It proves that there is still market activity, some retailers are still acquiring new space and new operators are emerging to replace those that are falling by the wayside.

LDC’s data shows which sub-sectors are gaining presence (Barbers +430, Beauty Salons +368, Nail Salons +32, Fast Food & Takeaways +29) and which are receding (Bookmakers +865, Mobile Phone Shops +568, Fashion Shops +37). More revealingly, the report also shows Independent Operators proving more resilient than Multiple Operators. In all four header categories (Comparison Goods, Convenience Goods, Leisure, Services) Independents ‘outperformed’ their multiple peers, in the Services sector even registering a net increase in units despite the pandemic.

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**Retail Investment: Betting on a Recovery**

Retail remains an investible sector, but can appear a lottery to the uninitiated. Where we think the smart money is likely to go in 2021 and beyond.

**Charlie Barke**

Head of Retail Capital Markets

2020 has been a challenging year for many parts of the property market but retail has been right at the coal face.

Following on from 3-4 years of poor performance at the hands of structural change, faced with non-payment of rent and a raft of retailer failures, this year values have collapsed, with 30-50% annual decline commonplace.

Shopping centres, in particular, have seen a huge capital value reduction and this impact has not just been felt in the secondary markets. Arguably prime rental movements of -30% (or more) and a raft of retailer failures, this year will appear to offer recovery potential, others seem to have a less secure future.

The punters’ favourite

The sub-sector that has already started to attract significant attention is retail warehousing. Considered e-commerce resistant and social-distancing compliant, these locations generally fared well post lockdown. Their accessibility, flexibility and simplicity are admired by both institutional and private equity investors. The crowds are gathering in this sector, both funds and debt-backed buyers. If the requirements from UK institutions continue to develop in early 2021, expect the PE market to be out-competed and the “bottom” in this sub-sector potentially missed by many.

For both funds and PE buyers, the preference will remain for stock in the South East of the country with some sort of alternative use under-write. Bulky goods or discount use off lower rents (<£20/sq ft) will be preferred but we do not envisage some sort of recovery for the each way bet

**The way bet**

The prospects for High Street investments vary hugely. The former darlings of the market, Guildford, Chichester, Winchester et al, had a torrid time in 2020, seeing rents collapse and initial yields move to 7.4%, levels not witnessed in these locations since the early 1990s.

There is likely to be a stabilisation next year but meaningful recovery in rents is not expected so yields will remain high on over-rented properties.

The continuing differential between “good” and “bad” tenants will be witnessed - as an owner of a single-let property, who would want a turnover-rent seeking fashion retailer as their tenant?

"good" and "bad" tenants will be seen as a major factor in the performance of the retail sector.

Across the sector generalisations remain dangerous. This is certainly true of capital values as where some assets have equally suffered this year and a raft of retailer failures, this year saw a huge capital value reduction and a raft of retailer failures, this year

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**Across the retail sector generalisations remain dangerous. This is certainly true of capital values as where some assets now appear to offer recovery potential, others seem to have a less secure future.**
Central London retail arguably had the greatest shock of all in 2020 and the fallout is likely to continue into 2021. We are yet to assess the extent of this damage and many landlords are yet to fully appreciate the impact on rents. This feels a market to watch from the sides for now if you can.

Is there value to be had in our regional towns? Yes, with careful stock selection over location, building, tenant and rent.

On the other hand London suburbs remain an appealing option. As workforces hopefully return to the office in 2021, we expect to still see swathes of residents in Zones 2-6 working from home 2-3 days a week. The suburbs performed well after lockdown and we expect this to be repeated in 2021. These locations have always been a good bet for click & collect and online returns. Supply is often fairly constrained here and the upper parts of buildings are often valuable. Swap Central London for suburban London exposure over the next few years where you can.

The rank outsider

For shopping centres, the immediate outlook remains challenging. We have witnessed huge value write downs over the past five years, often to ca. 75% in total. Future occupancy remains uncertain, true rental values remain unclear and many assets will require significant capex just to stand still over the next few years, a further landlord investment that will not be justified by a Lazarus style recovery.

There are some areas where we feel more confident than others. As with high street assets, London suburbs look a good bet in both the short and medium term. Trading in these locations is typically stronger, retailers are more willing to test such locations and the investment supply of this product is finite. On top of that, the alternative use value is likely to underpin investment value and with the rise of mixed use, the ongoing development of such locations should realise value to the owner.

Supermarket-anchored schemes across the country remain in favour and good ones are in short supply. If institutions come back to retail in years to come we expect it to be for foodstore-anchored schemes offering an element of safety alongside an element of higher yield. In the interim, banks will continue to lend against supermarket income and so for debt-backed buyers, these schemes offer a chance of obtaining finance where otherwise it might be close to impossible to come by.

Prime centres are likely to start to stabilise but only from today’s true market pricing. Many owners still believe their schemes should be valued at 7-9% NIY but the reality is today’s buyers want that level of income return even in reversion. With rents coming off by 20%+, NIYs have to be double-digit for all but the very best assets. So as reality dawns and valuations catch up, the index will show further underperformance from prime schemes. Outside of that catch up process we envisage fairly stable market pricing in prime, though beware the significant supply spike that is bound to materialise in this sector. That could flood the market later in 2021/22 and, in the absence of a recovery in investment demand, an inevitable imbalance of demand and supply could cause further yield shift.

If institutions come back to retail in years to come we expect it to be for foodstore-anchored schemes offering an element of safety alongside an element of higher yield.

<table>
<thead>
<tr>
<th>2020p Transaction Volumes (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping Centres £350</td>
</tr>
<tr>
<td>High Street £450</td>
</tr>
<tr>
<td>Retail Warehouse £1,300</td>
</tr>
<tr>
<td>Foodstores £1,500</td>
</tr>
</tbody>
</table>

Source: Knight Frank
quite unique about the shopping experience in these malls and if there is any sort of renaissance in physical shopping next year, which we think there will be, these locations will benefit. And let’s not forget foodstores. The outlier in 2020 in terms of performance as their values certainly did not decline and in many cases they went up. What prospect for these off what are sector-low yields? Answer: very robust. Perhaps not huge further yield compression but steady, low risk income return. We do not see occupational dislocation or risk of outward yield shift. Investment demand will remain strong, finance will remain available and so liquidity will be good. Therefore, if you want solid if unspectacular performance from retail with minimum management hassle or risk, supermarkets are the best bet.

**Prime Retail Yields 2010-2020p**

If you want solid if unspectacular performance from retail with minimum management hassle or risk, supermarkets are the best bet.
The high street is dead, long live the student accommodation, data centres, (e.g. hotels, healthcare, senior living, student accommodation, data centres, life sciences etc.). But evidence of retail repurposing is still relatively thin on the ground, for a very simple reason – we are only at the beginning of this journey and the process is far more complex than most give it credit for.

Understanding retail oversupply

That the UK retail market is oversupplied is beyond question. Oversupply is one of the ‘Key Structural Weaknesses’ of the UK retail industry we have previously identified and researched. The problem is beyond question. Oversupply is one of the ‘Key Structural Weaknesses’ of the UK retail industry we have previously identified and researched. The problem

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To understand local supply and a town’s overall retail health, we typically employ three datasets / methodologies:

- **Vacancy rates**
- **Space productivity (£/sq ft)**

In isolation or combination, these provide a telling overview of the state of the local retail market, as well as potential availability of retail stock for repurposing.

According to LDC, the national retail vacancy rate at H1 2020 was 15% (14.2% retail, 10.1% leisure). Generally, towns with vacancy rates >10% may be regarded as being in relatively good health. Those with vacancy rates >20% generally display signs of distress.

**Towns with vacancy rates >10% may be regarded as being in relatively good health. Those with vacancy rates >20% generally display signs of distress.**

**Rental performance** is based upon Prime Zone A rent movements over a 10 year period (2010 – 2020). Clearly, the greater the rebasing, the higher the correlation to under-performance and potential oversupply. The 300 PMA PROMISI centres have seen Prime Zone A rents decline by an average of around -30% over the past decade, with considerable polarities between individual centres (e.g. Brixton -68%, Falkirk -66%). Rebasings of <5% or less would make a centre ‘Top Quartile’, >43% or worse ‘Bottom Quartile’.

**Space productivity** is calculated by dividing modelled comparison goods spend (i.e. non-food spend) made in each centre (source: CACI) by overall retail floorspace (source: PMA). A high figure indicates healthy levels of sales density/space productivity, a low figure poor performance and/or oversupply.

The unweighted average across the centres is £227/sq ft. Figures range from £13, £15, £45, £32/sq ft in Runcorn, Bicester town centre and Ramsgate respectively, to £646, £647 and £686/sq ft in Guildford, Kingston and Oxford.

Not a panacea by any means, but collectively a very useful starting point for identifying and understanding retail oversupply...

Four great repurposing divides

Identifying retail oversupply and targeting potential retail stock for alternative use is one thing, actually making a repurposing play is another entirely. There are at least four divides that have to be crossed before any potential repurposing becomes in any way viable. In broad terms, these are:
Historically, planning may have been the main stumbling block, but recent sweeping reform to Permitted Development (PD) Rights and Use Classes Order has rendered it less an obstacle than it was previously. From 1 September 2020, there is a new Use Class (E) to include all current A1 (retail & shops), A2 (financial & professional services) and A3 (food & drink) Classes, alongside E1 (offices, R&D, light industrial), D1 (clinics, health centres, creches, day nurseries) and D2 (gyms & indoor activities). Potentially meaning far greater fluidity between existing classes. As planning reform goes, this move is very far reaching and it could potentially have a profound impact on the future of high streets. In very general terms, this represents significant relaxation of a system that was previously very rigid and a major barrier to asset repurposing.

Geographies have to align and often they don’t. The towns we identify in our ‘Top 10% of oversupply are not necessarily the

**KEY RETAIL HEALTH METRICS**

<table>
<thead>
<tr>
<th>Centre</th>
<th>Vacancy Rate</th>
</tr>
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<tbody>
<tr>
<td>Walsall</td>
<td>31.9%</td>
</tr>
<tr>
<td>Bradford</td>
<td>28.7%</td>
</tr>
<tr>
<td>Croydon</td>
<td>25.6%</td>
</tr>
<tr>
<td>Stockport</td>
<td>25.9%</td>
</tr>
<tr>
<td>Bolton</td>
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<tr>
<td>Stoke-on-Trent</td>
<td>23.3%</td>
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<td>Barnsley</td>
<td>21.9%</td>
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<td>Northampton</td>
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<table>
<thead>
<tr>
<th>Centre</th>
<th>Sales/sq ft (£/sq ft)</th>
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</thead>
<tbody>
<tr>
<td>Runcorn</td>
<td>£15</td>
</tr>
<tr>
<td>Blackpool</td>
<td>£15</td>
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<tr>
<td>Ramsgate</td>
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<td>Merthyr Tydfil</td>
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<td>Tamworth</td>
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<td>Border Rst</td>
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<td>Clithero</td>
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<table>
<thead>
<tr>
<th>Centre</th>
<th>Growth 2010-20 (%)</th>
<th>Growth 2010-20 (%)</th>
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</thead>
<tbody>
<tr>
<td>Steven</td>
<td>20%</td>
<td>34%</td>
</tr>
<tr>
<td>Tooting</td>
<td>27%</td>
<td>30%</td>
</tr>
<tr>
<td>Idsworth</td>
<td>23%</td>
<td>28%</td>
</tr>
<tr>
<td>Putney</td>
<td>26%</td>
<td>20%</td>
</tr>
<tr>
<td>Harrowway</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Chesham-Junction</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td>Cleveland</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>Gloucester</td>
<td>7%</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Centre</th>
<th>Demolished</th>
<th>Removed Vacant Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Falmouth</td>
<td>-24%</td>
<td>-8%</td>
</tr>
<tr>
<td>Newt</td>
<td>-63%</td>
<td>-65%</td>
</tr>
<tr>
<td>Southport</td>
<td>-69%</td>
<td>-65%</td>
</tr>
<tr>
<td>Port Talbot</td>
<td>-42%</td>
<td>-65%</td>
</tr>
<tr>
<td>Cornwall</td>
<td>-30%</td>
<td>-44%</td>
</tr>
<tr>
<td>Merthyr Tydfil</td>
<td>-35%</td>
<td>-53%</td>
</tr>
<tr>
<td>Hamilton</td>
<td>-36%</td>
<td>-33%</td>
</tr>
<tr>
<td>Cumberley</td>
<td>-44%</td>
<td>-42%</td>
</tr>
<tr>
<td>Greenwich</td>
<td>-44%</td>
<td>-42%</td>
</tr>
<tr>
<td>Stockton-on-Tees</td>
<td>-34%</td>
<td>-41%</td>
</tr>
</tbody>
</table>

**Redevelopment of Retail Stock 2017-2020**

| Source: Local Data Company |

**If a place is failing as a retail centre, it may well be failing as a wider town centre.**
Positive case studies

Some retail repurposings will be far more straightforward than others and positive case studies are emerging. Altrincham in the North West is a good example of a town that has completely re-invented itself, with the local authority being the catalyst for intervention. The advent of the Trafford Centre back in 1998 undermined Altrincham’s credentials as a major retail destination and a reappraisal of the town’s role has seen it de-emphasise its retail offer in favour of other leisure and community-led uses. Rather than a retail-led ‘ghost town’, it is now a broader-based centre in which retail has a more supporting role to other uses.

Similarly, the conversion of the Nicholsons Centre in Maidenhead could become the blueprint for town centre regeneration, with owners Areli Real Estate seeking to replace the shopping centre with a functioning new town centre. The property, which had fallen into administration, was acquired well below its historic value and was failing with vacancy increasing and tenants seeking to leave the town. Higher value residential, office and retirement uses, along with the arrival of Crossrail, will combine to see a truly mixed use redevelopment on the site.

Knight Frank recently advised Aberdeen Standard Investments on the sale of Broadwalk Centre in Edgware, North London, to Ballymore. The property was a unique proposition, providing 13 acres of freehold land adjacent to the Northern Line underground station. Whilst functioning as a local convenience scheme, the opportunity for wholesale town centre regeneration will see a major, high density residential-led redevelopment come forward on the site. As with Altrincham town centre and the proposed Nicholsons Quarter, re-provisioned retail space undoubtedly has an important role to play in supporting the other uses within the development.

Knight Frank also recently advised on another Greater London regeneration project, The Walnuts in Orpington, South London. The centre, once the heart of the town, had suffered at the hands of local retail park developments and an ever-extending high street. A partial regeneration was already underway but much of the centre needed reimagining to fit with modern shopping, living and working requirements. Areli Real Estate are applying their expertise to another urban regeneration project here, where collaboration with the local authority and other local stakeholders are more important than ever due to the complexities of town centre ownerships.

Out of town, Ravenside Retail Park in Edmonton, North London is a rare example of the much touted panacea for the retail market – a conversion to high value last mile logistics uses. Prologis acquired the retail park, which sits directly adjacent to a major arterial road in North London.

The principles of industrial conversion are sound, with retail warehousing offering buildings of flexible configuration with low site coverages, located on the periphery of major towns and cities. The practice, however, is more difficult, with a resurgence of the retail warehousing market meaning only those assets in the highest value logistics locations warrant conversion (unless greater density or even multi-storey development is considered).

Outside the M25 we expect well let income producing retail parks to remain so, with industrial developers continuing to seek cleared land elsewhere to satisfy their demands.

Ravenside Retail Park in Edmonton, North London is a rare example of the much touted panacea for the retail market – a conversion to high value last mile logistics uses.

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Source: Experian Goad Plan Created: 16/12/2020

Created By: Knight Frank

Some perspective

The phrase ‘the death of the high street’ has become commonplace, leading to assumptions that all town centres as we know them have no future. This is clearly an over-simplistic generalisation. Some towns continue to thrive (Covid-19 notwithstanding), while others admittedly face major struggles in their current incarnations. It is all about defining what the role of that centre is going forward, frankly not all town centres need to be retail-led as has often been the case in the past. In some, the role of retail could be de-emphasised and surplus retail floorspace repurposed to other, more appropriate uses.

If there is one lesson we have surely learnt in retail, it is that there cannot be a “one size fits all” solution to the high street. Every town centre is different and has its own story to tell. And its mix of uses has to reflect that. Too many town centres haven’t embraced this notion and haven’t capitalised on their full potential. The role of retail within a town centre will vary – in some, it will continue to dominate, in others it will assume a more supporting role. National retail multiples will continue to be the mainstay of some retail destinations, others may have a greater bias towards local or independent traders.

Some will have a mix of both.

If there is one common denominator for a successful town centre it is people. People define what makes a location tick and are its very lifeblood. Selective repurposing of retail space will actually bring people back into town centres in a way that brings holistic benefits for all use classes. It is not necessarily a straight substitution, it is much more about achieving the right blend.

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Our narrative on retail repurposing may come across as defensive. On the contrary, we see a reduction in the UK’s retail footprint as a positive catalyst to wider change within the industry. Reducing supply addresses one of the retail sector’s key structural failings and leaner, more fit-for-purpose retail infrastructure can only be of wider benefit. There are undoubtedly opportunities to repurpose retail space to other uses and indeed, we shouldn’t be precious about preserving surplus or obsolete retail stock. But the fact remains that the window of repurposing opportunity is perhaps far smaller than many imagine.

Needless to say, Knight Frank is uniquely placed to advise on all aspects of retail repurposings, with expertise not just in retail but in all key alternative use sectors (mainstream and specialist), underpinned by a cross-sector planning team. Repurposing plays are not turnkey but highly bespoke – Knight Frank can help navigate what could be a minefield.
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