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EG retail

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SHOW STOPPER

Fashion parades a winning formula for marketeers

MARY PORTAS
The retail guru talks independents

BAUGUR MELTDOWN
Life after the Icelandic troubles

VAT'S BACK
What will the increase mean for you?

UK round-up

Property research traditionally focuses on the development pipeline for retail parks and warehouses, but we have always looked at the market from a different perspective, *writes Trevor Wood, senior partner at Trevor Wood Associates*. What we focus on is the considerable hidden supply of secondhand space coming onto the market each year.

Despite continuing take-up of space by a number of expanding retailers in these difficult times, a further abundance of secondhand retail warehousing came onto the market in the second half of 2008 and the first half of 2009.

This is due mainly to the number of business failures, such as Empire Direct, Ilva, John Peters, Land of Leather, MFI, Rosebys and Woolworths.

Retailers such as B&Q, Focus and JJB Sports continue to downsize, relocate or close down marginal stores and this has also contributed to the increases in available space. A considerable amount of floorspace previously occupied by tenants such as GlynWebb and Powerhouse is still available.

Our research shows that the total retail warehouse market grew marginally to 171m sq ft in 2008 from 169m sq ft in 2007 and is currently about 173.5m sq ft.

Secondhand space

The amount of second hand space available rose to 18.5m sq ft in 2008 from 12m sq ft in 2007 and is currently about 19.75m sq ft.

This figure is set to rise over the next few months by up to 1m sq ft when many former Allied Carpets units cease trading, although we expect a number of the better-located units to be taken by other retailers.

The resulting vacancy rate for retail warehousing (including free-standing units and parks) has risen from 8.3% in 2007 to 11.3% in 2008 and is now around 11.8%. Given likely additions to vacant space over the coming months, this figure will rise to somewhere between 12% and 12.3% by the end of this year.

Initial research shows that, for the past few years, the vacancy rate among open A1 food consented units has been running at more than 1% below the market figures and those for bulky goods or restricted consents are about 1% above. Detailed analyses by planning consent for the past few years will be included in *The definitive guide to retail & leisure parks 2010*.

All of the above factors have caused shifts in the league table of leading retail park tenants, with eight of the top 20 reducing floorspace, and MFI disappearing altogether. The main exceptions were Homebase, Argos, TK Maxx and Marks & Spencer, with the latter entering the top 20 for the first time. Overall, the dominance of the leading retailers has been further reduced and the top 50 retailers accounted for 67.2% of retail park floorspace at the end of 2008 compared with 72.1% five years earlier. With the recent closure of Allied Carpets and the failure of Land of Leather, to name but two, we expect this figure to fall again by the end of the year.

The banking crisis led to a number of forced asset disposals and, not surprisingly, seven of the top 10 retail park owners reduced their holdings.

Looking at all retail warehousing (including free-standing units and parks), we see a similar picture, with 10 of the top 20 owners reducing their holdings. The main exceptions were Aberdeen Property Investors, CB Richard Ellis Investors and LaSalle Investment Management. The dominance of the leading owners has been further reduced, with the top 20 owners accounting for 48.5% of total floorspace at the end of 2008, compared with 50.4% two years earlier.

The trend for rising rents has slowed considerably because of recent events. There have been increases in the proportion of parks with relatively low rents but, after seven continuous years of growth in the proportion of parks with peak rents above £25 per sq ft, the figures for 2008 are identical to the previous year for the first time.

Top 10 retail park owners 2008

British Land is out in front as the top owner

Owner/investment manager	*Size (sq ft) 2008*	*Size (sq ft) 2007*
British Land	9.6m	9.8m
Standard Life Investments	5.3m	5.6m
Aviva Investors	4.8m	5.2m
Prudential Property Investment Managers	4.4m	4.3m
Land Securities	3.9m	4.1m
Henderson Global Investors	3.1m	3.3m
Hammerson	3.1m	3.1m
Aberdeen Property Investors	3.0m	2.9m
Junction Properties	2.8m	3.3m
Legal & General Investment Management	2.5m	2.8m

Source: Trevor Wood Associates

Top 12 retail parks by rent 2008

Rents have remained static overall

	Scheme	*Location*
1	Fosse Park Shopping Park	Leicester
2	Brookfield Retail Park	Cheshunt
3	Colney Fields Shopping Park	St Albans
4	Birstall Shopping Park	Leeds
5=	Castlepoint	Bournemouth
5=	Fforest-fach Parc	Swansea
7	The Fort Shopping Park	Birmingham
8	Teesside Retail Park	Stockton-on-Tees
9=	Fort Kinnaird	Edinburgh
9=	New Mersey Shopping Park	Liverpool
9=	Brent South Shopping Park	London
12	Gallagher Shopping Park	Bristol

NB. Top rents exclude A3 and leisure units as well as units under 4,000 sq ft

Chris Blair, national head of retail, Savills

As the fight for survival in the retail sector gains momentum, we have seen a fundamental change in the relationship between landlords and retailers over recent months, with both parties recognising the need for flexibility. What we have now is a dramatic shift from the confrontation and stalemates that plagued so many relationships throughout 2008 and into 2009.

With the priority for landlords now firmly on preserving income streams rather than asset value, it is certainly fair to say that landlords have made the biggest compromise in the relationship. The threat of empty rates, service charges and the fear of voids debasing the attraction and appeal of a scheme have resulted in more incentivised terms being agreed, which have largely been dictated by the tenant.

Also, the mounting pressure to service debt, the desire not to sell because of the reduction in asset values (typically 40%) and the need to revert to structured contributions such as extended rent-free periods rather than hard cash, are also major factors in landlords wanting to preserve relations with retailers.

"There has clearly been progress in easing some of the pressure"

Perhaps one of the most vital elements of the relationship for the landlord is realising the importance of having a greater understanding of a tenant's business and how it operates. This is crucial for identifying sustainable businesses and is particularly helpful in separating those retailers that are genuinely struggling in the challenging climate from those that are simply "jumping on the bandwagon".

Many tenants have also recognised that a strong, trusting relationship is a good agenda for securing the lease structure and financial terms required to ensure a site works for them. This applies to both new shops and tenants' existing estates and is particularly prevalent in CVA and turnover rent discussions, where trust and appreciation of a retailer's business are key.

There has clearly been progress in easing some of the pressure on relations. Looking forward to when the market begins its recovery, it is unlikely we will revert back to these historic lease terms and instead will see a fairer outcome, with closer correlation between occupational overheads and trading performance. This will pave the way for enlightened landlords to dominate.

Sean Finlay, director, White River Developments

"Schemes would have struggled without significant gap funding"

Opportunities for small developers have been few and far between since the economic downturn began, and those that have gone ahead have largely relied on funding from government agencies.

White River Place, a mixed-use, retail-led scheme opening later this month in St Austell, the largest town in Cornwall, is a prime example of such partnerships.

The development serves as the long overdue regeneration of, and investment in, the town centre and will give the town an opportunity to capitalise on the success of the Eden Project, just 2 miles away.

With a general election around the corner, the property industry should consider the potential impact a change in government might have on much-needed regeneration projects. Regional development agencies have delivered more than £23bn worth of economic development in the regions and helped to bring forward numerous developments in partnership with small developers that might not otherwise have happened.

Schemes such as White River Place would have struggled to get off the ground without significant gap funding.

With each of the main political parties committing to budget cuts and the Conservatives planning to review the role of RDAs, future developments will have to fight even harder to secure financial support.

In the future, the government will need to ensure its commitment to such schemes is not limited to talk, but is backed by proper investment and active involvement.

Similarly, small developers should continue working with the public sector to capitalise on commercial opportunities and, in so doing, revitalise towns that are at risk of being overlooked.

Top 10 retail parks 2009

The most successful retail parks are geographically spread

Scheme	*Location*
Castlepoint	Bournemouth
Middlebrook Retail & Leisure Park	Bolton
Holywood Exchange	Belfast
Fort Kinnaird	Edinburgh
Parkgate Shopping	Rotherham
Clifton Moor Centre (phases 1-3)	York
The Brewery	Romford
New Mersey Shopping Park	Liverpool
Gallagher Retail Park	Wednesbury
The Junction, West Thurrock Shopping Park	Grays

Source: Trevor Wood Associates

Top 10 retail warehouse owners 2008

There has been little change in the amount of square footage

Owner/investment manager	*Size (sq ft) 2007*	*Size (sq ft) 2008*
British Land	11.7m	12.3m
Aviva Investors	7.2m	7.6m
Standard Life Investments	6.1m	6.6m
Prudential Property Investment Managers	6.0m	5.9m
Land Securities	4.6m	5.0m
Aberdeen Property Investors	4.0m	3.7m
IKEA	4.0m	4.0m
Legal & General Investment Management	4.0m	4.3m
Henderson Global Investors	3.7m	4.0m
CB Richard Ellis Investors	3.4m	3.1m

NB. Includes both freestanding units and those found on retail parks