

# Financial Health Warning

*– the current vulnerability of multiple retailers,  
and the geographical implications for specific  
towns and shopping centres*

March 2009



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- Monitoring Retailers
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- The Hot Hundred

# Monitoring Retailers



- In order to help leasing agents and asset managers understand financial stability and ability to afford rents FSP monitors the financial accounts of over 1,500 occupiers
- FSP undertake detailed analysis of accounts to produce a series of consistent indicators including Operating Profit, Net Worth, Total Creditors, Return on Trading Assets and the DIUS P<sub>2</sub> Wealth Creation Efficiency Ratio
- DIUS P<sub>2</sub> Wealth Creation Efficiency Ratio is a good general indicator of a retailer's health. It is defined as;

*The value added by a company (sales less cost of bought-in goods and services) divided by its cost of resources used (labour and depreciation)*

- DIUS categorise the  $P_2$  Wealth Creation Efficiency Ratio to create a scale of financial performance:

|                  |                         |
|------------------|-------------------------|
| Less than 100    | <i>very worrying</i>    |
| 100-124          | <i>head above water</i> |
| 125-149          | <i>fairly healthy</i>   |
| 150-174          | <i>healthy</i>          |
| Greater than 175 | <i>very strong</i>      |

- FSP define the '*very worrying*' category as '*At Risk*'. For these companies, value added (sales less cost of bought-in goods and services) is less than the cost of resources used (labour and depreciation)
- Retailers in the '*head above water*' category are potentially '*At Risk*' from factors such as contracting sales, rising rents / labour costs and price deflation



**DIUS Ratio: 43**



**DIUS Ratio: 89**



**DIUS Ratio: 73**



**DIUS Ratio: 11**



**DIUS Ratio: 11**



**DIUS Ratio: 98**

# Monitoring Retailers





**DIUS Ratio: 81**



**DIUS Ratio: 93**



**DIUS Ratio: 82**



**DIUS Ratio: 50**



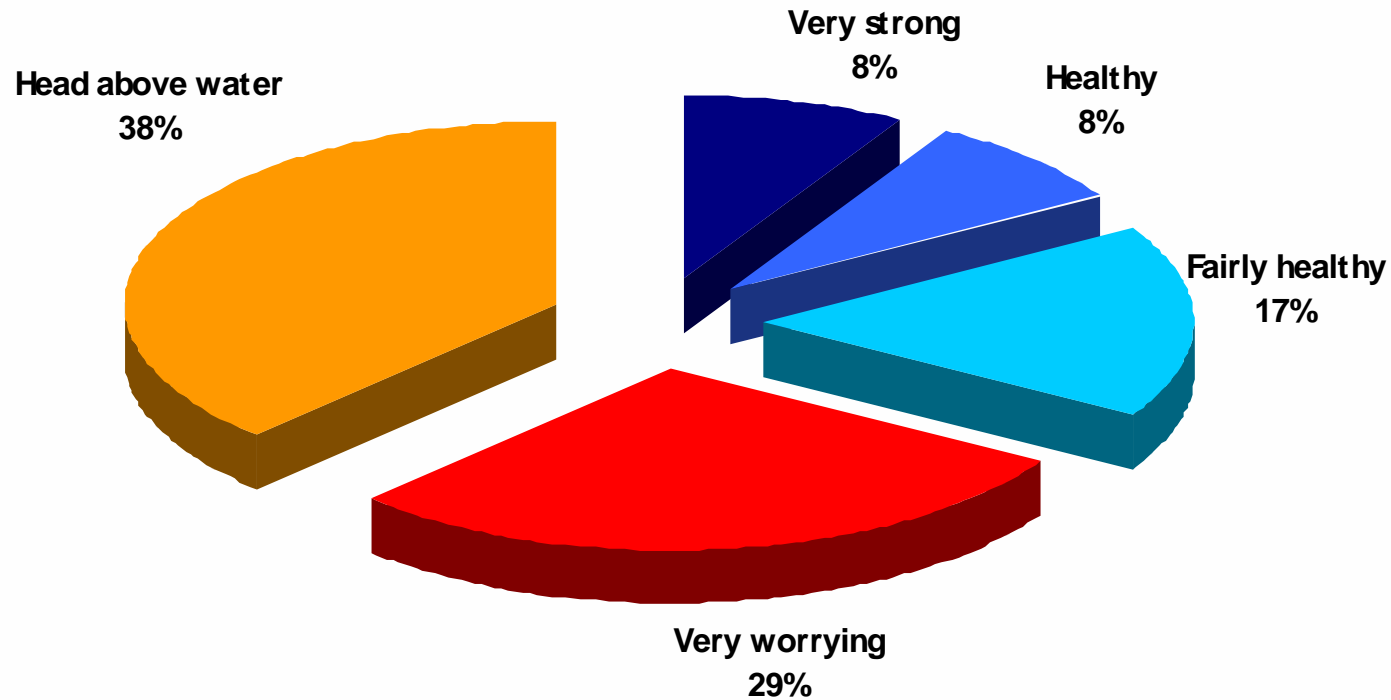
**DIUS Ratio: 85**



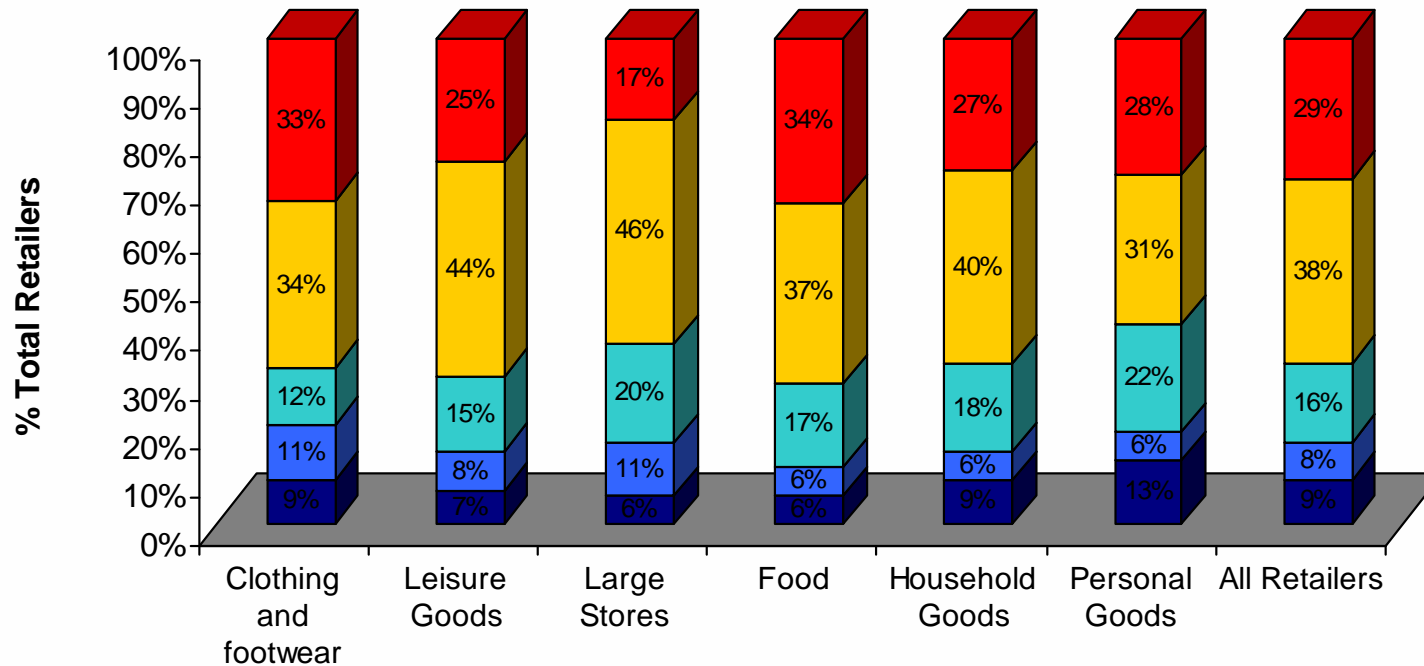
**DIUS Ratio: 70**

# Monitoring Retailers





- Of 700 retailers monitored by FSP, nearly 30% are 'At Risk'
- A further 38% are potentially 'At Risk'
- Only 33% of retailers are in a healthy condition

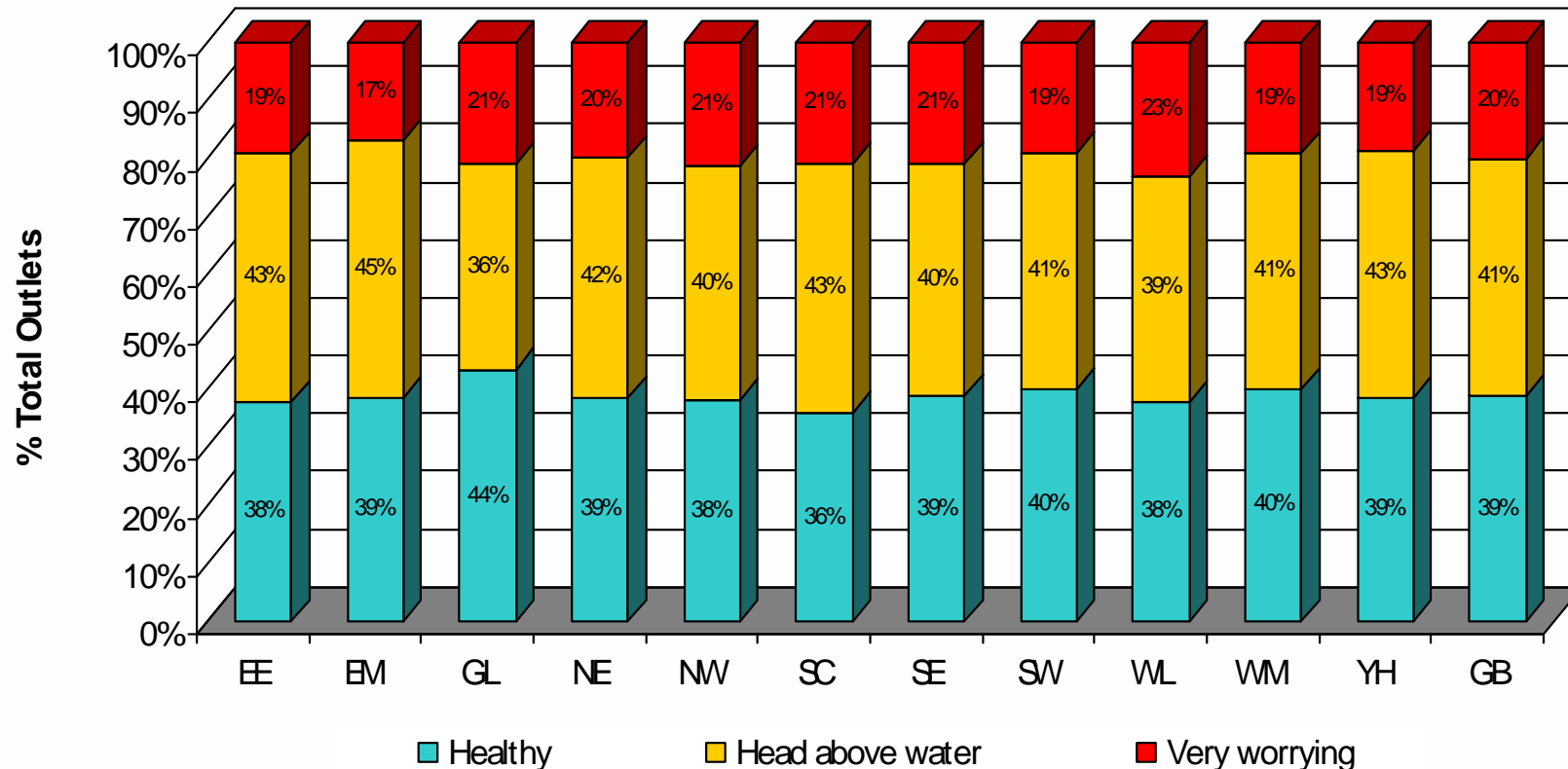


■ Very strong 
 ■ Healthy 
 ■ Fairly healthy 
 ■ Head above water 
 ■ Very worrying

- There are stronger concentrations of 'At Risk' retailers in the Clothing & Footwear and Food categories
- There is less risk amongst Large Stores (department and variety stores) however, more retailers are 'Head Above Water'

# Geographical Analysis

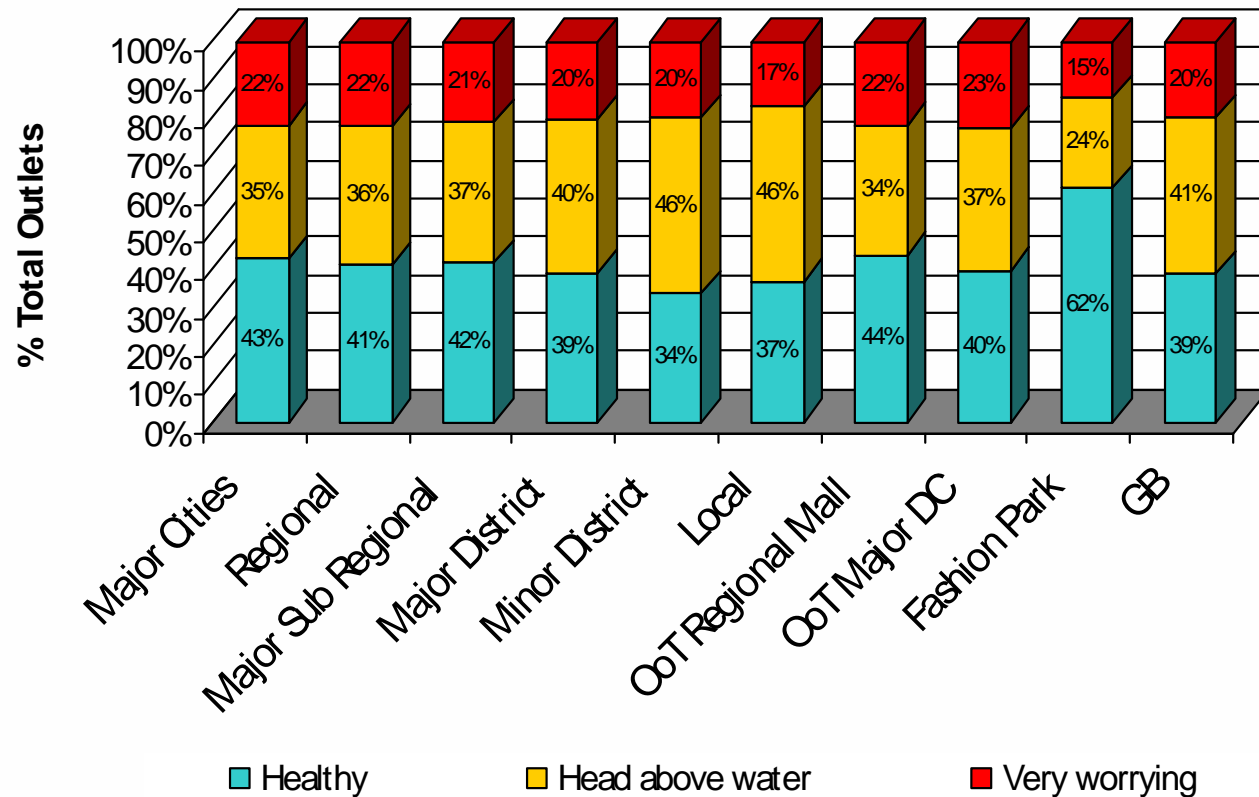




- By linking the health of retailers to the locations of their stores, FSP has produced a geographical assessment of the impact of 'At Risk' retailers
- There are above average concentrations of 'At Risk' retailers in Wales, North West, South East, Scotland and London
- There are above average concentrations of 'Healthy' retailers in London

## Geographical Analysis



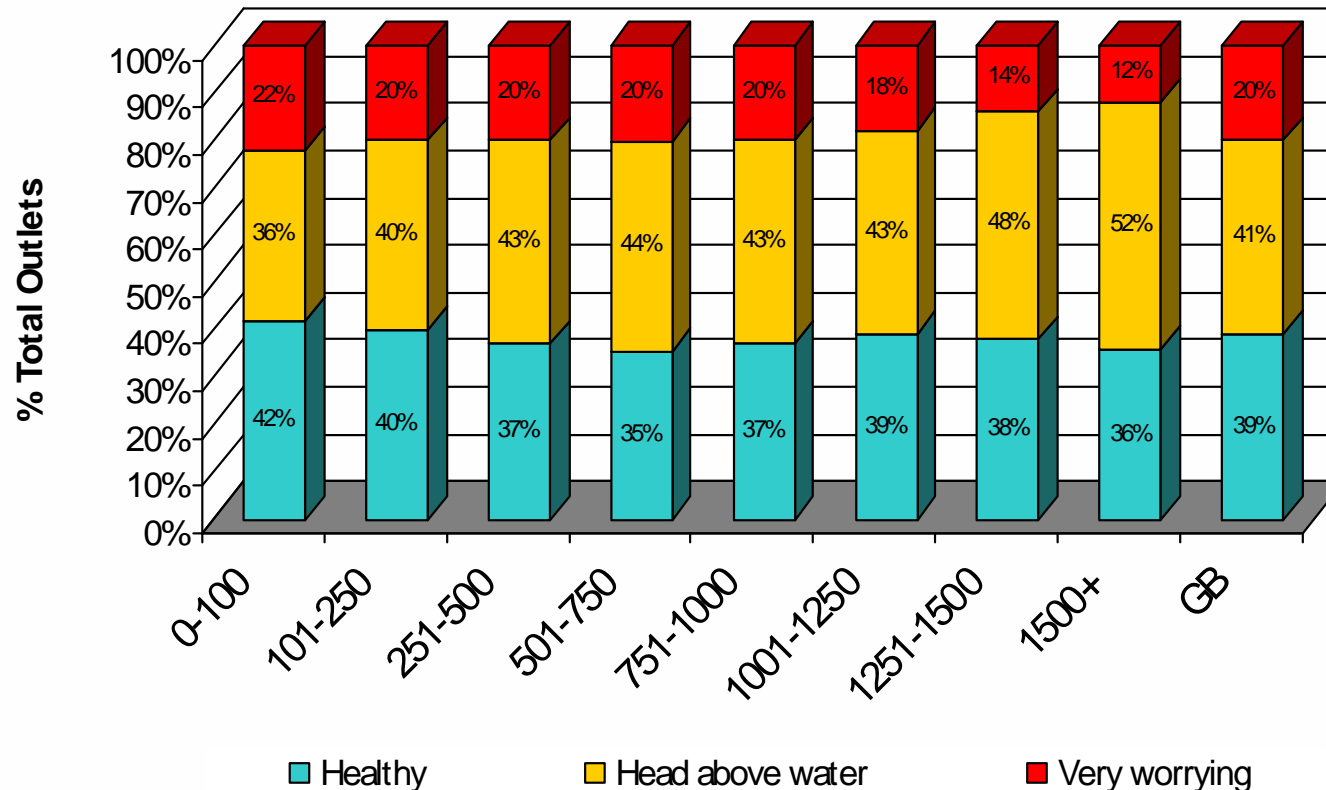


Using CBRE's classification of NSLSP Centres:

- There is generally a similar level of risk across the major centre groups however, the larger town centres, regional malls and fashion parks contain more healthy retailers
- There are above average concentrations of 'At Risk' retailers in major district centres e.g. Hempstead Valley, Serpentine Green, Parkhead Forge
- HAW Threat to Minor District Centres

## Geographical Analysis



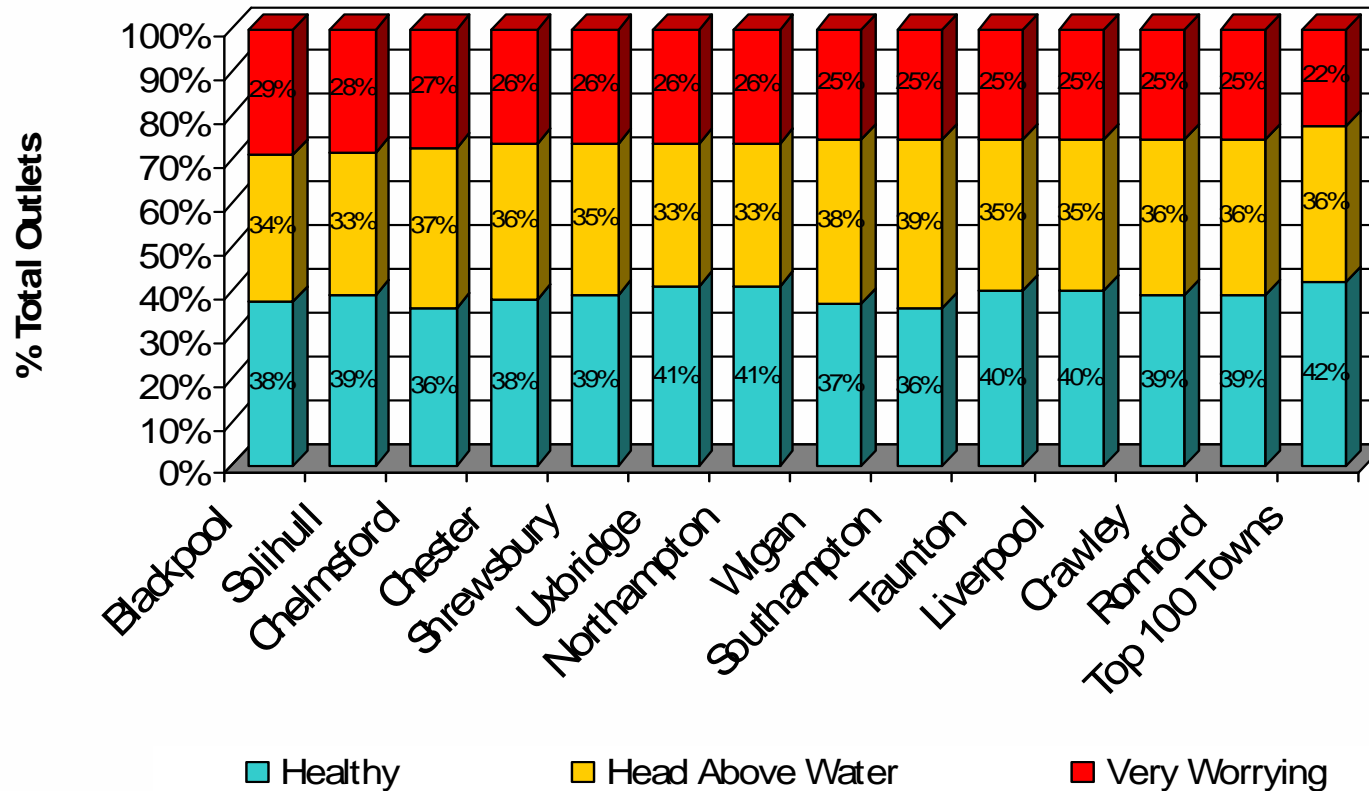


Using position in CBRE's NSLSP national ranking of comparison goods centres:

- There is a slightly higher level of risk in the top 100 centres, although these also have a higher representation of healthy retailers
- Risk appears to diminish for smaller centres however this may be a function of the strength of those multiples who are capable of operating in smaller markets

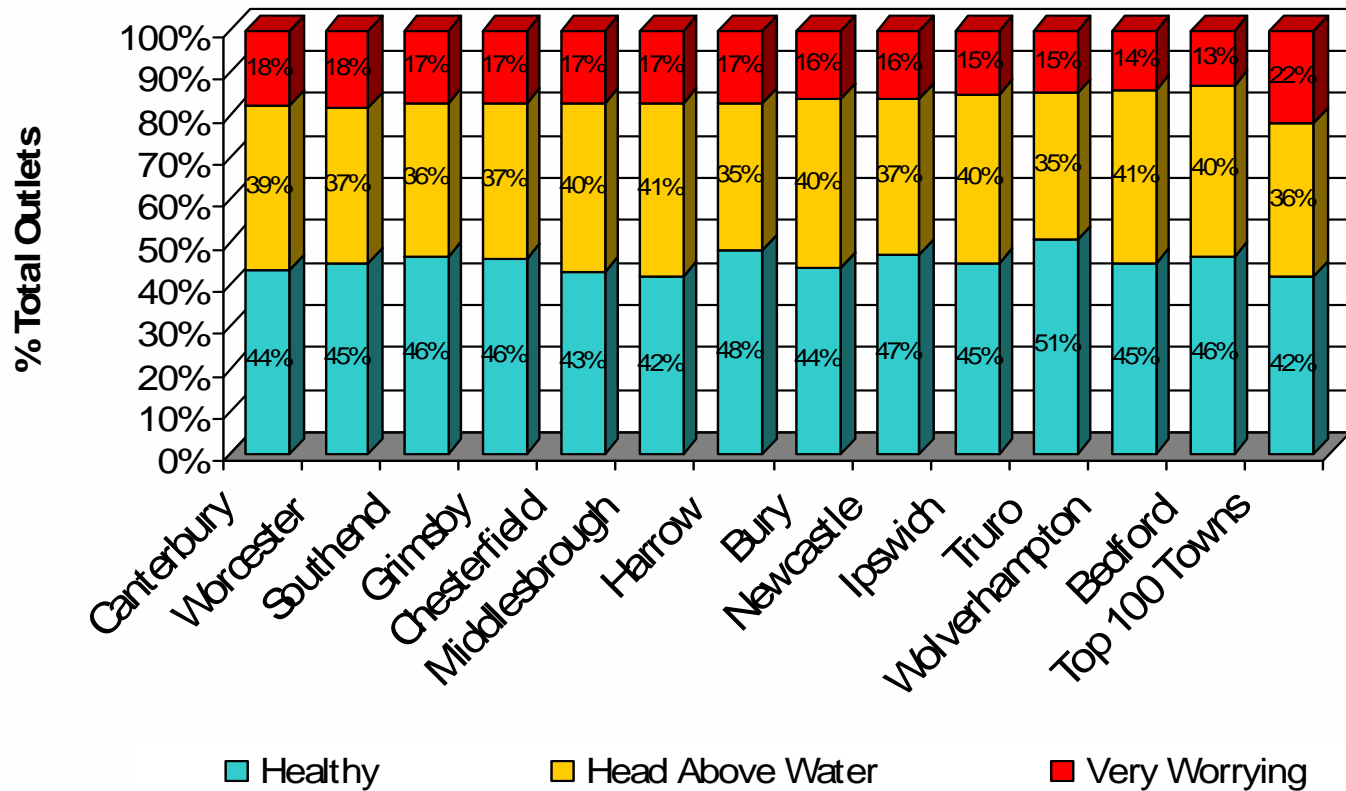
## Geographical Analysis





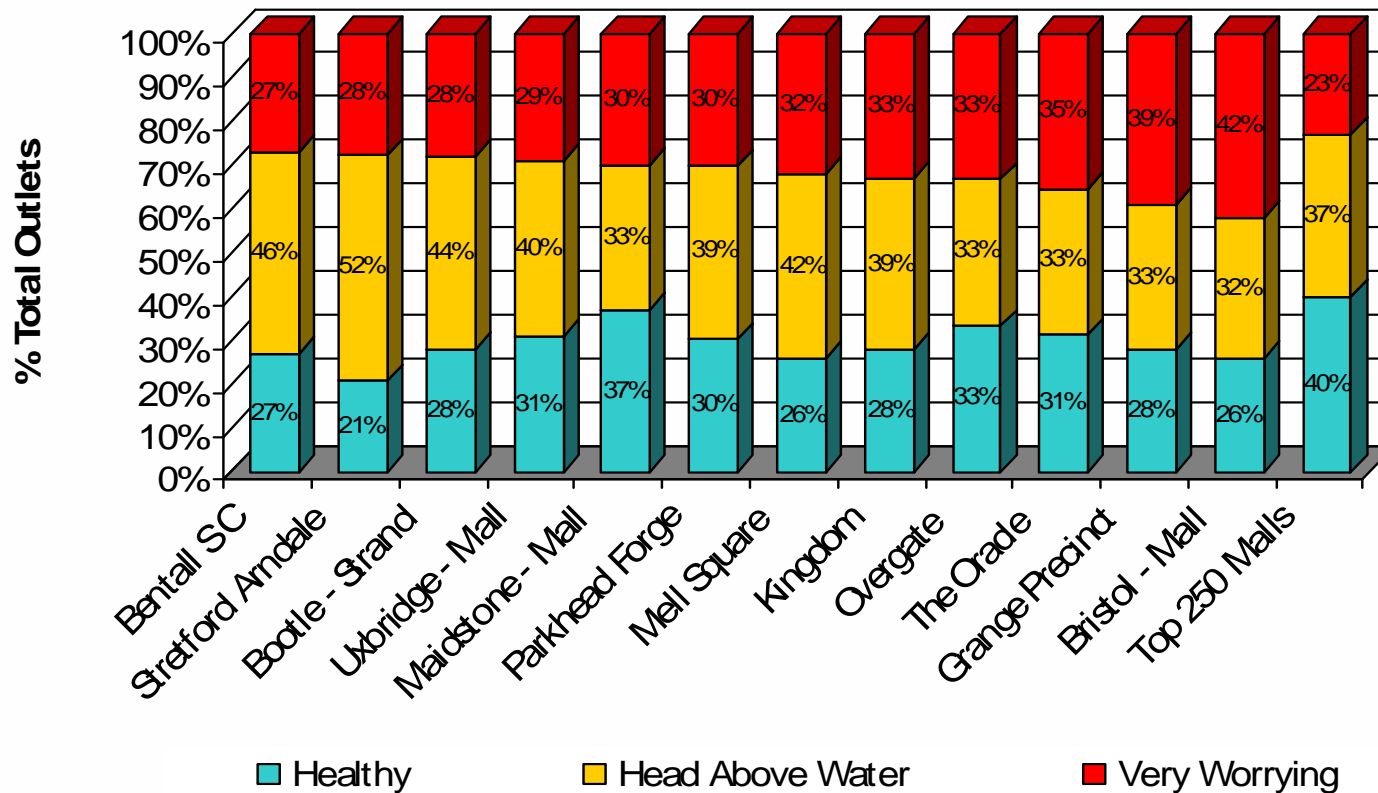
FSP has produced an assessment of Retailer Risk at centre level:

- The chart above shows major towns with relatively high risk (above average % of *Very Worrying* and below average % of *Healthy* retailers)
- These include affluent towns such as Chester and Solihull and blue collar towns such as Crawley and Romford



FSP has produced an assessment of Retailer Risk at centre level:

- The chart above shows major towns with relatively low risk (below average % of *Very Worrying* and above average % of *Healthy* retailers)
- These include affluent towns such as Canterbury and Truro and blue collar towns such as Middlesbrough and Wolverhampton

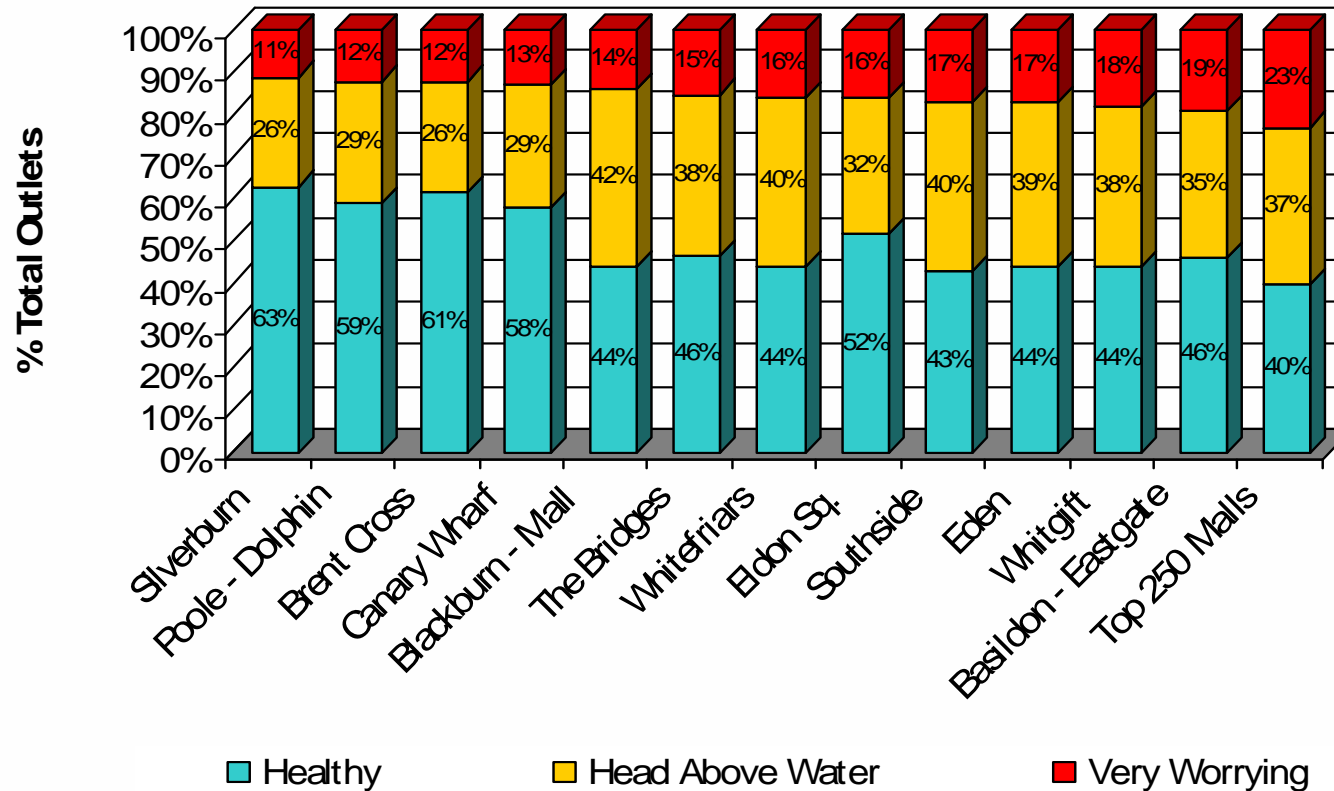


FSP has produced an assessment of Retailer Risk at shopping centre level:

- The chart above shows major shopping centres with relatively high risk (above average % of *Very Worrying* and below average % of *Healthy* retailers)
- These include Uxbridge, Parkhead, Dundee and Birkenhead

## Geographical Analysis



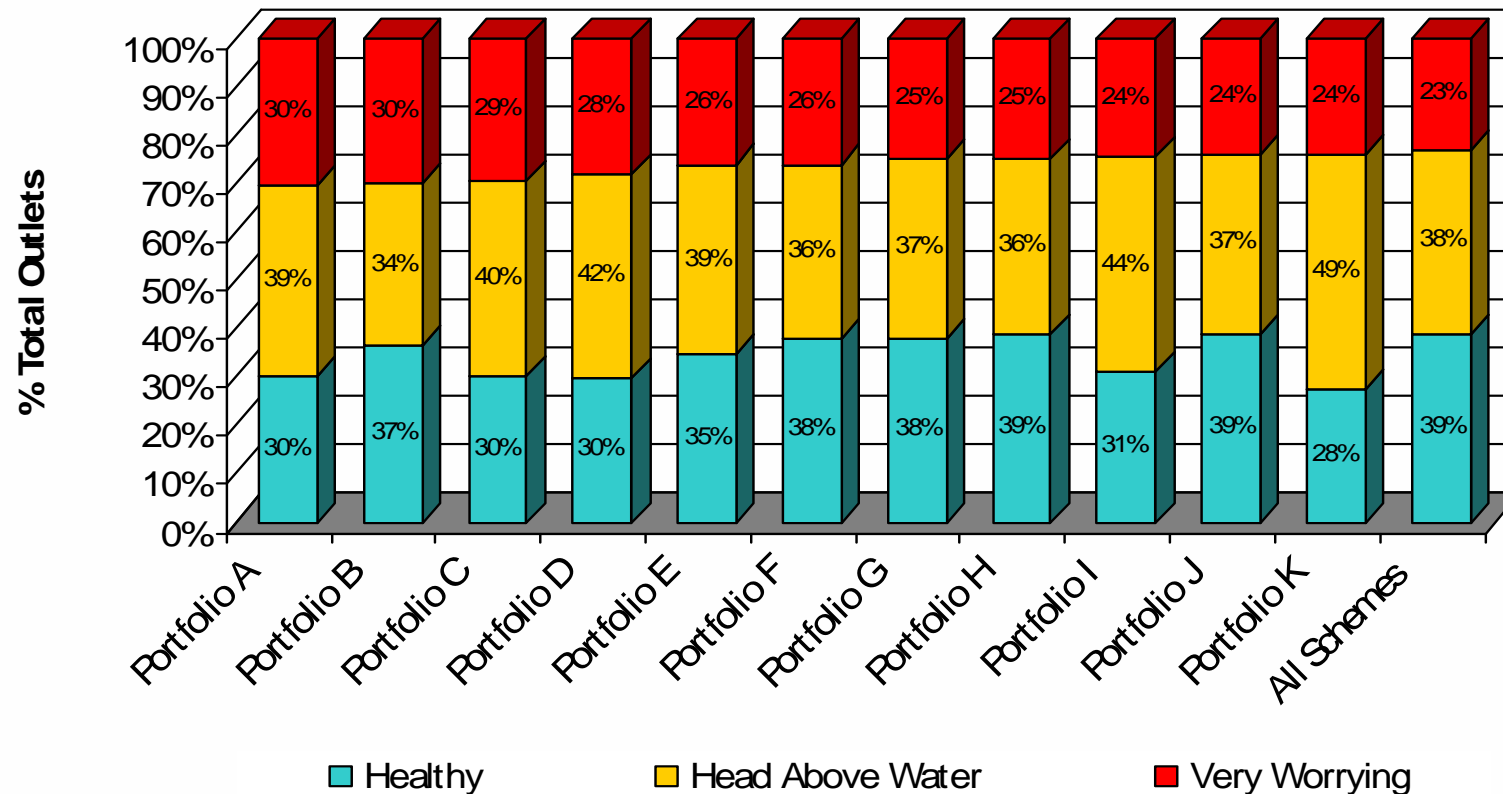


FSP has produced an assessment of Retailer Risk at shopping centre level:

- The chart above shows major shopping centres with relatively low risk (below average % of *Very Worrying* and above average % of *Healthy* retailers)
- These include Brent Cross, The Bridges, Southside and Whitgift

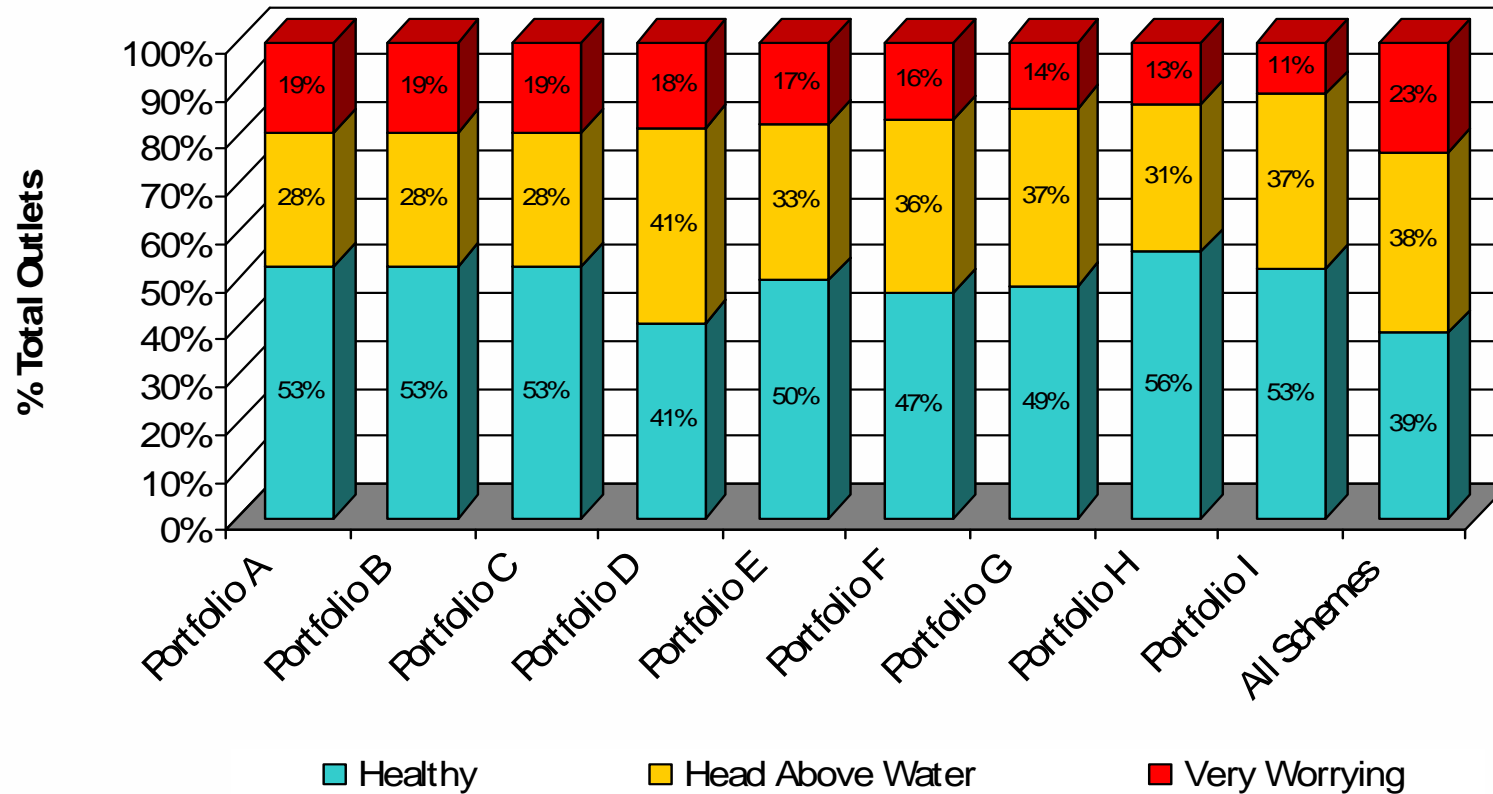
## Geographical Analysis





FSP has produced an assessment of Retailer Risk at Portfolio level:

- The chart above shows major shopping centres with relatively high risk (above average % of *Very Worrying* and below average % of *Healthy* retailers)



FSP has produced an assessment of Retailer Risk at Portfolio level:

- The chart above shows major shopping centres with relatively low risk (below average % of *Very Worrying* and above average % of *Healthy* retailers)

- Pre-acquisition due diligence analysis of investment
- Assessment of development sustainability
- Selecting less risky assets for acquisition
- Identifying vulnerable assets (marginally viable retailers may depress sustainable rental growth or lead to undesirable voids)
- Identifying vulnerable retailers for remedial intervention
- Assessing the sustainability of potential new occupiers
- Targeting healthy retailers as scheme entrants
- Assessing town centre risk outside investment schemes
- As an indicator of potential for rental growth
- Reports of 'At Risk' retailers are available by town from FSP

- No type of centre, town, asset or portfolio or location is immune from the threat of 'At Risk' retailers
- The geography of risk is complex. It is not simply a good town – bad town thing.
- Clearly, some centres have greater risk while some have more healthy retailers
- This style of analysis is being increasingly used to evaluate assets
- It is therefore important that owners, managers and market analysts recognise where risk exists and develop remedial strategies for intervention
- Doing nothing is not an option. Empty units and unsustainable retailers will depress shopper spend, rental growth and property values.
- No single indicator is perfect but the approach is an important start and can be improved with complimentary analysis.

## Conclusions





**DIUS Ratio: 201**



**DIUS Ratio: 176**



**DIUS Ratio: 154**



**DIUS Ratio: 169**



**DIUS Ratio: 171**



**DIUS Ratio: 156**

# The Hot Hundred



# Discussion

