



# Location Analysis and the New Economic Realities

**Mark Teale**  
**Head of Retail Research**  
**CB Richard Ellis**

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# Retail Armageddon

*If 2008 was the year financial services melted down in Britain, 2009 is shaping up as retail's moment to implode. The once-booming retail sector -- known in Britain as the High Street -- is reeling as weak consumer confidence, tight credit, and rising unemployment throttle sales and profits.*

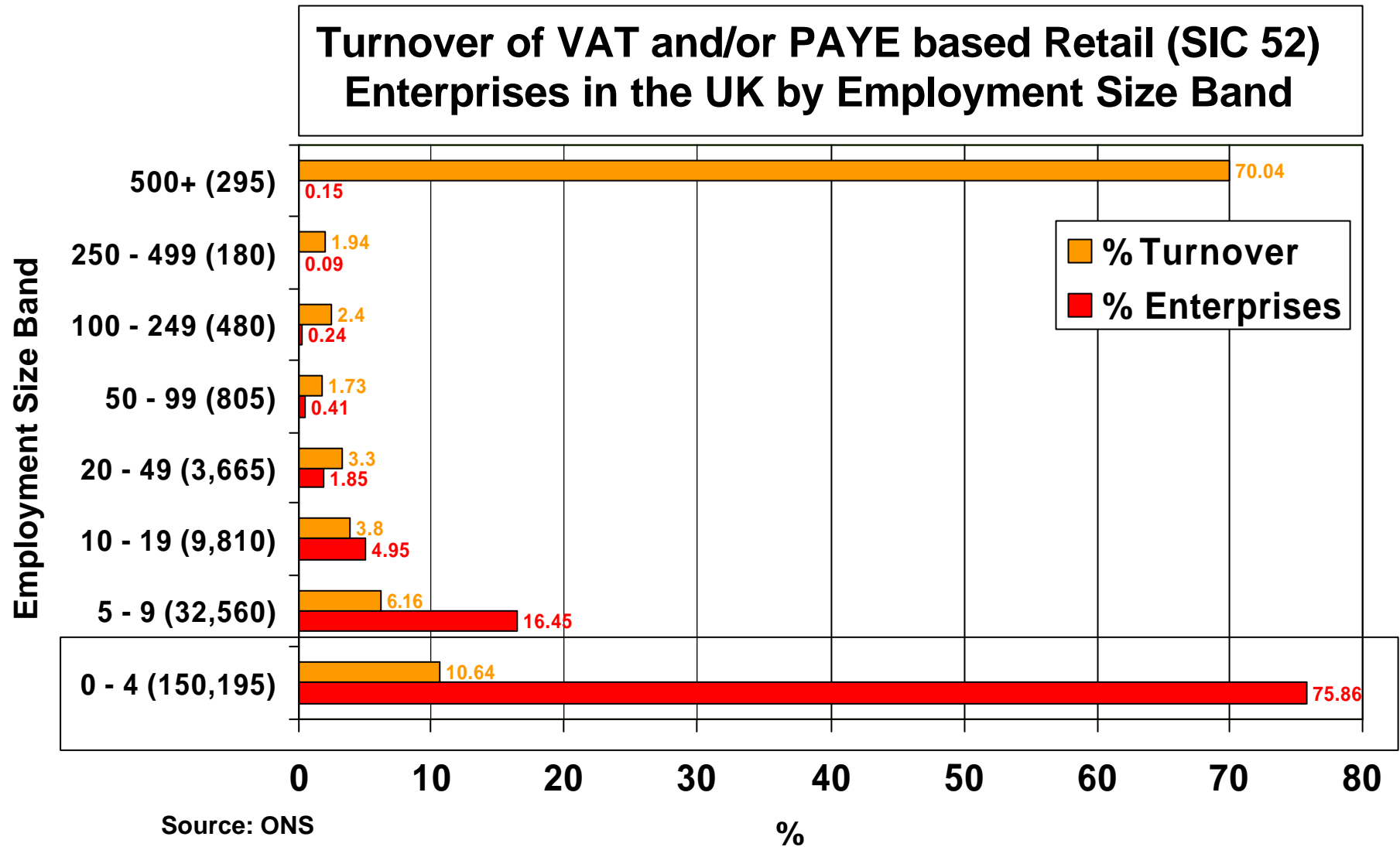
*'By year end, predicts credit researcher Experian, some 135,000 storefronts -- one in seven across Britain -- may be vacant. And up to 135,000 retail workers could lose their jobs by the end of 2009, says the London-based Center for Economics & Business Research. "There definitely are tough times ahead," says Jonathan De Mello, director of Experian's retail consultancy.'*

*'All told, says insolvency and restructuring consultancy Begbies Traynor, nearly 2,000 retailers already are in bankruptcy proceedings in Britain.'*

*'But slashing prices cuts both ways. "All the discounting has done is squeezed margins," says Tarlok Teji, head of British retail at consultancy Deloitte. He reckons that sales promotions will help keep like-for-like sales broadly flat over the first half of this year, but cautions that discounting will hit profits. Margins will likely fall 30 to 40 percent in 2009.'*

*Spiegel Online/Business Week 27/02/2009*

# Retail Enterprise Size Distribution

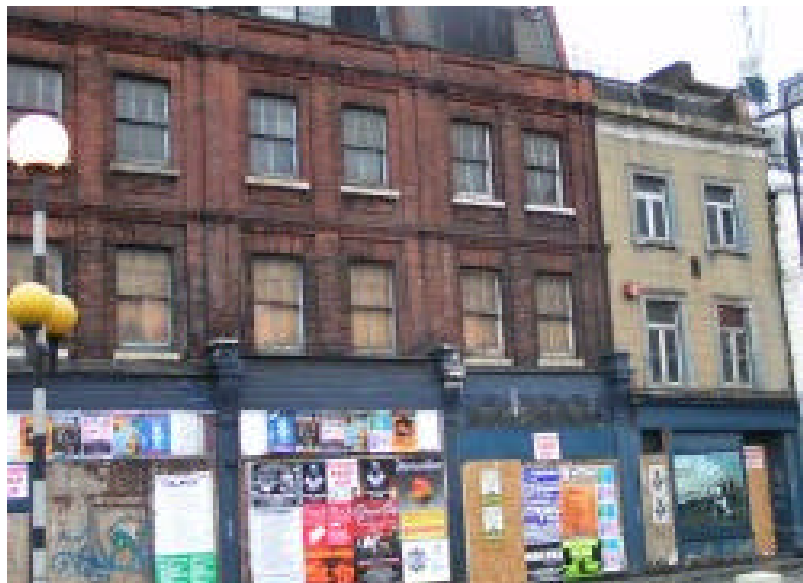


# Vacancy Context

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- circa 900,000 'shops' in UK (50% pre- 2<sup>nd</sup> World War)
- about 300,000 shops in retail use
- 3,000 multiples (1,700 retail related)
- 200,000 (20%) shop units held by multiples (multiples hold about 60%-70% of all space)
- just under 100,000 (11%) are branches of retail multiples
- Non-multiple stock totals about 700,000 units
- 15% shop vacancy rates forecast by end 2009 (up from circa 10%): but where are vacancies emerging?

# The slow death of the 'High Street'



# Some in town centres, some not



# 'Save our local shops'



# Obsolescence effects 'modern' stock too...



# 'Save our local shops'



# Voting with our feet...



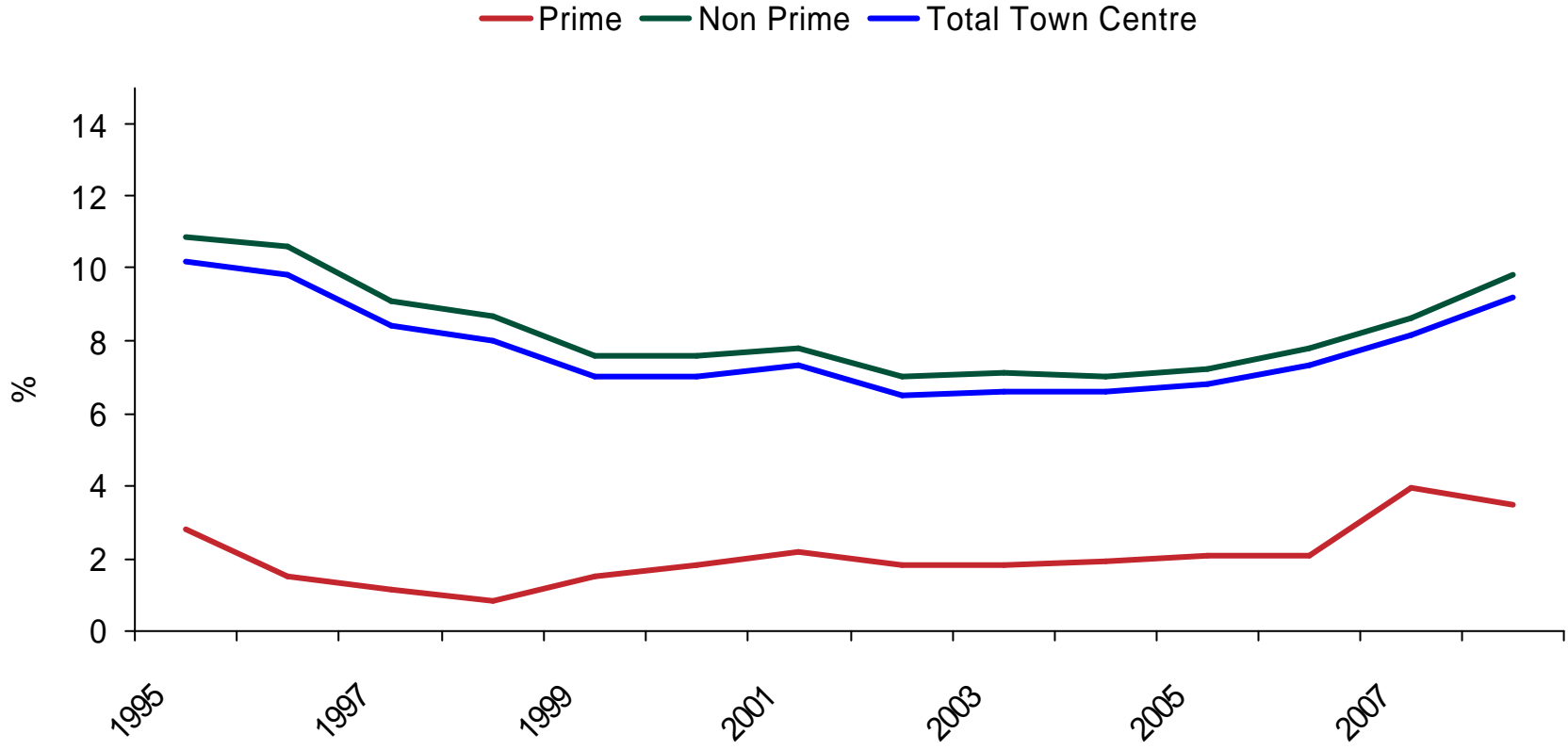
# Voting with our feet...



# Voting with our feet...



# Town Centre Vacancies



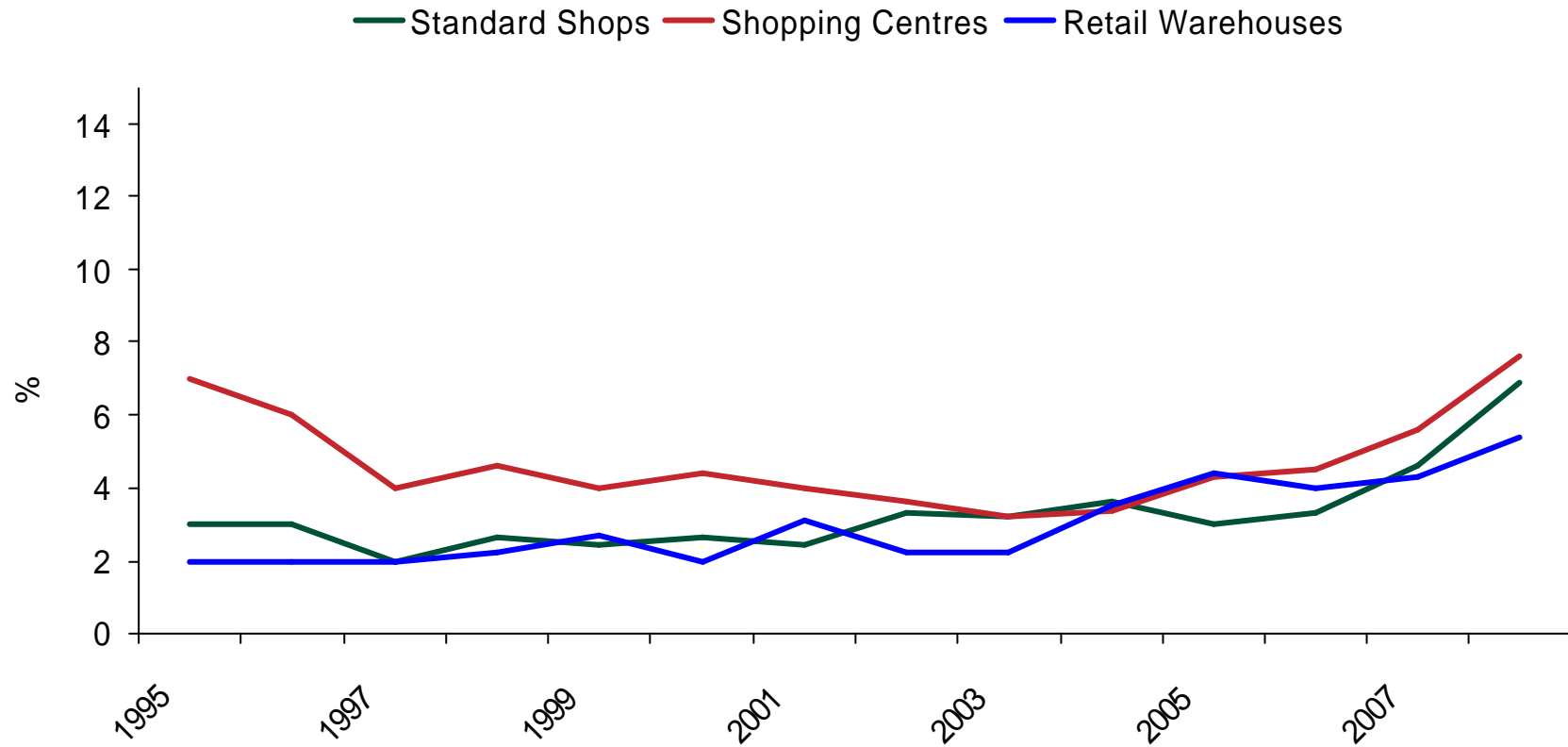
Source: PMA

# Voids



Source: IPD

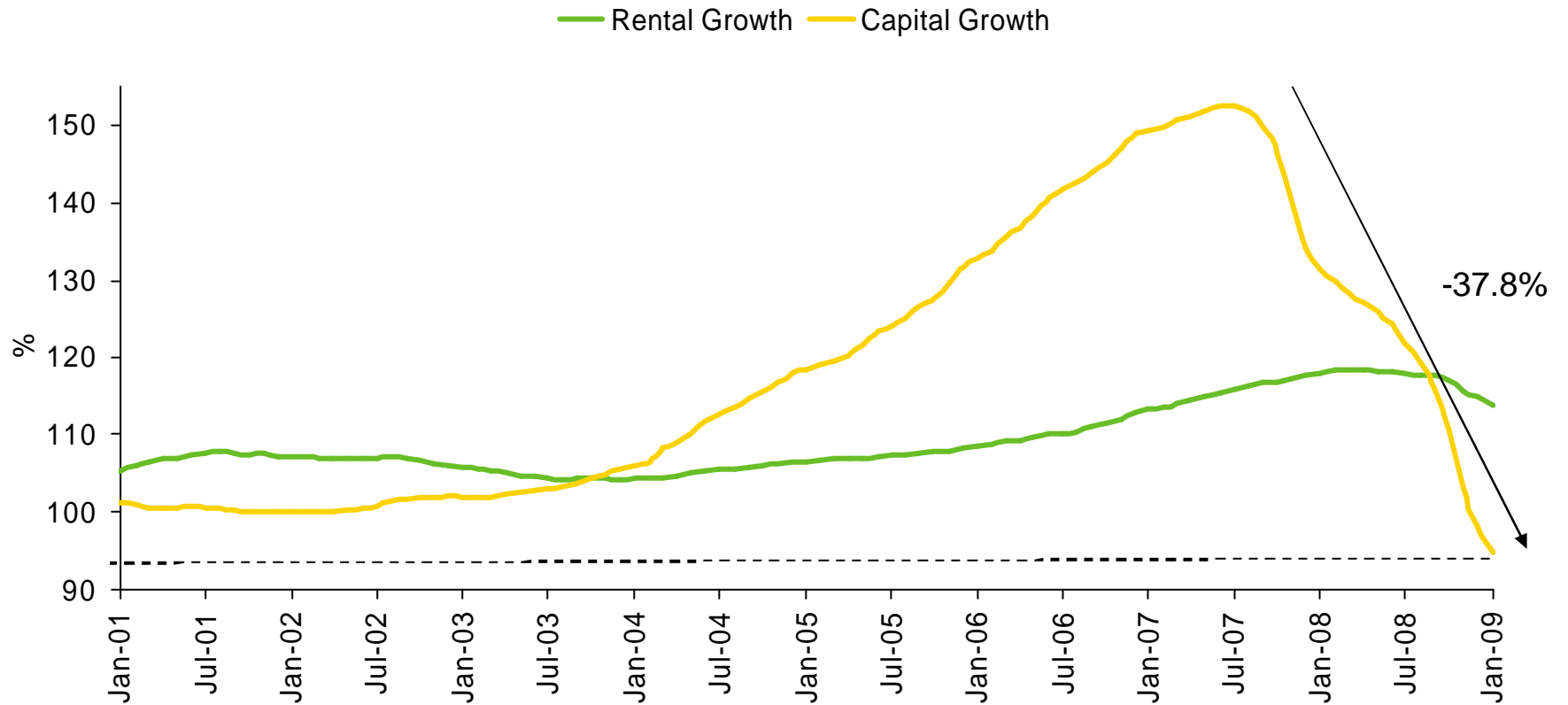
# ERV in Voids as % of Total ERV



Source: IPD

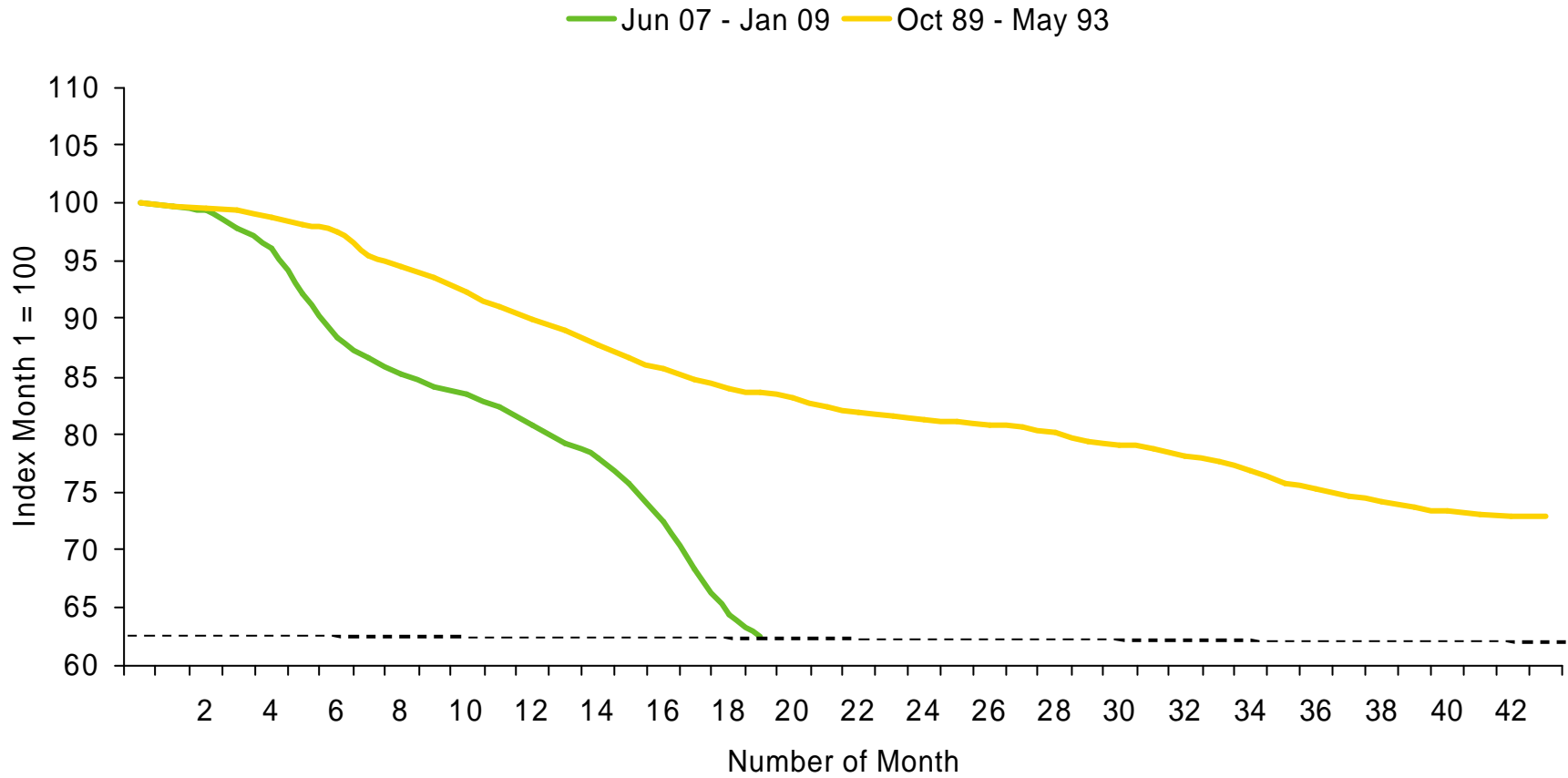
# All Property Capital and Rental Growth

February 2009

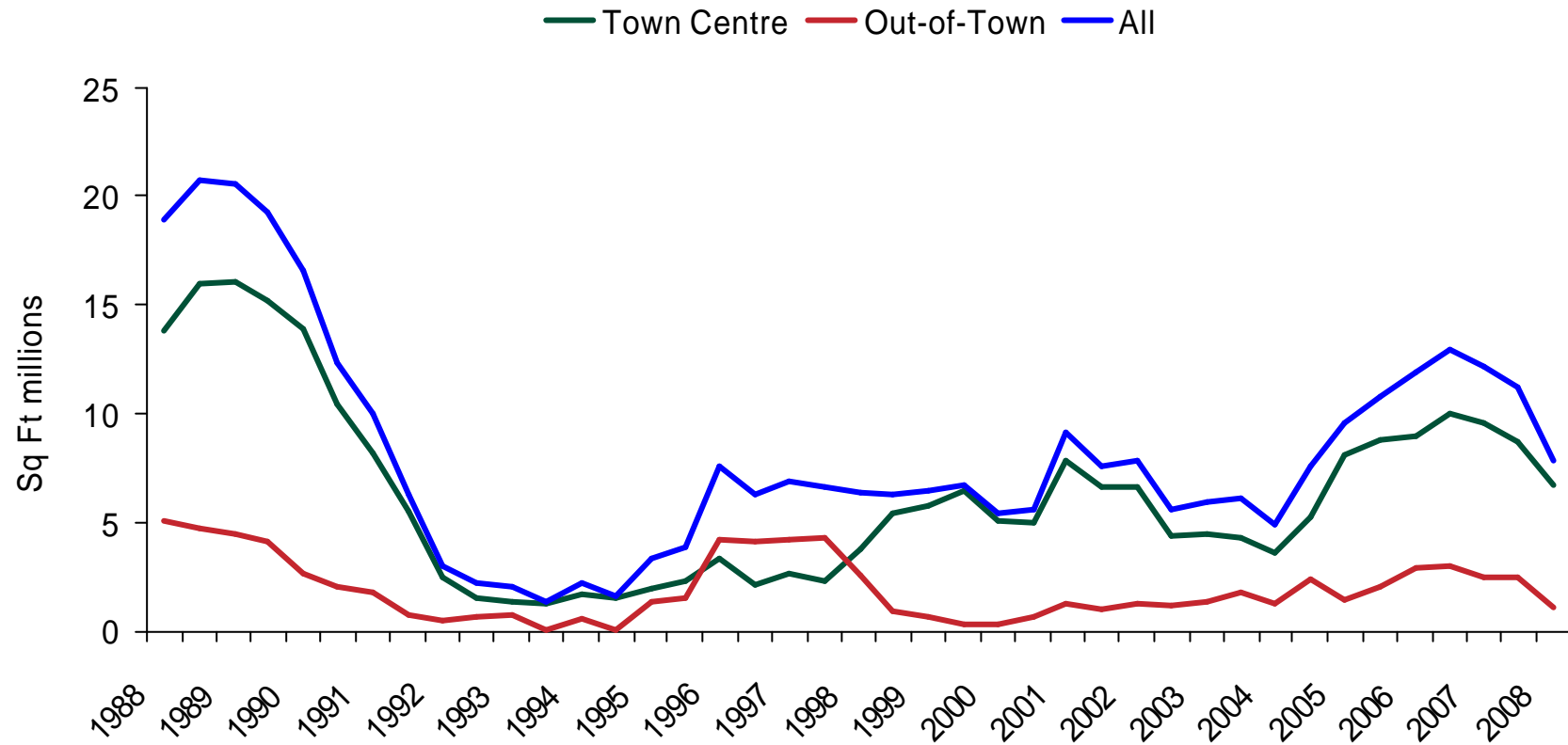


Source: CB Richard Ellis Monthly Index

# Capital Value Trends: Comparisons with early 90s

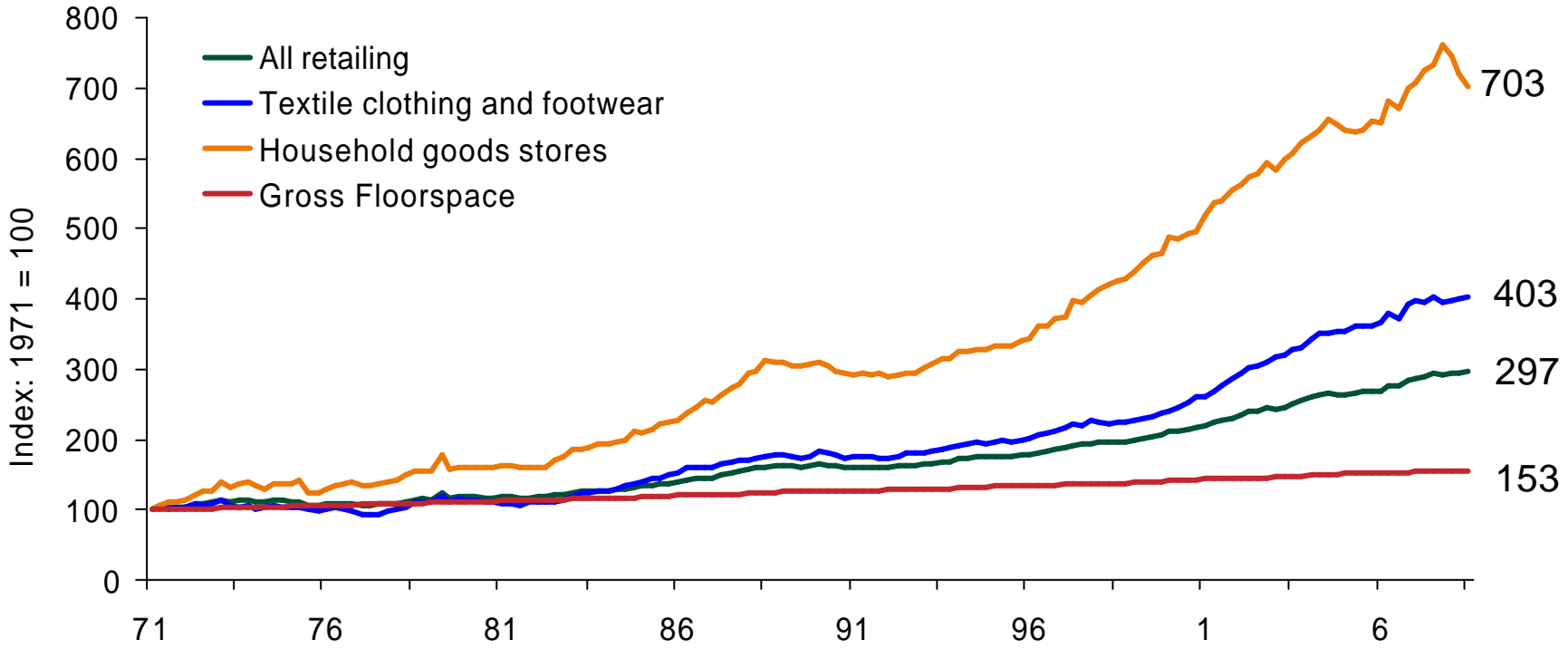


# Shopping Centres Under Construction



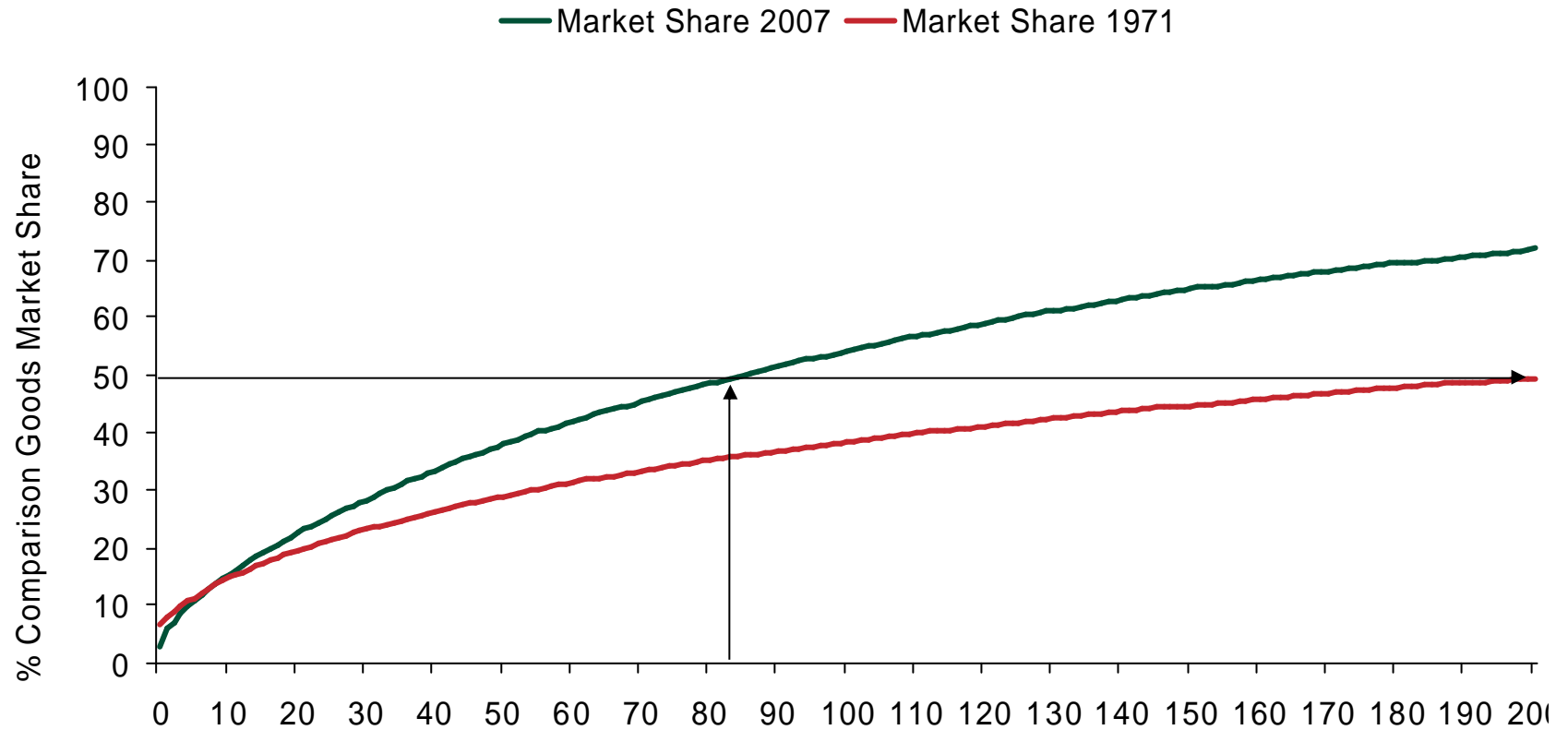
Source: IPD

# Sales Volume Growth vs Floorspace Growth



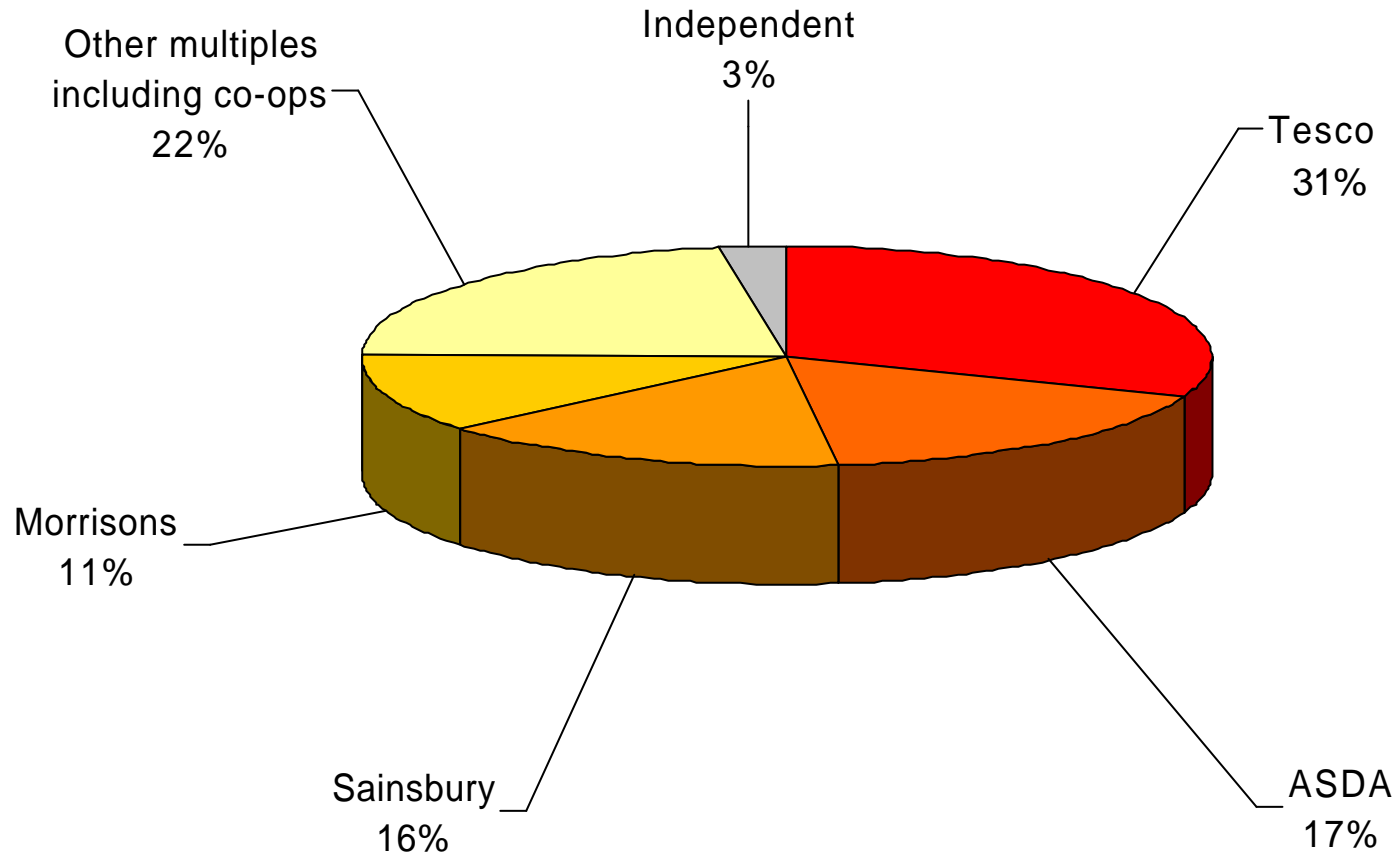
Source: Valuation Office; ONS; CB Richard Ellis (as at Q3 2008)

# Market Concentration – 1971 - 2007



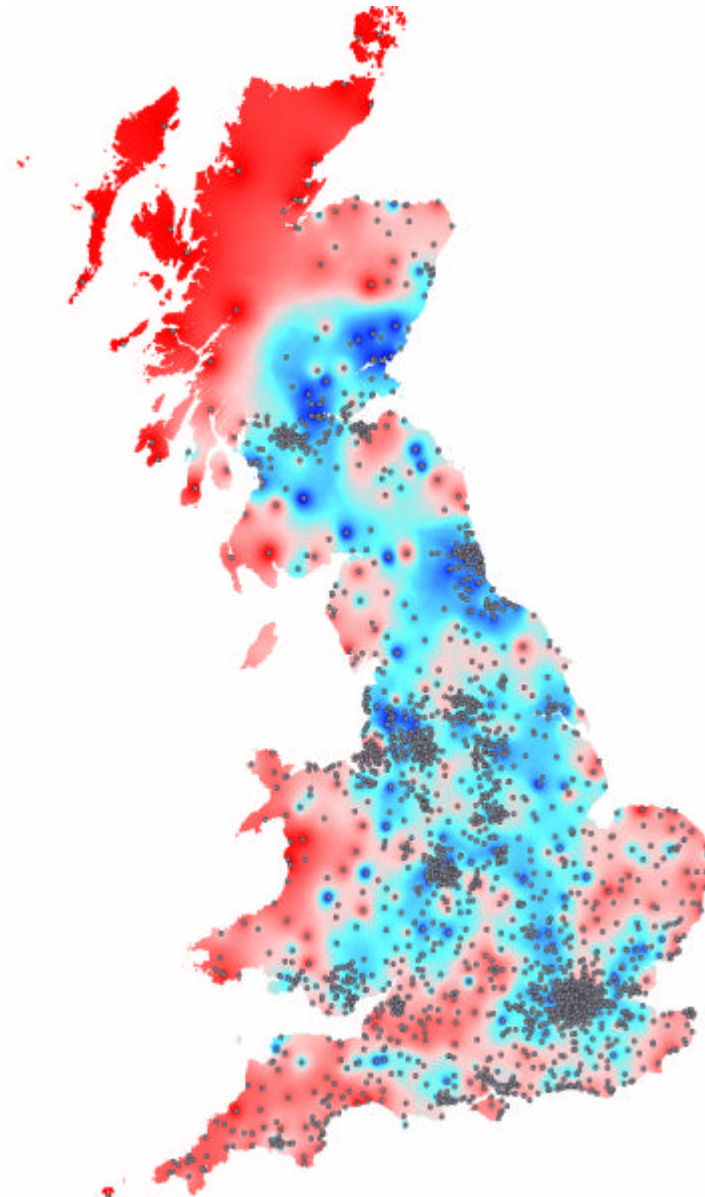
Source: NSLSP

# Main Grocery Market Shares (%)



Source: TNS WorldPanel

# Mail Order/Internet Penetration



# Summary

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- recessionary shake-out of weaker players
- vacancies rising rapidly but primarily in secondary stock
- Stylo, MFI, Zavvi, Woolworths, Whittard, Baugur...but, as always, independents most vulnerable
- market concentration accelerating as chains retrench
- development tap turned off: supply problem already emerging for anchors (JLP, Debenhams etc)
- grocery majors continue to expand aggressively
- market share shifts remain in favour of dominant centres and out of town
- obsolescent stock problem worsening (chronic unit size and locational demand/supply mismatch)

# Summary

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- economic tide goes in-and-out; each time tide comes in, water a little higher: more poor secondary/tertiary stock drowned
- flight to higher productivity ground by multiples
- sector retrenchment increasing market concentration
- market concentration exacerbating stock obsolescence; locational obsolescence increasing too
- market shares moving inexorably in favour of the best stock in the best high productivity trading locations
- internet impact locationally dwarfed by market shifts between trading locations

# Opportunities

- low prime stock vacancies and very limited new supply in UK usually makes it exceptionally difficult/expensive to expand rapidly;
- shaping up to be a once-in-a-generation opportunity for the fleet-of-foot to pick up usually scarce/expensive high productivity space; because of Sterling weakness, particular opportunity for overseas players; grocers well-placed too
- but, top-line vacancy figures exaggerate the scale of opportunity: stock shedding in recession tends to release the weakest stock
- rapidly declining development activity implies a short window of opportunity for primary stock acquisition
- and difficulties going forward for retailers (particularly anchor traders) dependent on speculative shops development

# Opportunities

- the market is heavily overweight in small unit shops, chronically short of larger units in high volume trading locations: opportunity in some 1<sup>st</sup> and 2<sup>nd</sup> generation shopping centres to combine units/ strengthen mixes
- particular opportunity for grocers because they can utilise stock/sites (town centre and out-of-town) that are no longer viable for multiple comparison goods or bulky goods retailers (if planning obstructions can be overcome)
- shop stock obsolescence, in conjunction with empty rates, should accelerate change of use of more traditional tertiary stock out of retail altogether but financing difficulties and planning obstructions will make it a long hard slog

# Summary – either or

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- value repositioning in UK has been unusually fast – rental growth now turning negative – but development activity plummeting: once the market turns, and retailers start expanding again, the acquisition window will close very rapidly triggering a resumption of high occupational cost inflation. Answer: get in now while panic reigns; opportunities are there and retail property is cheap
- the market will stabilise but demand – as in the 73-83 period will remain sluggish for a number of years leading to continuing – but much slower - market share shifts in favour of retail majors (and better trading locations) but with relatively modest occupational cost growth and accelerating stock obsolescence: answer, sit it out and see which way the wind is blowing 6 months from now

