

Economic slowdown is disguising a bigger shift in retail spending

BEHIND THE NUMBERS

Andrew Jones

Chief executive
Metric Property



Retail vacancies rose to 13.3% in June this year

Significant retail spend has migrated out of town

The position of tired, peripheral towns in the retail hierarchy is under threat



REX FEATURES

The current economic environment is disguising a structural shift that is taking place in the UK retail property market.

One of the consequences of the economic slowdown has been a material increase in the number of vacant shop units that we have seen spring up in town centres following a number of very well known names – including Bay Trading, Woolworths, JJB, Faith, Barratts, Birthdays and Adams – reducing in number or disappearing altogether through administration, pre-pack or company voluntary arrangement.

According to IPD, retail vacancies have risen from 7.6% in 2005 to nearer 13.3% in June 2010. Even this figure disguises the number of retailers that are occupying shops on temporary or concessionary deals, while the landlord lives on in hope that one day someone will want to reoccupy his investment.

The common thinking among optimists is that this is all down to the recession and that, when the economy bounces back, all these vacant shops will fill up again, as they did in the mid-1990s, and everything will again be rosy on the high street.

However, it could be very different this time due to other external factors at work, which could mean that the size and shape of town centre retailing will change radically when we come out of this downturn.

Alternatives to the high street

Today, consumers have a number of alternative options to buying goods on the high street, including out-of-town supermarkets, edge-of-town retail parks and the internet. The concern is that shifts in consumer shopping patterns are taking place at a time when shop vacancies are already at very high levels, with the looming threat that they may rise further due to low average unexpired lease terms.

Over the past 10 years, significant retail spend has migrated to out-of-town supermarkets and retail parks. The examples are numerous. Sainsbury's revealed that non-food sales rose three times faster than food sales.

According to Verdict, ASDA's George is now the fifth-largest fashion brand in the UK, and Sainsbury's reported that its TU childrenswear range is the seventh-largest in the UK. As well as seeing the supermarkets aggressively push into non-food,

we have witnessed a migration from many in-town retailers, including Next, Boots, and M&S, onto edge and out-of-town retail and shopping parks.

There is a risk that, when in-town leases expire over the next few years, many retailers could take the opportunity to rationalise their estates and serve both in- and out-of-town customers from their out-of-town stores.

The other major avenue open to the consumer is the internet. Non-store purchases continue to take an ever-increasing proportion of total retail sales, and there seems to be little sign of this easing off.

Like-for-like sales growth of the Next Directory rose 7.8%, and the last set of results from Argos reported that 43% of its total sales now come from its internet or directory business, with its internet business ranked second after Amazon. This avenue is taking away sales from traditional high streets, and therefore there is a real danger that we really do have just too many shops.

However, it can't always be this simple. These alternatives ignore the resilience of many town centres and the fact that the vast majority of the UK's population prefer to shop in the physical

↑ George at ASDA is the UK's fifth-largest fashion brand

high street. Ignoring these alternative consumer channels will be at our peril as competitive forces will continue to buffet the town centres over the coming years.

Strong town centres will survive and probably prosper, but the outlook for some of the older, tired, peripheral towns is of greater concern as they lack critical mass to offer the full breadth and depth of retailing that customers demand.

Their position in the retail hierarchy is under serious threat as their customers can rely on out-of-town retail offers and the internet for their everyday items and the large city centres for their true discretionary spend.

The half-empty conclusion is that the voids stay vacant, more retailers leave when their leases expire and we end up with a much smaller high street than we once had. The half-full conclusion is that empty shops get relet but at substantially lower rents than they have been.

To quote the world's greatest investor: it's only when the tide comes in that will we discover which boats rose with it and which boats sunk in it.