TALKING SHOPS Andrew Jones

Lease expiries will drive retail development, too

The recent development boom for offices within the City of London – such as the "Walkie-Talkie", "Cheesegrater" and Pinnacle – has, we are told, been predicated on the raft of lease expiries that will occur in 2013, 2014 and 2015. One leading commentator described this as an "unseen dynamic", as 15-, 20- and 25-year leases start to expire.

The interesting point is that the same unseen dynamic is taking place within high streets and shopping centres up and down the country. CB Richard Ellis says that between 1985 and 1990 more than 19m sq ft of large-scale retail development was completed, including: Bon Accord in Aberdeen, Eastgate in Basildon, Cascades in Portsmouth, the Metrocentre in Gateshead, Lakeside in Thurrock and Meadowhall in Sheffield. Even the most mathematically challenged among us can work out that retailers in these centres are about to inherit a sense of "mobility" that has previously eluded them.

Investment Property Databank reports that 47% of secondary shopping centre leases are due to expire over the next five years. Prime assets are significantly less exposed. To put this into context, DTZ regards only about 100 of the 840 centres in the UK as prime. That leaves an awful lot of centres facing challenging lease renewal negotiations, particularly in light of recent press speculation that Arcadia wants to vacate more than 300 shops across its portfolio.

Secondary's out

The implication is that, with increasing mobility and on-going retailing polarisation – as well as growing online and out-of-town competition – vacancies in secondary towns will rise, and rents and capital values fall. Landlords will fight hard to keep their best customers, particularly as they will be keen to avoid the empty rates and service charge liabilities. But the fact retailers want more space does not necessarily translate into them wanting more shops – they just want better space in fewer shops.

This impending retailer mobility coincides with the increased polarisation of shopping patterns across the UK and a rising threat from both the internet and supermarkets' increasing dominance of non-food spend. Research by CBRE suggests that, whereas in 1970 a retailer targeting a 50% share of the UK shopping population needed 200 shops, today, as a result of changing shopping patterns and polarisation, it would need just 90. Although many retailers have known about this trend for many years, the old-fashioned 25-year lease left them with very little mobility.

Renew hope

The bulls, however, will no doubt argue that, unlike the City office market, there is very little new development going on and so the tenants will have to renew and the risks of vacations are overdone. Westfield Stratford, Parkway in Newbury and Wakefield's Trinity Walk are the only large new schemes opening next year. New shopping centre space will fall to 2m-4m sq ft for 2011 and 2012 – down from 8m sq ft in 2008.

Therefore, with little committed supply and newfound occupier mobility, there is a growing feeling that a flurry of new shopping centre developments will be announced in 2011. Developers are already dusting down their plans, re-opening discussions with their anchor tenants, rerunning appraisals and talking to potential funders.

To date only Land Securities has pressed the button, on its Trinity development in Leeds. There is talk that Hammerson will also commit to its £600m Sevenstone shopping centre in Sheffield and possibly its 1.5m sq ft Eastgate Quarters in Leeds. We may also hear announcements of new schemes starting in Preston, Lichfield, Lincoln, Oxford, Crawley and maybe even Wembley, although Bradford may have to wait a little longer.

Apart from rising voids, falling rents in secondary towns and announcements of new developments, we will see more retail investments from the banks coming to the market in 2011, as significant refinancings loom and interest rate swap contracts expire. Many of these, however, are likely to be secondary.

Impending life expiries from specialist funds will also mean some larger prime retail assets will hit the market, as managers aim to liquidate portfolios.

The shape of the recovery in retail property will be very different from that with which we entered the downturn.

Andrew Jones is chief executive of Metric Property Investments

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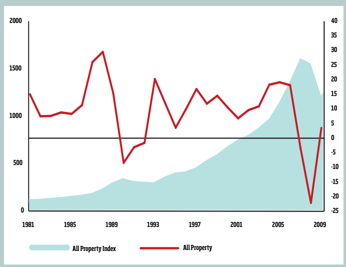

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