RetailWeek
PROPERTY

April 2018

Public interest

How local authorities buying up retail property could rejuvenate UK high streets

Also inside: Discount domination What next for the booming value sector?

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COUNCILS

Local authorities have been on a spending spree for inner-city shopping schemes and retailers could be set to benefit. **Ben Cooper** reports

ALAMY

Canterbury City Council has bought Whitefriars shopping centre for £75m

Keeping it in the COMMUNITY

Few would deny that local councils have had it tough over the past 10 years, but a survey in January 2018 really spelled out the problem.

Research by think tank LGiU and *The Municipal Journal* found that, under pressure from central Government cuts, more than 73% of local authorities are considering putting council tax up by over 2.5% in the next 12 months. And 40% admitted that they would have to make cuts that would be "evident to the public" in 2018/19.

But there was another interesting statistic in the *State of Local Government Finance Survey 2018* – 66% of local authorities are now considering purchasing investment properties, including shopping centres.

This could be good news for retailers. Many high streets up and down the country are suffering from a lack of a joined-up approach due to fragmented ownership of retail property. Unlike shopping centres or retail parks that are typically owned by one or perhaps a consortium of developers, more often than not shops along a high street have entirely different landlords that are, perhaps understandably, out to get the highest return on their investment.

> **"66% of local authorities are now considering purchasing investment properties, including shopping centres"**

Therefore little thought is put into the overall retail mix of the area, impacting the number of shoppers drawn to it.

The idea of local councils taking over schemes provides retailers with the hope that a more considered approach will be adopted. After all, it is in the council's interest to have a thriving shopping offer. For local authorities,

Shropshire Council is investing in Shrewsbury shopping street Pride Hill

when the town or city centre suffers, the whole jurisdiction suffers with it. Shopping and retail property are therefore key to the whole commercial success of a town.

Ed Cooke, chief executive of industry body Revo, says that the broader powers and interests a local authority landlord has in a town can bring advantages for retailers, provided an asset is managed in the right way.

Local investment

"Councils can line up their commercial real estate with other things like transport and infrastructure, and public realm works as part of a broader view, which is a positive thing for retailers," says Cooke.

"Councils are investing over a long period; it's a positive thing so long as they get the right infrastructure in place and work in partnership with a professional asset management company, and the retailers."

Jonathan Bull-Diamond, senior director in property consultancy GVA's Investment

SOME KEY DEALS FROM THE PAST YEAR

In January 2018, Savills reported that local authorities accounted for shopping centre acquisitions worth £213.5m in 2017, predicting that "councils will continue to invest in shopping centres in 2018, doing so with a continued focus on assets within their jurisdiction".

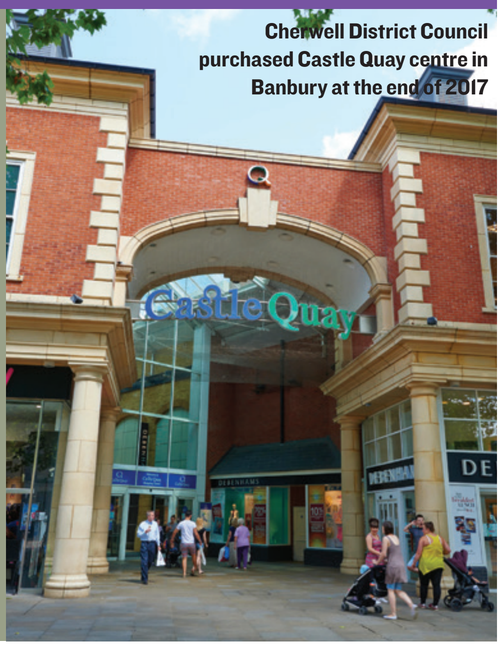
■ Some of the biggest deals of 2017 included the purchase in December by Cherwell District Council of the **Castle Quay** shopping centre in Banbury, Oxfordshire. The deal meant the rescue of a wider leisure scheme, which would have gone to the wall after the previous developer pulled out.

■ In Bootle, near Liverpool, Sefton Council bought **The Strand** centre in May, in a £32m deal with Ellandi and Avenue Capital.

■ Towards the end of the year, Shropshire Council announced it would be investing a significant amount into rejuvenating a number of retail sites in the town of Shrewsbury, including **Pride Hill**, the town's main shopping street.

■ In March last year, Barnsley Council committed a further £70m of funding to develop a new centre from scratch in the middle of town. The **Glass Works** scheme was already partly under way, thanks to an initial investment of £50m from the council, but now the further funding will secure phase two of the project.

■ And this year there has already been one major deal inked, with the £75m acquisition of the **Whitefriars** shopping centre in Kent by Canterbury City Council, which purchased the remaining 50% of the asset from former joint venture partner TH Real Estate.



Cherwell District Council purchased Castle Quay centre in Banbury at the end of 2017

Barnsley Council committed a further £70m of funding to the Glass Works scheme last year

Partnerships team, says: "The town centre is the main focus of commerce and councils need to make sure it is as prosperous as it can be. Having a stake in that is a good thing."

This is especially so when a centre has been neglected by the private sector, as is the case in many towns where councils are struggling to rejuvenate tired old malls and high streets.

In these instances, says Charlie Barke, head of shopping centre and high street investment at estate agency Knight Frank, it makes sense for local authorities to "put their money where their mouth is and make sure they have strong locations where people want to shop".

He says: "The shopping centre market has seen more than two decades of very limited landlord investment. Local authorities are seeing an opportunity to come in and make a real investment in these assets and hopefully see a real improvement in them. It's critical for them to be driving these assets forward."

John Kelly, director of client investments at public sector specialist investment fund CCLA, says: "Local authorities have more of a need to revitalise their high streets than commercial landlords do.

"They could have an interesting role to play here, in re-energising their own high streets. A council has the ability to see it as a social standpoint."

> **"Councils have more of a need to revitalise high streets than commercial landlords do"**
> **John Kelly, CCLA**

Veteran retailer Bill Grimsey, who this year will release a follow-up to his 2016 report into the state of the high street, *The Grimsey Review*, says that if councils are going to invest in their own patches they need to have the right attitude from the start.

He says: "If local authorities are doing it because they are thinking about the future and ways in which consumers are changing – with online spend and an ageing population – if they are thinking about how to be movers and shakers, and revitalise shopping centres and high streets, then it's a good thing."

On the surface, it's a win-win. A shopping centre can be a nice earner for a council (which can borrow money more cheaply than the private sector), it's money that is going straight back into the authority's own patch and – if the centre succeeds – the town, its business and its residents will all benefit.

Also, councils can borrow at a far less onerous rate than the commercial sector. Through the Public Works Loans Board, authorities can borrow at what's known as 'sovereign rates' of between 2% and 2.5%. If all goes well, they can expect an annual return on a shopping centre investment of between 5% and 10%.

The benefits are clear, but the strategy is far from risk-free – not least because, as Bull-Diamond says, councils have taxpayers to answer to. "Councils need to exercise more caution than the private sector because it's public money. If they're buying assets within their own electoral boundaries then they need to be very careful," he says.

Local authorities are stepping in among some stormy fronts: online versus bricks and mortar, and the alarming side effect of a spate of retail administrations in the first quarter of 2018; the need to rebalance shopping centre space to make up for falling retail demand; and tough times in the food and beverage sector, with more major chains shuttering restaurants.

But, if local councils make sensible investments and manage them carefully, this revived ownership structure could be a valuable weapon in the struggle to keep the high street alive.

NOT BIG D

*TWO BIG DEALS

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VALUE

Consumer defection to value players has gone way beyond a trend as discounters consolidate their place in UK retail. After a rocky start to 2018, can the mid-market fight back or is value now the only game in town? **Mark Faithfull** reports

Can the discounters keep ADDING VALUE?

B&M is opening 50 to 60 new stores a year

When you consider that 80% of store openings in the US in 2017 were by Dollar General, with a further 900 set to open this year, it provides a startling insight into the US trend towards value retail.

It may not be quite so drastic here in the UK, but where most retailers have right-sized their property portfolios over the past five to 10 years, value players Aldi, Lidl, B&M and Poundland have largely stepped in to take up units in the secondary and tertiary locations ditched by their more expensive peers.

Filling the void

Value's bricks-and-mortar rise – continuing merrily despite the menace of online – coincided with austerity, which broke down entrenched shopping barriers. But if we are to identify a single catalyst, then it was the fall of Woolworths in 2008. This released a huge high street real estate portfolio, pounced upon by value players, and a decade on shopping habits have fundamentally changed.

"The growth in the discount sector is part of a longer-term trend of household expenditure going down because 'essentials' spending has been increasing for 30 years," says Allan Lockhart, chief executive designate at retail property investor NewRiver. "That shows no signs of slowing, with our research indicating that, although online sales will increase by 35% in the next five years, for discounters sales growth will be 36%. All the major expansion is coming from discounters. Lidl had 68 planning requests in 2017 and Aldi more than 60, compared with single figures for the big four. B&M is opening 50 to 60 stores a year."

Figures from the Local Data Company back this up. Out of 1,218 towns surveyed, only 17 saw a net decrease in their value offer between 2012 and 2017. The North West has seen the greatest increase in value retail of 21% during the period, followed by the West Midlands (20.8%) and the North East (19.6%).

That the property market is polarised is a well-worn truism, with stars such as Westfield London expanding to be Europe's largest mall, while smaller centres are transformed into

MID-MARKET VERSUS VALUE: WHAT NEXT?

While mid-market retail has felt the squeeze for a decade, the future is far from lost, although the days of expansive roll-outs are certainly over. Instead, strategic openings in well-researched towns and cities are the order of the day, as is a deeper understanding of opportunities and challenges in a given centre.

This need for increased analytics is why industry body Revo is pushing to classify shopping destinations more precisely, so that retailers have a better understanding of their merits and can adjust strategies, assortment choices and store sizes accordingly. How stores and online complement each other will be crucial, as will how to right-size legacy portfolios and optimise the stores they hold.

Given this more limited exposure to stores going forwards, one might wonder why value retailers have dashed headlong into rapid store growth. In part, this reflects a seemingly inexhaustible hunger for value from shoppers – a trend that has become a long-term and fundamental switch.

Value retailers have also made use of vacant store space, especially in secondary and tertiary parks and centres or on ailing high streets, where often their proposition is most compelling and store availability most prevalent. Coupled with a minimal online presence for most – as online economics rarely sit comfortably with tight margins – real estate is the perfect vehicle for value.

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Dollar General accounted for 80% of US store openings in 2017

value-led neighbourhood schemes at a rate of knots.

"At convenience community centres, often the basket is quite small but visit frequency is high," says Lockhart. "Across our portfolio of 33 centres, average visits are just under twice a week and shoppers take 13 minutes to get there, with 55% arriving by bus or walking."

And a booming value sector is rewriting the rules. Lockhart points to recently received planning permission for a 62,000 sq ft scheme in Canvey Island, Essex, next to a Morrisons. "We pre-let a unit to B&M, then signed Sports Direct, M&S Simply Food and Costa. M&S are very comfortable sitting alongside B&M and that shows how perceptions have changed."

Putting on the brakes?

Yet Stephen Springham, partner and head of retail research at Knight Frank, believes the race to value cannot continue unchecked.

He describes the sector as being at "something of a crossroads" and says value retailers, although continuing to grow, "can't expand the way they have indefinitely".

Springham points out: "The market is not saturated, but it is very competitive and the likes of Poundworld and Poundstretcher could feel the squeeze. Certainly, their sales densities are far lower than Poundland. The next stage for some of these operators is to evolve to be a bit more than simply a discounter. We can already see how Lidl and Aldi have improved their ranges and stores, or the results of the B&M acquisition of Heron Foods."

B&M acquired Heron Foods for £152m last August and put itself into the convenience food market, with a 260-plus store estate. "That's obviously harder for the pound stores, where the single price does create constrictions," says Springham. "Much will be determined by what management steers; personally, I would say they all have a future as long as they are run as proper businesses."

> "The next stage is for some of these operators to evolve to be more than simply a discounter"
> **Stephen Springham, Knight Frank**

Andrew Moffat, investment director at property investment firm Hunter REIM, says acquisition strategy is not a cut-and-dried case of value growing and mid-market contracting. "For value, right now we are probably seeing growth plateau, albeit that it remains strong," he says. "But from our perspective, it is more about the qualities of a given town, its affluence, catchment, tourist spend, where people like to spend time. If those are right, we will find a tenant, either from the value, mid-market or even premium sectors.

"Retailers may not be acquiring like they used to, but they still want good stores in good towns. For all that's said about the high street, people still live in those towns, they still want to go out, so of course there is a role for retail."

Equally, the rise of value may be truncated in some quarters by the suitability of stock and/or the commercial modelling that, for example, generally precludes major centres.

"Shopping centres need to understand what they offer," says Moffat. "The growth of neighbourhood and community retail centres has seen a lot of value come in, which often pushes up footfall. At Cameron Toll shopping centre in Edinburgh we've been changing from a fashion centre to a neighbourhood centre because, frankly, for shoppers wanting a full fashion offer there are better centres to visit. So it's about bringing in the tenant mix that the community needs."

Springham says the way value operates largely dictates strategy. "It's hard to see value expanding meaningfully in town; the model suits retail parks and secondary and tertiary malls better, or secondary positions in bigger centres," he says. "We might see some selective churn, as discounters move to bigger stores or reposition slightly."

Shuffling the pack

In the meantime, while the epitaph for mid-market retail may have been written prematurely, it is certainly value where the short-term action remains.

"For the mid-market, the days of opening multiple stores are largely gone, especially opening new ones and not worrying about those underperforming," says Springham. "So again it's about churn, shuffling the pack to focus on the best stores. This is long term – we're not talking about a cycle any longer."

RetailWeek
APRIL 2018
PROPERTY

Retail Week Property is powered by Ascential and printed by Buxton Press Ltd, Derbyshire

RetailWeek CONNECT

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