Vacancy Report

H1 2015 Summary

“Cautious optimism”

by The Local Data Company

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Household spending remains the main engine of growth, while net trade acted as a drag. Exporters struggle with a strong pound making UK goods more expensive to overseas buyers, particularly in the main European markets.

The UK Economy

The first half of 2015 saw the UK economy continuing to grow but suffering a marked slowdown compared to 2014. GDP rose 0.4% in the first quarter from the previous three months - half the 0.8% recorded in the final quarter of last year – although the second quarter has seen an estimated 0.7% rise. The long-term average growth rate for GDP is around 0.6%.

The implied growth rate based on the first half of the year is 2.6% - slightly above the non-inflationary capacity of the economy. 2014 saw growth of 3.2%, the strongest growth since 2006, before the global financial crisis.

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Challenges remain for the UK, particularly if the global economy slows significantly. This is not improbable given the still remaining potential for a Greek exit from the euro and ongoing crises in Ukraine, the Middle East and elsewhere. With

The Gym in Jarman Park, Hemel Hempstead.

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Output forecasts - August 2015

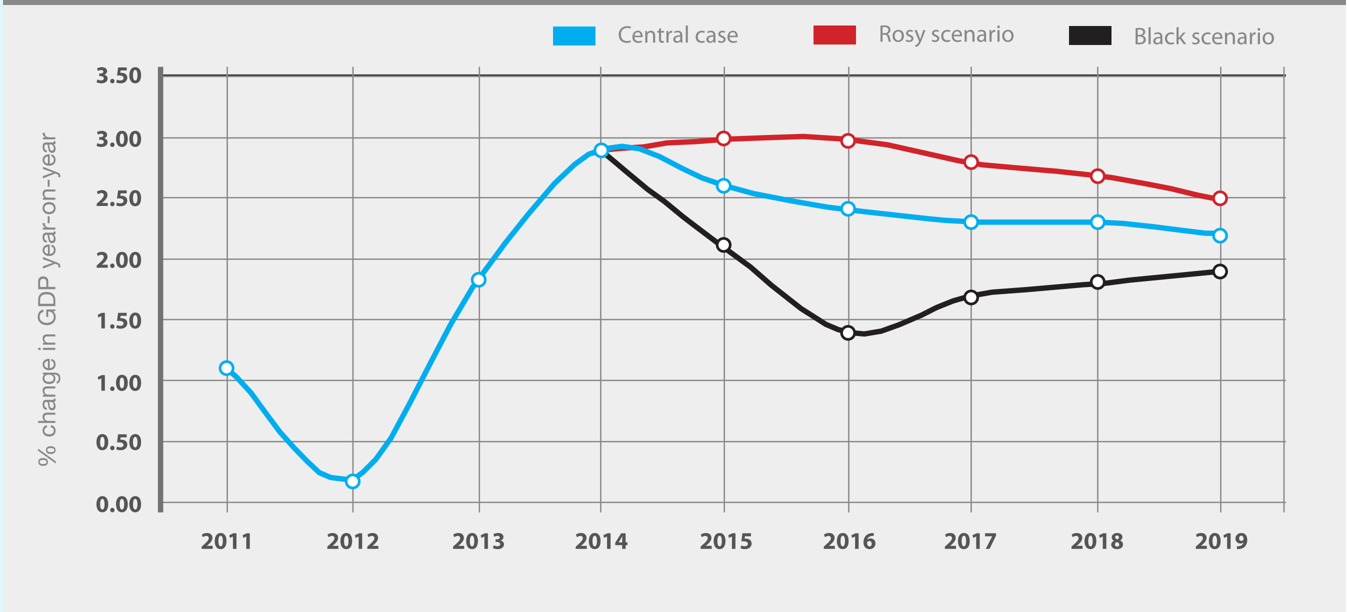

Figure 1. Consensus output forecasts. (Source: UK Treasury).

UK Consumer Confidence

Figure 2. UK consumer confidence. (Source: GfK).

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low levels and government debt remaining stubbornly high, there is limited scope for manoeuvre.

As far as domestic consumption is concerned, figures on living standards show a slowly improving picture but with still some way to go to return to the levels enjoyed before the downturn.

Also UK households are estimated to be £500 a year worse off than before the financial crisis in 2008. Nevertheless, consumer confidence is higher now than in 2007 and domestic economic prospects look strong, supporting a healthy real estate market.

Retail Demand

The UK labour market has proved to be surprisingly resilient throughout the recession and its aftermath. Unemployment data and a tentative recovery in productivity bodes well for a wider recovery in real earnings growth throughout the economy and real incomes are expected to rise throughout the second half of the year.
The main risk to real estate markets, especially retail markets, comes from a potential rise in interest rates. The benchmark interest rate in the UK has been 0.5% since 2009. As the economy grows, high levels of consumer spending pull in expensive imports, raising inflation and triggering a policy response from the Bank of England. The Governor of the Bank has warned that he expects a decision on whether rates must go up at around 'the turn of the year'. In a speech he said that he expected rates to rise over the next three years, reaching 'about half as high as historical averages'. But he added that shocks to the economy could change the timing and the size of any rate rise.

The August Inflation report from the Bank expects price increases to be well below the 2% target for longer than it predicted but the Bank also expects inflation to return to target on the basis of interest rates that could rise a bit faster next year than it had been anticipating. The Bank's forecasts are based on the assumption that the interest rate will rise just 0.25% in the first four months of next year and could double from 0.5% to 1% by the end of 2016.

This is important for consumers - household debt in the UK is currently at its highest level since 2009. The Office for Budget Responsibility (OBR) estimate that total household debt in the UK rose by 2.8% since 2009, and that they expect this rate to accelerate in the upcoming half decade, with household debt forecast to rise by 43% to £2.25 trillion by 2019. Research undertaken for the Bank at the end of 2014 showed that average mortgages outstanding were £83,000 per household.

Overall, private sector debt (companies and households) is sitting at around £6.5 trillion at the half year – a tidy sum. It is no wonder that the prospect of an increase of 2% in interest rates is unwelcome.

A rise in interest rates is likely to reduce spending and increase saving. Given the reliance of the UK economy on consumer expenditure it would have a significant impact upon the economy as a whole – but the retail economy particularly.

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Retail Space

The market for retail space is continuing to strengthen as retailer demand slowly improves – evidenced further by this LDC study. Nationally the occupational market is particularly strong at the size band around 5,000 sq ft as those retailers with expansion plans compete for space (Source: Savills, 2015). 2015 has seen a broadening of the recovery in retailer requirements away from London and the South, to the rest of the country. This is mirroring the ripple outwards from these areas of house price growth.

On the downside the major food retailers are stuck in a spiral of negative data about excessive store numbers. Further downsizing in store numbers is expected, particularly amongst the big three.

Retail & Leisure Vacancy Rate

Overall the GB vacancy rate at the end of H1 2015 was 11.7%. The shop vacancy (retail units only) was slightly higher at 13.0%. The vacancy rate for GB retail parks stands at 6.6% and for GB shopping centres it stands at 14.8%. All location types saw a fall in their Retail & Leisure vacancy rate when compared to the previous year, which has been the trend since June 2014. The range of decline varies with retail parks seeing a -1.6% decline in vacancy year-on-year, while town centres saw a slight decline of -0.2% over the same period.

H1 2015 Vacancy Report - Key Points

- GB retail and leisure vacancy dropped by -0.2%, to 11.7%.
- GB Retail park vacancy rate dropped by -1.4%, to 6.6%.
- GB Shopping centre vacancy dropped by -0.4%, to 14.8%.
- England is outperforming all of the home nations with a fall in vacany rates across town centres (-0.1%), shopping centres (-1.6%) and retail parks (-0.5%).
- Wales and Scotland only had a fall in retail park vacancy, with their shopping centre and town centres vacancy rising.
- All regions had a fall in retail park vacancy with the West Midlands (-2.8%) and North East (-2.7%), seeing the biggest fall.
- The biggest increase in vacancy rate across all retail types was shopping centres in the North East which went up by 1% to 19.2%
- Retailer confidence is improving since the recession with retail sales up +0.7% in Q2 2015 (Source: ONS) and the number of retail administrations falling by 32% in H1 2015 (Source: Deloitte).

Vacancy rates across GB locations

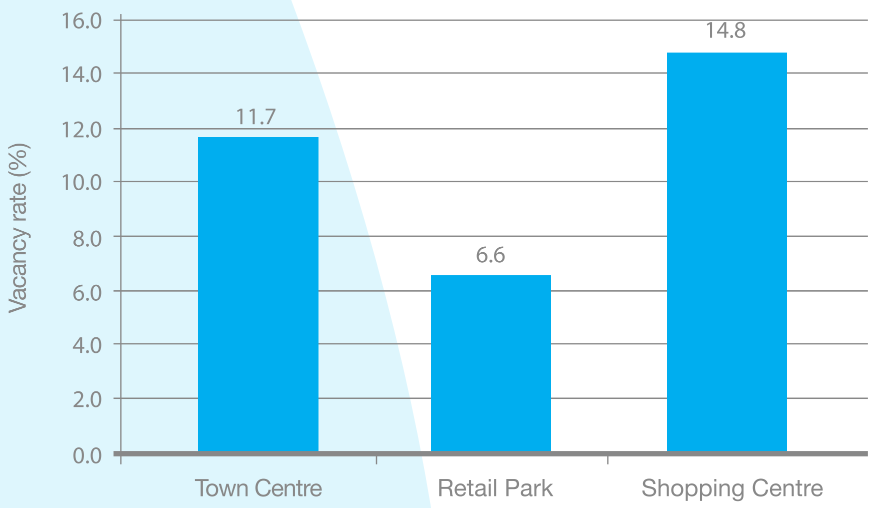

Figure 3. Vacancy rate across GB location types in H1 2015 (Source: LDC)

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The current Retail & Leisure vacancy rate changes are the best results since H1 2013, showing a real confidence in the market with retail sales rising by +0.7% in Q2 2015 (Source: ONS).

England continues to lead the way with a fall in vacancy rate of -0.1% compared to H2 2014, while Scotland remained static and Wales saw an increase of 0.1% during the same period. The region that had the biggest improvement in its overall vacancy rate was the East Midlands and North East.

The death of the high street has been a common news headline over the past 6 years, due to the financial crisis that had an impact on consumer spending, the emergence of online shopping and the increasing attraction of out of town centres. Despite these pressures, vacancy rates in town centres have not seen a significant increase, with the overall vacancy rate actually falling by -2.3% in the last 3 years. Retail parks have consistently been the best performers with their vacancy rate falling from a peak of 9.7% two years ago in H1 2013, to 6.6% in H1 2015. The demand for retail park units has increased due to the limited development pipeline, which would create extra supply, and the improved retail mix with more fashion & clothing and convenience occupiers taking up units in retail parks. Other short-term factors such as lower fuel prices have also increased the number of shoppers willing to travel to these retail parks usually located on the fringes of towns.

% change in vacancy rates across GB locations

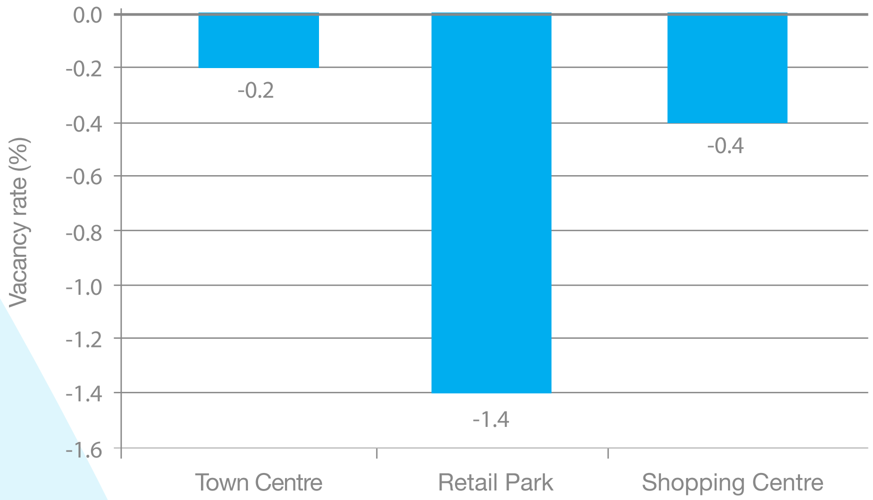

Figure 4. Percentage change in retail & leisure vacancy rates across GB location types between H2 2014 and H1 2015 (Source: LDC)

% change in Retail and Leisure vacancy rate

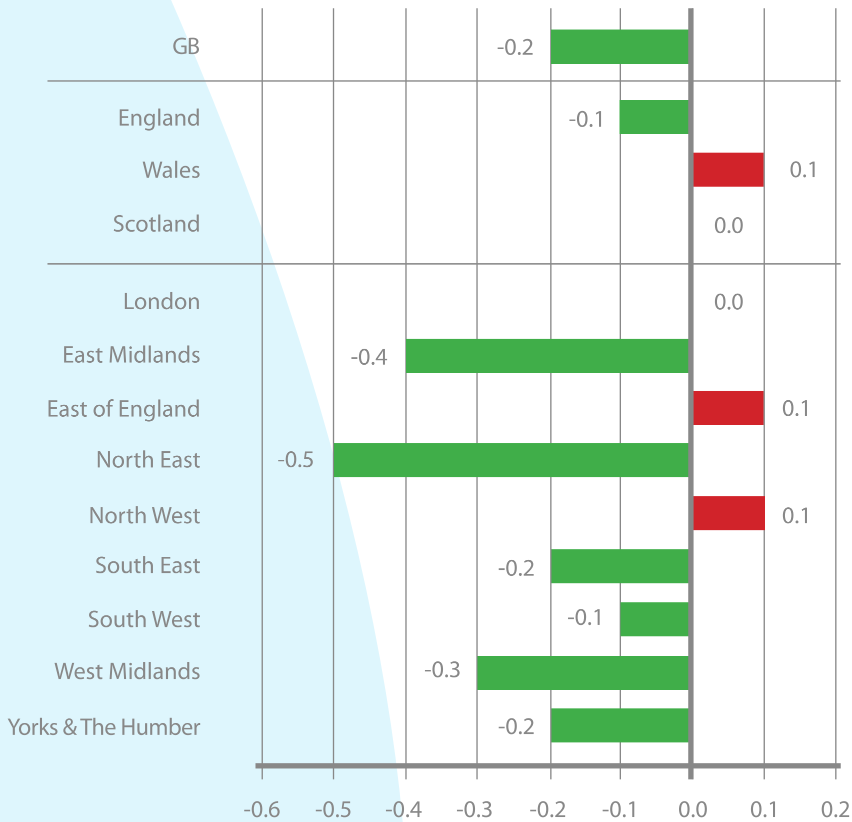

Figure 5. Percentage change in the retail and leisure vacancy rate across GB regions and countries since H2 2014 (Source: LDC)

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Shopping centres continue to have the highest overall vacancy figures, though even within shopping centres there is a variance between the super regional & prime shopping centre and the secondary shopping centres. The BCSC/LDC Top 30 shopping centres (by number of units) have an overall vacancy rate of 12.1%, which is nearly -3% lower than the GB shopping centre average. Although the latest figures did show, that when secondary shopping centre were included (BCSC/LDC Top 675) they was a fall in their overall (Retail & Leisure) vacancy rate of -0.4%. This fall in vacancy is due to these centres becoming more of a community centre and competing directly with the local town centre to be the primary retail destination, thus attracting more convenience retail, service retail and F&B occupiers.

Shop Vacancy
(retail units only)

The shop vacancy rate across GB reduced in H1 2015 by -0.2% to 13.0%. The GB shop vacancy rate has continued to fall from a peak of 14.6% in H2 2012. The shop vacancy rate is expected to decrease further, with the vacancy rate still above the single digit vacancy rates (8.9% in H1 2009) seen before the financial crisis impacted retailers performance.

Vacant shop - Market Place, Henley.

Vacancy rates across GB locations

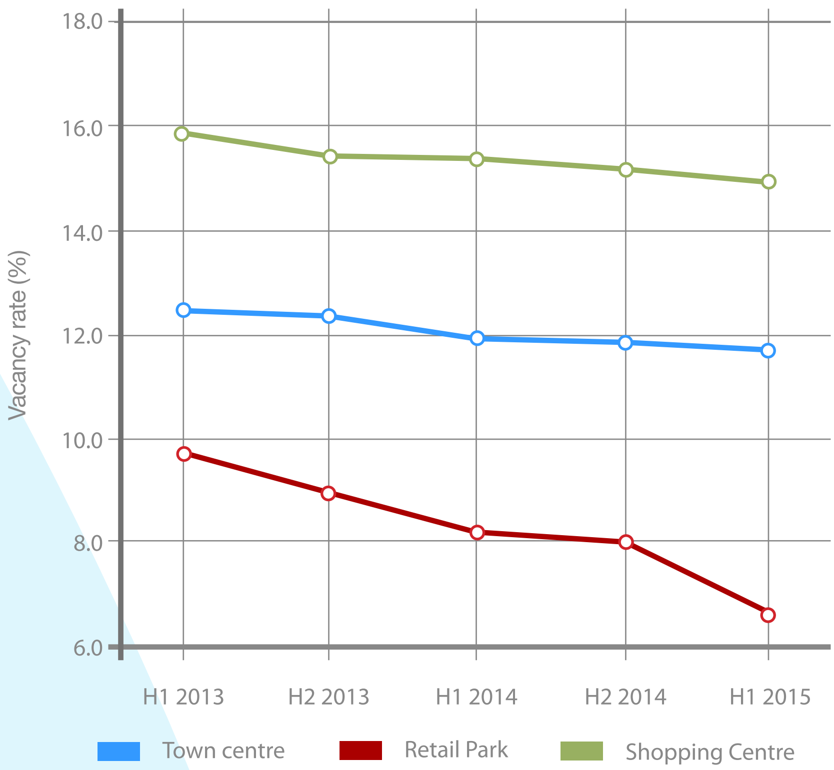

Figure 6. GB retail and leisure vacancy rates from H1 2013 to H1 2015 by location type (Source: LDC)

GB Shop vacancy rates (H2 2008-H1 2015)

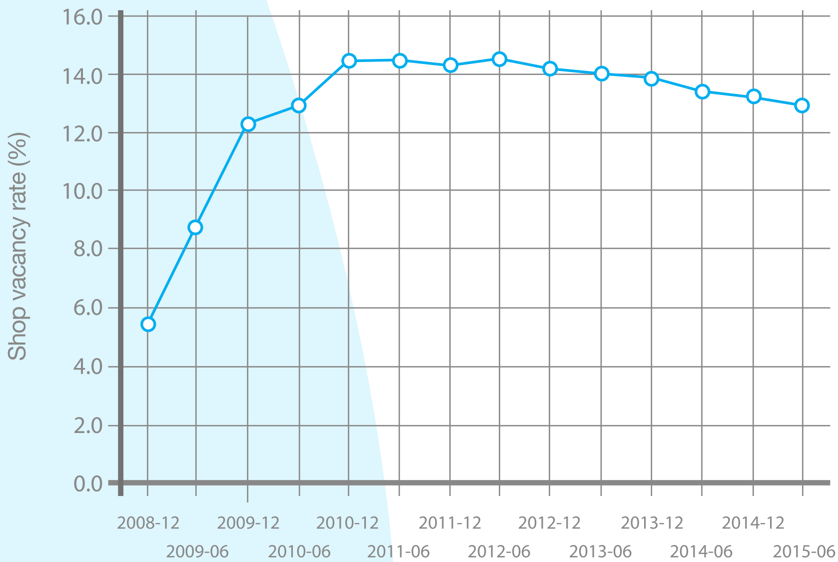

Figure 7. GB shop vacancy rate between H2 2008 to H1 2015 (Source: LDC)

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Vacancy by location type

Town centre

Welsh town centres have the highest vacancy rate of 15.0%, across the twenty-one town centres (59 in total) visited in H1 2015. The town centres in Wales seem to be losing out to the region's shopping centres whose vacancy rates are below the GB average. Scotland and England's town centre vacancy rates are more in line with the GB town centre average at 11.8% and 11.6% respectively.

The latest Welsh vacancy figures show town centres have taken a turn for the worse. The vacancy rates rose for the first time in three years. Scotland and England continue to see their vacancy rates fall.

Retail parks

Retail park vacancy rates across GB declined in the first 6 months of 2015. Scotland saw the biggest decline as their retail park vacancy rate dropped by -1.8% to 7.8%. England saw a fall of -1.6% and Wales -0.8% in their retail park vacancy rate.

Retail parks have seen an increase in demand from an increasingly varied occupier market. A new and varied pool of occupiers have increased the number of potential occupiers for retail park owners, which has thus been a key factor in the vacancy rate falling over the last 2 years. This is shown by the variety of occupiers in the list of the fastest growing retailers in retail parks, which includes

All vacancy rates for H1 2015

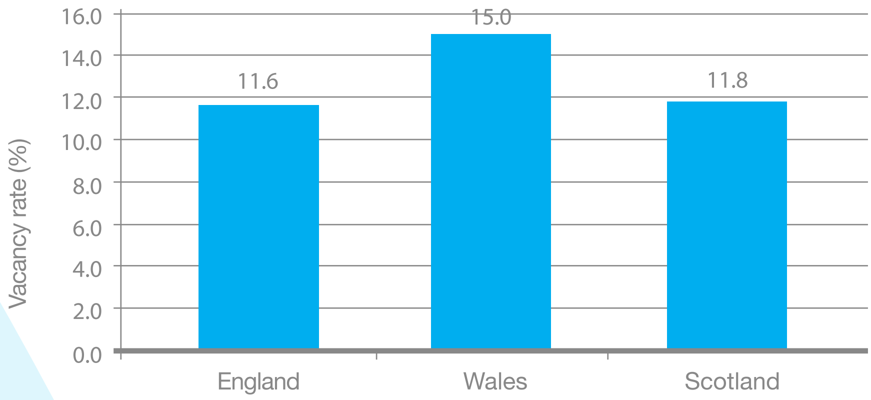

Figure 8. All vacancy rate across England, Scotland and Wales in H1 2015 (Source: LDC)

Vacancy rates across GB locations

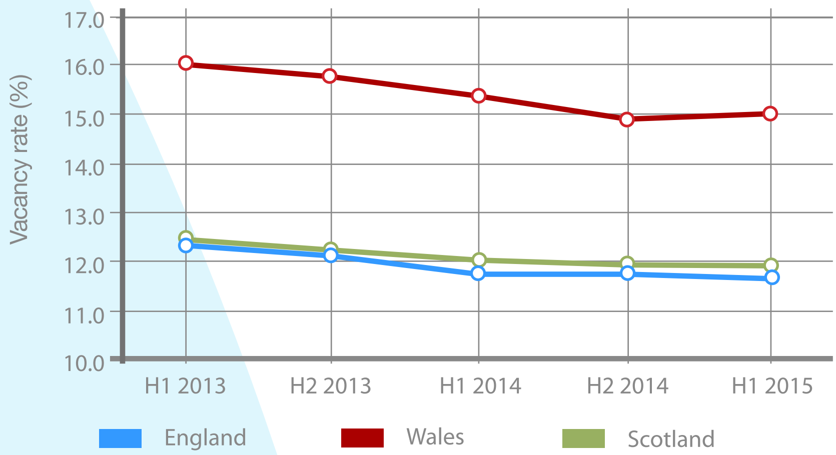

Figure 9. Historical all vacancy rate in England, Scotland and Wales since H1 2013 to H1 2015 (Source: LDC)

All vacancy rates for H1 2015

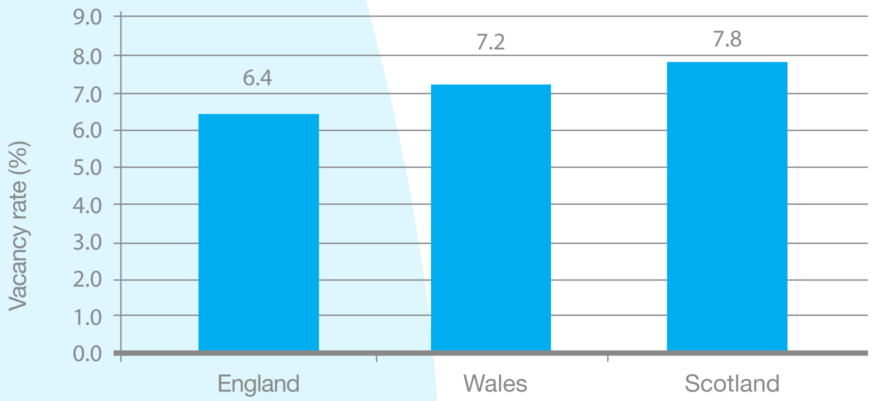

Figure 10. retail park vacancy rate across England, Wales and Scotland in H1 2015 (Source: LDC)

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convenience retailers (Aldi & Poundland), comparison retail (Primark & M&S) and F&B operators (Nando's).

Vacant shop - Birkenshaw Retail Park, Glasgow.

Shopping centres

England's shopping centre vacancy rate reduced slightly in H1 2015 to 14.6%, a -0.5% drop from the previous 6 month period (H2 2014). Wales and Scotland's shopping centre vacancy rates increased significantly during the same period with a +0.6% and +0.8% rise respectively. Although Wales and Scotland only have 13.4% of all shopping centres across GB, these increases are alarming and are a concern for landlords and owners of shopping centres in these countries.

Historically, shopping centres in England have seen their vacancy rates remain fairly consistent, though recently the vacancy rates have started to fall showing an increasing demand for units within these centres. The main occupiers driving this demand is F&B with several new players looking to benefit from the high footfall and frequent visits associated with shopping centres.

Historical vacancy rates in retail parks

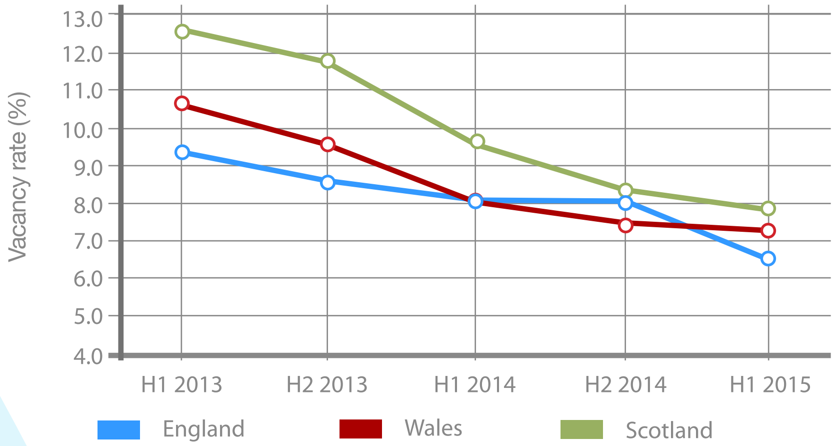

Figure 11. Historical retail park vacancy rate across England, Wales and Scotland since H1 2013 to H1 2015 (Source: LDC)

National all vacancy rates for H1 2015

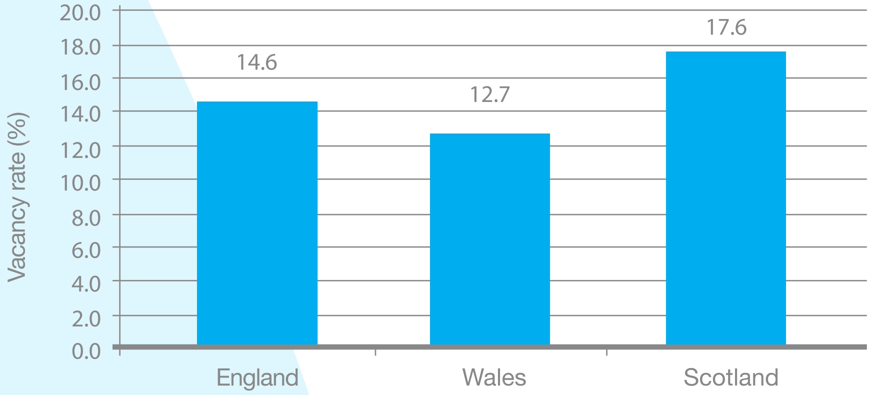

Figure 12. shopping centre vacancy rate across England, Wales and Scotland in H1 2015 (Source: LDC)

Historical vacancy rates in shopping centres

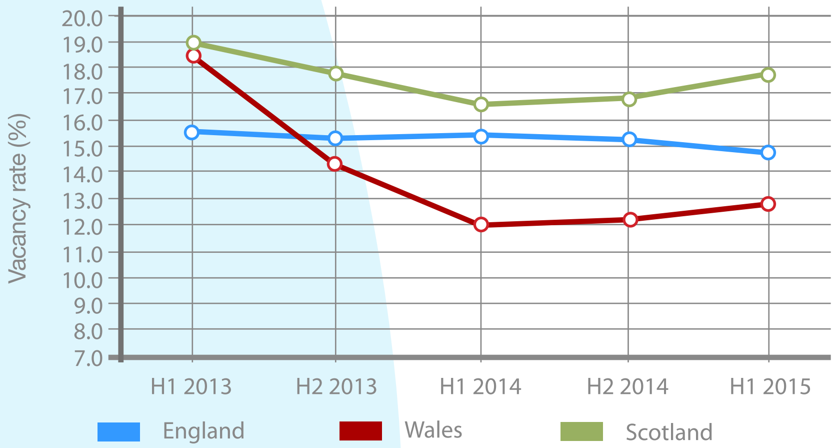

Figure 13. Historical shopping centre vacancy rate across England, Wales and Scotland since H1 2013 to H1 2015 (Source: LDC)

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Commentary by Matthew Hopkinson

“Cautious optimism is exactly what the latest vacancy rates data from LDC reveals from the first half of 2015. The good news of reducing vacancy rates has run in parallel to better economic performance within the UK, and growing retail sales and consumer confidence. The improving vacancy rates across the country has been seen in all location types with improvements of high street units (-0.2%), shopping centres (-0.4%) and retail parks (-1.4%).

The devil is however in the detail when one looks at more defined geographies. For example, whilst at a GB level there has been slight improvement but at a country level Wales has seen a marginal increase in its vacancy rate alongside the East of England and the North West. All other areas have seen improvements and in the case of the North East by as much as -0.5%.

At a town centre level there is considerable variance between the best and the worst, as one should expect with the gap being over 25% when one looks nationally. The towns with the highest vacancy rates all have around one in four or one in five shops vacant which is a blight for many towns that should not be lost when considering the overall positive trend nationally. Locations such as Newport in South Wales, Stoke on Trent in the West Midlands and Stockport in the North West have had high shop vacancy rates since 20011/12 and in the case of all three are continuing to rise. Conversely previous high shop vacancy black spots such as Margate, Nottingham and Dudley have shown a marked reduction in their vacancy rates from one in three units lying empty in 2011 to less than one in five now. This is progress and as a result of proactive management and should be applauded.

The persistence of vacancy is a major indicator of structural decline and as LDC has been tracking vacancy rates since the start of the recession in 2008/9 it is one of the best indicators of real change and performance in our town centres, retail parks and shopping centres. The persistent vacancy analysis reveals tow significant facts. Firstly those of all the vacant units (c.50,000) just under a third have been vacant for more than three years. This equates to over 16,000 empty shops, which is the equivalent size of ten Birmingham city centres. Secondly, that if units or not let within a year then there is a general trend that they will remain unoccupied and this is particularly true for secondary retail parks and small (less than 200 units) high streets. The conclusion from this can only be over supply or the wrong size of space in the wrong location.

2015 and beyond could start to see further improvements but this is more likely in fewer centres than across all locations. Caution has to be the watch word both in terms of consumer confidence, the impact of any interest rate rise, the impact of currency fluctuations especially on supply chains and finally the explosive growth of certain business types in a fiercely competitive market which has led to talks of a bubble. Only time will tell!”

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Methodology

1. Shops' refers to Convenience, Comparison and Service retail only.
2. All vacancy refers to shops and leisure classifications, including hotels, entertainment, restaurants, fast food and bars.
3. Each 'Centre' refers to the Communities and Local Government (CLG) retail core boundary definition with the exception of Scotland.
4. Each centre has been physically walked and each premises recorded as vacant, occupied or demolished as recorded on the day of survey.
5. Vacant units are those units, which did not have a trading business at that premises on the day of survey.
6. The figures include vacant units within shopping centres where we have had co-operation from the shopping centre owner/management.
7. Centres are updated on 6 or 12 month cycles according to Local Data Company update plan.
8. Changes in vacancy rates are percentage point increase/decrease.

- Large centres are locations with 400+ shop premises.
- Medium centres are locations with 200-399 shop premises.
- Small centres are locations with 50-199 shop premises.

Disclaimer

Information herein has been obtained from sources believed to be reliable. The material provided by us is intended for the sole use of the person or firm to whom it is provided. Any projections, opinions, assumptions or estimates used are our best estimate of the future performance of the market.

About The Local Data Company

'Sharing knowledge to create a better place to be' is The Local Data Company's (LDC) core purpose. It does this by combining powerful proprietary technology with a unique, field researched database of over half a million premises. LDC identifies opportunities and mitigates risk through delivery of insights, market analysis and unique profiling to the leading retailer and leisure occupiers, investors, landlords, banks, analysts and the media. Using its army of field researchers, LDC delivers primary evidence on thousands of locations, including high streets, town centres, shopping centres, retail parks and standalone out of town stores. LDC brings data alive and delivers clarity through its integration, aggregation and highly visual delivery along with unique modelling and analysis carried out in partnership with the UK's leading universities.'