

LDC Health Index

A review of the improvements made to the
Health Index v3.0

by The Local Data Company

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Sharing knowledge
to create a better place to be

LDC and Morgan Stanley worked together to create the 3rd version of our Health Index, which assesses the health of 3,000 locations (including 700 shopping centres and 1,149 retail parks) across Great Britain. The LDC/Morgan Stanley Health Index combines 12 variables, which are deemed to be key in evaluating the performance and attractiveness of the location.

Aim

Our aim is to provide a comprehensive guide on the health of high streets, retail parks and shopping centres across Great Britain. The Health Index is a transparent tool, applicable to retailers, investors, landlords and local authorities. This transparency is beneficial because it enables stakeholders to assess whether the nuances across each location are pertinent to a given brand or asset. The Index is an easily scalable tool, which makes it straightforward for users to assess the scores and ratings across a range of locations. By utilising these principles in the development we are able to give a concise and fair assessment of over 3,000 retail places.

Use

The Health Index enables stakeholders to understand the relative health of an asset or store portfolio across high streets, shopping centres or retail parks. This guides real estate Investors & Landlords in their investment strategy and acquisition plans. Providing them with a view of the stronger performing assets, as well as weaker performing assets within a portfolio.

For occupiers, this index provides a holistic view on both the health of an existing store network as well as the opportunity which exists across potential locations.

We have tailored each of the variables to the different location types according to their unique characteristics and market performance. For example, the vacancy rate benchmarks are adjusted for retail parks, shopping centres and high streets, as these location types have different average vacancy rates.

What's New?

LDC and Morgan Stanley have used market feedback from the previous iterations and assessed key trends in the retail environment to improve the overall methodology and to ensure its ongoing relevance. The fundamentals,

such as the scoring of vacancy rates, cinemas and charity shops remain the same.

However, as we continue to evolve our data, (e.g. drive time population) has enabled us to tweak the existing variables to help create better scoring metrics.

The 12 variables used to create the LDC/Morgan Stanley Health Index:

- Catchment size (improved)
- Catchment spending power (new)
- Vacancy
- Persistent vacancy (improved)
- Competing centres score (new)
- Department store presence
- Anchor retailers present (improved)
- Anchor retailers arriving in the last 24 months
- Anchor retailers leaving in the last 24 months
- Dwell time
- Cinema presence
- Charity shop presence



Hounslow High Street

1. Catchment size, based on drive time (improved)

The performance of a retail location has a direct link to the size of the catchments population that supports it. Previously, we used the local authority/ borough population and compared it to the number of units to get a density figure. Due to the drive time catchment models developed by LDC in partnership with the Consumer Data Research Centre (CDRC) and University of Liverpool, we are now able to look at the population within a more relevant catchment area. This has also been tailored to the different location types with shopping centres and high streets (large, medium and small) using a 30-minute drive time, while retail parks use a 20-minute drive time.

2. Catchment spend (new)

The spending power of a catchment is a key performance indicator for a retail location. Combined with the knowledge of the catchment size, this gives a view of the level of opportunity within a retail location for a potential retailer, investor or landlord. Using the average weekly earnings within the local area we have been able to get an indication of the relative wealth and spending capacity for each catchment.

3. Competing centres (new)

The dominance of an asset within its local catchment area is key in determining the likelihood that the retail location will attract the local population. In order to assess this we created different criteria for the various asset classes (excludes high streets) in order to assess the credibility of the competing centre. For shopping centres, we counted the number of competing centres within a 30-minute drive time that have at least 65% of the total units of the asset in question. We then compared this figure to the local catchment size and split them into equal tiers across the country and scored accordingly. For retail parks, we used a 20-minute drive time measure, which was consistent with the catchment population scoring.

4. Persistent vacancy (improved)

A more detailed understanding of the profile of a vacant unit is essential in understanding the context of an area.

Persistent vacancy analyses the number of units vacant for longer than 12 months as any units vacant for over 12 months will have an impact on the rental income and the perceived attractiveness of a retail location. This helps to identify units that are being actively managed, or kept vacant intentionally by the landlord as they await development or planning permission. We previously looked at the number of units vacant for longer than 12 months as a percentage of only vacant units, but have adjusted this to compare them to the total units as this was a fairer evaluation.

5. List of anchor retailers (improved)

The original list of anchor retailers was effective, but were mostly tailored to shopping centres rather than retail parks. With the changes in retail park tenant mixes and an increasing number of fashion brands opening in out of town centres, we have updated our list of anchor retailers to align with these market trends. The new list includes fashion retailers (e.g. River Island, Next, Primark), discount stores (Aldi) and the big 4 supermarkets (Tesco, Sainsbury's, Asda and Morrisons). These new additions demonstrate the benefits of a broader offer. For example, a retail park that has a more diverse tenant mix will generate more visits, than a retail park with only high ticket items such as bulky goods and homeware stores.



Westfield London

6. Bespoke Health Index (new)

Property investors have a divergent view within the retail market, due to different beliefs on several factors such as optimal tenants, the impact of charity shops, the importance of leisure and various other factors. In order to take this in to account, we developed a feature which allows investors or retailers to create a bespoke health index. Using only variables which are most relevant to their specific investment strategy or brand. This could include editing the anchor retailers, altering the impact of vacancy, adding in variables such as the quality of offer (e.g. percentage of value and mass market retail).

Scoring

By combining the above changes and the existing variables, we had a total of 12 variables which were used across the 3,000 locations. Within each location type, location/asset were allocated points for each variable with the total scores ranging from 71 to -44. These scores were then normalized so each location/asset had a rating between 1 and 10 (1 being very weak and 10 being very strong).

Results

These changes to the scoring have had a significant impact on improving the distribution of the scores with a greater range and fewer retail locations clustered in the middle ground (see Appendix). This gives a bell-shaped curve as shown by the polynomial distribution curve in Figures 1 & 2. This will make it easier to distinguish between healthy and unhealthy assets when reviewing portfolios. This iteration offers a clear and precise evaluation of retail locations, which can be applied to location planning, acquisition analysis and store/asset portfolio reviews. We have taken care to evolve and improve the methodology while still providing a consistent view between years.

Contact us to gain insights on your assets and to see your location scores or to discuss how you can bespoke the Health Index to your core criteria.

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Fosse Retail Park, Leicester

Matthew Hopkinson, Director of the Local Data Company, comments:

“This third version of the health index that we have developed with Morgan Stanley further enhances what has evolved to be one of the most robust analyses of retail places across Great Britain. It covers 3,000 town centres, shopping centres and retail parks and has been proven by academics and customers to be the most accurate and comprehensive way to analyse the health of a location. This updated version now increases the index score to a range of 1-10 and adds two more attributes taking the total to 12, which includes both consumer demand, occupier attributes and vacancy profiles.

Furthermore we are now able to adjust the index to your needs, should the variables not match your investment or occupation strategy or the weightings need adjusting. As such, we very much hope that you can benefit from using the depth of data and technology that we have developed since 2008 to help inform you and make you more aware of the threats and opportunities that lie in over 3,000 locations, as well as benchmarking performance and predicting the impact of investment.

I and the LDC team look forward to being of service and supporting you and your company for many years to come. Innovation and partnering with customers and universities is a key driver of the LDC vision.”

Appendix

Distribution of new health scores vs old health scores

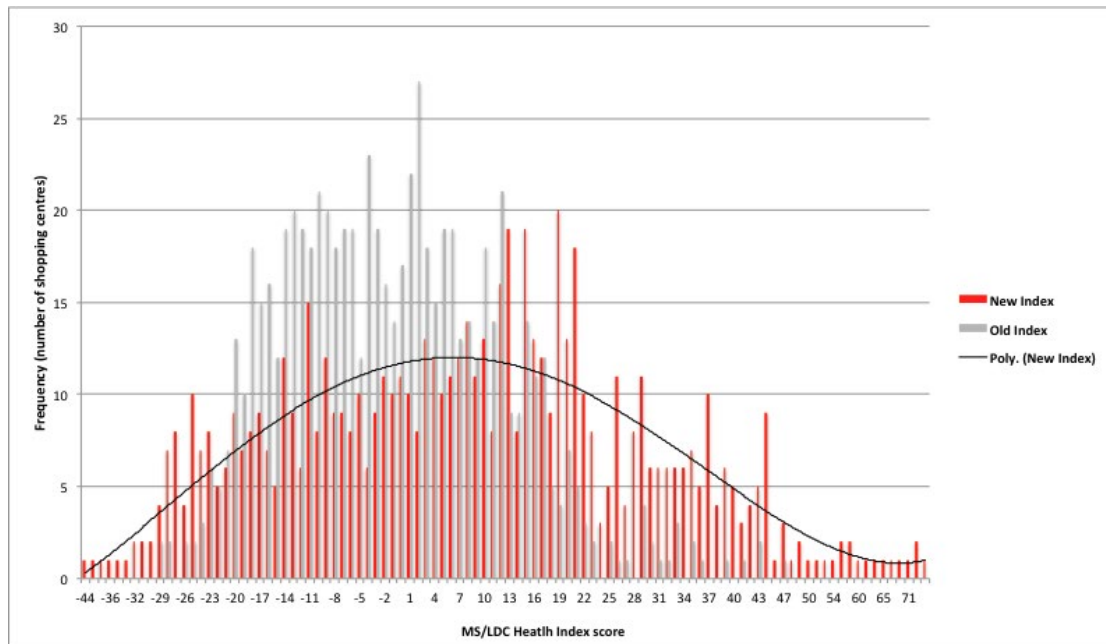


Figure 1: Distribution of GB shopping centre by their MS/LDC Health Index scores

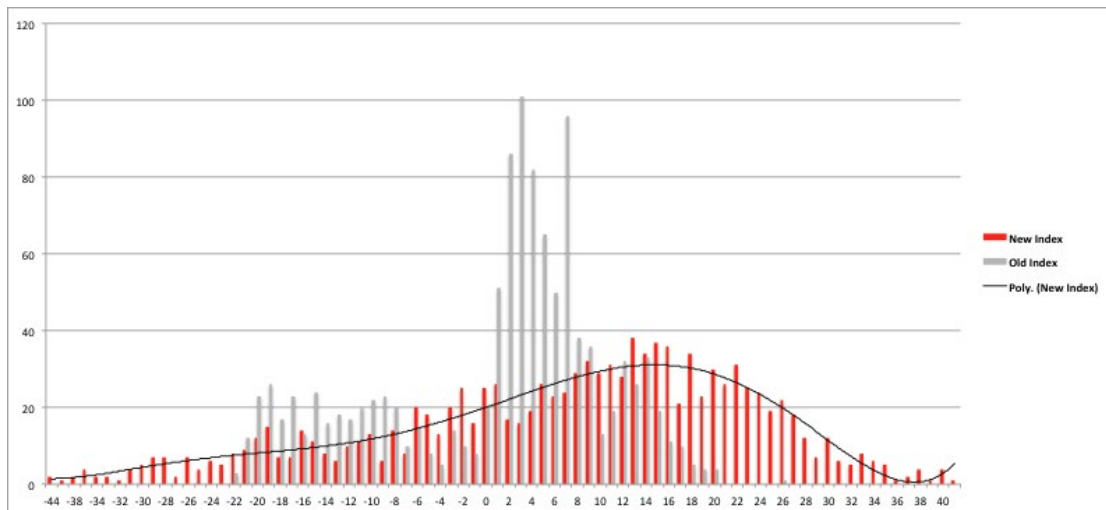


Figure 2: Distribution of GB retail parks by their MS/LDC Health Index scores

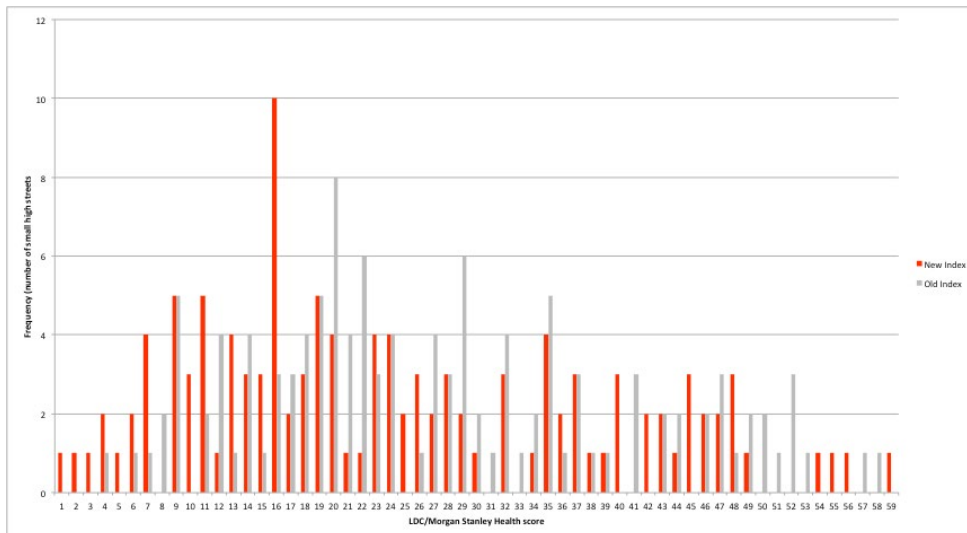


Figure 3: Distribution of Large high streets by their LDC/Morgan Stanley Health scores

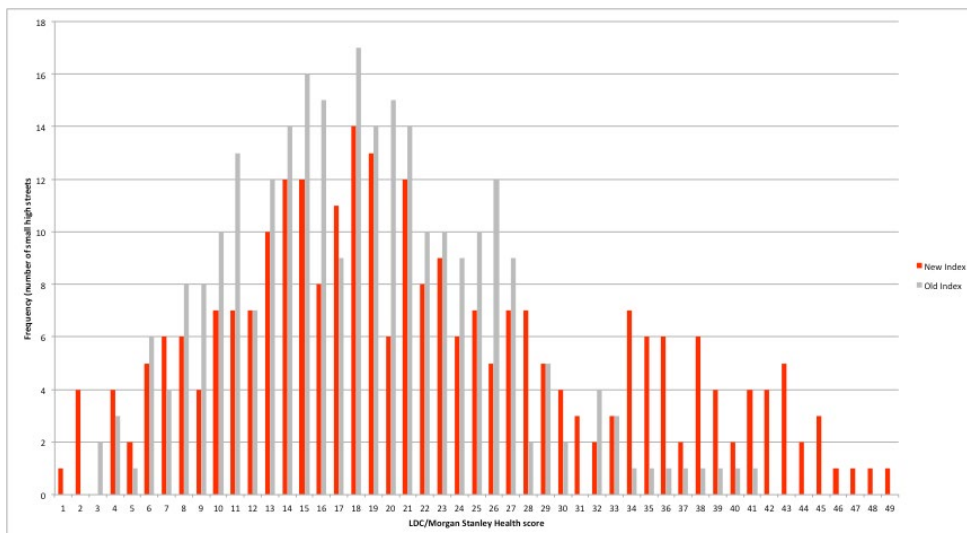


Figure 4: Distribution of Medium sized high streets by their LDC/Morgan Stanley Health scores

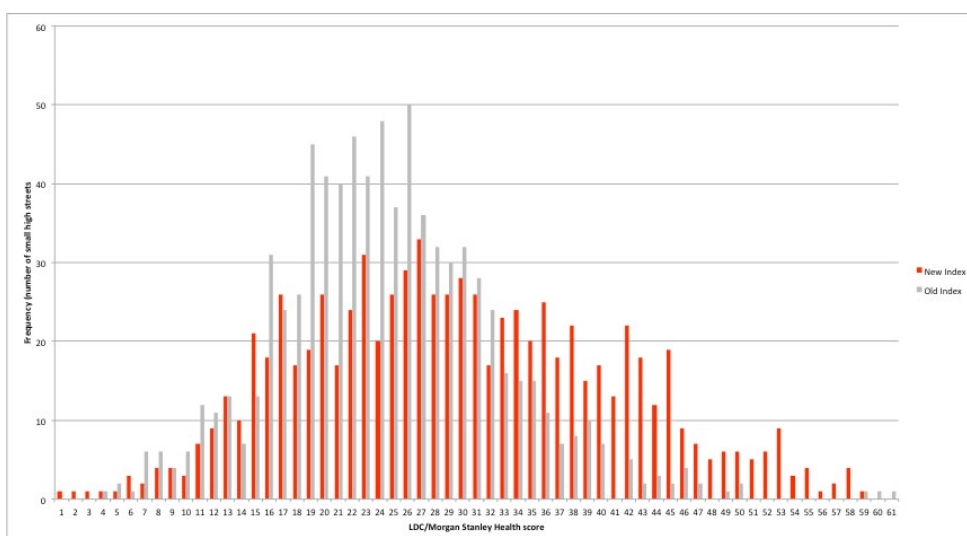


Figure 5: Distribution of Small high streets by their LDC/Morgan Stanley Health scores

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.