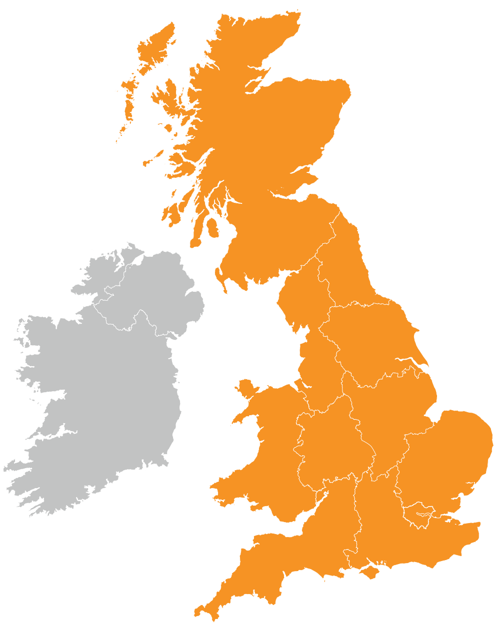
Retail and Leisure Report Summary

Full Year 2016



Published March 2017
Data from 2016

LDC Dynamic Location Intelligence

There's never a dull moment on the high street. It remains as dynamic, as volatile and as full of surprises as ever. In a year in which extraordinary political shocks triggered unpredictable economic consequences - and a flood of dire predictions - British retail locations have sprung some of their own surprises, confounding expectations.

After a mid-year slump in both store openings and closures, possibly caused by hesitation in investment decisions around the June vote on EU membership, retailers increased activity in the autumn only to dial it back again with the onset of winter. In one of the paradoxical results of a paradoxical year, as levels of change dropped away, net openings rose and 2016 ended on an expansive note which has continued into the new year.

Comparison non-food retailers, both multiple and independent, continued to reduce numbers of outlets and highly visible high street stalwarts such as BHS met their end. In the Leisure sector chains and independent businesses steamed ahead with new cafes and restaurants. In Service, Banks pulled down the shutters for the last time in more locations, while independent barbers and hairdressers opened more and more new salons.

Vacancy rates among retail outlets fell again - without getting anywhere near a return to pre-crash levels, while Leisure vacancy began to creep upwards.

In the full year report for 2016 LDC brings to light its freshest intelligence on the dynamics in action on our retail locations.

Slowing down, speeding up

The full year 2016 saw a drop in the number of occupied shops across Great Britain of -1,650. As LDC had logged a deficit of -1,997 in the first six months, results for the second half of the twelve-month period represented something of an improvement – making up 347 against losses in the previous half-year. Across 2,700 locations there were 45,986 bright beginnings and 47,636 endings. That's more than 125 new shops and 130 endings every day across Great Britain.

So what happened during the year to start to reverse the bigger net loss in the first half? As the new LDC Growth Index shows, overall levels of openings and closures fell sharply in the middle of the year, before and after the Brexit vote; but as openings fell more deeply, the net loss grew strongly. In the second half of the year, levels of activity rose in the autumn, falling away again in the approach to Christmas, and openings grew more quickly than closures, producing net growth as the year ended; not enough to make up for the earlier losses, but moderating the year end result. Seasonal operators and festive pop-up shops will have accounted for some of this late gain: future monthly reports will track their longevity.

Over the longer term, annual closures across each of the five years have varied by only a few hundred either way from a standard 47,500 per year - closures have been stable for half a decade. Openings, however, have varied within a range of roughly 2,000 either side of that figure. This might be a useful guide for those managing locations – about 10% of retail and leisure units is likely to close each year.

Openings & Closures of Retail and Leisure units across GB, by month 2016

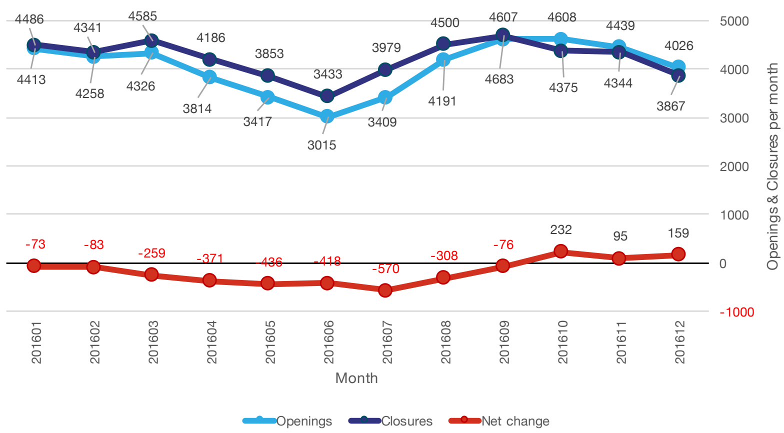


Figure 1: Three month rolling average of Openings and Closures of Retail and Leisure units across GB, by month, 2016 (Source: LDC)

Openings & Closures of Retail and Leisure units across GB, 2012-2016

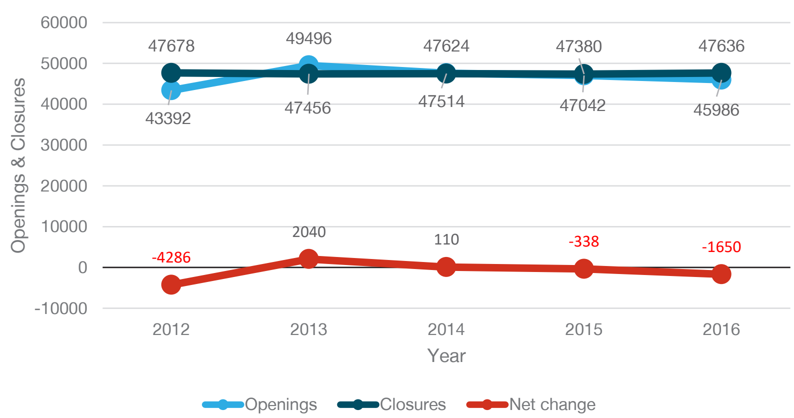


Figure 2: Openings and Closures of Retail and Leisure units across GB, 2012-2016 (Source: LDC)

Location, location, dislocation

In 2016 the mid-year slump was evident in town centres by March and worsened until making a major recovery in the second half of the year. The shopping centre slump was far less marked and was also beginning to be reversed by Christmas. Retail parks continued to produce new shops every month throughout the year as they have done consistently since 2013.

In the longer term, the story for retail parks is one of sustained growth, although the number of shops is small, with just over 12,000 in GB at the end of 2016, or 2.6% of the total of all stores and with floorspace much greater than the number of stores suggest.

Shopping centres posted a small, but doubtless welcome, gain of a net 22 stores, in the year and by Christmas accounted for 6.9% of all units.

Town centres, the focus of much concern over many years, dropped by -373 net. By the turn of the year they still housed more than half of all retail and leisure units (51.4%).

It is outside of these areas, in the non-CLG retail core shopping streets, (the secondary precincts and the purely standalone retail locations) that the losses continued to appear, with net closures of -1,603 across GB in the twelve-month period and -4,605 over five years. Nevertheless, this location type still provides trading units for 185,310 businesses, nearly four out of ten (39.1%) of the overall total.

Net Openings & Closures of Retail and Leisure units by location type and month across GB, 2016

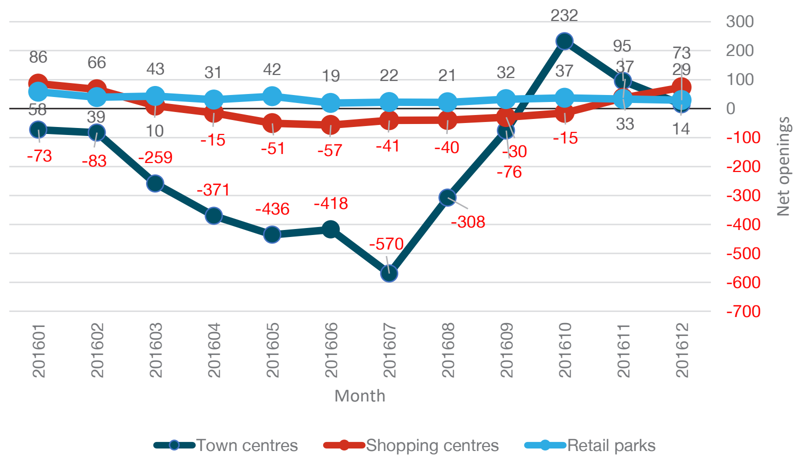


Figure 3: Net Openings & Closures of Retail and Leisure units by location type and month across GB, 2016 (Source: LDC)

Net Openings & Closures of Retail and Leisure units by location type across GB, 2012-2016

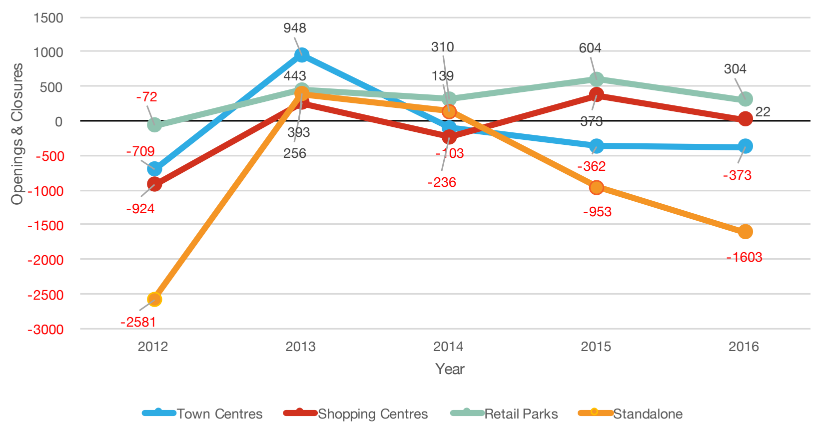


Figure 4: Net Openings & Closures of Retail and Leisure units by location type across GB, 2012-2016 (Source: LDC)

Compare the markets

In 2016 Comparison (finished goods, non-food) retailers logged a fifth straight year of falling numbers. At a net fall of -2,171 as a result of 15,317 openings failing to make up for 17,488 closures, 2016 was the heaviest year of decline since 2012. The level of openings was still encouragingly high, this is not a dead market, but while closures were at their lowest for five years, openings were even lower. As ever, it is the balance between the two that determines growth or decline, rather than the overall level of activity.

New LDC analysis based on ONS statistics shows that while growth in online sales significantly outstrips bricks-and-mortar increases, the proportions of sales in clothing and footwear, department stores and household goods are rising much faster than other Comparison goods areas. This may well help explain the strength of the fall in numbers of, in particular, clothing and shoe shops.

The latest estimate of online growth from the ONS at 10% per year would take until 2030 for online sales routes to encompass half of the market – and its growth rate has been slowing. At the same time, online operators have been building out logistics platforms to better serve customers so capacity is growing and has the potential to handle much bigger volumes than at present. Some online only operators are also beginning to open their own physical stores, so they may help repopulate retail locations.

Convenience (food) had a down year in 2016, with openings and closures each at about 10% of the market, but with a slight (-409) preponderance of shutterings.

Leisure, on the other hand, with a slightly lower rate of churn added a net 816 to sectoral numbers during 2016, racking up a fifth consecutive year of growth.

Net Openings & Closures by category across GB, 2012-2016

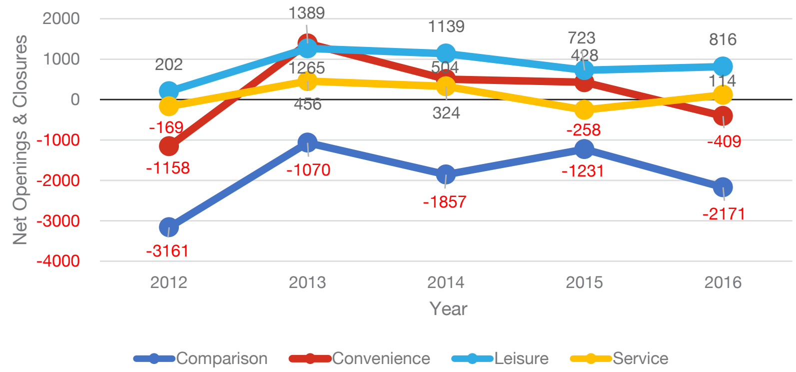


Figure 5: Net Openings & Closures by category across GB, 2012-2016 (Source: LDC)

Service outlets also grew, but at a lower rate than Leisure, returning from a fall in 2015 to notch net growth of just 114 shops in Great Britain after 12,557 openings.

Image 1: Leon, North Street, Brighton - opened in late 2016 (Source: LDC)

Chains and independents

The structural changes at category level in 2016 are striking. Both multiples and independents in Comparison retail shed shops in both halves of 2016; although the rate of loss for multiples slowed strongly in the second half – despite the BHS collapse.

Multiples in Convenience retail closed units net, although at a far slower rate in the second six month period, while independents continued to open units, net, but at half the rate before the Brexit vote.

In Leisure both groups grew numbers across the year and both had a significantly better second half than the first.

Service multiples continued to close, with further terminations by high street banks, but with the net rate slowing significantly from July to December, while independents added units in both halves, but doubled their rate of growth in the second.

Viewed in the light of the Brexit vote, the first half saw a significant slowdown from 2015, while the second yielded improvements on the first in all but one segment. Whether this has anything to do with Brexit at all is of course a matter of speculation but *something* caused a distinct difference between 2015, the period January to June and the second half of the year.

The longer-term picture reflects these structural changes in the composition of our retail locations. Independents have grown in number overall in every category except Comparison, while multiples have reduced numbers of outlets in every category except Leisure.

Net Openings & Closures by multiples/independents in categories across GB, 2016

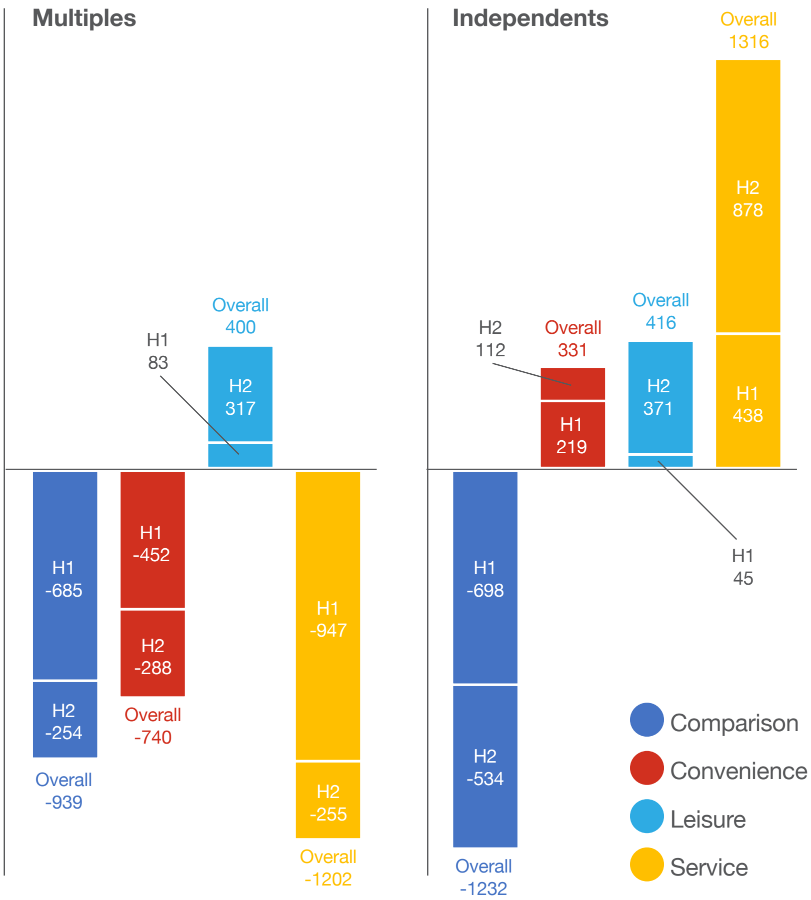


Figure 6: Net Openings & Closures by multiples/independents by categories across GB, 2016 (Source: LDC)

Net Openings & Closures by multiples/independents across GB, 2012-2016

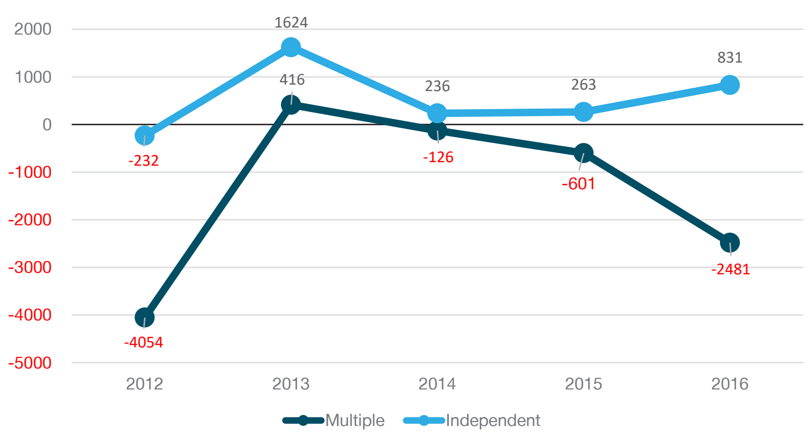


Figure 7: Net Openings & Closures by multiples/independents across GB, 2012-2016 (Source: LDC)

What's new?

Of the top 20 net openers by classification, only three are not in Service or Leisure. The leaders in 2016, Tobacconists, categorised along with other Convenience operators, reflect the burgeoning vaping market. Barbers and Beauty Salons continue to scrub up nicely. Cafes and Tearooms, along with Coffee Shops (the first mainly independent, the second, chains) together served up 460 net new outlets. The only Comparison class in the top 20 is the mobile phone shop, which actually sell service contracts with shiny new phones attached. Together these 20 classes generated a net 4,139 operations in 2016 alone.

Nearly half of the biggest losers are in Comparison classes, with clothing and footwear related shops taking up a quarter of the places. It is here that the collapse of BHS can be seen. It was not alone; time-honoured independents such as McEwans of Perth also met their end. There are, however, still 133 independent department stores in Great Britain and they are tenacious. For an overview of department stores and their prospects, see the recent article by Matthew Hopkinson "Has the internet killed the role of department stores?" (LDC Blog, February 2017).

Top 10 net Openings of stores by classification across GB

Classification	Number	Category
Tobacconists (Vaping shops)	551	Convenience
Barbers	482	Service
Beauty Salons	435	Service
Take Away Food Shops	294	Leisure
Cafes & Tearooms	241	Leisure
Coffee Shops	219	Leisure
Nail Salons	216	Service
Mobile Phones	214	Comparison
Hair & Beauty Salons	179	Service
Restaurant & Bar	176	Leisure

Figure 8: Top 10 net Openings of stores by classification across GB, 2016 (Source: LDC)

Top 10 net Closures of stores by classification across GB

Classification	Number	Category
Banks & Other Financial Institutions	-845	Service
Convenience Stores	-522	Convenience
Clothes – Women	-304	Comparison
Public Houses & Inns	-259	Leisure
Fashion Shops	-245	Comparison
Newsagents	-239	Convenience
Post Office Services	-195	Service
Chemists / Toiletries	-188	Comparison
Department Stores	-183	Comparison
Petrol Filling Stations	-183	Convenience

Figure 9: Top 10 net Closures of stores by classification across GB, 2016 (Source: LDC)

The other B word

The regional results are timely, given the furore over the draft rateable values published following the April 2015 revaluation for Business rates. There have been dire predictions of the effects of increased rates payable, especially in Greater London. LDC has matched 176,647 premises in its retail and leisure database to the Valuation Office Agency's draft valuation list for England and Wales, and has compared the new rateable values per square metre to the old. Comparing by area rate evens out changes in the sizes of units over the seven-year gap between valuations. This has enabled the company to analyse changes regionally, by counties, towns, postcodes, categories and classifications.

This does not translate directly into rates bills payable because of changing multipliers, transitional arrangements and reliefs and the extra measures announced in the March Budget.

The picture by county in England and Wales reveals that contrary to many headlines (which will have a wider focus than retail and leisure) this is not just a London story, although London is at the top in this league. It is not even a North/South story. Eighteen of the sixty-four counties analysed show increased valuations for retail and leisure occupiers.

Some towns, such as Southwold, heavily profiled in the press, show high variations in rateable values on very small numbers of properties. Others in this top 20, such as Market Harborough, show average increases above 50% on 199 retail premises. The town actually houses 1,253 hereditaments in the new draft list, of which only 37 have lower valuations than in 2010. The overall increase, including other types of property, is closer to one third.

Retail & Leisure rateable value m2 changes by region, 2010-2017

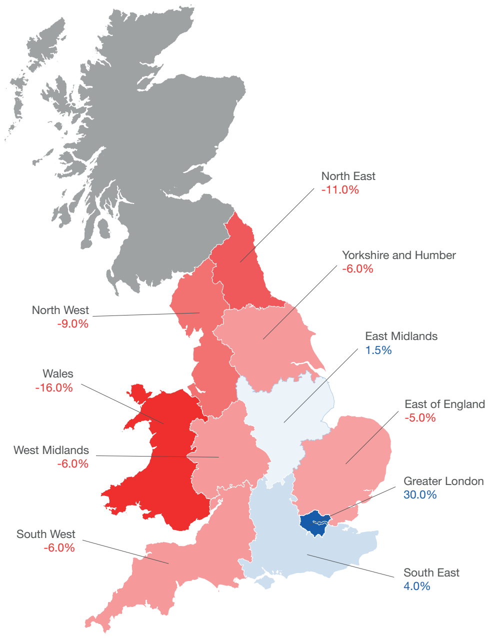


Figure 10: Retail & Leisure rateable value m2 changes by region, 2010-2017 (Source: VOA/LDC)

Heat map of Retail & Leisure rateable value increases by town in England and Wales, 2010-2017

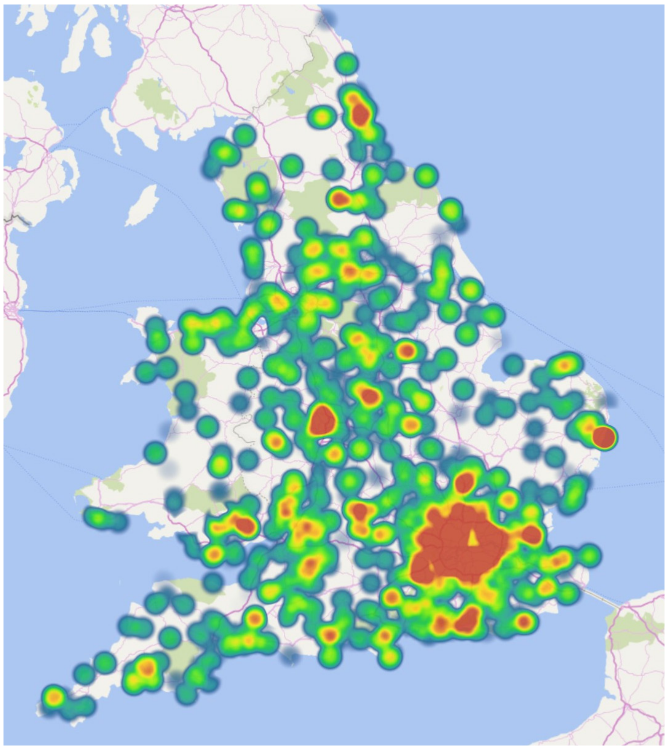


Figure 11: Heat map of Retail & Leisure rateable value increases for retail by town in England and Wales, 2010-2017(Source: VOA/LDC)

Vacancy – the long way back

One of the Health Index components measures Retail and Leisure vacancy, the signature statistic from LDC.

At the end of 2016, Retail vacancy stood at 12.2%, having declined by 0.5% in the year and was -2.4% below its historic peak in 2012.

The separately measured Leisure vacancy rate ended the year as it had begun, at 8.2%, equalling its highest level. It has gradually risen from a low of 7.6% in early 2014 and increased throughout the last six months of 2016.

The combined All-vacancy rate arrived at New Year's Eve at a long-term low of 11.1%, 0.4% below the starting figure at the beginning of the year.

An obvious question here is to ask why, if there was a net loss of shops during the year, there was also a decline in vacancy rates. The explanation is that vacancy is the net result of a number of factors, not just openings and closures, these include amongst others:

- Non-retail premises becoming retail
- Vacant premises becoming occupied
- Vacant retail being reused for other purposes
- Demolitions and new builds
- Occupied premises becoming vacant

Vacancy rates across GB, 2015-2016

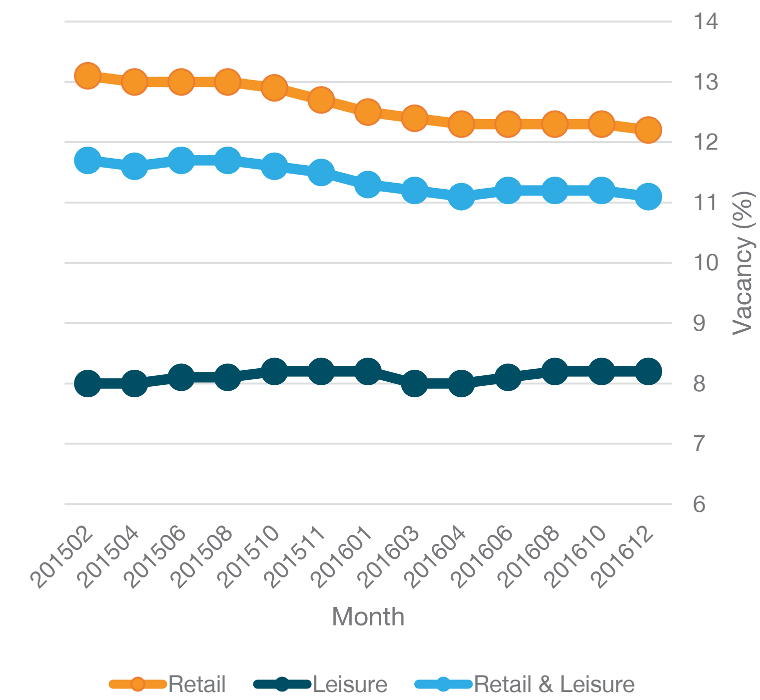


Figure 12: Vacancy rates across GB, 2015-2016 (Source: LDC)

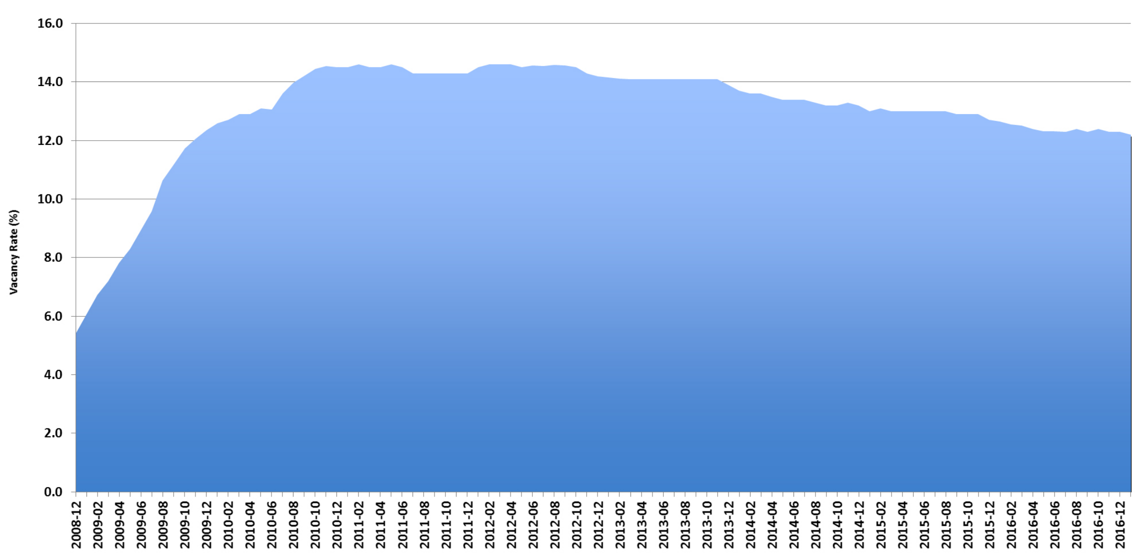


Figure 13: GB Shop vacancy rate 2008-2016 (Source: LDC)

Not all parts of GB are equal in vacancy

As openings and closures, along with the available stock, produce symptoms, they eventually feed through into vacancy rates. Looking firstly at the level of the GB nations we can see that Wales has a higher overall level of vacancy.

Within that overall result, there are distinct differences in the way locations are faring within each country. Whilst Wales has the highest town centre vacancy by some way, its retail parks have a lower vacancy rate than Scotland, which implies that its newer retail locations are in a healthier state than its traditional centres. Scotland's town centre vacancy is closer to that of the lowest (England), while its retail parks and shopping centres are the highest of the three, so its newer locations seem to be less favoured than its traditional centres. England has the lowest vacancy rates on each of the measures.

Sorted into order by overall vacancy rate the nine regions of England tracked in the LDC data portray a familiar picture. Broadly speaking there is London, then there is the southern half of the country, then another group north of that. Interestingly, once again, we see the East Midlands, a relative hotspot for rates increases at a midpoint between the other regions.

There is also a clear difference in the vacancy rates experienced between different sizes of town centres. The bigger the place, the higher the vacancy rate. Market towns seem to be in a good position here; with smaller units they may find it more difficult to attract larger anchor retailers, but they also suffer less when they leave.

Retail and Leisure vacancy by country, 2016

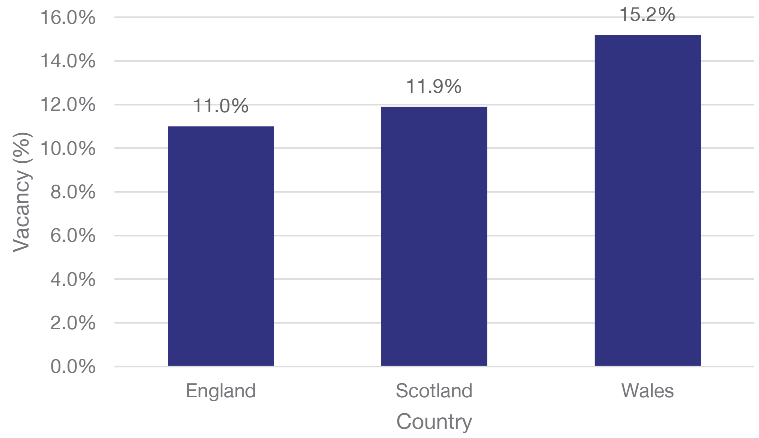


Figure 14: Retail and Leisure vacancy by country, 2016 (%) (Source: LDC)

Retail and Leisure vacancy by region of England, 2016

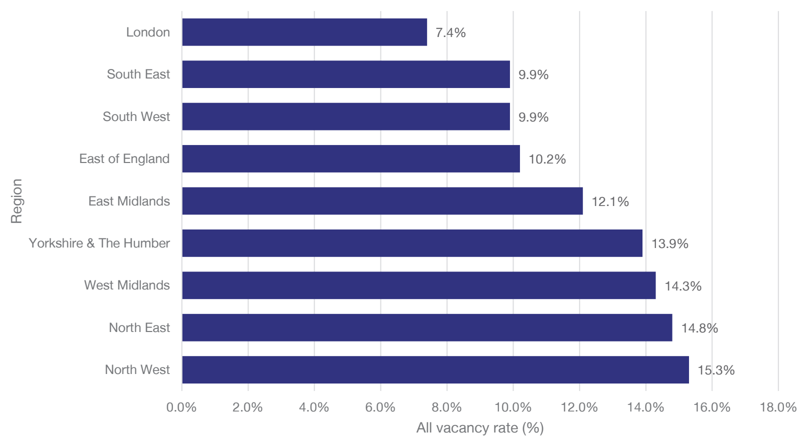


Figure 15: Retail & Leisure vacancy by region of Eng, 2016 (%) (Source: LDC)

Retail and Leisure vacancy by size of towns across GB, 2016 (%)

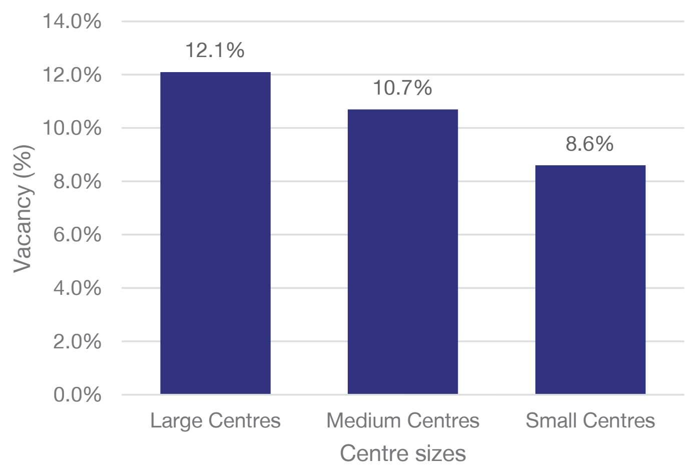


Figure 16: Retail and Leisure vacancy by size of town across GB, 2016 (%) (Source: LDC)

Commentary

Matthew Hopkinson, Director at LDC

It was clear at the halfway stage in 2016 that both openings and closures had slowed sharply by the date of the EU referendum vote. Openings had dropped off even more rapidly and that key measure, the gap between the two, had generated a net loss of nearly 2,000 retail operations in the six months to the summer.

In a year of surprises, what followed was a bump after the slump. Both openings and closures rose back to early-year levels in the autumn, but this time openings had the upper hand and began to correct the net losses of the mid-year trough. It was not enough to fill the gap, but by Christmas it had begun to mend the damage.

Our new Growth Index, as published in the monthly LDC Dynamic Location Intelligence Bulletin, shows that in the first two months of 2017 that improvement has continued. The profile of the improvement is odd: both openings and closures have dropped in 2017, implying a lower level of activity in the market once again, but openings continue to outpace closures demonstrating that you can have growth even where a market is becoming subdued.

It has also been visible in the related vacancy rates for Retail and Leisure. The gradual inching-down of the LDC measures which began in 2012 came to a halt in the middle of the year. This eventually began to show improvement as 2016 ended and the downward trend has been re-established in the early months of 2017.

On the other hand while the Retail (Comparison, Convenience, Service) vacancy rate has fallen to a five year low and is heading downwards, the Leisure rate has been rising. That's a rising vacancy rate in the one category in which both multiples and independents have been opening large numbers of units and must add to concerns that the food and beverage market is a bit more fragile than it looks.

The relationships between the structural shifts between online and offline non-food shops have been taken as straightforward, but maybe they are not. The ONS has the proportion of online sales overall at 14.6% and a simple view might be that the graph for that rise should be matched to some degree by the chart line for vacancy – but they are not. Both have risen since 2008 and online sales continue to take a larger market share, but vacancy has been heading down, albeit gently, since 2012. The rate of growth of online can also be overestimated: at its current growth that segment of the market would not represent half of the retail market until 2030.

This summary is an extract from a 44 page report released by LDC in March 2017.

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About LDC

LDC is the UK's leading data creator using real people on the street to acquire the most up to date, on demand location and company specific data for the retail and leisure sectors. It combines powerful proprietary technology with a unique, field researched database of over half a million premises. LDC delivers primary evidence on thousands of companies and 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. It provides online insights and indices, bespoke reports and advice to the UK's leading retailer and leisure occupiers, investors, landlords, banks, councils, business improvement districts and the media.

Author

Michael Weedon, Content Editor at LDC

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.

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 LDC 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.