Retail and Leisure Trends Report 2017/18

The evolution of our retail landscape

Published June 2018
By The Local Data Company (LDC)

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A bit about LDC

LDC is the UK's leading provider of retail and leisure data and insight. Using a unique combination of desk and field research, we track activity across 600,000+ premises GB-wide. On average, we make 80,000 updates to our database per month, resulting in the richest, most accurate and most up-to-date market insight available. We use this data alongside proprietary technology to support occupiers, landlords, investors, local councils, media agencies and others to track brands, identify opportunities, mitigate risks and define profitable growth strategies.

Some of the businesses we work with

"

After reviewing our options, we made the decision to remain with LDC and renew our contract this year for another 3 years. As a team we were impressed by their understanding of the differences between the night-time economy and day-time retail markets and their ability to adapt their solution accordingly. The bespoke work they have also done to map our business portfolio and identify towns with similar demographics that we should target for expansion will be a valuable part of our decision-making process going forwards.

- Alex Millington,
Group Financial Director,
The Deltic Group

"

The Local Data Company has a distinguished and distinctive position in chronicling, characterising and analysing the UK retail scene. As a leading player in the listed market for consumer equities in the UK, Shore Capital Markets finds LDC's work to be an invaluable source of detailed analysis on the ever-changing British shopping landscape. It is an unparalleled resource.

– Dr. Clive Black,
Head of Research,
Shore Capital Markets

SHORE CAPITAL
CAPITAL MARKETS

"

Working with LDC, we are doing vital work to measure footfall and vacancy rates across our BID area and other competing centres. Having accurate and detailed footfall data that we can drill down to hourly counts enables us to attract the right brands to support the day and night time economies in the Waterloo area and allows us to evidence the positive impact of our BID work with quantitative measures.

– Ben Stephenson,
Chief Executive,
WeAreWaterloo BID

WE ARE WATERLOO

"

The relationship with LDC has grown considerably from the early days, we now use the full inclusion of all of LDC's data and reports into our strategic estate planning. With over 450 stores to constantly monitor, alongside several thousand other locations of opportunity to review, LDO has massively reduced the amount of man hours required in travelling to each location, manually recording data and collating analysis. Being able to instantly identify and review locations of interest, and quickly discount others, allows us to focus on the key locations that provide the best opportunities. The ability to extract and use LDC data with our other external and internal data enables a completely holistic level of analysis to be complete, before there is any requirement for any field research.

– Darren Percival,
Planning Manager,
O2 Telefonica

O_2

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www.localdatacompany.com

Key findings

- At the end of 2017, the GB vacancy rate rose for the first time since 2012. However, it only rose 0.2% to 11.2% over the course of 2017, settling at the same rate as H2 2016.

- The shopping centres ranked 300th or lower in terms of their LDC Health Index Score saw vacancy rates rise in 2017 from from 19.7% to 19.9%, whereas the rest saw little or no increase. The significantly higher vacancy rate at these centres is driving the overall GB shopping centre vacancy rate up.

- Since 2013 most regions have seen their LDC Health Index Score improve. The South West and Yorkshire and the Humber were the only regions to see a drop. Overall, the GB Health Index Score rose from 5.0/10 to 5.3/10 in the five-year period to 2018.

- Retail parks were the only retail location type to experience growth in numbers of occupied units (+0.85%) in 2017. All other location types saw a net loss. Shopping centres saw the biggest drop in numbers (-1.88%) despite the opening of several new shopping centres across GB.

- Yorkshire and the Humber (-361), Greater London (-498) and Scotland (-520) were the three regions to lose the most occupied high street shops in 2017.

- The West Midlands lost the least numbers of occupied stores on the high street (-22) of all regions, but was one of only three regions to lose retail park numbers (-7). However, shopping centre vacancy decreased in this region (-0.9%) only joined by London and the North West, defying the national trend.

- The GB shopping centre vacancy rate rose from 12.7% at the end of 2016 to 13.2% 12 months later, the highest it has been since the end of 2015.

- The GB retail park vacancy rate continued to fall in 2017, reaching a record low of 4.9%, down 0.7% compared to the figure 12 months previously (H2 2016).

- In 2017, all classification types registered a net decline in units with comparison goods retail continuing to see the biggest fall (-3,057). The loss of service retail units (-1,563) overtook the loss of convenience retail (-806) in 2017, after a reversal in 2016 saw service retail increase by +114 and convenience retail drop by -409 units.

- Net numbers of leisure units fell (-67) for the first time since LDC started tracking in 2012.

- Both independent (-1,483) and multiple (-4,010) businesses fell into decline over 2017, again, for the first time since 2012. The West Midlands was the only region to record an increase, with a marginal increase in numbers of independent occupiers in 2017.

- The category closing the most units across GB in 2017 was Pubs closing over 2 a day (-747) with their continued decline across GB just about beating the closures of Banks (-711).

- However, there is good news, with Barbers (+624), Beauty Salons (+388), Tobacconists (inc vaping stores) (+381), independent Café & Tearooms (+353) and Nail Salons (+176) all experiencing growth.

- The top five brands to experience growth were Lloydspharmacy (+116), Betfred (+135), Subway (+62), The Co-operative Funeralcare (+59) and Greggs (+51).

Introduction

Image source: Shutterstock

The backdrop: Economic context and national outlook

It has been widely acknowledged that UK retail is going through a turbulent period, with consumer fundamentals such as consumer confidence decreasing and disposable income stable but slower than inflation in 2017. Although the labour market did remain robust with 32.21 million people in work by the end of 2017. The talk in political circles about the 'squeezed middle' is filtering through into the retail and leisure sector with various CVAs and administrations announced in the first few months of 2018.

As of March 2018, CPIH was starting to fall after rising in 2017, where inflation hit a five year high of 3.1% in November. However, inflation is still at its highest level since April 2012. The squeeze on British household budgets showed signs of easing, after inflation rose from 0.5% before the EU referendum. However, with the Bank of England expected to raise interest rates this year and fuel prices rising, 2018 is expected to be another tough year for British households.

Wages outpaced inflation in February 2018 for the first time since January 2017, when household budgets were being put under increasing pressure. However, against CPIH, real wage growth was only 0.2%, with this new measure taking into account household costs. This brings to an end the 12-month run of falling living standards which had put pressure on British households' spending capabilities.

Image source: Shutterstock

> “The talk in political circles about the ‘squeezed middle’ is filtering through into the retail and leisure sector with various CVAs and administrations announced in the first few months of 2018.

Consumer price index including owner occupiers’ housing costs (2008 - 2018)

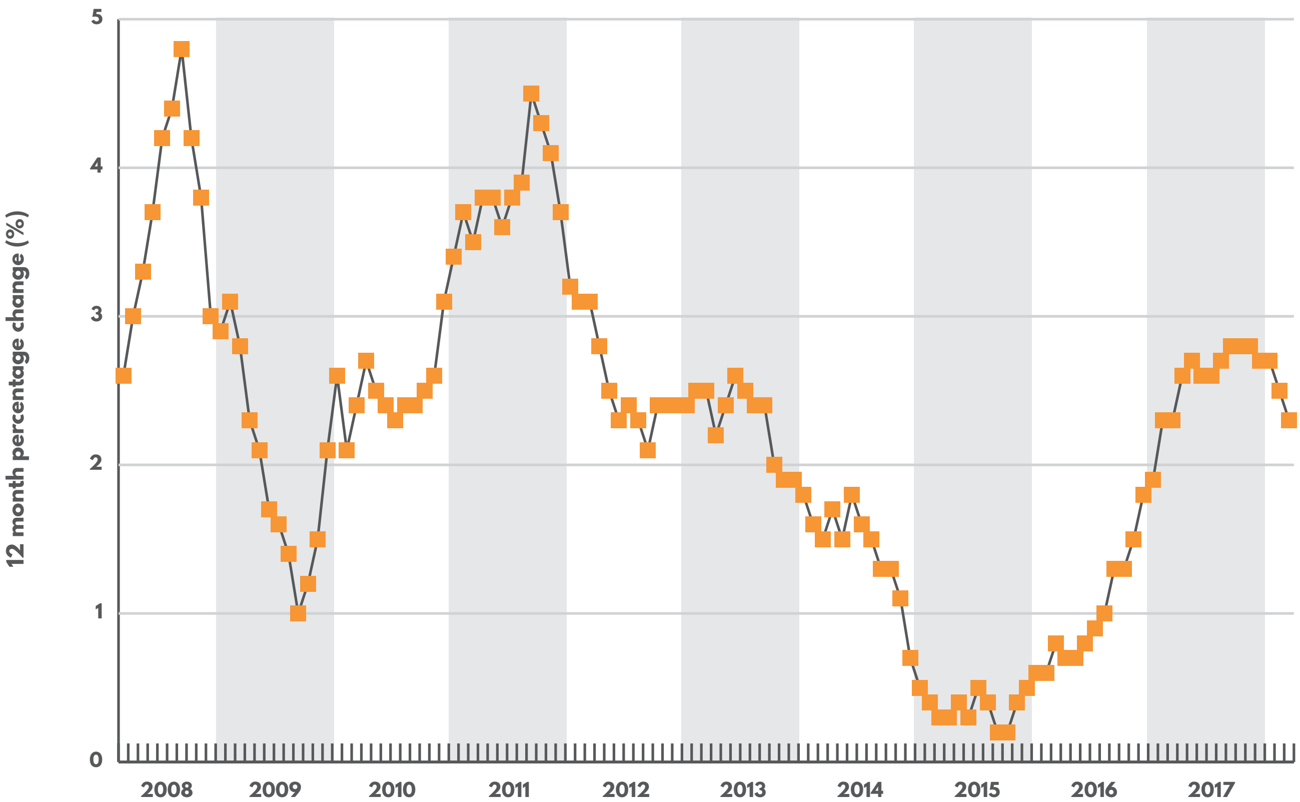

Figure 1: Consumer Price Index including owner occupiers’ housing costs (CPIH) from 2008 to 2018 showing a 12-month percentage change (Source: ONS)

Inflation vs. average earnings across the UK (November 2015 - February 2018)

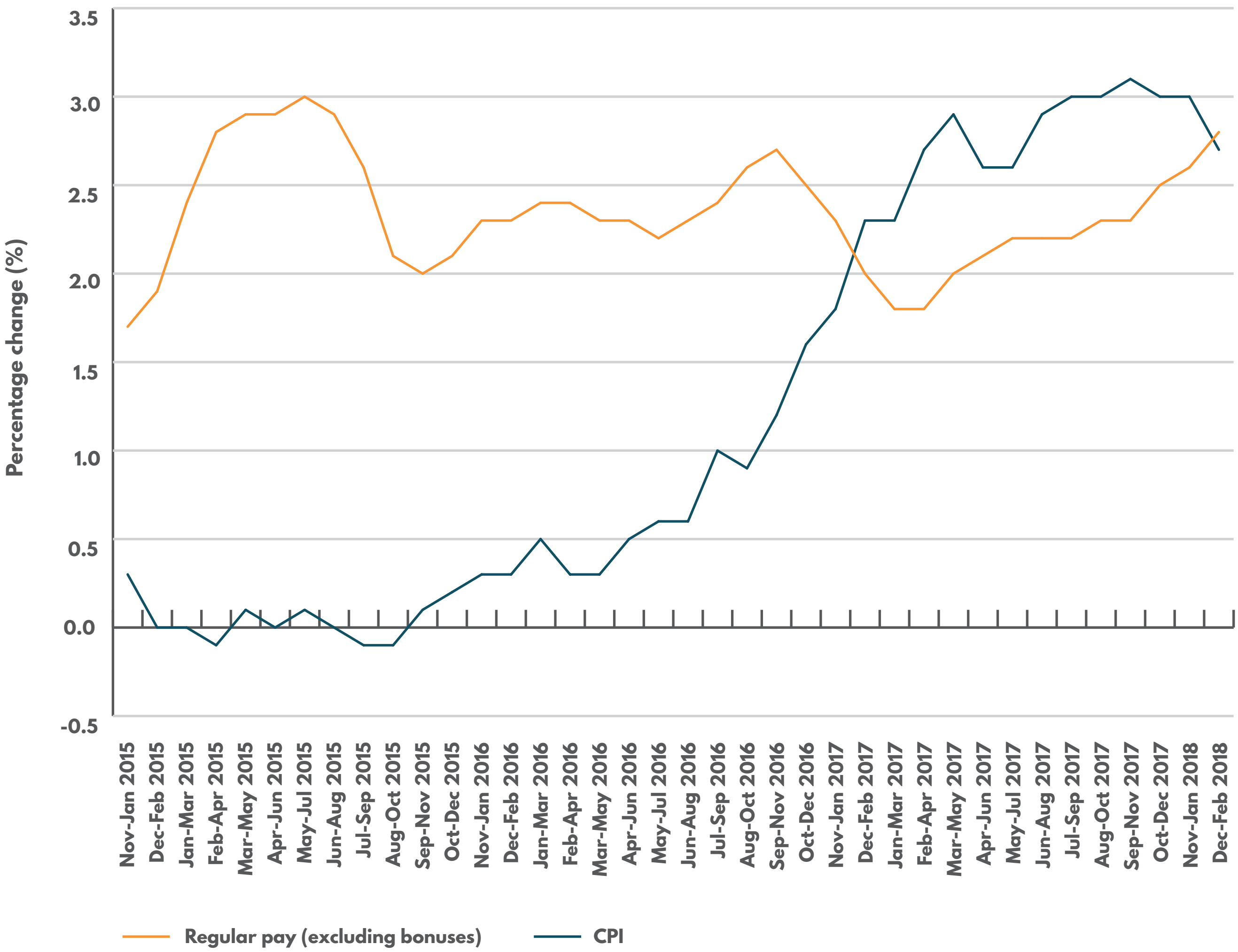

Figure 2: Inflation vs. average earnings across the UK between November 2015 and February 2018 (Source: ONS)

Recent times have seen a polarisation in retail spending with consumers maintaining their recession habits of seeking savings on everyday items but they are now willing to trade up on high-end products. Value retailers such as Lidl, Aldi and the single price chains have continued to take market share from the Big 4 supermarkets, although at a slower rate than previous years. The Big 4 supermarkets have arrested their decline by discounting on the everyday essentials and simplifying their product assortment to match the discounters' strengths.

On the supply side, the cost environment for retailers is becoming increasingly hostile. An increase in sourcing costs is leading many retailers to pass rising costs on to customers and those forced to absorb these costs are now seeing pressure on their margins. This is most evident in the restaurant sector, where one in three of the top 100 restaurants is now loss-making (Source: UHY Hacker Young). Soaring business rates, food inflation and rising staffing costs have squeezed their margins and high levels of competition make it harder to pass these costs onto their customers. Total pre-tax profits at the top 100 firms dropped 64% in the past year, from £345m to £125m. The fierce competition for the best locations for their sites in the previous three years is also a factor, with many of the top 100 restaurants paying above market value to secure lucrative locations in major cities and towns across GB. The result of the increase in food prices has lead both suppliers and retailers to attempt to offset these costs by increasing their prices. In 2017, the food and catering sector saw the biggest rise in prices since 2013, rising 2.5% year-on-year, in stark contrast to the negative inflation seen in 2015 and 2016 (Source: ONS).

Image source: LDC

Retail Price Index percentage change - Food and Catering

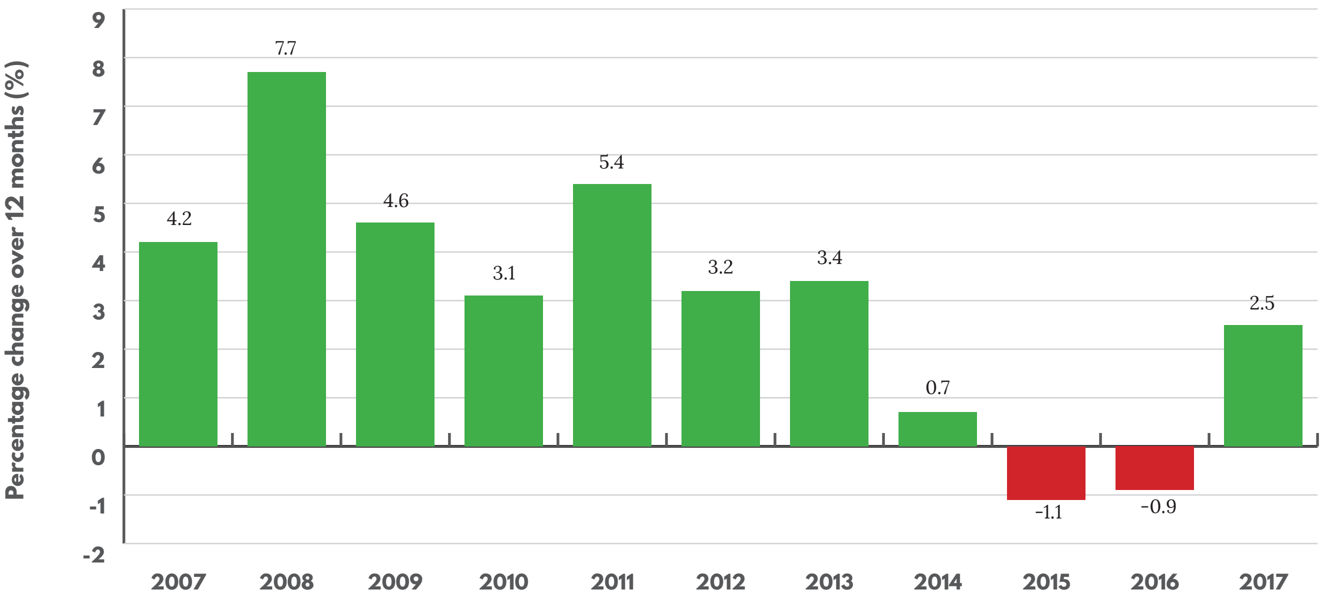

Figure 3: 12-month percentage change in Retail Price Index (RPI) between 2007 and 2017 (Source: ONS)

Looking back: Vacancy trends since 2012

At the end of 2017, the GB vacancy rate rose for the first time since LDC started tracking the measure back in H2 2012. The rate rose to 11.2%, up 0.2% from 11.0% in H1 2017 which was the same level as 12 months before (H2 2016).

Shopping centres experienced similar fortunes, with vacancy rates up 0.3% year-on-year, rising from 12.7% in H2 2016 to 13.0% in H2 2017. Retail parks fared better with vacancy rates dropping for the fourth consecutive

GB vacancy rate H2 2012 to H2 2017

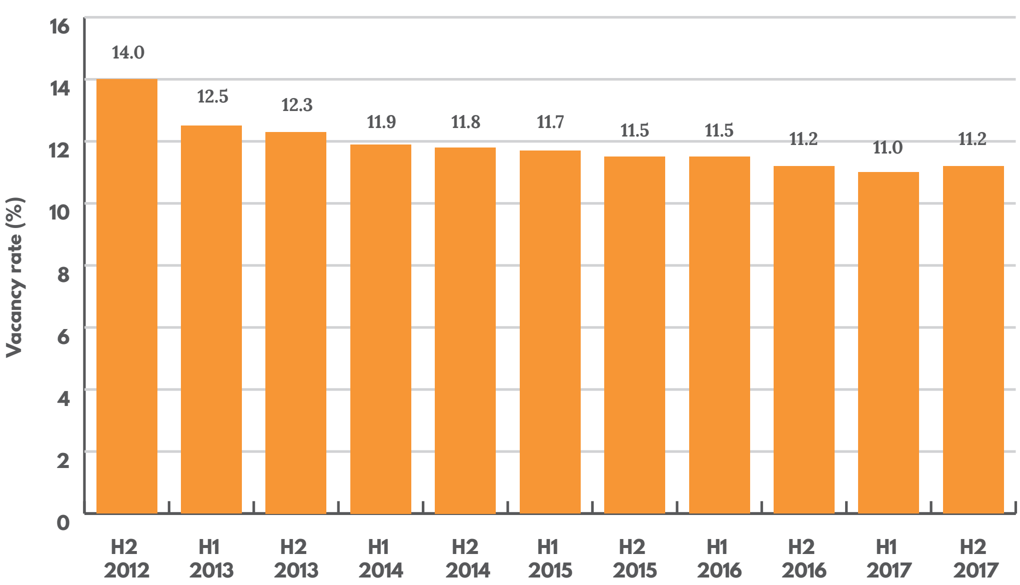

Figure 4: Five-year change in GB vacancy rates by half year from H2 2012 to H2 2017 (Source: LDC)

Historical vacancy rates by location type H2 2012 to H2 2017

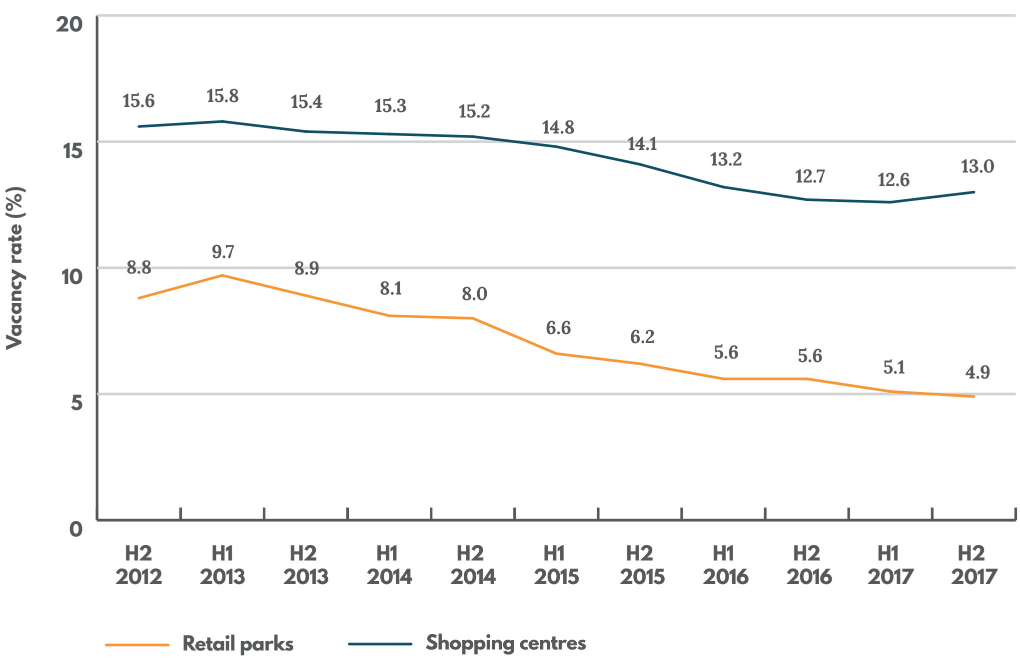

Figure 5: Historical vacancy rate by location type across GB between H2 2012 to H2 2017 (Source: LDC)

Shopping centre vacancy rate by Health Index rank across GB

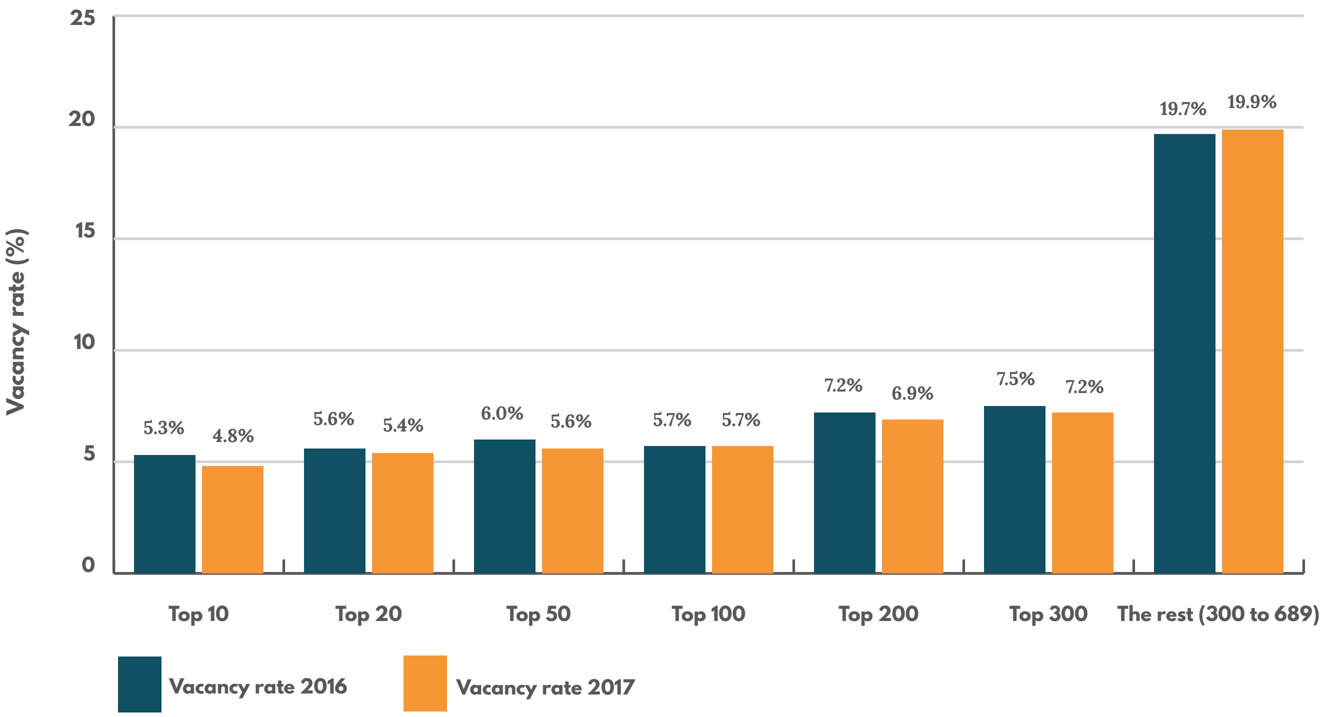

Figure 6: Shopping centre vacancy rate by Health Index rank across GB (Source: LDC)

year since H2 2013. The retail park vacancy rate dropped from 5.6% in H2 2016 and finished 2017 at 4.9%.

When looking at the shopping centre vacancy rate in more detail it is clear the rise in vacancy rate is being driven by the tertiary shopping centres with the lowest LDC Health Index scores across GB. The top 10, 20 and 50 shopping centres according to the Health Index all saw their vacancy rates drop, as they were able to continue to attract and retain the most sought-after occupiers. The shopping centres ranked 300th or lower in terms of their Health Index score saw vacancy rates rise from 19.7% to 19.9%. It is clear from this data that the significantly higher vacancy rate at these centres is driving the overall GB shopping centre vacancy rate up. Owners of these centres will need to look to other uses to fulfil the full value of their assets with residential schemes likely to be a popular route for asset managers with the housing shortage in various areas across GB.

Intu Derby. Image source: LDC

How healthy are we? LDC's Health Index

Regional analysis of the Health Index shows that since 2013, the majority of regions have seen their Health Index improve. The South West and Yorkshire and the Humber were the only regions to see a drop in their average LDC Health Index score over the five-year period. Overall, the GB Health Index score rose from 5.0/10 to 5.3/10 in the five-year period up to 2018. Greater London saw the biggest increase in Health Index score, with an increase in the fierce competition for space across the capital leading to a fall in vacancy rates amongst other benefits, discussed later on in this report.

> "Overall, the GB Health Index score rose from 5.0/10 to 5.3/10 in the five-year period up to 2018"

LDC Health Index - Five year change by regions

Figure 7: Five-year change in the average LDC Health Index rating by region (2013 - 2018) (Source: LDC)

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Locations
The where and the why

Rochester high street. Image source: LDC

This section of the report looks at how different retail locations have changed over the past years, looking at the vacancy rates, health, occupier profile and any new retailer trends.

Openings and closures by retail location type

Retail parks remain the most desirable retail location, with this location type being the only one to experience growth in numbers of occupied units in 2017. The number of retail park occupiers grew marginally by 0.85% in 2017, while all other location types saw a net loss of live units (occupied). Shopping centres saw the biggest drop in numbers with a decrease of 1.88%, despite the opening of several new shopping centres such as Westgate Oxford. Within the shopping centre market, there is clear polarisation between the top centres and the bottom centres across all retail metrics. Across GB there are secondary and community centres that have vacancy rates above 25% with at least one in four units vacant. The owners of these assets are often either waiting for planning approval to redevelop and convert the space, or landlords are looking for creative ways to make them relevant to shoppers once again.

Many of the largest towns across GB have multiple shopping schemes in the town centre. Across the 365 towns with a shopping centre, 44% have at least two in the town centre area and 15% have at least three. This oversupply in the sheer volume of shopping centre space is evident as this location type has the highest vacancy rate across GB at 13.2%.

A breakdown of the net change in live units in 2017 by region shows how the national trend may not be applicable to all areas of the country. Scottish high streets have seen the largest decrease in live units in 2017, with Convenience stores (-80 units), Banks & Other Financial Institutions (-77 units) and Pubs (-44 units) driving the net decline across the region. Banks have continued to close branches across GB, but Scotland has seen the largest percentage of these due to the smaller population density per bank in smaller towns. Banks have opted to keep a main branch in the regional/ county towns, with customers expected to travel to these branches for their banking needs. Scottish banks such as Clydesdale Bank PLC, RBS and Bank of Scotland have closed the most branches in the region.

Percentage net change in units by location type in 2017

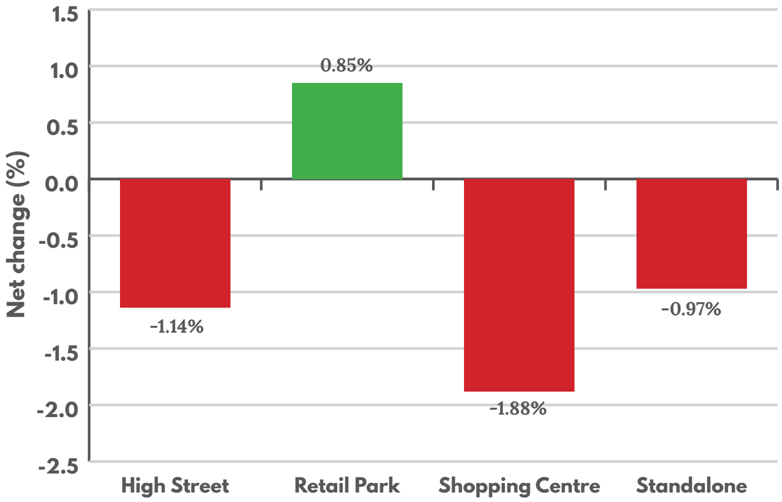

Figure 8: Percentage net change in units by location type in 2017 (Source: LDC)

The fall in convenience stores has been driven by the closure of The Co-operative Food, Spar and Costcutter stores. Although there are some groups and chains that are growing across GB with Nisa Local, Best-one and Day-Today Express seeing growth in 2017.

Regional breakdown of net change in 2017 - High streets

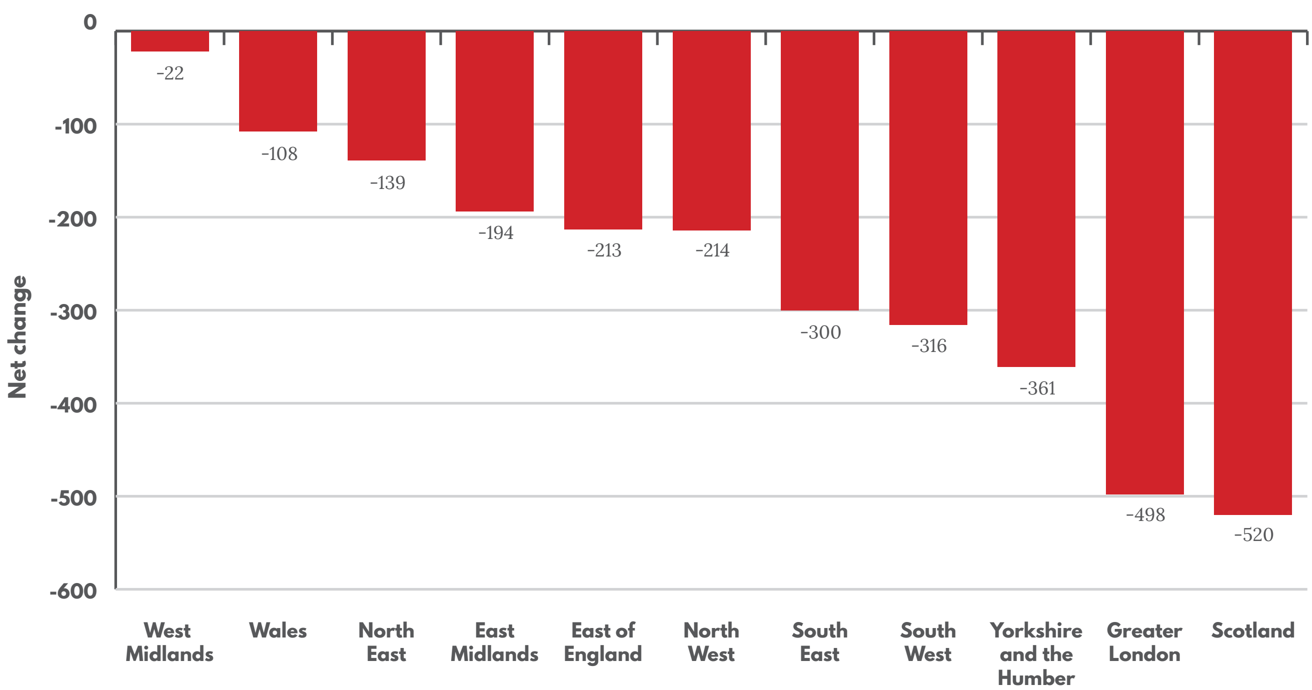

Figure 9: Regional breakdown of net change in units across GB regions and nations in 2017 (Source: LDC)

New Shoezone store at Malvern Retail Park. Image source: LDC

Throughout 2017 retail park growth was evident across GB - but not across all regions. The West Midlands (-7), North East (-3) and Greater London (-1) all saw a decline in the number of occupied retail park units in 2017. The drop in the number of businesses was due to the closure of Carpetright and Brantano Footwear units in 2017, with some retail parks using the opportunity to consolidate these units to create a larger format. An example of this was at Malvern retail park, where the Arcadia brands all closed (Evans, Dorothy Perkins, Burton Menswear) and the unit was merged to open a larger Pets At Home store, while the former Brantano Footwear unit was merged with another vacant unit to create a space for Shoezone.

New Pets At Home store at Malvern Retail Park. Image source: LDC

Regional breakdown of net change in 2017 - Retail parks

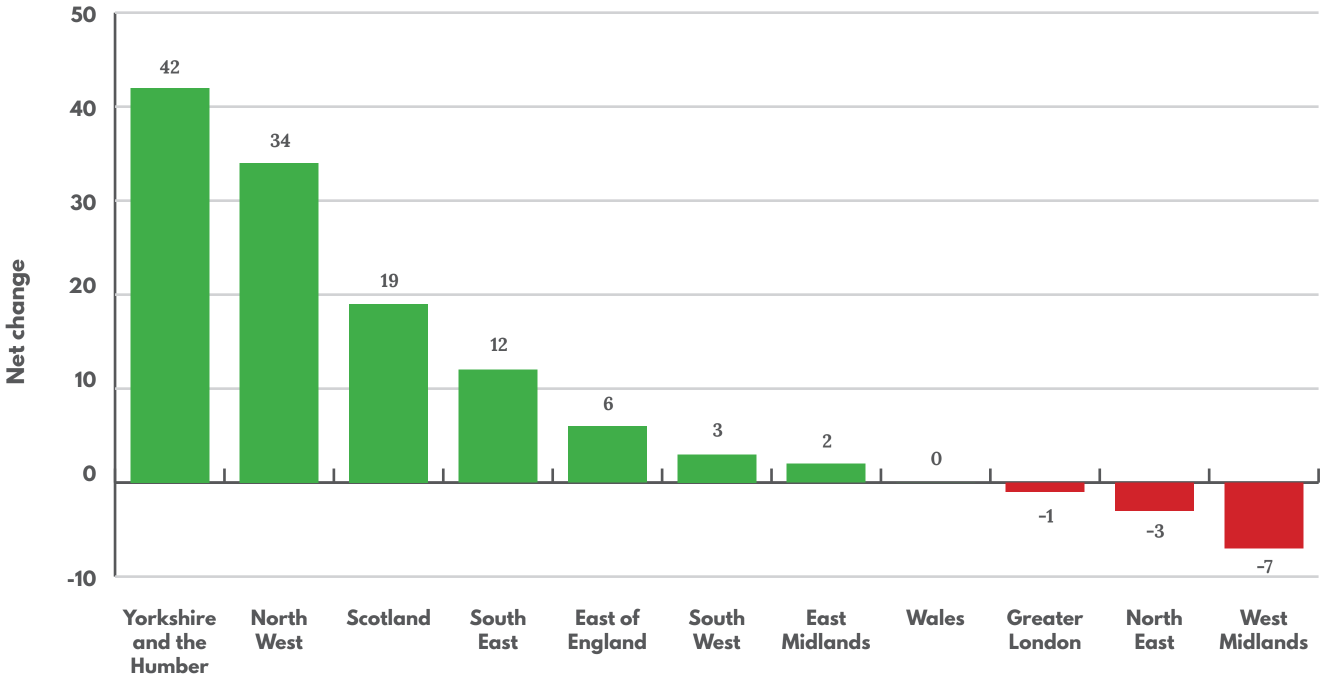

Figure 10: Regional breakdown of net change in 2017 across GB retail parks (Source: LDC)

The growth across retail parks in Yorkshire and the Humber was driven by the opening of the Fox Valley retail park in Stocksbridge in June 2017. The new retail park was built on the site of a former 28-acre steelworks factory, with the regenerated area creating 37 retail units. 35 of these are already occupied with Aldi, Card Factory, Home Bargains, Next and Peacocks all taking up space amongst others. JoJo Maman Bébé also opened on the park - their first retail park unit in GB. This is reflective of the growing attraction of retail park units for retailers, with the convenience they provide due to their accessibility, free parking and the retail/leisure mix an enticing proposition for time-poor consumers.

> “
> Throughout 2017, retail park growth was evident across GB - but not across all regions. The West Midlands (-7), North East (-3) and Greater London (-1) all saw a decline in the number of occupied retail park units in 2017.

The East Midlands had the lowest levels of net churn of live units in 2017, with the opening of Rushden Lakes shopping centre a contributory factor. The 37-unit centre has since attracted an array of retail and leisure occupiers. This unfortunately was outweighed by 50% of the shopping centres in the region (21) seeing a drop in the number of occupied units. Scotland topped the chart for the net decline in occupied units, with 136 less occupied units than at the start of 2017. The majority of closures were in the Fashion & General Clothing (-37) and Travel Agents (-22) sectors and all of these were impacted by the growth in online services such as ASOS, Expedia and Booking.com. However, there was strong growth in the Hairdressing, Health & Beauty (+15) and Restaurant (+4) sectors across Scottish shopping centres.

Rushden Lakes Shopping Centre. Image source: Flittabus.co.uk

Regional breakdown of net change in 2017 - Shopping centres

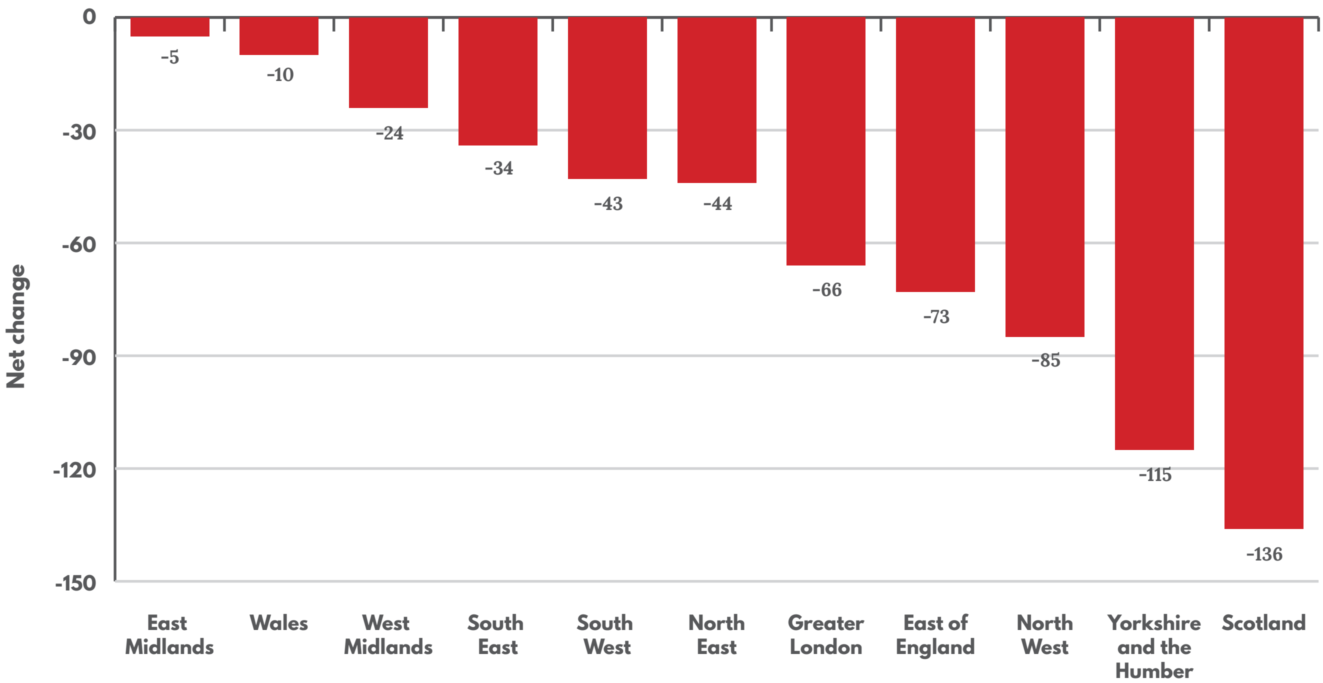

Figure 11: Regional breakdown of net change in 2017 across GB shopping centres (Source: LDC)

Vacancy rates

The GB shopping centre vacancy rate rose from 12.7% at the end of 2016 to 13.2% 12 months later. This is the highest it has been since the end of 2015, with this expected to rise further in 2018 due to the forecasted closures that several retailers have announced in the first few months of the year. The GB retail park vacancy rate continued to fall in 2017, reaching a record low of 4.9%, down 0.7% compared to the figure 12 months previously (H2 2016). Retail parks are continuing to attract occupiers with chains expanding their out-of-town presence as well as traditional in town occupiers experimenting with new formats and opening first retail park stores.

> "
> The GB retail park vacancy rate continued to fall in 2017, reaching a record low of 4.9%, down 0.7% compared to the figure 12 months previously.

Historical vacancy rates by location type (2012 - 2017)

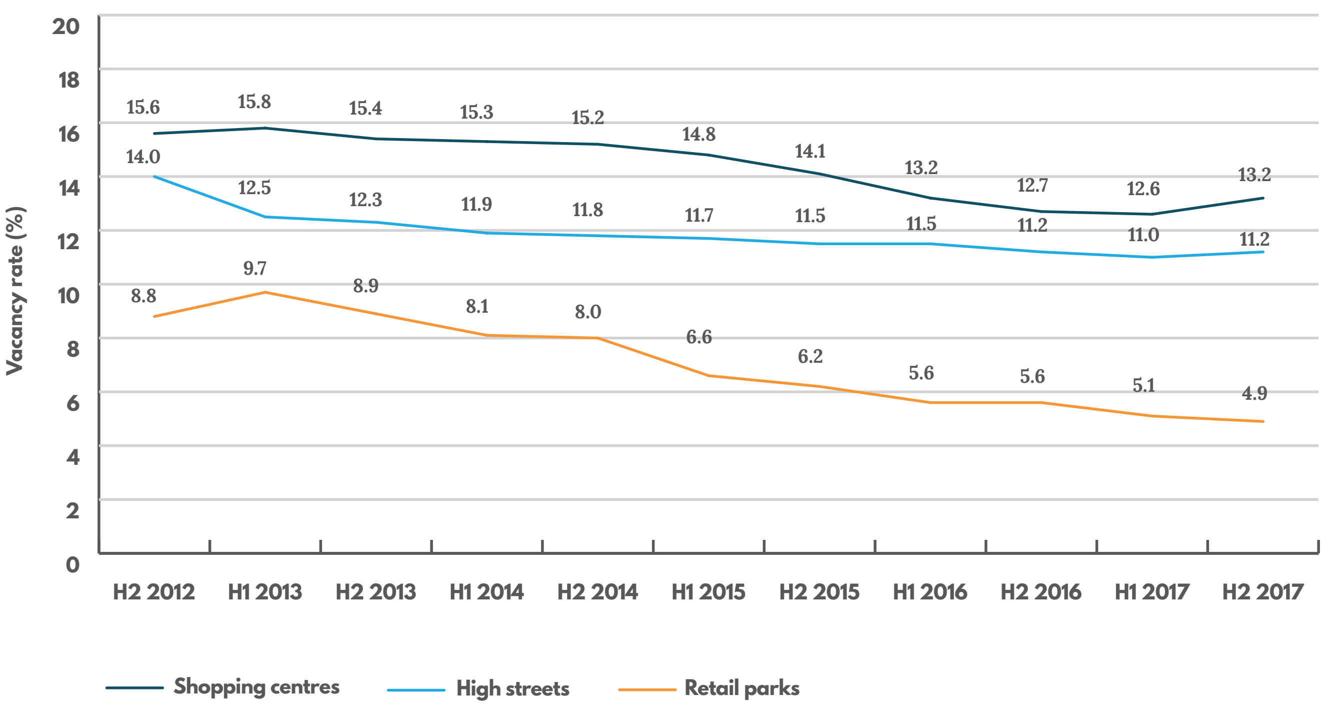

Figure 12: Historical vacancy rates by location type across GB since 2012

Regional high street trends

The emotive subject of high street vacancy rates has continued to steal headlines across GB regions and nations. Only the East of England, Wales and Scotland saw a drop in vacancy rates in 2017, whilst the East Midlands saw no change at all. In the last 12 months, vacancy rates have risen across the North East (1.0%), Yorkshire and the Humber (0.8%) and Greater London (0.4%).

Image source: Shutterstock

Changes in regional vacancy rate across GB - High streets (12-month and 3-year)

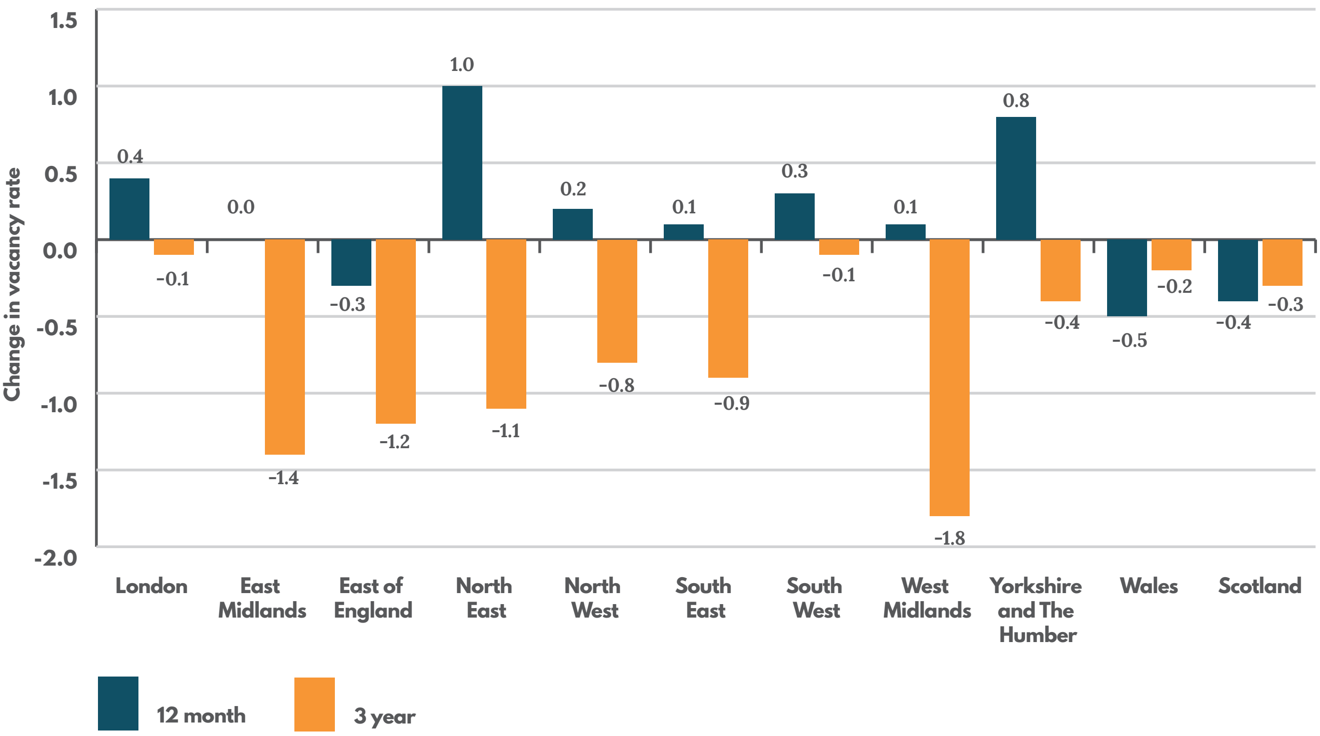

Figure 13: 12-month and 3-year high street vacancy rates across GB regions and nations (Source: LDC)

Regional retail park trends

Toys R Us. Image source: LDC

No GB region saw its retail park vacancy increase over the 3-year period (from Jan 2014), showing the resilience in the retail park asset class. The sector will be challenged in 2018, with the administration of prominent retail park brands such as Toys R Us (with 38 retail park units) and Maplin (114 retail park units). London, the West Midlands and Yorkshire and the Humber saw any retail park vacancy gains grind to a halt, as both saw vacancy rates rise in the last 12 months, mirrored by the retail park net openings and closures data. The West Midlands as mentioned had the strongest 3-year performance in the retail park market in terms of vacancy rate, again evident in the retail park net openings and closures. Wales had seen the strongest 12-month decrease in vacancy alongside the North West, with the vacancy rate dropping 3.0% from 7.1% to 4.2% off the back of strong openings at Berse Road Retail Park (Wrexham), Blackwood Retail Park (Blackwood) and Parc Tawe Retail Park (Swansea).

Changes in regional vacancy rate across GB - Retail parks (12-month and-3 year)

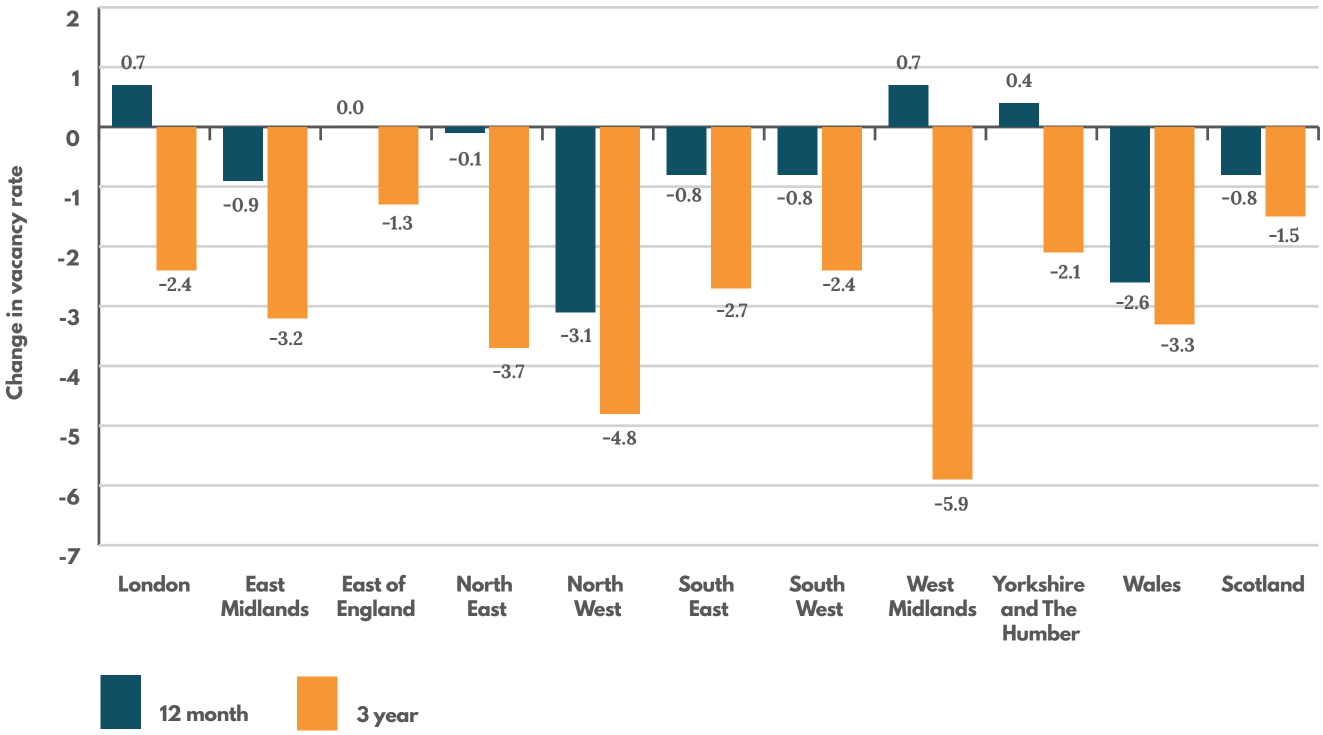

Figure 14: 12-month and 3-year change in vacancy rates across GB regions and nations retail parks (Source: LDC)

Regional shopping centre trends

Shopping centres are the location type most at risk due to the high level of churn in occupiers of this asset class. Another risk factor is the number of recent CVAs and administration announcements in the fashion and general clothing category, which is a key provision in the majority of shopping centres and schemes across GB. Shopping centres have, however, benefited from the growth in leisure including food and beverage occupiers (F&B), with F&B making up on average 25% of the total units in shopping centres, and more than 40% in some of the larger centres with extensive, purpose-built food courts. Vacancy rates overall rose in 2017 to a 2-year high, with the expected closures that will filter through over the next few months likely to push this up further in H2 2018. Greater London (-0.1%), the West Midlands (-0.9%) and the North West (-0.1%) were the only regions to see a fall in their shopping centre vacancy rate. Scotland (+1.4%), South East (+1.3%) and the North East (+1.2%) saw the biggest increase in shopping centre vacancy rates.

> “Shopping centres are the location type most at risk due to the high level of churn in occupiers of this asset class.

Changes in regional vacancy rate across GB - Shopping centres (12-month and 3-year)

Figure 15: 12-month and 3-year change in vacancy rates across GB regions and nations shopping centres (Source: LDC)

Persistent vacancy

Persistent vacancy is a key measure of an area's health. The vacancy rate provides a live indicator of the state of a respective high street, shopping centre or retail park, but the persistent vacancy rate gives a measure of the future prospects of a town and the relevant take up and demand for existing units. The persistent vacancy rate analyses the profile of the vacant units, measuring how long the units have been vacant for.

Across GB, LDC data has been split into 12-month intervals, with GB shopping centres having the largest percentage of units that have been vacant for over 1 year. 8.2% of the total stock has been vacant for over one year.

> High streets saw a 0.8% drop in units vacant for less than one year and a 0.4% drop in the number of units vacant for greater than three years, better than both retail parks and shopping centres.

Persistent vacancy in 2017 by location type

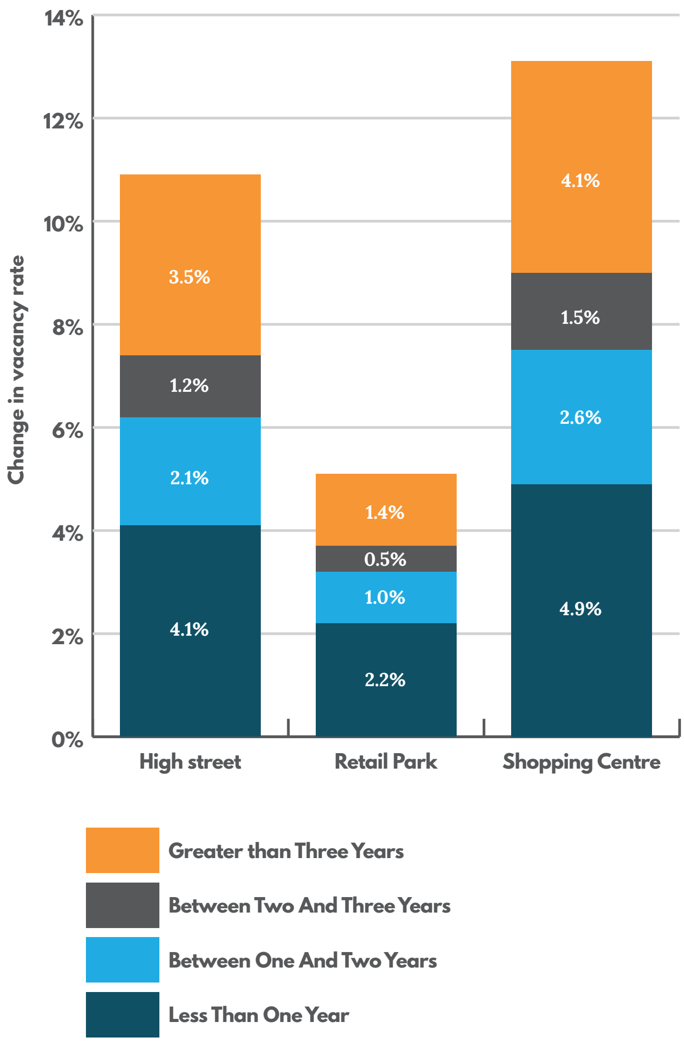

Figure 16: Persistent vacancy in 2017 by location type across GB (Source: LDC)

Vacant units in Bracknell. Image source: Shutterstock

High streets performed strongly across the persistent vacancy metrics with a reduction in each category (split by length of vacancy) in 2017. High streets saw a 0.8% drop in units vacant for less than one year and a 0.4% drop in the number of units vacant for greater than three years, better than both retail parks and shopping centres. This is evidence of the increasing measures landlords and city councils are taking to reduce the vacancy rates across their towns by changing the use of persistently vacant units. Shopping centres saw an increase in long-term vacant units, with an increase of 0.8% in units vacant for longer than three years.

Change in percentage change in persistent vacancy across GB between 2016 and 2017

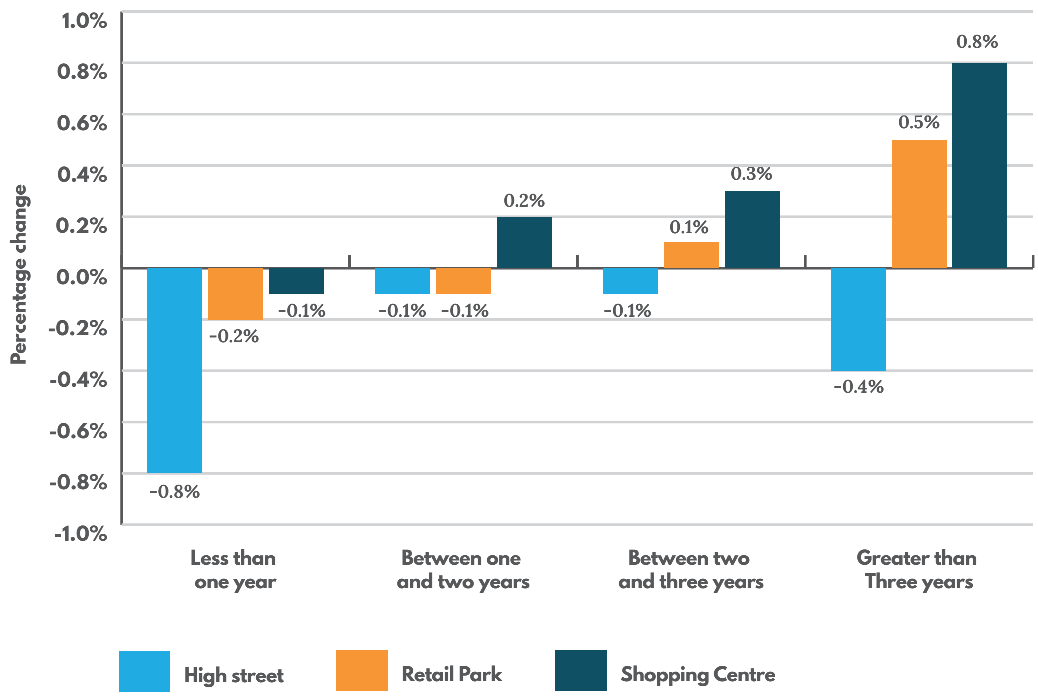

Figure 17: Percentage change in persistent vacancy across GB between 2016 and 2017 (Source: LDC)

Persistent vacancy across GB nations and regions

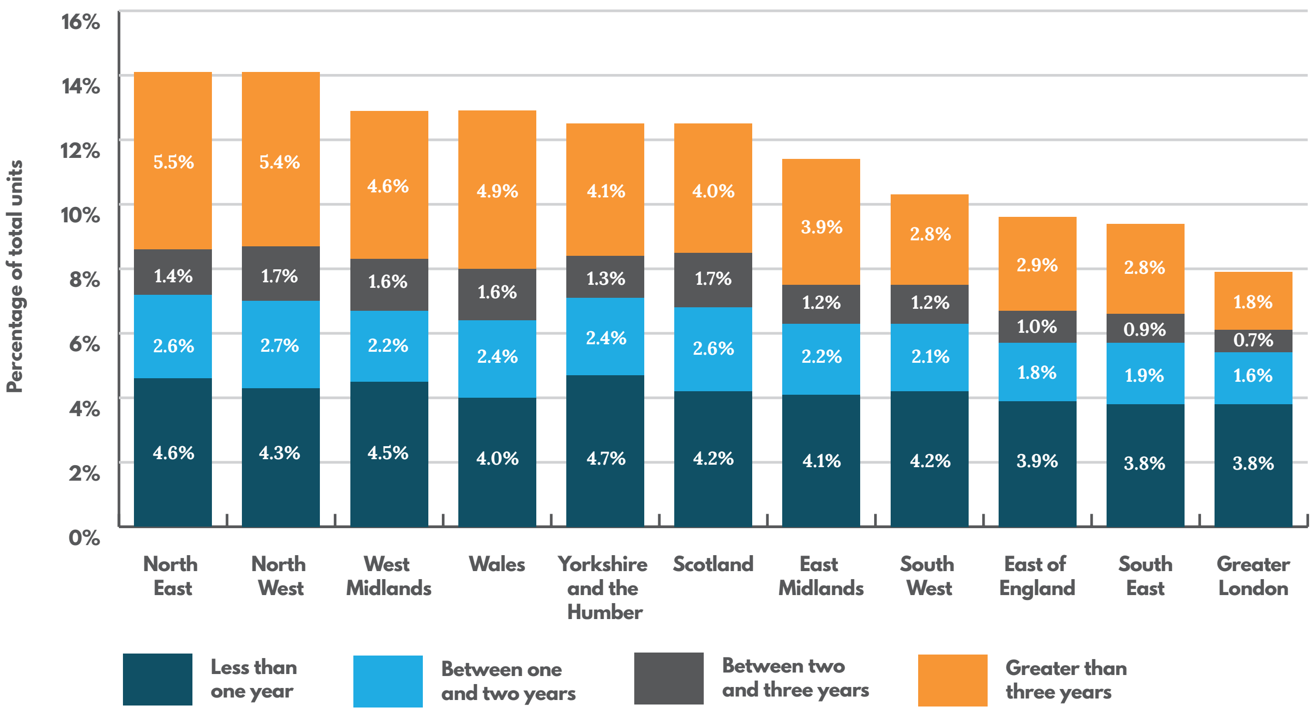

Figure 18: Persistent vacancy across GB nations and regions in 2017 (Source: LDC)

The North East (5.5%) and North West (5.4%) had the highest percentage of units that have been vacant for over three years across GB in 2017. The best performing regions are in the south, with this pattern similar to the vacancy rate trends. When benchmarked against each other, the north and south of England have similar short term persistent vacancy figures with the difference between the top and bottom only 0.8%. The gap increases significantly for units that have been vacant for over one year, with the percentage of units in the North East more than double that for Greater London (9.5% vs. 4.1%). This is due to the extra demand for land in Greater London and areas of the South East alongside retail competing with the better performing property classes of industrial and residential, which have shown greater rates of return on investment for landlords over the last 10 years. Investors have seen minimal growth in retail rents, compared to the growth in housing prices and demand for industrial land with the ever-growing online distribution channels.

Landlords, with the help of local councils, will have to continue to work together to utilise the greatest value from their retail and leisure units in the town centre, with softer planning regulations and increased creativity key to development and reduction of the persistently vacant space. Councils are also becoming more willing to invest in the town centres with the recent purchase of Whitefriars Shopping Centre for £75 million by Canterbury City Council and Shrewsbury City Council buying all three town centre shopping centres for £51m. These purchases do come with their own challenges with some questioning the value of councils buying shopping centres, however it does enable councils to take full ownership of the town centre and enable it to implement its wider regeneration plans.

LDC's Health Index

Regional analysis of the Health Index shows that since 2013, the majority of regions have seen their LDC Health Index improve. The South West and Yorkshire and the Humber were the only regions to see a drop in their average Health Index score over the five-year period. Overall, the GB Health Index rose from 5.0/10 to 5.3/10 in the five-year period. Greater London saw the biggest increase in its LDC Health Index score, with an increase in competition for space across the capital leading to a fall in vacancy rates, a rise in the number of F&B operators, increased investment in London assets to improve the retail offer and an improvement in the health index scores of residential suburbs due to the high rental costs in the capital leading to a larger commuter population. The five-year changes by regions hide the polarisation across different locations and assets across the country, with the prime areas that have seen investment and quality asset management seeing their attractiveness rise, whilst areas that have failed to adapt or maintain adequate asset management have remained unattractive resulting in Health Index scores as low as 1/10.

> "Greater London saw the biggest increase in its LDC Health Index score, with an increase in competition for space across the capital leading to a fall in vacancy rates.

LDC Health Index - Five year change by regions

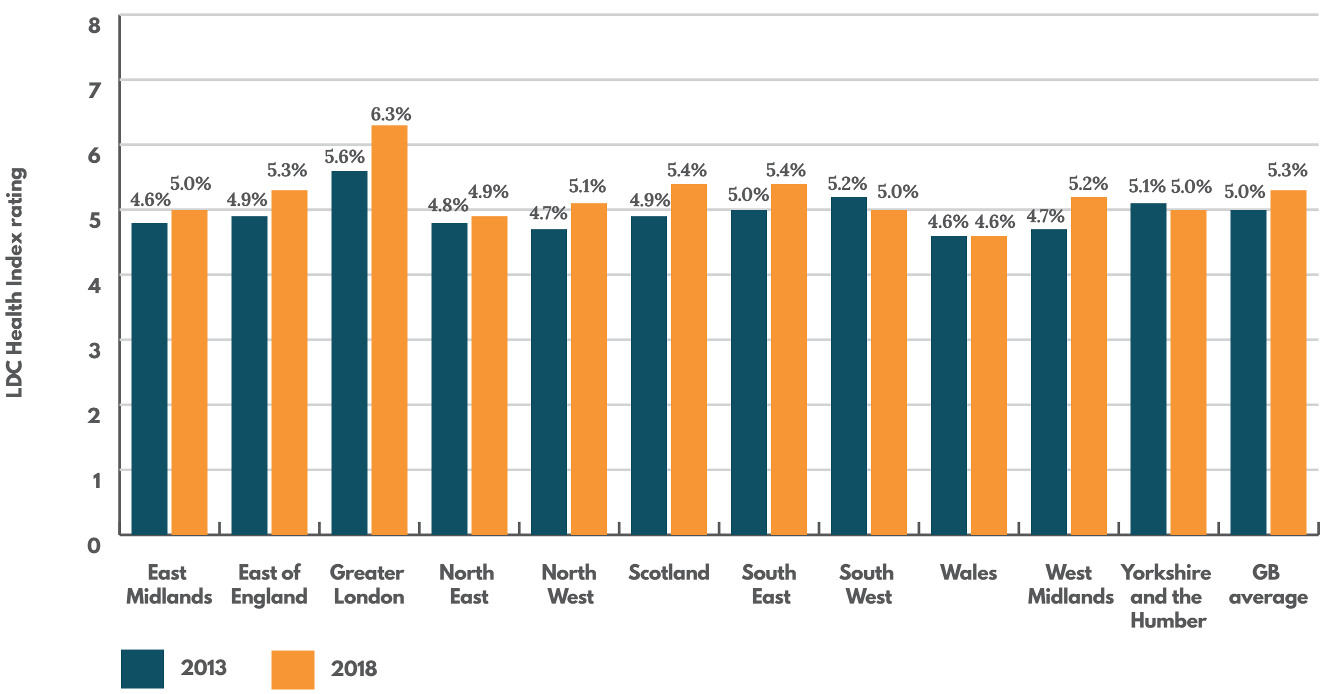

Figure 19: Five-year change in LDC Health Index scores across GB regions and nations between 2013 and 2018 (Source: LDC)

Knightsbridge saw the biggest improvement in LDC Health index score in 2017, rising by 10 points. Other towns that saw an increase in their Health Index score included Malton, St. Leonards and Letchworth. The majority of the top 10 performing high streets were medium sized high streets (200 to 399 units), with only Islington, Knightsbridge and Barnsley (all large high streets) areas that were outside of this category. This is evidence of the challenge larger locations face in improving their town centres. Malton and Barnsley's improvement was driven by a falling number of vacant units across the respective town centres, with the biggest increase in service and convenience retail in these town centres.

Image source: Shutterstock

Most improved high streets by LDC Health Index score - 2016 to 2017 change

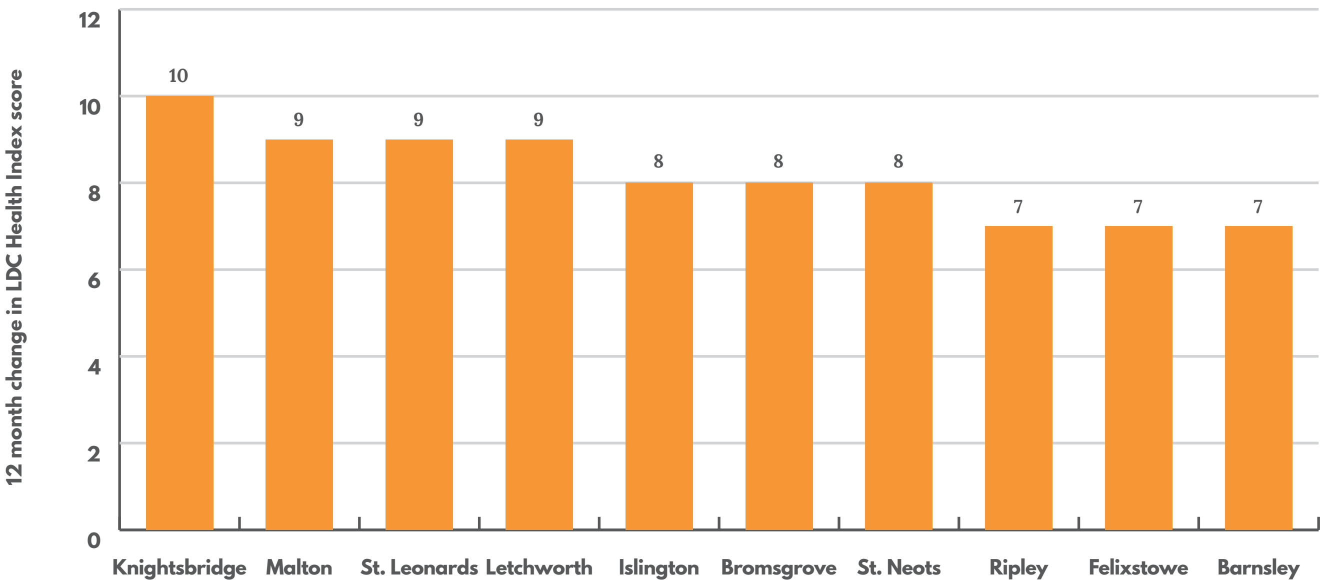

Figure 20: Most improved high street locations in 2017 benchmarked against 2016 across GB (Source: LDC)

County Walk Shopping Centre in Taunton had the biggest improvement in its Health Index score in 2017, with its score rising from -24 to 6, resulting in a health index rise from a 2/10 to a 5/10 with the addition of Subway and Savers in 2017 making the small shopping centre (11 units) fully let. The Spires Shopping Centre and Park Mall have also benefited from becoming 100% occupied in 2017, with the addition of new retail tenants in the previously vacant units. With vacancy rates being a key variable in the Health Index, this was the biggest driver in performance across the most improved shopping centres.

The most improved retail park was Lime Square in Manchester, with vacancy rates dropping by nearly half from 11.8% to 5.9%. New openings included Mattressman and Mencap, as well as an independent pizzeria (Broccoli Pizza & Pasta). The retail park did however lose a Peacocks store and this unit is still vacant. Clough Road Retail Park in Hull has welcomed Halfords and Office Outlet in recent years, while Fossetts Way Retail Park in Southend-on-Sea welcomed Wren Kitchens at the start of 2017 after they took over a former Comet unit that had been vacant for four years.

Most improved shopping centre by LDC Health Index score - 2016 to 2017 change

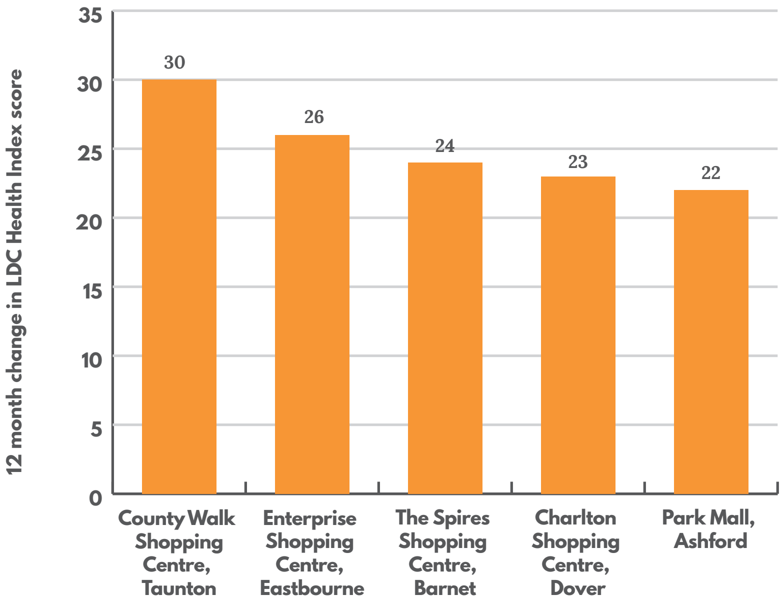

Figure 21: Most improved shopping centre locations in 2017 benchmarked against 2016 across GB (Source: LDC)

Most improved retail park by LDC Health Index score - 2016 to 2017 change

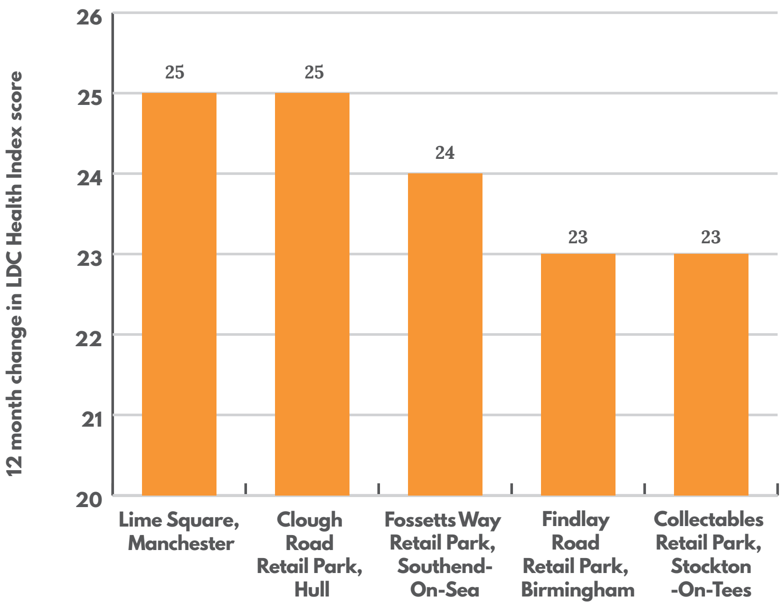

Figure 22: Most improved retail park locations in 2017 benchmarked against 2016 across GB (Source: LDC)

Dragon's Den
– GB's most entrepreneurial towns

Image source: Shutterstock

LDC tracks over 300,000 independent shops across GB and this data enables us to understand how local traders are faring across the 1,300 towns we visit. Data on independent openings has been used to understand which towns have the largest number of new starters or entrepreneurs who are trying to make their retail or leisure offer thrive in their local community. This is important with the consolidation of national chains nationwide - local traders are presented with an opportunity to fill any gaps left in their local communities.

Tooting saw the largest increase in independent shops across GB, with the total number rising by 42 in 2017. Aberdeen, Liverpool and Newcastle Upon Tyne were some of the largest towns in the top 10 for increases in independent businesses.

Most entrepreneurial towns across GB by net change in independent businesses

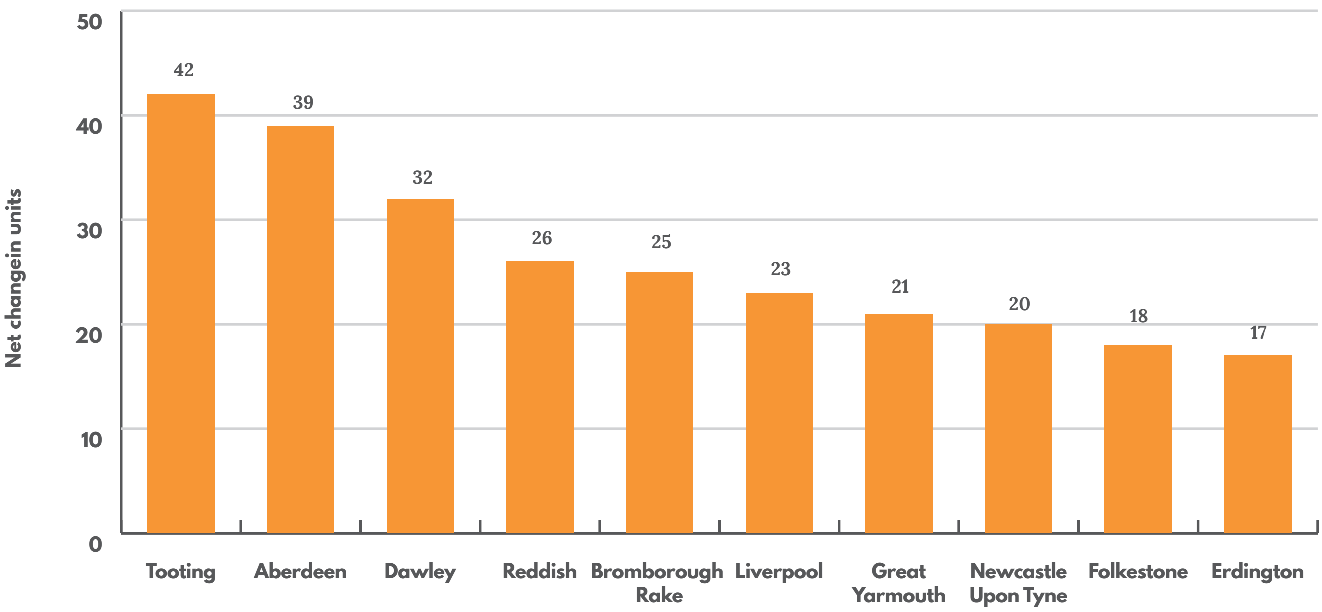

Figure 23: Most entrepreneurial towns across GB by their net change in independents in 2017 (Source: LDC)

Largest percentage of independents - Large town centres

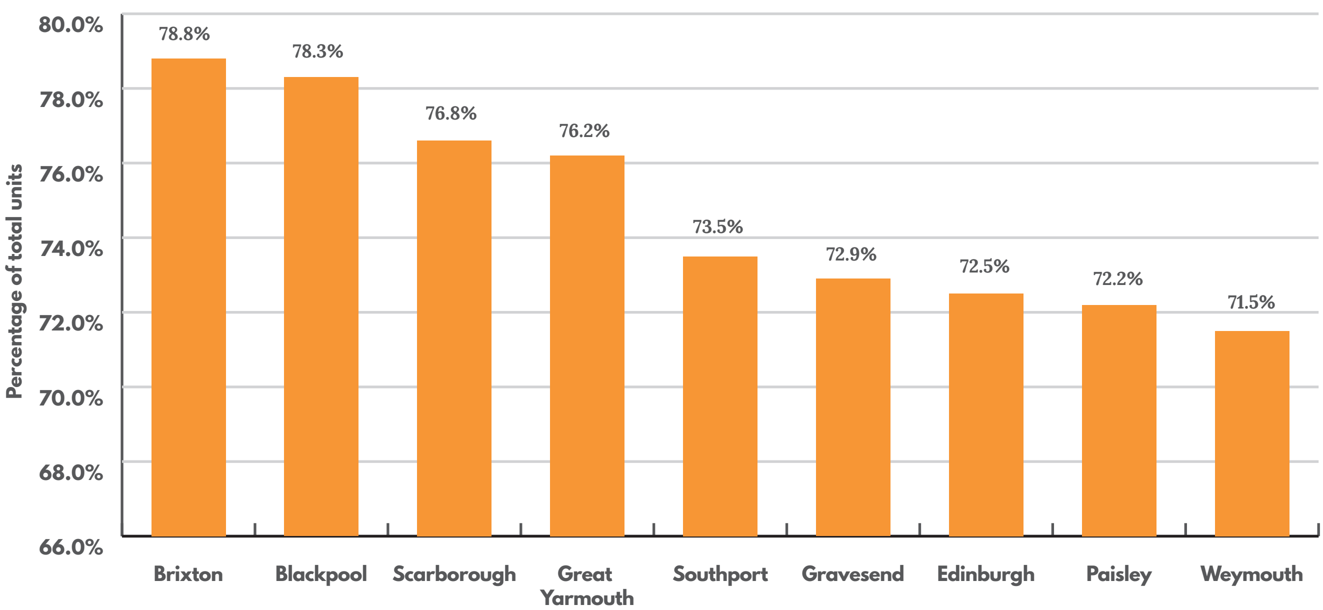

Figure 24: Large town centres (400+ units) with the largest percentage of independent businesses in 2017 (Source: LDC)

Brixton has the largest number of independent shops amongst the largest town centres (towns with more than 400 units). The top 10 independent towns list is dominated by seaside locations, with Blackpool, Scarborough, Great Yarmouth and Weymouth amongst the top 10. Market towns often have a larger percentage of independent traders, due to a presence of pop-up markets and the seasonal trade from tourists coming to the coast, which may not suit national chains (multiples) who tend to prefer consistent trade throughout the year due to their higher operational and fixed costs.

Brixton market. Image source: Shutterstock

Largest percentage of independents - Medium town centres

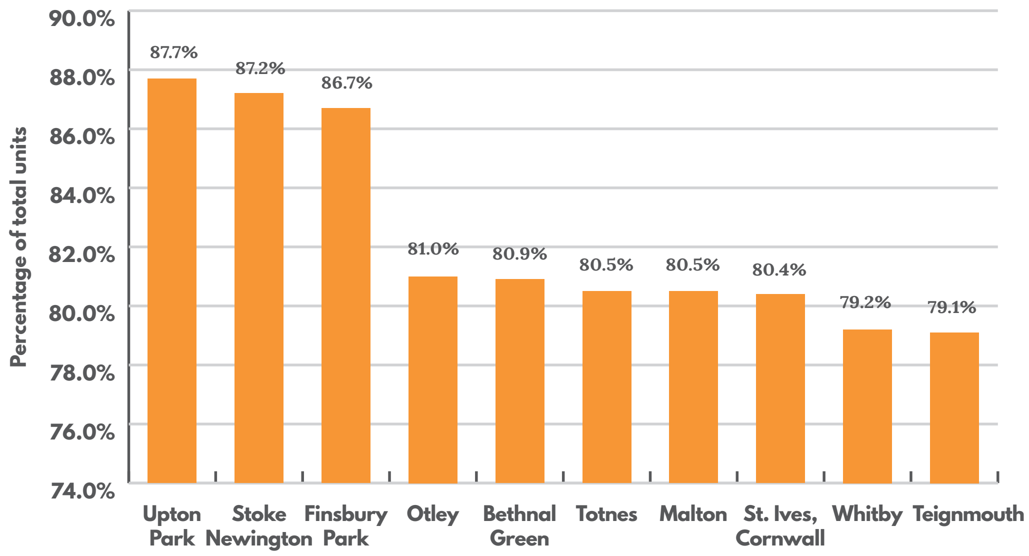

Figure 25: Medium town centres (200 to 400 units) with the largest percentage of independent businesses in 2017 (Source: LDC)

Largest percentage of independents - Small town centres

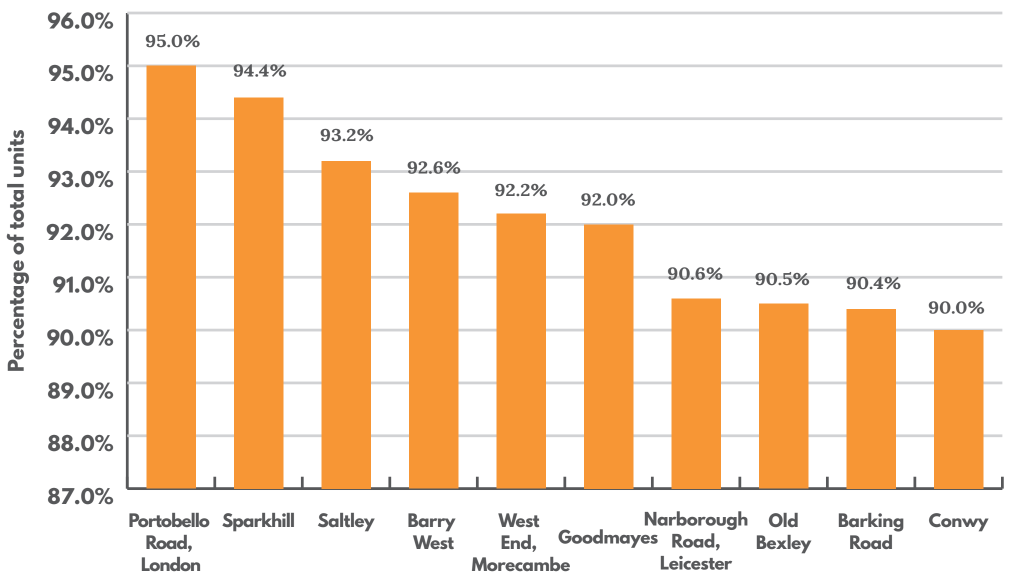

Figure 26: Small town centres (Less than 200 units) with the largest percentage of independent businesses in 2017 (Source: LDC)

London suburbs dominate the top 10 ranking for independent shops amongst the medium town centres (towns with 200 to 400 units). Upton Park (87.7%), Stoke Newington (87.2%) and Finsbury Park (86.7%) are the top three medium sized towns in terms of the percentage of independent towns. Bethnal Green also appears in the top 10, with all these suburbs located in North and East London in close proximity to major shopping centres (Westfield Stratford and The Mall at Walthamstow). Therefore, a strong independent presence will complement these large schemes who are more likely to accommodate the national chains.

Portobello Road in London has the largest percentage of independent shops across small sized towns (under 200 units), with 95% of the total units classified as independent. Overall, the small town centres have the largest percentage of independent shops with an average of 68% of total units, compared to a 65% average across GB.

Constant evolution: New location type openings

As retailers and leisure occupiers grow their retail footprint and look to grow into new channels and customer segments, a popular rationale is to try different location types and formats. In recent years this has been most evident in the retail park sector, with a host of clothing, footwear, health and beauty and discount stores, who traditionally have been located on high streets setting up shop in this location type. A report by GlobalData highlights this, with retail parks set to grow by 13.3% between 2017 and 2022, outperforming the high street (Source: GlobalData, 2013). The promise of a new customer type and meeting the changing demands of current customers through providing for multiple shopper missions in one location are part of the reasons this shift is taking place. 2017 was no different with a few of the different retail openings listed below.

Roman opened its first retail park unit in Peterborough, with the value women's fashion retailer having over 120 stores across GB already. With over 80% of these in shopping centres, the retailer opted to enter the retail park market and they opened on Peterborough One retail park. Roman has no store in Peterborough centre but does have a concession within the Beales department store.

However, not all new openings have been confined to retail parks, with Outfit opening their first high street unit in Newcastle Upon Tyne, moving away from their out of town strategy. Outfit opened in the old BHS unit in the town centre, with the new store housing a Dorothy Perkins, Evans, Burton Menswear and Wallis concession. The group have not closed any of their other stores in the town yet, but Wallis did close down their Debenhams concession in 2016. This move comes as good news for landlords and high street retailers across GB, with the likely closure of Debenhams and House of Fraser units due to their recent troubles and CVA activity, Outfit may be interested in acquiring these slightly larger units when they become vacant.

Image source: LDC

Costa coffee, Citheroe. Image source: LDC

Starbucks Coffee have opened their first Central London drive-thru at the Gateway Retail Park in 2018, emphasising their continued commitment to expanding their drive-thru offer. Drive-thru openings increased in 2017, with Greggs, Costa Coffee and Starbucks Coffee just some of the national chains who have adopted this strategy. Drive-thrus also appeal to landlords, with the extra value optimised from a drive-thru with capital expenditure costs for the build low and no need for extensive planning permission.

> “
>
> Drive- thrus appeal to landlords, with the extra value optimised from a drive-thru with capital expenditure costs for the build low and no need for extensive planning permission.

Fever Bars has acquired a former JD Weatherspoon pub and converted it into a club under their brand in Newport, Isle of Wight. Pubs across GB have seen a decline in foot traffic, with the sector one of the fastest declining categories over the last five years alongside fashion shops and banks. Many pubs have been shut down and have been developed into convenience stores, night clubs or even into residential units. The demise of pubs has come about for a variety of reasons including tax hikes, the smoking ban, cheaper alternatives such as bargain wine and spirit shops and Big 4 supermarket deals on alcohol.

Fever, Newport. Image source: LDC

Guest Feature

How digital activity turns online conversations into offline sales

By Polly Barnfield

Maybe*

The #WDYT (What do you think?) campaign helps retailers, towns, and cities to collaboratively improve their digital influence, which increases local footfall and sales.

The platform, launched in collaboration with GFirst LEP and the Future High Street Forum, enables retailers to increase their digital influence by sharing new products, events, and news daily on social media using the #WDYT hashtag, which amplifies their posts to thousands of shoppers. The voice of the customer is harnessed and turned into an asset for the place or business.

The campaign encourages and supports digital conversations with shoppers, retailers, towns, and cities, and is a proven way for places of all shapes and sizes to collaboratively increase their digital influence to drive an increase in digital skills, local footfall and sales. This approach has increased digital conversion rates by more than 2% and physical footfall by over 20%.

Powered by Maybe*, the platform measures the digital output of 150,000 physical addresses on Twitter, Facebook and Instagram taking into account audience size, message volume and engagement. This is then linked to over 1,300 towns and cities to produce a UK wide ranking. Every retailer in the UK is tracked every day enabling a robust comparison across all retailers and locations.

The ability to measure digital output by place has enabled both the impact of digital campaigns to be quantified and, importantly, has linked it with key physical data points; footfall and sales. Participating towns and cities receive the digital ranking for each of their retailers breaking down what is driving digital influence and how to improve it. The ability to rank retailers has proven to promote action and engagement in the campaign activity and skill training.

This comes at a time when we are seeing an ever-increasing link between digital activity and physical footfall. Deloitte research shows that 37% of all on and offline retail sales are influenced by digital today and this

UK Digital Influence Index

Rank	Town	Change
1	London	–
2	Nottingham	+8
3	Edinburgh	+3
4	Bristol	+1
5	Manchester	-1
6	Glasgow	-4
7	Leeds	–
8	York	+3
9	Cheltenham	+14
10	Birmingham	-2

number is projected to accelerate to over 50% by 2020. Despite this, our index reveals that up to 74% of retailers have no social media presence and around 40% do not even have a website. Shoppers increasingly start their journey online so it's imperative that retail destinations and businesses of all sizes become more proactive on social media. That is frequently the start of their digital journey.

Towns and retailers that engage in the #WDYT campaign have seen a rapid and significant increase in digital influence and output. This has proven to be a catalyst that encourages retailers to accelerate their digital strategy and uptake. To illustrate, Stafford has moved up a total of 100 places in the Digital Influence Index within a year of joining the #WDYT campaign to reach number 20. Footfall in the town has increased 22% over the same period.

Gloucester is holding its position at number 12 in the index. The number of retail businesses in the city using social media has risen by 220% since early 2017 driven by the #WDYT campaign. Cheltenham at number 9 in the index has moved up 14 places within a year. It is currently the leading town in the UK for Digital Influence and is catching up with the seven larger cities above it including Edinburgh (3rd), Bristol (4th) and Manchester (7th). The data from the index shows that almost 600 retailers in Cheltenham are now active on social media following the town's launch of the #WDYT campaign in February last year.

A #WDYT Chatbot also helped Cheltenham's Brewery Quarter attract more racegoers during the Cheltenham Festival in March. The destination used conversations to tailor and target communications with racegoers, resulting in a year-on-year increase in both footfall and sales.

In contrast, the data from the non-participating towns is clear: those places that do not engage in a #WDYT campaign, at best, will see a slower change in their core data. A stronger interpretation would be those places who do not take part see an overall negative impact.

Places that do not have the skills or ability to engage their customers through digital channels will have less footfall and sales. Customers are on digital whether retailers choose to be or not and retailers need to be where their customers are.

Enabling and encouraging places and retailers to think about serving their customers in new ways is a key part of the evolution of retail destinations. Places that grow their digital influence increase their attractiveness to shoppers. Every town and city across the UK is the sum of its digital parts; it is the collaborative digital output that delivers footfall and sales.

Polly Barnfield OBE
Founder and CEO of Maybe* and the #WDYT campaign

Sectors
The evolution of retail

Openings and closures by classification type

(Comparison Goods Retail, Convenience Retail, Leisure and Service Retail)

In this section, we will look at the 'who' of retail by analysing the subcategories that have seen the most openings in 2017.

2017 was the first year that saw all classification types register a net decline in units across GB, with Comparison Goods Retail continuing to see the biggest fall in overall units with a net loss of 3,057. The loss of service retail units overtook the loss of Convenience Retail in 2017, after a reversal in 2016 saw Service Retail increase by +114 and Convenience Retail drop by -409 units.

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> 2017 was the first year that saw all classification types register a net decline in units across GB.

Net openings and closures by classification type across GB, 2012-2017

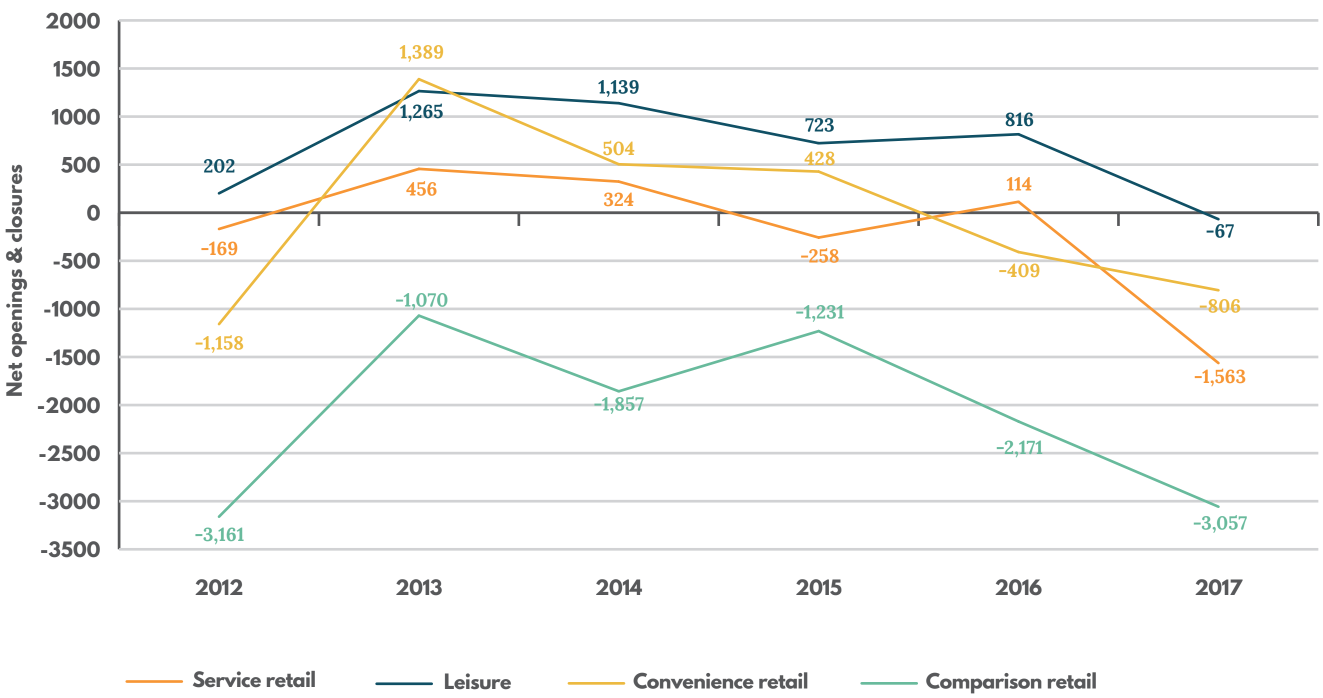


Figure 27: Net openings and closures by category type across GB, 2012 to 2017 (Source: LDC)

Openings and closures by business type

(Independent businesses and multiples)

Overall the net loss of units has increased for both independents and multiples in 2017. Independents saw the overall net change in units enter negative territory for the first time since 2012. Multiples saw a net change in units rise from -2,481 to -4,010, an increase of 1,529 units in the 12-month period (2017). In more positive news, this was a slower rate of decline than between 2015 and 2016 when the decline increased by 1,880 units.

Regional analysis of the percentage change of units, which was used to eliminate the impact of size, shows the West Midlands was the only region to record an increase in either independents or multiples in 2017. The increase in independents was most evidenced in Birmingham, Dawley and Wombourne.

The North West saw no net change in its independent units (0.0%) in 2017, although it saw the 3rd highest fall in multiples in 2017. Overall multiples saw a net loss across all regions, with several multiples consolidating units as well as a slowdown in the growth of F&B chains across GB as the market becomes more saturated.

Openings and closures by business type (2012 to 2017)

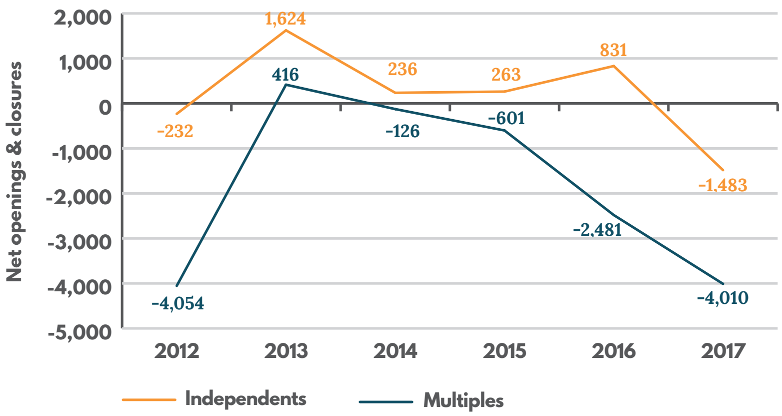


Figure 28: Openings and closures by business type across GB, 2012 to 2017 (Source: LDC)

Regional openings and closures by business types in 2017

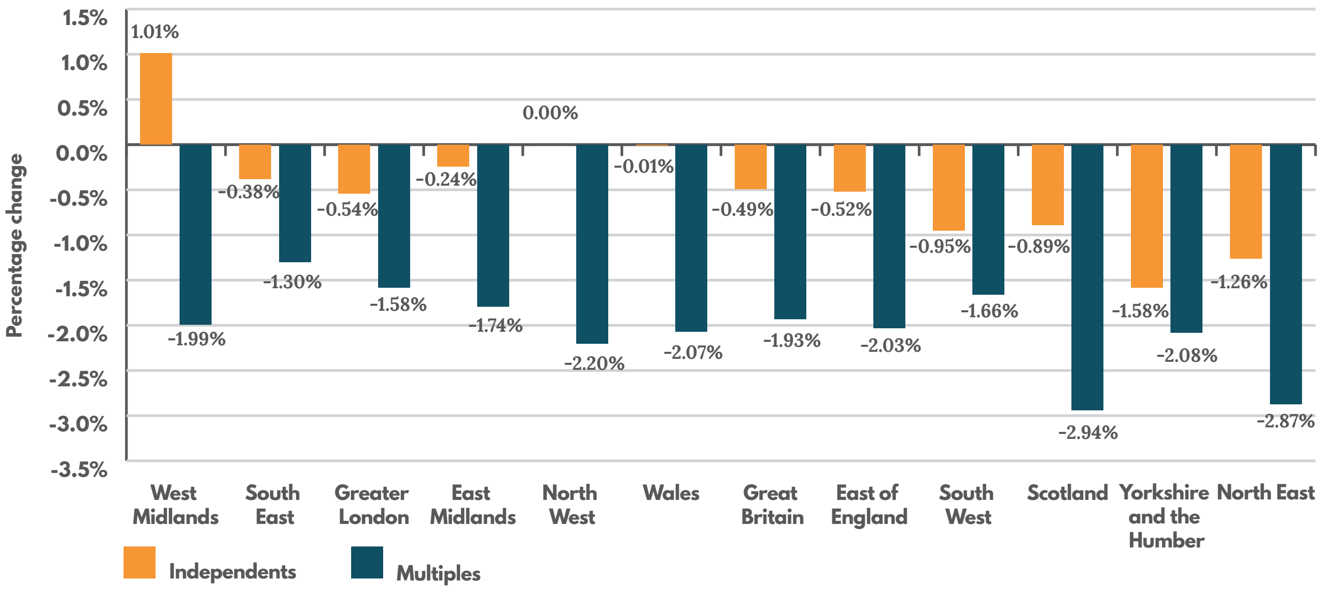


Figure 29: Regional openings and closures by business type across GB in 2017 (Source: LDC)

Openings and closures by retail subcategory

Assessing the opening and closures by category and subcategory we can identify the retail types that are seeing growth as well as the categories that are struggling to cope with the tougher trading conditions.

Of the top categories which opened the most stores over the five-year period, three saw a fall in the number of stores in 2017. These are Charity Shops, Take Away Food Shops and Convenience Stores, with a net decrease of 128, 4 and 305 units respectively. This reveals the volatile nature of the market, with a drastic change in fortunes seen over the space of just a few years.

Growing retail sub-classifications, 2017

Barbers
(624 net openings)

Beauty Salons
(388 net openings)

Tobacconists
(381 net openings)

Cafe & Tearoom
(353 net openings)

Nail Salons
(176 net openings)

Restaurant & Bar
(174 net openings)

Coffee Shops
(158 net openings)

Pizza Takeaway
(145 net openings)

Health Clubs
(100 net openings)

Mobile Phones
(97 net openings)

Bars
(94 net openings)

Chemists / Toiletries
(91 net openings)

Funeral Directors / Monumental Masons
(85 net openings)

Restaurant - Pizzeria
(78 net openings)

Chinese Takeaway
(77 net openings)

Tattooing & Piercing
(77 net openings)

Classification

- Service
- Convenience
- Leisure
- Comparison

Figure 30: Top categories for net openings in 2017 (Source: LDC)

Barbers, Beauty Salons and Café & Tearoom businesses not only rank in the top categories which opened the most stores between 2012 and 2017, but they have seen an increased rate of growth in 2017. All other categories that rank in the top five-year openings saw a slowdown in their rate of growth in 2017.

Growing retail sub-classifications, 2012 - 2017

Barbers
(2,221 net openings)

Tobacconists
(2,092 net openings)

Beauty Salons
(1,766 net openings)

Cafe & Tearoom
(1,542 net openings)

Coffee Shops
(1,253 net openings)

Hair & Beauty Salons
(1,186 net openings)

Charity shops
(1,167 net openings)

Nail Salons
(1,155 net openings)

Takeaway Food Shops
(1,054 net openings)

Restaurant & Bar
(964 net openings)

Pizza Takeaway
(915 net openings)

Convenience Stores
(909 net openings)

Tattooing & Piercing
(786 net openings)

Mobile Phones
(703 net openings)

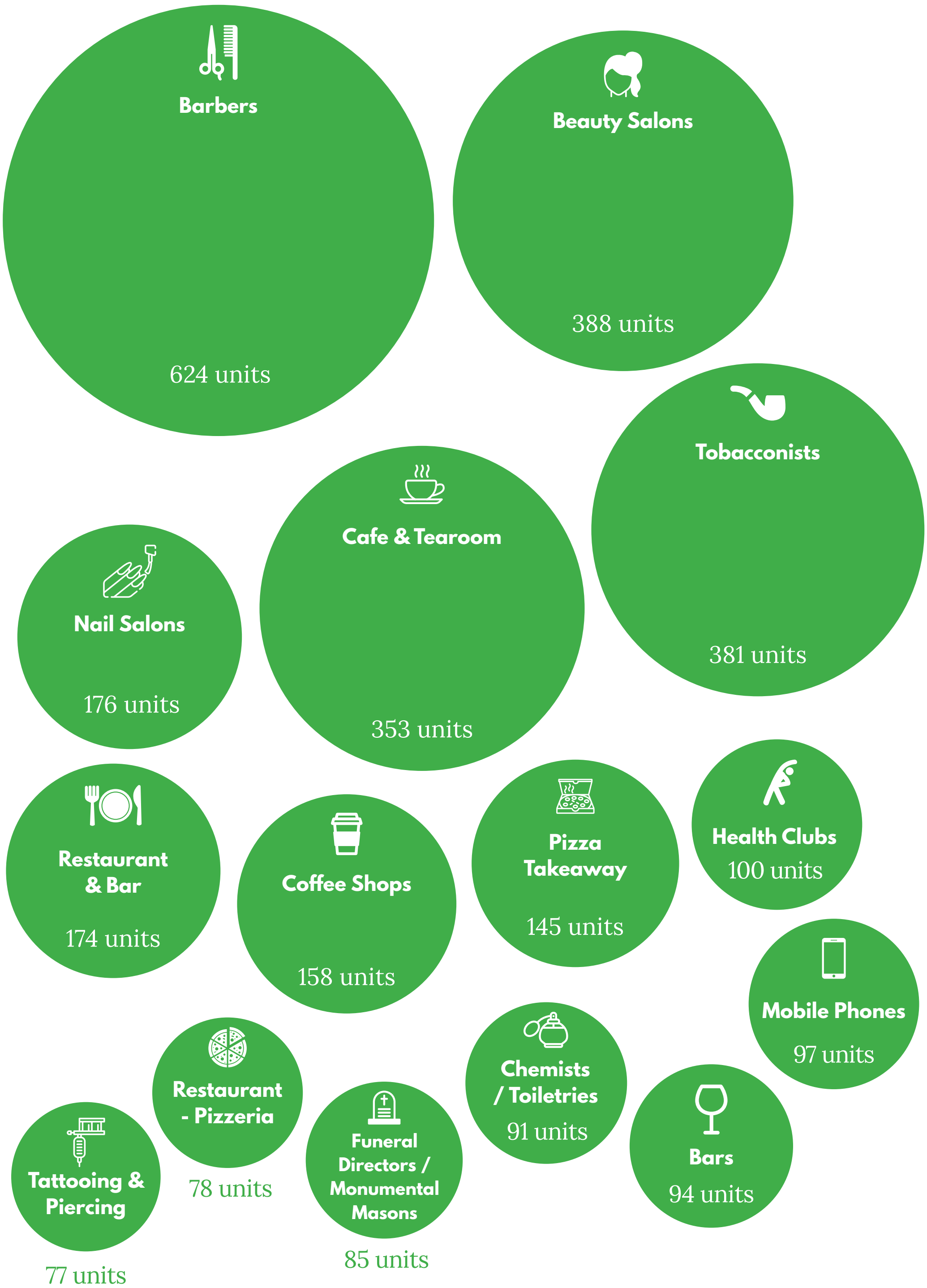
Classification

- Service
- Convenience
- Leisure
- Comparison

Figure 31: Top categories for net openings between 2012 and 2017 (Source: LDC)

Barbers and Beauty salons led the way in 2017, with barbers growing by 624 units in 2017 to claim the top spot from Tobacconists (including vaping stores) who were top in 2016 but have moved down to 3rd. Barbers increased from a net change of +482 units in 2016, with independent openings driving this growth. Beauty salons rose up to 2nd place even though their net change dropped from +435 units in 2016 to +388 in 2017. Tobacconists also saw a decline in 2017 with saturation in certain markets and slower growth from the national chains filtering through into the market. Vaping shops are facing increasing competition from independent convenience stores and newsagents, who have started to offer vaping products in order to differentiate their offer and meet their customers' needs.

Top 15 fastest growing categories across GB in 2017



Tattooing & Piercing

Figure 32: Fastest growing categories across GB in 2017 (Source: LDC)

The category closing the most units across GB in 2017 was Pubs with their continued decline across GB just about beating the closures of Banks. Pubs continue to see churn as consumer trends including going to the pub have changed drastically over the past few years due to discounting in supermarkets encouraging drinking at home, the smoking ban and increasing house prices enticing pub owners to sell pub units to convert into homes.

Travel Agents, Estate Agents, Fashion categories (Fashion shops, Footwear and Women's Clothing) have all been impacted by the rise in online competition. Pure players such as Boohoo, ASOS and Expedia continue to see rising sales as they eat into the market share of the traditional high street businesses. Though it must be noted certain high street fashion brands have strong online offers, such as Next, who saw an 18.1% rise in online sales in Q1 showing the potential for high street brands to capture some market share.

Top 15 declining categories across GB in 2017

Figure 33: Fastest declining categories across GB in 2017 (Source: LDC)

A new entrant in the declining categories is Discount stores.

Poundland in Bury St Edmunds. Image source: Flickr, Martin Pettitt

2017 was a tough year for the leading discount players such as Poundland, Poundworld and Poundstretcher. The supermarkets have seemingly slowed the furious rise of the discounter, making price points more competitive, offering smaller product assortments and focus on convenience every day goods all making them more aligned and in competition with the discount stores. The discount stores have also had to manage rising operational costs with the living wage rising and food costs rising.

2017 vs. 2016: What a difference a year makes

By comparing our results in 2016 to the 2017 net change in units we can assess which categories have seen an increased number of openings or reduction in closures in 2017. Chemists, Toiletries & Health saw the biggest increase in 2017, with a rise in the net change of +292 units. Other notable increases include Groceries, Supermarkets & Food Shops and Household & Home stores who all appeared in the top five. Department stores and Banks overall saw a net decline in units in 2017, but at a much lesser rate than 2016. The administration and closure of BHS stores accounted for a large number of the net closures in 2016 and while 2017 was rather more stable, the start of 2018 has seen several department stores report falling sales and potential store closures. House of Fraser and Debenhams have both gone through CVAs and announced the likelihood that they will have to close stores.

Travel agents saw the biggest year-on-year drop in the number of units that closed, with this rising by +615 in 2017. Bars, Pubs & Clubs and Cafes & Fast Food both appeared in the bottom five for year-on-year net change in units, showing the slowdown in the opening of food and beverage as take away food shops (e.g. EAT), fast food chains (such as Burger King) and Coffee shops (such as Wild Bean Café) opened fewer stores. Even with the reduction year-on-year, the categories did still register overall growth across the market.

Year on year net change in categories - Rising

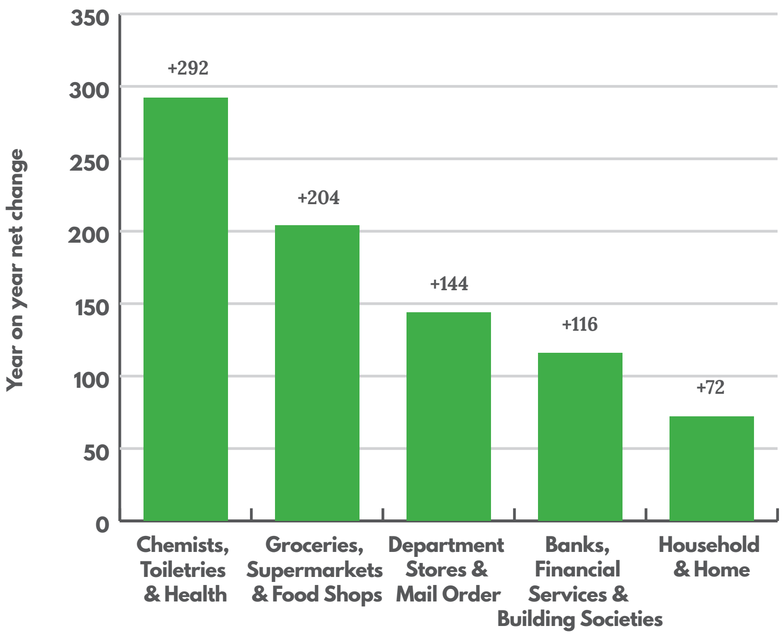


Figure 34: Top 5 rising categories by year-on-year net change in categories (Source: LDC)

Year on year net change in categories - Declining

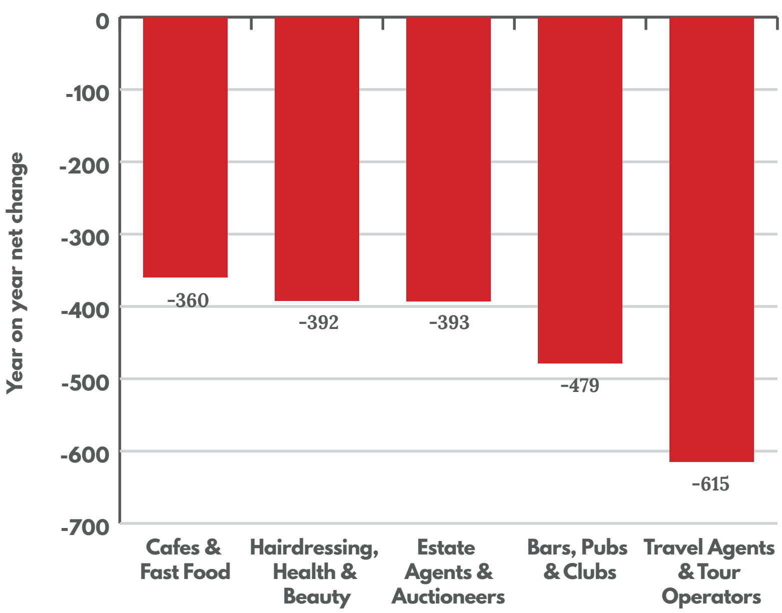


Figure 35: Top 5 declining categories by year-on-year net change in categories (Source: LDC)

Embracing technology in the restaurant sector

Restaurant directors last year injected 49% more money as loans to their businesses (Source: Funding Options 2018) which highlights the tough times for this market. The total value of these loans was £192m, up from £129m a year ago but also twice the amount in 2012/13. Interestingly, the majority of these types of loans were given to small and medium-sized restaurants, suggesting that the smaller restaurants are being stung harder with rising costs and fierce competition.

Deliveroo and UberEats have continued to grow and play a major role in the F&B sector. Some F&B operators such as Wagamama have utilised the tool to ride the wave and expand their offer to new customer segments who may have not visited their stores previously. A widely shared view is that these delivery services are here to stay, and asset managers and developers are starting to incorporate the need for delivery hubs in stores in their asset designs. A major gripe for leisure operators is the impact this service has had on the in-restaurant experience as drivers and patrons congest entry points and the perceived quicker service drivers get than some customers causing complaints. These will be key areas to improve as restaurants generate higher average sale values from in-store customers and large parties than online orders.

Image source: pexels.com

The thirst for something new: Niche subcategories seeing growth

Assessing the growth in some of the smaller categories across GB with less than 100 units across the country we can pick out any underlying trends and emerging patterns from the smaller, more niche categories within retail and leisure. The fastest growing small category (less than 100 units nationwide) was Maternity wear, with a net growth of 11 units in 2017 from 83 units to 94 units (+13.5%). The main growth in this space is being driven by JoJo Maman Bébé who grew their estate to over 80 stores across GB in 2017. Restaurant categories make up a large part of the top 10 fastest growing niche categories, with seven of the top 10 restaurant categories. The fastest growing restaurant category is Jamaican restaurants, with a growth in the nation's love for jerk chicken and plantain evident in the extra 10 units that opened in 2017, with this representing a 34% rise.

Image source : Ivana Cajina / Unsplash.com

> "The fastest growing restaurant category is Jamaican restaurants, with a growth in the nation's love for jerk chicken and plantain...

Niche categories (under 100 units across GB) growth rates in 2017

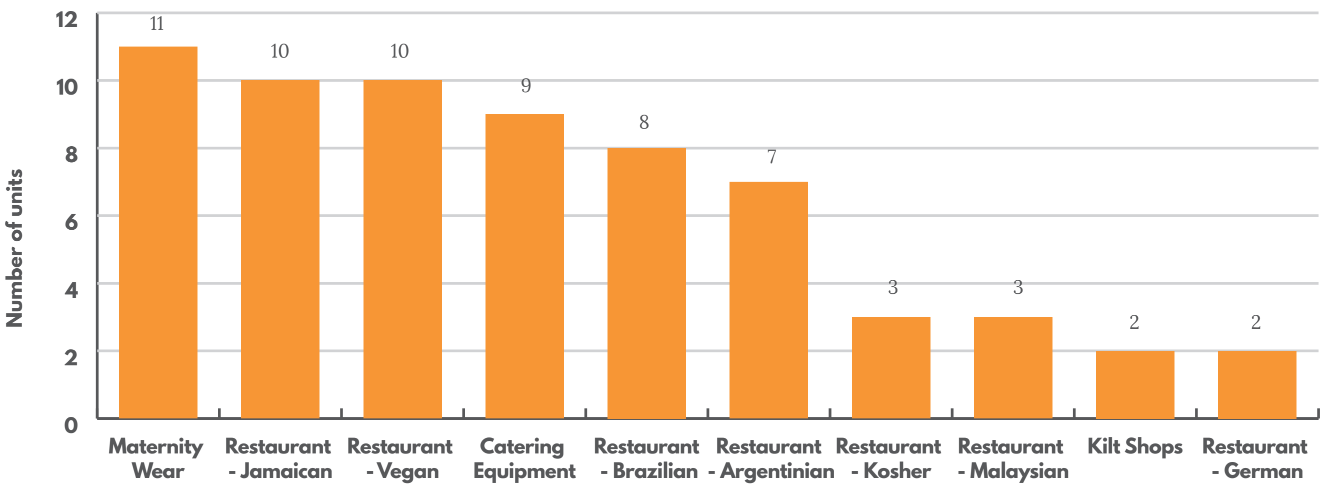


Figure 36: Net change in units within the niche categories (under 100 units) across GB in 2017 (Source: LDC)

Image source : Edgar Castrejon / Unsplash.com

Vegan restaurants have seen a rise in recent years, with more and more of the population deciding to adopt this lifestyle due to the health benefits and the objection to the use of animals as a commodity. This growth has also seen chains embrace this in their menu offerings with various restaurants having a vegan and gluten free options, while Pret opened a permanent Veggie Pret after the success of their one-month trial in Soho. Currently, Pret have three of these stores across London, with the concept set to grow further in 2018. However, interestingly vegetarian restaurants have seen a reversal of fortunes and saw a net decline of -70% in 2017 as veganism is deemed a more fashionable lifestyle choice. With the increased levels of awareness for our health and general wellbeing, these concept stores are likely to continue to grow with new players expected in the F&B sector in 2018 and beyond.

Restaurant - Vegan vs. Vegetarian

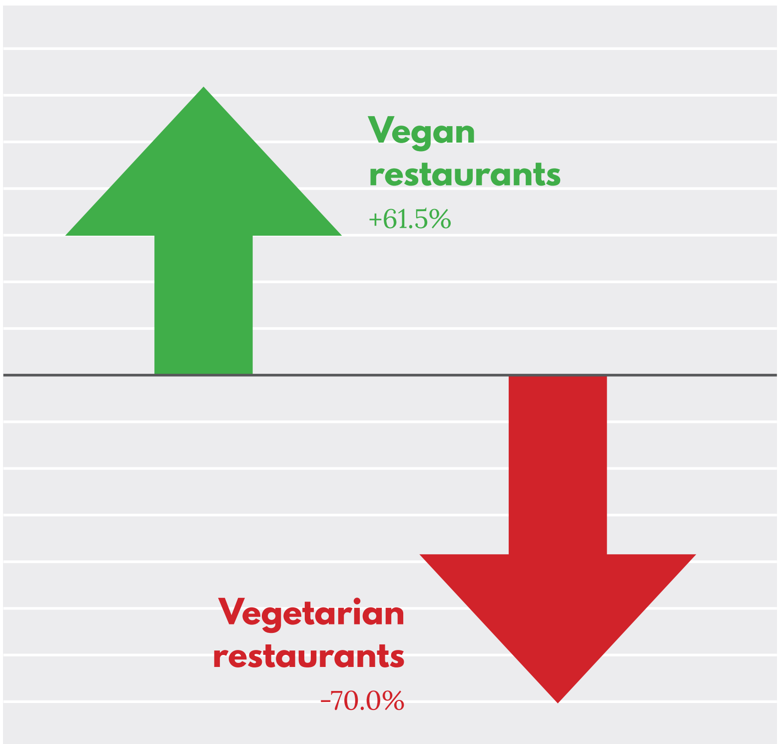


Figure 37: Vegan vs. Vegetarian percentage net change in units across GB in 2017 (Source: LDC)

Guest Feature

Why the high street will win

By Nick Brackenbury, CEO and co-Founder, NearSt

Today the world is awash with stories about the struggle in retail. How a perfect storm of price pressures from online, same day delivery, decreased footfall and increased rents are making doing business on the high street near impossible. I think we are on the cusp of a revolution though. One where the pendulum hurtles back towards high street retailers. Here's why, and what I think this vibrant future will look like.

In the latest edition of his book, Smart Retail, Richard Hammond talks about a simple but highly compelling concept of "Friction vs Reward". It's a rapid mental process we all go through when deciding whether and where to buy something.

It goes like this: sum all of the positive rewards (low prices, speedy fulfilment, quality service), then subtract all the negative frictions (poor user experience, lack of availability, inconvenient opening hours) associated with making a purchase. The retailer who has scored highest in the shopper's subconscious calculation wins and makes the sale. Simple.

It's so intuitive and paints a crystal clear picture of why the high street is struggling to compete with online. We live our lives through our smartphones and expect them to know everything. If they don't know something almost instantly, we perceive it as a major friction.

Try tapping the name of a product into your phone's search bar. See if you can spot any results that are immediately and intuitively stocked in a shop near you now. Likely....zero. Now how many are immediately and intuitively available for delivery within a day or two online? Dozens, if not hundreds.

The online world has become staggeringly good at lowering friction, making high street shopping by comparison seem very high friction. Even if the product you want is stocked on a shop shelf just outside your office, if your phone doesn't know this, it might as well not be there.

But what if it did know this?

What if a shopper's phone knew the location of every product, in every shop, on every high street? What if when you searched for the product above, your phone showed you that it was available in the shop across the road, wherever you happen to be looking?

Let's take it further

What if your favourite on-demand restaurant delivery service could plug local inventory data into their app? Ramen from Wagamama, a box of craft ales and wine from Waitrose, and a pack of Alka-Seltzer from Boots.

What if your to-do list app knew what's in-stock nearby, and alerted you when you're nearby a shop stocking that makeup brand you've been meaning to try out?

What if your business listing pages on Google, Yelp, and Foursquare all included as standard the ability to search and buy from in-store stock in real-time?

For the past three years at NearSt we've been building the knowledge to make this possible using our NearLIVE technology, Today it knows where over 1.5 million products are in high street shops in near real-time, and we're already feeding this data directly into search on shoppers' phones.

If you look for a product and are close to a store that stocks it, you can see it's there and how far away it is natively in the results.

Retail might be built on legacy in-store systems that can seem incompatible with the demands of the modern web, but that's changing. The exponential growth of possibilities powered by software and machine learning has made extracting the data of what's inside stores, standardising it at a massive scale, and exposing it in a simple way to shoppers a viable task. More simply, it places incredible low friction experiences unimaginable just a few years ago within reach.

We're surfacing a modest 1.5m products from London shops today but imagine a world where every product in every shop on every high street is in this data set. Every time you need something, if it's stocked nearby, your phone will know.

That is a low friction experience.

These ideas might seem distant today, but we're racing towards a world where in-store inventory data is universally available. Within two years I am convinced that this information will become a standard feature in all our lives. We'll wonder how we got by in 2018 when our phones didn't know where anything was available nearby.

Image source: Near St

Better still, we'll start to see apps, sites, and services built on top of this data that we can't yet imagine. Innovators using the knowledge of where every single product is to build incredible customer experiences that remove the frictions of shopping locally and enhance the rewards.

This brings me back to Richard Hammond's concept of Friction vs Reward. Think what it would mean for high street retailers if every site, app and service you use today intuitively connected to anything stocked nearby.

For myself and all of us at NearSt, it paints a picture of a vibrant retail future. One where people don't go out to "save" or "support" their high streets, but because they are intuitively the easiest places to get the majority of our purchases.

It's a bright future, and it's nearer than most of us realise.

By Nick Brackenbury
CEO and co-Founder, NearSt

Brands
The changing face of our high street

In this section we review the top five brands in terms of numbers of openings in 2017 for each classification. We also review the brands that have moved from independent to multiple status (classified by more than five stores nationally) and which international fasciae have opened their first GB stores in 2017. Finally, we look at merger activity for 2017 and the potential impact on the future of retail.

Top openings by fascia

Contrary to the frequent headlines around the demise of certain types of retail, there are brands which appear in the top openings for the umbrella classifications that belong to these declining categories. An example of this is Betfred, which opened more stores than any other brand in 2017 – even though 'Bookmakers' as a category overall is in strong decline. Similarly, Hunters Estate Agents have made the top five growing brands in the Service Retail classification, even though there has been a net decline in Estate Agents across all regions. This proves that even in the most challenging sub-sectors of the market, green shoots can be seen and retailers are finding opportunity.

Hunters in Beverly. Image source: LDC

Fascia	Units Net Change (2017)
LloydsPharmacy	116
Toolstation	37
Screwfix	36
Max Spielmann	34
The Works	33

Figure 38: Top 5 openings by fascia in 2017 (Comparison Goods Retail)

Fascia	Units Net Change (2017)
Betfred	135
Subway	62
Domino's	61
Costa Coffee	56
Hungry Horse	39

Figure 39: Top 5 openings by fascia in 2017 (Leisure)

Fascia	Units Net Change (2017)
Co-op Funeralcare	59
Better the feel good place	33
Vets4Pets Putting your pet first	32
Hunters Here to get you there	24
Anytime Fitness	19

Figure 40: Top 5 openings by fascia in 2017 (Service Retail)

Fascia	Units Net Change (2017)
Greggs	51
golocalextra	49
one stop	35
McColl's	35
Card Factory	34

Figure 41: Top 5 openings by fascia in 2017 (Convenience Retail)

Pinkberry store on Upper Street, London

Image source: LDC

Other interesting growth stories outside the top five lists (shown on the previous page) are Habitat and Pinkberry.

Although Habitat went into administration seven years ago, the homewares retailer is making a strong comeback. Habitat was sold to the Home Retail Group (the previous owners of the likes of Argos) back in 2011. However, the company is now under the ownership of supermarket giant Sainsbury's, who bought the Home Retail Group as part of a £1.4 billion acquisition. Habitat's location strategy has since focused on creating concession stores called Mini Habitat within the group's other fasciae.

In 2017, frozen yoghurt specialists, Pinkberry, opened in Westfield Stratford City shopping centre – creating its second GB premises after the initial store opened on Upper Street in Angel, London. Since then, another store has opened - this time in Westfield London as part of expansion plans revealed in early 2018. Pinkberry currently has over 260 stores in 20 countries, so we can be sure to expect more from these frozen dessert gurus in years to come.

Branching out: Brands that are moving from independent to multiple

Since 2013, Burger Craft have opened stores all around London. The first restaurant opened in Paddington, and they are now present in Waterloo, Victoria, Battersea and Euston.

Stew & Oyster is a Yorkshire-based chain which offers a variety of alcohol as well as food. In 2017, it opened its fifth restaurant (and the first one located outside Leeds) in Sheffield.

Buca di Pizza was launched in 2014 and has since opened restaurants in Leeds, Chapel Allerton, Manchester, Beverley and Hull.

Flat Iron Steak has five restaurants dotted around London. Two are located in Soho, one in Covent Garden, one in Shoreditch and another in West London.

Welcome to the UK! International brands opening

US Asian themed restaurant chain, P. F. Chang's, opened its first European restaurant in Covent Garden in 2017. The brand hopes to open another nine locations in London in the next three years, before it considers opening in other UK cities.

International hotel chain Nobu Hotel opened its first UK standalone hotel in London's Shoreditch in June 2017.

In September 2017, French sound systems company, Devialet, opened its first UK store in the Royal Exchange shopping centre. Three months later it opened another store in Canary Wharf as part of its rapid UK expansion plans.

H&M's Weekday fascia made its UK debut on London's Regent Street in summer 2017. Two months later it opened its second store in Westfield's Stratford City shopping centre.

Austrian glassmaker, Riedel, opened its first UK store in 2017 on Trentham Estate, a leisure and shopping complex in Stoke-on-Trent. Trentham Estate recently benefitted from a £100m redevelopment, which includes plans for a vineyard and winery – giving Riedel additional opportunities regarding experiential retail. Although they have not launched any other UK stores since, the company has said that it would consider rolling out the concept to other locations in the UK if this one is successful.

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Italian lifestyle brand, Paul & Shark, opened its first UK flagship at St James's Market on Regent Street in London in 2017.

August 2017 saw the first UK store opening of American Nike-owned brand, Converse, at London Designer Outlet in Wembley.

Australian fashion retailer, Colette by Colette Hayman, made its UK debut with a flagship store in Westfield Stratford City shopping centre as well as a second store at the Manchester Arndale Centre. Graham Barr at CBRE, who secured the flagship store on behalf of Colette by Colette Hayman, said "Their arrival is a vote of confidence for the retail sector and demonstrates that the UK remains an important market for international brands to be present in".

Interior and furniture brand, Silvera, opened its first international premises in London due to its "thriving design scene" and "proximity to Paris via the Eurostar".

Polish fashion retailer, Reserved, opened its first store on the UK high street supported by supermodel Kate Moss in summer 2017. The store opened in the old BHS unit located on Oxford Street.

Swedish children's clothing store, Newbie, opened in Richmond and Kingston in late 2017. Since then, Newbie has opened two more stores in Bluewater and Westfield London.

Better together? Mergers and acquisitions

In recent years there has been a wave of mergers and acquisitions activity across the retail sector. Due to the challenge of obtaining organic store growth in some saturated markets and the increase in the cost of sales (raw materials), these deals have become more and more attractive. A key appeal of these deals has been the expected cost savings and increased buyer power these new, merged companies would have. Here is a review of some of the deals in the last few years.

Bunnings / Homebase

In February 2016, home improvement retailer and garden centre chain, Homebase, was acquired by Bunnings Warehouse's parent company Wesfarmers for £340 million. Homebase stores will disappear from the GB market as a result and will be rebranded as Bunnings Warehouse. Home Retail Group sold off Homebase to the Australian group after shareholders voted 99.3% in favour of the move. However, the merger has since gone sour with Westfarmers (Owners of Bunnings) admitting defeat in the acquisition in February as they put a A$1 billion (Australian dollar) write-down on the business. The group blamed poor decision making in the execution leading to falling sales and a loss of management knowledge of the UK market for the failure. Wesfarmers have since sold the business on for £1 to turnaround specialists, Hilco, who won the Turnaround of the Decade award for their revival of HMV.

Sainsbury's / Argos

Sainsbury's £1.4 billion acquisition of Argos' parent company, Home Retail Group, was completed in September 2016. The combination of Sainsbury's and Home Retail Group created one of the UK's largest food and non-food retailers, with fasciae including Sainsbury's, Argos and Habitat.

McColl's / Co-op

The Co-op Group sold 298 of its food stores to convenience chain McColl's in December 2016. The deal was worth £117 million and is part of the Co-op's refocussed strategy for its store estate. McColl's began to integrate the stores into its network in January and all conversions were completed by August 2017. The purchase meant McColl's now has over 1,200 convenience stores across the UK.

Co-op / Nisa

The Competition and Markets Authority (CMA) approved The Co-operative Group's £137.5 million acquisition of Nisa Retail in April 2018. The CMA ruled that "there is sufficient competition in both the wholesale and retail sectors to ensure that shoppers are not worse off". The watchdog also stated that the wholesaler and retailer were not direct competitors. Once finalised, the acquisition will give the Co-op access to a further 850 stores.

Tesco / Booker

Tesco completed its £3.7 billion takeover of Booker in March 2018. The result is the combination of Britain's largest retailer and wholesaler. Booker Group also own the Budgens, Londis and Premier Stores brands, which operate under franchises.

Sainsbury's / Asda

A merger between Sainsbury's and Asda, the second and third largest fasciae in the grocery sector, was announced in April 2018. The Competition and Markets Authority (CMA) has said that it is likely to review the merger, so it is not definitely going to proceed just yet. A merger between the supermarket retailers will help protect them from the rise of the discounters, Aldi and Lidl, as well as Amazon's impending venture into grocery deliveries. Although the two retailers are deemed competition, they can also be seen as complementary; Sainsbury's stores are more present in London and the south of GB whereas Asda is concentrated more in the north.

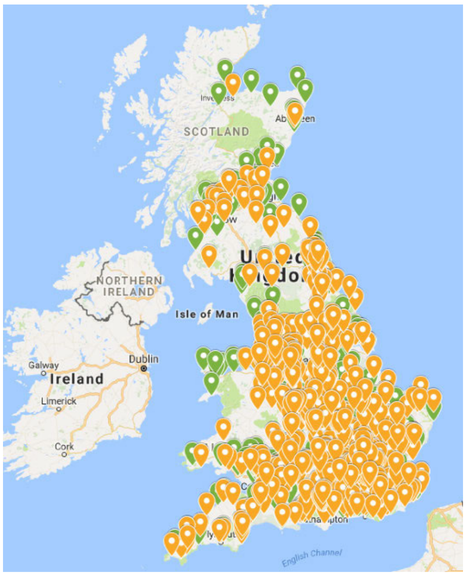

Figure 42: Map of Sainsbury's and ASDA estate across GB (excluding NI) as of May 2018 (Source: LDC)

(excludes ASDA Living, George ASDA and Argos)

The challenges Poundworld and Bunnings Warehouse have faced show the perils of executing these large acquisitions and mergers and indeed, these hugely valuable deals will not guarantee success. With several major mergers on the horizon we will monitor carefully how the new businesses adapt their business models, maximise synergies and continue to grow under under these joint groups.

Conclusion

UK retail has survived stronger headwinds than this in the past. With retailers currently up against it in terms of operational costs, business rates, rents and cost of goods sold, it is important that retailers evaluate their business models to adapt to the changing retail environment of the present and the future consumer needs. Landlords and investors will also need to remain innovative. Taking into account the changing needs of retailers and consumers they will need to look at how they maximise their estates to capture the most value from their assets. Asset management of the future will need to incorporate new methods and approaches, being bold and striving to attract the best occupier for the catchment and schemes. Policy also has a key element to play. Statistics such as “for every £1 a retailer pays in corporation tax, they pay £2.30 in business rates” will need to be addressed if the high streets, shopping centres, transport hubs, leisure centres and retail parks of the future are to survive the current challenges.

Photo source: Pexels.com

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COMMENTARY

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There is a spotlight on the UK retail landscape like never before. The “crisis” on the high streets is making headlines on a daily basis – moreover this has seemingly progressed to an “apocalypse” and “blood bath” in some recent coverage I have seen. With many household names struggling, if not falling casualty of cautious consumer sentiment and the constant pressure to innovate and invest, it’s no wonder there is such a focus on our industry. So, to me, this is what makes LDC’s latest market analysis most interesting – highlighting the activity taking place, beyond the tabloid hyperbole.

To begin with, our latest research shows that vacancy rates across GB have continued to decrease for the last 5 years to H1 2017 – meaning that the level of occupied stock has increased over that time period. However, H2 2017 does mark the first year to see a fall in the level of occupied retail and leisure stock, with a 0.2% increase in GB vacancy.

This increase in GB vacancy is perhaps more marginal than might have been expected given some of the current rhetoric. Example point; our analysis shows that whilst 711 Retail Banks closed in 2017, 624 Barbers opened. Likewise, whilst we lost 349 Estate Agents in 2017, we gained 388 Beauty Salons. Our high streets are undergoing a huge transformation, and whilst this is accelerating, some of these sub-sectors have been quietly acquiring space now for the last 5 years. Since 2012, over 2,000 Barbers have opened up, we have 1,235 more Coffee Shops and another 2,000 Vaping Shops.

Overarchingly, the sub-sectors growing across GB have services or propositions which cannot be replicated online, those which are closing can very readily be replicated digitally. Equally, those corners of retail and leisure performing well are very much experience-led. This again tells us something about changing consumer preferences and habits.

Finally, I can’t help but mention our analysis of Britain’s most ‘Entrepreneurial Towns’ – the winner being my home town of Tooting! This analysis looks at the net change of independent retail and leisure businesses and identifies those locations whereby we have seen the most growth in 2017. Many of these independents may well be the start of new chains coming through and taking advantage of available property and the opportunity to start afresh in consumers’ minds. Indeed, across Greater London, the South East and the South West regions alone, there are over 1,200 F&B operators with between 3 and 8 sites.

There is no denying that retail is going through an unprecedented era of change but as our latest research highlights, it’s crucial to get underneath the overarching trends to understand the detail beneath this, giving us a glimpse of our future high street.

Lucy Stainton
Senior Relationship Manager, The Local Data Company

What are your predictions for the market for the next 12 months, 5 years and 10 years?

FUTURE

Malcolm Watts
Finance Director
- Folli Folli Group

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Most people already have enough 'stuff' and want for nothing, so it becomes more and more important to stay relevant and desirable in the ever increasingly busy marketplace.

Unfortunately CVAs, pre-packs, and administrations will most likely remain common place over the next couple of years as established retailers struggle to tackle legacy estates of old upward only leases in declining locations. New entrants to retail have the advantage of being able to pick and choose prime locations when they become available.
Also, we've seen more foreign retailers finding the UK as an easy market to enter, including Australian stationers and European general stores, this will continue. We have yet to see a huge influx from Asia, but with the growth of Alibaba, I'm sure it's only a matter of time before we see more smaller retail chains coming our way.

And with the looming uncertainty of Brexit and undoubtedly other curved balls to follow, the shaky economy won't do any favours for retailers, so be ready with a plan B.

Barnaby Oswald
Managing Director
– The Local Data Company

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I believe talk of the 'death of the high street' is much overused. The high street has been reinventing itself for over a hundred years and will continue to do so – the challenge today is the ever-increasing volume of data being produced and how to harness it and turn it into easy to understand, actionable insights. This remains LDC's focus, from fast-changing occupancy profiles of locations, to hyper-local footfall trends and the explosion of new brands and categories.

FUTURE

John Michell
Head of Retail
- M J Mapp

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The retail market is constantly changing and evolving as it tries to react to consumer needs, reducing margins and the impact of ecommerce. It's hard enough predicting what will happen next week let alone how the market will change over the medium to long term!

One thing seems certain at the moment. Retailers who are complacent are doomed. The recent demise of Toys R Us and Maplin tells us that retailers must proactively devise ways to enhance customer experience through great customer service and product innovation.

There has been a good deal in the press about the effect of the 'B' word on the market, particularly the struggling F&B sector. Uncertainty around what Brexit will actually mean as we approach 2019, in terms of restricting availability of staff and damping down demand, has already taken its toll on operators like Byron. We will inevitably see more casualties over the coming months.

Looking further into the future, we cannot ignore the growth of automation in retail. We will see checkout-less stores (Amazon has already opened one), facial recognition and more and more AI embedded solutions. B2C engagement will be much smarter as retailers use technology to market their products better, based on customer preferences and purchase history.

Darren Williams
Founder
– DW Exec

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More closures, boring shops and over expanded casual dining with overpriced bland food will fall, and customers will look to get back to smaller, more interesting businesses that capture their imagination. I think 2018 has already started to show that big names can and will fall, and in some respect, we are seeing a repeat of what happened in late 2008/09. If you think about the changes that have taken place in that decade, I feel the 'High Street' of 2028 will be a very different place – and landlords will be forced to offer more flex, more value, and work more in partnership with their tenants.

Graham Seaton
Head of Property
- Ann Summers

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I think all the indications are that the coming year will be tough. With turnover growth difficult to achieve and cost pressures impossible to ignore – property rates, minimum wages, pensions the list goes on – retailers' profits have been, and will continue to be, squeezed. This will have a knock on effect to retailer's investment programmes. At the very time retailers need to invest in their stores, to provide the environment and service levels necessary, the money for that investment will be lacking. Looking further forward – to 5 and 10 years is very difficult. Britain has some great retailers and great retailing – the best will come through the current issues stronger and more focused but along the way some names will disappear.

Darren Percival
Planning Manager - Stores
- O2 Telefónica

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In the short term, I think we will see an increase in the number of store closures and business administrations, primarily as a result of longer term issues within those companies coming to fruition. Beyond this I still see the overall number of retail and leisure stores shrinking, but those that remain will be of bigger and better standing. This will continue to create challenges and opportunities for councils, landlords and investors in equal measure as there will be a need for closer collaboration between all parties to deliver what retail and leisure operators, plus their customers' needs in the future.

FUTURE

Alastair Browne
Head of Site Research and Strategic Insights - JD Sports

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The future of the physical retailer is likely to be influenced by the sector and locations that they operate in and the demographic of the customers they serve. At JD we have looked to embrace the whole omni-channel approach to retail, offering the consumer the opportunity they demand to shop with us anytime, anyplace and anywhere.

The store remains a key channel of sales and will represent an integral part of the on-going expansion of the business across the globe, though recognising that providing the consumer with an exciting and relevant experience is paramount to the success investment in bricks and mortar over the next 5-10 years.

Mike Schmidt
Director of Corporate Finance - DFS

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In the near-term we are likely to see seismic changes in the market. Retailers that don't offer a good enough in-store experience are rapidly exiting the market, and others are consolidating their store footprints to avoid being overspaced - releasing a lot of space onto the market. The consumer experience in retail areas with high vacancies will inevitably worsen and some retail centres may therefore see a vicious spiral of decline. To avoid this, landlords and the government now need to take significant steps to invest in retail centres and to reduce occupancy costs to make the returns work for retailers in each location. In the absence of this reform, we will increasingly see retailers focusing on and clustering in the limited number of strong locations where their customers want them to be. In these locations retailers will be very disciplined at maximising their sales intensities through minimising their footprints.

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Methodology

1. Shops refers to Convenience Retail, Comparison Goods Retail 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.

9. - 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.

Data correct as of May 2018.

For more information on The Local Data Company or how we can support you with your investment, growth or business optimisation projects, please go to **www.localdatacompany.com**, follow us on Twitter **@LocalDataCo** or email us at **sales@localdatacompany.com**.

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