RETAIL AND LEISURE MARKET UPDATE

H1 2018

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the Local Data Company (LDC)

www.localdatacompany.com

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A bit about the LOCAL DATA COMPANY

LDC is a retail intelligence business which provides data, insight and technology to support strategic decision making on the retail and leisure market. LDC's field researchers physically survey every high street, retail park and shopping centre multiple times a year to keep track of market change in real time. We know where every Pret A Manger, JD Sports and McDonalds store is, when they opened and closed and how many competitors are in the local vicinity. We also track the health and trajectory of every shopping location and have visibility on the factors which contribute to their performance.

On average, we make 80,000 updates to our database per month, resulting in the richest, most accurate and most up-to date insight on the retail and leisure market available. Our clients choose LDC because of our proprietary technology, our people and our comprehensive, accurate and live data, which enables us to deliver everything from macro market trends to micro location insights.

"EE use the competitor data supplied by LDC in order to gain a deeper insight in to where our competition are located within the UK. By receiving this on a monthly basis we are able to track the changing landscape of all our competitors, and see where they are either leaving or entering new towns, shopping centres and retail parks. The data helps us to makes decisions on new retail store micro locations, as well as our wider retail strategy piece. LDC are our supplier of choice as their data is kept up to date, is accurate, and the communications with their personnel is effortless."

Michelle Honey, Senior Property Location Planning and Data Manager, EE

Businesses we work with:

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"To have other sources at this micro level in any high street is key to understand not only our position but also the evolving nature of footfall on the high street. The footfall data provided by LDC supports our marketing campaigns, relocation strategies and really means we can understand if we are winners or losers in that particular market."

Will Crumbie, Finance Director, FatFace

"The LDO platform and associated LDC data has helped NoteMachine quantify the retail landscape and strengthened our site verification process. The ability to generate sector specific trend reports has provided our management team with up-to-date market trends which have been used to aid strategic development. LDC data has enabled us to be proactive with our sales and marketing efforts and has generated a return on investment for us within the first six months of our campaigns. The LDC team are great to work with and we now consider LDC to be a key strategic partner."

Ben Clement, Lead Group Analyst - NoteMachine

To read more about our work with NoteMachine, visit www.localdatacompany.com/notemachine-case-study

KEY FINDINGS

- Across GB, the number of openings dropped by 2.1% in H1 2018 compared to H1 2017, while the number of closures increased by 16.9%.
- Overall this equated to a net loss of 4,402 units across GB, as the tough retail climate saw several major retailers announce CVAs, go into administration or announce consolidation programmes.
- The number of companies falling into administration in 2018 is projected to be lower than 2017, although the estimated number of stores affected has increased by 50% to 2,085 from the 1,383 stores that closed in 2017.
- The biggest decline was in the leisure category which saw the strong growth of the previous four years faltering, with a significant net decline of over 1,000 units in the six months of H1 2018 – a figure driven mostly by pub closures.
- Retail parks was the only location type to see a positive net change in numbers of retail and leisure units in H1 2018. Compared to the overall net loss of 0.85% across GB, high streets and retail parks performed better than shopping centres and 'other' sites (airports, transport hubs, service stations and standalone stores).
- Opening and closure activity shows scattered trends across GB with no location type seeing a consistent trajectory when broken down by region. Retail parks saw strong growth across Greater London and the South East, showing a continued demand for out of town space across these regions.
- Small town centres (classified by LDC as centres with less than 200 units) saw vacancy rates rise from 8.7% to 9.1%, while medium (200 to 400 units) and large centres (400+units) remained more stable with minimal increases of 0.2% and 0.1% respectively.
- The regional outlook shows a clear north/south divide, with percentages of units vacant for over three years below the GB average in Greater London, the South East, the South West and East of England.
- The North East and North West have the largest percentage of long-term vacant units across GB. This is likely to be due to towns in these areas having too much retail stock to meet the local demand.
- The best performing in terms of town centre size were large towns and medium towns, which both saw a 0.1 point increase in their average LDC Health Index score.
- Overall, the Health Index score across GB dropped slightly by 0.2 points in the first six months of 2018.
- Retail parks and shopping centres experienced a decline in their Health Index scores, mainly due to the number of administrations affecting these location types in the first six months of the year causing closures.
- The fastest growing category in H1 2018 was barbers, with a net increase of 349 units, adding to the 624 net increase in 2017. The top 10 categories for growth was dominated once again by health and beauty categories, with beauty salons (+160) and health clubs (+50) leading the pack.
- The demand for value products continues to rise based on net increases in store numbers in the 12 month period from July 2017 to July 2018. Home Bargains, B&M Bargains, Card Factory, Lidl and Aldi were all winners based on their increasing store count.

For more information please contact us

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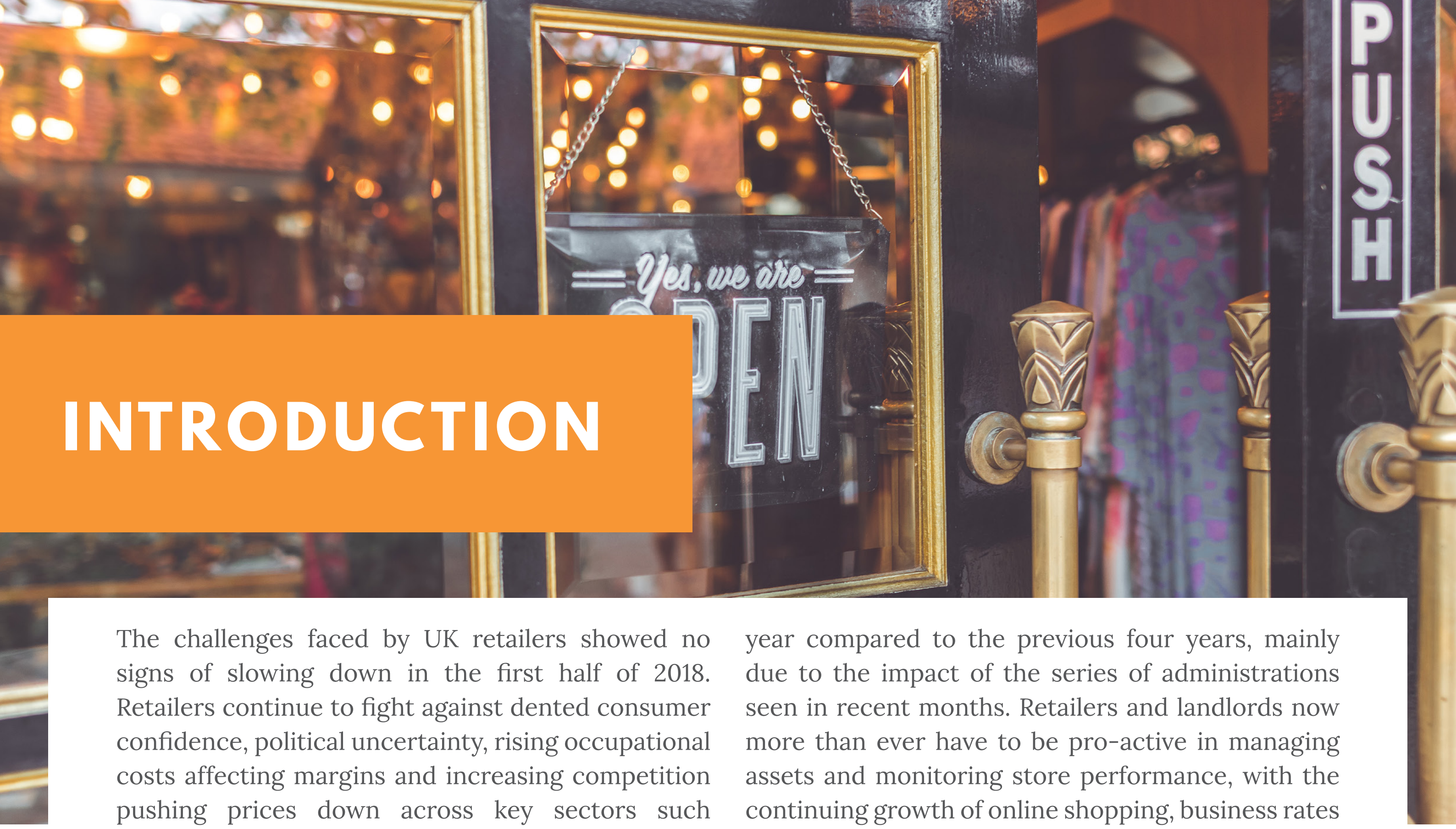

INTRODUCTION

The challenges faced by UK retailers showed no signs of slowing down in the first half of 2018. Retailers continue to fight against dented consumer confidence, political uncertainty, rising occupational costs affecting margins and increasing competition pushing prices down across key sectors such as clothing and grocery. This strained backdrop saw retailers announce a slowdown in openings, increased store consolidation and, in more desperate scenarios, announcements of administrations and CVAs. This is evident in figure 1, which shows a sharp increase in closures in the first six months of the year compared to the previous four years, mainly due to the impact of the series of administrations seen in recent months. Retailers and landlords now more than ever have to be pro-active in managing assets and monitoring store performance, with the continuing growth of online shopping, business rates and political uncertainty all set to carry into 2019. This being said, the continuing market turbulence across our industry is also creating conditions for newer entrants and concepts to flourish in the market – a key takeaway from both LDC's 2017 reporting as well as our analysis of the first half of 2018.

Numbers of store openings and closures for H1 periods between 2014 and 2018

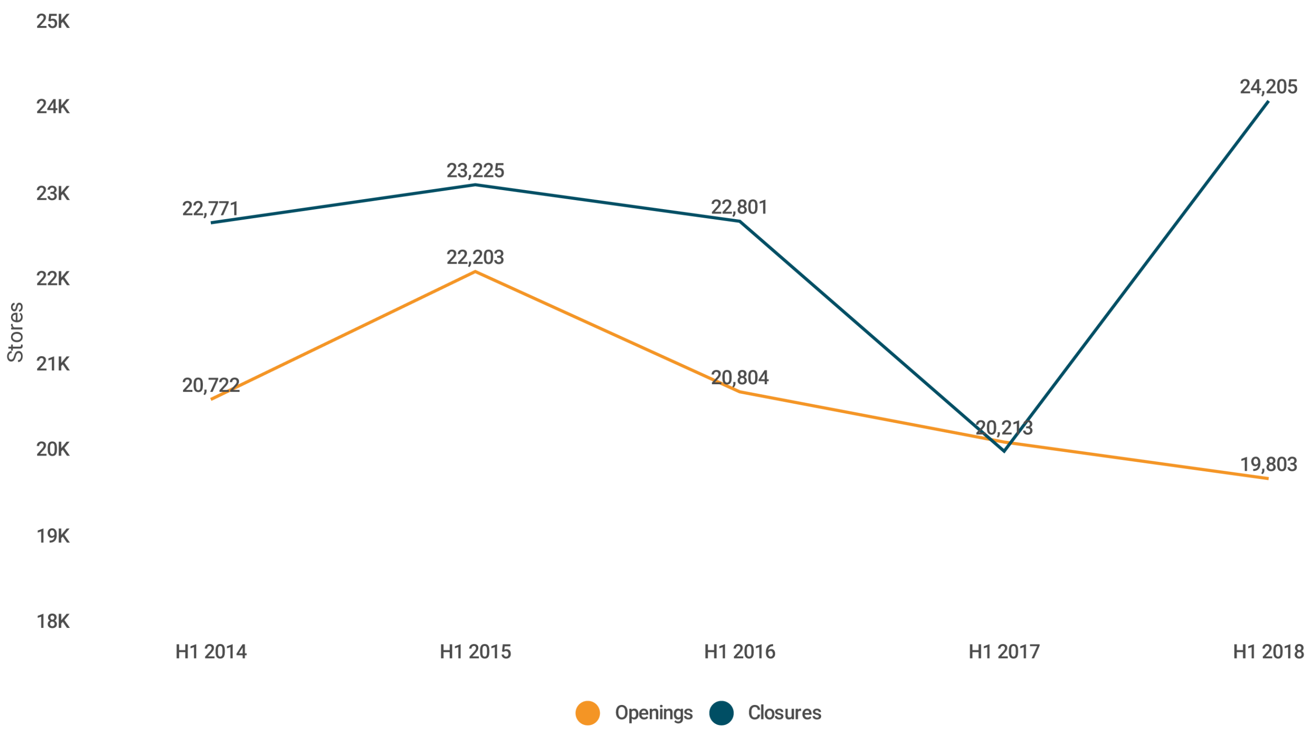

Figure 1: Number of openings and closures for H1 periods between 2014 and 2018 across GB (Source: LDC)

> "...the continuing market turbulence across our industry is also creating conditions for newer entrants and concepts to flourish"

Across the first six months of 2018, consumer confidence remained in negative territory, with concerns over the looming Brexit deadline in March 2019 likely to see the rating remain subdued. This was despite inflation currently running at a slower rate than earnings, with a 0.5% increase in the latter excluding bonuses. The housing market has seen the demand for new homes slow, leading to house prices falling for the past five quarters in a row, as high prices, stamp duty changes and Brexit uncertainty put off potential buyers. The proposed tax on overseas buyers is likely to have an increased impact on house prices with potential buyers likely to remain in rented accommodation until the markets stabilize.

Inflation (CPI) vs. annual percentage change in average earnings

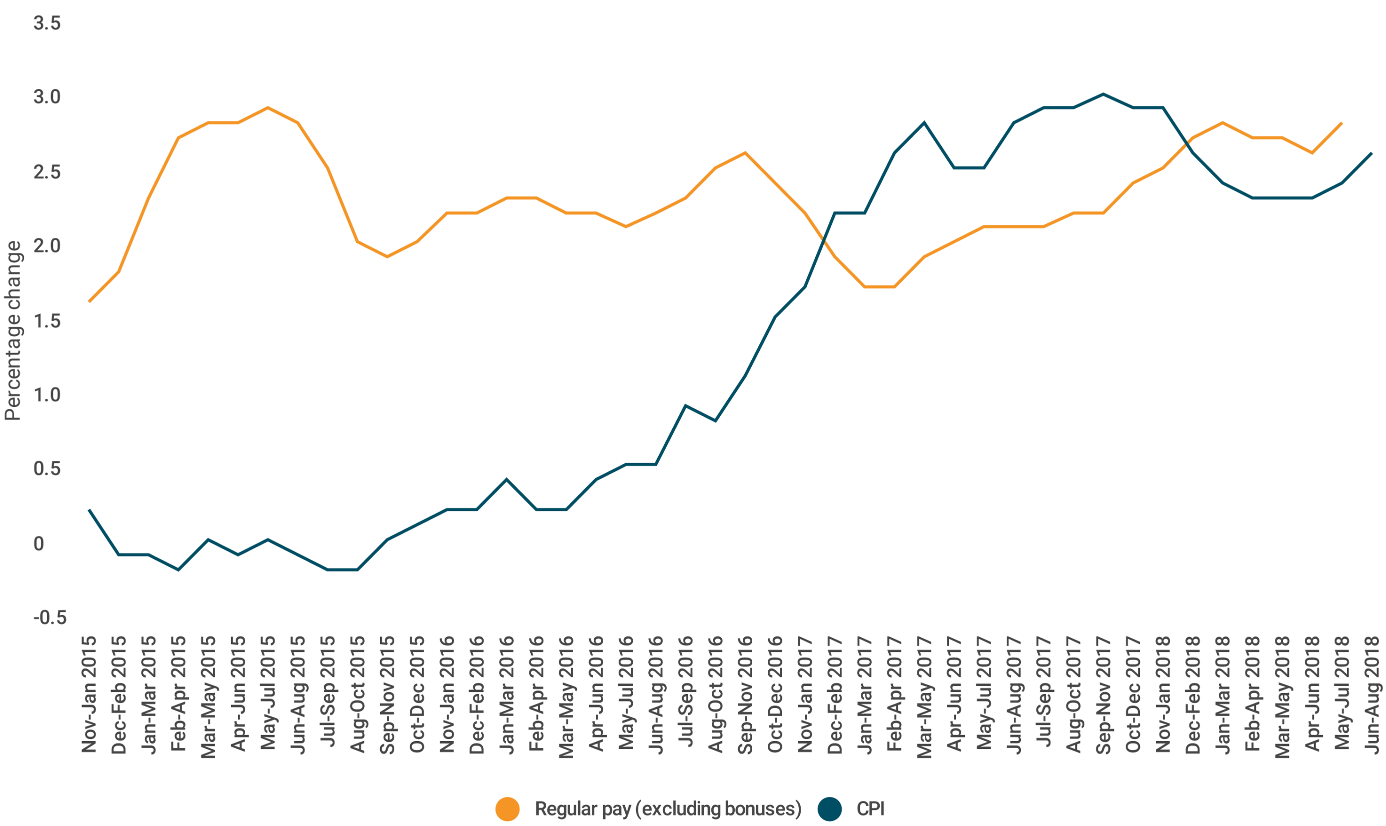

Figure 2: Inflation vs. average earnings across the UK between November 2015 and July 2018 (Source: ONS)

In August, the Bank of England raised interest rates to 0.75% (the second increase since the financial crisis) which resulted in average monthly mortgage payments going up £16 for UK mortgage holders on variable rates. However, the impact of this increase is fairly low as most households are able to absorb this amount, coupled with the fact that 64% of mortgages are fixed rate.

The Consumer Price Index (CPIH) ticked upwards in Q3 2018, rising to 2.4% in August. However, in general prices fell in 2018 with the CPIH dropping from 2.7% at the start of the year to 2.3% at the mid-point of 2018 (June). Compared to 2017, prices across recreational and cultural goods and services, transport and clothing saw the largest increase in 2018, whilst drops in furniture and household goods

Consumer Price Index including owner occupiers' housing costs (CPIH) 2008 to 2018 (12 month % change)

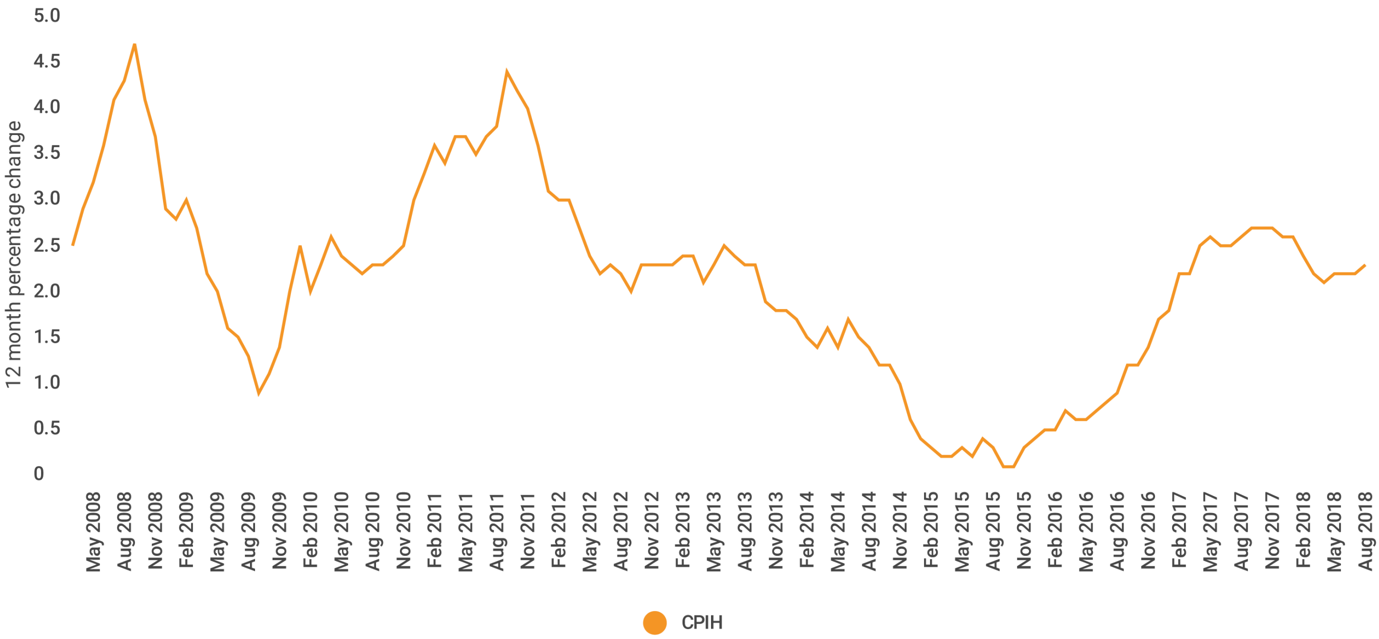

Figure 3: 12-month percentage change in Consumer Price Index including owner occupiers housing costs (CPIH) from March 2008 to June 2018 (Source: ONS)

The number of companies falling into administration in 2018 is projected to be lower than 2017, although the estimated number of stores affected has increased by 50% to 2,085 from the 1,383 stores that closed in 2017 which is reflected in the stark trend seen in figure 5. However, the number of stores affected is not going to break the record set in 2008 (5,793) and 2009 (6,536), seen at the height of the recession.

Retail companies failing vs number of stores affected

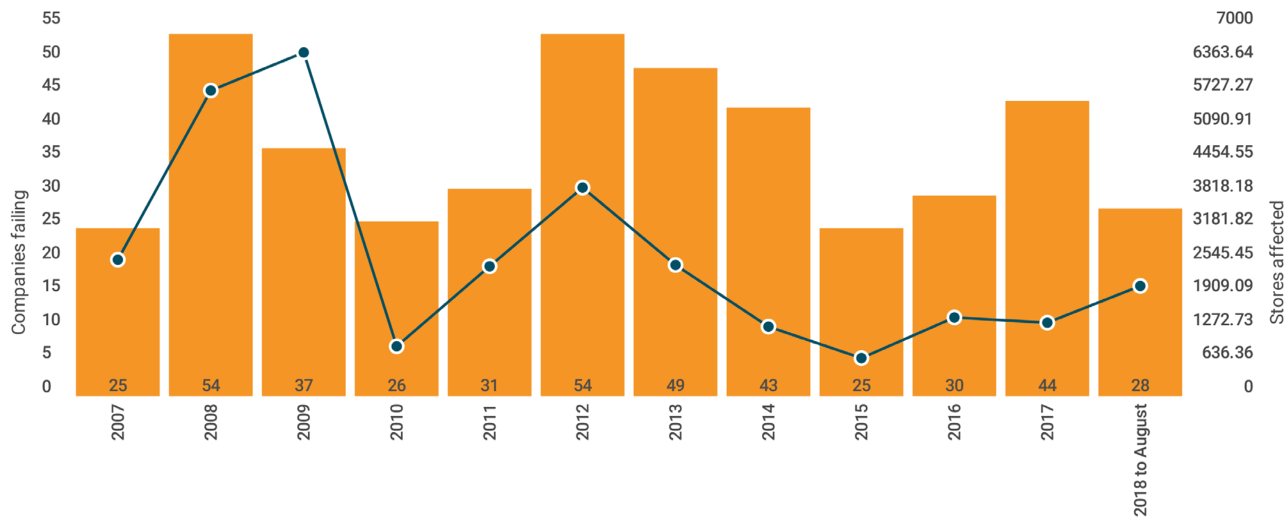

Figure 4: Companies failing in the retail sector and number of stores affected across GB from 2007 to 2018 as of August 2018 (Source: Centre for Retail Research)

In H1 2018, there was a significant rise in the number of vacant and live units taken out of the market for structural changes; either to be merged, split or converted for office, residential or warehouse use. This is evidence of the demand for physical space across the country with landlords changing the use of properties in search of better returns and less risky investments.

Changes made to retail stock across GB, H1 2017 vs H1 2018

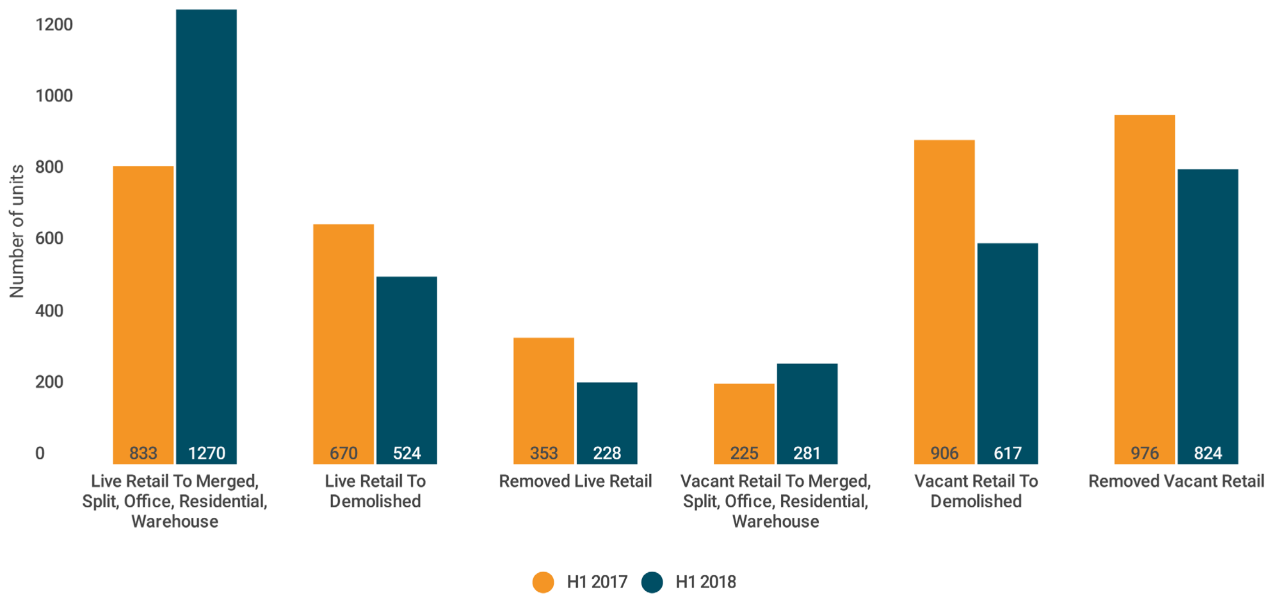

Figure 5: Changes made to GB retail stock across GB, H1 2017 compared to H1 2018 (Source: LDC)

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BDO's High Street Sales Tracker

High street suffering worst year to-date on record

In-store sales below 1% for each of the past 12 months

by BDO LLP

For many in retail, 2017 was a litmus test of the ability of businesses to flex their business models to accommodate the tsunami of rising costs and changing consumer behaviours. The impact of the falling pound on imports, a rise in employment costs and the continuous investment in technology and the store experience further eroded retailer margins.

Retailers would have been hoping for the tide to turn in 2018. However, snow and freezing temperatures in the first quarter led to record low like-for-like sales on the high street. The two snowstorms that hit the UK in March tore a hole in online sales too. Whilst many pointed to the loss of trust in deliveries making it through, the reality was that low consumer confidence was taking hold, reflecting the effect of rising food prices and weak underlying spending power.

At the half point of this year, the BDO High Street Sales Tracker (HSST) marked the first time in at least 12 years that in-store growth had failed to exceed 1% for the first half of a calendar year.

The royal wedding, unexpected summer sunshine following the earlier snow storms and World Cup fever may have led to increased spending on food and entertainment, but it gave no respite for retailers that continued to grab the headlines with CVAs, administrations and store closures.

Retail businesses are a significant contributor to the UK economy yet the sector seems to be undergoing substantial turmoil and challenge without visible support from the government. Many are of the view that it will take a monumental change in fortunes on the high street to turn 2018 into anything other than an annus horribilis.

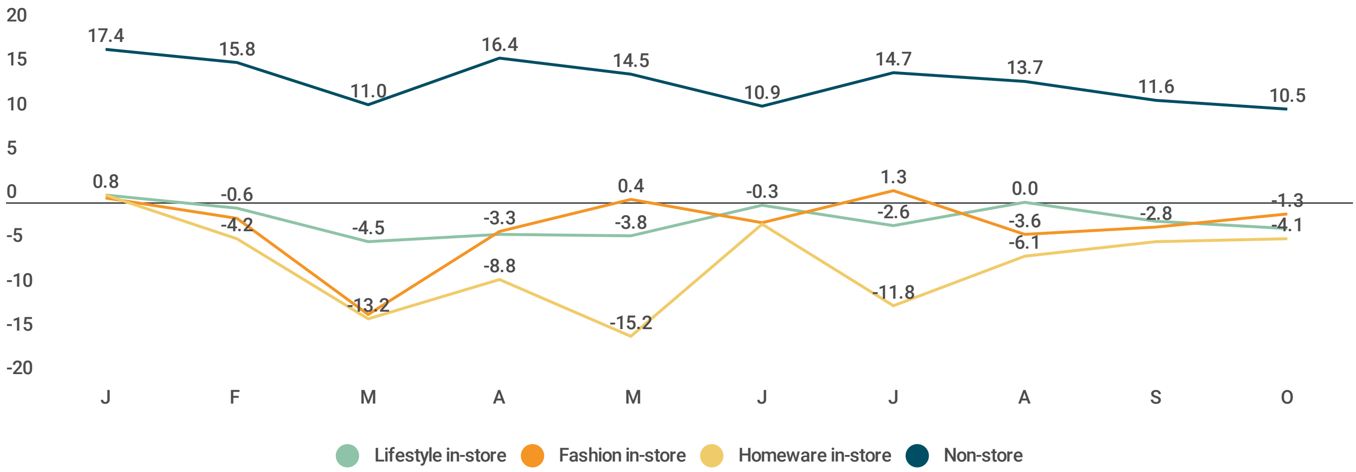

Figure 6: BDO High Street Sales Tracker Figures 2017/18

2018 has been an incredibly challenging year for retailers and there are no signs of this abating. The ongoing decline in homeware sales and big ticket items reflects the nervousness of the UK consumer, especially as uncertainty around Brexit lingers.

As retail's golden quarter kicks off, it will be of great concern to see that footfall continues to decline on the high street. For the first nine months of the 2018, footfall was down 8.1%. In September it fell by 2.2%, resulting in 18 consecutive months of decline.

Somehow that decline in footfall needs to be reversed. Innovation and creative thinking will be key to creating an attractive shopping experience and lure the customer back in store whilst keeping a control on costs when margins are tight. Retail and hospitality need greater alignment, whilst integrating technology to drive a truly attractive experience to the shopper remains a focus.

Reports are showing that seasonal discounting has already kicked off, and savvy shoppers will be primed for events such as Black Friday. While this may have the desired effect of increasing physical footfall and internet traffic, it won't be helping retailers to recover their margins in this critical season.

The BDO High Street Sales Tracker outlines the weekly sales changes of more than 85 retailers. It provides a strong indication of underlying trading conditions without the distorting effect of large grocery based retailers, and is followed by the press and city analysts, whilst retailers use the results to benchmark performance. For more information or to receive the HSST on a weekly basis, contact highstreetsalestracker@bdo.co.uk.

LOCATIONS

This section of the report reviews how locations changed in the first six months of 2018. We analyse national, regional and property type trends across GB by studying changes in vacancy rates, LDC Health Index scores and openings and closures figures.

Retail parks was the only location type to see a positive net change in numbers of retail and leisure units in H1 2018. Compared to the overall net loss of 0.85% across GB, high streets and retail parks performed better than shopping centres and 'other' sites (airports, transport hubs, service stations and standalone stores). Whilst many discuss the 'death of the high street', in actual fact it is shopping centres which saw the greatest loss of units, with a net decline of 1.26% in the first six months of 2018.

Percentage net change in units by location type, H1 2017 vs. H1 2018

Figure 7: Percentage net change in units by location type between H1 2017 and H1 2018 across GB (Source: LDC)

All location types saw a decline in net openings and closures when comparing H1 2018 to H1 2017.

Shopping centres saw the biggest change, with a 1.3% year-on-year drop.

Locations classified as 'other' and high streets saw a year-on-year decline of 0.87% and 0.83% respectively, in line with the overall GB drop of 0.87%.

For a breakdown of how LDC data is structured, see the methodology at the back of this report.

Figure 8 illustrates the tough retail climate across GB in the first six months of the year, with a slowdown in openings and an increase in closures causing the top line numbers to decline. When compared with the previous year (H1 2017) overall openings reduced by 2.1%.

Retail parks saw the biggest slowdown across all location types, with a 10% drop in the total number of store openings since H1 2017. This was due to a decrease in activity previously seen in this space in the following retail categories; chemists/toiletries, furniture shops, electrical goods and discount stores. Location types falling into the category 'other' was the only group to see an increase in openings (+4%). Transport hub locations and standalone stores drove the increase in openings as restaurant and service occupiers were attracted to high footfall locations such as train stations, supermarkets and airports.

Closures rose across all location types, the largest increase seen in standalone locations, driven by post offices and banks across more remote locations. Retail parks performed better than 'other' location types with an overall drop in closures of 1%.

Percentage change in openings and closures between H1 2017 and H1 2018

Figure 8: Percentage net change in openings and closures across GB by location type between H1 2017 and H1 2018. (Source: LDC)

Opening and closure activity by region shows scattered trends across the country with no location type seeing a consistent trajectory when broken down by region. Retail parks saw strong growth across Greater London and the South East, showing a continued demand for out of town space across these regions. Scotland saw the largest net decline in retail park units, with Yorkshire and the Humber the only other region to see a drop. Wales and the South West were the only regions to see growth in the number of occupied shopping centre units, with a marginal increase in H1 2018. The East Midlands saw the biggest drop in shopping centre units with intu Derby and intu Broadmarsh contributing significantly to this, as ongoing redevelopment work at both centres has resulted in vacant space.

Net change in units by location type and GB region/nation, H1 2018

Figure 8: Percentage net change in units by location type and GB region/nation in H1 2018 (Source: LDC)

Vacancy rates

Vacancy rates by GB region/nation, H1 2017 vs H1 2018

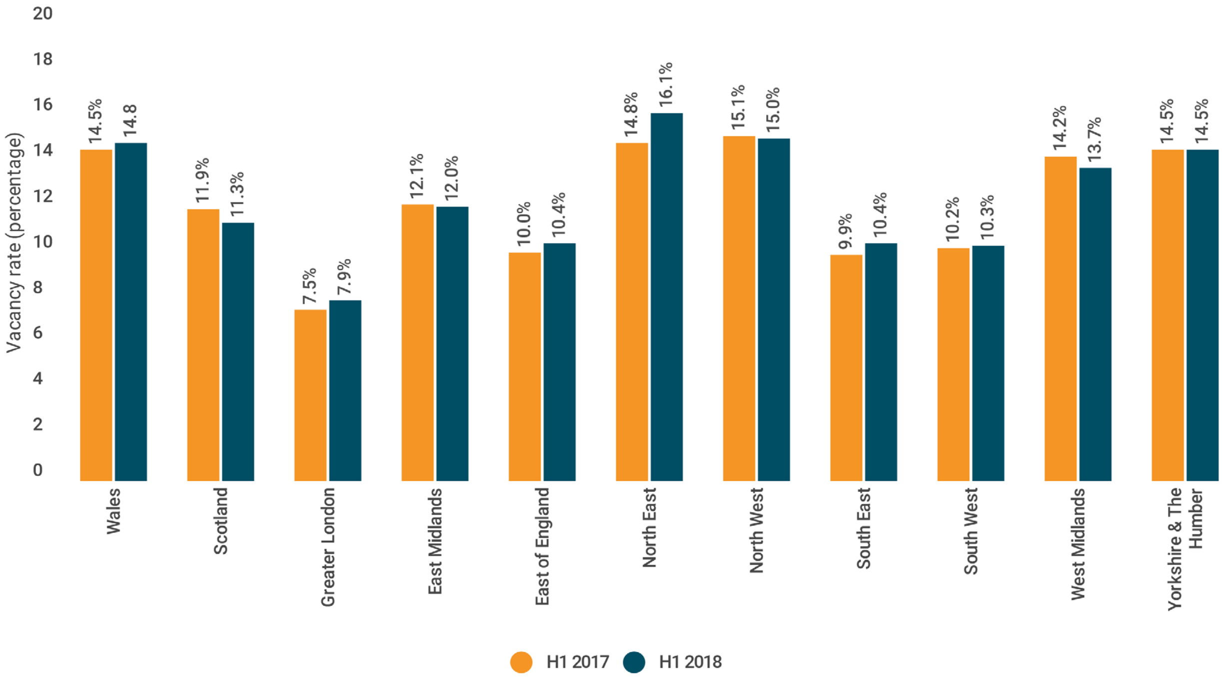

Figure 10: Vacancy rates by GB region/nation in H1 2017 and H1 2018. (Source: LDC)

Across GB, there was a mixed performance in vacancy rates with regions like the West Midlands and Scotland seeing improvement, but the North East and Wales seeing vacancy rates rise. Secondary towns in the North East and Wales could be more vulnerable to closures due to the smaller catchment populations leading to national chains closing stores in these areas as part of consolidation programs.

Vacancy rates by location type, H1 2018

Shopping centre vacancy rates rose in H1 2018 by 0.5%, off the back of administrations and store closures at the start of the year. Shopping centre vacancy rates increased the most across the East Midlands, with the vacancy rate having risen to 13.4% from 11.2% in the previous 12 months. Not all regions saw shopping centre vacancy rates rise, as the West Midlands (-1.7%), South West (-1.2%), Wales (-0.4%) and North West (-0.3%) saw vacancy rates fall.

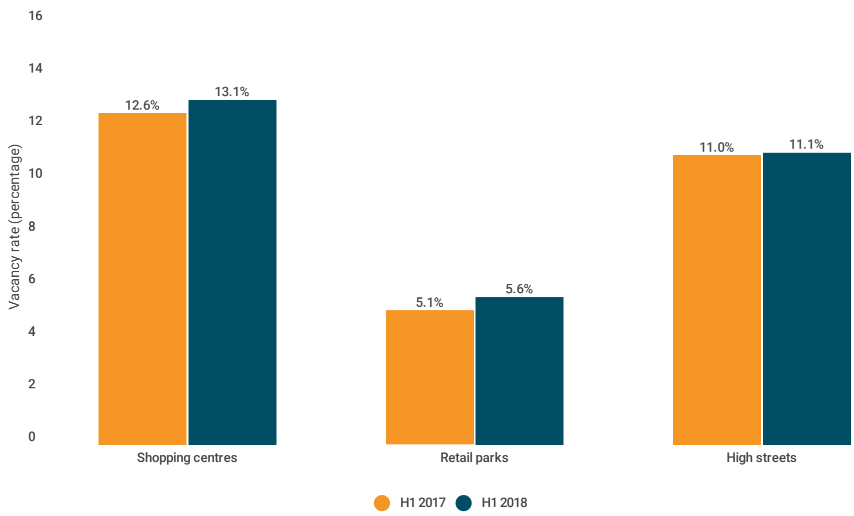

Figure 11: Vacancy rates by location type across GB, H1 2018

Shopping centre vacancy rate by GB region/nation, H1 2017 vs H1 2018

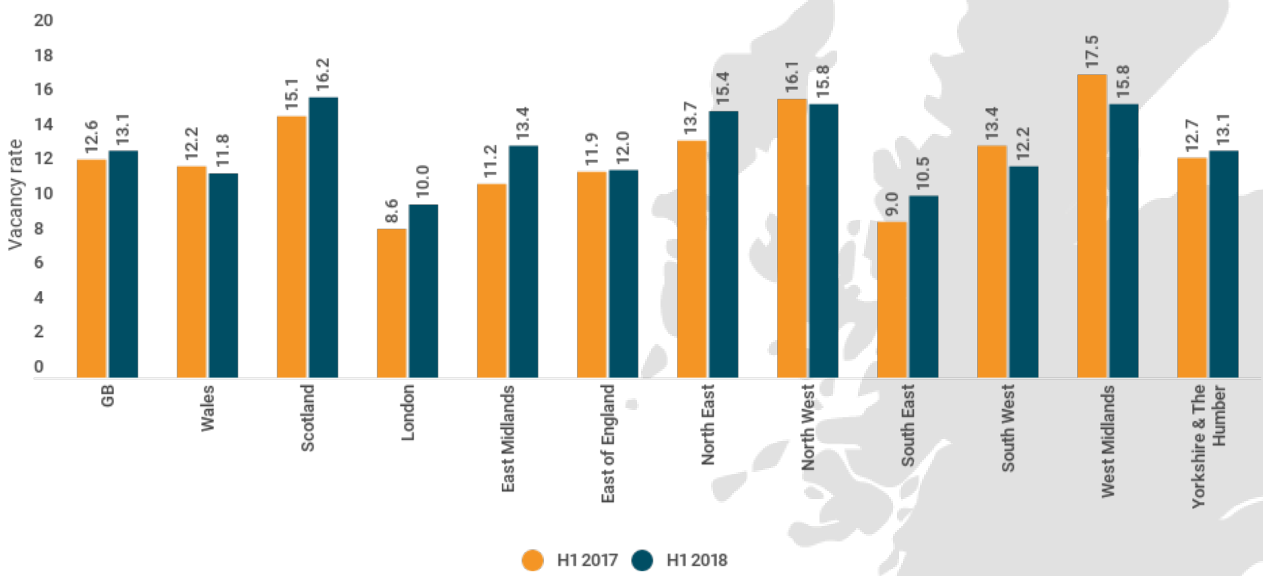

Figure 12: Shopping centre vacancy rate by GB region/nation in H1 2017 and H1 2018 (Source: LDC)

H1 2018 saw retail park vacancy rise across GB, with the overall figure up by 0.5% over 12 months. Yorkshire & the Humber (+1.8%) and the West Midlands (+1.6%) saw the largest increase in retail park vacancy rates in the 12 month period from July 2017 to July 2018. Retail parks in these regions were hit hardest by the collapse of Toys R Us, Maplin and Brantano Footwear, with several of these units still lying vacant. Wales saw the biggest drop in retail park vacancy rates in the 12 month period down to 4.8%, a significant improvement for the region. This was due to new occupiers opening across retail parks in Wales, for example B&M Home Store and Aldi opened in Brooklands Retail Park in Cardiff, coupled with the fact that fewer of the region's retail parks were impacted by the retail administrations mentioned.

Retail park vacancy rate by GB region/nation, H1 2017 vs H1 2018

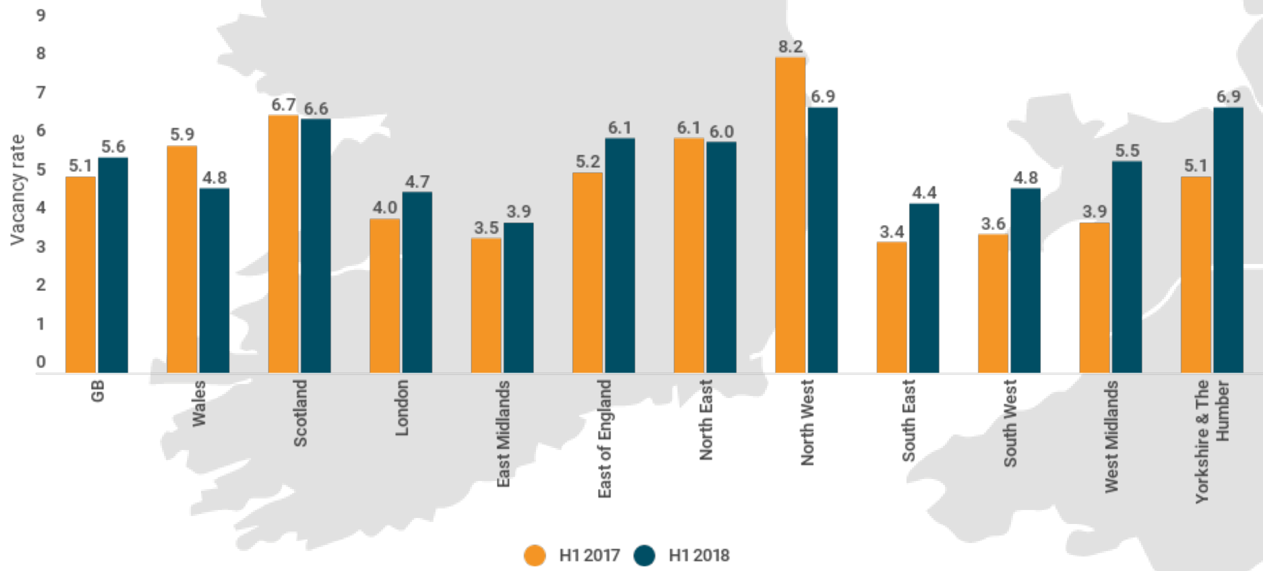

Figure 13: Retail park vacancy rate by GB region/nation in H1 2017 and H1 2018 (Source: LDC)

> “Calendar Club, the longest running and largest temp store operator in the UK, opens around 275 stores each year and this year we feel that we have been working with the grain, rather than against it. The difficulties of the high street and the increased store closures has meant that we have had more opportunities and landlords have been more interested in temp operators and ‘having the lights on’ in empty units over Christmas. Store closures are a bit of a double-edged sword for us, however, too many and it reinforces the decline in footfall in shopping centres and the high street and that is not good for our store performance.”

David Pike, Group Director, Calendar Club

CALENDAR CLUB

Vacancy rate by town centre size, H1 2017 vs H1 2018

Assessing vacancy rates by size of town centre, we can see that smaller towns were the most exposed to closures in the 12 months from July 2017 to July 2018. Small centres (classified by LDC as centres with less than 200 units) saw vacancy rates rise from 8.7% to 9.1%, while medium (200 to 400 units) and large centres (400+units) remained more stable with minimal increases of 0.2% and 0.1% respectively. This mirrors the trend for occupiers favouring larger, more destination-led towns over smaller towns with smaller catchments and fewer consumers within their target group.

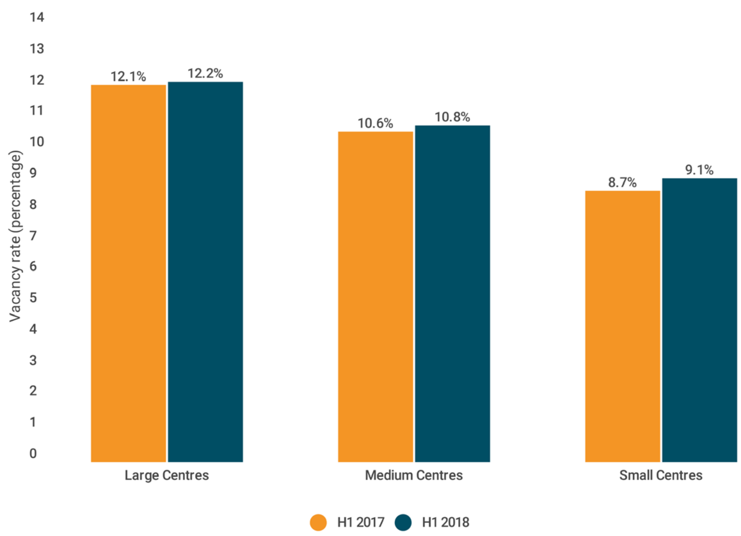

Figure 14: Vacancy rate by town centre size across GB in H1 2017 and H1 2018 (Source: LDC)

Persistent vacancy

Persistent vacancy measures the length of time a unit has been empty across all vacant units. This determines whether the majority have been vacant for a short period of time, or if the issue is more severe with units lying unoccupied for one, two or even three years. Persistent vacancy is an increasingly important barometer of the performance of locations, indicating whether vacancy is largely due to short term changes and churn or if there are more long-term structural issues.

High streets and shopping centres have the largest percentage of units which have been vacant for less than one year, with the recent store closures and administrations all having had a greater impact on these locations in 2018 so far.

Persistent vacancy rate by location type, H1 2018

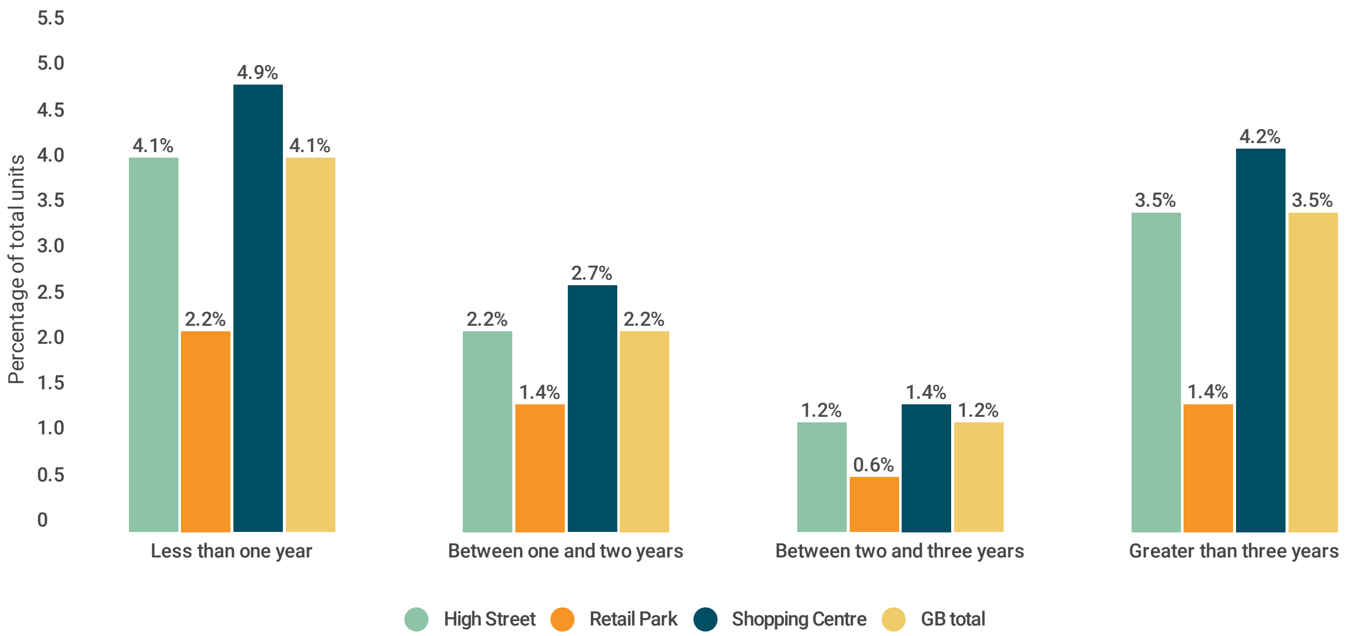

Figure 15: Persistent vacancy rate by location type in H1 2018 across GB (Source: LDC)

Figure 16 shows the year-on-year change in persistent vacancy across different location types in GB. LDC data shows that landlords are becoming more proactive in managing long-term vacant units, with all location types seeing a drop in the percentage of total units vacant for greater than three years. Landlords are increasingly finding new and creative ways to repurpose space or change the use of vacant units. An example of this is the recently opened Light Cinema in Stockport, a 10 screen cinema that offers locally made food and beer. The Cinema is also used for local events, conferences and as a church, cementing its place in the local community. Softer planning regulations and an increasing willingness by local councils to take ownership of their towns by either partnering with investors or buying schemes outright from passive investors is inevitably contributing to this positive shift.

Most location types have seen an increase in the number of vacant units due to the recent store closures and retail administrations. This is evident in the percentage of units that have been vacant for less than one year and between one and two years, as shown in figure 16.

Percentage change in persistent vacancy rates by location type between H1 2017 and H1 2018

Figure 16: Percentage change in persistent vacancy rates by location type between H1 2017 and H1 2018 across GB (Source: LDC)

The regional outlook shows a clear north/south divide, with the percentage of units vacant for over three years below the GB average in Greater London, the South East, the South West and East of England. The options for landlords in these areas to utilise long-term vacant units are greater, with a higher demand for residential and office accommodation. The North East and North West have the largest percentage of long-term vacant units across GB. This is likely to be due to towns in these areas having too much retail stock to meet the local demand. The secondary locations in these regions also have to compete with northern powerhouses such as Manchester, Newcastle and Liverpool for shoppers.

Persistent vacancy rate by GB region/nation, H1 2018

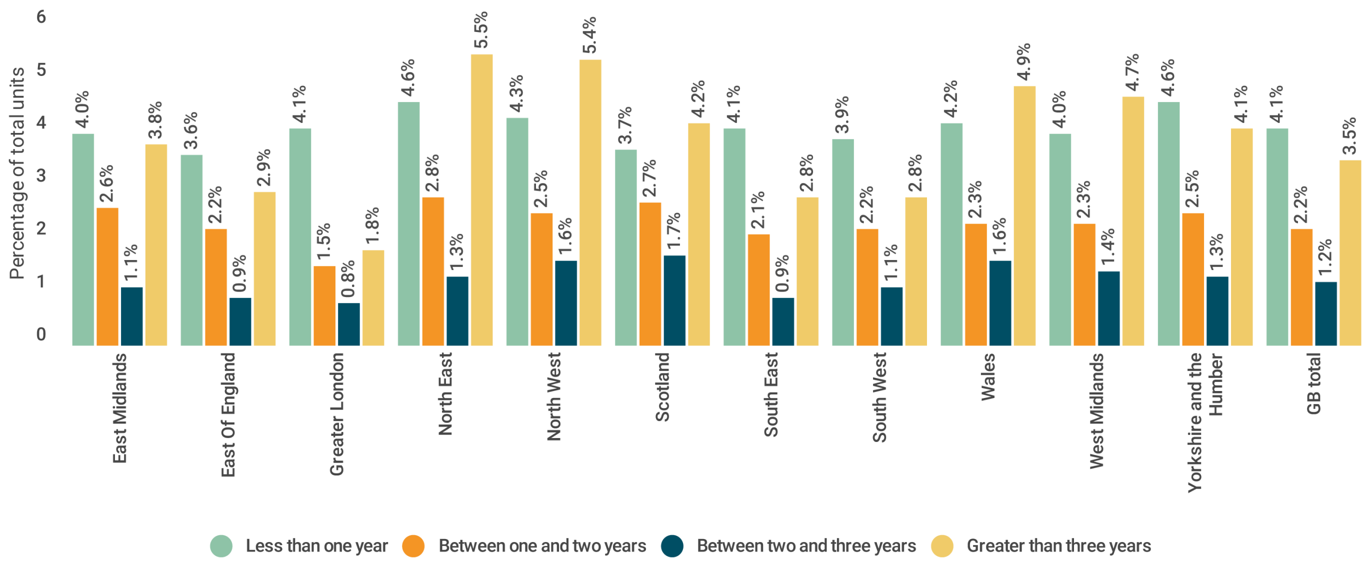

Figure 17: Persistent vacancy rate in H1 2018 across all GB regions and nations (Source: LDC)

The North East improved its long-term vacancy in H1 2018, with the percentage of persistently vacant units (greater than three years) down 0.2%, when compared to H1 2017. The only other regions to see a fall in the number of long-term vacant units were the East Midlands and Yorkshire and the Humber. Scotland saw the biggest drop in short-term vacant units, with a 0.7% drop in the percentage of units vacant for less than one year. Aberdeen, Edinburgh and Dundee led the Scottish towns to see a reduction in their short term vacancy. This was due, especially in Dundee, to retail units being converted for alternative uses such as flats and houses. Aberdeen and Edinburgh saw increased occupancy, with the number of occupied units being boosted by 2.5% and 2.2% respectively.

Percentage change in persistent vacancy by GB region/nation between H1 2017 and H1 2018

Figure 18: Percentage change in persistent vacancy by GB region/nation between H1 2017 and H1 2018 (Source: LDC)

LDC Health Index

LDC uses a proprietary index to measure the attractiveness of locations across GB. The Health Index looks at the tenant line-up, the catchment population, the food and beverage offer, the demand for space and the competing shopping destinations nearby. Scores range from 150 (London's West End) to -28 (Barrow-in-Furness) with all scores calibrated into ratings between 1 and 10 through benchmarking against similar location types (e.g shopping centres vs. shopping centres).

Overall, the Health Index Score across GB dropped slightly by 0.2 points in the first six months of 2018 as displayed by figure 19. Retail parks and shopping centres experienced a decline in their Health Index scores, mainly due to the number of administrations in the period causing a number of closures. The best performing in terms of town centre size were large towns and medium towns, which both saw a 0.1 point increase in their average Health Index score.

This data reveals that despite the relative turbulence in the market, retail locations have been able to maintain a level of attractiveness with new brands entering the market and established retailers acquiring space.

LDC Health Index by location type, H1 2015 vs H1 2018

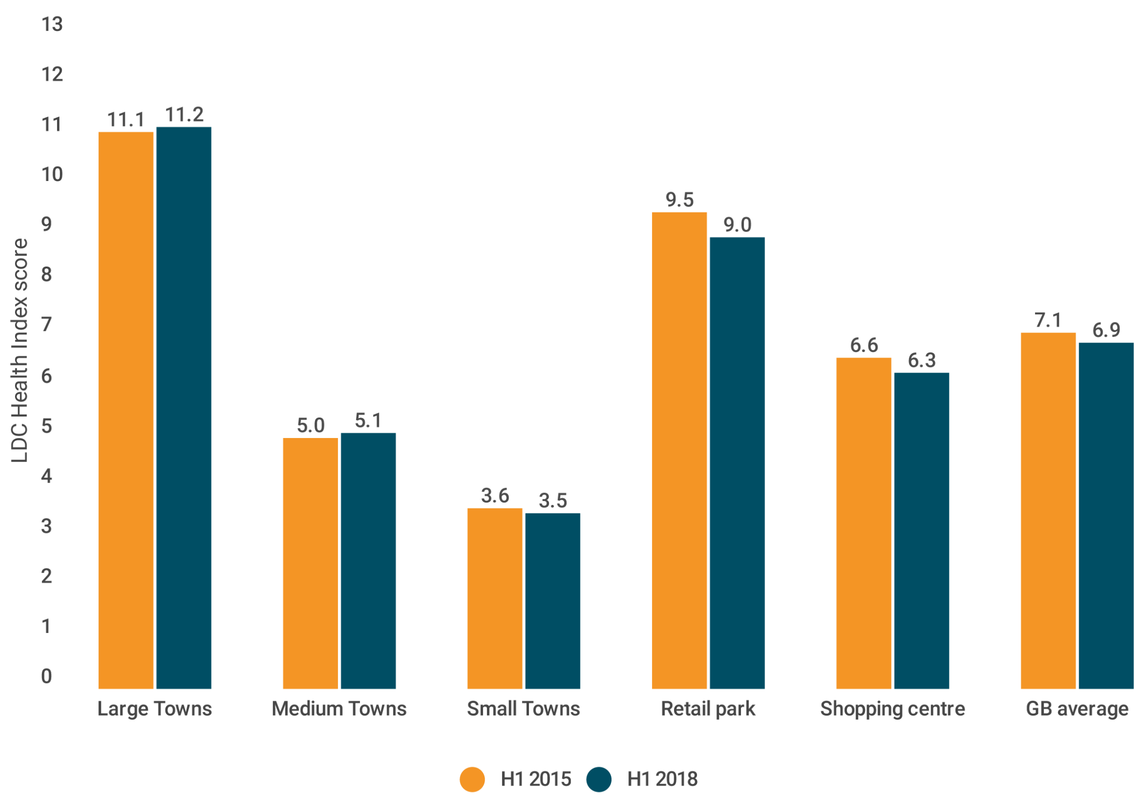

Figure 19: Average LDC Health Index scores by location type in H1 2015 and H1 2018 across GB (Source: LDC)

The LDC Health Index is available as a bespoke index, tailored to suit your businesses. For more information, visit **www.localdatacompany.com/location-health-index**

SECTORS

This section of this report assesses how the 400+ retail and leisure categories that LDC track have changed over the first six months of the year, looking at their growth or decline by classification type (comparison goods, convenience, service and leisure). Activity within both independent businesses and national chains is also analysed to uncover trends across different corners of the market.

Openings and closures by sector

H1 2018 saw a decrease in total occupied numbers for all retail sectors across GB including leisure (food and beverage and entertainment), convenience (grocery), service (retailers such as dry cleaners and nail bars) and comparison goods (physical goods such as clothes and books). The biggest decline was in the leisure category with the strong growth of the previous four years faltering, resulting in a significant net decline in this category of over 1,000 units in the six months of H1 2018. The main category to contribute to this decline is pubs, with several chains closing underperforming brands. Overall, pubs accounted for 17% of the closures in this sector.

The growth of online food delivery through apps like Just Eat, Deliveroo and Uber Eats has had a significant impact on the eat at home market, with consumers able to order from their favourite eateries. The challenge for all restaurant operators is how to adapt their store layout to facilitate delivery, without diminishing the in-restaurant experience. Several chains such as MEATliquor, Clockjack, Motu Indian and Franco Manca have partnered to open 'dark kitchens', with these 'restaurants' having no seats or tables, built purely to service their delivery business.

The online delivery market is still taking shape, with Deliveroo moving away from their policy of using their delivery fleet only. They have recently signed up 5,000 new restaurants that will use their own staff to deliver food to consumers. Uber Eats is reportedly sizing up a bid to purchase Deliveroo, with the merger likely to support their attempts to scale globally. Just Eat is still in the midst of integrating HungryHouse, the competing online delivery website it purchased at the end of 2018 from German firm Delivery Hero SE, seeing the closure of the HungryHouse site in May and orders being moved across to Just Eat. The food delivery market will continue to see mergers and partnerships as the big three players fight for market share.

The increasing popularity of these platforms has also bolstered independent restaurants, enabling increased visibility and reach of their unique concepts. As a result of this, the number of independent leisure units has remained stable.

Comparison goods retail continues to face challenges from tough trading conditions. These being the much-discussed growth of online sales, rising costs of store occupancy linked to business rates and the implementation of the national living wage all of which have impacted retailers' bottom lines.

Convenience retail was the least affected with the growth of online grocery shopping moving at a 'pedestrian' rate according to latest figures from Nielsen (0.1% growth in online spend in 2017). Although online spend was reported to have risen by £300m in 2017 across the UK, the challenge is the frequency of these purchases, with the average household shopping online for grocery products only 11 times per year; less than once a month (Source: Nielsen). Online has yet to impact convenience retail like other sectors, with the more regular top-up shop still a favourite for consumers. Online offers a complimentary channel for the purchase of non-perishable goods (e.g. household cleaning goods, toiletries) and bulky purchases that are more convenient to be delivered.

"Significant progress has been made since the coming together of Nisa and the Co-op. The combined business is building on the strengths and success of both Nisa and Co-op to deliver an improved offer to retailers and wholesalers. As we focus our attention on recruitment and attracting new retailers and wholesalers to the business, the increased scale and improved product offer, including the Co-op's award-winning own brand range, provides excellent future growth potential and an increasingly compelling reason to join Nisa. Utilising the shared knowledge of both businesses we are better analysing changing consumer behaviour allowing us to tailor our offer, including our store formats, to maximise the potential of all partner businesses regardless of location, size or style of operation. In a challenging and rapidly changing market, we are confident that Nisa and Co-op are stronger together and that more than ever before we are the natural home of independent retailers and wholesalers delivering the broadest range of benefits to help their businesses thrive."

Steve Leach, Sales Director, Nisa Retail

Net change in number of units by retail classification, 2014 to 2018

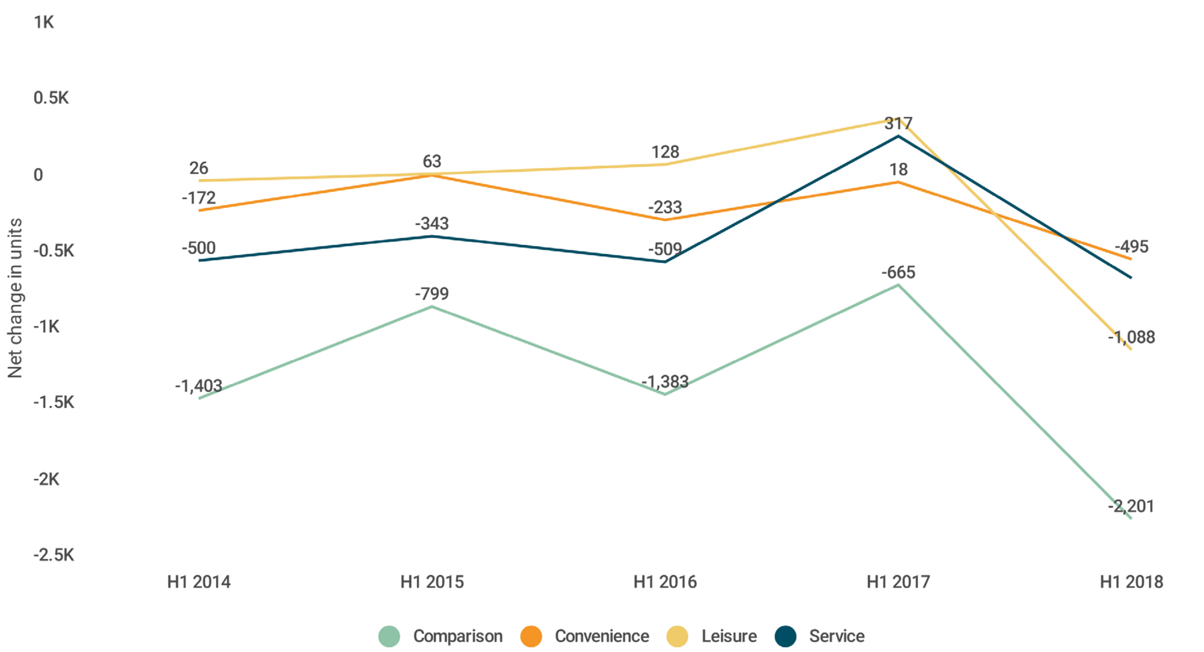

Figure 20: Historical net change in units between 2014 and 2018 across GB by retail classification (Source: LDC)

Openings and closures by business type

The only classification across GB that saw growth was independent service retailers, which saw a minimal 0.1% rise in H1 2018. This growth was driven by barbers, beauty salons, nail salons and gyms.

The biggest decline was seen in multiple leisure occupiers, who saw a 2.4% drop in the number of units, driven by both a slowdown in openings when compared to previous years and an increase in closures. Independent leisure retailers remained flat - with no net change in units as café & tearooms and restaurants and bar concepts balanced a decline in take away food shops.

Independent convenience retail and comparison goods retail were the only classifications to perform worse than their national multiple comparable. Independent comparison retail saw a net decline of 1.63%, the highest across independent classifications. Only two independent comparison retail categories (chemists/toiletries and mobile phone shops) saw a net increase of greater than 20 stores, revealing the challenges facing independent retailers to survive on the high street.

Independent newsagents, butchers and delicatessens were the main drivers of the net decline in independent convenience retail, although independent convenience stores and vaping stores balanced the scales with growth across GB in the first six months of H1 2018.

Percentage net change in units by business type, H1 2018

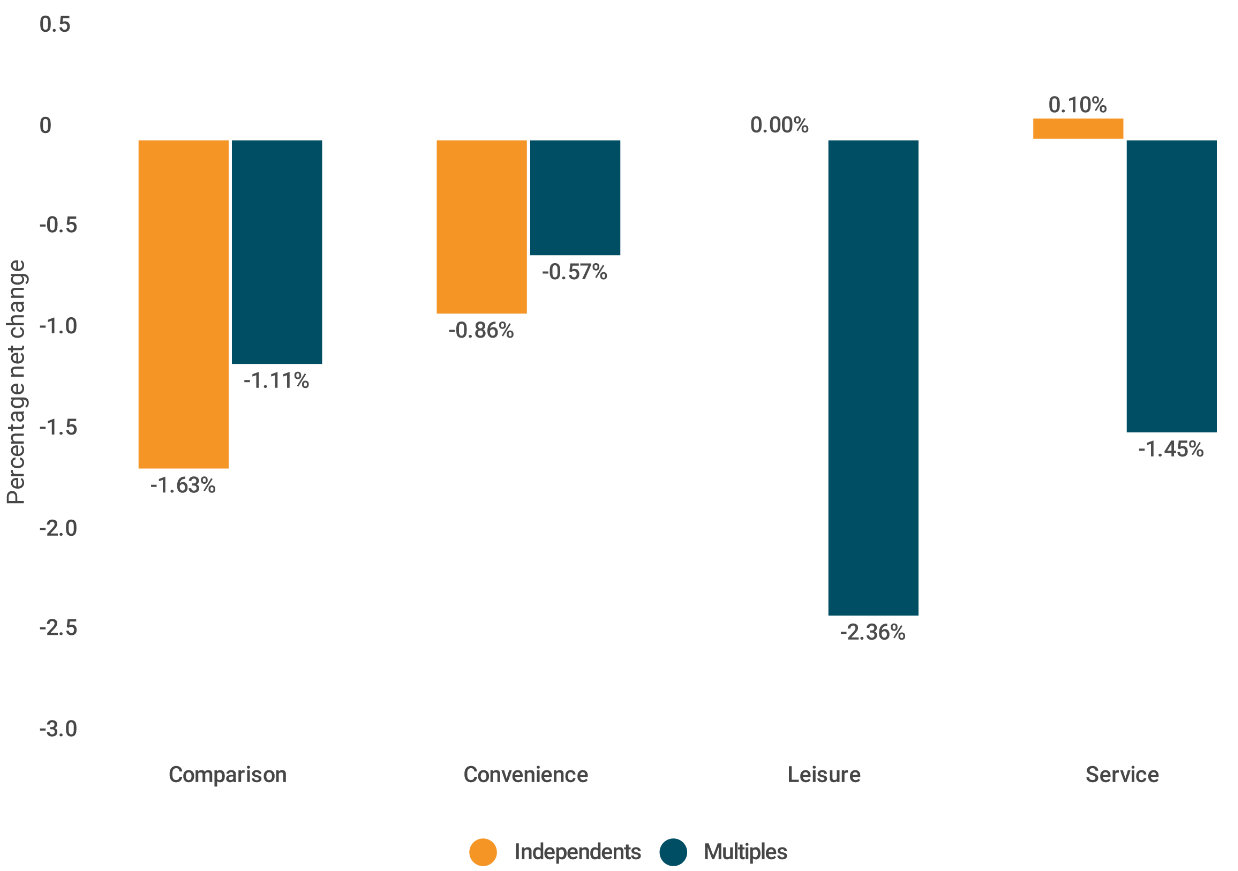

Figure 21: Percentage net change in units by business type across GB in H1 2018 (Source: LDC)

Percentage net change in leisure categories (multiples only), H1 2018

Breaking down the 2.36% drop in multiple leisure occupiers reveals a wide range in performance across retail categories; with the bars, pubs & clubs category seeing the biggest percentage net decline. Digging deeper into the data we can see that this is mainly driven by pubs closing (-6.5%), although bars (-5.7%) and night clubs (-1.4%) also saw an overall net loss of units. Chain café & fast food and accommodation categories remained fairly resilient in the first six months of the year (H1 2018), with there being very little net change.

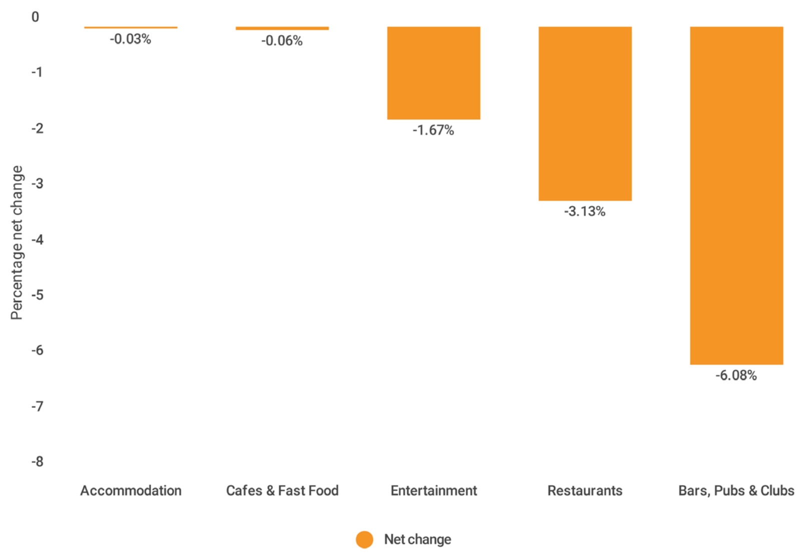

Figure 22: Percentage net change in leisure categories excluding independents across GB in H1 2018 (Source: LDC)

"...Independent newsagents, butchers and delicatessens were the main drivers of the net decline in independent convenience retail, although independent convenience stores and vaping stores balanced the scales"

"2018 has been a somewhat exceptional year for the late-night economy with a late and very cold winter snap in March followed by the hottest and sunniest summer since 1976 which commenced early in May. Combine this with the World Cup and a year in which England finally progressed past the round of 16 and you have a recipe for a total mix-up of the normal trends. Pubs and bars with outside spaces and reputations for sport as well as supermarkets were the winners and late-night venues without such facilities were the losers as revellers changed their habits for the summer far earlier than usual. The Coffer Peach tracker on sector performance exemplified this as the wet-led pubs and bars diverged in huge positive year-on-year growth while the restaurants really suffered. Thankfully September comes every year and brings with it a cooling of the weather and a flurry of freshers who are seeking a wholly different atmosphere and we have seen trade bounce back to year on year growth again. Of course, with this year being so exceptional we thoroughly expect the trends to go in the opposite direction next year as without the habit-changing sun and sport indoor venues will see an inevitable like for like growth which really reflects a return to the norm."

Alex Millington, Group Finance Director, The Deltic Group

Openings and closures by category

The fastest growing category in the first six months of 2018 was barbers, with a net increase of 349 units across GB, adding to the 624 store net increase in 2017. The top 10 categories for growth was dominated once again by health and beauty categories, with beauty salons (+160) and health clubs (+50) featuring. Shoe repairs made a surprise entry into the top 10, although this was heavily led by Timpson's agreement with Morrisons to take over their former dry cleaning operations. This deal saw a rebrand to the Timpson concept which offers shoe repair, key cutting and mobile phone repair as part of the supermarket's fresh look upgrade programme.

Vaping continues to drive growth in the tobacconists category, with several independents entering the market as well as the established chains such as Vaporized, Vape HQ and Vape and Juice continuing to expand their operations. However, it must be noted that some chains have started to feel the strain of competition and saturation in certain markets with Electro Mist, Mirage and No-Match all closing stores.

"Vaporized is the UK's leading Vaping specialist and is planning an expansion programme to treble in size over the next 2 years. There are almost 3 million people who are now vaping in the UK and the market is growing fast. We already have over 100 stores and are planning to open 200 more in next two years. We now have plans to double our staff numbers to 1,000 to support this expansion. Vaping is a huge public health opportunity and can be a key weapon in the NHS's "stop smoking" campaign. Public Health England continues to support its findings that estimates that vaping is at least 95% less harmful than smoking cigarettes."

Doug Mutter

Manufacturing & Compliance Director

Vaporized

Supermarket growth continues to be driven by the increased presence of the German brands, Aldi (+39) and Lidl (+19). Both supermarket giants have continued their ambitious growth plans as they continue to try and eat into the market share of the 'Big 4' supermarket chains.

As with all top-line trends, there is a huge amount going on beneath. Despite the slowdown in the leisure sector, LDC has identified growth in ice cream and dessert concepts. This growth has been driven by chains such as Creams (+20%), Kaspa's (+12%) and Baskin Robbins (+8%). This sector has seen growth due to several factors, one being the need to be in-store for the service as ice cream is not (for obvious reasons) suitable for online delivery, making the physical store the main delivery channel. The growth of social media chatter around food has also had an impact with more people showcasing weird and unique flavours and surroundings with followers on social media platforms such as Instagram and Twitter.

Top 10 growing retail categories, H1 2018

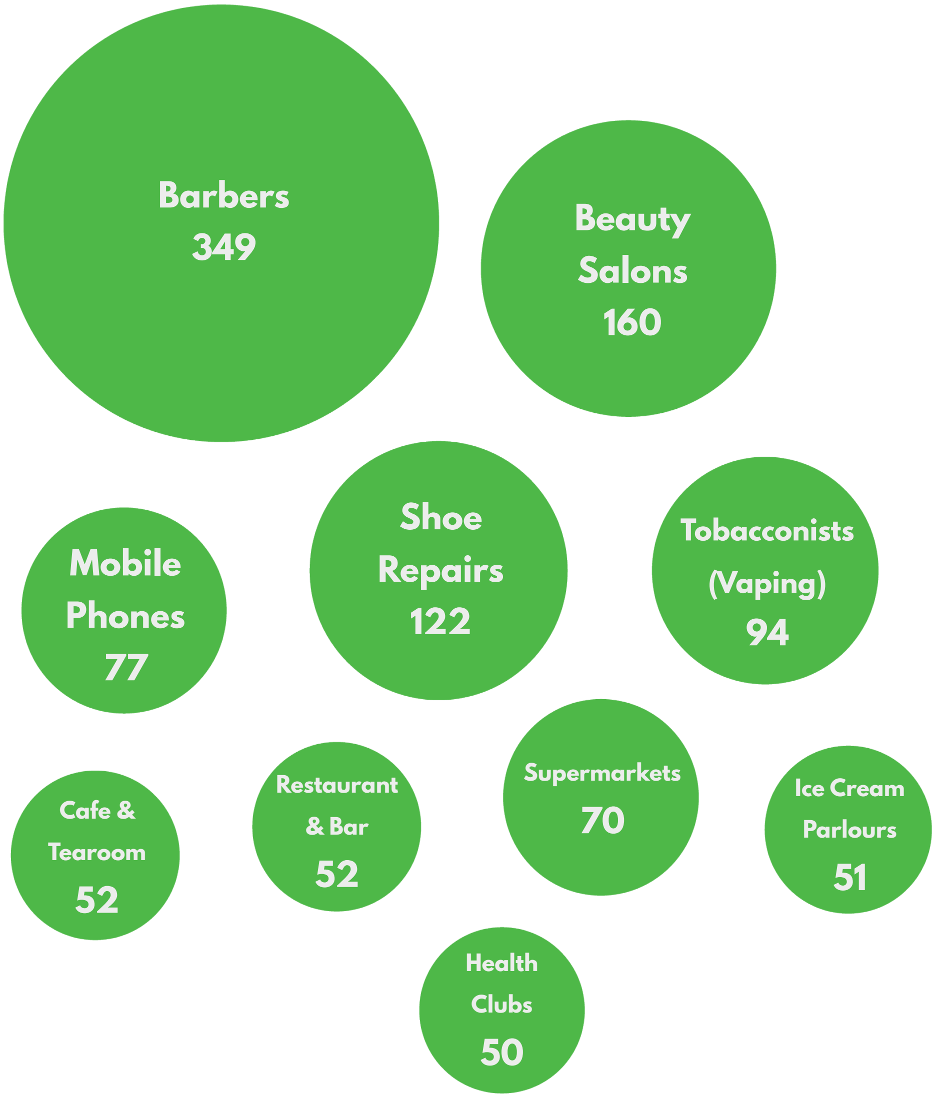

Figure 23: Top 10 growing retail categories in H1 2018 by net change in units across GB (Source: LDC)

In the first half of 2018, there have been several larger pub chains closing units in remote or out-of-town locations, with S.A Brains, Marstons and Sizzling Pubs leading the way for closures. However, we expect some of these may be reopened in H2 2018 if local landlords are found to operate these pubs as independent businesses to serve local patrons. Pubs have been declining in the last five years, with consumer habits changing as more and more drink at home due to the offers on alcohol at convenience stores and supermarkets. Recent LDC research has shown that pub landlords have also turned to changing the use of their land with the attractive returns of residential property seeing many pubs converted into apartments or homes.

Estate agents was the second fastest declining retail category in the first six months of 2018 (-211 stores), with the slowdown in the housing market, changes to stamp duty and Help-to-buy buyers drying up all impacting the sector. The Royal Institution of Chartered Surveyors (RICS) reported in March that buyer demand fell for the 12th consecutive month, with London and the South East seeing the biggest slow down. This is reflected in the regional numbers for estate agent decline, with Greater London and the South East coming 1st and 3rd respectively for net decline in units. Estate agents are also facing increasing competition from online providers with Rightmove, OnTheMarket and Purplebricks all competing for a slice of the market which has seen the average commission decline by around 40%, since 2007 according to UBS. This creates the perfect storm of lower transactions and lower commissions, both which hit agents' bottom lines.

Fashion continues to see a net loss of units, with women's clothing (-171) and fashion shops (-144) in the top 10 for net closures. Rising occupancy costs, increased discounting and falling in-store sales has seen several fashion chains announce store closures, most of which claim that the tough trading conditions has impacted their margins. However, not all fashion brands are consolidating, with Primark continuing to open stores and Store Twenty One reopening several stores as they recover from an administration in 2017. Only just missing from this list is toy shops, a sector to see the closure of 100 Toys 'R' Us stores in April after the famous US retailer went into administration. The closed stores could present an opportunity for other toy retailers, with The Entertainer, Smyths and the Disney Store all expanding their store network across GB.

See figure 24 for the full top 10 list of declining retail categories.

For more detailed analysis of the fashion sector, download LDC's fashion report by visiting:

www.localdatacompany.com/reports

Top 10 declining retail categories, H1 2018

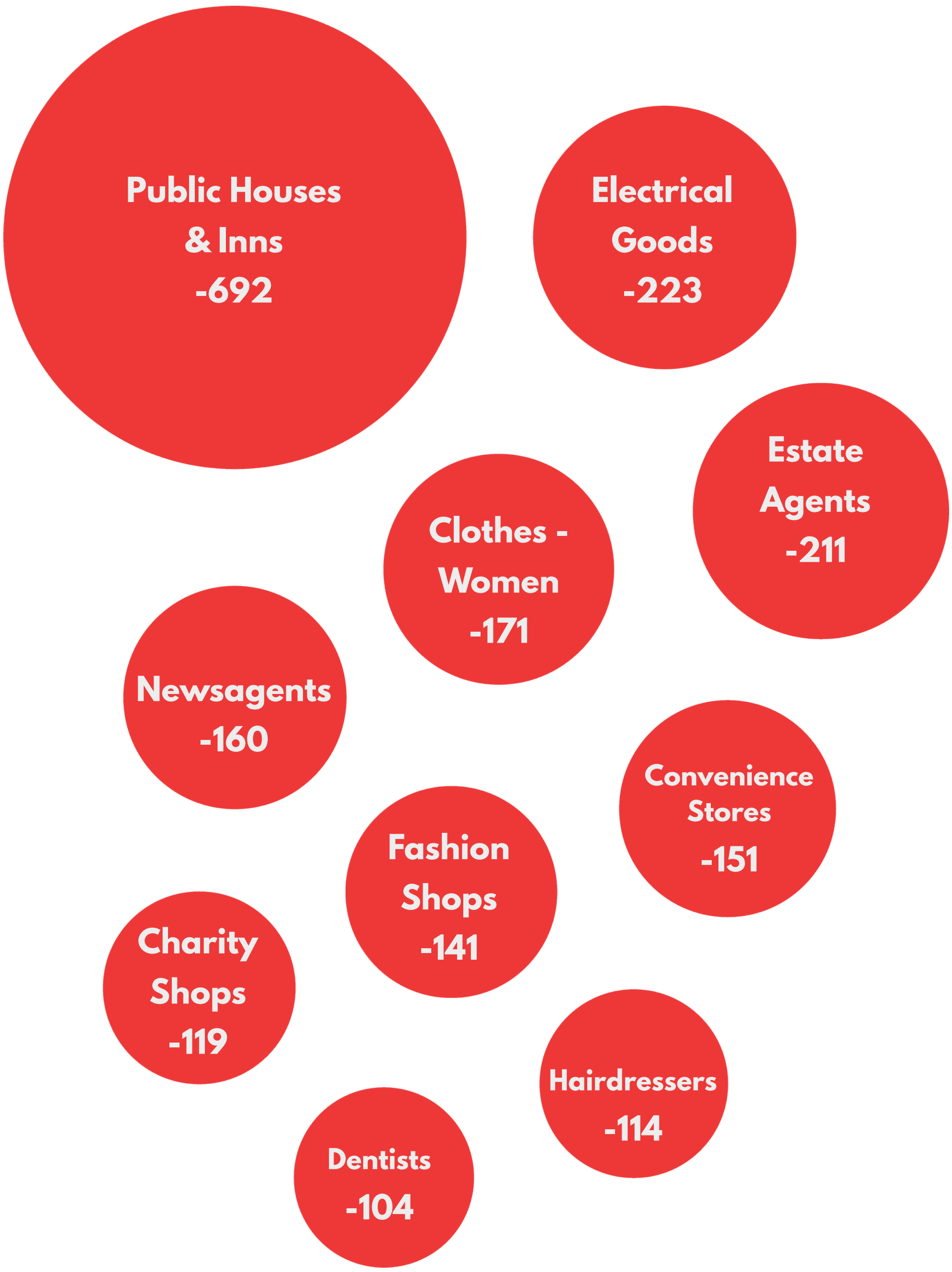

Figure 24: Top 10 declining categories in H1 2018 by net change in units across GB (Source: LDC)

BRANDS

Against the backdrop of a challenging retail climate, the brands section of this report focuses on the retailers who are expanding their estates across GB, new international entrants and independent businesses that have opened enough sites to now qualify as a 'multiple' by LDC. The segment also looks at the fastest growing retailers by classification type across GB in the the 12 month period from July 2017 to July 2018.

Top openings by fascia

Some of the biggest growth areas in the first six months of 2018 came in the form of retail concessions, as complementary brands launched mutually beneficial partnerships. The aim of these partnerships is not only to mitigate rent costs, but also to satisfy multiple shopper missions for consumers. An example of this is Pep & Co who has continued to open stores within larger Poundland units. Pep & Co are hot on the tails of the largest names in discount fashion retailing and are hoping to be able to rival Primark and George (Asda) in regards to volume of sales in the UK.

Timpson's relationship with the largest supermarkets has also seen their estate rapidly increase. By opening within Tesco, Sainsbury's and Morrisons stores, the Timpson's concept can now be accessed in over 1,000 locations across the UK.

It appears that demand for value products continues to rise based on LDC's analysis of which brands saw the highest net increases in store numbers in the 12 month period from July 2017 to July 2018. Home Bargains, Card Factory, Lidl and Aldi were all winners based on their increasing store count and continue to open at a rapid rate. At the time of writing, Aldi operates 775 stores across Britain and recently announced plans to increase its target store count to 1,200 by the end of 2025. Another discount chain that saw significant growth was B&M Bargains, who just missed out on the top five brands by store openings during this period, with a net growth of 14 stores in the past 12 months.

Whilst some retail categories overarchingly trend one way or another, there are usually brands that defy the overall trajectory. An example of this between July 2017 – July 2018 is bookmakers. Although this category is struggling to maintain revenue levels due to the implementation of tougher regulations and increasing online activity, Betfred is one of two companies in the leisure category seeing positive net change in 2018 (see figure 25).

Coffee shops and take away food shops are also on the rise, with Costa and Pret A Manger unsurprisingly seeing significant increases in estate size. Both companies were the subject of acquisitions in 2018, with Pret A Manger being bought for £1.5 billion by the Reimann family investment fund and Costa Coffee bought for £3.9 billion by Coca-Cola. The new owners are likely to continue the rapid expansion of both of these brands, as consumers' demand for convenient coffee and take away food continues to increase.

"...demand for value products continues to rise based on LDC's analysis of which brands saw the highest net increases in store numbers"

Comparison Goods	Net change in units (H1 2018)
PEP&CO	60
EE	43
home bargains	28
TheWorks.co.uk	25
STORE TWENTY ONE	21

Leisure	Net change in units (H1 2018)
BETFRED	46
COSTA	41
ADMIRAL GAMES FOR THE WORLD	37
MEGABET	19
PRET A MANGER	17

Service	Net change in units (H1 2018)
TIMPSON Great Service by Great People	208
The co-operative funeralcare	45
Specsavers Hearing Centres	32
Vets4Pets	31
Medivet The Vets	23

Convenience	Net change in units (H1 2018)
Card Factory	45
ALDI	39
M&S FOODHALL	26
LIDL	19
Central	18

Figure 25: Top openings in H1 2018 across all four classifications across GB (Source: LDC)

LDC holds historical data on every multiple and independent retailer operating across GB. Get in touch to access insights on your competitors.

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Ones to watch

Arket is a new sister brand of H&M, which offers a 'luxury concept store' based on sustainability and durability instead of the fast fashion that H&M is more commonly known for. The first store opened on London's Regent Street in September 2017, and exactly a year on, the new arm of H&M is thriving, with a recent opening in Liverpool One, a planned opening in Birmingham as well as success across Europe in Germany, Sweden, Copenhagen and Amsterdam.

Although no figures have been disclosed by H&M, based on the continuous store openings, this new H&M brand has succeeded in building a loyal customer base thanks to its environmentally friendly focus and product simplicity.

American menswear brand Farah was launched in the 1920s and became popular in the 60s and 70s. The company, now owned by Perry Ellis Europe LTD (which also owns Penguin), is experiencing a comeback from the dip in popularity that began in the 80s, and is today a celebrity-endorsed staple in men's fashion. Such popularity has now led the company to open two more stores this year, in Leeds and Brighton, even though the brand can be found on other platforms such as ASOS. The trend towards brands who traditionally sell online, seeking growth via physical stores demonstrates the continued relevance of physical retailing.

The recent growth of 24-hour gyms has been evident across the UK, with operators like Pure Gym and Anytime Fitness continuing to grow their portfolios. Snap Fitness, a fairly new entrant into the fitness space has been growing rapidly over the last 24 months. Initially, the gym franchise had five sites in 2015, growing this to 21 at the start of 2017 and 44 locations by Christmas that same year. The company was founded in the US in 2003, and uses a franchise model to grow the brand across 18 countries taking units that range from 4,000 sq. ft. to 10,00 sq. ft. In the UK, the gyms are located from St Austell in the south to Aberdeen in the north, with growth expected to continue in 2018 as they aim to end the year with 84 locations nationwide.

Branching out: brands that are moving from independent to multiple

The challenges across some of the UK's stalwart brands is frequently reported on. However, it is also important to track the green shoots of growth in the market to identify the 'big brands' of tomorrow. The concepts in this section are just a few to reach an important landmark in 2018, growing from what LDC classifies as an independent business (brands with less than five stores nationally) to a multiple (a chain brand with five or more stores). Whilst these businesses make up a small proportion of the total UK retail stock, it is key to analyse the younger part of the industry to understand where future growth lies.

Realbuzz is a sports store that has been rapidly expanding in 2018, opening eight new stores in the North West, West Midlands and Greater London. This is a significant increase from the four stores opened last year across the North West and Yorkshire & Humber.

Estilo clothing now has a total of five stores, thanks to its new opening in the West Midlands. The company can now be found in the East and West Midlands and the South East. The stores sell brands such as Bench, Superdry and French Connection.

Cookhouse & Pub has recently opened in the West Midlands, Wales and the South West meaning this pub brand has a wide national coverage. This fascia is part of Whitbread PLC, which also owns other food and beverage outlets as well as hotels.

Friendly Phil's Diner has opened two stores so far in 2018 and is most commonly found in shopping centres across the South East. However, they are also gaining presence on the high street and on retail parks.

Shooters sports bar opened their second store in the North West in 2018. They also have a presence in Yorkshire and Humber, West Midlands, East Midlands and Wales. These bars are in city centre locations and are popular locations to watch a variety of sporting events.

Elemis beauty salons are fast becoming a common name in the North West and South East, which saw three openings this year. Elemis also has stores in Greater London and the East Midlands. Elemis products are widely available across the country, but these standalone salons are putting Elemis on the map.

Welcome to the UK! International brands opening

In April 2017, Maison Alaïa opened its first UK store on Bond Street. This is the first store outside of Paris, although the brand is already available in premium department stores such as Harrods and Selfridges.

Away, the American luggage and travel accessory company opened its first British store in Seven Dials, Soho at the end of August 2018. This is the first UK flagship store for the company.

In August 2018, the first French online-only fashion brand, Sézane, opened its first store in London, offering 'true, affordable luxury' through their lines of fashion staples and fashion -forward pieces.

German brand Hugo Boss opened its first menswear store in August 2018, in response to its new 'two brand' strategy. The first Hugo Menswear store can be found in Westfield London. Although Hugo boss is a household name, this is the first store of its kind to hit UK shopping centres and high streets.

The Californian brand, Stüssy is finally appearing on the high street of Soho London, after a 10 year absence. The store opened on Wardour Street at the end of August 2018, after relying on Selfridges, ASOS, and Size? for its success. The brand is one of the most sought-after streetwear names today.

Italian eyewear company Ray Ban agreed in February that Carnaby Street would become home to a new store. Although Ray Ban is available across many department stores, this is the first standalone store in Europe.

Swedish brand, Daniel Willington opened on Carnaby Street in February 2018, and now has its sights set on a store in Cardiff. The brand is also available in many department stores and jewellers.

Although only a pop-up store, this was the debut store for Desmond and Dempsey in London. Located in Covent Garden, the store offered a limited selection of the products that are available in premium department stores.

DESMOND & DEMPSEY

"Desmond and Dempsey's pop-up is a great example of how a direct-to-consumer brand can use physical retail to tell a richer story about their brand and connect with their customers on new levels. Their 10-day store in Covent Garden was more than just a space to sell it was an event space, brunch club and Moroccan garden – from which their collection had been inspired. These activations meant they could position themselves as much more than just a luxury sleepwear brand. They created a whole lifestyle around their product."

Alice Ratcliff, Head of Brand, Appear Here

Egyptian jewellery brand, Azza Fahmy opened in the Burlington Arcade this March. The brand is popular with celebrities and the store neighbours other premium names such as Mulberry and Chanel.

AZZA FAHMY

Stockholm-based brand Eytys, began trading online in 2013 and opened its first UK store in Soho in September after the success of the Stockholm site. The store has become one of many streetwear brands in this area of London.

Eytys

"For a fashion brand to consider itself to be a truly Global Brand it has to have presence in the UK/London. Britain is the leading country in terms of fashion and fashion culture, and to be taken seriously, brands must crack the UK market in some way. Establishing your brand in London/UK will increase the prestige of your brand and will increase your international reach. Your brand will also become more trusted by consumers. A great example recently has been the tie up between the big Chinese ecom fashion platforms, JD.com and VIP.com with VIP being an official sponsor of London Fashion Week in September of this year.. They are using Britain and our fashion credentials to launch Chinese brands in the UK and to encourage British brands to sell to the Chinese market via their platform."

Damian Hopkins, International Director, Matalan

MATALAN

Better together? Mergers, acquisitions and partnerships

To date across 2018 there have been a number of CVAs and retailers falling into administration. Alongside this, the M&A market has also remained buoyant and retailers across various verticals joined forces looking to make strategic plays into new or complementary sectors.

Sports Direct / House of Fraser

The biggest shock of 2018 was the purchase of House of Fraser by Sports Direct owner Mike Ashley for £90million. The purchase saved the department store chain from administration and now all stores and stock are in Ashley's hands. Ashley already held shares of 11% prior to the purchase and has an understanding of high-end retailing as he owns Flannels - a premium retailer stocking some of the largest designers. Ashley has already announced plans to keep as many stores open as possible and turn House of Fraser into the 'Harrods of the high street'. We'll be watching closely to see how the fate of House of Fraser will affect other department stores across the country.

The Hut Group / Acheson & Acheson

The Manchester-based beauty and wellbeing business added to its growing portfolio at the beginning of September 2018, when it bought British beauty product developer Acheson & Acheson in a deal worth around £100million. The Hut Group appear to be dominating the current market and is worth approximately £4billion today. The purchase comes after a £600million credit facility was secured in May 2018 for merger and acquisition investments. The Acheson & Acheson company was established in 1992 and holds state-of-the-art facilities in Somerset, which will be of huge advantage to The Hut Group.

Vision Express / Tesco Opticians

The acquisition of Tesco Opticians by Vision Express was completed in December 2017, and in June 2018 the rebranding was completed. The acquisition takes the total number of Vision Express stores to 600.

JAB Holdings / Pret-A-Manger

In May 2018, Pret was bought by JAB Holdings, a German investment company owned by the wealthy Reimann family for £1.5billion. Pret was previously owned by Bridgepoint. There are 530 stores in the UK alone, and 148 abroad. JAB Holdings has focused their acquisition strategy on food and beverage companies recently, and has acquired Krispy Kreme doughnuts, Douwe Egberts and Tassimo coffee alongside a few other American coffee brands.

Tesco / Carrefour

Tesco & Carrefour announced plans to form a strategic alliance at the beginning of July 2018 to boost buying of own-brand and branded products that will enable greater choice and lower prices for customers. The deal came in light of the recent potential merger plan between Sainsbury's and ASDA and is part of a plan to fight discounting supermarkets such as Aldi and Lidl which continue to dominate the grocery market.

Coca-Cola / Costa Coffee

On the 31st August 2018, Coca Cola announced the confirmed purchase deal of Costa Coffee, Britain's largest coffee shop chain, for £3.9billion. Costa Coffee was originally owned by Whitbread which also own chains such as Premier Inn. The coffee shop was bought by Whitbread in 1995 for £19million, so the sale in August provided a hefty profit for the company, who originally planned to start the chain as a separate firm. For Coca-Cola, the purchase finally gave them a coffee product they desired, and as Costa is the world's second largest coffee chain, the purchase has given Coca-Cola the potential to compete and potentially overtake Starbucks Coffee.

Sainsbury's ASDA

A proposed merger between Sainsbury's and Asda could create the UK's largest supermarket chain with a total market share of over 30%. This would bring the joint brand in above the current market leader Tesco (27%) according to Kantar figures from September 2018. The deal is currently being investigated by the The Competition and Markets Authority (CMA) to see whether the merger would lead to less competition and increased costs for consumers. The key categories the CMA will be looking at are grocery, clothing, toys, general merchandise and fuel. Sainsbury's, Asda, Tesco and Morrisons have all been losing market share to the German supermarkets Aldi and Lidl over the past few years. Tesco has already made several strategic moves, including the acquisition of Booker, which the CMA approved at the start of the year, and the partnership with French grocery chain Carrefour in an attempt to win back shoppers.

LDC data shows that the regions that will face the greatest threat of overlap are Yorkshire and the Humber and the North East, while the total number of expected stores that Sainsbury's and ASDA will have to divest will be significantly below the 453 areas of increased competition quoted at the end of Phase 1 study by the CMA. Phase 2 of the investigation will likely consider the impact of Aldi and Lidl in many of those areas, and how their increased market share and their low-cost pricing model will put enough competitive pressure on Sainsbury's.

The results from the CMA investigations are not expected until spring 2019, but the likelihood is that some stores will be divested in areas where the combined entity will reduce competition. Clothing will be less impacted, with the competition from online pure players and high street chains like Primark likely to reduce the impact. Fuel could be a concern, as Sainsbury's and Asda is likely to become the largest fuel provider in the UK with a combined market share of 17.9% (Sainsbury's 10.3% and ASDA 7.6%) overtaking Tesco (16.1%) according to figures from Statista. LDC data shows that garages have been in decline over the last three years, with a net loss of 223 filling stations (Source: LDC). This has been driven largely by price wars with the supermarkets who are able to charge 4.1p less per litre. This could be an area the CMA look at extensively.

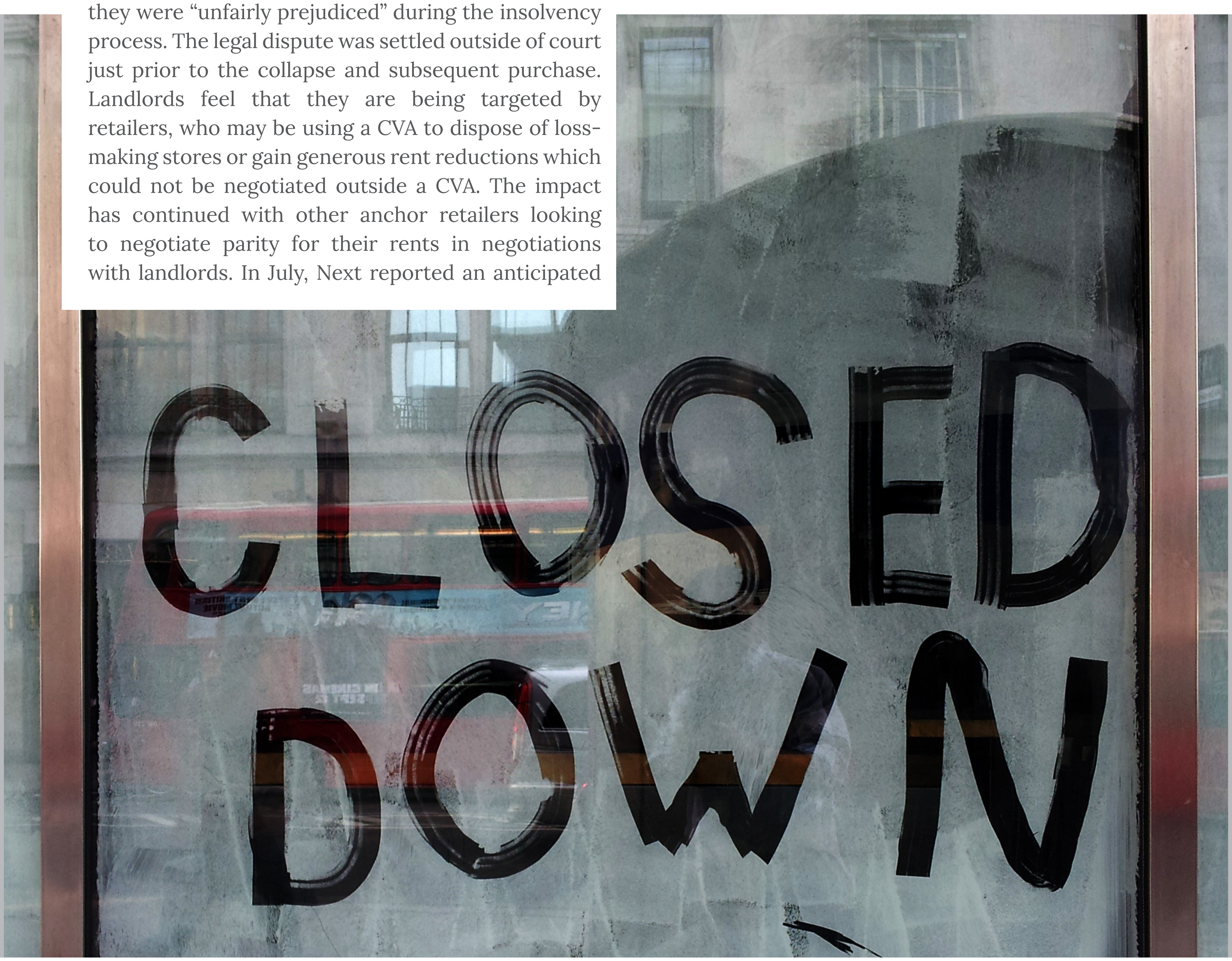
Company Voluntary Arrangement

A CVA is an insolvency process designed to facilitate a firm with debt problems to reach an agreement with creditors to help pay off part or all of its debt. The measure is a way of preventing a company's collapse or administration, so it is seen by many as a last resort for both landlords and retailers.

The first six months of the year saw several brands report CVAs with New Look, Carpetright, Prezzo and Mothercare all closing stores or receiving rent reductions on a proportion of their stores. House of Fraser also entered into a CVA, with 31 store closures announced prior to the department store falling into administration and being bought by Sports Direct.

Concerns have been raised about the use of CVAs as an instrument to cut retailer costs by forcing rent costs down. Landlords have tried to fight back, with a group even taking legal action against House of Fraser saying they were "unfairly prejudiced" during the insolvency process. The legal dispute was settled outside of court just prior to the collapse and subsequent purchase. Landlords feel that they are being targeted by retailers, who may be using a CVA to dispose of loss-making stores or gain generous rent reductions which could not be negotiated outside a CVA. The impact has continued with other anchor retailers looking to negotiate parity for their rents in negotiations with landlords. In July, Next reported an anticipated 32% reduction in their net rent across the 33 store renewals that occurred in the previous financial year. Next are in a strong position, as landlords are likely to agree to the terms due to the fact that the chain is a key anchor retailer across several high streets, shopping centres and retail parks and has the ability to generate footfall and attract a broad demographic.

With the closure of many stores through this process, we completed analysis on the status of the BHS stores that closed at the two year anniversary mark in August. Although just over half of these stores still lie vacant, 42.1% have found new occupiers or have deals in place, with a further 3.8% undergoing structural changes to repurpose the space. This is telling of the challenges that landlords face when finding new occupiers, with the size of the former BHS stores making this much harder. The North East had the best re-occupancy rate, with 75% of the former BHS units reoccupied compared to Scotland which has a reoccupancy of just 12.5%.



Regional breakdown of former BHS units by current store status

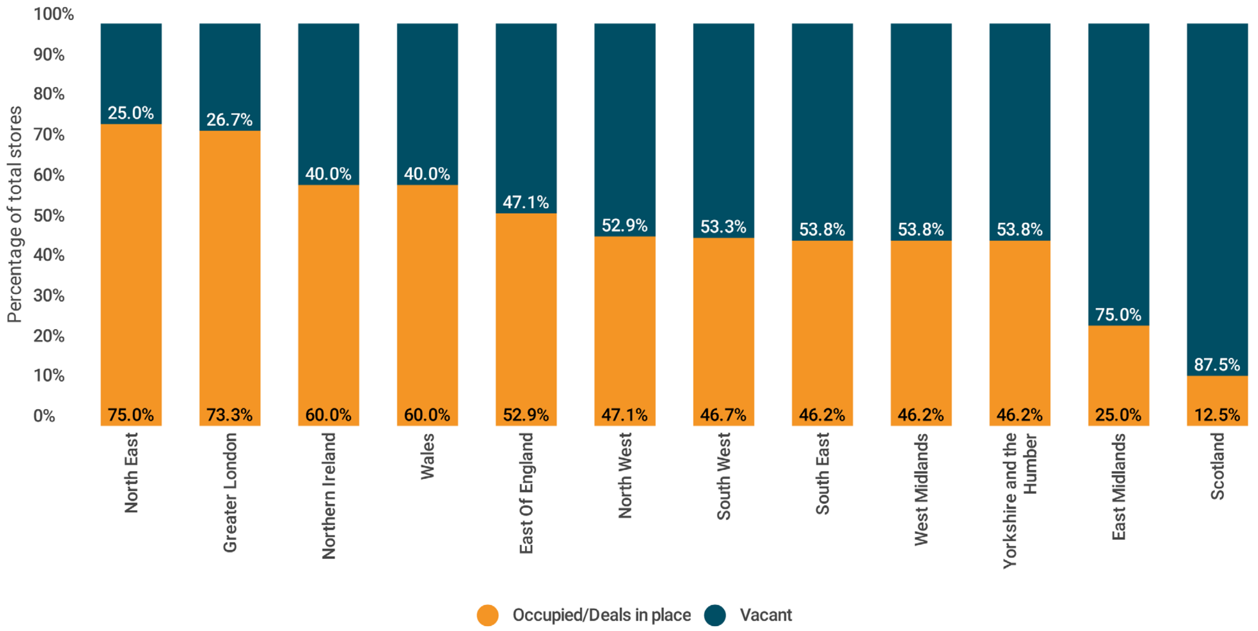


Figure 26: Regional breakdown of former BHS units by occupied vs. vacant status as of August 2018 (Source: LDC)

The main re-occupiers were fashion & general clothing retailers and discount stores who occupy a third of the former BHS sites (66%). However, with discount retail growth slowing down in the last 12 months, this pool of potential re-occupiers has dwindled, resulting in a shift in focus towards larger fashion retailers or asset managers splitting units to attract complementary brands. This is evident in Bristol where the former BHS building has been split to accommodate a TK Maxx and Metro Bank as neighbours.

Top reoccupiers of former BHS units, as of August 2018

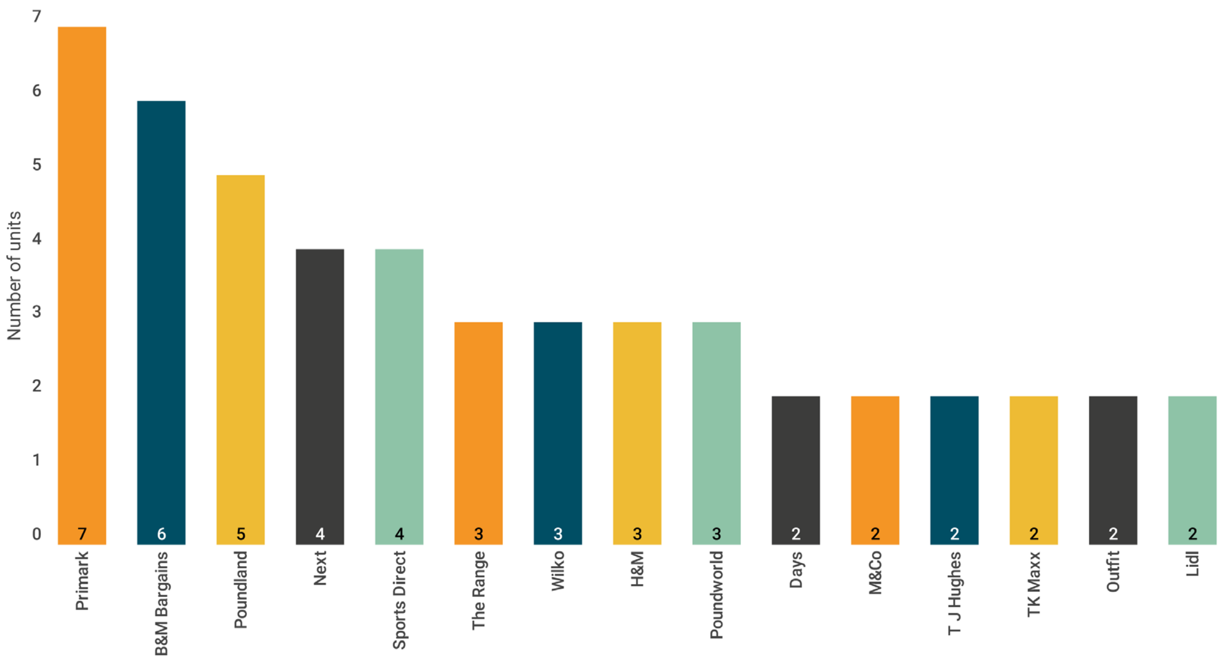
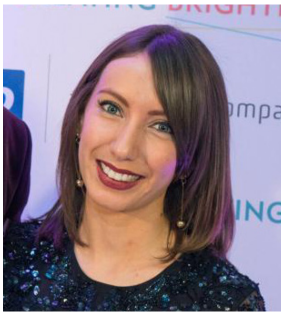


Figure 27: Top re-occupiers of former BHS units as of August 2018 (Source: LDC)

Conclusion

This report has highlighted the tough H1 the retail sector faced in 2018, with store closures and administrations leading to all four classification types seeing a net decline. This is expected to continue to the end of 2018 with closure events filtering through into the overall vacancy rate figures. However, there are cases of retailers that are continuing to expand their estate with ambitious growth plans. Retailers will be preparing for the busy festive period, with January likely to bring the verdict on more winners and losers. For the expected store closures that will filter into the market, some units will be re-occupied by predatory competitors as seen when Toys R Us (The Works) and Brantano Footwear (ShoeZone) closed. Many of these will require landlords to find creative and profitable ideas to utilise the space. We look forward to reporting on H2 to complete the picture for the year.

COMMENTARY



Lucy Stainton, Senior Relationship Manager, Local Data Company:

"The first six months of 2018 served to reassure everyone at LDC that our continued commitment to real-time tracking of the physical retail landscape is as worthwhile as ever. Industry colleagues will no doubt acknowledge that the pace of churn in the market continues to increase, but it is also the nature and scale of these trends which remains fascinating. I thought perhaps we might have peaked when, in 2017, we identified that 624 barber shops were added to our high streets in 12 months alone. However, this sub-sector continued to out-pace all others in terms of growth, with a further 349 male grooming salons opening in the first six months of 2018!

Of course, it would be remiss not to acknowledge that, despite the persistent green shoots of growth in the market, and a good number of high street success stories, the outlook remains challenged. The pace of closures dramatically outstrips new openings in the first half of 2018 and the gap between the two has widened to a greater degree than seen previously. The number of closures increased by 16.9% when compared to the same period in 2017, coupled with a decrease in openings of 2.1%. This equates to a loss of 4,402 units in the first half of this year, an inescapably stark figure.

What is a particularly defining feature of H1 2018, is the pronounced decline in the leisure category – previously a sector which had been notably defiant in the face of wider high street gloom. H2 2017 was the first time we noted this change in trajectory but coming into this year the decline has accelerated. The net decrease in the leisure category exceeded 1,000 units in the first half of this year alone and interestingly comprised almost entirely of multiples, with independent leisure businesses remaining stable. As an often lazy South Londoner, I can perhaps rationalise this given that platforms such as Deliveroo, JustEat and UberEats are increasingly offering local, independent restaurant businesses both a boost in visibility as well as a supplementary revenue stream.

There's no denying these latest figures don't exactly serve to refute the "death of the high street" narrative, as much as perhaps I'd like them to. What is key to distinguish however, is that whilst 'high street' may be used as a catchall for physical retail, it is shopping centres which have seen the most significant decline in occupied space. Shopping centres tracked a net decline of -1.26% in the first six months of 2018, faring worse than high street locations at -0.79%.

Looking to the latter half of 2018, I believe we have to be prepared to see a steady increase in GB vacancy rates. Vacancy rates remained stable in the first half of this year as continued activity around merging, splitting and converting closed retail units for other uses (e.g. office and residential), balanced out the initial closures. However, as we sit in October the sustained store closures has pushed the GB vacancy rate from 11.2% to 11.4%. My forecast would be that we land on 11.5% at the end of 2018, an increase which accounts for both heightened closure activity, mitigated somewhat by further creativity in terms of repurposing redundant retail stock. Vacancy rates are a fantastic barometer for the overarching health of the retail landscape, hence this increase coupled with persistent closure activity paints an unavoidably sombre picture. However, I also remain entirely convinced that despite some perceptibly undesirable numbers, this represents a snapshot in time and we will continue to see the emergence of new and exciting concepts as well as a show of resilience from many brands and places. Data and common sense both indicate that the UK has too much property currently used for retail, but this by no means has to signal the death of physical retailing. We believe that this market shift will continue to encourage innovation, creativity and newness – of which there are already plenty of shining examples across brands and landlords alike.

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CASE STUDY

How O2 Telefónica use LDC's dynamic store list information for estate strategy planning and enhancing strategic partnership opportunities

O2 is the commercial brand of Telefónica UK Limited and is the mobile network operator with the highest customer satisfaction in the UK according to The Institute of Customer Service. O2 was also awarded Best Network Coverage in 2018 by uSwitch. With over 25 million customers, O2 runs 2G, 3G and 4G networks across the UK, as well as operating its nationwide O2 Wifi service. Priority is an exclusive app for O2 customers which provides great offers from high street brands, tickets and experiences, as well as access to the best in entertainment. O2 currently maintains over 450 retail stores across the UK which reach all the way from Penzance to Elgin in Scotland.

LDC began working with O2 in 2010, when they started to utilise LDC's uniquely rich and accurate data on current and potential store locations. Since then the relationship has gone from strength to strength, with O2 now working with LDC's entire retail database as well as using a bespoke version of LDC's insight analysis platform, developed especially to support O2's retail development function.

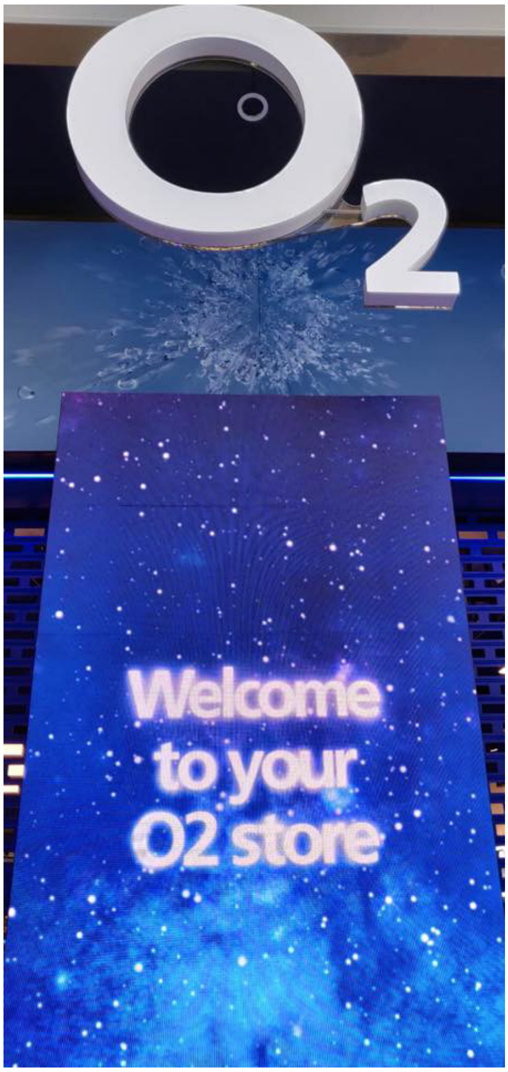
Tracking dynamic retail insights

Before working with LDC, O2 found it challenging to obtain and maintain retailer address information in current and potential locations and were reliant on external sources including websites which may not be up-to-date and may contain inaccuracies in a rapidly changing market. Aggregating this data was a drain on internal time and resource for the business and they needed a way of accessing data which was more accurate, comprehensive and updated regularly. The introduction of LDC's data and systems meant that store lists could be easy accessed and the team at O2 had more time to focus on other value-add projects and initiatives.

Initially, LDC was able to provide a range of dynamic datasets of retailers store list by location at the click of a button which were physically created, verified and tracked on an ongoing basis by a team of field and desk researchers. This ready availability of data meant that O2 could access any store lists and store address information without the need for a dedicated analyst resource. Data can also be mapped and visualised easily by the team with one click.

Analysing location health

The team at O2 then started looking at a host of other metrics which were also available through access to LDO, LDC's online location data platform. These included store vacancies, percentages of retail stock by category and the make-up of the retail provision for towns and cities across GB. This allowed O2 to identify trends in the market, supporting other teams within the business with estate planning, acquisitions, relocations and closures. O2 are also able to view more and more historical information on locations, to gain a better understanding of the trajectory and health of each high street, shopping centre or retail park across the UK.



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How is O2 using LDC data today?

Mapping store territories

O2 and LDC have now been working together for 8 years, and have recently extended the working relationship. The team at O2 now use a bespoke dashboard on the LDO platform, which has been developed in conjunction with O2 to meet their specific requirements. LDO is used by the Stores Property team, Territory and Regional Leaders, and senior Store Management teams. One of the most valuable aspects for O2 is the ability to instantly access a map of all of O2's stores and key internal data quickly and easily without any technical system knowledge required by the users. O2's retail estate is comprised of company owned stores and franchise stores with a number of franchise partners. Having a single source of truth for the estate is invaluable for activities such as territory planning, understanding the catchment area of each store to support estate strategy planning.

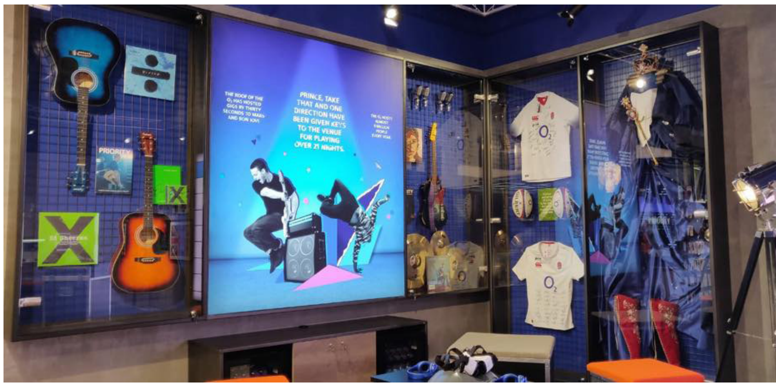
Data to drive retail estate decisions

O2 use LDC data to drive their retail estate activities, which is a critical part of its business. Physical stores play a role in facilitating excellent customer service (including initiatives such as O2 Gurus), showcasing new technologies, products and services and developing the omnichannel presence for O2. O2 use a variety of metrics reliant on LDC data to identify suitable locations for their stores. Not only do O2 use the data to identify new locations, but O2 also use vacancy and churn data to understand in which locations O2 are more likely to be able to acquire a unit, which enables O2 to prioritise their target list based on the locations O2 are most likely to find available space.

Enhancing strategic brand partnerships

Having access to the location and address data of retailers across the UK also allows O2 to analyse and assess other potential opportunities. This could include acquiring stores from other retailers that are moving or closing, assessing potential partners estates against O2's estate to understand the potential of such partnerships and monitoring general retail trends to ensure O2 remains abreast of all current retail developments.

This enables them to monitor market forces and understand which retailers are expanding/shrinking their estates and how this could have a knock-on effect for O2's potential presence in that location.



"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

METHODOLOGY

- The Local Data Company (LDC) visits over 3,000 towns and cities (retail centres and Government defined retail core), retail parks and shopping centres across England, Scotland and Wales. Each premises was visited and its occupancy status recorded as occupied, vacant or demolished.
- Shops refers to Convenience Retail, Comparison Goods Retail and Service Retail only. Leisure refers to Leisure destinations namely, Entertainment venues, Restaurants, Bars, Pubs & Clubs and Cafes & Fast food.
- Each centre has been physically walked and each premises recorded as vacant, occupied or demolished as recorded on the day of survey. Vacant units are units which did not have a trading business at that premises on the day of survey.
- Centres are updated on either 6 or 12 month cycles according to LDC update plan.
- Independent retailers are business with less than five stores nationwide, and no international presence.

LDC DATA STRUCTURE

'Classifications'

Top level retail classifications

LEISURE	SERVICE	COMPARISON GOODS	CONVENIENCE
Food and beverage, entertainment and accommodation	Banking, dry cleaning and beauty services	Physical items such as books, clothing and homewares	Food and grocery items

'Categories'

Level of retail type groupings within classifications

E.g.

LEISURE

- Accommodation
- Bars Pubs and Clubs
- Cafés and Fast Food
- Entertainment
- Restaurants

'Sub-Categories'

Third level of retail groupings within categoriess

E.g.

ENTERTAINMENT

- Bingo Halls
- Ice Rinks
- Snooker
- Bookmakers
- Etc.

For more information please contact us

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Or visit localdatacompany.com

Data correct as of October 2018

Disclaimer

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