RETAIL AND LEISURE MARKET ANALYSIS

FULL YEAR 2018

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the Local Data Company (LDC)

www.localdatacompany.com

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A bit about THE LOCAL DATA COMPANY

The Local Data Company is the UK's most accurate retail location insight company. We physically track every retail and leisure business across the entire country. Our data powers strategy and decision making for our clients, working across retail, leisure, out-of-home media, investment, property and financial services.

Our team of field researchers record the occupancy status of every business on a regular basis. This frequency enables us to track how the market is changing in close to real-time. The accuracy of our data is underpinned by our proprietary technology stack which supports the field research and quality control processes. This technology enables us to provide our clients with unrivalled insight on over 650,000 retail and leisure businesses, access to location insight dashboards and footfall tracking capabilities.

Our team of analysts and sector experts is committed to understanding the unique challenges our clients' businesses face and applying our comprehensive data to support their strategic objectives.

To find out more about the Local Data Company over a coffee email team@localdatacompany.com, alternatively visit www.localdatacompany.com.

Some of the businesses we work with:

"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,
Shore Capital Markets -
Head of Research"

“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

NOTE MACHINE

“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

FATFACE
UNITED KINGDOM

To read more about our work with FatFace, visit

www.localdatacompany.com/fatface-case-study

KEY FINDINGS

- 2018 was one of the toughest periods in recent years for retailers, evidenced by the number of openings slowing down to a five year low of 43,278. This, coupled with the highest rate of closures in the same period (50,828) led to an overall net loss of -7,550 occupied units.
- The GB vacancy rate rose by +0.3% in 2018 to 11.5% - the highest level since 2015.
- The leisure vacancy rate increased from a low of 8% in July 2017 to 8.5% by the end of 2018.
- The retail vacancy rate continued to rise in H2 2018, ending the year at 12.7%.
- The total number of vacant units that were demolished, split, merged or converted for another use in 2018 was 3,577, up from 2,706 in 2017 and 2,646 in 2016.
- All four retail categories (Comparison Goods, Leisure, Service and Convenience) experienced net decline with losses increasing for all apart from Service. Leisure fell deeper into decline moving from a net change of -67 in 2017 to -749 in 2018.
- The explosive growth in Barbers continued in 2018, with the net increase rising to +813 units compared to +624 in 2017. This means more than two Barber shops opened every day across GB in 2018. Beauty Salons also increased their rate of expansion, with increases of +495 compared to +388 in 2017.
- Banks overtook Pubs to take the top spot in the fastest declining categories list in 2018 with a net change of -716 units. Pubs still saw an overall net decline of -636, however the decline is slowing compared to 2017 when there was a net decline of -747 units.
- Another retail category experiencing a notable change in trajectory is Estate Agents. In 2014, we tracked this category as one of the top 20 fastest growing. Now it features as the 3rd fastest declining category due to falling house prices, growing competition from online players and a slowdown in new buyers.
- Vegan restaurants continue to top the niche category growth segment growing by +16 in 2018.
- Numbers of multiples continued to fall, with the net decline accelerating steeply from -4,010 in 2017 to -6,537 in 2018; the highest net decline in the past five years.
- Independents performed slightly better in 2018 compared to 2017, with a slower net decline of -1,013 units compared to -1,483 in 2017. However, this was the second consecutive year of decline compared to growth between 2013 and 2016.
- Aldi was the fastest growing retailer in 2018. Greggs, Card Factory, Cake Box and The Pet Hut followed to make up the top five fastest growing brands.
- Every location type saw the number of occupied units decline at a faster rate in 2018 than in 2017. Retail parks saw the biggest change in fortune with the net gain of +0.8% being replaced by a net decline of -1.3%. The high street fared slightly better than all other location types, seeing a less significant increase in losses of -0.3%. Shopping centres saw the biggest net decline in 2018, a trend continued from 2017.
- Retail parks saw the biggest increase in vacancy rates, rising from 4.9% in 2017 to 7.1% in 2018.
- The high street vacancy rate rose by +0.3% from 11.2% to 11.5% in 2018.
- The North West was the only region to not see an increased decline in numbers of occupied units. Conversely, the East Midlands showed the biggest increase in net losses.

For more information please contact us

0203 111 4393
team@localdatacompany.com

Or visit
www.localdatacompany.com

INTRODUCTION

Retail is and will always be a cornerstone of the UK high street, providing a vibrant area for the local community to socialise, access services, shop and be entertained. This is why the current structural changes going on in the retail sector are so emotive to all stakeholders be it consumers, retailers, landlords or investors. It is for this reason that recent challenges in the sector garnered numerous headlines all the way through 2018, with only Brexit able to offer some competition. We interact with retail every single day; from our daily caffeine dose at our local coffee shop, to our weekly food shop or more commonly now daily top-up at our local convenience outlets. Far from being dead, the need for physical retail is as relevant today as it has ever been; it just needs to evolve to better meet consumers' changing preferences.

The retail sector employs the largest number of workers across the UK – this being just one of the reasons that it is important to reflect on 2018; a year that saw a lot of change as retailers evolved, adapted and unfortunately died as the market continued to demand more from businesses. The bi-annual Local Data Company reports provide the perfect opportunity to take stock and quantify the market change that we can sense happening around us at a rapid pace. Our ability to track the trajectory of over 350 different sub-categories of retail and leisure occupier affords us incredible insights which we use to delve beneath the headline stories that initially look so stark. Whilst our analysis of 2018 did produce some startling figures, we never cease to be amazed by the resilience of British entrepreneurs, evidenced by the fact that we always have stories of growth and of success to share in our analysis.

This report will use the Local Data Company's extensive data of over 650,000 premises to gain a deep understanding of the complex and rapidly developing trends across the UK's high streets, shopping centres and retail parks over the 12 months of 2018.

Openings and closures

2018 was one of the toughest periods in recent years for retailers, evidenced by the number of openings slowing down to a five year low of 43,278. This coupled with the highest rate of closures in the same period led to an overall net loss of -7,550 occupied retail units in the year. This figure was brought about by a perfect storm of rising operational costs, Brexit uncertainty, rising rents and rates and the raft of CVAs and administrations that were announced in the year including Maplin, Toys R Us and Jamie's Italian.

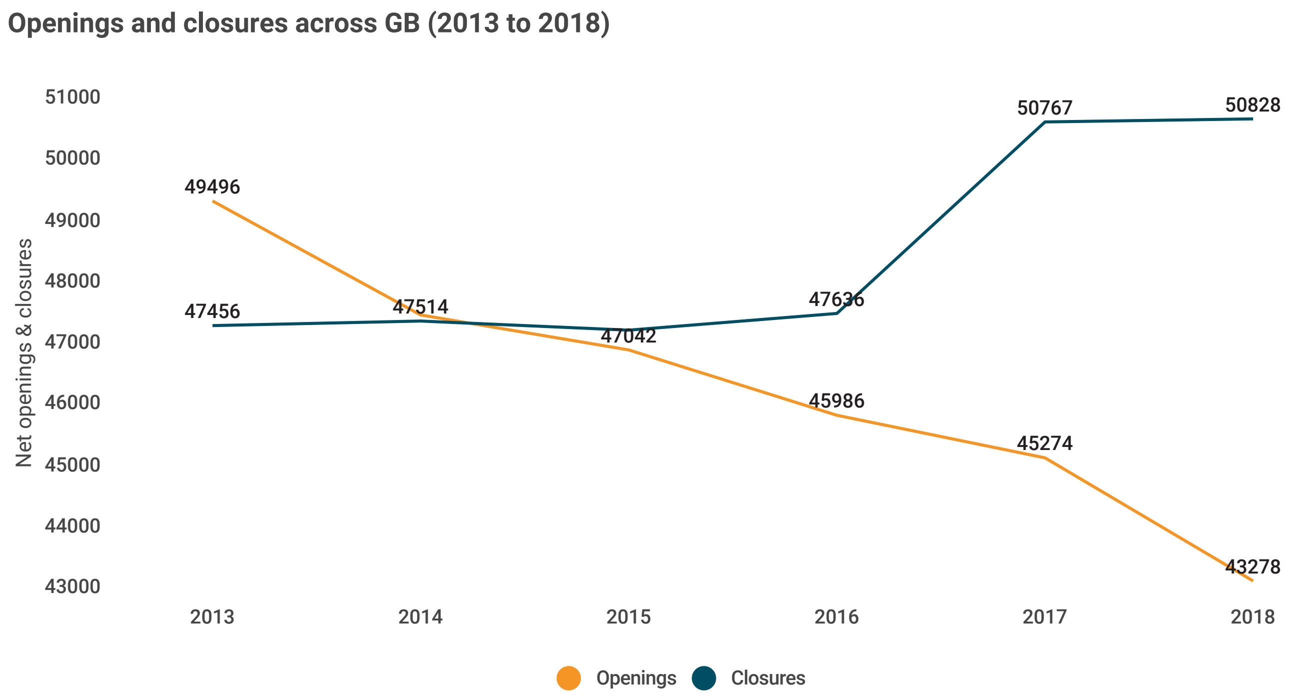


Figure 1: Openings and closures across GB between 2013 to 2018 (Source: LDC)

Local Data Company Ltd, 13-19 Vine Hill, London, EC1R 5DW.
+44 (0) 20 3111 4393 | team@localdatacompany.com | www.localdatacompany.com

Vacancy rates

The total average vacancy rate (All Vacancy) rose by +0.3% in 2018 to 11.5% - the highest level since 2015. The Leisure Vacancy rate increased from a low of 8% in H1 2017 to 8.5% by the end of 2018. Competition and saturation in the market has seen several chains close sites. Rises in food costs and business rates for prime sites have also hit margins leading to brands like Byron and Prezzo announcing CVAs.

The Retail Vacancy rate also continued to rise in H2 2018, closing the year at 12.7%, again the highest rate since the end of 2015. Whilst an increase in vacancy is never welcome, it's important to note that, compared to the data in Figure 1, the vacancy rate increase is not as aggressive as one might expect. One of the reasons for this is an increase in retail stock being taken out of the market. Further analysis on this trend can be found on page 27.

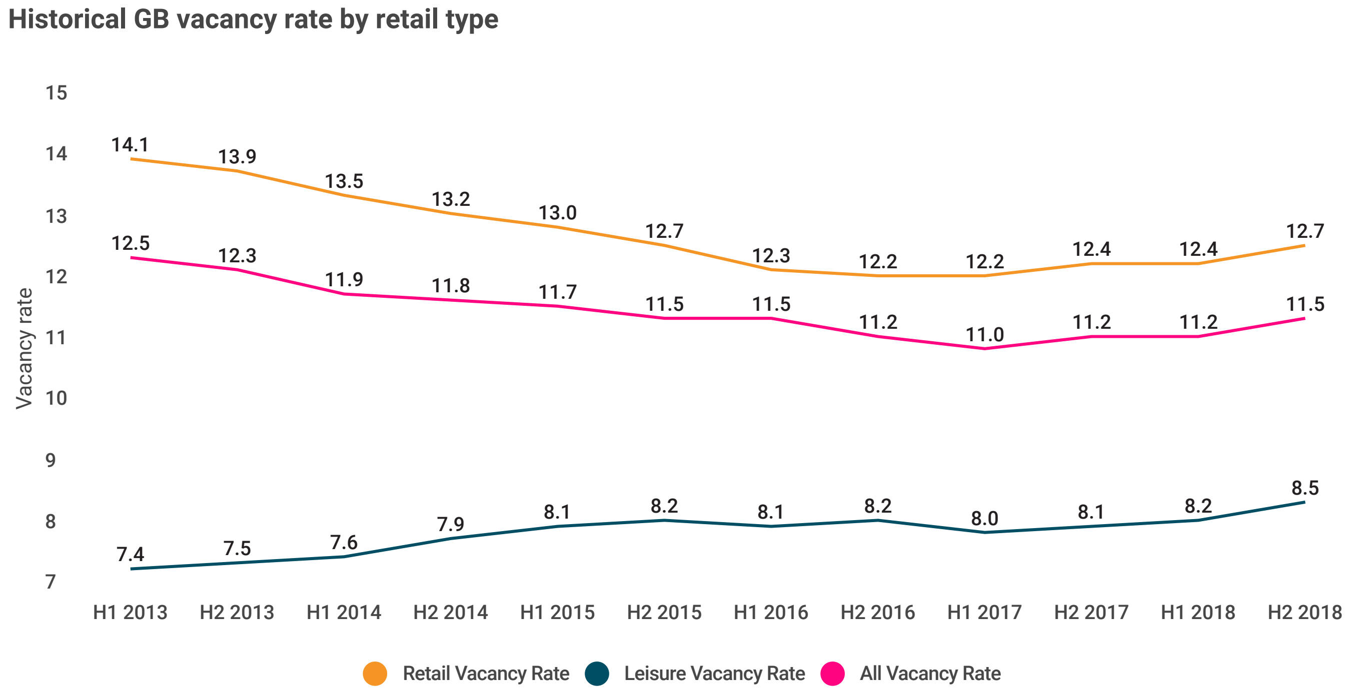


Figure 2: Historical GB vacancy rate by retail type between 2013 and 2018 (Source: LDC)

Farewells

2018 was a year full of CVAs and administrations, with the largest number of stores (and employees as can be seen in Figure 3) affected since 2012. The largest retailers to experience difficulties were New Look, Poundworld, Toys 'R' Us and Maplin. We expect fewer stores to be affected in 2019, as retailers use their creativity to survive one of the most challenging trading environments in recent times.

Stores and employees affected by failing companies

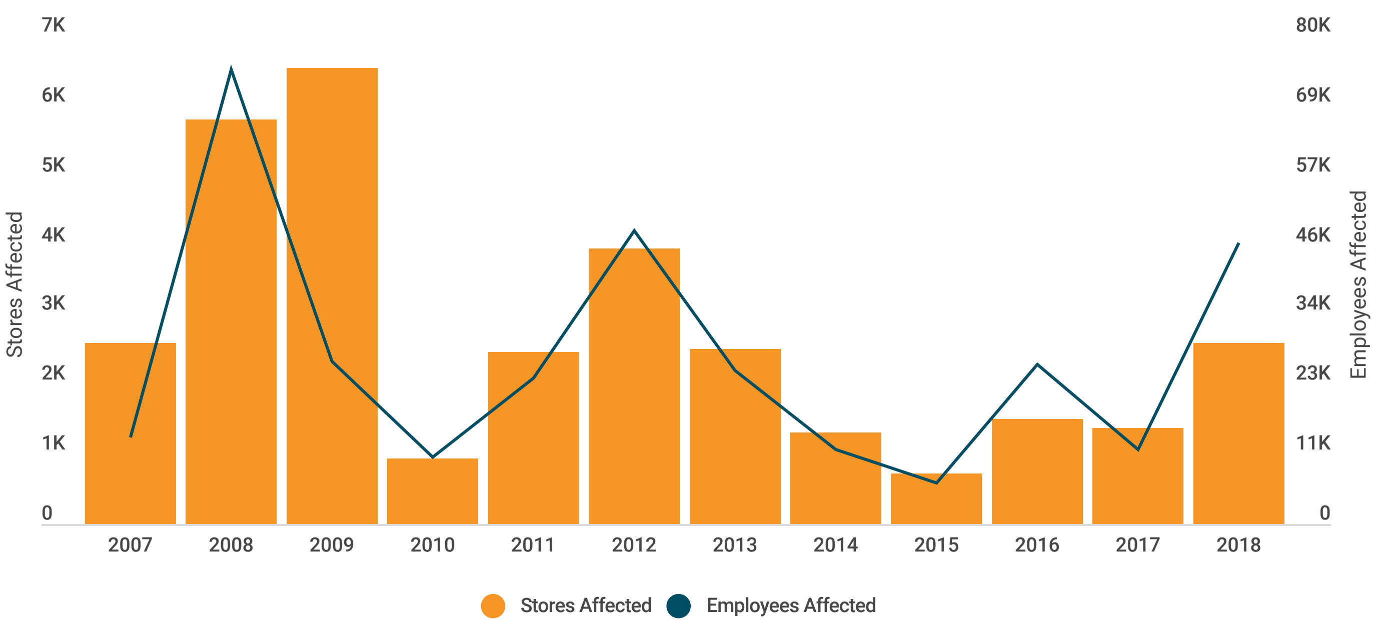


Figure 3: Stores and employees affected by failing companies from 2007 to 2018 (Source: Centre for Retail Research)

Operating costs continue to rise

Prices have continued to rise across the sector, with food and catering seeing the biggest percentage increase over the 12 months of 2018 due to the UK's imminent departure from the EU, the devaluation of the Pound and volatile weather such as the Beast from the East and the long summer heatwave. Within stores the cost of operating has also risen significantly, with national minimum wage rising on average by 15% in the last three years (see Figure 5), increasing minimum pension contributions by employers and business rates hikes causing pressure on the bottom line.

RPI percentage change over 12 months - Food and Catering **

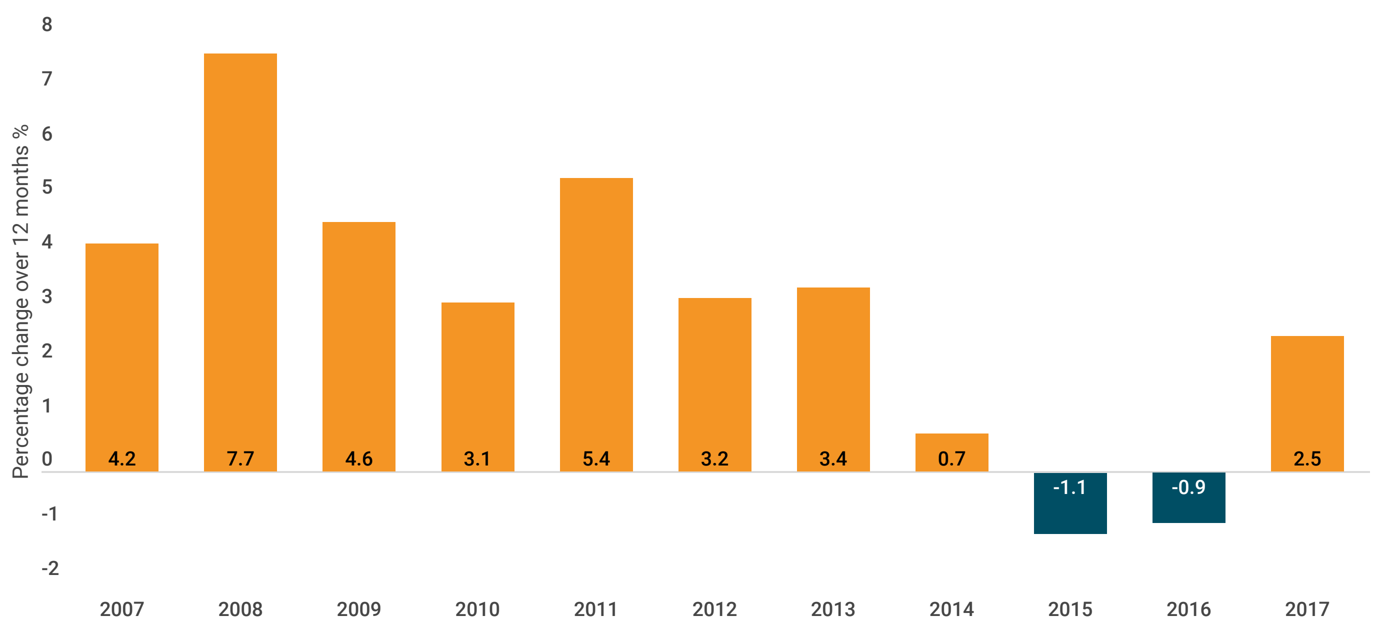


Figure 4: Percentage change in the RPI year-on-year for Food and Catering between 2007 to 2018 (Source: ONS)

*** Food and Catering tracks the cost of key foodservice items such as Bread & Cereal, Meats, Dairy products, Soft drinks & Juice and Fruit & Veg*

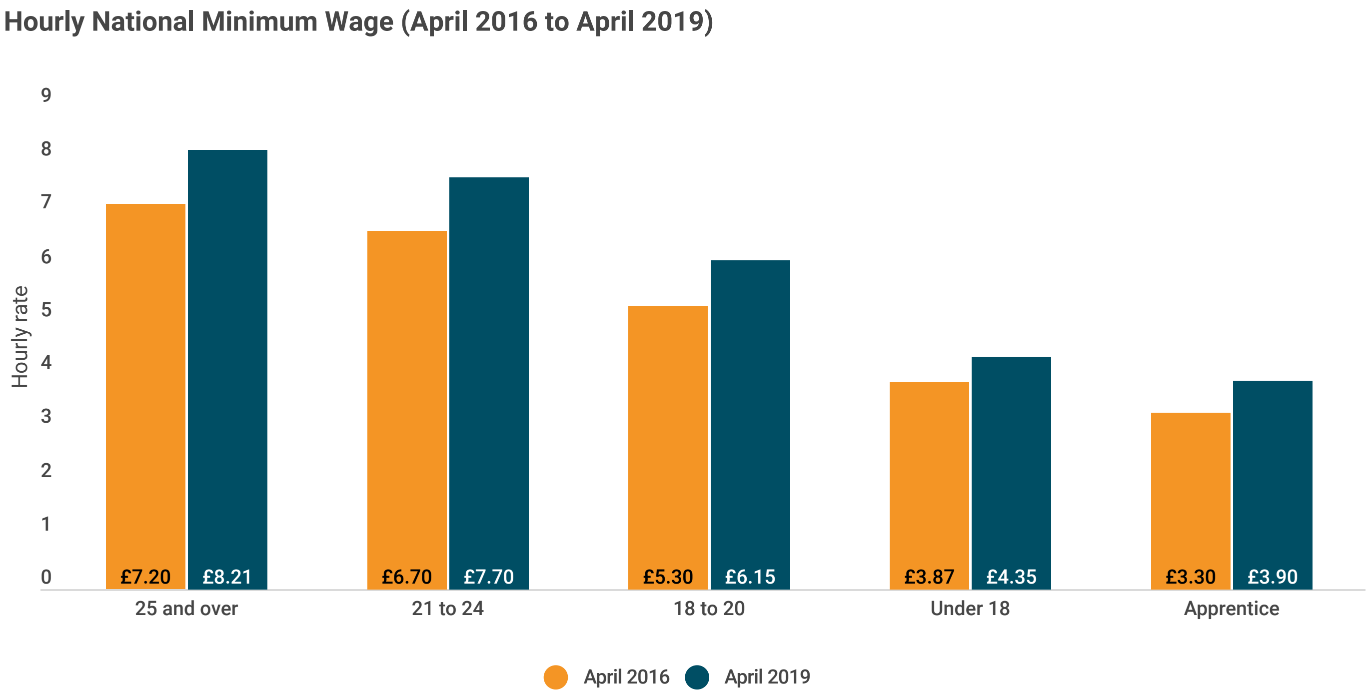


Figure 5: Hourly National Minimum wage rates across the UK between April 2016 and April 2019 (Source: ONS)

Salaries up, sentiment down

CPI inflation continued to fall in 2018, with downward pressure from clothing, footwear and fuel, while transport and housing increased the figure. Salaries continued to rise in 2018 alongside the highest ever recorded levels of employment at 76.1%. Excluding bonuses, average weekly earnings were up +1.4% when adjusted for inflation year-on-year. However, with the increasing economic uncertainty around the UK's exit from the EU, consumers were reluctant to increase non-essential expenditure.

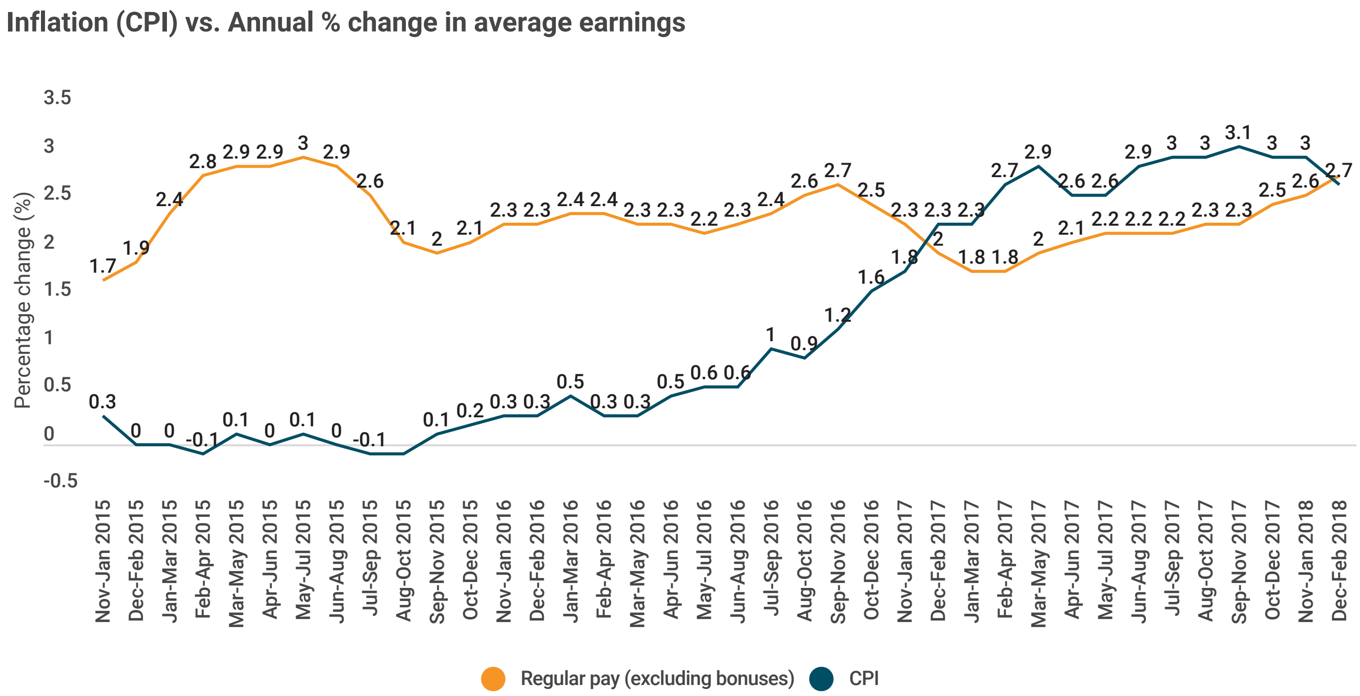


Figure 6: Inflation vs. Annual percentage change in average earnings (Source: ONS)

Online sales growth

Online sales continued to rise in 2018 with one in every £5 now being spent online in the UK compared to 1 in every £10 in 2013 (Source: ONS). Department stores experienced the fastest growth in online sales in the past three years, with a net increase of +5.9%. Grocery retail was still dominated by offline, increasing by just +1.4% over the same time period (Source: ONS). With M&S and Ocado's recent partnership and the Amazon Fresh proposition evolving we expect the percentage of online sales to grow more steeply in the coming years. However, online grocery sales are unlikely to surpass or reach the levels seen in other retail categories due to the costs and logistical difficulties in delivering fresh and frozen produce.

The clothing, footwear and textiles category has seen increased growth in the percentage of sales completed online since 2015, rising from 13.6% to 19.1%. Next PLC recently revealed that online now contributes 53% of the total sales for the business, with double digit growth in 2018 (+15%). However, M&S accounts only 18.5% of its clothing and home sales to online channels, which shows the disparity between brands. Nevertheless, the value of stores in the online model cannot be ignored, with in-store collections offering a cost-effective method for delivery.

The surprise profit warning by ASOS at the end of 2018 shows the challenges that online retailers are now starting to face. For example, extensive discounting has begun to erode profits, with margins at ASOS down to 2% from 4% (Source: ASOS). With the market becoming increasingly competitive it is likely the bigger players will look to acquire some of the other platforms to increase their market share, whilst also looking to reduce their cost base to claw back some profit.

Online as a proportion of total sales

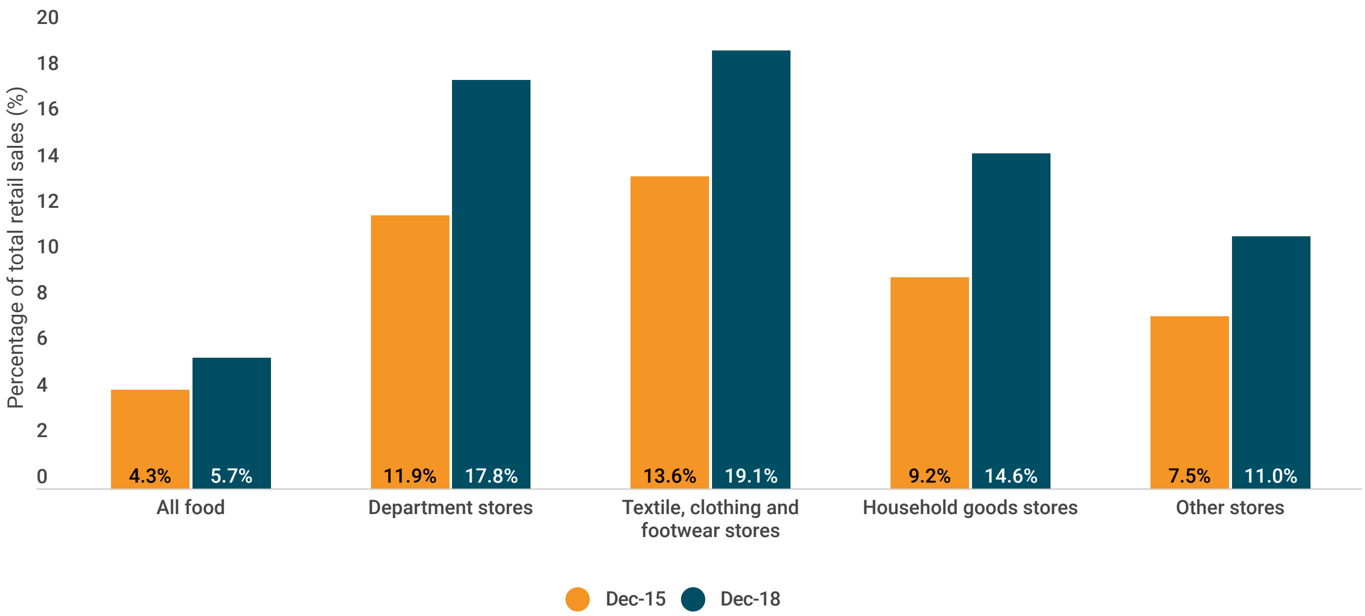
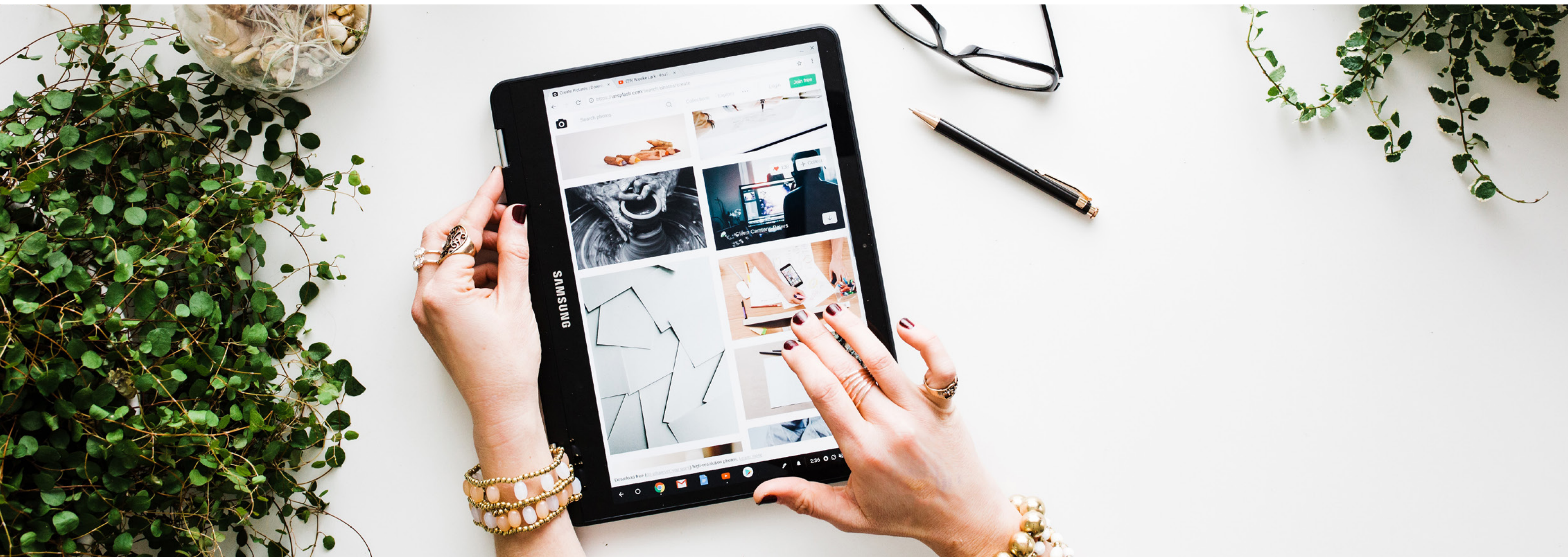


Figure 7: Online sales as a proportion of total retail sales by retail category in 2015 vs. 2018 (Source: ONS)



SECTORS

This section reviews trends across the 350+ retail and leisure sub-categories the Local Data Company tracks in the four main sectors of retail: Comparison Goods (non-food), Convenience (grocery), Service (hairdressers, dry cleaners and nail salons) and Leisure (food and beverage, entertainment and hotels).

Net openings and closures

Comparison Goods retailing continued to be challenged in 2018, seeing a net decline of -4,679 units across GB, the highest figure seen in the last six years of continuous decline. Challenges with the growth of online shopping and increasing discounting periods have hit margins and have led to in-store like-for-like sales remaining in negative territory for the majority of retailers in this cohort.

Net openings & closures by retail category across GB, 2012-2018

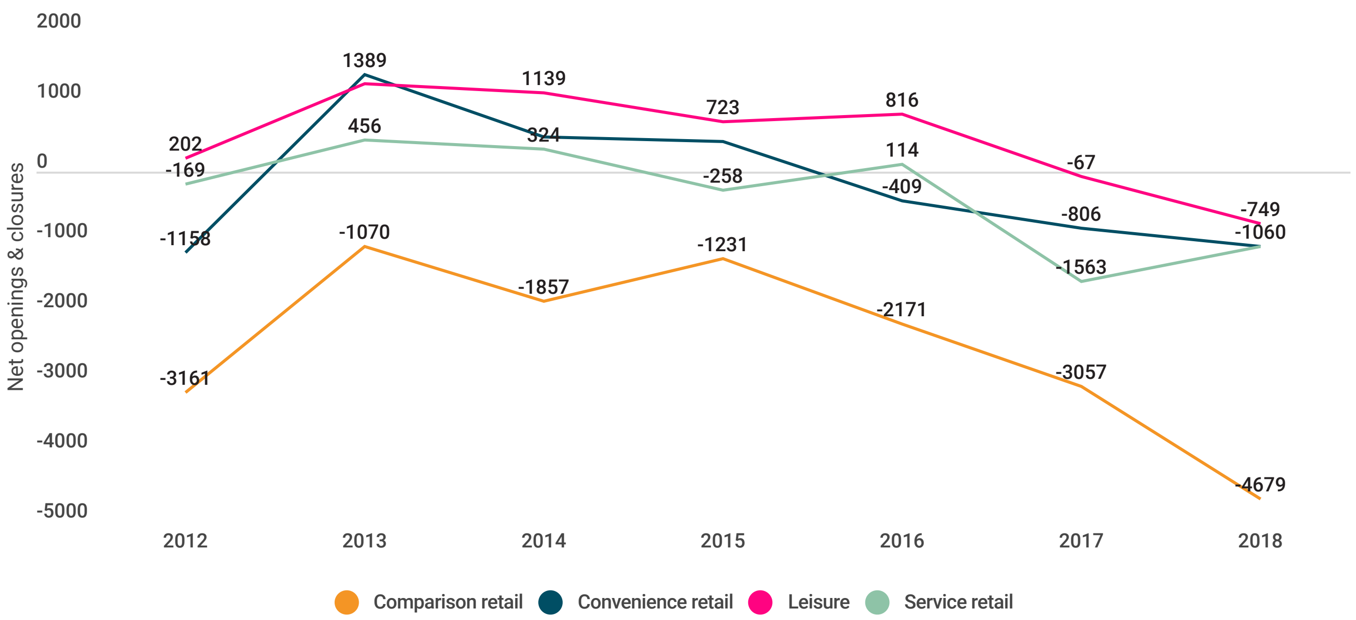


Figure 8: Net openings & closures by retail category across between 2012 to 2018 (Source: LDC)

The relatively new decline in Leisure continued with a net decrease of -749 in 2018, up from a loss of -67 the year before. Service retail was the only classification to see an improvement year-on-year in its net unit numbers, experiencing a slower decline. The continued growth of Nail Salons, Beauty Salons and Barbers offset the increasing decline in Estate Agents.

Fastest growing categories

The explosive growth in Barbers continued in 2018, with the net increase rising to +813 units compared to +624 in 2017, equating to more than two Barber shops opening every day across GB in 2018. Beauty Salons also increased their rate of expansion, with increases of +495 compared to +388 in 2017. The increase of Nail Salons slowed slightly to +166 compared to +176 in 2017. Retailers within the Health, Beauty and Wellbeing category continue to dominate the top 10 categories for growth, occupying 40% of the list.

Vaping stores continued to grow in 2018, albeit at a slower pace, falling from a net increase of +381 units in 2017 to +244 in 2018. Brands such as Electro Mist and Phoenix Electronic Cigarette have faced increasing competition from fast-growing operators such as Vaporized, Vape & Juice and Evapo. With the market starting to reach saturation in certain areas, brands have had to invest in their stores to attract a different kind of customer to continue to generate organic growth.

The growth in Health Clubs has been driven mostly by franchise chains expanding into the UK market, with new concepts such as Terra Hale (eco-friendly spin studio), Hotpod Yoga and Sweat IT. However, there has also been consolidation in the market with PureGym acquiring Soho Gyms and its 10 London sites.

Top 10 rising categories across GB in 2018

Figure 9: Top 10 rising categories across GB in 2018 (Source: LDC)

Fastest declining categories

Banks rose to the top of the fastest declining list, overtaking Pubs to take top spot in 2018 with a net decline of -716 units. Pubs still saw an overall net decline of -636, however the decline is slowing compared to 2017 when there was a net loss of -747 units.

The flurry of CVAs seen throughout the year has meant that new categories have been introduced to the fastest declining list in 2018 with Discount stores (e.g. Poundworld) and Fashion shops (e.g. Arcadia brands) appearing in the top 10. Looking to fashion there is a clear variation in performance with premium (e.g Reiss) and value brands (e.g Primark) performing well. Fashion brands that are under the most pressure are the mid-market operators who have typically been slower to launch and maintain online channels.

Top 10 declining categories across GB in 2018

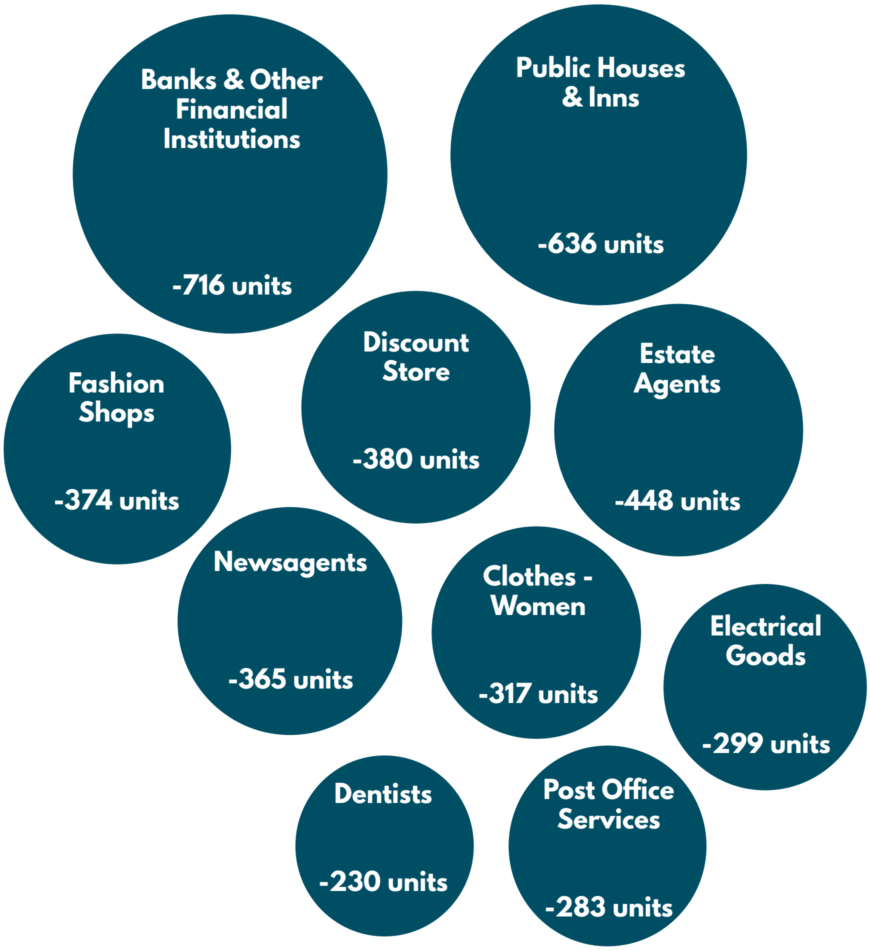


Figure 10: Top 10 declining categories across GB in 2018 (Source: LDC)

The Discount stores category is a newcomer in the top 10 declining list, with the administration of Poundworld accounting for the majority of closures in this category. This is in contrast to the previous three years when this category saw sustained growth, taking market share from the Big 4 supermarkets and benefitting from austerity as consumers became more price conscious. In 2018, the Big 4 responded by cutting costs, reducing product ranges, focusing on own-label goods and introducing price matching schemes that have been successful in stopping further losses in market share and has in turn, put pressure on discounters.

Another category experiencing a notable change in trajectory is Estate Agents. In 2014, we tracked this category as one of the top 20 fastest growing categories. Now it features as the 3rd fastest declining category. Falling house prices, political uncertainty, growing competition from online portals such as Purplebricks and a slowdown in new buyers has created a perfect storm of pressure on estate agents up and down the country. This story is particularly noteworthy as it reflects how quickly fates can change for retailers as technologies are developed at an exponential rate, thrusting new competitive forces into the market seemingly out of nowhere.

Multiples vs Independents

Numbers of Multiples (brands with five or more stores nationally) continued to fall, with the net decline accelerating steeply from -4,010 in 2017 to -6,537 in 2018 - the highest net decline in the past five years. The main driver for the losses was a sharp drop in the number of openings, with retailers pushing back store expansion plans, waiting for less uncertain times to come.

Independents performed slightly better in 2018 compared to 2017, with a lower net decline of -1,013 units compared to -1,483 in 2017. However, this was the second consecutive year independent retailing saw a decline across GB, compared to the previous four years of growth. Independent leisure businesses helped to bolster this market, seeing growth of +710 units in total, including Cafes and Fast food (+148), Restaurants (+333), Bars and pubs (+192) and Entertainment (+117). The only exception in this classification was accommodation which saw a loss of -80 units.

Opening and closures across GB by business type (2012 to 2018)

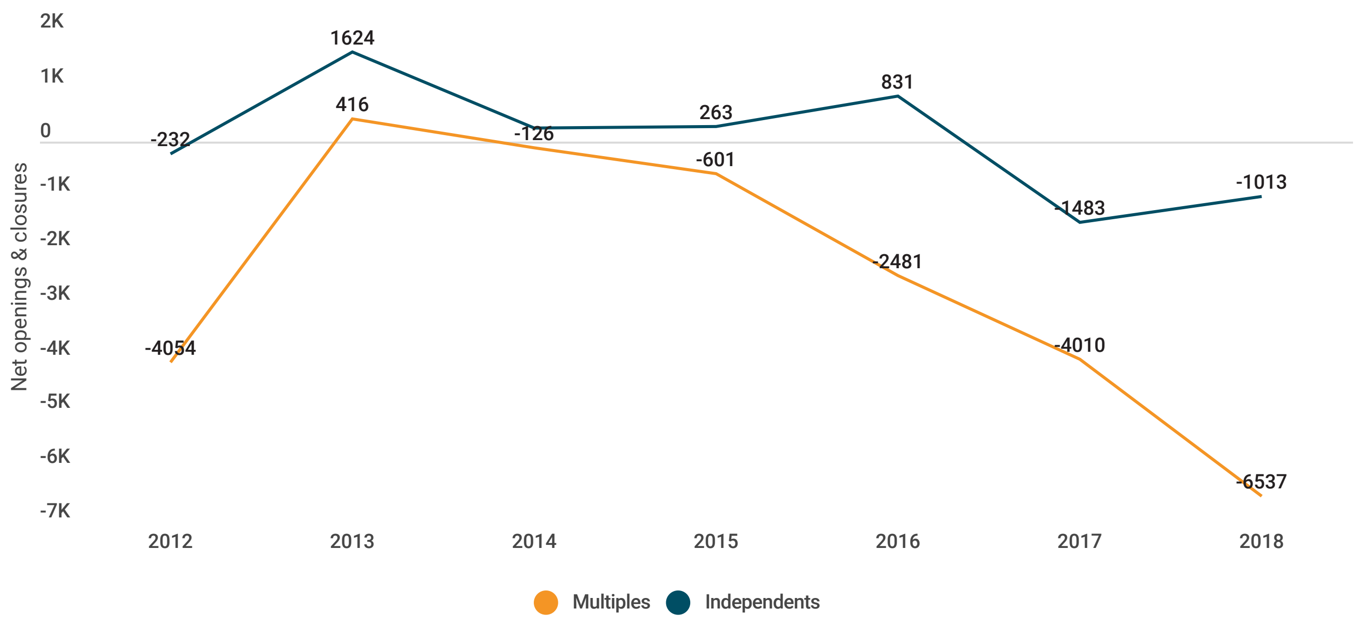


Figure 11: Openings and closures by business type between 2012 to 2018 (Source: LDC)

Green shoots

Vegan restaurants continue to top the niche category growth list (analysis completed on retail categories with under 100 units in total), growing by +16 in 2018 and doubling the total number. With the interest in veganism rising, and a record number of people doing Veganuary, quick off the mark restauranteurs have successfully tapped into this market. It should be noted that existing restaurant brands are also increasingly tailoring menus to offer vegan dishes, so the true growth of this trend is much greater. New restaurant cuisine types dominated the niche growth list with Malaysian, Cuban, Scottish, Iranian and Jamaican taking up five of the top 10 spots. Food and beverage categories accounted for six of the top 10, with other specialist retail categories such as Cheese Shops and Goldsmiths also featuring.

Niche category growth rate in 2018

Figure 12: Niche category growth rate in 2018 across GB, in 2018 (Source: LDC)

GUEST FEATURE
LATE NIGHT LEISURE
Driving support for a vibrant and thriving industry

Peter Marks is Chief Executive Officer of The Deltic Group, the UK's largest specialist late-night operator

The UK's night time economy is worth £66bn and employs more than 1.3 million people (a huge proportion of these being under the age of 25) and whilst definitions are fluid (the Night Time Industries Association's figure of £66bn includes retail and leisure outlets including salons and gyms), the strong figures speak for themselves. The UK's late-night sector is an economic powerhouse, not to mention pivotal in shaping the fabric of the UK's culture and society.

As the UK's largest specialist late-night operator, I feel The Deltic Group has a responsibility to advocate for the wider late-night leisure sector, raising awareness of its economic and cultural contributions to our towns and cities and dispelling misconceptions which surround the industry.

One of the primary ways we've driven this forward is through launching the Deltic Night Index. The Deltic Night Index is a quarterly report which surveys 2,000 people about their spending habits on a night out. As well as asking core questions on spend, frequency and duration of nights out, we also take a deep dive each quarter into a particular topic related to the sector. These might include customer experience, consumer sentiment, or wider spending habits, for example.

In May 2018, we made it our mission to use The Deltic Night Index to quantify the positive halo effect of a thriving late-night offering. That is, its effect on surrounding businesses and the local economy within which it operates. The stats were positively surprising even to me! They showed that British consumers spend £17.56 getting ready for a night out, whether that be on new clothes, hair, beauty treatments or heading to a local gym.

Delving deeper, those aged above 56 spend the least at £11.70, those aged between 26 and 30 spend the most at £22.44. Spending on new clothes and accessories is the most popular option, with 82% saying they do this in preparation of a night out; 62.8% get their hair cut, 53.8% buy new make up or hair products and almost 40% (39.1%) of men pay to have their beard trimmed.

Collectively, this expenditure provides a much-needed boost to our local businesses, many of which are battling rising rates, increasing rents, and shifting consumer spending habits.

The report also went one step further and asked respondents whether they think a vibrant nightlife makes a city or town more attractive place to live and work. 68.4% agreed, demonstrating that a thriving late-night sector actually attracts further investment in our towns and cities, further enhancing that halo effect.

Consumers' demand for high quality nights out, whether that be social media-friendly venues, high quality entertainment, innovative drinks or safe surroundings, continues to increase. And the late-night sector is doing a great job of reacting to these ever-evolving trends. As a result, consumers continued to commit strong levels of spend on late nights out through 2018 and into 2019. In fact, the most recent Deltic Night Index, launched in March 2019, showed the highest consumer spend figure recorded since we began the research. At £68.68, this comprises pre-drinks, in-venue food and drinks, venue entry and transport. They also continued to go out regularly – in March 2019 58.1% of consumers were going out at least once a week, with this figure rising to almost 70% among 18-30-year olds (67.1%). These perfectly echo the findings contained within this report, that bars are one of the fastest-growing categories, and when we look at this frequency coupled with day-time and night-time spend, the case for supporting our late-night industries becomes very compelling indeed.

This positive message is the one that I make it my mission to share; that the closure of any late-night venue is very rarely a positive thing for our towns and cities. No town has become busier or more successful following a closure, and it is this that we must remember when music venues are closed in favour of residential developments, or following licensing issues: our towns' rich cultures and economies are anchored by those venues where people come together to enjoy themselves.

Now that we have the numbers to confidently illustrate just how important the late-night sector is to the overall health of our towns and cities, it's vital that we secure the support of local councils and governments to make sure that all stakeholders continue to nurture this industry that truly benefits all and to ensure that Britain's consumers can continue to enjoy great nights out.

BRANDS

This section of the report reviews trends seen throughout the year across some of the UK's biggest and best-known brands.

Fastest growing brands

Aldi was the fastest growing retailer in 2018, with net growth of +37 units across GB (excludes Northern Ireland). Greggs, Card Factory, Cake Box and The Pet Hut followed to make up the top five fastest growing brands in 2018.

Aldi is continuing to expand in the large-format supermarket space, while also adapting to consumers' needs with a trial Aldi Local store opening in Balham - its smallest in the UK (6,000 sq. ft.). Aldi has revealed plans to continue to target city centres with units already in Archway, Tooting, Kingston and Kilburn.

Greggs also continued its expansion in 2018, with sales at the chain topping £1 billion for the first time (Source: Greggs). The chain focused their acquisition strategy on high-profile transport hubs, a drive-thru offer and opening larger stores, with their estate averaging a rent of £40,000 per annum in 2018 vs. a previous average of £33,000 per annum.

Fastest growing brands in 2018

Figure 13: Fastest growing retail brands across GB in 2018 (Source: LDC)

Card Factory continued to acquire space including a concession partnership with Aldi. The value card retailer has also seen average spend increase as consumers in this market continue to be price-conscious.

Specialist cream cake retailer Cake Box was one of the fastest growing brands in 2018, opening at an increasing rate after its first successful listing in June 2018. The retailer, which specialises in selling egg-free cakes benefited from strong franchise growth, with this model allowing for rapid expansion across GB without requiring large amounts of capital up front.

Moving in: Concessions

In 2018, more and more retailers took or shared concession space with other brands to make the best use of larger stores. Examples of the fastest growing concessions across GB are: EE who opened space in ASDA stores, Pep&Co who opened within parent company Poundland and Max Spielmann (Timpson owned) who opened within large Tesco superstores. Benefits for concessions include the ability to get products infront of a new customer base and increased brand awareness. For the store owner, the extra revenue generated through sub-letting helps to support their expanding operational costs. Next recently announced that they had increased their concession income by £4m in FY2018/19 (50% increase), with the total space rising 26% to 305,000 sq. ft (Source: Next).

New life in the market

Despite a challenging market, there were international retailers who expanded into the UK in 2018 and retailers who introduced new concepts in a bid to expand their customer base.

Rains, the Danish rainwear specialist opened its first two stores in the UK in 2018. The first store opened in Islington (Upper Street) followed shortly by a store in Coal Yards Drop at Kings Cross.

IKEA Planning Studio opened its first unit on Tottenham Court Road with a second planned for Bromley this spring as well as a New York branch in Manhattan.

Clarks Originals opened its first concept store focused solely on this product line with the new store opening in Soho, London.

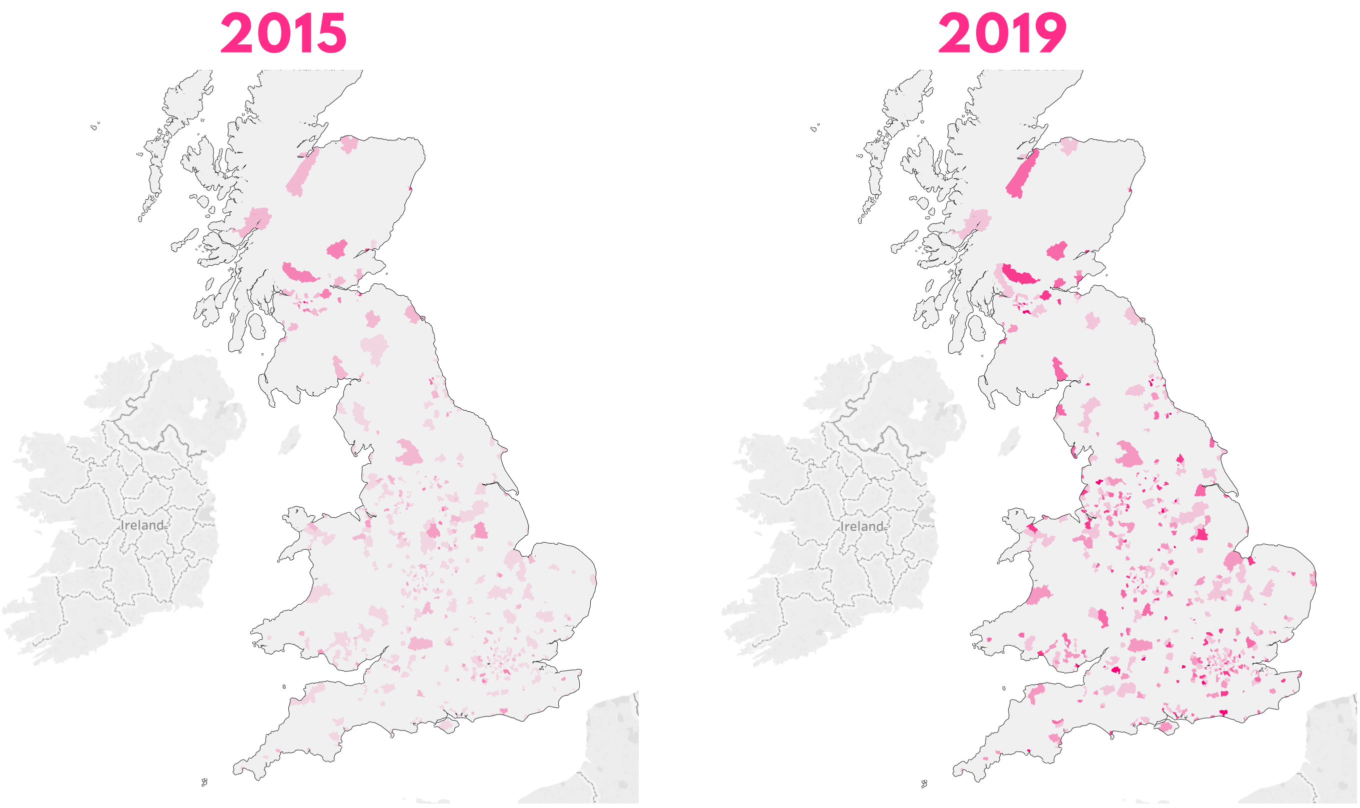
Illamasqua Studio opened their first full store in 2018 at Boxpark Shoreditch, after previously having concession presence in Selfridges and Debenhams. The makeup brand also provides courses within their stores

Everyone's talking about... Mike Ashley's growing empire

Sports Director owner and billionaire retail tycoon Mike Ashley went on a shopping spree in 2018, acquiring struggling retailers out of administration to add to his growing portfolio of brands. Over the year, he added Evans Cycles and House of Fraser to his high street armoury. He also just missed out on others due to a variety of reasons, such as Patisserie Valerie and LK Bennett. This has continued into 2019, and at the time of writing, he was in a fiery battle with Debenhams advisors.

Whilst Ashley purchasing such a range of brands is causing plenty of discussion, it can't be denied that with this retailing expertise and credentials, he is the perfect turnaround specialist. Looking at these acquisitions in the long-term, the larger Ashley's portfolio is, the better bargaining power he will have with landlords when entering into negotiations. He is playing the long-game.

Looking at the brands he was involved with in 2015 vs. his current portfolio, the total number of Mike Ashley stores has increased from 651 in 2015 to 1,154 as at the end of March 2019. This was a net increase of 503 units which equates to a 77% rise in his portfolio in just four years. Looking at his exposure in shopping centres, he went from having a stake in at least one store in 171 shopping centres in 2015 to 280 shopping centres as of March 2019. An example of his growing hold on the market is The Forum Shopping Park in Stevenage, where 1 in 3 units are occupied by a retailer that Ashley is invested in.



Map 1: Map showing Mike Ashley's portfolio in 2015 vs. March 2019 (Source: The Local Data Company)

Map key: 0 8

LOCATIONS

The Local Data Company tracks over 3,000 retail destinations across GB and we categorise these into three location types:

- high streets
- shopping centres
- retail parks

This allows us to analyse the performance of each and uncover early stage opportunities and risks for property or place managers in these markets.

Openings and closures

Every location type saw the number of occupied units decline at a faster rate in 2018 than in 2017. Retail parks saw the biggest change in fortunes when comparing 2017 and 2018, with the net gain of +0.8% being replaced by a net decline of -1.3%. Contrary to popular rhetoric, the high street fared slightly better than other location types, seeing a less significant increase in losses of +0.3%.

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

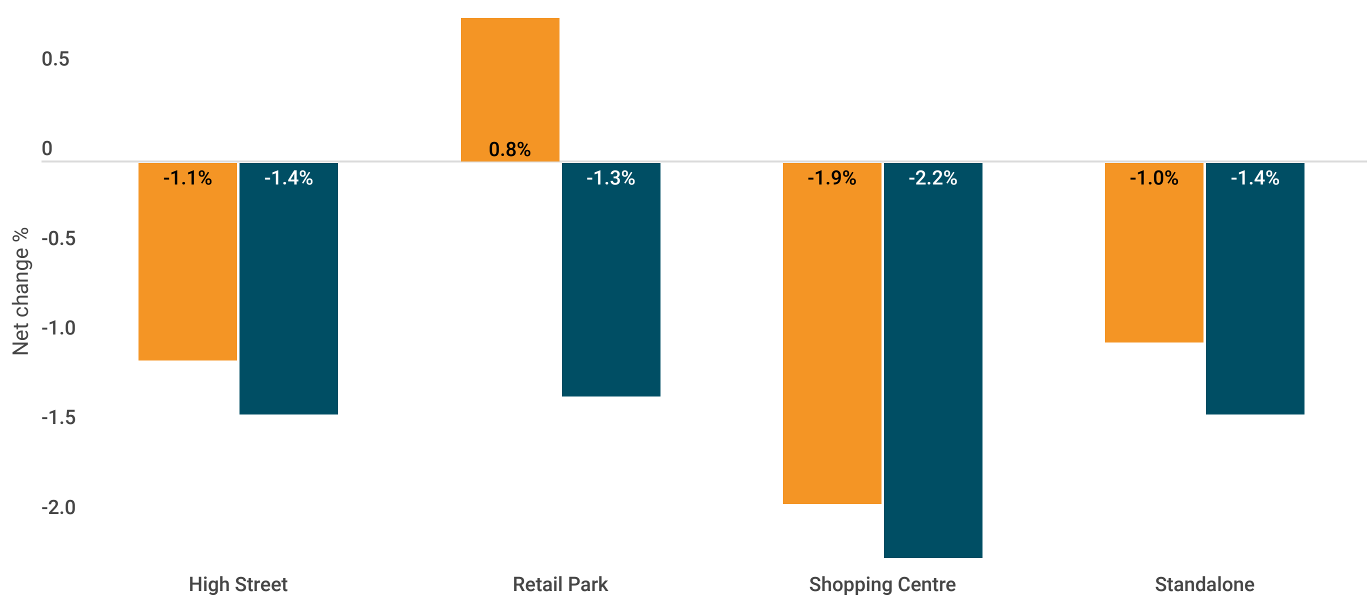


Figure 14: Percentage net change in units by location type in 2017 and 2018 (Source: LDC)

Shopping centres saw the biggest net decline in 2018, a trend continued from 2017. Categories closing the fastest in shopping centres were Discount stores (-123) (driven by the Poundworld administration), Fashion shops (-82) and Jewellers (-58) which was not driven by one retailer but a scattering of closures across a few prominent brands such as Goldsmiths and H.Samuel.

Categories that increased shopping centre presence included Gift shops (+37), Beauty salons (+28) and Barbers (+26).

There was also a raft of new shopping centre stock that was added to the market in 2018, with the opening of retail schemes like ICON O2 Outlet in London, Coal Yards Drop at Kings Cross, Boxpark Wembley and The Beacon extension in Eastbourne.

Vacancy rates

In line with the openings and closures statistics, retail parks saw the biggest increase in vacancy rates rising from 4.9% in 2017 to 7.1% in 2018. This increase has almost eroded the previous three-year gains, when vacancy rates dropped from a high of 9.7% in 2013. The administrations of Maplin, Poundworld and Toys 'R' Us have seen retail park vacancy rates rise to their highest level since the start of 2015. Shopping centres have also seen vacancy rates rise, however at a slower rate with an overall increase of 0.6% over 2018, with New Look's CVA and the closures of several mid-market fashion retailers creating gaps in schemes.

Historical vacancy rate by location type (2013 to 2018)

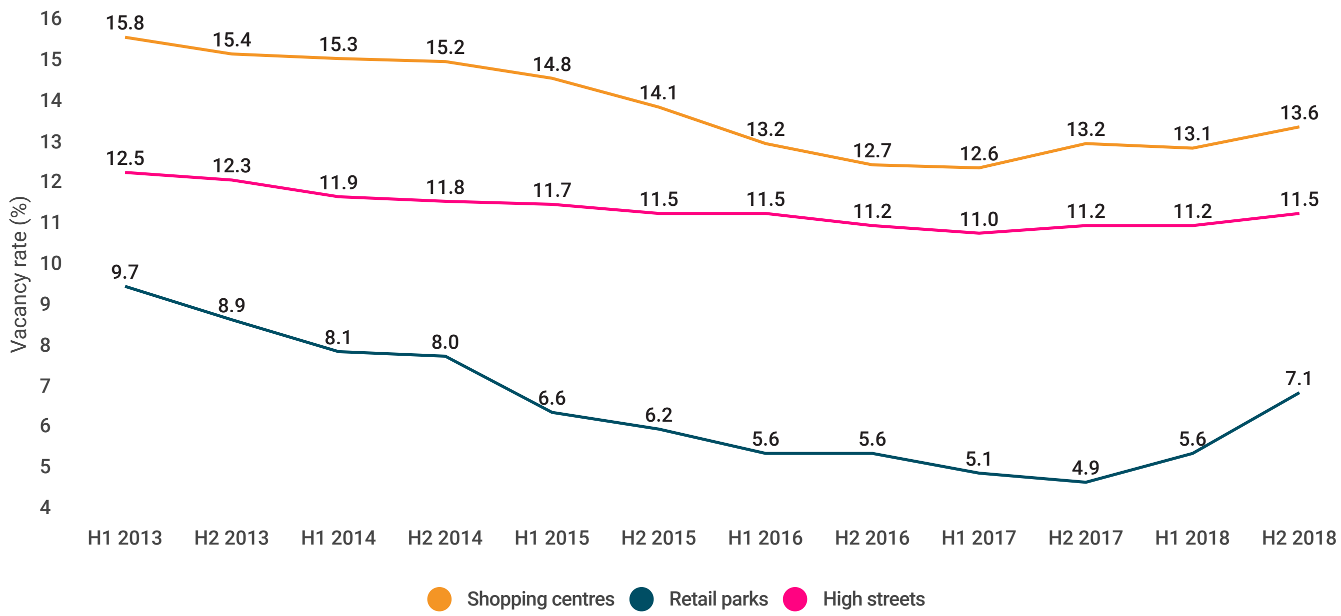


Figure 15: Historical vacancy rate by location type from 2013 to 2018 (Source: LDC)

The high street vacancy rate rose from 11.2% to 11.5% in 2018, reflecting the challenges bricks and mortar retailers are facing, including the rising cost of occupancy, increases in staffing costs, and the growing volume of sales moving online - reaching 18.8% at the end of 2018 compared to 10.5% at the start of 2013. (Source: ONS)

Persistent vacancy

Persistent vacancy is a key metric in regard to qualifying the long-term health of a location as the speed of re-occupancy indicates tenant demand for space.

Although shopping centres have the largest pool of vacant space, a large percentage of these empty units have been vacant for under 24 months and are likely to be under offer, being structurally altered or awaiting an occupier's relocation. Measuring persistent vacancy enables us to focus on units that have been vacant for over two years, which will face greater challenges being reoccupied. 5.8% of vacant space in shopping centres has been vacant for over two years, with some of these units more challenging to fill due to their configuration e.g. corner units, their size or location within a scheme.

High streets have a similar issue with 4.8% of vacant space having been empty for over two years. Large town centres (centres with over 400 units) are facing the biggest challenge as they have failed to adapt to the reducing need for retail space. Various proactive city councils have started to plan for the future, with a reduced allocation for retail and more space for other experiential and community-based initiatives to utilise space. A key finding of a recent Centre for Cities report revealed the need for towns to create a local economy with a strong jobs market that would in turn support a local retail economy. The challenge for many cities is attracting employers given the UK's likely exit from the EU, the record levels of employment and dominance of major cities such as London and Manchester.

Persistent vacancy in 2018 by location type

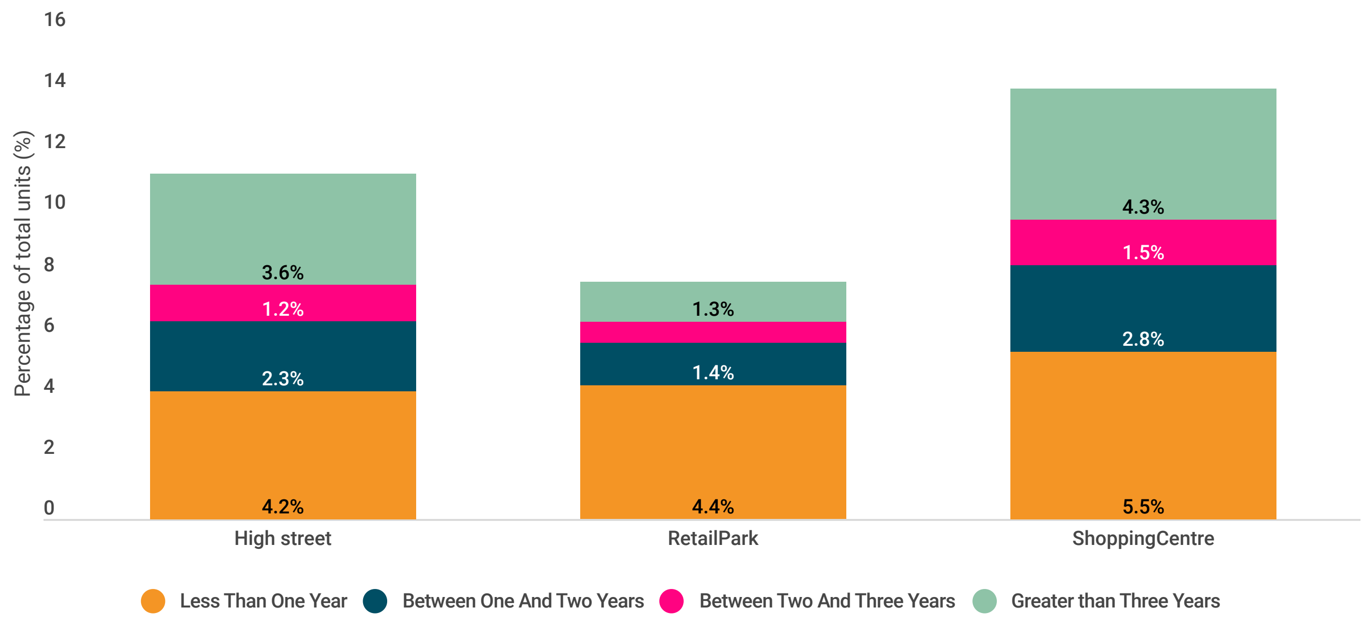


Figure 16: Persistent vacancy by location type across GB in 2018 (Source: LDC)

Figure 16 shows the impact that CVAs and administrations have had on the numbers of units vacant for less than one year. The percentage of short-term vacancies rose by +2.2% across retail parks and +0.5% for shopping centres when comparing 2017 to 2018. This is an early indication of a problem which will be faced by landlords over the coming months and years as they fight to refill the mass exodus of large format units vacated in retail parks.

Percentage change in persistent vacancy across GB (2017 vs. 2018)

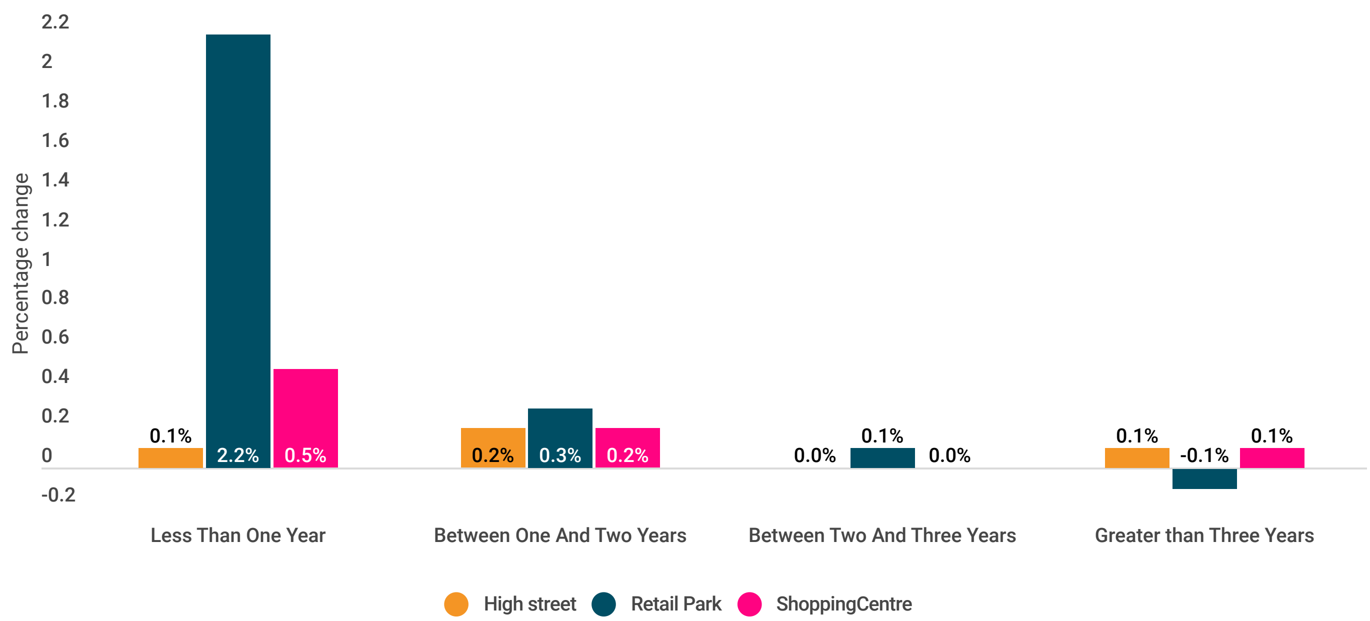


Figure 17: Percentage change in persistent vacancy across GB by location type between 2017 and 2018 (Source: LDC)

Shopping centres have been able to manage recent closures, pro-actively finding tenants to reoccupy space and becoming creative with asset management by merging and splitting units to create more attractive and practical spaces.

Changing retail park space

Across retail parks, 226 Toys 'R' Us, Maplin, Poundworld, Carpetright and Multiyork units are still lying vacant since their closure in 2018, against only 48 (17%) that have found a new occupier. Brands such as B&M Bargains, B&M Home Store, Dreams, Bargain Buys, ShoeZone and Office Outlet have snapped up stores, however the latter entered into administration this year (correct at the time of writing) which will likely result in more empty units.

Over the past five years, retail parks have been able to attract fashion retailers to out-of-town locations with the total number rising by +25.6% since 2014. Today, brands in this space such as Outfit (hosts the Arcadia brands) and Next are focusing on consolidating and managing their existing portfolio, rather than expanding. Discounters were also a popular target for retail park owners, but with the collapse of Poundworld and the challenges Poundland faced after the 99p merger, there are limited players in the pipeline. One brand that has taken up some former units is B&M Bargains. Following a successful 2018, the group has continued to take up space with the chain appearing in our top 10 fastest growing retailers.

The most likely potential occupiers for the recently vacated space on retail parks will be brands with existing retail park presence, who are looking to fill gaps in their portfolio. For example, retailers selling big-box items such as Dreams and ScS and health clubs such as The Gym Group and PureGym are attracted to out-of-town sites due to the availability of parking. However, this pipeline of brands will result in a handful of reoccupied sites, rather than all 226 vacant units.

Landlords will need to look at other strategies to make the best use of space. Redeveloping property for residential or warehousing and logistics space are two of the fastest growing tactics that landlords are employing due to current demand and high return on investment. The challenge is clear, but solutions for landlords will need to match the needs of the local catchment and must be driven by data on each location's strengths, the demographic profile and property requirements of growing retail park brands.

Shopping centre polarisation

The top 10 shopping centres according to the Local Data Company Health Index were the most impacted by market turbulence in 2018. Vacancy rates across these 10 centres rose by +1.6% in the 12-month period, from 4.8% to 6.0%. Comparing this to the top 20 shopping centres, the vacancy rate increased by only +0.7%, which shows that the top 10 are a specific subset facing increased pressure due the challenges mass market fashion and department stores are facing – both of which are key footfall drivers.

The development at Westfield London has had an impact on this rise, with the expansion making Westfield the largest shopping centre in Europe. The additional space has created vacant stores in areas where retailers have moved to the new extension. The challenge here is trying to find occupiers that fit the centre's mix and enhance the customer experience.

These top shopping centres have instead focused on expanding their leisure and entertainment offer to boost their appeal and future-proof their assets, with the pipeline of new shopping centre space mainly centred on the improvement of existing assets.

The Beacon in Eastbourne

A case study example is the development of The Beacon in Eastbourne, which saw a £85 million extension add an additional 175,000 sq. ft. of retail and leisure space. The development has since attracted Flying Tiger, Schuh, Fat Face, New Look and H&M amongst others to the scheme, with the leisure area set to open in spring this year with Cineworld, Nandos and Chiquitos lined up. Eastbourne Borough Council has worked alongside The Beacon, investing £54 million in a new cultural, sporting and conference destination to create fresh vibrancy in the town centre. This is an example of how landlords are working with local councils to create attractive retail locations that entice retailers to open shop and consumers to spend time and money.

Location Health Index

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

The Local Data Company Health Index measures the attractiveness of a location based on its retail mix, tenant line up, catchment profile and vacancy rates.

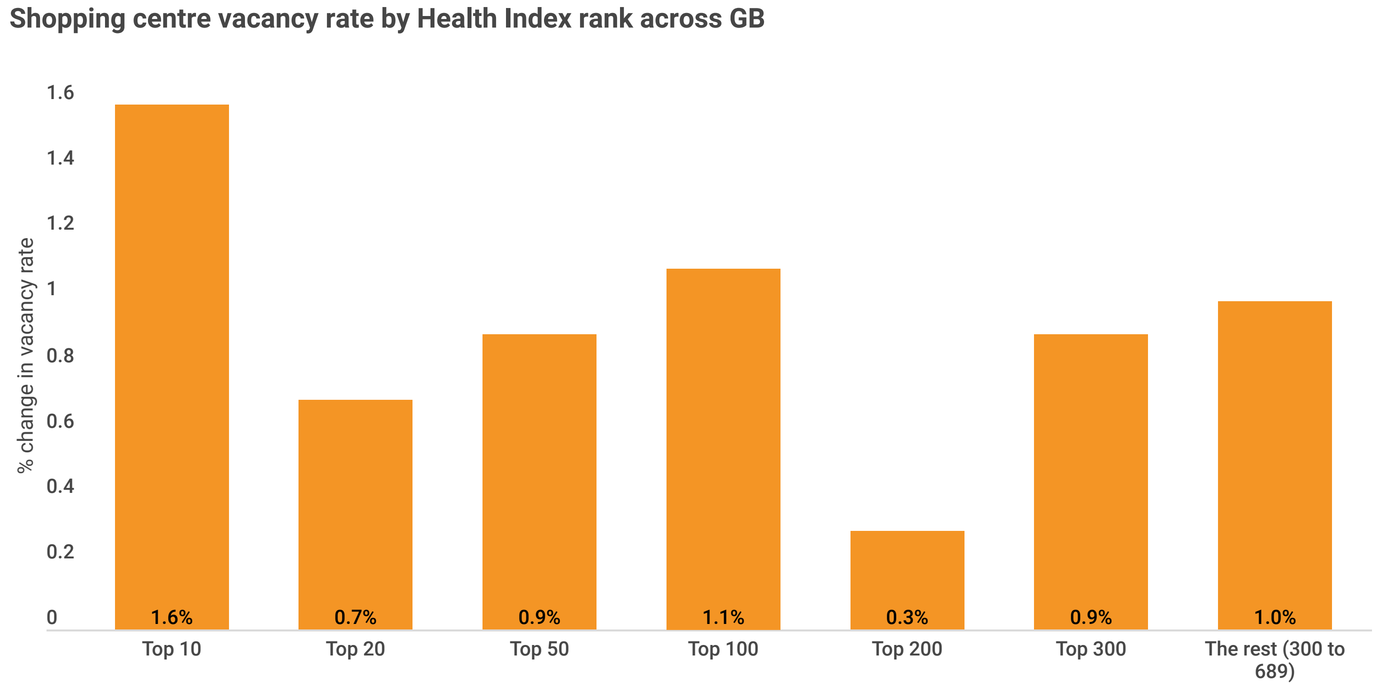


Figure 18: Percentage change in vacancy rate by shopping centre by LDC Health Index rank across GB (Source: LDC)

The shopping centres ranked between 100 and 200 proved to be more resilient in 2018 when compared to the other shopping centre groups. Vacancy rates rose by a relatively marginal +0.3%, compared to the +1.1% of the top 100 shopping centres.

Reimagining retail space

Analysis of the top 650 town centres across GB has evidenced the increasing structural changes taking place to retail stock across GB. Our research looked at live or vacant retail premises that were either converted into residential, warehouse, office use or were demolished, split or merged in the last three years, to identify whether landlords have been reducing their overall retail stock exposure. The total number of vacant units that were redeveloped in 2018 was 3,577, up from 2,706 in 2017 and 2,646 in 2016. The percentage increase year-on-year shows that this is a growing trend, and after the Chancellor gave the indication in his autumn statement that planning laws would be relaxed on these conversions, we can anticipate that this will continue into 2019.

Retail conversions- structural change to units (2016 to 2018)

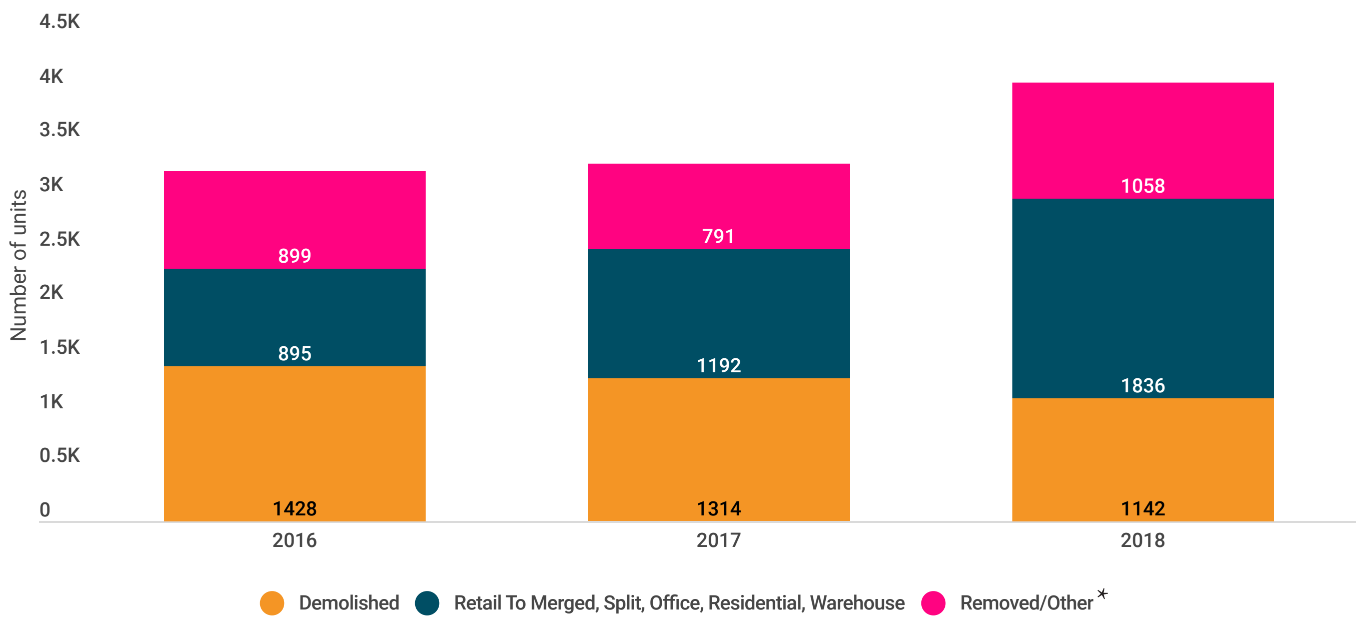


Figure 19: Retail conversions- structural change to units 2016 to 2018 (Source: LDC)

Re-structuring and splitting units creates smaller spaces which are ideal for modern retailers with fewer product ranges and strong online channels. The demand for smaller units will continue to rise in the next few years, with these stores becoming more like showrooms, used to support retailers' online distribution and returns network. Next's latest trading statement articulated this, when they revealed that 50% of their online sales are ordered to a Next store for collection, while 80% of returns come back through a store. The role of bricks and mortar in a retailer's distribution channel is changing, so space also needs to be adapted accordingly.

**other includes units where the status is unknown, but the structure won't be changed*

Regional trends

The North West was the only region to see an improvement in net change to stock numbers in 2018 (-0.1%), with fewer stores closing in 2018 than in 2017 overall. The region did still have more closures than openings, but the net change was marginally lower than 2017 and better than every region or nation in GB. The East Midlands showed the biggest increase in net losses, with a year-on-year rise of +0.9% in net closures and the West Midlands faring second worst with a +0.7% year-on-year rise in net loss.

Year-on-year percentage net change in units by region- 2017 vs. 2018

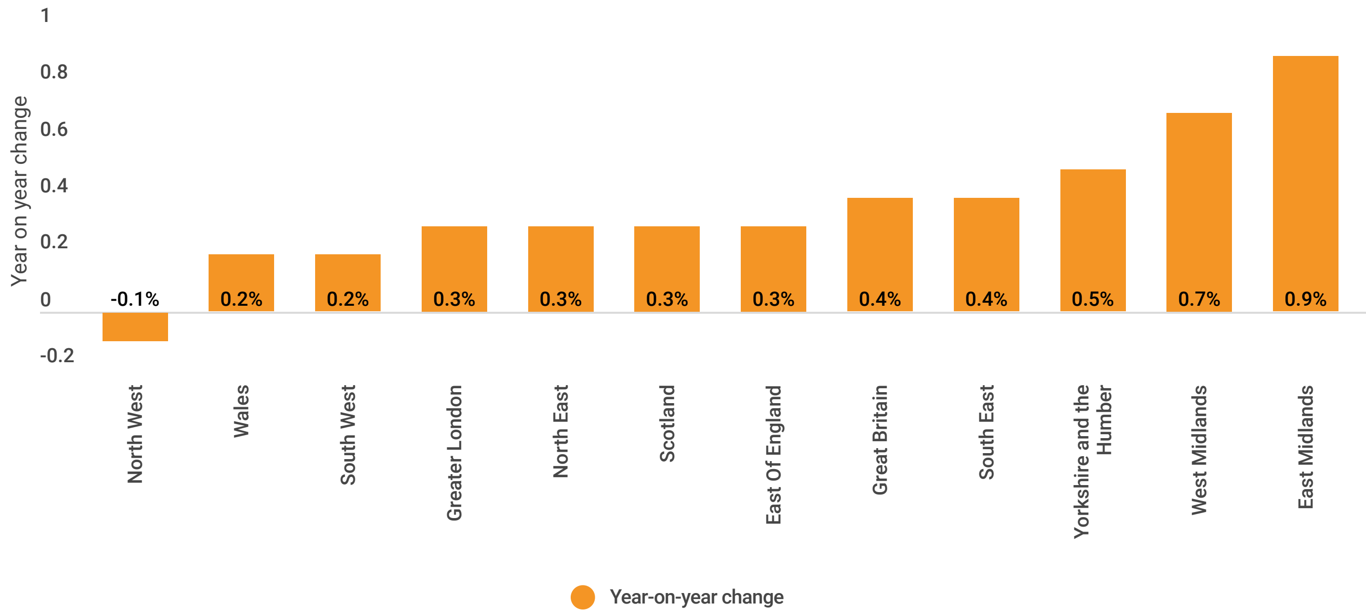


Figure 20: Year-on-year percentage change in net openings and closures by region between 2017 and 2019 (Source: LDC)

Conclusion

Barely a day goes by without public debate on one of the many complex challenges the retail market is facing at the moment. From headline grabbing events such as high-profile stalwart businesses struggling to make ends meet, to the reams of depressing images of boarded up shops, the conversation has focused on a narrative of death and devastation of our UK high streets. The Local Data Company figures reveal that, whilst action does need to be taken to avoid further decline of not just our high streets, but all of our retail destinations; there are signs of new life for those willing and able to offer consumers something new.

We have often questioned the claim that the high street is dead, as it a) remains something that the general public is incredibly passionate about and b) continues to attract some of the country's most talented entrepreneurs, as shown by the figures on independent openings and closures.

Each year, as we complete our analysis, we are amazed by the changing face of our retail destinations, and the sheer speed of such change. Analysis produced for this report depicts a market which is not dead, but which is changing and evolving into the retail landscape of tomorrow.

Whilst the turbulence in the market is incredibly painful to experience, the market is effectively being 'reset'. This period of change is likely to continue for a few more years, however we will be left with the most exciting retailers who excel at serving consumers with what they want, exactly how they want it and when they want it.

Our predictions

As we move through 2019 and into 2020, we expect to see further mergers and acquisitions as struggling brands are purchased by larger businesses looking to increase economies of scale, protect damaged profit margins and increase market share.

We expect health and beauty retailers to continue to flourish in the short to medium term as the gap between products and services which can be purchased online and those that cannot continues to increase. However, this market will reach saturation so it cannot solely be relied on to power growth for the long-term.

Retail parks, which were once seen as the most attractive investment have been shocked into a period of change, which will see innovative landlords get creative, mimicking strategies in shopping centres involving splitting and merging units. This activity will result in a new breed of retail park occupiers that will have a significant impact on the mix and diversity of retailers seen across this asset type. This will also serve to reduce landlords' exposure to certain retailers or retail categories, alongside converting space for other uses such as residential, office and warehouse to boost returns on investments.

Retailers will continue to develop partnerships with complementary brands in order to share space in their larger format sites. Retailers such as Next are paving the way with partnerships with brands such as Virgin Holidays, Hema and Costa. More retailers will look to emulate this, benefitting from a boost to footfall by creating multiple reasons for shoppers to enter a store and boosting revenue to mitigate rising rents and rates.

Finally, as we move through the 16th year of operation at the Local Data Company, we are busier than ever using our proprietary data to support clients' understanding of trends across the retail sector. The pace of market change continues to surprise us, and it is becoming even more critical to have a reliable, consistent and accurate source of data to support occupiers, investors and landlords to cope with the increasing demands of the market. Having reliable and powerful insights offers invaluable foresight into future risks and opportunities in the UK market, the latter of which need to be cultivated to support the stakeholders of tomorrow.

COMMENTARY

Lucy Stainton, Head of Retail and Strategic Partnerships, Local Data Company:

"2018 was another unprecedented year of change as the sustained challenges faced by many legacy brands collided with an advent of new concepts – these constantly shifting sands making conditions tougher than ever for most operators. However, any headline statistics by no means represents the full story and beneath some undeniably stark high-level numbers we can see a multitude of emerging trends and brands which hint at a very bright, diverse future for our high streets. This is shown particularly by two years of strong growth in more service-led categories such as barbers and beauty salons. Alongside this, a more diverse assortment of restaurants are increasingly opening on our high streets, serving up fresh and exciting cuisines such as Iranian, Malaysian and, of course, Vegan.

It is my personal opinion that whilst many have opted for a narrative in which our high streets are judged critically endangered, we are actually moving towards a far more exciting era of varied and contemporary places. The closure of more legacy operators is creating space for new brands to open and flourish as well as providing a stark warning to those who still remain; challenge yourselves and your customers and never stand still for too long.

Alongside the vast changes in occupancy profiles, the significant increase in structural redevelopment of retail space across 2018 indicates that landlords, place managers and councils are starting to take action, revising how much retail stock is in the market and how much is actually required. Over the coming months and years we expect this trend to increase, and with it will come a redefinition of not just our high streets, but shopping centres and retail parks too.

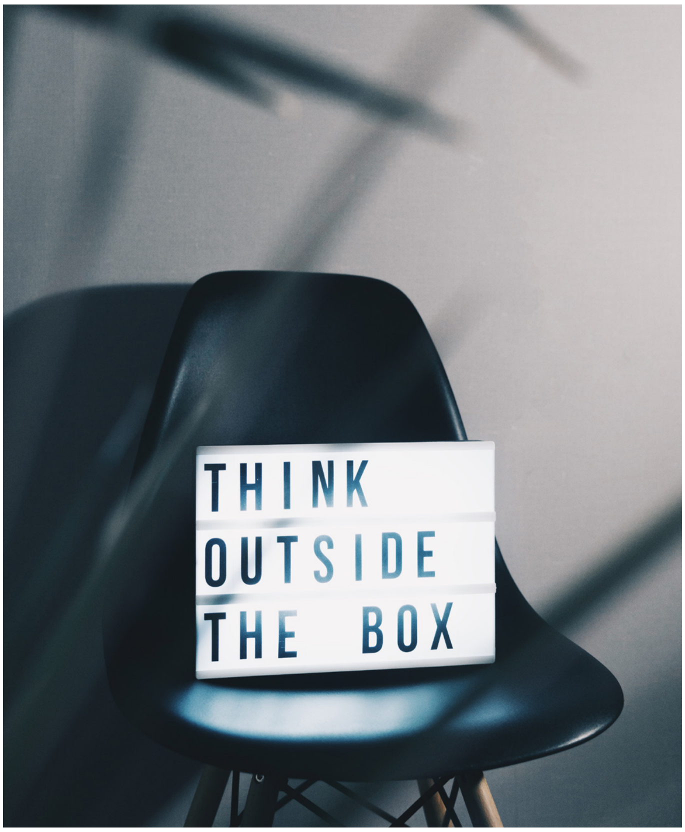
My prediction for the remainder of 2019 would be the continued, albeit slower growth of the health and beauty services we saw in 2018 as well as a further proliferation of less established cuisine types. However, with store closures far outstripping new store openings I believe there will be a further impact to the overall vacancy rate and we might be some time off seeing this metric stabilise."

MARKET INSIGHT

"What will you be doing differently over the next 12 months?"

"Nisa aims to make much better use of digital engagement over the next 12 months as a means to reach new audiences and prospective new partners. We built a model store for our annual retail exhibition, showcasing the latest concepts and innovations to drive footfall and which highlighted how best to utilise Co-op's own brand to maximise sales. We had that recreated as a virtual store tour to encapsulate the market leading format design and services available through Nisa and we are utilising a multi-channel approach to ensure optimum reach and engagement."

Steve Leach, Sales Director, Nisa Retail.



One of our main focuses this year will be utilising technology to simplify and streamline the retail experience. We've already rolled our our augmented reality 'virtual try on' tool - The Speculator. But we've also developed an iPad based tool for taking optical measurements, and a full head scanning bit of kit (Cephalometrics) which creates a full, accurate 3D scan of a human head. We're initially using this for bespoke and made-to-measure consultations, but hope to eventually roll it out for all our customers.

Tom Broughton, CEO, Cubitts

Calendar Club is focussing more closely on vacancies and changes in adjacencies when assessing store locations and rent budgets for this year. CVA and restructuring driven store closures continue to weigh heavily on footfall, particularly in medium sized and smaller shopping centres, reinforcing the long-term declining trend in footfall. Even the large, premium and regional centres are not entirely immune to these factors. The simple fact is that very few shopping centres and high streets are maintaining, let alone improving, on their basic core service of attracting shoppers (as opposed to diners). Landlords and councils are struggling to come to terms with this new reality, which has clear implications for store rents and rates.

David Pike, Director, Calendar Club

'With the shifting retail landscape, we are evolving the Auntie Anne's concept to better meet the demands of a wider audience, cater for different occasions and be more innovative around our operating models and venue types. This will allow us to accelerate our growth and improve the balance of our property estate which has hitherto been heavily biased towards shopping centre venues. Whilst there is no doubt retail faces challenges currently, with careful consideration we feel these could yield significant opportunities for our business.'

James MacIsaac, Operations Director, Auntie Anne's

CASE STUDY

How OOH media company Primesight used LDC data to understand hyper-local economies to prioritise locations for the InLinkUK digital kiosk roll-out

Introduction

InLinkUK is a high-street digitisation project launched through a collaboration between leading out-of-home media company, Primesight, technology company, Intersection and telecoms giant, BT. The InLinkUK project will see over 1,000 redundant payphone units redeveloped to become digital structures which provide ultrafast public WiFi, telephony services, charging points and tablets to access community services, maps and local information. All these services are free to the public and are funded through digital advertising capabilities built into the units through 55inch HD digital displays providing context-aware, and hyper-relevant campaigns to a local audience. The digital kiosks have been designed to bridge the gap between brands and consumers and revolutionise the way high streets are used.

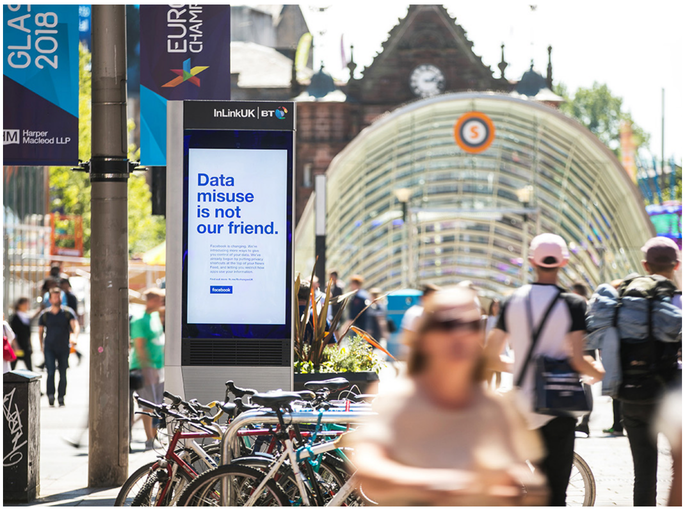
The first InLinkUK unit went live in Camden in June 2017, and since then the network has expanded to over 350 digital units installed across 18 UK cities, with dozens being converted each month. To date, there has been over 243,000 registered users of the ultrafast WiFi, who collectively have downloaded over 320,000GB of data during 10.5 million WiFi sessions – indicating the popularity of these units in communities.

The Challenge:

With thousands of BT payphone locations to choose from across hundreds of markets, Primesight wanted to enhance their approach to prioritising sites by collating multiple data sources as part of a more scientific approach to site analysis and selection.

Using data to map hyper-local environments

Primesight chose the Local Data Company as a partner for this project as their unique data capture methodology results in the most granular, accurate and consistently available insight on the physical retail landscape. InLinkUK needed to prioritise sites based on both commercial activity and footfall in order to select locations with potential for high consumer usage and the best returns for their advertising partners. The Local Data Company was able to map and deliver a variety of insights quickly and efficiently, in a format which allowed InLinkUK to integrate their data with a host of complementary datasets which fed into additional models and outputs.



The first stage of the project was to rank the overall health of all potential cities and markets in order to provide a high-level target list. The Local Data Company used their proprietary Health Index, which assesses and scores key metrics such as presence of anchor retailers, market churn, catchment demographics and vacancy rates to determine the relative strength and trajectory of each possible city and the suitability for this digitisation programme.

Once they had a target list of 60 markets, they required data at micro pitch level to quantify and map the highest footfall locations in each city. For each BT telephone box within the target markets, the Local Data Company built out a framework that enabled InLink to verify and visualise which potential sites would provide advertising clients with the most impactful and relevant space for campaigns. This was based on a high density of retail units, presence of brands, leisure operators and low vacancy rates, which together allowed Primesight to

Local Data Company Ltd, 13-19 Vine Hill, London, EC1R 5DW.
+44 (0) 20 3111 4393 | team@localdatacompany.com | www.localdatacompany.com

understand 'pitch personality'. This information was also used to identify locations which would allow Primesight to have a diverse range of advertising opportunities for a broad range of brands and products.

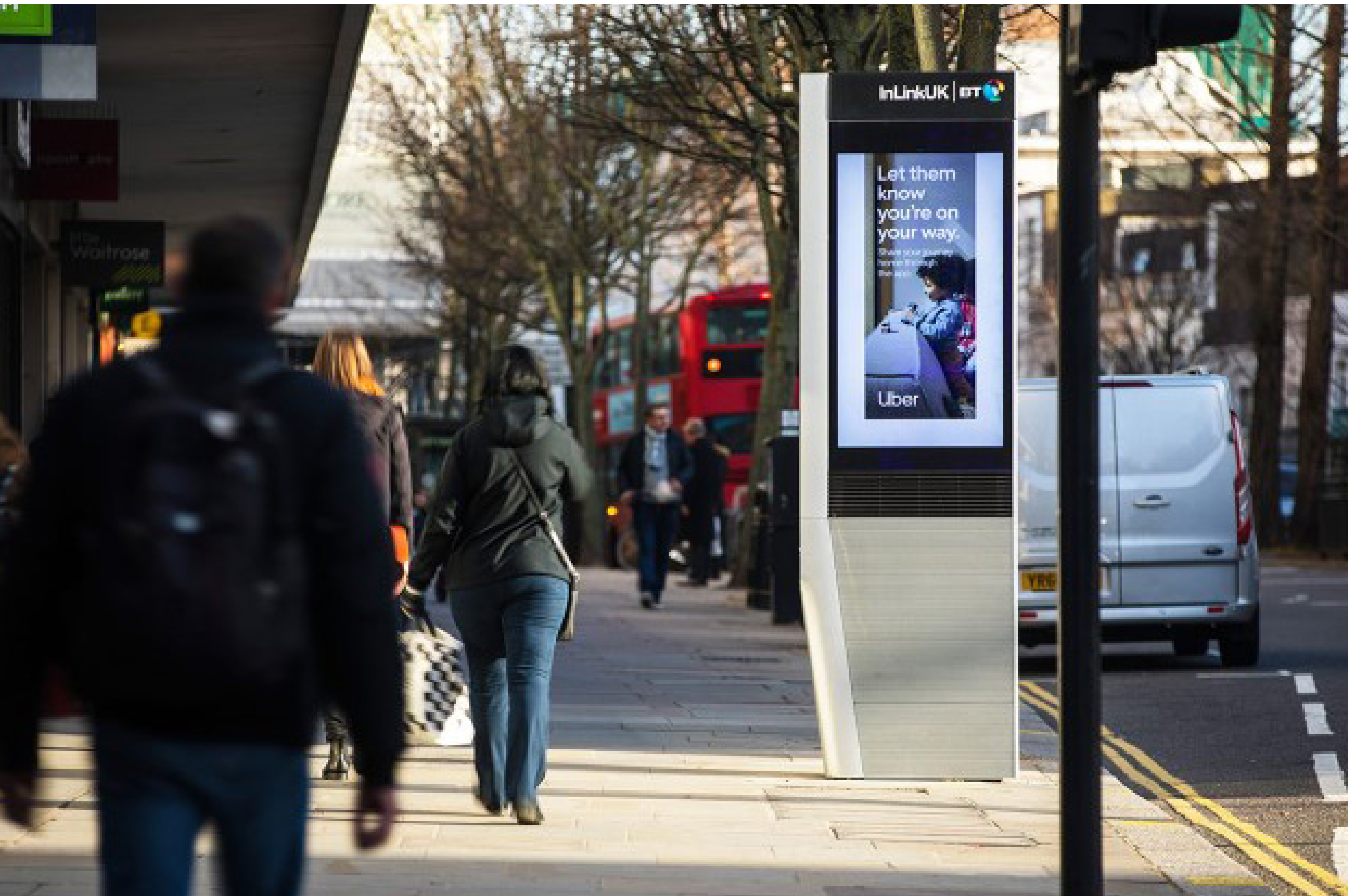
The data and insight provided by the Local Data Company resulted in a more focused and consistent approach, saving both time and money during the initial installation process and providing both a panoramic and granular view of each location. This methodology ensured that installation target lists focused on the most viable locations where they would be valued as both a community service hub and a way for brands to connect with consumers.

As the InLinkUK project continues to be rolled out across other major UK cities, it is essential for them to have a consistent source of data across the entire country. The data that the Local Data Company collects spans over 3,000 retail locations across the UK, resulting in consistent, reliable and comparable data on locations which the InLinkUK team is continuing to use as the project accelerates in both pace and scope.

"We needed accurate and consistent data to support our InLinkUK investment decisions at a local and micro level. The Local Data Company were able to meet this brief and supplied it for our analysis effectively"

Mungo Knott, Director of Insight & Innovation at Primesight

primesight



METHODOLOGY

- The Local Data Company 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 the field research update plan.
- Independent retailers are business with less than 5 stores nationwide, and no international presence.
- The GB vacancy rate analyses the top 650 town centres.

For more information please contact us

0203 111 4393 team@localdatacompany.com

Or visit localdatacompany.com

+44 (0) 20 3111 4393 | team@localdatacompany.com | www.localdatacompany.com

Data correct as of April 2019

Disclaimer

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

Author Ronald Nyakairu, Senior Insight Analyst

Producer Sarah Phillips Marketing Manager

Design Hannah Badley, Graphic Deisgn and Marketing Executive