A NATION OF SHOPKEEPERS NO MORE?

23 April 2018

There is no denying that there are significant headwinds in the retail and leisure sector; in 2017, 42 large retailers failed and profits at the top 100 restaurant operators fell by 64%. In the first three months of 2018 alone, 10 major retailers or restaurant chains have gone in to administration or entered in to a CVA, and a fifth of listed general retailers have issued profit warnings. The Chief Executive of Next confirmed that their profits are down 8% and went as far as to say that last year was the most difficult they have experienced in the last 25.

To summarise the issues facing the sector, retailer margins have been hit by the rising costs of goods and services, an increase to the minimum wage and a rates revaluation, while there has also been a sharp decrease in consumer confidence as a result of reduced household disposable income, leading to some significant changes in consumer habits. At the time of writing (April 2018) it was confirmed by the Office for National Statistics that wage growth has now overtaken inflation, but that is for the first time in a year which means damage has already been done.

It is important, however, to read between the headlines as the sector is often over simplified and a large amount of what is produced in the press is neither comprehensive nor conclusive. It is certainly insufficiently detailed to give a true representation of how the retail property market is actually affected. Pre-tax profits at Next were still £726m. JD Sports, Primark and Tesco have all told of their
recent successes and countless other retailers continue to operate profitable businesses.

Of all the space occupied by retailers who went in to administration in 2017, 58% has now been re-let, according to a recent study by the EG. There are some elements of growth among headline numbers of decline, demonstrated by reports that while 700 fashions stores closed in 2017, 400 actually opened. It has also been reported that while 4 pubs closed each day, 3 new ones actually opened. Of course, this leaves redundant space and so now is the time to focus on repositioning this to meet other space demands within today's market, and these may not be within the retail and leisure sphere.

Competition from online retailing is widely blamed for the failing 'High Street,' but in fact the general consensus is that by 2022, just 18.5% of retail sales will occur online which, in slightly simplified terms, means in excess of 80% of sales will take place in store. When reading of the successes of online retailers, you often hear that this is largely down to the fact that they are not burdened by an expensive portfolio of physical stores. In fact, the most successful retail models are those which are truly multi-channel and so if existing, traditional retailers can improve their online platforms to compete, then they will be in a format with which today's customers will really engage. A portfolio of stores in the right location is far harder to come by than a good website and app, after all.

The take-away message here is that, nationally speaking, there is too much space in the wrong place. And some of that space has been occupied by operators, who for one reason or another, have not adapted quickly enough to remain viable. The future retail sector will be characterised by fewer, smaller shops in re-imagined formats, complemented by faultless technology and which make up part of a compelling environment, focussing on the customer experience. Furthermore, demand for the best space will remain strong as a result of this shift towards more focused retail centres.