

OVER-RENTED AND OVER-STOCKED?

OUT OF TOWN RETAIL
SET TO STRUGGLE



Over 60% of the UK market* now share their data via Radius Data Exchange.

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Tat-Kei Lo, Strategy Associate | British Land

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*overall market size = total occupational space in square foot transacted in 2017 (as estimated based on EG research and expert analysis); the percentage reflects the 2017 transactions which were handled by an agent which contributes data directly to Radius Data Exchange as at October 2018. Non Radius Data Exchange contributed data acquired by EG researchers.

FIND OUT MORE



JAMES CHILD

HEAD OF RETAIL & INDUSTRIAL RESEARCH | EG

Out-of-town retail has consistently outperformed its high street counterpart in recent years, with both opportunistic retailers and customers trading town centres for retail park shopping.

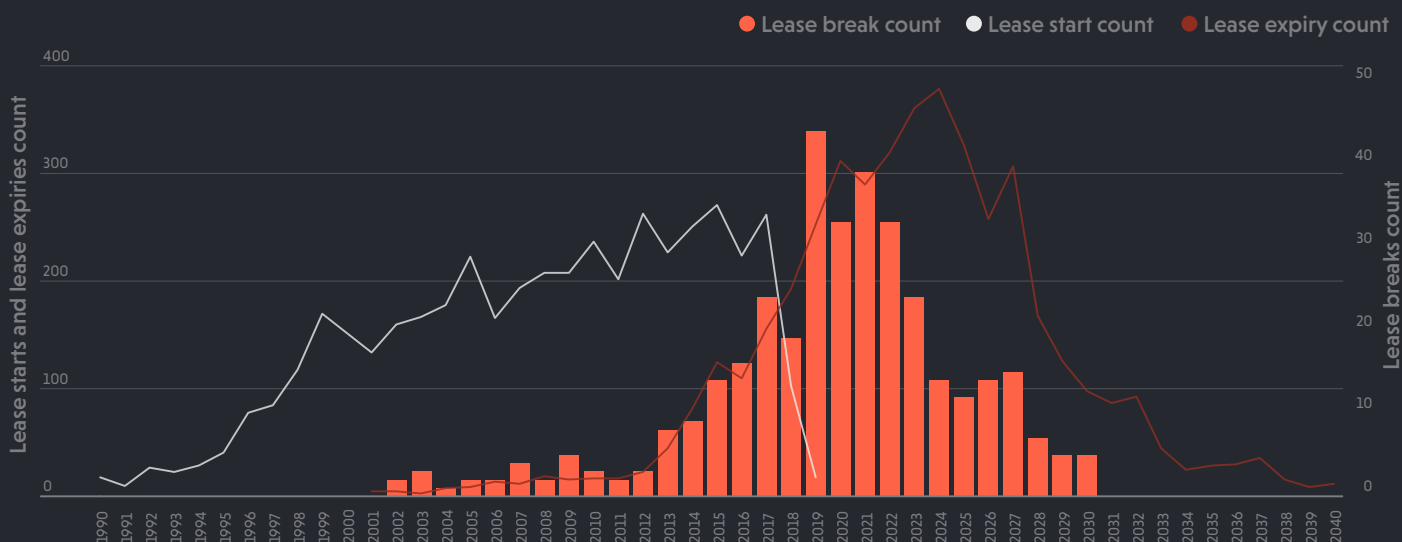
Cheaper rents, more space and free parking have offered welcome relief against a turbulent period on the UK's high streets.

However, with valuations heading south and new space still being built out despite the relentless increase of online spend and occupier consolidation; is the sector in danger of becoming over-rented? Radius Data Exchange looks at the top headlines from the sector.

Rental analysis of the retail park sector shows that the next five years could be testing for landlords as vacancy and lease terms work to suppress asset values. According to Radius Data Exchange over 50% of retail park leases signed since 1990 expire or experience lease break between now and 2025.

The outcome of this is that large swathes of out of town stock will be vacated or revalued. While it is unlikely that more occupiers will seek to evict themselves than remain, what we should instead expect is the sector to begin to revalue itself at the will of tenants. We know this from additional analysis into the current costs of renting, which show that many occupiers are paying over the market rent.

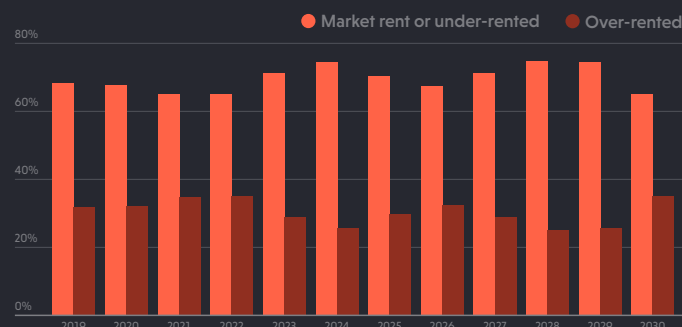
RETAIL PARK LEASE COVENANTS SINCE 1990: OCCUPIER LEASE START AND EXPIRY DATES WITH LEASE BREAKS



DISCOVER THE DATA BEHIND THIS REPORT

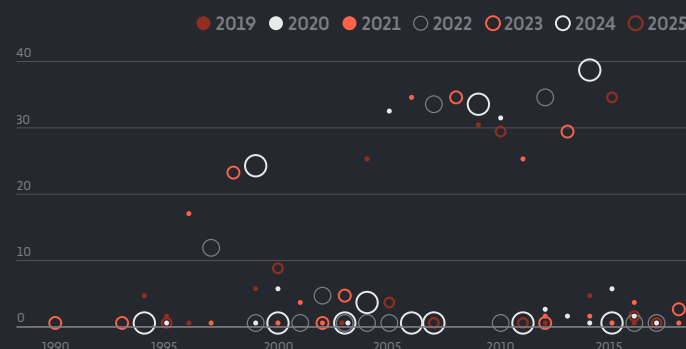
Radius Data Exchange also shows us that 30% of stock that is coming up for expiry is currently over-rented, when measured against the current average rental tone for retail park leases.

PERCENTAGE OF OVER-RENTED OCCUPIED RETAIL PARK STOCK IN UK BY LEASE EXPIRY DATE (AT 2018 FIGURE)



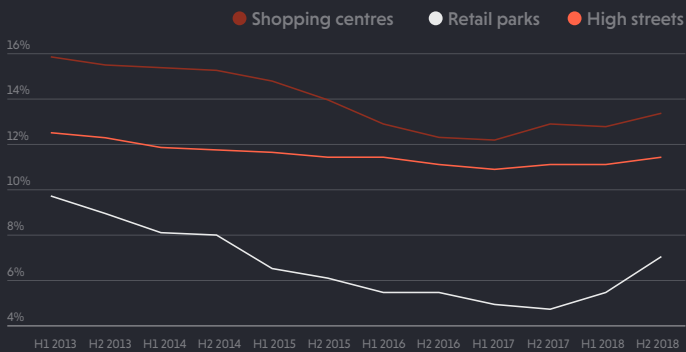
By studying the brief history of the evolution of out of town shopping, we can see that the period 2005-2015 is where the market began to saturate. Those peak rents that were agreed are now coming to expiry - and account for 50% of the current market.

OVER RENTED RETAIL PARK LEASES WITH LEASE EXPIRY DATES (2019-2025) AND WHEN THEY WERE SIGNED



This is also coming at a time when more out of town space is on the up. Data from Local Data Company shows that vacancy rates in retail parks have jumped since 2017, after almost five years of downward movement, with a steeper upward turn than that of even the high street. The closure of Toys R Us, Maplin and Poundworld has all had a bearing on this, which could lead to a temporary distortion in vacancy percentages.

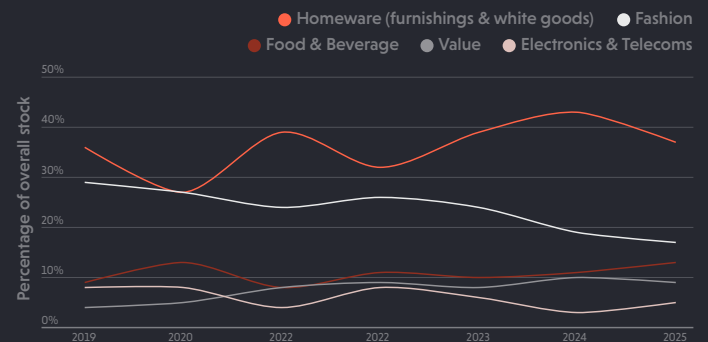
HISTORICAL VACANCY RATE BY LOCATION TYPE (2013 TO 2018) 'LOCAL DATA COMPANY'



Those peak rents that were agreed are now coming to expiry - and account for 50% of the current market.

It remains to be seen if those big box units will be filled quickly, given that in terms of further lease expiries, the homeware sector accommodates the highest proportion of units with lease expiry over the next five years. Fashion occupiers on average occupy a further 25% of these units and we would expect to see many vacate given the move to online in the fashion sector.

TOP OCCUPIER SECTORS WITH FUTURE LEASE EXPIRIES IN UK RETAIL PARKS

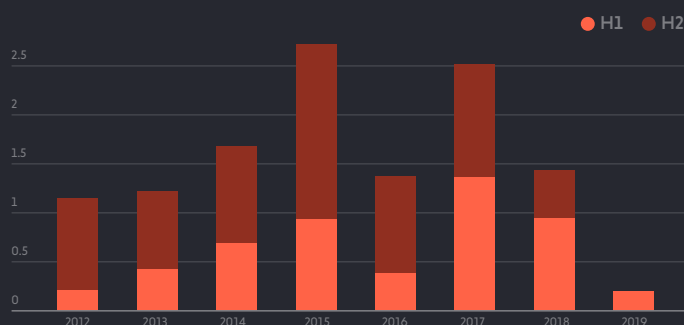


With bricks and mortar occupiers under such pressure against online retail spend (peaking at 21.5% of all retail sales in November 2018), long-term commitments are becoming more scarce with average lease lengths decreasing over the past thirty years, from 26 years in 1990 to 11 years in 2018.

Investment into the sector has dropped considerably, H1 spend down 80% year-on-year and looks set to be the most subdued since 2012. Many landlords are now looking to offload schemes instead of acquire them.

And we have seen some of the UK's largest REITs like Hammerson and Intu propose scaling back on secondary schemes, instead investing in their prime central shopping centre destinations.

RETAIL PARK INVESTMENT 2012-2019 (£BN)



Many landlords are now looking to offload schemes instead of acquire them

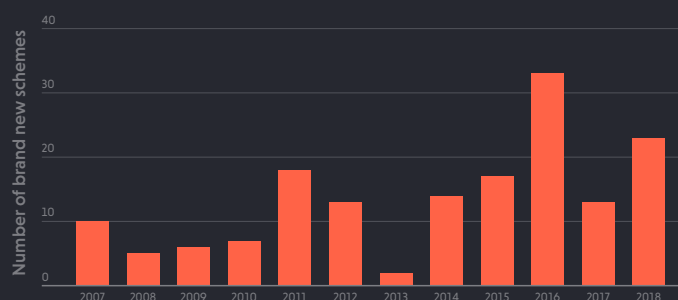
The raft of CVA's and administrations that have hit retail could continue to hammer vacancy rates. The value and homeware sectors had previously propped up empty space in out of town destinations, but with a slowdown in both their growth, new incoming tenants may well be of different origin.

Looking at units that have become vacant since the start of last year, one in five are in out of town schemes, across some 4.6m sq ft of retail. The vast swathes of stock coming up for expiry or review means that the power lies with the occupiers.

Owing to the laws of supply and demand, it is fully expected that rents will begin to fall in the short term. Despite this, it has not stopped hungry developers lodging plans for new out of town developments. Our data shows applications for new retail parks have doubled over the second half of the past ten years.

With an already bloated retail footprint, against the backdrop of increasing vacancy and a changing shopping landscape, out of town landlords may well face a backlash from occupiers maximizing their value in tricky trading conditions.


APPLICATIONS FOR BRAND NEW RETAIL PARKS





OUT OF TOWN RETAIL

DISCOVER THE DATA BEHIND THIS REPORT

A stylized diagram of a stadium seating chart. It features a dark grey background with a light grey grid representing the seating area. A thick orange arc is drawn across the top of the grid, representing the stadium's roof or a specific seating section. The grid is composed of several rows and columns, with some cells containing small grey rectangles representing seats.

Find out more about our specialist insight and
discover the data behind the report.

Call the team on **0207 911 1476**
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