Vacancy Report

Summary H2 2014

Mind the Gap!

A report by The Local Data Company

Published 4th February 2015

The leader in retail location data & insight.

Introduction

At the end of 2014 the average vacancy rate in the 723 town centres covered by the Local Data Company was slightly down at 11.8% against 11.9% recorded in the first half of the year versus the 12.3% seen at the end of 2013. Vacancy in England stood at 11.7% with Scotland at 11.9% and Wales at 14.8%.

As has been reported before, there is a significant variation between different regions with London seeing vacancy at 7.8% while the North East stands at 16.8%. In fact the data continues to confirm a north-south divide with the North East and North West both having higher vacancy rates.

Data based upon over 1,000 retail parks shows an average vacancy of just 8% while 690 shopping centres yield a 15.2% vacancy rate.

Burslem and Stoke-on-Trent top the table of worst performing centres (1st and 3rd respectively). At the end of 2014 they had vacancy rates of 29.4% and 27.7% respectively. The West Midlands region provides half the top ten underperformers. Burslem was described as “particularly vulnerable” in the Stoke Retail and Leisure Study published in mid 2014 while investment plans for Stoke city centre are yet to be fully realised. Stoke-on-Trent has seen vacancy rise by 6.3% in the past year.

Newport, Monmouthshire came in second position with a vacancy rate of 27.9%, due to an increase of 1%. Newport, Monmouthshire has been consistently amongst the worst performers since 2012.

Region	Area	Vacancy (%)	12 month change (%)
West Midlands	Burslem	29.4	1.0
Wales	Newport, Monmouthshire	27.9	-1.0
West Midlands	Stoke-on-Trent	27.7	6.3
North East	Hartlepool	27.3	-0.4
West Midlands	West Bromwich	27.1	0.5
North West	Droylsden	26.8	6.6
North West	West End, Morecambe	26.8	-6.1
West Midlands	Stoke-upon-Trent	26.6	2.3
North West	Bootle	26.4	-0.6
West Midlands	Walsall	26.2	-0.5

Table 1 – Top 10 worst performing centres (H2 2014). (Source: LDC).

Hartlepool in the North East is in fourth position with a vacancy rate of 27.3%. In January, Hartlepool Vision was launched as a regeneration strategy for the town but is yet to make any impact upon vacancy levels that have been getting slowly worse since 2012.

Droylsden in the North West saw vacancy rise by over 6% during 2014. This is disappointing given the vision for the town centre was published in 2013 and the arrival of the Metrolink in central Manchester. Other North West towns that also feature amongst the worst performers include Bootle (26.4%), Stockport (25.9%) and Morecambe West End that has seen vacancy fall by over 6% during the year to 26.8%.

At the other end of the table the bottom ten all see vacancy rates below 2%. Both Deeden in Essex, close to the London border, and prosperous Highgate saw 0% vacancy and commuter towns like Beaconsfield, Cobham and West Wickham all saw significant improvements in vacancy during the year. London centres like Highgate and Stanmore all make the list of top performers.

Lincoln's thriving Eastgate and Gretna in Scotland have the distinction of being the only centres not from the South on the list with Gretna improving by 6.6% in 2014, while Oxford Summertown makes the top ten with a 1.8% improvement in vacancy during the year.

Region	Area	Vacancy (%)	12 month change (%)
East Of England	Deeden	0.0	-2.0
Greater London	Highgate	0.0	0.0
Scotland	Gretna	0.0	-6.6
South East	Beaconsfield	0.9	-2.6
Greater London	Stanmore	1.1	-2.3
East Midlands	Eastgate, Lincoln	1.3	0.0
Greater London	West Wickham	1.4	-2.1
South East	Cobham	1.7	-2.6
South West	Bridport	1.9	-0.6
South East	Summertown	1.9	-1.8

Table 2 – Top 10 best performing centres (H2 2014). (Source: LDC).

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The economy

Cautious consumption

The UK economy has seen GDP grow by an estimated 3% in 2014 and unemployment fall to 6%. The recovery has now been sustained at an above trend rate for nearly two years since early 2013, after a couple of sluggish years in 2011 and 2012, but wage growth has disappointed leaving many wondering whether there has been a recovery at all.

Growth has been driven primarily by the service sector over the past five years, but manufacturing and construction have also been on an upward trend since early 2013. This momentum seems to have waned recently in the case of manufacturing as key European export markets have slowed significantly over the second half of 2014.

Consumer spending growth is projected to be broadly similar to GDP growth next year, but with some moderation after 2015. Inflation has fallen below the 2% target since January 2014 for the first time in more than four years, and it is expected to remain below target in 2015.

A rise in UK interest rates does not look imminent, but a gradual upward trend is likely to begin during 2015 although market expectations of the timing of the first rate rise have been pushed back. In the long term, however, official rates are expected to return to a more normal level of around 4% by 2020.

The downside risk is the uncertainty that may be triggered by the General Election in May. Any hint that the UK might risk pulling out of the EU is likely

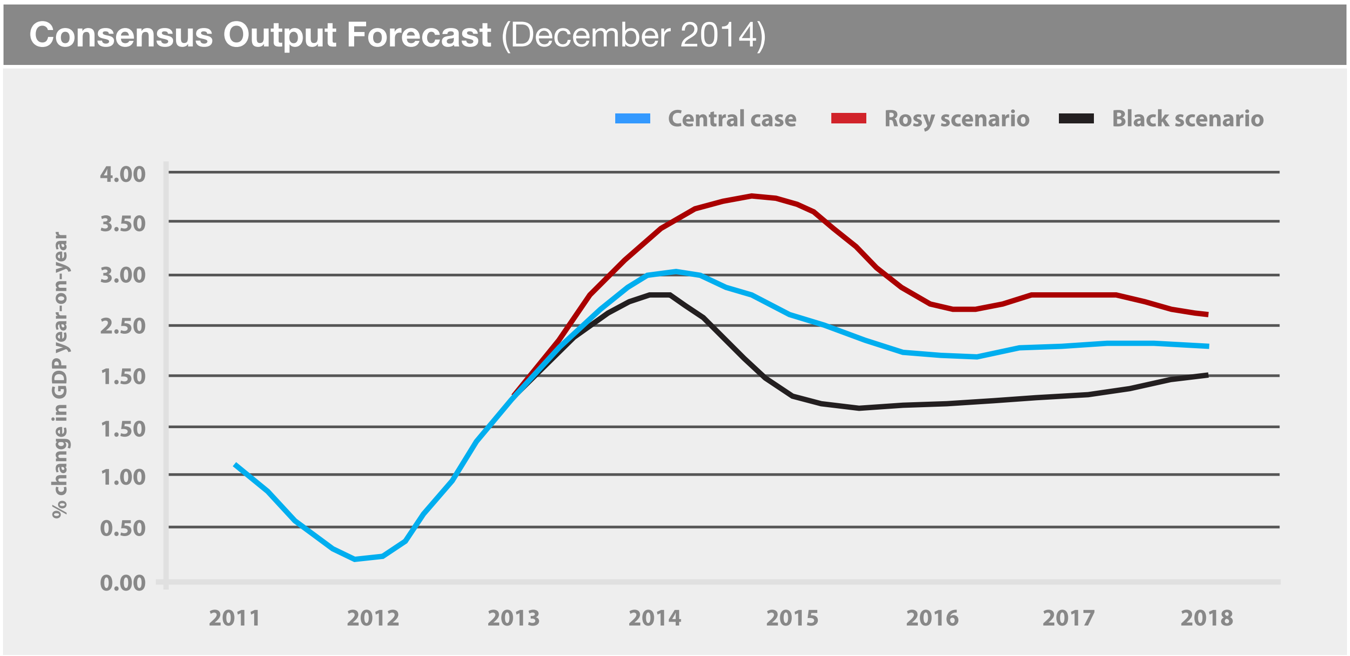

Figure 1 – Consensus output forecasts. (Source: UK Treasury).

to precipitate an old-fashioned Sterling crisis that might require a rapid escalation in interest rates to protect the currency.

The British Retail Consortium reports that, during the course of 2014, UK retail sales declined by 0.4% on a like-for-like basis – up 1% overall. In December, total food sales grew for the first time since April. Non-food performance was helped by the cyber-week and the end-of-season sales, particularly fashion.

Online sales of non-food products in the UK grew 7.0% in December versus a year earlier, when it had grown 19.2%. The Non-food online penetration rate was 17.0%, up from 16.0% in December 2013.

The fall in like-for-like spending is consistent with the fall in real wages through most of the year. Real wage growth looks set to gather pace in the coming months, due in large part to very low inflation, but there is little sign of a long-overdue rebound in pay and this is bad news for retail sales going forward.

Before the downturn wages typically grew at 2% per annum in real terms. Even allowing for strengthening inflation plus growth during 2015 it is unlikely that the weekly pay of a typical worker will return to pre-downturn levels before the end of the decade.

The retailers

Supermarkets - cutting throats on (and off) the High Street

2014 was the year in which the price war between supermarkets erupted for real. For years supermarkets had been playing war games, but, surprise surprise, their profits continued to increase. In the last six months, Tesco, Sainsbury's and Morrisons have all changed their chief executives – changes brought about by falling sales.

Supermarkets have often claimed that the pressure on their businesses was due to discontinuous changes in shopping habits, with customers changing from a weekly shop at an out-of-town store to buying food at convenience stores, on the internet, and at Aldi and Lidl.

Supermarket market share (H2 2104)

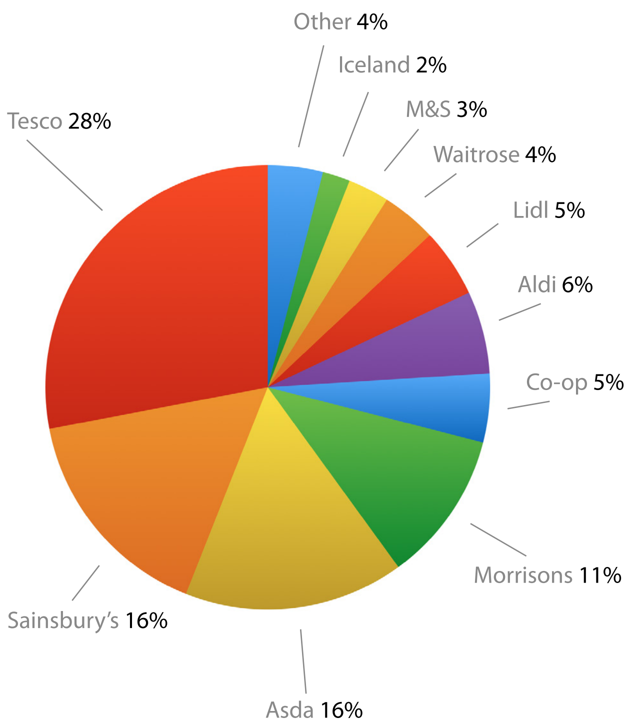

Figure 2 – Supermarkets, by market share (%) (Source: Kantar).

While these may well be cogent reasons for underperformance, in many respects supermarkets have been the masters of their own misfortune.

Convenience stores have been one of the key battlegrounds for the big four supermarkets over the last decade. Tesco, for example, have acquired nearly 3,000 convenience stores under the Metro, Express and One Stop fascias over this period. Tesco is not alone, by 2016, Sainsbury's expects to have 1,000 convenience stores; the Co-operative plans more than 400 in the next three years; and Morrisons is adding a 100 a year. It must have occurred to someone that, at some saturation point, new stores simply move existing customers around rather than attract new ones, cannibalising sales.

The internet brings another set of problems. In fairness, most of the main supermarkets now have easy to use, efficient websites that facilitate online shopping. As far as Morrisons is concerned this has been a long time coming – 2014 to be precise – ceding competitive advantage to the other players for far too long.

The real issue for online grocery is the logistics of delivering a can of beans to the customer in time for tea. This requires significant investment in dark stores and other delivery strategies hidden from the customer's view - a trend some players have been slow to acknowledge.

Asda, an exemplar in the field, has acquired a fully automated click-and-collect pod technology which enables customers' online orders to be delivered to stand-alone temperature-controlled units where customers can collect their orders when they want. In addition to the intelligent pods, Asda plans to increase its click-and-collect points from 400 to 600, grow its drive-thru click-and-collect sites to 200 and increase its same-day click-and-collect services to 100 new sites to bring the total to 350.

And then there are the discounters. No fancy online shopping for them - they pile it high and sell it cheap. In straightened times this has proved to be an attractive strategy for consumers, one that the big players did not see coming and one that they have found it very hard to counter. Though Aldi and Lidl

Change in food market share (end 2013 to end 2014)

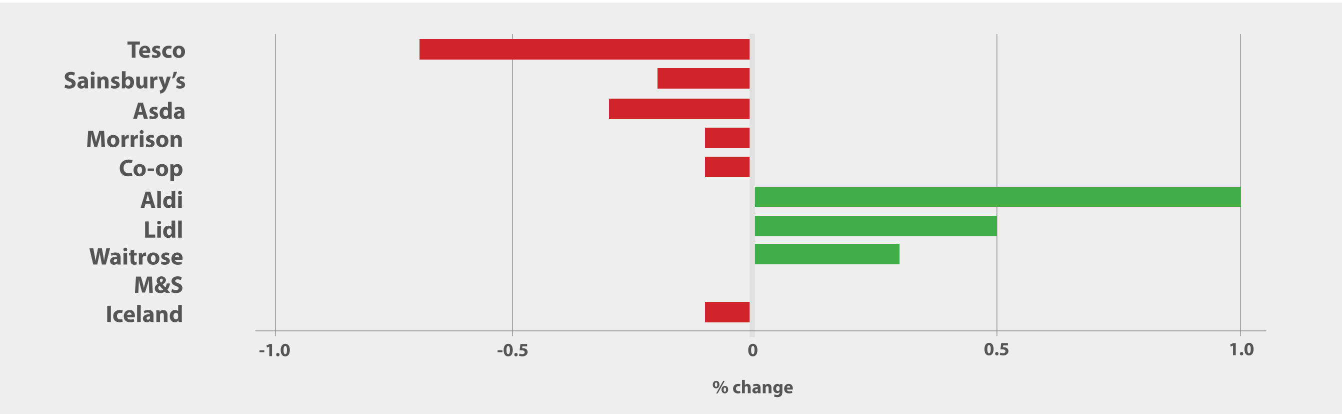

Figure 3 – Change in food market share. (Source: Kantar).

have started to stock some premium items especially in the lead up to Christmas.

The impact can be seen in Figure 3. At the top end of the market Waitrose continue to make steady progress and M&S are holding their own - at the bottom end, Aldi and Lidl are growing strongly. In the middle market (the biggest part) the supermarkets are struggling to retain their market share.

There is another reason why these erstwhile golden boys of the retail sector are starting to look a bit tarnished – they have lost the respect of many of their customers. In the Netherlands they say that reputation arrives on foot – but departs on horseback. A slew of bad news, particularly regarding how supermarkets abuse their market power, has cast them as villains in the eye of the consumer. Tesco, as market leader, has born the brunt of this criticism for how it handles its supplier contracts, while their response has hardly helped the situation.

The ongoing price war combined with low inflation and the impact of the discounters has fostered the expectation of low supermarket prices amongst consumers. Allied to the damage done to their reputation this makes the task of recovering their lost ground doubly hard.

The consumers

(Still) waiting for recovery

The GfK UK index of consumer confidence peaked in mid-2014 and has been on a downward slope ever since. The index decreased two points in December to -4 but this should be read in the context of a score of -13 in December 2013.

Four of the five measures used to calculate the Index Score saw decreases in December:

- The index measuring changes in personal finances during the last year increased one point to -6; this is 10 points higher than in December 2013. However the forward looking indicator assessing personal finances over the next 12 months saw a one point decline to +1;
- The index is gloomy about the general economic situation. The measure for the last 12 months has decreased four points this month to -10; Expectations for the next 12 months have decreased five points this month to -5; this is one point lower than this time last year;
- The Major Purchase Index has increased six points this month to 5. This is 15 points higher than this time last year.
- The Savings Index has stayed at the same level this month at -9, which is four points higher than December 2013.

This caution was manifested in the propensity to shop. The British Retail Consortium reports that footfall in December was 0.7% down on a year ago below the three-month average of a 1.3% decline. Out-of-Town saw footfall rise - 1.3% higher than a year ago and part of a positive trend throughout 2014. Footfall in shopping centres was 0.1% down on the previous year.

UK Consumer Confidence

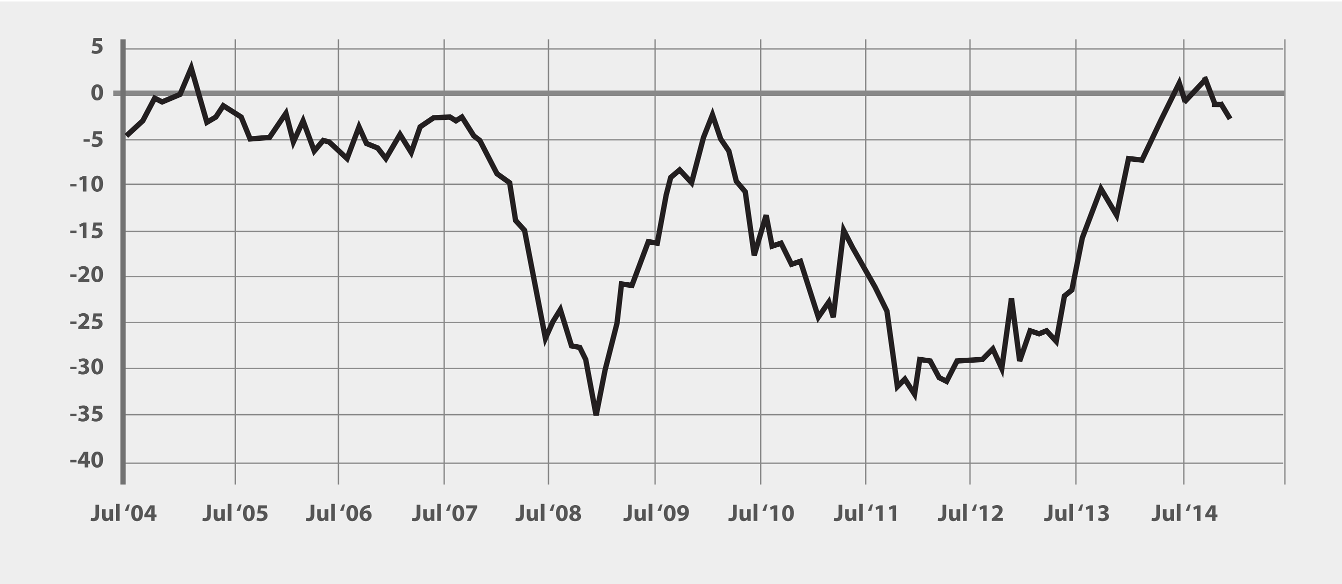

Figure 4 – Consensus output forecasts. (Source: GfK).

In the run up to a general election in May, the political mantra – repeated often and with conviction – is that the UK economy is growing stronger all the time. The UK consumer (and voter) is rightly cautious about that and will likely adjust their spending accordingly over the first half of 2015.

The retail space

Introduction

The problems faced by supermarkets are having a significant impact upon the real estate industry. CBRE report that the amount of new supermarket space under construction has fallen by 20% since the end of 2013.

The grocery pipeline has declined by 4% since its 2012 peak. CBRE expect some contraction of land banks and report that many of the 500 plus 50,000 square feet developments in the pipeline appear to have been mothballed rather than dropped.

What is clear is that Tesco have pulled back from development scrapping 49 new stores - equating to more than two million square feet of retail space and closing 43 unprofitable stores.

Other cost-cutting measures announced were plans to close Tesco's longstanding headquarters in Cheshunt, Hertfordshire, and move its main offices to Welwyn Garden City. Selling Dunnhumby, the data business behind Tesco's Clubcard scheme and disposing of it's Blinkbox Video on Demand service to TalkTalk.

LDC Methodology

1. Shops' refers to Convenience, Comparison and Service retail only.
2. All vacancy refers to shops and leisure classifications, including hotels, entertainment, restaurants, fast food and bars.
3. Each 'Centre' refers to the Communities and Local Government (CLG) retail core boundary definition with the exception of Scotland.
4. Each centre has been physically walked and each premises recorded as vacant, occupied or demolished as recorded on the day of survey.
5. Vacant units are those units, which did not have a trading business at that premises on the day of survey.
6. The figures include vacant units within shopping centres where we have had co-operation from the shopping centre owner/management.
7. Centres are updated on 6 or 12 month cycles according to Local Data Company update plan.
8. Changes in vacancy rates are percentage point increase/decrease.

- Large centres are locations with 400+ shop premises.
- Medium centres are locations with 200-399 shop premises.
- Small centres are locations with 50-199 shop premises.

Matthew Hopkinson, director at the Local Data Company commented:

"During the second half of 2014 the average GB national vacancy rate continued to improve down to 11.8% which is -0.5% on the same period in 2013. Nationally we see England and Scotland neck and neck at 11.7% and 11.9% respectively but with Wales some way back at 14.8%.

At a regional level the polarisation between the North and the South is as wide as ever with London's vacancy rate being less than half that of the northern regions. Of the top 10 highest vacancy towns in the country all are in the North, West Midlands or Wales. Whilst we have seen an improvement from the peak in 2012 when these towns had one in three shops empty, these towns all have vacancy rates above 25% which is still one in four shops lying empty and no sign of improvement.

Not only is the level of vacancy an issue, but of more significance in my view is the persistence of that vacancy. For example in the largest towns (400+shops) with the highest vacancy rate, 70% of those vacant units have remained empty for more than a year. Such analysis at town, shopping centre and retail park level gives the most realistic view about the over supply of retail and leisure premises up and down the country. Analysis by LDC at the end of 2014 showed that of all the vacant units tracked 20% of these had been vacant for more than three years. LDC data identifies 49,538 vacant units across the country, which therefore implies that 9,908 are never going to be re-occupied. This is the equivalent of five Manchester's lying empty!

2015 will be a significant year for retail places and we have already started to see the impact of the supermarkets' decline with Tesco and Morrisons announcing store closures and a hold on any further development. Whilst the numbers announced to date are small beer to the totals, the significance lies with the fact that whilst traditional shops have been closing it has been the supermarkets and convenience stores that have been expanding significantly which has kept the occupancy rates balanced. The question as to who will occupy these newly vacant stores as well as those, which have been empty for a while is a very difficult one to answer positively.

In April we see the start of the business rates revaluation, which will be based on rental values as at April 2015. One thing you can be sure of is that the market will change even more rapidly in 2015 than in 2014 with some places seeing rental increases and others continuing to fall. As such creating a relevant business rate for implementation in 2017 is a challenging, expensive but also a flawed task.

One thing that is very transparent is how vacancy rates and occupancy profiles are changing location by location and this ultimately mirrors where and why businesses succeed or fail.

The granularity of LDC data shows these changes from a shop all the way up to the nation and what is clear is that polarisation is alive and well, and growing. With one in four shops lying empty in the north and just one on ten lying empty in the South the evidence is clear to see. Mind the Gap!"

About Local Data Company

The Local Data Company (LDC) is the UK's leader in retail location data and insight. Combining powerful proprietary technology with a unique, field researched database of over 500,000 premises, LDC delivers data, market analysis and unique profiling to the leading retailers, financial institutions, analysts, search engines, online directories and the media. Using its army of field researchers, LDC delivers insight on thousands of locations, including high streets, town centres, shopping centres, retail parks and standalone out of town stores. LDC brings data alive and delivers clarity through its integration, aggregation and highly visual delivery.

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