Is the future bright in retail property?

Dr Richard Barkham
Group Research Director
Grosvenor
A Vital Resource

‘...necessary to existence, continuance or well being ...’
A Vital Resource

- £238bn sales - 21% of GDP
- 3.5m employees
- 4,600 separate trading locations
- 200 shopping trips per annum
- Harrods / Marks and Spencer / Regent Street
- 65% Pension Fund Property Assets
Forces Acting

Consumers

Design - Climate change

Retailers

Planning

Transportation

Shopping Places

Online shopping
Spending growth 2006 - 2015

Future of Retail Property: Consumers
Personal Debt

Future of Retail Property
Long term growth in household wealth

% of disposable income

Housing Wealth
Financial Assets
Financial Liabilities
Net Worth

Source: ONS
Expansion, renewal and regeneration

• Required new space (per annum to 2015)
  - 609,000 m²
  - 6,500,000 ft²

• Allowing for:
  - Internet sales growth
  - Improved productivity
  - Non-food sales by supermarkets
Population growth of 2.8m

- Innocence to corruption (0-14)
- Identity forming (15-24)
- Mass acquisition (25-34)
- Split priorities (35-44)
- Ugrading and renewal (45-54)
- Wanting it all (55-64)
- Function with fashion (65-74)
- Mend and make do (75+)

Future of Retail Property: Consumers

BCSC: SHAPING RETAIL PROPERTY
Strong market growth in 45+ age bands

Mend and make do (75+)
Function with fashion (65-74)
Wanting it all (55-64)
Ugrading and renewal (45-54)
Split priorities (35-44)
Mass acquisition (25-34)
Identity forming (15-24)
Innocence to corruption (0-14)

2015
2005

Future of Retail Property: Consumers
Population of the UK, 1953-2005, with % in age group 20-44

Source: ONS

Future of Retail Property
Leisure and well being alternatives

Holidays and travel
Insurance savings and investment
Domestic services
Health
Sports and leisure
Cars
Recreation and culture

Future of Retail Property: Consumers
Regeneration gains momentum

Future of Retail Property: Planning

Trendline
Percent retail space built in central areas
Issues for small and medium sized towns remain

64% of pipeline of which 67%

Small and medium sized towns

Retail Parks
Retail Warehouses
Shopping Parks
Superstores

Future of Retail Property: Planning
<table>
<thead>
<tr>
<th>Type of centre</th>
<th>% premium retailers</th>
<th>% mid-market retailers</th>
<th>% value retailers</th>
<th>Parking places</th>
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</thead>
<tbody>
<tr>
<td>Super-regional</td>
<td>41</td>
<td>53</td>
<td>7</td>
<td>0.01%</td>
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<tr>
<td>Metropolitan regional</td>
<td>25</td>
<td>55</td>
<td>19</td>
<td>0.18%</td>
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<tr>
<td>Major city regional</td>
<td>19</td>
<td>61</td>
<td>19</td>
<td>0.18%</td>
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<tr>
<td>Major out-of-town regional</td>
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<td>64</td>
<td>15</td>
<td>0.79%</td>
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<tr>
<td>Regional</td>
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<td>61</td>
<td>20</td>
<td>0.19%</td>
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<tr>
<td>Out-of-town regional</td>
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<td>69</td>
<td>23</td>
<td>0.19%</td>
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<tr>
<td>Major sub regional</td>
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<td>61</td>
<td>30</td>
<td>0.19%</td>
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<tr>
<td>Major district</td>
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<td>61</td>
<td>29</td>
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<td>Out-of-town major district</td>
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<td>Fashion park</td>
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<tr>
<td>Minor district</td>
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<td></td>
<td></td>
<td>0.13%</td>
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<tr>
<td>Non domestic</td>
<td></td>
<td></td>
<td></td>
<td>0.13%</td>
</tr>
<tr>
<td>Outlet centre</td>
<td>25</td>
<td>50</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Retail park</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Local</td>
<td></td>
<td></td>
<td></td>
<td>0.13%</td>
</tr>
</tbody>
</table>

Source: CBRE, CACI, Grosvenor Research and Duncan Jones Consulting
The Tesco Effect

Future of Retail Property
Getting to the shops

• Car likely to continue to dominate
  - 60% of current trips
    • Bus 9% and declining (except London)
    • Walking 26%
  - substantially preferred by older shoppers
  - retail trip lengths have increased by 50% over the last 30 years

• Car travel set to become more expensive
  - Car park charging, road pricing, fuel
Online shopping has some limitations

‘It’s not like you go on to Amazon and think “I am a little depressed. I’ll go on to this site and get transported”’

Nancy Koehn, Harvard Business School
Multi-channel retailers

• 60% of retailers interviewed have a transactional website
  - 75% said that this had increased sales

• Charlie Mayfield on doubling the size of John Lewis:
  ‘...new shops, sales from existing shops and growing the internet business...’
  ‘...we have the best pipeline of new shops on the John Lewis side we have ever had...’
Future of Retail Property: **Online Shopping**

% responding affirmatively to “what would make you more likely to visit physical shops?”

- Free car parking
- Improve customer service
- Better / more parking
- Easy public transport access
- More restaurants/cafés/bars/coffee shops
- More unique, boutique style shops
- Delivery to car service
- Farm shops
- Areas to leave children
- Relaxation areas
- Other leisure facilities

**Access, choice and leisure**

- **Access**
- **Service**
- **Choice**
- **Leisure**
Retailing - a Success Story

- 94% sales growth in real terms - 169% nominal since 1986

- 390,000 VAT registered retail businesses
  - 36,000 new in a typical year

- 650,000 new jobs in ten years
Margins are volatile but long-term stable.
Retail change

- Drive for size
- Rise of speciality formats
- Move to value
- Internationalisation
Size of newly built stores

Average size (square feet)

Future of Retail Property: Retailers
Growth of specialist retailers

- Second hand
- Other specialists
  - Books
  - Hardware
  - Electrical
  - Furniture
  - Footwear
  - Clothing
  - Textiles
  - Pharmacy & medical
- Food specialists
- Non-specialist, other
- Non-specialist, food

Future of Retail Property: Retailers
Growth of specialist retailers

‘Shoon is one of a number of canny specialists that are springing up to offer high quality, down-to-earth shoes and sometimes clothes to a sophisticated clientele that crosses all ages’

Aniss 2006
Rise of the grocers - decline of the independents

% change in market share

- Grocery superstores
- Independents

Future of Retail Property: Retailers
Foreign retailers entering the UK

Future of Retail Property: Retailers
A new agenda for shopping place design

Place-making will be at the forefront of strategies for retail development. But in pursuit of competitive advantage, shopping places will seek to innovate by becoming highly differentiated environments

Future Shopping Places
Building Design Partnership, 2007
The WOW factor

Consumer led change is led by Wealthier, Older and Wiser consumers with a preference for, individuality, quality, service and experience
Aspects of the design agenda

• Diversity of uses
  - Eating, leisure, entertainment, living, residential

• Broad mix of retailers
  - Including independents, not limited to fashion

• Character and identity
  - Outstanding architecture, local traditions

• Public space
  - Safe places to relax and pass the time
Aspects of the design agenda

- Integration
  - Many ways in and out - linked to surrounding area

- Connectivity
  - Links to as many modes of transport as possible
Brands
Reducing the carbon footprint

- Greater use of natural light and ventilation
- Micro-power generation
- Underground heat sources
- Combined heat and power
- Rainwater harvesting
A bright (green) future

• A sea change in retail development
  - Using the power and dynamism of retailers
  - Focussed by planning regulations

• Developers focussed on creating places
  - Trade at the heart of the process but leisure and experience key drivers
  - Reducing the carbon footprint

• Challenges remain
  - Supporting some small and medium sized centres
  - Preserving the independents
  - Managing the car
A Vital Resource

‘...having remarkable energy, liveliness or force of personality …’
Real house price index

Real growth index, 1968=100

Source: Ecowin
DCLG house prices quarterly mean series, RPI monthly end of period series.
House Prices and Unemployment

Future of Retail Property