

THE RETAIL DEVELOPMENT PIPELINE

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2009

LUNSONMITCHENALL

BCSC
SHAPING RETAIL PROPERTY

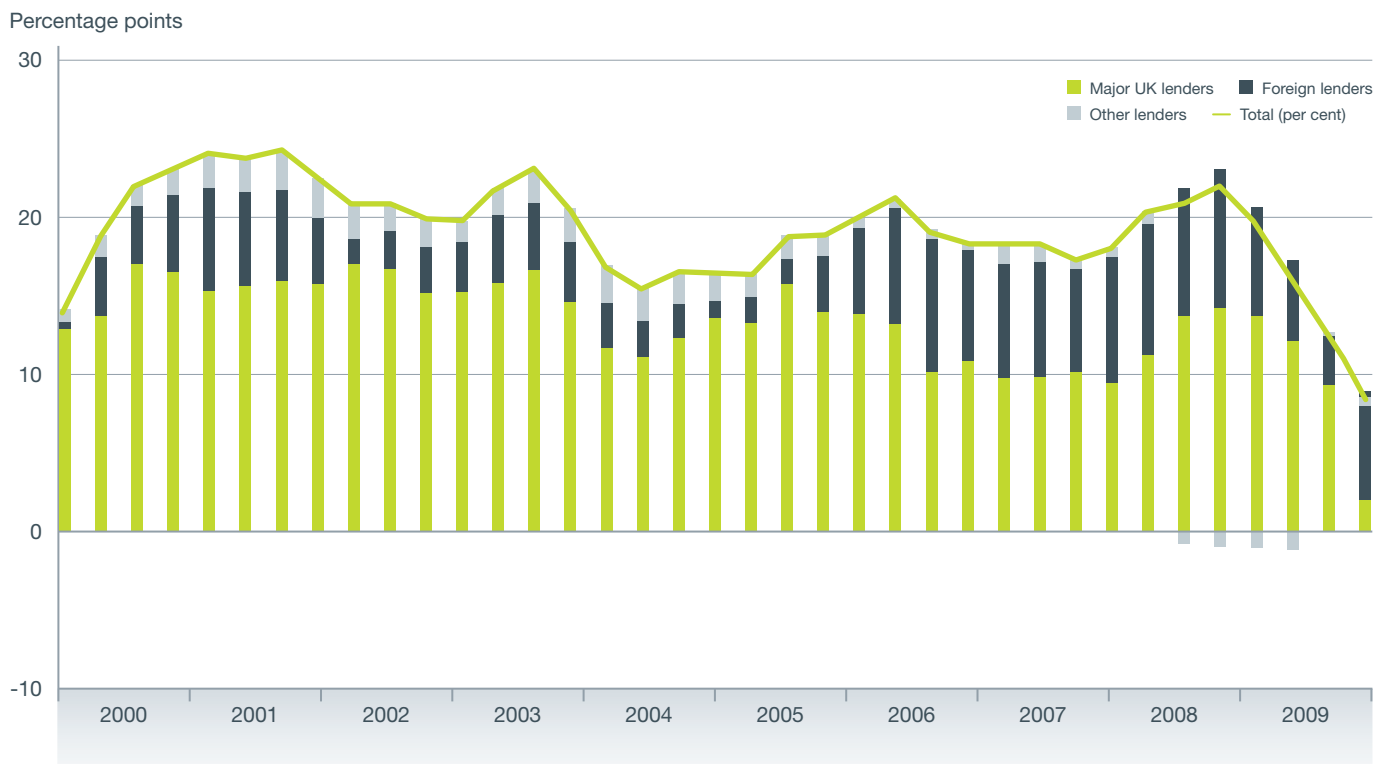
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During the last 12 months, we have seen a radical change in the fortunes of shopping centre and retail-led regeneration. The stark consequences of the UK banking crisis, combined with falling capital values and consumer demand has had a profound affect.

Add to this the reluctance of banks to provide loan facilities to commercial property, and in particular, development, and you have the recipe for stagnation. Our research shows that virtually

all development that is not under construction at present will not be implemented until the consumer market improves, which could be several years.

Chart 1: Contributions to growth in lending to the real estate sector¹



So what does this mean for the economy, developers and retailers?

2008 saw approximately 8 million sq. ft. open, including Westfield London, Liverpool One and Cabot Circus, Bristol. This has reduced to just over 2 million sq. ft. in 2009, with the majority of the space being taken up by Cardiff's St David's 2 (950,000 sq. ft.) and Aberdeen's Union Square (700,000 sq. ft.). The flow turns to a relative trickle in 2010 with 1.9 million sq. ft., under a quarter of the 2008 total. The only major development under construction for 2011 is Stratford City – after that nothing.

Some 45 million sq. ft. of planned shopping centres are now effectively on hold, pending improvements in the economy, and consumer demand. This slowing of the supply at a time of economic decline can be seen as a normal corrective reaction to market forces and in time, implications on social wellbeing will come to bear if they are not in motion already.

The difficulty comes when consumer confidence begins to build and retail turnovers begin to rise. Retailers will react quickly. They are accomplished at adjusting rapidly to shifts in consumer sentiment and as turnovers begin to increase, so too will their

demand for more retail space. Extra space is still the primary means that retailers use to grow their business and profit; it is therefore a vital ingredient in the future prosperity of the retail sector.

The major difficulty on the horizon for retailers will be the time lag between their need for more space and the length of time it will take for the stalled development to rejuvenate.

This stagnation or delay also has severe implications for the retail-led regeneration of many of our town centres, which has been a major plank of the government's policy towards the stimulation of town centre economies. They need this inward investment to realise their aspirations and ambitions and instigate renewal of their communities and the consequent benefits that radiate from it.

Without this process of renewal, many towns will suffer a downward spiral of decay as people migrate to other areas, leaving social tensions for those that remain.

Chart 2: Retail sales - retail growth mixed across sectors²



² ONS - Volume of retail sales, all retailers, seasonally adjusted. The volume of retail sales in October 2009 was 3.4% higher than in October 2008.

So what will happen in the meantime?

Retailers demand for additional retail space will largely have to be met from the current retail stock, i.e. existing shopping centres and the high street. There will be an initial period where previous oversupply and vacancies will take up some of the slack, but this is unlikely to last very long, perhaps the first year to two years following the increase in demand. It will be particularly difficult for larger space occupiers to acquire large units as there is relatively little that can be created from existing centres, and traditionally they have relied upon new developments as their primary source of new, efficient and larger spaces.

With increased demand and the lack of supply, we can expect rents to rise until a significant amount of new development reaches completion. Retailers will have to compete for space and we expect to see high occupancy levels.

Retailers will have difficulty in meeting their requirement for space, which will put pressure on their profitability and ability to grow their business. This situation is also likely to make it more difficult for new retailers to enter the retail scene, as they will be unable to compete with the major retailers for prime positions.

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Is there anything that can be done?

The answer is – yes, there is.

Firstly, the government can help ‘pump prime’ a number of these developments by the use of a form of Tax Increment Financing (TIF), or Accelerated Development Zones (ADZs) as they are often referred to in the UK, and other tax efficient mechanisms which improve developers’ returns. Grants for infrastructure and services can also play a significant role in improving the bottom line for developers.

Local authorities must work with their development partners in constructive and progressive ways and aid the processing of planning applications. This requires the political will of the local authority to champion the cause. They should look at regeneration as a mechanism to improve their economy, urban environment and supporting their community, and not

a means to add a host of additional planning gains, which have overburdened many of the existing development proposals.

Banks and lending institutions will also need to play an active part. As the fall in property values levels out and consumer confidence returns, there will be genuine and real opportunities to invest and take advantage of an improving market, where the rewards can be significant. Banks overexposure to commercial property lending and the amount of debt on their books will inevitably make them more cautious in their approach. However, just as a re-assessment of mortgage lending has set a new baseline for risk and reward, in simplistic terms the same approach could be adopted for commercial property lending. BCSC is in active discussion with some of the major banks to explore strategies or mechanisms that will help this process.

Chart 3: Sectoral breakdown of net lending flows³



³ Lending by UK monetary financial institutions.

⁴ The main contributors in 2009 Q3 were mining (-£5.2 billion) and transport and communication (-£1.9 billion). Bank of England: *Trends in Lending*, November 2009.

If there is anything to be learnt from the last recession of the early 90's, it is the rewards and potential of the late 90's.

It was the centres that opened in the later part of the decade and started to fill the gap in the supply of new space that were the most popular with retailers and most profitable, such as The White Rose, Leeds and The Mall, Cribbs Causeway. This same scenario is now with us and it will be the strong and the bold that will have the most to gain.

Our research shows that there are many towns and cities that need the injection of a regeneration boost in order for them to compete and move forward. BCSC wishes to play an active role in assisting all sectors in the development process. An active development pipeline is in the interests of government, local communities, retailers and developers alike. It will need determination and the political will to achieve it.

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