



Retail Floorspace Supply and Occupier Demand

Understanding and Bridging a Growing Divide

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Contents...

- Where the market is
- Consumer demand versus occupier demand
- The development pipeline
- Implications for existing floorspace.

Where the market is...

- Fragile economic recovery
- Retail sales are under pressure and growth is erratic
- On-going structural shift towards online
- Grocers securing higher share of comparison goods spend
- Spiralling in-town vacancy rates (in some centres)
- **INCREASING DISCORD BETWEEN CONSUMER DEMAND ('Capacity') AND OCCUPIER DEMAND ('Commercial').**

Consumer demand versus occupier demand...

ECONOMICS / PLANNING

CAPACITY

CONSUMER DEMAND

- *Population growth*
- *Spend per capita*
- *Forecast spend uplift*
- *Converted to floorspace need*

TURNOVER-BASED MODEL

'THE REAL WORLD'

COMMERCIAL

OCCUPIER/RETAIL DEMAND

- *P & L*
- *Turnover*
- *Less cost of sales*
- *Less operating costs*
- *Bottom line*

PROFIT-BASED MODEL

A dangerous faultline...

CAPACITY

- *Population is growing*
- *Underlying spend should grow.*

COMMERCIAL

- *Costs are definitely accelerating and will certainly grow at a faster rate than spend.*

- **The two models are moving in different directions**
- **Consumer Demand will not equal Occupier Demand.**

The Commercial / Retailer View...

'Turnover is vanity, profit is sanity'

Cost

Response

Cost of Sales

- *Renegotiate with suppliers*
- *Pass on costs to consumer, maintain margin, lower sales volumes*
- *Absorb costs, maintain volume, take hit on gross margin.*

Operating Costs

- *Utility costs*
- *Distribution costs*
- *Staff costs*

?

Property Costs

- *Make floorspace work much harder*
- *Drive up sales densities*
- *Shed loss-making stores*
- *Surrender leases*
- *Drive harder bargain on rent*
- *Much more discerning in site selection.*

Particularly true of the 'old guard'...

BURTON 

DIXONS RETAIL
BRINGING LIFE TO TECHNOLOGY

mothercare

DOROTHY PERKINS











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- Many 25 year leases are up for review
 - The world has moved on substantially in 25 years
 - Pitches have shifted
 - 25 years of upward-only rent reviews
 - A significant number of stores are just not profitable any more.
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But there is an expansive 'new breed'...

極度乾燥(しなさい)
Superdry.


HOLLISTER
CALIFORNIA

Dezigual®

clas ohlson

MINT VELVET

GUESS

H&M

FOREVER 21® |

+ a whole host of US and European new entrants waiting in the wings...

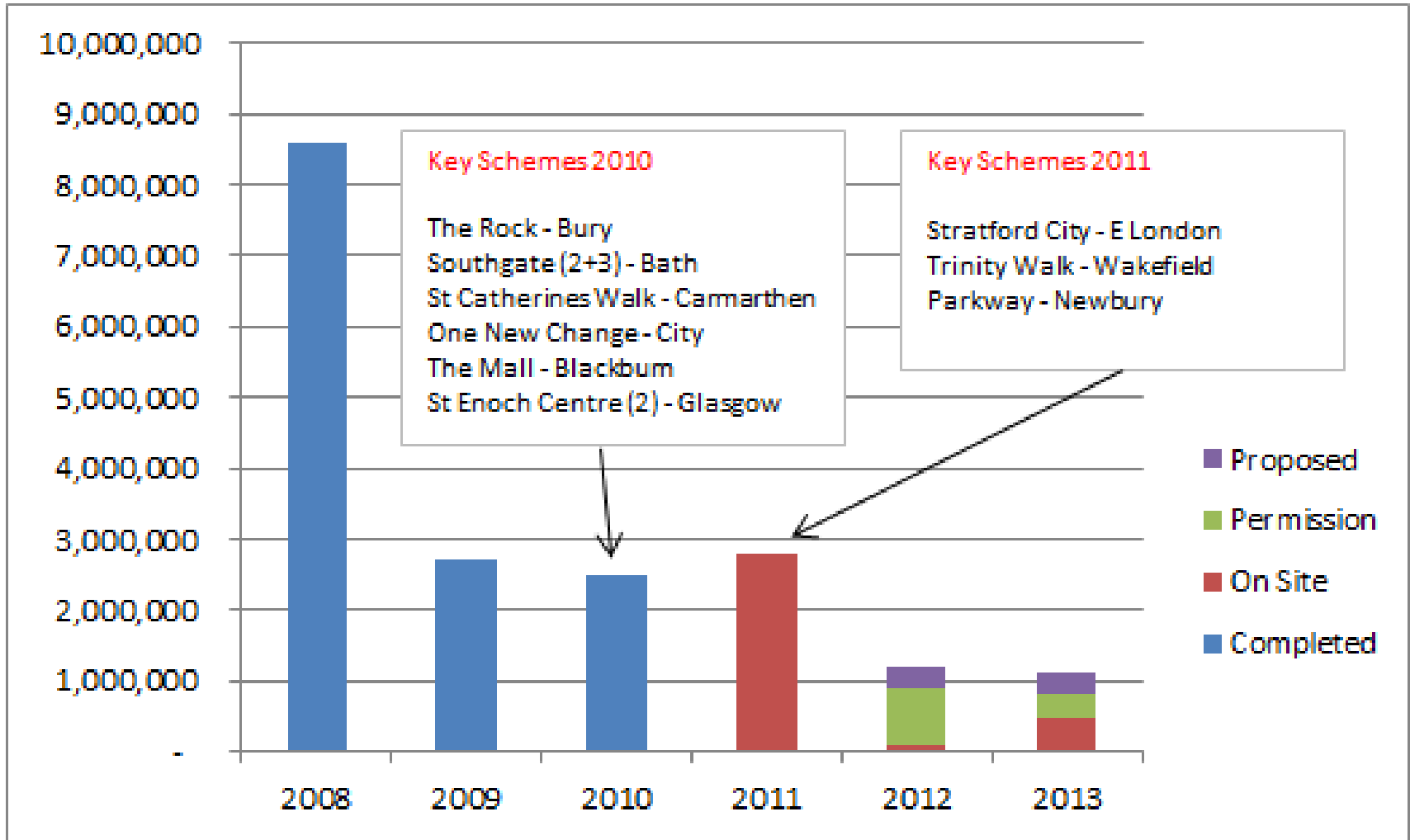
Wider implications...

- Historic planning-based capacity model needs to be challenged
- Need to look at causes of discord rather than effects (eg vacancy, declining rents etc)
- Movement towards 'quality' or 'convenience'
- New retail floorspace will still be needed – usually more productive and efficient than traditional space
- More than ever is there a need to appraise the scale and location of new development
- **FLOORSPACE MUST WORK HARDER.**

Implications beyond floorspace...

- **FLOORSPACE MUST WORK HARDER.**
- But also heavily in the frame:
 - **Evolution towards multi-channel**
 - **Changes in the rental model – base and turnover rents**
 - **Technology and wi-fi – B2B and B2C.**

The development pipeline is seriously constrained...



Increasing the onus on existing floorspace (I)...

LANDLORDS:

- Matching floorspace to customer needs
- Quality of environment
- Quality of tenant mix
- Building relationships with retailers
- Flexibility with rent and turnover modelling
- **MAKING ASSETS SWEAT.**

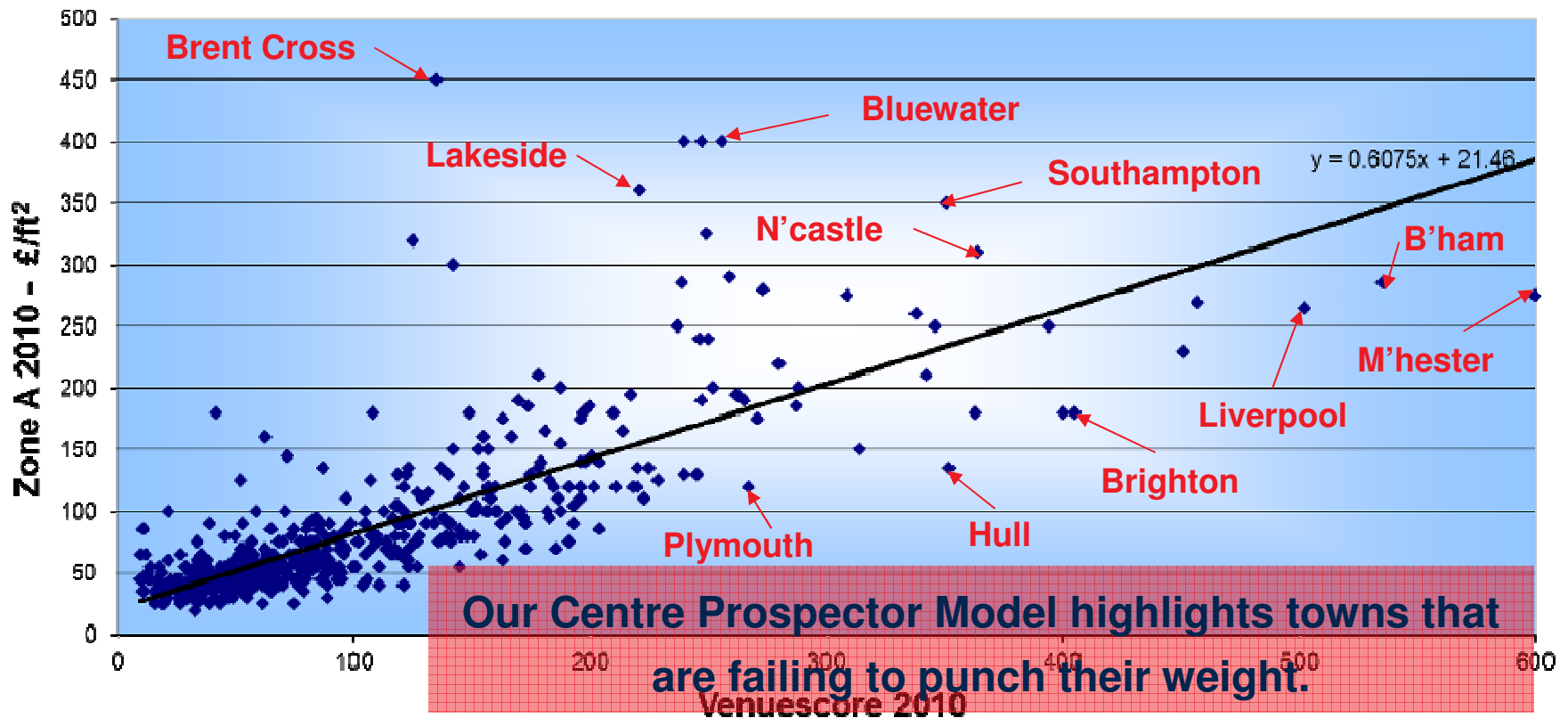
Increasing the onus on existing floorspace (II)...

RETAILERS:

- Pent-up pressure (and implications)
- Turnover growth feeding through to bottom line
- Multi-channel influence
- Internationalisation.

Picture varies considerably by location...

Retail Provision vs Prime Retail Rents
All UK (excl. Scotland and Central London)



Lest we forget...

- Retail is not going away
- Press and media are often too quick to criticise
- Sector is still worth ca. £300 billion per annum
- The third largest employment sector in the UK (and largest contributor to employment growth)
- Uncanny ability to evolve and re-invent itself
- **We are all part of it.**

Questions.....

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