



UNITED KINGDOM

RETAIL & LEISURE

WHAT'S NEXT?

A SUMMARY OF
THE KEY TRENDS,
CHALLENGES AND
OPPORTUNITIES
BY SECTOR

SPRING 2019

INTRODUCTION

UK retail is in a state of flux, driven for the most part by the ongoing shift to online and changes in consumer behaviour. More recently, this has been compounded by rising costs such as business rates and the minimum wage, not to mention Brexit-related uncertainty. However, with any retail market commentary, it is important to maintain perspective and focus on the long-term, rather than being fixated by the here and now.

Disruption is by no means just a UK phenomenon and technological advances are disrupting markets globally. For example, retail conditions in some sectors of the US are exceptionally difficult.

That said, clear trends are developing which give us clues as to the future shape of retail real estate. The immense Hudson Yards development in New York is a very successful example of a carefully curated retail and leisure mix. Another example is the iconic Carnegie Library in Washington, which will be turned into a retail store alongside an events and educational space, offering classes, talks, concerts and workshops.

The structural shift to online in the UK has been underway for over a decade – online sales accounted for just 3% of total retail sales in 2007, against nearly 20% in 2018. This has presented a significant challenge to the traditional retail model and has caused widespread disruption. We expect this disruption to continue, at least in the short term, but in time the sector will balance out to a ‘new state of normal’.

There is likely to be significantly less retail space going forward, but that which remains will have a clear purpose. Moreover, it is key to note that around 80% of all retail sales still occur in physical stores. Success in the future will therefore be based on a balanced approach to physical footprint, digital alignment and logistics execution.

To-date, the combined impact of these trends has been uneven, although, we see a pattern emerging based on shopper missions. These are polarising along the lines of destination, experience-orientated visits; purpose shopping, focused on specific purchases, and community-based convenience trips.

The mainstream department stores are in retreat, hampered by more direct interaction between brands and consumers and a lack of investment, as well as high occupancy costs. The concept is not necessarily obsolete, as evidenced by some very successful high-end operators, but the key to its wider survival almost certainly lies in a much smaller store footprint and a focus on experiential, lifestyle and wellness formats.

Other areas prone to disruption include high streets in small and medium-sized towns (unless they have a lifestyle offering), as well as secondary shopping centres, many of which will need to be repurposed. There is, however, a distinction between comparison-based secondary centres and service/convenience-led schemes which are aligned to their local catchment and play a vital role within the community.

Outlet centres, on the other hand, benefit from an exciting value proposition and, in some cases, a strong leisure offer which enables shoppers to ‘make a day of it’. Retail in Central and Suburban London also carries a very low risk of obsolescence, benefitting from strong demographics and ongoing infrastructure improvements. The same is also true for prime high streets in regional cities.

Traditional retail will continue to play a vital role in the distribution chain, although it will likely form a smaller component of the overall tenant mix on high streets and in shopping centres and retail parks. We should acknowledge that the UK has too much front-end retail space – probably in the region of 25-30% – and that store closures, whether the result of ‘right-sizing’ or retailer insolvency, will continue to be a feature of the retail market for the foreseeable future. In order to achieve this, it is likely that some centres and retail parks will need to be completely redeveloped.

OF THE
UK TOTAL,
ONLINE SALES
CURRENTLY
ACCOUNT FOR
AROUND

20%



That said, amidst the negative headlines, it would be easy to overlook the opportunities in the current market. Voids left by departing retailers create space for alternative uses and functions, such as events venues, educational facilities, exhibitions, civic and commercial offices, as well as much needed residential space. Private medical facilities and places for health and wellbeing are also on the increase.

Market pressures are forcing occupiers to innovate, and exciting new concepts continue to emerge. The rapid growth of new leisure operators, particularly in city centre locations, is an example of this – in addition to food and beverage, activity and fitness-based formats are increasingly filling gaps left by traditional retailers. Technology is turning the retail sector on its head, although it is not necessarily the enemy of occupiers and investors and should be considered key to enhancing the in-store experience, as well as making property management and marketing more efficient.

As consumers become more demanding and less predictable, flexibility in the built environment is critical to ensuring the continued vitality and viability of our retail and leisure destinations. Whilst central government will need to assist this process by creating the right conditions for regeneration, local planners, investors and occupiers will also need to play a role in this. The headwinds currently facing UK retail are expected to continue at least in the medium term, but once the dust settles, the sector will emerge fitter for purpose, leaner and more dynamic than ever before.

UK RETAIL & LEISURE OUTLOOK

RETAIL SECTOR	PRIMARY CUSTOMER MISSION	RISK OF DISRUPTION	KEY TRENDS, CHALLENGES & OPPORTUNITIES
OUTLET CENTRES	Destination	Very Low	Short leases and turnover rents promote active asset management deals with tenants and maintain high-occupancy, whilst ensuring value proposition, large catchments and 'day out' aspect.
FOODSTORES - IN-TOWN CONVENIENCE STORES	Convenience	Very Low	Convenience stores have been one of the few growth areas in UK and consumers opting increasingly for 'quick & easy' products both
HIGH STREET - CENTRAL LONDON	Destination	Very Low	Core West End locations will retain their leading positions within the city and continue to support significant footfall growth in key thoroughfares by 2035. Key thoroughfares such as Bond Street and Sloane Street
LEISURE - OTHER	Destination	Very Low	Large leisure formats and cultural destinations also play an increasingly important role in 'socialising' has been growing in popularity, particularly in large cities with footfall going forward. The leisure 'sphere' will continue to evolve
LEISURE - FOOD & BEVERAGE	Destination	Low	Food & beverage plays an important role in the overall tenant mix. However, low margins and rising costs are a challenge for operators. Companies such as Deliveroo expanding rapidly. Debt and competition from operators which have over-expanded in recent years.
FOODSTORES - OUT-OF-TOWN SUPERMARKET	Purpose	Low	Foodstores are still defensive from a property perspective. Online economics of home delivery do not add up. However, the very large scale of delivery to consumers (from the manufacturers) or automatically delivered
HIGH STREET - GREATER LONDON SUBURBS	Purpose	Low	Greater London suburbs are currently enjoying a revival, with significant investment of independent operators has created a series of unique locations. This comprises mainly convenience operators and food & beverage outlets
HIGH STREET - LARGE CITIES	Destination	Low	Prime high streets in large regional cities such as Manchester, Birmingham, Liverpool, attractive architecture and a broad range of cultural experiences, a strong night time economy, and growth in housing and population. However, footfall may shrink going forward, as retailer demand continues to focus on
SHOPPING CENTRES - MAJOR OUT-OF-TOWN	Destination	Medium	Major out-of-town schemes offer critical mass and an increasingly dominant position within their catchment, and occupiers are willing to pay a premium. However, more space will be required in some schemes, as the importance of department stores
SHOPPING CENTRES - CITY CENTRE	Destination	Medium	Shopping centres in large regional cities also benefit from large catchments. However, schemes in smaller cities which lack regional dominance need to offer a broader offer in order to offset the impact of store closures.
SHOPPING CENTRES - SECONDARY CONVENIENCE LED	Purpose	Medium	Dominant community schemes/district centres that are service or convenience oriented. However, from the structural shift to online given the nature of the tenant base
RETAIL PARKS - FASHION	Purpose	Medium	Fashion parks are well supported by the quality, breadth and depth of the offer, with some evidence of over-renting. Given proximity to sizeable catchments. Difficulties in the occupier market may be a challenge for fashion parks
RETAIL PARKS - BULKY GOODS	Purpose	Medium	Bulky goods parks also offer low-cost space, although they lack the scale of fashion parks. Schemes appear dated. Some large format operators have reduced their footprint, which has emerged on the back of selective store closures.
HIGH STREET - MEDIUM CITIES	Destination/Purpose	Medium	In-town retail in locations such as Newcastle and Brighton should continue to attract a strong shopper/workforce base. However, they will need to ensure the quality of the offer is maintained, not just for retail but also for leisure, events and
HIGH STREET - SMALL CITIES/TOWNS	Purpose/Convenience	High	Smaller UK towns with populations of 200,000-300,000 which do not have a dominant scheme find it difficult to compete with larger cities and schemes. Retail rents have remained persistently high in many towns and much of this space will need to be
DEPARTMENT STORES	Destination	Very High	The mainstream department store sector is struggling, sparking consolidation, although this will present redevelopment opportunities. In contrast, independent operators given their 'uniqueness' and 'experiential' offer.
SHOPPING CENTRES - SECONDARY COMPARISON LED	Purpose	Very High	Schemes which do not dominate their town or catchment have been replaced by retail destinations for comparison shopping trips. Many centres have been replaced by residential use. A number of these schemes could lend themselves to residential use, even distribution hubs and parcel pick-up points.

RISK OF DISRUPTION: ● VERY LOW ● LOW ● MEDIUM ● HIGH ● VERY HIGH

ent in the outlet centre sector, enabling landlords to agree appropriate
the offer is relevant to the consumer. The concept is supported by its

retail in recent years, benefitting from a shift towards city centre living,
ought on more frequent shopping trips.

the retail hierarchy. Ongoing infrastructure developments such as Crossrail will
s, while London's population is expected to rise to 10 million (from 8.5 million)
continue to prove popular with luxury retailers targeting the very wealthy.

singly important role in anchoring retail destinations. 'Competitive
cies with youthful populations, and will continue to be a major driver of
to include attractions such as theme parks, museums and public gardens.

as consumers spend less time preparing meals and seek new experiences.
ers, and the sector is not immune from the rise of e-commerce, with delivery
tition from independents has been a problem for the larger chains, some

food sales remain low (although are rising slowly), in part because the
ge stores may be more vulnerable, as more products are sold either direct
d to consumers' homes.

ificant population growth and infrastructure improvements. The prevalence
popular with both residents and tourists. The tenant mix in these locations
tlets, both of which are growth areas.

ningham and Glasgow offer unique retail destinations, supported by
popular with locals and tourists. Large student populations have created
on will continue to drive city centre footfall. The retail core in these cities
on very prime locations.

y diverse mix of retail and non-retail uses. These schemes are normally
y higher rents for flagship stores. Going forward, alternative anchors
ent stores diminishes.

atchments, good accessibility and the ability to generate high footfall.
e and focus less on the 'experiential' aspect of retailing, will require a

onvenience-led and serve local catchments have been better protected
e. Potential challenges include competition from larger centres.

of tenant base and good accessibility as well as relatively low rents – albeit
atchments, the format lends itself to showrooms and running home deliveries.
arks going forward, as comparison goods retailers trim store estates.

he diversity of tenant base seen on open consent schemes, and some older
d their footprint and development opportunities (primarily residential) have

remain relatively resilient, as they offer sufficient critical mass to continue
eed to work hard on city centre management to ensure that the quality
ents and culture.

not have a unique tourist offer or sizeable university may find it increasingly
e re-based significantly since the recession of 2008/9, but vacancy rates are
be re-purposed. Healthy market towns are the exception.

oncern for the locations they anchor. Further store closures are expected,
st, the high-end operators are performing well and should continue to do so,

come surplus to requirement, as consumers increasingly focus on major
ive persistently high vacancy rates and are in need of re-purposing.
use or student accommodation with a downsized retail component, or

CAVEATS & DEFINITIONS

This document provides a summary of the outlook for various retail categories in the UK, with a focus on the level of disruption they may experience in the short to medium term (within the next three years). It is intended to be an indicative guide only and detailed advice should be sought on specific locations and assets.

RISK OF DISRUPTION

For each retail segment, we have assessed the relative risk of disruption and have graded them according to:

Very Low, Low, Medium, High, Very High.

CUSTOMER MISSIONS

Shoppers may undertake a trip for a variety of reasons, but we have divided customer missions into three broad categories, based on the main reason for visiting each location.

Destination

Less frequent trips which are primarily focused on spending a day out in the location, which may involve several activities including leisure.

Purpose

Fairly frequent trips which are made for a specific purpose, such as a big grocery shop or click & collect.

Convenience

Shorter but more frequent trips, normally for a 'top up' shop with smaller baskets of goods, sometimes planned but also on the spur of the moment.

*More detailed analysis on European retail
& leisure trends is available.*

*If you would like to receive more in-depth
information on individual countries and
regions or to discuss market opportunities,
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Our full European Retail & Leisure report can be found below:
www.cushmanwakefield.es/en-gb/research-and-insight/2018/european-retail-the-revolution-continues