

# UNITED KINGDOM

*Cushman & Wakefield*  
*Global Cities Retail Guide*



***Once called a nation of shopkeepers, the UK has produced a number of iconic international retail brands including Harrods, Selfridges, Harvey Nichols and Fortnum & Mason. The maturity of the retail market in the UK means that domestic and non-domestic retail operators are quick to adapt and implement new retail strategies and technologies in a bid to gain advantage over competitors, creating a dynamic retail landscape.***

As the capital of the UK, London offers many world class thoroughfares and shopping malls with high retail spend, while many prominent regional cities such as Birmingham, Manchester, Leeds, Liverpool, Newcastle, Edinburgh and Glasgow also offer strong footfall and significant spending power from both local and tourist shoppers.

The UK is one of the most sophisticated retail markets in the world, and is particularly receptive to emerging formats. This includes the trend for 'pop-up' stores, and more recently, food halls. Events such as London Fashion Week, one of the world's premier fashion events, ensures that the UK continues to be a world leading retail location. A well-advanced logistics and distribution infrastructure provides world-class support to retail companies. The UK has the benefit of a large number of international retail operators being well established within the retail offer, reflecting its long-standing trading history with all corners of the world, as well as its relatively transparent property industry and legal system, which makes it a relatively straightforward market for international retailers to enter, often as a first point of international expansion.



## UNITED KINGDOM OVERVIEW

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## ECONOMIC OVERVIEW

### ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2018	2019F	2020F	2021F	2022F
GDP growth	1.4	1.4	1.8	2.0	2.1
Consumer spending	1.8	1.6	1.6	2.0	2.1
Industrial production	0.8	-0.3	0.9	1.2	1.3
Investment	0.2	0.6	2.3	2.8	2.8
Unemployment rate (%)	2.5	2.9	2.8	2.7	2.6
Inflation	2.5	1.8	1.8	1.6	1.6
Euro €/£ (average)	1.1	1.1	1.1	1.2	1.2
US\$/£ (average)	1.3	1.3	1.4	1.4	1.5
Interest rates Short Term (%)	0.6	0.8	1.1	1.6	1.8
Interest rates 10-year (%)	1.5	1.2	1.6	2.0	2.4

### ECONOMIC BREAKDOWN

Population	66.5 Million (2018F)
GDP (nominal)	US\$ 2.62 Trillion (2018F)
Public Sector Balance	-1.6% Of GDP (2018F)
Public Sector Debt	86.8% Of GDP (2018F)
Current Account Balance	-3.9% Of GDP (2018F)
Parliament	Conservative
Head of State	Queen Elizabeth II
Prime Minister	Boris Johnson
Election Date	2017

### RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

UNITED KINGDOM	2018F	2019F	2020F	2021F	2022F
Retail Volume*	3.0%	2.9%	2.4%	2.5%	2.4%

NOTE: \*annual % growth rate unless otherwise indicated. Figures are based on local currency and real terms. E estimate F forecast.

CITY	POPULATION (2017)
London	8,825,001
Manchester	2,798,799
Birmingham	1,137,123
Leeds	784,846
Glasgow	621,020
Liverpool	491,549
Nottingham	329,209
Newcastle-upon-Tyne	295,842

SOURCE: ONS.



## UNITED KINGDOM LARGEST CITIES

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## RETAIL OVERVIEW

### MAJOR DOMESTIC FOOD RETAILERS

Tesco, J Sainsbury, Morrisons, Marks & Spencer Simply Food, Waitrose, Co-Operative Group

### MAJOR INTERNATIONAL FOOD RETAILERS

Aldi, Lidl, Walmart-Asda, Costco

### MAJOR DOMESTIC NON-FOOD RETAILERS

John Lewis, Marks & Spencer, Next, Arcadia Group, New Look, Boots, Superdrug, Argos

### INTERNATIONAL RETAILERS IN THE UNITED KINGDOM (Selection)

H&M (ARKET, Cos, &Other Stories, Weekday), Inditex Group (Zara, Bershka, Pull & Bear), Mango, Primark, Ikea, TK Maxx, Nike, Apple

### FOOD AND BEVERAGE OPERATORS

Costa Coffee, Pret a Manger, Starbucks, Greggs, McDonalds, Burger King, KFC, Wagamama, Franco Manca, Pizza Express, Prezzo, Five Guys, Wahaca, Byron, Joe & the Juice

#### TYPICAL HOURS\*

MONDAY-FRIDAY	SATURDAY	SUNDAY
09.00-18.00	09.00-20.00	10.00-16.00

*\*note that trading hours may vary depending on location and retailer type*

#### NEW ENTRANTS TO MARKET

Jimmy Fairly	Hema	House	Canada Goose	Luca Faloni
Kikki K	Kiko Milano	Reserved	Dyson	Microsoft



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## RETAIL SCENE

***The UK is one of Europe's largest markets with a population of more than 66 million and above average retail spend per capita. The UK is a mature and competitive retail market as well as one of the most innovative and dynamic, where consumers have traditionally been very receptive to new concepts and formats.***

The retail property sector is a particularly sophisticated and transparent market, minimising the barriers to entry for new retailers seeking to expand or set up business in the UK. The existing stock of shopping centre (over 5,000 sq m) space in the UK totalled just over 17.5 million sq m as at 1 January 2018. The stock of shopping centre space in the UK is characterised by a relatively high number of large schemes, in comparison to other European markets. Dominant schemes are typically anchored by a department store as well as a large leisure operator, and comprise catering/leisure alongside comparison goods retailers.

The UK has one of the most developed retail warehousing markets in Europe. The market is active and has seen an increasing number of retailers entering the market from sectors such as fashion, sports goods and pet products over recent years. The UK is also Europe's most mature factory outlet centre market, which is an established part of the retail landscape.

E-commerce has developed more rapidly in the UK than in most EU countries. The predominant contributing factors for this fast and widespread development of online retailing are the high levels of internet use across the UK, along with an established culture for retail catalogue ordering, high levels of credit and debit card usage, and rising confidence in internet security. M-commerce, the online purchase of goods through mobile devices, accounted for 40% of all online spending in 2017 according to data from Centre for Retail Research, up 26% on the previous year.

While it is possible to enter the UK retail market directly, many retailers enter into franchises via concessions/shop-in-shops. In addition, the advanced online market makes it viable for new entrants, particularly in the fashion sector, to launch their brand with a strong web presence and a limited number of large flagship stores in key locations.

There are no restrictions on foreign companies either buying or renting property in the UK. It is generally believed that the UK lease structure is more orientated towards landlords than tenants, yet despite this, leases are becoming shorter with five-year break options becoming increasingly common. Upward only rent reviews and full repairing and insuring obligations are still in force across the retail sector, however.

Although it is possible to take occupation of a new unit within a few weeks, it is more realistic that, on average, it will take 6 to 9 months from initialising the property search to taking occupation of an existing property. This includes time for considering location options, the identification of buildings or sites, negotiating leasehold or freehold terms, and drafting of the appropriate legal documentation.





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## SHOPPING CENTRES

### TOP TEN SHOPPING CENTRES BY SIZE

NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
WESTFIELD LONDON	SHEPERD'S BUSH, LONDON	230,279	2008
INTU TRAFFORD	MANCHESTER	192,449	1998
WESTFIELD (STRATFORD)	STRATFORD, LONDON	175,000	2011
INTU METROCENTRE	NEWCASTLE	170,286	1987
LIVERPOOL ONE	LIVERPOOL	166,740	2008
BLUEWATER	GREENHITHE	148,974	1999
INTU MERRY HILL	DUDLEY	143,531	1986
MEADOWHALL	SHEFFIELD	135,190	1990
INTU LAKESIDE	THURROCK	133,180	1990
MANCHESTER ARNDALE	MANCHESTER	130,064	1976

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## KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	COMMENT
Lease Terms	Traditionally, UK leases have been for terms of 15-25 years and often can be higher, with 35 years seen in parts of the retail market (such as for an anchor tenant). Leases now typically range between 5-10 years, with the average lease length in the UK now around 7 years. Break options were rare in the past but now are increasingly negotiable, with tenant's 5-year break clauses now common. In the absence of a clear agreement in the lease, the tenant has no legal right to break so long as the landlord fulfils his obligations. Where agreed, breaks are typically at the first rent review for office and industrial space, but are not currently common for retail unless the lease term is over 15 years. The authorised use will depend on the terms of the lease which will also state the degree to which this may be varied by the tenant.
Rental Payment	Rents are typically payable quarterly in advance, though monthly payments can be negotiated with landlords, who have been more flexible with rental payments terms since the downturn in 2009. Turnover/percentage rents are increasingly seen in shopping centres and common in specialist sectors such as factory outlets, hotels and airports. However, the recent rise of click-and-collect services have seen many landlords move away from turnover rents, since they are unable to capture online sales with the turnover rent. A security deposit is not normally required for a tenant with a strong covenant or where a parent company guarantee (or less frequently a bank guarantee) is provided. For weaker covenants a deposit may be required, by negotiation, with 6 months' rent equivalent commonplace. Premium payments are common place in the retail market at times of rising rents and limited supply, with values boosted by the 5 year review pattern of rents.
Rent Review	Indexation is not common practice but is seen on an increasing basis, together with fixed uplifts, and can be particularly prevalent in the supermarket sector. The basis of rental review in open market is every five years (upward only, even where rents generally have decreased).
Service Charges, Repairs and Insurance	A service charge is usually payable in multi tenanted buildings and covers management fees, security, cleaning, landscaping, internal maintenance of common parts, external maintenance and insurance, servicing of elevators, water, heating, air conditioning, management fees and property taxes. It excludes internal maintenance and insurance of rented accommodation, utility charges and VAT. The landlord is responsible for external/structural matters in shopping centres (charged back via service charge). The tenant is responsible for internal matters. The landlord usually insures the main structure and external fabric, but will charge this back to the tenant. Insurance for common parts is also paid by the landlord and charged back to the tenant. The tenants usually pays for internal insurance directly.
Property Taxes and other costs	The local government authority charge the "rates", the local property tax which is payable on commercial property (equating to approximately 40% of rent). The government sets rateable values in a 5 yearly review. A standard rate (the Uniform Business Rate or UBR) is applied to the rateable value, in order to calculate the rates payable. This is set by government and may be subject to phasing allowances to reduce the impact of valuation changes and also by differing the rates for large and small businesses and empty properties. VAT at 20% can be charged on rental payments, but it is usually recoverable by most tenants (tax advice should be sought).

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Disposal of a Lease	Sub-letting is usually possible under the terms of the lease, subject to the landlords approval. Assignment rights are not normally barred in the lease but will also be subject to consent, which should be unreasonably withheld. Early termination is only by break clause; to be negotiated at outset of lease by mutual consent upon negotiation. At the lease end, the tenant is responsible for re-instating the premises to the same condition as at the start of the lease, subject to normal wear and tear. All tenant improvements must be approved by the landlord subject to the alteration covenant in the lease and the fact that approval should not be unreasonably withheld. Older leases may have Privity of Contract whereby all former lessees can be held liable for any default by a later tenant under the same lease. At lease end, the tenant is responsible for re-instating the premises to the same condition as at the start of the lease, subject to normal wear and tear.
Valuation Methods	Shops are valued on a 'zoning' basis. The retail zoning principle recognises that the area at the front of the shop, adjacent to its primary window frontage (normally referred to as "Zone A") is the most valuable in rental terms. The rate per square foot halves back through regular depths towards the rear of the ground floor, with "Zone B" valued at A/2, "Zone C" at A/4, "Zone D" at A/8 and a "Remainder" zone, typically valued at A/12. Upper and lower sales floors are similarly valued as a proportion of the "Zone A" rate, with basement and/or first floor sales accommodation typically taken at A/10, and ancillary at A/20. There will occasionally be local variations to these rates, which will also depend on the quality and functionality of the accommodation, relative to the market norm. For corner units with a double retail frontage, it is usual to add a small percentage to the value of the ground floor, the amount of which will depend on the degree of overall prominence of the retail frontage.
Legislation	The Landlord and Tenant Act, 1954, Part II (as amended) and subsequent acts is one of the pre-eminent pieces of legislation. Leases must be in writing and the lease document forms the standard documentation required. A formal deed is required for all leases over 3 years. A mandatory standard form of lease does not exist although a market standard is in place. There have been varying initiatives to simplify and shorten the lease, particularly to help smaller businesses.

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# WHAT'S NEXT

REDEFINING THE LANGUAGE OF  
RETAIL & LEISURE



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