

# streetwire

**Welcome to streetwire, breaking opinions on the state of the high street property market brought to you by Mace Retail.**

During the past couple of months in particular there's been so much economic turbulence, which has had both a direct and an indirect impact upon the retail property sector, that we've been spoilt for choice in terms of which topic to debate in this issue of Streetwire. In the end though we have asked our panel of experts to exercise their minds by responding to the following question:

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**“WHAT ARE THE MAIN CHALLENGES FACING RETAILERS IN THE NEXT SIX MONTHS AND WHAT ONE PIECE OF ADVICE WOULD YOU GIVE THEM?”**



**Nick Edwards**  
Construction News Editor



We know that the retail sector confidence has turned down sharply in the last couple of months. Research with major retail clients and developers commissioned by Construction News eight months ago shows most saw no upturn in building activity until 2010 – that will almost certainly have been pushed back a year by now.

After consumer confidence held up towards the end of last year, data from the British Retail Consortium Data indicates UK retail sales values fell 1.4% on a like-for-like basis during December. According to analysis by CN's sister information service Glenigan, the underlying outlook for retail construction in 2009 looks weak with shop rents falling 4% in the last quarter of 2008. The value of detailed planning approvals fell by 22% year-on-year in the three months to November and this is expected to fall further in the first quarter of 2009.

One thing CN's research showed that will remain highly relevant is retail clients' determination to get more value from their built environment spend. They wanted more innovation and higher productivity in return for regular workloads - with a particular emphasis on reducing energy consumption and a better grasp of whole life costing. The research showed especially high levels of dissatisfaction with the standard of relationships and work delivered by mechanical and electrical contractors.



[www.cnplus.co.uk](http://www.cnplus.co.uk)



**Graham Chase**  
Former President of the Royal Institute of Chartered Surveyors, Chairman of Chase and Partners



Successful retailers with a strong brand will continue to secure profitable margins, but they will be at much lower levels than in the past as consumer expenditure falls and competitors cut product prices. For the rest, survival will be a challenge.

Retailers will have to protect their cash reserves as financing becomes harder to obtain on sensible terms. As landlords are themselves strapped for cash, the significant incentives available over the past two to three years to lure retailers into new stores has started to dry up. As a result, any capital expenditure will have to be fully justified and those circumstances are likely to be limited.

On older leases with privity of contract rules and new leases where Authorised Guarantee Agreements (AGAs) are in place, the next six months may well see a number of retailers who felt they had offloaded the liability of previous non-performing stores find that they have the liability back on their balance sheet. In addition to paying rent, the penal empty rates regime now in place could be the straw that breaks the camel's back.

The advice I would give to retailers is to negotiate hard, ensure that the accommodation is the right size for the potential customer trade and do not be over ambitious. On the other hand, there will be some real bargains coming along and therefore equally this is not the time to let opportunities that may not arise for many years in the future slip through the fingers.



[www.chaseandpartners.co.uk](http://www.chaseandpartners.co.uk)



## Jonathan Refoy

Retail development and communications manager, Asda



ASDA Retail Development is responsible for ASDA's store expansion programme, but our progress is hindered by a number of specific challenges stemming from national planning policy.

For example, the introduction of the Business Rates Supplement during the most challenging trading conditions experienced for decades is incomprehensible.

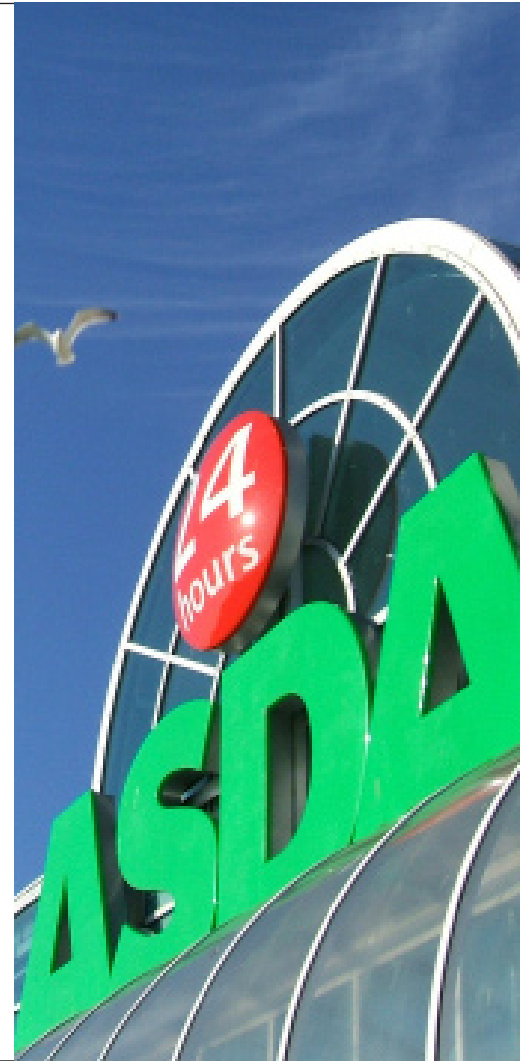
In terms of PPS6, the Need Test creates an unnecessary barrier to the planning process and should be replaced with a new assessment framework, which would ensure that the interests of communities are at the heart of planning policy.

The next six months should be all about helping customers and employees through these challenging times. The key issue for retailers will be how to deliver value for money via low cost operating models, while continuing to plan for long-term growth and investment in an uncertain climate.

At ASDA we believe the route to continued success in 2009 lies in communicating with customers – understand their concerns so that you can ensure your offer is tailored to their needs and communities.



[www.asda.com](http://www.asda.com)



## John Forbes

Partner, PricewaterhouseCoopers LLP



Based on face-to-face interviews and online survey responses from over 500 real estate professionals across Europe in late 2008, the sixth annual Emerging Trends in Real Estate® Europe report was published in February 2009 by the Urban Land Institute (ULI) and PricewaterhouseCoopers.

The good news is that respondents expected retail to be the best performing real estate asset class in 2009, but the bad news is that this is only relative to the others and sentiment for all asset types was universally gloomy. As one respondent put it: "What started out as a real estate capital market crisis could turn, with recession, into an occupier crisis." Since then the situation has deteriorated significantly, and we are now clearly seeing some tenants in the UK retail sector in serious distress.

The first quarter of the year is traditionally the most difficult for

retailers – who need to have made enough in Christmas trading to get them through until Easter. Some observers seem to be taking the view that this will mark the end of the Darwinian period of natural selection, and that those retailers that make it through to Easter will be fine thereafter. However, this looks to be an excessively optimistic view of the length and depth of recession.

For both landlords and tenants, strength of cash flow will be crucial for survival through 2009 and into next year. The key piece of advice for retailers is therefore to start a dialogue with stakeholders before the problems become insurmountable.



[www.pwc.com](http://www.pwc.com)



## Matt Turner

Director of Mace Retail



The imperative to reduce costs, maximise sales and achieve efficiency in retail operations remains key to sustaining a successful retail business in the current challenging economy. The retail sector continues to be a major employer and driver in sustaining UK plc.

Delivering value, great customer service and remaining loyal to business values are all key considerations in delighting and retaining customers.

Driving incremental sales from existing portfolio space, whilst important, is often dwarfed by the value of sales from new space. The latter can be seen in the consolidation and acquisition activity currently being undertaken, particularly in the food retail sector.

Predictability of delivery in terms of time (speed to market), cost (outturn cost of the programme) and quality (right first time), all contribute to the value equation. Economic delivery will ensure that this value is provided to satisfy our retail customers and the shoppers on whom we all rely.

Retail clients clearly understand how to address the current challenges and with a partnership of internal and outsourced resource, are able to deliver sustainable profitable space to meet the demands of their customers and satisfy their business aspirations.



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