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What next for the high street?

Executive summary

Back in 2014, following a cycle of distress and failures after the Global Financial Crisis, Deloitte published research and analysis which predicted that it would be the high street rather than shopping centres or retail parks that would prove most resilient over the coming years.

Given the upheavals and fundamental structural shifts that have impacted the retail market since our original report, now would seem a good time to revisit our optimistic prediction of 2014 and, based on current data, examine what the future might hold for the high street.

Our view has not changed. While the rollcall of retail and leisure failures might suggest that the high street does not have a future, we would argue the opposite. We believe, the high street is ideally placed to reinvent itself in response to the structural shift in working and shopping patterns that has resulted from the COVID-19 pandemic. The perceived weaknesses of the high street model, its fragmented ownership, lack of centralised coordination, low rents and high vacancy rates become strengths as they lower the barriers to entry for new concepts and operators. They also enable experimentation and the fast failures that will ultimately lead to a more flourishing and diverse environment on our local high streets.

The long-term trend

Bricks and mortar retailing has been in decline since the global financial crisis of 2008, if not long before. Since 2010 nearly 1,400 retailers have entered administration struggling with the impact of the internet and other 'headwinds'. As a result, since 2016 more shops have been closing than opening as the supply of space largely outstrips occupier demand and the pace of closures is accelerating. We project that there could be a further 30,000 net store closures by the end of 2022. While all retail locations are struggling with growing vacancy rates, the high street has shown remarkable resilience with the current vacancy rate of 12.5%, broadly the same as in 2013. This suggests that new openings must have been largely keeping pace with closures and supports the view that while the high street struggles, it is also capable of constant reinvention.

The impact of COVID-19

The pandemic has accelerated and exacerbated a number of trends that were already under way before the arrival of COVID-19. Analysis of data from the first lockdown has revealed the dependence of the city centre retail and leisure economy on the traditional office worker. It has shown how the internet can respond quickly and opportunistically to any void left by bricks and mortar retailing with total online sales peaking at 33.3% of all retailing and 49.4% of all fashion retailing at the height of the first lockdown. The crisis has exposed the growing challenge of trading profitably for large department stores and expensive destination shopping centres as occupational costs have increasingly outstripped the economic productivity of the physical space they relate to. Meanwhile, retail parks have shown their resilience throughout the pandemic benefitting from a higher proportion of 'essential' retailers (28.7% compared with 15.4% in shopping centres), coupled with a fundamental role in many retailers' click and collect supply chains.

The high street is not a monoculture to the same extent as city centres (offices) or shopping centres (retail and leisure.) In fact, on average retail makes up just 29% of the uses found on Britain's high street, with the remainder comprised of residential, offices, leisure and community uses. While such diversity may make the nation's high streets difficult to define, it could also prove to be the key to their long-term recovery in a landscape that appears to have changed fundamentally (and permanently) as a result of the recent crisis.

The high street of the future

The COVID-19 pandemic has accelerated a number of trends that were already under way and are now increasingly embedded in shopping habits. These trends can be explained as a series of reactions against consumer 'norms' that have become established over the last 40 years.

Chains vs independents

As chain retailers have reduced the size of their store portfolios, independent retailers have seized the opportunity to occupy the space vacated. Since the start of 2017 we estimate that the number of chain stores across the country has decreased by 5.97%, while the number of independent stores has increased by 1.28% (and accelerating.)

City vs local

The localisation trend has been accelerated by the pandemic as remote working replaced commuting and shopping was largely limited to local high streets. The range and quality of goods and services available locally have surprised many and built an enthusiastic following among people who have developed a loyalty to local businesses. In a recent Deloitte survey, 57% of consumers said they would be more likely to spend money at a business that offers locally produced products once the lockdown had been lifted.

Home vs work

Working habits are likely to change permanently as a result of the pandemic with working from home one or two days a week likely to be increasingly normal. This has implications for city centres and suburban high streets alike. At the most simplistic level, a four-day office working pattern will potentially transfer 20% of lunchtime and evening discretionary spending from city centres to suburban high streets.

While this could substantially reduce the turnover and profitability for traditional city centre retail and leisure businesses, it could also generate opportunities for them to migrate to more traditional high street locations to extend their offering to home workers.

Self vs stuff

Spending habits and the demand for services has changed with a shift from spending on 'stuff' to spending on 'self'. Not one of the ten retail subcategories that have shown the greatest net growth in store numbers since 2013 sells a physical product. Instead the top ten sectors focus on the 'self' and are aimed at the individual's health, hair, beauty or socialising.

Conscientious consumption

Experiential retail seems likely to remain a dominant force in attracting traffic for destination retail locations. In contrast, the high street seems more likely to see growing demand for authenticity, sustainability and transparent and responsible supply chains, together with a growing demand for locally sourced products. As a result, certain trends such as 'recommerce' for second-hand fashion brands are likely to evolve and grow in the high street environment.

The fast fail laboratory

The fragmented ownership of the high street, with a high proportion of small independent landlords that cannot afford the costs of vacant properties, reduces the barriers to entry for small businesses seeking to test new concepts. Sadly, there is likely to be a high degree of failures among these new ventures. However, the speed with which new ideas can emerge and be tested means that high streets can evolve rapidly to reflect directly the needs and wants of the local population.

How do we get there?

While the high street may evolve organically it will still require external support to reach its full potential. The massive oversupply of retail space will need to be addressed and, ideally, repurposed for other uses. This will require sensitive and constructive support from the planning regime to enable the equilibrium between supply and demand to be re-established. Sources of capital will need to be identified to fund the transformation, and the relationship between landlords and tenants will need to be redesigned to ensure long-term, sustainable rents.

The recovery of the high street will be patchy and the mix of uses will differ widely from place to place. However, the high street should not be written off just yet. It does indeed have a future, and an exciting one at that.

About this report

LocationEdge

This report features analysis by LocationEdge, a Deloitte product that answers the core geospatial questions faced by businesses, using advanced location and market intelligence through geospatial simulation. LocationEdge provides businesses with advanced strategic insight for key decision-making around how they shape their market offering.

LocationEdge combines real world, accurate spend and mobile trace data with hundreds of sources on supply and demand, with client store, channel and performance metrics to inform the business estate, product, market and location strategy.

Find out more: https://www2.deloitte.com/uk/en/pages/consumer-industrial-products/solutions/locationedge.html

Local Data Company

The data analysed in this report was provided by the Local Data Company (LDC). LDC is a market leading retail location data and insight provider, combining powerful proprietary technology with a unique, field research methodology inspecting over 680,000 retail units each year on either a 6- or 12-month cycle. Information collected includes occupancy status, tenant brand, retail category and opening hours for every premises, whether it is part of a chain or independently run. LDC delivers data, market analysis and profiling to leading retailers, financial institutions, analysts, search engines, online directories and the media.

Find out more: https://www.localdatacompany.com/

Please note that Deloitte was unable to publish this report in the Autumn as originally planned due to the lockdown in November 2020. As a result the data used in the report only goes as far as Q3 2020.

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