Deloitte.

The changing face of retail
Where did all the shops go?

Retail thought leadership series

Contents

Executive summary

Our previous reports have examined how internet-driven changes to consumer behaviour and the changing economic environment were combining to change both the role and size of retailers' bricks and mortar estates.

Numerous headlines have declared the decline, or death, of the high street and, indeed, many facts would seem to support this point of view. Since the final collapse of Woolworths in 2009, the high street has seen a wave of high profile administrations affecting household names including Clintons, Game, HMV and Blockbuster. Yet despite this, the Local Data Company's (LDC) most recent vacancy report indicates that overall vacancy rates have started to recede, albeit very slightly.

The raft of recent retail failures has given rise to a series of popular preconceptions about the fate of the shops left behind by these administrations. Stories abound of high streets colonised by bookmakers, cafés and charity shops. Are these perceptions true or simply prejudiced? What has actually been happening on the high street?

Using data supplied by LDC, Deloitte has analysed what has happened to nearly 5,900 shops impacted by 27 of the most high profile retail administrations. We wanted to understand what happened to the space that was vacated. Who has reoccupied the shops that were left behind? How long has it taken for landlords to find new tenants and what, if any, regional patterns can be detected? In short, where did all the shops go?

The results are surprising and seem to challenge a number of the urban myths that have grown up around the state of the high street. They would suggest that far from being dead, the high street appears to be showing greater resilience and capacity for reinvention than secondary shopping centres and retail parks:

- Reoccupation rates post-administration for shops vacated are significantly higher for the high street (70%) than they are for shopping centres (55%) or retail parks (45%);
- The dominance of the high street over other retail sectors remains remarkably consistent across the traditional North/South divide. The divide reasserts itself though when overall post-administration occupancy rates are examined;
- Discount and surplus stores account for nearly one in five of all re-lettings of shops vacated as a result of the administrations covered by our survey;
- The major grocers and convenience food operators have used the space released to accelerate their return to the high street;
- Contrary to popular belief, betting shops, pawnbrokers and gold sellers hardly figure among the post-administration occupiers identified;
- Cafés and charity shops have undoubtedly taken advantage of some of the space that has been released, although take-up has been less dramatic than popular perception suggests;
- The sustained recovery of the high street still appears to be constrained by its fragmented ownership structure, making space difficult to reconfigure to align with the requirements of modern retailers.

What is happening?

The re-emergence of the high street seems to be driven by a number of factors:

- Pound stores have stepped in to fill the vacuum left by Woolworths, recognising the strong demands for everyday household items that cannot be fulfilled online or by convenience formats' limited stock;
- "Click and collect" has established itself as a highly powerful proposition (for those who get it right);
- Grocers have returned to the high street, adapting to more cautious spending patterns on the part of consumers (favouring the basket shop over the trolley shop);
- Leisure uses have expanded into previously non-core locations offering local options for the leisure economy;
- Overarching all of this, the costs of motoring encourage consumers to stay local.

All of these factors appear to be directing consumers towards more granular, local shopping patterns. Deloitte's research suggests that a structural shift is taking place with the high street emerging as an unexpected winner.

Preface

This is not another doom-laden publication about the parlous state of the nation's high streets.

The headline statistics about the high street can make for depressing reading. According to the Local Data Company, some 44,000 shops currently stand vacant and the GB shop vacancy rate as at February 2014 stood at 13.6%. These numbers would seem to be consistent with the series of dramatic retail failures that followed the collapse of Woolworths at the end of 2008. In the five years that followed the loss of that high street stalwart, the world has experienced unprecedented economic turmoil, coupled with an exponential rate of technological development that together have placed traditional retail models under almost impossible strain. It seems strange now to reflect on the fact that the iPad did not even exist at the time when the last Woolworths closed its doors.

The fate of the shop premises affected by the numerous retail administrations since (and including) Woolworths presents an opportunity to test what actually happened out on retail's front line. Based on data provided by the Local Data Company, Deloitte investigated what actually happened to some 5,900 properties impacted by 27[1] separate retail administrations. The data set does, of course, represent only a small sample of the wider retail market; nevertheless, the properties included within our sample vary widely in terms of location and quality; from units in "uber-prime" shopping centres through traditional high streets to small local neighbourhood precincts and stand-alone shops. Understanding what has happened to these shops is fascinating in itself, but it also provides a glimpse of emerging trends for UK retail as a whole.

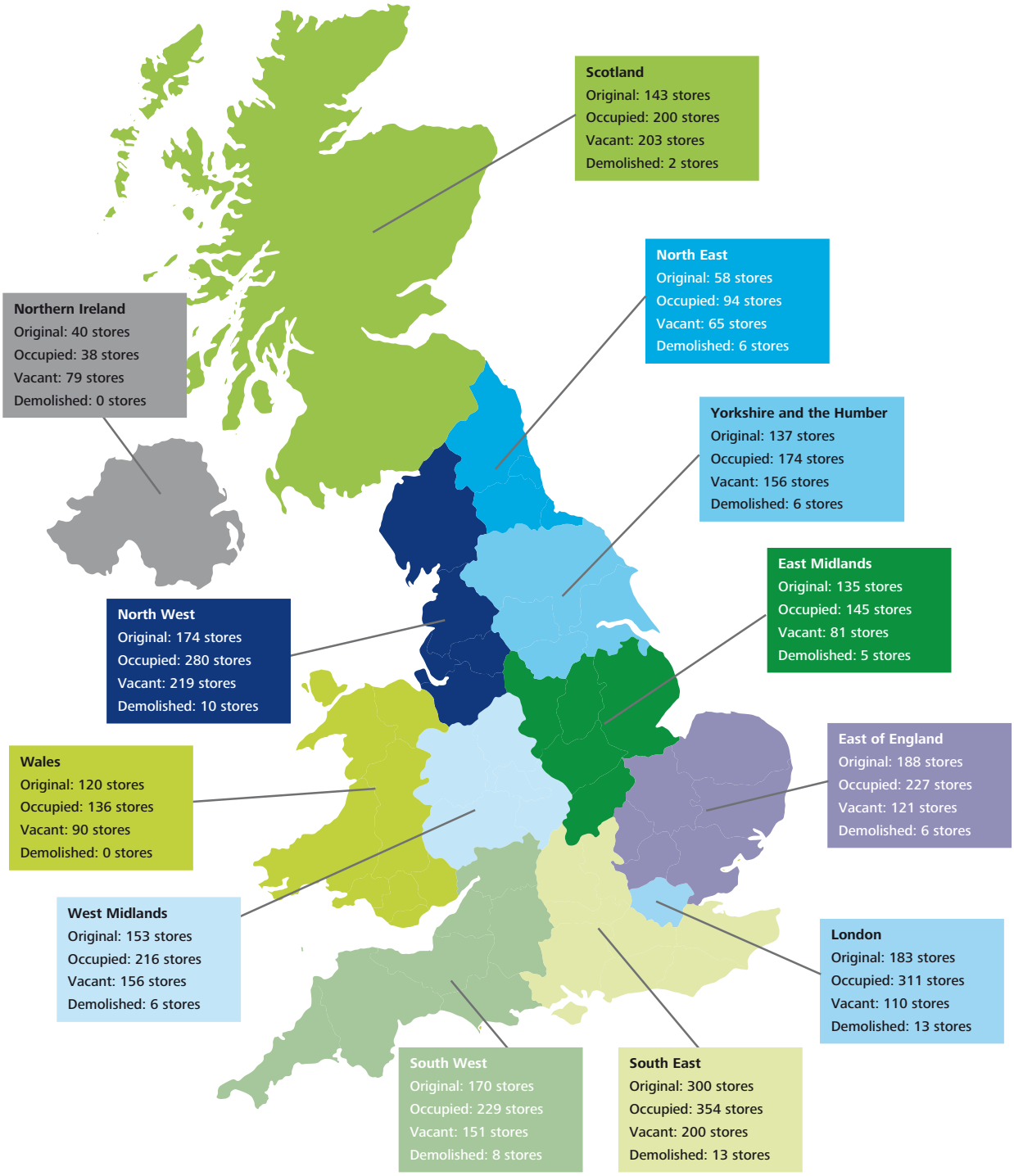
A description of the methodology that Deloitte has followed, together with the extent and limitations of our approach and the underlying data set, is included at the end of this report. A breakdown of the properties by geography and categorisation is set out opposite.

There was a time when it appeared that the combination of the global economic crisis, the growth and ubiquity of smartphones and mobile devices and the sheer scale and dominance of out-of-town supermarkets would render the traditional high street redundant. There seems to be some irony, therefore, that Deloitte's research suggests that these same factors may ultimately be contributing to a recovery of the high street over and above the competition presented by shopping centres and retail parks.

While Deloitte's research suggests that demand for high street locations is on the increase, the recovery of the high street is by no means complete, in many areas it has barely begun. However, the stage seems set for the next evolutionary cycle, one in which convenience and collection sit at the heart of the retail model. In such circumstances, reports of the death of the high street are likely to prove highly exaggerated.

1 The following fascias are included within the dataset: Alexon, Allders, Barratts, Bay Trading, Blacks/Millets, Blockbuster, Clinton Cards (exc Birthdays), Comet, Dreams, Ethel Austin, Focus DIY, Game (exc. Gamestation), Habitat, HMV, Homeform, Jane Norman, JJB, Julian Graves, La Senza, Land of Leather, MK One, Oddbins, Past Times, Peacocks (exc. Bon Marche), Pumpkin Patch, TJ Hughes and Woolworths

Figure 1. % of total number of stores and number of stores broken down by state



Baseline figures (January 2014)

State	% of Total Number of Stores	Number of Stores
Original	31%	1,802
Occupied	41%	2,404
Demolished	1%	73
Vacant	27%	1,597
Grand Total	100%	5,876

The reports of the death of the high street are greatly exaggerated

Across the country the high street has substantially outperformed shopping centres and retail parks in terms of reoccupation and reinvention of space vacated post-administration.

According to the *Financial Times*, in 1971 half the population shopped for non-food items in about 200 locations. Today, half go shopping for similar goods in about 90 locations.[2] This puts 'destination' shopping firmly at one end of the retail spectrum. At the other end is Verdict's forecast[3] that by 2018 online sales are expected to account for 14.5% of all retail expenditure. In the middle, squeezed from either end, sits the high street.

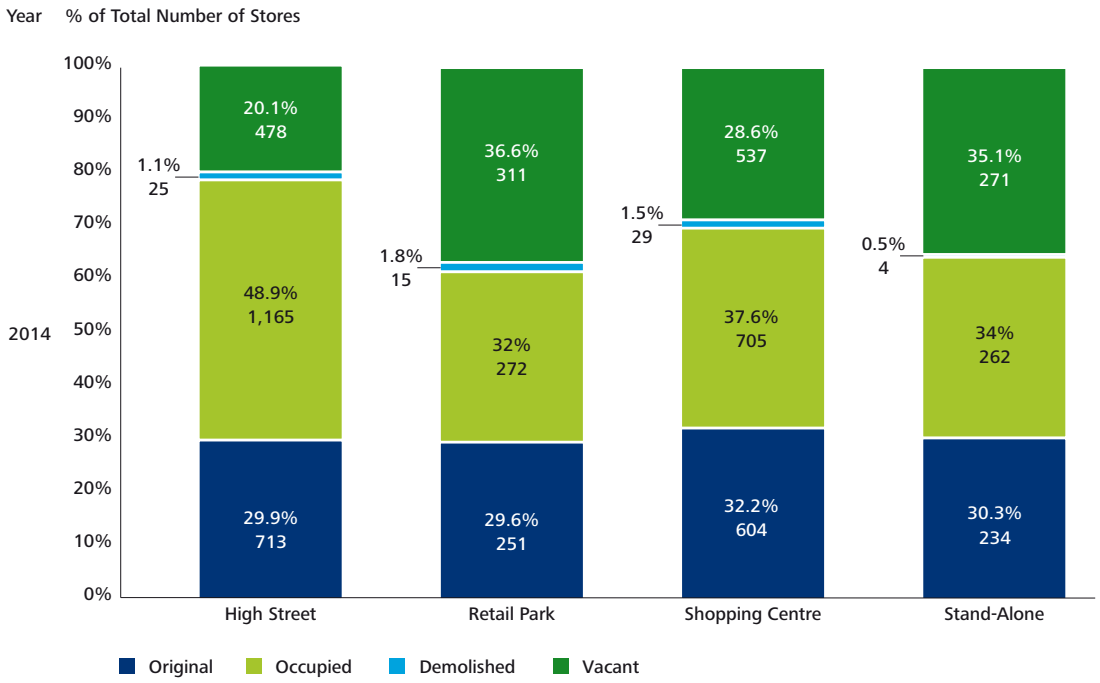
The definition of the high street varies from commentator to commentator but, by any standards, there is an awful lot of it: 103 million square feet of retail stock in England and Wales alone according to ODPM in 2008. Given the competing pressures, shrinkage of the high street seems both inevitable and desirable. Secondary and tertiary retail space that is no longer fit for purpose will need to be recycled or 'repurposed'. The high street of the future is likely to emerge having shed a few pounds (both literally and metaphorically) but leaner, fitter and with a renewed sense of purpose. There is a strong suggestion from Deloitte's analysis that this process is already underway.

Overall, based on the dataset, the high street demonstrates a higher degree of resilience and recovery from the impact of administrations than the other retail locations assessed. The figure is all the more striking given the sample size:

- 69.5% of high street shops vacated as a consequence of the administrations examined have subsequently been reoccupied.
- In comparison, the figure is 55% for shopping centres and 44.7% for retail parks.

Nationally, the high street vacancy rate post-administration stands at 20%. This is significantly better than other retail locations where post-administration vacancy rates are much higher, with retail parks at 37% and standalone sites at 35%. Shopping centres also underperform against the high street average with a 29% average post-administration vacancy rate.

Figure 2. State of occupation by property type



2 *Financial Times* 11th March 2013

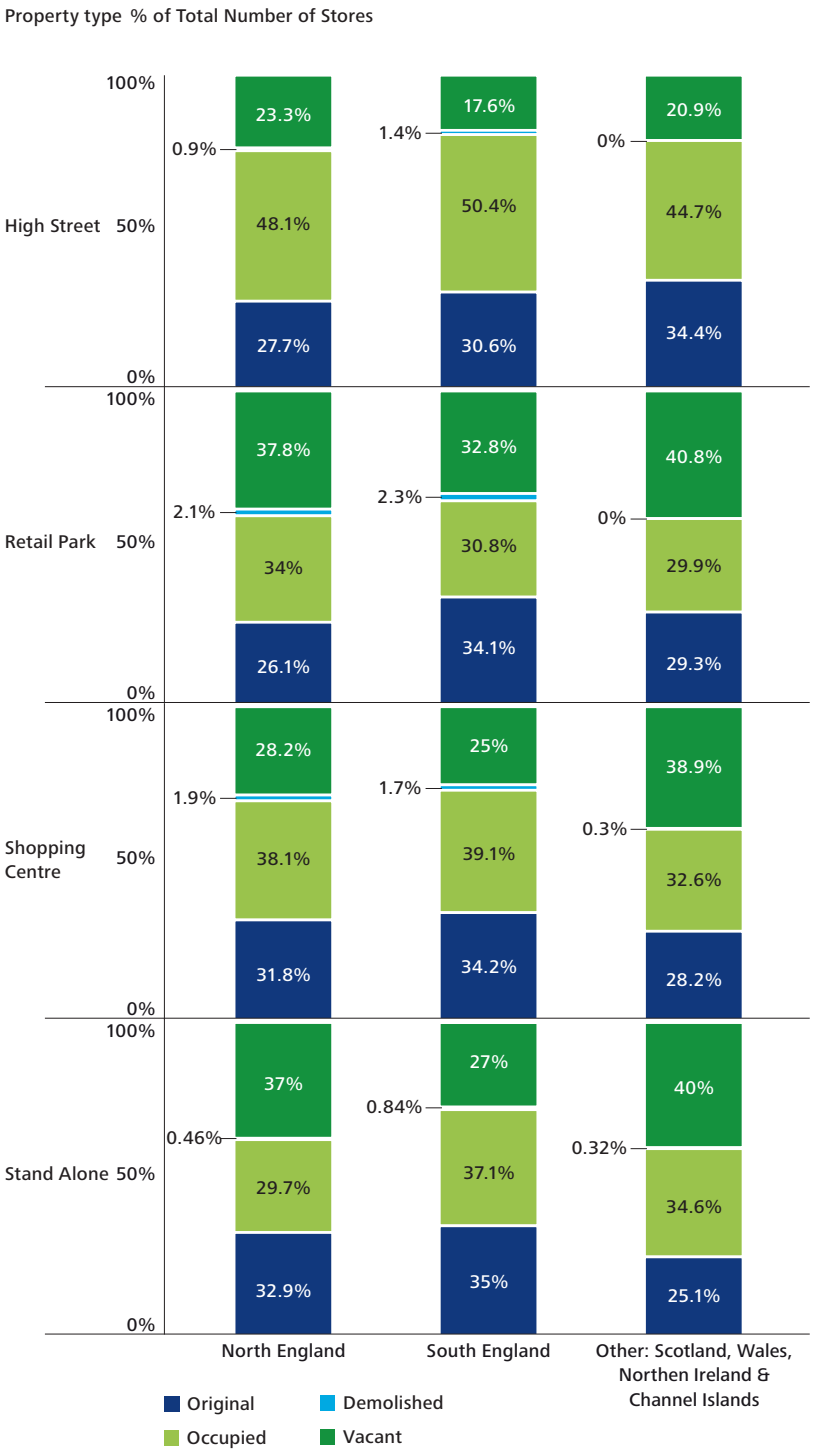
3 The Future of online and multichannel retailing – Verdict 28th Nov 2013

There is a remarkable geographical consistency in this analysis. Indeed, when analysed on a South/North/Rest of UK basis, the superior performance of the high street over other locations becomes even more pronounced and indicates the genuine emergence of a pattern:

- The vacancy rate for the high street stands at 23% for the North, 18% for the South and 21% for rest of UK.
- In contrast, the retail parks in the sample data set consistently provide the highest vacancy rates with 38% in the North, 27% in the South and 40% in rest of UK.
- It is interesting to note that regardless of geography, the occupation rate for shopping centres consistently lags behind the high street, with only 73% of shopping centres in the South occupied in contrast to 81% of high street units.
- It may be speculated that high streets benefit from lower rents and smaller unit sizes making the space vacated more attractive to a wide variety of occupiers (including independents and start-ups).
- Service charges may also hold back the recycling of space in shopping centres and retail parks.

The post-administration vacancy rate on retail parks is significantly above the national average which stands at 9%. This suggests the property vacated may often be situated on poorer, first or second generation bulky goods retail warehouse parks which are proving difficult to recycle.

Figure 3. State of occupation by property type and geography

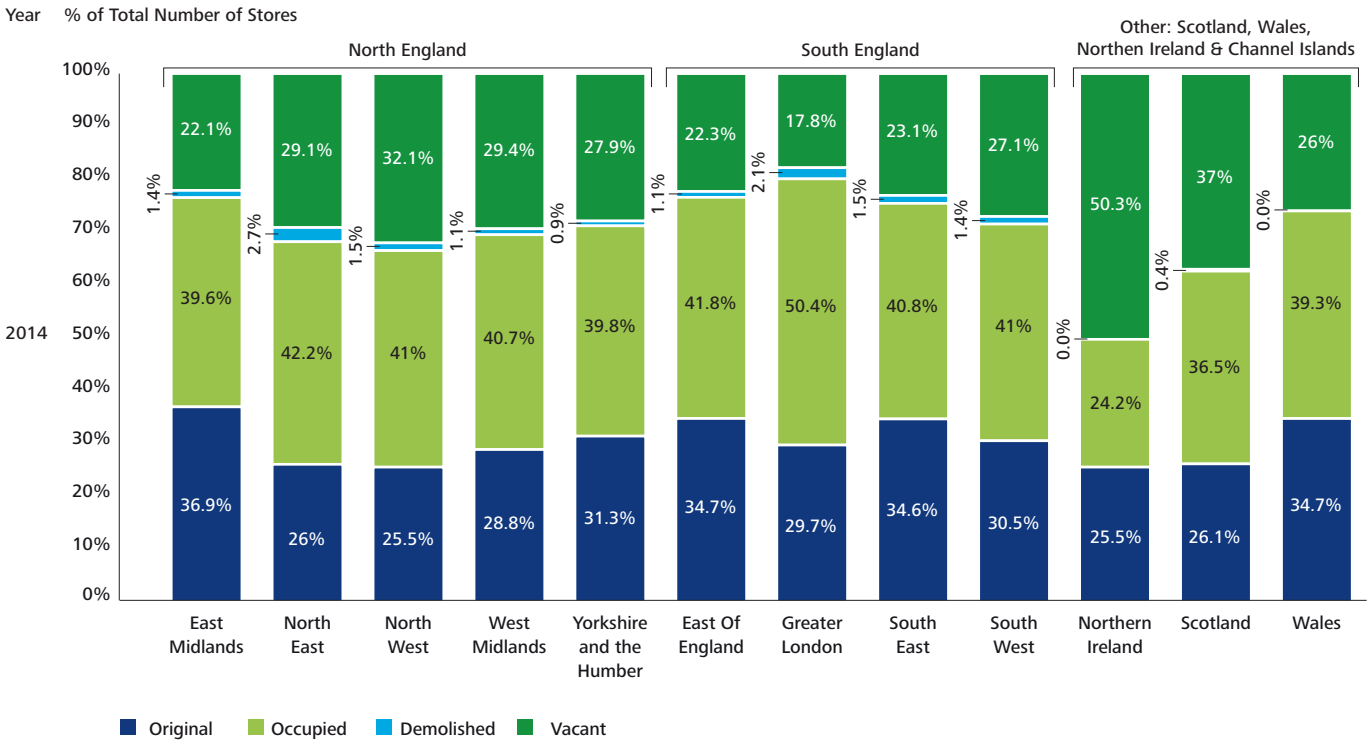


80% of shops in Greater London touched by administration have either been reoccupied or retained their original occupant. In contrast, 37% of affected shops in Scotland remain vacant.

Notwithstanding the high street's apparent consistency of outperformance over other retail locations across the country, the established economic North/South divide remains evident within the dataset; the overall post-administration vacancy rate stands at 23% for the south, with the north higher at 29% and the rest of the UK higher still at 35%. A more granular analysis exposes wide variations between the regions:

- Greater London stands out as having the lowest post-administration vacancy rate at 18% closely followed by East of England and the East Midlands at 22%.
- In contrast, the highest post-administration vacancy rate is found in Northern Ireland at 50% followed by Scotland at 37%. Wales outperforms a number of other regions and, interestingly, has one of the highest rates of store retention among retailers who have survived administration. This is striking as LDC records Wales as having the highest overall shop vacancy rate at 17.6%.

Figure 4. State of occupation by region

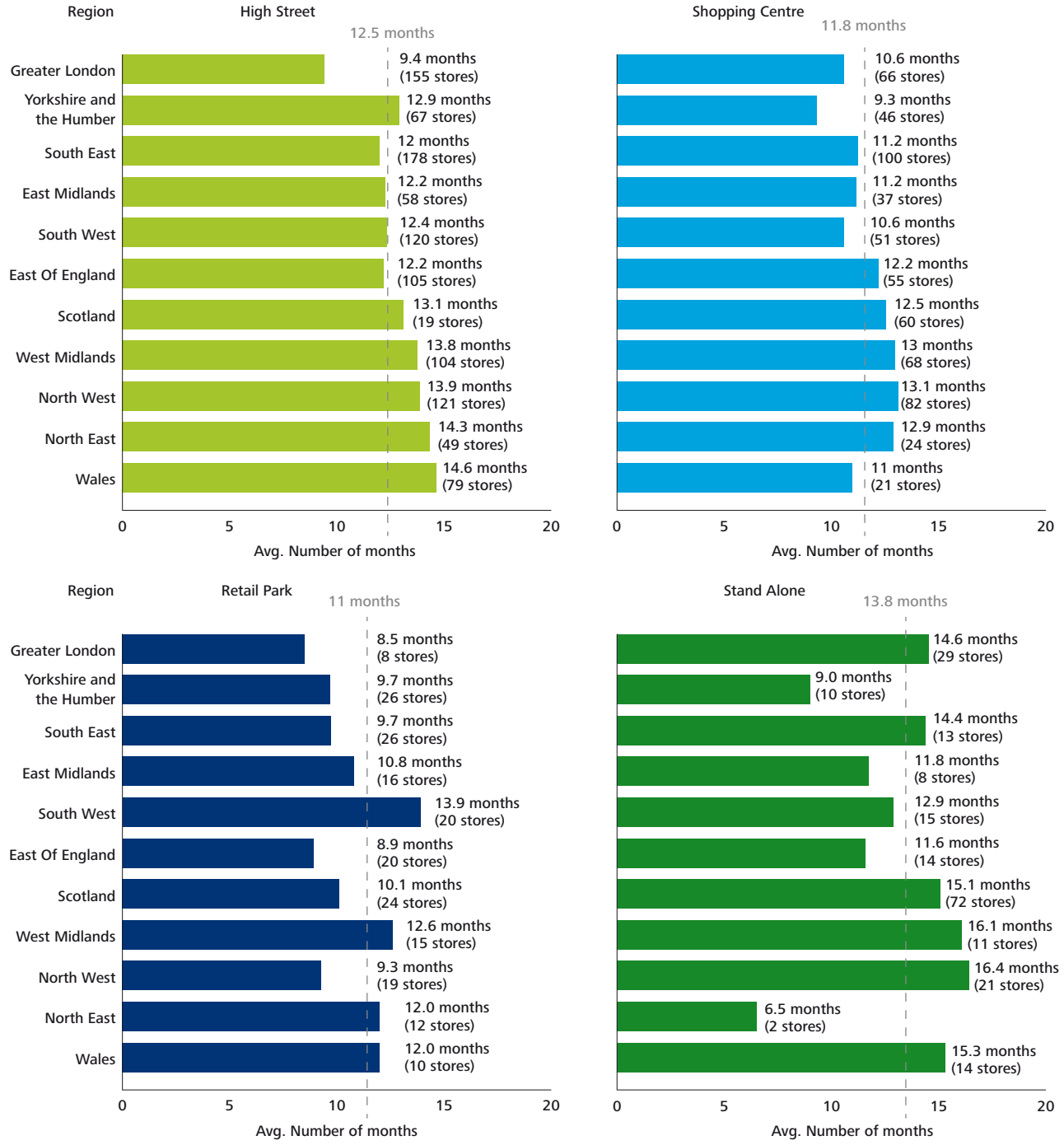


Regional variations are exposed in the time it has taken vacated units to find new occupiers

Greater London and the South East predictably outperform the average but Yorkshire and Humberside and the East Midlands also perform strongly.

The North/South divide reasserts itself when examining the length of time it has taken for stores vacated as result of administration to find new occupiers.

Figure 5. Average time to reoccupy by property type and region (excluding long term voids)



On average, high street units took 12.5 months to re-let. Shops in shopping centres were marginally quicker to re-let taking, on average, 11.8 months. The discrepancy probably reflects the demand for prime space released in shopping centres where replacement occupiers were quickly identified by landlords. Whilst slower, the overall success rate for the reoccupation of high street units vacated as a result of these administrations is 11% higher than shopping centres – a material statistic.

The figures encompass significant regional variations. High street shops in Greater London have, perhaps predictably, found new occupiers more quickly than any other region. This is not true, however, for shopping centres where Yorkshire and Humberside demonstrates the fastest rate of recovery. The West Midlands, North West and North East all stand significantly above the overall average for both high streets and shopping centres.

Scotland and Northern Ireland are the two regions that have struggled the most to back-fill space vacated by administrations. The fact that the time taken to find new occupiers is broadly in line with the average but the overall reoccupation rate sits significantly below the national average suggests that retail power is being concentrated into a relatively small number of prime pitches (where demand is high and space re-lets comparatively quickly). The figure for Northern Ireland is skewed somewhat by the small sample size.

Pound and discount stores have stepped in to fill the 'variety void' left behind by Woolworths and others

Discount and surplus stores accounted for nearly one in five of all re-lettings of shops vacated as a result of administrations.

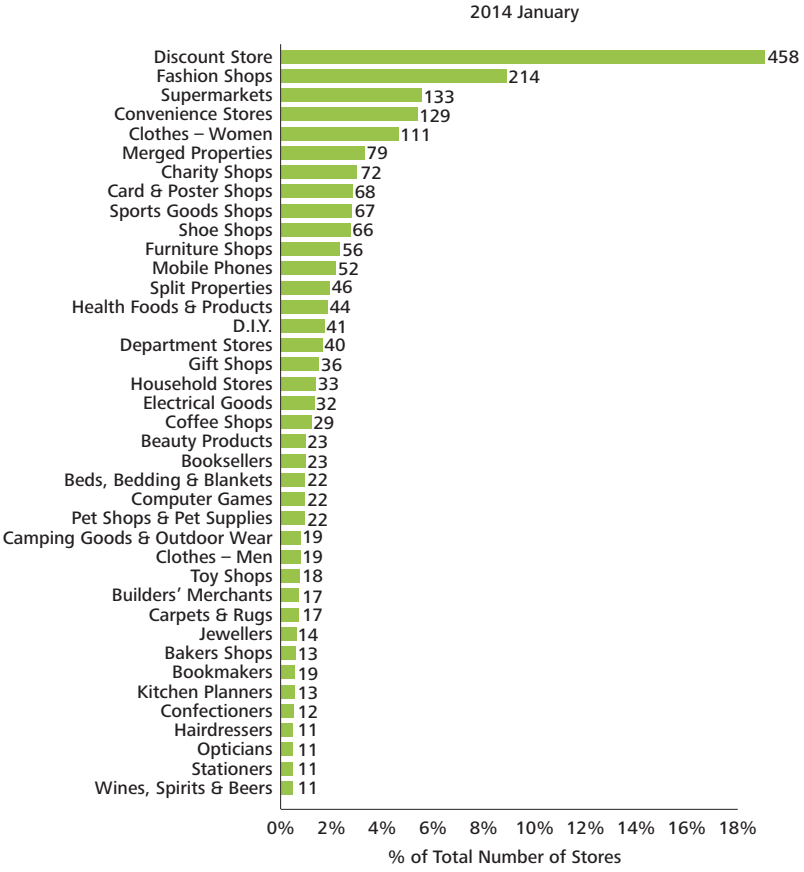
It is, perhaps, not surprising that discount and value retailers have tapped into the spirit of austerity and thrived amongst the gloom of the global economic crisis. According to Mintel research, the eight leading discounters now account for 2.3% of all UK retail sales having opened more than 1,100 shops between them since 2008.[4]

Shops vacated as a result of administrations appear to have provided welcome opportunities to accelerate these expansion programmes. Deloitte research indicates that discount stores accounted for nearly one in five of all shops reoccupied within the data sample. Indeed, the shops acquired by discounters as a result of these administrations account for nearly 50% of the expansion in numbers in this sector since 2008.

The trends identified elsewhere in this report appear to be reflected by the acquisition patterns of the discount retailers, with 55% of the space acquired post-administration located on the high street, 16.8% in shopping centres and only 11.8% on retail parks.

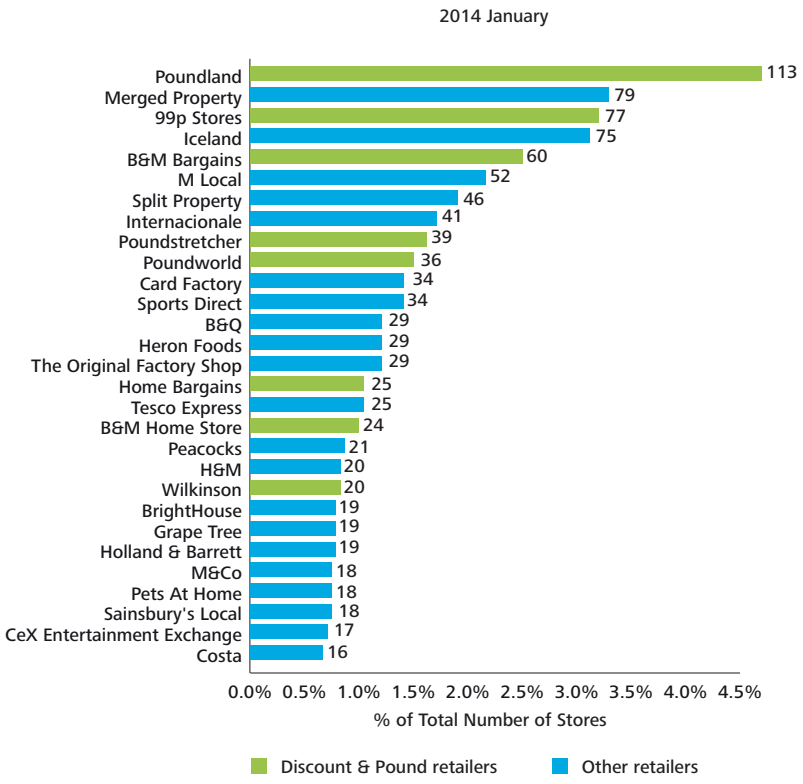
The geographical pattern of acquisition has been more counterintuitive with 13.5% of the space acquired located in the South East, followed by 12.2% in the North West, 11.8% in the West Midlands and 10% in Greater London. At the other end of the spectrum comes Wales at 6.1%, the North East at 3.7% and Northern Ireland at 3.1%. This might suggest that the discounters find richer pickings in more affluent locations. On the other hand, it may also be an indication that these retailers have previously been frustrated by landlords reluctant to let space to this type of operator (a qualm not necessarily shared by administrators seeking to assign leases for value).

Figure 6. Post-administration acquisition by occupier type



4 The value-mixed goods retailers: unstoppable? Mintel 20th November 2013

Figure 7. Post-administration acquisition by retailer



- Poundland has acquired more shops out of administration than Tesco, Sainsbury's and Morrisons combined.

- Poundland was the most active of the discounters acquiring space out of administration, accounting for 25% of the take up. Taken collectively, B&M Bargains and B&M Homestore were second at 18.3% followed by 99p Stores at 16.8%.

- Within the dataset, former Woolworths stores have provided the richest pickings accounting for 60% of all the space acquired by this sector followed by Peacocks at 12.2% and Focus at 9% (suggesting an appetite for larger stores).

- Deloitte's analysis identifies 17 different retailers with the words "Pound" or "99p" in their fascia.

At odds with popular perception – bookmakers and pawnbrokers have acquired few shops vacated as a result of administrations

Only 13 shops have been acquired by bookmakers from the administrations analysed – not one of these is in Greater London and only one is in the South East.

The perceived proliferation of betting shops has featured highly in much of the debate about the high street. It is an emotive topic. Betting shops were only legalised in 1961 since then further deregulation has been hotly contested at every step of the way. Much of the deregulation has served to increase the visibility (rather than the absolute number) of betting shops. It was not until 1995 that betting shops were first permitted to display products, events and prices in 'see through' windows. With this restriction lifted, betting shops quickly moved into the retail mainstream; they were brighter, more confident and much more apparent.

The 2005 Gaming Act resulted in further deregulation, removing what was known as the 'demand test' but also limiting the number of some fixed odds betting terminals in each shop. It is this which some commentators believe has given rise to the 'clustering' of betting shops in locations where there is a high demand for these machines.

Recent growth in the number of betting shops is a fact, but the rate of growth and the number of shops compared to the historic peak appears to be overstated, potentially as a result of the high visibility of 'clustering'.

Estates Gazette data[5] states that 158,000 sq. ft. of former A1 space was converted to betting shop use – 106 shops in total. However, the total number of shops as reported by The Gambling Commission stands at 9,031, substantially below the historic peak of 15,782 reached in 1968.[6]

Across our sample, only 13 stores released were acquired by bookmakers and no single bookmaker acquired more than three units. In part, this may be due to the need to secure a change of use which is less likely to be forthcoming in mainstream retail pitches (it is interesting to note that a third of the units acquired by bookmakers were former Ethel Austin premises) but it may just be that the rate of acquisition and expansion by bookmakers may not be as aggressive as widely believed, with new openings often offset by closures.

One influence on popular perception may be the consolidation of the industry behind a smaller number of branded and marketed facias.

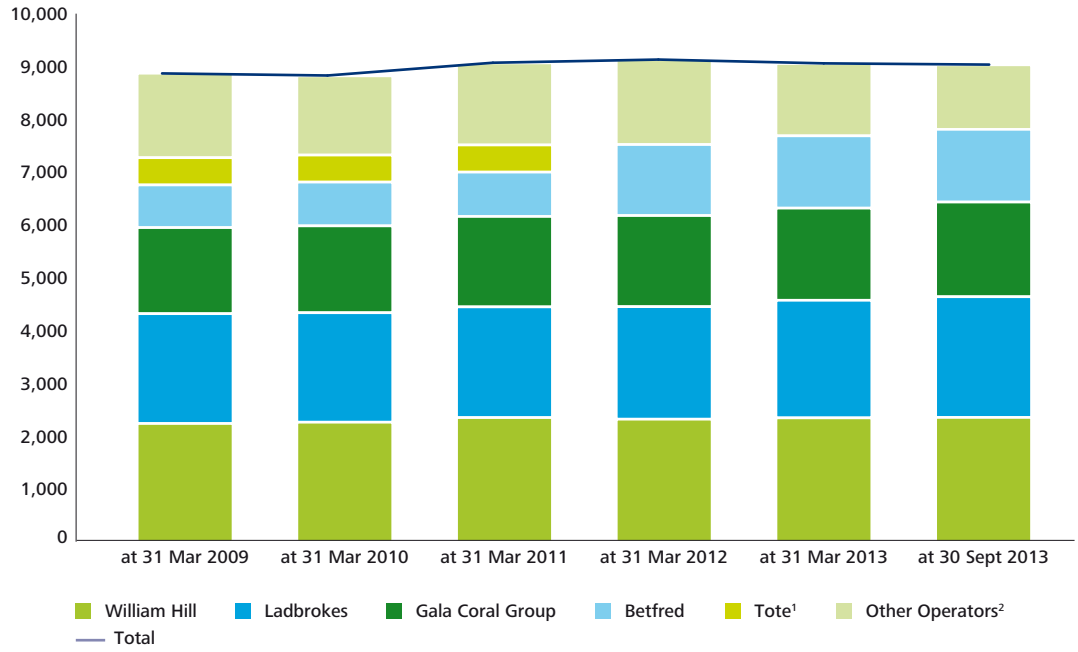
Growth in online and mobile gaming platforms would appear to make any substantial long term growth in overall betting shop numbers unlikely. It seems just as likely that the pattern seen with retailers whose principal products were capable of digitisation could be repeated with a consequential retrenchment and realignment of the store portfolio.

The data reveals a similar story for cheque cashing and pawn broking. While these sectors have undoubtedly expanded throughout the recession, the space released by the administrations analysed appears to have been a poor match for operators in this sector. Once again, only 13 shops vacated have been identified as subsequently being converted to this use and only one operator, Cash Generator, has acquired more than one unit from the sample data set.

5 Retail space hit by change of use. EGi 14th February 2014

6 Gambling Commission – industry statistics April 2008 to March 2013

Figure 8. Number of betting shops by operator



1 The Tote has now been purchased by Betfred.
2 The 2011 & 2012 figures are an estimate based on notifications received from licensing authorities.

Coffee shops and charities have shown only limited enthusiasm for space released through administrations.

Coffee shops

Only 36 shops in our sample have been converted into cafés and tea rooms, where 98% of these are located on the high street and a third are in London and the South East.

Growth in the café sector appears to have continued regardless of the prevailing economic crisis or, perhaps, because of it. It was estimated that by the end of 2013 there were 16,501 coffee shops in the UK generating £6.2bn of turnover. The number of shops is forecast to increase to c.20,500 shops generating £8.7bn by 2018.[7]

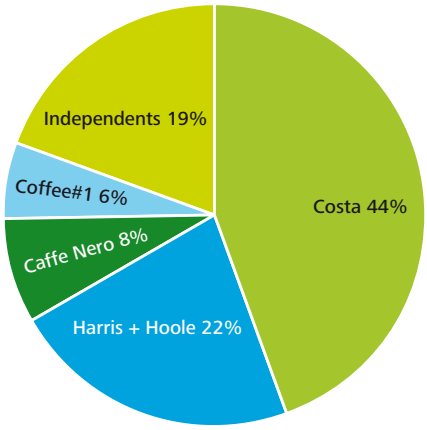
It is perhaps surprising then that the powerful rate of growth in the coffee sector in general is not reflected within the analysis sample. The major operators appear to have been lukewarm to the opportunities presented by the space released as a result of the administrations, quite possibly because the space released did not match their size or configuration requirements. Cafés and fast food operators accounted for only 2% of post-administration occupiers.

- Across the sample, Costa was the most acquisitive followed by the Tesco-backed Harris & Hoole. Starbucks has not acquired a single store within the data set analysed.
- In terms of sources of space for the fast food operators, Clintons provided the most fertile ground contributing 39% of the space acquired, followed by Oddbins (16.7%), Ethel Austin (11.1%) and Woolworths (*0.8%).
- More than a third of shops acquired for coffee shops post-administration are located in Greater London and the South East (although a further 12.2% are located in the North West).
- Fast food operators were similarly reticent; the most active being Pret a Manger. McDonalds did not acquire a single store within the sample data set.

7 Allegra Strategies – UK Retail Coffee Shop Market – Strategic Analsysis 11/12/13

The growth in coffee shop numbers has perhaps been a reflection of changing work patterns inspired by the global economic crisis. Small business start-up numbers have increased throughout the recession as people have moved away from traditional jobs and set up on their own. In this context, coffee shops offer an attractive alternative to an office providing many of the same facilities (Wi-Fi, desk space, atmosphere, meeting space and, of course, refreshments) either free, or for a fraction of the amount they would cost to procure independently. This presents challenges for the operators themselves, some of whom have already started to experiment with alternative pricing models, charging by the minute for occupancy but offering free tea and coffee![8]

Figure 9. Post-administration acquisition by coffee shops (36 shops)



Charity shops

Charities accounted for only 3% of post-administration occupiers and only six charities have acquired more than one shop out of the sample surveyed. Charity shop numbers may have increased throughout the recession but the common assertion that they have flooded into space vacated by retailers struck by administration is far from proven.

- 85% of the space acquired was on the high street (a manifestation, perhaps, of small landlords seeking mitigation for empty rates bills). The 7% located in shopping centres suggests that even those landlords have struggled to fill space and mitigate costs.

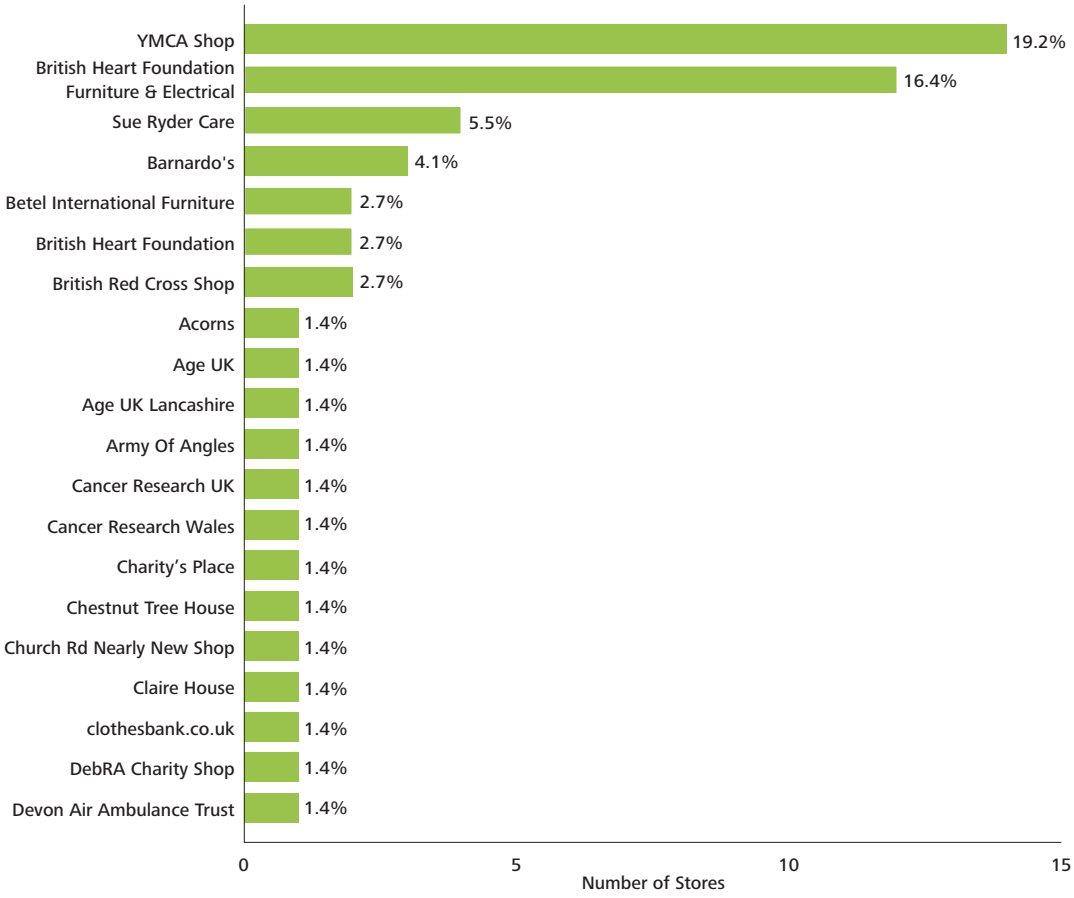
- The North West has seen the greatest level of acquisition at 17.8% closely followed by South East at 15.1% and South West at 13.7%. Only 4.1% of space acquired was in Greater London (although this is the same figure as the North East and Yorkshire and Humberside).

- Former Ethel Austin stores provided 30% of the space acquired by charities followed by Woolworths (16.4%) and Julian Graves (12.3%).

8 The etiquette of coffee shop lounging – BBC online 16th Jan 2014

Figure 10. Post-administration acquisition by charity shops

% of Total Number of Stores



Ironically, the charity shop business model finds itself challenged by the rapid expansion of the discount and value retailers and budget fashion operators who genuinely have acquired much of the space released as a result of these administrations. As a response, several charities have started to specialise, a fact supported by the analysis which shows British Heart Foundation's (BHF) Furniture format acquiring 12 stores out of administration. With the exception of YMCA and BHF Furniture, the quantum of acquisitions is dispersed across a large number of mainly local charities (73 stores across 51 charities).

Accounting for 11.5% of space acquired post-administration, the grocers have shifted focus back to the high street

Analysis finds no evidence that convenience stores create a 'halo of vacancy' in their immediate vicinity post-opening.

Publicly, at least, the major supermarkets have signalled an end to the 'race for space'. In practice, there has been a relocation of the battleground with all the major players firmly setting their sights on the heart of the high street. The move reflects a change of shopping patterns inspired by the recession. Consumers have increasingly swapped large trolley spend visits to destination superstores in favour of small, local top-up convenience missions supported by the ability to get online delivery of bulky goods and regular items.

The shift back to the high street by the big grocers' convenience formats is clearly apparent from the post-administration occupation pattern which saw "Groceries, Supermarkets and Food Shops" account for 11.5% of the space acquired from the administrations reviewed. Within this, 72.6% of space acquired was on the high street compared to just 5.1% in shopping centres.

- Iceland and Morrisons led the charge on the back of major portfolio deals with Woolworths (Iceland) and Blockbuster (Morrison).
- The take up by Tesco and Sainsbury's is comparatively low. This suggests that their focus is on less conventional retail pitches, supported by the fact that a large proportion of the space acquired out of these administrations is classified by LDC as 'stand-alone' indicating solo stores set apart from traditional retail pitches (often with parking).
- Aldi has acquired just 2 stores from the data set reviewed and Lidl do not feature at all.

Figure 11. Post-administration acquisition by supermarkets and convenience operators

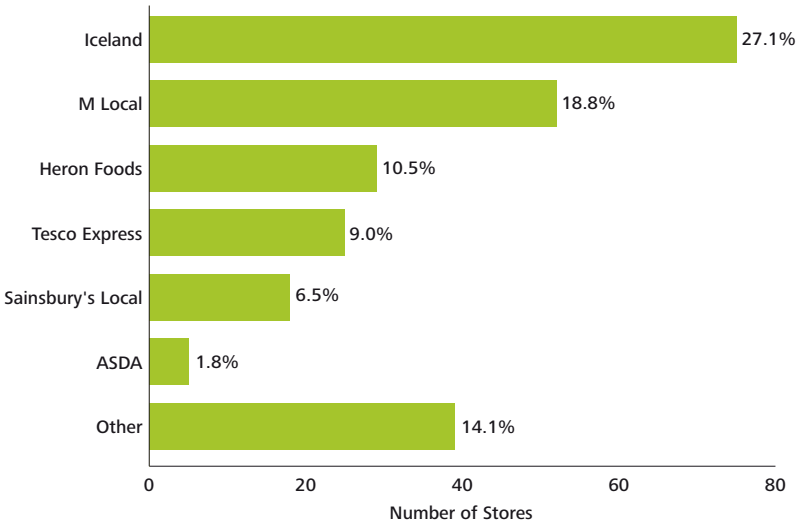


Figure 12. Post-administration acquisition by supermarkets and convenience operators (by location)

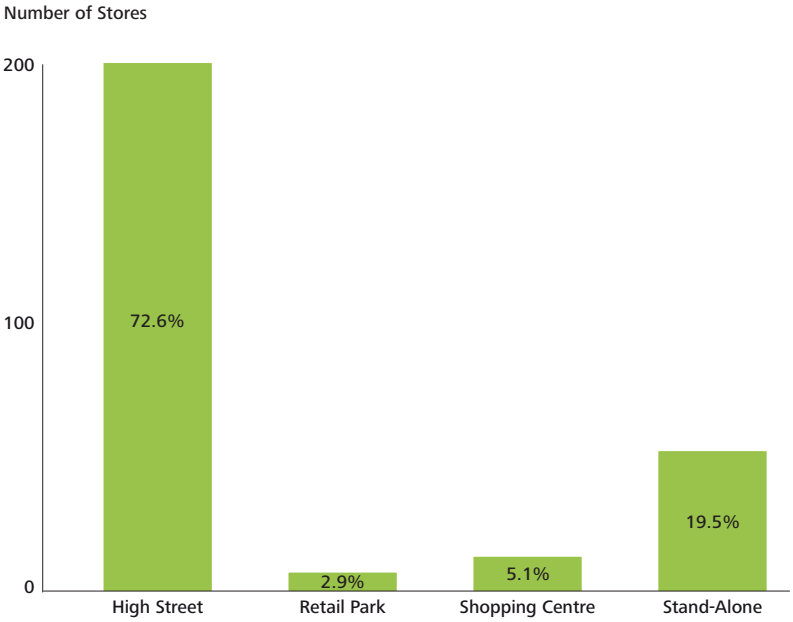
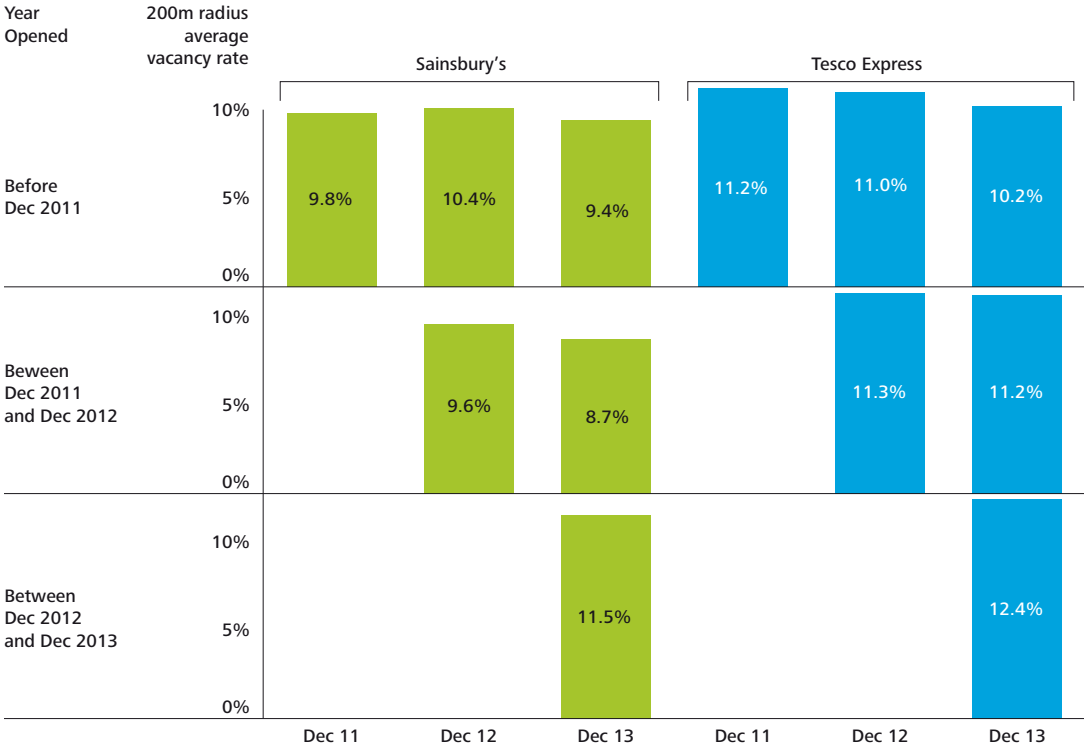


Figure 13. Prevailing vacancy rates 200m radius of convenience stores (sample)



- The impact of convenience stores on their immediate vicinity is frequently a source of local concern and speculation but is difficult to track or extrapolate accurately. The analysis has taken a small sample of Sainsbury's Local and Tesco Express stores and tracked the average prevailing vacancy rate within a 200 metre radius.

Those Sainsbury's stores in the sample that opened between Dec 2011 and Dec 2012 had an average prevailing vacancy rate of 9.6% on opening which fell to an average 8.7% by December 2013. The figures are less pronounced for Tesco which saw the figure across the sample fall from 11.3% to 11.2%.

For those stores opened prior to 2011, prevailing 200m vacancy rates fell from 9.8% in Dec 2011 to 9.4% in Dec 2013 for Sainsbury's and a slightly more pronounced 11.2% to 10.2% for Tesco.

The sample data set is small and it would be wrong to infer too much from these results other than to say that the accusation that convenience formats create a 'halo of vacancy' in their immediate vicinity post-opening is at best unproven.

The repair of the high street is hampered by its fragmented ownership structure

Nearly 1 in 11 of all properties vacated in shopping centres was subsequently merged or split, demonstrating the competitive advantage in terms of flexibility of defragmented ownership, compared to 1 in 30 on the high street.

In recent history, the superiority of shopping centres over the traditional high street has, in part, been driven by the ability of shopping centre owners to manage their space strategically, as a whole, in response to emerging trends and changing occupier demands. Within the mall, individual shops can be merged or split and the tenant mix managed by a landlord capable of taking a top-down view.

In this context, the high street sits at a material disadvantage to shopping centres. The majority of high streets suffer from fragmented ownership with adjacent shops held by different landlords all frequently competing for the same occupier. The high street's ability to reconfigure the space it offers is severely hampered so it is no surprise that in the past, retailers gravitated towards shopping centres which could offer the right size and shape of space, albeit often at a higher price.

This pattern emerges clearly from the analysis of stores which have been merged, split or demolished post-administration. Within the sample data set, reconfiguration of space features as one of the most common 'occupier outcomes' post-administration.

- 5.5% of all the properties in the sample data set which have been reoccupied post-administration have been identified as "Offices, Residential, Merged or Split". The change of use of former retail space to office or residential use is comparatively small within the sample data set. It is, however, consistent with the view of many commentators that surplus space on the high street needs to be 'repurposed' with retail and leisure uses retreating to a smaller and more concentrated core.

- The balance between split and merged units is revealing with 73% of all stores merged sitting in shopping centres, retail parks or standalone sites all of which will be under the control of a single landlord and asset manager. The benefit of single ownership has allowed this space to be merged and reconfigured to align the space to the needs of modern retailers and provide a better opportunity to re-let the space.

- Only 26% of the properties identified as "merged" sit on the high street. The figure increases to nearly 40% for properties identified as "split" suggesting that where landlords have the opportunity and ability to reconfigure space they will be quick to react to demand.

- Predictably, the "split" stores were formerly occupied by the large space users, with Woolworths leading the way at 23.9% followed by Focus (13%), Clintons (10.9%) and Comet (10.9%).

Figure 14. Repurposing of space (merged/split/residential/ office) (133 shops)

% of total stores (number of stores)

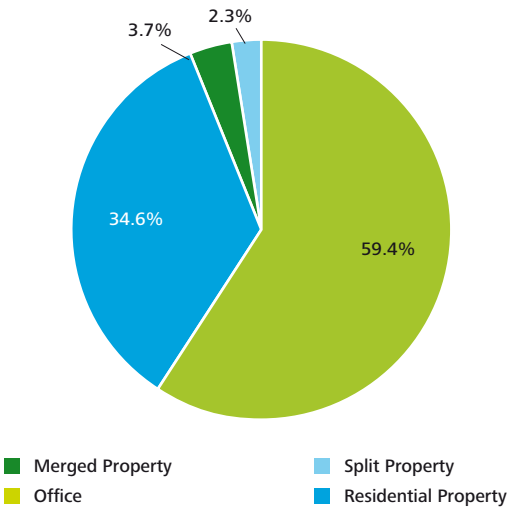


Figure 15. Distribution of properties identified as 'merged' post administration

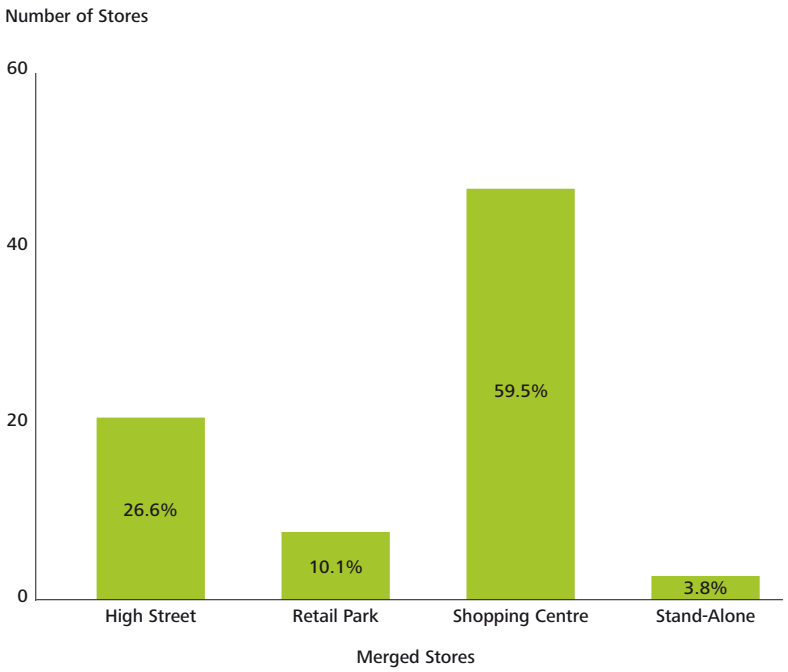
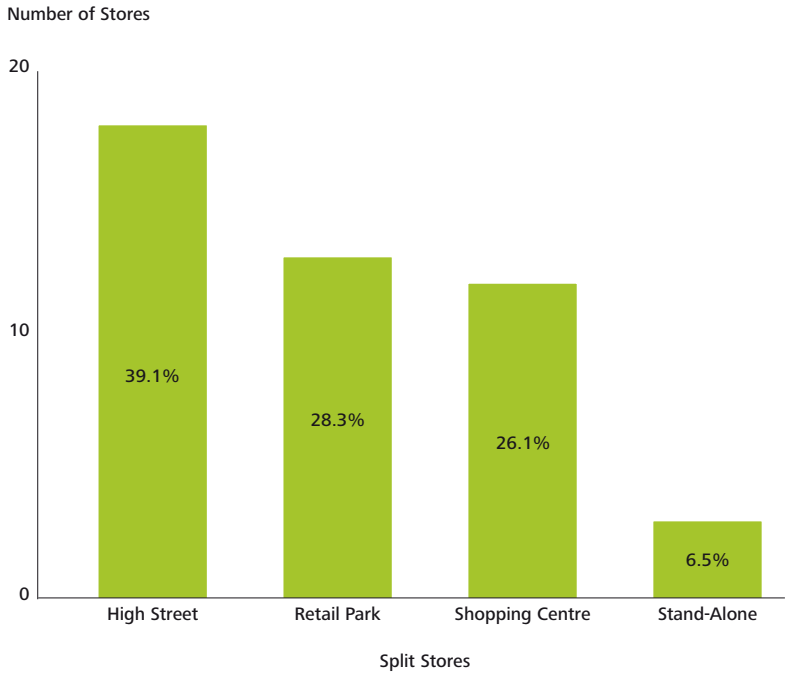


Figure 16. Distribution of properties identified as 'split' post administration



Future hypotheses

So where does this analysis lead? If the findings of this report are extended forward in time, what are the possible outcomes of the trends that have been identified? If the roller coaster of the last five years in retail teach anything, it is that the next upheaval and technological revolution is always just around the corner. It is difficult to predict with any accuracy what is likely to happen in the next six months, attempting any longer time horizon is almost certainly doomed to failure.

Acknowledging the unpredictability of the future, we put forward the following hypotheses based on the findings of this research with a view to revisiting them periodically to test them against what actually happens in the next cycle on the high street.

1) **A pound can only go so far**
   The pace of sustained and accelerated expansion policies of the pound shops and discount operators may have to relent in the long term. Tight margins and fierce competition may lead to consolidation or the radical contraction of one or more operators in this sector, prevalence and aggressive expansion policies of the pound shops and discount retailers may prove unsustainable. Tight margins and fierce competition may lead to consolidation or even failure of one or more of the operators in this sector. As an indication of how crowded this market has become, the data set analysed no less than 13 businesses with the word "Pound" in the fascia and four with "99p".

2) **Convenience formats prove too much trouble for some**
   The high street is the new battleground for the big grocers. The major players are well established but there are a number of late entrants and new entrants crowding into this space. As with the pound shops and discounters, thin margins are likely to get squeezed even thinner whilst competition for space could feed through into rental growth. As such it seems reasonable to speculate that one or possibly more of the convenience operators might choose to make a tactical withdrawal from this market.

3) **The 'Coffice' evolves**
   Coffee shops continue their colonisation of the high street but they evolve in response to increased recognition of their role as cheap start up office and meeting space. Interior space will be reconfigured to provide facilities associated with serviced offices. Pricing models will continue to adapt to recognise the fact that in some locations, coffee will become secondary to the customer's use of the coffee shop.

4) **Bets are off**
   Increased penetration of mobile gaming and betting will drive mainstream operators to mimic traditional retailers' multichannel strategies as they seek to find the balance between the physical and virtual. The pattern seen with retailers whose principal products were capable of digitisation may be repeated with a consequential retrenchment and realignment of the store portfolio. In such a context substantial growth in shop numbers (real or apparent) does not happen.

5) **The high street closes for lunch**
   The 'always on' convenience driven, 24 hour culture promoted by online and mobile channels needs to be reflected in the opening hours and availability of high street shops. While not necessarily closing for lunch, flexing opening hours and staffing levels to reflect customer activity and extending hours at either end of the day to support click and collection patterns among workers seems likely to become the norm. This may mean that some shops staff up for busy lunchtime periods while others focus on the start and end of the day to match commuting patterns.

6) **Stand-alone 'collect' for the 'click' arrives**
   The exponential growth of click and collect drives the next logical step in evolution from stand-alone lockers to branded and staffed shop units where goods from numerous pure play online and multichannel retailers can be collected and returned.

7) **Town centres and transport hubs merge**
   Collection points will eventually be positioned between where people are running from, and where they are running to. Rather than being a specific journey, the act of fulfilling a retail transaction will increasingly become coincidental to consumers daily lives. Increased focus on transport hubs used on a daily basis by people commuting to and from work is an inevitable consequence (and has already started around certain tube stations in London).

Conclusion

There is some irony that the exponential rate of technological development, coupled with the upheaval of the global financial crisis, may ultimately push retail back to where it was 50 years ago on the high street.

The emergence of mobile technology has resulted in a fundamental structural shift in retailing. Changed and more cautious consumer spending patterns have joined forces with a technology-powered convenience culture which demands that goods and services are available as and where the consumer demands. Historically, retailers have talked about 'destination' shopping locations. The evidence of Deloitte's research suggests that we may be entering a new era of "en route" shopping, powered by m-commerce and the demand for collection points strategically located at a point between where the consumer is travelling from and to.

A number of other factors are in play; the renewed 'race for space' amongst the grocers (having shifted from the edge of town to the high street), sustained growth in the small local business sector, the continued prohibitive costs of motoring (particularly for younger shoppers) and talk of more enlightened town-centric planning and parking policies mean that things are starting to look genuinely promising for the high street.

Destination shopping will always prove attractive as a leisure activity but on the basis of Deloitte's research, the high street seems well positioned for a strong recovery.

Endnotes

Powered by Deloitte Analytics

The analysis in this report has been undertaken by Deloitte's Predictive Analytics Centre of Excellence ("PACE"). This is a specialist team of highly skilled analytics experts with advanced statistical and mathematical modelling capabilities within Deloitte's actuarial practice. The PACE team specialises in using quantitative methods to forecast and gain insights from data by applying cutting-edge analytical techniques in strategic, commercial and business contexts.

A combination of micro-market segmentation, catchment analysis, demand estimation, peer group analysis, demographic and geospatial simulation provided by Deloitte's analytics capabilities coupled with Deloitte's extensive retail business and property skills offers retailers and other network operators the opportunity to gain a unique insight into the efficiency and effectiveness of their bricks and mortar footprint.

Method Statement

PACE applied a 3 step methodology in performing the analysis for this paper, moving from data collection to data transformation, and finally to data exploration and visualisation.

In the data collection step we identified a sample of 27 companies in the UK that entered into Administration from 2009 onwards. We sourced a large sample of data from the Local Data Company ("LDC") that contained a history of storefront occupancy for these companies through time. This data enabled us to analyse vacancy rates and current occupancy information, such as occupier type, for different property types and geographic regions within the UK. We additionally sourced a separate dataset from LDC containing vacancy rate data for stores in the immediate vicinity of the major UK convenience stores in order to aid our analysis on page 16.

The datasets were transformed using data restructuring techniques into a number of different forms to suit specific lines of analysis as appropriate. We additionally linked the geographic component of the data to publicly available postcode data, which allowed for exploration of the data at the local authority level in addition to exploration by region and town. All data labels and terminology applied by LDC has been retained throughout the report.

For data exploration and visualisation we identified specific expectations of what story the data would tell based on extensive industry knowledge and an understanding of public sentiment around what has happened to stores post-administration and the retail landscape in general. Extensive exploration and visualisation of the data was then performed to test these hypotheses. This methodology found evidence for a number of hypotheses and also generated several key findings that go against general public opinion of the post-administration landscape, both of which are detailed in this paper.

Challenges

As with any analysis, the key findings detailed in this paper are limited to the underlying data in terms of scope and reliability.

In terms of reliability we wish to highlight that our analysis takes as the current occupier of each storefront the most recent occupier identified by LDC as at 8th January 2014. LDC's data is generated from physical visits to hundreds of thousands of premises in the UK every 6 months and hence is able to provide a great level of information and insight into the UK's retail landscape. However, the occupier of every store cannot be captured every day, and as such there is inherent in the data a level of uncertainty around the timing of occupier changes. Given that we have considered a time horizon of several years and the most recent administration date considered in the sample was over a year ago, we believe that over the sample as a whole this uncertainty does not materially affect Deloitte's key findings.

In terms of scope our analysis was performed on a subset of the storefronts in the UK. Although large at 5,876 stores, our data sample was limited to this figure and to stores entering into administration from 2009 onwards. Care should be taken when generalising our key findings beyond the scope of the sample.

About 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 7,000 locations on a 6 monthly rolling basis building a unique database of 500,000 premises, LDC delivers data, market analysis and profiling to leading retailers, financial institutions, analysts, search engines, online directories and the media.

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