Living with the New Normal
Update January 2019

One year after the release of our report on the UK secondary shopping centre market, ‘Living with the New Normal’, we have analysed and commented on the most recent developments. The pressure on the UK retail market has continued throughout 2018 and found its latest peak in December 2018, the worst Christmas for UK retail in a decade. With 125 retailers failing in 2018, the impact on the store closures is significant with 4,402 net closures in H1 2018 alone. These closures are significantly impacting secondary shopping centres, the high vacancy rates have caused both number of transactions on the investment market and prices per square foot paid to stabilise at levels far below the 2015 peak.

- Prices per square foot have plummeted from ~£300 (2015) to little more than £150 in 2017 and have remained there in 2018.

- It is worth noting that the 2018 metric is skewed by the sale of Shop Stop in Clapham Junction. Removing this transaction from the dataset brings the average price per square foot paid down to £137.

- The Nicholsons Shopping Centre in Maidenhead provides a case study of what has happened in this market over the last 10 years. Sold for £85m in 2007 and then sold on for £37m in 2015, it went into receivership in 2018, and is now in talks to be sold for £25m, a 32% discount to the 2015 price. We anticipate a similar fate for several more of these assets over the next 12 – 24 months.
• In H1 2018 store openings dropped 2.1% compared to H1 2017, store closures increased by 16.9% in the same period to reach 24,205 closures.

• H1 2018 showed net closures (closures less new openings) of 4,402 units across the country. In 2017, Deloitte estimated 27,000 net closures between 2018 and 2020, the H1 2018 actuals show that if this number increases over the coming months, the estimate from 2017 might be far exceeded.

• In recent years it has been leisure locations that have kept many of these assets afloat, but this category too has seen net closures in excess of 1,000 units in H1 2018 alone.

• Retail administrations rise for the second consecutive year while large retail CVAs experienced a seven-fold increase. 125 retailers went into administration in 2018, up 6% from 2017; within this number, 26 were large retailers, compared to 17 in 2017.

• The increasing pressure on the retail sector is also hitting retailers with significant store portfolios, as such the number of stores affected is increasing significantly. Actuals to August 2018 show almost 2,000 stores affected by these failures, full year numbers are likely to exceed 4,000.

With RICS instructing valuers to be “aware of the potential for significant changes in value” and the largest listed landlords now trading significantly below book value we believe the New Normal has only just started.

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