ANALYSIS

Forecasts that a wave of store closures could come this year have set alarm bells ringing. But as **Ben Cooper** discovers, mass store exits may be unlikely

# Lease expiries bring

Fears abound that vacancy rates could be back on the up if retailers choose not to renew their leases. About 43% of shopping centres leases and 37% of high street tenancies are due to expire by the end of this year, according to real estate analysis firm IPD.

Top retailers have indicated that shrinking their portfolios is on the agenda. Homebase aims to reduce its store estate by a quarter by taking advantage of lease expiries. Arcadia has also flagged the opportunities arising from lease expiries.

The indications that vacancy rates could start to increase – especially in the poorest areas where they could climb as high as 50% – mean an increasingly polarised picture is developing. For retailers there may be of opportunities to take advantage of, but there are dangers too.

In January 2014, IPD estimated that 80% of all existing retail leases would reach expiry in the following five years. Even more worrying for landlords is the fact that the renewal rate had fallen sharply – from 30% in 2006 to less than 9% in 2013.

**80%**
Proportion of all retail leases that reach expiry in the next five years

The double-whammy of trading pressures and consistently high online growth rates has led to a reappraisal of store portfolios.

Simon de Galleani, senior partner and head of the retail sector group at law firm Wedlake Bell, says: "There are a lot of leases coming up for renewal in the pipeline this year. A lot of retailers are saying they are considering options over leases, and there's definitely evidence that retailers are looking to get rid of their underperforming stores.

"They want to be able to pick and choose. They're looking hard at any opportunity where there's a break clause."

Rob Asbury, head of retail and leisure at Montagu Evans, says: "What we're seeing, out-of-town especially, is that retailers are prepared to give up stores unless they get a significant discount or rebate. They might still be good trading locations but it's all about affordability for them; if that's changed they will leave".

## Negotiating power

Over the past five years landlords have faced increasing numbers of vacancies and unrenewed leases. But in the longer term there has been a gradual fall in lease length.

In 1990 the average retail lease length was 22.5 years. In 2014 it was less than nine, and just under half of all retail leases were less than four years long.

That might indirectly explain a busy year for lease expiries in 2015. The years 1990 and 2000 were both close to peaks in construction activity in the retail sector, when some huge volumes of space – 7.65 million sq ft and 6.95 million sq ft respectively – were completed.

With an average lease length of almost 25 years in 1990 and just under 15 years in 2000, it becomes clear how and why there could be change in the property landscape now.

That convergence of factors has in some ways played into the hands of retailers, which are no longer willing to commit to the types of leases landlords used to insist on.

Ashley Katz, restructuring partner at law firm Mayer Brown, says this means that retailers have more leverage at the negotiating table than they have had for a long time.

He says: "If you look at some of the big insolvencies that happened around 2009, there are stores those retailers occupied that are still vacant. Landlords will be gagging to get a tenant in there. They are having to come up with leases that are much more retail-friendly."

While the large number of expiries doesn't necessarily mean an exodus of retailers from their stores – and some are very much on the expansion trail, such as newcomer Pep & Co – there is no doubt that they are being more selective and focusing on the best locations.

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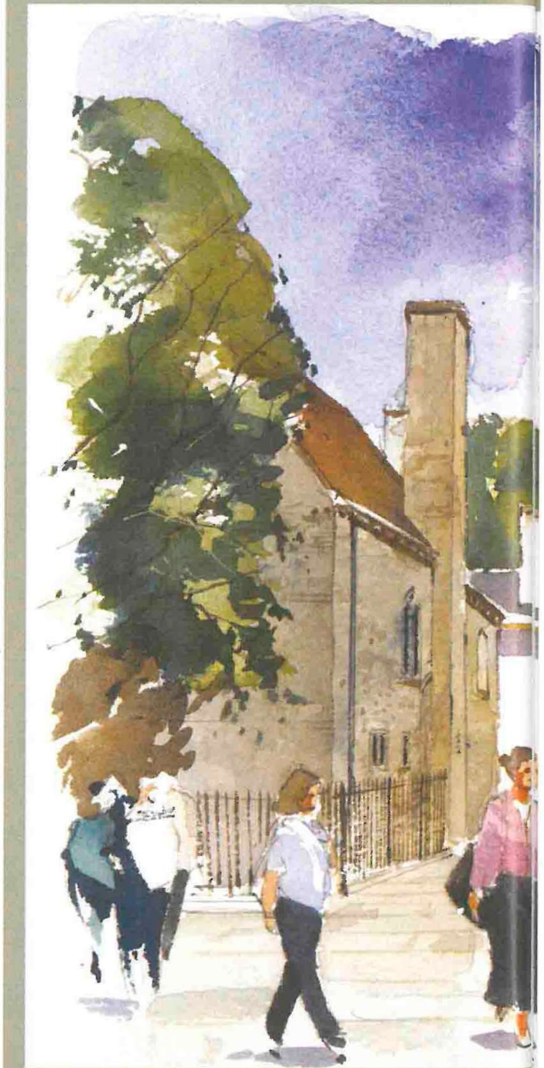

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# retail opportunities


**"Retailers are looking to consolidate the stores they have or use them in a different way"**
**Ed Cooke, BCSC**

In this respect, shopping centre body BCSC policy director Edward Cooke says there are not just economic factors in play – the business of retailing itself has changed.

**9%** Lease renewal rate in 2013

He observes: "Retailers are looking to consolidate stores or use them in a different way. It's about the new form and function of stores and how they are used in an omnichannel world. There's more use of stores as showrooms and click-and-collect points now."

IPD research analyst Colm Lauder believes the falling lease length trend is an inevitable consequence of the globalisation of the industry. He says: "What we're seeing now even in the stronger markets is a general trend of shortening leases across the board. There are increasingly overseas and European retailers in the market, and we're seeing an increasing 'Europeanisation' of lease lengths.

"It's more like in Germany and France, where leases are around seven to nine years."

Whatever the reasons are, the situation has undoubtedly tipped in retailers' favour when it comes to negotiating.

## Oversupply of space

But it is not all necessarily good news. Unhealthy high streets are harmful for many retailers. Cooke says that is a problem that landlords, retailers and councils must address.

He says: "In some cases there is a significant oversupply of retail space. There's a polarisation effect. In the worst areas, particularly outside the Southeast, there is a case for more redevelopment for those town centres into residential, leisure or civic space.

"There needs to be a significant change to the supply dynamic, and relationships between owner and occupier need to be more of a collaboration."

The wave of retail failures that peaked around five years ago might have finally subsided and there is optimism as shopper spend returns, and that gives grounds for optimism for retailers and property owners.

Katz says: "The situation seems to have settled on insolvency. There's been relatively little heavy-duty activity in the last year. If this holds then the recovery should continue."

A lease renewal is a big opportunity, because a landlord now often needs a retailer more than the other way around. But the fundamentals still apply. Retailers look unlikely to walk away en masse from good space unless they really want to – or have to – for some time yet.