# ‘The Retail Lease Time Bomb’

## INCENTIVE FM ROUNDTABLE 2014

**This year’s retail roundtable, hosted by Incentive FM Group, addressed concerns that many traditional long leases signed by retailers in the 80s and 90s are due to come to an end within the next 2 years. Figures from the IPD and Data suggest this could push retailer vacancy rates above 50% by 2017 and the panel was asked to consider the credibility of this claim and look at ways of mitigating the issues.**

**Attendees:**

- **John Prestwich, CBRE**
- **Richard Philips, Ashdown Phillips**
- **Mark Williams, Hark Group**
- **Martin Reed, Incentive FM**
- **Mark Robinson, Ellandi LLP**
- **Jeremy Waud, Incentive FM Group), Chair**

**Below are the key highlights of the discussion.**

How serious is this?

The main conclusion of the panel was that there will be a huge readjustment in the retail landscape but that it is unlikely to be the Armageddon that has been reported. It was felt that there won’t be 50% vacancy rates but landlords will have to change their expectations with regard to the level of rents and length of leases. This has already happened in some secondary shopping centres where landlords and managing agents have had to be increasingly flexible and accept that long leases are the thing of the past. The panel agreed that 5 years is likely to be the norm moving forward and that rent reviews/comparison rents are a thing of the past and it will be about individual rent negotiations moving forward,

***‘The result won’t be 50% vacant retail units but could easily be 50% rent reduction,” Mark Williams.***

How will this affect the service charge?

This brought the discussion round to the service charge element and raised the question – if the landlord now has to deliver the same product for less money. what can the managing agent do to make life easier? It was agreed that retailers don't really differentiate between the rent and the service charge – for them it is just a cost that has to be paid.

The panel raised their concerns that many landlords have squeezed the service charge over the past few years in order to keep costs down. This was viewed as short termism, which had only delayed the need for essential works in many cases. As a result the panel agreed that in most cases service charges are likely to rise to address these issues.

It was felt that there was a lack of strategy by managing agents regarding the service charge element and that what most retailers really needed was a reassurance that there would be no unforeseen spikes or unexpected demands. This would require better forecasting and benchmarking.

***"What you get for your money from your service provider massively varies and the key is to empower the Centre Manager to manage this." Mark Robinson.***

One opportunity for increased efficiency was identified by Martin Reed.

***"Greater efficiency could be achieved and the overall cost of occupancy reduced through a more joined up use of resources. For example tenants in a shopping centre could make better use of the cleaning and maintenance services that already exist in a centre, that they already contribute to through service charge, by using them on tenant demise," Martin Reed.***

What other issues are cause for concern?

The panel calculated that there are around 850 shopping centres in the UK of which only 50 can be viewed as 'prime.' The other 800 represent the vast majority of retail space in the UK and are facing fundamental issues such as 'are the centres fit for purpose' and do they serve the needs of the community.

The panel estimated that there is around 30% excess of retail space currently in the UK with some locations simply having too many shops.

***Mark Williams: "Another issue is when the borrower is under water, but the lender is unable to take a role in the management of the centre for legal reasons. This results in Zombie Landlords – unable to fund the capital required to improve their asset and so they are barely ticking over, providing no management at all."***

***Mark Robinson: In the UK we have ended up with a lot of inept landlords. Prior to 2006 shopping centres were generally owned by institution's or pension funds who were committed to nurturing the investment. However by 2006 many of the secondary shopping centres have been flipped several times and when the recession hit they were left in the hands of people who had hoped to make a fast buck and had absolutely no experience in the sector."***

Is it all bad news?

Some member of the panel were more optimistic than others:
***"We are beginning to see a slight improvement with some competition for units in shopping centres that are doing well," Richard Phillips***

John Prestwich of CBRE supported this view.
***"If we compare 2012 with 2013 there are some positive signs. The amount of floor space let by us is up 7.1% for retail, 2.37% for catering and 2.47% for leisure." John Prestwich***

How do landlords cope with 'struggling retailers?

Landlords are cautious when it comes to pleas from 'struggling' retailers to drop the rents, despite the fact they are contractually binding. Many of the panel had had experience of being bullied by advisors who saw this area as an easy way of saving money, although were happy to speak directly to the retailer involved. It was felt that due to the amount of vacant property within secondary shopping centres then good retail chains certainly had the power in any rent/lease negotiations.

Are there more creative management measures for shopping centres?

One model discussed by the panel was that of shared centre management between say two different smaller centres as has been seen of late, presumably as an economic measure. The landlord response to this model was muted, citing false economies in properly managing the asset. Jeremy Waud, at Incentive FM, suggested that whilst he had no strong view, he would rather see a well paid, effective and motivated manager spending 50% of his time constructively looking after a centre as opposed to a less effective, less well paid individual allocating 100% of his time to the issues of the centre.

What is the view of town centre regeneration issues as identified in the Portas report?

The general view of the panel was that local Authorities need to take a much more active role in driving the opportunities for fresh uses and investment into the high street. Old and unwanted retail property may well need to be refocused to residential and this in itself acknowledges the ageing population and the opportunity for residential property to be closer to its community and services - library, post office and local shops etc.

The balance of shops may also need to change to recognise greater demand for food and leisure as opposed to traditional lines which are now more commonly serviced through internet sales channels. Better planning, development and parking regimes can further aid the regeneration of the high street and allow the trader in this environment to compete more readily with out of town offers.

What about Click and Collect?

This much debated sales channel drew interesting debate and the example of the Meadowhall Centre concept of a 'click and collect' dedicated area which may feature designated parking, changing rooms and the ability to receive and return multi retailer products and goods through one location was discussed. The summary conclusion of the assembled company was that a retailer knows his product and customers and so is best placed to offer this service - hence this concept, whilst fresh is probably flawed from the offset.

How important is the Customer retail experience?

The panel thought that whilst lower costs and clever ideas are all well and good in the retail environment, ultimately the shopping centre visit should be a pleasurable experience and customer service should not be sacrificed at the expense of trying to operate at a lower cost base. Money is needed to invest in both building fabric and repairs, as well as a good quality of environment and service if the customer is to get what they are really after, and the landlord can consider he has a scheme of value.

Conclusion

There is no doubt that rents will adjust down – maybe as much as 50%. This will be a painful process but once the burn off has been completed the result will be a more stable sector with a very good outlook.

Ends

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