Retail warehousing

Retail warehousing, shopping parks and leisure

Received: 4th March 2005

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Abstract

Retail warehousing is generally defined as ranging from 'bulky goods units' to modern progressive shopping parks. As a sector it outperformed all other property markets in the last ten years, with returns surpassing all other forms of retail property investment. It is generally believed that the sector will continue to outperform other property sectors and will be at the forefront of the wider retail market. 2004 was a strong year for this sector and, in the early months of 2005, confirmed transactions, together with speculation, suggest that this year will be no different.

The market is maturing in all respects. Investors are becoming increasingly discerning and have heightened requirements in the fields of retail warehouse management, marketing, commercialisation, design, tenant and rental aspirations, expectations and quality advice from specialist consultants. Retailers are maturing in their requirements, with intensive utilisation of space, flexibility of use and store design and signage, and in some cases taking hard-earned lessons from the high street to the new arenas of out-of-town shopping.

The market has seen a steady increase of new retailers: traditionally the vanguard of a few provide both the property market and the consumer with an ever-increasing range of retailers.

Ironically, some of the earliest retailers who ventured out of town, such as the electrical retailers, have found that rentals have risen to such a level that they are being forced back into secondary locations. This creates opportunities for landlords to be creative asset managers.

Keywords:

retail warehousing, shopping parks, out of town, leisure, mezzanine space, retail property investment

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INTRODUCTION

This paper concentrates on the new formats recently launched into the retail warehouse/shopping park market, often coming from established high-street retailers responding to the opportunities offered by out of town and evolving new formats and brands in this sector. Finally, it comments on the key topic of mezzanine space in the light of impending legislation and the 'state of the nation' as far as investment is concerned.

THE RETAIL WAREHOUSE SECTOR CONTINUES TO INNOVATE WITH NEW ENTRANTS

Delegates at the Accessible Retail Conference (Autumn 2004) were told that consumer expenditure on goods typically sold on retail parks is likely to grow by 60 per cent over the next ten years or so, requiring 75 million square feet of new out-of-town retail floor space. Armed with this and other related research, and coupled with the attractions offered to retailers locating on a park (ease of large space creation and occupational costs), this market continues to see new entrants and new formats. Each of these continues to push the traditional boundaries of park layout and unit design and bring ever higher-quality shop fits, more commonly associated with flagship stores in town shopping centres.

Starting with the furniture sector, one has seen the coming and going of Marks and Spencer's Life Store concept with the disposal of its Gateshead store, a rebranding at Kingston and the news that Life Store will not be opening in Lakeside, Thurrock. Conversely, however, Habitat is acquiring units of 10,000–15,000 square feet of ground floor with mezzanines, allowing it to focus on the advantages of out-of-town locations and in some instances quitting its historical town-centre operations, for example, in Leeds where Habitat has relocated to the suburbs of Birstall. Habitat has recently opened its latest store in Solihull, with further units planned.

On a much larger scale Ilva, the Scandinavian furniture retailer, has pledged entry into the UK with a site in Manchester secured and further sites under negotiation. Ilva is likely to target far larger floor plates, in excess of 50,000 square feet plus mezzanines, and the market awaits its arrival with interest.

The world's largest retailer, WalMart, is continuing to have an impact on the UK with the Asda brand, launching not one but two new retail concepts to which the market is responding well. The success of Asda's fashion line, George, which otherwise has only been retailed through their food-based superstores, has firstly been rolled out on the high street, followed by a second wave of planned stores in fashion-based retail warehouse parks. The first opened in late October 2004 at Pillar's Manchester Fort scheme, with the second planned for Capital and Regional's Morfa shopping park in Swansea, where Donaldsons is the letting agent. Typically the stores will be 10,000 square feet floor plates with mezzanines, selling the

full range of George fashion clothing and accessories in a store with a high-quality shop fit and boutique feel.

Asda's second and newest concept is Living, in a 20,000 square feet (plus) floor plate and additional mezzanine with Asda non-food general merchandising on ground level and the full George clothing range and café on the first floor. Asda opened its first Living concept in Walsall, complemented by other retailers including Next and a new H&M Hennes store. Further stores are now under negotiation. Asda stresses that the concept is still on trial, but the signs are that this format would be anything other than a winning formula in a market where Asda, with other food operators, finds it increasingly hard to secure sites.

A further exciting new concept is from Blacks Leisure. It is estimated that the outdoor sportswear market is worth more than £800m a year, representing 28 per cent of the overall sportswear market.¹ Currently, retailers with a grip on the upper end of the outdoor market include the specialists Field and Trek, Cotswold, Blacks, Snow and Rock and Ellis Brigham. Interestingly, a number of these retailers already have retail warehouse concepts, albeit on solus sites and Blacks will shortly open its first out-of-town retail warehouse on the ISIS-owned Riverside retail park in Northampton. The unit is 7,800 square feet and will be run as a trial with, undoubtedly, a view to a national rollout in the event of successful sales. Blacks has some 70 units and until now all have been in-town stores.

Another household name to watch out of town is Debenhams. It has committed to the Richardson's 350,000 square feet Fort Westwood Cross development in Thanet, with other signings including M&S, Next and Boots. This is destined to dominate this section of east Kent at the expense of the traditional high streets in Margate and Ramsgate. Debenhams has traditionally occupied town-centre schemes, and it is believed this will be the start of a growing interest in the out-of-town retail warehouse market. Debenhams' name is rumoured to be linked to a number of planned shopping park schemes in the UK, based on minimum floor plates of 20,000 square feet plus first and possibly second floor space.

News in the press is of Tesco's plan to return to the non-food store sector, a move that has often been rumoured in the past. Previously Tesco operated a Home and Wear division from small high-street outlets, or the upper floor of over-sized units. This now has more credence as Tesco looks away from food retailing to fulfil its expansion requirements. Tesco's buying power and customer attraction could revitalise some parks and offer better covenant strengths, while being unlikely to affect rents adversely. Indeed, one way in which Tesco could enter the market is by buying one of the existing minor-strength retail warehouse chains.

Finally, Glasgow Fort shopping park has now opened. The scheme is located five miles east of Glasgow and has dedicated

motorway access. It comprises a 380,000 square feet open A1 shopping park scheme with an adjacent 130,000 square feet supermarket. The development, now owned by Hercules, boasts a great shopping park line-up across a large range of unit sizes. Notably the Spanish-based international retail operator Zara is due to open an 18,000 square feet flagship store, its first out of town. It will join familiar fashion names such as Next, New Look, River Island, Arcadia Group and TK Maxx, but will trade alongside more traditional retail warehouse occupiers including Argos, Holiday Hypermarket and SCS Furniture.

It is recognised that retail warehousing has outperformed all other property market sectors and that in the last ten years returns have surpassed all other forms of retail property investment. With new entrants to the retail warehouse market, particularly in both the bulky goods/furniture and fashion/open A1 markets, this is a sector which will continue to evolve and provide good opportunities for retailer, consumer and investor alike.

THE RACE FOR MEZZANINE SPACE

Mezzanine fever continues to grip the market due to the impending legislation regarding the construction of new mezzanine space. For years, retailers have managed steadily to increase their usable sales space by the installation of a mezzanine floor, and this has proved to be a very cost-effective approach. Effectively in some cases it has enabled tenants to double the floor space for only the capital cost of internal lightweight construction. While many planning authorities have recently sought to control this through the use of conditions on the grant of initial consents, many retailers (and landlords) have been able to add mezzanine floor space without specific planning permission, relying on the initial consent of the park. The introduction of PPS6 will require any new mezzanine to have a specific consent, and so the sun will set on this unregulated mezzanine strategy.

Such is the importance of this issue that many professional organisations and retailers have lobbied hard, and there is an expectation that small mezzanines will be allowed without planning permission. As the legislation will apply to all retail, the expectation is that the figure will be too low for there to be a collective sigh of relief.

So steps are being taken by both landlords and tenants to safeguard the utilisation of mezzanine space where it is currently unhindered. Whatever steps are taken, the only sure way to secure units is to start work now!

The author believes that the actual presence of mezzanine space, or having the consent to allow it, will enhance the value of such property in both rental and capital terms compared to real estate without, and a two-tier market may evolve. Multilevel trading, once thought alien to the superstore and retail warehouse concept, is being increasingly seen (witness B&Q) and where eave height

Figure 1: Retail warehouse rental growth 2004

permits, mezzanines might well grow up into ‘first floors’ and attract their own rental value per square foot.

STATE OF THE NATION — INVESTMENT MARKET

The overall rate of retail warehouse rental value growth by the end of the third quarter of 2004 was 5.5 per cent per year,² towards the top end of the 4.8–5.8 per cent range in the last 12 months (Figure 1). The market seems to have stabilised at these levels, with all retail parks and prime-yield holdings doing slightly better than others.

% per year	High yield	Mid yield	Low yield
Income return	7.3	7.0	5.6
Equivalent yields	7.8	6.3	5.5
Capital growth	13.4	17.6	15.7
Total return	20.7	24.5	21.3

Figure 2: Retail warehouse yield impact 2002–2004

Figure 3: All retail warehouses return growth 2003/04

Figure 4: Capital value growth 2003/04

Rents have increased by 60 per cent on retail warehouse parks in general terms in the last ten years,³ compared with 28 per cent for high-street shops.

Yields are still on their way down and, save for high-yield stock, the rate decline is still accelerating. Figure 2 shows the rate of capital gain accruing because of yield movements. Towards the end of 2004, sector capital growth attributable to falling yields increased to over 10 per cent per year.

Total returns for retail warehousing were just ahead of those for high-street retail, and the traditional yield gap between the high street and out of town could disappear. But for the very best, as Figures 3 and 4 show, capital value growth has risen strongly during 2004.

The market has noticed a bulky goods/open A1 yield differential and this, in the author's view, has widened slightly with a falling demand from bulky goods retailers within the thin market in which they currently exist, contrasted with increased prospects for open A1 consents. The potential to widen bulky goods consents in some locations has affected investors' interest, leading to a blurring of the traditional distinction between open A1 and bulky goods yields. The prediction is that in the longer term yield differentials between those parks with differing planning consents will continue to widen, particularly as some investors continue to become specialists in one sector of the market rather than another.

There continues to be strong demand in the investment sector for quality retail warehouse stock. Following the sale of Fforest Fach in Swansea to Henderson, which set a new benchmark for prime yields at 3.0 per cent initial and 4.875 per cent equivalent, the market has seen a number of sizeable transactions, including sales of Wycombe retail park, High Wycombe, London Colney, The Rock, Birkenhead, The Place, Milton Keynes, Telford Bridge and Reading Link throughout 2004, culminating with the purchase of Kittybrewster retail park, Aberdeen by The Junction in December.

While the market paused for breath over Christmas and reflected on the previous year, there is already evidence of 2005 being a

market continuing to show strong investor demand and strong yields for the right product. Fosse Park, which came to the market in the summer of 2004 at a quoting price of £320m, is now rumoured to have a suitor in REIT. Parks that had previously stalled in the marketplace, due to factors such as split ownerships and perceived peak rents, are now attracting strong interest as the market continues to seek quality stock.

In summary, the author believes that the retail warehouse sector will continue to outperform other property sectors and will be at the forefront of the wider retail market. Growing discernment among investors is evidence of a maturing market to complement the maturing approach taken by both asset managers and retailers to this important property sector.

References

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