Shopping centres and retail parks

Retail warehouse and shopping park development pipeline: Those who will occupy new space and the prevailing investment market

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Abstract
This paper focuses on the retail warehouse shopping park and leisure market, but specifically on the pipeline. 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 be at the forefront of the wider retail market. 2004 was a strong year for this sector, and in the first half of 2005 confirmed transactions, together with deal 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 who provide both the

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property market and the consumer with an ever-increasing range of retailers. Ironically, some of the earliest retailers which 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 development pipeline, second-hand space, new retailers, retail property investment

INTRODUCTION

Donaldsons recently published a study on the future shopping centre pipeline, the results of which were quite startling.[1] Given that the retail warehouse and shopping park market occupies its own specialist niche within the wider retail property market, Donaldsons has recently concluded work on looking at the pipeline for the retail warehouse and shopping park market, which is currently very topical given the government's current stance on out-of-centre retail development and also the secondary legislation shortly to be introduced governing the increase in floor space through the utilisation of mezzanine floors.

This paper seeks to explore:

- a defined development pipeline
- to set this in context, a snapshot of availability of built space
- demand for existing and new space together with a brief commentary on the always exciting topic of new entrants
- a commentary on the investment market and how this has moved since the last publication, focusing on the two-tier market now clearly evidenced for parks with differing planning consents.

NEW RETAIL WAREHOUSE SPACE

Major new retail warehouse space in the pipeline exceeds 6 million square feet. This is equivalent to approximately ten Castlepoints. This estimation *excludes* solus units to be constructed (ie B&Q Warehouse), but includes those parks under construction or with planning permission and with a size in excess of 55,000 square feet.

The UK retail warehouse market has come to maturity, and the total current provision of space exceeds 150 million square feet. The top 50 parks account for 18 million square feet, and comprise 29 retail parks and 21 shopping parks.

Planning for newly developed space is very restricted, and as a result one is seeing the development of smaller parks in the size category of 50–70,000 square feet and parks in smaller towns. With this maturity comes the maturity of retailers who, in continuing to seek new markets, are in many cases willing to respond to the provision of space in smaller towns by forward committing to that space, often in the absence of alternatives.

There are, however, some very notable and substantial developments forthcoming, including those major parks planned for Oldbury, West Midlands and Leckwith in Cardiff, together with the shortly to be opened shopping parks in Orpington and Llandudno. These are all new developments (as opposed to refurbishments), but there are also extensions to parks already in the 'super league'; for example, at Manchester Fort with the forthcoming Phase II and at Broughton Park, Chester where a further 170,000 square feet is planned, occupied in part by Marks & Spencer.

To set the figure of 6 million square feet of new space in the pipeline in context, this alone is the equivalent of ten Castlepoints, certainly the largest and one of the most successful shopping parks currently trading. There are currently 2 million square feet of schemes under construction or with planning consent. The breakdown is 15 major schemes under construction, comprising ten retail parks and five shopping parks.

Pipeline aside, the estimate of 'second-hand space' defined as built and occupied or empty but available is as high as 8 million square feet, and this figure is supplemented by around 2 million square feet of new-build space currently available.

While this supply is indeed sizeable given the limited number of tenants who occupy space (in comparison to the in-town markets), this supply is actually restricted, particularly now with the constraints imposed by simply the availability (or lack) of development sites and, secondly, the constraints placed upon sites, developers, occupiers and ultimately the shopper, by the local planning authorities.

In very general terms development is now principally by four routes.

— Developing out-of-town sites which may now have historic, unimplemented planning consents. Developers and retailers have growing confidence in sites which were perhaps not previously thought viable, and with the expiration of planning consents due shortly.
— The development of old food stores which occupy large and valuable sites — examples include the redevelopment of the former Safeway site at Brent Cross into Brent Cross Shopping Park, and Llandudno Shopping Park coming out of what is currently the existing Asda food store.
— Regeneration.
— Retail development in the context of a much wider scheme incorporating mixed-use development and perhaps planning and local gain. Examples are retail development alongside residential where the latter is particularly desired, or stadium development — witness Middlebrook Retail Park adjacent to the Reebok Stadium in Bolton and Morfa Shopping Park

adjacent to the new stadium housing Swansea's football and rugby clubs.

'SECOND-HAND SPACE'

The availability of second-hand space is undoubtedly significant. One understandably focuses on an exciting pipeline development, particularly given the fact that it continues to expand the boundaries of good retail park design and practice. But there is a considerable hidden supply of second-hand space daily coming to the market, currently estimated at 8 million square feet.

Supply, other than simply unlet new development space, is a result of a number of factors, including:

— retailers shedding smaller stores for alternatives by upsizing
— more commonly (now) downsizing, as retailers seek to rationalise space for enhanced cost savings
— retailers relocating for position (more prime space) or value; a good example of the latter would be Currys and PC World's much-publicised strategy of repositioning themselves from expensive open A1 parks to more cost-effective sites without a diminution in sales, due to their standing as a big player in a small market.

Then there are business failures or corporate downsizing. The past 12 months in the retail warehouse market have been particularly notable for the demise of retailers which were previously stalwarts of the retail scene — the unfortunate turn of business has resulted in the collapse of some companies and the subsequent marketing of space. Examples include Allders, Marks and Spencer's Life Store concept (albeit limited to two stores) and Courts. Courts is a particularly good example: before Christmas the portfolio of stores in the 50–60,000 square feet category went into receivership, and there is estimated to be around 1 million square feet of space still available today.

Of course the figures are potentially clouded by space kept vacant by landlords for strategic asset management reasons.

RETAILER DEMAND

Set against the above statistics, demand is buoyant in the out-of-town retail warehouse and shopping park market, and notably in the sector of units with an unadulterated open A1 planning consent.

The retail warehouse market continues to see new entrants, which is always encouraging and an endorsement to the many advantages which out-of-centre retailing has, whether they be new entrants in the shopping park market as is currently most common or within the DIY or furniture market already well established in the UK.

Notable large space requirements are from Danish furniture retailer Ilva and Wickes, being examples of new and existing operators in the UK. Wickes continues to look to store development in new and untried markets, in addition to looking to upsize and reposition its offer in existing well-performing towns.

The UK is particularly looking forward to the opening of the first Ilva store, scheduled for early spring 2006. In Scandinavia, Ilva is a household name and officially a Danish 'super brand' which has already made a departure from its homeland, opening a store in Malmo, southern Sweden. While a common feature of the living room in Denmark, the UK has never experienced the Ilva product, but Ilva has now secured three stores in the UK, in Manchester, Gateshead and at Lakeside, West Thurrock, and is rumoured to be close to signing a fourth store. With a format that is approximately 120,000 square feet gross internal area, it is one of a handful which the market is pleased to see taking significant-sized space along with coincidentally 'the other Scandinavian retailer', Ikea, which continues to try to expand aggressively — for example, its Milton Keynes store is currently under construction.

Also in the furniture market one has seen the emergence of Habitat, coming into the out-of-town market and generally repositioning itself from town/city centre. Habitat's most recent out-of-town acquisition is at Lakeside Retail Park, West Thurrock, on the same park where Ilva will shortly locate, and Habitat has received much praise for the interior design of its latest stores.

The authors' practice will continue to speculate on further entrants, particularly from Continental Europe — for example will FNAC shortly be seen?

Looking at smaller-format stores and focusing on the open A1 market, particularly in the shopping park sector, there is continuing significant demand from both mature retailers such as the fashion and sports-based retailers of Next and Sports World but also from mature high-street and shopping-centre retailers trialling new ventures out of town.

One worthy of particular mention is Debenhams, for both its main store formats and its new format, Desire. Debenhams very recently opened Westwood Cross Shopping Park, Thanet and Truro and has its name linked to a number of emerging shopping park schemes, for example, Pillar's Orpington Shopping Park and the aforementioned Llandudno.

The outdoor market is particularly strong and very suited to retail warehouse formats. Snow and Rock has a mix of units, whether they be city centre or out of town, and has followed the successful opening of its out-of-town store in Manchester with an impressive store in Romford.

Blacks, one of the stable of retailers owned by the Outdoor Group (which also includes O'Neil, Quicksilver, Just Add Water and Millets), has opened a handful of out-of-town stores, the first being in Northampton and most recently again Lakeside, West Thurrock. The overview is that sales have been successful and the out-of-town project continues.

On the same outdoor theme, Evans Cycles, one of the country's leading cycle retailers in the road, race, cycle and mountain bike sector, has started to supplement its traditional London stronghold with stores at Capital & Regional's Xscape developments in both Castleford and Milton Keynes, and is eyeing up the retail warehouse sectors.

Finally, it is envisaged that further premium fashion retailers, highly mature in city-centre markets, will expand out of town. The market was excited by the announcement by Monsoon Accessorize that, in addition to its current portfolio of 238 fashion stores in the UK, its further store development programme would be supplemented by trialling a handful of dominant shopping park stores to house the brands including Monsoon, Accessorize and Monsoon childrenswear, menswear and home. The authors have been appointed to advise Monsoon.

INVESTMENT MARKET OVERVIEW

The investment market continues to be strong despite some retailers suffering a downturn in trade and the demise of others — Courts and Klausner to name but two.

Hercules successfully sold Fosse Park, Leicester to REIT, albeit at slightly less than its asking price. Investment activity since would indicate that the price reflected the large lot size and question marks over Hercules' decision to sell rather than any malaise in the market. The other big news has been Land Securities purchasing Westwood Cross, Thanet, then LXB Properties and British Land purchasing Pillar, thereby confirming their faith in the future prospects of the retail warehouse market.

There have recently been a large number of sales coming to the market — all can be categorised as retail warehouse investments where there are not any obvious short-term asset management opportunities or where there is a lack of retailer demand in a particular town, exacerbated in towns where retail warehousing is restricted to bulky goods sales only. Such investments include Orbital and Linkway Retail Parks, Cannock, Weston Retail Park, Weston-super-Mare, and Greyhound Retail Park, Chester.

When these investments were initially marketed there were question marks as to whether they would achieve asking prices, but investor demand has outweighed the downturn in retail trading and at the time of writing Orbital Retail Park, Cannock and Weston Retail Park, Weston-super-Mare are under offer at prices well in excess of the asking price. Equivalent yields for bulky goods retail parks are now circa 5.5 per cent, although these are now being based on more realistic rental values as investors are more willing to factor in a lower initial yield rather than rely on future strong rental growth.

There have been few prime open A1 retail warehouse park investments on the market, but in the authors' view a prime park would now command an equivalent yield of between 4.5 per cent and 5 per cent. Furthermore, investors are more willing to take a more aggressive stance on future rental growth prospects as open A1 retailers continue to expand.

Purchasers are currently the institutions and specialist retail warehouse property companies. Sellers are debt-financed buyers and non-specialist property companies happy to take a profit in a strong market.

Reference

1. Donaldsons (2005) 'The Shopping Centre Development Pipeline', Donaldsons, London, UK, June.