Guest Editorial

As a property 'specialist' in a commercial retail organisation I frequently find myself trying to explain the odder practices of the property profession. Let me take two examples I find impossible to justify.

First is the attitude of landlords and their managing agents. For all the complex valuations methods using all the modern techniques, the value of a retail complex is underpinned by the rents retailers can pay. In turn, the rent retailers can pay is directly related to how successful they can be in creating turnover and converting that turnover into profit. Anything the landlord does to increase the tenant's profit will ultimately increase the value of the scheme.

So why are landlords and their agents much more interested in the coverage of posters on my windows than providing proper security? Why are they keener on ensuring my retailers never have any product for sale a centimetre outside the premises than on ensuring the car park is kept available for customers?

British retailers are among the best in the world. The property profession should let them get on and retail. They actually do know better than a managing agent how to capture the customer's pound.

My second example is perhaps more serious and it concerns the rent review process. Government planning policy is severely restricting the supply of retail warehouse units. At the same time, there are always one or two retailers with aggressive opening programmes. This competition for the very limited supply of suitable units will cause a distortion in the market. In isolated situations, very high rents will be paid to gain representation. This high rent is a special bid and should not then be rolled across the entire market — but invariably is.

Why, when I am willing to pay say £450 per m² for the single available 1,000 m² retail warehouse and the only other player in the market is willing to pay £430 per m², does the entire 17,000 m² retail warehouse park get reviewed on the basis that the hypothetical tenant would pay £450 per m²?

The current rent review system is wrong and in the long run no one will win. Rent is a product of retailer profits. When the rents are pushed too far, retailers will leave — either voluntarily or as a result of bankruptcy. We will then see empty stores and blighted schemes until landlords adjust their expectations. By then, however, the damage will have been done.

Graham Seaton
Head of Property, Sports World International Ltd
Editorial Board Member
June 2005