

## Press Cutting

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# Outlook 2021: Will the retail market bottom out next year?

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## Some parts of the market look closer to the bottom than others



It has been a torrid year for retail landlords, but with a vaccine being rolled out, there is hope that 2021 will be better.

At the very least, once normal trading conditions resume and the ban on evictions is lifted, rent collection levels are likely to improve.

However, it remains to be seen whether retail property values and rents will start to stabilise. There are plenty of reasons to be downbeat. E-commerce usage is unlikely to retreat to pre-COVID levels, and many retailers simply won't survive the pandemic while those that do will have had to take on more debt to get by.

On the other hand, some retail locations have proved more resilient than others and some retailers could emerge stronger from the pandemic as competitors fall away and their rent bills fall. So in the latest in our

Outlook 2021 series, we ask whether 2021 could be the year the retail market bottoms out, or at least when parts of the bottom out.

**Mark Robinson, property director and co-founder at Ellandi**



A basic tenant of the human condition is to compare our current strife to what has gone before. So of course, people in commercial real estate will be thinking, as we end our latest annus horribilus, how does this compare to 2008?

Having started Ellandi that year, I think it's fair to say there are a number of similarities, a slow burn international catastrophe, which in terms of retail property will be defined by the Lehmanesque fall from grace of intu. The bad news, folks, is that because of this landmark event in 2008, people forget that 2009 was worse, far worse, and unfortunately that is my immediate prognosis for 2021.

I won't ruin whatever Xmas cheer people may still have by going into the details, but what I do hope is that this time our reaction is different. The reason the human mind focuses on prior disasters and makes simple post hoc rationalisations and comparisons is evolutionary; that was close, let's not get so close to the sabretooth next time...

The lesson for 2021 from 2009 then should be, this time IT IS different, there will be no cyclical recovery. If we don't use the catalyst of this crisis to be the agents for change, to evolve a better, more sustainable industry, that is so desperately needed, we probably deserve to be eaten.

## Philip Gadsden, managing partner at Orchard Street Investment Management



Over a number of decades there has been a huge addition to the supply of retail property. In a country as committed to consumer spending as the UK, town centre retail development worked well for a while but now a record proportion of retail sales is online (> 25%) and with home delivery or (click and) collection from an out-of-town retail park growing rapidly, shoppers don't need to visit physical in-town shops for fashion and comparison shopping like they once did. New entrants with innovative ideas (e.g. online only) have shone a spotlight on old stale formats, and many established retailers – especially fashion – have been found wanting.

But the best and/or most convenient retail locations will remain popular – indeed, the best food and value out of town parks now have low to zero vacancy and stable rental levels. At the moment however, the bottom for many town centres seems a long way away because of chronic over supply. Up and down the country, councils will need to lead the way so that the point of their town centre gets re-defined, space gets re-purposed and a better demand/supply equilibrium gets established. Not every town centre needs a branch of every fashion retailer because fashion can be bought online or in a large city centre or regional mall. Town centres will be smaller and will be convenient and leisure-orientated and the best town centres will re-discover their former glories especially those that attract students and tourists and have

growing populations. With almost all that change still to happen, will the in-town retail market bottom out in 2021? No. But the best centres with enlightened leadership will make a start. The better out of town parks however may well bottom out in 2021. Indeed, with re-based rents and high occupancy, perhaps out of town retail offers the best current bargain in the UK market.

**Andy Pyle, head of UK real estate at KPMG**



In order to answer this question, I think we first need to consider the broader environment. We have just emerged from the 2<sup>nd</sup> national lockdown, with many areas in the UK in Tier 3 and now in Tier 4, and the vaccine has only just started to be rolled out. We are in the middle of a tsunami of retailer insolvencies and CVAs, which is leading to the wholesale restructuring of how non-food retail space will be paid for, from long-dated institutional leases to risk-sharing, turnover-based arrangements.

I don't see retail property values hitting their floor until these trends have largely played out. Firstly, we will need the vaccine to be extensively rolled out through the population, and continued expansion of testing, track & trace, so that we can get back to whatever "normal" footfall and consumer spending might look like. Secondly, we will need to feel like the wave of retailer collapses has washed through, and the changes to how space is paid for have similarly progressed, such that investors can properly appraise and underwrite the cashflows that retail

assets will produce. The second point is linked to the first, as the lack of sales and higher costs drives distress in retailers. Finally, some space will need to be reimagined and repurposed, and the alternative use value will in those cases be the floor.

In terms of the difficult question around how long this will take, I think that the tiered restrictions are going to be with us for some months to come, there are reasonable prospects of the summer being when the vaccine has been rolled out and the level of retailer insolvencies are reducing. I think it will take longer for leases to be restructured, but there might be enough information by the end of December 2021 to see where we might end up. That feels like the earliest stage where we might hit the bottom, and if we have a nasty recession then it could well push into 2022.

**Eri Mitsostergiou, director of European research at Savills**



Retail has been hit hard by the health crisis. Retailer turnovers have come under immense pressure due to lockdowns and strict hygiene protocols. The consumer experience has been restricted and the shift towards online shopping has accelerated. Post-COVID-19, e-commerce will increase significantly across Europe (from 12% in 2019 to over 16% in 2020), albeit stabilising at lower levels than the ones observed during the lockdown periods. Vacancies will rise, due to retailer failures and rents will be under downward pressure.

Conversely, the pandemic has also enabled certain sections of the retail industry to make a comeback. Retail parks, well located supermarkets

and convenience stores have thrived where families across the continent have depended on a local and reliable supply of groceries. As a result, they are fast becoming the ‘darling assets’ topping investor shopping lists.

Prior to the onset of COVID-19 investors had shifted their portfolio allocation away from retail. Funding a retail strategy requires significant repricing, as well as clarity in terms of security of income and performance.

Average prime European shopping centre rents peaked in 2018 and they have been falling over the past two years by -3% pa. Post GFC, during the previous cycle downturn, rents had dropped by 8% over two years. This cycle is different as the e-commerce penetration is causing bigger disruption to retail activity and as a result may cause further rental adjustments. Currently average prime rents are still 7% above their long term average.

We believe that 2021 will finally be the year when rental levels and pricing expectations start to reach a point where it could begin to look interesting for buyers, whether for the current use or alternative concepts.

