SPOTLIGHT
Savills Research

Garden Centre Spotlight 2023

Post-covid behaviour • Operational trends • Investment trends • ESG & Sustainability

Report Headlines

There are around 2,300 garden centres in the UK, sharing a retail spend of around £5bn per annum. With growth forecast to continue into the latter half of the decade, the market continues to demonstrate long term resilience despite current economic headwinds.

KEY POINTS:

- The sector has proven remarkably resilient compared to the rest of the retail sector despite a number of continuing headwinds.
- Consumer spend on gardening goods exceeds levels recorded pre-pandemic and there remain opportunities to expand the offer to new demographic groups.
- Occupational and non-fixed operational costs have impacted on margins in the short term, with cost inflation expected to reduce in 2024.
- Diversifying income beyond core products via concessions has proven to increase dwell, footfall and revenue; cafés can account for 20% of turnover.
- The sector has become increasingly attractive to investors thanks to a rise in sale and leaseback transactions, with investors benefitting from long lease terms, favourable yields and sustainable rents.
- ESG and sustainability are having a major influence on business strategies, guided by consumer, investor and legislative sentiment.

Garden Centre Customers

The increasing demand and appreciation for outdoor space and indoor plants exacerbated during the pandemic has benefited various consumer sectors in 2022-2023, with particular focus on the garden centre market. Over the past three years demand in gardening and plants has ballooned at an exceptional rate and by 2025 is expected to reach £5 billion (UK). The garden centre industry continues to evolve to provide a retail and leisure destination that supports this multi-million pound market. Although Covid has provided further stimulus, this trend actually pre-dates the pandemic.

The current consumer experience offered by this market far exceeds conventional ideas of garden centres solely stocking plants, as schemes provide for a range of goods and experiences including cafés and restaurants, garden furniture, farm shops, pet supplies, aquatics, children's soft play and retail concessions. This diverse offering attracts consumers from a broad demographic spectrum, catering for those seeking a family day out to those visiting to make a one-off purchase.

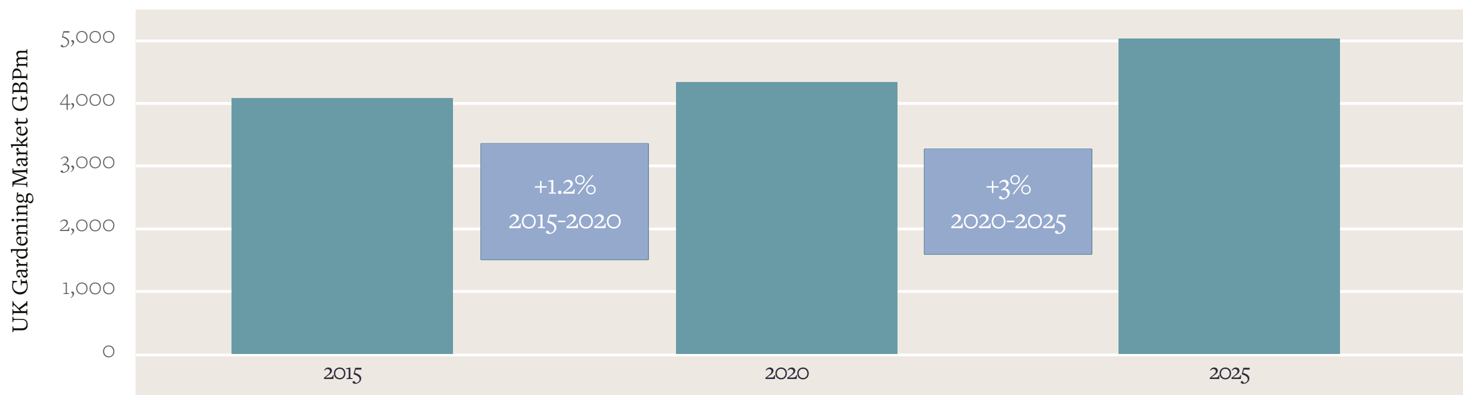
Total UK garden related spend has grown since 2021 at an average rate of 22%. The highest area of affluence tends to be within London and the Home Counties, however garden centre spend is more variable and regional differences in growth and strength of spend demonstrate geographic fluctuations across the UK, with all regions except the East Midlands increasing their total gardening related spend.

The overall strength of the market across the UK is evident from the uplift in total consumer gardening spend despite the current economic climate, such as inflationary pressures and the cost-of-living squeeze on disposable income.

TOTAL UK GARDEN RELATED SPEND +22% SINCE 2021

Figure 1: Growth in gardening market 2015-2025

Source: GlobalData

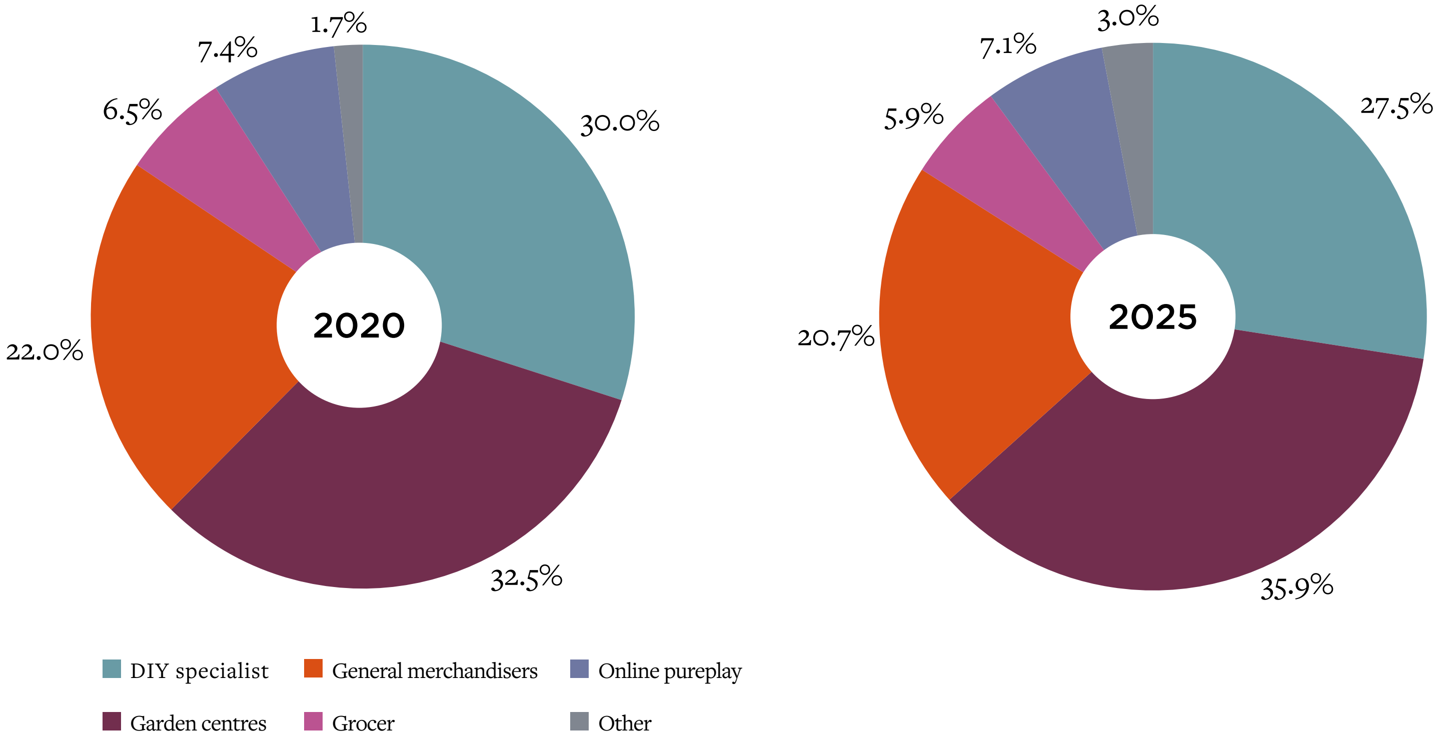


Customer evolution

The increasing demand for gardening-based goods from urban locations that tend to have a smaller supply of outdoor space reflects wider macrocosmic trends in which a more diverse range of demographic groups are entering the market as consumers. This can be attributed to the increasing emphasis on the benefits of green space, the rise of agile working and individuals spending more time at home, in addition to the influence of social channels where millennials have contributed to houseplant sales due to their popularisation on Instagram and Pinterest. The Garden Centre Association (GCA) outline that turnover of houseplant sales has grown by 21% since 2020, with other increases in categories such as furniture and BBQ (+54%) and outdoor plants (+27%) as consumers make home and garden improvements.

The garden centre market is biased to affluent and tourist markets. However, increasingly garden centre operators are seeking to diversify to meet this influx in demand through the launch of urbanised garden centre concepts, such as Little Dobbies in late 2020 which focuses on houseplants. This highlights an opportunity that is really just the tip of the iceberg; that consumers in urban locations often have limited access to garden products outside of DIY and Supermarket stores due to the out-of-town site requirements for larger format garden centres; and there is a whole tranche of diverse demographic groups in the UK whose needs are not currently being met.

Figure 2: UK gardening market by channel, 2020 and 2025
Source: GlobalData



Shopper fulfilment

Larger garden centres in more rural locations drive footfall through other methods, as they provide a blended omni-channel experience through functionalities like click-and-collect to supplement their online business, in addition to the provision of a hybrid retail-leisure experience through their growing offering. The gardening sector is unique in that the continued growth of the online market proposes a weaker threat to the sector compared to other retailer sub-sectors, as 82% of gardening shoppers purchased goods from stores in 2021 (GlobalData). Consumers favour in-store purchases as shoppers seek experiential visits, instant fulfilment and the cost/challenges of home delivery of fragile goods. Big ticket items such as furniture typically dominate the online spend, but even for these purchases an initial visit to a centre is preferred to assess the range of products in-person.

Both click-and-collect and home delivery methods appeal to a range of demographic groups, as 95% of gardening shoppers aged over 65 have used home delivery as a fulfilment method, compared to only 74% of 16 to 24 year olds (Global Data, 2021). By contrast, click-and-collect is more commonly used by younger generations, as over two-thirds of gardening shoppers aged 16-24 have collected an item in-store, whereas less than 10% of gardening shoppers aged over 65 have used this method. These trends demonstrate the variety of consumer groups engaging with the omni-channel experience provided by garden centres, which are often supplemented by an in-store visit to either assess products before ordering online or collecting pre-ordered items from stores.

Operational trends

Occupational costs

Given the way that garden centres are valued, turnover is one of the key factors in determining the financial success of a scheme and its subsequent appeal to investors. Analysis of turnover per sqft of Gross Internal Area of garden centres therefore provides a comparative measure to demonstrate variances in the levels achieved.

Savills analysis shows that garden centres typically trade at an average sales density of £100 per sqft within an average sales area of c.50,000 sqft, with smaller schemes tending to have a higher sales efficiency as space is optimised. These smaller schemes however lack the critical mass of larger centres (70,000 sqft +) that tend to trade at higher levels and dominate their catchments.

In 2020 (the pandemic affected year), turnover per sqft fell on average to 86% of 2019 levels. There was a dramatic recovery in 2021 to 107% of 2019 levels, and a further nominal increase in 2022 to 113% of 2019 levels - mitigated essentially by inflation. Current year's trading has been impacted by poor weather and the economic climate but nonetheless the long term forecasts puts the market ahead of growth expectations that would have been anticipated pre-pandemic.

Occupational cost pressures of wages, business rates, energy consumption and rising product costs are likely to further squeeze both gross and net margins over the coming year. Business rates in particular have significant potential to influence profitability as for freehold ownership structures business rates are likely to be the largest outgoing for the operator after wages.

As of April 2023, new rateable values were introduced and approximately 52% of properties listed under the garden centre category have seen a reduction or no change in their rateable value. The biggest increases are impacting some of the largest garden centre groups, although nuances exist in all portfolios; the maximum reduction is -196%, and the maximum increase is +68%. Primarily the Capitals for Valuation Office approach the valuations using rental evidence, but often the only evidence available is historic, set with fixed increases or is calculated during a sale and leaseback process between connected parties. The secondary method the Capitals for Valuation Office use is based on a percentage of gross turnover, exemplifying how the evidence collected can easily distort the impression of trade for any given centre.

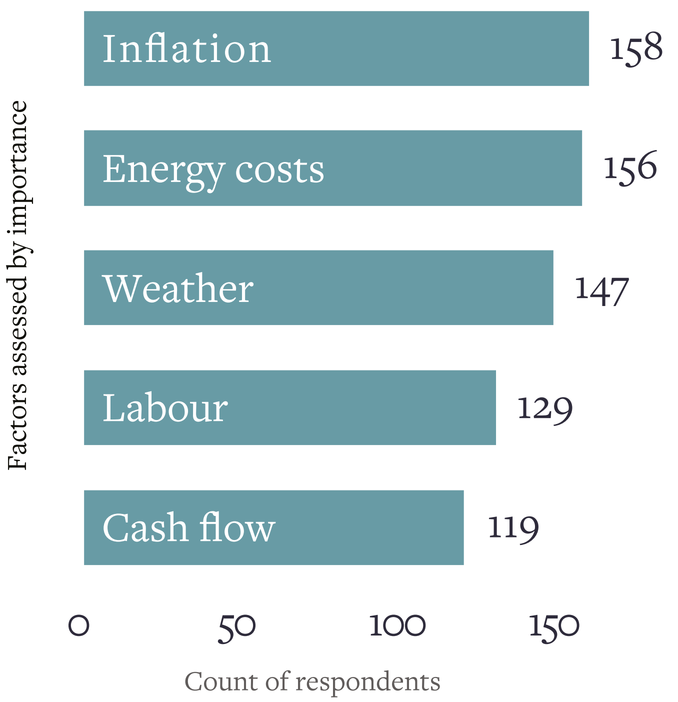
+68%

Max rateable value increase +68% in April 2023

52%

52% of properties listed under the garden centre category have seen a reduction or no change in their rateable value

Figure 3: Biggest influences for the garden industry prospect in 2023
Source: Horticulture Weekly



Business costings

As with many other sectors, the cost of living and cost of operation crises are both having a tangible impact on margins in the short term. Core factors driving the garden industry prospects as reported within Horticulture Weekly's 2022 survey include inflation, energy costs, weather, labour and cash flow (Figure 3), based on a survey in which operators were asked to rank which factors they deemed most important for 2023.

For wages, during Q4 2022 average pay rose +6.7%; the strongest growth rate outside of the COVID-19 pandemic. However, average pay fell by -2.5% when adjusted with inflation (ONS). This demonstrates the squeeze on margins imposed by rising costs of labour, as wages typically consume between 20-30% of garden centre operators' turnover (Savills).

Inflation has imposed other threats to the sector outside of staffing costs, with average retail inflation across gardening products increasing by 6% in the twelve months to September 2022 (HTA).

Operational cost increases provide a particular challenge to retail and trade goods because this comes at a time when many consumers are attempting to tighten their discretionary spend in-line with their own cost of living pressures. The rising cost of products may be contributing to the 5% reduction in Average Transaction Values (ATVs) in garden stores since 2021 which currently sits at £22.21 (excluding catering/concession spend). The dilemma for operators is whether to pass on extra costs to consumers, or absorb them and reduce margins; a consideration that is simpler in locations weighted to a more affluent consumer, or those with a strong weighting to tourist spend.

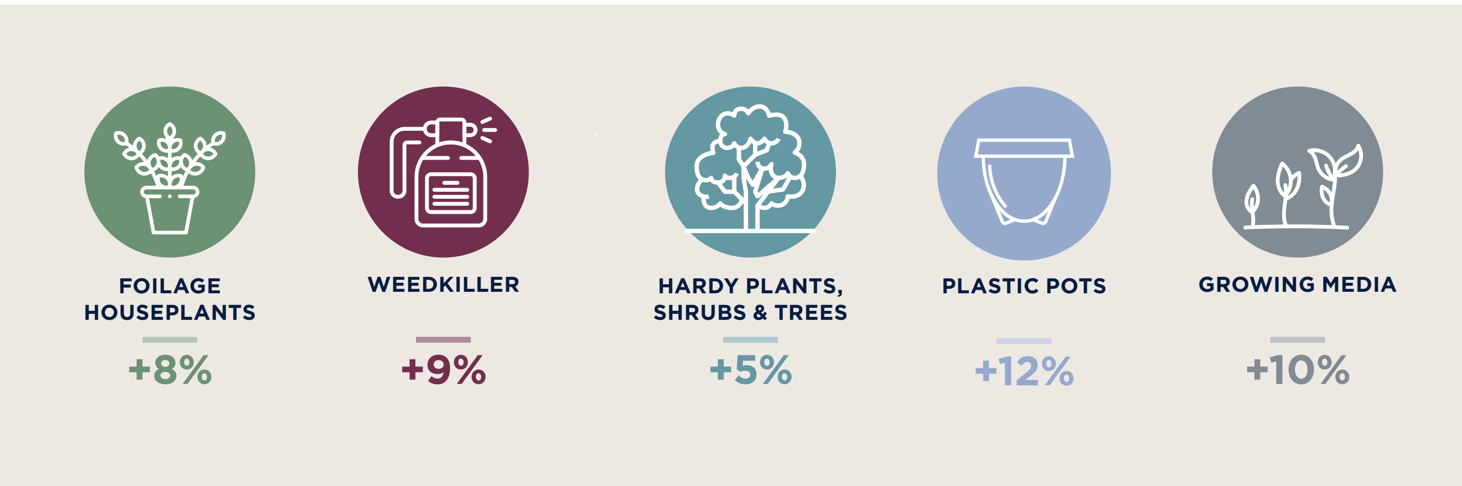
> **"Wages typically consume between 20-30% of garden centre operators' turnover"**
>
> (Savills)

Key differences in operations

SELLING OWN GOODS	VS	CONCESSION RENTS

Turnover averages **£100 per sq. ft.**	Concession Rents between **£10 to £30 per sq. ft**	Turnover to Profit Margin **up to 25%**	Wages usually between **20-30% of turnover**

Figure 4: Retail inflation on garden products (September 2022 YoY)
Source: Horticulture Weekly



> Cafés are the number one concession that an operator would add in given the opportunity, and can account for as much as 20% of turnover

Diversified income

Garden centre operators continue to increase their revenues by diversifying income streams away from traditional garden centre products. This has naturally led the biggest operators to align with other brands through the letting of concession space. It is no coincidence that some of the largest stores and groups nationally also possess the largest number of these concessions, as these are the centres with the most diverse income streams. One major operator possesses a total concession count nearly three times that of its store portfolio. The benefits concessions provide include increased footfall, a wider customer base, increased revenue streams and more diversified income, and turnover resilience during periods of economic uncertainty.

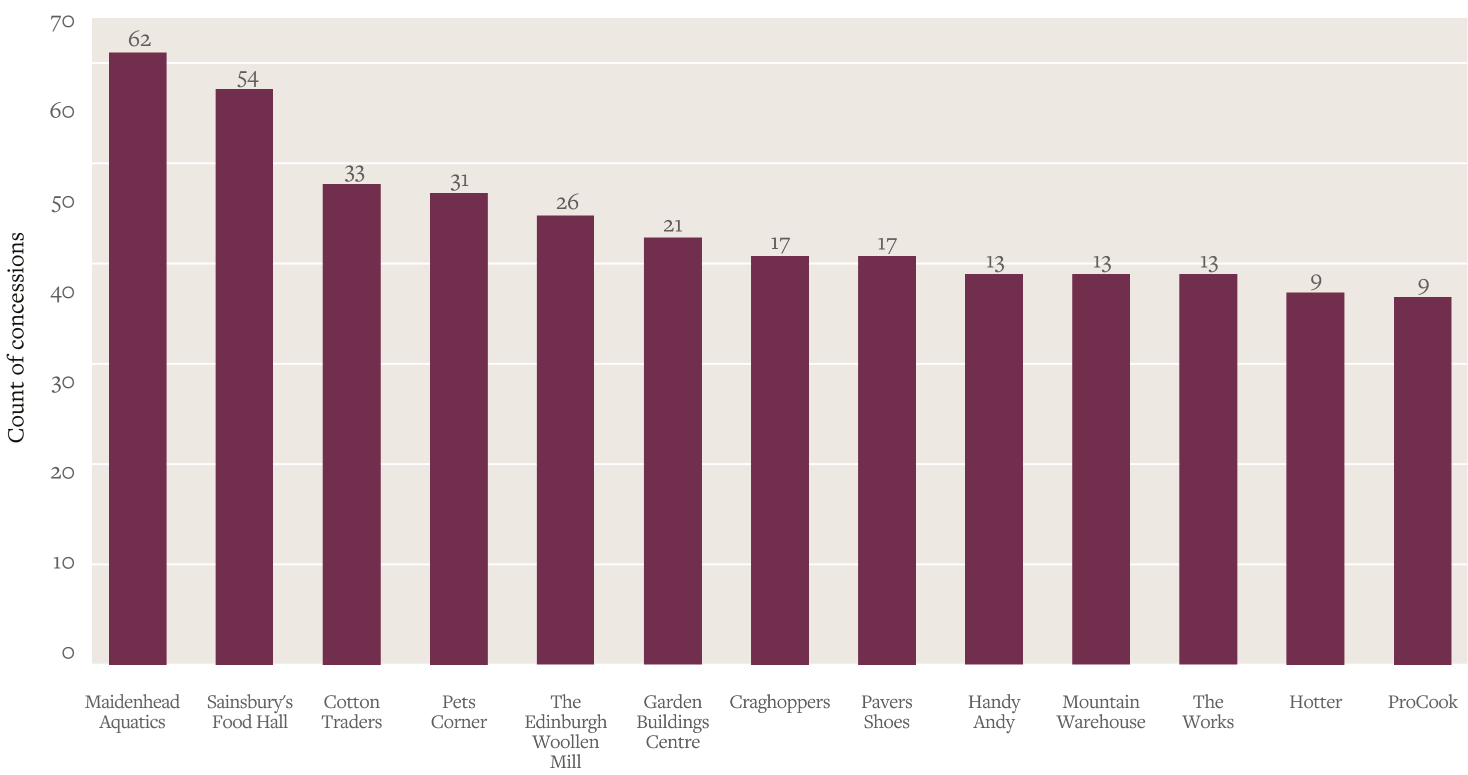
Savills analysed the top concessions across the c.300 centres operated by the top 10 garden centre UK operators, of which there were 440 total concessions provided by 88 brands. The most prevalent concessions present within these centres are outlined in Figure 5, with the most dominant concession being *Maidenhead Aquatics*, closely followed by *Sainsbury's Food Hall*. Maidenhead Aquatics are interesting since not only do they have presence as a concession in 62 garden centres, but in recent years have begun acquiring schemes of their own.

The concessions in 2023 are broadly in line with those operating in 2021, with the exception of *Laithwaites* whose presence has declined. Waitrose are likely to enter the top concessions list in 2024 due to Dobbies looking to extend its aspirational offering with a new partnership that will also bring Waitrose to 20 new towns and cities not previously accessible to their core customer. The fluctuation and new arrivals of major brand concessions demonstrates both the importance of concessions and how garden centre operators are continuing to work on store optimisation.

Cafés are usually operated inhouse rather than via concessions and can account for up to 20% of total revenue if sizeable and run well. For those operators we speak to that do not currently have a café, or where it is currently run as a concession, it is the number one element they would add, or take back in hand given the opportunity.

Concessions within the top centres are expected to further increase and diversify in future years, as retailers recognise the benefits from attracting a more aspirational customer base. This also emphasises the notion of garden centres as a retail destination and experiential consumer journey.

Figure 5: Top concessions within the top 10 garden centre operators 2023
Source: Savills/LDC



Strategic partnerships

Other kinds of strategic partnerships are a growing trend through the addition of alternative property uses that are outside of the garden centre itself, but sited adjacent to it. There are often opportunities to diversify a portfolio and utilise surplus land.

Examples include veterinary practices, children's day nurseries and medical centres, which can benefit garden centre trade through supplementary footfall during off peak periods, but are also likely to be closed during peak periods when there is more pressure on parking spaces. Extended dwell time can benefit café operations and enhance other site sales.

Alternative uses can also benefit from longer than average leases (compared to retail concessions) and thus provide secure long term, often index linked income. Site requirements are more modest than residential development.

For example, vet practices are becoming particularly prevalent and are being sought, or have been installed by operators across the country. We are aware of a number of applications nationwide that have been submitted for further collaborations.

Garden centre operators have begun to acknowledge the likely overlap between garden centre customers and pet owners, due to pet ranges offered within garden centres and the correlation between access to a garden at home and pet ownership. With 62% of UK households owning a pet according to the PFMA, the development of veterinary practices within garden centre developments has the potential to appeal to a wider demographic spectrum than core garden centre customers, providing further conversion opportunities.

Children's day nurseries and medical centres have similar growth prospects given that many garden centres are located on strategic and convenient locations on major highways, close to residential populations. Grace's Day Nursery in Sidcup sited at Ruxley Manor Garden Centre uses the connection to promote sustainability, forest school and environmental education. We are currently discussing a number of requirements for developing co-locations of space.

CHILDREN'S DAY NURSERIES

GENERALLY 0.3-0.5 ACRES

TO PROVIDE 5,000 SQ FT OF ACCOMMODATION WITH EXTERNAL AREAS

20-25 YEAR LEASE TERMS ON RPI OR CPI LINKED RR

RENTS GENERALLY BETWEEN £15 AND £22 PER SQ FT OUTSIDE OF THE M25

Land holdings

Given typically large and well located roadside sites, with low site coverage (less than 14%), some garden centres could offer long-term development prospects, which could provide attractive future returns for investors.

We have been tracking a number of sites with active redevelopment plans from former garden centre sites into housing, reflecting significant uplift in development site values. Recent examples include Epworth Garden Centre near Yorkshire, in which plans for 67 new homes, a health centre, charity store, supermarket, retail units and new garden centre have been submitted, with 20 of the homes being retirement apartments. It is clear residential developments will continue to provide a key area of growth in the sector.

Additionally, commercial development can be undertaken where residential is not viable or planning is restricted. A mixed use extension plan to Azure Garden Centre in Northumberland was granted in December 2022, consisting of the demolition of existing buildings, an extension to the garden centre and warehouse, and the provision of a charity head office, training facility and business centre.

Garden centres, dependent on their nature, scale and range of products may fall under an E Use Class or a sui generis use. The original planning permission for the garden centre may also have conditions which control the use restricting future development opportunities. Whilst there may be permitted development opportunities available through the widening of Class E, this would need to be clarified with a thorough review of the planning history and it is always recommended that advice is sought prior to exercising potential permitted development rights.

Investment trends

Recent and current activity

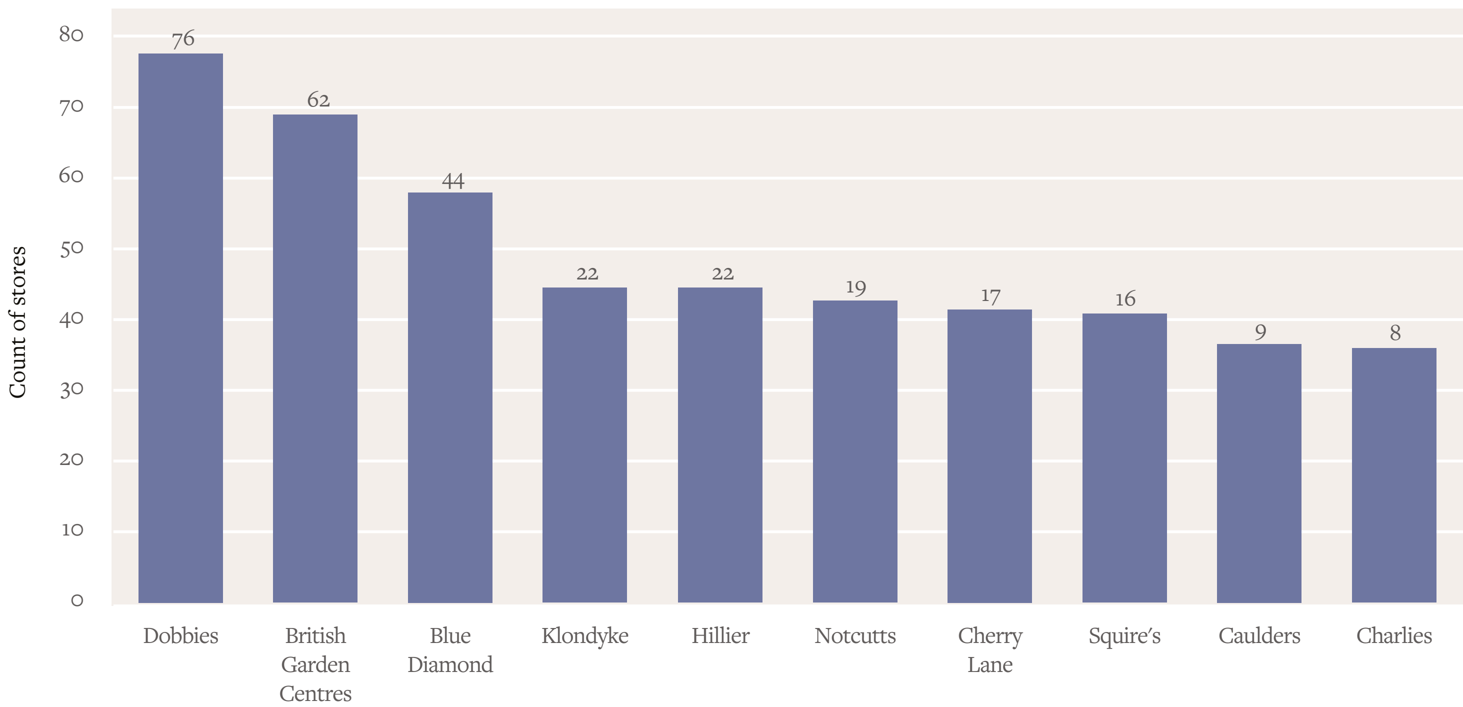
In 2023, there are 2,300 garden centres in the UK. Dobbies are the UKs largest chain with almost 80 sites, followed by British Garden Centres with over 60.

The most notable sales in the industry in recent years has been the Wyevale Garden Centres portfolio in 2018/19, consisting of 145 garden centres that were sold in 57 separate transactions for a reported £430 million. Over 90% of the portfolio continues to trade as garden centres, having been sold to large operators such as British Garden Centres, Blue Diamond, Hillier and Dobbies.

Since the Wyevale sale completed there have been few notable transactions in the market place, sales have tended to be off market deals and the market slowed in 2020 due to Covid-19. More recently we're seeing return in activity with a desire for expansion in the market place. Interest typically lies with stock that has not yet been updated and operators seeking to add value through improvement. This demand is extending its reach to smaller schemes.

Interest in new build developments is also increasing despite the difficulty of obtaining planning permission, with two new sites by Blue Diamond at Scotch Corner and Elveden due to open this year. The development at Scotch Corner forms part of a new retail and leisure destination where the garden centre will be situated alongside the Scotch Corner Designer Village, forming part of the £90 million investment. This shows the potential for new development alongside other major schemes.

Figure 6: Top 10 UK operators by sites
Source: Savills



*site numbers as of Q2 2023

Sale & leaseback structures

The most significant change to the market in the long term is the trend of sale and leaseback activity, with both ground lease and market leases becoming more common. This suits operators as leasehold becomes recognised as a viable alternative to the more established freehold ownership. Leaseholds are seen as a route to grow at a quicker pace, with more capital available for expansion or re-investment as it is not tied up in bricks & mortar.

There is also a clear desire to expand into the market from non-operational investors, looking to add value through improvements on garden centres that have not been updated and to benefit from secure long term income.

Nonetheless, whilst the investment market recognises major brands as good covenant, small second tier groups or independents are likely to be viewed as higher risk and attract higher yields and therefore less equity release. Investors can however take comfort from the strong fundamentals of the sector and the large underlying land asset, with alternative use potential in the event of distress.

Some of the most recent sale and leasebacks (and pre-lets) have been with Dobbies as tenant, across their Reading, and Harlestone Heath stores. The purchasers were LXi Reit and UBS respectively.

Investor sentiment

Several recent investment transactions have been securing prime yields of 5-6%, which puts the market alongside prime UK shopping centres (currently at 7.75%); and demonstrates both resilience and appeal of this sector.

The buyer profile from garden centre transactions in the last 5 years demonstrates both an increased appetite from operators for leasing models as well as the appeal for investors. Private equity and institutional investment in the sector started in earnest around 5 years ago and has ramped up rapidly. It is notable that c.26% of the ex-Wyevale portfolio is now held by private equity owners and 5% are owned by local authorities as a public sector investment asset. A further 9% have been closed pending development opportunities.

In terms of the buyer profile, recent activity includes Orchard Street, Blackrock, LaSalle and LXI Reit all investing. This is a clear indicator of the attractiveness of the sector, in which sales of garden centres are less widely available than sales in other investment areas.

There remains significant potential for further investment in what has proven a resilient market despite operational and consumer headwinds. Operators continue to expand via acquisition and where planning consent can be achieved, new development. This brings with it fresh opportunities for investors via sale and leaseback and pre-lets. With the top 10 brands accounting for only 8% of the national garden centre market there is significant potential for further consolidation via mergers and acquisitions of independents.

There are a number of factors that make this an attractive investment opportunity:

- Favourable yield profile (5-6%)
- A growing market YoY
- Strong demand for site requirements, which are sparse and hard to develop (due to planning requirements for larger plot sizes compared to more traditional investment opportunities)
- Growing consumer spend (sector shares similarities with OOT retail which has lowest ever vacancy rates, benefit of free parking)
- Opportunity to develop on excess land of large development sites
- Leasehold structures offer long-term security as tend to be 25-35 years, often with index linked base rents
- Sustainable rents as a result of the sale and leaseback process
- Flight for quality and reinvestment is seeing prime sites increase their dominance

“Prime yields of 5-6%, which puts the market alongside prime UK shopping centres”

Figure 7: Wyevale portfolio – freehold owners
Source: Savills

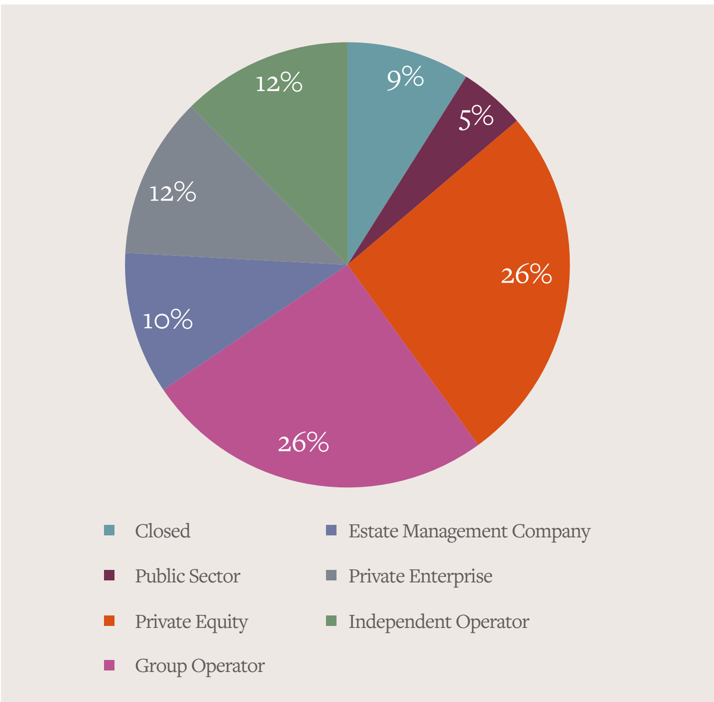
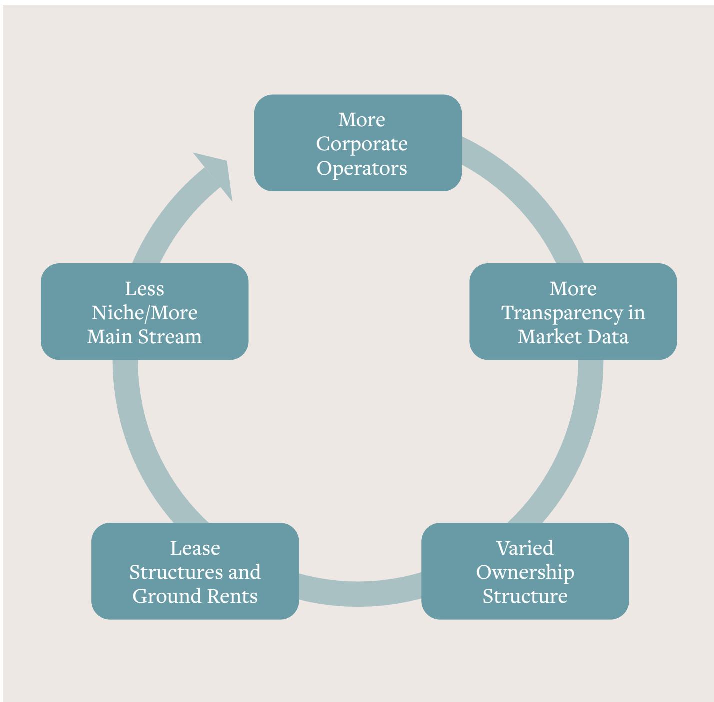


Figure 8: Market development



ESG & Sustainability

As with all property sectors, reducing environmental impact is an increasingly pressing priority for garden centre operators and investors, with pressures coming from several quarters:

Government targets

With net-zero targets ranging from 2030 to 2050, but with little guidance as how to get there strategies for reduced carbon impact are often being led by the private sector. Legislation and government targets are not currently aligned. MEES regulations came into force in April 2023 with a trajectory to get all commercial property to Energy Performance Certificates (EPCs) grade B by 2030. However, there are currently several ways in which properties can become exempt from meeting the regulations as well as issues around viability and practicality; both of which could be argued a significant challenge for an industry biased towards large build plots, aged stock and poorly insulated buildings. Waste and plastic taxes are yet to have a significant impact on business costs, but while they (and EPCs) are a blunt instrument they do show the trajectory for where the market is heading.

Investor sentiment

ESG is in common parlance for most large UK businesses, particularly those with public listings, but has not yet been adopted across the board. The largest garden centre operators will all have ESG/sustainability strategies that will be scrutinised by investors, but many small businesses are still to work out what ESG or net-zero means for them.

However, sustainability and social practices are becoming a key priority for those seeking funding or accreditation, with lender's criteria increasingly looking to support businesses operating with both ESG principals and net-zero targets. Not doing so would impact an investor or lender's own ESG standing.

Consumer consciousness

Consumers are becoming more environmentally conscious and whether or not they live by these beliefs, or will pay a premium for it, their purchase behaviour is likely to punish businesses that fail to demonstrate a proactive and positive approach to the climate agenda. For such an energy, transport and chemically intensive industry it is essential that operators take what steps they can to demonstrate an intent to reduce their impact and avoid green washing.

Operational benefits

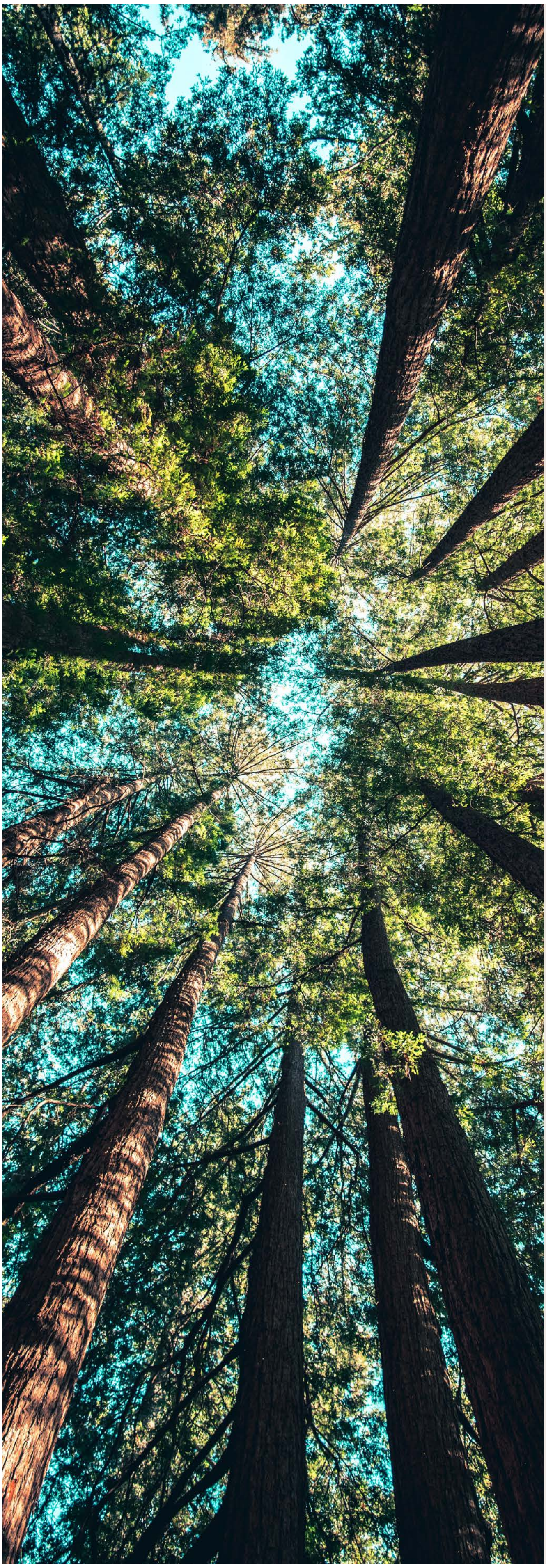
Sustainability has moved away from being a solely ideological goal, but one that can help futureproof a business and in particular reduce occupational overheads, which given current cost inflation is an important driver. With energy costs sky high, reducing usage as well as an opportunity for energy production is becoming a rapidly compelling proposition. The land holdings of garden centres means there is opportunity for installation of a variety of solutions (e.g. solar/wind/biomass/EV charging).Product sourcing and management is more challenging, particularly maintaining quality during time of adverse weather conditions where temperature or hydration could severely affect stock.

A joined up approach

Sustainability has been growing in popularity within the sector at a steady rate with an upward trend in industry wide collaboration efforts. Horticultural Trades Association (HTA) provides guidance for members to increase the commercial, environmental and social value their business delivers. In 2021 HTA produced a baseline of tCO2e/£millions of business turnover for retailer members to benchmark progress against their goal of a 20% net reduction in members' aggregate scope 1 and scope 2 CO_2 emissions by 2025. There are so many strands to climate and environmental impact mitigation that it can be a challenge to know where to start, or best focus resources. It is important that operators and investors curate a carefully and realistically thought-through climate strategy.

Figure 9: HTA sustainability roadmap charter

Source: HTA



ESG strategies for garden centres

Environmental

- **Energy and Carbon** – Heavily energy intensive operations that require decarbonising. However, a significant proportion of emissions are Scope 3 and subject to supply chains and manufacturing processes outside of direct operator control, but nonetheless require action.
- **Water** – HTA members have committed to a 40% increase in the proportion of water that comes from non-mains and re-used sources such as rainwater or runoff capture among growers and retailers as well as providing case studies of how operators can look to develop water resilience.
- **Biodiversity** – The cross-industry growing media task force have committed to a voluntary removal of peat from horticulture between 2025 and 2028 in retail and 2028 and 2030 for professional growers. The use of chemicals and fertilisers is another key issues to overcome in supporting biodiversity and impact on wildlife.
- **Circular Economy** – The estimated combined weight of plastic plant pots/containers, growing bags and gardening chemical bottles is around 30,000 tonnes a year. Whilst moving away from plastics is the ideal option, this would result in heavier products increasing the CO2 emissions of transportation.

Social & Governance

- **Community Engagement** – Over 1.5 million children in 90% of the UK's primary schools are involved in some form of school gardening *C3 Education for HTA* (2018). Community projects are both an important tick in the box for enhancing social responsibility, but also for increasing customer reach.
- **Wellbeing** – Across the property industry there is a growing uptake of wellbeing certifications such as WELL and Fitwell, which emphasise the benefits of greenery to wellbeing. These are key opportunities for the industry to help develop meaningful greening, especially in offices and urban areas.
- **Employability** – Ecologists and horticulturalists are essential for climate change adaption and mitigation in terms of resilience. Biodiversity Net Gain legislation will lead to an increased need in qualified ecologists and meaningful gardening (native species, biodiversity focus over aesthetics) on relatively large scale. With growing interest from the COVID pandemic in gardening, there is opportunity here for more entry level and educational roles (such as apprenticeships) to grow the number of professionals in the industry.

Savills Commercial Research
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