Savills Commercial Research
Retail 2017
savills.co.uk/research

SPOT LIGHT

Retail Revolutions

The Growth of the Value Sector in the Out of Town Retail Market

savills

INTRODUCTION

The Growth of the Value Sector in the Out of Town Retail Market

The number of out-of-town (OOT) retail schemes containing Value orientated retailers has grown considerably in recent years following on from the foothold they gained during the Global Financial Crisis (GFC). As recent economic pressures begin to take hold this growth shows little sign of slowing down. Landlords recognise that such retailers generate high footfall and many are finding space for them as they offer an increasingly diverse tenant mix to their retail schemes.

Alongside the more traditional OOT bulky home improvement focus, landlords are increasingly looking to bring in key fashion and comparison brands and grocery retailing, as a result not only appealing to the 'home owner' but attracting consumers that may not have previously ventured on to a retail park for those kind of goods.

Value retailers have become a key part of that process and recognise the personal commercial advantage it presents to them; using one such retailer as an anchor or key tenant can draw a broad target audience to a retail scheme that also contains mass market and more aspirational retail brands. This provides consumers with a choice across a broad retail pitch and gives the Value orientated retailers access to a large and varied demographic.

Figure 3 highlights the growth of the Value retail market from a national context. This report focusses on the significance that the OOT retail sector has had in shaping and stimulating this growth. The expansion of the Value sector has been steady for both the in-town/high street and OOT retail sectors since 2011. The stand out growth in the market however has clearly been in the OOT sector, which since 2014 has grown by 106%, from c.5,000 to over 10,000 retail units nationally.

Growth by Sector

All sectors have seen strong growth in their Value retailer portfolio's and subsequent out-of-town scheme representation

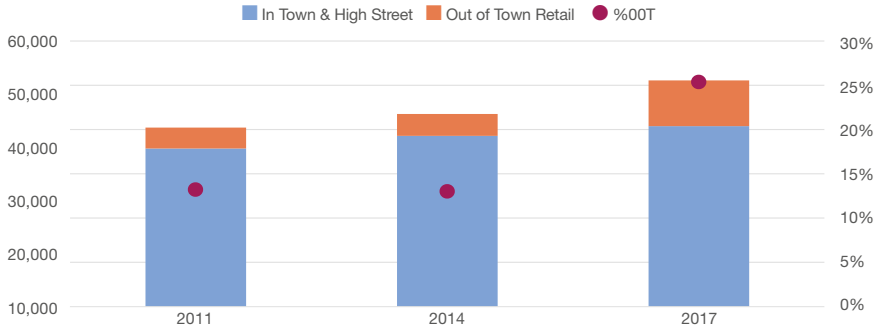
In the Value grocery market there are currently 423 OOT schemes containing an Aldi, Lidl, Iceland or Farmfoods, up 78% on 2011, when just 238 contained one such grocer (Figures 1 & 3). Strong shopper demand for Value grocery retail has seen landlords and developers welcome the sector into OOT retail parks in recent years, increasingly as anchor tenants.

It is not just grocery that has seen distinct growth in the Value sector. The same can also be said for a number of Value brands in other retail sectors served by the OOT market. Value orientated fashion retailers for example have also steadily increased in stature. The number of schemes open, trading and home to one or more of the UK's major Value fashion retailers (see figures 1 & 2) increased by 7% between 2011 and 2014, the total number of schemes rose from 413 to 443. By 2017 the strength of this growth had increased considerably with a total of 564 schemes, a 37% growth on 2011 figures.

The most substantial growth in retail park occupancy however, is in the OOT Comparison Goods Value market. Only 238 OOT schemes contained one or more Value Comparison Goods operators in 2011 (Figures 1 & 2). These retailers have all sought to greatly expand their portfolios in the last 5/6 years. By 2014 the number of schemes anchored by a Comparison Goods Value retailer had grown 80% to 429. However, it is since 2014 that we have seen an explosion in this form of retailing in the OOT sector. In 2017, 779 schemes are home to one or more of these retailers, equating to a 227% increase on 2011.

The performance of OOT schemes containing a Value grocer, Comparison Goods brand or fashion retailer has also improved since 2011. For schemes containing a Value grocery retailer vacancy rates have fallen from 12% in 2011 to 8% by 2017. The same is true for schemes home to Value fashion or Comparison Goods, decreasing from 7% to 6% and from 9% to 8% respectively. What is clear is the Value retail market has been successful in filling some of the voids that came as a consequence of the recession, as they seek to thrive in the space and an economic climate where other less bargain driven retailers have struggled.

FIGURE 2: Growth in the Value market; in town and high street vs OOT retail



Source: Savills Research, Geolytix

FIGURE 3: Growth of schemes containing:

Source: Savills Research

FIGURE 1: Value retailers used in the analysis by sector

Source: Savills Research, Geolytix

Sectors seek different size schemes

Value retailers adopt contrasting growth strategies across schemes of varying formats

There have been some differences in how each of the Value sectors have grown in terms of their OOT offer. The number of schemes including a Value grocer for example has increased across all sizes of OOT scheme since 2011, but the variation on the proportion of schemes of different sizes over this time period gives some interesting findings.

Value grocery's representation is developing faster in smaller schemes over larger ones. In 2011 there were 43 schemes up to 20,000 sqft in size, containing a Value grocer, rising to 67 in 2014 (a 56% increase) and to 95 by 2017 (a further 42% increase). The proportion of schemes in this size band has therefore risen from 18% of all schemes in 2011 to 22% in both 2014 and 2017 respectively.

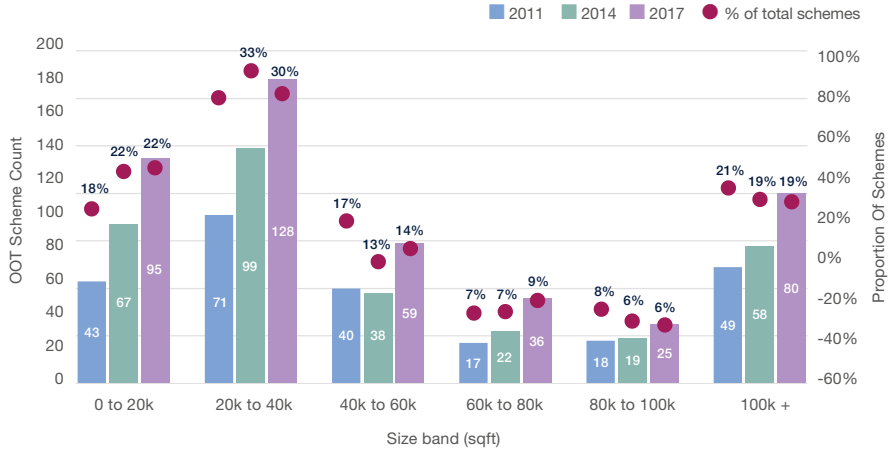
Schemes of 100,000 sqft+ that include a Value grocer have also grown, from 49 to 58 in 2014 and to 80 in 2017. Conversely, however, the proportion of all such schemes this represents has fallen from 21% in 2011 to 19% in 2014 and 2017 respectively. The smaller scheme therefore seems to be the key growth format for Value grocery retailers at the present time. There are 223 schemes anchored by a Value grocer currently under 40,000sqft, accounting for over half.

The pattern of growth over the last five years and subsequent proportion of representation of Value grocers across OOT schemes of all sizes, can be attributed to the brands desire to expand wherever possible. The size profile of schemes containing a Value grocer for 2017 (highlighted in Figure 4) is reflective of the distribution of all OOT schemes in the UK across the same size groupings. Aldi, Lidl, Iceland and Farmfoods have taken space in the OOT market wherever it has become available highlighting a desire to reach a wider demographic group to expand their customer base.

When it comes to Value fashion the story is in fact the opposite (Figure 5).

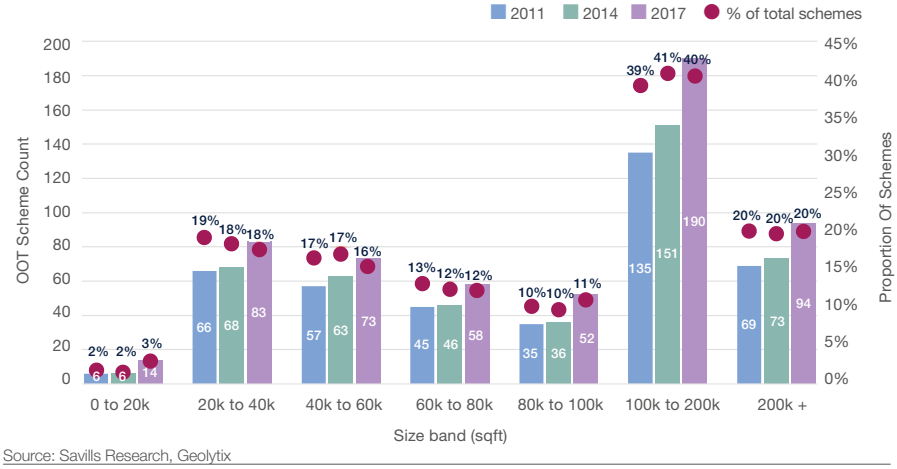
Large schemes attract a large and demographically varied customer base

FIGURE 4: Growth and proportion of OOT schemes containing a Value grocer by size band



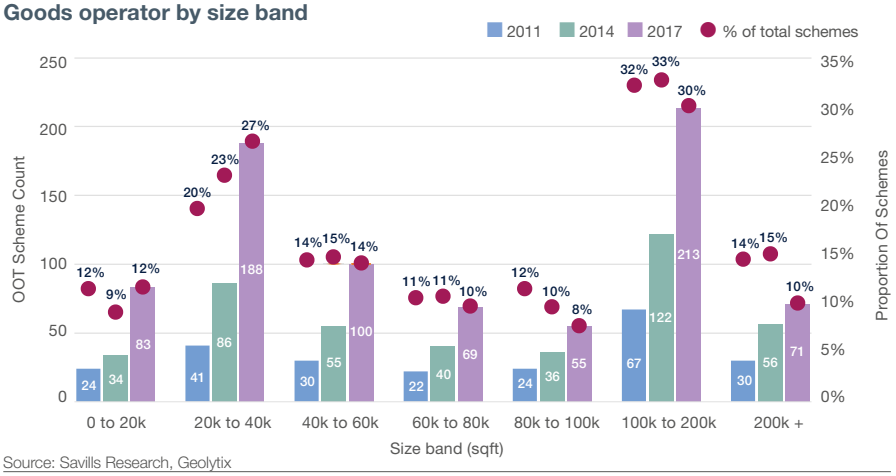
Source: Savills Research, Geolytix

FIGURE 5: Growth and proportion of OOT schemes containing a Value fashion retailer by size band



Source: Savills Research, Geolytix

FIGURE 6: Growth and proportion of OOT schemes containing a Value Comparison Goods operator by size band



Source: Savills Research, Geolytix

These brands have been more selective, continuing to favour much larger OOT schemes. In 2011, 204 schemes with a Value fashion operator were 100,000 sqft or more, equating to 59% of schemes of all sizes. This increases to as much as 284 schemes by 2017, with the proportion of the total schemes rising marginally to 60%. Schemes of 100,000 sqft or more continue to account for the majority of those with a Value fashion retailer. For smaller schemes between 20,000 and 80,000sqft the growth has been more modest and the overall proportion of schemes they represent has begun to decline (from 49% in 2011 to 46% in 2017).

Fashion retailers favour large shopping and retail parks, often choosing to cluster together largely due to the way consumers shop in this market. A shopper, whether looking for a particular fashion item or browsing for inspiration, often favour schemes with brand critical mass, schemes that benefit from a range of brands and varied price point, over visiting many different stores across many different shopper journeys. Larger schemes facilitate the clustering of brands and the Value fashion retailers are no different in their pursuit of a position in that market.

Large schemes attract a large and demographically varied customer base which is particularly important to Value fashion brands. Having evolved from the perception their products were the exclusive pursuit of the lower affluence households, these brands are now considered to have a Value orientated price point but with a Mass market appeal. Prudent consumers with a stronger spending power are able to indulge in more Aspirational and Premium based retailing the more money they save in the everyday essential retail purchases value fashion brands offer.

Value Comparison Goods retailing has seen a more polarised nature of growth in terms of the size of retail schemes in which brands have chosen to locate. The number of small schemes, between 20,000 and 40,000 sqft, has grown considerably from 41 in 2011 to 188 by 2017. This is the largest overall growth at 359% across the size bands analysed in Figure 6, resulting in the proportion of schemes this represents increasing from 20% to 27%. However it is the 100,000 to 200,000 sqft category that has the greatest slice of the market, accounting for almost a third of all schemes, growing from 67 in 2011 to 213 by 2017 (an increase of 218%).

The considerable growth in Value Comparison Goods, which includes retailers such as B&M, Home Bargains, Poundland and Poundworld, is unsurprising if we actually think of these retailers as operating within the Convenience Goods sphere, as opposed to traditional Comparison Goods. Products in this market are typically characterised as affordable, useable and disposable. This means these retailers need to be where the customers are located the most, in locations most convenient to the shopper. They tend not to be destination retailers in their own right, so locating on a small park next to a grocery anchor, or on a large scheme amongst a wealth of other retailers ensures they are capturing a significant share of consumer expenditure. Many of these retailers successfully stepped into the void left by Woolworths, taking a number of the units that came available when the retailer closed its doors in 2008.

80%
increase in schemes of 20-40,000 sqft containing a Value grocer between 2011 & 2017

60%
of all schemes containing a Value fashion retailer are 100,000 sqft or more in 2017

57%
of all schemes containing a Value Comparison Goods operator are either between 20-40,000 sqft or 100-200,000 sqft in 2017

Attitude and perception change

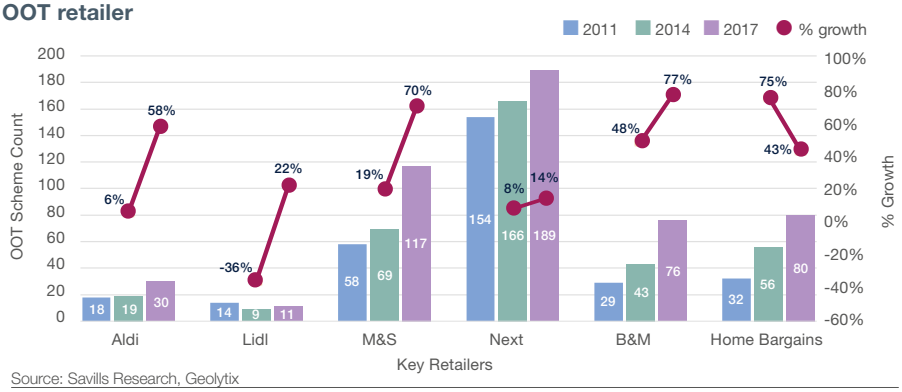
Consumers, adjacent occupiers and landlords all benefit from growth

The evidence suggests an attitude change has accounted for the growth of the OOT Value retail market, not only for the consumer but for other occupiers and for landlords in tenant selection. As Value retailers across all sectors have grown their portfolio's their covenants have become some of the strongest on offer, often taking longer leases than many other traditional OOT retailers, hence the strong appeal from a landlord perspective. Unsurprisingly other types of Value retailer are also increasingly attracted to parks containing one of the Value grocery brands. Home Bargains for example has 76 stores on parks anchored by Aldi, Lidl, Iceland or Farmfoods. Six years ago, that figure was 32.

Crucially however, some more upmarket brands, such as Marks & Spencer and Next, are also increasingly finding themselves located alongside Value grocers. For example, M&S, which currently has 23 stores located adjacent to Value grocery retail brands, had only nine back in 2011. Next's adjacency to Value grocery has grown from 14 schemes in 2011 to 22 currently. This trend is linked to the way Value grocery retailers have sought to appeal to more affluent shoppers.

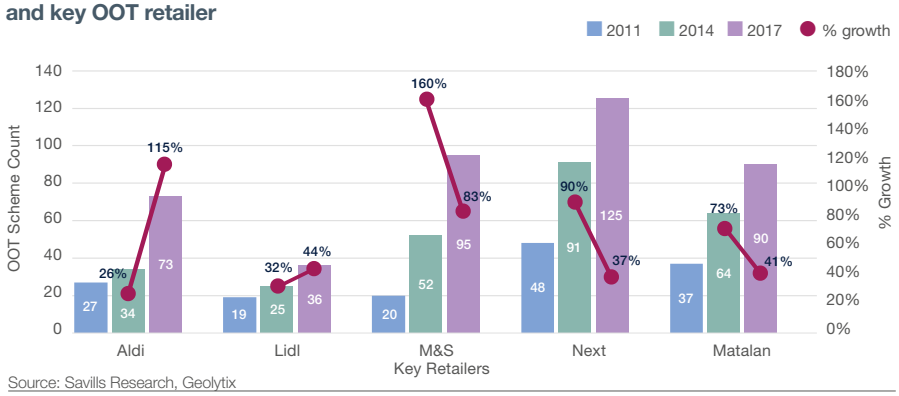
Perceptions of Value retailers have changed among landlords and developers as well as shoppers. This is highlighted by a growing number of non-discount brands, such as M&S and Next, who are increasingly finding themselves sitting alongside them on OOT schemes; brands are far more accepting of these adjacencies than they may have been a decade ago. Value orientated retailers will continue to seek out space on OOT schemes in both the food and non-food sector, fuelling the demand for the OOT development pipeline.

FIGURE 8: Growth of OOT schemes containing a Value fashion retailer and key OOT retailer



Source: Savills Research, Geolytix

FIGURE 9: Growth of OOT schemes containing a Value Comparison Goods operator and key OOT retailer



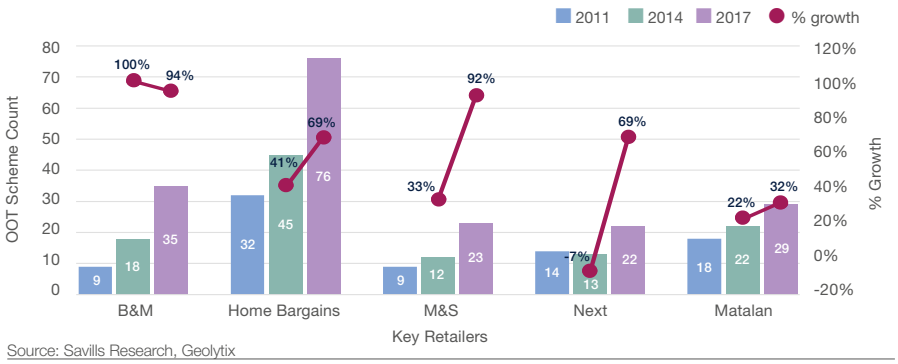
Source: Savills Research, Geolytix

The same is true in the Value Comparison Goods market. In 2011 Marks & Spencer had 20 stores on the same scheme as one or more of the Value Comparison Goods operators analysed. Today this has grown to 95, representing a 375% increase. Next have gone from 48 to 125, representing a 160% increase.

The benefit of Value retailers locating adjacent to such mainstream brands from other sectors is not lost in the Comparison Goods market as retailers look to gain access to a customer base that spans all demographic groups. In the Value fashion market Matalan has increased adjacency to one or more of the Comparison Goods retailers by 143% sharing retail space on 90 schemes, from 37 in 2011. Aldi had 27 stores on schemes with a Value Comparison Goods operator in 2011. It now has 73, an increase of 170%.

Value fashion retailers have not been as prevalent in taking space next to Aldi and Lidl, where portfolio growth has been greatest on smaller schemes below 40,000 sqft. What is more important to Value fashion brands is being located on larger fashion parks, of over 100,000 sqft, next to some of the traditional more aspirational fashion retailers with larger units. M&S has 117 stores alongside one or more of the Value fashion retailers for example, double that of six years ago. Next exposure to Value fashion brands on the other hand has increased from 154 schemes to 189 in the same period.

FIGURE 7: Growth of OOT schemes containing a Value grocer and key OOT retailer



Source: Savills Research, Geolytix

Demographic appeal

A high quality low cost mantra engages an economically mixed consumer base

The Aldi business model is to maintain the highest quality products at the lowest possible price. Their inventory is traditionally sparser than the tens of thousands of items that larger grocery chains and superstores have on hand any day of the week. However what the Value grocery outlet lacks in variety it makes up for in low prices, their success due in part to the low cost of their privately owned, off-brand items, which provides the bulk of what they offer.

Adhering to a high quality low price principle has led to growing footfall and has now allowed the grocer to move into more upmarket product sectors, appealing to a wider demographic and making it an even more attractive option for landlords. In January 2017 Aldi overtook Co-op as the fifth largest supermarket in the UK, according to analysis by Kanter Worldpanel. By August 2017 the grocer held a 7pc share of the market, up from 6.2pc the same time last year, compared to Co-op's 6.3pc. The shift means that only the so-called 'big four' supermarkets (Tesco, Sainsbury's, Asda and Morrisons) hold a greater market share than the Value grocery retailer.

There has been a shift in brand perception by the consumer which has subsequently led to a change in attitude towards these brands from occupiers, landlords and developers alike. The story is not exclusive to Aldi. Lidl have a similar promise with its 'Big on quality, Lidl on price' philosophy. Their growth in the UK grocery market has been just as impressive, now just behind Co-op with 5.2pc of the market, up from 4.5pc in August last year. Value operators from all sectors share the principle that quality essential everyday shopping need not cost the earth. TK Maxx's tagline 'Big Labels, Small Prices', highlights this. Other examples include B&M, 'More Than A Bargain' and Home Bargains 'Top Brands, Bottom Prices'. All these retailers are suggesting they are able to offer quality at a low price, which they equate to a number of practices from bulk buying and economical packaging of products to a more efficient supply chain and transportation methods. Primark even state on their website that one of the ways they pass savings onto their customer is by doing very little advertising.

As the psyche of the UK consumer across all demographic groups has increasingly become one of getting value for money, the value element of retail parks will continue to be prominent; according to Global Data Primark was stated by consumers as the most sought after retailer in 2017 in the OOT market (22.1%). The GFC almost certainly sparked the growth in the OOT Value market, across all sectors. However it is the change in attitude since then that has seen it continue to grow.

Value retailers have begun to locate in more affluent locations than has traditionally been the case, no longer exclusively pursuing less affluent demographic locations to serve their customer base, who have always been drawn by their competitive pricing. This is true for the grocery, fashion and the Comparison Goods market.

Since 2014 Value grocers for example have taken space in a number of affluent market towns including Brentwood, Canterbury, Chichester, Christchurch, Dewsbury, Harrogate, Melton Mowbray, Oxford, Wellingborough, York and Knutsford.

Analysing the surrounding catchments of all such additional out of town schemes containing a Value grocer, representing the growth between 2011 and 2017, as much as 21% of residents belong to the wealthiest 'Affluent Achiever' and 'Rising Prosperity' household categories in CACI's Consumer Demographic Profile. These represent some of the most affluent people living in the UK, many of which can afford to spend freely and frequently or who certainly have a high disposable income.

A further quarter (24%) of new scheme catchments are characterised by 'Comfortable Community' household consumers. These residents contain much of midmarket Britain, comfortably off who although may not be very wealthy, have a good level of income.

Since 2011 therefore, as much as 45% of new space in the Value grocery market has a local customer base that can be described as having a good level of disposable income or better.

Value based retailers have not forgotten their conventional consumer however. The remaining 55% of local residents surrounding the additional schemes in the UK, are characterised by 'Financially Stretched' and 'Urban Adversity' households.

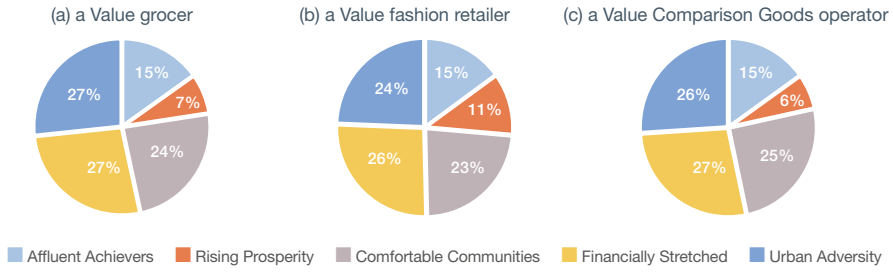
The overriding story is that contrary to the belief Value grocery brands only locate in catchments skewed toward the demographically struggling, the evidence suggests that since 2011 growth has in fact been much more flat and representative of mixed demographic proportions that exist across the UK as a whole.

Value operators will continue to take space as they take advantage of the challenging retail climate where shoppers' budgets are squeezed, particularly as the UK continues to negotiate its position in the E.U and the subsequent strength of the pound.

The impact of slowing real wage growth and rising prices will therefore benefit Value retailers as consumers are forced to curtail discretionary spending. We will not only see a continued interest from the less prosperous consumers but a 'trading down' from some of societies more affluent residents, especially if Value retailers can continue to convince the UK consumer a drop in price does not necessarily mean a drop in quality.

The resultant pattern of Value operators locating in mixed demographic catchments is therefore not exclusive to grocery. Value fashion and Comparison Goods retailing also share similar results as both landlords and the retailers themselves have realised those offering the greatest value for money will drive the strongest footfall to out of town retail schemes.

FIGURE 10: ACORN Consumer Demographic Profile for schemes that since 2011 have taken:



Source: Savills Research, CACI

WHAT DOES THIS MEAN IN THE NEAR FUTURE?

Economic pressures will continue to impact all retail sectors including the OOT market. Inflationary headwinds, the sterling being weak and slowing real wage growth are all likely to impact on consumer confidence and impact the UK retail market throughout 2017 and beyond.

Multi-sector Value retailing will continue to flourish in this climate. Consumers' shrinking budgets will maintain Value operators appeal over the coming years as shoppers increasingly rely on them for frequent, essential fashion, comparison and grocery purchases.

This will only fuel store openings further as demand for accessibility rises, with landlords keen to bring in retailers with a wide demographic appeal to drive footfall and anchor their developments.

Lower rents and the accessibility of large units have ensured that OOT shopping and retail parks remain an attractive choice for Value retailers, particularly in secondary locations and smaller OOT schemes where they can appeal to a wide customer base driving maximum profit from low margin products.

This is particularly true for Value Comparison Goods retailers such as B&M and Home Bargains who have taken up opportunities in schemes, as other more traditional DIY retailers have chosen to downsize, or indeed big box retailers have fallen out of the market. As consumer trust in these retailers has grown they have been able and will continue to take advantage of slowing consumer confidence, expanding further into homewares, DIY and gardening, where traditional retailers in these markets have had to scale back, as they have seen the propensity to move to house fall into decline.

KEY CONTACTS ACROSS THE SAVILLS OTR GROUP

Dominic Rodbourne
Head of Out-of-Town Retail Agency
020 7409 9945
drodbourne@savills.com
LinkedIn

James Gulliford
Joint Head of UK Investment
UK Investment
020 7409 8711
jgulliford@savills.com
LinkedIn

Nick Taylor
Director
Lease Consultancy
020 7409 8734
ntaylor@savills.com
LinkedIn

Tim Price
Director
Planning
020 7409 5919
tprice@savills.com
LinkedIn

Claire Hood
Associate Director
Building & Project Consultancy
020 7877 4572
chood@savills.com
LinkedIn

Matthew Whiteley
Director
Management
0161 277 7232
mwhiteley@savills.com
LinkedIn

Charlie Greenhalgh
Director
Agency
0161 277 7213
cgreenhalgh@savills.com
LinkedIn

Sam Arrowsmith
Associate
Commercial Research
0161 277 7273
sarrowsmith@savills.com
LinkedIn

SAVILLS RETAIL & LEISURE
Savills Retail & Leisure is a multi-national, cross-sector offering covering all facets of a client's retail needs. With our network of offices, and a strong foundation of research and insight, we have unparalleled market knowledge to put landlords, developers and retailers at an advantage. From in-town to out of town, and a comprehensive approach to high street, shopping centres and central London, our team is the most dynamic in the market and offers a truly holistic service to clients.

Our retail team is part of Savills plc, a global real estate services provider listed on the London Stock Exchange. Savills operates from over 700 owned and associate offices, employing more than 30,000 people in over 60 countries throughout the Americas, the UK, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

Savills Commercial Research produces industry and sector reports for all those concerned with commercial property. Our publications and bespoke consultancy services offer practical guidance to create competitive advantage and help clients make well informed real estate decisions and realise business goals. In addition to our thought leadership publications our Retail Research specialists provide consultancy to a wide range of retailer, investor, developer and landlord clients.

Savills.co.uk/research | @savills