

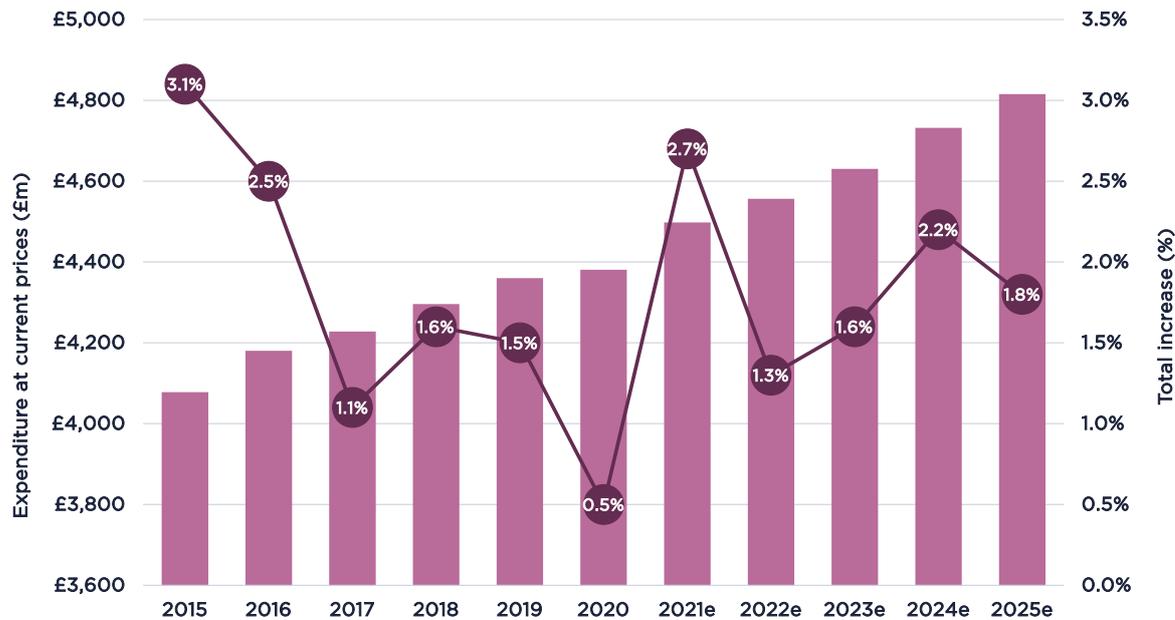
UK Garden Centre Spotlight



UK garden centre expenditure

Growth in expenditure remained positive in the garden centre market, despite the pandemic-related disruption to UK retail; a remarkable performance supported by an appetite to improve both house and garden as consumers spent increasingly more time at home.

Figure 1: gardening expenditure*



*at current prices

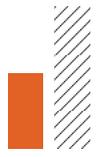
Source: GlobalData

The financial performance of the UK garden centre market has been increasingly positive over the last six years, with total annual expenditure steadily growing by 7% from £4.08bn in 2015 to £4.38bn we see currently. What is particularly pleasing is the resilience the sector has shown in response to the pandemic, when much of the UK’s physical retail space was forced to close for large parts of the last 18 months. Inevitably, 2020 did see a slight reduction in market growth of 1%. Nevertheless, the sector still posted a positive growth of 0.5%, a remarkable outcome in a nationwide recession and a significantly better result than several other key retail sectors.

The fall in the rate of growth was largely due to a divergence in performance across the market’s various sub-sectors. Greenstock and Growing Media, as well as Gardening Tools and Garden Utensils, struggled to begin with as the closure of garden centres in April and May, along with the perishable nature of some of these items, meant many of these products had to be discarded by the time centres re-opened. The lack of a transactional website for many garden centres as well as shoppers wanting to choose their own plants, also made buying online, which supported other sectors, less of a viable option. That said Outdoor Living proved to be a particularly bright spot for the sector as people spent more time in their garden during the warmer

weather in April, May and June by investing in new furniture. The fall in sales in one sub-sector has clearly been offset by the growth in another allowing the market to post positive growth, albeit marginal, on the sales seen in the previous 12 months.

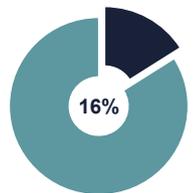
In the short-term, the garden centre market is set to see its strongest growth in expenditure for six years with growth of 2.7% in 2021, undoubtedly buoyed by the continued restriction in foreign travel and the propensity for consumers to spend their disposable income on improving their homes and gardens as opposed to holidays abroad. Looking forward, it is expected the sector will see its positive growth continue. According to a recent survey by GlobalData, 16% of respondents said they were buying more or significantly more gardening products than they had previously, which provides additional confidence in their performance forecasts. Greenstock and Growing Media is set to increase by 4.5% in 2021 without a repeat of the disruption caused by store closures last year, and as it capitalises on those that took up gardening during lockdown continuing to buy into the sector. All sub-sectors are forecast to grow in 2021, with the market being supported by those moving house before the end of the stamp duty holiday as well as the rate of unemployment decreasing throughout the year.



Total annual expenditure has grown from £4.08bn in 2015 to £4.38bn by 2021



Gardening expenditure still grew by 0.5% in 2020 despite the onset of the pandemic



16% of respondents said they were buying more or significantly more gardening products than they had previously (GlobalData survey, Sept 2020)



Strongest growth in expenditure for six years with growth of 2.7% in 2021

Online garden centre expenditure

Online garden centre sales saw a significant pandemic-related up-tick in performance over the last 18 months but will return to a more sensible rate of growth as the market returns to normal.

The online gardening market has been growing at a steady rate over the last few years, with an unsurprising and significant uptick in growth over the last year as stores were closed and people were forced to shop online during the pandemic (a total increase of 37.1%). The online market is projected to grow 31.5% between 2020 and 2025 as retailers invest in this channel and customers feel more comfortable about buying online. However, offline will grow from 2021 onwards as gardening shoppers want to select their own products and customers need certain purchases sooner. It is, therefore, essential that retailers continue to develop their multichannel offer to enable customers to shop how and when they want to.



Figure 2: gardening online expenditure



Source: GlobalData

In a recent survey by GlobalData, consumers were asked how much more often they would choose to shop online for home and garden products than before the onset of Covid-19. Those generations spending the most on gardening, specifically baby boomers and the silent generation, are those the least likely to increase their online purchases in the sector, saying they would do so in significantly less proportions than

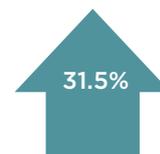
the global average. This is positive news and highlights the continued importance of the physical store in this market. Conversely, millennials are by far the most likely of all generations considered to shop more online for home and garden than they did before; accounting for 48% of respondents in this group. Their overall spend, although important, is significantly less than those who are 25 or older.



2020 saw a significant pandemic-related up-tick in online expenditure of 37.1%



Total annual online expenditure has grown from £319m in 2015 to £702m by 2021



The online market will grow 31.5% between 2020 and 2025 as retailers invest in this channel

👉 Total expenditure on gardening is by far the most significant for the over 65s, collectively spending over £1 billion annually, equating to spend per head of over £85. 🙌

Consumer behaviour

The over 65s spend the most on gardening in total, but with spend per head similar for all age groups over 25 years old, the future remains positive for the sector.

Analysis of spend per capita by age group suggests it is the youngest 16-24-year-olds who spend the least on gardening, perhaps unsurprising as they are less likely to own a home with a garden at this age.

That said, with the increasing popularity of urban garden centre concepts, namely Little Dobbies and very recently Selfridges, this may prove a catalyst for an increase in spend for younger consumers in the garden centre market. Little Dobbies has thus far proved to be a successful concept in Edinburgh and Bristol, with their first London store having opened at the start of July. Selfridges' is also hoping to tap into the recent 'greenfinger' boom with their new in-store garden centres, selling a range of own-brand products and offering customers the opportunity to take part in workshops and events. Additionally, Next has begun a new venture in the sector, striking a deal with Homebase to open mini-garden centres in six of their stores alongside their home and clothing lines. There have also been reports that John Lewis is considering expanding their services to include garden centres, most likely through partnerships or acquisitions with other businesses.

The new and increasing interest from high street retailers and department stores further highlights the evident demand for gardening products and services, particularly beyond the traditional out of town retail locations.

A diversifying sector

There has been an ongoing trend in recent years towards the diversification of garden centres in order to create more of a destination for consumers. These additional goods, services and experiences only reinforce the value of the garden centre industry as a physical retail sector, which cannot easily be replaced or replicated online.

Dobbies formed an exclusive partnership with Sainsbury's in July this year, giving their consumers the opportunity to buy a range of grocery and household products in a new 'food hall' concept. The aim is to complement Dobbies' existing garden centre products by offering customers convenient access to their essential grocery needs.

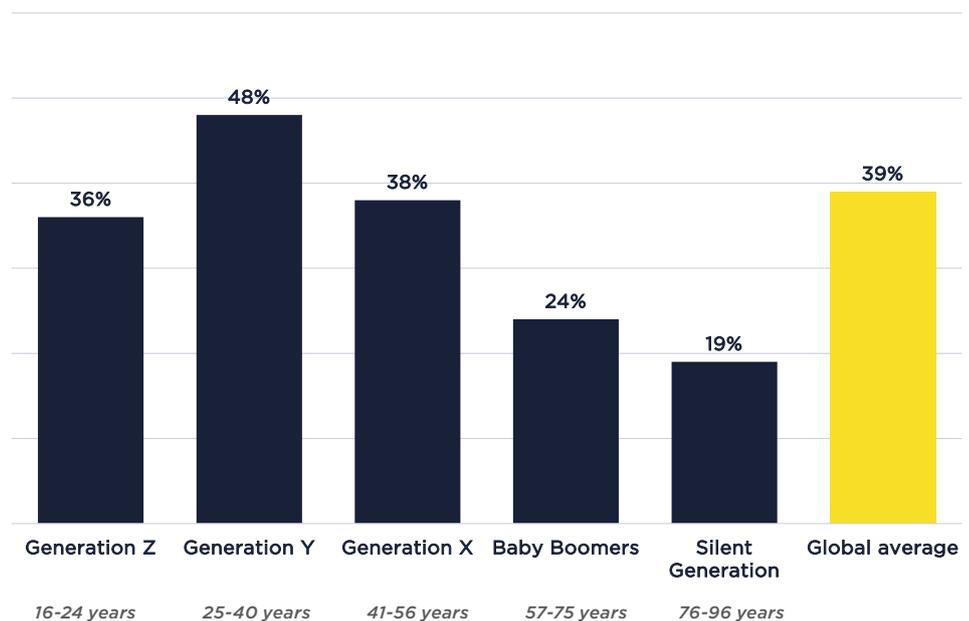
Across the wider retail and leisure sector, there has been a marked increase in the popularity of experiential concepts and uses, particularly in the leisure industry, and this is something that garden centres appear to be exploring in order to increase their attractiveness for consumers. There are numerous examples of yoga pop-ups in garden centres across the UK, which make use of usually large, light spaces, often with the benefit of an existing café or food and beverage offer on site. There are further successful examples of cookery schools, mini-golf and bistro evenings, demonstrating the versatility within the industry beyond the traditional offer.

Figure 3: annual spending per head on gardening and the total spend for each age group in 2019

Spend per head on gardening 2019						
Age groups	16-24yrs	25-34yrs	35-44yrs	45-54yrs	55-64yrs	65+ yrs
Spend per head (£)	£46.03	£86.42	£84.07	£86.57	£86.31	£85.43
Spend per age group (£m)	£323.60	£782.30	£707.30	£784.20	£704.50	£1,058.40

Source: GlobalData

Figure 4: consumers who somewhat or strongly agree with the following statement: "I will shop for my home and garden online more often than before" in the wake of lockdowns, by generation



Source: GlobalData

Transactional activity

The most notable sales in the industry over the last few years have been the sale of the Wyevale Garden Centres (WGC) portfolio over 2018 and 2019. Over 90% of the portfolio was sold to trade as garden centres and many have been or are being upgraded under their new ownership. The key group purchases are shown adjacent. The balance were sold individually to operators or alternative use developers.

Since the Wyevale sale completed there have been very few transactions of operational businesses in the marketplace, one of the largest being Savills sale of Forest Lodge and Birdworld to Haskins, announced early 2020. The break-up of the Wyevale portfolio has changed the dynamic of the marketplace, it has moved from one dominant into several competing brands, which has raised the quality of the offering. The sector has attracted the attention of private equity, who in recent years acquired first Wyevale and then Dobbies. Major DIY chains such as Homebase and B&Q also have a significant presence in the market.

Prior to Covid-19 there was strong demand for well-located medium- to large-sized garden centres, and buyers were prepared to pay good sums for businesses with significant potential. The strong demand from existing operators is because it allows well-funded companies to expand faster than they would do organically, in the race to secure market share. There have been very few sales to test the market since the virus took hold. Due to the limited number of garden centres available to buy (either on the open market or by

direct approach), there is also demand for development as a form of expansion. New build sites are rare as planning permission is difficult to obtain. Demand exists from the main operators for new build sites of five acres plus, close to main roads, adjacent to a large population catchment and suitable to construct structures of 40,000+ square feet of covered retail space, plus outdoor retail areas and car parking. They will also consider sites for redevelopment of existing or closed garden centres. Many older centres are now being redeveloped or extended.

In recent years, the ownership structures of garden centres have evolved, with some operators moving away from freehold ownership to leasehold structures, to free up capital to reinvest within or expand their portfolios. We have seen a number of different structures including ground rents and sale and leasebacks.

There have been some transactions of garden centre investments in recent years, and we are seeing yields compressing with the confidence and transparency in the market growing. This is something which, assuming rents have been based at sensible, sustainable market levels will continue as we see more consolidation and stronger tenant covenants within the sector.

The key players in the garden centre sector and their number of stores can therefore be seen in figure 5. Dobbies and British Garden Centres account for nearly half of the top 10 multiple brands, accounting for around 48%.

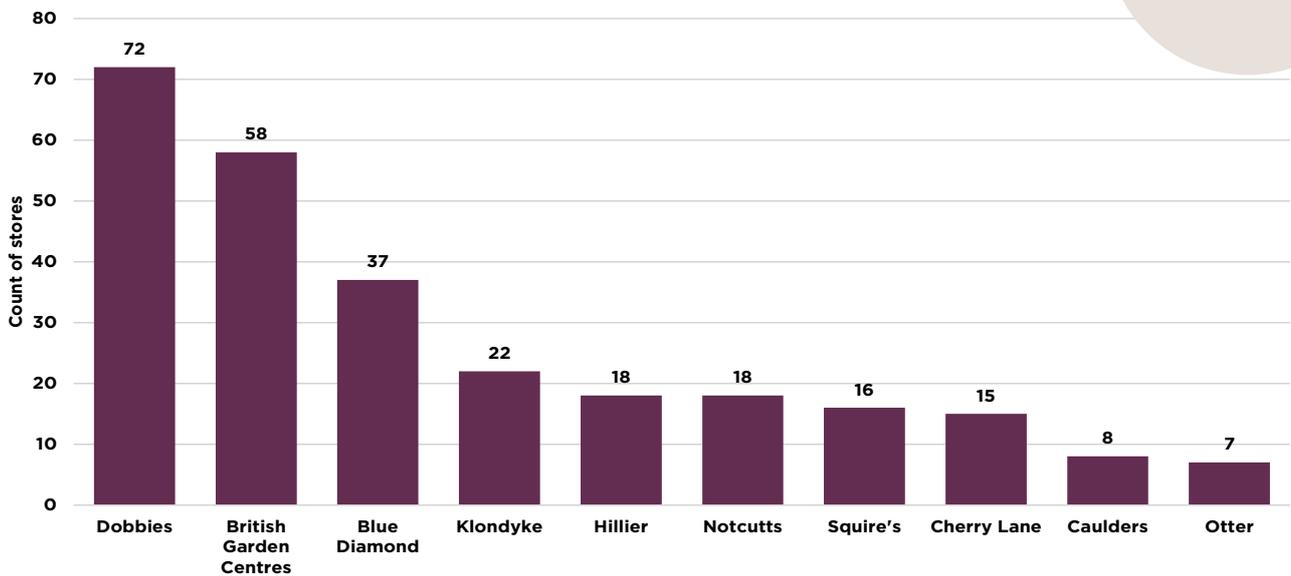
The Horticultural Trades Association (HTA) estimates that there are around **2,300** garden centres in the UK

The estimated total sale value of the Wyevale portfolio comprising 145 sites was **£430m**

37 centres were sold to Dobbies in three separate transactions

37 centres were sold to British Garden Centres in six separate transactions

Figure 5: top 10 multiple garden centre operators*



* site numbers as of Q3 2021

Source: Horticulture Week

Our forecasts

- More consolidation within the gardening sector and continued expansion of larger groups.
- More leasehold structures, including ground rents.
- More small-scale urban versions of the traditional stores.
- More diversification and destination sites with the co-location of other sectors, including visitor attractions, children's nurseries, gymnasiums and community spaces.



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