DTZ INVESTORS

Spring 2019

# CVA's Could Bring New Opportunities to Top UK Towns

**The retail market has had its fair share of disrupters. The change in consumer trends, technology and the number of Company Voluntary Agreements and administrations, are continuing to have significant effects on the market. Retail vacancy rates across the country are increasing and void periods have increased with higher incentives being offered to prospective tenants. No part of the retail market is immune to technological changes, but many brands are finding ways to embrace the changes and let them complement their current business models. Retail sales have grown by 4% y-y in February 2019, despite the negativity around the sector. We expect retail sales growth to improve further later this year, unless the UK leaves the EU with no deal, where economic projections are materially weaker.**

Company Voluntary Agreements (CVAs) have become a regular headline over the last year in the UK and they have placed enormous pressure on the retail property market and landlords. However, CVAs have not been all negative: there are positives for both landlords and the retailers. A CVA notifies a landlord that a brand/retailer is under pressure. If the CVA is worked through correctly, landlords are likely to receive more income than if the retailer goes straight into administration. Individual landlords are able to influence the terms of the CVA early in the process, if the store is to continue trading. For a retailer, there are many benefits. Principally, a CVA is a chance for the retailer to restructure their business. The directors remain in control and there are no repeat payment demands, letting them concentrate on their new model.

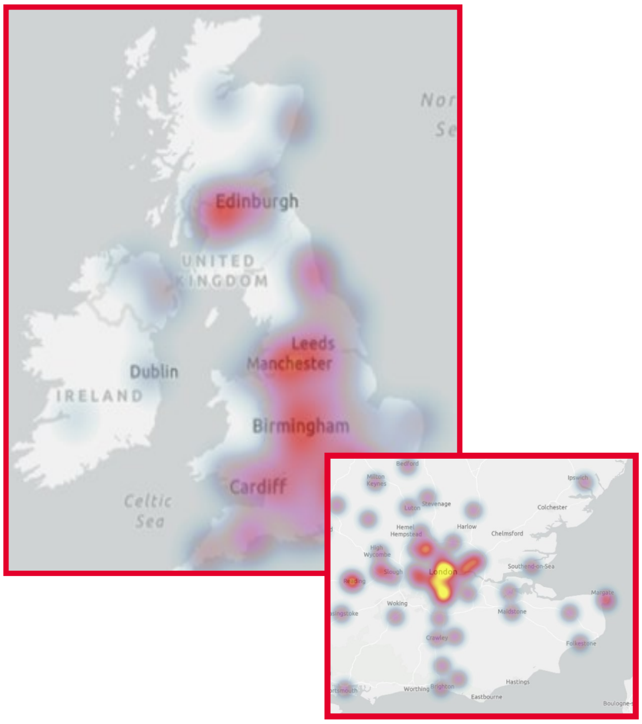
Consumer trends are changing with an increasing volume of retail goods being purchased through online platforms. However, retailers are finding that their physical retail stores aid them to build their brand. Examples are Dyson and Nike, where their shop floors are clear and tidy, and they attract customers for the experience and atmosphere of the store. Dyson has placed a small hairdressing salon in its Oxford Street store so customers can have a free blow dry to test Dyson's latest hair dryer before purchasing. These stores are focused around ensuring the consumer feels important and valued, and therefore buys into the lifestyle associated with the brand. Apple has been a leader in this style of marketing for many years.

For many retailers this sort of strategy would be a major change to their current business model, and a CVA can offer retailers this opportunity. They are able to identify their best stores and focus solely on those, while closing the stores which are an unnecessary expense.

DTZ Investors analyse retail centres across the UK, and rank them based on the factors that our analysis indicates will support growth in the future. Having examined the locations of the major and national spread store chains which have entered into a CVA in the last year, we have found that 70% of the closures have been outside of the retail centres that we rank in our top 25 in the UK. This suggests that retailers are trying to focus their futures on stores that are in the best UK towns, where footfall is still relatively high.

We have heatmapped CVA store closures throughout the UK during 2018. The national analysis highlights London in particular as a CVA hotspot, but this finding is somewhat unfair as the analysis does not reflect the urban density in the London area. Accordingly, we have drilled down to focus on Greater London. Our findings are that London had a lot of CVA affected properties, but, unsurprisingly, the majority of the retailers had exposure to London. Indeed, while stores were the subject of CVAs, the stores in large conurbations were generally those that were retained. For example, in Central London, there were only nine store closures. We examine this trend further overleaf.

**Map 1: Store closures within UK** (5 stores within the sample)



According to PwC (Local Data Company 2018), store closures increased by only 5% in H1 2018 in comparison to the same period in 2017. However, the number of store openings has reduced over the same period by 33%, and this is the principal driver of increasing vacancy rates across the country. Electrical goods and restaurants are at the top of the closures list currently, because of high competition online and locally. Italian restaurants seem to have been particularly hard hit, perhaps because of the drive for healthy eating - pasta and pizza is not a top choice any more.

It is clear that store closures from CVAs are heavily focused on centres that we rank as having weak prospects. For example, Byron Burger had over 70 stores nationally and has closed 15 restaurants through a CVA. 78% of their retained restaurants are in the top 25 centres in our ranking. Byron Burger has closed restaurants in locations where disposable incomes are generally lower, and it is harder for them to trade profitably.

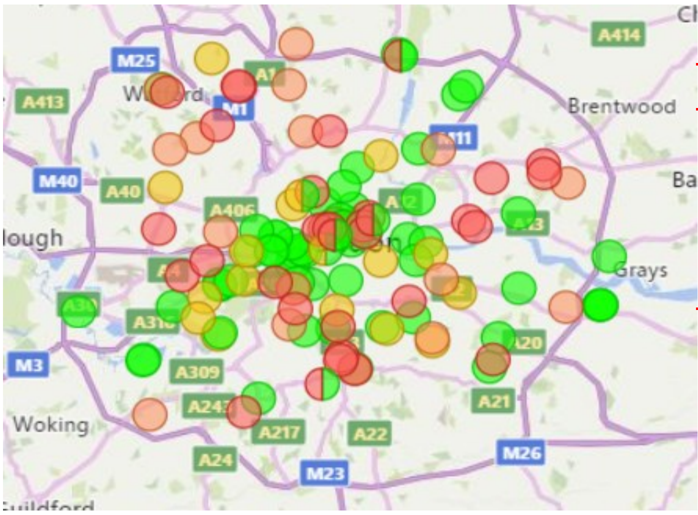
'Click and collect' is becoming increasingly popular, and encourages impromptu purchases when consumers come to the store. This is often encouraged by offering discounts in lieu of in store delivery charges (Sports Direct) or discounts only valid on the day of purchase (TM Lewin). Retailers are taking the time to understand where is best to locate their physical stores.

When we focussed our analysis on London (Map 2), it showed there were a high number of stores affected by CVAs. However 50% of the stores were categorised by the CVAs as having no or minimal changes to their leases (green markers below), i.e. they were predominantly retained by the retailer.

Conversely, 57% of the CVA affected stores analysed in the North East and North West of England were in Category 3 or 4. Therefore these stores had at least a 35% rent reduction or closure within 6 months.

No doubt the high street and the retail industry is facing many challenges and disrupters, which will result in continued change. However, we have found there is still space for retailers and they will still play an important part in our society. Certain locations and stores will fulfil consumers requirements in different ways, by providing an experience and good customer service. Whether this is through 'click and collect' areas, testing the products or the ability to return unwanted goods. Consumers will be able to interact with the brands and buy into the lifestyle the retailer markets.

**Map 2: All stores within sample in Greater London**.




**Key:**

| Colour | Category | Definition |
|---|---|---|
| Green | Category 1 | No lease changes / minimal rent changes (monthly payments) |
| Yellow | Category 2 | 15-35% rent reduction |
| Orange | Category 3 | 40%-90% rent reduction |
| Red | Category 4 | 90% rent reduction and closure within 6 months |

Each CVA segments lease changes in different ways,. We have categorised the changes as above to be able to compare the different retailers.
The analysis was undertaken on 5 national UK stores.

JESSICA MUELLER
**Investment Strategy**
**DTZ Investors**
+44 (0)20 3349 0277
jessica.mueller@dtzinvestors.com

RICHARD COOPER
**Head of Investment Strategy**
**DTZ Investors**
+44 (0)20 3349 0226
richard.cooper@dtzinvestors.com

**85 King William Street**
**London**
**EC4N 7BL**
**www.dtzinvestors.com**