RETAIL FOCUS
Q1 2025

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Welcome to SHW's 2025 Retail Focus which provides an overview of the High Steet and Out-of-Town retail markets.

Leasing activity on the high street in 2024 was largely led by the independents across the South East. Although prime and secondary rents have remained broadly static, demand within the South East region remains good, with many retailers/operators using market conditions to their advantage.

Despite the continuing high cost of living and the Budget changes coming into effect in April that will affect larger retailers, there is a positive outlook for 2025 on the high street, with a renewed interest in physical stores.

In the Out-of-Town market, our current instructions stretch from Newcastle to Weymouth and Eastbourne, covering a mix of retail parks, restaurants and food retail units. Occupier demand remains high across the country, with a shortage of available space to lease helping to keep rents at attractive levels and increasing activity in the investment market.

RICHARD PYNE
Partner

JEREMY GOOD
Director

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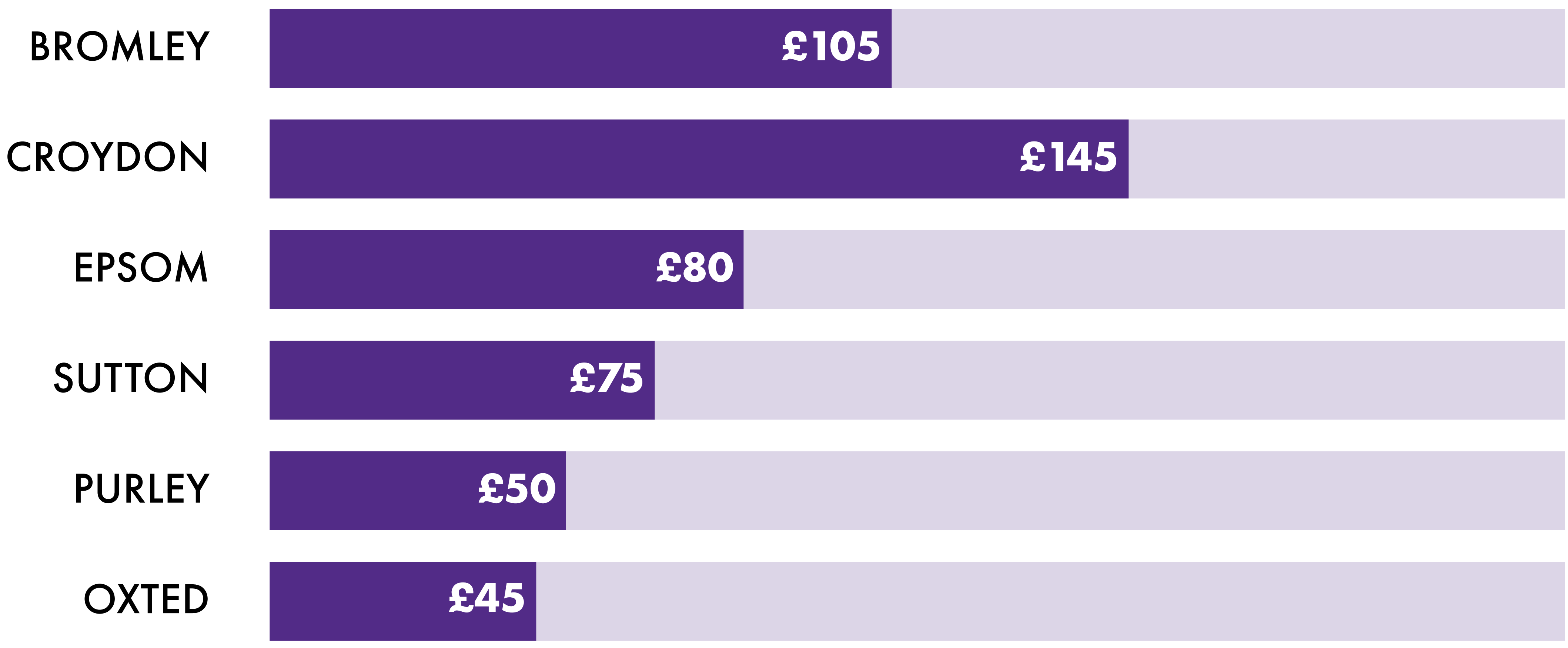
The forecast for the high street is more positive for 2025 following a challenging year in 2024. The uncertainty leading up to the Budget, and continued high living costs, have made shoppers more cautious in their spending habits. There is increasing evidence the national occupiers are taking a more cautious approach following October's Budget.

With the changing ownership of the high street leading to a more creative approach, deals were there to be done across the region with more flexible terms able to be agreed. Letting activity on the high street predominantly involved independent retailers in 2024, and with the Budget changes to increase minimum wage and NI contributions and the reduced level of business rates relief likely to affect larger employers the most, we expect this to continue to be a trend across throughout 2025.

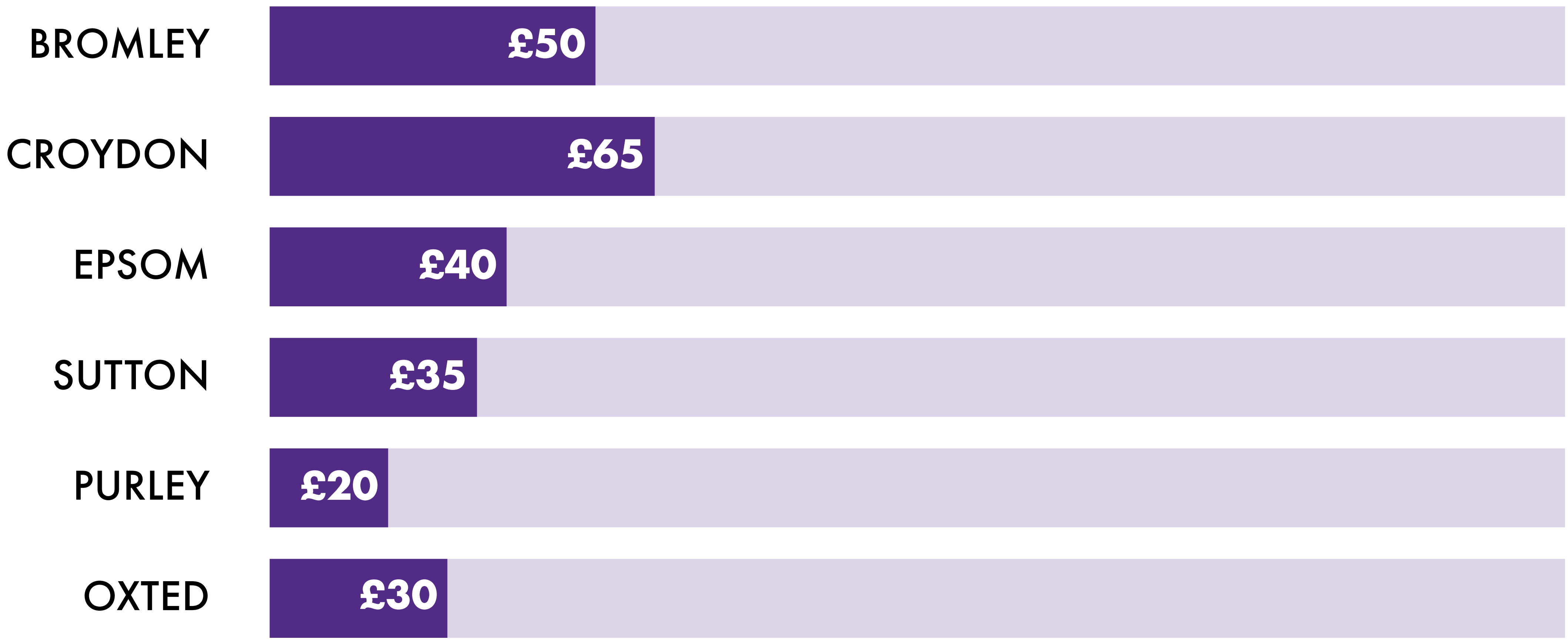
While some retailers chose to push their Boxing Day Sales on-line, rather than through opening their stores, there appear to be signs of a reversal of recent trends with physical stores becoming more important for retailers, even if this is to help drive on-line sales. Overall, there is a cautious, but renewed confidence in the high street retail sector.

This optimism has been mirrored in the F&B sector as operators saw an increase in customer visits over the holiday season as consumers were more willing to spend on socialising. We wait to see whether this trend will continue in the mid to longer term as operators assess the likely impact of the Budget on their businesses from April.

PRIME RENTS (ITZA)



SECONDARY RENTS (ITZA)



DEALS DONE

Unit 5-7 AMP House | Croydon

Let to a global franchise fitness company.

3A George Street | Croydon

Let to an independent restaurant operator on behalf of a Charity.

938 Brighton Road | Purley

Let to a national franchise.

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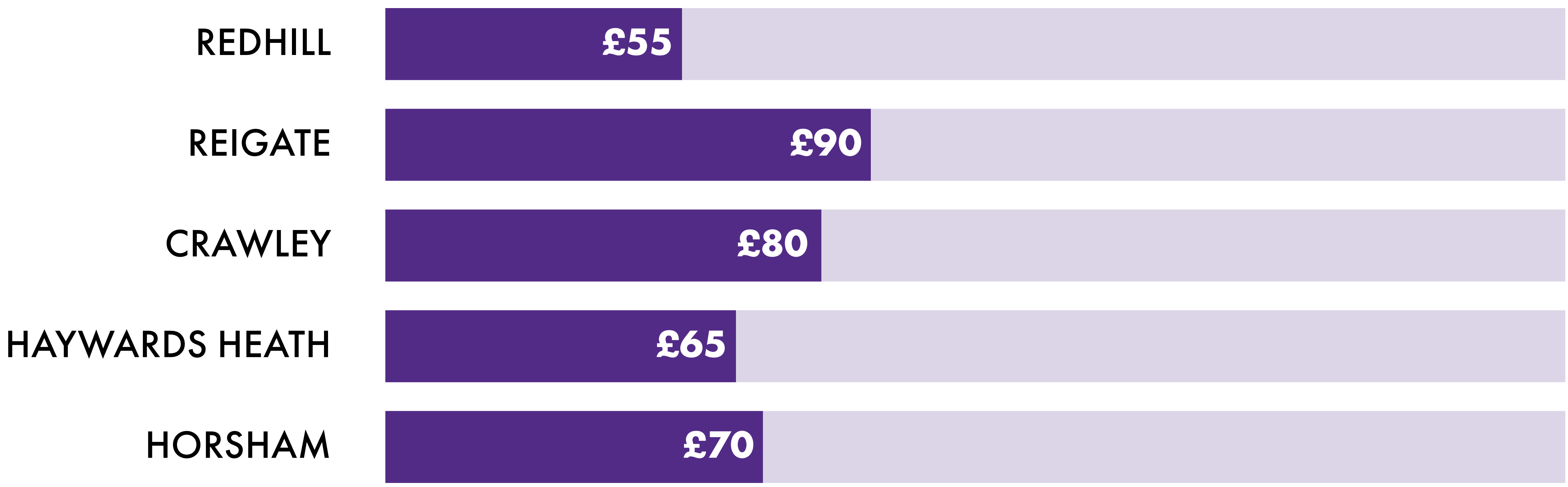

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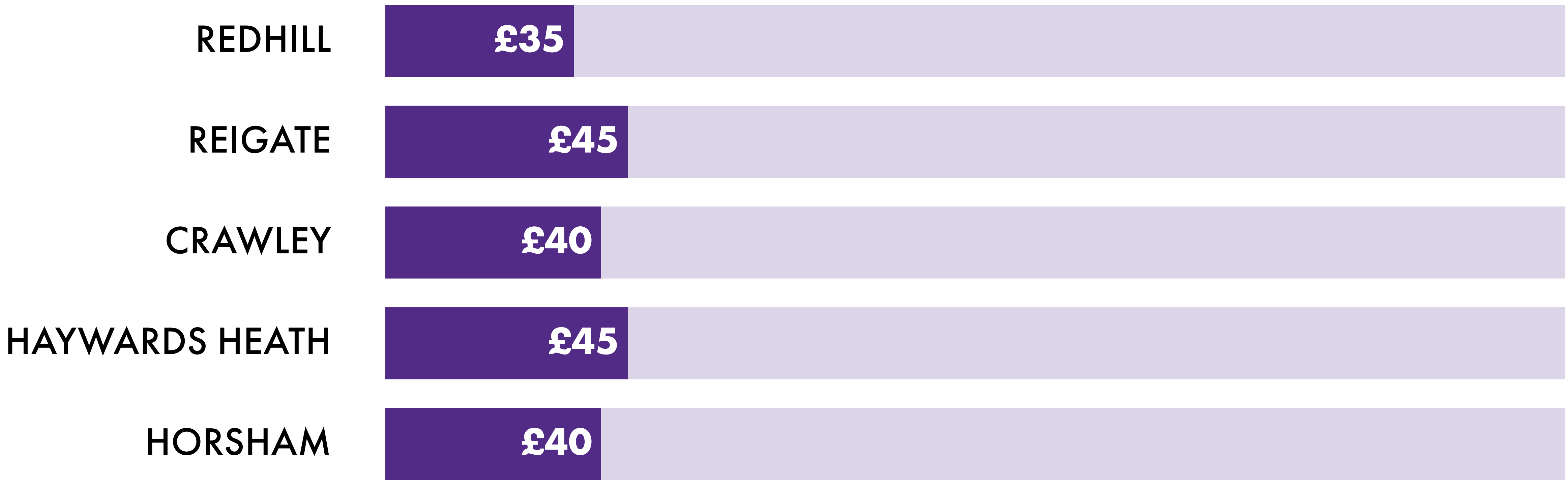

DEALS DONE

8 The Martlets | Crawley

Let to independent retailer, on behalf of asset management client.

1 Kingsgate | Crawley

Let to multiple gym operator, on behalf of private client.

Gainsborough House | Crawley

Substantial retail unit available, in prime position on Crawley High Street.

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PRIME RENTS (ITZA)

BRIGHTON	£150
WORTHING	£70
EASTBOURNE	£70
CHICHESTER	£90
HASTINGS	£50

SECONDARY RENTS (ITZA)

BRIGHTON	£55
WORTHING	£30
EASTBOURNE	£40
CHICHESTER	£40
HASTINGS	£25

DEALS DONE

65 East Street
Brighton
Let to London based multiple retailer, on behalf of private client.

143-144 North Streett
Brighton
Let to B&Q on behalf of multinational real-estate company.

6-8 Meeting House Lane
Brighton
Grade II listed building, let to established restaurateur on behalf of private client.

16 Warrick Street
Worthing
Let to Gails Bakery on behalf of private client..

53 High Street
Lewes
Grade II Listed building, let on behalf of private client.

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EXECUTIVE SUMMARY

The early feedback from retailers about their performance over the vital Christmas/New Year period has been positive but, as ever, a note of caution has been sounded by many about the economic climate in 2025 following the Budget and the financial market's concerns on the state of the UK economy. The food retailers have generally reported a good Christmas trading period with Tesco, Sainsbury's, Aldi and Lidl all reporting increased sales whilst on-line retailer Ocado also reported strong trading. The main non-food retail barometers of Next and Marks & Spencer also reported strong trading and sales growth across all sectors, albeit in the case of M&S this was strongest in their food offer. Others, including electricals specialist Currys, have reported positive trading but many have sounded a cautious note about 2025 with the potential inflationary pressures due to increasing staff costs at the forefront of their planning for the year ahead.

After several years of low vacancy rates and restricted supply of retail warehouse floorspace, 2024 saw some opportunities being released to the market following the failure of both Carpetright and, more recently, Sainsburys.

Whilst many of the Homebase stores were acquired as a pre-pack by The Range, around half of the portfolio was made available by the administrators on assignment. This resulted in a number of food and non-food retailers bidding for the opportunities following the acquisition earlier in the year of 11 stores by Homebase. In addition, a number of the stores are now owned by food or discount retailers which will, over time, see some of these coming into better use.

The Carpetright experience has been similar with a variety of retailers competing for space especially in locations where there has been limited opportunity for new stores. Although early front runners FarmFoods put acquisitions on hold post Budget, others have pushed ahead with rents in some cases being agreed in excess of mid-2018 levels – the first time this has happened in a number of locations.

The Government's Budget, however, has provided a cautionary counterpoint to this positive news with the politically expedient increases in National Minimum Wage and in National Insurance contributions causing a number of retailers to express concerns about the potential impact on their cost base after April 2025. Whilst this has not featured highly in recent discussions on new leases we have no doubt that during 2025 the impacts will be felt more widely as retailers seek to manage costs further.

CURRENT / RECENT INSTRUCTIONS

Barnsley Retail Park
Lease advisory role for Peel Group.

Salisbury Retail Park
Advising on opportunities in the town..

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EXECUTIVE SUMMARY CONTINUED...

The activity in the restaurant/coffee shop sector has continued with further new entrants to the sector. Black Sheep Coffee have opened their first units to add to the competition with established operators including Costa and Starbucks. Greggs, Subway and Pret a Manger also continue to take smaller, pod type units on schemes. The drive-thru restaurant market has remained active with the new entrants to the market such as Popeyes and Taco Bell opening new units whilst McDonalds, in particular, continue to upgrade their existing estate.

2024 was, until the last quarter, a quiet year for investment activity with volumes down compared to previous years. Deals in the final Quarter including Redevco's reported £520m acquisition of a portfolio of retail parks went some way to correcting this imbalance. Whilst retail parks continue to offer institutional investors an attractive asset class benefitting from limited supply, strong retailer demand and generally institutional leases helping to strengthen capital values.

2025 begins with cautious optimism after the strengthening market over the last year or two however concerns about the impact of the Government's Budget from April and the possible effect of Trump's protectionist trade policies following his inauguration in January are looming on the horizon. The fundamentals in the retail park market remain strong and this sector could well be a safe haven for occupiers and investors alike in 2025.

CURRENT / RECENT INSTRUCTIONS

Trafford Retail Park
Lease renewal advice for KFIM.

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PRIME NON-FOOD RETAIL RENTS*

NEWCASTLE-UPON-TYNE	£22.50 psf
MANCHESTER	£27.50 psf
LEEDS	£25.00 psf
BIRMINGHAM	£26.00 psf
BRISTOL	£27.50 psf
SOUTHAMPTON	£25.00 psf
CROYDON	£32.50 psf

*Assumes 10,000 sq ft, open non-food retail planning within these conurbations, excluding fashion parks.

UK ECONOMY AND THE INVESTMENT MARKET

- GDP in the UK economy has steadily and resiliently grown since the covid volatility of 2020/2021, despite covid / Brexit / inflation and higher interest rates.
- UK domestic interest rates likely to be 'higher for longer' as BoE seeks to combat inflation.
- Higher cost of money reduces the margin between the amount of interest that borrowers must pay for debt and the rent that they hope to collect.
- Some buyers have been seeking higher yields to maintain margins – this reduces sale prices, this is now somewhat ameliorated by some buyers being impatient to invest.
- Despite this, many buyers and sellers seeking to trade for their own reasons often driven by, for example, generational change / I H T, project completion, fund life ending, redemptions, lender pressures crystallising profit or wanting to trade before 5th April 2025.

RETAIL INVESTMENT YIELDS

Prime High street - **6 - 9%**
Shopping Centres - **8 - 11%**
Retail warehouse – **5 - 11%**

Depending on:

- Location
- Letting
- Covenant
- Rent – above or below current ERV?

FUTURE

- Footfall is improving
- Scope for leisure
- Innovative reuse of larger units
- Changes of use having positive impact
- Shopping centres changing quickly, eg NHS leasing at Metrocentre and IKEA owning Hammersmith and now Brighton

BUYER TYPES

- HNW Individuals
- Family Property Companies
- Pension Funds
- Family Office/Trust
- Property Investment Companies
- SIPP and SSAS entities
- Property Developers

Resilience – Supermarkets and convenience stores, retail warehousing.

Re-Pricing – High Street, restaurants, vacant units, weaker covenants.

DEALS DONE

Crawley High Street

Freehold, Prezzo Restaurant sold by SHW at 6.98% and £1.15M

Wallington, Woodcote Road

Tesco, Caffe Nero & Specsavers sold by SHW at £2.15M on behalf of institution

Worthing Montague Street

Long leasehold investment sale after lease renewal by SHW to multiple retailer

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