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RETAIL & LEISURE

The Retail Landscape from the Landlord's Perspective

Much is written in the current times, about the plight of retailers, however very little column space is given to the plight of the commercial retail landlord - an exception to this was the startling collapse in Q2 2020 of Intu, who were one of the largest shopping centre owners in the UK, owning schemes such as the Trafford Centre, Metrocentre and Lakeside. Unfortunately its demise was caused by a brewing perfect storm of unsustainable levels of debt; accumulating losses; decreasing asset values and finally only collecting 29% of their due rent during the first lockdown.

However the same story is being repeated across the country, to varying degrees, which affects owner occupier landlords, small private investors, family trusts, SIPP schemes, property companies and pension funds.

Almost no retail landlord is immune from the impact of the structural changes that have taken place, and continue to take place, within retailing, caused by changing consumer habits.

These changes obviously impact on demand for retail property, which impacts on rental values, which impacts on capital values, which impacts on loan to value considerations, which ultimately would lead, in many cases, to funders stepping in and embarking on fire sales to ensure that they can at least realise their equity stake from the investment property.

The process and issues are exactly the same whether the property in question is a £500,000 single building in a market town or a multi-million pound shopping centre.

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The practical effect of all of the above was unfortunately demonstrated only too clearly at the end of last year when a shopping centre in Coventry, which had been valued at £37m eight years ago was sold by the funders for £4.9m representing an 87% reduction in value.

NatWest Group have recently announced the sale of a portfolio totalling £550m of distressed NPL (non-performing loans) secured against 25 assets, predominantly shopping centres. This unfortunately will become a common feature of 2021 and beyond, and depending on the volume and the manner of disposal, this could have a further damaging effect on yields and therefore capital values.

The current trading restrictions in retail have arguably affected landlords to a greater extent than retailers, due to the fact that the government have provided a number of grants and financial assistance to retailers by way of one off grants; local restriction support payments; furlough scheme; business rates holiday and the availability of bounce back loans on favorable terms.

However, the only government decision that has been felt by landlords is an adverse one in that they have been barred from taking forfeiture action against non paying tenants, and have therefore been put in the invidious position of having funders demanding interest and capital payments on debt, combined with an absence of income from their tenants with which to meet those debt costs.

Whilst loan holidays were being made available to buy to let landlords, the same was not the case with commercial landlords and therefore, more than ever, cash is definitely king as it is needed both on a month to month basis but will also be required to address two other increasingly common scenarios.

The first of these that is likely to occur, is that the retail tenant enters some form of insolvency and the property is vacated. If the lease is in the hands of the administrator then the first unwelcome call on cash (and a little known fact) is that the landlord will have to pay the administrators legal expenses for the 'pleasure' of effectively having his lease torn up and getting back a vacant property, that is not income producing.

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The second call on cash will be the process and cost of finding and securing a new tenant, which will obviously include legal expenses, surveyors costs, potentially costs in stripping out the former tenants fixtures and dealing with any remedial works, and a void period to cover the inevitable rent free that will need to be granted to the incoming tenant.

A further area where landlords and tenants are treated very differently is that whilst an occupational tenant may benefit from a rates holiday, a landlord will not have the same benefit apart from the first three months of the property being vacant, and thereafter full rates are payable.

Therefore, factoring in all of the above costs, such a situation will commonly cost the landlord between 2 and 4 years worth of rent. Yields on commercial property are at the levels they are for a reason!!

The final comment in relation to how the market looks from a landlord's point of view, is not directly market related, but it has a substantial impact, in many instances, on the rental value of their property and that is to do with the level of business rates. The current rateable values are based on rentable values as of April 2015 - there are now many properties where the rent achievable from the market is lower than the rateable value. Tenants obviously consider total occupational costs, and as the rates payable are not a movable cost, a high rateable value inevitably impacts on the rent that is achievable and therefore landlords again end up bearing the brunt of this situation.

All too often commercial landlords are cited as being greedy and unrealistic and forcing retailers out of properties - which is usually incorrect and merely demonstrates a lack of understanding and appreciation of the full situation, and space hasn't permitted me to detail the grossly unfair treatment that landlords receive at the hands of a CVA……………… that will have to be for another day!

To find out more and get the latest on the shifting market dynamics across the Thames Valley visit www.hicksbaker.co.uk or email f.brownfoot@hicksbaker.co.uk.

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