

The future of the High Street

Some High Streets were suffering badly before the anti virus policies closed down most of the shops. More people were buying more things on line. More were travelling to the best shopping centres to enjoy the choice and facilities they afford. Secondary and tertiary locations and ageing centres were losing custom and losing businesses. There were more empty properties and more rent reductions.

Investment in improving High Streets, relentless promotion of a location with events, discount and loyalty schemes and good restaurant and café back up were all important ways to retain life and footfall. Some succeeded, others were floundering. There was too much retail space for the customer base overall. As a result retail chains were shedding shops in marginal locations, and at the edges of Town Centres and shopping malls some property was gradually being converted to new uses. The process of conversion was slow because the shops were still expensive and commanding relatively high rents compared to alternative use values.

The damage done to shop retailers by the closures is two fold. There is the lost revenue, making investment in shop improvement and in stock more difficult to afford. There is the diversion of business from shops to on line, some of which may be difficult to reclaim. The issue becomes, what are shops now worth?

A simplified way of valuing a shop is to take the rent paid and multiply that by a number of years purchase to get a capital value of the property. Let's take a case of two shops with rental income of £25,000 a year. One is in Smart City, the other larger unit is in Troubled Town. The Smart City unit might have been valued in February on a 5% rental income, or 20 years purchase. It would have had a capital value of £500,000. The Troubled Town Unit might have only commanded a 10% income yield or ten years purchase, giving a capital value of £250,000.

Let us suppose that both were independent shops, and both have now notified their landlords they cannot afford to pay any rent for the time being. At the very least they want a rent holiday for the period of closure, followed by a rent reduction to reflect lower earning potential in a recovery period to follow the end of lock down.

So what are these shops now worth? What discount should you apply to the past rent to allow for the likelihood that a deal has to be done for lower rent? Might it be that the unit in Smart City still has a retail future at a lower rent, but the unit in Troubled Town does not? Do the values of either now fall to a level where conversion to another use is viable?

And what outcome would you like to see for these two independent traders and two shop units?