

Retail Demand Report



**Redevelopment of
The Kennet Centre,
Newbury
February 2021**

LOCHAILORT

Kennet Centre, Newbury

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Executive Summary

- The *Kennet Centre* opened in phases from the 1970s to 2009
- It has 244,000 sqft of lettable commercial space on a site of just over 5.4 acres, comprising some 50 units including shops, restaurants and a multiplex cinema
- Newbury is a prosperous market town, but like most towns in the UK it has been adversely impacted by the changes to the retail market even before the impact of Covid-19
- This has been compounded in Newbury by the relocation Vodafone's HQ to an out of town location and the opening of the Parkway shopping centre in 2011, anchored by former *Kennet Centre* anchor store Debenhams
- The result of these changes has impacted the *Kennet Centre* hard. It is failing as a shopping centre and in need of significant investment and repurposing
- At the start of 2020 the centre had 40% vacancy rate, and since then has seen the further failure of Laura Ashley; Peacocks, and the insolvency of Pizza Express and Café Nero
- Consequently, the redevelopment of the *Kennet Centre* is not only inevitable, but also long overdue
- Reflecting the ongoing national move away from large footprint multiple chain stores towards more "experience-based" shopping as a leisure activity, *Eagle Quarter* will focus on local, independent and artisan businesses
- This means smaller units which can be occupied flexibly, taking advantage of the new Use Class F to offer a wider range of occupiers within the same Use Class
- *Eagle Quarter's* small units – starting at 400sqft – are designed so that they can be combined as needed, or separated back into smaller units. Mezzanine floors can be added to some of the units
- Reflecting the target occupier of local independent businesses, the units will be offered on flexible tenancies, including turnover rent arrangements, with low or no deposit requirements
- Carts, stands and barrows trading in the scheme's wide pedestrianised street will allow fledgling businesses a minimal-risk opportunity to test out their business idea before stepping-up into one of the scheme's "shopfront" units
- Occupiers will be carefully curated to provide an ongoing mix and range of businesses
- In light of all of the above, it is necessary and appropriate to reduce the quantum of commercial floorspace to around 22,000 sqft (excluding the retained and enhanced cinema wing) – which is about the same size as the former TK Maxx unit
- This quantum of commercial floorspace will still provide a vibrant commercial offering and enliven the development's new pedestrianised street, in a manner which will not compete with the larger-footprint units at Parkway or along Northbrook Street

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Introduction

UK High Street Retail Market in 2021

UK retail has been in a state of flux, with all UK towns and cities experiencing a period of significant challenge and uncertainty, brought about by the shift to online shopping and changes in consumer behaviour. More recently, this has been compounded by rising costs such as business rates and the minimum wage, Brexit-related uncertainty and now the COVID-19 pandemic.

The impact on retail across the UK cannot be overestimated: -

- Record number of retailers (and household names) ceasing trading or declaring themselves insolvent.
- Retail leases falling due to rising costs (rates; goods; wages) at a time of anticipated long-term low growth in the consumer economy.
- Valuation of retail assets falling; banks stepping in and *Real Estate Investment Trusts* suffering corporate issues over investment Loan-to-Value breaches.
- Record low level of investment transactions reflecting the shortage of bank debt.

The issue though is not one of retail property disappearing. It is more a case that we have too much space in the UK (estimated range 35-50%). Moreover, the consumer has changed. No longer do they “have” to go to a town or city to shop. They only go if they “want” to, or it is very convenient to do so. This structural shift from “have” to “want” is most acutely felt in fashion retailing but across the board retailers now need fewer stores, and less space.

Recent Retail Property Trends

Retailers have been calling on landlords of shopping centres for flexibility in rental and lease terms. Shops such as JD Sports, Schuh, Apple, Anne Summers, Next, Primark and Clarks have all been seeking rent reductions of up to 30-50% and retailers such as H&M, Monsoon/Accessorize, New Look and All Saints have been negotiating turnover-only rents with landlords.

The recent switch by New Look on its 450 stores to turnover-only rents through an insolvency process is likely to have far reaching and serious effects on the retail property sector, with other major fashion retailers highly likely to follow suit. Thus, the switch to turnover-rent leases is happening at pace, and dramatically, as landlords recognise the near impossibility of finding alternative occupiers.

Impact of Covid-19

The announcement of government-enforced store closures across the UK was aptly timed for the rental payment date of the March 2020 quarter and going into 2021 there is an estimated 50% proportion of retail rent owed. The retail and hospitality sectors have been the worst hit in terms of Government-enforced closures and this has all but stopped most trading, putting the future of many operators in very real jeopardy.

The Covid-19 pandemic has come at a time when retailers were already under significant pressure and struggling financially to survive. Throughout 2020, we have continued to see corporate restructurings, primarily via voluntary insolvency arrangements, as tenants seek to reposition their businesses for a post-Covid world and deal with debts accrued during the lockdown. Landlords are relatively powerless to resist, forcing them to accept new terms or face the prospect of vacant premises.

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According to the Centre for Retail Research nearly 180,000 jobs were lost in UK retail in 2020 with 52 retailer failures during the year including high profile administrations of Arcadia, Debenhams and Edinburgh Woollen Mill. This is in addition to a number of retailers considering insolvency arrangements, including M&Co, Itsu, Select, Jigsaw, River Island, Clarks and The Restaurant Group. Other retailers such as Marks & Spencer and John Lewis are planning to permanently close more stores.

2021 will not be without further retail closures with predictions that up to 200,000 more retail jobs are likely to be lost. Insolvency proceedings will continue to occur and could actually accelerate in Q2 if the business rate holiday and moratorium on lease forfeiture ends at the same time. A number of former insolvency candidates will sadly graduate to full liquidation and the high street will inevitably lose more well-established names.

Examples of the reality of the decline of retail is the collapse of both Debenhams and Arcadia as retail bricks-and-mortar businesses. Between them they represented nearly 200 football pitches in floorspace. When their assets were put up for sale, no buyer wanted a single shop and instead has moved the entirety of these well-known brands to online retailing only.

The reality is the UK has between 40-50% too much retail floorspace and that existing space now needs radical repurposing.

Today's Kennet Centre

Newbury is a prosperous market town, but like most towns in the UK has been adversely impacted by the changes to the retail market. It has many aspects that support local convenience retailing as well as quality local shopping. The town however has been impacted by 3 core events:

1. The first is the move of Vodafone HQ out of the town centre. The resultant drop in office workers, support businesses and visitors has meant less footfall in the town centre.
2. The second is the development of Parkway Shopping Centre, which opened in 2011 anchored by John Lewis and Debenhams. This is a quality retail development that increased the supply of commercial floorspace just as the catchment shrunk.
3. The final aspect is the structural change in the wider retail market and now the fallout from Covid-19.

The Parkway development created 300,000sq ft including two new department stores and a run of shops, with flats above. The problem is **Newbury's core catchment is only 40,000 people**. This is well short of what is needed to support one (let alone two) department stores. Even pre-Covid, it was likely that Debenhams was likely to close within the next 2-4 years and there was already suggestions in 2019 that John Lewis was looking to exit.

The retail sector was already firmly in the throes of structural change and entered the pandemic with serious pre-existing conditions, rendering it highly vulnerable to everything that has ensued. Any lingering weakness in the retail industry has been exposed; weaknesses that are evident at the *Kennet Centre* and demonstrate why the centre has failed as a shopping centre and in need of comprehensive redevelopment and repurposing.

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High levels of vacancy at the *Kennet Centre*

- The 244,000 sqft centre was **40% vacant in January 2020**.
- There has been a long-term inability to secure retail tenants on commercially viable terms i.e covering business rates, service charge insurance and paying a market rent.
- The centre's anchor store units (the former Debenhams unit at 32,615 sq ft and the former TK Maxx unit at 24,434 sqft) have proved to be particularly difficult and have suffered extended long-term vacancy
- The building is visually unattractive and is no longer fit for purpose. The unit sizes and configuration are not suitable for the current or forecast future nature of the retail market as national retailers are attracted to units which are designed with adaptable floor plates.

Temporary and non-retail uses

A “meanwhile” use strategy has been adopted whilst proposals for the centre's comprehensive redevelopment have been formulated and are considered in the planning process. This activity has been focused on getting space occupied and has been helped by the business rates holidays introduced in March 2020, which undoubtedly temporarily removed one major cost pressure for retailers. Many operators have taken advantage of this and a number of units have been let on a flexible basis while the rates holiday is in place. This includes extra space to *The Globe* to accommodate social distancing, and welfare space for construction staff who are working on Grainger's Market Street development on the opposite side of the road to the south.

The tenants represent a mix of temporary and ephemeral uses, with businesses taking space the centre whilst paying little if any rent, on flexible lease terms and in many cases “meanwhile” and non retail uses.

Independent interest:

Much of the interest in the centre has been generated by independent retailers, for example a local bike repairs shop approach us following the launch of the *Eagle Quarter* public consultation in October 2020. We have also had an airsoft play operator and an amusement arcade trialling their concepts in former retail units. **There is clearly a demand from independents in Newbury** and currently the *Kennet Centre* is not an offering that can best support their needs because of the dated nature of the scheme, its unattractive internal environment, and the poorly configured/large unit sizes.

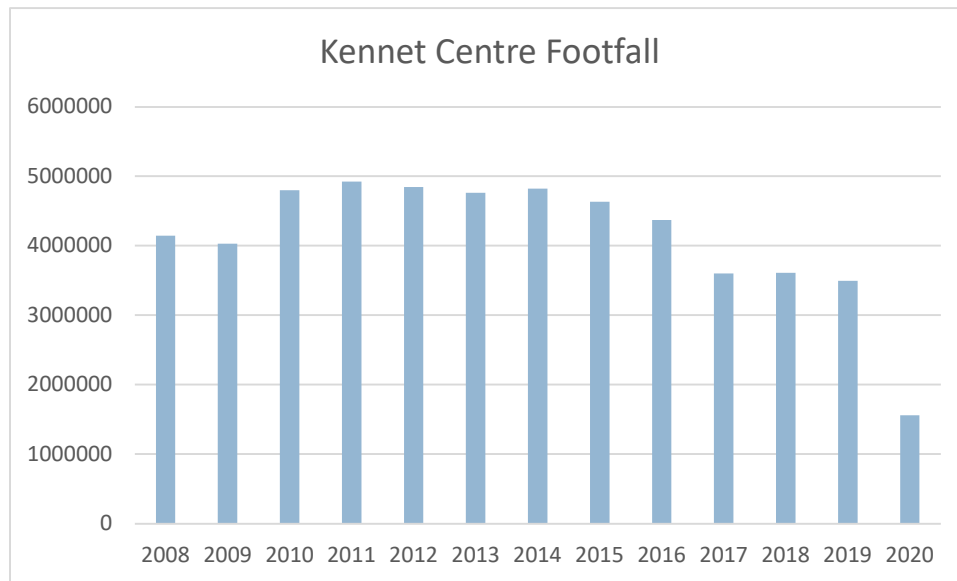
Whilst there has been success in getting space filled as very much an interim measure, this is not sustainable, especially when the rates holiday comes to an end. For the very largest retailers, rates relief was substantial but even for a small retailer or independent operator, it could be the difference between survival and failure. As has been proven in the *Kennet Centre*, the rates holiday has been a lifeline for tenants and has enabled space to be let on flexible terms but often with a shortfall to the landlord in service charge and insurance.

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Footfall



Note: Debenhams closed in 2011 but reopen as Debenhams Outlet until its closure in 2014. TK Maxx closed in 2017 when it relocated to out-of-town premises at *Newbury Retail Park* around a mile south of the town centre.

These figures demonstrate footfall figures have been in decline since 2014, which has in itself deterred national multiple retailers to the scheme. The proposed comprehensive redevelopment will bring a new community of residents into the town centre which in itself will generate footfall to support the retail and amenities of both the new scheme and the wider town centre.

Summary - why the Kennet Centre has failed as a Shopping Centre:

- Over supply of retail in Newbury – for example there are two Poundlands in the town centre, one in the Kennet Centre one on Northbrook Street. One of these will inevitably close at some point.
- Demise of Debenhams and closure of John Lewis means there will be further competition to fill vacant space from Parkway.
- Recent lettings are temporary uses on flexible leases, paying little or no rent and not always covering occupational costs – resulting in a large number of break options and expiries in the next 12 months.
- Business rates holiday has been a lifeline for tenants which has enabled space to be let but on flexible terms with breaks likely to be exercised when rates relief ends and costs increase.
- Fashion, beauty and accessories' retailers are being particularly hard hit by Covid-19 as customers increase savings and divert funds to home, food, electrical and DIY spend - impacting many of the tenants in the scheme.
- Social distancing and a reluctance by consumers to visit physical shops (where open), especially in a covered centre like the Kennet Centre, is a continued barrier.
- Retailer cashflow difficulties arising from lack of trading – contributing to substantial arrears.
- Lack of certainty over when 'business as normal' may return .

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Future Newbury as a leisure & retail destination

The importance of comprehensive redevelopment of the *Kennet Centre*

Traditional retail will continue to play a vital role in the distribution chain, although it will likely form a smaller component of the overall tenant mix on high streets and in shopping centres and retail parks. We should acknowledge that the UK has too much front-end retail space and that store closures, whether the result of 'right-sizing' or retailer insolvency, will continue to be a feature of the retail market for the foreseeable future.

Ultimately, shopping centres will need to evolve and the model of a scheme with a 50% or higher fashion and department store mix is increasingly unviable, as the *Kennet Centre* demonstrates. The structural changes in the retail market are presenting opportunities, including the provision of residential development and other amenities which drive footfall and provide fit-for-purpose units to attract local independent and artisan businesses.

Newbury already has the traditional retail at Northbrook Street and the newer Parkway development is better suited to attract multiple retailers because of its unit sizes and existing tenant mix. This makes the *Kennet Centre* redundant in its current form as it cannot attract sufficient footfall for national tenants to fill voids and to stay at expiry, and it needs to be completely redeveloped as a result. The proposed plans will provide a retail offering that will complement the High Street and Parkway, rather than compete with it.

As consumers become more demanding and less predictable, flexibility in the built environment is critical to ensuring the continued vitality and viability of our retail and leisure destinations. Market pressures are forcing occupiers to innovate, and exciting new concepts continue to emerge. The rapid growth of new leisure operators, particularly in city centre locations, is an example of this – in addition to food and beverage, activity and fitness-based formats are increasingly filling gaps left by traditional retailers.

The development plans will accommodate this need for innovation with white box finished units, flexibility to combine units as the needs arises, as well as the ability to provide flexible and affordable rents. *Eagle Quarter* will work with businesses and occupiers to help facilitate their needs and thrive as a business. Given the role of turnover rents and shortening leases, the leasing of the retail space will adapt to shorter terms at low base rents or turnover rents. Being dependent on regular turnover information may assist in managing the retail units and will also result in units being let by reference to an affordable rent rather than a Zone A rent derived from a letting of a nearby unit.

The success of the temporary "meanwhile" uses in the *Kennet Centre* has clearly demonstrated that local demand exists from local entrepreneurs who understand the local market. The proposed scheme reflects that type of demand in a flexible yet focussed format, with units can be combined or split as necessary which create a lively and interesting shopping/leisure environment with a significantly reduced but best-fit type and quantum of commercial floorspace.

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Cast study: Places where independent retail thrives - Henley

Henley's town centre is a similar size to that of Newbury, but its abundance of smaller units has made it significantly more attractive for independent retailers compared to the chain stores typically found in other towns. This has resulted in the town centre having a wide and eclectic mix of independent retailers and a significantly lower vacancy rate than Newbury, and particularly the *Kennet Centre*.



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Summary

The comprehensive redevelopment of the *Kennet Centre* proposes smaller units to complement the existing town centre offer and appeal to local independents. The scheme gives the ability for place-making and spill out spaces for street carts, barrows and pavement cafés, as well as generating increased footfall for the wider town centre through its residential elements.

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The *Newbury Business Improvement District* has written in support of the proposed redevelopment (**Appendix A**), referencing the West Berkshire Council/Hemingway Design '*Newbury Town Centre Masterplan*' survey. That survey received several thousand replies and two of the key aspirations mentioned by the majority of respondents is the need for more town centre housing and independent retailers, **exactly what is being proposed**.

Of the units let in the *Kennet Centre* in 2020, predominately these have been local independents, on short term, flexible leases. This marketing, and the success it has generated even prior to the centre's redevelopment, validates the recent *Masterplan* survey results in a renewed focus on local, independent and artisan retailers. This focus is at the core of the *Eagle Quarter* development which will offer small, fully fitted units available to local operators on flexible leases. The development's excellent pedestrian permeability and connections, together with the generous width of the new pedestrianised streets, will reconnect this part of the town centre and provide for a vibrant, diverse and attractive new route between the railway station and town centre/bus station.

The proposed comprehensive redevelopment addresses all of the concerns we have identified with the current *Kennet Centre*, and the demand direction we can see exists. We therefore fully support both the concept and the detail of the proposed redevelopment.

RivingtonHark February 2021

29th January 2021

To whom it may concern,

I would like to express my support for the proposed Eagle Quarter development at the current Kennet Shopping Centre location. As the CEO of Newbury BID, I know first-hand the current and future issues that the retail sector is experiencing and I believe that the correct blend of large national chains, independents and mixture of retailers is one way the bricks and mortar High Street can survive. The proposal for Eagle Quarter is in no way competition for Parkway, as Lochailort are proposing a completely different offering that will enhance the shopping experience of Newbury.

Eagle Quarter will also bring with it a local community, similar to what Parkway offers. One thing that is key to the survival of Newbury's High Street is increased footfall. Bringing a new community of residents into the town can only benefit the businesses that operate here.

Once this scheme is launched, Newbury town centre will see a fantastic blend of local independents in Eagle Quarter, a mixed offering in Northbrook Street, and Parkway as the main shopping centre offering national brands.

The West Berkshire Council/Hemingway Design 'Newbury Town Centre Masterplan' survey has received several thousand replies and two of the key ideas mentioned by the majority of participants are the need for more town centre housing and independent retailers, exactly what Eagle Quarter is proposing.

Like elsewhere in the country, there is too much retail space available here in Newbury and we need to encourage alternative uses and ideas. Eagle Quarter is one such way that we can achieve this.

Yours faithfully,



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