

Insights

UK - COVID-19 - BCLP RETAIL INSIGHT: THE WEEK THAT WAS, VOL. 8

Oct 09, 2020

SUMMARY

This week, the BCLP Retail team analyse the recent rent payment figures from the retail sector and discuss possible creative means of fostering resiliency for landlords and operators. We look at the reaction from retailers to new government restrictions in light of the rising Covid-19 case numbers, and consider the post-pandemic prognosis for the sector.

Retail Rent Shortfall

Although recent reports suggest that retailers only paid a fraction of their September quarter's rent on 29 September, recent data shows more retailers have paid their rent in arrears, bringing the retail sector more in line with payment figures of other sectors. The extension of the moratorium on landlord remedies for non-payment of rent is likely to have impacted the latest figures. Please [click here](#) for a detailed analysis of landlords' remedies for tenant default. The increased restrictions bring additional uncertainty for retailers - particularly whether the prized Christmas trade, which normally compensates for less profitable months, will materialise. Retailers are concerned whether shops will be permitted to remain open in the coming months, what type and amount of aid will be forthcoming from the Government and what compromises tenants can reach with landlords. Landlords themselves are faced with a potential multi-billion pound shortfall in rent and about meeting the obligations of their lenders, whether through renegotiation, eventual payment from tenants, or some form of Government aid.

Closed doors, but open windows of opportunity?

The pandemic has exacerbated the existing phenomenon of the declining high street, with predictions of a large percentage of shuttered shops remaining permanently closed and large space retailers looking to scale back operations and repurpose vacant space. Landlords must find an alternative use for the empty square footage. Repurposing of retail space into offices and flats offers a means of preserving the value of these assets. However, with the Government's reversal of

its back-to-work message, whether office space conversion will continue to be attractive remains to be seen. An innovative proposal that both operators and landlords could explore is the idea of 'co-retailing', where multiple operators share one space. Considerations surrounding co-retailing structures include current permissions in leases, permitted use classes and the degree of control over the space they occupy. It is clear that innovative solutions will be required to benefit both retailers and their landlords.

Retail Reacts to New Support Measures

The most recent round of economic support measures from the Government (a timeline of these measures is below) has been met with a mixed response from retail operators. The support package includes an extension of the reduced VAT rate for the hospitality sector and lengthens the period of bounce back loans (worth up to £50,000, targeted at small businesses) from six to ten years.

Some feel these measures do not go far enough to address the specific needs of the bricks and mortar retail sector. Whilst bounce back loan term lengthening may be good for immediate cash flow needs of smaller businesses, mid-to-large size retailers do not benefit to the same extent. Many retail operators think that the VAT reduction should have applied to retailers, as well as the hospitality sector. The lack of any new measures addressing business rates leaves retailers with questions as to what will happen at the end of the relief period in April 2021.

Can COVID be a positive?

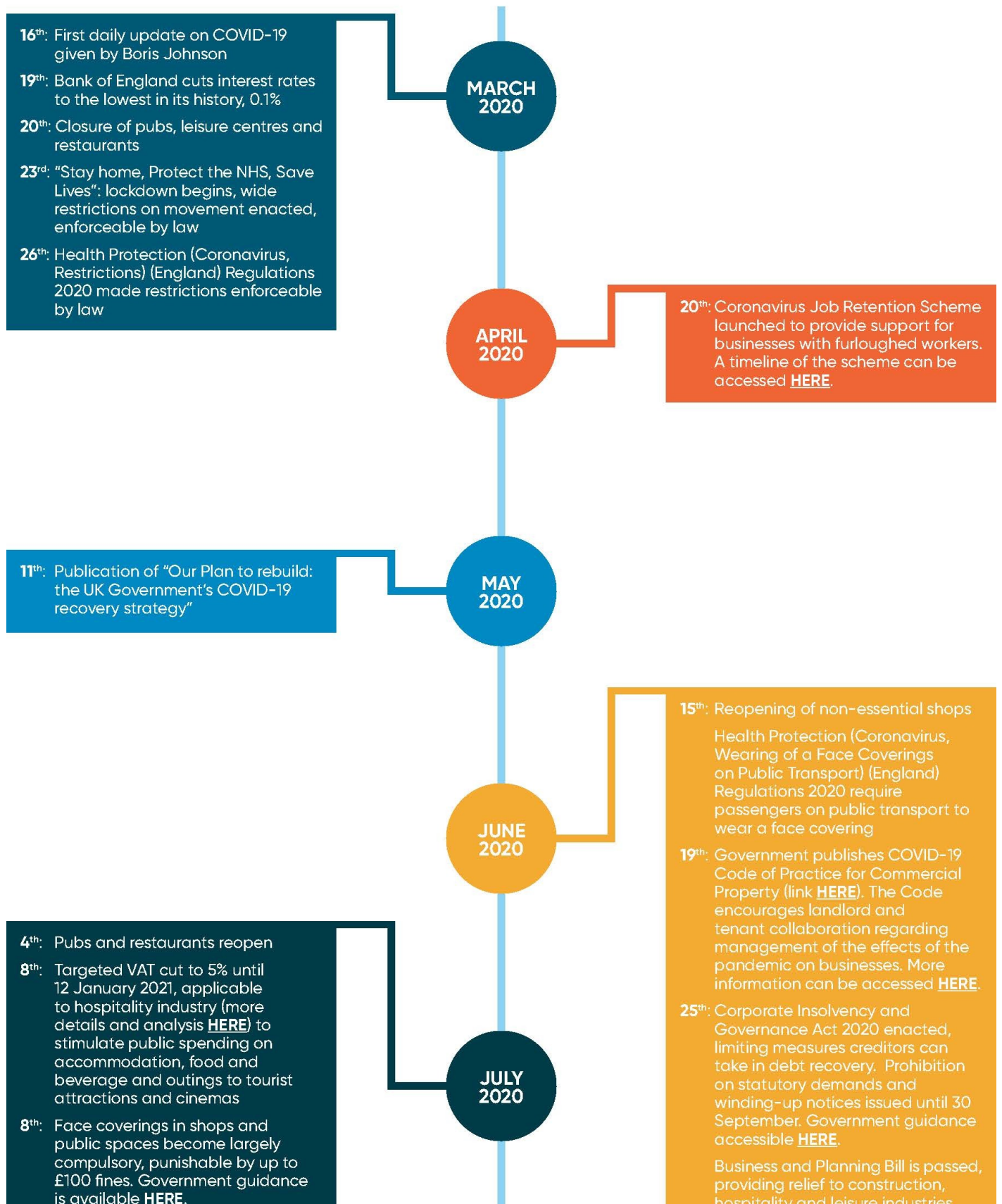
It is a common refrain that challenges facing the retail sector have been amplified by the pandemic. However, some research suggests that not all forecasts of the future of retail need be doom and gloom - while there are indeed closures and bankruptcies occurring, the reduction of supply may potentially benefit the remaining stores. Resilient retailers will be able to harness trends increasing in popularity, including direct-to-consumer delivery, a strong online presence, and a focus on customer service in their bricks-and-mortar stores. Retailers are taking tough longer-term decisions to close underperforming stores and streamline their portfolio, so as to be match-fit for a post-pandemic world.

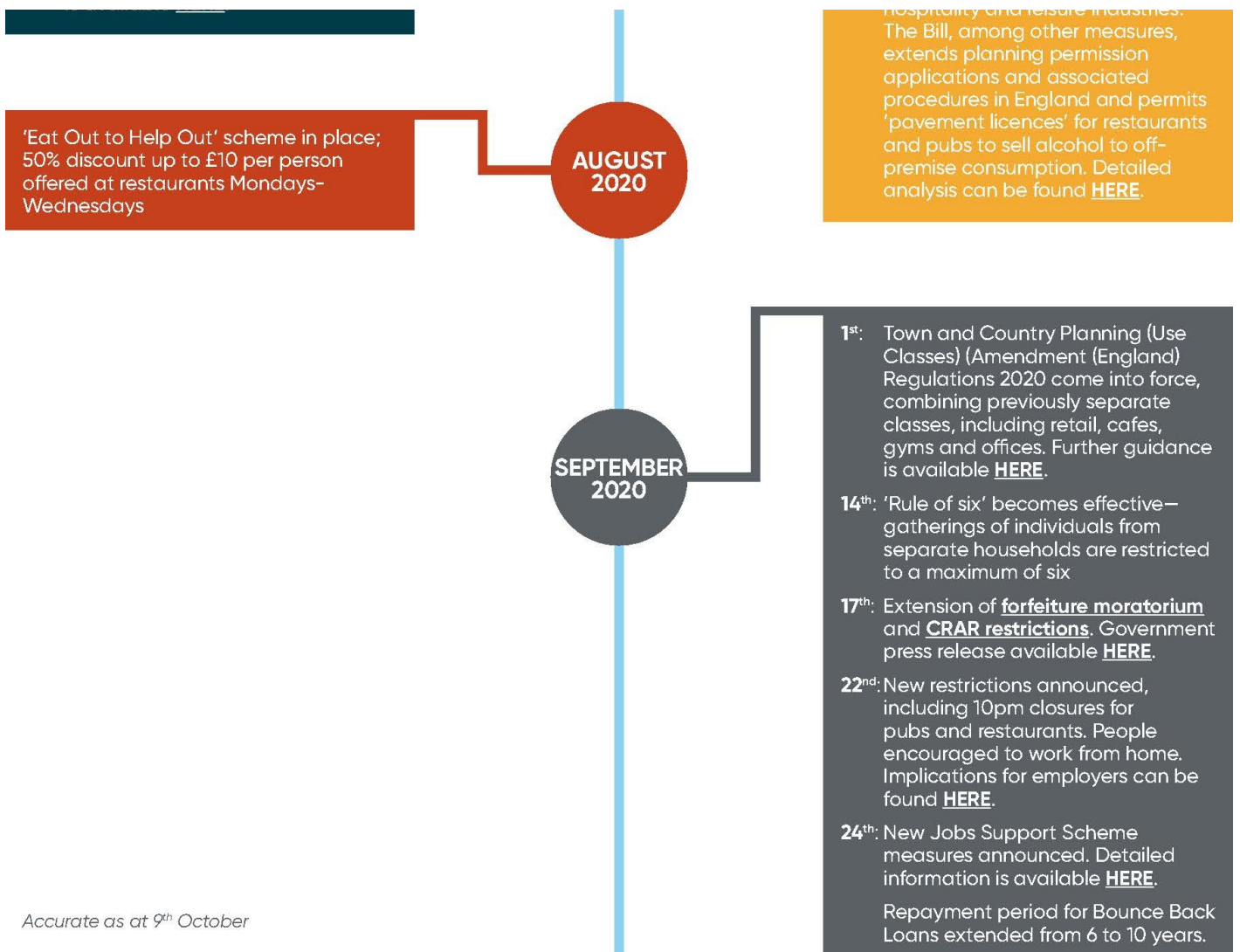
Updated Timeline of Real Estate Relevant Covid-19 Measures

This timeline is accurate as of October 9, and will be updated on a rolling basis.

UK – COVID-19

Relevant Measures for Real Estate





Please do get in touch with the BCLP Retail Team if you have any queries regarding the topics raised in this bulletin. This bulletin was co-written with Trainee Solicitor Madeleine Lofchy.

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