



# The Retail Pulse



Retail Expertise In Action

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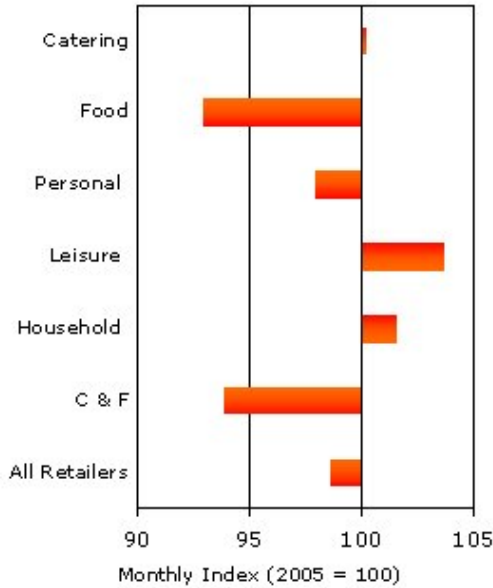
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## RNI

### June 2010



Household and Leisure continue to be the focus of positive news stories, with Clothing and Footwear, Personal, Food and Catering all experiencing decreases against the 2005 base, this month ensuring that the All Retailers index remains in negative territory

Once again, only Leisure experienced a YoY increase, at 4% against June 2009. Food once again suffered the most in the year at 12.3% down on June 2009.

FSP on average review over 350 unique items of retailer news. Each article is then scored according to sentiment. RNI is the sum of these scores, indexed against 2005 and averaged over a three month period. The RNI time series for all retailers starts from May 2002.

**Retail Business Consultancy**  
From FSP



**Retail Expertise In Action**

Find out more at [fspretail.co.uk](http://fspretail.co.uk)

GeoFFs View

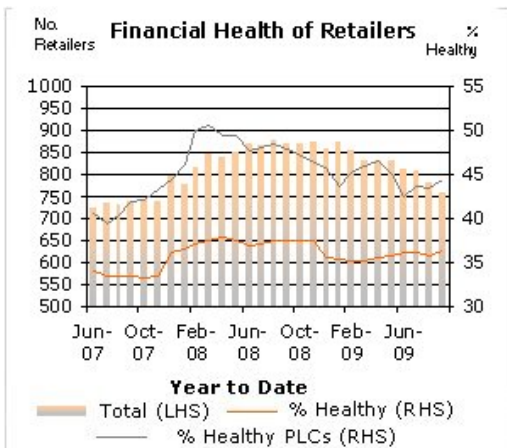
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## FAB



The FSP Accounts Barometer monitors retailers' financial health.

The latest data include all retailers who have reported for the year to September 2009. The percentage of UK high street retailers deemed Healthy was 36%. PLCs are generally financially stronger than average, with 44% deemed Healthy.

Many retailers have also reported to December 2009, however, with a gap around October and November, this is not yet shown on the graph.

Recent **SnapShop** enhancements now mean that members can be notified when their chosen retailers file accounts.

## Retail Burn



According to SnapShop and the Retail Burn, the most talked about retailers over the past month include **Waitrose**, **Sainsbury's**, **Best Buy**, **ASDA**, **M&S**, **Tesco plc**, **Co-operative Group**, **Uniqlo**, **EAST**, **John Lewis**, **Bodycare**, **Waterstone's**, **River Island**, **Wimpy**, **TK Maxx**, **Pringle**, **Multiyork**, **Diesel**, **Alexon Group** and **Liberty**.

The retailer recording the most amount of positively rated articles in June is **Waitrose**, whose convenience concept is taking shape, who have enjoyed good sales along with the rest of the John Lewis group and who are expanding in the Channel Islands

**Liberty** has attracted the most negative press with controversy surrounding the sale process before being taken into private hands, and the resignation of its Chief Exec.

Other notable stories include: **Best Buy's** triumphant entry to the UK market, **Uniqlo** heading to Bluewater on the back of increased sales; **EAST** expanding after a return to profit and **Diesel's** controversial ad campaign being banned.

## Hot 100


The Hot 100 in June 2010 includes;

- Electronic entertainment retailer **Game**
- **GNC**, the healthy option
- Reliable cookware company **Le Creuset**
- Upmarket womenswear retailer **LK Bennett**
- The nation's favourite **M and S**
- **Jack Wills** with its loyal following of polo fans
- Japanese general merchandiser **Muji**
- Unpronounceable menswear retailer **Charles Tyrwhitt**

These highly sustainable businesses have consistently delighted their loyal customers, have prudently managed their finances and have cautiously expanded, maintaining their appeal

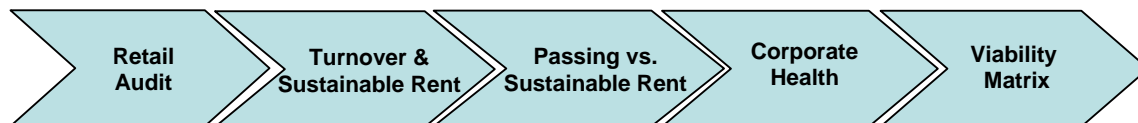
### Sustainable Investment – Trading Risk

This Product Focus on Trading Risk is the second in a series of three, intended to illustrate how appropriate pre acquisition research and good asset management can have a positive influence on income growth and potential exit yields.

If Corporate Risk is the risk to specific shops which arises through the overall financial performance of the retail chain, Trading Risk (sometimes known as Unit Risk) is the risk which arises through the performance of individual outlets within a specific asset. This most commonly occurs where the trading performance of a particular store is such that the level of rent which can be sustained by its turnover is less than the passing rent on the unit.

For asset managers, understanding the specific trading risk within assets can lead to strategy which minimises potential store closures, while for potential investors, knowing the scale of trading risk and understanding how much growth is required to improve turnover to sustainable levels is an essential element of pre acquisition due diligence.

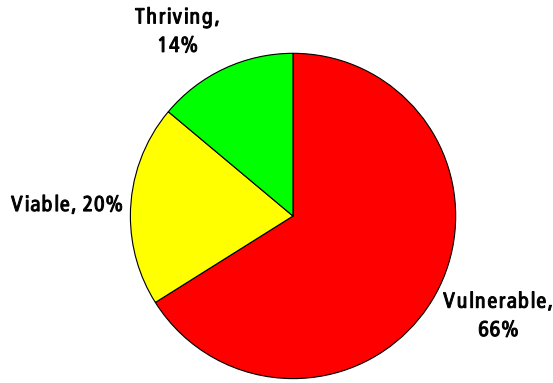
### Understanding Trading Risk



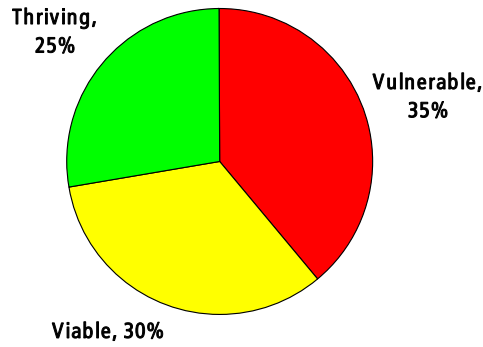
The key to understanding Trading Risk at an asset is understanding turnover. A small number of locations collect occupier turnover statistics however, for those less information rich, the most common approach is to undertake an audit to estimate selling floor space and turnover. From detailed analysis of individual occupier's accounts, FSP project typical rent to sales ratios and these are used to estimate the sustainable rent for each unit in the asset. When compared with passing rents, the degree of variation in the sustainable rent indicates whether a retailer is 'vulnerable', 'viable' or 'thriving' in terms of Trading Risk.

The diagram below from a project in the Republic of Ireland illustrates how assessments of each individual unit in a tenancy schedule can be aggregated to indicate the proportion of total scheme rental income subject to Trading Risk. In FSP's experience, typically about one third of shopping centre rental income is currently Vulnerable (i.e. sustainable rents are 25% below passing rents) suggesting that the particular scheme might expect increasing vacancy difficulties in the near future. However, the analysis also shows that a 12% increase in turnover would be sufficient to return the scheme to a more 'average' level of risk.

### Estimated Current Turnover



### 12% Uplift in Turnover



There have been many occasions where strong performing stores have been closed as a result of failures elsewhere in a chain and it is therefore important that assets are considered in terms of both Trading Risk and Corporate Risk. FSP uses a Viability Matrix to show the combined impact of Corporate and Trading Risk on scheme rental income. On the Viability Matrix below, Corporate Risk is shown along the vertical axis and Trading (or Unit) Risk is shown along the horizontal axis, with the ideal balance of rental income (indicated by the Percentage figures) being located in the bottom right hand corner of the matrix. Asset Management activity can then be focussed upon the those occupiers who account for the 23% of rental income who fall within the Head above Water & Vulnerable, Healthy & Vulnerable and Very Worrying & Viable cells.

		Unit Risk			
		Vulnerable	Viable	Thriving	
Corporate Risk	Very Worrying		Superdrug Julian Graves Fineweave Carpets Starbucks		0%     10%     0%
	Head Above Water	Stead & Simpson Sony Centre Robert Dyas	Bon Marche Shoe Zone D&A Vision Express Diamonds and Pearls digital Millets Greggs Poundland Waterstone's	F Hinds	9%     21%     1%
	Healthy	Card Factory Holland & Barrett	Specsavers WH Smith Sports World Clarks Evans Clarks Ernest Jones Burton Gamestation Early Learning Centre Subway	The Body Shop Sainsbury's Central Boots the Chemist Topshop/Topman Dorothy Perkins	4%     27%     27%

The combined assessment of Trading and Corporate Risk is a tested and successful approach which locates retail risk within assets and establishes the scale of improvements required to successfully ameliorate unsustainable occupiers. Deployment of the methodology has achieved notable success including at one prime asset, the reduction of rental risk from 43% to 7%, the migration of sustainable rents from 20% below passing rents to 10% above and a 76% growth in rental income over 4 years.

The final Product Focus in this series will discuss the main techniques used to identify opportunities and achieve this Income Growth. More information can be provided through FSP's consultants.

## What is Retail Pulse?

Retail Pulse is a free monthly publication that highlights information available at [www.fspretail.co.uk](http://www.fspretail.co.uk).

Helping clients make best use of their retail property is FSP's role, and although all property is location-specific, its best use is affected by industry-wide trends. FSP maintains unique measures of trends in UK retail property, and it's proven that monitoring existing trends improves the understanding of likely future ones.

FSP measures are focused on patterns in retail performance, and are therefore designed to supplement the standard property driven measures. Interpretation of all these data is the FSP business, contact us for information.

SnapShop from FSP now enhanced with Favourites and Alerts. [Email us to find out more](#)



01494 474740 • [fspretail@fspretail.co.uk](mailto:fspretail@fspretail.co.uk)

Retail Pulse data derived from [Snap-Shop.co.uk](http://Snap-Shop.co.uk)

