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RETAIL MID-YEAR INSIGHT 2022

MARKET OVERVIEW

When we launched our Business Outlook Report: Adjust Adapt Advance at the beginning of 2022, the UK economy was recovering to pre-pandemic levels and expected to grow throughout the year, albeit not without headwinds driven by inflation, supply chain issues and staffing shortages across various industries.

However much has changed since then and we now find ourselves in a more challenging economic environment, having seen the sharpest rise in the cost of living for decades, over the past six months.

Inflation in the cost of fuel, energy, food and labour is a key concern for forecourt and convenience operators and poses a threat to the relative buoyant trading period that many businesses have experienced over the past two years. However, in the first half of 2022 these challenges were not enough to dampen buyer appetite and so the transactional environment has remained robust.

Times are changing fast whilst the 'big four' supermarkets struggle to keep pace with the roll out of Aldi and Lidl. Larger operators continued to churn their portfolios and focused on acquiring new stores in key markets, as was predicted in our Business Outlook 2022 Report. This provided a fantastic opportunity to the wide pool of independent buyers still seeking sites, with the quality of assets becoming a key consideration in light of increasing operational costs.

Additionally, the significant increase in the cost of construction materials has caused the multiples to rethink their new store roll-out programmes. The knock-on effect is likely to see renegotiated rents or indeed developers left with no tenant at all. Thankfully there remains a steady stream of 'acorn operators' likely to 'grow into oak trees' who we can put in touch with investors and developers.

At the time of writing, speculation has been circulating around the future ownership of some of the largest group petrol retailers, with further corporate divestment anticipated by the market this year. Clayton Dubilier & Rice (CD&R) will want to avert a detailed CMA investigation following their purchase of Morrisons and so the sale of MFG is a possible scenario. Alternatively, if CD&R stay in control, MFG will need to sell 87 sites to satisfy the CMA concerns about competition.

Earlier in the year, Morrisons themselves bought McColls Retail Group out of administration. This was not unexpected, with Morrisons being the principal supplier to McColls. Despite overtures to retain all staff and keep all stores trading, it would not be a surprise to see them shed many stores that are simply unviable as a fully managed 'corporate store'.

The Government recently requested the CMA to investigate fuel prices and whether the cut in Fuel Duty was passed on. Retailers have few levers to counter rising costs, and control of profit margins through pricing is one of the most obvious. It is therefore no surprise that fuel prices have risen.

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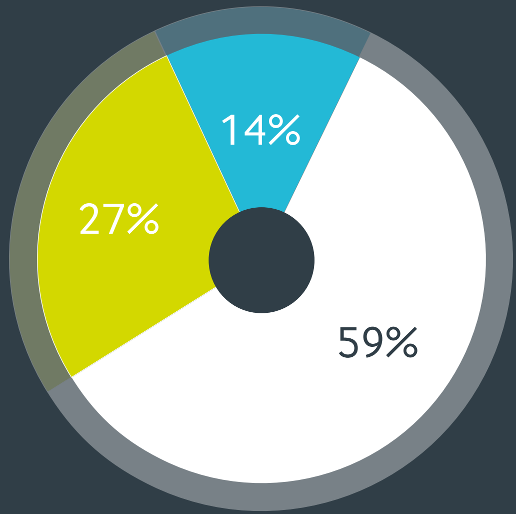
AVERAGE FUEL VOLUME BY OWNERSHIP (MLPA)



There are 8,381 Petrol Filling Stations across the UK

1,506	5,369	1,506
Oil Companies	Independent	Supermarkets

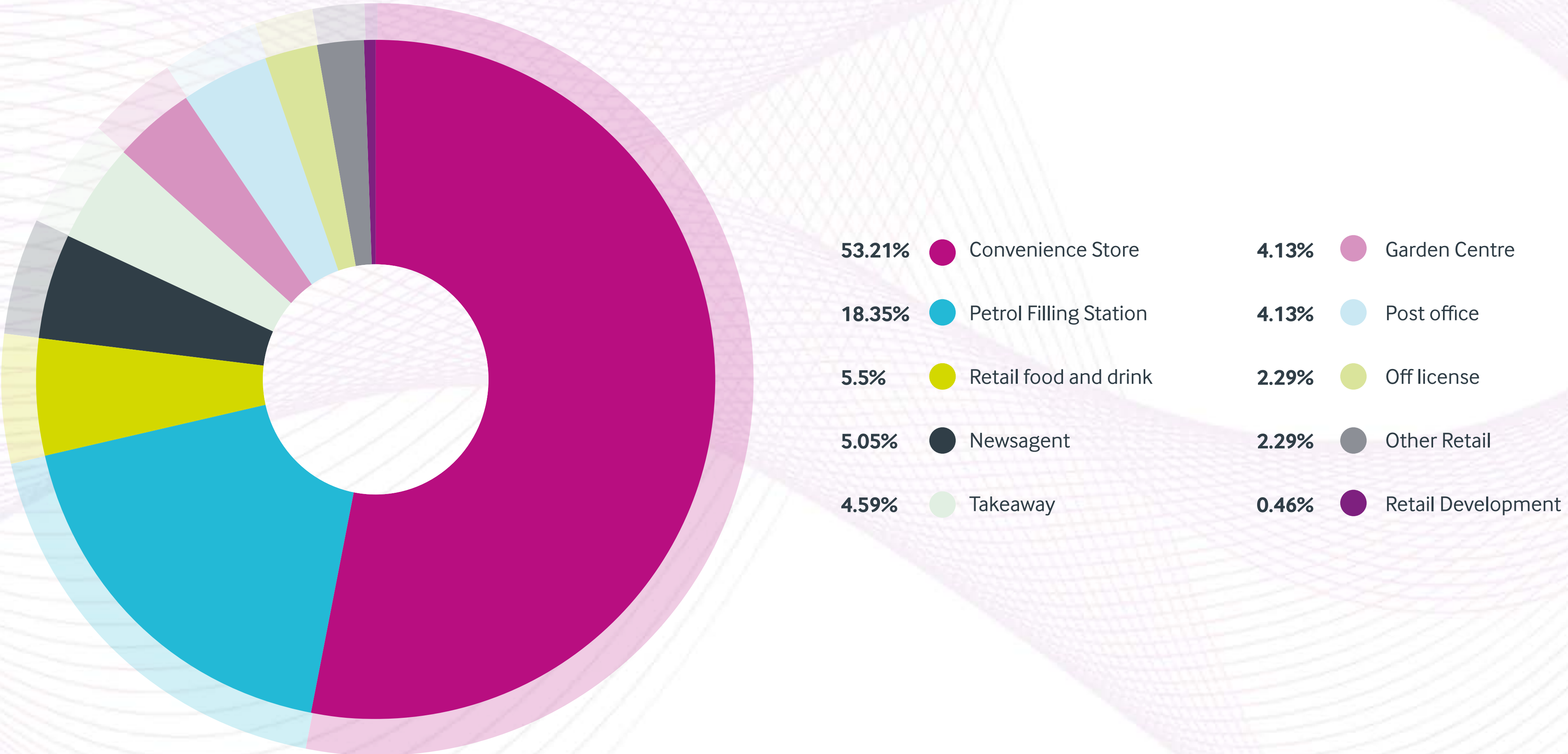
Major grocers also face possible disruption from the likes of Amazon Fresh, who have stated they want to roll out convenience stores across the UK. ASDA is also gearing up for "rapid expansion of a new convenience and wholesale business."

Due to the weight of ongoing buyer demand, business prices are holding up. However, deals times are longer as buyer due diligence is protracted, particularly if there is a requirement to borrow. Our experienced team know how to deal with this, making it more crucial than ever to invest in the support of a retail business agent when selling your business.

As the pandemic caused people to rethink their lives, so too has it also brought about some diversification to the types of retail businesses that we have sold in H1 2022. Convenience stores and petrol filling stations make up the majority of our instructions, however we also recently sold dessert shops, marinas and brought to market a specialist fishing tackle store.

We can apply our long established marketing process to almost any situation.

BREAKDOWN OF RETAIL BUSINESSES FOR SALE H1 2022 (%)



RETAIL INVESTMENT OVERVIEW

Despite increasing macro-economic and geopolitical concerns, sentiment in the wider investment market remains positive.

In the retail sector, traditional shopping centres remain difficult to sell unless they have a very clear target market (e.g. outlet retail centres) or are closely paired with complementary leisure and hospitality uses). High street retail investment is faring slightly better but over-rented leases and high levels of vacancy are focusing demand on assets with strong tenant covenants in sustainable locations.

For convenience store investments, vacancy is not normally an issue and the attraction of indexed income from relatively recession proof businesses is placing downward pressure on yields. The recent announcement of Morrisons acquisition of McColl's underlines the strength of operator demand in the convenience sector and the investment value of the former McColl's stores may benefit from a superior Morrisons covenant. However, this isn't guaranteed and it is possible that Morrisons may look to sell some of the smaller stores in weaker locations.

The ESG (Environmental / Social / Governance) agenda has become a more important factor for most institutional investors. Petrol filling stations being retail businesses (rather than polluting ones) haven't lost their appeal due to this factor alone. The convenience retail and real estate aspects of these opportunities continues to attract private investors, smaller family offices and property companies looking for secure income. In larger city centres, and particularly in London, developers are also active where there is longer term potential for residential redevelopment.

Inflationary pressures will undoubtedly have an impact on costs and pricing in the convenience sector but we expect most retailers to maintain their margins by adjusting product lines and improving in store services (including home delivery). This resilience is expected to continue to attract investors and to support the convenience investment market in the short term, with yields remaining stable or falling slightly.

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CASE STUDIES

CENTRAL CONVENIENCE STORES, WHEDDON CROSS, SOMERSET

A rural convenience store and petrol station let to Bestway Retail for a further 14 years at £73,542 per annum. Christie & Co sold the freehold investment at in excess of the £1,225,000 asking price.

DOVER DRINKMART, LONDON ROAD, DOVER

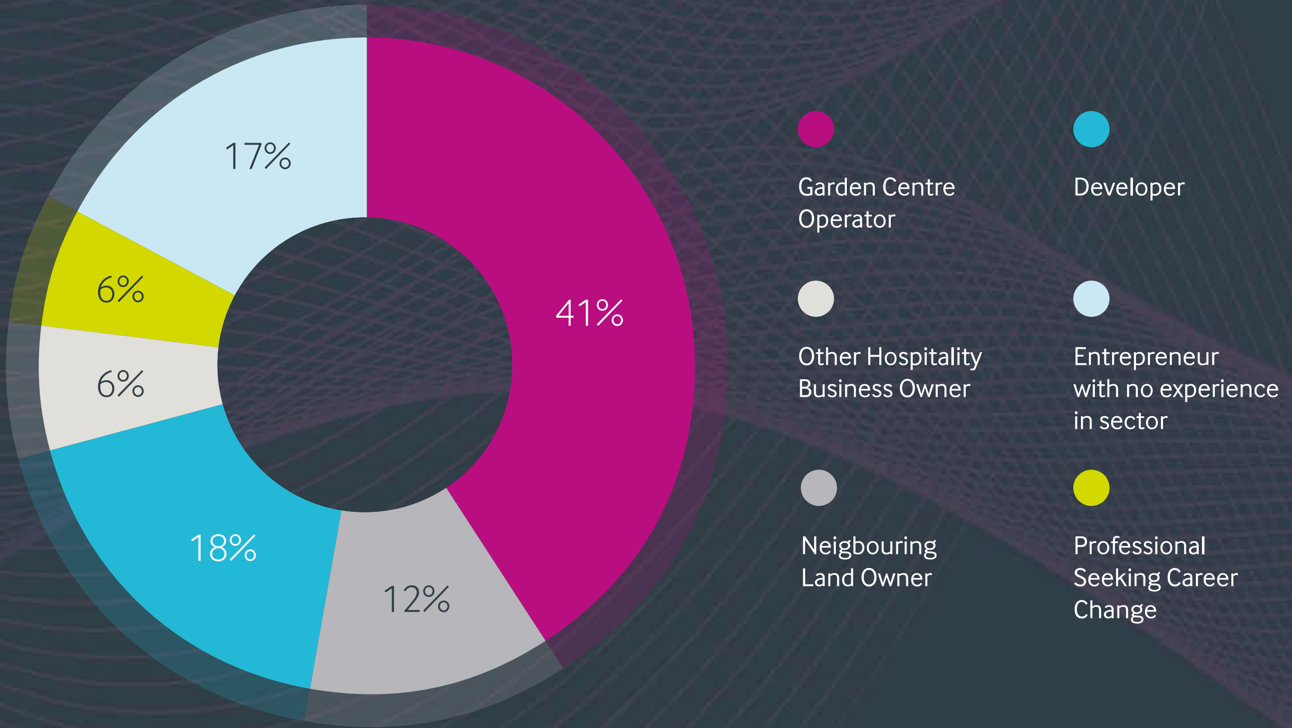
An off licence and residential investment let to private individuals at a total rent of £18,600 per annum. Christie & Co sold the freehold investment for £230,000, reflecting a net initial yield of 7.9% per annum.

GARDEN CENTRE MARKET OVERVIEW

Over the last six months, we saw the largest uplift in activity in the garden centre market in recent years (excluding Wyevale). Many of the larger groups continued their growth and we saw a flurry of sites change hands.

Of the 12 new instructions Christie & Co have brought to market this year, the most surprising statistic is that just 41% of applicants for these have been existing garden centre operators with developers and entrepreneurs with no experience making up almost a third of buyers.

WHO IS BIDDING FOR GARDEN CENTRES?



Analysis taken from offers received in 2022 by Christie & Co on garden centres that we are marketing.

SO WHAT IS DRIVING THE INTEREST IN GARDEN CENTRES? WE SEE A FEW CLEAR TRENDS EMERGING;

1. The positive performance of garden centres during the pandemic is bringing new investors to the sector

2. Investors are favouring businesses with an out-of-town shopping model due to the decline of highstreets

3. Rising land values are drawing buyers who can trade the business in the short to medium term and unlock further value through change of use in the longer term

4. Lifestyle buyers are attracted by profits and green credentials of garden centres

5. People with complementary businesses who can run the centre but add value bolting on other businesses

LOOKING AHEAD IN 2022

It is vital for sellers to present detailed management and trading information that displays a good track record. It will also be important to demonstrate loan affordability looking ahead, taking account of likely increased costs. Preparing to market an asset and using a professional to do so has never been more important.

CONVENIENCE

Whilst it is hoped that the cost-of-living crisis is a short-term problem, there is a significant opportunity for the retail sector to capture sales that may leak from the casual dining sector as consumers carefully consider discretionary spending choices. Retailers could also continue to benefit from flexible working patterns, which are here to stay for the short-term, although this presents problems for the operation of some town and city-centre stores.

Consumers will become increasingly price sensitive in the second half of 2022, as they start to feel the pinch from inflation and the increased cost of living. The temptation is great for retailers to compete on price in response but they need to focus on converting the 'lifeline' customers that they gained during the pandemic to 'lifelong' customers instead.

PETROL FILLING STATIONS

Statistics from The Department for Business, Energy & Industrial Strategy (DBEIS) show that average diesel and petrol sales at most sites (based on a sample of 4,500 sites) have recovered to 92% of pre Covid levels. Historically high fuel margins and increased shop sales are supporting, and sometimes enhancing, profitability.

Whilst fuel was historically the primary reason to visit a forecourt, other income drivers have become increasingly important to drive better site margins. During the pandemic, the shop became the principal reason and margins are far higher than fuel, so the drive to develop a full convenience offer particularly with "food to go" in any forecourt is very important. This is considered the primary long-term solution to any potential reduction in fuel sales resulting from the uptake of alternative fuelled vehicles. Other important profit centres are valeting and third-party rental income from complementary uses such as vehicle repairs or let food and beverage units.

Discussions around climate change, electric vehicles and the looming 2030 deadline have dominated news headlines of late. However, the reality is that we are still a good many years away from a meaningful uptake of pure battery electric vehicles (BEVs), with M&A activity over the past twelve months underpinning the strength of demand for forecourt assets.

Retailers must ask themselves whether they are capable of being part of this future rapid charging network, and if not, they will need to make a big decision over the long-term future of their business. Either commit to diversifying towards non-fuel retail or consider exiting.

The shift towards EV presents a significant opportunity for garden centre operators, with many sites well-positioned to benefit from the growing number of providers currently jostling for a location to roll-out their business in this emerging market. Operators are offering free installation costs as providers will happily pay to install and maintain equipment as part of an agreement that can also include a profit share of any resulting income.

So far, Christie & Co transactional data shows that the market growth for BEV's has not impacted on the appetite for petrol station businesses, albeit the advent of BEV is not being ignored. Shell and BP have been introducing rapid and ultra-rapid charging points at selected sites for some time and other suppliers are likely to follow. National dealers are also responding, such as Motor Fuel Group which has plans to invest £400m into installing 2,800 ultra-rapid chargers at 500 locations by 2030.

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WHY USE CHRISTIE & CO?

SIMPLE. YOU'LL ACHIEVE A BETTER PRICE.

Utilising the expertise of a specialist business property agent will help to increase the exposure of your business to the market, and create the competitive tension needed to capitalise on the current demand and maximise sale proceeds, with an offer at or above 'market value'.

Christie & Co's network of buyers, coupled with our market insight and local experts, means that our results are unparalleled when compared to off-market deals or those where properties have previously been marketed with another agent.

CASE STUDY

PROJECT VALE

Six high turnover leasehold stores, located throughout the East Riding of Yorkshire, were sold to a growing multi-site operator, based in the North of England.

We confidentially invited a host of well-funded and known buyers into our process. After multiple offers for the stores individually and as a group from a mixture of independent and corporate applicants, we agreed a deal above our client's expectations.

This is testament to the quality of our marketing and the competitive tension we created amongst prospective purchasers within our database and demonstrates how a professionally run process with our retail experts will result in the best price in the optimum time frame.

THE FUNDING LANDSCAPE

Lenders into the retail sector remain supportive of buyers due to solid trading fundamentals and buoyancy across the transactional market. Since the turn of the year, Christie Finance has supported 30% of Christie & Co completions, which is up from the previous year by 14% and is a clear sign that buyers benefit from the support of an experienced broker to ensure that a deal is completed successfully.

The pandemic has heightened awareness and made customers realise the value and need for a community shop, post office or petrol filling station. However, it is important for retailers to be ahead of any shift in consumer spending habits moving forward by ensuring they have the right agreement with suppliers, concessions or other income streams.

The lender market is vast and varied, but Christie Finance can place deals of all types due to its detailed market insight. Their tried and tested lender network have been very supportive of new entrants and the Recovery Loan Scheme (RLS) has assisted the ability to obtain funding for these buyers. Additionally, new lenders continue to enter the sector which means there is an even wider choice for borrowers.

It is important for those seeking funding to ensure that they have the right professionals around them and Christie Finance is dedicated to supporting the retail sector.

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OUR RECENT SUCCESSES

SOLD
CONVENIENCE STORES

WELTON'S POST OFFICE AND DELI
Great Bowden, Leicestershire

NISA LOCAL
Low Fell, Gateshead

SPAR
Porlock, West Somerset

SOLD
PETROL FILLING STATIONS

C B MOTORS KENT LTD
Tenterden, Kent

BLACKMORE VALE FILLING STATION
Blackmore Vale Filling Station

BP PENKETH SERVICE STATION
Warrington, Cheshire

FOR SALE
GARDEN CENTRES

MERRIMENTS GARDEN CENTRE & RHS GARDEN
Etchingham, East Sussex

FLITVALE GARDEN CENTRE
Bedford, Bedfordshire

LINCS AQUATICS
East Riding of Yorkshire

OUR SERVICES

Christie & Co offers professional agency and valuation services to both corporate and independent clients within the retail market.

BUYING

We work with many retained clients who are keen to acquire convenience stores and petrol filling stations that meet their requirements. Even if you are unsure about when to bring your business to the market, we may already have the right buyer lined-up.

SELLING

In total, almost 700 buyers offered on businesses we had for sale last year, and we successfully transacted more than £62m worth of retail assets. If you're considered selling your business, we have the reach and the expertise to make it happen.

PRICING

We sell hundreds of retail businesses every year, so we know what the market is prepared to pay. We pride ourselves on providing realistic and achievable pricing guidance, and marketing recommendations that get results.

VALUATIONS

Our team of RICS Registered Valuers valued in excess of £1bn worth of retail assets in 2020. As such we are well-placed to deliver formal Red Book valuations that provide informed advice based upon our unrivalled access to comparable trading and transactional evidence.

INVESTMENTS

We have an extensive database of investors looking to purchase retail assets that meet their yield and covenant requirements. Furthermore, our extensive corporate contacts ensure that we are well placed to find you a secure tenant if you're looking to let.

PROJECTS

We are frequently engaged by national retailers to run disposal processes for corporate sites that no longer align with their strategic priorities. As such, we have extensive experience in handling the sale of multiple retail businesses on a project basis.

FINANCE

Our sister company, Christie Finance, is an independent, specialist commercial finance broker securing funding within the convenience retail sector. With access to a wide variety of lenders, they are able to secure competitive finance solutions for clients in the form of commercial mortgages and unsecured business loans.

INSURANCE

Our sister company Christie Insurance specialises in insurance and risk management solutions to help ensure that our clients have the most appropriate policies in place. Their services range from business insurance through to life insurance and employee benefits.

RCC Business Mortgages plc, trading as Christie Finance, is authorised and regulated by the Financial Conduct Authority. Our Firm number is 709982. Not all types of business we undertake is authorised and regulated by the Financial Conduct Authority. Christie Finance operate as an intermediary and are not a principal lender.

CLIENT TESTIMONIALS

Here is what some of our clients have to say about working with Christie & Co.

Many thanks indeed to Christie & Co for all your efforts regarding the sale of D&S Retail Stores Limited. Your support throughout the whole process was without question beyond our expectations and I would have no doubt whatsoever in recommending the Christie network to anyone wishing to sell their business in the future.

David Thompson, D&S Retail Group

Tom Glanvill's guidance throughout the purchasing process was tremendous; insightful and very helpful to us as first-time buyers in the convenience store market. He was balanced in his judgements, fiercely loyal to his clients and at the same time supportive and encouraging to us. Thank you enormously for your help.

Mark Preston, Childrey Village Stores

After 40 years as owners of Hewlett Stores, we can now happily retire and hope the new owners continue the role of a much-loved community store. Christie & Co have offered a smooth transfer of a historic property and our agent, Jamie Williams provided an outstanding service.

Jack Kotecha, Hewlett Stores

We are writing to say how grateful we are to Dave Morris who has guided us through this long and difficult process with great care and professionalism. He was always available to offer support and advice.

Chris and Penny Jones, Four Turnings Garage

We cannot fault the hard work of Stephen Bell in facilitating the sale. The premises was sold after only four days at above the asking price and from then on Stephen kept in touch every step of the way. We highly recommend Stephen and Christie & Co if you are selling your business.

Andrew and Jane Parsons, The Old School Shop

OUR TEAM

Christie & Co has a team of retail sector specialists across the UK, contact us for expert insight and advice.

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