The Changing Face of Retail

An analysis of the retail sector and the realities it faces in 2013

Ireland's retail sector is going through a tough and challenging trading period; it is no different from every other business sector struggling to survive in the midst of severe economic contractions and government austerity measures. It can be argued, however, that the challenges the sector faces go beyond economic contractions and weakened domestic demand. The emergence of online shopping is mirroring a shift in consumption patterns and upward only rental agreements are in many cases hampering what would otherwise be successful and profitable trading entities. These obstacles beg the question as to what the future of retail stores will be, and the possible impact this could have on the traditional high street city model.

This report has been compiled by Limerick Chamber to contextualise the changing face of retail in our City; a City where more retail units were occupied in the core retail area in January 2013 than had been in January 2012.

Retail vacancy fell by over 15% in the year to January 2013 within Limerick's retail 'core'

Nationally retail sales[1] posted a modest annual increase to December 2012 and this is reflected in the decreasing level of vacancy throughout Limerick City.

Retail sales[1] increased by 1.1% annually to December 2012

This report by Limerick Chamber highlights the positive trends that are emerging in Limerick, a changing city presenting with it new business expansion and investment opportunities.

Economic Climate

The measure of a country's economic health is measured by output, more commonly known as Gross National Product (GNP). It is made-up of four primary constituent parts: Consumer Expenditure (C); Investment (I); Government Expenditure (G); and Net Exports (Exports (X) less Imports (M)). For an economy to grow, consumers, governments and investors need to be spending in addition to a healthy balance of trade surplus (X>M). Since the economic crisis in 2008, government spending and investment has been slashed, increases in unemployment levels coupled with hikes in direct and indirect taxes have negatively impacted on consumer ability to spend or invest, and the money markets have been in turmoil. The only performing variable

[1] Excluding motor trades

within the Irish economy has been export growth; the variable most susceptible to external factors outside our control.

In 2012 the Irish Economy is estimated to have grown by 1.5%, a positive development given the 2.5% contraction recorded in 2011 (Central Bank of Ireland, Q1 2013). This growth has however been entirely export driven. Given predictions of global weakened demand and Eurozone uncertainties throughout 2013, it is not surprising that both the Central Bank of Ireland and the ESRI have both revised downward their forecasts for growth for the Irish economy for 2013.

"the forecast is for a continuation of the gradual recovery in the overall level of economic activity, though at a slightly slower pace than previously projected"
(Central Bank of Ireland, Q1 2013)

With an unemployment rate in excess of 14% (IMF estimates that this would be closer to 20% were it not for the high levels of emigration), continued increases in the levels of indirect taxes, spiralling bank debt directly impacting on SME access to credit, weakened consumer confidence and hampered disposable income, it is little wonder that domestic demand continues to decline with estimates of stabilisation and possible returns to positive growth not happening before 2014.

Total retail sales have fallen by 25% since the start of the recession

With reducing confidence and the circulation and velocity of money decreasing, what can be done to protect the decline in demand for retail products. With on-going challenges such as our current account deficit and commitments on delivering a reduction in our debt to GDP ratio, there is little doubt that government spending must continue to be reduced and revenues increased; the question is what strategies government are pursuing to achieve this?

Ireland is most certainly not adopting the Keynesian model of spending our way of a recession.

The Government's deal with the ECB to eliminate promissory notes in exchange for long-term bonds will ease its bank debt repayment burden significantly. This will assist greatly in rebuilding consumer and investor confidence and help boost the domestic economy. The reported deficit saving of €1 billion annually is significant but must not mask the need for much needed reforms and the continued curbing of Government spending; revenue raising measures which increase the cost of doing business cannot be used to close the gap between income and expenditure. Croke Park II remains vital for our economic recovery and must be the Government's top priority.

15% of Ireland's workforce are employed in the retail sector

Christmas has always been seen as a 'make or break' time for retailers, with significant expectations of sales increases. The latest provisional Retail Sales Index figures released by the Central Statistics Office (Central Statistics Office, 2013) show an annual volume index increase, excluding motor trade, of 0.8% for December 2012, while the value of sales increased by 1.1%. Certain sectors drove this increase, specifically 'Department Stores', while other areas, such as 'furniture and lighting', took a big hit.

The inclusion of motor sales however tells an entirely different story; despite budgetary measures to stimulate demand in the motor sector, sales fell by one-fifth in the year to December 2012. The figure underlines the challenges that the wider retail and business community is facing in Ireland.

In their 2012 Action Plan for Jobs the government has identified several initiatives and schemes which they claim will support employment retention and growth specifically in the retail sector. Supports and initiatives at local and regional levels to stimulate domestic demand included Buy Local and 'Love Irish Food' campaigns. With anecdotal evidence showing a much higher multiplier effect for €uro spend in a 'local' retailer than a 'chain' store these were worthwhile initiatives and should continue throughout 2013.

However, other actions, such as 7.13.4 and 7.13.5, which were aimed at supporting retail firms adopt ICTs to promote competitiveness and innovation capacity in the context of accessing international markets, were less successful. There were no applications for funding from companies in the retail sector in 2012 to either Enterprise Ireland's Going Global or First Flight programmes. This can be explained by either a low level of awareness within the sector of these specific supports or a mismatch between what is being offered by government and what the sectoral demand is.

The 2013 Action Plan for Jobs must deliver a more targeted approach particularly in regard to supports for the retail sector.

Returning to the initial analysis of GNP and its constituent parts, net exports are a key driver for growth in the economy. A worrying trend within the Irish online market is that €3 of every €4 spent is spent on overseas goods and services. These imports equate to both a nominal euro leak out of the circular flow of money and also dampen the possible multiplier effect on the domestic economy. Government policy needs to be adjusted to facilitate and encourage **Irish retailer activity in the online market** to negate demand for overseas products.

The shift from brick to click

The emergence and surge in the growth in demand for online shopping is an international phenomenon which is challenging and changing the face of high street retail. It is negating the necessity to physically visit a shop allowing one to compare and contrast prices, designs, styles, colours, ranges and a whole other host of variables from the comfort and privacy of one's own home. With an estimated 2.4 billion people, or 34% of the world's population having internet access, online sales are set to continue to soar.

It is estimated that the value of online Business to Customer (B2C) sales will exceed the €1 trillion mark in 2013

The B2C e-commerce market alone grew by over 20% in 2012 to an estimated value of €825billion in 2012 (Interactive Media in Retail Group, 2013). In context, the value of all goods and services produced in Ireland, or Nominal GNP, for 2012 is put at €130.9bn (Department of Finance, 2012).

A number of factors are driving growth in this sector including customers' appetites for value for money and greater variety, the increased usage of mobile devices – there was a 300% increase in mobile-commerce in 2012, improved security and increased ease of utilising this method, convenience (24/7 from home), as well as the drive toward this tool via increase marketing & use of social media campaigns.

A dual retail market is emerging with publically traded company's reports differentiating between brick and click sales; and online sales are, for many, in a different league. UK retail giant John Lewis reported pre-Christmas record breaking increases in online sales, up 44% in 2012; accounting for 25% of the £GBP value of the group's total sales (Wood, The Guardian, 2013). While fashion retailer Next also recorded festive season increases in sales, the disparity between brick or click is much more apparent with online shopping increasing by 11.2% while in-store shopping increased by a more modest 0.8% (Wood, The Guardian, 2013).

In addition to a change in the way products are being purchased, there is also a shift in the way products and services are being consumed.

The emergence of digital music has transformed the music and entertainment industries. iTunes annual revenue is $8 billion, and it is seen as a flat and fledging market with the arrival of rivals such as Google Play and Netflix to name but a few. Richard Branson saw the writing on the wall in the mid-2000s selling off most of his Virgin Megastore business. While it is always regretful to see the closure of any business and the loss of jobs, it could be argued that the recent announcement that receivers had been appointed to the HMV group had been flagged for some time. The market demand for their product has shifted away from the brick to the click.

In Ireland, an estimated 43% of people between the ages of 16 and 74 made purchases on the internet in 2011 (Central Statistics Office, 2012). With an average expenditure in excess of €1,000 (IMR Smart Knowledge Base, 2011) the most popular online purchase for Irish households in 2011 were 'other travel arrangements' (30%) and 'holiday accommodation' (28%).

20% of online purchases in Ireland were for 'clothes or sports goods' and 14% were in 'films/ music'

With no significant barriers to entry and more people trending towards the value for money and the convenience online shopping model offers, **government must enact a stimulus package to promote greater Irish retailer training and up-skilling, to increase our presence in this market**.

Government also need to address the current cost and administrative licensing burden placed on Irish retailers. A **single portal needs** to be created to facilitate the administration of the current 50 licenses a retailer must comply with.

Is online shopping a substitute or complementary good for the high street store?

The abandonment of the high street store would be the abolition of what is a shopping experience… the ability to browse, to touch, to feel. Yes, there is a demand for €uro value driven shopping, however this will not be to the detriment of the physical high street store. People will continue to both desire and demand a physical presence on the high street. The balance that needs to be stuck is the equilibrium between the complementary role the brick and the click have.

Upward-only rental agreements

One of the most obvious and stark reminders that the Irish property bubble is well and truly burst are the numerous empty and vacant retail units that are dotted along main shopping thoroughfares throughout the country.

Many lie idle due to long-term upward only rental lease agreements that were signed during the blinkered property haze that engulfed the country from the mid-90s. The contracts have been cited by many as forcing closures. Traditionally, upward only rent reviews were a feature of commercial property in Ireland and the UK; in other countries rents are often indexed to inflation or to an annual increase. The long term nature of leases, which usually exceed twenty years, is also unique to Ireland and the UK, elsewhere short term agreements have been favoured.

Take the case of Arzac – the group that operate the familiar fashion outlets Pamela Scott throughout the country – who recently applied to the High Court to appoint an examiner to half of their 24 stores. The 12 stores the group have sought bankruptcy protection for are all tied into long term upward-only leases, signed in the height of the boom. The two large stores the group operates in Limerick, Henry Street and the Crescent Shopping Centre, are potentially set to close. DIY superstore B&Q has also entered into examinership in an attempt to keep seven of its stores operating viably contingent on substantial rent reductions. Their claim is that their rental bills are currently double the open market rent. Having seen their rival Atlantic Homecare adopt this exit strategy last year, it is little surprise that B&Q have gone down this path.

The mounting number of closures begs the question as to what role government play in protecting jobs, particularly where closures are citing lease agreements as directly impacting on the sustainability of the business. Korky's shoe shop on Grafton Street is a prime example; having launched a very public call on government to enact legislation on the crippling impact upward only rents were having on their business, the Corcoran brothers had to admit defeat and close their store on Grafton Street at the start of the year.

Upward-only rental contacts remain a huge barrier to sustainability within the retail sector. Legislation has been enacted under a recent insertion to the Land and Conveyancing Law Reform Bill prohibiting upward only rent review clauses in commercial leases. While welcomed, this will do little to alleviate the problems facing those locked into contacts. Despite pre-election promises by both FG and Labour, government now say that it would be unconstitutional to retrospectively adjust private part contracts.

"give tenants the right to have their commercial rents reviewed irrespective of any upward only or other review clauses"
Fine Gael Election Manifesto

"abolish upward only rent reviews for all commercial leases, as a matter of urgent priority for the Dáil"
Labour Party Election Manifesto

NAMA – now arguably Ireland's largest landlord – is **amenable to rent negotiations** when the tenant can prove that their rent is out of line with current market trends and the cost of the agreement is threatening the future viability of the business. The group has a 97% approval rate; by end-2012, 212 applications for rent abatement with an aggregate value of €13.5m were successful.

However, **non-NAMA landlords are not necessitated to show such flexibility** toward the tenant to adjust costs to deal with the stark changes in economic realities.

Many individual landlords have borrowed on the strength of rental income; any reduction will directly impact on their ability to make interest and capital repayments. Without the necessary **flexibility from their lending institution to alter loan conditions** their hands are tied. Additionally with many commercial properties forming part of investment portfolios with institutional investors, and investment managers focused on return on investments, a tenant's ability to negotiate rental freezes or reductions is non-existent.

If the landlords are not willing or able to negotiate more market-driven rental rates, is the only option for struggling businesses to deal with this escalating cost, in a period of economic contraction, to appoint an examiner?

An examiner has the power to retract or abandon the lease agreement; in doing so the business may remain trading and viable

This route, as adopted by retail giants such as Atlantic Homecare, Pamela Scott and most recently B&Q to release them from high rent agreements, may become more utilised as consumer demand continues to contract.

Government need to urgently address the unsustainable impact the demands of upward only rental contracts are having on retailers and the Irish high-street

Recent changes in Company Law simplify the process for SME's to apply directly to the Circuit Court for examinership protection. Without necessary government interactions to adequately address the challenges facing SMEs and retailers, one can only envisage an increase in the number businesses voluntarily placing themselves into examinership in 2013.

This will not serve the best interests of the consumer, business or economy.

Government must act.

Limerick City

Limerick is Ireland's third city with an urban population of approximately 100,000. The capital of the Mid-West region, the city has traditionally suffered from strong out-of-town competition. With a constrained urban boundary, competition with out-of-town shopping centres had eroded the competitiveness of the city. At one point commercial rates in the city were 25% higher than their counterparts located a mere few kilometres away in the suburbs. This disparity is now being addressed with a realignment of electoral boundaries currently taking place to more accurately reflect the urban population as well as changes in the delivery of local government model, merging what had become competing local authorities.

Positive steps and signals have already been adopted by the new authority, sending a clear message that Limerick's urban core will be utilised as the key catalyst for growth for the greater Limerick and Mid-West regions

Purchasing the 3.2 acre Opera Centre Site with funding from the Department of the Environment, Community and Local Government, Limerick's Local Authority and national government strongly signalled their commitment to reignite growth in the city centre. With plans to develop a mixed use commercial, office and retail centre, this move highlights the leading role they are willing to play in reviving business and demand.

Other recent local authority announcements and initiatives which send positive pro-business signals to market include; the creation of a Directorate for Economic Development; the establishment of a Town Centre Management Business Unit; a pilot Georgian scheme; a 5% reduction in commercial rates for the city in 2013; and an Economic & Spatial Plan to be launched for public consultation in March. There are also schemes targeted at filling empty units, specifically the Retail Incentive Scheme and Creative Limerick Initiative.

The business community are playing a key partnership role in adopting change, presenting opportunities and coherently bringing growth. The realism of collective effort is being fully embraced. Successful initiatives such as Tidy Towns, Local Heroes and FreePark have been delivered. Such incentives underline the collective positivism and pro-business appetite that exist within the business community and mirror the shift in perceptions, focus and attitude that is occurring.

It is not surprising therefore that an audit conducted by Limerick Chamber reveals that the levels of vacancy within the primary retail core fell from 11.1% in January 2012 to 9.4% by January 2013.

Of the 297 retail units located within the central retail core audited, 33 were empty as at January 2012; this had fallen to 28 by January 2013. Regretfully 18 stores closed during the period; however this was off-set by the opening of 20 new retail units.

A net positive gain of retail stores during a period of significant retail contraction is a positive trend for Limerick City

Having undergone significant public realm upgrades and remodelling, William Street and Sarsfield Street both report increased levels of retail activity. With a vacancy rate of 3% and only one unit due to come to market to let, there is little doubt that William Street is a thriving retail hub. Similarly, with only one unit available to let on Thomas Street and no empty unit on Bedford Row, there can be little doubt that physical appearance and presentation is vitally important and can impact significantly on retail activity.

Unfortunately, despite an overall drop in the rate of vacancy along the audited core retail section of O'Connell Street (from 17% to 15%), the street continues to have the highest number of vacant units (eight) and with the Black Tie announcement in recent weeks this is set to increase further. Most empty units on the street have been vacant for more than a year.

O'Connell Street needs to become more pedestrian friendly to encourage greater footfall and retail activity

Given the obvious positive impact public realm upgrades and remodelling have had on retail activity in the City, it is crucial that plans to upgrade and **redesign O'Connell Street be fast-tracked.**

Recently published revised guidelines on Development Contributions issued by the Department of the Environment, Heritage and Local Government are welcomed. The recommendations include **waiving charges relating to 'change of use' permissions**[2] and **reduced rates for developments in town centres**. These national Guidelines must be adopted by each local authority, however Limerick Chamber urges Limerick's Local Authority to go further in their implementation to ensure that Limerick urban core becomes the key investment mecca in Ireland over the coming years.

Changes in the delivery of local government for Limerick, coupled with the collective support and appetite for change from within the business community, continue to have a significant positive impact on the city with a tangible shift in business sentiment. The appetite for the revitalisation of our city must continue with the same vigour and enthusiasm. A partnership approach is of paramount importance in ensuring the future success of a city in which we are all stakeholders.

Conclusion

Limerick City appears to be bucking the trend in terms of retail performance with vacancy levels below the national average and

[2] Where the 'change of use' does not lead to the need for new or upgraded infrastructure/ services or significant intensification of demand placed on existing infrastructure.

increased retail activity in the city during 2012.

The business message coming from Limerick is hugely positive: the rate of unemployment in the Mid-West is below the national average; Limerick is developing the template for local government reforms nationally; and Limerick will be the first city in Ireland to unveil an urban spatial development plan. With unparalleled levels of international connectivity through Shannon Airport, Shannon Foynes Port Company and significant rail and road infrastructural improvements in recent years, Limerick is both a competitive and easy location in which to do business. With a proven track record of both a skilled and flexible labour force, serviced by excellent third level institutions, there is little doubt that more world class centres of excellence and innovation will be attracted to invest and locate in the heart of the Mid-West region. New business and job creation ultimately brings increased domestic demand and disposable income which will be spent in retail outlets.

Many opportunities for business expansion and growth are currently emerging from Limerick and it remains the key location to watch in the next five years in Ireland.

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