



Sustainable Retail Investment

Income Growth

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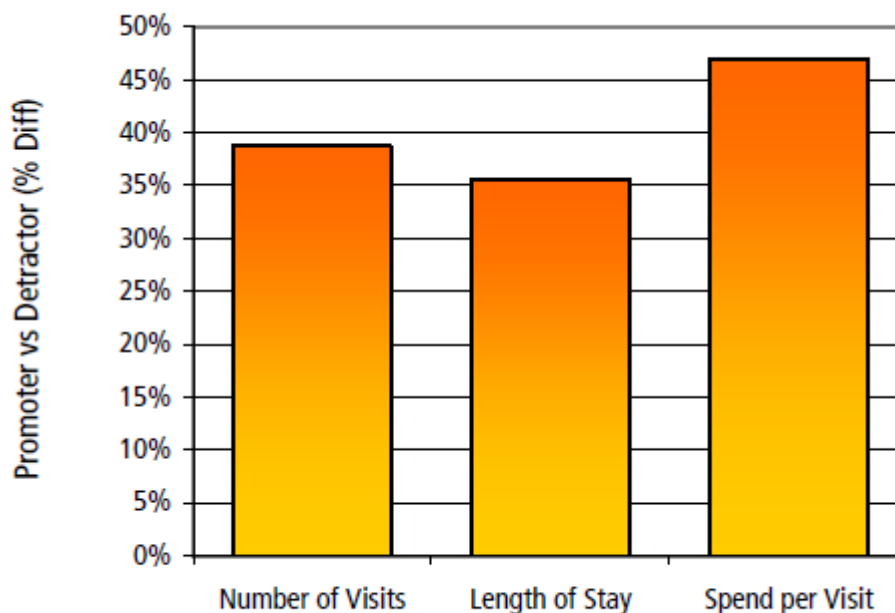
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Other downloads deal with identifying Corporate Risk (occupiers in poor financial health who may go into administration) and Trading Risk (occupiers who cannot afford to pay the passing rent).

FSP studies identify that the combination of these issues typically puts about 35% of current rental income at risk in shopping centres adding to the threat to future income growth and asset values from historically high rates of vacancy. Given the typical cost of filling empty units, it may take 5 years of average rental growth just to claw back the income lost during the recession. If asset managers want to out perform national indices and to lay the foundations for future capital growth, FSP believes shopping centres, like the UK economy will need to trade their way out of the current depressed situation.

Income growth may seem like a distant memory to some and impossibility to others but even in a stagnant market, it is possible to increase sales (and sustainable rental income) by increasing market share. Retailers such as Primark, New Look and Tesco have achieved growth by consistently delivering great product, great value, and an environment where the customer is happy to make a purchase. FSP's own research also shows that many shopping centres sit on a large reservoir of under performing shoppers, which if correctly engaged could boost performance and sustainable rents by as much as 20%.

Satisfied Shoppers - The Hidden Opportunity



Source: FSP Shopper Surveys

The evidence comes from FSP's annual research into the attitudes of over 50,000 shopping centre customers. Nearly half of respondents are Detractors which compared to Promoters make 39% fewer visits, have 36% shorter dwell times and spend 47% less in shopping centres. By simply shifting consumers from Detractors to Neutral, (let alone Promoters), it is possible to bring about a substantial improvement in customer loyalty, satisfaction and spend performance.

Delivering what consumers need is a simple concept which is religiously followed by many of the most successful property entrepreneurs. In today's world of 'standardised management' however, the approach is still breathtakingly underused.

Spotting the opportunities which maximise investment and turn the theory into reality is FSP's speciality. FSP for example, has advised an asset management team which over 4 years has successfully reduced rental risk at a key asset from 43% to 7% and delivered shopping centre rental improvement of 176%. Surprisingly perhaps, FSP did not require something approaching rocket science to achieve this result, just robust research (which asks the right questions), coupled with knowledge of the critical aspects of retailer performance, simple appraisal techniques, a healthy dose of common sense and time to allow leasing opportunities to unfold.

Research for Income Growth



FSP evaluates catchments, profiles shoppers, quantifies market gaps, identifies target occupiers, estimates turnover (and sustainable rents) and uses consumer research to identify customer needs.

To many, these techniques are familiar and indeed there is a plethora of suppliers offering specialism in one or several of these areas. What is unique about FSP's approach is the ability to recognise which particular aspects of research in different circumstances can be joined together to create a straightforward set of achievable recommendations. FSP operates without fuss or pretence within whatever teams of advisors and data suppliers the Client cares to choose, with the aim of maximising



the effectiveness of research, developing profitable strategy, attracting new occupiers and achieving income growth.

In difficult times, there is a natural temptation to batten down the financial hatches and cut back on the 'non essential' elements of marketing and research. In FSP's experience, this often leaves disjointed market intelligence which is greatly devalued compared to the relatively small savings of budget achieved. What is actually required in these challenging times is lean research which is highly focused on the key consumer and occupier issues which will drive short term asset growth. Income growth is now essential to preserve asset values and with so much untapped spending potential amongst consumers, there has never been a more important time to talk with FSP.



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