



MARKET APPRAISAL

White Paper

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The Issues

A thorough appraisal of an existing market and future likely opportunities will allow developers to maximize their revenue sources, consider the impact of the introduction of competitive developments nearby, and evaluate the possibility of developing their existing site. It will also enable retailers to make a judgment as to whether investment in a particular location will be of value both in terms of generating revenue and of enhancing its brand values.

In order to effectively appraise any market there must be an analysis of:

- The existing catchment area together with its market penetration
- The average spend per head when compared to regional and national values
- The value of projected increased sales amongst the catchment
- The projected increase in shopper spend over the period in question
- Any projected change in the residential occupancy of the surrounding area.

The Example

In this example, FSP carried out a market appraisal for its client, fashion retailer H&M. The proposal in front of H&M was that the developer would enhance the current tenant mix, upgrade existing units and add additional units. H&M wanted to know whether this was likely to result in a worthwhile opportunity and what level of shopper interest they could anticipate from the Centre catchment area.

Background

The development in question was a 300,000 square foot covered Shopping Centre with ample parking and current anchor stores of Debenhams, Boots, Safeway, and Marks & Spencer. Research in the area determined that the catchment population was affluent with spending levels well in excess of the UK average. The existing configuration of the development meant that there were limited opportunities to provide appropriate space for retailers such as H&M, Gap and French Connection but the Centre owners were committed to the idea of re-configuration to revitalize the Centre. H&M is a Swedish company that began trading in 1947. The company expanded to open its first store in Norway in 1964 and had a presence in Denmark three years later.

In 1976 expansion began beyond Scandinavia with the opening of a store in the UK, followed by stores in Switzerland and Germany. Today, H&M has stores in a total of 20 countries including the USA. The group's keenly priced fashion consists of updated classics, basics and the latest international trends. In 2004 the company partnered with designer, Karl Lagerfeld, to launch a new range of menswear and womenswear designs and has subsequently continued to promote its range through high profile partnerships. Over recent years operating profit has increased with the most recently published figures showing continuing growth.

Tenant Mix

The area in question was affluent, with an AB population 76% greater than the GB average and almost 72% in the ABC1 demographic; for comparison, the UK average is 51%. Shoppers were visiting the Centre frequently, on average 1.4 times each week.

A strategy was proposed whereby the Centre would increase its proportion of customer spend through the introduction of retailers with aspirational clothing and footwear brands that would be attractive to the catchment population. Some consideration already existed for this group, but analysis showed that it was insufficient to meet customer demand, particularly in the 'Assured' and 'Individual' customer segments and therefore a greater breadth of offering was required.

The analysis included a study of sustainable and passing rents to provide a formula for affordable rent that was devised specifically for the client to aid negotiations with the Centre management.

Catchment Area

FSP established the catchment area by collecting post code information from shoppers. From this data it was found that the closest catchment market of 85,000 residents was penetrated to 99%, the secondary catchment market of 152,000 was penetrated by 50%, and the tertiary catchment market was penetrated by just 7%. The total catchment amounted to some 811,000 residents. The demographic profile showed that the area had 32% more 25-44 year olds than the UK average, and 76% more ABs. On average they spent 7% more per head and 12% more per household on clothing and footwear than their counterparts throughout the UK.

Centre Footfall Analysis

The pedestrian flows in the Centre had been recorded at around 16 million visits – an average of 310,000 per week. Studies showed that there were few seasonal differences, and that shoppers visited the Centre for regular weekly shops as well as comparative shopping for luxury items, fashion and footwear.

Positioning

The Centre had notable omissions from its portfolio with a number of major retailers absent from the tenant mix. Despite this, the current strategy had been successful in capturing a proportion of the affluent population, but this was likely to be substantially enhanced by the introduction of more aspirational brands such as H&M. A deliberate decision had been taken in the past not to allow discount retailers to take up tenancy and this decision was not likely to be overturned.

Findings

- The change of tenant mix would include more aspirational footwear and fashion brands, providing an ideal brand environment for the client
- Retailers offering children's' wear or child related products were to be encouraged to take up tenancy and fill this gap in the current mix. Again, this was an area in which H&M provided a good offering

- New tenants would need to demonstrate that they could improve the quality of the Centre's retail offering, but this was unlikely to present a problem to a client with the positioning of H&M
- The Centre management promised to pay particular attention to the retail style of new tenants to ensure they would maintain and extend the Centre's position as a quality Shopping Centre appealing to the affluent segments of the catchment population

Conclusions

The area has a large, sophisticated and affluent shopper population which regularly and consistently uses the current facilities in the Centre for day-to-day requirements as well as comparison shopping. The Centre owner's proposal to enhance the facility by the addition of units and a revitalized tenant mix can only further strengthen an already solid trading position. The analysis by FSP had shown the Centre to be an attractive location for the client, where its investment would be likely to generate returns well above average.



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