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Changing tenant covenant perceptions and flexibility in the lease model in UK city centres

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ABSTRACT

The retailing industry in the UK is experiencing unprecedented structural change. The impact on retailers has often dominated headlines, along with the impacts on local services and economies, but with little attention given to the implications for property owners and practitioners. Exploring and understanding the responsiveness of landlords, and their behaviours, is essential to understanding the adaptiveness of a retailing system. This study employs semi-structured interviews to examine the short- and long-term changes in the retail market and the actions of landlords in response. The findings span the period prior to and during the first year of the Covid-19 pandemic in 2020, and reveal that fundamental changes have occurred to establish tenant covenant norms and the traditional retail leasing model. The paper explores these changes, including a shift in tenant risk, reposition of the leasing model in favour of tenants, generally, and greater application of turnover rents. The pressing challenge for current valuation practitioners, therefore, is to incorporate these fundamental changes within the market into the pricing of retail assets. Significant progress in this area to date, as explored in the paper, has been limited although greater application of discounted cashflow techniques is set to be encouraged by the RICS.

1 Introduction

The retailing industry in the UK is experiencing unparalleled structural change driven by technological change, intensifying online shopping and spiralling operational costs. Extant research has tended to focus on the disruption caused to the High Street retailing landscape, with store closures and the collapse of retailers well-documented (e.g. Grimsey et al., 2018). However, our understanding is limited regarding the effects of this dramatic restructuring on the retail property market.

With the types of tenants and their requirements changing, this paper focuses on the responses in the investor market and the ways in which owners are adapting to established real estate market practices. The paper contributes to existing understandings of the 'adaptive capacity' of urban retailing centres through the analysis of qualitative data collected using in-depth semi-structuring interviews. This has enabled

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us to investigate the adaptations being made and to generate new insights on the flexibility of the retail leasing market, and the consequent impact on the investment market. The only other work in this field has been a user-funded study by French et al. (2021) that is based on a Delphi questionnaire in May 2021 with 21 respondents answering one of three questionnaires.[1] Uniquely, the primary in-depth data collected in our study spans the period prior to and during the Covid-19 pandemic that began in 2020, thus capturing the changes experienced under normal market circumstances and in response to difficult operating conditions. This enables the beginning of, and the acceleration of the changes in the retail market to be monitored, some of which likely to be temporary reactions to the pandemic, some structural adaptations (see, Orr, 2020, 2021).

The research identifies fundamental changes in tenant risk perceptions and the leasing model which are likely to endure beyond the recovery of the market from the pandemic and have implications for the pricing of retail property. The findings offer insights into further change required of the property industry to re-establish investor confidence in the sector.

The operation of the retail market, rooted in complex system theory, is established below, before the focus narrows to set out a framework that encapsulates the risk and return attributes of retail investments. The sampling, interviewing and coding methods employed are then explained, before the presentation of the research findings, reflections and conclusions.

2 Adaptation in the retail property market: a theoretical framework

There is growing consensus that retail markets are urban systems with adaptive resilience (Wrigley & Dolega, 2011). In such a system, anticipating, evolving and adapting to exogenous shocks is driven by actors and their social agency. The more varied the actors, the more varied their responses (Capello et al., 2015). In turn, these are shaped by other attributes endogenous to the system, including the size, diversity and organisation of the functions within the urban centre, and the density and nature of the social relations that inter-connect stakeholders and the wider economy. These interdependent and complex factors together determine the capacity of the retailing centre to react, whether anticipated or not, to shocks and to produce new organisations, interdependences and further heterogeneity (Wrigley & Dolega, 2011).

The urban retailing system encapsulates perhaps the most diverse range of stakeholders and influences of any property sector, with multiple and complex interests and aspirations (Jones, 2010; Grimsey, 2012; Dolega and Celińska-Janowicz, 2015). One key stakeholder, the property owner, plays a pivotal role because, in order to generate or sustain asset values, they have to respond concurrently to the needs of retailers, shoppers, and society more widely. As retailers in the UK have re-organised in response to market shocks, their use of space has changed, and some retailing space appears obsolete. To prevent long-term vacancies and blight, the market needs to be more flexible and property owners must be able to respond to and enable the reuse and repurposing of space. Thus, land use change and urban renewal are important features in the adaptive cycle of an urban centre (Dolega and Celińska-Janowicz, 2015).

Across the UK, there is approximately 148 million square metres of retail (including Food & Beverage) floorspace, estimated to be worth £271 billion, with a sizeable proportion of the floorspace located in urban centres. Mansley (2022) estimates that, despite the amount and value of retail floorspace decreasing by 0.5% and 20% in the two-year period prior to December 2020, shops represent 21.2% and 29.5% of the total amount and value, respectively, of commercial space in the UK. Of the total commercial property stock, around 55% is held as investment assets (Mansley, 2022), so the retail investment market has a significant influence on the urban retailing system as well as the UK economy.

Orr et al. (2021) estimate that the majority of retail space in urban centres is now owned by listed and unlisted property companies. In the five urban retailing centres they study, they estimate, on average in 2017 although this varies depending on the centre, that property companies and local authorities own around half the retail stock, UK financial institutions hold 14.9%, private investors own 14.4% and overseas investors hold 12.3%. These owners, investors and developers are the actors in the retailing system responsible for developing, adapting and managing properties. Although a heterogeneous group, ultimately their business decisions are predominantly driven by two factors: their expected return and the risks attached to that expectation. These factors are important both in the private and public sector with the acknowledgement that responsibilities vary with respect to shareholders, demonstrable value for money and accountability. Financial viability is the key decision-making criterion of private-sector investment, and what is deemed to be an acceptable expected returns rests on how owners and investors perceive the risks attached to their investments. Return generation remains as an important consideration in public sector investment but outcome is measured in terms of public benefit rather than financial gain.

Property investment returns consist of two components – rental income and capital growth – both of which are fundamentally linked to local demand and supply conditions. Changes in the scale, nature and location of property sought by users, and the price and occupational terms they are willing to agree, impact on investment quality, driving investor demand for an asset. Rental income is usually determined through the ongoing analysis of the market for comparable space, while capital growth is responsive to shifting yields as perceptions of risk and growth, also reflecting asset and market sector pricing differentials, attached to that future rental income (or estimated rental value: ERV) change.

Investors' perceptions of risk and growth are shaped by multiple influences across multiple spatial scales which, together, form the risk premium. This is set out by Crosby et al. (2016) who present a pricing model for real estate where the risk premium is broken down into (systematic) market risk factors and (unique) asset risk factors. This paper focuses on the micro-scale, real estate asset risk which, drawing further on Crosby et al., is made up of four risk elements: tenant risk, leasing risk factors, stock location risk and building risk. Exploring aggregate investor preferences across these four categories, Jackson and Orr (2018) found that location dominated concerns during purchasing decisions with environmental sustainability increasing significantly in importance for investors. Examples of brown discount have now begun to emerge in the UK property market as a building risk (JLL, 2021), particularly important in retail as sustainability has become crucial for retailer competitiveness (Wilson, 2015).

With respect to asset management Jackson and Orr (2018) also found that managing tenant risk is consistently very important to investors, even more so in periods of uncertainty. Similarly, risk mitigation relating to leasing factors is a core concern for investors generally, but more so in response to periods of greater uncertainty. Of the four asset risk elements, these two – tenant risk and risk mitigation – are arguably the most able to be actively managed by investors and therefore form the focus of concern in this paper. They also make up five of the eight core property attributes identified by Jackson and Orr (2011) as fundamental to real estate returns and risk, as shown in Figure 1, where the mechanisms linking them to income and capital growth are also presented.

Taking tenant risk and leasing factors in turn, the creditworthiness of an occupier impacts on both income and capital return. As conditions in the wider economy feed through into the retailing sector, the investor's income stream will be impacted if a tenant defaults on their lease obligations. This impact is mitigated when the property is let to multiple tenants (Adair & Hutchison, 2005; Blundell et al., 2005; Investment Property Databank, 2000), yet increases as the structural shifts in the retailing system lead to more tenants going out of business. Thus, the landlord's approach to managing this situation is increasingly important. Furthermore, where there is a perception of an increased likelihood of future risk of default, upward shifts in investment yields will negatively impact on capital returns.

The leasing model in the UK is traditionally characterised by standard restrictive clauses, upwards only rent reviews and long terms. While this model has been gradually evolving with every property cycle, greater flexibility in lease terms enables the market to handle further shifts in tenant requirements. However, current understandings of recent changes are incomplete and are intrinsically bound up in the evolving process of
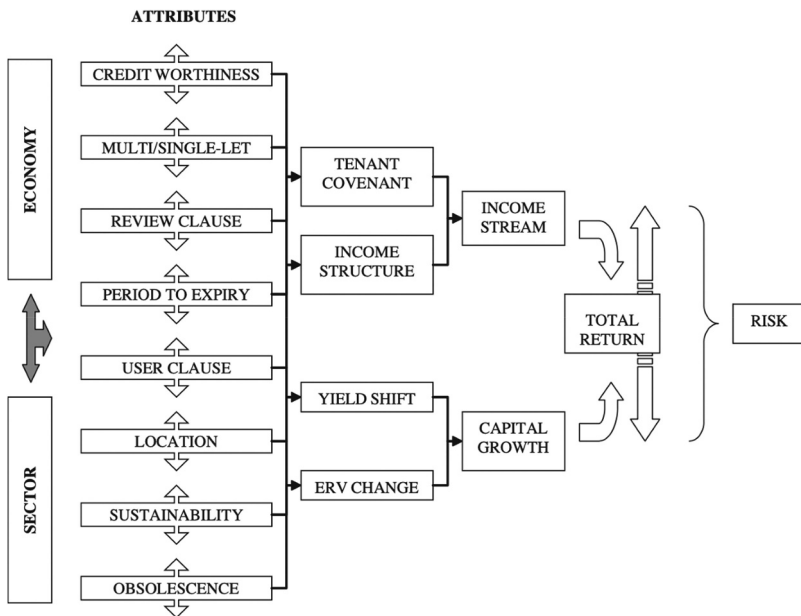

Figure 1. Real estate attributes, return and risk. Source: Jackson and Orr (2011)

negotiation and social relations between landlords and tenants. Lease terms (and physical attributes) affect the demand for property and, thus, can make a vacant property difficult to relet. Tactical management of these factors shapes the structure and stability of the rental income by dictating the frequency and timing of the income flows (Baum et al., 2021).

Tenant and leasing risks, as set out above, can be seen to impact on the investment characteristics of an asset. However, it is only through examining how valuation practice, and pricing models, are being adapted that it is possible to understand how the investment market is changing. The specific risks outlined above impact not only rental income but also expectations of income growth potential and, thus, movements in property yields. The resulting impact on value affects the ease by which an investor can release locked-in capital by selling their asset (Jackson & Orr, 2011). The general consensus is that the specific risks attached to retail investment have risen and institutional funds and other risk averse investors have responded. A process Jones (2010) identifies as starting in the early 2000s, as investors began to dispose of their in-town assets despite good-sector performance, and which continues today (Orr et al., 2021). More also needs to be understood about possible changes in market pricing and how valuation and property management practices are possibly innovating to help the investment market adapt to the uncertainty and alterations in the user market.

The real estate pricing model developed by Crosby et al. (2016), alongside the conceptual model in Figure 1, provides the framework for exploring the asset attributes underlying returns and risk. The three key themes identified for investigation here are: tenant risk, leasing factors, and the pricing of these risks. The current pressures and tensions described above must be explored to better understand the changing expectations and practices of owners, particularly as the balance of power in the market shifts towards tenants. This will add to knowledge of the impact of the ongoing structural transformations in the retailing sector on the investment market.

3 Research methods

The research presented is undertaken as part of a larger mixed-method study designed to investigate the changes occurring in the real estate market in five major UK retailing centres: Edinburgh, Glasgow, Hull, Liverpool and Nottingham. These case study centres have experienced mixed fortunes, showing similarities in retail market performance at times but contrasting at other (Harper Dennis Hobbs, 2017, 2019; Knight Frank, 2017), and representing this variation underpins the choice of cities. Further, the rationale for the selection of northern regional centres[2] is to avoid the complexity of the north–south economic, social and political effects that influence the resilience of retailing centres (Wrigley & Dolega, 2011).

A qualitative research approach underpins the results presented in this paper, specifically semi-structured interviews to collect phenomenological data with the aim of exploring the property management practices of landlords and property professionals in the context of the structural changes in the retail sector. Consideration is given in the discussion section as to how the changes drawn from the five case study centres compare to those reported elsewhere in the UK.

3.1 Survey sampling and procedures

Purposive sampling, following the single-stage sampling principles established by Kemper et al. (2003), is used to recruit retail landlords and property professionals as interview participants based in the five case study markets. Property company and consultancy websites provide contact details, alongside CoStar and Completely Retail's databases and professional networks accessible to the researchers via LinkedIn and Investment Property Forum. As the focus is on property management practices, the sampling targeted experienced professionals actively involved with managing retail assets in support of the investment process.

Email invitations are sent to 66 potential participants,[3] with follow-up telephone calls for non-responders. 27 individuals, spanning the five centres, agreed to participate. The first tranche of 13 interviews is conducted January to March 2020, just prior to Covid-19 restrictions (Pre-C19). These participants span Glasgow, Edinburgh, Hull and Liverpool, with ten conducted face-to-face and three by telephone. Interviews are suspended as working practices and the furlough scheme impacted on market activity, commencing again January to March 2021 (after the introduction of the coronavirus and denoted as Post-C19) as market activity is re-established. A further fourteen interviews are conducted by telephone or Zoom/Teams at the request of the participants.

The sample criterion employed to select potential interviewees is constructed to cover the variation that may exist in the experiences of retail property specialists with respondents working for a mix of local, regional and national property consultancies and investors. Those selected are professionals with retail experience drawn from different organisations and spanning a broad representation of different types of landlords. Some participants specialise in the management of a single shopping centre, others manage a range of assets; some deal solely with retail while others deal with retail as part of mixed developments; and some property practitioners had experience working for or on behalf of occupiers as well as owners. Thus, balancing depth and breadth to enable the collection of suitably rich data to facilitate our understanding of the similarities and differences in experience, as recommended by Palinkas et al. (2015) when using purposive sampling.

Interviews are undertaken until no new insights are revealed, indicating saturation has been reached. A total of 27 participants[4] took part in the interviews: one manages a portfolio fund with past and present retail asset holdings across the case study centres and UK more widely (PortMgt); 6 are asset managers managing retail assets on behalf of private and/or public-sector owners (AMgt); 5 are property managers, managing in-town retail units and/or shopping malls (PMgt) and 15 are involved in property professional services (PPS) more generally, providing management, agency, valuation and transaction services and advice to landlords and occupiers.

The majority of the sample (16) are partners/directors with 18 or more years dealing with retail. The rest of the sample includes an average of 9 years retail experience for three associate partners/directors, 19 years for two senior surveyors, and 6.5 years for two asset managers. Three of the property centre managers had over 6 years managing centres and previous retail experience.
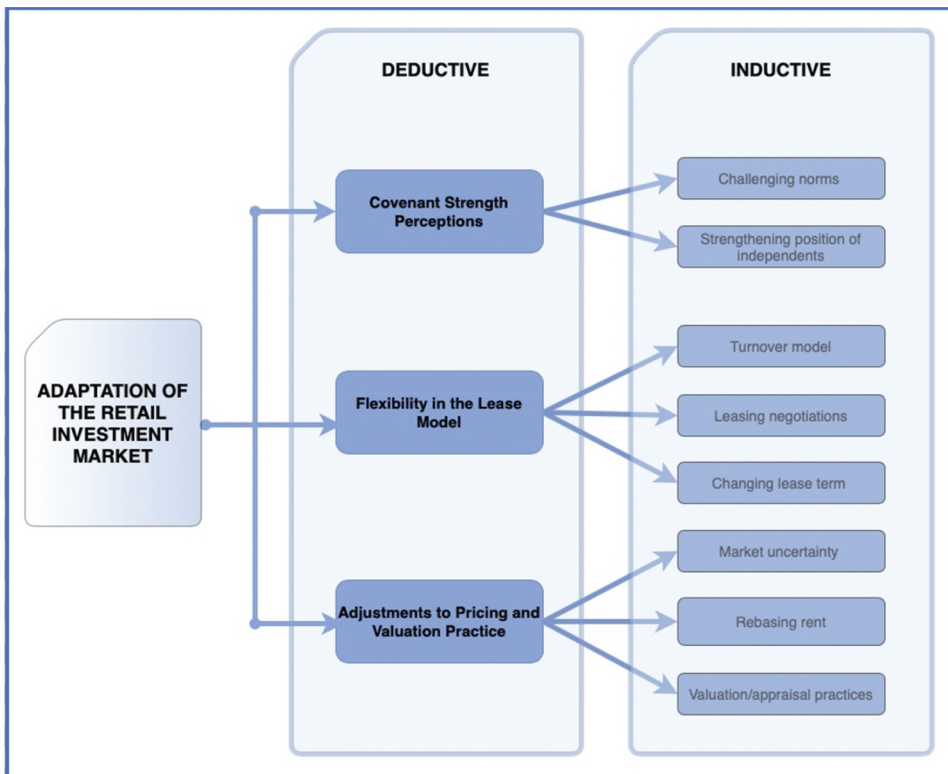
Figure 2. Hierarchical coding tree.

3.2 Interview format

Semi-structured interviews are used, with a series of questions covering each of the three key themes in turn. The same topic guide is used for the asset managers, portfolio manager and property managers, while a slightly modified version covers issues specific to property agents (PPS). This enables the analysis to draw out similarities and differences between agents and others. The average time spent on the interview questionnaire is 58 minutes.

3.3 Coding procedure

The interviews, all bar one, are audio-recorded with permission of the participant, transcribed verbatim, anonymised, coded and then interrogated using abductive thematic analysis. The coding is undertaken independently by two researchers who compared results to enhance the reliability of the data by verifying the interpretation of the meaning (Cope & Kurtz, 2016). Three themes from the literature are used to deductively code the data initially, facilitating the identification of 8 sub-themes that inductively emerged from the data, as shown in the hierarchical coding tree in Figure 2. The analysis of the coded data is then systematically extended across the participants to ensure comparisons between interviewees, and within and between case study areas.

4 Analysis

The three themes of covenant strength perceptions, flexibility in the leasing model and changes to pricing and valuation/appraisal practice are discussed below, in turn.

4.1 Covenant strength perceptions

Two sub-themes emerge from the interview data relating to how perceptions of covenant strength are evolving and how the investment market is adapting.

4.1.1 Challenging norms

The traditional requirement of investors is to establish strong covenants, and this preference persists for most institutional landlords. Strong covenants, traditionally linked to blue chip companies and big brand retailers, underpin investment yields and the value of assets (AMgt01, PMgt05) and investors have tended to reject tenants with covenants perceived to be relatively weak. Historically, local and regional owners were more likely than financial institutions and national property companies to take a broader view on the financial standing of an occupier but, nevertheless, have also tended to prefer stronger covenants (AMgt05).[5]

Big brand retailers with strong covenants were typically assumed to be national and international multiple retailers – for example, Zara, Next, Arcadia, Debenhams, Marks & Spencer – but this assumption has been challenged over recent years (AMgt02, AMgt06[6]), and '*From a property investor point of view [. . .] Nothing's safe anymore*' (PPS01). Hull has been particularly hard hit by the closure of larger retailers and inability to attract comparable replacements (AMgt05, PPS12) but concerns around the collapse of national retailers is not confined to the case study centres, reflecting the escalation in store closures (30,656) that occurred across the UK between 2018 and 2019, and increasing use of CVA agreements. The Centre for Retail Research (2022a) estimates 583 of these store closures were linked to such agreements but CVAs imposed adjusted lease terms on landlords in many more stores. The rising trend in retailer bankruptcy and store rationalisation is not only confined to the UK's retail market, albeit on a small scale. For example, the US experienced an increase with 17,185 stores closing in the same period (Centre for Retail Research, 2022b).

Investors prefer, and in the past had the power to command, parent companies to guarantee rental payments but, increasingly, deals are being agreed where the company ownership and debt structure later change, making risk management more difficult (PMgt01). Investor decision-making is further hampered by the credit assessment scores from data suppliers e.g. Dun & Bradstreet/Experian that are based on credit histories that can be up to a year old (PPS10). This frustration aligns with Hutchison et al. (2008), who argue that more robust risk evaluations, particularly in a falling market, should be a greater consideration for investors and valuers.

Market conditions mean that '*the kind of stable of retailers, as a landlord that you want, has become smaller, and smaller*' (PPS03), demand is low from tenants with strong covenants, particularly in Hull (PPS12) and strong covenants are not what they were previously and can change suddenly (PPS10). Indeed, PPS03 highlights the surprising poor Experian scores associated with fashion retailers such as H&M and New Look.

These problems have only been magnified by the pandemic although the Centre for Retail Research (2022a) estimates fewer stores closed (27,092) between 2020 and 2021 than the previous two-year period. This reflects the government support measures in place during the pandemic[7] with many investors waiting to see which retailers survive when the support is removed (AMgt04, PPS15). PPS09 in Nottingham concludes that this '*gets us to the stage now, where you think what is covenant? Does it really matter who you put in as tenant because they will just CVA or [go into] admin[stration]?*' but this sentiment resonates with investors across the UK, not just in the case study centres.

Perceptions of value and discount retailers – such as B&M, Poundstretcher and Home Bargains – are being challenged. Historically they would not have been perceived as strong covenants, and excluded from the prime city centre pitch. This is changing as these retailers, despite competition from online retail aggregators such as Amazon, have become financially strong, growing[8] and have good records of paying their rent (PPS03, PPS05[9]), with an example of Poundland appearing on Princes Street, the traditional prime pitch in Edinburgh (AMgt01, PPS05). Despite this, biases continue to be evident with the tendency for some professionals to see their presence as indicative of the prime pitch weakening.

4.1.2 Strengthening position of independent retailers

Independents were traditionally seen as weaker covenants and less desirable tenants but that perception seems to be changing for some landlords (PPS12, PPS14). This, in part, reflects the uncertainty associated with chain retailers[10] and also the realisation that independent retailers, if business minded, are committed to a location and making their business work (AMgt05, PMgt03, PMgt05, PPS11). However, they are still seen as a risk that can affect investment yields although vetting can help manage the risk (AMgt05). PPS14 observes that there is '*no point in having a so-called big covenant or strong covenant because, you know, these companies go into administration or CVA. So I think there's a lot more open-minded landlords about independents and things like that now, and I do think that's the future*'.

Demand from independents is growing and good investment opportunities exist for landlords. Knowing their tenants can help agents and owners take an informed gamble on an independent, a risk not necessarily as high as once perceived (PMgt03, PMgt05). Subsequently, more owners are prepared to let to independents, marking a change in practice, although this might only be temporary and return to '*norm*' when the retail market recovers (AMgt01, AMgt06). As a result of these changes, independents are appearing in prime locations you would not expect (AMgt01, PPS05).

4.2 Flexibility in the lease model

Landlords are having to be increasingly flexible in the deals they negotiate with tenants, especially around lease terms. Three sub-themes emerge.

4.2.1 Turnover leases

The dominant pricing method used in the UK sets the rent based on market comparables, and this is fixed between rent reviews (typically scheduled for 3–5 year periods). However, this is changing due to a rise in the use of turnover rents which, in the past,

were restricted to outlet parks, airports and some shopping malls in the UK, but more widely used in shopping centres in North America and Pacific Rim (Colwell & Jackson, 2004; Hamilton, 1992; Sing, 2012). Turnover-based rent arrangements are also common in shopping centres in Czech Republic, France, Germany, Italy, Spain and Sweden but used more frequently for high street shops in Turkey and Russia (Baker McKenzie, 2021). Savills (2020) also report turnover deals, which have been uncommon in Ireland and Netherlands, are being used as a short term measure in response to the uncertainty associated with the pandemic.

The increase in use in the UK started prior to 2020 (PMgt02, PPS01, PPS02, PPS06, PPS04, PPS09), possibly encouraged by landlords as a way of protecting their rental tone in shopping centres (PMgt01), but accelerated due to the Covid pandemic (PMgt05, PPS09, PPS11) with examples of turnover-linked rents also being imposed under CVA arrangement (PPS15). Three interviewees report there had been a rise in requests for index-linked rent review clauses but this is limited to retail parks and by Food and Beverage operators. On the high street indexation remains limited in practice, unlike in Europe (Baker McKenzie, 2021) with the general consensus of interviewees, and supported by the conclusions of French et al. (2021) who tended to focus on London-based owners and practitioners, that higher use of turnover rents in the UK will continue to some degree, possibly for shopping centres and fashion retailers in high street retail units (PPS12). Other occupiers on the high street and retail parks are more likely to switch back to short term-fixed rent leases.

The evolution of the turnover model in UK retailing is similar to the models adopted into other countries (Sing, 2012) and is structured around two traditional components – a percentage overage based on sales revenue and a fixed base rent – although there is variation as '*sometimes there is a base, sometimes there's not*' (PortMgt01). Where there is a base, it is usually 60–80 percent (PPS05) of the market rent or a previous level of rent. Landlords tend to prefer turnover rent deals with a fixed base rent as it guarantees a level of income for them and is also appreciated by valuers as they have a basis for valuing a fixed income stream (AMgt04).

A variant of the fixed-base and turnover model is where the turnover uplift is triggered when the occupier's turnover reaches a pre-set threshold, however, PMgt04 identifies past problems:

> "*you're finding the [occupiers] are not driving the sales [...] I'll be going in as the centre manager and saying, right, I've noticed this, this, this and this, which I shouldn't have to [...] motivate the teams in order to provide the customer service, to increase the turnover. And we find that . . . the [retailers] are not doing that. They want to make their bit but they don't want to actually give landlords any more money, which is bizarre*" (PMgt04, Hull, Pre-C19).

Pure turnover-linked rents can exist in some deals, although there was a lack of consensus among respondents across cities: some categorically stated they had never seen it (PPS11, Liverpool), while others think it could be increasingly common in the future (PPS04, Hull; AMgt02, Glasgow).

There is also considerable variation in the percentages on turnover being agreed. In the experience of the interviewees, they can vary between 4% and 20% but ultimately depend on the retailer, the type of business and the incentivisation package on offer in the negotiation (PPS05, PPS13). Overall, and perhaps hampering their wider adoption,

transparency is an issue due to the variation in terms, '*They're just too opaque [...] they don't mean anything*' (AMgt03). Coupled with the fact that the mechanics of turnover rents are relatively new to many landlords, tenants, agents and valuers in the UK retail property market, there appears to be no established best practice. At the simplest level, it is not obvious how turnover percentages are determined. Possibilities include that it is set with reference to how the premises contribute to the overall cost of serving the consumer or it is based either on total revenue or profit margin, but this is not clear. Furthermore, trust between parties can be difficult with the rapid evolution in methods of sales and returns, and unease over some audited figures (AMgt02).

Change is not uniform across sectors, or locations, however. PPS08 thinks that hospitality operators are looking '*at good net rent deals at the moment*', as explained by PPS04 – '*it doesn't really work so well on restaurant use. Because, unless you've got a cap on it, ... you can trade your socks off as a restaurant operator and end up giving all your profits away to the landlord. It's a very precise model, and you need to get it absolutely right*' and it is here where the change to turnover-linked rents is most likely to be temporary. However, in the fashion sector, turnover leases were seen before the pandemic in some high street deals with larger retailers (PortMgt01, PPS07), and '*the fashion industry for example, is now, kind of, turnover leases only*' (AMgt06). This is a clear shift from the past where, in standalone high street units where owners have little influence over tenant externalities, benefits and use were limited (Wheaton, 2000). However, ownership patterns are important in the rate of change, as smaller landlords '*can't do anything about retailers' turnover. They've got no experience of retail, they own one shop amongst 65 owners in a one square mile of the city centre. What can they do to make a difference?*' (PPS13). The participants confirm that larger retailers have driven the change, but their use trickled down to small operators and landlords during the pandemic.

Indeed, much of the change is tenant-led because, in the uncertain trading period characterising the structural shift in the sector, a turnover lease can lower the retailer's exposure to fixed overheads and share risk (PPS03, PPS07), and provides assurance that they will not pay full market rent if they have a poor trading year. This offsets the situation where some retailers, JD Sports is given as an example of this occurring by AMgt01, are happy to enter into a turnover agreement that results in them paying a higher rent than they would have under an open market rent.

This offsetting is linked to the belief that turnover rents and fixed rents should yield the same occupancy costs (Benjamin et al., 1990). However, this has evolved with some retailers also using turnover on a total occupancy cost basis. This can significantly reduce the landlord's net income, after service charges and business rates are paid. This risk sharing can make for a closer and more productive landlord and tenant relationship (PMgt04, AMgt06). However, the downside of sharing tenant/landlord risk is that the landlord's income is more unpredictable, something which lenders are uncomfortable with, and thus some landlords remain resistant to the change.[11] Typically '*landlords just want straight rents but they're not getting them anymore*' (PPS05) and a key issue associated with turnover deals is the lack of guaranteed rent which pushes down the value of their investment (PPS01). Other reasons given are their complexity, inexperience of some landlords and lack of transparency in terms of capturing turnover (PPS03, PPS04, PPS07, PPS08). '*In centres, it's easier to keep track of that, you know, through*

the EPOS system and the way it all comes together. On high streets, it's much more difficult'.
(PPS03) – a point also raised by PPS04 and PPS07. While some centre landlords are confident they have adequate reporting systems in place (PMgt02), some have concerns. Landlords often have the option to request independently certified accounts if they are concerned about the reliability of figures and difficulties in policing:

> how do you police that? Because all we're reliant on is the auditor's letter. And I don't necessarily think that the [...] auditors that are giving us these numbers ... being completely honest with you, I don't think they really understand the provisions of the lease (AMgt02, Glasgow, Pre-C19).

The problems, identified by Dixon and Marston (2002), with online sales impacting on recorded store sales have not yet been resolved by the market. Leakages are raised by most participants as an issue for landlords as online sales, which might originate in-store, are typically excluded from the sales revenue associated with the physical store. Click and Collect, viewing and trying-on are common in-store activities that leak from the store as the actual transaction takes place online, and interviewees (e.g. AMgt01) report the growing use of physical stores for the distribution of online orders even before pandemic. In addition to this, retailers deduct online sale returns to stores from their total in-store sales revenue, so the leakage can have a double counting effect (PMgt01, PMgt02, PPS13). This is a particular issue for showroom stores where retailers are increasingly free-riding their internet sales off physical stores, and keeping turnover lease terms up-to-date with advances in technology has proven difficult (AMgt02). While PPS13 highlights the possible use of postcodes to establish store catchment areas and PPS02 refers to the use of sensors to monitor in-store customer movements, no reference is made to the use of geo-fencing technology, as suggested by O'Roarty and Billingse (2015), as a way of capturing the halo effect. Data analytic technology might enable the contribution of stores on different types of sales to be measured but its use in turnover rent clauses is currently limited in practice.

4.2.2 Leasing negotiations

This sub-theme marks a clear shift towards tenants in leasing negotiations, reflecting the rising vacancies characterising the restructuring in the sector. There is a marked change in relation to several leasing aspects. In terms of lease length and break clauses, prior to 2020, 10 year leases with a break at 5 years were still achievable, with MSCI (2020) stating an average around 8 years, although deals were being signed at 3 or 5 years (AMgt02, PMgt01, PMgt02). Subsequently, the majority of deals are now 5 years with 3, 2 or 1 year breaks (AMgt03, AMgt05, PMgt03, PPS03, PPS15) and there has been an increase in English leases contracted outside the Landlord and Tenant Act 1954.[12]

These changes reflect the rise in independent retailers who want an escape route, established retailers seeking flexibility to revamp/rebrand stores or downsize their physical store network, and landlords being willing to compromise on tenant-led breaks. Where operational reasons exist, tenants might be prepared to negotiate longer leases without breaks. For instance, on strong pitches(PMgt01) while leisure operators might take a 15/20 year lease to write off their fit-out costs (AMgt04), although this type of tenant tends to be rare outside 'super-prime' locations.

The removal of conditionality around breaks (PPS07) is also transforming the balance of power in landlord/tenant relationship (PPS14). The use of tenant leverage, granted to them by conditions in the market, is being widely employed to either renegotiate lease terms or get out of surplus leases. Participants report that, although landlord and tenant collaboration and transparency improved during pandemic (e.g. PPS09, PPS15), examples of residual animosity about power inequalities remain in the market.

Rent-free incentives are commonplace in the property market and as the market has weakened, landlords have had to give longer rent-free incentives to attract tenants (PPS03). There is nothing new in this, but alongside the reduction in lease length and increase in breaks, it signifies marked change. A number of respondents describe the scale of rent-frees as staggering, and more likely to be offered to national retailers rather than independents (AMgt06). Incentive packages also include capital contributions and assistance with fit-outs in order to de-risk deals for tenants (PMgt02, PPS06, PPS05).

Nine interviewees also report that they have had some experience of a move towards Total Occupancy Cost (TOC) leases where rent is inclusive of service charge, rates and possibly insurance. The rent agreed might be a fixed rent, set by the tenant's budget for all occupancy costs, and can result in little rental income left after non-recoverable costs are paid (PMgt05). Even before the pandemic, the extreme nature of these shifts in leasing mechanisms in favour of the tenant was unsustainable for some:

> So you can have a situation where for the five year lease you've got no rent other than the turnover, but you might have to pay away two years or maybe three years as a capital incentive to get the occupier to take the space. So economically, it just doesn't make any sense (PortMgt01, Edinburgh, Pre-C19).

A change directly linked to the pandemic is the regearing of leases where landlords gave rent-free periods to support tenants during Covid but in return for extending the length of their lease (AMgt04). With the restructuring an ongoing phenomenon, and shifts in covenant strength across retailer types, it is not clear whether this offer will pay off, or if asset prices will be further weakened. Certainly, the extent of changes in the leasing model can be seen as significant.

4.2.3 Changing lease terms

The traditional 'institutional' lease in the UK has been increasingly viewed as outdated with each market cycle, and a series of further changes are underway, including increasingly radical ones. The first relates to the tenant's obligations with respect to repairs, under the traditional FRI lease (MSCI, 2020). Tenants are increasingly unwilling to take on onerous repair and dilapidation obligations, more so linked to shorter lease terms (PPS08, AMgt02, AMgt03).

The second radical change are tenant-led clauses. Adjacency clauses have grown in popularity where occupiers want control over the tenants they are located in close proximity to. Some tenants do this to control their brand by blocking certain neighbouring uses (PortMgtg01). Other adjacency clauses are used to ensure a location next to a specific retailer (PMgt04).

Two further emerging clauses reflect the market downturn and extreme circumstances caused by the Covid-19 pandemic, the first is pandemic clauses in almost every lease (AMgt06), although some landlords, nervous about the reaction of banks and the impact

on their loan covenants, have rejected such clauses (PPS15). In a similar vein, CVA clauses are emerging. These last two examples have clear and detrimental effects on the investment market due to the increased risk associated with income streams. Furthermore, the clauses and other flexible terms emerging now from landlord and tenant negotiations indicate that leases are becoming ever more bespoke and complex, adding to investment costs and increasing the opaque nature of the market.

4.3 Adjustment to pricing and valuation practice

Changes in pricing and valuation methodology are important elements of real estate professional practice with shifts in property values having a direct influence on the behaviour of investors. In addition to obvious concerns around material uncertainty during the pandemic, two further sub-themes emerge in the analysis.

4.3.1 Rebasing rents

The rebasing of rents started before the pandemic with many retailers struggling with the affordability of retail space (PortMgt01, PMgt04) since the 2017 Business Rate revaluation and living wage became mandatory. Market rents in Glasgow peaked 2017, and started to rebase in 2018 (PPS03) (particularly in larger stores (PPS02)) while in Edinburgh this was the year later. The rebasing of rents in Hull, Liverpool and Nottingham started in 2017 (MSCI, 2021). The pandemic only served to reinforce the disconnect between outdated Zone A rents and affordability.

During the pandemic the focus for many landlords has been tenant retention and finding occupiers to lighten their business rate burden. AMgt06 and PPS10 demonstrate the impact of the pandemic with examples of rents in Glasgow falling by 50% and 75% in Edinburgh. Further examples of deals involving very low and even zero rents are relatively common:

> we have one landlord that had two properties adjacent. The smaller property he let three or four years ago for £18,000. The bigger property next door he let in the last 12 months for £1, and previously both those properties had produced £60-70,000 each. That's the sort of scale of the problems, it's about filling the space (PPS12, Hull, Post-C19).

Surprisingly, interviewees report there are still some landlords with unreasonable expectations around the rent achievable in the market:

> We are seeing this a lot. Landlords still staying robust, that they want to retain the rental tone that they achieved 12 months ago where it's just unreasonable. [. . .] That way if you've got stubborn landlords, the chances are they're going to be sitting in a void for much longer (AMgt06, Edinburgh, Post-C19).

Lease deals being signed now are rack rented but as rents have been rebased, over-renting has become an issue on existing longer leases (AMgt02). Over-renting is a complexity valuers need to allow for when valuing to reflect the instability of the overage. This is reminiscent of the 'traditional' versus 'contemporary' methods debate associated with the mid-1990s when offices in the south-east were over-rented (Baum et al., 2021). The existence and scale of over-renting also explains why some retailers have been using CVAs to extricate themselves from deals (PPS01).

4.3.2 Valuation/appraisal practices

Market rental values and Zone A figures are flagged as increasingly irrelevant in the retail market as occupiers think in terms of total costs (PPS04, AMgt04). As a consequence, there appears to be changes in the process with regard to the setting of rent inputs in the valuation process as it is more about affordability (PortMgt01, PMgt05). '*The ERV is a kind of mythical figure used by valuers that nobody really pays that much attention to anymore, now, certainly in shopping centres and high streets*' (PPS04). Some interviewees report that the zoning of rents no longer occurs in city centre locations (PortMgt01, PMgt04) although there are instances of it remaining in neighbourhoods popular with new tenants during the pandemic (PPS10).[13]

Risk assessment as part of the valuation process and determination of yields is another increasingly complex area for valuers (AMgt03, AMgt04). Uncertainty over default and void risk, rent non-payment and lack of transaction data are making this process difficult (PPS10). Different perspectives on independents also exist and was demonstrated when the views of AMgt05 and PMgt03, both of whom were highly supportive of independents, are compared. AMgt05, like other participants, believes independents result in higher yields whereas PMgt03 suggests the approach to assessing the profile of independents is out-of-date and reflective of lazy valuation perceptions as understanding these occupiers requires more work and effort. Larger retailers will exploit the power they hold to get good deals from landlords (PPS09) which in turn means landlords face a trade-off between yields and lease terms (AMgt05)[14] so the yield differential between multiples and independents is not as clear-cut as it used to be. The highly over-rented income on assets which can vanish overnight through the likes of CVAs is another example of the extent risk pricing remains a challenge (AMgt06).

In terms of the rise in turnover leases, the potential volatility and nescience in assessing turnover make valuers, who tend to be unfamiliar with business/equity analytical techniques, nervous (AMgt04, PortMgt01). Base rents can help valuers by creating a more predictable cashflow stream (AMgt04) but, as AMgt06 suggests, there has been discussion amongst professionals about moving shopping mall valuations towards the type of methods employed to value operational real estate. This could involve a simplified approach, such as the notional revenue per available room (RevPAR), sometimes used to value hotels, although the approach based on the capitalisation of profits is used more frequently to accurately allow for different revenue streams, costs and income voids. PortMgt01 reports a move by some funds, away from valuing each unit within a shopping centre separately, to approaching the mall as an operational entity which explicitly allows for the operational costs associated with TOC lease terms:

> what has happened over the past, sort of, five, seven, seven years is that the market will look at the shopping centre. They'll look at the income from the shopping centre. They'll take all the costs off the income to get to a triple net position, and then the triple net number will be used through the multiplier to dictate the value of that asset. So, it's a very … it's a very different approach to the traditional method of valuing shopping centres (PortMgt01, Edinburgh, Pre-C19).

Most practitioners, regardless of case study centre, seem to be aware that valuation changes are needed to adapt to turnover rents (for instance, PMgt05, PPS04, PPS07, PPS10 and PPS13) but there does not appear to be any significant development in the

creation of a standardised turnover methodology. There is some suggestion in the evidence that valuations are becoming more sophisticated (PPS11) and valuers are carefully adapting to the rapidly changing environment but this is far from a unanimous view. It is also unclear what these adjustments involve. The 'term certain' is now much shorter or maybe even a thing of the past, and the traditional assumption that assets are re-let at expiry are no longer defensible under current market conditions. AMgt06 reports:

> I did work in a valuation team for a while and did a number of retail and shopping centre investments, but that was pre-COVID, so it wasn't changing hugely. I think absolutely the model is going to have to change and that's going to be reflective of turnover rents coming in where, it's valuation model where you're buying the guaranteed income for X number of years. Whereas the turnover rent and you're going on projections, that's something that's actually very difficult to do and that's totally changing the model (AMgt06, Edinburgh, Post-C19).

PMgt05 agrees that '*valuers have been scratching their heads about [. . .] how do you value a turnover lease*' but rather than using turnover-linked rent projections, advocates the possible use of historic income generation (typically over the previous 3 years) as used in the valuation of retail parks. Either way, turnover-based rents change the investment characteristics of retail, particularly on 100% turnover, making it more of a cash-like investment than other sectors. Subsequently, not all owners are happy to agree to turnover rents due to the potential impact of the uncertainty and volatility of income streams on the value of these asset (PMgt03, PPS11, PPS13). The changing nature of retail investment property as an asset is clear.

5. Discussion on the adaptation of the retail investment market

This paper has explored the changing retail real estate market, focusing on the challenges and adaptations in the investment market. Investors are often dismissed in the wider literature, despite the pivotal role they play in interacting with the needs of retailers, shoppers, and society more widely. Here the focus is on the investment sector and, through in-depth interviews with a sample of representatives actively involved in the management of retail investments, the impacts of the restructuring in the retail sector on established practices and norms are revealed, as are responses and adaptations to the challenges.

Covenant strength and confidence in covenant ratings have been challenged, evident not just in all five case study cities but the UK more widely, and this presents a challenge to the pricing of default risk. Over the last five years there has been a sudden collapse of perceived 'strong' multiple operators and a significant rise in CVAs. By contrast, the financial position of 'weak' retailers has improved. Independent retailers are now considered, by some major institutional and corporate landlords, a pronounced shift in investment behaviour/policy. These changes impact on the accurate pricing of covenant into investment yields, which relies on understanding the tenant's financial position, but the shifts in strength are complex; independents may not yet have a track record, and there are criticisms of the financial data held by credit assessment companies. These assessments can be crucial and measures are needed that reflect more up-to-date data if risk is to be appropriately priced.

The findings also reveal that the area of greatest adaptation has been the leasing model. Turnover-linked rents, a trend that emerged before Covid, have grown in popularity despite resistance from landlords. A change for the high street encouraged in the Portas Review (Portas, 2011) and concluded by French et al. (2021) as looking set to stay although we found the situation to be more complex. Certainly, suburban high streets that attract independents and smaller operators that were slower to adopt these changes during the pandemic, are likely to see a quick return to fixed rents. This includes the retailers and leisure operators that support the experiential economy that have grown in these centres (Orr et al., 2021).

The use of turnover rents may remain in parts of the leisure sector although the preference of restaurants, as identified by the interviewees, suggests these operators will be keen to return to a fixed rent model. The change, however, is likely to be permanent for the fashion retailing sector, as the disconnect between market rents and affordability drove their demands before Covid and would have continued without the pandemic. Hence, turnover rents look set to remain in shopping centres and city centre high street units where larger retailers locate. Already some large investors (e.g. Legal & General, 2020) have developed leasing frameworks that provide a range of different lease options to accommodate the diverse needs that have emerged in the retail and leisure sector.[15]

Resistance to turnover-linked rents remains from some landlords. This is captured by a Savills survey which found 74% of landlords see turnover provisions as a short-term solution rather than a permanent fixture whereas 82% of retailers and leisure operators interviewed said they would seek to incorporate a turnover rent provision in future deals (Higg, 2020). The complexity, lack of transparency and reliance on tenants, who have historically not been keen to share information on their performance, are the key factors that explain the preference of these landlords for the fixed rent model. This is more pronounced when they have limited experience of the turnover model or supporting occupiers with their operations. The absence of a standard approach to measuring and setting the different provisions within the turnover lease is not helping the situation. Here, the property industry, which ultimately relies on information, needs to catch up, possibly by providing industry benchmarks to enable landlords or tenants to evaluate whether, on average, their terms are fair. Transparent definitions, agreed at an industry/practice level, covering areas such as how to define turnover, allowances for online sales linked to physical stores, and whether turnover is calculated net or gross of VAT and with or without deductions for returns, are required. This is a hugely complex and contentious area so work towards establishing best practice and transparency is urgently needed to protect real estate as a viable asset class.

More general changes in lease terms are common in market downturns and are to be expected, but patterns previously seen are exaggerated and radical shifts are emerging with lease lengths of 5 years, with breaks at 2 or 3 years. Shorter temporary leases, sometimes with yearly breaks, are being granted in areas with high voids, a trend exacerbated during the pandemic and likely to end when the market strengthens. The security sought by landlords is more likely in the leisure sectors, with occupiers spreading fit-outs over longer periods while they build a customer base.

There has been pressure for rental rebasing in the retail sector for a number of years as structural changes took hold, and retailer insolvencies and vacancies increased. This is now underway, more so as a consequence of the pandemic, with some falls in value for

shopping malls described as almost beyond comprehension (AMgt01, PMgt03, PMgt01, PPS05, PPS08, PPS13). For some occupiers, the fixed burden of business rates and service charges means landlords are having to cut rents to unsustainably low, or even zero, levels due to nervousness around tenant defaults and voids. The accompanying increase in yields has led to a rebasing of investment prices in the case study centres (PMgt01, PMgt05, PPS03, PPS09, PPS15) and across the UK (MSCI, 2021).

The interview data revealed a clear difference in rental expectations where the magnitude of rental fall is not reflected in the behaviours of all market players. Previous expectations – perhaps due to the culture of income security – seem to be clouding how some owners are responding to the changing environment. Some landlords have already adjusted to the new playing field and with rebased rents they are seeing their assets priced at a completely different level. These investors may already have decided to change the use of their assets as a result of the decrease in asset values. However, other landlords that are holding out will continue to struggle with vacant properties, unrealistically awaiting the return of the halcyon days of the retail investment sector. Reference to (historic) rental tones illustrates attempts to sustain an unachievable theoretical price. It is difficult to determine whether it is single-unit owners or larger landlords that are being 'nimbler' in terms of adjusting their expectations. Regardless, there is a need for professional valuers to inject that realism into the market and not be biased by unrealistic client expectations. This is not just by stepping back and being objective but possibly by changing their entire approach. Professional valuers are often trained to use rental tones that do not exist in the current market so their practice needs to adapt, perhaps be re-trained in methods that reflect turnover rents and the cash-like investment characteristics generated by the deals being achieved.

The identified shifts in covenant strength and changes in the leasing model have implications for the valuation and appraisal of retail assets. Traditional growth implicit valuation methods struggle to handle unusual cash flows, although growth explicit DCF methods are an appropriate alternative, notwithstanding when good evidence from transactions is limited in thin markets (Baum et al., 2021). The real challenge comes from the approach to valuing turnover-linked rents, and the difficulties with pricing default risk also undermine the basic inputs in the traditional retail valuation process. One consequence of the market now dealing in turnover rents and TOC rents per square foot/metre is the increasing difficulty in finding comparable Zone A market rent transactions. Furthermore, assessors currently rely on Zone A market rents to determine the net rateable values that underpin retail business rates. If these do not exist this will impact on the volume and quality of data available for the next business rate revaluation and, moreover, those rateable values could shift markedly following market shifts.

Even if fixed rent leases return to dominate the market, greater use of turnover leases looks set to stay and valuation practice needs to adapt to turnover-linked models and the profits method offers a sensible adaptation to the retail valuation model. Yet, this does not deal with the lack of comparable evidence or cashflow complexities so a better way forward for valuers might be the adoption of a forward-looking discounted cashflow model. Williams (2013) claims that the market's reliance on the comparable approach and historical inputs has resulted in over-valuation in the past. He advocates the use of discounted cashflow models based on realistic growth assumptions to generate market values, a change that now appears to be embraced by the RICS after its Standards and

Regulation Board unequivocally voted to accept all the recommendations by an independent review spanning the real estate investment sector, including to 'incorporate the use of discounted cash flow as the principal model applied in preparing property investment valuations' (Gray, 2021, p36; RICS, 2022).

In practical terms, however, moving to an approach that involves forecasting turnover would change the nature of the data valuers are required to collect and analyse and, thus the skill set. This may lead to this branch of valuation becoming highly specialised in the same way that the valuation of operational entities tends to be. Shorter standard lease lengths with more frequent breaks, longer void periods, replacement of the Zone A rate by affordable overall rates, and greater use of turnover rents as found in this study, were also used in support of the recommendation by the independent valuation review to adopt a discounted cashflow methodology across the UK (Gray, 2021). Widely used in markets outside the UK to value shopping centres, retail parks and other retail assets, contemporary methods are flexible enough to handle volatile and complex cashflows, and more transparent and realistic income assumptions might also prevent rent-free incentives or vacancies being 'abused' to inflate valuations. Yet, the switch will not be easy in an industry that has resisted this change for decades. The valuation of retail assets on turnover leases using growth-explicit cashflows will require revised data collection, analysis and valuation processes to be put in place to adequately capture current and expected turnover-linked income flows in retail valuations. Education providers will also need to ensure graduates entering the profession are competent in application of the revised methods and advanced analytical techniques that look set to be embraced by RICS guidance and the next Red Book.

5.1. Conclusions and property industry implications

Three overarching issues emerge in this study that require action. First is the increasing complexity in the market. Lease terms are becoming more bespoke, incentivising deals appear to be reactive rather than proactive and what were once simple clauses have become more complicated. These complexities require careful consideration from both tenants and landlords, to ensure the implications are fully understood as and when business circumstances and market conditions change. This is likely to lead to a polarised market as financial resources and access to specialist legal advice are uneven. The widening and deepening skills and knowledge required of landlords and their advisers and specialist property management teams highlight the current gap in education, training and CPD provision.

Second is the need for greater transparency and data sharing in this complex market where industry user-data and metrics no longer capture the panoply of the investment market (Trevillion et al., 2018). The landlord and tenant relationship benefited from greater openness during the pandemic but this needs to be built upon to ensure appropriate asset management is enabled. Issues regarding the assessment of covenant strength and transparency of turnover deals requires more openness around the financial position of tenants. The retail markets outside the UK overcome these transparency and trust issues, but a cultural shift is required in the UK. Innovations, like the sharing of real-time financial data via Open Banking or benchmark metrics of turnover-linked terms, might also help build confidence in turnover models, and facilitate the overhaul of valuation

practice. The move towards the RICS supporting greater use of growth explicit valuation methods could trigger a fundamental change in practice. The RICS, which is yet to announce how it will action the adopted recommendations of the valuation review, needs to include a systematic review of best practice, not just in the UK but in international markets to inform the guidance it provides on retail valuation models and analytical methods.

The third and perhaps most significant issue for investors, given the shorten of leases, mainstreaming of turnover-linked leases in the UK market and the realisation that retail rent need to be affordable, is the fundamental change in the return/risk profile of retail investment properties. They can no longer be considered a hybrid investment given the equity investment characteristics associated with more volatile cashflows. For investors still holding retail assets, this change has severe consequences. This is particularly important where the changes impact on the ability of institutional investors, such as pension funds, to fulfil their liabilities and will have wide-reaching consequences across society. While the resetting of the return/risk profile and pricing of retail assets may encourage the repurposing of redundant retail, it will discourage investment in future retail-led urban renewal projects. Town centre management policy-makers need to be conscious of the implication of these investment market changes as it will affect the type of projects institutional investors will now fund.

Notes

1. The sample contained responses from 8 valuers, 7 practitioners based in agents/legal firms and 6 owners. First round responses were collected from these participants using a questionnaire but the information provided on the scale or iterative process involved in the second round interviews purported to have been undertaken is limited (French et al., 2021).
2. Glasgow, Liverpool and Nottingham are major cities and three of the largest retail centres outside London's West End. They have 2,991,000ft^2, 2,998,000ft^2, and 2,877,000ft^2 of estimated retail floorspace, respectively. Edinburgh (2,118,000ft^2) and Hull (1,873,000ft^2) are smaller regional centres (Property Market Analysis, 2021).
3. The sample consisted of 12 females and 54 males reflecting the male dominance in the UK property industry. 27 agreed to be interviewed; 10 no longer dealt with retail asset management or agency in the case study markets; with 29 not responding or unable to take part.
4. While no incentive was given to encourage participation and the sample covers a broad range of professional perspectives, self-selection bias cannot be completely ruled out as the professionals who were willing to be interviewed tend to be those with genuine interest in retailing and the future of the high street.
5. 'national landlords, and hedge funds, are only really interested in national retailers and strong, secure investments, that's how they drive their, their yield in their markets. More localised and regional landlords will take more of a view on it.' (AMgt05, Hull, Post-C19).
6. 'I think that insolvencies as well, retail insolvencies are huge. For us as a market, there's a lot of fear around insolvency. And also a bit of confusion about how we, we deal with retailers who have been in CVA for a long time' (AMgt02, Glasgow, Pre-C19)
   'If you're looking at a multi-let asset covenant in retail now it means very, very little. It's 5A1 covenants, multiple 5A1 covenants who went bust last year, so it doesn't offer you a huge amount of protection looking at that.' (AMgt06, Edinburgh, Post-C19).
7. Bankruptcies fell in 2020 Britain by 40%, mirroring the 25% fall across the European Union which had similar support measures in place (Eurostat, 2022) while bankruptcies rose in USA (Alderman, 2021).

8. *'Poundland, so we've got Poundland in here, it's been here forever I can remember, even when I was a store manager years ago. So it must have been in this centre for over 20, 25 years. They need a bigger store.'* (PMgt04, Hull, Pre-C19).

9. *'In terms of risk, so they'll be looking at, is covenant strength so important as it once was? Again, big question mark over that, because there's not, you look at some of the retailers . . . coming back to the value guys that I touched on before. You know, ten years ago, landlords were turning their nose up at these guys, and now, they bend over backwards to get them into [. . .] some of their units, because their covenant is so good they're 5A1, a lot of them, which is as good as you can get.'* (PPS03, Glasgow, Pre-C19)

    'Well, there's an inferior quality. It's more the discounter that's coming in to occupy space so because of that some of the discount operators' covenants are very good and some of them aren't. It's just a question of what they are and how, and the ones that you don't think are good could be very good because they've actually got a lot of money [and] are trading very well.' (PPS05, Edinburgh, Pre-C19).

10. *'I've certainly had a few clients who they're just not interested in dealing with multiples to some extent now, because there's been so many administrations and CVAs and tenants trading on the high street not paying rent when they're open'* (PPS14, Liverpool, Post-C19).

11. *'Landlords hate them, absolutely hate them, yeah. No, never, never done one and I'm not sure I'm going to be doing one. The landlords I act for are absolutely opposed to it'* (AMgt03, Nottingham, Post-C19).

12. Contracting out removes the tenant's security of tenure. While the Landlord and Tenant Act 1954 is not applicable in Scotland, tacit relocation automatically grants tenants a one year extension if either the landlord or tenant have not served notice of the intention to end the lease.

13. *'And certainly [. . .] in the smaller, secondary parades, it remains very much Zone A rates, rate per square foot'* (PPS10, Edinburgh, Post-C19).

14. *'yields are being impacted by national tenants asking for better lease terms'* (AMgt05, Hull, Post-C19).

15. This is creating a more disparate leasing market where different valuation models will be required for different lease models, including turnover rents which has become more mainstream.

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