

## BIG STORY

BHS is one of the most famous names on the high street. How will its administration impact retail locations across the country? **Luke Tugby** reports

# As BHS goes down, who will take its pl

**A**s revealed by *Retail Week* last Friday, BHS was teetering on the brink. It ultimately plunged into administration on Monday after rescue talks failed, throwing the future of its 164 shops – and 11,000 employees – into doubt.

High streets and shopping centres up and down the country will today be contemplating life without the 88-year-old retailer, while landlords begin to think about alternative occupiers for BHS's premises.

But while that presents a problem on paper, experts believe the possible death of one of UK retail's biggest names could actually breathe new life into the Great British high street.

Ironically that is something BHS boss Darren Topp called for help in achieving when he spoke at Retail Week Live just weeks ago, when he urged local authorities, central Government and retailers to work together to that end.

BHS's problems have been well documented. The business has been loss-making for seven consecutive years, it was sold by Sir Philip Green for the nominal sum of £1 to Retail Acquisitions a year ago and last month it entered into a company voluntary arrangement (CVA) to reduce the rents on its stores.

## Opportunity for some

Bearing in mind such a turbulent recent past, is it time for BHS to bow out and make way for more relevant retailers? Simon Morris, director at retail property consultancy GCW, believes "many" towns and cities may actually benefit from BHS's demise.

"There's still a shortage of stock for large-space occupiers because there's not been an enormous development pipeline like there was pre-2010," Morris says.

"For Primark, H&M, TK Maxx – almost any large-space fashion occupier you can think of – this is potentially going to release space.

"BHS is an old fuddy-duddy fascia, which isn't really dragging people to the high street in the same way an H&M would. If it will improve retail locations, by having new vibrant brands in, that's got to be positive."



BHS boss Darren Topp

Springboard insights director Diane Wehrle agrees – observing that Sports Direct and Next will also be eyeing potential properties – but warns that not all secondary locations will be celebrating just yet. "This offers, in many locations, the opportunity to take these units and use them for more current and viable retail operations, either as a big anchor store or by

breaking them up into smaller units to have new retailers coming through," she suggests.

"It can breathe life into a number of high streets that are weighed down by old retail propositions such as BHS."

## M&S to benefit?

Morris and Wehrle suggest that M&S stands to be the main beneficiary from BHS's potential disappearance, because of its similar target customer, while the own-label clothing ranges of supermarket giants Tesco and

Sainsbury's could also receive a boost.

Wehrle maintains that retailers with concessions in BHS stores, such as Arcadia's Topshop, Burton, Dorothy Perkins and Claire's Accessories, will also escape negative impact.

"This will simply push trading back to their branded stores," Wehrle says. "In large part, those concessions are an historic trading characteristic of when it was owned by Sir Philip Green. Apart from someone like Claire's, I don't think there was any strategic entry into BHS. They were just a hangover from the old trading proposition."

## Landlord impact

High streets may be looking forward to a brighter future without a BHS presence, but the impact on landlords appears less cut and dried. According to the CVA document BHS proposed in March, creditors stood to lose up to £1.3bn if the department store chain collapsed – with store landlords bearing much of that unpaid debt.

But in the longer term, landlords could find themselves better off by bringing more successful retailers into their properties.

"All change creates opportunity," Cushman & Wakefield's head of UK and European retail



Justin Taylor insists. "Landlords will have seen this looming and given consideration about utilising this retail space."

But Morris suggests the response would be "mixed", and says: "There will be an element of definite frustration in terms of landlords thinking 'was the CVA just totally unnecessary and why did we go through it?'"

"It will be good news for some, bad news for others, because some stores will be going backwards on rent at a fairly fast pace.

"There will be a third group of landlords in the middle who are shrugging their shoulders because someone like Sports Direct



For more on the developments at BHS, go to [Retail-week.com/BHS](http://Retail-week.com/BHS)



## Five reasons that led to BHS's collapse

# ace?

# BHS



**For Primark, H&M, TK Maxx – almost any large-space fashion occupier – this is going to release space**  
**Simon Morris, GCW**

### 1 Product

BHS's product offering, particularly in fashion, is one of the main reasons its fortunes have declined.

In 2000, BHS attracted 13.4% of all clothing shoppers through its doors, according to analyst Conlumino, helping it achieve a 2.3% share of the clothing market. Last year the chain attracted just 8.2% of all clothing shoppers and its share of the market had slipped to 1.4%.

"BHS has fallen out of favour with British shoppers thanks to its failure to respond to changing tastes and the intensification of competition on the high street," says Conlumino chief executive Neil Saunders.

The grocers and value retailers such as Primark have cornered the basics market, while chains such as TK Maxx have provided a more aspirational product at an affordable price.

Other department stores, such as M&S and Debenhams, offer a more attractive proposition. Etailers such as Shop Direct and N Brown have also advanced in recent times.

"BHS doesn't have the brand desirability," says Verdict Retail analyst Honor Westnedge. "There is young value fashion such as Primark, New Look and H&M targeting young people, while Bonmarché has been much better over the past few years, so it's losing footfall from all angles."

### 2 Stores

BHS's store estate is another area in which it falls down when compared with other department chains.

Even its Oxford Street flagship, the lease on which it sold earlier this month in order to raise funds, is tired-looking.

Cushman & Wakefield UK and European retail head Justin Taylor says he expects other retailers and businesses to already be eyeing BHS's estate.

"We have already seen the likes of restaurants and cinema operators unlock value in large unused sites by targeting upper floors and we expect large interest from retailers and leisure operators keen to exploit these prime location sites," he says.

### 3 Pension deficit

BHS's two pension schemes, with around 20,000 members, have a combined deficit of £571m.

Sir Philip Green has faced pressure to contribute to addressing the deficit. Green has offered to put £80m into the BHS pension scheme, it is understood.

However, The Pensions Regulator is understood to be considering asking Green to pay £280m. Those

entitled to a BHS pension when they reach 60 are likely to receive 10% less than they would have done.



**Sir Philip Green sold BHS in March last year to Retail Acquisitions, having bought it for £200m in 2000**

### 4 Rent hikes

BHS has been hit by unsustainable rental costs and long leases. Locked into long contracts that are subject to upward-only rent reviews, the company has ended up paying considerably above market rate at many of its 164 stores, according to BHS management.

Last month's CVA resulted in slashed rents at some of BHS's shops. Despite securing rent cuts of up to 75% on 87 shops, the amount raised from unrelated property sales has been disappointing.

### 5 Poor decision-making?

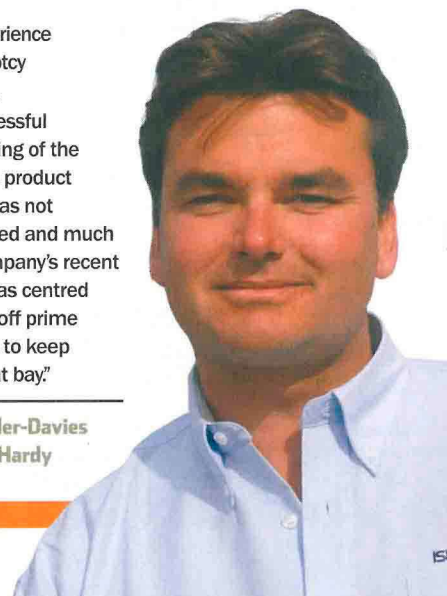
Green bought BHS for £200m in 2000 and sold it in March last year for £1 to Retail Acquisitions. Since then there have been questions raised over the ability of the new owners, led by former bankrupt Dominic Chappell (pictured), to breathe new life into the business.

Retail analyst at Economic Intelligence Unit Jon Copestake says: "Retail Acquisitions has shown little appetite or acumen for retail management, despite its name."

"Its owner, Dominic Chappell, is a former racing driver with more experience of bankruptcy than retail."

"A successful repositioning of the brand and product portfolio has not materialised and much of the company's recent strategy has centred on selling off prime properties to keep creditors at bay."

**Becky Waller-Davies and Emily Hardy**



can pick up the stores and move them forward on the existing rental terms. In some instances, landlords will undoubtedly get better terms – it just might cost them to do it in terms of redeveloping the stores to suit retailers' requirements. It won't happen across the board, but there will definitely be instances where some landlords will get improved terms."

Although the BHS-shaped storm clouds have gathered on a dark week for the retail industry, many high streets, shopping centres and landlords could find themselves benefiting from a silver lining in the years to come.

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