

GARDEN CENTRE PROPERTY MATTERS

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As the leading garden centre property advisor, Gilbert Evans continues to be appointed on the majority of major garden centre transactions with the team advising on deals valued at circa £140 million in 2015.

Market Overview - a strong performance

2015 saw generally strong trading across the garden centre industry. The GCA and the HTA reported increased year-to-date sales at the end of November ranging between 6 - 8%. However, this may be of little cheer to many garden centres operators across large areas of the UK still bearing the brunt of some of the worst storms and flooding the UK has experienced. Undoubtedly the impact of the storms will adversely affect sales for the early part of 2016.

Active players

The biggest news story coming out of 2015 was BlackRock Real Estate's purchase of the Ferndown Portfolio from LaSalle Investment Management for £112.5 million. The sale and leaseback deal demonstrated how attractive quality garden centres are to investors looking for assets with strong and stable income streams. We were delighted to advise BlackRock on this strategic acquisition. Towards the end of the year Wyevale completed a £91 million sale and leaseback of eight centres to Orchard Street Investment Management, re-affirming the appeal of the sector to the investment market.

Whilst all the main garden centre groups confirmed an appetite for expansion, Wyevale's acquisition drive continued. By the end of the year its estate totalled 151 centres having acquired Armitage's two centres near Huddersfield along with Sidmouth Garden Centre in Devon and Wych Cross Nurseries in East Sussex. Before January came to a close in the new year, Wyevale had added Crowders Garden Centre and Woodcote Green Garden Centre to its portfolio. Blue Diamond's new freehold acquisition Newbridge Nurseries took the group to 17 centres and Langlands Garden Centres bought Garden Style in Sheffield to add to its two existing centres.

Trends

The dominant trends impacting the industry remain e-commerce and the continuing momentum to diversify operations. With the John Lewis Partnership Christmas Trading Update confirming John Lewis online sales were up 21.4%, representing 40% of total sales, and that click and collect was the delivery method of

choice for half of all online orders, garden centres cannot ignore that consumers are changing their shopping habits if they want to future proof their business. Major groups are investing in multi-channel strategies and reporting growing online sales. Garden centres are focused more than ever before on improving their leisure offer to ensure they remain attractive as social destinations to help offset the convenience of online shopping and competitive DIY retailer and supermarket offers. Monkton Elm in Somerset opened its circa 1,000 sq m restaurant that includes a coffee lounge, deli counter, juice bar and a self-service drinks area. Forest Lodge completed a similar, albeit smaller refurbishment of its restaurant as both centres seek to tempt visitors to increase their dwell time. Soft play areas, Play Barns and even crazy golf can be other successful diversions to keep children entertained and extend the garden centre destination experience. Wyevale's in-house Coffee Ground concept is proving to be a national restaurant award winner with the Group currently one step ahead of the high street, as the only coffee shop group in the UK to roll out micro roasting.

Gilbert Evans - still leading the market:

BlackRock Real Estate
Purchase of the
Ferndown Portfolio

Newbridge Nurseries
Sale to Blue Diamond

Sidmouth
Acquisition on behalf of
Wyevale Garden Centres

**Armitage's Pennine
& Birchencliffe
Garden Centres**
Acquisition on behalf of
Wyevale Garden Centres

Crowders
Sale to Wyevale
Garden Centres



"We appointed Gilbert Evans to arrange the sale of our garden centre. It entailed a great deal of hard work and the whole process was carried out very professionally by Gilbert Evans with the highest levels of confidentiality. For anyone considering selling their garden centre, we highly recommend Mike and the team at Gilbert Evans"

Nigel Wait, Former Managing Director Newbridge Nurseries

Looking Ahead

There are undoubtedly challenges ahead. Industry commentators believe that the increase in the new national living wage will present challenges with some expecting the increased costs inevitably being passed on to consumers. The Government is progressing its plans to allow councils in England and Wales to relax Sunday trading laws. Whether longer trading hours will result in increased profits remains to be seen.

However, garden centre values remain strong, investment is evident across most areas of the country and consumer confidence remains stable on the whole. The outlook remains positive for the garden centre industry for the next 12 months - but the weather has to play its part.

Development – keeping costs down

There was limited new build/development activity during 2015. Wyevale opened its brand new Percy Thrower centre in Shrewsbury that includes a full leisure offer and Fairways Garden Centres plans to add a new-build to its two centres in Macclesfield and Ashbourne. Comprehensive redevelopment is planned by Whitehall Garden Centre in Lacock, with plans to almost triple its space and broaden its offer including several restaurants and more non-gardening lines

Owners considering expanding should be mindful of the Community Infrastructure Levy (CIL) – a local planning charge on new development over 100 sq m to help local authorities deliver infrastructure to support the development of their area. Completely separate to s.106 agreements, charges vary from one area to the next and being CIL- smart can help keep development costs down. If part of the development is made up of a building which was being lawfully used for six months in the past three years, then that existing floor space can be deducted. CIL is only paid at the point the development is started – not when planning permission is granted.

Technical Notes

You can find a wide range of technical notes on our website. Topics covered in 2015 include Demystifying Property/Business Valuations, Mediation and the Community Infrastructure Levy.

Sale and leasebacks - attractive for investors and vendors

The BlackRock Real Estate acquisition of the property freeholds within the eight-centre Ferndown Portfolio and Wyevale's subsequent sale and leaseback demonstrated the benefits of investment-based transactions. Both transactions created strong index-linked income streams for the funds' investors whilst Wyevale Garden Centres, Notcutts and Squires Garden Centres continue to operate their relevant sites under lease agreements. A sale and leaseback involves an owner occupier selling a freehold property and remaining in occupation by way of a lease. The sale releases capital for the vendor which can then be used to re-invest in the business if needed. Sale and leasebacks can offer an advantageous exit strategy for owners, releasing capital whilst still being able to leave the business running in the hands of family members or the existing management team.

When considering a sale and leaseback deal, some owners are concerned about unsustainable rental levels. Owner occupiers are in complete control during this type of transaction and dictate the rent and other lease terms. The purchase price of the created investment is based upon a multiplier of the rental. That multiplier will be influenced by factors including the financial standing of the tenant, the length of the lease, the type of property, its location, specification and rental growth prospects. The higher the rental and the more beneficial the lease terms are to an investor, the greater the price that could be paid. Owners have to balance higher sale price versus rental affordability for the on-going business. Professional advice should be sought to assess the impact of a sale and leaseback from both tax and company accounts perspectives.

News

Gilbert Evans has recently undertaken garden centre valuations for loan security on behalf of AMC, Handelsbanken, Clydesdale Bank and Lloyds Bank. All four banks recognise that using sector experts with direct specialist marketing experience provides them with absolute confidence in the advice provided.

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