

# 61% of consumers fear the cost-of-living crisis is the final nail in the coffin for the high street

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Tuesday, 6 December 2022

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UK high streets have been under increasing pressure to survive, due to the impact of changing shopping habits and the global pandemic. But just as the outlook seemed to be slightly improving, the current cost of living crisis, fuelled by international events and soaring inflation, has provided another setback for the high street.

New analysis from the BBC has revealed that after two years of Covid related lockdowns, there were 9,300 fewer retail outlets in March 2022 than March 2020 due to closures of banks, clothes shops, and department stores.

Research by KIS Finance (<https://www.kisbridgingloans.co.uk/>) has found that 61% of people are concerned that the high street in its current form is under threat and that the continuing volume of store closures will lead to a permanent change to the retail landscape.

The UK is a nation of online shoppers

26% of total retail sales in the UK are now online (ONS data Oct 2022). Back in 2006 only 2.8% of retail sales were online, but this took off sharply during the pandemic and by January 2021 it had peaked at 37.8%. As life returned to normal the level of on-line shopping decreased, but appears to have now stabilised at the current level.

Online expenditure has been growing at a rapid pace, peaking in November 2020 at £3,349.2 million, when the pandemic again had a massive impact on all of our shopping habits. Although the amount of expenditure has fallen back from this peak, the level of internet retail sales in the UK is currently £2,227.6 million and has remained fairly consistently around this level for the last year.

When asked why the popularity of on-line shopping had grown to this extent, 64% of respondents to KIS Finance's survey stated that it was the convenience of online shopping that was the key factor for them, with the 24/7 availability primarily attracting them to this option.

Despite the rise of online shopping, we still love the high street

The survey by KIS Finance found that 82% of people confirmed that if they were given the choice of only shopping online or on the high street, they would choose to shop in store. Clearly consumers are not ready to lose the in-person shopping experience just yet.

However, age seems to be a factor here, with 18% of respondents between the age of 25 and 34 confirming that they do all their shopping online. Therefore, if the high street is going to survive in the future,

there needs to be a focus on appealing to all age groups to ensure that future generations still value that in store experience.

### The changing face of the high street

There have been a large number of high street casualties, primarily due to changing shopping habits and the pandemic, but the current cost of living crisis is a further hit for retailers. The physical retail sector has been in decline since the recession in 2008 and since 2016 more shops have been closing than opening each year.

According to PWC, in the first six months of 2022, 6147 shops belonging to multiples and chains with 5 or more outlets left the UK high street. This equates to 34 closures a day, although this is a reduction on the 61 closures per day in first half of 2020. The rate of decline is not accelerating in the way that it was during the pandemic and there had been some positive signs starting to emerge in the market, but the cost-of-living crisis and impending recession now pose a further threat. In fact, Deloitte has forecast a further 30,000 net store closures are likely by end of this year.

### What can be done to reverse the trend?

Whilst the march towards an ever-increasing on-line retail sector looks set to continue, this doesn't necessarily mean the end of the high street. Retailers are finding ways to blend their on-line offerings with their stores to provide customers with the best in choice and experience.

But what we need to see is the Government undertaking a radical review of both the tax and business rates systems to ensure that all companies, including giants like Amazon, are competing on a level playing field.

### The benefits of an on-line sales tax

One potential approach to rebalance the market could be the introduction of an 'e-commerce sales tax', levied on all on-line sales. This could be balanced against a reduction in business rates for high street stores. Whilst this might not appear to be in the consumers' interests, any related price increases could be offset against price reductions for goods brought in high street stores. Essentially consumers would be paying for the convenience of buying on-line, whilst the potential for lower prices in store might encourage an increase in traditional sales.

### Radical redesign of business rates

As an alternative to a specific on-line tax, the current business rates system could be redesigned to make it applicable to both store and on-line businesses. Whilst current business rates are essentially a property tax, if they were redesigned as a tax based on volumes of sales, this could be applied on an even basis across the sector. This would level the playing field and mean that on-line giants like Amazon would have to pay taxes on the same basis as their competitors.

#### Are local businesses the way of the future

As the cost of essentials soar, consumers are cutting back on non-essential shopping, which is continuing to hit the already challenging retail environment. However, with large player such as Debenhams gone, which have been the foundation of many high streets over the last few decades, the opportunity for small independent retailers has really started to emerge.

According to the British Retail Consortium, footfall remains 10 -15% below pre-pandemic levels, but independent retailers appear to have recovered more quickly from the pandemic than retail chains.

This shift towards supporting local and independent shops started to gain traction during the pandemic and local retailers are continuing to call out for shoppers to support them during the current challenging times. Local campaigns are popping up across the country, such as the “shop small” campaign in Exeter, where independent retailers are turning to the local community to support them by choosing small local businesses over large national chains.

However, in the current climate, the question is whether small retailers will have the resources to withstand the increasing costs that all are now facing, with inflation at a 40 year high and the cost of supplies, transport and electricity soaring. To help them reach a wider customer base some small retailers introduced home delivery and online options for the first time during the pandemic and many have now kept these in a bid to compete with larger retailers.

A sense of community appears to be a strong factor influencing many consumers, particularly during difficult times. What initially started during the pandemic has now continued as the cost-of-living crisis deepens, but local retailers need to find ways to retain this level of good will.

#### Local retailers adapting to survive

Small shops and businesses can maximise their chances of maintaining their new customer base by focusing on what large retailers can't offer; a personal, human touch. Whilst large companies' data bases may remember your birthday or recommend products you may be interested in based on your last order, this is impersonal and automated. Only small, local businesses can connect with their customers in a real way and build up genuine and beneficial relationships.

A shift from retail space to residential units

Many town centres are seeing an increasing number of applications to convert commercial retail spaces to residential use. Whilst this will change the look of the high street, it has the potential to bring life back to central locations and make them a core part of the local community.

At KIS Finance we are seeing an increase in applications for development finance and bridging loans to purchase and convert old retail premises into new modern apartments.

There was a 37% increase in applications to convert UK high street shops into living accommodation in 2020/21. However, nearly half of developer's plans were rejected by councils, showing that this option for empty retail space isn't always a straightforward one.

We spoke to retail expert James Child, retail analyst at Estate Gazette, about the what the future holds for the UK high street.

James says:

"The challenge in the future will be ensuring that locals have real reasons to actually visit these locations, and create more than a row of shops, but proper destinations. There needs to be a reduction in the amount of retail space, replaced with other mixed-use schemes and residential elements to encourage locals to engage in their local areas. The high street of tomorrow will be easily accessible, safe, clean, and able to be enjoyed by all.

Town centres and high streets must be at the forefront of engagement in their communities, listening to what people want as opposed to giving them what they think they want," James says. "Introduce more housing into central locations, make parking free to encourage further footfall, but the biggest take away surely has to be – make your high street interesting again."

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Full report:

<https://www.kisbridgingloans.co.uk/finance-news/the-future-of-the-high-street/>

About KIS Finance:

KIS Finance are an independent finance broker specialising in bridging finance, development finance, commercial mortgages, equity release, and secured loans. Their team of advisors have considerable experience across multiple different areas of the finance sector, as well as insurance and compliance.

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