Retail Renaissance 2026

Paper #2: Store wars: A new hope

2026

The second of six papers exploring key themes that are defining the Retail landscape and will play out going forward

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Paper #2: Store wars: a new hope

The high street force awakens

AUTHOR: STEPHEN SPRINGHAM – PARTNER, HEAD OF RETAIL INSIGHT

3 KEY TAKEAWAYS:

- 'Back to basics' – the next phase of retail occupiers' renaissance is seeing a welcome refocus on business fundamentals and overdue re-embrace of basic retail disciplines.
- Physical stores are at last receiving the attention and investment that has been lacking in recent years – M&S and John Lewis are key examples.
- Selective new store acquisitions and refurbishments are proving a catalyst to other positive multiplier effects – vacancy rates are declining and rents are increasing as a result.

Something strange in your neighbourhood. Retailers are going back to basics in a way we've not seen for a number of years. Maybe the immediate impact isn't seismic (or even remotely discernible in some locations) but the tide is slowly turning.

Back to basics – what does that mean? It means refocusing on and reinvesting in the very fundamentals of the business, the central planks upon which all else depends, the epicentre of the brand. Going right back to the start as a basis for moving forward and driving future growth. Front and centre of this back to basics shift, the stores themselves.

> "A retailer focussing on and investing in its stores might not sound the most radical thing in the world, but it has been sorely missing for too long."

A retailer focussing on and investing in its stores might not sound the most radical thing in the world, but it has been sorely missing for too long. As we identified in our original *'Price of Change'* report, Under-investment and Complacency were two of the structural failings that brought the retail market to its knees, before it underwent its subsequent renaissance. Put simply, store networks were left woefully neglected and starved of investment, creating a vicious circle of decay and deteriorating performance – if a retailer doesn't care about its stores, why should its customers?

BACK TO THE FUTURE

This vicious circle is slowly being broken. Structural change, compounded by COVID, left many retailers facing an existential crisis that some did not survive. Those that did were forced to embark upon a voyage of self-help, central to which was a root and branch reappraisal of the entire store portfolio.

This process may ostensibly have looked like a straightforward cull of under-performing or loss-making outlets, a one-way street to a smaller, more manageable portfolio. The reality was slightly more multi-dimensional, each store being appraised as part of a wider multi-channel ecosystem, in both the short and longer term. A store not scoring highly in terms of its own P&L may nevertheless earn its stripes by forming an important cog in the online business.

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As we discussed in last year's *Lesson #4: Occupiers Call the Shots*, the balance of power has swung decisively towards retail tenants. Retailers are now more mobile, strategic and increasingly selective in the space they occupy. If space doesn't serve their purpose, they'll move on.

This portfolio appraisal process is ongoing and is, in fact, eternal – performance, requirements and needs are subject to constant change. However, much of the more brutal rationalisation has now been completed, store closures are less frequent and, in all likelihood, linked to a lease event.

Most retailers are again acquiring and we are now at an inflection point whereby new openings are starting to outweigh closures. However, we are not seeing a return to the 'space race' of the 1990s/2000s – demand is very selective and very few operators are opening 20+ stores per annum (Aldi, Lidl, B&M and Home Bargains being exceptions out-of-town and Søstrene Grene in-town). A large number of retailers and other high street operators each taking a measured amount of space is adding up to a significant pool of demand, the sum of the parts making a large whole.

A few high-profile examples: having re-entered the UK market in 2023,

Select recent new overseas entrants to the UK

RETAILER	COUNTRY OF ORIGIN	SECTOR	LOCATION(S)
Garage Clothing	Canada	Fashion	Oxford Street, Bluewater
Edikted	US	Fashion	Carnaby Street
Aroma Zone	France	Health & Beauty	Westfield London
Urban Revivo	China	Fashion	Covent Garden, Westfield Stratford City
Jonak	France	Footwear	King's Road
Mr Marvis	Netherlands	Fashion	King's Road
Skin Cupid	Korea	Health & Beauty	Charing Cross Road
Alohas	Spain	Footwear	Beak Street Soho

Source: Retail Week, Knight Frank Insight

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Sephora stepped up its expansion last year with five new openings (Sheffield, Manchester, Cardiff, Liverpool and Oxford). This year, new openings have included its first stores in Northern Ireland (Belfast) and Scotland (St James' Edinburgh and Silverburn), plus a new boutique format in Carnaby Street.

On the fashion side, Uniqlo is increasingly broadening its regional presence (19 of its 21 stores are currently located in London), with recent/forthcoming openings in Birmingham, Bristol and Leeds. Mango opened a total of 25 new stores last year, expanding its UK store network to over 100. A further 15 are scheduled to open this year. Crew Clothing opened 15 new stores last year and plans "at least" 20 more in 2026.

The stated expansion plans of just four operators – multiply these out across thousands of other players to get a true picture of the breadth and depth of demand.

To the demand equation throw in a number of new overseas entrants. Again, the approach here is far less gung-ho than before, overseas operators tending to go about their new business without the bold claims of opening on every high street and disrupting the UK market into submission that we heard on occasion in the past. Expansion from new overseas operators is measured and selective in equal measure.

One of the key manifestations of this shift is a declining vacancy rate. According to Green Street (formerly Local Data Company) high street vacancy declined to 13.2% in Q1 2026, the lowest level since COVID (Q3 2020 13.3%). At the current trend level, this rate will be lower than pre-COVID levels (Q4 2019 12.1%) by next year. In all honesty, this rate is still far too high, but at least the direction of travel is positive.

Vacancy rates are on course to hit pre-COVID levels

Vacancy unit rates (%) by location 2025 – 2026 YTD

Source: Green Street, Knight Frank Insight

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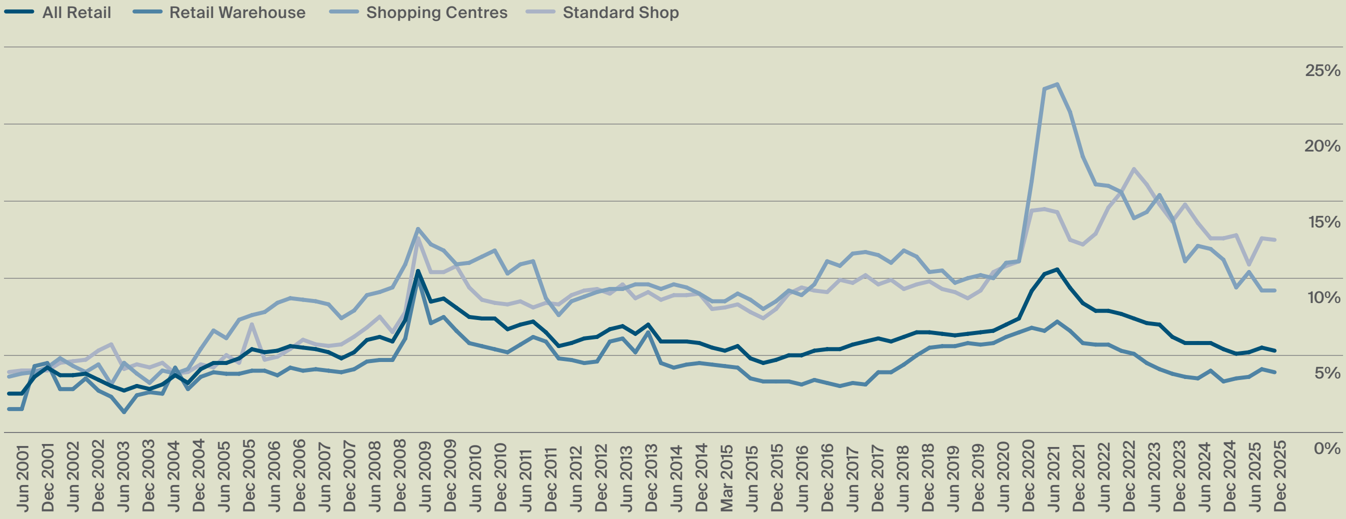
Vacancy metrics lower still on a floorspace basis
Retail floorspace vacancy rates (%) 2001 – 2025



Source: MSCI, Knight Frank Insight

STORE REFURBISHMENTS

New store openings are just one facet of this back to basics approach. The other, arguably more significant aspect, is major investment in the existing portfolio. Having determined that a store is fit-for-purpose and definitely has a future role to play, investment is now being deployed accordingly. As discussed in *Paper #1* of this series, achieving scale in online and fulfilment capability is freeing up capex to invest elsewhere in the business. Stores are an overdue beneficiary of this capital reallocation process.

John Lewis and M&S are the two standout examples of this change of focus, not least because of their standing on the high street and the respective journeys they have been on. John Lewis has earmarked £800m for store upgrades across its 36-strong estate. The store in Bluewater was subject to a £10m revamp which completed in November 2025. Solihull and Glasgow are next in line for major refurbishments.

£800m may seem an eye-watering investment, but more significant is the strategic U-turn that it represents. The Partnership seriously lost its way under its previous Chairperson, opting for a “digital-first” strategy, whereby online would account for 60-70% of sales. This buy-in to the hype around online showed a flagrant disregard to the fundamentals of retailing and the basis upon which the John Lewis brand was built. Designs to pivot away from retailing and generate 40% of profit from non-retail activities by 2030 (e.g. through BTR partnerships) were both a distraction and marked a further departure from the basics of the business.

Stores were not the priority under the previous Chair and in-store standards demonstrably dropped – and the Partnership toiled. Thankfully, the new management team has reversed many of these strategic decisions and the stores themselves are now receiving the attention that had lapsed. £800m is no small investment for any company, particularly one as complicated as John Lewis, which is a Partnership and is therefore structured and bound to a unique financial and ‘political’ model.

Meanwhile, M&S is devoting more attention to its physical estate now arguably than at any time its 140+ year history. The business has committed £300m+ to an accelerated store rotation and renewal program. This is likely to see the number of full line stores (i.e. those that combine food and general merchandise) reduce to 180 from around 226 presently. The optics on this part of the programme may not look good (a reduction in store numbers) but the residual 180 will be fully-invested in, probably bigger, definitely better.

On the food side, a net increase in store numbers plus hefty investment in the existing estate. The business is actively considering over 300 new locations for food halls, and Chairman Archie Norman has pledged to take on more food space this year than the ‘Big 4’ (Tesco, Sainsbury’s, Asda, Morrison’s) combined. Some £90m has been earmarked for London alone, across 17 new or upgraded locations.

Even those more on the back foot are recognising the importance of investment in the store portfolio. Matalan may still appear on many landlord’s watchlists due to historic concerns, but the company is currently embarking on a major business transformation programme, a key plank of which is an overhaul of the store network. The revamped stores feature simplified layouts, better signage, brighter interiors and improved visual merchandising. All standard retailing disciplines – but ones that can slip over time, hence the need for a back to basics approach.

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Nor is this investment for investment's sake – money is tight and returns have to be measurable. Matalan has reported that refurbished stores are currently outperforming the wider estate by 14%. Little wonder, therefore, that it plans to accelerate the upgrade programme to 40 stores, ten more than initially planned.

MULTIPLIER EFFECTS

M&S and John Lewis – two retailers that do not dominate the UK retail market, but two that are instrumental in defining it. Are they typical of the wider market or are they outliers?

Few retailers are as large as M&S and John Lewis, nor do they have the same level of capex to deploy. But these two are 1. Setting a tone. 2. Sparking multiplier effects. In essence, investment is infectious.

Under-investment may previously have been highlighted as a wider structural failing, but it is difficult to point the finger of blame definitively at any one party. Retailers, landlords, local authorities etc. all collectively shouldered some of the blame. To a certain degree, retailers starting to invest again has broken the Mexican standoff, as it were. But having done so, this increases the impetus for landlords to do likewise. If a key retailer is showing a commitment to investment, a landlord is more likely to as well, both parties putting their money where their mouth is.

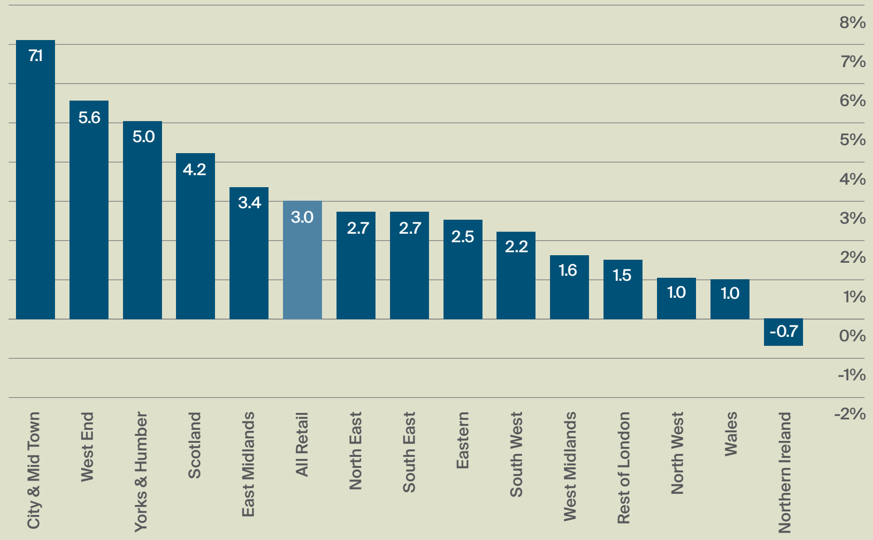
Similarly, cascading effects to other retailers. A new or refurbished M&S or upgraded John Lewis store will set new standards in presentation that competing or complementary retailers in close proximity would do well to match. A tired, under-invested store will be shown up even more if it is trading next to a bright, buzzing new or revamped one. The opposite of the Broken Window Theory, if you will.

> "Contrast this with invested-in, cared-for stores, renewed shopper interest, higher footfall, positive multiplier effects, rental growth."

Retail has returned to solid but sustainable rental growth
Retail rental growth (%) 2020 – 2025

Source: MSCI, Knight Frank Insight

Rental growth is highest in Central London, but is positive nationally
Retail rental growth (%) by region 2025



Source: MSCI, Knight Frank Insight

VICIOUS TO VIRTUOUS CIRCLE

Under-invested stores going to rack and ruin, diminishing shopper interest, lower footfall, asset decay, declining rents. A situation whereby no one wins, but one that has been all too familiar in recent years.

Contrast this with invested-in, cared-for stores, renewed shopper interest, higher footfall, positive multiplier effects, rental growth. Somewhat simplistic, but what can be achieved if the downwards spiral of decline is arrested.

From a real estate perspective, lower vacancy rates is one positive by-product of renewed investment in stores, the other is rental growth. Rents were already going backwards at a rate of knots prior to COVID and the pandemic speeded up the whole rebasing process. All retail rents moved back into positive growth territory from 2022 (+0.1%) while the +3.0% reported

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in 2025 was the highest level of growth since 2005. Central London is leading the charge to a degree (City & Midtown +7.1%, West End +5.6%) but virtually all regions have now turned the corner to positive growth.

This is not a binary rebound. A renewed investment in stores does not represent a lurch away from online on the part of retailers, nor are consumers completely shunning online in favour of a return to physical real estate. As we explored in *Paper #1*, the dividing line between online and stores has blurred to the point of being irrelevant.

The 'new breed' of upgraded stores (be they new sites or refurbishments) are the embodiment of this symbiotic relationship. Click & collect and returns counters are now an integral part of stores, rather than an after-thought or a compromised bolt-on. The customer experience is far more seamless, retailers finally coming good on what they have talked about for years.

Digital integration is fundamental to the new breed of stores, as the retailers themselves are keen to emphasise. As Uniqlo UK chief operating office Alessandro Dudech reiterated: *"Uniqlo remains committed to strengthening its presence within the UK retail sector by expanding both our physical store network and e-commerce capabilities nationwide"*. On a similar note at Crew: *"Crew Clothing is a long-standing champion of the British high street and continues to invest in its retail portfolio […] it remains committed in driving every aspect of the omnichannel model, which continues to yield consistent positive results"*. The words of just two retailers, but echoing sentiments across the sector.

One word missing from all of this is 'experiential'. Very few retailers actually use it, 'experiential' is largely a meaningless buzzword dreamt up by the property community and widely embraced by the media. 'Experiential' implies all-singing, all-dancing and probably onerous cost. For the same capex as an 'experiential' vanity project in one store, a retailer could probably fully revamp a whole host of stores. Effective stores do not need to be 'experiential', they just need to be fresh, welcoming and easy places to shop. And, quite frankly, just nice. Retailing is as basic as that.

Back to basics. Return of the Retail Jedi.

THE AGENT VIEW

"The Physical Benefits"

Rob Hargreaves – Retail Agency - Tenant Representation

The strength of physical retail as a means to deliver a tangible, sensory shopping experience underpins the significant occupational demand we have witnessed in the market over the course of the last five years. Yes, there was a significant rebasing of retail rents (and business rates) at the early stage of that period, but as prime rents return to (and in certain case exceed) pre-COVID levels, the importance of physical stores to brands has maintained that demand.

We are currently advising more than 25 international new entrant brands in respect of their UK location strategy. London is often a key focus for these brands, but excellent opportunities also exist across the wider UK market. There is a broad mix of established brands with existing store portfolios and DTC (direct-to-customer) brands seeking to capitalise on the benefits of physical space.

The contribution of physical stores to brand building and customer relationships is key. A well designed store environment allows businesses to communicate their brand identity, values, and story through layout, visual merchandising and customer service. In store experiences, product demonstrations, events or personalised consultations create emotional connections that foster loyalty. In-store events and activations land particularly well with the Gen Alpha audience. Human interaction remains a powerful differentiator; knowledgeable staff can offer tailored advice, answer questions, and build trust in ways that automated online systems often cannot match.

Store "aesthetics" have gained importance, particularly with Gen Z shoppers, which contributes towards the number of refits being witnessed in the market, often linked to a "rightsizing" of a store.

Customers can see, touch, try, and test products before purchasing, which builds confidence and reduces uncertainty. For categories such as fashion, furniture, cosmetics and electronics, this hands on experience is particularly important. Being able to assess quality, fit and functionality in person often leads to higher customer satisfaction and fewer returns compared to online purchases. Delivery / return costs are a major deterrent to online shopping, linked also to the perceived impact on the environment.

Finally, physical retail stores provide valuable data and insights. By observing in store behaviour, retailers can better understand customer preferences, test new products and refine merchandising strategies.

Ultimately, retailing is all about giving customers what they want, meeting and exceeding their aspirations. Stores remain the key interface in that relationship.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

Stephen Springham
Partner, Head of UK Markets Insight
stephen.springham@knightfrank.com

Charlie Barke
Partner, Head of Capital Markets
charlie.barke@knightfrank.com

Will Lund
Partner, Head of In Town Retail Capital Markets
will.lund@knightfrank.com

Dom Walton
Partner, Head of Out of Town Retail & Leisure Capital Markets
dom.walton@knightfrank.com

Sam Waterworth
Partner, Out of Town Retail & Leisure Capital Markets
sam.waterworth@knightfrank.com

David Willis
Partner, Shopping Centre Capital Markets
david.willis@knightfrank.com

Ross Needham
Partner, Shopping Centre Capital Markets
ross.needham@knightfrank.com

Alastair Bird
Partner, High Street Capital Markets
alastair.bird@knightfrank.com

David Legat
Partner, National Retail Agency
david.legat@knightfrank.com

Rob Hargreaves
Partner, Retail Agency - Tenant Representation
rob.hargreaves@knightfrank.com

Ollie Green
Partner, London Retail Agency
oliver.green@knightfrank.com

Simon Berkley
Partner, Business Rates Advisory
simon.berkley@knightfrank.com