Spatial Economics Research Centre

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# What "FOREVER 21" means to spatial economists

**Posted by Tim Leunig, SERC, LSE and CentreForum**

Traditionally prime retail is the most expensive land around, and traditionally nowhere is more prime that London's West End. At first sight summer 201 should be tough for the West End. There is a recession – which the National Institute of Economics and Social Research even suggest may be the longest since modern records began a century ago.

London also has lots of new shopping space. Westfield Shepherd's Bush added 1.6m sq ft in 2008, and plans a 0.5m sq ft extension. Westfield Stratfo will open soon, adding another 1.9m sq ft. The internet and supermarkets continue to make inroads into non-food shopping, creating new rivals for We End shops.

And yet last month US fashion retailer Forever 21 paid HMV £13.75m to get access to HMV's smaller (35,000 sq ft) Oxford Street store. The £13.75m did not buy the lease, or rent the space. It simply allows Forever 21 to rent the shop on commercial terms.

This is not a one-off. Chanel recently paid Nicole Farhi £5m for the right to pay £2.35m rent for a shop in Bond Street, while Superdry paid Austin Reed £12m for the right to pay £2.5m rent on Regent Street. There are many other examples, including Burberry and Hollister.

Three things stand out to a spatial economist. First, location remains hugely important. Brand image and sheer footfall mean that companies want to b in the West End. Demand for space is "derived demand": if people want to buy Superdry hoodies in the West End, then Superdry will want space in the West End.

Second, it is good to see shops come and go. If demand for affordable fashion has increased, then it is good that Forever 21 has arrived. The same is true for all other newcomers.

More prosaically, newcomers drive productivity growth, particularly in retail. Even people who are not interested in Forever 21's clothes want them ove here.

Third, new firms will not find it easy to crack the UK market when the entry price is £13.75m. This is a huge barrier to entry. That is bad for everyone w cares about productivity, even if they have no interest in the particular store.

Finally, both the £13.75m fee, and the £800 per sq ft annual rental are clear market signals: we need more retail space in the West End. So what are entrepreneurs and planners doing about it? Who is looking at whether we should close some side roads, inserting shops where we currently have roac Who is looking into creating first floor pavements, in the way that shopping malls have more than one floor to maximise retail area? Who is considering sinking the street itself underground, and paving it over, creating more space? Electric and hydrogen buses could easily use a "cut and cover" tunnel below the current road surface.

All of these things are expensive, but when companies are paying huge sums to be able to rent a shop, all of these things – and more – should be on someone's agenda.

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