



OAK INVESTMENT MANAGEMENT GROUP



FEBRUARY (1) 2021

The future of the High Street

Currently apocalyptic visions compete with wishful thinking about the future of the high street after the Covid-19 Pandemic has subsided as a defining force of our way of life. But life has a way of being much more vague than this, and the pandemic itself has shown how many variables can make outcomes utterly unpredictable.

One of the reasons why what happens is so unpredictable are the actions of the government. Government (at the behest of popular opinion or on the basis of its own convictions) can counter-veil market pressure as well as distort the market. Actions of government can be very obvious such as direct support ('Help Out to Eat Out' programme of the Summer 2020) or extremely discrete (through fiscal arrangements for those who trade from a shop).

To date the government through inaction, *laissez faire* attitude or preservation of the *status quo* has strongly favoured internet retail over bricks and mortar shops. This is because most internet shops have exported via Ireland (Microsoft) or Luxembourg (Amazon) attracting zero VAT as opposed to the UK rate paid by bricks and mortar retailers of 20%. Additionally, bricks and mortar shops have had to pay for rent as well as rates which is typically 30% of the rental cost. Clearly onsite bricks and mortar labour is fully subjugated to UK tax as well as working standards – something which may or may not be applied to internet-based companies. The differential of this is hard to compute and will vary from company to company but the optionality is still there for internet-based companies.

So clearly beyond the physical story of the shop – well before we were all ordered to stay at home and not go outside – the fiscal story of the shop is equally important. How the High Street looks is very much connected with the hollowed-out nature of the High Street before the Pandemic hit and exacerbated a trend that had already started. It may well be that the Pandemic in emphasising what was already happen will goad government into action or at least redefinition of the ground rules.

As things stand, the only outlets that will have any chance of survival will be experience-led shops. Eat-in food, sit down beverage and beauty salons cannot be done over the internet. Equally shopfront logistics and residential conversions will eat away at the size of the High Street.

If this is socially unacceptable, government has two options – either level the playing field with a sales tax on everything that is sold in the jurisdiction of this country (thus capturing internet retail) or to ease the burden on businesses with a physical presence. Both are extremely hard to do. The first because of the malleable nature of internet companies over multiple jurisdictions and the second because who in society will pay for the shortfall in tax created by retreating from taxing physical retailers? One thing is for sure if we want to enjoy the amenity nature of the high street, government can decrease the burden paid by businesses, customers can pay more or the offering can change. In all likelihood, we will end up with a jumble of all three.