BCSC
SHAPING RETAIL PROPERTY

Future of Retail Property

In Town or Out of Town?

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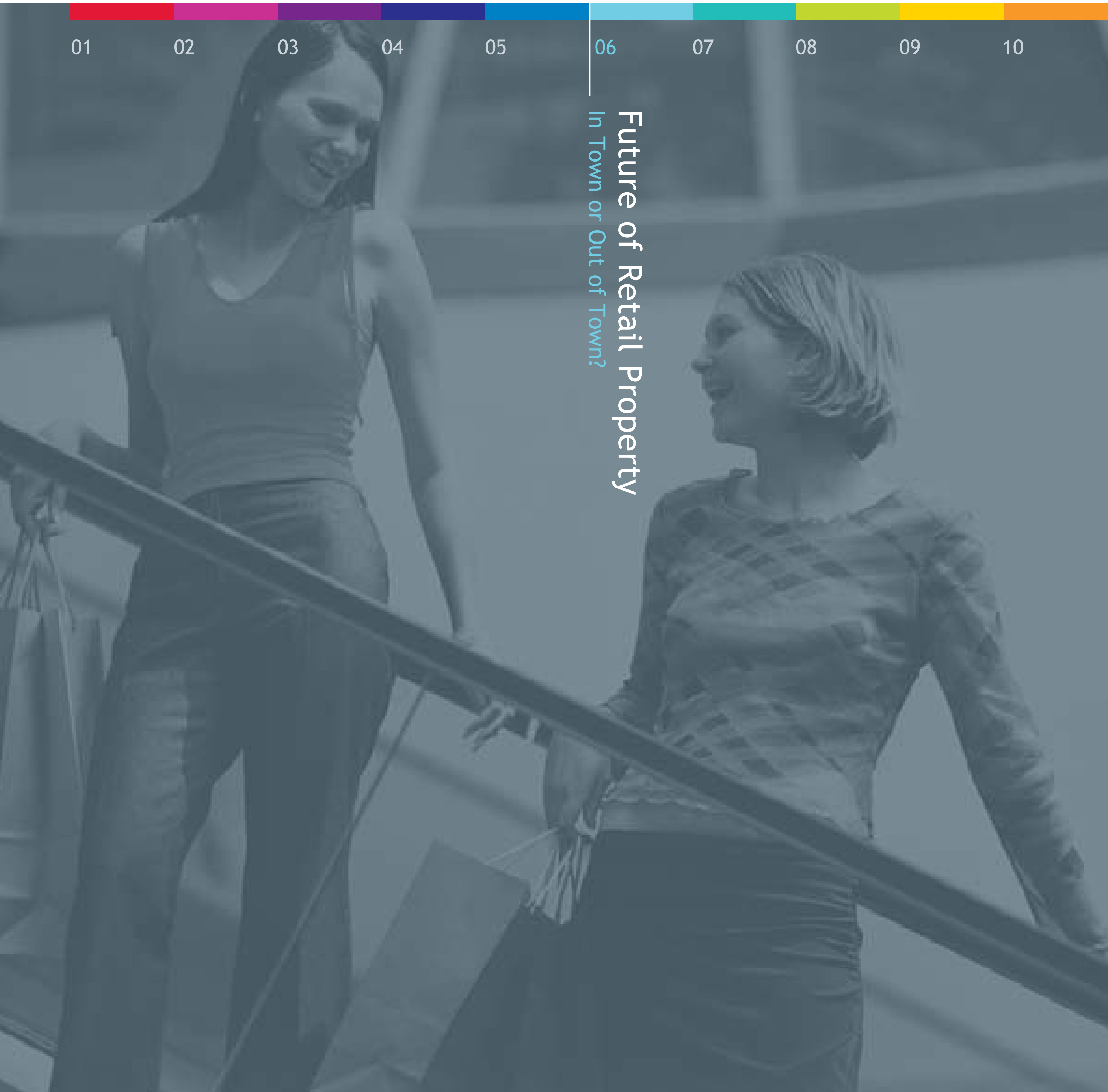

Over the last decade Government policy has driven significant retail development in urban centres with a substantial number of similar projects in the pipeline. This trend is set to continue but is dependent on continuing policy stability, proactive local authorities and sustained confidence in regeneration, all of which will have a direct bearing on exactly how retail development will take shape over the next ten years.

BCSC is pleased to present this in-depth analysis.

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In Town or Out of Town?

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Introduction

Aims of the research

This project was commissioned by BCSC to assess the likely location of new retail development in the UK over the next ten years or so, identifying the factors that may influence it and the likely policy response, and assessing potential pressures to change the Government's policy for the location of new retail development.

The purpose of the research is to explore:

- whether and to what extent the location of new retail development is likely to change over the next ten years or so
- whether the current policy is likely to change

These will help inform shopping centre developers, investors, owners and retailers about the decisions they need to make in the next few years, since many projects have long lead times. There is a need to establish where we are, where we are going and how and whether the operating environment needs to change.

The bottom line is whether the policy will still be to focus new retail development in existing centres – city, town, district or even local centres – and what the scale of out-of-centre development is likely to be in ten years' time. This is necessary to establish whether the industry can plan with confidence to invest in town centres, especially once the larger city and town centres (the top 50) have new schemes and the industry needs to look to the next tier of centres for development opportunities.

The approach

The research is based on:

- analysis of the location of newly-completed retail floorspace and retail schemes in the pipeline – identifying whether the schemes are within town centres using geographic information systems (GIS)
- analysis of what has happened and is likely to happen regarding the location of new development
- expert opinion from investors, developers, agents, retailers, planners and politicians on the prospect of policy change.

The approach offers detailed answers to the following questions.

What has been achieved in the last ten years?
To provide a baseline, the research seeks to establish what has been delivered in the last ten years before assessing if and how the distribution of future retail development is likely to change.

This is achieved by reviewing time series data from BCSC and the former Office of the Deputy Prime Minister (ODPM, now DCLG) and then, using data from Property Market Analysis, bringing this up to date (to 2005) in order to establish what has happened in the ten years since PPG6 was published. The Appendix provides information on the proportion of new retail development in town centres for England, Scotland and Wales, as well as in the English regions.

After establishing these facts, the report uses expert interviews to seek to establish the significant changes over the last ten years and the effect these have had on the location of development. These perceptions are contrasted with facts in terms of the proportion of new retail development which has occurred in or outside town centres.

What is likely to happen over the next five years?
In this section views of experts are taken and an analysis of developments in the pipeline (those under construction and those with planning consent) is undertaken to look at the proportion of development that is likely to occur in town centres.

What will be happening in ten years' time?
The information in this section is based on interviews with experts who were asked about the factors that might influence the location of development, including the likelihood of a change of policy. Since this is more speculative, this section contains views on the likelihood and implications of some of the alternative scenarios for policy change.

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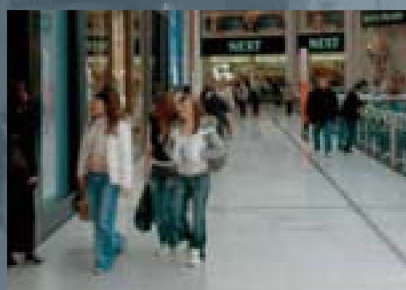
Section 1
Executive Summary



Summary of key findings

This project seeks to discover the likely location of new retail development in the UK over the next ten years or so. It identifies the factors that may influence new retail development and the likely policy response, and assesses potential pressures to change the Government's policy governing the location of new retail development.

How much new retail floorspace is being developed in town centres?

In July 2005, statistics published by the former Office of the Deputy Prime Minister (ODPM, now DCLG) provided the first time series on the relative proportion of new retail floorspace developed in and outside town centres. The report showed that after a low of 14% of new space being built in town centres in England in 1994, this proportion rose to 30% by 2000.

Evidence compiled for this study for the period 1999-2005 shows that the proportion of new retail space in UK town centres has risen to 35%, although this varies from region to region and is lower in Scotland and Wales. However, it is commonly believed that 50% or more of new retail floorspace is now being sited in town centres.

The increase observed in town centre development mainly represents city-centre shopping schemes in the top 50 centres, but this growth has been offset by the number of new or extended large-format stores outside town centres (superstores and retail warehouses).

It has taken more than ten years to get the proportion of new floorspace in town centres back to mid-1980s levels, due to the large overhang of schemes in the pipeline and long lead times for town centre schemes. The turnaround in performance has finally come about as a result of a decade of policy stability which has restored investor confidence.

The next five years

There is still demand for larger, more modern retail units and this is reflected in the large number of town centre shopping schemes as well as out-of-centre superstores in the development pipeline, as well as out-of-centre superstores. The proportion of new retail development in town centres is likely to exceed 40% over the next five years largely due to the number of town centre shopping centre schemes. That will still leave nearly 60% of new retail floorspace being developed outside town centres, but it is likely that more of this will be in edge-of-centre locations.

The proportion of new retail development in town centres is likely to exceed 40% over the next five years.

Longer term - the next ten years

Whether or not the retail development industry maintains the 40% share of new floorspace in town centres will depend on developer confidence. To maintain this share, investors must remain convinced that Government policy will continue to take a 'town centres first' approach. This will be critical for securing investment in the next level of centres – large to medium-sized towns in the top 100 centres. The growth of superstores into hypermarkets (especially near medium-sized and smaller town centres) would be particularly damaging to the future of these centres if Government policy were relaxed, as it would accelerate the departure of non-food shopping from town centres.

Likelihood of policy change

Government planning policy for town centres (PPS6) has widespread public and political support. Although currently under scrutiny through a Treasury-based review (the *Barker review of land-use planning*) and a Competition Commission inquiry into supermarkets, there are strong doubts that policy will change as a result. It is too early to assess how PPS6 is working; it is generally seen as more positive and proactive than its predecessor (PPG6) and - with the new development plan system - should be given time to settle in.

The most likely outcome over the next ten years is that the current policy will be refined but not changed, although there are indications that public opinion and the rising environmental agenda could result in some toughening-up of policy. But the reviews are likely to emphasise the need for a more responsive planning system which is more efficient and more conscious of the needs of business.

Nevertheless, if the current productivity and competition agenda led to a relaxation of policy in favour of large-format, out-of-centre retail development, this could undermine the vitality and viability of many of our town centres, especially the smaller ones if it led to a new round of out-of-centre retail development. Although a change of policy could take more than three years to be formally adopted, industry confidence in investing in medium-sized towns would change more quickly than that.

Summary of key findings

Overall assessment

There has been a major shift in the proportion of new retail development towards town centres over the last ten years. This is the result of confidence to invest in town and city centres, driven by Government introducing the 'town centres first' emphasis in 1996, reinforced with a stronger, positive approach to developing town centres in 2005. This policy stability has generated a significant development pipeline of town centre schemes stretching into the next five years.

The prospects in ten years' time are that about 40% of new retail floorspace could be developed in town centres, with more of the schemes under development in the next tier of centres below the top 50. This outcome will depend on continuing policy stability, proactive local authorities and sustained confidence in regenerating these centres on the part of developers and investors.