

15 April 2013

Dear Sir,

BIS Committee Inquiry into the UK Retail Sector - Covering Letter

Accessible Retail (AR) wishes to make a submission to the above Inquiry. It is in three parts:-

1. Covering letter
2. Executive Summary
3. Full Submission

Part 1 – Covering Letter

AR represents the property interests of the retail warehouse and retail park sector of the retail industry. We have over 900 members comprising retailers, developers, owners/investors and advisers, including most of the major companies active in the sector.

Our sector plays a significant role in the UK economy and in the retail industry. In brief, it accounts for some 30% of total retail spend from 3% of all retail outlets (Experian 2010) and comprises the largest part of investment grade retail commercial property with a value in 2010 of some £39.1 billion compared with £37.9 billion for shopping malls and £30.9 billion for high street shops (CBRE 2012).

Most of AR member's interests are located in out-of-centre locations, but they have major investments in town centres as well. Therefore, whilst our represent the out of town sector, our members do not wish to damage their town centre investments and their views on the issues the Committee has identified have been formulated with this in mind.

Our submission is set out below

Yours Faithfully



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Part 2 – Executive Summary

Executive Summary

- 1.1 Our submission addresses primarily the impact of on-line sales and direct sales and the costs affecting the retail sector.
- 1.2 We believe recognising the influence of these two factors on emerging new retail business models is central to identifying strategic policies likely to be successful in dealing with the problems confronting retailing in general and town centres and high streets in particular.
- 1.3 Current policies fall short of addressing the root cause of these problems. They do not recognise that the economics of retailing has changed and permanent structural change is taking place in response to the influence of the above two factors. As a result, they are unlikely to succeed.
- 1.4 In short, there has been a shift from secondary to primary centres and from small stores to larger stores. The retail landscape, therefore, is permanently changed. The hard market metrics outlined above cannot be bucked.
- 1.6 No longer, can town centres outside the top 250 shopping destinations rely solely on their retail offer as the key to vitality and prosperity.
- 1.7 Strategic retail policy should recognise the permanent structural change taking place in retailing and ensure that investment can flow to the stronger centres whether, town centre, out of town or high street. No longer is a 'one size fits all' approach appropriate in the new multi-channel retail world.
- 1.8 Our submission, therefore, urges a change in strategic retail policy which recognises that providing for future retailing provision now requires a multi-locational approach rather than solely the current town centre led one.

Part 3 – Full Submission

1. Introduction

- 1.1 The Accessible Retail submission addresses primarily the impact of on-line sales and direct sales and the costs affecting the retail sector.
- 1.2 We believe recognising the influence of these two factors on emerging new retail business models is central to identifying strategic policies likely to be successful in dealing with the problems confronting retailing in general and town centres and high streets in particular.
- 1.3 Current policies, including the Portas recommendations, fall short of addressing the root cause of these problems. They do not recognise that the economics of retailing has changed and permanent structural change is taking place in response to the influence of the above two factors. As a result, they are unlikely to succeed.
- 1.4 Our submission urges a change in strategic retail policy which recognises that providing for future retailing provision now requires a multi-locational approach rather than solely the current town centre led one.

2. Permanent Structural Change Occurring in Retailing

Growth in Multi-Channel Retailing

- 2.1 Over the past 3-4 years retailing has undergone the fastest evolution in its history (Local Data Company 2012). Technology has changed the way people spend with the rise of multi-channel trading creating a new competitive market place. Non-food online sales are now 14% of the market and continuing to rise (Morgan Stanley/Local Data Company 2012). Mobile devices account for £2.9bn of all indirect and direct sales and this is forecast to rise to £53.9bn by 2020 (Conlumino 2013).

Growth in the Market Share taken by Supermarkets

- 2.2 Alongside this the share of the market taken by supermarkets has risen in recent years to some 45% with some 14% coming from non-food (Morgan Stanley/Local Data Company 2012). Sainsbury's, state their online growth is now at 20% p.a. (Sainsbury's 2012).

Impact of these Trends

- 2.3 Retailers now need fewer stores and are looking for new units with modern, larger and well configured space which is convenient and accessible to their customers. These requirements have left many with wrongly configured and uneconomic estates. For some, town centres and high streets especially no longer provide them with the cost efficient trading spaces needed to be able to respond to this new competition. These locations are now high cost (rates, rent, parking and build costs), the effect of which has been to reduce trading margins to a level where business has become unsustainable (Comet 2012). As a result, in secondary centres, both town centre and high street, voids are increasing even as rents fall.
- 2.4 Analysis by CACI forecasts that the prospects of some 2,757 of the UK's retail centres out of over 4,000 surveyed are so poor that they could struggle to survive as viable locations for retailers selling non-food items beyond 2015 (CACI 2013). Only 116 centres were classified as strong and vibrant and another 1321 adequate for long term viability.
- 2.5 Looking forwards, their poor layout and smaller units are unattractive to new substantial retail investment which means redevelopment is unlikely to provide a regeneration stimulus and these locations are becoming characterised by value retail. This is especially the case given the overall investment environment is constrained. No significant new retail centre opened in 2012 and construction activity in the sector is 25% of the pre 2007 level.

Effect on the Location of Retail Trading:

- 2.6 Increasingly, therefore, retailers are migrating into the locations which can best meet their needs; these are the stronger town centres and out of town retail parks. Only in these locations is space of this kind already available or likely to be forthcoming. Such investment funds as are available now and in the future for will be drawn to these locations as demand there is more robust, supply is constrained through a planning led undersupply and the occupiers have strong covenants and are willing to enter into longer leases providing landlords with reliable income streams. Also, in out of town locations accessibility and parking are particularly convenient to customers, a factor of increasing importance to retailers with 75% of the UK population having regular access to a car.

- 2.7 For the rest, BNP Paribas believes that only just over half of retail units in the country are occupied by retailers considered secure as an investment risk (BNP Paribas 2012) and Jones Lang LaSalle note that half of all high street retail leases expire by 205 (Bennett C 2012).
- 2.8 In short, there has been a shift from secondary to primary centres and from small stores to larger stores. In 1971, 200 centres took 50% of trade, but now only 83 take 50% and 300 multiple retailers (0.15% of all retailers) take 70% of trade whilst occupying only some 10% of premises (UK Regeneration 2012). Between 2000 and 2009 (starting well before the 2008 onset of the recession), 25,000 shops closed in high streets and town centres. On in ten high street properties are empty (BRC 2012).
- 2.9 It is widely predicted that this trend will continue. Another 9000 will close in the next three years (Verdict 2012). UK store numbers will drop by 10.3% by 2020 with in town locations being the worst hit with a fall of 31% as more high street retailers seek out of town space and overall retail floor space is forecast to decline by 5.7%(Conlumino 2013). Up to 20% of UK stores could become surplus if landlords do not embrace the changing market (BCSC/Jones Lang La Salle (2012). Deloitte predict that retailers will reduce their store numbers by 30-40% over the next 3-5 years (Deloitte 2012). If these forecast s are correct, there will soon be a minimum of 100,000 vacant shop units in town centres.
- 2.10 The inescapable fact is that retailers now need fewer and better outlets to service their customer base. This structural change means shop vacancy rates in secondary centres will not go back to where they were when the economy picks up. The landscape of retail provision is now polarised between the strong locations which will continue to attract substantial new investment and the weaker ones which will not.
- 2.11 The retail landscape is permanently changed. The hard market metrics outlined above cannot be bucked. Their strength is evidenced by the fact that, even under the present town centre preferred planning policy, since 2000, town centre floor space has fallen while out of town space has increased by one third. Accepting this is central to identifying which strategic policies are likely to succeed in boosting and regenerating town centres and those which will not.

3. The Causes of Town Centre and High Street Retail Decline

- 3.1 Central also is a clear understanding of the causes of town centre and high street retail decline or prosperity. The implicit assumption underpinning current planning policy is that nearby out of town retailing is invariably the prime cause of town centre decline.
- 3.2 The structural change described above has shown this assumption to be too simplistic as a basis for strategic policy. In addition, research has also demonstrated it to be unsubstantiated, identifying other significant reasons explaining retail decline (GVA 2007 and 2010).

Competition from Other Town Centres

- 3.3 The GVA research examined in detail the retail performance over the last 20-30 years of eight medium to large towns where a variety (type and scale) of

out-of-centre comparison goods floor space potentially competes with the town centre.

- 3.4 It found that the effect of out of town retailing on nearby town centres will vary according to the size and nature of the development and the size of the town and its retail function. The need for the town centre first approach is not wholly dismissed as some town centres at some periods may require a degree of protection.
- 3.5 However, it found also that lesser retail performing towns were not necessarily the result of allowing nearby out-of-town competition, but that possibly a more significant cause was competition from other nearby town centres and newer malls within the town centre coupled with, crucially, failure to improve the existing retail offer in response.

Complementarity of Town Centres and Out of Town Retail Parks

- 3.6 The research found further that out of town retailing can be complementary to nearby town centres and provide other benefits. In some towns, especially historic ones and the larger towns, out-of-centre development has been necessary to lessen the disruption to their centres resultant from providing the extra floor space needed to cater for increases in consumer expenditure.
- 3.7 Retail parks have also been able to help preserve the character of town by providing the large display areas required by many bulky goods retailers and thereby avoid the incongruity of large shed formats with their attendant car parks and large lorry deliveries in town centres. These benefits are not recognised in planning policy. .

Self-Help and Diversification

- 3.8 The remedy to much of town centre retail decline, therefore, lies firmly within the scope of 'self-help' improvement rather than the use of planning policy to discriminate against the out of town format. The key to town centre success is active management and improvement in the retail offer.
- 3.9 Also, the GVA research showed that successful town centres are much more than just shopping centres. They have broadened their appeal by expanding leisure uses to create an evening economy and growth in residential, employment and mixed uses has increased local spending and improved general vitality. What has produced successful town centres is not blanket protection from out-of-town retailing, but pro-active management which plans for them to grow, diversify and respond to change.

4. Changes Needed in Strategic Retail Policy

Planning

- 4.1 Planning policy should not be used to prevent retailers from moving out of town centres and high streets where they judge this to be the only option which will enable them to survive the intense competition from on line formats. To do otherwise, as the statistics above demonstrate, is likely only to result in their failing as businesses. This will not help the regeneration of town centres or the revival of the economy. Significantly, where retailers are denied the opportunity to move out of town, a growing number are indicating they will not remain in uneconomic and unsuitable town centres and high streets. .

- 4.2 Calls for even greater constraints on out of town retailing by strengthening the bias in favour of town centres should be resisted. These policies have the aim of driving new retail investment into town centres and high streets. For the structural change reasons set out earlier, such policies are unlikely to work. Retailers prevented from going out of town are unlikely to switch investment into town centres as the collective terms of trade there (rent, rates, parking cost and availability, unit size and flexibility) are too onerous and the business model based on them unable to respond effectively to new competitive pressures from e-trading formats.
- 4.3 In a similar vein, it has been suggested that warehouses and out of town parks should be forced to introduce charges for the currently free car parking spaces they provide. More appropriate in our view, would be to encourage town centres and high streets to reduce their currently high charges or even make parking free. Car parking would thereby be directly supportive of the town centre as a destination rather than as seems increasingly to be the case, as a source of local authority income to be used to support general municipal purposes.
- 4.4 Moreover, charging for out of centre parking would not help town centres as any monies collected by landlords would have to be added to the service charge and spent exclusively for the benefit of tenants through improvements to the services provided. Charging for car parking, therefore, would result in out of centre retailing improving their competitive position compared with town centres and high streets – in other words the result would be the opposite of what was intended.

Economic

- 4.5 In our view more account should be taken in the formulation of strategic policy of the out of town retail sector's contribution to efficiency, competitiveness and GDP growth. Out of town locations improve competitiveness to the benefit of customers by providing more efficient and lower cost trading space than is achieved in town centres (Experian 2004).
- 4.6 Since the onset of the recession, the sector has invested four times more strongly in new development than other parts of the retail industry (Local Data Company 2012); retail parks and warehouses, therefore, are making an important contribution to securing a growth pathway out of recession.
- 4.7 This significant economic contribution should not be compromised by the imposition of more restrictions on the sector. Over half of the sector's assets are owned by pension funds and inflicting more damage on its investment performance would not be in the interests of millions of pensioners, shareholders and other investors who depend on the returns it provides.
- 4.8 The consequence of a restrictive planning policy has been to reduce investment in the modernisation and enhancement of existing out of town centre retail assets (qualitative improvement) and the prevention of new out of town provision (quantitative improvement) even where accommodating retail growth in town centres was clearly impossible or it was not the best approach such in the case of bulky goods and services. The outcome has been loss of potential GDP, employment and productivity increases and customer choice.

- 4.9 In the present circumstances of low economic growth, the increased opportunity greater planning flexibility would create has its own merit, but with major retail growth in town centres become largely unviable for the next 5-10 years, enabling the market's willingness to continue investing in the retail park and warehouse sector assumes even more importance.
- 4.10 The potential contribution of out of town retailing to employment is significant also. It is estimated that more than 52,000 employees were affected by the 52 medium or large retailers which went out of business in 2012 (Centre for Retail Research 2013). For the structural change reasons outlined earlier, these jobs are unlikely to return to town centres and high streets except for those regarded as strong locations and in out of town retail parks.

6. Conclusions

- 6.1 No longer, can town centres outside the top 250 shopping destinations rely solely on their retail offer as the key to vitality and prosperity. If such centres are to survive, they need to provide a more customer focused and convenience-oriented shopping experience with leisure and the night-time economy as important parts of the offer.
- 6.2 Self-improvement involves town centres rethinking what they have to offer especially promoting diversification, cheap or free parking and public realm improvement. More residential development, small suites of offices, the return of public services (councils, health, HE/FE education etc), leisure and the night time economy will all be key components of this with the retail offer concentrating on convenient, service oriented retailers including independents rather than the traditional multiples.
- 6.3 Strategic retail policy should not be founded on an all-embracing town centre first approach, but recognise the permanent structural change taking place in retailing and ensure that investment can flow to the stronger centres whether, town centre, out of town or high street. No longer is a 'one size fits all' approach appropriate in the new multi-channel retail world.
- 6.4 Given this, why should retail be treated any differently to any other industry undergoing fundamental transition in response to new competition and can the UK in its present economic condition afford an underperforming retail industry? In our submission, strategic policy needs to be changed to facilitate transition so that the industry's economic performance can be enhanced.

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