BCSC
SHAPING RETAIL PROPERTY

Future of Retail Property

Shopping Places for People

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Shopping is the UK's national pastime. The average person makes an annual 200 trips to the shops and about 33% of an average household's annual spending is on non-food retail goods.

I am delighted to present this final report in the comprehensive *Future of Retail Property* research series – a report that consolidates the breadth of the findings and presents a range of solutions which shed light on the complex future of our hugely influential industry.

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Shopping Places for People

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Introduction

It is difficult to overstate the importance of retailing to the UK's economic and social well-being, or its significance to a very wide range of public and private sector interests, including central and local government, energy and transport providers, banks and private investors and professionals in areas such as planning and design. The facts and figures speak for themselves: not only do retail sales account for approximately 21% of Gross Domestic Product (GDP) but shops play a central role in shaping places and communities that influence people's everyday lives.

This report addresses the links between these economic and social factors and suggests how the BCSC's remit to promote best practice in retail property development and management can help to continue and enhance the relationship between efficient and effective retailing and the creation of shopping places for people. It is based on an understanding that the many public and private sector groups, with a common interest in sustaining a successful retail sector, face an unprecedented combination of challenges and opportunities in the coming decade. The response to the impact of climate change, the growth of internet retailing, the preservation and improvement of the urban fabric and the needs of an ageing society will have enormous implications for future prosperity, the built environment and the quality of people's lives.

With this in mind, the BCSC commissioned a wide-ranging research programme under the title *Future of Retail Property* to examine the dimensions of change. The research series comprised nine modules, each produced by leading authorities in their respective fields. The modules and their authors are:

- *Changing Demographics and Consumer Patterns* – Neil Saunders, Verdict Consulting
- *Shoppers Over 55: Silver Shoppers Provide a Golden Opportunity* – Dr Hayley Myers and Dr Margaret Lumbers, University of Surrey
- *Online Retailing: The Impact of Click on Brick* – Dr Yvonne Court, Cushman & Wakefield

- *Future of Brands* – Ralph Ardill, The Brand Experience Consultancy
- *Future of Retail Transport: Access, Information and Flexibility* – Derek Halden, DHC Ltd and Professor John Dawson, Institute for Retail Studies, University of Stirling
- *In Town or Out of Town?* – Michael Bach, and Mark Thurstain-Goodwin, Geofutures Ltd
- *Future of Retail Business Models* – Dr Jonathan Reynolds, Elizabeth Howard, Christine Cuthbertson and Peter Snow, Oxford Institute of Retail Management, University of Oxford
- *How Much Space?* – Dr Neil Blake, Experian, Stuart Morley, GVA Grimley and Michael Bach
- *Future Shopping Places* – Tessa O'Neill, Becky Cocker and Peter Drummond, BDP

Shopping Places for People is the final piece of work and discusses the findings of this study and gives BCSC's view on how they relate to the creation of better shopping places in future.

Throughout the research, and in this report, the term shopping places has been used to encompass the whole retail environment, from individual shopping parades to edge- and out-of-town locations and town and city centres. When research or evidence is discussed but not referenced in the report, the research relates to the Future of Retail Property series.

This report seeks to provide an accurate appraisal of the whole body of research by presenting its key findings and the BCSC's interpretation of their lessons. Recognising that some readers may be unfamiliar with retail property development, section 2 gives a brief background – amplified in appendix 1 to explain where we are now.

Introduction

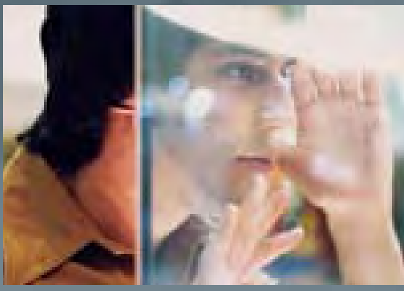
The third section looks at the forces that are likely to shape retail property and the resulting knowledge-base is discussed under six headings:

- Retailers
- Consumers
- The internet
- Planning
- Transport
- Design

Several factors arising from the research influence more than one of these subjects in different ways. The internet, for example, affects the actions of retailers and consumers, as well as comprising a subject in its own right. Similarly, consumer attitudes also have an impact in areas of branding, design and transport, whilst decisions about future business formats and the supply of retail space are closely interrelated with virtually all aspects of the research. Wherever relevant, therefore, a degree of overlapping has been introduced to ensure comprehensive coverage and a thorough cross-analysis of the findings in each of the sub-sections.

Section 1

Executive Summary



Introduction

This research project represents the most extensive appraisal of the future of the retail property industry ever undertaken. Considering its sheer scale and depth, its most surprising feature is the clarity, consistency and simplicity of the findings.

Retail spending is the basis of all growth – or shrinkage – in the retail property sector. The research indicates clearly that it will continue to increase year-on-year, albeit at a slightly slower rate than before. Even so, the projected rise is sufficient to fuel a healthy environment for retailers and generate demand for new shops. The demand will necessitate the refurbishment and replacement of existing buildings and the provision of additional retail space. This is an extremely positive outlook for the wider urban regeneration agenda, since retail-led development is an indispensable force for change in our towns and cities.

The favourable prognosis is subject to the actions of retailers, landlords, investors and developers, which are heavily influenced by central and local government policy. It is also greatly affected by the competing demands for consumers' disposable income such as the internet and experience-based leisure activities. It follows that the future direction of customer service and amenity, supported by changes in planning, transport and design, is critical to achieving public approval. These factors, must, in short, combine to make *Shopping Places for People*.

Retail spending is the basis of all growth – or shrinkage – in the retail property sector. The research indicates clearly that it will continue to increase year-on-year, albeit at a slightly slower rate than before.

Growing competition and demand

The sustained growth of retailing over several decades – even in challenging and sometimes adverse conditions – provides compelling evidence that retailers are capable of responding to competition and changing demand with versatility and skill. They are likely to react to an increasingly competitive environment through expansion and acquisition resulting in fewer conglomerates taking an ever larger share of total sales.

- One consequence of this is that centres with large, modern shop units at the top of the retail hierarchy will remain highly competitive.

- Centres further down the hierarchy will face challenges. In order to help them the retail property industry needs to work with government and other public and private sector stakeholders to address the key issues of planning policy, design and diversity.

- Differentiation and price will remain the central elements of successful retail strategies. They are powerful drivers of innovation in branding, display, design, convenience and service – influences that are entirely in keeping with the desire to transform shopping centres into shopping places. So too is the increasing recognition by the retail property industry that independent and specialist shops add colour to the retail landscape. They benefit both the environment and trading conditions.

- Caring for the independent sector is a key requirement for the industry. For example, by creating more flexible lease structures that encourage variety, by developing mixed-use schemes that help to drive diversity, by dedicating space in new developments specifically for independents and by placing greater emphasis on community consultation in the design and variety of shopping places.

- An additional 6.1 million square metres of new retail space will be needed over the next ten years; 5.6 million square metres of new retail space is already in the development pipeline. Some of this will replace shops that are demolished in the development process so the pipeline will have to grow to meet demand.

- These planned projects do not appear to be threatened by alternative retail channels. Indeed, the internet increases the industry's determination to provide more interesting, customer-orientated, well-designed and accessible shopping places.

- The renewal of the urban fabric that the new wave of development is helping to bring about will create towns and cities that are more attractive and competitive.

- One cause for concern is the limited development pipeline compared with the projected rise of demand in some regions, particularly in the southern part of the country.

A changing market

The research suggests that retail spending will increase over the next ten years by about 3.2% per annum overall and by 4.3% in the case of comparison goods. Although lower than earlier growth rates, this is a healthy projection, given the extent to which retail-led property development is essential to regeneration. It is, of course, subject to potential influences, including, crucially, the demands of an increasingly discerning consumer base for an attractive retail offer and a good experience. Fulfilling these demands requires a clear and accurate understanding of changing market conditions.

- The UK population is set to grow by 2.8 million over the next ten years, of which 1.6 million will come from net immigration. This is a favourable development for retailing, since immigration tends to be concentrated in the younger age bands more disposed towards mass acquisition.
- The number of 45s-55s will increase by 1.4 million in ten years and the number of over 55s by 2.2 million.
- A greater focus on people is the key to satisfying ever-changing demands and expectations, which, in turn, is central to the ability to differentiate successfully. The trends identified by this research indicate that the pace of change is accelerating.
- There is also clear evidence that the market is fragmenting. The experience economy – travel, hobbies, DIY, sports, entertainment and eating out – is powerful competition for retailers who would do well to adopt some of its practices. Among these would be paying greater attention to the growing importance of excellence in service provision.
- The retail property industry should lead by example and apply the principles of the experience economy to centre management. There are some quick wins such as providing more and better seating, clearer signage, an enhanced food offer, and cleaner and safer car parks. There is also scope for putting on events and entertainment and taking positive action on environmental issues.
- Local planning authorities can also help to create attractive new retail places where independent stores can thrive by easing the restrictions on the supply of good new retail space that lead to upward pressure on rents.

Online sales - challenge and opportunity

The research estimates that the internet accounted for 3.6% of all retail sales in the UK by the end of 2006 and the share is predicted to grow to 10.7% by 2015. Although this is a significant trend, there are sound reasons to believe that the internet's impact on traditional retailing should not be overstated.

- Over the past ten years the internet has penetrated retail sectors where the personal inspection of goods - such as music, videos, DVDs, books, software, toys and games, and small electrical items - is unnecessary. And this seems likely to continue for some time.

- Experience is a very important issue and the research reveals that people enjoy going shopping; and that shopping trips increasingly include leisure activities.

- Many categories of goods demand personal inspection or assistance from knowledgeable sales staff. According to the research, aspects of shopping that provide sensory stimulation and hands-on experience will never be fulfilled by the internet.

- Many shoppers are adopting a multi-channel approach. Interestingly, there is evidence that people who spend most online also spend most in physical shops, suggesting that similar multi-channel strategies by retailers can complement rather than threaten traditional retail formats.

- The large majority of retailers with transactional web sites take a positive view. In a survey on the impact of e-tailing in physical shops, three-quarters of respondents said there had been an increase in overall in-store sales, compared to only 11% who thought that it was eroding in-store performance.

- Significantly more retailers rank physical stores ahead of all other current channels of retail distribution and believe they will continue to do so. This is an important message. Multi-channel retailing works in tandem with traditional shops and the research shows a clear, continuing demand by retailers for more physical space.

- There is a danger of reading too much into the hype about the threat the internet poses to traditional shopping. It is not the end of retailing as we know it. Shopping places can compete effectively by providing good service, more good quality eating places, bars and coffee shops and more high quality, free parking.

Planning matters

Retail planning policy is crucially important in determining the quality of the shopping and working environment. Clarity and stability are essential factors because they create the conditions necessary for confident investment decisions. It is only relatively recently that planning policy restricting the extent of out-of-town retail development has enabled the property industry to focus its attention on town centres. This 'town centres first' strategy is slowly turning the tide of retail development but it is vulnerable even to relatively slight alterations.

- The future direction of planning policy is a major area of uncertainty for retail developers and investors. By appearing to question established elements of the 'town centres first' strategy, the 2006 *Barker Review of Land Use Planning* and subsequent Planning White Paper in May 2007 has profound implications for the pattern of future development and may well render many retail-led regeneration projects too risky to contemplate.

- After a decade of planning policy favouring town centre development, the proportion of new retail floorspace built in town centres and peripheral areas has only increased to 35% from an all-time low of 14% in 1995. (It is projected to reach 40% in ten years.) Any changes that fuel uncertainty will probably reverse an already slow trend.

- Concerns also exist about the way the planning system currently operates and how, in particular, the complex and lengthy business of town centre development can be speeded up in order to reduce cost and enable more towns – especially those at the middle and bottom of the retail hierarchy – to enjoy the benefits of regeneration.

- More support needs to be given to hard-pressed planning departments. Many lack the resources to cope with large-scale planning applications, which may be connected to the projected under-supply of new retail space in some regions. Developers would often be willing to fund additional impartial resources, if doing so meant less delay; and finding a fair and transparent mechanism to achieve these aims would be a useful development.

This 'town centres first' strategy is slowly turning the tide of retail development.

The private car is by far the dominant means of travel to the shops but several economic, environmental and political factors are exerting pressure for change.

- Despite the various pressures, overall retail travel patterns will have changed little ten years from now. Car travel will be more expensive but it will remain the principal means of getting to the shops. Pressure on existing facilities, both in- and out-of-town, will therefore probably grow in line with retail spending.

- Pressure is likely to grow to control car access to shopping places by restricting the supply of parking or raising prices. Conversely, the demand for more, not less car parking is a major issue with shoppers and the research indicates that measures that make cars more difficult or costly to use are at present more likely to increase online sales than to get people onto public transport.

- There is an opportunity for the retail property industry and government to cooperate in providing flexible transport solutions. The industry might contribute both directly and indirectly. For example, it could work towards co-ordinated travel plans and the provision of smart bus transport. Equally, it could develop best practice models for shopping centres covering transport services, parking and getting to work. It might also provide planning and transport authorities with relevant data on catchment areas, shopper-flows and trading patterns.

- A realistic approach to the private car is essential and it needs to be accommodated in all types of shopping destination. There are good arguments for dealing with issues of sustainability through increased fuel-efficiency, rather than by punitive actions that may reduce demand and slow down regeneration. The situation cries out for a co-ordinated national approach that links public transport provision with policy on car parking in town centres, congestion charging and road pricing. A planning policy that favours town centre regeneration and development does not sit well with the present transport policy that actively encourages out-of-town retailing by restricting customer access to town centres.

Looking good, going green

A design revolution is taking place but the scale of the task is such that ten years from now the look of the shopping environment will be changing, rather than changed. Even so, a 'new wave' of building is set to deliver a considerable transformation in style and design.

- Consumer demand is a major influence on design. All shopping places must get closer to the lifestyles and needs of modern consumers to deliver the quality that people will demand in the future. This is a multifaceted task that needs simultaneously to encompass the growing importance of convenience, difference, social responsibility and well-being.

- Retailing has embraced design criteria that accord with the new urban agenda's overarching objective to provide better places for people. New streetscape designs offer enormous scope for diversity, not least by reinforcing the traditional identity and sense of local pride that exists in towns around the country. They fit well with the increasing willingness of landlords to differentiate their developments by the introduction of specialist and independent retailers. This is a key area. Shopping destinations will need to play a positive and proactive role to nurture and sustain a diverse mix of formats that benefit both the shopping environment and the shopper.

It is possible that sustainability will emerge as the most important driver of change in retail property design in the next ten years.

- The main focus will probably be to address the industry's direct impact on climate change through energy use. Retail buildings will have to reduce the energy they consume for heating and lighting by using more natural light and ventilation. This constitutes a major design objective for future shopping places. Semi-covered streets are likely to play an increasingly prominent role.

- Shopping places will see a greater use of on-site renewable energy: there will be a rapid take-up of micro-generation from wind, tidal and solar sources as well as biomass boilers, underground heat sources, combined heat and power and rainwater harvesting.

- Effective action on climate change will demand a partnership approach between landlords and tenants, since both will have to accept a share of the cost of implementing the green agenda. The net cost may, however, be lower than many people believe, as significant savings could be realised through better waste management and recycling, tax concessions and lower refurbishment costs arising from the use of more durable natural materials in new buildings.

The new emphasis on design and place-making augurs well for the future. Lessons appear to have been learned from past mistakes in planning, architecture and development alike. By linking these lessons to the commercial power of retailing, it will be possible to create places that are profitable, inclusive, sustainable and attractive.

- Change must be supported by complementary actions and policies if the new generation of 'post-modern' shopping places is not to be confined to the upper echelons of the retail hierarchy.

- Diversity must evolve in terms of architectural style, treatment of buildings, the mixture of uses, treatment of the public realm, new technologies, and dynamic place-management and brand identity.

- Place-making shopping environments are costly to build and financially marginal in small- and medium-sized towns. As much as possible needs to be done to reduce delays in the planning system and so take cost out of these schemes if the greatest possible numbers of town centres are to be regenerated.

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