

Future High Street Forum

25 March 2013, 12.30 - 14.00
Ministerial Boardroom, Eland House

Agenda

	Timing
1. Welcome and Introductions	10mins
2. Consideration of the Review of the Evidence on High Streets paper	20mins
<ul style="list-style-type: none">• High streets evidence presentation and discussion.	
3. Agree terms of reference - aims and scope of the Forum	20mins
<ul style="list-style-type: none">• Agree priorities – a small number of key priorities with clear deliverables;• The Forum's role in supporting current work; and• Agree how the Forum and the task groups will work together	
4. Discussion and agreement of proposed Task and Finish Groups	20mins
<ul style="list-style-type: none">• Task & Finish Group 1 Local leadership and management of town centres.• Task & Finish Group 2 Planning and enabling competitive modern high streets.• Task & Finish Group 3 Research into trends affecting high streets.• Discuss and agree the focus of the three task and finish groups;• Discuss and agree objectives and outcomes/outputs;• Agree timelines and frequency of reports to the Forum; and• Appoint task group chairs.	
5. Press and Communication	10mins
<ul style="list-style-type: none">• Communications strategy for managing the public profile of the Forum work.	
6. AOB	5mins
Next meeting dates:	
<ul style="list-style-type: none">• Tuesday 11 June at 9.30am - 11.00am• Tuesday 15 October at 9.30am - 11.00am• Tuesday 21 January 2014 at 9.30am - 11.00am	
Attachments	
<ul style="list-style-type: none">• Review of the Evidence on High Streets paper• Terms of reference	



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REVIEW OF THE EVIDENCE ON HIGH STREETS

Presentation for the Future High Streets Forum
25 March 2013

Stephen Aldridge, Chief Economist
Analysis & Innovation Directorate
DCLG



Overview: This paper addresses two key questions...

1) What is happening on the high street?

- ▶ High streets are **complex & varied**
- ▶ High streets are **experiencing the effects of significant structural change in retailing, accelerated by cyclical macroeconomic conditions**
- ▶ **Important structural trends** include changes in:
 - Technology (i.e. internet & mobile retail)
 - Consumer preferences & behaviour (i.e. convenience and value)
 - Demography (ageing and the “grey pound”, etc.)
- ▶ There is **considerable variation in high street performance and adaptability depending on the local context**

2) What are the enablers of adaptation on the high street? What can be done?

- ▶ **High streets need flexibility to adapt to changing conditions**
- ▶ **Potential enablers of change include:**
 - Effective coordination and town centre management
 - Flexibility in the planning system
 - Clarity about and evaluation of future opportunities
 - Effective incentives to encourage high street adaptation
- ▶ **There are opportunities for business and government to collaborate to improve high street adaptability**



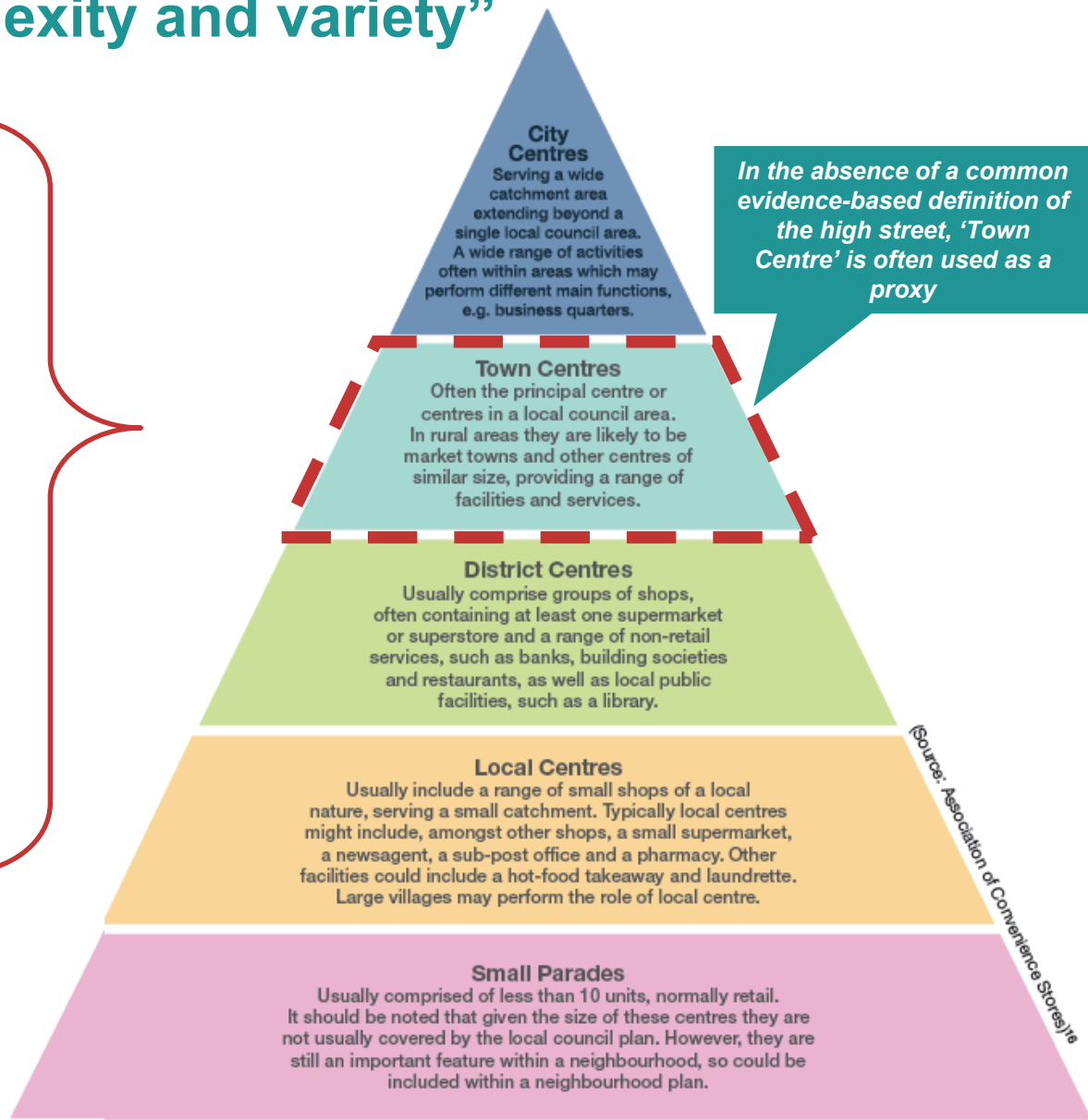
1 High Street Facts & Trends



High streets are areas of “great complexity and variety”

Characteristics of a Town Centre/ High Street

- A **retail centre** that serves the needs of the local community
- The presence of **leisure**, entertainment & cultural facilities
- Access to public & private **services**
- Proximity to **employment & business** district
- **Accessibility** by a number of transport options
- Perception by the **local community** as their town centre





Despite the variety of high streets, some distinct typologies are apparent

Types of Town Centres

ATCM & Gloucester First have identified **4 types of town centres** based on recent research which classifies centres on 2 dimensions:

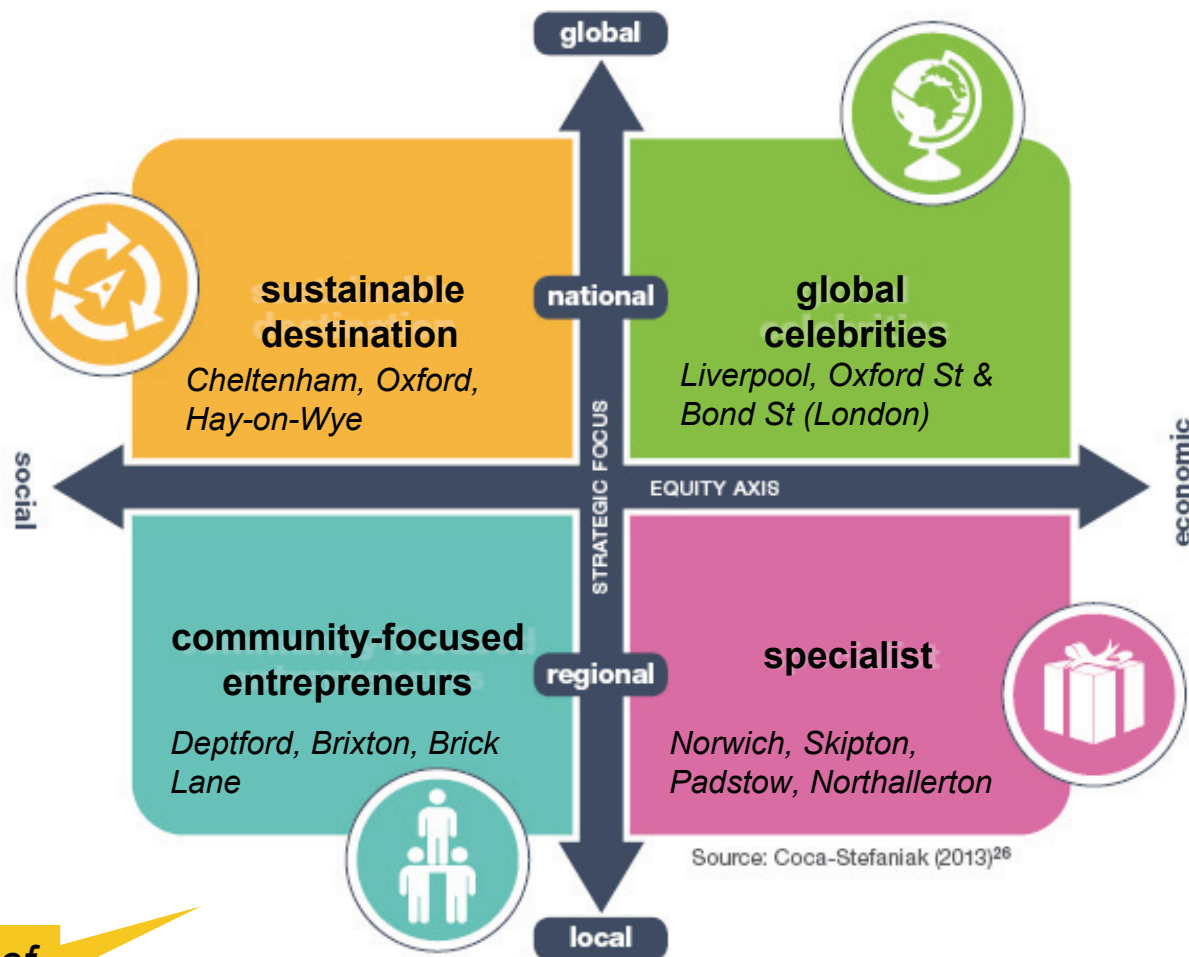
1) Strategic Focus: *based on the type of visitor a town centres aims to attract (ranging from global to local)*

2) Equity: *based on the types of businesses and services in the town centres (ranging from social to economic)*

This classification is intended to help town centres to conduct self-assessments and to think strategically about their futures.

Note: This is just one way of classifying high streets

Town centre 'personality' types



Source: Gloucester first & ATCM (2013) Successful town centres - developing effective strategies



Evidence on the contribution of high streets to the UK economy & society are limited but retail data gives an indication of its importance



ECONOMIC BENEFITS

Evidence on economic benefits tends to focus on the contribution of retailing:

Retail sales (2011 UK Total)

£303billion

Equivalent to 20% of GDP or 5.3% of UK GVA

Employment in retail as a whole

3 million (2010)

10.5% of total employment

Largest private sector employer

Spillovers

Consumers tend to visit multiple shops when visiting high streets

SOCIAL BENEFITS

Social capital & community cohesion

Town centres:

- Promote interaction between local residents
- Are a source of pride for residents
- Build trust within a community

Wellbeing

Social interaction is linked to increased wellbeing

“ High street/town centre performance is not solely a reflection of retail performance. (...) [though] the vast majority of the data, especially that available for the purposes of providing an overview at the national level, are heavily biased to retail indicators. Data on aspects of high street vitality such as cultural, heritage and leisure uses is very limited.”



High street change is being driven by a number of structural and cyclical factors

DRIVERS OF CHANGE

Technological change/
internet

Consumer behaviour

Demographic change

Economic climate

'Mature' sector

Operating costs?

Regional variation?

IMPACT

- Multi-channel retailing
- Change in in the number and type of stores retailers use (e.g. click & collect, flagships, etc.)

- Convenience shopping

- New markets as baby boomers retire

- Flat-lining real incomes & consumer confidence
- Value shopping

- Increased competition among high street retailers for market share
- Low & falling rents (outside London)
- Business rates payments?

IMPLICATIONS FOR HIGH STREETS?

- *Reduction in numbers of high street retailers?*
- *Change in high street composition & offer?*
- *Increase in local trips (to reduce transport costs)?*
- *Shift away from town centres to out of town & online shopping?*
- *Incentives to convert retail property to residential?*
- *Incentives for retailers to employ innovative strategies to draw in consumers?*

High streets need to:

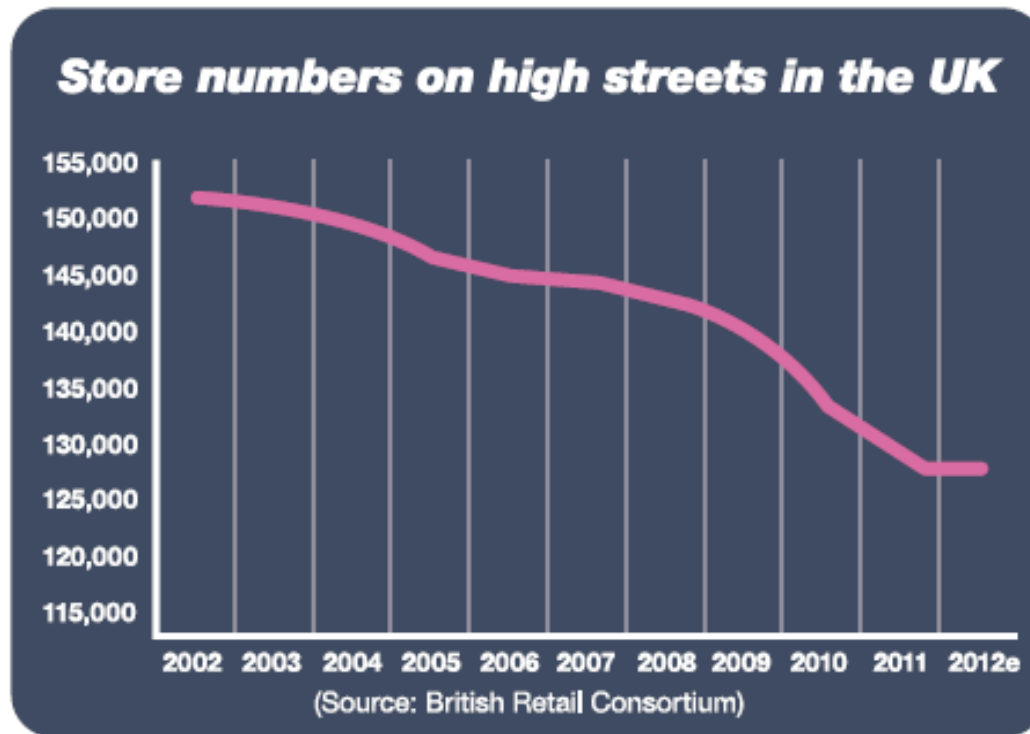
- be **flexible** to adapt to a changing context and seize opportunities,
- **consolidate** to achieve long-term sustainability



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The number of stores on UK high streets has been falling for over a decade

Data on store numbers in town centres and high streets point to a long-term restructuring of high street retailing as fewer shops are needed to reach UK consumers



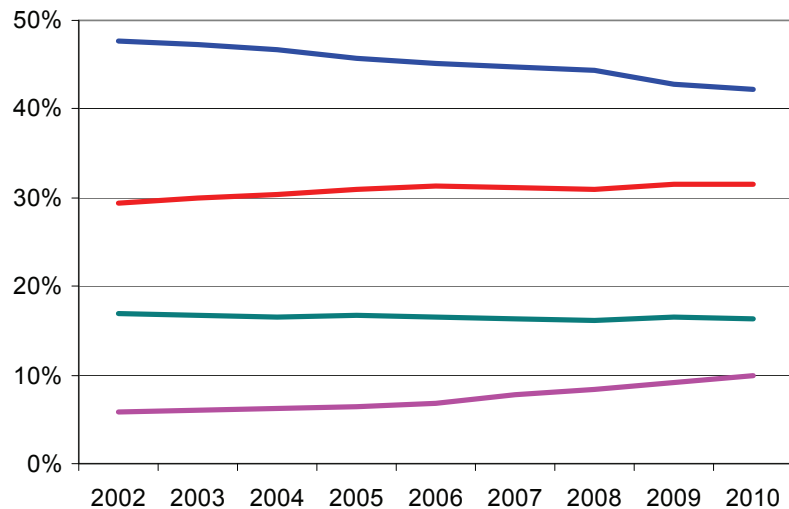
Graph from GFirst & ATCM (2013)

The decline in store numbers predates the current recession



And town centres have been losing out relative to out of town and non-store (i.e. online) retailers

Retail Spending by Location (% of total)



Source: DCLG & GENECON (2012) [data from Verdict]

Town centre retail floorspace has declined relative to out of town developments (neighbourhoods have remained stable)

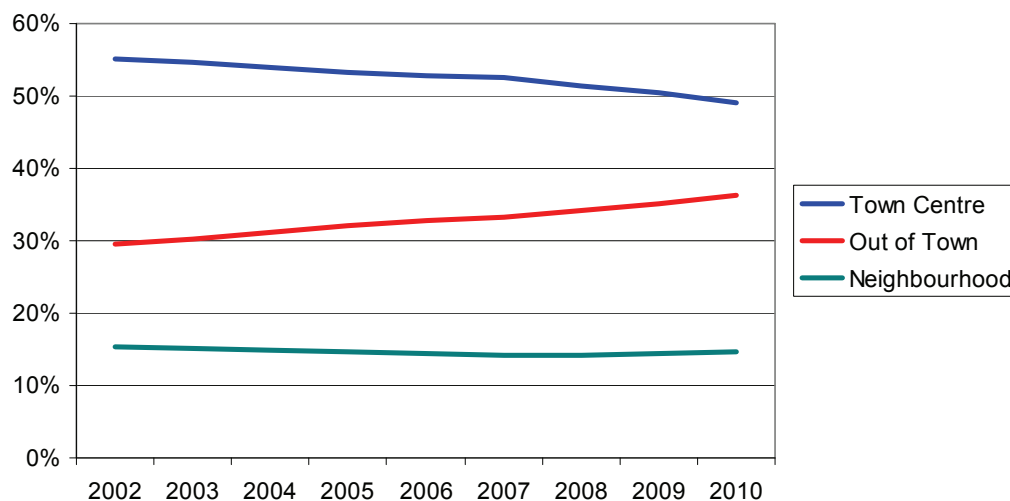
Evidence by Cheshire et al. (2011) suggests that out of town stores may have high higher productivity (i.e. due to economies of scale, etc.) and therefore, in theory, lower prices. This may help explain the trend in retail floorspace as retailers seek to minimise costs and respond to consumers' preferences for lower priced goods.

There has been a long-term decline in town centre's share of retail spending relative to out of town & non-store (i.e. online, mail order, etc.) retailing



Non-store includes online and mail-order

Retail Floorspace by Location (% of total)



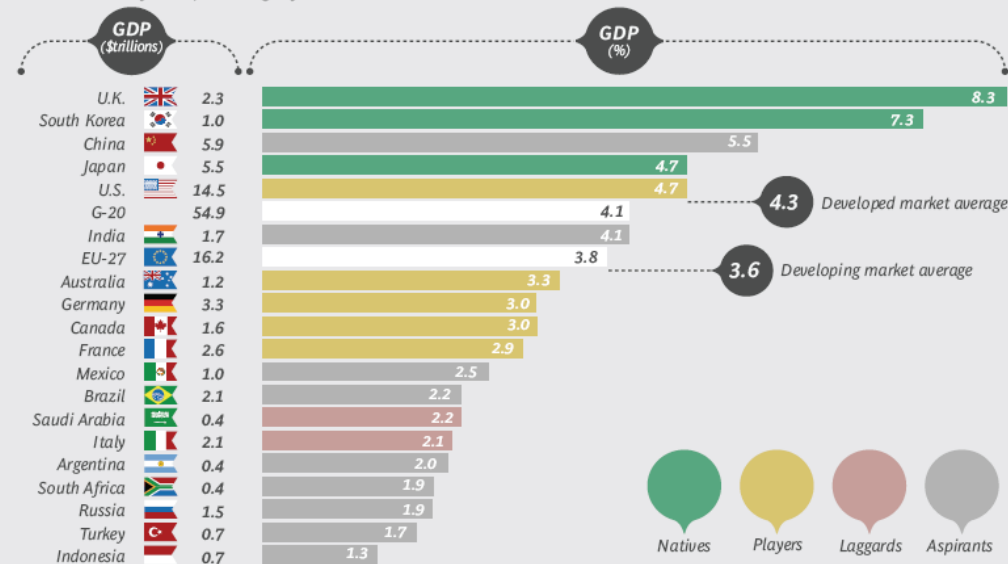
Source: DCLG & GENECON (2012) [data from Verdict]



Online retailing has achieved a significant and growing foothold in the market

The UK's internet economy as a share of GDP is the highest among G-20 countries, representing around 8.3% of GDP

Internet economy as a percentage of 2010 GDP

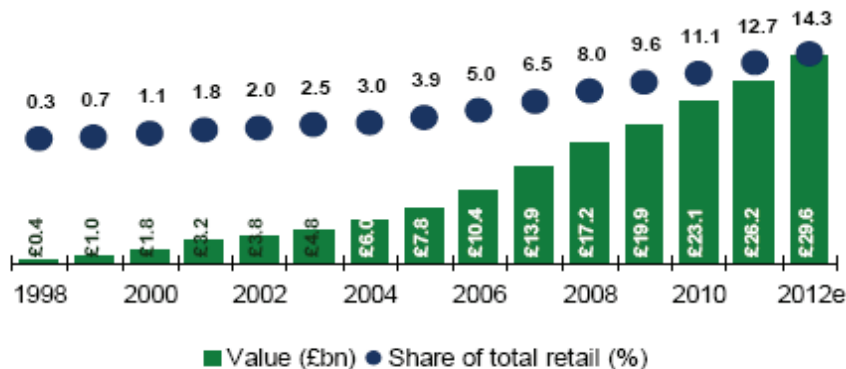


Sources: Economist Intelligence Unit; Organisation for Economic Co-operation and Development (OECD); country statistical agencies; BCG analysis.

Source: Boston Consulting Group (2012)

The share of total retail spending going to online purchases has increased by 14 percentage points in just over a decade

UK online retail expenditure (£bn) 1998 -2012e and share of total

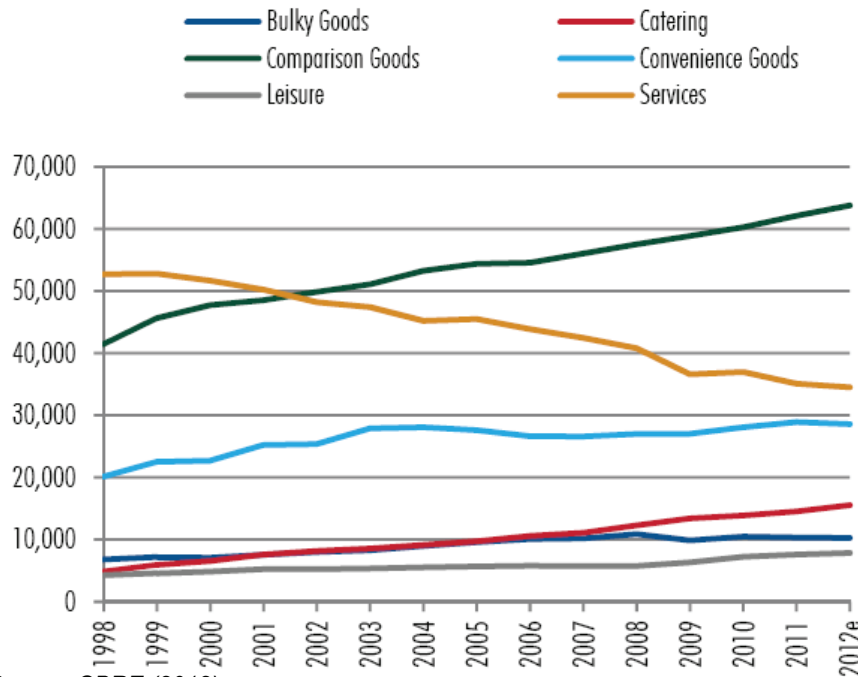


Source: Verdict & SAS (2012)



However, the impact of online retailing hasn't been uniform: convenience and experience-based retail has continued to grow

Chain Branch Change 1998-2012



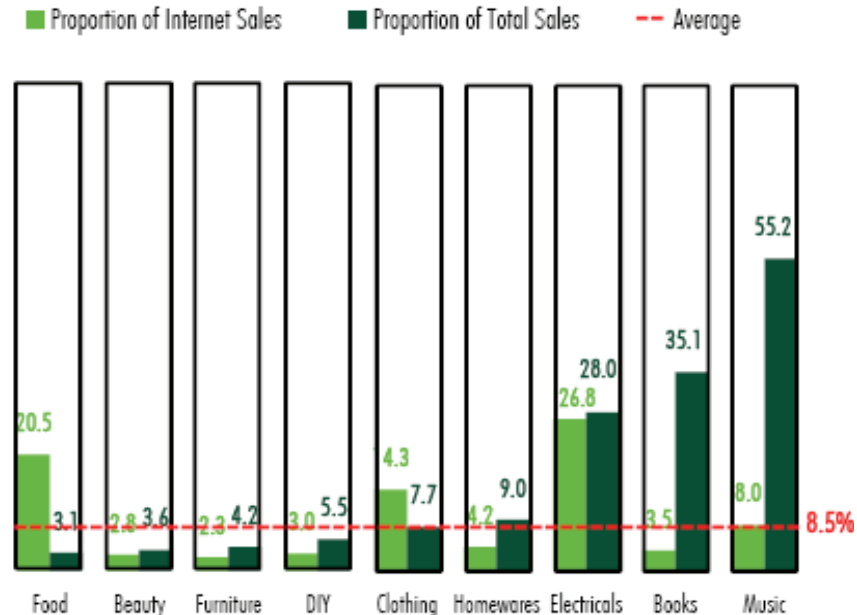
Source: CBRE (2012)

Chains specialising in convenience products and catering have grown but stores offering services such as finance and travel have sharply contracted (internet effect).

Research by N. Wrigley finds similar trends for convenience and leisure shops in town centres.

Online Market Share by Category

Internet Sales vs Sales by Merchandise Category



Source: CBRE (2012)

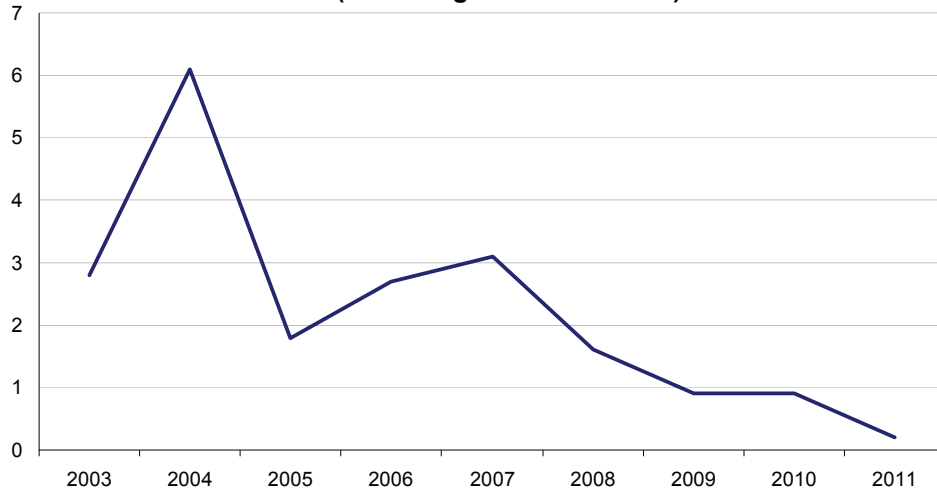
Online retailing has had a greater impact on goods that have digital substitutes, e.g. books and music. The chart shows, for example, that 55% of music sales are now online and that 8% of all internet sales are music-related



The economic downturn has depressed retail sales and limited credit availability has made conditions more difficult for all businesses

Retail Sales
(excluding automotive fuel)

Volumes, % increase on
a year earlier



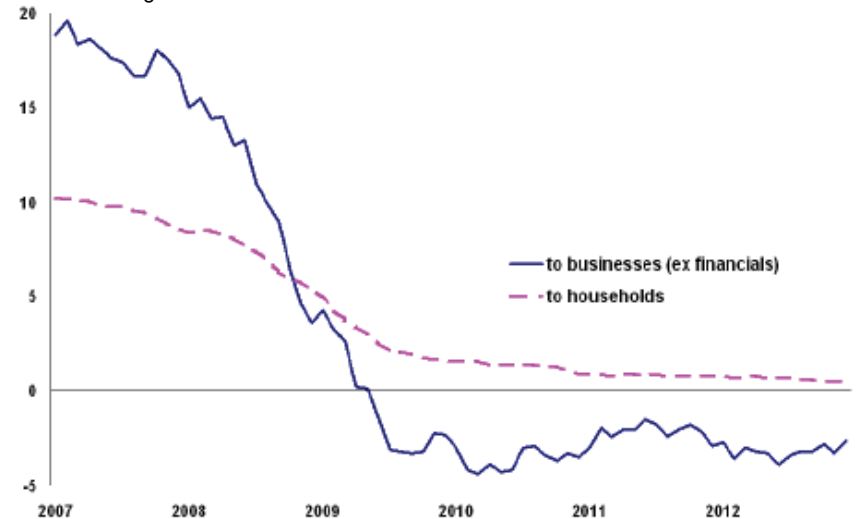
Source: ONS

Lending to businesses hasn't recovered since the crisis and continues to fall

Retail sales growth has remained below pre-recession levels. However, recent data shows growth has picked up during 2012

Net lending in the economy

Annual % change



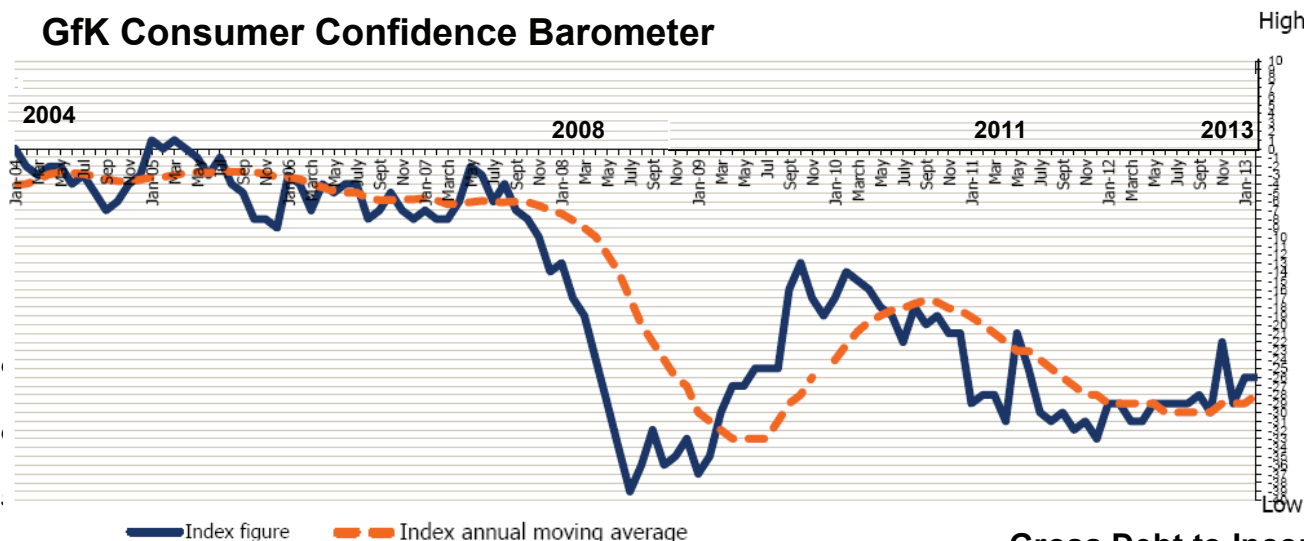
Source: Bank of England



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Consumer confidence has yet to return to pre-crisis levels and over-leveraged households are tempering their spending

GfK Consumer Confidence Barometer



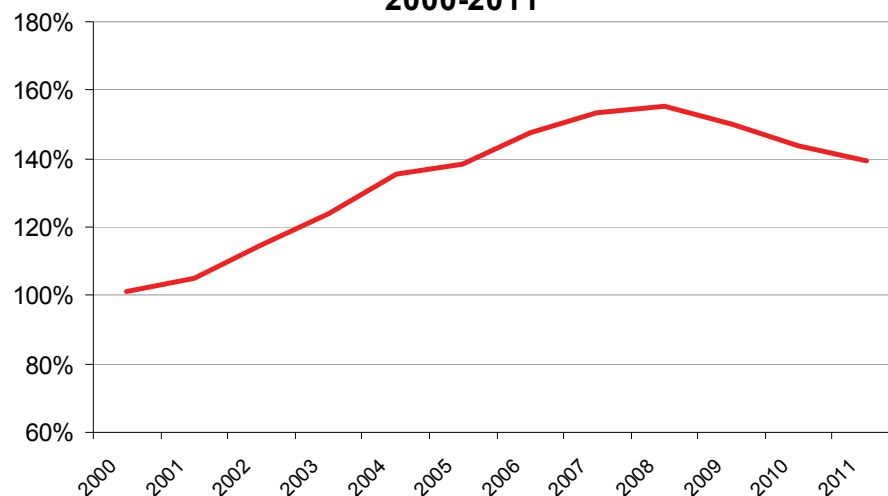
Source: GfK, updated 28th Feb. 2013

*UK households continue to hold **high levels of debt relative to disposable income** following the 2008 crisis*

*Survey evidence shows that the **more highly indebted households are, the more they are constraining their expenditure***

*Net consumer confidence has remained **significantly negative** since 2008 but has stabilised since mid-2011*

Gross Debt-to-Income Ratio of UK Households, 2000-2011

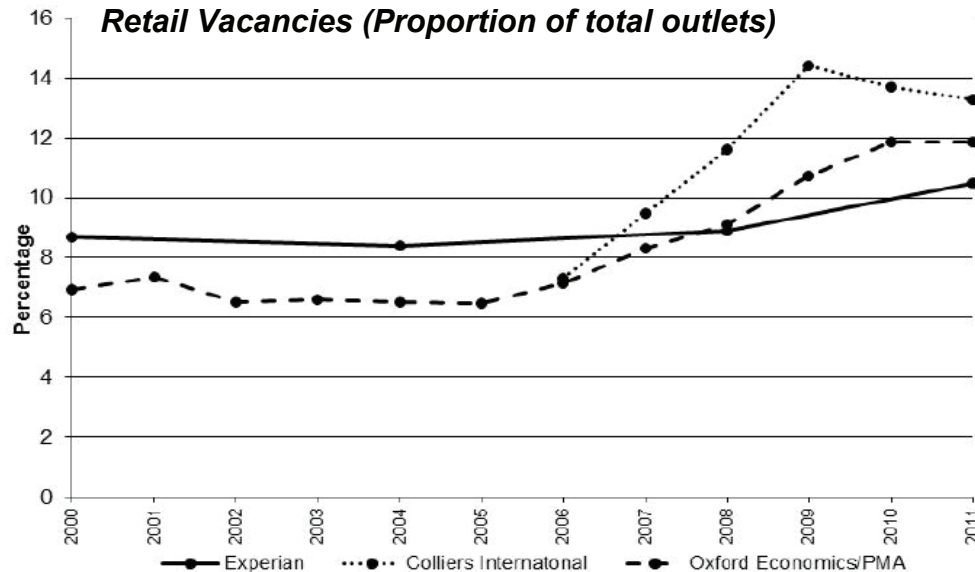


Source: Eurostat



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Reflecting the structural trends in retailing and the economic conditions since 2008, town centre retail store vacancy rates have increased

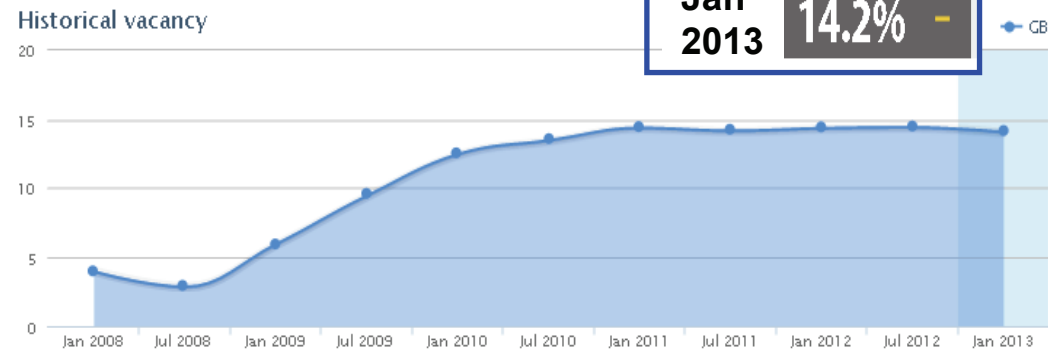


There are various estimates of the level of retail store vacancies but the **consensus is that vacancies have increased since 2007**

Graph from BIS & Genecon (2011) Understanding High Street Performance

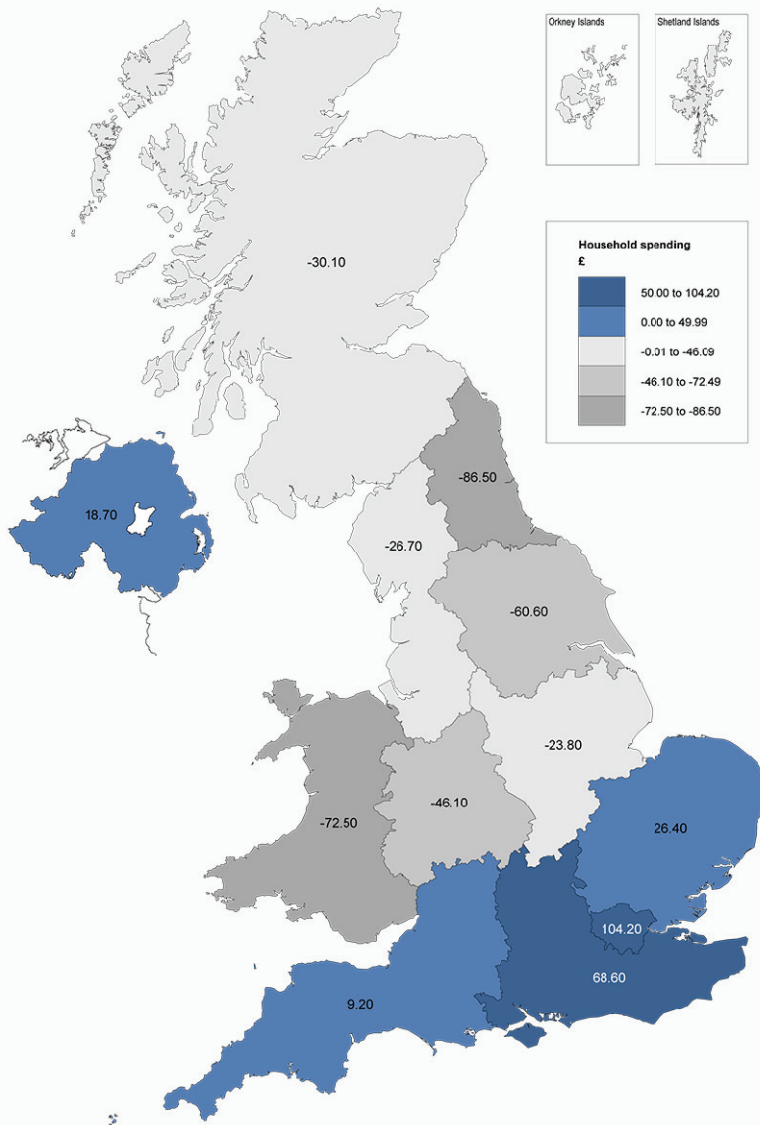
Retail Vacancies, 2008-2013

2013 data from the Local Data Company shows vacancy rate remains high





Map 1 Difference between the average total weekly household spending for English regions and countries of the UK with the UK average, 2009–2011

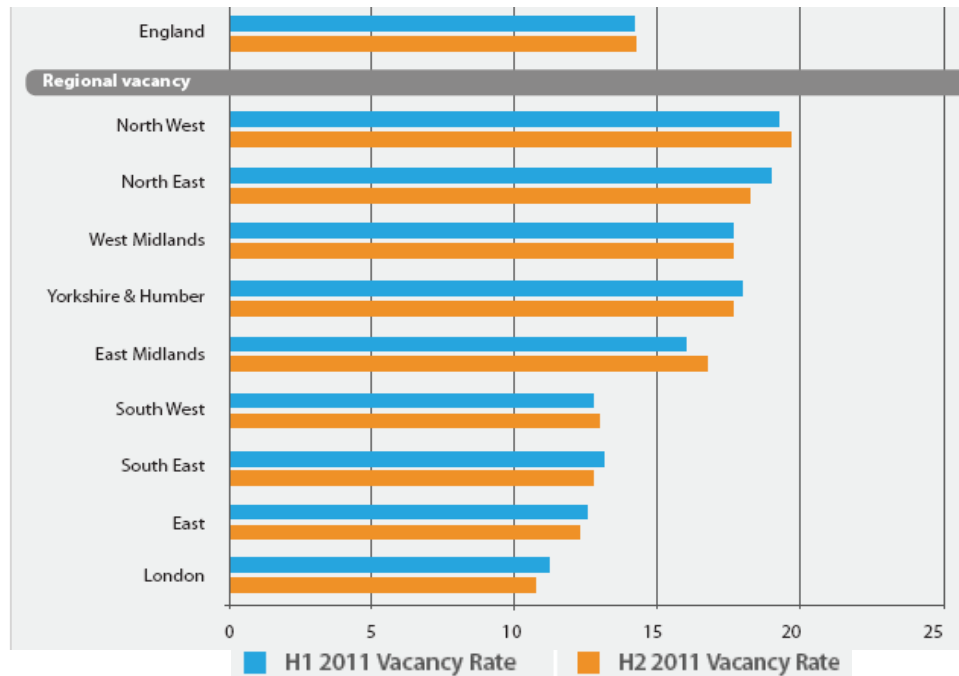


Source: ONS (2013)

However, these averages mask significant variation in vacancies across areas linked to local conditions

The variation in high street performance is likely to be linked to the variation in local economic conditions (i.e. income, employment)

Vacancy Rates by Region (H1 2011 vs. H2 2011)



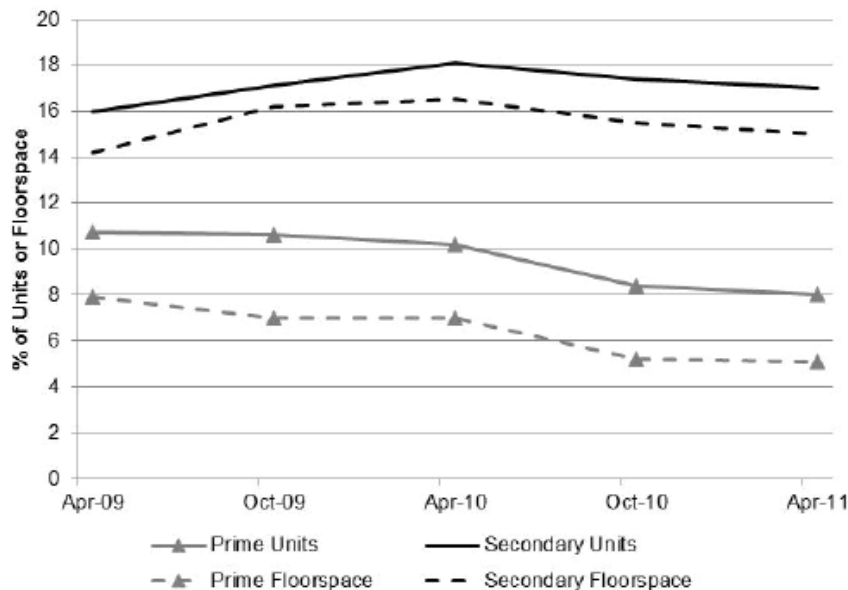
Source: Local Data Company (2011)



There is also variation in vacancy rates within areas

There is significant variation between prime & secondary properties

Retail Vacancies by Type

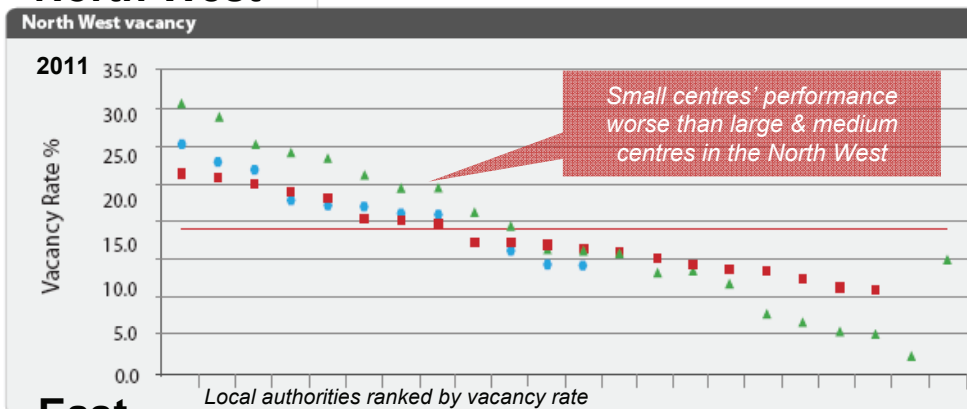


Source: BIS & Genecon (2011)

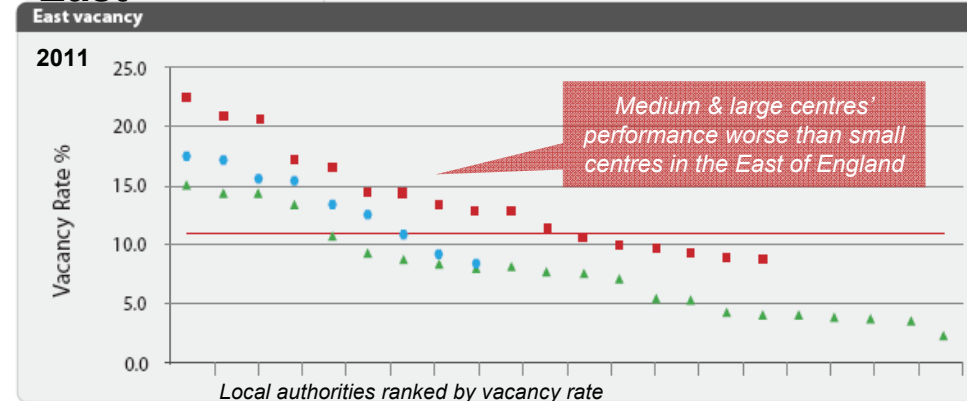
Prime vs secondary classification is subjective but generally depends on rent level, income prospects, covenant strength, occupier contentment and the level of spending needed for renovation and upkeep

Comparing vacancies across and within regions points towards variation based on the size of the centre. For example, in the North West, small centres have experienced more vacancies than large and medium centres. However, in the East of England, the trend is reversed – medium and large centres have had the highest vacancy rates.

North West



East



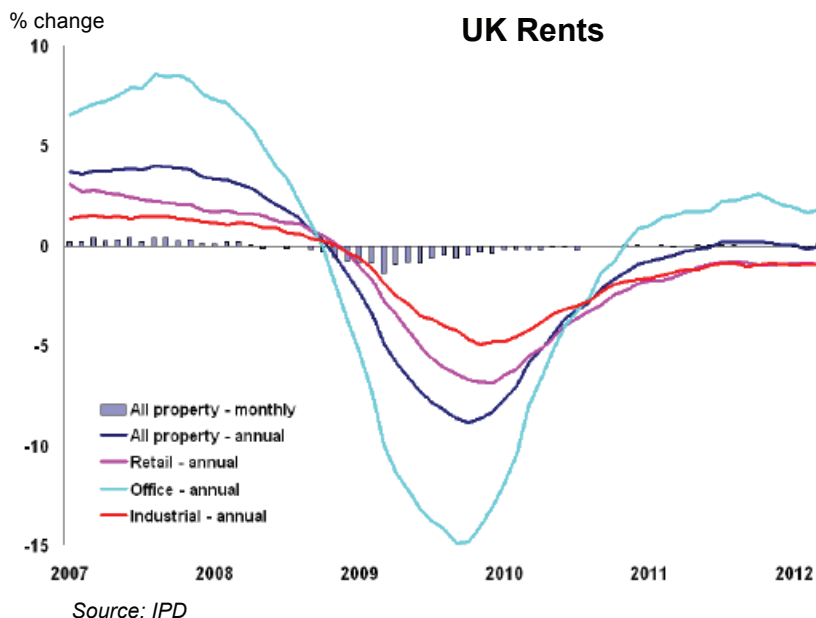
Notes: Large Centre = 400+ shop premises, Medium Centre = 200-399 premises, Small Centre = 50-199 premises.

Source: Local Data Company (2011)



Evidence on operating costs to businesses on high streets as an explanation for high vacancy rates is limited but retail rents have fallen outside London

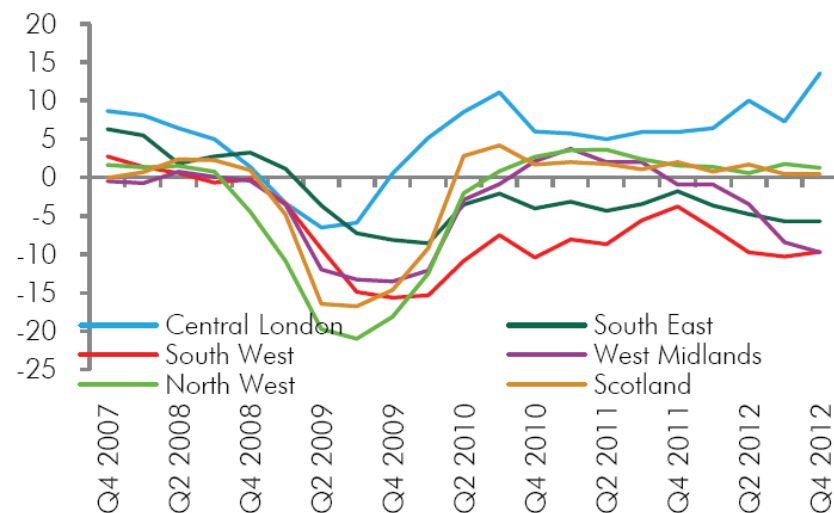
Retail rents are falling across England & are decreasing more rapidly than office, industrial & average property rents



Rents have been falling in the South East, West Midlands & South West but are more stable elsewhere

Some evidence suggests that business rates have been increasing relative to rents but the impact on high street businesses is unclear. This trend could be due to inflation-adjusted rates and declining rents. Further research is necessary to understand the impact of business rates on high street retail.

Regional Prime High Street Rental Growth (% pa)





2 Enablers of High Street Flexibility



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Declining high streets can be turned around

BRIXTON VILLAGE

Issue: High vacancy rate and declining footfall

What they did

- Lambeth Council suggested market owners work with Space Makers (an online social network). Space Makers wanted to **create a place where people would want to come and spend time**.
- Space Makers worked with the owner of the indoor market to secure seed funding and also **organised an open event to explore & discuss the potential uses for the space** & invited proposals from the community
- **Within several weeks a wave of new shops were launched** (ranging from pop-up shops to community and retail shops).
- **The units were offered rent-free for the first three months**, with occupiers taking responsibility for any necessary refurbishment, rates and utilities.



Lessons learned

- Space Makers led the redevelopment, **bringing together tenants, local campaigners, the council and the owners** to engage all interested parties and to work through ideas.
- Space Makers worked with the local community to help the project to succeed. **They ensured the project was embedded in the place and the people around it, involving local people to create a sociable space for local people to enjoy.**
- When trying to come up with ideas for increasing footfall, **Space Makers engaged the local community to come up with ideas for events (to increase footfall and popularity) and to take responsibility for running each event.**

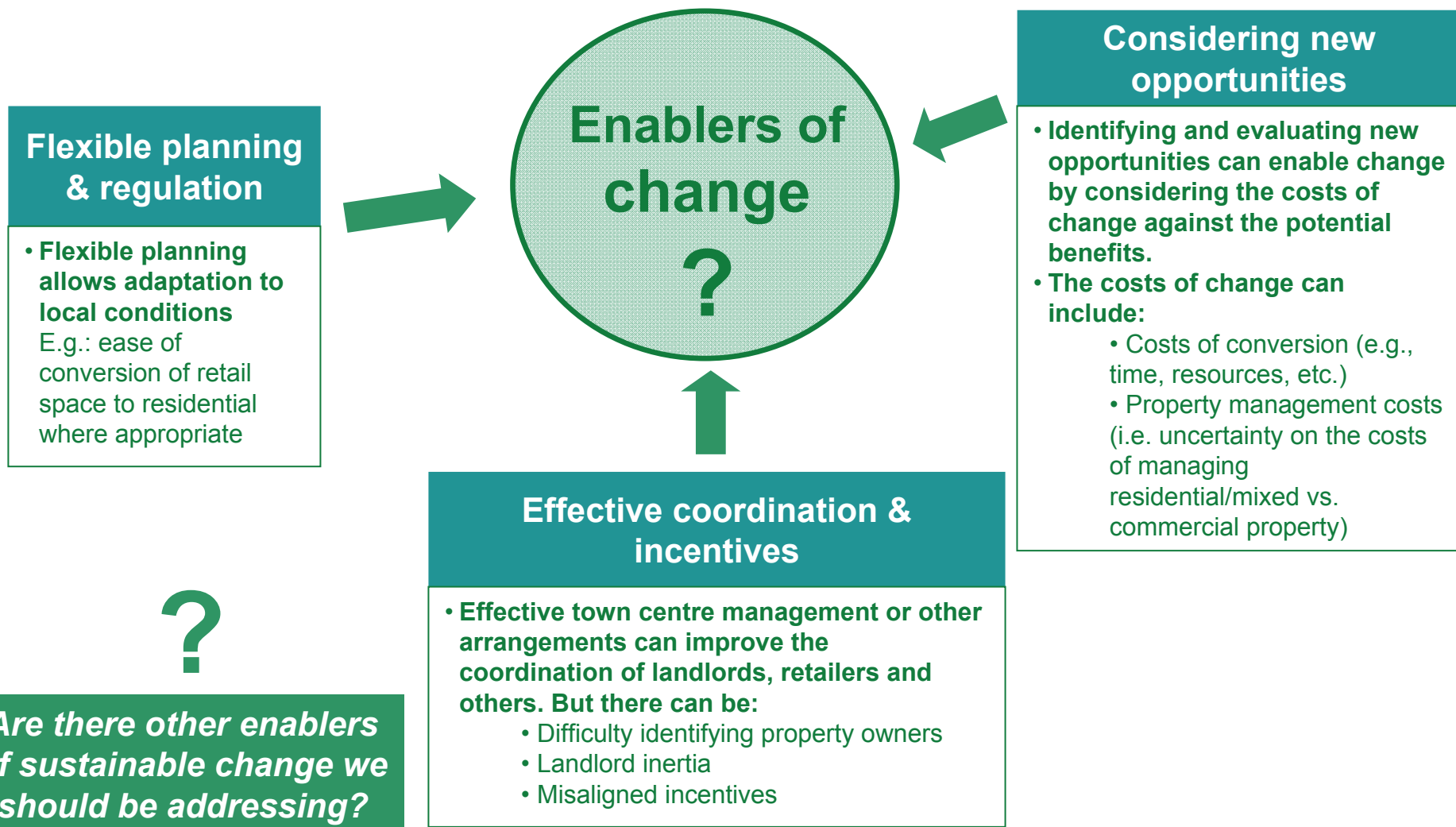
Outcomes

There is limited quantitative evidence available but local accounts suggest there has been a successful redevelopment of the retail space into a lively and vibrant place with a creative edge that has attracted local and new visitors.





There are various enablers of rejuvenated and sustainable high streets but there is limited evidence on their relative importance





Town centre management can be an important tool for revitalising high streets

Place Management Initiatives

Business Improvement Districts (BIDs)

123 BIDs

- Established in 2004
- Typically levy of 1% of rateable value
- Estimated cost for set up: £50,000-100,000 & 18months – 2 years
- Limited evidence on impact on town centre but:
 - 32 reached end of mandate of which 31 renewed mandate
 - £61m raised through levy and additional £107m realised through leveraging
 - E.g.: Ealing, Kingston, etc.

Town Centre Management

500 towns with Town Centre Management initiatives

- Around 20 years old
 - Informal or formal
 - Private and public stakeholders
 - Henley Centre/ BCSC: occupier mix & promotional activities are key to success
 - Focus on improving public spaces, activities, diverse & differentiated offer.
- E.g.: St.Annes-on-Sea, Stockport

Others/ Hybrid

Community Interest Companies

Introduced in 2005

Type of social enterprise which only allows assets and profits to be reinvested in the community or in other CICs

E.g.: Reading

Portas Pilots

27 Portas pilot areas

Allow testing of Portas recommendations and shared learning

Town Team Partners

Approx. 330



Despite the wealth of data available on retail stores and related issues, there are still gaps in our evidence base



Other measures of high street performance?

- **Non-retail performance?**
- **Type of offer on the high street** (e.g. daytime vs night-time; composition of retail vs service vs non-retail; public services offered)?



High street property markets performance relative to other developments?

- **Composition of property ownership on the high street?**
- **Town centre property performance vs other areas?**
- **Comparison of returns on different property uses on the high street** (e.g. residential vs mixed vs retail)?



Impact of initiatives & policy on high streets?

- **Net benefits/ impact?**
 - Town centre management?
 - National & local planning policy?
- **What works?**
 - Lessons from Town Centre Management, BIDs, Portas Pilots, etc.

Advice on other sources of evidence would be welcome

University of Southampton research

As yet unpublished University of Southampton research made available for discussion at High Street Futures Forum 25 March 2013.

We have available a set of data on retail/service unit composition change in 206 town centres and high streets in 4 regions of the UK (84 in North West, 24 in West Yorkshire, 75 in South West and 23 in East Anglia).

We are therefore in a position where we can compare what happened in these 206 centres between the period of prosperity and growth (1999-2006), studied in terms of retail centre change by the Competition Commission economists during the Groceries Market Inquiry (2006-08)– and the period of 2006-12 marked by the shockwave of economic crisis passing through UK town centres and high streets. Followed by triple dip recession and the new era of austerity, that shockwave exposed the longer-term forces of change (rise of convenience culture, growth of online retail, etc.) transforming retail spaces

Surprisingly, no one it seems has taken a look at what happened to a wide range of retail/service categories - particularly specialist and small retailers - by comparing these two periods (1999-2006 'prosperity and growth' , 2006-12 'economic crisis, recession and austerity') and the results are not what most people might expect

For many categories of small & specialist retailer the graphic shows that the greatest reconfiguration and decline occurred during the period of 'prosperity and growth', whereas the recent period (publicly perceived as one of extreme crisis), actually saw improving performance in several of these small store categories. The graphic shows bakers, butchers, fishmongers, greengrocers, delicatessens and informal markets either declining less rapidly during the recent period of 'economic crisis, recession & austerity' or increasing in number compared to the earlier period of 'prosperity & growth'. We take that as reflecting the continuously evolving/adaptive nature of high streets involving the emergence of new complementarities. But there are also, as seen in the accelerating decline of music/video stores, some types of retailer to which the perception of terminal crisis does apply and where strong substitution effects from online retail are clearly being felt.

