APPENDIX 8

NATIONAL TRENDS IN THE RETAIL AND LEISURE SECTORS

NATIONAL RETAIL TRENDS

Growth in per capita expenditure

1. The forecasters anticipate muted short-term growth prospects for the period to 2011, as the collapse in investment since autumn 2007 and the need to restore government finances significantly constrain economic growth and consumer spending. Recent rises in unemployment are expected to impact upon consumption growth in the short and medium term periods. Along with tighter lending conditions, higher unemployment is forecast to be a legacy of the current recession. The forecasters therefore expect that the boom conditions of the past decade are unlikely to be repeated in the short to medium term as consumers tighten their purses as a result of the global recession and correction in the housing market.

2. This explains why the expenditure growth rates forecast by Experian in August 2009 and Pitney Bowes Business Insight/Oxford Economics (PBBI/OE) in November 2009 are relatively low for the next few years, as shown in Table 1 and Table 2. Over the medium and long term periods, however, PBBI/OE anticipate a much faster recovery, and significant differences arise between the expenditure growth forecast by Experian and PBBI/OE.

3. As such, the per capita comparison and convenience goods expenditure growth rates that we have adopted for the twelve year period from 2007 to 2019 are the midpoints of the estimates and forecasts provided by Experian and PBBI/OE and are set out for each forecast year in Table 1.1 and Table 1.2. Whilst Experian's forecasts for growth in per capita expenditure extend up to 2026, PBBI/OE does not provide any forecasts for growth in per capita expenditure beyond 2019. We have therefore adopted the Experian forecasts for the period 2019 to 2026 of 2.8% per capita per annum for comparison goods and 0.9% per capita per annum for convenience goods. For the period 2026 to 2031 we have utilised Experian's expenditure growth forecasts for the period 2017 to 2026 of 2.8% per capita per annum for comparison goods and 0.9% per capita per annum for convenience goods.

4. The per capita expenditure growth rates for comparison and convenience goods that we have adopted for this study are summarised for each of the forecast periods in Table 3 and Table 4 respectively.

Table 1 Comparison Expenditure Growth Per Capita, 2007-2019

Year	Forecast Rate Per Annum Experian	PBBI/OE	Midpoint of Experian and PBBI/OE
2008	2.7%	4.63%	3.67%
2009	1.1%	-4.46%	-1.68%
2010	-0.4%	-0.93%	-0.66%
2011	1.1%	1.48%	1.29%
2012	2.5%	3.62%	3.06%
2013	2.5%	4.91%	3.70%
2014	2.5%	5.02%	3.76%
2015	2.5%	4.93%	3.71%
2016	2.5%	4.66%	3.58%
2017	2.8%	4.51%	3.65%
2018	2.8%	4.28%	3.54%
2019	2.8%	3.94%	3.37%

Table 2 Convenience Expenditure Growth Per Capita, 2007-2019

Year	Forecast Rate Per Annum		
	Experian	PBBI/OE	Midpoint of Experian and PBBI/OE
2008	0.9%	-0.65%	0.12%
2009	-0.5%	-1.37%	-0.94%
2010	-0.2%	-0.27%	-0.23%
2011	0.6%	0.61%	0.61%
2012	0.8%	1.41%	1.10%
2013	0.8%	1.45%	1.12%
2014	0.8%	1.45%	1.12%
2015	0.8%	1.30%	1.05%
2016	0.8%	0.92%	0.86%
2017	0.9%	0.69%	0.79%
2018	0.9%	0.57%	0.73%
2019	0.9%	0.37%	0.63%

Table 3 Comparison Expenditure Growth Per Capita for each Forecast Period, 2007-2031

Year	Rate Per Annum
2007 - 2009	1.0%
2009 - 2014	2.2%
2014 - 2016	3.6%
2016 - 2021	3.2%
2021 - 2026	2.8%
2026 - 2031	2.8%

Table 4 Convenience Expenditure Growth Per Capita for each Forecast Period, 2007-2031

Year	Rate Per Annum
2007 - 2009	-0.4%
2009 - 2014	0.7%
2014 - 2016	1.0%
2016 - 2021	0.8%
2021 - 2026	0.9%
2026 - 2031	0.9%

Growth in floorspace efficiency (sales density growth)

5. Figures 4a and 4b of Experian's Retail Planner Briefing Note 7.1 put forward Experian's recommended forecasts of change in floorspace efficiency (retail sales per unit sales area) for the period 2008 to 2026. For example, comparison sales density growth is 1.1% in 2009, -0.1% in 2010, 1.1% in 2011, 2.2% between 2012 and 2016, and 2.6% between 2017 and 2026. These projections are considerably lower than Experian's estimates for previous growth in floorspace efficiencies over the period 1987 to 2007, as shown in Appendix 4 of the Briefing Note, particularly in the period up to 2011. For example, comparison sales density growth is 2.5% between 1987 and 1999, 3.6% between 2000 and 2005, and 2.8% between 2006 and 2007.

6. However, current forecast per capita expenditure growth rates for the period 2008 up to 2026 are also much lower than those experienced between 1987 and 2007. Moreover, in the comparison goods sector Experian's forecast sales densities between 2008 and 2026 are equal or only marginally below their per capita expenditure growth forecasts. In the convenience sector, Experian's floorspace efficiency projections are also high compared to their expenditure growth forecasts, albeit to a lesser degree. In our assessment, the low expenditure growth rates projected by Experian for the period up to 2026, particularly in the comparison sector, are not sufficient to support their rates of floorspace efficiency change set out in Tables 4a and 4b of Experian's Retail Planner Briefing Note 7.1. PBBI/OE provides no information on anticipated change in floorspace efficiency.

7. Thus, in making an allowance for growth in floorspace efficiency, we adopted the floorspace efficiency changes set out in Table 5. These tie the rate of floorspace efficiency change to the expenditure projections for each forecast years, using a ratio of 37.9% for comparison goods and 46.2% for convenience goods. These ratios represent the 'underlying trend' of floorspace efficiency improvements between 1987 and 1999 (as recommended by Experian in its previous Retail Planner Briefing Note 6.1 revised in January 2009) of 2.2% for comparison goods and 0.6% for convenience goods as a proportion of the expenditure growth over the same period (as set out in Appendix 4 of Experian's Retail Planner Briefing Note 7.1) of 5.8% and 1.3% respectively.

Table 5 Improvements in Floorspace Efficiency from 2009 Level

Year	Rate per Annum	
	Comparison Goods	Convenience Goods
2009 - 2014	0.8%	0.3%
2014 - 2016	1.4%	0.4%
2016 - 2021	1.2%	0.4%
2021 - 2026	1.1%	0.4%
2026 - 2021	1.1%	0.4%

Special Forms of Trading (SFT)

8. The Experian forecast set out in Appendix 3 of its Retail Planner Briefing Note 7.1, which anticipates a growth in SFT to 9.6% of comparison goods sales in 2016 dropping marginally to 9.4% in 2021 and 9.1% in 2026. PBBI/Oxford Economics fail to provide any advice on projected change in SFT, but its 2007 base position suggests that SFT accounted for only 5.4% of comparison goods expenditure at that date, compared to the corresponding figure produced by Experian for 2007 of 6.6%.

9. We acknowledge that there continues to be uncertainty with respect to future change in SFT. Indeed, the very definition of non-store retail sales is fraught with difficulty, so that data from organisations such as the Interactive Media in Retail Group (IMRG) bear no resemblance to estimates of e-commerce provided by ONS. A further difficulty arises in that many goods sold over the internet may still come from the shelves of conventional retail outlets, so that there is an additional uncertainty over e-tailing's precise impact on current and future retail space requirements.

Overall Development Pipeline

10. Planning policy has substantially reduced the amount of new out-of-centre retail development, with developers encouraged to regenerate the more complicated edge-of-centre and in-centre sites. As a consequence, the UK is in the midst of a construction boom in town centre-located shopping centres, surpassing even the building boom of the 1970s. Whilst there are signs that this growth may now be slowing, Verdict still predicts that in-centre shopping space will increase by 6.4% between 2007 and 2012[1].

11. CB Richard Ellis estimates in its 'UK Retail Briefing, 2007' that, at the time of publication, there was 5.95m sq.m of shopping centre floorspace in the development pipeline[2]. It is noted however, that the reported number of schemes in the pipeline does not reflect 'distressed' schemes – those which are set to be withdrawn or delayed due to a lack of financing, or

[1] Source: Verdict, *UK Town Centre Retailing 2008,* September 2008 (Table 60).

[2] Source: CB Richard Ellis, *UK Retail Briefing*, September 2008

those that are no longer financially viable. Additionally, CB Richard Ellis state that a significant number of schemes are on hold.

12. Certainly, Verdict cautions that 'competition amongst various sales channels is intensifying, with town centres losing out to online and out-of-town' and that 'town centre retailers should not expect a quick recovery'. As such, Verdict predicts that ' the continuing glut of new space will fail to kick-start significant sales growth, resulting in further decline of like-for-like sales, plummeting sales densities and the shakeout of many weaker players from the market'[3].

Location of Retail Investment

Sales and Number of Outlets

13. Despite the increasing difficulty associated with securing planning permission for retail development in out-of-centre locations, according to Verdict the 'town centre'[4] accounted for 44.4% of total retail sales in 2007, compared with 49.7% in 1997 (Figure 2.2). Much of this erosion of 'town centre' sales can be attributed to the continued strength of existing retail facilities in out-of-centre locations and the growth in e-tail.

14. Verdict provides interesting information on the space growth of 12 key 'town centre'[5] retail brands from a cross-section of retail sectors[6]. According to Verdict these 12 leading retailers have exhibited much faster space growth than town centres, with a growth in sales space by 26.8% between 2002 and 2007. In comparison, town centre space overall grew by just 1%. In 2007 the key 12 retailers accounted for 22.3%, compared with 17.7 five years previously. The rapid expansion of large retailers has impacted significantly on smaller traders, particularly those operating in district and local centres.

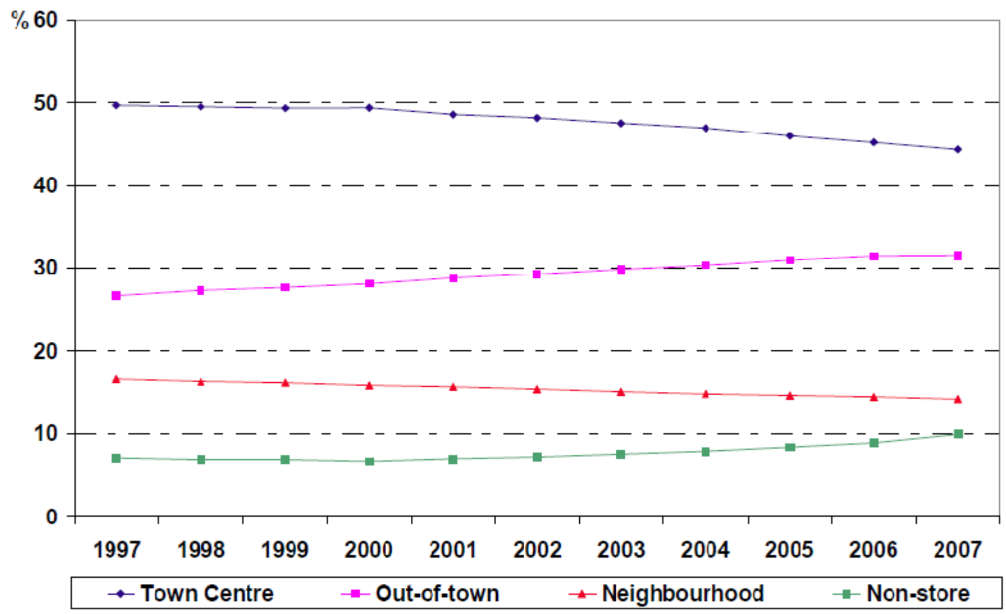
[3] Source: Verdict, *UK Town Centre Retailing 2008,* September 2008.

[4] Verdict's definition of 'town centre' is 'deliberately broad' to include all areas that offer comparison shopping; it includes traditional high streets, in-town shopping centres and regional 'out-of-town' (Verdict's term) shopping malls such as Meadowhall, Merry Hill, the Trafford Centre, the Lakeside Mall and Bluewater. Verdict's 'out-of-town' definition includes retail parks (minimum three retailers/50,000+ sqft of trading space). We therefore consider that Verdict's 'out-of-town' definition embraces both 'out-of-centre' and 'out-of-town' locations as defined by Table 2 of PPS6.

[5] See previous footnote for Verdict's definition of 'town centre'.

[6] The 12 'leading retailers' considered by Verdict are: Marks & Spencer, Boots, Argos, Next, Debenhams, John Lewis, Woolworths, Primark, Wilkinson, House of Fraser, HMV and WH Smith.

Figure 2.2 Share of Total Retail Expenditure, by Location, 1997-2007

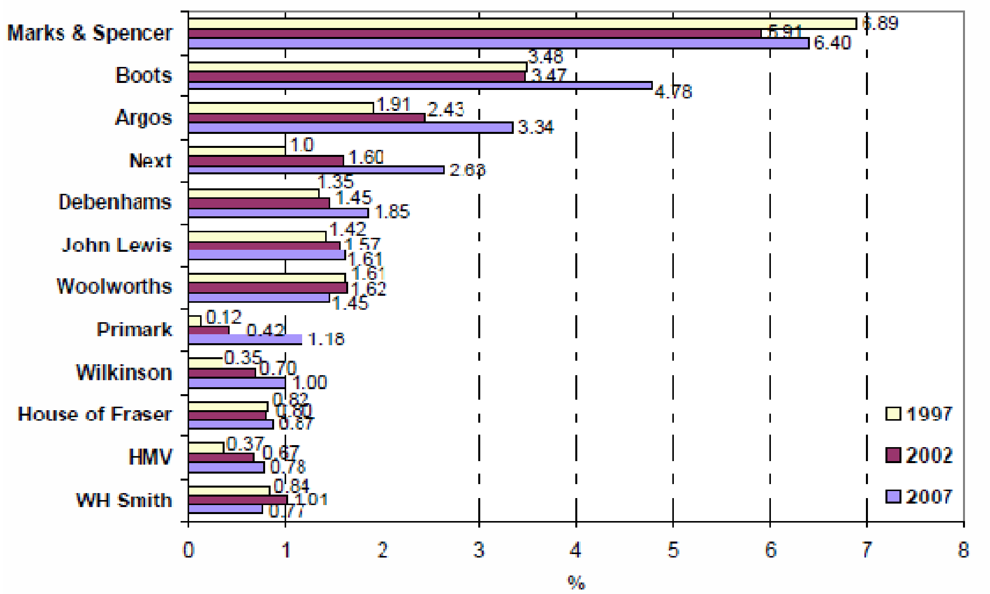


Source: Verdict, *UK Town Centre Retailing 2008,* September 2007 (Figure 1).

Note: 'High street' figures include out-of-centre shopping malls, such as Bluewater.

15. At the same time, as the share of sales has drifted towards the out-of-centre retailers and e-tail (Figure 2.2), a number of established British high street retailers struggled to maintain their share of town centre sales during the last five years, despite government policy (Figure 2.3).

Figure 2.3 Leading retailers % share of town centre sales 1997, 2002 & 2007



Source: Verdict, *UK Town Centre Retailing 2008*, September 2008 (Figure 6)

In-town Retail Development Trends

16. In market and sub-regional towns, there is strong competition for retail units of 2,000 to 4,000 sqft units. Smaller units are required by coffee shop operators and the mobile phone market also remains extremely active. Both sectors, together with computer games retailers, have underpinned demand for shop units of between 1,000 and 2,000 sqft. There has been a heightening of demand in the Use Class A2 sector, with significant activity from some banks and building societies, such as Abbey, as well as from betting shops, including Paddy Power, William Hill and Coral.

17. Verdict[7] forecasts that the average town centre store size is set to increase by 9.2% to 2,312 sqft between 2007 and 2012, with many retailers moving into larger units as they broaden their ranges. The sizes of units in many new shopping centre developments are being designed by developers with this in mind, evident from the likes of Primark, TK Maxx and Next securing anchor units in many schemes. Other fashion retailers, such as New Look, are also migrating to larger units in town centres to drive footfall and boost their sales densities.

Out-of-Centre Retail Trends

18. Bulky goods retailers are currently experiencing challenging trading conditions, which is having a knock-on effect on development activity, particularly in the DIY and furniture sectors. Conversely, high street names such as Next, New Look and Marks & Spencer continue to expand in out-of-centre locations.

19. Verdict reports that ‘out-of-town’ retailers accounted for 28.1% of retail sales in 2000, with this figure rising to 55.6% in 2007. However, given the noted difficulties experienced by certain sectors, the growth in ‘out-of-town’ retailers’ market share can primarily be attributed to the gain in share at grocers’ ‘out-of-town’ superstores, with Tesco, Sainsbury’s and Asda all extending their offer of non-food and, in doing so, gaining sales from high street retailers.

20. In May 2006, the Government closed the planning loophole which allowed retailers to increase the floorspace of their units by installing mezzanine floors, which in some cases enabled diversification into other product ranges and satisfied some operators’ pursuit of larger stores. Planning permission is now required to install a mezzanine floor of more than 200 sqm (2,150 sqft).

Polarisation towards Larger Centres

21. A significant and long term trend is the continuing polarisation by retailers towards larger schemes in larger centres which is driven by a number of factors. Retailers recognise that greater efficiency can be achieved by having a strategic network of large stores offering a full range, rather than having a large network of smaller stores, and are therefore increasingly seeking to serve larger population catchments from larger stores. It is also driven by consumers, who are becoming more discerning and are increasingly prepared to travel further.

[7] Source: Verdict, *UK Retail Futures 2012: Sector Summary*, May 2008.

22. There is therefore a concentration of comparison goods expenditure in a smaller number of larger centres. Indeed, CB Richard Ellis estimates that half the population currently shops in just 70 or so major locations, down from 200 locations 30 years ago[8]. This concentration of retailing in larger centres is likely to threaten some medium and smaller towns.

23. The growth of the dominant foodstores and decline in unit numbers poses similar challenges for small town centres and district/local centres which rely on their convenience/service base. A clear picture is emerging of a network of large dominant superstores, and corresponding decline/diversification in the traditional smaller centre. Again, CB Richard Ellis suggest that '*half the population now shop for main groceries in less than 1,000 of the country's 10,000+ main grocery stores: the majority located out-of-town'*[9].

Trends in Key Retail Sectors

Clothing & Footwear

24. Clothing and footwear is the second largest area of town centre retail sales in the UK after food and grocery, reaching £26.2bn (21%) of town centre sales in 2007 - up 16.6% from 2002.[10].

25. Clothing & footwear retailers have benefited from a raft of new shopping centre space and town centre rejuvenation over the last few years. At the same time, as they are seeking to expand and complement their town centre portfolios, town centres do remain the biggest sales channel for the sector.

Bulky Goods

26. The poor performance of the DIY sector in recent years has been well-documented and is set to continue in the short-term. Verdict explains that *'with market conditions set to worsen in 2009, DIY retailers have little option but to batten down the hatches and prioritise cost control and debt reduction to defend their positions*.'[11].

27. Verdict predicts that the DIY & gardening sector will decline in 2008 by 4.1%, with the market being almost £1.0bn smaller than its 2004 peak.

Other Comparison Sub-sectors

Department Stores

28. There has been a lot of new shopping centre space available for department stores during the last few years – a trend, which is set to continue. This new space, coupled with the big players revamping existing stores, has led to department stores increasing their share of town centre sales from 7.4% in 2002 to 7.8% in 2007. Overall sales from department stores located in town centres reached £9.7 billion in 2007, an increase of 13.1% since 2002.

---

[8] Source: CB Richard Ellis, *UK Retail Briefing*, September 2008.

[9] Source: CB Richard Ellis, *UK Retail Briefing*, Issue 2, 2007.

[10] Source: Verdict, *UK Town Centre Retailing 2008*, September 2008.

[11] Source: Verdict, UK Retail Futures 2012: DIY & Gardening, December 2008.

29. Driven by market saturation for full line department stores in many areas, major department store operators are now willing to take on smaller format stores. On the other hand, sales growth of town centre department stores has been driven by increased demand for premium and luxury goods. The Top Three luxury department stores – Harrods, Selfridges and Harvey Nichols – have grown at a much faster rate than the overall department store market in each of the past six years.

Electricals

30. Major electricals specialists such as DSGi and Comet have been withdrawing from town centres as they concentrate on Internet operations and relocating out-of-town, where they can be accommodated in larger-format stores. Town centre electrical stores are now smaller, and often have a greater focus on home entertainment goods, such as cameras, personal computers and audio and video equipment; and personal music players.

31. This shift to out-of-centre locations, together with the reduction in electrical store numbers and the increase of electrical items sales online, has resulted in the amount of space occupied by them in town centres falling by 3.9% over the last five years. At the same time, sales densities have increased due to the arrival in town centres of higher density retailers, who operate form smaller stores and sell higher value products.

Convenience Sector

32. Figure 2.4 provides a detailed break-down of the change in the convenience sector market between 1997 and 2007, broken down by 'superstores', 'smaller stores', 'food specialists' and 'off licences and tobacconists'[12]. The Figure shows that food superstores (those with a net selling space of at least 25,000 sqft) are the primary driver of growth in the market. Indeed, sales from food superstores have increased by 73% over the last decade (from £36,505m in 1997 to £63,172m in 2007).

33. However, as superstores' sales have expanded, other types of retailers have struggled. Over the last five years food specialists' sales have been broadly flat (with earlier gains cancelled out by recent falls), whilst off licences and tobacconists have experienced a particularly sharp drop in sales.

34. The New Economics Foundation (NEF) publication, Ghost Town Britain II (December 2003), looked at the nationwide impact of supermarkets on local shops and communities. According to the report, VAT figures show that between 1994 and 2002, the number of independent businesses selling food, tobacco and beverages fell by nearly 30,000, equating to more than 40% of the nation's stock of such shops. The report also asserted that there were 953 fewer convenience stores in 2001 than in 2000.

[12] Verdict's definitions of these retailer types are thus: 'superstores' – grocery stores with a sales area greater than 25,000 sqft; 'smaller stores' – supermarkets, Co-ops and convenience stores with a sales area of less than 25,000 sqft; and 'food specialists' – butchers, bakers, greengrocers, fishmongers and other food specialists.

Figure 2.4 Total Grocery Market, by Retailer Type, 1998-2008

	* Superstores		** Smaller Stores		Grocers Sub Total	
	Sales £m	Y-o-Y Change %	Sales £m	Y-o-Y Change%	Sales £m	Y-o-Y Change%
1998	38,951	6.7	32,208	4.5	71,159	5.7
1999	41,284	6.0	32,488	0.9	73,772	3.7
2000	43,469	5.3	33,377	2.7	76,846	4.2
2001	46,468	6.9	35,527	6.4	81,995	6.7
2002	48,705	4.8	37,670	6.0	86,375	5.3
2003	51,433	5.6	39,399	4.6	90,832	5.2
2004	54,467	5.9	40,745	3.4	95,212	4.8
2005	57,082	4.8	41,896	2.8	98,978	4.0
2006	60,278	5.6	43,080	2.8	103,358	4.4
2007	63,172	4.8	44,424	3.1	107,596	4.1
2008	67,164	6.3	46,499	4.7	113,664	5.6
Change %						
1998-2003	32.0	---	22.3	---	27.6	---
2003-2008	30.6	---	18.0	---	25.1	---

	*** Food Specialists		Off-licences & Tobacconists		Total	
	Sales £m	Y-o-Y Change%	Sales £m	Y-o-Y Change%	Sales £m	Y-o-Y Change%
1998	6,310	2.4	5,668	2.0	83,137	5.2
1999	6,297	-0.2	5,934	4.7	86,004	3.4
2000	6,393	1.5	5,801	-2.2	89,040	3.5
2001	6,662	4.2	5,778	-0.4	94,434	6.1
2002	6,444	-3.3	5,523	-4.4	98,342	4.1
2003	6,412	-0.5	5,035	-8.8	102,279	4.0
2004	6,476	1.0	4,780	-5.1	106,468	4.1
2005	6,591	1.8	4,507	-5.7	110,076	3.4
2006	6,495	-1.5	4,397	-2.4	114,250	3.8
2007	6,469	-0.4	4,169	-5.2	118,233	3.5
2008	6,417	-0.8	4,037	-3.1	124,118	5.0
Change %						
1998-2003	1.6	---	-11.2	---	23.0	---
2003-2008	0.1	---	-19.8	---	21.4	---

Source: Derived from Table 3 of *UK Grocery Retailers 2009,* Verdict (April 2009).

35. This trend can be verified by Verdict, whose analysis indicates that whilst the number of superstore outlets increased by 6.3% between 2007 and 2008, and the number of smaller stores grew by 4.7 % between 2007 and 2008, the number of food specialists fell by 0.8%, and the number of off licences and tobacconists fell by 3.1% over the same period of time[13].

36. Major supermarket operators are generally reluctant to shrink food retail space, because the food component of their businesses is also performing strongly. Nevertheless, the major foodstore operators are increasingly seeking to diversify into non–food markets.

[13] Source: Verdict, *UK Grocery Retailers 2008* (Table 4), February 2008

Furthermore, out-of-centre space is cheaper than comparable space in town centres, making it easier for out-of-centre superstores to compete on price, while adjacent parking makes them much more convenient for bulkier household goods. The expansion of foodstore operators' non-food offers via their out-of-centre superstores – thereby providing a convenient one-stop shop for most food and non-food needs - represents a significant threat to high street retailers.

E-tail and Home Shopping

E-tail

37. UK internet retail sales have increased at a rapid pace in recent years. Indeed, Verdict indicates that the e-retail market grew by 25.0% to £18.4bn in 2008, outperforming the 2.1% increase in total retail. In 2009 it is forecast that it will grow by 13.3% to £20.9bn. The increase in e-retail is due to lower prices than those in stores, and shoppers are able to search out bargains including secondhand goods.

38. At the same time, the internet is becoming more complex and competitive, and retailers must adapt to this retailing climate. The growth of Marketplace websites is changing the dynamics of the market and further intensifying competition. While unfavourable economic conditions are forcing retailers to scale back on physical retail space, their online operations allow them to reach a much wider customer base.

39. Currently, electricals and grocery sectors dominate the online shopping sector. Electricals is at the top of the online market, accounting for 25.7%. It is closely followed by food & grocery, which accounted for 25.3% of the online market in 2008.

40. The growing number of high street clothing and footwear retailers who have established an online presence, are likely to continue to benefit from broadening their offers to rival both the depth and breadth of those instore. This sector attracted 13.4% more shoppers (12.6m) and 37.1% more spend (£2.3bn) in 2008. Over the next five years it is predicted that the online penetration of total clothing & footwear spend will more than double to 11.5%[14].

Catalogue Shopping – most up to date

41. In the pre-internet and digital television era, catalogue shopping played a key role in the home delivery market. However, the catalogue shopping market has seen a significant sales decline in recent years.

42. Yet in 2007 the £9.9 billion mail order market experienced its strongest growth for nine years, at 6.2%, reversing four years of decline[15]. This trend has been driven primarily by strong growth from direct and niche operators such as N Brown, Boden and Findel, who are targeting specific customer groups effectively, and from new business developments, the most significant being Tesco's launch of its Tesco Direct catalogue.

[14] Source: Verdict, *UK e-retail 2009*, May 2008

[15] Source: Verdict, *UK Mail Order Retailers*, January 2008

Conclusions

43. The key conclusion from our analyses is that planning policy has begun to 'bite' in recent years, with it becoming increasingly difficult to secure planning permission for new retail floorspace in out-of-centre locations, vis-à-vis schemes in town centre locations. Whilst town centre and edge-of-centre locations are generally more complex than sites in out-of-centre locations, investor confidence in town centre schemes has been increasing in recent years, and there is now a construction boom in town centre-located shopping centres.

44. However, it is unclear how this trend will continue in the future, given the current economic climate and we are aware of a number of schemes that are on hold. Tighter credit conditions will inevitably cause developers to exercise caution over future developments (both on in-centre and out-of-centre sites), although this will not impact on schemes nearing completion or which have already secured funding.

45. Other key trends in the retail markets include: slowing growth rates for both comparison and convenience goods spending; the increasing diversification into non-food markets by the major foodstore operators; intensifying competition between various sales channels; and town centres losing out to out-of-town and online shopping.