Dr Angus McIntosh
*was formerly director of
European Research at Insignia
Richard Ellis, and is now head
of research at King Sturge,
London*

Keywords:
consumer, behaviour, tourism,
shopping, expenditure

International consumer behaviour: The relationship between e-commerce and retail and leisure property

Angus McIntosh

Received: 16th October, 2000

Abstract

This paper examines the parallel growth of the leisure economy and the Internet and their impact on retailing. Using a variety of source material, the paper demonstrates that the growth of the Internet is further accelerating the leisure economy and changes in the use of retail property, in terms of both locations and values.

INTRODUCTION

All urban change, to a greater or lesser extent, is a function of technological developments. The development of information and communication technology, the emergence of e-commerce and the new concept of e-tailing, are the technologies that are likely to have profound influences on urban property in the 21st century.

However, to understand these potential changes, it is useful to put urban change into a historical context. Fundamental human behaviour will not be altered by this new technology.

ANCIENT ROME

An examination of ancient Rome provides a clue as to the impact of technology, relative to the importance of the political economy and human behaviour, on urban development.

The principal technology of urban Rome was horse-drawn wheeled vehicles, but the socio-economic structure of Roman society enabled an elite class to enjoy an urban lifestyle at the expense of a 'slave' employment structure.

In the 21st century, the use of technology has enabled the majority to enjoy a comparatively affluent lifestyle, not dissimilar to that of the elite of ancient Rome. The political structure of ancient Rome required certain buildings, parallels of which can be found in the cities of the 21st century. These included religious buildings (temples in ancient Rome, but cathedrals or mosques in modern society), political buildings (nowadays houses of parliament, etc) and judicial/administrative buildings (our modern courthouses and town halls). E-commerce is unlikely to change the importance of these buildings.

Angus McIntosh
Head of Research
King Sturge
7 Stratford Place
London W1C 1ST
Tel: +44 (0)20 7493 4933
Fax: +44 (0)20 7493 3734
E-mail:
angusmcintosh@kingsturge.co.uk

Although the political buildings formed the focus of Roman cities, there were and are a large number of other urban buildings also reflecting human behaviour. First was the *agora*. This was the marketplace, and today might be the equivalent of either a town centre or a purpose-built shopping mall. Most major cities in the Roman Empire supported an amphitheatre, which nowadays might be represented by a major concert hall or auditorium in Birmingham, Manchester or similar cities.

Most larger Roman cities enjoyed a stadium, a running track at which the Olympic Games (adapted from ancient Greece) and other such sporting events would take place. Today's sporting equivalent might be Anfield in Liverpool or Old Trafford in Manchester, or the stadium for the Sydney Olympic Games.

Most Roman cities also included an *odeon*, a smaller theatre mainly used for acting which would typically be covered (not open to the elements). Today's equivalent might be cinemas (sometimes also called Odeons) and similar meeting places.

Most major cities had a sports centre, including Roman baths (with underground heating), and a gymnasium known as a *pilastra*. The modern equivalent can be seen in many towns and cities today. Finally, most Roman cities would include a library or cultural centre. The concept of '*mens sana in corpore sano*', meaning a healthy mind in a healthy body, was important to the classical world and subconsciously the concept still exists today, particularly with the growth of fitness centres.

These building blocks of urban development were replicated throughout the Roman Empire, which existed from around 100 BC to around 300 AD. To some extent they were an adaptation of urban development as applied by the ancient Greeks. However, the urban concept was 'rolled out' across the Roman Empire from North Africa in the south to Scotland in the north, from the Atlantic Ocean in the west to the Black Sea in the east.

INTERNATIONAL URBAN CHANGE IN THE 21ST CENTURY

The above building blocks of ancient Rome need to be considered in an international context in terms of urban change. Will the advent of the new technology of e-commerce radically change the towns and cities of tomorrow?

Employment

The most important consideration is employment. Over recent decades, and looking forward into the 21st century, manufacturing employment has and is likely to diminish while employment in retailing, as well as hotels, restaurants and leisure services, will increase. Business services will also increase, but the figures clearly indicate that the retail and leisure economy will handle a larger share of employment over the next decade (Table 1).

This pattern of urban change is reflected in household expenditure figures (Table 2). Examining the change in expenditure patterns over the last 30 years, it is noticeable that expenditure on food has increased very slowly. Greater affluence has brought with

Table 1: UK sectoral outlook — Employees in employment 1999

	Employees in 000s	Change by 2008 %
Total employment	23,913	+2.5
Utilities	143	-38.5
Public administration and defence	1,324	-6.3
Manufacturing	4,025	-9.7
Financial	1,029	+3.8
Retail and wholesale distribution	4,109	+6.9
Education, health and social work	4,492	+1.0
Hotels and restaurants	1,317	+10.7
Business services	3,115	+28.6
Transport and communications	1,447	+2.1

Source: *Labour Market Trends*, August 1999 & NIERC/Oxford Economic Forecasting

it a greater propensity to travel. Expenditure by foreign tourists in this country and expenditure by UK tourists abroad has increased substantially. Greater affluence has also resulted in more expenditure on household goods, as well as clothing and footwear.

This international pattern of change is reflected in cities which are popular with international tourists. Various league tables exist on this subject — one such suggests that Paris and Amsterdam are the two most popular destinations for UK short-break tourists. For tourists visiting the UK, London and Edinburgh, together with Birmingham, Glasgow and Oxford, form the most popular destinations (Table 3).

GLOBAL TOURISM

This pattern of expenditure in terms of world tourism has resulted in a league table of destination countries around the globe. France is the most popular destination for non-national tourists, followed by the USA and Spain (Table 4).

This growth in international tourism is reflected by the World Tourism Organization's figures showing that the growth in tourism

Expenditure

Table 2: Long-term changes in real expenditure patterns

1971 = 100	1997
Household expenditure abroad	440
Household goods	293
Clothing and footwear	279
Transport and communication	247
Expenditure by foreign tourists	246
Other services	230
Recreational and cultural activities	210
Housing	150
Fuel and power	143
Alcohol	135
Food	127
Tobacco	58
All expenditure	193

Source: *Social Trends*, 1999, Table 6.2

Table 3: Cities popular with international tourists

European city-break destinations from UK		Overseas visitors to UK	
1	Paris (1) [1]	1	London
2	Amsterdam (2) [2]	2	Edinburgh
3	Bruges (3) [3]	3=	Birmingham/Glasgow/Oxford
4	Brussels (5) [4]	6	Brighton
5	Barcelona (6) [8]	7	Cambridge
6	Rome (5) [5]	8=	Bournemouth/Manchester
7	Prague (1) [12]	10	Bristol
8	Venice (7) [7]	11	Newcastle-upon-Tyne
9	Madrid (8) [9]	12	York
10	Dublin (13) [6]	13	Bath

Source: *Travelscene*, July 1997
(1996 positions in brackets)
([] positions in 1998)

Source: ONS International Passenger Survey, 1996

Table 4: World's top tourism destinations – International tourist arrivals 1997 (excluding same-day visitors)

	Country	Arrivals in 000s
1	France	66,864
2	United States	48,409
3	Spain	43,378
4	Italy	34,087
5	United Kingdom	25,960
6	China	23,770
7	Poland	19,514
8	Mexico	19,351
9	Canada	17,610
10	Czech Republic	17,400

Source: World Tourism Organization (WTO)

Table 5: Trends of international tourist arrivals by region – Average annual growth rate, 1988–1997

Region	Increase (million tourist arrivals)	Average annual growth rate (%)
Africa	10.8	7.1
Americas	36.2	4.1
East Asia/Pacific	42.2	7.4
Europe	120.3	4.6
Middle East	6.4	6.4
South Asia	1.8	5.6
World	217.7	5.0

Source: World Tourism Organization (WTO)

in a number of continents has increased by more than 5 per cent per annum over the last decade or more (Table 5).

However, it is not simply the number of tourists that is important, but their expenditure. Figures suggest that, although the

Table 6: Trends of international tourism receipts by region – Average annual growth rate, 1988–1997

Region	Increase (US\$ bn)	Average annual growth rate (%)
Africa	4	7.2
Americas	69.2	10.0
East Asia/Pacific	52.7	11.8
Europe	106.6	7.7
Middle East	4.7	8.7
South Asia	2.3	9.4
World	239.5	9.0

Source: World Tourism Organization (WTO)

Table 7: International tourist arrivals by region, 1988–1997

	Millions of arrivals	
	1988	1997
World	394.3	612.0
Africa	12.5	23.3
Americas	83.1	119.3
East Asia/Pacific	47.0	89.2
Europe	240.5	360.8
Middle East	8.3	14.8
South Asia	2.9	4.6

Source: World Tourism Organization (WTO)

Table 8: World's top tourism earners — International tourism receipts (excluding transport), 1997

	Country	Receipts (US\$m)
1	United States	75,056
2	Italy	30,000
3	France	28,316
4	Spain	26,595
5	United Kingdom	20,569
6	Germany	16,418
7	Austria	12,393
8	China	12,074
9	Australia	9,324
10	China, Hong Kong SAR	9,242

Source: World Tourism Organization (WTO)

number of tourists visiting the Americas has increased at a slower rate than the numbers visiting Africa, the actual expenditure has increased by a greater percentage (Table 6).

To some extent this increase in expenditure is a reflection of the actual number of tourists visiting the Americas. The number of tourists has increased by more than 25 million over the last decade, compared with an increase of only 11 million arrivals visiting Africa (Table 7).

Receipts

Equally important are the actual receipts received from tourism.

Table 9: World's top tourism spenders — International tourism expenditure (excluding transport), 1996

	Country	Expenditure (US\$m)
1	Germany	50,815
2	United States	48,739
3	Japan	37,040
4	United Kingdom	25,445
5	France	17,746
6	Italy	15,516
7	Austria	11,811
8	Netherlands	11,370
9	Canada	11,090
10	Russian Federation	10,723

Source: World Tourism Organization (WTO)

Perhaps not surprisingly, the USA is the main beneficiary from tourism expenditure (Table 8).

Also important is an understanding of where the expenditure comes from (Table 9). Although Germany is placed only sixth in terms of receipts from tourism, Germany is the number one country in terms of expenditure outside its own boundaries. In other words, wealth generated in Germany (from car manufacturing and other industries) is spent on tourism in other parts of the world.

TOURISM AND HOTELS

With this background to the enormous levels of expenditure, as well as growth in expenditure, it is not surprising that the number of hotel beds around the world has increased significantly over the last 20 years. The World Tourism Organization suggests that there are an extra 11 million hotel beds around the world compared with the 1980s (Table 10).

Table 10: Hotels and similar establishments

	Bed-places (000s)		Market share (%)	
	1980	1996	1980	1996
Europe	8,542	11,257	52.5	43.9
Americas	6,436	8,992	39.5	35.1
East Asia/Pacific	763	3,907	4.7	15.2
Africa	269	796	1.7	3.1
Middle East	141	387	0.9	1.5
South Asia	126	301	0.8	1.2
Total	16,277	25,640	100.0	100.0

Source: World Tourism Organization (WTO)

The major passenger cruise liners that are, in effect, floating hotels have anticipated this pattern of tourism growth. The combination of an ageing population and a greater affluence in retirement suggests that the number of cruise-ship passenger berths will increase significantly over the next five to ten years (Table 11).

Table 11: Cruising the globe — Average passenger berths

Cruise line	1999 (000s)	Estimated 2005 (000s)
Carnival	48.8	74.0
Royal Caribbean International	31.3	51.2
P&O	21.9	45.0
NCL	13.5	16.0
StarCruises	8.1	13.7

Source: *Financial Times*, 4 February 2000, Industrial Estimates

RETAIL AND LEISURE PROPERTY AND THE INTERNET

Internet and e-commerce

The patterns of change in international tourism, resulting from a greater level of affluence and expenditure on international holidays, need to be put into context in terms of the growth of the Internet

and e-commerce. How will online shopping influence consumer behaviour, and what is likely to be the impact on urban change over the next decade or more?

In recent years there have been a number of studies trying to identify those goods and services that are most likely to suit online retailing. The Retail Intelligence Unit¹ recently suggested a league table, with computer hardware/software products, as well as consumer electronics, being most popular, along with other items such as insurance, books, travel and cinema/theatre tickets, music and videos (Table 12).

To understand the impact of online retailing, *Retail Week* published a survey in 1999 based upon market research by Greig and Stevenson.² This involved interviewing 200 urban white-collar professionals in the UK to gain a better understanding of how they anticipate using online retailing.

The survey found that the most pleasurable items purchased through shops were clothes, followed by eating out and music items (Table 13).

This suggests that, although music and books can be bought on

Table 12: On-line retail market in Europe — Potential product growth areas (1 = low, 5 = high)

Computer hardware/software	5
Consumer electronics	5
Insurance/financial	5
Books	5
Travel	5
Tickets	5
Music/video	5
Flowers	4
Cars	4
Household appliances	3
Sports goods	3
Toys	3
Clothing	2
Food/groceries	2
Jewellery	1
Home furnishings	1

Source: *Retail Intelligence*, November 1999

Table 13: Most pleasurable types of purchase

	%
Clothes	34.9
Eating out	9.6
Music	8.8
Books	7.7
Home interiors	5.0
Shoes	4.6
Alcohol	3.5
Specialist food	3.1
Gifts	3.1
Furniture	2.7

Source: Greig and Stephenson/*Retail Week*, November 1999

Table 14: Least pleasurable types of purchase

	%
Groceries	39.5
Shoes	9.0
Clothes	7.9
Cleaning products	6.3
White goods	5.8
DIY	3.7
Toiletries	3.7
Underwear	3.2
Childrens clothes	1.6
Presents for men	1.6

Source: Greig and Stephenson/*Retail Week*, November 1999

the Internet, people still enjoy going to retail locations to acquire such items. The survey also identifies those items that are least pleasurable to purchase (Table 14).

Interestingly, although people enjoy buying clothes, the third item on this table was clothes. In other words, certain clothing items (perhaps underwear) do not create enjoyment when being purchased.

The most interesting item was groceries; this has one of the smaller profit margins of any retail item. Does such a survey suggest that groceries will become a major Internet-purchased item? If the profit margin is so small, who will pay for the delivery of grocery items to residents?

The survey therefore looked at the pros and cons of Internet retailing (Table 15). Herein lies one of the most difficult decisions to make. Groceries seem to suggest that Internet purchases will be popular yet groceries do not fit easily into Internet consumer behaviour; we need to see fresh fish, vegetables and other such items before we buy them. Buying online is not suitable for certain food items. The most suitable items to buy on the Internet are given in Table 16.

Table 16 confirms the findings from the earlier Retail Intelligence survey (see above). The survey suggests that there are three major reasons why the Internet may not dominate retailing in the years to come.

Mistrust

First, there is a mistrust of the system. Confidence in Internet purchases is related to security. By using credit cards online, is one's bank account secure from criminals? Secondly, there is a problem of quality; a number of interviewees have said that they need to touch and feel items before they can assess the quality of

Table 15: Online — The pros and cons

For Internet	%	Against Internet	%
Groceries	28.6	Clothes	49
Cars	5.7	Groceries	17
Furniture	5.7	Furniture	9
Alcohol, antiques and houses	2.8	Electrical	6
		Gifts	6

Source: Greig and Stephenson/*Retail Week*, November 1999

Table 16: Internet — Most popular purchase online

	%
1 Books	52.9
2 Travel	29.4
3 Music	20.6
4 Clothes	14.7
5 Electrical goods	8.8

Source: Greig and Stephenson/*Retail Week*, November 1999

certain items, particularly clothing. Thirdly, despite the claims by the software industry, buying retail items on the Internet is not very attractive and can be extremely time consuming. Fourthly, there is the problem of consumer 'fulfilment'. In other words, how do the items get delivered to the front doorsteps of those who purchase them? Who pays for delivery, and how do items get returned if consumers are not satisfied with products?

It is well known that Internet purchases are potentially more likely to take place by those who are money rich but time poor, and prefer not to use their valuable leisure time shopping. But this is nothing new. For many decades the more affluent in society have arranged for their groceries to be delivered to them. It was only the advent of greater car ownership and larger food stores which resulted in a decline of home delivery groceries in the 1960s and 1970s. Will the delivery of groceries to the home return? The answer is yes, if the retailing public is prepared to pay for it. Someone, somewhere, must pay for the cost of home delivery.

In early 2000 several supermarkets were charging a nominal £5.00 extra to deliver home groceries, but it is well known that the cost of home delivery is at least £15.00 per trip. Therefore, should those who ask for home delivery pay for the full cost of such a service, or should the foodstores spread the cost of such a service across all consumers? The latter may be the answer, in that foodstores see home delivery as another way of gaining a greater market share and advertising themselves to a wider audience (including those who will not necessarily use the home-delivery service).

A number of studies have suggested that the more dramatic impact of the Internet, as well as business-to-business e-commerce, is on pricing (Table 17). These surveys suggest that, in effect, the Internet moves the market closer to a state of what economists call 'perfect competition'. In such a scenario there is a perfect knowledge by retailers and consumers, and unlimited market liquidity. This concept of 'perfect competition' seems to be what is

Table 17: Cheaper on the Net – Difference between high-street and Internet prices

	%
Books (paperback)	-22
Vacuum cleaners	-15
Widescreen TVs	-14
Video	-14
Fridge-freezers	-12
Washer-dryers	-11
Microwaves	-10
Compact discs	-8
Toys	0
Cassette tapes	10

Source: Barclays Capital, cited by Dr Sushil Wadhvani of the Monetary Policy Committee, Bank of England
Figures for December 1999. A minus number indicates a lower Internet price.

Source: IPD, O N S, Halifax

End 1999, Shops includes eating out, Non-shops includes travel

Figure 1: Inflation in different goods and services

being encouraged by the Internet, by making pricing far more competitive and reducing the prices of tangible goods.

During the last year the price of tangible goods has generally fallen, while the price of intangibles (services) has increased. Figure 1 suggests that the impact of the Internet is to reduce prices for items in the shops. Expenditure 'saved' further accelerates the trend towards an affluent economy, with greater expenditure on leisure items. In other words, national and international tourism is likely to increase at a faster rate.

ONLINE RETAILING, RETAIL DESTINATIONS AND PROPERTY VALUES

In the USA it is suggested that around 75 per cent of retailers now have websites, more than double the figure of 1998. It is also suggested that more affluent households have access to the Internet, but perhaps not surprisingly 50 per cent of Internet shoppers are female. Various forecasts, such as from the Boston Consulting Group and Forresters, suggest that online retailing may double over the next three years. This suggests that the Internet may result in up to 6 per cent of all retail sales by 2003.

However, the actual figures emerging from the USA so far suggest otherwise. By the end of 1999 it recorded that only 0.6 per cent of all retail sales had taken place via the Net.

Based upon these varying forecasts, Business Strategies³ looked at the potential impact of e-commerce and e-tailing on consumer expenditure (Figure 2). This suggests that, if the high growth scenario takes place, more than 12 per cent of consumer expenditure will be via e-commerce in a few years' time.

The overall impact on non-Internet retail sales is that, in the worst case scenario, 18 per cent of all sales will be lost to the Internet (and not go through traditional shops).

Figure 2: Forecasts of consumer e-commerce

Figure 3: Impact of e-commerce on non-Internet retail sales

In this worst-case scenario, if retail rents were likely to stay stable over the next 14 years, in effect retail rents would fall by more than 20 per cent (Figure 3). In other words, the pressure on retail rents caused by consumer expenditure growth would have to, in effect, cause retail rents to grow by 30 per cent for them to remain stable at today's prices (Figure 4).

Do these predictions make sense? Given that only a few items seem to lend themselves readily to purchasing on the Net, such as books, records and theatre tickets, the majority of retail property may not be significantly affected.

RETAIL AND LEISURE DESTINATIONS

Over the last 20 years there has been a major change in the way urban areas identify retail districts. In the 1980s by and large it was possible to divide the market in to the following.

- Regional shopping centres reflected the type of shopping which

Figure 4: Possible impact on UK retail rents

took place in major cities such as Birmingham, Manchester, Glasgow and other such centres.

- Sub-regional centres included large towns and cities, including Bath, Bristol, York and Cambridge.
- District centres reflected locations for weekly shopping, offering a mixture of comparison as well as convenience goods.
- Neighbourhood shops reflected a mixture of mainly convenience items but also other services such as hairdressers. These were normally 'walk-to' destinations.

In the 21st century, the hierarchy of retail destinations has become more complex; retail and leisure destinations have become linked.

- Regional shopping centres still include major cities such as Birmingham and Manchester, but they also include major shopping malls such as the Metro Centre, Merryhill, Lakeside, Brent Cross, Meadowhall, Cribbs Causeway and Bluewater Park.
- Elite shopping and tourist sites are now found in some of the major cities and include Bond Street and Sloane Street in London, but also King Street in Manchester and Princes Street in Edinburgh. These, together with upmarket shopping in major airports, have a premium attached to all pricing.
- Discount big-box middle-market retail warehouses have grown dramatically over the last 20 years. Most towns of any size have one or more retail warehouse parks where DIY, carpets, electrical and other items are sold.
- Discount branded middle-market factory outlet centres have grown significantly over the last ten years, although actual numbers are relatively small. Across Europe (mimicking the USA) factory outlet centres are being constructed and opened on an almost monthly basis, selling well-known city-centre items. Branded items are sold at a 25–30 per cent discount from

- their original (previous year's) pricing.
- Leisure time retail locations were also increased, including farmers' and Sunday markets, together with car-boot (trunk) sales and of course garden centres.
 - Leisure retail destinations have appeared over the last ten years, including family entertainment centres, multiplex cinemas, bars, restaurants and sometimes retail stores selling leisure-focused retail goods.
 - Major food stores have grown significantly over the last decade, with a handful of major names dominating the scene including Asda, Wal-Mart, Tesco, Sainsbury, Waitrose and Safeway. Other stores such as Somerfield/Kwik Save have struggled in a very competitive and price-conscious environment.
 - Neighbourhood shopping locations have grown significantly in recent years and these now include petrol filling stations and neighbourhood shops where a critical mass can be achieved. Railway stations and other non-traditional retail locations have also become suitable for 'topping up' shopping trips.

The overall impact is that retail and leisure destinations are becoming increasingly focused on 'eating out', the variety of which is extending on an annual basis. A recent survey⁴ identified the differences shown in Table 18. In most cities around Great Britain the number of restaurants has increased by at least 20–30 per cent over the last five years, reflecting the national and international growth in leisure destinations generally.

Research by Dodona⁵ and others suggest that expenditure on cinemas is also likely to increase. The increase in the number of screens per country (Table 19) is a reflection of both the growth of

Table 18: Town-centre restaurants

Number of restaurants	1993	1998	% change
Reigate	15	27	80
Guildford	31	43	36
Derby	48	60	25

Note: Relates to core retail area

Table 19: Cinema screens per country

	France	Germany	Spain	Italy	UK
1990	4,200	3,269	1,773	3,522	1,842
1997	4,640	4,284	2,600	4,200	2,349
2002	5,200	5,000	3,200	4,500	3,150
Change 1990/2002	24%	53%	80%	28%	71%

Source: Dodona Research

Table 20: Leisure investment valuation (includes 500+ car spaces)

Ten-screen multiplex 40,000 sf at £12 psf (25 year lease, five year reviews, increase five years plus 15 per cent ten years plus 30 per cent — Cinema Limited)	£480,000 pa
Leisure unit 10,000 sf ground floor at £12.50 psf 5,000 sf first floor at £6.00 psf (25 year lease, open five year reviews, rent not less than £150,000 pa; D2 use)	£125,000 pa £30,000 pa
Restaurant 4,000 sf at £18 psf (25 year lease, open five year reviews, A3/D2 use)	£72,000 pa
Fast-food restaurant 2,500 sf at £25 psf (25 year lease, trader covenant, open five year reviews, A3 only)	£62,500 pa
Total rent	£769,500 pa

affluence and the fact that there is a need to upgrade the quality of cinema provision; poor-quality 50-year-old cinemas are no longer attractive to the 21st-century cinema-going public.

...AND PROPERTY VALUES

Leisure activities and destinations increasingly generate property values, as Table 20, taken from a recent leisure property investment, illustrates.

This table clearly illustrates that at £12.00 per sq.ft. the multiplex cinema (the main leisure attraction) barely covers its cost. Neither does the leisure unit at £12.50 per sq.ft. significantly exceed its costs. The restaurant, however, at £18.00 per sq.ft. does generate a small income flow of 'profit' to the developer. The more dramatic number comes from the fast food restaurant. For the same four walls and a roof (shell and core construction), a rent of £25.00 per sq.ft. is generated. This is the true 'profit' which comes from the development. However, the profit cannot be generated unless there is a reason in the first place for restaurant goers to visit the location. Creating a destination for local, national or international leisure consumers is the key to understanding this expanding area of the economy.

**Creating destination
is key**

This pattern of rents, and rental change, is shown by the long-term pattern of year-on-year rental change for UK in-town retail and out-of-town retail warehouse rents (Figure 5). During the early 1990s retail warehousing in the UK (as well as in other countries) gained in popularity. Even during the recession years of the early 1990s, retail rents generally continued to increase in the retail warehouse market. However, since 1995 in-town retail rents have shown positive rental growth.

There are two reasons for this. First, in the early 1990s there was

Source: Insignia Richard Ellis Monthly Index

Figure 5: Sector rental growth since 1986

a considerable amount of in-town retail space left vacant from the development boom of the 1980s. This vacant space has now largely disappeared, and the market is reluctant to create significant amounts of speculative new development at the present time. Secondly, there is a realisation that in some markets there is a saturation of retail warehouse units, or the market is now relatively satisfied, and hence there is a balance of supply and demand in this sector of the market.

Retail warehouse rents continued to rise, particularly for the better locations and for retail parks, but not at the rapid levels of rental growth noted in 1996–97.

In town, retail rents have not only started to increase, but over the last year or two have been increasing faster than retail warehouse rents. This reflects the changing role of town centres in the modern hierarchy of retail and leisure expenditure.

This pattern of retail and leisure property development is a reflection of three interwoven themes.

- The use of technology and greater affluence has continued to cause urban change. The use of e-commerce technology has accelerated the growth of affluence.
- The move towards a café society, with more and more eating out and a greater expenditure on leisure purchases.
- More recently the concept of the ‘experience economy’ has come to dominate thinking. In other words, whether it is to eat out, or to go shopping, or to go to work, what is the ‘experience’ which is enjoyed by the consumer? If the experience is enjoyable, it will be repeated — and vice versa.

It is therefore possible to look at retail and leisure developments, and the location of such developments, using an affluence/enjoyment matrix (Figure 6). While it is possible to move the locations around on this matrix, there is no doubt that elite

Affluence enjoyment matrix

Figure 6: Retail medium preferred at varying levels of affluence

shopping (such as Sloane Street and Bond Street in London) is an activity for the more affluent in society and has to be enjoyed in that location.

By contrast, convenience shopping tends to be at more middle to lower-end levels of affluence and is generally less enjoyable. The factor driving this is price; the purchase of Asda by Wal-Mart reflects this growing trend, where the purchasing power and the driving down of prices (yet offering quality and variety) attracts shoppers to certain convenience stores (and deters visits to others).

Virtual convenience (via the Internet) shopping appeals to those who have more affluence (but those who order by telephone or via their servants from Harrods have always been more affluent!). Virtual comparison (via the Internet) shopping suits those with some affluence, able to discern (via the Internet) what is good in terms of music, software, books, etc.

Shopping malls such as the Metro Centre or Bluewater Park are clearly a destination in themselves. It has been suggested recently that the two most successful cinema locations at the beginning of the 21st century in the UK are the cinema complex in the Bluewater Park shopping scheme in Kent and the cinema complex in the Trafford shopping centre near Manchester.

In other words, by linking a leisure destination to a shopping mall, the shopping mall is made more appealing and more profitable. The trading hours of the restaurant/foodcourt can be extended from 10.00am until beyond midnight. For the same bricks and mortar, more than 12 trading hours can be achieved, driving down prices and creating locational productivity.

RETAILING, LEISURE, THE INTERNET AND THE FUTURE

So what is the impact of the Internet on retailing?

First, it is important to realise that the growth of e-commerce is

The Internet is a 'perfect market' for prices

mainly in the business-to-business sector. E-tailing represents less than 10 per cent of all e-commerce activity; most activity takes place between businesses. Secondly, Internet retail sales are still very small, less than 1 per cent of all retail sales; this might rise to 6 per cent of all sales in the next five years, but only for certain items.

In the longer outlook there are trends which are more important in terms of the downsizing of manufacturing and also the growth of the service sector. These long-term trends may be far more important than the impact of the Internet.

The Internet will have a dramatic impact (and is already) on prices. It creates a 'perfect market' for prices, in that consumers can check on tangible sales items on the Net and then buy, either on the Net or by visiting stores. The competitive pricing of books and records, as well as cars, is a reflection of this in recent years. Prices saved on tangible goods will be transferred to the purchase of non-tangible goods. In other words, the longer-term trends towards the growth of leisure services will be accelerated by the growth of the Internet.

The growth of affluence also means that the 'experience economy' will become greater in its importance. Enjoying the experience, whether it be visiting Bond Street or visiting Disneyland (or not visiting the Dome), will drive forward the profitability of retail and leisure destinations.

Retail rents in town and out of town will increasingly be a reflection of the leisure and experience economy. Typically, if a town's rents are forecast to grow at 6 per cent over the next five years, e-tail may reduce this forecast by only 1 per cent, down to 5 per cent per annum.

However, e-tail will encourage a greater consolidation, in terms of retail brands and retail locations. More attractive towns and city centres, as well as out-of-town locations, will thrive. Other locations will decline.

This consolidation of locations, linked to the concept of the experience economy, can clearly be seen in an international context. Certain cities and locations around the world are benefiting from greater levels of consumer expenditure, while others decline or do not progress at the same rates of growth.

References

1. Retail Intelligence Unit, (1999) Annual Review
2. Greig and Stephenson (1999) 'Internet survey', *Retail Week*, November.
3. Business Strategies, Internal and Client Report.
4. Sayce S. and McIntosh A. (1999) Leisure Property Forum Survey of A3 Uses, Kingston University
5. Dodona Research (1999), Annual Cinema Surveys.

Further Reading

- McIntosh A., (1997) *Towns and Cities — Competing for Survival*, E & F N Spon, London.
- Carcopino J., (1956) *Daily Life in Ancient Rome*, Penguin Books.

- Paoli U. E., (1996) *Rome, its People, Life and Customs*, Bristol Classic, 1996.
- Richmond I. A., (1995) *Roman Britain*, Penguin Books, London.
- Social Trends (1999) ONS.
- Labour Market Trends (1999) ONS.
- Oxford Economic Forecasting — Summer 1999.
- International Passenger Survey 1996 — published 1999 by ONS.
- World Tourism Organisation — Annual Survey 1999.