Regular features

Retail

The UK shopping centre development market

Received (in revised form): 28 April 2006

Russell Banham

is a Partner of Donaldsons; independent property consultants in the UK and Europe. Russell joined Donaldsons in November of last year having worked for CB Richard Ellis (formerly Hillier Parker) for 19 years. In total Russell has 26 years experience in property development with a particular emphasis on shopping centre development. Over the years he has acted for local authorities, financial institutions and developers providing expert advice as to how best to implement development schemes.

Abstract

There is a high level of new shopping centre floorspace coming on stream in the UK in the 2007–2009 period, much more than in recent years. By historic standards this level of floorspace is high but not excessive and there are many reasons to suggest that, barring a major economic downturn, this level of floor-space will be assimilated quite comfortably by the retail market.

Keywords:

shopping centre floorspace, development pipeline, ground lease, planning regime, retail offer

Journal of Retail and Leisure Property (2006) **5**, 239–246.

doi:10.1057/palgrave.rlp.5100023

INTRODUCTION

The UK shopping centre market is one of the most mature in Europe with 240 m² per 1000 population that is greater than France, Germany and Spain (Figure 1). Yet there will be a significant level of new shopping centre floorspace coming on stream in the 2007–2009 period. The level of new floorspace due to open in 2008 will represent the highest level of new shopping centre floorspace openings in any one year, although it is only marginally higher than the figure in 1976. Why is this the case? Will there be over supply?

The answer to the first question is a complex one and involves a combination of government policies, market changes, the delivery of a small number of large schemes but above all a stable economic scenario that has given rise to developer and investor confidence compared to the boom/bust economic cycles of previous decades.

Russell Banham
Donaldsons LLP
48 Warwick Street
London
W1B 5NL, UK
Tel: +44 20 7534 5000
Fax: +44 20 7434 0045
E-mail:
russell.banham@donaldsons.co.uk

Figure 1: Shopping centre floorspace (sqm) per 1000 population. Source: Cushman & Wakefield Healey & Baker (2005)

The answer to the second question — that is, Will there be over supply? — is, ‘unlikely’, for a number of reasons, unless there is a major economic downturn.

HISTORICAL PERSPECTIVE

1960s–1980s

In the 1960s and 1970s, shopping centre development in the UK was relatively straightforward. It usually involved the local authority in promoting a development competition, often on land in its ownership (usually a local authority owned surface level car park although compulsory purchase powers were usually required to unify the entire site). The local authority would shortlist a group of developers, who would submit schemes and financial offers. The local authority would select the ‘best offer’ (not necessarily the highest financial offer) and then ground lease the development on a 99/125/150 year lease with an equity share.

This process led to the development of a large number of the UK’s first generation of shopping centres, many of which are still seen today in towns and cities. The major constraint on this development approach was the cyclical nature of the UK economy and hence developer/investor confidence.

Out of town shopping centre development was largely unheard of, the major exception being Brent Cross Shopping Centre, which opened in 1976.

By the 1980s, many of the obvious development sites had been developed and the development market started to see some important changes. The Thatcher government started to attack what it saw as excessive local government spending and therefore started to limit local authorities’ ability to acquire land for development (this trend has continued since, which has turned the role of the local authority much more into ‘enablers’ of development).

Figure 2: Planned shopping centre floorspace (1980–1990). Source: Hillier Parker (Now CB Richard Ellis)

In mid 1986, the then Secretary of State for the Environment, Nicholas Ridley, relaxed the planning regime which encouraged an enormous surge in development proposals, particularly for out of town retail development. This change in the planning regime provided a major impetus to the newly evolving phenomenon of ‘out of town regional shopping centres’ and ‘retail warehousing’ both of which were virtually unheard of prior to 1983. Metro Centre, Gateshead (130,000 m²) opened in 1986, Merryhill (130,000 m²) opened in 1989 and both Lakeside (120,000 m²) and Meadowhall (120,000 m²) opened in 1990.

This surge in proposed development activity is shown most graphically in the development pipeline (Figure 2). This shows the level of new shopping centre floorspace in the development pipeline during the 1980s. There was a fairly steady pipeline for the first half of the decade and then an enormous increase in proposals in the second half of the decade culminating in a pipeline of almost 10 million m² by 1990 (this was over three times the level of the pipeline in 1984).

An illustration of how the market responded to a more relaxed planning regime was that in December 1987 there were 43 proposals for out of town regional shopping centres (50,000 m² or more). Interestingly, of these 43 proposals only nine have been developed, the last of them being Bluewater (150,000 m²), which opened in 1999. Many of the others were opportunistic proposals and represented the ‘froth’ in the market, reflecting the conditions of the time. It was clear, however, that this was unsuitable in the long term.

Under pressure from retailers, investors and developers, the government realised the errors of its laissez faire planning approach. In 1988, it introduced the first Planning Policy Guidance (PPG6) that sought to favour developments in town and city centres although it did not really have a full force until its revision in 1993.

The 1990s

The economic boom of the late 1980s, which helped fuel the increase in the development pipeline as much as a relaxed planning regime, came to

Figure 3: Floorspace of shopping centres actually opened (1980–1995). Source: Hillier Parker (Now CB Richard Ellis)

an abrupt end in late 1990/early 1991. The UK economy entered a major recession and developer confidence evaporated. Not surprisingly development activity tailed off quickly and once the schemes that had been under construction were completed (largely by 1992), development activity virtually stopped. This is shown by the data in Figure 3 that shows new shopping centre openings between 1980 and 1995.

Development activity, particularly new openings, remained subdued during 1993–1995. It then started to pick up as confidence returned slowly. It is no coincidence that some of the first schemes, which were developed were those unimplemented planning consents from the late 1980s boom, for example The Oracle Reading (65,000 m²) (Phase 1 opened in 1999 and Phase 2 in 2000) and Bluewater (opened in 1999). New schemes were also proposed such as the redevelopment of The Bull Ring in Birmingham (the new Bullring (110,000 m²) opened in 2003) and Festival Place in Basingstoke (92,000 m²) (which opened in 2002).

This pattern of activity is shown by the scheme opening figures set out in Figure 4 that shows the full picture of shopping centre openings between 1970 and 2005.

The closing of the 1990s decade marked the virtual cessation of new out of town shopping centre development in the UK.

One of the other key milestones in the second half of the decade was the election of the New Labour government in 1997. A number of developers feared that this would undermine the conditions for development but in fact the economic policies which the New Labour government has pursued since its election in 1997 has led to almost a decade of prosperity and relative economic stability. This has been vital to securing developer/investor confidence and is part of the reason why the current development pipeline exists in the UK. Developers have had the confidence to embark on schemes (some of which are huge) in the belief that the market at the time of completion will be similar to the market at the time of deciding to proceed with the development.

Figure 4: Floorspace of shopping centres actually opened (1970–2005). Source: Hillier Parker (Now CB Richard Ellis)

THE CURRENT SHOPPING CENTRE DEVELOPMENT PIPELINE

The level of new shopping centre floorspace openings in the UK for the first five years of this decade have been relatively low by historic standards running between 225,000 to 325,000 m² per annum (see Figure 4). This year will see approximately 270,000 m² of new shopping centre floorspace open in the UK. This level of openings has been well below the long-term average of 400,000 m² per annum.

From 2007 onwards, however, this level will increase significantly as the developer decisions in the 1995–2000 period start to transform into completed bricks and mortar. British Council of Shopping Centre (BCSC) research estimates that it takes on average 10 years to develop a shopping centre in the UK. Often it takes longer, rarely does it take less time. This helps to explain why there has been a low level of openings between 2000 and 2006 but also why this will increase from 2007 onwards.

In 2007, 350,000 m² of shopping centre floorspace is due to open. In 2008, it is likely that 897,000 m² of new shopping centre floorspace will be opened. Most of this floorspace will be in existing town and city centres, showing the effect of PPG6 (now PPS6 — Planning Policy Statement 6). The major exception is White City, which is a rare out of town shopping centre scheme but with a historic planning permission. The 2008 level of new shopping centre floorspace will be the highest figure ever in single year.

The level of floorspace due to open in 2009 is also high by recent standards, at 578,000 m². This is similar to the levels last seen in 1989 and 1990. The projected level of floorspace openings for the period 2006–2009 is included in Figure 5, which shows the full record of shopping centre openings from 1970.

While the level of floorspace due to open in 2008 will be the highest ever in the UK, there are exceptional reasons for this and there are many factors which suggest that the retail market will quite comfortably accept this level of floorspace.

Figure 5: Floorspace of shopping centres opened/projected (1970–2009). Source: Hillier Parker/CB Richard Ellis (1970–2005) and Donaldsons (2006–2009)

The first of these is that of size. Of the total floorspace due to open in 2008, 60 per cent is contained within five schemes, namely White City (150,000m²); Liverpool (150,000m²); Victoria Square, Belfast (74,500m²); Derby (85,000m²) and Bristol (100,000m²). Each of these developments is occurring in cities, which have not seen major retail development for many years and they are therefore bringing the retail offer of these cities into the 21st Century.

Also, the evidence of the last decade is that large schemes can offer the ‘critical mass’ for retailers and investors, which means that they can dominate their catchment areas, assisting both retailer’s profits and investment performance. As a result, these schemes are likely to prove attractive to retailers and indeed are doing so as all are in the leasing phase.

The second key issue is the number of schemes due to open. In 2008, the number is only 17, compared to 40, which opened in 1976 (the previous highest single yearly total of new floorspace) and 36 in 1990, (the next highest year after 1976). In 2009 there are only 18 schemes due to open. This reflects the trend that the average size of shopping centre schemes in the UK has been growing and there are now many more schemes over 50,000m² than in previous decades.

For the retailers who are keen to expand their branch network this is good news, for it means that they only have to focus their attention on a fewer number of schemes than in the past in order to fulfil their expansion targets. This means that they do not have to stretch their resources across a large number of small schemes.

The third key issue is that over the past two decades retailer’s floorspace requirements have increased. A ‘standard’ shop unit in 1970 was around 200m². Today this is typically 300m². In addition, most schemes today include between four and eight Major Space Users (MSU’s) for the likes of Next, Hennes and Zara. These are typically 1,000–2,500m². In the 1970s such sizes of units were rare.

The size of 'anchor stores' (eg department stores such as John Lewis, Debenhams and House of Fraser and 'variety stores' such as Marks and Spencer) has also increased since the 1970s.

These changes in retailers occupational requirements mean that a typical scheme of 50,000m² today will provide far considerably fewer retailers than a similar sized scheme from the 1970s.

The fourth key issue is that most shopping centre development sites today involve the redevelopment of existing retail floorspace. There are very few surface level car parks that have never been developed! The level of replacement floorspace is therefore greater in today's schemes than that of the past and hence the level of additional floorspace being developed is less than suggested by the gross floorspace figures in the development pipeline.

For example, in the creation of the new Bullring in Birmingham (100,000m²) approximately 40,000m² of existing retail floorspace was demolished. The net addition to the city's retail floorspace was therefore in the order of 60,000m². Likewise at Derby, the new scheme of 85,000m² involves the redevelopment and replacement of 25,000m² of development and therefore the additional floorspace created is only 60,000m².

SUMMARY

There is a high level of new shopping centre floorspace coming on stream in the period 2007–2009 and 2008 will see the highest level of new shopping centre floorspace opened in any one year in the UK. This however follows a five year period when there has been significantly below average level of supply of new shopping centre floorspace.

There are many reasons, barring a major economic downturn, to suggest that this level of supply will not represent an over supply and will be quite comfortably assimilated by the retail market, namely:

- The fact that 60 per cent of the 2008 figure is made up of five schemes, all of which are in the leasing stage.
- The number of schemes is much lower than for the similar level of floorspace in previous decades, reflecting the increase in the average size of schemes. The retailers can, therefore, focus on a manageable number of units in any one year in order to fulfil their expansion plans.
- Retailers floorspace requirements have increased over the years therefore it takes fewer retailers to fill a scheme of a particular size than in previous decades.
- The level of additional floorspace in most schemes today is less than it was in previous decades as today's schemes usually involve the redevelopment and replacement of significant levels of existing retail floorspace.

Further evidence for this conclusion is the actual level of new shopping centre floorspace in the development pipeline, (shown in Figure 6). By comparison to the last 20 years, the current total new shopping centre

Figure 6: Planned shopping centre floorspace (1980–2006). Source: Hillier Parker/CB Richard Ellis (1980–2005) and Donaldsons (2006)

floorspace in the development pipeline of 4.8m sq m is not excessive and is 50 per cent of the figures for 1989 and 1990. It is also in line with the long-term norm of 4.5–5.0m sq m.

The level of new shopping centre floorspace opening in the 2007–2009 period is distorted by the delivery of a number of large-scale development projects but these are already letting well. As long as this continues, and barring a major economic downturn, this level of floorspace will be accommodated quite comfortably by the retail market.