Guest Editorial

A New Beginning?

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As we move into the second issue under the new ownership, there comes another opportunity to reconsider the role of the Journal that has now established itself as a leading title focused very much on the needs of practitioners within the industry. At its inception, it was focused on the leisure industry alone, but subsequently it has embraced retail and in doing so reinforced its commercial orientation.

AIMS OF THE JOURNAL

I am honoured to be asked write the editorial for this issue and in doing so I would like to reflect on the original aims of the journal and to pose the question to the readership and the industry as to whether any change of emphasis is now required.

The aims of the Journal have always been to analyse and disseminate new thinking in relation to all aspects of retail and leisure property from planning and inception, finance and funding through to management issues, including franchising, valuation and strategic decision-making. In this, it has succeeded with the predominant themes being planning and finance. This issue is no exception with some papers, such as Toman's examining finance and others such as Hinds exploring planning matters. In this issue, there is a balance between the leisure sector, represented primarily by hospitality, and retailing. Throughout its history, the objective has been to focus on the commercial aspects of provision rather than look at some of the wider constituents of the market, such as cultural and heritage provision. Perhaps with the continued growth of the public finance initiative and public private partnership deals, not to mention the social spin-offs associated with many large-scale sporting schemes, the need to explore more deeply the social context within which commercial provision takes place will become of growing importance.

DEALING WITH RISK AND RETURN

Risk and return are the two most important criteria for any rational investor, and leisure properties present particular challenges. Allen Toman's excellent article on bank lending provides a very detailed and useful account of the attitudes of some European bankers towards the hospitality sector. The results of the survey reveal the risk adverse nature of many bankers, especially the smaller banks. This is hardly a surprising finding — after all bankers are well known for their conservatism — but the higher loan-to-value ratios of the larger lenders does point to some increased flexibility of the part of the big lenders.

Two points are of particular note. First, the survey points to very limited diversification of lending across borders. Given current trends towards cross-border investment among operators, this position may need review by the lenders if they are to ensure an appropriate balance in their loan portfolios. Second, and perhaps more crucially, the article is a timely reminder of the impending impact of the Basel II Accord. This Accord, which will apply widely to bank lending, is likely to put pressure on lending to sectors regarded as high risk — and this has been taken by many commentators to include most types of commercial property.

McConnell¹ of Continuity Central argues that the introduction of Basel II raises some very important questions for bankers seeking compliance. He argues that the Accord, which calls for a qualitative as opposed to purely quantitative approach to risk, has a lack of clarity and gives rise to many difficult concerns, including the issue of what a ‘conceptually sound’ operational risk management system will look like and what criteria will be used to allocate economic capital across its business units.

Although the Accord could well prove difficult for the entire property industry, it is the leisure sector that may be particularly at risk for two reasons. First, leisure properties are generally regarded as the most volatile in terms of their return profile, being susceptible to fluctuating economic conditions due to their inherent elasticity of demand, and second, they are more management dependent than are most other commercial properties. Hence, their exposure to specific risk, such as loan default, tends to be high. It remains to be seen whether this will act as a spur for more indirect forms of investment in which the bank is one further step removed from the actual management of the enterprise.

Fundamental to the reduction of investment risk is a deep understanding of market demand and two papers in this issue address this, although within very different contexts. Upchurch *et al.* present the findings of a study into consumer segmentation within a timeshare development. The message coming through their detailed work is that the timeshare market is increasingly fragmented with age being a factor driving expectations and product requirements. This in turn presents lessons for both the developer and for the investors concerned with the ongoing management of the resort.

A different aspect of market understanding is explored by Harding *et al.*, who detail a predictive model they have devised, which aims to rank the potential investment returns from UK shopping centres. The model is based on a combination of economic, social and property data and, perhaps predictably, concludes that solid demographics and existing major retail locations will outperform other opportunities with mid-sized centres most at risk of under-performance.

This analysis is broadly in line with the views of other commentators, such as Goddard,² who see existing well-established retail centres gaining more strength, backed up by the new Planning Policy Statement 6, which aims to focus development of existing centres while maintaining consumer choice. However, what is less clear is how the continued emphasis on size and concentration in city centres will work into the future given the levels of congestion that many city centres currently experience. While no-one would foresee any change back in policy terms

to new out-of-town provision, the concentration of activity in major centres could be argued to run counter to the policy of reducing the need to travel in line with sustainability principles!

The connection between investment and planning is important, with the UK government taking a more stringent centralised approach, as illustrated above with the shift from planning policy *guidance* to planning policy *statements*, which inevitably reduce the room for negotiation at the local level. This tendency of intervention is highlighted in Hind's paper on planning controls for mezzanine floors, in which he argues that the government is seeking to use the proverbial spanner to crack the proverbial nut — or in this case the non-existent nut. Such debate is not new, with government intervention frequently being criticised as unnecessary and producing unwanted results. To support the case, perhaps the saga of taxation of development gains has provided the most extreme example and I look forward to the Journal receiving papers on the latest re-incarnation of development tax in due course!

DOES SOCIAL PROVISION HAVE A ROLE TO PLAY?

The Journal has a stated ambition of focusing on commercial topics that are relevant to the provision of retail and leisure. However, as this issue proves, sometimes leisure and retail operators and developers need to look beyond the purely commercial aspects of provision if they are to succeed on any level. Not only, as argued above, must operators be aware of the need for good disaster planning integrated with the plans of a range of agencies, but there is a case put forward that retail and leisure needs to be aware of wider social trends.

Roberts and Instone's paper: *Progress in Retail led Regeneration: implications for decision-makers*, poses some difficult and complex questions for developers and the wider real estate community. Looking to the history of retail development in the UK, they seek to analyse whether the current planning policies and retail-led schemes are best serving the needs of the markets they purport to service. In particular, they raise the issue as to whether commercially led interests result in greater deprivation for the disadvantaged. In posing a solution of partnership-led regeneration, which can include independent as well as multiple retailers, they make the suggestion that gap funding or 'affordable retail' schemes could better deliver truly sustainable solutions. Within the residential sector in the UK, 'affordable housing' has now become an integral part of the developers' lexicon: if Roberts and Instone are right in their analysis, perhaps affordable retail may need to become part of the retail developers' vocabulary too.

However, affordable retail is not the concern of our other paper on regeneration and the retail sector. Emery's detailed chronology of the new Birmingham Bullring development would agree with Roberts and Instone's analysis that partnership lies at the heart of successful renewal. Indeed, he argues that the partnership approach was fundamental and the contribution from the City Council crucial to success. Here, however, the development emphasis was not on affordability schemes but on wooing major retailers back to England's second city and create economic wealth,

including the promotion of tourism. It is interesting to note that while Emery claims success of the scheme with Birmingham, now “a retailing powerhouse”, the findings of Harding *et al.*’s model is that Birmingham lies only 15th in terms of investment potential at the time of writing, a fall from tenth place a year previously. But whether the model does predict future outstanding returns, it is undeniable from the perspective of any visitor to Birmingham that the city has found new direction and vitality that are intangible qualities but ones that perhaps define what a city is, or should be, about.

So, as the Journal continues through its fifth volume, the time is right to invite the readership to re-affirm the direction it has taken and consider to what extent, if any, the Journal should seek to embrace not just commercial provision but the wider social context. I look forward with Palgrave Macmillan to seeing how the debate unfolds.

References

1. McConnell, P. (undated), ‘Measuring operational risk management systems under Basel II, available at www.continuitycentral.coms.
2. Goddard, C. (2006). At the Annual Planning Conference, March 2006.

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