REVIEW OF KEY RETAIL AND LEISURE MARKET TRENDS

Introduction

1.1 In this section, we outline the key national trends in various sub-sectors of the retail and leisure markets, highlighting, wherever appropriate, those that we consider could have – or are already having – an impact in Charnwood. This review is drawn from a range of published data sources, including research by Verdict, the New Economics Foundation, CB Richard Ellis and Colliers CRE. The sector commentaries are prefaced by a résumé of overarching national trends in expenditure and sales.

Retail Sector

National Trends in Expenditure

1.2 Table 4.1 reports the short-term past trend in volume of retail sales (i.e. real change in constant prices) since 2000. Non-food retailers in general have secured significantly higher growth in their volume of sales than food retailers (31.8 per cent compared to 19.7 per cent). The growth in volume of sales has been highest amongst textiles, clothing and footwear retailers (43.8 per cent), followed by retailers of household goods (31.2 per cent).

Table 0.1 Volume of Retail Sales in Great Britain at 2000 Prices (2000 = 100)

	All Retailers	Food Retailers	Non-Specialised Stores (Non-Food)	Textiles/ Clothing/ Footwear	Household Goods	Other Non-Food Retailers	All Non-Food
2000	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2001	106.1	104.1	105.9	109.4	110.9	105.9	108.5
2002	112.7	108.1	110.8	120.9	120.8	111.6	116.2
2003	116.4	111.9	113.6	128.7	127.7	117.5	121.3
2004	123.3	116.4	117.3	137.9	135.4	127.1	129.6
2005	125.8	119.7	119.3	143.8	131.2	118.0	131.8
% Change 2000 to 2005	25.8	19.7	19.3	43.8	31.2	18.0	31.8

Source: *Retail Sales*, ONS Economic Trends No.637 (December 2006), Table 5.8

1.3 Figure 4.1, which is reproduced from MapInfo's Information Brief 07/02, presents an analysis of per capita retail expenditure over a longer period, from 1980 to 2006. The data reveal consistently higher rates of expenditure growth on comparison goods – for which the average real growth rate between 1983 and 2006 has been 5.3 per cent, per capita, per annum – than for convenience goods – for which the average growth rate over the same period has been a mere 0.6 per cent, per capita, per annum. Although there has been some cyclical variation in the comparison goods expenditure growth rate, the general trend has been upwards, with the growth rate exceeding 5 per cent in every year from 1997 to 2005. Moreover, although the growth rate slowed to 3.1 per cent between 2004 and 2005, the latest forecasts from Experian Business Strategies[1] and Oxford Economic Forecasting[2] suggest comparison goods expenditure growth rates of 3.8 per cent, per capita, per annum, and 4.4 per cent, per capita, per annum respectively over the last decade – the latter being used in our forecasts of future retail need, as detailed in Section 7 of this report.

[1] Retail Planner Briefing Note 4.0, Experian, October 2006.
[2] MapInfo Information Brief 06/02, August 2007.

Figure 0.1 Long term Per Capita Retail Expenditure Trends

Table 1: UK annual average consumer retail expenditure by goods type (2003 prices)

	Expenditure per capita (£) (percentage change from the previous year)				Price Indices (2003=100)		
	Convenience Goods	Comparison Goods	All Goods		Convenience Goods	Comparison Goods	All Goods
1980	1,454	895	2,349		39.2	58.4	46.5
	-1.0%	-3.1%	0.1%				
1981	1,422	886	2,308		43.3	62.3	50.6
	-2.2%	-1.0%	-1.7%				
1982	1,389	902	2,291		47.2	66.1	54.7
	-2.3%	1.8%	-0.7%				
1983	1,397	945	2,343		49.8	70.0	58.0
	0.6%	4.8%	2.3%				
1984	1,380	986	2,365		53.2	72.9	61.4
	-1.3%	4.3%	1.0%				
1985	1,385	1,035	2,420		55.9	77.1	64.9
	0.4%	5.0%	2.3%				
1986	1,409	1,117	2,526		58.3	79.9	67.9
	1.8%	7.9%	4.4%				
1987	1,433	1,200	2,633		60.4	82.5	70.5
	1.7%	7.4%	4.2%				
1988	1,452	1,300	2,752		62.8	85.4	73.5
	1.3%	8.3%	4.5%				
1989	1,470	1,340	2,810		66.2	89.0	77.1
	1.2%	3.1%	2.1%				
1990	1,466	1,359	2,825		71.4	93.3	81.9
	-0.3%	1.4%	0.5%				
1991	1,445	1,351	2,796		76.6	98.4	87.2
	-1.4%	-0.6%	-1.0%				
1992	1,435	1,392	2,827		79.4	100.6	89.8
	-0.7%	3.1%	1.1%				
1993	1,443	1,451	2,894		81.5	101.6	91.6
	0.5%	4.2%	2.4%				
1994	1,448	1,550	2,999		82.7	101.4	92.3
	0.4%	6.8%	3.6%				
1995	1,433	1,604	3,037		85.9	104.0	95.5
	-1.1%	3.5%	1.3%				
1996	1,468	1,687	3,156		89.1	106.3	98.3
	2.5%	5.2%	3.9%				
1997	1,480	1,779	3,259		90.1	108.3	100.0
	0.8%	5.4%	3.3%				
1998	1,477	1,877	3,354		92.1	109.3	101.7
	-0.2%	5.5%	2.9%				
1999	1,508	2,013	3,521		93.7	107.9	101.8
	2.1%	7.3%	5.0%				
2000	1,525	2,175	3,700		94.4	105.4	100.8
	1.1%	8.1%	5.1%				
2001	1,500	2,327	3,827		97.0	104.0	101.0
	-1.6%	7.0%	3.4%				
2002	1,527	2,549	4,076		98.0	102.0	100.0
	1.8%	9.6%	6.5%				
2003	1,548	2,751	4,299		100.0	100.0	100.0
	1.3%	7.9%	5.5%				
2004	1,581	2,957	4,538		100.5	97.9	98.8
	2.1%	7.5%	5.6%				
2005	1,593	3,049	4,642		101.9	95.2	97.5
	0.8%	3.1%	2.3%				
2006	1,609	3,216	4,825		104.6	93.2	97.0
	1.0%	5.5%	3.9%				

Average annual growth rates (calculated by fitting a log-linear regression line by the method of least squares to give a compound growth rate

1964-06	0.1%	3.9%	1.8%		7.3%	5.8%	7.0%
1973-06	0.2%	4.4%	2.3%		5.8%	4.2%	5.4%
1978-06	0.4%	4.9%	2.7%		4.3%	2.7%	3.8%
1983-06	0.6%	5.3%	3.1%		3.5%	1.6%	2.8%
1988-06	0.6%	5.6%	3.4%		2.8%	0.6%	1.9%
1993-06	0.9%	6.6%	4.2%		2.0%	-0.6%	0.7%
1998-06	1.0%	7.2%	4.8%		1.6%	-2.2%	-0.6%

Overall Development Pipeline

1.4 Planning policy has substantially reduced the flow 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 per cent between 2005 and 2010[3].

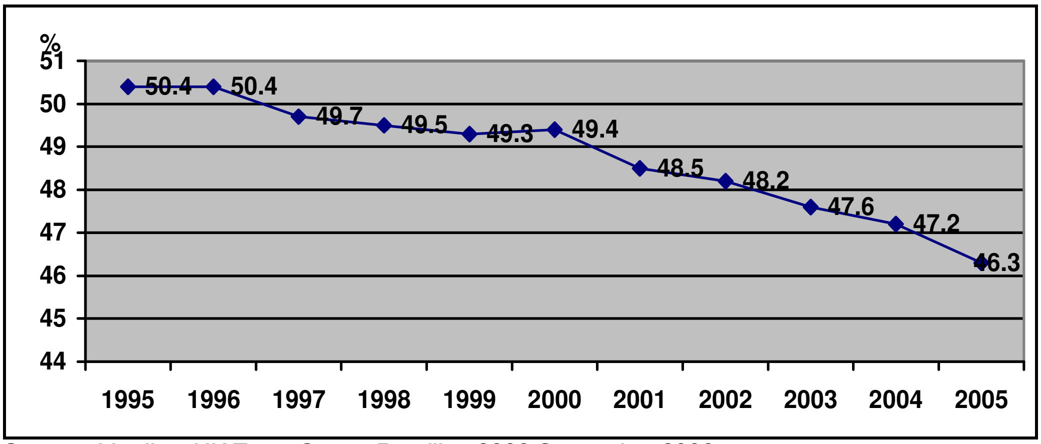
1.5 In Quarter 3 of 2006, the shopping centre floorspace development pipeline stood at some 5.56 million sq.m floorspace gross, with an increase at all stages of the planning process[4]. There is a particularly strong pipeline of new shopping centre developments for at least two years ahead; in the period to 2008, four 1 million+ sq.ft schemes are scheduled to open, in Bristol (Broadmead), Liverpool (Paradise Street), White City and Derby (Eagle). Retail warehouse floorspace pipeline levels declined over the last six months to 2.28 million sq.m gross, their lowest level since June 2003, as planning restrictions continue to constrain development.

Location of Retail Investment

Sales and Number of Outlets

1.6 Despite the increasing difficulty associated with securing planning permission for retail development in out-of-centre locations, according to Verdict the 'town centre'[5] accounted for 46 per cent of total retail sales in 2005, compared with 50 per cent in 1995 (Figure 4.2). 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.

Figure 0.2 'Town Centre' Share of Total Retail Sales, 1995-2005



Source: Verdict, *UK Town Centre Retailing 2006*, September 2006.
Note: 'High street' figures include out-of-centre shopping malls, such as Bluewater.

1.7 The larger format of out-of-centre stores (compared with town centre stores, which typically have smaller footplates) means that retailers require fewer stores in order to increase sales, hence the relative decline of 'high street' sales. Nevertheless, whilst the share of sales has drifted towards the out-of-centre retailers and e-tail (Figure 4.2),

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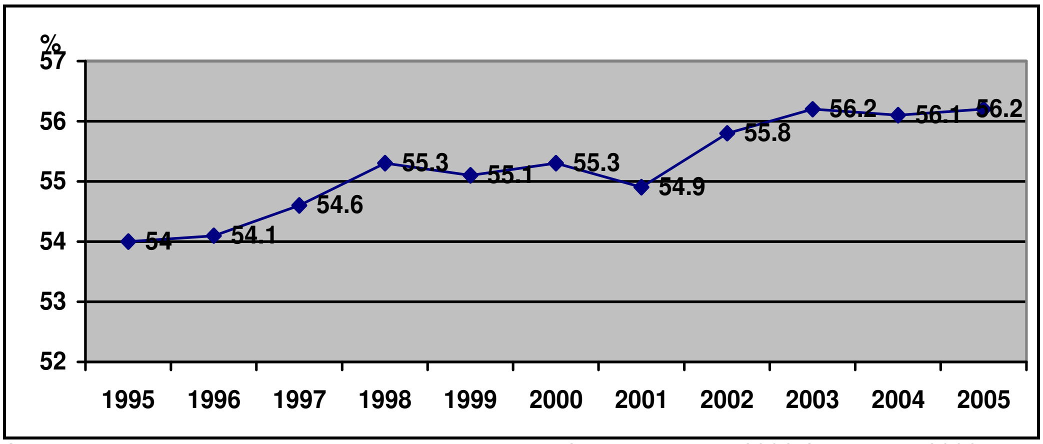
3 Source: Verdict, *UK Town Centre Retailing 2006*, September 2006.
4 Source: CB Richard Ellis, *UK Retail Briefing*, Issue 2, 2006.
5 Verdict's definition of 'town centre' is "deliberately broad" to include all areas that offer comparison shopping; it includes traditional high streets, in-town shopping 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+ sq.ft 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.

the ‘high street’ has steadily increased its share of all retail outlets over the past decade, largely as a result of Government policy (Figure 4.3). This trend looks set to continue, particularly with the virtual end of the development of new, out-of-centre regional shopping centres such as Lakeside and Bluewater and the focus instead on town centre schemes.

Figure 0.3 'Town Centre' Outlet Numbers - Share of All Outlets, 1995-2005



Source: Verdict, reported in Datamonitor, *UK Town Centre Retailing 2006*, September 2006

1.8 Verdict provides interesting information on the sales performance of 12 key ‘town centre’[6] retail brands from a cross-section of retail sectors: Marks & Spencer, Boots, Argos, Next, Debenhams, John Lewis, Woolworths, Wilkinson, WH Smith, House of Fraser, Primark and HMV. Collectively these 12 key retailers accounted for 28.05 per cent of all money spent at ‘high street’ retailers in 2005, up from 24.12 per cent in 2000 and from 22.85 per cent in 1995, indicating that these retailers are gradually gaining ground at the expense of smaller retailers. CB Richard Ellis confirms that larger retailers have increased their market share in recent years, but that this now appears to be plateauing[7]. However, the rapid expansion of large retailers has impacted significantly on smaller concerns, particularly those operating in secondary market towns.

1.9 Of the 12 retailers listed above, Woolworths and WH Smith achieved the lowest levels of sales growth between 2000 and 2005, with Woolworths’ sales actually decreasing by 6.9 per cent and WH Smith’s increasing by 1.1 per cent, which compares unfavourably with the ‘town centre’ average growth over the same period of 11.8 per cent[8]. By far the most significant growth in retail sales experienced over the same time period is that of Primark, which increased sales by 186.4 per cent. Next has embarked on the most aggressive expansion of any of the 12 and increased sales by 95.0 per cent over the five year period, whilst variety store retailer Wilkinson ranks third on turnover growth between 2000 and 2005, boosting its sales by 62.8 per cent.

1.10 National retail trends indicate a continuing contraction in the number of shop units; total store numbers in the UK declined by 12.1 per cent between 1995 and 2005. Whilst most of this decline is attributable to the closure of smaller and more specialist food retailers often located in neighbourhood centres, in 2005, the number of town centre shops fell by 1.0 per cent, taking the total below 148,000 following a similar decline in 2004. Whilst there have been numerous retail failures over the past couple of years, much of the space they have vacated has been taken up by expanding retailers. The failure of Allders freed up units for use by Bhs, Debenhams and Primark, and the closure of Littlewoods’ town centre stores has provided larger units for a range of retailers including New Look, Peacocks, Primark, Sports World and Wilkinson.

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[6] See previous footnote for Verdict’s definition of ‘town centre’.
[7] Source: CB Richard Ellis, *UK Retail Briefing*, Issue 2, 2006.
[8] Source: Verdict, *UK Town Centre Retailing 2006*, September 2006.

In-town Retail Development Trends

1.11 On the high street, Colliers CRE[9] reports robust rental growth in market and sub-regional towns, fuelled by retailers competing for 2,000 to 4,000 sq.ft units, including Bon Marché, Savers, Ethel Austin and Clinton Cards. Relatively small units are also required by coffee shop operators and the mobile phone market also remains extremely active. Both sectors, together with computer games retailers Game and Gamestation, have underpinned demand for shop units of between 1,000 and 2,000 sq.ft.

1.12 Within the fashion sector, River Island, Zara, Arcadia, French Connection, H&M, Next and the Arcadia Group continue to acquire new stores. In addition to its requirement for large stores of around 30,000 sq.ft, Arcadia is also seeking smaller high street units for its individual brands. 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, such as Paddy Power, William Hill and Coral.

1.13 Verdict[10] forecasts that the average town centre store size is set to increase by 4.6 per cent to 2,187 sq.ft by 2011, 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.

1.14 Despite the recent increases in the cost of borrowing, demand from private individuals for units valued at under £2 million, with a covenant of 10 years or more, is still strong. Demand for units valued at between £2 to £5 million remains reasonably strong for smaller institutional funds and private individuals, for well located properties in the best towns, with prime yields at or about 4 per cent. However, the depth of demand for larger premises valued at between £5 to £15 million remains relatively limited, with overseas investors principally active in the market.

1.15 Verdict[11] reports that, in the 12 months to December 2005, the average prime town centre retail rent rose by 3.6 per cent, its highest rate of increase for six years. The increase in rents suggests robust underlying demand for retail units. However, following disappointing trading performances at Christmas 2005, many retailers are less willing to pay higher rents and the annual prime rent rise in the year to June 2006 fell back to 2.9 per cent. The large stock of in-centre retail floorspace in the pipeline is also likely to act to temper retail rental increases in coming years.

Out-of-Centre Retail Trends

1.16 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 such as Next, New Look and Marks & Spencer continue to expand in out-of-centre locations.

1.17 Verdict reports that 'out-of-town' retailers accounted for 28.1 per cent of retail sales in 2000, with this figure rising to 30.5 per cent in 2005. 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.

1.18 Increasingly, traditional high street retailers are seeking to diversify their formats and provide out-of-centre facilities. For example, Boots and WH Smith are investing in out-of-centre retail park stores, although they are finding it difficult to differentiate their offer

[9] Source: Colliers CRE, *Midsummer Retail Report 04*, July 2004.
[10] Source: Verdict, *UK Retail Futures 2011: Sector Summary*, March 2007.
[11] Source: Verdict, *UK Town Centre Retailing 2006*, September 2006.

sufficiently from their high street stores, and therefore tend to merchandise a greater proportion of lower value items in their out-of-centre stores. Clothing and footwear has also been moving into out-of-centre retail parks over the last 10 years. For instance, Next is focusing on out-of-centre development, using the Directory and online products to stock the larger format. However, while many leading high street retailers have opened out-of-centre stores, they often view it as exploiting an additional sales channel rather than an engine of growth, and the rate of new openings has been slow.

1.19 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 has enabled diversification into other product ranges. Both Next and TK Maxx have previously utilised mezzanines as a means of satisfying their pursuit of larger stores. Planning permission is now required to install a mezzanine floor of more than 200 sq.m (2,150 sq.ft).

Polarisation Towards Larger Centres

1.20 A significant and long term trend is the continuing polarisation by retailers towards larger schemes in larger centres - to the detriment of smaller 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. According to Cambridge Econometrics, the number of shoppers visiting the top 50 UK retail centres was 10 per cent higher in 2004 than in 2002, and 20 per cent higher than in 2000, whilst the number of shoppers visiting towns outside the top 100 was 4 per cent lower in 2004 than in 2002, and 13 per cent lower than in 2000[12].

1.21 There is therefore a concentration of comparison goods expenditure in a smaller number of larger centres; according to Cambridge Econometrics, 51 per cent of all comparison goods expenditure goes to the 100 largest centres. This is being reinforced by new development particularly in shopping centres and malls. Most of the shopping centre floorspace in the pipeline is destined for these same 100 centres, which will further reinforce their dominant market share. This concentration of retailing in larger centres is likely to threaten some medium and smaller towns.

1.22 The polarisation trend may have implications for centres in Charnwood, perhaps best illustrated by the continuing influence of Leicester and Nottingham city centres on the spending of residents within the study catchment area and the emergence and growth of substantial retail parks. The focus of retailers and developers is increasingly concentrated on larger developments in dominant city centres which are, or have the potential to become, 'top 50' destinations with strong catchments.

1.23 At the other end of the spectrum, 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. We discuss this in greater detail, below.

Trends in Key Retail Sectors

Clothing & Footwear

1.24 Clothing & footwear is the second largest area of town centre retail spending in the UK after food & grocery, accounting for £1 in every £5 spent by consumers[13]. Whilst the sector's market share is lower than 10 years ago, it is higher than five years ago, reflecting the relatively buoyant nature of clothing demand and most shoppers'

[12] Source: Cambridge Econometrics, in *UK Retail Report* (3rd Edition), BCSC, November 2004.
[13] Source: Verdict, *UK Town Centre Retailing 2006*, September 2006.

preference for buying clothing & footwear in a shopping centre or high street that facilitates comparison shopping.

1.25 Changes are occurring in the traditional 'high street' fascias as evidenced by closures and rationalisation and the emergence of new retailers, although these changes are most likely to affect the larger centres, which the prominent retailers target. After a period of rationalisation and overall reduction in the number of outlets across the country, Arcadia - whose high street fascias include Top Shop/Man, Burton, Dorothy Perkins, Evans and Warehouse – is again actively looking for high street representation. New retailers have emerged in recent years, including international fashion stores such as Mango and H&M. Other fashion sector retailers including River Island, Alexon, Zara, French Connection, Monsoon, Next, Fat Face and Coast are all prospering and have stated an interest in securing additional stores.

1.26 In terms of market share, Marks & Spencer is by far the largest operator in the clothing & footwear sector. The company has become increasingly demand-led to produce more contemporary products at competitive prices. The revival of Marks & Spencer has principally been at the expense of competitors, such as Next, which had previously benefited from Marks & Spencer's years of underperformance.

1.27 Primark is becoming an increasingly prominent presence on the high street and now has more than 100 stores throughout the UK. In the year to September 2006, Verdict estimates that Primark increased its selling space by almost 40 per cent, with new space increasingly located in prime locations. Despite offering some of the most competitive prices, Primark's sales densities are also amongst the best due to its budget fashion offer driving frequent purchases.

Bulky Goods

1.28 The poor performance of the DIY sector in recent years has been well-documented. According to press commentators, the sector's heavy reliance on a buoyant housing market is a primary cause of this downturn, for two reasons. First, it has reduced the incentive for consumers to withdraw large amounts of equity against their property. Secondly, allied with a sharp decline in the number of people moving home, it has led to a reduction in the number of occasions when consumers are likely to invest in their home.

1.29 Furthermore, DIY has become less fashionable than in recent years, with media attention waning of late and home improvement programmes becoming far less prevalent in prime time TV schedules. This has resulted in retail sales for the sector of £15.9bn in 2006, £700m below its 2004 peak[14]. However, Verdict predicts that DIY sales will grow once again in 2006, by 1.1 per cent. Thereafter, it is anticipated that sales growth will pick up pace as demand recovers in response to interest rates cuts from 2008. In total, it is expected that DIY sales will grow 14.1 per cent in the five years from 2006 to 2011, with annual growth improving steadily to reach a peak of 3.4 per cent in 2011 – a far cry from the 10.0 per cent peak achieved in 2001.

1.30 The furniture and floorcoverings market has similarly suffered from difficult trading conditions of late. Verdict[15] forecasts that the furniture market is set to grow by 13.2 per cent between 2006 and 2011, significantly slower than in the previous decade. The state of the floorcoverings market is expected to show a marked improvement, with forecast growth of 4.7 per cent between 2006 and 2011, compared to 0.1 per cent between 2001 and 2006. However, annual growth will still underperform in relation to both the furniture & floor coverings market and total retail, by quite some distance.

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[14] Source: Verdict, *UK Retail Futures 2011: DIY & Gardening,* March 2007.
[15] Source: Verdict, *UK Retail Futures 2011: Sector Summary,* March 2007.

Other Comparison Sub-sectors

Department Stores

1.31 Despite the fact that department stores attract older, more affluent customers - whose numbers are growing as a result of demographic change – the market sector's recent performance has been muted, with stores having to reinvent themselves to maintain their relevance to shoppers and shore up their viability. Whilst some larger stores have prospered, smaller operators have found trading increasingly difficult, resulting in store closures (including the demise of Allders) and the acquisition of smaller players by stronger rivals. Total department store sales fell in 2004 and again in 2005, reducing the market size to 2001 levels (to £8,920m).

1.32 Most of the major department store operators are keen to obtain additional sales space and the present period is one of considerable activity in the department store sector. It remains the case, however, that stand-alone department store developments are rarely viable; consequently, new store acquisition openings are confined to shopping centre developments, where landlords/developers are prepared to contribute to the fit-out costs in order to secure an 'anchor' trader that will enhance the profile and lettability of the development.

1.33 Excluding Marks & Spencer, the largest department store operator is Debenhams, which now operates more than 125 stores throughout the UK and has an 18 per cent share of the market. Debenhams intend to expand growth both through the physical development of new stores and through the refurbishment of existing stores. However, Verdict[16] considers that Debenhams' stated plan to double store numbers to between 240 and 280 appears ambitious, particularly in the light of the continuing Marks & Spencer revival and further new store openings from John Lewis.

1.34 John Lewis is the UK's second-biggest department store operator after Debenhams and has repositioned itself as a more contemporary proposition which has enabled it to broaden its appeal. John Lewis is again opening new stores after a four year hiatus; its 27th store was opened at the Trafford Centre in May 2006 and there are plans to add another 10 stores and increase space by 50 per cent by 2015.

Electricals

1.35 Over the last decade retail parks have become the clear location of choice for electrical specialists, with the combination of larger units and lower operating costs seen as being essential to prosper in a highly competitive market. The town centre retailers that survive tend to do so because they are protected from out-of-centre competition, either because the town is small and lacks the catchment to justify an out-of-centre store or due to the retailer specialising in a narrow niche that does not require a large format store (such as mobile phone and photographic specialists).

1.36 The difficulties of selling electricals in a town centre are well illustrated by the demise of Dixons, at least on the high street. Following an initial cull of 106 town centre stores in 2004, Dixons has struggled to generate the sales densities required to cover increasing rents at its remaining high street locations. In April 2006, the company announced the rebranding of the 190 remaining Dixons stores as Currys.digital, with the Dixons brand continuing solely as an online operation.

1.37 Despite the near ubiquitous ownership of mobile phones, the rapid development of technology and the packaging of new handsets with annual contracts have encouraged their frequent replacement. To service this demand, mobile phone retailers have been expanding their store networks. Carphone Warehouse is the operator that has benefited most from the buoyant mobile sector and, in the year to March 2006, opened

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[16] Source: Verdict, *UK Town Centre Retailing 2006*, September 2006.

68 additional UK stores taking its total to 669. Rapid expansion is also under way at rival Phones4U which has set a target 100 store openings during 2006[17].

Factory Outlet Centres

1.38 Factory outlet centres (FOCs) are retail developments that incorporate stores offering discounted brand goods which are typically out of season, or end of season, or slightly defective, or which represent excess stock. Providers of FOCs have not sought town centre locations because manufacturers are unwilling to run the risk of cannibalising their full price high street sales. The retail units are owned and operated by:

- the manufacturers of the branded goods;
- companies operating as exclusive licensees or franchisees of a brand; or by
- vertically integrated retailers such as Next which manufacture their labels and retail them on the high street or in out-of-centre locations.

1.39 Fashion and sports goods usually represent around two thirds of the floorspace in FOCs because of their vulnerability to changing market trends. Increasingly, FOC operators are seeking to attract commercial leisure operations, so as to extend visiting times.

1.40 Activity in FOC development continues, but at a very much slower pace than in the 1990s, and is confined to extensions to existing FOCs. In 2003 the First Secretary of State dismissed a major FOC proposal at an out-of-centre location at Burntwood, near Walsall, and the prospects for new FOC development have been made more remote given the publication of PPS6 in March 2005, which re-emphasises the Government's 'town centres first' policy. Furthermore, given the recent success of value operators such as TK Maxx and Primark, the 'uniqueness' of FOCs has been diluted.

Convenience Sector

1.41 Table 4.2 provides details of the total convenience sector market share between 1996 and 2006, broken down as 'superstores', 'smaller supermarkets and convenience stores', 'food specialists' and 'other stores'[18]. The table shows that in 1996, 'superstores' accounted for 43 per cent of total convenience sector sales, with 'smaller supermarkets and convenience stores' achieving a combined market share of 39 per cent. However, Verdict[19] estimates that 'superstores' now account for 50 per cent of total convenience sector sales, compared to 36 per cent for 'smaller supermarkets and convenience stores'. The overall market shares of 'food specialists' and 'other stores' also declined over the ten-year period.

Table 0.2 Convenience Market Share by Retailer Type, 1996-2006

	Superstores		Smaller Supermarkets & Convenience Stores		Food Specialists		Other Stores		
	Sales (£m)	Market Share (%)	Sales (£m)	Market Share (%)	Sales (£m)	Market Share (%)	Sales (£m)	Market Share (%)	Total Sales (£m)
1996	34,055	43.2	30,789	39.1	6,786	8.6	7,184	9.1	78,814

[17] Ibid.
[18] Verdict's definitions of these types of retailers are thus: 'superstores' – grocery stores with a sales area greater than 25,000 sq.ft; 'smaller supermarkets and convenience stores' – supermarkets, Co-ops and convenience stores with a sales area of less than 25,000 sq.ft; 'food specialists' – butchers, bakers, greengrocers, fishmongers and other food specialists; and 'other stores' – off-licenses and newsagents/tobacconists.
[19] Source: Verdict, *UK Grocery Retailers 2007,* December 2006

1997	36,505	44.1	31,975	38.7	6,773	8.2	7,398	9.0	82,651
1998	38,951	45.0	33,165	38.3	6,926	8.0	7,549	8.7	86,591
1999	41,284	45.9	33,862	37.6	6,925	7.7	7,906	8.8	89,977
2000	43,469	46.8	34,102	36.7	7,222	7.8	8,132	8.8	92,925
2001	46,468	47.5	35,447	36.3	7,347	7.5	8,520	8.7	97,782
2002	48,705	48.0	36,813	36.3	7,422	7.3	8,458	8.3	101,398
2003	51,433	48.5	38,532	36.4	7,579	7.2	8,434	8.0	105,978
2004	54,467	49.5	39,456	35.8	7,749	7.0	8,433	7.7	110,105
2005	57,082	49.9	40,974	35.8	7,911	6.9	8,450	7.4	114,417
2006 (Estimate)	60,278	50.4	42,779	35.8	8,067	6.7	8,473	7.1	119,597
Change %									
1996-2001	**36.4**		**15.1**		**8.3**		**18.6**		**24.1**
2001-2006e	**29.7**		**20.7**		**9.8**		**-0.6**		**22.3**
1996-2006e	**77.0**		**38.9**		**18.9**		**17.9**		**51.7**

Source: Derived from Table 3 of Verdict, *UK Grocery Retailers 2007,* December 2006, which is based on 2003 prices.

1.42 Table 4.2 also shows that the total sales of the 'superstores' increased by 77 per cent between 1996 and 2006, compared to a corresponding increase over the same period of just 39 per cent for 'small supermarkets and convenience stores'. The sales growth achieved by 'food specialists' and 'other stores' was lower still, at just 19 per cent and 18 per cent respectively.

1.43 The New Economics Foundation (NEF) publication, *Ghost Town Britain II* (December 2003), looks 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 per cent of the nation's stock of such shops. Furthermore, the report asserted that there were 953 fewer convenience stores in 2001 than in 2000. The analysis in our Table 4.2 would appear to verify the trends described by the NEF, which attributes the decline of small shops largely to the superstore operators, including Tesco in particular – which alone controls more than one-quarter of the food retail market – and Asda and Sainsbury's, which also have substantial shares of the market.

1.44 The major foodstore operators are increasingly seeking to diversify into non-food markets. One pertinent example of this is Asda's George clothing line which is now sold from dedicated stores branded with the George fascia; there are now more than 10 such stores in the UK. Tesco opened its pilot, 30,000 sq.ft non-food store – Tesco Home Plus – at the Crownpoint Shopping Park at Denton, Manchester, in October 2005. Although major supermarket operators are generally reluctant to shrink food retail space, as the food component of their businesses is also performing strongly, we note that Tesco's Annual Review and Summary Financial Statement 2006 states that, *'We are going to expand the trial, and more stores will open shortly in Bristol, Southampton and Telford'*.

1.45 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. 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. Woolworths is one of the high street names that have suffered most as a consequence of this trend. Boots, another key high street player, is also challenged by the expansion of foodstore operators' non-food ranges, particularly as a result of the major supermarkets' incursion into health & beauty products and in-store pharmacies.

E-tail and Home Shopping

E-tail

1.46 UK internet sales have increased significantly in recent years since consumer confidence in online retailing has risen as shoppers have found the internet increasingly easy to navigate, credit card use to be secure and delivery to be convenient and reliable. During 2005, 52 per cent of all UK adults shopped online according to research by the Association for Payments Clearing Services (APACS)[20]. APACS reports that 25 million Britons made a purchase over the internet in 2005, up 11 per cent on the number in 2004. Total on-line retail spending also increased from 262 million transactions in 2004 to 310 million in 2005, with the value of these transactions increasing from around £16 billion in 2004 to £22 billion in 2005.

1.47 APACS also reports[21] that on-line Christmas shopping exceeded all expectations at the end of 2006, with some £7.66 billion spent online by British consumers in the ten-week run-up to Christmas between 16 October and 24 December. This is 54 per cent more than the £4.98 billion spent online during the same period in 2005, and more than double the £3.33 billion recorded in the approach to Christmas 2004.

1.48 Certain sub-sectors are likely to be more affected by growth in e-tail than others, since the internet has particular attraction for certain types of retailing, including books, CDs and high value electrical goods. CD and DVD retailers, in particular, are beginning to suffer on the high street as a result of purchases made on the internet and Music Zone recently entered into administration as a result of difficult trading conditions.

1.49 Whilst the whole of the internet shopping sector continues to grow strongly, the fastest-growing online shopping sector is clothing & footwear. We consider that the 'must try it on/feel it' factor is likely to mean that multiple high street clothes & footwear retailers will generally remain competitive in the face of any further expansion of e-tail. Notwithstanding this, Colliers CRE advises that traditional UK fashion retailers need to follow the example set by those in other sectors and maximise the opportunities offered by the internet to companies with strong brand recognition, or they will risk losing market share to new competitors whose overheads are substantially lower, such as online clothes retailer ASOS.

Catalogue Shopping

1.50 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. Since 2002 traditional mail order has lost £1.25bn sales, drastically underperforming total retail sales[22]. At £7.5bn in 2006, the traditional mail order market has reached its lowest level for a decade after its fourth year of decline. In the 12 months to December 2006, traditional mail order declined by a further 4.4 per cent, the steepest decline recorded in 18 years.

1.51 Debenhams has now abandoned its mail order catalogue, moving its home shopping facility to the internet. Otto UK, the home shopping group that owns the Grattan and Freemans brands, is also looking to improve its internet offering, and is encouraging existing customers to buy online through advertising within the catalogues and corresponding digital communication. Thus, it is not just high street retailer channels which have to adapt to the digital age.

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[20] Source: APACS, reported in Interactive Media in Retail Group website news story (www.imrg.org), August 2006.

[21] Source: APACS, reported in Interactive Media in Retail Group website news story (www.imrg.org), January 2007.

[22] Source: Verdict, *Mail Order Retailers*, December 2006

Conclusions

1.52 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.

1.53 Other key trends in the retail markets include: increasing demand for small to medium (2,000 sq.ft to 4,000 sq.ft) footplates from retailers such as Bon marché, Savers, Ethel Austin and Clinton Cards, and from coffee shops and mobile phone retailers; the continuing 'polarisation' by retailers towards larger centres; the increasing diversification into non-food markets by the major foodstore operators; and the continuing growth of e-tail.

Leisure Sector

Social and Economic Change

Personal Disposable Income and Social Structure

1.54 The leisure industry has benefited from the continued growth in household disposable income and final consumption. Competitive forces have reduced the price of essentials, allowing an ever increasing proportion of consumer expenditure to be spent on leisure items whether for in-home entertainment or spent outside the home.

1.55 Furthermore, the move away from the industrial base has led to a reduced requirement for skilled and unskilled manual jobs which are classified in the C2 and D social groupings. There are more jobs in commerce and a far greater proportion of women graduating and entering the professions has increased the proportion of the population falling under the ABC1 classifications. The ABC1 groupings are the categories that tend to be the largest users of leisure facilities, having a greater proportion of disposable income. According to Mintel, this trend is set to continue.

Demographic Trends

1.56 Population projections by the Government Actuary show that, nationally, the population will shift towards being more weighted towards the over 45 age group during the next twenty year period. However, between 2007 and 2012 there is also a small projected net increase (from 10.05 million to 10.35 million) in the population in the 15-29 age group, which is a group that is extremely active in the leisure market. People in this group are important because they have the highest propensity to indulge in a number of leisure activities including going to the cinema, eating out, visiting pubs, tenpin bowling and visiting nightclubs. There will be a net loss of population in the 0-14 and 30-44 age groupings, but all other groups will gain.

Household Composition

1.57 The household type forecast to experience the greatest increase over the next two decades is the one person household. Whereas, traditionally, an increase in one person households has been associated with the retired, the largest increases are forecast to be within people of working age, particularly amongst men. According to ONS, the rise in one-person households is expected to account for 72 per cent of annual household growth between 2003 and 2026, a factor which has ramifications for the leisure industry.

1.58 There has also been a trend towards young adults remaining at home in their 20s and 30s. Currently there are around 2.2 million young adults of this age living with their parents, of which 63 per cent are male. In the 20-24 age group, 56 per cent of men live with their parents. This could also be a high spending group providing they are not foregoing spend to save for deposits on a house.

Leisure Time

1.59 Data from the Leisure Industries Research Consultancy (LIRC) shows that since 1998, the leisure time for the average full time worker has increased by 2.2 per cent, to 2,595 hours per annum. Some 57 per cent of households had access to the internet between January and April 2006[23], compared with 9 per cent in 1998. This implies that the total amount of leisure time now spent on the home computer will have increased, and sophisticated modes of access will also increase dwell time on computers.

1.60 For some time, there has been an increasing tendency to eat out and this has become established as a way of life. One of the most rapidly growing sectors in the mid 1990s was keep-fit. This is now an established market, though there has been a recent slow-down in health club development in recent years as the market approaches saturation[24].

1.61 LIRC data also show that the total trend in leisure hours is set to increase from 160.0 billion hours in 2004 to 160.8 billion in 2008.

Growth in Leisure Expenditure and Changing Leisure Activities

1.62 Table 4.3 details changes in expenditure on various sub-sectors of the leisure market.

Table 0.3 Comparison Spend on Selected Leisure Activities 2000-2008

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	% Change 2000-2008
Bingo	523	552	595	602	606	664	637	641	676	29.25
Cinema*	623	620	724	678	739	769	803	840	879	41.10
Dancing/Discos	749	752	790	832	885	941	999	1.060	1.127	50.50
Spectator Sports	767	808	826	909	998	1,121	1,217	1,337	1,485	93.61
Eating Out	33,011	34,376	36,782	38,916	41,160	43,700	46,226	48,939	51,865	57.10
Alcoholic Drink**	18,080	18,790	19,990	20,430	21,370	22,3	23,33	24,4	25.5	41.10
Total Sightseeing	934	943	1,046	1,077	1,137	1,194	1,256	1,321	1.390	48.80
Total Gaming	7,082	7,152	7,583	8,129	8,389	8,890	8,630	8,905	9,376	32.40
Health & Fitness+	1,420	1,583	1,641	1,763	1,814	2,033	2,077	2,190	2,381	67.70

Source: Leisure Industries Research Consultancy (2004 prices)
* Relates to Gross Ticket Revenues only excluding VAT and concessionary income.
** This includes alcohol consumed in restaurants and hotels but adjusted for alcohol consumed at home.
\+ Private sector estimates. Local Authority income excluded.

Eating Out

1.63 Within the last two to three year period there has been consolidation within the restaurant industry as some chains were expanding at a faster rate than demand. Many observers see the opportunity for huge growth in the eating out market. In 1990, 75 per cent of food consumption was in the home. According to the British Hospitality Association, by 2035 this ratio will have reduced to 50 per cent.

1.64 There is an increasing trend towards healthier eating, which has caused some fast food operators to change their menus for a healthier lifestyle. The public has not only become more discerning about food content but is also becoming more demanding about the speed and quality of service. This demand is known as fast casual and has been one of the largest growth areas in the USA; the same trend is now emerging in the UK.

[23] Source: ONS website (www.statistics.gov.uk), August 2006
[24] Source: Strutt & Parker, *Leisure Comment,* Spring 2006

Pubs

1.65 The Licensing Act, which came into effect in November 2005, has had an impact on some rural pubs. Later opening hours are likely to drive longer drinking times in city centres. Pubs are also being affected by the long-term decline in beer drinking and the switching to wine consumption. Some are of the opinion that supermarkets will be selling the majority of lager and ale in as little as three years, swapping the living room for the pub in terms of beer consumption. The smoking ban, enforced in all enclosed public spaces since summer 2007, is also likely to have a considerable effect on licensed premises, particularly those which are predominantly 'wet', with drink forming a very high proportion of turnover.

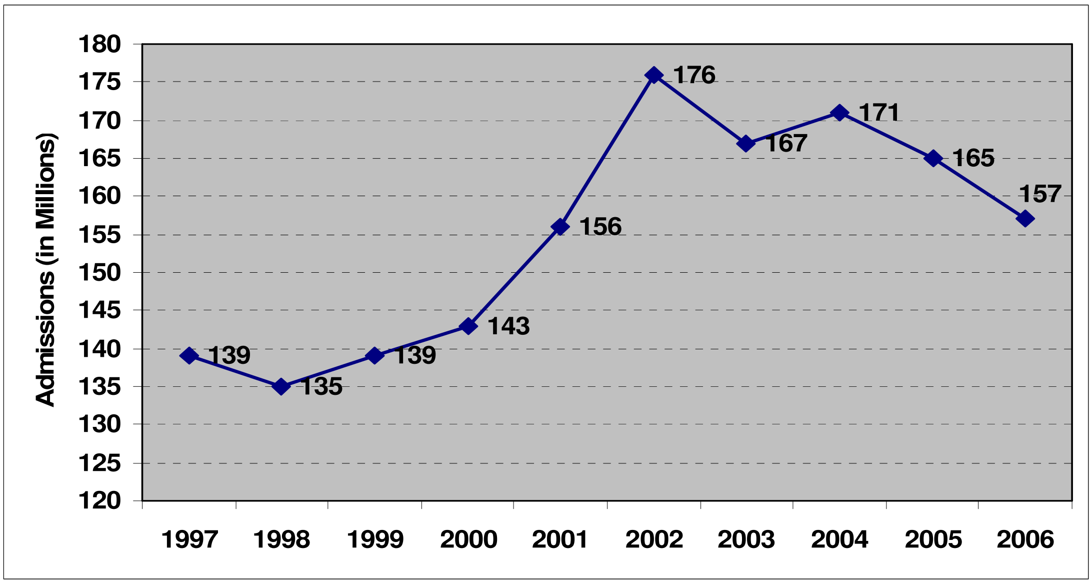
1.66 Social changes have also been driving this trend; employees are less likely to drink together. When employees do socialise, more wine will be drunk than beer. The drinks industry has also had to come to terms with women drinking more and having more disposable income. In order to combat these trends, 89 per cent of pubs now have a food offer. Beer, which used to account for 80 per cent of pub turnover, now accounts for around 43 per cent.

1.67 Town centres have been affected by weekend binge drinking. The new Licensing Act allows individuals, businesses and authorities such as the police to request a review of an existing Premises Licence at any time which may ultimately lead to the revocation of the licence. Accordingly, some control may be gained over areas subject to persistent violent or anti-social behaviour, with a corresponding decrease in spending on drink in these areas likely.

Cinemas

1.68 Figure 4.4 indicates that cinema attendances in 2004 totalled 157 million, a significant downturn on the 176 million admissions in 2002; indeed, this represents a reduction in attendance of some 11 per cent in 4 years.

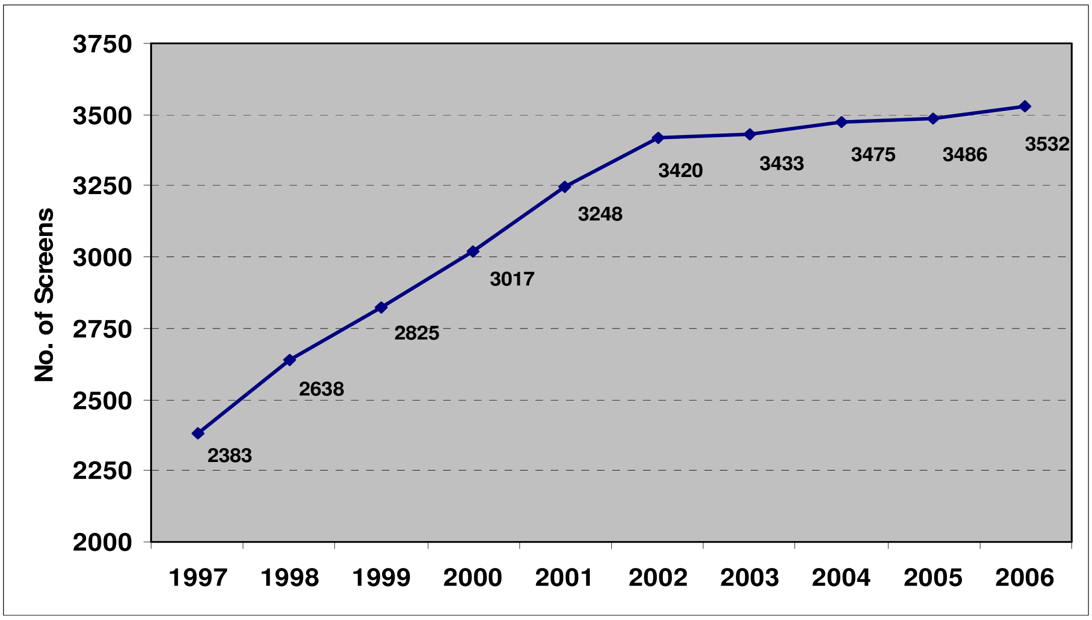
Figure 0.4 UK Cinema Audiences (Millions), 1997-2006



Source: Nielsen EDI, reported in Pearl & Dean website (www.pearlanddean.com), March 2007

1.69 The last few years have seen a degree of consolidation amongst four of the major exhibitors. Over-expansion in the earlier part of this decade resulted in some of the major exhibitors making losses. Some of the original multiplexes will be closed as they become obsolete and do not justify expenditure on refurbishment. However, the year to 2006 saw a further increase in the total number of UK cinema screens, albeit at a much reduced rate of increase (Figure 4.5). More cinemas are beginning to have digital screens and widen their appeal as they broadcast live sport and other major events and this trend is likely to become more prevalent.

Figure 0.5 UK Cinema Screens, 1997-2006



Source: CAA, reported in Pearl & Dean website (www.pearlanddean.com), March 2007

Leisure Parks and Retail and Leisure Parks

1.70 During the 1990s the multiplex cinema development boom was characterised by a willingness for cinemas and associated operators to occupy on a leasehold basis. Accordingly a large number of leisure and retail schemes became available on the market. Leisure parks are parks of more than 30,000 sq.ft dedicated specifically to leisure, whereas often there was a mix of both retail and leisure which helped to make any scheme more viable, known as retail and leisure parks. The following table shows the regional distribution of such parks. It would imply that the East Midlands region has a much lower provision than many of the other regions.

Table 0.4 National Provision of Leisure Parks and Retail and Leisure Parks

Region	Parks	Gross Internal Area (sq.ft)	Population per (sq.ft)
North West	27	4,565,032	1.48
North	12	1,360,829	1.84
Yorkshire	17	2,624,107	1.89
Scotland	17	2,632,009	1.92
Northern Ireland	4	772,069	2.19
West Midlands	17	1,903,062	2.70
South West	11	1,815,624	2.73
Wales	6	997,514	2.92
London & South East	33	4,329,556	3.55
East Midlands	9	665,447	6.33
Eastern	4	470,365	11.50
Total	152	22,135,614	2.67

Source: Trevor Wood Associates Database, December 2004

Impact of Planning Policy

1.71 There has been a tightening of Government policy towards driving retail and leisure developments to town centre locations and edge-of-town centre. Much improved architectural design has enhanced the town centre environments and many pub and bar operators have designed formats which have particular high street appeal. The challenge to many local authorities has been to design town centres which operate through days and evenings, rather than become deserted after 6pm, when office workers and shoppers have left the area and the area becomes deserted or appears threatening by the presence of a large amount of drinkers. The effect of the Licensing Act is to extend drinking hours, although this is more likely to occur in town centres rather than in rural areas. The change in policy has caused more mixed use developments which combine leisure, retail and, occasionally, office space. Facilities for night-time leisure ensure that the parking facilities are utilised to their fullest extent.