Research
Bulletin

Scottish town centres

September 2012

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GVA's annual Scottish Town Centres Bulletin is now in its fourth year. Consequently, it provides a clear picture of retail floorspace development pipeline trends and activity between 2009 and the present day. As in previous years, this bulletin focuses on the trends and issues that have been affecting Scotland's town centres over the past 12 months.

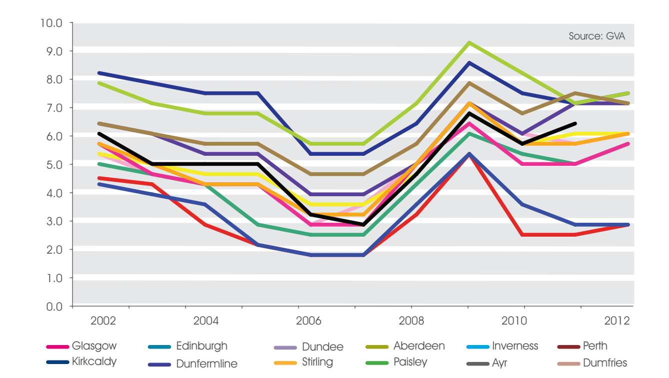
GVA's methodology has been to take a representative sample of towns in Scotland and analyse numerous performance indicators. Whilst non-retail uses and activities are important to the overall functioning of town centres, this research focuses principally on retail trends. We have also monitored development activity by undertaking a survey of local authorities. Our approach is consistent with previous editions allowing direct comparisons to be made. Unfortunately, a number of national data sources are no longer available such as rental levels, retailer requirements and retail rankings. This in itself is perhaps a reflection of the difficult economic climate.

The UK retail sector has been hard hit over the last 12 months with minimal growth in the economy overall. Negative income growth in real terms has impacted on household finances, resulting in weak consumer spending growth. In 2011, UK comparison expenditure grew by just 0.5%, with 1.6% growth forecast for 2012. Looking ahead, from 2013 accelerating comparison goods expenditure growth is expected, averaging 3% per annum between 2015 and 2019. This remains well below the medium, long term and ultra long term trend rates.

The outlook for the Scottish retail sector, in line with that nationally remains weak, particularly in the short term.

Retail yields

Prime retail yields 2002-2012



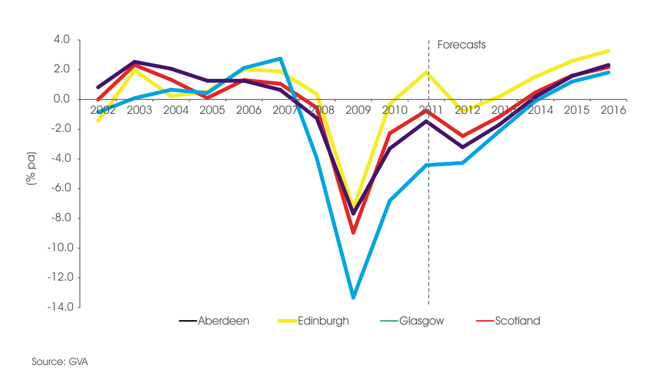
A key indication of vitality and viability is commercial yields, with lower yields signifying keener investor interest.

The trend of retail yields moving out again (which we started to see last year) has continued, thus indicating worries about rental growth and reduced investor interest. With the exception of Edinburgh, Dunfermline and Dumfries, the weak retail market has meant small increases in prime yields between June 2011 and June 2012. Prime yields across the Scottish towns monitored now range between 5% in Edinburgh and Glasgow to 8.25% in Kirkcaldy and Paisley, but these are still well below the peak yields in most centres recorded in 2009.

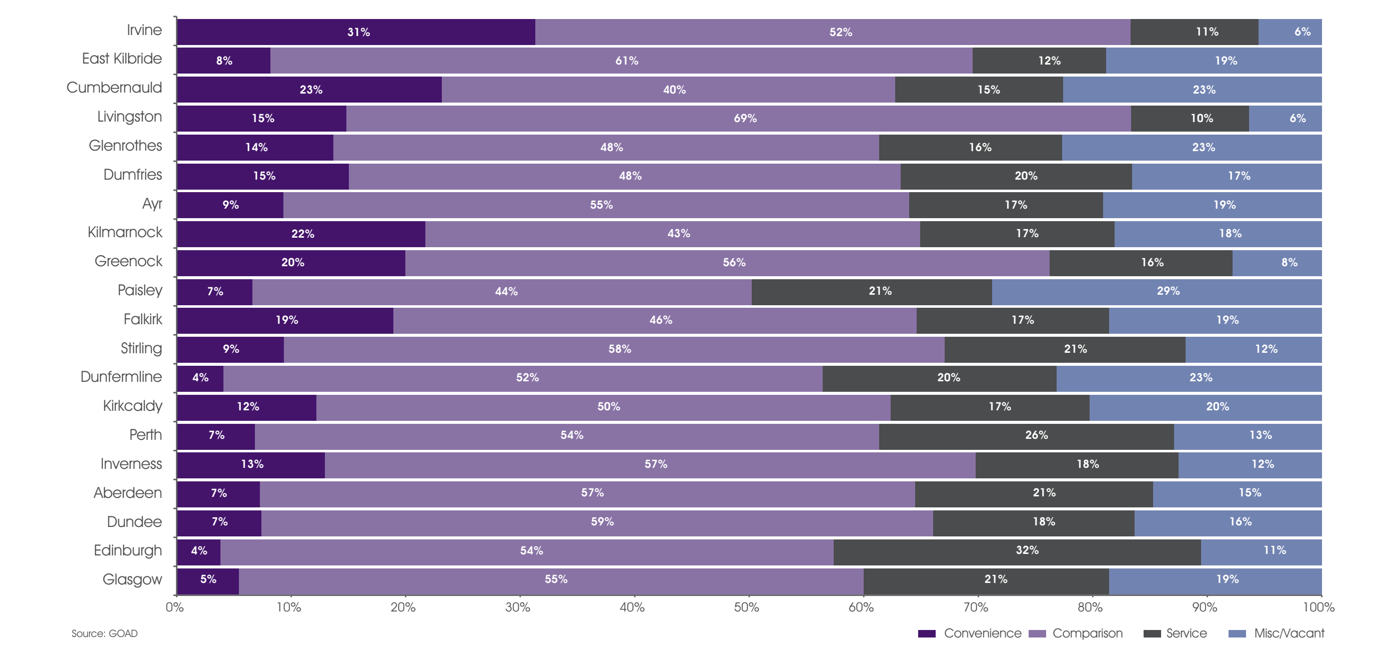
The weak outlook for retail sector rental growth means it is unlikely yields will change significantly over the short and medium term.

Despite improving slightly in 2011, in 2012 retail rental value growth is now weakening again and for 2012 as a whole is expected

Standard retail rental value growth



Total floorspace composition



Source: GOAD

to record overall growth of -2.5% for standard retail properties in Scotland. Within the three main cities Aberdeen shows the weakest rental growth for 2012 at -4.3%, compared with -3.2% in Glasgow and -0.8% in Edinburgh.

Forecasts for the longer term show rental value growth is expected to improve year-on-year to 2016 from its 2012 low point, returning to positive growth in all centres, and Scotland as a whole, by 2014.

Floorspace analysis

In Scotland, as with much of the rest of the UK, retail development activity has been muted over the last 12 months with no major new town centre retail schemes opening. The floorspace composition of most of the Scottish town centres therefore remains broadly the same as a year ago, although vacancy rates have risen in some centres.

Comparison floorspace continues to dominate the cities and larger towns, typically accounting for between 50% and 60% of the total retail floorspace. Convenience floorspace is typically much lower, averaging only 6% of floorspace in the larger cities, but 12-18% in some of the smaller towns.

Vacancy rates, based on the latest GOAD plans available for each centre, (typically dating from 2011) vary somewhat, and as a percentage of floorspace the lowest rates are 6-7% in Livingston and Greenock, compared with the highest rates of 22-28% of floorspace in Cumbernauld, Glenrothes, Dunfermline and Paisley. The UK average vacancy rate according to GOAD was c.12% of floorspace in Spring 2012.

Given the recent struggles in the retail sector, with more retailers entering administration, it is probable that vacancy rates are currently slightly higher than the figures mentioned above.

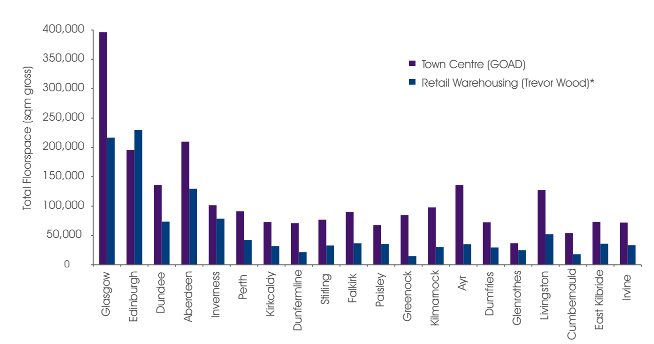
Town centre v retail warehouse floorspace

Town centre floorspace still dominates out-of-centre retail provision in most Scottish towns, with very little development activity over the last 12 months to alter the patterns reported last year.

Edinburgh remains the one exception with significant amounts of retail warehousing located on the periphery of the city, totalling more in floorspace terms than within the city centre.

A number of the centres monitored have permission for new retail warehousing developments, and/or applications pending, however the short term prospects for the sector as a whole could mean that the implementation of such schemes will be delayed.

Town centre v retail warehouse floorspace*

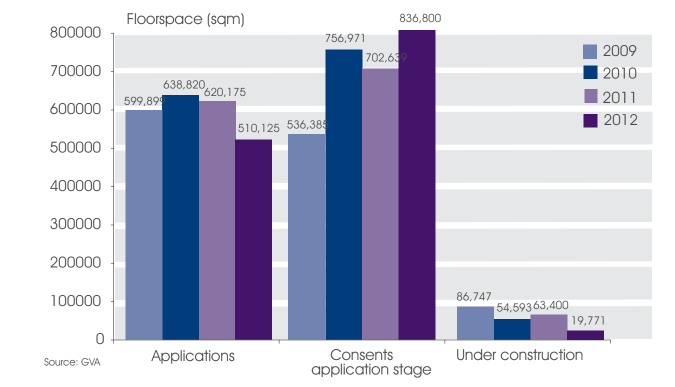


*Figures exclude Leisure Parks & major leisure uses on Retail Parks (Cinema, Bingo, FEC, Health Clubs)
Sources: GOAD, GVA

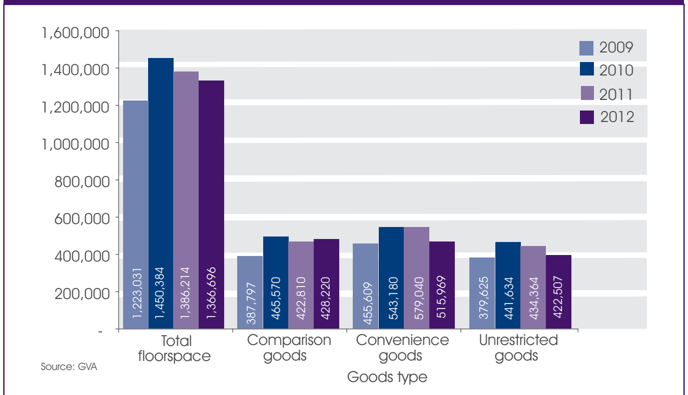
Retail pipeline activity

GVA's unique research into the retail development pipeline in Scotland is prepared by collating floorspace data sourced from each of the 32 local authority areas and two national parks. Like last year, there has again been a reduction in activity over the last 12 months. The total amount of floorspace in the pipeline has reduced by some 19,500 sq m, albeit this is less of a reduction than experienced between 2010 and 2011 (some 64,200 sq m). However, in terms of number of proposals, 276 are in the system, which is greater than 258 in 2011. Overall, the level of floorspace in the pipeline is impressive at 1,366,696 sq m (gross).

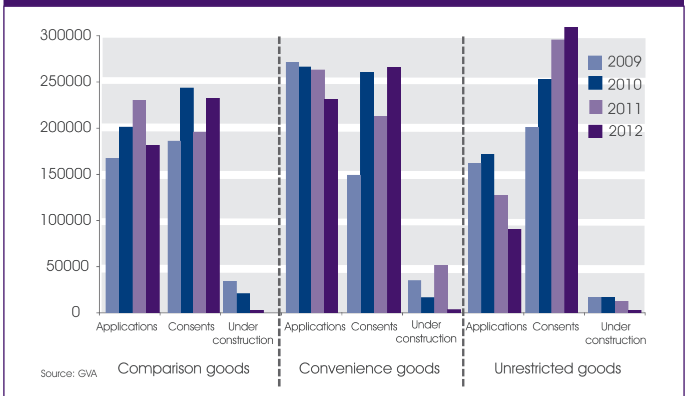
Total floorspace volumes across Scotland



Total floorspace levels by type



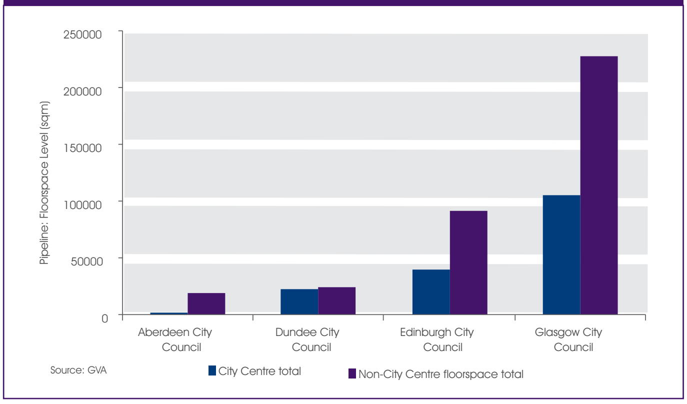
Total floorspace levels across Scotland



Of the total floorspace in the pipeline, the majority is in the form of planning consents (61.2%) with 37.4% being at proposal and application stage. The proportion of floorspace that is being delivered and which is under construction is only 1.4%. These proportions differ from last year with a much greater percentage of floorspace now being at the consented stage (50.7% last year) and considerably less floorspace being under construction (4.6% at 2011). The increased level of consents in the pipeline, up by some 134,000 sq m, demonstrates that the retail development pipeline is effectively "blocked".

The research demonstrates a decrease in new proposals coming forward at the early stage of the pipeline and also floorspace actually being delivered. Indeed, the levels of floorspace under construction are at the lowest level since our survey work began in 2009. The largest reduction in floorspace being delivered relates to the convenience grocery sector that has previously been more active. This slowdown has been widely reported in the mainstream press. In terms of comparison goods floorspace, only 650 sq m is under construction (a foodstore scheme in Tain). This is however an improvement on last year when no comparison goods floorspace was being delivered. The level of floorspace under construction with unrestricted goods floorspace (which is usually situated within town and city centre locations) has increased by 6,500 sq m. This relates principally to the Atlas scheme, Buchanan Street, Glasgow, which GVAs' PDR team acted on.

City centre vs non-city centre

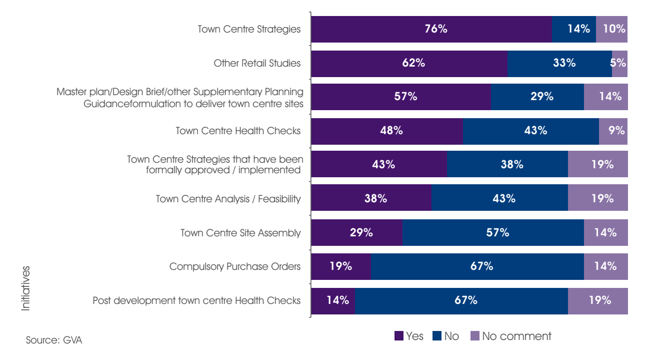


The activity within the four city regions is shown above. This year, Dundee is now subject to more non-city centre floorspace activity than the city centre total. This trend was not evident last year and it now echoes the situation across the other three city regions. A noticeable difference from last year is a substantial reduction in non-city centre Edinburgh floorspace activity, from just over 150,000 sq m in 2011 to less than 100,000 sq m in the pipeline this year.

Delivering town centre development

GVA has again surveyed the local authorities in Scotland to gauge views on the various issues that have affected Scottish town centres over the last year. The starting point has been to establish what initiatives have been undertaken since last year.

Development initiatives - last 12 months



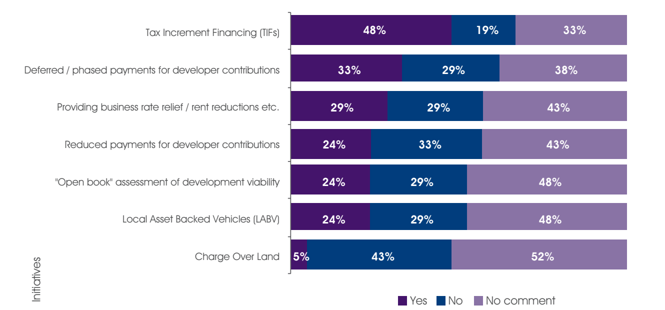
Source: GVA

As with previous years, the highest level of local authority activity relates to the preparation of Town Centre Strategies. Other activities have related to undertaking retail studies, masterplans and other guidance relative to town centre sites. The findings are similar to those found last year.

When asked what initiatives local authorities intended to undertake over the coming 12 months, the preparation of town centre strategies (76% of authorities surveyed) featured strongly. This was followed by increasing flexibility to allow alternative non-retail uses and flexibility within town centres (57%); and finally revising defined town centre boundaries within development plans (38%).

Local authorities were asked if the economic climate necessitates the need for special assistance to facilitate the delivery of town centre proposals. Last year, for those who responded, 100% stated that there was a need for such assistance. Perhaps surprisingly, this response has reduced to 87%.

Current local authority activity and initiatives



Source: GVA

The chart above sets out what activities local authorities are considering or are actively progressing relative to initiatives involving special assistance. The most common initiative is Tax Increment Financing (TIF) arrangements. Compared to last year, this replaces deferred/phased payments relative to developer contributions as the number one activity. Providing business rate relief/rent reductions; Local Asset Backed Vehicle (LABV) initiatives; reduced developer contribution payments; and open book viability development appraisal initiatives all feature as initiatives being undertaken or considered. GVA has acted in relation to the only live retail-led TIF proposal in Scotland at Buchanan Galleries, Glasgow.

Local authorities were then asked about specific town centre and edge of centre developments. A total of 31 schemes were identified across ten local authority areas. 68% (21 schemes) were identified as having been stalled. The reasons for delay or lack of activity varied with the most common issues relating to problems with development financing (19%); lack of developer interest (16%); development viability (16%); site assembly issues (12%); and a weak occupier demand (9%). Other issues related to developers pulling out or going into administration, problems with existing consents / legal agreements and political reasons.

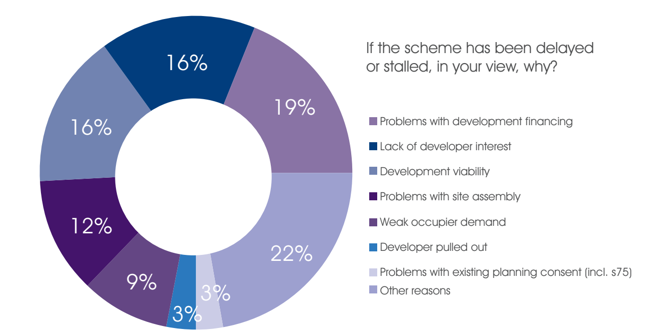
45% of the schemes identified benefited from planning permission. 26% were identified as being at application stage, with the other 29% being at pre application, masterplan or local plan allocation stage.

In terms of ownership, only 13% were identified as being in public ownership, with 43% being entirely in private ownership and 44% being in mixed public/private ownership.

34% of the schemes were identified as being anchored by a foodstore.

Finally, the majority of schemes identified were not subject to Compulsory Purchase Order (CPO) issues.

Reasons for scheme delay



Source: GVA

Conclusions

This year's research has confirmed what GVA has been reporting for some years: that there are significant challenges facing Scotland's town centres. It is clear that these challenges are not going to disappear. The challenges are being created by both the economic downturn but, perhaps more importantly, a more fundamental structural change in the retail sector.

The research has demonstrated that the levels of floorspace being delivered have reduced as have proposals and applications coming forward at the front end of the pipeline. Consequently, there is a noticeable increase in consented schemes effectively "blocked" in the pipeline.

A clear challenge is the fact that the retail industry has been, and continues to be, one of the most dynamic property sectors, with formats and trends changing on an almost annual basis to respond to consumer demand and seek that all important niche in an extremely competitive environment. By comparison, the planning system and the issues associated with the delivery of development is by its very nature slow to respond to market and commercial changes.

The research has shown that many of the stalled schemes identified have been delayed for many years, some as long as a decade, but most between three and six years. Clearly, this legacy of stalled schemes, which have no realistic prospect of ever being delivered, requires a radical re-think. If proposals are to successfully secure the all important yet very often illusive funding, then the speed at which sites can be delivered, with effective strategies and/or consents in place, must be addressed, thus bringing confidence and certainty to both the market and lenders.

Public and private partnerships will play a key role in the ability to either unlock sites or deliver realistic alternatives. Key stakeholders and players within the industry must now work together and form meaningful collaborative and non-confrontational partnerships if our town centres are to survive and continue to play a pivotal role in our lives.

Since embarking on the annual research in 2009, it has been evident that local authorities have been actively preparing Town Centre Strategies (TCS's) in line with the requirement that has been enshrined within national policy for many years. However, GVA is not aware of a raft of TCSs being available in terms of tangible physical product or documentation.

GVA considers that the key to unblocking the development pipeline is not the production of lengthy documents and strategies, but to create an environment for delivery. Such an environment involving close working partnerships between the public and private sectors and key stakeholders, including political consensus, will maximise the ability to deliver successful development and ultimately successful town centres. It should be aimed at finding solutions and innovative ideas that will unpack problematic issues, thus creating opportunities that can be delivered. It is essential that the limited opportunities that are realistic and commercially viable are not wasted.

TCSs must be heavily focused on actions that will deliver development on the ground. Architectural and design matters are irrelevant at this stage in the process. Such actions and implementation plans will need to be dynamic, flexible and responsive to change. Importantly, the definition of a successful TCS might also require a rethink. It is unrealistic to assume that all centres can provide the full range of retail provision, services and functions and there will inevitably be winners and losers based on what has been traditionally considered to represent a "successful" town centre: typically centres reliant on retail-led anchor store type development. TCSs have the ability to address this important perception issue.

Strategies must be bespoke and prepared on a town-by-town basis given that the issues, problems and solutions for a particular town centre will never be directly replicated in another town centre.

The Scottish Government is launching the Town Centre Review initiative, which is an action and solution focused process aimed at energising activity in Scotland's town centres. GVA is proud to be a member of the External Advisory Group and look forward to actively engaging in this duty to assist in securing the long term future of Scotland's evolving town centre network.

GVA's headline recommendations for delivering successful Town Centre Strategies

- Obtain a clear understanding of the town centre's key issues and how the centre functions in the context of the surrounding network of centres. Healthcheck type analysis can inform this early stage.
- Identify opportunities that are realistic in the context of the town's scale / functionality and how the centre sits alongside other surrounding and competing centres that will have their own aspirations and strategies.
- Maintain a clear ongoing understanding of the occupier demand / market interest and viability of opportunities throughout the process.
- Understand and recognise public sector assets and the associated opportunities that exist.
- Identify hurdles to delivery and appropriate actions to overcome them.
- Ensure that flexibility is integral to strategies.
- Ensure that outcomes are measurable.

How GVA can help

In Scotland, GVA can offer the full range of multi-disciplinary property services: planning, development, agency, investment, property management, building, valuation services, lease and rating consultancy, facilities management, specialist leisure and Compulsory Purchase Order advice.

GVA's Scottish Planning, Development and Regeneration (PDR) team is one of the largest teams in Scotland. Over the last year, the team has advised on approximately 200,000 sq m of retail floorspace that has featured in the retail floorspace pipeline data. Experience includes acting for the owners of the principal shopping centres within Glasgow, Edinburgh, Aberdeen and Dundee, as well as being active in many smaller towns.

The team has advised in relation to the only retail led Tax Increment Financing (TIF) proposal in Scotland (Buchanan Galleries, Glasgow) and has also advised the Scottish Government in relation to the formulation of national policy concerning development viability and delivery.

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