Thought Leadership

Retail trends

Spring 2011

GVA

Executive summary

This research examines key retail trends (past and future) and looks at how these have shaped the retail sector and will continue to do so in the future. We explore the implications for the sector and town centre development in light of these trends and ask how realistic or achievable is the 'town centres' first approach.

Expenditure growth: Over the last 15- 20 years (up to the recession) retail expenditure growth, especially non-food expenditure growth, was exceptionally strong, driven largely by high rates of borrowing, low inflation/interest rates and strong house price inflation. The recession corrected such unsustainable growth and the next 10 years will see much weaker expenditure growth.

Online spending per head is predicted to grow by around a third by 2014 and this growth, coupled with weaker overall expenditure growth and increased trading efficiency and higher sales densities, will have implications for the quality and quantity of floorspace needed in town centres.

Development activity: The last decade saw an exceptional amount of retail development, particularly town centre development. This stopped dramatically with the recent recession with a much lower level of new construction than during the previous recession.

Weaker expenditure growth, retailer demand and rental growth, plus pressures on development costs and difficulties in obtaining finance will all impact on development viability and development activity. This, coupled with the Coalition Government's market led approach to new development, may weaken the town centre first approach which has been Government policy for the last 14 years.

Town size: In the years 1960-2009 the greatest amount of space, 3.6 million square metres (sqm), was built in large towns with populations of 100-250,000. Over the last decade towns of 75-100,000 people have seen the most development proportionately, with 0.18 sqm built per person. Towns of less than 50,000 people have seen much lower levels of development activity, with only 0.045 sqm of space built per person. Weaker expenditure growth plus the growth of on-line sales will accentuate the pattern of polarisation and will pose even more challenges to smaller towns.

Changing customer and retailer demands: The retail sector is constantly evolving due to changing customer demands. Notable trends have been the consolidation of retail businesses, the diversification of retailers into new areas and the demand for larger modern units – a potential problem for smaller or more historic town centres which will intensify. Smaller towns may have to reinvent themselves and opt for a different role in the future.

Population changes: The last four decades have seen the UK's population grow at an accelerating rate. Strong growth is expected over the next 20 years, with a particular focus on the eastern and southern parts of the country.

The number of people aged 65-84 is expected to grow by 42% over the period 2011-2031, with a 100% increase projected in the number of over 85s. The 'grey pound' will become increasingly significant in retail terms, leading to greater spending on leisure activities. The strain of supporting an ageing population could also reduce overall consumer expenditure growth.

Mobility: Increased car ownership has given consumers the ability to travel further to larger retail centres and to buy more per trip. Out-of-centre facilities, with free parking, have gained at the expense of town centres generally. Further growth in car ownership is only likely to be marginal, so transport factors may have a less dramatic impact in the future, but congestion, parking charges and an attractive shopping environment will be key factors for town centres.

Conclusions

The trends discussed have helped shape our town centres and will continue to have implications for town centre retailing in the future. The outlook for town centres will depend on how some of these trends 'pan out' and possible combinations of different trends. In the short-medium term development viability is likely to remain constrained and major new town centre schemes will be limited. In the longer term, the trends mentioned will shape the amount, type and location of new space required.

Local authorities need to be wary of these trends and how they might affect their individual town centres. Lower retail expenditure growth and the threat from the internet may mean less retail development is required in the future, or even less total space in some centres, or that retailers will utilise the space they have in different ways. Mobility, accessibility and parking will remain key factors and authorities cannot afford to alienate car borne shoppers. Maintaining some sort of individuality within a town will also be key to avoid the 'sameness of many town centres' and providing for an ageing population with different shopping and leisure requirements will become increasingly important.

The multitude of land ownerships in most town centres makes effective action difficult but not impossible. Innovative solutions will be needed, although even the most proactive authorities may struggle to reverse the effect of some of these trends. Their aspirations have to be realistic, soundly based, and supported by a clear understanding of how new investment will be delivered in this more challenging economic climate. There may also need to be acceptance that some changes are permanent and rather than trying to reverse them, town centres need to evolve and develop a new focus/role within the retail hierarchy.

Introduction

Given the Government's stated policy objective for sustainable economic growth and its commitment to town centres first, this research examines the prospects for town centres and the challenges they face based on recent and ongoing trends.

PPS4 'Planning for Sustainable Economic Growth' continues to promote town centres as the preferred location for new retail development. This has been the steer of planning policy since 1996 and until recently, the scale of the town centre development pipeline appeared to support the claims of success. However, with many town centre projects stalled, and much of the growth in consumer spending being channelled to retail parks and online sales, these claims may prove premature, especially in some smaller town centres.

This piece of research examines key retail trends (past and future) and looks at how these have shaped the retail sector and will continue to do so in the future. We explore the implications for the sector and town centre development in light of these trends and ask how realistic or achievable is the 'town centres' first approach.

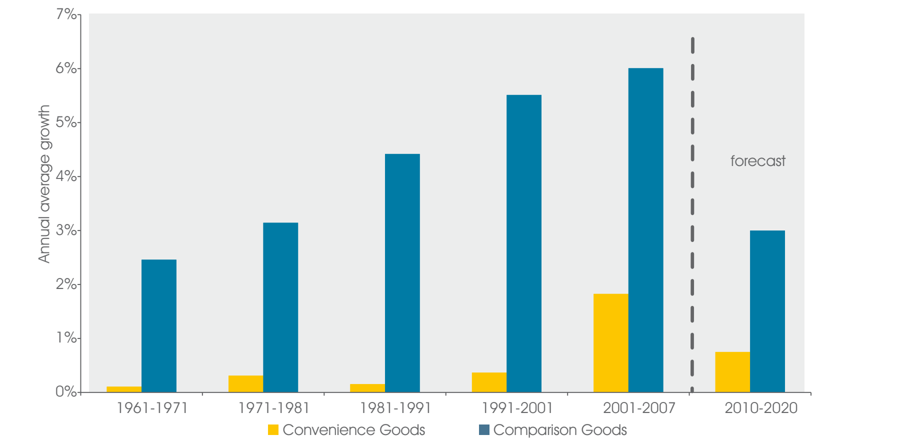
Retail trends – past & future

Retail spending growth

The last 40 years (1968 – 2008) have seen retail expenditure per head grow at 2.8% pa. This is higher than consumer expenditure per head growth at 2.4% pa, which was more in line with overall economic growth. As incomes have risen, greater proportions have been spent on retail goods and in particular on comparison or non-food goods, fuelling the demand for retail floorspace.

Growth in spending per head on comparison (non-food) goods has been exceptional. Chart 1 shows it accelerating from an average of just under 3% pa during the 1960s and 1970s to just over 4% pa in the 1980s, 5.5% pa in the 1990s and 6% pa from 2001 to 2007. In contrast spending on food has grown at a slow, steady rate of c.0.5% pa.

Chart 1: Expenditure per head



Source: Pitney Bowes/MapInfo/URPI Information Briefs 09/02, 06/02, 93/3, 83/1, Experian, GVA

The very strong growth in non-food expenditure per head, until the onset of recession, was underpinned by numerous factors including a lower tax burden, low inflation/interest rates, lower levels of savings and higher borrowing. Price deflation also boosted non-food spending, with cheaper imports from China/the Far East, coupled with competition from the internet forcing down prices. Total spending was also reinforced by strong population growth.

Many of these trends were unsustainable and the debt fuelled boom eventually led to a major recession. This has resulted in much weaker non-food expenditure growth, which even turned negative in 2009. Growth in food spending has been more resilient.

The next five years are set to see major cuts in public sector spending and employment, plus tax increases to reduce the huge annual budget deficit and public debt. This is likely to mean a relatively weak economic upturn and for the retail sector weaker income and expenditure growth for many years. This will be reinforced by the ageing population and pension concerns.

Outlook

- Recent forecasts by Experian expect non-food expenditure per head growth to average about 2.5% pa over the next five years and about 3% pa over the next 15 years. These rates are much lower than recent and longer term trends but are more in line with overall growth in the economy.
- Less development will be needed as a result of weaker expenditure growth. In some towns a contraction in retail space may be inevitable. Greater polarisation between centres will be inevitable.
- In many towns, development viability will remain a problem for some years due to weaker expenditure and rental growth, making new development more difficult, particularly for complex sites in multiple ownership.

The internet and online shopping

The need for physical space in the retail sector and the way retail space is used has been affected by the rising popularity of online shopping. Whilst the retail market overall has contracted during the recent recession, online expenditure has continued to grow by some 15% pa to £21.2bn in 2009 (Verdict, 2010).

Low cost, high speed internet access in more UK homes has led to increasing numbers of adults shopping online, with some 29.6 million forecast to do so in 2010 (nearly 60% of the adult population). This is almost triple the figure from 2004. Further growth in online shoppers will be limited as the numbers of computer literate adults, or those with broadband internet access approach saturation point.

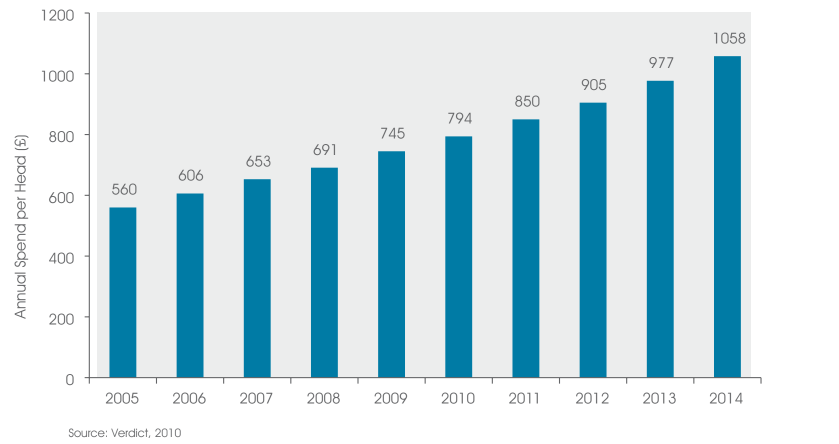
As customers have gained familiarity and confidence in a service which is often cheaper and more convenient than traditional methods of shopping, levels of online spending have risen. Chart 2 overleaf shows that by 2014 online expenditure per head is forecast to grow by a third.

Selling directly to the customer cuts out expensive overheads such as rent and staffing costs. This keeps prices low, which has helped to increase online sales during the economic downturn.

E-tail has penetrated certain retail sectors more than others impacting significantly on music and video sales in particular. Currently over half of the sector's products are purchased online. With consumers now able to download music and video files directly, in-store purchases are expected to continue declining, with online expenditure set to account for 70% of the market by 2013. The increase in illegal downloading has also exacerbated the sector's in-store sales decline.

Other retail sectors have not been as greatly affected, with online spending on goods such as clothing and footwear and food/grocery items growing at a slower, steadier rate, as consumers prefer to examine goods in person before purchasing, but even here attitudes are changing.

Chart 2: Online shoppers' annual spend per head



Outlook

- If on-line sales continue their rapid expansion and expenditure per head growth remains weak, net spending in shops may show hardly any growth while it will still be necessary to improve the quality of stock. This will have implications for quality of floorspace needed and the vitality of existing centres, particularly when sales density increases, due to increased trading efficiency, are allowed for.
- Most forecasters anticipate that the growth in online sales will slow as access to broadband reaches saturation within the next few years. But if this doesn't happen and online sales continue to grow strongly as shoppers become more and more familiar with shopping on line, this would cause serious problems for town centres and retail parks alike.
- With continued strong growth of online shopping the role of bricks and mortar retailing will evolve with shops becoming more like showrooms and collection points for on-line sales. This will lead to further evolution of retailers' branch networks.
- The internet will never completely replace the experience of shopping and the desire of shoppers to touch and feel products before buying them, but it will have to be made more enjoyable and exciting to compete with the convenience and lower cost of online shopping.

Planning policy evolvement to PPS4

National retail planning policy has evolved in response to the shift of new development from in-town to out-of-town during the 1980s and early 1990s. Concerns led to PPG6 in 1996 and PPS6 in 2005, placing greater emphasis on town centres and the requirement for all non-central development proposals to pass stringent tests on need, scale, accessibility, site availability and impact.

The new policy PPS4 (2009) whilst retaining/strengthening other tests, removed the 'need test' as a separate test in the assessment of new proposals. Town centres remain the principal focus for retail developments with impact assessments now the key test for retail proposals in non-central locations.

PPS4 also advocates the need to plan appropriately for new development through the local development framework and much of the analysis work required to assess a retail planning application is also vital in providing an evidence base to plan for retail need.

Town centre health checks are an important tool within the planning and development framework as they provide a wealth of information which can:-

- enable the vitality and viability of a town centre to be monitored,
- provide the base from which any potential need can be identified, both in terms of the quantitative need for new retail floorspace and also the qualitative need for improvement,
- be used to test the significance of any potential impacts from proposed retail development.

Outlook

- The coalition government will look at ways of encouraging retailer efficiency and promoting competition between retailers to keep inflation low and improve consumer choice. This may mean encouraging more development and weakening PPS4 controls on the location of new development. This could put pressure on town centres.
- If the coalition government favours a market led approach to new development and considers that town centres have been relatively unaffected by out-of-centre development, PPS4 controls may be lessened to encourage new development, particularly in edge-of-centre locations with good links to the town centre. The trend to edge and out-of-centre development would be reinforced if town centre development viability is weak due to high costs and weak expenditure and rental growth.
- Increasing competition by allowing more development could mean more foodstores and reinforce their expansion into non food areas. Depending on the location of new development, this could have ramifications for town centre vitality and viability.

Retail stock and development trends

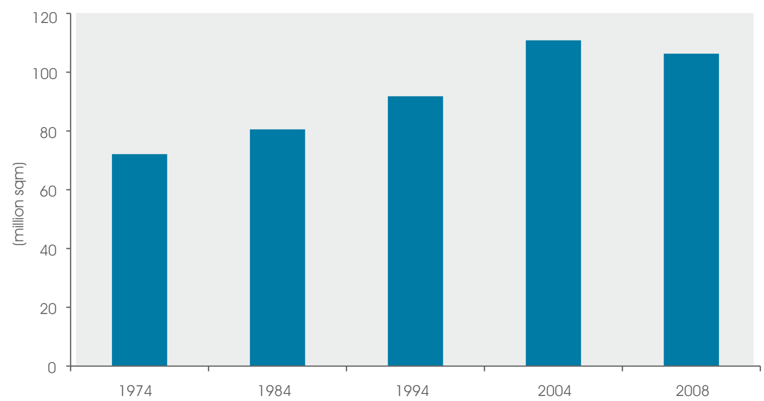
Retail stock in England and Wales has grown steadily over the last 40 years. Between 1971 and 2004 the total stock increased by 54% from 72.1 million sqm to over 110 million sqm. Direct comparisons with more recent figures are not possible due to definitional changes. Chart 3 shows the pace of development has accelerated with strongest growth 1994-2004 (+21%) compared with growth of 12-14% over the previous two decades.

Data from the ODPM/DCLG and BCSC showed how the location of new retail development in England has shifted, with the proportion of new space built in town centres decreasing from 64% in the mid 1970s to just 14% in 1994. By 2005, with the tightening of planning policy, 30% of new space was built in town centres and the BCSC predicted that it would reach c.40% by 2010/11. If edge-of-centre developments (within 300m of the primary shopping frontage) are included the respective figures are 23% in 1994, around 40% by 2005, and an estimated 50% by 2010/11.

The last decade saw an exceptional amount of town centre development, almost 50% greater than in each of the previous two decades, with numerous major schemes such as the Bullring in Birmingham, Liverpool One, and St David's 2 in Cardiff. In part this was due to the pro-town centre planning policies (PPG6 / PPS6) and in part due to the huge growth in comparison (or non-food) retail expenditure over the latter half of the 1990s and in the 2000s.

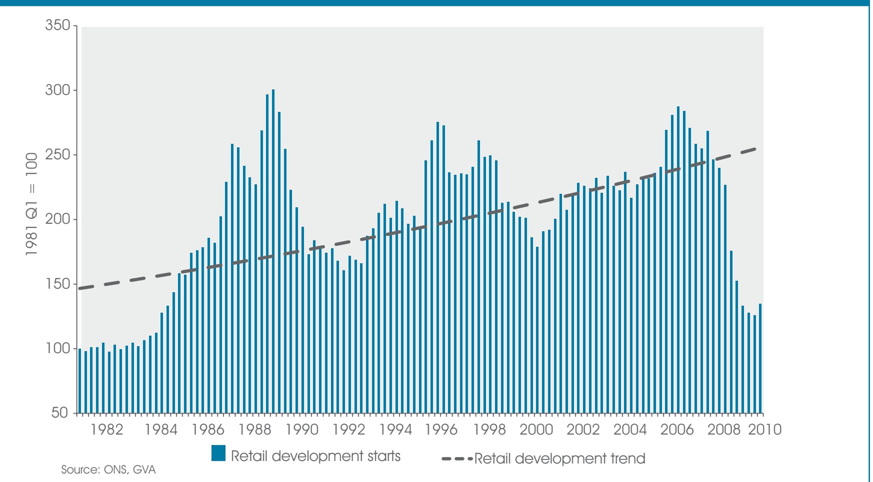
Strong retail expenditure growth, increased retailer demand, rental growth and lower interest rates resulted in lower investment yields, strong capital value growth and improved development viability. This coupled with the banks willingness/enthusiasm for property lending, encouraged a high level of development activity.

Chart 3: Retail stock in England & Wales



Source: ODPM Commercial & Industrial Floorspace Stats

Chart 4: New construction orders (constant prices) - 12 month total



But when the recession came, investment yields increased dramatically, rental values declined and development activity collapsed as chart 4 shows. New construction orders for retail at the end of 2009 were, in constant price terms, only 35% of their level two years previously, and lower than in the previous recession despite the UK economy being nearly 50% larger. Major town centre schemes have stalled and there is now only one due for completion in 2011 (Westfield, Stratford) and few major schemes scheduled to open in 2012.

Outlook

- Can town centre development activity return to the levels seen in recent years? Developers now face difficult decisions with viability constrained and likely to remain so for some time. Retailer demand, rental growth and consumer confidence will remain weak, and development costs will be under pressure due to planning gain requirements by cash strapped local authorities and sustainability issues.
- The challenge for major retail led town centre schemes is their size which makes them costly and lengthy to implement. Will the future see developers opting for smaller, less risky schemes, or development in phases, or will they simply look to redevelop existing assets, or lower cost development solutions in non-central locations?
- The difficulty of obtaining bank finance is likely to persist, putting pressure on the public purse to help finance schemes. Without this many stalled schemes may never get off the ground, however with budget cuts, public funding will also be constrained for the foreseeable future.
- What are the options for local authorities then? Edge and out-of-centre development, with lower development costs and lower operating costs, will remain attractive for developers and retailers. Despite PPS4, can local authorities simply ignore this and risk losing developments to neighbouring towns? With the problems of financing town centre schemes, local authorities may find edge-of-centre development, if well planned and linked in with the town centre, offers the pragmatic solution for achieving new development.
- Much will depend on how planning policy responds to the post recession environment and the stance taken by the coalition government. If it favours a more market led approach to new development, PPS4 controls may be weakened to encourage new development and increase competition. This may open the doors for more non-central development, particularly on edge-of-centre sites.

Development activity by size of town

PPS4 continues to promote town centres as the focus for development activity. Using the EGi shopping centres database (which covers all schemes of over 50,000 sq ft (4,645 sqm)), town centre development activity has been tracked from 1960 to the end of 2009. The analysis includes all schemes, both new builds and extensions, and includes projects which were already under construction in 2009. London is excluded from the analysis.

Retail development has fluctuated over the past five decades with 1.4 million sqm built in the 1960s, between 2.2 million and 2.9 million sqm built per decade during the 1970s, 1980s and 1990s and then 4.2 million sqm built between 2000 and 2009.

Over the last 50 years, the greatest amount of development, totalling nearly 3.6 million sqm, took place in larger towns with urban populations of 100,000 - 250,000. This equated to 26% of all new town centre retail space. A similar amount of space was built overall in the smallest sized towns (<50,000 people), although with significantly more towns of this size, in terms of space built per person it equates to only 0.15 sqm, compared with 0.57 sqm per person in the larger towns.

Towns in the two largests size bands have consistently contributed 45%-50% of the total development in each decade. Nearly all of the largest towns had new development during the 2000s and overall twice as much town centre space was built over the last ten years compared with the previous ten.

Analysis of the average amount of retail space built per person shows that over the last decade medium sized towns (75,000-100,000 people) have seen the most with 0.18 sqm built per person. This compares with 0.13-0.16 sqm per person built in towns of over 100,000 people. The figures show the concentration of development in the medium-large towns with smaller towns seeing much lower levels of development activity (0.045 sqm per person in towns of less than 50,000 people).

Outlook

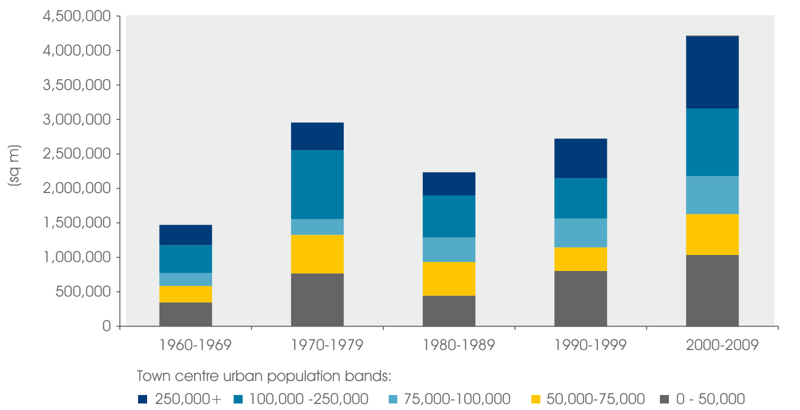
- The major retailers increasingly favour the larger towns. With strong investor demand for prime town centre retail schemes and with the recent fall in prime yields development viability may soon return. But even in prime towns simpler schemes with lower costs will be the order of the day.
- In smaller, more secondary towns, weak retailer demand, weaker retailer covenants, shorter leases and/or break clauses, and the threat from on-line sales may cause yields to remain high and development viability to remain poor, threatening the future of these towns. While market towns and local centres will be supported by their convenience and services offer, the ongoing pattern of polarisation will pose even more challenges to the mid sized, secondary towns.

Town centre retail development activity, 2000-2009

Town Size Band (Urban population)	Total Space Built (sqm)	% Towns with Development	Space built per person (sqm)
0 - 50,000	1,027,462	3.7%	0.05
50,000-75,000	592,084	42.9%	0.07
75,000-100,000	551,082	57.1%	0.18
100,000 -250,000	993,064	82.0%	0.16
250,000+ (excl. London)	1,051,661	93.8%	0.16

Sources: EGi, GVA

Chart 5: Town centre retail development by decade



Source: EGi, GVA (Figures include schemes under construction but exclude London)

Retailer trends

The retail sector is dynamic and constantly changing in response to consumers' demands. One key trend has been the consolidation of the market into fewer, larger retail businesses, as the table shows. The number of small retail outlets employing less than 10 staff has declined dramatically (-53%), contrasting with 5,837% growth in outlets employing more than 100 staff.

Multiple retailers now tend to dominate the core shopping areas of most UK towns giving rise to the term 'clone towns'. The recent recession however has hit the retail market hard with the collapse of numerous 'big' names such as Woolworths, MFI, Rosebys, Zavvi, Borders, Dolcis, Virgin, Faith, Land of Leather and Allied Carpets.

A key trend during these difficult economic times has been the strong growth at the value end of the retail market. Primark and Matalan, along with numerous 'pound' shops and value grocers such as Lidl and Aldi have all thrived in recent years. Other retailers such as Tesco, Asda, Sainsburys, Morrisons, Marks & Spencer and Waitrose have also launched 'value' ranges to compete for this growing sector of the market.

Competition and the fight for market share is driving many retailers to branch out beyond their standard/traditional retail offer to appeal to a wider audience. This is most evident amongst the grocers with the top four (Asda, Morrisons, Sainsbury and Tesco) branching out extensively into non-food markets. As the table above shows, significant proportions of their superstores are now dedicated to non-food ranges.

The fight for increased market share is not restricted to food retailers, with DIY stores offering wider ranges of soft furnishings, Next offering home furnishings/furniture and Boots offering toys, children's clothing, greetings cards, cameras and photo goods. Several retailers, including Asda, Tesco and Wilkinson have also launched their own catalogue services for non-food items to compete with the likes of Argos, offering home delivery or in-store collection.

With wider product ranges, demand has grown for larger stores. New store formats have also emerged, e.g. Asda Living, Tesco Homeplus, Next Home, Debenhams Desire stores and John Lewis at Home. In the current climate this has enabled some of these retailers, such as John Lewis, who have struggled to find the right space in town centres, to look at out-of-centre locations.

At the other end of the spectrum, food retailers keen to capitalise on the local convenience market, have developed smaller store formats to sit on high streets or in smaller shopping centres (e.g. Tesco Metro/Express). This trend has helped retailers increase market share in areas where planning policy would prevent the development of their larger format stores.

These trends all illustrate how the retail sector has evolved. Growth in the size of retail businesses, combined with expanding product ranges and new business formats has led to changes in the types of stores retailers are demanding and the locations they are prepared to trade in.

Retail stores by number of employees ('000s stores)

	Employment Size Group				
	0-9	10-19	20-49	50-99	100+
1971	432.1	27.7	9.6	2.1	1.5
2007	203.4	15.3	11.3	3.2	86.5
Change	-53%	-45%	17%	57%	5,837%

Source: ABI Division 52, Outlet Data

Proportion of non-food floorspace in supermarkets

	Asda	Morrisons	Sainsbury	Tesco
% of Non-food flrsp	48.8%	28.6%	33.2%	40.8%

Source: Verdict UK Grocery Retailing 2009 (Datamonitor). Figures are representative of main store format, i.e. superstores

Outlook

- Retailers will continue seeking larger, modern units. They no longer require stores in every town and the focus will be on the prime markets/larger towns and cities where suitable space can be accommodated.
- What is the future for small/medium towns? Retailers will focus efforts on the top 50-100 locations and aim to achieve all their turnover from large stores in these centres, and use multi-channel retailing such as the internet to fulfil other customer needs.
- This will compound the problems experienced by smaller traditional/historic towns which will find it increasingly difficult to meet retailers current space requirements. The only solution is to find more innovative designs or consider other options such as opening the door to edge and out-of-centre retailing. Or will smaller towns have to change focus and opt for a different role moving forward?
- Stores will no longer be simply points of sale, but will increasingly function as show rooms and/or collection points for internet orders, unless town centres can reinvent themselves with a more exciting offer and integrated leisure facilities to make the shopping trip more enjoyable and more of a quasi leisure experience.
- With town centre developments stalled, retailers are again turning their focus to out of centre locations and once they have moved out of centre will they go back? With retailers such as John Lewis, who would previously have anchored major town centre schemes, developing formats which enable them to trade from an out-of-centre location, is the future for town centre development under threat?
- Local authorities will face a difficult dilemma in circumstances where a retailer cannot be accommodated in a town centre. Do they allow them to move out-of-town, which could

threaten the viability of future town centre schemes, or risk losing them to a competing town, and thus not have them at all?

Rental value growth

In-town sectors have seen a lower rate of rental growth than retail warehouses over the last 20 years, as new supply has been constrained by planning policy (chart 6). However, in the recent recession, the performance of in-town and out-of-town retail property was almost identical, but over the last 12 months performance is diverging again.

Interestingly, in-town sectors have tended to under-perform retail warehouses during cyclical upturns, but performance has tended to be more similar during downturns. Within town centres, standard (high street) shops have underperformed in-town shopping centres and this trend is likely to continue.

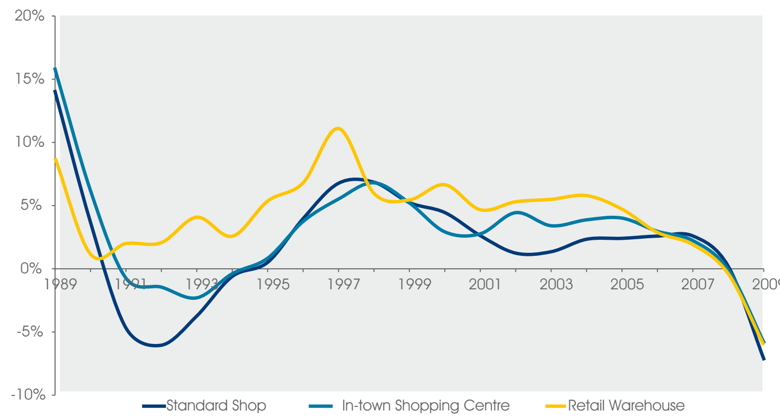
Since the start of the recent recession town centre rental values have fallen by about 10% on average, but this masks wide divergence at the local level. In central London, for example, prime rental values have increased slightly (significantly in Bond Street), whereas in some cities such as Birmingham, Leeds and Manchester they have decreased by nearly 20% and in others such as Cardiff and Plymouth they have fallen by as much as 35%.

The table shows long-term rental performance in real terms (by stripping out RPI inflation to account for the varying inflation environments over the last 20 years). Retail warehouses have seen a very strong trend rate of growth of more than 2% pa above inflation over the period, compared with in-town shopping centres where growth has been in line with inflation, and standard (high street) shops, which have seen a decline in real terms of -0.7% pa.

Outlook

- Retail warehousing is now a more 'mature' sector, and is unlikely to see the degree of out-performance going forward that it experienced over the last 20 years. The restrictions on out-of-town development and the focus on revitalising town centres is expected to continue, although there may be changes to planning policies. So supply constraints are likely to remain and this would mean continued out-performance for out-of-town retail property over the long term, although by a lower margin than in the past.
- Stronger rental growth in out-of-centre locations will increase investor demand and put downward pressure on yields and upward pressure on capital values. This will enhance development viability relative to town centre sites and increase pressure to permit more edge and out-of-centre development.

Chart 6: Retail rental value growth



Source: IPD Annual Index

Average rental growth in real terms

	1 year	5 years	10 years	20 years (trend rate)
Standard (high street) shops	-9.3%	-2.7%	-1.4%	-0.7%
In-town shopping centres	-8.0%	-2.1%	-0.6%	0%
Retail warehouses	-8.2%	-2.2%	0.3%	2.1%

Sources: IPD, GVA

Demographics

National population growth

In 1971, the UK population was just under 56 million. Nearly forty years later it has risen to just over 62.5 million - an average annual increase of 0.3%. However, the population has been growing at an accelerating rate. Between 1971 and 1991 the average growth rate was 0.14% pa, which is significantly lower than the 0.45% pa average between 1991 and 2010. Over the next 20 years (2011–2031) the population is forecast to grow even faster (0.66% pa).

Regional population growth

The latest ONS sub-national population projections reveal that the population in each Government Office Region is forecast to rise between 2008 and 2018. As chart 7 overleaf shows, the East of England is projected to be the fastest growing region, increasing by 10% (0.96% pa). Other high growth regions include Yorkshire and the Humber, London, East Midlands, South West and South East, which are all projected to increase by at least 8% over the same period.

The North East and North West regions in contrast are projected to show relatively low actual growth, of 4% and 3.5% respectively. Population forecasts for the other parts of the UK (2008-2018) show population increasing by 6.8% in N.Ireland, 4.7% in Wales and 3.7% in Scotland.

Local population growth

Local level projections over the same period (2008-2018), suggest only eight of the 354 local authorities in England will see a fall in population, with five of these being located in the North West.

By contrast, the local authorities with the highest projected growth of up to 15%-19%, tend to be in the southern half of England, (in the South East, East and South West regions).

Marked disparities can occur between local authorities within the same region, due to differences in land availability or local policies, and as localities become increasingly or decreasingly appealing or affordable over time. For example in Greater Manchester and Cheshire strong growth is expected in Manchester (over 25% between 1998 and 2018), Salford and Trafford, whereas in Cheshire low growth is expected in most local authorities, with a marginal decline expected in Chester and Ellesmere Port & Neston.

Changing age structure – an ageing population

Advances in healthcare and medicine mean people are living much longer, a trend that will continue for the foreseeable future. Between 1971 and 2011, the number of UK inhabitants aged over 85 almost tripled from just under 0.5 million to 1.45 million. Looking ahead, the number of people in this age bracket is expected to more than double to almost 3 million by 2031. The number of 65 to 84 year olds is also expected to rise considerably (+42%) over the same period (see chart 8).

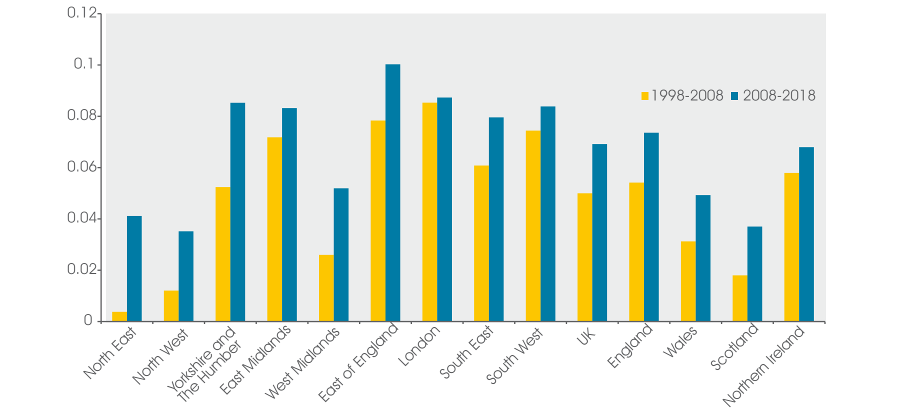
In contrast, the number of UK inhabitants aged 15 to 24 has not changed greatly over the last 40 years, with approximately the same number today (8.2 million) as in 1971 (8.1 million). Over the next decade, the number of people in this age group is expected to drop 8.5% to 7.5 million, before showing signs of starting to increase again.

Although the fertility rate in the UK has increased year-on-year since 2001, in 2008 it was 1.96 children per woman, remaining just below the natural replacement level of 2.1. This helps in part to explain the imbalance between age group numbers.

Outlook

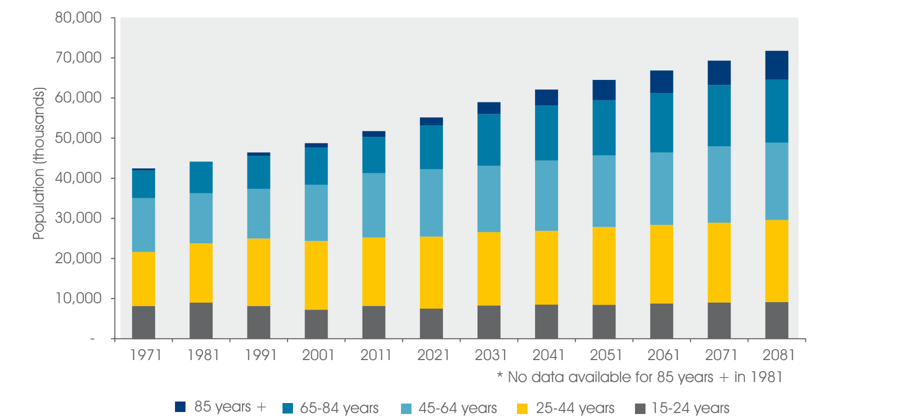
- In terms of the impact for the retail sector, increased life expectancy and immigration combine to add to the UK's 'top heavy' age structure, something which will continue to affect not only levels of expenditure per head but also its composition.

Chart 7: Estimated (1998-2008) and projected (2008-2018) percentage change in population in England (by Government Office Region), Scotland, Northern Ireland & Wales



Source: ONS, Welsh Assembly Government, General Register Office for Scotland, Northern Ireland Statistics and Research Agency

Chart 8: UK population breakdown by age range



Source: ONS, 2009

- Older people's purchasing habits are different, with a preference to spend money on leisure activities/holidays, with less on consumer products. This could be significant for the retail sector. The financial burden of supporting an ageing population will also place a further strain on the working generation, potentially reducing disposable income levels and therefore overall consumer expenditure.
- Retailers will need to adapt to the new 'grey market', a market often ignored in the past. It is likely that we see new formats and stores evolve specifically catering for older consumers. Older shoppers tend to favour smaller shops and independent retailers which are original, and provide quality products and strong customer service. They will tend to favour towns with good accessibility, which are not congested, and have an attractive environment where the retail experience is combined with good eating and drinking leisure facilities. Retailers will need to satisfy wants rather than needs.
- The growth of silver surfers on the internet is another important consideration, as these shoppers move away from traditional mail order/catalogue businesses. As we age mobility problems may make shopping more difficult and certain retailers have cited 'silver surfers' as the fastest growing sector of internet users, with them now making up a large proportion of online customer bases.

Mobility

Retail expenditure over the past 60 years has been significantly affected by improvements to public transport links and the rise in car ownership. The latter in particular, means greater distances can be travelled more easily and quickly, giving consumers better choice and the ability to purchase larger volumes of goods per trip than would be possible on public transport. Sixty years ago, more than 85% of UK households were without a car; today it is only a quarter.

Currently, approximately 45% of households own one car, 24% have two cars and 6% have three or more cars (see Chart 9). The growing numbers of multiple car households, as well as the general rise in car ownership, has greatly improved shopper mobility. This has fundamentally altered shopping patterns.

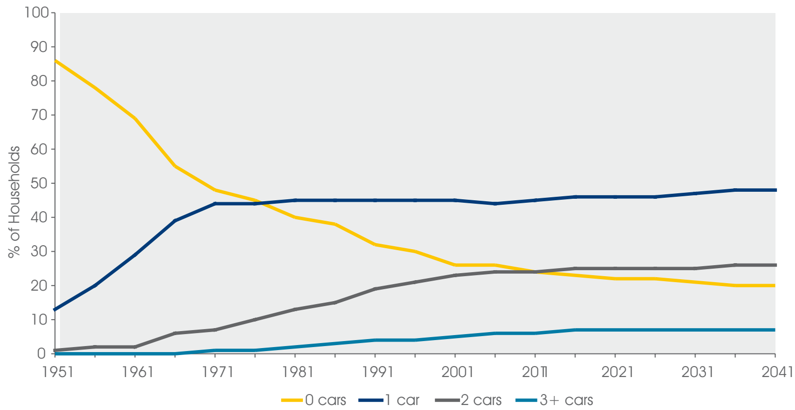
Convenience shopping is no longer about walking to the local shops it is typically undertaken by car at big supermarkets (bulk trips) and for comparison shopping, people are prepared to travel to visit bigger centres or retail parks.

These trends have increasingly favoured the larger, more distant, towns over the smaller nearby towns and out-of-town lcoations, with plentiful free parking, over town centres, with more constrained and costly parking, reinforcing the polarisation within the retail market.

Outlook

- The Department for Transport predicts that the proportion of households in the UK which do not own a car will continue to fall at a slow and steady rate to around 20% in 2041. There will be marginal growth in levels of car ownership until c.2036 when it appears that saturation of the market may occur.
- Mobility should be a less significant trend for the future as the same growth rate will not be experienced as in the past. Nevertheless, use of the car will remain crucial for shopping and towns that try to deter car usage will suffer. Car borne shopping is intrinsic now and policies to reduce car traffic to town centre schemes will be detrimental to town centre schemes that are in competition with easily accessible out-of-centre locations with ample free parking.
- Town centres that have an attractive shopping environment, with a good range of shops, and are accessible, with convenient inexpensive car parking, will prove successful.

Chart 9: Car ownership (1951-2041)



Source: National Travel Survey, Department of Transport, General Lifestyle Survey (Longitudinal) Office for National Statistics, 2008

Conclusions

- Town centres have suffered from the severe recession with falling rental values and higher vacancies and they will suffer from its aftermath. Government spending cuts and tax increases to reduce the annual budget deficit and high level of debt, will have a lasting effect on employment, income and consumer spending in towns where there is currently a high level of public sector employment. Personal levels of debt, which remain high, will gradually reduce and this will further affect retail spending growth.
- Retailers will also be affected by continuing strong price competition, intensified by the effect from internet based spending. They will look to reduce costs and will demand modern shops that meet their size and layout requirements. All these factors potentially threaten some centres, particularly smaller town centres, and will require town centres to be more proactively managed and maintained.
- Town centre retail turnover will be under pressure for many years to come and this will affect rental and capital value growth and hence the viability of new development. This will threaten some large town centre schemes which are dependant on expensive land assembly, high front-end infrastructure costs, complex design, high development costs, lengthy development timescales and the need for pre-letting to major space users.
- For some town centres, lower growth in expenditure, changing shopping habits and the concentration of shopping in the larger centres may mean that no new development will be viable or that a contraction in the size of the town centre may be required.
- Recognition that some of these trends may be permanent and not just temporary 'blips' is important as where the decline of a centre is already underway, the solution may lie in the form of a managed decline with conversion or redevelopment to other uses. It might be that some high streets/ towns will never go back to being major 'retail destinations'. This does not mean they have no future, they simply need to determine a different role/new focus for themselves going forward.
- The appeal of out-of-centre development (foodstores and retail parks) will increase relative to town centre development as development costs will be lower, rental and capital values will show stronger growth and the accommodation of large space users will be easier than in constrained town centre sites. Local authorities will have to be increasingly vigilant about the amount, composition and scale of out-of centre development, and be much more proactive over their town centres.
- Local authorities need to be wary of the trends mentioned in this bulletin such as mobility, accessibility and car parking, the sameness of many town centres, lower expenditure growth and the threat from the internet, the ageing of the population and how this will affect shopping and leisure activities in town centres. The multitude of land ownerships in most town centres makes effective action difficult but not impossible. Even the most proactive authorities may struggle to reverse the effect of some of these trends. Their aspirations have to be realistic, soundly based, and supported by a clear understanding of how new investment will be delivered in this more challenging economic climate.

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