REPAIR Real Estate, Place Adaptation and Innovation within an integrated Retailing system

Policy Brief

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Building Usage and Ownership

Adaptation and resilience of city centres

Executive summary

The retail sector is crucial to the economic health and vitality of towns and cities, and is a core component of the national economy. Yet, in the UK, structural changes have resulted in the volume of empty retail units reaching a record high with no sign that future demand will ever meet the supply (Simpson, 2021). Faced with the need to repurpose surplus city centre space, policymakers have promoted the development of more multi-functional places, but with this approach come issues relating to the dispersal and fragmentation of property use – a challenge that has long been a barrier to the co-ordinated redevelopment and management of city centres.

This Policy Brief is a summary of a study which examined changes in building usage and ownership. The study formed part of a wider retail research project[1] conducted across the retailing cores of five regionally significant cities (Edinburgh, Glasgow, Hull, Liverpool and Nottingham). The wider project aimed to better understand the adaptive capacity and resilience of city centres. The study's findings are intended to support policymakers charged with managing urban centres by making the following recommendations:

Establish ownership and occupier property databases to enable local authorities to monitor use and ownership changes across central retailing areas.

Develop standardised micro-level diversity metrics which pay attention to use and ownership changes at the 'micro' level (i.e. the block or individual properties).

Expand the current system of prior approvals required in conservation areas for conversions from commercial, business and service use (Class E) to residential (England) to include all ground floor conversions of local authority designated retail frontages.

Increase monitoring of city centre change and introduce processes and resources that enable local authorities to effectively deal with signs of urban decline.

Develop 'shared vision' city centre masterplans which pay attention to street level micro-environments and facilitate the management of successfully co-existing mixed uses, akin to the micro-management approach undertaken by shopping centre operators.

Provide new urban management vehicles (e.g. property owner BIDs or property owner associations) to lead to the development of shared objectives that help support and co-ordinate owners in the proactive management of their assets.

Introduce investor-orientated policies to assist and incentivise private-sector investment in city centre properties.

Increase provision of local services both to better support city living and facilitate the repurposing of surplus space.

Economic and Social Research Council

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Background

Retailing is experiencing unprecedented change, especially in the aftermath of the Covid 19 pandemic. Its associated lockdown measures accelerated already established structural changes in UK city centres, evidenced through increasing business failures, vacancies, uncertainty and instability. Moreover, for city centre businesses, the impacts of shopping and banking increasingly moving online have been compounded by the effects of rising operational costs, including labour (the introduction of a minimum 'National Living Wage' in 2016) and business rates (the revaluation of business rates in 2017 which were based on higher market rents established in 2015).

To seek to reverse the cycle of decline, policymakers have shifted their focus towards the promotion of more diverse, non-retail uses in areas once dominated by retail. However, with multi-functional places comes fragmentation of use, whereby the resultant dispersal of stores increases the time and effort involved in shopping and, as claimed by Reimers and Clulow (2004), could reduce the likelihood of both impulse buying and 'comparison shopping' (a form of browsing). Another consequence of repurposing retail units to non-retail usage (e.g. residential or offices) is the issue of 'dead frontages'. These impact upon the micro-environment of a street by breaking up the continuity of shop windows, disrupting pedestrian activity and subsequently affecting both spend patterns and the rents that shops can command. This demonstrates how retail and other uses are not necessarily allies in achieving city centre vitality. Moreover, fragmentation of ownership has long represented a barrier to the co-ordinated redevelopment and management of city centres.

These issues are growing in significance as stakeholders in city centres try to manage the decline in physical retailing and transform obsolete retail units. Yet our understanding of changes in property usage and ownership, and the impact in potentially facilitating or inhibiting urban change, remains weak. The study's aim was to address this gap.

Research approach

The study was novel in two ways. First, it took its cue from ecological economics, with a focus on the 'richness' and 'diversity' of property usage and ownership between 2000 and 2017 within each of the five case study city centres. The number of different uses is a measure of richness, reflecting that new, emerging uses enter the retail property market all the time, while others may cease. Meanwhile diversity represents the evenness, as well as number, of different uses (i.e. the relative abundance of uses). The theory goes that the more diverse a shopping district is in terms of its uses and the actors involved, the higher its resilience to economic change (Capello *et al*., 2015).

Second, the study was innovative in its development of extensive spatio-temporal databases. These provide an almost complete picture of building usage and ownership in each case study centre and can be used with geospatial mapping technology to illustrate and analyse the impacts of change. Constructing the databases involved linking data from different public and private sources in a manner not previously attempted. This allowed for a comparison of property usage and ownership across the five case study centres to reveal both similarities and differences over a period of almost two decades (2000-2017).

In selecting the case study cities, a northern UK sample sought to avoid additional complexities relating to north-south economic imbalances. Additionally, to enable the study to yield meaningful and applicable insights into retail regeneration and redevelopment processes *writ large,* the recent mixed fortunes of the case study centres also underpinned the rationale for their selection. Finally, the defined study areas were those parts of each city centre where planning policy has traditionally concentrated retail development, which – for simplicity – are referred to as primary shopping/principal retail areas.

Findings

Against the backdrop of increasing vacancies, the study recognised the importance of both property usage and property ownership in generating urban change. In relation to these two areas, the following provides a summary of the key findings.

Property usage

Overall, after a period of retail dominating the case study centres in the early 2000s, we are seeing a rise in retailer failure rates and greater change in property use. This rise in different uses implies multi-functionality and greater variation within retailing centres, and potentially greater resilience arising from a wider economic structure that is less vulnerable to shocks experienced in one sector. Over the whole study period, nearly all the case study centres saw the number of different uses rise following development activity. When averaged across the five city centres the main property use categories present in 2017 were (in decreasing order):

1. **Comparison retailing** (sales which rely on shoppers comparing similar products from different retailers, for example, clothing or electrical goods): despite being the largest property use (32%), comparison retailing has contracted.
2. **Offices/commerce and storage facilities**: the number of units in this use category grew over the study period. This increase was, in part, the result of subdividing the large floor plates of previously single occupancy retail units or vacant office accommodation into smaller, more flexible spaces.
3. **Empty properties**: 'vacant' not only represents the third largest property 'use', but also the 'use' which saw the greatest growth overall.
4. **Food and drink establishments** (hospitality): a growth industry across all the study areas.
5. **Convenience retailing** (e.g. grocery stores, delicatessens and newsagents): recent growth has mainly been driven by the supermarket trend of 'little and more often' grocery shopping, featuring smaller store formats.
6. **Serviced accommodation** (e.g. hotels, aparthotels, hostels, self-catering units and purpose-built student accommodation, known as PBSA): the growth in this category was only marginally behind that of empty properties (both being well above other increases). This growth was mainly serviced apartments and short term lets, as well as PBSA, but also hotels. Apart from PBSA, these new uses have typically been conversions of former banks, lower quality office space and vacant upper floors previously used as storage.
7. **Residential**: the conversion of redundant office and storage space to residential units was a continuing trend in all case study areas.
8. **Entertainment, leisure and recreation** (e.g. museums, entertainment venues and sports facilities): dominated by local conditions, this category showed only small changes and no consistent patterns.
9. **Public and social value services** (e.g. medical surgeries, libraries, nurseries and tourist information): in general, this category has contracted since 2010, possibly related to the well-documented public sector austerity cutbacks.

The data also revealed some patterns of note in property usage:

- The rise in vacancies outstripped all other use changes suggesting that, while a degree of resilience is evident in the case study centres (as reflected by the growth seen in use richness and variation in diversity), both the speed and scale of adaptation cannot keep up with the parallel surge in empty properties.
- The expansion in hospitality is helping to offset the decline of comparison retailing. To a lesser extent this decline is also being offset by the growth in 'service shops' (e.g. hairdressers/barbers and tattoo parlours) and experiential retailing (such as training events or masterclasses, or promotional events to enable customers to try products in-store). Both often take the form of local independent occupiers, who can now afford city centre locations as wide scale vacancies have seen property rental values fall significantly.
- All centres lost department stores, leaving large and awkward spaces that have been slow and problematic to adapt.
- While residential, PBSA and serviced accommodation has grown, a parallel provision of public and social value services (e.g. doctors' surgeries, libraries, schools, etc.) has failed to keep pace, despite the necessity of these facilities to serve growing city centre populations.

Property ownership

The study revealed a steady decrease in ownership by UK financial institutions in four of the five case study centres, and a rise in ownership by overseas investors, private individuals and unlisted property companies – thus increasing the number of small-scale investors. This rise in fragmented ownership points to the following impacts:

- Decreasing institutional ownership has implications for the quality of the building stock. Capital-rich financial institutions are better able to actively manage their assets (e.g. maintaining the quality of ageing buildings and refurbishing existing space), whereas smaller investors are more likely to fund their activities with debt and may not have the resources to adopt anything more than a passive approach to managing their assets. In parallel, therefore, large institutions have less impact on the state of repair (and more widely on the built form) of city centres than they once did.
- Debt-funded smaller investors are also hostage to the rigid requirements of lenders, who have been increasingly restricting retail investment loans. This may hamper city centre retail maintenance and/or regeneration.
- When financial institutions do hold retail units, they tend to be concentrated on the traditional prime retail pitch. Thus, in terms of ownership, city centres have become more spatially uneven, leaving smaller investors – in units outside the prime pitch – more susceptible to the ever-present threat of shifting pedestrian flows, which can lead to locational obsolescence. Indeed, the study identified instances of the 'butterfly effect', whereby changes in property use which altered how people moved around a retailing centre had a big impact on vitality.
- The rise in private individual investors and small property companies indicates a possible decrease in the 'professionalisation' of property ownership. Lacking expertise, smaller private investors tend to rely more on external property advisers to help manage their assets. This may have implications for the co-ordinated management of city centres.

Policy Recommendations

Within the wider context of continued calls for business rate reform and government consultation on the viability of introducing an online sales taxation to finance local authorities more equitably (McNeill, 2021; HM Treasury, 2022), the following recommendations for action are necessary for the evolution of city centres:

- **Establish ownership and occupier property databases** for local authorities to monitor empty properties, particularly at ground floor level, as well as use and ownership changes across central retailing areas. This would reveal the progressive nature of 'creeping' changes, allow the effects of new use/ownership activities on urban vitality to be monitored and evaluated, and for the impact of new policies to be assessed.

- **Develop standardised micro-level diversity metrics** to enable a consistent approach to the monitoring of change at the 'micro' level (block level, at the least). This would aid a better understanding of intra-urban spatial effects, such as how specific areas may come to compete with each other as retailing continues to decline. Knowing this information would also help local authorities in managing retailing centres, including the management of 'butterfly effects' and unintended changes. Importantly, as local authorities seek ways to manage planning's new flexibility[2], the availability of micro level metrics would inform Article 4 Directions[3], which must apply to – and draw evidence from – the smallest geographic area possible.

- **Expand the current system of prior approvals**[4] required in conservation areas for conversions from commercial, business and service use (Class E) to residential (England)[5] to include all ground floor conversions of local authority designated retail frontages where specific design characteristics are deemed important to the character of the shopping street, and to maintain flexibility for future adaptations, including reversions to retail.

- **Increase monitoring of city centre change** to identify signs of urban decline and poor building maintenance. Where problems are identified, local authorities should have the mechanisms to request change from landlords and occupiers, which may include providing support, for example building maintenance grants to help deal with emerging problems.

- **Develop 'shared vision' city centre masterplans** that are underpinned by partnership working to encourage retail regeneration and redevelopment initiatives and guide change towards complementary uses, so mixed uses can be harnessed to support retail. The masterplans would treat a central retailing area as a single entity, in an approach akin to the micro-management undertaken by shopping centre operators with respect to retail mix and mall layout. The newly introduced Masterplan Consent Areas in Scotland could be employed as a mechanism for a managed but more flexible approach to planning permission for land use changes specified in the masterplan.

- **Provide new urban management vehicles** to offer small investors support and co-ordinate owners in the proactive management of their assets. Existing UK urban partnership initiatives, such as Property Owner BIDs (Business Improvement Districts), found in London, could be extended. Alternatively, Property Owner Associations, common in the US, are known to be effective in managing multiple ownership in commercial districts. The shared visions established by such partnerships could inform masterplans for retailing centres and assist in galvanising the actions of this increasing disparate group of stakeholders.

- **Introduce investor-orientated policies** to assist and incentivise the increasing numbers of smaller investors to actively manage their property holdings, and encourage more investment by financial institutions. This may include the introduction of grants and/or tax credits to 'de-risk' the repurposing of large redundant floor space. Reducing the financial barriers for investors, would support the repurposing of unviable redundant retail space, such as former department stores, and encourage greater private-sector investment focused on creating more resilient, mixed use city centres.

- **Increase provision of local services**, such as health, education and community facilities, to better support city living. These facilities may offer a partial solution to the repurposing challenges presented by the physical depth of large, vacant department store buildings, as many of these services do not rely on passing trade and frontages, yet they bring people into a location.

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Further reading

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Endnotes

[1] Real Estate, Place Adaptation and Innovation within an integrated Retailing System (REPAIR) supported by the Economic, Social and Research Council [grant number ES/R005117/1].

[2] The Planning Use Class E (2020), but particularly the 2021 permitted development rights which allow the conversion of premises within Class E (Commercial, Business and Service) to residential.

[3] Article 4 Directions disapply permitted development rights, to avoid unacceptable adverse impacts. However, local authorities must target their assessment of these impacts to a specified location – for example, an individual shopping street.

[4] Some types of permitted development require a ‘prior approval’ application, which – in turn – may require the submission of an impact assessment. For a change of use, prior approval is sought to ensure specified parts of the development are acceptable, even though the proposal is already acceptable in principle. This allows any likely impacts (e.g. on highways) to be mitigated. For frontages in conservation areas, prior approval relates to design.

[5] Class MA permitted development rights.