SWALE BOROUGH COUNCIL

Retail and Town Centre Study addendum (draft)

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CB RICHARD ELLIS

BACKGROUND

1. In late 2010 CB Richard Ellis completed a report for Swale Borough Council identifying, amongst other things, quantitative capacity for new comparison retail floorspace. We were subsequently asked to prepare an addendum examining the capacity for two types of comparison floorspace: that selling bulky and DIY goods[1], and that selling other types of comparison goods.

2. The reason for undertaking this exercise this is that bulky and DIY goods are generally sold from larger, warehouse-type retail units, which are often difficult to locate in town centre locations. In contrast, other types of goods can generally be sold from both smaller format town centre units and, if necessary, larger format out of centre units. The revised modelling exercise will therefore assist in identifying appropriate locations for new comparison retail floorspace.

METHOD

Overall approach

3. Our assessment relies on the household survey undertaken for the main study. That survey asked a range of questions about where residents of the study area (which includes and extends just beyond the boundary of the borough) shop for comparison goods. The results of the survey allowed us to calculate the market share of Swale's existing comparison retail floorspace, i.e. how much of the expenditure available from residents of the study area was spent in stores in the study area.

4. For this new analysis we have weighted the different questions in the study to reflect the fact that some apply solely to purchases of bulky/DIY goods, others solely to non-bulky/non-DIY goods, and others apply to both. This allowed us to calculate separate market shares for the study area for both bulky/DIY goods and non-bulky/non-DIY goods.

5. We identified a market share for bulky/DIY goods of 63.6%. In other words, just over a third of all available expenditure from residents of the study area is spent outside the borough on these types of goods.

6. The market share for non-bulky/non-DIY goods is 46.3%, with over half of all available expenditure spent outside the borough.

7. The compares with the 50.6% market share we identified for all comparison goods.

Population

8. Population forecasts remain the same as in the main study. They are set out in the frontispiece to the tables included as Appendix A.

[1] By 'bulky goods' we mean furniture and floor coverings (but excluding household textiles); and soft furnishings and domestic appliances. By 'DIY goods' we mean repair and maintenance materials; tools and equipment for house and garden; gardens plants and flowers; and a proportion of furniture and floor coverings. A proportion of non-durable household goods (notably some cleaning products) is also generally regarded as a DIY good, but it is a convenience good rather than a comparison good, and we therefore exclude it from this exercise. The definitions are provided by Pitney Bowes Business insight (PBBI).

Expenditure per capita

9. Expenditure per capita estimates, by zone, are sourced from the same area profile reports we prepared for the main study. They are based on data provided by Pitney Bowes Business insight (PBBI). The data is broken down by PBBI into different categories of expenditure. We have aggregated these to identify expenditure per capita on bulky/DIY goods and on non-bulky/non-DIY goods. In doing so we have taken care to avoid double-counting those goods that are regarded as both bulky goods and DIY goods.

10. The expenditure per capita is then estimated for forecast years by growing it at the rates set out in the PBBI/Oxford Economics Retail Expenditure Guide 2010/2011 up to 2020, and estimated by CB Richard Ellis for years beyond 2020.

11. The expenditure per capita is set out in Table 3.1 for non-bulky/non-DIY goods and Table 4.1 for bulky/DIY goods.

Total available expenditure

12. The total available expenditure is the product of the population multiplied by expenditure per capita for each zone and for each year. The forecast available expenditure is set out in Table 3.2 for non-bulky/non-DIY goods and Table 4.2 for bulky/DIY goods.

Market shares

13. As we explain above, market shares have been weighted for both non-bulky/non-DIY goods and bulky/DIY goods. These are set out in Table 3.3 and Table 4.3 respectively.

Implied spending patterns

14. In the light of the refined market shares for non-bulky/non-DIY goods and bulky/DIY goods, we have prepared revised spending patterns. These are set out in Tables 3.4 and Table 4.4.

Commitments

15. We have assumed that all the commitments for comparison floorspace will come forward as non-bulky/non-DIY floorspace. This is set out in Table 3.5 and Table 4.5.

ASSESSMENT OF CAPACITY

Non-bulky/non-DIY comparison floorspace

Base case

16. Dealing first with non-bulky/non-DIY floorspace, we start by setting out the total available expenditure in 2010 (£306.4m), followed by the known expenditure retained in the study area (£141.8m). This implies a retention of 46.3% of non-bulky/non-DIY expenditure within the study area. We assume that this market share is maintained for the remainder of the study period. By 2025, therefore, we anticipate that £266.2m would be available to support non-bulky/non-DIY comparison floorspace in Swale Borough, the result of population growth and anticipated increase in expenditure per capita.

17. For all years we then estimate that 5% of all turnover of stores in the borough would be from inflow, i.e. from shoppers living outside the borough. This provides the total available

expenditure to support non-bulky/non-DIY comparison floorspace, which increases from £149.2m in 2010 to £280.2m in 2025.

18. Existing stores turnover in 2010 at £149.2m, meaning that we assume the market is currently in equilibrium, i.e. there is enough floorspace to meet current expenditure. We go on to assume that the existing stores will improve their sales densities over time. We then assume an increase in the sales density of existing stores of 1.5% for 2011 and between 2.2% and 2.3% per annum for subsequent years[2], before allowing for an increase in online expenditure[3]. Finally, we deduct the estimated turnover of commitments. We do not anticipate that their sales density will improve, as they will be formed of new, modern floorspace.

19. This provides the residual available expenditure to support new floorspace. We forecast that the residual available expenditure in 2015 will be negative, as the additional expenditure available from a larger population and an increase in spend per capita will be addressed through committed floorspace, improvements in sales densities of existing stores and greater online spending. Some limited capacity is anticipated to arise by 2020, with a more significant increase by 2025.

20. In the main study we anticipated that all new comparison floorspace will turnover at around £5,000/sqm. We think that new non-bulky comparison floorspace would turnover at around £6,500/sqm. This implies an oversupply of non-bulky floorspace in 2015 of 3,600sqm gross, a requirement for 1,000sqm gross in 2020 and a requirement for 7,300sqm gross in 2025. This is set out in Table 3.6.

Sensitivity analysis

21. We note above that we assume an increase in the sales density of existing stores of 1.5% for 2011 and between 2.2% and 2.3% per annum for subsequent years. Although this is consistent with advice from Experian, we recognise that it might be difficult to achieve simply through improved trading practices. We have therefore run an alternative scenario whereby sales densities improve by 1.5% per annum.

22. This has only a limited impact in the short-term, reducing oversupply of non-bulky/non-DIY to 2,700sqm gross. In the medium- to long-term it implies a slightly higher requirement for 3,300sqm gross 2020 and a requirement for 11,200sqm gross in 2025.

23. This serves as a reminder of the importance of keeping trading patterns under review in the medium- to long-term, in order to understand the extent to which sales densities are improving (and the extent to which this is driven by improved trading practices as opposed to a lack of supply of new floorspace). This is set out in Table 3.7.

Improved market share

24. In our main study we modelled the floorspace requirement that would arise from an improved market share; that is, capturing a proportion of the expenditure that is currently spent at retail destinations outside the borough.

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[2] This is consistent with advice from Experian, a leading source of advice on retail forecasting, but we recognise that it might be difficult to achieve in reality. We therefore provide a sensitivity analysis later in this addendum.

[3] This is based on advice from Experian.

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25. Given that the bulky/DIY goods market share is already reasonably high, we have modelled only an improved market share for non-bulky/non-DIY goods. An equivalent improvement in share to that modelled for the main study (an increase from 51% to 60%) would mean seeking to increase the retention level for non-bulky/non-DIY comparison goods to around 63%, from its current level of from 46%. Doing so implies a floorspace requirement of around 8,800sqm gross by 2015 and 16,300sqm gross by 2020. This is set out in Table 3.8.

Improved market share (sensitivity analysis)

26. As above, we have prepared a sensitivity analysis in which we assume that the sales density of existing floorspace improves by 1.5% per annum, rather than by 2.2% to 2.3% per annum. It implies a requirement for 9,700sqm gross floorspace by 2015 and 18,600sqm by 2020. This is set out in Table 3.9.

Bulky/DIY comparison floorspace

Base case

27. Our approach to bulky/DIY goods is the same as that for non-bulky/non-DIY goods. However, the estimated sales density used in the main study (£5,000/sqm) and that used in the non-bulky analysis above (£6,500/sqm) would imply a sales density for the bulky/DIY floorspace of around £3,950/sqm. This is higher than would normally be expected of bulky/DIY goods floorspace, so for that reason we have also calculated the floorspace requirement assuming a sales density of £2,000/sqm.

28. The fact that no bulky goods floorspace is committed, coupled with the borough's relatively high level of retention for bulky and DIY goods expenditure, means that there is a requirement for new bulky and DIY floorspace of around 2,300sqm gross (or, using a more realistic sales density, of 4,600sqm gross), by 2015. This is set out in Table 4.6.

Sensitivity analysis

29. As with the non-bulky/non-DIY exercise, we have undertaken a sensitivity analysis using a lower estimate of improvements in sales densities (1.5% per annum rather than 2.2% to 2.3%). It slightly increases the requirement for 2015 to around 3,000sqm gross (or, using a more realistic sales density, of 5,900sqm gross), by 2015. This is set out in Table 4.7.