

# Retail in London: Working Paper J

## The impact of planning on competition and productivity

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This paper forms part of GLA Economics' wider study of the retail sector in London. It examines the relationship between retail competition, productivity and planning policy. To analyse this relationship comprehensively would require a full, quantified appraisal of all the costs and benefits of planning policy with respect to the retail sector – covering environmental, social equity and wider land-use issues. Such an analysis is beyond the scope of this study. As a result, this paper concentrates primarily on the impact of planning policy on the retail sector, from the perspective of economic efficiency. It does not focus on the broader themes that frequently link other parts of planning policy with the retail sector, such as the need to reduce traffic congestion and emissions, encourage public transport use and meet a wide range of other land-use and environmental policies. This paper does not represent formal Mayoral planning policy but is intended to help inform future policy development.

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## Executive summary

Planning policy in the retail sector has undergone a number of changes over the past 25 years. For over a decade from the early 1980s until the mid-1990s, retail planning policy favoured a market-led approach leading to new types of retail development such as out-of-town shopping centres. However, a new version of Planning Policy Guidance 6 (PPG6) published in 1996 had a new emphasis on development-led retail planning and introduced the sequential test in favour of town-centre development. Further revisions to the system were introduced in March 2005, with the introduction of Planning Policy Statement 6 (PPS6).

Retail planning policy has influenced and been influenced by a number of changes in the structure of retail developments. Up to the early 1980s, most shopping developments occurred in town centres. However, the 1980s and 1990s witnessed the growth of out-of-town retail warehouses, shopping centres and factory outlets. This changed retail landscape in the UK means town-centre development is becoming less common than out-of-town development. These changes also occurred in London but have been less conspicuous, with the role of town centres being maintained to a larger degree than elsewhere in the UK.

The version of PPG6 published in 1996 sought to reverse the move towards out-of-town development. It can be seen as a deliberate attempt to prevent the sprawling, car-dependent pattern of US retail development being replicated in the UK. Retail planning takes account of a range of factors including local amenity and transport issues and is a powerful policy lever to deliver objectives in these areas. However, these objectives will only be successfully met if they are accompanied by a thriving retail sector. For this to occur, development proposals must come forward from the private sector – which means understanding the requirements of retailers and how they are affected by planning policy.

Many retailers believe there was tension in the PPG6 between its two stated aims of directing retail development to town centres and maintaining an efficient, competitive and innovative retail sector. Retailers argue that not enough emphasis was placed on competition in the application of PPG6.

A competitive retail sector with high productivity is important for the UK economy in a number of ways – especially in controlling inflation and boosting the economy. However, a number of studies provided evidence that the UK's retail productivity is lagging behind that of France, and, in particular, the US – both in absolute terms and in annual productivity growth.

Planning is only one of a number of factors that influences retail productivity. It can constrain productivity by imposing restrictions on the size and, more particularly, on the location of stores. This leads to sub-optimal developments from an economic perspective. More important are the indirect costs when planning constrains competition through barriers to entry, raises the costs for land and property and increases transaction costs. The planning system also has similar implications for other land uses in the UK.

Since the introduction of the revised PPG6 in 1996, retailers' and developers' ability to build new stores solely to their own requirements has been reduced. It is more difficult to successfully obtain planning consent for large DIY stores, grocery supermarkets and general out-of-town retail developments. However, planning restrictions on large stores reduce productivity by stopping UK retailers from maximising economies of scale at the store level. Evidence suggests this is relevant to a certain extent within the grocery sector, and highly relevant within the DIY and furniture sectors – retailers claim the construction of larger stores allows significant productivity gains.

Another key constraint to retail productivity is barriers to entering the sector. Setting limits on retail floor space in a given geographical area potentially restricts competition by barring access to prospective new entrants, as does the requirement to show need for a new development. Furthermore, when planning limits potential sites for development, there is a strong incentive for existing major players to acquire this land.

While planning makes it difficult for new stores to emerge, it effectively preserves the status quo for existing retailers. Evidence shows that the emergence of new entrants is a key requirement for higher productivity. Planning that constrains new entrants then is damaging, reducing competition and lowering industry productivity. Potentially, a new entrant's only strategy is acquisition, while existing players continue to increase market share in existing stores.

The UK planning system also affects retailers through its role in increasing the price of land, which feeds through to retailers in the form of higher rents. It does so in two ways. First, it limits the amount of land available for development – meaning land prices over the whole economy increase. Second, it controls the amount of land available for each category of use (eg housing, retail or industrial) – leading to substantial discontinuities in land values over very short geographical distances, with retail land prices raised far above, for example, neighbouring agricultural or warehousing land prices.

The planning system also imposes direct costs on retailers through various administration costs and the delays that can occur within the planning process. These financial and time costs can all be considered the transaction costs of dealing with the planning system. Delay in planning applications, in particular, can lead to significant economic losses, as land and resources remain unused and the potential benefits of investment are lost.

In March 2005, PPG6 was replaced by PPS6. This new guidance appears to have considered many of the issues mentioned above. In particular, PPS6 aims to increase the amount of development sites in town-centre and edge-of-town centre locations to ensure that retail needs can be fully met. Additionally, PPS6 recognises the potential benefits of larger stores and opens the way for new large store development at edge-of-town centre sites.

Another improvement in PPS6 is its recognition of the need, in some cases, to develop new retail centres to meet the needs of under-served, deprived areas. Implementation of the guidance is now crucial. This report highlights the key point that the process of entry and exit (of both new and existing firms) has a significant effect on productivity growth in the

sector. The major constraint on such growth is barriers to new entrants, which can arise from customer loyalty to existing retailers, access to capital and, to some extent, the planning system. The implementation of PPS6 (provided that planners are able to identify and allocate sufficient sites as envisaged) should mean the planning system will help improve retail productivity.

In 2004, Experian estimated London's future retail floor space needs for GLA. Their work took account of floor space productivity (as distinct from labour productivity) and of factors such as Internet retailing and the existing pipeline of major development proposals. Results suggest that London may need an additional 1 – 1.5 million square metres in comparison goods floor space (in net terms) in the 15 years to 2016. In contrast, national estimates forecast the net need for convenience goods space to be significantly less.

It is true, of course, that London presents its own unique challenges to policy-makers considering and applying planning policy to retail and also to other areas. With a finite supply of land and a substantial population, the city has a higher population density than other UK locations. This concentration of people means demand for land is not confined to retail. Planners need to balance retail needs with other demands on land such as housing, transport, education facilities and so on. This population density also means that London has distinct congestion issues and therefore a greater need to encourage public transport use. Moreover, London is distinct from many other areas – its past development coupled with the finite supply of land means that over 90 per cent of development now occurs on recycled/brownfield land.

Planning Policy Statement 11 (PPS11) provides national guidance on Regional Spatial Strategies and provides the scope to tailor national planning policy to these unique circumstances, with the London Plan as the mechanism for doing this. Using the London Plan's broad policies, the Mayor and other stakeholders are working through the Sub-Regional Development Frameworks to prepare Supplementary Planning Guidance. This will help provide adequate development capacity to meet London's future retail needs. As highlighted in this paper, if the retail sector in London is to be competitive, it is essential that development capacity is accommodated. The challenge will be ensuring that stakeholders work together to bring forward adequate capacity in forms and locations, which will address the broad objectives and policies of the London Plan and meet the needs of the retail sector.

## 1. Introduction

This document is one strand of the Retail Study being undertaken by GLA Economics. This strand focuses upon retail competition and productivity in London and how the planning system impacts upon both.

From 1988 until March 2005, retail planning policy was based upon PPG6. From 1996 onwards, a new version of PPG7 included a development-plan-based process favouring town-centre development.

The policy was based upon the following objectives:

- to sustain and enhance the vitality and viability of town centres
- to focus development, especially retail development, in locations where the proximity of businesses facilitates competition – which benefits all consumers and maximises the use of transport methods other than the car
- to maintain an efficient, competitive and innovative retail sector
- to ensure the availability of a wide range of shops, employment, services and facilities to which people have easy access by a choice of transport.

Individually, these objectives are clear. However, many retailers believe that the objectives are potentially contradictory. The third objective of maintaining an efficient, competitive and innovative retail sector contradicts the other objectives, which are broadly aimed at sustaining and enhancing town centres. Furthermore, some retailers felt that while the objectives are of equal importance in theory, in practice, this third objective is often overlooked in favour of the focus upon town centres.<sup>1</sup>

This issue has been further publicised by a number of reports comparing UK economic productivity to that of the US and other major countries in Europe. These have shown UK productivity to be lagging, with retail one of the key sectors held responsible.

This document investigates these views. It aims to understand what aspects of the planning system constrain retail competition – and discusses ways of improving the planning system to increase competition in the retail sector, while recognising planning's need to pay due regard to wider social and environmental issues.

Additionally, the document investigates how the new guidance PPS6, issued in March 2005, addresses these issues, and how its implementation is likely to affect retail competition in the future.

Chapter 1 describes historical and current retail planning policy, including a discussion of the new PPS6. Chapter 2 examines the current retail environment in London and the UK and the trends behind its development. Chapter 3 demonstrates the importance of retail productivity, and then considers areas in which planning and retail competition coincide, to see what aspects of the planning system have constrained retail competition and thereby industry

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<sup>1</sup> CB Hillier Parker and ODPM, January 2004, 'Policy Evaluation of the Effectiveness of PPG6'



productivity. It then examines the changes proposed in PPS6 in light of these factors. Finally, Chapter 4 draws together this report's main findings.

# 1. Retail planning policy

This chapter examines both current and historical planning policy with respect to the retail sector. It does not seek to criticise changes, but rather, describes them with the aim of providing an understanding of retail planning policy to inform the reading of the rest of this document. The chapter is split into four broad sections. First, it provides a brief history of retail planning policy. Then it examines retail planning policy since 1996, and its focus on plan-led development, need and the sequential approach. The third part of this chapter covers the changes to the current system outlined in the Government's PPS6 document. Finally, the chapter considers retail planning within the London Plan.

## History

The modern UK planning system has its roots in the 1947 Town and Country Planning Act. This Act nationalised land development rights, giving the state the power to confer or withhold permission to develop land. The planning system is, therefore, intentionally designed to regulate the market in land and property. In particular, planners try to balance conservation of both the built and the natural environment with development that is necessary for economic prosperity or social need.

Planning has tended to have two disparate but related aspects. The first of these is the production of development plans. These act as a guide to making daily development decisions in the context of longer-term economic, social and environmental aims.

The second aspect is development control. This is the process of dealing with individual development proposals to ensure that they meet local and national planning guidelines and do not harm the public interest.

Since 1947, there have been many revisions to the Town and Country Planning Act. Of particular interest to retail, are the changes made in the early 1980s and the late 1990s. In the 1980s, planning policy became strongly anti-interventionist. Local authorities, and the Government on appeal, became more inclined to allow new industrial and commercial developments that created jobs. The English landscape was transformed by major out-of-town industrial estates, warehousing units, hotels and superstores.<sup>2</sup> Only in housing did planning continue to provide a significant brake on development.

In 1988, the Government introduced the first version of PPG6 on retail development. This appeared to give a green light to out-of-town retail development; between 1988 and 1991, 46 separate proposals for regional shopping centres of 500,000 feet or more were made through England and Scotland.<sup>2</sup> This propagated the image of crumbling town and city centres as ever more dependent on public-sector support. Affluent shoppers instead travelled increasing distances by car to huge retail complexes requiring extensive greenfield<sup>3</sup> development.

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<sup>2</sup> P. Hall, 2002, *Urban and Regional Planning* (4th edition)

<sup>3</sup> Greenfield development is development on greenfield sites, which are sites that have not previously been developed.

As a result, to defend the vitality and viability of existing centres – and to meet the Government's commitments to sustainable development entered into at the Earth Summit in Rio de Janeiro in 1992 – the market-led retail planning policies of the late 1980s were reversed by the mid-1990s. This reversal culminated in the 1996 revision of PPG6, which decreed that the location of retail development would once again be plan-led by the public sector.<sup>4</sup>

### **PPG6 1996 – 2005**

Planning policy for retail changed substantially in 1996 in the PPG6 and its subsequent ministerial clarifications. The PPG6 remained in place until March 2005. PPG6 stated that the Government's objectives were:

- to sustain and enhance the vitality and viability of town centres
- to focus development, especially retail development, in locations where the proximity of businesses facilitates competition – which benefits all consumers and maximises the use of transport methods other than the car
- to maintain an efficient, competitive and innovative retail sector
- to ensure the availability of a wide range of shops, employment, services and facilities to which people have easy access by a choice of transport.

As described in the Introduction, some retailers and others held the view that the third objective tended to be overlooked and the policy focused more on meeting the other three objectives, which broadly focus on enhancing town centres.

A government statement in April 2003 clarified the PPG6 policy as follows:

The purpose of the policy is to sustain and enhance the vitality and viability of town and other existing centres by focusing retail, leisure and other key town-centre uses which attract a lot of people within those centres. PPG6 emphasises the plan-led approach to promoting development in town centres, both through plan policies and the identification of locations and sites for development. It sets out a number of tests that must be satisfied if applications to develop retail or leisure facilities are to be successful.<sup>5</sup>

In summary, the Government increased controls over where retailers could locate new developments. The retailers had to ensure their developments met policy guidance. In particular, retailers planning new developments or extensions had to:

- demonstrate that there was a need for the development
- having established such a need, adopt a sequential approach to site selection
- consider the impact on nearby centres
- provide evidence on the site's accessibility by a choice of transport, according to a transport assessment, the likely changes in travel patterns over the relevant catchment area, and any significant environmental impacts.

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<sup>4</sup> Summarised from D Adams et al., July 2002, 'Retail Location, Competition and Urban Redevelopment', *Service Industries Journal*, 22 (3)

<sup>5</sup> *Parliamentary statement on town centre planning policies*, 10<sup>th</sup> April 2003.

The first two of these requirements were particularly contentious after the policy was first adopted. The Government's view of both these factors is given in more detail below.

#### *Need*

'Proposals which would be located at an edge of centre or out of centre location and which are either not in accordance with an up-to-date development plan strategy, or are inconsistent with national planning policy guidance, are required to demonstrate both a retail need for additional facilities and that a sequential approach has been applied in selecting the location for the site.

Need can be expressed in quantitative and qualitative terms but the government places greater weight on quantitative evidence defined in terms of additional floor space for the relevant types of retail development whether these be comparison or convenience shopping.<sup>6</sup>

#### *Sequential approach*

'PPG6 seeks to promote sustainable development by locating major generators of travel in existing centres, where access by a choice of means of transport, not only by car, is easy and convenient.

PPG6 requires a sequential approach to be adopted in selecting sites for new development. Both local planning authorities and developers should be able to demonstrate that all town centre options have been thoroughly assessed before less central sites are considered for development for key town centre uses. This means that the first preference should be for town centre sites, followed by edge of centre sites and only then out of centre sites in locations that are accessible by a choice of means of transport.

In providing evidence that they have complied with this guidance, applicants must demonstrate flexibility and realism in terms of the format, design and scale of their development, and the amount of car parking, tailoring these to fit local circumstances.

Where a class of goods is capable of being sold from a town centre location, that is the preferred location for the retail development and the government expects to see flexibility in the scale and format of a proposed development to meet that objective. A retailing format that can only be provided at an out of town location is not regarded as meeting the requirements of this policy.

PPG6 recognises that some types of retailing, such as large stores selling bulky goods, may not be able to find suitable sites either in or on the edge of town centres. In such cases, the government considers that it rests with developers and retailers to demonstrate that a majority of their goods cannot be sold from town centre stores. They do not consider that developments involving the sale of bulky goods are exempted from meeting the policy tests in PPG6 and subsequent clarifications.<sup>7</sup>

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<sup>6</sup> *Parliamentary statement on town centre planning policies, 10<sup>th</sup> April 2003.*

<sup>7</sup> *Parliamentary statement on town centre planning policies, 10<sup>th</sup> April 2003.*

In summary, PPG6 strongly sought to encourage retail development within town centres and to discourage out-of-town developments. Its main method for doing this was through the implementation of a sequential approach to new development. This meant town-centre sites had to be considered first before edge-of-town centre or out-of-town locations. A wish to meet sustainable development objectives, particularly in terms of transport, was a key motivation to the policy.

## **PPS6**

The Office of the Deputy Prime Minister (ODPM) issued PPS6 in March 2005 to replace PPG6.<sup>8</sup> The major themes remain unchanged, as do the plan-led approach and the requirement for developers to pass the sequential test and, in some cases, to prove need for new developments. However, the objectives have been redrafted to include a number of changes that are discussed below.

### *PPS6 objectives*

The Government's key objectives for town centres is to promote their vitality and viability by:

- planning for the growth and development of existing centres
- promoting and enhancing existing centres – by focusing developments in such centres, and encouraging a wide range of services in a good environment, accessible to all.

PPS6 then states that in meeting key objectives, there are other government objectives that need to be taken into account, as follows:

- enhancing consumer choice by making provision for a range of shopping, leisure and local services, which allow genuine choice to meet the needs of the entire community, and particularly socially excluded groups
- supporting efficient, competitive and innovative retail, leisure, tourism and other sectors, with improving productivity
- improving accessibility – ensuring that an existing or new development is, or will be, accessible and well served by a choice of transport.

PPS6 also states that the planning system's role is not to restrict competition, preserve existing commercial interests or to prevent innovation.

### *Regional spatial strategies*

PPS6 proposes a stronger emphasis on planning authorities actively planning for town-centre growth, including assessing the need for new floor space for retail and identifying and allocating suitable sites for development. This should be achieved through both regional spatial strategies (eg the London Plan) and local development documents.

This specific role for regional spatial strategies is new to PPS6 – such strategies were only introduced after the 1996 PPG6. Their introduction appears to be an effort to balance the location of new retail developments so that the majority are not confined to the largest

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<sup>8</sup> ODPM, March 2005, 'Planning Policy Statement 6: Planning for Town Centres', available at [www.odpm.gov.uk](http://www.odpm.gov.uk).

centres. This is clearly a reaction to the fact that many new developments of recent years occurred in the top 50 or so town centres, with few taking place in smaller centres.<sup>9</sup>

#### *The sequential approach*

PPS6 in line with PPG6 adopts the sequential approach for the selection of sites. This means local planning authorities should:

- assess the need for development
- identify the appropriate scale of development
- apply the sequential approach to site selection
- assess the impact of development on existing centres
- ensure that locations are accessible and well served by a choice of transport.

PPS6 additionally states that planning authorities should consider the degree to which other considerations, including specific local circumstances, may be material to the choice of appropriate locations for development. Considerations to be taken into account in drawing up plans include:

- physical regeneration: the benefits of developing on previously developed sites that may require remediation
- employment: the net additional employment opportunities that would arise in a locality as a result of a proposed allocation, particularly in deprived areas
- economic growth: the increased investment in an area, both direct and indirect, arising from the proposed allocation and improvements in productivity – for example, arising from economies of scale
- social inclusion: defined in broad terms, this may, in addition to the above, include other considerations, such as increasing the accessibility of a range of services and facilities to all groups.

#### *Out-of-town developments*

The key objectives of PPS6, as with PPG6, are focused on town centre development and out-of-town developments remain discouraged. However, PPS6 does allow for the possibility of new centres being designated in the plan process in areas of planned major growth. PPS6 states that:

In preparing revisions to their regional spatial strategy, the regional planning body should ... make strategic choices about those centres of regional and, where appropriate, sub-regional significance where major growth should be encouraged; and where appropriate, the need for new centres in areas of planned major growth.<sup>10</sup>

PPS6 then states that out-of-town developments are unlikely to meet the requirements of the policy, but leaves the option free for such centres to be identified through the regional spatial strategies. Paragraph 2.14 states:

Having regard to the key objective of the Government's town centre policy, it is unlikely that new out-of-centre (*out-of-town*) regional or sub-regional shopping

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<sup>9</sup> C. Guy, February 2004, Town and Country Planning Association, 'Town Centres First?'

<sup>10</sup> PPS6, paragraph 2.8

centres or the expansion of existing ones will meet the requirements of that policy. Were a need for a new or an expanded out-of-centre (*out-of-town*) regional and sub-regional shopping centre to be identified, it should be addressed through the regional spatial strategy.

The option of new centres is then reinforced in paragraph 2.53, which states:

New centres should be designated through the plan-making process where the need for them has been established, such as in areas of significant growth, or where there are deficiencies in the existing network of centres.

#### *Edge-of-town centre developments*

PPS6 is more encouraging towards edge-of-town centre developments than was PPG6. PPS6 encourages the development of edge-of-town centre sites in order to ensure enough sites are available to meet retail need where town-centre land availability is not sufficient. PPS6 sets out the following points:

- Where growth cannot be accommodated in identified existing centres, local planning authorities should plan for the extension of the primary shopping areas if there is a need for additional retail provision.<sup>11</sup>
- Extension of the primary shopping area or town centre may also be appropriate where a need for large developments has been identified and this cannot be accommodated within the centre. In such cases (where a need for large stores has been identified), local planning authorities should seek to identify, designate and assemble larger sites adjoining the primary shopping area (ie in edge-of-town centre locations).<sup>12</sup>

#### *Big-box developments*

In line with the policy on edge-of-town centre development, policy on big-box developments has similarly been relaxed. Big-box developments are large individual warehouse stores built by stand-alone retailers. PPS6 states:

Local planning authorities should take into account any genuine difficulties, which the applicant can demonstrate, are likely to occur in operating the applicant's business model from the sequentially preferable site ... such as where a retailer would be required to provide a significantly reduced range of products.<sup>13</sup>

A single retailer should not be expected to split their proposed development into separate sites where flexibility in terms of scale, format, car parking provision and the scope for disaggregation has been demonstrated.<sup>14</sup>

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<sup>11</sup> PPS6, paragraph 2.5

<sup>12</sup> PPS6, paragraph 2.6

<sup>13</sup> PPS6, paragraph 3.16

<sup>14</sup> PPS6, paragraph 3.18

These statements nest within and are junior to the overarching objectives of the PPS6 policy and are not exclusions to it. However, they do highlight that PPS6 has recognised the potential benefits of large stores, and it does state in paragraph 2.6 that provision should be made for them:

Larger stores may deliver benefits for consumers and local planning authorities should seek to make provision for them in this context. In such cases, local planning authorities should seek to identify, designate and assemble larger sites adjoining the primary shopping area (ie in edge-of-town centre locations).<sup>15</sup>

This point was later emphasised in paragraph 2.43:

For city and town centres, where a need has been identified, local planning authorities should seek to identify sites in the centre, or failing that on the edge of the centre, capable of accommodating large-format developments.<sup>16</sup>

#### *Store extensions*

In the draft of PPS6, it was suggested that policy would also be relaxed in terms of extensions to existing stores and that these would no longer be subject to the sequential approach. However, as stated in the draft of PPS6 consultation document, 'there is a possibility that this will favour existing providers compared with the current policy. If this was the case, this could be a barrier to new entrants'.<sup>17</sup>

As such, this policy was not been adopted in the final PPS6. Instead, the sequential approach remains a relevant consideration for proposed extensions of existing developments in edge-of-town centre and out-of-town locations, where the gross floor space exceeds 200 square metres. This includes the introduction of mezzanine floors.

#### *Regeneration*

PPS6 emphasises regeneration and the need to provide retail and services in deprived areas – this was largely absent from PPG6. For example, paragraph 2.53 states:

New centres should be designated through the plan-making process where the need for them has been established ... with priority given to deprived areas where there is a need for better access to services, facilities and employment by socially excluded groups.<sup>18</sup>

While paragraph 2.56 states:

Deprived areas often have poor access to local shops and services. To tackle this problem local authorities should work with the local community and retailers to identify opportunities to remedy any deficiencies in local provision. This is likely to be best

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<sup>15</sup> PPS6, paragraph 2.6

<sup>16</sup> PPS6, paragraph 2.43

<sup>17</sup> ODPM - Draft PPS 6 Planning for Town Centres, Consultation Document

<sup>18</sup> paragraph 2.53



achieved through strengthening existing centres or, where appropriate, proposing new local centres.<sup>19</sup>

More detail on this topic is given in Chapter 3.

### *Summary*

PPS6 maintains the town-centre focus of PPG6. Nevertheless, it does appear to have responded to criticism that PPG6 was negatively affecting retail productivity by inhibiting development of efficient store formats, particularly large-format stores. As such, PPS6 aims to make the development of large-format stores possible, within a general framework that, though still favouring town centres, is more amenable to edge-of-town centre development in future. PPS6 also places importance on improving the development plan process to ensure sites are available for future development.

## **Planning policy in London**

### *London's uniqueness*

It can be argued that PPS6 is largely predicated on a notional freestanding town surrounded by undeveloped land, meaning its provisions are not always the most suitable for London. Planning Policy Statement 11 (PPS11) provides national guidance on Regional Spatial Strategies and provides the scope to tailor national planning policy to local circumstances, using the London Plan as its mechanism for doing this.

The need for tailoring national policy is particularly strong in London given its unique characteristics. For example, with over 7 million people living in the Greater London area, the population density is higher than in the rest of the country. This concentration of people means that there are strong competing demands for land uses, with planners needing to balance retailers' needs with land needs in the areas of housing, transport, education and so on. This concentration also means that there is significant pressure on the city's road transport infrastructure, and that London has a greater need to encourage public transport use. London's past development means that much of its land has already been developed so that nowadays over 90 per cent of development is on recycled/brownfield land. Chapter 2 looks in more detail at the characteristics of London as compared to the UK and how these have influenced retail development over the past few decades.

### *The London Plan*

The London Plan is the strategic plan setting out a framework for the future development of London, looking forward 15 – 20 years. It sets the policy framework for the Mayor's involvement in major planning decisions in London. The London Plan supports the Government's policy of promoting consumer activity in town centres, as it believes shopping developments in the centre are more sustainable than out-of-town developments.

Policy 3D.1 of the London Plan states that:

The Mayor will and boroughs should enhance access to goods and services and strengthen the wider role of town centres, including UDP (unitary development plans)

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<sup>19</sup> paragraph 2.56

policies to:- encourage retail, leisure and other related uses in town centres and discourage them outside the town centres; ... enhance the quality of retail and other consumer services in town centres; ... designate core areas primarily for shopping uses and secondary areas for shopping and other uses and set out policies for the appropriate management of both types of area; ... support and encourage town centre management, partnerships and strategies including the introduction of Business Improvement Districts in appropriate locations.<sup>20</sup>

The London Plan supports government guidance on using a sequential approach to identify preferred locations for retail development. To facilitate the rigorous application of the sequential test, boroughs should carry out assessments of the capacity of each town centre to accommodate additional retail development appropriate to its role within the network of town centres. This supply side assessment should be set against an assessment of the need for new development on a borough and sub-regional basis. Where need is established, boroughs should adopt a sequential approach to identify suitable sites. Sub-Regional Development Frameworks will assist this process, while the Mayor will publish Supplementary Planning Guidance on retail needs assessment.

The London Plan states that the growth of out-of-town supermarkets and shopping centres could further threaten town centres and, proposals for these should be treated in line with national policy as new development. According to national policy and the exceptional scale and intensity of London's town centre network, the following key considerations should apply to proposals for out-of-town developments:

- the likely harm to the spatial development strategy
- their likely impact on the vitality and viability of existing town centres, including the evening economy.
- their accessibility by a choice of transport, taking account of the importance of fostering public transport use in London
- their likely effect on overall travel patterns and car use.

The final element of the London Plan in relation to retail location concerns convenience shopping. The Plan considers that local convenience shopping is important, especially for less mobile people and those on low incomes. The plan states that local retail strategies can identify areas deficient in essential retail facilities and establish the means to stimulate investment. Furthermore, coordinated planning and other interventions may be required to retain facilities, such as corner shops or small parades in estates that provide an essential social service but are on the margins of economic viability. This issue is discussed in more detail in the Smaller Retailers' strand and the Regeneration strand of this retail study.

#### *Sequential test and London*

To interpret the sequential test within London, much depends on how primary shopping areas are defined. The larger the defined primary shopping area in any town centre, the greater the chance of a site qualifying as either a town centre or edge-of-town centre location. This is particularly relevant in London where there are so many town centres relatively close together.

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<sup>20</sup> Mayor of London, 2004 'The London Plan – Spatial Development Strategy for London'.

Indeed, the issue of town centre definitions is particularly relevant to Central London and much of Inner London, where many highly developed areas or streets are regarded as out-of-town and so are subject to the sequential test. Developers have argued that this is inappropriate and that a national policy focused on preventing greenfield out-of-town development is irrelevant to such areas. However, the planning inspector in the original development of the London Plan rebuffed this argument.

### **Summary**

From the early 1980s to the mid-1990s, the UK and London had a market-led approach to retail planning.

This changed in 1996, and now both London and UK retail planning policy, as set out in the London Plan, and in PPG6 and then PPS6, is based on promoting retail activity in town centres and restricting development of out-of-town shopping through a plan-led approach.

The new PPS6 was published in March 2005. It proposes a number of changes to the system, many of which respond to claims that there was not enough focus on the need to maintain economic efficiency within the retail sector. In London, the Mayor is addressing these changes through his London Plan and associated Sub-Regional Development Frameworks, which will inform Supplementary Planning Guidance on retail needs.

## 2. The UK's retail structure and its historical development

This chapter details the development of the retail sector over the past thirty years and assesses the structure as it is today. While planning policy had some effect on development patterns over this period, changes were largely driven by retailers and developers. Understanding these changes can therefore help provide a better understanding of the main market drivers of the retail sector.

First, this chapter considers the UK's shift towards out-of-town retail development that began in the mid-1960s, but accelerated in the 1980s and 1990s. It then goes on to examine the extent to which these changes have also occurred within London. The next section of the chapter covers whether recent planning policy changes have succeeded in increasing town-centre development. Finally, it highlights a number of other recent trends in the retail sector, such as big-box development and the trend towards extending existing stores.

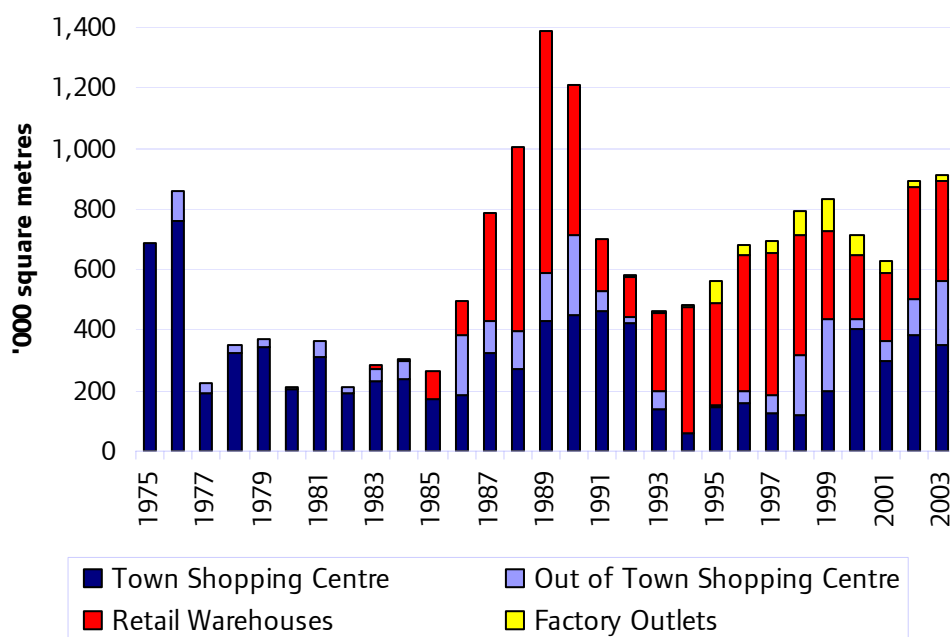
### **The shift to out-of-town retail development in the UK**

Up until the mid-1960s, large-scale retail development was located entirely in town centres or suburban local centres. However, since then, there has been retail decentralisation based on a growth in retail development in out-of-town locations. This process accelerated through the 1980s and early 1990s, until PPG6 was revised in 1996 in an effort to reverse the trend and encourage increased development in town centres.

Retail decentralisation is considered in academic literature to have occurred in three waves. The first wave began in the mid-1960s, when food and convenience retailing moved largely from town and city centres into out-of-town supermarkets and hypermarkets. The second wave, from the mid-1970s, consisted of retailers of comparison goods (such as electrical appliances, furniture and DIY equipment) opening initially as retail warehouses on industrial estates and then later in retail warehouse parks. The third wave was the development of full out-of-town shopping centres, offering a complete range of convenience and comparison retailing under a single roof, with ample car parking. As this third wave developed, planning policy gradually changed towards its current focus restricting such developments and encouraging town-centre development.

The boom in out-of-town shopping development during the 1980s and 1990s was aided by changes in the planning regime. In particular, planning policy in the 1980s became strongly anti-interventionist and a market-led approach therefore operated. Primarily outside of London, the attraction of cheap land and good road links made out-of-town sites extremely popular to retailers and developers, a dynamic that was first witnessed during this period and which continues to the present day.

The shift towards out-of-town development can be seen in Figure 2.1. The categories shown here do not account for all retail development. For example, they don't include stand-alone out-of-town food stores and single warehouse developments. However, Figure 2.1 provides a good sense of the changes in retail development that have occurred over the past 30 years.

**Figure 2.1: Annual retail floorspace completions**

Source: CBRE; Key Note Ltd; ODPM; CBRE;<sup>21</sup>

The first big change evident from Figure 2.1 occurred between 1986 and 1990, with a boom in out-of-town retail warehouse development. Up to this date, retail warehouses had generally been utilised only by new cut-price DIY, electrical and furniture retailers. However, the 1980s witnessed both an amalgamation of disparate warehouse developments into concentrated warehouse parks, and the increasing involvement of high-street names – such as WHSmith, Woolworths, Boots and Sainsbury's – in the sector.<sup>22</sup> In addition to the growth in retail warehouse development, which peaked at 800,000 square metres in 1989, the period

<sup>21</sup> Data sourced from 'Retail Development'; 2001 Key Note Ltd, 'Policy Evaluation of the Effectiveness of PPG6', 2004; ODPM, 'Shopping Centres in the Pipeline, Market Index Brief, Q4 2003 CBRE' and 'Retail Warehouse Parks in the Pipeline, Market Index Brief, Q4 2003 CBRE'.

For this data:

Shopping centres – contain at least 50,000 square feet (4,645 square metres) gross lettable retail area. They are built, let and managed as a single entity comprising three or more retail units. They can be in-town, such as the Bentall Centre in Kingston, or out of town, such as Bluewater in Kent.

Retail warehouse parks – also contain at least 50,000 square feet (4,645 square metres) gross lettable retail area. They are out of town, built as a single entity and have at least three single-storey units of not less than 10,000 square feet (930 square metres), with common parking. The typical retail park would contain DIY stores, electrical and furniture outlets, carpet retailers and grocery supermarkets.

Factory outlets – sell manufacturers' branded merchandise at significant discounts. Sizes vary, some exceed 50,000 square feet (4,645 square metres) in total, others may be smaller. They are built out of town.

<sup>22</sup> S. Brown, 1990, 'Innovation and Evolution in UK Retailing: The Retail Warehouse' European Journal of Marketing, 24(9)

also saw the development of out-of-town shopping centres begin, with Lakeside opening in 1990.

The boom in retail warehouses came to an abrupt halt during the recession of the early 1990s, before recovering from 1993. Through the rest of the 1990s, the UK witnessed continued growth in out-of-town shopping centres (eg Bluewater opened in 1999), together with the introduction of factory outlets. However, throughout this period, the low level of town-centre retail development was noticeable, both in absolute terms and relative to out-of-town development – with its share down to an average of just 21 per cent from 1993 to 1999.

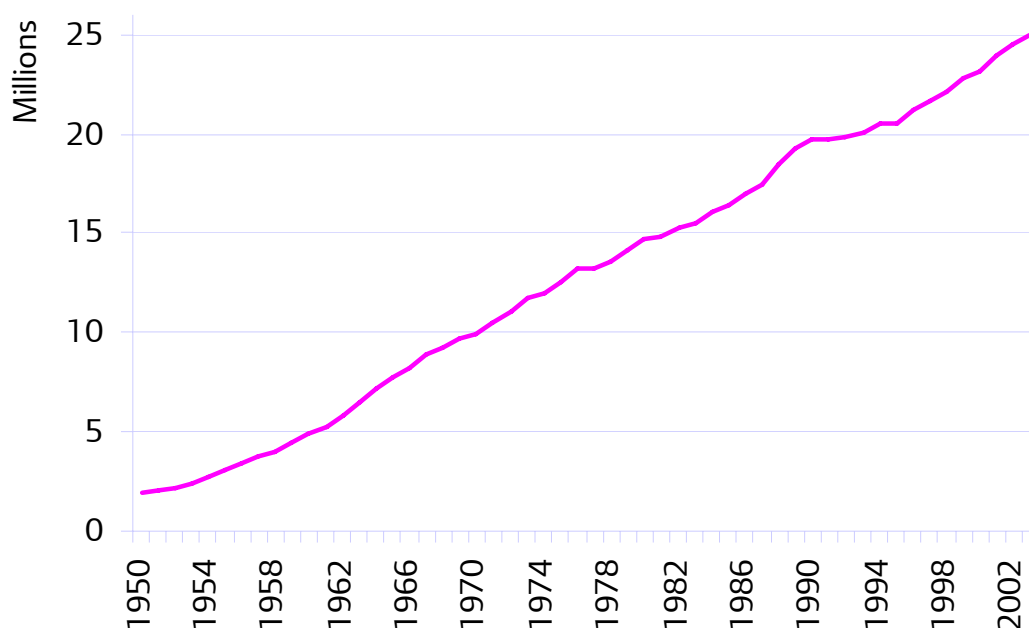
#### *Impact of transport*

Transport changes were a key driver of the move towards out-of-town development, particularly the trend towards greater car ownership. This reduced the need for a retailer to be located in a town centre accessible by public transport, opening up the potential to develop alongside major roads at out-of-town locations.

Car ownership has grown consistently in Great Britain over the past five decades, as Figure 2.2 shows. The number of private cars rose from 2 million in 1950 to 10 million by 1970; 14 million by 1980; 19 million by 1990 and 25 million today. Across the UK, 72 per cent of households now have one car or more, a percentage that rises to 90 per cent in rural areas but falls in urban areas.

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**Figure 2.2: Cars licensed in GB 1950 – 2003**



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Source: DfT – Transport Statistics Great Britain 2004, Table 9.1

**Figure 2.3: Travel mode to GB shopping destinations**

Source: Department for Transport, January 2003, 'Travel to the Shops in GB – Personal Travel Factsheet 6'

Figure 2.3 shows the proportion of shopping trips now made by each transport mode in Great Britain, according to the National Travel Survey.<sup>23</sup> The data shows that 60 per cent of all shopping trips for food and 62 per cent of all trips for non-food items are made by car, with around 26 – 30 per cent of trips on foot and the remaining 11 – 12 per cent using other modes, mostly public transport.

Retailers must consider their location decisions in the context of these figures. One possible outcome is to locate within walking distance of residents, as a substantial number of shopping trips are made on foot. However, retailers looking for a wider market are faced with the statistic that of all non-walk trips, 84 per cent are made by car, and just 16 per cent by other transport modes. It is entirely logical then, for retailers to wish to be in locations accessible by car.

In turn, the most easily accessible location for car drivers across the UK is often not a town centre, but instead an out-of-town location. New out-of-town development sites have the advantage of allowing new stores to be built to the size and requirements of retailers. They also allow for extensive and free parking space – which attracts consumers.

The 1980s was a time of extensive road building, and the Government was strongly promoting increased car ownership. Given these facts, it is easy to see how out-of-town

<sup>23</sup> Department for Transport, January 2003, 'Travel to the Shops in GB – Personal Travel Factsheet 6'

shopping was a trend embraced by retailers during this decade. Furthermore, the fact that 84 per cent of non-walking trips are now made by car supports retailers' continued attraction to out-of-town sites, although the planning system no longer encourages such development.

These car statistics also, however, explain some of the rationale behind the policy response in favour of town centres over recent years. It is easier to supply public transport options to town-centre locations, giving them an advantage over dispersed out-of-town locations. Therefore, focusing development in town centres can help prevent social exclusion among the minority of households that do not have access to a car.

### **London's out-of-town retail development**

#### *Impacts of transport*

Transport statistics show that London is different to the rest of the UK. For example, in London the number of households without a car was 42 per cent in 2002, a percentage that has actually increased rather than declined over the past decade (it was 37 per cent in 1991-93). Furthermore, as Figure 2.4 shows, the number of trips made by car is significantly lower in London than elsewhere in the UK and the amount made by public transport higher.

The average distance travelled to shop is also lower in London than in the rest of the UK. The average trip length for food shopping in London is 1.9 miles, compared to a UK average of 3.0 miles. For non-food shopping, the average London trip length is 3.5 miles, compared to 5.6 miles for the UK.



**Figure 2.4: Transport trips by mode**

Source: National Statistics – Regional Trends 37 (2002) – Table 10.9 Trips per person per year: by purpose and sex, 1999–2001:

In London, therefore, it remains true that cars are the most frequently used mode of transport for trips, and that retailers will seek to meet consumers' needs as they do elsewhere in the country. However, the far greater share of non-car users in London means that retailers there are much more likely to also consider this non-car share of the market when making location decisions. As a result, much retail in London is located close to underground or train stations.

London's differences in transport usage, together with its constrained land availability, its lower share of consumers with cars, and the closeness of its town centres to each other, has meant that the move to out-of-town retailing has been less evident in London than elsewhere in the UK. Nevertheless, it has occurred to some degree with a growth of both out-of-town shopping centres and retail warehouse parks.

#### *Shopping centres*

While large town centres continue to dominate the retail offer within London, there is also a significant amount of retail in non-town centre locations, analogous to the out-of-town development elsewhere in the UK. The first significant out-of-town development in London was Brent Cross, which opened in 1976. This was the first large enclosed shopping centre in the UK, and it housed 75 shops at a location distinct from existing town centres and easily accessible by car. In the London Plan, Brent Cross is now characterised as a Regional

Shopping Centre. However, if proposed redevelopment – including housing development, improved provision of public transport and improved accessibility across the area – goes ahead, then the plan is for it to be recategorised as a Town Centre.

New developments currently planned in London include two new out-of-town shopping centres at White City and Battersea Power Station. These are out of town in the sense that they are not based upon existing town centres. However, they differ to typical out-of-town developments in the UK because they will have better public transport links and will be closer to residential areas.

Overall, however, Greater London has not seen development of out-of-town shopping centres since the creation of Brent Cross. Instead, many town centres have responded to consumers with their own enclosed shopping areas. However, just outside of London, Bluewater and Lakeside both opened during the 1990s. These centres provide alternative retail choices for many Londoners, predominantly those with access to a car. This led to some diversion of retail spending out of Greater London to the South East due to their high level of attractiveness and the lack of competing out-of-town offer accessible from the M25. However, under current national planning policy such developments will not be repeated, meaning London is unlikely to see any increase in diversion of retail spending out of the Greater London area. By contrast, the relative level of diversion is expected to decrease over time with the development of London's retail offer.

#### *Retail warehouse parks*

While Greater London has not had many new out-of-town shopping centres over the past 30 years, it has seen the growth of a significant number of retail warehouse parks over the past 20 years. A recent study highlighted 50 retail parks within London that had a high-street shopping (comparison goods) element.<sup>24</sup> Of these, nine were located within Inner London and 41 within Outer London. The largest is Purley Way in Croydon with 133,400 square metres of floor space (making it the ninth biggest retail location in London), while Greenwich Peninsula is another large and growing centre. Table 2.1 shows the numbers and geographic spread of retail town centres and retail parks across London. The data shows that West London has the most retail parks both in absolute terms and relative to the number of town centres, while Central London, not surprisingly, has the least. In all areas, there are still significantly more town centres than retail parks.

Policy discourages retail warehouse parks within London. The London Plan does not mention them specifically, focusing instead on its commitment to developing existing town centres and ensuring adequate public transport options for retail developments. However, despite this, retail warehouse parks do continue to develop within London – with Greenwich Peninsula a current example.

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<sup>24</sup> Experian Business Strategies for the GLA, September 2004, 'London Town Centre Assessment Stage 1 Comparison Goods Floor Space Need'

**Table 2.1: London retail centres**

	Major town centres	Other town centres	Retail parks
Central	15	47	3
East	11	66	14
North	4	36	9
South	7	43	8
West	10	44	16

Source: London Town Centre Assessment stage 1 – Experian for the GLA

Notes: Central – Camden, Islington, Kensington & Chelsea, Lambeth, Southwark, Wandsworth, Westminster

East – Barking & Dagenham, Bexley, City, Greenwich, Hackney, Havering, Lewisham, Newham, Redbridge, Tower Hamlets

North – Barnet, Enfield, Haringey, Waltham Forest

South – Bromley, Croydon, Kingston, Merton, Richmond, Sutton

West – Brent, Ealing, Hammersmith & Fulham, Harrow, Hillingdon, Hounslow

### **A return to town-centre development?**

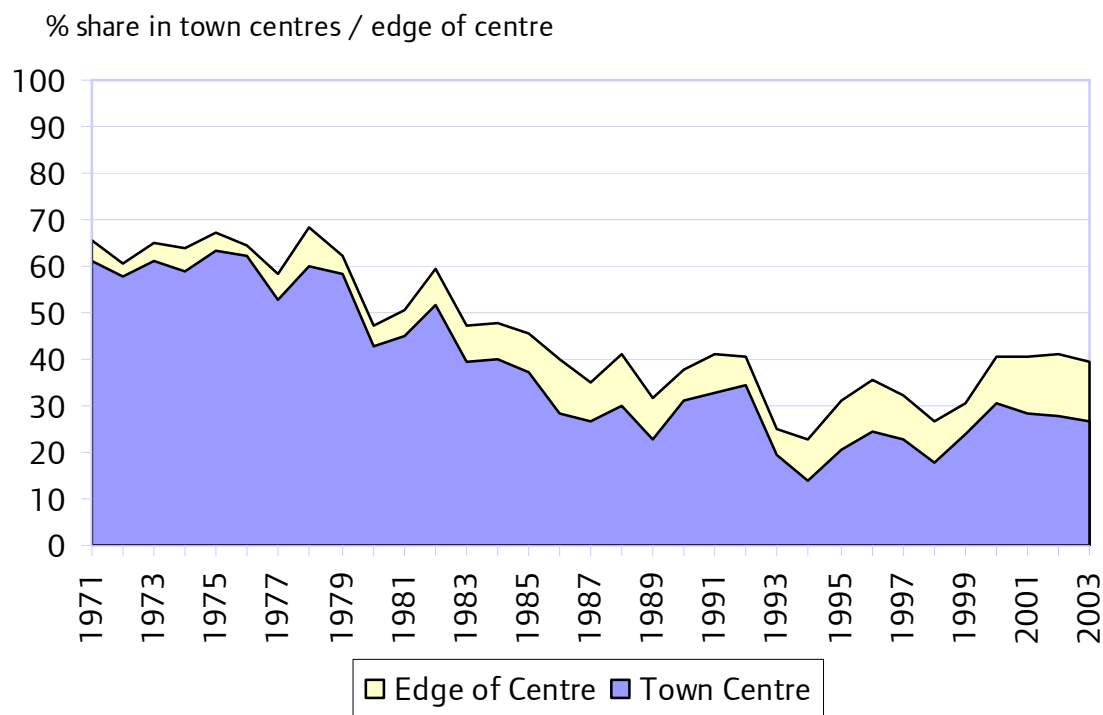
The trend towards out-of-town development through the 1980s and 1990s in the rest of the UK was the predominant driver for changes in the planning regime in 1996's PPG6. This ended the strongly anti-interventionist, market-led approach introduced during the 1980s, in favour of the reintroduction of a plan-led approach to development, and the sequential test favouring town-centre development. Because many planning permissions had already been granted, it is probably fair to say that it was not until 2000 that the effects of PPG6 truly began to be seen in the pattern of retail development.

Even in 2005, however, there remains a significant pipeline of out-of-town proposals. At present, across London as a whole, 27 per cent of the pipeline of proposals for new convenience floor space are out of centre, with 45 per cent of these in the West London sub-region and 30 per cent in the South London sub-region.

Despite this, there has been an increase in the amount of development in UK town centres since 2000. This is shown in Figure 2.5, which is taken from research by ODPM. ODPM used Valuation Office Data on new retail development as a basis for identifying the proportion to have occurred within (1000) town centres in England and Wales. In addition to showing the proportion within town centres, defined as Areas of Town Centre Activity, Figure 2.5 also provides data for 300-metre buffer zones around each town centre (acting as a proxy for edge-of-town centre sites).

Figure 2.5 shows the following trends. First, a sharp decline in the share of retail development in town centres during the 1980s. Then, after a brief surge in the share of town-centre development in the early 1990s (caused by a recession-induced decline in out-of-town development), the chart shows that it was extremely low in comparison to out-of-town development through the rest of the 1990s. Indeed, the average share for town centres between 1993 and 1999 was just 20 per cent of total retail development.

**Figure 2.5: New retail floorspace in England and Wales**



Source: ODPM July 2005: *Technical Report: Using town centre statistics to indicate the broad location of retail development – initial analysis* – Table 1: *Provisional analysis of newly built retail floorspace in 2002 ODPM Areas of Town Centre Activity (ATCAs), with and without 300 metre buffer; England, 1st April 2004 Valuation Office Agency data*

The chart also shows the increase in the town-centre share of development between 2000 and 2003 compared to the figures through most of the 1990s. Planning policy since 1996 does, therefore, appear to have influenced the UK retail landscape since 2000. Without it, it is arguable that town-centre development may have remained at the lower levels seen in the mid-1990s. However, it is also clear that despite planning policy, much out-of-town development continues. Indeed, the share within town centres between 2000 and 2003 only rose to an average of 28 per cent. So despite PPG6, the majority of retail development in the UK continues to occur outside of town centre sites.

There is also evidence that major high-street retailers continue to move out of town. For example, over the past three years, fashion retailer Next has increasingly opened stores in retail parks, where large-format stores allow the company to sell its four main product ranges under one roof. Borders, meanwhile, opened seven out-of-town stores and only three town-centre stores in 2003, while over 20 fashion groups have recently opened on major parks or are in the process of doing so.<sup>25</sup> Retailers such as Next can act as an anchor store to retail warehouse parks in the same way major stores do to town centres. Furthermore, there is increasingly a gap developing between those warehouse parks that remain a value-oriented cheaper alternative to the high street, and those parks increasingly occupied by major high-street retailers – and which act as direct competitors to town centres.

There is no data analogous to Figure 2.5 available for London only. But it is clear that despite the emergence of out-of-town shopping since the 1980s, London's retail geography remains characterised by its focus upon town centres. The London Plan identifies around 200 town centres within London together with over 1,200 smaller neighbourhood and local centres.

London's town centres are split into a number of categories within the London Plan. London has two International centres – Knightsbridge and the West End. It has ten Metropolitan centres mainly in the suburbs, such as Bromley, Croydon and Kingston; 35 Major centres mainly in Inner London, such as Brixton, Putney and Camden; and 156 District centres, which traditionally provide convenience goods and services and are distributed across London.

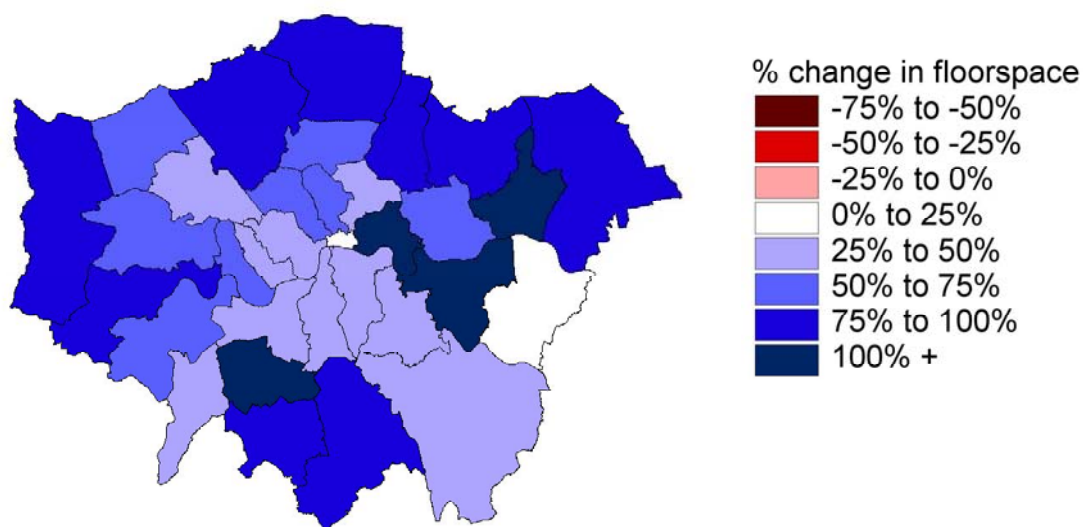
The amount of retail floor space in London in each of these categories has grown significantly since 1971. Figure 2.6 shows that most London boroughs have seen the amount of retail floor space increase by at least 25 per cent, and in some cases by 100 per cent, over this period.

However, more recently – between 2000 and 2004 – growth in retail floor space within London was low in comparison to elsewhere in England and Wales (see Figure 2.7). In London, retail floor space increased by 2.3 per cent over this period; in England and Wales, the total increase was 4.4 per cent.

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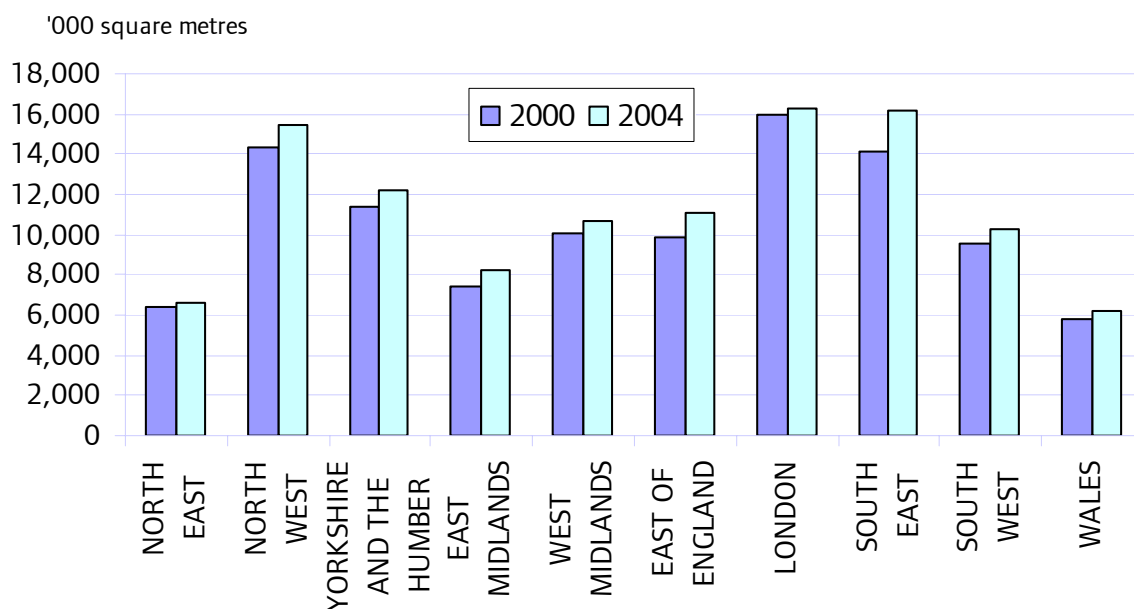
<sup>25</sup> 'Biggest Names Get in on the Act', *Estates Gazette*, 28 August 2004

**Figure 2.6: Percentage change in retail (A1) floor space 1971 – 2000 by district**



Source: CASA

**Figure 2.7: Retail floorspace 2000 & 2004**



Source: ODPM - Commercial and Industrial Floorspace and Rateable Value Statistics 1998-2004 - Table 2.9(a): Summary hereditament statistics for retail premises.

In terms of the future development of retail in London, Experian estimated that London will need an additional 1.0 –1.5 million square metres of comparison good retail space by 2016.<sup>26</sup> The amount of convenience good retail space required will be much lower.<sup>27</sup> Nevertheless, the combined effect will be to create a lot of pressure on scarce land resources in London. Drawing on the London Plan and PPS6 requirements to identify adequate capacity, the Mayor is working with boroughs and other stakeholders through Sub-Regional Development Frameworks to realise this goal at the local level.<sup>28</sup> This will require a much more pro-active retail planning regime than in the past. As well as meeting retailers' needs, it will be a major agent for town-centre renewal and mixed-use development, securing a significant increment to housing provision as well as a substantial uplift in shopping floor space.

### Evidence from rents

It is possible to consider data on rents as providing evidence of the shift towards retail warehouses in the UK over the past two decades, and the move to higher quality outlets within these warehouses. Table 2.2 shows that since 1988, rents for retail warehouses have grown by an average of 7.4 per cent a year in the UK – while the corresponding increase for all shops has been just 3.2 per cent. Most of this difference occurred since the early 1990s. Furthermore, this trend continued over the past five years, with retail warehouse rents growing at 6.7 per cent a year.

In part, this large increase in rental values probably reflects the increase in 'quality' among the retail warehouse stock over the past decade, as increased numbers of national retail chains have moved in among the existing cut-price DIY stores. However, it also likely reflects the demand for retail warehouse space among retailers, which has been exceeding supply.

**Table 2.2: Average annual nominal growth rates for retail rents**

	1988 - 2004	5 years to Q3 2004	1 year to Q3 2004
All shops – UK	3.2	3.0	2.5
Retail warehouses – UK	7.4	6.7	2.5
All shops – London	5.5	5.4	4.7
Retail warehouses – London	6.7	7.1	6.1
Data: CB Richard Ellis – UK Prime Rent and Yield Monitor Q3 2004			

Given the change in planning guidance since 1996, one would expect growth rates for retail warehouse rentals to increase further as supply was curtailed by PPG6. However, while retail

<sup>26</sup> Experian, 2004

<sup>27</sup> Experian Business Strategies for the GLA, 2005, 'London Town Centre Assessment Stage 2 Convenience Goods Floor Space Need'

<sup>28</sup> For example, Mayor of London, May 2005, 'Draft Sub-Regional Development Framework East London'

warehouse rents continued to increase substantially faster than rents for all shops over the past five years, there has not been any increase in the relative growth rates to suggest the continuation of the existing trend, rather than a new trend associated with PPG6. Interestingly, over the past year, growth in rents for retail warehouses have actually declined down to 2.5 per cent, the same as for all shops.

Table 2.2 also demonstrates that retail in London is different to the rest of the UK. In particular, the growth in rents for all shops in London was much higher than elsewhere, and the relative difference between rent increases for warehouses and all shops was much smaller. This supports the view that town-centre retailing has continued to be relatively successful within London and the drive to out-of-town retail warehouse shopping less dramatic. It is also apparent that rents have been increasing more strongly in London than elsewhere over the past five years.

### **Other trends**

#### *Small town centres*

Town-centre development in both London and the UK since 2000 has not been dispersed equally across centres. Instead, it has been concentrated largely on the top 50 town centres across the UK. These attracted significant investment, while smaller town centres lost out to both out-of-town developments and developments in the larger town centres.

This is probably the continuation of a longer-term trend. In Retail in London: Working Paper H, GLA Economics compared retail employment in comparison retail in 1971 and 2000 across 100 of London's town centres.<sup>29</sup> The report highlighted the ten best-performing and ten worst-performing town centres (in terms of changes in retail employment over this period). The best-performing town centres were relatively large, with nine of the ten categorised as Metropolitan or Major centres. By contrast, the worst-performing town centres were all smaller District or Local centres.

With most investment having occurred in large centres over recent times, the Government now wants to bring similar investment to medium-sized towns. This goal is demonstrated by PPS6's focus upon regional spatial strategies – to allocate future growth in retailing and to seek balance so that the majority of development is not confined to the largest centres.

#### *Grocery sector*

In the grocery sector there have been two major trends since the change in planning policy in 1996. First, there has been a move among the major supermarket chains into the town-centre convenience store market, with over 1,000 such stores now in operation in the UK. This trend could be seen as a response to the difficulties of opening new out-of-town supermarkets.

The second trend has been towards the sale of non-food items in supermarket operators' one-stop stores. ASDA and Tesco have been the leaders of this trend; Tesco now claims a 6

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<sup>29</sup> GLA Economics 2006, Retail in London : Working Paper H – London's Retail Trends 1971-2000.



per cent share of the UK non-food market and aims to be as big in non-food as it is in food, while ASDA dedicates up to 40 per cent of its selling space to non-food in some stores.<sup>30</sup> Both these trends can be seen as a response to market conditions – moves to non-food sales and into the convenience market are ways to continue to expand business, given the relative maturity of the one-stop supermarket sector. For example, according to IGD, the overall growth for supermarkets in traditional grocery markets is around 3 per cent a year, while non-food areas average 13 per cent within supermarkets – providing a significant avenue for growth.<sup>31</sup>

#### *Extensions and mezzanines*

Another developing trend over recent years has been to extend existing stores rather than build new ones. This seems a clear response by existing retailers to the stricter planning regime in place since PPG6 on new out-of-town developments. This has been an especially popular strategy within the grocery sector, whether by introducing mezzanine levels or through outward or upward extensions. While mezzanine levels did not require planning permission under PPG6, extensions were subject to the sequential approach, which means retailers must demonstrate that all town-centre options had been thoroughly assessed before expanding an out-of-town site. Nevertheless, despite this requirement, planning refusals for extensions have been rare.

The draft PPS6 removed the need to apply the sequential approach to extensions, but this was reinstated in the final PPS6 document. All out-of-town and edge-of-town centre extensions, where the gross floor area of the proposed extension exceeds 200 square metres (including mezzanine floors), will remain subject to the sequential approach.

#### *Big-box developments*

Big-box developments began in the UK during the 1990s. These are large individual warehouses built by stand-alone retailers, in particular IKEA and B&Q. As discussed later in Chapter 3, retailers are keen to increase the number of such stores in the UK. The number of such openings increased sharply between 1998 and 2001, with the number of B&Q or IKEA openings rising from seven in 1998 to 22 in 2001.<sup>32</sup> However, since this date, stricter interpretation of the sequential approach has seen a number of such stores refused development permission.

In regards to big-box development, London appears to have been neither more favourable nor more hostile to their development than the rest of the UK. Table 2.3 shows that for B&Q, 9 per cent of its UK large-format warehouse stores are located in London, with 9 per cent of all its nationwide stores also in London.

<sup>30</sup> IGD, 'Non-food retailing' factsheet. Available at: [www.igd.com](http://www.igd.com)

<sup>31</sup> IGD

<sup>32</sup> CB Hillier Parker and ODPM, January 2004, 'Policy Evaluation of the Effectiveness of PPG6'

**Table 2.3: Number of B&Q stores – November 2004**

<u>Store type</u>	<u>UK</u>	<u>London</u>	<u>% in London</u>
Warehouse	110	10	9%
Supercentre	168	13	8%
Mini-warehouse	54	6	11%
Total stores	332	29	9%

Source: B&Q website

IKEA, meanwhile, currently has 13 UK stores, with three in London and one nearby at Lakeside. The latest to open was at Edmonton near Tottenham Hale, in February 2005.

### Summary

The UK retail environment over the past thirty years has been characterised by a growth in out-of-town shopping, largely at the expense of town-centre retail development. Since 2000, however, there has been a move to increased town-centre retail investment encouraged by current planning policy.

London witnessed the same changes as the rest of the UK in terms of out-of-town shopping, but to a lesser extent. Recent trends include expansions of existing out-of-town stores by retailers, a move by grocery chains into non-food markets, and the growth of the big-box format for DIY and furniture sales. Despite these pressures, the growth in retail warehouse parks, and the out-of-town shopping centres at Bluewater and Lakeside, town centres continue to dominate London's retail offer. Furthermore, given current policy, London's town centres will continue to be the focus for retail development.

### 3. Planning and an efficient retail sector

The Introduction noted that some retailers believe that PPG6 did not give enough importance to the objective of maintaining an efficient, competitive and innovative retail sector. This chapter, therefore, examines from an economic perspective some of the ways in which the economic efficiency of the retail sector interacts with the planning system. It also discusses what difference the new PPS6 is likely to have on retail competition.

The chapter discusses five issues:

- Competition and barriers to entry
- Increasing property costs
- Constraints on location and size of stores
- Transaction costs
- Retail regeneration.

Each issue is examined in turn. As background for this analysis, this chapter firstly explains the importance of a competitive retail sector to the UK economy, and secondly provides a brief discussion of the overall costs and benefits of the planning system.

#### **Economic importance of retail**

Productivity is the amount of output for each unit of input. By utilising economies of scale, increased buying power and investment in IT and logistics, retailers can improve their productivity. This is desirable for a number of reasons:

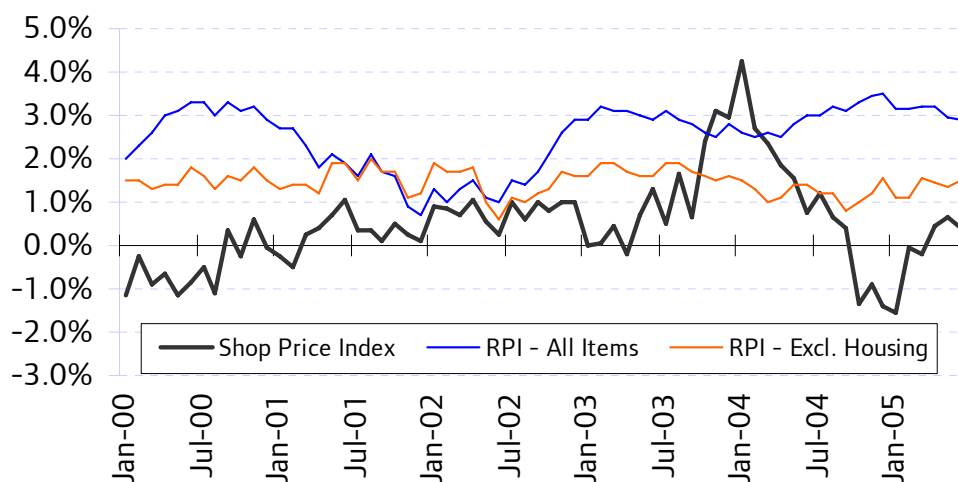
- Improvements in labour and capital productivity allow businesses to produce output at a lower average cost. Assuming there is sufficient competition in the market, these cost savings will be passed on to consumers in the form of lower prices – encouraging an expansion of demand, higher output and possibly an increase in employment. Additionally, these improvements help to constrain inflation.
- The capacity of the economy to produce goods and services depends on the stock of factor resources available (ie the active labour supply, the stock of capital inputs and natural resources), and the productivity of those factors. If the British economy can raise the rate of growth of productivity, then the sustainable growth rate of national output would also pick up. This has implications for living standards, unemployment, tax revenues and government spending
- Efficiency gains resulting in rising productivity are a source of larger profits for companies. These profits might be reinvested through higher capital investment or research and development.
- In the long run, there is a positive relationship between improvements in labour productivity and the real wages paid to labour.
- Productivity growth and lower unit costs are also key determinants of the international competitiveness of British firms in domestic and overseas markets. By improving productivity, businesses can develop (or protect) a competitive advantage in markets where there is intense price and non-price competition from overseas suppliers.

Retail productivity can best be increased if the retail market is competitive. The existence of competition spurs all individual retailers to consistently aim to improve their own company productivity, in order to avoid losing sales to more productive rivals. Productivity improvements across each firm sum together, ensuring a rise in overall industry productivity. Without competition, the spur towards productivity is reduced, as is the need for retailers to feed their productivity gains to consumers through lower prices.

It is vitally important, therefore, that policy, including planning policy, should aim to maintain a competitive market. This means firms are obliged to continuously seek to raise their productivity, which results in higher retail productivity overall and lower prices passed on to consumers.

As noted, a key reason to encourage higher productivity is to bring about reductions in prices.<sup>33</sup> Retailers are aware of the benefits to the UK economy that their price reductions can bring. As such, the British Retail Consortium undertakes a monthly measure of shop prices to calculate the Shop Price Index (SPI). The SPI aims to demonstrate the extent to which major retailers contribute to inflation through their pricing of a range of commonly bought goods. It concentrates solely on shop-based price movements, in contrast to the Retail Price Index (RPI), which includes goods such as motors and petrol, which are not sold in shops, together with services such as telephone or Council Tax charges. Figure 3.1 plots the SPI against two measures of the RPI since 1999.

**Figure 3.1: Inflation – retail sales**



Source: BRC, ONS

<sup>33</sup> Note that this analysis is not suggesting that prices should be reduced to a lowest common denominator, so that only low-cost grocers or low-cost clothing shops will remain. The retail market is characterised by a variety of retailers offering differing levels of quality, with prices representative of quality. A productive retail sector keeps prices low at each different quality level. But price differences that reflect quality and branding will remain.

It shows that over the past five years, shop price rises, as measured by the SPI, have generally been lower than those for all goods in the economy. This was particularly true for the period 1999 – 2001. During this time, average shop prices were often declining from year to year. This was also true from mid-2004 to mid-2005.

Figure 3.1 shows that the retail sector does have a positive effect on the UK economy through its dampening effect on inflation. However, this does not mean, necessarily, that the retail sector is as productive as it could be. If productivity increased through the introduction of greater competition to the market (which would bring wider benefits to the economy as described above), it could be possible to lower prices in the retail sector even further.

Indeed, comparisons with the retail sectors in the US, France and Germany are evidence that UK could improve its retail productivity – as they show the UK to be lagging behind these other countries. Evidence is particularly acute in comparisons with the US, which has higher absolute productivity in the retail sector and, in the most recent data, much faster growth in productivity. (For more on evidence concerning retail productivity, see Appendix A.)

Therefore, from an economic viewpoint, the UK needs to look for ways to increase competition in the retail sector and thereby improve the country's economic productivity. The remainder of this chapter looks at a number of ways in which the current planning system or related factors may be constraining competition – either directly or indirectly. It also looks at how to address these issues.

Planning-related issues are not the only ones relevant to improving retail productivity, nor are they necessarily the most important. The chapter simply seeks to identify those areas where the issues of planning and retail efficiency overlap, in order to draw attention to the ways in which planning can act to either encourage or discourage an efficient, competitive and innovative retail sector.

### **Costs and benefits of the UK planning system**

Retailers feel the effects of the UK planning system in a number of ways. These can include costs such as those involved in obtaining planning permission and benefits such as the avoidance of incompatible land uses. The remainder of this chapter examines a number of areas where planning impacts on retail competition. However, it is also useful to consider the planning system in a wider context and assess its broader costs and benefits. This section does this briefly.

The benefits of planning appear to fall largely in the provision of amenity, social equity and certainty, as well as in meeting the UK's international obligations towards sustainable development. In terms of retail, current UK retail planning regulation can be seen as a deliberate attempt to prevent the sprawling, car-dependent pattern of unconstrained US retail development that developed over recent decades. In the US model, retail has largely departed from Central Business Districts in favour of planned and unplanned shopping centres and retail strips in the suburbs. This entails much greater use of land and car travel than is the case in the UK. If such a model were implemented in the more densely populated UK, the social and environmental effects would be substantial.

The costs arising from the planning system are either administrative, which can fall particularly hard upon small businesses, or stem from the effects of land rationing on both availability and cost of development sites. These costs upon the retail sector are discussed in the remainder of the chapter.

When considering the retail industry, the overall question is not one of planning or no planning. Rather, it is considering whether the planning system could be improved so that economic aims, such as improved productivity, could be achieved while social and environmental aims are met.

In this context, the retail sector does bear a particularly large burden in respect of meeting wider social, sustainability and transport objectives. PPG6 policy on town centres clearly seeks to implement the Government's wider social, sustainability and transport objectives by influencing where and how retailers may set up and operate their businesses. This opens up the question: are other sectors of the economy similarly laden with these wider objectives or is the retail sector disproportionately affected? However, the change in PPS6, which applies this policy to all town-centre uses, not just retail, has partially diluted this contention.

For a more detailed discussion of the costs and benefits of planning, see Appendix B.

### **Competition and barriers to entry**

#### *Barriers to entry hinder competition*

Competition can improve economic efficiency through three channels:

- allocative efficiency, in which competition leads to an efficient allocation of resources
- across markets
- efficient organisation of production, in which competition provides managerial
- incentives for the reduction of organisational slack and inefficiency
- increased innovative activity, in which competition forces firms to innovate.<sup>34</sup>

By creating barriers to entry, the planning system hinders these processes of competition, thereby lowering productivity and economic efficiency in the UK retail market. Barriers to entry make it difficult for new firms to enter a market. This is a problem, because high levels of entry and exit for firms within an industry improve competition by:

- raising allocative efficiency through replacement of low-productivity retailers with high-productivity entrants, which increases aggregate productivity
- efficiently organising production, as entry may encourage current retailers to organise work more effectively and to learn from new entrants' use of superior technology or organisational structures
- increasing innovative activity, as entry or the threat of entry may increase the efficiency and innovative efforts of current retailers.

Low levels of entry reduce each of these competitive effects, hindering industry productivity and potentially raising prices for consumers.

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<sup>34</sup> European Commission, 2004, 'European competitiveness' report

Given these points, it is not surprising that evidence from the US described in Appendix A suggests that virtually all of the recent boom in US retail productivity can be explained by entry and exit effects.

However, there is a difference between barriers to entry and impediments to entry. This section focuses on barriers to entry (ie factors that can prevent entry). Impediments to entry delay, but do not prevent, entry into an industry. This chapter discusses impediments later in the section on transaction costs.

It is also important to note that there are many potential barriers to entry in the UK retail sector (see Appendix C). Barriers to entry, or a low rate of entry, cannot be assumed to be because of the planning system alone. For example, capital requirements and access to distribution channels, in an increasingly vertically integrated industry, are barriers in many retail sectors and may well be more significant.

*Quantitative limits on retail floor space can create barriers to entry*

While accepting that there are a number of reasons for barriers to entry, some are due to the planning system. For example, the setting of quantitative limits on retail floor space in a given geographical area can restrict competition by barring access to new entrants. This is especially likely when limits are endorsed by established retailers through their involvement in the decision process. The influence of local lobbies on local authorities may make entry particularly difficult for outsider (or foreign) companies wishing to enter local markets.<sup>35</sup>

At present, quantitative limits on retail development are not set by the UK planning system. However, according to PPS6, local planning authorities will in future have to assess the need for new retail floor space, taking account of both quantitative and qualitative factors. The authorities will then identify and allocate suitable sites to meet this need.

Such a policy, if applied rigidly, could well cause the difficulties highlighted above in terms of barring access to potential new entrants. For example, the policy of setting quantitative limits means there is scope for local authorities to:

- underestimate the need for retail floor space
- fail to identify and allocate enough suitable sites.

Additionally, even if planning authorities accurately identify needs for floor space and then identify and allocate enough sites, such a process will aim to achieve close to 100 per cent utilisation of sites. This, however, does not encourage rapid entry to and exit from the industry. Instead, it strongly benefits established retailers and works against potential entrants.

The reason why there are such barriers to entering the industry is because the process of competition in an economic market frequently leads to a temporary oversupply of a good – as new entrants enter the market, seek to undercut existing players through better productivity, and over time, force the least productive player out of business.

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<sup>35</sup> O. Boylaud and G. Nicoletti, 2001, 'Regulatory Reform in Retail Distribution', *OECD Economic Studies*, 32

From the point of view of economic productivity, ideally, sites should be identified not just to meet the need for retail floor space (matching demand and supply). Planning authorities should provide a surplus of available floor space, allowing new players to enter the industry and promoting stronger competition.

Within London, however, this aim needs to be balanced against the strong demand for land from all sectors of the economy. Having surplus land set aside for retail that remains unused is probably not the best use of that land to the economy overall.

In practice, the benefits from competition can be upheld firstly if planners are generous in their calculation of retail need for an area, so this feeds through into a greater availability of sites. Secondly, the benefits from competition will be enhanced if planners do not use need as a means of preventing new entrants from entering the market. As explained above, a temporary oversupply of a product should be considered as helpful to productivity, and not as a problem. Competition and market forces will act to ensure that the productive firms survive and the unproductive firms close. Furthermore, there are potential benefits if some existing sites do close down. Given the high demand for land in London, a new, more productive economic use of these sites would arise quickly.

*Barriers to entry benefit current retailers*

At present, the requirement to show need for a new development – if rigidly implemented – shows how limits on retail floor space restrict competition by barring access to new entrants. By allowing new stores only where need can be proven, the system makes it difficult to justify new stores, effectively preserving the status quo for existing retailers. The only potential strategy left for new entrants is acquisition, while current retailers continue to increase market share in existing stores.

*Barriers to entry encourage rent-seeking activities*

The need for greater availability of potential retail sites is heightened by the fact that, when land sites are limited, major players have a strong incentive to acquire this land at above market prices, in order to prevent new retailers from entering the market. In other words, a lack of available sites encourages rent-seeking activities. Existing players devote resources to extracting pre-emptive permissions from the system or building up land banks (that largely deny others development opportunities), rather than to improving productivity and competition benefits to consumers.

*Barriers to entry also result in consolidation, with negative effects*

The process of consolidation occurs when existing companies exit the industry, merge or are taken over – so a sector develops with just a few companies, each with high market share. Such a market is said to display a high level of concentration. Examples in the UK include the DIY market, where three companies have a combined market share of 80 per cent,<sup>36</sup> and the one-stop supermarket sector, which the Competition Commission examined in 2000.

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<sup>36</sup> Institute for Retail Studies, University of Stirling, for the DTI, 2002, 'Competitive Analysis of the Retail Sector in the UK'



The question of concentration is important when considering the issue of retail productivity. High retail productivity is desirable so that the benefits are passed on in lower prices to consumers and the economy in general. The process of consolidation generally favours increased productivity, as large retailers are able to benefit from economies of scale, increased buying power and the ability to invest heavily in IT and logistics systems. Through an efficient competitive process, this increased productivity should lead to lower consumer prices. However, if an industry becomes highly concentrated, it is possible that the necessary competitive dynamics can be weakened (see Appendix D). This could lead to higher retail prices, and such an outcome is more likely if retailers can exploit their market power through an absence of local competition.

Consolidation is more likely to weaken competitive market dynamics in a market where competition is constrained in other ways, such as by barriers to entry. If a market is largely free of such constraints, the threat of competition from new entrants usually prevents retailers from raising prices above competitive levels, even if there is high degree of consolidation. However, a mix of barriers to entry and high consolidation means a market may cease to be fully competitive.

A recent example of this is the takeover of Safeway, which the Competition Commission recently investigated. The Commission refused to sanction a takeover that would reduce the number of national one-stop supermarkets to three. While the Commission found that there would be some cost savings through increased purchasing power among three large supermarket chains, it also argued these would be insufficient to outweigh the adverse effects of reduced competition.

The one-stop supermarket sector in London is a good example of the dual existence of a high level of consolidation and barriers to entry. At present, two companies have a combined 70 per cent market share in London. With the Competition Commission believing that a minimum of four operators are required nationally to maintain competition benefits, this suggests that benefits could be widened in London if other retailers were able to increase market share. However, to do so, they would need both to prove the need for any potential store to the local authorities and to successfully acquire the site, outbidding the two market leaders. As a result, it seems unlikely that competition in this sector within London will be increased over time, and it is arguable that productivity improvements may be restricted or may not be fully passed on to consumers.

#### *Summary of problem*

Barriers to entry can severely impede economic competition. They exist in the retail industry through non-planning-related factors such as capital requirements and access to distribution channels. However, the planning system can also create barriers to entry if it underestimates need or if it fails to identify and allocate sufficient sites for retail development. When this occurs, new firms find it difficult to enter the market. The result is that existing retailers benefit and rent-seeking activities are encouraged. Problems develop in highly concentrated industry sectors while overall industry productivity is constrained.

### *Solutions*

In theory, accurately identifying retail need and only allocating sufficient sites to meet this need is not sufficient to overcome this problem. Instead, retail sites need to be identified, in town centres as a first priority, and a surplus of available floor space should be provided, allowing potential for new entrants and stronger competition. In reality, accurately identifying retail need is in itself a highly ambiguous process, which suggests that the best solution is for planners to be generous in their calculation of need for town-centre developments or edge-of-town centre extensions. This will then feed through into a greater availability of sites.

If, for whatever reason, this is not possible or does not occur, then competitive dynamics in the retail industry will be constrained. In such a situation, it is important that competition authorities ensure that rent-seeking activities and excessive consolidation do not further undermine competition in the market.

### *PPS6*

PPS6 appears to have recognised that a lack of sites could be both inhibiting productivity and additionally favouring existing retailers. As such, PPS6 is quite categorical in its aim to ensure that sufficient capacity is available to meet required new development and that the planning system should not, inadvertently, restrict competition or preserve existing commercial interests.

According to PPS6, planning authorities should ‘assess the need for further main town centre uses and ensure there is the capacity to accommodate them’.<sup>37</sup> They should actively plan for growth by:

- making better use of existing land and buildings – including, where appropriate, redevelopment
- extending the centre where necessary
- planning for new centres of an appropriate scale in areas of significant growth or where there are deficiencies in the existing network of centres.

Furthermore, an apparent lack of sites of the right size and in the right location should not be construed as an obstacle to site allocation and development to meet identified retail need. Local planning authorities are encouraged to consider the scope for effective site assembly using their compulsory purchase powers. In this way, they can bring suitable sites within or on the edge of town-centres forward for development. This includes sites that are under-utilised, such as car parks and single-storey buildings, which could be redeveloped for multi-storey, mixed-use developments.

Additionally, the draft PPS6 originally allowed extensions without recourse to the sequential test – but this was dropped in the final guidance. This proposed policy would have clearly benefited existing retailers, so removing it from the final PPS6, should encourage more competition.

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<sup>37</sup> PPS6, paragraph 1.6

Overall, PPS6 does appear to address many of the issues surrounding barriers to entry that existed with PPG6. However, the actual effect of the new guidance can still be influenced by planners' interpretation of it. In particular, because local planning authorities must assess the need for new retail floor space, they may underestimate this need in development plans. Retailers will then struggle to prove the need for new developments that they wish to undertake.

Additionally, scope remains for local authorities to fail to identify and allocate enough suitable sites to meet the identified need. In such cases, retailers will be able to get permission for edge-of-town centre or out-of-town sites instead. As such, there is a clear incentive for planning authorities to identify sufficient town-centre sites if they wish to rigidly enforce the sequential test and ensure retail development remains in town centres. Indeed, there may be a case for them to relax quantitative limits applied to town-centre schemes in appropriate circumstances, in order to meet these combined aims of increasing space for retail development while maintaining focus on town centres as opposed to out-of-town development.

In conclusion, the only significant way in which PPS6 threatens to hinder competition through barriers to entry is if planning authorities underestimate the need for retail development, hindering potential development. In contrast, if planners calculate need generously, and identify and allocate sufficient sites successfully, then their actions will help to actively promote retail competition while maintaining the focus on town centres. Therefore, PPS6 is potentially a significant improvement upon PPG6 – provided it is implemented as designed.

### **Increasing property costs**

*London high-street rents are highest in Europe*

Table 3.1 shows retail high-street rents, comparing the UK to other areas of Europe. The data shows that space in British cities is about twice as expensive as that in similarly sized and wealthy European counterparts, and that the highest costs of all are to be found in London.

**Table 3.1: Prime high-street rents – Europe**

(€/square metre/annum)		
London West End	UK	4499
Paris	France	3960
Dublin	Ireland	3375
Frankfurt	Germany	2328
Birmingham	UK	2203
Copenhagen	Denmark	2151
Vienna	Austria	1800
Zurich	Switzerland	1755
Madrid	Spain	1752
Amsterdam	Netherlands	1650
Milan	Italy	1455
Barcelona	Spain	1440
Brussels	Belgium	1200
Stockholm	Sweden	1196
Lyon	France	1187
Oslo	Norway	899

Source: CB Richard Ellis – EMEA Retail Q2 2004

Table 3.2 further illustrates the extent to which retail rents are high in London compared to elsewhere. It summarises prime retail rents across the UK for the top 50 centres. Five sites in Central London are included in the analysis and these have the highest rentals in the UK, ranging from £375 – 500 per square foot per annum. Birmingham, at £315 per square foot per annum has the next highest level of prime rents. The majority of UK centres are in the range of £155 – 250 per square foot per annum – rates approximately half of those in Central London. The three Outer London centres surveyed were Kingston (£275 per square foot per annum), Croydon (£250 per square foot per annum) and Bromley (£195 per square foot per annum).

**Table 3.2: Achievable Zone A rents – top 50 UK centres**

Rents (£/sq ft/annum)	All centres	Outer London	Central London
105 – 150	13		
155 – 200	19	1	
205 – 250	15	1	
255 – 300	5	1	
305 – 350	3		
355 – 400	1		1
405 – 450	1		1
455 – 500	3		3
Total centres	60	3	5

Source: Jones Lang LaSalle – 50 Centres Retail Rents – Nov 2004

Table 3.2 shows that retail rents in London are high in comparison to other cities in the UK, while Table 3.1 shows that UK retail rents overall are significantly higher than elsewhere in Europe. It is not possible in this study to investigate all the causes behind these trends. However, it is clear that such high land costs will have a negative effect on UK competitiveness in comparison to the rest of Europe, and the US where land costs are also lower.

#### *UK planning system creates upward pressure on rents*

The UK planning system raises land costs in two ways. First, it limits the amount of overall development land available, and second, it limits the amount of land available for each category of use (see Appendix E for more detail).

Any type of planning system that regulates land use will tend to raise land costs above the level that would exist without such a system. However, having a planning system is desirable for many reasons. In the context of retail, the challenge is to minimise the extent to which the system raises retail land prices. The best way to do this is to ensure that the amount of land available for retail development matches or exceeds demand by retailers. Clearly, the more land that is available for retail, the lower the upward pressure on rents. This means that making sufficient land available should be a key aim of the planning system.

#### *Summary of problem*

The planning process limits both the total amount of land available for development and, in particular, the amount of land categorised for retail development. This raises land or rental costs for retailers.

#### *Solutions*

The main solution is to ensure that land available for retail development is not overly constrained. The solution here is the same as for avoiding barriers to entry. Under the current plan-led system, this ideally means ensuring a high supply of sites are available for retail development.

At present, market mechanisms are not used to aid decisions on the categorisation of land use or to help ensure sufficient retail sites are made available. However, price discontinuities between adjacent land allocated for differing land uses are a potential mechanism to help inform this process. These price premiums provide direct information on the shortage of land in any locality for any particular use. Cheshire suggests that such price premiums could be introduced as 'a material consideration' in the decision-making planning process.<sup>38</sup> The idea is that developers should be allowed to change the category of land use if the price premium can be shown to exceed some predetermined threshold. At present, the system has no economic pricing mechanisms in place to ensure an economically efficient allocation of land space between competing end uses, or even to guide planners in their allocation decisions.

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<sup>38</sup> P. Cheshire, 2003, London School of Economics, 'The introduction of price signals into land use planning decision-making: a proposal'

### *PPS6*

The Government, in setting PPS6, appears to have recognised the possibility that sufficient sites are not currently being identified. In particular, it acknowledges that, while PPG6 has been used to curb out-of-town development, not enough alternative town-centre sites have been identified. To counter this, PPS6 strongly encourages a more proactive plan-led approach to identifying new sites and increases the availability of edge-of-town centre sites.

### *Constraints on location and size of stores*

The problem of sub-optimal developments, from the perspective of retailers, can occur either through being prevented from developing a store to their preferred size or at their preferred location.

### *Constraints on store size resulted in an unmet demand for larger stores*

The UK, alongside all other European countries, attempts to restrict the development of large stores. In the UK, this generally occurs indirectly, through planning's focus on town centres and the transport impacts of developments. The effect of this focus is an unmet demand for larger stores in certain sectors, notably the DIY, furniture and grocery sectors.

B&Q is one DIY company that wishes to build more larger stores. It argues that planning restrictions on large stores are limiting its UK investment and preventing growth in jobs.<sup>39</sup> B&Q also believes that the restrictions may lead UK players to consider acquiring competitor sites as the only means to grow – resulting in increased consolidation and less competition – or that UK players will become more willing to divert investment overseas.

In the furniture sector, IKEA has similar views, arguing that the planning system fails to facilitate retail innovation and allow consumers the benefit of enhanced choice and lower prices that competition can deliver.<sup>40</sup> The average size of new IKEA stores is around 28,000 square metres. Furthermore, IKEA is extremely popular – with annual visitor levels of over 2.4 million at each store, and over 3 million at Brent Cross, which has the highest turnover of any IKEA store in the world. The result of this popularity is that IKEA considers all of its UK stores (except one) to be – by its own operational criteria – ‘under-dimensioned’ (ie too small to cope with the consumer numbers they currently attract). Furthermore, IKEA has struggled to obtain planning permission for new UK stores in recent years and is clearly not expanding here as quickly as it wishes.<sup>41</sup> IKEA wants to invest (around £1.5 billion from 2002 to 2010) and build a further 20 stores in the UK. Indeed, such is the value of the UK market that IKEA is now beginning to modify aspects of its traditional format to conform with planning policy requirements.

Some evidence of constraints upon IKEA in the UK comes from an analysis of their worldwide stores.<sup>42</sup> Table 3.3 shows that in mid-2004 the UK was ranked fifth in terms of floor space for IKEA. However, Germany has approximately three times more IKEA floor space than the UK,

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<sup>39</sup> Memorandum by B&Q to the Select Committee on ODPM on the subject of ‘Planning, competitiveness and productivity – 2002’

<sup>40</sup> Memorandum by IKEA to the Select Committee on ODPM on the subject of ‘Planning, competitiveness and productivity – 2002’.

<sup>41</sup> Memorandum by IKEA, 2002

<sup>42</sup> Data from IKEA website. View at: <http://www.ikea-group.ikea.com/corporate/>

supporting the argument that IKEA has ample scope to expand further within the UK. Also of interest is that the largest store in the UK (Brent Cross at 27,600 square metres) is smaller than the largest store in the other nine main IKEA markets. Indeed, worldwide IKEA has 29 stores of over 30,000 square metres, with a further seven of this size opening in 2004/05. Overall, IKEA opened 20 new stores in 2004 – 2005, including one in the UK at Edmonton (28,000 square metres). From the data in the Table 3.3, it is however possible to determine that the average size of a store in the UK is not too dissimilar to elsewhere in Europe, being slightly higher than in France and Italy, although smaller than Germany.

**Table 3.3: IKEA stores by country – ranked by total floor space in mid-2004**

Country	Store numbers	Total floor space (square metres)	Largest store (square metres)
Germany	33	844,200	37,000
US	20	531,300	40,000
Sweden	14	308,300	55,200
France	14	295,900	33,400
UK	12	259,300	27,600
Canada	11	258,800	31,000
Netherlands	10	223,500	32,700
Italy	9	191,100	32,700
Austria	6	142,400	37,500
Spain	5	136,500	33,000
Other	46	881,700	37,000

Source: IKEA website

There also exists a potential demand for larger stores in the grocery market. At present, as shown in Table 3.4, the UK has far fewer large grocery stores than the US and major European countries. Those it does have are significantly smaller in size. This does not mean that an increase in store size is inevitable in the UK. However, global trends would suggest it is probable.

Indeed, in the US, grocery stores continue to grow even larger. US supermarkets have seen market share for food and grocery sales decline from 75 per cent to 68 per cent between 1997 and 2002. Large-format warehouse clubs and superstores have increased their share from 9 per cent to 16 per cent. Included in the latter are new Super Wal-Mart stores, which currently have an average opening size of approximately 17,000 square metres. Sales at these large-format Wal-Mart stores are estimated to have increased by 136 per cent between 1997 and 2002, compared to 19 per cent growth in Wal-Mart's supermarkets.<sup>43</sup>

<sup>43</sup> D. Rogers, 'Letter/America' *The European Retail Digest*, 39, Autumn 2003

**Table 3.4: Comparisons of food-retailing density in the UK, Continental Europe and the US 1999**

	<b>Spain</b>	<b>France</b>	<b>Italy</b>	<b>UK</b>	<b>Germany</b>	<b>USA</b>
<b><i>Hypermarkets</i></b>						
Number of stores	267	496	157	71	635	650
Number of sq metres ('000)	2,138	4,270	1,009	391	10,457	10,000
Average store size ('000 sq metres)	8.01	8.61	6.43	5.51	16.47	15.38
Sq metre/ 1,000 population	53	71	18	7	124	40
<b><i>Supermarkets</i></b>						
Number of stores	5,670	8,820	6,073	4,720	23,680	22,000
Number of sq metres ('000)	4,540	10,350	5,491	7,600	16,908	85,000
Average store size ('000 sq metres)	0.80	1.17	0.90	1.61	0.71	3.86
Sq metre/ 1,000 population	113	173	98	127	201	340
<b>Totals</b>						
Total number of sq metres ('000)	6,678	14,620	6,500	7,991	27,365	95,000
Sq metre/ 1,000 population	166	244	116	133	326	380

Source: Deutsche Bank Research, 1999, *Global Food Retailing, Part 1*

#### *Larger stores can benefit from economies of scale*

In certain retail sectors, large stores can increase productivity by increasing economies of scale at the store level. Potential economies of scale will vary depending on the type of retail trade undertaken.

#### *Evidence from the DIY sector*

B&Q provided evidence to the Select Committee on ODPM in 2002, to show how its larger Warehouse stores (approximate size of 14,000 square metres) have lower costs and higher productivity than their smaller Supercentre stores (average size of 4,000 – 5,000 square metres).<sup>44</sup> B&Q commented that Warehouse stores have higher labour productivity, generate

<sup>44</sup> Memorandum by B&Q, 2002



substantially higher sales per linear foot in similar product categories, and are cheaper per unit area to fit out than its Supercentre stores. According to B&Q, between 1991 and 1999 the average size of a DIY store in the UK increased by 23 per cent – and this helped labour productivity rise by 41 per cent in the sector, against 20 per cent for the economy as a whole.

The main reason B&Q believe larger stores are more productive is that they enable a larger range of products to be available in-store, and this is the key driver of DIY customer loyalty. Furthermore, increased productivity and lower costs in the sector resulted in prices to consumers declining through the 1990s by 1.5 per cent a year, helping to generate growth in DIY spending of 5.6 per cent a year in real terms. Total employment by B&Q also rose during the 1990s, despite the improved labour productivity due to the expansion of the sector. B&Q argued to the Select Committee that, based on these trends, planning restrictions on large stores were limiting its UK investment and preventing growth in jobs. They pointed out that the restrictions may lead UK players to consider acquiring competitor sites as the only means to grow – leading to increased consolidation and less competition – or to divert investment overseas.

Reading B&Q's latest annual report, however, it is clear that the company continues to operate successfully within smaller store formats and within the UK generally.<sup>45</sup> It is currently in the process of converting many of its Supercentre stores into Mini-Warehouse stores. These stores are closely aligned with the Warehouse format, and provide access to a greater proportion of B&Q's full product range than the traditional Supercentre. According to its annual report, 'customers clearly prefer the new format, with double-digit sales uplifts and improved margins from stores converted to date'. Furthermore, the company continues to expand, with a further eleven Warehouse stores (including the company's biggest at Trafford Park, Manchester), and nine Mini-Warehouse stores due to be opened in the UK in 2004/05 2005. It will also convert a further 25 Supercentres to Mini-Warehouses. As a result of these expansions, B&Q's UK sales space is rising by 7 per cent per annum at the present time.

While this does not negate the evidence that larger DIY stores can bring about economies of scale, it does suggest that B&Q's UK activities are not being too sharply constrained at the present time.

#### *Evidence from the furniture sector*

In the furniture sector, IKEA announced in 2002 that it would like to invest (around £1.5 billion between 2002 – 2010) and build a further 20 stores in the UK.<sup>46</sup> It sees the benefits of such investment as:

- improved customer service, amenity and choice
- reductions in trip lengths for many customers
- direct job creation
- an extended UK supply network
- reductions in prices in real terms.

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<sup>45</sup> Kingfisher Annual Report 2004. View at: [www.kingfisher.com](http://www.kingfisher.com)

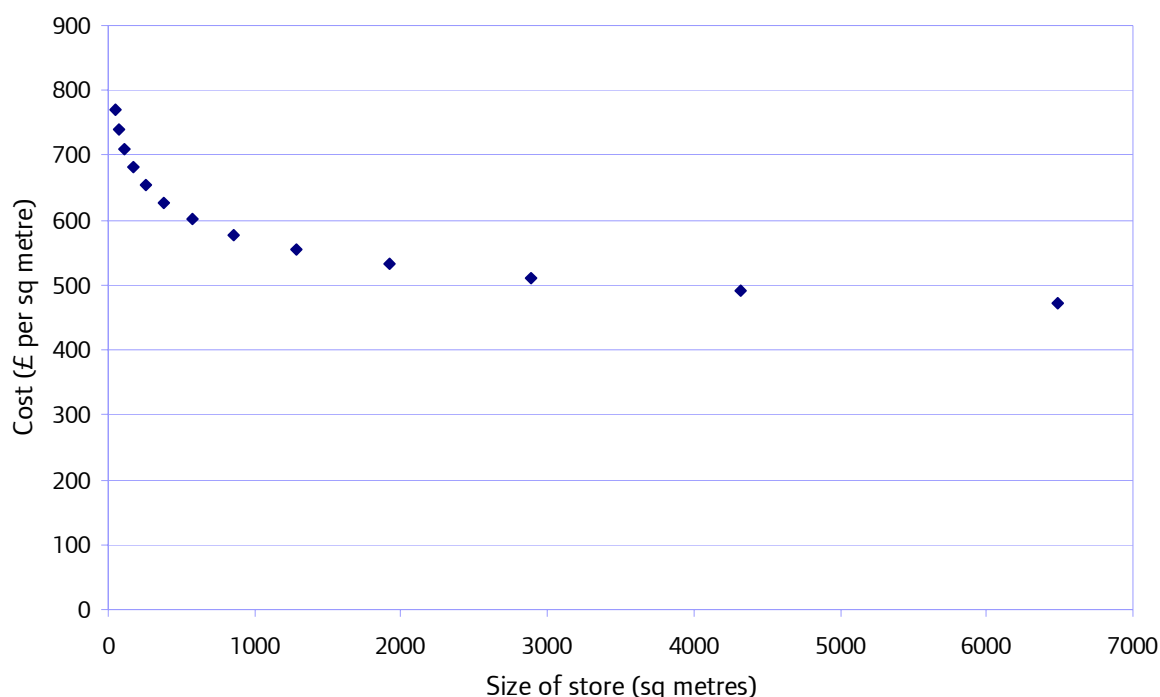
<sup>46</sup> Memorandum by IKEA, 2002

As evidence of the final point, IKEA conducted research in Edmonton, North London and Stockport, Manchester – to establish whether any existing retailers within the areas of these proposed IKEA stores could offer everything needed to furnish a home, and also to compare prices. They found that even by visiting all their competitors, consumers would not be able to find the full selection of 120 items selected. For those they did find, they would pay between 20 – 28 per cent more than they would at IKEA. This evidence that IKEA can offer lower prices does not necessarily validate the large-store idea, as their lower costs are partly generated by buying power, distribution systems and so on, in addition to any economies of scale within a store. However, it is clear that their offer of more product lines and lower prices is attractive to many consumers.

#### *Evidence from the grocery sector*

The existence of economies of scale at the store level in the grocery sector was investigated by the Competition Commission, during its investigation of supermarket competition in 2000.<sup>47</sup> Its report found that there are economies of scale in staff costs, but that such economies are most significant for smaller stores. Above about 3,000 square metres, the impact on total store costs is modest but still positive. Figure 3.2 illustrates the results.

**Figure 3.2: Example of economies of scale in staff costs by store size**



Source: GLA Economics based on data from CC 2000 report

The evidence on larger stores in Figure 3.2 suggests that there is a clear unmet demand for large DIY and furniture stores and that such stores would increase UK retail productivity.

<sup>47</sup> Competition Commission, 2000, 'Supermarkets: A report on the supply of groceries from multiple stores in the UK', Cm 4842

There is probably also an unmet demand for larger supermarkets and evidence suggests these would also benefit from improved economies of scale.

However, it should be noted that large stores can create significant traffic impacts. This in turn could create economic costs through congestion. Although not considered in detail in this report, traffic impact is still an important factor that needs to be measured when considering retail in a congested city such as London.

#### *Constraints on location decisions*

In addition to sub-optimal sizes of stores, there is also the issue of whether the planning system leads retailers into making sub-optimal location decisions through the sequential test – as this encourages retail development in town centres, rather than out-of-town.

For the DIY, furniture and grocery retail sectors, this issue is linked to that of store size: it is largely restrictions upon development of out-of-town sites that lead to constraints on the ability to build large stores. Such a link also exists for a number of other retail sectors, with companies such as Dixons and Next now keen to build out-of-town, because this allows larger stores able to fit a larger proportion of their stock. The other major benefits of out-of-town sites are in accessibility and lower rentals.

One way of examining whether retailers are constrained in building large stores, is to look at changes in retail rental values for town-centre and out-of-town sites. Table 2.2 showed that rental values have risen more for retail warehouses than for shops in general – but within London, the difference is far less pronounced. This suggests that location is not as big an issue for London, with its good public transport links, as it is for the rest of the UK, where demand from retailers for out-of-town sites (ideal for car users) remains high.

Within London, the attractiveness of town centres to both retailers and consumers remains stronger than elsewhere in the UK. On one hand, this may be because there are fewer alternatives. Alternatively, it may be due to the existence of good public transport links or the closer integration of residential, office and retail activity in London.

#### *Summary of problem*

Retailers have been prevented from maximising economies of scale because restrictions on out-of-town and edge-of-town centre sites constrain their ability to build larger stores.

#### *Solutions*

PPG6 deliberately sought to restrict large out-of-town stores, largely due to transport implications. It required firms to consider changing their business models in order to meet the needs of the sequential test. There are, however, economic benefits for retail productivity in allowing more large stores. Changes to the planning system in PPS6 that make this possible will boost retail productivity.

#### *PPS6*

PPS6 appears to recognise that large store development has been constrained and takes steps to try to ease the restrictions. As paragraph 2.6 states:

Extension of the primary shopping area or town centre may also be appropriate where a need for large developments has been identified and this cannot be accommodated within the centre. Larger stores may deliver benefits for consumers and local planning authorities should seek to make provision for them in this context. In such cases, local planning authorities should seek to identify, designate and assemble larger sites adjoining the primary shopping area (ie in edge-of-town centre-locations).<sup>48</sup>

Policy has not been moved entirely in favour of retailers building stores to their own model and they are still expected to show flexibility. For example, paragraph 3.15 says:

In applying the sequential approach, and considering alternative sites, developers and operators should be able to demonstrate that in seeking to find a site in or on the edge of existing centres, they have been flexible about their proposed business model in terms of the following planning considerations; the scale of their development; the format of their development; car parking provision; and the scope for disaggregation.

Nevertheless, PPS6 goes on to say in paragraph 3.16 that:

Local planning authorities should take into account any genuine difficulties, which the applicant can demonstrate are likely to occur in operating the applicant's business model from the sequentially preferable site, in terms of scale, format, car parking provision and the scope for disaggregation, such as where a retailer would be required to provide a significantly reduced range of products.<sup>49</sup>

And, additionally, that:

A single retailer ... should not be expected to split their proposed development into separate sites where flexibility in terms of scale, format, car parking provision and the scope for disaggregation has been demonstrated.<sup>50</sup>

Overall, PPS6 shows a shift towards enabling the development of more large stores, with edge-of-town centre locations the most likely places for suitable sites to be identified and allocated.

### **Transaction costs**

The most common criticism of the planning system from business relates to the various administration costs and the delays that can occur within this process. These financial and time costs can all be considered as transaction costs of dealing with the planning system. They can also be considered an impediment (as opposed to a barrier) to entry into the industry.

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<sup>48</sup> PPS6, paragraph 3.15

<sup>49</sup> PPS6, paragraph 3.16

<sup>50</sup> PPS6, paragraph 3.18

Transaction costs vary substantially. For most planning applications, the only direct cost is that of the planning fee and there is no delay beyond the eight or 13 week deadlines included in Government Best Value targets.

However, for some applications, particularly larger commercial developments, additional financial costs are imposed through the negotiation of planning obligations. This means developers are asked to provide or contribute toward necessary infrastructure, or to mitigate an environmental problem arising from their development.

Meanwhile, delays in the decision-making process can mean that some planning applications can take up to 12 – 18 months to reach a conclusion, with the possibility of this timeframe being more than doubled if a proposal is called in by the Secretary of State or is subject to appeal.

These additional financial and delay costs raise the total costs of development. This could lead to some developments being deterred. More commonly, where a development proposal does proceed, these transaction costs have significant economic costs both to the developers directly and also to the economy overall through the loss of benefits from investment during the time of the delay.

Evidence as to the size of these transaction costs is patchy. A 1998 Department for Environment, Transport and the Regions (DETR) study analysed the economic effects of the planning system on the business (including retail) sector. Based on consultation, a literature review and data analysis, it concluded costs were approximately as follows (in 1998 prices per annum):

- planning application fees: £100 million
- other administrative costs such as planning agreements: £100 – 150 million
- planning delay: an order of magnitude higher than £100 million (maybe £600 million plus).<sup>51</sup>

#### *Summary of problem*

Excessive delays in the consideration of major planning applications lead to significant economic losses – as land and resources remain unused, and the potential benefits of investment are foregone.

#### *Solutions*

Retailers would like to see a higher level of staffing in local authority planning departments, so proposals can be dealt with in a shorter timeframe. They would also like to see a reduction in the number of proposals subject to call-in by the Secretary of State, as this process significantly adds to delays.

#### *PPS6*

PPS6 does not deal with these transaction costs issues. However, it is possible that greater ambiguity within the new guidance could lead to increased disagreement between developers and local authorities over some retail planning applications. Then there would be an increase

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<sup>51</sup> DETR, 1998, 'The economic consequences of planning to the business sector'

in contentious applications, which in turn are likely to be subject to significant delay and potential call-in by the Secretary of State. For applications within town centres, however, nothing within PPS6 should increase or decrease the time taken to process proposals.

More generally, there are efforts to streamline planning processes through the Planning and Compulsory Purchase Act 2004 and through government guidance in Planning Policy Statement 12 (PPS12) on local development frameworks. These local development frameworks are intended to streamline the local planning process and promote a proactive, positive approach to managing development.

### **Retail regeneration**

This issue is not linked to retail productivity, but rather to ensuring that sufficient retail provision is available for all people. In other words, making sure there are not under-served areas – or, if they are identified, encouraging increased retail development as a means of bringing about regeneration.

This issue is dealt with more fully in the regeneration strand of this retail study but two planning-related barriers are considered here. The first simply involves the importance of local authority planners fully engaging the retailers who can help regenerate an area – and then making the most of opportunities, rather than introducing delay. Masterplanning, which is the process whereby consultants set out proposals for buildings, spaces, movement, strategy and land use over a geographic area, is usually regarded as a positive move towards regeneration. Nevertheless, we were made aware of examples in which potential retail-led regeneration had been delayed, and thereby lost, due to masterplanning. (ie rather than agree to a major retail development in an under-served area, local authorities decide that a masterplanning process must take place first). It is important for local authorities to understand that in the context of under-served areas, potential retailers may, and indeed do, simply go elsewhere; the offered development may no longer be on the table a year later.

The second issue is more fundamental: the location of retail development as set out in the sequential test in PPG6 and the new PPS6 often conflicts with the need to serve under-served markets. In other words, while PPG6 encouraged retail development to occur in town centres, under-served areas are, in many instances, not near town centres. In such cases, retail planning policy actively discouraged major retail investments in under-served areas

This problem reflects a larger issue within PPG6, whereby retail-location policy was not based on population distribution, but simply on the existing pattern of town centres. As long as town centres are widely distributed then this did not cause a problem. However, where areas are short of retail outlets for historical reasons, PPG6 did not offer means to address the issue and increase retail floor space. In other words, there may be occasions whereby development of out-of-town retail floor space could be justified by the need for a new retail centre to serve a large under-served population.

### *Summary of problem*

The sequential test favours town-centre development. This means it can prevent retail developments – that would otherwise be strongly justified by their regeneration role – in areas where a population is currently under-served in terms of retail floor space.

### *Solutions*

Retail developments need to be allowed in areas shown to be under-served by retail, even when such developments are not town-centre based.

### *PPS6*

This issue has clearly been considered in the setting of PPS6; there are frequent mentions of regeneration and deprived areas within the new guidance. Examples include:

- In areas ... where deficiencies are identified in the existing network of centres, new centres may be designated through the plan-making process, with priority given to deprived areas.<sup>52</sup>
- New centres should be designated through the plan-making process where the need for them has been established, with priority given to deprived areas where there is a need for better access to services, facilities and employment by socially excluded groups.<sup>53</sup>
- Deprived areas often have poor access to local shops and services. To tackle this problem local authorities should work with the local community and retailers to identify opportunities to remedy and deficiencies in local provision. This is likely to be best achieved through strengthening existing centres or, where appropriate, proposing new local centres.<sup>54</sup>

Local authorities should take a positive approach to strengthening local centres and planning for local shops and services by working with stakeholders, including the private sector and the community. This should include:

- Assessing where deficiencies exist in the provision of local convenience shopping ... and identifying opportunities to remedy and deficiencies in provision;
- Involving the local community and retailers; and
- Working with the private sector to seek to ensure that the identified need for new facilities will be delivered.<sup>55</sup>

This new advice clearly recognises that some under-served areas are not located near to existing centres, and that in these cases new retail provision within the area is to be encouraged. This appears a clear improvement upon PPG6 and allows the possibility of retail-led regeneration to occur in deprived areas

### **Summary**

The UK land-use planning system is likely to have constrained retail productivity historically: through the creation of barriers to entry; through restrictions on the location; and, to a lesser

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<sup>52</sup> PPS6, paragraph 2.7

<sup>53</sup> PPS6, paragraph 2.53

<sup>54</sup> PPS6, paragraph 2.56

<sup>55</sup> PPS6, paragraph 2.58

degree, the size of stores. Additionally, the system has led to higher land prices, which, together with the system's administrative costs, are likely to have had a negative impact on retail business performance.

However, a number of potential improvements to aid retail productivity have been included within the new PPS6. First, it encourages planners to provide for big-box stores either in town centres or on edge-of-town centre sites. This may make it easier for companies such as IKEA and B&Q to build some larger stores to meet demand. Second, by easing restrictions on edge-of-town sites, PPS6 should increase the amount of retail development land available. Thirdly, the potential for retail-led regeneration has been increased by the acceptance that new centres may need to be developed in deprived areas.

Looking ahead, the main potential conflict between retail planning and retail productivity will occur if need is underestimated or site availability is not sufficient. Provided planners calculate need generously, and identify and allocate sufficient sites (in town centres as a first priority), then this conflict will be avoided. If so, the planning system will aid retail productivity through increased retail competition. To achieve this, it is important that PPS6 is implemented as envisaged. Otherwise, planning may cause barriers to retail entry, which negatively affects retail competition and productivity.

Overall, if planners and policy-makers wish to increase retail productivity, it is crucial that they understand the process of entry and exit (of both new and existing firms) as a major determinant of productivity growth in this sector. Barriers to new entrants, from planning but also from other sources, are the major ongoing constraint. Any action that helps alleviate these barriers, such as described above, should therefore be encouraged.



## 4. Conclusion

The UK planning system exists to regulate land-use development, and in doing so to balance economic, social and environmental aims. In the 1980s and early 1990s, the planning system with regards to retail was market-led, and there was a major shift in the UK, and to a lesser extent in London, towards out-of-town development. Because of the potential threat to town centres, retail planning policy changed significantly in 1996 and has subsequently been based on a plan-led system – with the major objective of sustaining and enhancing the vitality and viability of town centres.

Much of the impetus towards policy focusing on town centres comes from a deliberate wish to prevent the sprawling, car-dependent pattern of US retail development that developed over recent decades. This US model has seen retail largely depart from Central Business Districts in favour of planned and unplanned shopping centres and retail strips in the suburbs. Such a retail environment allows much greater use of land and car travel than is the case at present in the UK.

It can be argued that current planning policy obscures the interaction between social, environmental and economic aims by not giving sufficient consideration to economic issues. Certainly, some retailers believe that PPG6's stated objective of 'maintaining an efficient, competitive and innovative retail sector' was overlooked in its implementation.

Improving the economic performance of the retail sector can bring wider benefits to the London and UK economies. By improving productivity, retailers are able to lower their costs, which will be passed on to consumers in the form of lower prices. This helps to constrain inflation in the economy, as well as expanding demand, increasing output and potentially increasing employment. Increased productivity also improves the international competitiveness of UK firms.

The UK planning system is one – but by no means the only – factor that can affect retail productivity. Planning policy can lead to insufficient retail competition, which then results in lower productivity. This can occur particularly if social and environmental aims are strong focuses of the policy. Four ways in which planning is likely to affect retail productivity by constraining competition have been identified. These are creating barriers to entry, increasing the cost of property, constraining store size and location, and increasing transaction costs. Each issue is outlined in more detail below:

- Barriers to entry can severely impede economic competition. The planning system can increase barriers to entry by failing to identify and allocate sufficient sites for retail development. When this occurs, new entrants find it difficult to enter the market. The result benefits existing retailers – rent-seeking activities are encouraged and problems develop in highly concentrated industry sectors, while industry productivity is constrained overall.
- The planning process constrains both the total amount of land available for development and, in particular, the amount of land categorised for retail development. This raises land or rental costs to retailers.

- Planning policy also restricts development on out-of-town and edge-of-town centre sites. This prevents retailers from maximising economies of scale at the store level by constraining their ability to build larger stores at such locations.
- Transaction costs are an inevitable consequence of making a planning application. However, retailers are concerned by the lengthy timeframes involved in achieving permission and at the costs imposed. Delays cause an economic loss through the loss of the benefits foregone.

It can be argued that such economic costs are worthwhile as long as social and environmental aims of retail planning policy are met. It can also be argued that other non-planning related factors weigh down UK retail productivity, and that these should be addressed rather than those linked to planning. However, one of the objectives of UK retail planning policy has been to ‘maintain an efficient, competitive and innovative retail sector’. Therefore, for the planning system to meet this objective, policy-makers need to understand how the system influences retail competition and its negative effects upon industry productivity. Efforts can then be made to boost planning’s positive impacts and reduce the negative ones.

This appears to have happened in the drafting of PPS6, released in March 2005. A number of changes contrasting with PPG6 policy are apparent, that address many of the issues concerning retail productivity discussed in this document. In particular, PPS6 aims to increase the amount of development sites in town-centre and edge-of-town centre locations to ensure that retail need is fully met. Additionally, PPS6 recognises the potential benefits of larger stores and opens the way for new large-store development at edge-of-town centre sites. Another improvement in PPS6 is its recognition of the need, in some cases, to develop new retail centres to meet the needs of under-served deprived areas.

Implementation of PPS6 will, of course, be key. A key point in regard to retail productivity is that the process of entry and exit (of both new and existing firms) is essential for productivity growth in the sector. Barriers to new entrants, both from planning and other sources, are therefore the major ongoing constraint. If PPS6 is implemented as envisaged – with planners calculating need generously and identifying and allocating sufficient sites – then the planning system should in future aid retail productivity. However, it is important that PPS6 is implemented in such a manner as the alternative (underestimated need or a lack of available sites) will create barriers to entry which negatively effect retail competition and productivity.

## **Appendix A: Retail productivity**

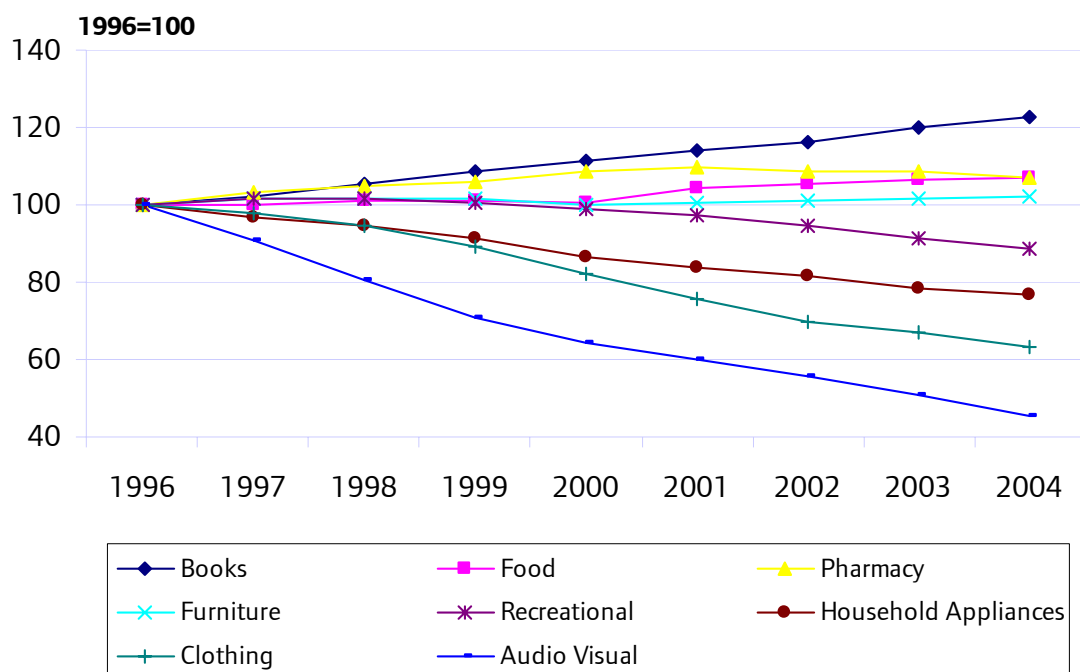
This appendix examines the productivity of the UK retail industry. It begins by defining productivity and explaining why it is important. The appendix then examines the evidence on UK retail productivity. This evidence suggests that retail productivity is lower in the UK than in either the US or France.

If we understand the issues underlying the UK's lower productivity, we can then determine whether they are mostly structural issues – such as greater land-use availability in the US – out of policy-makers' control, or whether there are lessons to apply to raise future economic productivity in the UK retail sector. This appendix, therefore, concludes by examining explanations for the UK productivity gap such as structural issues and IT usage.

### **Productivity**

Productivity is the amount of output per unit of input used. It is typically measured in terms of labour productivity, as gross value added per worker, or per worker hour. An alternative measure is total factor productivity (TFP), which takes into consideration the full range of inputs and provides a conceptually more superior measure of productivity, as it assesses the extent to which the sector's output exceeds the economic costs of its inputs.

The importance of productivity is discussed in the main section of the report. A key benefit of productivity is that it helps constrain inflation through lower prices. Figure A1 shows how prices have varied in recent years for a number of different types of goods sold by retailers. Prices fell the most for audio-visual goods and clothing, and rose the most for books.

**Figure A1: CPI for goods sold by retailers**

Source: Office of National Statistics

### Evidence on retail productivity

The issue of UK productivity in the retail market has been under the spotlight since the 1998 publication of the McKinsey report *Driving Productivity and Growth in the UK Economy*.<sup>56</sup> This report made cross-country comparisons of productivity, and concluded that labour market productivity in the UK retail trade is lower than in other major countries, particularly France and the US. These results have since been confirmed in other studies.<sup>57</sup>

However, such aggregate approaches to measuring retail productivity are very broad and not without problems. In particular, when making cross-country comparisons there are significant issues regarding definition and measurement, meaning the results should be considered with caution.

The same is true when considering TFP. TFP results are mixed. In the McKinsey report, UK food retailers were considered to be highly competitive in terms of TFP, setting the global standard alongside France.<sup>58</sup> However, a recent study has stated that TFP in retailing in the

<sup>56</sup> McKinsey Global Institute, October 1998, 'Driving Productivity and Growth in the UK Economy'

<sup>57</sup> For example, M. O'Mahony and W De Boer, NIESR, [2002], 'Britain's relative productivity performance: updates to 1999'

<sup>58</sup> McKinsey Global Institute, 1998

UK declined during the period 1979 – 1990, and again during 1990 – 2000.<sup>59</sup> Furthermore, the rate of decline increased further during 1995 – 2000 compared to 1990 – 1995. These results are consistent with a study by Basu et al., which found that TFP growth in the retail sector between 1995 and 2000 was negative in the UK at –1.2 per cent a year (compared to +1.3 per cent for the economy overall). At the same time, TFP boomed in the US retail sector, increasing by 5.3 per cent a year (compared to 2.1 per cent for the economy overall).<sup>60</sup>

This means, in addition to concern over the UK's absolute retail productivity being lower than its competitors, the growth in productivity also appears to have been substantially lower than in the US, particularly in data covering the late-1990s. It is important to identify the reasons behind the UK's lower productivity growth – otherwise the disparities between absolute productivity in the UK and the US will continue to grow.

Because of the statistical and technical problems surrounding these aggregated productivity measurements, the above results do not confirm the definitive existence of a retail productivity gap between the UK in comparison to France and the US.

Rather, this report takes the view that the above results suggest the probability, albeit unconfirmed, of a productivity gap. It moves on to consider what, if anything, may underlie such a gap and to consider what further evidence is available.

### **Factors behind productivity differences**

This report has pinpointed the lagging productivity of the retail sector. But many other UK sectors are also seen to be lagging behind productivity levels in the US, France and Germany. Overall, capital intensity and investment is lower in the UK. Workforce skills are also lower, both in terms of a large proportion of unskilled workers and poor management. Research and development spending is again lower.<sup>61</sup> These are all factors that could also affect the retail industry.

#### *Entry and exit*

Some evidence is available from micro-level data (ie firm- or store-level data) – in particular, research focusing on entry and exit analysis. This body of work has shown that a substantial fraction of aggregate productivity growth is associated with the reallocation of outputs and inputs from less productive to more productive units. The entry and exit of establishments play an important role in this reallocation.

In US manufacturing, the entry of new plants accounts for roughly 30 per cent of productivity growth. However, for the US retail sector, research suggests that reallocation effects were responsible for virtually all of the booming productivity growth witnessed during

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<sup>59</sup> N. Oulton, S. Srinivasan, 'Productivity growth in UK industries, 1970-2000: structural change and the role of ICT', paper presented at 'Information Technology, Productivity and Growth' conference, London, October 2004

<sup>60</sup> S Basu et al., 2003, 'The Case of the Missing Productivity Growth: Or, Does information technology explain why productivity accelerated in the United States and not in the United Kingdom', *NBER Macroeconomics Annual*

<sup>61</sup> M.N. Baily and J.F. Kirkegaard, September 2004, 'The Productivity Puzzle in Britain', in *Transforming the European Economy*

the 1990s.<sup>62</sup> In other words, the opening of stores, by either new or existing firms, has underpinned US retail productivity. UK research, by contrast, shows that productivity improvements in the UK retail sector are less likely to be due to entry and exit effects, suggesting that entry restrictions may be hindering productivity growth.<sup>63</sup>

The US research showed that exiting stores were around 25 per cent less productive than existing retailers. New entrants had about the same level of productivity as existing retailers at their point of entry, then displayed more rapid productivity growth in the first five years after entry. This research was at store level and not firm level, so it included new stores by existing firms. Indeed, entering stores from continuing firms had very high productivity.

#### *Structural factors*

Retail trades are not homogenous across countries (or indeed within a single country). Different retail formats, methods of trading and institutional frameworks all mean that retailers in different countries choose different combinations of land, labour and capital. For example, the economic cost of occupying land in the UK is considerably higher than in the US or France. Therefore, retailers need to make much more productive use of land and capital in the UK than in these other countries.<sup>64</sup>

This lack of convergence in international retail environments reinforces the view that consumer expectations vary between countries, and that these differences lead to varying retail structures in different countries. For example, retailers from outside the UK express enthusiasm for certain features of UK retailing – namely the high-quality environments for mass food retailing, the persistence of high-quality department-store chains, and the relative scarcity of multi-storey fashion stores. These are all features that impose costs on retail firms and can lead to a relatively poor productivity figure in economic measures. However, they are expected by UK consumers and are attractive to visitors.<sup>65</sup>

Because of these varying factors, retail markets largely remain competitive only nationally, not internationally. Any foreign investor faces the same combinations of land, labour and price decisions as a domestic supplier – but these are likely to be different from the business model built up in its own domestic market. This can make it difficult for foreign companies to successfully enter the market, as they have to alter their existing business model to meet different UK factors.

These differing combinations of land, labour and capital can greatly influence which retail areas are considered productive or not in a particular country. For example, if retail trading hours are limited by legislation, this can be more efficient in terms of labour productivity (because consumer spending is squeezed into fewer hours). But it is less efficient in terms of the use of capital or space (longer hours encourage increased overall spending, meaning

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<sup>62</sup> L. Foster, J. Haltiwanger and C.J. Krizan, July 2002, 'The Link Between Aggregate and Micro Productivity Growth: Evidence from Retail Trade'

<sup>63</sup> J. Haskel and N. Khawaj, November 2004, 'Productivity in UK Retailing, evidence from Micro Data', Presentation OECD

<sup>64</sup> Oxford Institute of Retail Management, Templeton College, Oxford University, April 2004, 'Assessing the Productivity of the UK Retail Sector'

<sup>65</sup> Oxford Institute of Retail Management

higher spending per unit of space). By contrast, a country with high costs for land is likely to be highly efficient in the use of space (this is true of the UK). Furthermore, if customers are accustomed to a high-quality environment or level of service, a country is likely to have relatively low labour productivity due to the higher staff costs of providing such an environment or service (also true of the UK).

It is arguable that in order for the UK to match US labour productivity, it would need to match (ie lower) the quality of its retail environments and levels of service to similar levels as in the US. This appears unlikely to happen. First, most UK retailers continue to compete in the national market on a balance of price and quality rather than price alone. Second, where efforts have been made in the UK to compete solely on price (eg grocery discount stores), they have not been particularly successful. As an example, the market share of deep food-discounters declined in the UK between 1995 and 2000 to a current level of around 6 per cent.<sup>66</sup> Therefore, for as long as consumers in the UK continue to demand a higher-quality shopping environment than in the US, headline labour productivity in the UK will remain lower.

However, while the store quality issue described helps to explain why absolute labour productivity levels may be lower in the UK than in the US and elsewhere, it is less useful in explaining the absence of growth in UK retail productivity measures.

#### *Land-use availability*

It is probable that higher productivity in the US is an inevitable consequence of the greater land-use availability in the US, stemming from its larger geographical area. This has allowed the US to adopt a different model of retail to the UK. The different type of retail spatial development could be a significant explanation for both lower productivity growth and absolute productivity levels in the UK.

In brief, in the US model, retail has largely departed from Central Business Districts in favour of suburban planned and unplanned shopping centres and retail strips. Current UK retail planning regulation could be seen as a deliberate attempt to prevent this sprawling, car-dependent pattern of unconstrained US retail development being replicated in the more densely populated UK where the social and environmental costs would be greater.

The differences between the UK and the US can be seen from a study comparing retail in two similarly sized cities – Cardiff in Wales and Charlotte in North Carolina. Research found that, while the town centre in Cardiff accounted for over half the city's retail floor space, in Charlotte the CBD had less than 5 per cent. Instead, Charlotte's retail was located over 102 suburban shopping centres and seven retail strips (these retail strips included 46 of the shopping centres). The net result was that retail floor space was close to four times higher in Charlotte than in Cardiff. Underlying the US development pattern was the statistic that 89 per cent of households in Charlotte owned a car.<sup>67</sup>

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<sup>66</sup> Oxford Institute of Retail Management

<sup>67</sup> J.D. Lord and C.M. Guy, 'Comparative retail structure of British and American cities: Cardiff (UK) and Charlotte (USA)', *International Review of Retail Distribution and Consumer Research*, 1 (4), 1991

This land-extensive development over the past decades in the US could be a key factor to why absolute retail productivity is higher in the US than in the UK. Furthermore, the continued availability of retail development land in the US allows greater scope for new entrants and larger stores. In the UK, land is more limited. This may be a reason behind the continued higher growth in US retail productivity. However, this land-extensive, suburban retail-development pattern also shows why its application to the more densely populated UK may be undesirable – with the different context even more stark in London. A US-style retail environment built around out-of-town shopping centres and retail strips is clearly highly unsustainable and probably impossible.

### *IT*

The Templeton report notes anecdotal evidence that IT use among UK retailers may be less efficient than in the US<sup>68</sup>. This reinforces the more general view that US productivity increases over the past decade have been IT driven – with Europe, including the UK, lagging behind. In the retail sector, McKinsey's credits Wal-Mart with having used IT systems and organisation practices to raise productivity. Their competitors adopted these innovations in response, leading to substantial increases in overall US productivity in the retail sector from the mid-1990s.<sup>69</sup> However, the Templeton report also notes that major UK retailers (particularly in the grocery sector), are regarded as leaders in supply-chain management. Retailers in the UK use efficient replenishment, direct store delivery and efficient administration practices more widely than in other European countries.<sup>70</sup> The evidence on IT and process systems is therefore mixed, with the UK in general performing well and competitively in comparison to the rest of Europe, but possibly lagging behind the US.

However, if we accept the argument that Wal-Mart has been the impetus behind US retail productivity growth – largely through IT and organisational practices – then we would expect that its knowledge would feed through to its ASDA stores in the UK, resulting in a significant improvement in this company's performance. At the moment, we do not know whether this has occurred or not.

### *Regulation*

A key argument in comparing productivity across Europe and the US, is that the lower level of regulation in the US is responsible for much of its productivity advantage over Europe – where regulation is generally stricter. For example, a recent research report estimated that increasing competition in the EU through reduced regulation would lead to a lowering of current mark-ups in prices and wages. This could increase euro-area output per capita by 12.5 per cent – halving the labour productivity output gap between Europe and the US.<sup>71</sup> However, other research suggests that regulation need not always be damaging to productivity. Environmental regulation can have a positive impact by providing incentives for economic restructuring and technological innovation.<sup>72</sup>

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<sup>68</sup> Oxford Institute of Retail Management

<sup>69</sup> McKinsey Global Institute, 2001, 'US Productivity Growth 1995–2000'

<sup>70</sup> Oxford Institute of Retail Management

<sup>71</sup> Bayoumi et al., April 2001, 'Benefits and spillovers of greater competition in Europe: A macroeconomic assessment', International Research Forum on Monetary Policy, working paper series no. 341

<sup>72</sup> European Commission



Regulatory issues that can affect retailers' productivity include minimum wage legislation, restrictions on opening hours, restrictions on loading and unloading, and product and environmental standards. Broader government policy, on factors such as investment in transport infrastructure or crime prevention, can also make a significant difference to productivity and influence cross-country comparisons.

One other major regulatory issue can affect productivity and this is the land-use planning system. As with the above regulations, land-use planning systems exist to allow the Government to balance wider social needs and aspirations. However, land-use regulation can clearly influence a sector's ability to maximise its economic productivity. Chapter 3 of the main report explores this in more detail.

### **Summary**

There is evidence that absolute retail labour productivity is lower in the UK than in the US and France. Potential explanations include the greater land-use availability in the US and the lower quality of its stores, both of which could underpin its higher absolute labour productivity. Furthermore, these are not results inviting a policy response.

Of concern, however, is evidence that growth rates for retail productivity have been lower in the UK than for its competitors, with a particular gap in the most recent data from the late-1990s. US research suggests that the opening and closing of new stores, by either new or existing firms, underpinned US retail productivity growth during the 1990s. UK research, by contrast, has shown that productivity improvements in the UK retail sector are less likely to be due to entry and exit effects, suggesting that entry restrictions in the UK may hinder productivity growth.

Another potential explanation relates to IT, with the theory that Wal-Mart has used IT systems and organisation practices in the US to raise productivity. As their competitors adopted these innovations in response, overall US retail productivity increased substantially from the mid-1990s. However, the Templeton report also notes that major UK retailers (particularly in the grocery sector) are leaders in supply-chain management. They use efficient replenishment, direct store delivery and efficient administration practices more widely than retailers in other European countries. The evidence on IT and process systems is therefore mixed.

An additional theory is that lower levels of regulation in the US are responsible for much of its productivity advantage over Europe, where land-use planning regulation is generally stricter. This is examined in the main report.

## Appendix B: Costs and benefits of planning

This appendix examines the economic costs and benefits of the UK planning system.

The UK planning system is deliberately designed to regulate the market in land and property. As such, it clearly influences the workings and efficiency of the UK economy. For retailers, its effects can be felt in a number of ways. These can include costs (such as those involved in obtaining planning permission) and benefits (such as the avoidance of incompatible land uses). In the context of improving retail productivity, it is useful to consider the actual costs and benefits of the planning system in more detail.

A number of studies have looked at these issues in the past. However, when attempting to provide quantification, they all face the problem of what to use for comparison. Ideally, studies would measure the effects of the planning system against a no-planning alternative. In other words, compare the existing situation against the one that would have occurred if there were no planning restrictions influencing development patterns. In reality, this is not practical. The no-planning alternative would have different prices, costs and land-use patterns throughout the economy. Any attempt to infer these prices and costs would be purely speculative and vulnerable to any number of interpretations. Problems would be compounded by the need to allow for the lengthy behavioural lags that exist in the property market, making measurement of the effects of planning difficult to fully isolate.

Economic theory can identify the costs and benefits likely to arise from the operation of the planning system in qualitative terms. However, it is not possible to produce a fully quantified cost and benefit breakdown of planning against a no-planning alternative. An alternative approach is to consider potential changes to the existing planning system, quantifying the net costs or benefits of a proposed reform against the alternative of no change. In many ways, this approach – looking at the effects of changes to the planning regime – is a more practical approach; all advanced nations deploy land-use regulatory systems to some degree, and there is no apparent demand for the wholesale abandonment of the UK system.

### *Benefits*

Economic benefits of planning exist where the planning system can address weaknesses in the free market's handling of land use. However, assessments of the benefits of the planning system need to consider wider social and environmental issues. The identified benefits include the following:

- Benefit of certainty – some retailers see a benefit from the plan-led development system and clear structural framework of policies in terms of site allocations. In other words, planning gives retailers a degree of certainty over areas in which they can and cannot invest.
- Avoidance of incompatible land uses – an investor in a new shop can be reasonably confident that a concrete plant will not be given permission to locate next door.
- Creation of a level playing field for developers – planning ensures that every developer contributes to the costs of new infrastructure (overcoming the free-rider problem) and that information about land uses is readily available (overcoming information asymmetries).

- Efficient use of infrastructure – economies of scale can be derived for certain settlement patterns and more efficient use of infrastructure (eg by planning the distribution of facilities to share car parks).
- Externalities – the identification and prevention or mitigation of negative externalities.
- Public goods – the provision, subject to financing, of public goods such as roads and parks and the improvement of local amenity.
- Urban amenity – maintaining or enhancing the viability and vitality of urban areas and, in particular, town centres – as places to invest and as markets for business.
- Protecting particular uses – such as sites for waste depots, which if displaced from \ urban sites would result in higher costs to business.
- Land assembly – planning measures (compulsory purchase) can enable land to be assembled, decontaminated and released for beneficial use.

In addition, the process of planning provides a forum for public debate, and for securing a degree of consensus over change and development policy and priorities.

Many of the benefits stem, notably, from planning's role in maintaining or improving local amenity and in promoting certainty. In this context, by helping to control social and environmental effects, planning can aid business by creating pleasant environments in which developers can invest with a degree of certainty.

This certainly ties in with the views of the Royal Town Planning Institute – that one of the key roles of planning is to help resolve apparent conflicts between social, environmental and economic issues.<sup>73</sup> It believes only a system that has a spatial view of the different impacts of these three areas, coupled with an inclusive and transparent system for decision making, can undertake this role.

It is worth noting that a no-planning option – with development accommodated on demand – would not be possible unless the UK were to abandon its international treaty commitments to sustainable development. Arguably, such a policy would also have negative economic implications in the long run. As the Town and Country Planning Association states: 'The attractions of the UK's urban and rural environment, which result from our planning system, increase national competitiveness. A nation in which it would be easy to build anywhere is a nation that is trashing its assets and ultimately destroying its competitiveness.'<sup>74</sup> This argument is clearly built around the importance of amenity, and the potential social and environmental costs that could arise from a de-regulated planning system.

Indeed, current UK retail planning regulation could be seen to be a deliberate attempt to prevent the sprawling, car-dependent pattern of unconstrained US retail development that has developed over recent decades. In this US model, retail has largely departed from Central Business Districts in favour of suburban planned and unplanned shopping centres and retail

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<sup>73</sup> Memorandum by Royal Town Planning Institute to the Select Committee on ODPM on the subject of 'Planning, competitiveness and productivity – 2002'

<sup>74</sup> Memorandum by the Town and Country Planning Association to the Select Committee on ODPM on the subject of 'Planning, competitiveness and productivity – 2002'

strips. This may be more productive in terms of labour productivity, but it entails much greater usage of land and car travel than is the case in the UK – and the social and environmental effect would be substantial if fully implemented in the more densely populated UK.

#### *Costs*

While strongly defending the planning system (see above), the Town and Country Planning Association did also state in its evidence to the ODPM Select Committee (which investigated the subject of planning, competitiveness and productivity in 2002) that:

It is evident that the awesome powers of the UK planning system can be deployed, over time and no doubt with the best of intentions, to potentially bad effect in terms of excessive inhibition of competition and thus, ultimately, of quality and therefore of competitiveness.<sup>75</sup>

The examination of competition and productivity is the context that interests this report. A first step to examining whether planning does impinge upon UK retail productivity in any way, is to consider the potential economic costs of the planning system.

Economic costs from planning arise most clearly from the existence of administrative costs, and through the economic effect on the restrictions on land use:

- Administrative costs – these include payments made and time involved in making planning applications (and in carrying this forward into permission to develop), as well as the additional costs of planning agreements.
- Land-use restrictions – the planning system rations land and its permitted uses, thereby increasing the cost of land and rents. Land-use restrictions can also lead to firms operating sub-standard premises or being unable to follow their preferred business model.

It can be argued that these costs are quite substantial for the UK economy, in their effects on reducing economic vitality and productivity. The effects upon the retail sector are discussed more fully in the main report. It should be noted that research for the Department of Trade and Industry has suggested that retail and, particularly, residential development are the sectors most constrained by planning decisions. The situation for offices and leisure uses is less clear.<sup>76</sup>

The effects on the residential sector feed through into those on business and retail. Employers are forced to pay higher employee costs due to the high costs of housing – created partly by a planning-constrained housing supply. Additionally, high house prices work against the labour market by preventing the efficient matching of labour and jobs. In this context, residential planning also adds to commuting distances being travelled within the economy.

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<sup>75</sup> Memorandum by the Town and Country Planning Association

<sup>76</sup> DETR

The administrative costs of planning can be particularly high for small businesses. They often cannot afford specialist planning advice and have to negotiate the process themselves. The view of the Small Business Service and the Association of Convenience Stores is that the cost of applications and the time taken in making them can then far outweigh the scale of the application.<sup>77</sup>

Land-use restrictions are more likely to affect larger retailers with greater land requirements. For them, it can be argued that planning induces a substantial cost in terms of reduced productivity. However, there is no quantified evidence as to the level of costs that are actually incurred, because it is not possible to produce a reliable no-planning alternative for comparison purposes.

One further area in which planning can have significant economic effects, is in its impact on agglomeration and congestion. An agglomeration economy is where firms benefit from clustering together largely through information and technological spillovers. If planning can help promote agglomeration economies in urban areas – possibly by helping limit congestion (which the process of agglomeration increases) – then it can aid economic growth. This benefit could be termed the management of infrastructure. A positive example may include investment in transport infrastructure in a congested location to encourage further development and agglomeration benefits. Conversely, managing congestion by simply restricting the process of agglomeration would harm growth, as would using planning to constrain the physical growth of urban areas.

Isolating the effects of planning in this area are hampered by the lack of understanding of how evolving urban forms are conditioned by economic considerations and, indeed, of the processes of agglomeration economies. Only with a better understanding of these issues, can we determine reliable estimates of the costs or benefits of the planning system upon these areas. However, the potential costs or benefits are substantial.

In terms of quantifying effects of planning, a 1998 DETR study analysed the economic effects of the planning system on the business (including retail) sector. Based on consultation, a literature review and data analysis, it concluded the following costs.<sup>78</sup>

Costs:

- planning application fees: £100 million
- other administrative costs such as planning agreements: £100 – 150 million
- planning delay: an order of magnitude higher than £100 million
- reduced productivity through planning constraints: unknown
- impact of higher rents: unknown (however, it would be a percentage of the total value of commercial rents, which in 1998 totalled £16 billion).

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<sup>77</sup> Memorandum by the Small Business Service to the Select Committee on ODPM on the subject of 'Planning, competitiveness and productivity – 2002'

<sup>78</sup> DETR

Cost/benefit:

- encouragement or discouragement of agglomeration economies: unknown.

Benefits:

- benefits of certainty: unknown (but also a percentage of £16 billion).

This list shows that there are significant gaps in knowledge of the quantified benefits and costs. It is also true that the few studies that have researched the planning system's effects on business have tended to concentrate on the costs. There has been no substantive work on the benefits, especially benefits to business, of the planning system as these tend to be more contextual and less easy to value.

For London, the issue of agglomeration is particularly relevant. However, as mentioned above the effects of planning in this area are unclear. Otherwise, London is much the same as the rest of the UK in terms of the costs and benefits of planning. However, these costs and benefits will exist at a magnified level given the relative lack of land and the high demand for it due to the economic strength of the city.

## Appendix C: Barriers to entry

When considering barriers to entry, the Office of Fair Trading (OFT) distinguishes between entry barriers and entry impediments: the former prevent entry, while the latter delay it. Entry barriers are further distinguished by the OFT between absolute cost advantages and strategic (first-mover) advantages.<sup>79</sup>

Entry impediments can include obtaining planning permission and the time taken to form contracts with suppliers. However, the most important entry impediment in the retail sector is probably the time it takes for a new retailer to establish itself with customers, particularly if reputation is important.

Absolute cost advantages include regulatory barriers to entry. This can be through regulations restricting the number of local competitors or the types of retailers who can sell a product. Prime geographical location (if this is not tradable) can also be an absolute cost advantage.

OFT identified the following strategic (first-mover) advantages:

- Economies of scale and scope – retail markets tend to consist of a whole series of small local sub-markets. Economies of scale and scope in distribution, reputation formation and negotiation with manufacturers can mean it is difficult to successfully enter some retail markets on anything but a national level.
- Advertising, goodwill, market positioning, and geographical location – goodwill among customers is likely to be a very strong barrier to entry into many retail markets. Customers are small, immobile and uninformed, meaning they tend to face fairly large costs of switching between retailers. Market positioning involves retailers increasing their portfolio of products in such a way that retailers who only provide a subset of the products cannot compete in the market. Geographical location can also act as a barrier to entry.
- Capital requirements.
- Vertical restraints – these are very important between retailers and manufacturers. There are many efficiency and rent-sharing justifications for various forms of vertical restraint, but they may also have an important anti-competitive effect: limiting competition or preventing entry.
- Predatory pricing.

One non-planning-related barrier to entry in the UK is the commercial workings of the lettings market. Upward-only rent reviews, confidentiality clauses, restrictions on ending or re-assigning leases, and longer leases in the UK compared to competitor countries are all issues for UK retailers. In particular, the Templeton review of UK retail productivity noted that 'long leases, with a commitment of 15 or 25 years, with onerous costs and conditions for breaking the lease, assigning or sub-letting may inhibit flexibility and impose entry and exit

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<sup>79</sup> London Economics, 1997, 'Office of Fair Trading – Competition in Retailing', Research Paper 13

barriers on the retail industry, with consequences for cost or efficiency'.<sup>80</sup> However, the report also noted that lease lengths have fallen consistently over the past ten years.

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<sup>80</sup> Oxford Institute of Retail Management



## **Appendix D: Competition in concentrated markets**

In highly concentrated markets, competitive dynamics can give way to firms recognising their mutual interdependence and, by implication, their common interest in avoiding mutually destructive rivalry. The result is that competitive forces within a sector can cease to function fully and consumers can lose out. Ways in which markets can cease to function competitively are various. OFT conducts investigations where it considers that competition may be constrained.<sup>81</sup> It covers three sets of issues when conducting a competition assessment in the retail industry, as follows:

- Market structure and merger issues – creation or strengthening of market power of retailers, measurement of market power, market shares, barriers to entry and strategic advantages.
- Pricing issues – price collusion between retailers, predatory pricing, price discrimination, tying or bundling, and loss leading.
- Vertical issues – vertical restraints, differential discounting, and own-brand competition.

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<sup>81</sup> London Economics

## Appendix E: Land-value discontinuities

By limiting the amount of land available for development, the UK planning system raises the cost of development land compared to a situation in which no planning restrictions existed. Meanwhile, the system controls the amount of land available for each category of use (eg housing, retail, industrial, etc), which can lead to substantial discontinuities in land values over very short geographical distances – particularly in high-demand areas such as London. In such a case, users of a particular category, such as retail, can find themselves paying much higher prices for land than a for a different category on an adjacent piece of land. Without planning control on category of use, such discontinuities in land value would be reduced.

These discontinuities exist because the planning system controls the supply of land for each category of use individually, independent of price. Cheshire (2004) gives examples of the high levels of price discontinuity observed in Reading during the 1980s.<sup>82</sup> Reading had a net premium in market prices for residential land over agricultural land at the urban fringe of approximately £140,000 – 360,000 per acre in 2002 prices; a premium for industrial land where it adjoined residential land of £400,000 per acre; and a premium for retail over industrial land at its zoning border of over £4,000,000 per acre. There is no reason to believe that such discontinuities do not continue to exist both within the UK and London.

These price premiums provide direct information on the shortage of land in any locality for any particular use. Cheshire (1993) suggests that such price premiums could be introduced as ‘a material consideration’ in the decision-making planning process. The idea is that developers should be allowed to change the category of use if the price premium can be shown to exceed some predetermined threshold. At present, the system is such that there are no economic pricing mechanisms in place to ensure an efficient allocation of land space between competing end uses, or even to guide planners in their allocation decisions.

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<sup>82</sup> P. Cheshire and S. Sheppard, London School of Economics, 2004, ‘Spatial Policies, Planning and Urban Competitiveness and the case of London’

## Abbreviations

DETR	Department for Environment, Transport and the Regions
ODPM	Office of the Deputy Prime Minister
OFT	Office of Fair Trading
PPG6	Planning Policy Guidance 6
PPS6	Planning Policy Statement 6
PPS11	Planning Policy Statement 11
PPS12	Planning Policy Statement 12
RPI	Retail Price Index
SPI	Shop Price Index
TFP	total factor productivity
UDP	unitary development plans

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Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

### Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

### Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız

### Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

### Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

### Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

### Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دیئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

### Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

### Gujarati

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