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Retail in London: Working Paper B
Retail and Regeneration

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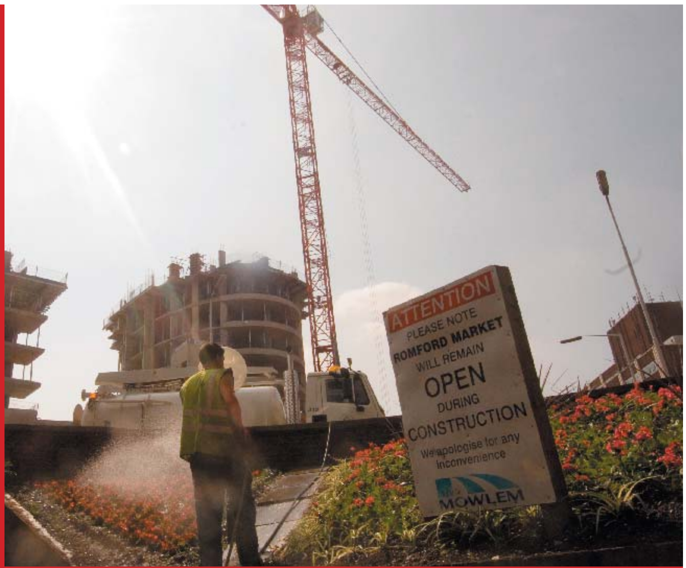

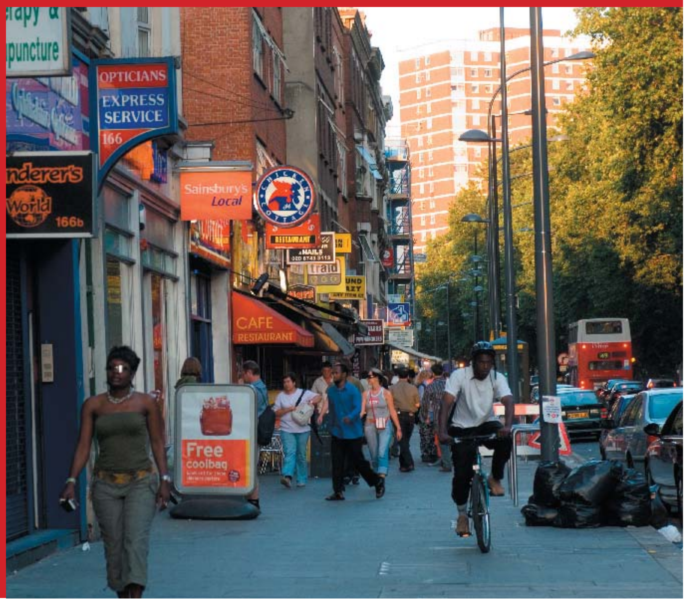

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit is funded by the Greater London Authority, Transport for London and the London Development Agency.

Contents

Executive summary

This working paper is part of the wider GLA Economics study of retail in London. The purpose of this paper is to evaluate how retailing may contribute to the regeneration of deprived areas in London. Drawing on a literature review, discussions with interested parties and an analysis of data for London, this paper reviews the economic case for investment into what are commonly referred to as underserved areas (areas with inadequate retail provision of goods and services). It also attempts to highlight where these underserved areas might be.

The growth in out-of-town developments since the 1970s has been blamed for the demise of the retail offering in many urban High Streets and the resultant rise in communities lacking adequate retail services. In 1996, the government attempted to address this through planning policy by introducing Planning Policy Guidance 6 (PPG6), which aimed to focus commercial development in urban areas.

However, retailers appear to be reluctant to invest in deprived, underserved areas and those that have are criticised for concentrating on the more affluent of underserved areas. The reluctance to enter disadvantaged areas appears to be linked to the characteristics of these areas which, using traditional appraisal methods, imply that retailers operating in these areas may incur higher costs and lower sales when compared to other areas. More recently the government has replaced PPG6 with Planning Policy Statement 6 (PPS6) which maintains the focus on town centres and also considers, in more detail, the role of planning policy in regenerating deprived areas.

Retailers believe they are likely to experience higher costs and lower revenues when operating in deprived areas because such areas tend to have low-income households, high unemployment rates, low-skilled populations, low availability of suitable sites to develop, and in many cases are home to large ethnically diverse populations who may require a different mix of products to the mainstream population. Furthermore, retailers believe the profitability of deprived areas is further reduced by high rates of crime, or at least high levels of perceived crime, and issues of access restriction and lack of parking facilities, both of which are thought to decrease foot traffic or *footfall*.

This working paper finds that, in spite of these concerns, there is an economic case for businesses to invest in many underserved and deprived areas. Some attractive features of deprived areas include: the higher returns on commercial property seen in disadvantaged areas; little or no competition from other retailers; large supplies of readily available local labour; and the potential access to profitable ethnic markets.

As well as the private benefits of investing in underserved and deprived areas, there are wider economic, physical and social inclusion benefits to be derived from such retail developments. In the first instance, retail development offers residents of disadvantaged

communities access to retail goods and services. Retail is a valuable form of employment for many groups in the labour market, partly due to the high proportion of part-time employment opportunities available when compared to other sectors of the economy. Also, entry into some forms of retail employment requires few qualifications and is consequently a valuable form of employment in deprived areas that exhibit large populations with entry-level skills and high unemployment rates. In addition, developing in urban areas often requires the development of brownfield land which can considerably improve the quality of the local environment.

Therefore, there are a number of spin-off benefits to be gained from improving retail provision in underserved areas. Moreover, because these areas are, by definition, underserved, the wider economic benefits, in terms of higher employment for instance, are more likely to be net benefits, that is, net of any displacement from other stores in the area, when compared to areas better served by retail. As a result, there is a strong argument for the public sector to act as a catalyst for retail investment into underserved areas though the extent of its involvement is likely to decline as retailers themselves become more aware of the private benefits to investment in underserved areas.

An analysis of retail provision across London highlights 23 wards where the level of retail floorspace compared to population appears to be low. The analysis shows that underserved wards are spread across London, with possibly slightly more underserved wards in eastern boroughs. The analysis in this paper fails to find any correlation between measures of deprivation (including employment rates, vehicle ownership and the number of recorded crimes) and the level of retail provision. The analysis suggests that investment in inner city underserved areas might be more productive than investment in underserved areas in outer London.

The analysis of underserved wards in this working paper should be cautiously interpreted however as it is not clear that the data used is disaggregated or detailed enough to draw out the relationships between retail provision and deprivation at the local level. Research conducted by Business in the Community (BitC) looks at underserved markets across the UK in more detail. BitC uses Experian Business Strategy's retail database, which includes data on an area's affluence, deprivation, retail provision, consumer spending and customer leakages into other areas to reveal areas throughout the UK with inadequate retail services. This work is therefore likely to be better able to comment on the extent of retail deprivation at the local level.

Overall, the working paper illustrates that there are business opportunities to be exploited from investing in deprived underserved markets. In addition to private commercial benefits, there are wider economic and social benefits to disadvantaged communities from the increase in retail development. To this end, initiatives such as the current work of BitC, which attempts to deliver private investment into currently underserved areas, are to be encouraged.

1. Introduction

This working paper forms part of the wider GLA Economics study of retail; its purpose is to evaluate how retailing may contribute to the regeneration of deprived areas in London. The paper aims to show that deprived areas lacking retail investment may be able to attract retailers to the area by demonstrating the economic case for private investment. This paper draws on the findings of a literature review, discussions with interested parties and an analysis of relevant data for London.

The working paper begins by looking at how the current spread of retail across London has transpired – looking at the changes in the retailing sector over time and giving a brief overview of some of the issues facing retailers when investing in urban disadvantaged areas. It considers the case for private sector investment into such areas before looking at the wider economic and social benefits communities may gain from increased retail provision in deprived and underserved areas. The paper also attempts to highlight where underserved areas in London – areas with inadequate provision of goods and services – might be. Finally, the paper draws out the main conclusions of this analysis.

2. Background

This section begins by giving a brief overview of some of the issues faced by retailers looking to invest in deprived and underserved areas and briefly discusses the work Business in the Community (BitC) is doing to attract retailers to underserved areas. This is followed by an examination of how the current spread of retail across London has transpired by looking at the changes in the retail sector over time.

It is often argued that the growth in the number and size of retail warehouse parks and out-of-town retail developments has caused the decline of town-centre retail locations. While out-of-town developments may have brought benefits to many consumers in the form of greater shopping choice and lower prices, many communities in urban areas have been left with inadequate access to retail goods. Moreover, in certain instances equality issues arise from the fact that groups with accessibility issues, including older people and people with disabilities, frequently find it more difficult to access out-of-town developments which tend to be more car dependent than traditional town centres.

According to a report by the Office of the Deputy Prime Minister (ODPM), the rise in vacant shops and concerns about sustainability led to the introduction of Planning Policy Guidance 6 (PPG6). This put town centre regeneration high up on the planning agenda as PPG6 encouraged development within walking distance of existing centres, and discouraged development in locations not accessible by public transport.[1]

Following three decades of growth in out-of-town retail locations, recent years have seen grocery retailers at least return to town centres. However, in spite of this recent move it is claimed that the majority of the new stores are concentrated in affluent areas and it is the more disadvantaged communities that remain underserved. Most of the literature on retail-led regeneration in underserved markets concludes that retailers' reluctance to enter urban underserved markets is based on the notion that all underserved areas are also deprived. It is thought that retailers consider the characteristics of deprived areas, for instance high levels of crime, low levels of educational attainment and low average household income, to imply low profitability through increased operating costs and/or reduced revenues and hence are reluctant to operate in these locations.

In recent years there have been a number of studies and initiatives, mostly in the US, designed to demonstrate that there are significant commercial opportunities in deprived areas. It is argued that the business opportunity of these areas lies in the fact that deprived areas have high population densities, a large supply of unemployed labour, and often have good transport links, which can draw in consumers from outside the initial catchment area.

In December 2003, BitC initiated a two-year project into underserved markets, drawing on a project carried out by Business for Social Responsibility in inner-city (which in the US

[1] Department for the Environment, Transport and the Regions; 2002; Town Centre Regeneration

context means 'deprived')[2] areas of New York. The BitC project aims to examine the opportunities and barriers to business investment in disadvantaged areas following research funded by the Department of Trade and Industry (DTI); the project is funded by ODPM's Neighbourhood Renewal Unit. In partnership with Boston Consulting Group and Experian Business Strategies, BitC has shortlisted 12 areas from the 88 most deprived boroughs in the UK (as defined by ODPM) for retail-led regeneration. The areas were evaluated using Experian's retail database, which includes data on an area's affluence, deprivation, retail provision, consumer spending and customer leakage into other areas. Of the 12 areas selected, three are in London – Haringey, Lewisham and Waltham Forest. The current provision of retail in all three areas is deemed to be inadequate to service the needs of the local population, with each area facing different challenges. The next stage of the project is to choose four areas from the 12 already shortlisted for a pilot scheme aimed at drawing retailers into areas displaying unmet consumer demand and potential for growth in demand.

Changes in urban retailing over time

The nature of retailing has changed considerably over the last few decades. According to John Dawson, Professor of Marketing at the University of Edinburgh,[3] this is largely due to changes in consumer behaviour and the economic climate in the UK over the same period.

From 1950-1970 consumers experienced increases in wealth and hence the volume of goods sold by retailers increased alongside demand. This led to a need for additional space to accommodate the expanding product range. In the 1970s, however, following increasing commodity prices as a result of the oil price rises of 1973 and 1974 and the subsequent recession, the retail sector became intensely competitive as consumers shopped around in search of the lowest price. Constrained by the lack of space in urban retail centres, retailers began to shift to out-of-town locations where more space was available and stores could be built to the retailers' requirements.[4] In addition, out-of-town locations also tended to be less expensive than most town-centre sites. Moreover, with increases in wealth, car ownership also increased and out-of-town locations frequently provided more accessible locations, especially in terms of parking, when compared to existing town centres.

Another big advantage for retailers in opening more and bigger stores is the increase in buyer power this brings. In the food retailing sector the number of superstores nationally increased from 42 in 1972 to 1,200 by 2000. Tesco alone increased the number of its large stores (occupying at least 25,000 sq ft) from just five stores in 1972 to 66 in 1980 and to 264 by the mid 1990s. Over the same period, Tesco closed a large proportion of its smaller

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[2] The term inner-city refers to the definition used by the Boston Consulting Group and Initiative for a Competitive Inner City. Inner-city areas are defined as 'economically distressed urban communities where the median household income is no more than 75 per cent of the median for the metropolitan statistical area and where the unemployment rate is at least 30 per cent above and its poverty rate at least 50 per cent above the metropolitan average'.

[3] John Dawson, May 2001, Retail Change in Britain during 30 years: The strategic use of economies of scale and scope, University of Edinburgh

[4] John Dawson, May 2001, Retail Change in Britain during 30 years: The strategic use of economies of scale and scope, University of Edinburgh

stores (occupying less than 5,000 sq ft). In 1972, Tesco owned 580 small stores but by 1981 this had fallen to just 131 stores.[5]

Evidence of the success of the strategies adopted by retailers is provided by the consolidation of market share among retailers. In 2001, five grocery firms controlled 85 per cent of the food market, with a quarter of this controlled by Tesco, followed by ASDA-Wal-Mart and Sainsbury's, with 17 per cent and 16 per cent respectively.[6]

The consolidation of retail outlets and the trend towards out-of-town locations continues today. In 2004 Dixon's, the electrical goods retailer, announced plans to close 106 of its smaller stores. Martin Meech, the company's property director, said at the time 'our business model works best in large formats and it's a lot cheaper out-of-town. In retailing terms, it's not often cost effective to run small stores on the High Street.'[7]

It is argued that the shift of retailers from many High Streets and town centre locations to out-of-town locations has caused many areas to suffer economic and social decline. Poor, deprived households without cars are among the worst affected.[8] The concern is that as town centres and High Streets lose large retailers, which are normally the anchors to the retail offering, to out-of-town sites they are at risk of becoming 'retail deserts'. The rationale behind this is that the loss of the retailer leads to a fall in footfall in the retail centre causing a fall in sales. This is followed by further loss of retailers as they are unable to remain commercially viable, which implies a corresponding fall in employment and so a vicious circle of decline continues.

According to the National Retail Planning Forum, there is a trend towards consumers spending increasing proportions in larger centres at the cost of the smaller centres.[9] It is predicted that out-of-town shopping will account for a third of all retail sales by 2005.[10] However, it has been estimated that 70-90 per cent of out-of-town trade is merely a displacement of trade from town centre and High Street locations, suggesting that out-of-town locations have only increased the total retail spend of consumers by between 10-30 per cent.[11]

In 1996, the government issued PPG6 in an attempt to curb the decline of town centres caused by the growth of out-of-town retail developments. PPG6 required a sequential approach to the planning policy of retail development. It meant that permission for out-of-town developments would only be allowed if no suitable site in town or, secondly, on the edge of town could be found. Evidence suggests that PPG6 succeeded in slowing the trend

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[5] John Dawson, May 2001, Retail Change in Britain during 30 years: The strategic use of economies of scale and scope, University of Edinburgh
[6] New Economics Foundation, December 2003, Ghost Town Britain 2
[7] A Cockram, 2004, 'Dixon raises anchor power' Estates Gazette, 22 May 2004
[8] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration
[9] Jonathan Baldock, The Role and Vitality of Secondary Shopping, National Retail Planning Forum. View: http://www.nrpf.org/BCSC_files/frame.htm (accessed May 2005)
[10] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration
[11] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration

towards out-of-town retail developments since it was issued. The full effect of PPG6 on retail development, however, is unlikely to have been seen until 2000, as planning permission would have already been granted for a number of developments. Since 2000, the increase in town centre development has doubled from 200,000m^2 per annum between 1993 and 1999 to around 400,000m^2 per annum between 2000 and 2003.[12]

The recently issued Planning Policy Statement 6 (PPS6), which replaces PPG6, maintains that the government's key objective for town centres is to promote their viability and vitality. Unlike PPG6 however, PPS6 incorporates more explicitly into its wider objectives the promotion of social inclusion, investment into deprived areas in need of regeneration and the economic growth of regional, sub-regional and local economies. Thus it looks likely that the pattern of future retail development will be increasingly focused on town centre locations.

As noted earlier, the recent return to in-town locations by some retailers has mainly been driven by grocery retailers. These retailers have moved into the town centre convenience store market using smaller store formats; 1,000 such stores now exist across the UK. However, although anecdotal evidence suggests that the smaller format stores have contributed to the economic renewal of High Streets, it is claimed that these stores are focused predominantly on the more affluent areas.[13] Moreover, it has been noted that in many cases, supermarket retailers moving into High Streets have bought out small local competitors such as pharmacies and replicated them in-store. Thus it has been predicted that further decline in the number of retail outlets and consolidation among existing retailers will continue even as the new trend towards in-town locations continues.[14]

BitC argues, however, that the presence of a smaller format store of a brand retailer such as Sainsbury's or Tesco generates footfall in an area, which is likely to increase sales in the surrounding shops. While direct competitors are likely to suffer, it is also possible that other retailers on the High Street, or in the area, may suffer as a result of the entry of a large retailer through the effect on rent. It is possible that brand retailers raise the profile of a shopping location and consequently rents on surrounding commercial property rise. Small shops tend to operate on tight profit margins, and in some cases the increased sales the non-competing retailer experiences from the entry of a brand retailer to the market may not be enough to offset the resultant higher rents, forcing the shop to close. While the retailers that existed on the High Street prior to the entry of a large retail brand might leave the High Street, given the higher footfall generated by the large retailer, it is highly likely that other retailers will move onto the High Street. Therefore, while the appearance of a large retailer on a High Street, or in an area, is likely to lead to a loss of some retailers (most notably direct competitors but also other stores unable to pay the likely increased rents) it

[12] GLA Economics, 2005, Retail competitiveness in London and the planning system (forthcoming publication)
[13] B Walker, 2003, 'High streets' chain reaction' Regeneration and Renewal, 30 May 2003
[14] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration

is logical to assume that the area will become more attractive to a wider range of retailers due to the increased footfall that the brand retailer brings.

Retail changes in London

To date there has been little analysis into the health of High Streets and shopping centres across London over time. A study carried out by the Centre for Advanced Spatial Analysis for the GLA tracked the changes in 100 retail locations across London between 1971 and 2000.[15] The study highlights that the changes in London's retail development appear to follow national trends. In particular, the study found that the number of people employed in convenience (ie grocery) retailing had fallen over the period of the study in all but three London boroughs. This was attributed to the consolidation of retailers in the food sector as the large multiple retailers that have replaced small, independent stores typically require fewer employees per unit of floorspace.[16] The study showed no apparent spatial pattern in the distribution of the most affected centres. According to the study, this suggests that the factors affecting employment levels in town centres are likely to be local trends, rather than macro level changes. The report proposes that the most significant local trend contributing to the change in employment in retail centres has been the decentralisation of food retailing from town centres to out-of-town locations.

The study found increases in comparison retail employment between 1971 and 2000 in the City of Westminster and City of London as well as the west London boroughs, while boroughs to the east of central London suffered a significant decline in employment. The study emphasises that extracting a reason for the fall in retail employment in town centres to the east of central London is difficult, but offers the existence of Thurrock retail park, just outside London in Essex, and the greater availability of retail warehouse sites in east London, as a partial explanation.

The study also shows that retail floorspace has significantly increased across all London boroughs between 1971 and 2000. The study suggests that this shows that retailing has become more demanding in its space requirements and that this is a reason why retailing has moved to off-centre locations since 1970.

The upcoming GLA Economics paper on retail competitiveness in London and the planning system in London also highlights that, similarly to the rest of the UK, London has experienced a trend towards off-centre retail development, but to a lesser extent. This difference is attributed to London's greater land constraints and its lower levels of car ownership among residents when compared to the UK as a whole.[17]

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[15] Centre for Advanced Spatial Analysis, February 2005, Tracking retail trends in London - Linking the 1971 census of Distribution to ODPM's new town centre statistical series
[16] Centre for Advanced Spatial Analysis, February 2005, Tracking retail trends in London - Linking the 1971 census of Distribution to ODPM's new town centre statistical series
[17] GLA Economics, 2005, Retail competitiveness in London and the planning system (forthcoming publication)

Indeed an analysis of the spatial spread of London's retail locations reveals that town centre shopping locations continue to dominate London's retail offer, and evidence suggests that future development of retail warehouse parks is likely to be concentrated on edge-of-town locations.[18]

Retail decentralisation, to the extent it has occurred in London, also differs from the rest of the UK in that London has not seen any of out-of-town developments since Brent Cross in 1976. However, London has witnessed an increase in the number of retail warehouse parks over the past 30 years. Although retail warehouse parks in London tend to be close to residential areas and have relatively good transport links compared to out-of-town developments seen elsewhere across the UK, they are still discouraged by planning authorities, which prefer to focus development in existing town centres.[19]

In summary, the increase in out-of-town retail locations appears to be the result of retailers' requirement for additional floorspace as a result of increased demand since 1970, together with expanding product range and the increase in car ownership. The shift to out-of-town locations is commonly cited as the reason for the decline of town centres and it is estimated that between 70 and 90 per cent of trade in out-of-town-centre retail locations has been displaced from in-town locations. London appears to have experienced a similar shift to out-of-town retailing but to a lesser extent than the rest of the UK. In London, arguably the greatest threat to existing town shopping centres is the growth of retail warehouse parks. However, the distinction between out-of-town retail sites and town-centre shopping areas is less distinct in London compared to the rest of the UK given the density of the population in London and the relatively extensive public transport network. To address the decline in town shopping centres, the government introduced PPG6 in 1996 to encourage new retail and leisure development in town centres. Although retailers have begun to return to urban locations, it is argued that they have largely focussed on more affluent areas. On the whole, retailers remain reluctant to invest in deprived urban areas as they generally believe the characteristics of such areas imply that any investment is unlikely to be profitable. Drawing on the successes of work by Business for Social Responsibility in the US, BitC is attempting to entice retailers back into underserved, disadvantaged areas by building the economic case for investment in these areas.

[18] Centre for Advanced Spatial Analysis, February 2005, Tracking retail trends in London - Linking the 1971 census of Distribution to ODPM's new town centre statistical series
[19] GLA Economics, 2005, Retail competitiveness in London and the planning system (forthcoming publication)

3. Characteristics of underserved markets – consumer issues and business challenges

This section begins by defining the nature of underserved markets. It then goes on to discuss the obstacles faced by retailers looking to invest in these markets, particularly in deprived areas, before considering the features of these markets that could make them attractive investments. Underlying the analysis is the understanding that retailers will not enter an area unless there is an economic case for doing so, and thus some areas will not be served. However, this paper aims to show that there are a number of reasons why many areas that retailers currently consider as 'no-go' areas could in fact be suitable areas to invest and operate in.

The following definition of an underserved market can be found in BitC's report[20] into underserved markets:

> 'In retail terms, underserved markets are communities that have inadequate access to products and services. An extension of that, focusing on the low-income element of a community is the low number of jobs in the area, in retail or any other commercial sector'.

Underserved markets typically occur in disadvantaged areas. Thus they are generally characterised by low-income households, high unemployment rates, low level of skills among the local labour supply, low levels of car ownership, high levels of crime (actual and perceived) and poor health of the resident population.

Most reports into retail-led regeneration have attempted to draw out the challenges businesses face in looking to invest in underserved areas. Retailers face higher operating costs or lower revenues in urban deprived areas compared to elsewhere because of the following:

- Retailers often need to stock a different product mix to suit the needs of urban consumers, especially where there are large ethnically diverse populations.
- Local labour supplies are less skilled than in other areas.
- Underserved markets consist of low income households which threatens store profitability.
- There is a lack of suitable premises and higher costs of store development in urban areas.
- Crime and the fear of crime in deprived areas is higher than elsewhere.
- Some areas have low levels of car ownership or suffer from other factors that make access to the store problematic.

[20] L Laine, February 2002, Business investment in under-served markets – An opportunity for business and communities?

Each of these issues is considered below.

Tailoring the product mix to suit urban consumers

Providing a different mix of products to individual stores results in increased costs for multiple retailers and this has been suggested as a reason why US retailers can be reluctant to move into ethnically diverse markets.[21] The need to tailor goods in areas with large minority ethnic populations is arguably more of an issue for grocery retailers than comparison retailers, as tastes differ, arguably, to a greater extent for groceries than for comparison goods. The increase in costs retailers face is attributable to the special arrangements the retailer must make in order to provide a different set of goods to consumers. Tailoring product in this way reduces the retailer's gains from economies of scale from which a large proportion of profit is typically derived. Arguably, this is less of an issue for small independent traders who need only to stock one store than for large retailers.

Given this, the concern is that many areas of London, home to 45 per cent of the total minority ethnic population in the UK,[22] may appear unprofitable to retailers due to the burden of tailoring products to meet the different demands of consumers from ethnically diverse backgrounds.

Research by the Initiative for a Competitive Inner City (ICIC) has found that minority ethnic consumers in US urban deprived areas display similar and sometimes larger propensities to consume goods from most major product groups, compared to the average consumer. In particular, US inner city households spend more on clothing and groceries than the average US household.[23] Furthermore, research in US cities has shown that these groups tend to be less loyal to any one particular brand.[24] However, customer loyalty is unlikely to be a concern in underserved areas which, by definition, lack competition.

Staff's lack of skills

Deprived areas are typically those with high levels of worklessness and low levels of skills and educational attainment. These characteristics act as a disincentive to retailers looking to operate in new markets as they will generally face larger training and development costs in deprived areas, compared to elsewhere. However, regeneration schemes undertaken in deprived areas by the large supermarket chains in partnership with local authorities and regeneration groups across the UK have shown that where retailers commit to local recruitment, in particular focussing on the long-term unemployed, the retention rate among staff is greater than the company average.[25] This is probably due to the fact that deprived

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[21] PriceWaterhouseCoopers & Initiative for a Competitive Inner City, The Inner City Shopper: Strategic Perspective
[22] Office for National Statistics, Regional Distribution. View: http://www.statistics.gov.uk/cci/nugget.asp?id=263 (accessed June 2005)
[23] Initiative for a Competitive Inner City & PriceWaterhouseCoopers, October 2000, Inner City Shoppers Make Cents (and Dollars): Second annual inner city shopper survey
[24] Initiative for a Competitive Inner City & PriceWaterhouseCoopers, October 2000, Inner City Shoppers Make Cents (and Dollars): Second annual inner city shopper survey
[25] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration

areas have large supplies of readily available labour with few alternative employment opportunities. Therefore, while the initial costs of training staff may be higher than in other areas, there is likely to be less turnover of staff, thus reducing recruitment costs, as compared to other areas.

Deprived areas consist of low-income households

The average income of households in deprived areas tends to be lower than in other more affluent areas. This can make retailers unsure of the sales-generating potential of stores in deprived areas and, in the absence of any supporting evidence, ultimately makes investing in such areas too risky. Investment decisions by large retailers have historically been based on the average household income of neighbourhoods. However, this ignores the primary advantage for businesses operating in urban underserved areas, which is the high concentration of consumers they serve. Research by ICIC into retail neglect in US deprived areas showed that inner-city grocery retailing performance was not driven by the neighbourhood income levels but was positively correlated to income density.[26] Additionally, the average income of an area fails to capture the distribution of income among the local population. Areas with a significant number of affluent residents may be overlooked by retailers as their higher incomes are dwarfed by the large number of low income households that also fall within the catchment area. Thus, it can be argued that the current models used by retailers to determine new store locations use limited data. This is because analysis of the average household income within a proposed store's catchment area alone can deter retailers from entering deprived areas, while it is claimed that further analysis into the buying power of these communities can show them to be realistic business opportunities.

Additionally, reported income is often underestimated in low-income areas as the cash economy is not accounted for.[27] This is considered to be a significant oversight by retailers, as the underlying cash economy is estimated to be a greater proportion of income in deprived areas than in wealthier areas.

The revenue and profit potential in deprived areas in the US has been shown to be very large. In July 2000, Social Compact[28], a coalition of business leaders promoting private investment in disadvantaged communities, conducted a 'Neighbourhood Market Drill Down' in Harlem on behalf of Fleet Community Banking Group. Neighbourhood Market Drill Down is a market analysis model that uses timely market data from private and public sources to help inform business decision-making processes. Social Compact's objective is to challenge the image of deprived neighbourhoods as those areas lacking in business opportunity by incorporating data on hidden populations, cash economies and micro-

[26] Initiative for a Competitive Inner City & PriceWaterhouseCoopers, October 2000, Inner City Shoppers Make Cents (and Dollars): Second annual inner city shopper survey
[27] Boston Consulting Group & Initiative for a Competitive Inner City, 1998, The Business Case for Pursuing Retail Opportunities in the Inner City
[28] http://www.socialcompact.org

market development trends that conventional market data and analysis do not capture. In their market analysis of Harlem, Social Compact revealed that the market was much stronger and had a greater capacity for growth than analysis of Census data had revealed. In addition, the buying power in the area was shown to be far greater than previously estimated.

Research by ICIC across six US cities showed that the estimated 7.7 million households in US inner cities possess over $85 billion per year in retail spending power, amounting to nearly seven per cent of the total retail spend in the US. Of this, it was estimated that currently some $21 billion of demand was unmet by inner-city retailers.[29] Based on the high density of inner-city markets, research in the US has found that retail demand in urban deprived areas was two to six times greater than in suburban markets. ICIC also found that urban deprived markets in the US can generate average grocery sales per square foot up to 40 per cent higher than the regional average.[30] According to ICIC, recent research into the purchasing power of consumers in deprived areas has prompted a return to underserved markets by US retailers.

Another reason why retailers may underestimate the revenue-generating potential of deprived areas is because they may not be examining a large enough catchment area. It has been argued in a report by the Joseph Rowntree Foundation (JRF) that considering the wider socio-economic environment of a store's proposed location may highlight some places to be more profitable than previously thought. This is most likely to occur if the proposed location is surrounded by wealthier areas. By encouraging trade from a wider area, retailers may be able to somewhat offset the higher operating costs associated with operating in deprived markets. It has been noted in the JRF study that some companies have begun to use a tool called Local Knowledge which can map areas by socio-economic indicators, allowing them to see the wealth of the surrounding wards to those in which the retailer will operate.[31]

Therefore, using average income alone would suggest that many deprived areas are not likely to be worth investing in for retailers. However, evidence from the US suggests that income in deprived areas is frequently underestimated and, possibly of more importance, deprived areas tend to be densely populated which also adds to the viability of stores. Lastly, some deprived areas may be located close to more affluent areas and so stores in the deprived area may be able to draw trade from the more affluent areas.

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[29] Initiative for a Competitive Inner City & PriceWaterhouseCoopers, October 2000, Inner City Shoppers Make Cents (and Dollars): Second annual inner city shopper survey
[30] Boston Consulting Group & Initiative for a Competitive Inner City, 1998, The Business Case for Pursuing Retail Opportunities in the Inner City
[31] L Laine, February 2002, Business investment in under-served markets – An opportunity for business and communities?
[32] International Council of Shopping Centres & Business for Social Responsibility, July 2002, Development in Underserved Retail Markets

Lack of suitable site premises and cost of redevelopment

Respondents to a survey of developers in the US[32] said that if measures were taken to reduce the excessively long time taken to develop urban areas they would be motivated to move into urban underserved markets, as the cost of development would be lower and comparable with development costs in other areas. According to Bill Boler, director of BitC's underserved markets project, this is a sentiment echoed by developers and retailers in the UK. A large part of the problem in the UK seems to be the time taken to get planning permission for a site, which retailers and developers feel is a long, complicated and uncertain process. Boler argues that many retailers are put off applying for planning permission for sites in urban areas due to the uncertainty over the amount of time it takes to get through the planning process. This is likely to explain why entry into new retail locations across the UK has been led by a small number of large retailers, namely Tesco, Sainsbury's, Marks & Spencer and Ikea. This is because over time large retailers are likely to have gained considerable knowledge of the planning system, which is likely to have reduced the overall time and cost of the planning process to these retailers.

The lack of suitable premises for retailers is seen to be a particular problem in London. Chief Executive of Delancey – the real estate advisory service that developed Islington's N1 shopping centre – comments that 'it is very rare to find a site (suitable for a shopping centre) in London… the only way to develop a new shopping centre is to recycle or extend.'[33]

PPG6 implied that almost all developments in London would be in-town or on the edge of town and on brownfield sites, unless no suitable site could be found in which case out-of-town sites would be considered. PPS6 appears to continue along similar lines. According to a report by JRF, brownfield sites can be considerably more costly to build on than greenfield space.[34] The majority of the excess cost comes from the remediation of land. A small tax relief is available for cleaning up contaminated land, though this is frequently outweighed by the costs of disposing of contaminated material.[35] For instance, Tesco have incurred costs of between £2 million and £20 million for the reclamation of land used in the building of stores under Tesco Regeneration Partnerships.[36]

In spite of concerns regarding investment in deprived areas, this can be compensated for by the higher returns on investment that can be earned in deprived areas. Returns on commercial property have been shown to be greater in disadvantaged areas than elsewhere in the country. A study by several universities in the UK showed that over a 20-year period,

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[33] Property Week, July 9 2004, Customer Disloyalty
[34] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration
[35] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration
[36] L Laine, February 2002, Business investment in under-served markets – An opportunity for business and communities?

returns on commercial property in disadvantaged areas exceeded the UK market average.[37] Also, a study by ODPM and the British Retail Consortium (BRC) showed that between 1980 and 2001 total returns on property in the most deprived 20 per cent of the UK averaged 10.7 per cent a year, compared with 10.2 per cent for the rest of the UK.[38] Other research has also shown that over the period 1980-2001, properties earmarked for urban regeneration projects have been less risky investments and often outperform the market.[39] As an example, the Arndale Centre, a run down shopping centre in Wandsworth, recently underwent a £70 million redevelopment and reopened as Southside in 1999, anchored by Waitrose. Prior to the redevelopment, the rates in the centre were very low compared to the wealth of the area, at £35 per square metre for Zone A space. Three years later this had tripled to £120-£125 per square metre.[40] Higher returns on re-developed retail floorspace might act as an incentive for landowners and developers to bring about more retail sites in underserved and/or deprived areas where the rent and rates are likely to be at a low level.

Therefore, while there may be higher costs involved in investing in deprived areas as compared to other areas, including the costs of remediating brownfield land, there is evidence to suggest that the returns to investment in deprived areas are correspondingly higher than in other areas.

Crime

Crime, and the perception of deprived areas as areas experiencing high levels of crime, are commonly cited as some of the most significant deterrents for retailers investing into such areas.[41] In a survey of developers in the US carried out by International Council of Shopping Centers (ICSC) and BSR, 69 per cent of respondents considered crime and the perception of crime in deprived areas to be one of the most significant factors to consider when making investment decisions.[42] Interestingly, the survey found that in some cases, investment decisions were motivated more by the perception of crime rather than actual crime statistics. It should be noted that crime impacts on retailers not only through the direct costs of crime, through goods stolen for example, but also through crime's effect on footfall. An area with a high level of crime, or at least perceived crime, is likely to experience lower footfall than an area with lower levels of crime (actual or perceived) as consumers will feel safer and more willing to shop in the area with lower levels of crime.

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[37] A Adair et al, December 2003, Benchmarking Urban Regeneration Property Performance, University of Ulster, University of Aberdeen & University of Glasgow
[38] The Association of Town Centre Management, 2004, End Investment 'No Go' Areas says minister. For more information about this topic, view: http://www.odpm.gov.uk/pns/DisplayPN.cgi?pn_id=2004_0016 (accessed June 2005)
[39] Office of the Deputy Prime Minister's Neighbourhood Renewal Unit & British Retail Consortium, June 2003, Changing Practices: a good practice guide for businesses locating in deprived areas
[40] C Eade, 2004, 'Customer Disloyalty' Property Week, July 9 2004
[41] Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration; International Council of Shopping Centres & Business for Social Responsibility, July 2002, Development in Underserved Retail Markets; Department of Health (Policy Action Team 13), & Office of the Deputy Prime Minister's National Strategy for Neighbourhood Renewal, Improving Shopping Access for People Living in Deprived Areas
[42] International Council of Shopping Centres & Business for Social Responsibility, July 2002, Development in Underserved Retail Markets

Direct crime experienced by retailers, which includes not only theft but also threats to staff and property damage, is a greater problem for small independent retailers as any losses from crime represent a greater proportion of their operating profits than large retailers.[43] According to BRC's 11th Annual Crime Survey, the value of losses from retail crime in 2003 was £1 billion. The cost of retail crime prevention amounted to £0.96 billion taking the total cost of retail crime to £1.96 billion.[44]

Studies into underserved markets also presume that increasing retail facilities should help to reduce the problem of crime in the area by increasing traffic flows and footfall. Indeed, the study by ICSC and BSR mentioned above also highlighted two inner-city areas which had seen crime rates fall following a new retail development. However, only a few of the case studies into retail developments in the UK have highlighted any changes in crime levels post-development, and these have failed to quantify the changes. Thus, there is a lack of empirical evidence showing that crime rates in underserved areas can be improved by new or improved retail development.

Access

Access restrictions in London are a significant deterrent to retailers investing in many urban areas. As noted earlier, retail warehouse parks and out-of-town retail sites have succeeded and grown as a retail format when compared to traditional town-centre High Streets. One reason for this success is the ease of accessibility out-of-town sites frequently offer, at least to those with access to cars, with ample free parking for consumers. Poor accessibility, which also includes poor road links and stringent parking restrictions, affects the ability of retailers in town-centre locations to compete with out-of-town retail parks and thus poses a significant obstacle to persuading retailers to open up, especially if they believe their commercial viability depends on attracting consumers from further a field.[45]

Corporate social responsibility

An additional private benefit for large retailers that move into underserved markets is the opportunity it gives them to improve their status as socially responsible companies. Indeed, many supermarket retailers involved in regeneration activities promote themselves as companies committed to encouraging sustainable communities, and in recent years there has been a growing commitment from a number of grocery retailers in the UK to enter into areas ripe for regeneration. It is important to emphasise that the reputation a retailer gains as being a socially responsible firm is a positive externality following its decision to move into a deprived area. It is not the reason a retailer chooses to invest in the area, as this will be based solely on profitability. Thus the commitment grocery retailers have expressed to

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[43] GLA Economics, 2005, Small Retailers in London (forthcoming publication)
[44] British Retail Consortium, 2003, 11th Annual Retail Crime Survey 2003
[45] Asian Business Association, September 1996, The prospects of the independent retail sector, London Chamber of Commerce and Industry

opening stores in areas in need of regeneration reflects the growing recognition among retailers that deprived areas represent profitable markets.

This section has illustrated that many of the issues identified as barriers to retail investment in disadvantaged underserved areas are based on the assumed characteristics of deprived areas, such as low-income households, low levels of skills and educational attainment and high levels of crime (actual and perceived). To retailers, these attributes imply that investment in deprived areas is risky. This is because they are likely to face lower revenues or higher operating costs when compared to other areas.

However, other evidence suggests that retailers may be underestimating the profitability of underserved areas. There is evidence to suggest that revenues derived from deprived areas are likely to be higher than is suggested by average income and that returns to investment in deprived areas could be higher than in other areas. Moreover, while some costs are likely to be higher in deprived areas, such as training staff for instance, in many cases there are likely to be offsetting benefits, for instance in the form of improved staff retention.

4. Social benefits of retail-led regeneration

So far this paper has reviewed the challenges faced by businesses looking to invest in urban underserved markets and it has highlighted that not only may some of these concerns be unfounded but that there may, in fact, also be considerable business opportunity in underserved markets. As well as such private benefits, it is often argued that increasing retail provision in an underserved area can serve to regenerate such areas by promoting social inclusion, physical and economic regeneration. This section examines the potential of retail development to achieve this.

Social inclusion

Retail-led regeneration schemes address social exclusion issues in two main ways. First, increasing retail provision in underserved areas provides the resident population with the opportunity to access retail facilities. Consumers benefit from the reduced time and cost involved in travelling to shops as well as acquiring a greater range of goods and services. If the new retail provision brings good-quality and fairly-priced grocery to an area, it is argued that there may also be improvements to the health of the neighbourhood population.[46]

Second, retail development brings new job opportunities to the local population. However, it should be noted that providing retail employment in one area may well displace some employment in another area, although it could be argued that such an effect is likely to be smaller in an underserved area, where by definition there are fewer competing stores, when compared to other areas.

Research in the US has estimated that up to 250,000 new jobs could be created by meeting unmet retail demand across the US's deprived urban areas and a further 50,000 indirect jobs could also be created as a result. To put this into context, unmet demand in Harlem could create up to 8,000 new jobs in a population of over 500,000 people.[47] Tesco claims to have generated 2,200 jobs since 1999 across new stores opened in six of the most deprived areas in the UK under the Tesco Regeneration Partnership scheme.[48]

As noted earlier, studies into underserved markets and retail-led regeneration[49] have shown that while the training needs of those in underserved areas are greater than elsewhere, the retention of staff in underserved areas after training is also higher. This appears to reflect the lack of alternative employment opportunities in the area. Tesco have made use of Train and Employ Guarantee schemes in the recruitment for all stores developed under the Tesco

[46] Department of Health (Policy Action Team 13), & Office of the Deputy Prime Minister's National Strategy for Neighbourhood Renewal, Improving Shopping Access for People Living in Deprived Areas
[47] Initiative for a Competitive Inner City & PriceWaterhouseCoopers, October 2000, Inner City Shoppers Make Cents (and Dollars): Second annual inner city shopper survey
[48] Office of the Deputy Prime Minister, Research Report 6: Changing Practices: A good practice guide for businesses locating in deprived areas. Volume of case studies, British Retail Consortium and Neighbour Renewal Unit. View: http://www.renewal.net/Documents/RNET/Policy%20Guidance/Changingpracticescase.pdf
[49] L Laine, February 2002, Business investment in under-served markets – An opportunity for business and communities?; Joseph Rowntree Foundation, October 2001, Retailing, Sustainability and Neighbourhood Regeneration; The Work Foundation, October 2004, Who is Being Served? McDonald's and the UK enterprise agenda

Regeneration Partnership. Such schemes are a type of Local Employment Agreement (LEA). Local authorities incorporate LEAs into planning agreements to encourage developers and businesses to focus recruitment on the local unemployed population. An LEA may be a formal obligation of the developer under Section 106 of the *Town and Country Planning Act 1990* (England and Wales) or Section 75 of the *Town and Country Planning (Scotland) Act 1997*, or they may be entered into voluntarily.[50] As noted earlier, Tesco have found that providing jobs to the local long-term unemployed has been extremely successful, as these employees have proved to be very loyal, with a staff turnover of just two per cent, compared to the company average of 20 per cent.[51]

One concern for participants of 'back to work' schemes – like those used in regeneration initiatives – is that unemployment benefits will be lost once they work more than 16 hours a week. This is because, in order to be eligible for Jobseeker's Allowance, a claimant's circumstances must satisfy a number of conditions, one of which is that they must not be involved in paid work of 16 hours or more per week. Once a claimant works more than 16 hours per week they are no longer eligible to receive Jobseeker's Allowance. The concern for participants of 'back to work' schemes is that it is possible that they may be left with a lower net income as a result of taking on paid work if the wage they receive is less than the value of the Jobseeker's Allowance they forfeit by taking on paid employment. However, in-work tax-credits such as the 'working tax credit' should, in most instances, ensure this is not the case. Moreover, in the case of Tesco's Seacroft store, which was built under a regeneration partnership, the long-term unemployed entering the 'back to work' scheme were granted exemption by the Employment Service from the withdrawal of benefits while on training. The training scheme was funded by central government.

Many critics argue that retail jobs do not improve the skill set of their employees as they are entry-level jobs and hence the employment generation benefit of retail development is overvalued. However, according to Skillsmart, the Sector Skills Council for retail, there is a lack of awareness of the opportunities for skilled and well-paid careers within the sector which has led to the perception of retail being a low-skilled sector.[52] Additionally, proponents of retail-led regeneration schemes argue that the retail sector provides many people with their first route into work and allows them to develop basic transferable skills. This is a claim reinforced by data showing that 20 per cent of people in London's retail workforce are aged between 16 and 21, compared to only four per cent in the rest of London's economy generally. In addition, the fact that many jobs in the retail sector provide entry-level opportunities makes retail a valuable form of employment for people with entry-level skills who may face difficulties obtaining employment elsewhere in the economy. This makes retail employment opportunities particularly valuable in

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[50] Local employment Agreements, http://66.102.9.104/search?q=cache:_cODsBLyYzoJ:www.renewal.net/Documents/RNET/Solving%2520the%2520Problem/Localemploymentagreements.DOC+local+employment+agreements&hl=en

[51] L Laine, February 2002, Business investment in under-served markets – An opportunity for business and communities?

[52] GLA Economics, 2005, The Labour Market in London's Retail Sector (forthcoming publication)

disadvantaged areas where the incidence of groups that find it hard to access employment opportunities is likely to be high.

The retail sector also provides employees with relatively flexible working options, which is of particular value to students and parents who may combine work with study and childcare respectively. Therefore, retail provision in underserved areas should help to increase the level of employment, particularly of women with dependent children or other groups that benefit from flexible working patterns. In inner London, even in the retail sector, the share of part-time workers is only 36 per cent, compared to almost 50 per cent in outer London. One reason suggested for the difference may be the relatively high cost of living in inner London which makes part-time employment in the retail sector a less viable option than in outer London given that it is a sector with relatively low pay.

Economic regeneration

Retail-led regeneration schemes are often championed as a means of reviving the local economy by acting as a catalyst for further development and increasing the amount of money that is generated in and circulates in the local economy. There is, however, considerable doubt as to whether this effect is quantifiable.

There is also much debate about which type of retail offering – large multiple retailers or small independent retailers – brings most benefits to a local economy. The New Economic Foundation argues that 'big box' type retail developments 'not only exploit neighbourhood communities by offering low wage jobs but that they also cause the inevitable decline of High Streets and traditional retail business by displacement of local businesses and the extraction of large operating profits from the local economy which slows down the regeneration process'.[53]

However, it is argued that large retailers, through their effect on footfall, help to attract additional retail investment to areas and can offer lower prices than small retailers. In a case study in BitC's report into underserved markets, Johnson Development Corporation (JDC), which opened the first multiplex cinema in a US inner-city, demonstrated that by making a strong case for business investment into deprived areas other companies could be attracted to the site of redevelopment. In the case of the multiplex cinema in Atlanta, JDC attracted Starbucks and TGI Fridays to the site prior to its opening and more companies followed afterwards.[54]

There are, however, many locations that are too small for large retailers to consider investing in and in such cases there is a need for small independent stores. According to a report by the Department of Health, large retailers generally consider neighbourhoods consisting of around 3,000-4,000 households as too small to consider investing in.

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[53] The Work Foundation, October 2004, Who is Being Served? McDonald's and the UK enterprise agenda
[54] L Laine, February 2002, Business investment in under-served markets – An opportunity for business and communities?

Meanwhile, a study by convenience chain Mace has shown that small neighbourhoods can sustain small stores if they sell the right product mix to suit the community.[55]

Research by the Work Foundation suggests that the answer lies in the clustering together of both large and small retailers in underserved areas. Evidence suggests that the outlets or stores of large retailers (particularly when the stores themselves are large) draw footfall to a particular area. In this way, the large retailer store acts as an anchor to an area allowing for other retailers, including small retailers, to develop alongside the large retailer's store. It should be noted however that work looking at small retailers in London suggests that small retailers need to focus on quality or to specialise in a certain retail area to be able to compete effectively with large retailers.[56]

The Work Foundation also suggests that big brand retailers with franchised outlets have a role to play in developing underserved markets, as they provide the benefits that derive from both small and large retailers to the communities they serve. In particular they are likely to recruit labour locally and are more likely to recycle a significant proportion of profits generated within the local economy as many franchise owners tend to live locally. The Work Foundation uses the example of McDonalds to illustrate its point: it claims that it is McDonalds' company policy to encourage franchise owners to live in the community in which their store is located. Thirty-eight per cent of McDonald's restaurants are franchises and half of the company's franchise owners were originally internal employees. With an estimated turnover of around £1.5 million per restaurant per year, Work Foundation estimates suggest this equates to £900,000 locally retained. The Work Foundation claims that this would generate further local spending.[57]

It is also worth noting that the lack of competition in underserved markets appears to adversely affect pricing. ICIC's research showed that consumers in Boston paid as much as 40 per cent more for basic grocery items than their suburban counterparts. The difference in price was attributed to the low number of medium and large supermarkets relative to small grocery stores.[58]

This has implications for equality issues as well as regeneration. Disadvantaged communities are most likely to suffer from the decision of retailers to move to out-of-town locations as these are the communities least likely to own cars or be able to afford public transport to access retail facilities. To address this, the government has set an aim under the Neighbourhood Renewal Scheme to increase retail provision in currently underserved areas so that households should be no further than 500 metres from their local grocery store.

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[55] Department of Health (Policy Action Team 13), & Office of the Deputy Prime Minister's National Strategy for Neighbourhood Renewal, Improving Shopping Access for People Living in Deprived Areas
[56] GLA Economics, 2005, Small Retailers in London (forthcoming publication)
[57] The Work Foundation, October 2004, Who is Being Served? McDonald's and the UK enterprise agenda
[58] Initiative for a Competitive Inner City & PriceWaterhouseCoopers, October 2003, Inner City Shoppers Make Cents (and Dollars): Second annual inner city shopper survey

Physical regeneration

Government planning policy (as set out in PPG6) dictated that the first preference for the location of new developments was town-centre locations, followed by edge-of-town, and only then in out-of-town sites if no suitable alternative could be found. However, retailers argued that the problem they faced within urban locations was that there are few sites which are sufficiently large to accommodate the product range retailers need to hold. Furthermore, the emphasis on urban locations imposed by government policy focussed developers' attention on the redevelopment of brownfield sites, which are often in need of remediation and are thus considered high-cost options. Whilst PPS6, the government's most recent statement of planning policy, reiterates the town centre first approach, it does attempt to accommodate large stores to a greater extent than PPG6.

Sainsbury's, a member of BitC's Underserved Markets project, believes that the presence of supermarkets in poor-quality development sites provides significant improvements to the site and surrounding areas and helps to attract other businesses.[59] In the year 2003/04 all but one of Sainsbury's new stores were built on brownfield sites and 60 per cent of its supermarkets are in the centres or outskirts of towns and cities. Additionally, all of their new smaller format stores are in High Streets, shopping centres, on station concourses or at Shell service stations. Similarly, Tesco has set itself a target to develop over 90 per cent of new stores on brownfield sites. So far they have been successful, with 96 per cent (48 stores) of new stores opening in the year 2003/04 located on brownfield sites. Tesco also carries out environmental impacts surveys on its new stores, which take emissions, waste, water, noise and energy consumption into consideration.[60]

In recent years there have been many successful projects aimed at improving the retail facility for disadvantaged communities across London. One example was the opening of a Tesco store in Beckton, Newham. The Beckton store was developed on the site of the former gas works in Gallions Reach which required extensive remediation. Newham is one of the most deprived areas in London and according to Tesco, Beckton, severely affected by job losses in the docks and in manufacturing, had just 400 jobs for a population of over 6,300 prior to the opening of the Tesco store. The store which opened in September 2002 created 400 jobs.[61]

This section has considered the scope for retail-led regeneration to provide social benefits to the local and wider economy. Retailers and proponents of retail-led regeneration argue that bringing retail developments to underserved communities benefits the retailer in terms of profitability, but also promotes social inclusion, physical and economic regeneration of the local area. It is claimed that the economic regeneration of the local area occurs as the

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[59] http://www.j-sainsbury.co.uk/cr/index.asp?pageid=20 (accessed October 2004)
[60] http://www.tescocorporate.com/page.aspx?pointerid=5EE98B2713A047E6873CF95246F423D7 (accessed June 2005)
[61] http://www.tescocorporate.com/page.aspx?pointerid=32B0E699AB1A4CCC8D018E763CAF120D (accessed October 2004)

new retail offering catalyses further investment and development, which in turn creates more employment. Retail development can promote social inclusion by offering the residents of disadvantaged communities access to retail goods and services and by offering people who may have disengaged from the workforce a chance to gain employment. Moreover, developing in urban areas often requires the development of brownfield land which can considerably improve the quality of the local environment. For instance, both Tesco and Sainsbury's have set targets to locate the vast majority of their new stores on brownfield sites and have so far been successful in achieving those targets.

5. London and the underserved market

This section aims to analyse the distribution of retail services across London in an attempt to identify wards with a low level of retail provision. It also investigates whether a relationship between the level of disadvantage and the extent of retail provision in these areas exists. Due to the lack of data available at very local levels as compared to data available at more aggregated levels of geography, the analysis in this section is limited in its coverage and caution is required in drawing inferences from the findings.

Compared to other government office regions, London has a low employment rate. According to figures from the Labour Force Survey, bringing London's performance up to national average would require getting 238,643 more people into work.[62] At the same time, it has been estimated that by 2016 London will require between one and 1.5 million square metres of additional retail floorspace, if future consumers are to shop at a similar relative capacity as now. Given that retail development in deprived areas is often championed for the jobs it brings to groups with difficulties entering the job market, increasing retail provision in London, and particularly in disadvantaged areas, could help to raise the number of people in employment while also meeting the demand for more retail capacity.

Areas in London likely to be underserved

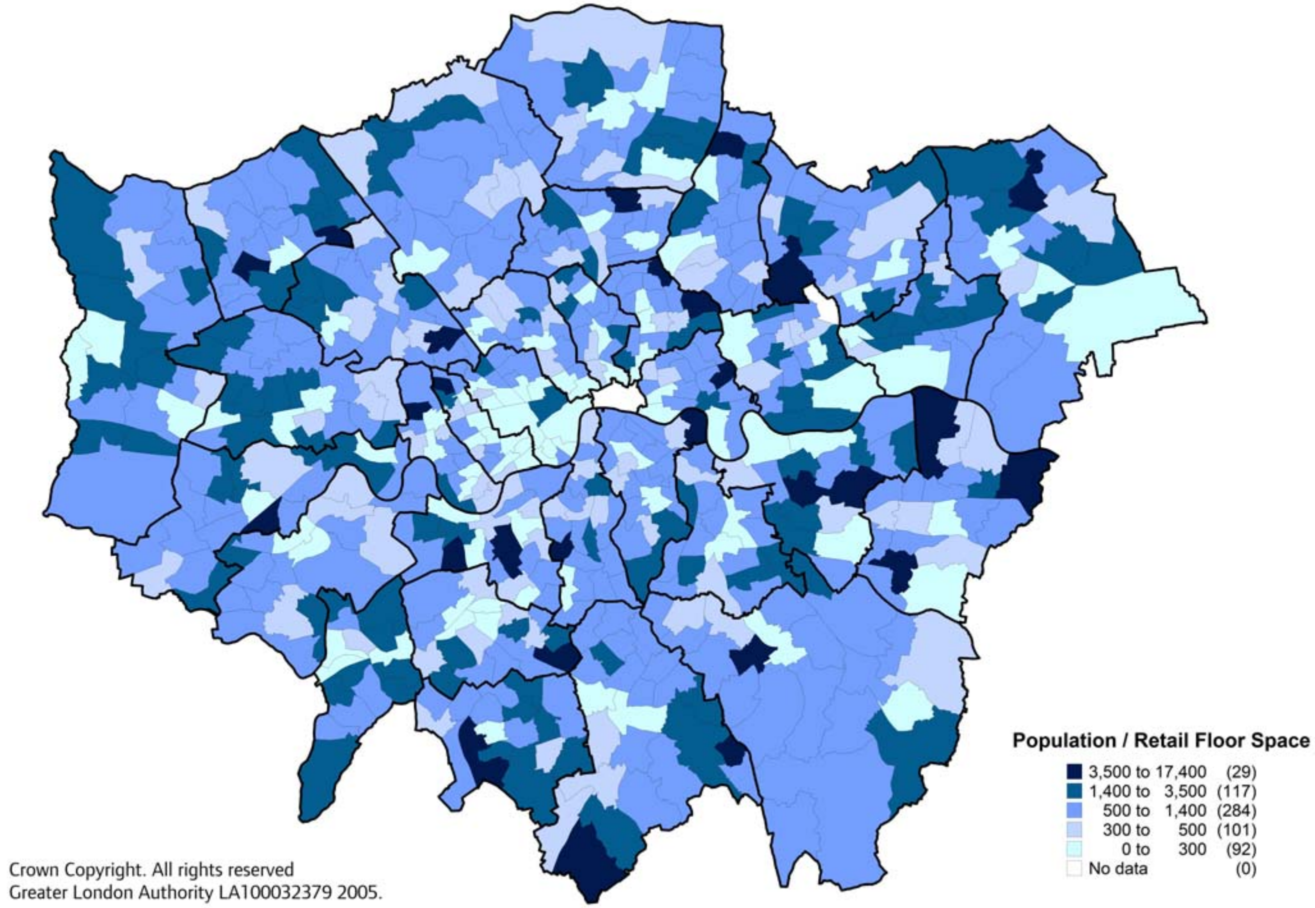
The following analysis attempts to highlight wards in London that might be considered as underserved in terms of retail provision by calculating ratios of population to retail floorspace. However, it should be noted that the floorspace data used does not indicate whether the floorspace measured is in use or vacant, so to the extent that the level of vacant retail floorspace differs across London the analysis may miscalculate the extent of retail deprivation and the results should be interpreted with caution.

It is also important to note that this data does not provide information on the type or quality of retail offering. Hence this simple analysis is unable to determine whether access to key retail services (such as groceries) is lacking in an area and, as a result, is limited in its ability to inform of the potential social inclusion gains to be made from increasing retail provision in the area. However, if it is assumed that where retail provision exists, there is a good mix of goods and services on offer, then this may not be such a problem.

Figure 5.1 is a map showing the level of retail need in wards across London (excluding the City of London due to insufficient data). Each ward is shaded according to its level of retail need, with the darkest shades highlighting underserved areas. There are 23 wards where the level of provision, given the size of the population, is very low (ie there is a large number of people (3,900 for these 23 wards) to each 1,000 square metres of retail

[62] Statistics supporting this calculation are taken from the 2004 Labour Force Survey. View: www.nomisweb.co.uk.

Figure 5.1: Population per 1,000 square metres of floorspace



*Source: GLA Economics based on data from Census 2001 and Valuation Office A*gency floorspace). A further 94 wards have over 1,700 people per 1,000 square metres of retail floorspace.

Figure 5.1 shows that underserved wards are spread across London, with a slightly greater concentration in the more easterly boroughs than elsewhere. It is worth noting that four of the wards highlighted – North End, St Michael's, Thamesmead East and Lenses Abbey – sit in the Thames Gateway region which is earmarked by the government for large-scale regeneration projects over the coming years.

Table 5.1 lists the 23 most underserved wards in London according to this analysis. The wards are grouped into inner and outer London wards. The table also shows the level of retail provision (ie the number of people there are for each 1,000 square metres of retail floorspace) and a number of other variables.

Table 5.1: Retail provision in the 23 most underserved wards

Borough	Ward	Retail provision (population per 1,000 sq metres of retail floorspace)	Ward employment rate (%)	Difference from average borough employment rate (% points)	Ward population density (people per hectare)	Percentage of households with no car
Inner London Boroughs						
Hackney	King's Park	3,920	47.1	-4.3	60.4	53
Southwark	Surrey Docks	4,174	70.9	14.8	78.2	39
Kensington & Chelsea	St Charles	4,209	51.1	-8.0	127.0	57
Hammersmith and Fulham	Wormholt and White City	4,308	52.0	-10.3	132.7	54
Wandsworth	West Hill	4,322	61.0	-5.8	85.0	40
Haringey	White Hart Lane	4,863	44.2	-11.9	70.6	48
Lambeth	Thornton	6,190	64.2	2.5	116.3	44
Hackney	Springfield	7,313	44.8	-6.6	114.0	54
Greater London Average	N/A	**456**	60.2	N/A	**45.6**	**37**
Outer London Boroughs						
Havering	Heaton	3,936	58.3	-4.7	34.5	35
Sutton	Belmont	4,189	65.8	3.5	53.4	18
Greenwich	Shooters Hill	4,377	61.5	4.6	34.0	31
Bexley	Lesnes Abbey	4,637	60.1	-4.2	46.2	26
Hounslow	Hounslow South	4,805	65.9	2.7	57.8	17
Merton	Pollards Hill	5,148	61.4	-4.4	45.9	26
Bexley	Thamesmead East	5,321	63.1	-1.2	26.9	34
Bexley	St Michael's	5,406	65.9	1.5	73.9	18
Croydon	Coulsdon East	5,673	64.3	0.7	15.8	17
Bexley	North End	5,933	59.9	-4.4	23.5	26
Bromley	Shortlands	6,445	66.3	1.7	37.9	19
Waltham Forest	Endlebury	6,714	63.8	4.8	51.8	21
Harrow	Kenton East	7,019	57.4	-5.0	77.2	24
Croydon	Fieldway	8,440	50.4	-13.2	75.3	42
Redbridge	Wanstead	17,382	65.3	5.6	22.1	23

Source: Valuation Office Agency and Office for National Statistics (Census 2001)

In addition to the caveats outlined earlier, it should be noted that there may be 'boundary issues' with this data. That is, some wards may have some significant level of retail located just outside the boundary of the ward and so may not really be considered as underserved. This issue might, in part, be considered by eyeballing Figure 5.1 in order to focus on those underserved wards that are surrounded by more shaded wards than clear (and therefore well served) wards. In addition, it could be argued that more attention should be drawn to underserved wards located in areas that are separately considered as deprived. Moreover, such deprived areas are likely to gain the most from any retail-led regeneration.

Retail provision and deprivation

The Indices of Deprivation (IoD) provides a guide to the extent of various types of deprivation within areas. The IoD is built up from seven different variables. These include: income; employment; health deprivation and disability; education, skills and training deprivation; barriers to housing and services; crime; and living environment deprivation.[63]

Ideally, the ratio of population to retail floorspace for the underserved wards would be compared with the IoD for each ward. However, IoD 2004 is not disaggregated to ward level. Comparing the IoD at local authority level to the ratio of population to retail floorspace for the underserved wards did not show a strong relationship – the data shows that those areas in need of retail provision are not necessarily also areas with greater levels of deprivation. However, this may be because the IoD at local authority level is not disaggregated enough to reflect the level of deprivation in the individual wards considered effectively.

Employment

In order to get a clearer picture of the relationship between retail provision and deprivation, both the economic activity and employment rate were used as proxies for deprivation and were compared to the level of retail provision across all wards in London. However, no relationship between these economic variables and the level of retail provision was found. The difference between the ward employment rate and borough employment rate was also plotted against the level of retail provision but, again, no significant relationship was found.

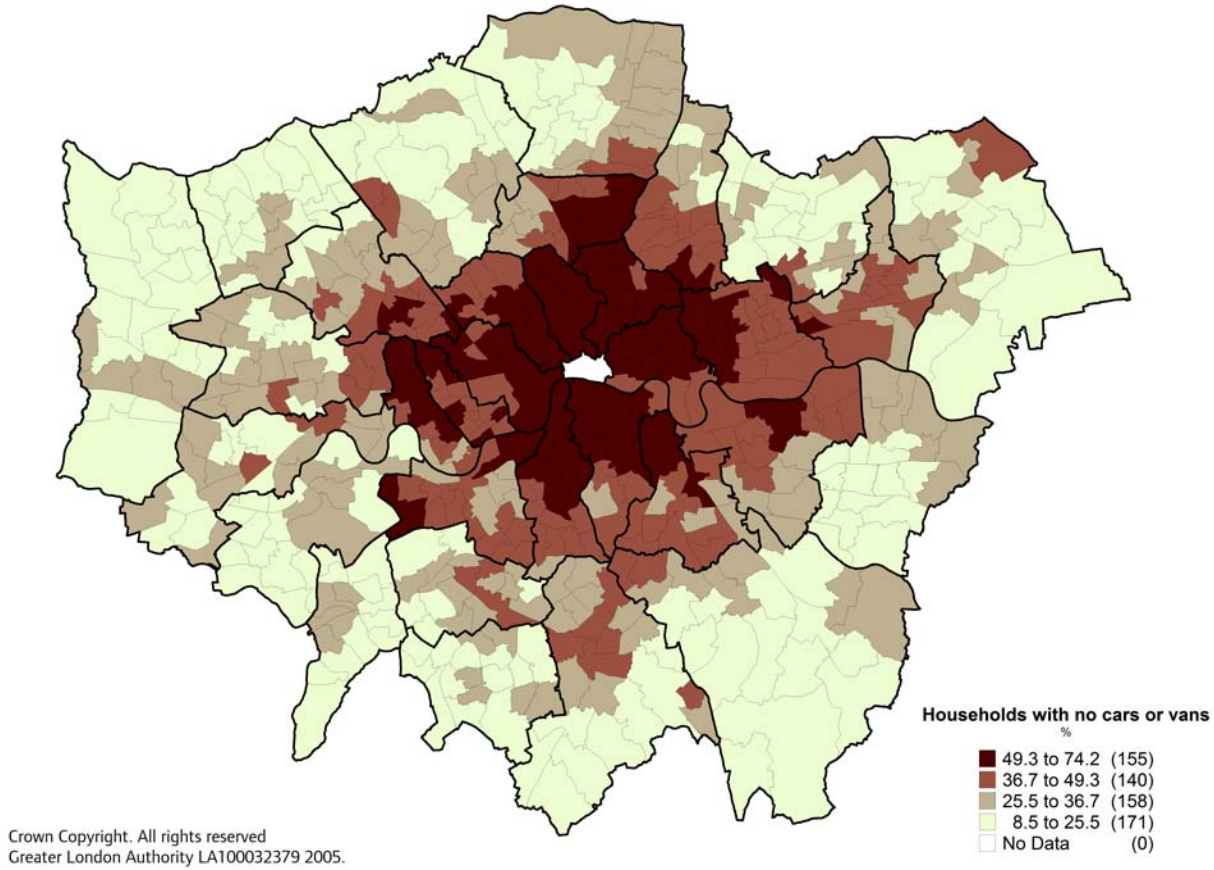
Focusing on the 23 most underserved wards from this analysis, Table 5.1 shows retail provision alongside variables such as the employment rate, the difference between the ward employment rate and the average employment rate for the borough, the population density in the ward and the percentage of households in the ward that do not own a vehicle. The table shows that employment rates in the inner London wards tend to be lower than the employment rate in the outer London wards. Moreover, six out of the eight inner London ward employment rates are below the average employment rate for their respective borough.

Car ownership

As noted earlier, an important aspect when considering underserved markets is the population's ability to access retail services either within their neighbourhood, or if they are underserved, elsewhere. Figure 5.2 is a map indicating the proportions of households across London with no car or van access.

[63] For more information about the Indices of Deprivation, view: http://www.odpm.gov.uk/stellent/groups/odpm_control/documents/contentservertemplate/odpm_index.hcst?n=4610&l=3

Figure 5.2: Map showing households with no private vehicles

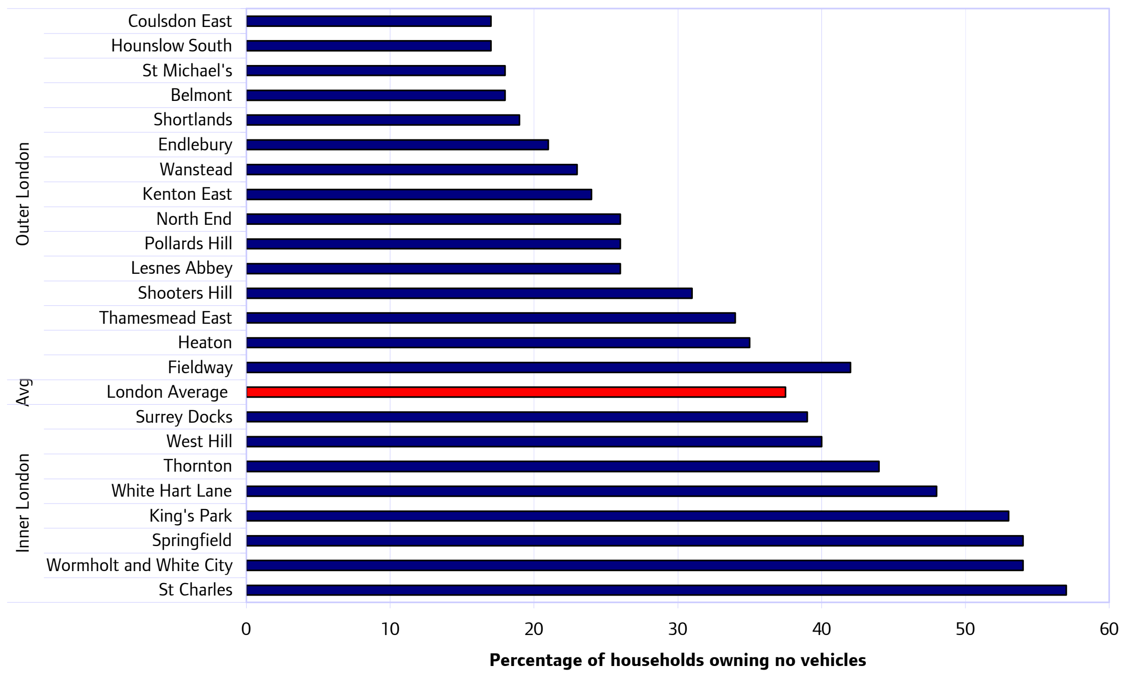


Source: Census 2001

Figure 5.2 shows that, as suggested by Table 5.1, inner London boroughs have the highest percentage of households with no car or van, and the percentage of households owning a vehicle increases as you move towards the outer London boroughs.

Figure 5.3 shows the percentage of households in each of the 23 underserved wards identified in this analysis that do not own a car or van.

Figure 5.3: Levels of car ownership in underserved wards



Source: Valuation Office Agency and Office for National Statistics (Census 2001)

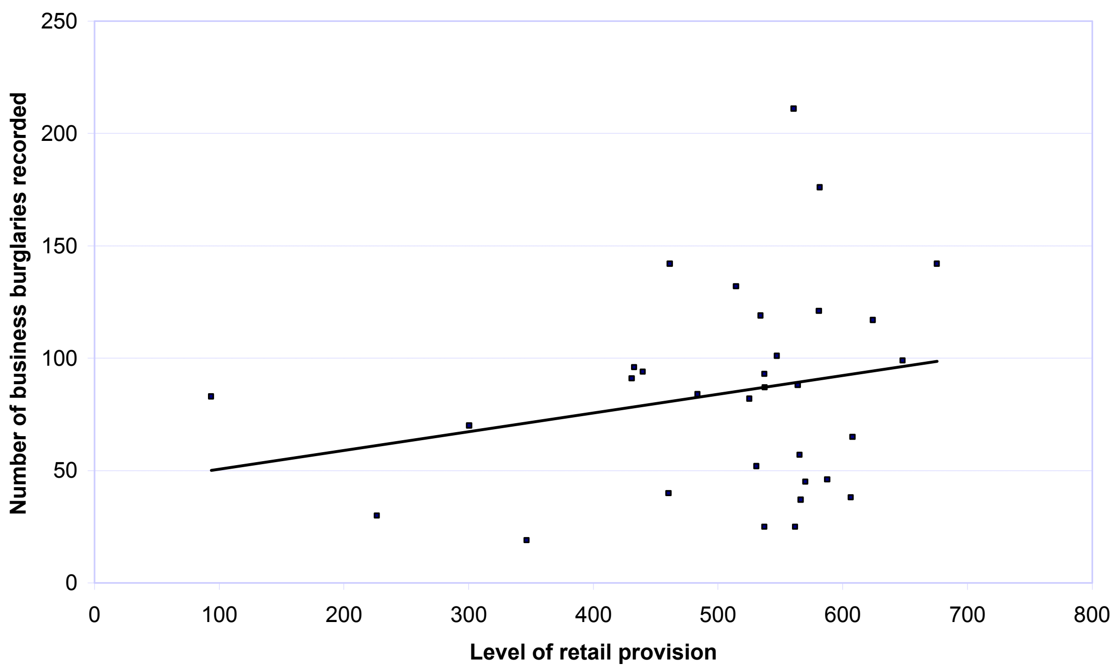
The figures show that a large proportion of these communities, particularly in inner London, are not only underserved locally, but also have no access to private transportation. In four of the underserved wards more than half of all households have no vehicle access. In almost half of the 23 underserved wards a third of households have no vehicle access. While public transport to nearby towns may be on offer, many groups, including older and disabled people, may not be able to carry their goods home, especially in relation to grocery shopping.

Crime

As mentioned earlier, it is a common perception among retailers that deprived urban areas are crime ridden. This belief prevents those areas from being invested in for two reasons: first, the cost encountered by retailers in attempting to prevent crime adds to the losses incurred from the act of crime itself, lowering the retailer's profitability. Secondly, according to BitC, areas with high levels of general crime are not seen as desirable shopping locations and thus will face difficulty in attracting consumers, especially those traveling from outside the local catchment area. This could potentially put a retailer's profitability under threat, the extent to which depends on the retailer's reliance on attracting consumers from further a field. A comparison of the number of business burglaries recorded at local authority level to the average level of retail provision in each local authority shows a slightly positive correlation between the level of retail need and the number of business burglaries recorded (see Figure 5.4). That is, areas with greater retail need experience higher levels of business burglary, though the relationship is weak.

This finding should be treated with caution, however. This is because the measure of crime used here, business burglary, encompasses a wide range of sectors, not just retail. In addition, Figure 5.4 shows the relationship between business burglaries and retail provision at the borough level; the true relationship between crime and underserved areas at the local, ward level may not be illustrated by this data. (Figure 5.4 plots the number of business burglaries recorded in the year to September 2004 against the level of retail provision, illustrated by the number of people per 1,000 square metres of retail floorspace).

Figure 5.4: Business burglary in underserved areas



Source: Metropolitan Police: http://www.met.police.uk/crimefigures/

The analysis in this section has shown that there are a number of wards in London that appear to have a very low level of retail provision relative to their population. Some caution is required when interpreting the data, however, because the data does not provide much detail about the nature of the retail offering, nor does it indicate whether floorspace measured is in use or vacant. The wards highlighted as underserved are spread across London, with slightly more underserved wards in easterly boroughs than elsewhere. There does not appear to be any significant relationship between this measure of retail provision and some variables which could be used to measure deprivation (economic activity and employment rate, for instance). However, considering variables such as employment and car ownership would tend to suggest that the issue of retail provision is more pressing in those inner city wards identified as underserved when compared to the outer London wards. Moreover, Table 5.1 illustrates that, as might be expected, population density in the inner London wards is higher than for London as a whole and so, as noted earlier in this paper, might be more profitable for retailers than some of the other underserved areas identified.

Overall, the analysis of underserved wards in this paper must be interpreted with a degree of caution since it is not entirely clear that the data used is disaggregated or detailed enough to be able to draw out the level of retail need at the local level accurately. However, the research conducted into underserved markets across the UK by BitC examines potential areas for investment in more detail. BitC has used Experian's retail database, which includes data on an area's affluence, deprivation, retail provision, consumer spending and customer leakages into other areas to reveal areas throughout the UK that have inadequate retail services. This work is therefore likely to be better able to comment on the extent of retail deprivation at local levels.

6. Conclusion

The purpose of this working paper is to evaluate how retailing may contribute to the regeneration of deprived areas in London. Drawing on the findings of a literature review, discussions with interested parties and an analysis of data for London, this paper attempts to review the economic case for investment into underserved areas. It also attempts to highlight underserved areas within London.

The paper finds that although urban deprived areas present retailers with a host of challenges, evidence suggests that there are many business opportunities in these areas which can overcome and outweigh such challenges.

The paper finds that in many cases retailers' perceptions of the challenges they face in deprived areas can be worse than the reality. The difficulty in persuading retailers to operate in disadvantaged areas appears to be due to the absence of easily available evidence highlighting a strong economic case for commercial investment into deprived areas. Arguably, as a result of this, part of the role for the public sector in encouraging retailers into deprived areas is to promulgate the existing evidence on the benefits of investing in deprived areas more effectively.

Literature suggests that the main reason retailers have tended not to invest in deprived urban areas is because they associate the characteristics of deprived areas with lower revenues and higher costs when compared to other areas. Deprived areas are typically characterised by high levels of unemployment, low average income per household, high levels of crime and low levels of educational attainment among the population. However, this paper has drawn together evidence from regeneration initiatives and reports across the US and UK that demonstrate that the characteristics of deprived areas can, in fact, create good business opportunities. Some of the advantages of businesses operating in deprived underserved areas include: commercial property in deprived areas achieving higher returns when compared to commercial property in all areas of the UK; underserved markets being likely to have large levels of untapped demand; many deprived areas providing access to underserved ethnic markets; underserved markets having little competition from other retailers; and, deprived areas tending to have a large readily available local labour supply.

As well as private benefits, increased retail provision can bring many social or economic benefits to disadvantaged communities including:

- **Physically regenerating sites and their surrounds** – Regeneration of brownfield sites can contribute to the economic regeneration of an area by significantly improving the appearance of the location which can help to attract further business to the surrounding area.

- **Reviving the local economy and generating employment opportunities** – Increasing retail provision can contribute to the economic regeneration of deprived areas as more businesses are drawn to an area when the initial investors demonstrate the area's profit potential and this in turn leads to more job creation. Moreover, retail employment is often used as a stepping stone to employment in other sectors of the economy, so spreading the effects of the retail-led regeneration into other areas of the economy.

- **Addressing issues of social inclusion** – Increasing retail provision in underserved and deprived areas can address issues of social exclusion by providing communities with improved access to goods and services and by providing the resident population with employment opportunities. Increasing the number of retail jobs available can help to engage groups that face particular barriers to accessing employment opportunities.

The analysis of underserved areas in this paper found 23 wards with a particularly low level of retail provision given the resident population. Comparing both economic activity/employment rates at a ward level with the levels of retail provision across London failed to show any significant correlation – that is, there appears to be no link between wards with low levels of retail provision and wards which are disadvantaged in this analysis. However, these findings should be treated with a degree of caution.

The analysis of underserved wards suggests that investment in inner city underserved areas might be more productive than investment in underserved areas in outer London.

Overall, this working paper illustrates that there are business opportunities to be exploited from investing in deprived underserved markets. In addition to private commercial benefits, there are wider economic and social benefits to disadvantaged communities from the increase in retail development. To this end, initiatives such as the current work of BitC, which attempts to deliver private investment into currently underserved areas, are to be encouraged.

Abbreviations

BitC	Business in the Community
BRC	British Retail Consortium
DTI	Department of Trade and Industry
ICIC	Initiative for a Competitive Inner City
ICSC	Council of Shopping Centers
IoD	Indices of Deprivation
JDC	Johnson Development Corporation
JRF	Joseph Rowntree Foundation
LEA	Local Employment Agreement
ODPM	Office of the Deputy Prime Minister
PPG6	Planning Policy Guidance 6
PPS6	Planning Policy Statement 6
UK	United Kingdom
US	United States

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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

Vietnamese

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.

Bengali

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

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.

Urdu

اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاهتے هیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Turkish

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

Arabic

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

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:

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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