

RETAIL DEVELOPMENT PROPERTY BRIEFING PAPER 2

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THE SEQUENTIAL TEST:

OPPORTUNITY OR PROBLEM?

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Graham Chase, Senior Director of Chase & Partners is currently the Chairman of the Commercial Market Panel of the Royal Institution of Chartered Surveyors and in his capacity of Retail Property Spokesman appeared before the House of Commons Select Committee investigating Shopping Centres and their Future which is referred to later in this paper.

This paper is the second of a series of briefing papers to be issued to local authorities on issues deemed topical.

The Sequential Test

This summer's publication of PPG6 set into the national planning policy framework something already established in regional planning guidance, the sequential approach to selecting sites for development, whether for food or comparison shopping.

In this connection PPG6 establishes that:

Wherever possible the Government wishes to see new retail development in town and district centres and for local planning authorities to take a positive approach to the identification of additional sites. However, not all centres, particularly historic towns, will have sites that are suitable in terms of size, parking, traffic generation or servicing arrangements in the town centre itself.

Local planning authorities should adopt a sequential approach to selecting sites for new retail development. First preference should be for town centre sites, where suitable sites are available, followed by edge-of-centre sites and only then by out-of-centre sites in locations that are, or can be made, accessible by a choice of means of transport.

The Government recognises that the approach requires flexibility and realism from local planning authorities, developers and retailers. Local planning authorities should identify suitable sites. Developers and retailers will need to be more flexible about the format, design and scale of the development, and the amount of car parking, relating these to the local circumstances.

Flexibility And Realism

In exhorting both local planning authorities and developers to be realistic and flexible, it is important to understand that being "flexible" cannot properly be interpreted as expecting retailers to adopt a trading format or unit size that is completely at odds with their retail format and modus operandi. To do so would, we believe, be unrealistic. As such, requests for either party to be flexible and realistic requires a basic understanding of developers and retailers general requirements in the first instance.

Pre-Requisites

In commercial terms, there are four essential ingredients for a successful retail development. These are:

- an adequate level of expenditure in the catchment, which is preferably growing,
- retailer interest,
- the availability of adequate sites, in terms of location, size and layout.
- Viability.

In understanding site availability and suitability, it is important to bear in mind operator's requirements: few retailers would normally contemplate taking space in an inadequate development. As such, for any development, or for that matter planning proposal, to be successful, it is important that it reflects market requirements. With this in mind, we set out below general site specific pre-requisites relating to town centre and out of town developments.

Town Centres

For a town centre shopping development to succeed in attracting the requisite retailer representation (even in a good market), it must be well located, well conceived in layout terms and be effectively anchored.

In terms of location, it should link into or be well related to the existing prime pitches or main shopping area. Where this does not happen, the disadvantage can only be overcome if the scheme is of a size and tenant mix that it effectively creates its own centre of gravity. This is not easy to achieve in practice.

In terms of design/layout, it should be pleasant and easy to use with convenient car parking facilities and, preferably, good access to public transport. It need not be entirely covered. Shop frontages and depths should be adequate, shopper flows must be well distributed throughout and servicing exemplary.

With regard to the anchor store issue, there are essentially three types of trader potentially able to fulfil this role, namely:

- department stores, e.g. John Lewis, House of Fraser and Beatties.
- variety stores, e.g. Marks & Spencer, BHS, C&A and Littlewoods.
- superstores, e.g. Sainsbury, Waitrose, Asda, Tesco, Safeway and Morrisons.

Department Stores

The economics of new retail development are such that it is important to note that invariably a major financial contribution has to be paid by the developer to secure a department store anchor. The anchor store effectively acts as the destination, whereas other unit shops then pay for the benefit of pedestrian flows promoted by the anchor. In effect, the income and hence the capital value of the unit shopping has traditionally funded new retail development. In that a fully fledged department store would occupy anywhere between 8,000 sq m and 25,000 sq m of gross internal floorspace, the financial contribution to fitting out costs could run up to £1,000 per sq m. This clearly has implications for the scale of unit shopping needed to make the development viable and, in turn, the minimum site acreage. For example, a fully fledged department store of 100,00 sq m would, in all probability, require to be funded by another 100,00 sq m of unit shopping. This would require, in turn, a minimum site size of 2 hectares (assuming multi-storey parking over) or more.

Variety Stores

The next alternative, which is likely to be less expensive, is a variety store anchored scheme. The disadvantage of this approach is that it would not have the same impact as a department store, but nonetheless, when combined with other multiples might form an effective anchor. In today's market, variety stores are equally able to command substantial financial contributions towards fitting out costs, but at 3,000-5,000 sq m of floorspace, the overall sum is likely to be considerably less depending upon the precise identity and nature of the variety store trader and the circumstances of the scheme.

Food Superstores

Notwithstanding the growth in out of town food superstores, there are examples of food stores locating in town centres where they effectively anchor schemes comprising a mall of non-food units. This combination of food and non food shopping, provided it is properly integrated into the town's existing shopping patterns, has proved to be a successful formula in either maintaining or enhancing the town's position in the retail hierarchy. Unlike the department and variety store anchors, the superstore anchor pays its way and is not dependent on financial contributions. As we have already commented, superstore proposals in town centres can serve to attract other non food retailers, who perceive trading benefits by being in proximity to a proven generator of shopper flow.

For any town centre scheme to be successful, there are basic minimum site size requirements. As a reflection of today's economic circumstances, it is less likely that shopping centres which trade on more than two levels can be made viable unless there are additional facilities, such as leisure or residential. Accordingly, the site requirements tend to be greater as there is a tendency to attempt to reduce construction costs by having surface as opposed to multi-storey parking. A foodstore anchored town centre scheme would require a size of some 2 hectares to 4 hectares (assuming surface car parking).

The concept of food superstore shopping is now a familiar one and reflects a response by the operators to their perceptions of customers needs. New stores must be accessible to the surrounding population and provide free, surface level car parking. The size of stores is important so that a wide range of goods can be provided. Current sales area requirements from operators vary, dependent upon the anticipated level of turnover, and range between 1,850 sq m and 4,180 sq m net sales floorspace, or 3,900 sq m and 7,900 sq m of gross floorspace.

Therefore, the modern superstore, being frequently unable to satisfy its requirements "in town" has tended to locate in "out of town" situations. Gradually the "offer" of the out of town superstore has increased to include a petrol filling station, chemist, cafeteria and dry cleaners, almost as standard. Thus the pressure has increased for larger sites to meet these requirements.

Retail Warehouse Parks

In a similar way to the evolution of food shopping, the concept of the retail warehouse park is also familiar. Essentially, such schemes cater for operators selling bulky goods and provide easy access with surface parking where the consumer can purchase goods and carry them away. Typically the types of goods available are DIY, furniture, soft furnishings, carpets and electrical goods.

As the concept has become more sophisticated, specialist operators have emerged offering goods which are increasingly comparable to those offered in traditional high street locations. Purpose built retail parks of say 10,000 sq m require sites of up to 2.7 hectares to allow for adequate surface car parking of 400 spaces. The sites must be highly visible and have good access. These requirements have been best satisfied in out of town locations.

Sequential Test Viability

Inspectors have been encouraged to press local authorities and promoters of planning applications to investigate site availability on the sequential test basis. This involves the assessment of land holdings, either occupied or vacant and schedules of interests held, to establish the potential for bringing them forward for development.

In any sizeable centre, this does create practical problems, can take a long period of time and be expensive. In addition, changes in the market or the status of occupiers and their business can have a significant impact on attitudes toward continuing occupation, relocation or closure.

The sequential test must therefore take a practical view regarding future site availability, particularly where a number of smaller parcels of land involving several interests have to be combined over time to bring forward a single site capable of development. Too long a period could result in the site becoming moribund, the user transferring to another competing centre, or the market changing either intrinsically or cyclically.

In the circumstances, local authorities should undertake land audits, perhaps utilising information from the land registries and rating lists, to build up a picture of tenure holdings and hence identify when key sites may be brought forward for development.

Against this background, available sites should also be judged on their suitability for redevelopment against market criteria allowing their potential to be more accurately assessed.

Trowbridge Decision

The approach that local authorities should take to the 'sequential test' has been clarified following the recent High Court Judgement concerning the Trowbridge decision. In this case, the Secretary of State's decision to dismiss a foodstore proposal on the grounds that he was not satisfied that it had not been shown that other locations for the proposed foodstore, in or on the edge of the centre, were unsuitable was challenged. The challenge was on the basis that it was unreasonable to expect developers to demonstrate that the problems associated with developing alternative town centre sites were insurmountable. Moreover, the challenge sought to differentiate between sites being available for development and suitable for development. In the event, the Secretary of State submitted to judgement, and the original decision notice was quashed. It follows that for local authorities to "pray in aid" (i.e. justify) the sequential test, alternative sites need to be truly suitable and realistically available.

Appeal Precedents

The above view is increasingly being borne out in contemporary appeal decisions. The following examples illustrate the point:-

Tesco, Ramsgate (reference SEP/21/Z2260/01: November 1995) - The Inspector found that there were no sites suitable "for a modern foodstore of the type proposed by the applicant" in or on the edge of any centres and alternative sites were "either unsuitable or un-tested against any policy background". The Secretary of State agreed and the appeal was allowed.

Regent Square Estates, Farnham (reference T/APP/R3650/A/94/244386/P2: May 1995) - The Inspector noted that the applicant had considered sites identified in the Local Plan for redevelopment within the shopping centre "but these are either too small or not readily available. The Council argues that retailers should adapt their requirements to fit available sites. However, having considered the character of Farnham Shopping Centre and of the available sites, I find it unlikely that this proposal could be accommodated within the centre."

Conclusion

There seems little point in allocating or safeguarding a site for retail development if it proves unattractive to retailers/developers. Such action would be otiose. We can identify several instances where a town has a good sized site available for development but is poorly related to the main shopping area. Similarly, we know of circumstances where a site occupies a good location but is limited in size and/or layout.

After the frenetic development boom of the late 1980's there are increasingly few opportunities where all the pre-requisites for a successful retail development come into play, so that a scheme or extension to a scheme is enabled.

Further Information

Further copies of this briefing paper may be obtained from the authors, as may additional information or assistance on planning and development issues.

Chase & Partners provide comprehensive retail planning and development services to local authorities and the private sector, including 'health checks', retail impact assessments, and the sequential test. Graham Chase and Jim Morrissey have advised over 50 local authorities on retail matters.

