



cutting through complexity

Hope for the High Street

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MASSIVE REDUCTIONS

Hope for the high street

It is no secret that the traditional British high street is in decline. The average shop vacancy rate in the top 650 British centres has stood at more than 14% for the past three years¹. In some town centres, entire high streets have been boarded up. Meanwhile, internet shopping balloons with double-digit growth² and major edge of town shopping parks, as well as new urban malls such as Westfield Stratford City and Westfield London, pull in record-breaking numbers. At the same time, people flock to wi-fi-serviced coffee shops or local restaurants, to meet their friends and family or business contacts. These are far-reaching changes in behaviour, and they are all challenging the sustainability of the high street.

The economic and social consequences of these changes for communities have been profound. Much has already been debated about causes and potential solutions.

Government is interested, as are businesses and homeowners, among many others. The positive message is that the British high street – and by implication the concept of the town centre – merits a fundamental re-think.

The traditional concept of the town centre as principally a place to shop is no more. There remains a strong demand for collective urban spaces where people can meet, communicate, eat, drink, work and spend time outside of the home. These functions are at the historic roots of all towns and cities. But their current formats – the way they look, the mix of uses, the functions which they offer and the ways in which they are managed – are no longer fit for purpose.

Hope for the high street continued...

The specific requirements for any town centre are inevitably bespoke, and different people want different things. But underlying them are some fundamental core principles which are generic, but which merit greater understanding in order to be adapted locally to meet changing realities. Some towns have successfully evolved over centuries, while others are pale shadows of their past or have disappeared altogether. They vary greatly in physical size and catchment profile.

For town centres to remain resilient to economic and social development, property landlords, occupiers, local governments and communities must all play a part in planning and delivering their future. This means letting go of a misty-eyed attachment to a high street of quaint shops, and instead, creating a new shared vision for the way the town centre looks and works. Critically, it means aligning incentives between all of those with a direct or indirect interest in delivering success.

This paper does not attempt to promote specific solutions; there is inevitably a broad diversity of views and there are certainly no 'silver bullets'. Instead, we set out those factors which we believe lay at the heart of the urgent need for reform, and suggest the key issues and obstacles which we believe need to be addressed, in order to shape some new core principles for the function, design, funding and management of tomorrow's high street.



The contemporary high street

People live differently today, compared with even 20 years ago. We have smaller homes, work longer hours, spend a greater proportion of our budgets on food and beverages outside of the home and spend significant time online, whether at home or on the move, consuming media, working, socialising and shopping. Many high streets face difficulties because they haven't evolved alongside the communities within which they are located.

However, there are examples of town centres which have successfully evolved in step with their communities. They typically feature:

- a greater balance between commercial and residential uses to provide a better and safer ambience throughout the day;
- food and beverage outlets and a diversity of entertainment venues;
- a mix of independent as well as national multiple retailers and service providers, occupying a range of unit sizes, making good use of historic buildings as well as newer developments;

- ample car parking (preferably free for a period) and convenient public transport, supported by easy accessibility (town centres are historically better served by public transport than edge of town or out of town locations);
- pedestrian-friendly street layouts and wayfinding;
- on-street wi-fi access;
- heritage, cultural and education facilities, as well as other demographically-relevant, social infrastructure; and
- clean, safe and interesting physical environments and public spaces.

The town centre's offer and its appeal inevitably have an economic and social impact on its hinterland. Conversely, it is also a product of its demographic and its history. But in many respects, defining the problems and outlining popular aspirations have proven much easier to do than tackling the underlying means to enable change and delivering it in practice, given the breadth of often conflicting vested interests involved. The means are much harder to grasp than the ends.

The stakeholders of the high street

No solution can be successful unless it properly reflects the needs and constraints of the four principal stakeholders of the high street, and offers benefit to them. They are:

- property owners;
- property occupiers;
- the local authority (sometimes more than one); and
- the wider local community.

These four groups are both distinctive and interdependent, and have themselves evolved considerably in recent years. Their ‘terms of engagement’, both within themselves and between each other in tackling the challenges of the high street, merit a fresh approach.

Property owners

Town centre property ownerships are highly fragmented – unlike a shopping mall or retail park, which is typically owned and managed by a single entity. Property owners range from major institutions, to private equity groups with multiple investors in their finite-life funds, to families, charities and private individuals. Each has a different ownership and investment rationale, different time horizons, different ways of making decisions, and different management behaviours.

Many landlords will have suffered dramatic falls in the capital value of their individual shop units, as major multiple tenants have been replaced by charity shops or possibly no-one at all. Even if the ground floor is trading, the upper parts may be empty, there will have been little rental growth, the tenant may be seeking a shorter lease or a lower rent and the adjoining shops may also be empty.

Landlords are generally willing to be flexible in tough times in order to keep a good tenant, but the risks around the tenant’s sustainability as a business are as important as the level of rent. So whilst local independent retailers may have their place in delivering a vibrant high street, ultimately, it is the financial risk of failure which the landlord will have to weigh up in signing a lease.

A landlord’s interest and willingness to engage in discussing broader or longer-term issues which might benefit the wider town centre will vary enormously, depending on their more immediate commercial objectives and ability to commit capital. Adjoining landlords rarely talk to each other.

Some private landlords have been known to undertake long-term programmes of transformation within a particular location in which they are the dominant owner, with the support of the local authority, such as the Cadogan Estate in London’s Sloane Street, and The Crown Estate in London’s Regent Street – both with Westminster City Council.



But in each case, the programme took a decade or more of patient, property-by-property negotiation to achieve a significant difference, plus the creation of longer-term asset management arrangements to ensure sustainability.

However, it would be wrong to say that the motives of property owners are universally short-term and selfish. The challenge is that their motives are not identical, yet they each have absolute control of their piece of the town centre.

Without their active engagement, barring compulsory acquisition or punitive taxation, little collective action will happen. In the recent past, the introduction of Business Improvement Districts and other town centre management initiatives have in some cases succeeded in engaging property owners, but the experience is mixed.

The stakeholders of the high street continued...

Property occupiers

High street tenants face an equally trying time. The multi-year leases required by landlords make it difficult for high street businesses to exit tenancies without incurring significant cost, and damage to profits. As a result, struggling retailers and businesses have no choice but to hang on, in a 'zombie' state, even though trading is poor. In some cases, the property will simply be 'mothballed'. Some occupiers, of course, are also the property owners.

Another difficulty is the fact many high street buildings and older shopping precincts no longer provide the kinds of spaces which tenants need. Some prefer edge of town or out of town locations. Many national multiples have completely revised their thinking on how many stores they need and where they should be located, depending on the products they sell. White goods and electronics are increasingly sold through the internet, the shop is used as a showroom. For many other products, including fashion, click and collect, mail order and other convenient, time-saving retailing methods reduce the need to trudge along the high street during working hours.

So all businesses are having to think much more smartly about the marketing and distribution channels for their products and services – how they reach their customer, and how their customer reaches them.

On the other hand, facilities for meeting people – cafes, restaurants and bars, with good accessibility from public transport, or within walking distance of people's homes or offices, or close to public buildings such as schools, colleges, cinemas and health care facilities, are in high demand.

So the use mix demanded within and around town centres has changed, and will further evolve as work, leisure and household lifestyles change.

The local authority

The local authority for a particular town (and there may be a surrounding county authority or a metropolitan authority) carries the burden of responsibility for land-use planning, as well as the provision of services such as housing and transport, but also collects business rates and domestic council taxes from property owners and occupiers. It may also be a significant property owner and occupier itself within the town centre.

Above all, it is both the author and the guardian of the town's vision for itself, but of course it has only limited powers to deliver such a vision. More often than not, it has to work in partnership with other landowners, businesses and investors to achieve the aims for which it is publicly accountable.

Some local authorities are more directly involved than others in shaping and delivering a vision for their town.



This is partly due to political factors, partly access to funding, but also in some cases because of a historic reluctance to be too pro-active. Immediate post-war experiences of over-ambitious town-centre re-modelling still scar many cities; though some, such as Birmingham and Manchester, have enjoyed a glorious renaissance. Yet the ability and/or willingness of many local authorities to take the lead in re-thinking planning policy and the leadership of town centre management arrangements remains elusive. There is an ongoing debate about the 'right' approach.

The wider community

The wider community is, of course, the biggest yet most intangible stakeholder.

It has no conclusive voice, yet it has votes.

It has private money, but principally spends it on itself or demands public services or funds. It can be consulted, but offers a diversity of opinion and behaviour. It owns and rents property, pays local taxes, has a broad demographic, is sometimes worker, resident, visitor, student, patient, but is not publicly accountable (other than to the law). Yet as a consumer, it expresses its demands and views ruthlessly and rapidly, every day of every week.

Different people want different things from their town centre. But ultimately, the town centre is for the wider community and is shaped by it.

So any solution for the future design, function and management of the high street and wider town centre must be able to harness and manage the expectations of all four of these stakeholder groups if it is to have any chance of success.

What can prevent high streets from adapting?

KPMG works closely with a number of large and small commercial property investors and investment funds. We also advise a range of major UK retailers and high street businesses, as well as local authorities around the country.

Through our discussions with these various groups, the following structural issues are regularly mentioned as needing to be addressed if progress in high street reform is to be made and a new purpose is to be defined at the heart of our local communities.

Inadequate long-term high street planning

Most high streets are not actively planned and managed. Their street patterns have evolved organically over centuries. This is despite the fact that the most vibrant and successful shopping and entertainment destinations are meticulously conceived, designed and managed. For example, shopping streets such as Regent Street and modern malls such as Westfield Stratford City, are assiduously managed by their owners to achieve the right mix of retailers, food and beverage outlets and entertainment destinations, targeting specific operators and adjusting trading hours where possible to suit their catchment customers.

Considerable care is given to creating the size and shape of store that an occupier needs and, most importantly, to ensure that the different retailers are located in the right places to trade collectively at their best and achieve the right mood – rather like the choice of guest list and seating plan at a dinner party. Equally, these arrangements will keep alert to the changing demands and behaviours among consumers and retailers.

Today, many town centres simply have too much retailing space, too widely dispersed to be effective, and many are not actively planned around the needs and demands of local communities. The upper and rear parts of shops are typically underused or sit empty and poorly maintained.

Nor are the supporting services such as car parking, traffic management and public transport arrangements managed as well as they could be with diverse consumers and communities in mind. All too often the arrangements appear haphazard and reactive, and create a very poor impression to the potential inward investor or new resident. People simply don't want to be there.

At the same time, many towns with weak high streets are expanding their edge of town retailing sites, in response to the demands of consumers and retailers for 'big box' stores, which these days cater for a lot more than DIY and electronics. The sites typically have plentiful car parking and often public transport links. These towns are successfully creating the new but doing little about the old.

One of the frequently cited difficulties has been the short-termism of a local authority's mandate because of the regular cycle of elections. This militates against the implementation of longer-term programmes of change, which might straddle successive leadership groups and shifting priorities for funding. It means that the harder problems sometimes have to be ignored.

What prevent high streets from adapting? continued...

Mismatch of planning usage

In many town centres, the demand for its buildings zoned for retail use will never recover, such is the way in which shopping trends have changed. Large sections of previously vibrant shopping streets are destined to remain vacant for many years to come. This means lower local tax revenues, less well-maintained buildings and an increasingly poor social utility for the community.

The solution may well require a more flexible approach to planning uses in town centres, including more residential accommodation, even in former high street locations. Rather than relying on building-by-building planning applications to shape a policy, local authorities could more positively signal permissible zonings by neighbourhood blocks or clusters of buildings to determinedly transform an area of the town.

Encouraging a wider mix of uses back into the town centre would answer the need for town centres to once again be social centres rather than just shopping centres – food & beverage, entertainment, commercial, residential, public and amenity uses all playing part, alongside more relevant (and probably less) shopping. This would potentially make more economically and socially productive use of the buildings, as well as creating much needed new housing, particularly of affordable homes³. In some locations, residential use may have a higher value than retail use. It might provide a welcome correction to the persistent shortfall in Britain's new housing supply, as well as bringing fresh life back to town centres.





Lack of commercial leadership and incentives between business and communities

High street landlords and tenants appear to have limited connection with the local community and play little part in wider community initiatives. Given the need for wide consultation if some of the planning initiatives outlined above are to be introduced, establishing such effective channels of communication will be vital.

Equally, given the urgency needed to restore local economic activity and to re-build communities, it may be necessary to create special economic zones, or even forms of local development corporation, to provide the leadership, special powers and the harnessing of capital and expertise needed to provide visionary change in an accelerated way. Britain has a good track record of using such arrangements to deliver regeneration over the past 30 years, including London's Docklands, parts of the North East and Manchester.

Of equal importance is the need to put in place suitable partnership arrangements to sustain the management of the town centre into the future. Should this just be the prerogative of the local authority, subject as they are to the demands of regular elections and shifting priorities, or should new forms of long-term partnership or town centre trusts be formed to oversee and support these arrangements?

All too often such initiatives and planning process reforms to accelerate change have ended up in the 'too difficult' pile, given the challenges of our planning system in England & Wales.

What does it take to deliver change?

The purpose of this paper is to raise awareness of and to encourage debate around the core issues which lay at the heart of the problem, rather than to promote another list of 'simple quick-fixes', which might feel good but have little credible foundation. Or worse still, to offer merely visionary ends without also describing the practical means to achieve them.

However, based on our discussions with the various stakeholder groups so far, the answer to the question seems likely to include some combination of the following elements:

Understand the purpose and function of a modern town centre

Being clear about the job which the town centre is supposed to fulfil – economically, socially and environmentally – and what the key stakeholders want from it is a vital starting point. Above all, to make the town centre a place where people want to be.

Shrink the retail part of the high street

Recognise the diminished demand for town centre shops as we used to know them, and understand the future needs of consumers and retailers for those shops which should occupy the most accessible parts of our town centres, providing the most appropriate building formats to accommodate them.

Provide flexible planning policies and mix of uses

Permit a more balanced mix of uses within the town centre between commercial, residential, leisure and amenity purposes, with an emphasis on bringing buildings back into productive economic use (or adapting them to be used), and ensuring that the town centre is a place to live as well as to work and to be entertained.

Introduce creative commercial arrangements to accelerate and sustain change

'Wait and see' is no longer an option, the patient is dying and smart intervention is needed. Whatever arrangements emerge, they must have both public and private sector leadership to deliver them competently, as well as the ongoing management arrangements to sustain them and keep them successful over time.

Some local authorities are already exploring the use of their own landholdings and institutional grade covenant to pre-let or underwrite catalytic job-creating and regenerative development through imaginative partnerships. These approaches play into the institutional investment market's strong appetite for long-term, well-secured income streams. Structuring such arrangements to manage risk and optimise the outcome requires specialist expertise, but best practice needs to be shared and developed further.

Working in partnership

The high street represents an intersection of the interests of communities, local authorities, tenants and landlords. All four stakeholders have a role to play in the regeneration of our town centres and need to be able to work in partnership, by whatever means. Inevitably, each stakeholder has something to gain and potentially something to lose from the outcome. But there needs to be enough financial and non-financial incentives on all sides to encourage co-operation, supported by public policies and, if necessary, specific regulations, in order to promote desirable change.

All parties will not be completely satisfied, but they need to be persuaded that the ends ultimately justify the means.

The solutions have to be delicately but determinedly executed, and with momentum, otherwise nothing will happen and the disaffection of all concerned will continue.

The solutions are local, but the consequences are national. The best way for these stakeholders to work together, and the policy, legislative and financial framework which should support their partnerships, need to be examined carefully from all perspectives. The core commercial and governance principles of such partnerships should be worked up, potentially to create national guidance. These principles should be matched by enlightened and experienced professional management from both public and private sectors to lead delivery.



How KPMG can help

KPMG has knowledge and expertise which is highly relevant to this debate. In particular:

- A national network of 22 local offices across the UK;
- A long established property practice with experienced professionals familiar with the capabilities and constraints of landlords, tenants, funding institutions, planning policy-makers, urban designers and property managers, supported by well-connected networks of market relationships;
- A substantial retail practice combining first-hand knowledge of retail businesses and the market challenges being addressed, together with a wider understanding of demographic and social change affecting consumers of all kinds;
- A broadly based public sector and Government practice, with an extensive geographic, policy-making and financial management perspective across the UK;
- Specialist Cities and Infrastructure groups, both longer-term needs and delivery techniques for cities and communities, including the structuring, funding and management of partnerships and specialist management arrangements of all kinds to achieve strategic ends; and
- Extensive financial structuring, procurement, taxation and audit expertise, able to evaluate and secure value for money in shaping solutions to the more complex problems.

KPMG intends to apply its capabilities towards promoting an informed debate among the critical stakeholders concerned with the future of the UK's town centres, to facilitate discussion between them and to provide support in exploring deliverable solutions.

This is the first of several papers which KPMG intends to prepare on this subject, to stimulate thought and to encourage relevant action.

Stephen Barter

Chairman Real Estate Advisory, KPMG

Contact us



Stephen Barter
Chairman Real Estate Advisory
E: stephen.barter@kpmg.co.uk



David McCorquodale
UK Head of Retail
E: david.mccorquodale@kpmg.co.uk



Kru Desai
UK Head of Local Government
E: kru.desai@kpmg.co.uk

kpmg.com/uk/localgovernment

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