Southampton City Centre Action Plan – Comparison Goods Retail Capacity Check

Southampton City Council – February 2014

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Southampton City Centre Action Plan: Retail Check

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1.0 INTRODUCTION

1.1 Strategic Perspectives (SP) was commissioned by Southampton City Council in December 2013 to carry out a review, 'soundness check' and update (where required) of the Council's retail capacity evidence base used to inform the preparation of its current and emerging development plan documents. In this case SP has specifically been instructed by the City Council to 'check' the comparison goods capacity forecasts previously prepared by GVA Grimley. This will help to inform the preparation of the City Centre Action Plan (CCAP) and Core Strategy Partial Review (CSPR).

1.2 By way of background to this assessment, Southampton City Council's Core Strategy was adopted in January 2010 and sets out the Council's aim to sustain and enhance the City Centre's regional role. The adopted Core Strategy identified the capacity for approximately 130,000m^2 gross of new comparison retail floorspace between 2006 and 2026. This capacity figure was informed by the findings of the 2005 *South Hampshire Town Centre Study* (2005 SHTCS) prepared by DTZ for the Partnership for South Hampshire (PUSH).

1.3 Subsequent to this, GVA prepared the *Southampton & Eastleigh Retail Study* in July 2011 (2011 SERS) on behalf of Southampton City and Eastleigh Borough Councils. This updated study forecast a baseline capacity for 61,491m^2 net (81,988m^2 gross) of new comparison goods retail floorspace in Southampton City Centre from 2011-2026.

1.4 This capacity forecast was in addition to the Watermark scheme and included the planned extension to West Quay Shopping Centre as a commitment. At the time GV estimated that the extension would provide net additional comparison goods floorspace of 18,340m^2 and achieve an estimated turnover of £118m in 2016 (2009 prices), based on an average sales level of £6,340 per m^2. However, the recent planning permission for Watermark West Quay (ref: 13/00464/OUT) has reduced the retail floorspace of the scheme to some 2,765m^2 and significantly increased the scale of the food and beverage offer (Class A3-A5). This has inevitably had an impact on the forecast capacity for new comparison goods floorspace in the City Centre over the development plan period.

1.5 At the same time, the impact of the economic downturn on expenditure growth forecasts and the growth in special forms of trading (SFT), and specifically Internet shopping, also has implications for the capacity forecasts.

1.6 In this context SP has specifically been instructed by the City Council to consider whether:

- The assumptions and forecasts underpinning the comparison retail floorspace capacity assessment carried out for the Council by GVA Retail Study (2011) (and subsequent amendments) remain valid;

- The market and economic conditions remain consistent with the GVA Retail Study approach (and subsequent amendments); and therefore whether
- The retail capacity floorspace forecasts set out in the CCAP and CSPR remain robust over the plan period (2026)

1.7 The main focus of this study, carried out in accordance with the Council's brief and the requirements of the NPPF, is to review and update the key assumptions underpinning the capacity forecasts (i.e. SFT, expenditure, turnover density growth and the turnover density for new floorspace) where required. In addition, this study also provides a brief updated commentary on the retail market, highlighting any significant changes since the 2011 SERS was published.

2.0 RETAIL TRENDS OVERVIEW

2.1 This section summarises some of the key trends that have driven change in the retail sector over the last three decades, and will continue to shape change in the future.

Economic Trends & Consumer Spending

2.2 The onset of the economic recession in 2007/08 had a dramatic impact on consumer spending and market demand, following a sustained period of strong growth since the mid-1990s. The table below sets out the actual expenditure per capita growth rates for both comparison and convenience goods between 2008 and 2012, and the forecast growth up to 2031, based on the latest *Retail Planner Briefing Note 11* prepared by Experian (October 2013). These forecasts provide one of the key inputs to retail capacity and impact assessments.

Table 2.1 **Growth in UK Retail Spend per Head (% change), 2008 - 2030**

Volume Growth per head (%):	ACTUAL GROWTH---------------------------:					FORECAST GROWTH-----------:			
	2008	2009	2010	2011	2012	2013	2014	2015	2016-2030
Total Retail Spend	1.1	-3.2	1.0	-0.7	1.7	1.8	1.4	1.9	2.3
Convenience Goods:	-3.5	-4.1	-0.4	-2.3	-0.6	-0.6	-0.3	0.1	0.8
Comparison Goods:		-3.0	1.9	0.3	3.1	3.2	2.3	2.8	3.0

Source: Experian Retail Planner Briefing Note 11 (October 2013) Figures 1a and 1b.

2.3 As the table shows, the period between 2008 and 2012 has been characterised by negative growth in convenience goods expenditure and significant fluctuations in comparison goods spend growth from +3.3% in 2008 to -3.0% in 2009.

2.4 Although there were positive signs of improvement in the economy during 2013, analysts forecast that retail expenditure will not achieve the unprecedented annual growth levels that occurred over the circa ten year period up to 2007. This is because business and consumer confidence and spending has been weakened by a range of inter-related factors, including:

- public sector cuts;
- increasing unemployment;
- less expansionary consumer credit; and
- the rising cost of living (including higher energy costs, petrol and housing prices).

2.5 Against this uncertain economic background, EBS forecast that annual retail expenditure growth rates will be lower than previous historic trends. As the table shows, Experian forecast annual average comparison goods retail spending growth of +3.0% for the period 2016-2030 and +0.8% per annum for convenience goods.

2.6 The average annual comparison goods growth rate of +3.0% is significantly lower than Experian's historic growth rates, which range from the '*ultra long term trend*' of +4.2% (the average annual growth for the period 1972-2012) up to 5.6% based on '*medium term trend'* (for the period 1992-2012). Notwithstanding this, an average annual growth rates of +3.0% over a 15-20 year period, combined with population growth, will still result in a significant increase in total available expenditure above current levels.

Retail Development

2.7 The retail development pipeline has also slowed dramatically during the economic downturn compared with the shopping centre *"boom"* experienced in the ten year period up to 2007. One of the key impacts has been to *"weed out"* some of the more expensive and unviable development schemes that were in the pipeline before the economic downturn.

2.8 The *'2013 Shopping Centre Development Pipeline'* Research Report by the British Council of Shopping Centres (BCSC) confirms that the quantum of completed new shopping centre floorspace in the UK is currently at its lowest level since the 1990s. Following the development of circa 260,000m^2 in 2009, 232,000m^2 in 2010 and 280,000m^2 in 2011, no new floorspace opened in 2012.

2.9 Notwithstanding this, the BCSC research also indicates that 2013 is showing the first significant signs of new activity, with circa 140,000m^2 of new floorspace opening (including Trinity Leeds). There are also a number of major schemes scheduled for 2014 and 2015, of which the most significant are Grand Central in Birmingham and Old Market in Hereford.

2.10 Given that it takes on average over ten years for a town centre scheme to be planned and developed, and can take even longer to deliver more complicated sites, then it follows that it will take a number of years for centres to benefit from the economic upturn and renewed investment and development confidence. Furthermore, the more challenging retail environment means that those (mainly non-prime) shopping locations that missed the previous pre-recession development cycle may face a long wait for new town centre development, or require a new approach if they are to secure new shopping centre development. Even then, the scale and type of new retail investment that will emerge in the post-recessionary period could be very different to the last "*golden decade*" of shopping centre development between 1997 and 2007.

Retailer Demand

2.11 Retailers have also had to adapt their business strategies and store formats to changes in customer requirements, planning legislation, the economic downturn and the growth in internet shopping. In general terms those retailers with strong brands and loyal customers, trading from the right stores in the right locations, and with a good online facility have managed to weather the economic storm.

2.12 In particular, the changes in the grocery sector over the last decade illustrate the dynamic changes in the retail sector. Some of the key trends include:

- The move by all the major national grocery retailers into the smaller convenience store sector in order to increase market share further. For example, Tesco now has over 1,500 'Express' format stores, Sainsbury's has developed its 'Local' format nationally and Waitrose are testing the 'Little Waitrose' format within the M25. Asda's purchase of Netto has also allowed it to operate from smaller convenience store formats.
- The growth of European 'deep discount' food operators (such as Aldi and Lidl) has also continued during the economic downturn. In response to this competition, the established grocery retailers have expanded their own-range 'value' products and promoted significant 'price discount' campaigns.
- An increase in the non-food sale areas of larger superstores over the last decade, including the development of own-label clothing. In some of the stores operated by Tesco (i.e. the 'Extra' format) and Asda, for example, a significant proportion of sales area (over 50%) is often set aside for non-food retailing.
- The 'race for more space' and new store openings over the last decade has also resulted in extensions to existing stores and/or new mezzanine space, and the growth of online shopping (see below).

2.13 However, the economic downturn has resulted in some of the main food operators reviewing and revising their established business models over the last 12-18 months. There are signs that those operators that have largely driven new store openings and expansion over the last 20 years (principally Tesco and Sainsbury's) are now focussing on increasing market share and profitability through the growth of smaller convenience store formats and online sales. As a result it is anticipated that there will be a slowdown in applications for major new food superstores compared with previous levels.

2.14 In the non-food sector, those retailers that experienced significant growth up to 2007 have had to adapt to the very different market conditions. The retailers that have not been flexible enough to respond to changing consumer needs, or are being squeezed in the increasingly competitive 'middle ground' between high end and value retailing, have largely struggled to maintain market share over recent years. In some cases, this has resulted in a series of high profile 'casualties' and a number of key retailers have either disappeared from our high streets altogether (e.g. Woolworths, TJ Hughes, Jessops and Jane Norman), or have gone into administration and been forced to reduce their representation in centres across the UK (e.g. HMV, Blockbusters, etc.).

2.15 The 'bulky goods' retail warehouse sector has not been immune to the impact of the economic downturn. It has experienced a period of significant change and, more recently, instability. For example, during the late 1990s both B&Q ('Warehouse') and Homebase were rolling out very large out-of-centre retail warehouses (some exceeding 10,000m^2 gross) in an attempt to dominate market share. However, these same operators are now looking to close or scale down their under-performing stores in certain areas. Other 'bulky goods' operators have failed to remain viable in the economic climate (for example, Focus DIY).

2.16 Within town centres, some high street multiple operators are also changing their formats and requirements. Some traditional high street retailers (e.g. Boots, Next, Mothercare, TK Maxx and Marks & Spencer) are also actively looking for space in larger out-of-centre stores, either to accommodate new retail formats or to provide the larger floorplates they need to display their full range of products. These changes in retail development and market demand are clearly impacting on the UK's town centres and high streets.

2.17 Research also shows that there is an increasing polarisation of development activity and investment interest in the larger regional and sub-regional centres (i.e. the *'top 100'* centres). This is because they have larger and established catchment areas and represent less *'risky'* investments in the current uncertain economic climate. These larger centres have also generally benefitted from recent new shopping centre development and investment over the last decade, and are therefore better placed than smaller and medium sized centres to accommodate retailers' requirements for modern larger format units. In this context Southampton is currently 19th in the UK VenueScore Index[1], just behind Kingston, Leicester, Bristol and Reading in the rankings. Indeed Southampton has consistently been ranked in the top 20 UK shopping locations over the last decade or more. There is also evidence of strong and growing business and investment confidence in the City Centre as a shopping and commercial location.

2.18 Notwithstanding these recent changes in market demand and retailers' business plans due to the impact of the economic downturn, the retail sector is dynamic and continually evolving. For example, new investment opportunities are beginning to emerge, including the expansion of European and Asian retailers into the UK market

1 The Javelin VenueScore is widely used as a key indicator to help inform the assessment of the changing attraction and performance of different shopping locations from year-to-year. VenueScore ranks the UK's town centres using a range of key performance indicators and includes a weighted allowance for the type of retail operators in any centre, reflecting their impact on shopping patterns.

(such as Deichmann, Tiger and Clas Ohlson). These and other opportunities could provide the potential to revive the retail offer in some town centres where established retailers are leaving or have gone out of business.

2.19 In summary, the continuation of these trends will impact on future operator requirements, with retailers looking to satisfy their demand for larger modern premises in prime shopping locations, with strong catchment areas and a good supply of appropriate retail space.

Special Forms of Trading & Internet Shopping

2.20 Special forms of trading (SFT) comprises non-store sales (i.e. purchases made via the internet, mail order, stalls and markets, door-to-door and telephone sales, vending machines, etc.). On-line sales by supermarkets, department stores and catalogue companies are all included in SFT.

2.21 Over the last five years internet and multi-channel shopping have become established as significant alternatives to more traditional 'bricks and mortar' shopping facilities. According to the latest research by Experian published in *Retail Planner Briefing Note 11* (October 2013) the market share of Internet sales as a proportion of total retail sales has increased from just 2.9% in March 2007 to approximately 10% in mid-2013. In other words, £1 out of every £10 of retail spend in 2013 was via the Internet. The value of internet sales was estimated to be £32.1bn in 2013 (at 2010 prices) and this accounted for the majority of non-store retail sales of £39.5bn.

2.22 The increase in the market share of retail sales via the Internet has been 'fuelled' by the increased availability and use of personal computers, mobile phones and faster Broadband access. Up to now, the impact of Internet shopping has been mainly concentrated on certain retail products and services (such as, for example, books, music and travel). In turn, this has resulted in a reduction in the number of retailers selling these types of products on the high street (the most recent examples being HMV and Blockbusters).

2.23 Although forecasters are still uncertain as to the future growth of internet shopping, there does appear to be significant potential for increased market share over time. For example, the latest forecasts by Experian (*Retail Planner Briefing Note 11*) indicate a growth in the market share of total non-store retail sales from 12.3% in 2013 to 20% by 2026.

Table 2.2 **Growth in Non-Store Retailing Market Shares, 2013 - 2026**

	2013	2016	2021	2026
Comparison Goods	14.4%	17.4%	20.9%	21.3%
Convenience Goods	8.3%	10.8%	15.2%	17.1%

Source: Experian Retail Planner Briefing Note 11 (October 2013) Appendix 3.

2.24 However these forecasts need to be treated with caution as Experian forecast that approximately 25% of all SFT sales for comparison goods and some 70% for convenience goods occur through traditional ("*bricks-and-mortar*") retail space. In other words, the majority of purchases that are currently made online via computers, smart phones, tablets, etc., are sourced from existing stores on the high street or out-of-centre superstores. On this basis the table below sets out Experian's revised market shares for convenience and comparison goods non-store retailing.

Table 2.3 **Non-Store Retailing Market Shares – adjusted for sales from stores**

	2013	2016	2021	2026
Comparison Goods	10.8%	13.0%	15.7%	15.9%
Convenience Goods	2.5%	3.2%	4.6%	5.1%

Source: Experian Retail Planner Briefing Note 11 (October 2013) Appendix 3.

2.25 Although Experian forecast that non-store retailing will continue to grow rapidly over the short to medium term, outpacing traditional forms of spending, they predict that the pace of growth will slow after 2020 as the market matures.

2.26 In terms of the impact on the demand and capacity for new floorspace, current research suggests that there will still be an appetite by operators to increase ('physical') store floorspace to cater for rising internet sales. In particular the forecast growth in '*click-and-collect'* as a key driver of current and future internet growth will mean that retailers will still be looking for a physical presence in easily accessible locations, particularly centred on transport hubs.

2.27 The growth of internet shopping is also giving rise to the trend of '*showrooming*' where customers view and test products in store, but complete purchases from online retailers; often via smart phones while in-store. With online shopping and price comparison 'apps' becoming more popular, this increases competition with '*bricks and mortar*' stores. In response, many retailers are building 'showrooms' into their retail model by price matching online competitors. For example, the development of Silvertown Quays in Newham will see the first development of '*brand pavilions'* where major comparison retailers can target online customers by showcasing products for online sales. This is a concept that could transfer to the high street and serve to embrace online retailing while at the same time maintaining footfall in town centres.

Sales Efficiency Growth

2.28 In undertaking retail capacity and impact assessments it is accepted that an allowance should be made for growth in the turnover 'efficiency' of existing retail floorspace to reflect the retailers' potential to improve their 'productivity' over time. This efficiency growth represents the ability of retailers to increase their productivity and absorb higher than inflation increases in their costs (such as rents, rates and service charges) by increasing their average sales densities.

2.29 In their latest *Retail Planner Briefing Note* Experian identify growth rates in comparison goods sales densities of over 3% per annum before the economic downturn. This was fuelled by the retail spending boom and other factors, including the growth in new modern floorspace, out-of-centre retailing, Sunday-trading and longer opening hours. Looking forward, Experian forecast that continuing trends towards more modern, higher density, stores and the demolition of older inefficient space will result in average annual growth rates of around 2% for comparison goods retailing up to 2020.

Commercial Leisure Trends

2.30 Leisure uses make an increasingly important contribution to the vitality and viability of town centres and shopping centres, as they provide complementary uses that contribute to both the daytime, early evening and night-time economies**.**

2.31 Since the early 1990s the commercial leisure sector has experienced significant growth fuelled by buoyant market conditions, growing levels of disposable incomes and low unemployment. During the 1990s this growth mainly occurred in edge and out-of-centre leisure and retail parks, and was usually characterised by large multiplex cinemas and a range of other facilities (including tenpin bowling, bingo, nightclubs, health/fitness clubs, themed destination restaurants, pub/restaurants and budget hotels). However, the tightening of planning policy has resulted in leisure facilities being integrated more into town centre mixed use developments.

2.32 Although the commercial leisure sector has not been immune from the impact of the economic downturn, the latest development trends indicate a move towards leisure-led schemes with multiplex cinemas as important anchors in their own right, along with related catering uses. This is illustrated by the Trinity Leeds scheme where the amount of space allocated to leisure, eating and drinking increased over time to almost one-quarter of the centre's total floorspace. Other leisure-led schemes include the proposed extensions/refurbishments of Centrale in Croydon and Silverburn in Glasgow by Hammerson, which comprise a new cinema and restaurants. The extension to The Walnuts in Orpington also includes a mix of cinema, restaurants and retail, as do the proposals for new leisure-led schemes in Ealing and Hounslow town centres.

2.33 Other sub-sectors of the commercial leisure industry have performed relatively well over the last decade and have expanded rapidly across different locations. For example, the private health and fitness market has benefited recently from the emergence of new 'budget' operators. This new breed of clubs appeal to a wider market with reduced monthly subscriptions. Examples include The Gym Group, Anytime Fitness and EasyGym, which offer "no-frills" venues and "pay-as-you-go" (often 24-hour) entry.

Town Centre Futures

2.34 Although there are positive signs that the UK is finally beginning to emerge from the economic downturn, it is clear that the commercial property sector post-recession will be very different to the *"boom"* years of the last decade. Over the short to medium term at least the economy is forecast to experience a sustained period of lower growth in consumer spending, reduced bank lending, limited access to credit and cuts in public sector expenditure. This presents significant challenges for all those involved in the town centres development and investment.

2.35 The economic downturn and the growth of online shopping is also impacting on the vitality and viability of many of Britain's centres and high streets. This is placing pressures on rental growth and market demand in many centres, particularly secondary centres outside the *'top 100'* shopping locations. This has been further compounded by rising vacancy levels and the loss of key retailers. In our opinion, a far more uncertain future awaits the next "*wave*" of new retail investment and development. The evidence suggests that high quality schemes in the strongest prime shopping locations (such as Southampton City Centre for example) will continue to prosper. In contrast, the weaker secondary centres and shopping locations with a more limited offer, smaller catchments and negligible market demand will struggle to attract market interest and investment.

2.36 Notwithstanding the threat of online shopping, industry experts still predict that the demand from major retailers for new space will continue as it remains the primary mechanism for retailers to 'reach' their customers and grow their businesses. Over the short to medium term any increased demand for space from retailers will have to be met by the current retail stock (i.e. existing shopping centres, the high street and out-of-centre facilities), as there is limited new retail floorspace in the pipeline. With increased demand and the lack of supply over the short to medium term, research for the British Council of Shopping Centres (BCSC) predicts that this will effectively '*push up'* rental levels for the larger modern desirable units until a significant amount of new development reaches completion. As a result, over the medium term, retailers will be competing for limited available space. Therefore those centres that are able to accommodate and deliver new developments over the next 5-10 years should be in a good position to attract operator interest. However, this will depend on the new retail floorspace being in the right location (i.e. preferably prime shopping locations) and having the right size, format and specification to meet the needs of modern retailers.

2.37 Research by the BCSC has also identified an increased emphasis on asset management, as owners and developers invest in the expansion or refurbishment of existing shopping centres to increase their investment value and turnover. In the current economic climate this investment in existing assets is less risky and financially onerous than new build projects. However, as the supply of suitable units "*dry up*" in prime locations, so retailers will also look at alternative options for delivering growth, such as through new out-of-centre openings, increasing sales through the internet, and/or expanding internationally.

2.38 Finally, although the NPPF reinforces the longstanding policy objective of promoting development and investment in town centres first, it is likely that applications for new and extended shopping facilities in out-of-centre locations will continue in the future. Potentially the next phase of out-of-centre investment and development could be a further reinvention and masterplanning of existing out-of-centre locations as mixed use developments, comprising residential, office and commercial leisure uses in addition to the existing and extended retail offer. The potential opportunities to *"reinvent"* out-of-centre shopping locations will be greatest initially where they are located close to towns that do not have the physical capacity (i.e. sequential sites) to increase their retail offer.

2.39 In this context, it is clear that the '*top 100*' prime centres and shopping locations in Britain (such as Southampton City Centre) should continue to flourish once the economy recovers. The greatest challenge will be how to revitalise the fortunes of struggling small and medium sized centres that do not have the critical mass of retail, leisure and other uses to compete for more limited investment and development opportunities.

3.0 COMPARISON GOODS CAPACITY UPDATE

3.1 This section sets out SP's review of the comparison goods capacity assessment conducted by GVA, and provides an update based on the latest assumptions and forecasts described in Section 2.

2011 Southampton & Eastleigh Study – 'Baseline' Capacity Forecasts

3.2 The table below reproduces the original 'baseline' comparison goods capacity forecast identified by GVA in the 2011 Southampton & Eastleigh Retail Study (Appendix VI, Table 25).

Table 3.1 **Baseline Comparison Goods Capacity – Southampton City Centre**

Growth in sales per sqm (Sales Efficiency)	2011 - 2016 - 1.2% per annum 2016 - 2026 - 2.0% per annum			
	2011	2016	2021	2026
Total Available Expenditure (£000)	2,962,938	3,487,123	4,367,547	5,464,630
Market Share from Survey Area	33	33	33	33
Survey Area Residents Spending (£000)	983,397	1,157,388	1,449,396	1,813,564
Inflow to ***Southampton City Centre*** from beyond survey area (15%) (£000)	147,509	173,608	217,409	272,035
TOTAL Retail Spending (£000)	1,130,906	1,330,996	1,666,805	2,085,599
Existing Retail Floorspace (sqm net)	114,459	114,459	114,459	114,459
Sales (£ per sqm net)	9,880	10,488	11,579	12,784
Sales from Existing Floorspace (£000)	1,130,906	1,200,409	1,325,348	1,463,291
Sales from Commitments (£000)	0	118,889	131,263	144,924
Residual Expenditure to support new floorspace (£000)	0	11,699	210,194	477,383
Sales per sqm net in new shops (£)	6,000	6,369	7,032	7,763
Capacity for new floorspace (sqm net)	**0**	**1,837**	**29,893**	**61,491**
Capacity for new floorspace (sqm gross)	**0**	**2,449**	**39,857**	**81,988**

3.3 GVA forecast capacity for 61,491m^2 net (81,988m^2 gross) of new comparison goods floorspace for Southampton City Centre over the development plan period. This was based on the City Centre's market share of available expenditure within the study area remaining constant at 33.2% over the forecast period, and assumed an 'inflow' of 15%. This resulted in a City Centre turnover of £1.13bn in 2011 (2009) prices.

3.4 Applying this turnover to the City's estimated comparison sales area of 114,459m^2 net in 2011 (excluding IKEA and the known commitments), produced an average sales level of £9,880 per m^2. Although there is no definitive 'benchmark' turnover to indicate whether the City Centre as a whole is over or under trading, GVA did conclude that in their experience the city's estimated sales density was "*certainly at the upper end of the range we would expect to see for a centre of Southampton's status. This could indicate demand or latent capacity over and about our forecasts and scope for new growth to dilute sales without significantly impacting on existing floorspace*" (paragraph 10.9).

3.5 GVA also made an allowance for major known commitments in the study area at 2011, which were forecast to achieve a total combined turnover of £118.9m by 2016 (2009 prices). The Watermark West Quay extension was the most significant of these commitments at the time; with a total estimated net additional sales area of 18,340m^2 net, equivalent to a comparison goods turnover of £116.8m in 2016 (2009 prices).

3.6 As explained in Section 1, the recently permitted Watermark West Quay extension (ref: 13/00464/OUT) will now comprise substantially less A1 floorspace than previously envisaged (i.e. 2,765m^2). The table below shows the differences between the forecast comparison turnover of the committed floorspace based on GVA's original 2011 SERS, and the revised turnover forecasts based on the lower comparison goods sales area.

Table 3.2 **Watermark – Change in Comparison Floorspace & Turnover**

	Sales Area (m^2)	2011 Average Sales Level (£ per m^2)	Turnover Forecast (£ million)		
			2016	2021	2026
GVA Study	18,340	£6,000	£116.8	£128.9	£142.4
Revised Forecast	2,765	£6,000	£17.6	£19.4	£21.5
Difference:	15,575		£99.2	£109.5	£120.9

Notes: Assume the same baseline average sales density and 'productivity' growth tested by GVA

3.7 As the table shows, the reduction in the non-food sales area and turnover of Watermark West Quay results in an increase in the residual comparison goods expenditure available to support new retail floorspace by £120.9m up to 2026 (2009 prices).

3.8 The total residual expenditure in 2026 would therefore increase to some £598m in 2026 based on GVA's original assumptions and forecasts. This would support some 77,080m^2 net (102,770m^2 gross) of new comparison goods floorspace in 2026, based on an average sales level of £7,763 per m^2.

Updated Comparison Goods 'Baseline' Capacity Forecasts

3.9 SP has reviewed the baseline assumptions and forecasts used by GVA in the 2011 SERS, drawing on the latest published information (principally Experian's *Retail Planner Briefing Note 11* published in October 2013). This was described in full in Section 2.

3.10 In summary the key revisions to the GVA forecasts include the following:

- Forecast growth in expenditure per capita of +3% per annum from 2015 to 2026, compared with GVA's forecast of +3.7% per annum from 2016 onwards.
- Forecast growth in the market share of special forms of trading (SFT – including internet shopping) to 15.9% by 2026, which is higher than GVA's forecast of 10.5%.

- Forecast growth in the 'efficiency' (or 'productivity') of all existing and new floorspace of circa +2.0% per annum up to 2026. This compares with GVA's forecasts of 1.2% per annum for 2011 to 2016, and 2.0% per annum post 2016.
- A reduction in the sales area and turnover of the committed Watermark West Quay extension (as set out in Table 3.2 above).

3.11 We have also adopted the same base year (2011) average sales level for new comparison goods floorspace of £6,000 per m^2 as assumed by GVA (2011 SERS, Appendix VI, Table 25).

3.12 It should be noted however that SP was not instructed by the City Council to review or update:

- the household survey;
- GVA's original population and expenditure forecasts (as set out in the 2011 SERS, Appendix VI, Tables 1-3); and
- Southampton City Centre's comparison goods retail floorspace and forecast turnover estimates.

3.13 The table below sets out SP's review and update of the forecast capacity for new comparison goods floorspace in Southampton City Centre.

Table 3.3 **SP's Revised Comparison Goods Capacity Forecasts, 2011-26**

	2011	2016	2021	2026
Total Available Expenditure (£000)	2,947,816	3,403,646	3,996,750	4,827,409
Survey-derived Market share (%)	33%	33%	33%	33%
Survey area residents spending (£000)	972,779	1,123,203	1,318,928	1,593,045
Inflow (@ 15% of total turnover) (£000)	171,667	198,212	232,752	281,126
Inflow (@ 15% of total turnover)	15%	15%	15%	15%
Total Retail Spending to Southampton City Centre (£000)	1,144,446	1,321,416	1,551,680	1,874,171
Existing retail floorspace (sqm net)	114,458	114,459	114,459	114,459
Turnover density (£ per sq m)	9,999	11,094	12,248	13,523
Sales from existing floorspace (£000)	1,144,446	1,269,778	1,401,938	1,547,853
Sales from commitments (£000)	0	19,696	21,746	24,008
Residual expenditure to support new floorspace (£000):	0	31,942	127,996	302,310
Sales per sq m in new shops (£ per sq m):	6,000	6,657	7,350	8,115
Capacity (sq m net):	**0**	**4,798**	**17,415**	**37,254**
Capacity (sq m gross) @ 75%	**0**	**6,398**	**23,220**	**49,672**

3.14 The table shows that there is a revised capacity for 37,254m^2 net (49,672m^2 gross) of new comparison goods floorspace by 2026, which is lower than the GVA forecast capacity of 61,491m^2 net (81,988m^2 gross).

Capacity Forecasts – 'Sensitivity Testing'

3.15 As part of the 'soundness check' we have also tested the 'sensitivity' of the capacity forecasts to changes in some of the key assumptions and forecasts.

3.16 First we have tested the robustness and sensitivity of the capacity forecasts based on a higher potential growth in the market share of SFT and Internet shopping to 18% in 2026 (compared with Experian's forecast of 15.9%). This scenario assumes that a smaller proportion of internet sales will be sourced from existing shops and stores than forecast by Experian due to the potential development and growth of 'dotcom' warehouses and distribution centres.

3.17 The table below shows that the overall capacity for new comparison goods retail floorspace will fall from 37,254m^2 net (49,672m^2 gross) to 31,487m^2 net (41,982m^2 gross) by 2026, if the growth in the market share of SFT is higher than predicted by Experian.

Table 3.4 **Revised Capacity: Higher SFT Market Share (18%) at 2026**

	2011	2016	2021	2026
Total Available Expenditure (£000)	2,947,816	3,403,646	3,996,750	4,706,867
Survey-derived Market share (%)	33%	33%	33%	33%
Survey area residents spending (£000)	972,779	1,123,203	1,318,928	1,553,266
Inflow (@ 15% of total turnover) (£000)	171,667	198,212	232,752	274,106
Inflow (@ 15% of total turnover)	15%	15%	15%	15%
Total Retail Spending to Southampton City Centre (£000)	1,144,446	1,321,416	1,551,680	1,827,372
Existing retail floorspace (sqm net)	114,458	114,459	114,459	114,459
Turnover density (£ per sq m)	9,999	11,094	12,248	13,523
Sales from existing floorspace (£000)	1,144,446	1,269,778	1,401,938	1,547,853
Sales from commitments (£000)	0	19,696	21,746	24,008
Residual expenditure to support new floorspace (£000):	0	31,942	127,996	255,511
Sales per sq m in new shops (£ per sq m):	6,000	6,657	7,350	8,115
Capacity (sq m net):	**0**	**4,798**	**17,415**	**31,487**
Capacity (sq m gross) @ 75%	**0**	**6,398**	**23,220**	**41,982**

3.18 Second, we have tested the 'sensitivity' of the capacity forecasts based on a modest increase in Southampton City Centre's market share up to 2026[2].

3.19 This scenario is intended to show the potentially positive impact that new public/private sector investment could have on the City Centre's competitive position within its catchment relative to other out-of-centre shopping facilities and centres.

[2] Please note that for the purpose of this 'sensitivity' assessment we have assumed that SFT's market share will be 15.9% at 2026 and we have not allowed for any increase in the potential 'inflow' of expenditure to Southampton City Centre from outside the defined study area.

The research evidence shows that where new development and investment occurs in centres it can result in the 'claw back' of shoppers and expenditure from competing less sustainable out-of-centre locations, with a resultant increase in centre turnovers and retention levels.

3.20 In this case we have first 'tested' the impact of a modest one percentage point increase in Southampton's market share from 33% at present to 34% by 2026. As the table below shows this results in the forecast floorspace capacity increasing to 44,252m^2 net (59,003m^2 gross) from the original forecast of 37,254m^2 net (49,672m^2 gross).

Table 3.5 **Revised Capacity: Increase in Market Share to 34% by 2026**

	2011	2016	2021	2026
Total Available Expenditure (£000)	2,947,816	3,403,646	3,996,750	4,827,409
Survey-derived Market share (%)	33.0%	33.0%	33.5%	34.0%
Survey area residents spending (£000)	972,779	1,123,203	1,338,911	1,641,319
Inflow (@ 15% of total turnover) (£000)	171,667	198,212	236,278	289,645
Inflow (@ 15% of total turnover)	15%	15%	15%	15%
Total Retail Spending to Southampton City Centre (£000)	1,144,446	1,321,416	1,575,190	1,930,964
Existing retail floorspace (sqm net)	114,458	114,459	114,459	114,459
Turnover density (£ per sq m)	9,999	11,094	12,248	13,523
Sales from existing floorspace (£000)	1,144,446	1,269,778	1,401,938	1,547,853
Sales from commitments (£000)	0	19,696	21,746	24,008
Residual expenditure to support new floorspace (£000):	0	31,942	151,506	359,103
Sales per sq m in new shops (£ per sq m):	6,000	6,657	7,350	8,115
Capacity (sq m net):	**0**	**4,798**	**20,613**	**44,252**
Capacity (sq m gross) @ 75%	**0**	**6,398**	**27,485**	**59,003**

3.21 To help inform the local planning authority's review and assessment of the retail capacity evidence we have also 'tested' the impact of incremental increases in Southampton City Centre's market share from 33% up to 36% by 2026 (i.e. almost 10% higher than at present). The results are set out in the table below.

Table 3.6 **Revised Capacity: Growth in the City Centre's Market Share to 2026**

Market Share at 2026:	33%	34%	35%	36%
Revised Capacity (m^2 net)	37,254	44,252	51,251	58,250
Revised Capacity (m^2 gross):	49,672	59,003	68,335	77,666

3.22 As the table shows, an uplift in the City Centre's market share to 36% results in an increase in the forecast capacity for new comparison goods floorspace to 58,250m^2 net (77,666m^2 gross) by 2026. This compares with GVA's original forecast capacity of 61,491m^2 net (81,988m^2 gross).

4.0 SUMMARY

4.1 In summary, the revised capacity forecasts show the potential for between 31,487m^2 net (41,982m^2 gross) and 44,252m^2 net (59,003m^2 gross) of new comparison goods floorspace in Southampton City Centre over the development plan period to 2026.

4.2 The lower capacity forecast is explained by SP's assumption that SFT (including Internet shopping) could achieve a higher market share of 18% in 2026, compared with Experian's current forecast of 15.9%.

4.3 The higher capacity forecast is based on a modest uplift in the City Centre's market share within its catchment area from 33% to 34% by 2026

4.4 We have also tested the 'sensitivity' of the capacity forecasts based on the assumption that new retail investment and development will have a greater impact on the City Centre's market share over time, further strengthening its attraction and competitive position relative to other centres and shopping facilities in the region. Our alternative 'sensitivity' tests show that increasing the City Centre's market share by almost 10% to 36% by 2026 increases the capacity for new retail floorspace to 58,250m^2 net (77,666m^2 gross).

4.5 Notwithstanding this, capacity assessments carried out over a long period of time should be treated with caution, as they can be subject to increasing margins of error. We therefore advise Southampton City Council to regularly update the capacity assumptions and forecasts, based on the latest published data and evidence, as well as new survey evidence.

5.0 GLOSSARY & ABBREVIATIONS

CITY CENTRES:	The highest level of centre identified in development plans. In terms of hierarchies, they will often be a regional centre and will serve a wide catchment. The centre may be very large, embracing a wide range of activities and may be distinguished by areas which may perform different main functions. Planning for the future of such areas can be achieved successfully through the use of area action plans, with master plans or development briefs for particular sites.
TOWN CENTRE USES:	Main town centre uses are retail development (including warehouse clubs and factory outlet centres); leisure, entertainment facilities the more intensive sport and recreation uses (including cinemas, restaurants, drive-through restaurants, bars and pubs, nightclubs, casinos, health and fitness centres, indoor bowling centres, and bingo halls); offices; and arts, cultural and tourism development (including theatres, museums, galleries and concert halls, hotels and conference facilities).
TOWN CENTRE BOUNDARY:	Defined area, including the primary shopping area and areas of predominantly leisure, business and other main town centre uses within or adjacent to the primary shopping area. The extent of the town centre should be defined on a proposals map.
PRIMARY SHOPPING AREA (PSA)	Defined area where retail development is concentrated (generally comprising the primary and those secondary frontages which are adjoining and closely related to the primary shopping frontage). The extent of the primary shopping area should be defined on the proposals map. Smaller centres may not have areas of predominantly leisure, business and other main town centre uses adjacent to the primary shopping area, therefore the town centre may not extend beyond the primary shopping area.
PRIMARY & SECONDARY FRONTAGES	Primary frontages are likely to include a high proportion of retail uses which may include food, drinks, clothing and household goods. Secondary frontages provide greater opportunities for a diversity of uses, such as restaurants, cinemas and businesses.
EDGE-OF-CENTRE	For retail purposes, a location that is well connected up to 300 metres from the primary shopping area. For all other main town centre uses, a location within 300 metres of a town centre boundary. For office development, this includes locations outside the town centre but within 500 metres of a public transport interchange. In determining whether a site falls within the definition of edge-of-centre, account should be taken of local circumstances. (For example, local topography will affect pedestrians' perceptions of easy walking distance from the centre).
OUT-OF-CENTRE	A location which is not in or on the edge of a centre but not necessarily outside the urban area.
OUT-OF-TOWN	A location out of centre that is outside the existing urban area.
COMPARISON SHOPPING	Comparison retailing is the provision of items not obtained on a frequent basis. These include clothing, footwear, household and recreational goods.
RETAIL WAREHOUSES	Large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering mainly for car-borne customers.
RETAIL PARKS	An agglomeration of at least 3 retail warehouses.
CONVENIENCE GOODS EXPENDITURE	Expenditure (including VAT as applicable) on goods in COICOP categories: Food and non-alcoholic beverages, Tobacco, Alcoholic beverages (off-trade), Newspapers and periodicals, Non-durable household goods.
COMPARISON GOODS EXPENDITURE	Expenditure (including VAT as applicable) on goods in COICOP Categories: Clothing materials & garments, Shoes & other footwear, Materials for maintenance & repair of dwellings, Furniture & furnishings; carpets & other floor coverings, Household textiles, Major household appliances, whether electric or not, Small electric household appliances, Tools & miscellaneous accessories, Glassware, tableware & household utensils, Medical goods & other pharmaceutical products, Therapeutic appliances & equipment, Bicycles, Recording media, Games, toys & hobbies; sport & camping equipment; musical instruments, Gardens, plants & flowers, Pets & related products, Books & stationery, Audio-visual, photographic and information processing equipment, Appliances for personal care, Jewellery, watches & clocks, Other personal effects.

SPECIAL FORMS OF TRADING	All retail sales not in shops and stores; including sales via the internet, mail order, TV shopping, party plan, vending machines, door-to-door and temporary open market stalls.
GROSS GROUND FLOOR FOOTPRINT FLOORSPACE	The area shown on the Ordnance Survey map or other plans as being occupied by buildings and covered areas measured externally.
GROSS RETAIL FLOORSPACE	The total built floor area measured externally which is occupied exclusively by a retailer or retailers; excluding open areas used for the storage, display or sale of goods.
NET RETAIL SALES AREA	The sales area within a building (i.e. all internal areas accessible to the customer), but excluding checkouts, lobbies, concessions, restaurants, customer toilets and walkways behind the checkouts.
RETAIL SALES DENSITY	Convenience goods, comparison goods or all goods retail sales (stated as including or excluding VAT) for a specified year on the price basis indicated, divided by the net retail sales area generating those sales.
FLOORSPACE 'PRODUCTIVITY' ('EFFICIENCY') GROWTH	The percentage by which a retail sales density is assumed to increase annually in real terms over a stated period. The choice of the most appropriate level of growth will depend on individual circumstances, and in particular the capacity of existing floorspace to absorb increased sales. It is also important that selected rates of growth in productivity are compatible with assumptions about the growth in per capita expenditure.
QUANTITATIVE NEED	Is conventionally measured as expenditure capacity (i.e. the balance between the turnover capacity of existing facilities and available expenditure in any given area). Expenditure capacity, or 'quantitative need' can arise as a result of forecast expenditure growth (either through population growth or increase in spending), or by identification of an imbalance between the existing facilities and current level of expenditure available in an area.
QUALITATIVE NEED	Includes more subjective measures such as, for example, consumer choice; the appropriate distribution of facilities; and the needs of those living in deprived areas. 'Over trading' is also identified as a measure of qualitative need, although evidence of significant over-crowding, etc., may also be an indicator of quantitative need.
OVERTRADING	The extent to which the turnover of existing stores significantly exceeds benchmark turnovers may be a qualitative indicator of need, and in some cases inform quantitative need considerations. For example it may be an expression of the poor range of existing facilities or limited choice of stores and a lack of new floorspace within a locality. In certain cases 'overtrading' occurs when there is an imbalance between demand (i.e. available spend) and supply (i.e. existing floorspace capacity).
BENCHMARK TURNOVER	In the case of specific types of provision (such as foodstores) company average turnover figures are widely available and can provide an indication of a 'benchmark' turnover for existing facilities. However, the *Practice Guidance* advises that such turnover benchmarks should not be used prescriptively or in isolation to indicate a measure of 'need'. It is important to recognise that a range of factors (such as rental levels and other operating costs) mean that operators are likely to trade at a wide range of turnover levels. Given the inherent margins of error involved in this type of exercise, the use of company averages as benchmarks should be treated with caution unless they are corroborated by other independent evidence of under-performance, or strong trading. Examples might include the results of in-centre health checks, or the extent of congestion in stores and queuing at checkouts.

– END –