

Hastings Town Centre

Shopping Floorspace Assessment of Future Needs

Update - Including estimates of additional employment
and borough-wide needs for bulky goods floorspace

February 2014

1 Introduction

- 1.1 This update has become necessary because of significant delays to economic recovery from the current recession. The report should be read in conjunction with the August 2011 update.
- 1.2 On this occasion the following have been reviewed :-
- a) Population projections – to take on-board new policy-based projections published by the County Council in July 2013 + additional housing provision emerging from the Rother Core Strategy Examination
 - b) Expenditure growth rates – using up-to-date analysis published by Experian in October 2013
 - c) To review the impact of non-store retailing (internet + catalogue etc) on needs for traditional shopping floorspace in Hastings Town Centre
 - d) To quantify the impact of the new Glyne Gap Marks & Spencer store on need for new shopping floorspace in Hastings Town Centre
 - e) To review the current level of vacant floorspace in the Town Centre
 - f) To review needs for new retail warehouse (bulky goods) floorspace.
 - g) To review the consequent overall future change of employment in shopping premises

2 Population

- 2.1 The following table is derived from the new County Council policy-based forecasts (July 2013). The table will replace Table 1 of the August 2011 update. In addition 2,500 Rother homes have been added to reflect the conclusions of their Core Strategy examination.

Table 1 – Hastings Shopping Catchment Area – Population & Household forecasts 2011-2028

	Population	Households	Average household size
2011	174,521	79,484	2.20
2013	175,191	80,214	2.18
2016	177,724	81,872	2.17
2021	181,696	84,636	2.15
2026	185,659	87,395	2.12
2028	187,879	88,509	2.12
2011 – 2021 change	+7,175	+5,152	
2011 – 2028 change	+13,358	+9,025	

2.2 Please note :-

- a) 2011 base population has been revised upwards by about 3.0%-3.5%
- b) Higher overall population growth than previously
- c) Higher growth in the expected number of households
- d) Average household size is still forecast to decline over time – but less rapidly than in the previous forecast. This would reflect difficulties in the housing market – first time buyer problems, children leaving home later, newly married couples living with parents etc.

2.3 Other things to note:-

- a) One person households – continuing to increase in numbers & proportion (Hastings + Rother)

37.8% of all households in 2012

39.1% of all households in 2028

(unadjusted for additional Rother housing)

- b) Age group changes 2013 – 2028 (Hastings + Rother)

Table 2 – Age group changes 2013-2028 (Hastings + Rother)

Age group	2013	2028	% change
30-44	29,259	31,377	+7.2%
45-49	13,387	10,344	-22.7%
50-54	12,744	9,433	-26.0%
55-59	11,866	12,795	+7.8%
60-64	12,250	15,284	+24.8%
65-74	22,959	26,008	+13.3%
75+	21,156	29,691	+40.3%

Source : East Sussex in Figures (unadjusted for additional Rother housing)

3. Spending growth

- 3.1 Current expert advice is to significantly reduce the forecasts of medium-long term spending growth – particularly on the comparison goods side. Originally recovery was expected by about 2015 (for example see Sec 2 of Price Waterhouse Cooper 'UK Economic Outlook' – Nov 2010). This recovery period is now expected to be significantly longer – perhaps up to 2020 or even longer (see Experian briefing note referred to in para 3.4 below)
- 3.2 What little growth is now taking place contains significant amounts of part-time employment and zero-hours contracts (which, whilst reducing unemployment

rates, will, together with working family benefit cuts, result in minimal change to per capita retail spending). Much of the benefit from the limited growth appears to be going to households at the upper end of the income range (who are poorly represented in Hastings)

3.3 As a general rule of thumb, spending growth of less than about 1.5% per annum would require virtually **no** new shopping floorspace – since it is generally agreed (including by government) that this level of growth can be accommodated by increased efficiency of existing floorspace (it's calculated via use of an 'efficiency growth' factor)

3.4 **The following paragraphs rely heavily on the analysis contained in the recently published 2013 Experian Annual Retail Planning Briefing Note. This relates to the national situation**

3.5 **Recent trends and near-term outlook**

- i) Quarterly GDP growth of 0.4% in 2013 Q1 was followed by 0.7% in Q2. Good data in recent months suggest that recovery has gained momentum in Q3.
- ii) These short term gains were achieved despite a continuing squeeze on household incomes, fiscal constraints, subdued business investment and weakness in key export markets
- iii) The short term gains stem mainly from a strengthening housing market which provided a strong boost to consumer confidence, rising consumer credit, and favourable labour market trends

3.6 **Household spending**

- i) The fragile economy has constrained household spending in recent years. In mid-2013 the level of spending in real terms was virtually the same as in 2008 – reflecting a persistent squeeze on household incomes as inflation has run well ahead of earnings growth
- ii) However household disposable incomes grew in 2012, when labour market resilience and a substantial increase in benefit payments underpinned an increase of almost 1.5%.
- iii) This, together with a strengthening housing market and an acceleration in consumer credit growth, saw consumer spending increase for seven quarters in a row starting in 2011 Q4.
- iv) The increase, however, has been modest but as inflation eases in the next few quarters it is expected that household finances will continue to improve - gradually underpinning an increase in real consumer spending of near 2% in both 2014 and 2015.

3.7 Retail goods expenditure

- i) Expenditure on retail goods has been more resilient than total consumer spending since the economic crisis of 2008.
- ii) However, the latest available comparable data, for the year to 2013 Q2 show that real household spending growth at 1.8% actually outpaced official retail sales growth (1.7%).
- iii) More buoyant retail sales more recently underpinned an increase of 2.3% in June-August compared with the same period a year earlier. This surpassed expectations and was appreciably better than seemed possible a few months ago, given inflation outpacing wage growth, the cap on benefits, public sector pay restraint and weak economic growth.
- iv) Although incomes have benefitted from the increase in tax thresholds in April, and possibly from PPI mis-selling compensation payments, the adverse factors are still a drag on household spending and are likely to curb sales volumes in the near future
- v) It is therefore expected that quarterly retail sales will moderate from their recent exuberant pace, but will still show solid gains supported by a rise in confidence, a strengthening labour market and gradually easing inflation
- vi) Progress will be restrained as 'headwinds' have yet to dissipate. Subdued disposable incomes will continue to constrain households; government finances remain under pressure; investment remains lacklustre amid weak bank lending and exports to the key Eurozone market are hampered by demand uncertainties. It is expected that strong GDP growth in the second half of 2013 will be followed by year-on-year expansion at 2.1% in 2014 and 2015, underpinned by modest revivals in investment and exports.
- vii) Retail sales volumes are expected to ease slightly in 2014 as real incomes continue to struggle, but growth will still exceed 2%. Household spending power is expected to strengthen thereafter as the economic backdrop consolidates and incomes rise more strongly than in recent years, while inflation continues to ease. It is expected that rising disposable incomes will underpin an upturn in retail sales volumes of 2.6% year-on-year in 2015

3.8 A key risk remains the Eurozone sovereign debt crisis which could still derail recovery if it results in a disorderly debt default and/or fragmentation of the Eurozone. The risk is diminishing as the Eurozone authorities continue to maintain financial stability in the Eurozone, and the longer this continues, the greater the prospects of the worst outcome being avoided.

3.9 There are also credible positive 'risks' for the UK. If commodity prices remain benign, inflation could fall faster than expected, providing a boost to real

incomes, consumer spending and overall growth. The rebound in business investment after years of decline could be sharper than expected in the Central Forecast; and Eurozone recovery could proceed faster than expected, supporting export growth

4. Medium term outlook

- i) Economic growth would improve from the pace of the previous six years, but would be less buoyant than during the 12 years prior to the recession of 2008/09.
- ii) Elements of the 2008 crisis such as pressure on government finances and weak banks will continue to weigh on performance and prospects
- iii) Annual average GDP growth of 2.2% is now expected in the 5 years 2015-19 with consumer spending growth averaging 2.4% a year
- iv) These rates compare with an annual average of near 3% in 1995-2007 for GDP and 3.4% for consumer spending

4.1 Key constraints on medium-term prospects are:-

- a) Government finances are tight – public finances deteriorated sharply during the 2008/09 crisis and massive ‘correction’ is under way. Fiscal stringency will be a feature of economic policy throughout the medium term and maybe beyond.
- b) Weight of household debt - the risk of many households struggling to meet interest payments when rates rise to more ‘normal’ levels.
- c) Savings are likely to be higher than in the decade prior to 2008 as job insecurity continues against a backdrop of modest growth and a less buoyant labour market. The need to provide for pensions will feature more prominently in household finances.
- d) Sharp reduction in investment (down 15% between 2008 and 2013) and cancellation or postponement of plans will inevitably depress medium term growth potential in many areas of the UK economy.
- e) The main engines of growth in the 15 years to 2008 - financial/business services & government spending, will be less buoyant. Financial services will be more tightly regulated, and severely weakened banks will be less expansionary. The business services sector will not be able to repeat its impressive (8%) annual rate of expansion between 1995 and 2007. Government spending growth will be much more restrained than in the period 2000 to 2008 when it averaged nearly 3% a year.
- f) The Eurozone crisis will continue to depress exports, investment and confidence for a few more years

5. Long Term Outlook

- a) In the longer term the economy is likely to improve on the 2.2% annual average growth forecast for 2015-19 as some of the constraints depressing the UK's medium term performance dissipate.
- b) Annual average growth of 2.4% is forecast for the period 2020-30. At this rate the exceptional performance between 1995 and 2007 will not be regained.
- c) Comparison goods will feel a much greater impact from slower economic growth than convenience goods where population growth is the main driver
- d) The rapid expansion of comparison sales from 1970 to 2010 reflected not only steady growth in real incomes, but also several other key factors that will either be reversed or not be repeated on the same scale:-
 - The boost from globalisation to audio-visual and clothing sales as prices dropped dramatically
 - The liberalisation of financial markets which supported a credit-fuelled consumer boom
 - The baby-boomer generation with strong demand for consumer goods
- e) The Central Forecast has convenience goods sales per head growth at 0.6% a year from 2014 to 2030, while comparison growth slows from 4.2% a year between 1972 and 2012 to 2.9%

The above text constitutes a (short/medium/long term) CENTRAL FORECAST – with a probability of 65%

6. Alternative longer term forecasts

6.1 Optimistic scenario (15% probability)

- a) UK GDP growth up to 2030 would approach but not equal the previous long-term trend of 2.7% a year
- b) This depends on a combination of favourable developments in addition to the assumptions in the Central Forecast – namely:-
 - That household spending revives as inflation declines and the labour market strengthens
 - That fixed investment rebounds strongly in 2014 and 2015 and grows steadily thereafter

- The fiscal problems which depressed demand in the medium term ease by 2018
- That exports do well both to and outside the EU

6.2 This scenario depends crucially on :-

- A satisfactory resolution of the Eurozone crisis
- No lasting damage to productivity resulting from several years of lost investment

6.3 A successful switch of the economy towards exports and investment underpins growth of 2.4% between 2016 and 2020 and supports growth at near 2.5% a year between 2021 and 2030. Key features of this scenario are:-

- a) Global trade resumes at a vigorous pace and the UK largely retains its market share
- b) Benefits of rising exports and low inflation support consumer spending at a higher growth rate than in the Central Forecast
- c) Constraints on business lending ease in the next few years underpinning stronger fixed investment than in the Central Forecast
- d) Service sector growth approaches the 1995-2007 rate for at least part of the period to 2030
- e) Government finances improve faster than expected and no longer constitute a major drag on growth after 2018.

7. **Pessimistic scenarios (20% probability)**

7.1 **Failure to rebalance and fading consumer spending (15% probability)**

- i) The export revival fades after a few quarters and investment does not pick up as strongly as expected in the Central Forecast
- ii) This means that yet another attempt to rebalance the economy has failed and economic growth becomes dependent on consumer spending. However this too fades as debt-laden households' vulnerability to higher interest rates are exposed.
- iii) This scenario exhibits GDP growth averaging 1.5% per year to 2020, followed by growth at 2.3% a year to 2030

7.2 Eurozone crisis scenario (5% probability)

- i) In this scenario, economic progress in the UK in the next few years is derailed as the Eurozone crisis flares up again.
- ii) The worst case outcome is a disorderly debt default and/or fragmentation of the Eurozone, sending a deep shock through Europe's economic and financial system.
- iii) A major contraction in the Eurozone economy would ensue and a credit crunch would make a major UK recession likely
- iv) Government finances would remain a severe drag on growth
- v) GDP growth in the period 2015-19 would average a meagre 1%, followed by 2% a year between 2020 and 2030 as the repercussions of the crisis are slow to dissipate

8. **Non-store based trade**

- 8.1 The big growth in online shopping in the past decade has increased the share of 'special forms of trading' (SFT) to where it now accounts for about a tenth of total retail sales. The Office for National Statistics (ONS) collects data for SFT which includes not only sales via the internet but also mail order, stalls and markets, door-to-door and telephone sales. On-line sales by supermarkets, department stores and catalogue companies are all included. Services are excluded.
- 8.2 Internet sales dominate SFT. In mid-2013 they constituted 10.0% of total retail sales-having increased from 2.9% in 2007. The value of internet sales in 2013 was estimated to be £32.1bn (2010 prices). Non-internet SFT (mail order, stalls, markets and other non-store trade) is estimated to have had a 2013 turnover of £7.3bn (2010 prices)
- 8.2 Growth momentum is expected to be sustained as new technology, such as browsing and purchasing through mobile phones and the growth of interactive TV shopping, boost internet retailing.
- 8.4 It is expected that SFT market share will continue to increase, although the pace of e-commerce growth is expected to moderate markedly after about 2020. The forecast is that the SFT share of total retail sales will reach 17.4% by 2020 rising to 20% by the end of the 2020's
- 8.5 In looking at the impact that SFT will have on demand for retail floorspace the following factors need to be considered :-
 - a) Many stores (e.g. Tesco) sell on-line but source from regular stores rather than warehouses, implying an increase in required store floorspace to cater for rising internet sales.

- b) Internet sales will begin to grow less rapidly at some point in the next few years. Much of the rapid expansion of internet sales in the early years was driven by easily transferable sales of music, video, and e-books. Growth in these areas has slowed as the market has matured.
- c) 'Click and collect' is the key driver of current and future internet growth. But since this requires bricks-and-mortar presence in easily accessible locations, this is largely space demand neutral. An example is Tesco's 'click and collect' expansion in 600 stores for non-food sales.
- d) 'Home delivery' with goods delivered, sourced from warehouses, is not space demand neutral in the way that 'click and collect' is. It presents a major potential threat to future demand for retail floorspace in the High Street. Demand for retail floorspace would ease if in future, supermarkets moved increasingly to centralised systems to reduce pressure on stores. Most retailers, however, opt to distribute from stores rather than a centralised warehouse. Whilst warehouse space has increased, growth has been largely through relatively modest additions to store space.
- e) Recent publicity about home delivery owes much to a switch within SFT from mail order to online, especially in clothing and footwear.
- f) An increasing number of retailers are using bricks-and-mortar stores as a showroom for products, a service location and collection/drop-off point for online orders. In-store 'product and services offer' forms part of a co-ordinated multi-channel strategy and will continue to support demand for retail space.
- g) Consequently it is not appropriate to use total retail spend to calculate future demand for retail space – nor is it entirely satisfactory to use retail spending excluding SFT. It is therefore appropriate to calculate growth rates for convenience and comparison goods that take into account the proportion of trading using traditional floorspace. For comparison goods 25% of SFT sales are assumed to be 'non-store'. For convenience goods the figure is 70%. These figures are affected by the fact that SFT includes other sales channels such as mail order and market stalls that do not service sales from traditional stores.

9. Revised forecasts of shopping floorspace need in Hastings Town Centre

- 9.1 The following per capita spending growth rates for each scenario emerge from the 2013 Experian analysis. These figures relate **only** to store-based trade and are derived from page 21 and page 8 of the Experian report. Non-store based trade includes internet based trade, catalogue trade etc. (see above)

Table 3 – Adopted spending growth rates (per person per annum)

Period	Convenience Goods	Comparison Goods			
		Central forecast	Optimistic scenario	Pessimistic scenarios	
				Rebalancing failure	Eurozone crisis
2011-2013	-1.70%	+0.70%			
2013-2016	-0.57%	+2.10%	+2.39%	+1.53%	+0.95%
2016-2021	+0.58%	+2.22%	+2.52%	+1.61%	+1.01%
2021-2026	+0.72%	+2.82%	+3.07%	+2.73%	+2.73%
2026-2028	+0.60%	+2.80%	+3.04%	+2.68%	+2.68%

9.2 Running these through the forecasting model gives the following estimates of floorspace need (in sq.m. gross) in Hastings Town Centre.

Table 4 – Floorspace needs (sq.m.)

Period	Central forecast	Optimistic scenario	Pessimistic scenarios	
			Rebalancing failure	Eurozone crisis
2011-2013	-3,108	-3,108	-3,108	-3,108
2013-2016	+1,002	+1,832	-616	-2,244
2016-2021	+3,114	+4,622	+193	-2,509
2021-2026	+6,303	+7,731	+5,631	+5,401
2026-2028	+3,017	+3,536	+2,577	+2,613
TOTAL	+10,328	+14,613	+4,677	-153
2011-2021	+1,008	+3,346	-3,531	-7,861
2021-2028	+9,320	+11,267	+8,208	+8,014

NOTE :-

- i) On the Central forecast – need between 2011-2013 is negative – hence the actual increase in vacant shop floorspace in this period (see below).
- ii) Limited growth after 2013 is mostly allowing demand to catch up with supply.
- iii) Central forecast need up to 2028 are approx. half of the forecast in the earlier 2011 report.
- iv) The most optimistic forecast is now less than half of that in the 2011 report.

- v) In the most pessimistic forecast, what growth is available post-2021 would do little more than refill or replace pre-2021 vacant shop units.

10. Vacancy rate

- 10.1 The forecast above implies that between 2011- 2013 trading floorspace in the Town Centre should have declined by about 3,100 sq.m. This is confirmed by what has actually happened 'on the ground' where field surveys in 2011 and 2013 indicate an actual decline of about 2,100 sq.m. In absolute terms vacant shopping floorspace in 2011 was 4,460 sq.m. (5.45% of total floorspace). By 2013 this had grown to about 6,560 sq.m. (7.9% of total floorspace).
- 10.2 In terms of shop units – 2011 saw 58 vacant shop units in the Town Centre (15.5% of total). This increased to 66 vacant units by 2013 (17.6% of total). The 2013 percentage is slightly higher than the national average of 13.6% [page 3 of Experian report]
- 10.3 Of particular concern is the growth of non-trading floorspace in the Priory Meadows development – 560 sq.m. in 2011 growing to 1,910 sq.m. in 2013

11. Impact of new Marks & Spencer store at Glyne Gap, Bexhill

- 11.1 In the meantime M&S have constructed a new store at the Ravenside Retail Park, Glyne Gap, Bexhill. The concern is that this store has absorbed the limited potential for new floorspace in the area.
- 11.2 The new store has gross floorspace of 4,855 sq.m. which is some 24% larger than the M&S store located at Priory Meadows in Hastings. Indications, however, are that the new store is significantly under-trading with 20% fewer customers than the Priory Meadows store. Why is this?
- 11.3 Unfortunately the quantitative case for the new store was developed from the results of the **pre-recession** 2008 Retail Study prepared by G L Hearn for the Rother District Council. Because of the subsequent extended national economic recession this 2008 study is significantly out of date.
- 11.4 M&S's consultants estimated that the turnover of the new store would be £14.84m in 2012 (£6.19m conv, £8.29m comp) rising to £15.35m in 2016 (£6.26m conv, £9.09m comp). This was contrasted with G L Hearn catchment area calculated spending growth of £77m between 2012 & 2016.
- 11.5 Past household surveys show that about 40% of spending in Ravenside Retail Park stores comes from residents of Hastings & St Leonards. Thus up to about £6m of the Bexhill M&S store turnover is likely to be coming from residents of Hastings & St Leonards
- 11.6 Revision of spending growth figures to reflect the impact of the extended recession show that the spending growth figure of £77m (referred to above)

has actually out-turned at about £11m (-£8m conv, +£19m comp). This is significantly below the expected overall turnover of the M&S store – particularly on the convenience goods side. On the comparison goods side the store will have taken about half of the areas projected spending growth.

- 11.7 Thus, overall, the new store has absorbed ALL of the short-term aggregate spending growth in the catchment area. The absence, in the short-term, of new spending beyond the £11m is probably a key reason why the store could be currently under-trading. Growth beyond 2016 should rectify this problem
- 11.8 These events at Glyne Gap have almost guaranteed the ‘flat-lining’ of net floorspace demand in Hastings Town Centre until about 2020 (as referred to earlier in this report)

12. Future need for retail warehouse (bulky goods) floorspace

- 12.1 The following is an update of para 5.8 of the August 2011 update. As indicated in that report a substantial chunk of ‘bulky goods’ floorspace has now switched to ‘non-bulky goods’ - retailers such as Boots and TK-Maxx. This trend continues with the recent grant of consent to convert the DIY warehouse at Ore into a food supermarket. Background details are in Chapter 5 of the August 2011 update.

Table 5 – Need for bulky goods floorspace (sq.m.)

Period	Change (sq.m.)
2011-2013	-496
2013-2016	+110 (Hastings only)
2016-2021	+225 (Hastings only)
2021-2026	+522 (Hastings only)
2026-2028	+253 (Hastings only)
TOTAL	+614
2011-2021	-161
2021-2028	+775

- 12.2 Thus the market for ‘bulky goods’ floorspace has currently largely collapsed. Real growth in need is unlikely to resume until after 2021. The wisdom of continuing to separate out this small sector of the retail market must be questioned – ‘retail warehousing’ is yesterday’s problem which appears to now have much reduced significance

13. Employment consequences

13.1 The following is a replacement for Table 5 of the August 2011 update. For background see Chapter 6 of the August 2011 update.

Table 6A – Estimated future job density On existing floorspace Hastings Town Centre 2014-2028

	Sq.m. /job	Existing floorspace 109,800 sq.m. (No of jobs)
2011	38	2,889
(2014)	(36.8)	(2985)
2016	36	3,050
2021	34	3,229
2028	31	3,542

Table 6B – Estimated employment increases for shopping floorspace in Hastings 2014-2028

		Existing floorspace 109,800 sq.m. (No of jobs)	New floorspace (from capacity study- most likely)	New Retail warehouse 'bulky gds' floorspace	TOTAL
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		growth	F/S	jobs (excluding 'bulky goods' employment)		
2011-16		161				
(2014-16)		(65)	668	(15)	(4)	(84)
2016-21		179	3,114	79	13	271
2021-28		313	9,945	271	50	634
2014-21		244		94	17	355
2014-28		557		365	67	989

Note : - This table excludes any employment changes in smaller district, local and neighbourhood centres.
The table also excludes the 350 jobs created at the Silverhill Asda in 2011

14. Conclusions

14.1 In consequence of the extended recession there will be very little potential for a net increase in shopping floorspace in Hastings Town Centre before about 2020.

- 14.2 This problem has probably been exacerbated by the spending attracted to the new Glyne Gap M&S store from residents of Hastings and St Leonards
- 14.3 In the years between 2020-28, the most likely outcome is for potential to develop scheme(s) of up to 10,000 sq.m. gross in Hastings Town Centre to appear.
- 14.4 The market for bulky goods warehousing appears to be much smaller than previously – to the extent that it is doubtful whether a separate policy for this small element of retail trade is necessary any longer.
- 14.5 [*Notwithstanding this there remains a case for policy to cover general ‘out-of-centre’ shopping*]
- 14.6 With generally reduced potential for new shopping floorspace, shopping employment increases between 2014 and 2028 will fall to less than 1,000.