Private investment for public good:

How property owners can support the future of town centre retail

May 2023

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Executive summary

The British Property Federation (BPF) represents all parts of the real estate sector, from developers to asset managers, and pension funds investing in property for long term steady returns that fund our pensions. Our members want to invest further in retail places to support levelling up and place-making but are currently inhibited from doing so by policy uncertainty. This report sets out four recommendations that the BPF believes would help unlock that investment.

Retail is transforming thanks to technology - online sales now account for more than a quarter of all retail industry turnover. This, coupled with long term trends for more experiential shopping and increased demand for food and leisure options, has led retail property owners to invest in retail locations that create a greater sense of place and occasion.

The future of many high streets and town centres is in a way a return to their historic role at the centre of communities – with a greater mix of uses, including housing.

Post-pandemic, people want to feel part of a shared, community experience, and property owners want to help achieve that. Visits to shops are arguably no longer just about purchase and increasingly about exploring and interacting with a brand or simply 'being' somewhere.

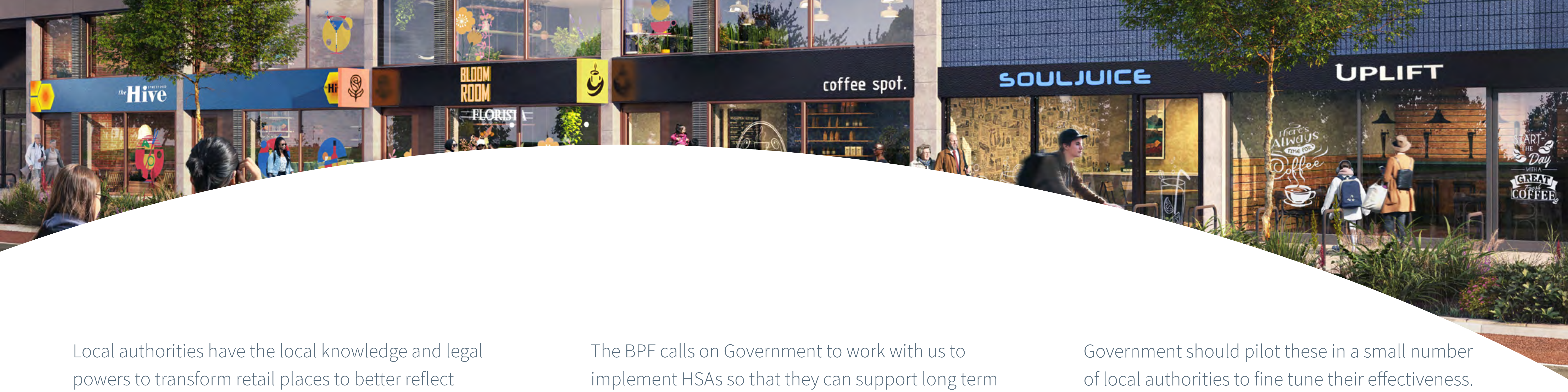
As retail sales have moved online, there is less demand for retail space, with more marginal locations, shopping centres and department stores in particular seeing a rise in vacancies. However, demand remains strong for the 'right' locations for particular retailers.

Government needs to play its part. It has commissioned reports and instigated funds for high streets and town centres in recent years, but too often policy has been short term and based on ad hoc competitive funds with tightly drawn remits, rather than long term funding commitments coupled with local fiscal flexibility.

To be successful, future Government actions must 'JELL', so that they are:

- Joined up;
- Empowering communities;
- Localised; and
- Long Term.

The pandemic resulted in many occupiers and property owners engaging more constructively than they had previously done. Some spoke to each other for the first time in the pandemic, and now better understand each other's positions. Property owners are responding to occupier demand by offering more flexibility on lease lengths and terms and mitigating the costs of occupier fit out of stores. This investment could be ramped up with a more supportive policy environment.



Local authorities have the local knowledge and legal powers to transform retail places to better reflect modern consumer needs but often lack the capacity and resources to properly 'place shape' and make long term plans. This lack of policy certainty in turn creates a barrier to private sector involvement. Government needs to encourage the long-term public-private partnerships, and consequential private sector investment, required to successfully transform retail places.

The BPF is proposing four recommendations to help unlock property owner investment in retail places:

1. Implement High Street Accelerators

The BPF has long been calling for a model for improving town centres and high streets. We have previously developed a proposal called 'Town Centre Investment Zones', and are pleased to see Government take up the principle of these in their recently announced High Street Accelerators (HSAs). However, much detail remains to be settled about the final number, shape and scope of HSAs.

The BPF calls on Government to work with us to implement HSAs so that they can support long term regeneration investment from property owners. HSAs should be partnerships between a local authority, property owners, the community and other relevant local stakeholders in a town centre. Designated by Government, they would come with funding for dedicated planning and other local capacity to support development and support for a local masterplan – ideally for at least a five-year period. They would create a framework for local policy stability and certainty which in turn would encourage private sector investment. To avoid unnecessary duplication they could build on existing structures, such as Town Deal Boards, where they exist.

Bespoke powers or flexibilities could apply to each HSA depending on the local circumstances. Capital funding could be made available on a match-funded basis with the private sector to ensure buy-in from business stakeholders. Planning flexibilities would also be included if necessary, and could include the disapplication of permitted development rights, or a greater use of them, as deemed necessary.

Government should pilot these in a small number of local authorities to fine tune their effectiveness. They need not be expensive in the context of Government spending as they would fund master planning and development control functions rather than constitute infrastructure spending itself.

2. Create High Streets Task Force (HSTF) 2.0

We think that the HSTF has been a success. As a dedicated resource for local authorities to better understand the challenges facing them and access the understanding needed to tackle them, it has been highly effective.

However, the HSTF's contract expires next year. Government should continue to fund a resource that fulfils the important role of providing support and capacity to hard-pressed local authority planning and regeneration departments. This need not be the HSTF as currently configured, although it would meet some of the same objectives of information sharing, signposting and liaising with central Government departments and existing funding streams.

The aim of this HSTF 2.0 would be to supplement any local authority that wanted advice and support on regenerating its town centres. The reconfigured HSTF should be a permanent feature, available as long as local authorities need it.

3. Continue to reform Business Rates

Business Rates have held back town centre regeneration for years in many locations. The 2020/21 Fundamental Review did not live up to its billing, with helpful but limited reforms, such as central funding of transitional relief, resulting from it. Further work is needed.

It is vital for the future health of retail places that the businesses that occupy them are viable, and that means they must have a tax burden that is sustainable. The overall burden of business rates must fall significantly, and fall faster, where rents have also fallen. The Government must ensure that retail property remains viable and commercial property taxes become internationally competitive.

In addition, empty rates relief must be reformed to support refurbishment and regeneration of our high streets. The relief (which is currently provided for 3 months on retail premises) is too short - it needs to be extended to at least six months to support much needed investment in our property stock.

In the longer term, reform of the business rates system needs to continue towards a position endorsed by Government as a result of the Fundamental Review, where the gap between the antecedent valuation date and the new valuation List is reduced from two years to one, in turn enabling annual revaluations to occur.

The system must also do more to incentivise the decarbonisation of our commercial buildings. Recent reforms in this direction have been helpful, but do not go far enough. If we are to meet the target of all buildings being at Energy Performance Certificate (EPC) B by 2023, much more impetus is needed to incentivise building owners to undertake the necessary works.

4. Bring forward and widen the review of commercial landlord and tenant legislation

In December 2020 Government promised to review commercial landlord and tenant legislation. This review was finally announced on 27 March. It will review Part 2 of the Landlord and Tenant Act 1954, and will be taken forward by the Law Commission, who have said that they will publish a consultation by December 2023.

The Landlord and Tenant Act 1954 is the main piece of legislation underpinning commercial leases. It has some positive elements, but many consider parts of it to be overly bureaucratic. Ultimately, occupiers and property owners are looking for greater flexibility, which in turn will support a more productive and efficient property market.

It is disappointing, given the wide range of issues that could be considered, that the Government has not taken this opportunity to have a root-and-branch review of all relevant legislation. It is also disappointing that, despite the announcement of 27 March, the consultation won't start until December. The BPF calls on Government to bring forward its promised review as soon as possible, and consider widening its scope. Modern legislation would reduce friction in lease grants and renewals, reduce costs for both property owners and occupiers, and be able to reflect modern leasing practices.

Introduction

The British Property Federation (BPF) represents the real estate sector. The industry is responsible for one in 13 jobs in the UK and contributed more than £107bn to the economy in 2020. We promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate, pensions funds that manage the future pensions on behalf of millions of us, as well as those who support the above. Their investments help drive the UK's economic success; provide pensions in later life; deliver essential infrastructure and create great places where people can live, work and relax.

This is the first in a series of reports by the BPF, to be published over the next eighteen months, setting out our view of the current condition of retail places - including the success stories - and how more could be done to help them better perform for the people that rely on them and in turn create better places.

Generally speaking, most retail places can be categorised as one of: a high street/town centre; a shopping centre (often in town); or a retail park (often out of town). This report focuses on retail in town centres, which includes high streets and shopping centres.

These locations struggle more with vacancies and lack of footfall compared to retail parks. We set out why these matters, how property owners are combating this, is and call on Government to do more to support struggling places through tax, planning and other policies. Crucially, Government actions must 'JELL', so that they are:

- Joined up;
- Empowering communities;
- Localised; and
- Long Term.

Too much current Government policy is the opposite of these, and this has to change, or we risk further damaging our town centres.

Many of the BPF's members specialise in retail property, providing shopping centres, retail parks, outlet villages and high street shops in a wide variety of developments. They are based all across the UK - in cities, towns, suburbs and out-of-town locations - and satisfy the wide variety of preferences of different consumers and types of shopping trip.

Property owners bring a huge amount of expertise and financial clout to create or regenerate town centres as destinations for retail, leisure and public uses. They are usually long-term investors with an interest in ensuring that a destination is attractive, vibrant and sustainable. They invest huge sums into town centres every year; they could invest more if the policy and economic conditions are right. This report sets out some suggestions for Government to follow that could enable this supportive policy environment.

"Property owners bring a huge amount of expertise and financial clout to create or regenerate town centres"

Town centres are important for retail

Town centres are vital. They are the historic beating heart of our communities and require particular support and protection, as recognised by the National Planning Policy Framework.[1] They are places to meet, trade and participate in community life. In the last century their role as retail centres crystallised as industrial and housing uses moved out of central locations.

This focus on retail has shifted in recent years with the rise of online shopping. Much has been made of the 'death of the high street' but for many locations it's probably more accurate to say that retail's role has been *supplemented* by other uses rather than *supplanted* by them. Town centres are seeing more housing, leisure and public uses than for at least half a century; arguably they are returning to their historic purpose of being the physical expression of every aspect of community life.

This doesn't mean that retail uses aren't important anymore – merely that the balance is shifting. The retail industry remains enormously important for UK plc. As a sector it is the largest private sector employer, accounting for around 3 million jobs, and it contributes 5% of the UK's Gross Value Added (GVA). It is also socially vital: retail jobs are particularly suited to supporting people with childcare or other caring responsibilities and is the job of choice for people who walk to work. Retail provides the goods that we need, in the places that we want to go.

In recent years the industry has undergone a profound transformation with the advent of online shopping. Online sales accelerated in 2008 when smartphones effectively placed retailers into everyone's pocket. The proportion of retail spend online has increased consistently since then, from 4.5% in 2008 to 19% on the eve of the pandemic in February 2020. Although it has fallen back somewhat since the highs of the pandemic, online sales are currently around their long-term trend level of 26%, meaning that one in every four pounds spent on retail is spent online.

Despite this, there is a future for 'bricks' as well as 'clicks'. Indeed, many retailers consider the typical customer journey of the future as combining both the virtual as well as the physical; so called 'omnichannel' retailing. In fact, the pandemic highlighted the importance of physical retail. As soon as shops were able to reopen, customers flocked back. This was particularly noticeable for those brands that didn't have an online

1 Chapter 7 – Ensuring the vitality of town centres

presence; for example, large queues were reported at Primark stores around the country on the morning of reopening. The share of retail sales transacted online after reopening fell from a pandemic high of 37% to 28% in April 2021, when stores in England reopened.

The nature of retail shopping has also changed. It is arguably less about the actual purchase of a good and increasingly about exploring and interacting with a brand, making a return, or simply just 'being' somewhere.

The rise of online sales has made the role of 'place' more important than ever. Property owners and retailers have had to up their game to compete with the convenience of online shopping, creating more experiential shopping and more exciting retail destinations. Indeed, many property owners want to go further and be a part of creating a sense of community, not just a functional shopping experience. It should also be noted that it is physical stores that often support an increased online presence in terms of turnover, rather than the other way round.

Accordingly, vibrant town centres will always have a place for retail uses. High quality retail property in accessible locations creates economic value and supports sustainable communities. Retail stores often act as anchors, bringing footfall in that is complemented by other uses, whether going to bars and restaurants or other leisure activities.

Some of this footfall has changed since the pandemic – with hybrid working from home increasingly entrenched for a large number of office workers, spending patterns have similarly changed – many retailers and lunch spots in town centre locations report quieter Mondays and Fridays as more people work from home on these days.

In some places the pandemic accelerated an existing trend of an oversupply of retail. Local authorities need to be clear about the purpose of their town centres, and recognise that in many of these places retail will not return in the same form and quantity that used to exist, and they must be flexible about repurposing land and property to meet modern community needs. Town centres must evolve with their communities' expectations.

It is important that, where retail remains, the 'offer' is right for a location – the right amount and the right type of retail for that place and local customer demand. People are more likely to linger in shops if they are pleasant places to be and offer what they want and can afford to buy, and much more likely to visit shopping locations if they are in welcoming, safe and interesting environments that are easy to get to.

"The rise of online sales has made the role of 'place' more important than ever"

Creating such locations is not easy. It requires long term thinking, a shared vision from all stakeholders, and consistency of action. Local councils, property owners, Business Improvement Districts (BIDs) and others therefore all share a role in making places successful. While some places have achieved this, success could be achieved in more locations – but there are challenges to doing so.

Portsmouth - the power of a good masterplan

Recognising that there was an oversupply town centre retail space (Local Data Company shows vacancy at 9% in 2008, rising to 23% in 2022), Portsmouth adopted a new City Centre Masterplan in 2013. Their £7m investment focuses on changing property use, improving public spaces, making it easier for new businesses to open and new activations such as food markets, street festivals and music events.

They have concentrated a more appropriate amount of retail into a tighter, more vibrant pitch via 1. reduction in visible signs of decline (vacant space), 2. introduction of new uses and reasons for being in the Town Centre.

Town centres are struggling and will not improve without help

The increase in online shopping has led in turn to an oversupply of retail space and increased demand for logistics capacity. This re-balancing of property portfolios for retailers has led to falls in retail property values over the past decade, with retail rents falling by an average of 40%, and capital values by 50%.[2] This has particularly affected so-called 'tertiary' locations such as smaller shopping parades and small towns, where local footfall was not enough to support already often marginally viable physical stores.

This is reflected in vacancy data - the Local Data Company report vacancy rates across three types of location: retail parks, shopping centres and high streets/town centres. At the end of 2022 vacancies in these locations were:

- **Shopping centres – 18.2%**
- **High Streets/town centres – 13.8%**
- **Retail parks – 9%**

Retail parks have for many years had lower vacancy rates than high streets and shopping centres. They offer free parking, relative ease of access (if you have a car), and a range of stores, often anchored by a large super-market. These advantages were particularly popular during the pandemic, as customers stayed away from public transport and appreciated their open nature.

These structural changes in consumer behaviour, and property cost pressures on retailers (i.e. business rates), have resulted in a steady decline in the total number of retail units across the UK in recent years, with many retailers closing stores and consolidating their estates to better serve the new world of omnichannel retailing. The Local Data Company reports that a net total of 26,000 retail and leisure units have closed since 2014. It is worth noting that vacancy rates have been falling across all location types since late 2022, but they remain above the average of recent years.

[2] 'Riders on the Storm', Retail Property Market Outlook 2023, Knight Frank

One particular aspect of changing retail trends has been the decline in department stores. The UK lost 83% of its main department stores in the five years starting with the collapse of BHS in 2016, including some or all of the properties occupied by Beales, Debenhams, BHS, House of Fraser and John Lewis and Partners).[3] The impact of a department store closure on a retail location can be profound: they are often 'anchor' stores, drawing shoppers to a place and supporting other retail businesses as a side effect. If they go, this affects the viability of the whole location.

Some ex-department stores are being repurposed into hotels, residential space and leisure uses. Data suggests that, while vacancy rates are high for many of these properties, over time they are finding uses: BHS was the first chain to go into administration and only 12% of its sites remain vacant, while Debenhams, which went into administration in 2020, still has 61% of its former stores remaining vacant with no current plans for future use or redevelopment.[4] The economics of converting department stores is challenging – they require a large amount of capital expenditure by property owners, with the associated period of void for the duration of the works, and often for a lower return than achieved by the previous retail use.

The fall in retail values in many locations occurred in tandem with steady increases in business rates, the property tax levied on commercial properties. In England, rates were levied at 34.8% of a property's annual rent in 1990, when the current system was established. By 2010 this had risen to 41.4% and is now at an all-time high of 51.4%. Far from keeping track with retail rents and falling in line with them, business rates have instead spent recent years rising simultaneously with falling rents, negating much of the benefit of lower rents for those businesses. This has been compounded by the operation of transitional relief, whereby the benefits of falling bills were staggered over several years in order to fund staggered increases in bills for those whose rents had risen. This has had the effect of further reducing the viability of retail store locations and contributing to store closures.

The transformation of retail to an online as well as physical experience, changing consumer tastes and the burden of business rates are challenges, but they do not mean that town centres are doomed. Not all town centres are failing. Many, such as Marlow, Cheltenham, Chester and Brighton are thriving, with lower levels of vacant units than the national average. Some of these have the advantage of high levels of local disposable income. Others are accessible, well-located and have tailored their offer effectively to local demands.

Whether blessed by these advantages or not, successful town centres usually share a key trait – they have a local authority (and in some cases other groups such as BIDs) that understands their economic and social purpose.

Local authorities are - in theory at least - the agents best placed to restore town centres. They have the local knowledge, the long-term interest and the planning and land assembly powers to deliver real change. In practice, they often lack the capacity to use these tools. Usually this means having access to funding that enables them to undertake long-term planning. Unfortunately, after a decade of cuts to central government grants, many local authorities are increasingly unable to deliver non-statutory services. If it isn't adult social care and children's services, investment all too often takes a back seat.

This is where private sector investment can add value to town centre policy. Property owners, including pension funds looking for long term and stable returns, can bring substantial capital to the table, complementing the legal powers and expression of community priorities embodied by a local authority. What is needed is a tool that can combine these two advantages to improve struggling town centres.

"The UK lost 83% of its main department stores between 2016 and 2021"

[3] Department Stores: Green Shoots After Five Years of Closures (costar.com)

[4] Source – The Local Data Company, January 2023

Retail property owners are doing a lot and want to do more

Retail property owners have suffered from falling rents and capital values for several years as a result of the advent of online shopping – some such as Intu have gone into administration partly as a result of this.

On top of this, Government support for property owners during the pandemic was limited when compared to that (rightly) available for occupiers. Business support loans, 100% business rates relief, closure grants, re-opening grants and furlough schemes for staff were all available to retail and hospitality businesses. Equivalent support was not available to property owners, many of whom experienced large falls in turnover as tenants reduced or even stopped rent payments during 2020/21 due to the moratorium on rent arrears enforcement.

Despite this, retail property owners worked closely with their occupiers to support them as much as possible during the pandemic. Now they are responding positively to changed occupier requirements and undertaking significant investments in new and refurbished retail developments.

As pandemic-related store closures led to discussions around rent payments and concessions, many occupiers and property owners engaged more constructively than they had previously done. Some spoke to each other for the first time. Repeated across the wider sector, there is as a result probably a greater understanding between owners and occupiers than there has ever been. This has resulted in property owners responding to changing demands from their occupiers on lease length and structure:

1. Lease lengths – retail property leases had been shortening pre-pandemic, and to an extent the pandemic simply confirmed this trend. Average lease length for new leases during the pandemic fell below ten years, often as short as five years, and usually with a break clause after five/three years (although demand for this has softened since 2021). This highlights occupier desires not to be tied into rent terms in a falling market, and uncertainty over future income.

“Retail property owners worked closely with their occupiers to support them as much as possible during the pandemic”

2. Fit outs – as leases have shortened, the challenge for occupiers is how to balance the cost of fitting out a new store with the shorter period they have to make a return on that expenditure. This is more challenging in cases where they are required to maintain certain EPC standards. Property owners report that they are increasingly accommodating occupier demands for fitting out units to ensure compliance with EPC standards.

3. Lease terms – the pandemic saw a significant shift to turnover leases, usually with a base rent (i.e. a minimum level of rent) and encompassing total occupancy costs (i.e. including service charges). As trading became more volatile, occupiers sought to hedge against this by linking rent payments to trading conditions. The corollary of this is to bind property owners into the viability of the unit to a much greater extent than previously. Some major retailers will now only sign leases on this basis. This approach can impact on property owner valuations – and in turn their ability to secure finance for investment – as there is greater risk in holding turnover-rent leases, which are harder to value. In effect they transfer an element of occupiers' trading risk to the property owner.

The market is changing and property owners are responding to changing tenant demands. They are also responding to strong demand for the 'right' properties in the 'right' locations – particularly in the food and beverage (FandB) sector. It is widely recognised that a strong FandB offer can support the feeling of 'place', and create more inviting destinations, although property owners are conscious that, unlike retail, there is an effective 'ceiling' on FandB turnover, and that it generally operates at a lower margin than retail.

Nonetheless, many retail property owners are investing in the retail destinations that today's consumers demand. The advent of online shopping has changed the way that people shop, but it hasn't killed the physical store. Consumers still want to shop physically, just perhaps not for the same things, or in the same way, as in the past. Retail places are increasingly 'magnetising' themselves more than ever to attract footfall. This might be a greater diversity of occupiers; attractions and events; or more interesting places.

For example:

- Property owners are broadening the range of services on offer at retail locations. Beyond more choice for eating and drinking, they are responding to consumer demands for more leisure uses, whether cinemas or 'competitive socialising', or increasingly providing public services such as vaccination centres, job-finding services, or community uses;

- Many retail places are also being invested in to become more attractive to visit and to meet net zero ambitions – green walls and more trees and planting, recycling facilities and more bicycle parking are some of property owners' responses to customer demands;

- Many retail destinations now put in place big screens for sporting events; install public art to enhance the sense of place; and deliver public realm improvements that often deliver a quality of space that local government isn't resourced to provide.

Property owners are also responding to the new requirement to ensure that no commercial property is let from 1 April 2023 with an EPC rating below E, rising to B in 2030. Savills recently estimated that 83% of existing retail property needs to be improved to meet the 2030 target. This requires a huge amount of investment in the next seven years, at a time when the era of relatively cheap debt financing has come to an end and costs are rising in every aspect of the supply chain.

Case study - Blackpool: how private investment is delivering public benefit

In 2019 Blackpool Council acquired the Houndshill Shopping Centre with an adjoining multi-storey car park, Abingdon Street market and an adjacent vacant site.

In 2022 Ellandi replaced the original asset manager. The brief was to ensure that the centre continued to produce returns for the Council that aligns with the Town Centre Strategy and the successful development of an IMAX cinema and Wilkinson's store. The Council's objectives include:

A holistic approach that treats Houndshill as part of a much larger plan and makes it an engine for change across the town.

A space that will serves its community by driving regional and national footfall, cementing Blackpool's position as a destination and acting as a key contributor to the local economy.

A space that makes the town an attractive prospect for future investors and drives ambition for social and economic change across the town.

Houndshill has consistently outperformed similar secondary centres in Northern England by maintaining a high-quality line-up of prominent, national fashion tenants. The closure of Debenhams was a threat to long-term occupancy and income. Ellandi have successfully completed a lease with Frasers Group to take c.95,000 sq. ft to deliver Frasers, Flannels, Game, Sports Direct and a Beauty Hall.

Delivery of a new leisure anchor

Blackpool had agreed terms to lease a new cinema complex anchored by a new IMAX cinema, restaurant and Wilkinsons store. The project was in difficulty with the existing project manager and Ellandi's development team have been appointed to manage them more effectively and liaise with the key tenants to ensure delivery of project that works for the occupiers and the wider town.

Addressing the oversupply of retail

Ellandi identified a significant oversupply of retail within the town centre and that 75% of the centre's income will expire over the next five years. Combining this data with insight from asset management and development teams, they established a comprehensive leasing and repurposing strategy for the shopping centre and adjacent streets. This focuses on the rationalisation of the existing portfolio, relocation of surrounding tenants and the introduction of alternative/Food and Beverage uses to complement the current retail offer.

Reimagining Victoria Street

Victoria Street has the potential to be an incredibly prominent location within the town centre but has suffered from significant under-investment. Ellandi is creating a concept design for this space, introducing higher quality paving, lighting, street furniture and planting to vastly improve the streetscape and create a new identity.

Government needs to play its part

The issue of high street and town centres health has received significant attention from central Government in recent years. From the Government-commissioned **Portas Review** in 2011 and **Timpson Review** in 2018, to the industry-led **Grimsey reviews in 2013 and 2018**, various select committee reports and, most recently, the establishment of the **High Streets Task Force**, there has been no shortage of analysis and policy recommendations on the issue.

Funding, tax and policy changes have followed this activity, with varying levels of effectiveness. Business rates reforms have tended to reduce future tax burdens rather than result in actual falls in bills. Fragmented funding pots such as the Future High Streets Fund and the Levelling Up Fund, while helpful, have not been sufficiently long-term, joined up or strategic to fundamentally alter the outcome for many retail locations. This competitive and ad hoc nature of much of the central Government support to local areas makes funding uncertain and 'lumpy' – which doesn't provide private investors with the confidence needed to commit their own capital to places.

In summer 2021 the Government launched its strategy for high streets **'Build Back Better High Streets'**. However, even this opportunity to set out a coherent plan for high street and town centre policy was little more than a rebranded collation of existing policies and did not engender confidence that there was joined up thinking about town centre recovery at the heart of Government.

The establishment of the High Streets Task Force, with its five-year remit and provision of support to local authorities, is arguably the exception to this picture of inconsistent support given to local areas. It has successfully brought together expertise in data collection on key metrics such as footfall and consumer spend and applied it to willing local authorities to help them develop the best strategies for town centre development at a local level.

Many local authorities have the ambition and vision to push ahead with regenerated high streets and town centres, from buying shopping centres, to working with large landowners, there are numerous examples of modern and visionary retail redevelopment, although this is far from universal.

Local authorities have the local knowledge and legal powers to transform retail places to better reflect modern consumer needs but often lack the capacity to properly 'place shape'. Their ability to draw up local plans, bring key community and business stakeholders together and provide the development control functions often do not match their ambitions for their town centres. This in turn creates a barrier to private sector involvement. We believe that Government needs to do more to encourage the long-term public-private partnerships, and consequential private sector investment, required to successfully transform retail places.

The good news is that the remedy is relatively cheap by Government standards. The private sector can access large volumes of development capital and the expertise to spend it effectively, but it will only do so where there is enough certainty about a return on investment. This can be provided locally, but in turn needs some seed funding from central Government to allow that to happen. We set out what this would look like in our recommendation on High Street Accelerators below. However, the principles that inform this are that Government action must 'JELL'; so that they are:

- Joined up;
- Empowering communities;
- Localised; and
- Long Term.

These principles are important because too often different funding streams do not align and require councils to bid for investment in projects that fit the funding programme brief rather than deliver what's really needed for an area. This can lead to inefficient spend of public money. It is only at local level where there's enough understanding of an area's needs to ensure that investment really is allocated to that community's priority.

To make matters worse, funding is all too often only available for certain projects or for certain years. However, development timescales usually span several years, and require advance notice of what funding is available to give other investors the confidence to back a project. Government must therefore commit to funding local delivery mechanisms such as High Street Accelerators for several years (see recommendation 1 below), in turn generating investor confidence that delivery plans might outlive political cycle timetables.

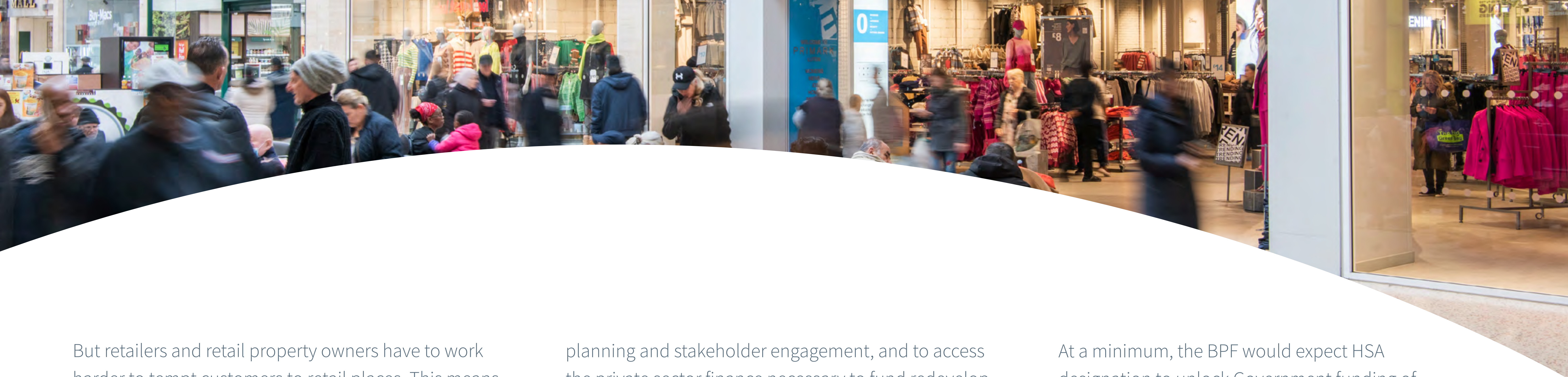
Recommendations for action

Property owners have significant resources and appetite to invest in the retail places of the future. But they can only do so much - local and central Government must play its part in creating the right policy environment to support commercial investment. Therefore, this report makes four recommendations aimed at both central and local decision makers that could support the retail places of today and help create ones for the future.

Recommendation 1
Implement High Street Accelerators

Government has historically supported the concept of targeted area-based support for specific purposes, whether Enterprise Zones, Freeports or Investment Zones. The BPF believes that a targeted approach to investment is the right one, and to that end we have developed a similar model but tailored for town centres, previously called 'Town Centre Investment Zones', and are pleased to see Government take up the principle of these in their recently announced High Street Accelerators (HSAs). However, much detail remains to be settled about the final number, shape and scope of HSAs. The BPF calls on Government to work with us to implement HSAs along the lines set out below so that they can support long term regeneration investment from property owners.

As set out elsewhere in this report, the retail landscape has been transforming in the past fifteen years, primarily driven by the internet. The ability to buy things online has reduced the need to physically be in retail locations, and many former shop units have been re-purposed or remain vacant. Nonetheless, there is still demand and a role for physical retail, increasingly as one element of omnichannel retailing. Indeed, there is even a trend for online only retailers to move into the physical store as part of a growth strategy.



But retailers and retail property owners have to work harder to tempt customers to retail places. This means adapting to demand – for more food and leisure options, for more attractive and experiential places, and a greater focus on the environmental credentials of stores and occupiers. It also requires better appreciation by councils of the need for flexibility on operational hours and licensing timings.

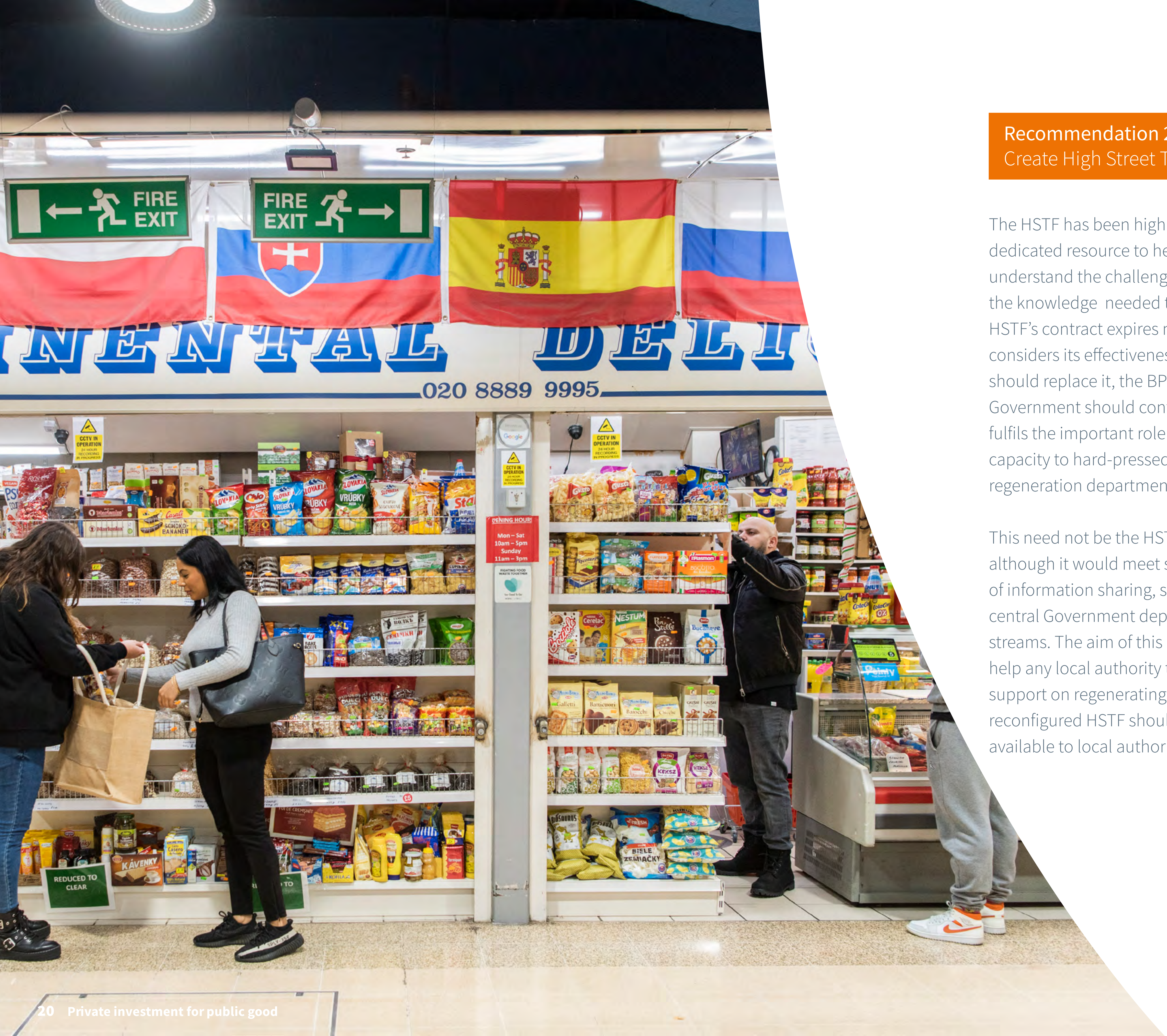
Some types of location – such a retail parks – are faring better as an asset than others. Equally, some town centres and shopping centres have high demand. But a large number of places face significant challenges if they are to successfully reinvent themselves as places where people want to be, let alone shop and dine. Many town centres struggle to attract businesses and customers due to an unattractive environment and high costs for businesses occupying property.

Often the issues holding back regeneration of town centres are more prosaic than a lack of funding – although that is of course a necessary ingredient for change. Local authorities rarely lack the ambition to improve their town centres; usually what holds them back is the capacity to forward fund the necessary planning and stakeholder engagement, and to access the private sector finance necessary to fund redevelopment. As set out above, Government funds such as the Levelling Up or Towns Fund are helpful but short term and fragmented and are not effective substitutes for long term capital for regeneration. The private sector is able to provide this, but in turn requires certainty of intent and a stable policy framework from central and local Government.

This stability is what 'High Street Accelerators' (HSAs) would provide at a local level. They would apply in designated town centres and attract a range of bespoke planning and other powers to support the development of that location. They would be created on a threshold basis, with local authorities drawing up a business case for designation. The two key requirements of a successful designation would be: a masterplan that would be financially viable and deliverable were HSA status granted; and evidence of broad stakeholder support from businesses, other users, BIDs and local residents.

Once designated, different powers or flexibilities could apply to each HSA depending on the local circumstances. At a minimum, the BPF would expect HSA designation to unlock Government funding of necessary planning capacity for the local authority to implement the masterplan, and potentially retrospective funding of the planning resource already committed to date to act as an extra incentive to bid. Capital funding could be made available on a match-funded basis with the private sector to ensure buy-in from business stakeholders. Planning flexibilities would also be included if necessary, and could include the disapplication of permitted development rights, or a greater use of them, as deemed necessary.

Crucially, HSA designation would be long term, to encourage the stability that would unlock private sector investment. With this more certain environment, property owners would be encouraged to undertake transformational long term regeneration projects, in turn creating the town centres of the future.



Recommendation 2
Create High Street Task Force 2.0

The HSTF has been highly successful in acting as a dedicated resource to help local authorities better understand the challenges facing them and access the knowledge needed to tackle them, However, the HSTF's contract expires next year. As Government considers its effectiveness and what - if anything - should replace it, the BPF recommends that Government should continue to fund a resource that fulfils the important role of providing support and capacity to hard-pressed local authority planning and regeneration departments.

This need not be the HSTF as currently configured, although it would meet some of the same objectives of information sharing, signposting and liaising with central Government departments and existing funding streams. The aim of this HSTF 2.0 would be to help any local authority that wanted advice and support on regenerating its town centres. The reconfigured HSTF should be a permanent feature, available to local authorities.

Recommendation 3
Continue to reform Business Rates

Business Rates have held back town centre regeneration for many years in many locations. As set out in this report, their level has risen as retail rents have fallen, offsetting much of the gain of lower rents. In some locations, thanks to the operation of downwards phasing of transitional relief of rates, this has been even more damaging to the viability of retail places.

The 2020/21 Fundamental Review did not live up to its billing; its main policy change was a move to three yearly revaluations instead of five – a policy that, while welcome, was in fact being legislated for before the review commenced and that was only dropped because of the pandemic. Further reform is needed.

The April 2023 revaluation has brought some relief for high street ratepayers, with falling values finally reflected in lower rates liabilities for many. It is also very welcome that downwards phasing of transitional relief will be centrally funded. Now attention must focus on the level of the business rates multiplier. It is vital for the future health of retail places that the businesses that occupy them are viable, and that means they must have a tax burden that is sustainable. The overall burden of business rates must fall significantly, particularly where rents have also fallen. The Government has frozen the multiplier for the past two years, which is welcome, but it must be significantly reduced from its current level to ensure that retail property remains viable and commercial property taxes become internationally competitive.

In addition, empty rates relief must be reformed to support refurbishment and regeneration of our high streets. Empty rates relief (which is currently provided for 3 months on retail premises) is too short – it does not represent enough time to find a new tenant, let alone support the time needed for refurbishments or deep retrofits to improve the energy efficiency of our buildings. Empty rates relief needs to be extended to at least six months to support much needed investment in our property stock.

In the longer term, reform of the business rates system needs to continue towards a position endorsed by Government as a result of the Fundamental Review, where the gap between the antecedent valuation date and the date when new values takes effect reduced from two years to one, in turn enabling annual revaluations to occur.

Recommendation 4
Bring forward and widen the review of commercial landlord and tenant legislation

In December 2020 Government promised to review commercial landlord and tenant legislation. This review was finally announced on 27 March. It will review Part 2 of the Landlord and Tenant Act 1954, and will be taken forward by the Law Commission, who have said that they will publish a consultation by December 2023.

The Landlord and Tenant Act 1954 is the main piece of legislation underpinning commercial leases. It has some positive elements, but many consider parts of it to be overly bureaucratic. Ultimately, occupiers and property owners are looking for greater flexibility, which in turn will support a more productive and efficient property market.

It is disappointing, given the wide range of issues that could be considered, that the Government has not taken this opportunity to have a root-and-branch review of all relevant legislation. It is also disappointing that, despite the announcement of 27 March, the consultation won't start until December. The BPF calls on Government to bring forward its promised review sooner than December, and consider widening its scope to all relevant Acts and precedent. Modern legislation would reduce friction in lease grants and renewals, reduce costs for both property owners and occupiers, and be able to reflect modern leasing practices.

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