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Submitted to New realities of retail and ecommerce in Scotland

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Organisation

Name of organisation:

Scottish Property Federation

Information about your organisation:

The Scottish Property Federation is the voice of the real estate industry in Scotland. As a part of the wider British Property Federation our diverse membership includes property investors, including major institutional pension and life funds; banks; developers; landlords of commercial and residential property; and professional property consultants and advisers.

The real estate sector is a key catalyst for jobs, investment and creating places to support the economic recovery. For every £100m of new demand for commercial property, the sector creates an additional £73m for the wider Scottish economy. The SPF is committed to ensuring that the positive impact that the real estate sector delivers for local communities continues.

Our members develop, manage, and invest in:

- Scottish offices to support business and employment throughout Scotland but particularly in our major city and urban centres.
- Major serviced land to support new homes of all tenures and communities, including the delivery of social and green infrastructure.
- Retail, hospitality, and leisure buildings to support those industries throughout Scotland.
- Industrial and logistics buildings throughout Scotland, providing the platform to create and deliver goods.
- Purpose-built student accommodation vital to providing accommodation for our higher education institutions.
- Older and heritage buildings to help regenerate our town and city centres.

Our members also attract and deliver major investment and finance for Scottish real estate on a global basis for all forms of property, as well as through traditional sources such as major banks and pension funds based in the UK.

Keeping town centres alive

6 How are Scottish high streets and town centres changing? What are the strengths and weaknesses of Scotland's town centres?

Please provide your response in the box provided.:

The issues of concern with the strength of the high street have been with us for some 30-40 years now and the way the nation shops is undergoing a radical transformation that has been accelerated by the pandemic. The fundamentals have completely shifted, and we need to think differently about how we're going to invest in our Town Centres to make them a place for people to want to use going forward. Put simply the high street needs to redefine itself as an attractive destination.

Our core city centre destinations continue to evolve at pace. The long-awaited redevelopment of the St James Quarter in the heart of Edinburgh has been specifically designed to encourage pedestrian connectivity and a hospitality and leisure offer. In Glasgow at each end of Buchanan Street the major centres of St Enoch and the Buchanan Galleries are to be redeveloped to mixed residential and office uses to complement retail and hospitality.

Our members are firmly of the view that no matter how well designed and constructed a town centre is, the major factor in how it performs will be how it is used and whether it is seen as a desirable destination where people want to spend time. Early evidence from the pandemic illustrated falls in economic activity of both between 45-51% in Edinburgh and Glasgow, our two biggest cities. True, smaller towns were assessed to have seen a benefit, but this was often in the realm of 4-5% from a much lower economic base.

The pandemic accelerated market trends towards ecommerce, reducing the need overall for retail properties including shopping centres and department stores. Before COVID-19 there was already clear market distress in these asset classes. Throughout the lockdowns this stress has crystallised, and many of these premises are now struggling to continue in their former capacities. In addition, previously favourable alternative uses for leisure purposes such as hotels or restaurants are now likely to be more difficult to attract market interest in the short term. In many cases, the alternative use may be residential, and this will engender wider considerations of place and infrastructure provision in these locations.

Our members are strongly of the view that our town and city centres should be vibrant destinations again, accessible to groups of all ages, achieving economic growth and creating a space where communities can come together, enjoy a much wider range of activities and a compelling experience. The challenges of sustaining successful town centres will vary according to location and community. Some centres were in fact developed around major shopping centres (East Kilbride, Glenrothes, Livingston). Others were more associated with heavy industry (Bathgate, Falkirk, Motherwell), or have been historical regional centres of settlement (Ayr, Nairn). A different approach to this question could be to ask what a successful and sustainable community town centre looks like, and how it should be composed. This might involve a mixture of communities along demographic and occupational lines. It may include a greater delivery of bespoke assisted/senior living developments close to the town centre to provide accessible amenities for these residents. There could be less emphasis on fast food and café convenience than there is in many towns, and perhaps a variety of social infrastructure provision (medical, childcare, administrative).

We feel the big challenge for town centres continues to be one of adaptability. This may be most acutely seen in retail, hospitality, and leisure. The long-term legacy of the pandemic is perhaps yet to be seen as businesses redefine their requirement for office space in city centres, which will have a material impact on town centre business and amenities. But equally, with a greater core residential element to major urban centres there will inevitably be a growth in demand for certain amenities and businesses.

An enduring challenge for town centre renewal is the obstacle of a fragmented ownership structure. When it became clear that consumers were seeking more from shopping centres than retail, the owners of these assets may more easily reshape these areas than a traditional high street with different types of owners. This has become increasingly apparent since the financial crash as shopping centres have included a greater range of leisure use in their estates, with a view to making their centres genuine 'experience' destinations for their consumers.

What can be said is that in Scotland over recent years there has also been a noticeable drive by the major cities to support a return of city living. Aberdeen, Dundee, and Glasgow have adopted policies specifically designed to increase the number of households in their city centres. The private sector is responding to this demand with many proposals for large scale build-to-rent propositions in Glasgow in particular. Edinburgh has different challenges, more aligned to achieving affordable city centre living. This move towards city centre living may be affected by the pandemic, and it could mean that smaller local towns (city based or not) could become relatively more attractive as places not just to live and relax, but also to work in. For example, the move towards working remotely may provide opportunities for towns to offer more localised office facilities although this will require strong broadband connections and a supply of cost-effective, suitable flexible office suites.

The inherent risk of development and property investment has made it difficult for longer forms of property investment since the financial crash, and the major investors (pension and life funds) are mainly located in major city centres. Therefore, while investment in some forms of commercial property, such as retail parks, has continued, there has been little or no major indoor shopping centres out of town for many years. Indeed, the largest such investment in recent years is the development of the former St James Centre in the city centre of Edinburgh. It is therefore a challenge for more peripheral or even intra-city town centres to attract major private sector commercial property, long-term investment. In consequence, this has meant that the bulk of economic growth, location of jobs and supporting services, has become centralised to prime city locations.

There are local property entrepreneurs who know their local communities and authorities well. These individuals and businesses have often invested significantly in their localities. They are well placed to understand, and intervene in local regeneration initiatives, whether in adapting older properties to different uses, or through seeking opportunities to provide new buildings in gap sites.

7 How do we encourage people to live in town centres? What types of policies are needed?

Please provide your response in the box provided.:

The challenge of supporting a sustainable town centre remains the same. The impact of the pandemic on city centres and the potential for a renewed emphasis on localism and 20-minute neighbourhoods, perhaps offer a heightened importance for the successful regeneration of Scotland's towns. However, the aim of seeking greater residential use of town centres with less dependency on retail is enhanced by the pandemic, rather than changed.

A focus on high-quality mixed-use city centre regeneration, focussing on existing communities, can provide a sustainable environment for those who wish to eat, work, and sleep close to good amenities, infrastructure, etc.

There has also been a noticeable drive by the major cities to support a return of city living in Scotland over recent years. Aberdeen, Dundee, and Glasgow have adopted policies specifically designed to increase the number of households in their city centres. Edinburgh has different challenges, more aligned to affordable city centre living. This move towards city centre living may be affected by the pandemic, and it could mean that smaller local towns (city based or not) could become relatively more attractive as places not just to live and relax, but also to work in. For example, the move towards working remotely may provide opportunities for towns to offer more localised office facilities although this will require strong broadband connections and a supply of cost-effective, suitable flexible office suites.

Ultimately, different communities or parts of the local community will have different needs for their town centre. The challenge will be to provide

sufficient mixed-use and purpose to cater for as many town centre residents as possible.

Towns and cities are starting to consider the merits of free transport for school age and young adults. There is a myriad of reasons why this is to be welcomed. These include the probable reduction in private car journeys and a generation changes transport preferences from private to public. Towns and cities need to invest in affordable, accessible, convenient public transport. Solutions will vary between locations. Single ticketing across transport formats should be a priority.

8 How can equality and diversity issues be addressed in policies that create and sustain resilient town centres?

Please provide your response in the box provided.:

A focus on accessible public place supported by appropriate public amenities and conveniences will support a diversity of population to use their town centres more. This needs to be complemented by local cultural, leisure and business offers. As we said in our comments to Question2, towns and cities are starting to consider the merits of free transport for school age and young adults. This will support a diverse use of town centres.

9 Independent and small businesses, and community and co-operative operations enhance local resilience and wellbeing but can often be marginalised in town centres. How can this be changed?

Please provide your response in the box provided.:

These groups can often be supported in buildings, which although towards the end of their economic life can be repurposed to deliver affordable accommodation on flexible terms. The commercial viability of this approach does present issues when total occupational costs including business rates, service charges, utilities costs and building insurance are presented to the occupiers in this sector and the holding costs of the buildings for owners, particularly when vacant. The most immediate solution would be financial support, which is directed at affordable occupation packages and grants/loans designed for owners in this sector. Means tests for occupiers based and profitability tests for owners based on annual accounts could be developed.

10 What is the role of culture and leisure in town centres? How can these be leveraged to increase wellbeing?

Please provide your response in the box provided.:

Culture and leisure are critical to the successful development of town centres as destinations for visitors, businesses, and public service employment locations. Employers will be attracted to locations that offer staff a quality of life to enhance their employment experience – indeed this is more important with the growth of remote working.

11 Who or what can drive change in Scottish town centres?

Please provide your response in the box provided.:

The property sector, and particularly the local property industry, can be a key catalyst of town centre rejuvenation. Their knowledge of adapting older buildings and successfully bringing them back into use could support significant local regeneration.

An enduring challenge for town centre renewal is the obstacle of a fragmented ownership structure. When it became clear that consumers were seeking more from shopping centres than retail, the owners of these assets may more easily reshape these areas than a traditional high street with different types of owners. This has become increasingly apparent since the financial crash as shopping centres have included a greater range of leisure use in their estates, with a view to making their centres genuine destinations for their consumers.

Areas characterised by vacant sites, buildings beyond economic life and historic inappropriate uses are frequently characterised by fragmented title and lease ownership. To facilitate delivery of planning policies, regeneration and place making, perhaps now is the time to consider more aggressive use of compulsory purchase powers.

12 Can you provide examples of best practice and success stories, in the UK and/or internationally, of creating living and resilient town centres?

Please provide your response in the box provided.:

Planning has begun to focus on the concept of 20-minute neighbourhoods, arising from largely urban models in other countries. There is a significant attraction in planning terms to ensuring that people are connected to the facilities and services that they require and that they can reach these using active travel methods. When we refer to 20-minute neighbourhoods, however, we then need to be clear what we mean by the concept, where it is appropriate to apply it, and once applied how it will influence development management decisions for individual development sites. In Edinburgh's CityPlan 2030, the concept of 20-minute neighbourhoods appears to be defined as amenities that are within an 800m walk. Without this definition, there could be uncertainty within the real estate industry about what is required to achieve an effective 20-minute neighbourhood, and what a planning authority would expect to see included.

13 If not covered elsewhere, what other policy interventions would you like to see to create living and resilient town centres?

Please provide your response in the box provided.:

A fundamental tenet of good placemaking is mixed-use developments that meet the needs of all age ranges and are flexible and adaptable. Good infrastructure (particularly transport) is vital for placemaking along with access to a mixture of property uses including retail outlets; employment; housing; and leisure. This is central to creating resilient communities and if applied pragmatically will support the aspiration to strengthen our existing towns and cities and achieve 20-minute neighbourhoods.

More than anything there needs to be a clear vision of what a resilient town centre is. The vision needs to assume that a town centre will need to be used and sustained by its own residents rather than dependent on the tourism industry as the main source of economic activity. Unless towns can provide sufficient jobs and opportunities locally, they are unlikely to sustain their communities and their younger populations. Master Plan Consent Areas could offer the feasibility of long-term place-based regeneration initiatives as well as strong collaboration between communities, local authority, and investors.

Consideration needs to be given to how more bespoke and useful data can be provided to support the sustained development of town centres. There is significant potential for town centres to be enhanced as places for a mixed community of both residents and businesses. This is likely to require the commercial and residential regeneration of existing buildings and where appropriate new, additional buildings. There will be a definite need for investment in district heat network utilities, ever improving digital connections to keep up with demand and electric vehicle transport infrastructure.

The challenge of supporting a sustainable town centre remains the same. The impact of the pandemic on city centres and the potential for a renewed emphasis on localism and 20-minute neighbourhoods, perhaps offer a heightened importance for the successful regeneration of Scotland's towns. However, the aim of seeking greater residential use of town centres with less dependency on retail is enhanced by the pandemic, rather than changed.

Often the most immediate issue from our members, not just on their own behalf but that of their customers, is the cost of business rates. The rating system in Scotland is based on assessments of the commercial property rental market upon a date in time and nominally the tax still depends on some 23% of its revenue base from retail. In addition, in Scotland the larger premises face surcharges on the basic poundage rate which at the higher level are significantly above their equivalent charges in England. There was a commitment to bringing the large business supplement back into line with its English equivalents and we would wish to see this policy implemented. There should be no need for large business supplements – larger and more valuable premises already pay greater amounts of business rates.

The rates revaluation for 2023 should see significant falls in retail rateable values. This revaluation is many years overdue and retailers are currently nominally liable for rates based on 1 April 2015 commercial rental values, which was a very different market. It is true that retail was supported with 100% rate relief during the pandemic lockdown, when many retailers were not allowed to trade due to the public health emergency. The government will continue to provide support for some retailers subject to a £27,500 cap, a maximum of 50% rate relief and only for a limited period of 3 months after 1 April. The return of 2015 based full rates following this period will no doubt be a significant burden for many retail businesses while they await the rebasing of the business rates tax system on 1 April 2023 (based on the new Tone date of 1 April 2022). We wish to see a stable and more frequent revaluation cycle, which has now been legislated for by the 2020 Act.

The business rating system takes very limited account of property which is vacant and earmarked as development or refurbishment stock. The current approach is simply to assess and charge as if the building was in fully occupied use. It is therefore not surprising that this leads to mitigation schemes by some. Our members are of the view that the current framework is an impediment to regeneration, to the acquisition of assets to redevelop new stock, and to the improvement/repositioning of existing buildings, which have continued economic life. Immediate demolition or rendering a building unoccupiable by law might mitigate business rates but this can blight an area where regeneration is envisioned. The tax system should respect the purpose of business decisions and where a property developer is seeking to regenerate and reinvest in a property, there should be supported to mitigate the burden of empty property rates before redevelopment is underway. Otherwise, a developer may simply be unable to take on a regeneration project because they will be deterred by the pure cash cost of empty property rates. This can be especially true in the case of complex older buildings.

The new realities of Scottish retail

14 How has the structure and nature of Scottish retail changed over the last decade (topics of interest include: proportion of spend with Scottish headquartered retailers, growth of independent retail, urban and rural trends, etc)?

Please provide your response in the box provided.:

There is a clear polarisation between the attraction of high end, brand retailers taking prominent retail stores in city centre shopping centres and high streets, and the collapse of many formerly 'household' names and department stores. This does mean many modern centres are occupied by international brands in their prime areas. This supports the contention that the retail is needing to be more focused on providing an experience for its customers rather than just goods alone.

15 How has the role of physical retail stores changed and what are the consequences of this for Scottish high streets and town centres?

Please provide your response in the box provided.:

There are key differences for physical stores depending on their type and location. Retail parks have performed arguably stronger compared to enclosed shopping centres and high streets during the pandemic. Their ease of access by private car and their inherited strength in supporting consumers with bulky goods have clearly been an advantage. The role of physical stores has perhaps diminished in quantity of outlets, but the service and offer required to be successful has probably increased. These stores are competing with the convenience of online sales and therefore they need to find an offer that cannot be replicated online.

16 How can the retail sector deliver fair, secure and quality employment? What's the gender impact of the move away from traditional retail?

Please provide your response in the box provided.:

Traditionally the retail sector has been seen as one of the more accessible employment bases, with opportunities for a greater diversity of personnel to progress and reach higher management positions.

17 What's the role of fiscal policy levers in supporting the retail sector?

Please provide your response in the box provided.:

It has been apparent for some time that the business rates system – as a concept – is struggling to remain a fair and proportionate tax in the modern click economy. We believe that there will remain a need for a property-based form of tax – but we feel it must become less of a significant element for business operating costs than it currently is and that moving forward we should not expect rates to provide some £3bn of revenue annually. Business rates are therefore a major obstacle to town centre regeneration and sustainable economic development and under current plans, we feel this is set to remain the case.

There is a well-documented change in consumer behaviour and the nature of our major high streets and retail centres. On paper, retail still accounts for nearly a quarter of rateable value. The reality is that this was changing before the 2017 revaluation and the pandemic has accelerated the change in appetite for retail bricks and mortar locations. With the growth of online retail, it is unlikely that the retail sector will support a similar scale of contribution to non-domestic rates distributable income. Neither is it apparent that the framework supports an effective recovery or renewal of our towns and city centres. There is also a change in demand for support. Areas with formerly strong economic performance have experienced a sudden and dramatic loss of footfall and economic activity that may not be entirely repaired. For example, central Edinburgh locations are estimated to have seen a fall in economic activity of 45% whereas outlying towns have in some cases not seen a reduction in activity, or even a slight increase over the period.

Ecommerce activity in Scotland

18 What are the implications for businesses of increased online shopping and digital activity in the customer journey?

Please provide your response in the box provided.:

A strong online presence and service for customers is already a must for many, if not most businesses. This will increase and businesses will need to invest in their online presence to meet modern customer requirements. It is and will increasingly be, the front window of marketing activity for many businesses too. This will mean perhaps less demand for investment in physical store marketing and presence – but the physical store experience will still need to be strong to complement the online service.

19 Have Scottish small and medium sized enterprises (SMEs) realised the full potential of online retail? What are the opportunities and barriers?

Please provide your response in the box provided.:

20 How are Scottish SMEs supported to develop and grow ecommerce activity? Is this support satisfactory? What other policy interventions, if any, are needed?

Please provide your response in the box provided.: