



Reimagining London's Retail Parks

GL Hearn | May 2017

Introduction



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It is widely accepted that there is an ever-increasing need for new homes in London. There is only a limited supply of land and therefore greater significance is being placed on previously used land to be brought forward in an efficient manner to meet this growing demand.

Both public and private sectors are exploring all potential sources of new housing land. As set out in the Government's Housing White Paper, the range of sources of previously developed and under-utilised land for housing can equally apply to retail parks and warehousing as it often does for industrial land. On the face of it, such locations are relatively low density uses of land, though land values can be high.

GL Hearn, now part of Capita Real Estate & Infrastructure, has one of the largest and most experienced development groups in the UK. Since its foundation in 1923 retail has been one of its core areas of expertise. In this most dynamic and ever evolving sector, our research and thought leadership work has helped shape the expert advice valued by our clients. I hope you will find this latest report a valuable insight.

If you would like to know more about how we can assist you in delivering new opportunities or to create value from existing assets - then we would be delighted to hear from you.



Image reproduced with kind permission from LXB Retail Properties plc.

Setting the scene

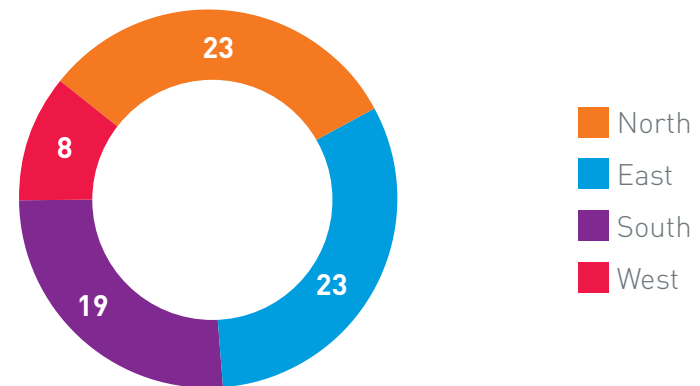
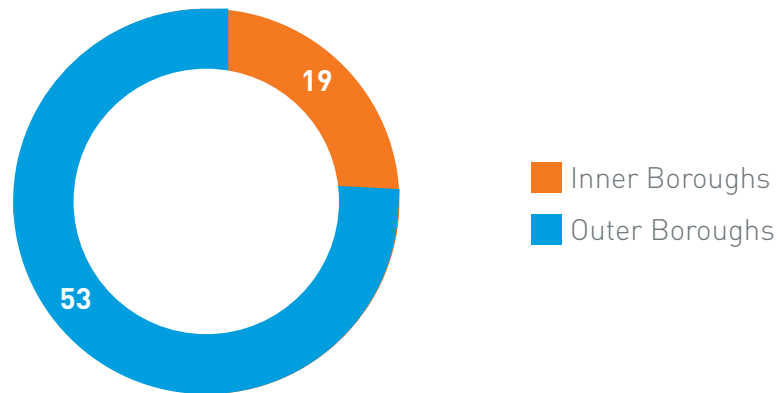
The retail warehousing market has been facing a number of challenges over recent years as a result of a decreasing occupier market, smaller unit size requirements, and long term leases from the 1980s coming to a close, amongst other matters. Out of town occupiers and retail park markets are polarising with many parks under financial and commercial pressure.

Equally, London's town centres continue to face commercial challenges - partly as a consequence of omni-channel retailing; historic out of town retailing performance; and more recent investment in these locations often including new complementary leisure offers. Given this context and the ongoing review of the London Plan, this now appears to be an appropriate time to reconsider the future role and function of retail warehousing and retail parks in London from a strategic spatial perspective.

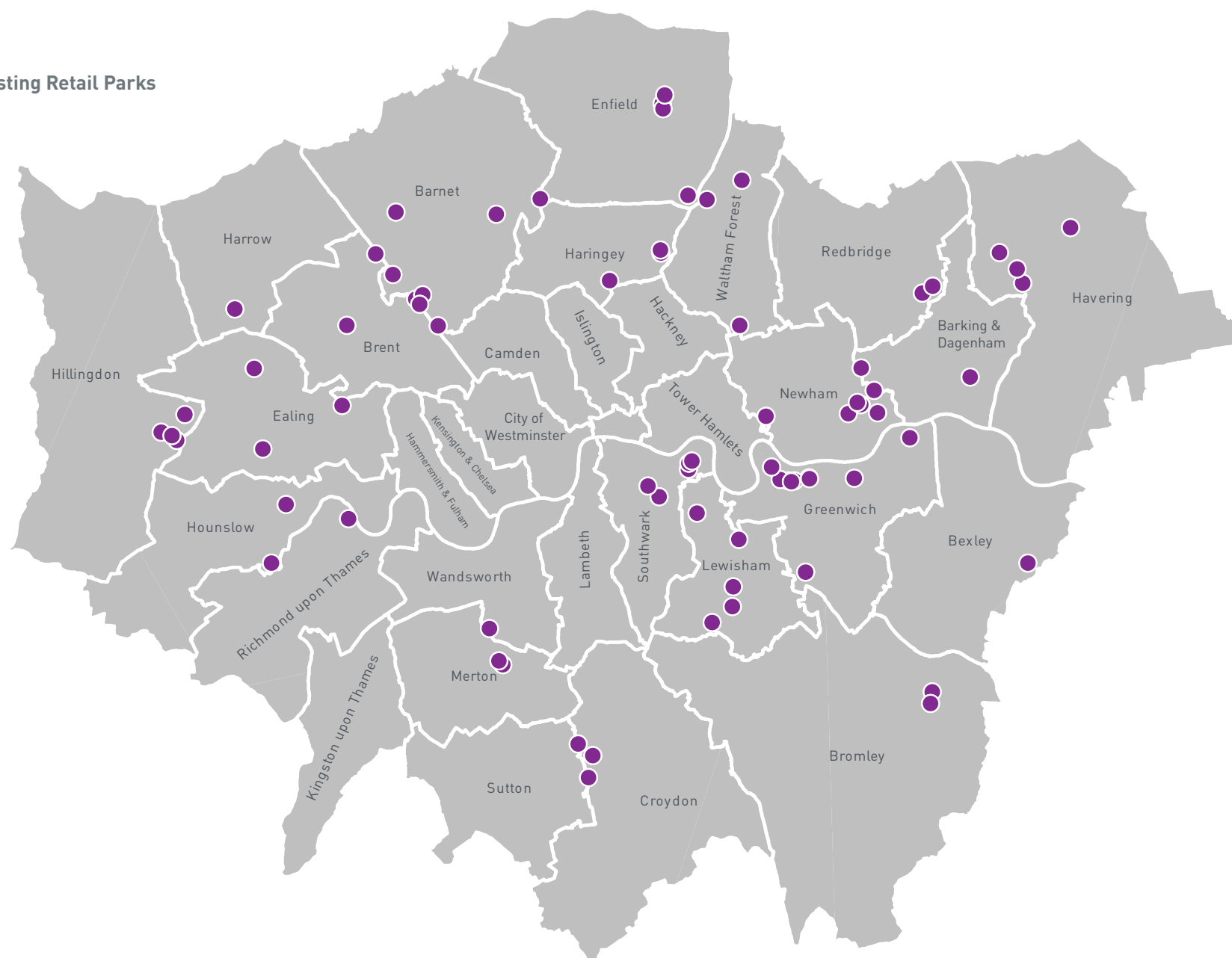
Extent of Opportunity

There presently are 73 retail parks (defined as three or more retail warehouses) within London and very few new schemes (such as Brocklebank Retail Park, in Charlton) are on the horizon. This excludes solus and two unit schemes which are extensive in number across the capital (over 70). Notably, there are wide variations of retail parks presence across London Boroughs. The majority are located in outer London Boroughs (74%) perhaps as one would expect – notably Lewisham, Enfield (both 5) and Barnet (7). Interestingly, some inner London Boroughs accommodate many retail parks, including Newham, Southwark (both 6) and Greenwich (8). West London (Inner and Outer) accommodates comparatively fewer retail parks. All of the retail parks combined equate to some 200 ha of land – this is the equivalent of approximately 280 football pitches.

Location of Retail Parks



Location of Existing Retail Parks

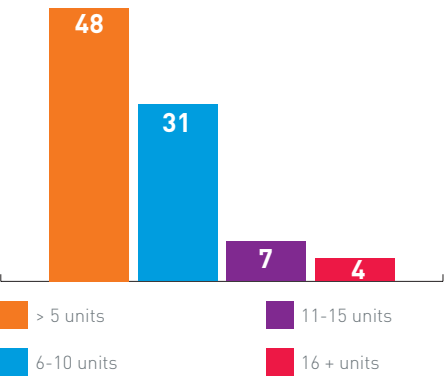


Source: GL Hearn Major Opportunities Search Tool (MOST)

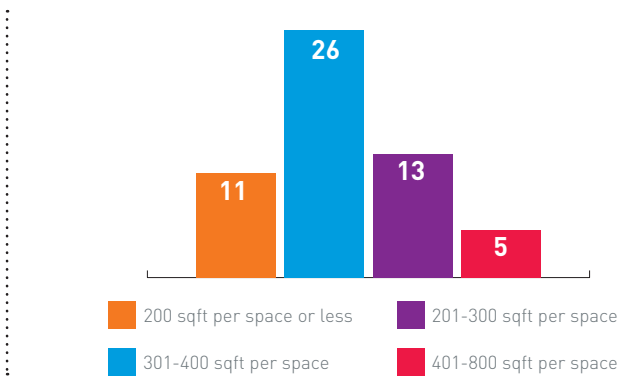
Size and accessibility of London's retail parks

There are significant variations in size of the retail parks in London – ranging from 3 to 35 units - although only a minority (17%) are over 10 units in scale. Floorspace ranges between 10,000 to 260,000 sq ft (gross) and perhaps unsurprisingly levels of car parking (where data is available) also shows significant variation between parks.

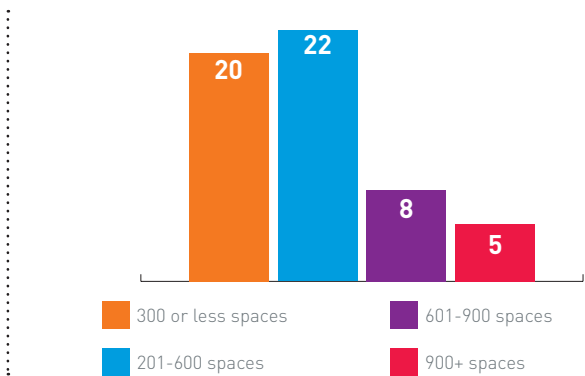
Shop Units



Total floorspace to car parking ratio



Car Parking

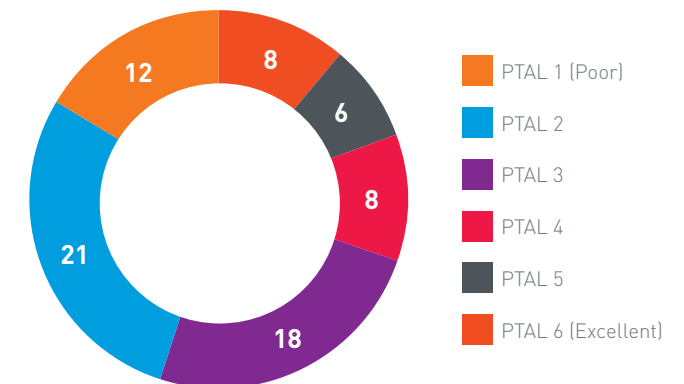


Size and accessibility of retail parks

Retail floorspace to car parking ratios vary significantly with one space per 26 sq m (280 sq ft) gross floorspace being the average. There are clearly a small number of retail parks with comparatively high levels of car parking which may equate to a surplus. Some of these locations also benefit from relatively high Public Transport Accessibility Levels (PTAL) suggesting further rationalisation of car parking may be possible.

Given London's good public transport network, it is perhaps unsurprising that almost a third of existing retail parks occupy locations accessible to public transport (i.e. 'good', 'very good' or 'excellent' PTALs), and are often close to existing and planned residential communities.

Nevertheless, the majority of retail parks are in locations with a PTAL of 1 to 3 (70%) and therefore lower levels of accessibility to public transport. This does not however take into account future infrastructure investment across London, such as Crossrail 2, the Bakerloo Line extension and other local service improvements.



The Scale of the opportunity

Most of London's retail parks are technically in 'out of centre' locations in planning policy 'sequential test' terms. In planning for retail growth, the 'town centres first principle' means that retail parks are typically the subject of planning restrictions related to the sales of goods and/or physical formats. However, over half of London's retail parks benefit from a relatively unrestricted planning position (i.e. 'open A1 Use'). On this basis, the likelihood for viable redevelopment for other uses will be diminished as comparative residential values would need to be high.

That said, many retail parks also fall within the regeneration areas identified in the London Plan or local planning policy documents. For example approximately a third of all parks are within identified Opportunity Areas or Action Areas particularly to the north and east of the capital – e.g. Upper Lea Valley and the Royal Docks & Beckton Waterfront.



Site of Abbey Retail Park, Barking (image courtesy of OMP Architects)

In such locations a range of alternative uses which support the delivery of new homes or jobs will be positively considered by the relevant local planning authorities.

There are already examples of retail parks being promoted for alternative housing redevelopment, such as Abbey Retail Park in Barking, and others such as at Tottenham Hale Retail Park where mixed use intensification is expected around the new Cross Rail station. To comprehend the extent of the potential development opportunity from a residential perspective, two residential densities have been applied across all retail parks below, under two potential redevelopment solutions:

Potential Residential Redevelopment Scenarios

		Partial Redevelopment	Comprehensive Redevelopment
All Parks (73)	Mid Density	13,600	27,300
	High Density	27,300	54,500

- Partial redevelopment = 50% site development
- Mid Density = 125 units per ha
- High Density = 250 units per ha

Though this simple calculation represents a theoretical potential, it demonstrates the scale of theoretical residential opportunity on land currently occupied by retail parks of between 13,600 and 54,500 new residential units across London. This is particularly important as this focuses on larger retail parks and excludes some 70 solus and double unit retail warehouse locations.

Securing the potential - market view

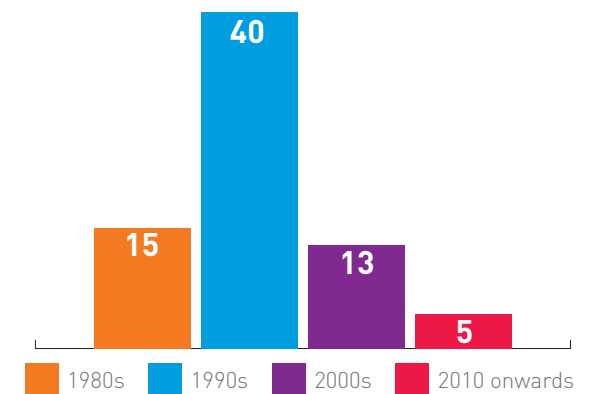
Occupier Market

Vacancy is remaining a stubborn, though improving, problem for many retail parks across the UK, though we understand that London's retail parks perform relatively well. There are, however a number of longer term leases that are coming to end in the next few years. The latest trends reported by Trevor Wood in The Definitive Guide to Retail & Leisure Parks 2016 show that the overall vacancy rate for London & the South East of England has fallen from its peak of some 9.8% in 2009 to just around 4.4% at the midpoint of 2016. This compares to the UK average of a peak of 11.8% in 2009 to 5.9% in mid 2016. The highest component of the vacant space is made up of Bulky Goods consented units, with the lowest being Open A1 consented schemes.

Investment Market

Interestingly, there are almost as many retail park owners as there are retail parks within London. The majority of retail parks are owned by property funds but there are few of these freeholders that can potentially take a strategic view of assets across London. The consumer economy in London had improved, supported by an improved housing market and an internet-driven change in shopper habits. However, with the uncertainty of Brexit and a likely rise in inflation coupled with a potential increase in unemployment (across the UK) consumer spending is anticipated to be cautious this next year.

Investor demand is still heavily biased towards prime assets and as such retail warehousing continues to deliver steady total returns with many tenants being prepared to renew leases for 10 years or more. In the last 12 months retail warehouse investment transactions in London represented circa 9.00% of the UK total at about £250m worth of assets being transacted, according to Property Data.com. Notwithstanding this, a poorly occupied and less vibrant retail park will present a more obvious redevelopment opportunity, particularly where the park's owner is able to forward plan in lease negotiations.



A fifth of London's retail parks were opened in the 1980s

Development viability

Nationally, refurbishments and the development of retail parks are beginning to pick up following the recession as many owners accept the need to provide a positive shopper experience for out-of-town schemes. Ultimately, the viability of any redevelopment will need to have regard to existing land value which will clearly vary from asset to asset. Notably many of London's retail parks are within the north and east where competition is stronger amongst parks and 'book value' can be weaker. Furthermore, unlike more industrial opportunities, retail parks have potentially a lower risk profile in respect of potential land contamination for example.

Comparatively, residential values continue to increase across many parts of the capital but will need to have clear prospects of exceeding existing retail park book values. This has perhaps most prospect for the dated first or second generation retail parks which have not benefited from investment.

Many retail parks are located within wider areas of low density uses. Adjacent land and buildings clearly offer the opportunity to create much greater development potential. Our research, utilising data from the Land Registry and Ordnance Survey suggest that approximately one third of existing retail parks benefit from an adjacent urban environment of low density use with relatively 'simple' land ownership patterns.

Conclusion

GL Hearn has undertaken this research which explores the strategic extent of this potentially regenerative land source. Nationally, retail parks are typically defined as being 'out of centre' with few alternatives for access other than the car. Perhaps unsurprisingly London is different. Many out of centre retail parks already benefit from good public transport access, and many will be supported by further infrastructure investment in London.

Redevelopment options for mixed or residential use can potentially benefit from good accessibility. Many of the high PTAL retail parks have above average car parking ratios suggesting that there could be reasonable scope for development within car parking areas.

Often retail parks tend to be located close to a foodstore or other existing shopping destinations, however, as significant number are located adjacent to other low density, low value uses - sometimes in single ownerships - such as industrial estates. On this basis, and where the adjacent land is not protected through planning policy, the redevelopment potential could be substantial.

Local planning authorities are often willing to reimagine the future of their retail parks either for alternative development, or as a more comprehensive and well-rounded shopping and community offer. Opportunities to create new homes, where satisfactory residential environments can be created, will also be typically supported by Councils.

Our simple analysis suggests that the theoretical capacity of retail parks across London could yield in the region of 13,000– 54,500 new homes within the Capital. This excludes solus and double unit schemes, which could provide smaller, though arguably more deliverable, sources of land.



Image of Tottenham Hale Retail Park reproduced with kind permission from Wilkinson Williams

There is clearly a strong market for many of London's seventy plus retail parks to retain their existing core functions. However there are probably equally as many opportunities to intensify and diversify the property offer. For many owners, the determining factors driving investment discussions include occupier circumstances; the proximity to housing and prevailing values; opportunities to enhance accessibility; an engaged local planning authority; and the nature/extent of investment undertaken at the park to date.

Although the investment performance of retail parks is strong in London and the South East there remains a 'churn' of investment opportunities coming to market, and therefore opportunities for existing owners, new entrants and local authorities, to consider redevelopment potential.



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