

CPOs and retail – Portas revisited with Stan Edwards



A year on and the Portas Pilots appear to have achieved nothing lasting. **Stan Edwards** points to no CPOs being promoted related to any proposal that, in its fullest form, would have meant the wholesale restructuring retail in towns and the ensuing resultant chaos from a cosmetic intervention.



*"Whilst walking through a thoroughfare
I saw a shop that wasn't there
It wasn't there again today
I wish that shop would go away!"*

Introduction

The UK government sought a stop gap breather from the pressure mounting to "do something" with town centres – it was roses, roses all the way ... a year ago this very day¹. Portas Pilots were going to point the way to solving the problem of town centres being depleted of shops.

Most, with a background in urban property, knew that from the outset **the Portas approach would result in recriminations and tears**, and was flawed on two counts:

1. The underlying proposals would have meant the wholesale restructuring of government intervention through policy and statute to reverse growth in the form of retail drift from town centres – a non starter.
2. Even if Portas had been right, the sum of £100,000 per authority does not even scratch the surface in respect of the sum required to restructure/re-orientate towns.

The Portas Pilots have had their desired effect – temporary distraction. The underlying premise of restoring the cores of our towns and major retail centres is economic fantasy – not only one horse has bolted, but the whole herd have bolted everywhere never to be retrieved, it is consumer driven. Notice from my previous article² that the Portas proposals

were "supply side" when retail property is demand orientated. No matter how much business rates are reduced and shops subsidised to the hilt, **without the necessary consumer demand, shops will continue to remain empty**. It is the same argument, in microcosm, to that in relation to rural post offices. My points were contrary to a retail renaissance in town centres, but that does not mean that nothing will happen – restructuring and reorientation are key to consolidating and compacting a new profile of mixed use.

Assessment

I too only scratched the surface in referring just to two of the major drivers – the forces within the retail industry and the urban process. My hobby horse even before the recession particularly related to CPOs containing a half-baked approach to assessment which led to unintended consequences. Real property over the years has developed an economic/financial approach when a behavioural approach would assist more in terms of how the market performs, and how urban change should be considered. **Too often the real property of our towns are just considered as assets, rather than a scarce resource**. So what sort of things should we look at to inform our decision making process regarding towns generally and retail in particular? We have the:

- Retail industry economy (based on Porter's Five Forces)³
 - Internal market
 - Bargaining power of suppliers
 - Bargaining power of consumers

- Competing substitutes
- New entrants into the market
- Nature of the market⁴
 - Space providers
 - Space users
 - Space facilitators
- Urban economics⁵
 - Urban structure and dynamics
 - Succession of uses
 - Situs
- Behaviour of the market⁶
 - Perception
 - Market segmentation
 - Rational behaviour
 - Market involvement
- Intervention in the market
 - Planning regulations, policies and activities

NB – although listed separately, this could be considered as part of the topic of space facilitators.

Even with this expanded list, not all the bases are covered.

The world ain't what it seems is it (Gunnie?)

You think you've got it figured and you're wrong! (The Shooter)

It is worthwhile to consider the above in greater detail, and then take a number of town centres and briefly analyse them in terms of those factors. In so doing, we can hope to assemble some basic tools to consider each settlement we know, recognising that each will have its own characteristics and core similarities.

To be able to describe our towns, we will require a combination of both quantitative and qualitative analyses.



“The Portasian solution ultimately says that everything should be geared to the centre as if people did not have a choice. Thankfully in the west we have a “demand” economy where the consumer is king.”

I felt that fresh thinking and approach was needed to apply to the UK model. To this end I have freely introduced applied ideas and principles of Dr James Delisle of Washington University, whose works are highly regarded in the field of behavioural real estate and situs⁷.

The retail industry

Last time we saw that it was not as simple as putting a cosmetic Portas fix on a town because its internal market and supply side solutions can only go so far to change retail patterns. The old Soviet Russia had a “command” economy where there was control as to what was being sold and where it could be bought. The Portasian solution ultimately says that everything should be geared to the centre as if people did not have a choice. Thankfully in the west we have a “demand” (mixed) economy where the consumer is king. Not only do we have the bargaining power of consumers, but the availability of substitute places to shop, much to the chagrin of those in planning policy. **All new entrants to the market recognise the importance of accessibility and convenience**, with the ultimate convenience demonstrated by internet shopping.

The nature of the market

Considering the retail industry and urban dynamics is not enough. Always we have to look at the major partnerships in the retail real estate process – space producers, space users and space facilitators/

infrastructure providers. The roles overlap and are linked. Each can be segmented and considered in terms of direct and indirect involvement in the market. Space providers are considered in spatial terms (contactors, developers) and investment terms. Space consumers relates to owners/occupiers, but also to shoppers, clients and beyond. Space facilitators operate on the periphery of real estate, but have a significant impact.

The market (retail in this case) tends towards an equilibrium state going through cycles, but with the advantage eventually shifting from space producers to space consumers. This is particularly seen in the high streets of town centres – the consumers have moved out.

Sometimes (as in the early noughties) one group exerts undue influences causing turmoil in the market. In this case, **cheap credit created over-building and what ensued from overheating**.

As the groups go through cycles in a balanced market, each acts in ways consistent with their relative strengths. Many times, however, we have seen interventions that create dramatic changes in the space producer/user interaction. This is particularly true when space facilitators in the form of infrastructure or regeneration projects change the underlying nature of real estate market – these create windfalls and wipe-outs. In many instances these involve the high street. Intervention in the form of planning policy and regulations may not be unacceptable in themselves, based upon the opinion of well meaning urbanists seeking to create “better” urban form. However, their impact on

the market’s ability to function should be scrutinised far more than they are at present, attempting to identify potential unintended consequences that might render them unacceptable. Attempts to tinker with the centre of Newport illustrates this perfectly.

Urban land economics

This cannot be ignored. It is demonstrated through what we know of urban structure, succession in change and situs that are all inter connected. The problem comes with an inability to understand that urban environment is constantly impacted by change through the processes of growth and decay. The structure of our towns and cities is considered in terms of static equilibrium models (axial, concentric zone, sector, multi-nucleii) when the whole city is dynamic. Citizens, planners and politicians almost live in bubbles, trying to work against inevitable change. This is why Portas proposals were so readily accepted, like mackerel snapping at feathers – it was/is a distraction from an unpalatable reality.

Another dimension is *succession*, focussing on the natural evolution or transitions of properties, neighbourhoods and assets over time. **The succession process goes through growth, maturity, decline ...** followed by uncertainty, further decline, and then perhaps some kind of renewal. Succession can be considered in terms of use, user and intensity. The succession process is modified (apart from government intervention) in respect of the population/distance gravitational effects, producing the critical mass of

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large cities. Consider Bristol with Cribb's Causeway, Birmingham with Merry Hill, London with the likes of Bluewater, in that the only reason that these large regional centres exist is that they are parasitical to the critical mass of the large city (see diagram). This was the prime reason for the development of St Davids 2 in Cardiff, in that, although it has critical mass, it did not have enough for one of these regional centres to locate on its outskirts. **With the WDA's CPO powers, the threat was internalised by developing within the city itself.** A T&CPA CPO promoted by Cardiff CC, may not have been able to demonstrate the regional dimension or justify the negative affect on parts of the traditional shopping area.

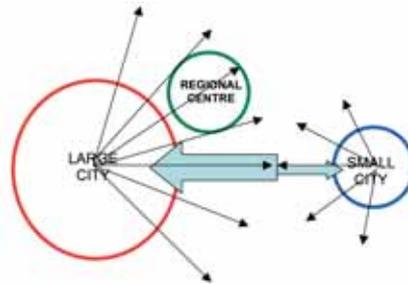
The other component, *situs*, is critical, in that it considers in depth the real estate location decision making process. *Situs* translates real estate special needs into solutions. Space users have needs and wants derived from a "collection of functions". *Situs* recognises that there are time dimensions where a town centre is passing through the succession life cycles. The total urban environment means that the whole of urban activities and relationships impact on specific functions, like retail generally, and within that town centres in particular. It involves factors external to the centre the influence the economic performance of a centre and its use. As a process, *situs* analyses:

- key activities
- the nature of associations between activities
- accessibility to the surrounding area
- environmental impact of the total area on the site use (town centre).

The activities would be derived from an economic base study, and are quantified in terms of frequency and magnitude of use. The associations in *situs* define how they agglomerate (cluster) and the economies derived from that. It also defines the diseconomies we see when there are diminishing returns to agglomeration that forces growth outwards, forming sub-centres (EOT/OOT and beyond). Within *situs* are dominant and subordinate uses. Satellite uses (e.g. OOT) compete with dominant uses, and their agglomeration benefits increase choices. Accessibility addresses the degree of convenience or inconvenience involved in moving people, goods and services between different centres of activity. It is a major factor in not being able to attract shoppers back into town centres. It is worthwhile to take breath and take in that the extent of all the foregoing considerations and those to follow do not appear to have been on

Portas' radar – they are, however, not new - just conveniently forgotten!

Regional shopping centres



Stan Edwards 2013

Gravitational pull in. Expenditure push out.
Regional centre locates close to larger centre.
Uses the larger centre's pulling power.

Behaviour of the market

An understanding of the behaviour of real property is becoming an increasingly important factor in understanding the processes to ensure effective decision making, avoiding wasteful projects to demonstrate activity, rather than a cogent well considered intervention.

The concepts of perception, market segmentation, rational behaviour and market involvement, are key to analysing decisions made by space producers, users and facilitators.

Perception

Properties in town centres are physical tangible assets, but *situs* extends beyond the property or the centre to the environs, linkages and rights bestowed upon the space user. Some attributes can be quantified, but others are less tangible and qualitative. **A space consumer buys a set of assumptions about that property, rather than a set of facts.** We are dealing with something dynamic and changing over time, rather than static equilibrium models. Many decisions vary dramatically in precision, because of focus on generalisations and categorisations rather than physical measurements and assessments. Before perceptions can be factored in, they must reflect the consumers sensing "just noticeable differences" (JND) between retail centres. For space users' measures of the physical elements have to be combined with how they are processed and interpreted by the decision maker. There are also many perceptual and behavioural biases, a few of which we can readily identify with:

- authority bias – relying on expert opinions
- bandwagon or herd bias – the lemming phenomenon
- optimism bias – "developers syndrome", believing and working to make it happen
- ostrich bias – ignoring facts so they go away and therefore change the circumstances.

Market segmentation

By segmentation, we can develop a better understanding of what drives components identifying new opportunities, increases existing penetration, captures complementary customers or predicts market behaviour for differentiated products, including customising the marketing mix and predicting marketing behaviour. Without going into detail here, **segmentation may be categorised as none, complete and selective.**

Additionally, again not going into detail, the bases of segmentation include geographic, demographic, psychographic, behavioural and sectoral. However, in retail property, an important general consideration is the recognition that there are two types of space users – direct and indirect. In trying to ensure success, the developer may try to *think like a tenant*. However, to ensure long term success is the ability to *think like a shopper*.

Rational behaviour

This addresses the question as to how segments process information to make retail property decisions, what drives their spatial demands and the combination of segments for a certain retail locations. At a segmented level, peer establishments will tend to behave in a similar manner in making competitive decisions. If rational behaviour is assumed, then there can be more valid and reliable predictions. However, in retail, some property decisions may not appear rational, in that spatial consumers do not always do what is expected. Indirect spatial consumers (shoppers) from Wales travel miles over the bridge to shop at Cribbs Causeway without care for travel costs or tolls. **This may not be rational in a strict economic sense, but perfectly rational to the respective decision maker.** The inability to predict behaviour may be due to a lack of understanding of the consumers' spatial decisions, and how consumers exercise choice in alternatives and how they make complex highly involved property decisions.

Market involvement

The notion of involvement suggests that consumers' decisions and problem solving depend on their level of involvement or engagement in the process. This can range from high (costly, complex, risky, important, infrequent) to low (cheap, simple, common, low risk). **Given their nature, decisions in retail property tend to be in terms of high involvement and formal decision making.** However, the behaviour in certain segments sees some decision makers make quick decisive property decisions without much thought given to the process. To many, this is a coping mechanism related to the enormity of the task. However, when it comes to CPO and a compelling case in the public interest, all decisions must hold up to the scrutiny of being justified.

The decisions for our towns should be market-based and socially responsible. The importance of the market is to ensure that demand is satisfied today and into the future. Social responsibility should recognise the externalities of environmental effects and congestion caused by space user decisions. But the UK government goes beyond that simple approach.

Government Intervention

Surely the government can help – they know everything! Policy (NPPF and PPW) should be able to assist, but it is noticeable that the government found that NPPF could not solve the current problem. **This is why they attempted the Portas approach.** Welsh Government (WG), to its credit, did not pursue the Portas Pilot approach, but it is unlikely due to any logical reason – more like NIH. The defect in national policy is that it can intervene in the market negatively, to attempt to limit the perceived influence of out of town coupled with a green anti-car ideology – it otherwise fetters itself. In Wales, PPW 10 describes how to restrict OOT growth, believing that it is the cause of the town centre demise, when actually in-town congestion and constraints are a town's own worst enemy.

Competition

The question is what level competition impacts on town centres, and whether it is a good thing. It depends to a large amount on the state of the macro economy, and the type of intervention taking place. Competition is laudable in thriving market conditions, regulating prices and imposing

a rationing role. The problem in a faltering economy is that having competition as a driver for growth is difficult for those who would start a business, and a threat for those existing traders struggling at the core. The recession has seen the market spiral downwards, in that there are fewer customers for whatever reason, and competition means that there is less of the cake to be shared. However, customers in a demand economy need to be able to make comparisons and travel to those locations where they can do this – the historic success of the traditional centre is exported.

Small town settlements

The socio/economic stability of small town settlements are provided with no protection from competition. **The problem is not even OOT, but the very policies that drive the competition to the centre of a stable settlement.** These small high streets are threatened by the very policy and statute that purports to assist town centres. Here, settled villagers see, perhaps, the only village pub close, only to find it reoccupied by a competitive "metro" line of one of the superstores. Destabilisation occurs by the traditional family business not being able to compete and the ensuing socio/economic implications change the traditional core for ever – such is the nature of the market, such is the ineffectiveness of intervention to counter it. Examples can be found everywhere – I look closest to home at Caerleon, Newport.

Sequential and needs tests

The rationale behind these test are almost unbelievable. The sequential test is on the premise that extensive growth impacts on the centre, when lack of opportunity and constraints/ congestion at the centre has forced the growth outwards. The sequential test actually forces retail towards the centre, where any new development competes with what is left in a core attempting stabilisation.

The "needs" test also creates anomalies. It is used by developers in its crudest form to show that there are leakages from the centre, which they argue could be adjusted by producing shops with that missing profile within the centre. No-one is able to say with any certainty where these leaky spenders currently shop, or that even just producing shops or encouraging space users to locate in a development, that the customers would be dislodged from their existing spending patterns. The developer's

objective in many instances is to obtain a let development (and if not let, transfer the risk through a lease to authorities) and quickly sell on to an institution and disappear, leaving the authorities / ratepayers to pick up the ongoing cost of a "soon to fail" white elephant. This is a highly cynical view of some to make a point.

Case studies

Once it is understood that retail is a highly integrated part of the market, and that as such it is difficult to positively control it, then this starts to lead to an understanding of irreversible change, incomprehensible to politicians and those who would seek to intervene in the market.

Newport

It will be recalled that Newport's solution to a faltering centre was (and still is) to plunder Commercial Street against the council's own policies, and re-establish it in the Friars Walk scheme alongside the centre. The council rationale can be seen in stated obsession with failing town centre ranking, and the desire to once again compete with Cwmbran, hoping to have Debenhams as a flagship attraction. **The Friar's Walk scheme, after ten years, with Queenberry as a developer to replace Modus, still has no green light.** Newport had more than a Portas £100,000 – it had £2.6 million to be spent on similar things. Implementation and the perception of the lack of confidence and clarity in decision-making is a significant factor. We see perhaps, optimistic and ostrich biases.

Whilst fumbling goes on regarding the city centre, the evolved convenient and accessibly of Newport Retail Park at Spytty, just two miles north east of Newport, has accommodated the M&S disassociated from the centre, to accompany Boots and other nationals, alongside a redeveloped Tesco of almost aircraft carrier proportions! Additionally, an enlarged Sainsbury's relocated from edge of centre to a position off a distributor alongside the M4, with a high degree of success. Whereas the centre of Newport cannot compete with Cwmbran, to some large extent its new satellites do. OOT for Newport is also partially Cwmbran's OOT.

Here is a strange observation. Some weeks ago there were complaints that on one or two days, Spytty was encountering traffic management problems. This is to be expected, in that it is popular, accessible and convenient. Here's the rub, and the essence of my argument, in that for

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Newport City centre to be half as successful as Spytty (should Friars Walk proceed) it would be almost permanently congested – the diseconomies of agglomeration would have set it. QED!

The changes in Haverfordwest should also be salutary for Newport. This traditional hub for west Wales is experiencing the problem of growth in a cramped town centre. **Sainsbury's on the back of a large residential scheme has received permission to develop on the edge of the core.** M&S in a new venture located at the OOT "hospital site", to be accompanied by Boots moving out of the centre ... but guess who joined the party – Debenhams! Debenhams, applying segmentation, see that they have a role at the centre of cities where critical mass is found, and in significant OOT locations where there are retail features attractive to high earners, who would not entertain coming into town and all the hassle. Differentiated markets! No wagering on which way for Newport. Newport is characteristic of many similar retail settlements not only in the valleys of Wales, but throughout the UK.

Pontypridd

Pontypridd is another town where the related spending power has departed. Once the pride of the Taff and Rhondda valleys its decline matches Newport. Ten years ago, there were two developers fighting over promoting a scheme for the abandoned 1970s Taff Vale Centre. Now that is demolished, and the town struggles to find that equilibrium level in the succession process. Diseconomies of agglomeration are found in constrained highway accessibility, the river and Ynys Angharad Park. The bus station brings some convenience shopping to the centre, as does the adjoining residential area, but the railway at the other end of the main street easily transports shoppers to Cardiff. **Car owners travel to OOT centres, such as the retail park at Talbot Green.** Convenience is found in satellites and other centres, where the A470 easily carries trade away from Pontypridd.

Bridgend

Bridgend too is severely constrained by the river and topography, and the arguments for Newport and Pontypridd also apply here. The centre is ringed by convenience stores, with a retail park half a mile away, on the edge of centre. Sainsbury's operates very successfully alongside the BAA McArthur-Glenn factory

outlet centre, which has a wide catchment. Further development in this vicinity is however constrained by the highway capacity of M4 junction 36. Bridgend argues that the development at J36 caused the demise of the centre, but it was feeling the diseconomies of agglomeration long before then, in the retail parks in close proximity. The politicians would seek to restore the power of the central core, even attracting a Debenhams, but the arguments in this article demonstrate the futility of that. It is a sorry centre that has to hang its success on the attraction of one particular store. The council were complicit in attracting Asda alongside the centre, but as anyone would guess, it acts as a destination in itself, and is topographically disconnected from the core.

Barry

Barry was once a major shopping centre now relegated to a town/district centre. It suffers from its linear nature, as do the valley towns and Newport. **The centre is ringed by edge of centre and edge of town superstores which cater for most daily population needs.** Like Newport, it has a close indigenous population, and the town centre operates at a core town centre level to provide many of the basic daily needs. The constraints are such that "spill over" demand for comparison goods is taken up by Cardiff, Culverhouse Cross and the Barry Docks regeneration area.

The politicians here would sincerely "love to do something", but its over-shopped linear nature leaves itself a challenge common to many high streets.

Llanelli

The town centre is a serious problem, but only if it is attempted to replace what has gone forever through the factors of retail growth characterised in other centres. Like other centres in Wales, it attempts to finally cope with the loss of important basic industries. Leisure and tourism are important but less substantial employment factors. It too has its convenience superstores and retail parks, but the connection to Swansea and its retail outlets provides an additional competitive factor, preventing real expansion.

What can be done?

Many decision makers end up as if they are rabbits caught in headlights. The unpalatable truth of town centres is that we watch succession take place, and even interventions – to try to defer this can only

really accelerate the process. Commercial Street in Newport would have felt the changes of urban growth as well as the economic recession in a "no scheme" world, where Friars Walk had not been conceived. **As it is, the interventions in respect of Friars Walk hurried along the change.**

Many of the "tools" mentioned above can enable a better prediction of our future town centres. Certainly there is no transporting to centres of the past, where the images on the photographs are fading. Even successful towns such as Cwmbran, built fit for purpose in the 1970s as a car friendly sub regional shopping centre, will eventually change. The retail market is a bit like Le Chatelier's principle – "If to a system at dynamic equilibrium a constraint is applied, the system will readjust itself so as to overcome the constraint."

So, we tinker with the retail market at our peril. Heavy handed intervention by government in any form can only achieve an over-planned market, requiring us to exist within a "command economy" mentioned earlier. As it is, the greatest difficulties for any town centre scheme will be a compelling case in the public interest. Why is it compelling, and is it in the public interest?

I finish on my earlier point, in that although a retail renaissance in town centres is unlikely, it does not mean that nothing will happen – restructuring and reorientation are key to consolidating and compacting a new profile of mixed use. ■

Footnotes:

1. Robert Browning – 'The Patriot'
2. IRRV Valuer magazine, June 2012 – CPO and regeneration
3. Porter, M.E. (1979) How Competitive Forces Shape Strategy, Harvard Business Review, March/April 197
4. James DeLisle Behavioural Real Estate
5. JD
6. JD
7. http://jrdelisle.com/jrd_text/1Chapter2_NewV20.pdf

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