



TOWN CENTRE INVESTMENT ZONES

Getting investment back into the
high street

Real estate

Report of the Fragmented Ownership
Group



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Foreword

Securing successful town and city centres remains high on the national – and local – agenda. Since the 2011 Portas Review, much activity has centred on facilities management – like “crime and grime” issues – which is welcome and beneficial, but is unable to tackle underlying structural problems in many town centres. We still see chronic vacancies, poor quality occupier line-ups, tired environments and overall poor customer experience in many places – making it impossible to attract the investment needed for improvement.

But this is not just about expanding the range of shops available for consumers. Town centres can and should be a vital social centre for communities. They can be an engine for economic growth through the encouragement and empowerment of new local businesses. And they could also provide a significant amount of space for urgently needed housing – which would have the added benefit of bringing to life locations that often become inhospitable ghost towns in the evening. All of this suggests that we need to be looking for fundamental structural change in our town centres: they need to be about more than retail and they need to be helped to adapt to this fundamental change in role.

This report is based on the findings of a detailed study (available in a separate technical report), funded by the Department for Communities and Local Government (DCLG) and matched by three pilot councils. It examines how investment can be encouraged into town centres to bring about a change of role from being purely retail focussed to becoming social centres, engines of economic growth and new, exciting residential locations. The central barrier to this change of role – and the focus of this report – is fragmented ownership. The solution is the adoption of an asset management approach – Town Centre Investment Management (TCIM).

Using over 20 case studies, where an asset management approach has proved successful, and applying the principles to three pilot feasibility studies which appraise real properties in Dartford, Weston-super-Mare and Melton Mowbray, the study tests the viability of the concept and its funding potential, concludes that it can be made to work and proposes that it be adopted and taken further by both national and local government. The report also shows that localism, Business Improvement Districts and Business Neighbourhood Plans can be utilised to build consensus around the need for significant structural change.

Finally, the report aligns the TCIM asset management approach with the other town centre initiatives, by proposing the concept of Town Centre Investment Zones to provide better focus for investment and more effective leadership for town centre regeneration.

I am most grateful to the Steering Group for their wisdom and encouragement, to DCLG for funding, to the officers of the three pilot authorities for their assistance, funding and support; and, of course, to Peter Brett Associates and their collaborators Citicentric and Bond Dickinson, for the content.

Liz Peace, Chair, Fragmented Ownership Steering Group

1. Meeting the town centre challenge

There are significant macro-economic forces putting pressure on our town centres (the pace of which is increasing), including polarisation, retail portfolio restructuring, changing consumer behaviours and aspirations and, not least, e-commerce and the internet.

The result is that many retailers need fewer outlets (and in fewer towns, focused in bigger boxes, often in bigger centres); some retailers are not surviving at all; some don't need physical space; and major players increasingly care about their neighbours, dictating 'pick lists'. As a nation we have too many shops.

Together, these trends are posing challenges to the ability of town and city centres to deliver space suited to demand, to secure a better occupier line-up and improve overall customer experience.

These trends also accentuate the growing challenge of our town and city centres to adapt successfully. There are too many town centres where vacancies are high, performance is sub-optimal, the experience is poor and with too many shops (and often too many are too small). Many parts of our town centres look tired and much of the environment is simply not delivering an enjoyable customer experience. Relying on "facilities management" will not deliver the necessary degree of change.

While our High Streets have been shaped by the past they are now trapped in their current configurations and are often in poor shape to face the future. We need new solutions, especially to the core obstacle of fragmented ownership. Land assembly is also a barrier to the delivery of growth and new homes in town centres.

Shaped by the past, trapped in the present, threatened by the future.

The retail/leisure/property/investment sectors are agreed that the future¹ of town centres is no longer mainly about shopping. It is more likely to be as much about leisure, living, learning and local services, as well as business.

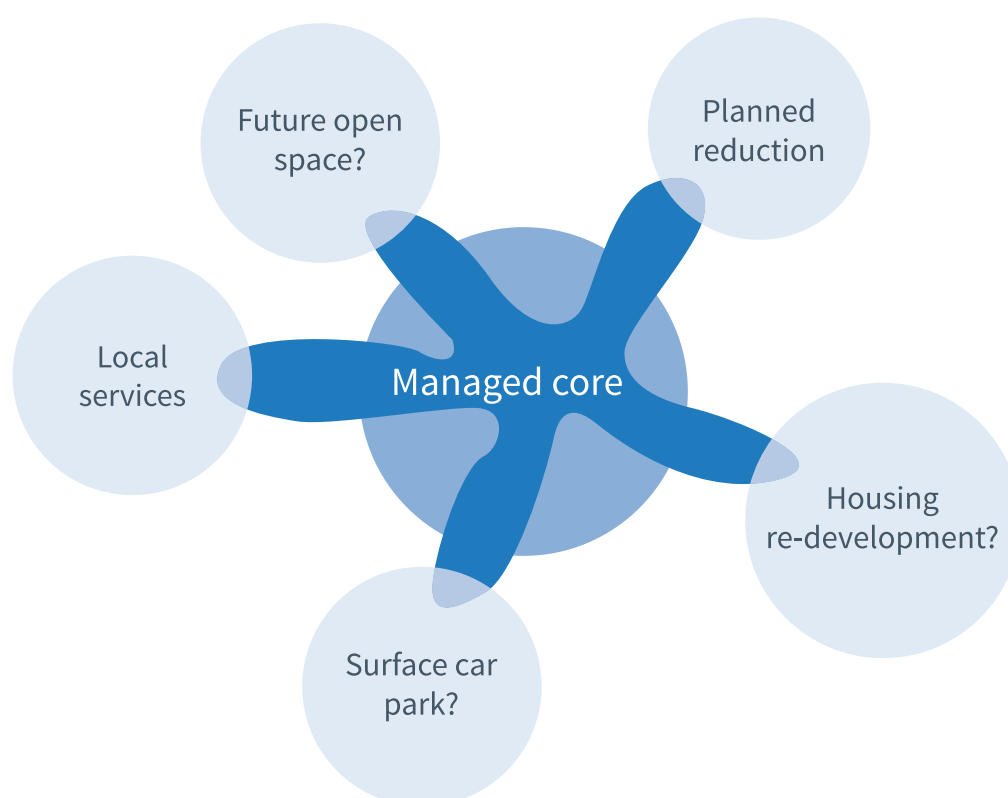
At the heart of this report is the development of a model to overcome the barrier of fragmented ownership and at the same time create a basis for attracting investment back into the High Street. This will be done by then managing that investment alongside other town centre initiatives, such as Business Improvement Districts (BIDS) and business neighbourhood planning.

2. Restructuring town centres

Town centres tend to have a core and fringe. Often there are simply too many shops, especially at the fringe, where the centre may be too strung out with areas dominated by vacant or underperforming units. The core may be underperforming and needs to be part of a wider healthy centre. These two dimensions of a town centre may need different solutions.

In some town centres there is a need for reducing the fringe, where we have an over-supply of poor quality stock (that is often not fit for purpose), to achieve a stronger, better-managed town centre core. That will require re-structuring, potentially on a significant scale. Town centre restructuring requires that local authorities tackle the problem in two ways.

The first is to decide on the extent of, and then manage more proactively, a newly defined core. The second is to look at possible new uses for the fringe areas that are no longer to be managed as part of the town centre core. This could involve conversion to housing, in particular, and/or employment, open space, education, and local services.



This restructuring process could be managed through use of the planning system, possibly Local Development Orders, or through redevelopments for other uses that may well create value that could be captured and used to support the adaptation of the town centre core. This report concentrates primarily on the first issue. We do, however, comment on its relationship to managing new uses, as part of the reconstruction of the fringe.

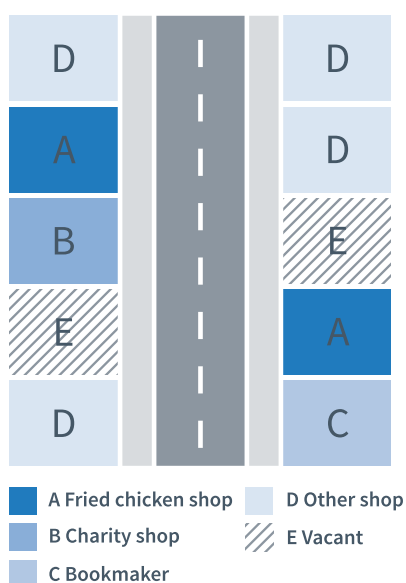
3. Adapting town centres

Town centres are struggling to adapt to change. Moving from a struggling to a successful High Street is illustrated in the Policy Exchange's 2013 Report². It shows how the current jumble of stock (where most of the units are in fragmented ownership) is adapted to deliver a well-managed occupier line-up with improved performance and offering a better customer experience:

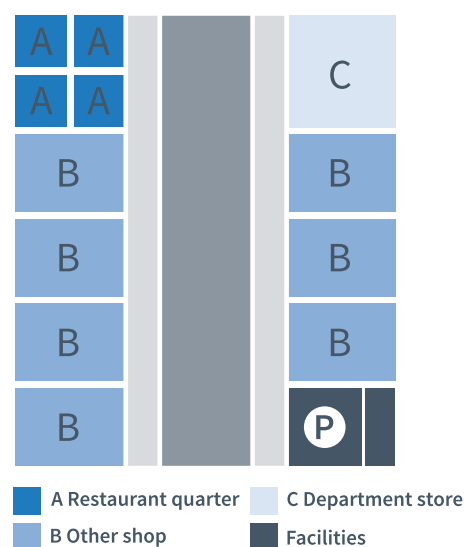
Source: Policy Exchange, *21st Century Retail Policy: Quality, Choice, Experience*, 2013

Struggling high street vs successful shopping centre or high street

Struggling high street



Successful shopping centre or high street



Fragmented ownership also encourages short-termism, a focus on immediate investment outcomes, and without regard for wider impacts; it disables joined-up thinking and action. It prevents adaptation being delivered. So, what needs to happen is a pooling of a critical mass of freeholds in a given area, together with some leasehold and other interests, to form a new investment entity.

This gives sufficient control to implement the required degree of change through asset management. Existing businesses are not necessarily affected, as the process of transformation will be influenced by lease expiry patterns.

Pooling can be achieved in three main ways, or a combination of all three:

- Voluntary pooling by the asset owners themselves, especially where there are some significant blocks of ownerships already;
- Acquisition of assets – not necessarily the businesses – by the new investment vehicle itself, or the council;
- As a last resort, compulsory acquisition by the supporting local authority.

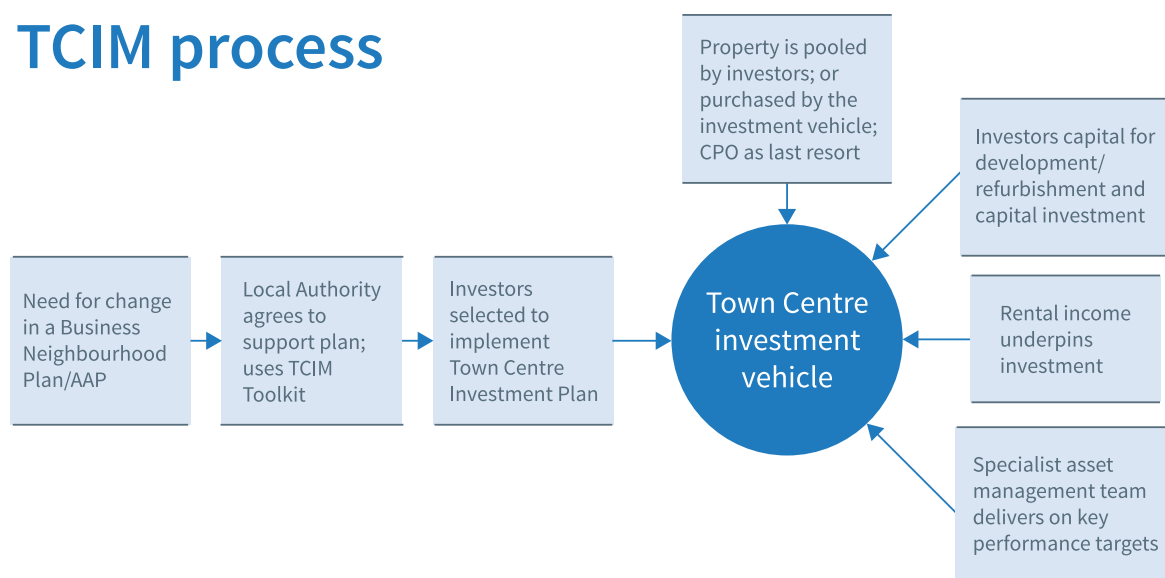
4. Town Centre Investment Management

The approach to pooling assets – which we develop in the Technical Report – we have called Town Centre Investment Management (TCIM). This has two main objectives: to overcome fragmented ownership and enable adaptation through asset management. This is achieved by a degree of control that enables the physical adaptation of assets, the curation of the occupier mix and the more effective marketing of the destination. And this is all facilitated by assets being managed as part of a single entity.

Town Centre Investment Management involves the pooling of a critical mass of property assets into an investment vehicle that allows the stock to be adapted, the mix of occupiers to be curated, the investment to be asset managed and the destination to be more effectively marketed.

The new investment entity can be a partnership, company or Real Estate Investment Trust (REIT). As an income-producing investment vehicle it can attract fresh funds back into the town or city centre and hire expert asset managers.

TCIM process



In this diagram, a need for change is identified by local investors and businesses, as well as the local community, through a Business Neighbourhood Plan; equally it could be via an Area Action Plan (AAP). The council can support the plan through local leadership, land assembly and helping set up the new investment vehicle.

5. New housing and economic growth

Town centres – both in their core as well as in fringe areas – are accessible places suitable for densification and accommodating more housing. They are particularly suited to meeting the needs of both younger and older age groups. Consequently, increasing investment into a well-managed town centre will contribute substantially to housing provision, economic growth and the evening economy.

There is considerable scope for combining the restructuring and adaptation of our town centres, which is principally focused on street-level activities, with developing new housing on upper floors. The core area is likely to be the focus of intensification, while the periphery is more likely to be suited to larger-scale new housing projects.

In 2014 the Greater London Authority (GLA) commissioned a report to address the twin issues of retail reconstruction in town centres and the need to find more land for housing. The report³ advocated the Mayor's support to be directed at those London town centres which have the potential for intensification, which are under threat of decline as a result of structural change and where there is the commitment and capacity to deliver intensification. Town Centre Investment Management was one of the solutions recommended as a means of overcoming the common obstacle to assembling sites for housing in town centres as well as retail/commercial uses.

Ponders
End, Enfield,
Maccreeanor
& Lavington
Architects



More recently, London First's Redefining Density Report⁴ concluded, in relation to London's town centres, but which could apply to town centres elsewhere, that:

There is great scope to make better use of land in town centres, particularly given the evolving nature of local demands. Changes in consumer expenditure and behaviour, driven in part by the impact of the internet and multi-channel shopping, as well as by the growth of large shopping centres, pose a number of challenges to many town centres, especially the mid-sized centres. In some instances there is surplus retail space and/or the space needs to be reconfigured. Well-designed housing, complemented by leisure and community facilities, can breathe fresh life into many of these centres.

6. Leadership, localism and implementation

Leadership

A pre-requisite for developing a strong town centre is the support of the local authority, with strong political leadership and competent executive skills, who can take the lead in plan-making – a Town Centre AAP or masterplan – and land assembly.

A BID, which is a locally funded and accountable organisation, can play a very supportive role in advocating change. It can have an important part to play in the facilities management of a town centre but is unlikely to deliver structural change.

Localism – gaining consensus for change

The preparation of a Business Neighbourhood Plan would offer significant advantages for the TCIM approach. This is because of the involvement of both business and local residential communities, resulting in a statutory development plan and the delivery of a mandate for change via a referendum.

Also, the local community can make Neighbourhood Development Orders (NDOs), effectively granting consent for physical and land use changes in the neighbourhood plan area.



Implementation

The successful implementation of a strategic plan requires a focussed approach to attracting investment and implementation, which would include:

- A planning framework for the town centre;
- A governance structure to guide its implementation;
- The setting up of an investment vehicle (by the promoters);
- A standardised prospectus for investors and funds;
- The appointment of specialist asset managers, working to set objectives and targets.

The “end-game” is achieving a more compact, defined prime retail core in the town centre, with more mixed-uses and with peripheral areas made over to other complementary uses, particularly housing.

A framework for developing a TCIM approach is set out at in Appendix 1.

7. Attracting investment

Attracting funding is fundamental. There have been consultations with funds, property companies, asset managers and other stakeholders. Two of the themes that have come back are:

1. Investors like High Street retail. It has delivered good long-term performance and yields remain keen for the right stock. The main investors understand the risks involved.
2. Investors like the TCIM model. It offers investors new opportunities where there is control, scale, as well as growth potential through active asset management.

Also, there seems much support, particularly through scaling up the funding opportunities, for some form of “national” fund. This could cover a number of town centre projects, with a total value of over £250m. The benefits include economies in set up costs, widening investor sources and greater focus for those investors.

Local – or Local Enterprise Partnership (LEP) wide – funding partnerships might also be possible for smaller towns. This could involve local authority pension funds more directly, through the new UK Wealth Funds, recently announced by the Chancellor.

The TCIM investment vehicle would be set up by the local authority or the vehicle promoters themselves. The investors would provide the money to acquire the properties and the vehicle would hold the assets, however they have been pooled. Specialists (either in-house to the fund, or appointed) would asset manage the investment to agreed KPIs. Facilities management would be local.

Funding considerations

The Technical Report concludes that suitable investment vehicle models already exist and that partnerships, companies or REITs are likely to be the most appropriate structures. It explores the legal issues in some detail, as well as the range of funding considerations, which includes strong local authority leadership.

Keys to the success of funding will be ensuring that the delivery structures are tax efficient – the structure will need to be tax transparent at the vehicle and investor level; attractive to private sector investors – the model must be capable of producing sufficient returns for investors to balance the level of risk, involving robust financial modelling to include set up costs and fees; and robustly asset managed – specialists will need to work to a robust programme and agreed KPIs. In addition, the structure must be flexible and must not be vulnerable to changes in control, policy and budgets.

The prospects for larger-scale funding would be greatly assisted if the local entities have been set up in a standardised way – through an agreed form of Investment Prospectus, for example. It is also important that the initiative has Government support, through some form of accreditation.

8. Pilot studies

The study tested the TCIM concept in three pilot town centres – Dartford, Melton Mowbray and Weston-super-Mare – drawn from a Call for Pilots exercise, which resulted in 41 nominations from over 300 parties. The three represent different typologies and geographies: Dartford, between central London and a regional shopping centre; Melton Mowbray is a market town with a rural hinterland; Weston-super-Mare is a coastal community. All face challenges of adaptation and have fragmented ownership constraints.

The detailed proposals and financial appraisals of each pilot town centre opportunity have been made available to the Steering Group and the three pilot local authorities. However, these are commercially confidential. The summary results are in the Technical Report.

In each feasibility, real properties were selected in an agreed Study Area. The proposed transformation proposals were appraised and a business case made. The main points to draw from these feasibility studies are that:

- About 40-60 property interests provided critical mass in these locations – this represents at least 75% of the freeholds in the relevant study area;
- Yields and rental income improve by taking assets into a single entity that can be asset managed;
- The acquisition and adaptation costs of implementing a TCIM approach in these locations ranged from £25m to 35m; and
- The pilots could deliver commercial returns.

The study concluded that the TCIM approach was unlikely to attract external funding for most individual projects. Rather, being one of a basket of opportunities was far more likely; though locally-based funding is being explored for Melton Mowbray, given their range of stakeholders.

The studies – and consultations generally – also demonstrated that the task of getting such an approach off the ground will need encouragement from Government. There is also a need for greater awareness, among local authorities and their communities, of the merits of a TCIM approach.

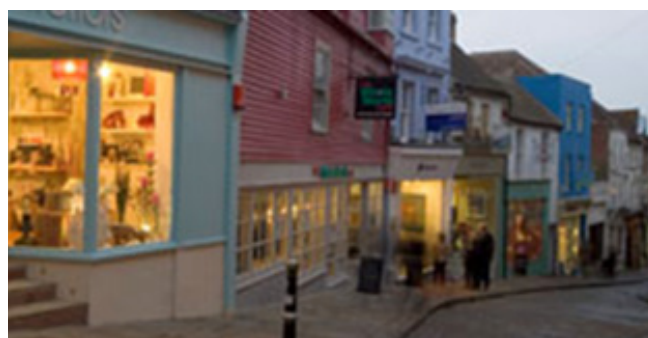
The set up costs can be significant and probably only possible as part of a wider initiative, which in turn is only likely if the investment sector gears up and Government encourages it.

9. Case studies

The Technical Report includes over twenty case studies. These are examples of where asset management has delivered significant investment and positive results on the ground – seen in the performance of the centre (or destination) and improved customer experience. The case studies include high profile London examples such as Regent Street and Marylebone High Street, new towns with un-fragmented centres, regeneration schemes such as Ropewalks (Liverpool) and Old High Street Folkestone, together with examples of successful food and beverage clusters.

Left: Queensway,
London
(proposed)

Right: Old High
Street, Folkestone



While some of the most conspicuous are in London, these should not be dismissed as simply examples of gentrification or creating a boutique niche that isn't supportable elsewhere. While these are places where asset managed destinations happen commercially, there are some important principles that are transferrable to apply the TCIM approach elsewhere.

The study has taken the lessons learnt from the case studies and applied them to the pilot study locations and into the study conclusions:

- The need for a critical mass of freehold assets to create a dominant position;
- The advantages of single control and creating a tradable investment;
- The ability to adapt the stock to meet demand;
- The need for focussed, specialised, asset management skills;
- The ability to curate the occupier mix and to adapt to market changes rapidly;
- The importance of clear investment objectives and outcomes that can be delivered;
- The recognition that an asset managed approach can add value to the value and viability of the housing around it.

The case studies demonstrate the strong underlying commercial drives to an asset-managed destination under single overall control. The objective of the main study was to apply these to locations where it was unlikely to happen unaided: The conclusion is that these principles can be applied directly to less commercially favourable locations, as part of a structured process.

10. Town Centre Investment Zones

The need for focus and alignment

Although the pilots have provided evidence that TCIM could work, the study and wider consultations suggests that it will not be easy to mobilise candidates. Local authorities will inevitably be cautious about a novel concept and whilst they already have the necessary powers and many town centre related services, they may lack a coherent plan or focus.

Quite separately, other groups may have started to take advantage of a number of existing initiatives with varying degrees of success. Specifically, the business community may have created a Business Improvement District, or the residents or businesses may have begun the process of setting up a Business Neighbourhood Forum. And there is also the possibility that the LEP may become involved – with the potential for some funding.

This plethora of initiatives, many of which have different objectives and boundaries, can dissipate energy and overall effectiveness. Together with any lack of focus on the part of the local authority, it will certainly deter potential investors who will be looking for clear leadership and direction. Consequently, we believe there is a need for greater focus for investment and a better alignment of initiatives in order to enable stronger town centre leadership and more effective, co-ordinated, action from all stakeholders.

Town Centre Investment Zones

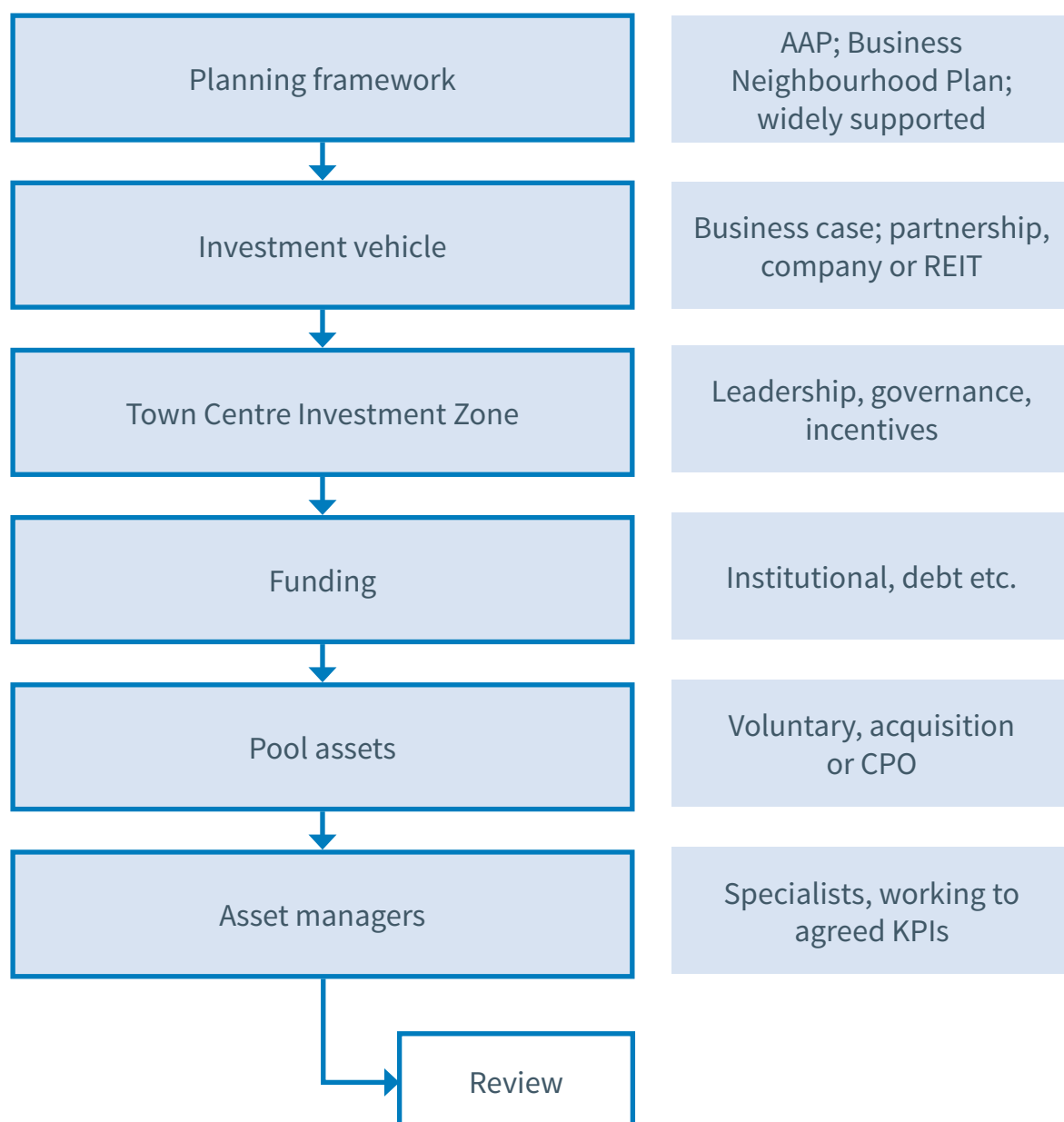
We recommend establishing an area to known as a Town Centre Investment Zone (TCIZ). This Zone could comprise the TCIM area alone, or some larger area that achieves an alignment of all the relevant town centre initiatives, particularly if some of the peripheral areas might benefit from reconstruction. The promotion of a Zone should be in the hands of the local council but there should be some clear criteria for designation that would be set by central Government, such as:

- Adoption of the TCIM approach;
- A clear strategy that brings together local initiatives and council services;
- A master plan, Business Neighbourhood Plan (or AAP) in preparation;
- Support of the local BID, or other group of local businesses; and
- An agreed, single, town centre governance structure.

Incentives

Whilst the existence of a TCIZ would provide coherence for all those involved and a clear signal to potential investors that the local stakeholders are fully aligned and mean business, it would be highly beneficial to the future success of the area if TCIZ badging also brought with it certain concessions such as those that have been given to Housing Zones and Enterprise Zones. These would have to be agreed with central Government, especially if any form of fiscal or business rate based incentive was involved. Such concessions would significantly increase the attractiveness of town centres for new investment which would, in turn, deliver the adaptation and restructuring that is needed.

Getting investment back into the high street: summary



11. Conclusions

1. The absence of any well established methodology for bringing together, under single asset management, the fragmented ownership of properties in town centres is one of the causes of their failure and underperformance.
2. Single or collective ownership and management of properties, which we have called Town Centre Investment Management (TCIM), is undoubtedly effective, as evidenced by many shopping centres and the case study locations, where there is single or majority ownership.
3. Our investigation, using the three pilot study towns and the case studies, has shown that this form of asset management (TCIM) could lead to more effective adaptation, thus delivering improved occupiers, a better response to change and consequently improved performance and an enhanced customer experience.
4. A well-managed core area under single control will make the whole town centre more attractive to investors, particularly institutions.
5. TCIM will only ever be effective if it has the full support of the relevant Local Authority – necessary to provide local leadership - and their communities. Business Neighbourhood Plans and BIDs should be harnessed to support the concept. LEPs, where relevant, could also play a part.
6. The first key step is for the major players (LA, BID, Business Neighbourhood Forum, LEP, and perhaps some of the principal property owners) to promote a Town Centre Investment Zone (TCIZ). The boundary might simply be the TCIM area or including peripheral areas to be re-designated for alternative uses such as housing.
7. This group - or whoever is taking the lead - should then draw up a strategic plan (Business Neighbourhood Plan, AAP or masterplan) based around a strategy or vision for the town centre. Then to draft an investment plan to implement it. This will require setting up a TCIM investment vehicle, a (standardised) investment prospectus and decisions about governance.
8. The property assets (normally freeholds, not necessarily the occupying tenants/ businesses) that need to be brought into a TCIM scheme can be pooled by (in order of preference):
 - a) Voluntary pooling by owners.
 - b) Direct purchase by the TCIM vehicle, led or facilitated by the local authority.
 - c) As a last resort, compulsory purchase. And it would assist if the scope of CPO guidance was more specifically supportive of the TCIM approach.

9. Once the investment plan is agreed, it should be possible to raise funds from potential investors:
 - a) It is essential that the TCIM vehicle should show that sufficient returns will be generated to offer a consistent and reliable income stream to funders;
 - b) Large investors may find a single town centre project too small and would prefer a larger – possibly a national Town Centre Investment Fund – covering a number of destinations (target £250M+), or a smaller basket of towns. But other investors, particularly local authority pension funds, may see attraction in smaller scale (say regional or local) investments;
 - c) Whatever size fund is set up, it is essential that facilities should be managed locally while the investment is managed by specialist asset managers, to agreed key performance indicators and investment targets.
10. Town Centre Investment Zones offer significant advantages to the main stakeholders:
 - Government: facilitating private investment;
 - Local Authorities: a revival in their local economies, improving performance and local service;
 - Communities: improving local facilities, services and customer experience;
 - Investors: a source of investment opportunities;
 - Retailers and occupiers: providing opportunities that match demand.
11. TCIZs are likely to need encouragement, as well as some special concessions, from Government (similar to Enterprise Zones, Housing Zones and Neighbourhood Plans), to become effective and achieve the step-change in performance and customer experience.

12. Recommendations

Our recommendations focus on four high-level outcomes:

- Town centre investment;
- Improved performance and experience;
- Housing delivery; and
- Empowering local business and communities.

Our recommendations fall into three main groups:

Process

1. The Government should provide further financial support to the pilot study TCIM proposals so that they can be developed into funding prototypes, as exemplars of how to make them attractive to funds and so help reduce entry costs for future candidates.
2. TCIM should be endorsed and promoted by DCLG as one of the solutions to address failing or under-performing town centres, possibly through a Written Ministerial Statement.

Funding

3. Further work should be undertaken, led by DCLG with the support of the private sector, to encourage the setting up of a Town Centre Investment Fund, involving a number of town centre investment opportunities.

Implementation

4. Government should promote the concept of Town Centre Investment Zones as the means of giving town centre investment real focus and to align leadership, local services and initiatives to the overall benefit of the performance and experience of town centres.
5. DCLG and Treasury should encourage investment in town centres by developing a package of special incentives or measures that could apply to TCIZs.
6. DCLG should consider specific support for TCIM, as part of their further response to the recent CPO review.
7. Local Authorities should use the Town Centre Investment framework, to establish where and how TCIM would be effective and feasible as a solution to underperforming town centres; and whether a Business Neighbourhood Forum or Business Improvement District might support the initiative.

Appendix 1: Town Centre Investment Framework

From the experience of working with the pilot town centre authorities, the following route map (and some key questions) are suggested for applying a TCIM approach:



Appendix 2: Steering group and authors

Steering Group

The Steering Group, which provided oversight of the study, was chaired by Liz Peace. Membership included: Alexander Nicoll, Intu; Andrew Hannan, DCLG; Edward Cooke, BCSC; Shanaaz Carroll, ATCM; Hannah Mills, DCLG; John Duxbury, M&G; Levent Kerimol and Alison Mayer, GLA; Martyn Chase, Stanhope; Stephanie Larnder, DCLG; with additional input from Robin Matthews, Moorfield and Sara Ensor, RBS.

The British Property Federation provided the secretariat: Sam Downes, Policy Officer, with Ian Fletcher, Policy Director; and Stephanie Pollitt, Lizzie Lambert and Phoebe Rountree.

Report authors

Peter Brett Associates, development and infrastructure consultants: John Parmiter, Project director, with support from Peter Keenan and Cathy Hall; Craig Beconsall, Director of Design and Regeneration and Ioanna Psatha, Urban Designer; James Brown, Director of The Urbanists, advised on proposals for Weston-Super-Mare.

Citicentric, specialist property development consultants: Mark Rymell, Director, on development and asset management; and Nigel Riley, Director, on land assembly issues and financial appraisals.

Bond Dickinson, Solicitors: Verity Waington, Partner, on real estate and regeneration; with Jonathan Bower, Partner, on land assembly issues.

Wider consultation

As part of the TCIM Thought Leadership initiative PBA consulted: Hermes, Aviva, LandSec, Delancey, Crown Estate, Standard Life, Milligan, Ellandi, Realis Estates, Brookfield, Plus Shops, Insite, Capital & Regional, Hammerson, Hark, Town Centre Securities and Intu Properties, who all provided valuable feedback.

Download the Technical Report at www.towncentreinvestment.com.

¹ 'Beyond Retail: Redefining the shape and the purpose of town centres', 2013

² Policy Exchange, '21st Century Retail Policy: Quality, Choice', Experience, 2013

³ GLA, 'Accommodating growth in town centres: Achieving successful housing intensification and high street diversification', MaccreeanorLavington, Peter Brett Associates, 2014

⁴ Savills for London First, 'Redefining Density', September 2015

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